kotak® Institutional Equities

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News Round-up

- Sterlite Industries (India) Ltd, a subsidiary of London Stock Exchange-listed Vedanta Resources Plc, on Thursday said it raised $1.5 billion through an offer of American Depositary Shares (ADS) to fund its capex plans. *(FE)*
- Engineering and construction major Larsen and Toubro has reported a 22-per cent drop in its order inflow for the quarter ended June 30, 2009 at Rs 9,571 crore as compared to Rs 12,234 crore logged in the same period last year. *(BL)*
- Zee Entertainment Enterprises has registered a 5.6 per cent drop in its net for the first quarter of current fiscal as competition from new channels dented its revenues. (BS)
- Changi Airports International is ready to enter into joint ventures with more Indian companies in developing airports. The company, which has picked up a 26% stake for $20 million in Bengal Aerotropolis Pvt Ltd (BAPL), said it is looking at other opportunities. *(FE)*
- Anil Agarwal-promoted Vedanta Resources is in talks with European and Japanese steel producers to get into steel making. *(BS)*
- Bajaj Auto has reported a net profit of Rs 293.49 crore for the first quarter ended June 30, up 67.6 per cent from Rs 175.11 crore in the corresponding period last fiscal. *(BL)*
- Tube and pipe manufacturer Welspun-Gujarat Stahl Rohren Ltd has posted 94.27 per cent rise in its net at Rs 138.21 crore for the first quarter of financial year 2010 as compared to Rs 71.14 crore it posted in the corresponding period last year. (BS)
- Inching a step closer to the listing of Bharat Sanchar Nigam (BSNL), the government , on Thursday, said it is considering a part sale of its shareholding in the telecom monolith to the public. *(ET)*
- Basel-based drug maker Hoffman-La Roche Ltd plans to drag Cipla Ltd to the Supreme Court, challenging an April ruling of Delhi high court that dismissed Roche's appeal on a patent infringement case. *(Mint)*
- Tata Steel Ltd on Thursday said its unit Tata Steel Global Minerals Holdings Pte Ltd had raised its holding in Australia's Riversdale Mining Ltd to 19.38 % through market purchases. *(FE)*

Source: ET= Economic Times, BS = Business Standard, FE = Financial Express, Bl = Business Line.

EQUITY MARKETS

		Change %		
India	**16-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	14,250	(0.0)	(1.9)	29.3
Nifty	4,231	(0.0)	(2.9)	25.0
Global/Regional indices				
Dow Jones	8,712	1.1	2.5	7.1
Nasdaq Composite	1,885	1.2	4.3	12.7
FTSE	4,362	0.4	1.9	6.6
Nikkie	9,388	0.5	(4.6)	5.4
Hang Seng	18,552	1.0	2.6	18.9
KOSPI	1,436	0.3	3.2	8.0
Value traded - India				
Cash (NSE+BSE)	262.6		233.8	252.1
Derivatives (NSE)	688.5		687.4	785
Deri. open interest	812.7		893	839

Forex/money market				
	Change, basis points			
	16-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	48.6	1	84	(112)
10yr govt bond, %	7.0	-	11	53
Net investment (US$mn)				
	15-Jul		**MTD**	**CYTD**
FIIs	212		1,054	6,024
MFs	51		(4)	516

Top movers -3mo basis				
	Change, %			
Best performers	**16-Jul**	**1-day**	**1-mo**	**3-mo**
ADE IN Equity	803.3	0.5	12.1	128.8
WGS IN Equity	197.4	(3.4)	(2.7)	121.7
IVRC IN Equity	326.3	(2.8)	2.2	111.9
IDFC IN Equity	138.8	(2.3)	2.6	109.0
SESA IN Equity	211.0	(1.1)	12.2	90.6
Worst performers				
ESOIL IN Equity	132.8	0.2	(16.8)	(15.9)
TCOM IN Equity	474.0	0.7	0.1	(13.5)
SUNP IN Equity	1221.0	0.6	(5.8)	1.2
NATP IN Equity	205.4	3.2	(3.9)	6.1
TT IN Equity	753.9	1.3	1.1	11.0

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kotak Institutional Equities

Larsen & Toubro (LT)

Industrials

ADD

JULY 17, 2009

RESULT

Coverage view: Neutral

Price (Rs): 1,379

Target price (Rs): 1,425

BSE-30: 14,250

Sedate results, may make up in 2HFY10E. We retain our ADD rating despite weak revenues and order inflows based on (1) potential for order accretion in 2HFY10E (ONGC, NTPC/DVC etc.), (2) strong revene growth and margin expansion in the key E&C, (3) potential for better margins as contribution margins expand, (4) management confidence in its guidance and (5) 10-15% correction from recent peak. We have marginally changed earnings estimates and target price to Rs1,425/share.

Company data and valuation summary

Larsen & Toubro

Stock data					Forecasts/Valuations	2009	2010E	2011E
52-week range (Rs) (high,low)				1,800-556	EPS (Rs)	52.6	60.1	71.7
Market Cap. (Rs bn)				822.9	EPS growth (%)	38.7	14.3	19.3
Shareholding pattern (%)					P/E (X)	26.2	22.9	19.2
Promoters				0.0	Sales (Rs bn)	390.2	466.5	575.9
FIIs				14.8	Net profits (Rs bn)	31.2	35.9	43.0
MFs				5.9	EBITDA (Rs bn)	54.7	64.8	77.6
Price performance (%)	1M	3M	12M		EV/EBITDA (X)	17.6	15.4	13.2
Absolute	(6.1)	58.7	12.9		ROE (%)	22.5	19.7	19.0
Rel. to BSE-30	(4.2)	22.7	3.9		Div. Yield (%)	0.7	0.8	0.9

- Sedate revenue growth of 11% in 1Q
- Maintains strong inflow growth guidance of 25-35%
- Revised target price of Rs1,425/share

Disappointing revenues as margins surprise; potential for weak results for engineering peers

L&T reported disappointing yoy revenue growth of about 11% in 1QFY10 significantly below our estimate. The slowdown was led by the MIP segment which reported a yoy revenue decline of 31%. Poor performance in the products segment could indicate weak results from product companies such as ABB, Siemens, Cummins, etc. Higher-than-expected operating margins led by cost-control measures and a larger portion of orders crossing the margin recognition threshold helped the company meet our bottom line estimate of Rs5.8 bn. There may be potential for better margins in 2HFY10E as contribution margins expand, also, operating leverage with higher execution may help in 2HFY10E.

Management confident of meeting revenue and inflow growth guidance

The management reiterated its confidence in achieving it aggressive order inflow guidance of 25-35% yoy for FY2010E. The order inflow momentum is expected to pick up from 2HFY10E with increased ordering activity from the public sector and likely large order wins such as ONGC platform orders, power equipment orders etc. The company has maintained its revenue growth guidance of 15-20% with flat margins for FY2010E.

Marginally revise earnings estimates and target price to Rs1,425/share; reiterate ADD

We have revised our standalone earnings estimates to Rs52.6 and Rs63 from Rs49.4 and Rs59 for FY2010E and FY2011E, respectively, based on moderate changes to other income and margin assumptions. This has led to a change in the consolidated earnings estimates to Rs60.1 and Rs71.7 from Rs57.4 and Rs68 for FY2010E and FY2011E respectively. We have correspondingly revised our FY2011E P/E multiple and SOTP-based target price to Rs1,425/ share from Rs1,375 earlier.

We retain our ADD rating based on (1) improving economic outlook, (2) stable political structure that has potential to catalyze infrastructural investments, (3 strong investments in capacity and capability enhancement and (4) strong balance sheet and cash flows that enable L&T to capture opportunities in various areas including infrastructure development.

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Revenue disappointment led by product segment slowdown

Larsen reported disappointing yoy revenue growth of about 11% (adjusted for sales of Rs2.7 bn from the ready mix concrete business) in 1QFY10, significantly below our estimates. The slowdown was led by the machinery and industrial products segment which reported a significant yoy revenue decline of 31%. The company highlighted that all businesses within the segment saw a slowdown in the domestic and overseas geographies. The engineering and construction business, which contributes to 86% of total revenues, registered a growth of 18.6% in 1QFY10 while the electrical and electronics segment reported relatively flat revenues. The growth in the E&C segment was led by the hydrocarbon and process sector.

Disappointing revenues offset by higher-than-expected margins
L&T - key numbers - 1QFY10 (Rs mn)

					%change					
	1QFY10	**1QFY10E**	**1QFY09**	**4QFY09**	**1QFY10E**	**1QFY09**	**4QFY09**	**FY2010E**	**FY2009**	***% change***
Net sales	**73,627**	**85,659**	**69,014**	**104,670**	**(14.0)**	**6.7**	**(29.7)**	**407,900**	**336,486**	**21.2**
Expenses	(65,764)	(77,307)	(62,441)	(90,181)	(14.9)	5.3	(27.1)	(360,380)	(300,695)	19.8
Total RM consumption	(19,459)		(20,200)	(25,556)		(3.7)	(23.9)	(116,000)	(90,256)	28.5
Subcontracting charges	(19,283)		(14,573)	(23,621)		32.3	(18.4)	(86,925)	(72,236)	20.3
Construction materials	(13,724)		(15,395)	(23,780)		(10.9)	(42.3)	(93,529)	(77,725)	20.3
Employee	(5,115)		(4,097)	(3,765)		24.8	35.9	(26,239)	(19,980)	31.3
Other mfg. expenses	(4,754)		(4,971)	(5,568)		(4.4)	(14.6)	(16,475)	(22,103)	(25.5)
Other S,G&A	(3,431)		(3,205)	(7,891)		7.0	(56.5)	(21,211)	(18,395)	15.3
Total other expenses	(8,184)		(8,177)	(13,459)		0.1	(39.2)	(37,686)	(40,498)	(6.9)
Operating profit	**7,863**	**8,352**	**6,574**	**14,489**	**(5.8)**	**19.6**	**(45.7)**	**47,520**	**35,790**	**32.8**
Other income	2,683	1,657	2,018	3,668	61.9	33.0	(26.8)	6,630	10,196	(35.0)
EBIDTA	**10,547**	**10,009**	**8,592**	**18,157**	**5.4**	**22.8**	**(41.9)**	**54,150**	**45,986**	**17.8**
Interest	(1,096)	(1,068)	(382)	(1,455)	2.6	186.6	(24.7)	(4,271)	(3,502)	22.0
Depreciation	(937)	(970)	(659)	(889)	(3.4)	42.3	5.4	(4,367)	(3,060)	42.7
PBT	**8,514**	**7,971**	**7,551**	**15,813**	**6.8**	**12.8**	**(46.2)**	**45,512**	**39,424**	**15.4**
Tax	(2,730)	(2,630)	(2,526)	(4,409)	3.8	8.1	(38.1)	(14,109)	(12,312)	14.6
Net profit	**5,783**	**5,341**	**5,024**	**11,404**	**8.3**	**15.1**	**(49.3)**	**31,403**	**27,112**	**15.8**
Extraordinary items	10,199	-	-	(1,439)			(808.9)	-	7,725	(100.0)
RPAT	15,982	5,341	5,024	9,965	199.3	218.1	60.4	31,403	34,837	(9.9)
Order details										
Order booking	95,700		122,000	125,170		(21.6)	(23.5)	605,784	516,210	17.4
Order backlog	716,530		582,000	703,000		23.1	1.9	959,570	703,000	36.5
Key ratios (%)										
Raw materials/sales	45.1		51.6	47.1		(6.5)		51.4	49.9	
Subcontracting charges	26.2		21.1	22.6		5.1		21.3	21.5	
Employee expenses/sales	6.9		5.9	3.6		1.0		6.4	5.9	
Other manufacturing expenses	6.5		7.2	5.3		(0.7)		4.0	6.6	
S G and A expenses/sales	4.7		4.6	7.5		0.0		5.2	5.5	
Operating profit margin	**10.7**	**9.8**	**9.5**	**13.8**				**11.6**	**10.6**	
EBIDTA margin	14.3	11.7	12.4	17.3				13.3	13.7	
PBT Margin	11.6	9.3	10.9	15.1				11.2	11.7	
Tax rate	32.1	33.0	33.5	27.9				31.0	31.2	

Source: Company, Kotak Institutional Equities estimates

We can expect poor results for other product-oriented peers as well

The poor performance in the products segment could be the forerunner of weak results from product-oriented companies such as ABB, Siemens, Cummins, etc. High exposure to the products segment for ABB and Siemens (about 40-50% of revenues) could lead to results of these companies falling short of expectations led by lower-than-expected growth in the segment.

L&T - segmental numbers, 1QFY10 (Rs mn)

				(% chg)			yoy	
	1QFY10	1QFY09	4QFY09	1QFY09	4QFY09	FY2010E	FY2009	(% chg)
Engineering and Construction								
Order backlog	699,500	563,360	687,530	24.2	1.7	959,570	687,530	39.6
Revenues	**65,729**	**55,417**	**91,720**	**18.6**	**(28.3)**	**349,214**	**279,840**	**24.8**
EBITDA	6,992	5,365	15,160	30.3	(53.9)	44,525	36,060	23.5
EBITDA margin (%)	**10.6**	**9.7**	**16.5**			**12.8**	**12.9**	
Electrical and Electronics								
Revenues	**5,759**	**5,776**	**6,940**	**(0.3)**	**(17.0)**	**28,204**	**25,070**	**12.5**
EBITDA	680	664	980	2.5	(30.6)	3,525	3,320	6.2
EBITDA margin (%)	**11.8**	**11.5**	**14.1**			**12.5**	**13.2**	
Machinery and Industrial products								
Revenues	**4,370**	**6,335**	**6,070**	**(31.0)**	**(28.0)**	**23,970**	**23,970**	**0.0**
EBITDA	**954**	**1,463**	**1,210**	(34.8)	(21.2)	**4,195**	**4,810**	**(12.8)**
EBITDA margin (%)	**21.8**	**23.1**	**19.9**			**17.5**	**20.1**	
Others								
Revenues	**771**	**3,760**	**1,320**	**(79.5)**	**(41.6)**	**3,500**	**10,390**	**(66.3)**
EBITDA	**42**	**249**	**(50)**	(83.1)	(184.0)	**333**	**670**	**(50.4)**
EBITDA margin (%)	**5.4**	**6.6**	**(3.8)**			**9.5**	**6.4**	
Total								
Revenues	**76,628**	**71,287**	**106,050**	**7.5**	**(27.7)**	**404,888**	**339,270**	**19.3**
EBITDA	8,668	7,740	17,300	12.0	(49.9)	52,578	44,860	17.2
EBITDA margin (%)	**11.3**	**10.9**	**16.3**			**13.0**	**13.2**	

Source: Company, Kotak Institutional Equities

Contribution margins have expanded; may have potential for better margins

Larsen reported operating profit margin expansion of about 120 bps yoy to 10.7% in 1QFY10 versus 9.5% in 1QFY09. We had expected the company to report relatively flat yoy operating margins of 9.8% in the quarter. The improvement in margins was led by a 140 bps decline in manufacturing expenses (raw materials + subcontracting charges), partially offset by a 30 bps yoy increase in employee and other expenses as a percentage of sales. In addition to the cost control, margin improvement was also contributed by larger proportion of orders crossing the margin recognition threshold.

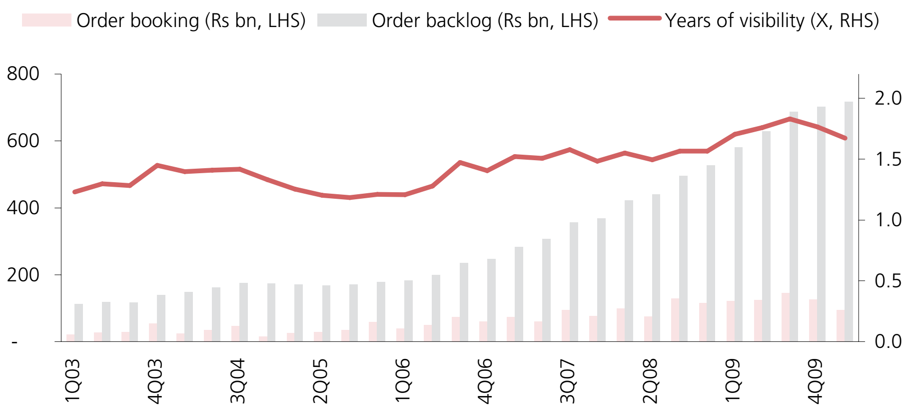
Margin improvement of 90 bps yoy was seen in the key engineering and construction segment. The electrical and electronics segment reported relatively flat margins yoy while the machinery and industrial products segment reported a 130 bps yoy decline in margins.

EPC margins for a particular quarter are unreliable but we believe margins could beat expectations as the contribution margins have expanded during the quarter. In 2HFY10E, higher execution operating leverage may lead to better margins—if the contribution margin expansion sustains.

Sedate order inflows in 1Q; expects revival in ordering activity from 2HFY10E

Larsen reported sedate order booking of Rs95.7 bn in 1QFY10, down 22% yoy, from Rs122 bn in 1QFY09. The company expects order inflow activity to pick up from the second half of the fiscal with likely large order wins such as ONGC platform order, power equipment orders etc. We have built in an order inflow assumption of 17% and 15% for FY2010E and FY2011E, respectively. Larsen reported an order backlog of Rs716 bn at the end of 1Q which provides a visibility of 1.7 years based on forward four quarter revenues.

Order book visibility maintained at about 1.7 years based on forward four quarter revenues
Order booking, Order backlog & Visibility trend for L&T (Rs mn)



Source: Company, Kotak Institutional Equities estimates

Management reiterates guidance for full-year revenues and order booking

Despite sedate orders in 1Q, the management maintained its aggressive guidance of 25-35% growth in order inflows, highlighting that inflow activity is likely to be back-ended for FY2010E. The company expects order inflow activity to pick up momentum from end-2QFY10E. The guidance is not based on specific opportunities but more generally on (1) an analysis of all projects likely to be placed and (2) confidence in maintaining its historical strike rate in winning projects. The management also reiterated its guidance of 15-20% growth for FY2010E with flat margins. The relatively moderate revenue growth guidance versus order inflows is due to the lead time between order inflow and accretion of revenues. The company expects the E&C segment to report a healthy growth and MIP segment to improve performance only with recovery in the broad economic environment. The management also cited that margins for the firm should not be viewed on a quarter-to-quarter basis and hence margin expansion seen during the quarter may not continue. The company has maintained its guidance of flat yoy margins for FY2010E.

The management does not expect margin pressure from the increasing proportion of government work in its business mix. Its confidence stems from based on significant component of design and engineering skills, manufacturing and fabrication in L&T's revenue mix.

Slight improvement in working capital—public sector projects may take a toll

L&T has reported a slight improvement in working capital levels since March 2009. The company highlighted its focus on government sector orders as the private sector is still cautious. We highlight that the public sector orders typically involve lower margins and higher working capital levels. Hence, the increased emphasis on public sector orders could potentially lead to working capital deterioration for the company. The company highlighted that it has been able to stave off the increase in working capital levels so far but is facing incremental pressure in vendor payables.

Current investments of the firm increased significantly by, about Rs16 bn, led by (1) Rs10 bn due to deployment of proceeds from the stake sale of Ultratech and (2) Rs6 bn in earnings accruals.

Larsen - balance sheet highlights, as on June 2009 (Rs mn)

	Jun-09	Mar-09	Mar-09
Net worth	141,490	124,590	95,520
Loan funds	65,850	65,560	35,840
Deferred tax liabilities	690	490	610
Total sources of funds	**208,030**	**190,640**	**131,970**
Net fixed assets	53,800	51,950	36,450
Current investments	64,890	48,800	42,830
Invt./ ICDs/ Loand and advances to subsidiaries & associates	54,330	53,900	26,800
Other investments	3,330	3,520	3,190
Net current assets	31,680	32,470	2,270
Total application of funds	**208,030**	**190,640**	**111,540**

Source: Company

Weak subsidiary performance led by broad economic slowdown

L&T reported poor performance in key subsidiaries, L&T Infotech, L&T Finance and L&T Infrastructure Finance Ltd, led by the broad economic slowdown. L&T Infotech reported a sedate 5% yoy revenue growth and 1.6% growth in PAT for 1QFY10. The business assets increased from Rs52.9 bn in March 2009 to Rs54 bn for L&T Finance and from Rs24 bn to Rs30 bn for L&T Infrastructure Finance Ltd.

Weak performance in subsidiaries led by economic slowdown
Performance of key subsidiaries in 1QFY10 (Rs mn)

	Revenues			PAT		
	1QFY10	1QFY09	% change	1QFY10	1QFY09	% change
L&T Infotech Ltd	4,740	4,520	4.9	620	610	1.6
L&T Finance Ltd	1,980	1,780	11.2	240	250	(4.0)
L&T Infrastructure Finance Ltd	860	750	14.7	220	180	22.2

Source: Company

Revise earnings estimates and target price to Rs1,425/share; reiterate ADD

We have marginally revised our standalone earnings estimates to Rs52.6 and Rs63 from Rs49.4 and Rs59 for FY2010E and FY2011E, respectively, based on moderate changes to (a) other income and margin expectations versus earlier. This has led to a change in the consolidated earnings estimates to Rs60.1 and Rs71.7 from Rs57.4 and Rs68 for FY2010E and FY2011E respectively. We have correspondingly revised our FY2011E P/E multiple and SOTP-based target price to Rs1,425/ share from Rs1,375 earlier.

Change in earnings estimates of L&T, March fiscal year-ends, 2010E and 2011E (Rs mn)

	New estimates			Old estimates		
Target price (Rs)	**1,425**			**1,375**		
Rating	**ADD**			**ADD**		
	FY2009	**FY2010E**	**FY2011E**	**FY2009**	**FY2010E**	**FY2011E**
Consolidated						
Revenues	390,186	466,457	575,854	390,186	475,008	582,394
Operating profit	54,654	64,833	77,571	54,654	64,282	76,349
Operating profit margin (%)	14.0	13.9	13.5	14.0	13.5	13.1
Profit before tax	44,500	51,232	61,020	44,500	50,107	59,303
Profit after tax	31,192	35,880	43,008	31,192	34,254	40,793
EPS (Rs)	52.6	60.1	71.7	52.6	57.4	68.0
EPS growth (%)	35.5	14.3	19.3	35.5	9.1	18.5
Order booking	516,000	605,784	696,652	516,000	591,465	680,185
Order booking growth (%)	22.8	17.4	15.0	22.8	14.6	15.0
Order backlog	703,000	959,570	1,215,643	703,000	939,888	1,174,440
Standalone						
Revenues	339,264	407,900	507,143	339,264	415,034	512,240
Operating profit	39,345	47,520	57,872	39,345	46,709	56,388
Operating profit margin (%)	11.6	11.6	11.4	11.6	11.3	11.0
Profit before tax	39,404	45,512	54,738	39,404	44,154	52,784
Profit after tax	27,092	31,403	37,769	27,092	29,583	35,365
EPS (Rs)	45.7	52.6	63.0	45.7	49.6	59.0
EPS growth (%)	23.1	15.1	19.7	23.1	8.5	18.9

Source: Company, Kotak Institutional Equities estimates

Our target price of Rs1,425/share comprises (1) Rs1,139 from the core construction business based on 18X FY2011E expected earnings, (2) Rs79 from L&T's service subsidiaries and (3) Rs38 from its manufacturing subsidiaries.

We retain our ADD rating based on (1) improving outlook for demand, reflected in the bounce back in commodity prices as well as financing environment—we have seen progress in the financial closures of several projects, (2) stable political structure that has potential to catalyze infrastructural investments, (3 strong investments in capacity and capability enhancement that would open new growth vistas such as power equipment, nuclear, defense and (4) strong balance sheet and cash flows that enable L&T to capture opportunities in various areas including infrastructure development. Key risks originate from (1) continued order booking pressure led by a slowdown in capex in important areas such as Middle-East, metals, real estate, petrochemicals etc leading to lower-than-expected earnings momentum going forward, and (2) likely pressure on working capital and margins with likely dominance of infrastructure orders.

Y2011E-based Sum of The Parts (SOTP) valuation of Larsen and Toubro

	Earnings/Book	FY11 multiple	Valuation basis	Stake	Value	Per share
	(Rs bn)	(X)		(%)	(Rs bn)	(Rs)
Core company valuation	**37,769**	**18.0**	**P/E**	**100**	**680**	**1,139**
Key subsidiaries - services	**14,158**				**47**	**79**
L&T Finance	11,089	1.5	P/B	100	17	28
L&T Infotech	3,069	10.0	P/E	100	31	51
Key subsidiaries - manufacturing	**3,887**				**38**	**64**
Tractor Engineers	161	13.0	P/E	100	2	4
Associate companies*	3,726	13.0	P/E	50	24	41
Power equipment JVwth MHI	N.A.		DCF	51	12	19
Infrastructure SPVs	30,989	2.5	P/B	79	61	103
Other subsidiaries	12,415	2.5	P/B	100	31	52
Total subsidiaries					**177**	**297**
Grand total					**857**	**1,437**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bajaj Auto (BJAUT)

Automobiles

ADD

JULY 17, 2009

RESULT, CHANGE IN RECO.

Coverage view: Cautious

Price (Rs): 1,147

Target price (Rs): 1,260

BSE-30: 14,250

Margin upside looks sustainable, raising target, rating. Bajaj Auto reported stronger-than-expected results as it took most of the currency benefits to its bottom line. 1QFY10 operating margin was 300 bps higher than our expectations. We have raised our EPS estimates for FY2010E to Rs85 from Rs65 to factor higher margin assumption of 19.5% versus 17.5% earlier. We raise our TP to Rs1,260 from Rs780 and upgrade our rating to ADD. Poor reception to the company's 100cc bike is a key risk.

Company data and valuation summary

Bajaj Auto

Stock data			
52-week range (Rs) (high,low)			1,212-262
Market Cap. (Rs bn)			166.0
Shareholding pattern (%)			
Promoters			49.6
FIIs			13.9
MFs			3.4
Price performance (%)	1M	3M	12M
Absolute	15.2	74.1	0.0
Rel. to BSE-30	19.1	33.8	(11.8)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	45.2	85.0	100.9
EPS growth (%)	(13.4)	87.9	18.7
P/E (X)	25.4	13.5	11.4
Sales (Rs bn)	84.4	104.1	111.8
Net profits (Rs bn)	6.5	12.3	14.6
EBITDA (Rs bn)	12.1	20.4	21.9
EV/EBITDA (X)	14.9	8.3	7.3
ROE (%)	37.7	53.1	44.0
Div. Yield (%)	1.7	1.7	1.7

Upside mostly from higher-than-expected flow-through of currency benefit

Bajaj Auto reported 1QFY10 PAT of Rs2.9 bn versus our expectation of Rs2 bn. The Rs900 mn upside was largely driven by higher-than-expected benefit from currency. Most of the 15% increase in hedged currency rates fell to the bottom line compared to our estimate of only 50% flowing thorough. As a result, the Rs1 bn in currency benefit was Rs500 mn higher than our estimate. The remaining PAT upside was driven by Rs218 mn in currency translation gains and Rs153 mn in lower-than-expected VRS charges. EBITDA margins for the quarter came in at 20% versus 16% reported in 4QFY09 and 12% in 1QFY09. The 400 bps sequential improvement in EBITDA margins reflects the above mentioned currency benefit.

Raise FY2010E EPS to Rs85 and FY2011E estimate to Rs101 (from Rs65 and Rs73)

The increase in our earnings estimates is driven by higher margin assumptions, which we expect to remain at 1Q levels. The sustainability of current margin levels is largely dependent on the ability of Bajaj to retain most of the currency gains. We had now modeling all of the Rs4 bn in currency gains to fall to the bottom line compared to half prior. This raised our EBITDA margin by 200 bps for the year. Our FY2010E EPS of Rs85 assumes 15% volume growth and 530 bps improvement in margins compared to 11% volume growth and 330 bps margin improvement. On volumes, we have assumed that the company is able to sell close to 20,000 units per month of the new Discover 100cc bike. For FY2011E, we have modeled a 9.5% volume growth and flat margins from FY2011E.

Raise TP to Rs1,260 on higher earnings and valuation multiple, upgrade to ADD from SELL

Our target price goes to Rs1,260 from Rs780 and reflects 12.5X our FY2011E EPS estimate of Rs101. Rs350 of the Rs480 increase is driven by higher earnings estimate of Rs28. The remaining Rs130 target increase reflects a higher valuation multiple of 12.5X versus the 11X we were assigning earlier. We are now not valuing Bajaj Auto stock at a similar multiple to Hero Honda. Comparable margins and volume growth, we believe do not justify a discount. The biggest risks to our thesis would be a poor response to Bajaj's 100cc bike, stronger competition in the '> 150cc' segment and export markets. These could force Bajaj to surrender some of the margin gains.

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Recent new launches (Pulsar 220) and likely launch of Discover 100cc "volume" bike to drive volumes

1QFY10 volumes grew 26% sequentially led mainly by (1) the recently launched Pulsar 220 (June '09) and (2) upgrades of Pulsar 150 and Pulsar 180. We believe that the full impact of the new launches will be reflected in the coming months. Besides, Bajaj plans to launch a new a 100 cc "volume" bike in the next couple of days to enable double-digit growth in motorcycle volumes. The launch of the 100 cc bike is an attempt to re-enter the 100cc segment. We have modeled motorcycle volume growth at 16.3% and 10% for FY2010E and FY2011E, respectively.

Better-than-expected results on account of higher export realizations

Bajaj Auto reported 1QFY09 net profit at Rs2.9 bn—ahead of our estimate of Rs2 bn. The better-than-expected performance was mainly on account of (1) exports being booked at Rs48/US$ resulting in higher export realizations and (2) richer product mix in favor of higher-end bikes. Consequently, EBITDA margin at 20.2% grew sharply yoy as well as qoq (EBITDA margin for 1QFY09 and 4QFY09 was 12% and 16%, respectively).

Net revenue at Rs22.6 bn was up 1.2% yoy and 26% qoq. This was mainly on account of (1) improved realizations—net realization grew 14.6% yoy and (2) 1QFY10 volumes at 547,662 declined 12% yoy. On a sequential basis, volumes grew 24.4% while realizations were up 1.6%.

Weaker domestic currency in 1QFY10 resulted in higher export realizations. 1QFY10 exports at Rs6.4 bn grew 29% qoq while it remained flat on a yoy basis. Export revenues were flat on a yoy basis despite a decline in volume sales (10% yoy) while revenues were higher on a qoq basis mainly due to the currency impact. We believe export realizations will likely remain stable in the next few quarters as Bajaj has entered into range-forwards in order to protect its revenues.

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

					(% chg.)					
	1QFY10	1QFY10E	1QFY09	4QFY09	1QFY10E	1QFY09	4QFY09	2010E	2009	(%chg)
Net sales	**22,590**	**22,180**	**22,315**	**17,875**	**1.8**	**1.2**	**26.4**	**104,064**	**84,369**	**23.3**
Total expenditure	18,831	19,376	20,440	15,976	(2.8)	(7.9)	17.9	87,938	76,182	15.4
Inc/(Dec) in stock	(477)	50	(347)	(16)	(1,053.6)	37.6	2,956.4	(43)	(245)	(82.5)
Raw materials	(14,993)	(16,131)	(17,108)	(12,936)	(7.1)	(12.4)	15.9	(74,115)	(64,390)	15.1
Staff cost	(1,129)	(925)	(1,081)	(946)	22.1	4.4	19.3	(4,387)	(3,544)	23.8
Other expenditure	(2,244)	(2,400)	(1,935)	(2,094)	(6.5)	16.0	7.1	(9,493)	(8,148)	16.5
Expenses capitalized	13	30	31	17	(57.0)	(58.1)	(22.3)	100	144	
Other operating income	795	900	793	959	(11.7)	0.3	(17.1)	4,320	3,910	
EBITDA	**4,554**	**3,704**	**2,668**	**2,858**	**23.0**	**70.7**	**59.3**	**20,447**	**12,097**	**69.0**
OPM (%)	**20.2**	**16.7**	**12.0**	**16.0**				**19.6**	**14.3**	
Other income	231	250	288	229	(7.4)	(19.6)	1.0	881	1,043	(15.6)
Interest	(60)	(60)	(9)	(52)	(0.5)	548.9	14.8	(263)	(210)	25.0
Depreciation	(331)	(400)	(335)	(313)	(17.3)	(1.3)	5.7	(1,406)	(1,298)	8.3
Pretax profits	**4,395**	**3,494**	**2,611**	**2,723**	**25.8**	**68.3**	**61.4**	**19,659**	**11,632**	**69.0**
Extraordinaries	240	661	-	829	(63.7)		(71.0)	1,833	2,051	
Tax	1,220	865	860	591	41.1	41.9	106.4	5,526	3,016	83.2
Net income	**2,935**	**2,018**	**1,751**	**1,302**	**45.4**	**67.6**	**125.4**	**12,300**	**6,565**	**87.4**
Income tax rate (%)	29.4	30.0	32.9	31.2				31.0	31.5	
Ratios										
RM to sales (%)	68.5	72.7	78.2	72.5				71.3	76.6	
EBITDA margin (%)	20.2	16.7	12.0	16.0				19.6	14.3	
Net profit margin (%)	13.0	8.9	7.8	7.3				11.8	7.8	
ETR (%)	29.4	30.0	32.9	31.2				31.0	31.5	
EPS (Rs)	20.3	13.7	12.1	9.0				85.0	45.4	
Other details										
Sales volumes (# vehicles)	547,662	547,662	620,095	440,269	-	(11.7)	24.4	2,525,883	2,194,154	15.1
Net sales realisation (Rs/vehicle)	**41,248**	**40,500**	**35,987**	**40,601**	**1.8**	**14.6**	**1.6**	**41,199**	**38,452**	**7.1**

Source: Company, Kotak Institutional Equities

Bajaj Auto, Change in estimates, March fiscal year-ends, 2010E-11E (Rs mn)

	Revised estimates		Old estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net sales	104,064	111,806	93,975	98,963	10.7	13.0
EBITDA	20,447	21,906	16,655	16,316	22.8	34.3
PAT	12,300	14,603	9,441	10,572	30.3	38.1
EPS (Rs)	**85.0**	**100.9**	**65.3**	**73.1**	**30.2**	**38.1**
Volumes (# vehicles)	**2,525,883**	**2,762,193**	**2,363,520**	**2,494,965**	**6.9**	**10.7**

Source: Kotak Institutional Equities estimates

Bajaj Auto, Volume assumptions, March fiscal year ends, 2006-2011E

	2006	2007	2008	2009E	2010E	2011E
Volumes (# vehicles)						
Motorcycles	**1,913,094**	**2,376,519**	**2,139,633**	**1,907,810**	**2,218,415**	**2,440,256**
Domestic	1,747,806	2,078,860	1,658,084	1,276,427	1,555,463	1,711,009
Exports	165,288	297,659	481,549	631,383	662,952	729,247
Scooters	**115,472**	**20,480**	**21,294**	**11,772**	**7,887**	**7,887**
Geared	62,860	5,254	-	-	-	-
Ungeared	52,612	15,226	20,817	9,692	6,494	6,494
Exports	-	-	477	2,080	1,394	1,394
Total 2-wheelers	**2,028,566**	**2,396,999**	**2,160,927**	**1,919,582**	**2,226,302**	**2,448,143**
Domestic 3-Wheelers						
Passenger 3-wheelers	141,351	138,759	127,379	125,273	150,328	157,844
Goods 3-wheelers	35,394	42,374	26,607	10,197	10,197	10,197
Exports	75,261	140,663	136,315	139,056	139,056	146,009
Total 3-wheelers	**252,006**	**321,796**	**290,301**	**274,526**	**299,581**	**314,050**
Total vehicles	**2,280,572**	**2,718,795**	**2,451,228**	**2,194,108**	**2,525,883**	**2,762,193**
Growth rates (yoy %)						
Motorcycles	**30.2**	**24.2**	**(10.0)**	**(10.8)**	**16.3**	**10.0**
Domestic	30.0	18.9	(20.2)	(23.0)	21.9	10.0
Exports	33.4	80.1	61.8	31.1	5.0	10.0
Scooters	**(13.5)**	**(82.3)**	**4.0**	**(44.7)**	**(33.0)**	**-**
Geared	(38.7)	(91.6)	(100.0)	-	-	-
Ungeared	70.1	(71.1)	36.7	(53.4)	(33.0)	-
Exports	-	-	-	336.1	(33.0)	-
Total 2-wheelers	**26.6**	**18.2**	**(9.8)**	**(11.2)**	**16.0**	**10.0**
Domestic 3-Wheelers	**13.1**	**2.5**	**(15.0)**	**(12.0)**	**18.5**	**4.7**
Passenger 3-wheelers	14.2	(1.8)	(8.2)	(1.7)	20.0	5.0
Goods 3-wheelers	9.1	19.7	(37.2)	(61.7)	-	-
Exports	14.5	86.9	(3.1)	2.0	-	5.0
Total 3-wheelers	**13.5**	**27.7**	**(9.8)**	**(5.4)**	**9.1**	**4.8**
TOTAL Vehicles	**25.0**	**19.2**	**(9.8)**	**(10.5)**	**15.1**	**9.4**

Source: Company, Kotak Institutional Equities estimates

Bajaj Auto, Profit model and Balance Sheet, March fiscal year-ends, 2008-2011E (Rs mn)

	2008	2009E	2010E	2011E
Profit model (Rs mn)				
Net sales	86,633	84,369	104,064	111,806
Operating profit	**12,900**	**12,097**	**20,447**	**21,906**
Other income	12,900	12,097	20,447	21,906
Interest	(52)	(210)	(263)	(263)
Depreciaiton	(1,740)	(1,298)	(1,406)	(1,483)
Profit before tax	**12,371**	**11,632**	**19,659**	**21,164**
Extra-ordinary itemss	(1,025)	(2,071)	(1,833)	-
Taxes	(3,788)	(3,016)	(5,526)	(6,561)
Net profit	**7,558**	**6,545**	**12,300**	**14,603**
Earnings per share (Rs)	**54.2**	**45.2**	**85.0**	**100.9**
Balance sheet (Rs mn)				
Equity	15,876	18,697	27,612	38,829
Deferred tax liability	110	42	-	-
Total Borrowings	13,343	15,700	14,379	13,189
Current liabilities	18,773	24,376	24,492	25,240
Total liabilities	**48,102**	**58,814**	**66,482**	**77,259**
Net fixed assets	12,928	15,481	15,825	16,342
Investments	18,571	18,085	18,860	19,633
Cash	561	1,369	9,961	18,258
Other current assets	15,936	21,884	21,183	21,739
Miscellaneous expenditure	105	163	163	163
Deferred tax assets	-	-	491	1,124
Total assets	**48,102**	**56,981**	**66,482**	**77,259**
Ratios				
Operating margin (%)	14.9	14.3	19.6	19.6
PAT margin (%)	8.7	7.8	11.8	13.1
Debt/equity (X)	0.8	0.8	0.5	0.3
Net debt/equity (X)	0.0	0.2	(0.2)	(0.4)
Book Value (Rs/share)	114.6	129.5	190.8	268.3
RoAE (%)	21.0	37.7	53.1	44.0
RoACE (%)	**72.5**	**44.1**	**60.1**	**50.8**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Zee Entertainment Enterprises (Z)

Media

REDUCE

JULY 16, 2009

RESULT

Coverage view: Neutral

Price (Rs): 180

Target price (Rs): 160

BSE-30: 14,250

Stronger-than-expected 1QFY10 results despite weak ad revenues. ZEEL reported stronger-than-expected 1QFY10 net income at Rs1.0 bn versus our expectation of Rs0.8 bn; the positive variance reflects sharp (and surprising) 36% qoq decline in SG&A expenses. ZEEL reported 1QFY10 revenues at Rs4.8 bn versus our expectation of Rs5.1 bn due to major cricket events (IPL and T20 World Cup). We retain our REDUCE rating with a 12-month DCF-based target price of Rs160 (Rs145 previously).

Company data and valuation summary

Zee Entertainment Enterprises

Stock data			
52-week range (Rs) (high,low)			255-88
Market Cap. (Rs bn)			78.1
Shareholding pattern (%)			
Promoters			41.5
FIIs			29.5
MFs			10.0
Price performance (%)	1M	3M	12M
Absolute	7.6	41.1	(3.1)
Rel. to BSE-30	9.3	9.2	(10.8)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	8.3	10.0	12.0
EPS growth (%)	(6.5)	20.6	19.5
P/E (X)	21.7	18.0	15.1
Sales (Rs bn)	21.7	22.7	25.4
Net profits (Rs bn)	3.6	4.3	5.2
EBITDA (Rs bn)	5.3	6.1	7.5
EV/EBITDA (X)	15.5	12.9	10.4
ROE (%)	11.9	13.0	14.4
Div. Yield (%)	1.3	1.4	1.7

Stronger-than-expected 1QFY10 results though ad revenues disappoint

- Weaker-than-expected 1QFY10 ad revenues at Rs2 bn (-29% yoy, -13% qoq) on account of two major cricket tournaments.
- 3% qoq growth in subscription revenues entirely due to improved realizations from DTH; cable, international revenues were stable qoq.
- 11% qoq decline in employee expenses given cost rationalization measures by the company; positive trend given the challenging conditions.
- Impressive but surprising 36% qoq decline in SG&A expenses (overheads); we do not expect such low spends to be sustained.

Investment rationale and view remain largely unchanged

- Sustainability of sharply lower spending on content, overheads (advertising and promotion, etc.) is difficult given the competitive scenario, in our view. The management also agrees that spends may vary on a quarterly basis depending on its strategy, competition.
- Sharp 10% rally in stock post-1QFY10 results precludes any significant investment opportunity; valuations at 18X revised FY2010E EPS estimates leave little room for upside.
- We highlight continued strong operational performance of the Zee TV channel as key performance driver; await better valuations for entry.
- Retain REDUCE but with higher 12-month DCF-based target price of Rs160 (Rs145 previously); revised FY2010E and FY2011E EPS estimates to Rs10.0 (Rs9.3 previously) and Rs12.0 (Rs11.2 previously) led by (1) reduced expenses but partially negated by (2) lower revenues.

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1QFY10 results analysis—the good, the bad and the mysterious

The good—stronger-than-expected EBITDA on cost rationalization. ZEEL reported stronger-than-expected 1QFY10 EBITDA at Rs1.2 bn versus our Rs1.1 bn expectation; the variance was on account of cost rationalization measures initiated by the management, which negated weaker-than-expected revenues. We had previously noted the need for right sizing (see our 4QFY09 results analysis '*Marginally weak 4QFY09 results but operational performance is starting to improve*' dated April 22, 2009) given the challenging macro environment and management's resolve for the same. ZEEL reported 1QFY10 employee expenses at Rs390 mn (-11% qoq, -2% yoy excluding Rs290 mn of one-off expenses in 1QFY09) versus our Rs450 mn estimate.

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

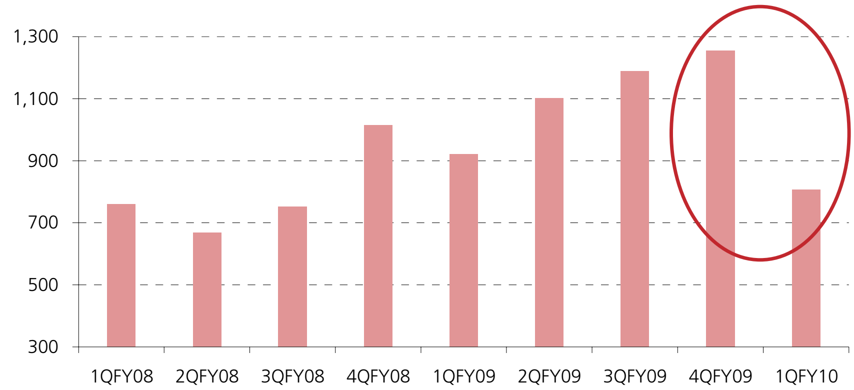
					(% chg)					
	1QFY10	1QFY10E	1QFY09	4QFY09	1QFY10E	1QFY09	4QFY09	FY2009	FY2008	(% chg)
Total revenues	**4,759**	**5,167**	**5,420**	**5,137**	***(8)***	***(12)***	***(7)***	**21,730**	**18,354**	***18***
Advertising revenues	1,980	2,284	2,798	2,284	*(13)*	*(29)*	*(13)*	10,618	9,307	*14*
Subscription revenues	2,410	2,375	2,150	2,345	*1*	*12*	*3*	9,014	7,436	*21*
--Domestic subscription	1,318	1,230	1,053	1,230	*7*	*25*	*7*	4,523	3,394	*33*
--International subscription	1,092	1,115	1,097	1,115	*(2)*	*(0)*	*(2)*	4,490	3,933	*14*
Others (incl. movies)	370	508	471	508	*(27)*	*(21)*	*(27)*	2,098	1,611	*30*
Total expenditure	**(3,589)**	**(3,950)**	**(3,978)**	**(3,936)**	***(9)***	***(10)***	***(9)***	**(16,398)**	**(12,931)**	***27***
Cost of revenues	(2,392)	(2,300)	(2,366)	(2,241)	*4*	*1*	*7*	(9,904)	(7,818)	*27*
Employee costs	(390)	(450)	(691)	(439)	*(13)*	*(44)*	*(11)*	(2,025)	(1,438)	*41*
SG&A expenses	(808)	(1,200)	(921)	(1,255)	*(33)*	*(12)*	*(36)*	(4,468)	(3,675)	*22*
EBITDA	**1,170**	**1,217**	**1,442**	**1,202**	***(4)***	***(19)***	***(3)***	**5,332**	**5,423**	***(2)***
OPM (%)	**24.6**	**23.6**	**26.6**	**23.4**				**24.5**	**29.5**	
Other income	325	450	278	444	*(28)*	*17*	*(27)*	1,403	1,138	*23*
Interest expense	(91)	(400)	(214)	(509)	*(77)*	*(57)*	*(82)*	(1,331)	(516)	*158*
D&A expenses	(75)	(100)	(55)	(99)	*(25)*	*36*	*(24)*	(304)	(232)	*31*
Pretax profits	**1,329**	**1,167**	**1,450**	**1,038**	***14***	***(8)***	***28***	**5,099**	**5,813**	***(12)***
Extraordinaries	-	—	574	260				1,651	(26)	
Tax provision	(416)	(300)	(417)	(330)	*39*	*(0)*	*26*	(1,552)	(1,627)	*(5)*
Minority interest	106	—	(6)	(3)		*(1,863)*	*(3,212)*	(23)	(328)	*(93)*
Adj. net income	**1,019**	**867**	**1,027**	**705**	***17***	***(1)***	***45***	**5,175**	**3,833**	***35***
Tax rate (%)	**31.3**	**25.7**	**28.8**	**31.8**				**30.4**	**28.0**	

Source: Company data, Kotak Institutional Equities estimates

The bad—continued weakness in advertising revenues. ZEEL reported weaker-than-expected 1QFY10 advertising revenues at Rs2.0 bn (-29% yoy, -13% qoq) versus our expectation of Rs2.2 bn. The weak advertising revenue performance was largely on account of three factors—(1) high base effect given ad rate hike taken by ZEEL in 1QFY09 on the back strong ratings performance, (2) continued weakness in ad revenue market and most important, (3) the impact of two major cricket events notably IPL Season 2 and T20 World Cup in 1QFY10, which impacted advertising flows from categories such as telecom, insurance and autos. We believe the worst in terms of ad revenue decline is over though recovery may still be some time away.

The mysterious—SG&A expenses, DTH revenues and other operations. ZEEL reported 1QFY10 SG&A expenses at Rs808 mn, a sharp and impressive 36% qoq decline from Rs1.25 bn reported in 4QFY09 and our Rs1.2 bn estimate. We did expect some progress on cost rationalization given the large increase in overhead costs over the past few years on account of rising competitive intensity and investments by ZEEL to shore up its core operations; we are positively inclined on management's efforts to right size the business. However, the reported improvement (see Exhibit 2) was far ahead of our expectations; ZEEL's reported 1QFY10 SG&A expenses were below the reported overhead costs for every quarter since 3QFY08.

Trend in reported overhead expenses of Zee Entertainment (Rs mn)

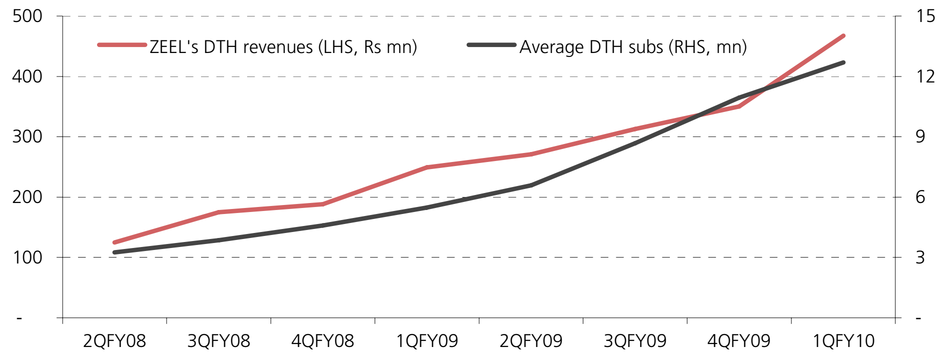


Source: Company data, compiled by Kotak institutional Equities

Also, we find it difficult to reconcile with ZEEL management on the same—(1) Zee Next channel was almost closed by end-4QFY09 and the scope for incremental savings was limited, (2) ZEEL had reduced its afternoon programming in 4QFY09 without any impact on SG&A, (3) the number of new program launches remained unchanged from 4QFY09 ('Pavitra Risshta', 'Aap Ki Antara' and 'SaReGaMaPa Lil Champs' in 1QFY10 versus 'Choti Bahu', 'Bitiya' and 'Dance India Dance' in 4QFY09) and (4) some additional events during 4QFY09 (Zee Carnival). Debt provisions and write-offs account for a large part of SG&A expenses; we believe lower provisions may have contributed to lower SG&A expenses in 1QFY10, which may not be sustainable.

DTH revenues—back on track and how. ZEEL reported 1QFY10 subscription revenues at Rs2.4 bn, marginally ahead of our estimates. Stronger-than-expected DTH realizations at Rs467 mn (+33% qoq) in 1QFY10 were the key driver of subscription revenues. We highlight that DTH revenues have come back on track from the trend of weak growth (out of line with industry subscriber additions) in a couple of quarters (2Q-4QFY09). However, the element of surprise stems from (1) 1QFY10 DTH revenue growth outpacing the growth in subscriber additions (see Exhibit 3) and more important, (2) significant reduction in content costs at Dish TV, ZEEL's sister DTH concern, in 4QFY09. We find it hard to reconcile the opposing signals coming from broadcasters (improved realizations) and DTH operators (bargaining power, reduced content costs).

Trend in ZEEL's DTH revenues and industry subscriber base



Source: Company data, compiled by Kotak institutional Equities

Other operations and interest expenses. Exhibit 4 presents the analysis of ZEEL's other operations; we note that Sports (Taj TV/Ten Sports) and overseas (US and UK) operations are the key drivers of ZEEL 'rest'. We would highlight that the performance of ZEEL 'rest' has improved meaningfully (1QFY10 EBITDA of Rs200 mn versus Rs43 mn in 4QFY09) despite (1) Sports business reporting an operating loss of Rs272 mn in 1QFY10 versus operating profit of Rs137 mn in 4QFY09 and (2) continued weakness in international subscription revenues in 1QFY10 at Rs1.1 bn (-2% yoy, -1% qoq); we need to clarify the same with the management. The 1QFY10 reported interest expenses at Rs91 mn imply an interest rate of 7.2% given average gross debt of Rs5.1 bn in 1QFY10; the management attributed the same to better debt management.

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

	ZEEL consolidated			ZEEL standalone			ZEEL "rest"		
	1QFY10	4QFY09	FY2009	1QFY10	4QFY09	FY2009	1QFY10	4QFY09	FY2009
Revenues	**4,759**	**5,137**	**21,730**	**2,389**	**2,872**	**12,093**	**2,370**	**2,266**	**9,637**
EBITDA	1,170	1,202	5,332	900	978	3,615	270	224	1,716
EBITDA margin (%)	**24.6**	**23.4**	**24.5**	**37.7**	**34.1**	**29.9**	**11.4**	**9.9**	**17.8**
Pre-tax profits	1,329	1,038	5,099	1,083	1,017	3,761	246	21	1,338
Tax	416	330	1,552	370	352	1,301	46	(22)	251
Adjusted net income	**913**	**708**	**3,547**	**713**	**665**	**2,460**	**200**	**43**	**1,087**
Tax rate (%)	**31.3**	**31.8**	**30.4**	**34.2**	**34.6**	**34.6**	**18.5**	**(102.3)**	**18.8**

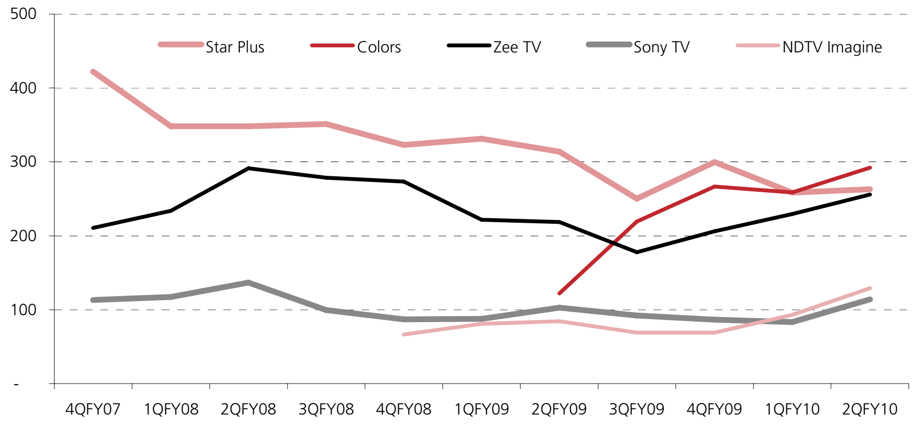
Note:
(a) ZEEL "rest" primarily comprises of overseas operations.

Source: Company data, compiled by Kotak Institutional Equities

Investment rationale—operations and valuations

Operational performance has improved without any doubt. Exhibit 5 presents the GRP performance of key Hindi GE channels over the last few years; we would highlight the robust rating gains by Zee TV, ZEEL's flagship channel, for the last few quarters on account of revamped content slate that has been appreciated by the mass Indian audience. Zee TV has done well to hold off strong competition from new entrants such as NDTV Imagine and Colors and other incumbents, Star Plus and Sony TV, have been impacted more by the entry of competition. We credit ZEEL's management for the operational performance and believe this positions ZEEL well given the improvement in ad revenue market.

Trends in all-India GRPs for key Hindi language channels (%)

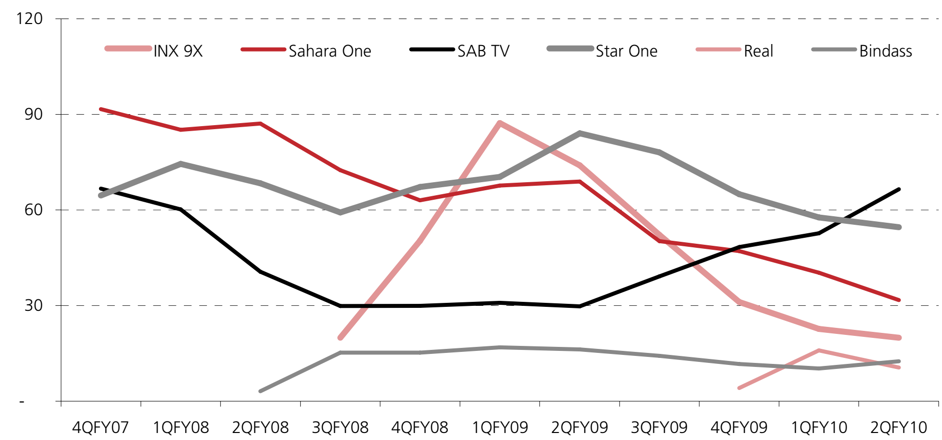


Source: TAM Media Research, compiled by Kotak Institutional Equities

Weakness in ad revenues to continue for some time; quantum of recovery unclear. ZEEL's 1QFY10 ad revenues provide a clear picture of the extent of weakness in ad revenue market since at least one of the two major sports events (IPL) was on air last year as well but did not have any large impact on ZEEL. We expect the weakness in ad revenues to continue for some time as the emergence of competition has also given some options to advertisers and put pressure on ad rates. We expect ad revenues to remain under pressure in 2QFY08 (also on account of a high base effect) and 3QFY08 (also T20 Champions League cricket) before showing signs of recovery. Even so, we are wary of modeling a definitively large ad revenue growth expectation for FY2011E (we expect 14% yoy ad revenue growth in FY2011E currently).

Valuations—certainly not inexpensive post impressive rally. ZEEL is currently valued at 18X FY2010E EPS estimates (revised to Rs10.0 versus Rs9.3 previously); we do not believe there is much comfort in current valuations. Moreover, we believe the valuations largely capture the improved operational performance given (1) continued weakness in ad revenue markets and near-term impact on financial performance and (2) increase in competitive intensity, which may become a reason for concern. We do not believe weak competition has much chance of survival in the long run (see Exhibit 6) but we have not yet seen any exits from the market as well. NDTV Imagine and Sony TV, given they can resolve their funding constraints, could potentially surprise negatively.

Trends in all-India GRPs for other Hindi language channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

Earnings revisions—reduced expenses.

We have revised our FY2010E and FY2011E EPS estimates to Rs10.0 (Rs9.3 previously) and Rs12.0 (Rs11.2 previously) to account for 1QFY10 results.

- **Advertising revenues.** We have reduced our FY2010E and FY2011E ad revenue estimates to Rs10.1 bn (Rs10.7 bn previously) and Rs11.5 bn (Rs12.0 bn previously) to account for weak ad revenue market and impact of cricket events.
- **Employee expenses.** We have reduced our FY2010E and FY2011E employee expenses to Rs1.9 bn (Rs2.1 bn previously) and Rs2.1 bn (Rs2.5 bn previously).
- **SG&A expenses.** We have reduced our FY2010E and FY2011E SG&A expenses to Rs3.9 bn (Rs4.4 bn) and Rs4.4 bn (Rs4.8 bn).

Consolidated financial summary of ZEEL, March fiscal year-ends, 2007-2013E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)							
Total revenues	**15,159**	**18,354**	**21,729**	**22,653**	**25,393**	**28,426**	**31,455**
EBITDA	**3,204**	**5,423**	**5,332**	**6,150**	**7,454**	**8,789**	**10,175**
Other income	747	1,138	1,406	1,158	1,125	1,223	1,248
Interest	(334)	(516)	(1,217)	(519)	(375)	(325)	(138)
Depreciation	(185)	(232)	(304)	(368)	(383)	(403)	(423)
Amortization	—	—	—	—	—	—	—
Pretax profits	**3,432**	**5,813**	**5,217**	**6,420**	**7,821**	**9,283**	**10,863**
Extraordinary items	—	(26)	1,651	—	—	—	—
Tax	(926)	(1,794)	(1,573)	(2,016)	(2,527)	(3,140)	(3,662)
Deferred tax	(76)	168	(15)	(6)	(3)	—	3
Minority interest	(58)	(328)	(23)	(49)	(106)	(118)	(193)
Net income	**2,373**	**3,833**	**5,258**	**4,350**	**5,185**	**6,025**	**7,011**
Recurring net income	**2,373**	**3,859**	**3,607**	**4,350**	**5,185**	**6,025**	**7,011**
Earnings per share (Rs)	**5.5**	**8.9**	**8.3**	**10.0**	**12.0**	**13.9**	**16.2**
Balance sheet (Rs mn)							
Total equity	26,181	28,611	32,447	34,867	37,617	40,698	44,258
Deferred tax balance	(75)	(243)	(229)	(223)	(220)	(220)	(223)
Minority interest	819	1,117	1,140	1,189	1,294	1,412	1,605
Total borrowings	3,226	3,866	6,866	3,755	3,755	2,755	0
Currrent liabilities	5,106	6,279	7,256	7,673	7,950	8,354	8,872
Total capital	**35,256**	**39,629**	**47,480**	**47,261**	**50,396**	**52,999**	**54,512**
Cash	955	1,652	2,232	2,342	4,196	5,167	4,963
Current assets	17,133	19,856	24,898	24,612	25,927	27,587	29,327
Net fixed assets	14,841	15,605	16,102	16,059	16,026	15,998	15,975
Investments	2,326	2,515	4,247	4,247	4,247	4,247	4,247
Deferred expenditure	2	—	—	—	—	—	—
Total assets	**35,256**	**39,629**	**47,480**	**47,261**	**50,396**	**52,999**	**54,512**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,812	3,898	4,293	3,714	4,652	5,423	6,475
Working capital	(486)	(1,622)	(4,065)	703	(1,037)	(1,257)	(1,222)
Capital expenditure	(460)	(1,019)	(800)	(325)	(350)	(375)	(400)
Investments	(4,289)	(1,511)	(1,732)	—	—	—	—
Other income	469	876	1,406	1,158	1,125	1,223	1,248
Free cash flow	**(2,954)**	**622**	**(898)**	**5,250**	**4,390**	**5,014**	**6,102**
Revenue model (Rs mn)							
Advertising revenues	7,035	9,307	10,618	10,069	11,448	12,983	14,510
Subscription-domestic	3,113	3,460	4,524	5,628	6,593	7,615	8,692
Subscription-overseas	3,933	3,946	4,490	4,865	5,055	5,301	5,577
Others	1,078	1,640	2,098	2,091	2,298	2,526	2,676
Total revenues	**15,159**	**18,354**	**21,729**	**22,653**	**25,393**	**28,426**	**31,455**

Source: Company data, Kotak Institutional Equities estimates

kotak Institutional Equities

Welspun Gujarat Stahl Rohren (WGS)

Others

REDUCE

JULY 17, 2009

RESULT

Price (Rs): 197

Target price (Rs): 145

BSE-30: 14,250

Strong performance in 1QFY10; re-entering capex cycle. Welspun reported 1QFY10 results largely in line with our estimates with adjusted PAT of Rs1.1 bn (up 41% yoy). The company announced capex plans of Rs5.5 bn over next 12-15 months for setting up 0.6 mn tons of new pipe capacity. We increase our target price to Rs145 but maintain our REDUCE rating due to high valuations and limited visibility for FY2011E revenues.

Company data and valuation summary

Welspun Gujarat Stahl Rohren

Stock data			
52-week range (Rs) (high,low)			375-45
Market Cap. (Rs bn)			37.3
Shareholding pattern (%)			
Promoters			43.9
FIIs			14.0
MFs			9.6
Price performance (%)	1M	3M	12M
Absolute	(2.7)	121.7	(30.9)
Rel. to BSE-30	(0.8)	71.5	(36.5)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	17.3	24.0	17.8
EPS growth (%)	(15.7)	38.7	(25.8)
P/E (X)	11.4	8.2	11.1
Sales (Rs bn)	57.4	71.0	60.0
Net profits (Rs bn)	3.2	4.5	3.3
EBITDA (Rs bn)	8.1	10.3	8.4
EV/EBITDA (X)	6.7	4.8	5.6
ROE (%)	17.8	21.7	13.4
Div. Yield (%)	1.0	0.8	0.9

1QFY10 performance on expected lines; higher margins drive PAT marginally ahead of estimate

Welspun's 1QFY10 results were largely in line with our estimates. Adjusted PAT of Rs1.1 bn (up 41% yoy) was higher than our estimate of Rs1 bn mainly due to better margins. Revenues at Rs18.8 bn (up 72% yoy) were in line with our estimate of Rs17.9 bn. EBITDA margin at 14.1% was higher than our estimate of 12.9% due to the higher composition of LSAW pipes.

New capex plan for 0.6 mn tons of pipe capacity announced

Management announced new capex plan of Rs5.5 bn over the next 12-15 months for setting up additional pipe capacities of 0.6 mn tons in India. This will include a 0.3 mn ton LSAW plant in Anjar, which was earlier put on hold due to demand constraints and a new 0.3 mn tons of HSAW plant in South India to cater to the demand in that region. The company has not yet firmed up its funding plans and may include a mix of debt and fresh equity issuance. We currently do not include the same in our estimates as effective production would most likely begin in FY2012E. Further current order book do not provide any long-term visibility, hence, the utilization of these facilities may take time. We would wait for more certainty on the timeline and funding sources before including these projects in our estimates.

Maintain REDUCE with revised target price of Rs145

We maintain REDUCE rating with a revised target price of Rs145 (from Rs125) as we roll-over to FY2011E. We maintain our negative view primarily due to concerns relating to very low revenue visibility for FY2011E and low capacity utilization at the plate mill. Current valuations of 11.1X and 5.6X FY2011E EPS and EBITDA, respectively, are expensive considering a depleting order book and the risks to margins from new orders posed by higher competition.

QUICK NUMBERS

- Adjusted PAT of Rs1.1 bn (up 41% yoy)
- Revenues of Rs18.8 bn in line with estimates
- Rs375 mn forex loss reversals treated as extra-ordinary

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Detailed result analysis

- **Revenues at Rs18.8 bn in line with estimates.** Revenues were up 72% yoy primarily led by 50% increase in pipe volumes and lower exchange rate resulting in higher realization. Pipe volumes at 217,117 tons (144,450 tons in 1QFY09) were marginally ahead of our estimate of 198,000 tons.

- **Higher LSAW volumes push up margins.** EBITDA margins at 14.1% (up 150 bps qoq) were higher than our estimate of 12.9% due to higher share of LSAW pipes which earn higher margins. LSAW volumes during the quarter were 86,068 tons against our estimate of 48,000 tons. However, the EBITDA margin declined by 320 bps yoy mainly due to increase in material costs.

- **Rs375 mn of forex reversals drive up reported PAT.** The reported PAT of Rs1.4 bn included reversals of forex losses of Rs375 mn. These reversals are mainly on account of appreciation of Rupee and inventory realization. We had treated these losses as extraordinary in the previous year and have adjusted accordingly.

1QFY10 results largely in line with estimates
Welspun Gujarat, Interim results (stand alone), March fiscal year-ends (Rs mn)

					(% chg.)		
	1QFY10	1QFY10E	1QFY09	4QFY09	1QFY10E	1QFY09	4QFY09
Net sales	**18,798**	**17,867**	**10,904**	**18,385**	**5.2**	**72.4**	**2.2**
Total expenditure	**(16,144)**	**(15,570)**	**(9,022)**	**(16,066)**	**3.7**	**78.9**	**0.5**
Stock adjustment	(27)	—	1,532	757	—	(101.8)	(103.6)
Raw material	(12,814)	—	(8,405)	(15,691)	—	52.5	(18.3)
Employee expenses	(318)	—	(277)	(277)	—	14.9	14.6
Other expenses	(2,985)	—	(1,872)	(855)	—	59.4	249.2
EBITDA	**2,654**	**2,297**	**1,882**	**2,319**	**15.5**	**41.1**	**14.5**
OPM (%)	**14.1**	**12.9**	**17.3**	**12.6**			
Other income	40	25	64	26	60.0	(37.2)	55.0
Depreciation	(362)	(350)	(294)	(345)	3.4	23.1	5.0
Interest	(617)	(475)	(440)	(501)	30.0	40.4	23.1
Pretax profits	**1,715**	**1,497**	**1,212**	**1,499**	**14.5**	**41.6**	**14.4**
Extraordinaries	375	—	(142)	(710)	—	—	—
Reported PBT	**2,091**	**1,497**	**1,069**	**789**	**39.6**	**95.5**	**165.0**
Tax	(708)	(500)	(358)	(270)	41.7	97.7	162.0
Reported PAT	**1,382**	**997**	**711**	**519**	**38.6**	**94.4**	**166.6**
Adjusted PAT	**1,134**	**997**	**805**	**985**	**13.7**	**40.8**	**15.1**
Sales volumes (tons)							
HSAW	105,686	130,000	87,236	129,116			
LSAW	86,068	48,000	40,077	29,207			
ERW	25,363	20,000	17,137	28,572			
Plates - external	27,921	20,000	12,325	8,138			
Plates - captive	34,417	55,000	5,565	53,961			

Source: Company, Kotak Institutional Equities estimates

Revise target price to Rs145; maintain REDUCE

We revise our 12-month DCF-based target price to RS145 (from Rs125) as we roll forward to FY2011E. We maintain our REDUCE rating due to concerns of (1) slow order flow, (2) very low revenue visibility for FY2011E and (3) low utilization of the plate mill which employs majority of the invested capital. We find current valuations expensive at 11.1X and 5.6X FY2011E EPS and EBITDA, respectively, since low demand and higher competition will result in orders being bid at low margins to keep capacities utilized.

We have updated our model for year-end balance sheet details and marginally changed our working capital assumptions. Our EPS estimate for FY2010E and FY2011E is revised to Rs23.8 and Rs17.6, respectively, from Rs23.1 and Rs17.1 earlier.

Our DCF-based value for Welspun is Rs145

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

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Terminal Value
EBITDA	10,170	8,221	8,673	8,998	8,919	8,745	8,330	8,542	8,542	8,542	
Tax expense	(1,535)	(1,345)	(1,638)	(1,921)	(2,098)	(2,169)	(2,084)	(2,264)	(2,369)	(2,343)	
Changes in working capital	(1,525)	(1,830)	(805)	(511)	(1,339)	(671)	(1,346)	(97)	16	16	
Cash flow from operations	**7,111**	**5,046**	**6,231**	**6,566**	**5,481**	**5,904**	**4,900**	**6,180**	**6,189**	**6,215**	
Capital expenditure	(697)	(828)	(633)	(857)	(874)	(891)	(1,137)	(1,398)	(1,440)	(1,483)	
Free cash flow to the firm	**6,414**	**4,218**	**5,597**	**5,709**	**4,607**	**5,013**	**3,763**	**4,782**	**4,749**	**4,732**	**41,762**
Dicounted cash flow-now	5,883	3,424	4,021	3,629	2,592	2,496	1,658	1,865	1,639	1,445	
Discounted cash flow-1 year forward		3,869	4,544	4,101	2,929	2,820	1,873	2,107	1,852	1,633	
Discounted cash flow-2 year forward			5,134	4,634	3,310	3,187	2,117	2,381	2,092	1,845	
Discount rate	13.0%										
Growth from 2017 to perpetuity	1.5%										
Discount factor at WACC	**0.92**	**0.81**	**0.72**	**0.64**	**0.56**	**0.50**	**0.44**	**0.39**	**0.35**	**0.31**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**25,727**	**67%**	**24,699**	**63%**
PV of terminal value (b)	**12,751**	**33%**	**14,409**	**37%**
EV (a) + (b)	**38,478**		**39,108**	
Net debt	11,168		8,322	
Equity value	**27,310**		**30,786**	
No. of shares	188.8		188.8	
Implied share price (Rs)	**145**		**163**	
Exit EV/EBITDA multiple (X)	4.9		4.4	
Exit FCF multiple (X)	**8.8**			

Sensitivity of DCF value to WACC and growth rate (Rs)

		WACC			
		12.5%	**13.0%**	**13.5%**	**14.0%**
Growth Rate	**0.0%**	143	136	129	123
	0.5%	146	139	132	125
	1.0%	150	142	134	127
	1.5%	153	**145**	137	130
	2.0%	157	148	140	132
	2.5%	161	152	143	135
	3.0%	166	156	147	138

Source: Kotak Institutional Equities estimates

Operating assumptions

Welspun, Operating assumptions, March fiscal year-ends, 2008-11E

	2008	2009	2010E	2011E
Sales (tons)				
HSAW	331,113	453,768	422,500	375,000
ERW	51,071	79,537	87,500	100,000
LSAW	259,300	156,853	227,500	175,000
HSAW- USA	—	3,500	135,000	135,000
Plate (external sales)	—	42,073	136,125	191,250
Realisation (US$/ton)				
HSAW	1,351	1,486	1,454	1,309
ERW	1,105	1,306	1,221	1,099
LSAW	1,650	1,898	1,632	1,501
HSAW- USA	—	1,486	1,454	1,309
Plate	—	1,256	1,044	939
EBITDA (US$/ton)				
HSAW	317	241	200	165
ERW	180	80	68	73
LSAW	131	235	181	157
HSAW- USA	—	—	171	150
Plate - external	—	130	130	130
Plates - captive	—	130	130	130

Source: Company, Kotak Institutional Equities estimates

Profit model, balance sheet model, cash model for Welspun Gujarat, March fiscal year-ends, 2007-11E (Rs mn)

	2007	2008	2009	2010E	2011E
Profit model					
Net revenues	26,785	39,945	57,395	70,952	59,986
EBITDA	**3,332**	**6,476**	**7,930**	**10,170**	**8,221**
Other income	19	107	187	150	150
Interest (expense)/income	(708)	(818)	(1,766)	(1,906)	(1,559)
Depreciation	(476)	(609)	(1,433)	(1,791)	(1,964)
Adjusted pretax profits	**2,167**	**5,157**	**4,919**	**6,623**	**4,848**
Tax	(672)	(884)	(451)	(1,212)	(1,038)
Deferred taxation	(93)	(944)	(750)	(927)	(485)
Adjusted consolidated net income	**1,411**	**3,356**	**3,158**	**4,484**	**3,325**
Diluted Earnings per share (Rs)	**8.6**	**18.0**	**16.7**	**23.8**	**17.6**
Balance sheet					
Total equity	6,535	15,672	15,597	19,753	22,630
Deferred taxation liability	794	1,738	2,488	3,415	3,900
Total borrowings	15,146	25,274	26,538	25,871	20,500
Current liabilities	10,558	17,061	39,555	43,279	35,070
Total liabilities and equity	**33,103**	**59,745**	**84,178**	**92,319**	**82,099**
Cash	3,574	2,703	9,470	13,635	11,110
Other current assets	12,781	23,418	36,733	41,804	35,246
Total fixed assets	16,492	26,807	36,835	35,741	34,604
Investments	256	6,817	1,140	1,140	1,140
Total assets	**33,103**	**59,745**	**84,178**	**92,319**	**82,099**
Free cash flow					
Operating cash flow, excl working capital	2,002	5,061	7,148	7,230	5,802
Working capital changes	(2,601)	(2,993)	4,267	(1,525)	(1,830)
Capital expenditure	(6,294)	(12,400)	(11,469)	(697)	(828)
Investments	(256)	(6,525)	5,677	—	—
Other income	46	360	187	150	150
Free cash flow	**(7,102)**	**(16,497)**	**5,809**	**5,158**	**3,294**
Ratios (%)					
EBITDA margin (%)	12.4	16.2	13.8	14.3	13.7
Debt/equity	1.6	1.5	1.5	1.1	0.8
Net debt/equity	1.1	0.9	0.9	0.5	0.3
RoAE	22.0	27.1	17.8	21.7	13.4
RoACE	**10.3**	**11.9**	**9.8**	**12.3**	**9.1**

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities

Polaris Software Lab (POL)

Technology

SELL

JULY 17, 2009

RESULT

Coverage view: Attractive

Price (Rs): 102

Target price (Rs): 80

BSE-30: 14,250

Results in line; we see challenges ahead. Maintain SELL. Polaris reported an in-line quarter on top-line (US$66 mn) as well as net income (Rs318 mn). A sharp increase in forex losses negated any flow-through benefit from better-than-expected OPM performance. We continue to see pressures on Polaris' top-line given its BFSI concentration, dependence on a few clients, and risks of vendor consolidation. The company's inability to retain senior management also remains a concern. Maintain SELL.

Company data and valuation summary

Polaris Software Lab

Stock data			
52-week range (Rs) (high,low)			115-25
Market Cap. (Rs bn)			10.0
Shareholding pattern (%)			
Promoters			25.1
FIIs			45.2
MFs			9.6
Price performance (%)	1M	3M	12M
Absolute	5.2	69.5	29.1
Rel. to BSE-30	7.0	31.1	18.8

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	13.1	13.8	12.9
EPS growth (%)	76.0	5.4	(6.4)
P/E (X)	7.8	7.4	7.9
Sales (Rs bn)	13.8	13.2	13.9
Net profits (Rs bn)	1.3	1.4	1.3
EBITDA (Rs bn)	2.3	1.9	1.8
EV/EBITDA (X)	2.8	3.4	3.5
ROE (%)	18.1	16.4	13.6
Div. Yield (%)	2.7	2.0	2.0

1QFY10 results—headline numbers in line with expectations

Polaris reported an in line quarter with revenues of US$66.6 mn (our expectation was US$66.5 mn) and net income of Rs318 mn (Rs322 mn estimated). Higher-than-expected EBITDA margin (17% versus 15.8% estimated) flow-through to the net income level was prevented by higher-than-expected forex losses (Rs133 mn versus our expectation of Rs60 mn).

Revenue challenge coming to the fore, as expected

Polaris reported second quarter of sequential revenue decline in a row, with US$ revenues now down 12% on a yoy basis. After defying the expected revenue pressure (given the company's heavy dependence on the BFSI sector) creditably for the first three quarters of FY2009, Polaris has reported two consecutive quarters of sequential revenue decline; more importantly, the yoy revenue trajectory is getting worse (see Exhibit 3 on page 3).

We have long highlighted our concerns on the fundamental weakness of Polaris' revenue model – the company's smaller size and weak positioning with clients makes it more vulnerable than peers to (1) the ongoing weakness in discretionary BFSI IT spending and (2) instances of vendor consolidation in its client base; Polaris has several large BFSI accounts in its portfolio and we expect the company to be a net loser in the vendor consolidation exercise being undertaken by some of these clients. In addition, the sharp headcount reduction over the past four quarters (absolute decline of 1,205 on a base of ~10,400) does little to enhance confidence on the company's revenue visibility. Polaris' marginal presence across a number of its clients also reflected in its ex top-10 revenue performance; revenues from clients outside the top-10 declined 15% sequentially in 1QFY10. We see further pressure ahead. Also, intellect revenues also declined 7.6% qoq.

Inability to retain senior management remains a concern

Arup Gupta, who joined Polaris from TCS and served as its Chief Operating Officer since October 2005, resigned recently to head another mid-sized IT company in India. We continue to flag Polaris' inability to hold on to key members of the senior management as one of our fundamental concerns about the company.

QUICK NUMBERS

- Revenues (US$66 mn) and net income (Rs318 mn) in line with expectations
- Deceleration in revenue growth trajectory continues; US$ revenues down 12% yoy

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Revising estimates; maintain SELL

We have revised our FY2010E and FY2011E US$ revenue estimates for Polaris downwards by 1% and 2% to US$276 mn and US$291 mn, respectively. However, we revise our EPS estimates upwards to factor in higher EBITDA margin assumptions (driven by company's massive cost rationalization initiatives; G&A has now remained flat for the past 11 quarters), lower depreciation, and lower tax rates (mainly for FY2011E post the recent STPI sunset clause extension). Our revised EPS estimates for FY2010E and FY2011E stand at Rs13.8 (Rs12.8 earlier) and Rs12.9 (Rs11.6 earlier), respectively. Maintain SELL; retain target price at Rs80/share.

Polaris Software interim results (Rs mn)

	1QFY09	4QFY09	1QFY10	QoQ % chg.	YoY % chg.	Kotak Estimates	% Deviation
Revenues	**3,170**	**3,372**	**3,255**	**(3.5)**	**2.7**	**3,238**	**0.5**
Cost of revenues	(2,147)	(2,092)	(2,079)	(0.6)	(3.2)	(2,088)	(0.5)
Gross profit	**1,023**	**1,280**	**1,177**	**(8.1)**	**15.0**	**1,149**	**2.4**
Sales & marketing expenses	(318)	(356)	(347)	(2.3)	9.2	(343)	1.2
General administration expenses	(317)	(307)	(277)	(9.7)	(12.6)	(295)	(6.0)
SG&A expenses	(635)	(662)	(624)	(5.7)	(1.6)	(638)	(2.1)
Operating Profits	**388**	**618**	**552**	**(10.6)**	**42.3**	**512**	**8.0**
Non-operating Income	13	(154)	(90)	(41.5)	(807.7)	(20)	350.7
EBIDTA	401	464	462	(0.4)	15.3	492	(6.0)
Financial expenses	(2)	(2)	(2)	(7.1)	(16.8)	(2)	**(6.3)**
EBDT	399	462	460	(0.4)	15.4	490	(6.0)
Depreciation	(106)	(86)	(84)	(1.3)	(20.6)	(92)	(8.4)
Pretax profits	**293**	**377**	**376**	(0.2)	28.5	**398**	(5.4)
Tax	(37)	(56)	(58)	3.8	55.8	(76)	(23.6)
Net profit	**256**	**321**	**318**	(0.8)	24.6	322	(1.1)
Extraordinaries	-	-	-			-	
PAT-Reported	**256**	**321**	**318**	(0.8)	24.6	**322**	(1.1)
Period EPS							
EPS - recurring (Rs)	2.6	3.3	3.2	(0.8)	24.6	3.3	
EPS - reported (Rs)	2.6	3.3	3.2	(0.8)	24.6	3.3	
Margins							
Gross margin (%)	32.3	38.0	36.1			35.5	
SG&A expenses (%)	20.0	19.6	19.2			19.7	
Operating profit margin (%)	**12.2**	**18.3**	**17.0**			**15.8**	
Net profit margin (%)	8.1	9.5	9.8			9.9	

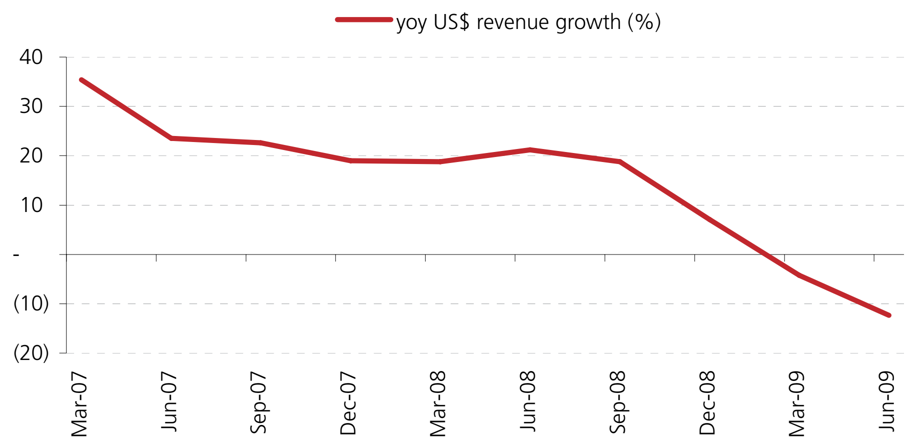
Source: Company, Kotak Institutional Equities estimates

Key changes to estimates, FY2010E-11E

	Revised		Earlier		Change (%)	
	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Revenues (US$ mn)	276	291	278	297	(1.0)	(2.0)
Revenues (Rs mn)	13,228	13,890	13,366	14,168	(1.0)	(2.0)
Revenue growth (%)	(8.0)	5.5	(7.0)	6.6		
EBITDA (Rs mn)	1,878	1,778	1,838	1,814	2.2	(2.0)
EBIT (Rs mn)	1,503	1,354	1,437	1,375	4.6	(1.5)
Net profit (Rs mn)	1,364	1,278	1,262	1,143	8.1	11.8
EPS (Rs)	13.8	12.9	12.8	11.6	8.1	11.8
EBITDA margin (%)	14.2	12.8	13.8	12.8		
EBIT margin (%)	11.4	9.8	10.8	9.7		
Re/US$ rate	48.0	47.8	48.0	47.8	—	—

Source: Kotak Institutional Equities estimates

Sustained decline in yoy revenue growth trajectory; we expect further pressure ahead



Source: Company

kotak Institutional Equities

Bharti Airtel (BHARTI)

Telecom

ADD

JULY 17, 2009

UPDATE

Coverage view: Cautious

Price (Rs): 785

Target price (Rs): 775

BSE-30: 14,250

Thoughts on proposed MTN transaction and competitive dynamics. We see the proposed deal structure (part cash, part Bharti GDR issuance to MTN shareholders) as a key challenge to deal completion. We believe the deal can go through if converted into an all-cash transaction or at moderately higher-than-proposed price for MTN. **Bharti continues to be our preferred pick in the Indian wireless space.** The absence of aggressive pricing competition poses upside risks to FY2010 earnings.

Company data and valuation summary

Bharti Airtel

Stock data			
52-week range (Rs) (high,low)			1,036-483
Market Cap. (Rs bn)			1,490.0
Shareholding pattern (%)			
Promoters			67.2
FIIs			20.7
MFs			3.1
Price performance (%)	1M	3M	12M
Absolute	(3.0)	17.5	7.4
Rel. to BSE-30	1.6	(9.7)	(5.2)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	44.6	52.2	59.8
EPS growth (%)	26.4	17.0	14.6
P/E (X)	17.6	15.0	13.1
Sales (Rs bn)	369.6	432.6	501.3
Net profits (Rs bn)	84.7	99.1	113.6
EBITDA (Rs bn)	151.6	175.4	195.9
EV/EBITDA (X)	10.3	8.8	7.6
ROE (%)	31.4	27.0	23.8
Div. Yield (%)	0.5	0.8	1.0

Proposed MTN deal structure a key challenge to deal completion

We see the proposed deal structure as a key challenge to deal completion. Bharti has proposed to pay ZaR 86/share in cash and issue 0.5 share of Bharti per share of MTN to buy 36% of MTN's current outstanding equity from its shareholders. More important, the new shares in Bharti would be issued in the form of Global Depository Receipts (GDRs) and listed on the Johannesburg Stock Exchange (JSE). We believe that MTN shareholders may not be comfortable with the GDR issuance as (1) it would be counted towards their limited overseas investment allowance; the deal would convert their domestic shareholding in MTN to a foreign company shareholding and force them to rebalance their overseas portfolio, and (2) liquidity of the GDRs is a question mark; we highlight that there are no GDRs listed on the JSE currently.

Marginal deal sweetener or an all-cash offer should see the deal through, valuation a lesser issue

Contrary to popular perception, we see the deal valuation as a lesser challenge to deal completion. A combination of marginal upward revision in the offer to MTN shareholders and conversion of the deal to an all-cash one should see the deal through, in our view. An all-cash offer for the 673 mn MTN shares (that Bharti has proposed to buy from MTN shareholders) at the deal-reference valuation of ZaR161/share would mean a cash outgo of US$12.9 bn for Bharti (US$10 bn net of US$2.9 bn to be received from MTN), versus the current proposed US$6.9 bn (US$4 bn net). A 100% cash offer can be financed fully financed through debt (net debt/ EBITDA may get stretched though) or a combination of equity and debt.

MTN deal – an unjustified overhang on the Bharti stock

We believe MTN's deal-implied valuation of 13.3X CY2010E earnings and 5.4X EV/EBITDA (CY2010E) is not expensive. We believe the acquisition price will remain attractive even if the deal is sweetened by 10%; Bharti stock already builds in such a probability, in our view. MTN is led by a solid management team, is among the top 2-3 players in most of the market it operates in and has strong cash generation profile and return ratios. This may well affect its ability to derive meaningful synergy gains upon the merger, but the deal appears financially sound. **We maintain our ADD rating on the stock and reiterate our positive bias on Bharti among the Indian wireless stocks.**

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Change in deal structure can facilitate deal completion; deal valuation already implies substantial premium for control

As discussed above, we see the proposed GDR issuance as the major challenge to the Bharti-MTN deal completion. We have discussed the potential discomforting aspect of the deal for the large MTN shareholders earlier in the note. We now take a closer look at the implied valuation (or reference stock prices for MTN and Bharti shares).

Assume M to be the deal-implied share price of MTN and B to be the deal-implied share price of Bharti (both M and B in US$ for convenience sake). There are two transactions that Bharti has proposed to enter into:

- With MTN – MTN pays US$2.9 bn in cash and issues 467.5 mn fresh MTN shares to Bharti for a 25% post-deal stake (or 745.4 mn shares) in Bharti. This implies the equation: **2,900 + 467.5 * M = 745.4 * B**. Lets call this equation (A).

- With MTN shareholders – Bharti is acquiring 36% of current outstanding shares of MTN (673.2 mn shares) from MTN shareholders for a consideration of US$6.9 bn in cash and 0.5 equity shares of Bharti per share of MTN. This transaction implies the equation: **673.2 * M = 6,900 + 336.6 * B**. Lets call this equation (B).

Solving the simultaneous equations (A) and (B), the deal-implied share price of MTN works out to ZaR149/share while that of Bharti works out to Rs721/share. Deal-implied MTN share price implies a premium of 25.2% over the closing price on May 22, 2009 (ZaR 119/share), a day before the deal intention announcement. **If we were to use Bharti's share price a day before the deal announcement (Rs859/share), Bharti's ZaR86/share + 0.5 share of Bharti implies a payout of ZaR161/share for MTN shareholders, a premium of 35.3% over the closing price on May 22, 2009; this would be the deal-reference price, for all practical purposes if Bharti proposes to convert its offer to an all-cash deal**. Thus, we do not agree to the premium being insignificant, as believed by some sections of the Street. Nevertheless, we do not rule out Bharti raising its bid a little to clinch the deal, if required.

Financing options for Bharti in case of an all-cash deal

As discussed on page 1 of this report, conversion of transaction with MTN shareholders to an all-cash one from the present part-cash, part-share deal at ZaR161/share for MTN (we use ZaR161/share instead of ZaR149/share as this is the price, we believe, the MTN shareholders would consider as their reference price) would mean a cash outgo of US$12.9 bn for Bharti (US$10 bn, net of US$2.9 bn Bharti receives from MTN under the other leg of the transaction, as proposed currently). A 10% increase in the MTN price to ZaR177/share would imply a net cash requirement of US$11.3 bn. Exhibit 1 depicts the current deal structure and the likely all-cash deal structure.

Exhibit 1: Bharti may have to convert the deal structure to an all-cash one for MTN shareholders

Current structure: legs of the currently proposed deal structure	
1. Between Bharti and MTN	
Fresh MTN shares issued to Bharti (mn)	467.5
Cash paid by MTN to Bharti (US$ mn)	2,900
for a	
25% stake in Bharti (post-deal); number of fresh Bharti shares issued to MTN	745.4
2. Between Bharti and MTN shareholders	
Bharti pays to MTN shareholders	
Cash (US$ mn) (@ZaR 86/share for 673.2 mn MTN shares)	6,900
and	
0.5 share of Bharti per MTN share; total fresh shares of Bharti issued to MTN shareholders	336.6
for a	
36% pre-deal outstanding equity of MTN; # of MTN shares acquired by Bharti from MTN shareholders	673.2
All-cash scenario: likely all-cash deal (for MTN shareholders) structure	
1. Between Bharti and MTN - remains the same	
Fresh MTN shares issued to Bharti (mn)	467.5
Cash paid by MTN to Bharti (US$ mn)	2,900
for a	
25% stake in Bharti (post-deal); number of fresh Bharti shares issued to MTN	745.4
2. Between Bharti and MTN shareholders - changes to all-cash for MTN shareholders	
Bharti pays to MTN shareholders	
Cash (US$ mn) (@ZaR 177/share for 673.2 mn shares)	14,200
for a	
36% pre-deal outstanding equity of MTN; # of MTN shares acquired by Bharti from MTN shareholders	673.2

Change in deal structure for MTN shareholders at 10% premium to the deal-reference MTN price of ZaR161/share

Source: Kotak Institutional Equities estimates

Exhibit 2 illustrates the impact on financial metrics for Bharti assuming the company debt-finances the all-cash deal completely while Exhibit 3 depicts the EPS impact; we estimate the deal to be EPS accretive for Bharti, even in the revised scenario. **We continue to assume that the new shares issued to MTN (for its 25% post-deal stake in Bharti) will be listed as GDRs on the JSE; issue of local shares to MTN would trigger an open offer.** We do not include proportionate MTN financials for the purpose of this exercise given lack of clarity on the extent of Bharti's control over MTN's cash flows.

Exhibit 2: An all-cash offer for MTN shareholders could stretch Bharti's financials a little, but not to worrying proportions

	FY2011E	FY2012E
Current estimates		
Net debt year-end (US$ mn)	1,067	(209)
EBITDA (US$ mn)	3,693	4,214
Net debt/EBITDA (X)	0.3	(0.0)
Deal impact (assuming all-cash deal for MTN shareholders @ZaR177/share)		
Incremental debt (US$ mn)	11,300	11,300
Net debt (US$ mn)	12,367	11,091
Net debt/EBITDA (X)	3.3	2.6
Impact including 3G investments		
Cumulative 3G investments (US$ mn)	1,500	2,000
Net debt including 3G investments (US$ mn)	13,867	13,091
Net debt/EBITDA (X)	3.8	3.1
Impact including 3G investments and also consolidating proportionate EBITDA of MTN		
49% of MTN's EBITDA (US$ mn)	3,281	3,548
Revised EBITDA (US$ mn)	6,974	7,762
Net debt/EBITDA (X)	2.0	1.7

Note:
(a) Re/US$ assumption: 47.5 for FY2011E and 46.5 for FY2012E
(b) Zar/US$ assumption: 8.34 for all years

Source: Kotak Institutional Equities estimates

Exhibit 3: MTN acquisition appears to be marginally EPS accretive even in the all-cash deal scenario

	FY2011E	FY2012E
Current Bharti net profit estimate (Rs mn)	113,562	125,410
Current share count (mn)	1,898	1,898
Current EPS estimate (Rs/share)	59.8	66.1
Add:		
49% of MTN's estimates profits (US$ mn)	1,159	1,238
49% of MTN's estimates profits (Rs mn)	55,035	57,584
Less:		
Interest expense on US$11.3 bn of net cash paid	(34,352)	(33,629)
Net impact (Rs mn)	**20,683**	**23,955**
Revised net income (Rs mn)	**134,245**	**149,365**
New shares issued (to MTN)	**633**	**633**
Less: Bharti's indirect ownership in itself (# of shares, mn)	**310**	**310**
Net new shares issued	**323**	**323**
New share count used for revised EPS computation	**2,221**	**2,221**
Revised EPS (Rs/share)	**60.5**	**67.3**
EPS accretion/(dilution)	**1.0**	**1.8**

Note:
(a) Re/US$ rate of 48 used for FY2010E, 47.5 for FY2011E, and 46.5 for FY2012E.
(b) Assuming post-tax cost of debt of 6.4% for Bharti and 4% for MTN.
(c) Assuming MTN net profits of US$2.7 bn for FY2011E, and US$3 bn for FY2012E.
(d) Excluding MTN's share of Bharti profits from its financials and Bharti's indirect ownership in itself from revised share count.
(e) MTN net profits adjusted for post-tax interest cost on US$2.9 bn payment to Bharti

Source: Kotak Institutional Equities estimates

We highlight that a 100% debt financing of the revised all-cash deal takes Bharti's end-FY2011E net-debt/EBITDA to a slightly uncomfortable 3.3X; this increases further to 3.8X if we assume US$1.5 bn of cumulative 3G investments by FY2011E with little corresponding incremental EBITDA. We, thus believe that Bharti may choose to finance the deal with a part-equity, part-debt structure.

Fresh equity (~US$4-5 bn, assuming the deal is 60-70% debt-financed) can be raised either through placement of shares to Singtel or through a QIP route. **Press reports indicate that Singtel is keen to be a part of the deal and raise equity stake in Bharti if required. Press reports also indicate that Singtel has set aside US$4 bn for this deal though it is not clear whether it is for equity or debt.** We note that incremental equity issuance to Singtel can be done only through the GDR route; preferential allotment of local shares to the promoters is prohibited by SEBI in case the promoter holding is above 55%. Promoter holding in Bharti is 65% at present. The alternate option for Bharti is to raise equity through QIP route, though the ability to absorb large equity issuance (US$4-5 bn) in the Indian markets remains untested. The maximum permissible limit for funds that can be raised through a QIP is 5X net worth at the end of previous fiscal. Bharti's net worth at end-FY2009 was Rs304 bn (US$6.3 bn).

Proposed MTN transaction is not expensive

Exhibit 4 details the key consensus financial estimates of MTN. MTN operates in 22 countries and has a sub base of over 100 mn. The company derives 63% of revenues and 44% of subs from South Africa and Nigeria markets. With the exception of South Africa, the rest of MTN's markets present meaningful headroom for growth given the low tele-density in these markets (see Exhibit 5). Local currency growth of at least 15% for MTN appears possible. Based on the proposed deal structure, implied MTN valuations work out to 15.5X CY2009E and 13.3XCY2010E earnings and 6.1XCY2009E and 5.4X CY2010E EV/ EBITDA. This, in our view, is at a marginal premium to emerging market companies but fair noting MTN's superior growth profile. A 10% increase in the offer price to MTN shareholders will not materially alter the financial viability of the MTN transaction, as discussed earlier in the note.

Exhibit 4: Select financials for MTN, December fiscal year-ends, 2006-2011E (ZaR mn)

	2006	2007	2008	2009E	2010E	2011E
Revenues	51,595	73,145	102,526	121,139	134,508	149,140
EBITDA	22,413	32,057	43,166	50,841	56,422	60,251
EBITDA margin (%)	43.4	43.8	42.1	42.0	41.9	40.4
EBIT	16,094	22,872	30,407	35,843	41,461	45,175
Net income	10,791	10,427	15,315	19,435	22,628	25,320
EPS (ZaR/share)	5.8	5.6	8.2	10.4	12.1	13.5
Net debt	22,888	16,050	12,851	10,322	5,232	(3,052)

Source: Bloomberg

Exhibit 5: MTN is among the top 2 players in all its markets

Country/region	Subscribers ('000)	% of MTN's total subs	Country rank	Market wireless penetration (%)	Ownership (%)
South and East Africa (SEA)					
South Africa	17,428	17.7	2	97.0	100.0
Uganda	3,987	4.1	1	22.0	95.0
Mascom - Botswana	1,019	1.0	1	82.0	53.0
Rwanda	1,330	1.4	1	12.0	55.0
Swaziland	547	0.6	1	54.0	30.0
Zambia	778	0.8	2	21.0	100.0
SEA total	**25,089**	**25.5**			
West and Central Africa (WCA)					
Nigeria	25,908	26.4	1	36.0	78.0
Ghana	6,777	6.9	1	50.0	98.0
Cameroon	3,824	3.9	1	33.0	70.0
Ivory Coast	3,810	3.9	1	41.0	65.0
Benin	1,111	1.1	1	35.0	75.0
Congo - Brazzavile	942	1.0	2	59.0	100.0
Coankry	1,003	1.0	1	22.0	75.0
Liberia	534	0.5	1	23.0	60.0
Bissau	366	0.4	1	28.0	100.0
WECA total	**44,275**	**45.1**			
Middle East and North Africa (MENA)					
Syria	3,428	3.5	2	38.0	75.0
Iran	18,252	18.6	2	61.0	49.0
Yemen	1,972	2.0	1	22.0	83.0
Sudan	2,658	2.7	2	23.0	85.0
Afghanistan	2,358	2.4	2	21.0	100.0
Cyprus	170	0.2	2	90.0	50.0
MENA total	**28,838**	**29.4**			
Group total	**98,202**	**100.0**			

Note:
(a) Subscriber base as on March 31, 2009

Source: Company, Kotak Institutional Equities

Benign pricing competition in the Indian wireless market in FY2010E YTD poses upside risks to Bharti's earnings estimates

The broad tariff discipline seen in the Indian wireless market over the past three months has surprised us. We expect the downward trend in pricing to continue and even accelerate for a brief period as expected new launches intensify competition further. However, the timing and extent of the same remains uncertain and could pose upside risk to our pricing estimates for FY2010E to that extent; we build in a 15% yoy decline in RPM for Bharti in FY2010E.

Bharti remains our preferred pick in the Indian wireless sector

We maintain our ADD rating on the stock and reiterate our positive bias on Bharti among the Indian wireless stocks. Bharti remains our preferred pick in the sector on the back of (1) valuations (see Exhibit 6)—Bharti is trading at 8.8X FY2010E and 7.6X FY2011E EV/EBITDA; RCOM at 8.3X FY2010E EV/EBITDA and Idea at 8.3X FY2010E EV/EBITDA are trading close to Bharti (adjusted for Indus EBITDA), unjustified in our view, and (2) inherent business strength—Bharti's superior execution, best-in-class cost management and capital productivity (reflected in industry-leading return ratios) will keep the company in good stead even as we expect the industry dynamics to remain under stress over the near-to-medium term. We see the current weakness in Bharti's stock price (on account of the open MTN bid) as an opportunity to accumulate the stock.

Exhibit 6: Indian telecom companies valuation analysis, March fiscal year-ends, 2008-2012E

	Price (Rs)	Target price	P/E (X)					EV/EBITDA (X)				
	16-Jul-09	(Rs)	2008	2009	2010E	2011E	2012E	2008	2009	2010E	2011E	2012E
Bharti	785	775	22.2	17.6	15.0	13.1	11.9	13.5	10.3	8.8	**7.6**	6.4
Idea	72	65	18.1	24.7	24.7	22.2	20.3	12.5	9.2	8.3	**7.0**	6.1
MTNL	93	50	13.1	23.5	22.9	20.5	16.9	3.4	11.9	9.9	**7.2**	5.5
RCOM	270	180	10.2	9.7	13.3	12.8	10.2	9.8	8.7	8.3	**6.5**	4.9
TCOM	474	400	43.3	34.9	33.8	31.3	30.2	22.3	17.0	15.3	**14.0**	12.2

	KS	Market cap.	Revenues (Rs bn)					EBITDA (Rs bn)				
	rating	(US$ bn)	2008	2009	2010E	2011E	2012E	2008	2009	2010E	2011E	2012E
Bharti	ADD	29.8	270	370	433	501	556	113	152	175	196	218
Idea	REDUCE	4.4	67	101	136	176	197	23	28	36	44	50
MTNL	SELL	1.2	47	42	45	48	50	7	2	3	5	6
RCOM	SELL	11.0	191	229	278	343	389	82	93	104	131	150
TCOM	REDUCE	2.7	33	38	42	46	49	6	8	9	10	10

	Net Income (Rs bn)					EPS (Rs)				
	2008	2009	2010E	2011E	2012E	2008	2009	2010E	2011E	2012E
Bharti	66	84	97	111	123	35.3	44.6	52.2	59.8	66.1
Idea	10	9	9	10	11	3.9	2.9	2.9	3.2	3.5
MTNL	4	2	2	2	3	7.1	4.0	4.1	4.6	5.5
RCOM	56	59	43	45	56	26.5	27.7	20.3	21.1	26.4
TCOM	3	4	4	4	4	10.9	13.6	14.0	15.2	15.7

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 7: Consolidated profit and loss for Bharti Airtel, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Revenues						
Wireless	217,861	303,601	362,786	420,430	461,623	490,000
Fixed line	28,484	33,517	37,306	42,271	46,501	50,115
DLD	22,103	41,835	47,375	52,579	56,888	60,480
ILD	21,067	26,102	28,787	31,564	34,371	37,087
Enterprise services	13,217	16,945	18,640	20,131	21,238	22,300
Others	2,431	3,611	5,055	6,572	7,886	8,675
Less: Intersegment eliminations	*(40,936)*	*(98,485)*	*(98,862)*	*(107,001)*	*(113,182)*	*(117,897)*
Consolidated revenues	**270,250**	**369,615**	**432,610**	**501,320**	**555,865**	**595,581**
Interconnection costs	(41,110)	(52,903)	(52,185)	(62,714)	(67,832)	(71,204)
License fees and spectrum charges	(26,900)	(38,266)	(49,614)	(57,004)	(62,707)	(66,756)
Network operating costs	(33,002)	(59,355)	(75,254)	(95,026)	(107,392)	(114,863)
Sales and marketing expenses	(19,058)	(26,760)	(32,584)	(36,696)	(40,974)	(43,851)
Employee costs	(14,768)	(16,992)	(20,573)	(24,525)	(27,477)	(29,692)
G&A costs	(22,187)	(23,776)	(26,981)	(29,413)	(31,536)	(33,045)
Consolidated EBITDA	**113,225**	**151,563**	**175,418**	**195,943**	**217,946**	**236,169**
Other income incl. Interest income	4,136	645	3,540	3,767	5,747	7,434
Interest expense	(4,054)	(11,613)	(5,385)	(2,104)	(600)	—
Amortization of entry fee	(1,829)	(2,122)	(1,148)	(1,148)	(1,148)	(1,148)
Depreciation	(34,942)	(45,344)	(56,111)	(62,807)	(69,454)	(74,533)
Pretax profits	**76,536**	**93,129**	**116,313**	**133,651**	**152,491**	**167,922**
Extraordinary income/(charges)	—	—	—	—	—	—
Prior period adjustments	—	—	—	—	—	—
Current tax expense	(8,414)	(7,371)	(17,301)	(23,483)	(35,804)	(45,025)
Deferred tax (liability)/asset	36	756	38	501	3,534	5,261
Minority interest expense	(1,151)	(1,759)	(1,687)	(1,360)	(1,613)	(1,826)
Equity in earnings of affiliates		(56)	1,701	4,254	6,802	7,147
Reported net profits	**67,007**	**84,699**	**99,063**	**113,562**	**125,410**	**133,479**
Adjusted net profits	**67,007**	**84,699**	**99,063**	**113,562**	**125,410**	**133,479**
Adjusted EPS (Rs)	**35.3**	**44.6**	**52.2**	**59.8**	**66.1**	**70.3**
Shares outstanding (mn)	1,898	1,899	1,899	1,899	1,899	1,899
Current tax rate (%)	11.0	7.9	14.9	17.6	23.5	26.8
Effective tax rate (%)	10.9	7.1	14.8	17.2	21.2	23.7
Growth (%)						
EBITDA	52.3	33.9	15.7	11.7	11.2	8.4
Net profits	65.0	26.4	17.0	14.6	10.4	6.4
EPS	65.0	26.4	17.0	14.6	10.4	6.4
Margin (%)						
EBITDA	41.9	41.0	40.5	39.1	39.2	39.7
Net profits	24.8	22.9	22.9	22.7	22.6	22.4
EBIT	28.3	28.2	27.3	26.3	26.5	26.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Consolidated balance sheet for Bharti Airtel, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Equity						
Share capital	18,979	18,985	18,985	18,985	18,985	18,985
Warrants	—	—	—	—	—	—
Reserves/surplus	203,606	284,960	386,804	502,410	615,222	713,103
Total equity	**222,585**	**303,945**	**405,789**	**521,395**	**634,207**	**732,088**
Minority shareholding	3,013	10,704	12,391	13,751	15,364	17,190
Deferred tax liability	1,940	7,556	(1,854)	(2,355)	(5,890)	(11,150)
Liabilities						
Secured loans	90,969	118,801	99,151	43,836	—	—
Unsecured loans	—	—	—	—	—	—
Total borrowings	**90,970**	**118,801**	**99,151**	**43,836**	—	—
Currrent liabilities	154,135	162,941	173,090	177,768	181,683	183,540
Total capital	**472,643**	**603,947**	**688,567**	**754,395**	**825,365**	**921,668**
Assets						
Cash	55,006	49,070	48,449	53,547	90,706	169,349
Current assets	58,776	95,009	101,620	110,861	120,851	128,603
Gross block	408,408	532,177	666,364	777,555	865,175	943,617
Less: accumulated depreciation	102,406	147,750	203,861	266,668	336,122	410,655
Net fixed assets	**306,002**	**384,427**	**462,503**	**510,887**	**529,053**	**532,963**
Capital work-in-progress	24,709	24,709	24,709	24,709	24,709	24,709
Total fixed assets	330,711	409,136	487,212	535,596	553,762	557,671
Entry fees unamortized	11,698	40,364	39,216	38,068	36,920	35,772
Investments	16,425	10,341	12,043	16,297	23,098	30,245
Deferred expenditure	27	27	27	27	27	27
Deferred tax asset	—	—	—	—	—	—
Total assets	**472,643**	**603,947**	**688,567**	**754,395**	**825,364**	**921,667**
Leverage ratios (%)						
Debt/equity	40.9	39.1	24.4	8.4	—	—
Debt/capitalization	29.0	28.1	19.6	7.8	—	—
Net debt/equity	16.2	22.9	12.5	(1.9)	(14.3)	(23.1)
Net debt/capitalization	13.9	18.7	11.1	(1.9)	(16.7)	(30.1)
RoAE	39.7	32.2	27.9	24.5	21.7	19.5
RoAE (excl cash and interest income)	**45.5**	**38.9**	**31.1**	**26.9**	**24.1**	**23.5**
ROACE	29.2	25.4	21.7	20.5	19.2	17.8
RoACE (excl cash and interest income)	**31.9**	**29.5**	**23.4**	**22.1**	**21.6**	**21.8**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Sterlite Industries (STLT)

Metals

REDUCE

JULY 16, 2009

UPDATE

Coverage view: Neutral

Price (Rs): 590

Target price (Rs): 550

BSE-30: 14,250

Creating liquidity for growth. Sterlite has announced that is issuing equity worth US$1.65 bn, which would dilute its existing equity by 19%, to fund its future expansions, acquisitions etc. After the issue, Sterlite would have net cash of US$3.2 bn in standalone books and US$4.3 bn in consolidated books. It would dilute near-term earnings with cash utilization staggered over the next few years. We lower our FY2010E and FY2011E EPS by 10.2% and 9.2%, respectively.

Company data and valuation summary

Sterlite Industries

Stock data			
52-week range (Rs) (high,low)			740-165
Market Cap. (Rs bn)			496.0
Shareholding pattern (%)			
Promoters			61.2
FIIs			19.3
MFs			3.5
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(2.2)	52.0	(3.1)
Rel. to BSE-30	(0.3)	17.6	(10.8)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	49.2	29.8	38.0
EPS growth (%)	(23.6)	(39.3)	27.2
P/E (X)	12.0	19.8	15.5
Sales (Rs bn)	214.5	203.8	223.1
Net profits (Rs bn)	34.8	25.1	31.9
EBITDA (Rs bn)	50.1	42.1	54.3
EV/EBITDA (X)	8.5	8.1	6.0
ROE (%)	14.3	8.1	8.4
Div. Yield (%)	0.0	0.0	0.0

Intent to raise US$1.5 -1.65 bn through ADS

Sterlite announced that it is raising US$1.5 bn with a green shoe option of US$150 mn. The issue is intended for (1) the development of power generation business India, (2) planned capital expenditure, (3) planned and potential acquisitions, (4) general corporate purposes. The issue has been priced at U$12.15 (Rs590) per share, which is a discount of 6-7% to the current price.

17-19% dilution—even when sitting on US$3.7 bn cash (US$1.59 standalone)

The fresh equity issue would dilute earnings by 17.2-19.4% and be negative for minority shareholders to that extent. Also, Vedanta Resources (parent company) intends to subscribe US$500 mn towards the issue. The equity issue has been in the offing for a while, but its size is bigger than expected.

Growth prospects good—but still a few years away

Sterlite is undergoing a huge volume ramp-up across its various businesses such as:

1) Zinc smelting capacities at HZL from 0.75 mn tons to 1.06 mn tons—these are fully funded

2) Aluminium smelting expansion at BALCO from 0.35 mn to 0.7 mn tons—this will need a cash infusion of US$1.6 bn

3) Alumina refining expansion from 1.4 mn tons to 5 mn tons aluminium smelting expansion at VAL from 0.5mn tons to 1.75 mn tons—this will need a cash infusion of more than US$2 bn of which 29.5% would be funded by Sterlite

4) Greenfield power plant in Sterlite Energy—this is fully funded and would be ready for commissioning in phases over the next year

5) Bidding for ASARCO—if successful, this would require a US$1.1bn initial upfront payment

QUICK NUMBERS

- Raises equity of US$1.65 bn
- Equity dilution of 19%
- Cut estimates by 10.2% and 9.2%

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Pecking order for investment priority—US$3.2 may not be enough

We believe Sterlite would utilize the US$1.65 bn in the following order:

1) ASARCO acquisition: Towards 50% of the US$1.1 bn payment for ASARCO (if bid is successful) amounting to US$0.55 bn, the rest could be in the form of debt. The final court hearing for ASARCO is set to begin from August 10, 2009.

2) HZL Government stake acquisition: Towards acquisition of the government's 29.5% stake in HZL—this is contingent upon the government's acquiescence and would amount to more than US$2.2 bn at current market prices. The new government, which does not include Left parties, is more inclined towards disinvestment.

3) BALCO Government stake acquisition: The earlier valuation of US$200 mn for the remaining 49% has not been accepted by the government and is currently under arbitration. We believe the revised settlement price would be higher.

4) Sterlite Energy expansion: With the current 2400 MW power plant slated to begin in the next few quarters, the next round of expansion would call for funding.

5) VAL Expansion: The expansion at VAL from 0.5 mn tons to 1.75 mn tons would cost upwards of US$2 bn. Sterlite holds 29.5% in VAL.

6) BALCO Expansion: At current aluminium prices, BALCO is barely breaking even. Sterlite therefore may have infuse cash to fund the aluminium expansion from 0.35 mn tons to 0.7 mn tons, which would cost US$1.6 bn.

Cut FY2010 and FY2011 estimates by 10.2% and 9.2%

Following the 19% equity dilution on account of fresh equity issue of US$1.5-1.65 bn, we have cut our FY2010 and FY2011 estimates by 10.2% and 9.2%, respectively. We have factored equity dilution of US$1.65 bn. Our revised EPS for FY2010E and FY2011E stands at Rs29.8 and Rs38, respectively, from Rs33.2 and Rs41.8 earlier. We maintain our REDUCE rating with a revised target price of Rs550 (Rs540 earlier).

SOTP-based target price of Sterlite Industries is Rs550/share

SOTP-based target price of Sterlite, March fiscal year-ends, 2011E basis (Rs mn)

	EBITDA	Multiple	EV	Sterlite's stake	Attributable EV	EV
	(Rs bn)	(X)	(Rs bn)	(%)	(Rs bn)	(Rs/ share)
Aluminium business						
BALCO	8	6.0	50	51.0	25	24
Vedanta Aluminium (VAL)						21
Copper business						
Copper smelting business	10	6.0	58	100.0	58	69
Copper mining						2
Zinc business						
Hindustan Zinc	36	6.0	218	64.9	141	135
Power business						
Sterlite Energy (a)						57
Total enterprise value					**225**	**308**
Less: net debt					(206)	(245)
Attibutable market capitalization					**431**	**553**
Target price (Rs/share)						**550**

Notes:

(a) We have valued investments in the power business (Sterlite Energy) on DCF-to-equity implying a P/BV of 2X

(b) We have applied 20% holding company discount in case of stakes in Hindustan Zinc, BALCO, Sterlite Energy and CMT.

Source: Kotak Institutional Equities

Sterlite Industries, Change in estimates, March fiscal year-ends, 2010E-11E (Rs mn)

	Revised estimates		Old estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net sales	203,779	223,138	203,779	223,138	0.0	0.0
EBITDA	42,133	54,339	42,133	54,339	0.0	0.0
PAT	25,086	31,908	23,513	29,643	6.7	7.6
EPS (Rs)	**29.8**	**38.0**	**33.2**	**41.8**	**(10.1)**	**(9.2)**

Source: Kotak Institutional Equities

Sterlite Industries, Key assumptions, March fiscal year-ends, 2007-11E

	2007	2008	2009E	2010E	2011E
Prices (US$/ton)					
Aluminium	2,548	2,675	2,200	1,700	1,900
Zinc	3,580	2,900	1,550	1,400	1,500
Copper	6,861	6,695	5,800	5,000	5,000
Lead	1,426	2,700	1,500	1,300	1,300
Volumes (tons)					
Aluminium	315,002	358,328	343,000	297,500	346,500
Zinc	349,615	425,532	651,272	696,600	791,100
Copper	133,402	112,411	143,550	151,710	151,710
Lead	50,187	63,566	83,886	114,400	154,400

Source: Kotak Institutional Equities

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

	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)						
Net sales	131,272	243,868	247,054	214,484	203,779	223,138
EBITDA	**36,899**	**94,589**	**78,682**	**50,083**	**42,133**	**54,339**
Other income	3,343	6,817	15,661	18,501	17,603	20,223
Interest	(2,353)	(3,791)	(3,186)	(3,973)	(4,700)	(4,238)
Depreciaiton	(5,269)	(8,039)	(5,950)	(7,007)	(9,498)	(10,885)
Profit before tax	**32,518**	**88,004**	**84,679**	**58,158**	**45,538**	**59,440**
Taxes	(10,165)	(24,118)	(21,027)	(8,550)	(6,728)	(9,490)
Less: Minority interest	(5,568)	(19,045)	(18,591)	(12,671)	(8,101)	(12,419)
Add: share in associates	(4)	-	-	(1,536)	(5,623)	(5,623)
Net profit	**16,781**	**44,842**	**45,061**	**35,400**	**25,086**	**31,908**
Earnings per share (Rs)	**60.1**	**80.3**	**63.6**	**50.0**	**29.8**	**38.0**
Balance sheet (Rs mn)						
Equity	60,530	99,815	223,024	246,210	349,920	380,774
Deferred tax liability	7,511	9,174	13,537	12,540	13,917	15,807
Total Borrowings	68,822	82,365	106,981	134,212	145,382	161,083
Current liabilities	34,113	48,636	50,401	31,859	31,131	31,697
Total liabilities	**170,976**	**239,990**	**393,942**	**424,821**	**540,350**	**589,362**
Net fixed assets	85,497	97,176	124,367	132,044	156,995	173,860
Investments	24,952	52,219	162,941	170,758	275,758	315,758
Cash	11,153	11,134	24,536	34,865	23,995	13,551
Other current assets	49,269	79,460	82,099	87,155	83,603	86,193
Miscellaneous expenditure	105	0	0	-	-	-
Total assets	**170,976**	**239,990**	**393,942**	**424,821**	**540,350**	**589,362**
Cash flow model (Rs mn)						
Operating cash flow excl. working capital	28,131	75,568	61,736	53,343	48,368	61,143
Working capital changes	(8,339)	(18,647)	2,032	4,266	4,325	(1,974)
Capital expenditure	(11,783)	(20,871)	(30,119)	(23,975)	(32,950)	(27,700)
Free cash flow	**8,009**	**36,049**	**33,648**	**33,634**	**19,742**	**31,469**
Ratios						
Debt/equity (X)	1.0	0.8	0.5	0.5	0.4	0.4
Net debt/equity (X)	0.2	(0.2)	(0.6)	(0.5)	(0.6)	(0.6)
RoAE (%)	28.9	50.7	26.1	14.3	8.1	8.4
RoACE (%)	**14.7**	**29.0**	**17.7**	**10.5**	**6.4**	**6.6**

Source: Kotak Institutional Equities

Economy

Agriculture Sector

INDIA

JULY 17, 2009

UPDATE

BSE-30:

Monsoon concerns continue. We reiterate our concerns regarding deficient rainfall even as cumulative rainfall deficiency drops to 27% from 46% in June. The possibility of drought cannot be ruled out yet. However, if normal rains occur in the rest of the monsoon season, deficiency could drop to below 10% and the Indian economy may still grow at over 6% and inflation contained at under double digits by end-FY2010.

Monsoon deficiency drops to 27% from 46% in June; but drought fears still loom

Risks of a drought in 2009 remain despite good rainfall in the first fortnight of July, which has reduced the cumulative rainfall deficiency to 27% from 46% in June and 36% a week ago. The number of sub-divisions receiving deficient/scanty rainfall has now dropped to 22 from 30 at the end-June and 27 a week ago.

Northern belt produces 50% of country's foodgrain and sugarcane output—deficiency worrying

Rainfall deficiency in the meteorological sub-divisions of Northern/Indo-Gangetic Plain is in the range of 47-63%. We consider this worrying as these regions account for 50% of the country's foodgrain and sugarcane output.

Economy can still record 6.0% plus growth and single-digit inflation with mild drought

In our view, if overall rainfall deficiency falls to below 10%, India can still record a real GDP growth of over 6% in FY2010E. Inflation in this case is likely to end-up below 10% at end-FY2010E. With the monsoon improving and reservoir levels increasing, we could still have a near-normal crop, especially as near-term monsoon forecasts are favorable. However, the odds are still stacked towards a mild drought as a base case.

QUICK NUMBERS

- Rainfall deficiency drops to 27% from 46% in June
- Deficient/ scanty sub-divisions drop to 22 from 30 in June
- Deficient North produces 50% of national foodgrain and sugarcane output

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Rainfall deficiency drops but drought risks remain

Rainfall was good last week in most parts of the country, raising hopes that a drought can be averted.

- Cumulative rainfall deficiency has dropped to 27% in mid-July from 46% in June.
- Of a total of 36, the number of sub-divisions receiving deficient/scanty rainfall on a cumulative basis has dropped to 22 from 30 in June (see Exhibit 1).

The monsoon has improved considerably since our first note on this issue dated June 22. However, the odds continue to favor some measure of a drought. The monsoon appeared in the first week of July and continued to hold in the second week of July as well; the northern States of Punjab, Haryana and Western Uttar Pradesh continue to be deficient. As such, dark clouds still loom over the Indian economy and the risks of a drought in 2009 have not abated.

Monsoon plays truant in June; recovery begins in July but a long way to go

Rainfall till date specified, CY2004-CY2009

	2004			2005			2006		2007		2008		2009	
Rainfall till date	30-Jun	14-Jul	30-Sep	13-Jul	6-Jul	30-Sep	12-Jul	30-Sep	18-Jul	30-Sep	16-Jul	30-Sep	8-Jul	15-Jul
Normal/Excess	**28**	**20**	**23 0**	**23**	**28**	**32 0**	**27**	**26 0**	**29**	**30 0**	**22**	**32 0**	**11**	**14**
Excess	9	5	—	9	11	9	3	6	16	13	14	2	2	2
Normal	19	15	23	14	17	23	24	20	13	17	8	30	9	12
Deficient/Scanty	**8**	**16**	**13 0**	**13**	**8**	**4 0**	**9**	**10 0**	**7**	**6 0**	**14**	**4 0**	**25**	**22**
Deficient	8	16	13	12	8	4	8	10	7	6	13	4	19	20
Sacnty/no rain	—	—	—	1	—	—	1	—	—	—	1	—	6	2
Total	**36**	**36**	**36 0**	**36**	**36**	**36 0**	**36**	**36 0**	**36**	**36 0**	**36**	**36 0**	**36**	**36**
Rainfall deviation from normal (%)			-13			-1		-1		5		-2	-36	-27
Foodgrains output (in mt)			198.4			208.6		217.3		230.8		229.9		
Kharif foodgrains (in mt)			103.3			109.9		110.6		121.0		118.8		
Foodgrains growth (%)			-7.1			5.2		4.2		6.2		-0.4		
All crops index growth (%)			-1.6			12.2		13.9		0.9		3.0E		
Growth in GDP in agriculture & allied(%)			0.1			5.8		4.0		4.9		1.6		
Growth in GDP(%)			7.5			9.5		9.7		9.0		6.7		

Note:
(1) output/growth data relates to corresponding agricultural year (July-June). As such, for CY2004 monsoon, relate to FY2005 and so on.

Source: India Meteorological Department; Ministry of Agriculture; Kotak Institutional Equities

High rainfall deficiency in Northern/Indo-Gangetic Plains

Spatially, the Northern/Indo-Gangetic Plains food belt has received very little rains (see Exhibit 2). Deficiency levels are close to scanty (i.e. 60% or more):

- Rainfall deficiency in the above belt ranges from 47% in case of Gangetic West Bengal to 63% in case of Bihar
- Rainfall in this belt has improved over the past week, except in the case of Bihar and West Uttar Pradesh
- Rainfall has also been highly deficient (-50%) in cotton and oilseed producing Gujarat, but normal in Suarashtra and Kutch, which account for the larger share of Gujarat's oilseeds
- Rainfall has been excess in two sub-divisions, viz. Orissa and Lakshadweep.

- It has been normal in 12-subdivisions, viz., Andaman & Nicobar islands, Chhattisgarh, Konkan and Goa, Coastal Karnataka, North Interior Karnataka, South Interior Karnataka, Kerala, West Rajasthan, 'Suarashtra, Kutch and Diu', , Madhya Maharashtra, 'Tamil Nadu and Pondicherry' and Vidarbha,

Drought likely in Northern/Indo-Gangetic Plain food belt
Rainfall deficiency in sub-divisions of Northern/Indo-Gangetic Plain (%)

as on:	July 1, 2009	July 8, 2009	July 15, 2009
Bihar	-52	-54	-63
East Uttar Pradesh	-66	-89	-56
Haryana, Chandigarh & Delhi	-42	-62	-59
Himachal Pradesh	-55	-69	-59
Punjab	-38	-71	-56
Uttranchal	-58	-65	-57
Gangetic West Bengal	-62	-50	-47
West Uttar Pradesh	-74	-50	-60

Source: India Meteorological Department; Kotak Institutional Equities

Deficient North accounts for half of foodgrain and sugarcane output

The Northern/Indo-Gangetic Plains regions that have so far received almost scanty rainfall accounts for 50% of the country's foodgrain and sugarcane crop (see Exhibit 3).

Share of Rainfall deficient Northern/Indo-Gangetic Plain States in major crops

Share in country's output for major crops, FY2007 and FY2008 average, (%)

as on:	Foodgrains	Rice	Pulses	Oilseeds	Cotton	Sugarcane
Bihar	4.6	4.6	3.2	0.6	—	1.6
Uttar Pradesh	19.2	12.0	15.3	4.0	—	41.2
Haryana	6.5	3.6	0.9	3.2	8.1	2.8
Punjab	11.9	11.0	0.5	0.3	12.4	1.7
Uttranchal	0.8	—	—	—	—	1.9
West Bengal	7.4	15.8	1.2	2.4	—	0.4
Total	**50.4**	**47.0**	**21.1**	**10.5**	**20.5**	**49.6**

Source: Ministry of Agriculture; Kotak Institutional Equities

- Rice crop can be affected as these regions account for 47% of its national output

- The impact in case of pulses, oilseeds and cotton is likely to be limited.

Sowing operations hampered by poor rainfall

The Ministry of Agriculture has not updated the sowing operations data beyond June. Area sown till June 26 has dropped by 17% in relation to corresponding period last year (see Exhibit 4).

Area sown drops 17% so far, but can improve ahead if monsoon recovers
Area sown under main Kharif (summer) crops, March fiscal year-ends, (mn hectares)

		till June 26				% of normal	
Crop	normal area	2008	2009	increase	increase(%)	2008	2009
1 Rice	39.2	2.5	1.8	(0.7)	(27.5)	6.4	4.7
2 Jowar	3.9	0.2	0.3	0.0	14.5	5.8	6.6
3 Bajra	9.7	0.8	0.3	(0.5)	(65.4)	7.7	2.7
4 Maize	6.8	0.8	1.2	0.4	47.9	12.1	17.9
5 Other cereals	2.5	0.2	(0.2)	(0.4)	(191.6)	8.8	(8.1)
6 Total coarse cereals (2 to 5)	23.0	2.0	1.5	(0.5)	(24.4)	8.8	6.7
7 Total cereals (1+6)	**62.2**	**4.5**	**3.4**	**(1.2)**	**(26.1)**	**7.3**	**5.4**
8 Arhar (tur)	3.6	0.0	0.1	0.1	180.0	1.1	3.1
9 Urad	2.4	0.0	0.0	0.0	141.2	0.7	1.7
10 Moong	2.7	0.2	0.2	0.0	31.6	5.6	7.3
11 Other pulses	2.4	0.1	0.1	0.0	8.2	3.5	3.8
12 Total pulses (8 to 11)	**11.2**	**0.3**	**0.4**	**0.2**	**51.4**	**2.6**	**4.0**
13 TOTAL FOODGRAINS (7+10)	**73.3**	**4.8**	**3.8**	**(1.0)**	**(21.4)**	**6.6**	**5.2**
14 Groundnut	5.4	0.9	0.2	(0.7)	(79.2)	16.9	3.5
15 Soyabean	7.8	0.8	0.2	(0.6)	(79.9)	10.4	2.1
16 Sunflower	0.8	0.1	0.2	0.1	67.8	11.2	18.8
17 Sesamum	1.8	0.1	0.1	(0.0)	(30.2)	6.0	4.2
18 Nigerseed	0.4	0.0	0.0	(0.0)	(80.0)	1.2	0.2
19 Castorseed	0.7	0.0	0.1	0.1	1128.6	0.9	11.5
20 Total nine oilseeds (14 to 19)	**16.9**	**1.9**	**0.7**	**(1.3)**	**(65.5)**	**11.4**	**3.9**
21 Cotton	8.7	1.7	1.9	0.1	8.2	20.0	21.6
22 Sugarcane	4.4	4.3	4.2	(0.2)	(3.6)	98.8	95.2
23 Jute	0.8	0.7	0.7	(0.0)	(1.9)	87.7	86.1
24 TOTAL NON-FOODGRAINS (20 to 24)	**30.8**	**8.7**	**7.4**	**(1.3)**	**(14.8)**	**28.3**	**24.1**
25 TOTAL ALL CROPS (13+24)	**104.2**	**13.6**	**11.2**	**(2.3)**	**(17.1)**	**13.0**	**10.8**

Source: Ministry of Agriculture, Kotak Institutional Equities

- We expect sowing to pick up in July, especially in the Northern States if these States receive good rainfall over next two-weeks 28% drop in area under paddy (rice)
- We expect an improvement in area under oilseeds which had fallen by 67% in June

Crop output likely to fall in FY2010

In our assessment, it is reasonable to predict that agricultural output would contract in the current agricultural year (July-June) that corresponds to FY2010. The magnitude of this fall is difficult to assess at this point as sowing operations could still pick up over the next three weeks. However, given the near certainty that rainfall would be deficient this year, the Kharif foodgrain output is likely to drop. Moreover, reservoir levels are still running precariously low, though they improved last week.

Reservoir levels improve over the week, but still precariously low
Reservoir levels (for 81 large reservoirs), billion cubic meters (BCM)

as on:	July 9, 2009	July 16, 2009
Current live storage (BCM)	16.0	20.7
Live capacity at FRL (BCM)	151.8	151.8
Corresponding storage last year	37.3	42.8
Corresponding storage last 10-year average	33.0	37.8
% storage as FRL capacity	10.5	13.7
corresponding % last year	24.6	28.2
corresponding % (last 10-year average)	21.7	24.9
current years's storage as % of last year	42.9	48.4
current years's storage as % of last 10-yr average	48.5	54.8

Source: Ministry of Water Resources, Kotak Institutional Equities

On a current assessment, we see the following implications:

- If monsoon deficiency drop to under 10%, it is still possible for the Indian economy to record GDP growth of over 6% in FY2010E
- In such a case, inflation should stay in single-digits at the end of FY2010E
- However, if severe drought occurs with overall rainfall deficiency of say 20-25%, growth could be pared to sub-5% while inflation is likely to be in double-digits by end-FY2010E

Kotak Institutional Equities: Valuation summary of key Indian companies

	16-Jul-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Automobiles																													
Ashok Leyland	32	ADD	42,105	866	1,330	1.5	1.8	2.4	(57.8)	18.5	32.7	20.7	17.5	13.2	14.2	9.2	7.1	1.1	1.1	1.1	3.2	3.2	3.2	6.2	6.4	8.3	32	1.1	3.5
Bajaj Auto	1,147	ADD	165,995	3,413	145	45.2	85.0	100.9	(13.4)	87.9	18.7	25.4	13.5	11.4	14.9	8.3	7.3	8.9	6.1	4.4	1.7	1.7	1.7	37.7	53.1	44.0	1,260	9.8	5.1
Hero Honda	1,538	REDUCE	307,109	6,314	200	64.2	83.8	91.2	32.4	30.5	8.8	24.0	18.4	16.9	15.9	12.4	11.0	7.8	6.1	4.8	1.3	1.4	1.4	36.6	37.4	31.9	1,000	(35.0)	17.5
Mahindra & Mahindra	721	ADD	191,128	3,929	265	21.7	40.4	43.6	(42.9)	86.0	8.0	33.2	17.8	16.5	29.2	13.5	12.1	4.0	3.0	2.6	1.3	1.3	1.3	12.3	19.3	17.0	670	(7.0)	19.3
Maruti Suzuki	1,142	SELL	330,038	6,785	289	42.2	62.4	67.3	(29.6)	47.9	7.9	27.1	18.3	17.0	23.3	11.5	10.0	3.4	2.9	2.5	0.4	0.3	0.4	13.4	17.2	15.9	900	(21.2)	21.1
Tata Motors	297	SELL	165,056	3,393	556	20.8	15.2	20.0	(58.3)	(27.0)	32.2	14.3	19.6	14.8	20.0	13.1	11.2	1.2	1.2	1.1	1.9	1.9	1.9	9.0	6.1		235	(20.8)	39.0
Automobiles		**Cautious**	**1,201,431**	**24,700**					**(169.6)**	**243.8**	**108.3**	**144.6**	**105.0**	**89.7**	**117.5**	**68.0**	**58.7**	**26.5**	**20.4**	**16.5**	**9.8**	**9.8**	**9.9**	**115.1**	**139.4**	**117.0**			
Banks/Financial Institutions																													
Andhra Bank	82	REDUCE	39,988	822	485	13.5	11.1	12.6	14.0	(17.9)	13.6	6.1	7.4	6.5				1.2	1.1	1.0	5.5	3.4	3.8	19.0	14.0	14.4	90	9.2	1.7
Axis Bank	799	BUY	286,719	5,895	359	50.6	59.1	68.2	56.9	16.8	15.6	15.8	13.5	11.7				3.1	2.8	2.4	1.3	1.5	1.7	19.1	19.2	19.2	850	6.4	75.4
Bank of Baroda	402	REDUCE	146,778	3,018	366	60.9	54.9	58.5	55.1	(9.8)	6.5	6.6	7.3	6.9				1.4	1.4	1.2	2.2	2.0	2.2	18.7	14.9	14.2	440	9.6	11.3
Bank of India	330	ADD	173,368	3,564	526	57.2	46.3	53.2	40.7	(19.1)	14.9	5.8	7.1	6.2				1.7	1.6	1.5	2.4	2.0	2.3	29.2	19.0	18.7	360	9.2	15.4
Canara Bank	254	REDUCE	104,181	2,142	410	50.5	38.6	41.4	32.4	(23.6)	7.1	5.0	6.6	6.1				1.3	1.2	1.1	3.1	3.1	3.9	18.3	12.4	12.2	260	2.3	5.4
Corporation Bank	307	BUY	44,028	905	143	62.2	51.5	55.3	21.4	(17.3)	7.4	4.9	6.0	5.6				0.9	0.8	0.7	4.2	3.4	3.7	19.6	14.3	13.8	395	28.7	1.0
Federal Bank	230	BUY	39,346	809	171	27.8	31.4	38.2	(19.2)	13.1	21.5	8.3	7.3	6.0				0.9	0.9	0.8	2.2	2.5	3.1	11.5	11.8	13.0	320	39.1	3.3
Future Capital Holdings	277	BUY	17,516	360	63	4.5	28.8		(198.6)	546.1	(100.0)	62.2	9.6					2.3	1.9					3.8	21.4		440	58.8	1.2
HDFC	2,378	REDUCE	676,436	13,907	284	80.2	91.5	103.6	(6.5)	14.0	13.3	29.6	26.0	23.0				5.1	4.6	4.1	1.3	1.3	1.5	18.2	18.3	18.3	2,025	(14.8)	62.0
HDFC Bank	1,390	REDUCE	612,360	12,590	440	55.4	63.2	75.1	20.4	14.2	18.8	25.1	22.0	18.5				4.2	2.9	2.6	0.7	0.8	1.0	16.9	15.4	15.0	1,430	2.8	50.7
ICICI Bank	694	REDUCE	772,255	15,877	1,113	33.8	32.3	38.5	(15.4)	(4.4)	19.2	20.5	21.5	18.0				1.6	1.5	1.4	1.6	1.3	1.4	7.8	7.1	8.0	685	(1.3)	188.3
IDFC	139	ADD	179,584	3,692	1,294	5.8	7.0	8.0	2.3	21.0	13.3	23.9	19.7	17.4				2.9	2.6	2.3	0.7	0.9	0.9	12.9	14.1	14.2	85	(38.7)	46.8
India Infoline	135	ADD	41,994	863	311	5.0	5.8	6.5	(10.0)	15.5	12.3	26.8	23.2	20.6	12.6	11.2	10.3	3.6	3.2	2.9	1.8	2.3	2.8	11.7	13.5	14.6	90	(33.3)	12.5
Indian Bank	128	BUY	55,011	1,131	430	28.1	26.6	30.6	24.7	(5.3)	15.0	4.6	4.8	4.2				1.0	1.0	0.9	3.3	3.1	3.6	22.7	18.3	18.1	185	44.5	3.2
Indian Overseas Bank	84	BUY	45,681	939	545	24.3	16.6	22.2	10.3	(31.9)	33.8	3.4	5.1	3.8				0.8	0.7	0.6	6.3	4.5	4.9	24.7	14.5	17.0	130	55.0	4.4
J&K Bank	428	BUY	20,742	426	48	84.5	86.6	96.3	13.8	2.4	11.2	5.1	4.9	4.4				0.9	0.8	0.8	4.0	4.0	4.5	16.7	15.1	14.9	550	28.6	0.4
LIC Housing Finance	610	NR	51,843	1,066	85	62.5	68.8	80.3	37.3	10.0	16.8	9.8	8.9	7.6				2.2	1.8	1.5	2.3	2.5	2.9	26.2	23.9	23.4		(100.0)	19.1
Mahindra & Mahindra Financial	256	ADD	24,466	503	96	22.4	27.5	30.0	7.5	22.9	8.7	11.4	9.3	8.5				1.7	1.5	1.3	2.2	2.7	2.9	15.4	16.9	16.3	240	(6.1)	1.0
Oriental Bank of Commerce	165	REDUCE	41,251	848	251	36.1	27.3	34.6	51.4	(24.5)	26.7	4.6	6.0	4.8				0.7	0.8	0.8	4.4	3.3	4.2	14.8	10.2	11.8	190	15.4	2.9
PFC	216	SELL	247,803	5,095	1,148	13.0	18.0	20.0	14.3	38.6	11.1	16.6	12.0	10.8				2.2	2.0	1.8	1.3	2.5	2.8	13.8	17.3	17.2	185	(14.3)	7.2
Punjab National Bank	676	BUY	213,192	4,383	315	98.0	98.5	115.1	50.9	0.5	16.8	6.9	6.9	5.9				1.8	1.5	1.3	2.9	2.9	3.4	23.0	19.9	20.1	800	18.3	17.7
Reliance Capital	812	ADD	199,783	4,107	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	20.6	28.0	28.1				3.0	2.7	2.5	0.7	0.5	0.5	15.3	10.2	9.3	875	7.8	162.9
Rural Electrification Corp.	175	BUY	149,826	3,080	859	16.5	17.5	20.8	50.7	6.5	18.8	10.6	10.0	8.4				2.1	1.8	1.6	1.1	1.8	2.2	21.2	19.6	20.3	155	(11.2)	4.9
Shriram Transport	305	ADD	64,562	1,327	212	30.1	32.5	36.9	56.8	7.9	13.7	10.1	9.4	8.3				2.9	2.5	2.1	2.8	3.2	3.6	29.6	27.0	25.8	300	(1.7)	3.1
SREI	58	ADD	6,710	138	116	7.7	6.9	8.2	(32.8)	(10.1)	18.6	7.5	8.3	7.0				0.6	0.6	0.6	4.0	4.9	5.5	14.0	11.5	13.0	95	64.6	4.1
State Bank of India	1,604	BUY	1,018,667	20,943	635	143.6	121.1	139.2	34.8	(15.7)	14.9	11.2	13.2	11.5				2.1	2.1	1.8	1.8	1.9	2.0	17.1	12.7	13.3	1,870	16.6	114.1
Union Bank	232	BUY	117,339	2,412	505	34.2	29.6	35.5	24.5	(13.5)	19.9	6.8	7.9	6.6				1.4	1.2	1.1	2.2	1.9	2.3	27.2	19.5	19.9	280	20.5	7.2
Banks/Financial Institutions		**Attractive**	**5,391,431**	**110,844**					**332.3**	**510.2**	**289.0**	**369.8**	**311.9**	**266.4**	**12.6**	**11.2**	**10.3**	**53.5**	**47.4**	**40.5**	**66.2**	**64.3**	**73.7**	**488.5**	**431.9**	**416.0**			
Cement																													
ACC	795	REDUCE	149,299	3,069	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	14.1	14.4	18.8	7.1	7.1	8.3	2.8	2.5	2.3	2.9	2.9	2.9	24.7	21.3	15.1	725	(8.8)	12.7
Ambuja Cements	98	REDUCE	148,888	3,061	1,522	7.2	7.0	5.8	(5.0)	(3.1)	(16.2)	13.6	14.0	16.8	7.3	7.4	8.5	2.5	2.2	2.0	3.1	1.9	2.2	19.7	16.9	12.8	80	(18.2)	6.3
Grasim Industries	2,609	REDUCE	239,183	4,917	92	238.5	235.7	239.1	(16.2)	(1.2)	1.4	10.9	11.1	10.9	6.2	5.6	5.3	2.2	1.9	1.6	1.3	1.3	1.3	21.7	18.2	16.0	2,300	(11.8)	10.8
India Cements	142	ADD	39,969	822	282	17.8	19.7	16.6	(27.2)	10.8	(15.8)	8.0	7.2	8.5	5.0	4.5	4.9	1.1	0.9	0.9	1.5	1.5	2.3	14.9	14.8	11.2	155	9.3	8.4
Shree Cement	1,303	BUY	45,395	933	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	7.5	14.2	15.1	5.1	5.5	5.9	3.8	3.1	2.7	0.8	0.8	0.8	65.7	24.0	18.9	1,150	(11.7)	0.7
UltraTech Cement	741	ADD	92,818	1,908	125	78.0	70.5	55.6	(4.1)	(9.7)	(21.0)	9.5	10.5	13.3	6.1	5.7	6.5	2.2	1.8	1.6	1.1	1.1	1.1	31.2	22.3	15.0	725	(2.2)	5.4
Cement		**Neutral**	**715,551**	**14,711**					**29.0**	**(52.6)**	**(81.1)**	**63.6**	**71.4**	**83.5**	**36.8**	**35.8**	**39.5**	**14.5**	**12.4**	**11.1**	**10.7**	**9.6**	**10.6**	**177.8**	**117.5**	**89.1**			
Constructions																													
Consolidated Construction Co.	267	ADD	9,865	203	37	19.7	26.5	31.4	(18.1)	34.6	18.3	13.6	10.1	8.5	8.6	6.3	5.3	1.9	1.6	1.4	0.9	1.4	1.6	15.0	17.6	17.9	190	(28.8)	0.1
IVRCL	326	BUY	44,166	908	135	16.7	17.9	22.1	7.4	7.4	23.1	19.5	18.2	14.8	13.2	10.0	7.9	2.4	2.2	1.9	0.2	0.2	0.2	13.2	12.6	13.6	350	7.3	29.9
Nagarjuna Construction Co.	125	BUY	28,648	589	229	6.7	7.5	8.5	(6.4)	11.9	13.3	18.6	16.7	14.7	11.8	9.0	7.7	1.7	1.6	1.5	1.1	1.3	1.6	9.4	9.8	10.3	145	16.0	8.1
Punj Lloyd	213	BUY	66,239	1,362	311	(7.2)	17.6	20.6	(172.4)	(343.2)	17.2	(29.5)	12.1	10.3	21.3	7.4	6.6	2.7	2.2	1.8	0.1	0.4	0.4	(8.6)	19.9	19.4	300	40.8	40.3
Sadbhav Engineering	670	BUY	8,378	172	13	50.6	55.6	77.9	25.0	9.8	40.2	13.2	12.1	8.6	9.5	7.2	6.0	2.4	2.0	1.7	0.7	0.9	1.0	18.0	16.8	19.4	830	23.8	0.2
Constructions		**Attractive**	**157,296**	**3,234**					**(164.5)**	**(279.4)**	**112.1**	**35.5**	**69.1**	**56.9**	**64.4**	**39.9**	**33.6**	**11.1**	**9.6**	**8.3**	**3.1**	**4.2**	**4.9**	**47.0**	**76.7**	**80.7**			
Consumer Products																													
Asian Paints	1,191	ADD	114,236	2,349	96	38.4	49.1	57.5	(2.2)	27.9	17.1	31.0	24.3	20.7	18.0	14.1	11.9	10.0	8.2	6.8	1.5	1.7	1.9	36.3	38.5	36.8	1,200	0.8	0.9
Colgate-Palmolive (India)	629	ADD	85,553	1,759	136	21.6	25.5	27.3	26.3	18.2	7.0	29.2	24.7	23.0	24.0	20.8	18.0	39.6	35.0	30.4	2.4	3.2	3.3	155.1	150.4	140.9	550	(12.6)	2.7
GlaxosmithKline Consumer	972	ADD	40,888	841	42	44.8	56.1	63.6	15.8	25.2	13.5	21.7	17.3	15.3	12.2	9.9	8.7	5.3	4.6	4.0	1.5	2.1	3.0	26.8	28.5	28.0	1,050	8.0	0.9
Godrej Consumer Products	172	ADD	44,498	915	258	6.8	8.7	9.8	(3.9)	27.8	12.8	25.4	19.9	17.6	22.3	16.4	13.8	6.7	5.8	5.0	2.3	2.3	2.3	42.7	42.7	33.1	180	4.4	0.7
Hindustan Unilever	266	BUY	580,173	11,928	2,179	9.5	10.6	12.2	19.0	11.1	15.0	28.0	25.2	21.9	21.4	18.8	16.3	28.1	25.2	22.5	3.3	3.6	4.1	112.4	105.9	108.9	320	20.2	22.7
ITC	217	BUY	819,107	16,840	3,769	8.7	10.2	11.6	2.8	17.9	13.9	25.1	21.3	18.7	15.3	13.1	11.6	5.6	4.9	4.3	1.7	1.8	2.1	25.3	26.0	25.7	235	8.1	34.1
Jyothy Laboratories	99	ADD	7,192	148	73	5.6	10.1	12.6	(11.2)	78.5	25.0	17.6	9.9	7.9	11.2	6.7	5.2							10.7	16.7	19.4	145	46.3	0.2
Nestle India	1,978	ADD	190,710	3,921	96	58.6	70.5	82.4	31.0	20.4	16.8	33.8	28.1	24.0	21.5	18.4	15.9	40.3	33.1	27.4	2.1	2.6	3.0	126.7	129.6	124.8	2,100	6.2	1.7
Tata Tea	754	BUY	46,621	958	62	57.0	62.8	69.2	5.3	10.1	10.2	13.2	12.0	10.9	7.0	6.2	5.1	1.0	0.9	0.8	2.3	2.5	2.7	9.8	10.1	10.4	900	19.4	3.0
Consumer Products		**Attractive**	**1,928,978**	**39,658**					**82.8**	**237.0**	**131.3**	**225.0**	**182.6**	**160.1**	**152.9**	**124.4**	**106.4**	**136.7**	**117.7**	**101.2**	**17.1**	**19.8**	**22.5**	**545.8**	**548.3**	**528.0**			
Energy																													
Bharat Petroleum	459	SELL	166,038	3,414	362	20.4	32.1	41.8	(50.7)	57.8	30.1	22.6	14.3	11.0	8.3	7.9	6.2	1.2	1.1	1.1	1.5	2.6	3.4	5.2	7.7	9.4	475	3.4	10.3
Cairn India	228	REDUCE	432,251	8,887	1,897	4.3	9.2	31.2	(3,703.0)	115.1	238.0	53.1	24.7	7.3	34.8	12.7	5.2	1.3	1.2	1.2			11.0	2.5	5.1	16.5	225	(1.3)	35.5
Castrol India	387	BUY	47,818	983	124	21.3	25.5	26.6	20.8	19.5	4.3	18.2	15.2	14.6	10.3	8.8	8.4	10.7	9.6	9.0	3.9	4.7	5.2	61.2	66.5	63.7	390	0.8	0.8
GAIL (India)	339	ADD	429,442	8,829	1,268	23.4	20.6	21.8	14.7	(11.8)	5.7	14.5	16.4	15.5	8.0	9.3	9.6	2.6	2.4	2.2	2.2	2.0	2.0	18.4	14.5	14.0	300	(11.4)	16.2
GSPL	59	REDUCE	33,036	679	563	2.2	2.4	3.3	21.7	8.1	38.0	26.8	24.8	18.0	9.8	6.9	5.3	2.5	2.3	2.3	1.3	1.4	5.6	9.6	9.6	12.7	45	(23.3)	6.3
Hindustan Petroleum	322	SELL	109,178	2,245	339	17.0	16.7	34.9	(49.3)	(1.6)	109.2	19.0	19.3	9.2	7.0	7.4	5.8	0.9	0.8	0.8	1.6	3.7	7.8	4.4	3.9	7.8	350	8.7	13.7
Indian Oil Corporation	540	REDUCE	643,999	13,240	1,192	18.9	44.3	43.1	(69.1)	133.8	(2.6)	28.5	12.2	12.5	10.4	5.6	5.4	1.4	1.3	1.2	1.4	3.3	3.2	4.6	10.2	9.3	550	1.8	8.3
Oil & Natural Gas Corporation	1,023	BUY	2,188,081	44,985	2,139	91.4	100.3	119.9	(1.5)	9.8	19.5	11.2	10.2	8.5	4.0	3.6	3.1	1.9	1.7	1.6	3.1	3.5	4.1	17.3	16.9	18.2	1,100	7.5	57.2
Petronet LNG	65	REDUCE	49,050	1,008	750	6.9	7.3	8.5	9.2	5.9	16.8	9.5	8.9	7.7	6.9	6.0	5.4	2.2	1.8	1.5	2.7	3.1	3.4	23.9	21.1	20.5	57	(12.8)	8.1
Reliance Industries	1,935	SELL	3,045,139	62,606	1,573	103.4	112.5	144.7	(1.5)	8.8	28.6	18.7	17.2	13.4	13.5	9.1	7.1	2.6	2.3	2.1	0.6	0.7	0.9	15.1	14.1	16.2	1,600	(17.3)	237.2
Reliance Petroleum	120	NR	541,350	11,130	4,500	0.2	8.3	13.8		4,351.0	65.6	644.5	14.5	8.7	301.9	10.8	7.2	4.0	3.3	2.5		1.7	1.7	0.6	25.1	33.0		(100.0)	25.2
Energy		**Cautious**	**7,685,383**	**158,005**					**(3,808.8)**	**4,696.4**	**553.1**	**866.4**	**177.6**	**126.4**	**414.9**	**88.1**	**68.6**	**31.2**	**28.0**	**25.4**	**18.3**	**26.6**	**48.2**	**162.8**	**194.7**	**221.3**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	16-Jul-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Industrials																													
ABB	701	REDUCE	148,601	3,055	212	25.0	29.6		(3.4)	18.7	(100.0)	28.1	23.7		17.7	14.5		5.8	4.8		0.4	0.4		22.6	22.2		500	(28.7)	8.3
BGR Energy Systems	324	REDUCE	23,332	480	72	15.6	23.1	26.4	29.0	47.8	14.2	20.7	14.0	12.3	11.5	8.5	7.2	4.1	3.3	2.7	0.8	1.2	1.3	21.6	26.0	24.3	315	(2.8)	1.6
Bharat Electronics	1,404	REDUCE	112,324	2,309	80	101.9	111.1	119.0	(0.0)	9.0	7.1	13.8	12.6	11.8	6.0	6.2	5.5	2.9	2.4	2.1	1.8	1.8	1.8	22.4	20.9	19.2	1,025	(27.0)	2.4
Bharat Heavy Electricals	2,200	REDUCE	1,077,164	22,146	490	64.1	93.1	106.8	9.8	45.1	14.8	34.3	23.6	20.6	25.7	16.1	13.4	8.3	6.6	5.3	0.7	0.9	1.0	26.4	31.0	28.5	1,900	(13.7)	56.7
Crompton Greaves	282	ADD	103,326	2,124	367	15.3	18.4	21.3	37.3	20.0	15.8	18.4	15.3	13.2	10.4	8.9	7.5	5.6	4.3	3.3	0.7	0.8	0.9	35.9	31.8	28.4	315	11.8	5.0
Larsen & Toubro	1,379	ADD	822,909	16,918	597	52.6	60.1	71.7	38.7	14.3	19.3	26.2	22.9	19.2	17.6	15.4	13.2				0.7	0.8	0.9	22.5	19.7	19.0	1,425	3.3	110.5
Maharashtra Seamless	245	BUY	17,252	355	71	35.9	33.0	39.6	22.2	(8.1)	20.3	6.8	7.4	6.2	4.6	4.7	3.6	1.3	1.1	1.0	2.2	2.0	2.9	20.3	16.0	16.8	225	(8.0)	1.3
Siemens	424	REDUCE	142,804	2,936	337	19.8	21.1		39.7	6.4	(100.0)	21.4	20.1		12.0	11.4		5.4	4.4		1.6	1.0		27.1	24.2		360	(15.0)	8.0
Suzlon Energy	93	ADD	145,761	2,997	1,571	7.2	7.6	10.5	10.0	5.5	37.2	12.8	12.2	8.9	9.6	9.2	7.5	1.6	1.3	1.1	0.5	0.5	1.1	12.3	11.7	13.7	140	50.9	149.9
Industrials		**Neutral**	**2,593,472**	**53,320**					**183.1**	**158.7**	**(71.4)**	**182.5**	**151.9**	**92.2**	**115.2**	**94.9**	**58.1**	**34.9**	**28.3**	**15.6**	**9.5**	**9.4**	**9.9**	**211.2**	**203.5**	**149.8**			
Infrastructure																													
IRB Infrastructure	172	BUY	57,266	1,177	332	5.8	11.3	12.7	69.2	95.7	11.7	29.7	15.2	13.6	15.9	8.6	7.4	3.1	2.5	2.0				11.0	18.1	16.5	160	(7.1)	10.5
Infrastructure		**Attractive**	**57,266**	**1,177**					**69.2**	**95.7**	**11.7**	**29.7**	**15.2**	**13.6**	**15.9**	**8.6**	**7.4**	**3.1**	**2.5**	**2.0**	**-**	**-**	**-**	**11.0**	**18.1**	**16.5**			
Media																													
DishTV	36	REDUCE	34,306	705	946	(7.3)	(4.1)	(3.2)	(23.9)	(44.4)	(22.6)	(4.9)	(8.9)	(11.5)	(22.1)	(133.6)	42.9	-5.3	-16.9	-6.8				86.1	91.1	84.8	32	(11.7)	14.2
HT Media	95	ADD	22,312	459	234	0.8	4.2	6.3	(80.4)	399.4	49.2	112.1	22.5	15.0	23.1	9.6	7.5	2.6	2.4	2.2	0.4	0.8	2.7	2.3	11.3	15.6	120	26.0	0.5
Jagran Prakashan	80	BUY	24,214	498	301	2.9	4.2	5.5	(12.1)	47.2	29.6	28.1	19.1	14.7	15.8	10.6	8.4	4.4	4.1	3.7	2.5	3.1	3.7	15.8	22.1	26.5	92	14.4	0.9
Sun TV Network	232	REDUCE	91,525	1,882	394	9.1	11.1	13.0	9.3	22.9	16.5	25.6	20.9	17.9	13.4	11.5	9.7	5.2	4.6	4.1	1.1	1.7	2.6	22.5	23.8	24.4	215	(7.4)	2.1
Zee Entertainment Enterprises	180	REDUCE	78,333	1,610	435	8.3	10.0	12.0	(6.5)	20.6	19.5	21.7	18.0	15.1	15.6	13.0	10.4	2.3	2.2	2.0	1.3	1.4	1.7	11.9	13.0	14.4	160	(11.2)	7.9
Zee News	39	ADD	9,375	193	240	1.9	2.1	2.5	20.4	11.1	18.8	21.0	18.9	15.9	10.9	9.2	8.1	3.8	3.3	2.8	1.0	1.0	1.5	20.0	19.0	19.5	40	2.3	1.4
Media		**Neutral**	**260,064**	**5,347**					**(93.3)**	**456.9**	**111.1**	**203.6**	**90.4**	**67.2**	**56.7**	**(79.8)**	**87.1**	**13.1**	**-0.3**	**8.1**	**6.3**	**8.2**	**12.3**	**158.6**	**180.3**	**185.1**			
Metals																													
Hindalco Industries	79	BUY	138,807	2,854	1,753	7.7	2.0	10.0	(44.4)	(73.3)	386.0	10.3	38.6	7.9	6.3	8.8	6.7	0.4	0.4	0.4				10.3	5.2	6.7	135	70.5	23.9
Hindustan Zinc	615	BUY	259,667	5,339	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	9.5	9.8	7.6	5.7	5.1	3.1	1.7	1.5	1.2	0.7	0.8	0.8	20.1	16.5	17.9	825	34.2	4.6
Jindal Steel and Power	2,588	REDUCE	398,444	8,192	154	198.0	172.4	196.2	139.3	(12.9)	13.8	13.1	15.0	13.2	8.8	9.0	7.6	5.5	4.0	3.1	0.2	0.2	0.2	53.1	31.0	26.4	2,000	(22.7)	40.2
JSW Steel	580	SELL	108,423	2,229	187	13.1	24.1	53.5	(84.7)	83.3	121.8	44.1	24.0	10.8	9.2	9.2	7.1	1.1	0.9	0.8	0.2	0.9	0.9	11.0	4.3	8.3	390	(32.7)	50.3
National Aluminium Co	282	SELL	181,405	3,730	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	14.3	20.5	13.8	8.7	8.9	5.7	1.7	1.6	1.5	1.2	0.7	0.7	12.7	8.1	11.1	290	3.0	3.9
Sesa Goa	211	BUY	166,068	3,414	787	24.8	25.5	34.2	30.8	3.0	34.0	8.5	8.3	6.2	5.4	4.9	3.0	3.7	2.7	1.9	1.7	1.7	1.7	52.8	37.1	36.0	240	13.8	44.1
Sterlite Industries	590	REDUCE	496,018	10,198	840	49.2	29.8	38.0	(23.6)	(39.3)	27.2	12.0	19.8	15.5	8.5	8.1	6.0	1.9	1.4	1.3				14.3	8.1	8.4	550	(6.8)	50.9
Tata Steel	384	BUY	315,809	6,493	822	110.0	46.2	84.2	45.3	(58.0)	82.2	3.5	8.3	4.6	4.5	7.3	5.5	0.8	0.7	0.7	4.0	4.2	4.2	36.3	16.1	25.1	505	31.4	132.0
Metals		**Neutral**	**2,064,641**	**42,447**					**2.7**	**(130.4)**	**742.5**	**115.3**	**144.4**	**79.7**	**57.2**	**61.4**	**44.8**	**16.7**	**13.2**	**10.8**	**8.0**	**8.5**	**8.5**	**210.7**	**126.3**	**140.0**			
Others																													
Aban Offshore	844	SELL	31,988	658	38	87.8	125.3	214.6	21.5	42.7	71.3	9.6	6.7	3.9	8.9	7.6	6.4	2.3	1.7	1.2	0.5	0.6	0.6	33.7	33.3	36.7	365	(56.8)	77.4
Havells India	276	REDUCE	16,715	344	61	4.5	12.2	19.0	(83.0)	170.4	55.5	61.1	22.6	14.5	9.8	8.0	7.2	2.6	3.0	2.6	0.9	0.9	0.9	4.1	12.5	19.3	175	(36.6)	2.6
Jaiprakash Associates	199	ADD	278,657	5,729	1,403	3.0	6.8	9.9	(38.7)	126.3	45.5	66.1	29.2	20.1	22.5	15.1	14.2	5.0	4.4	3.7	0.0	0.0	0.0	8.0	16.1	20.0	190	(4.3)	103.5
Jindal Saw	371	BUY	20,339	418	55	64.3	47.8	41.7	(0.8)	(25.6)	(12.8)	5.8	7.8	8.9	3.9	3.9	3.7	0.6	0.6	0.5	1.3	1.1	1.1	10.8	7.4	6.2	300	(19.1)	3.4
PSL	114	BUY	4,951	102	44	22.0	36.8	30.0	4.3	67.4	(18.5)	5.2	3.1	3.8	4.7	3.6	3.0	0.8	0.6	0.6	4.4	5.7	5.7	10.2	13.4	11.1	160	40.8	0.9
Sintex	188	BUY	25,627	527	136	23.8	25.2	27.6	21.9	5.6	9.6	7.9	7.5	6.8	5.8	5.2	4.3	1.3	1.1	1.0	0.6	0.6	0.6	16.6	15.0	14.2	275	46.5	4.5
Tata Chemicals	205	ADD	48,186	991	235	27.6	23.1	27.2	(30.4)	(16.4)	17.9	7.4	8.9	7.5	5.2	4.1	3.5	1.0	0.9	0.8	4.5	4.4	4.4	17.9	12.9	13.7	200	(2.4)	5.2
United Phosphorus	153	BUY	70,501	1,449	462	10.7	13.5	18.0	27.8	25.7	33.9	14.3	11.3	8.5	10.0	7.0	5.3	2.3	2.0	1.6	0.8	1.0	1.3	18.1	18.2	20.5	140	(8.3)	5.8
Welspun Gujarat Stahl Rohren	197	REDUCE	37,255	766	189	17.3	24.0	17.8	(15.7)	38.7	(25.8)	11.4	8.2	11.1	6.7	4.8	5.6	2.1	1.6	1.4	1.0	0.8	0.9	17.8	21.7	13.4	145	(26.5)	23.3
Others		**-**	**534,218**	**10,983**					**(93.1)**	**434.8**	**176.5**	**188.8**	**105.3**	**85.1**	**77.4**	**59.2**	**53.3**	**18.0**	**16.1**	**13.5**	**14.0**	**15.0**	**15.5**	**137.3**	**150.4**	**155.0**			
Pharmaceuticals																													
Biocon	215	BUY	43,080	886	200	4.7	13.6	18.3	(80.0)	192.6	34.2	46.3	15.8	11.8	14.1	10.7	8.1	2.8	2.5	2.1	0.0	0.0	0.1	6.2	16.9	19.8	270	25.3	5.2
Cipla	276	ADD	214,804	4,416	777	9.9	13.9	15.5	9.5	40.6	11.9	28.0	19.9	17.8	21.2	14.9	13.1	5.0	4.2	3.6	0.9	1.1	1.3	19.1	23.0	21.8	250	(9.5)	10.7
Dishman Pharma & chemicals	188	BUY	15,254	314	81	18.0	21.2	27.3	22.1	17.9	28.7	10.4	8.9	6.9	8.6	6.9	5.4	2.2	1.8	1.4	0.0	0.0	0.0	22.8	21.9	22.9	280	49.3	0.5
Divi's Laboratories	1,058	BUY	69,085	1,420	65	63.8	74.6	86.5	19.9	16.9	16.0	16.6	14.2	12.2	14.1	11.3	9.0	5.6	4.1	3.2	0.1	0.1	0.1	39.8	33.5	29.3	1,375	30.0	3.6
Dr Reddy's Laboratories	755	BUY	127,798	2,627	169	32.4	44.8	48.4	24.5	38.2	8.0	23.3	16.9	15.6	10.9	8.5	7.4	3.7	3.1	2.7	0.8	0.9	1.1	13.7	19.8	18.2	770	1.9	7.3
Glenmark Pharmaceuticals	222	BUY	59,126	1,216	266	11.1	12.1	16.2	(57.0)	8.7	33.6	20.0	18.4	13.8	12.2	10.8	9.0	2.8	2.5	2.1	0.0	0.0	0.0	15.9	14.4	16.6	315	41.6	10.0
Jubilant Organosys	161	BUY	27,512	566	171	16.6	24.5	32.9	(26.1)	48.2	34.2	9.7	6.6	4.9	11.6	7.3	5.8	2.1	1.6	1.4	0.8	0.8	1.1	16.2	28.7	30.8	250	55.4	0.5
Lupin	891	BUY	78,888	1,622	89	60.7	66.0	71.3	21.9	8.7	8.0	14.7	13.5	12.5	14.4	12.0	10.2	4.6	3.6	3.0	1.3	1.2	1.5	33.7	30.3	26.1	1,075	20.7	3.2
Piramal Healthcare	313	BUY	65,354	1,344	209	17.3	22.4	28.2	(2.7)	29.8	26.0	18.1	14.0	11.1	13.3	9.3	7.7	5.0	3.9	3.0	1.3	1.4	1.4	26.3	31.4	30.8	340	8.7	1.9
Ranbaxy Laboratories	259	REDUCE	110,398	2,270	427	(8.1)	(5.7)	5.1	(134.7)	(29.5)	(189.8)	(32.0)	(45.3)	50.5	(78.2)	(189.5)	21.7	2.2	1.9	2.0	3.9	4.4	4.8	(8.8)	(4.7)	4.1	150	(42.0)	16.4
Sun Pharmaceuticals	1,221	ADD	252,883	5,199	207	87.8	78.5	82.5	17.6	(10.6)	5.2	13.9	15.6	14.8	11.1	11.3	10.0	3.7	3.1	2.6	1.1	1.1	1.1	31.6	22.6	19.9	1,665	36.4	25.8
Pharmaceuticals		**Attractive**	**1,064,182**	**21,879**					**(185.1)**	**361.6**	**16.0**	**169.0**	**98.2**	**171.8**	**53.4**	**(86.5)**	**107.4**	**39.7**	**32.3**	**27.0**	**10.4**	**11.2**	**12.5**	**216.4**	**237.7**	**240.3**			
Property																													
DLF	317	REDUCE	543,479	11,173	1,716	29.3	16.3	17.5	(36.6)	(44.4)	7.2	10.8	19.5	18.1	11.3	16.2	13.7	2.2	2.0	1.9	0.9	0.9	1.3	22.5	10.8	10.6	320	1.0	163.4
Housing Development & Infrastructure	218	NR	60,140	1,236	275	30.6	19.8	24.8	(40.1)	(35.3)	25.1	7.1	11.0	8.8	10.1	11.5	9.4	1.4	1.3	1.2	2.3	2.7	3.7	21.2	12.1	13.9		(100.0)	122.6
Indiabulls Real Estate	221	ADD	88,624	1,822	401	3.0	3.1	7.5	(81.8)	3.8	141.1	73.7	70.9	29.4	(227.7)	56.4	13.5	1.3	1.0	0.9	0.0	0.0	0.0	1.3	1.6	3.2	235	6.4	73.1
Mahindra Life Space Developer	267	BUY	11,208	230	42	10.2	10.8	15.4	(39.2)	5.3	42.5	26.1	24.7	17.4	40.2	23.2	11.8	1.3	1.2	1.2	1.5	1.5	1.5	4.8	4.9	6.7	410	53.8	1.0
Phoenix Mills	95	BUY	13,782	283	145	5.2	7.1	8.7	63.1	38.3	21.4	18.4	13.3	11.0	20.7	9.5	8.3	0.9	0.9	0.8	1.1	1.1	1.6	5.1	6.7	7.7	210	120.7	0.3
Puravankara Projects	71	REDUCE	15,142	311	213	6.8	7.0	7.4	(39.8)	2.8	6.9	10.5	10.2	9.5	16.9	13.8	11.2	1.1	1.1	1.0		2.8	2.8	11.5	10.8	10.7	55	(22.5)	0.3
Sobha	186	ADD	18,225	375	98	15.1	14.3	16.1	(52.3)	(5.6)	12.5	12.3	13.0	11.6	13.4	10.3	9.2	1.6	1.1	1.0	1.6	2.2	2.2	10.4	9.8	8.8	215	15.7	1.7
Unitech	75	SELL	168,906	3,473	2,261	7.7	4.5	4.6	(25.8)	(41.0)	0.9	9.8	16.5	16.4	13.7	11.5	11.2	3.7	1.7	1.6				29.4	13.5	10.1	60	(19.7)	163.4
Property		**Cautious**	**919,506**	**18,904**					**(252.6)**	**(76.0)**	**257.6**	**168.6**	**179.2**	**122.2**	**(101.4)**	**152.4**	**88.3**	**13.6**	**10.2**	**9.5**	**7.4**	**11.2**	**12.9**	**106.2**	**70.2**	**71.8**			
Retail																													
Titan Industries	1,199	REDUCE	53,205	1,094	44	45.9	50.1	56.9	30.8	9.2	13.7	26.1	23.9	21.1	16.8	14.6	12.6	9.2	7.1	5.6	0.8	0.9	1.0	38.9	33.6	29.9	850	(29.1)	2.7
Retail		**Neutral**	**53,205**	**1,094**					**30.8**	**9.2**	**13.7**	**26.1**	**23.9**	**21.1**	**16.8**	**14.6**	**12.6**	**9.2**	**7.1**	**5.6**	**0.8**	**0.9**	**1.0**	**38.9**	**33.6**	**29.9**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	16-Jul-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	**Price (Rs)**	**Rating**	**(Rs mn)**	**(US$ mn)**	**(mn)**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**(Rs)**	**(%)**	**(US$ mn)**
Technology																													
HCL Technologies	194	REDUCE	135,004	2,776	695	16.2	13.1	17.0	6.0	(19.0)	29.5	12.0	14.8	11.4	6.8	6.7	6.3	2.2	2.1	1.9	6.2	6.2	6.2	18.6	14.4	17.7	135	(30.5)	6.0
Hexaware Technologies	43	SELL	6,119	126	144	3.6	4.0		(12.7)	11.5	(100.0)	11.9	10.7		2.7	2.5		0.9	0.8		2.3	2.3		7.6	8.0		35	(17.8)	1.4
Infosys Technologies	1,795	BUY	1,030,387	21,184	574	102.4	102.5	112.8	29.6	0.1	10.1	17.5	17.5	15.9	12.8	12.1	10.2	5.6	4.6	3.9	1.3	1.4	1.8	36.7	28.9	26.3	1,900	5.8	63.0
Mindtree	484	BUY	19,932	410	41	13.2	46.4	51.7	(50.5)	250.3	11.6	36.6	10.4	9.4	6.3	6.8	5.4	3.6	2.6	2.1	0.4		1.1	5.5	22.1	18.7	575	18.7	4.2
Mphasis BFL	366	REDUCE	76,297	1,569	208	14.2	38.9	33.5	15.7	174.5	(13.9)	25.8	9.4	10.9	19.6	6.7	6.2	5.3	3.6	2.8	1.1	1.2	1.4	22.8	45.4	28.8	335	(8.5)	3.6
Patni Computer Systems	283	REDUCE	36,384	748	129	24.7	26.8		(7.8)	8.5	(100.0)	11.5	10.6		4.2	4.0		1.2	1.1		1.7	1.9		11.0	11.2		220	(22.3)	2.0
Polaris Software Lab	102	SELL	10,038	206	99	13.1	13.8	12.9	76.0	5.4	(6.4)	7.8	7.4	7.9	2.8	3.4	3.5	1.3	1.1	1.0	2.7	2.0	2.0	18.1	16.4	13.6	80	(21.3)	4.1
TCS	420	REDUCE	821,633	16,892	1,957	26.4	26.9	29.6	3.1	1.9	10.0	15.9	15.6	14.2	11.1	10.7	9.3	5.2	4.3	3.7	1.7	1.9	2.8	36.9	30.4	28.1	350	(16.6)	31.9
Wipro	417	ADD	609,069	12,522	1,462	25.7	26.4	29.2	15.8	2.6	10.3	16.2	15.8	14.3	11.9	10.9	9.1	4.1	3.3	2.9	1.0	1.8	2.0	26.9	23.3	21.6	400	(4.0)	15.6
Technology		**Attractive**	**2,744,863**	**56,432**					**75.2**	**435.8**	**(148.9)**	**155.1**	**112.1**	**84.0**	**78.1**	**63.8**	**50.1**	**29.4**	**23.6**	**18.3**	**18.4**	**18.7**	**17.2**	**184.1**	**200.0**	**154.9**			
Telecom																													
Bharti Airtel	785	ADD	1,489,379	30,620	1,898	44.6	52.2	59.8	26.4	17.0	14.6	17.6	15.0	13.1	10.3	8.8	7.6	4.7	3.6	2.8	0.5	0.8	1.0	31.4	27.0	23.8	775	(1.3)	88.5
IDEA	72	REDUCE	222,081	4,566	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	24.7	24.7	22.2	9.2	8.3	7.0	1.6	1.5	1.4				10.4	6.4	6.8	65	(9.2)	22.0
MTNL	93	SELL	58,874	1,210	630	5.1	5.5	6.5	(28.4)	7.6	17.7	18.3	17.0	14.4	4.8	4.5	4.2	0.5	0.5	0.5	6.4	6.4	6.4	2.2	2.4	2.9	50	(46.5)	4.6
Reliance Communications	270	SELL	575,780	11,838	2,133	27.7	20.3	21.1	4.7	(26.6)	3.9	9.7	13.3	12.8	8.8	8.4	6.5	1.7	1.5	1.3	0.3			18.6	11.7	10.9	180	(33.3)	78.4
Tata Communications	474	REDUCE	135,090	2,777	285	13.6	14.0	15.2	24.0	3.2	8.2	34.9	33.8	31.3	14.9	13.5	12.5	2.0	1.9	1.8	1.1	1.4	1.6	5.4	5.2	5.5	400	(15.6)	8.6
Telecom		**Cautious**	**2,481,204**	**51,012**					**0.3**	**1.0**	**55.3**	**105.1**	**103.8**	**93.8**	**47.9**	**43.5**	**37.8**	**10.5**	**9.0**	**7.9**	**8.3**	**8.6**	**9.0**	**67.8**	**52.8**	**49.9**			
Transportation																													
Container Corporation	945	ADD	122,831	2,525	130	64.4	71.4	83.3	11.6	10.8	16.6	14.7	13.2	11.3	10.4	8.8	7.4	3.2	2.7	2.3	1.5	1.7	2.0	24.0	22.5	22.2	850	(10.1)	1.2
Transportation		**Cautious**	**122,831**	**2,525**					**11.6**	**10.8**	**16.6**	**14.7**	**13.2**	**11.3**	**10.4**	**8.8**	**7.4**	**3.2**	**2.7**	**2.3**	**1.5**	**1.7**	**2.0**	**24.0**	**22.5**	**22.2**			
Utilities																													
CESC	281	ADD	35,082	721	125	31.2	38.0	42.1	12.3	21.8	10.8	9.0	7.4	6.7	5.0	5.8	6.3	1.0	0.8	0.7	1.6	1.9	2.2	11.4	12.2	11.9	345	22.9	2.5
Lanco Infratech	369	ADD	82,040	1,687	222	14.5	20.2	35.1	(2.5)	39.7	73.7	25.5	18.3	10.5	23.0	16.4	8.0	3.8	3.1	2.3				16.1	18.6	25.3	385	4.3	26.3
NTPC	205	SELL	1,693,206	34,811	8,245	9.4	10.8	12.2	1.1	14.7	12.6	21.8	19.0	16.9	16.5	14.0	13.3	2.9	2.6	2.4	1.7	2.0	2.2	13.7	14.5	15.0	180	(12.3)	42.0
Reliance Infrastructure	1,060	BUY	240,128	4,937	226	64.1	58.8	62.9	70.5	(8.2)	6.9	16.5	18.0	16.9	17.7	18.2	14.2	1.4	1.3	1.3	0.7	0.8	0.9	6.3	7.0	9.0	1,250	17.9	120.0
Reliance Power	164	REDUCE	393,906	8,098	2,397	1.0	2.5	3.1	168.2	140.3	25.3	161.1	67.0	53.5	129.6	1,084.8	85.5	2.9	2.7	2.6				1.8	4.2	5.0	160	(2.6)	37.9
Tata Power	1,092	ADD	243,120	4,998	223	56.2	76.6	86.5	76.6	36.2	12.9	19.4	14.3	12.6	10.8	11.3	10.6	2.4	2.1	1.9	1.1	1.1	1.3	13.4	15.8	15.7	1,100	0.7	13.8
Tata Power	1,171	ADD	260,649	5,435	223	56.2	76.6	86.5	76.6	36.2	12.9	20.8	15.3	13.5	11.3	11.7	11.0	2.6	2.3	2.0	1.0	1.0	1.2	13.4	15.8	15.7	1,100	(6.1)	14.2
Utilities		**Attractive**	**2,948,131**	**60,688**					**402.9**	**280.6**	**155.1**	**274.2**	**159.3**	**130.6**	**214.1**	**1,162.2**	**148.9**	**16.9**	**15.0**	**13.3**	**6.0**	**6.8**	**7.7**	**76.2**	**88.1**	**97.6**			
KS universe (b)			**24,376,367**	**487,771**					**26.0**	**2.0**	**7.8**	**12**	**12.1**	**11.2**	**7.9**	**8.0**	**7.0**	**2.2**	**1.9**	**1.7**	**1.7**	**1.7**	**2.0**	**17.9**	**15.3**	**14.8**			
KS universe (b) ex-Energy			**18,082,077**	**361,822**					**30.8**	**5.1**	**(0.2)**	**12.1**	**11.5**	**11.5**	**8.6**	**8.6**	**8.1**	**2.3**	**1.9**	**1.7**	**1.7**	**1.7**	**1.9**	**19.2**	**16.8**	**14.9**			
KS universe (d) ex-Energy & ex-Commodities			**16,258,901**	**325,341**					**36.0**	**6.2**	**6.9**	**13.6**	**12.8**	**12.0**	**10.6**	**10.3**	**9.0**	**2.6**	**2.2**	**1.9**	**1.7**	**1.7**	**1.9**	**18.7**	**16.8**	**15.9**			

Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 48.64

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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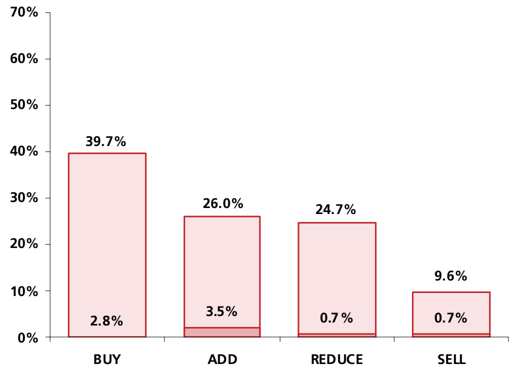
Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/03/2009 Kotak Institutional Equities Investment Research had investment ratings on 146 equity securities.

Source: Kotak Institutional Equities

As of March 31, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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

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

Our target price are also on 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

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

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

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