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**Economy:** No rain dance as yet, but close

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### News Round-up

- ▶ Adani Enterprise (ADE IN) is close to buying a coal asset from Australia's Line Energy for about USD 905 mn. The deal is likely to be announced on Tuesday. (BSTD)
- ▶ Tata Steel (TATA IN) is negotiating with Thailand's Sahaviriya Steel Ind. to sell its UK-based Teeside plant. (ECNT)
- ▶ Power Finance Corp.(POWF IN) is likely to ask the govt. not to sell stake in the company, & instead allow it to raise fresh equity to meet the regulatory capital requirements of its fast-expanding business. (ECNT)
- ▶ L&T (LT IN) announced its biggest order of the financial year a USD 1.41 bn order from Jaiprakash Power Ventures. (BSTD)
- ▶ SAIL (SAIL IN) said it had invited merchant bankers to manage the first phase of its share sale programme, which may raise an estimated USD 1.73 bn. (BSTD)
- ▶ Corporation Bank (CRPBK IN) raises BPLR by 50 basis points. (BSTD)
- ▶ Aurobindo Pharma (ARBP IN) gets USFDA nod for Ranitidine syrup. (THBL)
- ▶ BHEL (BHEL IN) will be USD 10.86 bn firm by 2012 says CMD. (THBL)
- ▶ NTPC (NATP IN) to increase non-fossil fuel-based capacity. (THBL)
- ▶ Shipping corporation of India (SCI IN) plans to raise USD 553 mn debt this fiscal to buy additional 29 vessels. (FNLE)
- ▶ Aurobindo Pharma (ARBP IN) has received USFDA nod to sell generic ulcer medicine ranitidine syrup in the US market. (ECNT)
- ▶ McLeod Russel (MCLR IN) India to set up a tea blending unit in Dubai which will cater to the global market. (ECNT)

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

### EQUITY MARKETS

India	Change %			
	2-Aug	1-day	1-mo	3-mo
Sensex	18,081	1.2	3.6	4.0
Nifty	5,432	1.2	3.7	4.0
<b>Global/Regional indices</b>				
Dow Jones	10,674	2.0	10.2	(4.3)
Nasdaq Composite	2,295	1.8	9.7	(8.1)
FTSE	5,397	2.6	11.6	(2.8)
Nikkie	9,700	1.4	5.4	(12.3)
Hang Seng	21,413	1.8	7.6	2.9
KOSPI	1,792	0.6	7.2	4.1
<b>Value traded – India</b>				
Cash (NSE+BSE)	153		165	170
Derivatives (NSE)	617		646	588
Deri. open interest	1,290		1,268	1,027

#### Forex/money market

	Change, basis points			
	2-Aug	1-day	1-mo	3-mo
Rs/US\$	46.0	(47)	(78)	149
10yr govt bond, %	7.9	4	32	(19)

#### Net investment (US\$m)

	30-Jul	MTD	CYTD
	FIs	224	-
MFs	(138)	-	(282)

#### Top movers -3mo basis

Best performers	Change, %			
	2-Aug	1-day	1-mo	3-mo
HPCL IN Equity	435.5	0.5	(8.4)	35.0
BJAUT IN Equity	2725.5	1.4	11.0	30.1
MM IN Equity	661.4	(0.0)	9.9	26.1
APNT IN Equity	2623.4	0.8	13.4	25.9
BJFIN IN Equity	431.9	0.4	0.3	25.1
<b>Worst performers</b>				
RNR IN Equity	40.9	(1.4)	(36.0)	(43.8)
ABAN IN Equity	879.9	1.2	5.5	(24.6)
FTECH IN Equity	1237.2	1.3	(8.7)	(19.9)
PUNJ IN Equity	132.5	4.6	(0.8)	(18.8)
JPA IN Equity	118.4	0.2	(6.9)	(18.0)

AUGUST 02, 2010

NEW RELEASE

BSE-30: 18,081

**So much money in so little time.** We are closing two of our trades started on July 21, 2010 since the trades have performed exceedingly well. (1) The Long M&M, Short Hero Honda trade has delivered +17% return and (2) the Long HDFC Bank, Short HUL has given +9.1% return. We have started two more trades—(1) Long GAIL, Short RIL and (2) Long Reliance infrastructure, Short Reliance Power. We continue our (1) Long INFO, Short BRTI and (2) Long Grasim, Short ACEM trades.

### Closing Long M&M, Short HH and Long HDFC Bank, Short HUL trades

We have closed the aforementioned trades with gross return of +17% and 9.1%. We had started the trades on July 21, 2010 and the trades have already met or exceeded our expected gross return of +10%. Investors can continue to be short HH and HUL, in our view, or avoid them in their long portfolios.

### Continuing with (1) Long Infosys, Short Bharti and (2) Long Grasim, Short ACEM

- ▶ We keep open our Long Infosys, Short Bharti trade noting that the market is recognizing that the recent euphoria in the Indian telecom sector may have been misplaced. Also, we see signs of another round of competitive pricing in the wireless segment.
- ▶ Grasim's current stock price is factoring a 31% holding-company discount for its 60% investment in UltraTech Cement (comprising all of Grasim's cement business) post the ongoing restructuring exercise. We expect Grasim stock price to re-rate over the next few months; the stock is trading at 3.9X FY2011E EBITDA and 3X FY2012E EBITDA.

### Trade #3: Long GAIL, Short RIL—lower gas supply and chemical prices affect GAIL less

We initiate a Long GAIL, Short RIL to benefit from (1) supply issues at RIL at its KG D-6 block in the short term and (2) weak chemical margins and prices that would affect RIL's earnings and short-term performance. GAIL's pipelines can carry gas from other sources of gas (LNG import terminals) and we model a modest increase in gas transmission in FY2011E in any case.

### Trade #4: Long Reliance Infrastructure (RELI), Short Reliance Power (RPWR)

We initiate a Long RELI, Short RPWR trade to derive outperformance from (1) possible decline in value of Reliance Power (RPWR) as the street takes cognizance of gas availability issues for RPWR gas-based power plants, (2) continued delay in execution of coal-based power plants and (3) relatively greater visibility on RELI's construction and infrastructure segments.

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

Amit Kumar  
amit.ckumar@kotak.com  
Mumbai: +91-22-6634-1392

Sunita Baldawa  
sunita.baldawa@kotak.com  
Mumbai: +91-22-6634-1325

## KIE Alpha Bet trades

Statistics of trades, current price, initiation price, gross expected/actual return

	Stock	Current price (Rs)	Initiation price (Rs)	Return (%)
<b>Trade 1 (Started June 11, 2010)</b>				
Buy	Infosys Technologies	2,797	2,631	6.3
Sell	Bharti Airtel	318	274	16.1
	Starting ratio (X)	8.8	9.6	(8.4)
<b>Current return (%)</b>				<b>(8.4)</b>
<b>Trade 2 (Started June 11, 2010)</b>				
Buy	Grasim Industries	1,856	1,820	2.0
Sell	Ambuja Cements	118	115	2.7
	Starting ratio (X)	15.7	15.8	(0.7)
<b>Current return (%)</b>				<b>(0.7)</b>
<b>Trade 3 (Started August 02, 2010)</b>				
Buy	Gail (India)	447	447	—
Sell	Reliance Industries	1,015	1,015	—
	Starting ratio (X)	0.4	0.4	—
<b>Current return (%)</b>				<b>—</b>
<b>Trade 2 (Started August 02, 2010)</b>				
Buy	Reliance Infrastructure	1,117	1,117	—
Sell	Reliance Power	162	162	—
	Starting ratio (X)	6.9	6.9	—
<b>Current return (%)</b>				<b>—</b>
<b>Closed trade (Jun 11, 2010 - Aug 2, 2010)</b>				
Buy	Mahindra & Mahindra	661	606	9.1
Sell	Hero Honda	1,825	1,957	(6.7)
	Starting ratio (X)	0.4	0.3	17.0
<b>Return (%)</b>				<b>17.0</b>
<b>Closed trade (Jun 11, 2010 - Aug 2, 2010)</b>				
Buy	HDFC Bank	2,136	2,048	4.3
Sell	Hindustan Unilever	253	265	(4.4)
	Starting ratio (X)	8.4	7.7	9.1
<b>Return (%)</b>				<b>9.1</b>
<b>Closed trade (Feb 10, 2010 - July 19, 2010)</b>				
Buy	Oil & Natural Gas Corp.	1,259	1,087	15.8
Sell	Cairn India	315	260	21.2
	Starting ratio (X)	4.0	4.2	(4.4)
<b>Return (%)</b>				<b>(4.4)</b>
<b>Closed trade (Feb 10, 2010 - July 19, 2010)</b>				
Buy	Larsen & Toubro	1,894	1,677	13.0
Sell	Siemens	726	718	1.2
	Starting ratio (X)	2.6	2.3	11.7
<b>Return (%)</b>				<b>11.7</b>
<b>Closed trade (Feb 10, 2010 - Jun 11, 2010)</b>				
Buy	Tata Steel	474	522	(9)
Sell	Hindalco	140	137	2
	Starting ratio (X)	3.4	3.8	(11.2)
<b>Return (%)</b>				<b>(11.2)</b>
<b>Closed trade (April 27, 2010 - Jun 11, 2010)</b>				
Buy	HDFC Bank	1,946	1,980	(2)
Sell	ICICI Bank	846	947	(11)
	Starting ratio (X)	2.3	2.1	10.0
<b>Return (%)</b>				<b>10.0</b>
<b>Closed trade (April 27, 2010 - Jun 11, 2010)</b>				
Buy	Mahindra & Mahindra	607	537	13
Sell	Maruti Suzuki	1,357	1,283	6
	Starting ratio (X)	0.4	0.4	6.9
<b>Return (%)</b>				<b>6.9</b>

Source: Kotak Institutional Equities estimates

AUGUST 2, 2010

**RESULT, CHANGE IN RECO.**

 Coverage view: **Cautious**

 Price (Rs): **447**

 Target price (Rs): **550**

 BSE-30: **18,081**

**Strong results boosted by low subsidy burden; upgrade to BUY.** GAIL reported 1QFY11 net income at ₹8.9 bn (+35% yoy and -2.6% qoq) versus our expected ₹7.5 bn. The positive variance was led by a lower-than-expected subsidy burden at ₹4.45 bn versus our expected ₹5.92 bn. We have upgraded the stock to BUY noting that the stock offers a potential upside of 23% to our 12-month SOTP-based target price of ₹550. Key downside risk stems from higher-than-expected subsidy burden.

**Company data and valuation summary**

GAIL (India)

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	517-310	EPS (Rs)	24.8	27.2	40.2
Market Cap. (Rs bn)	566.9	EPS growth (%)	11.7	10.1	47.4
Shareholding pattern (%)		P/E (X)	18.1	16.4	11.1
Promoters	57.3	Sales (Rs bn)	250.4	375.4	506.3
FII	13.0	Net profits (Rs bn)	31.4	34.6	50.9
MFs	5.1	EBITDA (Rs bn)	52.1	57.2	81.0
Price performance (%)		EV/EBITDA (X)	10.1	10.2	8.2
Absolute	1M (3.2) 3M 4.1 12M 34.6	ROE (%)	17.4	17.0	21.6
Rel. to BSE-30	(6.5) 1.1 16.7	Div. Yield (%)	1.7	1.9	2.8

**Higher-than-expected 1QFY11 EBITDA led by lower-than-expected subsidy burden**

GAIL reported 1QFY11 EBITDA at ₹14.5 bn, significantly above our expected ₹11 bn. The positive variance was due to (1) lower-than-expected subsidy burden at ₹4.45 bn versus our expected ₹5.92 bn and (2) moderately higher-than-expected gas transmission volume at 116.2 mcm/d versus our estimate of 115.3 mcm/d. We note that GAIL bore 6.7% of the subsidy share of upstream companies in 1QFY11.

**Upgrade to BUY; 23% potential upside to our SOTP-based target price of ₹550**

We have upgraded GAIL to BUY from ADD as we see significant upside to our 12-month SOTP-based target price of ₹550, based on FY2012E estimates (₹495 previously based on average of FY2011E and FY2012E estimates). We highlight that GAIL has underperformed ONGC and OIL since the announcement of price hikes and deregulation of petrol on June 25, 2010; GAIL stock price has declined by 6% and ONGC and OIL have moved by 5.3% and 4%, respectively.

**Do not see meaningful risk from lower-than-expected KG D-6 gas or chemical cycle downturn**

We do not see meaningful risk to our earnings estimates from (1) lower-than-expected gas production from RIL's KG D-6 block. We assume gas transmission volumes at 118 mcm/d for FY2011E, which should be achievable given 1QFY11 volumes of 116 mcm/d. We estimate FY2012E volumes at 140 mcm/d which reflects (1) higher gas production from RIL's KG D-6 block and (2) higher LNG imports by Petronet LNG and Shell. We highlight that recent weakness in chemical margins is not relevant for GAIL as the performance of its chemical segment is dependent on chemical prices rather than on margins. We expect chemical prices to rebound from current low levels due to continued high crude oil prices.

**Revised earnings**

We have raised FY2011E, FY2012E and FY2013E EPS estimates to ₹27.2, ₹40.2 and ₹45.4, respectively, from ₹26.2, ₹38.8 and ₹43.9 to reflect (1) lower share of GAIL in the subsidy-sharing arrangement (+ve impact), (2) lower transmission volumes (-ve impact) and (3) weaker rupee (+ve impact).

**QUICK NUMBERS**

- **6.7% of subsidy burden on upstream borne by GAIL in 1QFY11**
- **23% upside to our fair value from current levels**
- **Fine-tuned FY2011-13E EPS estimates to ₹27 (+4%), ₹40 (+3.6%) and ₹45 (+3.3%)**

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

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

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

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

## 1QFY11 results highlights

Exhibit 1 gives details of GAIL's 1QFY11 results and compares the same with 4QFY10 and 1QFY10 results. We discuss key highlights below.

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

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg.)			2011E
					1QFY11E	1QFY10	4QFY10	
Sales	71,158	101,271	60,413	65,690	(29.7)	17.8	8.3	375,403
Total expenditure	56,612	90,229	49,559	52,054	(37.3)	14.2	8.8	322,649
(Inc)/dec in stock	(715)		384	(640)				—
Purchase	45,842	77,670	37,843	39,209	(41.0)	21.1	16.9	271,996
Raw material	5,341	6,458	5,164	5,397	(17.3)	3.4	(1.0)	26,228
Staff cost	1,635	1,325	1,320	1,085	23.4	23.8	50.7	6,112
Other expenditure	4,509	4,776	4,848	7,003	(5.6)	(7.0)	(35.6)	18,313
<b>EBITDA</b>	<b>14,546</b>	<b>11,042</b>	<b>10,854</b>	<b>13,637</b>	<b>31.7</b>	<b>34.0</b>	<b>6.7</b>	<b>52,753</b>
Other income	478	1,074	599	1,017	(55.5)	(20.3)	(53.0)	4,488
Interest	205	225	179	200	(8.7)	14.6	2.6	1,039
Depreciation	1,600	1,425	1,404	1,389	12.3	13.9	15.2	6,610
<b>Pretax profits</b>	<b>13,218</b>	<b>10,465</b>	<b>9,870</b>	<b>13,065</b>	<b>26.3</b>	<b>33.9</b>	<b>1.2</b>	<b>49,592</b>
Tax	4,110	2,772	3,398	3,547	48.2	20.9	15.9	14,126
Deferred	240	225	(87)	410				901
Prior period adjustment	—	—	—	—				—
<b>Net income</b>	<b>8,869</b>	<b>7,468</b>	<b>6,558</b>	<b>9,108</b>	<b>18.8</b>	<b>35.2</b>	<b>(2.6)</b>	<b>34,564</b>
Tax rate (%)	32.9	28.6	33.6	30.3				30.3
<b>Volume data</b>								
Gas sales (mcm/d)	85		80	84		6.2	1.5	
Gas transmission (mcm/d)	116	115	97	115		20.2	1.2	118
LPG transported ('000 tons)	788	775	741	871		6.3	(9.5)	3,100
LPG production ('000 tons)	276		260	270		6.2	2.2	
LPG sales ('000 tons)	274	275	258	269		6.2	1.9	1,100
Other liquids production ('000 tons)	85		74	87		14.9	(2.3)	
Other liquids sales ('000 tons)	82	86	76	87		7.9	(5.7)	345
Polymers ('000 tons)-production	99		94	112		5.3	(11.6)	
Polymers ('000 tons)-sales	88	123	92	109		(4.3)	(19.3)	440
Subsidy payment	(4,455)	(5,922)	(747)	(3,384)		496.4	31.6	(12,282)
<b>Segment revenue (Sales/Income)</b>								
Transmission services								
(1) Natural gas	8,969		7,332	7,395		22.3	21.3	
(2) LPG	1,136		1,057	1,225		7.4	(7.3)	
Natural gas trading	54,517		46,417	46,646		17.4	16.9	
Petrochemicals	6,376		6,226	8,223		2.4	(22.5)	
LPG and liquid hydrocarbons	7,815		6,839	9,198		14.3	(15.0)	
Telecom	21		38	24		(44.2)	(11.0)	
Unallocated	130		100	154		29.7	(15.5)	
<b>Total</b>	<b>78,963</b>		<b>68,009</b>	<b>72,865</b>		<b>16.1</b>	<b>8.4</b>	
Less: Inter-segment revenue	8,003		7,795	7,644		2.7	4.7	
<b>Sales/Income from operations</b>	<b>70,960</b>		<b>60,214</b>	<b>65,221</b>		<b>17.8</b>	<b>8.8</b>	
<b>Segment results (Profit before tax and interest)</b>								
Transmission services								
(1) Natural gas	6,406		5,222	5,061		22.7	26.6	
(2) LPG	734		682	872		7.5	(15.8)	
Natural gas trading	1,579		1,063	385		48.6	309.9	
Petrochemicals	2,846		2,643	4,468		7.7	(36.3)	
LPG and liquid hydrocarbons	2,333		1,500	4,067		55.6	(42.6)	
Telecom	(20)		(11)	(18)		86.1	9.8	
<b>Total</b>	<b>13,876</b>		<b>11,099</b>	<b>14,835</b>		<b>25.0</b>	<b>(6.5)</b>	
Less: Interest	205		179	200		14.6	2.6	
Less: Other unallocable exp (net)	453		1,050	1,570		(56.9)	(71.2)	
<b>Total PBT</b>	<b>13,218</b>		<b>9,870</b>	<b>13,065</b>		<b>33.9</b>	<b>1.2</b>	
<b>Capital employed</b>								
Transmission services								
(1) Natural gas	91,173		61,583	96,793				
(2) LPG	8,399		8,934	8,651				
Petrochemicals	17,008		18,738	17,786				
LPG and liquid hydrocarbons	10,209		10,886	10,865				
Telecom	182		259	190				
<b>Total</b>	<b>126,971</b>		<b>100,400</b>	<b>134,284</b>				

Source: Company, Kotak Institutional Equities estimates

**Financial highlights.** GAIL's 1QFY11 net income increased 35.2% yoy due to (1) higher transmission volumes (+20.2%) and (2) higher LPG realization reflecting a steep increase in global crude prices; higher revenues of the LPG segment at ₹7.8 bn versus ₹6.8 bn in 1QFY10 led to higher EBIT of ₹2.3 bn versus ₹1.5 bn in 1QFY10. GAIL's 1QFY11 EBITDA increased 34% yoy to ₹14.5 bn.

**Operating highlights.** GAIL's gas transportation volumes increased 20% yoy reflecting higher availability of gas from RIL's KG D-6 gas fields. The modest increase of 1.2% qoq reflects limited capacity in GAIL's extant pipelines and delay in the ramp-up of RIL's gas production. LPG sales volume at 274,000 tons was higher compared to 269,000 tons in 4QFY10 and 258,000 tons in 1QFY10. GAIL sold 88,000 tons of polymers in 1QFY11, lower by 4.3% yoy and 19.3% qoq.

**Gas transportation segment details.** GAIL's transportation EBIT increased 26.6% qoq and 22.7% yoy to ₹6.4 bn reflecting higher gas transportation volumes.

**LPG and liquid hydrocarbons production segment details.** The LPG and liquid hydrocarbons segment's EBIT increased to ₹2.33 bn due to a sharp increase in LPG prices; GAIL had an EBIT of ₹4.1 bn in 4QFY10 due to very high crude and LPG prices in 4QFY10.

**Chemical segment details.** The chemical segment's EBIT increased 7.7% yoy to ₹2.8 bn due to a 7.1% increase in PE prices, which resulted in higher profitability for polymers produced from GAIL's natural gas-based units. However, volumes declined 4.3% yoy to 88,000 tons.

**Increase in employee cost.** GAIL reported employee cost at ₹1.64 bn versus ₹1.32 bn in 1QFY10 and ₹1.1 bn in 4QFY10 due to payment of annual incentives in 1QFY11.

**Decline in other income.** GAIL's other income declined by 20.3% yoy and 53% qoq to ₹478 mn due to (1) lower yields and (2) lower average cash balance.

### Earnings estimates and key assumptions

We have revised our FY2011E-13E EPS estimates to ₹27.2, ₹40.2 and ₹45.4 from ₹26.2, ₹38.8 and ₹43.9 due to the following changes. Exhibit 2 gives our key assumptions for GAIL.

## Key assumptions behind GAIL model, March fiscal year-ends, 2006-14E

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
<b>Volumes</b>									
<b>Natural gas transportation, gross (mcm/day)</b>									
HBJ pipeline	32	32	32	32	32	32	32	32	32
Dahej-Vijaypur-GREP upgradation							24	28	32
Dadri-Bawana-Nangal (transmitted and sold)					1	2	11	13	16
Dadri-Bawana-Nangal (transmitted)						1	5	12	15
Chainsa-Jhajjar-Hissar (transmitted and sold)						2	3	8	12
Chainsa-Jhajjar-Hissar (transmitted)						1	5	10	15
Other pipelines (transmitted)						14	15	15	15
Other pipelines	36	39	40	39	49	41	37	40	40
<b>Regassified LNG</b>									
Dahej-Vijaipur pipeline (transmitted and sold)	7	6	9	9	15	13	13	13	13
Dahej-Vijaipur pipeline (transmitted)	4	4	6	6	10	13	13	13	13
Dahej-Uran pipeline (transmitted and sold)			6	9	12	7	7	7	7
Dahej-Uran pipeline (transmitted)						5	5	5	5
Panvel-Dabhol pipeline (transmitted and sold)			4	6	8	5	7	7	7
Panvel-Dabhol pipeline (transmitted)						5	5	5	5
Dabhol-Bangalore pipeline								7	8
Kochi-Bangalore/Mangalore pipeline								7	8
Elimination of double-counted volumes (a)	(1)	(3)	(15)	(18)	(21)	(22)	(42)	(61)	(76)
<b>Total gas transmission</b>	<b>79</b>	<b>77</b>	<b>82</b>	<b>83</b>	<b>107</b>	<b>118</b>	<b>140</b>	<b>161</b>	<b>168</b>
<b>Total gas sales</b>						<b>87</b>	<b>107</b>	<b>128</b>	<b>135</b>
<b>LPG (000 tons)</b>									
Sold	1,039	1,037	1,039	1,092	1,101	1,100	1,100	1,100	1,100
Transported	2,228	2,490	2,754	2,744	3,160	3,100	3,100	3,100	3,100
<b>Petrochemicals (000 tons)</b>									
<b>Polyethylene</b>									
Domestic sales	271	337	381	423	409	440	450	450	450
Exports	40	10	10	—	—	—	—	—	—
<b>Total petrochemicals</b>	<b>311</b>	<b>347</b>	<b>391</b>	<b>423</b>	<b>409</b>	<b>440</b>	<b>450</b>	<b>450</b>	<b>450</b>
<b>Prices</b>									
<b>Natural gas (Rs/cubic meter)</b>									
Natural gas ceiling price	3.52	4.21	4.21	4.59	5.75	7.55	7.71	7.71	7.71
Regassified LNG including transportation	6.47	6.93	6.44	7.05	12.28	12.48	13.01	13.10	13.11
<b>Transmission plus marketing charges</b>									
HBJ pipeline, Dahej-Vijaipur pipeline (from FY2007)	1.15	0.99	0.96	1.05	0.98	1.16	1.16	1.16	1.16
Dahej-Vijaypur-GREP upgradation					1.95	1.95	1.95	1.95	1.95
Dadri-Bawana-Nangal					0.66	0.66	0.66	0.66	0.66
Chainsa-Jhajjar-Hissar					0.45	0.45	0.45	0.45	0.45
Dahej-Vijaipur, Dahej-Uran, Panvel-Dabhol pipeline	0.69	0.99	1.03	1.04	1.26	0.96	0.96	0.96	0.96
Dabhol-Bangalore pipeline								1.97	1.97
Kochi-Bangalore/Mangalore pipeline								1.42	1.42
Other pipelines	0.42	0.40	0.42	0.44	0.44	0.44	0.44	0.44	0.44
<b>LPG</b>									
LPG (US\$/ton)	510	531	702	685	612	673	673	715	715
<b>Transmission charges (Rs/ton)</b>									
Jamnagar-Loni	1,522	1,522	1,522	1,522	1,522	1,522	1,522	1,522	1,522
Vizag-Secunderabad	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450
<b>Other assumptions</b>									
Polyethylene, HDPE (US\$/ton)	1,055	1,315	1,500	1,360	1,340	1,200	1,275	1,325	1,350
Import tariff, Polyethylene	10%	5%	5%	5%	5%	5%	5%	5%	5%
Import tariff, LPG	0%	0%	0%	0%	0%	0%	0%	0%	0%
Exchange rate (Rs/US\$)	44.3	45.3	40.3	45.8	47.4	46.0	46.0	46.0	46.0
Subsidy losses	10,640	14,880	13,137	17,812	13,267	12,282	8,932	10,272	10,540

Note:

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

Source: Company, Kotak Institutional Equities estimates

- **Subsidy amount.** We model subsidy amount for FY2011E, FY2012E and FY2013E at ₹12.3 bn, ₹8.9 bn and ₹10.3 bn. We assume that upstream companies will bear one-third of total under-recoveries and GAIL will bear 6.7% of subsidy burden on upstream companies. This is in line with the subsidy sharing of upstream companies in 1QFY11 and the petroleum secretary's recent statement to the same effect.



- ▶ **Gas transportation volumes.** We estimate GAIL's gas transportation volumes for FY2011E at 118 mcm/d versus 107 mcm/d in FY2010. The yoy increase in volumes reflects (1) ramp-up in RIL's KG D-6 volumes and (2) higher LNG imports. We model transmission volumes for FY2012E and FY2013E at 140 mcm/d and 158 mcm/d.
- ▶ **Crude oil and LPG price assumptions.** We maintain our crude oil price assumptions for FY2011E, FY2012E and FY2013E at US\$75/bbl, US\$75/bbl and US\$80/bbl.
- ▶ **Petrochemical margins.** We have reduced our petrochemical price assumptions for FY2010-12E to reflect the recent weakness in chemical prices.
- ▶ **Rupee-dollar exchange rate.** We now model exchange rate for FY2011E, FY2012E and FY2013E at ₹46/US\$, ₹46/US\$ and ₹46/US\$ versus ₹45/US\$, ₹45.3/US\$ and ₹45.3/US\$ earlier.

#### We value GAIL stock at ₹550 per share

Sum-of-the-parts valuation of GAIL, FY2012E basis (₹ bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		EV (Rs/share)
	Other	EBITDA	Other	EV/EBITDA	Other	EBITDA basis	
<b>Natural gas transportation</b>							
HVJ pipeline	50				50		39
DV pipeline	47				47		37
DUPD pipeline	35				35		27
DBN pipeline	25				25		20
CGJH pipeline	16				16		12
DV GREP pipeline	162				162		128
DB pipeline	18				18		14
KBM pipeline	13				13		10
Short distance pipelines		5.0		7.0		35	28
<b>Total natural gas transportation</b>							<b>315</b>
<b>Other businesses</b>							
LPG transportation		2.6		7.0		19	15
LPG production		20.0		7.5		150	118
Petrochemicals		6.2		6.5		40	32
Oil and gas upstream	20		1.0		20		16
<b>Total other business segments</b>							<b>180</b>
<b>Investments</b>							
ONGC shares	77		0.9		69		55
Others	31		0.9		28		22
<b>Investments</b>	<b>108</b>		<b>0.9</b>		<b>97</b>		<b>76</b>
<b>Total</b>						<b>244</b>	<b>572</b>
Net debt/(cash)					32	32	26
<b>Implied value of share (Rs/share)</b>							<b>546</b>

Source: Kotak Institutional Equities estimates



GAIL (India) Ltd: Profit model, balance sheet, cash model of GAIL, March fiscal year-ends, 2006-14E (₹ mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
<b>Profit model (Rs mn)</b>									
Net sales	163,513	160,472	180,082	237,760	250,404	375,403	506,327	623,257	671,422
<b>EBITDA</b>	<b>35,981</b>	<b>30,649</b>	<b>39,275</b>	<b>40,647</b>	<b>47,761</b>	<b>52,753</b>	<b>76,729</b>	<b>92,263</b>	<b>98,099</b>
Other income	4,555	5,450	5,564	7,966	4,343	4,488	4,300	4,485	4,768
Interest	(1,174)	(1,071)	(796)	(870)	(700)	(1,039)	(3,525)	(6,068)	(7,750)
Depreciation	(5,595)	(5,754)	(5,710)	(5,599)	(5,618)	(6,610)	(9,679)	(12,952)	(14,892)
<b>Pretax profits</b>	<b>33,767</b>	<b>29,274</b>	<b>38,333</b>	<b>42,144</b>	<b>45,785</b>	<b>49,592</b>	<b>67,825</b>	<b>77,727</b>	<b>80,225</b>
Tax	(9,221)	(7,941)	(12,525)	(13,941)	(13,750)	(14,126)	(12,411)	(12,857)	(14,228)
Deferred taxation	(445)	(190)	(10)	(62)	(636)	(901)	(4,470)	(7,332)	(6,341)
<b>Net profits</b>	<b>23,350</b>	<b>24,619</b>	<b>26,015</b>	<b>28,037</b>	<b>31,399</b>	<b>34,564</b>	<b>50,943</b>	<b>57,538</b>	<b>59,656</b>
<b>Earnings per share (Rs)</b>	<b>18.4</b>	<b>19.4</b>	<b>20.5</b>	<b>22.1</b>	<b>24.8</b>	<b>27.2</b>	<b>40.2</b>	<b>45.4</b>	<b>47.0</b>
<b>Balance sheet (Rs mn)</b>									
Total equity	99,733	113,929	130,049	147,696	167,992	189,983	222,436	258,526	295,256
Deferred taxation liability	12,997	13,187	13,197	13,259	13,896	14,797	19,267	26,599	32,940
Total borrowings	19,166	13,379	12,659	12,001	14,804	53,253	131,053	133,853	81,653
Current liabilities	37,522	45,512	60,604	81,548	103,769	110,077	87,680	100,376	105,616
<b>Total liabilities and equity</b>	<b>169,418</b>	<b>186,007</b>	<b>216,509</b>	<b>254,505</b>	<b>300,461</b>	<b>368,109</b>	<b>460,436</b>	<b>519,354</b>	<b>515,465</b>
Cash	44,959	26,604	44,730	34,562	41,785	24,689	16,199	16,461	21,554
Other current assets	28,309	50,851	59,370	87,804	95,329	119,098	141,734	157,560	159,776
Total fixed assets	81,716	93,913	97,500	114,767	142,617	203,592	281,773	324,603	313,405
Investments	14,434	14,638	14,909	17,373	20,730	20,730	20,730	20,730	20,730
<b>Total assets</b>	<b>169,418</b>	<b>186,007</b>	<b>216,509</b>	<b>254,505</b>	<b>300,461</b>	<b>368,110</b>	<b>460,437</b>	<b>519,354</b>	<b>515,465</b>
<b>Free cash flow (Rs mn)</b>									
Operating cash flow, excl. working capital	25,165	23,920	33,692	30,456	33,152	35,813	56,222	67,616	74,237
Working capital changes	5,950	(10,151)	(388)	(5,573)	14,697	(17,462)	(45,032)	(3,131)	3,025
Capital expenditure	(5,811)	(20,449)	(12,419)	(25,535)	(33,310)	(65,810)	(83,290)	(50,060)	(1,810)
Investments	(6,462)	(205)	(270)	(2,464)	(3,358)	—	—	—	—
Other income	3,995	3,884	4,042	5,243	4,343	4,488	4,300	4,485	4,768
<b>Free cash flow</b>	<b>22,837</b>	<b>(3,002)</b>	<b>24,658</b>	<b>2,127</b>	<b>15,524</b>	<b>(42,971)</b>	<b>(67,801)</b>	<b>18,910</b>	<b>80,220</b>
<b>Ratios (%)</b>									
Debt/equity	17.0	10.5	8.8	7.5	8.1	26.0	54.2	46.9	24.9
Net debt/equity	(22.9)	(10.4)	(22.4)	(14.0)	(14.8)	13.9	47.5	41.2	18.3
ROAE (%)	22.1	20.5	19.2	18.4	18.3	17.9	22.8	21.8	19.5
<b>ROACE (%)</b>	<b>19.9</b>	<b>16.1</b>	<b>17.8</b>	<b>17.5</b>	<b>17.2</b>	<b>15.5</b>	<b>17.0</b>	<b>15.7</b>	<b>15.8</b>

Source: Company, Kotak Institutional Equities estimates

**Maggi faces product substitution risk.** 2QCY10: Good volume growth (~17%), gross margins and tax rate continue to disappoint. Inability of Nestle in recovering gross margins likely indicates mix deterioration. Higher tax rates could be due to lower throughput at Pantnagar (Maggi). Challenging competitive environment for Nestle in culinary—both Knorr (HUL) and Foodles (GSK) are targeting product substitution from Maggi, in our view. Maggi provided ~28% of incremental sales growth in CY2003-09.

### Company data and valuation summary

Nestle India (a)

#### Stock data

52-week range (Rs) (high,low)	3,300-2,082
Market Cap. (Rs bn)	291.4

#### Shareholding pattern (%)

Promoters	61.8
FIs	10.4
MFs	3.1

#### Price performance (%)

	1M	3M	12M
Absolute	1.1	9.4	37.1
Rel. to BSE-30	(2.4)	6.2	18.8

#### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	74.4	83.9	100.9
EPS growth (%)	27.0	12.8	20.1
P/E (X)	40.6	36.0	30.0
Sales (Rs bn)	51.3	60.9	72.4
Net profits (Rs bn)	7.2	8.1	9.7
EBITDA (Rs bn)	10.8	12.0	14.0
EV/EBITDA (X)	26.8	24.1	20.8
ROE (%)	136.0	126.1	125.1
Div. Yield (%)	1.6	2.0	2.4

### Knorr (HUL) not to be ignored...

Higher competition in processed foods (Maggi) has the potential to expand the category. However, our interactions with an industry expert indicate that Knorr Soupy noodles (of HUL) are gaining some shares from Maggi. Industry sources indicate that the product is so successful in South India that HUL had to postpone the national launch due to capacity constraints. While we do not expect this product to be of material impact to HUL's fortunes (likely sales of Rs1 bn in two years, ~0.5% of sales), it could potentially impact Maggi's incremental growth (noodles is estimated to be a Rs13 bn category with Maggi holding ~80-90% share). We concede that it is early days in the product cycle (of Knorr) to view this as a potential risk; however, Maggi faces the risk of product substitution (it is unlikely that consumers (kids) have Knorr at 5pm and Maggi at 7pm; it is mostly either/or).

### ...whereas GSK is clearly targeting the existing Maggi consumer

#### ► Foodles says it has done away the 'NO' in noodles

GSK Consumer entered the instant noodles market in December 2009 under the brand Foodles. The multi grain variety is priced at Rs15 and the flour variety is priced at Rs10 (in line with Nestle brand variants). The brand is currently being test marketed in South India and industry sources indicate that the product has been favorably received.

Foodles already has ~5% value share in South India by having presence in only the Rs10 and Rs15 packs (which account for only 40% of the market). Recently, it has extended the product to the larger packs as well. We note that GSK derives ~55% of sales from South India and hence it has meaningful distribution/reach in that region.

#### ► Both Knorr and Foodles are targeting product substitution from Maggi, in our view

The consumer communication of Knorr clearly talks about a product for kids (Maggi's core target audience) as an evening snack consumption (again Maggi's domain).

## REDUCE

AUGUST 02, 2010

### RESULT

Coverage view: **Attractive**

Price (Rs): **3,023**

Target price (Rs): **3,000**

BSE-30: **18,081**

### QUICK NUMBERS

- Both Knorr (HUL) and Foodles (GSK) are targeting product substitution from Maggi, in our view
- Foodles says it has done away the 'No' in noodles
- Higher tax rates could be due to lower throughput at Pantnagar (Maggi)

Manoj Menon  
manoj.menon@kotak.com  
Mumbai: +91-22-6634-1391

Amrita Basu  
amrita.basu@kotak.com  
Mumbai: +91-22-6634-1147

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

**Good volume growth (~17%), gross margins and tax rate continue to disappoint**

In 2QCY10, Nestle reported net sales of Rs14.7 bn (+21%, KIE Rs14.7 bn), EBITDA of Rs2.9 bn (+12%, KIE Rs3.1 bn) and PAT of Rs2 bn (+13%, KIE Rs2.2 bn). Domestic sales growth rate of 20% yoy was largely driven by volumes.

Continued pressure on gross margins surprises us negatively—it declined 140 bps whereas operating leverage in staff costs were negated due to higher adspends and fuel costs. We are puzzled at the inability of Nestle in recovering gross margins—it arguably has the best product portfolio in India consumer staples, which is amenable to price increases. Nestle could recover gross margins in 2HCY10 considering that it has effected ~5% price increase in 1HCY10 and the peak input cost inflation is likely behind us.

We note that during the last two quarters Nestlé's margins were impacted due to (1) timing mismatch in cost inflation and price increases, (2) likely faster growth in coinage packs and (3) inability to implement price increases in price-pointed packs. In 1QFY11, EBITDA margins declined 160 bps to 20.0% (KIE estimate of 50 bps decline).

Flat income tax rates yoy impacted PAT growth for the quarter. In the absence of any management comment, we are unable to ascertain whether the tax rate includes any one-off items. Nestle predominantly sources culinary products from its factory in Pantnagar (where fiscal benefits are available)—likely lower throughput in Maggi is a potential reason for higher income tax rate, in our view.

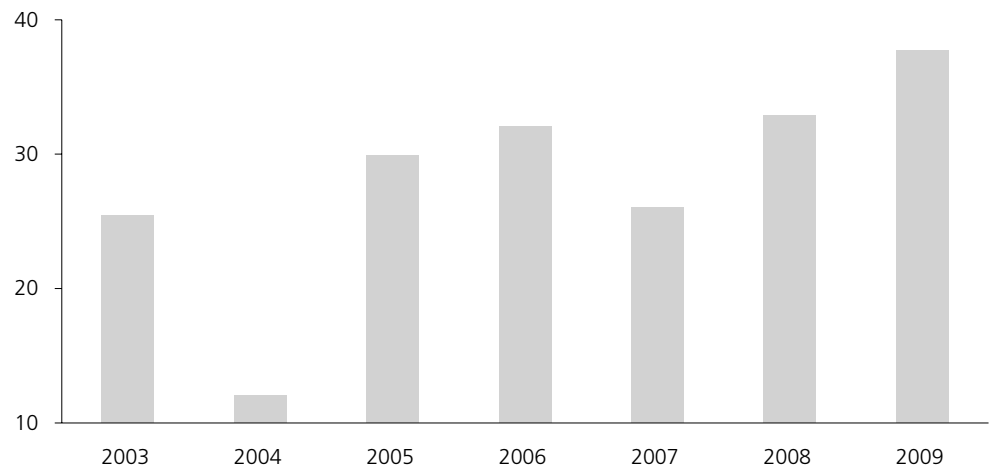
## Interim results of Nestle, December fiscal year-ends (Rs mn)

	2QCY10	2QCY10E	2QCY09	1QCY10	(% chg)		
					2QCY10E	2QCY09	1QCY10
<b>Net sales</b>	<b>14,667</b>	<b>14,725</b>	<b>12,095</b>	<b>14,798</b>	<b>(0)</b>	<b>21</b>	<b>(1)</b>
Total expenditure	(11,728)	(11,620)	(9,478)	(11,758)	1	24	(0)
Material cost	(7,191)	(7,049)	(5,763)	(7,376)	2	25	(3)
Staff cost	(1,116)	(1,087)	(1,100)	(998)	3	2	12
Other expenditure (including adspends)	(3,420)	(3,483)	(2,615)	(3,384)	(2)	31	1
<b>EBITDA</b>	<b>2,940</b>	<b>3,105</b>	<b>2,618</b>	<b>3,040</b>	<b>(5)</b>	<b>12</b>	<b>(3)</b>
<b>OPM (%)</b>	<b>20.0</b>	<b>21.1</b>	<b>21.6</b>	<b>20.5</b>			
Other income	101	92	88	91	10	15	11
Interest	(4)	(0)	(6)	(6)		(35)	(33)
Depreciation	(304)	(316)	(264)	(310)	(4)	15	(2)
<b>Pretax profits</b>	<b>2,733</b>	<b>2,881</b>	<b>2,436</b>	<b>2,816</b>	<b>(5)</b>	<b>12</b>	<b>(3)</b>
Tax	(718)	(704)	(654)	(845)	2	10	(15)
<b>PAT</b>	<b>2,015</b>	<b>2,177</b>	<b>1,782</b>	<b>1,971</b>	<b>(7)</b>	<b>13</b>	<b>2</b>
Extraordinaries	(67)	-	(161)	48		(59)	(239)
<b>Reported PAT</b>	<b>1,948</b>	<b>2,177</b>	<b>1,620</b>	<b>2,019</b>	<b>(11)</b>	<b>20</b>	<b>(3)</b>
Income tax rate (%)	26.3	24.4	26.9	30.0			
<b>Growth (%)</b>							
Overall	21.3	21.7	16.8	16.9			
Domestic	20.2		19.7	16.7			
Exports	36.2		(13.5)	20.4			
<b>Costs as a % of net sales</b>							
Material cost	49.0	47.9	47.6	49.8			
Staff cost	7.6	7.4	9.1	6.7			
Other expenditure (including adspends)	23.3	23.7	21.6	22.9			

Source: Company, Kotak Institutional Equities estimates

**Processed foods (Maggi) was a major contributor to Nestlé's growth**

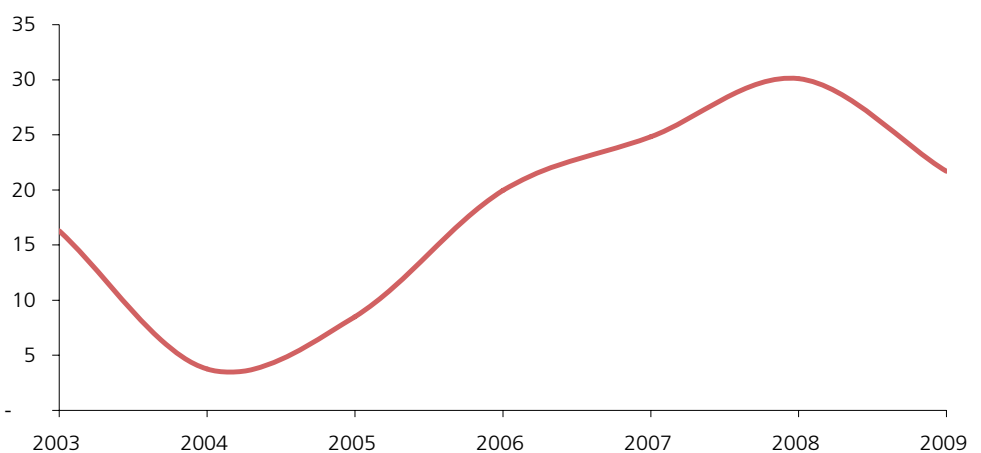
Processed foods' contribution to Nestlé's incremental sales growth, December fiscal year-ends (%)



Source: Company estimates, Kotak Institutional Equities

**Maggi growth is likely coming off the peak**

Volume growth in Nestlé's Prepared Dishes and Cooking Aids segment, December calendar year-ends 2003-2009 (%)



Source: Company, Kotak Institutional Equities

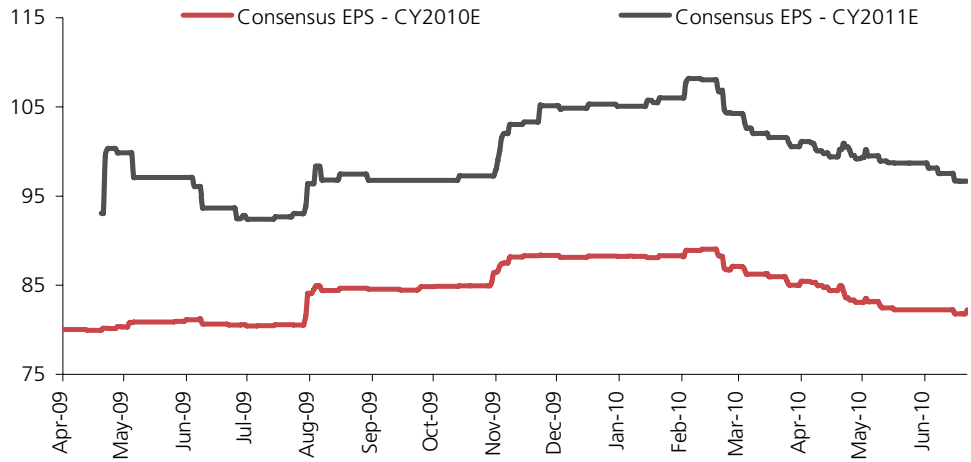
**Maintain REDUCE, CY2009-11E EPS cut 4%**

We like the structural growth opportunity for most of Nestlé's categories, but look for better entry points into the stock. Our EPS estimates are cut by 4% as we model the higher-than-expected gross margin contraction in 1HCY10—our new estimates are Rs84 and Rs101 for CY2010E and CY2011E, respectively.

Our REDUCE rating is underpinned by (1) limited opportunity of earnings upgrades, in our view, (2) significant divergence in consensus estimate and stock performance—Nestle stock has delivered an absolute return of 20% in YTD CY2010 whereas consensus EPS estimate for FY2012E was cut 10% during this period (to Rs96) and (3) valuations at the top-end of the range (at 30X FY2012E, stock trades at a three-year high multiple, relative PE closer to a ten-year high).

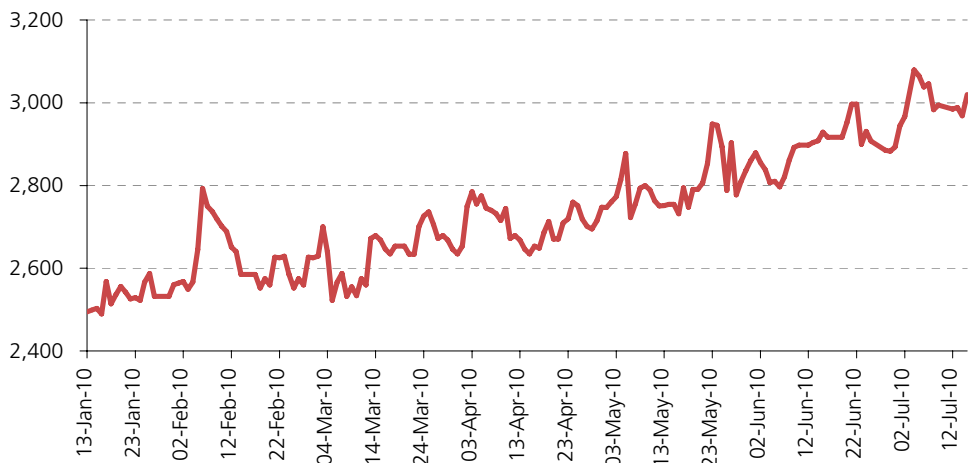
Key risks are (1) higher-than-expected sales growth due to distribution gains and (2) significant correction in input costs aiding margin expansion.

**CY2011E consensus EPS estimate cut 10% over last six months...**  
 Consensus EPS estimate for CY2010E and CY2011E (Rs)



Source: Bloomberg, Kotak Institutional Equities

**... whereas stock delivered 20% absolute returns**  
 Nestle stock price (Rs)



Source: Bloomberg, Kotak Institutional Equities

Relative P/E closer to a ten-year high  
Relative P/E of Nestle versus Sensex (X)



Source: Bloomberg, Kotak Institutional Equities

Nestle: Profit model, balance sheet, 2007-2011E, December fiscal year-ends (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>						
Net sales	35,043	43,242	51,294	60,851	72,390	86,292
<b>EBITDA</b>	<b>6,962</b>	<b>8,638</b>	<b>10,542</b>	<b>11,881</b>	<b>13,819</b>	<b>16,889</b>
Other income	246	322	364	395	475	578
Depreciation	(747)	(924)	(1,113)	(1,332)	(1,624)	(1,890)
Pretax profits	6,461	8,036	9,793	10,944	12,670	15,576
Tax	(2,148)	(2,387)	(2,620)	(2,850)	(2,946)	(3,712)
<b>Net profits</b>	<b>4,313</b>	<b>5,649</b>	<b>7,173</b>	<b>8,094</b>	<b>9,724</b>	<b>11,865</b>
<b>Earnings per share (Rs)</b>	<b>44.7</b>	<b>58.6</b>	<b>74.4</b>	<b>83.9</b>	<b>100.9</b>	<b>123.1</b>
<b>Dividend per share (Rs)</b>	<b>33.0</b>	<b>42.5</b>	<b>48.5</b>	<b>61.0</b>	<b>73.0</b>	<b>89.1</b>
<b>Balance sheet (Rs mn)</b>						
Total equity	4,184	4,733	5,813	7,026	8,515	10,333
Total borrowings	29	8	6	6	6	6
Current liabilities and provisions	9,865	12,208	14,538	16,350	18,863	22,334
<b>Total liabilities and equity</b>	<b>14,078</b>	<b>16,950</b>	<b>20,356</b>	<b>23,382</b>	<b>27,384</b>	<b>32,673</b>
Cash	1,322	2,286	3,588	3,742	3,604	5,459
Current assets	6,001	6,043	7,010	7,562	8,984	11,373
Total fixed assets	6,755	8,622	9,758	12,077	14,796	15,840
<b>Total assets</b>	<b>14,078</b>	<b>16,950</b>	<b>20,356</b>	<b>23,382</b>	<b>27,384</b>	<b>32,673</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow, excl. working c	4,363	5,568	7,065	8,427	10,152	12,295
Working capital	361	1,149	1,355	897	742	614
Capital expenditure	(1,702)	(2,790)	(2,249)	(3,651)	(4,343)	(2,934)
<b>Free cash flow</b>	<b>3,022</b>	<b>3,927</b>	<b>6,170</b>	<b>5,672</b>	<b>6,551</b>	<b>9,976</b>
<b>Key assumptions</b>						
Revenue Growth (%)	24.4	23.4	18.6	18.6	19.0	19.2
EBITDA Margin(%)	19.9	20.0	20.6	19.5	19.1	19.6
EPS Growth (%)	31.9	31.0	27.0	12.8	20.1	22.0

Source: Company, Kotak Institutional Equities estimates

**Pricing uncertainty emerges in Europe; downgrade to REDUCE.** 1QFY11 PAT beat our est. due to higher fertilizer trading sales and lower tax rate. We maintain est. and expect reported EPS at Rs33/37.5 in FY2011-12E, higher than consensus as we include impact of new businesses in FY2012E. Downgrade to REDUCE as (1) the stock is fully valued with limited upside, (2) downside risk to FY2011-12E earnings due to (1) pricing risk in BMGL UK, which is competing with cheaper (natural soda ash) imports. This risk may intensify once Eti Soda doubles capacity to 2 mtpa by Dec 2010E and (2) shortfall in urea production due to a more-than-15-day planned shutdown in 2QFY11E.

### Company data and valuation summary

Tata Chemicals

#### Stock data

52-week range (Rs) (high,low) 367-240

Market Cap. (Rs bn) 85.8

#### Shareholding pattern (%)

Promoters 28.1

FIs 12.6

MFs 8.8

#### Price performance (%)

Absolute 1M 3M 12M

9.4 (0.3) 38.8

Rel. to BSE-30 5.6 (3.2) 20.3

#### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	26.4	33.2	37.5
EPS growth (%)	(27.1)	25.8	12.7
P/E (X)	13.3	10.6	9.4
Sales (Rs bn)	95.4	104.3	111.5
Net profits (Rs bn)	6.4	8.1	9.1
EBITDA (Rs bn)	18.1	20.8	22.9
EV/EBITDA (X)	7.0	6.0	5.1
ROE (%)	16.0	18.7	18.3
Div. Yield (%)	2.5	2.6	2.6

### 1QFY11 sales at Rs25 bn, 5% above our estimate due to higher fertilizer trading sales

Overall sales at Rs25 bn was 5% above estimates due to higher fertilizer sales on account of higher trading sales. Fertilizer sales were up 8% yoy, despite lower urea/phosphatics sales volumes. However, chemical business sales were lower than our estimate due to 24% yoy decline in BMGL sales. BMGL sales were 20% lower than our estimate due to lower pricing with sales volume in UK at 0.24 mtpa, in line with expectations. While volumes picked up qoq at BMGL UK plant and volumes of 1 mtpa (20% of TTCH soda ash capacity) remain sold out for 2010E, pricing pressure is expected to continue due to cheaper (natural soda ash) imports from Eti Soda in Turkey.

### PAT at Rs2.1 bn, 25% higher than estimate due to lower tax rate

Operating margin adjusted for the one-time positive impact on account of phosphatics at 19.7% was in line with our estimate of 20%. While sales and EBITDA were 5-7% higher than our estimate, PBT was 9% higher on account of lower other income. PAT was 25% higher than our estimate due to lower tax rate at 21% versus our estimate of 30%.

### We expect reported EPS of Rs33 in FY2011E increasing to Rs37.5 in FY2012E—no change in est.

Our FY2011-12E estimates are 8-10% higher than consensus estimates (Bloomberg) as we include the impact of new businesses of (1) specialty fertilizers, (2) expanded salt capacity and (3) Swach in our FY2012E estimates.

### Maintain PT of Rs360; downgrade to REDUCE

Downgrade to REDUCE due to (1) limited upside at current levels and (2) downside risk to FY2011-12E earnings due to (1) pricing risk in BMGL UK, which is competing with cheaper (natural soda ash) imports. This risk may intensify impacting FY2012E earnings once Eti Soda ramps up capacity to 2 mtpa by Dec 2010E from 1 mtpa currently and (2) shortfall in urea production on account of a more-than-15-day planned shutdown in 2QFY11E. As urea is the main contributor to EBITDA in fertilizer segment, any shortfall in urea production may pose a greater risk to earnings.

## REDUCE

AUGUST 02, 2010

RESULT, CHANGE IN RECO.

Coverage view:

Price (Rs): 353

Target price (Rs): 360

BSE-30: 18,081

### QUICK NUMBERS

- PAT at Rs2.1 bn, 25% higher than estimate due to lower tax rate
- We expect reported EPS of Rs33 in FY2011E increasing to Rs37.5 in FY2012E
- Downgrade to REDUCE; Pricing uncertainty emerges in Europe

Priti Arora  
priti.arora@kotak.com  
Mumbai: +91-22-6634-1551

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



### Maintain PT of Rs360; downgrade to REDUCE

TTCH is trading at 9X FY2012E on our reported earnings estimate, in line with 5-year average of one-year forward PE. We maintain our price target at Rs360 and downgrade to REDUCE due to (1) limited upside and (2) downside risk to earnings. Our PT implies P/E of 9X FY2012E earnings.

Our FY2011-12E estimates are 8-10% higher than consensus estimates (Bloomberg) as we include the impact of new businesses of (1) specialty fertilizers, (2) expanded salt capacity and (3) "Swachh" in our FY2012E estimates.

We maintain our estimates and expect reported EPS of Rs33 in FY2011E increasing to Rs37.5 in FY2012E. We see two downside risks to our estimates in FY2011-12E on account of

- ▶ While soda ash pricing risk in India and US has abated with imposition of safeguard duty and normalization in exports from GCIP to Latin America, we think pricing risk in BMGL UK, which accounts for 20% of TTCH's total soda ash volumes, does pose a risk to earnings.
- ▶ Although sales volumes at BMGL UK are sold out for 2010E, prices remain volatile due to cheaper natural soda ash imports from Turkey while BMGL UK produces synthetic soda ash. TTCH may achieve full capacity utilization at BMGL UK in order to protect market share and relationships with long-term customers although at lower prices, as seen in the last two quarters where realizations at BMGL UK have dipped yoy. This trend may aggravate at end 2010E as Eti Soda is expected to ramp up production to 2 mtpa from 1 mtpa currently.
- ▶ We factor in urea sales volume of 1.2 mtpa in FY2011E, same as that reported in FY2010. Although TTCH expects to achieve this volume in FY2011E, any shortfall in urea production in 2QFY11E on account of a more-than-15-day planned shutdown of Babrala plant for bringing second ammonia converter back into action may lead to shortfall in urea production in FY2011E. As urea volumes above the cut-off quantity of 0.957 mtpa get sold at higher international prices, any shortfall will lead to decline in earnings.

### 1QFY11 sales at Rs25 bn, 5% above estimates due to higher fertilizer trading sales

Overall sales at Rs25 bn was 5% above estimates due to higher fertilizer sales on account of higher trading sales. However, chemical business sales were lower than our estimate due to yoy dip in BMGL sales.

- ▶ Fertilizer segment sales at Rs11 bn in 1QFY11 was 25% higher than our estimate, boosted by higher trading volumes. Sales were up 8% yoy despite lower sales volumes yoy on urea/phosphatics. While sales volume of phosphatics picked up qoq post the shutdown for around 2 months in 4QFY10 to 136,000 tonnes, it was lower than our estimate of 160,000 tonnes. Babrala plant reported flat sales volume yoy in 1QFY11 at 266,000 tonnes, in line with our estimate. Due to the converter failure at the Babrala plant in 4QFY10, the plant is currently running at around 80% capacity utilization and TTCH expects production at full capacity post 2QFY11E. TTCH expects a plant shutdown for 15 days in 2QFY11E, post which it expects to ramp up production at full capacity and expects to clock urea sales volume of 1.2 mtpa, same as that reported in FY2010.

- ▶ BMGL sales for the quarter at Rs3.7 bn was 20% lower than estimate due to lower pricing yoy with sales volume at 0.24 mtpa, in line with expectations. While volumes picked up qoq post the shut down for 20 days during 4QFY10 due to extreme cold weather and BMGL UK plant volumes of 1 mtpa remain sold out for the year, pricing pressure is extant due to cheaper (natural soda ash) imports from Eti Soda in Turkey.
- ▶ GCIP USA sales were in line with our estimates with sales at Rs4.8 bn in 1QFY11 with sales volume at 0.6 mtpa, in line with our estimate. TTCH maintains that GCIP volumes are fully sold out for 2011E and expects the plant to run at full capacity.
- ▶ Soda ash India sales volume was largely in line with estimate of 0.17 mtpa aided by (1) revival in demand from key user segments of detergents and glass with domestic demand for soda ash growing at 5% yoy and (2) improved pricing on account of extension of 16% safeguard duty till April 2011E. Entry of cheap soda ash material from China was a continuing threat and re-imposition of duty removes the pricing risk.

**Operating margin adjusting for the one-time impact on phosphatics at 20%; in line with our estimate**

Operating margin adjusted for the one-time positive impact on account of phosphatics at 19.7% was in line with our estimate of 20%.

- ▶ PBIT margin in fertilizers business was up qoq. Operating margin in fertilizers adjusted for one-time impact of Rs200 mn improved in 1QFY11 to 15% from 12% in 4QFY10 due to improved profitability in phosphatics due to normalization of DAP output prices and lower levels of input costs. Since TTCH was carrying lower-cost inventory in 4QFY10 which got utilized in 1QFY11 on account of plant shutdown at Haldia in 4QFY10, it had a beneficial impact of Rs200 mn.
- ▶ PBIT margins in the chemicals business were 19%, up 400 bps qoq, in line with estimate. However, the management expects margin pressure on chemicals side due to (1) pricing pressure in BMGL UK and (2) increased energy costs.

**PAT at Rs2.1 bn, 25% higher than estimate due to lower tax rate**

While sales and EBITDA were 5-7% higher than our estimate, PBT was 9% higher on account of lower other income. PAT was 25% higher than our estimate due to lower tax rate at 21% versus our estimate of 30%. Depreciation and interest cost at Rs1 bn and Rs889 mn were largely in line with our estimates.

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

	1QFY11	1QFY11E	1QFY10	4QFY10	% change		
					1QFY11E	1QFY10	4QFY10
<b>Net sales</b>	<b>25,207</b>	<b>23,956</b>	<b>22,845</b>	<b>23,677</b>	<b>5</b>	<b>10</b>	<b>6</b>
Op. costs	20,030	19,136	18,158	19,584	5	10	2
<b>EBITDA</b>	<b>5,177</b>	<b>4,820</b>	<b>4,687</b>	<b>4,093</b>	<b>7</b>	<b>10</b>	<b>26</b>
Interest(net)	889	875	1,076	931	2	(17)	(5)
Depreciation	1,091	1,150	1,037	1,252	(5)	5	(13)
Other income	21	158	(309)	105	(87)	NM	(80)
<b>PBT</b>	<b>3,218</b>	<b>2,953</b>	<b>2,265</b>	<b>2,015</b>	<b>9</b>	<b>42</b>	<b>60</b>
Tax	673	886	728	(11)	(24)	(8)	NM
<b>PAT</b>	<b>2,545</b>	<b>2,067</b>	<b>1,537</b>	<b>2,026</b>	<b>23</b>	<b>66</b>	<b>26</b>
Minority interest	385	350	238	366	10	62	5
<b>PAT</b>	<b>2,160</b>	<b>1,717</b>	<b>1,299</b>	<b>1,659</b>	<b>26</b>	<b>66</b>	<b>30</b>
Exceptionals	—	—	(874)	(378)	NM	NM	NM
<b>Reported PAT</b>	<b>2,160</b>	<b>1,717</b>	<b>425</b>	<b>1,282</b>	<b>26</b>	<b>408</b>	<b>68</b>
<b>Fertilizer business</b>	<b>12,204</b>	<b>9,781</b>	<b>10,123</b>	<b>10,063</b>	<b>25</b>	<b>21</b>	<b>21</b>
India	11,014	8,981	9,133	9,213	23	21	20
IMACID	1,190	800	990	850	49	20	40
<b>Chemical business (C)</b>	<b>12,993</b>	<b>13,925</b>	<b>12,765</b>	<b>13,647</b>	<b>(7)</b>	<b>2</b>	<b>(5)</b>
Brunner Mond Grou	3,710	4,703	4,900	3,710	(21)	(24)	0
GCIP (USA)	4,390	4,378	2,970	5,240	0	48	(16)
India	4,893	4,845	4,895	4,697	1	(0)	4
<b>Others</b>	<b>85</b>	<b>250</b>	<b>—</b>	<b>—</b>	<b>(66)</b>	<b>NM</b>	<b>NM</b>
Adjustments	75	—	43	—	NM	74	NM
<b>Total</b>	<b>25,207</b>	<b>23,956</b>	<b>22,845</b>	<b>23,710</b>	<b>5</b>	<b>10</b>	<b>6</b>

Source: Kotak Institutional Equities estimates, Company

### We maintain our reported EPS estimates—Rs33 in FY2011E increasing to Rs37.5 in FY2012E

Our estimates are based on Rs/US\$ forecast of Rs46 for FY2011-12E. We have made no material changes to our key sales and margin assumptions.

#### TTCH international soda ash volumes fully sold in 2010E

- ▶ **Soda ash:** TTCH reported soda ash sales volumes of 4.3 mtpa in FY2010. In FY2011E, we expect sales volume of 4.5mtpa, same as that reported in FY2009. We factor in sales volumes at full capacity in FY2011E for GCIP, BMGL. We estimate sales volume at full capacity of 2.5 mtpa for GCIP and 1 mtpa for BMGL UK. However, Magadi operations are still running at less than full capacity (0.7 mtpa) due to (1) lower export volumes to Asian markets hit by Chinese supplies and (2) increasing input costs. TTCH is still running the pure ash plant selectively. Accordingly, we factor in sales volumes of 0.5 mtpa in Magadi.
- ▶ **Fertilizers.** We maintain our urea sales volume at 1.2 mtpa for FY2010-11E and pricing assumption at Rs10,000/tonne (exclusive of the IPP benefit). We maintain DAP/complex sales volume of 0.66 mtpa in FY2011E and build in specialized fertilizer sales of 0.3 mtpa in 2HFY11E (0.13mtpa at 50% capacity utilization). TTTCH is setting up a specialty fertilizer plant at its Babrala unit at a cost of Rs570 mn. This unit is expected to be operational by August 2010E. This initiative is part of TTCH's strategy to slowly shift from the regulated fertilizer market to deregulated fertilizer business. We include new businesses in our FY2011-12E estimates.

### We include new businesses in our FY2011-12E estimates

While a number of new business segments have come within TTCH over the last six months, we expect the impact to be meaningful in FY2012E earnings. We expect share from fertilizer/consumer segment (including salt) to increase to 57% of sales in FY2012E from 50% in FY2010.

- ▶ We include sales of Rs8.2 bn and Rs9.8 bn from Rallis in FY2011-12E.
- ▶ We include sales of Rs475 mn and Rs650 mn from "Swach" in FY2011-12E. We think this may not be a profitable business for TTCH in first year of operation. Swach, TTCH's low-cost water purifier, was rolled out in two states in FY2010 and has reached annualized sales volume of 0.6 mn units as of June 2010. By FY2011E-end, TTCH expects it to reach annualized sales of 1 mn units. TTCH has the capacity to manufacture 1 mn cartridges at its plant at Haldia, West Bengal.
- ▶ We include specialty fertilizer sales of 32,000 tonnes for six months in FY2011E (130,000 tpa at 50% capacity utilization). This is likely to be a high-margin product for TTCH since prices are deregulated. We think our estimates on pricing may be conservative and may be revised upwards as more clarity emerges from management.
- ▶ We include sales from expanded capacity of salt in FY2012E. Over the next 18 months, TTCH will invest Rs1.8 bn to increase its salt capacity to 900/tonne per day. This capacity is expected to be operational by June 2011E. We, therefore, expect sales volumes from salt business to increase to 800,000 tonnes p.a. in FY2012E.

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

	2007	2008	2009	2010	2011E	2012E
<b>Profit model</b>						
<b>Net revenues</b>	<b>57,538</b>	<b>59,757</b>	<b>121,533</b>	<b>95,438</b>	<b>104,261</b>	<b>111,477</b>
<b>EBITDA</b>	<b>9,438</b>	<b>9,277</b>	<b>18,740</b>	<b>18,374</b>	<b>20,713</b>	<b>21,869</b>
EBITDA margin (%)	16.4	15.5	15.4	19.3	19.9	19.6
Other income	1,726	6,909	954	(272)	91	1,000
Depreciation	2,739	3,138	4,226	4,468	4,600	4,800
Net finance cost	944	1,289	3,953	3,932	3,339	2,900
<b>PBT</b>	<b>7,481</b>	<b>11,759</b>	<b>11,515</b>	<b>9,703</b>	<b>12,865</b>	<b>15,169</b>
Tax	2,401	2,115	1,575	2,093	3,375	4,551
(Profit)/loss in minority interest	—	—	(1,117)	(1,177)	(1,400)	(1,500)
Restructuring costs				(374)		
<b>Reported net profit</b>	<b>5,080</b>	<b>9,644</b>	<b>8,823</b>	<b>6,059</b>	<b>8,090</b>	<b>9,118</b>
<b>Balance sheet</b>						
Total equity	25,718	37,185	47,698	47,164	54,092	62,148
Total debt	18,642	48,505	62,838	49,810	46,494	35,816
Minority interests	—	—	1,522	3,501	4,901	6,401
Net Deferred tax liabilities	2,511	2,837	216	(559)	(559)	(559)
<b>Total liabilities and equity</b>	<b>46,871</b>	<b>88,526</b>	<b>112,273</b>	<b>99,916</b>	<b>104,927</b>	<b>103,806</b>
Net fixed assets incl CWIP	30,561	33,712	39,959	40,684	39,084	37,284
Goodwill on consolidation	7,632	46,492	56,213	53,247	53,247	53,247
Investments	7,753	4,174	4,229	2,070	2,070	2,070
Net current assets	(619)	(2,620)	1,975	(4,085)	2,526	3,205
Cash	1,545	6,767	9,899	8,000	8,000	8,000
<b>Total assets</b>	<b>46,871</b>	<b>88,526</b>	<b>112,273</b>	<b>99,916</b>	<b>104,927</b>	<b>103,806</b>
<b>Ratios</b>						
Diluted EPS (Rs)	20.9	39.6	36.3	24.9	33.2	37.5
ROE (%)	21.2	30.7	23.4	16.0	18.7	18.3
Debt/equity (%)	72.5	130.4	131.7	105.6	86.0	57.6

Source: Kotak Institutional Equities, Kotak Institutional Equities estimates, Company

AUGUST 3, 2010

RESULT

Coverage view: **Neutral**

Price (Rs): 105

Target price (Rs): 95

BSE-30: 18,081

**Stay away from South.** India Cement's (ICEM) continues to report weak earnings, despite a marginal improvement in realizations, as cost pressures and the bane of a leveraged balance sheet continue to weigh in a difficult demand environment. We maintain our SELL rating on ICEM with a revised target price of Rs95/share due to (1) company's concentration in South markets, (2) high leverage including repayment of FCCB of US\$75 mn in FY2012E, and (3) inflating cost-side pressures.

#### Company data and valuation summary

India Cements

##### Stock data

52-week range (Rs) (high,low)	156-97
Market Cap. (Rs bn)	32.3

##### Shareholding pattern (%)

Promoters	25.2
FIs	29.1
MFs	11.0

##### Price performance (%)

	1M	3M	12M
Absolute	(1.4)	(14.6)	(26.8)
Rel. to BSE-30	(4.8)	(17.9)	(35.6)

##### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	10.0	8.7	10.6
EPS growth (%)	(43.5)	(13.1)	21.1
P/E (X)	10.5	12.0	9.9
Sales (Rs bn)	38.1	40.3	44.6
Net profits (Rs bn)	3.1	2.7	3.2
EBITDA (Rs bn)	8.6	6.7	8.1
EV/EBITDA (X)	5.8	7.2	4.9
ROE (%)	8.2	6.7	7.7
Div. Yield (%)	2.0	3.0	3.0

#### Results continue to disappoint, marginal respite from realizations

ICEM reported revenues of Rs8.8 bn (+9% yoy), operating profit of Rs1 bn (-21% yoy) and net income of Rs365 mn (-35% yoy) for 1QFY11, against our estimates of Rs9.7 bn, Rs1.9 bn and Rs778 mn, respectively. Lower-than-estimated revenues were on account of lower realizations (Rs3,321/ton against our estimate of Rs3,480/ton) though a marginal improvement (2% qoq) from Rs3,268/ton in 4QFY10. Sharp sequential jump of 17% in power and fuel cost (Rs1,037/ton in 1QFY11 against Rs885/ton in 4QFY10) was attributed to increase in price of imported coal (US\$112/ton) and power shortages in AP forcing purchase of power from the spot market. Reported PAT of Rs250 mn includes a loss of Rs115.5 mn on foreign exchange translation.

#### Concentration in South markets poses earnings risk

ICEM sells ~90% of its overall production in South markets, where prices have declined by almost Rs20/bag over the past two months as the effects of overcapacity and monsoon weigh on lackluster demand growth. Average realizations for ICEM improved marginally from Rs3,268/ton in 4QFY10 due to Rs3,321/ton in 1QFY11 due to the price increases taken in South India (especially Tamil Nadu) in the month of April 2010.

We note that the pricing environment is weaker in South than other regions due to (1) the fragmented nature of South market where the Top 5 players account for less than 50% market shares compared to 70-80% market share for the Top 5 players in other regions, (2) out of the 40 mn tpa of capacity added in FY2010, South alone accounted for 20 mn tpa of incremental capacities, and (3) South is the only region which has seen 3% YTD de-growth in consumption during the current fiscal.

#### Maintain SELL rating with a revised target price of Rs95/share

We maintain our SELL rating on ICEM taking cognizance of the weak pricing environment in its home markets of South, while we revise our target price to Rs95/share (Rs110 previously). Our target price implies a P/E of 9X and EV/EBITDA of 5X on FY2012E earnings. We factor volume of 12.3 mn tons in FY2011E and 12 mn tons in FY2012E.

Murtuza Arsiwalla  
murtuza.arsiwalla@kotak.com  
Mumbai: +91-22-6634-1125

Shubham Satyarth  
shubham.satyarth@kotak.com  
Mumbai: +91-22-6634-1320

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

We do not ascribe any value to ICEM's ownership in the IPL franchisee due in the absence of sufficient details on the financials of the cricket franchisee, though a valuation of ~US\$100 mn could translate into per share value of Rs15/share for ICEM. We have revised our FY2011E EPS from Rs11.4/share to Rs8.7/share and FY2012E EPS from Rs12.3/share to Rs10.6/share factoring in continued price weakness in South India, which is partially offset by lower depreciation expenses and an effective tax rate.

Exhibit 1: Blended realizations improved marginally by 4% during the quarter  
Interim results for India Cements (standalone), March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% Chg.)			FY2011E	FY2010	(% Chg.)
					1QFY11E	1QFY10	4QFY10			
<b>Net sales</b>	<b>8,807</b>	<b>9,674</b>	<b>9,535</b>	<b>9,643</b>	<b>(9)</b>	<b>(7.6)</b>	<b>(9)</b>	<b>40,452</b>	<b>36,873</b>	<b>10</b>
Raw materials	(1,163)	(1,168)	(844)	(1,541)				(5,483)	(4,801)	
Employee costs	(630)	(700)	(516)	(802)				(2,674)	(2,500)	
Power & fuel costs	(2,751)	(2,530)	(2,438)	(2,610)				(12,277)	(9,999)	
Freight costs	(1,838)	(1,863)	(1,308)	(1,908)				(8,113)	(5,911)	
Other costs	(1,424)	(1,473)	(1,566)	(1,522)				(6,381)	(6,237)	
Expenditure	(7,806)	(7,733)	(6,671)	(8,383)				(34,927)	(29,447)	
<b>EBITDA</b>	<b>1,001</b>	<b>1,941</b>	<b>2,863</b>	<b>1,260</b>	<b>(48)</b>	<b>(65.1)</b>	<b>(21)</b>	<b>5,524</b>	<b>7,425</b>	<b>(26)</b>
<b>EBITDA (%)</b>	<b>11</b>	<b>20</b>	<b>30</b>	<b>13</b>				<b>14</b>	<b>20</b>	
Other income	285	180	68	129				1,122	1,210	
Interest	(298)	(375)	(385)	(369)				(1,290)	(1,426)	
Depreciation	(599)	(634)	(571)	(616)				(2,468)	(2,331)	
<b>Pre-tax profits</b>	<b>389</b>	<b>1,112</b>	<b>1,976</b>	<b>404</b>				<b>2,889</b>	<b>4,877</b>	
Tax	(24)	(333)	(743)	(143)				(240)	(1,770)	
<b>Net income</b>	<b>365</b>	<b>778</b>	<b>1,233</b>	<b>261</b>	<b>(53)</b>	<b>(70)</b>	<b>40</b>	<b>2,649</b>	<b>3,108</b>	<b>(15)</b>
Extraordinaries	(116)	—	210	122				-	436	
<b>Reported net income</b>	<b>250</b>	<b>778</b>	<b>1,443</b>	<b>383</b>				<b>2,649</b>	<b>3,543</b>	
Tax rate (%)	9	30	34	27				8	33	
<b>Despatch ('000 tons)</b>	<b>2,652</b>	<b>2,780</b>	<b>2,461</b>	<b>2,951</b>	<b>(5)</b>	<b>8</b>	<b>(10)</b>	<b>12,352</b>	<b>10,964</b>	<b>13</b>
<b>Realization (Rs/ton)</b>	<b>3,321</b>	<b>3,480</b>	<b>3,874</b>	<b>3,268</b>	<b>(5)</b>	<b>(14)</b>	<b>2</b>	<b>3,275</b>	<b>3,363</b>	<b>(3)</b>
Cost (Rs/ton)	2,944	2,782	2,711	2,841				2,828	2,686	
Raw materials	439	420	343	522				444	438	
Employee costs	237	252	210	272				216	228	
Power & fuel costs	1,037	910	991	885				994	912	
Freight costs	693	670	532	646				657	539	
Other costs	537	530	636	516				517	569	
<b>Profitability (Rs/ton)</b>	<b>377</b>	<b>698</b>	<b>1,164</b>	<b>427</b>	<b>(46)</b>	<b>(68)</b>	<b>(12)</b>	<b>447</b>	<b>677</b>	<b>(34)</b>

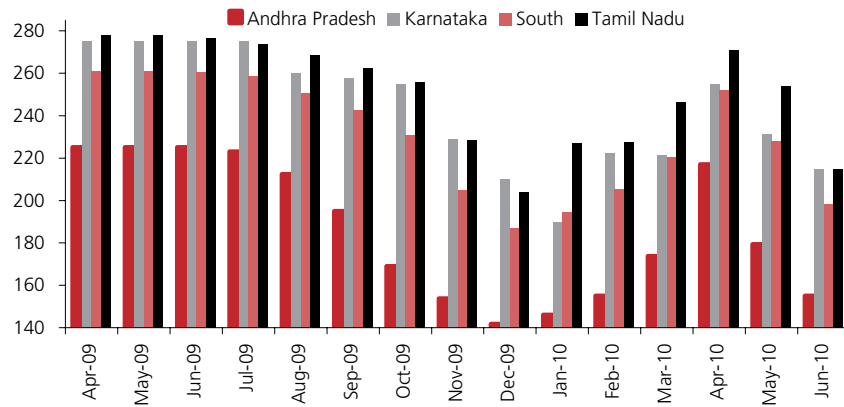
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Adjusted for income from non-core business, cement realizations were down 18% yoy  
Break-up of revenue for India Cements (Rs mn)

	yoy			qoq	
	1QFY11	1QFY10	(% chg)	4QFY10	(% chg)
<b>Net sales</b>	<b>8,807</b>	<b>9,535</b>	<b>(8)</b>	<b>9,643</b>	<b>(9)</b>
Windmill	25	30	(17)	5	443
Shipping freight	114	135	(16)	107	6
IPL franchisee revenues	129	320	(60)	430	(70)
<b>Net sales (Cement)</b>	<b>8,539</b>	<b>9,050</b>	<b>(6)</b>	<b>9,101</b>	<b>(6)</b>
Volumes (mn tons)	2,652	2,461	8	2,951	(10)
<b>Realizations (Rs/ton)</b>	<b>3,220</b>	<b>3,677</b>	<b>(12)</b>	<b>3,084</b>	<b>4</b>

Source: Company, Kotak Institutional Equities

Exhibit 3: Prices in South rebounded in April but have softened again  
Cement prices in South (Rs/bag)



Source: CMA, Kotak Institutional Equities estimates



Exhibit 4: Profit model, balance sheet, cash model of India Cements, March fiscal year-ends, 2008-13E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E	2013E
<b>Profit model (Rs mn)</b>							
Net sales	22,482	30,212	34,036	38,099	40,258	44,573	48,822
<b>EBITDA</b>	<b>7,263</b>	<b>10,450</b>	<b>8,959</b>	<b>7,959</b>	<b>5,321</b>	<b>6,689</b>	<b>8,323</b>
Other income	212	887	1,482	616	1,356	1,369	1,382
Interest	(1,498)	(1,099)	(1,123)	(1,428)	(1,290)	(1,009)	(1,009)
Depreciation	(1,028)	(1,281)	(2,045)	(2,345)	(2,468)	(2,498)	(2,527)
Pretax profits	4,949	8,957	7,273	4,802	2,920	4,552	6,169
Tax	(132)	(2,073)	(2,174)	(1,777)	(240)	(1,307)	(1,811)
Minority interest	964	13	(81)	57—	—	—	—
<b>Net profits</b>	<b>5,782</b>	<b>6,897</b>	<b>5,018</b>	<b>3,083</b>	<b>2,680</b>	<b>3,245</b>	<b>4,359</b>
Extraordinary items	—	(481)	(794)	436	—	—	—
<b>Earnings per share (Rs)</b>	<b>26.1</b>	<b>24.5</b>	<b>17.8</b>	<b>10.0</b>	<b>8.7</b>	<b>10.6</b>	<b>14.2</b>
<b>Balance sheet (Rs mn)</b>							
Total equity	21,598	34,591	37,902	42,197	44,264	46,995	50,708
Total borrowings	20,588	18,115	19,919	21,360	19,360	15,992	15,992
Current liabilities	4,345	9,851	11,716	12,753	13,162	14,506	19,054
<b>Total liabilities and equity</b>	<b>46,531</b>	<b>62,557</b>	<b>69,537</b>	<b>76,310</b>	<b>76,787</b>	<b>77,493</b>	<b>85,755</b>
Cash	2,310	4,262	880	569	353	5,703	14,678
Current assets	11,820	14,178	17,664	25,213	28,172	24,856	25,970
Total fixed assets	29,499	40,526	47,280	47,097	44,830	43,502	41,675
Investments	2,549	3,330	3,556	3,407	3,407	3,407	3,407
Deferred Expenditure	353	260	158	24	24	24	24
<b>Total assets</b>	<b>46,531</b>	<b>62,557</b>	<b>69,537</b>	<b>76,310</b>	<b>76,787</b>	<b>77,493</b>	<b>85,755</b>
<b>Free cash flow (Rs mn)</b>							
Operating cash flow, excl. working capital	7,452	11,061	8,277	6,448	7,048	7,188	8,138
Working capital	430	3,147	(1,621)	(6,511)	(2,551)	4,660	3,434
Capital expenditure	(8,879)	(12,869)	(9,414)	(2,630)	(201)	(1,170)	(700)
Investments	(1,735)	(39)	71	1,698	—	—	—
<b>Free cash flow</b>	<b>(2,733)</b>	<b>1,300</b>	<b>(2,688)</b>	<b>(995)</b>	<b>4,297</b>	<b>10,678</b>	<b>10,873</b>

Source: Company, Kotak Institutional Equities estimates

AUGUST 02, 2010

UPDATE

BSE-30: 18,081

**June foreign trade: Continues to be on the rise** Trade continued to be on the rise with imports outpacing exports. Imports for the month of June stood at US\$28.3 bn and exports at US\$17.7 bn taking the trade balance for 1QFY11 to (-)US\$32.3 bn. For the corresponding period a year ago, trade balance stood at (-)US\$23.7 bn. Non-oil imports for June came in at US\$19.9 bn which was 21.5% higher than last year. Oil imports were valued at US\$8.4 bn for June 2010.

### Trade growth rate aided by base effects; slight increase in June compared to April and May

Provisional estimates of foreign trade indicate that imports for June were valued at US\$28.3 bn and exports were valued at US\$17.7 bn (See Exhibit 1). A year ago, imports were at US\$23 bn and exports were at US\$13.6 bn. Imports have clearly picked up from the lows of last year, signifying a return of upsurge in the domestic demand. On the other hand exports though have picked up; have not been able to keep up with the pace of imports growth. The still nascent growth in most of the developed economies is likely to keep the exports values at a lower level than expected. Even then, the numbers reported for June are marginally higher than both April and May outcomes, which saw a dip compared to the March outturn. Trade balance for June stood at (-)US\$10.6 bn lower than (-)US\$11.3 bn in May but higher than (-)US\$9.2 bn in June 2009. Oil imports for June 2010 at US\$8.4 bn were lower than May but significantly higher than June 2009 at US\$6.6 bn. The growth rate of oil-imports has come down substantially. June growth rate on yoy basis was at 27% while April was at 70% and May was at 67%. This lower rate was partly because of base effects and is likely to be on the downside for the next 4-6 months.

### 1QFY11 trade deficit at US\$32.3 bn; expected to pick up further

With imports outpacing exports, as usual, trade deficit in June 2010 further widened to US\$32.3 bn compared to US\$28 bn in 4QFY10 and US\$23.7 bn in 1QFY10. Imports for 1QFY11 were at US\$83 bn and exports at US\$50.7 bn. With private consumption likely to continue picking up through the year, imports will not only continue rising but also outpace exports which even with improvement are unlikely to reach full potential on the back of weak external conditions. On a BOP basis, we expect FY11E trade deficit to be at around US\$140 bn with imports at around US\$349 bn and exports at around US\$208.2 bn. Second and third quarters are usually when the trade deficit increases and hence our estimates are still in line with the present run-rate.

### Gold, metals and precious and semi-precious stones push up imports

Gold, which forms about 30% of total non-oil imports, on an average pushed up imports the most from the lows in end of FY2009. Along with this, iron and steel imports and precious and semi-precious stones also picked up during FY2010 to boost non-oil imports. Gold was at US\$0.2 bn at end-FY2009 but stood at US\$3.9 bn at end-FY2010. Iron and steel, along with electronic items has been stable throughout FY2010. Pearls, precious and semi-precious stones, which forms about 16% of non-oil imports also picked up significantly from US\$0.8 bn at the start of FY2010 to US\$2.1 bn at end-FY2010 (See Exhibit 2). Given the lags in commodity-wise trade data of about one quarter, we are unable to comment on 1QFY11 trade composition. It would be interesting to look for any changed trends in capital goods imports when the data is released, but it appears that widening of the trade deficit in FY2010 was more on consumption side imports than investment side in which gold played a major role.

### QUICK NUMBERS

- June imports grow at 23% yoy; exports grow at 30.4%
- 1QFY11 trade deficit at US\$32.3 bn
- We estimate trade deficit/GDP for FY11E at 9.2%

Mridul Saggur  
mridul.saggur@kotak.com  
Mumbai: +91-22-6634-1245

Suvodeep Rakshit  
suvodeep.rakshit@kotak.com  
Mumbai: +91-22-6634-1409

**Exhibit 1: Trade deficit continues to widen**

Monthly trade values, quarterly values are summation of corresponding months, (US\$ bn)

	<b>Imports</b>		<b>Exports</b>		<b>Trade balance</b>	
	<b>Monthly</b>	<b>Quarterly</b>	<b>Monthly</b>	<b>Quarterly</b>	<b>Monthly</b>	<b>Quarterly</b>
Apr-08	30.3		18.5		-11.9	
May-08	29.4		18.7		-10.8	
Jun-08	29.0	88.7	19.2	56.3	-9.8	-32.4
Jul-08	31.6		19.0		-12.6	
Aug-08	33.5		17.8		-15.8	
Sep-08	31.1	96.3	15.8	52.6	-15.3	-43.7
Oct-08	25.9		14.1		-11.7	
Nov-08	23.5		11.2		-12.3	
Dec-08	19.5	68.8	13.4	38.7	-6.1	-30.2
Jan-09	18.2		12.9		-5.4	
Feb-09	15.1		11.9		-3.1	
Mar-09	16.6	49.9	12.9	37.7	-3.7	-12.2
Apr-09	19.1		12.4		-6.7	
May-09	19.8		12.0		-7.9	
Jun-09	23.0	61.9	13.6	38.0	-9.2	-23.7
Jul-09	19.9		13.3		-6.6	
Aug-09	21.4		12.9		-8.5	
Sep-09	20.4	61.7	13.7	39.9	-6.7	-21.8
Oct-09	23.8		14.2		-9.6	
Nov-09	22.7		14.1		-8.6	
Dec-09	25.8	72.3	16.0	44.3	-9.7	-27.9
Jan-10	24.6		15.3		-9.3	
Feb-10	25.2		15.7		-9.5	
Mar-10	29.4	79.2	20.2	51.2	-9.2	-28.0
Apr-10	27.3		16.9		-10.4	
May-10	27.4		16.1		-11.3	
Jun-10	28.3	83.0	17.7	50.8	-10.6	-32.3

Source: DGCIS, Kotak Institutional Equities

Exhibit 2: Gold, precious and semi-precious stone push up imports in FY2010  
India's monthly major non-oil imports, (US\$ bn)

	<b>Gold</b>	<b>Coal, coke &amp; briquettes</b>	<b>Metaliferrous ores &amp; metal scrap</b>	<b>Iron &amp; steel</b>	<b>Electronic goods</b>	<b>Pearls precious &amp; semiprecious stones</b>
Apr-08	3.5	0.9	1.0	0.7	2.1	2.4
May-08	1.6	1.0	0.9	0.8	2.1	1.3
Jun-08	1.4	0.8	0.5	0.8	2.1	2.0
Jul-08	1.3	1.0	1.1	0.8	2.2	1.0
Aug-08	3.8	0.9	0.7	0.8	2.3	1.3
Sep-08	3.0	1.2	0.8	0.9	2.1	2.4
Oct-08	0.9	1.0	0.6	1.0	1.9	1.2
Nov-08	2.6	0.9	0.7	0.8	1.7	1.1
Dec-08	1.0	0.8	0.4	0.7	1.9	0.7
Jan-09	0.8	0.5	0.4	0.8	1.7	0.9
Feb-09	0.8	0.6	0.4	0.6	1.5	0.9
Mar-09	0.3	0.6	0.4	0.5	1.7	1.3
Apr-09	1.0	0.8	0.4	0.5	1.5	0.9
May-09	1.8	0.8	0.5	0.6	1.4	1.1
Jun-09	1.3	0.7	0.8	0.7	2.0	0.9
Jul-09	1.7	0.5	0.6	0.6	1.5	1.0
Aug-09	1.8	0.6	0.5	0.8	1.7	0.8
Sep-09	2.0	0.6	0.3	0.5	1.9	0.8
Oct-09	1.9	0.6	0.6	0.6	1.8	1.1
Nov-09	2.2	0.8	0.6	0.7	1.6	1.6
Dec-09	2.7	0.8	0.6	0.7	1.9	1.8
Jan-10	2.7	0.7	0.4	0.6	1.5	1.7
Feb-10	2.0	0.7	0.5	0.7	1.4	2.1
Mar-10	4.0	0.7	0.9	0.7	2.0	2.0

Source: DGICS, Kotak Institutional Equities

AUGUST 02, 2010

BSE-30: 17,868

**No rain dance as yet, but close.** With half the monsoon season complete, we assess that though it is trifle early to celebrate a normal monsoon, all pointers are in that direction. Our assessment factors in (1) rain-fall deficiency falling to 3%, (2) large deficiency in East and North-East India, (3) good sowing so far, (4) 19% reservoir level deficiency and (5) forecast of normal rains for 2H. We expect a normal monsoon, increased area sown and full reservoirs by end-Sept.

### Monsoon deficiency falls to 3% by Aug 1 from 16% in June

Just as it seemed to be getting late for good rains, rains not only revived but came in full swing to recoup earlier deficiency. Rains were 38% above normal in the week-ended July 28, 2010. As a result, the All India cumulative deficiency since the start of the monsoon season on June 1, 2010 declined to just 5% (and further to 3% by August 1) from 14% a week ago and 16% at end-June (see Exhibit 1). Moreover, IMD reaffirmed its normal monsoon projection by issuing a forecast on July 30 that predicts 2H monsoon (Aug-Sept.) to be 107±7% of the Long Period Average (LPA).

### Rainfall deficiency mainly affecting East and North East India

Rainfall so far has been excellent in the Southern peninsula (+16% of LPA) and is deficient only in some tracts, mainly in 'East and North East' (-21% of LPA). Rainfall is deficient only in 6 out of the 36 meteorological sub-divisions, viz., Jharkhand (-47%), East U.P. (-36%), Gangetic West Bengal (-29%), Assam & Meghalaya (-28%), Bihar (-23%) and West M.P. (-21%). It has been in excess in 11 out of 36 sub-divisions (see Exhibit 2).

### Sowing progressing satisfactorily; reservoir levels a worry

Area sown till July 23, 2010 was 9.1% higher than in the corresponding period last year, with 62% of the normal sowing getting completed (see Exhibit 3). There has been an expansion in area under non-foodgrain crops, with 88% of the normal sowing getting completed. Cotton and sugarcane sowing is already 105% of the normal area. India could see a record cotton crop this year if there are no pest attacks. India could also see a record sugarcane crop if water availability is not constrained and yields turn out to be good.

However, record farm output this year can still be constrained if the reservoirs do not get filled by the end of the monsoon season. As of July 29, 2010, 81% large reservoirs had a deficiency of 19% in relation to the 10-year average for the date (see Exhibit 4). They were only 27% filled up, though normally a third of reservoirs get filled up by the date. Reservoirs in Ganga, Godavari and Mahanadi basins were amongst deficient (see Exhibit 5)

### Monsoon to support consumption theme, cotton textile and sugar industries

In our assessment, the high probability of a normal monsoon supports consumption, a play likely to hold well into FY2011 in terms of increased demand for consumer goods – both durables and non-durables, cement for rural housing and agro-based firms. We see textile and sugar industries as major beneficiaries of likely bumper harvests as area sown has increased by 17.9% and 13.5%, respectively, and is already 5% higher than normal sowing for the full season. We see raw cotton and sugarcane prices remaining subdued in FY2011.

### QUICK NUMBERS

- All-India rainfall is normal till August 1 (-3% of LPA); was -16% till end-June
- Area sown so far up 9% than in corresponding period last year
- 19% reservoir deficiency the main worry
- Cotton textile and sugar industry could benefit with sowing already 5% above normal levels

Mridul Saggar  
mridul.saggar@kotak.com  
Mumbai: +91-22-6634-1245

Suvodeep Rakshit  
suvodeep.rakshit@kotak.com  
Mumbai: +91-22-6634-1409

### Indian economy singing

Indian Meteorological Department (IMD) did forecast a normal monsoon this year. Despite a somewhat disappointing spell during June and the first three weeks of July, it now looks that India would indeed have a normal monsoon this year. The cumulative monsoon deficiency at all-India level was 16% at end-June (first of the four month monsoon season). It declined marginally to 14% for the week-ended July 23, 2010. But just as it looked that sowing may be affected, it rained 38% above normal in the last week. As a result, the deficiency fell to just 5% on July 28 and further to 3% on August 1 (see Exhibit 1).

With excellent rains over the past 10 days, it looks like sowing would be normal for foodgrains and could moderately surprise on the up for non-foodgrains. With activity in industrial and services sector already having rebounded, there is reason to believe that agricultural growth may also provide an upside for FY2011E growth. Indian economy appears to be singing with good rains.

- ▶ In fact, after the past 10 days of rains, the official estimates of an 8.5% GDP growth, higher than our earlier estimate of 8% now looks likely.

This above potential growth should pose no overheating risk, as farm growth is not subject to business cycles. In any case, with RBI's recent policy action raising policy rates, compressing interest rate corridor and signaling marginally tight liquidity, a major risk of overheating has diminished.

**Exhibit 1: Normal rainfall in 1H of monsoon season augurs well for Kharif crop**  
Rainfall till date specified, CY2005-CY2010

Rainfall till date	2005			2006			2007			2008			2009			2010		
	29-Jun	27-Jul	30-Sep	28-Jun	26-Jul	30-Sep	27-Jun	25-Jul	30-Sep	2-Jul	30-Jul	30-Sep	1-Jul	29-Jul	30-Sep	30-Jun	28-Jul	1-Aug
<b>Normal/Excess</b>	<b>17</b>	<b>31</b>	<b>32</b>	<b>23</b>	<b>22</b>	<b>26</b>	<b>30</b>	<b>29</b>	<b>30</b>	<b>28</b>	<b>26</b>	<b>32</b>	<b>6</b>	<b>13</b>	<b>13</b>	<b>23</b>	<b>28</b>	<b>30</b>
Excess	3	11	9	7	1	6	13	14	13	18	8	2	2	3	3	7	9	11
Normal	14	20	23	16	21	20	17	15	17	10	18	30	4	10	10	16	19	19
<b>Deficient/Scanty</b>	<b>19</b>	<b>5</b>	<b>4</b>	<b>13</b>	<b>14</b>	<b>10</b>	<b>6</b>	<b>7</b>	<b>6</b>	<b>8</b>	<b>10</b>	<b>4</b>	<b>30</b>	<b>4</b>	<b>23</b>	<b>13</b>	<b>8</b>	<b>6</b>
Deficient	17	5	4	10	14	10	6	7	6	8	10	4	22	23	23	10	8	6
Scanty/no rain	2	—	—	3	—	—	—	—	—	—	—	—	8	—	2	3	—	—
<b>Total</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>17</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>
Rainfall deviation from normal (%)	-20	2	-1	-21	-14	-1	7	4	5	21	-2	-2	-46	-19	-23	-16	-5	-3
Foodgrains output (in mt)			208.6			217.3			230.8			234.5			218.2			232.0
Kharif foodgrains (in mt)			109.9			110.6			121.0			118.1			103.8			119.5
Rabi foodgrains (in mt)			98.7			106.7			109.8			116.3			114.4			112.5
Foodgrains growth (%)			5.2			4.2			6.2			1.6			-6.9			6.3
All crops index growth (%)			12.2			14.3			3.2			0.8E			-4.0E			5.6E
Growth in GDP in agriculture & allied(%)			5.8			4.0			4.9			1.6			0.2			5.0E
Growth in GDP(%)			9.5			9.7			9.0			6.7			7.4			8.4E

Source: GOI and Kotak Institutional Equities estimates

### Monsoon deficiency limited to East and North East India

Monsoon deficiency that was so palpable till the third week of July has now suddenly been made good due to excellent rains over the past 10 days. In fact, only 6 of the 36 sub-divisions are now deficient and they are mainly located in East and North East, with the exception of West M.P. that falls in central India. None of the sub-division has received scanty (-60% of LPA or less) rainfall. Deficiency levels have fallen dramatically in UP, MP, Chhattisgarh and East Rajasthan over the past month. The Southern peninsular region has received very good rainfall all through. All three sub-divisions of Andhra Pradesh, which is the Southern rice bowl, have received excess rainfall. Saurashtra, Kutch & Diu, which is vital for oilseeds, especially groundnut, has cumulative rainfall which is 82% higher than the LPA. The granaries in Northern Gangetic belt should also fill up with normal rains in agriculturally important Punjab, Haryana and West U.P. As of now, it sounds a green year ahead.

Exhibit 2: Rainfall deficiency mainly confined to East and North-East India  
Cumulative rainfall deficiency (-)/ excess (+) in sub-divisions (%)

as on:	August 1, 2010	June 30, 2010	July 29, 2009
<b>All India</b>	<b>(3)</b>	<b>(16)</b>	<b>(19)</b>
<b>Deficient rainfall (-20% to -59%)</b>			
1 Jharkhand	(47)	(45)	(45)
2 East Uttar Pradesh	(36)	(72)	(46)
3 Gangetic West Bengal	(29)	(17)	(37)
4 Assam and Meghalaya	(28)	(18)	(41)
5 Bihar	(23)	(36)	(49)
6 West Madhya Pradesh	(21)	(50)	(5)
<b>Normal rainfall (+19% to -19%)</b>			
7 East Madhya Pradesh	(18)	(61)	(23)
8 Chhattisgarh	(18)	(52)	(15)
9 Orissa	(16)	(25)	32
10 East Rajasthan	(15)	(56)	(8)
11 Nagaland, Manipur, Mizoram & Tripura	(14)	(4)	(42)
12 West Uttar Pradesh	(12)	(82)	(60)
13 Gujarat Region	(12)	(49)	(9)
14 Arunachal Pradesh	(11)	(19)	(30)
15 Kerala	(10)	(1)	(6)
16 Haryana, Chandigarh & Delhi	(5)	(53)	(58)
17 South Interior Karnataka	(2)	0	22
18 Coastal Karnataka	(2)	(16)	0
19 Punjab	4	(15)	(30)
20 Himachal Pradesh	4	40	(47)
21 Lakshadweep	8	(2)	17
22 Andaman & Nicobar Islands	12	(6)	5
23 Uttarakhand	13	(30)	(35)
24 Sub-Himalyan West Bengal and Sikkim	14	13	(27)
25 Vidarbha	18	(14)	(17)
<b>Excess rainfall (+20% or more)</b>			
26 Madhya Maharashtra	20	37	3
27 Konkan and Goa	22	(1)	(2)
28 Telengana	29	(24)	(54)
29 North Interior Kanataka	30	18	(8)
30 Marathawada	30	(18)	(35)
31 Jammu & Kashmir	31	58	(19)
32 Tamil Nadu & Pondicherry	48	90	(27)
33 West Rajasthan	50	78	(9)
34 Coastal Andhra Pradesh	56	39	(41)
35 Rayalseema	62	56	(44)
36 Saurashtra, Kutch & Diu	82	(11)	86

Source: India Meteorological Department and Kotak Institutional Equities

### Sowing impressive so far

The progress of sowing has been quite satisfactory so far (see Exhibit 3). Total area sown so far is up 9.1% than in corresponding period last year. On current reckoning, the area under crop should expand by about 3% when final tally is available. Area expansion in cotton and sugarcane is particularly impressive as with some cropping still left, the area has already exceeded the normal by 5%. We expect a bumper harvest in these crops ahead. Paddy (rice), pulses and oilseeds should also surprise on the up.



- ▶ Though it is a bit early to predict the size of the crop this year, trends indicate that a growth of 4.5-5% should be possible in foodgrains and 6-7% in non- foodgrains.

### Exhibit 3: Sowing up by 9.1% till July 23, 2010; raises hopes of good crop

Latest data on area sown during Kharif (summer) under foodgrains and major cash crops, March fiscal year-ends, (in mn hectares)

Crop	normal area	till 23-July-2010				% of normal	
		2010	2009	increase	increase(%)	2010	2009
1 Rice	39.5	17.0	15.8	1.2	7.6	43.0	39.9
2 Jowar	3.6	2.0	2.1	(0.2)	(7.5)	54.4	58.8
3 Bajra	9.3	6.0	4.7	1.2	26.2	64.1	50.8
4 Maize	6.9	5.5	5.7	(0.1)	(2.5)	80.8	82.9
5 Other cereals	2.4	0.7	0.7	(0.0)	(5.1)	26.9	28.4
6 Total coarse cereals (2 to 5)	22.2	14.1	13.2	0.9	6.8	63.6	59.6
<b>7 Total cereals (1+6)</b>	<b>61.7</b>	<b>31.1</b>	<b>29.0</b>	<b>2.1</b>	<b>7.3</b>	<b>50.4</b>	<b>47.0</b>
8 Arhar (tur)	3.6	2.7	2.2	0.5	22.1	74.8	61.2
9 Urad	2.3	1.3	1.3	(0.0)	(0.7)	56.2	56.6
10 Moong	2.6	1.4	1.1	0.3	23.5	52.0	42.1
11 Other pulses	2.3	0.4	0.5	(0.1)	(12.8)	18.1	20.7
<b>12 Total pulses (8 to 11)</b>	<b>10.8</b>	<b>5.7</b>	<b>5.1</b>	<b>0.7</b>	<b>13.2</b>	<b>53.0</b>	<b>46.8</b>
<b>13 TOTAL FOODGRAINS (7+10)</b>	<b>72.5</b>	<b>36.8</b>	<b>34.1</b>	<b>2.8</b>	<b>8.1</b>	<b>50.8</b>	<b>47.0</b>
14 Groundnut	5.4	3.8	3.1	0.7	23.4	70.8	57.4
15 Soyabean	8.4	8.0	8.2	(0.1)	(1.5)	95.6	97.1
16 Sunflower	0.8	0.2	0.4	(0.2)	(56.2)	20.4	46.5
17 Sesamum	1.8	0.7	0.6	0.1	9.0	36.7	33.7
18 Nigerseed	0.4	0.1	0.0	0.0	87.1	13.7	7.3
19 Castorseed	0.8	0.2	0.1	0.1	67.9	30.2	18.0
<b>20 Total nine oilseeds (14 to 19)</b>	<b>17.6</b>	<b>12.9</b>	<b>12.4</b>	<b>0.6</b>	<b>4.5</b>	<b>73.7</b>	<b>70.5</b>
21 Cotton	9.1	9.5	8.1	1.4	17.9	104.6	88.7
22 Sugarcane	4.5	4.7	4.2	0.6	13.5	105.5	92.9
23 Jute	0.8	0.8	0.7	0.1	10.3	96.8	87.8
<b>24 TOTAL NON-FOODGRAINS (20 to 24)</b>	<b>31.9</b>	<b>28.0</b>	<b>25.3</b>	<b>2.6</b>	<b>10.4</b>	<b>87.5</b>	<b>79.3</b>
<b>25 TOTAL ALL CROPS (13+24)</b>	<b>104.5</b>	<b>64.8</b>	<b>59.4</b>	<b>5.4</b>	<b>9.1</b>	<b>62.0</b>	<b>56.8</b>

Source: GOI and Kotak Institutional Equities

### Reservoir deficiency a worry, can possibly impact Kharif yields and Rabi crop

Despite excellent rainfall in recent weeks, rains in the catchment areas have somewhat disappointed. Eighty one large reservoir levels in the country have current storage deficiency of 19% in relation to the last 10-year average (see Exhibit 4). In fact, current year's water storage is just about 76% of the last year's storage at this point.

- ▶ For storage to come up to the capacity of full reservoir levels one would need good rains in catchment areas in August and September. This important from three main angles: (1) kharif (summer crop) yields, (2) Rabi (winter ) crop and (3) hydel power generation. Currently only 27% of the capacity is filled
- ▶ Reservoir deficiency as on July 29, 2010 was at 19% in relation to the past 10-year average. At this stage, there was no deficiency last year, though at the end of the monsoon season the deficiency had risen to 10%. Another week or two of good rains can wipe out the storage deficiency, but risks exist if that does not happen.
- ▶ The reservoir deficiency is visible in basins that are important for crops, i.e., Ganga, Godavari and Mahanadi (see Exhibit 5). Deficiency is also acute in Mahi and Sabarmati.

**Exhibit 4: Reservoir deficiency a slight worry**

Reservoir levels for 81 large reservoirs, billion cubic meters (BCM)

<b>as on:</b>	<b>29-Jul-2010</b>	<b>30-Jul-2009</b>	<b>30-Sep-2010</b>
Current live storage (BCM)	40.7	52.8	90.5
Live capacity at FRL (BCM)	151.8	151.8	151.8
Corresponding storage last year	53.7	47.1	113.7
Corresponding storage last 10-year average	50.3	51.9	100.9
% storage as FRL capacity	26.8	34.8	59.6
corresponding % last year	35.4	31.1	74.9
corresponding % (last 10-year average)	33.1	34.2	66.5
current years's storage as % of last year	75.9	112.0	79.5
current years's storage as % of last 10-yr average	81.1	101.6	89.6
<b>reservoir deficiency (+)/surplus (-) (%)</b>	<b>18.9</b>	<b>-1.6</b>	<b>10.4</b>

Source: GOI and Kotak Institutional Equities

**Exhibit 5: Reservoir deficiency in Ganga, Godavari and Mahanadi a worry for crops**

Basin-wise reservoir levels from 81 large reservoirs, billion cubic meters (BCM)

<b>as on 29-Jul-10</b>	<b>Live capacity at FRL (BCM)</b>	<b>current storage (BCM)</b>	<b>last year's storage (BCM)</b>	<b>last 10-years average</b>	<b>current as % of last year</b>	<b>reservoir deficiency (%)</b>
Ganga	28.1	4.1	4.1	5.6	-1.2	27.7
Indus	14.7	5.4	3.0	5.8	82.1	6.6
Narmada	14.9	2.0	5.9	3.3	-65.9	38.6
Tapi	7.4	1.7	2.2	2.5	-24.9	32.8
Mahi	4.0	0.7	1.5	1.4	-56.7	51.5
Sabarmati	0.7	0.1	0.2	0.2	-59.2	57.6
Rivers of Kutch	0.9	0.2	0.2	0.3	2.2	8.4
Godavari	14.5	2.2	2.1	3.3	1.8	33.6
Krishna	31.5	13.0	16.7	13.9	-22.2	6.7
Mahanadi & neighborhood	13.2	3.6	5.4	4.8	-34.1	25.4
Kaveri and neighbourhood	8.2	3.1	4.9	3.5	-35.2	9.0
West flowing rivers of South	13.6	4.7	7.4	5.8	-36.4	19.2
<b>Total</b>	<b>151.8</b>	<b>40.7</b>	<b>53.7</b>	<b>50.3</b>	<b>-24.1</b>	<b>18.9</b>

Source: GOI and Kotak Institutional Equities

**Play on consumption, cotton textiles and sugar industry**

In our view, heartening trends in the current monsoon open up the possibility of an extended play on consumption theme, as also in cotton textiles and sugar industry that may benefit from softer prices of their agro-inputs. The cotton crop could be headed for a new high save the risk of a pest attack. Sugarcane crop could also see a marked jump. However, sugar firms with high inventories could fail to reap gains from if a bumper harvest occurs. Gains may also accrue to edible oil industry if oilseeds crop surprises on the up.

There is also good reason to be optimistic about the consumption play in the rural markets. This includes both consumer durables (autos, motor bikes) and non-durables. Some industrials may gain incrementally, though already high valuations may limit upside. However, major gains may emerge for the manufactured food industry that depends on agro-processing as input supply constraints would vanish and raw material costs may soften.

A play on the monsoon makes sense, in our view, uncertainty about 2H monsoon has diminished after IMD's forecast of 107% of the LPA rainfall for this period with a model uncertainty of  $\pm 7\%$ . The El Nina factor is particularly favorable this year.

AUGUST 02, 2010

UPDATE

BSE-30: 17,868

**Is the wind coming out of the sale? Mixed sales trends for July.** Auto sales seem to be finding it difficult to increase meaningfully from the trend set since April. While sales during festival season could see the typical increase, yoy growth could come under pressure beyond November. Maruti reported strong wholesale volumes, driven largely by inventory adjustment. M&M's UV sales were flat from June despite an extra week available for production. Bajaj and Hero Honda sales have been flat since April.

### Maruti's total sales 6% above expectations; domestic sales were 9% better than expected

Maruti reported total sales of 100,857 units for July, which were up 29% yoy. Total sales were up 14% from June as June sales were impacted by a week-long shutdown. Domestic sales came in above expectations at 90,114 units and were up 33% yoy and 24% from June. Retail sales for the month, however, declined in line with seasonal trends and came in below wholesale volumes as Maruti ramped up inventories from very low levels. Exports volumes totaled 10,743 units, up 2% yoy and down 30% from June. Within segments, the A2 hatchback segment was up 33% yoy and 25% sequentially. The A3 sedan segment sales were up 14% yoy and 28% from June. The van segment sales were up 87% yoy and 37% sequentially. Fiscal year-to-date sales are up 26% yoy compared to the 17% we have modeled for FY2011E.

### M&M sales disappoint again in July

M&M reported UV sales of 18,016 units, which came in 9% below estimates. UV sales were flat even compared to a shortage-impacted month of June. Tractor sales for July came in at 14,592 units and were 10% below our estimates. Tractor volumes were up 14% yoy and down 12% from June. Tractor sales in July typically are down 30% from June. However, in light of the weak sales for June, the July drop seems excessive. The company attributed the lower-than-normal volumes to shortages of components such as castings, fuel injection pumps and tires. 3 & 4-wheeler LCV sales totaled 7,824 units for July, up 106% yoy and 4% sequentially as the company ramped up sales of its newly introduced Maxximo truck.

### Tata Motors sales were 3% better than expectations with across the board outperformance

Tata Motors reported total sales of 67,799 units, up 49% yoy and flat from June. July sales were better than expected as July sales are typically weaker than June. Domestic M&HCV sales for July totaled 15,256 units, up 1% from June. LCV domestic sales totaled 20,438 units and were up 4% from June. Domestic passenger car sales totaled 24,613 units, flat from June. Sales were flat sequentially despite higher Nano sales in July of 9,000 units versus 7,704 units in June.

### 2-wheeler sales steady on a sequential basis

Hero Honda reported sales of 427,454 units, up 17% yoy and flat from June. Volumes were 2% below estimates. On a fiscal year-to-date basis, sales are up 12% through July compared to the 15% we are modeling for FY2011E, implying a residual growth rate of 17% for the rest of the year.

Bajaj Auto reported motorcycle sales of 279,781 units, up 66% yoy and down 1% from June. 3-wheeler sales totaled 38,634 units, up 60% yoy and 18% from June. Exports for July totaled 106,794 units, up 56% yoy and down 6% sequentially. The company indicated that supply constraints continue to hurt volumes.

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

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

## Monthly sales for July'10

	Jul'10	Jul'10E	Jul-09	yoy %	Jun'10	mom %	YTD %	Growth FY2011E %
<b>Two-wheelers</b>								
Bajaj Auto	279,781	291,292	168,731	66	282,808	(1)	70	40
Hero Honda	427,686	434,983	366,808	17	426,454	0	12	15
<b>Four-wheelers</b>								
	Jul'10	Jul'10E	Jul-09	yoy %	Jun'10	mom %	YTD %	FY2011E %
<b>Tata Motors</b>								
M&HCV	18,564	15,580	10,927	70	16,400	13	57	15
LCV	20,852	22,023	17,037	22	22,023	(5)	25	14
UV	3,333	3,275	3,342	(0)	3,639	(8)	21	15
Passenger Cars	25,050	25,026	14,093	78	25,668	(2)	68	68
<b>Total</b>	<b>67,799</b>	<b>65,904</b>	<b>45,399</b>	<b>49</b>	<b>67,730</b>	<b>0</b>	<b>46</b>	<b>32</b>
<b>Mahindra &amp; Mahindra</b>								
UVs	18,016	19,304	17,194	5	18,211	(1)	12	16
Tractors	14,592	16,258	12,850	14	16,590	(12)	15	12
3 Wheelers, LCVs	7,824	8,878	3,806	106	7,559	4	86	100
<b>Total</b>	<b>40,432</b>	<b>44,440</b>	<b>33,850</b>	<b>19</b>	<b>42,360</b>	<b>(5)</b>	<b>23</b>	<b>25</b>
<b>Maruti Udyog</b>								
Domestic	90,114	83,006	67,528	33	72,812	24	26	22
Exports	10,743	12,500	10,546	2	15,279	(30)	28	(4)
<b>Total</b>	<b>100,857</b>	<b>95,506</b>	<b>78,074</b>	<b>29</b>	<b>88,091</b>	<b>14</b>	<b>26</b>	<b>17</b>

Source: Kotak Institutional Equities estimates

## June 2010: Earnings announcement calendar

Mon	Tue	Wed	Thu	Fri	Sat
<b>2-Aug</b>	<b>3-Aug</b>	<b>4-Aug</b>	<b>5-Aug</b>	<b>6-Aug</b>	<b>7-Aug</b>
GAIL	Hindalco Industries	Adani Power	Anant Raj Industries	Fortus Healthcare	GMR Infra
Glaxosmithkline Consumer	Punj Lloyd	Gujarat Industries	Dredging Corp	Maharashtra Polybutenes	KSK Energy Ventures
India Cements	NDTV	IDFC	Garware Polyester	Power Grid Corp	Sterling Biotech
Madras Cement		IL&FS Trans	Oracle Financial Services		
Nestle India		Mundra Port & SEZ			
NMDC					
<b>9-Aug</b>	<b>10-Aug</b>	<b>11-Aug</b>	<b>12-Aug</b>	<b>13-Aug</b>	<b>14-Aug</b>
Jain Irrigation	Educomp Solutions	Bharti Airtel	Apollo Hospitals	Adani Enterprises	Lanco Infratech
Opto Circuits	IVRCL Infra	Financial Technologies	Cummins India	Suzlon Energy	
Reliance Capital	Jai Corp	MTNL	Divis Laboratories		
Tulip Telecom	Nagarjuna Constructions		Hindustan Copper		
	Piramal Healthcare		Ranbaxy Laboratories		
	Rashtriya Chemicals & Fertilisers		Tata Power		
	Relta India		Tata Steel		
	Tata Motors				

Source: BSE, Kotak Institutional Equities

## Kotak Institutional Equities: Valuation summary of key Indian companies

Company	2-Aug-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
<b>Automobiles</b>																													
Ashok Leyland	71	ADD	95,049	2,066	1,330	2.8	4.3	5.9	84.5	52.3	37.5	25.3	16.6	12.1	14.6	11.0	8.7	2.4	2.1	1.9	2.1	1.4	1.4	10.9	13.5	16.7	78	9.2	10.7
Bajaj Auto	2,726	ADD	394,380	8,572	145	117.7	169.0	189.5	160.1	43.6	12.2	23.2	16.1	14.4	15.0	11.4	10.0	13.5	7.8	5.3	0.7	0.7	0.7	70.9	61.4	44.0	2,650	(2.8)	13.9
Bharat Forge	328	ADD	78,530	1,707	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	477.8	26.5	16.6	19.7	8.8	5.5	2.1	2.0	1.8	—	—	—	0.9	0.4	0.1	360	9.6	4.6
Hero Honda	1,825	SELL	364,482	7,922	200	111.8	115.3	130.1	74.1	3.1	12.8	16.3	15.8	14.0	10.4	10.4	8.8	10.1	7.0	5.2	1.6	1.7	1.9	59.1	52.5	42.8	1,800	(1.4)	20.3
Mahindra & Mahindra	661	BUY	393,844	8,560	595	33.9	44.1	51.7	125.8	30.1	17.3	19.5	15.0	12.8	12.8	10.8	9.0	4.9	3.9	3.1	1.4	1.4	1.5	30.0	29.0	27.3	760	14.9	26.8
Maruti Suzuki	1,210	REDUCE	349,661	7,600	289	86.4	77.6	88.3	104.9	(10.2)	13.9	14.0	15.6	13.7	7.4	7.7	6.6	2.9	2.5	2.1	0.5	0.4	0.5	23.3	17.3	16.7	1,200	(0.8)	23.0
Tata Motors	847	ADD	530,608	11,532	626	23.8	27.1	32.8	137.8	13.5	21.4	35.6	31.3	25.8	16.3	15.0	13.0	2.9	2.5	2.2	1.6	0.6	0.6	8.6	8.6	9.1	900	6.2	82.0
<b>Automobiles</b>		<b>Cautious</b>	<b>2,206,555</b>	<b>47,958</b>					<b>109.9</b>	<b>19.4</b>	<b>17.3</b>	<b>21.6</b>	<b>18.1</b>	<b>15.4</b>	<b>12.6</b>	<b>11.2</b>	<b>9.4</b>	<b>4.2</b>	<b>3.5</b>	<b>2.9</b>	<b>1.2</b>	<b>0.9</b>	<b>1.0</b>	<b>19.4</b>	<b>19.1</b>	<b>18.6</b>			
<b>Banks/Financial Institutions</b>																													
Andhra Bank	147	BUY	71,198	1,547	485	21.6	22.9	26.7	60.1	6.4	16.4	6.8	6.4	5.5	—	—	—	1.6	1.4	1.2	3.4	3.6	4.2	26.0	23.1	22.7	180	22.6	4.9
Axis Bank	1,351	ADD	547,289	11,895	405	62.1	78.1	98.3	22.7	25.9	25.9	21.8	17.3	13.7	—	—	—	3.4	3.0	2.5	0.9	1.1	1.4	19.2	18.3	19.9	1,500	11.0	48.5
Bank of Baroda	763	BUY	278,971	6,063	366	83.7	95.1	115.7	37.3	13.7	21.7	9.1	8.0	6.6	—	—	—	2.0	1.7	1.4	2.0	2.2	2.7	24.4	23.0	23.3	950	24.5	9.8
Bank of India	439	REDUCE	231,087	5,023	526	33.1	49.9	58.1	(42.1)	50.9	16.4	13.3	8.8	7.6	—	—	—	1.8	1.6	1.4	1.6	2.4	2.8	14.2	19.0	19.2	460	4.7	7.7
Canara Bank	486	ADD	199,096	4,327	410	73.7	82.2	98.3	45.8	11.6	19.5	6.6	5.9	4.9	—	—	—	1.6	1.3	1.0	1.6	2.1	2.5	22.4	20.8	20.8	580	19.4	6.8
Corporation Bank	576	BUY	82,584	1,795	143	82.0	88.0	102.6	31.8	7.3	16.6	7.0	6.5	5.6	—	—	—	1.4	1.2	1.1	2.9	3.1	3.6	22.0	20.2	20.2	700	21.6	1.1
Federal Bank	349	ADD	59,639	1,296	171	27.2	36.4	49.0	(7.2)	34.1	34.4	12.8	9.6	7.1	—	—	—	1.3	1.2	1.0	1.4	1.9	2.6	10.3	12.6	15.2	360	3.2	6.4
HDFC	3,024	ADD	868,235	18,871	287	98.4	116.1	138.9	22.7	17.9	19.6	30.7	26.0	21.8	—	—	—	5.7	5.1	4.4	1.2	1.3	1.6	20.0	20.6	21.7	3,450	14.1	39.8
HDFC Bank	2,136	BUY	977,900	21,254	458	64.4	87.2	113.8	22.1	35.4	30.5	33.2	24.5	18.8	—	—	—	4.5	4.0	3.4	0.6	0.8	1.0	16.1	17.3	19.5	2,400	12.3	32.3
ICICI Bank	940	REDUCE	1,047,494	22,767	1,115	36.1	45.2	57.3	6.9	25.3	26.6	26.0	20.8	16.4	—	—	—	2.0	1.9	1.8	1.3	1.6	2.0	8.0	9.5	11.3	1,000	6.4	83.4
IDFC	187	ADD	272,568	5,924	1,459	8.2	9.2	11.3	41.1	13.3	22.8	22.9	20.2	16.5	—	—	—	3.9	2.5	2.1	0.7	0.9	1.2	16.1	15.2	14.5	205	9.7	24.7
India Infoline	93	BUY	29,044	631	312	8.1	7.2	8.7	59.2	(11.9)	21.6	11.5	13.0	10.7	—	—	—	1.8	1.5	1.3	3.4	1.6	2.2	16.4	12.9	14.4	120	28.8	4.0
Indian Bank	227	ADD	97,708	2,124	430	35.1	32.4	44.1	25.5	(7.7)	36.2	6.5	7.0	5.2	—	—	—	1.5	1.3	1.1	2.9	2.6	3.5	24.1	18.8	21.7	280	23.2	4.4
Indian Overseas Bank	116	BUY	63,033	1,370	545	13.0	16.7	24.8	(46.7)	29.0	48.4	8.9	6.9	4.7	—	—	—	1.0	0.9	0.8	3.0	3.3	3.7	9.6	11.6	15.4	160	38.3	3.7
J&K Bank	816	BUY	39,580	860	48	105.7	119.3	139.9	25.1	12.8	17.3	7.7	6.8	5.8	—	—	—	1.3	1.2	1.0	2.7	3.0	3.6	18.2	17.9	18.3	930	13.9	0.6
LIC Housing Finance	1,124	ADD	106,755	2,320	95	69.7	100.7	109.9	11.5	44.5	9.1	16.1	11.2	10.2	—	—	—	3.3	2.7	2.3	1.3	1.9	2.1	23.6	25.5	23.2	1,250	11.2	20.2
Mahindra & Mahindra Financial	569	BUY	54,610	1,187	96	35.9	46.4	56.2	60.0	29.4	21.2	15.9	12.3	10.1	—	—	—	3.2	2.7	2.3	1.3	1.7	2.1	21.5	23.5	23.8	590	3.7	1.3
Oriental Bank of Commerce	413	ADD	103,348	2,246	251	45.3	57.8	66.8	25.3	27.6	15.5	9.1	7.1	6.2	—	—	—	1.4	1.2	1.1	2.2	2.8	3.3	14.5	16.5	16.9	430	4.2	5.1
PFC	326	SELL	373,657	8,121	1,148	20.5	22.9	27.6	53.5	11.9	20.3	15.9	14.2	11.8	—	—	—	2.9	2.6	2.2	1.6	1.8	2.1	18.8	18.3	19.2	275	(15.5)	3.8
Punjab National Bank	1,118	BUY	352,619	7,664	315	123.9	133.4	163.3	26.4	7.7	22.4	9.0	8.4	6.8	—	—	—	2.1	1.8	1.5	2.0	2.4	3.0	26.2	23.2	23.7	1,300	16.2	9.2
Reliance Capital	791	ADD	194,651	4,231	246	13.8	16.1	14.1	(64.9)	17.0	(12.4)	57.3	49.0	55.9	—	—	—	2.8	2.7	2.7	0.8	0.8	0.7	5.0	5.7	4.8	875	10.7	41.2
Rural Electrification Corp.	314	ADD	310,386	6,746	987	20.3	25.3	31.2	23.2	24.5	23.4	15.5	12.4	10.1	—	—	—	2.8	2.4	2.1	2.1	2.4	3.0	22.0	21.0	22.5	325	3.4	14.2
Shriram Transport	693	ADD	154,603	3,360	223	39.2	53.4	64.8	30.1	36.4	21.3	17.7	13.0	10.7	—	—	—	4.2	3.5	2.9	1.7	2.3	2.8	28.4	28.2	28.4	700	1.0	4.3
SREI	84	NR	9,780	213	116	8.3	7.9	9.9	17.8	(4.8)	25.8	10.1	10.7	8.5	—	—	—	0.8	0.8	0.7	1.4	1.4	1.4	11.1	10.5	12.3	—	—	4.1
State Bank of India	2,586	BUY	1,642,029	35,689	635	144.4	170.9	210.6	0.5	18.3	23.2	17.9	15.1	12.3	—	—	—	2.5	2.2	1.9	1.2	1.2	1.3	14.8	15.5	16.7	2,900	12.1	95.3
Union Bank	323	BUY	163,103	3,545	505	41.1	45.7	56.9	20.2	11.3	24.5	7.9	7.1	5.7	—	—	—	10.1	10.9	11.7	1.7	1.9	2.4	26.2	23.7	24.1	400	23.9	4.5
Yes Bank	305	BUY	103,751	2,255	340	15.0	17.7	22.5	46.7	18.2	26.6	20.4	17.2	13.6	—	—	—	3.4	2.9	2.4	0.5	0.6	0.7	20.3	18.0	19.3	350	14.6	20.2
<b>Banks/Financial Institutions</b>		<b>Attractive</b>	<b>8,434,716</b>	<b>183,324</b>					<b>14.8</b>	<b>19.5</b>	<b>23.1</b>	<b>16.8</b>	<b>14.0</b>	<b>11.4</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2.7</b>	<b>2.3</b>	<b>2.0</b>	<b>1.3</b>	<b>1.5</b>	<b>1.9</b>	<b>15.8</b>	<b>16.5</b>	<b>17.7</b>			
<b>Cement</b>																													
ACC	834	ADD	156,758	3,407	188	83.2	66.0	72.4	47.9	(20.7)	9.8	10.0	12.6	11.5	5.3	5.9	4.7	2.5	2.2	1.9	3.2	2.8	2.8	29.3	20.0	19.2	920	10.3	7.7
Ambuja Cements	118	SELL	179,793	3,908	1,522	8.0	8.4	8.9	11.4	5.3	5.1	14.8	14.0	13.3	8.1	7.7	6.6	2.6	2.3	2.0	1.6	1.7	1.8	19.3	17.8	16.5	108	(8.6)	5.5
Grasim Industries	1,856	ADD	170,213	3,699	92	301.0	229.0	273.3	26.1	(23.9)	19.4	6.2	8.1	6.8	3.9	4.3	3.3	1.4	1.2	1.0	1.8	1.8	1.8	22.9	15.7	16.3	2,200	18.5	8.2
India Cements	105	SELL	32,253	701	307	10.0	11.8	12.9	(43.5)	17.7	9.0	10.5	8.9	8.2	5.4	4.9	4.7	0.8	0.7	0.7	2.0	3.0	3.0	8.2	8.7	9.0	110	4.7	2.4
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## Kotak Institutional Equities: Valuation summary of key Indian companies

Company	2-Aug-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
<b>Consumer products</b>																													
Asian Paints	2,623	BUY	251,631	5,469	96	71.5	89.0	107.1	85.3	24.4	20.4	36.7	29.5	24.5	22.6	18.4	15.1	15.7	12.2	9.8	1.0	1.4	1.7	51.8	47.9	45.4	3,000	14.4	4.7
Colgate-Palmolive (India)	850	REDUCE	115,587	2,512	136	31.1	34.5	39.6	44.2	10.9	14.6	27.3	24.6	21.5	22.4	18.2	15.6	35.4	30.2	25.8	2.4	3.0	3.5	156.1	132.3	129.4	830	(2.3)	2.3
Dabur India	198	REDUCE	171,266	3,722	866	5.8	6.8	8.2	28.1	17.6	20.8	34.1	29.0	24.0	25.3	20.3	16.8	16.3	13.4	11.0	1.6	1.8	2.2	54.3	51.1	50.7	210	6.2	4.0
GlaxoSmithKline Consumer (a)	1,785	ADD	75,054	1,631	42	55.4	70.0	82.9	23.6	26.5	18.4	32.2	25.5	21.5	17.8	15.1	12.3	8.4	6.9	5.8	1.0	1.3	1.5	27.9	29.6	29.2	1,800	0.9	0.6
Godrej Consumer Products	352	ADD	113,807	2,474	324	11.3	13.0	17.3	69.5	14.4	33.1	31.0	27.1	20.4	24.6	19.4	14.6	11.8	6.5	5.9	1.1	0.9	0.9	44.6	31.0	30.4	400	13.7	3.1
Hindustan Unilever	253	REDUCE	552,949	12,018	2,182	9.4	10.2	11.8	(0.9)	8.4	15.3	26.9	24.8	21.5	18.3	17.5	14.6	21.4	18.5	16.0	3.0	3.3	3.8	71.1	80.2	80.0	250	(1.4)	11.2
ITC	313	BUY	1,196,545	26,006	3,825	10.6	12.5	14.5	22.6	17.5	16.0	29.5	25.1	21.6	17.8	15.7	13.3	8.1	7.0	6.0	3.2	1.8	1.9	29.2	31.4	31.1	330	5.5	24.8
Jubilant Foodworks	370	REDUCE	23,601	513	64	5.5	9.7	12.1	340.6	75.7	24.6	66.7	38.0	30.5	35.5	21.4	14.9	20.1	13.1	9.2	—	—	—	46.6	41.8	35.4	370	0.1	5.9
Jyothy Laboratories	281	NR	20,406	444	73	11.0	12.9	15.3	99.6	17.0	18.3	25.5	21.8	18.4	19.7	15.0	12.3	5.0	4.3	3.7	1.7	1.2	1.7	18.6	20.2	20.5	—	—	1.3
Nestle India (a)	3,023	REDUCE	291,445	6,334	96	74.4	83.9	100.9	27.0	12.8	20.1	40.6	36.0	30.0	26.8	24.1	20.8	50.1	41.5	34.2	1.6	2.0	2.4	136.0	126.1	125.1	3,000	(0.8)	1.8
Tata Global Beverages	117	ADD	72,538	1,577	618	6.6	7.4	8.4	23.4	11.1	13.8	17.7	16.0	14.0	11.4	9.2	8.3	1.5	1.4	1.3	1.8	2.0	2.3	10.9	11.4	12.0	125	6.6	4.1
<b>Consumer products</b>	<b>Attractive</b>		<b>2,884,830</b>	<b>62,700</b>					<b>24.0</b>	<b>15.8</b>	<b>17.4</b>	<b>30.2</b>	<b>26.1</b>	<b>22.2</b>	<b>19.4</b>	<b>17.0</b>	<b>14.2</b>	<b>10.2</b>	<b>8.6</b>	<b>7.5</b>	<b>2.5</b>	<b>2.0</b>	<b>2.3</b>	<b>33.7</b>	<b>33.1</b>	<b>33.6</b>			
<b>Constructions</b>																													
IVRCL	179	BUY	47,915	1,041	267	7.8	10.3	12.4	(7.7)	32.4	19.7	23.0	17.3	14.5	12.1	9.9	8.4	2.4	2.1	1.8	0.2	0.2	0.2	10.9	12.8	13.5	215	19.8	7.3
Nagarjuna Construction Co.	176	BUY	45,043	979	257	7.1	11.5	14.3	6.1	61.1	24.1	24.6	15.3	12.3	12.0	9.1	7.5	2.0	1.8	1.6	0.9	1.1	1.1	9.3	12.5	13.9	210	19.6	3.2
Punj Lloyd	132	REDUCE	44,885	976	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(10.2)	13.6	11.1	36.8	7.2	6.6	1.5	1.3	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	5.7	12.1
Sadbhav Engineering	1,400	BUY	21,007	457	15	43.1	62.0	84.0	(15.8)	43.9	35.5	32.5	22.6	16.7	17.9	11.6	9.4	5.1	3.4	2.9	0.2	0.4	0.4	13.3	14.1	17.4	1,575	12.5	0.3
<b>Construction</b>	<b>Attractive</b>		<b>158,850</b>	<b>3,453</b>					<b>(96.9)</b>	<b>14,481</b>	<b>24.4</b>	<b>2,346.1</b>	<b>16.1</b>	<b>12.9</b>	<b>16.7</b>	<b>8.7</b>	<b>7.6</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>	<b>0.3</b>	<b>0.5</b>	<b>0.7</b>	<b>0.1</b>	<b>11.3</b>	<b>12.5</b>			
<b>Energy</b>																													
Aban Offshore	880	ADD	38,273	832	43	94.5	154.1	139.3	(2.5)	63.0	(9.6)	9.3	5.7	6.3	8.5	6.8	6.6	1.7	1.6	1.4	0.4	0.4	0.5	21.7	33.1	22.9	935	6.3	55.8
Bharat Petroleum	644	ADD	232,669	5,057	362	62.1	57.4	65.7	20.1	(8)	14.5	10	11	9.8	5.7	5.5	5.0	1.6	1.5	1.3	2.2	2.9	3.4	15.6	13.0	13.5	690	7.2	27.4
Cairn india	341	SELL	646,771	14,057	1,897	5.5	20.5	36.0	29.0	270.6	75.1	61.5	16.6	9.5	48.4	9.9	6.1	1.9	1.7	1.5	—	—	4.4	3.1	10.7	17.0	270	(20.8)	19.0
Castrol India (a)	462	REDUCE	114,157	2,481	247	15.4	20.7	21.2	45	34	2.4	30	22	21.8	17.8	13.8	13.3	24.8	23.3	22.1	2.7	3.6	3.7	83.8	107.4	103.7	380	(17.7)	1.1
GAIL (India)	447	BUY	566,884	12,321	1,268	24.8	27.2	40.2	11.7	10.1	47.4	18.1	16.4	11.1	10.1	10.2	8.2	3.1	2.8	2.3	1.7	1.9	2.8	17.4	17.0	21.6	550	23.1	16.9
GSPL	109	SELL	61,110	1,328	562	7.4	7.2	8.0	235	(3)	12.1	15	15	13.5	7.5	7.4	6.2	3.6	3.0	2.7	0.9	1.6	3.0	27.3	21.4	20.8	83	(23.6)	4.3
Hindustan Petroleum	435	ADD	147,622	3,208	339	52.6	53.5	58.6	210.1	1.8	9.5	8.3	8.1	7.4	3.0	3.0	2.7	1.1	1.0	0.9	2.8	3.8	4.2	13.3	12.2	12.1	535	22.9	34.2
Indian Oil Corporation	358	ADD	869,327	18,894	2,428	49.9	38.8	41.1	407	(22)	5.9	7	9	8.7	4.9	4.9	4.4	1.6	1.5	1.3	3.6	3.3	3.5	22.7	15.6	15.1	415	15.9	18.0
Oil India	1,385	BUY	332,981	7,237	240	115.1	133.6	153.4	13.8	16.1	14.8	12.0	10.4	9.0	5.1	4.0	3.3	2.3	2.0	1.7	2.5	3.2	3.7	16.7	18.1	18.3	1,550	11.9	7.8
Oil & Natural Gas Corporation	1,278	BUY	2,733,177	59,404	2,139	91.4	116.6	136.1	1	27	16.7	14	11	9.4	5.1	4.4	3.5	2.1	1.9	1.7	2.6	3.3	3.8	14.6	16.8	17.6	1,480	15.8	38.5
Petronet LNG	92	REDUCE	69,225	1,505	750	5.4	5.8	7.9	(22.0)	8.1	35.3	17.1	15.8	11.7	10.1	9.4	7.7	2.7	2.4	2.1	1.9	2.2	3.0	15.9	15.1	17.8	86	(6.8)	4.2
Reliance Industries	1,015	SELL	3,019,301	65,623	2,976	49.6	59.0	74.4	(2)	19	26.2	20	17	13.6	10.3	8.1	6.7	2.0	1.8	1.6	0.7	0.8	1.0	11.4	12.3	13.9	1,060	4.5	116.1
<b>Energy</b>	<b>Cautious</b>		<b>8,831,497</b>	<b>191,947</b>					<b>38.1</b>	<b>16.2</b>	<b>22.0</b>	<b>14.6</b>	<b>12.6</b>	<b>10.3</b>	<b>7.2</b>	<b>6.0</b>	<b>5.0</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>	<b>1.8</b>	<b>2.1</b>	<b>2.7</b>	<b>13.8</b>	<b>14.4</b>	<b>15.8</b>			
<b>Industrials</b>																													
ABB	803	REDUCE	170,226	3,700	212	16.7	18.3	33.1	(35.2)	9.3	80.7	48.0	43.9	24.3	27.5	25.2	14.0	7.0	6.2	5.1	0.2	0.4	0.4	15.6	15.0	23.0	725	(9.7)	7.5
BGR Energy Systems	773	BUY	55,656	1,210	72	16.0	28.0	39.7	32.2	74.6	41.9	48.2	27.6	19.5	27.1	15.7	11.4	9.9	7.9	6.0	0.4	0.9	1.0	22.3	31.8	35.1	875	13.2	3.5
Bharat Electronics	1,815	REDUCE	145,196	3,156	80	93.9	107.3	122.4	(9.6)	14.3	14.1	19.3	16.9	14.8	9.4	7.9	6.6	3.3	2.9	2.5	1.4	1.4	1.4	17.9	18.0	17.9	1,835	1.1	2.1
Bharat Heavy Electricals	2,454	REDUCE	1,201,184	26,107	490	88.1	116.3	135.4	37.9	32.1	16.4	27.9	21.1	18.1	15.6	11.9	10.0	7.5	6.0	4.8	0.8	1.0	1.2	29.9	31.5	29.2	2,600	6.0	28.8
Crompton Greaves	278	BUY	178,112	3,871	642	12.8	14.0	16.3	46.5	9.0	16.6	16.6	19.8	17.0	12.5	11.0	9.3	7.1	5.5	4.3	0.5	0.7	0.8	37.9	31.1	28.2	320	15.3	8.7
Larsen & Toubro	1,812	ADD	1,091,367	23,720	602	57.9	71.7	89.0	15.6	23.8	24.1	31.3	25.3	20.4	17.5	13.8	11.6	4.9	4.1	3.5	0.7	0.7	0.8	18.6	17.7	18.5	2,075	14.5	59.6
Maharashtra Seamless	406	BUY	28,628	622	71	40.2	43.6	49.8	12.1	8.5	14.2	10.1	9.3	8.1	5.4	4.7	3.7	1.8	1.6	1.3	1.5	1.9	2.5	19.3	17.9	17.7	450	10.9	0.4
Siemens	701	REDUCE	236,450	5,139	337	25.2	27.0	31.9	56.4	7.3	18.0	27.9	26.0	22.0	16.9	15.3	12.6	6.9	5.8	4.8	0.7	0.8	0.9	27.6	24.2	23.8	635	(9.5)	7.0
Suzlon Energy	57	REDUCE	91,010	1,978	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(9.6)	220.1	10.8	16.8	8.7	5.6	0.8	0.8	0.8	—	—	0.4	(8.8)	0.4	7.5	70	22.6	



## Kotak Institutional Equities: Valuation summary of key Indian companies

Company	2-Aug-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
<b>Infrastructure</b>																													
Container Corporation	1,399	REDUCE	181,777	3,951	130	61.1	74.3	85.9	0.3	21.7	15.6	22.9	18.8	16.3	16.2	13.2	11.1	4.2	3.6	3.1	1.0	1.2	1.4	19.6	20.6	20.5	1,250	(10.6)	1.9
GMR Infrastructure	57	ADD	209,936	4,563	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	132.8	260.0	433.1	23.4	15.1	14.2	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	13.5	5.4
GVK Power & Infrastructure	44	BUY	69,406	1,509	1,579	0.8	1.1	1.4	6.7	33.5	32.4	54.0	40.5	30.6	18.5	16.9	17.3	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	22.9	5.2
IRB Infrastructure	288	RS	95,704	2,080	332	9.7	12.6	12.1	83.8	29.2	(3.7)	29.6	22.9	23.8	13.8	12.2	11.3	4.1	3.2	2.6	—	—	—	15.6	15.7	11.9	—	—	8.1
Mundra Port and SEZ	738	REDUCE	297,897	6,475	403	15.1	24.1	35.7	40.8	59.5	48.4	48.9	30.7	20.7	31.4	20.2	14.4	8.2	6.3	4.7	—	—	—	18.5	23.2	26.1	725	(1.8)	5.4
<b>Infrastructure</b>																													
<b>Attractive</b>																													
<b>854,720 18,577 12.7 29.5 24.1 42.5 32.8 26.4 21.3 15.7 13.5 3.6 3.0 2.7 — — 0.4 8.4 9.2 10.2</b>																													
<b>Media</b>																													
DB Corp	243	BUY	44,096	958	182	10.6	13.0	15.7	286.5	22.4	21.0	22.8	18.6	15.4	12.7	10.5	8.6	6.8	5.5	4.8	0.8	1.2	1.6	40.3	32.6	33.2	290	19.5	0.3
DishTV	46	ADD	49,129	1,068	186	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(18.5)	(26.0)	353.2	61.2	24.7	13.1	12.0	22.1	20.8	—	—	—	249.3	(59.7)	6.1	47	1.7	3.6
HT Media	157	NR	36,778	799	235	6.1	7.7	9.2	623.3	25.9	19.8	25.6	20.4	17.0	12.8	10.7	8.9	3.8	3.4	3.1	0.6	1.3	2.6	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	122	BUY	36,592	795	301	5.9	6.6	7.7	92.3	12.3	17.8	20.8	18.5	15.7	12.5	10.7	9.2	6.0	5.5	5.0	2.9	3.3	4.1	30.1	30.8	33.3	140	15.2	0.6
Sun TV Network	455	REDUCE	179,149	3,894	394	13.1	18.0	22.5	44.8	36.9	25.2	34.6	25.3	20.2	19.6	14.5	11.7	9.2	7.8	6.5	1.6	1.6	2.0	28.4	33.7	35.1	420	(7.6)	2.0
Zee Entertainment Enterprises	302	REDUCE	131,214	2,852	435	10.6	11.8	14.4	25.0	12.0	21.5	28.6	25.5	21.0	21.3	16.9	13.5	3.5	3.4	3.2	0.8	1.0	1.2	13.1	13.8	16.0	270	(10.6)	8.8
<b>Media</b>																													
<b>Neutral</b>																													
<b>476,957 10,366 185.5 35.8 37.2 39.3 28.9 21.1 18.9 14.5 11.4 5.8 5.3 4.8 1.2 1.4 1.7 14.7 18.4 22.8</b>																													
<b>Metals</b>																													
Hindalco Industries	164	ADD	314,653	6,839	1,914	5.7	12.6	15.1	(64.5)	122.5	19.4	29.0	13.0	10.9	8.2	8.7	8.8	1.4	1.3	1.2	0.8	0.8	0.8	10.3	10.4	11.2	185	12.5	42.8
Hindustan Zinc	1,047	BUY	442,391	9,615	423	95.6	102.5	116.0	48.2	7.2	13.1	10.9	10.2	9.0	6.9	5.5	3.8	2.3	1.9	1.6	0.6	0.6	0.6	24.1	20.8	19.4	1,240	18.4	4.3
Jindal Steel and Power	625	REDUCE	581,788	12,645	931	38.4	50.9	56.0	17.3	32.7	9.9	16.3	12.3	11.2	11.4	8.1	6.8	5.2	3.6	2.7	0.2	0.4	0.4	37.8	34.9	28.0	625	0.0	28.9
JSW Steel	1,137	REDUCE	286,860	6,235	252	80.4	68.5	108.5	48.1	(14.8)	58.5	14.1	16.6	10.5	10.7	9.0	6.0	2.6	1.6	1.2	0.6	0.8	0.8	16.0	12.0	13.3	1,075	(0.5)	57.5
National Aluminium Co.	424	SELL	273,059	5,935	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	42.1	15.1	15.3	18.6	7.3	6.7	2.5	2.2	1.9	0.5	0.5	0.5	6.1	15.4	13.3	320	(24.5)	1.0
Sesa Goa	362	REDUCE	321,761	6,993	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.2	6.2	7.8	10.1	4.3	4.3	4.0	2.5	1.9	1.0	1.0	1.0	35.8	41.5	23.7	340	(6.0)	78.4
Sterlite Industries	180	ADD	604,594	13,140	3,362	12.0	14.2	19.3	2.8	18.4	35.5	15.0	12.6	9.3	12.6	11.1	7.1	1.6	1.5	1.3	0.5	0.5	0.5	12.9	12.2	14.6	210	16.8	46.6
Tata Steel	547	BUY	485,630	10,555	887	3.2	78.7	93.5	(97.1)	2,331.6	18.7	169.0	6.9	5.9	18.1	6.1	5.2	1.9	1.5	1.3	1.5	1.5	1.5	1.1	24.7	23.8	700	27.9	110.3
<b>Metals</b>																													
<b>Cautious</b>																													
<b>3,310,735 71,957 (28.9) 78.8 13.8 18.5 10.3 9.1 11.5 7.4 6.1 2.3 1.8 1.5 0.7 0.7 0.7 12.4 17.8 16.8</b>																													
<b>Pharmaceutical</b>																													
Biocon	313	BUY	62,650	1,362	200	14.8	17.8	22.0	216.4	19.8	23.7	21.1	17.6	14.2	12.2	10.2	8.4	3.5	3.0	2.6	—	—	0.1	17.9	18.8	20.0	400	27.7	3.8
Cipla	326	REDUCE	261,471	5,683	803	13.5	12.8	15.6	35.9	(4.9)	21.9	24.2	25.4	20.8	17.9	16.8	14.1	4.4	3.9	3.4	0.8	0.8	0.8	19.9	16.3	17.4	280	(14.0)	9.4
Cadila Healthcare	629	REDUCE	128,848	2,800	205	24.7	33.2	37.7	66.9	34.2	13.7	25.5	19.0	16.7	16.6	12.8	11.3	7.9	5.9	4.7	0.8	1.1	1.2	36.0	35.8	31.3	580	(7.8)	1.5
Dishman Pharma & chemicals	216	BUY	17,572	382	81	14.4	17.2	28.8	(19.7)	19.4	67.0	15.0	12.5	7.5	10.8	9.0	6.3	2.2	1.9	1.5	—	—	—	15.5	16.3	22.7	300	38.9	0.5
Divi's Laboratories	757	ADD	99,992	2,173	132	25.8	34.3	43.9	(18.3)	33.3	27.9	29.4	22.0	17.2	21.9	16.2	12.4	6.7	5.5	4.4	—	—	—	24.8	27.2	28.4	800	5.7	3.1
Dr Reddy's Laboratories	1,356	REDUCE	229,718	4,993	169	48.1	66.7	70.8	48.3	38.8	6.1	28.2	20.3	19.2	15.6	11.8	10.9	6.1	4.8	4.0	0.5	0.6	0.7	22.2	26.3	22.6	1,150	(15.2)	17.6
GlaxoSmithkline Pharmaceuticals (a)	2,015	REDUCE	170,664	3,709	85	59.1	69.7	79.2	8.1	18.0	13.5	34.1	28.9	25.4	19.5	16.6	14.3	9.6	8.1	6.9	—	—	—	29.8	30.4	29.4	1,880	(6.7)	1.7
Glenmark Pharmaceuticals	270	NR	74,068	1,610	274	12.7	19.2	20.3	14.7	50.6	5.6	21.2	14.1	13.3	13.7	8.9	8.5	3.1	2.6	2.2	—	—	—	16.7	19.9	17.6	—	—	5.2
Jubilant Organosys	351	BUY	55,690	1,210	159	26.5	31.8	38.9	49.0	19.8	22.4	13.2	11.0	9.0	9.6	8.7	7.0	2.5	2.1	1.7	0.6	0.7	0.9	26.3	21.7	21.1	400	14.1	2.6
Lupin	1,905	ADD	168,520	3,663	88	77.0	99.1	127.6	27.9	28.7	28.7	24.7	19.2	14.9	21.1	15.3	11.7	7.3	5.5	4.2	0.7	0.8	0.8	36.6	33.0	32.2	2,000	5.0	8.2
Piramal Healthcare	486	REDUCE	101,564	2,207	209	23.4	13.4	11.0	35.5	(42.9)	(17.6)	20.8	36.4	44.1	15.3	5.6	3.7	6.0	1.1	0.9	1.1	1.2	0.7	32.1	141.2	16.6	490	0.8	30.4
Ranbaxy Laboratories	454	SELL	194,344	4,224	428	7.1	28.0	11.7	(128.4)	297.1	(58.3)	64.3	16.2	38.8	15.8	9.4	18.8	5.0	3.9	3.6	—	0.9	0.9	6.9	24.6	9.1	220	(51.5)	10.2
Sun Pharmaceuticals	1,776	REDUCE	367,928	7,997	207	65.2	80.0	85.1	(25.7)	22.6	6.4	27.2	22.2	20.9	20.6	16.1	14.3	4.4	3.8	3.3	0.8	0.8	0.8	17.8	18.8	17.2	1,685	(5.1)	7.8
<b>Pharmaceuticals</b>																													
<b>Attractive</b>																													
<b>1,933,028 42,013 44.7 30.9 5.5 26.9 20.5 19.5 16.8 12.6 11.9 5.1 3.6 3.1 0.5 0.6 0.6 18.9 17.7 15.9</b>																													
<b>Property</b>																													
DLF	304	ADD	518,776	11,275	1,708	9.6	16.3	25.1	(64.0)	69.4	53.8	31.5	18.6	12.1	20.1	12.7	9.6	1.9	1.8	1.6	1.0	1.0	1.6	6.4	9.9	13.8	340	12.0	47.7
Housing Development & Infrastructure	269	ADD	103,503	2,250	385	12.4	14.2	16.7	(41.2)	14.2	17.9	21.7	19.0	16.1	10.8	12.2	8.1	1.5	1.3	1.2	1.0	1.9	1.9	10.0	9.3	9.9	318	18.2	36.2
Indiabulls Real Estate	167	RS	67,085	1,458	401	1.6	4.0	8.0	109.7	151.7	101.7	105.4	41.9	20.8	(75.6)	37.5	9.7	0.7	0.7	0.7	0.0	0.0	0.0	0.8	1.8	3.5	285	70.5	19.2
Mahindra Life Space Developer	476	ADD	20,024	435	42	18.9	20.3	27.5	82.4	7.3	35.8	25.2	23.5	17.3	21.3	17.7	9.8	2.1	2.0	1.8	0.8	0.8	0.8	8.4	8.5	10.7	540	13.4	0.5
Phoenix Mills	219	BUY	31,786	691	145	4.1	6.6	7.6	(16.7)	59.0	15.6	53.1	33.4	28.9	42.5	23.4	19.5	2.1	2.0	1.9	0.5	0.7	0.9	3.9	6.0	6.7	260	18.5	0.8
Puravankara Projects	120	REDUCE	25,622	557	213	6.4	8.2	8.1	(5.2)	28.4	(2.0)	18.7																	

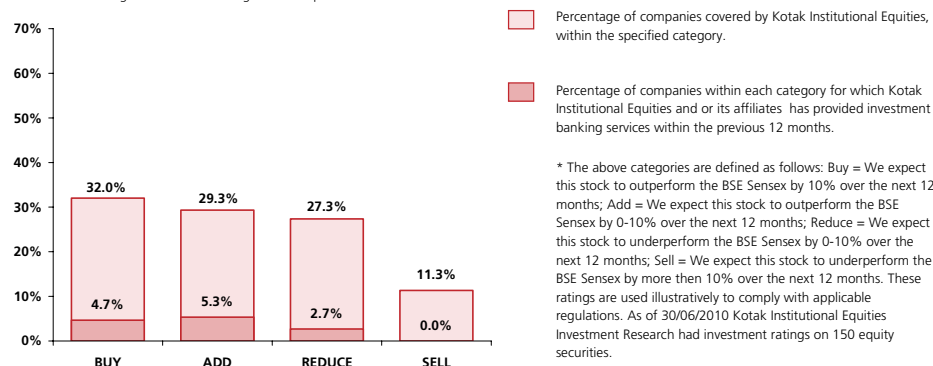
## Kotak Institutional Equities: Valuation summary of key Indian companies

Company	2-Aug-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E				
<b>Retail</b>																														
Titan Industries	2,817	ADD	125,042	2,718	44	57.3	83.4	110.2	29.3	45.6	32.2	49.2	33.8	25.6	31.3	22.8	17.4	17.0	12.1	8.6	0.5	0.4	0.5	38.7	41.8	39.4	3,000	6.5	5.3	
<b>Retail</b>		<b>Neutral</b>	<b>125,042</b>	<b>2,718</b>					<b>29.3</b>	<b>45.6</b>	<b>32.2</b>	<b>49.2</b>	<b>33.8</b>	<b>25.6</b>	<b>31.3</b>	<b>22.8</b>	<b>17.4</b>	<b>17.0</b>	<b>12.1</b>	<b>8.6</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>	<b>34.5</b>	<b>35.8</b>	<b>33.8</b>				
<b>Sugar</b>																														
Bajaj Hindustan	116	SELL	22,284	484	191	9.7	9.9	8.9	201.1	2.2	(10.4)	12.0	11.7	13.1	7.0	5.8	5.5	0.9	0.8	0.8	0.6	0.6	0.6	8.1	7.5	6.3	99	(15.0)	6.1	
Balrampur Chini Mills	85	ADD	21,721	472	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	19.5	8.1	12.1	9.0	5.5	6.0	1.6	1.4	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	9.9	5.8	
Shree Renuka Sugars	64	BUY	43,135	938	670	9.9	7.6	7.8	196.4	(23.2)	3.1	6.5	8.5	8.2	4.5	5.0	4.3	1.7	1.4	1.2	0.6	0.5	0.5	32.0	18.1	15.7	76	18.0	13.8	
<b>Sugar</b>		<b>Cautious</b>	<b>87,140</b>	<b>1,894</b>					<b>99.6</b>	<b>0.7</b>	<b>(9.4)</b>	<b>9.1</b>	<b>9.0</b>	<b>9.9</b>	<b>6.0</b>	<b>5.4</b>	<b>5.1</b>	<b>1.4</b>	<b>1.2</b>	<b>1.1</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>15.1</b>	<b>13.2</b>	<b>10.7</b>				
<b>Technology</b>																														
HCL Technologies	393	REDUCE	271,067	5,891	690	17.5	24.5	30.1	0.2	39.7	23.0	22.4	16.0	13.0	10.9	9.5	7.8	3.9	3.2	2.8	1.0	1.0	1.5	19.3	22.0	21.2	390	(0.7)	12.3	
Hexaware Technologies	82	REDUCE	11,772	256	144	9.3	5.0	9.4	127.7	(46.3)	87.7	8.8	16.3	8.7	4.4	10.4	5.3	1.4	1.3	1.1	1.2	1.2	1.2	17.8	8.2	14.0	72	(12.1)	2.9	
Infosys Technologies	2,797	BUY	1,605,449	34,893	574	108.3	124.1	150.0	5.7	14.5	20.9	25.8	22.5	18.6	18.8	15.4	12.5	7.0	5.8	4.8	0.9	1.2	1.5	30.1	28.0	28.0	3,100	10.8	59.0	
Mphasis BFL	599	REDUCE	124,979	2,716	208	43.6	49.0	45.6	207.5	12.5	(7.0)	13.8	12.2	13.1	10.9	9.7	8.9	5.3	3.8	3.0	0.6	0.7	0.8	48.1	36.4	25.8	550	(8.2)	7.7	
Mindtree	529	REDUCE	21,755	473	41	52.2	32.6	51.6	294.3	(37.5)	58.1	10.1	16.2	10.3	8.7	9.2	6.1	3.2	2.7	2.2	0.4	0.6	1.0	35.2	19.2	23.7	550	4.0	1.1	
Patni Computer Systems	464	REDUCE	61,759	1,342	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.7	11.2	12.4	6.3	5.4	4.5	1.7	1.6	1.5	1.5	1.8	1.6	18.2	15.1	12.4	450	(2.9)	7.2	
Polaris Software Lab	172	SELL	17,178	373	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.2	9.0	9.2	5.5	7.1	6.1	2.0	1.7	1.5	2.0	2.1	2.3	18.6	20.1	17.2	180	4.5	4.6	
TCS	838	BUY	1,640,721	35,660	1,957	35.1	42.1	48.2	32.8	19.8	14.5	23.9	19.9	17.4	18.0	14.5	12.0	7.8	6.5	5.4	2.4	2.0	2.3	37.6	35.6	33.9	965	15.1	29.7	
Wipro	414	ADD	1,012,308	22,002	2,447	18.9	22.3	25.7	22.1	18.1	15.6	21.9	18.6	16.1	16.6	13.4	11.0	5.2	4.2	3.5	0.9	1.1	1.3	26.5	25.0	23.7	465	12.4	13.6	
<b>Technology</b>		<b>Attractive</b>	<b>4,766,988</b>	<b>103,608</b>					<b>22.7</b>	<b>17.4</b>	<b>16.0</b>	<b>22.8</b>	<b>19.4</b>	<b>16.8</b>	<b>16.4</b>	<b>13.6</b>	<b>11.2</b>	<b>6.0</b>	<b>5.0</b>	<b>4.2</b>	<b>1.4</b>	<b>1.5</b>	<b>1.7</b>	<b>26.4</b>	<b>25.7</b>	<b>24.9</b>				
<b>Telecom</b>																														
Bharti Airtel	318	REDUCE	1,207,827	26,251	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	13.2	14.9	13.1	7.5	7.1	6.1	2.7	2.3	2.0	0.9	1.3	1.6	24.1	17.0	16.5	290	(8.8)	52.4	
IDEA	72	REDUCE	236,761	5,146	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	26.3	32.7	47.3	8.9	9.7	8.2	2.1	2.0	1.9	—	—	—	7.2	6.2	4.2	55	(23.3)	12.6	
MTNL	67	SELL	42,053	914	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.3)	(6.4)	(7.3)	(0.6)	(0.7)	(1.0)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(25.1)	3.1	
Reliance Communications	179	SELL	380,761	8,276	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	8.1	12.7	9.8	7.3	8.1	6.1	1.0	0.9	0.8	0.4	—	—	—	11.7	7.4	8.9	175	(2.0)	43.8
Tata Communications	275	REDUCE	78,375	1,703	285	14.0	15.2	15.7	3.2	8.2	3.5	19.6	18.1	17.5	8.0	7.4	7.0	1.1	1.1	1.0	2.4	2.7	3.1	5.2	5.5	5.5	225	(18.2)	1.8	
<b>Telecom</b>		<b>Cautious</b>	<b>1,945,776</b>	<b>42,290</b>					<b>(15.1)</b>	<b>(17.8)</b>	<b>15.7</b>	<b>13.6</b>	<b>16.6</b>	<b>14.3</b>	<b>7.9</b>	<b>8.0</b>	<b>6.6</b>	<b>1.7</b>	<b>1.6</b>	<b>1.4</b>	<b>0.8</b>	<b>0.9</b>	<b>1.1</b>	<b>12.7</b>	<b>9.5</b>	<b>10.0</b>				
<b>Utilities</b>																														
Adani Power	135	ADD	293,646	6,382	2,180	0.8	4.9	16.4	—	524.1	235.3	171.9	27.5	8.2	131.7	17.9	6.5	5.3	4.5	2.9	—	—	—	4.4	17.7	42.8	130	(3.5)	2.6	
CESC	398	ADD	49,774	1,082	125	35.2	37.3	44.3	9.3	5.7	18.9	11.3	10.7	9.0	7.2	6.0	6.4	1.2	1.1	1.0	1.1	1.2	1.4	11.1	10.4	11.3	466	17.0	2.1	
Lanco Infratech	67	BUY	162,217	3,526	2,405	2.0	3.7	5.0	35.1	87.6	34.9	34.3	18.3	13.6	20.3	8.6	8.1	4.7	3.8	3.0	—	—	—	15.8	21.2	22.7	77	14.2	7.6	
NHPC	31	REDUCE	384,398	8,355	12,301	1.9	1.3	1.6	74.9	(27.5)	20.6	16.9	23.3	19.3	10.8	11.6	9.0	1.5	1.5	1.4	1.8	1.1	1.4	9.7	6.4	7.4	28	(10.4)	20.2	
NTPC	198	REDUCE	1,633,426	35,502	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.4	15.8	13.5	14.1	12.3	10.3	2.6	2.3	2.1	2.0	2.4	2.8	14.5	15.4	16.6	210	6.0	10.2	
Reliance Infrastructure	1,117	ADD	274,739	5,971	2,466	61.8	65.0	84.5	(1.5)	5.3	30.0	18.1	17.2	13.2	19.3	17.0	11.9	1.4	1.3	1.2	0.7	0.8	0.9	6.3	7.3	10.1	1,160	3.9	49.4	
Reliance Power	162	SELL	389,233	8,460	2,397	2.9	3.1	5.3	179.7	9.8	70.0	56.9	51.8	30.5	231.5	36.1	2.7	2.6	2.4	—	—	—	—	4.8	5.1	8.1	135	(16.9)	22.8	
Tata Power	1,326	ADD	327,241	7,112	247	60.2	69.2	88.5	20.1	15.0	27.8	22.0	19.1	15.0	13.8	12.5	10.7	2.5	2.3	2.0	0.9	1.1	1.1	12.9	12.5	14.3	1,420	7.1	10.6	
<b>Utilities</b>		<b>REDUCE</b>	<b>3,514,675</b>	<b>76,389</b>					<b>23.5</b>	<b>16.4</b>	<b>35.4</b>	<b>22.3</b>	<b>19.1</b>	<b>14.1</b>	<b>17.5</b>	<b>14.4</b>	<b>10.7</b>	<b>2.4</b>	<b>2.2</b>	<b>2.0</b>	<b>1.3</b>	<b>1.4</b>	<b>1.6</b>	<b>10.6</b>	<b>11.4</b>	<b>13.8</b>				
<b>Others</b>																														
Havells India	667	SELL	40,153	873	60	5.3	31.6	45.0	3.7	497.9	42.6	126.3	21.1	14.8	17.3	10.7	8.7	11.0	7.3	4.9	—	—	—	6.6	41.6	39.7	497	(25.5)	6.8	
Jaiprakash Associates	118	BUY	251,946	5,476	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	81.3	21.4	16.0	21.1	15.6	11.1	3.0	2.5	2.2	—	—	—	4.1	12.8	14.9	170	43.6	31.7	
Jindal Saw	199	ADD	58,402	1,269	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	7.9	10.6	11.1	5.2	5.9	5.7	1.5	1.3	1.2	—	—	—	20.5	12.9	11.1	256	28.9	3.7	
PSL	134	BUY	7,166	156	53	22.9	25.4	28.2	3.3	10.6	11.0	5.8	5.3	4.8	3.3	2.7	2.9	0.8	0.7	0.6	4.8	4.8	5.2	12.6	11.7	12.0	175	30.5	0.6	
Sintex	371	BUY	50,653	1,101	136	24.1	28.3	33.3	0.5	17.4	17.5	15.4	13.1	11.2	12.6	8.5	7.3	2.4	2.0	1.7	—	—	—	15.5	15.3	15.2	380	2.4	4.5	
Tata Chemicals	353	REDUCE	85,807	1,865	243	26.4	33.2	37.5	(27.1)	25.8	12.7	13.3	10.6	9.4	7.0	6.0	5.1	1.8	1.6	1.4	2.5	2.6	2.6	16.0	18.7	18.3	360	2.1	3.2	
Welspun Corp	248	ADD	50,998	1,108	205	32.0	27.0	25.6	85.2	(15.7)	(5.4)	7.7	9.2	9.7	4.5	4.9	4.6	1.6	1.3	1.2	0.9	0.9	0.9	24.8	15.6	12.8	286	15.2	5.7	
United Phosphorus	185	BUY	85,505	1,858	463	11.9	13.8	17.4	18.8	15.8	25.9	15.5	13.4	10.6	8.9	8.1	6.5	2.5	2.2	1.8	0.8	1.1	1.1	17.7	17.2	18.3				

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As of June 30, 2010

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## Corporate Office

Kotak Securities Ltd.  
Bakhtawar, 1st Floor  
229, Nariman Point  
Mumbai 400 021, India  
Tel: +91-22-6634-1100

## Overseas Offices

Kotak Mahindra (UK) Ltd  
6th Floor, Portsoken House  
155-157 The Minories  
London EC 3N 1 LS  
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc  
50 Main Street, Suite No.310  
Westchester Financial Centre  
White Plains, New York 10606  
Tel:+1-914-997-6120

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