

Contents

Updates

Unitech: Core profitability limited, highlighting issues on revenue booking

Banks/Financial Institutions: Taking stock: Trends reiterate our bias towards select public sector banks

Utilities: Proposed direct tax code—higher tax outgo for power utilities

News Round-up

- The country's largest auto maker, Tata Motors, may buy the entire stake of its partner Thonburi Automotive in the Thailand venture in case the overseas entity is unable to raise fresh equity. In its annual report for 2008-09, the Indian car major has said it may have to purchase Thonburi's 20 per cent stake in Tata Motors (Thailand) Ltd (TMTL), in case the JV is not able to raise fresh equity for its operations. *(BS)*
- KPMG's business outlook survey reveals that Indian manufacturers are more optimistic about their business in the coming year, due to indications of firmer demand and improved domestic and global economic prospects.
- As many as 22.5 per cent of Indian manufacturers surveyed now expect a rise in business activity in the coming year, as compared to a generally negative perception in January 2009, according to a KPMG Survey. *(BS)*
- Small car major Maruti Suzuki India (MSI) will compete with big car makers, such as Honda and Toyota, when it launches the sports luxury car Kizashi in India in 2010. *(BL)*
- Returning to a high growth rate is the greatest challenge facing India, with a weak monsoon making the task harder, but the economy may improve by year-end, Prime Minister Manmohan Singh said in his Independence Day speech. *(Mint)*
- Dabur India is looking at acquisitions especially in sub-Saharan Africa this fiscal and is ready to spend up to Rs1,000 crore on that with some borrowings. *(Mint)*
- Reliance Industries' Bay of Bengal gas fields will fire automobiles and kitchens in the national capital from next week after Indraprastha Gas Ltd today signed agreements to buy the fuel. RIL and IGL — the sole retailer of CNG to automobiles and piped gas to industries and households — signed the Gas Sales and Purchase Agreement (GSPA) for 0.308 million cubic metres per day of gas from KG-D6 fields. *(Mint)*
- In a move that may impress investors ahead of its maiden public sale of shares but add to the costs of cement, power and steel companies, India's largest coal miner has proposed an 11% increase in coal prices.
- State-run Coal India Ltd, or CIL, argues its price hike will have only a marginal impact on inflation. The price increase will net CIL an additional revenue of Rs4,629 crore and boost profits ahead of a public offer in the stock market. *(Mint)*

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

EQUITY MARKETS

India	Change %			
	14-Aug	1-day	1-mo	3-mo
Sensex	15,412	(0.7)	4.5	26.6
Nifty	4,580	(0.5)	4.7	24.7
Global/Regional indices				
Dow Jones	9,321	(0.8)	6.6	12.7
Nasdaq Composite	1,986	(1.2)	5.2	18.2
FTSE	4,714	(0.9)	7.4	8.4
Nikkei	10,359	(2.3)	10.3	11.8
Hang Seng	20,893	0.2	11.1	24.4
KOSPI	1,575	(1.0)	9.4	13.2
Value traded - India				
Cash (NSE+BSE)	219.0		258.0	266.5
Derivatives (NSE)	638.9		543.1	510
Deri. open interest	782.5		770	785

Forex/money market

	Change, basis points			
	14-Aug	1-day	1-mo	3-mo
Rs/US\$	48.2	13	(73)	(163)
10yr govt bond, %	7.1	8	11	73
Net investment (US\$m)				
	13-Aug		MTD	CYTD
FII	(23)		(110)	7,259
MF	98		(166)	730

Top movers -3mo basis

	Change, %			
	14-Aug	1-day	1-mo	3-mo
Best performers				
SCS IN Equity	103.5	(1.9)	15.8	131.4
IVRC IN Equity	318.1	(1.2)	(4.3)	96.3
JSP IN Equity	3120.1	(0.5)	19.0	94.5
WGS IN Equity	216.7	(1.9)	10.7	93.4
FTECH IN Equity	1461.4	(2.9)	8.2	91.9
Worst performers				
SUNP IN Equity	1223.3	(1.7)	(1.7)	(6.1)
TCOM IN Equity	502.4	1.9	2.2	(4.1)
BHARTI IN Equity	408.8	(1.1)	(1.1)	2.2
RIL IN Equity	2036.5	0.6	5.1	4.4
RPET IN Equity	126.1	0.4	4.5	4.6

AUGUST 17, 2009
UPDATE

Coverage view: **Cautious**

Price (Rs): **93**

Target price (Rs): **60**

BSE-30: **15,412**

Core profitability limited; highlighting issues on revenue booking. Annual report analysis indicates sub-20% gross margin for the residential business in FY2008-09. In the same period, Unitech booked profit of Rs32 bn from "income on sale of real estate projects" while its total commercial area developed is around 2 mn sq. ft. The annual report indicates Rs35+ bn of land purchases in FY2009, including goodwill creation of Rs11 bn. The stock is expensive despite factoring sharp improvement in operational profitability.

Company data and valuation summary

Unitech

Stock data

52-week range (Rs) (high,low) 174-22

Market Cap. (Rs bn) 222.0

Shareholding pattern (%)

Promoters 51.2

FIs 22.8

MFs 1.7

Price performance (%)

Absolute 1M 21.9 3M 82.4 12M (45.1)

Rel. to BSE-30 16.6 44.1 (47.5)

Forecasts/Valuations

2009 2010E 2011E

EPS (Rs) 7.7 4.4 4.6

EPS growth (%) (25.7) (42.8) 3.7

P/E (X) 12.1 21.2 20.4

Sales (Rs bn) 32.1 35.2 45.1

Net profits (Rs bn) 12.5 9.9 10.9

EBITDA (Rs bn) 18.7 16.6 18.0

EV/EBITDA (X) 16.2 16.0 14.6

ROE (%) 29.5 13.2 10.1

Div. Yield (%) 0.0 0.0 0.0

Annual report analysis indicates downside risk to margin estimates

Exhibit 1 shows detailed revenue booking for Unitech for the FY2006-09 period. To understand revenues, we split revenue booking into three major segments—(1) revenue booking from project completion/% completion method, (2) income on sale of investments in real estate projects, and (3) others. We explain each of these items and their profitability in detail below

- **Revenue booking from project completion/% completion method.** Unitech booked revenues of Rs8.5 bn in FY2009 against Rs16 bn in FY2008 and Rs13 bn in FY2007. These revenues accrue primarily from residential projects and Unitech booked Rs42 bn of revenues cumulatively in FY2006-09. Against these projects, Unitech incurred a direct cost of Rs33 bn resulting in gross margin of 22%. Against our expectations of gross margin expansion in FY2008-09 as selling prices rose, they actually dipped from 26% in FY2007 to 17% in FY2008 and further to 14% in FY2009. We believe the drop in gross margins can be attributed to (1) cost escalation due to rising steel/cement prices, (2) limited sales at higher selling prices, thus limiting margin expansion, and (3) rising land costs. Subsidiary analysis indicates that Unitech booked revenues of Rs1.97 bn from Kolkata subsidiary at a net margin of 2.8% (Exhibit 3).

We factor in sharp improvement in profitability in FY2010-11E. We expect gross margin to increase sharply to 42% in FY2010E and remain at 38% in FY2011E. We also factor a sharp increase in revenue booking to Rs19.7 bn in FY2010E and Rs33.8 bn in FY2011E. A sharp increase in revenue booking is on account of our estimation of Unitech stepping up execution and the commencement of revenue booking from recently launched projects. However, we believe our assumptions on execution as well as margins will likely face downside risk.

Puneet Jain
puneet.j@kotak.com
Mumbai: +91-22-6634-1255

Sandeep Reddy
sandeep.reddy@kotak.com
Mumbai: +91-22-6634-1216

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

- ▶ **Income on sale of Investments in Real Estate Projects/land sales.** To justify revenue booking of Rs31.6 bn under this category in FY2008-09, our analysis indicates that Unitech would need to sell 5 mn sq. ft of retail/commercial projects. We find this quite high since Unitech's QIP prospectus indicates total development of 2 mn sq. ft over the past three years (Exhibit 4). Unitech booked revenues of Rs31.6 bn as "Income on sale of investments in Real estate projects" in FY2008-09. The management has indicated that Unitech directly books profits on strata sales in retail/commercial projects for tax efficiency.

Profits of Rs31.6 bn would indicate revenues of around Rs45 bn at a gross margin of 70%. Adjusting Rs3.7 bn booked from the sale of stake in the Mumbai commercial project, Unitech would need to sell Rs41 bn of commercial/retail real estate or 5 mn sq. ft at an average selling price of Rs8,000/sq. ft and we have asked the management for more details. Revenue booking under this category started in FY2007 (nil in FY2006) when Unitech booked profits of Rs15.8 bn mainly from sale of stake to Unitech Corporate Parks. This continued in FY2008 with profits of Rs17.1 bn and Rs14.5 bn in FY2009. Even in 1QFY10, large part of revenues came from this category as Unitech had real estate EBITDA margins of 81%.

- ▶ **Other revenue booking.** This comprises revenues accruing from construction, sale of transmission towers, hospitality, maintenance, consultancy and amusement parks. These cumulatively comprised Rs5.3 bn in FY2009 and Rs5.7 bn in FY2008. Against this, Unitech had direct costs of Rs2.8 bn in FY2009 and Rs3.3 bn in FY2008. The break-up of revenues for FY2009 is: construction Rs964 mn, sale of transmission towers Rs946 mn, hospitality Rs122 mn, maintenance Rs866 mn, consultancy Rs1.16 bn, rental receipts Rs395 mn and amusement parks Rs720 mn.
- ▶ **SG&A/Employee costs.** As revenues dipped, employee costs/SG&A costs as proportion of revenues increased to 11% in FY2009 from 7% in FY2008. Adjusting for these expenses, residential EBITDA margins would dip to 7.7% in FY2008 and 2.8% in FY2009.
- ▶ **Subsidiary analysis.** Exhibit 3 lists key subsidiaries, revenues and their profitability. A subsidiary, Zimuret Ltd, has revenues and PAT of Rs3.1 bn. This also partly explains the dip in taxation rate to 17% in FY2009.

Exhibit 1: Core residential profit margins dipped sharply during FY2008-09
Segment-wise gross margin analysis

	FY2006	FY2007	FY2008	FY2009	FY2010E	FY2011E
Revenue segments						
(I) Real estate revenues from % completion method	5,110	12,970	16,062	8,500	19,717	33,820
(II) Revenues from sale of real estate/land	0	15,802	19,657	15,170	6,826	3,000
(III) Others	4,215	4,212	5,685	5,226	6,916	7,403
Total	9,325	32,984	41,404	28,897	33,458	44,223
Cost segments						
(I) Real estate revenues from % completion method	3,039	9,655	13,372	7,318	11,418	20,828
(II) Revenues from sale of real estate/land						
(III) Others	1,727	2,672	3,382	2,839	2,510	2,497
Total	4,766	12,327	16,754	10,157	13,928	23,326
Gross margins (%) calculation						
(I) Real estate revenues from % completion method	40.5	25.6	16.7	13.9	42.1	38.4
(II) Revenues from sale of real estate/land		100.0	100.0	100.0	100.0	100.0
(III) Others	59.0	36.6	40.5	45.7	63.7	66.3
EBITDA margins calculation						
Employee cost	510	635	1,007	1,132	1,053	1,216
% of revenues	5.5	1.9	2.4	3.9	3.1	2.8
SG&A cost	578	1,290	1,892	2,064	2,119	2,211
% of revenues	6.2	3.9	4.6	7.1	6.3	5.0
EBITDA	3,470	18,732	21,751	15,544	16,358	17,470
EBITDA margin (%)	37.2	56.8	52.5	53.8	48.9	39.5
Breakup of other revenue items						
Construction	1,982	2,546	2,164	964		
Consultancy	324	169	1,233	1,161		
Sales of products- Transmission Towers	674	844	670	946		
Hospitality	0	0	119	122		
Rental Receipts	58	86	252	395		
Maintenance charges	336	451	715	866		
Income from Amusement parks	0	17	528	720		
Others	841	100	4	53		

Source: Company, Kotak Institutional Equities

Exhibit 2: Segment-wise breakup of revenues and EBIT (Rs mn)
Segment wise analysis for the period 2QFY07-1QFY10

	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10
Segment revenue												
Real estate	3,383	8,508	14,844	7,610	8,303	10,173	9,940	9,140	8,077	3,748	3,199	3,623
Construction	557	696	749	375	518	595	642	316	187	223	291	471
Consultancy	55	98	(43)	280	772	308	334	251	990	247	(327)	369
Hospitality	19	27	25	25	26	33	35	31	32	40	19	27
Electrical	156	179	247	154	140	75	302	206	208	153	379	352
Others	136	115	91	264	378	236	348	373	336	483	295	306
Segment EBIT												
Real estate	1,513	6,512	10,712	5,036	4,978	7,661	2,709	6,049	5,257	2,221	2,611	2,950
Construction	63	45	43	6	15	48	30	42	37	13	8	170
Consultancy	55	98	(43)	305	374	126	429	251	984	252	(348)	365
Hospitality	2	5	2	3	3	8	(14)	2	0	10	(13)	2
Electrical	(12)	(4)	40	(9)	8	(15)	59	8	(22)	(14)	27	4
Others	14	(1)	17	16	53	130	(21)	24	7	45	21	15
Interest					677	915		1,079	1,341	967	2,158	926
Unallocable overheads net of unallocable expenses					(5)	503		133	26	(40)	(2,585)	65
PBT	1,635	6,654	10,771	5,357	4,759	6,539	3,191	5,164	4,896	1,599	2,733	2,516
Segment EBIT margins (%)												
Real estate	45	77	72	66	60	75	27	66	65	59	82	81
Construction	11	6	6	2	3	8	5	13	20	6	3	36
Consultancy	100	100	100	109	48	41	129	100	99	102	106	99
Hospitality	9	17	10	10	13	24	(39)	6	1	24	(68)	7
Electrical	(8)	(2)	16	(6)	6	(20)	19	4	(10)	(9)	7	1
Others	10	(1)	19	6	14	55	(6)	7	2	9	7	5

Source: Company, Kotak Institutional Equities

Exhibit 3: The Kolkata project has very low profitability
Key subsidiaries and their profitability

Subsidiary name	Assets	Revenues	PAT	Profitability (%)
Aditya Properties Pvt. Ltd	3,304	0	(0)	-268.8
Bengal Unitech Universal Infrastructure Pvt. Ltd	15,747	1,968	55	2.8
Colossal Projects Pvt. Ltd	1,249	0	(0)	-164.3
Empecom	1,650	0	(205)	
Firisa Holdings Ltd	2,286	0	(0)	
Gretemia Holdings Ltd	484	(112)	(113)	100.2
Kolkata International Convention Centre Ltd	1,879	0	0	
Kortel Ltd	3,163	0	0	
Risster Holdings Ltd	3,578	0	(14)	
Shantiniketan Buildwell Pvt. Ltd	5,572	196	0	0.0
Unising Projects Pvt. Ltd	648	794	71	9.0
Unitech Global Ltd	11,916	443	(405)	-91.3
Unitech Hi-Tech Developers Ltd	26,783	12	2	18.0
Unitech Holdings Ltd	5,480	12	7	62.6
Unitech Hotels Ltd	3,389	867	869	100.2
Unitech Overseas Ltd	3,333	0	(5)	
Unitech Residential Resorts Ltd	6,185	0	(404)	
Zimuret Ltd	3,870	3,116	3,131	100.5

Source: Company, Kotak Institutional Equities

Exhibit 4: Unitech has completed 2.8 mn sq. ft till FY2009
Commercial properties completed/under construction

Name	Location	Year	Area (sq. ft)
Completed			
Signature Towers	Gurgaon	2000	325,000
Millennium Plaza	Gurgaon	2001	200,000
Global Business Park	Gurgaon		479,000
Unitech Trade Center	Gurgaon		258,000
Unitech Business Park	Gurgaon	2002	186,000
Infocenter	Gurgaon		136,000
Ciena Telecom (built-to-suit)	Gurgaon	2008	93,896
Cyber Park (B, C & D)	Sec-39, Gurgaon	2008	1,090,000
Total completed			2,767,896
Under construction			
Signature Towers-2	Gurgaon		250,000
RB Connector Office	Kolkata		90,000
The Chambers	Mumbai		89,000
Total under construction			429,000
Total commercial space			3,196,896

Source: Company, Kotak Institutional Equities

Understanding key balance sheet movements

To analyze changes on a similar basis, we adjust the FY2008 balance sheet model for investments. We remove Rs17 bn from Capital WIP and reduce unsecured debt correspondingly. Total balance sheet size expanded to Rs262 bn in FY2009 from Rs207 bn in FY2008 (Exhibit 5).

Assets-sharp increase in land

Total increase in land/construction assets is Rs60 bn, primarily accruing from land purchases. Our likely estimate for construction costs incurred is around Rs15 bn as pace of construction slowed. We summarize key changes on the asset side of balance sheet below.

Net block (increase of Rs11 bn). This mainly comprises Rs2.3 bn of land acquired during FY2009 which has been revalued at Rs9.9 bn.

Capital WIP (increase of Rs7.7 bn). This likely comprised of capitalized interest and work on hotel properties.

Goodwill (increase of Rs10.5 bn). Goodwill accrued from (1) land purchases and (2) merger of subsidiaries. Management has indicated that some subsidiaries have been merged with parent company at revalued assets. However, the increase in revaluation reserves is limited and hence most goodwill would likely have accrued from fresh land purchases.

Increase in projects in progress (increase of Rs23 bn). We find this increase quite sharp considering there was sharp slowdown in construction activity.

Cash and bank balances (decrease of Rs7.5 bn).

Loans and advances (increase of Rs6.6 bn). This would be primarily for land purchases.

Liabilities. Sharp increase in sundry creditors as balance sheet stress increased

Reserve & surplus (increase of Rs16 bn). Apart from PAT of Rs11.9 bn, these increased on account of increase in securities premium of Rs2.2 bn and an increased foreign currency translation reserve of Rs1.7 bn.

Debt (increase of Rs22 bn).

Sundry creditors (increase of Rs14 bn). We believe a part of the increase in sundry creditors would be for outstanding land payments.

Exhibit 5: Balance sheet analysis indicates land purchases of Rs35+ bn in FY2009

Unitech's balance sheet as of FY2005-09

	FY2005	FY2006	FY2007	FY2008	FY2009	Change in FY09	Comments for change in FY2009
Source of funds							
Share capital	125	125	1,623	3,247	3,247	0	
Reserves and Surplus	1,832	2,472	18,320	32,758	48,448	15,690	This includes an increase in securities premium of Rs2.2 bn and an increase in foreign currency translation reserve of Rs1.7 bn
Minority interest	210	237	13	1,159	615	(544)	
Loan funds							
Secured loans	3,258	9,557	38,962	62,311	77,016	14,705	Total debt increased by Rs22 bn adjusted for Rs17 bn of debt in telecom business in FY2008
Unsecured loans	506	893	844	6,212	13,542	7,330	
Deferred Liability- Against Land	2,049	1,056	15,787	19,136	17,922	(1,214)	
Deferred Tax Liability	121	151	20	60	14	(46)	
Total sources of funds	8,100	14,490	75,570	124,883	160,803	35,920	
Application of funds							
Fixed assets							
Gross block	2,180	4,530	6,470	11,120	22,502	11,382	The increase in gross block mainly includes Rs2.3 bn of land acquired during FY2009 which has been revalued at Rs9.9 bn
Less: Depreciation	832	911	475	661	1,003	341	
Net block	1,348	3,620	5,995	10,459	21,500	11,041	
Add: Capital WIP	133	1,268	2,153	3,982	11,758	7,775	Adjusted for capital WIP of Rs17 bn in telecom business in FY2008, it has increased by Rs7.8 bn
Investments	502	145	4,548	14,165	15,808	1,643	
Goodwill on consolidation	845	824	1,126	1,126	11,672	10,547	Goodwill has increased because a few subsidiaries have been merged back into the parent company at revaluation assets
Current Assets							
Inventories	601	696	548	422	368	(54)	
Projects in Progress	15,961	30,174	86,447	134,372	157,388	23,016	Projects in progress increased by Rs23 bn
Land	3,019	7,364	24,913	43,183	46,998	3,815	
Projects in progress of subsidiaries/JVs	4,050	5,135	29,803	47,005	54,325	7,320	
Sundry Debtors	853	1,032	1,458	7,460	9,310	1,850	
Cash and bank balances	2,718	3,899	10,227	14,083	6,448	(7,634)	Cash decreased by Rs7.6 bn
Loans and Advances	1,404	2,860	18,397	21,906	28,674	6,768	
Less: Current Liabilities and Provisions							
Current liabilities	15,894	29,160	49,551	82,562	101,827	19,265	
Sundry Creditors				8,497	22,459	13,962	Creditors increased by Rs14 bn
Advances from customers				71,119	74,453	3,334	
Provisions	374	872	5,780	531	297	(234)	
Misc expenditure	2	5	1	1	0	(0)	
Total	8,100	14,490	75,569	124,883	160,803	35,920	

Source: Company, Kotak Institutional Equities

Stock expensive on all parameters, even after factoring a sharp improvement

As highlighted earlier, we have built in a sharp improvement in execution as well as gross margins for Unitech. We believe both of these will have downside risks. Despite that, we find Unitech expensive on all parameters.

- ▶ **NAV.** Unitech is quoting at a 50% premium to March'11 based NAV of Rs60/share (Exhibit 7). Unitech is unlikely to generate operating cash flow over the next 12 months while current unfavorable credit rating will limit additional borrowing. Thus, land bank accretion potential for Unitech is currently limited. In such a scenario, such a high premium to NAV is unjustified.
- ▶ **P/B.** Despite RoEs in the region of 9%, Unitech is quoting at 1.9X FY2011E book value of Rs49. 14% of FY2011E BV or Rs7/share comprises capitalized interest (Exhibit 6). Without interest capitalization, RoE will further drop by 200 bps.
- ▶ **P/E.** Unitech is quoting at FY2011E P/E of 20X. As we are already factoring in sharp improvement, earning upgrade potential is likely limited.

We retain our **SELL** rating and target price of Rs60/share based on parity with Mar'11 based NAV.

Exhibit 5: Large portion of the land bank acquired in the past three years
Balance sheet for UT, FY2006-11E, March fiscal year ends

	2006	2007	2008	2009	2010E	2011E
Sources of funds						
Share capital	125	1,623	3,247	3,247	4,777	4,777
Reserves/surplus	2,472	18,320	32,758	48,448	100,218	110,875
Total equity	2,597	19,944	36,005	51,695	104,996	115,652
Secured loans	9,557	38,962	62,311	77,016		
Unsecured loans	893	844	23,212	13,542		
Total borrowings	10,449	39,805	85,524	90,558	53,238	54,238
Application of funds						
Cash	3,899	10,227	14,083	6,448	4,525	13,480
Current assets	34,762	106,850	172,929	195,740	198,994	208,806
Inventory/Projects in Progress	30,870	86,995	136,025	157,756	157,308	170,391
Sundry Debtors	1,032	1,458	7,460	9,310	13,011	14,741
Loans & Advances	2,860	18,397	29,444	28,674	28,674	23,674
Net fixed assets (incl. Capital WIP)	4,887	8,148	31,442	33,257	36,944	41,430
Ratios						
D/E (X)	4.0	2.0	2.4	1.8	0.5	0.5
RoACE (%)	12.2	41.8	20.9	8.5	8.5	9.3
Incremental debt as a % of total debt	8.0	280.9	114.9	5.9	(41.2)	1.9
EBITDA (Rs mn)	1,834	20,018	22,287	15,835	16,358	17,470
PAT (Rs mn)	874	13,055	16,614	11,964	9,207	10,657
Revenue (total)	9,412	32,883	41,400	28,844	33,458	44,223
PAT	874	13,055	16,692	11,968	9,207	10,657
Assets	44,521	130,900	233,793	262,927	267,943	291,197
Equity	2,597	19,944	36,005	51,695	104,996	115,652
Net margins (%)	9.3	39.7	40.3	41.5	27.5	24.1
Asset turnover (%)	21.1	25.1	17.7	11.0	12.5	15.2
Equity multiplier (X)	17.1	6.6	6.5	5.1	2.6	2.5
ROE (%)	33.6	65.5	46.4	23.2	8.8	9.2

Source: Kotak Institutional Equities estimates

Exhibit 6: Unitech's book value padded up by interest capitalization
Impact of interest capitalization on book value of Unitech, March fiscal year-ends

	Networth (Rs mn)	Interest capitalization (Rs mn)					Cumulative interest capitalized (2006-10E)			FY2010E BV
	FY2010E	2006	2007	2008	2009	2010E	(Rs mn)	(Rs/share)	% of FY2010 NW	(Rs/share)
Unitech	104,996	0	389	6,087	6,227	3,175	15,878	6.7	15.1	44.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Unitech's Mar' 11 based NAV is Rs60/share
NAV sensitivity to growth in selling prices

	March '11 based NAV			
	Growth rate in selling prices per annum			
	0%	3%	5%	10%
Valuation of land reserves	129	154	172	225
Residential projects	76	95	109	150
Commercial projects	29	31	33	37
Retail projects	24	28	31	38
Add: Hotel business	10	10	10	10
Add: Construction/transmission towers/amusement parks	5	5	5	5
Add: Consultancy fees received from Unitech Corporate Parks, JVs	5	5	5	5
Less: Outstanding customer advances	(15)	(15)	(15)	(15)
Less: Net debt as on March 31, 2010	(49)	(49)	(49)	(49)
Less: Land cost to be paid as on March 31, 2010	(15)	(15)	(15)	(15)
NAV (Rs bn)	71	95	114	167
NAV/share (Rs)	30	40	48	70
Valuation for telecom business				30
Total no. of shares (mn)				2,389
Valuation/share (Rs)				60

Source: Kotak Institutional Equities estimates

Good momentum in residential sales; the stock is factoring in much more

Unitech, along with associates/JVs, has sold 6.9 mn sq. ft in the Apr-July period with the geographical break-up being 60% in the NCR market, 20% in Chennai and the balance 20% in Mohali/Kolkata/Mumbai. Unitech has a 28.5% share in the project in Chennai, 50% share in Mumbai and 90% in Kolkata. Adjusted for these ownership stakes, Unitech has sold 5.5-5.7 mn sq. ft.

Exhibit 9 details that Unitech has 45 mn sq. ft of space under construction. The management has indicated that broadly, cash flow usage for old projects and newly launched projects is as below.

Old projects. These comprise 30 mn sq. ft of projects launched in FY2005-07 period which have been delayed. There are large customer advances against sales made against these projects and incremental customer payments are likely to be limited to the extent of funding construction of these projects.

New projects. These comprise 17 mn sq. ft, which Unitech has launched over the past six months. Cash flows from these projects are going to fund interest payments and construction costs.

Thus, Unitech will likely generate limited operating cash flow during FY2010, which will go towards reducing debt.

Exhibit 8: Unitech needs to sell 25 mn sq. ft/year to justify current stock price
Sample model to illustrate pricing versus. volumes sensitivity

Assumptions		Selling prices (Rs/sq. ft)	PAT (Rs mn)				
			Volumes sold (mn sq. ft)				
			10	15	20	25	
Volumes booked (mn sq. ft)	25		2,250	79	2,354	4,629	6,904
Selling prices (Rs/sq. ft)	2,750		2,500	1,829	4,979	8,129	11,279
Construction cost (Rs/sq. ft)	1,300		2,750	3,579	7,604	11,629	15,654
Land cost (Rs/sq. ft)	300		3,000	5,329	10,229	15,129	20,029
Debt (post QIP)	45,000		3,500	8,829	15,479	22,129	28,779
Interest cost (%)	13						
Steady state P&L (Rs mn)							
Revenues	68,750						
Other revenues, net of cost	2,000						
Construction cost	32,500						
Land cost	7,500						
SG&A	4,000						
EBITDA	26,750						
Interest (25% capitalization)	4,388						
PBT	22,363						
Tax (30%)	6,709						
PAT	15,654						

Source: Kotak Institutional Equities estimates

Exhibit 9: Unitech has launched ~13 mn sq. ft in the past three months

Details of launches of Unitech, FY2005-10, March fiscal year ends

Start year	Area		No of apartments	Comments			
	acres	(mn sq. ft)					
Launches (mn sq. ft)							
FY2005		6.6					
FY2006		9.7					
FY2007		2.7					
FY2008		4.0					
FY2009		7.2					
FY2010		13.6					
Gurgaon	Start year	36 months for completion	Estimated completion				
Fresco, Nirvana Country	FY2006	Fy2009	FY2010	17	1.4	864	
Harmony Nirvana Country	FY2006	FY2009	FY2010	11	0.9	340	
The Close, Nirvana Country	FY2005	FY2008	FY2010	40	3.3	1,381	
UniWorld Gardens	FY2005	FY2008	FY2010	13	0.9	504	
UniWorld City	FY2004	FY2007		16	0.9	516	
Escape, Nirvana Country	FY2006	FY2009	FY2010	10	0.9	400	
Espace, Nirvana Country	FY2006	FY2009	FY2010	10	0.9	400	
Uniworld Spa	FY2004	FY2007		1.7		850	
Uniworld Resorts	FY2009	FY2012		1.5			
Uniworld Gardens II	FY2009	FY2012		1.0			
The Residence at Uniworld Resorts	FY2010	FY2013		1.8			Launched at Rs3,288/sq. ft
Woodstock Villas	FY2010	FY2013		0.7			Launched at Rs4,000/sq. ft
Noida/Greater Noida							
Heights	FY2005	FY2008	FY2010	8	0.6	316	
Cascade	FY2006	FY2009	FY2010	9	0.7	350	
Horizon	FY2005	FY2008	FY2010	26	1.8	1,000	
Habitat	FY2007	FY2010		24	2.0	902	
Verve	FY2007	FY2010		8	0.7	200	
Grande	FY2008	FY2011		40	1.1	670	
Capella (Phase I, Uniworld city)	FY2009	FY2012		100	1.2		
Unihomes	FY2010	FY2013		0.8			
Willows @ Grande	FY2010	FY2013		3.7			Launched at Rs5,100/sq. ft
Kolkata							
Horizon at Uniworld City	FY2006	FY2009		12	5.0	366	
Gardens at Uniworld City	FY2006	FY2009		13		404	
Downtown	FY2007	FY2010		9		277	
Cascades	FY2007	FY2010		11		490	
Heights at Uniworld City	FY2006	FY2009		10		682	
Air at Uniworld city	FY2008	FY2011		3	0.3	136	
Gateway	FY2008	FY2011		35	2.3		
Harmony (Phase 8,Uniworld city)	FY2008	FY2012			0.4		
KWIC Plots/Floors/Bunglows	FY2009	FY2012			1.0		
KWIC Plots/Floors/Bunglows	FY2010	FY2013			1.0		
Vistas	FY2010	FY2013			1.0		Launched at Rs1,850/sq. ft
Chennai							
Brahma	FY2010	FY2013		0.8			Unitech and Arihant get 57% revenue share and bear full cost. Launched at Rs3,200/sq. ft
Ananda	FY2010	FY2013		0.6			
Mumbai							
Woodside	FY2010	FY2013			0.03		
Ascot	FY2010	FY2013			0.01		
The Residences	FY2010	FY2013			0.11		
Others							
South City, Lucknow					1.0		
Uniworld City plots, Mohali	FY2009	FY2012			2.5		
Uniworld City plots, Mohali	FY2010	FY2013			2.2		
Retail							
Arcadia – South City II					0.4		Gurgaon
Nirvana Courtyard – Nirvana					0.2		Gurgaon
R B Connector	FY2010	FY2013			0.0		Kolkata
Garden Galleria	FY2010	FY2013			0.2		Lucknow
Hotels							
Marriott Executive Apartments					0.3		
Greenwood City Club					0.0		
Marriott Courtyard Hotel	FY2010	FY2013			0.2		
Commercial							
Signature Tower – 2	FY2010	FY2013			0.3		
R B Connector	FY2010	FY2013			0.1		
The Chambers	FY2010	FY2013			0.1		
Total					45.1		

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Profit model, balance sheet, cash model of Unitech Ltd 2006-2011E, March fiscal year-ends (Rs mn)

Profit model	2006	2007	2008	2009E	2010E	2011E
Net sales	9,412	32,883	41,400	28,844	33,458	44,223
EBITDA	1,834	20,018	22,287	15,835	16,358	17,470
Other income	133	1,000	1,401	4,312	1,228	1,306
Interest	(465)	(3,020)	(2,804)	(5,546)	(4,763)	(4,331)
Depreciation	(112)	(80)	(205)	(209)	(379)	(479)
Pretax profits	1,390	17,919	20,678	14,392	12,444	13,965
Tax	(521)	(4,864)	(3,967)	(2,455)	(3,177)	(3,283)
Deferred taxation	8	0	(19)	31	(61)	(25)
Net income	874	13,055	16,692	11,968	9,207	10,657
Adjusted net income	874	13,055	16,614	11,964	9,207	10,657
Earnings per share (Rs)	0.5	8.0	10.2	7.4	4.1	4.5
Balance sheet						
Total equity	2,597	19,944	36,003	51,695	104,996	115,652
Deferred taxation liability	151	20	60	14	75	100
Total borrowings	10,449	39,805	85,524	90,558	53,238	54,238
Current liabilities	31,087	71,118	111,048	120,045	109,019	120,592
Total liabilities and equity	44,521	130,900	233,793	262,927	267,943	291,197
Cash	3,899	10,227	14,083	6,448	4,525	13,480
Other current assets	34,762	106,851	172,979	195,740	198,994	208,806
Total fixed assets	4,887	8,148	31,442	33,257	36,944	41,430
Intangible assets	824	1,126	1,126	11,672	11,672	11,672
Investments	145	4,548	14,165	15,808	15,808	15,808
Total assets	44,522	130,900	233,794	262,927	267,943	291,197
Free cash flow						
Operating cash flow, excl. working capital	1,328	17,485	19,816	9,277	5,243	7,523
Working capital changes	(3,575)	(37,520)	(29,956)	(10,784)	(11,104)	4,093
Capital expenditure	(3,517)	(3,340)	(23,508)	(1,988)	(4,065)	(4,966)
Investments	146	(4,376)	(3,409)	(13,537)	—	—
Other income	(102)	414	736	156	1,228	1,306
Free cash flow	(5,720)	(27,337)	(36,321)	(16,876)	(8,698)	7,956
Ratios (%)						
Debt/equity	380.3	199.4	237.1	175.1	50.7	46.9
Net debt/equity	238.4	148.2	198.1	162.7	46.4	35.2
ROAE (%)	36.2	115.0	59.3	27.3	11.7	9.7
ROACE (%)	12.2	41.8	20.9	12.5	8.5	8.5

Source: Company, Kotak Institutional Equities estimates

AUGUST 17, 2009

UPDATE

BSE-30: 15,412

Taking stock: Trends reiterate our bias towards select public sector banks. Loan growth continues to lag deposit growth as of July 2009 and the loan-deposit ratio at 69% is the lowest in two years. MSS bonds outstanding have come off sharply—RBI may look at issuing more if the economic recovery sustains and inflation is aggravated. Valuations (particularly of private banks) appear to be stretched, ignoring potential risks. We retain our positive bias for stocks like SBI, PNB, Union Bank and BoB. Among private banks, Axis Bank appears better placed than banks like HDFC Bank and ICICI Bank.

Deposit growth continues to remain strong; credit demand may improve from current levels

Money supply growth as of July 2009 was 20% yoy and ahead of the monetary projection of RBI of 18%yoy for FY2010E. This was reflected in the deposit growth of the banking system, which remained high at 22% yoy. Loan growth continues to be sluggish at 16% yoy, likely reflecting the slowdown in economic activity. However, our discussions with some bankers suggest a possible pick-up in loan growth (particularly) in 2HFY10E if the economic recovery gains pace.

RBI may look to moderate money supply growth leading to higher interest rates

Higher inflationary pressures and better economic growth may lead RBI to moderate the money supply growth in the system, which in turn may lead to higher interest rates. Sterilization operations of RBI could lead to higher interest rates given the borrowing program of the government of India. This scenario is in contrast to the situation observed during the FY2005-2008 period when RBI's sterilization operations (MSS issuances and CRR hikes) did not lead to higher interest rates as the fiscal balances of the government showed a significant improvement.

Regulations capping charges on ULIP; MF products could lead to lower income for banks

The regulations capping charges on financial products like mutual funds and ULIPs could lead to a reduction in the fee income for banks from the sale of third-party products, which could impact their earnings at least in the near term. ICICI Bank and HDFC Bank earned around 3-5% of their overall income from the sale of insurance products—the segment could be under some strain in the current fiscal. It is likely that these companies could rework their retail distribution strategies around the advisory model to sustain these revenues in the long term.

Valuations provide low margin of safety but near-term earnings could be higher

Near-term earnings of banks could be higher by 10-30% in FY2010E, assuming better economic conditions (i.e. lower NPL provisions and better loan growth). However, the current valuations of banks appear to assume strong profitability for a longer period of time (particularly for private banks), which we are not comfortable with.

QUICK NUMBERS

- **Deposit growth continues to exceed loan growth as of July 2009**
- **Valuations are expensive for private banks, we prefer public banks**

Manish Karwa
manish.karwa@kotak.com
Mumbai: +91-22-6634-1350

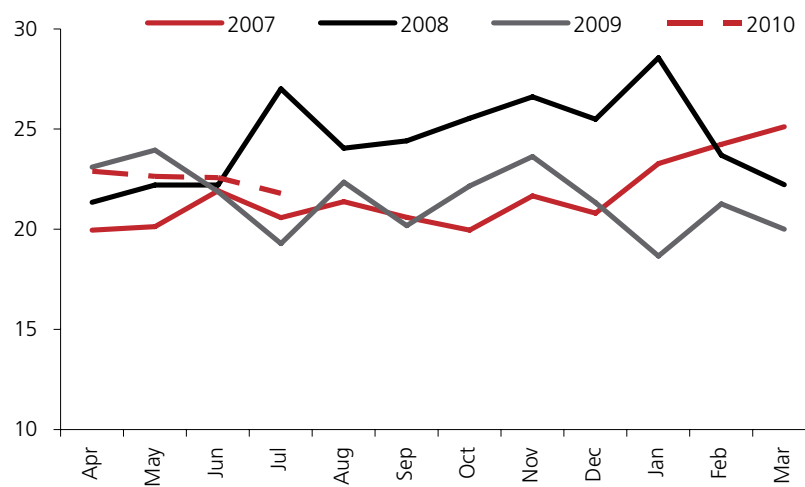
Ramnath Venkateswaran
ramnath.venkateswaran@kotak.com
Mumbai: +91-22-6634-1240

Nischint Chawathe
nischint.chawathe@kotak.com
Mumbai: +91-22-6634-1545

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

Deposit growth continues to remain robust

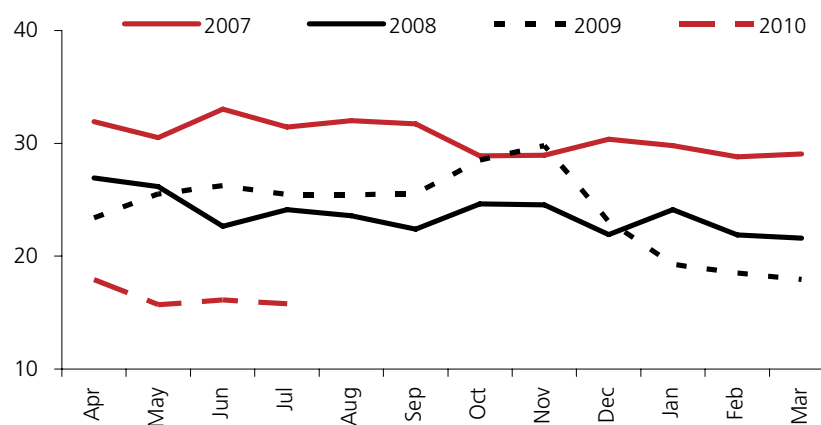
Yoy growth in deposits (%)



Source: RBI

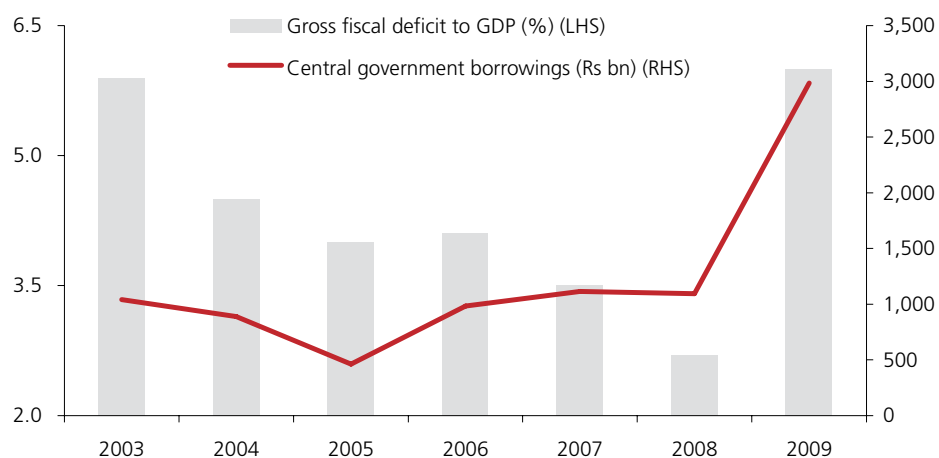
Loan growth is yet to show an improvement

Yoy growth in loans (%)



Source: RBI

There was substantial improvement in fiscal balances in FY2004-FY2008 period
 Gross fiscal deficit of government of India, March fiscal year-ends, 2003-2009



Source: RBI

Net supply of securities was under control despite higher MSS bond issuances

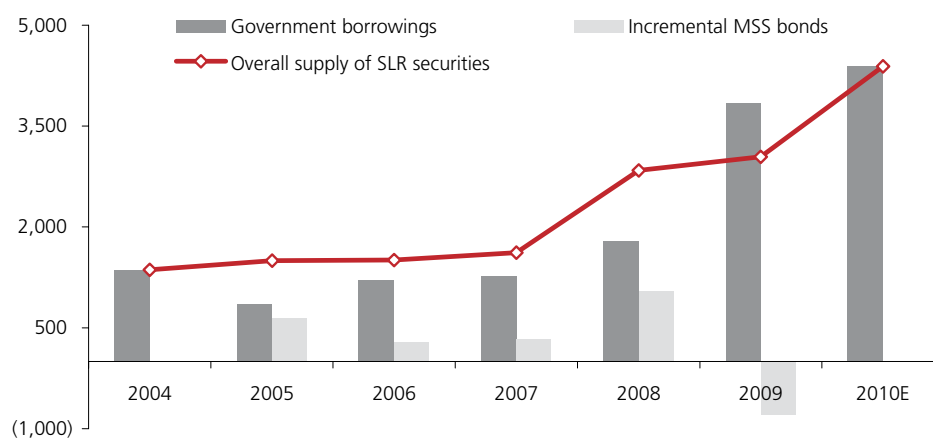
Net borrowings of government of India, MSS issuances and net supply of securities, March fiscal year-ends, 2004-2009 (Rs bn)

Year	Central borrowings (1)	State borrowings (2)	Government borrowings (3) = (1) + (2)	Incremental issuances of MSS bonds (4)	Overall supply of SLR securities (5) = (3) + (4)
2004	888	464	1,352	—	1,352
2005	461	340	801	262	1,063
2006	982	155	1,137	227	1,364
2007	1,113	142	1,255	223	1,478
2008	1,095	562	1,657	1,054	2,711
2009	2,985	1,038	4,023	(803)	3,220

Source: RBI

RBI's ability to sterilize high foreign flows could be constrained by high fiscal deficits

Government borrowing program and incremental bonds issued under MSS (Rs bn)



Source: RBI, Kotak Institutional Equities estimates

Insurance distribution income contributes 3-5% of overall income

Fee income from income distribution, March fiscal year-ends, 2008-2009 (Rs mn)

	2008	2009
HDFC Bank		
Income from HDFC SL	1,557	5,624
Total income	77,987	107,118
As % of total income	2.0	5.3
ICICI Bank		
Income from ICICI Prudential	3,892	3,307
Total income	161,149	159,703
As % of total income	2.4	2.1

Source: Companies, Kotak Institutional Equities estimates

Our PAT estimates for FY2010E could be exceeded by 10-30% on account of higher loan growth and lower NPL provisions
Sensitivity analysis of the impact on PAT, March fiscal year-ends, 2010E

	Base Case				Sensitivity to various parameters				
	NII (Rs mn)	Loan loss provisions (Rs mn)	PAT (Rs mn)	EPS (Rs)	NII on account of 5% higher loan growth and CRR @ 6% (Rs mn)	50% lower loan loss provisions (Rs mn)	MTM losses with 10-year Gsec @ 8% (Rs mn)	PAT as per this scenario (Rs mn)	Change in PAT (%)
Public banks									
Andhra Bank	18,258	3,420	6,433	13.3	18,462	1,710	1,582	6,649	3.4
Bank of Baroda	56,551	10,269	22,278	60.9	56,337	5,135	3,993	22,881	2.7
Bank of India	58,105	16,245	27,103	51.5	58,512	8,122	2,933	30,741	13.4
Canara Bank	52,908	15,145	16,974	41.4	53,130	7,572	3,932	19,484	14.8
Corporation Bank	18,421	2,875	8,324	58.0	18,532	1,438	1,122	8,601	3.3
Indian Bank	29,964	5,092	12,218	27.6	31,312	2,546	2,405	13,185	7.9
IOB	32,327	8,547	10,758	19.7	32,512	4,274	2,873	11,789	9.6
OBC	22,391	6,761	7,294	29.1	24,099	3,380	2,346	9,077	24.4
PNB	80,767	16,916	31,742	100.7	81,154	8,458	2,009	36,185	14.0
SBI	230,835	64,966	82,417	129.8	231,112	32,483	16,109	93,240	13.1
Union Bank	41,906	10,645	16,386	32.4	42,130	5,322	3,072	17,994	9.8
Old private banks									
Federal Bank	14,542	4,635	5,873	34.3	14,774	2,318	1,476	6,571	11.9
J&K Bank	11,116	2,285	4,198	86.6	11,254	1,142	406	4,766	13.5
New private banks									
Axis Bank	46,957	14,634	21,201	59.1	47,056	7,317		26,022	22.7
HDFC Bank	90,370	23,066	28,632	63.3	91,060	11,533		36,578	27.7
ICICI Bank	93,099	45,728	38,321	34.4	92,586	22,864		52,849	37.9

Note:

Assumptions made for the sensitivity analysis:

- (1) Loan growth assumed be higher by 5% than the base case. As an illustration base-case loan growth for SBI is 17.7% in FY2010E and is assumed to be 22.7% in this exercise.
- (2) CRR assumed to be 6% by March 2010E compared to the current 5%.
- (3) NPL provisions routed through the P&L assumed to be 50% lower than in the base case.
- (4) 10-year Gsec yield assumed to be 8% as of March 2010 compared to the 7% as of March 2009.

Source: Companies, Kotak Institutional Equities estimates

Valuations appear to factor strong profitability for a longer period of time

Key valuation parameters of banks under coverage, March fiscal year-ends, 2009-2011E

	Reco.	Target price (Rs)	Price	Market cap. US \$bn	EPS (Rs)			PER (X)			BVPS (Rs)			PBR (X)			RoE (%)		
			(Rs)																
			14-Aug-09		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E
Public banks																			
Andhra Bank	BUY	105	87	0.9	13.5	13.3	15.2	6.5	6.6	5.7	75	85	95	1.2	1.0	0.9	18.9	16.6	16.9
BoB	ADD	480	431	3.3	60.9	60.9	62.1	7.1	7.1	6.9	310	360	411	1.4	1.2	1.0	18.7	16.3	14.7
Bol	ADD	370	319	3.5	57.2	51.5	56.2	5.6	6.2	5.7	224	267	314	1.4	1.2	1.0	29.2	21.0	19.3
Canara Bank	ADD	295	272	2.3	50.5	41.4	51.1	5.4	6.6	5.3	245	277	316	1.1	1.0	0.9	18.3	13.2	14.7
Corporation Bank	BUY	420	390	1.2	62.2	58.0	57.1	6.3	6.7	6.8	341	386	429	1.1	1.0	0.9	19.6	16.0	14.0
Indian Bank	BUY	185	134	1.2	28.0	27.6	30.2	4.8	4.8	4.4	128	150	174	1.0	0.9	0.8	23.9	19.9	18.7
IOB	BUY	140	82	0.9	24.3	19.7	25.4	3.4	4.1	3.2	109	127	149	0.7	0.6	0.5	22.1	14.2	16.1
OBC	REDUCE	190	168	0.9	36.1	29.1	31.5	4.7	5.8	5.3	242	265	289	0.7	0.6	0.6	13.7	9.6	9.7
PNB	BUY	800	693	4.5	98.0	100.7	115.2	7.1	6.9	6.0	417	494	582	1.7	1.4	1.2	23.0	20.3	20.1
SBI	BUY	1,870	1,801	23.7	143.7	129.8	149.1	12.5	13.9	12.1	913	1,007	1,119	2.0	1.8	1.6	17.1	13.5	14.0
SBI incl. banking subs	BUY	1,870	1,555	20.5	178.7	158.3	177.8	8.7	9.8	8.7	1,122	1,243	1,386	1.4	1.3	1.1	17.3	13.4	13.7
SBI (core banking business)	BUY	1,870	1,378	18.1	137.9	123.3	149.6	10.0	11.2	9.2	836	930	1,042	1.6	1.5	1.3	17.9	14.0	15.2
Union Bank	BUY	280	211	2.2	34.2	32.4	35.4	6.2	6.5	6.0	140	167	196	1.5	1.3	1.1	27.2	21.2	19.5
Old private banks																			
Federal Bank	BUY	320	227	0.8	27.8	34.3	39.9	8.2	6.6	5.7	253	280	311	0.9	0.8	0.7	11.5	12.9	13.5
J&K Bank	BUY	550	488	0.5	84.5	86.6	96.3	5.8	5.6	5.1	541	607	681	0.9	0.8	0.7	16.7	15.1	14.9
New private banks																			
Axis Bank	BUY	850	870	6.5	50.6	59.1	68.2	17.2	14.7	12.7	285	330	382	3.1	2.6	2.3	19.1	19.2	19.2
HDFC Bank	REDUCE	1,430	1,427	12.6	52.8	63.3	73.5	27.0	22.5	19.4	354	471	528	4.0	3.0	2.7	16.9	15.8	14.7
ICICI Bank	REDUCE	685	745	17.2	33.8	34.3	40.4	22.1	21.7	18.4	445	466	491	1.7	1.6	1.5	7.8	7.6	8.6
ICICI standalone	REDUCE	685	538	12.4	30.7	30.9	36.6	17.5	17.4	14.7	331	338	355	1.6	1.6	1.5	9.2	9.2	10.6

Source: Companies, Bloomberg, Kotak Institutional Equities estimates

SBI has marginally outperformed the index over the past one month while most stocks have lagged the benchmark

Absolute and relative stock performance (%)

	Price (Rs)	Change in price (%)					Relative performance to sensex (%)				
		1 month	3 month	6 month	12 month	Ytd	1 month	3 month	6 month	12 month	Ytd
Public banks											
Andhra Bank	87	12.1	33.1	56.4	52.9	57.9	0.8	2.5	(2.2)	46.1	(1.1)
Bank of Baroda	431	9.4	27.3	74.5	69.2	54.1	(1.6)	(1.9)	9.1	61.6	(3.6)
Bank of India	319	(2.8)	36.0	26.8	19.4	11.3	(12.7)	4.8	(20.7)	14.0	(30.3)
Canara Bank	272	8.6	21.9	44.4	32.8	44.5	(2.4)	(6.1)	(9.7)	26.8	(9.5)
Corporation Bank	390	30.4	66.0	123.9	43.1	105.9	17.2	27.9	40.0	36.7	28.9
Indian Bank	134	8.6	36.3	16.4	20.8	(2.4)	(2.4)	5.0	(27.2)	15.4	(38.9)
Indian Overseas Bank	82	4.2	27.4	38.9	(12.7)	13.7	(6.3)	(1.9)	(13.2)	(16.6)	(28.8)
Oriental Bank of Commerce	168	4.2	25.9	29.4	4.6	9.2	(6.3)	(3.0)	(19.1)	(0.0)	(31.6)
Punjab National Bank	693	7.8	23.3	69.7	48.8	31.6	(3.1)	(5.0)	6.1	42.2	(17.6)
SBI	1,801	13.8	42.1	50.6	23.7	39.7	2.3	9.5	(5.9)	18.2	(12.5)
Union Bank of India	211	(10.1)	20.4	41.6	52.9	29.5	(19.2)	(7.3)	(11.5)	46.0	(18.9)
Old private banks											
Federal Bank	227	2.5	22.2	56.3	5.6	40.1	(7.9)	(5.8)	(2.3)	0.8	(12.3)
J&K Bank	488	9.4	40.4	55.7	(6.3)	37.5	(1.7)	8.1	(2.6)	(10.4)	(13.9)
New private banks											
Axis Bank	870	14.0	36.5	97.6	24.3	72.4	2.5	5.1	23.5	18.8	7.9
HDFC Bank	1,427	4.8	22.7	51.2	21.5	43.0	(5.8)	(5.5)	(5.5)	16.1	(10.5)
ICICI Bank	745	9.6	38.9	71.5	10.6	66.2	(1.5)	7.0	7.2	5.7	4.1

Source: Bloomberg, Kotak Institutional Equities estimates

AUGUST 17, 2009

UPDATE

BSE-30: **15,412**

Proposed direct tax code—higher tax outgo for power utilities. The proposed Direct Tax Code Bill, will likely increase the tax outgo and reduce project equity IRRs for power utilities with larger impact on merchant power plants. We seek more clarity on (1) applicable tax rate (under the revised MAT) for grossing up of RoEs under the regulated tariff structure, and (2) whether capital expenditure incurred for one power project can be set off against profitability of another power project (within the same entity).

Lower project equity IRRs for regulated power plants

We estimate the equity IRR of a new power plant under CERC-tariffs to reduce by 120 bps to 19.7% (including benefits of incentives and cost savings), if the proposed draft tax code gets implemented. The benefit of lower tax rate is negated by a change in MAT and the denial of carry-forward of MAT. We have assumed a base rate of 15.5% will be grossed up at 25% for calculating pre-tax ROE. The benefits of Sec 80 IA under CERC tariff regulations are retained by the project developer. We seek more clarity on the applicable tax rate for grossing up of RoE when the project is enjoying capital expenditure as a deduction.

'Investment-based' deduction – negative for merchant power plants

Merchant power plants earn much higher profits compared to regulated power plants and are able to absorb the capex faster (depends upon profitability) than the 10-year tax holiday previously enjoyed (irrespective of the quantum of profits) under the extant Sec 80-IA. The Direct Tax Code proposes to replace the prevailing tax holiday (of 10 years in a block of 15 years u/s 80-IA) for power plants, with a scheme that allows deduction of capital expenditure (as per Schedule XIII of the Direct Tax Code). Deduction of capital expenditure is tantamount to accelerated depreciation and caps the quantum of exemption to the extent of capex incurred. However, we note the existing power projects enjoying benefit of Sec 80-IA will not be impacted.

Project cost likely to increase due to MAT on CWIP

The introduction of MAT based on Gross Assets including Capital-Work-in-Progress (CWIP) will imply a tax incidence during the construction phase. Since all expenses during the pre-construction stage are capitalized, this would likely increase the project costs. Regulated-return projects might be able to recover higher capital cost in tariffs, while merchant power projects will have to bear these additional costs.

Corporate tax rate proposed to be lowered, MAT as a percentage of assets and no carry forward

The draft tax code proposes to (1) lower the corporate tax rate to 25% (from 30% currently), (2) change the system of MAT from 10% of book profits to 2% of assets, and (3) not allow for a carry-forward of MAT credit as is prevalent in the extant system. Gross assets for the purpose of this section have been defined as gross block + CWIP adjusted for accumulated depreciation, accumulated losses and book value of other assets.

As per CERC's revised tariff regulations, 15.5% RoE was to be grossed up by the effective tax rate (33% of 16.9% MAT), however, we need clarifications on how the revised 2% of gross assets is treated for grossing up of RoEs.

Aman Batra
aman.batra@kotak.com
Mumbai: +91-22-6634-1231

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

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

Tax holiday u/s 80-IA replaced with 'investment-based' deduction

The Direct Tax Code proposes to replace the prevailing tax holiday (of 10 years in a block of 15 years u/s 80-IA) for power plants, with a scheme that allows deduction of capital expenditure (as per Schedule XIII of the Direct Tax Code). The deduction of capital expenditure is tantamount to an accelerated depreciation and caps the quantum of exemption to the extent of capex incurred. We seek clarifications as to whether capital expenditure incurred for one power plant can be set off against profitability of another power plant (within the same entity).

Kotak Institutional Equities: Valuation summary of key Indian companies

	14-Aug-09		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
Automobiles																													
Ashok Leyland	37	ADD	48,757	1,011	1,330	1.5	2.3	2.4	(57.8)	50.3	5.8	24.0	15.9	15.1	14.1	9.1	7.4	1.3	1.3	1.2	2.7	2.7	2.7	6.2	8.1	8.2	37	1.0	4.6
Bajaj Auto	1,122	ADD	162,393	3,366	145	45.2	85.0	100.9	(13.4)	87.9	18.7	24.8	13.2	11.1	13.4	7.8	6.9	8.7	6.0	4.3	1.8	1.8	1.8	37.7	53.1	44.0	1,260	12.3	6.5
Hero Honda	1,506	REDUCE	300,718	6,234	200	64.2	87.5	94.9	32.5	36.3	8.5	23.5	17.2	15.9	13.8	10.2	9.0	7.7	5.8	4.6	1.3	1.5	1.5	36.6	38.7	32.6	1,330	(11.7)	20.2
Maruti Suzuki	1,349	SELL	389,933	8,083	289	42.2	70.0	73.0	(29.6)	65.9	4.3	32.0	19.3	18.5	18.9	10.8	9.6	4.0	3.4	2.9	0.4	0.3	0.4	13.4	19.0	16.8	1,100	(18.5)	23.7
Tata Motors	468	SELL	260,073	5,391	556	20.8	23.6	25.9	(58.3)	13.5	9.6	22.5	19.8	18.1	15.0	11.2	10.0	1.9	1.8	1.6	1.2	1.2	1.2	9.0	9.3	9—	335	(28.3)	54.4
Automobiles Cautious																													
Banks/Financial Institutions																													
Andhra Bank	87	BUY	42,244	876	485	13.5	13.3	15.2	13.5	(1.5)	14.4	6.5	6.6	5.7	—	—	—	1.2	1.0	0.9	5.2	3.8	4.4	18.9	16.6	16.9	105	20.6	1.7
Axis Bank	870	BUY	312,370	6,475	359	50.6	59.1	68.2	56.9	16.8	15.6	17.2	14.7	12.7	—	—	—	3.1	2.6	2.3	1.2	1.3	1.6	19.1	19.2	19.2	850	(2.3)	73.3
Bank of Baroda	431	ADD	157,670	3,268	366	60.9	60.9	62.1	55.1	0.0	1.9	7.1	7.1	6.9	—	—	—	1.4	1.2	1.0	2.1	2.1	2.1	18.7	16.3	14.7	480	11.3	8.6
Bank of India	319	ADD	167,977	3,482	526	57.2	51.5	56.2	40.7	(9.9)	9.1	5.6	6.2	5.7	—	—	—	1.4	1.2	1.0	2.5	2.3	2.5	29.2	21.0	19.3	370	15.8	14.2
Canara Bank	272	ADD	111,459	2,310	410	50.5	41.4	51.1	32.4	(18.1)	23.3	5.4	6.6	5.3	—	—	—	1.1	1.0	0.9	2.9	2.9	3.7	18.3	13.2	14.7	295	8.5	4.9
Corporation Bank	390	BUY	55,905	1,159	143	62.3	58.0	57.1	21.5	(6.8)	(1.6)	6.3	6.7	6.8	—	—	—	1.1	1.0	0.9	3.2	3.0	2.9	19.6	16.0	14.0	420	7.8	1.0
Federal Bank	227	BUY	38,816	805	171	27.8	34.3	39.9	(19.2)	23.6	16.1	8.2	6.6	5.7	—	—	—	0.9	0.8	0.7	2.3	2.8	3.3	11.5	12.9	13.5	320	41.0	3.4
HDFC	2,316	NR	658,786	13,656	284	80.2	93.4	105.4	(6.4)	16.4	12.9	28.9	24.8	22.0	—	—	—	5.0	4.5	4.0	1.3	1.4	1.6	18.2	18.7	18.6	—	—	59.8
HDFC Bank	1,427	REDUCE	645,224	13,375	452	52.8	63.3	73.5	17.6	20.0	16.0	27.0	22.5	19.4	—	—	—	4.3	3.0	2.7	0.7	0.8	1.0	16.9	15.8	14.7	1,430	0.2	44.6
ICICI Bank	745	REDUCE	829,234	17,190	1,113	33.8	34.3	40.4	(15.4)	1.7	17.6	22.1	21.7	18.4	—	—	—	1.7	1.6	1.5	1.5	1.5	1.8	7.8	7.5	8.4	685	(8.0)	175.2
IDFC	138	ADD	178,230	3,695	1,295	5.8	7.7	8.7	1.9	33.9	12.6	23.8	17.8	15.8	—	—	—	2.9	2.5	2.2	0.9	0.9	1.1	12.9	15.4	15.3	120	(12.8)	48.3
India Infoline	135	ADD	42,155	874	312	5.1	7.7	8.2	(8.7)	50.5	7.3	26.5	17.6	16.4	—	—	—	3.4	2.8	2.4	1.9	2.4	2.8	11.9	17.5	17.2	145	7.2	18.4
Indian Bank	134	BUY	57,396	1,190	430	28.0	27.6	30.2	24.1	(1.4)	9.7	4.8	4.8	4.4	—	—	—	1.0	0.9	0.8	3.7	3.6	3.9	22.9	19.2	18.2	185	38.5	2.7
Indian Overseas Bank	82	BUY	44,456	922	545	24.3	19.7	25.4	10.3	(18.9)	28.6	3.4	4.1	3.2	—	—	—	0.7	0.6	0.5	6.5	4.6	5.0	22.1	14.2	16.1	140	71.6	3.9
J&K Bank	488	BUY	23,654	490	48	84.5	86.6	96.3	13.8	2.4	11.2	5.8	5.6	5.1	—	—	—	1.0	0.9	0.9	3.5	3.5	3.9	16.7	15.1	14.9	550	12.8	0.7
Mahindra & Mahindra Financial	223	ADD	21,298	442	96	22.4	26.7	28.8	7.5	19.0	8.1	9.9	8.3	7.7	—	—	—	1.5	1.3	1.2	2.5	3.0	3.2	15.4	16.4	15.8	270	21.3	1.0
Oriental Bank of Commerce	168	REDUCE	42,116	873	251	36.1	29.1	31.5	51.4	(19.4)	8.3	4.7	5.8	5.3	—	—	—	0.8	0.8	0.8	4.3	3.5	3.8	13.7	9.6	9.7	190	13.0	3.1
PFC	214	SELL	245,966	5,099	1,148	13.0	18.0	20.0	14.3	38.6	11.1	16.5	11.9	10.7	—	—	—	2.2	2.0	1.8	1.3	2.5	2.8	13.8	17.3	17.2	185	(13.7)	6.1
Punjab National Bank	693	BUY	218,631	4,532	315	98.0	100.7	115.2	50.9	2.7	14.4	7.1	6.9	6.0	—	—	—	1.7	1.4	1.2	2.8	2.9	3.3	23.0	20.3	20.1	800	15.4	16.9
Reliance Capital	856	ADD	210,664	4,367	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	21.8	29.5	29.6	—	—	—	3.1	2.9	2.7	0.7	0.5	0.5	15.3	10.2	9.3	875	2.2	152.0
Rural Electrification Corp.	195	BUY	167,212	3,466	859	16.5	19.6	21.3	50.7	19.1	8.8	11.8	9.9	9.1	—	—	—	2.3	2.0	1.7	1.0	1.8	2.0	21.2	21.5	19.9	190	(2.4)	6.4
Shriram Transport	348	ADD	73,595	1,526	212	30.1	32.5	36.9	56.8	7.9	13.7	11.6	10.7	9.4	—	—	—	3.4	2.9	2.4	2.5	2.8	3.2	29.6	27.0	25.8	350	0.6	3.6
SREI	65	ADD	7,582	157	116	7.0	7.5	6.8	(38.4)	6.1	(9.5)	9.2	8.7	9.6	—	—	—	0.7	0.6	0.6	1.5	1.8	1.8	12.5	10.3	10.2	90	38.0	4.0
State Bank of India	1,801	BUY	1,143,261	23,699	635	143.7	129.8	149.1	34.8	(9.6)	14.9	12.5	13.9	12.1	—	—	—	2.0	1.8	1.6	1.6	1.7	1.8	17.1	13.5	14.0	1,870	3.8	108.4
Union Bank	211	BUY	106,630	2,210	505	34.2	32.4	35.4	24.5	(5.1)	9.2	6.2	6.5	6.0	—	—	—	1.5	1.3	1.1	2.4	2.2	2.5	27.2	21.2	19.5	280	32.6	7.1
Banks/Financial Institutions Attractive																													
Cement																													
ACC	831	REDUCE	156,034	3,235	188	56.3	74.0	57.1	(12.2)	31.6	(22.8)	14.8	11.2	14.5	7.4	5.7	6.6	3.0	2.5	2.2	2.8	2.8	2.8	24.7	27.1	18.4	875	5.4	13.9
Ambuja Cements	101	REDUCE	153,608	3,184	1,522	7.2	7.9	6.6	(5.0)	10.2	(16.8)	14.0	12.7	15.3	7.6	7.0	7.9	2.5	2.2	2.0	3.0	1.9	2.1	19.7	19.1	14.1	85	(15.8)	8.5
Grasim Industries	2,638	REDUCE	241,846	5,013	92	238.6	251.9	266.5	(16.2)	5.6	5.8	11.1	10.5	9.9	6.3	5.2	4.9	2.1	1.8	1.5	1.3	1.3	1.3	21.1	18.4	16.8	2,560	(2.9)	12.4
India Cements	134	ADD	37,832	784	282	17.8	19.4	15.2	n/a	9.1	(21.8)	7.5	6.9	8.8	5.3	4.2	4.7	1.0	0.9	0.8	1.4	1.6	2.4	14.8	14.6	10.4	155	15.7	10.7
Shree Cement	1,557	BUY	54,238	1,124	35	174.7	209.9	195.6	93.7	20.1	(6.8)	8.9	7.4	8.0	6.0	4.3	3.9	4.5	2.7	2.0	0.7	0.7	0.7	65.7	46.0	29.4	2,000	28.5	0.8
UltraTech Cement	745	BUY	92,745	1,923	124	78.8	90.2	73.8	(3.1)	14.5	(18.2)	9.5	8.3	10.1	5.7	4.4	4.9	2.1	1.7	1.5	0.8	1.1	1.1	31.1	27.3	18.3	900	20.8	6.1
Cement Neutral																													
Consumer products																													
Asian Paints	1,366	ADD	130,993	2,715	96	38.6	56.1	65.6	(1.7)	45.4	16.9	35.4	24.3	20.8	21.1	14.6	12.4	11.5	9.5	7.9	1.3	2.0	2.3	36.6	44.4	42.8	1,400	2.5	1.3
Colgate-Palmolive (India)	612	REDUCE	83,262	1,726	136	21.6	28.0	31.0	26.3	29.7	10.7	28.4	21.9	19.8	23.4	18.4	15.4	38.5	34.8	38.7	2.4	3.7	4.6	155.1	167.1	185.2	620	1.3	3.1
GlaxoSmithKline Consumer (a)	1,085	ADD	45,616	946	42	44.8	60.9	68.5	15.8	36.0	12.4	24.2	17.8	15.8	13.8	10.3	9.2	5.9	5.0	4.4	1.4	2.1	2.9	26.8	30.7	29.6	1,200	10.6	0.9
Godrej Consumer Products	223	ADD	57,635	1,195	258	6.7	8.7	10.0	(5.3)	30.3	14.9	33.4	25.6	22.3	23.0	16.1	13.8	10.1	6.2	5.4	1.8	1.8	1.8	46.9	30.2	26.0	210	(6.0)	0.9
Hindustan Unilever	257	BUY	559,904	11,607	2,179	9.5	10.6	12.2	19.0	11.1	15.0	27.0	24.3	21.1	20.6	18.1	15.7	27.2	24.3	21.7	3.4	3.7	4.2	112.4	105.9	108.9	320	24.6	26.3
ITC	235																												

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	14-Aug-09		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	ADVT- 3mo	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)		price
Energy																													
Bharat Petroleum	512	SELL	167,878	3,480	328	20.4	38.2	41.8	(50.7)	87.6	9.5	25.2	13.4	12.2	5.6	5.5	5.1	1.2	1.2	1.1	1.5	3.2	3.5	5.2	9.1	9.4	475	(7.2)	11.6
Cairn India	250	REDUCE	473,408	9,814	1,897	4.3	8.8	30.8	(3,703)	105	249.9	58	28	8.1	40.8	14.2	5.7	1.4	1.3	1.3	—	—	8.0	2.5	4.9	16.2	225	(9.9)	32.8
Castrol India (a)	462	BUY	57,066	1,183	124	21.3	31.1	32.0	20.8	45.9	3.0	21.7	14.8	14.4	12.4	8.8	8.5	12.7	11.2	10.0	3.2	4.8	5.0	61.2	80.2	73.5	480	4.0	1.1
GAIL (India)	343	ADD	434,960	9,017	1,268	22.1	20.6	22.1	8.4	(6.8)	7.2	15.5	16.6	15.5	8.2	9.4	9.5	2.6	2.4	2.1	1.4	1.6	1.6	17.6	14.4	13.9	330	(3.8)	17.9
GSPL	75	REDUCE	42,209	875	563	2.2	3.5	6.7	21.7	58.3	92.7	34.2	21.6	11.2	11.9	7.0	4.4	3.2	2.9	2.9	1.0	1.6	8.9	9.6	13.9	25.7	65	(13.3)	7.8
Hindustan Petroleum	367	REDUCE	124,349	2,578	339	17.0	41.4	38.6	(49.3)	144.0	(6.8)	21.6	8.9	9.5	6.5	5.2	NA	1.0	0.9	NA	1.4	4.4	4.1	4.4	10.1	8.8	375	2.2	14.7
Indian Oil Corporation	568	REDUCE	669,677	13,882	1,179	18.9	63.8	43.5	(69.1)	236.9	(31.8)	30.0	8.9	13.1	10.6	4.9	5.5	1.4	1.3	1.2	1.3	3.2	2.2	4.6	14.6	9.1	550	(3.1)	10.2
Oil & Natural Gas Corporation	1,221	BUY	2,610,512	54,115	2,139	91.4	95.8	114.6	(1.5)	4.9	19.6	13.4	12.7	10.7	4.9	4.6	4.0	2.3	2.1	1.9	2.6	2.9	3.4	17.3	16.2	17.5	1,200	(1.7)	63.2
Petronet LNG	72	REDUCE	53,738	1,114	750	6.9	7.2	8.6	—	3.6	19.6	10.4	10.0	8.4	7.4	6.7	5.7	2.4	2.0	1.7	2.4	2.8	3.1	23.9	20.6	20.6	64	(10.7)	7.8
Reliance Industries	2,036	SELL	2,796,046	57,961	1,373	103.4	109.3	158.3	(1.5)	5.7	44.9	19.7	18.6	12.9	11.6	8.3	6.0	2.4	2.1	1.9	0.7	0.8	1.0	15.1	13.7	17.6	1,600	(21.4)	231.2
Reliance Petroleum	126	NR	567,225	11,758	4,500	—	3.1	10.0	n/a	n/a	n/a	n/a	n/a	12.6	n/a	n/a	9.6	4.2	4.1	3.3	—	1.6	1.6	0.6	10.1	29.0	—	—	23.0
Energy		Cautious	7,997,067	165,777					(10.6)	29.2	31.0	18.7	14.5	11.1	8.7	6.7	5.4	2.2	2.0	1.8	1.4	1.9	2.6	11.5	13.5	15.9			
Industrials																													
ABB	678	REDUCE	143,685	2,979	212	25.8	23.3	30.0	11.3	(9.8)	28.6	26.2	29.1	22.6	15.5	16.3	12.4	6.8	5.7	4.7	0.3	0.4	0.5	29.2	21.3	22.7	660	(2.7)	9.1
BGR Energy Systems	369	ADD	26,550	550	72	15.6	25.9	30.9	29.0	65.4	19.2	23.6	14.2	11.9	13.1	8.8	7.3	4.6	3.7	3.0	0.7	1.2	1.4	21.6	28.8	27.4	400	8.5	1.5
Bharat Electronics	1,494	REDUCE	119,496	2,477	80	101.9	113.7	121.2	(0.0)	11.5	6.6	14.7	13.1	12.3	6.6	5.8	5.2	3.0	2.6	2.2	1.7	1.7	1.7	22.4	21.3	19.5	1,450	(2.9)	2.9
Bharat Heavy Electricals	2,201	REDUCE	1,077,238	22,331	490	64.1	93.1	106.8	9.8	45.1	14.8	34.3	23.6	20.6	18.7	13.2	11.3	8.3	6.6	5.3	0.7	0.9	1.0	26.4	31.0	28.5	2,100	(4.6)	55.9
Crompton Greaves	283	ADD	103,601	2,148	367	15.3	17.7	20.3	37.3	15.3	15.0	18.4	16.0	13.9	9.8	8.5	7.2	5.7	4.3	3.4	0.7	0.8	0.9	35.9	30.8	27.6	315	11.5	5.5
Larsen & Toubro	1,486	ADD	876,560	18,171	590	50.1	60.7	75.4	32.1	21.1	24.3	29.7	24.5	19.7	18.9	14.6	12.1	5.8	4.4	3.6	0.7	0.7	0.8	21.7	20.4	20.3	1,525	2.6	107.7
Maharashtra Seamless	280	BUY	19,752	409	71	35.9	33.0	35.3	22.2	(7.9)	6.9	7.8	8.5	7.9	4.5	4.7	4.1	1.5	1.3	1.1	1.9	1.8	2.3	20.3	16.0	15.0	285	1.8	1.2
Siemens	455	ADD	153,307	3,178	337	14.2	22.8	22.7	(22.2)	61.0	(0.5)	32.1	19.9	20.0	15.1	11.3	11.4	6.8	5.6	4.6	0.7	1.6	1.0	23.3	30.8	25.2	515	13.3	7.8
Suzlon Energy	88	ADD	148,244	3,073	1,678	7.4	3.9	6.1	12.8	(47.2)	54.7	11.9	22.6	14.6	10.3	11.6	9.7	1.6	1.3	1.2	-	-	0.2	12.5	6.2	8.3	110	24.5	160.9
Industrials		Neutral	2,668,431	55,316					14.3	20.3	18.9	26.7	22.2	18.7	15.5	12.6	10.7	5.4	4.3	3.6	0.7	0.9	0.9	20.1	19.2	19.1			
Infrastructure																													
GVK Power & Infrastructure	48	BUY	75,091	1,557	1,579	0.8	0.7	1.0	(20.6)	(13.6)	54.9	62.4	72.1	46.6	55.2	18.3	16.8	3.2	2.4	2.3	—	—	0.6	4.8	3.8	5.0	50	5.2	23.4
IRB Infrastructure	187	BUY	62,252	1,290	332	5.3	10.7	13.6	54.3	101.7	27.6	35.4	17.5	13.8	18.7	9.7	9.0	3.4	2.7	2.3	0.6	—	—	10.1	17.4	18.1	200	6.8	10.6
Infrastructure		Attractive	137,343	2,847					13.7	62.1	33.8	48.5	29.9	22.4	30.0	13.1	12.0	3.3	2.5	2.3	0.3	—	0.3	6.8	8.5	10.2			
Media																													
DishTV	46	REDUCE	43,817	908	946	(8.8)	(3.2)	(1.3)	n/a	(63.4)	(60.8)	(5.3)	(14.4)	(36.8)	(31.3)	67.6	15.7	(7.1)	(8.6)	(20.7)	—	—	—	84.4	54.0	NA	35	(24.4)	15.2
HT Media	108	ADD	25,205	522	234	0.9	4.8	6.6	(78.8)	422.4	37.4	117.4	22.5	16.4	26.8	11.0	8.9	3.0	2.8	2.6	0.4	0.7	2.4	2.5	12.8	16.3	125	16.2	0.6
Jagran Prakashan	100	ADD	30,237	627	301	3.0	4.8	5.8	(6.6)	58.0	20.0	33.0	20.9	17.4	18.8	12.1	10.0	5.4	5.0	4.5	2.0	2.9	3.2	16.7	24.9	27.4	105	4.6	1.3
Sun TV Network	280	REDUCE	110,461	2,290	394	9.1	11.3	13.3	9.3	24.4	18.4	30.9	24.9	21.0	16.3	13.9	11.6	6.3	5.5	5.0	0.9	1.4	2.1	22.5	24.0	24.9	235	(16.2)	2.6
Zee Entertainment Enterprises	190	REDUCE	82,486	1,710	434	8.3	10.0	12.0	(6.5)	20.6	19.5	22.9	19.0	15.9	16.3	13.6	11.0	2.5	2.3	2.1	1.2	1.4	1.7	11.9	13.0	14.4	160	(15.9)	7.6
Zee News	42	ADD	10,046	208	240	1.9	2.2	2.7	21.3	14.7	23.4	22.3	19.5	15.8	11.5	9.4	8.0	4.1	3.5	3.0	1.0	1.0	1.4	20.1	19.6	20.7	45	7.4	1.5
Media		Neutral	302,252	6,266					(22.3)	112.2	49.0	72.6	34.2	23.0	22.7	14.9	11.2	4.9	4.4	3.8	0.9	1.3	1.8	6.8	12.9	16.7			
Metals																													
Hindalco Industries	108	BUY	189,896	3,936	1,753	2.8	3.5	11.1	(77.9)	25.5	218.4	39.1	31.2	9.8	11.9	8.8	6.8	0.5	0.5	0.5	—	—	—	10.3	5.2	6.5	135	24.6	29.2
National Aluminium Co.	317	SELL	204,375	4,237	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	16.1	23.1	15.6	8.2	8.7	5.9	1.9	1.8	1.7	1.1	0.6	0.6	12.7	8.1	11.1	290	(8.6)	3.8
Jindal Steel and Power	3,120	SELL	480,375	9,958	154	198.0	247.1	236.4	139.3	24.8	(4.3)	15.8	12.6	13.2	10.3	8.2	7.9	6.4	4.2	3.2	—	0.2	0.2	51.9	40.3	27.6	2,150	(31.1)	54.5
JSW Steel	738	SELL	138,089	2,863	187	13.1	36.8	65.9	(84.7)	180.1	79.1	56.2	20.0	11.2	10.1	9.6	7.2	1.5	1.2	1.1	0.1	0.4	0.7	11.7	5.1	10.7	440	(40.4)	54.7
Hindustan Zinc	730	BUY	308,322	6,391	423	64.6	57.3	74.1	(38.0)	(11.2)	29.3	11.3	12.7	9.9	7.4	7.4	4.9	2.1	1.8	1.5	0.5	0.7	0.7	20.1	15.1	16.7	825	(13.1)	5.8
Sesa Goa	241	BUY	190,079	3,940	787	25.1	25.5	34.2	32.6	1.3	34.3	9.6	9.5	7.1	6.3	5.9	3.7	4.2	3.0	2.2	1.4	1.4	1.4	53.3	36.9	35.9	240	(0.6)	55.5
Sterilite Industries	659	REDUCE	553,844	11,481	840	49.2	29.8	38.0	(23.6)	(39.3)	27.2	13.4	22.1	17.4	9.6	9.5	7.1	2.1	1.5	1.4	—	—	—	14.3	8.1	8.4	550	(16.5)	64.8
Tata Steel	470	BUY	417,034	8,645	887	110.0	41.2	78.8	45.3	(62.6)	91.6	4.3	11.4	6.0	5.0	7.7	5.8	1.0	1.0	0.9	3.1	3.4	3.4	36.3	15.5	25.7	465	(1.1)	148.8
Metals		Cautious	2,482,012	51,451					(0.8)	(29.0)	47.3	10.7	15.1	10.3	7.5	8.2	6.3	1.7	1.4	1.3	0.8	0.9	0.9	15.5	9.4	12.3			
Pharmaceutical																													
Biocon	228	BUY	45,550	944	200	4.7	14.4	18.6	(79.9)	206.8	29.3	48.6	15.8	12.2	19.5	9.1	7.3	3.0	2.6	2.2	0.0	0.0	0.1	6.2	17.8	20.0	270	18.6	6.5
Cipla	282	ADD	219,352	4,547	777	9.9	12.9	16.3	10.0	30.5	25.7	28.4	21.8	17.3	21.0	15.2	12.3	5.0	4.3	3.6	0.7	0.9	0.9	19.0	21.2	22.4	285	1.0	10.5
Dishman Pharma & chemicals	207	BUY	16,816	349	81	18.0	21.2	27.3	22.1	17.9	28.7	11.5	9.8	7.6	9.2	7.3	5.8	2.4	1.9	1.6	0.0	0.0	0.0	22.8	21.9	22.9	280	35.4	0.8
Divi's Laboratories	485	BUY	31,297	649	65	31.9	36.8	43.3	19.9	15.2	17.7	15.2	13.2	11.2	5.9	4.5	3.4	5.3	4.0	3.1	0.1	0.1	0.1	40.4	34.4	31.1	565	16.5	3.6
Dr Reddy's Laboratories	803	BUY	136,016	2,820	166	32.4	49.3	52.5	24.3	52.2	6.4	24.8	16.3	15.3	10.7	8.5	7.6	3.9	3.2	2.7	0.8	0.9	1.0	13.6	21.4	19.2	860	7.1	7.9
Glenmark Pharmaceuticals	254	BUY	67,567	1,401	266	11.1	11.6	15.7	(57.0)	4.2	35.1	22.9	21																

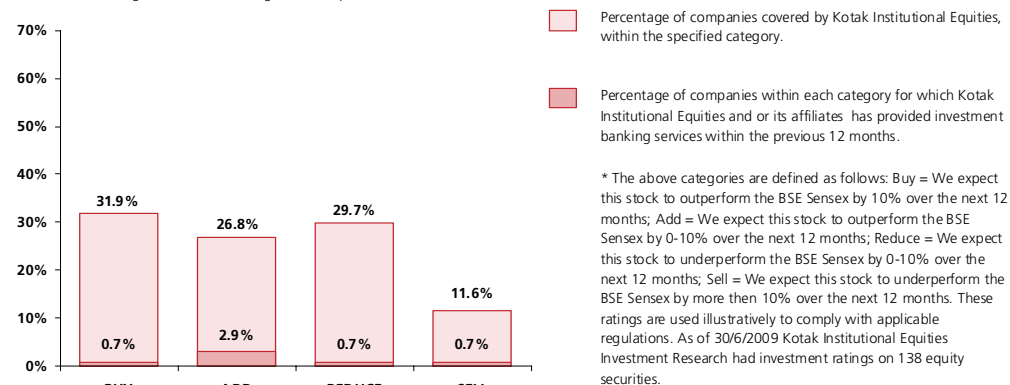
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	14-Aug-09		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)		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E			
Retail																													
Titan Industries	1,201	REDUCE	53,292	1,105	44	44.3	49.4	58.7	26.4	11.6	18.7	27.1	24.3	20.4	16.3	15.0	12.5	9.2	7.1	5.6	0.8	0.8	1.0	37.5	33.1	30.6	1,040	(13.4)	1.8
Retail		Neutral	53,292	1,105					26.4	11.6	18.7	27.1	24.3	20.4	16.3	15.0	12.5	9.2	7.1	5.6	0.8	0.8	1.0	34.1	29.3	27.4			
Technology																													
HCL Technologies	270	REDUCE	187,720	3,891	695	16.2	13.1	17.0	6.0	(19.0)	29.5	16.7	20.6	15.9	9.2	9.1	8.7	3.0	2.9	2.7	4.4	4.4	4.4	18.6	14.4	17.7	135	(50.0)	6.8
Infosys Technologies	2,042	BUY	1,172,309	24,302	574	102.4	102.5	112.8	29.6	0.1	10.1	19.9	19.9	18.1	14.7	14.1	11.9	6.4	5.2	4.4	1.2	1.2	1.6	36.7	28.9	26.3	1,900	(7.0)	68.0
Mphasis BFL	528	REDUCE	110,093	2,282	208	14.2	38.9	33.5	15.7	174.5	(13.9)	37.3	13.6	15.8	28.3	9.8	9.2	7.7	5.2	4.1	0.8	0.9	0.9	22.8	45.4	28.8	335	(36.6)	7.0
Mindtree	461	BUY	18,971	393	41	13.2	37.0	43.9	(50.5)	179.5	18.5	34.8	12.5	10.5	6.0	8.6	6.6	3.4	2.7	2.1	0.4	—	1.0	5.5	24.0	22.5	500	8.5	3.3
Patni Computer Systems	405	REDUCE	52,000	1,078	129	26.8	33.8	36.7	(19.3)	26.1	8.6	15.1	12.0	11.0	7.4	5.6	5.4	2.1	1.7	1.5	0.4	1.7	1.8	16.2	14.8	14.6	320	(20.9)	5.5
Polaris Software Lab	133	SELL	13,097	272	99	13.1	13.8	12.9	76.0	5.4	(6.4)	10.1	9.6	10.3	4.1	5.0	5.3	1.7	1.5	1.3	2.1	1.5	1.5	18.1	16.4	13.6	80	(39.7)	4.0
TCS	527	ADD	1,030,955	21,371	1,957	26.4	30.5	33.8	3.1	15.2	10.8	19.9	17.3	15.6	13.9	12.3	10.8	6.6	5.3	4.5	1.3	1.7	2.6	36.9	33.9	31.1	510	(3.2)	38.7
Wipro	511	ADD	747,740	15,500	1,462	25.7	27.5	32.0	15.8	6.6	16.6	19.9	18.6	16.0	14.6	13.0	10.8	5.0	4.1	3.4	0.8	1.5	1.8	26.9	24.0	23.3	520	1.7	15.8
Technology		Neutral	3,344,290	69,326					14.7	9.4	11.3	19.8	18.1	16.2	13.7	12.3	10.7	5.5	4.5	3.8	1.3	1.6	2.1	27.7	24.8	23.6			
Telecom																													
Bharti Airtel	409	ADD	1,552,024	32,173	3,797	22.3	26.9	30.6	26.4	20.5	13.8	18.3	15.2	13.3	10.7	9.0	7.8	4.9	3.7	2.9	0.5	0.7	1.0	31.4	28.0	24.6	425	4.0	90.3
IDEA	78	REDUCE	242,256	5,022	3,104	2.9	3.4	3.6	(26.5)	15.8	7.3	26.9	23.2	21.6	9.9	8.3	7.4	1.8	1.6	1.5	—	—	—	10.4	7.4	8.0	65	(16.7)	22.3
MTNL	98	SELL	61,677	1,279	630	3.1	(4.8)	(3.9)	(57.1)	(256.5)	(18.1)	31.9	(20.4)	(24.9)	13.2	(16.6)	(57.2)	0.5	0.5	0.6	6.1	—	—	1.1	(2.6)	(2.2)	50	(48.9)	5.1
Reliance Communications	259	SELL	533,652	11,062	2,064	27.7	21.2	23.0	4.7	(23.3)	8.3	9.3	12.2	11.2	8.1	8.0	6.3	1.3	1.2	1.1	0.3	—	—	17.0	10.6	10.3	240	(7.2)	78.9
Tata Communications	502	REDUCE	143,170	2,968	285	13.6	14.0	15.2	24.0	3.2	8.2	37.0	35.9	33.1	15.7	14.3	13.2	2.1	2.0	2.0	1.0	1.3	1.5	5.4	5.2	5.5	400	(20.4)	8.7
Telecom		Cautious	2,532,779	52,504					11.1	1.1	12.8	15.8	15.6	13.8	10.0	9.0	7.5	2.4	2.1	1.8	0.6	0.5	0.7	15.4	13.5	13.3			
Transportation																													
Container Corporation	1,124	ADD	146,039	3,027	130	64.4	67.8	80.3	11.6	5.3	18.5	17.4	16.6	14.0	12.7	11.5	9.5	3.9	3.3	2.8	1.3	1.4	1.6	24.0	21.4	21.7	1,125	0.1	1.3
Transportation		Cautious	146,039	3,027					11.6	5.3	18.5	17.4	16.6	14.0	12.7	11.5	9.5	3.9	3.3	2.8	1.3	1.4	1.6	22.1	19.9	20.1			
Utilities																													
CESC	326	ADD	40,760	845	125	32.3	37.9	42.0	16.2	17.4	11.0	10.1	8.6	7.8	5.6	5.7	5.9	1.1	1.0	0.9	1.2	1.5	1.6	11.7	11.9	11.6	345	5.7	3.3
Lanco Infratech	428	ADD	95,222	1,974	222	14.5	20.8	36.6	(2.5)	43.8	76.2	29.6	20.6	11.7	24.5	16.6	8.0	4.4	3.4	2.6	—	—	—	16.1	18.7	25.2	440	2.7	31.2
NTPC	206	SELL	1,698,978	35,219	8,245	9.5	10.8	12.2	1.6	14.1	12.6	21.7	19.1	16.9	17.1	14.1	13.4	2.9	2.7	2.4	1.7	2.0	2.2	13.8	14.5	15.0	180	(12.6)	40.3
Reliance Infrastructure	1,188	BUY	269,057	5,577	226	62.7	63.7	68.6	66.7	1.6	7.8	19.0	18.7	17.3	23.8	21.7	17.2	1.6	1.5	1.4	0.6	0.7	0.8	4.9	6.1	7.8	1,250	5.2	108.6
Reliance Power	163	REDUCE	390,311	8,091	2,397	1.0	2.5	3.1	—	141.5	24.4	159.6	66.1	53.1	—	—	—	2.8	2.7	2.6	—	—	—	1.8	4.2	5.0	160	(1.8)	36.6
Tata Power	1,282	ADD	304,379	6,310	237	47.7	74.6	84.1	49.7	56.5	12.7	26.9	17.2	15.2	11.8	11.6	11.2	3.1	2.3	2.1	0.8	0.9	1.1	11.4	15.4	14.3	1,250	(2.5)	15.9
Utilities		Attractive	2,798,707	58,016					12.3	21.2	14.7	24.8	20.5	17.9	18.4	16.5	14.8	2.7	2.4	2.2	1.2	1.4	1.6	10.7	11.7	12.3			
Others																													
Havells India	295	REDUCE	17,865	370	61	4.9	12.3	19.1	(82)	NA	56.2	NA	24.1	15.4	10.2	8.3	7.3	2.8	3.2	2.8	0.8	0.8	0.8	4.5	12.4	19.3	175	(40.7)	1.2
Jaiprakash Associates	217	REDUCE	303,989	6,302	1,403	3.0	6.7	11.4	(39)	123.8	70.2	72.2	32.2	18.9	23.9	14.5	13.1	5.5	4.6	3.8	—	—	—	8.0	15.5	21.9	220	1.6	104.0
Jindal Saw	562	ADD	32,387	671	58	74.3	61.5	61.1	20	(17.2)	(0.7)	7.6	9.1	9.2	5.1	5.4	4.8	0.9	0.8	0.8	0.8	0.7	0.7	11.6	8.9	8.6	470	(16.4)	4.0
PSL	148	BUY	6,459	134	44	22.2	37.6	30.1	5	69.2	(19.8)	6.7	3.9	4.9	4.4	3.5	3.0	1.0	0.8	0.7	3.3	4.3	4.3	11.9	13.4	11.3	160	8.0	1.4
Sintex	210	BUY	28,630	593	136	23.8	25.2	27.6	22	5.6	9.6	8.8	8.3	7.6	6.3	5.7	4.8	1.5	1.2	1.1	0.5	0.5	0.6	16.6	15.0	14.2	275	31.1	4.5
Tata Chemicals	259	ADD	63,157	1,309	243	26.6	17.8	26.8	(33)	(33.0)	50.4	9.7	14.5	9.7	6.3	6.6	5.2	1.3	1.3	1.2	3.4	3.4	3.4	17.9	11.0	14.7	260	0.2	6.3
Welspun Gujarat Stahl Rohren	217	REDUCE	40,908	848	189	17.3	24.0	17.8	(16)	38.7	(25.8)	12.5	9.0	12.2	7.1	5.1	6.0	2.3	1.8	1.5	0.9	0.7	0.8	17.8	21.7	13.4	145	(33.1)	25.5
United Phosphorus	174	BUY	80,341	1,665	462	10.7	13.9	18.0	28	29.7	29.6	16.2	12.5	9.7	10.7	7.8	6.1	2.7	2.2	1.9	0.7	0.9	1.2	18.1	19.1	20.8	160	(8.0)	6.6
Others			618,200	12,815					(8.1)	28.1	30.2	19.8	15.5	11.9	11.3	9.2	8.4	2.6	2.3	1.9	0.6	0.7	0.7	13.2	14.7	16.3			
KS universe (b)			35,241,218	730,539					1.3	9.1	20.8	18	16.1	13.3	11.4	9.7	8.2	2.6	2.3	2.0	1.2	1.4	1.7	15.1	14.4	15.4			
KS universe (b) ex-Energy			27,244,151	564,763					5.1	3.7	17.3	17.3	16.6	14.2	12.7	11.4	9.8	2.8	2.4	2.2	1.2	1.3	1.5	16.5	14.7	15.2			
KS universe (d) ex-Energy & ex-Commodities			24,025,836	498,048					7.0	9.1	15.2	18.7	17.2	14.9	14.9	12.7	11.0	3.1	2.7	2.3	1.2	1.3	1.5	16.5	15.5	15.7			

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Manish Karwa, Puneet Jain, Aman Batra. "

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

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

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

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

Corporate Office

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

Copyright 2009 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMLnc). However KMLnc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.