kotak Institutional Equities

INDIA DAILY

November 1, 2010

Contents

EQUITY MARKETS

		Change %		
India	**29-Oct**	**1-day**	**1-mo**	**3-mo**
Sensex	20,032	0.5	(2.0)	12.1
Nifty	6,018	0.5	(2.0)	12.1
Global/Regional indices				
Dow Jones	11,118	0.0	2.7	6.2
Nasdaq Composite	2,507	0.0	5.8	11.2
FTSE	5,675	(0.0)	1.5	7.9
Nikkie	9,186	(0.2)	(2.3)	(3.7)
Hang Seng	23,096	(0.5)	3.3	9.8
KOSPI	1,895	0.6	1.0	7.7
Value traded – India				
Cash (NSE+BSE)	214		219	204
Derivatives (NSE)	1,188		1,693	1,463
Deri. open interest	1,338		2,118	1,752

Forex/money market				
		Change, basis points		
	29-Oct	**1-day**	**1-mo**	**3-mo**
Rs/US$	44.4	(11)	(50)	(211)
10yr govt bond, %	8.1	-	29	31
Net investment (US$mn)				
	28-Oct		**MTD**	**CYTD**
FIIs	(125)		-	24,741
MFs	(18)		-	(282)

Top movers -3mo basis				
		Change, %		
Best performers	**29-Oct**	**1-day**	**1-mo**	**3-mo**
IDBI IN Equity	180.6	0.2	14.0	51.8
IBULL IN Equity	220.6	1.0	52.5	39.8
TTMT IN Equity	1159.0	(2.8)	4.0	36.9
BOB IN Equity	1014.2	0.3	14.3	34.8
HNDL IN Equity	210.5	(2.7)	3.0	31.3
Worst performers				
MMTC IN Equity	1292.5	(1.2)	(4.3)	(26.1)
FTECH IN Equity	982.4	(7.0)	(17.3)	(19.6)
IVRC IN Equity	149.4	0.8	(8.4)	(13.5)
SESA IN Equity	321.6	(0.6)	(6.8)	(11.0)
ABAN IN Equity	787.0	0.3	(7.7)	(9.5)

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Reliance Industries (RIL)

Energy

REDUCE

OCTOBER 31, 2010

RESULT

Coverage view: Cautious

Price (Rs): 1,096

Target price (Rs): 1,050

BSE-30: 20,032

Beats us. RIL's 2QFY11 reported net income at ₹49.2 bn beat our expected ₹43.7 bn with the positive variance arising largely from an unexpectedly strong performance of the chemical segment. We note that global polymer margins and prices were significantly lower qoq. We have fine-tuned FY2012-14E earnings to reflect (1) higher chemical margins, (2) a stronger rupee and (3) lower oil production. We retain REDUCE rating on the stock with a revised 12-month SOTP-based target price of ₹1,050 (₹1,015 previously).

Company data and valuation summary

Reliance Industries

Stock data			
52-week range (Rs) (high,low)			1,185-841
Market Cap. (Rs bn)			3,262.4
Shareholding pattern (%)			
Promoters			41.1
FIIs			20.9
MFs			2.6
Price performance (%)	1M	3M	12M
Absolute	9.7	8.5	9.7
Rel. to BSE-30	9.3	(2.5)	(12.1)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	49.6	59.2	72.5
EPS growth (%)	(1.8)	19.3	22.4
P/E (X)	22.1	18.5	15.1
Sales (Rs bn)	1,924.6	2,683.3	2,759.6
Net profits (Rs bn)	162.4	193.8	237.1
EBITDA (Rs bn)	309.4	374.7	421.0
EV/EBITDA (X)	11.8	9.1	7.4
ROE (%)	11.4	12.4	13.6
Div. Yield (%)	0.6	0.7	0.8

Marginally better than 1QFY11 and well ahead of our estimates

RIL's reported 2QFY11 net income at ₹49.2 bn came marginally ahead of 1QFY11's ₹48.5 bn but well ahead of our ₹43.7 bn estimate. 2QFY11 reported EBITDA at ₹94 bn beat our ₹86.5 bn estimate but was modestly ahead of 1QFY11's ₹93.4 bn.

Performance of chemical segment surprising in light of weaker margins qoq

We are surprised by the performance of the chemical segment; 2QFY11 EBIT at ₹22 bn was higher compared to 1QFY11's ₹20.5 bn despite a sharp drop in global polymer margins and prices qoq. 2QFY11 refining margin improved to US$7.9/bbl (our estimate: US$7.8/bbl) from 1QFY11's US$7.3/bbl. Crude throughput at 16.9 mn tons came ahead of our 16.4 mn tons assumption. However, E&P production volume declined by 29% qoq for oil and 3.8% qoq for gas reflecting production problems at MA-1 oil and Panna-Mukta oil and gas fields.

Fine-tuned FY2011E EPS by +2.7% to ₹59 and FY2012E EPS by -2.5% to ₹73

We have fine-tuned FY2012E and FY2013E EPS by -2.5% and +1.1% to ₹73 and ₹85 to reflect (1) higher chemical margins, (2) a stronger rupee; we now model FY2012E and FY2013E US Dollar-Indian Rupee exchange rate at ₹44.5/US$ versus ₹46/US$ previously and (3) lower oil production at MA-1 field. We see downside risks to earnings from (1) lower-than-expected oil and gas production at D-6 block due to continued production issues, (2) implementation of IFRS from April 1, 2011 and (3) higher-than-expected taxation due to no income tax exemption on D-6 gas production.

Fine-tuned FY2012E-based target price to ₹1,050 from ₹1,015 previously

We have fine-tuned our 12-month fair valuation to ₹1,050 from ₹1,015 previously. The higher valuation of the chemical segment is offset by the exclusion of value of 'cash' in Petroleum Trust that we had valued separately previously; it presumably already reflects in RIL's standalone balance sheet. We attribute ₹135/share to RIL's NEC-25, CBM, KG D-3, KG D-9 and MN D-4 blocks.

QUICK NUMBERS

- 2QFY11 EBITDA at ₹94 (+0.6% qoq) and PAT at ₹49.2 bn (+1.5% qoq)
- 58 mcm/d of KG D-6 gas production and 22.1 kb/d of MA-1 oil production in 2QFY11
- Average borrowing cost of 3.8% in 2QFY11

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Key highlights of 2QFY11 results

Exhibit 1 compares RIL's 2QFY11 results with 2QFY10 and 1QFY11 results. We discuss key highlights of RIL's 2QFY11 results below; all figures pertain to standalone RIL.

Interim results of Reliance Industries , March fiscal year-ends (₹ mn)

					(% chg.)						
	2QFY11	**2QFY11E**	**2QFY10**	**1QFY11**	***2QFY11E***	***2QFY10***	***1QFY11***	**1HFY11**	**1HFY10**	***(% chg.)***	**2011E**
Net sales	**574,790**	**624,991**	**468,480**	**582,280**	***(8.0)***	***22.7***	***(1.3)***	**1,157,070**	**780,350**	***48.3***	**2,683,338**
Total expenditure	(480,830)	(538,504)	(396,310)	(488,860)	*(10.7)*	*21.3*	*(1.6)*	(969,690)	(644,340)	*50.5*	(2,312,171)
Inc/(Dec) in stock	3,340	—	28,040	16,060				19,400	59,600		—
Raw materials	(438,880)	(488,545)	(387,030)	(462,920)	*(10.2)*	*13.4*	*(5.2)*	(901,800)	(638,150)	*41.3*	(2,138,789)
Staff cost	(6,600)	(6,287)	(5,960)	(6,170)	*5.0*	*10.7*	*7.0*	(12,770)	(11,530)	*10.8*	(25,149)
Other expenditure	(38,690)	(43,672)	(31,360)	(35,830)	*(11.4)*	*23.4*	*8.0*	(74,520)	(54,260)	*37.3*	(148,233)
EBITDA	**93,960**	**86,487**	**72,170**	**93,420**	***8.6***	***30.2***	***0.6***	**187,380**	**136,010**	***37.8***	**371,167**
Other income	6,720	7,750	6,280	7,220	*(13.3)*	*7.0*	*(6.9)*	13,940	13,370	*4.3*	28,795
Interest	(5,420)	(5,457)	(4,620)	(5,410)	*(0.7)*	*17.3*	*0.2*	(10,830)	(9,220)	*17.5*	(22,003)
Depreciation	(33,770)	(33,945)	(24,320)	(34,850)	*(0.5)*	*38.9*	*(3.1)*	(68,620)	(43,100)	*59.2*	(135,317)
Pretax profits	**61,490**	**54,836**	**49,510**	**60,380**	***12.1***	***24.2***	***1.8***	**121,870**	**97,060**	***25.6***	**242,642**
Extraordinaries/sales tax benefit	—	—	—	—				—	—		—
Tax	(10,260)	(11,132)	(8,000)	(9,870)	*(7.8)*	*28.3*	*4.0*	(20,130)	(15,910)	*26.5*	(49,161)
Deferred taxation	(2,000)	—	(2,990)	(2,000)		*(33.1)*	—	(4,000)	(5,970)	*(33.0)*	272
Net income	**49,230**	**43,704**	**38,520**	**48,510**	***12.6***	***27.8***	***1.5***	**97,740**	**75,180**	***30.0***	**193,754**
Adjusted profits	**49,230**	**43,704**	**38,520**	**48,510**	***12.6***	***27.8***	***1.5***	**97,740**	**75,180**	***30.0***	**193,754**
EPS (Rs)	**15.1**	**13.4**	**11.8**	**14.8**				**29.9**	**23.0**		**59.2**
Income tax rate (%)	19.9	20.3	22.2	19.7				19.8	22.5		20.1
Chemicals production											
Polymer volumes ('000 tons)	1,069		1,046	931		*2.2*	*14.8*	2,000	1,914	*4.5*	
Polyester volumes ('000 tons)	429		420	422		*2.1*	*1.7*	851	831	*2.4*	
Fiber intermediates ('000 tons)	1,116		1,179	1,084		*(5.3)*	*3.0*	2,200	2,308	*(4.7)*	
Refining											
Crude throughput (mn tons)	16.9	16.4	15.6	16.9	*3.3*	*8.2*	*0.1*	33.8	27.6	*22.3*	67.5
Refining margin (US$/bbl) incl. sales tax incentives	7.9	7.8	6.0	7.3	*1.9*	*31.7*	*8.2*	7.7	6.3	*22.2*	8.2
Average exchange rate	46.5	46.5	48.4	45.7				46.1	48.5	*(5.0)*	45.5
E&P											
Crude oil production (000 tons)	288	342	241	408	*(15.7)*	*19.7*	*(29.2)*	696	481	*44.6*	1,616
Gas production (bcf)	177	182	111	184	*(2.6)*	*60.0*	*(3.8)*	362	180	*101.3*	660
Segment results of Reliance Industries											
Revenues											
Petrochemicals	150,960		133,400	139,030		*13.2*	*8.6*	289,990	250,470	*15.8*	
Refining & marketing	496,720		395,640	505,310		*25.5*	*(1.7)*	1,002,030	639,980	*56.6*	
Oil & gas	43,030		29,370	46,650		*46.5*	*(7.8)*	89,680	48,010	*86.8*	
Others (retail, SEZ, textiles)	1,550		920	1,070		*68.5*	*44.9*	2,620	1,750	*49.7*	
Gross turnover	692,260		559,330	692,060		*23.8*	*0.0*	1,384,320	940,210	*47.2*	
Inter segment	92,640		70,900	81,990		*30.7*	*13.0*	174,630	127,370	*37.1*	
Excise duty	24,830		19,950	27,790		*24.5*	*(10.7)*	52,620	32,490	*62.0*	
Net sales	**574,790**		**468,480**	**582,280**		***22.7***	***(1.3)***	**1,157,070**	**780,350**	***48.3***	
Operating costs											
Petrochemicals	128,990		111,450	118,500		*15.7*	*8.9*	247,490	207,430	*19.3*	
Refining & marketing	474,800		382,170	484,960		*24.2*	*(2.1)*	959,760	613,520	*56.4*	
Oil & gas	25,970		17,110	27,440		*51.8*	*(5.4)*	53,410	25,670	*108.1*	
Others (retail, SEZ, textiles)	1,470		810	1,000		*81.5*	*47.0*	2,470	1,550	*59.4*	
Total	**631,230**		**511,540**	**631,900**		***0.1***	***7.0***	**42,500**	**43,040**	***(1.3)***	
EBIT											
Petrochemicals	21,970		21,950	20,530		*0.1*	*7.0*	42,500	43,040	*(1.3)*	
Refining & marketing	21,920		13,470	20,350		*62.7*	*7.7*	42,270	26,460	*59.8*	
Oil & gas	17,060		12,260	19,210		*39.2*	*(11.2)*	36,270	22,340	*62.4*	
Others (retail, SEZ, textiles)	80		110	70		*(27.3)*	*14.3*	150	200	*(25.0)*	
Total	**61,030**		**47,790**	**60,160**		***27.7***	***1.4***	**121,190**	**92,040**	***31.7***	
Interest expense	(5,420)		(4,620)	(5,410)		*17.3*	*0.2*	(10,830)	(9,220)	*17.5*	
Interest income	6,600		5,250	5,200		*25.7*	*26.9*	11,800	11,140	*5.9*	
Other unallocable (net)	(720)		1,090	430		*(166.1)*	*(267.4)*	(290)	3,100	*(109.4)*	
PBT	**61,490**		**49,510**	**60,380**		***24.2***	***1.8***	**121,870**	**97,060**	***25.6***	
Current tax	(10,260)		(8,000)	(9,870)		*28.3*	*4.0*	(20,130)	(15,910)	*26.5*	
Deferred tax	(2,000)		(2,990)	(2,000)		*(33.1)*	—	(4,000)	(5,970)	*(33.0)*	
PAT	**49,230**		**38,520**	**48,510**		***27.8***	***1.5***	**97,740**	**75,180**	***30.0***	

Source: Company, Kotak Institutional Equities estimates

- **Financial highlights—modest growth in profits qoq.** RIL's 2QFY11 EBITDA increased 0.6% qoq and 30% yoy to ₹94 bn. 2QFY11 net income increased 1.5% qoq and 28% yoy to ₹49.2 bn.

  - **Balance sheet highlights.** Net debt declined by ₹82 bn qoq to ₹388 bn due to gross cash generation of ₹85 bn (₹49.2 bn of net profit, ₹33.8 bn of DD&A and ₹2 bn of deferred tax liability). The company has not shared actual capex and working capital movements over the quarter. Reported capex (on net basis) was -₹3.3 bn due to RIL's unique reporting of capex on a net basis (including the impact of changes in foreign currency loans being adjusted against fixed assets in the balance sheet). Exhibit 2 shows movement in cash and net debt on a quarterly basis over the past few quarters. On a six-month basis (September 30, 2010 versus March 31, 2010), RIL's debt has increased by ₹57 bn, investments have increased by ₹96 bn and loans and advances by ₹51 bn (see Exhibit 3 for highlights of the balance sheet).

Movement in net debt position of Reliance Industries is difficult to reconcile
Computed net debt, March fiscal year-ends, 2009-11YTD (₹ bn)

	2QFY11	1QFY11	FY2010	4QFY10	9MFY10	3QFY10	1HFY10	FY2009
Beginning net debt as disclosed by the company (A)	**470**	**406**	**517**	**540**	**517**	**519**	**517**	**450**
Cash infusion from issue of share capital / warrants	—	—	—	—	—	—	—	152
Cash profit for the given period as reported by the company	85	85	279	84	195	71	124	224
Capex during the given period	(3)	36	93	15	79	0	78	247
Cash flow for the given period (B)	88	49	186	69	117	71	46	128
Computed ending net debt (A) - (B)	**382**	**357**	**331**	**471**	**401**	**449**	**471**	**322**
Ending net debt as disclosed by the company	**388**	**470**	**406**	**406**	**540**	**540**	**519**	**517**
Difference in net debt	**7**	**113**	**75**	**(65)**	**140**	**92**	**48**	**195**

Note:
(a) Definition of capex is net of forex-related movement and payment of cash to creditors.

Source: Company, Kotak Institutional Equities

Key highlights of balance sheet
Balance sheet summary, March fiscal year-end, 2010-11YTD (₹ mn)

	FY2010	1HFY11
Balance sheet		
Total equity	1,371,706	1,457,400
Deferred taxation liability	109,263	113,260
Total borrowings	624,947	681,980
Currrent liabilities	404,148	322,680
Total liabilities and equity	**2,510,064**	**2,575,320**
Cash	134,626	136,360
Current assets	387,333	351,510
Total fixed assets	1,653,987	1,606,610
Loans and advances	101,832	152,840
Investments	232,286	328,000
Total assets	**2,510,064**	**2,575,320**

Source: Company, Kotak Institutional Equities

  - Other income. Other income declined 6.9% qoq to ₹6.7 bn despite average higher cash balance in 2QFY11. RIL had cash and cash equivalents of ₹294 bn at end-September 2010 versus ₹264 bn at end-June 2010 and ₹219 bn at end-March 2010.

- **DD&A charges.** DD&A decreased 3% qoq and increased 39% yoy to ₹33.8 bn versus our expectation of ₹33.9 bn. The qoq decline reflects impact of lower oil and gas production at D-6 and Panna-Mukta fields. The steep yoy increase reflects higher depletion charges on start of higher production of gas and oil at RIL's KG D-6 block. We note that RIL's proved reserves have not increased for the past two years and all its E&P-related expenditure (barring those clubbed with fixed assets) have to be 'depleted' over its proved reserves base.

- **Interest expense.** 2QFY11 interest expense stood at ₹5.42 bn compared to ₹5.41 bn in 1QFY11 and gross interest expense including interest capitalized of ₹1.26 bn was ₹6.68 bn. We are surprised that RIL's gross interest has increased by 4% qoq despite gross debt declining by ₹52 bn qoq. We note that interest capitalized has increased on a qoq basis versus ₹1.02 bn in 1QFY11. RIL's implied interest rate was 3.8% versus 3.8% in 1QFY11 and 4.4% in FY2010. Exhibit 4 shows our computation of RIL's implied borrowing cost over the past five quarters.

Average borrowing cost of Reliance Industries remains surprisingly low in the recent quarters

Implied average borrowing cost, March fiscal year-ends, 2007-11YTD (₹ bn)

	2QFY11	1QFY11	FY2010	4QFY10	9MFY10	3QFY10	1HFY10	1QFY10	FY2009	FY2008	FY2007
Interest expense charged to P&L	5.4	5.4	20.0	5.3	14.7	5.6	9.2	3.5	17.5	10.8	11.9
Interest capitalized	1.3	1.0	9.8	1.2	8.6	1.0	7.6	3.3	34.0	8.9	5.4
Total interest incurred	6.7	6.4	29.8	6.5	23.3	6.6	16.8	6.8	51.4	19.6	17.2
Beginning debt	734	625	739	700	739	713	739	535	493	278	219
Closing debt	682	734	625	625	700	700	713	518	739	365	278
Average debt	708	680	682	663	720	707	726	526	616	322	248
Implied average borrowing cost (%)	**3.8**	**3.8**	**4.4**	**3.9**	**4.3**	**3.7**	**4.6**	**5.1**	**8.3**	**6.1**	**6.9**

Note:
(a) Interst expense for 1QFY10 doesn't include RPET.

Source: Company, Kotak Institutional Equities

- **Taxation.** RIL's 2QFY11 effective tax rate was 19.9% compared to 19.7% in 1QFY11 and 22.2% in 2QFY10. We note that RIL continues to provide for tax at the MAT rate of 19.93% for gas produced from its KG D-6 block.

- **Chemical segment highlights.** 2QFY11 EBIT was flat yoy but surprisingly increased 7% qoq. The qoq performance is quite surprising given weaker qoq polymer margins and prices (impacts profitability of gas-based units). We would highlight that polymer prices had declined by around US$100/ton qoq while naphtha prices had fallen less by US$40/ton qoq. Exhibit 5 gives historical prices and margins for the past eight quarters.

  We can attribute the surprisingly positive performance to (1) possibly higher sales volumes of polymers (RIL does not share sales data; production increased 14.8% qoq) that may have compensated for weaker margins, (2) moderate improvement in polyester margins (polyester less naphtha delta is more material for RIL) qoq and (3) weaker rupee. We note that the only other chemical company that has reported so far in India (Finolex Industries) has reported very weak results with EBIT of its PVC segment declining 81% qoq and 84% yoy. We will monitor the results of other chemical companies to better understand RIL's outstanding performance.

  Polymer production volumes increased 2.2% yoy to 1.07 mn tons but jumped 14.8% qoq. It seems that RIL has been able to overcome the challenges of lower C2/C3 supply from ONGC; C2/C3 is the major feedstock for RIL's Nagothane unit. Polyester volumes increased 2.1% yoy and 1.7% qoq to 0.43 mn tons. As per the company, domestic polymer demand increased 10% yoy while domestic fiber and yarn demand increased 17% yoy in 1HFY11.

Global (Asia) margins and prices were lower qoq for most of the products
Asia and domestic chemical margins and prices, March fiscal year-ends, 2009-11YTD

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	yoy change (%)	qoq change (%)
Global margins (US$/ton)												
HDPE – naphtha	660	632	463	515	624	583	504	564	507	441	(24.4)	(13.0)
LLDPE – naphtha	646	732	563	535	611	650	579	683	564	469	(27.9)	(16.9)
PP – naphtha	678	748	488	422	554	544	461	577	573	552	1.5	(3.7)
PVC – naphtha	145	174	296	240	235	298	203	303	281	269	(9.8)	(4.4)
PSF – naphtha	512	573	710	607	726	639	578	715	777	769	20.3	(1.1)
PFY – naphtha	787	762	853	689	836	829	820	992	1,063	1,090	31.5	2.5
PX – naphtha	389	359	312	431	534	402	322	320	261	248	(38.3)	(5.2)
Domestic margins (Rs/ton)												
HDPE – naphtha	32,657	36,212	31,983	36,872	39,150	37,392	34,547	39,112	36,363	34,510	(7.7)	(5.1)
LLDPE – naphtha	32,657	36,212	31,983	36,872	39,150	37,392	34,547	39,112	36,363	34,510	(7.7)	(5.1)
PP – naphtha	31,930	41,172	32,690	40,092	36,947	32,712	29,220	36,452	35,037	36,850	12.7	5.2
PVC – naphtha	12,373	10,712	15,247	19,042	18,147	16,045	13,120	16,018	15,603	16,417	2.3	5.2
PSF – naphtha	21,030	22,372	35,247	34,625	32,730	30,962	28,703	32,102	33,853	33,333	7.7	(1.5)
PFY – naphtha	25,397	26,718	38,040	39,132	36,643	34,698	32,010	36,068	36,003	34,163	(1.5)	(5.1)
Global prices (US$/ton)												
HDPE	1,703	1,647	836	931	1,142	1,194	1,185	1,280	1,213	1,107	(7.3)	(8.7)
LLDPE	1,689	1,747	937	951	1,129	1,261	1,259	1,400	1,271	1,135	(10.0)	(10.7)
PP	1,721	1,763	861	838	1,073	1,156	1,142	1,294	1,280	1,219	5.5	(4.8)
PVC	1,188	1,189	669	656	753	909	883	1,020	988	935	2.9	(5.3)
PSF	1,555	1,588	1,083	1,023	1,245	1,250	1,258	1,432	1,483	1,435	14.8	(3.3)
PFY	1,830	1,777	1,227	1,105	1,355	1,440	1,500	1,708	1,770	1,757	22.0	(0.8)
PX	1,432	1,374	685	847	1,053	1,013	1,003	1,037	968	914	(9.8)	(5.5)
Domestic prices (Rs/ton)												
HDPE	76,793	86,840	58,070	59,747	67,503	71,680	70,093	76,760	74,093	70,093	(2.2)	(5.4)
LLDPE	76,793	86,840	58,070	59,747	67,503	71,680	70,093	76,760	74,093	70,093	(2.2)	(5.4)
PP	76,067	91,800	58,777	62,967	65,300	67,000	64,767	74,100	72,767	72,433	8.1	(0.5)
PVC	56,510	61,340	41,333	41,917	46,500	50,333	48,667	53,667	53,333	52,000	3.3	(2.5)
PSF	65,167	73,000	61,333	57,500	61,083	65,250	64,250	69,750	71,583	68,917	5.6	(3.7)
PFY	69,533	77,347	64,127	62,007	64,997	68,987	67,557	73,717	73,733	69,747	1.1	(5.4)

Source: Platts, Bloomberg, Kotak Institutional Equities

- **Refining segment highlights.** 2QFY11 refining segment EBIT increased 7.7% qoq to ₹21.9 bn driven by higher refining margins qoq (+US$0.6/bbl qoq to US$7.9/bbl) and stable crude throughput at 16.9 mn tons. 2QFY11 product sales stood at 16.44 mn tons against 16.35 mn tons in 1QFY11 and 14.29 mn tons in 2QFY10.

  The higher qoq margin reflects (1) stronger global margins and (2) higher light-heavy differential. The strong yoy performance reflects higher crude throughput (+1.3 mn tons) and higher refining margins (+US$1.9/bbl). Exhibit 6 compares refining margin over the past several quarters.

Premium of RIL's refining margins over global benchmark margins
Global refining margins, March fiscal year-ends, 2008-11YTD (US$/bbl)

	2008				2009				2010				2011	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Singapore (Dubai)	9.5	6.4	7.7	7.0	8.1	5.8	3.6	4.5	4.1	3.1	1.9	4.9	3.7	4.2
US Gulf Coast (WTI)	18.8	8.6	3.4	4.6	7.2	10.5	2.7	6.0	4.9	3.6	1.3	3.0	5.5	3.6
Rotterdam (Dated Brent)	6.6	3.5	5.3	4.1	9.5	10.4	9.0	4.0	3.2	3.1	2.7	3.4	3.7	2.8
Reliance Industries	**15.4**	**13.6**	**15.4**	**15.5**	**15.7**	**13.4**	**10.0**	**9.9**	**7.5**	**6.0**	**5.9**	**7.5**	**7.3**	**7.9**
Premium over Singapore (Dubai)	**5.9**	**7.2**	**7.7**	**8.5**	**7.6**	**7.6**	**6.4**	**5.4**	**3.4**	**2.9**	**4.0**	**2.6**	**3.6**	**3.7**
Premium over US Gulf Coast (WTI)	**(3.4)**	**5.0**	**12.0**	**10.9**	**8.5**	**2.9**	**7.3**	**3.9**	**2.6**	**2.4**	**4.6**	**4.5**	**1.8**	**4.3**
Premium over Rotterdam (Dated Brent)	**8.8**	**10.1**	**10.1**	**11.4**	**6.2**	**3.0**	**1.0**	**5.9**	**4.3**	**2.9**	**3.2**	**4.1**	**3.6**	**5.1**

Source: Company, Kotak Institutional Equities

- **E&P segment highlights.** 2QFY11 E&P segment EBIT decreased 11.2% qoq reflecting lower crude oil production from KG-D6 block and lower gas production from Panna-Mukta fields. Oil production dropped 29% qoq to 288,000 tons compared to 408,000 tons in 1QFY11 and 241,000 tons in2QFY10. 2QFY11 gas production was 177 bcf (including 169 bcf from KG D-6 block) versus 184 bcf in 1QFY11 (including 171 bcf from KG D-6 block) and 111 bcf in 2QFY10 (including 98 bcf from KG D-6 block).

Earnings revisions and key assumptions behind earnings model

We have fine-tuned FY2012E and FY2013E EPS to ₹73 and ₹85 from ₹74 and ₹84 previously to reflect (1) a stronger rupee and (2) lower oil production at RIL's KG D-6 block. For FY2011E, we have made adjustments (essentially raised profitability of the chemical segment but without strong conviction) to our earnings model to align with 1HFY11 results. We do not think it is material anyway given that the market is focusing on FY2012E numbers (and perhaps beyond) for most Indian stocks. Exhibit 7 shows the steady reduction in our earnings estimates for FY2011E and FY2012E over the past few months.

Steady reduction in RIL's EPS estimates over the past few months
Revision in RIL's EPS estimates, March fiscal year-ends, 2011-12E (₹)

	2011E		2012E	
	EPS	(% change)	EPS	(% change)
22-Mar-10	66.5	NA	81.4	NA
23-Apr-10	61.6	(7.4)	79.3	(2.6)
27-May-10	62.9	2.1	80.2	1.1
27-Jul-10	59.0	(6.2)	74.4	(7.2)
1-Sep-10	57.7	(2.2)	74.4	—
30-Oct-10	59.2	2.7	72.5	(2.5)

Source: Kotak Institutional Equities estimates

We discuss our key assumptions and revisions to our earnings model below.

- **Refining margins.** We model a strong improvement in RIL's FY2012E and FY2013E refining margin to US$9.3/bbl and US$9.7/bbl from US$7.7/bbl in 1HFY11 and US$6.6/bbl in FY2010. The improvement in refining margins reflects likely improvement in global supply-demand balance with new refining capacity additions (see Exhibit 8) and new NGL supply (see Exhibit 9) in CY2010-11E likely to lag increase of 3.3 mn b/d in global oil demand. Exhibit 10 gives our key assumptions for RIL's refining division.

We estimate 2.2 mn tons of net addition in world refining capacity in CY2011-12E
World refinery capacity additions ('000 b/d)

	2007	2008	2009	2010E	2011E	2012E	Total
OECD North America	240	—	(270)	(11)	374	370	**703**
OECD Europe	—	30	(232)	60	200	—	**58**
OECD Pacific	—	—	(57)	35	—	—	**(22)**
FSU	—	84	—	—	—	—	**84**
Non-OECD Europe	—	—	—	—	—	—	—
China	—	206	446	400	242	—	**1,294**
Other Asia	315	65	838	205	320	420	**2,162**
Latin America	—	—	(253)	50	50	213	**60**
Middle East	77	226	179	—	—	—	**482**
Africa	—	6	6	—	—	—	**12**
Total World	**632**	**616**	**657**	**739**	**1,186**	**1,003**	**4,833**

Source: OGJ, Kotak Institutional Equities estimates

We expect high OPEC spare capacity in CY2010-11E
Estimated global crude demand, supply and prices, Calendar year-ends, 2005-15E

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
Demand (mn b/d)											
Total demand	84.1	85.2	86.5	86.0	84.8	86.9	88.2	89.3	90.4	91.5	92.4
Yoy growth	1.6	1.1	1.3	(0.5)	**(1.2)**	**2.1**	**1.2**	1.2	1.1	1.0	0.9
Supply (mn b/d)											
Non-OPEC	49.8	50.4	50.9	50.9	**51.7**	**52.6**	**53.1**	52.9	52.6	53.0	53.0
Yoy growth	1.0	0.6	0.5	0.0	0.8	0.9	0.5	(0.2)	(0.3)	0.4	(0.0)
OPEC											
Crude	30.4	30.5	30.3	31.2	28.7	29.1	29.3	30.2	31.3	31.7	32.5
NGLs	4.3	4.4	4.3	4.4	**4.7**	**5.2**	**5.8**	6.2	6.5	6.7	6.9
Total OPEC	**34.7**	**34.9**	**34.6**	**35.6**	**33.4**	**34.3**	**35.1**	**36.4**	**37.8**	**38.5**	**39.4**
Total supply	**84.7**	**85.6**	**85.5**	**86.5**	**85.1**	**86.9**	**88.2**	**89.3**	**90.4**	**91.5**	**92.4**
Total stock change	0.7	0.2	(1.0)	0.6	0.3						
OPEC crude capacity			**34.4**	**34.2**	**34.9**	**35.6**	**35.4**	**35.2**	**35.5**	**36.5**	**36.8**
Implied OPEC spare capacity			**3.1**	**3.5**	**6.5**	**6.5**	**6.1**	**5.1**	**4.2**	**4.8**	**4.3**
Demand growth (yoy, %)	**1.9**	**1.3**	**1.5**	**(0.6)**	**(1.4)**	**2.5**	**1.4**	**1.3**	**1.2**	**1.1**	**1.0**
Supply growth (yoy, %)											
Non-OPEC	**2.0**	**1.2**	**1.0**	**0.0**	**1.6**	**1.7**	**1.0**	**(0.3)**	**(0.6)**	**0.8**	**(0.0)**
OPEC	**3.0**	**0.6**	**(0.9)**	**3.0**	**(6.3)**	**2.8**	**2.1**	**3.8**	**4.0**	**1.6**	**2.4**
Total	**1.6**	**1.1**	**(0.1)**	**1.2**	**(1.7)**	**2.2**	**1.4**	**1.3**	**1.2**	**1.1**	**1.0**
Dated Brent (US$/bbl)	**54.4**	**65.8**	**72.7**	**102.0**	**62.0**	**79.0**	**81.0**	**85.0**	**85.0**	**85.0**	**85.0**

Source: IEA, Kotak Institutional Equities estimates

Major assumptions of RIL's refinery division, March fiscal year-ends, 2006-2014E (US$/bbl)

	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
RIL refinery									
Rupee-dollar exchange rate	44.3	45.3	40.3	45.8	47.4	45.5	44.5	44.5	44.5
Import tariff on crude (%)	5.1	5.1	1.4	1.1	1.1	5.8	5.8	5.8	5.8
Refinery yield (per bbl of crude throughput)	61.9	75.3	97.4	104.6	83.2	99.4	103.2	108.9	109.6
Cost of inputs (per bbl of crude throughput)	49.5	63.5	82.4	92.4	76.4	91.8	94.7	99.9	100.0
Net refining margin	**12.4**	**11.8**	**15.0**	**12.2**	**6.8**	**7.6**	**8.5**	**9.0**	**9.6**
Crude throughput (mn tons)	30.5	31.8	31.8	32.0	32.0	34.0	34.0	34.0	34.0
Fuel and loss-own fuel used (%)	7.6	8.0	8.0	8.0	6.0	2.6	2.6	2.6	2.6
Fuel & loss equivalent-gas used (%)					2.0	5.4	5.4	5.4	5.4
Cost of natural gas used (US$/mn BTU)					5.5	5.5	5.5	5.5	5.5
Domestic sales of gasoline and diesel (mn tons)	**3.7**	**2.4**	**1.3**	**—**	**1.0**	**1.3**	**3.5**	**3.5**	**3.5**
Exports of gasoline and diesel (mn tons)	10.0	12.3	14.1	16.6	15.6	16.9	14.6	14.6	14.6
Marketing volumes of auto fuels (mn tons)	**3.3**	**1.9**	**0.8**	**—**	**1.0**	**1.3**	**3.5**	**3.5**	**3.5**
Marketing margin of auto fuels (Rs/ton)	700	(1,190)	(1,633)		1,550	(400)	1,443	1,443	1,443
SEZ refinery									
Import tariff on crude (%)					—	1.3	1.3	1.3	1.3
Refinery yield (per bbl of crude throughput)					70.6	94.8	98.8	104.3	105.1
Cost of inputs (per bbl of crude throughput)					64.3	86.0	88.8	93.8	93.9
Net refining margin					**6.3**	**8.8**	**10.0**	**10.5**	**11.2**
Crude throughput (mn tons)					28.9	33.5	33.5	33.5	33.5
Fuel and loss-own fuel used (%)					6.5	3.1	3.1	3.1	3.1
Fuel & loss equivalent-gas used (%)					2.0	5.4	5.4	5.4	5.4
Cost of natural gas used (US$/mn BTU)					5.5	5.5	5.5	5.5	5.5
Blended refining margin (US$/bbl)					**6.6**	**8.2**	**9.3**	**9.7**	**10.4**

Note:
(a) Refining margins do not include sales tax incentives.

Source: Company, Kotak Institutional Equities estimates

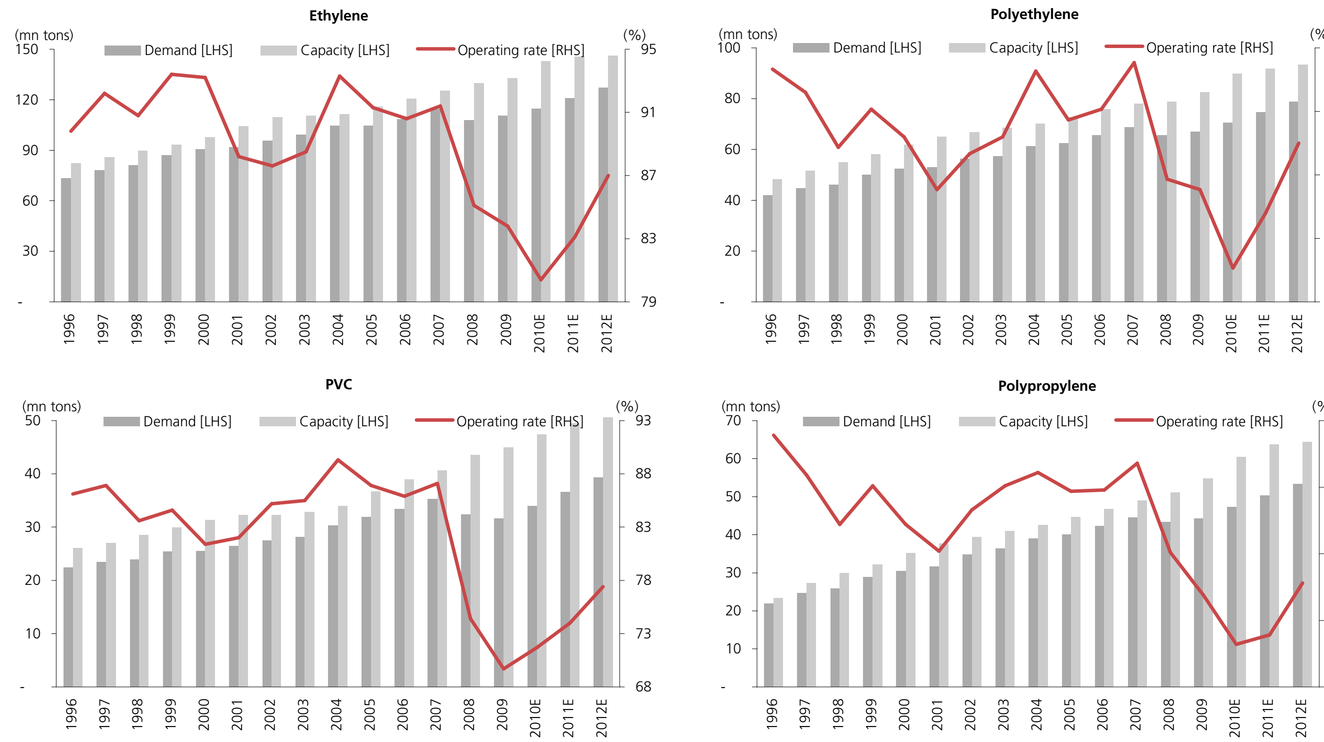
- **Chemical margins.** We have assumed very high chemical margins for FY2011E to align our full-year estimates (EBIT of ₹85.7 bn) with 1HFY11 reported EBIT of ₹42.5 bn. We have raised our price assumptions to do so but note that our price assumptions for RIL's major polymers are significantly higher than import-parity prices. Exhibit 11 shows our major assumptions for RIL's chemical segment. Exhibit 12 shows increase in capacity and capacity utilization for major polymers over the next few years.

Key chemical prices and margins assumptions, March fiscal year-ends, 2006-14E

	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Chemical prices									
LDPE	1,130	1,360	1,600	1,400	1,500	1,600	1,575	1,625	1,650
LLDPE	1,125	1,350	1,575	1,330	1,430	1,450	1,450	1,500	1,525
HDPE	1,100	1,340	1,500	1,275	1,430	1,450	1,450	1,500	1,525
Polypropylene	1,170	1,350	1,470	1,300	1,360	1,450	1,450	1,500	1,525
PVC	825	890	1,100	925	1,000	1,100	1,100	1,150	1,175
PFY	1,350	1,400	1,550	1,485	1,380	1,500	1,500	1,550	1,575
PSF	1,265	1,360	1,475	1,320	1,310	1,450	1,450	1,500	1,525
Paraxylene	900	1,225	1,200	1,085	1,050	1,050	1,075	1,125	1,150
Chemical margins									
LLDPE—naphtha	**655**	**820**	**850**	**655**	**800**	**770**	**755**	**770**	**795**
HDPE—naphtha	630	810	775	600	800	770	755	770	795
PP—naphtha	**700**	**820**	**745**	**625**	**730**	**770**	**755**	**770**	**795**
PVC—1.025 x (0.235 x ethylene + 0.864	264	247	396	401	456	429	429	467	486
POY—naphtha	**880**	**870**	**825**	**810**	**750**	**820**	**805**	**820**	**845**
PSF—naphtha	795	830	750	645	680	770	755	770	795
PX—naphtha	**430**	**695**	**475**	**410**	**420**	**370**	**380**	**395**	**420**
POY—0.85 x PTA—0.34 x MEG	353	329	364	496	341	382	382	373	368
PSF—0.85 x PTA—0.34 x MEG	**268**	**289**	**289**	**331**	**271**	**332**	**332**	**323**	**318**
PTA—0.67 x PX	222	89	121	133	217	272	255	271	280

Source: Company, Kotak Institutional Equities estimates

Global operating rates for key chemical products remain well below their historical levels
World demand and capacity (mn tons), operating rate (%), 1996-2012E



Source: CMAI, Kotak Institutional Equities estimates

- **E&P volume and price assumptions.** We have reduced oil production for FY2011E, FY2012E, FY2013E and FY2014E to 1.62 mn tons, 1.93 mn tons, 2.13 mn tons and 2.11 mn tons versus 2.07 mn tons, 2.41 mn tons, 2.39 mn tons and 2.36 mn tons previously. The decrease reflects lower oil production from RIL's MA-1 fields. We model FY2011E, FY2012E, FY2013E and FY2014E gas production from KG D-6 block at 58.5 mcm/d, 72 mcm/d, 88 mcm/d and 88 mcm/d. We note that RIL's D1 and D3 fields have been facing some technical issues regarding reservoir pressure and as per press articles, RIL has decided to continue production at round 60 mcm/d until it completes more studies on the reservoir.

  We have raised crude oil price (Dated Brent) assumptions for FY2011E, FY2012E, FY2013E and FY2014E to US$79/bbl, US$81/bbl, US$85/bbl and US$85/bbl. We assume KG D-6 gas selling price at US$4.2/mn BTU (US$4.34/mn BTU including marketing margin) throughout our forecast period.

- **Other income.** We model RIL's other income to likely grow strongly over the next few years driven by its increasing cash pile. We expect RIL to generate ₹1.34 tn of gross cash flow and ₹1.29 tn of free cash flow over next four years. The quantum of other income will depend on (1) RIL's dividend policy; RIL has followed a conservative dividend pay-out policy historically, (2) acquisitions and (3) capex, which would depend on new E&P discoveries and kick-start of new petrochemical projects.

- **Taxation.** We assume effective tax rate at 20.1%, 22% and 21.8% for FY2011E, FY2012E and FY2013E. We assume that RIL will continue to avail of income tax exemption on gas production from KG D-6 block and make our forecasts accordingly. However, in case the income tax exemption is not available, we compute RIL's FY2011E and FY2012E EPS to drop by 7.3% and 8.9% to ₹55 and ₹66.

- **Exchange rate.** For FY2011E, we assume Indian Rupee-US Dollar exchange rate at ₹45.5/US$ versus ₹46/US$ previously and for FY2012, FY2013E and FY2014E, we assume ₹44.5/US$ for all the years of our FY2012-14E forecast period versus ₹46/US$ previously. A stronger exchange rate is negative for RIL's earnings as can be seen in Exhibit 13, which gives sensitivity of RIL's earnings to various key variables.

Reliance's earnings have high leverage to refining margins
Sensitivity of RIL's earnings to key variables

	Fiscal 2011E			Fiscal 2012E			Fiscal 2013E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	44.5	45.5	46.5	43.5	44.5	45.5	43.5	44.5	45.5
Net profits (Rs mn)	185,576	193,754	201,931	227,901	237,136	246,372	267,424	277,456	287,488
EPS (Rs)	56.7	59.2	61.7	69.7	72.5	75.3	81.8	84.8	87.9
% upside/(downside)	**(4.2)**		**4.2**	**(3.9)**		**3.9**	**(3.6)**		**3.6**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	188,048	193,754	199,460	231,618	237,136	242,655	271,864	277,456	283,048
EPS (Rs)	57.5	59.2	61.0	70.8	72.5	74.2	83.1	84.8	86.5
% upside/(downside)	**(2.9)**		**2.9**	**(2.3)**		**2.3**	**(2.0)**		**2.0**
Blended refining margins (US$/bbl)									
Margins (US$/bbl)	7.2	8.2	9.2	8.3	9.3	10.3	8.7	9.7	10.7
Net profits (Rs mn)	174,888	193,754	212,599	218,640	237,136	255,541	259,080	277,456	295,844
EPS (Rs)	53.5	59.2	65.0	66.9	72.5	78.1	79.2	84.8	90.5
% upside/(downside)	**(9.7)**		**9.7**	**(7.8)**		**7.8**	**(6.6)**		**6.6**

Source: Kotak Institutional Equities estimates

Valuation—12-month target price at ₹1,050 versus ₹1,015 previously

Exhibit 14 presents our SOTP-based fair valuation based on FY2012E estimates. The higher valuation of the chemical segment is offset by the removal of value for 'cash' from the sale of treasury shares that we had valued separately. We have made some changes to our estimated valuation of RIL's NEC-25 block to reflect recent news reports of lower gas reserves in NEC-25 block versus previous indications. We attribute ₹135/share as value for RIL's extant and future discoveries in NEC-25, CBM, KG D-3, KG D-9 and MN D-4 blocks.

SOTP valuation of Reliance is ₹1,050 per share on FY2012E estimates
Sum-of-the-parts valuation of Reliance Industries, FY2012E basis (₹)

	Valuation base (Rs bn)		Multiple (X)		EV	Valuation
	Other	**EBITDA**	**Multiple**	**EV/EBITDA**	**(Rs bn)**	**(Rs/share)**
Chemicals		125		6.5	815	274
Refining & Marketing		141		6.5	919	309
Oil and gas—producing (PMT and Yemen)		25		4.5	113	38
Gas—producing and developing (DCF-based) (a)	900				900	302
KG D-6	499				499	167
NEC-25	75				75	25
CBM	100				100	33
KG D-3	98				98	33
KG D-9	53				53	18
MN D-4	76				76	26
Oil—KG-DWN-98/3 (b)	56				56	19
Investments other than valued separately	145				145	49
Loans & advances to affiliates	29				29	10
Retailing	52		80%		42	14
SEZ development	35		80%		28	9
Total enterprise value					**3,046**	**1,023**
Net debt					(60)	(20)
Implied equity value					**3,106**	**1,043**

Note:
(a) We value KG D-6, NEC-25, CBM, KG D-3, KG D-9 and MN D-4 blocks on DCF.
(b) 140 mn bbls of recoverable reserves based on gross OOIP of 0.35 bn bbls.
(c) We use 2.978 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

We had previously valued the cash from sale of 88.8 treasury shares (₹93 bn) separately assuming that it was still with the Petroleum Trust in the form of cash, investments and/or loans and advances. We now assume that the funds from the sale of treasury shares already reflects in RIL's FY2010 standalone balance sheet since the standalone and consolidated cash balances at end of FY2010 are roughly similar.

Also, it appears that the Petroleum Trust has invested in the preference shares of certain RIL subsidiaries (see Exhibit 15), which in turn have invested in preference shares of other RIL subsidiaries, which in turn have redeemed preference shares issued earlier to RIL. In other words, the cash has come back to RIL's standalone balance sheet. However, (1) the subsidiaries' accounts do not show any related-party transactions with the Petroleum Trust and (2) do not explicitly state that Petroleum Trust has invested in the preference shares of RIL's certain subsidiaries. RIL normally discloses the ownership of preference shares but it has not done so in the case of the aforesaid subsidiaries.

Preference shares issued by RIL's subsidiaries to unknown entity in FY2010
Preference share issuances, March fiscal year-end, 2010 (₹ mn)

Reliance Universal Enterprises Limited	31,734
Reliance Polymers (India) Ltd	21,809
Reliance Commercial Land & Infrastructure Limited	19,450
Reliance Strategic Investments Ltd	7,687
Reliance Chemicals Ltd	6,724
Total	**87,404**

Source: Company, Kotak Institutional Equities

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

	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	809,113	1,114,927	1,334,430	1,418,475	1,924,610	2,683,338	2,759,588	2,931,253	2,953,700
EBITDA	**139,991**	**198,462**	**233,056**	**233,139**	**305,807**	**371,167**	**417,456**	**459,451**	**465,891**
Other income	6,829	4,783	8,953	20,599	24,605	28,795	30,002	41,310	62,030
Interest	(8,770)	(11,889)	(10,774)	(17,452)	(19,972)	(22,003)	(8,175)	(208)	2,076
Depreciation & depletion	(34,009)	(48,152)	(48,471)	(51,953)	(104,965)	(135,317)	(135,109)	(145,599)	(146,547)
Pretax profits	104,041	143,205	182,764	184,332	205,474	242,642	304,174	354,955	383,449
Extraordinary items	3,000	2,000	47,335	—	—	—	—	—	—
Tax	(9,307)	(16,574)	(26,520)	(12,634)	(31,118)	(49,161)	(72,910)	(91,119)	(107,523)
Deferred taxation	(7,040)	(9,196)	(8,999)	(18,605)	(12,000)	272	5,872	13,620	17,425
Net profits	90,693	119,434	194,580	153,093	162,357	193,754	237,136	277,456	293,352
Adjusted net profits	**88,152**	**117,789**	**152,605**	**153,093**	**162,357**	**193,754**	**237,136**	**277,456**	**293,352**
Earnings per share (Rs)	**31.6**	**40.5**	**52.5**	**50.6**	**49.6**	**59.2**	**72.5**	**84.8**	**89.7**
Balance sheet (Rs mn)									
Total equity	430,543	673,037	847,853	1,263,730	1,371,706	1,537,676	1,740,082	1,975,861	2,227,537
Deferred taxation liability	49,708	69,820	78,725	97,263	109,263	108,991	103,118	89,498	72,073
Minority interest	—	33,622	33,622	—	—	—	—	—	—
Total borrowings	218,656	332,927	493,072	739,045	624,947	384,213	108,997	107,728	106,512
Currrent liabilities	164,545	192,305	251,427	357,019	404,148	424,371	432,421	453,286	454,303
Total liabilities and equity	**863,452**	**1,301,712**	**1,704,700**	**2,457,057**	**2,510,064**	**2,455,250**	**2,384,618**	**2,626,374**	**2,860,425**
Cash	21,461	18,449	42,822	221,765	134,626	142,719	169,105	465,791	761,100
Current assets	224,283	286,566	402,721	325,358	489,165	535,074	540,508	563,209	564,938
Total fixed assets	626,745	899,403	1,081,638	1,693,869	1,653,987	1,545,171	1,442,718	1,365,087	1,302,100
Investments	(9,038)	97,294	177,519	216,065	232,286	232,286	232,286	232,286	232,286
Deferred expenditure	—	—	—	—	—	—	—	—	—
Total assets	**863,452**	**1,301,712**	**1,704,700**	**2,457,057**	**2,510,064**	**2,455,250**	**2,384,618**	**2,626,373**	**2,860,424**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	119,520	164,285	180,718	174,508	222,605	295,258	330,962	361,401	351,602
Working capital	(32,188)	(13,075)	(31,071)	(37,983)	(53,015)	(25,687)	2,616	(1,836)	(712)
Capital expenditure	(94,273)	(247,274)	(239,691)	(247,128)	(219,427)	(24,619)	(27,247)	(61,245)	(74,717)
Investments	(32,364)	(105,760)	(78,953)	(10,392)	14,206	—	—	—	—
Other income	5,159	4,143	6,132	16,195	22,043	28,795	30,002	41,310	62,030
Free cash flow	**(34,146)**	**(197,681)**	**(162,865)**	**(104,800)**	**(13,587)**	**273,747**	**336,333**	**339,630**	**338,202**
Ratios (%)									
Debt/equity	45.5	44.8	53.2	54.3	42.2	23.3	5.9	5.2	4.6
Net debt/equity	41.1	42.3	48.6	38.0	33.1	14.7	(3.3)	(17.3)	(28.5)
RoAE	19.9	20.3	18.9	13.6	11.8	12.6	13.8	14.4	13.6
RoACE	**13.8**	**13.9**	**12.7**	**11.2**	**9.3**	**10.3**	**12.1**	**13.0**	**12.1**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

ITC (ITC)

Consumer products

ADD

OCTOBER 29, 2010

RESULT

Coverage view: Cautious

Price (Rs): 171

Target price (Rs): 180

BSE-30: 20,032

Keeps the date. 2Q results—marginally ahead of estimates—were a further demonstration of ITC's market dominance in cigarettes (price increases in an environment of high food inflation) and the confluence of good performance by all business divisions. Key areas to watch, (1) improving profitability of extant foods businesses, (2) growth in personal care (a tad disappointing in 2Q) and (3) competitive activity by Marlboro in relevant markets. Upgrade FY2010-12E earnings by 2%; ADD.

Company data and valuation summary

ITC

Stock data			
52-week range (Rs) (high,low)			185-112
Market Cap. (Rs bn)			1,309.8
Shareholding pattern (%)			
Promoters			0.0
FIIs			13.8
MFs			2.9
Price performance (%)	1M	3M	12M
Absolute	(1.4)	10.4	34.9
Rel. to BSE-30	(1.8)	(0.8)	8.1

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	5.3	6.5	7.6
EPS growth (%)	22.6	22.0	17.8
P/E (X)	32.3	26.4	22.4
Sales (Rs bn)	181.5	208.3	243.3
Net profits (Rs bn)	40.6	49.6	58.4
EBITDA (Rs bn)	64.3	75.4	89.3
EV/EBITDA (X)	19.6	16.7	13.9
ROE (%)	29.2	32.0	31.5
Div. Yield (%)	2.9	1.6	1.7

Confluence of all businesses performing well, as expected

ITC reported net sales of Rs50.6 bn (+16%, KIE Rs49.5 bn), EBITDA of Rs17.9 bn (+16%, KIE Rs17.3 bn) and PAT of Rs12.5 bn (+23%, KIE Rs11.5 bn).

- The cigarette segment sales grew 15% to Rs48 bn—volumes were likely flat which is a key positive given that the company effected price hike of 15% post the budget in an environment of high food inflation.
- Other FMCG sales grew 22% yoy—led by branded packaged foods at +26% (Sunfeast +32%, staples +29%, confectionary +18%).
- Step up in soya and wheat sales helped agri business register growth of 22%.
- Cigarette margins improved 40 bps to 30.3% likely on the back of improvement in sales mix and lower trade spends. Sharp improvement in other FMCG margins (350 bps) is a significant positive as it likely demonstrates ITC's ability to turn extant businesses profitable.
- The paperboard business grew 32% with surprisingly high margins of 25.6% (300 bps improvement) as it benefited from (1) better mix—higher proportion of value-added paperboard, (2) benefits of backward integration (commissioning pulp capacity) and (3) higher realizations.
- +74% increase in other income (dividends) boosted PAT margin by 140 bps to 24.6%.
- The company has launched Sunfeast Yippee instant noodles in select markets (Bangalore and Coimbatore). In the last one year, ITC is the third new entrant in this segment after GSK Consumer and HUL.

QUICK NUMBERS

- Cigarette volumes likely flat in 2Q
- Mix improvement aided cigarette margins improve 40 bps to 30.3%
- FMCG losses moderate

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Needle movers are potential increases in dividends and improving return ratios

- **Potential for increase in dividend payout ratio exists**. We assign a high probability for an increase in the dividend payout in FY2010-12E as ITC is likely to generate FCF of Rs48 bn and the company is likely to have surplus cash of Rs50 bn (Rs13/share) by end-FY2011E.

- **Improving ROCE** as all businesses will likely contribute incrementally to profits and capex as a percentage of sales trends downwards.

- **Entry of Philip Morris (Marlboro) in RSFT.** While our channel checks suggests muted consumer acceptance of Marlboro Compact (despite the brand being well known in big cities), we keenly watch the market performance of it in the RSFT segment (smaller cigarette, 69mm).

  In our view, the cigarette market scenario still favors ITC as, (1) Godfrey Philips (GPI) and Philip Morris need to ensure that Marlboro Compact (owned by Philip Morris directly) do not cannibalize GPI's sales, and (2) relatively limited geographical distribution reach of GPI versus market leader ITC.

  Marlboro has premium positioning globally—its strong brand equity means that it faces limited head-on competition. Competitors prefer to have an "aggregation of niches strategy" (various brands against Marlboro at multiple price points closer to Marlboro price).

Retain ADD, moderate increase in estimates, TP increases to Rs180

We model higher cigarette margins (mix improvement) and increase FY2010-12E earnings estimates by 2% and target price to Rs180 (Rs175 previously). Our EPS estimates are Rs6.5 and Rs7.6 for FY2011E and FY2012E, respectively. Key factor favoring ITC is likely stability in regulation as most of the penal actions are behind it (including threat of indiscriminate increase in VAT by states—current effective VAT rate of ~15%). We see strong possibility for further earnings upgrades as cigarette volumes could surprise positively in 2HFY11E.

Media reports suggest that implementation of GST is likely postponed from the earlier deadline of April 1, 2011. While there is no structural change to our ITC view based on this, we note that this potentially removes the near-term uncertainty for ITC in managing cigarette portfolio pricing (calibrated price changes typically has lesser impact on volumes).

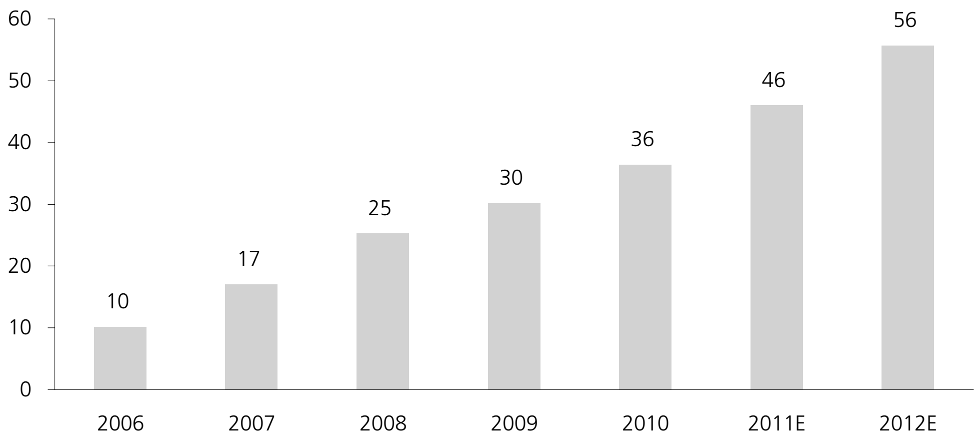
Key risks are (1) unexpected higher losses in other FMCG, and (2) any aggressive marketing strategy by Philip Morris to promote Marlboro.

Interim results of ITC Limited, March fiscal year-ends (Rs mn)

					(% chg)		
	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	2QFY10	1QFY11
Net sales	**50,612**	**49,498**	**43,523**	**48,166**	**2**	**16**	**5**
Total expenditure	(32,723)	(32,182)	(28,148)	(32,103)	2	16	2
Material cost	(18,532)	(18,382)	(15,967)	(17,911)	1	16	3
Staff cost	(2,612)	(2,551)	(2,420)	(3,419)	2	8	(24)
Other expenditure	(11,579)	(11,249)	(9,762)	(10,772)	3	19	7
EBITDA	**17,889**	**17,317**	**15,374**	**16,064**	**3**	**16**	**11**
OPM (%)	**35.3**	**35.0**	**35.3**	**33.4**	1	0	6
Other income	2,105	1,432	1,211	1,292		74	63
Interest	(54)	(134)	(181)	(58)		(70)	(8)
Depreciation	(1,640)	(1,603)	(1,484)	(1,597)		11	3
Pretax profits	**18,300**	**17,012**	**14,920**	**15,701**	**8**	**23**	**17**
Tax	(5,833)	(5,489)	(4,821)	(4,998)		21	**17**
Net income	**12,467**	**11,523**	**10,099**	**10,703**	**8**	**23**	**16**
Income tax rate (%)	31.9	32.3	32.3	31.8			
	24.6%						
Cost as a % of Sales							
Material cost	36.6	37.1	36.7	37.2			
Staff cost	5.2	5.2	5.6	7.1			
Other expenditure	22.9	22.7	22.4	22.4			
Segment results							
Revenue							
Cigarettes	48,104	48,064	41,831	46,697	0	15	3
Other FMCG	10,577	10,732	8,653	10,056	(1)	22	5
Hotel	2,247	2,189	1,863	2,251	3	21	(0)
Agri business	12,496	11,520	10,283	13,498	8	22	(7)
Paperboards, paper & packaging	9,596	9,397	8,217	8,291	2	17	16
Total	83,021	81,904	70,847	80,794	1	17	(1)
Less: Intersegment revenue	(9,400)	(9,526)	(7,761)	(10,365)	(1)	21	(9)
Gross sales	**73,621**	**72,377**	**63,086**	**70,430**	**2**	**17**	**5**
EBIT							
Cigarettes	14,582	14,227	12,517	13,050		17	12
Other FMCG	(669)	(883)	(850)	(893)		(21)	(25)
Hotel	399	409	316	385		26	4
Agri business	2,024	1,177	1,741	1,231		16	64
Paperboards, paper & packaging	2,456	1,958	1,862	1,885		32	30
Total	**18,792**	**16,887**	**15,585**	**15,658**		**21**	**20**
EBIT margins (%)							
Cigarettes	30.3	29.6	29.9	27.9		1	8
Other FMCG	(6.3)	(8.2)	(9.8)	(8.9)		(36)	(29)
Hotel	17.7	18.7	16.9	17.1		5	4
Agri business	16.2	10.2	16.9	9.1		(4)	78
Paperboards, paper & packaging	25.6	20.8	22.7	22.7		13	13
Capital employed							
Cigarettes	37,093		30,825	30,316		20	22
Other FMCG	17,652		16,893	18,805		4	(6)
Hotel	25,529		23,351	25,111		9	2
Agri business	9,966		6,581	14,406		51	(31)
Paperboards, paper & packaging	36,464		38,071	36,358		(4)	0
Total	**126,703**		**115,721**	**124,996**		**9**	**1**

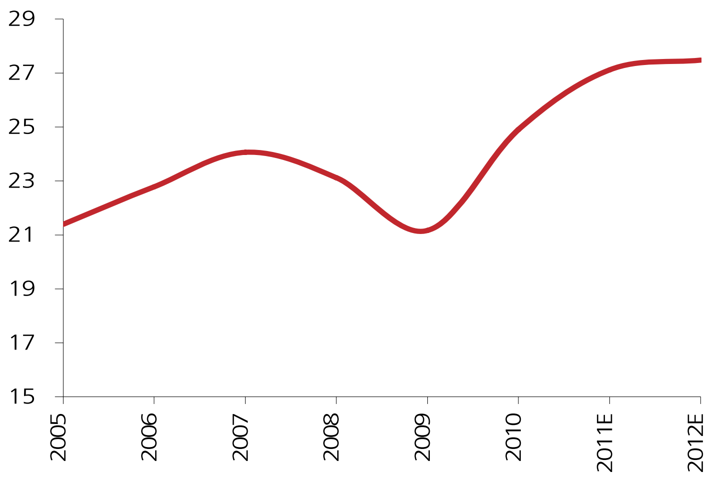
Source: Company, Kotak Institutional Equities estimates

Steady growth in FMCG sales
FMCG sales, March fiscal year-ends, 2006-2012E (Rs bn)



Source: Kotak Institutional Equities estimates

Improving ROCE levels
ROCE, March fiscal year-ends, 2005 - 2012E (%)



Source: Kotak Institutional Equities estimates

ITC: Segment revenue, 2006-2013E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Segment revenue, gross (Rs mn)							
Cigarettes	128,337	138,256	151,151	172,830	198,670	224,596	254,339
Other FMCG	17,044	25,231	30,140	36,417	46,014	55,633	64,629
Hotels	9,857	11,002	10,203	9,108	11,240	13,240	14,984
Agri Business	36,914	38,998	38,460	38,621	41,306	47,242	51,529
Paperboards, Paper & Packaging	21,001	23,643	28,220	32,336	38,959	46,478	54,600
TOTAL	213,152	237,131	258,173	289,313	336,188	387,189	440,081
Less: Inter segment revenue	18,101	23,137	26,738	26,715	32,106	37,488	42,452
Gross sales	**195,051**	**213,994**	**231,435**	**262,598**	**304,082**	**349,701**	**397,629**
Net sales	123,693	140,012	156,119	181,532	208,313	243,268	274,791
Segment revenue growth, (%)							
Cigarettes	13.3	7.7	9.3	14.3	15.0	13.1	13.2
Other FMCG	68.2	48.0	19.5	20.8	26.4	20.9	16.2
Hotels	25.8	11.6	(7.3)	(10.7)	23.4	17.8	13.2
Agri Business	37.8	5.6	(1.4)	0.4	6.9	14.4	9.1
Paperboards, Paper & Packaging	10.8	12.6	19.4	14.6	20.5	19.3	17.5
TOTAL	20.4	11.2	8.9	12.1	16.2	15.2	13.7
Gross sales	20.2	9.7	8.2	13.5	15.8	15.0	13.7
Net sales	26.3	13.2	11.5	16.3	14.8	16.8	13.0

Source: Kotak Institutional Equities estimates

ITC: Segment revenue and PBIT, 2006-2013E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Segment revenue, gross (Rs mn)							
Cigarettes	128,337	138,256	151,151	172,830	198,670	224,596	254,339
Other FMCG	17,044	25,231	30,140	36,417	46,014	55,633	64,629
Hotels	9,857	11,002	10,203	9,108	11,240	13,240	14,984
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Gross sales	**195,051**	**213,994**	**231,435**	**262,598**	**304,082**	**349,701**	**397,629**
Net sales	123,693	140,012	156,119	181,532	208,313	243,268	274,791
Segment revenue break up, (%)							
Cigarettes	**65.8**	**64.6**	**65.3**	**65.8**	**65.3**	**64.2**	**72.7**
Other FMCG	8.7	11.8	13.0	13.9	15.1	15.9	18.5
Hotels	5.1	5.1	4.4	3.5	3.7	3.8	4.3
Agri Business	18.9	18.2	16.6	14.7	13.6	13.5	14.7
Paperboards, Paper & Packaging	10.8	11.0	12.2	12.3	12.8	13.3	15.6
TOTAL	109.3	110.8	111.6	110.2	110.6	110.7	125.8
Less: Inter segment revenue	9.3	10.8	11.6	10.2	10.6	10.7	12.1
Gross sales	100.0	100.0	100.0	100.0	100.0	100.0	113.7
Segment PBIT margins (Rs mn)							
Cigarettes	31,722	36,340	41,838	49,381	58,397	67,260	77,598
Other FMCG	(2,020)	(2,635)	(4,835)	(3,495)	(2,639)	(661)	1,355
Hotels	3,508	4,108	3,162	2,166	3,345	4,054	4,851
Agri Business	1,236	1,292	2,562	4,364	4,108	4,624	5,324
Paperboards, Paper & Packaging	4,168	4,531	5,086	6,843	8,216	10,031	12,475
TOTAL	**38,613**	**43,636**	**47,813**	**59,259**	**71,428**	**85,309**	**101,604**
Segment PBIT margins (%)							
Cigarettes	24.7	26.3	27.7	28.6	29.4	29.9	30.5
Other FMCG	(11.9)	(10.4)	(16.0)	(9.6)	(5.7)	(1.2)	2.1
Hotels	35.6	37.3	31.0	23.8	29.8	30.6	32.4
Agri Business	3.3	3.3	6.7	11.3	9.9	9.8	10.3
Paperboards, Paper & Packaging	19.8	19.2	18.0	21.2	21.1	21.6	22.8
TOTAL	18.1	18.4	18.5	20.5	21.2	22.0	23.1

Source: Kotak Institutional Equities estimates

ITC: Profit model, balance sheet, cash flow model 2006-2013E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)							
Net sales	123,693	140,012	156,119	181,532	208,313	243,268	274,791
EBITDA	**39,700**	**44,703**	**48,686**	**60,936**	**72,308**	**86,228**	**98,435**
Other income	3,365	6,109	5,349	6,034	7,196	7,294	7,868
Interest	(169)	(173)	(284)	(730)	(543)	(592)	(570)
Depreciation	(3,629)	(4,385)	(5,494)	(6,087)	(6,871)	(7,683)	(8,575)
Pretax profits	39,267	46,255	48,258	60,153	72,090	85,248	97,159
Tax	(12,267)	(14,517)	(15,622)	(19,543)	(22,535)	(26,892)	(30,845)
Net profits	**27,000**	**31,738**	**32,636**	**40,610**	**49,555**	**58,356**	**66,314**
Earnings per share (Rs)	**3.6**	**4.2**	**4.3**	**5.4**	**6.5**	**7.6**	**8.7**
Balance sheet (Rs mn)							
Total equity	104,371	120,577	137,351	140,644	169,448	201,001	242,299
Deferred taxation liability	4,729	5,451	8,672	7,850	7,850	7,850	7,850
Total borrowings	2,009	2,144	1,776	1,077	1,077	1,077	1,077
Currrent liabilities	38,576	44,323	47,036	80,482	64,261	65,480	68,296
Total liabilities and equity	**149,684**	**172,495**	**194,835**	**230,053**	**242,636**	**275,408**	**319,522**
Cash	9,002	5,703	10,310	11,263	15,865	34,435	60,115
Current assets	53,896	64,490	71,287	70,008	69,870	76,764	85,784
Total fixed assets	56,109	72,956	84,860	91,514	99,633	106,940	116,355
Investments	30,678	29,346	28,378	57,269	57,269	57,269	57,269
Total assets	**149,684**	**172,495**	**194,834**	**230,053**	**242,636**	**275,408**	**319,522**
Free cash flow (Rs mn)							
Operating cash flow	31,040	37,112	41,493	49,850	57,407	67,462	76,182
Working capital	(8,667)	(6,634)	(4,991)	6,541	6,178	(3,710)	(3,578)
Capital expenditure	(15,702)	(21,239)	(17,407)	(12,751)	(15,000)	(15,000)	(18,000)
Free cash flow	**6,672**	**9,238**	**19,095**	**43,640**	**48,584**	**48,752**	**54,605**
Key ratios (%)							
Sales growth	26.3	13.2	11.5	16.3	14.8	16.8	13.0
EBITDA margin	32.1	31.9	31.2	33.6	34.7	35.4	35.8
EPS growth	20.1	17.1	2.8	23.8	21.0	17.8	13.6

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

ICICI Bank (ICICIBC)

Banks/Financial Institutions

ADD

OCTOBER 29, 2010

RESULT, CHANGE IN RECO.

Coverage view: Attractive

Price (Rs): 1,163

Target price (Rs): 1,230

BSE-30: 20,032

Changing outlook; growth taking precedence; we upgrade to ADD. We expect loan growth to gather pace from 3Q onwards, with likely better margins on the back of improving funding mix (CASA at 44%). A sharply reduced provisioning expense (on back of sharply lower slippages) will further add to profitability. Even in 2Q, margins improved as deposit costs were sustained while lower provisions supported earnings. With RoAs ranging at 1.4-1.6%, RoEs will be on an improving trend, as balance sheet leverage improves – expect RoEs of 15% on banking book. We upgrade to ADD with a TP of ₹1,230.

Company data and valuation summary

ICICI Bank

Stock data			
52-week range (Rs) (high,low)			1,177-712
Market Cap. (Rs bn)			1,296.6
Shareholding pattern (%)			
Promoters			0.0
FIIs			66.6
MFs			6.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	5.5	25.2	50.7
Rel. to BSE-30	5.1	12.5	20.8

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	36.1	45.0	58.0
EPS growth (%)	6.9	24.6	29.0
P/E (X)	32.2	25.9	20.0
NII (Rs bn)	81.1	89.5	108.5
Net profits (Rs bn)	40.2	51.8	66.8
BVPS	448.5	479.7	517.4
P/B (X)	2.6	2.4	2.2
ROE (%)	8.0	9.7	11.6
Div. Yield (%)	1.0	1.2	1.5

QUICK NUMBERS

- NIMs improve 10 bps to 2.6%
- Loan growth at 5% qoq (including BoR)
- Upgrade to ADD. Revise TP to ₹1,230

Loan growth now in line with the industry; funding mix has improved considerably; upgrade to ADD

The outlook on loan growth, margins and asset quality has clearly turned positive for ICICI Bank and we see this driving profitability for ICICI Bank and medium-term stock performance. After about 8 quarters, we see retail loans growing sequentially as disbursements continue to improve while outlook on domestic loans continues to remain positive. Further, reasonably strong funding mix (CASA at 44%, avg. CASA at 39% in 2Q) has resulted in a positive bias for NIMs. Our target price at ₹1,230, values the bank at 2.3XFY2012E core bank book and 16XFY2012E core earnings.

Loan book grows by 2% qoq (standalone); 5% including BoR

Loans grew by 2% (adjusted for BOR) sequentially, in line with the industry to ₹1.87 tn as of September 2010. Including BoR, growth was at 5% qoq (2% yoy) to ₹1.94 tn. Incremental growth was mainly driven by corporate/SME segment (positive impact from BoR). Retail loans have finally started growing, up 2% qoq, after a continuous decline over last 8 quarters, mainly driven by mortgages. Retail disbursements have been consistently improving—₹78 bn in 2QFY11 compared to ₹55 bn in 1QFY11. We expect the pace in retail growth to pick up further in coming quarters, while the near-term growth is likely to be driven by corporate sector. We expect loan book to grow by 17% in FY2011E and 20% in FY2012E.

Margins improve 10 bps qoq to 2.6%

Margins improved by 10 bps qoq to 2.6%, as higher investment yields more than offset the increase in funding costs (KS calc.). Management highlighted that the improvement was led by reset in floating papers and rise in interest rates. Lending yields was flat qoq at about 8.3% as environment continues to remain competitive coupled with a continued shift towards secured assets. Overall, the international book (which is 25% of loans) has a margin of 80 bps (up from 50 bps in previous quarter), while the domestic book has a margin of about 3.0%.

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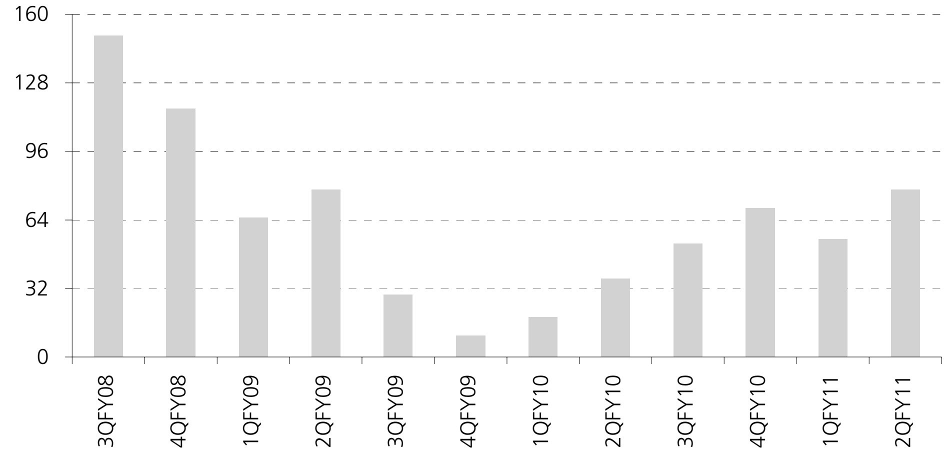
Disbursements have witnessed steady improvement
Retail disbursements, March fiscal year-ends, 3QFY08-2QFY11



Source: Company

CASA ratio increased further to 44%; branch addition led by merger

Deposits grew by 13% yoy (11% qoq) to ₹2.2 tn aided somewhat by the merger. Unadjusted for the merger, deposits grew by 6% yoy (4% qoq). CASA ratio for the quarter improved to 44% from 42% in June 2010. CASA deposits grew healthily, a commendable improvement over the past few quarters; by 27% yoy (9% qoq) led by strong growth in current deposits. At the time of merger, Bank of Rajasthan had a CASA ratio of 35%. Post merger, ICICI Bank has increased its branch network to 2,500 (compared to 2,016 in June 2010) with a 3-year target of 4,000 branches. We maintain a favourable outlook on the bank's CASA ratio as productivity improves of not only for BoR branches but also those opened in the past three years (700 branches since FY2008).

Fee growth of 15% impressive led by corporate and international business

Overall fee growth was impressive at 15% yoy, a sharp improvement from 7% yoy reported in 1QFY11. The management highlighted that retail fees have stabilized while the growth for the quarter was driven by higher contribution from corporate and international business. Non interest income declined 13% yoy mainly due to treasury loss of ₹1.4 bn (related to investment depreciation provisions and MTM on security receipts). A more sustainable trend should be visible given that balance sheet growth trends are emerging very strongly.

Asset quality stable despite the merger; coverage increases to 69%

The quarter saw ICICI Bank almost meeting the regulatory target of 70% provisioning coverage – this should help lower provisioning charges and aid earnings going forward. The bank made provisions of ₹6.4 bn largely towards NPLs and, consequently, net NPLs declined to ₹32 bn (net NPA down to 1.6% from 1.9% qoq). Provisions will broadly track net slippages and given the subdued business growth in recent years, we see this declining steadily over the next few quarters. We are building loan loss provisions at 1.3% for FY2011 and 0.9% for FY2012.

Reported gross NPLs were up by 3% qoq, with the bulk of the increase coming from the merger with Bank of Rajasthan. Increase in gross retail NPLs shows that the bulk of NPL has come from the retail book (probably of Bank of Rajasthan). Restructured assets declined ₹26 bn (1.3% of loans), on back of up-gradations of few corporate loans compared to ₹37 bn (2% of loans).

NPLs likely to fall due to lower slippages and high provisions
Net NPLs, March fiscal year-ends (%)

Source: Kotak Institutional Equities

Cost-income at 42%; employee expenses on the rise

Cost-income ratio increased 200 bps to 42% (unadjusted for treasury income was at 40%) but the bank is witnessing higher salary expenses as it continues to hire fresh talent and account for the employees from BoR. While salary expenses increased by 39% yoy, other opex declined by 3% yoy. Opex to assets at 1.6% in 2Q is one of the best in the industry. We however expect costs to grow by about 20% over next couple of years on the back of higher business activity and rising wage levels.

ICICI Pru Life: Margins maintained; renewal premiums decline 6% yoy

ICICI Pru Life's APE grew by 11% yoy to ₹13 bn in 2QFY11. Reported NBAP margin remained stable at 19%, resulting in a 9% yoy growth in NBAP to ₹2.5 bn. However, renewal premiums fell by 6% yoy, reflecting higher surrenders/lapsation. ICICI Pru Life reported a marginal profit of ₹0.2 bn (excluding surplus of ₹2.5 bn in non participatory policyholder's funds).

Consolidated profits up 21% yoy

Consolidated net profits reported a strong growth of 22% to ₹14 bn supported by profits contribution from life insurance business and higher profits from general insurance business, home finance and ventures. In International subsidiaries—UK has seen a marginal increase in total assets while Canada continues to decline. RoEs, however, in international subsidiaries, remain below par.

Improvement in contribution from subsidiaries
Consolidated profit for ICICI Bank, March fiscal year-ends, (Rs mn)

	2QFY10	2QFY11	yoy growth	1QFY11	qoq growth
ICICI Bank PAT	10,401	12,363	18.9	10,260	20.5
Subsidiaries (profits)	1,049	1,587	51.4	650	144.1
AMC	480	140	(70.8)	320	(56.3)
ICICI Securities	380	290	(23.7)	250	16.0
ICICI Ventures	140	220	57.1	110	100.0
ICICI Prudential	(690)	150	(121.7)	(1,160)	(112.9)
ICICI Lombard	510	1,040	103.9	330	215.2
ICICI Home	280	540	92.9	570	(5.3)
ICICI UK	592	378	(36.2)	423	(10.6)
ICICI Canada	662	331	(50.0)	293	13.3
Consolidated PAT	**11,450**	**13,950**	**21.8**	**10,910**	**27.9**

Source: Kotak Institutional Equities, Company

BOR merger completed; deal becomes further expensive post certain write-offs

ICICI Bank reported the merged numbers with Bank of Rajasthan for 2QFY11 and has taken few charges through the reserves. Adjusting for these charges, the BoR acquisition has turned even more expensive.

BoR had a networth of ₹9.4 bn as of FY2010. However, at the time of merger as of August 2012, the networth was ₹3.6 bn, as the management charged ₹5.8 bn for increasing provision coverage to 70%, employee benefits and deferred tax reversal. Post merger, the bank has taken an additional charge of ₹2.7 bn on ICICI Bank's networth to realign staff costs and MTM provisions on HTM portfolio of BoR's investment book.

Acquisition of Bank of Rajasthan remains expensive
Movement of networth of BoR post adjustments made pre merger

	Rs. bn	
Reported networth in FY2010	9.4	
Adjustment	5.8	Provisions for employee benefits, 70% coverage and deferred tax reversal
Networth as of August 12, 2010	3.6	
Other adjustments (post merger)	2.7	Realignment of salaries, MTM on HTM portfolio
Post adjusted networth of BoR	0.9	
Intital purchase price	30.2	Value at the time of share swap (No of shares issued x stock price as of Aug 12th)
Branches acquired	463.0	
Price / branch (Rs mn)	65.2	
Price / Networth (x)	35.2	

Source: Company, Kotak Institutional Equities

Bank of Rajasthan sees decline in business at the time of merger

We note that Bank of Rajasthan has seen decline in business and further increase in asset quality on the date of merger from last published results. Loans have declined 23% while gross NPLs have increased by 40% since March 2010. However, deposits decline was slow, probably indicating better confidence on the new franchise.

Key business data of Bank of Rajasthan

	FY2010	12-Aug-10	% change	ICICI Bank 1QFY11	% of ICICI Bank
Loans	85	65	(23.1)	1,844	3.5
Deposits	151	135	(10.5)	2,009	6.7
- CASA	49	47	(5.2)	846	5.5
Balance sheet	173	156	(10.0)	3,597	4.3
Gross NPL	3	4	39.9	100	4.1
Net NPL	1	1	(19.9)	35	3.0
Provision coverage	55	74		65	

Source: Kotak Institutional Equities

ICICI Bank quarterly results and key balance sheet items
March fiscal year-ends, 2QFY10-2QFY11 (Rs mn)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	% change	2QFY11E	Actual Vs KS
Interest income	66,569	60,896	58,270	58,125	63,091	(5)	59,779	6
Interest on advances	44,930	39,764	38,168	37,785	39,492	(12)	39,487	0
Interest on investments	16,280	16,913	15,709	16,586	19,161	18	17,163	12
Balance with RBI	5,359	4,219	4,393	3,755	4,438	(17)	3,129	42
Interest expenses	46,209	40,315	37,920	38,215	41,047	(11)	38,924	5
Net interest income	**20,361**	**20,581**	**20,349**	**19,911**	**22,044**	**8**	**20,855**	**6**
Non-interest income	18,238	16,731	18,908	16,805	15,779	(13)	17,852	(12)
Commission and fees	13,870	14,220	15,210	14,130	15,900	15	15,396	3
Investment income	2,970	(260)	1,960	1,040	(1,440)	(148)	891	(262)
Other income	1,398	2,771	1,738	1,635	1,319	(6)	1,566	(16)
Total income	**38,599**	**37,312**	**39,258**	**36,716**	**37,823**	**(2)**	**38,708**	**(2)**
Total income excluding treasury	35,629	37,572	37,298	35,676	39,263	10	37,817	4
Operating expenses	14,245	13,624	15,269	14,835	15,704	10	14,812	6
Salary	4,496	4,270	5,827	5,756	6,243	39	5,709	9
Other costs	9,541	9,041	8,984	8,721	9,106	(5)	8,873	3
DMA cost	209	313	458	358	355	70	230	54
Preprovision profit	24,353	23,688	23,989	21,881	22,119	(9)	23,895	(7)
Provisions	10,713	10,022	9,898	7,978	6,411	(40)	6,542	(2)
Loan loss provisions	10,000	10,000	9,898	7,978	6,411	(36)	6,542	(2)
Profit before tax	13,640	13,667	14,091	13,903	15,708	15	17,353	(9)
Tax	3,239	2,656	4,036	3,643	3,345	3	4,859	(31)
Profit after tax	**10,401**	**11,011**	**10,056**	**10,260**	**12,363**	**19**	**12,494**	**(1)**
Effective tax rate(%)	24	19	29	26	21			
PBT-invt inc+dep	10,670	13,927	17,970	12,863	17,148	61	16,462	4
PBT-Invt income+NPL provisions	**20,670**	**23,927**	**28,355**	**20,841**	**23,559**	**14**	**23,004**	**2**
Key balance sheet items (Rs bn)								
Deposits	**1,970**	**1,977**	**2,020**	**2,009**	**2,231**	13		
Savings	493	510	532	565	632	28		
Current	236	272	310	281	349	48		
CASA ratio (%)	37	40	42	42	44			
Customer assets	**2,081**	**2,016**	**2,086**	**2,169**	**1,970**	(5)		
Retail loans	859	807	790	763	781	(9)		
Retail loans to Customer assets (%)	41	40	38	35	40	(4)		
Housing loans	490	484	474	473	508	4		
Auto loans	94	81	79	76	70	(26)		
Two wheelers	9	8	8	8	16	82		
Personal loans	60	56	47	38	31	(48)		
Credit cards	58	48	40	38	31	(47)		
Commercial vehicles	120	113	126	114	117	(3)		
Corporate and International	1,050	986	1,022	1,081	1,161	11		
International lending	515	466	453	479	486	(6)		
Rural (incl agri)	115	125	181	166	136	19		

Source: Company, Kotak Institutional Equities estimates

ICICI Bank --key analytical parameters
March fiscal year-ends, 2QFY10-2QFY11

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
KS calculations					
Yield on Loans	9.2	8.6	8.5	8.3	8.3
Yield on Investments	5.6	5.6	5.1	5.3	5.8
Yield on funds	8.5	7.9	7.7	7.6	7.9
Cost of funds	6.2	5.5	5.2	5.2	5.3
Spread	2.4	2.4	2.5	2.4	2.5
NIM	2.6	2.7	2.6	2.5	2.7
NIM as per the mgmt	**2.5**	**2.6**	**2.6**	**2.5**	**2.6**
Asset quality details					
Gross NPLs to advances (%)	4.7	5.1	5.3	5.4	5.3
Net NPLs to advances (%)	2.4	2.5	2.2	1.9	1.6
Net NPLs/customer assets (%)	2.2	2.2	1.9	1.6	1.6
Provision Coverage (%)	51.9	51.3	59.5	64.8	68.8
Gross NPLs (Rs bn)	95	91	96	100	102
Provisions and w/off (Rs bn)	49	47	57	65	70
Net NPLs (Rs bn)	46	44	39	35	32
Restructured assets (Rsbn)	49	53	53	37	26
Total rest. And NPLs	94	98	92	73	58
Gross NPLs in retail (Rs bn)	64	60	65	66	68
Non collateral accounts (Rs bn)	37	30	33		
Retail ratio (%) excld non-collateral	4	4	5	10	9
Net NPLs in retail (Rs bn)	30.1	27.8	24.1	19.9	17.1
Non collateral accounts (Rs bn)	16.6	14.2	10.6	7.8	0.0
Net NPLs in non retail	15.5	16.4	14.9	15.2	14.8
Capital adequacy details					
CAR (%)	17.7	19.4	19.4	20.2	20.2
Tier I (%)	13.3	14.2	14.0	14.0	13.8

Source: Company, Kotak Institutional Equities estimates

ICICI Bank balance sheet snapshot and key details of ICICI Prudential
March fiscal year-ends, 2QFY10-2QFY11

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
Balance sheet snapshot (Rs bn)					
Cash, balances with banks, SLR	1,071	1,058	1,073	1,004	1,045
Cash advances	293	306	389	304	348
SLR Investments	778	753	684	700	697
Advances	1,909	1,793	1,812	1,844	1,942
Retail	859	807	790	763	781
Housing loans	490	484	474	473	508
Other assets	263	230	224	173	247
Total assets	**3,664**	**3,562**	**3,634**	**3,597**	**3,900**
Networth	513	522	513	528	540
Equity capital	11	11	11	11	12
Reserves and surplus	501	511	502	517	528
Preference capital	4	4	4	4	4
Deposits	1,978	1,977	2,020	2,009	2,231
Total borrowings	998	915	943	950	970
Other liabilities	172	145	155	153	159
Total liabilities	**3,664**	**3,562**	**3,634**	**3,643**	**3,903**
ICICI Pru Life					
ICICI Pru Life NBAP (Rs mn)	2,330	2,820	3,820	2,250	2,540
NBAP margin	19	19	19	19	19
AUMs (Rs bn)	501	536	573	595	655

Source: Company, Kotak Institutional Equities estimates

Retail loans have been running off sharply since the past few quarters
March fiscal year-ends, 2QFY09-2QFY11 (Rs bn)

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
Retail Loans	1,210	1,145	1,062	960	859	807	790	763	781
qoq change (%)	(8)	(5)	(7)	(10)	(11)	(6)	(2)	(3)	2
Secured Loans	972	927	881	794	713	686	687	671	711
Unsecured Loans	238	218	181	166	146	121	103	92	70
Retail % of total loans	55	54	49	48	45	45	44	41	40

Source: Company

International portfolio still constitutes a large proportion of the loan book
Movement in non-retail and international loan book, March fiscal year-ends, 2QFY09-2QFY11 (Rs bn)

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
Non retail loans	1,010	980	1,121	1,021	1,050	986	1,022	1,081	1,161
of which International	577	553	546	515	515	466	453	479	486
International % of total parent loans	26	26	25	26	27	26	25	26	25

Source: Company

ICICI Bank-- change in estimates
March fiscal year-ends, 2011-2013E (Rs mn)

	Old estimates			New estimates			% change in estimates		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2011E
Net interest income	89,299	104,736	122,797	89,517	108,485	131,144	0.2	3.6	6.8
Spread	2.2	2.3	2.3	2.2	2.4	2.5			
NIM (%)	2.6	2.8	2.8	2.6	2.9	2.9			
Customer assets (Rs bn)	2,466	2,842	3,313	2,466	2,887	3,413	0.0	1.6	3.0
Loan loss provisions	26,559	23,105	27,340	25,575	20,996	21,045	(3.7)	(9.1)	(23.0)
Other income	76,656	88,372	102,933	73,890	86,596	101,805	(3.6)	(2.0)	(1.1)
Fee income	55,192	64,232	74,764	54,926	63,957	74,484	(0.5)	(0.4)	(0.4)
Treasury income	5,500	6,000	7,000	3,000	4,500	6,000	(45.5)	(25.0)	(14.3)
Operating expenses	69,354	81,344	94,793	69,736	83,835	100,674	0.6	3.1	6.2
Employee expenses	23,046	28,382	34,554	24,344	30,668	38,620	5.6	8.1	11.8
PBT	70,042	88,659	103,597	68,096	90,250	111,229	(2.8)	1.8	7.4
Tax	19,612	24,825	29,007	16,343	23,465	31,144	(16.7)	(5.5)	7.4
Net profit	**50,431**	**63,834**	**74,590**	**51,753**	**66,785**	**80,085**	**2.6**	**4.6**	**7.4**
PBT-treasury+provisions	**91,101**	**105,764**	**123,937**	**90,671**	**106,746**	**126,274**	**(0.5)**	**0.9**	**1.9**

Source: Company, Kotak Institutional Equities estimates

ICICI Bank SOTP (FY2012) valuation

	ICICI Share (%)	FY2012	Valuation methodoly adopted
Value of ICICI standalone	**100**	**909**	Based on Residual growth model
Subsidiaries			
ICICI Financial Services	**94**	**184**	
ICICI Prudential Life	74*	147	15X NBAP, margin assumed is 13%
General Insurance	74*	21	1.5X FY2012 PBR
Mutual Fund	51*	16	3% of AUMs
Other subsidiaries/associates			
ICICI Securities Ltd	100	21	12X FY2012 PER
ICICI Securities Primary Dealer	100	2	1X FY2012 PBR
ICICI Homes Ltd	100	21	1.5X FY2012 PBR
ICICI Bank UK	100	31	1XFY2012 PBR
ICICI Bank Canada	100	44	1XFY2012 PBR
Venture capital/MF	100	13	10% of AUM of US$2 bn
Value of subsidiaries		**316**	`
Value of company		**1,225**	

Source: Company, Kotak Institutional Equities estimates

ICICI Bank --forecasts and valuation
March fiscal year-ends, 2008-2013E

	PAT	EPS	P/E	BVPS	P/B	RoE	Core RoE	P/E (standalone)	BVPS (standalone)	P/B (standalone)
	(Rs bn)	(Rs)	(X)	(Rs)	(X)	(%)	(%)	(X)	(Rs)	(X)
2008	41.6	39.9	29.1	418	2.8	11.7	10.2	29.4	341	2.5
2009	37.6	33.8	34.5	445	2.6	7.8	9.2	27.5	331	2.6
2010	40.2	36.1	32.2	463	2.5	8.0	9.7	25.8	348	2.4
2011E	51.8	45.0	25.9	480	2.4	9.7	11.6	20.4	368	2.3
2012E	66.8	58.0	20.0	517	2.2	11.6	14.0	15.6	406	2.1
2013E	80.1	69.6	16.7	563	2.1	12.9	15.2	13.0	451	1.9

Source: Company, Bloomberg, Kotak Institutional Equities estimates

ICICI Bank, growth rates, key ratios and Du Pont analysis
March fiscal year-ends, 2008-2013E

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan growth	15.2	(3.2)	(17.0)	17.1	19.8	20.7
Customer assets growth	17.6	(2.9)	(10.4)	14.4	17.0	18.2
Corporate loans	30.4	(4.3)	(9.3)	12.4	19.4	20.1
Total retail loans	3.2	(2.2)	(24.6)	22.7	20.3	21.3
Deposits growth	6.0	(10.7)	(7.5)	12.0	21.5	20.3
Borrowings growth	19.1	5.9	2.1	2.0	4.7	11.3
Net interest income	10.1	14.5	(3.0)	10.3	21.2	20.9
Loan loss provisions	25.1	38.8	16.3	(41.4)	(17.9)	0.2
Non-interest income	29.3	(13.7)	(1.7)	(1.2)	17.2	17.6
Net fee income	29.4	0.4	(14.1)	13.7	16.4	16.5
Net capital gains	62.5	(29.0)	(43.1)	(59.0)	50.0	33.3
Total income	19.8	(0.9)	(2.4)	4.8	19.4	19.4
Operating expenses	21.9	(13.6)	(16.8)	19.0	20.2	20.1
Employee expenses	28.6	(5.2)	(2.3)	26.4	26.0	25.9
DMA	1.2	(65.7)	(76.3)	21.9	33.7	33.0
Asset management measures (%)						
Yield on average earning assets	9.0	8.9	7.8	7.6	8.1	8.4
Interest on advances	10.7	10.0	8.7	8.3	8.9	9.2
Interest on investments	7.8	7.6	6.4	7.0	7.1	7.4
Average cost of funds	7.3	7.0	5.7	5.4	5.7	5.9
Interest on deposits	7.2	6.8	5.5	4.7	5.0	5.3
Other interest	7.7	7.5	6.3	6.8	7.3	7.4
Difference	**1.7**	**1.8**	**2.0**	**2.2**	**2.4**	**2.5**
Net interest income/earning assets	2.1	2.4	2.4	2.6	2.9	2.9
New provisions/average net loans	1.3	1.7	2.2	1.3	0.9	0.8
Loans-to-deposit ratio	67.5	69.7	60.6	65.3	67.2	68.8
Share of deposits						
Current	10.1	9.9	15.3	16.9	17.8	16.8
Fixed	73.9	71.3	58.3	52.4	49.9	52.7
Savings	16.0	18.8	26.3	30.7	32.3	30.5
Tax rate	17.8	26.6	24.7	24.0	26.0	28.0
Dividend payout ratio	29.5	32.6	33.2	30.0	30.0	30.0
ROA decomposition - % of average assets						
Net interest income	2.0	2.1	2.2	2.4	2.6	2.7
Loan loss provisions	0.7	1.0	1.2	0.7	0.5	0.4
Net other income	2.4	2.0	2.0	2.0	2.0	2.1
Operating expenses	2.2	1.8	1.6	1.8	2.0	2.1
Invt. Depreciation	—	—	(—)	—	—	—
(1- tax rate)	82.2	73.4	75.3	76.0	74.0	72.0
ROA	**1.1**	**1.0**	**1.1**	**1.4**	**1.6**	**1.6**
Average assets/average equity	10.5	8.1	7.3	7.1	7.4	7.9
ROE	**11.7**	**7.8**	**8.0**	**9.7**	**11.6**	**12.9**

Source: Company, Kotak Institutional Equities estimates

ICICI Bank income statement and balance sheet
March fiscal year-ends, 2008-2013E

	2008	2009	2010E	2011E	2012E	2013E
Total interest income	307,883	310,925	257,069	257,184	307,876	373,242
Interest on advances	226,010	223,238	173,727	163,544	209,039	257,424
Interest on investments	74,660	74,031	64,663	76,816	83,017	98,134
Total interest expense	234,842	227,259	175,926	167,667	199,391	242,098
Deposits from customers	171,102	157,852	115,135	100,817	125,693	161,608
Net interest income	73,041	83,666	81,144	89,517	108,485	131,144
Loan loss provisions	27,010	37,500	43,622	25,575	20,996	21,045
Net interest income (after prov.)	**46,031**	**46,166**	**37,522**	**63,941**	**87,489**	**110,099**
Other income	88,108	76,037	74,777	73,890	86,596	101,805
Net fee income	56,053	56,259	48,308	54,926	63,957	74,484
Net capital gains	18,121	12,864	7,316	3,000	4,500	6,000
Miscellaneous income	656	3,306	3,054	3,054	3,054	3,664
Operating expenses	81,542	70,451	58,598	69,736	83,835	100,674
Employee expense	20,789	19,717	19,258	24,344	30,668	38,620
DMA	15,427	5,289	1,255	1,529	2,045	2,720
Pretax income	50,561	51,170	53,453	68,096	90,250	111,229
Tax provisions	8,984	13,588	13,203	16,343	23,465	31,144
Net Profit	**41,577**	**37,581**	**40,250**	**51,753**	**66,785**	**80,085**
% growth	33.7	(9.6)	7.1	28.6	29.0	19.9
PBT+provision-treasury gains	**61,485**	**76,388**	**90,005**	**90,671**	**106,746**	**126,274**
% growth	32.4	24.2	17.8	0.7	17.7	18.3
Balance sheet (Rs mn)						
Cash and bank balance	380,411	299,666	388,737	312,266	346,897	389,928
Cash	28,478	28,557	33,410	37,424	45,455	54,693
Balance with RBI	265,297	146,806	241,733	161,247	187,848	221,641
Balance with banks	12,049	44,016	45,742	45,742	45,742	45,742
Outside India	74,587	80,286	67,852	67,852	67,852	67,852
Net value of investments	1,114,543	1,030,583	1,208,928	1,231,032	1,355,841	1,516,162
Investments in India	1,051,164	934,784	1,117,553	1,138,834	1,262,410	1,420,880
Govt. and other securities	753,777	633,775	683,991	705,318	828,893	987,363
Shares	29,201	17,031	27,557	27,557	27,557	27,557
Subsidiaries	46,383	61,195	62,227	62,227	62,227	62,227
Debentures and bonds	18,872	26,001	36,354	36,354	36,354	36,354
Net loans and advances	2,256,161	2,183,108	1,812,056	2,122,618	2,543,089	3,068,868
Corporate loans	1,129,531	1,080,908	980,866	1,102,511	1,316,399	1,580,836
Total retail loans	1,126,630	1,102,200	831,190	1,020,107	1,226,690	1,488,032
Fixed assets	41,089	38,016	32,127	58,310	60,149	65,578
Net leased assets	7,971	4,623	3,534	4,895	4,161	3,537
Net owned assets	33,118	33,393	28,593	53,415	55,988	62,041
Other assets	205,746	241,636	192,149	211,364	211,364	211,364
Total assets	**3,997,951**	**3,793,010**	**3,633,997**	**3,935,590**	**4,517,341**	**5,251,901**
Deposits	2,444,311	2,183,478	2,020,166	2,262,883	2,748,456	3,307,061
Borrowings and bills payable	896,494	949,806	969,705	989,132	1,035,566	1,152,826
Preference capital	3,500	3,500	3,500	3,500	3,500	3,500
Other liabilities	192,444	164,395	127,943	127,943	134,340	141,057
Total liabilities	**3,533,249**	**3,297,679**	**3,117,813**	**3,383,457**	**3,921,862**	**4,604,444**
Paid-up capital	11,127	11,133	11,149	11,509	11,509	11,509
Reserves & surplus	453,575	484,197	505,035	540,624	583,970	635,947
Total shareholders' equity	**464,702**	**495,330**	**516,184**	**552,133**	**595,478**	**647,456**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bharat Heavy Electricals (BHEL)

Industrials

REDUCE

OCTOBER 31, 2010

RESULT

Coverage view: Attractive

Price (Rs): 2,446

Target price (Rs): 2,675

BSE-30: 20,032

Positive results; however, highlight concerns on margins, competition. BHEL reported strong results (revenues up 25.7%, margin expansion of 70 bps) ahead of estimates. But margins are likely to remain under pressure given recent commodity price rise (even in 2Q contribution margins contracted by 230 bps). Other concerns relate to likely preference of Chinese vendors by large utilities, and increased competition in NTPC's boiler tender. Backlog remains strong at over Rs1 tn. Reiterate REDUCE.

Company data and valuation summary

Bharat Heavy Electricals

Stock data			
52-week range (Rs) (high,low)			2,695-2,103
Market Cap. (Rs bn)			1,197.1
Shareholding pattern (%)			
Promoters			67.7
FIIs			14.9
MFs			6.7
Price performance (%)	1M	3M	12M
Absolute	(1.3)	(0.7)	9.5
Rel. to BSE-30	(1.7)	(10.8)	(12.3)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	87.9	115.5	138.6
EPS growth (%)	37.7	31.4	20.0
P/E (X)	27.8	21.2	17.6
Sales (Rs bn)	328.6	402.4	483.5
Net profits (Rs bn)	43.0	56.5	67.8
EBITDA (Rs bn)	54.3	75.0	91.7
EV/EBITDA (X)	20.3	14.7	11.8
ROE (%)	29.8	31.3	29.9
Div. Yield (%)	0.8	1.0	1.2

Strong results; management confident of near-term growth; margins likely to be under pressure

BHEL reported a strong revenue growth of 25.7% yoy to Rs83.3, slightly ahead of our estimates (by 4%). EBITDA margin at 17.7%, up 70 bps yoy, were also ahead of our estimate of 17%. The slightly higher-than-expected revenues as well as EBITDA led to a net PAT of Rs11.4 bn in 2QFY11, up 33% yoy and about 11% ahead of our estimate of Rs10.3 bn. The margins were likely supported by one-off gains in other expenses, while contribution margin has in fact declined by 230 bps yoy. We believe that margins are likely to come under pressure in the near led by higher commodity prices. The management is confident of near-term revenue growth on the back of execution of the existing large backlog - cites a target of Rs500 bn revenues for FY2012E.

Concerns on larger customers preferring Chinese vendors, increased competition in bulk tender

We highlight several concerns related to (1) larger customers (Adani, Sterlite, RPower) have been displaying preference towards Chinese vendors while smaller utilities like DB Power and Visa power are displaying preference towards BHEL, (2) boiler tender may be a negative catalyst in the near term as two out of four bidders may get eliminated, increasing competition, and (3) some order might have been booked which may not be financially closed (India Bulls-Phase II).

Other highlights: Strong backlog and inflows, exploring options to expand industrials

Other highlights include (1) BHEL reported a strong 1HFY11-end order backlog of Rs1,540 bn and inflows of Rs147 bn in 2QFY10; NTPC bulk tender and JVs with state utilities likely to drive inflows - excluding JV orders private sector dominate inflows, (2) Exploring various options in transportation and T&D to expand scope and scale of industrials and exports segments, (3) has incurred capex of Rs5.3 bn so far – on track for full-year capex expectation of about Rs15-16 bn.

Retain REDUCE as inflows peak; competitors gain foothold; other segments likely remain small

We have revised our earnings estimates to Rs115.5 and Rs138.6 from Rs114.3 and Rs135.5 for FY2011E and FY2012E. We retain REDUCE (TP: Rs2,675) as (1) BHEL may face headwind in inflows as bulk of the XIIth plan capacity ordering completes slowing incremental ordering, (2) more competitors gain foothold, (3) other segments unlikely to scale up. Lower inflows would reduce visibility and revenue growth post FY2013E despite assuming stronger execution.

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Results slightly above estimates at revenue as well as margin level

BHEL has reported 2QFY11 revenues of Rs83.3 bn, slightly (about 4%) above our estimate of Rs79.8 bn. Revenues have recorded a 25.7% growth on a yoy basis (versus our estimate of a 20% growth) led by strong execution of the existing large order backlog.

Margins also slightly ahead of estimates; contribution margin contraction was more than expected

EBITDA margin at 17.7% was also slightly ahead of our estimate of 17% and 2QFY10 level of 17%. We believe that the margin might have been supported by one-off gains in other expenses. Contribution margins have however declined by 230 bps on a yoy basis led by higher raw material costs as a percentage of sales. The higher raw material cost was off set by a decline in employee expenses (100 bps) and other expenses (200 bps) as a percentage of sales – likely aided by operating leverage due to the strong revenue growth. While we had expected some contraction in contribution margins (by about 150 bps yoy) led by rise in commodity prices the contraction of 230 bps was higher than expected. BHEL has declared raw material to sales ratio of 59.6% versus our expectation of 58.8% (our expectation was flat on a sequential basis). This potentially highlights that commodity price increases over last year are beginning to have impact on numbers, although marginal as of now. Staff costs and other expenses were broadly inline with our estimates.

Net PAT at Rs11.4 bn, 11% ahead of estimates

The slightly higher-than-expected revenues as well as EBITDA led to a net PAT of Rs11.4 bn in 2QFY11, up 33% yoy and about 11% ahead of our estimate of Rs10.3 bn. Effective tax rate has been at 31% for the quarter and that boosts PAT by Rs0.33 bn for the quarter versus if the tax rate had been around 33%.

For the half year ending September 30, 2010, BHEL has reported revenues of Rs148 bn, up 21% yoy. EBITDA margins were up 216 bps yoy to 15.6% from 13.5% in 1HFY10 leading to a net PAT of Rs18.1 bn, up 36% yoy.

Both revenues as well as EBITDA ahead of estimates
BHEL 2QFY11 result - key numbers (Rs mn)

					% change					
	2QFY11	2QFY11E	2QFY10	1QFY11	vs est.	yoy	qoq	1HFY11	1HFY10	% change
Net revenues	**83,284**	**79,797**	**66,252**	**64,797**	**4.4**	**25.7**	**28.5**	**148,081**	**122,209**	**21.2**
(Inc)/Dec in WIP	3,932		1,787	1,253		120.1	213.9	5,184	2,087	148.4
Raw material cost	(53,572)	(46,881)	(39,719)	(39,346)	14.3	34.9	36.2	(92,918)	(75,472)	23.1
Staff cost	(12,641)	(12,368)	(10,690)	(13,378)	2.2	18.3	(5.5)	(26,018)	(21,826)	19.2
Other items	(6,301)	(6,982)	(6,335)	(4,889)	(9.8)	(0.5)	28.9	(11,190)	(10,540)	6.2
Total Expenditure	**(68,583)**	**(66,231)**	**(54,957)**	**(56,360)**	**3.6**	**24.8**	**21.7**	**(124,943)**	**(105,751)**	**18.1**
EBITDA	**14,702**	**13,565**	**11,295**	**8,437**	**8.4**	**30.2**	**74.3**	**23,138**	**16,457**	**40.6**
Other income	3,242	3,202	2,978	2,848	1.2	8.9	13.8	6,090	6,007	1.4
PBDIT	**17,944**	**16,768**	**14,273**	**11,285**	**7.0**	**25.7**	**59.0**	**29,229**	**22,464**	**30.1**
Interest	(59)	(38)	(45)	(38)	54.7	31.2	54.8	(98)	(88)	10.9
Depreciation	(1,341)	(1,356)	(934)	(1,269)	(1.1)	43.6	5.7	(2,610)	(1,895)	37.7
PBT	**16,544**	**15,373**	**13,294**	**9,978**	**7.6**	**24.4**	**65.8**	**26,521**	**20,481**	**29.5**
Tax	(5,121)	(5,073)	(4,715)	(3,301)	0.9	8.6	55.1	(8,422)	(7,196)	17.0
PAT	**11,423**	**10,300**	**8,579**	**6,677**	**10.9**	**33.2**	**71.1**	**18,099**	**13,285**	**36.2**
Key ratios (%)										
Raw material/sales	59.6	58.8	57.3	58.5				59.2	60.0	
Staff cost/sales	15.2	15.5	16.1	13.4				17.6	17.9	
Other exp./sales	7.6	8.8	9.6	8.7				7.6	8.6	
EBITDA margin	**17.7**	**17.0**	**17.0**	**19.4**				**15.6**	**13.5**	
PBDIT margin	21.5	21.0	21.5	17.4				19.7	18.4	
Effective tax rate	31.0	33.0	35.5	33.1				31.8	35.1	
PAT margin	13.7	12.9	12.9	10.3				12.2	10.9	
Order details (Rs bn)										
Order backlog	1,540		1,258	1,480		22.4	4.1	1,540	1,258	22.4
Order inflow	147		84	108		74.7	36.0	255	175	45.8

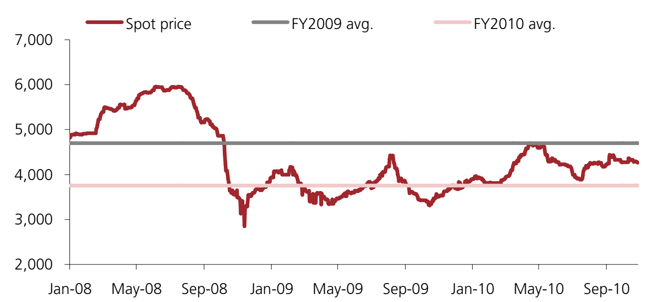
Source: Company, Kotak Institutional Equities estimates

Raw material cost increases could actually play spoilsport for margins

Considering the recent rise in raw material prices, BHEL margins may increasingly come under pressure. Raw material costs are currently prevailing at 10-15% higher levels versus corresponding FY2010 averages. For instance, Hot Rolled Steel is presently trading at CNY4,236 per ton, about 15.2% higher than average FY2010 levels of CNY3,757 per ton. BHEL typically maintains an inventory of about nine months and hence the pick up in commodity prices since 4QFY10 would start reflecting in the next quarter or two.

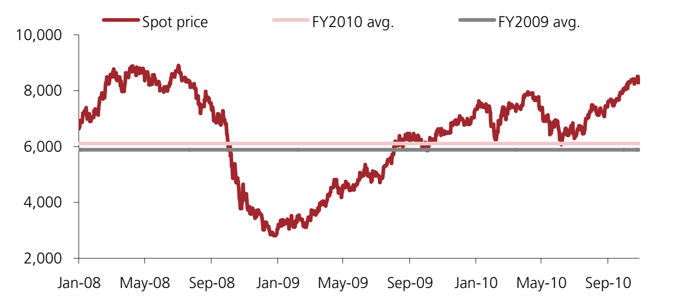
Potential margin pressure led by uptick in commodity prices
Spot prices of key commodities since Jan, 2008

Spot prices of Hot-rolled Steel on CHIS (CNY/ton)



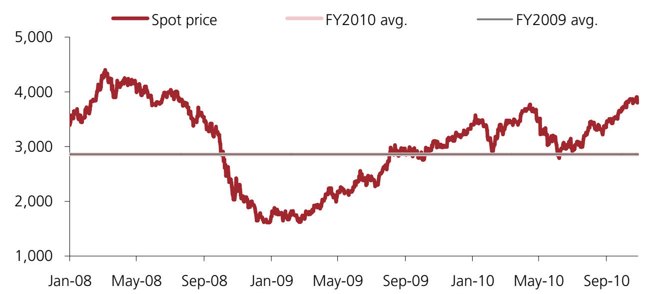
Source: Bloomberg, compiled by Kotak Institutional Equities

Spot prices of Copper on LME (USD/ton)



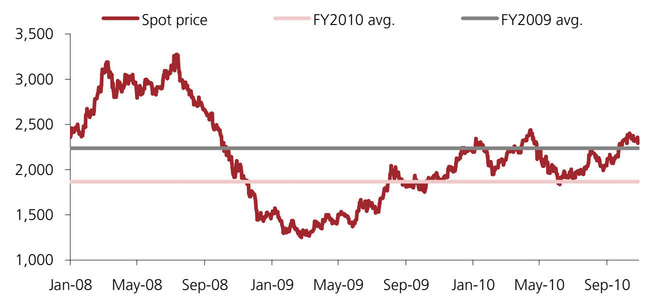
Source: Bloomberg, compiled by Kotak Institutional Equities

LME Metals commodities Index (X)



Source: Bloomberg, compiled by Kotak Institutional Equities

Spot prices of Aluminium on LME (USD/ton)



Source: Bloomberg, compiled by Kotak Institutional Equities

Source: Bloomberg, Kotak Institutional Equities

Delivery of gas turbines (Bawana, ONGC- Tripura and Gujarat Pipavav; likely to be delivered in 2HFY11E) are likely to further the margin pressure as there is significant outsourcing from GE in that product line.

Power leads revenue growth as well as margin expansion

Power segment (about 75-80% of revenues) reported a strong revenue growth of 28% yoy to Rs69.7 bn in 2QFY11 from Rs54.3 bn in 2QFY10. The segment EBIT margins also expanded by about 50 bps yoy to 21.5%. The industry segment however grew at a lower pace at 16% yoy while margins contracted by about 60 bps yoy to 16.4%.

BHEL 2QFY11 segmental result - key numbers (Rs mn)

				% change				
	2QFY11	2QFY10	1QFY11	yoy	qoq	1HFY11	1HFY10	% change
Segment revenues								
Power	69,650	54,283	53,999	*28.3*	*29.0*	123,649	99,971	*23.7*
Industry	18,577	15,954	14,763	*16.4*	*25.8*	33,340	29,279	*13.9*
Segment EBIT								
Power	14,731	11,219	10,701	*31.3*	*37.7*	25,433	19,501	*30.4*
Industry	3,055	2,706	1,704	*12.9*	*79.2*	4,759	4,325	*10.0*
Revenue mix (%)								
Power	78.9	77.3	78.5			78.8	77.3	
Industry	21.1	22.7	21.5			21.2	22.7	
EBIT margin (%)								
Power	21.2	20.7	19.8			20.6	19.5	
Industry	16.4	17.0	11.5			14.3	14.8	

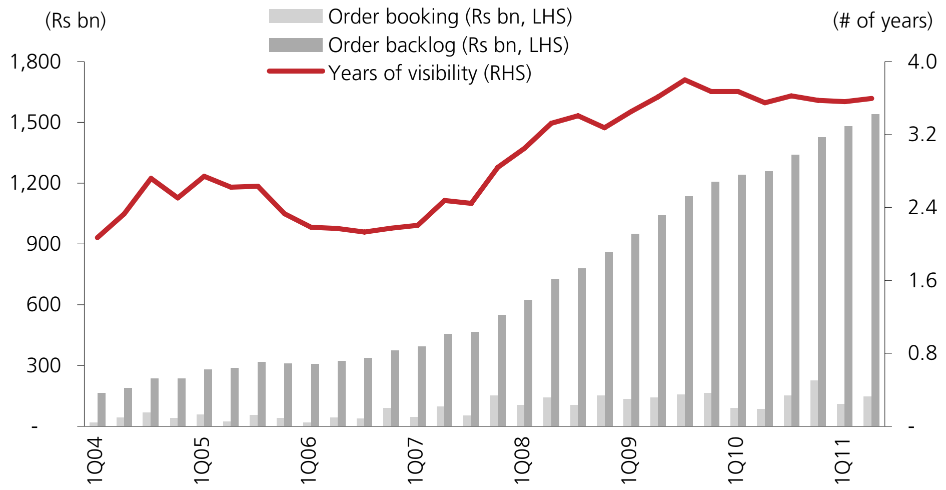
Source: Company, Kotak Institutional Equities

Order booking and order backlog carry moderate positive surprise

BHEL has declared an order book of Rs1,540 bn versus Rs1,412 bn at the end of FY2010 and Rs1,480 bn at the end of 1QFY2011. Thus implying an order inflow of Rs140 bn during the quarter. 1H order inflow has been thus Rs270 bn still on track to meet the full year target of Rs600 bn that BHEL has set for itself. Key orders won during the quarter include (1) Rs37 bn turnkey contract for 700 MW Supercritical Unit-3 at Bellary TPS from Karnataka Power Corp. Ltd, (2) Rs27 bn BTG order for Baradarha TPP of Dainik Bhaskar Power, (3) Rs25 bn BTG order for 2X600 MW Phase I & II of Mega Power Plant in Jharkhand from Abhijeet Infra and (4) Rs26.6 bn BTG order for 2X600 MW TPP at Chhattisgarh from Visa Power.

The present order backlog provides a revenue visibility of about 3.5 years based on forward four quarter revenues.

Order backlog provides visibility of 3.5 years based on forward four quarter revenues
Order booking, Order backlog & visibility trend for BHEL



Source: Company, Kotak Institutional Equities estimates

Inflow guidance of Rs600 bn (16 GW) led by bulk tender, state JVs; excluding JV orders private sector dominates inflows

The company maintained its order inflow guidance of about Rs600 bn (about 16,000 MW) for FY2011E. The inflow guidance likely includes assumptions of (1) finalization of more state JVs (JVs with Tamil Nadu, MP and Maharashtra are in advanced stages), and (2) NTPC 660 MW bulk tender – management expects both the boiler as well as turbine component of this tender to be awarded in this fiscal. BHEL is in discussion with other state electricity boards such as Gujarat and West Bengal and has also initiated talks with Rajasthan and AP states. These JVs would help BHEL build further traction in the public sector orders – note strong traction in inflows from private sector in the past few quarters. In the last one and a half year, order inflows have been primarily driven by private sector ordering activity and most public sector orders have come in through the JV route.

BHEL has reported order inflows worth Rs255 bn in 1HFY11 and Rs60-70 bn post the quarter close as well. They need to win new orders of about Rs280 bn during the next five months in order to meet their guidance.

Concerns on larger customers preferring Chinese vendors, increased competition

We highlight several concerns (apart from potential margin pressure) related to:

- **Preference of Chinese vendors by larger customers:** Larger customers (Adani, Sterlite, RPower) have been displaying preference towards Chinese vendors (several large tenders placed on Chinese vendors in recent past) while smaller utilities like DB Power and Visa power are displaying preference towards BHEL. This may be not be a positive development for BHEL as the smaller utilities may not have management bandwidth to manage Chinese equipment procurement in terms of quality checks etc.

- **Boiler tender invite even more competitive pressure versus turbine:** The boiler component for NTPC's 11X660 MW bulk tender may be a negative catalyst in the near term as it may invite even more competitive pressure. Two out of four bidders may get eliminated, increasing competition unlike in turbine where the order would be distributed between three vendors.

- Some **order might have been booked which may not be financially closed** (India Bulls-Phase II).

Prima-facie, power equipment manufacturing capacity may exceed the likely demand of about 18-20 GW p.a. over the next few years
Details of capacity addition by various players

	Structure	Capital investment	Boiler capacity (MW/ annum)	Turbine capacity (MW/ annum)	Likely start of manufacturing	Estimated utility orders (MW/ annum)
L&T - Mitsubishi	51:49	30,000	4,000	4,000	Jun-10	3000-3500
BGR Energy - Hitachi	51:49	32,000	4,000	4,000	Jul-13	
JSW - Toshiba	25:75	11,800	—	3,000	Jun-11	
Bharat Forge - Alstom	49:51	24,000	—	5,000	Jun-11	2,000-3,000
Thermax - B&W PCG	51:49	7,000	3,000	—	NA	
GB Engineering - Ansaldo(Gammon)	15:85		2,000	—		
Total for new players			**13,000**	**16,000**		**5,000-6500**
Imported equipment						**2,000-2,500**
BHEL current capacity			15,000	15,000		
BHEL - incremental capacity			5,000	5,000		
Total for BHEL			**20,000**	**20,000**		**11,000-13,000**

Source: News flows, Company, Kotak Institutional Equities

Confident on near-term revenue growth; Rs500 bn revenue target for FY2012E

The management seemed confident of near-term revenue growth for FY2011E and FY2012E primarily led by strong execution of existing large order backlog. The management also cited that they are targeting revenues of Rs500 bn in FY2012E (at gross sales level our estimates are about Rs500 bn only for FY2012E). The management expects a total production level of about 16,800 MW in FY2011E despite FY2010-end capacity of 15 GW. The management cited that production level was at 11,000 MW in FY2010 – given a year starting capacity of 10 GW.

Positive near-term revenue outlook; however, sedate inflow traction over FY2011E-13E likely to squeeze growth in medium term

We believe that order inflows for BHEL would grow at a modest CAGR of about 6% over FY2011E-13E which would materially squeeze revenue growth prospects of the company in the medium term. Our expectation of sedate inflow traction is based on (1) about 50% of XIIth Plan equipment ordering may already be complete, (2) upcoming competition appears credible on the back of JVs with global equipment players, and (3) industry, spares/R&M, and exports inflows are unlikely to pick the full tab of shortfall in power sector inflows. We estimate that revenue growth could contract to about 10-14% yoy by FY2014-15E despite assuming (1) reasonably optimistic success rate for BHEL in winning utility orders in remaining XIIth Plan activity and (2) improvement in execution days as order book matures.

Sedate order inflow traction likely to squeeze revenue growth in medium term
Segment-wise inflow and execution for BHEL, March fiscal year-ends, 2008-2015E (Rs bn)

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Power								
Utility order inflow (GW)	**14.6**	**17.0**	**16.5**	**14.0**	**14.0**	**14.0**	**15.0**	**15.0**
Realization (Rs mn / MW)	26.6	26.1	24.3	26.0	26.0	27.0	27.0	28.0
Utility order inflow	**387**	**444**	**401**	**364**	**364**	**378**	**405**	**420**
Spare orders	24	28	19	36	42	48	55	63
International orders	23	33	36	39	43	48	52	58
Orders received during the year	**434**	**504**	**456**	**440**	**449**	**474**	**513**	**541**
% growth	46.4	16.3	(9.7)	(3.5)	2.1	12.0	10.0	10.0
Revenues	**159**	**213**	**269**	**335**	**387**	**438**	**495**	**539**
% growth	14.9	34.1	25.8	24.7	15.7	13.1	12.9	8.8
Order backlog - year end	743	1,034	1,221	1,325	1,387	1,422	1,440	1,442
% growth	58.6	39.2	18.1	8.6	4.6	2.6	1.2	0.1
Order execution days	**1,074**	**1,270**	**1,405**	**1,330**	**1,249**	**1,155**	**1,048**	**976**
Industry								
Orders received during the year	**79**	**103**	**144**	**161**	**180**	**202**	**226**	**253**
% growth	19.9	30.5	40.1	12.0	12.0	12.0	12.0	12.0
Revenues	**60**	**72**	**79**	**95**	**132**	**162**	**194**	**214**
% growth	11.8	20.6	8.7	20.6	38.8	23.2	19.7	9.9
Order backlog - year end	96	126	191	257	305	345	376	416
% growth	23.8	31.3	51.4	34.5	18.8	12.9	9.2	10.5
Order execution days	**471**	**484**	**584**	**734**	**711**	**686**	**647**	**643**
Total								
Orders received during the year	**512**	**607**	**599**	**600**	**629**	**676**	**739**	**794**
% growth	41.6	18.4	(1.3)	0.2	4.8	7.4	9.3	7.5
Revenues	**219**	**286**	**347**	**430**	**519**	**601**	**690**	**752**
% growth	**14.0**	**30.4**	**21.5**	**23.8**	**20.8**	**15.7**	**14.8**	**9.1**
Order backlog - year end	839	1,160	1,412	1,582	1,692	1,767	1,816	1,857
% growth	53.7	38.3	21.7	12.1	6.9	4.4	2.8	2.3
Order execution days	**909**	**1,071**	**1,219**	**1,199**	**1,112**	**1,028**	**935**	**881**

15 GW inflow in FY11E-13E from XIIth Plan orders based on sector-wise break up of likely remaining orders and assuming a reasonably optimistic success rate for BHEL

Realizations inline with historicals

15% CAGR in spares and 10% CAGR in export inflows over FY11E-13E. Exports to small countries with potentially limited scale-up opportunity

Assume improvement in execution days as the order backlog matures over time

Expect 12% CAGR in industry orders, moderate upside post strong growth in FY2009-10.

Order inflow growth expected to significanly lag revenue growth impacting visbility

Lack of substantial upside to order inflow would meaningfully squeeze growth prospects in the medium-term

Source: Company, Kotak Institutional Equities estimates

Exploring various options to expand industrials and exports segments

The management highlighted continued progress in businesses other than power such as (1) transmission JV with Toshiba – BHEL would start bidding for >765kV tenders from first quarter of the next calendar year, (2) IGBT based propulsion system, (3) bids for Diesel and Electric Locomotives in JV with GE and Alstom respectively, (4) progress in renewable such as wind turbine JV. The industrials business presently contributes to about 25-30% of the total revenues of BHEL. The management indicated that this proportion would broadly remain at these levels itself. Despite the incremental growth in this segment due to the various new opportunities the strong expected growth in the power segment would lead to similar proportionate revenue share between the segments.

Other results takeaways:

- **Unperturbed by Reliance Power-Shanghai deal:** Seemed unperturbed by low pricing in Reliance Power-Shanghai Electric deal; would watch for actual delivery and full lifecycle costs of such projects

- **Full-year employee cost may have positive upside:** Expects full-year employee cost at about Rs53 bn, this is lower versus our current expectation of Rs58bn. In the annual report related note on August 30, we had highlighted that employee cost can be a source of upside in FY2011E. Would add 4,000 employees and 960 of those have already joined. 1QFY2011 employee cost had a one-off of Rs0.8 bn, apart from that all employee costs have been normal.

- **Lower other expenses driving margin surprise are led by lower provisions:** Higher margins in this quarter originated from other expenses. That may have been led by the fact that provisions were lesser by Rs0.7 bn in this quarter versus last year.

- **Capex on track:** Planned capex of Rs15-16 bn in FY2011E primarily towards capacity expansion to 20 GW from 15GW. Would also need to incur a similar amount (Rs14 bn) in FY2012E as well. The company has incurred a capex of Rs5.26 bn in FY2011E so far.

- **Effective tax rate lower based on R&D tax deduction:** The slightly lower-than-expected effective tax rate in 2QFY11 (of 31%) was primarily on account of BHEL taking weighted deduction for R&D expenditure.

Revise earnings estimates, reiterate REDUCE with a target price of Rs2,675/share

We have revised our earnings estimates to Rs115.5 and Rs138.6 from Rs114.3 and Rs135.5 for FY2011E and FY2012E, respectively. Our revisions are based on slightly higher margins for FY2011E and FY2012E based on lower employee cost estimates. We have correspondingly revised our 19X-FY2012E earnings based target price to Rs2,675/share from Rs2,600/share earlier.

Although we are positive on near-term earning potential of the company led by execution of large order backlog, we believe there may be contraction in valuation multiples accorded to the stock as order inflow pressure becomes apparent in addition to (1) rising competition as several private players set up equipment capacities and (2) potentially higher working capital (order backlog is proportional to advances, as order backlog declines as percentage of sales working capital metrics may suffer).

We reiterate our REDUCE rating based on limited upside to our FY2012 based target price. We believe that BHEL could face potential headwind in order inflows which would lead to contraction in revenue growth to about 10-14% yoy by FY2014-15E in spite of assuming (1) reasonably optimistic success rate for BHEL in winning utility orders in remaining XIIth Plan activity and (2) improvement in execution days as order book matures. Furthermore, we perceive bulk tendering event of NTPC as a negative for BHEL as it opens virtually captive customer's (NTPC) business to new competition and helps them take a foothold in the sector.

BHEL income statement and balance sheet, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Income Statement							
Total net revenues	**172,375**	**193,046**	**262,123**	**328,614**	**402,353**	**483,468**	**559,392**
Cost of goods sold	(140,157)	(159,868)	(225,078)	(274,348)	(327,400)	(391,796)	(459,664)
EBIDTA	**32,219**	**33,178**	**37,046**	**54,266**	**74,953**	**91,672**	**99,728**
Other income	8,236	14,448	14,974	16,483	15,516	17,005	20,274
Interest	(433)	(354)	(307)	(335)	(153)	(153)	(153)
Depreciation	(2,730)	(2,972)	(3,343)	(4,580)	(5,677)	(6,964)	(7,882)
Pre-tax Profit	37,291	44,299	48,370	65,834	84,639	101,560	111,967
Tax	(13,214)	(15,711)	(17,106)	(22,800)	(28,100)	(33,718)	(37,173)
PAT	**24,078**	**28,589**	**31,263**	**43,034**	**56,539**	**67,842**	**74,794**
Balance sheet							
Shareholders' equity	87,883	107,742	129,388	159,174	201,578	252,459	308,554
Loan funds	893	952	1,494	1,278	1,278	1,278	1,278
Total source of funds	**88,776**	**108,694**	**130,882**	**160,451**	**202,855**	**253,737**	**309,832**
Net block	9,887	9,813	14,704	24,154	38,272	45,809	47,926
WIP	3,025	6,580	11,570	15,296	6,500	5,000	5,000
Investments	83	83	523	798	798	798	798
Net current assets (excl cash)	8,340	(5,021)	(17,465)	7,030	45,947	71,427	74,836
Cash and bank balance	58,089	83,860	103,147	97,901	96,065	115,430	165,999
Deferred Tax Assets	9,352	13,379	18,403	15,272	15,272	15,272	15,272
Total applications	**88,776**	**108,694**	**130,882**	**160,451**	**202,855**	**253,737**	**309,832**
Cash flow statement							
Net profit before tax and extraordinary items	**37,291**	**44,299**	**48,370**	**65,834**	**84,639**	**101,560**	**111,967**
Add: Depreciation / amortisation / non-cash prov	2,730	2,972	3,343	4,580	5,677	6,964	7,882
Tax paid	(15,828)	(19,738)	(22,130)	(19,669)	(28,100)	(33,718)	(37,173)
Operating profit before working capital changes	24,193	27,533	29,582	50,745	62,216	74,806	82,676
Change in working capital / other adjustments	10,428	13,361	12,444	(24,495)	(38,917)	(25,480)	(3,409)
Net cashflow from operating activites	**34,621**	**40,894**	**42,026**	**26,250**	**23,299**	**49,326**	**79,267**
Fixed Assets	(4,310)	(6,639)	(12,803)	(17,279)	(11,000)	(13,000)	(10,000)
Investments	—	0	(441)	(275)	—	—	—
Net cashflow from investing activites	**(4,310)**	**(6,639)**	**(13,244)**	**(17,554)**	**(11,000)**	**(13,000)**	**(10,000)**
Free cash flow	**30,312**	**34,255**	**28,782**	**8,696**	**12,299**	**36,326**	**69,267**
Issue of share capital	—	6	(9)	(2,490)	—	—	—
Borrowings	(4,689)	59	542	(216)	—	—	—
Dividend paid	(6,925)	(8,734)	(9,727)	(10,759)	(14,135)	(16,961)	(18,698)
Net cashflow from financing activites	**(11,614)**	**(8,670)**	**(9,194)**	**(13,465)**	**(14,135)**	**(16,961)**	**(18,698)**
Cash generated /utilised	18,698	25,584	19,707	(4,768)	(1,836)	19,366	50,568
Net cash at end of year	**58,089**	**83,860**	**103,147**	**97,901**	**96,065**	**115,430**	**165,999**
Ratios (%)							
EBITDA margin	**18.7**	**17.2**	**14.1**	**16.5**	**18.6**	**19.0**	**17.8**
PAT margin	14.0	14.8	11.9	13.1	14.1	14.0	13.4
RoE	29.9	29.2	26.4	29.8	31.3	29.9	26.7
RoCE	29.1	29.2	26.3	29.7	31.2	29.8	26.6
Net current assets (excl cash) as days of sales	17.7	(9.5)	(24.3)	7.8	41.7	53.9	48.8
EPS (Rs)	**49.2**	**58.4**	**63.9**	**87.9**	**115.5**	**138.6**	**152.8**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Maruti Suzuki (MSIL)

Automobiles

REDUCE

OCTOBER 31, 2010

RESULT

Coverage view: Cautious

Price (Rs): 1,552

Target price (Rs): 1,330

BSE-30: 20,032

No surprises. Maruti reported PAT that was in line with estimates while EBITDA came in slightly lower than anticipated on higher other expense. Other expenses increased at a faster (19%) pace than volume growth. We are maintaining our earnings estimates. Our FY2011E EPS assumes a 100 bps increase in margins in 2HFY11E from 1HFY11, which could be aggressive given the renewed uptrend in commodity prices. We are maintaining our Rs1,330 target and REDUCE rating.

Company data and valuation summary

Maruti Suzuki

Stock data			
52-week range (Rs) (high,low)			1,692-1,127
Market Cap. (Rs bn)			448.3
Shareholding pattern (%)			
Promoters			54.2
FIIs			20.1
MFs			2.9
Price performance (%)	1M	3M	12M
Absolute	8.5	29.5	12.5
Rel. to BSE-30	8.1	16.3	(9.8)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	86.4	80.6	93.4
EPS growth (%)	105.0	(6.7)	15.8
P/E (X)	17.9	19.2	16.6
Sales (Rs bn)	291.0	354.6	410.3
Net profits (Rs bn)	25.0	23.3	27.0
EBITDA (Rs bn)	34.6	33.3	39.9
EV/EBITDA (X)	11.2	11.6	9.5
ROE (%)	23.3	17.8	17.5
Div. Yield (%)	0.4	0.4	0.4

Maruti reported in-line PAT for 2QFY11; EBITDA came in slightly lower than anticipated

Maruti Suzuki reported Rs6 bn in PAT for 2QFY11 and was in line with our estimates. EBITDA for the quarter came in at Rs9.6 bn, slightly lower than our estimate of Rs10 bn. Automotive revenue for the quarter totaled Rs89.4 bn, up 26% yoy and 10.5% qoq. Realizations were flat qoq and down 1% yoy. The yoy decline was largely driven by an almost 20% decline in export realizations. EBITDA margin for the quarter was 10.5%, up 90 bps from 1QFY11 and down 220 bps yoy. We had anticipated EBITDA margins closer to 11%. The lower-than-expected margins were driven by higher other expenses and raw material costs. Raw material costs declined 50 bps from 1QFY11. Other expenses increased to Rs9.5 bn from Rs8.6 bn (excluding royalty arrears) or 19% from 1QFY11 compared to an 11% increase in volumes.

Maintaining EPS estimates at Rs80.6 and Rs93.4 for FY2011E and FY2012E

Our FY2011E EPS estimate of Rs80.6 implies 11% operating margin for 2HFY11E compared to 10% for 1HFY11. Our volume growth estimate for 2HFY11E is 17% yoy and 7% from 1HFY11. While our volume estimates seem reasonable in light of current capacity, we believe our margin expansion assumption for 2HFY11E could be aggressive. Management indicated that they are only 25% hedged against the JPY. The JPY has been appreciating to new highs recently and could hurt margins for 2HFY11E if they stay at current levels.

For FY2012E, we have modeled 15% domestic volume growth and 10% export growth. We have assumed margins to be flat from 2HFY11E levels.

Maintaining Rs1,330 target and REDUCE rating

We continue to believe that Maruti's business model does not carry the operating leverage benefits to be able to offset the higher royalty payout. 2QFY11 results confirm our observation. EBITDA margins were flat going from 1QFY11 to 2QFY11 despite an 11% increase in volumes. The qoq contribution margin in 2QFY11 was a mere 12%. Our Rs1,330 target is based on 13.5X FY2012E consolidated EPS of Rs98.4.

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Interim results of Maruti Suzuki, March fiscal year-ends (Rs mn)

					(% chg.)					
	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	2QFY10	1QFY11	2011E	2010	(%chg)
Net sales	**89,371**	**90,908**	**70,807**	**80,904**	**(1.7)**	**26.2**	**10.5**	**354,647**	**290,989**	**21.9**
Other operating income	2,102	1,500	1,219	1,411	40.1	72.4	48.9	7,072	5,242	
Total expenditure	**(81,870)**	**(82,338)**	**(62,865)**	**(74,390)**	**(0.6)**	**30.2**	**10.1**	**(323,603)**	**(256,687)**	**26.1**
Inc/(Dec) in stock	1,482	200	154	(549)	641.1	863.0	(369.8)	3,966	(1,933)	(305.2)
Raw materials	(72,238)	(71,563)	(54,709)	(63,553)	0.9	32.0	13.7	(283,147)	(226,067)	25.2
Staff cost	(1,568)	(1,625)	(1,263)	(1,610)	(3.5)	24.2	(2.6)	(6,416)	(5,456)	17.6
Other expenditure	(9,545)	(9,350)	(7,047)	(8,678)	2.1	35.5	10.0	(38,006)	(27,097)	40.3
EBITDA	**9,603**	**10,070**	**9,161**	**7,925**	**(4.6)**	**4.8**	**21.2**	**38,116**	**39,544**	**(3.6)**
OPM (%)	**10.5**	**10.9**	**12.7**	**9.6**				**10.5**	**13.3**	
Other income	1,340	1,000	1,100	1,002	34.0	21.8	33.7	4,845	4,967	(2.5)
Interest	97	80	60	80	21.5	62.8	21.8	(411)	335	(222.6)
Depreciation	2,382	2,450	2,031	2,417	(2.8)	17.3	(1.5)	9,743	8,250	18.1
Pretax profits	**8,464**	**8,540**	**8,171**	**6,430**	**(0.9)**	**3.6**	**31.6**	**32,807**	**35,926**	**(8.7)**
Extraordinaries	—	—	—	—				—	—	
Tax	2,481	2,535	2,471	1,777	(2.1)	0.4	39.7	9,514	10,949	(13.1)
Net income	**5,982**	**6,006**	**5,700**	**4,654**	**(0.4)**	**5.0**	**28.6**	**23,293**	**24,977**	**(6.7)**
Adjusted profits	**5,982**	**6,006**	**5,700**	**4,654**	**(0.4)**	**5.0**	**28.6**	**23,293**	**24,977**	**(6.7)**
Income tax rate (%)	29.3	29.0	30.2	27.6				29.0	30.5	
Ratios										
RM to sales (%)	77.4	77.2	75.7	77.9				78.7	75.7	
EBITDA margin (%)	10.5	11.0	12.7	9.6				10.5	13.3	
Net profit margin (%)	6.5	6.7	7.9	5.7				6.4	8.4	
ETR (%)	29.3	29.0	30.2	27.6				29.0	30.5	
EPS (Rs)	20.7	21.5	19.7	16.1				80.6	86.4	
Other details										
Sales volumes (# vehicles)	313,654	313,654	246,188	283,324	-	27.4	10.7	1,236,469	1,018,365	21.4
Net sales realization	**284,935**	**289,836**	**287,612**	**285,553**	**(1.7)**	**(0.9)**	**(0.2)**	**286,822**	**285,741**	**0.4**

Source: Company, KIE estimates

Maruti Suzuki, Volume details, March fiscal year-ends, 2008-2013E

Segment-wise sales (units)	2008	2009	2010	2011E	2012E	2013E
Entry (A) segment	69,553	49,383	33,028	25,000	25,000	25,000
Van-Segment	89,729	77,948	101,325	179,630	206,574	237,560
Compact (B) segment	499,280	511,396	633,190	751,169	863,844	993,421
Mid-size (C) segment	49,335	75,928	99,315	123,358	141,862	163,141
D segment	-	-	-	500	2,000	2,000
MUV	3,921	7,489	3,932	6,813	7,835	9,010
Domestic	**711,818**	**722,144**	**870,790**	**1,086,469**	**1,247,114**	**1,430,131**
Exports	53,024	70,023	147,575	150,000	165,000	181,500
Total	**764,842**	**792,167**	**1,018,365**	**1,236,469**	**1,412,114**	**1,611,631**
Segment-wise sales growth(%)						
Entry (A) segment	(12.2)	(29.0)	(33.1)	(24.3)	-	-
Van-Segment	8.0	(13.1)	30.0	77.3	15.0	15.0
Compact (B) segment	13.4	2.4	23.8	18.6	15.0	15.0
Mid-size (C) segment	66.1	53.9	30.8	24.2	15.0	15.0
MUV	21.7	91.0	(47.5)	73.3	15.0	15.0
Domestic	**12.0**	**1.5**	**20.6**	**24.8**	**14.8**	**14.7**
Exports	34.9	32.1	110.8	1.6	10.0	10.0
Total	**13.3**	**3.6**	**28.6**	**21.4**	**14.2**	**14.1**

Source: Company, Kotak Institutional Equities estimates

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

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	179,362	204,553	290,989	354,647	410,307	472,414
EBITDA	**26,524**	**18,321**	**39,543**	**38,116**	**45,085**	**51,866**
Other income	4,784	6,013	4,967	4,845	5,206	6,338
Interest	(596)	(510)	(335)	(411)	(534)	(534)
Depreciaiton	(5,682)	(7,065)	(8,250)	(9,743)	(11,751)	(13,855)
Profit before tax	**25,030**	**16,758**	**35,925**	**32,807**	**38,005**	**43,815**
Current tax	7,696	4,689	11,230	8,858	10,261	11,830
Deferred tax	26	(118)	(281)	656	760	876
Net profit	**17,308**	**12,187**	**24,976**	**23,293**	**26,984**	**31,109**
Earnings per share (Rs)	**59.9**	**42.2**	**86.4**	**80.6**	**93.4**	**107.7**
Balance sheet (Rs mn)						
Equity	84,154	93,449	118,351	139,753	164,545	193,128
Deferred tax liability	1,701	1,551	1,370	2,026	2,786	3,663
Total Borrowings	9,002	6,989	8,214	8,214	8,214	8,214
Current liabilities	28,257	33,976	35,678	58,805	65,915	74,285
Total liabilities	**123,114**	**135,965**	**163,613**	**208,798**	**241,460**	**279,289**
Net fixed assets	40,328	49,321	54,123	70,880	85,629	85,775
Investments	51,807	31,733	71,766	73,766	75,766	77,766
Cash	3,305	19,390	982	1,297	6,851	31,428
Other current assets	27,674	35,521	36,742	62,855	73,214	84,321
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	**123,114**	**135,965**	**163,613**	**208,798**	**241,460**	**279,289**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	18,387	12,933	28,991	29,258	34,823	40,036
Working capital changes	(83)	(1,000)	(117)	(2,986)	(3,250)	(2,737)
Capital expenditure	(16,930)	(16,136)	(13,149)	(26,500)	(26,500)	(14,000)
Free cash flow	**1,374**	**(4,203)**	**15,725**	**(228)**	**5,073**	**23,299**
Ratios						
EBITDA margin (%)	14.5	8.8	13.3	10.5	10.8	10.8
PAT margin (%)	9.6	6.0	8.6	6.6	6.6	6.6
Debt/equity (X)	0.1	0.1	0.1	0.1	0.0	0.0
Net debt/equity (X)	(0.5)	(0.5)	(0.5)	(0.5)	(0.4)	(0.5)
Book value (Rs/share)	297.1	328.7	414.4	490.7	579.2	681.1
RoAE (%)	22.2	13.5	23.3	17.8	17.5	17.1
RoACE (%)	**33.7**	**14.4**	**34.4**	**30.4**	**26.9**	**23.8**

Source: Company, Kotak Institutional Equities estimates

Mahindra & Mahindra (MM)

Automobiles

BUY

OCTOBER 31, 2010

RESULT

Coverage view: Cautious

Price (Rs): 734

Target price (Rs): 805

BSE-30: 20,032

M&M provided the treats this Halloween. M&M reported a strong 2QFY11 with PAT beating our estimates by 15% on higher financial income and an octroi refund. EBITDA margin for the quarter improved 80 bps qoq excluding the octroi refund and VRS charge, driven by lower raw material costs. We raised our FY2011E and FY2012E EPS estimates by 7% to reflect higher financial and other income. We maintain our BUY rating on the stock and it stays our top pick in the sector.

Company data and valuation summary

Mahindra & Mahindra

Stock data			
52-week range (Rs) (high,low)			760-432
Market Cap. (Rs bn)			436.9
Shareholding pattern (%)			
Promoters			26.3
FIIs			28.2
MFs			4.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	5.0	13.9	58.3
Rel. to BSE-30	4.6	2.3	26.8

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	33.9	47.2	54.7
EPS growth (%)	125.8	39.2	15.9
P/E (X)	21.6	15.6	13.4
Sales (Rs bn)	186.0	236.6	273.6
Net profits (Rs bn)	20.2	28.1	32.5
EBITDA (Rs bn)	29.6	37.4	44.0
EV/EBITDA (X)	15.2	12.0	10.0
ROE (%)	30.0	30.7	28.2
Div. Yield (%)	1.3	1.3	1.3

M&M reported a strong quarter on lower raw material costs and octroi refund

M&M reported PAT of Rs7.6 bn for 2QFY11, up 8% yoy and 35% on a qoq basis. Excluding the one-time gain of Rs700 mn reported in 2QFY10, the yoy growth was 20% this quarter. PAT for the quarter came in above our estimate of Rs6.5 bn. The upside was largely driven by an octroi refund of Rs727 mn (Rs485 mn after-tax) that we had not expected to repeat in the current year and Rs500 mn in higher financial income. PAT would have been even higher if not for the VRS charge taken in the quarter of Rs173 mn after-tax. This was included in employee costs. EBITDA margin for the quarter came in at 16.5%, down 170 bps yoy. Excluding the octroi refund and VRS charges, margins increased 80 bps from 1QFY11. The 80 bps qoq increase was driven by a 150 bps decline in raw material costs as a percentage of sales offset by higher other costs.

Raising EPS estimates to reflect higher financial income and 2QFY11 beat

We are raising our FY2011E and FY2012E EPS estimates by 7% to Rs47 and Rs55. The increase is largely driven by higher financial other income and the 2QFY11 beat. Our FY2011E EPS estimate of Rs47 is based on a 25% growth in volumes and flat margins from FY2010 levels of 16%. While we expect raw material costs to increase 200 bps as a percentage of sales, operating leverage in the form of lower labor and other expenditure would offset the raw material increase. EBITDA margins in the 1HFY11 averaged 15.7%.

Raising target to Rs805, maintain BUY

M&M remains our top pick in the sector, given the company's strong competitive position and lesser competitive intensity in its core segments, strong revenue growth led by the company's entry into newer markets, and reasonable valuations. The stock is currently trading at 11X our FY2012E standalone EPS estimate of Rs53 (excluding subsidiary dividends). Our Rs805 target is based on an Rs630 valuation for the M&M's standalone business. The Rs630 standalone valuation reflects 12X FY2012E EPS (net of dividend from subsidiaries) of Rs53. Our 12X P/E multiple reflects a 15% discount to the 14X average multiple auto stocks trade at. In addition, we assign an Rs175 per share valuation for M&M's stake in public subsidiaries, based on a 20% discount to the current market price or KIE targets, whichever is applicable.

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Interim results of M&M, March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg.) 2QFY11E	2QFY10	1QFY11	12 months 2011E	2010	Change (%)
Net Sales	**54,344**	**52,996**	**45,578**	**51,601**	**2.5**	**19.2**	**5.3**	**236,610**	**186,021**	**27.2**
Expenditure	(45,394)	(45,067)	(37,266)	(43,845)	0.7	21.8	3.5	(199,185)	(156,469)	27.3
(Increase)/decrease in stocks	2,408	2,250	2,004	(694)	7.0	20.1	(446.8)	1,952	237	724.1
Consumption of raw materials	(38,901)	(38,817)	(31,293)	(35,211)	0.2	24.3	10.5	(164,434)	(123,566)	33.1
Staff cost	(3,582)	(3,250)	(2,941)	(3,137)	10.2	21.8	14.2	(13,633)	(11,985)	13.8
Other expenditure	(5,318)	(5,250)	(5,036)	(4,803)	1.3	5.6	10.7	(23,071)	(21,155)	9.1
EBITDA	**8,950**	**7,929**	**8,312**	**7,756**	**12.9**	**7.7**	**15.4**	**37,425**	**29,552**	**26.6**
Other income	1,998	1,500	1,333	205	33.2	49.9	875.4	2,717	1,994	36.3
Interest (net)	91	50	(128)	227	—	—	—	518	(278)	(286.4)
Depreciation	(970)	(1,000)	(892)	(976)	(3.0)	8.8	(0.6)	(4,183)	(3,708)	12.8
Profit before extra-ordinary items	**10,068**	**8,479**	**9,533**	**7,211**	**18.7**	**5.6**	**39.6**	**36,477**	**27,560**	**32.4**
Extra-ordinary items	—	—	908—	—				-	908	
Profit before tax	**10,068**	**8,479**	**10,440**	**7,211**	**18.7**	**(3.6)**	**39.6**	**36,477**	**28,468**	**28.1**
Tax	(2,483)	(1,950)	(2,504)	(1,588)	27.3	(0.8)	56.4	(8,390)	(7,590)	10.5
Profit after tax	**7,585**	**6,529**	**7,029**	**5,624**	**16.2**	**7.9**	**34.9**	**28,088**	**20,878**	**34.5**
Volumes	**131,285**	**131,285**	**108,589**	**127,299**	**-**	**20.9**	**3.1**	**570,253**	**456,197**	**25.0**
Average realisation	**404,560**	**402,530**	**411,183**	**402,530**	**0.5**	**(1.6)**	**0.5**	**414,921**	**407,765**	**1.8**
Key ratios (%)										
EBITDA margin	16.5	15.0	18.2	15.0				15.8	15.9	(0.1)
Net profit margin	14.0	12.3	15.4	10.9				11.9	11.2	0.6
RM costs (% of net sales)	67.2	69.0	64.3	69.6				68.7	66.3	
Staff costs (% of net sales)	6.6	6.1	6.5	6.1				5.8	6.4	
Effective tax rate (%)	24.7	23.0	24.0	22.0				23.0	26.7	
EPS (Rs)	14.9	12.8	13.8	11.0				47.2	33.9	

Source: Company, Kotak Institutional Equities

M&M volume details, March fiscal year-ends (2007-2013E)

Volumes	**2007**	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Utility vehicles (incl. pickups)	127,857	148,759	153,655	224,695	260,399	298,874	328,761
LCVs	-	-	-	12,639	65,000	91,000	104,650
3-wheelers	33,718	33,926	44,806	44,785	49,264	54,190	58,254
Automotive segment	**161,575**	**182,685**	**198,461**	**282,119**	**374,663**	**444,064**	**491,665**
Tractors	102,536	98,710	119,708	174,634	195,590	219,061	240,967
Total vehicles	**264,111**	**281,395**	**318,169**	**456,753**	**570,253**	**663,125**	**732,632**
Growth (yoy %)							
Utility vehicles (incl. pickups)	11.5	16.3	3.3	46.2	15.9	14.8	10.0
LCVs						40.0	15.0
3-wheelers	50.4	0.6	32.1	(0.0)	10.0	10.0	7.5
Automotive segment	**17.8**	**13.1**	**8.6**	**42.2**	**32.8**	**18.5**	**10.7**
Tractors	20.6	(3.7)	21.3	45.9	12.0	12.0	10.0
Total vehicles	**18.9**	**6.5**	**13.1**	**43.6**	**24.8**	**16.3**	**10.5**

Source: Company, Kotak Institutional Equities estimates

M&M, SOTP-based valuation, FY2012E basis

	EPS (Rs/share)	Multiple (X)	Value per share (Rs)	Comment
M&M standalone business	53	12	630	Based on 12X average of FY2012E EPS less dividend income from subs
Subsidiaries			**176**	
Tech Mahindra			55	Based on KIE target price of Rs760/share
Mahindra Holidays			45	Based on current price of Rs490/share
M&M Financial Services Ltd			59	Based on KIE target price of Rs750/share
Mahindra Lifespace Developers Ltd			11	Based on KIE target price of Rs546/share
Mahindra Forgings			6	Based on current price of Rs100/share
SOTP-based value			**806**	
Target price			**805**	

Note

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

Source: Company, Kotak Institutional Equities estimates

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

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	115,413	130,937	186,021	236,610	273,585	304,170
EBITDA	**13,666**	**10,926**	**29,552**	**37,425**	**43,968**	**49,458**
Other income	1,304	2,703	1,994	2,717	2,967	2,967
Interest	(242)	(453)	(278)	518	1,054	1,210
Depreciaiton	(2,387)	(2,915)	(3,708)	(4,183)	(5,163)	(6,143)
Profit before tax	**12,340**	**10,262**	**27,560**	**36,477**	**42,826**	**47,492**
Current tax	(2,788)	(585)	(7,493)	(8,390)	(10,278)	(11,398)
Deferred tax	(247)	(1,412)	(97)	-	-	-
Net profit	**11,034**	**8,368**	**20,878**	**28,088**	**32,548**	**36,094**
Adjusted earnings per share (Rs)	**18.2**	**14.8**	**33.9**	**47.2**	**54.7**	**60.6**
Balance sheet (Rs mn)						
Equity	44,068	52,621	80,671	102,609	128,684	157,657
Total Borrowings	25,871	40,528	28,802	26,802	26,802	26,802
Current liabilities	32,400	47,978	52,000	62,934	69,888	75,915
Total liabilities	**102,339**	**141,126**	**161,473**	**192,345**	**225,373**	**260,373**
Net fixed assets	23,609	32,143	37,027	47,844	57,680	66,537
Investments	42,151	57,864	63,980	73,980	81,480	88,980
Cash	8,612	15,744	17,432	15,010	22,150	33,721
Other current assets	27,831	35,249	42,992	55,470	64,022	71,093
Miscellaneous expenditure	135	126	41	41	41	41
Total assets	**102,339**	**141,126**	**161,473**	**192,345**	**225,373**	**260,373**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	10,730	10,395	23,409	29,035	33,690	38,060
Working capital changes	(2,472)	5,918	(45)	(1,543)	(1,598)	(1,046)
Capital expenditure	(7,171)	(9,152)	(9,607)	(15,000)	(15,000)	(15,000)
Free cash flow	**1,087**	**7,161**	**13,758**	**12,492**	**17,092**	**22,014**
Ratios						
Operating margin (%)	11.8	8.3	15.9	15.8	16.1	16.3
PAT margin (%)	9.6	6.4	11.2	11.9	11.9	11.9
Debt/equity (X)	0.6	0.8	0.4	0.3	0.2	0.2
Net debt/equity (X)	0.0	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)
Book Value (Rs/share)	86.0	89.1	135.4	172.2	216.0	264.7
RoAE (%)	23.4	17.1	30.0	30.7	28.2	25.2
RoACE (%)	**15.6**	**10.6**	**19.9**	**23.2**	**22.3**	**20.7**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Hero Honda (HH)

Automobiles

REDUCE

OCTOBER 31, 2010

RESULT

Coverage view: Cautious

Price (Rs): 1,865

Target price (Rs): 1,775

BSE-30: 20,032

Lower-than-expected PAT on account of higher raw material cost. Hero Honda reported a PAT of Rs5.1 bn, which was 7% below estimates. The downside was driven by a 150 bps qoq increase in raw material costs in a quarter where most auto companies saw a sequential decline. We lowered our margin estimate by 50 bps for FY2011E but continue to model a 2H recovery that might not come through. Our FY2011E estimates also incorporate 21% volume growth for 2HFY11E. Downside risks to our estimates keeps us at a REDUCE.

Company data and valuation summary

Hero Honda

Stock data			
52-week range (Rs) (high,low)			2,075-1,396
Market Cap. (Rs bn)			372.5
Shareholding pattern (%)			
Promoters			52.2
FIIs			31.2
MFs			1.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	0.0	(0.5)	25.6
Rel. to BSE-30	(0.4)	(10.6)	0.6

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	111.8	109.0	126.8
EPS growth (%)	74.1	(2.5)	16.3
P/E (X)	16.7	17.1	14.7
Sales (Rs bn)	158.6	188.4	215.5
Net profits (Rs bn)	22.3	21.8	25.3
EBITDA (Rs bn)	27.6	26.4	30.5
EV/EBITDA (X)	11.4	12.0	9.9
ROE (%)	59.0	49.9	42.5
Div. Yield (%)	1.6	1.6	1.8

Hero Honda disappoints in 2QFY11 on higher-than-expected raw material costs

Hero Honda reported a PAT of Rs5.1 bn for 2QFY11, down 15% yoy and up 3% qoq. The results were 9% lower than our PAT estimate of Rs5.6 bn. The downside was largely driven by lower-than-expected EBITDA (Rs700 mn) partly offset by higher-than-expected financial income (Rs184 mn). EBITDA margin for the quarter came in at 13.4%, down 60 bps from 1QFY11 and 500 bps yoy. The sequential decline in EBITDA margins was largely driven by higher raw material costs. Raw material as a percentage of sales increased 150 bps qoq, driven by increases in steel, aluminum and rubber prices. Lower other expenses as a percentage of sales acted as an offset.

Revenue for the quarter totaled Rs45.5 bn, up 12% yoy and 6% from 1QFY11. Realizations for the quarter were up 3% yoy and 1.7% qoq. The sequential increase was driven by price increase taken during the quarter.

Lowering our estimates to reflect lower margins for the rest of the year and 2QFY11 miss

We are lowering our FY2011E EPS estimate to Rs109 from Rs115 prior to reflect lower EBITDA margins of 14% compared to 14.5% prior. We could be still be aggressive on the margin front as we have modeled EBITDA margins increasing to 14.3% in 2HFY11E from 13.7% reported in 1HFY11. Margins could decline further if commodity prices continue recent trends. On the volume front, we continue to model a 15% growth for the year, implying 21% yoy growth and 10% sequential growth in 2HFY11E.

For FY2012E, we lower our EPS estimate to Rs127 from Rs130. Our current estimate is based on 15% volume growth and flat margins.

Lowering target to Rs1,775 on lower earnings, further downside potential keeps us cautious

We lower our target to Rs1,775 from Rs1,800 prior and the TP is based on 14X our FY2012E EPS estimate of Rs127. We believe there could be further downside to our estimates from higher commodity costs that could be difficult to pass through in a competitive environment.

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Interim results of Hero Honda , March fiscal year-ends (Rs mn)

					(% chg.)					
	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	2QFY10	1QFY11	2010	2011E	(%chg)
Net sales	**45,520**	**45,683**	**40,594**	**42,966**	**(0.4)**	**12.1**	**5.9**	**158,605**	**188,415**	**18.8**
Total expenditure	(39,440)	(38,856)	(33,153)	(36,941)	1.5	19.0	6.8	(130,936)	(161,980)	23.7
Inc/(Dec) in stock	757	100	50	255	657.2	1,423.5	197.5	(60)	175	(393.7)
Raw materials	(33,857)	(32,306)	(27,686)	(30,848)	4.8	22.3	9.8	(107,304)	(136,362)	27.1
Staff cost	(1,498)	(1,500)	(1,387)	(1,450)	(0.1)	8.0	3.3	(5,603)	(6,112)	9.1
Other expenditure	(4,842)	(5,150)	(4,130)	(4,897)	(6.0)	17.2	(1.1)	(17,969)	(19,680)	9.5
EBITDA	**6,079**	**6,826**	**7,442**	**6,025**	**(10.9)**	**(18.3)**	**0.9**	**27,670**	**26,435**	**(4.5)**
EBITDA margin (%)	**13.4**	**14.9**	**18.3**	**14.0**				**17.4**	**14.0**	
Other income	784	600	687	534	30.6	14.0	46.7	2,356	2,777	17.9
Interest	21	40	61	27	(48.3)	(66.1)	(22.2)	206	162	(21.6)
Depreciation	(608)	(525)	(503)	(483)	15.7	20.7	25.8	(1,915)	(2,331)	21.7
Pretax profits	**6,276**	**6,941**	**7,686**	**6,103**	**(9.6)**	**(18.3)**	**2.8**	**28,317**	**27,043**	**(4.5)**
Extraordinaries	—	—	—	—				—	—	
Tax	(1,220)	(1,385)	(1,715)	(1,187)	(11.9)	(28.9)	2.8	(5,999)	(5,273)	(12.1)
Net income	**5,056**	**5,556**	**5,971**	**4,917**	**(9.0)**	**(15.3)**	**2.8**	**22,318**	**21,770**	**(2.5)**
Adjusted profits	**5,056**	**5,556**	**5,971**	**4,917**	**(9.0)**	**(15.3)**	**2.8**	**22,318**	**21,770**	**(2.5)**
Income tax rate (%)	19.4	19.0	22.3	19.4				21.2	19.5	(8.0)
Ratios										
RM to sales (%)	72.7	70.5	68.1	71.2				67.7	72.3	6.8
EBITDA margin (%)	13.4	14.9	18.3	14.0				17.4	14.0	(19.6)
Net profit margin (%)	11.1	12.2	14.7	11.4				14.1	11.6	(17.9)
ETR (%)	19.4	20.0	22.3	19.4				21.2	19.5	(8.0)
EPS (Rs)	25.3	27.8	29.9	24.6				111.8	109.0	(2.5)
Other details										
Sales volumes (# vehicles)	1,285,944	1,285,944	1,183,235	1,234,039	-	8.7	4.2	4,600,130	5,305,755	15.3
Net realization (Rs/vehicle)	**35,398**	**35,253**	**34,308**	**34,817**	**0.4**	**3.2**	**1.7**	**34,478**	**35,511**	**3.0**

Source: Company, KIE estimates

Hero Honda, Volume details, March fiscal year-ends, 2008-2013E

Volumes	2008	2009	2010E	2011E	2012E	2013E
Motorcycles	**3,232,320**	**3,565,340**	**4,391,874**	**5,066,570**	**5,815,735**	**6,635,252**
Domestic	3,144,101	3,487,164	4,300,906	4,924,537	5,540,104	6,094,115
< 125 cc	2,966,329	3,302,095	4,067,719	4,657,538	5,239,730	5,763,703
> 125 cc	177,772	185,069	233,187	266,999	300,374	330,411
Exports	88,219	78,176	90,968	142,033	275,630	541,137
< 125 cc	80,620	69,644	82,180	131,488	262,976	525,951
> 125 cc	7,599	8,532	8,788	10,546	12,655	15,186
Scooters	**104,822**	**156,210**	**208,249**	**239,184**	**275,062**	**316,321**
Domestic	102,470	153,193	202,215	232,547	267,429	307,543
Exports	2,352	3,017	6,034	6,637	7,633	8,778
Total 2-wheelers	**3,337,142**	**3,721,550**	**4,600,122**	**5,305,755**	**6,090,797**	**6,951,573**
Growth (yoy %)						
Motorcycles	**(0.4)**	**10.3**	**23.2**	**15.4**	**14.8**	**14.1**
Domestic	**(0.1)**	**10.9**	**23.3**	**14.5**	**12.5**	**10.0**
< 125 cc	(2.5)	11.5	23.2	14.5	12.5	10.0
> 125 cc	67.6	11.5	26.0	14.5	12.5	10.0
Exports	**(8.7)**	**(11.4)**	**16.4**	**56.1**	**94.1**	**96.3**
< 125 cc	(14.0)	(13.6)	18.0	60.0	100.0	100.0
> 125 cc	160.2	12.3	3.0	20.0	20.0	20.0
Scooters	**12.8**	**49.0**	**33.3**	**14.9**	**15.0**	**15.0**
Domestic	11.5	49.5	32.0	15.0	15.0	15.0
Exports	127.9	28.3	100.0	10.0	15.0	15.0
Total 2-wheelers	**0.0**	**11.5**	**23.6**	**15.3**	**14.8**	**14.1**

Source: Company, Kotak Institutional Equities estimates

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

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	103,645	123,569	158,605	188,415	215,464	249,977
EBITDA	**13,821**	**17,475**	**27,643**	**26,435**	**30,144**	**38,461**
Other income	1,527	1,830	2,383	2,777	2,989	3,770
Interest	358	317	206	162	186	191
Depreciaiton	(1,603)	(1,807)	(1,915)	(2,331)	(2,601)	(2,881)
Profit before tax	**14,103**	**17,815**	**28,317**	**27,043**	**31,071**	**36,661**
Current tax	(4,412)	(4,806)	(5,916)	(5,381)	(5,862)	(7,513)
Deferred tax	(12)	(191)	(83)	107	114	-
Net profit	**9,679**	**12,818**	**22,318**	**21,770**	**25,323**	**29,148**
Earnings per share (Rs)	**48.5**	**64.2**	**111.8**	**109.0**	**126.8**	**146.0**
Balance sheet (Rs mn)						
Equity	29,862	38,008	34,650	49,589	66,967	86,968
Deferred tax liability	1,254	1,444	1,528	1,420	1,307	1,307
Total Borrowings	1,320	785	660	660	660	660
Current liabilities	18,247	20,528	48,314	33,448	37,768	41,402
Total liabilities	**50,684**	**60,765**	**85,152**	**85,118**	**106,702**	**130,337**
Net fixed assets	15,487	16,943	17,069	17,988	18,888	19,507
Investments	25,668	33,688	39,257	49,257	64,257	79,257
Cash	1,311	2,196	19,072	6,498	6,122	11,470
Other current assets	8,057	7,939	9,754	11,374	17,435	20,103
Miscellaneous expenditure	161	-	-	-	-	-
Total assets	**50,684**	**60,765**	**85,152**	**85,118**	**106,702**	**130,337**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	9,833	12,605	22,021	21,054	24,635	28,068
Working capital changes	2,612	985	4,846	1,165	(2,856)	(234)
Capital expenditure	(3,739)	(3,135)	(2,101)	(3,250)	(3,500)	(3,500)
Free cash flow	**8,706**	**10,455**	**24,766**	**18,969**	**18,279**	**24,333**
Ratios						
EBITDA margin (%)	13.3	14.1	17.4	14.0	14.0	15.4
PAT margin (%)	9.3	10.4	14.1	11.6	11.6	11.7
Debt/equity (X)	0.0	0.0	0.0	0.0	0.0	0.0
Net debt/equity (X)	(0.8)	(0.9)	(1.6)	(1.1)	(1.0)	(1.0)
Book Value (Rs/share)	155.0	197.6	181.2	255.4	341.9	442.0
RoAE (%)	34.0	36.4	59.0	49.9	42.5	37.2
RoACE (%)	**31.5**	**34.7**	**57.5**	**48.9**	**41.7**	**36.7**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Nestle India (NEST)

Consumer products

REDUCE

OCTOBER 29, 2010

RESULT

Coverage view: Cautious

Price (Rs): 3,484

Target price (Rs): 3,100

BSE-30: 20,032

Impressive 3Q; however, at 32XFY2012E, there is no room for execution risk.

Domestic sales growth of 28% led by >20% volume growth is impressive (albeit on a relatively low base). Contraction in gross margins is disappointing in the face of 6% price hike taken by it in 1HCY10. While we like the market opportunity for most of Nestlé's categories, we await demonstration by it in managing head-on competition—most of its categories have been either a monopoly or duopoly, so far.

Company data and valuation summary

Nestle India (a)

Stock data			
52-week range (Rs) (high,low)			3,540-2,295
Market Cap. (Rs bn)			336.0
Shareholding pattern (%)			
Promoters			61.8
FIIs			10.6
MFs			3.0
Price performance (%)	1M	3M	12M
Absolute	4.3	17.5	37.6
Rel. to BSE-30	3.9	5.5	10.2

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	74.4	91.0	111.4
EPS growth (%)	27.0	22.3	22.5
P/E (X)	46.8	38.3	31.3
Sales (Rs bn)	51.3	62.3	75.4
Net profits (Rs bn)	7.2	8.8	10.7
EBITDA (Rs bn)	10.8	12.9	15.4
EV/EBITDA (X)	31.0	25.9	21.6
ROE (%)	136.0	129.8	119.9
Div. Yield (%)	1.4	1.8	2.1

QUICK NUMBERS

- Stock trades at the highest relative P/E in ten years

Impressive sales growth (albeit on a low base)

In 3QCY10, Nestle reported net sales of Rs16.4 bn (+26%, KIE Rs16.1 bn), EBITDA of Rs3.2 bn (+22%, KIE Rs3.3 bn) and PAT of Rs2.2 bn (+22%, KIE Rs2.2 bn).

- Domestic sales increased 28% largely on the back of volumes (>20%) – impact of pricing growth is ~6% (price hike effected in 1HCY10). Exports declined 3% as the company shifted capacity to meet domestic demand (which has higher margins).

- Decline in gross margins by130 bps is surprising as the company has effected price hikes in 1HCY10, the full impact of which was expected in 3QCY10. Savings in staff cost was 110 bps and other expenditure (including adspends) increased 50 bps. We believe that adspends would have been at escalated levels during the quarter as the company has relaunched Nescafe (with celebrity endorsement for the first time) and Kit Kat with a new marketing campaign.

What do we watch out for?

- **Decline in gross margins is disappointing.** We recall that the management commentary at the analyst meet in August 2010 was indicative of gross margin expansion, (1) liquid milk collection in Moga factory has increased in double digits in 2QCY10. Milk accounts for ~35% of input costs, (2) good monsoons is likely to result in a good flush season for milk production, (3) price increases of ~6% in 1HCY10.

- **Competition in instant noodles**. Competitive intensity for Maggi is increasing with ITC being the latest entrant (after GSK Consumer and HUL) in this segment with Sunfeast Yippee. The product has been launched at price point of Rs5 and Rs10 for 45gm and 90gm in Bangalore and Coimbatore. We concede that it is early days in the product cycle of the new entrants; however, Maggi faces the risk of product substitution, in our view (particularly from GSK's Foodles as competition is based on brand equity of Horlicks and healthy proposition).

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- **Potential JV with Coca Cola**? Media reports suggest that Nestle India is in the process of forming a joint venture with Coca Cola in the ready-to-drink tea segment (Nestle has Nestea brand in tea category). We highlight that Tata Global Beverages has recently entered into a 50:50 joint venture with Pepsi Co in the field of non-carbonated drinks. While further details on this joint venture are not available yet, Tion (TGB's fruit drink on ice tea platform) may likely be part of this venture.

- **Can Nestle manage competition?** We highlight that most of the categories which Nestle India operates in are either a near-monopoly or duopoly. We keenly await demonstration by Nestle in managing competition in culinary effectively.

- **Spate of relaunches/new launches augurs well.** Nestle has made several new launches and relaunches in the past few months—Bar-one chocolates and Nescafe relaunched, (with new media support), Nestle Extrafino premium range of chocolates introduced, Maggi Vegetable Multigrainz noodles rolled out nationally.

At 32XFY2012E, there is no room for execution risk. Retain REDUCE

We like the market opportunity for most of Nestlé's categories, but look for better entry points into the stock. We tweak estimates marginally, maintain REDUCE rating and maintain TP at Rs3,100. Key risks to our rating are (1) higher-than-expected sales growth due to distribution gains and (2) better than-expected margin expansion.

Interim results of Nestle, December fiscal year-ends (Rs mn)

						(% chg)	
	3QCY10	3QCY10E	3QCY09	2QCY10	3QCY10E	3QCY09	2QCY10
Net sales	**16,373**	**16,059**	**13,022**	**14,667**	**2**	**26**	**12**
Total expenditure	(13,154)	(12,752)	(10,380)	(11,728)	3	27	12
Material cost	(8,034)	(7,829)	(6,223)	(7,191)	3	29	12
Staff cost	(1,041)	(1,054)	(974)	(1,116)	(1)	7	(7)
Other expenditure (including adspends)	(4,079)	(3,869)	(3,183)	(3,420)	5	28	19
EBITDA	**3,219**	**3,307**	**2,642**	**2,940**	**(3)**	**22**	**10**
OPM (%)	**19.7**	**20.6**	**20.3**	**20.0**			
Other income	95	129	88	101		8	(6)
Interest	(1)	(0)	(2)	(4)		(72)	(86)
Depreciation	(306)	(334)	(286)	(304)		7	1
Pretax profits	**3,008**	**3,102**	**2,443**	**2,733**	**(3)**	**23**	**10**
Tax	(840)	(859)	(659)	(718)	(2)	27	17
PAT	**2,168**	**2,243**	**1,784**	**2,015**	**(3)**	**22**	**8**
Extraordinaries	18	-	44	(67)		(60)	(127)
Reported PAT	**2,186**	**2,243**	**1,828**	**1,948**	**(3)**	**20**	**12**
Income tax rate (%)	27.9	27.7	27.0	26.3			
Growth (%)							
Overall	25.7		17.6	21.3			
Domestic	27.8		18.0	20.2			
Exports	(3.4)		11.2	36.2			
Costs as a % of net sales							
Material cost	49.1	48.8	47.8	49.0			
Staff cost	6.4	6.6	7.5	7.6			
Other expenditure (including adspends)	24.9	24.1	24.4	23.3			

Source: Company, Kotak Institutional Equities estimates

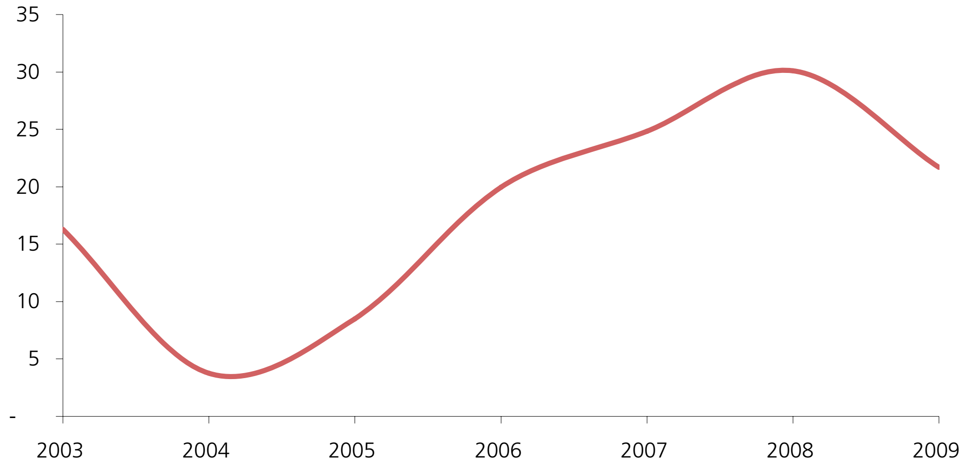
Nestle has never had to face severe competition in its categories
Nestlé's market share and market status, category-wise

	Market share (%)			
		Nearest	Market	
Category	**Nestle**	**competitor**	**status**	**Remarks**
Nutrition / Infant food	~90	~5	Monopoly	High entry barriers as advertising is banned
Culinary / Maggi	~90	~5	Monopoly	Nestle has done a good job in category creation
Beverages / Coffee	55	45	Duopoly	Duopoly with HUL
Chocolates and confectionary	25	70	Duopoly	Nestle dominates the wafer segment

Note:
(a) Market shares are approximations as per industry sources

Source: Kotak Institutional Equities

Exhibit 105: Maggi growth is likely coming off the peak
Volume growth in Nestlé's Prepared Dishes and Cooking Aids segment, December calendar year-end 2003-2009 (%)



Source: Company, Kotak Institutional Equities

Nestle: Profit model, balance sheet, 2006-2012E, December calendar year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	28,161	35,043	43,242	51,294	62,274	75,362	89,858
EBITDA	**5,385**	**6,962**	**8,638**	**10,542**	**12,770**	**15,266**	**18,618**
Other income	202	246	322	364	378	505	585
Depreciation	(663)	(747)	(924)	(1,113)	(1,286)	(1,575)	(1,798)
Pretax profits	4,923	6,461	8,036	9,793	11,863	14,196	17,405
Tax	(1,654)	(2,148)	(2,387)	(2,620)	(3,089)	(3,453)	(4,319)
Net profits	**3,269**	**4,313**	**5,649**	**7,173**	**8,774**	**10,744**	**13,086**
Earnings per share (Rs)	**33.9**	**44.7**	**58.6**	**74.4**	**91.0**	**111.4**	**135.7**
Balance sheet (Rs mn)							
Total equity	3,889	4,184	4,733	5,813	7,706	10,215	13,271
Total borrowings	163	29	8	6	6	6	6
Currrent liabilities and provsions	8,726	9,865	12,208	14,538	16,559	19,208	22,746
Total liabilities and equity	**12,777**	**14,078**	**16,950**	**20,356**	**24,271**	**29,429**	**36,024**
Cash	2,387	1,322	2,286	3,588	3,102	4,801	7,683
Current assets	4,590	6,001	6,043	7,010	7,696	9,230	11,685
Total fixed assets	5,800	6,755	8,622	9,758	13,473	15,398	16,655
Total assets	**12,777**	**14,078**	**16,950**	**20,356**	**24,271**	**29,429**	**36,024**
Free cash flow (Rs mn)							
Operating cash flow, excl. working (	3,561	4,363	5,568	7,065	9,060	11,122	13,427
Working capital	561	361	1,149	1,355	972	766	620
Capital expenditure	(1,497)	(1,702)	(2,790)	(2,249)	(5,000)	(3,500)	(3,055)
Free cash flow	**2,624**	**3,022**	**3,927**	**6,170**	**5,032**	**8,388**	**10,992**
Key assumptions							
Revenue Growth (%)	13.7	24.4	23.4	18.6	21.4	21.0	19.2
EBITDA Margin(%)	19.1	19.9	20.0	20.6	20.5	20.3	20.7
EPS Growth (%)	(0.7)	31.9	31.0	27.0	22.3	22.5	21.8

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Jaiprakash Associates (JPA)

Others

BUY

OCTOBER 31, 2010

RESULT

Coverage view:

Price (Rs): 120

Target price (Rs): 155

BSE-30: 20,032

Diversified presence absorbs weakness in cement. Jaiprakash (JAL) reported strong cement volumes (+63% yoy) and robust construction revenue (+71% yoy). JAL continues to tread the strong capex path having incurred a consolidated capex in excess of Rs31 bn, in addition to funding of project SPVs to the extent of Rs18.3 bn. We remain optimistic on the growth prospects of JAL given the expansion across business segments and reiterate our BUY rating with a revised target price of Rs155/share.

Company data and valuation summary
Jaiprakash Associates

Stock data			
52-week range (Rs) (high,low)			168-108
Market Cap. (Rs bn)			256.0
Shareholding pattern (%)			
Promoters			46.0
FIIs			23.8
MFs			4.5
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(1.0)	1.5	(14.6)
Rel. to BSE-30	(1.4)	(8.8)	(31.6)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	1.7	4.4	6.2
EPS growth (%)	(12.7)	153.2	41.1
P/E (X)	68.7	27.2	19.2
Sales (Rs bn)	64.8	99.6	128.3
Net profits (Rs bn)	3.9	9.8	13.8
EBITDA (Rs bn)	21.5	39.7	61.5
EV/EBITDA (X)	24.8	15.8	11.4
ROE (%)	5.1	10.8	13.5
Div. Yield (%)	0.0	0.0	0.0

Results meet estimates, construction margins restored

JAL reported revenues of Rs29.9 bn, operating profits of Rs6.8 bn and net income of Rs1.1 bn for 2QFY11 against our estimate of Rs26 bn, Rs6 bn and Rs1.2 bn, respectively. Higher-than-estimated revenues were on account of (1) better cement volumes (63% yoy) and (2) higher-than-estimated execution in construction and real estate segments. Construction margins returned to normalized levels of 21% after a disappointing 7% margin reported in 1QFY11. Cement realization were weak on account of nation wide pricing weakness in 2QFY11. However, sharp increase in effective tax rate on account of deferred tax component of Rs1.2 bn (total tax rate of 61%; current tax rate 20%) dented the overall profitability. We discuss below in detail individual performances of each of the segments of JAL.

CMP of Jaypee Infratech and JPVL implies a fair valuation of Rs173/share

JAL's current market price implies a 53% holding company discount for its ownership in the power and real estate subsidiaries. Our valuation for Jaypee Infratech is based on March 12 based NAV while for JPVL it is SOTP of DCF-to-equity valuations of power projects. We note that if we were to value JAL based on market value of JIL and JPVL, our fair valuation would be Rs173/share. Even after factoring a holding company discount of 20% for both these subsidiaries, the valuation would be Rs153/share (see Exhibit 3).

Maintain BUY rating with revised target price of Rs155/share

We maintain our BUY rating with a revised target price of Rs155/share as we adjust for (1) commissioning delays in JPVL's power projects and (2) adjust for increased project cost of power projects and (3) adjust for weakness in cement realization and margins. Our SOTP-based target price includes Rs64/share for the standalone business which includes (1) cement business at Rs65/share valued at 6X EV/EBITDA, (2) construction business at Rs38/share valued at 6X EV/EBITDA, (3) Real estate business at Rs4/share which includes Jaypee Green, Greater Noida and (4) investment ins subsidiaries at book value at Rs5/share.We note that the standalone entity has a net debt of Rs49/share.

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We ascribe Rs37/share for 83% stake in JIL and Rs43/share for power business. We have revised our EPS estimate to Rs4.6/share (Rs5.5 previously) in FY2011E and Rs6.5/share (Rs7.4 previously) in FY2012E, to factor (1) weakness in cement realization and margins, (2) higher tax expense, (3) project cost revisions in the power business, and (4) accelerated execution in the standalone real estate business.

Exhibit 1: Construction and real estate make up for weak cement results
Interim results of Jaiprakash Associates Ltd (standalone), March fiscal year-ends (Rs mn)

					(% chg.)					
	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	2QFY10	1QFY11	FY2010	FY2011E	(% chg.)
Net sales	**29,933**	**26,354**	**18,243**	**31,742**	**14**	**64**	**(6)**	**100,889**	**125,202**	**24**
Total expenditure	(23,122)	(20,427)	(13,685)	(25,321)				(77,776)	(92,049)	
Operating profit	**6,811**	**5,928**	**4,558**	**6,421**	**15**	**49**	**6**	**23,114**	**33,154**	**43**
EBITDA (%)	23	22	25	20				23	26	
Other income	820	638	883	436				2,665	2,449	
EBITDA	**7,630**	**6,566**	**5,440**	**6,857**				**25,779**	**35,603**	**38**
Interest	(3,234)	(3,351)	(2,588)	(3,279)				(10,558)	(13,356)	
Depreciation	(1,528)	(1,530)	(1,100)	(1,503)				(4,561)	(6,266)	
Pre-tax profits	2,869	1,685	1,752	2,074				10,660	15,981	
Tax	(569)	(506)	(321)	(405)				(1,504)	(3,918)	
FBT	—	—	20	-				—	—	
Deferred tax	(1,172)	-	(287)	(611)				(2,336)	(3,248)	
Net income	**1,128**	**1,180**	**1,164**	**1,058**	**(4)**	**(3)**	**7**	**6,820**	**8,816**	**29**
Extraordinary income	27	—	7,538	4,102				8,160	4,102	
Reported net income	1,155	1,180	8,702	5,160	(2)	(87)	(78)	14,980	12,945	(14)
Segment revenues										
Cement	12,084	11,551	8,452	14,415		43	(16)	38,376	55,559	45
Construction	15,710	13,673	9,168	14,373		71	9	57,819	62,600	8
Real estate	3,233	2,000	884	3,661		266	(12)	6,511	9,168	41
Others	(274)	(232)	621	(271)		(144)	1	848	325	(62)
Total	**30,752**	**26,992**	**19,125**	**32,178**		**61**	**(4)**	**103,554**	**127,652**	**23**
Segment EBIT										
Cement	1,883	2,011	2,203	2,863		(15)	(34)	10,579	12,628	19
Construction	3,279	2,324	1,832	1,048		79	213	11,710	10,461	(11)
Real estate	1,332	530	292	1,558		356	(15)	1,279	3,764	194
Others	114	170	318	97		(64)	18	7,913	6,613	(16)
Total	**6,607**	**5,036**	**4,645**	**5,566**		**42**	**19**	**31,482**	**33,466**	**6**
EBIT margin (%)										
Cement	16	17	26	20				28	23	
Construction	21	17	20	7				20	17	
Real estate	41	27	33	43				20	41	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Our SOTP-based target price of JAL is Rs155/share
JAL SOTP

Business	Methodology	Comments	Value (Rs bn)	(Rs/share)
Cement	EV/EBITDA (X)	6X FY2012E EBITDA	131	65
Construction	EV/EBITDA (X)	6X FY2012E EBITDA	77	38
Hotels	EV/EBITDA (X)	6X FY2012E EBITDA	2	1
Real estate	NAV	Value for 8 mn sq. ft development at Jaypee Greens	8	4
Investment	Book Value	Equity invested in Jaypee Ganga Infrastrtucture, JPSK Sports City and Himalayan Expressway	10	5
Net debt			98	49
Parent entity			**130**	**64**
Real estate (Jaypee Infratech)	NAV	Base case assumption of flat prices till FY2010 and 5% growth in realisation beyond that for 1,250 acre township at Noida	75	37
Power (JPVL)	DCF-to-equity	7,075 MW of attributable power portfolio, of which 700 MW is already under operation	88	43
Power (45% stake in Karcham Wangtoo)	DCF-to-equity		16	8
Total			**310**	**153**

Source: Kotak Institutional Equities estimates

Exhibit 3: Even after factoring a 20% holding company discount on CMP, JAL's fair valuation comes out to Rs153/share
JAL SOTP with JPVL and JIL valued at CMP

			Value (no holding co. discount)		Value (20% holding co. discount)	
Business	**Methodology**	**Comments**	**(Rs bn)**	**(Rs/share)**	**(Rs bn)**	**(Rs/share)**
Cement	EV/EBITDA (X)	6X FY2012E EBITDA	131	65	131	65
Construction	EV/EBITDA (X)	6X FY2012E EBITDA	77	38	77	38
Hotels	EV/EBITDA (X)	6X FY2012E EBITDA	2	1	2	1
Real estate	NAV	Value for 8 mn sq. ft development at Jaypee Greens	8	4	8	4
Investment	Book Value	Equity invested in Jaypee Ganga Infrastrtucture, JPSK Sports City and Himalayan Expressway	10	5	10	5
Net debt			98	49	98	49
Parent entity			**130**	**64**	**130**	**64**
Real estate (Jaypee Infratech)	Market price of JIL		104	51	83	41
Power (JPVL)	Market price of JPVL		100	49	80	39
Power (45% stake in Karcham Wangtoo)	DCF-to-equity		16	8	16	8
Total			**350**	**173**	**310**	**153**

Source: Company, Kotak Institutional Equities estimates

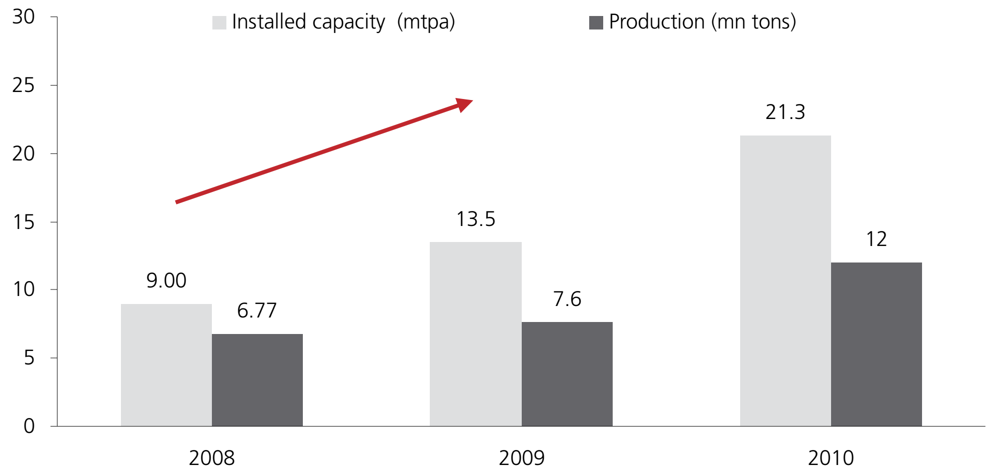
Cement – volume growth continues to be strong

Cement business continues to grow as JAL reported cement revenues of Rs12 bn (+43% yoy, -16% qoq) in 2QFY11, above our estimate of Rs11 bn. EBIT margins contracted to 16% and can be attributed to (1) lower realizations on account of pricing weakness witnessed across the country during 2QFY11 and (2) increase in input costs as witnessed across cement companies. Cement volumes at 3.4 mn tons registered a strong 63% yoy growth on back of newly commissioned capacities. Implied realizations were Rs3,528/ton in 2QFY11.

Aggressive commissioning of capacities, during the last fiscal has allowed JAL to report 54.5% YTD growth in cement volumes. JAL has an operational capacity of 21.3 mtpa including 2.2 mtpa at its Bhilai JV (JAL's stake 74%). JAL plans to scale up to 33.5 mtpa by FY2012E which would include an addition of 8 mtpa directly by JAL and balance 4.3 mtpa will be added though JAL's JV with SAIL (JAL's stake 74%)

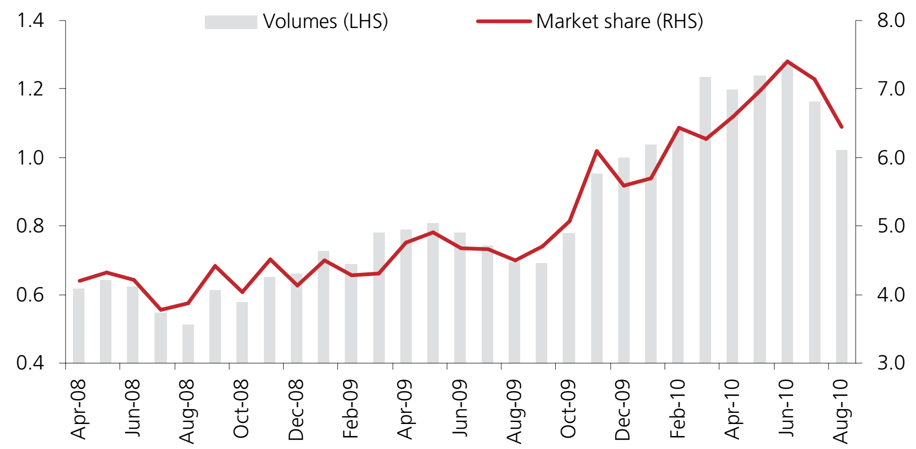
We currently factor in cement volumes of 15.1 mn tons in FY2011E and 16.8 mn tons in FY2012E, and highlight that accelerated ramp-up of units could likely lead to higher-than-estimated volume growth.

Exhibit 4: JAL has embarked on an aggressive capacity addition program
Capacity addition and cement production of JAL, March fiscal year-ends, 2008-10



Source: Company, Kotak Institutional Equities

Exhibit 5: JAL's All-India market improved to 7.0%.
Cement volumes and market share of Jaiprakash Associates Ltd, 1QFY09-2QFY11

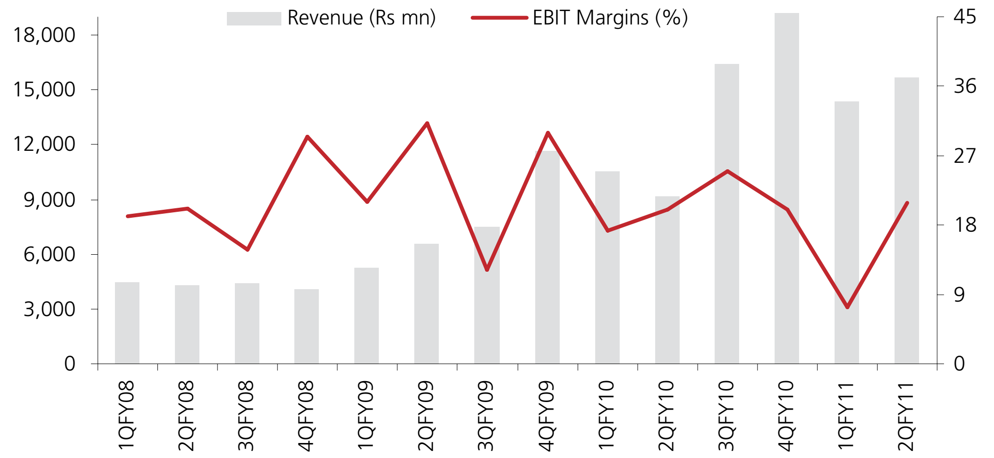


Source: Company, Kotak Institutional Equities

Construction—margins return to normalized levels

JAL reported construction revenue of Rs15.7 bn in 2QFY10 (+71% yoy and 9% qoq) compared to our estimate of Rs11.7 bn while construction EBIT at Rs3.3 bn was higher than our estimate of Rs2.2 bn. We note that construction margins returned to normalized levels of 21% in 2QFY11 after a disappointing 7% in 1QFY11. We highlight the volatility of construction revenues and margins over the last few quarters.

Exhibit 6: Construction margins have been volatile over the last few quarters
Construction revenues and margins of Jaiprakash Associates Ltd, 1QFY08-2QFY11 (Rs mn, %)



Source: Company, Kotak Institutional Equities

Power – strong capacity addition in pipeline although we foresee a potential funding gap

JPVL reported net revenues of Rs2.4 bn (+25% qoq), operating profit of Rs1.99 bn (+24% qoq) and net income of Rs870 mn in 2QFY11 contributed by 700 MW of operation power capacity – 300 MW at Baspa and 400 MW at Vishnuprayag. Estimated generation in 2QFY11 was 1,581 MU implying an average realization of Rs1.5/kwh and O&M of 24p/kwh.

JPVL's investment on standalone books increased from Rs14.2 bn as of March 2010 to Rs24.4 bn indicating an equity infusion of Rs10.2 bn into projects under construction and held through subsidiaries.

JPVL has 700 MW of operational capacity and has additional 6,825 MW under construction. We highlight that the execution on the projects have been satisfactory with most of the under construction projects having already tied up necessary inputs. Although we see limited execution risk in these projects, we believe that fructifying these projects would likely need equity infusion (discussed in detail below) in future resulting in possible dilution of stake. Management has indicated that Karcham Wangtoo project (1,000 MW) will likely commission six months ahead of schedule by March 2011. We currently factor in a COD of June 2011.

JPVL current portfolio of projects under construction would entail an additional capex of ~Rs342 bn spread over a period of four years from FY2011E to FY2015E. Rs240 bn will be funded by project level debt and minority interest while the balance Rs72 bn will have to be funded by equity. Internal accruals (net of project level debt servicing) and extant cash could account for Rs52 bn thus creating an additional funding gap of Rs50 bn. Thus JPVL will likely need equity support of ~Rs50 bn over the next five years, in order to fructify the execution of under construction projects and reach the targeted capacity of 7.5 GW by FY2015E.

Exhibit 7: Strong seasonal quarter for JPVL
Interim results of JPVL, March fiscal year-ends (Rs mn)

				Change (%)	
	2QFY11	2QFY10	1QFY11	2QFY10	1QFY11
Net sales	**2,377**	**1,084**	**1,903**	**119**	**25**
Cost of fuel	-	-	-		
Operation and maintenance expenses	**(51)**	**(16)**	**(77)**	**220**	**(34)**
Employee expenses	(62)	(24)	(52)		
Other expenditure	(270)	(41)	(162)		
O&M	**(383)**	**(81)**	**(290)**		
Operating profit	**1,995**	**1,004**	**1,613**	**99**	**24**
OPM (%)	84	93	85		
Other income	448	57	176		
EBITDA	**2,443**	**1,061**	**1,789**		
Depreciation	(239)	(124)	(237)		
EBIT	**2,204**	**937**	**1,552**		
Interest	**(1,118)**	(185)	(972)	505	15
PBT	**1,086**	**752**	**580**		
Tax	(217)	(128)	(96)	70	126
PAT	**870**	**624**	**485**		
Extraordinary income	-	-	*(100)*		
Reported income	**870**	**624**	**384**		

Source: Company, Kotak Institutional Equities

Real estate – revenue recognition picks up as construction gathers steam

Jaypee Infratech reported net revenues of Rs7 bn (19% qoq), EBITDA of Rs5 bn (4% qoq) and net income of Rs4 bn (4% qoq) in 2QFY11. Strong sequential growth in revenues was primarily on account of pick-up in construction activity for the real estate development. EBITDA margins contracted to 72% in 2QFY11 from 83% in 1QFY11 likely on account of a change in sales mix towards developed apartments as against undeveloped plots. We note that EBITDA margin in FY2010 was 92% comprised largely on account of sale of undeveloped plots.

JIL is currently developing five residential and one commercial project in its Noida land parcel aggregating to ~24.3 mn sq. ft. Out of these JIL had already sold ~20 mn sq. ft with a total sale value of Rs59.9 bn implying an average selling price of Rs2,950/sq. ft as of March 2010 implying a strong traction for its Noida projects. JIL received an amount of Rs16.7 bn as advances from pre-sales out of which Rs12 bn was still outstanding as of March 2010 while the balance had been delivered in form of developed plots.

Construction of Yamuna expressway is progressing at a brisk pace and is expected to commission ahead of its original commissioning deadline of April 2013. Management has indicated the construction work to be complete by CY2011. We note that JIL incurred a capex of ~Rs11 bn in 1HFY11 towards Yamuna Expressway.

Exhibit 8: EBITDA margins contract to 72% as sales mix shifts towards apartments.
Interim results of Jaypee Infratech, March fiscal year-ends (Rs mn)

				Change (%)	
	2QFY11	2QFY10	1QFY11	2QFY10	1QFY11
Net sales	**7,115**	**246**	**5,970**	**2,795**	**19**
Total expenditure	(1,998)	(28)	(1,030)		
Operating profit	**5,117**	**218**	**4,940**	**2,252**	**4**
EBITDA (%)	72		83		
Other income	46	27	13		
EBITDA	**5,163**	**245**	**4,953**	**2,011**	**4**
Interest	-	-	-		
Depreciation	(21)	(25)	(21)		
Pre-tax profits	5,142	220	4,931		
Tax	(1,025)	(21)	(983)		
Deferred tax	-	-	-		
Net income	**4,117**	**199**	**3,948**	**1,971**	**4**
Extraordinary income	-	-	-		
Reported net income	4,117	199	3,948	1,971	4

Source: Company, Kotak Institutional Equities

Standalone balance sheet analysis for 1HFY11

- Seeking clarity on capex for 1HFY11 – JAL incurred a capex of ~Rs20.6 bn in 1HFY11 most of which would likely be attributable for cement capacity expansion given the limited nature of capex involved in construction business. We however highlight JAL's cement capacity addition of 7.95 mtpa (standalone) would entail a capex of ~Rs40 bn (assuming a replacement cost of US$120/ton). With standalone CWIP of Rs38.9 bn as of March 2010, most of which likely attributable to cement, we are unsure of the exact nature of R20.6 bn of capex in 1HFY11.

- FCCB conversion – During 2QFY11, FCCBs worth EUR2.5 mn were converted into 1.8 mn equity shares at a price of Rs74.5/share. We note that these FCCBs are part of total Euro FCCBs worth EUR165 mn maturing in FY2013.

- Debt on a rise – standalone debt increased from Rs179 bn as of March 2010 to Rs204 bn as of September 2010, likely to fund the capex of Rs20 bn incurred in 1HFY11 and additional funding of project SPVs to the extent of Rs18.3 bn (including JPVL) as highlighted previously.

Exhibit 9: FCCB aggregating to EUR 2.5 mn converted during the 2QFY11
Balance sheet of JAL as of September 2010 (Rs mn)

	Sep-10	Sep-09	Mar-10
Net fixed assets	**162,664**	**128,298**	**145,103**
Investments	56,522	47,698	55,763
Cash & bank balances	42,969	44,294	38,792
Accounts receivable	23,438	11,914	22,850
Inventories	17,757	13,269	15,536
Loans & advances	45,320	38,701	39,947
Others	392	341	304
Projects under development	12,182	7,518	13,561
Currents assets	142,058	116,037	130,990
Current liabilities	54,345	48,202	58,529
Net current assets	87,713	67,836	72,461
Utilization of funds	**306,899**	**243,831**	**273,327**
Total debt	204,446	156,108	179,087
Paid-up common stock	4,253	2,804	4,249
Reserves and surplus	87,185	77,877	80,758
Shareholders' funds	**91,438**	**80,681**	**85,007**
Def. tax liability	11,015	7,043	9,233
Source of funds	**306,899**	**243,831**	**273,327**

Source: Company, Kotak Institutional Equities

Exhibit 10: Profit model, balance sheet, cash model of Jaiprakash Associates Ltd, March fiscal year ends, 2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Profit model						
Net revenues	41,872	47,063	64,844	99,584	128,342	170,694
EBITDA	**16,819**	**17,243**	**21,506**	**39,693**	**61,535**	**77,506**
Other income	2,195	2,612	5,936	4,211	3,263	3,279
Interest (expense)/income	(5,579)	(7,062)	(12,864)	(16,384)	(23,139)	(28,841)
Depreciation	(3,188)	(3,326)	(4,722)	(7,739)	(10,965)	(13,731)
Pretax profits	**10,247**	**9,467**	**9,857**	**19,781**	**30,694**	**38,213**
Tax	(2,200)	(3,432)	(3,021)	(5,044)	(10,982)	(15,248)
Deferred taxation	(762)	(899)	(2,335)	(3,583)	(3,382)	(4,665)
Minority interest	(1,202)	(923)	(627)	(1,348)	(2,491)	(3,616)
Net income	**6,084**	**4,213**	**3,874**	**9,806**	**13,838**	**14,683**
Extraordinary items	684	(10)	10,211	4,129	—	—
Reported profit	6,768	4,203	14,085	13,936	13,838	14,683
Earnings per share (Rs)	**3.5**	**2.0**	**1.8**	**4.6**	**6.5**	**6.9**
Balance sheet						
Paid-up common stock	2,343	2,804	4,249	4,249	4,249	4,249
Total shareholders' equity	49,772	65,929	85,403	96,942	108,384	120,670
Deferred taxation liability	7,101	8,787	11,979	15,561	18,944	23,608
Minority interest	7,025	7,153	10,064	11,686	14,177	17,793
Total borrowings	114,872	193,202	352,711	432,990	497,001	571,942
Total liabilities and equity	**178,770**	**275,071**	**460,156**	**557,179**	**638,505**	**734,014**
Net fixed assets	69,388	99,951	156,400	180,349	265,463	322,711
Capital work-in progress	62,250	96,347	147,650	243,171	243,181	287,695
Investments	1,203	10,964	10,586	10,586	10,586	10,586
Cash	24,622	39,214	84,852	73,248	64,284	44,844
Net current assets (excl. cash)	20,788	28,198	59,926	49,083	54,249	67,435
Net current assets (incl. cash)	45,929	67,843	145,520	123,073	119,275	113,021
Total assets	**178,770**	**275,105**	**460,156**	**557,179**	**638,505**	**734,014**
Free cash flow						
Operating cash flow, excl. working capital	9,905	6,739	15,832	22,394	27,414	33,416
Working capital changes	(7,274)	(7,410)	(31,729)	10,843	(5,166)	(13,186)
Capital expenditure	(45,993)	(68,390)	(113,656)	(127,208)	(96,090)	(115,494)
Free cash flow	**(43,362)**	**(69,060)**	**(129,553)**	**(93,971)**	**(73,842)**	**(95,263)**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

National Aluminium Co (NACL)

Metals

SELL

OCTOBER 31, 2010

RESULT

Coverage view: Cautious

Price (Rs): 401

Target price (Rs): 285

BSE-30: 20,032

Spike in power and fuel cost causes earnings to fall short of expectations. Nalco's 2QFY11 revenues of Rs14.8 bn was 5.5% ahead of our estimate. However, EBITDA and net income at Rs3.7 bn and Rs2.2 bn were below our estimates largely on account of higher energy costs. We align Nalco's earnings estimate with our revised aluminium price forecast and increase our earnings estimates to Rs17 and Rs19.1 for FY2011E and FY2012E, respectively. We raise our 12-month target price to Rs285 (Rs260 earlier) and maintain our SELL rating.

Company data and valuation summary

National Aluminium Co.

Stock data			
52-week range (Rs) (high,low)			527-345
Market Cap. (Rs bn)			258.6
Shareholding pattern (%)			
Promoters			87.1
FIIs			4.4
MFs			0.0
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(0.9)	(3.8)	14.4
Rel. to BSE-30	(1.3)	(13.6)	(8.3)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	12.2	17.0	19.1
EPS growth (%)	(37.2)	39.6	12.2
P/E (X)	33.0	23.6	21.0
Sales (Rs bn)	51.7	58.1	64.1
Net profits (Rs bn)	7.8	11.0	12.3
EBITDA (Rs bn)	10.9	16.4	18.3
EV/EBITDA (X)	20.6	13.3	11.6
ROE (%)	7.8	10.2	10.6
Div. Yield (%)	0.6	1.2	1.2

Results below expectations

Nalco's 2QFY11 revenue of Rs14.8 bn (+13.1% qoq, +25.4% yoy) was 5.5% ahead of our estimate as a result of higher metal deliveries. However, EBITDA at Rs3.7 bn (-9.3% qoq, +109.3% yoy) was 2% below our estimate on account of the higher cost of production (9% above our estimates)that was in turn led by higher power and fuel costs. Power and fuel cost increased 34.5% sequentially to Rs5.0 bn, which was 22.3% above our estimates. All other costs declined sequentially. Employee costs declined 7.1% sequentially to Rs2.0 bn. Other expenditure declined 10.7% to Rs 2.1 bn. Net income of Rs2.2 bn (-21.1% qoq, +40.5% yoy) was 14.4% below our estimate on account of higher tax outgo during the quarter.

The company achieved metal aluminium production of 110K tons in 2QFY11, up 7% yoy and marginal decline qoq. Deliveries for 2QFY11 were also up 3% yoy to 108.5K tons; aluminium metal volumes were flat qoq.

Revision in our estimates, factor in our revised aluminium price forecasts and Re/US$ rate

We align our estimates with our revised aluminium price forecast which increased by 5.1%, 4.9% and4.5% to US$2,050/ ton, US$2,150/ ton and US$2,300/ton for FY2011E, FY2012E and FY2013E, respectively. We have also made changes to our Re/US$ assumption, revising it to Rs45.5 and Rs44.5 for FY2011E and FY2012E, respectively, factoring in the recent rupee appreciation. In addition, we have made marginal changes to our volume and cost estimates. As a result, we increase our earnings estimate for FY2011E, FY2012E and FY2013E to Rs17, Rs19.1 and Rs24.3 from Rs14.3 Rs17.3 and Rs23.2 earlier. The current stock price is discounting aluminium price of US$2,525/ ton, a bit too optimistic, in our view.

Valuations expensive, maintain SELL rating

Nalco is trading at an extremely expensive valuation of 13.3X FY2011E and 11.6X FY2012E EBITDA and 23.6X FY2011E and 21X FY2012E earnings. We find the stock very expensive at current valuations. We revise our FY2012E target price to Rs285/share from Rs260 earlier, primarily on revision of our aluminium price forecast. Retain SELL on expensive valuations.

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

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg.) 2QFY11E	2QFY10	1QFY11
Net sales	**14,792**	**14,025**	**11,791**	**13,081**	**5.5**	**25.4**	**13.1**
Total expenditure	(11,314)	(10,393)	(10,374)	(9,143)	8.9	9.1	23.7
Inc/(Dec) in stock	(576)	—	302	740	—	(290.7)	(177.9)
Raw materials	(1,671)	(1,736)	(2,011)	(1,685)	(3.7)	(16.9)	(0.8)
Power & Fuel	(4,964)	(4,060)	(4,845)	(3,691)	22.3	2.5	34.5
Staff cost	(2,027)	(2,226)	(1,800)	(2,183)	(8.9)	12.6	(7.1)
Other expenditure	(2,076)	(2,370)	(2,020)	(2,324)	(12.4)	2.7	(10.7)
Other operating income	244	164	361	164	48.9	(32.3)	48.9
EBITDA	**3,721**	**3,797**	**1,778**	**4,102**	**(2.0)**	**109.3**	**(9.3)**
OPM (%)	24	26	12	30	—	—	—
Other income	854	910	1,402	897	(6.2)	(39.1)	(4.9)
Interest	(0)	—	(8)	0	—	(98.8)	(125.0)
Depreciation	(952)	(935)	(764)	(916)	1.8	24.5	3.9
Pretax profits	**3,379**	**3,608**	**2,046**	**3,919**	**(6.4)**	**65.1**	**(13.8)**
Extraordinaries	—	—	—	—	—	—	—
Tax	(1,139)	(992)	(451)	(1,079)	14.8	152.3	5.5
Net income	**2,240**	**2,616**	**1,595**	**2,841**	**(14.4)**	**40.5**	**(21.1)**
Income tax rate (%)	33.7	27.5	22.1	27.5	—	—	—
Ratios							
EBITDA margin (%)	23.5	25.9	12.0	30.1			
ETR (%)	33.7	27.5	22.1	27.5			
EPS (Rs)	3.5	4.1	2.5	4.4			
Segmental revenue							
Chemicals	5,868	—	4,137	4,031	—	41.8	45.6
Aluminium	11,226	—	9,485	11,212	—	18.4	0.1
Electricity	6,630	—	4,209	3,602	—	57.5	84.1
Segmental PBIT							
Chemicals	1,365	—	794	801	—	71.9	70.4
Aluminium	(1,455)	—	(923)	1,978	—	57.7	(173.6)
Electricity	3,076	—	1,084	650	—	183.7	372.9
Segmental PBIT (%)							
Chemicals	23.3	—	19	20	—	21.2	17.0
Aluminium	(13.0)	—	(10)	18	—	33.2	(173.5)
Electricity	46.4	—	26	18	—	80.1	156.9

Source: Company, Kotak Institutional Equities estimates

Nalco, Changes in estimates, March fiscal year-ends, 2011E-13E (Rs mn)

	Revised estimates			Old estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Net sales	58,146	64,069	72,263	55,960	63,016	71,976	3.9	1.7	0.4
EBITDA	16,392	18,259	22,775	14,091	16,798	22,023	16.3	8.7	3.4
PAT	10,956	12,292	15,625	9,225	11,116	14,918	18.8	10.6	4.7
EPS (Rs)	**17.0**	**19.1**	**24.3**	**14.3**	**17.3**	**23.2**	**18.8**	**10.6**	**4.7**

Source: Kotak Institutional Equities estimates

Nalco, Valuation details, FY2012E basis (Rs mn)

	EBITDA (Rs mn)	EV/EBITDA (X)	EV (Rs mn)	Value (Rs/share)
FY2012E	18,259	7.0	127,815	198
Net debt			(55,385)	(86)
Market capitalization			**183,199**	**284**
Target price				**285**

Source: Kotak Institutional Equities estimates

Sensitivity of SOTP to varying Aluminium & Alumina price levels

		Aluminium prices (US$/ton)				
Target Price		**1,950**	**2,050**	**2,150**	**2,250**	**2,350**
Alumina Prices (US$/ton)	**283**	215	240	265	289	314
	303	225	250	275	299	324
	323	235	260	**285**	309	334
	343	245	270	295	319	344
	363	255	280	305	329	354

Source: Kotak Institutional Equities estimates

Sensitivity of EPS to varying Aluminium & Alumina price levels

		Aluminium prices (US$/ton)				
2012E EPS		**1,950**	**2,050**	**2,150**	**2,250**	**2,350**
Alumina Prices (US$/ton)	**283**	13.0	15.2	17.3	19.5	21.7
	303	13.9	16.1	18.2	20.4	22.6
	323	14.8	16.9	**19.1**	21.3	23.4
	343	15.6	17.8	20.0	22.1	24.3
	363	16.5	18.7	20.9	23.0	25.2

Source: Kotak Institutional Equities estimates

Nalco, Key assumptions sheet, March fiscal year-ends, 2008-13E

	2008	2009	2010	2011E	2012E	2013E
ALUMINIUM						
Aluminium metal sales ('000 tons)	353,334	352,007	434,102	451,153	455,343	455,400
Average LME aluminium price (US$/ton)	2,624	2,227	1,871	2,050	2,150	2,300
EBITDA/ ton (Rs)	38,546	19,618	4,911	4,391	4,766	6,388
EBITDA/ ton (US$)	957	428	104	97	107	145
ALUMINA						
Alumina sales ('000 tons)	864,988	865,000	700,723	692,628	897,842	1,188,336
Average Alumina price (US$/ton)	362	302	224	308	323	345
Alumina EBITDA/ ton (Rs)	5,885	7,357	3,892	6,505	6,055	7,232
Alumina EBITDA/ ton (US$)	146	161	82	143	136	164
Re/US$ rate	**40.3**	**45.8**	**47.3**	**45.5**	**44.5**	**44.1**

Source: Company, Kotak Institutional Equities estimates

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

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	51,342	52,173	51,745	58,146	64,069	72,263
EBITDA	**23,332**	**17,870**	**10,868**	**16,392**	**18,259**	**22,775**
Other income	4,410	3,995	3,741	3,585	4,054	4,873
Interest	(15)	(40)	(23)	(40)	(40)	(40)
Depreciaiton	(2,811)	(2,724)	(3,194)	(3,570)	(3,910)	(4,265)
Profit before tax	**24,916**	**19,101**	**11,392**	**16,367**	**18,363**	**23,343**
Current tax	(8,604)	(6,458)	(3,153)	(4,743)	(5,546)	(7,251)
Deferred tax	53	(139)	(393)	(668)	(526)	(467)
Net profit	**16,315**	**12,723**	**8,142**	**10,956**	**12,292**	**15,625**
Earnings per share (Rs)	**25.3**	**19.7**	**12.6**	**17.0**	**19.1**	**24.3**
Balance sheet (Rs mn)						
Equity	88,744	97,698	103,956	111,155	119,690	131,559
Deferred tax liability	6,074	6,214	6,606	7,274	7,800	8,267
Total Borrowings	—	—	—	—	—	—
Current liabilities	15,409	19,332	22,199	25,644	27,105	29,150
Total liabilities	**110,228**	**123,244**	**132,761**	**144,073**	**154,596**	**168,976**
Net fixed assets	58,664	68,997	70,797	79,227	80,318	79,658
Investments	1,150	8,959	9,868	9,868	9,868	9,868
Cash	35,165	28,690	31,524	37,827	45,517	58,655
Other current assets	15,249	16,598	20,573	17,152	18,893	20,795
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	**110,228**	**123,244**	**132,761**	**144,073**	**154,596**	**168,976**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	18,719	15,775	11,912	11,649	12,714	15,523
Working capital changes	300	3,608	(195)	3,863	(280)	143
Capital expenditure	(15,441)	(22,111)	(6,776)	(12,000)	(5,000)	(3,605)
Free cash flow	**3,578**	**(2,729)**	**4,941**	**3,512**	**7,434**	**12,061**
Ratios						
Debt/equity (%)	—	—	—	—	—	—
Net debt/equity (X)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
RoAE (%)	19.8	13.4	7.8	10.2	10.6	12.4
RoACE (%)	**16.3**	**10.7**	**5.3**	**8.0**	**8.3**	**9.9**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

ABB (ABB)

Industrials

REDUCE

OCTOBER 31, 2010

RESULT

Coverage view: Attractive

Price (Rs): 822

Target price (Rs): 725

BSE-30: 20,032

Weak results yet again. ABB reported weak results at the revenue and margin levels (revenue decline of 8% and EBITDA margins dip to 1.5%). Weak results were likely led by one-off costs in the power systems segment and cost overruns in certain large projects. Sharp decline in profitability of power products segment is likely a reflection of pricing pressure in the power T&D market. Sedate 9M inflows (down 21% yoy) leads to a decline in revenue visibility to about 12 months. Reiterate REDUCE.

Company data and valuation summary

ABB

Stock data			
52-week range (Rs) (high,low)			976-669
Market Cap. (Rs bn)			174.2
Shareholding pattern (%)			
Promoters			52.1
FIIs			10.1
MFs			2.8
Price performance (%)	1M	3M	12M
Absolute	(12.4)	(3.1)	8.2
Rel. to BSE-30	(12.8)	(12.9)	(13.3)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	16.7	10.8	31.4
EPS growth (%)	(35.2)	(35.4)	190.2
P/E (X)	49.1	76.1	26.2
Sales (Rs bn)	62.4	65.1	85.4
Net profits (Rs bn)	3.5	2.3	6.6
EBITDA (Rs bn)	5.3	3.2	9.6
EV/EBITDA (X)	32.0	51.7	17.0
ROE (%)	15.6	9.2	23.2
Div. Yield (%)	0.2	0.4	0.4

Results remain well below expectations on revenue as well as margin levels; potentially on one-offs

- **Revenues remain weak:** ABB results remain well below expectations with revenues of Rs13.34 bn (down 8% yoy) and 21% below our expectation of Rs16.9 bn.

- **Margins likely impacted by one-offs; however, includes large exchange gain:** ABB reported weak EBITDA margin of only 1.5% versus our expectation of 8.5%. The lower margins were attributed to continued exit costs from rural electrification business and cost overruns in certain large projects. We also note that the results also carry an exchange gain of Rs480 mn excluding which the margins would have been even weaker.

Power systems remain weak; power products margin decline probably reflects market pressure

Power systems segment reported yet another quarter of sedate results with revenues of Rs3.9 bn in 3QCY10 (up 2.8% yoy, 8% decline in 9MCY10) and negative EBIT margins -0.7%. Power products segment recorded a revenue decline of 16% yoy and a sharp decline in profitability with EBIT margin of -0.7% versus 12% in the previous year likely led by market pressure in the power T&D equipment industry. Other segments (discrete automation, process automation, low voltage products) also reported relatively weak results.

Order inflows decline substantially causing decline in visibility causing worry for CY2011 as well

For 9MCY10 ABB has reported inflows of Rs49.5 bn significantly (about 21%) lower than 9MFY10 inflows of Rs63 bn. The decline in inflows has led to lower visibility of future revenues - 9MCY10-end backlog of R91.8 bn provides a revenue visibility of about one year versus about 15 months at end-9MCY09. We believe this is reflective of weaker growth prospect for ABB causing worry for CY2011E revenue growth and earnings.

Revise earnings estimates; retain REDUCE with a target price of Rs725/share

We have revised our estimates to Rs10.8 and Rs31.4 from Rs18.3 and Rs33.1 for CY2010E and CY2011E based on weak performance in 9MCY10. Retain REDUCE (TP: Rs725) based on (1) rising competition, (2) lower earnings growth scenario, and (3) execution issues in certain orders.

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Results remain well below expectations; margins under pressure from one-offs

ABB results remain well below expectations with revenues of Rs13.34 bn (down 8% yoy) and 21% below our expectation of Rs16.9 bn. Our yoy revenue growth estimate of about 16% yoy for 3QCY10 was based on (1) expected pick-up in industrials segment revenues led by signs of pick-up in industrial capex activity and (2) low base effect of 2QCY09 which had recorded a yoy revenue decline of 7% versus 2QCY08 revenues. The sedate revenues for the quarter might have been partly led by higher proportion of large projects (with long gestation periods) in the backlog of the company.

Margins likely impacted by one-offs in power segment; however, includes large exchange gain

ABB reported weak EBITDA margin of only 1.5% (EBITDA of Rs195 mn) versus our expectation of about 8.5% margins. The lower margins for the quarter were attributed to continued exit costs from the rural electrification business and cost overruns in certain large projects. ABB has reported very weak margins in the past two quarters as well (0.2% in 1QCY10 and 3.5% in 2QCY10). We also note that the results also carry an exchange gain of Rs480 mn excluding which the margins would have been even weaker. The exchange gain is likely to have originated on Buy Euro forward contracts (to pay for imports of components from Europe based group entities) as Euro has appreciated against the Rupee. Part of this would have been adjusted in raw material sourcing costs and thus cannot be considered as one-off (not to be taken out of EBITDA). However, the part which has come from forward contracts where the underlying transaction has not settled is not adjusted in P&L and is an extra benefit during the quarter.

The weaker-than-expected revenues as well as margin led to net PAT decline of 86% yoy to Rs115 mn in 3QCY10, significantly below our estimate of Rs1.05 bn.

Results remain significantly below estimates
ABB - 3QCY10 - key numbers (Rs mn)

						% change					
	3QCY10	3QCY10E	3QCY09	2QCY10	1QCY10	vs est.	yoy	qoq	9MCY10	9MCY09	% change
Sales	**13,340**	**16,925**	**14,538**	**14,466**	**14,559**	**(21.2)**	**(8.2)**	**(7.8)**	**42,365**	**43,618**	**(2.9)**
Expenses	(13,145)	(15,467)	(13,315)	(13,966)	(14,530)	(15.0)	(1.3)	(5.9)	(41,640)	(39,744)	4.8
RM	(10,540)		(10,839)	(10,391)	(10,789)		(2.8)	1.4	(31,720)	(31,055)	2.1
Employee	(1,229)		(1,039)	(1,230)	(1,174)		18.3	(0.1)	(3,632)	(3,010)	20.7
Other Exp	(1,811)		(1,648)	(2,345)	(2,566)		9.9	(22.8)	(6,722)	(5,685)	18.2
EBITDA	**195**	**1,458**	**1,223**	**500**	**29**	**(86.6)**	**(84.0)**	**(61.0)**	**725**	**3,874**	**(81.3)**
Other income	184	284	159	220	212	(35.4)	15.7	(16.4)	616	412	49.4
Interest	(45)	-	(44)	(43)	(38)		2.3	5.1	(125)	(228)	(44.9)
Depreciation	(126)	(173)	(127)	(122)	(120)	(27.4)	(0.6)	3.2	(368)	(360)	2.2
PBT	**208**	**1,569**	**1,212**	**555**	**84**	**(86.7)**	**(82.8)**	**(62.5)**	**847**	**3,698**	**(77.1)**
Tax	(93)	(518)	(381)	(172)	(17)	(82.1)	(75.6)	(46.0)	(282)	(1,248)	(77.4)
Net profit	**115**	**1,051**	**831**	**383**	**67**	**(89.1)**	**(86.1)**	**(70.0)**	**565**	**2,450**	**(77.0)**
Key ratios (%)											
RM / Sales	75.8		73.1	71.8	74.1				73.8	71.2	
Empl / Sales	9.2		7.1	8.5	8.1				8.6	6.9	
OE / Sales	13.6		11.3	16.2	17.6				15.9	13.0	
EBITDA margin	**1.5**	**8.6**	**8.4**	**3.5**	**0.2**				**1.7**	**8.9**	
PBT Margin	1.6	9.3	8.3	3.8	0.6				2.0	8.5	
Tax rate	44.7	33.0	31.4	31.0	20.4				33.3	33.7	
PAT Margin	0.9	6.2	5.7	2.6	0.5				1.3	5.6	
Order details											
Order booking	20,310		18,932	12,346	16,887		7.3	64.5	49,554	63,080	(21.4)
Order backlog	91,781		80,233	85,317	87,535		14.4	7.6	91,781	80,233	14.4

Source: Company, Kotak Institutional Equities estimates

For the nine months ending September 30, 2010, ABB reported revenues of Rs42.4 bn, down 3% yoy. Low EBITDA margin of 1.7% (versus 8.9% in 9MCY09) led to a net PAT decline of 77% yoy to Rs565 mn in 9MCY10 from Rs2.5 bn in 9MCY09.

Power systems continue to reel under project issues; process automation decline surprises

Power systems segment reported yet another quarter of sedate results with revenues of Rs3.9 bn in 3QCY10, marginally up by about 2.8% yoy. This segment has recorded a yoy decline of about 8% for 9MCY10. EBIT margins continued to remain negative in this quarter as well at -0.7%. EBIT margin during 9MCY09 has been at -6.1%.

Strong process automation de-growth surprises

Process automation segment recorded a sharp decline in revenues to Rs2.2 bn, down 16% yoy. This is surprising based on signs of pick-up in industrial capex activity and strong growth recorded by this segment (28%) in 1QCY10. For nine months this segment has declined by 11.3%. The discrete automation & motion segment and low voltage products segment also reported weak results (versus relatively strong results in 1HCY10) with revenue growth of -0.4% and 4.4%, respectively.

Power products margin decline probably reflects the market pressure in power T&D equipment business

Power products segment revenues declined 16% for the quarter and 9% for 9MCY10. Power products segment also recorded a sharp decline in profitability with EBIT margin of -0.7% versus 12% in the previous year. We believe this is clearly reflective of (1) market pressure in the power T&D equipment industry and (2) going by poor performance, this segment may also have been impacted by project division-related issues.

Almost all segments reported weak results
ABB 3QCY10 segmental results - key numbers (Rs mn)

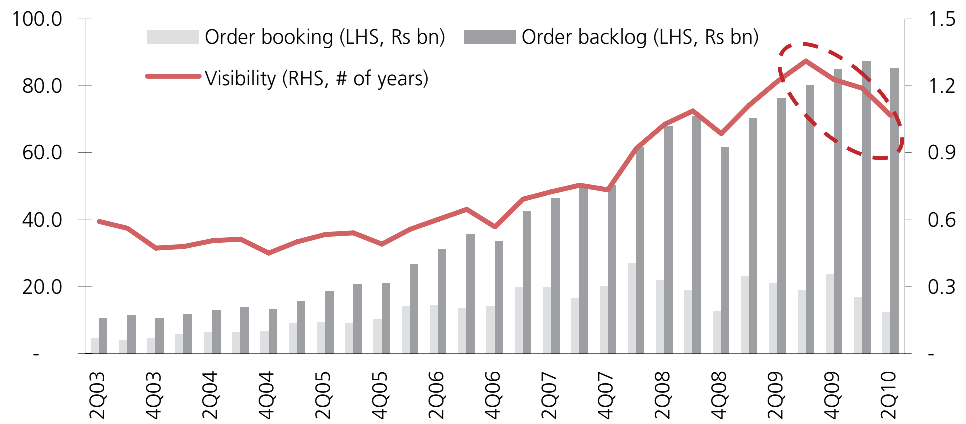
					% change				
	3QCY10	3QCY09	2QCY10	1QCY10	yoy	qoq	9MCY10	9MCY09	% change
Revenues									
Power Products	3,992	4,734	4,441	4,318	(15.7)	(10.1)	12,751	14,009	(9.0)
Power Systems	3,919	3,813	4,173	3,825	2.8	(6.1)	11,917	12,927	(7.8)
Discrete Automation & Motion	3,445	3,459	3,649	3,960	(0.4)	(5.6)	11,054	9,726	13.7
Process Automation	2,180	2,599	2,259	2,866	(16.1)	(3.5)	7,305	8,239	(11.3)
Low voltage products	1,039	995	1,034	973	4.4	0.5	3,046	2,592	17.5
Total	**14,575**	**15,703**	**15,556**	**15,942**	**(7.2)**	**(6.3)**	**46,073**	**47,596**	**(3.2)**
Less Intersegmentt	(1,158)	(979)	(1,015)	(1,247)			(3,419)	(3,805)	
Net Sales	**13,490**	**14,863**	**14,631**	**14,752**	**(9.2)**	**(7.8)**	**42,873**	**44,072**	**(2.7)**
PBIT									
Power Products	(28)	565	284	359	(105.0)	(110.0)	615	1,785	(65.6)
Power Systems	(28)	46	(212)	(485)	NA	NA	(724)	459	(257.6)
Discrete Automation & Motion	484	361	461	106	33.8	4.9	1,050	817	28.6
Process Automation	(41)	188	208	303	(121.6)	(119.5)	470	803	(41.4)
Low voltage products	40	225	(3)	(7)	NA	NA	30	281	NA
Total	**427**	**1,385**	**738**	**276**	**(69.1)**	**(42.1)**	**1,441**	**4,144**	**(65.2)**
(Add)/ Less - Interest	(45)	(44)	(43)	(38)			(126)	(228)	
Other unallocated expenditure	(175)	(130)	(140)	(155)			(469)	(218)	
Total Profit Before Tax	**208**	**1,212**	**555**	**83**	**(82.8)**	**(62.5)**	**846**	**3,698**	**(77.1)**
EBIT Margin									
Power Products	(0.7)	11.9	6.4	8.3			4.8	12.7	
Power Systems	(0.7)	1.2	(5.1)	(12.7)			(6.1)	3.6	
Discrete Automation & Motion	14.0	10.4	12.6	2.7			9.5	8.4	
Process Automation	(1.9)	7.2	9.2	10.6			6.4	9.7	
Low voltage	3.9	22.6	(0.3)	(0.8)			1.0	10.8	

Source: Company, Kotak Institutional Equities estimates

Inflows decline leads to lower visibility; causes worry for CY11 growth prospects

Order inflows reported yoy growth of 8% to Rs20.3 bn versus Rs19 bn last year during 3QCY09. For the nine months ended September 30, 2010 ABB has reported order inflows of Rs49.5 bn significantly (about 21%) lower than 9MFY10 inflows of Rs63 bn. The decline in order inflows has led to lower visibility of future revenues - 9MCY10-end backlog of R91.8 bn provides a revenue visibility of about one year versus about 15 months at end-9MCY09. We believe this is reflective of the weaker growth prospect of the company causing worry for CY2011E revenue growth and earnings.

Sedate revenues results in lower revenue visibility of about one year
Order booking, Order backlog & visibility trend for ABB for last five years



Source: Company, Kotak Institutional Equities estimates

Full-year, CY2011E estimates build in full resumption of growth and margins

Our full-year revenue and margin estimates for CY2011E imply complete resumption of normal growth and margins 4QCY11E and continued in CY2012E. Our CY2011E revenue estimates of Rs65 bn (4.4% yoy growth) imply a strong growth of 20% yoy in 4QCY11E. The growth is likely to be led by low base effects of 2HCY09 as well as pick-up in industrial capex activity. Our full-year EBITDA margin estimate of 5% is based on assumption of normal margins of about 11-12% in 4QCY11E.

Our estimates for CY2012E as well build in resumption of normal operations and margins building in strong revenue growth of 31% yoy (aided by low base effect) and normal margins of about 11.2%.

ABB - 4QCY10E - implied key numbers (Rs mn)

	9MCY10	9MCY09	% chg.	4QCY10E implied	4QCY09	% chg.	CY2010E	CY2009	% chg.	CY2011E	CY2010E	% chg.
Sales	**42,365**	**43,618**	**(2.9)**	**22,746**	**18,852**	**20.7**	**65,111**	**62,372**	**4.4**	**85,418**	**65,111**	**31.2**
Expenses	(41,640)	(39,744)	4.8	(20,230)	(17,341)	16.7	(61,870)	(57,085)	8.4	(75,841)	(61,870)	22.6
EBITDA	**725**	**3,874**	**(81.3)**	**2,516**	**1,512**	**66.4**	**3,240**	**5,287**	**(38.7)**	**9,577**	**3,240**	**195.6**
Other income	616	412	49.4	340	215	57.8	956	726	31.7	1,236	956	29.4
Interest	(125)	(228)	(44.9)	(70)	(26)	166.4	(195)	(254)	(23.1)	(256)	(195)	31.2
Depreciation	(368)	(360)	2.2	(204)	(125)	63.2	(572)	(485)	18.0	(609)	(572)	6.4
PBT	**847**	**3,698**	**(77.1)**	**2,582**	**1,576**	**63.8**	**3,428**	**5,274**	**(35.0)**	**9,949**	**3,428**	**190.2**
Tax	(282)	(1,248)	(77.4)	(856)	(480)	78.5	(1,138)	(1,728)	(34.1)	(3,303)	(1,138)	190.2
Net profit	**565**	**2,450**	**(77.0)**	**1,725**	**1,096**	**57.4**	**2,290**	**3,546**	**(35.4)**	**6,646**	**2,290**	**190.2**
Key ratios (%)												
EBITDA margin	**1.7**	**8.9**		**11.1**	**8.0**		**5.0**	**8.5**		**11.2**	**5.0**	
PBT Margin	2.0	8.5		11.3	8.4		5.3	8.5		11.6	5.3	
Tax rate	33.3	33.7		33.2	30.4		33.2	32.8		33.2	33.2	
PAT Margin	1.3	5.6		7.6	5.8		3.5	5.7		7.8	3.5	
Order details												
Order booking	49,554	63,080	(21.4)	31,808	23,767	33.8	81,362	86,847	(6.3)	99,354	81,362	22.1

Source: Company, Kotak Institutional Equities estimates

Revise estimates; reiterate REDUCE with a target price of Rs725/share

We have revised our earnings estimates to Rs10.8 and Rs31.4 from Rs18.3 and Rs33.1 for CY2010E and CY2011E, respectively based on lower revenue growth and margin assumptions for CY2011E based on 9MCY10 performance. Our target price to Rs725/share is based on 21X March, 2012E earnings estimates.

Change in estimates for ABB, December calendar year-ends, 2010E-11E (Rs mn)

	New estimates		Old estimates		Revision (%)	
	CY2010E	CY2011E	CY2010E	CY2011E	CY2010E	CY2011E
Revenues	65,111	85,418	69,080	85,412	(5.7)	0.0
EBITDA	3,240	9,577	5,460	9,867	(40.7)	(2.9)
EBITDA margin (%)	5.0	11.2	7.9	11.6		
PAT	2,290	6,646	3,876	7,004	(40.9)	(5.1)
EPS (Rs)	**10.8**	**31.4**	**18.3**	**33.1**	**(40.9)**	**(5.1)**
Growth (%)						
Revenues	4.4	31.2	10.8	23.6		
EBITDA	(38.6)	195.6	3.5	80.7		
PAT	(35.4)	190.2	9.3	80.7		

Source: Kotak Institutional Equities estimates

We reiterate our REDUCE rating based on (1) rising competition likely to keep prices under pressure, (2) relatively lower earnings growth scenario in the near term versus CY2005-08 levels, and (3) execution issues in certain orders (withdrawal from rural electrification projects). Key catalysts for the stock include (1) higher-than-expected execution and margins and (2) strong order flows from Power Grid and industrial and private sector orders.

Balance sheet and income statement of ABB, December calendar year-ends, 2006-11E (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Income statement						
Net revenues	**42,740**	**59,303**	**68,510**	**62,372**	**65,111**	**85,418**
Total operating expenses	(37,973)	(52,057)	(60,713)	(57,085)	(61,870)	(75,841)
RM	(31,976)	(43,441)	(50,242)	(45,614)	(48,005)	(61,138)
Employee	(2,414)	(3,061)	(4,016)	(3,886)	(4,644)	(5,307)
Other Exp	(4,113)	(6,076)	(7,192)	(8,020)	(9,222)	(9,396)
EBITDA	**4,767**	**7,246**	**7,797**	**5,287**	**3,240**	**9,577**
Other income	737	710	1,164	726	956	1,236
Interest	(7)	(68)	(262)	(254)	(195)	(256)
Depreciation	(265)	(324)	(367)	(485)	(572)	(609)
PBT	5,232	7,565	8,332	5,274	3,428	9,949
Tax	(1,829)	(2,648)	(2,858)	(1,728)	(1,138)	(3,303)
Net profit	**3,403**	**4,917**	**5,474**	**3,546**	**2,290**	**6,646**
EPS (Rs)	**16.1**	**23.2**	**25.8**	**16.7**	**10.8**	**31.4**
Balance sheet						
Shareholders funds	**11,810**	**16,118**	**21,047**	**24,097**	**25,627**	**31,454**
Equity capital	424	424	424	424	424	424
Reserves and surplus	11,387	15,694	20,623	23,673	25,203	31,030
Reval reserves	148	145	143	140	140	140
Loan funds	15	6	—	—	—	—
Total sources of funds	**11,974**	**16,269**	**21,190**	**24,237**	**25,767**	**31,594**
Total fixed assets	**3,318**	**4,579**	**6,833**	**7,895**	**7,659**	**7,801**
Net block	3,072	3,519	5,458	6,731	7,159	7,551
Capital WIP	246	1,059	1,375	1,163	500	250
Investments	774	705	611	169	169	169
Cash and bank balance	5,464	6,429	3,482	5,241	6,436	11,112
Net working capital	2,583	4,685	10,301	10,931	11,502	12,512
Total application of funds	**11,974**	**16,269**	**21,190**	**24,237**	**25,767**	**31,594**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bharat Electronics (BHE)

Industrials

REDUCE

OCTOBER 31, 2010

RESULT

Coverage view: Attractive

Price (Rs): 1,633

Target price (Rs): 1,800

BSE-30: 20,032

Disappointing results; reiterate REDUCE. BEL reported disappointing revenues of Rs9.8 bn, 30% below estimates and down 25% yoy. EBITDA margin at 11% (versus estimate of 19%) was about 15 percentage points lower than 2QFY10 margins primarily led by negative operating leverage and higher employee costs. Highlight potential risk to meeting our full-year estimates implying strong 30% revenue growth and double EBITDA in 2HFY11 (versus 2HFY10).

Company data and valuation summary

Bharat Electronics

Stock data			
52-week range (Rs) (high,low)			2,252-1,383
Market Cap. (Rs bn)			142.1
Shareholding pattern (%)			
Promoters			75.9
FIIs			4.7
MFs			6.8
Price performance (%)	1M	3M	12M
Absolute	6.5	3.9	25.3
Rel. to BSE-30	(4.8)	(9.3)	3.9

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	96.1	105.9	120.3
EPS growth (%)	(7.4)	10.2	13.6
P/E (X)	18.5	16.8	14.8
Sales (Rs bn)	53.6	59.1	66.1
Net profits (Rs bn)	7.4	8.5	9.6
EBITDA (Rs bn)	10.6	11.4	12.9
EV/EBITDA (X)	10.1	9.2	7.7
ROE (%)	17.5	17.7	17.6
Div. Yield (%)	1.1	1.4	1.4

Disappointing revenues; negative operating leverage further magnified by higher employee cost

- **Revenues disappoint:** Revenues at Rs9.8 bn was about 30% below our estimate of Rs14 bn, recording a 25% de-growth on a yoy basis. We had expected the company to report a moderate growth of about 6.5-7% in this quarter. (see Exhibit 1)

- **Sharp EBITDA margin decline on negative operating leverage and higher employee cost:** BEL reported EBITDA margin of 11%, significantly lower than our estimate of 19% and about 15 percentage points lower than 2QFY10 margins of 25%. Contribution margins have however not declined and EBITDA margin decline is essentially a result of negative operating leverage. Employee costs have increased to Rs2.7 bn in 2QFY11 from Rs1.9 bn in 2QFY10. For 1HFY11 employee costs have increased by 40% to Rs5 bn versus Rs3.6 bn in 1HFY10.

- **1H performance - similar trend of revenue decline and margin contraction:** 1HFY11 turnover has declined by 14% and PAT has declined by 40% on a yoy basis. EBITDA margin has declined by 850 bps during 1H but largely led by employee costs (up 40% yoy) and negative operating leverage. Absolute EBITDA has declined by 53% yoy during 1HFY11 while contribution margin has expanded to 43.6% from 40% during 1HFY2011 on a yoy basis.

Significant risk to full-year FY2011E estimates - EBITDA needs to double on a yoy basis

Our full-year estimates require the company to report revenues of Rs38 bn during 2HFY11E versus Rs30 bn last year (yoy growth of about 30%) against a decline of about 15% in 1HFY2011. EBITDA required would be Rs8 bn versus Rs4 bn reported in 2HFY10. Our full year employee cost at Rs9.8 bn may have a bit of downside as 1H employee cost has been Rs5 bn. (see Exhibit 2)

Retain estimates; reiterate REDUCE rating with a target price of Rs1,800/share

We retain our estimates of Rs105.9 and Rs120.3 for FY2011E and FY2012E. Reiterate REDUCE (TPL Rs1,800) based on (1) potential long-term increase in competition, (2) lack of publicly available data points, (3) potential margin dilution based on shift to system integration orders and (4) infrequent investor communication.

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Exhibit 1: Results disappoint at the revenue as well as margin front
BEL - key numbers - 2QFY11 (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	% change vs est.	% change yoy	% change qoq	1HFY11	1HFY10	% change
Net Sales	**9,779**	**13,975**	**13,082**	**9,242**	**(30.0)**	**(25.3)**	**5.8**	**19,021**	**22,188**	**(14.3)**
Raw Material cost	(5,707)		(6,636)	(5,024)		(14.0)	13.6	(10,731)	(12,739)	(15.8)
Stock Adjustment	332		(629)	(335)		(152.8)	(199.1)	(3)	(565)	
Employee Expenses	(2,687)		(1,922)	(2,393)		39.8	12.3	(5,080)	(3,626)	40.1
Other Expenses	(642)		(604)	(573)		6.3	12.0	(1,215)	(1,049)	15.8
Total Expenditure	**(8,704)**	**(11,320)**	**(9,790)**	**(8,325)**	**(23.1)**	**(11.1)**	**4.6**	**(17,029)**	**(17,979)**	**(5.3)**
EBITDA	**1,075**	**2,655**	**3,292**	**917**	**(59.5)**	**(67.4)**	**17.2**	**1,992**	**4,209**	**(52.7)**
Other Income	679	695	447	514	(2.4)	51.7	32.1	1,193	885	34.8
Interest	(1)	(2)	(1)	-				(1)	(1)	
Depreciation	(299)	(312)	(283)	(298)	(4.2)	5.6	0.4	(597)	(564)	6.0
PBT	**1,454**	**3,036**	**3,456**	**1,134**	**(52.1)**	**(57.9)**	**28.2**	**2,588**	**4,528**	**(42.9)**
Tax	(413)	(972)	(1,082)	(320)	(57.5)	(61.8)	29.0	(733)	(1,428)	(48.7)
PAT	**1,041**	**2,065**	**2,374**	**814**	**(49.6)**	**(56.2)**	**27.9**	**1,855**	**3,101**	**(40.2)**
Key ratios										
Material cost ratio	55.0		55.5	58.0				56.4	60.0	
Employee cost ratio	27.5		14.7	25.9				26.7	16.3	
Other exps ratio	6.6		4.6	6.2				6.4	4.7	
EBITDA margin	**11.0**	**19.0**	**25.2**	**9.9**				**10.5**	**19.0**	
PBT Margin	14.9	21.7	26.4	12.3				13.6	20.4	
PAT Margin	10.6	14.8	18.1	8.8				9.8	14.0	
Effective Tax Rate	28.4	32.0	31.3	28.2				28.3	31.5	
EPS (Rs)	**13.0**	**25.8**	**29.7**	**10.2**				**23.2**	**38.8**	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Significant risk to full-year FY2011E estimates
BEL - 2HFY11 implied key numbers (Rs mn)

	1HFY11	1HFY10	% change	2HFY11E-implied	2HFY10	% change	FY2011E	FY2010	% change
Net Sales	**19,021**	**22,188**	**(14.3)**	**38,021**	**29,616**	**28.4**	**57,042**	**51,804**	**10.1**
Total Expenditure	(17,029)	(17,979)	(5.3)	(29,891)	(25,661)	16.5	(46,921)	(43,640)	7.5
EBITDA	**1,992**	**4,209**	**(52.7)**	**8,129**	**3,956**	**105.5**	**10,121**	**8,164**	**24.0**
Other Income	1,193	885	34.8	2,110	2,879	(26.7)	3,303	3,764	(12.3)
Interest	(1)	(1)		(5)	(4)		(5)	(5)	
Depreciation	(597)	(564)	6.0	(638)	(596)	7.1	(1,235)	(1,159)	6.5
PBT	**2,588**	**4,528**	**(42.9)**	**9,596**	**6,235**	**53.9**	**12,183**	**10,764**	**13.2**
Tax	(733)	(1,428)	(48.7)	(3,166)	(1,815)	74.4	(3,899)	(3,243)	20.2
PAT	**1,855**	**3,101**	**(40.2)**	**6,430**	**4,421**	**45.5**	**8,285**	**7,521**	**10.1**
Key ratios									
EBITDA margin	**10.5**	**19.0**		**21.4**	**13.4**		**17.7**	**15.8**	
PBT Margin	13.6	20.4		25.2	21.1		21.4	20.8	
PAT Margin	9.8	14.0		16.9	14.9		14.5	13.9	
Effective Tax Rate	28.3	31.5		33.0	29.1		32.0	31.0	
EPS (Rs)	**23.2**	**38.8**	**(40.2)**	**80.4**	**51.3**	**56.6**	**103.6**	**90.1**	**14.9**

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Consolidated financials of Bharat Electronics, March fiscal year-ends, 2005-12E (Rs mn)

	2005	2006	2007	2008	2009	2010E	2011E	2012E
Income statement								
Net Sales	**33,401**	**36,550**	**40,485**	**42,067**	**47,469**	**53,645**	**59,051**	**66,139**
Total Expenditure	(26,450)	(27,786)	(30,791)	(31,852)	(36,708)	(45,224)	(48,616)	(54,240)
Total RM consumption	(18,535)	(20,485)	(21,777)	(21,665)	(25,121)	(31,356)	(33,828)	(37,883)
Employee Expenses	(4,467)	(4,315)	(5,223)	(6,658)	(7,632)	(10,176)	(9,928)	(10,916)
Other Expenses	(3,448)	(2,986)	(3,791)	(3,529)	(3,955)	(3,692)	(4,861)	(5,440)
EBDITA	**6,950**	**8,764**	**9,694**	**10,215**	**10,762**	**8,422**	**10,435**	**11,899**
Other Income	1,206	1,178	1,978	2,456	2,348	3,831	3,369	3,691
Interest	(105)	(270)	(8)	(3)	(108)	(6)	(5)	(5)
Depreciation	(784)	(895)	(933)	(1,007)	(1,128)	(1,223)	(1,322)	(1,410)
Pretax profits	**7,267**	**8,777**	**10,731**	**11,661**	**11,873**	**11,023**	**12,476**	**14,175**
Tax	(2,410)	(2,759)	(3,398)	(3,503)	(3,568)	(3,333)	(4,002)	(4,547)
PAT	**4,857**	**6,017**	**7,333**	**8,157**	**8,305**	**7,691**	**8,474**	**9,628**
One-time items	(312)	(28)	(9)	216	(775)	(315)	—	—
Reported PAT	4,545	5,989	7,325	8,373	7,530	7,376	8,474	9,628
EPS	**60.7**	**75.2**	**91.7**	**104.7**	**94.1**	**92.2**	**105.9**	**120.3**
Balance sheet								
Total Shareholders Funds	**16,672**	**21,302**	**26,927**	**33,444**	**39,246**	**44,792**	**51,016**	**58,394**
Share Capital	800	800	800	800	800	800	800	800
Reserves & Surplus	15,872	20,502	26,127	32,644	38,446	43,992	50,216	57,594
Total Debt	**158**	**93**	**23**	**21**	**18**	**13**	**—**	**—**
Total Liabilities	**16,830**	**21,395**	**26,951**	**33,465**	**39,265**	**44,805**	**51,016**	**58,394**
Gross Block	12,045	13,203	14,081	15,173	16,710	17,988	19,238	20,488
Less: Accum. Depreciation	(8,469)	(9,165)	(9,943)	(10,803)	(11,824)	(12,881)	(14,203)	(15,613)
Net Block	**3,576**	**4,038**	**4,139**	**4,370**	**4,886**	**5,107**	**5,035**	**4,875**
Capital Work in Progress	487	218	352	354	499	327	327	327
Net Current Assets	**11,559**	**15,871**	**20,949**	**27,315**	**32,400**	**37,787**	**44,070**	**51,608**
Deferred Tax Assets	1,170	1,246	1,501	1,425	1,480	1,583	1,583	1,583
Total Assets	**16,830**	**21,395**	**26,951**	**33,465**	**39,265**	**44,805**	**51,016**	**58,394**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Godrej Consumer Products (GCPL)

Consumer products

BUY

OCTOBER 31, 2010

RESULT

Coverage view: Cautious

Price (Rs): 420

Target price (Rs): 490

BSE-30: 20,032

Growth led by mosquito repellant business, as expected. Favorable market conditions (outbreak of mosquito-related illnesses) and competitive actions (Jyothy rolling back trade discounts in its brand) have propelled GHPL's 2Q sales growth (38%), in our view. Favorable currency has likely benefited Megasari—transaction (IDR/USD) and translation (IDR/INR), in our view. Accounting for the 2Q surprise, upgrade FY2011E and FY2012E earnings by 6% and 3%. Upgrade to BUY for potential 17% upside.

Company data and valuation summary

Godrej Consumer Products

Stock data			
52-week range (Rs) (high,low)			485-225
Market Cap. (Rs bn)			135.9
Shareholding pattern (%)			
Promoters			71.4
FIIs			18.9
MFs			0.5
Price performance (%)	**1M**	**3M**	**12M**
Absolute	2.2	22.2	55.0
Rel. to BSE-30	4.3	9.0	23.0

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	11.3	14.3	18.9
EPS growth (%)	69.5	25.8	32.6
P/E (X)	37.1	29.5	22.2
Sales (Rs bn)	20.4	35.6	45.3
Net profits (Rs bn)	3.4	4.6	6.1
EBITDA (Rs bn)	4.3	7.0	9.0
EV/EBITDA (X)	31.3	21.1	15.9
ROE (%)	44.6	33.5	32.1
Div. Yield (%)	0.9	0.8	0.8

QUICK NUMBERS

- 125 bps improvement in EBITDA margin
- GHPL and Megasari contribute ~60% of EV
- GHPL reported 38% gross sales growth in 2QFY11

GHPL performance significantly better than expected, FY2011E earnings upgraded by 6%

- GCPL reported standalone net sales of Rs3.2 bn, (-3%, KIE estimate Rs3.3 bn), EBITDA of Rs675 mn (+3%, KIE estimate Rs658 mn) and PAT of Rs765 mn (+12%, KIE estimate Rs520 mn). Consolidated net sales stood at Rs9.5 bn, (+66%), EBITDA at Rs1.7 mn (+51%) and PAT at Rs1.3 bn (+40%). These financials are not comparable on yoy basis due to string of acquisitions in CY2010.
- The Indian household business (GHPL, the erstwhile Godrej Sara Lee businesses) grew 38% for 2Q, likely aided by strong performance this monsoon season in mosquito repellant business due to outbreak of mosquito related illnesses (as highlighted in our note dated August 31, 2010 'Why we value GCPL on SOTP')
- In our view, this quarter would have benefitted from favorable currency movement – IDR/USD (likely input cost benefit for Megasari in IDR) and IDR/INR (translation benefit of converting IDR to INR) moved in favor of the company by ~11% and 7%
- Soaps portfolio, which forms about two-third of standalone sales, declined by10% driven by lower category growth due to impact of food inflation and channel inventory correction taken by the company and trade. Soaps accounts for ~20% of consolidated sales and ~12% of EBITDA
- The hair colour business grew by 21% which augurs well as margins in this business are the highest in GCPL's portfolio. However, we note that historically, GCPL's Indian hair color business has exhibited significant quarterly volatility.
- Gross and EBITDA margin expanded by 55 bps and 125 bps, respectively. Staff cost was down by 622 bps due to high base (2QFY10 includes variable remuneration).

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High growth and high-margin household insecticides (India and Indonesia) is the key

- The high margin household insecticides business, Godrej Household Products (GHPL) and Megasari form ~52% of sales and contribute ~60% of EV. Both the businesses enjoy high margins and have high growth rates.
- We have high conviction on GHPL's business model which forms ~37% of consolidated EBITDA and 42% of EV. This business has grown at a sales and PAT CAGR of 24% and 27% over FY2007-10 and ~17% over FY2000-10.
- GCPL acquired this business for ~13X trailing FY2010. Unlike competition, GHPL has higher contribution of sales from high margin liquids, mats and aerosols (which are faster growing segments as well).
- In 2QFY11, Jyothy laboratories reported 3% sales decline in Maxo (as Maxo withdrew some of the trade promotions). This would have likely helped propel sales of GHPL's Good Knight brand as well, given the outbreak of dengue and malaria during this period. GHPL reported gross sales growth of 38% in 2QFY11.
- Megasari has EBITDA margin of ~20.5% (one of the highest in the GCPL group) and contributes 18% of EV and 19% of EBITDA. We believe that Megasari has good fit in the GCPL universe as it provides the opportunity for potential scale benefits in sourcing (in active ingredients, packing material) in household insecticides. This company puts GCPL at No. 3 in Asia (ex-Japan) in household insecticides.
- The extant India business (soaps and hair color) is ~31% of FY2012E EBITDA and ~30% of EV. India soaps, contributes just ~12% of GCPL's EBITDA. Focus on regional brands and micro-marketing initiatives by HUL and aggressive trade-spend driven growth strategy of ITC seems to be hurting GCPL's soaps business, in the near-term, in our view.
- The extant international business (Kinky and Rapidol in Africa and Keyline in UK) forms 7% of EBITDA 6% of EV. Within this Kinky and Rapidol have EBITDA margin of 17% and 21% respectively whereas Keyline is at 14%. The company has initiated merger of Kinky and Rapidol

Upgrade to BUY, upgrade earnings and target price by 6% (amongst a spate of muted performances in India consumer in 2QFY11)

We upgrade to BUY (ADD previously) and revise target price to Rs490. We upgrade our FY2011E estimates by 6% and FY2012E by 3% to account for the better-than-expected performance by GHPL business.

We value GCPL on an SOTP basis as the company operates in multiple categories with varying growth characteristics and multiple geographies (India, Indonesia, Africa, UK and Latin America).

Earnings upgrade is on the back of (1) higher sales growth rate in GHPL, Megasari and (2) higher profitability for the domestic standalone business as the hair colour portfolio is showing good growth. Key triggers are (1) potential for geographical distribution benefits - GHPL is strong in South India (Good Knight) whereas GCPL is in North India, (2) cross pollinating products across geographies.

The key risk is the company's unhedged US$ loan (1% change in LIBOR = 2% of FY2011E EPS).

Interim standalone results of Godrej Consumer Products, March fiscal year ends (Rs mn)

					(% chg)		
	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	2QFY10	1QFY11
Net sales	**3,186**	**3,340**	**3,297**	**3,174**	**(5)**	**(3)**	**0**
Total expenditure	(2,512)	(2,682)	(2,640)	(2,553)		(5)	(2)
Material cost	(1,485)	(1,581)	(1,555)	(1,582)		(4)	(6)
Staff cost	(180)	(180)	(392)	(152)		(54)	19
Advertising & promotion	(230)	(274)	(223)	(272)		3	(15)
Other expenditure	(617)	(647)	(470)	(548)		31	13
EBITDA	**675**	**658**	**657**	**621**	**3**	**3**	**9**
OPM (%)	**21.2**	**19.7**	**19.9**	**19.6**			
Other income #	310	72	199	1,271		56	(76)
Interest	(13)	(41)	(7)	(13)		94	6
Depreciation	(38)	(42)	(39)	(36)		(3)	6
Pretax profits	**934**	**646**	**810**	**1,844**	**44**	**15**	**(49)**
Tax	(169)	(126)	(125)	(136)		35	24
Reported PAT	**765**	**520**	**685**	**1,708**	**47**	**12**	**(55)**
Adjusted PAT	**665**	**520**	**685**	**548**			
Income tax rate (%)	18.1	19.5	15.4	7.4			
Costs as a % of net sales							
Material cost	46.6	47.3	47.2	49.8			
Staff cost	5.7	5.4	11.9	4.8			
Advertising & promotion	7.2	8.2	6.8	8.6			
Other expenditure	19.4	19.4	14.3	17.3			

Note:
In 1QFY11 and 2QFY11 other income includes Rs1.16 bn and Rs0.1bn of dividend from subsidiary which is netted off in consolidation

Source: Company, Kotak Institutional Equities estimates

Interim consolidated results of Godrej Consumer Products , March fiscal year ends (Rs mn)

				(%) chg	
	2QFY11	2QFY10	1QFY11	2QFY10	1QFY11
Net sales	**9,528**	**5,756**	**6,431**	**66**	**48**
Total expenditure	(7,838)	(4,637)	(5,240)	69	50
Material cost	(4,619)	(2,714)	(3,168)	70	46
Staff cost	(804)	(576)	(439)	39	83
Advertising & promotion	(980)	(509)	(651)	92	51
Other expenditure	(1,436)	(837)	(982)	72	46
EBITDA	**1,690**	**1,119**	**1,191**	**51**	**42**
OPM (%)	**17.7**	**19.4**	**18.5**		
Other income	194	139	106	40	83
Interest	(89)	(26)	(105)	241	(15)
Depreciation	(155)	(68)	(84)	129	84
Pretax profits	**1,641**	**1,164**	**1,108**	**41**	**48**
Tax	(338)	(234)	(267)	44	27
Adjusted PAT	**1,302**	**930**	**841**	**40**	**55**
Exceptional item	8	-	322		
Reported PAT	**1,311**	**930**	**1,164**		
Income tax rate (%)	20.6	20.1	24.1		
Costs as a % of net sales					
Material cost	48.5	47.2	49.3		
Staff cost	8.4	10.0	6.8		
Advertising & promotion	10.3	8.9	10.1		
Other expenditure	15.1	14.5	15.3		
Segment revenue of Godrej Consumer Products					
Personal wash	2,096		2,122		
Home care	4,383		1,865		
Hair care	1,620		1,158		
Others	1,048		965		
Exports	286		322		

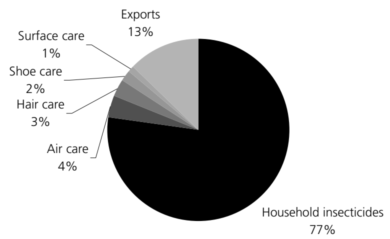
Source: Company, Kotak Institutional Equities

2QFY11 performance of GCPL's international subsidiaries

Region	Business segment	Sales (Rs mn	EBITDA (Rs mn)	Margin (%	Remarks
Indonesia	Megasari	1,820	300	16	Acquisition wef May 2010. Reported EBITDA of 21% before payment of technical fee to GCPL
Africa	Tura, Rapidol, Kinky	440	60	14	Acquisition wef June 2010
Latin America	Issue Group, Argencos	590	40	NA	Acquisition wef June 2010
United Kingdom	Keyline	480	50	10	

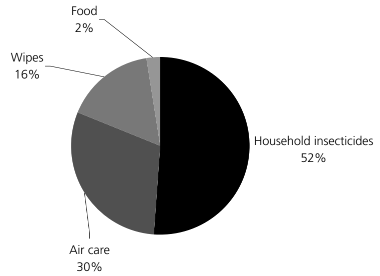
Source: Company, Kotak Institutional Equities

Dominant share of household insecticides
Sales mix of GHPL, March fiscal year-end 2010 (%)



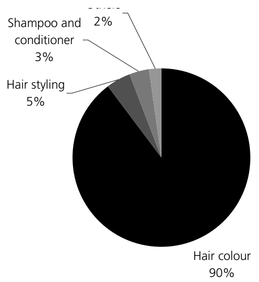
Source: Company, Kotak Institutional Equities

Leading household insecticides player in Indonesia
Sales mix of Megasari, March fiscal year-end 2010 (%)



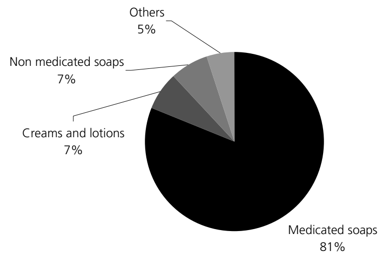
Source: Company, Kotak Institutional Equities

Leading hair colour player in Argentina
Sales mix of Argencos, March fiscal year-end 2010 (%)



Source: Company, Kotak Institutional Equities

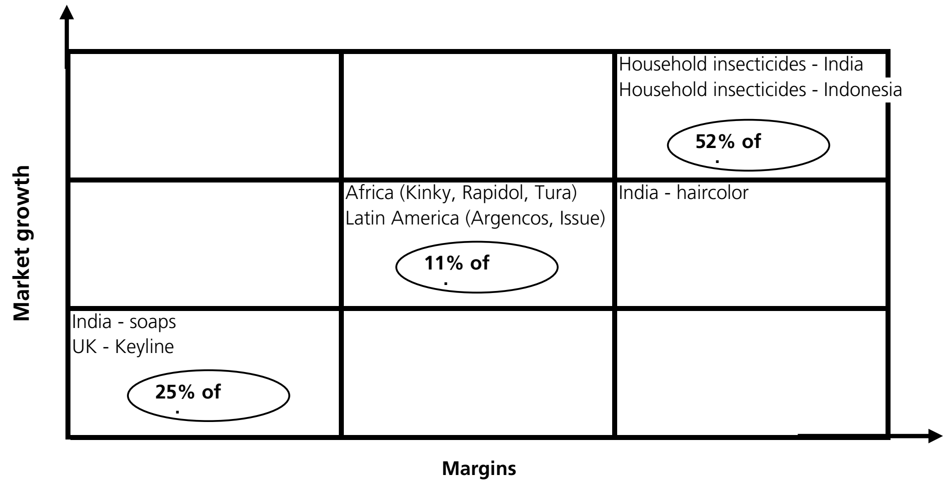
Beauty care range dominated by soaps
Sales mix of Tura, March fiscal year-end 2010 (%)



Source: Company, Kotak Institutional Equities

Faster growing and high margin household insecticides business forms 45% of sales

GCPL's business matrix



Source: Kotak Institutional Equities

Snapshot of GCPL's business segments

Business segment	Country	Category	Brands	Sales (Rs mn) FY2010	FY2011E	FY2012E	EBITDA (Rs mn) FY2010	FY2011E	FY2012E	Remarks
Domestic	India	Soaps, Hair color	Godrej No.1, Cinthol, Godrej Expert hair dye	12,679	13,717	15,256	2,659	2,587	2,870	
International	South Africa, UK	Hair color etc.	Kinky, Rapidol ,Keyline (UK)	3,644	3,340	3,634	658	504	561	
Tura	Nigeria	Soaps	Tura	450	365	544	68	51	76	FY2010 - Tura had sales of US$11 mn and assuming exchange rate of 1US$ = Rs45. FY2011E - Financials for 9 months has been incorporated
Megasari	Indonesia	Household insecticide	Hit, Stella etc.	5,400	5,906	8,151	1,080	1,269	1,752	FY2011E - Megasari financials is for 10 months
Godrej Household	India	Household insecticide	Good Knight, Hit etc.	4,089	10,486	15,100	756	2,253	3,245	FY2010 - Financials are for 10 months for 49% stake that GCPL had in GHPL. FY2011E - Financials are for 49% stake for 2 months and 100% stake for 10 months
Argencos	Argentina	Hair color		720	583	840	101	58	84	FY2011E - Argencos financials is for 9 months
Issue	Argentina	Hair color		1,485	1,203	1,732	208	120	173	FY2011E - Issue financials is for 9 months
Total					**35,600**	**45,257**		**6,843**	**8,761**	

Note:
FY2010 sales and EBITDA includes domestic, international and Godrej Household Products

Source: Kotak Institutional Equities estimates

Key assumptions

Sales (Rs mn)	2009	2010	2011E	2012E	Comments
Domestic	10,843	12,679	13,717	15,256	
- Soaps	7,125	8,241	8,406	9,079	
- Hair colour	2,305	2,789	3,264	3,753	
Godrej Household		4,089	10,486	15,100	FY2010 - Financials are for 10 months for 49% stake that GCPL had in GHPL. FY2011E - Financials are for 49% stake for 2 months and 100% stake for 10 months
Kinky	558	762	804	901	
Keyline	1,999	2,146	1,774	1,881	
Rapidol	530	736	761	852	
Megasari			5,906	8,151	FY2011E - Megasari financials is for 10 months
Tura			365	544	FY2011E - Financials for 9 months has been incorporated
Argencos			583	840	FY2011E - Argencos financials is for 9 months
Issue Group			1,203	1,732	FY2011E - Issue financials is for 9 months

Sales growth (%)	2009	2010	2011E	2012E	Comments
Domestic					
- Soaps	26	16	2	8	Assuming single-digit sales growth, given the rising competition in this segment
- Hair colour	13	21	17	15	
Godrej Household			27	20	Bullish on sales growth in insecticides. Will likely benefit from synergies in distribution gro
Kinky		40	12	12	
Keyline	11	21	(10)	6	
Rapidol	21	41	10	12	
Megasari			25	15	
Tura			8	12	
Argencos			8	8	
Issue Group			8	8	

EBITDA margin (%)	2009	2010	2011E	2012E	Comments
Domestic	15	21	19	19	
Godrej Household		19	21	21	~60% of non coil business helps clock higher margins, potential for distribution synergies
Kinky	18	18	17	18	
Keyline	14	15	12	12	
Rapidol	18	25	21	21	
Megasari			21	21	
Tura			14	14	
Argencos			10	10	
Issue Group			10	10	

Company (Rs mn)	2009	2010	2011E	2012E	Comments
Sales	13,930	20,412	35,600	45,257	
EBITDA	2,037	4,073	6,843	8,761	
EBIT	1,845	3,837	6,513	8,308	
Interest	172	159	(757)	(584)	US$ 350mn net debt as on March 31, 2010. Assuming 5% interest rate on offshore debt
Other income	75	203	187	204	
PBT	2,092	4,199	5,943	7,928	
Tax	(366)	(803)	(1,329)	(1,813)	
PAT	1,726	3,396	4,614	6,116	
Effective tax rate (%)	17	19	22	23	

Source: Kotak Institutional Equities estimates

SOTP valuation of GCPL

Business segment	Country	EBITDA (Rs mn) FY2011E	FY2012E	EBITDA multiple (x FY2012E	EV (Rs mn)	Remarks
Domestic	India	2,587	2,870	18	50,219	(a) 17.5X FY2012E, at par with Dabur
International	South Africa, UK	504	561	15	8,345	15% discount to (a)
Tura	Nigeria	51	76	15	1,134	15% discount to (a)
Megasari	Indonesia	1,269	1,752	18	30,652	At par with (a)
Godrej Household	India	2,253	3,245	21	68,146	20% premium to (a)
Argencos	Argentina	58	84	14	1,176	20% discount to (a)
Issue	Argentina	120	173	14	2,425	20% discount to (a)
EV #		**6,843**	**8,761**		**162,096**	
Less: Net debt					**(6,785)**	
Equity value					**155,311**	
Price per share (Rs)					**486**	
Implied PE on FY2012E (x)					**27**	

Source: Kotak Institutional Equities estimates

GCPL: Profit model, balance sheet, 2007-2013E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)							
Net sales	9,515	11,026	13,930	20,412	35,600	45,257	51,416
EBITDA	**1,797**	**2,148**	**2,037**	**4,073**	**6,843**	**8,761**	**9,667**
Other income	26	37	75	203	187	204	89
Interest	(96)	(126)	172	159	(757)	(584)	(268)
Depreciation	(142)	(182)	(192)	(236)	(330)	(453)	(486)
Pretax profits	1,585	1,878	2,092	4,199	5,943	7,928	9,001
Tax	(243)	(283)	(366)	(803)	(1,329)	(1,813)	(2,080)
Net profits	**1,342**	**1,595**	**1,726**	**3,396**	**4,614**	**6,116**	**6,922**
Earnings per share (Rs)	**5.9**	**7.1**	**6.7**	**11.3**	**14.3**	**18.9**	**21.4**
Balance sheet (Rs mn)							
Total equity	1,220	1,687	5,668	9,547	18,010	20,053	21,526
Total borrowings	1,736	1,871	2,776	369	15,776	9,576	4,576
Currrent liabilities	2,617	3,227	3,299	5,528	4,475	4,921	5,454
Deferred tax liability	80	89	42	66	63	63	63
Total liabilities and equit	**5,653**	**6,874**	**11,785**	**15,510**	**38,324**	**34,613**	**31,620**
Cash	475	426	3,783	3,052	3,099	2,792	272
Current assets	2,300	3,093	3,544	6,044	4,195	4,750	5,258
Total fixed assets	1,992	2,399	2,297	2,626	3,617	3,658	2,676
Investments	0	0	75	670	670	670	670
Other non current assets	886	956	2,086	3,119	26,744	22,744	22,744
Total assets	**5,653**	**6,874**	**11,785**	**15,510**	**38,324**	**34,613**	**31,620**
Key assumptions							
Revenue Growth (%)	36.0	15.9	26.3	46.5	74.4	27.1	13.6
EBITDA Margin(%)	18.9	19.5	14.6	20.0	19.2	19.4	18.8
EPS Growth (%)	12.5	18.9	(5.3)	69.5	25.8	32.6	13.2

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Zee Entertainment Enterprises (Z)

Media

REDUCE

OCTOBER 30, 2010

RESULT

Coverage view: Neutral

Price (Rs): 276

Target price (Rs): 270

BSE-30: 20,032

Sports business plays spoilsport. Zee reported weak 2QFY11 EBITDA at Rs1.9 bn (+25% yoy; +1% qoq) versus our expectation of Rs2.1 bn; the negative variance resulted primarily from sports business operating losses increasing to Rs542 mn versus Rs354 mn in 1QFY11, above our expectations and those of the Street. Core business operations were on track with 41% EBITDA margins but (1) ratings decline in flagship Zee TV channel and (2) content investments (programs, movies) will likely result in normalized core EBITDA margins at ~35%. Retain REDUCE with near-term challenges of (1) Zee TV ratings decline, (2) strong cricket calendar impacting GE advertising and (3) launch of new channels in key Zee genres post IPL Season 4 (1QFY12E).

Company data and valuation summary

Zee Entertainment Enterprises

Stock data			
52-week range (Rs) (high,low)			329-210
Market Cap. (Rs bn)			120.1
Shareholding pattern (%)			
Promoters			42.8
FIIs			27.5
MFs			14.1
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(8.3)	(6.3)	18.4
Rel. to BSE-30	(8.7)	(15.8)	(5.2)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	10.7	10.8	13.5
EPS growth (%)	26.6	0.7	25.4
P/E (X)	25.8	25.6	20.5
Sales (Rs bn)	20.9	23.4	26.6
Net profits (Rs bn)	4.6	4.7	5.9
EBITDA (Rs bn)	5.8	6.5	8.4
EV/EBITDA (X)	18.9	16.4	12.6
ROE (%)	12.9	11.8	13.9
Div. Yield (%)	0.9	1.1	1.3

Weak 2QFY11 results on account of operating losses in sports business

- We highlight that yoy comparison of 2QFY11 financials is not possible due to (1) merger of R-GECs channels effective 4QFY10, (2) complete acquisition of Ten Sports business effective 4QFY10-1QFY11 (and thus, even EPS is not comparable on a yoy basis) and (3) other small mergers and acquisitions (9X, ETC Networks).

- ZEEL's 2QFY11 EBITDA of Rs1.9 bn (+25% yoy, +1% qoq) was below our expectation of Rs2.1 bn. The variance primarily resulted from sports business operating losses increasing to Rs542 mn from Rs354 mn in 1QFY11, ahead of our expectations and those of the Street. The company noted incremental launch expenses (including higher content investment) on account of Ten Cricket and re-branding of Zee Sports as Ten Action. The complete acquisition of Ten Sports (versus 50% stake previously) exacerbated the pressure on financials.

- However, core business was on track with EBITDA margin of 41% given (1) robust ratings performance (sharp improvement in Zee Bangla), (2) continued strong advertising environment and (3) pullback from large content investment due to weak operating environment in the past. However, normalized core EBITDA margins of ~35% are likely as a result of(1) ratings decline in flagship Zee TV channel and (2) renewed content investments.

- ZEEL 2QFY11 advertising revenues of Rs4.1 bn were in line with expectations, also supported by sports business revenues of Rs1.2 bn. International subscription revenues of Rs989 mn (-7% yoy, -2% qoq) were also in line with Rupee appreciation in 2QFY11.

- 2QFY11 domestic subscription revenues at Rs1.75 bn (+27% yoy, +9% qoq) were the positive highlight with expectations exceeded with(1) DTH revenues at Rs787 mn (+53% yoy, +11% qoq) and (2) cable revenues at Rs961 mn (+11% yoy, +7% qoq).

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Interim results of Zee Entertainment (ZEEL), March fiscal year-ends (Rs mn)

					(% chg)					
	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	2QFY10	1QFY11	1HFY11	1HFY10	(% chg)
Total revenues	**7,116**	**7,200**	**5,405**	**6,770**	***(1)***	***32***	***5***	**13,886**	**10,164**	***37***
Advertising revenues	4,122	4,100	2,476	3,769	*1*	*66*	*9*	7,891	4,456	*77*
Subscription revenues	2,737	2,700	2,435	2,614	*1*	*12*	*5*	5,351	4,845	*10*
--Domestic subscription	1,748	1,700	1,377	1,604	*3*	*27*	*9*	3,352	2,695	*24*
--International subscription	989	1,000	1,058	1,010	*(1)*	*(7)*	*(2)*	1,999	2,150	*(7)*
Others (incl. syndication)	257	400	494	387	*(36)*	*(48)*	*(33)*	644	864	*(25)*
Total expenditure	**(5,230)**	**(5,100)**	**(3,897)**	**(4,900)**	***3***	***34***	***7***	**(10,130)**	**(7,487)**	***35***
Cost of revenues	(3,458)	(3,200)	(2,229)	(3,050)	*8*	*55*	*13*	(6,508)	(4,621)	*41*
Employee costs	(643)	(600)	(442)	(597)	*7*	*45*	*8*	(1,240)	(832)	*49*
SG&A expenses	(1,130)	(1,300)	(1,226)	(1,252)	*(13)*	*(8)*	*(10)*	(2,382)	(2,034)	*17*
EBITDA	**1,885**	**2,100**	**1,508**	**1,870**	***(10)***	***25***	***1***	**3,756**	**2,678**	***40***
OPM (%)	***26.5***	***29.2***	***27.9***	***27.6***				***27.0***	***26.3***	
Other income	240	200	291	126	*20*	*(18)*	*90*	366	617	*(41)*
Interest expense	(5)	(25)	(84)	(51)	*(81)*	*(94)*	*(91)*	(55)	(175)	*(68)*
D&A expenses	(56)	(75)	(77)	(62)	*(25)*	*(27)*	*(9)*	(118)	(152)	*(22)*
Pretax profits	**2,064**	**2,200**	**1,639**	**1,884**	***(6)***	***26***	***10***	**3,948**	**2,968**	***33***
Extraordinaries	—	—	—	291				291	-	
Tax provision	(801)	(750)	(529)	(673)	*7*	*51*	*19*	(1,474)	(945)	*56*
Minority interest	(1)	—	32	38		*(102)*	*(102)*	38	138	*(73)*
Reported PAT	**1,262**	**1,450**	**1,141**	**1,539**	***(13)***	***11***	***(18)***	**2,802**	**2,160**	***30***
Adjusted PAT	**1,262**	**1,450**	**1,141**	**1,249**	***(13)***	***11***	***1***	**2,511**	**2,160**	***16***
Tax rate (%)	***38.8***	***34.1***	***32.3***	***35.7***				***37.3***	***31.8***	
EPS (Rs/share)	**2.6**	**3.0**	**2.6**	**2.6**	***(13)***	***(1)***	***1***	**5.2**	**5.0**	***4***

Source: Company data, Kotak Institutional Equities estimates

- 2QFY11 direct costs at Rs3.46 bn were above our estimates due to launch and content expenses of the sports business. 2QFY11 SG&A expenses at Rs1.13 bn (-8% yoy, -10% qoq) were a tad surprising given the significant amount of activity (sports business, re-launch of Zee Bangla) during the quarter. Nonetheless, expenses will likely rise on account of events in the coming quarters (Zee Rishtay Awards).

- 2QFY11 tax provisions at Rs801 mn (38.8%) were much above normal tax rate levels (33-34%) on account of sports business losses. Exhibit 2 presents the consolidated and standalone (as well as ZEEL “other” sports and overseas businesses) financials. Zee paid the complete 33% tax rate for its profitable business standalone GE business but setoffs against the loss-making sports business were not allowed due to sports and overseas businesses being part of subsidiaries.

- Zee reported 2QFY11 EPS at Rs2.6/share (-1% yoy, +1% yoy). As discussed previously, even comparison of EPS across time periods is not possible due to remaining 45-50% stake in Ten Sports in 4QFY10-1QFY11 that Zee did not hold previously.

- However, Zee will have to bear the double impact of (1) opportunity loss of interest income on account of payments made for acquisition of Ten Sports and (2) losses in the sports business till it turns around and start contributing positively. We believe Zee is on the right track with the launch of Ten Cricket and re-branding of Ten Action though a sustainable turnaround may still be 12-18 months away. In the meantime, overall financials will likely remain under pressure (see Exhibit 3).

Key financials of ZEEL, consolidated and standalone (Rs mn)

	ZEEL consolidated			ZEEL standalone			ZEEL "rest"		
	2QFY11	1QFY11	2QFY10	2QFY11	1QFY11	2QFY10	2QFY11	1QFY11	2QFY10
Revenues	**7,116**	**6,770**	**5,405**	**5,010**	**4,527**	**2,799**	**2,106**	**2,243**	**2,605**
EBITDA	1,885	1,870	1,508	2,265	1,989	1,312	(380)	(119)	195
EBITDA margin (%)	**26.5**	**27.6**	**27.9**	**45.2**	**43.9**	**46.9**	**(18.0)**	**(5.3)**	**7.5**
Pre-tax profits	2,064	1,884	1,639	2,348	2,098	1,499	(284)	(214)	139
Tax provision	(801)	(673)	(529)	(772)	(712)	(474)	(29)	39	(55)
Adjusted net income	**1,263**	**1,210**	**1,110**	**1,576**	**1,386**	**1,025**	**(313)**	**(175)**	**85**
Tax rate (%)	**38.8**	**35.7**	**32.3**	**32.9**	**33.9**	**31.6**	**(10.2)**	**18.1**	**39.3**

Note:
(a) ZEEL "rest" primarily comprises of sports and overseas operations.

Source: Company data, Kotak Institutional Equities

Analysis of Zee financial performance for FY2011E (Rs bn)

	1HFY11		
	Core	Sports	Consol
Revenues	11,864	2,022	13,886
EBITDA	**4,652**	**(896)**	**3,756**
Margin (%)	***39***	***(44)***	***27***

	ZEEL			
	1HFY11	FY2011E	2HFY11	Comments
Revenues	13,886	28,242	14,356	Strong cricket calendar, weak ratings in 2HFY11
EBITDA	**3,756**	**7,939**	**4,183**	
Margin (%)	***27***	***28***	***29***	Sports business needs to turn around
EPS	**5.2**	**11.1**	**5.9**	Posible under favorable circumstances

Source: Company data, Kotak Institutional Equities

Too many challenges for Zee in the near term

We have reduced our FY2011E and FY2012E earnings estimates for Zee to Rs11.3 (Rs12.3 previously) and Rs14.2 (Rs15.3 previously) on account of 2QFY11 results. We are back to square one with our 12-month DCF-based valuation revised to Rs270 (Rs300 previously). We discuss the key drivers behind our earnings and valuations drivers.

- We have reduced our FY2011E and FY2012E advertising revenues to Rs15.5 bn (Rs15.7 bn previously) and Rs18.1 bn (Rs18.6 bn). Besides the decline in ratings of flagship channel Zee TV (see Exhibits 4-9), which will likely have limited near-term impact given GRP-neutral long-term contracts (6-12 months) with large advertisers, the cricket calendar will also hurt in 4QFY11 (ICC ODI WC) and 1QFY12 (IPL Season 4).

- We have increased our FY2011E and FY2012E estimates of the EBITDA losses from the sports business to Rs1.1 bn and Rs624 mn. As discussed previously (also see our note "*Ten Cricket: Smart move but sports business turnaround could take a while*" dated August 20, 2010), Zee has made all the right moves with its sports business but the impact will be visible only over the long term.

- As discussed previously, we believe the core business margins of Zee (~39% in 1HFY11) are high (versus historic average), also on account of continued benefits of cost rationalization during the downturn. Zee has rightly renewed its investments in content (programs, movies) for the long term; this would likely help achieve steady-state ratings of ~250 GRPs in flagship Zee TV channel and support the network (Zee Cinema movie channel) with steady-state ~35% margins.

In our view, Zee faces too many challenges in the near term and valuations (implied) continue to remain full at 20X FY2012E revised EPS estimates, leaving little room for upside (potential downside on account of risks/valuations). We like some of the measures Zee has taken for the long-term turnaround of its underperforming sports business as well as content investments (will likely provide more stability to its ratings as well). However, we believe we have built enough slack in our financials with 23% EPS CAGR over FY2011E-13E, assuming a pick-up in ratings and turnaround in sports.

As clearly visible from the 2QFY11 results, the pressure points remain. We also remain wary of long-term risks (potential success of new entrants/channels); our discussion with players in the market reveals that most large channel launches are on hold (IBN18 movie channel) in anticipation of the cricket calendar in 4QFY10-1QFY12 given the significant commonality in target audiences; the competitive dynamics can potentially change for the worse post-1QFY12E and we await better entry points into Zee stock building in some margin of safety. We retain our REDUCE rating for the time being.

Quarterly trends in HSM GRPs for Hindi GE channels

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Colors	**—**	**—**	**—**	**122**	**219**	**267**	**259**	**287**	**322**	**312**	**275**	**286**	**262**
Imagine TV	—	67	81	84	69	69	93	115	106	108	98	83	84
SAB TV	30	30	31	30	39	48	53	67	73	84	84	111	109
Sony TV	100	87	87	103	92	87	83	126	173	153	154	182	211
Star One	59	67	70	84	78	65	58	51	48	42	45	55	41
Star Plus	**351**	**323**	**331**	**314**	**250**	**300**	**259**	**277**	**256**	**294**	**337**	**358**	**370**
Zee TV	**279**	**273**	**222**	**219**	**178**	**206**	**229**	**256**	**250**	**264**	**255**	**240**	**194**

Source: TAM Media Research, Kotak Institutional Equities

Quarterly trends in HSM GRPs for Hindi Cinema channels

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
FILMY	41	35	43	44	28	21	22	26	28	27	25	25	23
SET MAX (a)	**144**	**136**	**315**	**153**	**151**	**174**	**282**	**147**	**141**	**184**	**208**	**134**	**122**
Star Gold	**100**	**99**	**103**	**104**	**97**	**96**	**90**	**101**	**97**	**99**	**100**	**112**	**96**
UTV Action	12	14	14	16	18	13	11	15	19	32	34	32	30
UTV Movies	—	6	24	31	34	32	29	40	45	43	37	45	39
Zee Cinema	**138**	**137**	**155**	**149**	**156**	**158**	**161**	**151**	**133**	**123**	**114**	**131**	**123**

Notes:
(a) Includes IPL ratings in 1QFY09 for Season 1, in 1QFY10 for Season 2 and 4QFY10-1QFY11 for Season 3.

Source: TAM Media Research, Kotak Institutional Equities

Quarterly trends in Maharashtra GRPs for Marathi channels

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
ETV Marathi	162	150	143	167	154	171	155	153	132	111	107	161	156
Mi Marathi	36	48	38	37	21	21	21	23	23	33	32	39	37
Star Pravah	—	—	—	—	25	59	74	112	122	123	102	103	105
Zee Marathi	**263**	**300**	**278**	**313**	**293**	**290**	**244**	**244**	**240**	**236**	**201**	**228**	**202**
Zee Talkies	**72**	**61**	**59**	**76**	**70**	**73**	**72**	**80**	**73**	**62**	**52**	**61**	**52**

Source: TAM Media Research, Kotak Institutional Equities

Quarterly trends in West Bengal GRPs for Bengali channels

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Akash Bangla	111	106	80	87	72	102	92	89	80	57	49	61	48
Sony Aath	4	42	58	61	51	49	28	37	49	73	64	56	49
ETV Bangla	331	327	306	352	320	292	257	223	220	207	145	174	187
Star Jalsha	—	—	—	27	173	247	326	457	559	486	454	436	423
Zee Bangla	**363**	**435**	**356**	**335**	**314**	**367**	**275**	**312**	**272**	**217**	**183**	**263**	**367**

Source: TAM Media Research, Kotak Institutional Equities

Quarterly trends in Andhra Pradesh GRPs for Telugu channels

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Eenadu TV	460	473	427	353	357	356	364	349	396	392	341	353	384
Gemini TV	832	776	768	725	769	726	687	696	674	711	729	799	864
Maa Telugu	385	385	433	366	371	343	379	425	422	411	361	343	368
Teja TV	465	446	437	396	390	376	381	343	386	369	370	386	333
Zee Telugu	**215**	**293**	**275**	**295**	**355**	**350**	**375**	**364**	**390**	**375**	**323**	**311**	**359**

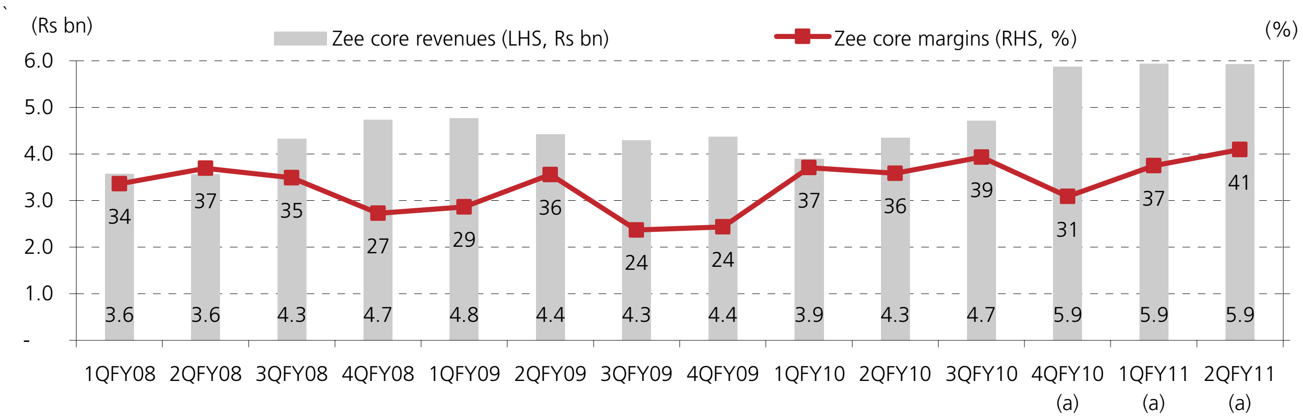
Source: TAM Media Research, Kotak Institutional Equities

Quarterly trends in Karnataka GRPs for Kannada channels

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
ETV Kannada	328	309	291	264	265	257	249	252	226	223	188	214	208
Kasturi	110	120	116	186	149	131	100	101	95	106	82	93	120
Suvarna	93	106	90	121	129	145	173	277	235	207	220	291	307
Udaya Movies	361	329	303	302	349	361	327	295	267	217	250	239	226
Udaya TV	798	673	640	628	606	594	558	537	490	466	486	535	530
Zee Kannada	**83**	**141**	**219**	**237**	**240**	**205**	**165**	**221**	**187**	**178**	**171**	**157**	**166**

Source: TAM Media Research, Kotak Institutional Equities

ZEEL's quarterly revenues and Core (excl. Sports) operating margins



Note:
(a) 4QFY10-2QFY11 include ZEEN regional channels and thus, revenues are not comparable with previous quarters.

Source: Company data, Kotak Institutional Equities

Details of the sports calendar, March fiscal year-end, 2011

Tournament	Type	Time period
IPL T20 Season 3	Cricket	Mar-Apr 2010
ICC T20 World Cup 2010	**Cricket**	**May 2010**
India's tour of Zimbabwe	Cricket	May-Jun 2010
Asia Cup 2010	Cricket	Jun 2010
FIFA World Cup	**Soccer**	**Jun-Jul 2010**
India's tour of Sri Lanka	Cricket	Jul-Aug 2010
Commonwealth Games 2010	**Various**	**Oct 2010**
Australia's tour of India	Cricket	Oct 2010
New Zealand's tour of India	Cricket	Nov-Dec 2010
India's tour of South Africa	Cricket	Dec-Jan 2011
ICC ODI World Cup 2011	**Cricket**	**Feb-Mar 2011**
IPL T20 Season 4	Cricket	Apr-May 2011

Source: Industry data, Kotak Institutional Equities estimates

Advertising revenues generated by IPL across its various seasons

	1QFY09	1QFY10	1QFY11	1QFY12E	Comments
Advertising revenues (Rs bn)	**2.5**	**5.0**	**7.0**	**8.0**	
Increase in advertising revenues (%)		**100.0**	**40.0**	**14.3**	
Number of matches (#)	59	59	60	60	
Inventory per match (secs)	2,000	2,400	2,400	2,400	Increase due to extra breaks in Season 2 (FY2010E)
Total inventory ('000 secs)	118	142	144	144	
Pre-sold inventory (%)	90	85	85	85	IPL was an unknown property in Season 1 (FY2009)
Spot inventory (%)	10	15	15	15	
Spot inventory premium	4	3	3	3	IPL was an unknown property in Season 1 (FY2009)
Pre-sold rate (Rs mn/1,000 sec)	**16.3**	**27.2**	**37.4**	**42.7**	
Increase in average rate (%)		**66.7**	**37.7**	**14.3**	

Source: Industry data, Kotak Institutional Equities estimates

Estimated consolidated financials of ZEEL + ZEEN R-GECs, March fiscal year-ends, 2009-20E (Rs mn)

	Actuals		KIE estimates									
	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
ZEEL + ZEEN R-GECs												
Total revenues	21,773	21,998	28,242	32,303	36,430	40,481	44,820	49,809	54,931	60,459	66,585	73,362
--Advertising revenues	10,593	10,670	15,534	18,092	20,645	23,319	26,212	29,720	33,576	37,805	42,574	47,961
--Subscription revenues	9,038	9,869	11,263	12,623	14,117	15,412	16,770	18,160	19,330	20,528	21,779	23,059
Operating income	**5,480**	**6,135**	**7,939**	**10,206**	**12,260**	**13,761**	**15,241**	**17,531**	**19,517**	**21,852**	**24,325**	**27,110**
Margin (%)	***25.2***	***27.9***	***28.1***	***31.6***	***33.7***	***34.0***	***34.0***	***35.2***	***35.5***	***36.1***	***36.5***	***37.0***
--Other income	1,572	1,220	931	971	1,095	1,139	1,163	1,101	1,116	1,134	1,162	1,209
--Interest expense	(889)	(331)	(147)	(147)	(147)	(147)	(147)	(147)	(147)	(147)	(147)	(147)
--Depreciation	(310)	(285)	(384)	(424)	(464)	(453)	(451)	(437)	(431)	(368)	(397)	(427)
Profit before tax	**5,853**	**6,738**	**8,340**	**10,606**	**12,743**	**14,300**	**15,806**	**18,048**	**20,056**	**22,471**	**24,943**	**27,745**
--Tax expense	(1,633)	(2,210)	(2,751)	(3,601)	(4,326)	(4,848)	(5,353)	(6,090)	(6,759)	(7,527)	(8,367)	(9,302)
--Minority interest	(98)	195	(51)	(60)	(68)	(74)	(79)	(84)	(87)	(88)	(89)	(89)
--Extraordinary items	949	1,637	1,491	—	—	—	—	—	—	—	—	—
Net income	**5,072**	**6,361**	**7,028**	**6,945**	**8,349**	**9,378**	**10,374**	**11,873**	**13,210**	**14,855**	**16,487**	**18,354**
Adj. net income	**4,123**	**4,724**	**5,538**	**6,945**	**8,349**	**9,378**	**10,374**	**11,873**	**13,210**	**14,855**	**16,487**	**18,354**
Adj. EPS (Rs)	**9.5**	**10.5**	**11.3**	**14.2**	**17.1**	**19.2**	**21.2**	**24.3**	**27.0**	**30.4**	**33.7**	**37.5**
Change (%)			***4.9***	***5.0***	***6.8***	***8.2***	***9.7***	***10.7***	***11.2***	***10.7***	***10.3***	***9.9***
P/E (X)			**24.7**	**19.7**	**16.4**	**14.6**	**13.2**	**11.5**	**10.4**	**9.2**	**8.3**	**7.5**
EV/EBITDA (X)			**16.1**	**12.5**	**10.4**	**9.3**	**8.4**	**7.3**	**6.6**	**5.9**	**5.3**	**4.7**
ZEEL												
Total revenues	21,773	20,902	23,428	26,598	29,629	32,697	35,933	39,781	43,751	48,130	52,970	58,334
--Advertising revenues	10,593		11,374	13,185	14,912	16,724	18,628	21,220	24,050	27,265	30,913	35,059
--Subscription revenues	9,038		10,609	11,824	13,049	14,223	15,468	16,631	17,675	18,739	19,825	20,933
Operating income	**5,480**	**5,845**	**6,522**	**8,440**	**9,980**	**11,064**	**12,099**	**13,833**	**15,345**	**17,282**	**19,332**	**21,650**
Margin (%)	***25.2***	***28.0***	***27.8***	***31.7***	***33.7***	***33.8***	***33.7***	***34.8***	***35.1***	***35.9***	***36.5***	***37.1***
EPS (Rs)	**9.5**		**10.8**	**13.5**	**16.0**	**17.7**	**19.3**	**21.9**	**24.3**	**27.4**	**30.6**	**34.1**
ZEEN R-GECs												
Total revenues	3,403	4,043	4,814	5,706	6,801	7,784	8,886	10,029	11,180	12,329	13,615	15,028
--Advertising revenues			4,160	4,907	5,733	6,595	7,584	8,500	9,526	10,539	11,661	12,901
--Subscription revenues			654	799	1,068	1,189	1,302	1,529	1,655	1,789	1,954	2,127
Operating income	**797**	**1,261**	**1,417**	**1,766**	**2,280**	**2,697**	**3,142**	**3,698**	**4,172**	**4,570**	**4,993**	**5,460**
Margin (%)	***23.4***	***31.2***	***29.4***	***31.0***	***33.5***	***34.7***	***35.4***	***36.9***	***37.3***	***37.1***	***36.7***	***36.3***
(ZEEL + ZEEN R-GECs) number of shares calculation												
Number of ZEEL shares (mn)	435											
New ZEEL shares issued (mn)	54		In the ratio of 4 ZEEL shares for every 19 ZEEN shares, among others									
Number of ZEEL shares (mn)	**489**											

Source: Company data, Kotak Institutional Equities estimates

kotak Institutional Equities

Tata Chemicals (TTCH)

Others

REDUCE

OCTOBER 29, 2010

RESULT

Coverage view:

Price (Rs): 390

Target price (Rs): 370

BSE-30: 20,032

Dismal results validate our concerns of urea shortfall - highlighted post 1QFY11 results. TCL reported sales 13% higher than our est. due to (1) higher trading fertilizer sales while (2) urea and India soda ash sales were lower than our est. PAT at Rs1.3 bn missed our est. of Rs2 bn due to poor margin at 14% vs our est. of 19.5% resulting from (1) lag in passing on energy cost increase in soda ash across all geographies, (2) lower urea volume and (3) one-time costs. We lower FY2011-12E PAT by 20%-9%. We see a strong downside risk to our FY2011E earnings in case there is shortfall in urea production in 4QFY11E. Maintain REDUCE with PT of Rs370.

Company data and valuation summary

Tata Chemicals

Stock data			
52-week range (Rs) (high,low)			447-249
Market Cap. (Rs bn)			95.0
Shareholding pattern (%)			
Promoters			28.1
FIIs			12.8
MFs			8.9
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(2.3)	21.2	55.6
Rel. to BSE-30	(2.7)	8.9	24.7

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	26.4	27.6	35.6
EPS growth (%)	(27.1)	4.5	29.0
P/E (X)	14.8	14.1	11.0
Sales (Rs bn)	94.5	112.6	122.6
Net profits (Rs bn)	6.4	6.7	8.7
EBITDA (Rs bn)	18.1	19.6	23.8
EV/EBITDA (X)	7.4	6.4	4.9
ROE (%)	16.0	17.3	19.4
Div. Yield (%)	2.3	2.4	2.4

QUICK NUMBERS

- PAT at Rs1.3 bn missed our est. of Rs2 bn due to poor margin at 14% , lowest in last six quarters
- Downside risk to FY2011E earnings remains due to any shortfall in urea production of 1.2 mtpa

2QFY11 sales at Rs30 bn, 13% above our estimate due to higher fertilizer trading sales

Overall sales at Rs30 bn was 13% above estimates due to higher fertilizer sales on account of higher trading sales. However, (1) urea sales volumes were lower than our expectations in what is seasonally a strong quarter for fertilizers on account of shutdown of Babrala plant for a month (greater then the 15-day shutdown outlined earlier) in order to bring the ammonia converter back into action and (2) lower chemical sales in India on account of (1) poor soda ash sales volumes at .15 mt (lowest in last 3 years) due to flooding at Mithapur plant and (2) lower soda ash realizations. Phosphatics, GCIP and BMGL sales volumes were in line with our expectations.

PAT at Rs1.3 bn missed our est. of Rs2 bn due to poor margin at 14% vs our est. of 19.5%

PAT missed our estimate primarily on account of poor EBITDA margin at 14% vs our est. of 19.5%. Margin declined in both soda ash and fertilizers due to (1) lag in passing on energy cost increases in soda ash across all geographies, (2) adverse product mix in fertilizer with lower urea sales and higher trading volumes, (3) cost pressure on phosphatics due to increase in phos. acid prices and (4) one-time costs. This resulted in (1) higher material cost at 45%, up 800 bps yoy and (2) other expenses were higher at Rs3.2 bn, 30% higher than our est. on account of one-time costs of (1) MTM forex loss, (2) promotional expenses and (3) maintenance expenses at Babrala.

We lower FY2011-12E PAT by 16%-7%. We expect EPS of Rs28 in FY2011E and Rs36 in FY2012E

Our FY2011-12E estimates include the impact of new businesses of (1) specialty fertilizers, (2) expanded salt capacity, (3) Swach, (4) debottlenecked capacity of 100,000 tons at GCIP and (5) increase in soda ash prices taken in 3Q-4QFY11E to counteract energy cost increases. However, we believe downside risk to our FY2011E earnings remains in case there is shortfall in annual urea production of 1.2 mtpa. TCL reported urea sales volume of .5 mt in 1HFY11, down 20% yoy. To achieve peak annual production of 1.2 mtpa, volumes in 4QFY11E, which is seasonally a weak quarter, have to be strong at .354 mt, up 48% yoy.

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Maintain REDUCE with PT of Rs370; downside risk to FY2011E earnings remains

We maintain REDUCE with PT of Rs370 as (1) stock is fully valued with limited upside, and (2) downside risk to FY2011E earnings remains in case there is shortfall in annual urea production of 1.2 mtpa.

We value TCL at (1) 9X FY2012E (5-year avg. multiple) EPS of Rs37 and (2) investment value/share of Rs47. While we estimate share of fertilizer/consumer segment sales increasing to 60% in FY2012E from 50% in FY2010, we estimate chemical segment to still account for 55% of consol. EBIT in FY2012E, and therefore continue to value TCL at its 5-year average multiple.

We also see two issues emerging which may impact TCL's soda ash business over the near term.

- **Pricing risk in BMGL UK** which is competing with cheaper (natural soda ash) imports from Turkey. We believe this risk may intensify once Eti Soda doubles capacity to 2 mtpa by 2012E. Turkish soda ash variable production cost is US$50-60/ton versus US$165/ton in India and US$160/ton in China.

- **Inability to pass on cost increases in India due to persistent threat of Chinese soda ash imports.** While TCL holds the largest market share of 32% in the Indian soda ash market with annual capacity of 1 mtpa, we believe its inability to pass on full cost increase due to influx of cheaper Chinese imports may continue to impact margin in the near term. This is despite the re-imposition of safeguard duty of 16% in April 2011E. We also notice a slowdown in soda ash demand in India with demand growing yoy at 4% in 1HFY11 versus 12% in FY2010.

Our concern of urea shortfall highlighted post 1QFY11 results comes true

Excerpts from 1QFY11 results note in August 2010

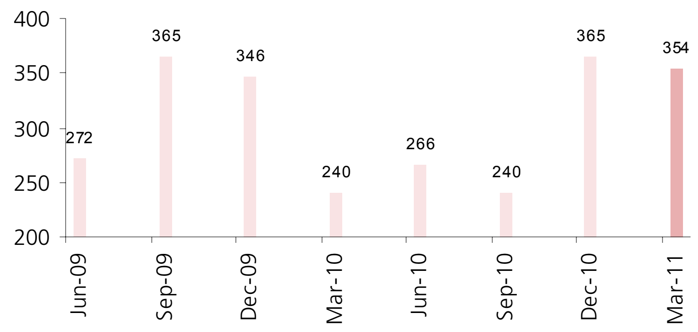
"We downgrade to REDUCE as (1) stock is fully valued with limited upside, (2) downside risk to FY2011-12E earnings due to (1) pricing risk in BMGL UK which is competing with cheaper (natural soda ash) imports. This risk may intensify once Eti Soda doubles capacity to 2 mtpa by 2012E and (2) shortfall in urea production due to greater-than-15-day planned shutdown in 2QFY11E."

Our concern of urea shortfall highlighted post 1QFY11 results (see excerpts above) comes true impacting 2QFY11 results. As urea is the main contributor to EBITDA in fertilizer segment, any shortfall in urea production has a disproportionate effect on consol. earnings.

We believe strong downside risk to our FY2011E earnings remains due to any shortfall in annual urea production of 1.2 mtpa.

TCL reported urea sales volume of .5 mt in 1HFY11, down 20% yoy. To achieve peak annual production of 1.2 mtpa, volumes in 4QFY11E, which is seasonally a weak quarter, have to be strong at .354 mt, up 48% yoy (see below).

Quarterly urea sales volume, FY2010-11E ('000 tons)



Source: Kotak Institutional Equities estimates, Company

Operating margin at 14%; lowest in last six quarters

Operating margin at 14% was lower than our est. of 19.5%

- PBIT margin in fertilizers business dip. Operating margin in fertilizers dipped qoq to 5% due to (1) adverse product mix in fertilizer with lower urea sales and higher trading volumes, (2) cost pressure on phosphatics due to increase in phos. acid prices and
  (3) one-time costs such as (1) MTM forex loss and (2) maintenance expenses at Babrala. TCL expects cost pressures due to rising phos. acid prices to continue to impact margin in phosphatics in the near term.

- PBIT margins in the chemicals business was 14%, down 400 bps qoq due to lag in passing on energy cost increase in soda ash across all geographies. TCL expects to take price increases of US$10 GBP in BMGL and US$20-30 in GCIP and Magadi starting Jan 2011E. In India it has taken a price increase of Rs500/ton effective 3QFY11E, lower than the cost increase of Rs800/ton due to threat of Chinese imports.

PAT at Rs1.3 bn missed our est. of Rs2 bn

While sales were 13% higher than our est., EBITDA was 20% lower than our estimate. PAT was 36% lower than our estimate due to (1) higher minority interest and (2) higher interest cost. Consolidated debt as of Sep '10 stood at Rs46 bn. TCL repaid Rs3.6 bn in 1HFY11 while it raised fresh debt of Rs450 mn. Net debt was Rs32 bn as of Sep '10 versus Rs38 bn as of Mar '10. Depreciation and tax rate were in line with our estimates.

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

	2QFY11	2QFY11E	2QFY10	1QFY11	% change 2QFY11E	2QFY10	1QFY11
Net sales	**29,909**	**26,407**	**22,418**	**25,207**	**13**	**33**	**19**
Op. costs	25,728	21,184	18,384	20,030	21	40	28
EBITDA	**4,182**	**5,222**	**4,033**	**5,177**	**(20)**	**4**	**(19)**
Interest(net)	988	850	1,015	889	16	(3)	11
Depreciation	1,095	1,150	1,066	1,091	(5)	3	0
Other income	401	23	91	21	1630	342	1811
PBT	**2,500**	**3,246**	**2,043**	**3,218**	**(23)**	**22**	**(22)**
Tax	655	909	455	673	(28)	44	(3)
PAT	**1,845**	**2,337**	**1,588**	**2,545**	**(21)**	**16**	**(27)**
Minority interest	575	350	237	385	64	142	49
PAT	**1,271**	**1,987**	**1,351**	**2,160**	**(36)**	**(6)**	**(41)**
Exceptionals	—	—	877	—	NM	NM	NM
Reported PAT	**1,271**	**1,987**	**2,228**	**2,160**	**(36)**	**(43)**	**(41)**
Fertilizer business	**16,664**	**12,500**	**8,485**	**12,204**	**33**	**96**	**37**
India	15,324	11,300	7,485	11,014	36	105	39
IMACID	1,340	1,200	1,000	1,190	12	34	13
Chemical business	**13,157**	**13,817**	**13,974**	**12,993**	**(5)**	**(6)**	**1**
Brunner Mond Grc	4,260	4,183	4,790	3,710	2	(11)	15
GCIP (USA)	4,520	4,462	4,660	4,390	1	(3)	3
India	4,377	5,173	4,524	4,893	(15)	(3)	(11)
Others	**166**	**90**	**—**	**85**	85	NM	96
Adjustments	78		41	—	NM	90	NM
Total	**29,909**	**26,407**	**22,418**	**25,282**	**13**	**33**	**18**

Source: Kotak Institutional Equities estimates, Company

Takeaways from analysts meet

Fertilizers

- Customized fertilizer of 0.13 mtpa set up at a cost of Rs500-600 mn is commissioned in Oct '10. TCL will target 5 crops initially for upcoming Kharif season from this plant. Location of second plant is under consideration.

- Post implementation of NBS, and increasing demand being witnessed for NPKs, TCL is considering debottlenecking DAP capacity by 0.3 mtpa at a cost of Rs3 bn. This is still under consideration.

- TCL will take the decision on whether to go ahead with Urea greenfield investment at Babrala in November 2010. If this project is not undertaken, then it may consider debottlenecking urea capacity by 0.1 mtpa.

- TCL expects the Govt. to announce revision to urea policy shortly. It believes the Govt. will move eventually towards decontrolling urea and sees no resistance at farmer level to pay higher prices. According to TCL, revision to cap-collar rates for urea pricing is being discussed by the Govt.

- TCL expects margin pressure in phosphatics to continue on the back of hardening of phos. acid prices and has maintained that the company will remain measured in increasing DAP prices to counteract this pressure. However, it expects IMACID to post higher sales realizations on account of increasing phos. acid.

- Plans to manufacture potash are at a very early stage.

Chemical

- TCL plans to debottleneck soda ash capacity at GCIP by 0.1 mtpa by FY2012E. All plants are running at full capacity.
- There was a shortfall at Mithapur plant due to floods and brief flooding at Babrala which led to plant shutdown for 3 days.
- Cost-cutting measures to improve operating performance at Magadi continue at nominal investment of US$5 mn, this is expected to yield from improvement in profitability in 2011E.

TCL—abridged profit model, balance sheet, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Profit model						
Net revenues	**57,538**	**59,757**	**126,520**	**94,485**	**112,602**	**122,561**
EBITDA	**9,438**	**9,277**	**18,811**	**17,421**	**18,824**	**22,182**
EBITDA margin (%)	16.4	15.5	14.9	18.4	16.7	18.1
Other income	1,726	6,909	883	681	822	1,600
Depreciation	2,739	3,138	4,226	4,468	4,485	4,800
Net finance cost	944	1,289	3,953	3,932	3,477	3,100
PBT	**7,481**	**11,759**	**11,515**	**9,703**	**11,684**	**15,882**
Tax	2,401	2,115	1,575	2,093	3,004	4,765
(Profit)/loss in minority interest	—	—	(1,117)	(1,177)	(1,960)	(2,450)
Restructuring costs			(2,342)	(374)		
Reported net profit	**5,080**	**9,644**	**6,481**	**6,059**	**6,720**	**8,668**
Balance sheet						
Total equity	25,718	37,185	47,698	47,164	53,139	61,553
Total debt	18,642	48,505	62,838	49,937	44,572	39,110
Minority interests	—	—	1,522	3,501	5,460	7,910
Net Deferred tax liabilities	2,511	2,837	216	182	182	182
Total liabiilities and equity	**46,871**	**88,526**	**112,273**	**100,784**	**103,353**	**108,754**
Net fixed assets incl CWIP	30,561	33,712	39,959	38,389	36,903	34,103
Goodwill on consolidation	7,632	46,492	56,213	53,247	53,247	53,247
Investments	7,753	4,174	4,229	5,577	5,577	5,577
Net current assets	(619)	(2,620)	1,975	(8,017)	(7,373)	(6,173)
Cash	1,545	6,767	9,899	11,589	15,000	22,000
Total assets	**46,871**	**88,526**	**112,273**	**100,784**	**103,353**	**108,754**
Ratios						
Diluted EPS (Rs)	20.9	39.6	36.3	26.4	27.6	35.6
ROE (%)	21.2	30.7	23.4	16.0	17.3	19.4
Debt/equity (%)	72.5	130.4	131.7	105.9	83.9	63.5

Source: Kotak Institutional Equities estimates, Company

kotak Institutional Equities

Indian Overseas Bank (IOB)

Banks/Financial Institutions

BUY

OCTOBER 29, 2010

RESULT

Coverage view: Attractive

Price (Rs): 160

Target price (Rs): 200

BSE-30: 20,032

NPLs decline despite high slippage; loan growth improving. IOB reported mixed performance for 2QFY11 – slippages were high, but strong recoveries/ upgradation resulted in NPLs declining. Loan growth has also started to pick up and is marginally ahead of industry average YTD. We continue to remain positive and expect the traction of recoveries to get strong, while slippages are expected to come down going forward. Valuations at 1XFY2012E PBR remain very attractive, despite the recent upmove. Maintain BUY with TP ₹200 (from ₹160 earlier) valuing the bank at 1.3X FY2012E PBR.

Company data and valuation summary

Indian Overseas Bank

Stock data			
52-week range (Rs) (high,low)			173-81
Market Cap. (Rs bn)			87.1
Shareholding pattern (%)			
Promoters			61.2
FIIs			6.0
MFs			0.6
Price performance (%)	1M	3M	12M
Absolute	17.3	39.5	58.1
Rel. to BSE-30	19.7	24.4	25.4

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	13.0	16.8	24.1
EPS growth (%)	(46.7)	29.8	43.2
P/E (X)	12.3	9.5	6.6
NII (Rs bn)	31.7	38.4	44.6
Net profits (Rs bn)	7.1	9.2	13.1
BVPS	116.5	131.0	152.3
P/B (X)	1.4	1.2	1.0
ROE (%)	9.6	11.6	15.0
Div. Yield (%)	2.2	2.4	2.7

Gross NPLs decline 7% qoq but higher write-offs/upgradations mask 3.7% slippage in 2QFY11

While the quarter was expected to see higher slippages compared to 1QFY11 given that agri NPLs were yet to be classified as NPLs, the higher slippages of 3.7% (₹7.6 bn) come as a bit of disappointment. Nearly 20% of the slippages were from agri NPL (₹1.7 bn) and about a third from restructured portfolio. However, higher recoveries/upgradations of ₹5.1 bn compared to ₹3.9 bn reported in June 2010 offers comfort that the improvement in loan portfolio is underway. Gross NPLs were ₹33.3 bn (3.8%, declining 7% qoq) as of September 2010 while net NPLs declined by 2% qoq to ₹17.6 bn. Write-offs of ₹5 bn (2.4% of loans) provided cushion on reported gross NPLs. Loan loss provisions remained high at 1.3% of loans providing for fresh slippages (mainly agri) and increasing provision coverage ratio (including write-off) to 60% (58% in June 2010).

Sequential growth in loans ahead of industry average - a key positive

On a yoy basis, advances growth at 12% and deposits growth at 8% appears fairly low but IOB is clearly showing better trends on YTD basis at 9% in deposits and 7% in loans. We expect the bank to grow in line with the industry in FY2011E. CASA ratio has remained flat at 33% with savings deposits growth at over 22% yoy. CD ratio for the quarter was flat at about 75% compared to 76% in June 2010.

Margins increases to 3% with a positive bias going forward

Net interest income (NII) in 2QFY11 increased by 22% yoy (6% qoq) to ₹9.6 bn, resulting in NIMs expanding by another 8 bps qoq to 3%, despite lending yields showing a marginal decline, which we presume is due to higher slippages reported in the current quarter. However, with better re-pricing of advances and lower slippages, we see further headroom to improve NIMs from current levels.

QUICK NUMBERS

- NII grew by 22% while net profit grew by 17% yoy; NIM reach 3%
- Gross NPL decline 7%; slippages at 3.7%
- Increase TP to ₹200 (from ₹160 earlier)

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Other operational highlights of the quarter

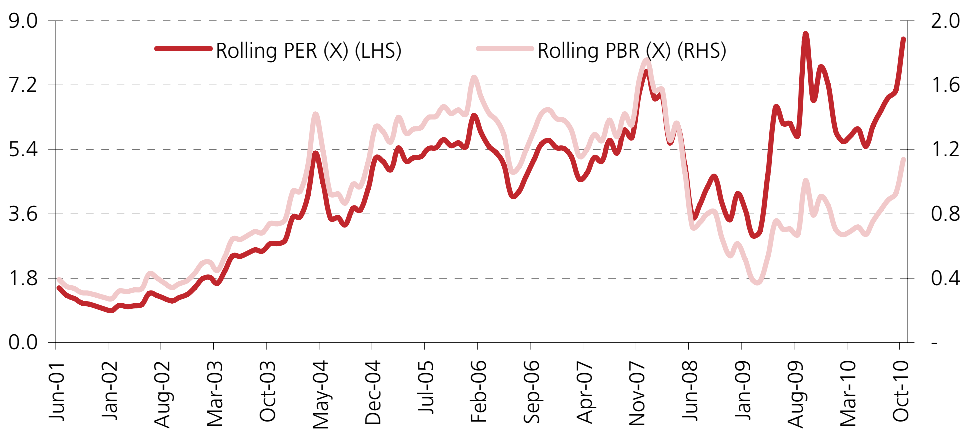
- Cost-income ratio declined to 50% compared to 59% in the previous quarter. The bank is yet to estimate the full impact of the pension liability but has made limited provisions for gratuity during the quarter.
- Tier-1 capital is at 7.7% with overall capital adequacy ratio at 13.2%. As of March 2010, the bank utilized nearly 11% of the permissible IPDI limits leaving little headroom to raise debt capital for the year.
- Non-interest income growth was subdued due to lower treasury income but core fee income growth was at 14% yoy.

We broadly maintained our earnings estimates tweaking our NIM and loan loss provisions
Old and new estimates, March fiscal year-ends, 2011-2013E (Rs mn)

	Old Estimates			New Estimates			% chg		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Net interest income	37,163	44,308	52,834	38,394	44,599	52,529	3.3	0.7	(0.6)
Advances	908,545	1,097,016	1,321,586	931,236	1,123,111	1,351,595	2.5	2.4	2.3
Spread (%)	2.6	2.7	2.7	2.7	2.7	2.7			
Loan loss provisions	9,342	10,028	10,884	8,606	9,758	10,517	(7.9)	(2.7)	(3.4)
Other income	11,064	12,573	14,316	10,753	12,560	14,860	(2.8)	(0.1)	3.8
Fee income	6,470	7,441	8,557	6,239	7,175	8,610	(3.6)	(3.6)	0.6
Treasury income	1,300	1,300	1,300	1,000	1,300	1,500			
Operating expenses	25,161	26,720	29,306	26,234	27,829	30,479	4.3	4.1	4.0
Employee expenses	16,863	17,202	18,543	17,956	18,317	19,745	6.5	6.5	6.5
Investment amortization	-	-	-	-	-	-			
PBT	13,024	19,333	25,959	13,107	18,772	25,392	0.6	(2.9)	(2.2)
Net profit	**9,117**	**13,533**	**18,172**	**9,175**	**13,141**	**17,774**	**0.6**	**(2.9)**	**(2.2)**
PBT-treasury +investment dep.	11,924	18,333	25,159	12,307	17,772	24,392	3.2	(3.1)	(3.0)
PBT- treasury + provisions	21,266	28,361	36,043	20,914	27,530	34,910	(1.7)	(2.9)	(3.1)

Source: Kotak Institutional Equities, Company

Indian Overseas Bank – Rolling PER and PBR
June 2001-October 2010 (X)



Source: Kotak Institutional Equities, Company

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

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	% chg	2QFY11E	Actual Vs KS
Interest income	25,500	25,701	25,478	26,675	28,002	10	27,972	0
Interest on advances	19,238	19,140	18,636	19,438	20,155	5	20,617	-2
Income from invts	5,839	6,064	6,233	6,677	7,189	23	6,795	6
Bal with RBI	423	498	609	559	658	56	559	18
Interest expenses	17,653	17,757	17,274	17,613	18,439	4	18,502	0
Net interest income	**7,846**	**7,944**	**8,204**	**9,063**	**9,563**	**22**	**9,469**	**1**
Non-interest income	3,724	2,585	2,820	2,149	2,745	-26	2,285	20
Treasury income	1,500	173	372	410	150	-90	342	-56
Other income (excluding treasury)	2,224	2,412	2,448	1,739	2,595	17	1,944	34
Total income	11,570	10,529	11,024	11,211	12,309	6	11,755	5
Operating expenses	6,024	6,468	6,468	6,572	6,152	2	6,842	-10
Employee	4,264	4,681	4,327	4,745	4,203	-1	4,819	-13
Others	1,760	1,788	2,141	1,828	1,948	11	2,024	-4
Operating profit	5,546	4,061	4,556	4,639	6,157	11	4,913	25
Provisions	2,042	2,187	4,598	1,590	3,051	49	1,722	77
Loan loss	1,320	2,325	4,726	1,540	2,736	107	1,694	62
Standard Assets	-	-	-	22	-	-	-	-
Invt amortization	-	-	-	-	-	-	-	-
Taxation	1,744	857	-1,317	1,045	1,044	-40	957	9
Net profit	**1,760**	**1,017**	**1,274**	**2,004**	**2,062**	**17**	**2,233**	**-8**
PBT-invt gains	2,004	1,701	-414	2,639	2,955	47	2,849	4
PBT- invt gains + NPL provisions	3,068	3,886	4,182	4,179	5,691	86	4,543	25
Key balance sheet items (Rs bn)								
Deposits	1,094	1,062	1,108	1,095	1,181	8		
CASA ratio	30.8	30.0	32.6	33.1	33.1			
Advances	784	794	808	830	881	12		
Investments	340	354	367	418	425	25		
Asset quality details								
Gross NPA (Rs bn)	26.8	32.2	36.1	35.7	33.3	24		
Gross NPLs (%)	3.4	4.1	4.5	4.3	3.8			
Net NPA (Rs bn)	12.2	16.9	19.9	17.9	17.6	44		
Net NPLs (%)	1.6	2.2	2.5	2.2	2.1			
Provision coverage (%)	54.4	47.5	44.8	49.7	46.9			
Provision coverage (w/o %)		53.3	54.0	58.0	60.0			
Slippages (Rs bn)	5.8	8.4	11.4	3.5	7.6			
Slippage ratio (%)	3.0	4.3	5.8	1.8	3.7			
Yield management measures (%)								
Yield on advances	10.04	10.00	9.40	9.70	9.64			
Yield on investments	8.86		6.83	7.05	6.95			
NIM	2.73	2.75	2.74	2.94	3.02			
Cost of deposits	6.24	6.10	5.81	5.64	5.76			
Capital adequacy details (%)								
CAR (%)	14.65	14.64	14.78	14.19	13.16			
Tier I	8.53	8.57	8.67	8.26	7.69			

Source: Kotak Institutional Equities, Company

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

	2008	2009	2010	2011E	2012E	2013E
Growth rates(%)						
Net loan	28.4	23.9	5.5	17.9	20.6	20.3
Total Asset	23.8	18.9	8.3	13.4	19.1	19.3
Deposits	22.7	18.7	10.7	16.8	20.6	20.3
Current	32.0	(9.6)	18.2	34.7	20.6	20.3
Savings	12.0	15.3	19.4	17.5	20.6	20.3
Fixed	25.3	24.4	7.0	14.3	20.6	20.3
Net interest income	5.3	17.1	10.4	21.2	16.2	17.8
Loan loss provisions	(11.9)	116.2	124.1	(7.0)	13.4	7.8
Total other income	20.0	47.5	(25.1)	(5.9)	16.8	18.3
Net fee income	20.7	26.7	(2.7)	8.0	15.0	20.0
Net capital gains	(19.4)	171.6	—	—	—	—
Net exchange gains	28.6	42.8	(19.3)	15.0	18.0	18.0
Operating expenses	7.0	30.7	27.0	6.4	6.1	9.5
Employee expenses	2.0	33.9	36.4	3.5	2.0	7.8
Key ratios (%)						
Yield on average earning assets	8.9	9.0	8.4	8.5	8.7	8.9
Yield on average loans	10.3	10.8	10.0	9.7	9.9	10.0
Yield on average investments	8.7	7.3	7.0	7.2	7.5	7.8
Average cost of funds	6.3	6.6	6.1	5.8	6.0	6.2
Interest on deposits	6.2	6.5	5.9	5.6	5.9	6.1
Difference	**2.7**	**2.4**	**2.3**	**2.7**	**2.7**	**2.7**
Net interest income/earning assets	3.0	2.7	2.6	2.9	2.9	2.8
New provisions/average net loans	0.4	0.6	1.2	1.0	1.0	0.9
Interest income/total income	72.1	65.3	73.5	78.1	78.0	77.9
Fee income to total income	12.6	13.5	13.4	12.7	12.6	12.8
Operating expenses/total income	40.0	44.2	57.2	53.4	48.7	45.2
Tax rate	27.3	32.2	27.8	30.0	30.0	30.0
Dividend payout ratio	17.0	21.6	27.0	22.9	17.6	14.3
Share of deposits						
Current	10.7	8.1	8.7	10.0	10.0	10.0
Fixed	66.5	69.7	67.5	66.0	66.0	66.0
Savings	22.8	22.1	23.9	24.0	24.0	24.0
Loans-to-deposit ratio	71.7	74.8	71.3	71.9	71.9	71.9
Equity/assets (EoY)	4.8	5.9	5.7	5.5	5.3	5.1
Dupont analysis (%)						
Net interest income	2.9	2.6	2.5	2.7	2.7	2.7
Loan loss provisions	0.2	0.4	0.7	0.6	0.6	0.5
Net other income	1.1	1.4	0.9	0.8	0.8	0.8
Operating expenses	1.6	1.9	2.0	1.9	1.7	1.6
Invt. depreciation	0.2	0.0	(0.1)	0.0	0.0	0.0
(1- tax rate)	72.7	67.8	72.2	70.0	70.0	70.0
ROA	1.3	1.2	0.6	0.7	0.8	0.9
Average assets/average equity	20.8	18.6	17.2	17.8	18.6	19.3
ROE	**27.2**	**22.1**	**9.6**	**11.6**	**15.0**	**17.6**

Source: Kotak Institutional Equities, Company

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

	2008	2009	2010	2011E	2012E	2013E
Total interest income	79,683	96,414	102,458	113,683	136,480	165,298
Loans	55,220	72,896	76,595	83,205	101,884	123,589
Investments	22,357	21,563	23,816	28,207	32,653	39,333
Cash and deposits	2,106	1,955	2,047	2,271	1,942	2,375
Total interest expense	52,888	67,718	70,779	75,289	91,880	112,769
Deposits from customers	47,822	59,558	62,718	67,810	84,188	104,820
Net interest income	26,795	28,696	31,679	38,394	44,599	52,529
Loan loss provisions	1,910	4,129	9,255	8,606	9,758	10,517
Net interest income (after prov.)	24,885	24,567	22,424	29,788	34,841	42,012
Othet income	10,355	15,273	11,433	10,753	12,560	14,860
Net fee income	4,687	5,938	5,777	6,239	7,175	8,610
Net capital gains	1,912	5,194	2,919	1,000	1,300	1,500
Net exchange gains	1,102	1,573	1,270	1,461	1,724	2,034
Operating expenses	14,853	19,417	24,665	26,234	27,829	30,479
Employee expenses	9,497	12,718	17,347	17,956	18,317	19,745
Depreciation on investments	2,295	—	—	—	—	—
Other Provisions	60	1,555	602	1,000	500	500
Pretax income	16,547	19,543	9,790	13,107	18,772	25,392
Tax provisions	4,524	6,285	2,720	3,932	5,632	7,618
Net Profit	**12,023**	**13,258**	**7,070**	**9,175**	**13,141**	**17,774**
% growth	19	10	(47)	30	43	35
PBT+provision-treasury gains	18,090	19,358	15,528	21,914	28,030	35,410
% growth	16	7	-20	41	28	26
Balance sheet						
Cash and bank balance	103,413	109,219	98,246	83,454	110,736	126,801
Cash	5,939	6,800	6,703	6,703	6,703	6,703
Balance with RBI	85,304	52,605	69,961	55,169	82,451	98,516
Balance with banks	7,644	29,909	9,001	9,001	9,001	9,001
Net value of investments	284,747	312,154	376,506	411,837	467,818	553,095
Govt. and other securities	247,691	264,556	320,528	356,916	412,898	498,174
Shares	5,127	3,216	4,074	4,074	4,074	4,074
Debentures and bonds	12,765	16,480	19,732	19,732	19,732	19,732
Net loans and advances	604,238	748,853	790,039	931,236	1,123,111	1,351,595
Fixed assets	5,586	17,099	16,996	23,325	23,069	22,833
Net leased assets	—	—	—	—	—	—
Net Owned assets	5,586	17,099	16,996	23,325	23,069	22,833
Other assets	20,613	23,409	29,177	36,366	45,326	56,494
Total assets	**1,018,597**	**1,210,734**	**1,310,964**	**1,486,218**	**1,770,060**	**2,110,817**
Deposits	843,256	1,001,159	1,107,950	1,294,608	1,561,353	1,878,992
Current	89,983	81,307	96,113	129,461	156,135	187,899
Fixed	561,166	698,288	747,325	854,441	1,030,493	1,240,135
Savings	192,107	221,564	264,509	310,706	374,725	450,958
Borrowings and bills payable	97,273	114,239	96,476	99,013	102,057	105,710
Other liabilities	29,502	23,827	31,292	10,274	13,494	17,722
Total liabilities	**970,031**	**1,139,224**	**1,235,718**	**1,403,895**	**1,676,904**	**2,002,424**
Total shareholders' equity	**48,567**	**71,510**	**75,246**	**82,323**	**93,157**	**108,393**

Source: Kotak Institutional Equities, Company

kotak® Institutional Equities

Suzlon Energy (SUEL)

Industrials

REDUCE

OCTOBER 31, 2010

RESULT

Coverage view: Attractive

Price (Rs): 55

Target price (Rs): 55

BSE-30: 20,032

India market gains traction; but high WCap and debt levels remain a concern.

Suzlon reported 2QFY11 sales of 361 MW versus our estimate of 400 MW primarily led by India sales. Indian market dominated the order inflows as well with only 50 MW of the reported inflows of 453 MW from international markets. Lower-than-expected reduction in working capital and debt levels in the wind business continues to remain a concern straining the cash flows of the company. Retain REDUCE.

Company data and valuation summary

Suzlon Energy

Stock data			
52-week range (Rs) (high,low)			96-43
Market Cap. (Rs bn)			88.4
Shareholding pattern (%)			
Promoters			53.1
FIIs			10.7
MFs			3.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	5.1	(1.6)	(22.3)
Rel. to BSE-30	4.7	(11.6)	(37.8)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	(6.2)	(0.8)	3.3
EPS growth (%)	(185.4)	(86.8)	(504.1)
P/E (X)	(9.0)	(68.3)	16.9
Sales (Rs bn)	206.2	188.0	224.4
Net profits (Rs bn)	(9.8)	(1.3)	5.2
EBITDA (Rs bn)	12.8	14.1	21.1
EV/EBITDA (X)	14.6	12.2	8.1
ROE (%)	(11.4)	(1.8)	6.9
Div. Yield (%)	0.0	0.4	0.4

Results broadly in line; international sales continue to remain weak

Suzlon reported sales of 361 MW versus our estimate of 400 MW sales, from 283 MW in 2QFY10. The company reported wind business revenues of Rs22 bn, recording a 17% yoy growth and about 9% below our estimate of Rs24 bn. Suzlon reported a small positive EBITDA of Rs50 mn. High interest costs and depreciation led to a net loss of Rs3 bn in the wind energy business - broadly inline with our estimates. Sales were led by the domestic segment - about 290 MW of the 361 MW sales was in the domestic market

Some traction seen in domestic market while US and Europe remain sedate

The domestic market also witnessed some pick-up in inflows. Of the total reported inflows of 453 MW in 2QFY11, about 400 MW was from India. The entire international inflow (of 50 MW) was also only from China with zero inflows from all other geographies. Indian market now contributes to a majority (45%) of the total order backlog of the company versus only 8% of the backlog at the end of 2QFY10.

Working capital and debt reduction remain below expectations

Working capital reduction of Rs1.3 bn since end-FY2010 is below expectations given the management's aim to reduce working capital by Rs10 bn in FY2011E (working capital has increased since end-1QFY11 levels). Furthermore, gross external debt has increased by Rs5.5 bn led by increase in working capital and capex related loans. The reduction in the total debt of Suzlon's wind business (by Rs6.2 bn) was primarily on account of conversion of promoter loans to preference shares to the tune of about Rs11.75 bn.

Retain estimates and target price of Rs55/share; reiterate REDUCE

We retain our estimates of a loss of Rs0.8 and profit of Rs3.3 for FY2011E. Reiterate REDUCE (target price Rs55) based on (1) low order inflow momentum led by company specific issues and competition pick up, and (2) strained cash flows. Target price of Rs55 builds in execution of about 2,200 for FY2012E and depend upon resumption of order inflows (about 2,300 MW in FY2012E)

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Results broadly in line; international sales continue to remain weak

Suzlon reported MW sales of 361 MW versus our estimate of 400 MW sales. The company reported wind business revenues of Rs22 bn, recording a 17% yoy growth and about 9% below our estimate of Rs24 bn. The wind energy market continues to witness a slowdown with several customers delaying/ pushing back deliveries of orders especially in the international markets. There has been some pick up in sales on a yoy basis (Suzlon had reported sales of 283 MW in 2QFY10). Suzlon reported a small positive EBITDA of Rs50 mn. High interest costs and depreciation led to a net loss of Rs3 bn in the wind energy business - broadly in line with our estimates.

Suzlon Energy - 2QFY11 wind business results (Rs mn)

					% chg					
	2QFY11	**2QFY11E**	**2QFY10**	**1QFY11**	**vs est.**	**yoy**	**qoq**	**1HFY11**	**1HFY10**	**%chg**
MW sales	361	400	283	207	(9.8)	27.6	74.4	568	406	39.9
Income from operations	**21,880**	**24,000**	**18,680**	**14,410**	**(8.8)**	**17.1**	**51.8**	**36,290**	**30,330**	**19.7**
Expenditure	(21,830)	(24,000)	(21,490)	(17,330)	(9.0)	1.6	26.0	(39,160)	(34,870)	12.3
Raw material consumption	(14,440)	(15,840)	(13,670)	(10,590)	(8.8)	5.6	36.4	(25,030)	(21,970)	13.9
Staff cost	(2,380)	(2,400)	(2,170)	(2,270)	(0.8)	9.7	4.8	(4,650)	(4,390)	5.9
Other expenditure	(5,010)	(5,760)	(5,650)	(4,470)	(13.0)	(11.3)	12.1	(9,480)	(8,510)	11.4
EBITDA	**50**	**—**	**(2,810)**	**(2,920)**	**NA**	**NA**	**NA**	**(2,870)**	**(4,540)**	**NA**
Other income	390	37	160	150		143.8	160.0	540	300	80.0
PBDIT	**440**	**37**	**(2,650)**	**(2,770)**		**NA**	**NA**	**(2,330)**	**(4,240)**	**NA**
Interest & finance charges	(1,980)	(2,191)	(2,160)	(2,210)		(8.3)	(10.4)	(4,190)	(4,500)	(6.9)
Depreciation	(850)	(811)	(680)	(800)		25.0	6.3	(1,650)	(1,300)	26.9
PBT	**(2,390)**	**(2,965)**	**(5,490)**	**(5,780)**		**NA**	**NA**	**(8,170)**	**(10,040)**	**NA**
Tax	(670)	—	400	200		(267.5)	(435.0)	(470)	510	(192.2)
PAT	**(3,060)**	**(2,965)**	**(5,090)**	**(5,580)**	**3.2**	**NA**	**NA**	**(8,640)**	**(9,530)**	**NA**
One-time items included in PAT	50	—	1,050	(1,900)				(1,850)	870	
Associates/Minority interest	—	—	—	10				10	10	
Adjusted PAT	**(3,010)**	**(2,965)**	**(4,040)**	**(7,470)**	**1.5**	**NA**	**NA**	**(10,480)**	**(8,650)**	**NA**
Key ratios (%)										
Material cost	66.0	66.0	73.2	73.5				69.0	72.4	
Staff cost	10.9	10.0	11.6	15.8				12.8	14.5	
Other expenditure	22.9	24.0	30.2	31.0				26.1	28.1	
EBITDA margin	**0.2**	**—**	**(15.0)**	**(20.3)**				**(7.9)**	**(15.0)**	
PBDIT margin	2.0	0.2	(14.2)	(19.2)				(6.4)	(14.0)	
Pre-tax margin	(10.9)	(12.4)	(29.4)	(40.1)				(22.5)	(33.1)	
Tax rate	(28.0)	—	7.3	3.5				(5.8)	5.1	
PAT margin	(14.0)	(12.4)	(27.2)	(38.7)				(23.8)	(31.4)	

Source: Company, Kotak Institutional Equities estimates

At the consolidated level, Suzlon reported 2QFY11 revenues of Rs38.2 bn, down 21% yoy from Rs48.4 bn in 2QFY10. EBITDA margin was at 3.9% versus a marginal positive EBITDA margin of 2.5% in 2QFY10. Suzlon has reported a net loss (excluding exceptional items) of Rs3.7 bn at the consolidated level.

Suzlon Energy - 1QFY11 consolidated results (Rs mn)

				%chg				
	2QFY11	2QFY10	1QFY11	yoy	qoq	1HFY11	1HFY10	%chg
Income from operations	**38,193**	**48,352**	**24,044**	**(21.0)**	**58.8**	**62,238**	**90,066**	**(30.9)**
Expenditure	(36,711)	(47,140)	(28,042)	(22.1)	30.9	(64,753)	(88,730)	(27.0)
(Increase) / Decrease in stock in trade	3,776	2,323	(551)			3,226	4,017	
Raw material consumption	(29,146)	(34,528)	(17,218)	(15.6)	69.3	(46,364)	(65,335)	(29.0)
Staff cost	(4,080)	(5,881)	(3,976)	(30.6)	2.6	(8,056)	(11,805)	(31.8)
Other expenditure	(7,262)	(9,054)	(6,297)	(19.8)	15.3	(13,559)	(15,607)	(13.1)
EBITDA	**1,482**	**1,213**	**(3,997)**	**22.2**	**(137.1)**	**(2,515)**	**1,336**	**(288.3)**
Other income	197	202	235	(2.7)	(16.3)	432	416	3.9
PBDIT	**1,679**	**1,415**	**(3,762)**	**18.7**	**(144.6)**	**(2,083)**	**1,752**	**(218.9)**
Interest & finance charges	(2,671)	(2,926)	(2,611)	(8.7)	2.3	(5,282)	(6,054)	(12.7)
Depreciation	(1,373)	(1,880)	(1,265)	(27.0)	8.5	(2,638)	(3,506)	(24.8)
PBT	**(2,365)**	**(3,392)**	**(7,638)**	**(30.3)**	**(69.0)**	**(10,003)**	**(7,808)**	**28.1**
Tax	(1,323)	(18)	237	7,211.0	(658.1)	(1,086)	(44)	2,346.4
PAT	**(3,688)**	**(3,410)**	**(7,401)**	**8.2**	**(50.2)**	**(11,089)**	**(7,853)**	**41.2**
One-time items included in PAT	-	(203)	(1,836)	(100.0)	(100.0)	(1,836)	(385)	
Associates/Minority interest	(4)	57	114			110	156	
Adjusted PAT	**(3,692)**	**(3,555)**	**(9,122)**	**3.9**	**(59.5)**	**(12,815)**	**(8,082)**	**58.6**
Key ratios (%)								
Material cost	66.4	66.6	73.9			69.3	68.1	
Staff cost	10.7	12.2	16.5			12.9	13.1	
Other expenditure	19.0	18.7	26.2			21.8	17.3	
EBITDA margin	**3.9**	**2.5**	**(16.6)**			**(4.0)**	**1.5**	
PBDIT margin	4.4	2.9	(15.6)			(3.3)	1.9	
Pre-tax margin	(6.2)	(7.0)	(31.8)			(16.1)	(8.7)	
Tax rate	(56.0)	(0.5)	3.1			(10.9)	(0.6)	
PAT margin	(9.7)	(7.1)	(30.8)			(17.8)	(8.7)	

Source: Company, Kotak Institutional Equities

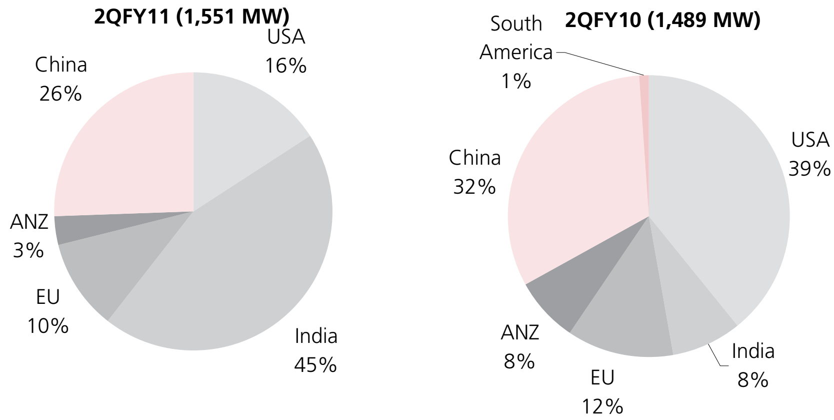
Domestic markets continue to dominate the sales

Of the total 361 MW of sales in 2QFY11, about 290 MW was sold in the Indian market and 69 MW in China. International markets continue to remain sedate both in terms of sales as well as new order inflows. Domestic order inflows were led by (1) order worth Rs11.5 bn from Techno Electric for 202 MW wind power project (part of a frame contract for 500 MW) and (2) recently reported order inflows of 168.5 MW from several customers (led by Gujarat State Fertilizer & Chemicals).

International markets muted; company focuses shifting to emerging geographies

Suzlon reported order inflows of about 453 MW in 2QFY11. Majority of these order were from the domestic market and the company reported international order inflow of only 50 MW. The entire international order inflow was also only from China with zero inflows from all other geographies. Indian market now contributes to a majority (45%) of the total order backlog of the company versus only 8% of the backlog at the end of 2QFY10. USA which contributed to 39% of the order backlog at end-2QFY10 now contributes to 16% of the current backlog. The next major contributor to the order backlog of the company is China with 26% stake in the backlog.

Emerging markets likely to drive orders
Geographical break-up of order book of Suzlon, 2QFY10 and 2QFY11



Source: Company, Kotak Institutional Equities

The management expects that going forward as well India and China are likely to drive the order booking for the company.

Present backlog provides very low revenue visibility for FY2011E

The present backlog of 1,550 MW comprises of 693 MW of orders from India and the remaining 858 MW from international markets. The company expects to execute the entire international order backlog in FY2011E and a majority of the Indian order in this fiscal itself. We have currently built in an estimated international order inflow of 500 MW for FY2011E and 1000 MW for FY2012E. These estimates may actually have downside as visibility remains low. We believe that pick up in order inflows for Suzlon would be visible with a time lag versus Vestas led by quality perception of Suzlon.

Order backlog, booking and execution, March fiscal year-ends, 2008-12E (MW)

	2007	2008	2009	2010	2011E	2012E
Order backlog						
Domestic	267	160	75	230	233	262
Internaional	1,692	3,294	1,388	896	663	707
Total backlog	**1,959**	**3,454**	**1,463**	**1,126**	**896**	**969**
Order inflows						
Domestic	957	869	664	843	1,100	1,265
Internaional	502	2,937	135	280	500	1,000
Total inflows	**1,459**	**3,806**	**799**	**1,123**	**1,600**	**2,265**
Execution						
Domestic	956	976	749	688	1,097	1,236
Internaional	502	1,335	2,041	772	733	956
Total execution	**1,458**	**2,311**	**2,790**	**1,460**	**1,830**	**2,192**

Source: Company, Kotak Institutional Equities estimates

Working capital, debt reduction remains below expectations

Working capital employed in the business was reported at Rs49.7 bn marginally higher from Rs48.4 bn at the end of June 30, 2010; however, lower than FY2010-end number of Rs51 bn releasing about Rs1.3 bn of cash. The reduction in working capital level has primarily been led by better collection of receivables from clients. Debtor levels reduced to about Rs33 bn at end-2QFY11 versus about Rs47.3 bn at end-FY2010 (was at Rs37 bn at end-1QFY11). Over the past year (since September 30, 2010) Suzlon has recorded a working capital reduction of about Rs4 bn. We believe that the reduction in working capital levels remains below expectations given the management's aim to reduce the working capital by about Rs10 bn by the end of the financial year from FY2010-end levels.

We highlight that Suzlon has been operating with very high working capital levels versus peers such as Vestas and hence there could be scope for significant improvement on this over a period of time.

Working capital details of Suzlon wind business

	As on Jun-30, 09	As on Sept-30, 09	As on Dec-31, 09	As on Mar-31, 10	As on Jun-30, 10	As on Sept-30, 10
Inventories	39,450	37,460	34,440	28,770	29,100	30,130
Sundry debtors	45,520	41,570	42,550	47,260	37,980	33,040
Loans and advances	13,270	12,850	13,370	11,870	12,090	15,780
Total current assets	**98,240**	**91,880**	**90,360**	**87,900**	**79,170**	**78,950**
Current liabilities	9,410	10,850	11,950	6,960	10,020	9,100
Trade payables	33,720	27,400	26,620	29,900	20,710	20,150
Total current liabilities	**43,130**	**38,250**	**38,570**	**36,860**	**30,730**	**29,250**
Net working capital	**55,110**	**53,630**	**51,790**	**51,040**	**48,440**	**49,700**

Source: Company, Kotak Institutional Equities

Gross external debt increases versus FY2010-end levels

Suzlon reported gross external debt of Rs110.7 bn at end-1HFY11 versus Rs105 bn at end-FY2010 level led by increase in working capital, capex and other debt. The total gross debt has gone down by about Rs6.2 bn primarily on account of conversion of promoter loans (of about Rs11.8 bn) into preference shares.

Details of debt of Suzlon's wind business (Rs mn)

	As on Mar 31, 2010	As on Jun 30, 2010	As on Sept 30, 2010
Acquisition loans	20,830	21,550	20,850
FCCBs	21,510	22,250	21,530
WCap, Capex and other loans	62,840	64,730	68,320
Gross external debt	**105,180**	**108,530**	**110,700**
Loans from promoters	11,750	11,750	-
Total gross debt	**116,930**	**120,280**	**110,700**
Cash	15,410	12,580	12,600
Net debt	**101,520**	**107,700**	**98,100**

Source: Company

Concerns: Insufficient visibility, cost reduction; dwindling global presence; Retain REDUCE

We revise estimates to loss of Rs0.7 (versus loss of Rs0.2) and Rs3 (versus Rs5 earlier) for FY2011E and FY2012E based on changes to volume, rights issue led dilution etc. Retain REDUCE with a target price of Rs55 based on (1) low order inflow momentum led by company specific issues and competition pick up, and (2) strained cash flows. Target price of Rs55 builds in execution of about 2,200 for FY2012E and depend upon resumption of order inflows (about 2,300 MW in FY2012E). Suzlon faces challenges such as (1) slowdown in global ordering activity, (2) pressure to rebuild the order inflow momentum that can provide comfort to other global customers and (3) finding ways to reduce the debt burden including substantial reduction in working capital involvement in the business apart from selling stake in prized assets.

Target price of Rs55 - FY2011E does not capture full earnings potential of the company; target presume resumption of ordering
Estimation of target price of Suzlon Energy

	FY2011E Multiple based assigned mcap	FY2012E Actual Mcap of holdings	FY2012E Multiple based assigned mcap
Hansen Transmissions			
Target EV/EBITDA (X)	**8**		**8**
FY2012E EBITDA (Euro mn)	100		131
Entreprise value (Euro mn)	803		1,050
Net debt (Euro mn)	262		262
Market capitalisation (Rs mn)	32,189	32,616	46,893
Suzlon's stake in Hansen (%)	26	26	26
Contr to Suzlon MCap (Rs mn)	**8,369**	**8,480**	**12,192**
REpower			
EV/EBITDA multiple	**8**		**8**
FY2011E EBITDA (Euro mn)	123		154
EV (Euro mn)	981		1,234
Net debt (Euro mn)	(113)		(113)
Market capitalisation (Euro mn)	1,095	1,072	1,347
Repower per share price (Euro)	119	117	146
Suzlon's stake in REpower (%)	90	90	90
Contr to Suzlon MCap (Rs mn)	**68,530**	**67,109**	**84,328**
Suzlon wind business (Rs mn)			
MW sales	**1,830**	**2,192**	**2,192**
EV/EBITDA multiple (X)	**9**	**9**	**9**
FY2011E EBITDA	6,503	12,565	12,565
EV of wind business	58,524	113,083	113,083
Net debt as on Mar' 2011E	89,888	89,888	89,888
Mcap. of Suzlon wind business	(31,363)	23,195	23,195
Mcap. contr of Hansen & Repower	76,899	75,589	96,520
Mcap. Incl. Hansen and Repower	45,536	98,784	119,715
No. of shares (mn)	**1,746**	**1,746**	**1,746**
Suzlon target price (Rs)	**26**	**57**	**69**

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Key risks originate from (1) continued negative execution surprises related to sectoral and company specific problems; we highlight that Suzlon did not have strong execution track record when sector scenario was buoyant, (2) Rupee appreciation may start to affect competitiveness versus peers from FY2011E onwards. Furthermore, over the long term competitive intensity of sector would increase, with new players from China and other industrial companies joining the renewable energy bandwagon.

Wind business financials of Suzlon Energy, March fiscal year-ends, 2008-12E (Rs mn)

	2008	2009	2010	2011E	2012E
Income statement					
Total MW sales	**2,311**	**2,790**	**1,460**	**1,830**	**2,192**
Sales	**114,665**	**159,120**	**96,350**	**100,042**	**119,825**
Total Expenditure	(97,529)	(143,240)	(96,930)	(93,539)	(107,260)
Raw Material cost	(78,130)	(104,810)	(63,910)	(66,027)	(79,084)
Manpower	(5,179)	(8,970)	(9,110)	(9,004)	(9,004)
Other op exp	(14,220)	(29,460)	(23,910)	(18,508)	(19,172)
EBITDA	**17,136**	**15,880**	**(580)**	**6,503**	**12,565**
Other income	1,968	2,460	820	150	219
Financial charges	(4,603)	(7,780)	(9,720)	(8,783)	(8,501)
Depreciation	(1,703)	(2,600)	(3,120)	(3,437)	(3,542)
Profit before tax	**12,798**	**7,960**	**(12,600)**	**(5,567)**	**741**
Tax	(1,493)	(30)	(2,360)	—	(163)
One-off costs	—	(8,963)	—	—	—
Profit after tax	**11,305**	**(1,030)**	**(14,960)**	**(5,567)**	**578**
Balance sheet					
Share capital	2,994	2,997	3,114	3,491	3,491
Reserves and surplus	62,990	62,450	56,214	62,154	62,732
Total shareholders funds	**66,084**	**65,527**	**59,408**	**65,725**	**66,303**
Total loan funds	**86,430**	**124,520**	**112,205**	**94,455**	**94,455**
Total sources of funds	**153,284**	**192,227**	**173,793**	**162,360**	**162,938**
Net fixed assets	**17,320**	**25,710**	**24,612**	**22,175**	**19,634**
Investments	57,560	98,620	94,835	94,835	94,835
Cash and bank balance	48,870	13,590	1,427	4,568	4,197
Net current assets (excl. cash)	**29,200**	**48,100**	**46,390**	**34,252**	**37,742**
Total application of funds	**153,284**	**192,227**	**173,793**	**162,360**	**162,938**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Federal Bank (FB)

Banks/Financial Institutions

ADD

OCTOBER 29, 2010

RESULT

Coverage view: Attractive

Price (Rs): 472

Target price (Rs): 530

BSE-30: 20,032

Slippages remain high, recoveries picking up; valuations offer comfort. Federal Bank reported an NII growth of 33% yoy and earnings growth of 39% yoy, as margins improved further. Slippages remained high at 3.6% annualized, but strong recoveries cushioned the NPL increase during the quarter. The new management is seeking to improve risk management practices resulting in slower loan growth - benefit of which should be visible in FY2012E. Valuations at 1.4XFY2012E PBR and 9.6XFY2012E PER remain attractive, we maintain our positive outlook. Retain ADD with a TP of ₹530.

Company data and valuation summary

Federal Bank

Stock data			
52-week range (Rs) (high,low)			482-218
Market Cap. (Rs bn)			80.7
Shareholding pattern (%)			
Promoters			0.0
FIIs			38.2
MFs			15.0
Price performance (%)	**1M**	**3M**	**12M**
Absolute	18.4	36.3	96.6
Rel. to BSE-30	20.8	21.6	56.0

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	27.2	34.7	47.2
EPS growth (%)	(7.1)	27.7	35.9
P/E (X)	17.4	13.6	10.0
NII (Rs bn)	14.1	17.5	20.0
Net profits (Rs bn)	4.6	5.9	8.1
BVPS	273.9	301.4	338.9
P/B (X)	1.7	1.6	1.4
ROE (%)	10.3	12.0	14.7
Div. Yield (%)	1.1	1.4	1.8

Slippages continue at 4%; higher write-off results in marginal increase in 2QFY11

Asset quality continues to remain under pressure with further slippages at ₹2.7 bn (3.8% annualized) resulting in gross NPL increasing to ₹10.9 bn (3.8% of loans) compared to ₹7.9 bn in September 2009 (3% of loans). Higher write-off of ₹ 0.8 bn cushioned the rise in gross NPL. High slippages continue to remain a concern with nearly half of the slippages for the quarter mainly from the SME segment. We do note that (1) slippages are lower from the previous quarter but trends are yet to be established, (2) bank has been increasing its margins, providing adequate cushion to make higher provisions, (3) bank holds adequate security against the NPLs, which shall result in upgrades in future quarters. Provision coverage ratio continues to remain at one of the highest in the industry at 83%. Loan loss provisions were at 2.1% for the quarter.

Focus shifts to strengthening balance sheet in the near term; base impact higher for the quarter

The recent induction of the new CEO has seen a partial shift in the bank's loan growth strategy with near-term focuses shifting towards strengthening the bank's risk management practice and containing the high slippages. Also, the growth in 1HFY10 was comparatively higher for Federal Bank compared to others. Loan book growth was at 2% qoq and 7% yoy. SME growth was impressive for the quarter at 8% qoq. With YTD growth in loans at 3%, we see FY2011E growth subdued at 15% levels and expect a pick-up only in FY2012E.

Deposit growth at 8% yoy with CASA ratio at 29%; NIMs impressive at 4.4%

Deposit growth was well below industry average at 8% yoy (3% increase qoq). CASA mobilisations were impressive at 23% yoy and 5% qoq mainly due to high growth in current account balances. CD ratio was stable at 77% for the quarter. NIMs for the quarter improved 19 bps as the bank benefitted from increase in lending yields and higher return on its investments while funding costs were largely flat during the quarter. We see NIMs declining somewhat from hereon, as funding costs are likely to see a faster increase. We are building margins to decline by 20 bps in FY2011-12E.

QUICK NUMBERS

- Net profit grew by 39% while NII grew by 33%
- Slippages high at 3.8%; NIMs impressive at 4.4%
- Maintain ADD with TP of ₹530

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Other operational highlights for the quarter

- Federal Bank's non-interest revenues grew marginally by 5% with core fee income growth reporting a flat growth. With an outstanding stock of nearly ₹8.5 bn, Federal Bank recovered about ₹470 mn in the current quarter.

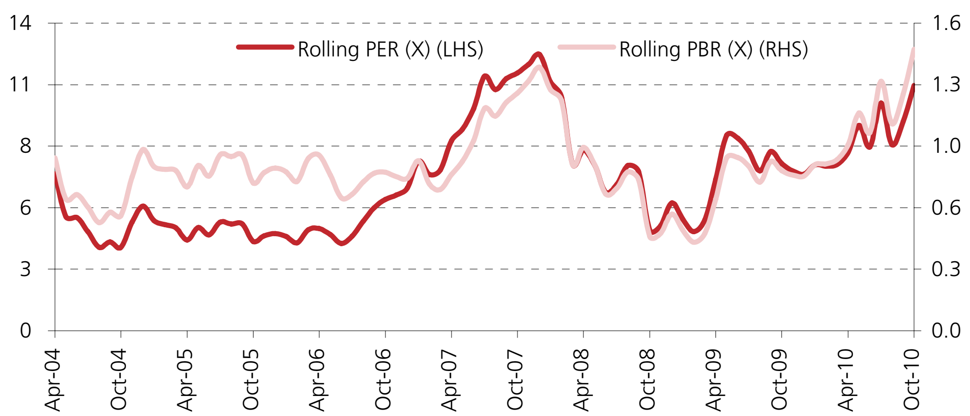
- Cost-income ratio declined to 34% compared to 36% in June 2010. The bank has estimated an approximate pension liability of ₹1.4 bn (3% of FY2011E net worth) and has made a provision of about ₹160 mn in the current quarter.

We marginally change our near-term earnings estimates
Old and new estimates

	Old estimates			New estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Net interest income	16,833	19,694	22,939	17,492	20,036	23,385	3.9	1.7	1.9
NIM (%)	3.6	3.6	3.5	3.9	3.8	3.7			
Loan growth (%)	20.1	21.0	20.8	14.4	20.8	20.6			
Loan loss provisions	5,043	4,292	5,187	5,200	4,423	4,926	3.1	3.0	(5.0)
Other income	5,175	5,906	6,735	5,403	6,205	7,261	4.4	5.1	7.8
Fee income	1,176	1,317	1,475	1,179	1,320	1,479	0.2	0.2	0.2
Treasury income	350	400	450	450	400	450	28.6	-	-
Operating expenses	7,663	8,946	10,638	8,168	9,208	10,711	6.6	2.9	0.7
Employee expenses	4,263	4,791	5,432	4,750	5,048	5,517	11.4	5.4	1.6
Depreciation on investments	-	-	-	-	-	-			
Net profit	**6,231**	**8,373**	**9,415**	**5,935**	**8,031**	**9,662**	**(4.8)**	**(4.1)**	**2.6**
PBT-treasury+provisions	13,994	16,253	18,586	13,978	16,333	19,185	(0.1)	0.5	3.2

Source: Kotak Institutional Equities, Company

Federal Bank: Rolling PER and PBR (X)
April 2004-October 2010



Source: Kotak Institutional Equities

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

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	% chg	2QFY11E	Actual Vs KS
Interest earned	9,011	9,446	9,531	9,518	9,783	8.6	9,887	(1.1)
Interest/discount on advances/bills	7,080	7,421	7,435	7,447	7,722	9.1	7,747	(0.3)
Income on Investments	1,855	1,984	1,947	2,041	2,038	9.8	2,112	(3.5)
Interest on balances / inter bank	71	42	59	21	15	(79.4)	23	(37.1)
Others	5	-	91					
Interest expended	5,711	5,635	5,435	5,385	5,400	(5.5)	5,593	(3.5)
Net interest income	**3,300**	**3,811**	**4,097**	**4,133**	**4,384**	**32.9**	**4,294**	**2.1**
Other Income	1,364	1,165	1,306	1,099	1,440	5.6	1,163	23.8
Sale of investments	293	166	42	166	141	(51.8)	92	53.5
Recovery of written off assets	281	252	510	240	468			
Other income excl treasury	1,072	999	1,264	933	1,299	21.3	1,072	21.3
Total income	4,664	4,976	5,403	5,232	5,824	24.9	5,458	6.7
Operating Expenses	1,631	1,661	1,885	1,879	1,974	21.0	1,929	2.3
Staff costs	898	874	965	1,048	1,208	34.6	1,122	7.7
Other operating expenses	734	786	920	831	766	4.4	807	(5.1)
Operating profit	**3,032**	**3,315**	**3,518**	**3,353**	**3,850**	**27.0**	**3,529**	**9.1**
Other Provisions and Contingencies	1,501	1,053	979	1,334	1,703	13.4	1,395	22.0
NPL	1,588	839	773	1,358	1,430	(9.9)	1,371	4.3
PBT	**1,531**	**2,262**	**2,539**	**2,020**	**2,147**	**40.2**	**2,133**	**0.6**
Provision for Taxes	520	1,160	1,370	701	743	42.8	640	16.1
Net Profit	**1,011**	**1,103**	**1,169**	**1,319**	**1,404**	**38.9**	**1,493**	**(6.0)**
Tax rate (%)	34	51	54	35	35			
PBT before provisions	**3,032**	**3,315**	**3,518**	**3,353**	**3,850**	**27.0**	**3,529**	**9.1**
Key balance sheet items (Rs bn)								
Deposits	334	346	361	350	361	8.0		
CASA ratio (%)	25.8	25.9	26.2	29.0	29.4			
Advances	258	260	270	271	276	7.2		
Retail	77	82	86	86	89			
Retail to total advances (%)	30.0	31.6	32.0	31.8	32.1			
Investments	118	126	131	120	125			
Asset management details								
Gross Non-performing assets (Rs mn)	7,892	7,907	8,210	10,438	10,945	38.7		
Gross NPL ratio (%)	3.0	3.0	3.0	3.7	3.8			
Net Non-performing assets (Rs mn)	1,379	1,469	1,288	2,007	1,863	35.1		
Net NPL ratio (%)	0.5	0.6	0.5	0.7	0.7			
Slippages	1,830	2,430	3,220	3,270	2,570			
Slippage ratio (%)	3.1	3.8	4.9	4.9	3.8			
Yield management measures (%)								
Yield on advances	11.6	11.4	11.0	10.8	11.2			
Cost of deposits	6.8	6.5	6.0	5.8	5.9			
NIM	3.7	4.1	4.2	4.2	4.4			
Capital Adequacy details (%)								
Capital Adequacy ratio	18.5	18.5	18.4	17.9	17.2			
Tier I	17.0	17.1	16.9	16.6	16.0			

Source: Kotak Institutional Equities, Company

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

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan	26.9	18.4	20.4	14.4	20.8	20.6
Customer assets	26.2	19.8	19.9	13.7	20.2	20.2
Investments excld. CPs and debentures	30.4	5.9	11.7	16.2	21.0	21.0
Net fixed and leased assets	25.1	20.6	3.2	5.8	4.0	(8.8)
Cash and bank balance	18.7	25.2	(20.8)	11.3	16.5	16.9
Total Asset	29.6	19.5	12.4	12.9	18.6	18.8
Deposits	20.1	24.3	12.0	14.4	20.8	20.6
Current	20.4	(1.5)	26.9	17.8	20.8	20.6
Savings	19.1	28.0	18.1	14.4	19.3	19.1
Fixed	18.2	27.4	9.5	14.1	21.2	21.0
Net interest income	20.7	48.9	7.3	24.0	14.5	16.7
Loan loss provisions	75.1	65.3	16.6	25.9	(14.9)	11.4
Total other income	30.8	30.4	3.0	1.8	14.8	17.0
Net fee income	9.4	11.9	3.9	12.0	12.0	12.0
Net capital gains	52.3	10.6	29.8	(58.2)	(11.1)	12.5
Net exchange gains	11.0	51.0	(12.5)	25.0	25.0	25.0
Operating expenses	27.3	22.3	7.0	20.7	12.7	16.3
Employee expenses	22.6	19.5	(4.1)	29.7	6.3	9.3
Key ratios (%)						
Yield on average earning assets	9.1	9.6	9.2	8.9	9.1	9.3
Yield on average loans	10.8	12.4	11.6	10.9	11.1	11.3
Yield on average investments	7.7	6.5	6.4	6.3	6.4	6.5
Average cost of funds	6.6	6.6	6.4	5.7	5.9	6.2
Interest on deposits	6.4	6.4	6.4	5.5	5.8	6.1
Difference	**2.6**	**3.0**	**2.8**	**3.2**	**3.2**	**3.1**
Net interest income/earning assets	3.2	3.8	3.5	3.9	3.8	3.7
Spreads on lending business	4.2	5.8	5.2	5.2	5.2	5.1
Spreads on lending business (incl. Fees)	4.8	6.3	5.6	5.6	5.6	5.5
New provisions/average net loans	1.3	1.7	1.7	1.8	1.3	1.2
Total provisions/gross loans	2.2	2.3	2.6	3.6	3.9	4.0
Interest income/total income	69.1	71.9	72.7	76.4	76.4	76.3
Other income / total income	30.9	28.1	27.3	23.6	23.6	23.7
Fee income to total income	7.1	5.5	5.4	5.1	5.0	4.8
Fee income to advances	0.5	0.5	0.4	0.4	0.4	0.4
Fees income to PBT	18.1	12.8	12.2	13.5	11.2	10.4
Net trading income to PBT	8.7	7.5	23.9	5.2	3.4	3.2
Exchange income to PBT	6.8	6.4	5.2	6.4	5.9	6.1
Operating expenses/total income	40.4	34.5	34.9	35.7	35.1	35.0
Operating expenses/assets	1.8	1.8	1.6	1.8	1.7	1.7
Operating profit /AWF	1.5	2.1	1.9	1.8	2.2	2.2
Tax rate	26.4	36.9	45.9	32.0	32.0	32.0
Dividend payout ratio	18.6	17.1	18.4	18.4	18.4	18.4
Share of deposits						
Current	5.7	4.5	5.1	5.2	5.2	5.2
Fixed	73.6	75.5	73.8	73.7	73.9	74.2
Savings	19.4	20.0	21.1	21.1	20.9	20.6
Loans-to-deposit ratio	73.0	69.5	74.7	74.7	74.7	74.7
Equity/assets (EoY)	12.1	11.1	10.7	10.5	9.9	9.4
Dupont analysis (%)						
Net interest income	3.1	3.7	3.4	3.8	3.7	3.7
Loan loss provisions	0.7	1.0	1.0	1.1	0.8	0.8
Net other income	1.4	1.4	1.3	1.2	1.2	1.1
Operating expenses	1.8	1.9	1.9	1.9	1.8	1.8
Invt. depreciation	0.1	0.1	(0.2)	-	-	-
(1- tax rate)	73.6	63.1	54.1	68.0	68.0	68.0
ROA	1.3	1.4	1.1	1.3	1.5	1.5
Average assets/average equity	10.6	8.6	9.2	9.4	9.8	10.4
ROE	13.6	12.1	10.3	12.0	14.7	15.6

Source: Kotak Institutional Equities, Company

Federal Bank income statement and balance sheet
March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total interest income	25,311	33,154	36,732	40,312	47,973	58,436
Loans	18,273	25,642	28,497	31,479	37,783	46,412
Investments	6,375	7,003	7,834	8,545	9,862	11,642
Cash and deposits	663	509	401	288	328	383
Total interest expense	16,474	19,999	22,624	22,819	27,936	35,052
Deposits from customers	15,259	18,732	21,683	21,236	26,353	33,469
Net interest income	8,837	13,155	14,109	17,492	20,036	23,385
Loan loss provisions	2,143	3,542	4,131	5,200	4,423	4,926
Net interest income (after prov.)	6,694	9,613	9,978	12,293	15,613	18,459
Other income	3,950	5,152	5,309	5,403	6,205	7,261
Net fee income	905	1,013	1,053	1,179	1,320	1,479
Net capital gains	750	830	1,077	450	400	450
Net exchange gains	338	510	446	558	697	871
Operating expenses	5,171	6,325	6,769	8,168	9,208	10,711
Employee expenses	3,194	3,817	3,661	4,750	5,048	5,517
Depreciation on investments	472	235	(977)	300	300	300
Other Provisions	-	280	897	500	500	500
Pretax income	5,002	7,930	8,598	8,728	11,810	14,209
Tax provisions	1,321	2,925	3,950	2,793	3,779	4,547
Net Profit	**3,681**	**5,005**	**4,648**	**5,935**	**8,031**	**9,662**
% growth	25.7	36.0	(7.1)	27.7	35.3	20.3
PBT - Treasury + Provisions	6,866	11,158	11,572	14,278	16,633	19,485
% growth	19.3	66.2	3.8	20.8	16.9	17.5
Balance sheet						
Cash and bank balance	27,455	34,371	27,234	30,308	35,300	41,253
Cash	2,405	2,205	2,769	2,908	3,053	3,206
Balance with RBI	21,152	19,939	20,420	23,355	28,202	34,002
Balance with banks	2,168	5,961	1,321	1,321	1,321	1,321
Net value of investments	100,266	121,190	130,546	145,103	167,976	195,837
Govt. and other securities	77,988	82,948	92,775	108,314	131,740	160,097
Shares	2,330	1,538	1,796	1,796	1,796	1,796
Debentures and bonds	3,107	6,202	6,498	5,523	4,971	4,474
Net loans and advances	189,047	223,919	269,501	308,242	372,215	448,768
Fixed assets	2,328	2,808	2,898	3,067	3,188	2,909
Other assets	5,969	6,221	6,577	6,577	6,577	6,577
Total assets	**325,064**	**388,509**	**436,756**	**493,296**	**585,257**	**695,343**
Deposits	259,134	321,982	360,580	412,413	498,005	600,430
Borrowings and bills payable	13,226	12,509	15,830	15,830	15,830	15,830
Other liabilities	13,448	10,759	13,442	13,442	13,442	13,442
Total liabilities	**285,808**	**345,250**	**389,852**	**441,685**	**527,277**	**629,702**
Paid-up capital	1,710	1,710	1,710	1,710	1,710	1,710
Reserves & surplus	37,547	41,548	45,194	49,901	56,269	63,931
Total shareholders' equity	**39,257**	**43,259**	**46,904**	**51,611**	**57,979**	**65,641**

Source: Kotak Institutional Equities, Company

kotak Institutional Equities

Jagran Prakashan (JAGP)

Media

BUY

OCTOBER 29, 2010

RESULT

Coverage view: Neutral

Price (Rs): 133

Target price (Rs): 150

BSE-30: 20,032

So far so good. JAGP reported 2QFY11 EBITDA at Rs908 mn (+9% yoy; +1% qoq), marginally ahead of our estimates. The positive variance resulted from advertising revenues at Rs1.94 bn (our expectation of Rs1.9 bn) despite (1) festival season being pushed to 3QFY11E and (2) likely loss of DAVP advertising in Bihar. New media initiatives (outdoor, events and digital) also continued to scale up well in a seasonally weak quarter. Retain BUY with revised 12-month DCF based target price of Rs150 (Rs145 previously); competition in BJH market is the key risk.

Company data and valuation summary

Jagran Prakashan

Stock data			
52-week range (Rs) (high,low)			157-104
Market Cap. (Rs bn)			40.0
Shareholding pattern (%)			
Promoters			55.3
FIIs			8.5
MFs			14.5
Price performance (%)	1M	3M	12M
Absolute	2.9	9.7	16.8
Rel. to BSE-30	2.6	(1.5)	(6.4)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	5.8	6.8	7.8
EPS growth (%)	92.0	16.9	14.2
P/E (X)	22.7	19.4	17.0
Sales (Rs bn)	9.4	10.9	12.6
Net profits (Rs bn)	1.8	2.1	2.3
EBITDA (Rs bn)	2.8	3.4	3.8
EV/EBITDA (X)	13.7	11.4	10.0
ROE (%)	30.0	31.9	33.2
Div. Yield (%)	2.6	3.0	3.8

Robust 2QFY11 financials as competitive impact in Jharkhand market is absorbed

- JAGP reported robust 2QFY11 EBITDA at Rs908 mn (+9% yoy, +1% qoq), ahead of our Rs850 mn expectation. We note that JAGP had an unfavorable base (2QFY10 was the best quarter of FY2010) with festival season also being pushed back to 3QFY11E.

- 2QFY11 advertising revenue at Rs1.94 bn (+13% yoy, +2% qoq) were ahead of our Rs1.9 bn expectation. The robust growth was driven by markets other than UP due to the uncertainty surrounding the Ayodhya dispute in the last 2 weeks of 2QFY11.

- More important, new media initiatives (outdoor, events, digital) continued to scale up well with 28% yoy growth in a seasonally weak quarter. The downturn provided an opportunity for JAGP to right size these emerging businesses; they have been scaling up well, in the current advertising upturn the performance seems sustainable.

- 2QFY11 circulation revenues at Rs548 mn (+1% yoy, -1% yoy) were largely in line with our expectation; the cover price impact in Jharkhand (cut to Rs2/copy from Rs4/copy) was negated by the growth in circulation in select markets (renewed focus on circulation after a long pause is long-term positive). The competition in Jharkhand market has had a limited impact on JAGP, on expected lines, given its limited exposure to the market.

- JAGP expected media cost inflation during 2QFY11 with 14% yoy growth in operating expenses but largely in line with expectation. 2QFY11 newsprint costs increased 17% tracking price inflation as well as higher consumption (pagination levels have started to increase with advertising recovery along with circulation growth). However, 2QFY11 EBITDA growth of 9% yoy implies manageable cost inflation challenges.

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Interim results of Jagran Prakashan (JAGP), March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg) 2QFY11E	2QFY10	1QFY11	1HFY10	1HFY10	(% chg)
Total revenues	**2,769**	**2,700**	**2,468**	**2,698**	***3***	***12***	***3***	**5,467**	**4,787**	***14***
Advertising revenues	1,935	1,900	1,716	1,898	*2*	*13*	*2*	3,832	3,325	*15*
Circulation revenues	548	550	543	553	*(0)*	*1*	*(1)*	1,101	1,088	*1*
Other operating revenues	286	250	210	248	*14*	*36*	*15*	533	374	*43*
Total expenditure	**(1,860)**	**(1,850)**	**(1,636)**	**(1,797)**	***1***	***14***	***4***	**(3,657)**	**(3,250)**	***13***
Raw material costs	(801)	(800)	(684)	(757)	*0*	*17*	*6*	(1,558)	(1,385)	*12*
Employee expenses	(354)	(350)	(300)	(347)	*1*	*18*	*2*	(701)	(589)	*19*
SG&A and other costs	(705)	(700)	(653)	(693)	*1*	*8*	*2*	(1,398)	(1,276)	*10*
EBITDA	**908**	**850**	**832**	**902**	***7***	***9***	***1***	**1,810**	**1,538**	***18***
OPM (%)	**32.8**	**31.5**	**33.7**	**33.4**				**33.1**	**32.1**	
Other income	64	50	50	58	*28*	*27*	*11*	122	207	*(41)*
Interest expense	(14)	—	(15)	(12)		*(4)*	*14*	(26)	(28)	*(7)*
D&A expenses	(133)	(150)	(130)	(125)	*(12)*	*2*	*6*	(258)	(254)	*2*
Pretax profits	**826**	**750**	**738**	**822**	***10***	***12***	***0***	**1,648**	**1,463**	***13***
Extraordinaries	—	—	—	—				—	—	
Tax provision	(271)	(250)	(235)	(266)	*8*	*15*	*2*	(537)	(465)	*16*
Minority interest	—	—	—	—				—	—	
Adjusted net income	**555**	**500**	**503**	**556**	***11***	***10***	***(0)***	**1,111**	**998**	***11***
Reported net income	**555**	**500**	**503**	**556**	***11***	***10***	***(0)***	**1,111**	**998**	***11***
Tax rate (%)	**32.8**	**33.3**	**31.9**	**32.4**				**32.6**	**31.8**	

Source: Company data, Kotak Institutional Equities estimates

Mid-Day 2QFY11 financial performance a tad weak for some time

Exhibit 2 presents the 2QFY11 financial performance of print segment of Mid-Day, which is slated to be acquired and merged with JAGP likely in 3QFY11E. 2QFY11 operating income at Rs24 mn (-25% yoy, -56% qoq) was a tad weaker versus our expectation; the negative variance was on account of (1) seasonally weak quarter (advertising revenues declined 6% qoq), (2) newsprint price inflation and (3) beginning of consolidation efforts in the Mumbai market (growth in circulation). Given the limited dilution due to the acquisition (5%), JAGP can continue to invest in Mid-Day to consolidate its already robust presence in the Mumbai market without any significant impact on its core financials. The investment could result in (1) potentially structural shift in advertising revenues (have been stagnant for some time) and consequently, (2) improved financial performance over time. Mid-Day would likely remain in investment mode for 2-3 years.

Interim results of Mid-Day print business, March fiscal year-ends (Rs mn)

	2QFY11	2QFY10	1QFY11	(% chg) 2QFY10	1QFY11
Revenues	247	220	262	12	(6)
EBIT	**24**	**32**	**56**	**(25)**	**(56)**
Margin (%)	*10*	*15*	*21*	*(5)*	*(11)*

Source: Company data, Kotak Institutional Equities

Attractive valuations given leadership position; fine-tuned estimates

We have fine-tuned our FY2011E and FY2012E EPS estimates of JAGP to Rs6.8 (Rs6.6 previously) and Rs7.8 (Rs7.7 previously) to account for 2QFY11 estimates; we model moderately higher-than-expected growth given limited competitive impact of DBCL in the overall BJH market (and largely taken care of by market expansion) in the near term (till such time as DBCL completed one full year of operation in the BJH market). Our 12-month DCF-based target price stands increased to Rs150 (Rs145 previously) on stronger-than-expected performance and DCF roll forward. We leave our medium-to-long-term assumptions and financials unchanged (and a tad conservative, we concede) due to uncertainty on account of competitive dynamics in the UPU and BJH market.

We are relatively sanguine on the competitive impact due to HMVL expansion in the UPU market since (1) JAGP has done well to hold on to its leadership position in the market (market share loss contained) and (2) has actually witnessed growth at network level in the city centers with I-Next, its youth-focused tabloid (see Exhibit 3). HMVL will likely complete its expansion across the key city markets by FY2012E (launch of Gorakhpur in November) and the scene of action will likely shift to upcountry/rural markets thereafter, the stronghold of JAGP in the UPU market. JAGP has already started to take pre-emptive steps (stepping up circulation in the upcountry markets, launching more localized sub-editions and greater focus on local advertisers in smaller markets) in order to further strengthen its position in the upcountry markets as well as improved monetization.

Trends in newspaper readership in key cities of Uttar Pradesh ('000)

	R1 2006	R2 2006	R1 2007	R2 2007	R1 2008	R2 2008	R1 2009	R2 2009	Q1 2010	Q2 2010	*% chg*
Kanpur											
Amar Ujala	412	400	364	331	327	315	296	267	252	245	*(41)*
Dainik Jagran	828	778	716	668	666	645	678	700	688	667	*(19)*
Hindustan	19	20	52	94	203	246	221	187	178	185	*874*
Lucknow											
Amar Ujala	14	12	6	8	5	13	127	214	223	204	*1,357*
Dainik Jagran	438	458	491	496	455	418	383	344	347	386	*(12)*
Hindustan	317	292	278	259	275	277	264	282	291	294	*(7)*
Meerut											
Amar Ujala	253	259	243	217	202	179	196	185	171	161	*(36)*
Dainik Jagran	228	231	230	205	183	214	228	239	220	215	*(6)*
Hindustan	1	26	66	66	67	72	60	57	52	53	*5,200*
Agra											
Amar Ujala	268	243	208	188	194	177	188	183	193	181	*(32)*
Dainik Jagran	150	146	135	134	124	117	134	127	151	146	*(3)*
Hindustan	2	1	6	18	29	39	53	58	61	62	*3,000*
Allahabad											
Amar Ujala	240	206	178	190	190	187	175	174	152	142	*(41)*
Dainik Jagran	210	197	195	218	222	193	179	159	142	145	*(31)*
Hindustan	23	14	16	16	15	11	7	20	42	64	*178*
Varanasi											
Amar Ujala	136	129	95	93	127	122	108	99	94	83	*(39)*
Dainik Jagran	198	189	170	168	184	169	155	146	146	144	*(27)*
Hindustan	111	104	96	91	87	77	81	100	112	134	*21*
Total											
Amar Ujala	**1,323**	**1,249**	**1,094**	**1,027**	**1,045**	**993**	**1,090**	**1,122**	**1,085**	**1,016**	***(23)***
Hindustan	**473**	**457**	**514**	**544**	**676**	**722**	**686**	**704**	**736**	**792**	***67***
Dainik Jagran	**2,052**	**1,999**	**1,937**	**1,889**	**1,834**	**1,756**	**1,757**	**1,715**	**1,694**	**1,703**	***(17)***
I-Next	**—**	**—**	**—**	**—**	**—**	**—**	**445**	**373**	**431**	**423**	
JAGP (DJ + IN)	**2,052**	**1,999**	**1,937**	**1,889**	**1,834**	**1,756**	**2,202**	**2,088**	**2,125**	**2,126**	***4***

Source: Indian Readership Survey, Kotak institutional Equities

However, entry of DBCL in the BJH market remains the key risk for JAGP given (1) its relatively more vulnerable position in the market (HMVL leads by a wide margin in both Bihar as well as Jharkhand) and (2) DBCL's successful track record of new market entry. Though we have modeled the potential impact into JAGP financials with (1) cover price decline (Rs2/copy versus Rs4/copy in Jharkhand in FY2011E, in Bihar in FY2012E), (2) higher cost of doing business with more circulation copies (at times wasteful) and (3) potential advertising market fragmentation in FY2012E-14E, it is difficult to completely factor/model the dynamics of competition. Thus, the risk of competitive dynamics turning for the worse remains and may impact the position and financials of JAGP.

However, we also highlight (1) under-penetrated readership in the BJH market (see Exhibit 4), (2) under-monetization given large readership (potential) and economic expansion and (3) readiness on part of incumbents (HMVL, JAGP) to defend their turf likely contributing positively to JAGP achieving its strategic and financial goals. Additionally, we were a tad surprised by DBCL's entry into the Jharkhand market first given (1) Bihar is the larger and faster-growing of the two markets, (2) greater potential of readership expansion in Bihar versus Jharkhand, (3) relatively less intense competition in the Bihar (Jharkhand may have been a fertile ground for M&A) thus providing (4) competition a window of 12-18 months to secure their position in the Bihar market.

State- and State-capital-wise readership penetration (%)

State	Readership (%)	State Capital	Readership (%)
Rajasthan (RJ)	38.2	Jaipur, RJ	70.4
Delhi	31.8	Dehradoon, UA	52.4
Gujarat (G)	30.8	Kanpur, UP	51.8
Uttaranchal (UA)	26.9	Ahmedabad, G	51.7
Haryana (H)	24.6	**Ranchi, JH**	**48.2**
Chhattisgarh (CG)	21.1	Bhopal, MP	46.5
Jharkhand, JH)	**20.5**	Chandigarh, PH	44.4
Punjab (P)	20.5	Lucknow, UP	43.6
Uttar Pradesh (UP)	20.4	Raipur, CG	41.8
Bihar	**17.7**	**Patna, Bihar**	**37.3**
Madhya Pradesh (MP)	16.9	Delhi, Delhi	31.8

Note:
(a) Delhi is largely an English print market.

Source: IRS Round1 2010 survey, Kotak Institutional Equities

Financial summary of JAGP, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model							
Net sales	5,982	7,496	8,234	9,419	10,937	12,611	14,653
EBITDA	**1,198**	**1,638**	**1,567**	**2,823**	**3,366**	**3,796**	**4,450**
Other income	248	215	227	343	320	340	342
Interest	(85)	(60)	(59)	(66)	(85)	(85)	(85)
Depreciation	(237)	(336)	(383)	(508)	(565)	(585)	(606)
Pretax profits	**1,124**	**1,457**	**1,352**	**2,592**	**3,035**	**3,466**	**4,101**
Extraordinary items	27	(1)	—	—	—	—	—
Current tax	(372)	(329)	(446)	(774)	(985)	(1,115)	(1,353)
Deferred taxation	(17)	(147)	10	(59)	6	(3)	(10)
Net income	**762**	**980**	**916**	**1,759**	**2,057**	**2,348**	**2,738**
Adjusted net income	744	981	916	1,759	2,057	2,348	2,738
Earnings per share (Rs)	**2.5**	**3.3**	**3.0**	**5.8**	**6.8**	**7.8**	**9.1**
Balance sheet							
Total equity	5,111	5,388	5,599	6,125	6,778	7,373	8,005
Deferred taxation liability	384	531	521	580	574	577	587
Total borrowings	1,067	791	1,415	1,214	1,214	1,214	1,214
Current liabilities	652	1,244	1,624	1,861	2,177	2,438	2,678
Total liabilities and equity	**7,215**	**7,953**	**9,158**	**9,780**	**10,743**	**11,602**	**12,484**
Cash	1,013	367	828	852	1,307	1,530	1,558
Other current assets	2,108	2,706	2,773	3,322	3,395	3,586	3,985
Total fixed assets	2,645	3,046	3,990	3,941	4,375	4,820	5,275
Investments	1,446	1,833	1,568	1,666	1,666	1,666	1,666
Total assets	**7,215**	**7,953**	**9,158**	**9,780**	**10,743**	**11,602**	**12,484**
Free cash flow							
Operating cash flow	931	1,327	1,257	2,319	2,381	2,681	3,098
Working capital changes	(230)	(354)	(125)	(259)	242	71	(160)
Capital expenditure	(1,243)	(755)	(1,393)	(497)	(1,000)	(1,030)	(1,061)
Free cash flow	**(542)**	**218**	**(261)**	**1,564**	**1,623**	**1,722**	**1,877**
Ratios (%)							
Debt/equity	19	13	23	18	17	15	14
Net debt/equity	(25)	(24)	(16)	(19)	(24)	(25)	(23)
ROAE (%)	14	17	15	27	29	31	33
ROACE (%)	**12**	**18**	**13**	**24**	**26**	**27**	**30**

Source: Company data, Kotak Institutional Equities estimates

kotak Institutional Equities

Maharashtra Seamless (518)

Industrials

BUY

OCTOBER 31, 2010

RESULT

Coverage view: Attractive

Price (Rs): 422

Target price (Rs): 518

BSE-30: 20,032

In-line results. MHS's 2QFY11 EBITDA at Rs1,036 mn was in line with our estimates of Rs1,080 mn, even though revenues at Rs4.23 bn were 8% lower than our estimates of Rs4.6bn, led by EBITDA margin which was 100 bps higher than our estimates of 23.5%. We believe momentum in sales will rise going forward on account of rising world rig count, which augurs well for the demand for seamless pipes. We roll our target price to FY2012E and maintain BUY with a TP of Rs518 (Rs450 previously).

Company data and valuation summary

Maharashtra Seamless

Stock data			
52-week range (Rs) (high,low)			451-309
Market Cap. (Rs bn)			29.8
Shareholding pattern (%)			
Promoters			53.9
FIIs			13.6
MFs			12.8
Price performance (%)	**1M**	**3M**	**12M**
Absolute	8.8	7.7	29.7
Rel. to BSE-30	8.4	(3.3)	4.0

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	38.6	44.2	50.9
EPS growth (%)	7.7	14.4	15.1
P/E (X)	10.9	9.5	8.3
Sales (Rs bn)	16.0	18.6	21.8
Net profits (Rs bn)	2.7	3.1	3.6
EBITDA (Rs bn)	4.1	4.7	5.3
EV/EBITDA (X)	5.9	4.7	3.7
ROE (%)	14.8	12.8	13.4
Div. Yield (%)	1.4	1.9	2.4

QUICK NUMBERS

- EBITDA down 3.5% yoy
- PAT up 12.5% yoy

2QFY11 - operating results in line

MHS's reported EBITDA of Rs1,036 mn (up 6% qoq, down 3.5% yoy) was almost in line with our estimates at Rs1,081 mn, even though revenues at Rs4.23 bn were 8% lower than our estimates, led by EBITDA margins which were 100 bps higher than our estimates at 23.5%. The reported PAT at Rs801 mn (down 20.3% qoq; up 12.5% yoy) was 4.6% lower than our estimates as higher than estimated tax rate (28.7% vs our estimates at 25%) was compensated by higher-than-estimated other income (Rs136 mn vs our estimates at Rs100 mn).

Stable crude oil prices = higher rig counts = higher demand for seamless pipes

With crude oil prices stable around levels of $80/bbl, the worldwide rig count has been rising mom since April '09, which augurs well for the demand for seamless pipes. We expect greater traction on the exports front for the company going forward. With the plant imported from Romania expected to come online by the end of FY2011, MHS would be favorably placed to drive sales volumes in FY2012E.

Maintain BUY with a target price of Rs518

We are rolling our target price to FY2012E and raising it to Rs518 (previously Rs450) based on 5X FY2012E EBITDA. We value MHS at about the mid range of its historical trading range of 4-6X one year forward EBITDA. We maintain our EPS estimates for FY2011E and FY2012E at Rs44.2 and Rs50.9, respectively. We maintain our BUY rating as we find the valuations at 3.7X EV/EBITDA and 8.2 X P/E on FY2012E, attractive. We shall review our earnings model post the company's earnings conference call.

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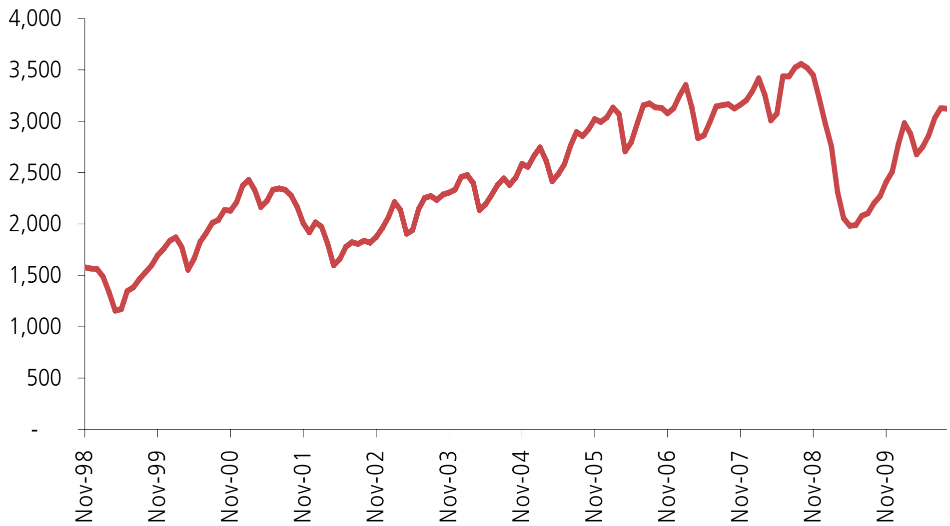
2QFY11 operating results almost in line
MHS, Interim results, March fiscal year-ends (Rs mn)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	2QFY11E	(% chg.) KIE est.	yoy	qoq
Net sales	**4,231**	**4,103**	**3,726**	**4,053**	**4,017**	**4,232**	**4,604**	**(8.1)**	**3.2**	**5.4**
Total expenditure	**(3,237)**	**(3,029)**	**(2,692)**	**(2,950)**	**(3,039)**	**(3,196)**	**(3,523)**	**(9.3)**	**5.5**	**5.2**
Inc/(Dec) in stock	(108)	(100)	84	158	190	120	—	—	(219.3)	(36.8)
Raw materials	(2,454)	(2,295)	(2,383)	(2,428)	(2,553)	(2,747)	—	—	19.7	7.6
Staff cost	(57)	(70)	(57)	(87)	(64)	(71)	—	—	2.3	10.9
Manufacturing exp	(487)	(478)	(267)	(489)	(563)	(431)	—	—	(9.9)	(23.5)
Other expenditure	(132)	(87)	(69)	(105)	(49)	(67)	—	—	(22.2)	38.4
EBITDA	**993**	**1,074**	**1,034**	**1,103**	**977**	**1,036**	**1,081**	**(4.2)**	**(3.5)**	**6.0**
OPM (%)	**23.5**	**26.2**	**27.7**	**27.2**	**24.3**	**24.5**	**23.5**			
Other income	51	58	103	109	317	136	100	35.7	133.6	NM
Interest	(12)	(7)	(7)	(7)	(8)	(5)	(8)	(42.5)	(34.3)	(40.3)
Depreciation	(46)	(46)	(48)	(49)	(52)	(45)	(54)	(17.6)	(3.9)	(14.3)
Pretax profits	**986**	**1,078**	**1,082**	**1,155**	**1,235**	**1,122.6**	**1,119**	**0.3**	**4.1**	**(9.1)**
Tax	(334)	(367)	(360)	(404)	(230)	(322)	(280)	15.0	(12.2)	39.7
Net income	**652**	**712**	**722**	**751**	**1,005**	**801**	**839**	**(4.6)**	**12.5**	**(20.3)**
Income tax rate (%)	33.9	34.0	33.3	35.0	18.6	28.7	25.0			

Source: Company, Kotak Institutional Equities

Rising rig count augurs well for the demand for seamless pipes
Baker Hughes worldwide rig count, Nov-98 to Oct-10



Source: Bloomberg, Kotak Institutional Equities

We value MHS at Rs518/share

MHS, valuation table (Rs mn)

FY 2012E EBITDA	**5,348**
EV/EBITDA (X)	5.0
EV	**26,738**
Net debt	(9,822)
Equity value	**36,561**
No. of shares (mn)	71
Value per share (Rs)	518
Target price (Rs/share)	**518**

Source: Kotak Institutional Equities estimates

We value MHS at 5X FY2012E EBITDA

MHS, one year forward EV/EBITDA (X)

Source: Bloomberg, Kotak Institutional Equities

Summary financials
Profit model, balance sheet, cash model for MHS, March fiscal year-ends,2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Profit model						
Net revenues	13,900	15,122	20,641	16,040	18,592	21,771
EBITDA	**3,416**	**3,121**	**3,677**	**4,107**	**4,650**	**5,348**
Other income	314	292	335	237	310	388
Interest (expense)/income	(35)	(38)	(116)	(34)	(15)	(15)
Depreciation	(163)	(174)	(179)	(183)	(229)	(292)
Adjusted pretax profits	**3,532**	**3,202**	**3,718**	**4,127**	**4,716**	**5,428**
Tax	(1,166)	(1,059)	(1,244)	(1,458)	(1,599)	(1,840)
Deferred taxation	(23)	(8)	(8)	(7)	—	—
Adjusted consolidated net income	**2,344**	**2,135**	**2,466**	**2,662**	**3,118**	**3,588**
Diluted Earnings per share (Rs)	**38.4**	**29.4**	**35.9**	**38.6**	**44.2**	**50.9**
Balance sheet						
Total equity	9,241	10,934	13,100	22,876	25,023	27,485
Deferred taxation liability	411	420	427	434	434	434
Total borrowings	1,082	1,022	824	801	801	801
Current liabilities	797	1,924	1,786	1,729	1,617	1,776
Total liabilities and equity	**11,531**	**14,300**	**16,137**	**25,840**	**27,876**	**30,497**
Cash	3,232	2,549	1,106	84	2,605	4,538
Other current assets	4,903	7,483	6,926	7,394	6,796	7,884
Total fixed assets	2,858	3,375	3,906	12,078	12,190	11,789
Investments	538	894	4,199	6,284	6,284	6,284
Total assets	**11,531**	**14,300**	**16,137**	**25,840**	**27,875**	**30,496**
Free cash flow						
Operating cash flow, excl working capital	2,374	1,893	2,582	2,865	3,036	3,492
Working capital changes	(859)	(1,732)	364	(575)	486	(930)
Capital expenditure	(213)	(691)	(711)	(935)	(750)	(300)
Investments	(325)	(342)	(3,217)	(2,027)	—	—
Other income	249	231	151	82	310	388
Free cash flow	**1,226**	**(640)**	**(830)**	**(590)**	**3,082**	**2,651**
Ratios (%)						
EBITDA margin (%)	24.6	20.6	17.8	25.6	25.0	24.6
Debt/equity	11.7	9.3	6.3	3.5	3.2	2.9
Net debt/equity	(23.3)	(14.0)	(2.2)	3.1	(7.2)	(13.6)
RoAE	33.0	19.7	20.3	14.8	12.8	13.4
RoACE	**23.4**	**18.1**	**19.5**	**14.3**	**12.4**	**13.1**

Source: Kotak Institutional Equities

Puravankara Projects (PVKP)

Property

REDUCE

OCTOBER 30, 2010

RESULT

Coverage view: Cautious

Price (Rs): 127

Target price (Rs): 122

BSE-30: 20,032

Demand pick-up visible. PVKP reported 2QFY11 revenues of Rs1.5 bn (+132% yoy adjusting for land sales in 2QFY10, +11% above estimates) but EBITDA of Rs387 mn (+38% yoy) which is 10% lower than our estimate. PVKP has sold 1.1 mn sq. ft in 2QFY11 which is more than twice that of 1QFY11 and increases visibility of it achieving its 3 mn sq. ft sales target for FY2011E. We maintain REDUCE with a target price Rs122 at a 20% discount to our estimated March 2012 NAV.

Company data and valuation summary

Puravankara Projects

Stock data			
52-week range (Rs) (high,low)			146-76
Market Cap. (Rs bn)			27.1
Shareholding pattern (%)			
Promoters			90.0
FIIs			6.2
MFs			0.6
Price performance (%)	1M	3M	12M
Absolute	(4.0)	14.9	28.7
Rel. to BSE-30	(4.4)	3.2	3.1

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	6.8	7.4	9.0
EPS growth (%)	0.6	8.6	21.8
P/E (X)	18.6	17.2	14.1
Sales (Rs bn)	4.8	6.1	8.7
Net profits (Rs bn)	1.5	1.6	1.9
EBITDA (Rs bn)	1.7	1.9	2.8
EV/EBITDA (X)	20.8	17.8	13.0
ROE (%)	10.5	10.6	11.9
Div. Yield (%)	1.6	1.6	1.6

QUICK NUMBERS

- Revenue of Rs1.5 bn in 2QFY11 (+33% q-o-q, +132% adjusted y-o-y)
- EBITDA of Rs387 mn (-1% q-o-q, +38% adjusted y-o-y)
- 1.1 mn sq. ft residential projects sold in 2QFY11 vs 0.43 mn sq. ft in 1QFY11

2QFY11 revenues above estimates but EBITDA lower than estimates

PVKP reported 2QFY11 revenues of Rs1.5 bn (+132% yoy after adjusting for land sales in 2QFY10, +33% qoq) versus our estimate of Rs1.4 bn and an EBITDA of Rs387 mn (+38% yoy, 10% below KIE estimate and -1% qoq).

1.1 mn sq. ft of volume sales in 2QFY11 is the most encouraging sign

Puravankara (including Provident low-cost housing) sold more than double the volume it sold in 1QFY11 - 1.1 mn sq ft in 2QFY11 (average realization Rs 2,768 / sq ft) vs. 0.43 mn sq ft in 1QFY11 (average realization of Rs 2,588 / sq ft). With this, Puravankara has pre-sold 65% of its area launched which would mean a likely comfortable cash flow situation as customer milestone payments would fund construction expenses. We believe this also (1) increases visibility of Puravankara achieving its target of 3 mn sq. ft of sales in FY2011E and (2) reduces our concern on increase in debt qoq.

PVKP currently has 11.7 mn sq. ft of projects under execution including 12 residential projects (8.6 mn sq. ft), two affordable housing projects (2.7 mn sq. ft) and two commercial projects (0.5 mn sq. ft).

There were no new launches or handovers in this quarter. Ongoing projects are all South India-focused except for Elita Garden Vista in Kolkata. Both the commercial projects are in Chennai. At present 96% of their portfolio is residential including Provident, and PVKP intends to move towards its long-term goal of 20-25% commercial projects once the commercial/leasing market picks up.

Maintain REDUCE with a target price of Rs122

We maintain our REDUCE rating with a target price of Rs122. Our target price is based on a 20% discount to March-2012E NAV of Rs152/share. We factor in discount of 20% to account for continued mismatch between cash-flows and debt/interest servicing. Balance sheet improvement will hinge on ability to generate operating cash flow or further equity fund raising, which in turn will be dependent on the success of affordable housing projects.

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2QFY11 results - Revenues above estimates
Interim results, Puravankara, March fiscal year-ends (₹ mn)

					(% chg)		
(in Rs mn)	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	2QFY10	1QFY11
Net sales	**1,542**	**1,396**	**2,264**	**1,163**	**10.5**	**(31.9)**	**32.6**
Operating costs	**(1,156)**	**(967)**	**(1,384)**	**(772)**	**19.5**	**(16.5)**	49.6
Cost of revenues	(1,003)		(1,244)	(664)		(19.3)	51.2
G&A	(71)		(73)	(72)		(1.8)	(0.8)
Selling expense	(81)		(68)	(37)		19.1	120.1
EBITDA	**387**	**429**	**880**	**390**	**(9.9)**	**(56.0)**	**(0.9)**
One-off items							
Net finance income / (charges)	9	3	4	3			
Share of profit in associates, net	18	32	28	8			
PBT	**414**	**465**	**912**	**401**	**(10.9)**	**(54.6)**	**3.2**
Provision for taxes	(57)	(40)	(303)	(34)	43.9	(81.1)	66.7
PAT	**357**	**425**	**609**	**367**	**(16.0)**	**(41.4)**	**(2.7)**
Key ratios							
EBITDA margin (%)	25.1	30.8	38.9	33.6			
PAT margin (%)	23.1	30.4	26.9	31.5			
Effective tax rate (%)	13.8	8.6	33.2	8.6			

Source: Company, Kotak Institutional Equities estimates

Puravankara sold 1.1 mn sq ft in residential segment in 2QFY11 vs. 0.43 mn sq ft in 1QFY11 and 0.85 mn sq ft in 2QFY10
Area sold, units sold, sales value and average realization in residential segment, Puravankara, March fiscal year-ends

	Area sold			Units sold			Sale value			Sale realization		
	2QFY11	2QFY10	Change	2QFY11	2QFY10	Change	2QFY11	2QFY10	Change	2QFY11	2QFY10	Change
(Based on bookings)	**(mn sq ft)**	**(mn sq ft)**	**(%)**	**(nos.)**	**(nos.)**	**(%)**	**(Rs mn)**	**(Rs mn)**	**(%)**	**(Rs / sq ft)**	**(Rs / sq ft)**	**(%)**
Puravankara	0.74	0.31	138%	454	186	144%	2,333	1,011	131%	3,140	3,237	-3%
Provident	0.36	0.54	-32%	362	518	-30%	732	1,065	-31%	2,009	1,982	1%
Total	**1.1**	**0.85**	**30%**	**816**	**704**	**16%**	**3,065**	**2,076**	**48%**	**2,768**	**2,443**	**13%**

	Area sold			Units sold			Sale value			Sale realization		
	1QFY11	1QFY10	Change	1QFY11	1QFY10	Change	1QFY11	1QFY10	Change	1QFY11	1QFY10	Change
(Based on bookings)	**(mn sq ft)**	**(mn sq ft)**	**(%)**	**(nos.)**	**(nos.)**	**(%)**	**(Rs mn)**	**(Rs mn)**	**(%)**	**(Rs / sq ft)**	**(Rs / sq ft)**	**(%)**
Puravankara	0.22	0.13	69%	134	81	65%	699	398	76%	3,177	3,062	4%
Provident	0.21	0.59	-64%	205	573	-64%	414	1166	-64%	1,971	1,976	0%
Total	**0.43**	**0.72**	**-40%**	**339**	**654**	**-48%**	**1,113**	**1,564**	**-29%**	**2,588**	**2,172**	**19%**

Source: Kotak Institutional Equities, Company

Puravankara has 11.7 mn sq. ft of ongoing projects
Ongoing Projects, Puravankara, 2QFY11

Name of the project	Year of launch	City	Developable Area (mn sq. ft)	No. of apartments	Launched (mn sq. ft)	Area sold (mn sq. ft)	Inventory (%)
Puravankara Residential							
Purva Atria -1	Jan-06	Bangalore	0.24	131	0.15	0.06	59
Elita Promenade	Jun-06	Bangalore	2.55	1,573	1.25	1.15	7
Purva Venezia	Jan-06	Bangalore	2.09	1,332	2.09	1.59	24
Purva Highlands	Oct-06	Bangalore	2.54	1,589	1.36	0.82	40
Purva Grand Bay	Dec-05	Kochi	0.50	265	0.50	0.32	37
Purva Eternity	Apr-06	Kochi	0.96	600	0.80	0.44	46
Purva Swanlake	Apr-07	Chennai	0.83	522	0.83	0.34	57
Atria Platina		Bangalore	0.14	70	0.09	0.00	96
Moon Reach	Jun-07	Kochi	0.39	196	0.15	0.14	9
Oceana	Sep-07	Kochi	0.26	96	0.26		99
Elita Garden Vista	Dec-07	Kolkata	2.28	1,278	0.44	0.34	23
Purva Skywood		Bangalore	1.24	730	0.69	0.37	47
Total Residential			**14.03**	**8,382**	**8.61**	**5.57**	
Provident Housing							
Cosmos City	Mar-09	Chennai	2.23	2,174	1.50	1.25	20
Welworth City	Jul-09	Bangalore	3.46	3,360	1.15	0.75	25
Total Provident Housing			**5.69**	**5,534**	**2.65**	**2.00**	
Puravankara Commercial							
Moneta		Chennai	0.36		0.36		100
Primus		Chennai	0.17		0.10		100
Total Commercial			**0.53**		**0.46**		
Total			**20.25**	**13,916**	**11.73**	**7.57**	**35**

Source: Company, Kotak Institutional Equities

- After remaining steady all through the downturn, debt has increased sequentially for the past three quarters - to Rs9.7 bn from Rs8.3 bn as of end-3QFY10. However, D /E remained steady at 0.60X vs 0.57x in 1QFY11 and 0.56 at end of 2QFY10. Properties under development increased to Rs 8 bn as of end-2QFY11 versus Rs 6.5 bn at end of 3QFY10, driving most of this increase.

Consolidated summary statement of assets and liabilities
Quarterly Balance Sheet, Puravankara, March fiscal year-ends (₹ mn)

Particulars	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Net fixed assets	497	493	484	477	463	452	440	430	362	355	367
Investments	887	928	967	998	1,038	1,043	1,071	1,134	1,191	1,199	1,217
Current assets, loans and advances	9,090	9,707	10,235	10,842	11,051	11,384	12,870	12,442	12,658	12,905	13,790
Cash and cash equivalents	350	396	374	698	268	262	276	812	782	556	408
Inventories	171	169	194	191	197	189	175	229	227	207	241
Trade debtors	824	863	1,028	1,047	1,146	1,244	2,499	1,268	1,112	1,202	1,360
Properties under development	3,958	4,354	4,800	5,093	5,700	6,025	6,390	6,485	6,802	7,151	8,044
Properies held for sale	910	865	865	948	974	946	915	873	852	823	748
Loans and advances	2,878	3,060	2,974	2,865	2,766	2,718	2,614	2,774	2,883	2,967	2,989
Properties held for development	12,919	13,016	13,630	13,839	13,924	13,995	13,338	13,393	13,528	13,597	13,182
Total application of funds	**23,393**	**24,144**	**25,317**	**26,157**	**26,476**	**26,873**	**27,718**	**27,400**	**27,739**	**28,057**	**28,556**
Total loans	6,524	6,524	8,050	8,269	8,146	8,297	8,326	8,326	8,811	9,168	9,744
Current liabilities and provisions	4,732	4,858	3,997	4,366	4,659	4,802	5,007	4,384	4,068	3,680	3,249
Deferred tax liability (net)	10	17	19	21	23	23	25	25	9	9	5
Shareholders funds	12,127	12,746	13,251	13,501	13,649	13,751	14,360	14,665	14,852	15,201	15,557
Total sources of fund	**23,394**	**24,145**	**25,317**	**26,157**	**26,476**	**26,873**	**27,718**	**27,400**	**27,739**	**28,057**	**28,556**

Source: Company, Kotak Institutional Equities estimates

Key changes to our valuation model

We have made minor adjustments to our model taking into account 2QFY11 results. We have changed FY2011E/FY2012E revenues by -7% and +6% and net profit by -9%/+12%.

We have a target price of Rs 122 / share
NAV-based valuation, Puravankara, March fiscal year-ends (₹ bn)

	March '12 based NAV Growth rate in selling prices			
	0%	**3%**	**5%**	**10%**
Valuation (Rs bn)	**15.3**	**30.2**	**41.3**	**73.2**
Residential	15.8	24.1	30.2	47.7
Retail	0.6	0.9	1.0	1.5
Commercial	(1.1)	5.2	10.0	24.0
Less: Net debt	(8.7)	(8.7)	(8.7)	(8.7)
Less: Land cost to be paid	-	-	-	-
NAV	**6.6**	**21.6**	**32.6**	**64.6**
NAV/share			152.0	
Total no. of shares				214.5
Target price @20% discount to NAV				**122**

Source: Company, Kotak Institutional Equities

Profit model of Puravankara
March fiscal year-ends, 2008-20013E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
Total revenues	**5,658**	**4,449**	**4,783**	**6,139**	**8,711**	**13,322**
Land costs	(316)	(282)	(986)	(224)	(268)	(495)
Construction costs	(2,756)	(2,315)	(1,664)	(3,430)	(5,030)	(7,621)
Selling expenses	(225)	(216)	(171)	(307)	(348)	(533)
G&A expenses	(240)	(271)	(271)	(246)	(305)	(466)
EBITDA	**2,122**	**1,366**	**1,691**	**1,933**	**2,758**	**4,208**
Other income	135	46	44	45	45	45
Interest	(36)	(38)	(29)	(241)	(314)	(356)
Depreciation	(48)	(54)	(111)	(127)	(129)	(130)
Pretax profits	**2,173**	**1,319**	**1,596**	**1,609**	**2,360**	**3,766**
Profit/(loss) share of associates	295	151	152	188	365	381
Current tax	(68)	(13)	(312)	(250)	(835)	(1,314)
Deferred tax	1	(13)	14	31	33	34
Net income	**2,400**	**1,444**	**1,451**	**1,578**	**1,923**	**2,867**
EPS (Rs)						
Primary	11.5	6.8	6.8	7.4	9.0	13.4
Fully diluted	11.5	6.8	6.8	7.4	9.0	13.4
Shares outstanding (mn)						
Year end	213	213	213	213	213	213
Primary	208	213	213	213	213	213
Fully diluted	208	213	213	213	213	213
Cash flow per share (Rs)						
Primary	10.7	6.5	7.4	8.8	10.7	15.3
Fully diluted	10.7	6.5	7.4	8.8	10.7	15.3
Growth (%)						
Net income (adjusted)	84	(40)	0	9	22	49
EPS (adjusted)	70	(41)	0	9	22	49
DCF/share	19	(39)	13	19	22	43
Cash tax rate (%)	3	1	20	16	35	35
Effective tax rate (%)	3	2	19	14	34	34

Source: Company, Kotak Institutional Equities estimates

Balance sheet of Puravankara
March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010E	2011E	2012E	2013E
Equity						
Share capital	1,067	1,067	1,067	1,067	1,067	1,067
Reserves/surplus	11,060	12,582	13,785	14,877	16,312	19,179
Total equity	**12,127**	**13,649**	**14,852**	**15,944**	**17,379**	**20,246**
Deferred tax liability/(asset)	10	23	9	(23)	(56)	(90)
Liabilities						
Secured loans	5,774	8,106	8,726	9,022	10,022	11,522
Unsecured loans	750	40	85	11	11	11
Total borrowings	**6,524**	**8,146**	**8,811**	**9,033**	**10,033**	**11,533**
Currrent liabilities	4,732	4,659	4,068	4,719	6,248	7,354
Total capital	**23,394**	**26,476**	**27,739**	**29,673**	**33,605**	**39,045**
Assets						
Cash	350	268	782	1,625	1,381	2,174
Current assets	21,660	24,707	25,404	25,258	27,600	29,013
Gross block	611	632	642	652	662	672
Less: accumulated depreciation	115	169	280	407	535	665
Net fixed assets	497	463	362	245	127	6
Capital work-in-progress	-	-	-	1,353	3,306	6,660
Total fixed assets	**497**	**463**	**362**	**1,599**	**3,432**	**6,666**
Intangible assets	—	—	—	—	—	—
Investments	887	1,038	1,191	1,191	1,191	1,191
Misc. expenses	—	—	—	—	—	—
Total assets	**23,394**	**26,477**	**27,739**	**29,673**	**33,605**	**39,045**
Leverage ratios (%)						
Debt/equity	53.8	59.6	59.3	56.7	57.9	57.2
Debt/capitalization	35.0	37.3	37.2	36.2	36.7	36.4
Net debt/equity	50.9	57.6	54.0	46.5	49.9	46.4
Net debt/capitalization	33.7	36.6	35.1	31.8	33.3	31.7
RoAE	**33.4**	**11.2**	**10.2**	**10.3**	**11.6**	**15.3**
RoACE	**15.5**	**6.6**	**5.7**	**6.4**	**6.6**	**9.1**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Sadbhav Engineering (SADE)

Construction

BUY

OCTOBER 31, 2010

RESULT

Coverage view: Attractive

Price (Rs): 1,453

Target price (Rs): 1,750

BSE-30: 20,032

Strong results; in line to meet full-year estimates. Strong 2QFY11 revenue growth of 41% yoy was likely led by execution of 2 large BOT projects. Our full-year FY2011E estimates imply a revenue growth requirement of about 45% in 2HFY11E and flat margins – in line with the trend recorded in 1HFY10. Working capital declined by about Rs1.2 bn from end-FY2010 level led by higher current liabilities. Sadbhav recently won a large Rs14 bn order from NHAI which further boosts the strong backlog. Retain BUY.

Company data and valuation summary

Sadbhav Engineering

Stock data			
52-week range (Rs) (high,low)			1,640-799
Market Cap. (Rs bn)			21.8
Shareholding pattern (%)			
Promoters			47.5
FIIs			23.9
MFs			17.7
Price performance (%)	1M	3M	12M
Absolute	(0.2)	8.4	76.8
Rel. to BSE-30	(0.5)	(2.6)	41.7

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	42.8	61.8	87.2
EPS growth (%)	(16.3)	44.3	41.0
P/E (X)	33.9	23.5	16.7
Sales (Rs bn)	12.6	18.1	25.7
Net profits (Rs bn)	0.6	0.9	1.3
EBITDA (Rs bn)	1.4	2.0	2.9
EV/EBITDA (X)	18.7	12.5	9.6
ROE (%)	15.8	15.1	17.8
Div. Yield (%)	0.2	0.4	0.4

Strong results continue led by execution of large orders

- **Strong revenue growth:** Sadbhav reported a strong revenue growth of 41% yoy in 2QFY11 to Rs2.6 bn likely led by pick-up in execution of the two large BOT road projects in the backlog. The sequential decline in revenues is in line with historical trend. The second quarter is typically a weaker quarter (forms about 60-65% of 1Q revenues) as it is the monsoon season.

- **EBITDA margin expands by 100 bps:** Sadbhav reported an EBITDA margin of 12%, up 100 bps yoy and relatively flat on a sequential basis. The company reported a net PAT of Rs137 mn, versus 2QFY10 PAT of Rs37 mn.

- **1HFY11 performance:** In the half year ending September 30, 2010, Sadbhav reported revenues of Rs6.9 bn, up 42% yoy. Margins expanded by about 80 bps yoy to 12% leading to a net PAT of Rs393 mn in 1HFY11, up 82% yoy from Rs216 mn in 1HFY10 (Exhibit 1).

In line to meet full-year estimates

Our revenue estimate of Rs18 bn in FY2011E (up 43.7% yoy) and 11.3% margin implies a revenue growth requirement of 45% in 2HFY11E with flat margins on a yoy basis - broadly in line with the trend seen in 1HFY10 (Exhibit 2).

Other highlights: Net WCap. reduction on higher current liabilities, award of a large EPC contract

Other highlights are (1) net working capital declined by Rs1.2 bn (from end-FY2010) led by higher current liabilities (up Rs3.6 bn); sundry debtors increased by Rs731 mn from end-FY2010 level (exhibit 3), and (2) won an EPC order worth Rs14 bn in Oct-10 from NHAI for the rehabilitation and up-gradation to 2-lane of Multai-Chhindwara-Sconi section in MP and Maharashtra.

Retain estimates and target price of Rs1,750/share; reiterate BUY

We maintain our estimates of Rs62 and Rs84 for FY2011E and FY2012E. We reiterate BUY with a target price of Rs1,750/share based on – (1) relatively attractive valuations, (2) strong order book, and (3) positive outlook for infrastructural investments.

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Exhibit 1: Strong results continue led by execution of orders in the backlog
Sadbhav, 2QFY11 results (stand alone), March fiscal year-ends, (Rs mn)

	2QFY11	2QFY10	1QFY11	% change yoy	% change qoq	1HFY11	1HFY10	% change
Income from Operations	**2,609**	**1,852**	**4,253**	**40.8**	**(38.7)**	**6,862**	**4,847**	**41.6**
Total expenditure	**(2,295)**	**(1,648)**	**(3,747)**	**39.3**	**(38.8)**	**(6,041)**	**(4,302)**	**40.4**
Construction expenses	(2,025)	(1,531)	(3,551)	32.3	(43.0)	(5,576)	(4,069)	37.0
Employee expenses	(49)	(39)	(69)	24.5	(29.6)	(118)	(80)	47.0
Other expenses	(221)	(78)	(126)	184.0	75.0	(348)	(153)	127.2
EBITDA	**314**	**205**	**507**	**53.6**	**(38.0)**	**821**	**545**	**50.7**
Other income	2	25	2			4	49	
Depreciation	(67)	(57)	(65)	16.2	2.8	(131)	(114)	15.5
EBIT	**250**	**172**	**444**	**45.2**	**(43.7)**	**694**	**480**	**44.5**
Net Interest	(42)	(86)	(60)	(51.4)	(30.7)	(102)	(150)	(31.7)
PBT	**208**	**86**	**383**	**142.0**	**(45.7)**	**592**	**330**	**79.2**
Taxes	(71)	(49)	(128)			(199)	(114)	
Adjusted PAT	**137**	**37**	**255**	**272.6**	**(46.2)**	**393**	**216**	**81.8**
Key ratios (%)								
Construction exp./ sales	77.6	82.6	83.5			81.3	84.0	
Staff cost/ sales	1.9	2.1	1.6			1.7	1.7	
Other exp./ sales	8.5	4.2	3.0			5.1	3.2	
EBITDA margin	**12.0**	**11.0**	**11.9**			**12.0**	**11.2**	
PBT margin	8.0	4.6	9.0			8.6	6.8	
Effective tax rate	34.0	57.2	33.4			33.6	34.6	
PAT margin	5.3	2.0	6.0			5.7	4.5	
EPS	**9.2**	**2.5**	**17.0**			**26.2**	**14.4**	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: In line with meeting full-year estimates
Sadbhav, 2HFY11 implied numbers (stand alone), March fiscal year-ends, (Rs mn)

	1HFY11	1HFY10	% change	2HFY11-implied	2HFY10	% change	FY2011E	FY2010	% change
Income from Operations	**6,862**	**4,847**	**41.6**	**11,198**	**7,723**	**45.0**	**18,060**	**12,569**	**43.7**
Total expenditure	(6,041)	(4,302)	40.4	22,067	(6,891)	(420.2)	16,025	(11,193)	(243.2)
EBITDA	**821**	**545**	**50.7**	**1,214**	**832**	**45.9**	**2,035**	**1,377**	**47.8**
Other income	4	49	(91.1)	64	(4)	(1,610.2)	68	45	51.2
Depreciation	(131)	(114)	15.5	(161)	(119)	35.2	(292)	(233)	25.6
Net Interest	(102)	(150)	(31.7)	522	(59)	(979.4)	420	(209)	(300.6)
PBT	**592**	**330**	**79.2**	**800**	**650**	**23.1**	**1,391**	**980**	**42.0**
Taxes	(199)	(114)	74.2	(265)	(327)	(18.9)	(464)	(441)	5.2
Adjusted PAT	**393**	**216**	**81.8**	**534**	**322**	**65.7**	**927**	**538**	**72.2**
Key ratios (%)									
EBITDA margin	**12.0**	**11.2**		**10.8**	**10.8**		**11.3**	**11.0**	
PBT margin	8.6	6.8		7.1	8.4		7.7	7.8	
Effective tax rate	33.6	34.6		33.2	50.4		33.4	45.0	
PAT margin	5.7	4.5		4.8	4.2		5.1	4.3	

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Sadbhav Engg (standalone) balance sheet, at end-Sept, 2010 (Rs mn)

	Sep-09	Mar-10	Sep-10
Shareholders funds	**3,651**	**3,915**	**4,748**
Share capital	125	125	131
Reserves & surplus	3,526	3,790	4,617
Loan funds	**3,285**	**4,242**	**4,207**
Deferred tax liability	115	141	150
Total sources of funds	**7,051**	**8,298**	**9,105**
Fixed assets	**1,537**	**2,101**	**2,202**
Investments	1,293	1,441	3,518
Cash & bank balances	**136**	**448**	**313**
Current assets	**7,933**	**9,643**	**12,036**
Inventories	194	540	513
Sundry debtors	3,585	4,408	5,139
Loans & advances	4,147	4,668	6,357
Other current assets	7	28	27
Current liabilities & provisions	**3,851**	**5,336**	**8,963**
Current liabilities	3,270	5,273	8,770
Provisions	581	63	193
Net working capital (excl. cash)	**4,082**	**4,308**	**3,073**
Miscellaneous expenditure	4		
Total application of funds	**7,051**	**8,298**	**9,105**

Source: Company

Exhibit 4: Our SOTP valuation for Sadbhav is Rs1,750/share
Sum-Of-Total-Parts valuation of Sadbhav Engineering

Business	Value (Rs mn)	Shareholding (%)	Per share (Rs)	Comments
Construction business (a)	**13,807**	**100**	**920**	**Based on FY2012E EBITDA - 6X for construction business**
Sadbhav Infrastructure Projects Ltd (b)	**15,878**	**78**	**824**	
Cash coming in from pvt. equity	**4,000**			
BOT projects	**9,628**			**Based on DCF valuation of projects**
Ahmedabad Ring Road	2,703			SIPL has 80% stake
Mumbai Nasik	153			SIPL has 20% stake
Aurangabad-Jalna	300			SIPL has 51% stake
Nagpur-Seoni	118			SIPL has 51% stake
Dhule	1,068			SIPL has 27% stake
Maharashtra border checkpost	1,512			SIPL has 90% stake
Rohtak-Panipat	1,534			SIPL has 100% stake
Hyderabad-Yadgiri	771			SIPL has 60% stake
Bijapur-Hungund	1,469			SIPL has 77% stake
Value of incremental projects	**2,250**			**100 km projects at 70:30 debt equity and 0.5X incr. P/B**
Total (a) + (b)	**31,935**		**1,744**	
Target price			**1,750**	

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Financials of Sadbhav Engg (standalone), March fiscal year-ends, 2006-12E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model							
Total income	**2,906**	**4,886**	**8,721**	**10,625**	**12,569**	**18,060**	**25,669**
Expenses	(2,553)	(4,307)	(7,749)	(9,530)	(11,198)	(16,025)	(22,773)
EBITDA	**353**	**579**	**972**	**1,095**	**1,371**	**2,035**	**2,895**
Interest (expense)/income	(84)	(54)	(157)	(214)	(331)	(420)	(655)
Depreciation	(139)	(149)	(139)	(157)	(233)	(292)	(363)
Other income	(2)	6	30	108	158	68	81
Pretax profits	**129**	**381**	**706**	**832**	**966**	**1,391**	**1,959**
Tax	(11)	(129)	(221)	(179)	(297)	(450)	(632)
Adjusted net income	**117**	**263**	**489**	**639**	**642**	**927**	**1,307**
EPS (Rs)	**14.1**	**24.1**	**40.5**	**51.1**	**42.8**	**61.8**	**87.2**
Balance sheet							
Total equity	1,254	1,466	2,861	3,435	3,915	5,987	7,189
Deferred taxation liability	108	93	97	110	141	155	174
Total borrowings	522	730	1,503	2,111	4,242	4,000	6,500
Total liabilities and equity	**1,884**	**2,290**	**4,461**	**5,656**	**8,298**	**10,142**	**13,863**
Net fixed assets	1,038	1,119	1,430	1,545	2,101	2,609	3,246
Investments	104	461	1,205	1,246	1,441	3,533	5,033
Net current assets (excl. cash)	275	433	1,706	2,756	4,308	3,565	5,128
Cash	432	251	103	100	448	435	456
Miscl. exp. not written off	34	26	17	8	-	-	-
Total assets	**1,884**	**2,290**	**4,461**	**5,656**	**8,298**	**10,142**	**13,863**
Free cash flow							
Cash flow from operations	**551**	**278**	**(485)**	**(105)**	**(521)**	**2,281**	**700**
Pre-tax income	129	381	706	832	966	1,391	1,959
Depreciation & amortization	139	149	139	157	233	292	363
Taxes paid	(69)	(62)	(221)	(235)	(393)	(450)	(632)
Interest expense	80	54	121	128	238	422	657
Working capital changes	245	(260)	(1,298)	(999)	(1,569)	696	(1,563)
Cash flow from investing	**(502)**	**(588)**	**(1,195)**	**(319)**	**(965)**	**(2,892)**	**(2,500)**
Capital investment	(398)	(232)	(451)	(278)	(770)	(800)	(1,000)
Investment changes	(104)	(356)	(744)	(41)	(195)	(2,092)	(1,500)
Free cash flow	**49**	**(310)**	**(1,680)**	**(424)**	**(1,486)**	**(611)**	**(1,800)**
Ratios							
EBITDA margin (%)	12.1	11.8	11.1	10.3	10.9	11.3	11.3
PAT margin (%)	4.0	5.4	5.6	6.0	5.1	5.1	5.1
Debt/equity (X)	38.3	46.8	50.8	59.6	104.6	65.1	88.3
Net debt/equity (X)	6.6	30.7	47.4	56.7	93.5	58.0	82.1
RoAE (%)	8.6	16.8	16.5	18.0	15.8	15.1	17.8
RoACE (%)	10.4	(349.7)	36.2	17.7	14.2	15.2	13.5

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

GVK Power & Infrastructure (GVKP)

Infrastructure

BUY

OCTOBER 31, 2010

RESULT

Coverage view: Attractive

Price (Rs): 43

Target price (Rs): 54

BSE-30: 20,032

Broadly in-line results; strong traffic growth continues at airports. GVKPIL reported relatively sedate revenue growth of 2.3%, about 9.5% below our estimates. Net PAT of Rs428 mn was broadly in line with our estimates. Roads segment led the revenue growth (9%) while power segment reported relatively flat revenues on a yoy basis. Both the airports (Mumbai, Bangalore) continued to records strong traffic growth in 2QFY11 (about 12%) while traffic moderates for the road project. Reiterate BUY.

Company data and valuation summary

GVK Power & Infrastructure

Stock data			
52-week range (Rs) (high,low)			54-40
Market Cap. (Rs bn)			67.2
Shareholding pattern (%)			
Promoters			54.3
FIIs			28.2
MFs			6.1
Price performance (%)	1M	3M	12M
Absolute	(8.6)	(1.8)	(6.5)
Rel. to BSE-30	(8.9)	(11.8)	(25.1)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	0.7	0.9	1.1
EPS growth (%)	(3.4)	23.7	25.2
P/E (X)	57.7	46.7	37.3
Sales (Rs bn)	18.6	22.3	22.4
Net profits (Rs bn)	1.2	1.4	1.8
EBITDA (Rs bn)	5.7	7.1	7.5
EV/EBITDA (X)	19.4	17.5	18.2
ROE (%)	4.2	4.5	5.4
Div. Yield (%)	0.0	0.7	0.7

Sedate revenue growth slightly below estimates; in line at PAT level; roads lead revenue growth

- **Revenues:** GVKPIL reported 2QFY11 results of Rs5 bn, up 2.3% yoy and about 9.5% below our estimate of Rs5.6 bn. The growth was primarily led by the roads segment while power segment reported relatively flat revenues on a yoy basis.

- **EBITDA:** EBITDA declined by about 170 bps yoy to 28.9% from 30.6% in 2QFY10, about 100 bps below our estimate. Margins have expanded by 310 bps on a sequential basis primarily led by lower other expenses as a percentage of sales. GVKPIL reported a net PAT of Rs428 mn, in line with our estimates.

- **1HFY11 performance:** For the half year ending September 30, 2010, GVKPIL reported revenues of Rs9.9 bn, up 20.5% yoy. Margin at 27.4% was about 240 bps down on a yoy basis. High interest and depreciation costs led to relatively flat net PAT of Rs762 mn in 1HFY11.

Strong traffic growth in both the airport projects; road project traffic remains flat on a yoy basis

MIAL passenger traffic grew at 12% yoy in 2QFY11 led by international passengers which recorded a 14% yoy growth. MIAL reported revenue of Rs2.8 bn for 2QFY11, up 13.7% yoy. Even Bangalore airport recorded a very strong passenger growth of 12.5% yoy in 2QFY11 leading to a revenue growth of 8% for the quarter. However, we highlight a slight moderation in the traffic growth levels of JKEL which recorded relatively flat traffic levels post a growth of 14% in FY2010 and long-term traffic CAGR of 9.5% over FY2006-10.

Maintain earning estimates; reiterate BUY with a SOTP-based target price of Rs54/share

We maintain estimates and SOTP-based target price of Rs54/share comprised of (1) Rs24 for Mumbai airport, (2) Rs6 from road SPV, (3) Rs15 from the power assets, (4) Rs2 from SEZ project and (5) Rs7/share for Bangalore airport valued at 1X P/B.

We retain our BUY rating based on (1) strong progress across projects, (2) pick-up in road and airport traffic, (3) relatively attractive valuation of about 2X FY11E P/B, and (4) potential realization of better-than-expected value for stake sale in power vertical.

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Sedate revenue growth slightly below estimates; in line at PAT level

GVKPIL reported 2QFY11 results of Rs5 bn, up 2.3% yoy and about 9.5% below our estimate of Rs5.6 bn. The growth was primarily led by the roads segment while power segment reported relatively flat revenues on a yoy basis. EBITDA declined by about 170 bps yoy to 28.9% from 30.6% in 2QFY10, about 100 bps below our estimate. Margins have expanded by 310 bps on a sequential basis primarily led by lower other expenses as a percentage of sales. Other expenses have decline on an absolute basis as well to Rs467 mn in 2QFY11 versus previous quarter (1QFY11) levels of Rs632 mn. GVKPIL reported a net PAT of Rs428 mn, in line with our estimates.

For the half year ending September 30, 2010, GVKPIL reported revenues of Rs9.9 bn, up 20.5% yoy. Margin at 27.4% was about 240 bps down on a yoy basis. High interest and depreciation costs led to relatively flat net PAT of Rs762 mn in 1HFY11.

GVKPIL - consolidated 2QFY11 results - key numbers (Rs mn)

					%change					
	2QFY11	2QFY11E	2QFY10	1QFY11	vs est.	yoy	qoq	1HFY11	1HFY10	%chg
Net sales	**5,034**	**5,566**	**4,923**	**4,899**	**(9.5)**	**2.3**	**2.8**	**9,933**	**8,245**	**20.5**
Cost of fuel	(3,030)		(2,928)	(2,925)		3.5	3.6	(5,955)	(4,943)	20.5
Employee cost	(83)		(62)	(79)		34.8	4.9	(162)	(117)	38.5
Other expenditure	(467)		(426)	(632)		9.7	(26.1)	(1,099)	(734)	49.8
Cost of goods sold	(3,580)	(3,896)	(3,415)	(3,636)	(8.1)	4.8	(1.6)	(7,216)	(5,794)	24.5
EBITDA	**1,455**	**1,670**	**1,508**	**1,263**	**(12.9)**	**(3.5)**	**15.2**	**2,717**	**2,452**	**10.8**
Depreciation & amortization	(462)	(649)	(532)	(462)	(28.9)	(13.2)	(0.0)	(923)	(890)	3.8
EBIT	993	1,021	976	801	(2.7)	1.7	24.0	1,794	1,562	14.9
Interest (expense)	(656)	(736)	(565)	(682)	(10.9)	15.9	(3.9)	(1,338)	(872)	53.4
Other income/(expense)	31	50	80	76		(61.7)	(59.8)	106	118	
Pre-tax profit	**368**	**335**	**490**	**194**	**9.9**	**(25.0)**	**89.5**	**562**	**807**	**(30.3)**
Income tax	(82)	(84)	(120)	(36)	(1.6)	(31.6)	132.1	(118)	(201)	(41.3)
Minority interest	(78)	(53)	(62)	(53)	46.4	25.7	45.8	(131)	(84)	
Share of profit from assoc	220	228	134	229	(3.5)	64.2	(3.6)	449	247	
Net profit	**428**	**426**	**442**	**334**	**0.4**	**(3.2)**	**28.2**	**762**	**770**	**(1.0)**
Key ratios (%)										
Cost of fuel/ Sales	60.2		59.5	59.7				59.9	60.0	
Employee cost/ Sales	1.6		1.2	1.6				1.6	1.4	
Other expenditure/ Sales	9.3		8.7	12.9				11.1	8.9	
EBITDA margin	**28.9**	**30.0**	**30.6**	**25.8**				**27.4**	**29.7**	
PBT margin	7.3	6.0	10.0	4.0				5.7	9.8	
PAT margin	8.5	7.7	9.0	6.8				7.7	9.3	
Effective tax rate	22.4	25.0	24.6	18.3				21.0	24.9	

Source: Company, Kotak Institutional Equities estimates

Revenue growth primarily led by roads segment

The revenue growth in 2QFY11 was primarily led by the roads segment. Road segment reported moderate revenue growth of about 9% led by traffic growth seen in the Jaipur-Kishangarh road project. Roads segment reported a significant improvement in profitability, with EBIT margins of 66.5% in this quarter from 48.5% in 2QFY10. Power segment reported relatively flat revenues on a yoy basis of Rs4.5 bn as all three units (GVKIL I & II, Gautami) were operational by 2QFY10. EBIT margins for this segment declined by about 140 bps on a yoy basis.

GVKPIL - 2QFY11 segmental results (Rs mn)

	2QFY11	2QFY10	1QFY11	%change yoy	%change qoq	1HFY11	1HFY10	% change
Segment revenue								
Power	4,540	4,467	4,430	1.6	2.5	8,970	7,360	21.9
Roads	463	425	437	9.1	6.0	900	822	9.5
Others	31	32	32	(0.9)	(1.3)	63	64	
Net sales	**5,034**	**4,923**	**4,899**	**2.3**	**2.8**	**9,933**	**8,245**	**20.5**
Segment result								
Power	652.2	706	618	NA	5.6	1,270	1,071	18.5
Roads	308.2	206	156	49.7	98.2	464	394	17.8
Others	32.6	65	28			60	97	
Total	**993**	**976**	**801**			**1,794**	**1,562**	**14.9**
Revenue mix (%)								
Power	90.2	90.7	90.4			90.3	89.3	
Roads	9.2	8.6	8.9			9.1	10.0	
EBIT margin (%)								
Power	14.4	15.8	13.9			14.2	14.6	
Roads	66.5	48.5	35.6			51.5	47.9	

Source: Company, Kotak Institutional Equities

GVK Industries Ltd and Gautami power - 2QFY11 results - key numbers (Rs mn)

	GVK Industries								Gautami Power							
				% change								% change				
	2QFY11	2QFY10	1QFY11	yoy	qoq	1HFY11	1HFY10	% chg.	2QFY11	2QFY10	1QFY11	yoy	qoq	1HFY11	1HFY10	% chg.
Net sales	**2,067**	**1,968**	**2,049**	**5.0**	**0.9**	**4,116**	**4,156**	**(1.0)**	**2,472**	**2,499**	**2,381**	**(1.1)**	**3.8**	**4,854**	**3,204**	**51.5**
Cost of fuel	(1,403)	(1,281)	(1,378)	9.5	1.8	(2,781)	(2,839)	(2.0)	(1,627)	(1,647)	(1,547)	(1.2)	5.2	(3,173)	(2,104)	50.8
Employee cost	(33)	(24)	(33)	38.0	0.3	(67)	(50)	34.7	(16)	(12)	(15)	40.0	5.2	(31)	(14)	119.6
Other expenditure	(253)	(197)	(261)	27.9	(3.3)	(514)	(372)	38.0	(139)	(115)	(163)	20.9	(14.3)	(302)	(147)	106.0
Total expenses	(1,689)	(1,503)	(1,673)	12.4	1.0	(3,362)	(3,261)	3.1	(1,782)	(1,774)	(1,725)	0.5	3.3	(3,507)	(2,265)	54.8
EBITDA	**378**	**466**	**376**	**(18.8)**	**0.6**	**754**	**895**	**(15.7)**	**690**	**725**	**657**	**(4.8)**	**5.1**	**1,347**	**940**	**43.4**
Depreciation	(189)	(239)	(189)	(20.8)	0.1	(379)	(466)	(18.8)	(227)	(226)	(225)	0.4	0.5	(452)	(291)	55.4
Interest (expense)	(142)	(164)	(142)	(13.8)	0.1	(283)	(313)	(9.5)	(252)	(341)	(296)	(26.0)	(14.9)	(548)	(444)	23.5
Other income	11	4	38	148.8	(71.5)	48	28	75.3	16	3	21	464.3	(25.5)	37	3	
Pre-tax profit	**58**	**67**	**83**	**(13.3)**	**(29.9)**	**141**	**143**	**(1.6)**	**228**	**162**	**157**	**40.8**	**45.4**	**384**	**208**	**84.7**
Income tax	6	(36)	(13)	(117.7)	(147.4)	(7)	(50)	(86.1)	(14)	(38)	(10)	(62.8)	37.9	(25)	(42)	(41.7)
Net profit	**64**	**31**	**69**	**105.8**	**(7.4)**	**134**	**93**	**44.2**	**213**	**123**	**146**	**72.9**	**46.0**	**360**	**166**	**116.6**
Key ratios (%)																
Cost of fuel/ Sales	67.9	65.1	67.3			67.6	68.3		65.8	65.9	65.0			65.4	65.7	
Employee cost/ Sales	1.6	1.2	1.6			1.6	1.2		0.7	0.5	0.6			0.6	0.4	
Other exp./ Sales	12.2	10.0	12.7			12.5	9.0		5.6	4.6	6.8			6.2	4.6	
EBITDA margin	**18.3**	**23.7**	**18.4**			**18.3**	**21.5**		**27.9**	**29.0**	**27.6**			**27.8**	**29.3**	
PBT margin	2.8	3.4	4.0			3.4	3.4		9.2	6.5	6.6			7.9	6.5	
PAT margin	31.1	15.9	33.8			32.4	22.3		86.3	49.4	61.4			74.1	51.8	
Effective tax rate	-10.9	53.3	16.1			5.0	35.2		6.2	23.6	6.6			6.4	20.2	

Source: Company, Kotak Institutional Equities

Relatively flat traffic in Jaipur-Kishangarh expressway post strong FY2010

Jaipur-Kishangarh expressway recorded relatively flat yoy traffic levels (down 1.5% yoy) in 2QFY11. This is post a strong 14% traffic growth witnessed in FY2010 and a long-term average growth rate of about 9.5% over FY2006-10.

Flat yoy traffic levels in 2QFY11 for Jaipur-Kishangarh road project
PCU analysis for traffic data of GVK Jaipur Kishengarh ('000)

						%change	CAGR				%change	
Vehicle type	**FY2010**	**FY2009**	**FY2008**	**FY2007**	**FY2006**	**FY2009**	**FY06-10**	**2QFY11**	**2QFY10**	**1QFY11**	**yoy**	**qoq**
Car, Passenger Vehicles	2,665	2,351	2,129	1,910	1,618	13.4	13.3	653	637	690	2.5	(5.5)
Light Goods Vehicles	462	421	408	375	335	9.8	8.4	118	112	121	5.9	(2.6)
Truck	407	388	372	365	331	4.9	5.3	101	99	108	1.7	(6.5)
Bus	861	890	1,030	1,230	1,397	(3.3)	(11.4)	186	211	201	(11.5)	(7.3)
Multi Axle Vehicles	3,464	2,931	2,911	2,395	1,926	18.2	15.8	857	866	890	(1.0)	(3.7)
Heavy Vehicles	2	2	2	3	2	(0.4)	(0.2)	1	0	1	43.6	1.3
Total PCU count	**27,696**	**24,305**	**24,378**	**21,838**	**19,260**	**14.0**	**9.5**	**6,760**	**6,860**	**7,067**	**(1.5)**	**(4.3)**

Source: Company, Kotak Institutional Equities

JKEL reported 2QFY11 revenue of Rs463 mn, up 6% yoy. EBITDA margin was significantly higher at 76.6% versus 64.2% in 2QFY10. This is versus 1QFY11 margin of 46.4%; the margin expansion was likely due to absence of periodic maintenance expenses. Strong margin expansion led to a net PAT of Rs253 mn in 2QFY11 almost 2X 2QFY10 PAT.

GVK Jaipur Expressway Private Ltd -2QFY11 results - key numbers (Rs mn)

				%change				
	2QFY11	**2QFY10**	**1QFY11**	**yoy**	**qoq**	**1HFY11**	**1HFY10**	**% change**
Net sales	**463**	**424**	**437**	**6.0**	**16.6**	**900**	**822**	**9.5**
Share of NHAI	(39)	(35)	(29)	37.2	60.2	(68)	(60)	13.0
Employee cost	(24)	(19)	(20)	21.5	100.8	(43)	(31)	41.2
Other expenditure	(45)	(98)	(186)	(75.6)	(57.8)	(232)	(205)	12.9
Total expenses	(108)	(152)	(234)	(53.8)	(24.7)	(343)	(296)	15.9
EBITDA	**355**	**273**	**203**	**75.3**	**40.0**	**558**	**526**	**6.0**
Depreciation	(46)	(67)	(47)	(3.4)	(30.7)	(93)	(132)	(30.1)
Interest (expense)	(52)	(57)	(53)	(2.3)	(8.1)	(105)	(113)	(7.4)
Other income/(expense)	3	12	15	(83.2)	(66.2)	17	20	(11.7)
Pre-tax profit	**260**	**161**	**117**	**121.8**	**87.3**	**378**	**300**	**25.8**
Income tax	(7)	(28)	(5)	48.9	(70.2)	(12)	(51)	(77.1)
Net profit	**253**	**134**	**113**	**124.9**	**119.4**	**366**	**249**	**46.8**
Key ratios (%)								
Cost of fuel/ Sales	8.4	8.3	6.5			7.5	7.3	
Employee cost/ Sales	5.1	4.4	4.5			4.8	3.7	
Other expenditure/ Sales	9.8	23.0	42.6			25.7	25.0	
EBITDA margin	**76.6**	**64.2**	**46.4**			**62.0**	**64.0**	
PAT margin	546.5	315.0	257.7			406.4	303.1	
Effective tax rate	2.7	17.1	4.0			3.1	17.0	

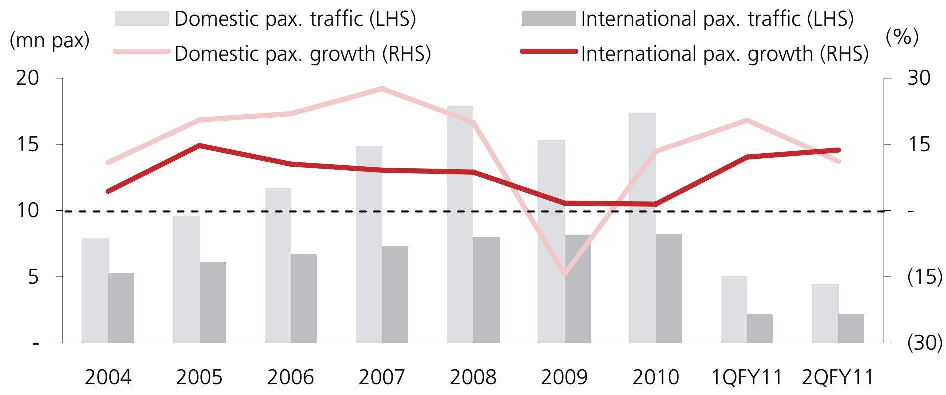
Source: Company, Kotak Institutional Equities

Airport business - performance boosted by strong traffic growth

Both Mumbai as well as the Bangalore airports reported a strong growth in passenger traffic levels driving the revenue growth in the quarter. Mumbai airport passenger traffic demonstrated strong recovery in 1QFY11, growing at 18% yoy. The yoy growth in the traffic was also partially aided by the low base effect - Mumbai airport had recorded a 7% decline in passenger traffic levels in 1QFY10. The growth was led by the domestic segment which grew by 20% yoy while the international passenger segment recorded a 12% yoy growth. Highlight that the long-term CAGR of passenger traffic at Mumbai airport, for FY2003-10, stands at 11%.

MIAL pax traffic back to FY2008 levels after 10% de-growth in FY2009; FY2003-10 CAGR of 11%

Domestic and international passenger traffic statistic at Mumbai airport, March fiscal year-ends 2003-10 (mn)



Source: Company, AAI, Kotak Institutional Equities

The growth in financials of the two airports was primarily led by the traffic growth. MIAL reported revenue of Rs2.8 bn for 2QFY11, up 13.7% yoy. EBITDA grew at 28% yoy on account of lower other expenses (14% of sales in 2QFY11 versus 19% in 2QFY10) potentially due to operating leverage. PAT for MIAL airport for 2QFY11 was Rs437 mn, up 20.5% yoy, despite higher depreciation and interest expense.

Mumbai International Airport Ltd - 2QFY11 results - key numbers (Rs mn)

				%change				
	2QFY11	2QFY10	1QFY11	yoy	1QFY11	1HFY11	1HFY10	% change
Net sales	**2,781**	**2,446**	**2,677**	**13.7**	**3.9**	**5,458**	**4,009**	**36.2**
AAI Fees	(1,079)	(950)	(1,043)	13.6	3.5	(2,122)	(1,559)	36.1
Employee cost	(209)	(176)	(198)	18.6	5.6	(406)	(300)	35.4
Other expenditure	(398)	(467)	(445)	(14.7)	(10.4)	(843)	(830)	1.6
Total expenses	(1,686)	(1,593)	(1,685)	5.9	0.1	(3,372)	(2,689)	25.4
EBITDA	**1,095**	**854**	**992**	**28.3**	**10.4**	**2,087**	**1,319**	**58.2**
Depreciation	(279)	(166)	(269)	67.7	3.6	(548)	(274)	100.2
Interest (expense)	(176)	(136)	(123)	29.0	43.6	(299)	(204)	46.3
Other income	8	8	18	5.3	(56.0)	26	21	27.2
Pre-tax profit	**648**	**558**	**618**	**16.0**	**4.8**	**1,266**	**862**	**46.8**
Income tax	(211)	(196)	(216)	7.8	(2.3)	(427)	(295)	45.0
Net profit	**437**	**362**	**402**	**20.5**	**8.7**	**839**	**567**	**47.8**
Key ratios (%)								
AAI fees/ Sales	38.8	38.8	39.0			38.9	38.9	
Employee cost/ Sales	7.5	7.2	7.4			7.4	7.5	
Other exp./ Sales	14.3	19.1	16.6			15.4	20.7	
EBITDA margin	**39.4**	**34.9**	**37.0**			**38.2**	**32.9**	
PBT margin	23.3	22.8	23.1			23.2	21.5	
PAT margin	157.0	148.1	150.1			153.6	141.5	
Effective tax rate	32.6	35.1	35.0			33.7	34.2	

Source: Company, Kotak Institutional Equities

Bangalore International Airport Ltd - 2QFY11 results - key numbers (Rs mn)

				% change				
	2QFY11	2QFY10	1QFY11	yoy	qoq	1HFY11	1HFY10	% chg.
Net sales	**1,306**	**1,214**	**1,294**	**7.6**	**0.9**	**2,601**	**2,321**	**12.1**
Employee cost	(170)	(154)	(167)	9.9	1.6	(337)	(295)	14.0
Operating exp.	(285)	(273)	(263)	4.3	8.3	(548)	(538)	1.9
Total expenses	(454)	(427)	(430)	6.3	5.7	(884)	(833)	6.2
EBITDA	**852**	**787**	**864**	**8.3**	**(1.4)**	**1,716**	**1,488**	**15.3**
Depreciation	(359)	(339)	(335)	6.0	7.0	(694)	(663)	4.7
Interest (expense)	(265)	(310)	(384)	(14.5)	(31.0)	(649)	(613)	5.9
Other income	67	35	58	92.3	15.9	125	200	(37.4)
Pre-tax profit	**295**	**173**	**203**	**70.5**	**45.5**	**498**	**412**	**20.9**
Income tax	-	(3)	(1)	(100.0)	(100.0)	(1)	(5)	(71.1)
Net profit	**295**	**170**	**202**	**73.5**	**46.4**	**497**	**408**	**22.0**
Adjustments	(88)	(36)	68	142.7	(229.8)	(20)	(281)	(92.9)
PAT after AS-11 Adjustments	**208**	**134**	**269**	**54.9**	**(22.8)**	**477**	**126**	**277.9**
Pax Traffic ('000)								
International	570	504	540	13.2	5.6	1,110	946	17.3
Domestic	2,165	1,927	2,363	12.3	(8.4)	4,528	3,787	19.6
Total	**2,735**	**2,430**	**2,903**	**12.5**	**(5.8)**	**5,637**	**4,733**	**19.1**
Key ratios (%)								
Employee cost/ Sales	13.0	12.7	12.9			12.9	12.7	
Op. exp./ Sales	21.8	22.5	20.3			21.1	23.2	
EBITDA margin	**65.2**	**64.8**	**66.8**			**66.0**	**64.1**	
PBT margin	22.6	14.3	15.7			19.2	17.8	
PAT margin	226.0	140.2	155.8			191.1	175.6	
Effective tax rate	-	1.7	0.6			0.3	1.1	

Source: Company, Kotak Institutional Equities

Maintain earning estimates; reiterate BUY with target price of Rs54/share

We maintain our earnings estimates and reiterate our BUY rating with a SOTP-based target price of Rs54/share based on (1) visible progress across projects, (2) pick up in road and airport traffic (3) relatively attractive valuation of about 2X FY11E P/B, and (4) potential realization of better than expected value for stake sale in power vertical.

Our target price of Rs54 is comprised of (1) Rs24 for Mumbai airport, (2) Rs6 from road SPV, (3) Rs15 from the power assets, (4) Rs2 from SEZ project and (5) Rs7/share for Bangalore airport valued at 1X P/B. Further potential upside could arise from – (1) progress on Mumbai real estate monetization, (2) potential equity raising in power vertical demonstrating better-than-ascribed value.

SOTP valuation of GVPIL

	Total asset value		GVK's stake	Value of GVK's stake			
	(Rs bn)	(US$ mn)	(%)	(Rs bn)	(US$ mn)	(Rs/share)	(% Contribution)
Mumbai Airport	**104**	**2,328**	**36**	**38**	**844**	**23.8**	**43.6**
Core	36	818	36	13	297	8.4	15.3
Real estate	67	1,510	36	24	547	15.4	28.3
Roads	**11**	**239**	**-**	**11**	**239**	**6.7**	**12.3**
GKEL	11	239	100	11	239	6.7	12.3
Power	**27**	**607**	**-**	**24**	**534**	**15.1**	**27.6**
GVK I	7	165	100	7	165	4.6	8.5
GVK II	0	4	100	0	4	0.1	0.2
Gautami	6.6	148	51	3.4	75	2.1	3.9
O&M business	0	11	100	0	11	0.3	0.6
Alaknanda	6	124	100	6	124	3.5	6.4
Goindwal Sahib	5	118	100	5	118	3.3	6.1
Tokisud coal mine	2	37	100	2	37	1.1	1.9
SEZ	**3**	**58**	**95**	**2**	**56**	**1.6**	**2.9**
SEZ (Tamil Nadu)	3	58	95	2	56	1.6	2.9
Inv in Bangalore airport	**12**	**263**	**100**	**12**	**263**	**7.4**	**13.6**
Grand total	**153**	**3,436**	**-**	**86**	**1,880**	**54.6**	**100.0**

Source: Company, Kotak Institutional Equities estimates

Consolidated financials of GVKPIL, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Income statement						
Net revenues	**3,986**	**4,700**	**5,138**	**18,605**	**22,262**	**22,386**
Cost of goods sold	(1,979)	(2,845)	(3,375)	(12,946)	(15,213)	(14,896)
EBITDA	**2,007**	**1,855**	**1,763**	**5,659**	**7,049**	**7,490**
Depreciation & amortization	(806)	(776)	(780)	(2,085)	(2,409)	(2,409)
Interest expense	(627)	(414)	(334)	(2,188)	(2,889)	(2,901)
Other income/(expense)	247	622	202	9	2	5
Pre-tax profit	**821**	**1,287**	**851**	**1,395**	**1,752**	**2,184**
Income tax	(196)	(241)	(101)	(725)	(899)	(1,032)
Share of profit from associates	336	407	316	684	799	915
Net profit	**596**	**1,350**	**1,072**	**1,164**	**1,440**	**1,802**
EPS (Rs)	**0.6**	**1.0**	**0.8**	**0.7**	**0.9**	**1.1**
Shares outstanding (mn)	940	1,406	1,406	1,579	1,579	1,579
Balance sheet						
Shareholders' funds	**5,956**	**21,866**	**23,229**	**31,561**	**32,527**	**33,855**
Minority interest	2,729	6	2,644	2,834	3,046	3,312
Total debt	**15,446**	**12,910**	**29,798**	**40,246**	**53,047**	**66,656**
Deferred income	1,876	1,758	1,641	1,641	1,641	1,641
Total Sources of Funds	**26,899**	**37,431**	**58,197**	**77,167**	**91,146**	**106,350**
Fixed assets - net	**13,016**	**12,275**	**13,590**	**38,075**	**36,003**	**33,594**
Capital WIP	8,211	13,501	38,502	20,295	34,655	49,856
Investments	2,974	7,068	3,214	16,317	17,836	19,471
Net current assets	**2,065**	**2,939**	**1,325**	**(462)**	**380**	**311**
Cash & bank balances	631	1,643	1,562	2,936	2,267	3,113
Total assets	**26,899**	**37,431**	**58,197**	**77,167**	**91,146**	**106,350**
Free cash flow						
Net cashflow from operating activites		**948**	**3,144**	**4,541**	**2,421**	**3,632**
Net PBT		1,287	851	1,395	1,752	2,184
Tax paid		(241)	(101)	(725)	(899)	(1,032)
Add: Depreciation		776	780	2,085	2,409	2,409
Change in wcap.		(874)	1,614	1,786	(842)	70
Cash flow from investing activities		**(9,538)**	**(23,372)**	**(21,467)**	**(16,216)**	**(16,836)**
Free cash flow		**(8,590)**	**(20,228)**	**(16,926)**	**(13,796)**	**(13,204)**
Key ratios						
EBITDA margin (%)	50.3	39.5	34.3	30.4	31.7	33.5
Pat margin (%)	15.0	28.7	20.9	6.3	6.5	8.1
Net debt/ equity (X)	2.5	0.5	1.2	1.2	1.6	1.9
ROCE (%)	3.9	5.2	2.9	3.3	4.0	3.8
Return on equity (%)	20.0	9.7	4.8	4.2	4.5	5.4

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Wipro (WPRO)

Technology

ADD

OCTOBER 31, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 420

Target price (Rs): 465

BSE-30: 20,032

Notes from discussions with the Joint CEO. We spoke to Girish Paranjape, Wipro's joint CEO, to get his thoughts on the company's revenue underperformance versus peers and steps to address the challenge. He cited two key reasons for underperformance – (1) Wipro was late in anticipating the strength and sustainable nature of demand recovery and hence, lagged peers in grabbing demand, and (2) client mix issues. He expects revenue underperformance to narrow going forward.

Company data and valuation summary

Wipro

Stock data			
52-week range (Rs) (high,low)			500-321
Market Cap. (Rs bn)			1,027.0
Shareholding pattern (%)			
Promoters			79.4
FIIs			7.7
MFs			0.6
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(5.1)	0.7	12.0
Rel. to BSE-30	(5.5)	(9.5)	(10.2)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	18.9	21.1	24.3
EPS growth (%)	22.1	12.1	15.0
P/E (X)	22.3	19.9	17.3
Sales (Rs bn)	271.2	309.6	360.9
Net profits (Rs bn)	45.9	51.7	59.5
EBITDA (Rs bn)	59.1	68.6	79.9
EV/EBITDA (X)	16.8	14.1	11.7
ROE (%)	26.5	23.8	22.8
Div. Yield (%)	0.8	1.0	1.2

Excessive caution underpins underperformance versus peers

Wipro's joint CEO attributed the company's revenue underperformance versus peers (TCS, Infosys, and CTS) over the past few quarters to the following factors:

- **Undue caution in reading the strength and nature of demand recovery.** Macro uncertainties and the short-term nature of projects at the beginning of demand recovery (Sep/Oct 2009) kept Wipro skeptical about the strength as well as sustainable nature of demand recovery, especially on the discretionary side. Girish indicated that Wipro under-appreciated the flow-through downstream business potential from the short-term tactical projects and hence did not take some of these projects on – a mistake, in hindsight, as the competitors who took up these projects are now reaping volume surge benefits.
- **Under-prepared fulfillment engine.** A direct result of the poor reading of demand strength was Wipro's relative under-preparedness on the supply side – bench, lateral strength, etc. Moreover, by the time the company decided to correct course on these aspects, attrition had spiked up across the industry, making things more challenging.
- **Client mix.** Wipro also attributes its underperformance to its relatively weaker client portfolio mix, from a growth perspective. The initial phase of growth was nearly completely driven by large BFS clients, and M&A opportunities, areas where Wipro's weaker client mix led to revenue underperformance.

Focused on course correction

Even as the company sees a couple of weak spots in its top-10 portfolio (telecom OEMs) relative to peers, it expects demand environment to remain strong with more discretionary project starts in 1HCY11E. The company, in Azim Premji's words echoed by Girish, is 'putting all its muscle' to bridge revenue underperformance. With a more positive approach to micro demand strength, better prepared supply side, and more focused client-facing teams, Wipro expects to compete on an even keel and grab its fair share (if not more) of demand in CY2011E. The company also expects its substantial investments in Consulting to start paying dividends in the near future.

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Exhibit 1: Profit model, balance sheet, cash model of Wipro Limited, 2009-2013E, March fiscal year-ends (Rs mn)

	2009	2010	2011E	2012E	2013E
Profit model					
Revenues	**254,564**	**271,242**	**309,562**	**360,879**	**413,051**
Cost of revenues (incl. deprn)	(178,368)	(186,299)	(210,708)	(246,455)	(282,645)
Revenues	**76,196**	**84,943**	**98,854**	**114,424**	**130,406**
SG&A expenses (incl. deprn)	(32,458)	(33,430)	(39,928)	(45,309)	(52,531)
EBITA	**43,738**	**51,513**	**58,926**	**69,115**	**77,875**
Amortization of intangibles	(1,488)	—	—	—	—
EBIT	**42,250**	**51,513**	**58,926**	**69,115**	**77,875**
Other income	369	3,369	4,271	6,347	7,402
Pre-tax profits	**42,619**	**54,882**	**63,198**	**75,462**	**85,278**
Provision for tax	(5,247)	(9,293)	(11,658)	(15,848)	(18,497)
PAT	**37,372**	**45,589**	**51,540**	**59,614**	**66,781**
Equity in earnings of affiliates	362	530	733	768	806
Reported PAT	**37,734**	**46,119**	**52,273**	**60,382**	**67,587**
EPS (Rs)	**15.4**	**18.9**	**21.1**	**24.3**	**27.2**
Balance Sheet					
Shareholders funds	150,182	196,112	237,617	284,984	336,955
Deferred tax liability/(assets)	—	—	—	—	—
Borrowings	27,563	26,009	9,018	10,513	12,033
Minority interest	235	437	994	1,908	2,914
Total liabilities	**177,980**	**222,558**	**247,629**	**297,405**	**351,902**
Net fixed assets	49,862	53,458	59,513	67,438	74,361
Cash and bank balances	65,297	95,298	63,266	95,041	132,718
Net current assets excluding cash	(13,143)	2,846	51,874	59,458	66,795
Other assets	75,964	70,956	72,976	75,468	78,027
Total assets	**177,980**	**222,558**	**247,629**	**297,405**	**351,902**
Cashflow statement					
Operating profit before working capital changes	52,193	59,056	68,589	79,876	89,948
Tax paid	(5,247)	(9,293)	(11,658)	(15,848)	(18,497)
Change in working capital/other adjustments	(11,753)	(9,709)	(4,795)	(7,813)	(7,570)
Capital expenditure	(16,234)	(12,979)	(15,718)	(18,686)	(18,995)
Investments/ acquisitions	(6,764)	(5,713)	—	—	—
Free cash flow	**12,194**	**21,362**	**36,419**	**37,528**	**44,886**

Note:
(1) US GAAP financials till FY2009; IFRS starting FY2010E.

Source: Company, Kotak Institutional Equities estimates

INDIA

OCTOBER 29, 2010

UPDATE

BSE-30: 19,941

Liquidity to continue to stay tight. RBI decided to open a special second LAF window on October 29 and on November 1 along with a special 2-day repo auction on October 30. Added to these, RBI also decided to do an effective 1% cut in SLR for October 30-31. In our view, liquidity will remain tight even in November if the government does not start to spend soon. The repo rate will continue to be the operative rate going forward.

Lack of government spending and deposit mobilization leading to liquidity tightening

The government is likely carrying a surplus of around Rs750 bn and has not spent any of it. We believe that unless the government spends the amount it is difficult for the economy to correct the present tightness in liquidity. For the week ending October 29, liquidity was deficit by about Rs900 bn on an average on account of product adjustments by banks due to a higher deposit mobilization for the fortnight ending October 8. These two reasons contributed mainly to the current liquidity scenario.

Increase in currency in circulation and Coal India IPO aggravate the liquidity crunch

Another source of tightness on the liquidity side could have been the large increase in the currency in circulation that increased by Rs120 bn in each of the weeks ending October 8 and October 15. This is also putting pressure on the liquidity of the banking system and is likely to continue to do so in the run-up to the Diwali season. Some amount of liquidity tightness could also be frictional in nature and is associated with the refund of the excess subscription under the Coal India IPO. This money is likely to be paid back by November 1. Keeping the frictional part of the liquidity in mind, RBI has introduced the following temporary measures today:

(1) A special second LAF (SLAF) will be conducted on two days at 2.30 p.m. on October 29, 2010 and at 4.15 p.m. on November 1, 2010.

(2) A special 2-day repo auction under the LAF will be conducted at 10.30 a.m. on Saturday, October 30, 2010.

(3) SCBs may avail of additional liquidity support under the LAF to the extent of up to 1.0% of their net demand and time liabilities (NDTL) as of October 8, 2010. For any shortfall in maintenance of statutory liquidity ratio (SLR) on October 30-31, 2010 arising out of availment of this facility, banks may seek waiver of penal interest purely as an ad hoc, temporary measure. This facility will be available only on Saturday, October 30, 2010.

RBI had also announced a buy-back of dated securities (with residual maturities of 3-5 months) recently but the first tranche of the buyback scheduled for October 25 had met with limited success.

Liquidity tightness to continue; repo rate to continue as the operative rate

The liquidity tightness is expected to continue for more time. This is because of the Coal India IPO that has increased the DTL of the banking system in the current fortnight for which the CRR maintenance would have to be done in the next fortnight starting from November 8. Most of November is likely to witness a negative liquidity scenario unless the government decides to spend aggressively. Even if the government spends substantially, overall guidance for liquidity will be a deficit but in a much lower range. Unless RBI has attained adequate comfort on inflation, it is unlikely that the policy stance would shift from the Repo rate to the Reverse Repo rate as the operative rate.

QUICK NUMBERS

- Government needs to spend Rs750 bn that is with the RBI
- Liquidity is deficit by around Rs900 bn on an average this week
- Currency in circulation has increased by Rs120 bn in each week-ending October 8 and October 15

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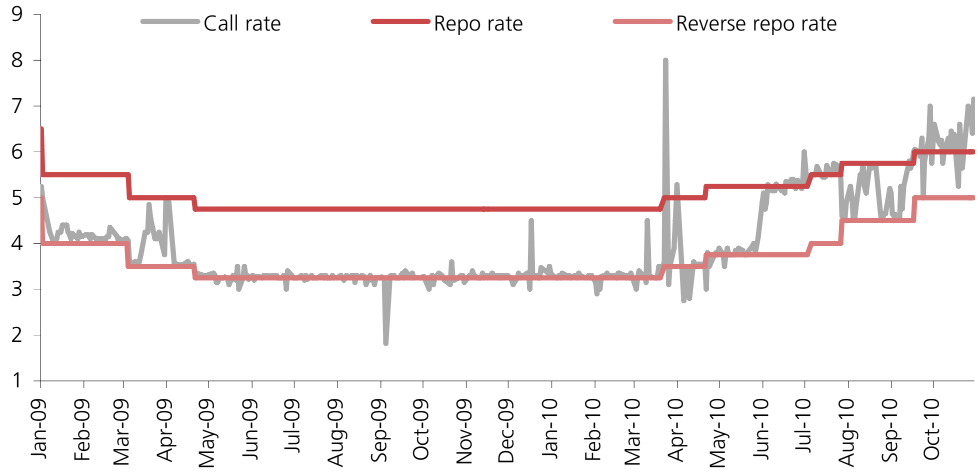
Exhibit 1: Overnight rates higher than the upper end of the corridor now
Call rate, repo rate, reverse repo rate on a daily basis, Jan 2008-October 2010, (%)



Source: Bloomberg, Kotak Institutional Equities

September 2010: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
1-Nov	**2-Nov**	**3-Nov**	**4-Nov**	**5-Nov**	**6-Nov**
Century Textiles	Fortis Healthcare	Aurobindo Pharma	Engineers India		
Dishman Pharma	Godrej Cosumer Products	CESC	Videocon Industries		
GTL Infra	Jai Corp	GAIL			
Havells India	Jubilant Foodworks	MTNL			
JSW Energy	Neyveli Lignite	Oriental Bank			
Lupin	Oracle Financial Services				
Punj Lloyd					
8-Nov	**9-Nov**	**10-Nov**	**11-Nov**	**12-Nov**	**13-Nov**
Aban Offshore	Divi's Laboratories	Bharti Airtel	Apollo Tyres	HPCL	Indian Oil Corp
Apollo Hospitals	Financial Technologies	BPCL	Lanco Infratech	IL&FS Transportation	IVRCL Infra
IDFC	GMR Infrastructure	Nagarjuna Constructions	MMTC	Oil India	
Jindal Saw	Hindalco Industries	Power Finance Corp	Ranbaxy Laboratories	Tata Power	
State Bank of India	Opto Circuits		Shree Cement	Tata Steel	
Jain Irrigation	Tata Motors				

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	29-Oct-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	76	ADD	100,836	2,269	1,330	2.8	4.9	6.5	84.5	75.1	31.9	26.9	15.3	11.6	15.4	10.4	8.4	2.5	2.2	1.9	2.0	1.3	1.3	10.9	15.4	17.9	85	12.1	8.1
Bajaj Auto	1,511	REDUCE	437,219	9,840	289	58.8	91.0	103.6	160.2	54.6	13.9	25.7	16.6	14.6	16.6	11.8	10.2	14.9	9.0	6.1	0.7	1.3	1.3	70.9	67.4	49.6	1,450	(4.0)	20.7
Bharat Forge	377	ADD	90,174	2,029	239	0.7	12.4	20.3	(92.0)	1,707.0	63.3	548.7	30.4	18.6	27.6	12.5	8.7	2.4	2.3	2.0	—	—	—	0.9	16.2	20.6	400	6.1	4.6
Hero Honda	1,865	REDUCE	372,490	8,383	200	111.8	109.0	126.8	74.1	(2.5)	16.3	16.7	17.1	14.7	10.5	10.9	9.0	10.3	7.3	5.5	1.6	1.6	1.8	59.0	49.9	42.5	1,775	(4.8)	21.7
Mahindra & Mahindra	734	BUY	436,897	9,832	595	33.9	47.2	54.7	125.8	39.2	15.9	21.6	15.6	13.4	14.2	11.2	9.4	5.4	4.3	3.4	1.3	1.3	1.3	30.0	30.7	28.2	805	9.7	26.9
Maruti Suzuki	1,552	REDUCE	448,273	10,088	289	86.4	80.6	93.4	105.0	(6.7)	15.8	17.9	19.2	16.6	9.8	10.1	8.4	3.7	3.2	2.7	0.4	0.4	0.4	23.3	17.8	17.5	1,330	(14.3)	18.7
Tata Motors	1,159	ADD	725,778	16,333	626	27.4	94.8	109.2	(182.5)	246.1	15.2	42.3	12.2	10.6	14.4	7.6	6.6	4.7	3.3	2.5	1.2	0.5	0.5	8.7	11.9	11.1	1,150	(0.8)	99.0
Automobiles		**Cautious**	**2,611,667**	**58,775**					**276.0**	**61.2**	**16.8**	**25.0**	**15.5**	**13.3**	**13.5**	**9.5**	**8.1**	**5.2**	**4.0**	**3.2**	**1.0**	**0.9**	**1.0**	**20.9**	**25.9**	**23.9**			
Banks/Financial Institutions																													
Andhra Bank	178	BUY	86,427	1,945	485	21.6	24.0	26.7	60.1	11.5	11.1	8.3	7.4	6.7	—	—	—	2.0	1.6	1.4	2.8	3.1	3.5	26.0	24.1	22.6	210	17.8	7.7
Axis Bank	1,471	ADD	596,031	13,414	405	62.1	78.6	99.9	22.7	26.6	27.2	23.7	18.7	14.7	—	—	—	3.7	3.2	2.8	0.8	1.0	1.3	19.2	18.4	20.2	1,700	15.6	44.7
Bank of Baroda	1,014	BUY	370,700	8,343	366	83.7	103.0	121.2	37.3	23.1	17.7	12.1	9.8	8.4	—	—	—	2.7	2.2	1.8	1.5	1.8	2.1	24.4	24.7	24.0	1,250	23.3	10.0
Bank of India	487	ADD	255,884	5,759	526	33.1	56.3	63.2	(42.1)	70.2	12.2	14.7	8.6	7.7	—	—	—	2.0	1.7	1.5	1.4	2.4	2.7	14.2	21.3	20.4	580	19.2	16.4
Canara Bank	722	ADD	295,815	6,657	410	73.7	90.7	102.8	45.8	23.1	13.4	9.8	8.0	7.0	—	—	—	2.4	1.9	1.5	1.4	1.4	1.7	22.5	22.8	21.4	740	2.6	12.7
Corporation Bank	746	ADD	107,026	2,409	143	82.0	86.7	100.7	31.8	5.7	16.2	9.1	8.6	7.4	—	—	—				2.2	2.3	2.7	22.0	19.9	19.9	800	7.2	2.0
Federal Bank	472	ADD	80,728	1,817	171	27.2	34.7	47.2	(7.1)	27.7	35.9	17.4	13.6	10.0	—	—	—	1.7	1.6	1.4	1.1	1.4	1.8	10.3	12.0	14.7	530	12.3	8.0
HDFC	688	REDUCE	987,228	22,217	1,436	19.7	24.0	28.1	22.7	21.8	17.2	34.9	28.7	24.5	—	—	—	6.5	5.7	5.0	1.0	1.2	1.4	20.0	21.2	21.9	720	4.7	56.0
HDFC Bank	2,280	REDUCE	1,043,609	23,486	458	64.4	84.9	111.2	22.1	31.8	31.0	35.4	26.9	20.5	—	—	—	4.8	4.2	3.7	0.5	0.7	0.9	16.1	16.9	19.2	2,500	9.7	45.5
ICICI Bank	1,163	ADD	1,338,484	30,122	1,151	36.1	45.0	58.0	6.9	24.6	29.0	32.2	25.9	20.0	—	—	—	2.6	2.4	2.2	1.0	1.2	1.5	8.0	9.7	11.6	1,230	5.8	97.8
IDFC	200	ADD	291,743	6,566	1,458	8.4	9.4	11.2	44.9	12.4	18.7	23.9	21.2	17.9	—	—	—	4.2	2.7	2.3	0.7	0.9	1.1	16.6	15.5	14.3	205	2.5	24.7
India Infoline	117	BUY	36,387	819	312	8.1	7.7	9.2	59.2	(5.2)	19.0	14.4	15.1	12.7	—	—	—	2.3	1.9	1.6	2.7	1.4	1.8	16.4	13.8	15.0	150	28.5	6.3
Indian Bank	292	ADD	125,407	2,822	430	35.1	35.7	44.9	25.5	1.6	25.9	8.3	8.2	6.5	—	—	—	1.9	1.6	1.3	2.2	2.2	2.8	24.1	20.5	21.8	350	19.9	5.3
Indian Overseas Bank	160	BUY	87,059	1,959	545	13.0	16.8	24.1	(46.7)	29.8	43.2	12.3	9.5	6.6	—	—	—	1.4	1.2	1.0	2.2	2.4	2.7	9.6	11.6	15.0	200	25.2	5.8
J&K Bank	910	ADD	44,150	994	48	105.7	123.0	143.9	25.0	16.4	17.0	8.6	7.4	6.3	—	—	—	1.5	1.3	1.2	2.4	2.8	3.3	18.2	18.4	18.7	1,000	9.8	3.8
LIC Housing Finance	1,341	REDUCE	127,339	2,866	95	69.7	109.0	119.0	11.5	56.3	9.2	19.2	12.3	11.3	—	—	—	3.9	3.2	2.7	1.1	1.7	1.9	23.6	27.4	24.6	1,325	(1.2)	35.7
Mahindra & Mahindra Financial	739	BUY	70,910	1,596	96	35.9	51.3	60.3	60.0	43.0	17.5	20.6	14.4	12.3	—	—	—	4.2	3.5	2.9	1.0	1.5	1.7	21.5	25.7	25.0	750	1.5	5.8
Oriental Bank of Commerce	499	ADD	124,994	2,813	251	45.3	57.8	66.8	25.3	27.6	15.5	11.0	8.6	7.5	—	—	—	1.7	1.5	1.3	1.8	2.3	2.7	14.5	16.5	16.9	450	(9.8)	9.4
PFC	360	SELL	413,197	9,299	1,148	20.5	22.9	27.6	53.5	11.9	20.3	17.6	15.7	13.1	—	—	—	3.2	2.8	2.5	1.4	1.6	1.9	18.8	18.3	19.2	275	(23.6)	3.9
Punjab National Bank	1,291	BUY	406,992	9,159	315	123.9	139.8	165.5	26.4	12.9	18.4	10.4	9.2	7.8	—	—	—	2.5	2.0	1.7	1.7	2.2	2.6	26.2	24.2	23.9	1,500	16.2	9.4
Reliance Capital	814	NR	200,350	4,509	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	63.3	59.5	83.3	—	—	—	2.9	2.8	2.8	0.7	0.7	0.5	4.7	4.8	3.4	—	—	30.4
Rural Electrification Corp.	371	REDUCE	365,976	8,236	987	20.3	26.5	31.8	23.2	30.8	19.8	18.3	14.0	11.7	—	—	—	3.3	2.9	2.5	1.8	2.1	2.6	22.0	22.0	22.8	350	(5.6)	11.5
Shriram Transport	881	ADD	196,676	4,426	223	39.2	55.4	68.1	30.1	41.4	23.0	22.5	15.9	12.9	—	—	—	5.3	4.5	3.7	1.3	1.9	2.3	28.4	29.1	29.6	850	(3.6)	9.5
SKS Microfinance	1,028	ADD	75,728	1,704	74	26.9	48.9	77.5	61.1	81.3	58.6	38.1	21.0	13.3	—	—	—	8.0	3.7	2.8	—	—	—	21.7	23.9	24.7	1,400	36.2	—
SREI	132	NR	15,379	346	116	8.3	7.9	9.9	17.8	(4.8)	25.8	16.0	16.8	13.3	—	—	—	1.3	1.2	1.1	0.9	0.9	0.9	11.1	10.5	12.3	—	—	6.4
State Bank of India	3,151	BUY	2,000,261	45,015	635	144.4	176.8	209.3	0.5	22.4	18.4	21.8	17.8	15.1	—	—	—	3.0	2.7	2.3	1.0	1.0	1.1	14.8	15.9	16.6	3,400	7.9	131.6
Union Bank	378	BUY	190,909	4,296	505	41.1	42.4	56.1	20.2	3.1	32.6	9.2	8.9	6.7	—	—	—	2.2	1.8	1.5	1.5	1.5	2.0	26.2	22.1	24.1	450	19.1	7.2
Yes Bank	360	BUY	122,110	2,748	340	15.0	21.0	26.6	46.7	40.2	26.6	24.0	17.1	13.5	—	—	—	4.0	3.3	2.7	0.4	0.6	0.7	20.3	21.0	22.0	400	11.3	15.7
Banks/Financial Institutions		**Attractive**	**10,057,500**	**226,342**					**15.0**	**23.9**	**21.0**	**19.9**	**16.1**	**13.3**	**—**	**—**	**—**	**3.1**	**2.7**	**2.4**	**1.1**	**1.3**	**1.6**	**15.8**	**16.9**	**17.7**			
Cement																													
ACC	985	REDUCE	185,128	4,166	188	83.2	56.4	63.6	47.9	(32.3)	12.9	11.8	17.5	15.5	6.3	8.2	6.6	2.9	2.6	2.3	2.7	2.4	2.4	29.3	17.5	17.6	940	(4.6)	11.2
Ambuja Cements	140	SELL	213,285	4,800	1,522	8.0	8.1	9.0	11.4	1.4	10.6	17.5	17.3	15.6	9.7	9.5	7.9	3.1	2.7	2.4	1.3	1.5	1.5	19.3	17.1	16.8	108	(22.9)	7.4
Grasim Industries	2,241	ADD	205,431	4,623	92	301.0	194.9	238.6	26.1	(35.2)	22.4	7.4	11.5	9.4	4.5	5.5	4.1	1.6	1.5	1.3	1.5	1.5	1.5	22.9	13.5	14.7	2,500	11.6	6.8
India Cements	110	SELL	33,820	761	307	10.0	7.4	9.4	(43.5)	(26.5)	27.5	11.0	14.9	11.7	6.0	7.9	5.6	0.8	0.8	0.7	1.9	2.9	2.9	8.2	5.7	7.0	100	(9.2)	5.4
Shree Cement	2,085	BUY	72,649	1,635	35	208.0	200.4	265.2	19.0	(3.7)	32.4	10.0	10.4	7.9	4.9	4.8	3.1	4.0	2.9	2.2	0.5	0.5	0.5	48.0	32.4	31.6	2,400	15.1	1.5
UltraTech Cement	1,100	REDUCE	301,398	6,783	274	88.2	54.6	93.4	12.0	(38.1)	71.1	12.5	20.1	11.8	14.5	9.9	5.9	5.5	2.4	2.0	0.2	0.3	0.3	25.9	15.1	21.6	1,070	(2.7)	6.2
Cement		**Neutral**	**1,011,711**	**22,768**					**19.3**	**(15.2)**	**31.0**	**13.2**	**15.6**	**11.9**	**7.0**	**7.5**	**5.4**	**2.7**	**2.1**	**1.8**	**1.3**	**1.3**	**1.3**	**20.6**	**13.5**	**15.4**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	29-Oct-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products																													
Asian Paints	2,688	ADD	257,808	5,802	96	71.5	86.0	102.5	85.3	20.3	19.1	37.6	31.2	26.2	23.2	19.5	16.2	16.1	12.6	10.2	1.0	1.4	1.6	51.8	46.6	44.0	3,000	11.6	8.2
Colgate-Palmolive (India)	880	SELL	119,694	2,694	136	31.1	33.6	38.4	44.2	8.0	14.2	28.3	26.2	22.9	23.2	19.5	16.8	36.7	31.4	27.0	2.3	2.9	3.3	156.1	129.2	126.3	830	(5.7)	3.4
Dabur India	100	ADD	172,687	3,886	1,731	2.9	3.3	4.1	28.1	13.2	25.2	34.4	30.4	24.3	26.0	21.6	17.0	18.2	12.6	9.6	1.0	1.1	1.4	57.4	49.6	45.3	115	15.3	4.6
GlaxoSmithkline Consumer (a)	2,193	ADD	92,238	2,076	42	55.4	68.8	83.9	23.6	24.3	22.0	39.6	31.9	26.1	22.4	19.3	15.4	10.3	8.6	7.1	0.8	1.0	1.2	27.9	29.1	29.6	2,200	0.3	1.1
Godrej Consumer Products	420	BUY	135,892	3,058	324	11.3	14.3	18.9	69.5	25.8	32.6	37.1	29.5	22.2	29.4	21.1	15.9	14.1	7.5	6.8	0.9	0.8	0.8	44.6	33.5	32.1	490	16.7	2.6
Hindustan Unilever	295	SELL	642,943	14,469	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	31.3	28.8	24.6	21.5	20.7	16.9	24.9	21.5	18.6	2.6	2.8	3.3	71.1	80.2	81.3	250	(15.2)	16.0
ITC	171	ADD	1,309,773	29,476	7,651	5.3	6.5	7.6	22.6	22.0	17.8	32.3	26.4	22.4	19.6	16.7	13.9	8.8	7.4	6.3	2.9	1.6	1.7	29.2	32.0	31.5	180	5.1	28.8
Jubilant Foodworks	512	SELL	32,713	736	64	5.5	10.0	13.1	340.6	79.9	31.4	92.5	51.4	39.1	49.2	29.3	19.6	27.8	18.1	12.4	—	—	—	46.6	42.6	37.5	400	(21.9)	26.0
Jyothy Laboratories	276	ADD	21,142	476	77	11.0	13.6	16.4	99.6	23.3	20.9	25.0	20.3	16.8	20.2	13.6	10.6	5.1	3.5	3.0	1.6	1.3	1.8	16.1	17.6	19.3	300	8.7	0.8
Marico	137	ADD	83,875	1,888	612	4.4	5.2	6.1	32.9	16.9	17.0	30.9	26.4	22.6	21.0	18.3	15.1	12.6	9.1	6.9	0.5	0.7	0.8	48.9	40.6	35.2	140	2.1	2.1
Nestle India (a)	3,484	REDUCE	335,956	7,561	96	74.4	91.0	111.4	27.0	22.3	22.5	46.8	38.3	31.3	31.0	25.9	21.6	57.8	43.6	32.9	1.4	1.8	2.1	136.0	129.8	119.9	3,100	(11.0)	4.1
Tata Global Beverages	125	ADD	77,083	1,735	618	6.1	7.3	8.7	14.5	20.7	19.0	20.6	17.1	14.3	9.9	7.5	6.3	1.6	1.5	1.4	1.6	1.9	2.3	10.2	11.7	12.9	130	4.3	4.9
Consumer products		**Cautious**	**3,281,805**	**73,856**					**23.8**	**18.6**	**19.3**	**33.6**	**28.3**	**23.7**	**21.5**	**18.4**	**15.2**	**11.4**	**9.4**	**8.0**	**2.1**	**1.8**	**2.0**	**34.0**	**33.1**	**33.5**			
Constructions																													
IVRCL	149	BUY	39,878	897	267	7.9	9.1	11.6	(6.7)	15.0	27.9	18.9	16.4	12.9	9.8	9.3	7.4	2.0	1.8	1.6	0.3	0.3	0.3	11.0	11.3	12.9	205	37.3	7.6
Nagarjuna Construction Co.	147	BUY	37,833	851	257	7.1	8.9	11.6	6.1	24.3	31.1	20.7	16.6	12.7	10.6	9.2	7.7	1.7	1.6	1.4	0.9	1.4	1.4	9.3	9.8	11.8	205	39.0	5.0
Punj Lloyd	117	REDUCE	39,785	895	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(9.1)	12.0	9.8	34.5	6.8	6.2	1.3	1.2	1.1	(0.1)	0.4	0.9	(15.8)	10.3	11.4	140	19.3	14.1
Sadbhav Engineering	1,453	BUY	21,794	490	15	42.8	61.8	87.2	(16.3)	44.3	41.0	33.9	23.5	16.7	18.7	12.5	9.6	5.4	3.5	3.0	0.2	0.4	0.4	15.8	15.1	17.8	1,750	20.4	0.4
Construction		**Attractive**	**139,290**	**3,135**					**(91.1)**	**4,479**	**28.0**	**713.7**	**15.6**	**12.2**	**14.9**	**8.4**	**7.2**	**1.8**	**1.6**	**1.4**	**0.3**	**0.6**	**0.8**	**0.3**	**10.3**	**11.8**			
Energy																													
Aban Offshore	787	ADD	34,240	771	44	94.5	151.1	129.7	(2.5)	59.9	(14.2)	8.3	5.2	6.1	8.3	6.9	6.5	1.5	1.4	1.2	0.5	0.5	0.5	21.7	32.9	21.9	915	16.3	32.2
Bharat Petroleum	730	BUY	263,942	5,940	362	58.6	57.0	65.4	230	(3)	14.8	12	13	11.2	6.9	6.7	6.2	1.9	1.7	1.6	1.9	2.6	3.0	14.9	13.3	13.8	855	17.1	27.3
Cairn india	321	RS	608,739	13,700	1,897	5.5	22.7	40.8	29.0	309.7	79.6	57.9	14.1	7.9	45.6	9.1	5.2	1.8	1.6	1.4	—	—	4.7	3.1	11.8	18.8	—	—	31.6
Castrol India (a)	474	SELL	117,087	2,635	247	15.4	21.0	21.7	45	36	3.5	31	23	21.8	18.3	14.0	13.4	25.4	24.2	22.9	2.6	3.6	3.7	83.8	109.9	107.9	390	(17.6)	2.4
GAIL (India)	492	BUY	623,521	14,032	1,268	24.8	26.8	40.3	11.7	8.2	50.4	19.9	18.4	12.2	11.2	11.0	8.6	3.4	3.0	2.6	1.5	1.7	2.5	17.4	16.6	21.7	550	11.9	17.6
GSPL	113	SELL	63,304	1,425	562	7.3	7.3	8.1	233	(0)	11.4	15	15	13.9	7.8	7.6	6.3	3.7	3.1	2.8	0.9	1.6	2.9	27.1	21.8	20.9	87	(22.7)	7.5
Hindustan Petroleum	487	BUY	165,200	3,718	339	51.6	52.1	58.5	204.2	1.0	12.4	9.4	9.4	8.3	3.4	3.1	2.9	1.2	1.1	1.0	2.5	3.3	3.8	13.1	11.9	12.1	625	28.3	27.3
Indian Oil Corporation	418	ADD	1,015,004	22,842	2,428	49.1	37.9	41.9	399	(23)	10.7	9	11	10.0	6.1	6.3	5.5	1.9	1.7	1.5	3.1	2.7	3.0	22.4	15.3	15.4	480	14.8	13.6
Oil India	1,450	REDUCE	348,671	7,847	240	115.2	131.9	149.0	13.9	14.6	12.9	12.6	11.0	9.7	5.8	4.4	3.8	2.4	2.1	1.8	2.3	3.0	3.5	16.8	17.9	17.9	1,550	6.9	3.4
Oil & Natural Gas Corporation	1,304	BUY	2,789,216	62,771	2,139	90.3	113.9	137.7	(1)	26	20.9	14	11	9.5	5.1	4.3	3.6	2.1	1.9	1.7	2.5	3.1	3.7	14.4	16.4	17.8	1,500	15.0	34.2
Petronet LNG	111	SELL	83,400	1,877	750	5.4	6.9	8.3	(22.0)	28.1	20.2	20.6	16.1	13.4	11.8	9.6	8.5	3.3	2.8	2.4	1.6	1.8	2.5	15.9	17.7	18.2	90	(19.1)	10.8
Reliance Industries	1,096	REDUCE	3,262,440	73,421	2,976	49.6	59.2	72.5	(2)	19	22.4	22	19	15.1	11.1	8.5	6.9	2.2	2.0	1.8	0.6	0.7	0.9	11.4	12.4	13.6	1,050	(4.2)	138.0
Energy		**Cautious**	**9,374,764**	**210,977**					**35.6**	**16.7**	**23.7**	**15.7**	**13.4**	**10.9**	**7.7**	**6.3**	**5.2**	**2.1**	**1.9**	**1.7**	**1.7**	**1.9**	**2.6**	**13.7**	**14.4**	**15.8**			
Industrials																													
ABB	822	REDUCE	174,231	3,921	212	16.7	10.8	31.4	(35.2)	(35.4)	190.2	49.1	76.1	26.2	28.1	40.0	15.1	7.2	6.8	5.5	0.2	0.4	0.4	15.6	9.2	23.2	725	(11.8)	4.3
BGR Energy Systems	754	BUY	54,252	1,221	72	16.0	28.0	41.7	32.2	74.6	49.1	47.0	26.9	18.1	26.4	15.3	11.0	9.6	7.7	5.8	0.4	0.9	1.1	22.3	31.8	36.6	950	26.1	4.7
Bharat Electronics	1,633	REDUCE	130,616	2,939	80	96.1	105.9	120.3	(7.4)	10.2	13.6	17.0	15.4	13.6	7.7	6.8	5.6	2.9	2.6	2.2	1.2	1.5	1.5	17.5	17.7	17.6	1,800	10.2	3.5
Bharat Heavy Electricals	2,446	REDUCE	1,197,146	26,942	490	87.9	115.5	138.6	37.7	31.4	20.0	27.8	21.2	17.6	15.5	12.2	10.0	7.5	5.9	4.7	0.8	1.0	1.2	29.8	31.3	29.9	2,675	9.4	32.5
Crompton Greaves	318	ADD	203,965	4,590	642	12.8	14.5	17.3	46.5	12.9	19.6	24.8	21.9	18.3	14.4	12.4	10.2	8.1	6.2	4.8	0.4	0.6	0.7	37.9	32.0	29.5	340	6.9	8.6
Larsen & Toubro	2,028	ADD	1,221,141	27,482	602	57.9	76.7	90.5	15.6	32.3	18.1	35.0	26.4	22.4	19.3	14.0	11.8	5.5	4.5	3.8	0.6	0.6	0.7	18.6	18.8	18.5	2,200	8.5	51.2
Maharashtra Seamless	418	BUY	29,489	664	71	38.6	44.2	50.9	7.7	14.4	15.1	10.8	9.5	8.2	5.9	4.6	3.7	1.3	1.2	1.1	1.4	1.9	2.4	14.8	12.8	13.4	518	23.9	0.6
Siemens	818	REDUCE	275,645	6,203	337	25.2	27.0	31.9	56.4	7.3	18.0	32.5	30.3	25.7	20.0	18.2	15.1	8.1	6.7	5.6	0.6	0.7	0.8	27.6	24.2	23.8	635	(22.3)	9.1
Suzlon Energy	55	REDUCE	88,372	1,989	1,594	(6.2)	(0.8)	3.3	(185.4)	(86.8)	(504.1)	(9.0)	(68.3)	16.9	14.6	12.2	8.1	1.3	1.2	1.2	—	—	0.4	(11.4)	(1.8)	6.9	55	(0.8)	25.0
Thermax	862	BUY	102,695	2,311	119	21.7	31.5	42.3	(10.4)	45.0	34.3	39.7	27.3	20.4	20.7	15.2	11.3	9.5	7.7	6.2	0.6	1.1	1.4	25.0	31.2	33.8	965	12.0	1.5
Voltas	245	REDUCE	81,096	1,825	331	10.9	11.8	13.4	57.4	8.2	14.3	22.6	20.8	18.2	13.6	11.9	10.0	7.6	6.1	5.0	1.3	1.4	1.6	38.3	32.5	30.2	225	(8.2)	6.3
Industrials		**Attractive**	**3,558,648**	**80,087**					**1.2**	**35.7**	**26.8**	**33.6**	**24.8**	**19.5**	**16.8**	**13.3**	**10.7**	**5.7**	**4.7**	**3.9**	**0.7**	**0.8**	**0.9**	**16.9**	**19.0**	**20.2**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	29-Oct-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Infrastructure																													
Container Corporation	1,316	REDUCE	171,054	3,850	130	61.1	74.3	85.9	0.3	21.7	15.6	21.5	17.7	15.3	15.2	12.3	10.3	3.9	3.4	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(5.0)	2.5
GMR Infrastructure	54	ADD	196,185	4,415	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	124.1	243.0	404.7	22.4	14.5	13.5	1.9	1.6	1.6	—	—	—	2.4	1.2	0.7	65	21.5	6.9
GVK Power & Infrastructure	43	BUY	67,195	1,512	1,579	0.7	0.9	1.1	(3.4)	23.7	25.2	57.7	46.7	37.3	19.4	17.5	18.2	2.1	2.1	2.0	—	0.7	0.7	4.2	4.5	5.4	54	26.9	6.9
IRB Infrastructure	260	RS	86,365	1,944	332	9.7	12.6	12.1	83.8	29.2	(3.7)	26.7	20.7	21.5	12.8	11.4	10.6	3.7	2.9	2.3	—	—	—	15.6	15.7	11.9	—	—	13.9
Mundra Port and SEZ	152	REDUCE	306,451	6,897	2,017	3.3	4.5	7.2	55.7	34.2	61.6	45.5	33.9	21.0	34.1	22.3	15.6	8.6	7.2	5.6	0.5	—	—	20.8	23.1	29.8	150	(1.3)	7.1
Infrastructure		**Attractive**	**827,249**	**18,617**					**15.6**	**21.7**	**27.7**	**40.1**	**32.9**	**25.8**	**21.2**	**15.6**	**13.5**	**3.5**	**3.0**	**2.7**	**—**	**0.3**	**0.4**	**8.6**	**9.0**	**10.4**			
Media																													
DB Corp	275	BUY	50,047	1,126	182	10.6	13.0	15.7	286.5	22.4	21.0	25.9	21.2	17.5	14.4	11.9	9.8	7.7	6.2	5.4	0.7	1.1	1.5	40.3	32.6	33.2	290	5.3	0.6
DishTV	56	REDUCE	59,657	1,343	1,063	(2.5)	(1.9)	0.4	(61.9)	(25.7)	(122.5)	(22.4)	(30.1)	133.9	74.2	28.1	12.9	14.5	28.1	23.2	—	—	—	249.0	(63.6)	19.0	57	1.6	4.0
HT Media	159	NR	37,459	843	235	6.1	7.7	9.2	623.3	25.9	19.8	26.1	20.7	17.3	13.1	10.9	9.1	3.8	3.4	3.1	0.6	1.3	2.5	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	133	BUY	39,978	900	301	5.8	6.8	7.8	92.0	16.9	14.2	22.7	19.4	17.0	13.7	11.4	10.0	6.5	5.9	5.4	2.6	3.0	3.8	30.0	31.9	33.2	150	13.0	1.8
Sun TV Network	499	REDUCE	196,764	4,428	394	13.1	18.3	22.7	44.0	39.7	24.1	38.2	27.3	22.0	21.7	15.8	12.9	10.2	8.5	7.2	1.5	1.5	2.0	28.3	34.2	35.5	450	(9.9)	3.5
Zee Entertainment Enterprises	276	REDUCE	120,064	2,702	435	10.7	10.8	13.5	26.6	0.7	25.4	25.8	25.6	20.5	18.9	16.4	12.6	3.1	2.9	2.7	0.9	1.1	1.3	12.9	11.8	13.9	270	(2.2)	15.5
Media		**Neutral**	**503,968**	**11,342**					**185.9**	**32.6**	**40.2**	**41.4**	**31.2**	**22.3**	**19.9**	**15.4**	**11.8**	**6.0**	**5.4**	**4.9**	**1.1**	**1.3**	**1.7**	**14.4**	**17.3**	**22.1**			
Metals																													
Hindalco Industries	211	ADD	402,897	9,067	1,914	20.0	14.5	16.3	25.0	(27.4)	12.7	10.5	14.5	12.9	6.1	8.2	8.4	1.9	1.7	1.5	0.6	0.6	0.6	20.4	12.2	12.3	225	6.9	33.7
Hindustan Zinc	1,235	BUY	521,806	11,743	423	95.6	95.4	116.4	48.2	(0.2)	22.0	12.9	12.9	10.6	8.6	7.7	5.2	2.8	2.3	1.9	0.5	0.5	0.5	25.1	20.2	20.4	1,430	15.8	4.9
Jindal Steel and Power	698	REDUCE	649,582	14,619	931	38.2	45.7	56.2	16.9	19.4	23.1	18.2	15.3	12.4	12.5	10.3	7.7	5.8	3.8	2.9	0.2	0.3	0.3	37.7	30.3	26.8	625	(10.4)	22.8
JSW Steel	1,342	REDUCE	333,085	7,496	248	80.4	73.6	108.0	481.1	(8.5)	46.8	16.7	18.2	12.4	11.8	10.1	6.9	3.0	1.9	1.4	0.5	0.7	0.7	16.0	12.6	13.0	1,115	(16.9)	36.1
National Aluminium Co.	401	SELL	258,561	5,819	644	12.2	17.0	19.1	(37.2)	39.6	12.2	33.0	23.6	21.0	15.3	10.9	9.5	2.5	2.3	2.2	0.6	1.2	1.2	7.8	10.2	10.6	285	(29.0)	1.8
Sesa Goa	322	REDUCE	286,128	6,439	890	29.6	52.5	54.0	23.5	77.6	2.8	10.9	6.1	6.0	9.0	3.9	5.7	3.6	2.3	1.7	1.1	1.1	1.1	35.8	34.9	31.5	320	(0.5)	43.0
Sterlite Industries	169	BUY	566,943	12,759	3,362	12.0	13.7	18.3	2.8	13.9	33.5	14.0	12.3	9.2	9.0	7.4	4.6	1.5	1.4	1.2	0.6	0.6	0.6	12.9	11.8	13.9	200	18.6	34.9
Tata Steel	589	REDUCE	538,953	12,129	914	(3.6)	66.5	70.0	(103.6)	(1,968.8)	5.2	(165.6)	8.9	8.4	10.9	5.9	5.6	2.3	1.7	1.5	1.3	1.4	—	(1.5)	22.4	18.8	650	10.3	109.1
Metals		**Cautious**	**3,557,956**	**80,071**					**(19.9)**	**45.5**	**17.7**	**17.6**	**12.1**	**10.3**	**9.6**	**7.5**	**6.3**	**2.5**	**2.0**	**1.7**	**0.6**	**0.7**	**0.5**	**14.3**	**16.5**	**16.2**			
Pharmaceutical																													
Apollo Hospitals	522	BUY	67,198	1,512	129	10.9	14.1	17.8	28.8	28.4	26.5	47.7	37.1	29.4	23.0	16.8	14.1	4.0	3.8	3.3	—	—	—	8.3	9.8	11.4	520	(0.4)	2.1
Biocon	412	ADD	82,340	1,853	200	14.8	17.0	24.4	216.4	14.7	43.6	27.7	24.2	16.8	16.1	13.8	10.7	4.6	4.0	3.3	—	—	—	17.9	18.1	22.2	470	14.2	11.5
Cipla	353	REDUCE	283,391	6,378	803	13.7	14.0	16.6	38.1	1.9	19.2	25.8	25.3	21.2	18.5	17.0	14.4	4.8	4.2	3.6	0.6	0.7	0.7	21.1	17.6	18.2	295	(16.4)	13.1
Cadila Healthcare	698	REDUCE	142,966	3,217	205	24.7	33.9	39.3	66.9	37.2	16.1	28.3	20.6	17.8	18.3	14.0	12.1	8.8	6.5	5.1	0.7	1.0	1.1	36.0	36.4	32.3	600	(14.1)	1.9
Dishman Pharma & chemicals	185	ADD	15,083	339	81	14.4	17.8	22.8	(19.7)	23.7	28.0	12.9	10.4	8.1	9.7	7.9	6.2	1.9	1.6	1.4	—	—	—	15.5	16.8	18.3	230	24.0	0.9
Divi's Laboratories	692	REDUCE	90,423	2,035	131	26.1	34.0	44.9	(18.2)	30.4	32.1	26.6	20.4	15.4	19.6	15.0	10.7	6.0	4.9	4.0	—	—	—	24.7	26.4	28.5	800	15.6	3.1
Dr Reddy's Laboratories	1,660	REDUCE	281,898	6,344	170	48.0	68.4	72.2	48.1	42.6	5.5	34.6	24.2	23.0	19.1	13.8	12.9	7.5	5.9	4.8	0.7	0.5	0.5	22.2	27.0	22.9	1,150	(30.7)	14.9
GlaxoSmithkline Pharmaceuticals (a)	2,222	REDUCE	188,248	4,236	85	59.1	70.2	79.6	8.1	18.7	13.5	37.6	31.7	27.9	21.8	18.4	15.9	10.5	9.0	7.7	—	—	—	29.8	30.7	29.7	2,000	(10.0)	2.0
Glenmark Pharmaceuticals	339	NR	92,818	2,089	274	12.7	19.2	20.3	14.7	50.6	5.6	26.6	17.7	16.7	16.5	10.8	10.3	3.9	3.3	2.8	—	—	—	16.7	19.9	17.6	—	—	6.7
Jubilant Organosys	313	BUY	49,743	1,119	159	26.5	31.8	38.9	49.0	19.8	22.4	11.8	9.9	8.1	8.9	8.0	6.4	2.2	1.8	1.5	0.6	0.8	1.0	26.3	21.7	21.1	400	27.7	1.8
Lupin	438	ADD	193,879	4,363	442	15.4	19.8	25.5	27.9	28.7	28.7	28.4	22.1	17.2	24.1	17.4	13.8	8.4	7.9	6.9	3.0	3.3	3.5	36.6	37.2	43.6	400	(8.7)	8.9
Piramal Healthcare	477	REDUCE	99,752	2,245	209	22.4	4.1	8.8	29.7	(81.7)	113.0	21.3	116.1	54.5	15.5	(9.0)	(10.9)	5.9	0.7	0.6	1.1	1.3	0.7	30.7	159.4	11.4	490	2.7	29.9
Ranbaxy Laboratories	580	SELL	248,365	5,589	428	7.1	27.5	14.8	(128.4)	289.4	(46.0)	82.1	21.1	39.1	19.8	12.1	20.0	6.3	4.5	4.1	—	0.7	0.7	6.9	22.9	10.5	340	(41.4)	16.6
Sun Pharmaceuticals	2,110	REDUCE	437,034	9,835	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	32.3	23.3	24.1	25.0	17.5	17.1	5.3	4.4	3.8	0.6	0.6	0.6	17.8	21.0	17.3	1,835	(13.0)	8.9
Pharmaceuticals		**Attractive**	**2,273,138**	**51,156**					**45.2**	**31.8**	**7.5**	**30.8**	**23.4**	**21.8**	**19.1**	**14.1**	**13.0**	**5.7**	**3.8**	**3.3**	**0.6**	**0.8**	**0.8**	**18.6**	**16.2**	**15.0**			
Property																													
DLF	351	ADD	599,060	13,482	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	32.9	21.5	14.0	22.3	14.2	10.7	2.2	2.1	1.9	0.8	0.8	1.4	7.1	9.9	13.8	378	7.8	48.7
Housing Development & Infrastructure	248	ADD	95,249	2,144	385	12.4	14.1	16.7	(41.2)	13.8	18.3	20.0	17.5	14.8	10.1	11.4	7.1	1.4	1.2	1.1	1.1	2.0	2.0	10.0	9.2	9.9	311	25.7	37.4
Indiabulls Real Estate	191	RS	76,795	1,728	401	0.3	2.5	7.4	(62.7)	777.3	195.3	672.1	76.6	25.9	(32.4)	(344.6)	14.8	0.8	0.8	0.8	—	—	—	0.1	1.1	3.2	285	48.9	21.6
Mahindra Life Space Developer	471	ADD	19,215	432	41	19.2	20.1	32.1	69.7	4.9	59.7	24.6	23.4	14.7	22.5	17.5	8.3	2.0	1.9	1.7	0.7	0.8	0.8	8.6	8.4	12.3	546	16.0	0.8
Phoenix Mills	251	BUY	36,349	818	145	4.1	6.6	7.7	(16.7)	59.4	16.5	60.7	38.1	32.7	50.3	28.2	23.7	2.4	2.3	2.2	0.5	0.6	0.8	3.9	6.1	6.7	303	20.7	0.7
Puravankara Projects	127	REDUCE	27,094	610	213	6.8	7.4	9.0	0.6	8.6	21.8	18.6	17.2	14.1	20.8	17.8	13.0	1.9	1.8	1.6	1.6	1.6	1.6	10.5	10.6	11.9	122	(3.9)	0.7
Sobha Developers	361	ADD	35,416	797	98	14.1	17.0	26.2	(7.1)	20.8	54.0	25.7	21.3	13.8	18.7	14.6	9.6	2.0	1.9	1.7	0.3	0.3	0.4	9.7	9.2	12.8	414	14.6	2.8
Unitech	87	SELL	231,435	5,208	2,666	3.0	3.8	5.1	(58.8)	25.0	34.0	28.6	22.9	17.1	28.0	20.2	13.1	2.2	1.9	1.8	—	—	1.7	9.0	8.7	10.6	74	(14.7)	52.3
Property		**Cautious**	**1,120,613**	**25,219**					**(48.8)**	**44.0**	**46.8**	**32.0**	**22.2**	**15.1**	**21.8**	**15.6**	**10.8**	**1.9**	**1.7**	**1.6**	**0.7**	**0.7**	**1.4**	**5.9**	**7.8**	**10.6**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	29-Oct-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	3,552	ADD	157,677	3,548	44	57.3	83.9	110.9	29.3	46.5	32.2	62.0	42.3	32.0	39.5	28.5	21.8	21.4	15.0	10.6	0.4	0.3	0.4	38.7	41.7	38.8	3,600	1.3	14.5
Retail		**Neutral**	**157,677**	**3,548**					**29.3**	**46.5**	**32.2**	**62.0**	**42.3**	**32.0**	**39.5**	**28.5**	**21.8**	**21.4**	**15.0**	**10.6**	**0.4**	**0.3**	**0.4**	**34.5**	**35.4**	**33.2**			
Sugar																													
Bajaj Hindustan	123	SELL	23,594	531	191	4.3	1.8	13.3	34.1	(57.7)	626.9	28.5	67.3	9.3	9.0	8.5	5.6	1.0	1.0	0.9	0.6	0.6	0.6	3.7	1.5	10.3	93	(24.6)	4.5
Balrampur Chini Mills	84	ADD	21,670	488	257	4.5	10.1	10.2	(41.1)	124.1	1.6	18.8	8.4	8.2	8.9	5.5	4.4	1.6	1.4	1.2	0.5	0.5	0.5	8.5	17.3	15.5	102	20.9	4.5
Shree Renuka Sugars	91	REDUCE	60,650	1,365	670	8.8	5.1	5.8	164.2	(42.4)	15.1	10.3	17.8	15.5	6.2	8.3	7.3	2.4	2.0	1.7	0.4	0.4	0.4	29.1	13.0	13.1	80	(11.7)	15.2
Sugar		**Cautious**	**105,915**	**2,384**					**64.0**	**(19.6)**	**43.4**	**13.4**	**16.7**	**11.7**	**7.5**	**7.6**	**6.0**	**1.7**	**1.5**	**1.3**	**0.5**	**0.5**	**0.5**	**12.7**	**9.1**	**11.3**			
Technology																													
HCL Technologies	404	REDUCE	278,622	6,270	690	17.5	22.8	28.3	0.2	29.9	24.3	23.0	17.7	14.3	11.2	10.6	8.4	4.0	3.5	3.0	1.0	1.5	1.5	19.3	21.4	23.0	390	(3.4)	9.5
Hexaware Technologies	88	BUY	12,605	284	144	9.3	5.1	10.1	127.7	(45.2)	96.1	9.4	17.1	8.7	4.8	10.6	5.5	1.5	1.4	1.2	1.1	1.1	1.1	17.8	8.3	14.6	110	25.4	2.0
Infosys Technologies	2,972	BUY	1,705,756	38,388	574	108.3	122.4	153.4	5.7	13.0	25.3	27.4	24.3	19.4	20.1	16.7	13.3	7.4	6.6	5.4	0.8	2.1	1.5	30.1	28.7	30.5	3,400	14.4	70.2
Mphasis BFL	610	SELL	128,625	2,895	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.0	12.1	13.4	11.3	9.6	9.1	5.5	3.9	3.1	0.6	0.7	0.7	48.1	37.5	25.8	550	(9.9)	6.8
Mindtree	514	REDUCE	21,133	476	41	52.2	27.4	39.3	294.3	(47.5)	43.3	9.8	18.7	13.1	8.5	10.3	7.0	3.2	2.9	2.4	0.4	0.3	0.8	35.2	16.1	20.2	450	(12.4)	0.9
Patni Computer Systems	463	REDUCE	61,632	1,387	133	36.6	40.4	33.7	36.4	10.5	(16.6)	12.7	11.4	13.7	6.3	7.1	6.5	1.7	2.1	1.9	0.6	14.3	1.5	18.2	17.2	14.9	400	(13.6)	13.7
Polaris Software Lab	162	SELL	16,126	363	100	15.4	19.4	19.8	16.9	26.2	2.2	10.5	8.3	8.2	5.0	6.5	5.5	1.8	1.6	1.4	2.2	2.3	2.4	18.6	20.4	18.0	180	11.3	2.8
Satyam Computer Services	79	REDUCE	92,845	2,089	1,176	2.5	5.0	5.4	(190.7)	102.3	7.0	31.8	15.7	14.7	15.6	10.0	7.4	4.9	5.2	3.8	—	—	—	58.5	32.2	30.0	80	1.3	38.4
TCS	1,053	BUY	2,060,736	46,376	1,957	35.1	43.0	50.0	32.8	22.4	16.3	30.0	24.5	21.1	22.8	17.8	14.8	9.8	8.1	6.7	1.9	1.6	1.9	37.6	36.3	34.9	1,100	4.5	37.9
Tech Mahindra	729	REDUCE	90,354	2,033	124	65.1	71.1	70.4	(9.6)	9.2	(1.0)	11.2	10.3	10.4	9.0	9.7	9.1	3.1	2.6	2.2	0.5	0.3	0.3	34.5	29.1	24.1	760	4.2	8.7
Wipro	420	ADD	1,026,988	23,112	2,447	18.9	21.1	24.3	22.1	12.1	15.0	22.3	19.9	17.3	16.8	14.1	11.7	5.2	4.3	3.6	0.8	1.0	1.2	26.5	23.8	22.8	465	10.8	15.8
Technology		**Attractive**	**5,495,424**	**123,673**					**24.0**	**17.1**	**16.5**	**25.0**	**21.3**	**18.3**	**18.0**	**15.1**	**12.5**	**6.6**	**5.7**	**4.7**	**1.2**	**1.7**	**1.5**	**26.3**	**26.5**	**25.6**			
Telecom																													
Bharti Airtel	326	REDUCE	1,236,688	27,831	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	13.8	16.3	15.7	7.8	8.6	7.0	2.9	2.5	2.1	—	—	—	24.4	16.5	14.7	305	(6.3)	42.6
IDEA	67	REDUCE	222,572	5,009	3,300	2.7	1.6	0.9	(5.8)	(42.7)	(44.9)	24.7	43.0	78.1	8.5	10.1	8.4	2.0	1.9	1.8	—	—	—	7.2	4.5	2.6	55	(18.5)	9.2
MTNL	68	SELL	42,525	957	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.3)	(6.5)	(7.4)	(0.6)	(0.8)	(1.1)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(25.9)	2.5
Reliance Communications	180	SELL	384,067	8,643	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	8.2	30.0	19.2	7.4	10.0	8.3	1.0	1.0	0.9	0.4	—	—	11.7	3.2	4.9	125	(30.6)	20.0
Tata Communications	306	REDUCE	87,281	1,964	285	14.0	15.2	15.7	3.2	8.2	3.5	21.9	20.2	19.5	8.9	8.2	7.8	1.2	1.2	1.2	2.1	2.4	2.8	5.2	5.5	5.5	225	(26.5)	3.1
Telecom		**Cautious**	**1,973,133**	**44,405**					**(15.9)**	**(34.6)**	**9.7**	**13.9**	**21.3**	**19.4**	**8.1**	**9.2**	**7.6**	**1.8**	**1.7**	**1.5**	**0.2**	**0.1**	**0.1**	**12.8**	**7.8**	**7.9**			
Utilities																													
Adani Power	129	ADD	281,111	6,326	2,180	0.8	3.5	19.0	NM	351.8	436.1	164.6	36.4	6.8	136.0	29.0	6.3	4.9	4.3	2.6	—	—	—	4.2	12.5	48.0	143	10.9	5.1
CESC	371	ADD	46,389	1,044	125	35.2	37.3	44.3	9.3	5.7	18.9	10.5	10.0	8.4	6.7	5.7	6.1	1.1	1.0	0.9	1.2	1.3	1.5	11.1	10.4	11.3	466	25.5	2.5
Lanco Infratech	64	BUY	153,319	3,450	2,405	2.1	4.1	5.4	46.6	92.8	30.4	29.9	15.5	11.9	16.1	8.9	7.6	4.6	3.6	2.8	—	—	—	17.4	23.9	24.2	83	30.2	6.8
NHPC	31	SELL	383,783	8,637	12,301	1.9	1.3	1.6	74.9	(28.2)	21.4	16.8	23.5	19.3	10.8	11.7	8.9	1.5	1.5	1.4	1.8	1.1	1.4	9.7	6.4	7.4	28	(10.3)	7.7
NTPC	195	REDUCE	1,610,339	36,240	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.1	15.6	13.3	13.9	12.2	10.2	2.5	2.3	2.1	2.1	2.4	2.8	14.5	15.4	16.6	210	7.5	15.1
Reliance Infrastructure	1,036	ADD	254,908	5,737	246	61.8	65.0	84.5	(1.5)	5.3	30.0	16.8	15.9	12.3	18.1	16.0	11.2	1.3	1.2	1.1	0.8	0.9	1.0	6.3	7.3	10.1	1,160	12.0	24.7
Reliance Power	157	SELL	376,410	8,471	2,397	2.9	3.1	5.3	179.7	9.8	70.0	55.0	50.1	29.5	(515.4)	227.7	35.5	2.6	2.5	2.3	—	—	—	4.8	5.1	8.1	135	(14.0)	7.6
Tata Power	1,397	ADD	344,914	7,762	247	60.2	69.2	88.5	20.1	15.0	27.8	23.2	20.2	15.8	14.3	12.9	11.1	2.6	2.4	2.1	0.9	1.0	1.1	12.9	12.5	14.3	1,420	1.6	12.2
Utilities		**Attractive**	**3,451,173**	**77,668**					**23.8**	**14.7**	**40.5**	**21.8**	**19.0**	**13.5**	**17.1**	**14.8**	**10.4**	**2.3**	**2.1**	**1.9**	**1.3**	**1.4**	**1.7**	**10.6**	**11.2**	**14.1**			
Others																													
Havells India	414	SELL	24,934	561	60	5.3	31.6	45.0	3.7	497.9	42.6	78.4	13.1	9.2	12.2	7.5	6.0	6.9	4.5	3.1	0.6	0.6	0.7	6.6	41.6	39.7	497	19.9	8.3
Jaiprakash Associates	120	BUY	266,275	5,992	2,214	1.7	4.4	6.2	(12.7)	153.2	41.1	68.7	27.2	19.2	25.3	16.1	11.6	3.1	2.7	2.5	—	—	—	5.1	10.8	13.5	155	28.9	25.6
Sintex	204	REDUCE	27,866	627	136	24.1	29.3	33.7	0.5	21.6	14.9	8.5	7.0	6.1	8.6	5.1	4.2	1.3	1.1	0.9	0.6	0.6	0.7	15.5	15.8	15.3	420	105.7	7.5
Tata Chemicals	390	REDUCE	94,979	2,137	243	26.4	27.6	35.6	(27.1)	4.5	29.0	14.8	14.1	11.0	7.4	6.4	4.9	2.0	1.8	1.5	2.3	2.4	2.4	16.0	17.3	19.4	370	(5.2)	8.2
United Phosphorus	199	BUY	92,173	2,074	462	11.9	14.7	18.4	18.1	23.4	25.8	16.8	13.6	10.8	9.1	7.7	6.3	3.1	2.6	2.1	1.0	1.0	1.0	19.1	20.6	21.2	235	17.9	8.0
Others			**506,227**	**11,393**					**(9.6)**	**50.2**	**31.3**	**26.0**	**17.3**	**13.2**	**14.7**	**11.2**	**8.7**	**2.7**	**2.3**	**2.0**	**0.7**	**0.7**	**0.7**	**10.4**	**13.5**	**15.3**			
KS universe (b)			**50,007,856**	**1,125,416**					**16.0**	**20.9**	**22.4**	**21.0**	**17.4**	**14.2**	**12.3**	**10.3**	**8.4**	**3.2**	**2.7**	**2.4**	**1.2**	**1.3**	**1.5**	**15.0**	**15.7**	**16.7**			
KS universe (b) ex-Energy			**40,633,092**	**914,439**					**10.6**	**22.3**	**21.9**	**22.8**	**18.6**	**15.3**	**14.8**	**12.3**	**9.9**	**3.5**	**3.0**	**2.6**	**1.0**	**1.2**	**1.3**	**15.5**	**16.2**	**17.0**			
KS universe (d) ex-Energy & ex-Commodities			**36,063,425**	**811,600**					**16.1**	**21.1**	**22.3**	**24.0**	**19.8**	**16.2**	**16.9**	**13.9**	**11.1**	**3.7**	**3.2**	**2.8**	**1.1**	**1.2**	**1.3**	**15.5**	**16.2**	**17.2**			

Note:
(1) For banks we have used adjusted book values.
(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 44.44

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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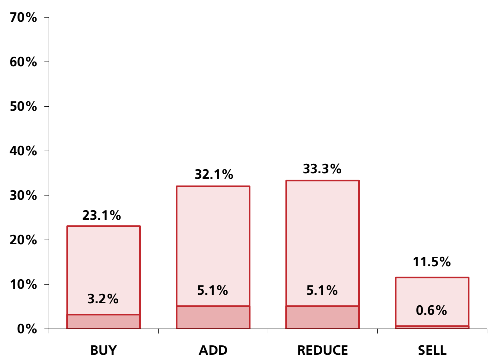

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Source: Kotak Institutional Equities — As of September 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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