

May 17, 2009

BSE-30: 12,173

Best to hold on to a good thing. We recommend investors stay invested in order to play eventual global and domestic economic recovery. Fair-to-full valuations of several large-cap. stocks prevent us from taking a more aggressive view; we do not see concrete evidence of earnings upgrades yet. We stay with banking and commodities as the best ways to play the economic recovery theme, especially as their valuations are still relatively inexpensive versus those of other sectors.

Stay invested to play possible recovery in economic activity and earnings

We recommend that investors stay invested in order to play (1) likely recovery global and domestic economic recovery and (2) possible earnings upgrades related to economic recovery. We stick with banking and commodities (our preferred high-conviction ideas over the past six months) to play the economic recovery theme.

14,000 (+20%) for BSE-30 Index may be possible with earnings upgrades, liquidity

In our view, the BSE-30 Index can rise 20% to around 14,000 by end-CY2009 with impetus from (1) possible earnings upgrades and (2) continued positive investment sentiment. We do not yet see concrete evidence of sustained earnings upgrades given global and specific domestic issues in several sectors. A liquidity-driven rally based on euphoria alone may not sustain.

Stable government and like-minded coalition partners to help investment sentiment

We see the inevitable formation of the UPA government (262 seats out of 543 in the Lok Sabha in the 15th national elections) as a positive for the market since it represents political and economic stability. Also, the Indian National Congress (INC) is stronger than before with 206 seats against 145 previously. This gives it the strength to push economic reforms without much opposition from its coalition partners.

Full valuations of marquee names and large fiscal deficit may rein in markets

(1) We do not find meaningful value in many large-cap. names after the strong rally of 36% in the BSE-30 Index over the past two months. They are trading above our FY2010E-based valuations and near/above our FY2011E-based valuations. (2) The continued high fiscal deficit may result in higher interest rates in 2HFY10E and FY2011E without mitigation from strong external capital flows.

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Important disclosures appear
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OVERVIEW: BEST TO HOLD ON TO A GOOD THING

As our rather philosophical target suggests, we recommend investors stay invested despite the market's surge over the past two months (+36%). We are somewhat befuddled (as philosophers are wont to be), caught between (1) likely economic recovery and earnings upgrades and (2) full valuations. We are inclined towards staying invested to play a gradual recovery in global and domestic economic activity. The formation of a stable government will further boost investment sentiment.

Stay invested with a neutral portfolio with a few high-conviction deviations

We recommend investors stay invested in the Indian market in order to participate in the ongoing global and domestic economic recovery. Rich valuations across several large-cap. stocks and the absence of any near-term catalysts prevent us from taking a more aggressive stance at the current juncture. We await evidence of earnings upgrades (if any) to take a more positive view of the market.

We currently model FY2010E earnings to be -1.7% (-5.2% on ex-energy basis) and FY2011E earnings to grow a robust 22.5% (+17% on ex-energy basis) on the back of global and domestic economic recovery. Exhibit 1 gives the breakdown of earnings growth and valuations across sectors.

Exhibit 1: Valuation summary of BSE-30 sectors, March fiscal year-ends, 2009E-11E

	Mkt cap. (US\$ mn)	EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)		RoE (%)		
		2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2009E	2010E	2011E
Automobiles	10,678	(41)	31	15	18.9	14.4	12.6	12.1	8.0	6.9	1.9	1.6	1.4	0.6	0.7	9.9	11.3	11.5
Banking	50,948	17	(4)	16	14.5	15.1	13.0	—	—	—	2.0	1.9	1.7	1.7	1.7	13.7	12.7	13.3
Cement	5,885	(18)	(12)	(7)	9.3	10.5	11.4	5.1	5.2	5.3	1.8	1.6	1.4	2.6	2.6	19.4	15.2	12.7
Consumers	24,023	8	12	14	22.6	20.1	17.6	15.2	12.6	11.0	7.6	6.7	5.9	2.8	3.0	33.4	33.2	33.4
Diversified	3,985	51	20	50	21.4	17.9	11.9	12.3	10.6	10.2	3.3	2.9	2.4	0.0	0.0	15.3	16.0	19.9
Energy	89,180	9	7	35	11.7	11.0	8.1	5.7	4.7	3.6	1.9	1.7	1.5	2.1	2.2	16.2	15.5	18.5
Industrials	28,779	15	31	18	24.4	18.7	15.9	13.6	10.6	9.2	4.9	4.0	3.3	1.0	1.1	20.2	21.4	20.9
Metals	13,590	14	(48)	54	4.5	8.5	5.5	3.9	5.0	4.0	0.6	0.6	0.6	1.6	1.6	14.1	7.1	10.1
Pharmaceuticals	7,169	(38)	5	41	24.2	23.2	16.4	17.2	15.2	10.7	3.0	2.5	2.3	1.9	2.2	12.4	10.8	13.8
Property	8,881	(37)	(45)	8	8.8	16.1	14.9	9.1	12.8	11.1	1.8	1.6	1.5	1.2	1.2	20.3	10.2	10.2
Technology	42,325	16	1	10	14.1	14.0	12.8	10.0	9.2	7.6	4.3	3.5	3.0	1.6	1.9	30.3	25.0	23.3
Telecom	40,330	15	(1)	11	13.7	13.8	12.4	8.7	7.9	6.7	3.0	2.5	2.1	0.5	0.6	22.1	17.9	16.6
Utilities	39,052	10	19	12	19.0	15.9	14.2	10.9	10.6	10.4	2.2	2.1	1.9	1.7	1.9	11.8	12.9	13.3
BSE-30	364,825	5.8	(1.7)	22.5	13.5	13.7	11.2	7.8	7.3	6.1	2.3	2.0	1.8	1.6	1.8	16.8	14.8	16.1
BSE-30 ex-Energy	275,645	4.6	(5.2)	17.0	14.2	14.9	12.8	8.9	8.8	7.6	2.4	2.2	1.9	1.5	1.6	17.0	14.5	15.1
BSE-30 ex-Energy, Com.	256,169	4.2	3.2	14.2	16.2	15.7	13.8	10.9	9.8	8.6	2.9	2.5	2.2	1.4	1.6	17.7	16.2	16.2

Note:

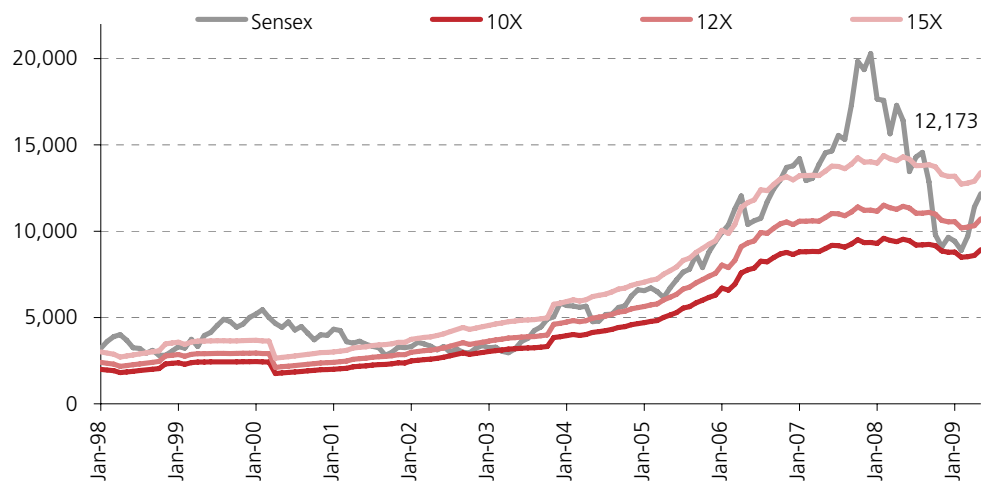
(a) EV/EBITDA excludes Banking sector.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

The market is trading at 11.2X FY2011E earnings, which appears inexpensive. However, we note that the 'low' valuation reflects very low valuations of energy and metals sectors, which should perhaps trade at lower-than-market multiples. These sectors also have a disproportionately large share of overall earnings. The market trades at 13.8X FY2011E earnings adjusted for the aforementioned sectors.

Our bottom-up fair valuation for the BSE-30 Index for end-CY2009 comes to 12,250 based on average of (1) 11,500 based on FY2010E valuations and (2) 13,000 based on FY2011E valuations. However, we do not rule out the market trading at 20% higher to fair valuations (say, around 14,000) based on high global and domestic liquidity. At 14,000, the market will trade at about 14X average of FY2010E and FY2011E earnings. The market has traded at much higher valuations during periods of excess liquidity and euphoria (see Exhibit 2).

Exhibit 2: Markets have historically traded at premium valuations during excess liquidity
 12-months rolling forward P/E of BSE-30 Index (X)



Source: Bloomberg, Kotak Institutional Equities estimates

VALUATION: 14,000 POSSIBLE IF EARNINGS AND SENTIMENT IMPROVE

In our view, the BSE-30 Index can rise 20% to around 14,000 by end-CY2009 with impetus from (1) possible earnings upgrades and (2) continued positive investment sentiment. We do not yet see concrete evidence of earnings upgrades given global and specific domestic issues in several sectors. Nonetheless, we expect investment sentiment to remain strong due to (1) increasing signs of global economic recovery and (2) preference for non-dollar asset classes. We expect investment to emerge at lower levels and thus, support the BSE-30 Index at around 10,000 levels (11X FY2010E earnings).

Earnings: No signs yet of significant upgrades, but yes, there is scope

We have not seen any meaningful upgrades of earnings by our analyst team over the past few months, barring in automobiles and cement (see Exhibit 3). This prevents us from taking a more aggressive view of earnings for FY2010E and FY2011E. In fact, BSE-30 ex-energy earnings growth for FY2010E has come down marginally to -5.2% from 0.1% in early January 2009. Exhibit 4 tracks our changes in earnings of BSE-30 Index (ex-energy basis).

Exhibit 3: No major upgrades except in automobiles and cement

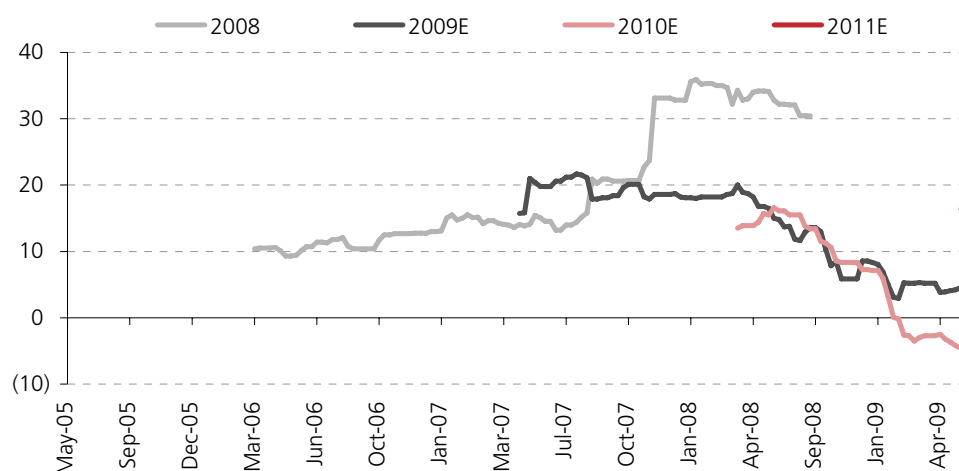
Earnings growth of BSE-30 Index sectors, March fiscal year-end, 2010E (%)

	Earnings growth (%)				
	Dec-08	Jan-09	Feb-09	Mar-09	15-May-09
Automobiles	(5.3)	18.5	21.0	20.1	30.9
Banking	5.4	2.9	0.4	0.1	(4.1)
Cement	(21.1)	(21.9)	(21.9)	(21.2)	(11.5)
Consumers	14.7	14.4	14.4	14.4	12.3
Diversified	30.8	33.4	33.4	33.4	20.0
Energy	21.2	12.4	6.9	17.7	7.1
Industrials	26.4	29.4	29.4	26.0	30.7
Metals	(19.1)	(33.8)	(49.3)	(46.3)	(47.5)
Pharmaceuticals	NA	48.6	44.5	47.6	4.7
Property	6.2	(26.3)	(24.4)	(24.4)	(45.2)
Technology	5.9	4.6	4.6	9.0	0.8
Telecom	22.5	2.9	2.9	(4.4)	(1.1)
Utilities	13.7	11.2	17.6	18.5	19.2
BSE-30 Index	10.8	3.5	—	3.0	(1.7)
BSE-30 ex-Energy	6.7	0.1	(2.6)	(2.6)	(5.2)

Source: Kotak Institutional Equities estimates

Exhibit 4: Sensex (ex-energy) earnings growth continues its downward trend

Expected growth in Sensex ex-energy earnings for FY2008, FY2009E, FY2010E and FY2011E (%)



Source: Kotak Institutional Equities estimates

Exhibit 5 shows our assessment of earnings risks in various **sectors and large-cap. stocks**. We see downside risks in many sectors given global (technology) and domestic (cement, industrials and telecom) issues. We discuss a few cases in large-cap. sectors/stocks where we see scope for upward revisions to earnings of FY2010E and FY2011E.

Exhibit 5: Downside risks to earnings persist in several sectors

Overview of risks to earnings in major sectors

Upside risks to earnings	Downside risks to earnings
Automobiles	
(1) Strong demand from rural areas and government employees more than offset weakness in services and industrial sectors	(1) Lower industrial production and reduced demand for movement of goods could result in continued slowdown in the CV segment
(2) Lower raw material costs could result in improvement in margin	(2) Weak consumer sentiment, high cost of financing and reduced availability of credit could result in lower volume growth
Banking	
(1) Banks NIMs may improve led by (1) faster-than-expected repricing of liabilities and (2) higher-than-expected loan growth	(1) Higher-than-expected increase in NPLs due to moderation in economic growth
	(2) Higher borrowing program of government of India could continue to exert upward pressure on yields, which could be accentuated by concurrent pick-up in credit demand; this in turn would result in MTM losses on banks' investment portfolio
Cement	
(1) Margins sustaining if cement manufacturers are able to retain prices at current levels through the monsoons	(1) Higher-than-anticipated price decline due to lower capacity utilization
(2) Volume growth higher than our estimate of 7% growth aided by revival of real estate demand in Tier I towns	(2) Lower-than-expected consumption may further widen extant supply-demand gap
Chemicals	
	(1) Commissioning of new chemical capacities (16 mtpa in CY2009-10E) to likely lead to subdued chemical margins
	(2) Weak global GDP growth may lead to lower-than-expected margins
Construction	
(1) Easing of monetary policy leading to easing of current credit crunch and lower-than-expected interest costs which would result in improved bottom-line earnings	(1) Lower margins from rebound in commodity (steel) prices and inadequate pass-through of costs in inflexible (fixed-price) contracts
(2) Further decline in commodity prices would alleviate cost pressures thereby leading to improved margins	(2) Rising interest rates may affect the viability of infrastructure projects and thus, dampen investment momentum
	(3) Lack of expertise in new segments/geographies may lead to higher costs and execution-related challenges
Consumers	
(1) Significant margin expansion for players with strong brand franchise if lower commodity prices sustain in FY2010E	(1) Current economic scenario coupled with higher retail prices leading to consumer downtrading in select categories, mostly staples
(2) Increased consumption surplus available due to Sixth Pay Commission Award and waiver of farm loans	(2) Impact on consumer confidence can result in postponement of discretionary spends like processed foods, paints, luxury goods, jewellery etc.
(3) Operating leverage benefits for smaller players due to acceleration in volume growth	(3) Acute competition in staples categories as unorganized and regional players channelize gross margin expansion into higher trade spends
Energy	
(1) Key upside risk to our cautious view on refining cycle stems from a sharp recovery in global GDP leading to higher-than-expected refining margins	(1) Refining margins will likely remain weak led by significant capacity additions in CY2009E-10E and weak global demand for oil
(2) Higher-than-expected crude price will be positive for earnings of upstream companies (ONGC, Cairn and GAIL)	(2) Uncertainty prevails over earnings of government-owned R&M companies which will remain dependent on compensation from government (in the form of oil bonds) and contribution from upstream companies
	(3) Decline in crude prices from current levels will be negative for earnings of upstream companies (ONGC, Cairn and GAIL)
Industrials	
(1) Higher order inflows would lead to larger order backlogs and higher executions	(1) Political uncertainty, slowdown in infrastructure investments due to slowdown in economic activity, lack of stable/conducive regulatory policies and delays in project clearances in various sectors, particularly infrastructure
(2) Lower commodity prices would further improve margins	
Media	
(1) Industry consolidation may be positive for leading players	(1) Slowdown in GDP growth and/or consumption to impact advertisement spending negatively
(2) Closure/restructuring of loss-making businesses to provide earnings support	(2) Rising competitive intensity in some segments to result in revenue fragmentation, higher costs
Metals	
(1) A sharp pull back in commodity prices backed by recently announced production cuts could provide upside to earnings	(1) Weaker-than-expected global GDP growth could prevent any pull back in demand resulting in lower prices and margin
(2) Renegotiation of raw material contracts (iron ore, coal) at lower levels could reduce cost of production, improve margins	(2) Inventory build-up may prevent commodity prices from moving up
Pharmaceuticals	
(1) weaker-than-expected rupee-dollar exchange rate and (2) strong growth in domestic market; we factor in lower growth rate versus growth in FY2009	Risks to revenues of CMO/CRO due to (1) lower inventory levels of innovator companies and (2) funding problems of cash-strapped biotech firms
Real estate	
Lower commodity prices (cement, steel) could partly cushion fall in selling prices; we currently model 5% yoy increase in construction costs for FY2010E and FY2011E	(1) Steeper-than-expected decline in residential real estate prices on weak demand, high interest rates. We model 10% yoy decline in FY2010E prices and flat prices in FY2011E across all verticals
Higher-than-expected demand due to (1) lower interest rates and (2) large correction in prices versus our current expectations	(2) Delay in delivery of projects and thus, lower volumes and revenues on account of weak demand, slower execution, approval delays
	(3) Slowdown in IT services, which may affect demand for commercial real estate
Technology	
(1) Higher-than-expected volume growth for FY2010E; we model volume growth of 2-5% for Tier I companies in FY2010E	(1) Further delays in IT budget finalizations leading to further delay in volume recovery
(2) Lower-than-expected pricing pressure; we model 4-6% like-on-like pricing decline for Tier I companies for FY2010E	(2) Higher-than-expected pricing pressure due to US slowdown; we model 4-6% like-on-like pricing decline for Tier I companies
	(3) Adverse currency movements; either sharp appreciation in the Re versus the USD or further appreciation of the US\$ versus GBP/EUR/AUD; we model Re/US\$ rate of 50.75 for FY2010E and 50.5 for FY2011E
Telecom	
(1) Wireless tariffs sustaining at current levels	(1) Steeper-than-expected decline in pricing due to increased competition from expansion by extant operators and entry of new operators (3-4); risk of sustained irrational pricing in the market as new networks keep getting launched. Recent termination rat
(2) Significant savings arising from sharing of passive infrastructure and retention of savings by service providers	(2) Lower-than-expected savings from sharing of passive infrastructure due to concurrent reduction to tariffs from enhanced competition
Utilities	
(1) Higher tariff for merchant power capacity sustaining after national elections	(1) Delay in execution of projects due to funding constraints
(2) Availability of gas from KG basin could enable gas-based projects to operate at higher PLFs	(2) Supply shortage under coal linkages for existing and new power plants could impact generation growth

Source: Kotak Institutional Equities estimates

- **Banking.** Our flat yoy earnings growth for FY2010E reflects (1) high loan-loss provisions to reflect likely deterioration in asset quality and (2) low investment gains. We see scope for positive surprise in earnings if NPLs turn out be lower than expected. We model a sharp increase in NPLs as can be seen in Exhibit 6. We also model low investment gains relative to the size of banks' unrealized gains (see Exhibit 7).

Exhibit 6: Our base-case assumptions factor in a sharp rise in reported NPLs to account for a likely deterioration in asset quality
Gross NPLs, Net NPLs of banks, March fiscal year-ends, 2009-2011E

	Gross NPLs (Rs bn)			Gross NPLs (%)			Net NPLs (Rs bn)			Net NPLs (%)		
	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E
Public banks												
Andhra Bank	4	17	29	0.8	3.2	4.9	1	7	14	0.2	1.4	2.3
Bank of Baroda	18	50	73	1.3	2.9	3.6	5	22	30	0.3	1.3	1.5
Bank of India	25	77	118	1.7	4.3	5.9	6	35	58	0.4	2.1	3.0
Canara Bank	22	44	72	1.6	3.5	5.0	15	22	27	1.1	1.4	1.5
Corporation Bank	6	24	33	1.1	4.2	4.9	1	13	17	0.3	2.4	2.5
Indian Bank	5	22	33	0.9	2.9	4.4	1	9	15	0.2	1.5	2.2
IOB	19	50	72	2.5	5.5	6.9	10	29	38	1.3	3.3	3.8
OBC	11	44	64	1.5	5.2	6.5	4	27	39	0.7	3.3	4.0
PNB (1)	33	72	108	2.3	4.0	5.2	6	18	32	0.4	1.0	1.6
State Bank of India	156	319	393	2.8	4.9	5.0	96	174	151	1.8	2.7	2.0
Union Bank	19	34	50	2.0	2.9	3.8	3	7	12	0.3	0.6	0.9
Overall public banks	316	750	1,045	2.1	4.2	5.0	148	364	434	1.0	1.0	2.1
Old private banks												
Federal Bank (a)	6	14	22	2.8	5.1	6.5	1	1	3	0.3	0.4	0.8
J&K Bank (a)	5	12	18	2.6	4.6	5.7	3	6	9	1.2	2.3	2.9
Overall old private banks	12	27	40	2.7	4.9	6.1	3	7	12	0.8	0.7	1.3
New private banks												
Axis Bank	9	21	36	1.0	2.1	2.8	3	6	9	0.4	0.6	0.7
HDFC Bank	20	33	51	2.0	2.7	3.4	6	11	14	0.6	0.9	1.0
ICICI Bank	99	137	170	4.5	5.9	6.7	46	52	57	2.1	2.4	2.5
Overall new private banks	128	191	256	3.1	4.2	4.8	56	69	80	1.3	1.1	1.9
Total	456	967	1,341	2.3	4.2	5.0	207	440	525	1.1	2.0	2.0

Note:

(a) Indicates data as of December 2008.

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: We model modest treasury gains for FY2010E and FY2011E
Our treasury gains assumptions for banks, March fiscal year-ends, 2008-11E

	PBT (Rs bn)				Treasury gains (Rs bn)				Treasury income as % of PBT			
	2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E
Public banks												
Andhra Bank	9	9	8	9	1	2	1	1	13	24	12	11
Bank of Baroda	22	33	30	33	5	9	5	4	24	27	17	12
Bank of India	27	42	33	38	4	7	3	3	14	18	9	7
Canara Bank	19	26	23	23	4	7	3	3	23	26	13	13
Corporation Bank	11	14	11	12	1	4	2	1	13	32	16	10
Indian Bank	12	18	16	18	2	2	2	1	20	10	11	8
IOB	17	20	13	17	2	6	3	2	12	33	20	9
OBC	8	12	9	12	2	5	3	2	20	41	27	17
PNB (a)	33	43	43	47	4	5	4	3	13	12	10	6
State Bank of India	104	142	117	134	9	26	16	14	9	18	14	10
Union Bank	19	23	21	26	3	3	2	1	16	13	7	5
Old private banks												
Federal Bank (a)	5	8	8	9	1	1	1	1	15	9	9	5
J&K Bank (a)	6	6	5	7	1	1	0	0	17	11	8	6

Note:

(a) FY2009 annual results are awaited.

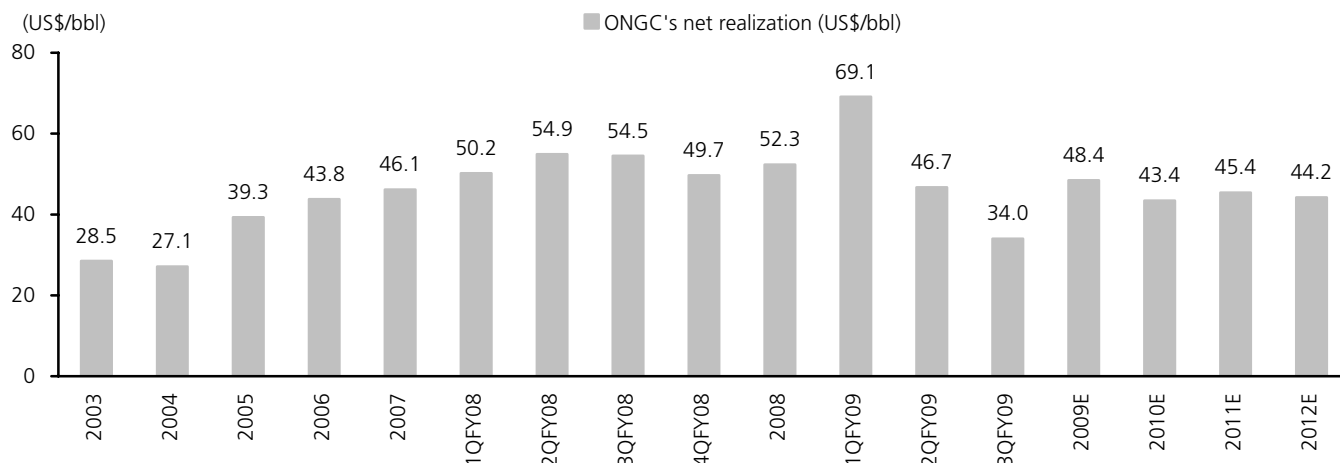
Source: Company, Kotak Institutional Equities estimates

- **Energy.** We see scope for higher earnings for ONGC if it achieves a higher net realized price for crude oil for FY2010E compared to US\$44/bbl assumed by us. Exhibit 8 shows ONGC's net realized price for crude oil over the past few years. The eventual figure would depend on global crude oil prices and the government's pricing policy for regulated products. We clarify that ONGC's earnings are quite high at 15% of overall BSE-30 Index's FY2010E earnings and hence, changes in its earnings can influence the market's earnings significantly. However, we doubt that ONGC's earnings will get the same multiple as the market; we see a maximum P/E multiple of 10X forward earnings.

On the other hand, we see downward risks to the earnings of Reliance Industries from (1) lower-than-expected refining margins, which remain very weak on large supply-demand imbalance and (2) higher-than-expected taxation from full taxation on earnings from gas production. We assume that RIL will pay a MAT rate of 11.99% on profits from gas production. If the government does not allow exemption under Section 80 IB (100% income tax exemption for production of mineral oil for seven years) for gas production, we compute RIL's FY2010E and FY2011E EPS at Rs119 and Rs160 versus Rs128 and Rs176.

Exhibit 8: ONGC's net realization has increased steadily over the past few years

ONGC's net crude price realization, March fiscal year-ends, 2003-2012E (US\$/bbl)



Source: Company

- **Metals.** A faster-than-expected recovery in global economic activity may result in higher prices and margins for base metals. Exhibit 9 compares our price and margin assumptions versus current and long-term averages.

Exhibit 9: Our commodity price assumptions are conservative versus long-term averages

Our price assumptions versus historical average, March fiscal year-ends, 2010-11E (US\$/ton)

	2010E				2011E			
	Our assumption	Current spot prices	5-year average	10-year average	Our assumption	Current spot prices	5-year average	10-year average
Prices								
Aluminium	1,700	1,542	2,265	1,871	1,900	1,542	2,265	1,871
Zinc	1,400	1,535	2,159	1,568	1,500	1,535	2,159	1,568
Copper	3,600	4,643	5,408	3,606	4,000	4,643	5,408	3,606
Lead	1,300	1,433	1,558	1,039	1,300	1,433	1,558	1,039
EBITDA margin (%)								
Sterlite	25.1	23.7	31.9	27.6	28.0	25.1	33.6	28.9
Hindustan Zinc	47.5	50.6	60.7	51.3	51.5	52.2	61.7	52.8

Source: Bloomberg, Kotak Institutional Equities estimates

We highlight three general factors that may constrain earnings.

- **Stronger-than-expected rupee.** This would be a negative for export-oriented companies and/or companies whose product prices are linked to landed cost of imports. We currently assume Rs50.75/US\$ and 50.25/US\$ for FY2010E and FY2011E. Exhibit 10 shows the impact of a stronger rupee on earnings of several such companies under our coverage. However, we note two mitigating factors.
 - It is likely that the underlying prices of certain products (base commodities in particular) will also increase in case of weakness of the US Dollar against other global currencies.
 - Hedging may partly offset the impact of a stronger rupee.

Exhibit 10: Stronger-than-expected rupee will have a negative impact on earnings of companies
Sensitivity to our EPS estimates currency assumption, March fiscal year-ends, 2010E-11E

	FY2010E EPS (Rs)			FY2011E EPS (Rs)		
	49.75	Base (50.75)	51.75	49.5	Base (50.5)	51.5
Energy						
Bharat Petroleum	40.6	42.0	43.4	49.9	51.5	53.2
Cairn india	4.2	4.4	4.6	27.8	28.5	29.1
Castrol India (a)	26.2	25.5	24.8	27.3	26.6	25.8
GAIL (India)	19.4	19.7	19.9	20.4	20.7	21.0
GSPL	2.5	2.5	2.5	3.7	3.7	3.7
Hindustan Petroleum	28.9	30.2	31.6	40.3	41.8	43.4
Indian Oil Corporation	47.3	48.2	49.2	50.3	51.3	52.3
Oil & Natural Gas Corporation	90.8	94.6	98.4	120.7	125.5	130.3
Petronet LNG	7.4	7.7	7.9	8.7	9.0	9.3
Reliance Industries	123.7	127.7	131.6	170.9	175.7	180.6
Reliance Petroleum	7.9	8.3	8.7	13.3	13.8	14.2
Metals						
Hindalco Industries	1.6	2.4	3.1	7.4	8.2	9.1
National Aluminium Co.	9.2	10.3	11.3	15.1	16.3	17.4
Jindal Steel and Power	165.9	171.6	177.3	188.9	195.4	201.9
JSW Steel	18.8	24.1	29.4	48.8	53.5	61.2
Hindustan Zinc	60.8	62.9	64.9	78.4	80.9	83.4
Sesa Goa	19.9	20.8	21.5	23.7	24.6	25.4
Sterlite Industries	39.3	41.0	42.7	48.8	50.5	52.2
Tata Steel	52.4	55.5	58.7	83.8	87.0	90.2
Pharmaceuticals						
Biocon	13.1	13.6	14.1	18.9	19.4	19.9
Cipla	13.7	13.9	14.1	15.3	15.5	15.7
Dishman Pharma & chemicals	23.6	24.8	25.8	27.5	28.0	28.5
Divi's Laboratories	73.3	75.1	76.8	87.3	89.1	91.0
Dr Reddy's Laboratories	36.5	39.9	43.2	43.7	44.8	45.9
Glenmark Pharmaceuticals	17.3	18.2	19.1	22.0	22.5	22.9
Jubilant Organosys	19.5	18.6	17.8	20.9	21.8	22.7
Lupin	63.6	66.0	68.3	70.3	71.3	72.2
Piramal Healthcare	22.1	22.4	22.7	28.0	28.2	28.5
Ranbaxy Laboratories	(4.2)	(5.7)	(3.0)	5.0	5.1	5.2
Sun Pharmaceuticals	84.0	85.7	87.4	92.7	94.0	95.3
Technology						
HCL Technologies	11.8	12.5	13.3	15.9	16.7	17.5
Hexaware Technologies	3.4	3.6	3.8	3.6	3.8	4.0
Infosys Technologies	100.8	104.1	107.4	112.9	116.1	119.3
Mphasis BFL	31.0	32.6	34.2	26.6	27.9	29.1
Mindtree	41.9	44.0	46.2	48.4	50.7	52.9
Patni Computer Systems	22.4	23.5	24.5	25.1	26.1	27.1
Polaris Software Lab	12.7	13.3	14.0	11.6	12.1	12.7
TCS	49.6	51.3	53.1	54.1	55.9	57.6
Tech Mahindra	36.5	38.0	39.5	35.9	37.2	38.5
Wipro	26.3	27.0	27.7	28.7	29.4	30.1
Others						
Aban Offshore	142.6	148.2	153.8	269.2	277.7	284.9
Tata Power	88.9	90.2	91.5	100.0	101.5	102.9

Source: Kotak Institutional Equities estimates

- **Higher-than-expected interest rates.** Higher interest rates may impact earnings of highly-leveraged companies significantly. We expect interest rates to harden from 3QFY09 and particularly in FY2011E, led by the government's high fiscal deficit and borrowing program (see Exhibit 11). Exhibits 12 and 13 present our supply-demand balance for credit in FY2010E and FY2011E and show that the government's high borrowing program will result in lower availability of credit for other borrowers. However, continued strong external capital flows may result in lower pressure on credit and interest rates.

Exhibit 11: Fiscal deficits to remain high in FY2010E and FY2011E
GFD/GDP ratios in India, March fiscal year-ends, 2007-2011E (%)

	2007	2008	2009E	2010BE	2010E	2011E
Centre	3.4	2.7	7.8	5.5	7.3	6.6
On-budget	3.4	2.7	6.0	5.5	7.0	5.9
Off-budget	NA	NA	1.8	NA	0.3	0.7
State	1.9	2.3	2.7	NA	3.3	2.9
Total	5.3	5.0	10.5	NA	10.6	9.5

Source: Ministry of Finance, RBI, Kotak Institutional Equities estimates

Exhibit 12: Excess supply likely to exert moderate pressure on FY2010E yields; interest rate shock in FY2011

Demand and supply of SLR securities, March fiscal year-ends, 2008-11E (Rs bn)

	2008	2009E	2010E	2011E
1. Demand for SLR securities (2+3+4)	2,505	2,658	2,835	2,989
2. required from banks	1,812	1,658	1,652	1,589
3. from insurance companies	534	760	915	1,100
4. from others	159	240	268	300
5. Supply of SLR securities (6+7+8)	2,919	2,777	3,382	4,648
6. Net market borrowing of center	1,107	2,620	3,787	3,498
7. T-bills financing	256	850	50	200
8. State government issuances	562	1,038	1,300	950
9. MSS	1,057	(803)	(650)	0
10. OMO	(62)	(928)	(1,105)	0
11. Excess demand/(supply) (1-5)	(414)	(118)	(547)	(1,659)
Memo items				
NDTL	34,813	41,721	48,606	48,606
SLR ratio (% of NDTL)	25	24	24	24

Source: Kotak Institutional Equities estimates

Exhibit 13: .We see no significant demand-supply imbalances in credit market in FY2010E; interest rates set to rise in FY2011E

Sources and uses of bank funds, March fiscal year-ends, 2008-2011E (Rs bn)

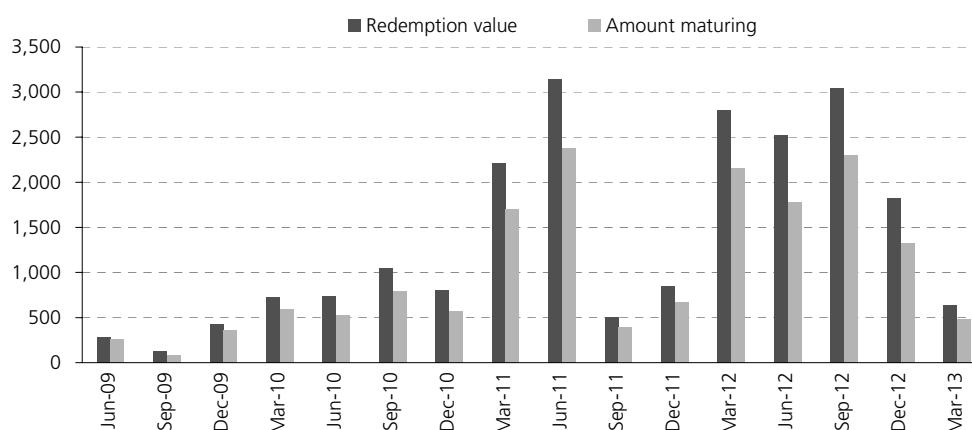
	2008	2009E	2010E	2011E
1. Total usable sources (2 to 4)	6,139	6,502	6,559	8,409
2. Deposits	5,802	6,320	6,310	8,019
3. Call/term funding	200	138	168	247
4. Overseas foreign currency borrowings	136	44	81	142
5. Capital	251	572	726	1,207
6. Other liabilities	573	(436)	117	237
7. Uses (net of credit) (8 to11)	2,586	2,071	2,629	2,925
8. Investment in Govt. securities	1,812	1,930	1,652	1,589
10. Non-SLR investments	281	202	94	317
11. Net foreign assets	(276)	128	106	164
12. Balances with RBI	769	(189)	777	855
13. Sources-uses (net of credit) (1-7)	3,552	4,431	3,930	5,483
14. Credit offtake/demand	4,173	4,215	4,429	6,747
15. Credit gap (13-12)	621	(216)	499	1,263
Memo items				
NDTL	34,813	41,721	48,606	57,355
SLR ratio (% of NDTL)	25	24	24	24
CRR ratio (% of NDTL)	7.5	5.0	6.5	7.0
Deposit growth (%)	22.2	21.5	15.0	18.0
Credit growth (%)	21.6	17.0	15.8	21.0

Source: Kotak Institutional Equities estimates

We also note that a number of Indian companies will have to return low-cost external borrowings rose earlier. This will likely result in higher interest costs for several companies. Exhibits 14 and 15 show that Indian companies have to return around US\$17 bn in FY2010E and FY2011E. Some companies have started converting and/or buying back and cancelling FCCB at deep discounts to face/redemption value

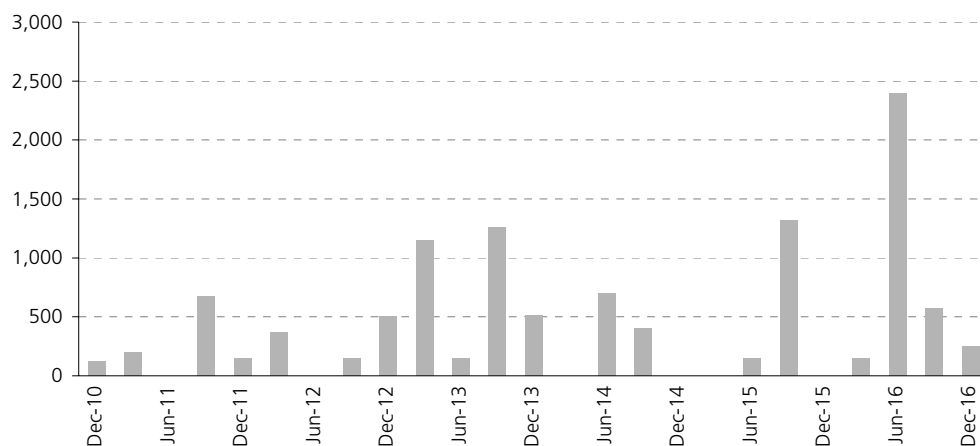
Exhibit 14: Large amount of FCCBs maturing in FY2011-12

Quarter-wise maturity of FCCBs (US\$ mn)



Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 15: Large amount of ECBs maturing in FY2017E
 Quarter-wise maturity of ECBs (US\$ mn)



Source: Kotak Institutional Equities

- **Higher-than-expected taxation.** Effective taxation rates in India are quite low compared to the general corporate income tax rate of 33.99% (see Exhibit 16) due to (1) a number of income tax exemptions and (2) aggressive accounting treatment of deferred taxation (telecom companies). We do not rule out negative surprises for (1) RIL, if the Section 80 IB exemption is not available on production of gas and (2) telecom companies, where taxation rates have been surprisingly low (see Exhibit 17).

Exhibit 16: Effective tax rate for some of the major Indian companies is very low
Effective tax rates of BSE-30 Index companies, March fiscal year-end, 2009E-11E

	Effective tax rate (%)		
	2009E	2010E	2011E
Tata Motors	(12.9)	20.0	20.0
Reliance Communications	(0.2)	3.5	11.3
Sun Pharmaceuticals	5.1	6.0	6.5
Bharti Airtel	7.1	14.8	17.2
Reliance Infrastructure	10.0	14.9	22.5
Wipro	12.3	13.9	21.2
DLF	13.2	24.3	31.4
TCS	14.7	16.2	20.8
Sterlite Industries	14.7	15.4	16.4
Infosys Technologies	14.9	16.5	20.2
Mahindra & Mahindra	15.2	21.5	21.5
Reliance Industries	16.5	17.1	18.8
Hindustan Unilever	17.8	20.0	20.5
HDFC	20.2	27.8	29.1
Tata Steel	24.7	24.7	24.7
Grasim Industries	25.4	27.1	27.7
ICICI Bank	26.0	28.0	28.0
NTPC	26.2	21.5	20.2
Maruti Suzuki	27.3	28.0	28.0
ACC	31.6	32.2	32.4
HDFC Bank	32.0	32.0	30.0
ITC	32.5	32.2	31.4
Tata Power	33.1	32.3	32.0
Larsen & Toubro	34.0	34.0	34.0
Oil & Natural Gas Corporation	34.7	33.9	32.3
Bharat Heavy Electricals	35.5	35.5	35.6
State Bank of India	35.7	34.0	34.0
Jaiprakash Associates	36.5	36.6	33.8
Ranbaxy Laboratories	37.7	35.3	21.0
Hindalco Industries	40.8	51.1	27.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 17: Quarterly income tax provisions for Indian wireless companies, March fiscal year-ends, 1QFY08-4QFY09 (Rs mn)

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Bharti Airtel								
Cash tax	2,248	2,120	1,748	2,298	3,053	1,763	2,806	2,778
Deferred tax	1,346	(985)	(184)	(213)	229	(3,010)	(248)	(756)
Total tax provision	3,594	1,135	1,564	2,085	3,282	(1,247)	2,558	2,022
Effective tax rate (%)	19.0	6.5	8.2	9.9	13.8	(6.3)	10.4	8.1
RCOM								
Total tax provision	1,031	698	1,379	(272)	(194)	(567)	153	485
Effective tax rate (%)	7.8	2.7	9.0	(1.7)	(1.2)	(3.6)	1.0	3.1
Idea Cellular								
Total tax provision	16	277	268	165	297	99	(31)	(23)
Effective tax rate (%)	0.5	11.2	10.2	5.6	10.1	6.4	(1.4)	(0.8)

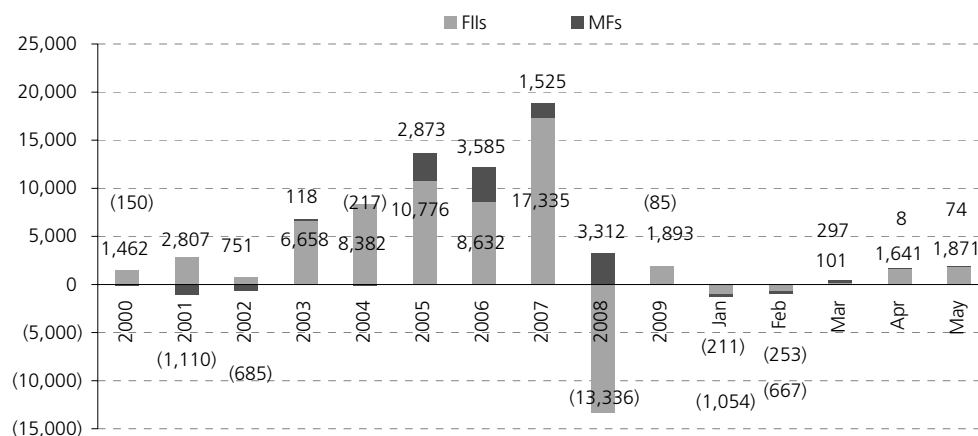
Source: Company, Kotak Institutional Equities

Sentiment: Global and local inflows may propel the market

The Indian market could trade at a 15-20% premium for some time to our fair valuation range of 10,500-12,500 (BSE-30 Index) as determined by our bottom-up fundamental analysis. This premium could result from large capital inflows into India encouraged by (1) positive global sentiment led by increasing signs of global economic recovery and (2) increased aversion to dollar assets resulting in large flows to emerging markets including India. The positive inflows from overseas investors and life insurance companies (see Exhibits 18 and 19) may result in the Indian market overshooting to overvalued levels.

Exhibit 18: FIIs have invested US\$3.5 bn since April 2009

FIIs and MFs flows in Indian equities, Calendar year-ends, 2000-2009YTD (US\$ mn)



Source: SEBI, Bloomberg

Exhibit 19: Insurance companies have potential to invest US\$10-12 bn in Indian equities in FY2010E

Estimation of investment in equities, March fiscal year-ends, 2006-2010E

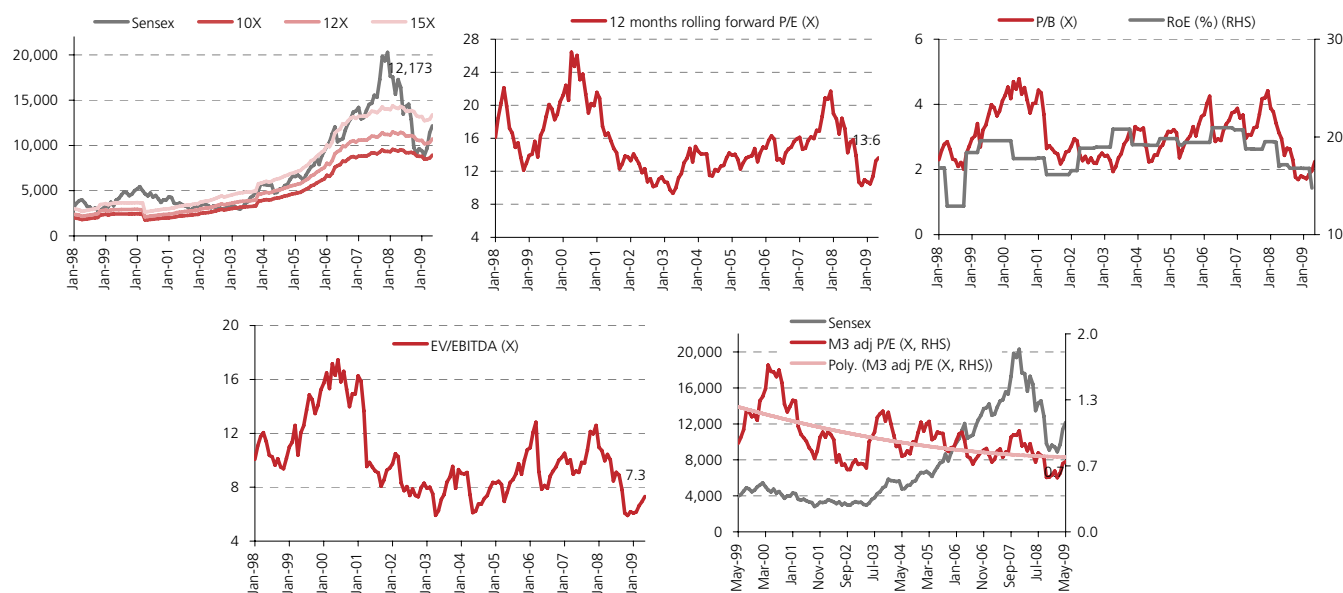
	Premium collections (Rs bn)			Proportion in equity (%)		Investment in equity (Rs bn)		
	Individual	Group	Total	Individual	Group	Individual	Group	Total
2006								
Private players	140	11	151	52	20	72	2	75
LIC	840	39	879	13	20	109	8	117
Total	980	50	1,030			181	10	191
2007								
Private players	257	25	283	54	20	138	5	143
LIC	1,161	114	1,275	22	20	258	23	281
Total	1,419	139	1,558			396	28	424
2008								
Private players	454	39	493	55	20	251	8	259
LIC	1,403	105	1,508	23	20	326	21	347
Total	1,856	144	2,001			577	29	606
2009E								
Private players	524	50	573	43	20	223	10	232
LIC	1,319	127	1,446	18	20	238	25	263
Total	1,842	177	2,019			460	35	496
2010E								
Private players	611	55	665	46	20	280	11	291
LIC	1,319	127	1,446	18	20	238	25	263
Total	1,929	182	2,111			517	36	554

Source: Kotak Institutional Equities estimates

Exhibit 20 shows the historical trading band of the BSE-30 Index. The market has largely traded at 11-14X 12-month forward earnings. The upper end of the trading band will put the market at around 14,000 by end-CY2009 based on 14X 12-month forward earnings (average of Rs888 for FY2010E and Rs1,088 for FY2011E).

Exhibit 20: The market has largely traded at 11-14X 12-month forward earnings

P/E band chart, 1-year rolling forward P/E, P/B, ROE, EV/EBITDA and M3 growth rate adjusted valuations for BSE-30 Index



Source: Company, Bloomberg, Kotak Institutional Equities estimates

However, we would caution that the composition of earnings is not very encouraging and a significant portion of our projected earnings growth in FY2011E comes from commodity sectors—energy (ONGC, RIL) and metals (Hidalgo, Sterile Industries and Tata Steel). These sectors would probably trade at a discount to the market, especially given that RIL's FY2011E earnings will be artificially supported by (1) low share of government in profit petroleum of RIL's KG-D6 block and (2) low taxation (18.8% effective tax rate). Exhibit 21 gives the breakdown of BSE-30 Index's profits by sectors.

Exhibit 21: Share of energy sector's earnings of total earnings set to rise further

Break-up of earnings of BSE-30 Index across sectors, March fiscal year-ends, 2007-10E

	Net profit (Rs bn)				Contribution (%)				Incremental profits FY2010E		Incremental profits FY2011E	
	2008	2009E	2010E	2011E	2008	2009E	2010E	2011E	(Rs bn)	(%)	(Rs bn)	(%)
Automobiles	47	28	37	42	3.7	2.1	2.8	2.6	9	(37.0)	5	1.8
Banking	149	174	167	194	11.8	13.0	12.7	12.0	(7)	30.8	27	9.2
Cement	38	31	28	26	3.0	2.3	2.1	1.6	(4)	15.5	(2)	(0.7)
Consumers	49	53	59	67	3.9	3.9	4.5	4.2	6	(27.7)	8	2.8
Diversified	6	9	11	17	0.5	0.7	0.8	1.0	2	(7.9)	5	1.8
Energy	346	377	403	545	27.3	28.1	30.6	33.7	27	(114.2)	142	47.7
Reliance Industries	147	157	201	277	11.6	11.7	15.2	17.1	44	(187.5)	76	25.5
Industrials	51	58	76	90	4.0	4.3	5.8	5.6	18	(76.6)	14	4.6
Metals	132	150	79	122	10.4	11.2	6.0	7.5	(71)	305.3	43	14.5
Pharmaceuticals	24	15	15	22	1.9	1.1	1.2	1.3	1	(2.9)	6	2.1
Property	79	50	27	30	6.2	3.7	2.1	1.8	(23)	96.5	2	0.8
Technology	128	148	149	164	10.1	11.1	11.3	10.2	1	(5.3)	15	5.0
Telecom	127	146	145	161	10.0	10.9	11.0	10.0	(2)	7.2	16	5.5
Utilities	93	102	121	136	7.3	7.6	9.2	8.4	20	(83.6)	15	4.9
BSE-30	1,267	1,341	1,318	1,615	100	100	100	100	(23)	100	297	100
BSE-30 change (%)		5.8	(1.7)	22.5								
BSE-30 ex-energy change (%)		4.6	(5.2)	17.0								

Source: Kotak Institutional Equities estimates

Catch: Stock prices look stretched at BSE-30 Index of 14,000

Exhibits 22 and 23 show two scenarios of stock prices of BSE-30 stocks and contribution from each stock in a hypothetical exercise of the BSE-30 Index rising to 14,000 from current levels (12,173).

Exhibit 22: Significant revision in KIE target prices required for 20% return for the market

Revision in KIE target prices required to generate 20% return for the market assuming each stock increases by 20%

	Price (Rs)		Required	Current TP (Rs/share)		Implied revision (%)	
	Current	Growth (%)		2010E	2011E	2010E	2011E
Tata Motors	265	20	318	195	225	63	41
DLF	258	20	310	190	311	63	(0)
Ranbaxy Laboratories	200	20	240	150	340	60	(29)
Reliance Communications	233	20	279	180	210	55	33
Hindalco Industries	70	20	85	55	75	54	13
TCS	644	20	773	510	580	52	33
Grasim Industries	1,878	20	2,254	1,500	1,650	50	37
ICICI Bank	575	20	690	475	570	45	21
Reliance Industries	1,951	20	2,341	1,650	1,750	42	34
Wipro	378	20	453	325	360	39	26
Bharat Heavy Electricals	1,707	20	2,048	1,475	1,740	39	18
Mahindra & Mahindra	513	20	616	450	510	37	21
Larsen & Toubro	989	20	1,187	875	975	36	22
HDFC	1,939	20	2,326	1,730	1,953	34	19
Maruti Suzuki	848	20	1,018	780	860	30	18
Infosys Technologies	1,593	20	1,911	1,500	1,700	27	12
NTPC	188	20	225	180	200	25	13
Bharti Airtel	800	20	960	775	875	24	10
HDFC Bank	1,185	20	1,422	1,150	1,350	24	5
ACC	635	20	762	625	625	22	22
Jaiprakash Associates	141	20	169	140	160	21	5
Tata Steel	272	20	326	280	490	17	(33)
Hindustan Unilever	224	20	269	235	270	15	(0)
Sterlite Industries	460	20	552	490	525	13	5
ITC	186	20	223	200	225	12	(1)
Tata Power	909	20	1,090	1,000	1,067	9	2
Oil & Natural Gas Corporation	813	20	976	900	985	8	(1)
Reliance Infrastructure	820	20	984	970	1,120	1	(12)
State Bank of India	1,314	20	1,576	1,600	1,800	(1)	(12)
Sun Pharmaceuticals	1,302	20	1,563	1,800	1,800	(13)	(13)
BSE-30 Index	12,173		14,608				
Return (%)			20.0				

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 23: Significant revision in KIE target prices required for 20% return for the market

Revision in KIE target prices required to generate 20% return from markets assuming major stocks contributing higher to the Index gains (a)

	Price (Rs)		Required	Current TP (Rs/share)		Implied revision (%)	
	Current	Growth (%)		2010E	2011E	2010E	2011E
ICICI Bank	575	32	757	475	570	59	33
Reliance Industries	1,951	32	2,571	1,650	1,750	56	47
Tata Motors	265	12	297	195	225	52	32
DLF	258	12	289	190	311	52	(7)
Ranbaxy Laboratories	200	12	223	150	340	49	(34)
Larsen & Toubro	989	32	1,303	875	975	49	34
HDFC	1,939	32	2,555	1,730	1,953	48	31
Reliance Communications	233	12	260	180	210	44	24
Hindalco Industries	70	12	79	55	75	43	5
TCS	644	12	720	510	580	41	24
Grasim Industries	1,878	12	2,101	1,500	1,650	40	27
Infosys Technologies	1,593	32	2,099	1,500	1,700	40	23
Bharti Airtel	800	32	1,054	775	875	36	20
HDFC Bank	1,185	32	1,562	1,150	1,350	36	16
Wipro	378	12	422	325	360	30	17
Bharat Heavy Electricals	1,707	12	1,909	1,475	1,740	29	10
Mahindra & Mahindra	513	12	574	450	510	28	13
Maruti Suzuki	848	12	949	780	860	22	10
NTPC	188	12	210	180	200	17	5
ACC	635	12	710	625	625	14	14
Jaiprakash Associates	141	12	157	140	160	12	(2)
Tata Steel	272	12	304	280	490	9	(38)
Hindustan Unilever	224	12	251	235	270	7	(7)
Sterlite Industries	460	12	515	490	525	5	(2)
ITC	186	12	208	200	225	4	(8)
Tata Power	909	12	1,016	1,000	1,067	2	(5)
Oil & Natural Gas Corporation	813	12	909	900	985	1	(8)
Reliance Infrastructure	820	12	917	970	1,120	(5)	(18)
State Bank of India	1,314	12	1,469	1,600	1,800	(8)	(18)
Sun Pharmaceuticals	1,302	12	1,457	1,800	1,800	(19)	(19)
BSE-30 Index	12,173		14,608				
Return (%)			20.0				

Note:

(a) Assuming that 30 stocks contribute in the same proportion as they have in the BSE-30's increase to the current level of 12,173 from 8,160 on March 9, 2009.

Source: Company, Kotak Institutional Equities estimates

- Scenario 1 assumes that each of the 30 constituents of the BSE-30 Index rise equally in percentage terms.
- Scenario 2 assumes that the 30 stocks contribute in the same proportion as they have in the BSE-30's increase to the current level of 12,173 from 8,160 on March 9, 2009.

We find it difficult to reconcile our 12-month fair valuations (based on FY2011E earnings or 12-month forward DCF) with the 'target' prices in the abovementioned exercises. Exhibit 24 shows that our fair valuations for BSE-30 Index stocks are only marginally below their current prices for most stocks and ahead of them in a few cases.

Exhibit 24: We find limited upside to our target prices for major BSE-30 Index stocks
 Current and target prices, March fiscal year-ends, 2010E-11E (Rs/share)

	Price (Rs)			Appreciation (%)	
	Current	Target (2010E)	Target (2011E)	2010E	2011E
Larsen & Toubro	989	875	975	(12)	(1)
Tata Motors	265	195	225	(26)	(15)
DLF	258	190	311	(26)	21
Ranbaxy Laboratories	200	150	340	(25)	70
Reliance Communications	233	180	210	(23)	(10)
Hindalco Industries	70	55	75	(22)	6
TCS	644	510	580	(21)	(10)
Grasim Industries	1,878	1,500	1,650	(20)	(12)
ICICI Bank	575	475	570	(17)	(1)
Reliance Industries	1,951	1,650	1,750	(15)	(10)
Wipro	378	325	360	(14)	(5)
Bharat Heavy Electricals	1,707	1,475	1,740	(14)	2
Mahindra & Mahindra	513	450	510	(12)	(1)
HDFC	1,939	1,730	1,953	(11)	1
Maruti Suzuki	848	780	860	(8)	1
Infosys Technologies	1,593	1,500	1,700	(6)	7
NTPC	188	180	200	(4)	7
Bharti Airtel	800	775	875	(3)	9
HDFC Bank	1,185	1,150	1,350	(3)	14
ACC	635	625	625	(2)	(2)
Jaiprakash Associates	141	140	160	(0)	14
Tata Steel	272	280	490	3	80
Hindustan Unilever	224	235	270	5	20
Sterlite Industries	460	490	525	6	14
ITC	186	200	225	7	21
Tata Power	909	1,000	1,067	10	17
Oil & Natural Gas Corporation	813	900	985	11	21
Reliance Infrastructure	820	970	1,120	18	37
State Bank of India	1,314	1,600	1,800	22	37
Sun Pharmaceuticals	1,302	1,800	1,800	38	38
BSE-30 Index	12,173	11,562	13,163	(5)	8

Source: Bloomberg, Kotak Institutional Equities estimates

PORTFOLIO SELECTION: NEUTRAL WITH A FEW DEVIATIONS

We focus on stocks with (1) potential earnings upside, (2) inexpensive valuations that provide scope for potential re-rating and (3) certain mid-cap. stocks since we see limited value in most large-capitalization stocks after the recent run-up in the market. Otherwise, we maintain our largely market-neutral stance in line with the position we took in mid-April 2009.

Portfolio selection: Neutral with a few high-conviction ideas

Exhibit 25 gives our model portfolio, which is largely unchanged. We have a largely neutral portfolio given that (1) most large-cap. stocks are trading at or above our 12-month fair valuations and (2) we are not seeing any concrete evidence of earnings upgrades as yet. Thus, we focus on a few stocks where we find valuations inexpensive with potential for earnings upgrades. We would put certain banking stocks, commodities (crude oil and base commodities) and possibly industrials/construction (smaller names) in this category as discussed in the previous section.

Exhibit 25: Overweight banking, metals, industrials and pharmaceuticals
Kotak Institutional Equities Model Portfolio

Company	15-May Price (Rs)	Rating	Weightage (%)		Diff. (bps)
			BSE-30	KS reco.	
Mahindra & Mahindra	513	ADD	1.2	1.2	—
Maruti Suzuki	848	REDUCE	1.4	1.4	—
Tata Motors	265	SELL	1.1	—	(112)
Automobiles			3.7	2.6	(112)
Punjab National Bank	575	BUY	—	1.5	150
State Bank of India	1,314	BUY	4.4	6.9	250
Union Bank	175	BUY	—	1.5	150
PSU Banking			4.4	9.9	550
Axis Bank	660	BUY	—	3.0	300
HDFC	1,939	SELL	5.5	—	(546)
HDFC Bank	1,185	BUY	4.6	2.6	(200)
ICICI Bank	575	ADD	7.5	6.5	(100)
Rural Electrification Corp.	118	BUY	—	1.0	100
Pvt. Banking/Financing			17.6	13.1	(446)
ACC	635	REDUCE	0.8	—	(76)
Grasim Industries	1,878	REDUCE	1.5	1.5	—
Jaiprakash Associates	141	ADD	1.4	2.9	150
Cement			3.6	4.4	74
Hindustan Unilever	224	REDUCE	2.8	1.8	(100)
ITC	186	ADD	5.7	5.7	—
Consumers			8.6	7.6	(100)
Cairn India	199	BUY	—	4.0	400
Oil & Natural Gas Corporation	813	ADD	4.1	5.1	100
Reliance Industries	1,951	REDUCE	15.6	9.8	(576)
Energy			19.7	18.9	(76)
Bharat Heavy Electricals	1,707	REDUCE	3.4	1.4	(200)
IVRCL	162	BUY	—	1.0	100
Larsen & Toubro	989	ADD	6.2	6.2	—
Nagarjuna Construction	83	BUY	—	1.0	100
Punj Lloyd	132	ADD	—	1.0	100
Industrials/Construction			9.6	10.6	100
Hindalco Industries	70	ADD	1.0	—	(101)
Jindal Steel and Power	1,604	BUY	—	2.0	200
Sterlite Industries	460	ADD	1.5	3.5	200
Tata Steel	272	BUY	1.8	1.8	—
Metals			4.4	7.3	299
Ranbaxy Laboratories	200	REDUCE	0.4	—	(40)
Sun Pharmaceuticals	1,302	BUY	1.3	3.8	250
Pharmaceuticals			1.7	3.8	210
DLF	258	REDUCE	0.8	0.8	—
Real estate			0.8	0.8	—
Infosys Technologies	1,593	BUY	9.1	7.1	(200)
TCS	644	REDUCE	1.8	—	(184)
Wipro	378	ADD	1.3	1.3	—
Technology			12.2	8.3	(384)
Bharti Airtel	800	ADD	6.2	4.2	(200)
Reliance Communications	233	SELL	2.0	—	(196)
Telecom			8.1	4.2	(396)
Lanco Infratech	235	BUY	—	1.0	100
NTPC	188	REDUCE	2.7	—	(270)
Reliance Infrastructure	820	BUY	1.4	2.4	100
Tata Power	909	BUY	1.6	5.1	350
Utilities			5.8	8.6	280
BSE-30	12,173		100.0	100.0	—

Note:

1. Weights are with respect to May 15, 2009 prices.

Source: Bloomberg, Kotak Institutional Equities estimates

We give the logic of our portfolio construction below and discuss the reasons for overweight and underweight positions in certain sectors and stocks. Exhibit 26 gives our Top-10 list. We have made two changes with (1) Axis Bank replacing HDFC Bank and (2) Jai Prakash Associates (JPA) replacing Wipro.

Exhibit 26: Biased towards solid long-term stocks
Kotak Institutional Equities Top-10 List

Companies	Sector	Rating	Mkt cap. (US\$ mn)	CMP (Rs)	Target (Rs)	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
						2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
State Bank of India	Banking	BUY	16,838	1,314	1,600	143.6	121.1	139.2	9.1	10.8	9.4	—	—	—
Tata Power	Utilities	BUY	4,083	909	1,000	65.2	90.2	101.5	13.9	10.1	9.0	9.8	9.3	8.8
Sterlite Industries	Metals	ADD	6,584	460	490	49.2	41.0	50.5	9.4	11.2	9.1	5.3	5.8	4.3
Cairn India	Energy	BUY	7,627	199	225	4.2	4.4	28.5	0.0	45.0	7.0	28.1	20.5	5.8
Jaiprakash Associates	Diversified	ADD	3,985	141	140	6.6	7.9	11.8	21.4	17.9	11.9	13.7	11.3	10.6
Axis Bank	Banking	BUY	4,781	660	700	50.6	55.8	64.5	13.0	11.8	10.2	—	—	—
Oil & Natural Gas Corporation	Energy	ADD	35,111	813	900	102.6	94.6	125.5	7.9	8.6	6.5	2.9	2.8	2.1
Jindal Steel and Power	Metals	BUY	4,986	1,604	1,400	179.7	171.6	195.4	8.9	9.3	8.2	6.2	6.0	4.9
Sun Pharmaceuticals	Pharmaceuticals	BUY	5,446	1,302	1,800	86.8	85.7	94.0	15.0	15.2	13.9	11.7	10.9	9.4
ITC	Consumer products	ADD	14,155	186	200	8.7	9.8	11.2	21.5	19.0	16.6	13.2	11.7	10.3
BSE-30				12,173										

Source: Company, Bloomberg, Kotak Institutional Equities estimates

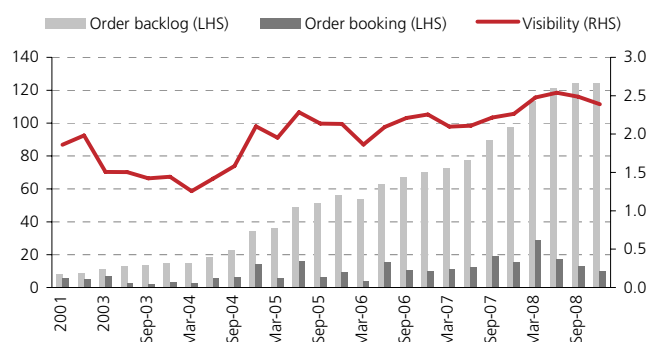
- **Neutral view on several large-cap. stocks.** We see very few stocks in the BSE-30 Index that offer large upside to our 12-month fair valuations based on FY2011E estimates. Accordingly, we advocate a neutral weight in some of these.
- **Reliance Industries.** We recommend a position of around 10% (unchanged) in the portfolio in line with the limits for several India-dedicated FIs, domestic MFs and domestic life insurance companies.
- **Banking.** We continue with our overweight positions on PNB, SBI, Union Bank of India among PSU banks and Rural Electrification Corp. (REC) among non-banking finance companies. We are underweight on private banks with the exception of HDFC Bank (made neutral versus overweight earlier). We have included Axis Bank in the portfolio with a 3% weight and also included it in the Top-10 list.
- **Consumers.** We are making consumers neutral from overweight earlier. We had made the sector overweight in our last portfolio change in mid-April 2009 factoring in a likely nervous market before national elections. That did not turn out to be the case with strong capital inflows and increased risk appetite driving up the market and high-beta stocks.
- **Energy.** We keep RIL at around 10% in line with the 10%-ownership restriction for most Indian institutional investors (mutual funds and life insurance companies) and many overseas funds. We keep our extant overweight positions on Cairn and ONGC reflecting our positive view on medium-term crude oil prices even though crude prices may weaken in the short term (next 3-4 months) led by (1) lower compliance of OPEC to production cuts, (2) high global inventories and (3) continued weak OECD demand. We expect crude oil prices to rebound from 3QFY10.

We see short-term risks to ONGC's performance, especially if the government were to impose subsidy burden on it in 4QFY09 to make up for the shortfall in downstream companies' (on account of lower-than-expected oil bonds, Rs103 bn versus Rs149 bn in 4QFY09). Nonetheless, we find the stock very inexpensive. Its current stock price discounts a crude price of US\$48/bbl in perpetuity, which we find very low.

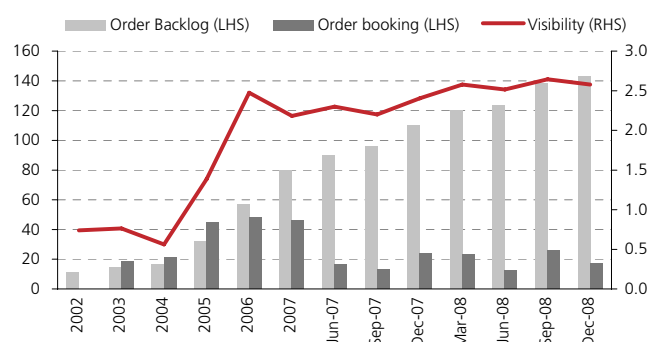
- **Industrials/construction.** We find valuations of large-cap. stocks (ABB, BHEL and Siemens) expensive and recommend exposure through cheaper mid-cap. stocks such as IVRCL, Nagarjuna Construction Co. Ltd (NCCL) and Punj Lloyd. These companies are sitting on large order books which should help tide over the current sluggish operating environment (see Exhibit 27). The somewhat rich valuations of large-cap. stocks suggest that the market is discounting a quick improvement in the operating environment and start of infrastructure projects in India. We see scope for improvement in the quality of order book (particularly of LT; see Exhibit 28) with the start of infrastructure projects from (1) formation of a new stable government and (2) improving capital markets.

Exhibit 27: Industrials/construction companies are sitting on large order books
Order backlog, order booking and visibility (X), March fiscal year-ends, 2002-09 (Rs bn)

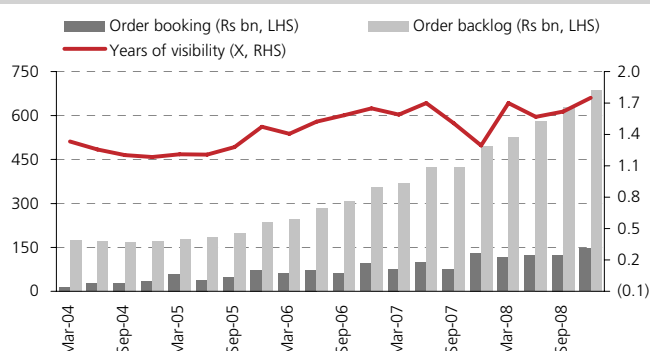
Nagarjuna Construction Co.



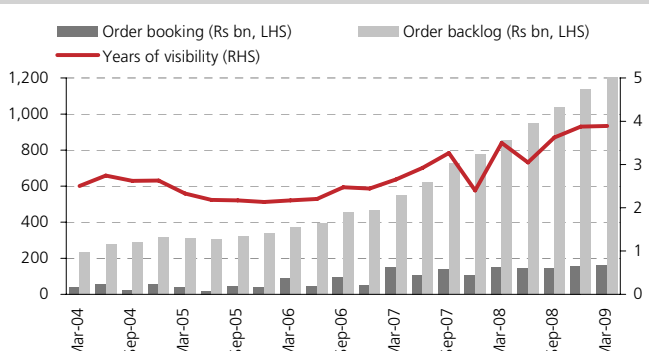
IVRCL



L&T

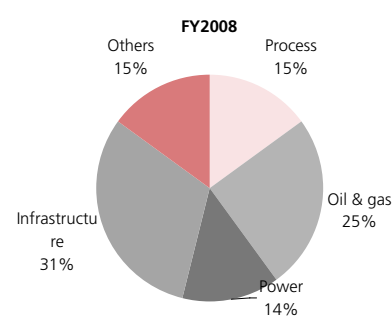
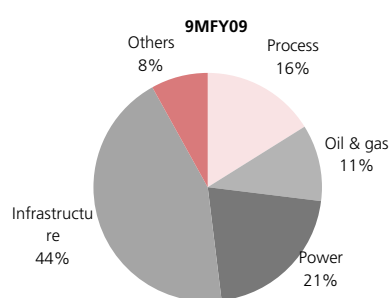
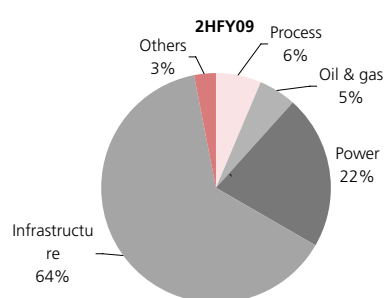


BHEL



Source: Company, Kotak Institutional Equities

Exhibit 28: We see scope for improvement in the quality of order book
Order inflow mix, 2HFY09, 9MFY09 and FY2008 (%)



Source: Company, Kotak Institutional Equities

- ▶ **Metals.** We continue to be overweight the sector as we have been for the past six-seven months.
- ▶ **Technology.** We remain underweight noting concerns about (1) pricing and volume pressures and (2) possible appreciation in the rupee. We have removed Wipro from our Top-10 list since the stock has got re-rated significantly (up 68%) over the past two months and now trades at 14X FY2010E EPS, close to Infosys's 15.3X.
- ▶ **Telecom.** We remain underweight telecom given potential further deterioration in the operating environment with (1) the introduction of MNP from early FY2011 at the latest (the date for introduction in the first eight circlets is September 20, 2009), (2) entry of new players, (3) possible increase in spectrum charges or higher license fee payments on introduction of a common license fee (as a % of adjusted gross revenues) and (4) possible slowdown in subscriber additions.

We are also concerned about the low tax payments by telecom players in general and the quality of earnings and disclosures of RCOM. We continue to avoid the latter despite its apparently inexpensive valuations relative to Bharti.

POLITICS: OUT OF THE WAY

We see the likely formation of a stable government as a positive for the market since it will dispel concerns of political instability and disparate economic ideologies of a coalition partners. More important, the improved position of the leading coalition member (INC) in the new UPA government will enable it to pursue hitherto elusive economic reforms such as (1) increased FDI limits in certain sectors, (2) deregulation of the downstream oil sector and (3) financial sector reforms.

Formation of a stable government positive for economic reforms

Exhibit 29 presents the INC's electoral manifesto which may provide guidance on the new government's likely economic agenda. We focus on the INC's manifesto given its dominant position and likely high influence in the new UPA government. The INC had to dilute its position in the previous government given that it had to depend on the Left parties for outside support to form the government. Exhibit 30 shows how the UPA's Common Minimum Program (CMP) overruled certain parts of the INC's manifesto.

Exhibit 29: Manifesto of INC combines reforms and populism
Details of 2009 Congress manifesto

Reformist	Populist
Economy: Priority is to revive the economy and restore high-growth phase	Employment: At least 100 days of work at a real wage of Rs100 a day for everyone as an entitlement under the NREGA
Infrastructure: Public investment in infrastructure to increase	Food: Right to Food Act pledging that every family living below the poverty line either in rural or urban areas will be entitled, by law, to 25 kgs of rice or wheat per month at Rs3/kg
GST: Introduction of the goods and services tax from April 1, 2010	Health: The National Rural Health Mission pledging that every family living below the poverty line will be covered by the RSBY over the next three years
Privatization: It would be considered selectively and enterprises in manufacturing (like energy, transport and telecom), banks and insurance companies will remain in the public sector	Social security: Comprehensive cover to all persons who are at special risk including (i) single woman-headed households; (ii) disabled and elderly; (iii) urban homeless; (iv) released bonded workers; (v) members of primitive tribal groups; and (vi) membe
	Education: All students admitted to any recognized course in any recognized college/university will be provided, on a need basis, either a scholarship or an educational loan without collateral repayable over a very long period
	Youth development: National Skills Development Mission to impart skills to youths
	Security: Development and modernization of defense forces
	Farmers: Every small and marginal farmer will have access to bank credit at lower rates of interest. Interest waiver for all farmers, who repay their loans on time

Source: INC, Press, Kotak Institutional Equities

Exhibit 30: A party's views on core issues may be subservient to requirements of coalition politics

Key differences between INC's manifesto and Common Minimum program of the UPA

Issues	INC (Indian National Congress)	UPA (United Progressive Alliance)
Nuclear policy	Commit to maintaining a credible nuclear weapons program and evolve demonstrable confidence-building measures with its neighbours	Commit to maintaining a credible nuclear weapons program and evolve demonstrable confidence-building measures with its neighbours. Take a leadership role in promoting universal nuclear disarmament
Foreign Policy	Engage the United States in scientific, technological, strategic and commercial cooperation	Pursue closer engagement and relations with United States. However, maintain the independence of India's foreign policy position on all regional and global issues
Food	Focus the public distribution system (PDS) on below-the-poverty line (BPL) families. Conduct surveys to identify such families based on transparent and verifiable criteria such as land ownership, occupation, family status, etc.	Work out a comprehensive medium-term strategy for food and nutrition security. Study the feasibility of and move towards universal food security over time
PSEs	Commit to avoid divestment to meet short-term revenue targets and approach privatization selectively	Commit to a strong and effective public sector with twin focus on commercial functioning and social objectives. Modernize and restructure sick public sector companies and revive sick industry
Private sector	Public-private partnerships will form the basis of infrastructure expansion; this could take the form of public expenditure and private management. Subsidies will be made explicit and provided through the budget	Enhance public investment in infrastructure , even as private sector will be allowed to expand its role in this segment. Subsidies will be made explicit and provided through the budget
Federalism	NA	Ensure amicable resolution of long-pending disputes between states on rivers and water-sharing . Ensure greater per-capita central allocation to backward states like UP and Bihar in five-year plans
Taxation	NA	Introduce a cess on all central taxes to finance the commitment to to universalize access to quality basic education
Health	NA	Ensure availability of life-saving drugs at reasonable prices . Revive public units set up for the manufacture of critical bulk drugs

Source: Press, Kotak Institutional Equities

We believe the UPA government will continue its current economic policies and in fact, spur action in a few other areas. These include:

- ▶ **Energy.** The government may consider deregulating the downstream oil sector, particularly pricing of diesel and gasoline. However, experience cautions our expectations.
- ▶ **FDI.** We expect the government to increase FDI limits in sectors such as civil aviation, media (possibly up to 49% in DTH, print and TV news broadcasting) and retailing. The INC's stronger position in the new government may also allow it to consider 49% FDI limit (versus the current limit of 26%) in the insurance sector. We note that any change in FDI limit would require the parliament's approval for a change to the IRDA Act.
- ▶ **Financial sector reforms.** Exhibit 31 gives a list of pending reforms/bills in the finance sector which the new government may pursue. The previous government could not pursue the same due to opposition from the Left parties.

Exhibit 31: UPA government was unable to push major economic reforms due to resistance from the Left parties

Some of the key major pending economic reforms

	Approval by
Removal of 10 percent cap on voting rights for investors in private banks (Banking Regulation (Amendment) Bill, 2005)	Parliament
The Pension Fund Regulatory and Development Authority (PFRDA) Bill	Parliament
Divestment of government equity in public sector undertakings	Cabinet
Higher foreign equity for foreign companies in insurance sector	Cabinet

Source: Kotak Institutional Equities estimates

- ▶ **Infrastructure.** We expect the pace of investment to accelerate compared to the sharp slowdown in award of infrastructure projects in the past two years. We expect the transportation (road construction) segment to see award of several pending orders under various phases of the National Highway Development Project (NHDP). This may benefit construction companies.
- ▶ **Privatization/divestment.** The government may pursue privatization selectively although the INC manifesto states that enterprises in manufacturing (energy, transport and telecom), banks and insurance companies will remain in the public sector. We expect the government to pursue divestment more aggressively and this would also help improve the government's fiscal position. We expect the government to pursue pending divestments of Oil India and National Hydro Power Company. We do not rule out the government divesting 5-10% stakes in large listed companies such as BHEL, NTPC and ONGC. The latter option may be far easier to pursue.
- ▶ **Taxation.** We expect the government to implement GST in India from April 1, 2010. This major change to the taxation system will likely result in higher taxation over a period of time and also improve tax compliance and efficiency of collection.

India voted for performance and not simply for change (ant-incumbency)

We note that the incumbent parties in most states have done well in the national elections too. This would suggest that Indian voters have largely voted for performance and not necessarily for change (see Exhibit 32). Exhibit 33 gives the breakdown of seats and major parties across states.

Exhibit 32: Incumbent parties in many states have done well in the 15th national elections
Performance of incumbent state governments in various states

	Government		Seats won	Total seats
	State	Center	(#)	(#)
Andhra Pradesh	INC	INC	33	42
Assam	INC	INC	7	14
Bihar	JD(U)	JD(U)	20	40
Chhattisgarh	BJP	BJP	10	11
Gujarat	BJP	BJP	15	26
Haryana	INC	INC	9	10
Jharkhand	BJP	BJP	8	14
Karnataka	BJP	BJP	19	28
Kerala	CPM	INC	13	20
Madhya Pradesh	BJP	BJP	16	29
Maharashtra	INC	INC	17	48
NCT of Delhi	INC	INC	7	7
Orissa	BJD	BJD	14	21
Rajasthan	INC	INC	20	25
Tamil Nadu	DMK	DMK	18	39

Source: Press reports, Kotak Institutional Equities

Exhibit 33: INC has a clear mandate

State-wise and party-wise results of 2009 National Elections (#)

States/Union Territories	Total seats (#)	INC	UPA	BJP	NDA	BSP	Left	SP	Others
Andaman & Nicobar Islands	1	0	0	1	1	0	0	0	0
Andhra Pradesh	42	33	33	0	0	0	0	0	9
Arunachal Pradesh	2	2	2	0	0	0	0	0	0
Assam	14	7	8	4	5	0	0	0	1
Bihar	40	2	2	12	32	0	0	0	6
Chandigarh	1	1	1	0	0	0	0	0	0
Chhattisgarh	11	1	1	10	10	0	0	0	0
Dadra & Nagar Haveli	1	0	0	0	0	0	0	0	1
Daman & Diu	1	0	0	1	1	0	0	0	0
Goa	2	1	1	1	1	0	0	0	0
Gujarat	26	11	11	15	15	0	0	0	0
Haryana	10	9	9	0	0	0	0	0	1
Himachal Pradesh	4	1	1	3	3	0	0	0	0
Jammu & Kashmir	6	2	5	0	0	0	0	0	1
Jharkhand	14	1	3	8	8	0	0	0	3
Karnataka	28	6	6	19	19	0	0	0	3
Kerala	20	13	13	0	0	0	4	0	3
Lakshadweep	1	1	1	0	0	0	0	0	0
Madhya Pradesh	29	12	12	16	16	1	0	0	0
Maharashtra	48	17	25	9	20	0	0	0	3
Manipur	2	2	2	0	0	0	0	0	0
Meghalaya	2	1	1	0	0	0	0	0	1
Mizoram	1	1	1	0	0	0	0	0	0
Nagaland	1	0	0	0	0	0	0	0	1
NCT of Delhi	7	7	7	0	0	0	0	0	0
Orissa	21	6	6	0	0	0	1	0	14
Pondicherry	1	1	1	0	0	0	0	0	0
Punjab	13	8	8	1	5	0	0	0	0
Rajasthan	25	20	20	4	4	0	0	0	1
Sikkim	1	0	0	0	0	0	0	0	1
Tamil Nadu	39	8	26	0	0	0	2	0	11
Tripura	2	0	0	0	0	0	2	0	0
Uttar Pradesh	80	21	21	10	15	20	0	23	1
Uttaranchal	5	5	5	0	0	0	0	0	0
West Bengal	42	6	25	1	1	0	15	0	1
Total	543	206	257	115	156	21	24	23	62

Source: Press reports, Kotak Institutional Equities

Exhibit 34: Valuation summary of key Indian companies

	15-May-09		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US\$ mn)
Automobiles																													
Bajaj Auto	793	REDUCE	114,727	2,316	145	50.5	62.0	65.6	(3.4)	22.9	5.9	15.7	12.8	12.1	8.8	7.1	7.3	5.8	4.6	3.7	2.5	2.5	2.5	40.8	39.7	33.4	615	(22.4)	2.5
Hero Honda	1,222	REDUCE	244,013	4,926	200	64.2	83.8	91.2	32.4	30.5	8.8	19.0	14.6	13.4	10.9	8.3	7.1	6.2	4.8	3.8	1.6	1.8	1.8	36.6	37.4	31.9	1,000	(18.2)	16.1
Mahindra & Mahindra	513	ADD	136,194	2,749	265	21.6	34.7	39.1	(43.2)	60.6	12.8	23.8	14.8	13.1	16.2	9.5	8.3	2.9	2.2	1.9	1.8	1.8	1.8	12.2	16.9	15.8	450	(12.4)	13.7
Maruti Suzuki	848	REDUCE	245,130	4,949	289	42.2	58.3	63.4	(29.5)	38.1	8.6	20.1	14.5	13.4	11.0	7.1	5.9	2.5	2.2	1.9	0.4	0.6	0.6	13.3	16.1	15.1	780	(8.0)	26.1
Tata Motors	265	SELL	147,594	2,980	556	18.5	19.0	24.0	(62.8)	2.6	26.3	14.3	14.0	11.1	11.3	8.1	6.9	1.1	1.0	0.9	—	—	—	9.1	7.3	—	195	(26.5)	28.7
Automobiles		Cautious	887,659	17,920		(25.2)	29.6	11.9	18.5	14.2	12.7	11.3	8.0	7.0	2.6	2.2	1.9	1.2	1.3	1.3	14.1	15.6	15.2						
Banks/Financial Institutions																													
Andhra Bank	66	ADD	31,889	644	485	13.5	11.1	12.6	14.0	(17.9)	13.6	4.9	5.9	5.2	—	—	—	0.9	0.9	1.0	6.8	4.2	4.8	19.0	14.0	14.4	75	14.1	0.8
Axis Bank	660	BUY	236,803	4,781	359	50.6	55.8	64.5	56.9	10.3	15.6	13.0	11.8	10.2	—	—	—	2.5	2.2	2.0	1.5	1.6	1.9	19.2	18.2	18.3	700	6.1	58.5
Bank of Baroda	342	ADD	124,883	2,521	366	60.9	54.9	58.5	55.1	(9.8)	6.5	5.6	6.2	5.8	—	—	—	1.2	1.2	1.0	2.6	2.4	2.5	18.7	14.9	14.2	370	8.3	9.4
Bank of India	247	ADD	129,980	2,624	526	57.2	45.6	55.1	40.7	(20.2)	20.7	4.3	5.4	4.5	—	—	—	1.2	1.3	1.2	2.4	1.9	2.3	29.6	19.2	19.5	310	25.4	13.7
Canara Bank	229	REDUCE	94,034	1,898	410	50.5	38.6	41.4	32.4	(23.6)	7.1	4.5	5.9	5.5	—	—	—	1.2	1.1	1.0	3.5	3.5	4.4	18.3	12.4	12.2	220	(4.1)	4.6
Corporation Bank	246	BUY	35,243	711	143	62.2	51.5	55.3	21.4	(17.3)	7.4	3.9	4.8	4.4	—	—	—	0.7	0.6	0.6	5.2	4.3	4.6	19.6	14.3	13.8	310	26.2	0.6
Federal Bank	193	BUY	33,009	666	171	32.0	34.0	39.3	(6.9)	6.4	15.6	6.0	5.7	4.9	—	—	—	0.8	0.7	0.7	3.1	3.3	3.8	13.2	12.7	13.2	280	45.1	1.4
Future Capital Holdings	151	BUY	9,537	193	63	4.5	28.8	NA	(198.6)	546.1	(100.0)	33.9	5.2	NA	—	—	—	1.3	1.0	NA	—	—	—	3.8	21.4	NA	440	191.7	0.9
HDFC	1,939	SELL	551,421	11,132	284	80.2	93.4	109.1	(6.5)	16.5	16.7	24.2	20.7	17.8	—	—	—	4.2	3.7	3.3	1.5	1.7	2.0	18.2	18.7	19.2	1,730	(10.8)	71.7
HDFC Bank	1,185	BUY	498,573	10,065	421	55.4	64.1	75.0	20.4	15.7	17.1	21.4	18.5	15.8	—	—	—	3.3	2.9	2.5	0.9	1.0	1.2	16.9	16.7	17.3	1,150	(2.9)	49.4
ICICI Bank	575	ADD	639,641	12,913	1,113	33.8	32.7	38.5	(15.4)	(3.1)	17.6	17.0	17.6	14.9	—	—	—	1.3	1.2	1.2	1.9	1.6	1.7	7.8	7.2	8.0	475	(17.3)	188.1
IDFC	95	ADD	122,700	2,477	1,294	5.8	7.0	8.0	2.3	21.0	13.3	16.3	13.5	11.9	—	—	—	2.0	1.8	1.6	1.1	1.3	1.4	12.9	14.1	14.2	85	(10.3)	20.6
India Infoline	94	ADD	29,351	593	311	5.0	5.8	6.5	(10.0)	15.5	12.3	18.7	16.2	14.4	—	—	—	2.3	2.1	1.9	2.8	3.5	4.3	11.7	13.5	14.6	90	(4.5)	5.7
Indian Bank	102	BUY	43,665	881	430	28.1	26.1	30.0	24.7	(7.2)	15.1	3.6	3.9	3.4	—	—	—	0.8	0.8	0.7	4.1	3.8	4.4	22.7	17.9	17.8	165	62.4	2.3
Indian Overseas Bank	66	BUY	35,984	726	545	24.3	16.6	22.2	10.3	(31.9)	33.8	2.7	4.0	3.0	—	—	—	0.6	0.5	0.5	8.0	5.7	6.2	24.7	14.5	17.0	110	66.5	2.8
J&K Bank	357	ADD	17,309	349	48	82.8	72.2	92.8	11.5	(12.7)	28.4	4.3	4.9	3.8	—	—	—	0.8	0.7	0.7	4.8	4.2	5.4	16.5	12.9	14.9	480	34.5	0.3
LIC Housing Finance	369	BUY	31,334	633	85	62.5	68.8	80.3	37.3	10.0	16.8	5.9	5.4	4.6	—	—	—	1.3	1.1	0.9	3.7	4.1	4.8	26.2	23.9	23.4	390	5.8	6.2
Mahindra & Mahindra Financial	200	ADD	19,116	386	96	22.4	27.5	30.0	7.5	22.9	8.7	8.9	7.3	6.7	—	—	—	1.4	1.2	1.0	2.8	3.4	3.7	15.4	16.9	16.3	240	20.2	0.1
Oriental Bank of Commerce	143	ADD	35,902	725	251	36.1	27.3	34.6	51.4	(24.5)	26.7	4.0	5.3	4.1	—	—	—	0.6	0.7	0.8	5.0	3.8	4.8	14.8	10.2	11.8	150	4.7	2.8
PFC	174	ADD	199,998	4,038	1,148	13.0	16.5	19.3	14.3	26.7	17.6	13.4	10.6	9.0	—	—	—	1.8	1.6	1.4	1.6	2.8	2.5	13.8	15.8	16.7	160	(8.2)	4.0
Punjab National Bank	575	BUY	181,220	3,658	315	90.7	90.7	99.7	39.6	(0.0)	10.0	6.3	6.3	5.8	—	—	—	1.5	1.4	1.3	3.2	3.2	3.5	21.5	18.6	18.0	650	13.1	21.9
Rural Electrification Corp.	118	BUY	101,057	2,040	859	15.2	17.7	20.0	38.8	16.8	13.0	7.8	6.6	5.9	—	—	—	1.4	1.2	1.1	4.1	4.8	5.4	19.6	19.9	19.6	125	6.2	1.8
Shriram Transport	253	ADD	53,530	1,081	212	30.1	32.5	36.9	56.8	7.9	13.7	8.4	7.8	6.9	—	—	—	2.4	2.1	1.7	3.4	3.8	4.4	29.6	27.0	25.8	300	18.6	1.1
SREI	43	ADD	4,983	101	116	7.7	6.9	8.2	(32.8)	(10.1)	18.6	5.6	6.2	5.2	—	—	—	0.5	0.4	0.4	5.4	6.5	7.5	14.0	11.5	13.0	50	16.7	2.2
State Bank of India	1,314	BUY	834,073	16,838	635	143.6	121.1	139.2	34.8	(15.7)	14.9	9.1	10.8	9.4	—	—	—	1.7	1.7	1.5	2.2	2.3	2.4	17.1	12.7	13.3	1,600	21.8	102.2
Union Bank	175	BUY	88,244	1,781	505	34.2	29.6	35.5	24.5	(13.5)	19.9	5.1	5.9	4.9	—	—	—	1.0	0.9	0.8	2.9	2.5	3.0	27.2	19.5	19.9	220	25.9	5.0
Banks/Financial Institutions		Attractive	4,183,478	84,455		27.1	(4.7)	15.1	9.9	10.4	9.0	—	—	—	1.7	1.6	1.4	2.2	2.2	2.4	16.8	15.2	15.7						
Cement																													
ACC	635	REDUCE	119,294	2,408	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	11.3	11.5	15.1	5.6	5.7	6.6	2.3	2.0	1.8	3.7	3.7	3.7	24.7	21.3	15.1	625	(1.6)	10.6
Ambuja Cements	76	REDUCE	115,701	2,336	1,522	7.2	6.8	5.4	(5.0)	(4.7)	(20.5)	10.6	11.1	14.0	5.6	5.8	7.0	1.9	1.7	1.6	3.9	2.5	2.8	19.7	16.6	12.0	70	(7.9)	3.9
Grasim Industries	1,878	REDUCE	172,230	3,477	92	225.7	188.5	192.6	(20.7)	(16.5)	2.2	8.3	10.0	9.8	4.9	5.0	4.7	1.6	1.4	1.3	1.8	1.8	1.8	20.7	14.9	13.6	1,500	(20.1)	9.6
India Cements	115	ADD	32,387	654	282	22.7	19.8	17.5	n/a	(12.8)	(11.2)	5.1	5.8	6.5	3.8	3.9	4.1	0.9	0.7	0.7	1.9	1.9	2.8	15.7	14.7	11.7	130	13.1	3.8
Shree Cement	823	BUY	28,654	578	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	4.7	9.0	9.5	3.3	3.6	3.7	2.4	2.0	1.7	1.3	1.3	1.3	65.7	24.0	18.9	950	15.5	0.4
UltraTech Cement	568	ADD	71,091	1,435	125	78.0	70.5	49.3	(4.1)	(9.7)	(30.0)	7.3	8.1	11.5	4.9	4.5	5.6	1.7	1.4	1.3	1.4	1.4	1.4	31.2	22.3	13.4	625	10.1	1.0
Cement		Cautious	539,357	10,888		(6.8)	(14.5)	(13.8)	8.3	9.7	11.2	4.9	5.0	5.4	1.7	1.5	1.4	2.6	2.3	2.4	20.7	15.5	12.1						
Consumer products																													
Asian Paints	960	ADD	92,102	1,859	96	38.4	49.1	57.5	(2.2)	27.9	17.1	25.0	19.6	16.7	14.5	11.4	9.5	8.1	6.6	5.5	1.8	2.1	2.3	36.3	38.5	36.8	1,000	4.1	0.6
Colgate-Palmolive (India)	459	ADD	62,400	1,260	136	20.4	23.3	25.7	19.4	14.4	10.1	22.5	19.7	17.9	19.6	16.3	14.2	37.0	41.0	46.6	4.0	4.6	5.0	157.8	198.4	245.6	490	6.8	1.9
GloxoSmithkline Consumer (a)	792	ADD	33,295	672	42	44.8	56.1	63.6	15.8	25.2	13.5	17.7	14.1	12.4	9.6	7.8	6.8	4.3	3.7	3.3	1.9	2.6	3.7	26.8	28.5	28.0	900	13.7	0.3
Godrej Consumer Products	158	ADD	40,704	822	258	6.8	8.7	9.8	(3.9.																				

Valuation summary of key Indian companies

	15-May-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)		EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo	
Company	82.9	BUY	(Rs mn)	(US\$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US\$ mn)
Energy																													
Bharat Petroleum	370	SELL	121,294	2,449	328	—	42.0	51.5	(99.9)	142,832	NA	12,603	NA	7.2	7.6	4.5	4.0	0.9	0.8	0.8	—	5.1	6.2	0.0	10.2	11.6	425	14.9	5.2
Cairn india	199	BUY	377,817	7,627	1,897	4.2	4.4	28.5	(3,628)	5	543.2	47	45	7.0	28.1	20.5	5.8	1.1	1.1	1.1	—	—	15.1	2.5	2.5	15.9	225	13.0	20.0
Castrol India (a)	332	BUY	41,018	828	124	21.3	25.5	26.6	20.8	19.5	4.3	15.6	13.0	12.5	8.7	7.5	7.1	9.1	8.2	7.7	4.5	5.4	6.0	61.2	66.5	63.7	390	17.6	0.3
GAIL (India)	270	SELL	342,361	6,912	1,268	23.3	19.7	20.7	14.2	(15.6)	5.1	11.6	13.7	13.1	6.3	7.7	8.2	2.1	1.9	1.8	2.7	2.5	2.5	18.3	13.8	13.3	240	(11.1)	10.9
GSPL	49	REDUCE	27,717	560	563	1.9	2.5	3.7	4.4	30.5	52.6	26.2	20.1	13.1	9.1	5.9	5.0	2.1	1.9	1.9	1.1	1.4	7.6	8.2	9.8	14.4	45	(8.6)	2.6
Hindustan Petroleum	260	SELL	88,143	1,779	339	(10.5)	30.2	41.8	(131.5)	(386.8)	38.3	(24.7)	8.6	6.2	6.9	4.7	NA	0.7	0.7	NA	—	4.6	6.4	(2.9)	7.6	9.9	300	15.4	5.6
Indian Oil Corporation	428	REDUCE	505,280	10,200	1,179	24.3	46.8	49.6	(60.3)	92.1	6.1	17.6	9.2	8.6	8.3	4.6	4.0	1.0	1.0	0.9	—	4.2	4.6	6.2	10.3	10.2	525	22.5	2.6
Oil & Natural Gas Corporation	813	ADD	1,739,236	35,111	2,139	102.6	94.6	125.5	10.7	(7.8)	32.7	7.9	8.6	6.5	2.9	2.8	2.1	1.5	1.4	1.2	4.2	4.4	5.9	19.3	15.8	18.8	900	10.7	36.2
Petronet LNG	57	ADD	42,375	855	750	6.9	7.7	9.0	—	10.8	17.6	8.2	7.4	6.3	6.9	5.5	4.8	1.9	1.5	1.2	2.7	2.7	3.5	24.0	21.8	20.9	57	0.9	3.2
Reliance Industries	1,951	REDUCE	2,678,311	54,069	1,373	103.4	127.7	175.7	(1.5)	23.5	37.7	18.9	15.3	11.1	11.2	7.0	5.2	2.3	2.0	1.7	0.7	0.8	1.0	15.1	15.9	19.2	1,650	(15.4)	205.5
Reliance Petroleum	121	NR	542,475	10,951	4,500	—	8.3	13.8	n/a	n/a	n/a	n/a	n/a	8.8	n/a	n/a	7.3	4.0	3.3	2.5	—	1.7	1.7	0.6	25.1	33.0	—	—	22.3
Energy		Neutral	6,506,026	131,342					(6.3)	26.5	39.9	14.5	11.5	8.2	7.2	5.4	4.2	1.7	1.6	1.4	1.6	2.3	3.8	12.0	13.7	17.3			
Industrials																													
ABB	492	REDUCE	104,301	2,106	212	25.8	24.9	29.6	11.3	(3.6)	18.7	19.1	19.8	16.6	11.1	11.0	8.8	4.9	4.1	3.4	0.4	0.6	0.6	29.2	22.6	22.1	450	(8.6)	6.5
BGR Energy Systems	198	REDUCE	14,274	288	72	15.3	20.7	24.3	26.1	35.4	17.5	13.0	9.6	8.1	7.3	6.2	5.3	2.5	2.1	1.7	1.2	1.7	2.0	21.3	23.9	23.2	165	(16.8)	1.2
Bharat Electronics	993	REDUCE	79,472	1,604	80	101.9	111.1	119.0	(0.0)	9.0	7.1	9.7	8.9	8.4	3.5	3.1	2.6	2.0	1.7	1.5	2.5	2.5	2.5	22.4	20.9	19.2	1,025	3.2	1.0
Bharat Heavy Electricals	1,707	REDUCE	835,439	16,866	490	59.8	89.0	105.5	2.3	48.9	18.5	28.6	19.2	16.2	15.0	10.4	8.7	6.5	5.2	4.2	0.9	1.1	1.3	24.7	30.0	28.5	1,475	(13.6)	53.6
Crompton Greaves	176	ADD	64,647	1,305	367	14.2	15.7	17.9	27.0	10.8	13.9	12.4	11.2	9.8	7.2	6.4	5.6	3.7	2.9	2.3	1.0	1.1	1.2	34.1	28.9	26.0	210	19.1	5.3
Larsen & Toubro	989	ADD	590,136	11,914	597	49.0	54.7	63.5	29.2	11.5	16.1	20.2	18.1	15.6	12.4	10.9	9.7	3.7	3.0	2.6	1.0	1.1	1.2	20.9	18.5	18.0	875	(11.5)	67.2
Maharashtra Seamless	213	BUY	15,044	304	71	35.9	33.0	39.6	22.2	(8.1)	20.3	5.9	6.5	5.4	4.0	4.0	3.1	1.1	1.0	0.8	2.5	2.3	3.3	20.3	16.0	16.8	225	5.5	0.8
Siemens	367	REDUCE	123,873	2,501	337	14.2	19.8	21.1	(22.2)	39.7	6.4	25.9	18.6	17.4	11.9	10.2	9.7	5.5	4.6	3.9	0.8	1.8	1.1	23.3	27.1	24.2	310	(15.6)	6.2
Suzlon Energy	77	ADD	120,394	2,430	1,571	7.0	7.1	11.4	6.0	2.1	59.7	11.0	10.8	6.7	8.6	7.6	6.0	1.2	1.0	0.9	0.7	0.7	1.3	11.3	10.1	13.9	90	17.4	54.6
Industrials		Cautious	1,947,581	39,317					10.2	22.1	20.2	20.2	16.5	13.8	11.3	9.4	8.0	3.8	3.2	2.6	1.0	1.2	1.3	18.9	19.1	19.2			
Infrastructure																													
IRB Infrastructure	110	ADD	36,576	738	332	5.6	10.4	10.8	63.5	85.5	3.9	19.6	10.6	10.2	11.5	6.5	5.9	2.0	1.6	1.4	—	—	—	10.6	16.8	14.5	110	(0.0)	4.7
Media																													
DishTV	34	REDUCE	31,940	645	946	(7.3)	(4.1)	(3.2)	n/a	(44.4)	(22.6)	(4.6)	(8.3)	(10.7)	(20.8)	(125.2)	40.4	(4.9)	(15.7)	(6.4)	—	—	—	86.1	91.1	NA	22	(34.8)	5.1
HT Media	67	BUY	15,683	317	234	2.9	4.2	7.1	(32.4)	43.6	69.5	22.9	15.9	9.4	10.2	7.1	4.8	1.7	1.6	1.5	0.6	1.2	3.7	7.7	10.5	16.4	100	49.4	0.1
Jagran Prakashan	54	BUY	16,203	327	301	2.9	4.1	5.9	(11.6)	42.4	44.7	18.7	13.1	9.1	10.3	7.1	5.1	2.8	2.6	2.3	2.7	3.8	5.5	15.6	20.6	26.9	80	48.7	0.1
Sun TV Network	202	REDUCE	79,604	1,607	394	9.3	11.1	12.8	11.8	19.2	15.8	21.8	18.3	15.8	11.6	10.1	8.7	4.7	4.3	4.0	2.0	3.0	4.0	23.5	25.1	26.7	200	(1.0)	0.9
Zee Entertainment Enterprises	143	ADD	62,108	1,254	434	8.1	9.3	11.2	(9.0)	15.5	20.0	17.7	15.4	12.8	12.5	10.7	8.8	1.9	1.8	1.6	1.6	1.9	2.3	11.6	12.2	13.7	145	1.2	7.4
Zee News	34	ADD	8,092	163	240	1.9	2.1	2.5	20.4	11.1	18.8	18.1	16.3	13.7	9.6	8.1	7.2	3.3	2.8	2.5	1.2	1.2	1.8	20.0	19.0	19.5	40	18.5	0.4
Media		Neutral	213,630	4,313					(18.5)	66.4	50.8	48.9	29.4	19.5	15.9	11.5	9.0	3.5	3.0	2.9	1.5	2.1	2.9	7.1	10.3	14.8			
Metals																													
Hindalco Industries	70	ADD	123,472	2,493	1,753	7.7	2.4	8.2	(44.4)	(69.2)	248.7	9.2	29.8	8.6	5.7	7.9	6.7	0.4	0.4	0.4	—	—	—	10.3	5.2	6.7	55	(21.9)	13.1
National Aluminium Co.	281	SELL	181,019	3,654	644	19.7	10.3	16.3	(22.2)	(47.8)	58.3	14.3	27.3	17.3	7.1	9.2	6.1	1.7	1.6	1.5	1.2	0.7	0.7	12.7	6.2	9.2	135	(51.9)	2.3
Jindal Steel and Power	1,604	BUY	246,969	4,986	154	179.7	171.6	195.4	117.2	(4.5)	13.9	8.9	9.3	8.2	6.2	6.0	4.9	3.4	2.5	1.9	—	0.5	0.6	48.4	31.0	26.5	1,400	(12.7)	24.9
JSW Steel	419	SELL	78,299	1,581	187	13.1	24.1	53.5	(84.7)	83.3	121.8	31.8	17.4	7.8	8.2	8.2	6.4	0.8	0.7	0.6	0.2	1.2	1.2	11.0	4.3	8.3	340	(18.8)	25.7
Hindustan Zinc	533	BUY	225,294	4,548	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	8.3	8.5	6.6	4.5	4.0	2.3	1.5	1.3	1.1	0.8	0.9	0.9	20.1	16.5	17.9	610	14.4	3.6
Sesa Goa	146	BUY	114,740	2,316	787	24.8	20.8	24.6	30.8	(16.1)	18.6	5.9	7.0	5.9	3.4	3.6	2.4	2.5	1.9	1.5	2.4	2.4	2.4	52.8	31.3	28.8	150	2.9	19.5
Sterlite Industries	460	ADD	326,120	6,584	708	49.2	41.0	50.5	(23.6)	(16.7)	23.4	9.4	11.2	9.1	5.3	5.8	4.3	1.3	1.1	1.0	—	—	—	14.3	10.7	11.8	490	6.5	36.1
Tata Steel	272	BUY	223,581	4,514	822	123.9	55.5	87.0	63.6	(55.2)	56.7	2.2	4.9	3.1	3.3	4.3	3.3	0.5	0.5	0.4	4.7	4.8	4.8	36.8	15.7	21.3	280	2.9	77.7
Metals		Attractive	1,519,494	30,675					5.4	(35.6)	41.7	6.1	9.5	6.7	4.7	5.6	4.3	1.0	0.9	0.8	1.2	1.2	1.3	16.1	9.6	12.1			
Pharmaceutical																													
Biocin	143	BUY	28,670	579	200	4.7	13.6	19.4	(80.0)	192.2	42.8	30.8	10.5	7.4	12.9	5.8	4.1	1.9	1.7	1.4	0.0	0.1	0.1	6.2	16.9	20.9	235	63.9	0.9
Cipla	231	ADD	179,477	3,623	777	9.9	13.9	15.5	9.5	40.6	11.9	23.4	16.6	14.9	16.8	12.0	10.6	4.2	3.5	3.0	1.1	1.3	1.5	19.1	23.0	21.8	260	12.6	7.3
Dishman Pharma & chemicals	119	BUY	9,642	195	81	11.4	24.8	28.0	(22.7)	118.0	13.0	10.4	4.8	4.2	8.5	4.7	4.2	1.5	1.2	0.9	0.0	0.0	0.0	15.1	27.1	24.3	280	136.2	0.4
Divi's Laboratories	923	BUY	59,583	1,203	65	64.9	75.1	89.1																					

Valuation summary of key Indian companies

	15-May-09		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-
Company	33.8	REDUCE	(Rs mn)	(US\$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US\$ mn)
Retail																													
Titan Industries	884	REDUCE	39,258	793	44	45.9	50.1	56.9	30.8	9.2	13.7	19.3	17.7	15.5	12.5	10.8	9.2	6.8	5.2	4.2	1.1	1.2	1.4	38.9	33.6	29.9	850	(3.9)	3.7
Retail		Neutral	39,258	793					30.8	9.2	13.7	19.3	17.7	15.5	12.5	10.8	9.2	6.8	5.2	4.2	1.1	1.2	1.4	35.3	29.7	26.8			
Technology																													
HCL Technologies	148	REDUCE	102,686	2,073	695	16.2	12.5	16.7	5.8	(22.6)	33.4	9.1	11.8	8.8	5.2	5.0	4.8	1.6	1.5	1.4	8.1	8.1	8.1	18.3	13.0	16.8	110	(25.5)	4.6
Infosys Technologies	1,593	BUY	914,267	18,457	574	102.4	104.1	116.1	29.6	1.6	11.5	15.5	15.3	13.7	11.1	10.8	8.9	5.0	4.1	3.4	1.5	1.6	1.8	36.7	29.3	26.8	1,500	(5.8)	53.1
Mphasis BFL	267	REDUCE	55,615	1,123	208	14.2	32.6	27.9	15.7	129.8	(14.4)	18.8	8.2	9.6	14.3	5.6	5.1	3.9	2.8	2.3	1.5	1.7	1.9	22.8	39.5	26.0	190	(28.8)	2.2
Mindtree	377	BUY	15,520	313	41	13.2	44.0	50.7	(50.5)	232.5	15.1	28.5	8.6	7.4	5.0	5.0	4.2	2.8	2.1	1.7	0.5	—	1.3	5.5	20.4	18.4	400	6.1	4.2
Patni Computer Systems	198	REDUCE	25,492	515	129	26.8	23.5	26.1	(19.3)	(12.4)	11.1	7.4	8.4	7.6	2.3	1.8	1.6	1.0	0.8	0.8	0.9	2.4	2.6	16.2	10.0	10.3	150	(24.4)	1.2
Polaris Software Lab	77	SELL	7,575	153	99	13.1	13.3	12.1	76.0	1.7	(8.9)	5.9	5.8	6.3	1.8	2.1	2.2	1.0	0.9	0.8	3.6	2.6	2.6	18.1	15.9	12.9	50	(34.9)	2.5
TCS	644	REDUCE	630,274	12,724	979	52.9	51.3	55.9	3.1	(2.9)	8.8	12.2	12.5	11.5	8.5	8.5	7.4	4.0	3.3	2.9	2.2	2.4	3.5	36.9	29.1	26.8	510	(20.8)	24.9
Tech Mahindra	363	ADD	46,811	945	129	70.4	38.0	37.2	19.3	(46.0)	(2.1)	5.1	9.5	9.7	3.3	6.6	6.2	2.1	1.7	1.5	1.1	1.7	2.0	52.8	20.3	17.0	360	(0.7)	14.4
Wipro	378	ADD	552,051	11,145	1,462	25.7	27.0	29.4	15.8	4.7	9.1	14.7	14.0	12.8	10.7	9.7	8.1	3.7	3.0	2.6	1.1	2.0	2.3	26.9	23.7	21.7	325	(13.9)	11.6
Technology		Cautious	2,355,176	47,546					15.0	(0.5)	9.1	13.2	13.3	12.2	9.0	8.6	7.5	3.7	3.1	2.7	1.8	2.2	2.6	28.1	23.2	21.9			
Telecom																													
Bharti Airtel	800	ADD	1,518,515	30,655	1,899	44.6	52.2	59.8	26.4	17.0	14.6	17.9	15.3	13.4	10.5	8.9	7.7	4.8	3.6	2.8	0.5	0.7	1.0	31.4	27.0	23.8	775	(3.1)	69.9
IDEA	65	REDUCE	201,906	4,076	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	22.4	22.4	20.2	8.5	7.8	6.5	1.5	1.4	1.3	—	—	—	10.4	6.4	6.8	55	(15.4)	8.0
MTNL	76	SELL	48,006	969	630	4.0	4.1	4.6	(44.3)	2.6	11.8	19.1	18.7	16.7	7.3	5.4	3.7	0.4	0.4	0.4	7.9	7.9	7.9	1.6	1.6	1.9	50	(34.4)	1.4
Reliance Communications	233	SELL	479,885	9,688	2,064	27.7	20.3	21.1	4.7	(26.6)	3.9	8.4	11.4	11.0	7.8	7.5	5.8	1.4	1.2	1.1	0.3	—	—	18.6	11.7	10.9	180	(22.6)	48.9
Tata Communications	524	REDUCE	149,283	3,014	285	13.6	14.0	15.2	24.0	3.2	8.2	38.6	37.4	34.6	16.4	14.9	13.8	2.2	2.1	2.0	1.0	1.2	1.4	5.4	5.2	5.5	400	(23.6)	3.0
Telecom		Cautious	2,397,595	48,402					11.5	(0.5)	11.3	14.9	15.0	13.4	9.6	8.5	7.1	2.4	2.1	1.8	0.6	0.7	0.9	16.3	14.0	13.6			
Transportation																													
Container Corporation	872	ADD	113,317	2,288	130	64.4	71.4	83.3	11.6	10.8	16.6	13.5	12.2	10.5	9.5	8.0	6.6	3.0	2.5	2.1	1.6	1.8	2.1	24.0	22.5	22.2	850	(2.5)	0.9
Transportation		Cautious	113,317	2,288					11.6	10.8	16.6	13.5	12.2	10.5	9.5	8.0	6.6	3.0	2.5	2.1	1.6	1.8	2.1	22.1	20.8	20.5			
Utilities																													
CESC	253	BUY	31,559	637	125	31.2	38.0	42.1	12.3	21.8	10.8	8.1	6.6	6.0	4.5	5.4	5.9	0.9	0.8	0.7	1.8	2.2	2.4	11.4	12.2	11.9	385	52.4	0.9
Lanco Infratech	235	BUY	52,285	1,056	222	14.6	17.1	24.9	(1.3)	16.6	45.7	16.1	13.8	9.5	22.7	17.1	9.5	2.4	2.0	1.6	—	—	—	16.2	15.8	19.0	270	14.8	9.9
NTPC	188	REDUCE	1,546,437	31,219	8,245	8.8	10.7	12.0	(5.2)	20.8	12.7	21.2	17.6	15.6	14.4	13.1	12.5	2.6	2.4	2.2	1.9	2.1	2.4	12.9	14.4	15.0	180	(4.0)	27.4
Reliance Infrastructure	820	BUY	185,734	3,750	226	64.1	58.8	62.9	70.5	(8.2)	6.9	12.8	13.9	13.0	13.6	14.3	11.3	1.1	1.0	1.0	0.9	1.0	1.1	6.3	7.0	9.0	970	18.3	106.7
Reliance Power	129	REDUCE	309,541	6,249	2,397	1.0	2.5	3.1	—	140.3	25.3	126.6	52.7	42.1	—	—	—	2.2	2.2	2.0	—	—	—	1.8	4.2	5.0	120	(7.1)	16.5
Tata Power	909	BUY	202,251	4,083	223	65.2	90.2	101.5	104.6	38.4	12.5	13.9	10.1	9.0	9.8	9.3	8.8	1.9	1.6	1.4	1.2	1.3	1.5	15.0	17.5	17.0	1,000	10.1	11.8
Utilities		Attractive	2,327,807	46,993					11.2	21.8	13.5	20.9	17.1	15.1	14.5	14.4	13.3	2.2	2.0	1.9	1.4	1.6	1.8	10.6	11.8	12.3			
Others																													
Aban Offshore	619	REDUCE	23,442	473	38	87.8	148.2	277.7	21	68.8	87.4	7.0	4.2	2.2	8.4	6.6	5.1	1.7	1.2	0.8	0.6	0.8	0.8	33.7	36.9	41.2	300	(51.5)	33.6
Havells India	219	REDUCE	13,278	268	61	(1.0)	10.3	14.7	(104)	NA	43.0	NA	21.4	14.9	9.3	8.0	7.2	1.9	1.8	1.6	1.5	1.9	2.3	(0.9)	8.5	11.4	120	(45.3)	2.0
Jaiprakash Associates	141	ADD	197,397	3,985	1,403	6.6	7.9	11.8	34	20.0	49.6	21.4	17.9	11.9	13.7	11.3	10.6	3.3	2.9	2.4	0.0	0.0	0.0	16.8	17.1	21.8	140	(0.5)	62.7
Jindal Saw	307	BUY	16,841	340	55	64.3	47.8	41.7	(1)	(25.6)	(12.8)	4.8	6.4	7.4	3.4	3.3	3.1	0.5	0.5	0.5	1.6	1.3	1.3	10.8	7.4	6.2	300	(2.2)	2.3
PSL	96	BUY	4,162	84	44	24.3	43.7	37.8	15	79.6	(13.4)	3.9	2.2	2.5	4.9	4.2	3.6	0.5	0.4	0.4	8.4	8.4	8.4	10.6	14.2	12.4	145	51.8	0.2
Sintex	160	BUY	21,839	441	136	23.8	24.8	27.3	22	4.1	10.2	6.7	6.5	5.9	5.0	4.6	3.8	1.1	1.0	0.8	0.7	0.7	0.8	16.6	14.8	14.1	175	9.4	3.6
Tata Chemicals	183	ADD	43,142	871	235	25.5	23.4	27.5	(36)	(8.3)	17.6	7.2	7.8	6.7	4.9	4.2	3.6	0.9	0.8	0.8	4.3	4.4	4.4	17.2	13.3	14.0	190	3.6	2.3
Welspun Gujarat Stahl Rohren	112	REDUCE	21,152	427	189	20.8	21.6	16.6	1	4.1	(23.5)	5.4	5.2	6.8	4.7	4.1	4.2	1.0	0.8	0.8	1.7	1.3	1.3	19.9	17.8	11.7	100	(10.8)	11.2
United Phosphorus	126	BUY	58,397	1,179	462	10.7	13.5	18.0	28	25.7	33.9	11.8	9.4	7.0	8.2	5.9	4.5	1.9	1.6	1.4	1.0	1.2	1.6	18.1	18.2	20.5	140	10.8	2.0
Others			399,649	8,068					14.9	10.9	30.2	10.7	9.7	7.4	7.9	6.8	6.3	1.7	1.5	1.2	0.9	1.0	1.1	15.6	15.1	16.8			
KS universe (b)			26,789,715	540,824					3.4	3.5	22.9	13	12.7	10.3	8.6	7.7	6.4	2.0	1.8	1.6	1.6	1.9	2.4	15.5	14.5	15.8			
KS universe (b) ex-Energy			20,283,689	409,482					6.5	(3.0)	16.6	12.7	13.1	11.2	9.3	9.0	7.8	2.2	1.9	1.7	1.6	1.7	1.9	17.0	14.7	15.3			
KS universe (d) ex-Energy & ex-Commodities			18,224,838	367,918					7.5	3.9	14.9	14.2	13.7	11.9	11.3	10.1	8.8	2.4	2.2	1.9	1.6	1.7	2.0	17.0	15.7	16.0			

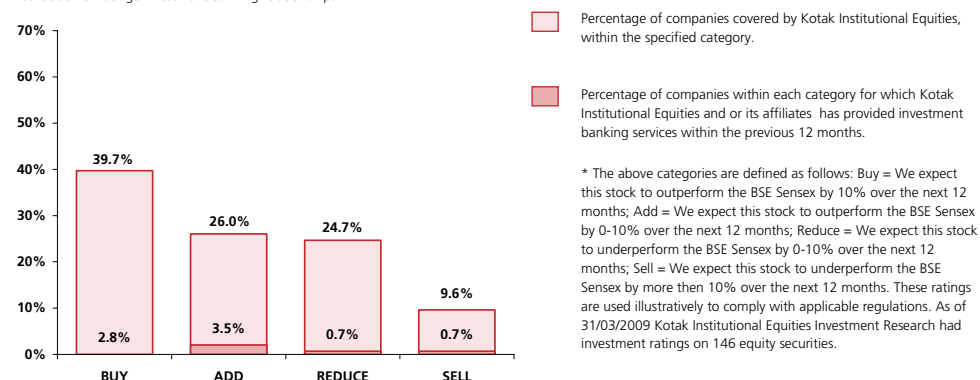
Note:
(1) For banks we have used adjusted book values.
(2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US\$)= 49.54

Source: Bloomberg, Company, Kotak Institutional Equities estimates

"I, Sanjeev Prasad, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2009

Analyst coverage

Sanjeev Prasad, the lead analyst in this report, also covers the following companies

Company Name	Ticker
Bharat Petroleum	BPCL.BO
Cairn India	CAIL.BO
Castrol India	CAST.BO
GAIL (India)	GAIL.BO
Gujarat State Petronet	GSPT.BO
Hindustan Petroleum	HPCL.BO
Indian Oil Corp.	IOC.BO
Oil & Natural Gas Corporation	ONGC.BO
Petronet LNG	PLNG.BO
Reliance Industries	RELI.BO
Reliance Petroleum	RPET.BO

Source: Kotak Institutional Equities Research

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