INDIA DAILY

July 24, 2009

kotak Institutional Equities

Contents

EQUITY MARKETS

		Change %		
India	**23-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	15,231	2.6	6.3	36.8
Nifty	4,524	2.8	6.5	32.1
Global/Regional indices				
Dow Jones	9,069	2.1	9.0	14.0
Nasdaq Composite	1,974	2.5	11.8	19.5
FTSE	4,560	1.5	7.8	13.5
Nikkie	9,918	1.3	3.4	13.9
Hang Seng	19,818	3.0	10.8	29.9
KOSPI	1,502	0.4	10.1	10.9
Value traded - India				
Cash (NSE+BSE)	270.2		235.3	257.5
Derivatives (NSE)	748.9		850.7	683
Deri. open interest	935.2		928	916

Forex/money market				
		Change, basis points		
	23-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	48.5	(7)	(9)	(147)
10yr govt bond, %	7.0	(1)	4	87
Net investment (US$mn)				
	22-Jul		**MTD**	**CYTD**
FIIs	30		1,354	6,323
MFs	(59)		290	809

Top movers -3mo basis				
		Change, %		
Best performers	**23-Jul**	**1-day**	**1-mo**	**3-mo**
SCS IN Equity	104.1	13.9	38.2	121.3
PUNJ IN Equity	243.9	2.0	16.4	109.8
FTECH IN Equity	1429.9	(0.1)	6.7	108.1
WGS IN Equity	208.4	4.4	(0.5)	105.7
ABAN IN Equity	966.3	8.1	7.9	98.9
Worst performers				
ESOIL IN Equity	136.9	0.8	(17.5)	(18.6)
TCOM IN Equity	495.1	3.7	8.4	(10.1)
SUNP IN Equity	1270.9	1.2	(5.5)	6.2
BHARTI IN Equity	814.1	(1.1)	2.0	8.6
NATP IN Equity	208.0	2.2	4.8	8.8

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Oil & Natural Gas Corporation (ONGC)

Energy

BUY

JULY 24, 2009

RESULT

Coverage view: Cautious

Price (Rs): 1,093

Target price (Rs): 1,200

BSE-30: 15,231

Strong 1QFY10. ONGC reported 1QFY10 net income (standalone) at Rs48.5 bn (+120% qoq, -27% yoy), 6.7% below our Rs52 bn estimate. The negative variance versus expectation was due to higher DD&A (Rs2 bn), lower other income and a one-off provision for employee expenses (Rs1 bn). We have fine-tuned FY2010E and FY2011E EPS estimates to Rs96 and Rs115. We find ONGC's valuations attractive and retain our BUY rating with a revised 12-month fair valuation of Rs1,200 (Rs1,100 previously).

Company data and valuation summary

Oil & Natural Gas Corporation

Stock data			
52-week range (Rs) (high,low)			1,220-538
Market Cap. (Rs bn)			2,337.8
Shareholding pattern (%)			
Promoters			74.1
FIIs			5.4
MFs			1.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	6.5	27.8	9.9
Rel. to BSE-30	0.1	(6.5)	7.8

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	91.4	95.8	114.6
EPS growth (%)	(1.5)	4.9	19.6
P/E (X)	12.0	11.4	9.5
Sales (Rs bn)	1,219.5	991.5	1,070.4
Net profits (Rs bn)	195.4	204.9	245.0
EBITDA (Rs bn)	465.0	465.4	514.2
EV/EBITDA (X)	4.3	4.0	3.4
ROE (%)	17.3	16.2	17.5
Div. Yield (%)	2.9	3.3	3.8

1QFY10 net income at Rs48.5 bn versus Rs52 bn estimate; EBITDA lower by 2% at Rs95.7 bn

ONGC reported 1QFY10 net income (standalone) at Rs48.5 bn (+120% qoq, -27% yoy), 6.7% below our estimate of Rs52 bn. The strong qoq results reflect (1) higher net realized price for crude oil of US$58.3/bbl versus US$43.4/bbl in 4QFY09 and (2) lower DD&A expenditure of Rs32 bn versus Rs42 bn in 4QFY09. The lower yoy net income reflects lower net realized crude price versus US$69.1/bbl in 1QFY09 due to very high global crude oil prices in the year-ago quarter (US$126/bbl on realized basis for ONGC) and fixed subsidy amount as per the then subsidy-sharing formula.

Revised EPS estimates for FY2010E (-5%) and FY2011E (-5%)

We have fine-tuned our FY2010E, FY2011E and FY2012E consolidated EPS to Rs96 (-4.5%), Rs115 (-4.5%) and Rs132 (-6%) to reflect (1) marginally lower crude oil production and (2) higher DD&A expenses. We maintain our FY20110E, FY2011E and FY2012E crude oil price (Dated Brent) forecasts at US$60/bbl, US$65/bbl and US$70/bbl. We assume moderately lower subsidy amounts which result in net realized crude price of around US$50/bbl for the three years; this compares with US$58.3/bbl in 1QFY10. Thus, we see meaningful upside to our earnings estimates in case of a more favorable subsidy-sharing formula, which would translate into higher net realized crude prices for ONGC.

Retain BUY with target price of Rs1,200; valuations attractive with potential upside to earnings

We retain our BUY rating on the stock with a revised 12-month target price of Rs1,200 based on 9X normalized FCF. Our revised target price is based on a normalized crude price of US$55/bbl (to factor in subsidies) versus US$50/bbl previously and does not include any value for several recent oil and gas discoveries. We do not rule out upgrade to earnings due to (1) lower subsidy burden from moderate crude oil prices over the next 1-2 years and (2) likely increase in APM gas price. Key downside risk stems from weaker-than-expected net realized crude price.

QUICK NUMBERS

- 1QFY10 net crude price realization at US$58.3/bbl versus US$43.4/bbl in 4QFY09
- DD&A declined 25% qoq but increased 14% yoy to Rs32 bn
- Other income declined 24% qoq due to lower cash balance

Key highlights of 1QFY10 results

We discuss key highlights of 1QFY10 results (see exhibit) below.

ONGC standalone interim results, March fiscal year-ends (Rs mn)

	1QFY10	1QFY10E	1QFY09	4QFY09	(% chg) 1QFY10E	1QFY09	4QFY09
Net sales	149,454	164,029	200,522	138,336	(8.9)	(25.5)	8.0
Total expenditure	(53,783)	(66,800)	(82,968)	(79,240)	(19.5)	(35.2)	(32.1)
Change in stock in trade	1,198		(61)	1			
Raw materials (a)	(1,107)	(1,893)	(2,468)	(1,503)	(41.5)	(55.1)	(26.3)
Trading purchase	—	(10,481)	(25,177)	(16,712)			
Staff expenditure	(2,512)	(2,372)	(2,897)	699	5.9	(13.3)	(459.4)
Statutory levies	(30,366)	(27,817)	(31,353)	(27,534)	9.2	(3.1)	10.3
Other expenditure	(20,996)	(24,238)	(21,013)	(34,191)	(13.4)	(0.1)	(38.6)
EBITDA	**95,671**	**97,229**	**117,554**	**59,095**	**(1.6)**	**(18.6)**	**61.9**
Other income	9,786	12,468	10,500	12,796	(21.5)	(6.8)	(23.5)
Interest	(61)	(106)	(38)	(136)	(42.2)	60.1	(55.1)
DD&A	(31,789)	(29,806)	(27,970)	(42,444)	6.7	13.7	(25.1)
Depletion	(10,090)		(9,760)	(9,020)		3.4	11.9
Depreciation	(2,630)		(3,000)	(4,190)		(12.3)	(37.2)
Dry wells written off	(10,680)		(5,510)	(18,580)		93.8	(42.5)
Survey expenses	(8,430)		(9,570)	(11,710)		(11.9)	(28.0)
Impairment loss and other adjustments	40		(130)	1,060		(130.8)	(96.2)
Pretax profits	**73,608**	**79,786**	**100,046**	**29,311**	**(7.7)**	**(26.4)**	**151.1**
Extraordinary/Prior period adjustment	—		434	2,692			
Tax	(22,905)	(26,923)	(34,441)	(9,765)	(14.9)	(33.5)	134.6
Deferred tax	(2,224)	(910)	325	(170)	144.3	(784.8)	1,208.7
Net income	**48,479**	**51,953**	**66,363**	**22,068**	**(6.7)**	**(26.9)**	**119.7**
Tax rate (%)	34.1	34.9	34.0	31.0			
Volume data							
Subsidy loss	4,290		98,110	8,520		(95.6)	(49.6)
Crude sales ('000 tons)	5,450		5,930	5,570		(8.1)	(2.2)
Gas sales (mcm)	5,110		5,180	4,930		(1.4)	3.7
LPG (000 tons)	258		233	270		10.8	(4.4)
Naphtha/NGL	441		394	337		11.9	30.9
C2/C3	122		134	115		(8.9)	6.1
SKO	43		37	37		15.3	16.2
Pricing data (US$/bbl)							
Gross crude price realization	60.6		125.8	47.9		(51.9)	26.6
Subsidy discount	2.3		56.7	4.5		(95.9)	(47.6)
Net crude price realization	**58.3**		**69.1**	**43.4**		**(15.7)**	**34.2**

Note:
(a) represents consumption of stores & spares.

Source: Company, Kotak Institutional Equities estimates

- **Net realized price for crude oil.** ONGC's 1QFY10 net realized crude price was US$58.3/bbl versus US$43.4/bbl in 4QFY09 and US$69.1/bbl in 1QFY09. ONGC's subsidy burden in 1QFY10 was Rs4.3 bn or US$2.3/bbl in crude price oil equivalent terms versus crude price equivalent of US$4.5/bbl in 4QFY09 and US$56.7/bbl in 1QFY09. The quantum of the subsidy amount in 4QFY09 and 1QFY09 was Rs8.5 bn and Rs98.1 bn, respectively.

- **DD&A expenses declined 25% qoq and increased 14% yoy to Rs32 bn.** The sharp decline qoq reflects significantly lower expenses in 1QFY10 versus 4QFY09 due to (1) lower dry wells expenses written off at Rs10.7 bn versus Rs18.6 bn in 4QFY09 (Rs5.5 bn in 1QFY09) and (2) survey expenses at Rs8.43 bn versus Rs11.7 bn in 4QFY09 (Rs9.6 bn in 1QFY09).

- **Other expenditure declined 39% qoq to Rs24 bn** (flat yoy) due to extraordinary one-off provision of Rs8.8 bn in 4QFY09, which was provided for an arbitration dispute pending final decision. Employee expenses of Rs2.5 bn include Rs1.07 bn of provision for a pay revision of unionized employees effective from January 1, 2007.

- **Crude and natural gas volumes.** 1QFY10 crude sales volumes declined by 2% qoq and 8% yoy to 5.45 mn tons. We would not be overly concerned about the yoy decline since we believe ONGC can shore up production through EOR/IOR schemes. Gas sales volume increased 4% qoq but declined 1% yoy to 5.11 bcm in 4QFY09.

12-month fair valuation of Rs1,200; positive catalysts exist

Exhibit 2 is our FCF-based valuation model for ONGC and it also shows the fair valuation of ONGC stock at various levels of normalized crude oil prices. We believe the key to ONGC's stock performance over the next few months will be future government action on (1) pricing of auto fuels, (2) subsidy-sharing arrangement for cooking fuels and (3) deregulation of natural gas prices. Exhibit 3 shows that ONGC's earnings can jump sharply under a benign scenario of deregulation of both oil and gas pricing.

We value ONGC stock at Rs1,200 on US$55/bbl normalized crude price
Estimation of fair value of ONGC stock based on normalized free cash flow (Rs mn)

	2010E	2011E	2012E
Normalized crude price assumption (US$/bbl)	55.0	55.0	55.0
Recurring operating cash flow			
Operating cash flow = EBIT X (1-t) + D	277,100	266,791	255,587
Add: OCF after normalizing natural gas price	36,217	30,315	67,005
Add: OCF after removing subsidies	52,647	81,126	109,987
Recurring OCF	365,964	378,232	432,580
Recurring capex			
Production per annum (mn bbls)	366	385	385
Replacement or F&D costs (US$/bbl)	10.0	10.0	10.0
Recurring capex	175,530	183,648	182,921
Free cash flow	**190,434**	**194,585**	**249,658**
Free cash flow multiple (X)	9	9	9
Enterprise value	1,713,904	1,751,264	2,246,925
(Net debt)/cash	412,759	512,883	639,983
Investments	114,893	119,833	119,833
Equity value	2,241,556	2,383,980	3,006,741
Total equity value per share (Rs/share)	**1,048**	**1,115**	**1,406**
B. New discoveries valuation			
KG-DWN-98/2 block (Rs/share)	31	35	39
MN-DWN-98/3 block (Rs/share)	15	17	19
Block A-1, Myanmar	14	15	17
Equity value of new discoveries (Rs/share)	**60**	**68**	**76**
Total equity value per share (Rs/share)	**1,108**	**1,182**	**1,481**

	Equity value (Rs/share)	Change from base case (%)
Normalized crude prices		
US$75/bbl	1,763	49
US$70/bbl	1,617	37
US$65/bbl	1,472	25
US$60/bbl	1,327	12
US$55/bbl	**1,182**	
US$50/bbl	1,037	(12)
US$45/bbl	892	(25)
US$40/bbl	747	(37)
US$35/bbl	602	(49)

Source: Kotak Institutional Equities estimates

We expect ONGC to benefit from deregulation of and natural gas prices
ONGC's FY2010E EPS under deregulation of prices of auto fuels, higher gas prices and stronger rupee (Rs)

Base-case FY2010E EPS	96
Upside from lower subsidy burden due to deregulation	22
Upside from higher gas prices	21
FY2010E EPS	**139**

Source: Kotak Institutional Equities estimates

- **Deregulation of auto fuel prices, if any.** We see the possibility of deregulation of pricing of auto fuels in the medium term on the back of (1) likely moderate levels of crude prices in CY2009-11E due to large OPEC spare capacity and (2) recent increase in domestic diesel and gasoline prices that may preclude further large increases.

- **Exemption to upstream oil companies from bearing subsidies on cooking fuels.** It is possible that the government may fully compensate the downstream oil companies for under-recoveries on cooking fuels through the issue of oil bonds. We note that the amount will be quite manageable in case crude oil prices are in the range of US$50-70/bbl. We compute gross under-recoveries of Rs260 bn at US$60/bbl crude price. This would imply oil bonds of Rs230 bn since the government will pay Rs31 bn through cash subsidies from the budget. This amount is significantly lower than the amount of oil bonds issued in FY2008 and FY2009 (see exhibit).

Gross under-recoveries will likely be significantly lower in FY2010E
Share of various participants of under-recoveries, March fiscal year-ends, 2006-2010E (Rs bn)

	2006	2007	2008	2009	2010E
Dated Brent crude oil price (US$/bbl)	57	65	82	85	60
Subsidy loss	**400**	**494**	**771**	**1,032**	**260**
Payment by government (oil bonds)	**115**	**241**	**353**	**713**	**122**
Share of BPCL	22	53	86	162	28
Share of HPCL	23	49	77	147	25
Share of IOCL	70	138	190	404	69
Net under-recovery of oil companies	**285**	**253**	**418**	**319**	**138**
Share of refining companies	27	—	—	—	—
Share of upstream companies	**140**	**205**	**257**	**329**	**87**
Share of ONGC	120	170	220	282	74
Share of GAIL	11	15	14	18	5
Share of Oil India	10	20	23	29	8
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	**118**	**48**	**161**	**(10)**	**51**
Pre-tax profits of R&M companies	**74**	**96**	**153**	**50**	

Source: Company, Kotak Institutional Equities estimates

- **Full deregulation of natural gas prices could add Rs21 to ONGC's EPS (see exhibit below).** We compute a positive impact of Rs21/share on ONGC's EPS assuming well-head price of US$4.2/mn BTU versus average realization of US$2.3/mn BTU in FY2009. We note that a price increase is due from July 2005. The ministry of petroleum has prepared a draft cabinet to increase APM price to Rs3.765/cu m from Rs3.2/cu m.

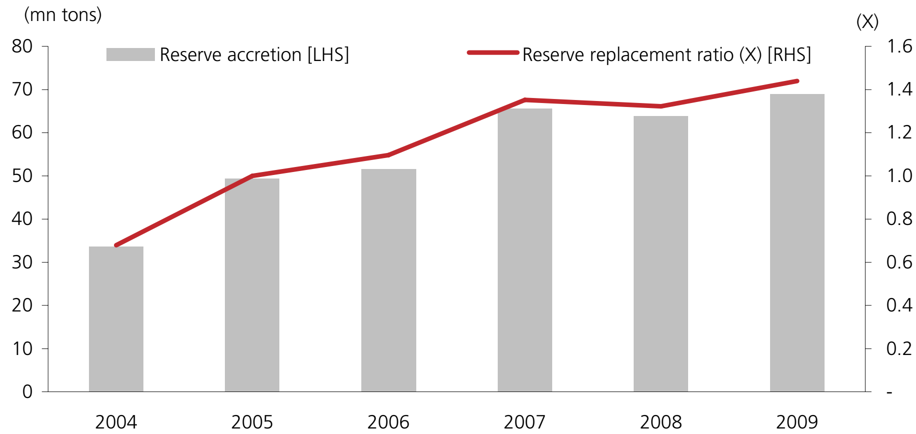
ONGC should be a big beneficiary of gas price increase in India
Impact of gas price increase on ONGC's earnings

Gas sales in FY2009 (bcm)	20.5
Average gas price in FY2009 (Rs/cu meter)	3.9
Average gas price in FY2009 (US$/mn BTU)	2.3
Long-term delivered price of gas (US$/mn BTU)	5.0
Pipeline tariff and royalty (US$/mn BTU)	0.8
Average long-term wellhead price (US$/mn BTU)	4.2
Increase in gas price (US$/mn BTU)	**1.9**
Increase in pretax profits (Rs bn)	67
Pretax profits in FY2009 (Rs bn)	308
Increase in pretax profits (%)	**22**
Increase in post-tax profits (Rs bn)	44
Increase in EPS (Rs)	**21**

Source: Kotak Institutional Equities estimates

- **New discoveries; confirmation of reserves may improve sentiment.** We believe that disclosures on the amount of reserves in recent new discoveries will likely allay street's concerns about ONGC's capability to replenish extant reserves. In any case, ONGC's reserve replacement has improved significantly over the past three years (see Exhibit 6 for details). In FY2009, ONGC (standalone) made 28 discoveries resulting in ultimate reserves accretion of 68.9 mtoe versus production of 47.9 mn tons. Its 100% subsidiary, OVL, added 135 mtoe of ultimate reserves.

ONGC's reserve replacement ratio has been encouraging
Reserve accretion and production data, March fiscal year-ends, 2004-09



Source: Company, Kotak Institutional Equities

We highlight a few recent large discoveries where ONGC management is yet to provide guidance on reserves—(1) gas discovery in block IE in Krishna Godavari basin, (2) oil discovery in Block IG in Krishna Godavari basin with initial production rate of 20,000 b/d by 2012-13 and peak production of 150,000 b/d by 2016-17, (3) oil discovery in KG-DWN-98/2 block, which the management expects to be among the biggest oil discoveries in the Krishna Godavari basin, (4) oil discovery in Charada-3 offshore block in Cambay basin and (5) oil and gas discovery in Matar in Gujarat. We await further details on these discoveries to review our earnings and valuation models.

Key assumptions behind our earnings model

We discuss our key assumptions to our earnings model below. Exhibit 7 gives the major assumptions behind our earnings model and Exhibit 8 gives sensitivity of ONGC's EPS to key variables (rupee-dollar rate, crude oil price, natural gas price).

Moderate growth in volumes over the next few years
Key assumptions, March fiscal year-ends, 2006-12E

	2006	2007	2008	2009E	2010E	2011E	2012E
Rs/US$ rate	44.3	45.3	40.3	45.8	48.0	47.8	47.5
Subsidy share scheme loss (Rs bn)	119.6	170.2	220.0	282.3	80.0	120.0	160.0
Import tariff on crude oil (%)	5.1	5.1	5.2	0.9	—	—	—
Crude/natural gas prices							
Crude price							
Crude price, Bonny Light (US$/bbl)	57.2	64.8	78.9	83.0	60.0	65.0	70.0
Net crude price, ONGC-India (US$/bbl)	43.8	46.1	54.2	47.2	50.0	50.2	50.4
Natural gas price							
Ceiling natural gas price, India (Rs/cu m)	3.52	3.20	3.20	3.20	3.20	3.75	4.50
Ceiling natural gas price, India (US$/mn BTU)	2.12	1.89	2.12	1.87	1.78	2.10	2.53
Net natural gas price, ONGC-India (Rs/cu m)	3.11	2.82	2.82	2.82	2.81	3.32	4.00
Net natural gas price, ONGC-India (US$/mn BTU)	1.88	1.67	1.87	1.64	1.56	1.86	2.25
International operations							
Net natural gas price, OVL-Vietnam (Rs/cu m)	3.1	3.2	2.8	3.2	3.4	3.4	3.4
Net crude price, OVL-Sudan (Rs/ton)	8,118	9,384	10,142	12,136	9,225	9,931	10,630
Net crude price, OVL-Russia (Rs/ton)	8,320	9,633	10,434	12,493	9,461	10,196	10,923
Sales volumes—Domestic fields (a)							
Crude oil (mn tons)	22.5	24.4	24.1	22.9	23.6	25.2	26.5
Natural gas (bcm)	20.5	20.3	20.4	20.5	19.6	19.2	17.9
Sales volumes—Overseas fields							
Crude oil (mn tons)	4.6	5.8	6.8	6.8	6.6	7.3	7.2
Natural gas (bcm)	1.8	2.1	2.0	2.3	2.5	2.8	2.8
Total sales							
Crude oil (mn tons)	27.0	30.2	30.9	29.6	30.2	32.5	33.7
Natural gas (bcm)	22.3	22.5	22.4	22.8	22.1	22.0	20.7
Total sales (mn toe)	**46.9**	**50.3**	**50.9**	**50.0**	**49.9**	**52.1**	**52.2**
Total sales (mn boe)	**342**	**367**	**372**	**365**	**364**	**380**	**381**
Crude oil (%)	58	60	61	59	61	62	65
Natural gas (%)	42	40	39	41	39	38	35

(a) Includes ONGC's share of production from joint venture fields.

Source: Company, Kotak Institutional Equities estimates

ONGC's earnings are highly sensitive to crude price and exchange rate assumptions
Earnings sensitivity of ONGC to key variables, March fiscal year-ends, 2010-12E

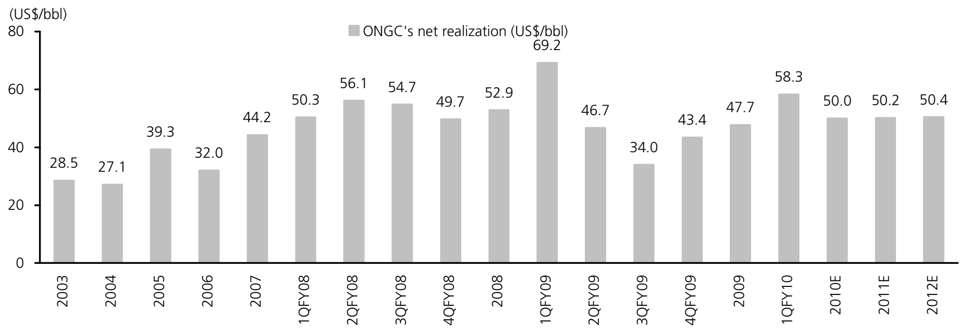
	2010E			2011E			2012E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Rs/US$	47.0	48.0	49.0	46.8	47.8	48.8	46.5	47.5	48.5
Net profits (Rs mn)	196,516	204,937	213,358	235,266	245,029	254,791	271,190	282,049	292,907
Earnings per share (Rs)	91.9	95.8	99.8	110.0	114.6	119.1	126.8	131.9	136.9
% upside/(downside)	**(4.1)**		**4.1**	**(4.0)**		**4.0**	**(3.9)**		**3.8**
Average crude prices									
Crude price (US$/bbl)	58.0	60.0	62.0	63.0	65.0	67.0	68.0	70.0	72.0
Net profits (Rs mn)	192,108	204,937	217,767	231,235	245,029	258,824	267,785	282,049	296,314
Earnings per share (Rs)	89.8	95.8	101.8	108.1	114.6	121.0	125.2	131.9	138.5
% upside/(downside)	**(6.3)**		**6.3**	**(5.6)**		**5.6**	**(5.1)**		**5.1**
Cess									
Cess on domestic crude (Rs/ton)	3,090	2,575	2,060	3,090	2,575	2,060	3,090	2,575	2,060
Net profits (Rs mn)	197,694	204,937	212,180	237,555	245,029	252,502	274,285	282,049	289,813
Earnings per share (Rs)	92.4	95.8	99.2	111.1	114.6	118.1	128.2	131.9	135.5
% upside/(downside)	**(3.5)**		**3.5**	**(3.1)**		**3.1**	**(2.8)**		**2.8**
Natural gas prices									
Natural gas price ceiling (Rs/'000 cum)	2,700	3,200	3,700	3,250	3,750	4,250	4,000	4,500	5,000
Net profits (Rs mn)	199,812	204,937	210,061	239,968	245,029	250,088	277,364	282,049	286,732
Earnings per share (Rs)	93.4	95.8	98.2	112.2	114.6	116.9	129.7	131.9	134.1
% upside/(downside)	**(2.5)**		**2.5**	**(2.1)**		**2.1**	**(1.7)**		**1.7**

Source: Kotak Institutional Equities estimates

- **Subsidy amount.** We model subsidy amount for FY2010E, FY2011E and FY2012E at Rs80 bn, Rs120 bn and Rs160 bn versus Rs100 bn, Rs150 bn and Rs180 bn previously. We admit that the subsidy amount is very hard to predict for future years and would depend on (1) global crude oil prices and (2) domestic retail prices as determined by the government.

- **Crude oil price assumptions.** We assume FY2010E, FY2011E and FY2012E crude oil (Dated Brent) price at US$60/bbl, US$65/bbl and US$70/bbl. However, we would focus more on ONGC's net realized crude price and our long-term crude price assumption. Exhibit 9 gives ONGC's historical net realized price and our expectations for FY2010E (US$50/bbl), FY2011E (US$50.2/bbl) and FY2012E (US$50.4/bbl).

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, Kotak Institutional Equities estimates

- **Natural gas price assumptions.** We assume FY2010E, FY2011E and FY2012E natural gas price at Rs3.2/cu m, Rs3.75/cu m and Rs4.5/cu m.

- **Exchange rate assumptions.** We model exchange rate for FY2010E, FY2011E and FY2012E at Rs48/US$, Rs47.8/US$ and Rs47.5/US$.

MRPL 1QFY10 results—weak performance qoq due to lower throughput

MRPL, ONGC's 71.6% refining subsidiary, reported 1QFY10 net income of Rs4.2 bn compared to Rs6.1 bn in 4QFY09 and Rs8.5 bn in 1QFY09. The steep decline in yoy net income reflects lower refining margin at US$8/bbl (US$3.5/bbl without adventitious gains/loss) compared to US$18.4/bbl (US$7.1/bbl without adventitious gains) in 1QFY09 and the weaker qoq performance reflects lower crude throughput at 2.8 mn tons of crude in 1QFY10 compared to 3.4 mn tons in 4QFY09.

We model FY2010E and FY2011E EPS at Rs5.3 (Rs9.2 bn net income) and Rs4.8 (Rs8.4 bn net income). We model FY2010E and FY2011E refining margin at US$4.6/bbl and US$4.5/bbl versus US$5.3/bbl in FY2009; all figures include adventitious gains/losses.

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2006-12E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	807,603	966,542	1,091,644	1,219,520	991,519	1,070,392	1,158,568
EBITDA	**310,054**	**358,001**	**407,790**	**413,580**	**415,123**	**454,632**	**488,673**
Other income	27,350	45,378	53,565	51,413	50,326	59,594	72,858
Interest	(537)	394	(12,027)	(7,536)	(3,624)	(1,444)	(3,203)
Depreciation and depletion	(97,726)	(119,550)	(138,624)	(149,822)	(146,436)	(146,826)	(143,519)
Pretax profits	239,141	284,222	310,705	307,634	315,388	365,956	414,809
Tax	(71,196)	(88,986)	(102,908)	(106,078)	(104,703)	(118,410)	(125,104)
Deferred tax	(13,612)	(9,264)	(6,471)	(4,692)	(3,133)	(141)	(4,558)
Net profits	154,596	178,414	203,076	202,220	207,552	247,405	285,148
Net profits after minority interests	**153,542**	**176,922**	**199,466**	**198,836**	**204,937**	**245,029**	**282,049**
Earnings per share (Rs)	**71.8**	**82.7**	**93.3**	**93.0**	**95.8**	**114.6**	**131.9**
Balance sheet (Rs mn)							
Total equity	578,830	670,137	786,657	905,223	1,019,965	1,159,121	1,320,339
Deferred tax liability	71,557	80,976	87,227	91,919	95,052	95,194	99,751
Liability for abandonment cost	128,675	151,857	129,325	129,325	129,325	129,325	129,325
Total borrowings	28,767	21,826	22,039	28,712	32,839	61,239	112,139
Currrent liabilities	142,435	187,051	251,797	153,063	142,814	144,211	148,966
Total liabilities and equity	**950,264**	**1,111,847**	**1,277,045**	**1,308,242**	**1,419,996**	**1,589,089**	**1,810,521**
Cash	90,743	206,262	249,807	326,603	445,598	574,122	752,122
Current assets	240,210	192,652	257,384	214,981	189,297	221,392	233,664
Total fixed assets	565,722	643,219	695,227	692,032	705,535	709,068	740,229
Goodwill	14,172	27,686	22,847	22,847	22,847	22,847	22,847
Investments	35,753	36,888	45,041	45,041	49,981	54,921	54,921
Deferred expenditure	3,663	5,141	6,739	6,739	6,739	6,739	6,739
Total assets	**950,264**	**1,111,848**	**1,277,045**	**1,308,242**	**1,419,996**	**1,589,090**	**1,810,521**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	216,736	252,772	284,517	230,018	246,428	280,570	304,632
Working capital changes	46,461	(4,990)	(24,929)	(121,206)	46,355	(8,051)	(7,515)
Capital expenditure	(113,738)	(135,049)	(166,427)	(72,200)	(100,757)	(98,275)	(121,222)
Investments	(28,912)	53,822	(7,348)	—	(4,940)	—	—
Other income	14,537	20,422	22,822	51,788	50,326	59,594	72,858
Free cash flow	**135,083**	**186,976**	**108,636**	**88,399**	**237,412**	**233,838**	**248,753**
Ratios (%)							
Debt/equity	5.0	3.3	2.8	3.2	3.2	5.3	8.5
Net debt/equity	(10.7)	(27.5)	(29.0)	(32.9)	(40.5)	(44.2)	(48.5)
RoAE	25.9	25.5	24.8	21.5	19.7	21.0	21.4
RoACE	**22.0**	**22.1**	**21.9**	**18.9**	**17.7**	**18.9**	**19.6**
Key assumptions							
Rs/dollar rate	44.3	45.3	40.3	45.8	48.0	47.8	47.5
Crude fob price (US$/bbl)	57.2	64.8	78.9	83.0	60.0	65.0	70.0
Ceiling/actual natural gas price (Rs/'000 cm)	3,515	3,200	3,200	3,200	3,200	3,750	4,500
Subsidy loss (Rs bn)	119.6	170.2	220.0	282.3	80.0	120.0	160.0

Source: Company, Kotak Institutional Equities estimates

Bharti Airtel (BHARTI)

Telecom

ADD

JULY 24, 2009

RESULT

Coverage view: Cautious

Price (Rs): 814

Target price (Rs): 850

BSE-30: 15,231

On predictable lines. Bharti reported 1QFY10 performance in line with our expectations and those of consensus. The results highlighted the sustained pressure on the core business metrics led by increasing competition and the economic slowdown, though Bharti has absorbed the impact remarkably well. Bharti's strong positioning in the Indian wireless space and superior execution underpins our ADD rating within our Cautious sector view. The proposed MTN deal is an unjustified overhang on the stock.

Company data and valuation summary

Bharti Airtel

Stock data			
52-week range (Rs) (high,low)			518-242
Market Cap. (Rs bn)			1,545.6
Shareholding pattern (%)			
Promoters			67.2
FIIs			20.7
MFs			3.1
Price performance (%)	1M	3M	12M
Absolute	2.0	8.6	1.8
Rel. to BSE-30	(4.1)	(20.6)	(0.1)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	44.6	53.8	61.3
EPS growth (%)	26.4	20.5	13.9
P/E (X)	18.2	15.1	13.3
Sales (Rs bn)	369.6	424.9	487.4
Net profits (Rs bn)	84.7	102.1	116.3
EBITDA (Rs bn)	151.6	177.0	197.3
EV/EBITDA (X)	10.7	9.0	7.7
ROE (%)	31.4	28.0	24.6
Div. Yield (%)	0.5	0.7	1.0

In-line operational performance, forex gains drive net income growth

Bharti reported net income of Rs25. 2 bn (+12.4% qoq, 24.3% yoy), higher than our expectations of Rs23.5 bn but led by a large forex gain of Rs2.5 bn. EBITDA of Rs41.5 bn (+3.8 % qoq, 18% yoy) was marginally ahead of our expectations. EBITDA margin increased to 41.7% from 40.7%—a major portion attributable to the elimination of a part of the termination fees/ charges from revenues and cost and the rest to operational efficiencies. Reported revenues grew 1.2% qoq; revenue line was impacted by ~4% on reduction of termination charges. Key wireless metrics like ARPU and MOU were weaker than expected, even after adjusting for a termination rate cut.

Competition to intensity further, Bharti better positioned than peers

We like Bharti' positioning and believe that it can tide over the industry wide challenges in the longer term on account of superior execution, lower cost of producing a minute, low leverage and balance sheet strength. However in a deteriorating industry environment, even Bharti would not be immune from the pressures in the near term. Launch of new GSM network by existing/ new players in highly penetrated urban markets is bound to create overcapacity and may drive irrational tariff structuring; we have already seen a few instances of the same and do not rule out further moves by new players.

Estimates raised; Bharti remains our preferred wireless pick

We raise our FY2010E, FY2011E and FY2012E EPS to Rs53.8, Rs61.3 and Rs68.9 versus Rs52.2, Rs59.8 and Rs66.1 earlier. The earnings revision is largely on account of (1) better-than-expected cost management; we marginally increase our EBITDA numbers and (2) adjustments on Errs for each of the next three years. We raise our 12-month forward DCF-based target price to Rs850/ share (Rs775 earlier). We increase our core business value to Rs740 (partly roll-over, partly estimates change) and build in value of Rs115 for its 42% stake in Indus. We maintain our ADD rating.

QUICK NUMBERS

- Overall revenues flat, EBITDA up 3.8% and PAT up 12.4% qoq
- Wireless ARPU declines 8.7% qoq to Rs278
- Revise EPS estimates upwards; raise target price to Rs850 (Rs775 earlier)

Marginal changes to our estimates

Exhibit 2 of this note gives the changes to our earnings model for Bharti. We highlight the key changes in assumptions below:

- Aggressive tariff offers (including free minutes), expansion in rural market and front-loading of subs base (greater proportion of new marginal subs) may make achieving historical levels of minutes elasticity (0.5-0.7X) difficult, in our view (1QFY10 results also demonstrates the same). Accordingly, we reduce our MOU assumptions for FY2010E and FY2011E by 5% each to 492 and 498, respectively.

- We marginally tweak our RPM assumptions for FY2010E and model gradual impact of competitive pressure on tariffs. We model RPM of Rs0.0.55 for FY2010E (versus Rs0.54 earlier); RPM for FY2011E and beyond changes marginally. ARPU assumptions go down by 4-5%.

- We reduce our revenue estimates led by lower-than-expected revenue performance across all segments but model higher margins noting impressive cost management.

Our mobile EBITDA margins move up 140 bps in FY2010E and 170 bps in FY2011E. Our estimates are consolidated for the passive infrastructure business and proportionate stake in the Indus JV. We move our DCF-based target price to Rs850 (Rs775/ earlier) valuing our core business at Rs740 and 42% stake in Indus at Rs110. Exhibit 3 at the end of this note gives the standalone DCF valuation for Bharti Airtel.

1QFY10 RESULTS ANALYSIS

Revenues impacted by reduction in termination charges

Bharti's reported revenues of Rs99.4bn (+1.2% qoq, 17.2% yoy) were lower than our expectation of Rs101.3 bn. Revenues across divisions were impacted by reduction in termination fee to Re0.2/ min from Re0.3 earlier. Adjusted for this change, revenues would have grown at 5% sequentially. The revenue profile was weak across the board, partly led by ARPU (pressure on tariff and weak profile of incremental pressures) pressure in the wireless segment and partly due to the impact of economic slowdown across segments.

Increase in adjusted operating margin led by aggressive cost control

Bharti's EBITDA margin increased 110 bps qoq to 41.8% led by (1) lowered termination charges by the regulator weft From April 2009 leading to a similar amount removed from revenue and EBITDA line; this optically increase margin by 80 bps and (2) reduction in license and spectrum fees.

Wireless segment—Mousy decline further, RPM also under pressure

Bharti's wireless segment revenues were flat sequentially at Rs82.3 bn, adjusted for termination charge reduction, revenues grew 4% qoq. EBITDA grew 5% qoq and 28% yoy to Rs27.2 bn. EBITDA margin increased 150 bps qoq.

Key wireless metrics was under pressure; ARPU declined to Rs278 (Rs12 on lower termination charges and Rs15 on lower RPM and MOU). RPM declined to 0.58 from 0.63 in the previous quarter; 0.02 on lower MTC and balance on pressure on tariffs.

In our view, a continued decline in MOU (down 1.4% qoq and 10.5% yoy to 478) is a serious concern. With pressures on tariff imminent, we believe higher usage is the only way to somewhat offset the impact of pricing. Bharti attributed most of the decline to expansion in rural markets, where weaker ecosystems has lead to lower usage. Bharti also indicated that elasticity across subs spectrum is difficult to achieve. Uptick in usage after cut in STD tariffs in the previous year also appears to be below par; it appears that the company is losing NLD minutes share to RCOM and other smaller competitors. NLD volumes grew at a marginal 1% qoq and 14% yoy.

Passive infrastructure division—surprising jump in rental per tenant

Bharti Infratel, the passive infrastructure division of Bharti, has a 42% stake in Indus Towers and 28,078 towers, which includes seven circles where Indus does not have exclusivity and four circles in which IRU's have not been assigned to Indus. Excluding Indus, Bharti Infratel, reported revenues of Rs8.02 bn (including Rs1.27 bn of IRU payment from Indus), EBITDA margin of 44.4%, and a tenancy of 1.43. Surprising, rental per tenant increased 8% qoq to Rs36,420/month; the increase in the tenancy ratio typically leads to a decline in rental per tenant; this trend may not be sustainable. Indus had 97,925 towers at end-June 2009 with tenancy of 1.55. Bharti consolidated proportionate income of Rs240 mn for its 42% equity stake in Indus. Under US GAAP, Bharti will report revenues from Infratel for the non-Indus towers and account for the equity interest in the Indus as "equity in earnings of associates'.

Capex lower than expected; may pick up in 2H

Capex of Rs27 bn for 1QFY10 was lower than we expected. New cell sites added were a marginal 2,781, the lowest in the last several quarters. Population coverage (wireless) expanded marginally to 82%. Bharti attributed to this consolidation and indicates that capex will likely pick from 2Q. Bharti reiterates its capex guidance of US$2-2.2 bn for FY2010; this excludes Bharti Infratel capex.

No details shared on the DTH business metrics

Bharti did not share DTH business' financials or performance metrics. We note that the DTH business gets clubbed in the 'others' segment. Revenues in the 'other segment' increased to Rs1,027 mn versus Rs949 mn in the previous quarter. EBITDA losses, however, expanded to Rs2.14 bn versus Rs1.4 bn in the March 2009 quarter.

No update provided on MTN deal

Bharti refrained from commenting on the MTN deal. In our view, MTN deal is an unjustified overhang on Bharti stock. We believe that the Man's deal-implied valuation of 13.3X CY2010E earnings and 5.4X EV/EBITDA (CY2010E) is not expensive. We believe the acquisition price will remain attractive even if the deal is sweetened by 10%; Bharti stock already builds in such a probability, in our view. MTN is led by a solid management team, is among the top 2-3 players in most of the market it operates in, has strong cash generation profile and return ratios. This may reduce ability to derive meaningful synergy gains upon merger but, in our view, the deal appears financially sound.

Exhibit 1: Bharti 1QFY10 performance, US GAAP, March fiscal year-ends (Rs mn)

(Rs mn)	1QFY09	4QFY09	1QFY10	qoq (%)	yoy (%)	1QFY10 E	Deviation %)
Consolidated results							
Revenues	**84,833**	**98,245**	**99,416**	**1.2**	**17.2**	**101,297**	**(1.9)**
Operating costs	(49,727)	(58,231)	(57,898)	(0.6)	16.4	(60,069)	(3.6)
EBITDA	**35,106**	**40,014**	**41,518**	**3.8**	**18.3**	**41,228**	**0.7**
EBITDA margin (%)	**41.4**	**40.7**	**41.8**			**40.7**	
Depreciation and Amortization	(9,930)	(13,285)	(14,330)	7.9	44.3	(13,473)	6.4
EBIT	**25,176**	**26,729**	**27,188**	**1.7**	**8.0**	**27,755**	**(2.0)**
EBIT margin (%)	**29.7**	**27.2**	**27.3**			**27.4**	
Net finance (cost)/income	(1,362)	(1,767)	2,660	(250.5)	(295.3)	(461)	(676.5)
PBT	23,814	24,962	29,848	19.6	25.3	27,293	9.4
Tax provision	(3,282)	(2,022)	(4,442)	119.7	35.3	(3,985)	11.5
PAT before minority interest	20,532	22,940	25,406	10.7	23.7	23,308	9.0
Minority interest	(282)	(491)	(479)	(2.4)	69.9	(422)	13.6
Equity in earnings of affiliates	—	(56)	240			255	(5.9)
Repoted net income	**20,250**	**22,393**	**25,167**	**12.4**	**24.3**	**23,142**	**8.8**
Segmental performance							
Wireless							
Revenues	69,150	82,216	82,285	0.1	19.0	83,915	(1.9)
EBITDA	21,218	25,860	27,183	5.1	28.1	26,685	1.9
OPM (%)	30.7	31.5	33.0			31.8	
ARPU (Rs/sub/month)	350	305	278	(8.9)	(20.6)	285	(2.5)
MOU (min/sub/month)	534	485	478	(1.4)	(10.5)	493	(3.0)
RPM (Rs/min)	0.66	0.63	0.58	(7.5)	(11.3)	0.58	0.5
EPM (Rs/min)	0.20	0.20	0.19	(2.4)	(4.2)	0.18	5.0
Telemedia services							
Revenues	7,988	8,585	8,550	(0.4)	7.0	8,885	(3.8)
EBITDA	3,367	3,614	3,463	(4.2)	2.9	3,892	(11.0)
OPM (%)	42.2	42.1	40.5			43.8	
Long distance + Enterprise							
Revenues	19,572	21,628	21,333	(1.4)	9.0	22,617	(5.7)
EBITDA	8,655	9,920	10,468	5.5	20.9	9,951	5.2
OPM (%)	44.2	45.9	49.1			44.0	
Passive infra business							
Revenues	10,563	7,241	8,020	10.8	(24.1)	7,531	6.5
EBITDA	3,870	2,903	3,557	22.5	(8.1)	3,313	7.3
OPM (%)	36.6	40.1	44.4			44.0	
Others							
Revenues	826	945	1,027	8.7	24.3	1,087	(5.5)
EBITDA	(1,244)	(1,378)	(2,136)	55.0	71.7	(1,739)	22.8
OPM (%)	(150.6)	(145.8)	(208.0)			(160.0)	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Summary of key changes to the Bharti model, March fiscal year-ends

	Unit	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Mobile market subs old	mn	513	610	668	704	730	751	767	781
Mobile market subs new	mn	513	610	668	704	730	751	767	781
Revision	*(%)*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Bharti mobile subs old	mn	120.8	140.5	152.1	159.3	164.4	168.6	171.9	174.6
Bharti mobile subs new	mn	120.8	140.5	152.1	159.3	164.4	168.6	171.9	174.6
Revision	***(%)***	***0%***	***0%***	***0%***	***0%***	***0%***	***0%***	***0%***	***0%***
Blended ARPU (incl. inroaming) est. old	Rs	281	268	263	262	265	268	270	273
Blended ARPU (incl. inroaming) est. new	Rs	271	255	250	253	256	258	260	263
Revision	*(%)*	*-4%*	*-5%*	*-5%*	*-4%*	*-4%*	*-4%*	*-4%*	*-4%*
RPM estimate old	Rs/min	0.54	0.51	0.50	0.49	0.49	0.50	0.50	0.50
RPM estimate new	Rs/min	0.55	0.51	0.50	0.50	0.50	0.50	0.50	0.51
Revision	*(%)*	*1%*	*1%*	*0%*	*1%*	*1%*	*1%*	*1%*	*1%*
MOU estimate old	min/month	518	525	529	534	538	540	542	544
MOU estimate new	min/month	492	498	501	510	515	516	518	520
Revision	*(%)*	*-5%*	*-5%*	*-5%*	*-4%*	*-4%*	*-4%*	*-4%*	*-4%*
Consolidated revenues old	(Rs bn)	433	501	556	596	632	664	694	721
Consolidated revenues new	(Rs bn)	425	487	539	584	619	650	679	705
Revision	*(%)*	*-2%*	*-3%*	*-3%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*
Consolidated EBITDA old	**(Rs bn)**	**175.4**	**195.9**	**217.9**	**236.2**	**253.3**	**267.8**	**281.1**	**293.1**
Consolidated EBITDA new	**(Rs bn)**	**177.0**	**197.3**	**218.0**	**238.3**	**254.5**	**268.1**	**280.5**	**292.1**
Revision	***(%)***	***1%***	***1%***	***0%***	***1%***	***0%***	***0%***	***0%***	***0%***
Mobile EBITDA margin old	(%)	30.8	30.2	30.6	31.2	31.7	32.1	32.3	32.5
Mobile EBITDA margin new	(%)	32.2	31.9	32.1	32.7	33.0	33.3	33.3	33.5
Revision	*(bps)*	*139*	*168*	*147*	*151*	*134*	*118*	*102*	*95*
Adjusted PAT old	**(Rs bn)**	**99.1**	**113.6**	**125.4**	**133.5**	**144.6**	**156.3**	**161.8**	**169.6**
Adjusted PAT new	**(Rs bn)**	**102.1**	**116.3**	**130.7**	**143.1**	**157.6**	**165.3**	**170.1**	**178.3**
Revision	***(%)***	***3%***	***2%***	***4%***	***7%***	***9%***	***6%***	***5%***	***5%***
Diluted EPS estimate old	**(Rs)**	**52.2**	**59.8**	**66.1**	**70.3**	**76.2**	**82.4**	**85.2**	**89.3**
Diluted EPS estimate new	**(Rs)**	**53.8**	**61.3**	**68.9**	**75.4**	**83.0**	**87.0**	**89.6**	**93.9**
Revision	***(%)***	***3%***	***2%***	***4%***	***7%***	***9%***	***6%***	***5%***	***5%***
Capex old	**(Rs bn)**	**134.2**	**111.2**	**87.6**	**78.4**	**74.8**	**72.9**	**73.5**	**74.9**
Capex new	**(Rs bn)**	**128.8**	**104.9**	**84.9**	**79.1**	**73.2**	**71.4**	**72.0**	**73.4**
Revision	***(%)***	***-4%***	***-6%***	***-3%***	***1%***	***-2%***	***-2%***	***-2%***	***-2%***
Mobile capex/sales old	(%)	18.7	15.2	11.7	9.4	8.3	7.5	7.3	7.2
Mobile capex/sales new	(%)	16.5	15.2	11.7	9.9	8.4	7.6	7.4	7.3
Revision	*(pps)*	*-2.2*	*0.0*	*0.0*	*0.5*	*0.0*	*0.0*	*0.1*	*0.1*

Source: Kotak Institutional Equities estimates

Exhibit 3: Our 12-month forward DCF-based price target for Bharti Airtel is Rs850/share (including Rs110/share of option value of 42% stake in Indus towers)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	177,008	197,329	217,998	238,324	254,520	268,124	280,545	292,133
Tax	(22,395)	(24,828)	(28,227)	(32,038)	(44,327)	(58,174)	(70,276)	(74,254)
Change in working capital	(3,423)	(848)	(5,483)	(3,206)	(5,478)	(5,395)	(4,776)	(5,685)
Post-tax operating cash flow	**151,190**	**171,653**	**184,287**	**203,080**	**204,715**	**204,555**	**205,493**	**212,194**
Capex	(128,767)	(104,917)	(84,877)	(79,070)	(73,240)	(71,436)	(72,011)	(73,432)
Free cash flow	**22,422**	**66,735**	**99,409**	**124,010**	**131,475**	**133,119**	**133,482**	**138,763**

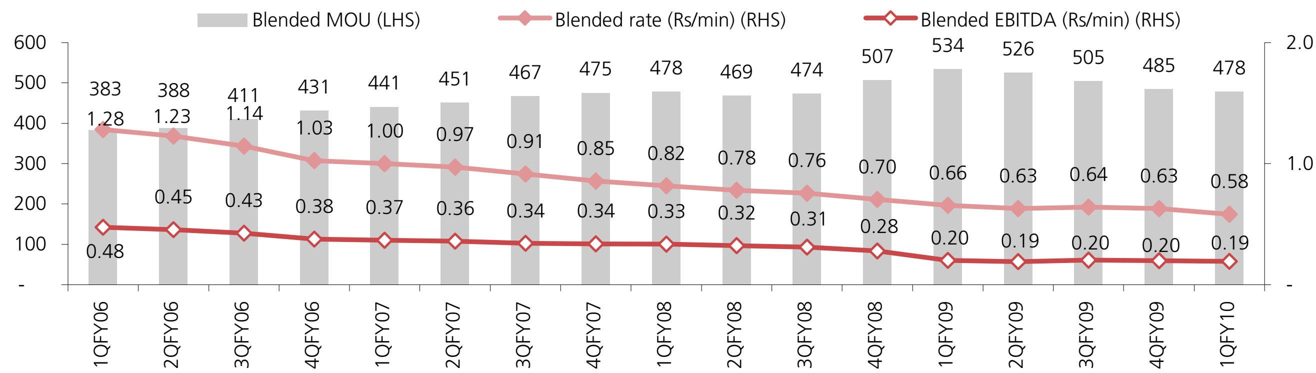
	+ 1-year		WACC and growth in perpetuity assumptions	
PV of cash flows	575,894	39%	**Terminal growth - g (%)**	**5.0**
PV of terminal value	897,855	61%	**WACC (%)**	**12.0**
EV	1,473,749			
Net debt	69,731			
Equity value (Rs mn)	1,404,018			
Equity value (Rs/share)	**740**			
Equity value (US$ mn)	28,080			
Exit FCF multiple (X)				
Exit EBITDA multiple (X)				

Key assumptions (%)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenue growth	15.0	14.7	10.6	8.3	6.1	5.0	4.5	3.9
EBITDA growth	16.8	11.5	10.5	9.3	6.8	5.3	4.6	4.1
EBITDA margin	**41.7**	**40.5**	**40.5**	**40.8**	**41.1**	**41.2**	**41.3**	**41.4**
Capex/sales	30.3	21.5	15.7	13.5	11.8	11.0	10.6	10.4
Cash tax rate	18.3	18.2	18.3	18.4	23.0	28.0	32.0	32.0
Effective tax rate	14.7	16.5	18.7	21.3	22.0	24.5	26.8	27.7
Return on avg. capital employed	**23.2**	**22.7**	**22.7**	**23.2**	**24.3**	**24.5**	**24.5**	**25.2**

Source: Kotak Institutional Equities estimates

Exhibit 4: Tariff pressure showed up again on reported RPM/EPM; also impacted in part by cut on termination charges

Bharti's blended revenue and blended EBITDA on a per minute basis (Rs/min)



Note:
(a) Blended rate = RPM = ARPU/MOU.

Source: Company

Exhibit 5: Consolidated profit and loss for Bharti Airtel, March fiscal year-ends, 2008-2017E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues										
Wireless	217,861	303,601	349,231	400,596	439,060	472,377	496,467	515,286	531,667	545,995
Fixed line	28,484	33,517	35,843	40,621	44,690	48,163	51,408	54,448	57,317	60,014
DLD	22,103	41,835	47,375	52,579	56,888	60,480	63,365	65,670	67,506	68,960
ILD	21,067	26,102	28,787	31,564	34,371	37,087	40,023	43,216	46,693	50,487
Enterprise services	13,217	16,945	18,640	20,131	21,238	22,300	23,415	24,585	25,815	27,105
Others	2,431	3,611	4,694	6,103	7,323	8,055	8,861	9,747	10,722	11,794
Less: Intersegment eliminations	*(40,936)*	*(98,485)*	*(93,748)*	*(101,579)*	*(107,683)*	*(112,527)*	*(116,633)*	*(120,143)*	*(123,351)*	*(126,182)*
Consolidated revenues	**270,250**	**369,615**	**424,901**	**487,351**	**538,915**	**583,610**	**619,320**	**650,043**	**678,987**	**705,302**
Interconnection costs	(41,110)	(52,903)	(46,909)	(53,583)	(57,936)	(63,241)	(67,703)	(71,530)	(75,221)	(78,203)
License fees and spectrum charges	(26,900)	(38,266)	(43,159)	(50,394)	(55,669)	(60,129)	(63,607)	(66,560)	(69,280)	(71,888)
Network operating costs	(33,002)	(59,355)	(77,141)	(95,865)	(108,230)	(115,779)	(121,341)	(125,999)	(130,759)	(134,846)
Sales and marketing expenses	(19,058)	(26,760)	(34,527)	(39,566)	(43,778)	(47,120)	(49,915)	(52,367)	(54,606)	(56,686)
Employee costs	(14,768)	(16,992)	(19,434)	(21,734)	(24,402)	(26,454)	(28,366)	(30,228)	(32,146)	(34,050)
G&A costs	(22,187)	(23,776)	(26,723)	(28,880)	(30,903)	(32,563)	(33,868)	(35,236)	(36,431)	(37,497)
Consolidated EBITDA	**113,225**	**151,563**	**177,008**	**197,329**	**217,998**	**238,324**	**254,520**	**268,124**	**280,545**	**292,133**
Other income incl. Interest income	4,136	645	5,450	3,887	7,403	11,438	16,965	21,618	25,163	27,636
Interest expense	(4,054)	(11,613)	(3,028)	(1,354)	(225)	—	—	—	—	—
Amortization of entry fee	(1,829)	(2,122)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)
Depreciation	(34,942)	(45,344)	(58,991)	(63,312)	(69,713)	(74,935)	(77,727)	(80,886)	(85,143)	(86,358)
Pretax profits	**76,536**	**93,129**	**119,290**	**135,403**	**154,315**	**173,678**	**192,609**	**207,707**	**219,416**	**232,263**
Extraordinary income/(charges)	—	—	—	—	—	—	—	—	—	—
Prior period adjustments	—	—	—	—	—	—	—	—	—	—
Current tax expense	(8,414)	(7,371)	(21,840)	(24,583)	(28,186)	(32,038)	(44,327)	(58,174)	(70,276)	(74,254)
Deferred tax (liability)/asset	36	756	4,321	2,293	(727)	(4,952)	1,901	7,282	11,557	9,984
Minority interest expense	(1,151)	(1,759)	(1,469)	(2,708)	(3,523)	(4,075)	(4,381)	(4,849)	(5,329)	(5,776)
Equity in earnings of affiliates		(56)	1,779	5,880	8,858	10,454	11,826	13,294	14,717	16,098
Reported net profits	**67,007**	**84,699**	**102,081**	**116,285**	**130,737**	**143,068**	**157,628**	**165,260**	**170,085**	**178,315**
Adjusted net profits	**67,007**	**84,699**	**102,081**	**116,285**	**130,737**	**143,068**	**157,628**	**165,260**	**170,085**	**178,315**
Adjusted EPS (Rs)	**35.3**	**44.6**	**53.8**	**61.3**	**68.9**	**75.4**	**83.0**	**87.0**	**89.6**	**93.9**
Shares outstanding (mn)	1,898	1,899	1,899	1,899	1,899	1,899	1,899	1,899	1,899	1,899
Current tax rate (%)	11.0	7.9	18.3	18.2	18.3	18.4	23.0	28.0	32.0	32.0
Effective tax rate (%)	10.9	7.1	14.7	16.5	18.7	21.3	22.0	24.5	26.8	27.7
Growth (%)										
EBITDA	52.3	33.9	16.8	11.5	10.5	9.3	6.8	5.3	4.6	4.1
Net profits	65.0	26.4	20.5	13.9	12.4	9.4	10.2	4.8	2.9	4.8
EPS	65.0	26.4	20.5	13.9	12.4	9.4	10.2	4.8	2.9	4.8
Margin (%)										
EBITDA	41.9	41.0	41.7	40.5	40.5	40.8	41.1	41.2	41.3	41.4
Net profits	24.8	22.9	24.0	23.9	24.3	24.5	25.5	25.4	25.0	25.3
EBIT	28.3	28.2	27.5	27.3	27.3	27.8	28.4	28.6	28.6	29.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Consolidated balance sheet for Bharti Airtel, March fiscal year-ends, 2008-2017E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Equity										
Share capital	18,979	18,985	18,985	18,985	18,985	18,985	18,985	18,985	18,985	18,985
Warrants	—	—	—	—	—	—	—	—	—	—
Reserves/surplus	203,606	284,960	384,183	496,981	609,683	711,773	805,405	883,572	943,379	988,131
Total equity	**222,585**	**303,945**	**403,168**	**515,966**	**628,668**	**730,758**	**824,390**	**902,557**	**962,364**	**1,007,116**
Minority shareholding	3,013	10,704	12,173	14,880	18,403	22,478	26,858	31,707	37,036	42,812
Deferred tax liability	1,940	7,556	3,235	942	1,669	6,621	4,720	(2,562)	(14,119)	(24,103)
Liabilities										
Secured loans	90,969	118,801	79,151	23,836	—	—	—	—	—	—
Unsecured loans	—	—	—	—	—	—	—	—	—	—
Total borrowings	**90,970**	**118,801**	**79,151**	**23,836**	—	—	—	—	—	—
Currrent liabilities	154,135	162,941	165,220	172,428	176,209	180,426	182,949	186,071	190,363	194,283
Total capital	**472,643**	**603,947**	**662,946**	**728,052**	**824,949**	**940,282**	**1,038,917**	**1,117,774**	**1,175,643**	**1,220,108**
Assets										
Cash	55,006	49,070	31,960	42,671	107,430	201,899	286,344	353,987	402,353	435,189
Current assets	58,776	95,009	100,711	108,767	118,031	125,454	133,455	141,972	151,040	160,645
Gross block	408,408	532,177	660,944	765,862	850,739	929,809	1,003,049	1,074,485	1,146,496	1,219,928
Less: accumulated depreciation	102,406	147,750	206,741	270,053	339,765	414,700	492,428	573,314	658,457	744,816
Net fixed assets	**306,002**	**384,427**	**454,203**	**495,809**	**510,974**	**515,109**	**510,622**	**501,171**	**488,039**	**475,112**
Capital work-in-progress	24,709	24,709	24,709	24,709	24,709	24,709	24,709	24,709	24,709	24,709
Total fixed assets	330,711	409,136	478,912	520,518	535,683	539,818	535,330	525,880	512,748	499,821
Entry fees unamortized	11,698	40,364	39,216	38,068	36,920	35,772	34,624	33,476	32,328	31,180
Investments	16,425	10,341	12,121	18,000	26,858	37,312	49,138	62,432	77,148	93,246
Deferred expenditure	27	27	27	27	27	27	27	27	27	27
Deferred tax asset	—	—	—	—	—	—	—	—	—	—
Total assets	**472,643**	**603,947**	**662,946**	**728,051**	**824,948**	**940,282**	**1,038,917**	**1,117,774**	**1,175,643**	**1,220,108**
Leverage ratios (%)										
Debt/equity	40.9	39.1	19.6	4.6	—	—	—	—	—	—
Debt/capitalization	29.0	28.1	16.4	4.4	—	—	—	—	—	—
Net debt/equity	16.2	22.9	11.7	(3.7)	(17.1)	(27.6)	(34.7)	(39.2)	(41.8)	(43.2)
Net debt/capitalization	13.9	18.7	10.5	(3.8)	(20.6)	(38.2)	(53.2)	(64.5)	(71.8)	(76.1)
RoAE	39.7	32.2	28.9	25.3	22.8	21.0	20.3	19.1	18.2	18.1
RoAE (excl cash and interest income)	**45.5**	**38.9**	**30.6**	**26.6**	**25.0**	**25.3**	**26.8**	**27.4**	**27.8**	**29.0**
ROACE	29.2	25.4	21.3	21.3	21.0	20.1	18.4	16.7	15.6	15.7
RoACE (excl cash and interest income)	**31.9**	**29.5**	**23.2**	**22.7**	**22.7**	**23.2**	**24.3**	**24.5**	**24.5**	**25.2**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bharat Heavy Electricals (BHEL)

Industrials

REDUCE

JULY 24, 2009

RESULT

Coverage view: Neutral

Price (Rs): 2,168

Target price (Rs): 2,100

BSE-30: 15,231

Highlight stronger business outlook, valuations remain expensive. BHEL highlighted stronger business conditions led by (1) incremental track record of winning orders from the private sector, (2) licensing restriction on Chinese equipment suppliers, and (3) favorable currency. BHEL seems confident of its near-term numbers with 25% revenue growth and about 350 bps margin expansion. We revise our earnings estimates and target price to Rs2,100/share and retain our REDUCE rating on high valuations.

Company data and valuation summary

Bharat Heavy Electricals

Stock data			
52-week range (Rs) (high,low)			2,400-981
Market Cap. (Rs bn)			1,061.4
Shareholding pattern (%)			
Promoters			67.7
FIIs			17.0
MFs			5.1
Price performance (%)	1M	3M	12M
Absolute	(1.2)	31.9	25.5
Rel. to BSE-30	(7.1)	(3.5)	23.1

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	64.1	93.0	116.3
EPS growth (%)	9.8	45.0	25.0
P/E (X)	33.8	23.3	18.7
Sales (Rs bn)	262.3	330.0	408.5
Net profits (Rs bn)	31.4	45.5	56.9
EBITDA (Rs bn)	38.0	60.8	78.5
EV/EBITDA (X)	25.3	15.8	12.1
ROE (%)	26.4	31.0	30.7
Div. Yield (%)	0.8	0.9	1.1

Business conditions appear structurally more positive

Key highlights from the BHEL conference call highlight structurally more positive business conditions led by (1) build-up of a strong incremental track record of winning orders from private sector, (2) likely licensing restriction on Chinese equipment suppliers supplying supercritical equipment in India, (3) favorable currency movement blunting competition, and (4) proposed changes in mega power policy that may boost power capacity addition and provide some advantage for domestic suppliers through purchase price preference.

Management confident about near-term numbers

BHEL's management remained confident about its near-term numbers based on (1) confidence in margin expansion of 200 bps led by the effect of lower commodity prices and employee expenses being limited to Rs45 bn for full year, implying sharp margin expansion, (2) 25% revenue growth guidance in this year versus 20% earlier and (3) higher order inflow guidance of Rs550 bn versus Rs500 bn earlier, not accounting for the bulk tendering from NTPC/DVC.

Revise earnings estimates and target price to Rs2,100/share; reiterate REDUCE rating

We have revised our earnings estimates for FY2010E to Rs93 (from Rs93 earlier) and FY2011E to Rs116.3 from Rs107 earlier. Changes to earnings estimate are based on moderate changes to execution and margin assumptions. We have revised our target price to Rs2,100 retaining the target multiple of 18X FY2011E earnings estimates. BHEL is better positioned in terms of meeting competition as well as recent gains in track record of winning the private sector orders. However, high valuation of 19X P/E and 12X EV/EBITDA based on FY2011E earnings estimates precludes a more positive view on the stock. We reiterate our REDUCE rating based on (a) high valuations, (b) upcoming domestic competition, (c) potential for underperformance versus peers as economic outlook improves and (d) margin expansion from commodity and employee expenses is already priced in.

Several factors likely to lead to margin expansion in FY2010E

Attributes high raw material costs to delivering advanced gas turbine supply (as buy and sell products) and utilization of old inventory

BHEL reported a 490 bps yoy increase in raw material costs in 1QFY10. The management attributed the increase in raw material expenses as a percentage of sales primarily to the supply of three gas turbines to Pragati and ONGC Hazira. These new advanced class turbines were supplied on a "purchase and sell" basis which suppressed the margins. BHEL typically imbibes the manufacturing process over eight to ten units of supply for any new product introduction. Adjusted for this, the raw material costs as a percentage of sales would have been at 60.8% for the quarter versus 63.4% reported. Additionally, the management also highlighted that BHEL typically works with an inventory of 9-10 months and hence the materials purchased from September 2008 would start getting used from 2Q. The management was confident that material cost as a percentage of sales would be lower by 200 bps in FY2010E over FY2009.

Full-year employee cost estimated at Rs45 bn still below our full year estimate of Rs49 bn, versus the disappointment in 1Q

BHEL expects full-year employee expenses of about Rs45 bn for FY2010E below our estimates of Rs49 bn. The Rs2.2 bn rise in employee costs for the quarter was led by (1) absence of reversal of provision for PF leave encashment which was present last year to the tune of about Rs510 mn, (2) increase in wage provisions by about Rs300 mn, (3) Rs300 mn increase due to provisioning for its employee incentive scheme (incentive of Rs1.2 bn versus Rs0.8 bn last year) and (4) Rs990 mn towards the normal increase in wage costs and number of employees. We highlight that we have currently built in wage cost of about 15.4% of FY2010E sales versus 14.2% implied by Rs45 bn of wage costs and 18.9% reported in FY2009E, including all provisions.

Management maintains 200 bps likely expansion from RM and employee costs of Rs45 bn; imply sharp operating margin expansion potential in FY2010E

BHEL management maintained that manufacturing costs are likely to decline by about 200 bps yoy led by a decline in raw material procurement costs. Furthermore, employee costs of Rs45 bn for net revenues of about Rs320 bn would imply a 160 bps yoy decline in employee costs as a percentage of sales. This implies 360 bps margin expansion expectation in FY2010E not accounting for margin improvement led by other sources of operating leverage led by higher volumes.

Other expenses for the quarter were lower by about Rs1 bn led by lower provisions for liquidity damages and doubtful debts. BHEL had incurred expenses for liquidity damages and doubtful debts to the tune of about Rs1.2 bn in 1QFY09 which were absent in 1QFY10.

Results miss estimates led by disappointing margins
BHEL 1QFY10 result - key numbers (Rs mn)

					% change					
	1QFY10	1QFY10E	1QFY09	4QFY09	1QFY10E	1QFY09	4QFY09	FY2010E	FY2009	% change
Net revenues	**55,957**	**54,047**	**43,292**	**105,401**	***3.5***	***29.3***	***(46.9)***	**317,922**	**262,342**	***21.2***
(Inc)/Dec in WIP	301	0	(144)	1,722		*(309.1)*	*(82.5)*	-	11,515	*(100.0)*
Raw material cost	(35,753)	(31,347)	(25,179)	(69,227)	*14.1*	*42.0*	*(48.4)*	(179,024)	(171,204)	*4.6*
Staff cost	(11,137)	(9,500)	(8,953)	(14,075)	*17.2*	*24.4*	*(20.9)*	(49,119)	(41,128)	*19.4*
Other items	(4,206)	(6,486)	(5,280)	(6,858)	*(35.2)*	*(20.3)*	*(38.7)*	(28,637)	(23,511)	*21.8*
Total Expenditure	(50,795)	(47,333)	(39,555)	(88,438)	*7.3*	*28.4*	*(42.6)*	(256,779)	(224,328)	*14.5*
Operating profit	**5,162**	**6,714**	**3,737**	**16,963**	***(23.1)***	***38.1***	***(69.6)***	**61,143**	**38,014**	***60.8***
Other income	3,029	3,031	2,917	5,072	*(0.1)*	*3.8*	*(40.3)*	13,642	14,124	*(3.4)*
EBIDT	8,190	9,745	6,655	22,035	*(16.0)*	*23.1*	*(62.8)*	74,785	52,138	*43.4*
Interest	(43)	(29)	(26)	(81)	*49.9*	*67.2*	*(47.1)*	(114)	(307)	*(62.8)*
Depreciation	(961)	(1,006)	(726)	(1,008)	*(4.5)*	*32.4*	*(4.7)*	(4,026)	(3,343)	*20.4*
PBT	**7,187**	**8,710**	**5,903**	**20,945**	***(17.5)***	***21.7***	***(65.7)***	**70,645**	**48,489**	***45.7***
Tax	(2,481)	(3,049)	(2,059)	(7,471)	*(18.6)*	*20.5*	*(66.8)*	(25,079)	(17,103)	*46.6*
PAT	**4,706**	**5,662**	**3,844**	**13,475**	***(16.9)***	***22.4***	***(65.1)***	**45,566**	**31,385**	***45.2***
	9.61									
Key ratios (%)										
Raw Material to Sales	63.4	58.0	58.5	64.0		*4.9*		56.3	60.9	
Staff Cost to sales	19.9	17.6	20.7	13.4				15.4	15.7	
Other exp to sales	7.5	12.0	12.2	6.5				9.0	9.0	
OPM	**9.2**	**12.4**	**8.6**	**16.1**				**19.2**	**14.5**	
EBIDTA margin	14.6	18.0	15.4	20.9				23.5	19.9	
Effective tax rate	34.5	35.0	34.9	35.7				35.5	35.3	
Order backlog (Rs bn)	1,240,000		950,000	1,207,075		*30.5*	*2.7*	1,267,041	1,207,075	*5.0*
Order inflow (Rs bn)	90,921		134,297	164,054		*(32.3)*	*(44.6)*	481,605	597,000	*(19.3)*

Source: Company, Kotak Institutional Equities estimates

Large proportion of private sector orders—crucial positive

We believe that the large proportion of private sector orders is a crucial positive for BHEL considering the increasing role of private sector players in the XIIth plan onwards. Of the Rs91 bn of order inflows during 1Q, 90% of the orders originated from the private sector. This is a key positive development for BHEL which has been historically quite weak in the private space. We believe that private sector is likely to play an incrementally important role in the XIIth plan period and hence BHEL's ability to win orders from private sector is critical. Recent private sector orders include order from Avantha group (1X 600 MW), Hindalco (6X 150 MW), Adhunik Power (270 MW). BHEL had recently won 4X 600 MW order from Jindal Power and has reported a likely order win of 6X 600 MW from an unspecified private sector player.

List of orders bagged by BHEL since FY2009

Order, Client	Configuration	Value (Rs mn)	Date
Order received in FY2010 so far			
Adhunik Power and Natural Resources Limited	270 MW	6,400	14-Jul-09
Chennai Petroleum Corporation Limited (CPCL)	20 MW	1,700	29-Jun-09
Indian Oil Corporation (IOC)	50 MW	1,050	22-Jun-09
HINDALCO	6X 150 MW	20,075	12-Jun-09
Sultanate of Oman	2X 126 MW	3,750	3-Jun-09
Ideal Energy Projects Limited	270 MW	7,030	25-May-09
Korba West Power Company Limited	600 MW	14,750	14-May-09
Total Orders received in FY10 so far	**2362.0**	**54,755**	
Order received in FY2009			
Nuclear Power Corporation of India limited (NPCIL)	2X 700 MW	3,450	27-Mar-09
Powergen Infrastructure		810	9-Mar-09
Madhya Pradesh Power Generating Company Limited (MPPGCL)	2X 600 MW	31,500	23-Feb-09
NTPC Ltd., NLC Tamil Nadu Power Limited (NTPL) and Mahagenco	3250 MW	70,000	9-Feb-09
Petroleum Development Oman (PDO)	126 MW	19,400	11-Jan-09
Jindal Power Ltd	4X 600 MW	50,400	26-Dec-09
NTPC Ltd	2X 500 MW	21,000	24-Dec-08
Bina Power Supply Company Limited (BPSCL)	2X 250 MW	11,750	22-Dec-08
Coastal Gujarat Power Limited (CGPL), a Tata Power company	5X 800 MW	2,400	24-Nov-08
APGENCO	1X 600 MW	13,250	18-Nov-08
NTPC Ltd	2X 660 MW	14,740	23-Oct-08
Satluj Jal Vidyut Nigam Limited (SJVNL)	6x 68.67 MW	6,410	21-Oct-08
Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL)	2X250	9,900	30-Sep-08
SAIL		3,380	25-Sep-08
ONGC Tripura Power Company Limited (OTPCL)	2X 363.3 MW	22,000	9-Sep-08
GVK Power Ltd	2X 270 MW	11,550	29-Aug-08
International Energy Resources (IER), UAE	2X 42 MW	1,400	26-Aug-08
Ministry of Infrastructure, Government of the Republic of Rwanda	2X 14 MW	4,000	8-Aug-08
Andhra Pradesh Power Development Company Limited (APPDCL)	2X 800 MW	25,000	5-Aug-08
Nam Chien Hydropower Joint Stock Company, Vietnam	2X 100 MW	2,000	4-Aug-08
International Energy Resources, UAE	2X 42 MW	1,600	16-Jul-08
Tamil Nadu Electricity Board TNEB, North Chennai Thermal Power Station	1X 600 MW	21,750	11-Jul-08
Public Establishment of Electricity for Generation and Transmission, Ministry of Electricity, Syria	2X 200 MW	20,800	30-Jun-08
Oil and Natural Gas Corporation Limited ONGC		5,060	26-Jun-08
Damodar Valley Corporation DVC	1X 500 MW	18,400	20-Jun-08
Pragati Power Corporation Limited	1X 1371 MW	35,880	9-Jun-08
Chhattisgarh State Electricity Board	3X 500 MW	33,680	28-Apr-08
Total Orders received in FY09	**24341.6**	**461,510**	

Source: Company, Kotak Institutional Equities

Licensing restrictions on Chinese players supplying in India is beneficial

Alstom and CEA have noted that Chinese players may not have territorial licenses to supply products with certain configurations of super critical technology in India. This is positive as that would limit competition for BHEL as it sets foot in that space.

The bulk order of 11 units of supercritical orders (9 units from NTPC and 2 from DVC) is open only to companies with domestic manufacturing facilities with an aim to boost domestic capabilities of manufacturing supercritical equipment. This effectively bars imports-based players from participating in the bulk tendering process. The bulk tendering is likely to be opened in September 2009 and the orders are likely to be finalized by 1Q-2QFY11.

Import competition further suppressed by favorable currency movements

We highlight that competition from Chinese players has been further dampened by favorable Dollar-Rupee movement. The Chinese equipments are quoted at dollar prices and hence the current Rupee depreciation has made these equipments less viable.

Maintains higher inflow guidance of Rs550 bn irrespective of bulk tendering

BHEL management guided for a revenue growth guidance of 25% for FY2010E and improved profitability which would lead to a bottom line growth of over 30% yoy. BHEL had previously announced a gross revenue guidance of Rs310 bn for FY2010E and a stretch target of Rs320 bn which implied a growth of about 20% yoy. BHEL management also highlighted that they are aiming to achieve order booking of about Rs550 bn in FY2010E versus Rs500 bn announced earlier. Order booking would be driven by Rs400 bn from the power segment and Rs150 bn from the industrial segment.

The BHEL management highlighted that it would be able to achieve this without counting the wins from its bulk tendering. The company is confident of winning about eight supercritical orders during the year from its own JVs as well as other tenders.

Proposed modifications to Mega Power Policy to boost power projects may boost BHEL prospects as well

The power ministry has submitted a proposal for changes to the mega power policy with the aim of give an impetus to the development of large-size power projects and derive benefit from economies of scale. New mega power policy government is removing the two key conditions on which most projects fail to qualify as mega power projects i.e. interstate sale of power and mandatory privatization of distribution of electricity in cities with more than 1 mn population. Thus, most projects would qualify for mega power status and by extension more projects would qualify for customs duty free import in case of imports and a 15% purchase preference for domestic power equipment players. If 15% purchase price preference for domestic players is extended in the new mega power policy that may provide advantage for BHEL versus imported competition (even though advantage would be partly negated by custom duty free import of equipment). Other proposed changes to mega power policy include (1) no further requirement of international competitive bidding for procurement of equipment for the power projects if the quantity of power has been tied up earlier, (2) merchant sale allowed upto a maximum of 40% of saleable energy for hydel projects and 15% for thermal projects.

Strong revenue growth in 1Q slightly marred by lower margins

BHEL reported 1QFY10 revenues of Rs56 bn slightly higher than our estimate of Rs54 bn recording a strong yoy growth of 29.3%. Disappointing operating profit margin of 9.2%, versus our expectation of 12.4%, led to a miss of net earnings estimates. The miss in margins was primarily led by higher-than-expected raw material costs and employee expanses as a percentage of sales. The raw material cost is likely to decline in the next few quarters led by lower proportion of subcontracting and effect of lower commodity prices starting to kick in. BHEL reported net income of Rs4.7 bn, up 22.4% yoy, significantly lower than our estimate of Rs5.7 bn.

Revenue growth driven by power segment: We highlight that power segment revenues have seen strong growth of 30% yoy to Rs45.7 bn in 1QFY10 from Rs35.1 bn in 1QFY09. The power segment is likely to have improved working capital levels reflected by lower capital employed. Capital employed for the segment has gone down from –Rs5.7 bn to –Rs13.5 bn. Some weakness was seen in the industrials segment which reported a sedate yoy growth of 3.7% in 1QFY10. Margins for the segment also declined by 190 bps yoy to 12.2% from 14.1% in 1QFY09.

BHEL 1QFY10 segmental result - key numbers (Rs mn)

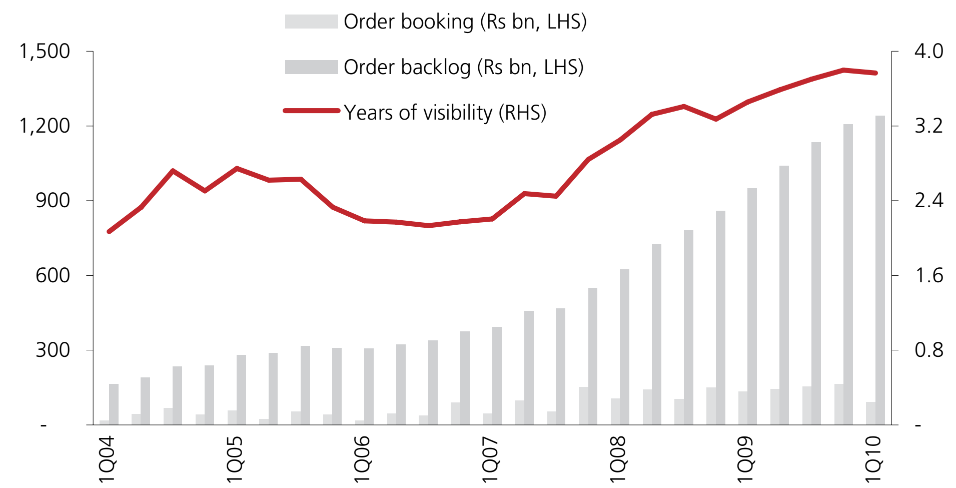
	1QFY10	1QFY09	4QFY09	% change 1QFY09	% change 4QFY09	FY2010E	FY2009	% change
Segmental revenues								
Power	45,688	35,087	86,079	*30.2*	*(46.9)*	262,132	213,444	*22.8*
Industry	13,325	12,851	27,161	*3.7*	*(50.9)*	87,637	72,495	*20.9*
Revenue mix (%)								
Power	77.4	73.2	76.0			74.9	74.6	
Industry	22.6	26.8	24.0			25.1	25.4	
EBIT margin (%)								
Power	18.1	18.7	20.1				18.1	
Industry	12.2	14.1	21.5				16.8	

Source: estimates, Company, Kotak Institutional Equities

Strong order backlog of Rs1,240 bn; visibility maintained at 3.8 years

BHEL reported a strong order backlog of Rs1,240 bn at the end of 1QFY10 up 30% yoy. The order backlog implies an order inflow of Rs91 bn during the quarter reflecting a decline of 30% yoy. The order backlog provides a visibility of 3.8 years based on forward four quarter revenues.

Order backlog provides visibility of 3.7 years based on forward four quarter revenues
Order booking, Order backlog & visibility trend for BHEL



Source: Company, Kotak Institutional Equities estimates

Revise earnings estimates and target price; reiterate REDUCE

We have revised our earnings estimates for FY2010E to Rs93 (from Rs93 earlier) and FY2011E to Rs116.3 from Rs107 earlier. Changes to our earnings estimate are based upon moderate changes to execution and margin assumptions. We have revised our target price to Rs2,100 retaining the target multiple of 18X FY2011E earnings estimates. BHEL is better positioned in terms of meeting competition as well as recent gains in track record of winning the private sector orders. However, the high valuation of 19X P/E and 12X EV/EBITDA based on FY2011E earnings estimates preclude a more positive view on the stock. We reiterate REDUCE based on

We reiterate REDUCE rating on the stock based on:

High valuations - BHEL trades at high P/E valuations of 19X and at EV/EBITDA of 12X based on FY2011E earnings. Such high valuation limits upside from current levels.

Creeping domestic competition – We believe that apart from imports-based competition, even domestic competition is ramping up for BHEL and would lead to pressure on margins and market share over the medium term.

Execution risk based on constrained capacity – BHEL has a very strong backlog, but the focus is on the ability to execute that backlog. BHEL faces the risk of missing on execution expectations based on the slow pace of capacity addition.

Potential for underperformance as economic outlook improves – we highlight that BHEL has outperformed quite significantly in the recent past in a crisis environment because of its public sector ecosystem. However, as the economic outlook improves, BHEL may underperform versus peers for whom the improvement in environment implies uptick in business fundamentals itself. Thus, BHEL may lag in terms of stock performance.

Margin expansion from employee expenses and raw material are priced in - We highlight that our estimates already build in a very sharp margin expansion of about 400 bps in FY2010E over FY2009 on account of lower employee wage provision related expenses as well as benefit of lower commodity prices. Negative surprise on this relatively aggressive base case could originate from delay in realization of benefit from lower commodity prices.

Comparison of rolling one year forward P/E for Industrials versus Sensex

	BHEL	ABB	Siemens	LNT	Crompton	SENSEX
P/E comparison						
Peak P/E (X)	43.1	61.7	50.4	44.0	30.4	21.7
Bottom P/E (X)	6.0	8.0	4.8	7.4	2.7	9.3
P/E correction from peak (%)	47.0	53.7	58.8	43.9	47.7	28.5
Average P/E between Apr-02 to Jul-09 (X)	20.1	28.5	23.5	19.1	13.9	14.7
Average P/E between January 01 to March 04 (X)	7.6	10.9	6.5	9.2	4.6	13.5
Current P/E (X)	22.2	25.9	20.8	23.1	18.7	16.3

Source: Bloomberg, Kotak Institutional Equities estimates

We reiterate REDUCE rating on the stock based on (1) high valuations, (2) rising competition from domestic players , (3) execution risk based on constrained capacity, (4) potential for underperformance as economic outlook improves and (5) margin expansion from employee expenses and raw material are priced in.

kotak Institutional Equities

ITC (ITC)

Consumer Products

BUY

JULY 24, 2009

RESULT

Coverage view: Attractive

Price (Rs): 230

Target price (Rs): 255

BSE-30: 15,231

All is well, BUY. Good show in cigarettes—5% volume growth—and lower FMCG losses validates our positive stance. We reiterate our BUY rating with a revised target price of Rs255 (Rs235 earlier). Increasing competition in Kings segment (Marlboro) is a reality—competitive action by Godfery Philips may expand the segment. The return of volume growth in cigarettes and likely improvement in return ratios of non-cigarette businesses are strong reasons to buy the stock.

Company data and valuation summary

ITC

Stock data			
52-week range (Rs) (high,low)			233-132
Market Cap. (Rs bn)			865.8
Shareholding pattern (%)			
Promoters			0.0
FIIs			14.2
MFs			3.4
Price performance (%)	1M	3M	12M
Absolute	15.6	20.6	20.6
Rel. to BSE-30	8.7	(11.9)	18.3

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	8.7	10.3	11.8
EPS growth (%)	2.8	19.3	14.3
P/E (X)	26.5	22.2	19.5
Sales (Rs bn)	153.9	166.6	193.1
Net profits (Rs bn)	32.6	38.9	44.5
EBITDA (Rs bn)	51.8	60.9	68.4
EV/EBITDA (X)	16.2	13.7	12.0
ROE (%)	25.3	26.3	26.0
Div. Yield (%)	1.6	1.7	2.0

Reiterate BUY, TP increased to Rs255 (Rs235 previously)

- We tweak our estimates as we build in lower FMCG losses (Rs4.2 bn now versus Rs4.6 bn earlier)
- Our EPS forecasts are up 2% for FY2010E and FY2011E—we model EPS of Rs10.3 (Rs10.2 earlier) and Rs11.8 (Rs11.6 earlier)
- We increase our TP to Rs255 (Rs235 earlier) based on FY2011E EPS

Good show in cigarettes (as expected), lower FMCG losses (better than expected)

- In 1QFY10, ITC reported net sales of Rs40.8 bn (+5% yoy, KIE estimate Rs38.9 bn), EBITDA of Rs13.4 bn (+19%, KIE estimate Rs13 bn) and PAT of Rs8.8 bn (+17%, KIE estimate Rs8.4 bn)
- Cigarettes segment grew 14.4% to Rs 41.6bn driven by ~5% volume growth and 8% pricing growth. Other FMCG sales grew 9.5% yoy, losses at Rs0.99 bn better than expected. Agri business profitability doubles to 10.6%

Cigarette volume growth surprise the street positively

- Cigarette volume growth of ~5% was in-line with our expectations, positive surprise for Street
- We maintain our cigarette volume growth estimate of 5.5% for FY2010E and 4% growth in FY2011E

Focus on extant FMCG shifting from size and scale to profitability

- We continue to build higher investments in FMCG and model Rs4.2 bn and Rs3 bn EBIT losses for FY2010E and FY2011E
- We believe the company's efforts to contain losses in extant FMCG while continuing to invest in focus areas are yielding results

QUICK NUMBERS

- Volume growth of 5% in 1QFY10
- Other FMCG investments less than Rs1 bn
- Andhra Pradesh State presents budget today—watch for VAT proposals

Reiterate BUY, TP increased to Rs255 (Rs235 previously)

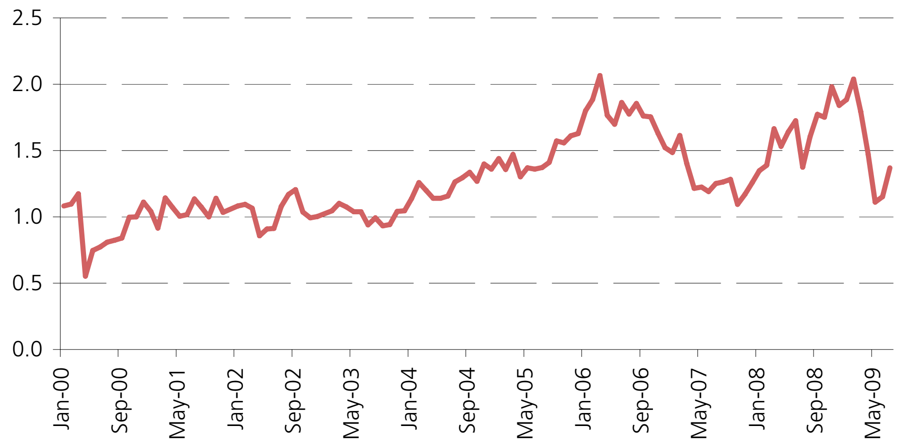
We tweak our estimates as we build in lower FMCG losses (Rs4.2 bn now versus Rs4.6 bn earlier). Our EPS forecasts are up 2% for FY2010E and FY2011E—we model EPS of Rs10.3 (Rs10.2 earlier) and Rs11.8 (Rs11.6 earlier). We increase our TP to Rs255 (Rs235 earlier) based on FY2011E EPS. We now value ITC stock at 22X—at the average of last three years PE (earlier at 20X applying a 10% discount).

We see merit in removing the 10% discount as (1) Central budget has left excise rates untouched and (2) receding risk of unilateral VAT increases by most States (3) return of volume growth in cigarettes, (4) likely improvement in return ratios of non-cigarette businesses and (5) demonstrated lower FMCG losses/investments.

In the past three years, the stock has traded at an average PE of 22X and has remained in the 18X-26X band. ITC stock has outperformed Sensex by 9% over the last one month—we recommend buying on dips.

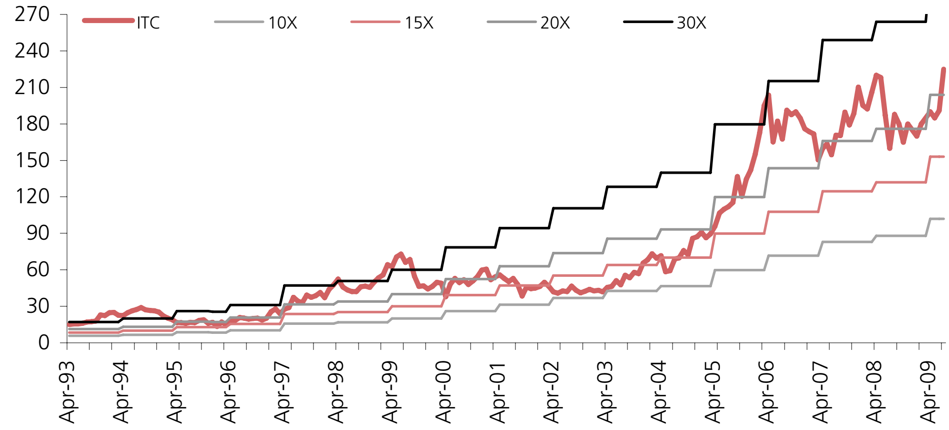
Key risks to our BUY rating are, (1) negative impact of pictorials on cigarette volumes, (2) higher losses in Other FMCG and (3) severe increase in VAT across States.

Valuations offer upside opportunity
ITC relative PE versus Sensex (x)



Source: Kotak Institutional Equities

ITC - P/E bands (one year forward)



Source: Kotak Institutional Equities

We value ITC stock at last three year average PE
One-year forward PE of ITC (x)

	Average	Maximum	Minimum
1-year	19.9	22.1	18.1
3-years	22.0	26.6	18.1
5-years	21.6	32.5	15.0

Source: Kotak Institutional Equities

Cigarette volume growth beats expectations

Cigarette volume growth of about 5% was in line with our expectations and a positive surprise for the Street. We maintain our cigarette volume growth estimate of 5.5% for FY2010E and 4% growth in FY2011E. We assume a further price increase of about 2% in FY2010E (company has already effected about 3%) to maintain price-parity among brands (premium/discount between various brands). We note that upside risks to our volume growth assumptions exist incase VAT remains at 12.5% in most states and no further price hikes by the company (particularly in price-sensitive packs like Scissors, Bristol, Berkeley etc).

We reiterate the resilience demonstrated by the business when faced with adversities over the last few years, notably, (1) implementation of VAT, (2) penal taxation in FY09 and (3) public smoking ban in October 2008.

Higher competition in Kings segment is a reality—may expand the segment

We note that ITC will likely face higher competition from Godfrey Philips (GP) as GP has announced plans for a national roll out of Marlboro. GP is a major player in North and West India with key brands of Four Square, Red & White and Cavanders. It has recently launched Four Square in the Tamil Nadu market where ITC has over 95% market share. Channel sources suggest that GP has recently launched the Marlboro brand in India, which is priced at Rs 90 for a 20s pack against Rs 94 for ITC Wills Classic.

We believe that any increase in competitive activity in the premium segment (more than Rs4/stick) will likely expand the category and augurs well for ITC with entrenched brands like Gold Flake Kings and Wills Classic (ITC also sells BAT brands - 555 and Benson & Hedges in the premium segment). However, we keenly watch for competitive activity in the RSFT segment (Rs2-3/stick) which account for over 75% of ITC's sales.

Three variants of Marlboro packs available with the trade

Imported Marlboro, specifically packed for India

Manufactured and distributed by Godfrey Philips

Smuggled Marlboro from Saudi Arabia

Imported Marlboro, specifically packed for India

Manufactured and distributed by Godfrey Philips

Smuggled Marlboro from Saudi Arabia

Source: Kotak Institutional Equities

Good show in cigarettes (as expected), lower FMCG losses (better than expected)

ITC reported net sales of Rs40.8 bn (+5% yoy, KIE estimate Rs38.9 bn), EBITDA of Rs13.4 bn (+19%, KIE estimate Rs13 bn) and PAT of Rs8.8 bn (+17%, KIE estimate Rs8.4 bn).

- Cigarettes segment grew 14.4% to Rs 41.6 bn driven by about 5% volume growth, the balance being pricing growth and mix improvement
- Other FMCG sales grew 9.5% yoy. Growth during the quarter was led by personal care segment based on wider geographical distribution. Confectionery sales grew 37% led by new launches whereas Staples and Biscuits likely saw about 5% growth
- Paperboards, paper and packaging reported sales increased 12.1% yoy (lower inter-segment sales due to implementation of pictorial warnings; 40% of this segment sales is to cigarette business)
- Agri business sales declined 48.7% due to planned exit from low margin trading business (wheat and soya). The segment margins improved to 10.6% from 4.2% as mix improved (higher leaf tobacco sales). Hotel revenues continued to remain under pressure with 28.4% decline yoy due to high base effect (IPL in April/May 2008)

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

	1QFY10	1QFY10E	1QFY09	4QFY09	(% chg) 1QFY10E	1QFY09	4QFY09
Net sales	**40,827**	**38,873**	**38,997**	**38,918**	**5.0**	**4.7**	**4.9**
Total expenditure	(27,456)	(25,922)	(27,726)	(26,291)	5.9	(1.0)	4.4
Material cost	(16,219)	(14,789)	(18,036)	(15,777)	9.7	(10.1)	2.8
Staff cost	(2,822)	(2,508)	(2,181)	(2,222)	12.5	29.4	27.0
Other expenditure	(8,415)	(8,624)	(7,509)	(8,293)	(2.4)	12.1	1.5
EBITDA	**13,371**	**12,952**	**11,271**	**12,627**	**3.2**	**18.6**	**5.9**
OPM (%)	**32.8**	**33.3**	**28.9**	**32.4**	(1.7)	13.3	0.9
Other income	1,378	966	1,144	879	42.6	20.5	56.9
Interest	(58)	(125)	(14)	(137)	(53.2)	314.2	(57.3)
Depreciation	(1,516)	(1,466)	(1,261)	(1,451)	3.4	20.2	4.4
Pretax profits	**13,175**	**12,327**	**11,140**	**11,917**	**6.9**	**18.3**	**10.6**
Tax	(4,388)	(3,945)	(3,653)	(3,828)	11.2	20.1	**14.6**
Net income	**8,787**	**8,382**	**7,487**	**8,090**	**4.8**	**17.4**	**8.6**
Income tax rate (%)	33.3	32.0	32.8	32.1			
Cost as a % of Sales							
Material cost	39.7	38.0	46.2	40.5			
Staff cost	6.9	6.5	5.6	5.7			
Other expenditure	20.6	22.2	19.3	21.3			
Segment results							
Revenue							
Cigarettes	41,606	41,015	36,361	39,493	1.4	14.4	5.4
Other FMCG	7,594	7,617	6,936	8,388	(0.3)	9.5	(9.5)
Hotel	1,857	2,112	2,594	2,413	(12.0)	(28.4)	(23.0)
Agri business	9,406	13,153	18,345	5,259	(28.5)	(48.7)	78.9
Paperboards, paper & packaging	7,306	7,716	6,517	7,470	(5.3)	12.1	(2.2)
Total	67,769	71,614	70,753	63,024	(5.4)	(4.2)	7.5
Less: Intersegment revenue	(6,460)	(13,866)	(12,308)	(4,317)	(53.4)	(47.5)	49.7
Gross sales	**61,309**	**57,748**	**58,446**	**58,707**	**6.2**	**4.9**	**4.4**
EBIT							
Cigarettes	11,254	10,828	9,614	10,814	3.9	17.1	4.1
Other FMCG	(998)	(1,068)	(1,226)	(1,173)	(6.6)	(18.6)	(14.9)
Hotel	306	548	853	711	(44.2)	(64.1)	(57.0)
Agri business	999	773	765	531	29.2	30.5	88.3
Paperboards, paper & packaging	1,278	1,358	1,234	1,519	(5.9)	3.5	(15.9)
Total	**12,839**	**12,439**	**11,240**	**12,401**	**3.2**	**14.2**	**3.5**
Less: Interest (net)	(58)	(9)	(14)	(137)	584.5	314.2	(57.3)
Less: Unallocable income net of expense	394	(103)	(87)	(347)	(482.6)	(553.9)	(213.6)
PBT	**13,175**	**12,327**	**11,140**	**11,918**	**6.9**	**18.3**	**10.5**
EBIT margins (%)							
Cigarettes	27.0	26.4	26.4	27.4	2.5	2.3	(1.2)
Other FMCG	(13.1)	(14.0)	(17.7)	(14.0)	(6.3)	(25.7)	(6.0)
Hotel	16.5	26.0	32.9	29.5	(36.6)	(49.9)	(44.1)
Agri business	10.6	5.9	4.2	10.1	80.7	154.5	5.3
Paperboards, paper & packaging	17.5	17.6	18.9	20.3	(0.6)	(7.6)	(14.0)
Capital employed							
Cigarettes	27,923		26,029	30,766		7.3	(9.2)
Other FMCG	19,255		23,811	20,866		(19.1)	(7.7)
Hotel	22,723		19,174	21,889		18.5	3.8
Agri business	13,887		12,862	10,383		8.0	33.7
Paperboards, paper & packaging	37,073		34,340	37,712		8.0	(1.7)
Total	**120,860**		**116,215**	**121,615**		**4.0**	**(0.6)**

Source: Company, Kotak Institutional Equities

Margins improve all around, except for Hotels

Reported Cigarette margins (on gross sales) improved to 27% from 26.4% led by pricing increases and better mix. We reckon there are two one-offs which impacted the margins for the quarter, (1) expensing of Rs350 mn of packaging consumables due to implementation of pictorial warnings and (2) higher trade spends (including refurbishment at point-of-purchase). Adjusting for the one-offs, Cigarette margins would have improved a further 160 bps to 28.6%, in our view.

Other FMCG loss of Rs998 mn was better than expected (KIE estimate Rs1,068 mn and street expectation of about Rs1.1 bn). Gross margin improvement in biscuits and staples as well as some moderation in adspends for personal care has contributed for lower losses, in our view. Agri business margin improved to 10.6% from 4.2% driven by higher sales of leaf tobacco whereas Hotels segment margin fell sharply to 16.5% from 32.9% due to effects of operating leverage.

Volume and mix growth of 6.3%
Cigarette segment performance

Rs mn	1QFY10	1QFY09	% change	Comments
Gross sales	41,606	36,361	14.4	Price increase of about 8%
Excise	20,150	18,964	6.3	Indicates volume and mix growth as per unit excise is flat yoy
Net sales	21,456	17,397	23.3	
Segment expenses	10,202	7,783	31.1	One-off costs in packaging Rs350 mn, higher trade spends
Segment PBIT	11,254	9,614	17.1	
PBIT margin (%)				
On gross sales	27.0	26.4	60 bps	
On net sales	52.5	55.3	-280 bps	

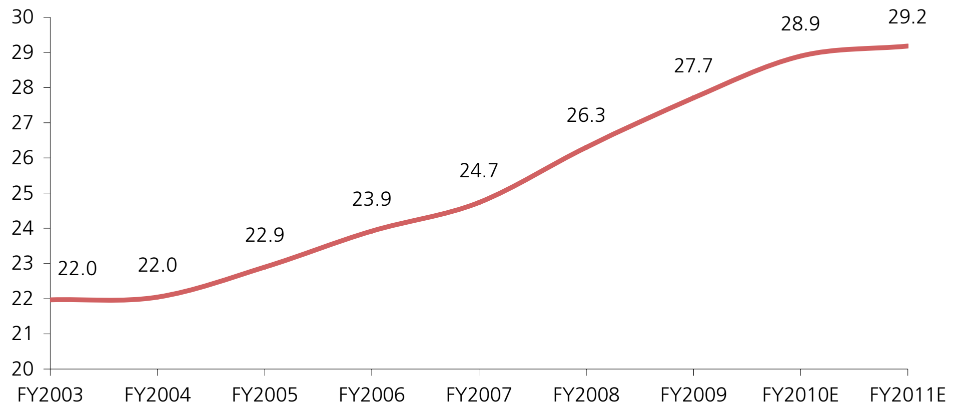
Source: Kotak Institutional Equities

ITC has likely moderated adspends
Top advertisers in TV advertising during 1HCY09 and its ranking in 1HCY08

Top Advertiser	Rank in 1HCY09	Rank in 1HCY08
Hindustan Unilever Ltd	1	1
Reckitt Benckiser (India) Ltd	2	2
Coca Cola India Ltd	3	4
Pepsi Co	4	3
Cadburys India Ltd	5	14
Smithkline Beecham	6	9
Bharti Airtel Ltd	7	7
ITC Ltd	**8**	**6**
Procter and Gamble	9	15
Hero Honda Motors Ltd	10	44

Source: Adex India (A division of TAM Media Research), www.indiatelevision.com

Upside risks to our margin estimates exist if VAT remains at 12.5%
ITC cigarette PBIT margins, %



Source: Kotak Institutional Equities

Focus on extant FMCG shifting from size and scale to profitability

We continue to build higher investments in FMCG and model Rs4.2 bn and Rs3 bn EBIT losses for FY2010E and FY2011E. Our loss estimates are higher than management guidance as our channel feedback suggests a relatively low success of ITC's personal products range compared to its earlier launches in Foods. We believe the company's efforts to contain losses in extant FMCG while continuing to invest in focus areas are yielding results. Factors helping ITC are (1) lower commodity costs positively impacting profitability of staples business, (2) portfolio rationalization and focus on mix improvement in biscuits and (3) renegotiation of rentals, closing of unviable stores in lifestyle retailing.

Is the Union Budget a precursor to State GST of 20%? Quite likely, in our view

The omission of any change in the excise rate on cigarettes in Union Budget could be a precursor to the implementation of State GST rate of 20% in next year's budget (applicable for FY2011), in our view. We highlight that in the State budgets for FY2010, most states have left VAT on cigarettes unchanged at 12.5% whereas Uttar Pradesh increased it modestly to 13.5% from 12.5%. The Maharashtra, Rajasthan and Delhi governments recently increased state VAT on cigarettes to 20% from 12.5%. We keenly watch for any changes in the VAT rates by the Andhra Pradesh (budget to be presented today, July 24, 2009) and Kerala which together account for about 25% of ITC's revenues.

ITC, change in estimates, March fiscal year-ends (Rs mn)

	FY10E			FY11E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	166,603	173,209	(3.8)	193,107	201,133	(4.0)
Operating profit	57,639	56,938	1.2	64,894	63,924	1.5
PBT	57,655	56,933	1.3	65,062	64,034	1.6
Net profit	38,948	38,463	1.3	44,501	43,811	1.6
EPS (Rs)	10.3	10.2	1.3	11.8	11.6	1.6
Growth, %						
Sales	8.3	12.6		15.9	16.1	
Operating profit	18.4	16.9		12.6	12.3	
Net profit	19.3	17.9		14.3	13.9	
EPS	19.3	17.9		14.3	13.9	

Source: Kotak Institutional Equities estimates

ITC: Profit model, balance sheet, cash flow model 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Profit model (Rs mn)						
Net sales	97,905	123,693	140,012	153,881	166,603	193,107
EBITDA	**33,274**	**39,700**	**44,703**	**48,686**	**57,639**	**64,894**
Other income	2,899	3,365	6,109	5,349	6,611	7,684
Interest	(158)	(169)	(173)	(284)	(111)	(111)
Depreciation	(3,323)	(3,629)	(4,385)	(5,494)	(6,484)	(7,405)
Extraordinary items	(63)	0	0	0	0	0
Pretax profits	32,629	39,267	46,255	48,258	57,655	65,062
Tax	(10,276)	(12,267)	(14,517)	(15,622)	(18,707)	(20,562)
Net profits	**22,353**	**27,000**	**31,738**	**32,636**	**38,948**	**44,501**
Earnings per share (Rs)	**6.0**	**7.2**	**8.4**	**8.7**	**10.3**	**11.8**
Balance sheet (Rs mn)						
Total equity	90,615	104,371	120,577	137,351	158,677	183,354
Deferred taxation liability	3,248	4,729	5,451	8,672	8,672	8,672
Total borrowings	1,197	2,009	2,144	1,776	1,776	1,776
Currrent liabilities	35,781	38,576	44,323	47,050	45,548	49,497
Total liabilities and equity	**130,840**	**149,684**	**172,495**	**194,848**	**214,673**	**243,299**
Cash	8,558	9,002	5,703	10,324	18,193	29,312
Current assets	43,061	53,896	64,490	71,287	70,617	82,021
Total fixed assets	44,051	56,109	72,956	84,860	97,485	103,588
Investments	35,170	30,678	29,346	28,378	28,378	28,378
Total assets	**130,840**	**149,684**	**172,495**	**194,848**	**214,673**	**243,299**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	25,638	31,040	37,112	41,493	45,911	52,197
Working capital	(5,469)	(8,667)	(6,634)	(4,977)	1,953	(5,574)
Capital expenditure	(6,013)	(15,702)	(21,239)	(17,407)	(19,120)	(13,517)
Investments	3,577	4,492	1,332	968	0	0
Free cash flow	**17,734**	**11,164**	**10,570**	**20,077**	**28,744**	**33,105**
Key ratios (%)						
Sales growth	28.2	26.3	13.2	9.9	8.3	15.9
EBITDA margins	34.0	32.1	31.9	31.6	34.6	33.6
EPS growth	28.3	20.1	17.1	2.8	19.3	14.3

Source: Kotak Institutional Equities estimates

ITC: Segment revenue, 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Segment revenue, gross (Rs mn)						
Cigarettes	113,297	128,337	138,256	151,151	172,337	195,881
Other FMCG	10,135	17,044	25,231	30,140	33,369	38,965
Hotels	7,834	9,857	11,002	10,203	9,701	11,040
Agri Business	26,784	36,914	38,998	38,460	27,830	31,113
Paperboards, Paper & Packaging	18,957	21,001	23,643	28,220	32,702	37,529
TOTAL	177,007	213,152	237,131	258,173	275,939	314,527
Less: Inter segment revenue	14,763	18,101	23,137	26,738	23,656	26,834
Gross sales	**162,244**	**195,051**	**213,994**	**231,435**	**252,283**	**287,693**
Net sales	97,905	123,693	140,012	153,881	166,603	193,107
Segment revenue growth, (%)						
Cigarettes		13.3	7.7	9.3	14.0	13.7
Other FMCG		68.2	48.0	19.5	10.7	16.8
Hotels		25.8	11.6	(7.3)	(4.9)	13.8
Agri Business		37.8	5.6	(1.4)	(27.6)	11.8
Paperboards, Paper & Packaging		10.8	12.6	19.4	15.9	14.8
TOTAL		20.4	11.2	8.9	6.9	14.0
Less: Inter segment revenue		22.6	27.8	15.6	(11.5)	13.4
Gross sales		20.2	9.7	8.2	9.0	14.0
Net sales		26.3	13.2	9.9	8.3	15.9

Source: Kotak Institutional Equities estimates

ITC: Segment revenue and PBIT, 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Segment revenue, gross (Rs mn)						
Cigarettes	113,297	128,337	138,256	151,151	172,337	195,881
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Gross sales	**162,244**	**195,051**	**213,994**	**231,435**	**252,283**	**287,693**
Net sales	97,905	123,693	140,012	153,881	166,603	193,107
Segment revenue break up, (%)						
Cigarettes	**69.8**	**65.8**	**64.6**	**65.3**	**68.3**	**68.1**
Other FMCG	6.2	8.7	11.8	13.0	13.2	13.5
Hotels	4.8	5.1	5.1	4.4	3.8	3.8
Agri Business	16.5	18.9	18.2	16.6	11.0	10.8
Paperboards, Paper & Packaging	11.7	10.8	11.0	12.2	13.0	13.0
TOTAL	109.1	109.3	110.8	111.6	109.4	109.3
Less: Inter segment revenue	9.1	9.3	10.8	11.6	9.4	9.3
Gross sales	100.0	100.0	100.0	100.0	100.0	100.0
Segment PBIT margins (Rs mn)						
Cigarettes	27,088	31,722	36,340	41,838	49,597	57,260
Other FMCG	(1,718)	(2,020)	(2,635)	(4,835)	(4,238)	(3,079)
Hotels	2,581	3,508	4,108	3,162	2,543	3,671
Agri Business	909	1,236	1,292	2,562	2,630	3,030
Paperboards, Paper & Packaging	3,514	4,168	4,531	5,086	6,468	7,495
TOTAL	32,373	38,613	43,636	47,813	57,000	68,378
Segment PBIT margins (%)						
Cigarettes	23.9	24.7	26.3	27.7	28.8	29.2
Other FMCG	(17.0)	(11.9)	(10.4)	(16.0)	(12.7)	(7.9)
Hotels	32.9	35.6	37.3	31.0	26.2	33.2
Agri Business	3.4	3.3	3.3	6.7	9.5	9.7
Paperboards, Paper & Packaging	18.5	19.8	19.2	18.0	19.8	20.0
TOTAL	18.3	18.1	18.4	18.5	20.7	21.7

Source: Kotak Institutional Equities estimates

Both ITC and HUL has provided similar returns over the last one year

Company	Price (Rs)	Mkt Cap (Rs bn)	Rating	TP (Rs)	Absolute Change, % 1-mo	6-mo	1-Year	Relative Change, % 1-mo	6-mo	1-Year	52 Week High	Low
Hindustan Unilever	277	603	BUY	320	6	12	20	0	(36)	18	293	185
ITC	230	866	BUY	255	16	35	20	9	(23)	18	233	132
Nestle India	2,004	193	ADD	2,100	16	34	31	9	(24)	28	2,049	1,220
Colgate-Palmolive	654	89	REDUCE	620	19	57	79	12	(11)	75	686	341
Godrej Consumer Products	196	51	ADD	180	9	49	57	2	(15)	54	200	90
GlaxoSmithkline Consumer	1,021	43	ADD	1,050	12	78	66	5	2	63	1,075	452
Asian Paints	1,288	124	ADD	1,200	19	40	16	11	(20)	14	1,320	681
Jyothy Laboratories	101	7	ADD	145	(4)	77	13	(10)	1	-	122	42
Tata Tea	785	49	BUY	900	8	26	4	2	(28)	2	846	430
Consumer Products		**2,024**	**Attractive**		**13**	**29**	**24**	**6**	**(26)**	**22**		
Sensex	**15,231**				**6**	**76**	**2**					

Note : Closing prices as of July 23, 2009

Source: Kotak Institutional Equities

kotak Institutional Equities

Maruti Suzuki (MSIL)

Automobiles

SELL

JULY 24, 2009

RESULT

Coverage view: Cautious

Price (Rs): 1,296

Target price (Rs): 1,100

BSE-30: 15,231

Peak product cycle and margins don't justify peak multiples. Maruti's 1QFY10 results smartly beat expectations with margins coming in 140 bps higher than estimates. However, we remain cautious on margin expansion beyond 2QFY10E as commodity price trends start reversing. We believe the 17% expected increase FY2010E could be a tough act to follow in FY2011E given the benefits from a peak product cycle with two all-new vehicle launches and scrappage benefits in the current year.

Company data and valuation summary

Maruti Suzuki

Stock data			
52-week range (Rs) (high,low)			1,306-428
Market Cap. (Rs bn)			374.5
Shareholding pattern (%)			
Promoters			54.2
FIIs			19.4
MFs			3.1
Price performance (%)	1M	3M	12M
Absolute	23.0	62.3	113.1
Rel. to BSE-30	15.7	18.6	109.1

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	42.2	70.0	73.0
EPS growth (%)	(29.6)	65.9	4.3
P/E (X)	30.7	18.5	17.8
Sales (Rs bn)	204.6	259.8	289.3
Net profits (Rs bn)	12.2	20.2	21.1
EBITDA (Rs bn)	12.3	27.1	29.9
EV/EBITDA (X)	26.9	12.1	10.7
ROE (%)	13.4	19.0	16.8
Div. Yield (%)	0.4	0.3	0.4

QUICK NUMBERS

- PAT grows 44% yoy
- We estimate FY2010E EPS at Rs70

Profit growth led by improved realizations, higher other income and lower-than-expected costs

Maruti reported better-than-expected 1QFY10 EBITDA of Rs7.9 bn versus our Rs6.7 bn estimate. EBITDA margin came in at 12.5%, beating our expectation of 11.1% The Rs1.2 bn/140 bps variance was led mainly by SG&A cost controls (Rs600 mn lower than anticipated), higher other operating income (Rs340 mn higher than anticipated) and higher realizations led by export realizations and mix benefits. PAT at Rs5.8 bn grew 44% yoy and ahead of our expectations of Rs4.5 bn as higher-than-expected investment income added to the factors above. Net revenues (up 34% yoy) were positively impacted by a 17.7% yoy increase in volumes and 13.7% yoy increase in average realization, higher exports.

Raise EPS estimates by an average 10% to factor in lower SG&A costs and other income

We have raised our EPS estimates 11% and 9% to Rs70 and Rs73 for FY2010E and FY2011E, respectively, to factor in (1) lower SG&A expenses and (2) higher average realizations on account of better export realizations. Our FY2010E EPS goes up by Rs7 and is largely driven by a 50bps increase in margins and higher other income. Margins in the current quarter reflect most of the benefits from lower commodity costs. The current steel contracts end in September and the company could see price increases during negotiations. We are maintaining our 12% domestic and 17% total volume growth estimate.

Current valuations expensive; retain SELL rating with TP of Rs1,100/share

We retain our SELL rating on Maruti with a TP of Rs1,100/share as we believe the current peak valuations are unjustified when Maruti is enjoying a peak product cycle. We value Maruti at Rs1,100/share based on 15X FY2011E earnings implying an EV/EBITDA of 7.5X on FY2011E basis. We are using near-peak cycle multiples of 15X FY2011E earnings. The stock is trading at 18.5X FY2010E and 17.7X FY2011E earnings and EV/EBITDA of 10.2X and 9.1X, respectively. Margins could stay or even increase slightly in 2QFY10E, but we expect these to come under pressure in 2HFY10E. On the volume front, we are estimating a 10% growth in FY2011E as we expect the 17% expected increase in FY2010E would be a tough act to follow

Volumes could be impacted by deficient monsoons, higher interest rates

The management indicated in the conference call that it was cautiously optimistic on volumes. We believe that passenger car sales could be adversely impacted by the (1) current state of deficient monsoons (will likely hurt rural sales) and (2) government's aggressive borrowing program as interest rates could rise. We believe our domestic volume growth estimates of 12.1% and 7.8% for FY2010E and FY2011E, respectively, are reasonable. The company continued to indicate 5% volume growth for FY2010E.

Strong sales growth led by higher volumes and export realizations

1QFY10 net revenues grew 34% yoy led mainly by (1) 17.7% growth in total volumes and (2) 13.7% growth in average realizations. Maruti's 1QFY10 volume growth was helped by the launch of the Ritz, higher rural sales and continued dominance of compact cars. A-Star exports grew sharply aided by the scrappage incentives provided by various European governments.

Average realizations for the quarter were up 13.7% yoy mainly on account of (1) higher proportion of diesel cars being sold by Maruti, (2) better product mix in favor of premium compact cars (Swift, Ritz) and (3) higher export realization led by a favorable currency. We would like to note here that higher realizations from the mix are not accruing to the bottom line at significantly higher margins. To illustrate—average net realizations were up Rs33,887 yoy while raw material cost per unit was up Rs26,937, implying incremental margin of 20% assuming no additional labor and other costs were involved.

Lower SG&A, employee costs also boost EBITDA margins

1QFY10 EBITDA margin at 12.5% grew 180 bps yoy mainly on account of (1) higher realizations, (2) increased cost control efforts resulting in lower SG&A and (3) lower employee costs as a percentage of sales. We believe that the efforts to maintain SG&A at lower levels will likely continue and the savings will be recurring in nature.

Margin benefits could start reversing in 2HFY10E
1QFY10 operating margin walk (%)

	yoy	qoq
Beginning EBITDA margin	**10.7**	**7.1**
Commodity costs in raw material	(1.1)	2.3
Currency in raw material	(1.2)	—
Labor	0.2	—
Exchange variation	0.2	2.2
SG&A	0.7	0.3
Other operating income	1.0	0.5
Ending EBITDA margin	**10.5**	**12.5**

Source: Company, Kotak Institutional Equities estimates

Higher commodity costs in 2HFY10 could result in lower EBITDA margin

We believe higher commodity costs in 2HFY10 could result in higher raw material costs. Maruti negotiates steel contracts on a half-yearly basis. According to the management, steel contracts for 2HFY10 could be negotiated higher prices resulting in higher input costs. We estimate FY2010E and FY2011E EBITDA margin at 12.3% and 12%, respectively.

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

	1QFY10	1QFY10E	1QFY09	4QFY09	(% chg.) 1QFY10E	1QFY09	4QFY09
Net sales	**63,647**	**60,885**	**47,536**	**63,344**	**4.5**	**33.9**	**0.5**
Total expenditure	(56,998)	(55,097)	(42,899)	(59,836)	3.5	32.9	(4.7)
Inc/(Dec) in stock	596	400	(334)	(1,621)	49.1	(278.4)	(136.8)
Raw materials	(50,147)	(47,460)	(36,567)	(49,188)	5.7	37.1	1.9
Staff cost	(1,336)	(1,400)	(1,112)	(1,331)	(4.6)	20.1	0.4
Other expenditure	(6,112)	(6,637)	(4,887)	(7,696)	(7.9)	25.1	(20.6)
Other operating income	1,283	944	466	985	35.9	175.2	30.2
EBITDA	**7,932**	**6,732**	**5,103**	**4,493**	**17.8**	**55.4**	**76.5**
OPM (%)	**12.5**	**11.1**	**10.7**	**7.1**			
Other income	2,165	1,650	2,222	1,054	31.2	(2.5)	105.4
Interest	10,034	8,282	7,156	5,459	21.2	40.2	83.8
Depreciation	1,961	2,070	1,661	1,971	(5.3)	18.1	(0.5)
Pretax profits	**8,073**	**6,212**	**5,495**	**3,487**	**30.0**	**46.9**	**131.5**
Extraordinaries	—	—	—	—			
Tax	2,238	1,739	1,437	1,056	28.6	55.7	111.9
Net income	**5,835**	**4,473**	**4,059**	**2,431**	**30.5**	**43.8**	**140.0**
Adjusted profits	**5,835**	**4,473**	**4,059**	**2,431**	**30.5**	**43.8**	**140.0**
Income tax rate (%)	27.7	28.0	26.1	30.3			
Ratios							
RM to sales (%)	77.9	77.3	77.6	80.2			
EBITDA margin (%)	12.5	11.1	10.7	7.1			
Net profit margin (%)	9.2	7.3	8.5	3.8			
ETR (%)	27.7	28.0	26.1	30.3			
EPS (Rs)	20.2	15.5	14.0	8.4			
Other details							
Sales volumes (# vehicles)	226,729	226,729	192,584	236,638	—	17.7	(4.2)
Net sales realisation (Rs/vehicle)	**280,719**	**268,535**	**246,832**	**267,682**	**4.5**	**13.7**	**4.9**

Source: Company, Kotak Institutional Equities

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

	Revised estimates		Old estimates		% change	
	2010E	**2011E**	**2010E**	**2011E**	**2010E**	**2011E**
Net sales	259,824	289,325	244,487	270,083	6.3	7.1
EBITDA	31,978	34,858	29,293	32,640	9.2	6.8
PAT	20,220	21,085	18,027	19,443	12.2	8.4
EPS (Rs)	**70.0**	**73.0**	**62.4**	**67.3**	**12.1**	**8.4**
Volumes (# vehicles)	**929,376**	**1,022,695**	**929,376**	**1,022,695**	**—**	**—**

Source: Company, Kotak Institutional Equities estimates

Volume assumptions for Maruti Suzuki, March fiscal year-ends, 2007-11E (# vehicles)

	2007	2008	2009E	2010E	2011E
Segment-wise sales					
Entry (A) segment	79,245	69,553	49,383	40,000	40,000
Van-Segment	83,091	89,729	77,948	75,500	75,500
Compact (B) segment	440,375	499,280	511,396	612,843	670,329
Mid-size (C) segment	29,697	49,335	75,928	74,833	80,201
MUV	3,221	3,921	7,489	6,200	6,665
Domestic	**635,629**	**711,818**	**722,144**	**809,376**	**872,695**
Exports	39,295	53,024	70,023	120,000	150,000
Total	**674,924**	**764,842**	**792,167**	**929,376**	**1,022,695**
Segment-wise sales growth (yoy %)					
Entry (A) segment	(11.0)	(12.2)	(29.0)	(19.0)	—
Van-Segment	24.0	8.0	(13.1)	(3.1)	—
Compact (B) segment	31.5	13.4	2.4	19.8	9.4
Mid-size (C) segment	(7.3)	66.1	53.9	(1.4)	7.2
MUV	(19.5)	21.7	91.0	(17.2)	7.5
Domestic	**20.6**	**12.0**	**1.5**	**12.1**	**7.8**
Exports	13.0	34.9	32.1	71.4	25.0
Total	**20.1**	**13.3**	**3.6**	**17.3**	**10.0**

Source: Company, Kotak Institutional Equities estimates

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

	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)						
Net sales	120,522	146,539	179,362	204,553	259,824	289,325
EBITDA	**18,669**	**22,862**	**26,524**	**18,321**	**31,978**	**34,858**
Other income	1,889	3,026	4,784	6,013	4,838	4,911
Interest	(204)	(376)	(596)	(510)	(263)	(240)
Depreciaiton	(2,854)	(2,714)	(5,682)	(7,065)	(8,470)	(10,244)
Profit before tax	**17,500**	**22,798**	**25,030**	**16,759**	**28,084**	**29,284**
Current tax	5,930	6,281	7,696	4,357	7,583	7,907
Deferred tax	(321)	897	26	215	281	293
Net profit	**11,891**	**15,620**	**17,308**	**12,187**	**20,220**	**21,085**
Earnings per share (Rs)	**41.1**	**54.0**	**59.9**	**42.2**	**70.0**	**73.0**
Balance sheet (Rs mn)						
Equity	54,526	68,539	84,154	94,650	113,687	133,082
Deferred tax liability	779	1,675	1,701	1,916	2,196	2,489
Total Borrowings	717	6,308	9,002	9,002	6,002	6,002
Current liabilities	19,771	25,015	28,187	29,630	31,913	33,966
Total liabilities	**75,793**	**101,537**	**123,044**	**135,198**	**153,799**	**175,539**
Net fixed assets	17,872	29,104	40,328	49,263	61,793	69,049
Investments	20,512	34,092	51,807	51,807	51,807	53,807
Cash	14,016	14,228	3,240	3,921	2,573	10,003
Other current assets	23,393	24,113	27,669	30,207	37,625	42,680
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	**75,793**	**101,537**	**123,044**	**135,198**	**153,799**	**175,539**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	13,041	15,988	18,387	13,964	24,396	26,951
Working capital changes	(815)	4,410	(83)	(1,095)	(5,136)	(3,001)
Capital expenditure	(1,788)	(13,950)	(16,930)	(16,000)	(21,000)	(17,500)
Free cash flow	**10,438**	**6,448**	**1,374**	**(3,131)**	**(1,740)**	**6,449**
Ratios						
EBITDA margin (%)	15.5	15.6	14.8	9.0	12.3	12.0
PAT margin (%)	9.9	10.7	9.6	6.0	7.8	7.3
Debt/equity (X)	0.0	0.1	0.1	0.1	0.1	0.0
Net debt/equity (X)	(0.6)	(0.6)	(0.5)	(0.5)	(0.4)	(0.4)
Book value (Rs/share)	191	243	297	334	401	469
RoAE (%)	23.7	24.9	22.2	13.4	19.0	16.8
RoACE (%)	**31.5**	**35.4**	**33.7**	**16.9**	**27.3**	**22.5**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

IDEA (IDEA)

Telecom

REDUCE

JULY 24, 2009

RESULT

Coverage view: Cautious

Price (Rs): 78

Target price (Rs): 65

BSE-30: 15,231

Results beat expectations but trends in underlying metrics worry. Idea reported better-than-expected EBITDA and net income for the quarter at Rs8.6 bn and Rs2.97 bn, respectively, versus our expectation Rs8.05 bn and Rs2.56 bn. The outperformance was driven by better-than-expected cost control. However, trends in underlying operating metrics (ARPU/MOU) disappointed. We will review our estimates and target price post the earnings call.

Company data and valuation summary

IDEA

Stock data			
52-week range (Rs) (high,low)			94-34
Market Cap. (Rs bn)			242.1
Shareholding pattern (%)			
Promoters			49.1
FIIs			6.9
MFs			2.6
Price performance (%)	1M	3M	12M
Absolute	(4.4)	28.8	(11.1)
Rel. to BSE-30	(10.1)	(5.8)	(12.8)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	2.9	2.9	3.2
EPS growth (%)	(26.5)	(0.1)	10.9
P/E (X)	26.9	26.9	24.2
Sales (Rs bn)	101.5	136.5	175.5
Net profits (Rs bn)	9.0	9.1	10.2
EBITDA (Rs bn)	28.4	35.8	44.5
EV/EBITDA (X)	9.9	8.9	7.4
ROE (%)	10.4	6.4	6.8
Div. Yield (%)	0.0	0.0	0.0

Consolidated revenues in line, EBITDA and net income beat expectations

Idea reported strong financial performance for 1QFY10 with consolidated (Idea standalone + 41.09% of Spice + 16% of Indus) EBITDA (Rs8.6 bn, +6% qoq, +19% yoy) and net income (Rs2.97 bn, +8% qoq, +13% yoy) beating our expectations by 7% and 16%, respectively. EBITDA growth was driven by sharp increase in profitability of Indus Towers. Consolidated revenue of Rs29.8 bn (+1.4% qoq) was, however, marginally below our expectation of Rs30 bn and impacted by reduction in termination rates.

Underlying standalone operating metrics disappoint, however

Trends in some of the key standalone operating metrics took some sheen away from Idea's strong financial performance—(1) ARPU declined 8.7% qoq and 17% yoy to Rs232; approximately 50% of this decline was a result of reduction in MTC, in our view, (2) drop in MOU continued; MOU dropped to 399 from 402 in 4QFY09 and 431 in 1QFY10. MOU trends depict the pressure arising from the declining quality of incremental subs, (3) reported standalone RPM declined 8% qoq and 11% yoy to Rs0.58; comparable RPM decline was 3.1% qoq to Rs0.6, and (4) churn increased sharply to 6.7% from 5.2% in 4QFY09 and 4% in 1QFY09.

Metric trends reinforce negative stance on the industry dynamics

We see some of these trends as only the beginning of a rocky ride for the Indian wireless industry as competition intensifies with the entry of new players. A combination of slowing subscriber growth and rapid rise in available industry-wide network capacity will likely be a stern test of survival for several players over the next 24 months. Players with high operating and/or financial leverage (on account of new launches or otherwise) are more sensitive to the pricing dynamics in the market. Potential industry-wide over-capacity and the disproportionate negative impact of likely price pressure fallout of the same, underlines our Cautious stance on Idea.

ANALYSIS OF 1QFY10 RESULTS

Consolidated performance beats expectations

Idea reported consolidated revenues, EBITDA and net income of Rs29.8 bn, Rs8.6 bn, and Rs2.97 bn, respectively. EBITDA and net income beat our expectations by 7% and 16%, respectively. Reported EBITDA margin expanded 130 bps qoq to 28.9%. However, a bulk (110 bps) of this margin expansion of 130 bps is optical in nature, due to termination rate (MTC) cut impact. Effectively, MTC cut resulted in an EBITDA loss of only Rs 64 mn versus a revenue loss of Rs1.42 bn, thus making EBITDA margin performance appear better.

Standalone results—reduction in EBITDA losses in Mumbai and Bihar drive robust sequential EBITDA expansion

Idea's standalone (excluding Spice and Indus) EBITDA increased 3.8% qoq to Rs7.7 bn. This was led by a 3.4% sequential growth in EBITDA in the 11 old circles and a 1.5% sequential drop in EBITDA losses in the new circles. EBITDA losses in the new circles declined despite the new launches of Orissa and Tamil Nadu, indicating a sharper improvement in the EBITDA profile of Bihar and Mumbai circles. Standalone revenues were up 1% qoq to Rs29bn, and were impacted by reduction in MTC. Standalone PAT at Rs3.08 bn was flat qoq and up 15.6% yoy.

Others—Spice and Indus drag on net income reduces

Idea's consolidated net income was also aided by improvement in net income of Spice and Indus towers. Idea's proportionate net income from these two companies improved to a loss of Rs103 mn from a loss of Rs290 mn in the previous quarter. Indus' EBITDA margins improved to 30.4% in 1QFY10 from 19.1% in 4QFY09, while Spice's OPM improved to 25.1% from 21.9% in 4QFY09.

Capex slowdown a pleasant surprise; well-funded for 2G expansion

Idea (including Spice) incurred a capex of Rs9 bn during the quarter, lower than our expectations. The company added 4,500 new cell sites during the quarter taking the standalone cell site count to 48,729. The company has maintained its FY2010E capex guidance of Rs55 bn. We believe that Idea is well-funded for its 2G expansion. However, the company does not have the balance sheet strength to go in for a pan-India 3G bid, in our view, and may choose to pursue a selective 3G strategy.

Idea 1QFY10 quarterly performance (Rs mn)

	Jun-08	Mar-09	Jun-09	qoq (%)	yoy (%)	Jun-09 E	Deviation (%)
Idea Cellular (standalone)							
Revenues	21,781	28,626	28,883	0.9	32.6		
EBITDA	**7,236**	**7,415**	**7,700**	**3.8**	**6.4**		
EBIT	4,495	3,519	3,636	3.3	(19.1)		
PAT	**2,659**	**3,032**	**3,075**	**1.4**	**15.6**		
EBITDA margin (%)	33.2	25.9	26.7				
EBIT margin (%)	20.6	12.3	12.6				
Wireless ARPU (Rs/sub/month)	280	254	232	(8.7)	(17.1)		
Wireless MOU (min/sub/month)	431	402	399	(0.7)	(7.4)		
Wireless RPM (Rs/min)	0.65	0.63	0.58	(8.0)	(10.5)		
Wireless EPM (Rs/min)	0.22	0.17	0.16	(5.8)	(27.7)		
Idea Cellular (consolidated, with Spice and Indus)							
Revenues	21,781	29,356	29,759	1.4	36.6	30,025	(0.9)
EBITDA	**7,203**	**8,108**	**8,599**	**6.1**	**19.4**	**8,047**	6.9
EBITDA margin (%)	**33.1**	**27.6**	**28.9**			**26.8**	
EBIT	4,454	3,787	4,044	6.8	(9.2)	3,662	10.4
EBIT margin (%)	20.4	12.9	13.6			12.2	
PAT	**2,632**	**2,743**	**2,971**	**8.3**	**12.9**	**2,560**	**16.1**

Source: Company, Kotak Institutional Equities estimates

Aggressive network rollout continues; increase in rent paying sites has impacted OPM yoy

	Jun-08	Mar-09	Jun-09	qoq (%)	yoy (%)
Revenues (Rs mn) - Idea standalone	21,781	28,626	28,883	0.9	32.6
EBITDA (RS mn) - Idea standalone	7,236	7,415	7,700	3.8	6.4
EBITDA margin (%)	33.2	25.9	26.7		
Network sites (#)	**27,594**	**44,230**	**48,067**	**8.7**	**74.2**
Rent-paying sites (#)	**12,903**	**36,753**	**40,211**	**9.4**	**211.6**
Owned sites (#)	14,691	7,477	7,856	5.1	(46.5)

Source: Company

Indus P&L derived from reported numbers by Idea

	Mar-09	Jun-09
Revenues	**11,688**	**12,438**
Direct costs	(9,450)	(8,656)
EBITDA	**2,238**	**3,781**
EBITDA margin (%)	**19.1**	**30.4**
Depreciation	(1,025)	(1,438)
EBIT	**1,213**	**2,344**
EBIT margin (%)	**10.4**	**18.8**
Interest expense (net)	(1,431)	(1,794)
PBT	**(219)**	**550**
Tax	(6)	(300)
PAT	**(225)**	**250**

Source: Company

kotak Institutional Equities

Siemens (SIEM)

Industrials

REDUCE

JULY 24, 2009

RESULT

Coverage view: Neutral

Price (Rs): 472

Target price (Rs): 450

BSE-30: 15,231

Earnings boosted by one-offs. Siemens reported revenues of Rs19.2 bn, slightly below our estimates. The revenue dissapointment was offset by higher-than-expected margins of 13.4%, likely led by one-off provision write backs during the quarter. Order booking was boosted by a single large order from Adani Power. Activity remained sedate in the industry segment which reported a revenue and margin decline. We retain our REDUCE rating on the stock with a revised target price of Rs450/share.

Company data and valuation summary

Siemens

Stock data			
52-week range (Rs) (high,low)			600-186
Market Cap. (Rs bn)			159.1
Shareholding pattern (%)			
Promoters			55.2
FIIs			2.3
MFs			3.7
Price performance (%)	1M	3M	12M
Absolute	1.1	54.3	151.2
Rel. to BSE-30	(4.9)	12.8	146.4

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	22.8	22.7	26.3
EPS growth (%)	61.0	(0.5)	15.9
P/E (X)	20.7	20.8	17.9
Sales (Rs bn)	95.2	106.5	122.4
Net profits (Rs bn)	7.7	7.7	8.9
EBITDA (Rs bn)	11.9	11.6	13.4
EV/EBITDA (X)	11.8	11.9	9.9
ROE (%)	30.8	25.2	24.2
Div. Yield (%)	1.5	0.9	1.1

QUICK NUMBERS

- Sedate revenue growth of 6%
- Higher margins of 13.4% likely led by one-offs
- Order booking of Rs23 bn in 3QFY09

Results boosted by higher-than-expected margins

Siemens reported 3QFY09 standalone revenues of Rs19.2 bn, up 6% yoy and about 7.5% below our revenue estimate of Rs20.4 bn. The slight disappointment on the revenue front was counteracted by higher-than-expected operating margins led by lower material costs as a percentage of sales. We believe that the margins might have been higher than expected due to one-off write backs of previous provisions evident from the high margins of 17% in the power segment. The net profit of the company was boosted by Rs1.7 bn of extraordinary items which constituted profits from the sale of investments in SISL and SIPSL. Revenues and margins remained somber for the industrials segment, declining by about 7% yoy, in line with the trend seen in other company results such as L&T, Thermax etc. The revenue and margin growth was led by the power and transportation segment which recorded strong growth in the quarter.

Partial revival seen in order booking activity

Siemens reported order inflows of Rs23 bn in the quarter registering a growth of 12.6% yoy versus Rs20.8 bn in 3QFY08 primarily driven by the transmission and transportation segments. This reflect some revival in the order booking activity post a decline of about 20% seen in the previous quarter. However we highlight that the order booking for the quarter was boosted by a large order worth Rs7.2 bn from Adani Power.

Revise earnings estimates and target price to Rs450/share; reiterate REDUCE

We have revised our earnings estimates to Rs22.8 and Rs22.7 from Rs19.8 and Rs21.1 for FY2009E and FY2010E, respectively. The revision to earnings in FY2009E is led by higher margin expectations due to higher write-back of provisions in the power segment. We have revised our P/E multiple-based target price to Rs450/share from Rs360/share based on (1) resetting the multiple to Mar-11 basis versus Sept-10 earlier, (2) revision of target multiple to 18X from 17X earlier, in line with L&T and BHEL target multiples and (3) upwards revision to earnings estimates. We retain our REDUCE rating on the stock based on (1) relatively high valuations of 21X Sept-10 earnings, (2) likely sedate earnings growth based on ongoing slowdown in industrial capital expenditure and (3) increasing competition in the power segment.

Revenue disappointment offset by higher-than-expected margins

Siemens reported 3QFY09 standalone revenues of Rs19.2 bn, up 6% yoy and about 7.5% below our revenue estimate of Rs20.4 bn. The slight disappointment on the revenue front was countered by higher-than-expected operating margins. Siemens reported EBITDA margin of 13.4% about 240 bps above our estimate of 11%. The higher-than-expected EBITDA margin was led by lower material costs as a percentage of sales which declined by about 300 bps yoy. We believe that the margins might have been higher due to one-off write backs of previous provisions. The net profit of the company was boosted by Rs1.7 bn of extraordinary items (net of tax) which constituted of profits from sale of investments in Siemens Information Systems Ltd (SISL) and Siemens Information Processing Services Private Ltd (SIPSL).

For the nine months ending June 30, 2009, Siemens reported relatively flat revenues of Rs14.3 bn versus Rs14.1 bn in 9MFY08. Margins for the period are not comparable as Siemens had certain one-off expenses related to delays/ reversal of turnover in 2QFY08, which significantly understated the margins of the company. Siemens reported EBITDA margin of 13.1% for 9MFY09 and a profit after tax of Rs8.9 bn.

Siemens (standalone) - 3Q09 - key numbers, year ending September 30, 2009 (Rs mn)

					% change					
	3Q09	**3Q09E**	**3Q08**	**2Q09**	**3Q09E**	**3Q08**	**2Q09**	**9M09**	**9M08**	**% change**
Sales	**19,177**	**20,724**	**18,097**	**23,830**	**(7.5)**	**6.0**	**(19.5)**	**59,405**	**58,665**	**1.3**
Expenses	**(16,606)**	**(18,445)**	**(15,550)**	**(20,341)**	**(10.0)**	**6.8**	**(18.4)**	**(51,643)**	**(54,592)**	**(5.4)**
Stock	996		1,339	(799)		(25.6)	(224.6)	1,582	1,457	
Raw material	(14,706)		(14,819)	(17,230)		(0.8)	(14.6)	(45,733)	(48,682)	(6.1)
Employee	(1,428)		(1,196)	(1,354)		19.4	5.5	(3,912)	(3,178)	23.1
Other Exp	(1,467)		(874)	(959)		67.8	53.1	(3,580)	(4,188)	(14.5)
EBITDA	**2,571**	**2,280**	**2,546**	**3,489**	**12.8**	**1.0**	**(26.3)**	**7,762**	**4,074**	**90.5**
Other income	78	30	124	30	157.3	(37.1)	157.3	2,341	327	616.6
EBIDT	2,649	2,310	2,671	3,519	14.7	(0.8)	(24.7)	10,103	4,400	129.6
Interest	118	169	111	94	(29.9)	7.1	25.5	377	295	28.0
Depreciation	(199)	(193)	(161)	(184)	3.1	23.6	8.2	(565)	(461)	22.5
PBT	**2,568**	**2,286**	**2,620**	**3,429**	**12.4**	**(2.0)**	**(25.1)**	**9,916**	**4,234**	**134.2**
Tax	(899)	(800)	(926)	(1,174)	12.4	(2.9)	(23.4)	(2,686)	(1,799)	49.3
Net profit	**1,669**	**1,486**	**1,694**	**2,255**	**12.4**	**(1.5)**	**(26.0)**	**7,230**	**2,436**	**196.9**
Extraordinary items	1,701	—	—	—				1,701	1,246	36.5
RPAT	3,370	1,486	1,694	2,255	126.8	98.9	49.4	8,931	3,681	142.6
Key ratios (%)										
Raw material / Sales	71.5		74.5	75.7				74.3	80.5	
Employee expenses / Sales	7.4		6.6	5.7				6.6	5.4	
Other expenses / Sales	7.7		4.8	4.0				6.0	7.1	
EBITDA margin	**13.4**	**11.0**	**14.1**	**14.6**				**13.1**	**6.9**	
PBT margin	13.4	11.0	14.5	14.4				16.7	7.2	
Tax rate	35.0	35.0	35.3	34.2				27.1	42.5	
PAT margin	8.7	7.2	9.4	9.5				12.2	4.2	
Order details										
Order booking	23,400		20,780	18,594		12.6	25.8	61,791	63,322	(2.4)
Order backlog	101,450		98,469	97,047		3.0	4.5	101,450	98,469	3.0

Source: Company, Kotak Institutional Equities estimates

Industrial segment continues to reflect slowdown

The industrial segments of Siemens (industry automation & drives, building technologies and industry solutions) continued to reflect the slowdown seen the previous few quarters. The industry solutions segment reported a yoy revenue decline of 18% in 3QFY09 while the building technologies segment revenues declined by 14% yoy. This is in line with trends in industry segment peers like L&T and Thermax. Margins for the segment also declined significantly led by the industry solutions segment.

Segmental revenues and margins of Siemens for 3Q09, year ending September 30, 2009 (Rs mn)

				% change				
	3Q09	3Q08	2Q09	2Q08	1Q09	9M09	9M08	*% change*
Revenues								
Industrial	**7,039**	**7,590**	**7,884**	**(7.3)**	**(10.7)**	**21,900**	**22,604**	**(3.1)**
Industry Automation & Drives	4,503	4,514	5,169	(0.2)	(12.9)	14,266	14,097	1.2
Building Technologies	205	238	208	(14.0)	(1.7)	560	644	(12.9)
Industry Solutions	2,331	2,838	2,507	(17.9)	(7.0)	7,074	7,863	(10.0)
Power	**9,824**	**8,427**	**14,305**	**16.6**	**(31.3)**	**31,792**	**30,827**	**3.1**
Fossil Power Generation	750	153	840	389.4	(10.7)	2,475	748	230.8
Oil and Gas	1,294	1,151	1,409	12.4	(8.2)	3,634	3,405	6.7
Power T&D	7,779	7,122	12,056	9.2	(35.5)	25,684	26,674	(3.7)
Others	**4,030**	**3,222**	**3,752**	**25.1**	**7.4**	**11,341**	**9,203**	**23.2**
Mobility	2,742	1,582	2,346	73.3	16.9	7,325	4,794	52.8
Healthcare	1,137	1,504	1,223	(24.4)	(7.0)	3,530	3,960	(10.9)
Real estate	151	136	183	11.0	(17.6)	486	449	8.3
Less Intersegment	(1,796)	(1,142)	(2,259)	57.3	(20.5)	(5,966)	(4,201)	42.0
Total	**19,096**	**18,097**	**23,682**	**5.5**	**(19.4)**	**102,201**	**98,696**	**3.6**
PBIT								
Industrial	**452**	**884**	**618**	**(48.9)**	**(26.9)**	**1,611**	**2,217**	**(27.3)**
Industry Automation & Drives	269	359	365	(25.0)	(26.2)	927	1,076	(13.8)
Building Technologies	13	26	7	(49.9)	96.1	17	50	(66.2)
Industry Solutions	169	498	246	(66.0)	(31.3)	668	1,091	(38.8)
Power	**1,656**	**1,405**	**2,610**	**17.9**	**(36.5)**	**5,190**	**1,469**	**253.3**
Fossil Power Generation	93	219	57	(57.8)	62.3	211	(1,877)	(111.2)
Oil and Gas	237	125	238	89.0	(0.3)	588	333	76.8
Power T&D	1,327	1,060	2,315	25.1	(42.7)	4,391	3,013	45.7
Others	**171**	**133**	**251**	**28.2**	**(32.1)**	**543**	**360**	**50.6**
Mobility	102	71	(76)	42.4	(234.5)	(39)	(153)	(74.5)
Healthcare	(4)	49	108	(108.4)	(103.8)	92	100	(7.3)
Real estate	175	84	143	107.5	22.2	451	253	78.3
Exceptional income	2,106	—	—			2,106	—	NA
Total Profit before tax	**2,208**	**294**	**172**	**650.9**	**1,183.1**	**16,811**	**6,185**	**171.8**
EBIT Margin								
Industrial	**6.4**	**11.6**	**7.8**			**7.4**	**9.8**	
Industry Automation & Drives	6.0	8.0	7.1			6.5	7.6	
Building Technologies	6.3	10.8	3.2			3.0	7.7	
Industry Solutions	7.3	17.6	9.8			9.4	13.9	
Power	**16.9**	**16.7**	**18.2**			**16.3**	**4.8**	
Fossil Power Generation	12.4	143.1	6.8			8.5	(250.8)	
Oil and Gas	18.3	10.9	16.9			16.2	9.8	
Power T&D	17.1	14.9	19.2			17.1	11.3	
Others	**4.2**	**4.1**	**6.7**			**4.8**	**3.9**	
Mobility	3.7	4.5	(3.2)			(0.5)	(3.2)	
Healthcare	(0.4)	3.3	8.9			2.6	2.5	
Real estate	115.8	62.0	78.1			92.7	56.3	
EBIT Margin	**11.6**	**1.6**	**0.7**			**16.4**	**6.3**	

Source: Company, Kotak Institutional Equities

Margins likely boosted by write-backs in power segment

Growth and profitability for the quarter was led by the power T&D and transportation segments. Power segment (Fossil power, Oil & gas, Power T&D) has registered a strong growth of 16.6% in 3QFY09. Margins for the power T&D segment expanded to 17% in the quarter from 14.9% in 3QFY08. This is likely to be led by a write-back of provisions in this segment. We highlight that power segment margins of 15% would have led to net income in line with our estimates of Rs1.5 bn.

Siemens segmental revenue and margin assumptions, September fiscal year-ends, 2008-10E (Rs mn)

	1H08	3Q08	9M08	4Q08	2008	1H09	3Q09	9M09	4Q09E	2009E	2010E
Industry											
Industry automation & drives	**9,583**	**4,514**	**14,097**	**6,951**	**21,048**	**9,763**	**4,503**	**14,266**	**7,624**	**21,890**	**25,174**
growth (%)					27.1	1.9	(0.2)	1.2	9.7	4.0	15.0
% of sales	23.6	24.9	24.0	28.2	25.2	24.3	23.5	24.0	26.5	24.3	24.3
EBIT	716	359	1,076	716	1,792	657	269	927	715	1,642	2,140
EBIT Margin (%)	7.5	8.0	7.6	10.3	8.5	6.7	6.0	6.5	9.4	7.5	8.5
Industry soln & Building tech.	**5,431**	**3,076**	**8,507**	**3,523**	**12,029**	**5,099**	**2,535**	**7,634**	**3,794**	**11,428**	**13,142**
growth (%)					26.2	(6.1)	(17.6)	(10.3)	7.7	(5.0)	15.0
% of sales	13.4	17.0	14.5	14.3	14.4	12.7	13.2	12.9	13.2	12.7	12.7
EBIT	617	524	1,141	401	1,542	502	182	685	401	1,086	1,511
EBIT Margin (%)	11.4	17.0	13.4	11.4	12.8	9.9	7.2	9.0	10.6	9.5	11.5
Mobility	**3,212**	**1,582**	**4,794**	**1,914**	**6,709**	**4,583**	**2,742**	**7,325**	**2,906**	**10,231**	**11,766**
growth (%)					(1.5)	(1.9)	16.6	3.1	17.3	7.0	15.0
% of sales	7.9	8.7	8.2	7.8	8.0	11.4	14.3	12.3	10.1	11.4	11.4
EBIT	(224)	71	(153)	(51)	(205)	(141)	102	(39)	193	153	824
EBIT Margin (%)	(7.0)	4.5	(3.2)	(2.7)	(3.0)	(3.1)	3.7	(0.5)	6.6	1.5	7.0
Energy											
Power T&D, O&G and Fossil	**22,400**	**8,427**	**30,827**	**11,551**	**42,378**	**21,969**	**9,824**	**31,792**	**13,552**	**45,345**	**52,147**
growth (%)					93.5	42.7	73.3	52.8	51.8	52.5	15.0
% of sales	55.2	46.6	52.5	46.9	50.7	54.6	51.2	53.5	47.1	50.3	50.4
EBIT	64	1,405	1,469	1,600	3,070	3,534	1,656	5,190	2,065	7,255	5,215
EBIT Margin (%)	0.3	16.7	4.8	13.9	7.2	16.1	16.9	16.3	15.2	16.0	10.0
Healthcare											
Healthcare	**2,457**	**1,504**	**3,960**	**2,093**	**6,053**	**2,393**	**1,137**	**3,530**	**2,220**	**5,751**	**6,613**
growth (%)					15.4	(2.6)	(24.4)	(10.9)	6.1	(5.0)	15.0
% of sales	6.1	8.3	6.8	8.5	7.2	5.9	5.9	5.9	7.7	6.4	6.4
EBIT	51	49	100	233	333	96	(4)	92	138	230	265
EBIT Margin (%)	2.1	3.3	2.5	11.1	5.5	4.0	(0.4)	2.6	6.2	4.0	4.0
Real estate											
Real estate	**313**	**136**	**449**	**196**	**645**	**335**	**151**	**486**	**197**	**683**	**752**
growth (%)					30.1	7.1	11.0	8.3	0.7	6.0	10.0
% of sales	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.7
EBIT	168	84	253	361	614	276	175	451	164	615	601
EBIT Margin (%)	53.9	62.0	56.3	184.5	95.3	82.3	115.8	92.7	83.3	90.0	80.0

Source: Company, Kotak Institutional Equities estimates

Some revival seen in order inflows led by power and transportation segments

Siemens reported order inflows of Rs23 bn in the quarter, registering a growth of 12.6% yoy versus Rs20.8 bn in 3QFY08. This reflects some revival in the order booking activity post a decline of about 20% seen in the previous quarter. Order booking was primarily driven by the transmission and transportation segments. However, we highlight that the order inflows were boosted by a single large order worth Rs7.2 bn from Adani Power won in April 2009. The order backlog for the company at the end of June 2009 stood at Rs101.5 bn, which provides visibility of about 1-year based on forward four quarter revenues.

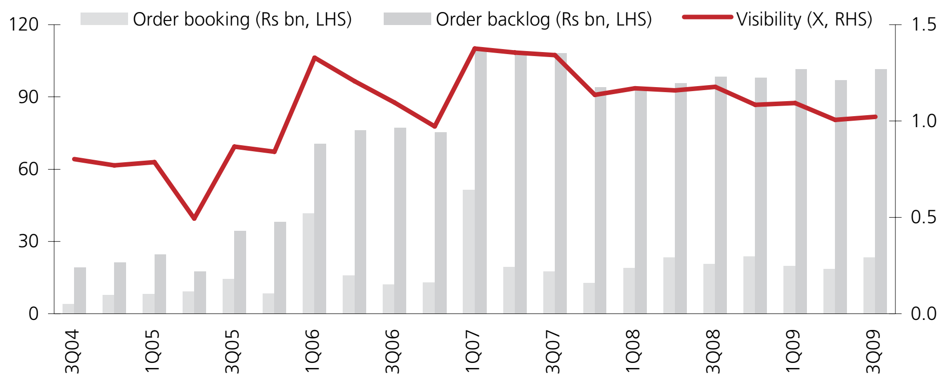
Recent order announcements from Siemens

Date	Client	Size (Rs mn)	Nature of work
30-Apr-09	Adani Power Ltd	7,200	Installation of a bipolar 500 kV HVDC transmission system
4-May-09	Qatari German Switchgear Co. WLL	790	Supply of 11kv Air Insulated Switchgear
22-Jun-09	Vedanta Aluminium Ltd	1,120	Supply of high voltage power distribution systems
22-Jul-09	Power Grid Corporation of India Ltd	1,090	Construct and upgrade 400 kV Bachau & Maithon substations
Total		**10,200**	

Source: BSE, Company

Visibility maintained at about 1 year at the end of June 2009

Order booking, order backlog & visibility trend for Siemens, September fiscal year-ends



Source: Company, Kotak Institutional Equities estimates

Revise earnings estimates and target price to Rs450/share; reiterate REDUCE

We have revised our earnings estimates to Rs22.8 and Rs22.7 from Rs19.8 and Rs21.1 for FY2009E and FY2010E, respectively. The revision to earnings in FY2009E is led by higher margin expectations due to the higher write-back of provisions in the power segment.

Revised estimates for Siemens, September fiscal year-ends, 2009E-11E (Rs mn)

	New estimates			Previous estimates		
Target price	450			360		
Rating	REDUCE			REDUCE		
	FY2009E	**FY2010E**	**FY2011E**	**FY2009E**	**FY2010E**	**FY2011E**
Revenues	95,170	106,517	122,433	93,779	104,652	120,288
EBITDA	12,644	12,612	14,609	11,091	11,777	13,887
EBITDA margin	13.3	11.8	11.9	11.8	11.3	11.5
PBT	11,744	11,682	13,542	10,192	10,848	12,821
PAT	7,693	7,652	8,870	6,676	7,105	8,398
EPS (Rs)	22.8	22.7	26.3	19.8	21.1	24.9
yoy growth (%)						
Revenues	(2.2)	11.9	14.9	(3.6)	11.6	14.9
EBITDA	27.4	(0.3)	15.8	11.8	6.2	17.9
PBT	42.2	(0.5)	15.9	23.4	6.4	18.2
PAT	28.3	(0.5)	15.9	11.3	6.4	18.2
EPS	28.3	(0.5)	15.9	11.3	6.4	18.2

Source: Kotak Institutional Equities estimates

We have revised our P/E multiple-based target price to Rs450/share from Rs360/share based on (1) resetting the multiple to Mar-11 basis versus Sept-10 earlier, (2) revision of target multiple to 18X from 17X earlier in line with L&T and BHEL target multiples and (3) upwards revision to earnings estimates. We are setting the target price at parity to L&T and BHEL versus premium earlier as the growth profile of Siemens has slowed versus L&T and BHEL. Siemens has also been reporting weaker performance in the industrials segment which is at least 50% of business. Growth visibility is low as the order book and order booking has not really shown any big gains.

Comparison of rolling one year forward P/E for Industrials versus Sensex

	Siemens	BHEL	ABB	LNT	Crompton	SENSEX
P/E comparison						
Peak P/E (X)	50.4	43.1	61.7	44.0	30.4	21.7
Bottom P/E (X)	4.8	6.0	8.0	7.4	2.7	9.3
P/E correction from peak (%)	58.8	47.0	53.7	43.9	47.7	28.5
Average P/E between Apr-02 to Jul-09 (X)	23.5	20.1	28.5	19.1	13.9	14.7
Average P/E between January 01 to March 04 (X)	6.5	7.6	10.9	9.2	4.6	13.5
Current P/E (X)	20.8	22.2	25.9	23.1	18.7	16.3

Source: Bloomberg, Kotak Institutional Equities estimates

We retain our REDUCE rating on the stock based on (1) relatively high valuations of 21X Sept-10 earnings, (2) likely sedate earnings growth based on ongoing slowdown in industrial capital expenditure and (3) increasing competition in the power segment with competitors such as Areva, Crompton and Hyosung scaling up presence leading to market share as well as price challenge.

Key upside risks arise from better-than-expected order booking, revenue growth and margins leading to positive earnings surprise. Key downside risk arise from (1) recurrence of problems seen in the earlier quarters in other orders and (2) residual dependence on large orders that potentially yield lower margins.

kotak Institutional Equities

ACC (ACC)

Cement

REDUCE

JULY 24, 2009

RESULT

Coverage view: Neutral

Price (Rs): 854

Target price (Rs): 875

BSE-30: 15,231

Benefits from firm pricing environment. ACC reported 14% yoy growth in revenues at Rs20.8 bn against our estimate of Rs19.9 bn aided by 12% yoy and 7% qoq improvement in realizations. We expect the benefits of a healthy demand environment to be limited for ACC as most of its capacities are operating at full utilization. Hence, we maintain our REDUCE rating with a revised target price of Rs875/share. Our revision factors in the benefit of higher prices in the key markets of North and Central India.

Company data and valuation summary

ACC

Stock data			
52-week range (Rs) (high,low)			907-365
Market Cap. (Rs bn)			160.4
Shareholding pattern (%)			
Promoters			46.2
FIIs			10.7
MFs			2.7
Price performance (%)	1M	3M	12M
Absolute	11.1	25.8	52.5
Rel. to BSE-30	4.5	(8.0)	49.7

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	56.3	74.0	57.1
EPS growth (%)	(12.2)	31.6	(22.8)
P/E (X)	15.2	11.5	14.9
Sales (Rs bn)	72.4	81.5	84.5
Net profits (Rs bn)	10.6	13.9	10.7
EBITDA (Rs bn)	19.7	25.9	22.6
EV/EBITDA (X)	7.7	5.8	6.8
ROE (%)	24.7	27.1	18.4
Div. Yield (%)	2.7	2.7	2.7

Firm pricing environment, lower power and fuel costs aid earnings growth.

ACC reported 14% yoy growth in revenues at Rs20.8 bn compared to our estimate of Rs19.9 bn, aided by 12% yoy and 7% qoq improvement in cement realizations at Rs3,840/ton. The contribution of volumes growth was negligible as volumes increased by only 2% yoy. Increased utilization of captive power plants, along with reduced prices of non-linkage coal, helped post 77% yoy growth in operating profits at Rs7.3 bn compared to our estimate of Rs6 bn. Consolidated revenues of Rs21.8 bn include RMC sales of Rs1.2 bn, though EBIT losses of Rs123 mn resulted in consolidated PAT coming in lower at Rs4.7 bn compared to standalone PAT of Rs4.8 bn.

Sharp price rise in North and Central

Average All-India cement prices rose by Rs10/bag sequentially in 2QCY09. The price rise in ACC's key markets of North and Central was even higher at Rs13/bag and Rs17/bag, respectively. Our channel checks ascribed the unprecedented price rise to (1) improved demand conditions due to renewed focus on infrastructure projects, and (2) logistical constraints resulting in short supply of cement. We have revised our pricing assumptions for ACC and factor in an average price increase of 7% yoy in CY2009E followed by a 5% yoy decline in CY2010E.

Maintain REDUCE rating with a target price of Rs875/share

We maintain our REDUCE rating on the stock with a target price of Rs875/share. Our target price implies an EV/ton of US$132/ton and EV/EBITDA of 7X on FY2011E earnings. Our cautious stance is based on ACC inferior despatch growth and therefore its inability to capitalize on the improved demand environment. We have revised our earnings estimates to reflect the sharp price increase in ACC's key markets of North and Central India, though we remain cautious of the supply overhang due to a bunching of cement capacities in North India in 1HCY10. We now factor in earnings of Rs74 for FY2010E and Rs57 for FY2011E.

QUICK NUMBERS

- Realizations improve 7% qoq
- Volume growth of 2% yoy
- Revise target price to Rs875/share

Near-capacity utilization dilutes benefit of healthy demand

ACC achieved a healthy capacity utilization of 96% in 2QCY09, with 8 out of 15 units operating at full-capacity. However, volumes growth of 2% yoy during 2QCY09 and 4% YTD trails the 7% despatch growth achieved by ACC in CY2008 and the current industry growth rate as well. In our view, despatch growth in CY2009E will continue to remain muted until the commissioning of Bargarh Expn. (1.2 mn tpa) expected in September 2009. We expect volumes growth to improve in CY2010E aided by the commissioning of additional facility at Wadi (3 mn tpa), which is expected to commission in phases from September 2009 and fully commission by March 2010. ACC is also working on setting up a new cement facility at Chanda (3 mn tpa) that will likely commission by June 2010.

Allotment of coal blocks beneficial in the long term

During the current quarter, ACC and Madhya Pradesh State Mining Corporation entered into an arrangement that gives ACC four coal blocks for prospecting and mining. This is in addition to the coal mine allotted to ACC (along with five other joint-venture partners) by the Coal Ministry at Moira-Madhujore with geological reserves of 685 mn tons. The allotment of coal blocks does not have any immediate earnings impact, but access to coal resources in the long-term is of strategic importance as its reduces dependence on Coal India Ltd (or imported coal) and helps attain efficiency in production costs.

Exhibit 1: Strong improvement in realizations and lower power and fuels costs resulted in sharp expansion of EBITDA margins
Quarterly results for ACC Limited (Standalone), December year-ends (Rs mn)

						(% chg.)				
	2QCY09	2QCY09E	2QCY08	1QCY09	2QCY09E	2QCY08	1QCY09	CY2009E	CY2008	*(% chg)*
Sales	**20,813**	**19,980**	**18,218**	**20,551**	**4**	**14**	**1**	**82,380**	**73,086**	**12.7**
Operating costs										
Raw material costs	(2,234)	(2,160)	(2,235)	(2,594)				(8,772)	(7,994)	
Employee costs	(968)	(950)	(979)	(794)				(4,554)	(4,130)	
Freight costs	(2,547)	(2,700)	(2,605)	(2,778)				(10,974)	(10,016)	
Power costs	(3,738)	(4,104)	(4,005)	(4,114)				(16,633)	(15,990)	
Purchased cement	(247)	(216)	(218)	(253)				(923)	(874)	
Other expenditure	(3,741)	(3,780)	(4,041)	(3,545)				(16,428)	(16,757)	
Total operating costs	(13,476)	(13,910)	(14,082)	(14,077)				(58,284)	(55,761)	
EBITDA	**7,337**	**6,070**	**4,136**	**6,474**	**21**	**77**	**13**	**24,096**	**17,325**	**39.1**
EBITDA margin (%)	35.3	30.4	22.7	31.5				29.2	23.7	
Other income	570	449	472	508				1,763	2,387	
Interest	(159)	(375)	(108)	(368)				(850)	(400)	
Depreciation	(784)	(820)	(724)	(789)				(3,333)	(2,942)	
PBT	**6,963**	**5,324**	**3,776**	**5,825**	**31**	**84**	**20**	**21,676**	**16,371**	**32.4**
Current tax (expense)/income	(2,107)	(1,597)	(1,185)	(1,777)				(6,552)	(5,195)	
Net income	**4,856**	**3,727**	**2,591**	**4,048**	**30**	**87**	**20**	**14,763**	**11,202**	**31.8**
Extraordinaries	—	—	123	—				—	500	
Reported net income	**4,856**	**3,727**	**2,714**	**4,048**	**30**	**79**	**20**	**14,763**	**11,702**	
Sales, mn tons	**5.4**	**5.4**	**5.3**	**5.7**	**—**	**2**	**(5)**	**22.4**	**21.3**	**5.1**
Realization (Rs/ton)	**3,840**	**3,700**	**3,444**	**3,587**	**4**	**12**	**7**	**3,674**	**3,426**	**7.2**
Operating costs (Rs/ton)										
Raw materials	412	400	422	453				391	375	
Employee costs	179	176	185	139				203	194	
Freight costs	470	500	492	485				489	470	
Power & fuel costs	690	760	757	718				742	750	
Purchased cement	46	40	41	44				41	41	
Other expenditure	690	700	764	619				733	786	
Profitability (Rs/ton)	**1,354**	**1,124**	**782**	**1,130**	**20**	**73**	**20**	**1,075**	**812**	**32.3**

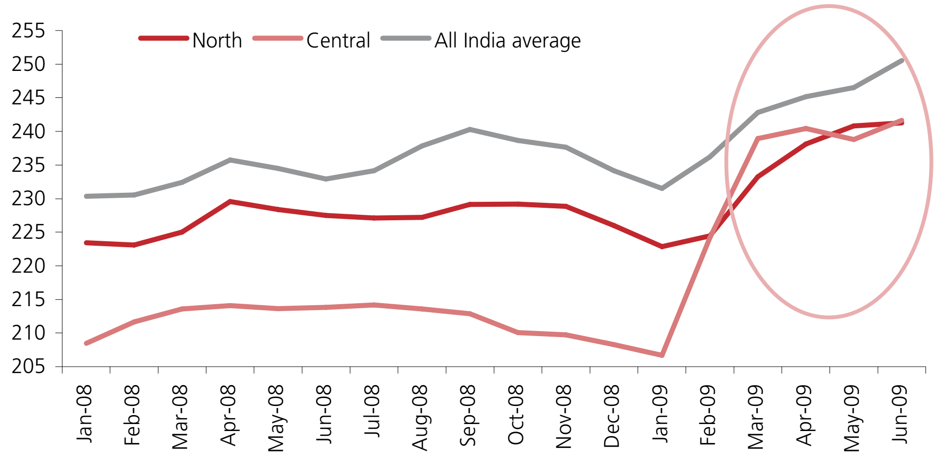
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: RMC business has curtailed losses
Key financial data for RMC business (Rs mn)

	1QCY09	1QCY08	(% Chg)
Revenues	1,269	1,298	*(2)*
EBIT	(123)	(135)	*(9)*
Capital employed	1,402	1,074	*31*
RMC sales/Cement sales (X)	0.06	0.07	

Source: Company, Kotak Institutional Equities

Exhibit 3: Cement prices have risen sharply in ACC's key markets of North and Central over the last few months
Average cement prices in North, Central and All-India (Rs/bag)



Source: CMA, Kotak Institutional Equities

Exhibit 4: Change in estimates for ACC, December fiscal year-ends, 2009-10E (Rs mn)

	Revenues			EBITDA			Net profit		
	Old	**New**	**% Chg.**	**Old**	**New**	**% Chg.**	**Old**	**New**	**% Chg.**
2009E	78,136	81,516	4.3	20,154	25,859	28.3	10,371	13,911	34.1
2010E	81,160	84,466	4.1	17,876	22,592	26.4	7,925	10,733	35.4

Source: Kotak Institutional Equities estimates

Exhibit 5: Profit model, balance sheet, cash model of ACC (Consolidated), December fiscal year-ends, 2006-10E (Rs mn)

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	57,468	69,319	72,370	81,516	84,466
EBITDA	**15,666**	**18,421**	**16,608**	**23,232**	**19,625**
Other income	1,973	2,416	3,104	2,626	2,967
Interest	(752)	(739)	(400)	(850)	(1,046)
Depreciation	(2,543)	(3,051)	(2,942)	(3,333)	(4,451)
Pretax profits	14,345	17,048	16,371	21,676	17,095
Tax	(3,877)	(4,917)	(5,169)	(6,913)	(5,459)
Share in associates	231	(45)	(632)	(852)	(904)
Net profits	**10,699**	**12,086**	**10,571**	**13,911**	**10,733**
Extraordinary items	1,850	2,255	500	—	—
Earnings per share (Rs)	**56.7**	**64.1**	**56.3**	**74.0**	**57.1**
Balance sheet (Rs mn)					
Total equity	34,636	44,844	52,627	63,355	71,601
Total borrowings	7,712	3,064	4,820	10,791	15,761
Currrent liabilities	16,718	22,212	27,413	26,915	27,314
Total liabilities and equity	**59,066**	**70,120**	**84,860**	**101,061**	**114,675**
Cash	6,202	7,435	9,842	15,415	18,934
Current assets	13,861	14,596	17,510	17,855	19,023
Total fixed assets	33,959	39,641	50,718	61,000	69,928
Investments	5,035	8,448	6,791	6,791	6,791
Deferred expenditure	9	—	—	—	—
Total assets	**59,066**	**70,120**	**84,860**	**101,061**	**114,675**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	13,614	15,819	14,391	19,050	17,867
Working capital	319	1,202	758	(843)	(770)
Capital expenditure	(5,366)	(8,283)	(14,940)	(13,616)	(13,379)
Investments	(1,939)	(2,921)	894	—	—
Free cash flow	**6,627**	**5,818**	**1,103**	**4,592**	**3,718**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Ambuja Cements (ACEM)

Cement

REDUCE

JULY 24, 2009

RESULT

Coverage view: Neutral

Price (Rs): 97

Target price (Rs): 85

BSE-30: 15,231

Shortage of clinker hurts, power sales soothe. Ambuja Cements (ACEM) reported results marginally below expectations. Profitability of the cement business continued to suffer as ACEM resorted to increase clinker purchases to drive volume growth. However, sale of surplus power aided earnings and helped report 7.2% yoy increase in net profits. We have fine-tuned our estimates and maintain our REDUCE rating with a revised target price of Rs85/share.

Company data and valuation summary

Ambuja Cements

Stock data			
52-week range (Rs) (high,low)			107-43
Market Cap. (Rs bn)			147.7
Shareholding pattern (%)			
Promoters			46.5
FIIs			24.2
MFs			0.9
Price performance (%)	1M	3M	12M
Absolute	7.8	19.9	16.7
Rel. to BSE-30	1.4	(12.3)	14.4

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	7.2	7.9	6.6
EPS growth (%)	(5.0)	10.2	(16.8)
P/E (X)	13.5	12.3	14.7
Sales (Rs bn)	60.6	68.4	72.9
Net profits (Rs bn)	10.9	12.0	10.0
EBITDA (Rs bn)	19.5	21.1	19.3
EV/EBITDA (X)	7.3	6.8	7.6
ROE (%)	19.7	19.1	14.1
Div. Yield (%)	3.1	1.9	2.2

QUICK NUMBERS

- 7% yoy growth in PAT
- Interim dividend of Rs1.2/share
- Revised target price of Rs85/share

Volume growth achieved at the cost of profitability

ACEM reported 17.7% yoy growth in revenues at Rs18.4 bn (our est. of Rs18.4 bn), 1.1% yoy increase in EBITDA to Rs4.8 bn (our est. 5.4 bn) and 7% increase in net profits at Rs3.2 bn (our est. Rs3.4 bn). ACEM achieved volume growth of 10.4% yoy at 4.83 mn tons during 2QCY09 with strong growth in export volumes (cement exports were banned for a couple of months during 2QCY08). However, volume growth was achieved at the cost of profitability as ACEM had to resort to increased clinker purchases to support incremental demand.

Sale of surplus power aids profit growth

ACEM capitalized on availability of surplus power from its captive power plants and realized revenues of Rs193 mn during 2QCY09 on account of external power sales (compared to Rs19 mn in 1QCY09 and Rs62 mn in 2QCY09). Adjusting for the power revenues, which are reported in other income, though the cost of generation is reflected in power and fuel expenses, EBITDA/ton for ACEM during 2QCY09 at Rs1,033/ton was unchanged compared to 1QCY09. Higher costs of production absorbed the benefit of 5.6% qoq increase in realizations.

Maintain REDUCE rating with target price of Rs85/share

We maintain our REDUCE rating on the stock with a target price of Rs85/share (Rs80 previously). We have revised our earnings estimates to reflect the benefit of higher cement realization, higher other income on account of sale of surplus power and lower effective tax rate. We estimate EPS of Rs7.9 for CY2009E (Rs7 previously) and Rs6.6 for CY2010E (Rs5.8 previously). At EV/ton of US$147 on CY2010E production, ACEM remains the most expensive cement stock in India. However, we note ACEM's profitability has been lower than peers during the last few quarters as compared to the historical higher profitability enjoyed by ACEM. Our target price of Rs85/share implies EV/EBITDA of 6.6X and EV/ton of production of US$129/ton.

Exhibit 1: Sharp increase in raw material cost due to dependence on purchased clinker
December year-ends (Rs mn)

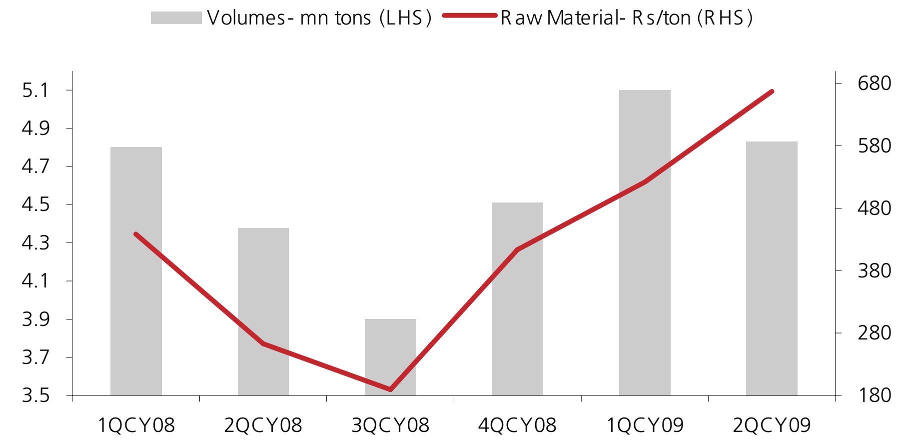
	2QCY09	2QCY09E	2QCY08	1QCY09	(% chg.) 2QCY09E	2QCY08	1QCY09	CY2009E	CY2008	(% chg.)
Sales	**18,474**	**18,443**	**15,698**	**18,476**	**0.2**	**17.7**	**(0.0)**	**69,710**	**62,347**	***11.8***
Operating costs										
Raw material costs	(3,224)	(2,425)	(1,150)	(2,661)				(8,653)	(5,859)	
Employee costs	(688)	(708)	(644)	(577)				(2,794)	(2,661)	
Freight costs	(3,294)	(3,395)	(3,249)	(3,413)				(13,051)	(12,205)	
Power & fuel costs	(3,752)	(3,589)	(3,197)	(3,987)				(14,233)	(13,257)	
Other costs	(2,719)	(2,910)	(2,715)	(2,591)				(11,703)	(10,586)	
Total operating costs	(13,677)	(13,027)	(10,955)	(13,228)				(50,433)	(44,567)	
EBITDA	**4,797**	**5,416**	**4,743**	**5,247**	**(11.4)**	**1.1**	**(8.6)**	**19,276**	**17,779**	***8.4***
EBITDA margin (%)	26.0	29.4	30.2	28.4				27.7	28.5	
Other income	692	350	350	409				1,850	1,754	
Interest	(52)	(100)	(57)	(65)				(220)	(321)	
Depreciation	(704)	(700)	(616)	(686)				(3,118)	(2,598)	
PBT	**4,732**	**4,966**	**4,420**	**4,905**	**(4.7)**	**7.1**	**(3.5)**	**17,788**	**16,615**	***7.1***
Current tax (expense)/income	(1,486)	(1,490)	(1,391)	(1,565)				(5,739)	(5,676)	
Net income	**3,247**	**3,476**	**3,029**	**3,341**	**(6.6)**	**7.2**	**(2.8)**	**12,050**	**10,939**	***10.2***
Extraordinaries	—	—	2,741	—				—	3,083	
Reported net income	**3,247**	**3,476**	**5,770**	**3,341**				**12,050**	**14,023**	
Per ton analysis										
Despatches, '000 tons	**4,830**	**4,850**	**4,376**	**5,100**	**(0.4)**	**10.4**	**(5.3)**	**18,830**	**17,586**	***7.1***
Realization (Rs/ton)	**3,825**	**3,803**	**3,587**	**3,623**	**0.6**	**6.6**	**5.6**	**3,702**	**3,545**	***4.4***
Operating cost (Rs/ton)	2,832	2,686	2,503	2,594				2,678	2,534	
Raw materials	667	500	263	522				460	333	
Employee costs	142	146	147	113				148	151	
Freight costs	682	700	742	669				693	694	
Power & fuel costs	777	740	731	782				756	754	
Other costs	563	600	620	508				621	602	
Profitability (Rs/ton)	**993**	**1,117**	**1,084**	**1,029**	**(11.1)**	**(8.4)**	**(3.5)**	**1,024**	**1,011**	***1.3***

Source: Company, Kotak Institutional Equities estimates

Increased clinker purchases hurts profitability

Higher clinker purchases—catering to increased volumes—resulted in a sharp increase in raw material costs to Rs667/ton during 2QCY09 compared to Rs522/ton in 1QCY09. ACEM has been resorting to purchased clinker in order to sustain volumes growth and maintain market share while the purchase of clinker rose sharply during 2QCY09 due to the shutting down of the kiln at its facility in Maharashtra for repairs. Below, Exhibit 2 of this note gives the quarterly trend in sales volumes and raw material costs (per ton basis).

Exhibit 2: Dependence on purchased clinker for higher volumes depresses profitability
Volume (mn tons) and raw material cost (Rs/ton)



Source: Company, Kotak Institutional Equities

Expansion projects nearing completion

We expect additional clinker from new facilities at Bhatapara in Chhattisgarh and Rauri in Himachal Pradesh to reduce dependence on purchased clinker and reduce raw material costs from September 2009 and end-2009 respectively. Additional grinding capacities of 1.5 mn tpa each at Dadri and Nalagarh are expected to commission during 2HCY09 and 1QCY10 taking the installed capacity of ACEM to 25 mn tpa. The new bulk terminal at Kochi was commissioned in April 2009 and ACEM plans to add three ships in CY2010 to increase coastal transportation.

Exhibit 3: Change in estimates for Ambuja Cements, December fiscal year-ends, 2009-10E (Rs mn)

	Revenues			EBITDA			Net profit		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
2009E	65,933	68,387	3.7	19,714	21,126	7.2	10,600	12,050	13.7
2010E	69,976	72,854	4.1	17,631	19,337	9.7	8,887	10,024	12.8

Source: Kotak Institutional Equities estimates

Exhibit 4: Profit model, balance sheet, cash model of Ambuja Cement, December fiscal year-ends, 2006-10E (Rs mn)

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	48,479	55,303	60,597	68,387	72,854
EBITDA	**17,608**	**18,706**	**16,030**	**17,954**	**18,125**
Other income	766	3,345	3,503	3,173	1,213
Interest	(377)	(759)	(321)	(220)	(285)
Depreciation	(2,269)	(2,363)	(2,598)	(3,118)	(4,236)
Pretax profits	15,727	18,929	16,615	17,788	14,816
Tax	(2,760)	(7,413)	(5,676)	(5,739)	(4,793)
Net profits	**12,968**	**11,517**	**10,939**	**12,050**	**10,024**
Earnings per share (Rs)	**8.5**	**7.6**	**7.2**	**7.9**	**6.6**
Balance sheet (Rs mn)					
Total equity	38,756	50,396	60,536	69,659	76,694
Total borrowings	8,654	3,304	2,887	2,887	2,887
Currrent liabilities	7,016	11,691	14,738	17,401	16,469
Total liabilities and equity	**54,426**	**65,391**	**78,161**	**89,947**	**96,049**
Cash	3,781	6,508	8,518	7,595	3,875
Current assets	7,995	9,365	14,876	16,212	17,271
Total fixed assets	31,241	36,567	51,400	62,773	73,537
Investments	11,331	12,889	3,324	3,324	1,324
Deferred expenditure	77	62	43	43	43
Total assets	**54,426**	**65,391**	**78,161**	**89,947**	**96,049**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	15,504	14,332	13,772	16,861	15,945
Working capital change	76	3,305	(2,464)	1,327	(1,992)
Capital expenditure	(7,954)	(7,504)	(17,263)	(14,492)	(15,000)
Investments		(1,558)	9,566	0	2,000
Free cash flow	**7,626**	**8,574**	**3,611**	**3,697**	**954**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Union Bank (UNBK)

Banks/Financial Institutions

BUY

JULY 24, 2009

RESULT

Coverage view: Attractive

Price (Rs): 247

Target price (Rs): 280

BSE-30: 15,231

Margins decline; asset quality remains steady. Core earnings were below estimates due to a sharp decline in margins to 2.3% (by 60 bps), as deposit growth remained strong (up 34%), without corresponding growth in loans (up 27%). However, we are comfortable on the asset quality front, with gross NPLs at 2% and restructured assets at 4.5% of loan book. Margins are likely to improve from 2QFY10E. The stock trades at 1.3X FY2011E PBR for likely ROEs of 20%. Maintain BUY with a TP of Rs280.

Company data and valuation summary

Union Bank

Stock data			
52-week range (Rs) (high,low)			266-113
Market Cap. (Rs bn)			124.7
Shareholding pattern (%)			
Promoters			55.4
FIIs			14.1
MFs			12.5
Price performance (%)	1M	3M	12M
Absolute	13.3	46.3	83.8
Rel. to BSE-30	6.6	6.9	80.3

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	34.2	32.4	35.4
EPS growth (%)	25.0	(5.1)	9.2
P/E (X)	7.2	7.6	7.0
NII (Rs bn)	38.1	41.9	51.1
Net profits (Rs bn)	17.3	16.4	17.9
BVPS	139.7	166.5	195.9
P/B (X)	1.8	1.5	1.3
ROE (%)	27.2	21.2	19.5
Div. Yield (%)	2.0	1.9	2.1

QUICK NUMBERS

- Strong loan growth at 27% and deposits at 34%
- Margins decline sharply to 2.3% (down 60 bps yoy)
- Earnings growth at 94% supported by strong treasury income
- Increase FY2010E estimates by 8% on account of higher fees and treasury income

Asset growth is higher than the industry

Union Bank of India continues to focus on asset growth—loans increased by 27% in 1QFY10 to Rs960 bn (qoq decline of 2%). Retail loans grew qoq while SME loans declined during the quarter. Deposits grew by 34% yoy to Rs1.4 tn and CASA deposit growth was at 17%, which is healthy in the current environment. However, CASA ratio declined from 35% as of June 2008 to 30% as of June 2009 (remained stable qoq). Incremental deposits during the quarter were Rs52 bn which funded the investments, having a negative impact on margins.

Margins declined sharply as deposit accumulation and costs are still running high

Union Bank reported Rs8 bn of net interest income (NII), which was flat yoy and 9% below our estimates. However, NII declined by 13% qoq as the asset side repriced faster than the liability side. Margins declined sharply (60 bps fall) during the quarter as the bank reduced its PLR by 50 bps from April 2009, after a 200 bps reduction in 4QFY09, in line with the falling rates. However, a large part of the deposit base is likely to reprice from 2QFY10E onwards, which shall be positive for the margins. Deposits had grown sharply last year and this trend continued in 1QFY10 as well, resulting in higher funding costs. Even adjusted for Rs400 mn of interest income on funds placed with mutual funds, which is now treated as non-interest income (treated as interest income in prior periods), NII was 5% below estimates.

Net NPLs rise as floating provisions are now treated as part of Tier II capital

Gross NPLs have decreased by 3% qoq to Rs18.7 bn. Net NPLs, however, increased by 107% qoq, as the bank has now started treating floating provisions as NPLs. The management stated that this is due to the RBI circular wherein banks are required to treat floating provisions as part of their Tier II capital. Adjusted for this change in norms, net NPLs would have been at similar levels of 0.15%. The management highlighted its target of restricting its gross NPLs to 1.75% and delinquencies at 1.5% during the current fiscal. The total restructured assets are at Rs45 bn, which is 4.7% of the total loan book. Out of the total restructured loans, the management expects delinquency of about 5-10% over the next couple of years.

Non-interest revenues were buoyant, driven by fee income and treasury

Union Bank of India had non-interest revenues of Rs5.3 bn in 1QFY10, largely driven by healthy core fee income (up 38% yoy) of Rs1.8 bn. We believe that the company's fee income benefited from higher processing charges on its loan assets and other banking services. Treasury income was also very strong at Rs2.1 bn (up from Rs80 mn yoy). The bank has increased its AFS investment book sharply to Rs161 bn (31% of total, up from 22% in previous quarters) with duration of 2.7 years. We currently project Rs3 bn of treasury income for FY2010E and Rs1.5 bn in FY2011E compared to the Rs2.1 bn booked in 1QFY10, which is likely conservative.

Operational expenses were higher largely on account of one-off items

Union Bank of India had significantly higher operational expenses of Rs5.4 bn (up 30% yoy) and 13% ahead of estimates. This sharp increase in costs on account of (1) ad-hoc wage hike provisions of Rs400 mn for likely liabilities on account of negotiations of employee unions with IBA, (2) higher expenses on account of advertising expenses to enhance its brand image and (3) expenses on account of opening 234 new branches (9% of branch network as of March 2009) in 1QFY10.

Union Bank of India
Quarterly results, March fiscal year-ends, 1QFY09-1QFY10

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	% chg	1QFY10KS	Actual Vs KS
Interest income	25,332	28,313	32,617	32,897	31,753	25.3	31,300	1.4
Loans	18,414	21,410	24,646	24,464	23,526	27.8	23,500	0.1
Investments	6,823	6,724	7,273	7,754	7,991	17.1	7,400	8.0
Balances with RBI	84	167	243	186	194	130.6	200	(3.1)
Others	11	12	455	493	42	281.1	200	(78.9)
Interest expense	17,232	18,560	21,333	23,633	23,737	37.7	22,500	5.5
Net interest income	**8,100**	**9,753**	**11,284**	**9,264**	**8,016**	**(1.0)**	**8,800**	**(8.9)**
Non-int.income	2,217	2,833	3,921	5,590	5,287	138.5	3,500	51.1
core fees	1,330	NA	1,990	NA	1,830	37.6		
exchange income	590	NA	680	NA	910	54.2		
sale of invts.	80	-380	980	2,270	2,090	2,512.5	1,000	109.0
Non-int income excl treasury	2,137	3,213	2,941	3,320	3,197	49.6	2,500	27.9
Total income	10,317	12,586	15,205	14,854	13,303	28.9	12,300	8.2
Op. expenses	4,157	5,589	6,656	5,740	5,429	30.6	4,800	13.1
Employee cost	2,247	2,916	3,225	3,131	3,005	33.8	2,800	7.3
Other cost	1,910	2,672	3,432	2,609	2,423	26.9	2,000	21.2
Operating profit	6,160	6,997	8,548	9,115	7,875	27.8	7,500	5.0
Provisions and cont.	2,957	2,033	-449	2,834	1,903	(35.6)	3,500	(45.6)
Investment depreciation	3,390	-540	-2,910	-330	-1,350	(139.8)		
NPLs	-510	2,400	1,660	2,700	2,860	(660.8)	3,500	(18.3)
Other provisions	77	170	800	460	393	409.1		
PBT	3,203	4,965	8,997	6,281	5,972	86.5	4,000	49.3
Tax	920	1,350	2,280	1,630	1,550	68.5	1,200	29.2
Net profit	**2,283**	**3,615**	**6,717**	**4,651**	**4,422**	**93.7**	**2,800**	**57.9**
Tax rate (%)	28.7	27.2	25.3	26.0	26.0		30.0	
PBT-invt gains+ provisions	**6,080**	**7,377**	**7,568**	**6,845**	**6,185**	**1.7**	**6,500**	**(4.8)**

Source: Company, Kotak Institutional Equities estimates

Union Bank of India-- key balance sheet items and analytical parameters
March fiscal year-ends, 1QFY09-1QFY10

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	% chg
Key balance sheet items (Rs bn)						
Total Deposit	1,072	1,159	1,296	1,387	1,439	34.2
Savings deposits	257	265	0	0	294	14.6
Current deposits	116	119	0	0	143	23.4
Term deposits	700	776	903	970	1,001	43.1
CASA (%)	34.8	33.1	30.4	30.1	30.4	
Gross advances	759	865	930	983	960	26.6
Total retail loans	82	93	98	101	106	29.1
Retail loans to Advances (%)	10.8	10.8	10.5	10.3	11.0	2.0
Investments	353	347	412	432	523	48.0
AFS	115	115	152	99	161	40.0
Duration (years)	2.7	2.2	1.4	3.1	2.7	
HTM	238	231	260	333	362	51.8
Duration (years)	4.1	4.2	4.5	5.3	5.5	
Yield management measures (%)						
Cost of funds	5.60	5.74	6.10	6.35	6.02	
Yield of funds	8.16	8.75	9.32	8.84	8.05	
NIM	2.92	3.52	3.68	2.80	2.29	
Capital adequacy details (%)						
CAR	12.2	12.5	12.3	13.3	13.7	
Tier I	7.5	7.6	7.5	8.2	8.2	
Tier II	4.7	4.9	4.8	5.1	5.6	
Asset quality details						
Gross NPLs (Rs bn)	15.8	16.7	15.6	19.2	18.7	19.0
Gross NPLs (%)	2.1	1.9	1.7	2.0	2.0	
Net NPLs (Rs bn)	1.1	1.2	1.3	3.3	6.8	518.8
Net NPLs (%)	0.2	0.1	0.1	0.3	0.7	

Source: Company

Union Bank of India-- change in estimates
Old and new estimates, March fiscal year-ends, 2010-2011E (Rs mn)

	Old estimates		New estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net interest income	43,632	51,855	41,906	51,079	(4.0)	(1.5)
NIM (%)	2.61	2.69	2.46	2.55		
Loan growth (%)	17.42	15.16	20.53	18.24		
Loan loss provisions	10,494	12,194	10,645	12,697	1.4	4.1
Other income	14,234	15,020	16,229	15,867	14.0	5.6
Fee income	3,759	4,210	3,916	4,386	4.2	4.2
Operating expenses	25,580	28,522	25,634	28,600	0.2	0.3
Employee expenses	13,304	14,800	13,304	14,800	-	-
PBT	21,694	26,061	22,759	25,552	4.9	(2.0)
Net profit	**15,186**	**18,243**	**16,386**	**17,886**	**7.9**	**(2.0)**
PBT -treasury + NPL provisions	32,188	38,255	32,403	38,249	0.7	(0.0)

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

United Phosphorus (UNTP)

Others

BUY

JULY 24, 2009

RESULT

Coverage view:

Price (Rs): 150

Target price (Rs): 160

BSE-30: 15,231

Better times ahead. The inclusion of Advanta India's seeds business in revenues have added sales but lowered EBITDA. Adjusted sales beat our forecast by 8% and EBITDA margin was 200 bps lower. UNTP reiterated sales growth guidance of 10-15% for its base business and EBITDA margin of 20%. The benefits of declining raw material prices will begin to feed into margins in 2QFY10. We make no material changes to estimates but revise our target price to Rs160 as we increase PE multiples used in the valuation.

Company data and valuation summary

United Phosphorus

Stock data			
52-week range (Rs) (high,low)			185-65
Market Cap. (Rs bn)			69.3
Shareholding pattern (%)			
Promoters			28.0
FIIs			35.0
MFs			19.8
Price performance (%)	**1M**	**3M**	**12M**
Absolute	1.4	17.6	(6.4)
Rel. to BSE-30	(4.7)	(14.0)	(8.1)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	10.7	13.9	18.0
EPS growth (%)	27.8	29.7	29.6
P/E (X)	14.0	10.8	8.3
Sales (Rs bn)	49.3	57.5	65.1
Net profits (Rs bn)	4.9	6.4	8.3
EBITDA (Rs bn)	8.3	11.7	13.9
EV/EBITDA (X)	9.9	6.8	5.3
ROE (%)	18.1	19.1	20.8
Div. Yield (%)	0.8	1.0	1.3

QUICK NUMBERS

- 1QFY10 revenues at 16.3 bn, 13% above estimate
- EBITDA margins at 20% as against our estimate of 22%
- We estimate FY2010E sales growth at 17% and flat EBITDA margin at 20%

1QFY10 revenues at 16.3 bn surpassed estimate by 13%

Revenues were 13% above our estimate due to the integration of the Advanta India seeds business with UNTP starting this quarter. This was not factored into our estimates. Excluding the Rs770 mn Advanta India revenues, sales grew 9% yoy and were 8% above estimates due to better performance in North America and ROW markets. India sales, adjusted for Advanta, were 6% lower than estimates as the late monsoon delayed orders.

Adjusted EBITDA margins at 20% lower than our estimate of 22%

Adjusted for Advanta India's seeds business which was consolidated at cost basis, EBITDA margins at 20% were 200 bps lower than estimated. This was due to higher material cost despite the dip in raw material prices. UNTP reported a lower proportion of sales from its most profitable markets of Europe and North American markets this quarter at 57% versus 59% in the last quarter.

PAT at Rs1.7 bn, below KIE Rs2.6 bn

EBITDA was 3% below KIE while PBT was 33% below forecast due to (1) forex loss of Rs117 mn reported in interest costs on account of MTM on forex loans while we forecast gain of Rs850 mn (2) lower other income of Rs65 mn versus estimated Rs100 mn (3) Advanta, its 49% owned affiliate, reported a loss this quarter of Rs26 mn versus estimated profit of Rs64 mn.

Maintain BUY rating with SOTP-based target price increased to Rs160 (from Rs140)

Management maintains FY2010E sales growth guidance of 10-15% in value terms and expects EBITDA margin at 20%. We estimate FY2010E sales growth at 17% (including Advanta seeds business) and flat EBITDA margin at 20% over the adjusted margin of FY2009 (arrived at by adding Rs300m in inventory write off to reported number). We have changed PAT forecasts only marginally and raised our target price to Rs160 due to higher multiples. At the current price, stock trades at 11X FY2010E and 8X FY2011E. At our target price, the stock would trade at 12X FY2010E and 9X FY2011E on a 12-month horizon.

1QFY10 revenues at 16.3 bn, were 13% above estimate

Revenues were 13% above estimates, driven by volume growth of 15% yoy and an exchange rate impact of 7%yoy. The price increase contributed 4% to 25% yoy sales growth.

Revenues were above estimates owing to the integration of Advanta India's seeds business with UNTP starting this quarter. This was not factored into our estimates. Excluding the Rs770 mn from Advanta India revenues, sales were 8% above estimates due to better performance in North America and ROW markets. European revenues at16% yoy growth were in line with estimates.

- North America revenues at Rs4.3 bn, was 15% above estimates. This was despite some postponement of sales in US
- ROW market sales grew 37% yoy to Rs3.5 bn and beat estimates by 21%
- India sales grew adjusted for Advanta sales of Rs770 mn grew mere 2% yoy this quarter. This was due to (1) postponement of orders due to late onset of monsoon, (2) poor realization chor-alkali business. Adjusting for the Rs110 mn sales decline of this business, India revenues grew 6% yoy

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

					% change		
	1QFY10	1QFY10E	1QFY09	4QFY09	1QFY10E	1QFY09	4QFY09
Net sales+other income	**16,377**	**14,368**	**12,993**	**13,917**	**14**	**26**	**18**
Op. costs	13,306	11,212	10,484	10,987	19	27	21
EBITDA	**3,070**	**3,156**	**2,509**	**2,930**	**(3)**	**22**	**5**
Fx loss (gain) in interest	117	(849)	330	300	NM	(65)	(61)
Interest	461	500	304	575	(8)	51	(20)
Depreciation	501	550	378	638	(9)	33	(21)
Other income	65	100	147	85	(35)	(56)	(23)
PBT	**2,056**	**3,055**	**1,645**	**1,502**	**(33)**	**25**	**37**
Tax - Current	268	519	94	69	(48)	184	286
Tax - Deferred	0	0	92	(154)	NM	NM	NM
Fringe benefit tax	0	0	4	9	NM	NM	NM
PAT	**1,789**	**2,536**	**1,454**	**1,578**	**(29)**	**23**	**13**
Income from associate	(26)	64	22	30	NM	NM	NM
PAT	**1,763**	**2,600**	**1,477**	**1,608**	**(32)**	**19**	**10**
India	**3,680**	**3,089**	**2,860**	**1,961**	**19**	**29**	**88**
International	**12,750**	**11,403**	**10,280**	**12,041**	**12**	**24**	**6**
North America	4,380	3,797	3,530	3,036	15	24	44
Europe	4,850	4,685	4,180	5,853	4	16	(17)
Rest of the World	3,520	2,921	2,570	3,152	21	37	12
Total	**16,430**	**14,492**	**13,140**	**14,002**	**13**	**25**	**17**

Source: Kotak Institutional Equities estimates

Adjusted EBITDA margins at 20% were lower than estimate of 22%

This was due to the following reasons

- Inclusion of Advanta India seeds business at cost basis. Adjusted for this, EBITDA margins were at 20%.

- High raw material costs despite the dip in raw material prices. UNTP reported higher raw material cost at 58% versus KIE 50% and previous quarter's 50%. A part of this can be attributed to Advanta seeds business being integrated with UNTP.

- UNTP reported a lower proportion of sales from Europe and North American markets this quarter at 57% versus 59% last quarter. EU and North American markets are UNTP's most profitable markets.

- In its industrial chemicals business, decline in prices of products impacted profits by about Rs110 mn.

Employee costs was at Rs1.2 bn versus KIE Rs1.3 bn and previous quarter's Rs1.3 bn. Employee costs for UNTP have shown a trend of increasing in the last quarter of financial year. Other expenses at 15% were lower than KIE and previous quarter's 19%.

PAT at Rs1.7 bn, below KIE Rs2.6 bn

EBITDA was 3% below KIE, while PBT was 33% below our estimates on account of:

- Forex loss of Rs117 mn reported in interest costs on account of MTM on forex loans. Excluding this cost, interest expense was Rs461 mn versus KIE Rs500 mn

- Lower other income of Rs65 mn versus estimated Rs100 mn

- Advanta, its 49% owned affiliate, reported a loss this quarter of Rs26 mn versus estimated profit of Rs64 mn

- Our forecast included forex gains of Rs849 mn since Rupee appreciated against US$. We were surprised to note that this number has not appeared in the revenue statement. We have sought a clarification from UNTP about this.

- Depreciation at Rs500 mn was slightly lower than estimated Rs550 mn. UNTP capitalizes costs incurred on registration of its products and amortizes it over five years.

- Tax rate at 13% was lower than KIE 17%.

Increase in debt by Rs3 bn this quarter due to working capital

UNTP reported debt of Rs20 bn and debt equity ratio of 0.7X as of March 2009. UNTP increased debt by Rs3 bn this quarter due to increase in working capital by Rs4.6 bn. Working capital increase was driven by increase in receivables days to 94 from 78 as of March 2009 and decline in payables days to 83 from 114 as of March 2009. Cash balances stood at Rs4.5 bn and were drawn down by Rs870 mn to fund working capital.

FY2010E management guidance: 10-15% sales growth; 20% EBITDA margins

Management maintains sales growth guidance of 10-15% in value terms and expects EBITDA margin at 20%. Sales growth is for UNTP's business alone. Revenues from Advanta seeds business are in addition to these revenues.

Our forecast is based on Rs/US$ rate of 47 for FY2010E and 47.75 for FY2011E. We estimate FY2010E sales growth at 17% and flat EBITDA margin at20% over the adjusted margin of FY2009 (arrived at by adding Rs300m in inventory write off to reported number). No material changes to our PAT forecasts.

UNTP—profit and loss statement, March fiscal year-ends, 2007-2011E (Rs mn)

	2007	2008	2009E	2010E	2011E
Net sales	**23,112**	**35,155**	**49,317**	**57,537**	**65,051**
Operating expenses					
Materials	(11,822)	(18,146)	(24,512)	(30,622)	(30,787)
Selling and administration	(3,212)	(4,927)	(6,411)	(7,480)	(8,457)
Employee cost	(1,896)	(4,017)	(4,794)	(5,347)	(6,505)
R&D	(71)	(90)	(247)	(288)	(325)
Others	(1,826)	(3,071)	(3,905)	(2,341)	(5,529)
Total expenditure	**(18,827)**	**(30,250)**	**(39,868)**	**(46,078)**	**(51,603)**
EBITDA	**4,285**	**4,905**	**9,449**	**11,459**	**13,448**
Depreciation and amortisation	(1,656)	(1,522)	(1,927)	(2,151)	(2,300)
EBIT	**2,629**	**3,383**	**7,522**	**9,308**	**11,148**
Net finance cost	(1,046)	(1,688)	(1,759)	(2,061)	(1,800)
Other income	1,598	2,462	(742)	248	500
Pretax profits before extra-ordinaries	**3,181**	**4,156**	**5,021**	**7,495**	**9,848**
Current tax	(131)	(141)	(263)	(777)	(1,254)
Deferred tax	(372)	(263)	19	(400)	(400)
Fringe benefit tax	(22)	(20)	(31)	(20)	(20)
Reported net profit	**2,656**	**3,733**	**4,746**	**6,298**	**8,174**
(Profit)/loss in minority interest	—	(10)	—	—	—
Share of profit/(loss) in associate	242	222	200	118	142
Preference dividend	—	—	—	—	—
Prior adjustments (net)	(212)	(226)	—	—	—
Reported net profit after minority interes	**2,685**	**3,719**	**4,946**	**6,416**	**8,316**
Exceptional items	(76)	(1,144)	(95)	—	—
Reported net profit after minority interes	**2,609**	**2,575**	**4,851**	**6,416**	**8,316**

Source: Kotak Institutional Equities estimates

Maintain BUY rating; raise SOTP-based target price to Rs160 (from Rs140)

The stock trades at 11X FY2010E and 8X FY2011E—it would trade at 12X FY2010E and 9X FY2011E on a 12-month horizon.

We have increased PE multiples used in arriving at the price target. We align our multiples with the increase in the index since we initiated coverage (to 15,000 from 9,000).. We looked at Industry leader Makhteshim Agan which is currently trading at about 10X 2010E.

SOTP based price target, FY2010-2011E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	FY2010E	FY2011E	(X)	FY2010E	FY2011E
India	1,414	1,666	8.0	11,308	13,329
North America	1,447	1,873	9.2	13,310	17,235
Europe	2,300	2,945	9.6	22,079	28,270
RoW	1,235	1,690	8.4	10,378	14,193
Seeds	118	142	10.6	1,258	1,509
Total	**6,514**	**8,316**		**58,332**	**74,536**
Value per share (Rs)				126	161
Share price target (Rs)					**161**

Source: Kotak Institutional Equities estimates

In the past, we used the following PE multiples – India 6X, North America 6.9X, Europe 7.2X, RoW 6.3X and seeds business at 33% premium to Indian crop protection business.

Profit adjusted for forex, March fiscal year-ends, 2008-2011E (Rs mn)

	2008	2009E	2010E	2011E
Sales	35,155	49,317	57,537	65,051
YoY growth %		40%	17%	13%
EBITDA	4,905	9,449	11,459	13,448
% to sales	14%	19%	20%	21%
PBT adjusted	3,265	6,181	7,612	9,848
PAT Adjusted	3,144	6,043	6,514	8,316
EPS Rs Diluted	7.6	13.5	14.4	18.3
YoY growth %		78%	6%	28%
Rs/$ rate	40.3	45.6	47.0	47.8
Forex gain (loss)	891	(1160)	(117)	0
Reported PBT	4,156	5,021	7,495	9,848
Reported PAT	3,733	4,746	6,298	8,174
Share of profit/(loss) in	222	200	118	142

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Indian Bank (INBK)

Banks/Financial Institutions

BUY

JULY 24, 2009

RESULT

Coverage view: Attractive

Price (Rs): 146

Target price (Rs): 185

BSE-30: 15,231

Strong quarter on core front. Higher margins resulted in sharp NII growth of 37% yoy, even as loans growth was slow at 17% yoy. Non interest income increased by 44% yoy, largely driven by treasury income (up 3X). Reported asset quality remained stable qoq with gross NPLs at 0.9%, however, restructured assets increased to Rs41 bn, 8% of the loan book. We model 3% delinquency in FY2010E as compared to 1.1% in FY2009. Stock trades at 0.8XFY2011E PBR for 20% ROE. Maintain BUY.

Company data and valuation summary

Indian Bank

Stock data			
52-week range (Rs) (high,low)			155-64
Market Cap. (Rs bn)			62.8
Shareholding pattern (%)			
Promoters			80.0
FIIs			12.2
MFs			3.1
Price performance (%)	1M	3M	12M
Absolute	6.0	24.6	33.4
Rel. to BSE-30	(0.3)	(8.9)	30.8

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	28.0	27.6	30.2
EPS growth (%)	66.7	(1.4)	9.7
P/E (X)	5.2	5.3	4.8
NII (Rs bn)	26.1	30.0	34.8
Net profits (Rs bn)	12.5	12.2	13.4
BVPS	127.5	149.5	173.6
P/B (X)	1.1	1.0	0.8
ROE (%)	22.9	19.2	18.2
Div. Yield (%)	3.4	3.3	3.6

Better-than-expected margins and NII

Net interest income (NII) in 1QFY10 was Rs7.4 bn—growth of 34% yoy and 17% higher than our expectations. Adjusted for the interest income from written-off assets, growth in NII was 31% yoy. Even on a qoq basis, NII increased by 12%, as cost of deposits declined sharply, while yields were sustained. The bank has cut PLRs by 50bps in the last week of June 2009 and this is likely to impact margins somewhat in 2QFY10E. NIMs increased to 3.6% from 3.3% in 4QFY09 and 3.2% in 1QFY09.

Loan growth slows down to 17%; deposits grow at 23%

Indian Bank's loans as of June 2009 were Rs520 bn (up 17% yoy and flat qoq). Over the past three quarters, loan book for the bank has remained flat. However, growth is likely to pick up from 2Q onwards in line with the industry trends. Deposits grew by 23% yoy to Rs767 bn. Overall CASA deposits grew by 9% yoy and the CASA ratio for the bank has declined to 30% as of June 2009, which is lower than some of the other mid-sized banks.

Reported NPLs are under control; but restructured assets are now 8% of loans

There was virtually no change in the reported NPL numbers qoq with gross NPLs at Rs4.7 bn (0.9% gross NPL ratio), but net NPLs increased to Rs2.1 bn (0.4% net NPL ratio), as floating provisions are now used for Tier II capital. However, the restructured assets increased by Rs17 bn and the total restructured assets are now at Rs41 bn (8% of the loan book), which may indicate stress on the loan book, in our view. The management states that most of these restructured assets are just an extension of the tenure and the bank holds sufficient security against these assets and the pure restructuring is only about Rs600 mn. Nevertheless, we believe the risk on the balance sheet is somewhat higher and we expect slippages of 3% in FY2010E and 2.5% in FY2011E, as against 1.1% in FY2009. In 1QFY10, slippages were less than 0.5%.

QUICK NUMBERS

- NII up 37%, as margins improve 30 bps to 3.6%
- Restructured assets at Rs41 bn, 8% of loan book
- Increase estimates by 9% in FY2010E and 6% in FY2011E

Non-interest revenues were also robust

Indian Bank’s non-interest revenues were Rs3.5 bn in 1QFY10, which grew by 44% yoy and 25% above our estimates. Treasury gains were subdued were strong at Rs1 bn, up 3X. Income from recovery of written-off accounts was Rs802 mn, up 51% yoy. Note that the bank has been consistently booking Rs300 -500 mn through recoveries over the past few quarters, despite the challenging times for recoveries. Core fee income was flat at Rs1.7 bn.

Indian Bank -- old and new estimates
March fiscal year-ends, 2009-2011E (Rs mn)

	Old estimates		New estimates			% change	
	2010E	2011E	2010E	2011E		2010E	2011E
Net interest income	28,975	34,249	29,964	34,834		3.4	1.7
Loan growth	21	15	20	15			
Spread	2.81	2.96	2.93	3.02			
NIM	3.37	3.54	3.49	3.60			
Loan loss provisions	5,401	8,029	5,092	7,295		(5.7)	(9.1)
Other income	10,772	11,339	10,902	11,176		1.2	(1.4)
Fee income	2,740	3,234	2,671	3,071		(2.5)	(5.0)
Treasury income	1,800	1,400	2,000	1,400		11.1	-
Operating expenses	17,908	18,547	18,484	19,154		3.2	3.3
Employee expenses	12,680	13,351	13,257	13,958		4.5	4.5
PBT	14,938	17,512	16,290	18,561	#	9.0	6.0
Tax	3,735	4,903	4,073	5,197	#	9.0	6.0
Net profit	11,204	12,608	12,218	13,364		9.0	6.0
Profit bef. treasury and investment dep.	13,138	16,112	14,290	17,161	#	8.8	6.5
+ NPL provisions	18,539	24,140	19,382	24,456	#	4.5	1.3

Source: Company, Kotak Institutional Equities estimates.

Indian Bank quarterly results (Rs mn)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	% chg	1QFY10KS	% chg
Interest Earned	15,018	16,882	17,840	18,564	18,802	25	17,600	7
Interest/Discount on Advances/Bills	10,466	12,984	13,635	13,782	14,193	36	13,100	8
Interest on Investment	4,414	3,834	4,006	4,619	4,450	1	4,400	1
Interest on bal. with RBI & other inter bank funds	138	63	199	162	159	15	100	59
Interest expense	9,623	10,063	10,644	11,888	11,426	19	11,300	1
Net interest income	**5,395**	**6,818**	**7,196**	**6,675**	**7,377**	**37**	**6,300**	**17**
Other Income	2,432	2,128	2,873	2,921	3,502	44	2,800	25
Other Income exld treasury	2,193	2,098	1,778	2,343	2,472	13	2,000	24
Treasury	239	30	1,095	578	1,029	330	400	—
Recovery	530	537	302	456	802	51	400	—
Total Income	**7,828**	**8,946**	**10,069**	**9,597**	**10,878**	**39**	**9,100**	**20**
Operating Expenses	**3,461**	**3,617**	**3,833**	**3,239**	**4,573**	**32**	**3,700**	**24**
Payments to / Provisions for employees	2,478	2,474	2,787	2,058	3,452	39	2,500	38
Other operating expenses	983	1,143	1,046	1,181	1,121	14	1,200	(7)
Operating Profit Before Prov. & Cont.	4,366	5,329	6,237	6,357	6,305	44	5,400	17
Provisions & Contingencies	1,690	1,089	1,410	243	1,209	(29)	1,500	(19)
Loan loss provisions	112	—	330	—	1,400	1,146	1,400	—
Investment depreciation	1,568	—	450	—	—	—	—	—
Profit before tax	**2,676**	**4,239**	**4,827**	**6,114**	**5,096**	**90**	**3,900**	**31**
Provision for Taxes	500	1,409	1,320	2,173	1,780	256	1,170	52
Net Profit	**2,176**	**2,830**	**3,507**	**3,941**	**3,317**	**52**	**2,730**	**21**
Tax rate	19	33	27	25	35	—	30	—
PBT - treasury + investment dep.	**4,004**	**4,209**	**4,182**	**3,673**	**4,067**	**2**	**3,500**	**16**
PBT - treasury + investment dep. + loan loss	**4,117**	**4,209**	**4,512**	**5,173**	**5,467**	**33**	**4,900**	**12**
Key balance sheet items (Rs bn)								
Deposits	622	646	697	726	767	23		
CASA	208	214	217	226	227	9		
CASA (%)	33.4	33.1	31.1	31.2	29.6	—		
Advances	445	481	505	518	520	51		
Priority sector	159	173	177	184	189	17		
Agriculture	62	72	73	78	80	19		
Investments	199	210	215	220	—			
Incremental changes in key balance sheet items (Rs bn)								
Deposits	12	24	50	29	41			
Advances	43	36	24	14	2			
Yield management measures (%)								
Yield on advances	10.6	11.5	11.3	10.9	11.0			
Cost of deposits	6.2	6.1	6.3	6.6	6.1			
Cost of funds	NA	6.2	-	-	5.3			
NIM	3.2	3.9	3.9	3.3	3.6			
Asset quality measures								
Gross Non Performing Assets (Rs bn)	4.2	4.7	4.6	4.6	4.7			
Gross Non Performing Assets (%)	1.0	0.9	0.8	0.9	0.9			
Net Non Performing Assets (Rs bn)	0.8	1.0	0.9	0.9	2.1			
Net Non Performing Assets (%)	0.2	0.2	0.2	0.2	0.4			
Capital adequacy details								
CAR (%)	12.1	11.3	12.7	14.0	14.2			
Tier I (%)	10.6	10.1	10.6	11.9	12.0			
Tier II (%)	1.5	1.2	2.1	2.1	2.2			

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Biocon (BIOS)

Pharmaceuticals

BUY

JULY 24, 2009

RESULT

Coverage view: Attractive

Price (Rs): 219

Target price (Rs): 270

BSE-30: 15,231

Steady performance, steady returns. BIOS operations were in line but results underperformed due to lower other income and higher tax rate. In the biopharma business, the focus is on profit, not sales. The German operations have shown margin improvement even prior to the benefit of insurance tenders. The Mylan deal will likely lead to a milestone payment in FY2010E. We have marginally tweaked our estimates and price target. BIOS will likely deliver earnings-driven returns over the next few

Company data and valuation summary

Biocon

Stock data			
52-week range (Rs) (high,low)			237-85
Market Cap. (Rs bn)			43.8
Shareholding pattern (%)			
Promoters			60.9
FIIs			6.0
MFs			10.0
Price performance (%)	**1M**	**3M**	**12M**
Absolute	0.6	46.8	19.6
Rel. to BSE-30	(5.3)	7.3	17.3

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	4.7	14.4	18.6
EPS growth (%)	(79.9)	206.8	29.3
P/E (X)	46.7	15.2	11.8
Sales (Rs bn)	16.1	21.5	25.3
Net profits (Rs bn)	0.9	2.9	3.7
EBITDA (Rs bn)	3.2	4.5	5.3
EV/EBITDA (X)	14.0	9.8	7.9
ROE (%)	6.2	17.8	20.0
Div. Yield (%)	0.0	0.1	0.1

1QFY10 revenues at Rs5 bn, as per KIE forecast

Revenues at Rs5 bn were as expected though biopharma revenues from Indian operation and contract research revenues were lower than forecast. At BIOS's German operation, Axicorp, sales beat our estimates. Biopharma revenues from India disappointed this quarter at Rs2.4 bn versus our estimated Rs2.7 bn. This was possibly due to a dip in the international business. BIOS started supplies of Mycophenolate Mofetil (generic Cellcept) this quarter. Axicorp revenues beat forecasts at Rs1.8 bn versus Rs1.7 bn. AOK tender revenues for Metformin supply started from June 2009. However, since sales of Axicorp are consolidated with Biocon with a lag of one quarter, these sales will reflect next quarter.

Adjusted EBITDA margins at 24% - no surprises here

EBITDA margins adjusted for realized forex loss, R&D expense and licensing income at 24% was as per estimates. Qoq margin improvement was due to (1) improvement in manufacturing costs led by power cost (2) improvement in margins in contract research.

PAT was Rs576 mn versus forecast of Rs794 mn

Adjusted EBITDA was 6% below our forecast and PBT was 20% lower due to lower other income. This is normally on account of licensing activity related to products. PAT was 27% lower than forecast due to the higher tax rate of 18% versus our estimated 11% due to
(1) a higher proportion of biopharma sales from Indian customers (there are no tax exemptions available for these sales even though supplied from EOU) (2) absence of MTM losses this quarter on which BIOS had got a tax break.

No material changes to FY2010-11 KIE PAT, maintain price target

We move to a new Rs/US$ forecast of Rs47 and Rs47.75 for FY2010-11E. We do not expect MTM losses in FY2010-11E. We factor in forex gains of Rs94 mn in FY2010E on account of outstanding contracts in Syngene. We expect EPS adjusted for forex to grow 23% in FY2020E and 33% in FY2011E. BIOS is trading at 15X FY2010E and 12X FY2011E. At the target price, it will trade at 15X FY2011E.

QUICK NUMBERS

- Revenues and operating performance in line
- PAT came in 27% lower than forecast due to a higher tax rate at 18% and lower other income
- We expect EPS adjusted for forex to grow by 23% in FY2010E and 33% in FY2011E

Focus on margin, not revenues alone

- Contract research revenues at Rs663 mn were lower than our Rs779 mn forecast. BMS accounted for 30% of revenues this quarter. Syngene revenues came in at Rs580 mn with operating margins at around 37% this quarter.

- Biopharma revenues from Indian operations disappointed this quarter at Rs2.4 bn versus our estimated Rs2.7 bn. This was possibly due to a dip in the international business. BIOS mentioned that there is a focus on margin rather than sales value and it is reducing the sales of low-margin products.

- BIOS started supplies of Mycophenolate Mofetil this quarter to the US. The generic market is estimated at US$150 mn. A 45% conversion to the generic version has been achieved in the two months since the launch. It is a six-player market of which Biocon is supplying to three players. On Tacrolimus, BIOS commented that its customers are contesting the exclusivity granted to the innovator and the launch will be in 2012.

- Axicorp revenues beat forecast at Rs1.8 bn versus Rs1.7 bn. AOK tender revenues for Metformin supply started from June 2009; however, since the sales of Axicorp are consolidated with BIOS with a lag of one quarter, these sales will reflect next quarter.

- BIOS reported licensing income of Rs24 mn versus our forecast of nil. The licensing income has fallen in FY2009 due to (1) reluctance on the part of clients to pay upfront. Clients are more inclined to co-develop the products, reducing their upfront investments, and (2) change in Biocon's strategy towards licensing at a later stage to increase potential income.

Adjusted EBITDA margins at 24% were in line

EBITDA margins adjusted for realized forex loss, R&D spend, licensing income at 24% was in line with estimates. All cost items were in line with estimates. A yoy comparison is not meaningful due to the inclusion of Axicorp from 2QFY09. Qoq margins have improved by 200 bps due to:

- Improvements in production cost led by power cost. BIOS was earlier using in house power and has now shifted to the cheaper power provided by state board

- Improvement in margins in Axicorp to 6% from 1.3% reported in FY2009

- Improvement in contract research margins to 38% this quarter from 27% reported in FY2009

Interim results (Rs mn)

	1QFY10	1QFY10E	1QFY09	4QFY09	% change 1QFY10E	1QFY09	4QFY09
Sales	4,296	4,399	2,212	3,920	(2)	94	10
Contract research fees	663	779	427	679	(15)	55	(2)
Technology Licensing Fees	24	0	0	64	NM	NM	(63)
Expenses							
Materials	2,891	2,770	1,166	2,642	4	148	9
Power	0	259	189	148	NM	NM	NM
Staff costs	526	475	313	448	11	68	17
Other expenses	557	647	332	574	(14)	68	(3)
FX Losses(gains)	(28)	(113)	64	(48)	NM	NM	NM
EBITDA	**1,037**	**1,140**	**576**	**899**	**(9)**	**80**	**15**
R&D expenses	200	228	109	202	(12)	83	(1)
EBITDA pre R&D	**1,185**	**1,254**	**749**	**989**	**(6)**	**58**	**20**
Interest	56	60	37	62	(7)	52	(10)
Depreciation	324	315	253	307	3	28	6
Other income	70	150	126	203	(53)	(44)	(66)
PBT	**727**	**915**	**413**	**733**	**(21)**	**76**	**(1)**
Current tax	96	101	33	(16)	(5)	193	NM
Deferred tax	41	—	(16)	—	NM	NM	NM
FBT	—	—	—	—	NM	NM	NM
PAT	**590**	**814**	**395**	**748**	**(28)**	**49**	**(21)**
Minority interest	14	20	(10)	86	(30)	NM	(84)
Profits for shareholders	**576**	**794**	**405**	**663**	**(27)**	**42**	**(13)**
Exceptional item	—	—	(255)	(414)	NM	NM	NM
Profits for shareholders	**576**	**794**	**150**	**248**	**(27)**	**283**	**132**
Biopharmaceuticals	4,296	4,399	2,212	3,920	(2)	94	10
Axicorp	1,891	1,721	—	1,742	10	NM	9
Contract research	663	779	427	679	(15)	55	(2)
Technology licensing fees	—	—	—	64	NM	NM	NM
Total	**4,959**	**5,178**	**2,639**	**4,663**	**(4)**	**88**	**6**

Source: Kotak Institutional Equities estimates

PAT was Rs576 mn versus forecast of Rs794 mn

Although adjusted EBITDA was 6% below our forecast, PBT was 20% lower due to lower other income. PAT was 27% lower than forecast due to a higher tax rate at 18% versus our estimated 11%. The tax rate has varied qoq at 3% in 1QFY09, 11% in 2QFY09 and 7% in 3QFY09. The tax rate increased to 18% due to (1) a higher proportion of biopharma sales from Indian customers (there are no tax exemptions available for these sales even though supplied from EOU) and (2) absence of MTM losses this quarter for which BIOS got a tax break..

BIOS does not expect to report any more MTM losses going forward. There is a small amount of forward cover outstanding in Syngene on which MTM losses will continue for next three years.

The new hedging contract into which the company has entered implies that for a part of its revenues, BIOS will get a minimum of Rs46 per dollar and a maximum of Rs55 per dollar. For another part, BIOS has ensured that it will get a minimum of Rs50 and it will participate in the upside.

No material changes to FY2010-11 KIE PAT

We move to KIE's new Rs/US$ forecast of Rs47 and Rs47.75 for FY2010-11E. We do not expect MTM losses in FY2010-11E. We factor in forex gains of Rs94 mn in FY2010E on account of outstanding contracts in Syngene. We make no material changes to FY2010-11E PAT.

Profit and loss statement (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Net sales	**7,891**	**9,857**	**10,538**	**16,086**	**21,476**	**25,316**
Total expenditure	(5,593)	(7,022)	(7,552)	(12,853)	(17,000)	(20,025)
EBITDA	**2,299**	**2,834**	**2,986**	**3,233**	**4,476**	**5,291**
Depreciation and amortisation	(297)	(665)	(939)	(1,103)	(1,319)	(1,400)
EBIT	**2,002**	**2,169**	**2,047**	**2,131**	**3,157**	**3,891**
Net finance cost	(18)	(98)	(102)	(177)	(236)	(200)
Other income	41	38	364	646	520	700
Loss/(gain) on forward covers	—	—	—	(1,472)	—	—
Pretax profits before extra-ordinaries	**2,025**	**2,109**	**2,309**	**1,128**	**3,441**	**4,391**
Current tax	(243)	(18)	(97)	(98)	(449)	(571)
Deferred tax	(63)	(151)	(17)	1—	41—	—
Fringe benefit tax	—	—	(15)	19—	—	—
Reported net profit	**1,720**	**1,940**	**2,180**	**1,009**	**2,951**	**3,820**
Profit /(loss)in minority interest	(20)	(62)	(65)	79	74	100
Reported net profit after minority interests	**1,740**	**2,002**	**2,245**	**930**	**2,877**	**3,720**
Exceptional items	—	—	2,394	—	—	—
Reported net profit after minority interests a	**1,740**	**2,002**	**4,639**	**930**	**2,877**	**3,720**

Source: Kotak Institutional Equities estimates

Key assumptions for FY2010-11E

- Licensing income of US$3 mn in FY2010E and US$5 mn in FY2011E on account of potential licensing of Insulin glargine to partners for developed markets and Mylan licensing income.

- Contract research revenues of US$64 mn and US$75 mn in FY2010-11E versus US$49 mn in FY2009E. This increase comes primarily from new contracts with Bristol Myers Squibb which started in April, 2009. BMS contribution is expected to remain at 30% levels seen this quarter.

- We expect Indian biopharma business (around Rs1 bn in FY2009E) to continue to grow at 40% in FY2010-11E, lower than BIOS growth rate of 50% reported this quarter. Growth is driven by (1) insulin glargine launch in 1QFY10E in the Indian market; (2) continuing growth in base business. BIOS has around 600-650 sales people across four divisions of cardiology, diabetology, nephrology, oncology. All divisions have broken even except cardiology which set up in FY2009E.

- We expect biopharmaceuticals international sales to grow at 20% in FY2010-11E, touching US$90-100 mn on account of the launch of immunosuppressants in FY2010E. We include US$5 mn in FY2010E and US$20 mn in FY2011E from the US market.

  We think our numbers are conservative and there could be upside (Mycophenolate Mofetil generic market estimated at US$150 mn).

  Tacrolimus supplies have not begun to the US since orphan drug status continues for the drug and BIOS partners continue to be engaged in litigation against this ruling. BIOS does not expect its partners to launch before 2012.

- We expect Axicorp revenues of Euro70 mn in FY2009 to increase to Euro112 mn in FY2010E led by (1) 10% growth in base business (2) AOK tender for Metformin which will contribute Rs500 mn on an annualized basis for the next two years

- EBITDA margin assumptions left unchanged. BIOS improved operating performance on business excluding Axicorp to 31% in FY2009 from 28% in FY2008. This quarter the margins ex Axicorp improved to 32%. We estimate adjusted EBITDA margins (excluding R&D, forex, licensing income) on business excluding Axicorp to increase to 34% in FY2010. Including Axicorp, we expect adjusted margins at 24% in FY2010E, the same as in FY2009.

- We expect adjusted margins to move back to 25% in FY2011E on account of (1) higher proportion of sales from high-margin research and branded finished dosage business (2) operating leverage effect in Axicorp.

- No significant below-EBITDA line changes. We increase the tax rate to 13-14% in FY2010-11E.

Maintain BUY rating with an SOTP-based target price of Rs270

BIOS has a clean balance sheet and had a net debt position at end of June 2009 due to capex at Syngene, working capital for Biocon. We expect EPS adjusted for forex to grow by 23% in FY2010E and 33% in FY2011E.

We arrive at our price target based on 12X forward earnings multiple for contract research and 10X for the statin segment while we use 14X for its biopharmaceutical business and 12X for its German business. The stock is trading at 15X FY2010E and 12X FY2011E. At the target price, it will trade at 14X FY2011E.

Price target (Rs)

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	FY2011E	**FY2012E**	**(X)**	**FY2011E**	**FY2012E**
Pharmaceuticals					
Statins	479	465	10.0	4,794	4,645
Others	2,353	2,939	14.0	32,942	41,139
Contract research	755	884	12.0	9,055	10,605
Total (ex interest income)	**3,587**	**4,287**		**46,792**	**56,390**
Value per share (Rs)				**243**	**292**
Cash per share				9	25
Share price target					**273**

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

GSPL (GUJS)

Energy

REDUCE

JULY 24, 2009

RESULT

Coverage view: Cautious

Price (Rs): 63

Target price (Rs): 65

BSE-30: 15,231

Bumper 1QFY10 quarter. GSPL reported 1QFY10 net income at Rs805 mn (+132% qoq, +147% yoy) versus our estimate of Rs505 mn. The stronger-than-expected performance was led by higher gas transmission charge at Rs0.91/cu m versus our expected Rs0.65/cu m. We maintain our REDUCE rating on the stock with a revised 12-month DCF-based target price of Rs65 (Rs45 previously) noting a unfavorable risk-reward balance. We have concerns about the sustainability of GSPL's transportation tariffs.

Company data and valuation summary

GSPL

Stock data				
52-week range (Rs) (high,low)				67-25
Market Cap. (Rs bn)				35.5
Shareholding pattern (%)				
Promoters				37.8
FIIs				13.0
MFs				7.3
Price performance (%)	1M	3M	12M	
Absolute	30.1	56.7	5.4	
Rel. to BSE-30	22.3	14.6	3.4	

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	2.2	3.5	6.7
EPS growth (%)	21.7	58.3	92.7
P/E (X)	28.8	18.2	9.4
Sales (Rs bn)	4.9	8.4	13.7
Net profits (Rs bn)	1.2	3.2	6.2
EBITDA (Rs bn)	4.5	7.9	12.9
EV/EBITDA (X)	10.4	6.1	3.9
ROE (%)	9.6	13.9	25.7
Div. Yield (%)	1.2	1.9	10.6

QUICK NUMBERS

- 1QFY10 net income at Rs805 mn (+132% qoq, +147% yoy)
- Revised FY2010-12E EPS to Rs3.5, Rs6.7 and Rs8.4
- Retain REDUCE with 12-month target price of Rs65

1QFY10 results highlights: Bumper profits but sustainability of tariffs is an issue

GSPL reported 1QFY10 net income at Rs805 mn (+147% yoy and +132% qoq) led by higher gas transmission charges of Rs0.91/cu m compared to Rs0.73/cu m in 1QFY09 and Rs1.14/cu m in 4QFY09. GSPL's volumes were at 2.3 bcm (25 mcm/d), in line with our expectations. We are not sure about the sustainability of GSPL's current tariffs since they may be curtailed by the new regulations for long-distance gas transportation pipelines. We find the current tariff too high since it translates into CROCI of 22% based on 1QFY10 data.

Valuations are a function of tariffs and regulations; too risky, in our view

We maintain our REDUCE rating on the stock noting the unfavorable risk-reward balance at current levels. GSPL stock does not offer meaningful potential upside from current levels to our 12-month DCF-based target price of Rs65 (adjusted for 30% contribution of PBT towards Gujarat Socio-Economic Development Society [GSEDS] in perpetuity) even on our rather aggressive tariff assumptions, which result in very high CROCI for an extended period of time (24% average in FY2010-13E). We are unsure about the impact of new regulations for gas transportation pipelines on GSPL's tariffs (and earnings/cash flows) but are fairly sure that a strict application of the same will result in meaningfully lower tariffs versus our assumptions. The new regulations permit 12% post-tax or 18.18% pre-tax return on capital employed.

Earnings revisions hypothetical given limited clarity on impact of new regulations

We have revised our FY2010E, FY2011E and FY2012E EPS to Rs3.5, Rs6.7 and Rs8.4, respectively, from Rs2.4, Rs3.3 and Rs3.9 to reflect (1) higher gas transmission tariffs and (2) 1QFY10 results. We expect gas transmission volumes for FY2010E, FY2011E and FY2012E at 31.2 mcm/d, 50.6 mcm/d and 61.6 mcm/d, respectively, versus 14.9 mcm/d in FY2009.

Details of 1QFY10 results—higher gas volumes drove profits

The exhibit below gives the details of 1QFY10 results. We discuss key financial and operating highlights.

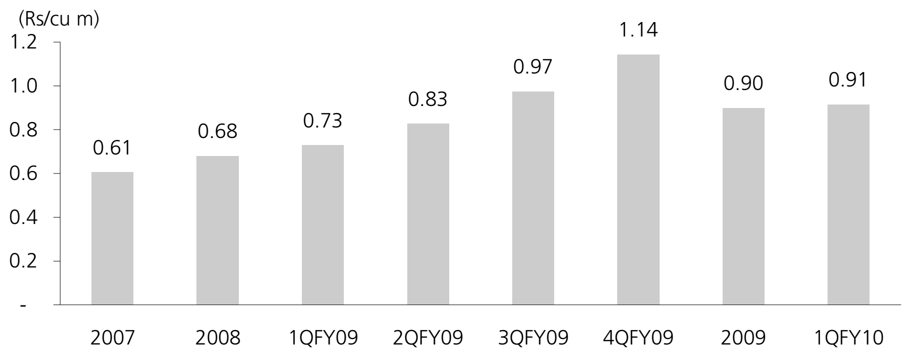
Interim results of GSPL, March fiscal year-ends (Rs mn)

					(% chg)		
	1QFY10	1QFY10E	1QFY09	4QFY09	*1QFY10E*	*1QFY09*	*4QFY09*
Net sales	**2,108**	**1,495**	**1,195**	**1,320**	***41.0***	***76.4***	***59.7***
Total expenditure	(128)	(140)	(119)	(191)	*(8.5)*	*7.3*	*(32.9)*
Inc/(Dec) in stock	—	—	—	—			
Operating costs	—	—	—	—			
Gas transportation charges	(4)	(10)	—	(17)			
Connectivity charges	—	—	(32)	—			
Staff cost	(28)	(25)	(19)	(47)	*10.8*	*47.4*	*(41.1)*
Other expenditure	(97)	(105)	(68)	(128)	*(7.9)*	*41.5*	*(24.2)*
EBITDA	**1,980**	**1,355**	**1,076**	**1,129**	***46.1***	***84.1***	***75.4***
OPM (%)	**93.9**	**90.6**	**90.0**	**85.5**			
Other income	35	70	68	44	*(50.0)*	*(48.5)*	*(20.8)*
Interest	(245)	(210)	(218)	(199)	*16.7*	*12.4*	*23.1*
Depreciation	(550)	(450)	(415)	(439)	*22.2*	*32.7*	*25.4*
Pretax profits	**1,220**	**765**	**511**	**535**	***59.5***	***138.8***	***127.9***
Contribution towards GSEDS	—	—	—	—			
Tax	(381)	(260)	(164)	(94)			
Deferred taxation	(34)	—	(20)	(93)			
Net income	**805**	**505**	**326**	**348**	***59.4***	***146.6***	***131.6***
Adjusted profits	**805**	**505**	**326**	**348**	***59.4***	***146.6***	***131.6***
Income tax rate (%)	*34.0*	*34.0*	*33.0*	*35.1*			
Pipline volumes							
Pipeline volumes (mcm)	2,304	2,300	1,639	1,155	*0.2*	*40.6*	*99.6*
Gas transmission charge (Rs/cu m)	0.91	0.65	0.73	1.14	*40.8*	*25.5*	*(20.0)*

Source: Company, Kotak Institutional Equities estimates

- **Financial highlights.** GSPL's 1QFY10 EBITDA increased to Rs1.98 bn versus Rs1.08 bn in 1QFY09 and Rs1.13 bn in 4QFY09 primarily led by higher gas transportation volumes. GSPL's transportation volumes increased 41% yoy and 100% qoq to 23 bcm. Its gas transmission charge stood at Rs0.91/cu m compared to Rs0.73/cu m in 1QFY09 and Rs1.14/cu m in 4QFY09 (see exhibit).

GSPL's gas transmission charges have been increasing since FY2007
Computed gas transmission charges, fiscal year-ends, 2007-10YTD (Rs/cu m)



Source: Company, Kotak Institutional Equities

- **Employee costs.** Employee costs for 1QFY10 were lower at Rs28 mn (-41% qoq and +47% yoy) due to provisions for arrears made in 4QFY09 on account of salary revisions pending implementation.

- **Gas transportation charges.** The company provided for Rs4 mn as gas transportation charges. This reflects an interim settlement with Sabarmati Gas agreed in 4QFY09.

Earnings revisions; earnings will depend on regulated tariffs

Exhibit 3 gives the major assumptions behind our earnings model.

- **Gas transportation volumes.** We model FY2010E, FY2011E and FY2012E gas transportation volumes to increase to 31.2 mcm/d, 50.6 mcm/d and 61.6 mcm/d versus 14.9 mcm/d in FY2009 and 25 mcm/d in 1QFY10.

- **Gas transportation charges.** We now model FY2010E, FY2011E and FY2012E gas transportation tariffs at Rs0.74/cu m, Rs0.74/cu m and Rs0.72/cu m versus Rs0.63/cu m, Rs0.52/cu m and Rs0.47/cu m, which we had factored earlier to reflect the new regulations (18.18% pre-tax return on capital employed) and higher transportation volumes. Under our revised assumptions, GSPL's CROCI jumps to 18.7%, 26.2% and 27.5% in FY2010E, FY2011E and FY2012E from 11.2% in FY2009.

  We note that it is tricky to model the same given new regulations and low visibility on the extent of application of the new regulations to GSPL's gas transportation pipelines. We model long-term tariffs such that GSPL's CROCI fall within a certain acceptable range. We note that the new regulations allow for 12% post-tax return on capital employed or 18.18% pre-tax return on capital employed. As per our computations, a strict application of the new regulations will likely result in significantly lower tariffs versus our assumptions. We assume long-term tariffs (FY2014-20E) at around Rs0.49/cu m, which results in CROCI of around 21-22%.

GSPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2005-12E (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)								
Net sales	2,035	2,635	3,176	4,179	4,875	8,449	13,654	16,064
EBITDA	**1,293**	**1,942**	**2,677**	**3,645**	**4,245**	**7,742**	**12,735**	**15,024**
Other income	20	45	175	294	243	166	161	149
Interest	(363)	(413)	(457)	(815)	(870)	(1,068)	(1,416)	(1,487)
Depreciation	(656)	(791)	(1,026)	(1,632)	(1,705)	(2,640)	(3,333)	(3,412)
Pretax profits	293	783	1,369	1,491	1,914	4,200	8,146	10,273
Contribution towards GSEDS	—	—	—	—	—	(1,260)	(2,444)	(3,082)
Tax	(15)	(2)	(70)	(389)	(535)	(693)	(1,500)	(2,458)
Deferred taxation	(119)	(315)	(409)	(82)	(145)	(294)	(439)	14
Net profits	**160**	**467**	**894**	**999**	**1,234**	**1,954**	**3,764**	**4,747**
Earnings per share (Rs)	**0.6**	**1.2**	**1.6**	**1.8**	**2.2**	**3.5**	**6.7**	**8.4**
Balance sheet (Rs mn)								
Total equity	4,037	9,075	9,659	11,410	12,156	13,333	12,694	11,887
Deferred tax liability	193	508	917	999	1,144	1,438	1,877	1,862
Total borrowings	4,436	5,786	8,638	9,660	12,150	14,150	15,650	15,650
Currrent liabilities	571	1,771	1,845	5,106	4,148	3,808	3,266	1,067
Total liabilities and equity	**9,237**	**17,140**	**21,059**	**27,175**	**29,599**	**32,730**	**33,486**	**30,467**
Cash	426	2,372	1,811	2,569	991	1,218	811	820
Current assets	408	995	2,126	2,928	2,795	2,981	3,270	3,404
Total fixed assets	8,392	13,651	17,029	21,259	25,394	28,112	28,987	25,825
Investments	—	—	—	356	356	356	356	356
Deferred expenditure	11	123	93	63	63	63	63	63
Total assets	**9,237**	**17,140**	**21,059**	**27,175**	**29,599**	**32,730**	**33,486**	**30,467**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	844	1,562	2,212	2,743	2,674	4,539	7,375	7,996
Working capital changes	(193)	471	(1,058)	2,460	(825)	(526)	(831)	(2,332)
Capital expenditure	(1,799)	(6,049)	(4,404)	(5,863)	(5,673)	(5,176)	(4,208)	(250)
Investments	—	—	—	(356)	—	—	—	—
Other income	10	40	146	—	243	166	161	149
Free cash flow	**(1,138)**	**(3,976)**	**(3,103)**	**(659)**	**(3,580)**	**(996)**	**2,496**	**5,563**
Ratios (%)								
Debt/equity	104.9	60.4	81.7	77.9	91.4	95.8	107.4	113.8
Net debt/equity	51.2	37.6	45.0	43.8	47.7	48.9	51.8	53.2
RoAE	4.6	6.8	8.8	8.8	9.6	13.9	25.7	33.5
RoACE	**8.0**	**9.9**	**10.0**	**8.2**	**8.4**	**16.2**	**26.4**	**30.0**
CROCI	**13**	**13**	**13**	**13**	**11**	**19**	**26**	**27**
Key assumptions								
Volumes-old pipelines (mcm/d)	8.3	10.4	12.6	12.7	11.1	13.0	17.5	20.0
Volumes-new pipelines (mcm/d)	—	—	1.7	4.1	3.8	18.2	33.1	41.6
Volumes (mcm/d)	**8.3**	**10.5**	**14.3**	**16.8**	**14.9**	**31.2**	**50.6**	**61.6**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Maharashtra Seamless (MHS)

Industrials

BUY

JULY 24, 2009

RESULT

Coverage view: Neutral

Price (Rs): 256

Target price (Rs): 285

BSE-30: 15,231

Margin surprise lifts PAT above estimates. MHS reported 1QFY10 PAT of Rs652 mn, ahead of our estimated Rs542mn led by strong EBITDA margins of 23.5%. Revenues at Rs4.2 bn (up 20% yoy) were in line with estimates. We reduce our FY2011E EPS estimate by 11% as we cut our volume assumptions to factor in reduced order book visibility. We raise our target price to Rs285 as we roll forward to FY2011E; maintain BUY on low valuations at 3.5X FY2011E EBITDA.

Company data and valuation summary

Maharashtra Seamless

Stock data			
52-week range (Rs) (high,low)			328-112
Market Cap. (Rs bn)			17.7
Shareholding pattern (%)			
Promoters			51.1
FIIs			6.9
MFs			14.5
Price performance (%)	1M	3M	12M
Absolute	(9.6)	46.9	102.8
Rel. to BSE-30	(12.8)	7.1	92.7

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	35.9	33.0	35.3
EPS growth (%)	22.2	(7.9)	6.9
P/E (X)	7.0	7.6	7.1
Sales (Rs bn)	20.9	14.9	18.6
Net profits (Rs bn)	2.5	2.3	2.5
EBITDA (Rs bn)	3.6	3.3	3.7
EV/EBITDA (X)	4.0	4.0	3.5
ROE (%)	20.3	16.0	15.0
Div. Yield (%)	2.1	2.0	2.5

QUICK NUMBERS

- 1QFY10 PAT of Rs652 mn beats expectations
- Seamless margins at Rs18,677/ ton

Strong margins drive 1QFY10 PAT

MHS reported strong 1QFY10 results with PAT at Rs652 mn (up 8% yoy) versus our estimate of Rs542 mn. Revenues at Rs4.2 bn (up20% yoy) were in line with our estimate. Higher-than-expected margins of 23.5% (estimated 19.6%) lifted PAT above our estimate. EBITDA margins were up 490 bps qoq, primarily due to lower other operating costs. We do not expect such high margins to sustain since realizations continue to remain under pressure.

Declining order book a concern; cut volume assumptions

MHS's order book at Rs4.1 bn has shrunk by almost 50% over the past six months and remains a key concern for future revenue visibility. The order book decline is primarily on account of sharp demand contraction during the same period due to low oil prices and increased competition from low cost imports. However, we expect order flows to improve over the next few quarters as early signs of improvement in E&P activity are visible with the oil price stabilizing at around US$60-70/bbl. We have reduced our seamless volume assumptions for FY2010E and FY2011E to 200,000 tons and 250,000 tons from 232,000 tons and 317,500 tons, respectively, due to limited near-term visibility.

Maintain BUY with revised target price of Rs285

We maintain our BUY rating with a revised target price of Rs285 (from Rs225) based on 4X FY2011E EBITDA. The target price increase is mainly on account of the roll over to FY2011E and higher net cash position due to working capital release. We maintain our positive stance based on attractive valuations at 3.5X and 7.2X FY2011E EBITDA and EPS, respectively. MHS is trading at a 55% discount to the global peers, which we believe is unwarranted.

1QFY10 results analysis

MHS reported 1QFY10 results ahead of our estimates with PAT of Rs652 mn versus our expected Rs542 mn. Revenues at Rs4.2 bn were in line with our estimates. However, the key surprise was higher EBITDA margins at 23.5% (up 490 bps qoq) versus our estimate of 19.6%.

- **Seamless pipes.** Seamless revenues at Rs3.2 bn were in line with our estimate of Rs3.3 bn. Higher realization at Rs65,851/ton (expected Rs63,000/ton) was offset by lower volumes of 49,129 tons (expected 53,000 tons). Seamless margins at Rs18,677/ton were significantly above our estimate of Rs15,000/ton due to lower other operating expenses.

- **ERW pipes.** ERW revenues RS898 mn were marginally higher than our estimate of Rs850 mn due to higher volumes at 28,466 tons (estimated 25,000 tons); however, ERW realizations at Rs31,536/ton were lower than our estimate of Rs34,000/ton. Lower operating expenses resulted in EBITDA margins of Rs2,262/ ton (estimated Rs1,500/ton).

Strong margins drive 1QFY10 PAT ahead of our estimate
MHS, Interim results, March fiscal year-ends (Rs mn)

	1QFY10	1QFY10E	1QFY09	4QFY09	(% chg.) 1QFY10E	1QFY09	4QFY09
Net sales	**4,231**	**4,289**	**3,517**	**5,496**	**(1.4)**	**20.3**	**(23.0)**
Total expenditure	**(3,237)**	**(3,450)**	**(2,687)**	**(4,476)**	**(6.1)**	**20.5**	**(27.7)**
Inc/(Dec) in stock	(108)	—	636	(1,110)	—	(116.9)	(90.3)
Raw materials	(2,454)	—	(2,691)	(2,144)	—	(8.8)	14.5
Staff cost	(57)	—	(50)	(81)	—	14.1	(30.1)
Manufacturing exp	(487)	—	(476)	(634)	—	2.4	(23.1)
Other expenditure	(132)	—	(106)	(507)	—	24.1	(73.9)
EBITDA	**993**	**840**	**830**	**1,020**	**18.3**	**19.7**	**(2.6)**
OPM (%)	**23.5**	**19.6**	**23.6**	**18.6**			
Other income	51	30	122	12	69.7	(58.3)	NM
Interest	(12)	(12)	(12)	(12)	(1.7)	2.6	—
Depreciation	(46)	(48)	(45)	(48)	(4.4)	2.9	(4.0)
Pretax profits	**986**	**810**	**896**	**972**	**21.9**	**10.1**	**1.5**
Tax	(334)	(267)	(293)	(326)	25.1	14.1	2.7
Net income	**652**	**542**	**603**	**646**	**20.3**	**8.2**	**0.9**
Income tax rate (%)	33.9	33.0	32.7	33.5			
Despatch (tons)							
Seamless	49,129	53,000	52,056	53,191	(7.3)	(5.6)	(7.6)
ERW	28,466	25,000	20,838	37,870	13.9	36.6	(24.8)
Realisations (Rs/ton)							
Seamless net realizations	65,851	63,000	47,875	75,658	4.5	37.5	(13.0)
ERW net realizations	31,536	34,000	42,125	36,496	(7.2)	(25.1)	(13.6)
EBITDA (Rs/ton)							
Seamless	18,677	15,000	13,445	18,140	24.5	38.9	3.0
ERW	2,262	1,500	5,687	1,304	50.8	(60.2)	73.5

Source: Company, Kotak Institutional Equities

- **Margin surprise mainly due to lower operating expenses.** The sharp reduction in other operating expenses on a qoq basis was the main surprise leading towards higher reported margins. Our preliminary analysis suggests that the operating cost for seamless pipes has reduced to Rs11,958/ton in 1QFY10 from Rs18,918 in 4QFY09. For the ERW segment, the same has fallen to Rs67/ton from Rs3,503/ton. Similar inconsistencies were also visible in operating costs in 1QFY09 as well. We await further clarification from the management to reconcile these big variations.

Sharp reduction in operating costs drives up margins
Analysis of quarterly margins, March fiscal year-ends (Rs mn)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10
Seamless					
Production (tons)	51,178	65,524	58,963	44,739	43,976
Despatches (tons)	52,056	62,028	57,457	53,191	49,129
Net revenues	**2,492**	**4,636**	**4,609**	**4,024**	**3,235**
Material cost	1,895	3,115	3,096	1,075	1,694
Change in inventory	(612)	232	(106)	978	36
Total cost of goods	**1,282**	**3,347**	**2,990**	**2,053**	**1,730**
Gross margins	1,210	1,289	1,619	1,971	1,505
Other costs	510	521	760	1,006	588
EBITDA	**700**	**768**	**859**	**965**	**918**
Per ton basis (Rs)					
Realisation	**47,875**	**74,742**	**80,215**	**75,658**	**65,851**
Cost of goods	24,629	53,965	52,034	38,600	35,216
Gross margins	23,246	20,777	28,181	37,058	30,635
Other costs	9,800	8,399	13,224	18,918	11,958
EBITDA	**13,445**	**12,378**	**14,957**	**18,140**	**18,677**
ERW					
Production (tons)	22,415	16,580	24,463	35,681	26,842
Despatches (tons)	20,838	18,840	23,860	37,870	28,466
Net revenues	**878**	**1,009**	**1,059**	**1,382**	**898**
Material cost	797	743	1,007	1,068	760
Change in inventory	(23)	15	(2)	132	71
Total cost of goods	**773**	**759**	**1,004**	**1,200**	**831**
Gross margins	105	250	55	182	66
Other costs	(14)	155	49	133	2
EBITDA	**119**	**96**	**6**	**49**	**64**
Per ton basis (Rs)					
Realisation	**42,125**	**53,546**	**44,376**	**36,496**	**31,536**
Cost of goods	37,110	40,262	42,087	31,689	29,207
Gross margins	5,015	13,284	2,289	4,807	2,329
Other costs	(671)	8,215	2,033	3,503	67
EBITDA	**5,687**	**5,069**	**256**	**1,304**	**2,262**

Source: Company, Kotak Institutional Equities estimates

Revise estimates for lower volumes

We reduce our revenues estimates for FY2010E and FY2011E by 13% and 19%, respectively, to factor in lower seamless volumes. Our EPS estimate for FY2010E remains unchanged while that for FY2011E is reduced to Rs35.3 from Rs39.6.

- **Seamless.** We reduce our volume assumptions for both years to 200,000 tons and 250,000 tons, respectively, from 232,000 tons and 317,500 tons. The declining order book remains our primary concern for MHS; hence, we reduce our volume estimates due to limited near-term visibility. However, we increase our margin estimates for seamless pipes for FY2010E to Rs15,000/ton based on strong margins (>Rs18,000/ton) in the preceding two quarters.

- **ERW.** We increase our volume assumptions for ERW for FY2010E and FY2011E to 120,000 tons and 125,000 tons from 106,000 tons and 115,000 tons, respectively based on strong run rate in 1QF10 and in line with management guidance. We also increase our EBITDA/ton estimate for FY2010E to Rs2,000 from Rs1,500 earlier.

We cut our volume assumptions due to a declining order book
MHS, change in estimates, March fiscal year-ends, 2010-2011E (Rs mn)

	New estimates		Old estimates		Change (%)	
	2010E	2011E	2010E	2011E	2010E	2011E
Financials						
Revenues	14,938	18,648	17,140	23,140	(12.9)	(19.4)
EBITDA	3,279	3,694	3,321	4,245	(1.3)	(13.0)
EBITDA (%)	21.9	19.8	19.4	18.3	—	—
PAT	2,328	2,488	2,325	2,796	0.1	(11.0)
Diluted EPS	33.0	35.3	33.0	39.6	0.1	(11.0)
Despatch (tons)						
Seamless	200,000	250,000	232,000	317,500	(13.8)	(21.3)
ERW	120,000	125,000	106,000	115,000	13.2	8.7
Average realisation (Rs/ton)						
Seamless	57,657	60,828	62,092	64,576	(7.1)	(5.8)
ERW	37,588	39,655	38,528	40,454	(2.4)	(2.0)
Raw material cost (Rs/ton)						
Billets	27,695	30,465	31,206	33,703	(11.3)	(9.6)
HR Coil	27,257	29,983	31,151	33,643	(12.5)	(10.9)

Source: Kotak Institutional Equities estimates

Raise target price to Rs285, maintain BUY

We raise our target price to Rs285 (from Rs225) as we roll forward to FY2011E. Our target price is based on 4X FY2011E EBITDA. The increase in target price of Rs60, is on account of roll forward to FY2011E (Rs28) and higher cash balances due to lower investment in inventories (Rs32). The sharp decline in material costs has resulted in lower inventory levels. We maintain our BUY rating based on attractive valuations of 3.5X FY2011E EBITDA (55% discount to global peers). The recent increase in oil prices has restarted the E&P capex cycle, which, in our view, will revive order flows for MHS.

We value MHS at Rs285/share
MHS, valuation table (Rs mn)

FY2011E EBITDA	**3,694**
EV/EBITDA (X)	4.0
EV	**14,776**
Net debt	(5,225)
Equity value	**20,001**
No. of shares (mn)	71
Value per share (Rs)	284
Target price (Rs/share)	**285**

Source: Kotak Institutional Equities estimates

MHS is trading at 55% discount to global peers
Comparative valuation for global seamless tube manufacturers

	23-Jul-09			Mkt Cap.	EV/EBITDA (X)			PER (X)			EV/Sales (X)		
Company	Price (local)	Currency	Year-end	(US$ mn)	LFY	FY1	FY2	LFY	FY1	FY2	LFY	FY1	FY2
Tenaris	10.0	EUR	Dec	8,328	5.1	6.7	6.6	9.8	13.1	11.8	2.1	2.0	2.0
Vallourec	86.3	EUR	Dec	3,269	3.0	5.8	6.5	4.7	10.9	13.2	0.8	1.2	1.2
Maharashtra Seamless	255.5	INR	Mar	372	3.9	4.0	3.5	7.1	7.7	7.2	0.7	0.9	0.7

Source: Bloomberg, Kotak Institutional Equities estimates

Summary financials for Maharashtra Seamless 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model						
Net revenues	9,662	13,900	15,122	20,916	14,938	18,648
EBITDA	**2,082**	**3,416**	**3,121**	**3,607**	**3,279**	**3,694**
Other income	182	314	292	444	424	375
Interest (expense)/income	(48)	(35)	(38)	(116)	(24)	(24)
Depreciation	(146)	(163)	(174)	(183)	(204)	(277)
Adjusted pretax profits	**2,070**	**3,532**	**3,202**	**3,752**	**3,474**	**3,768**
Tax	(627)	(1,166)	(1,059)	(1,222)	(1,112)	(1,244)
Deferred taxation	(46)	(23)	(8)	(1)	(35)	(37)
Adjusted consolidated net income	**1,398**	**2,344**	**2,135**	**2,529**	**2,328**	**2,488**
Diluted Earnings per share (Rs)	**24.1**	**38.4**	**29.4**	**35.9**	**33.0**	**35.3**
Balance sheet						
Total equity	4,139	9,241	10,934	13,083	15,062	17,102
Deferred taxation liability	388	411	420	421	456	493
Total borrowings	4,930	1,082	1,022	1,022	1,022	1,022
Current liabilities	1,211	797	1,924	1,821	1,345	1,516
Total liabilities and equity	**10,668**	**11,531**	**14,300**	**16,347**	**17,884**	**20,133**
Cash	3,192	3,232	2,549	4,416	5,518	5,746
Other current assets	4,464	4,903	7,483	6,830	5,569	7,116
Total fixed assets	2,807	2,858	3,375	4,392	6,188	6,661
Investments	205	538	894	709	609	609
Total assets	**10,668**	**11,531**	**14,300**	**16,347**	**17,884**	**20,132**
Free cash flow						
Operating cash flow, excl working capital	1,403	2,374	1,893	2,269	2,143	2,426
Working capital changes	(1,583)	(859)	(1,732)	550	784	(1,376)
Capital expenditure	(254)	(213)	(691)	(1,200)	(2,000)	(750)
Investments	4	(325)	(342)	184	100	—
Other income	54	249	231	444	424	375
Free cash flow	**(375)**	**1,226**	**(640)**	**2,247**	**1,451**	**676**
Ratios (%)						
EBITDA margin (%)	21.5	24.6	20.6	17.2	21.9	19.8
Debt/equity	119.1	11.7	9.3	7.8	6.8	6.0
Net debt/equity	42.0	(23.3)	(14.0)	(25.9)	(29.9)	(27.6)
RoAE	34.8	33.0	19.7	20.3	16.0	15.0
RoACE	**20.3**	**23.4**	**18.1**	**19.4**	**15.1**	**14.2**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Zee News (ZEEN)

Media

ADD

JULY 24, 2009

RESULT

Coverage view: Neutral

Price (Rs): 43

Target price (Rs): 45

BSE-30: 15,231

Strong 1QFY10 results on cost rationalization. ZEEN reported stronger-than-expected 1QFY10 EBITDA at Rs248 mn (+44% yoy, +20% qoq); the positive variance resulted from lower-than-expected content costs despite the launch of two news channels as 1QFY10 revenue at Rs1.4 bn (+22% yoy) was in line with our estimate. We retain our ADD rating on the stock with a revised 12-month DCF-based target price of Rs45 (Rs40 previously) and would recommend buying on dips.

Company data and valuation summary

Zee News

Stock data			
52-week range (Rs) (high,low)			52-24
Market Cap. (Rs bn)			10.2
Shareholding pattern (%)			
Promoters			54.1
FIIs			6.9
MFs			20.2
Price performance (%)	1M	3M	12M
Absolute	4.9	19.7	(11.5)
Rel. to BSE-30	(1.3)	(12.5)	(13.2)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	1.9	2.2	2.7
EPS growth (%)	21.3	14.7	23.4
P/E (X)	22.7	19.8	16.0
Sales (Rs bn)	5.2	6.3	7.6
Net profits (Rs bn)	0.4	0.5	0.6
EBITDA (Rs bn)	1.0	1.2	1.5
EV/EBITDA (X)	11.7	9.5	8.1
ROE (%)	20.1	19.6	20.7
Div. Yield (%)	0.9	0.9	1.4

Strong 1QFY10 led by cost rationalization

- 1QFY10 revenue at Rs1.4 bn in line with our estimates; stronger-than-expected 23% yoy ad revenue growth but subscription revenue growth modest (+25% yoy)

- 14% qoq decline in 1QFY10 programming and production costs key driver of strong results; marginal savings in employee costs also contribute

- Higher-than-expected SG&A expenses (+15% qoq, +13% yoy) on account of new channel launches over the year (Zee Tamil, Zee News UP, Zee News AP); we note than ZEEN had internalized the sales team (for ad inventory sales for its GE channels) working with ZEEL previously and eliminated 15% commission payment to ZEEL

- One-off other income on account of write-back of prior provisions supports 1QFY10 net income at Rs119 mn (+28% yoy, +36% qoq) versus our Rs70 mn estimate

Recommend buying on dips

- Operational performance starting to improve in 2QFY10 with ratings uptick across channels, notably in the Bengali and Kannada segments

- Richly valued at 20X FY2010E consolidated earnings estimates; however, adjusted valuations (excl. Zee Tamil) fair relatively expensive at 8.5X FY2010E EV/EBITDA

- Retain ADD rating with 12-month DCF-based target price of Rs45 (Rs40 previously) but recommend buying only on dips given risks (ratings, financial leverage). Fine-tuned estimates with FY2010E and FY2011E earnings estimates at Rs2.2 (Rs2.1 previously) and Rs2.7 (Rs2.5 previously) on account of reduced costs and reduced losses in Zee Tamil

1QFY10 results analysis—cost rationalization

Strong ad revenue growth but surprisingly subdued subscription revenues. ZEEN reported 1QFY10 ad revenues at Rs1.1 bn (+23% yoy, +25% qoq) marginally ahead of our Rs1.05 bn estimate on account of higher-than-expected contribution from its news bouquet due to elections; the strong operational performance of ZEEN's emerging channels (notably Zee Talkies, Telugu and Kannada) also has a role to play with over 175% growth in its emerging channel bouquet (also includes some small regional news channels). This reflects the robust and diversified ZEEN channel bouquet—at a time when the Indian ad revenue market is in the midst of one of the worst slowdowns in its history—and is the key driver of our positive view on ZEEN.

Consolidated interim results of Zee News Limited, March fiscal year-ends (Rs mn)

					(% chg)					
	1QFY10	**1QFY10E**	**1QFY09**	**4QFY09**	**1QFY10E**	**1QFY09**	**4QFY09**	**2009**	**2008**	**(% chg)**
Total revenues	**1,374**	**1,400**	**1,127**	**1,384**	***(2)***	***22***	***(1)***	**5,218**	**3,671**	***42***
Advertisement revenues	1,090	1,050	890	1,070	*4*	*23*	*2*	4,089	2,930	*40*
Subscription revenues	265	300	212	286	*(12)*	*25*	*(7)*	968	668	*45*
Other revenues	19	50	26	28	*(61)*	*(26)*	*(31)*	161	73	*119*
Total expenditure	**(1,126)**	**(1,200)**	**(955)**	**(1,177)**	***(6)***	***18***	***(4)***	**(4,328)**	**(2,967)**	***46***
Direct operating cost	(521)	(625)	(444)	(607)	*(17)*	*17*	*(14)*	(2,122)	(1,505)	*41*
Employee cost	(196)	(200)	(165)	(204)	*(2)*	*19*	*(4)*	(666)	(451)	*48*
SG&A expenditure	(409)	(375)	(345)	(367)	*9*	*18*	*11*	(1,540)	(1,012)	*52*
EBITDA	**248**	**200**	**173**	**207**	***24***	***44***	***20***	**890**	**704**	***26***
OPM (%)	**18.1**	**14.3**	**15.3**	**15.0**				**17.1**	**19.2**	
Other income	41	40	3	49	*3*	*1,287*	*(15)*	78	11	*618*
Interest	(77)	(100)	(3)	(89)	*(23)*	*2,331*	*(13)*	(159)	(6)	*2,657*
Depreciation	(31)	(30)	(21)	(29)	*2*	*46*	*7*	(95)	(76)	*26*
Pretax profits	**181**	**110**	**152**	**138**	***65***	***20***	***32***	**713**	**633**	***13***
Extraordinaries	—	—	—	—				—	—	
Tax incidence	(62)	(40)	(60)	(48)	*55*	*3*	*28*	(268)	(243)	*10*
Net income	**119**	**70**	**92**	**89**	***70***	***30***	***34***	**445**	**390**	***14***
Minority interest	—	—	2	(2)			*(100)*	1	5	*(76)*
Net income after MI	**119**	**70**	**93**	**88**	***70***	***28***	***36***	**446**	**395**	***13***
Adjusted net income	**119**	**70**	**93**	**88**	***70***	***28***	***36***	**446**	**395**	***13***
Income tax rate (%)	34.2	36.4	39.6	35.1				37.5	38.4	

Source: Company data, Kotak Institutional Equities estimates

However, growth in subscription revenues was below expectations with 1QFY10 pay-TV revenues at Rs265 mn (+25% yoy, -12% qoq). The qoq decline was largely on account of the higher base in 4QFY09 (Rs286 mn) when ZEEN had resolved its long-running dispute with a large DTH operator (Reliance) and thus, 4QFY09 financials includes a one-time settlement fee and payment of dues from previous quarters. Nonetheless, we expected strong subscription revenues taking into account (1) continued strong growth of addressable DTH platform in India (+2 mn industry subscriber addition in 1QFY10) as well improved performance from ZEEN's South channel bouquet (Tata Sky, another large DTH operator, started receiving feed for these channels in 4QFY09 post a long-drawn dispute with ZEEN, at the latter's behest).

Strong EBITDA growth led by impressive cost rationalization. ZEEN reported 1QFY10 EBITDA at Rs248 mn (+44% yoy, +20% qoq) versus our Rs200 mn expectation; the positive variance was due to impressive cost rationalization with 14% qoq decline in programming and production costs despite launch of two new channels (Zee News UP, Zee News AP) during 1QFY10. We note the base in 4QFY09 was also higher on account of start-up expenses of these two channels. In our view, the lower content costs may be on account of the transition phase in its Tamil channel, which is being revamped post its disappointing performance. However, the large variance in its programming cost is surprising given the accounting policy (depreciation of content library over three years in the ratio 60:20:20 and film library over five years in the equal measure), which should smooth out any large quarterly variations in content investment.

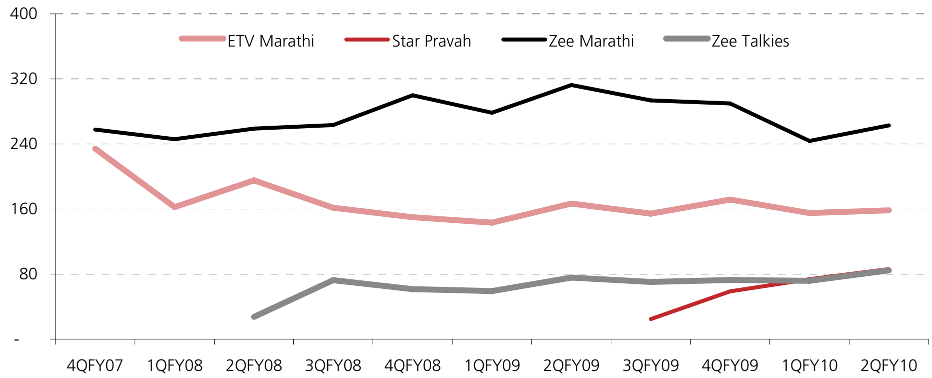
ZEEN reported 1QFY10 employee costs at Rs196 mn were largely in line with our Rs200 mn expectation. 1QFY10 SG&A expenses at Rs409 mn (+18% yoy, +11% qoq) were higher than our Rs375 mn expectation; ZEEN management noted higher carriage fess on account of (1) launch of two news channels and (2) continued investment in other emerging channels as the key driver. We highlight that SG&A expenses are not comparable on a yoy basis since ZEEN had internationalized its GE channel sales team (working with ZEEL previously) and eliminated the 15% commission payment to ZEEL starting 4QFY09. 1QFY10 SG&A expenses have increased 54% yoy from Rs265 mn in 1QFY09 (excl. our estimated commission payment of Rs80 mn) despite the rising popularity of ZEEN's emerging channels (Zee Talkies, Telugu and Kannada). Nonetheless, we do not negatively view some sustained investment in emerging channels.

Lower net interest expenses despite rising debt position. ZEEN's end-1QFY10 net debt increased to Rs2.1 bn from Rs1.5 bn by end-FY2009 on account of (1) increased investment in program and film library (Rs300 mn, incremental), capital expenditure on the launch of two new channels (Rs200 mn) and higher trade advances given larger scale of operations (Rs150 mn). However, net interest expenses (interest expenses minus interest and other income) were Rs36 mn versus Rs41 mn; the management noted some write-back of prior provisions (other income) to account for the same.

Revisiting investment rationale

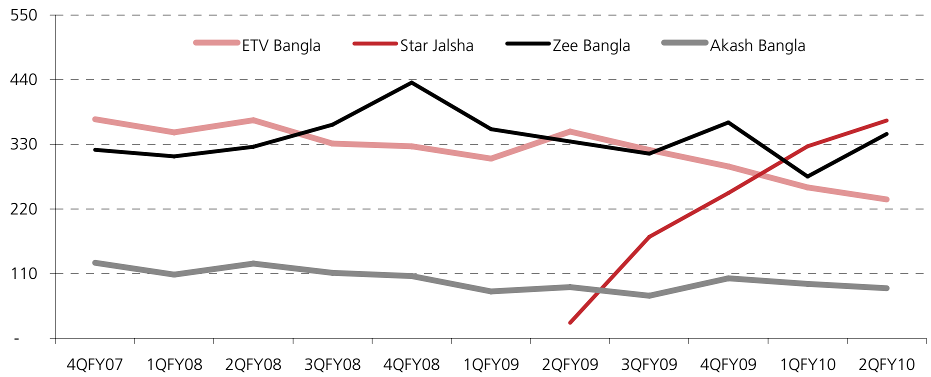
Positive operational performance. We present the ratings performance of ZEEN channels (see Exhibits 2-5) given direct correlation with advertising and subscription revenues generated and operating margins of ZEEN. We highlight the continued robust performance of ZEEN legacy channels (Marathi and Bengali) and continued improvement in performance of its emerging channels (Telugu and Kannada). Zee Tamil, the new channel launched during 3QFY09, continues to disappoint but we have already factored losses from the same into our financials. There have been some concerns regarding the drop in ratings of its Bengali and Kannada channels in 1QFY10 but the 2QFY10 performance should put the same to rest; however, the rising competitive intensity requires continued investment (read carriage fees) in these segments.

Trends in GRPs for key Marathi language channels (%)



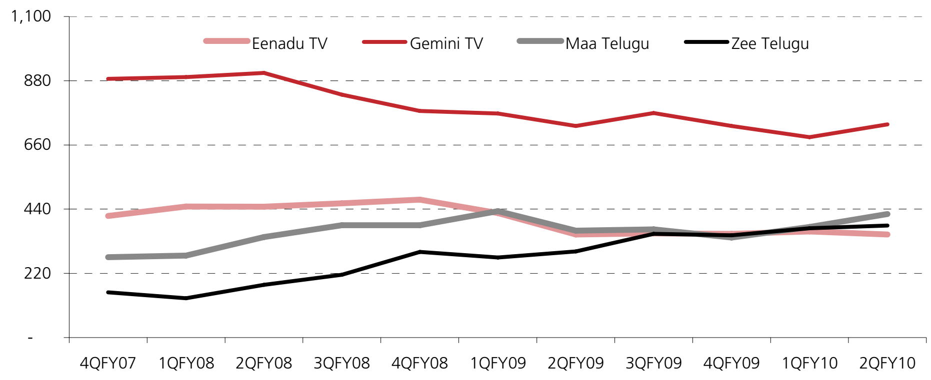
Source: TAM Media Research, compiled by Kotak Institutional Equities

Trends in GRPs for key Bengali language channels (%)



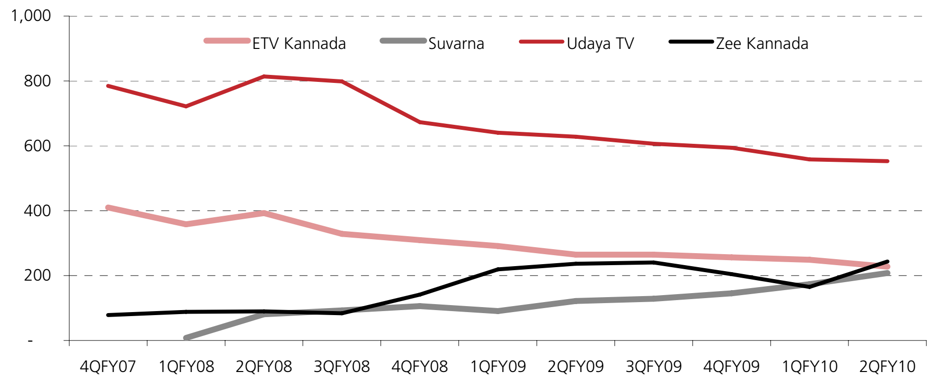
Source: TAM Media Research, compiled by Kotak Institutional Equities

Trends in GRPs for key Telugu language channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

Trends in GRPs for key Kannada language channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

Valuation comfort versus other broadcasting plays. ZEEN looks richly valued at 20X FY2010E consolidated earnings estimates, largely in line with peers ZEEL (18X FY2010E earnings) and SUNTV (22X FY2010E earnings). However, this includes large losses in new channels (largely Zee Tamil). We have already factored in by far the worst case scenario for Zee Tamil (large losses in perpetuity) in our model but believe that alternative scenarios exist—(1) improvement in performance of the channel (the management noted that it is revamping the content slate) or (2) closure of the channel if non-performance continues (we expect management to take a call depending on future performance). ZEEN is relatively inexpensive at 8.4X adjusted FY2010E EBIT, at considerable discount to Sun TV, the regional language behemoth. We remain positive on ZEEN given valuation comfort versus other listed broadcasters.

Operational and financial comparison of Sun TV and Zee News

	Position	
Market	**Sun TV**	**ZEEN**
Tamil	Leader	NA
Telugu	Leader	Runners-up
Bengali	NA	Runners-up
Kannada	Leader	Runners-up
Marathi	NA	Leader
Malyalam	Runners-up	NA
Financial performance		
Market cap (Rs mn)	96,096	10,214
FY2010E EV (Rs mn)	91,336	12,291
FY2010E EBIT (Rs mn)	5,918	1,014
FY2010E EV/EBIT	15.4	12.1
Adj. FY2010E EBIT (Rs mn) (a)	6,495	1,472
Adj. FY2010E EV/EBIT	**14.1**	**8.4**

Notes:
(a) Excluding the financials of recently launched Zee Tamil.

Source: Company data, Kotak Institutional Equities estimates

Earnings revisions

We have fine tuned our FY2010E and FY2011E earnings estimates to Rs2.2 (Rs2.1 previously) and Rs2.7 (Rs2.5) to account for 1QFY10 results and reduced losses on account of Zee Tamil. Our 12-month DCF-based target price increases to Rs45 (Rs40 previously) on account of the above and DCF roll forward.

- Advertising revenues. We have reduced our ad revenue estimates for ZEEN in FY2010E and FY2011E to Rs4.9 bn (Rs5.0 bn previously) and Rs5.8 bn (Rs5.95 bn) on account of marginal slippages in ratings of legacy channels.

- Production costs. We have reduced our production cost estimates of ZEEN in FY2010E and FY2011E to Rs2.6 bn (Rs2.8 bn previously) and Rs3.1 bn (Rs3.35 bn) on account of cost rationalization by ZEEN.

- Zee Tamil losses. We have reduced Zee Tamil EBITDA losses in FY2010E and FY2011E to Rs458 mn (Rs563 mn previously) and Rs470 mn (Rs616 mn previously) on account of increasing management focus on revamping the channel.

Consolidated profit model, balance sheet and cash model of Zee News, March fiscal year-ends, 2007-2013E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)							
Net sales	2,405	3,675	5,218	6,326	7,574	9,046	10,352
EBITDA	**77**	**678**	**895**	**1,148**	**1,416**	**1,766**	**2,123**
Interest income	131	14	78	92	78	87	103
Interest expense	(51)	(5)	(159)	(279)	(297)	(333)	(369)
Depreciation	(52)	(85)	(95)	(135)	(156)	(175)	(194)
Pretax profits	**104**	**601**	**718**	**827**	**1,040**	**1,346**	**1,662**
Tax-cash	(53)	(247)	(241)	(288)	(382)	(491)	(618)
Tax-deferred	7	15	(29)	(13)	(7)	(1)	3
Minority interest	16	2	1	(10)	(15)	(21)	(26)
Net profits after minority interests	**75**	**371**	**450**	**516**	**636**	**832**	**1,021**
Earnings per share (Rs)	**0.3**	**1.5**	**1.9**	**2.2**	**2.7**	**3.5**	**4.3**
Balance sheet (Rs mn)							
Total equity	1,813	2,071	2,409	2,812	3,281	3,888	4,629
Deferred Tax	1	(18)	10	23	30	31	29
Minority interest	36	51	50	59	74	96	122
Total borrowings	13	117	2,117	2,117	2,417	2,717	3,017
Currrent liabilities	973	1,407	1,677	1,771	2,016	2,296	2,533
Total capital	**2,835**	**3,628**	**6,263**	**6,783**	**7,818**	**9,028**	**10,330**
Cash	41	39	738	283	340	499	843
Current assets	1,501	2,013	2,775	3,257	3,880	4,611	5,249
Total fixed assets	808	812	1,092	1,157	1,201	1,227	1,257
Investments	484	764	1,658	2,085	2,396	2,691	2,980
Total assets	**2,835**	**3,628**	**6,263**	**6,783**	**7,818**	**9,028**	**10,330**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	7	555	495	581	736	942	1,136
Working capital	(273)	(306)	(493)	(389)	(377)	(451)	(401)
Capital expenditure	(300)	(96)	(375)	(200)	(200)	(200)	(225)
Investments	964	(279)	(894)	(427)	(311)	(295)	(288)
Other income	122	—	78	92	78	87	103
Free cash flow	**(566)**	**154**	**(373)**	**(8)**	**159**	**291**	**510**
Ratios (%)							
Debt/equity	0.7	5.6	87.9	75.3	73.7	69.9	65.2
Net debt/equity	(1.5)	3.7	57.2	65.2	63.3	57.0	47.0
RoAE	8.2	19.2	20.1	19.6	20.7	23.0	23.8
RoACE	**1.5**	**18.2**	**14.9**	**13.6**	**14.8**	**16.3**	**17.0**

Source: Company data, Kotak Institutional Equities estimates

kotak Institutional Equities

Canara Bank (CBK)

Banks/Financial Institutions

ADD

JULY 23, 2009

CHANGE IN RECO.

Coverage view: Attractive

Price (Rs): 272

Target price (Rs): 295

BSE-30: 15,231

Upgrade on decent operational performance and inexpensive valuations. Canara Bank has shown steady improvement in its operational performance over the past few quarters with better NIM and fee income growth. Key risks are the continued sharp growth in assets and low level of provision coverage but the valuation at 1.0X PBR FY2010E appears to factor in these risks. We upgrade our rating on the stock to ADD with a target price of Rs295 (Rs260 earlier).

Company data and valuation summary

Canara Bank

Stock data			
52-week range (Rs) (high,low)			298-135
Market Cap. (Rs bn)			111.7
Shareholding pattern (%)			
Promoters			73.2
FIIs			11.2
MFs			1.8
Price performance (%)	1M	3M	12M
Absolute	3.4	43.8	44.9
Rel. to BSE-30	(2.8)	5.1	42.2

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	50.5	41.4	51.1
EPS growth (%)	0.0	(18.1)	23.3
P/E (X)	5.4	6.6	5.3
NII (Rs bn)	47.2	52.9	63.8
Net profits (Rs bn)	20.7	17.0	20.9
BVPS	199.6	194.8	221.2
P/B (X)	1.4	1.4	1.2
ROE (%)	18.3	13.2	14.7
Div. Yield (%)	2.9	2.9	3.7

NIM has shown steady improvement over the past few quarters

Canara Bank's NIM has ranged between 2.7& and 2.8% over the past few quarters reflecting better control on its funding costs and better pricing of its advances. The company was amongst the few public banks able to maintain its NIM at almost the same level in 4QFY09 and 1QFY10 as compared to 3QFY09. We view this as positive as it is likely to help sustain will likely help sustain the company's overall profitability.

Non-interest income growth has remained healthy

Canara Bank had treasury income of only Rs282 mn (4% of PBT) in 1QFY10, in contrast to the trend observed at other banks (both public and private). This strategy of not booking high treasury income could help the company have higher investment yields in the future and protect its NIM. The non-interest income (excluding treasury) was a healthy 14% yoy in the quarter.

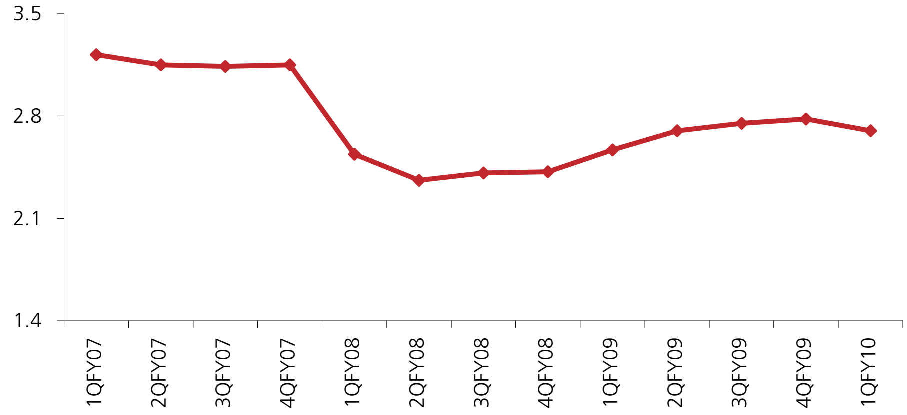
Lower provision coverage remains a concern

Canara Bank's gross NPLs as of June 2009 were Rs24.6 bn (1.7%) with a coverage ratio of 26%--lowest for the companies under coverage and is a cause of concern. We currently model a slippage ratio of 3.8% in FY2010E against the 2.2% observed in FY2009, which likely captures the credit risk at the company. Our fair value for the company is calculated by netting off the net NPLs as of March 2011 without reducing the provision estimates in future periods, which is conservative.

QUICK NUMBERS

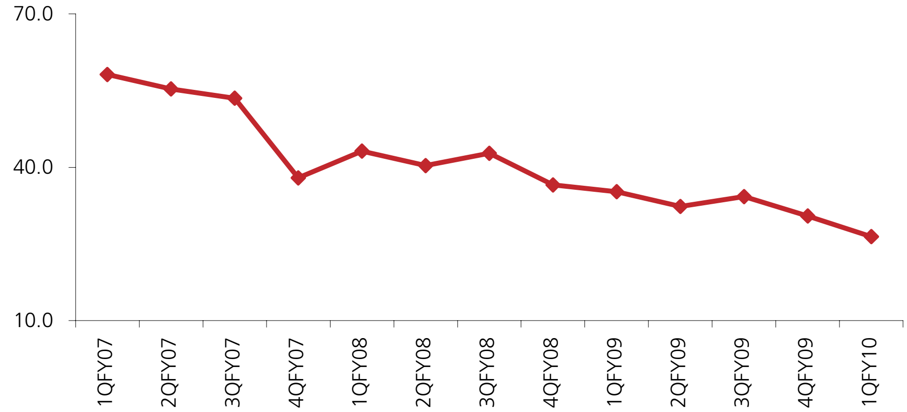
- Increase estimates by 10-13% for FY2010E and FY2011E
- Upgrade stock to ADD with a target price of Rs295

NIM has shown a steady improvement since 1QFY09
March fiscal year-ends,1QFY07-1QFY10



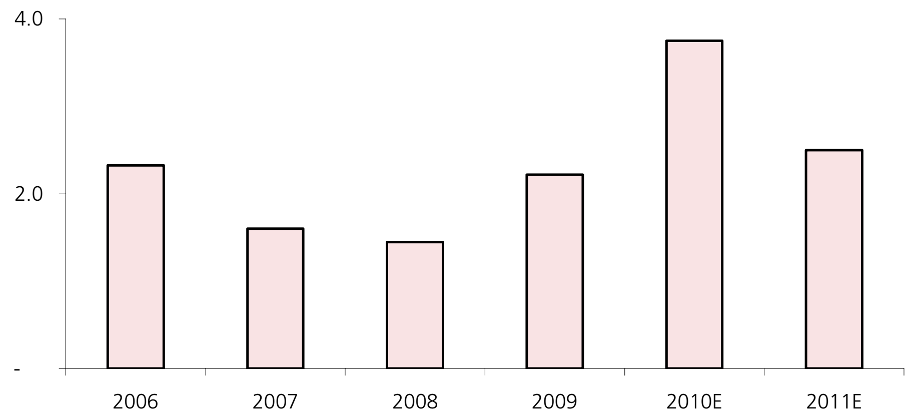
Source: Company

Provision coverage has come off sharply in the past few quarters
March fiscal year-ends, 1QFY07-1QFY10 (%)



Source: Company

We model a fairly sharp rise in delinquencies to account for likely credit risk
Slippage ratio assumptions, March fiscal year-ends, 2006-2011E (%)



Source: Company, Kotak Institutional Equities estimates

We raise our earnings estimates by 10-13% in FY2010E and FY2011E
Change in estimates, March fiscal year-ends, 2010-2011E (Rs mn)

	Old estimates		New estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net interest income	50,906	60,344	52,908	63,770	3.9	5.7
Loan growth (%)	14.0	12.8	19.1	16.8		
NIM (%)	2.25	2.34	2.34	2.47		
Loan loss provisions	16,272	20,128	15,145	19,639	(6.9)	(2.4)
Other income	20,721	22,255	19,721	21,755	(4.8)	(2.2)
Fee income	7,027	7,729	7,027	7,729	-	-
Treasury income	3,000	3,000	2,000	2,500		
Operating expenses	34,601	37,721	34,601	37,721	-	-
Employee expenses	21,587	23,314	21,587	23,314	-	-
Depreciation on investments	-	-	-	-		
PBT	15,377	18,374	16,974	20,936	10.4	13.9
Net profit	**15,377**	**18,374**	**16,974**	**20,936**	**10.4**	**13.9**
PBT-treasury	**12,377**	**15,374**	**14,974**	**18,436**	**21.0**	**19.9**
PBT-treasury + loan loss provisions	**28,649**	**35,502**	**30,119**	**38,074**	**5.1**	**7.2**

Source: Company, Kotak Institutional Equities estimates

INDIA

JULY 23, 2009

UPDATE

BSE-30: 15,231

June performance of core industries reaffirms our view of better IIP growth.

The index for six core industries with a combined weight of 26.7% in IIP for June 2006 increased 6.5% yoy comapred with 2.8% in May 2009 and 5.1% in June 2008. This reaffirms our view that (1) the IIP growth cycle has turned around after bottoming out in March 2010, (2) IIP growth is likely to (a) exceed 4% in June, (b) be about 3.5% in 1HFY10E, (c) 8.5% in 2HFY10E and (d) over 6% in FY2010E.

Six core industries performance improves markedly in June 2009

Output growth for six core industries touched a 16-month high of 6.5% yoy. Coming on the heels of IIP growth touching 2.7% in May — the highest in 8-months, it does raise hopes that IIP growth will turn around in FY2010E. The six industries recording yoy growth are: crude oil (4.0%), refinery (-3.7%), coal (14.7%), electricity (7.0%), cement (12.8%) and steel (5.3%).

Core industries activity unlikely to reach potential

June's jump in core industries growth has been substantially supported by the base effect. However, as the seasonal dip of June has not taken place, it has raised our hopes of better-than-before growth. However, a note of caution is due. In our view, bottlenecks still impact core industries, especially crude oil and refined petro-products. Low reservoir levels may also impact hydel power generation in FY2010E.

IIP growth cycle has bottomed out; expect growth to accelerate in 2H

We reiterate our view that the IIP growth cycle has turned with growth returning in 1QFY10. We see IIP growth crossing 4% in June. If no new exogenous shocks come, IIP growth could average about 3.5% in 1HFY10E and 8.5% in 2HFY10E with overall growth exceeding 6% in FY2010E.

QUICK NUMBERS

- Core industries growth rises to 6.5% in June 2009 – highest in 16 months
- We expect June IIP growth at 4.2%
- We reiterate that IIP growth may exceed 6% in FY2010E

Core industries growth of 6.5% in June reaffirms our IIP growth view

Data for six core industries released on July 23, 2009 has re-established that IIP growth is coming back significantly. Six core industries recorded 6.5% growth in June 2009 versus 2.8% in May 2009 and 5.1% in June 2008. We reiterate our view of IIP growth, first stated in our note of July 10, 2009:

- The growth cycle has turned after bottoming out in March 2010
- IIP growth could cross 4% in June
- Is likely to be about 3.5% in 1HFY10E
- And 8.5% in 2HFY10E
- IIP growth is likely to exceed 6% in FY2010E

Our view has been endorsed by June's IIP growth. The high growth in June has been supported by a strong favorable base effect but we also note that the seasonal dip in June has not occurred this year. This augurs well for better IIP growth in FY2010E.

All core industries, except refineries grow in June 2009

With the exception of petroleum refined products, all core industries recorded positive growth (see Exhibit 1). Coal and cement industries continued to record double-digit growth, but slack remains in the case of other core industries.

Exhibit 1: Core infrastructure industries growth accelerate in 1QFY10
Sector-wise growth rates in production for six infrastructure industries, March fiscal year-ends, 2009-2010 (%)

	Crude Oil		Refinery		Coal		Electricity		Cement		Finished Steel		General	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Weights (%)	**4.2**		**2.0**		**3.2**		**10.2**		**2.0**		**5.1**		**26.7**	
April	1.0	(3.1)	4.3	(4.5)	10.3	13.2	1.4	7.1	6.9	11.8	(0.6)	2.8	2.3	5.0
May	3.2	(4.3)	0.1	(4.3)	8.8	10.2	2.0	3.3	3.8	11.8	3.3	1.4	3.1	2.8
June	(4.7)	4.0	5.6	(3.7)	6.1	14.7	2.6	7.0	6.6	12.8	10.4	5.3	5.1	6.5
July	(3.0)		11.8		5.5		4.5		8.9		6.0		5.4	
August	(1.0)		2.5		5.9		0.8		1.9		3.4		2.1	
September	(0.4)		2.8		10.7		4.4		8.1		2.1		4.0	
October	(0.3)		5.0		10.9		4.4		6.2		(4.9)		2.1	
November	0.5		(1.1)		9.6		2.6		8.7		(2.5)		1.9	
December	(0.3)		3.0		9.4		1.5		11.6		(6.0)		1.1	
January	(8.1)		(1.3)		6.3		1.8		8.3		1.6		1.8	
February	(6.2)		0.5		6.0		0.6		8.3		0.5		1.4	
March	(2.3)		3.3		5.2		6.3		10.1		(2.2)		3.2	
YTD (April-Jun)	**(0.1)**	**(1.3)**	**3.3**	**(4.1)**	**8.4**	**12.7**	**2.0**	**5.8**	**5.8**	**12.1**	**4.3**	**3.2**	**3.5**	**4.8**
FY (April-March)	**(1.8)**		**3.0**		**7.8**		**2.7**		**7.5**		**0.8**		**2.8**	

Source: Kotak Institutional Equities

June's acceleration in core industries output supported by base effect

High growth of core industries in June was supported by a favorable base effect. The growth was 6.5% on a yoy basis, but only 0.6% mom.

- The base effect was particularly strong in case of crude oil production, which had contracted 4.7% in the same month last year. Therefore, even though crude oil output in June 2009 fell 1.1% mom, it recorded 4.0% growth yoy. In contrast, refinery products grew 3.0% mom, but posted a negative growth (-3.7%) yoy.
- Coal production, which posted exceptionally high 14.7% growth, actually declined (-2%) on a mom basis. Electricity and cement production also declined (-2.2% and -0.6%, respectively) on a mom basis, though steel grew 5.4% mom

However, the June dip is seasonal and in fact mom contractions have been slightly smaller than usual, giving hopes of a gradual recovery of industrial output in 1HFY10 and possibly stronger recovery in 2HFY10.

Core industries performance sub-optimal, except for coal and cement

In our view, notwithstanding the 6.5% growth in June, concerns remain about core industries performance in the near term as supply-side bottlenecks as well as demand deficiency act as a drag. Only two of the six industries – coal and cement – are growing at above potential rate.

- Cement industries recorded an average growth of 10.7% over the past seven months
- Coal industries has grown 12.1% in 1QFY10 over a high base last year
- However, crude oil contracted (-2.8% average) over the 12 months prior to June 2009
- Petroleum refinery products averaged growth of just 0.2% over 11 months,

IIP growth may exceed 4.0% in June 2009

In our view, IIP growth may exceed 4.0% in June 2009 (see Exhibit 2). We recognize the uncertainty around our projection given the seasonal factors in June but do not see growth dropping below 3% even under the pessimistic calculations. We also recognize the possible upside to the number, but growth is unlikely to exceed 5% even with optimistic calculations.

Exhibit 2: IIP growth likely to improve to 4.5% in June 2009E from 2.7% in May 2009
Sectoral classification of IIP growth, March fiscal year-ends, 2008-2010E (%)

	Mining (%)			Manufacturing (%)			Electricity (%)			General (%)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Weights (%)	**10.5**			**79.4**			**10.2**			**100.0**		
April	2.6	6.1	3.9	12.4	6.7	0.4	8.7	1.4	7.1	11.3	6.2	1.2
May	3.8	5.5	3.7	11.3	4.5	2.5	9.4	2.0	3.3	10.6	4.4	2.7
June	1.5	0.1	**11.1**	9.7	6.1	**3.4**	6.8	2.6	**7.0**	8.9	5.4	**4.2**
July	3.2	2.8		8.8	6.9		7.5	4.5		8.3	6.4	
August	14.7	2.8		10.7	1.7		9.2	0.8		10.9	1.7	
September	4.9	5.8		7.4	6.2		4.5	4.4		7.0	6.0	
October	5.1	3.2		13.8	(0.6)		4.2	4.4		12.2	0.1	
November	6.3	0.7		4.7	2.7		5.8	2.6		4.9	2.5	
December	5.0	2.2		8.6	(0.6)		3.8	1.6		8.0	(0.2)	
January	2.9	0.7		6.7	1.0		3.7	1.8		6.2	1.0	
February	7.9	(0.2)		9.6	0.2		9.8	0.7		9.5	0.2	
March	4.9	2.6		5.7	(1.6)		3.7	6.3		5.5	(0.8)	
YTD (April-May)	**3.2**	**5.8**	**3.8**	**11.8**	**5.6**	**1.5**	**9.0**	**1.7**	**5.1**	**10.9**	**5.3**	**1.9**

Note: June 2009 are KIE estimates

Source: Central Statistical Organization; Kotak institutional Equities (KIE) estimates

- We expect the June IIP surge to be supported by double-digit growth in mining and strong electricity growth of about 7.0%
- In terms of the use-based classification, we expect the growth to be led by basic goods and consumer durables, though capital goods may again prove disappointing

kotak Institutional Equities

Economy

Agriculture Sector

INDIA

JULY 24, 2009

UPDATE

BSE-30: 15,231

Monsoon update: Prospects improve, but not out of woods yet. Rainfall deficiency to 19% from 27% a week ago and from 46% in June. Also, the decline in area sown has come down to 8.5% by July 17 from 25.5% a week ago. This improves agricultural prospects, but, in our view, the agriculture economy is not out of woods yet. Rainfall deficiency in the Northern regions remains acute in the range of 41- 64%.

Monsoon deficiency drops to 19% from 46% in June

Good rains in July so far has reduced the cumulative rainfall deficiency to 19% from 27% a week ago and 46% in June. The number of sub-divisions receiving deficient/scanty rainfall has now dropped to 19 from 22 a week ago and 30 at end-June. Overall deficiency has come down due to heavy rains in Southern India.

Northern belt deficiency remains worrying

Rainfall deficiency in the meteorological sub-divisions of Northern/Indo-Gangetic Plain ranges remains worrisome. It is now in the range of 41-65% versus 47-63% last week. We reiterate that this is worrying as these regions account for 50% of the country's foodgrains and sugarcane output.

Official data shows sowing has picked up but crop uncertainty remains

Official data shows that sowing picked up considerably over week-ending July 17. As a result, the decline in sown area (from levels in the corresponding period last year) is now just 8.5% versus 25.5% a week ago. As the dry spell continued in most parts of the Northern belt in this period, it looks like we may have to wait for firmer figures, anecdotal cross-checks and more time to see if sowing bounces back to normal.

Base case now suggests a 10% deficiency for full monsoon season

In our view, the base case now looks like an overall rainfall deficiency of about 10% for the full monsoon season. Considering good overall rains in July, a larger deficiency appears less likely. However, considering that the El Nino effect may still impact rains at a later stage, we maintain that the risk of drought has not dissipated all together. However, considering improved reservoir levels, we believe that in the base case India may still record real GDP growth of over 6% in FY2010E and inflation may still be contained at about 8-9% at end-FY2010E.

QUICK NUMBERS

- Rainfall deficiency drops to 19% from 46% in June and 27% a week ago
- Deficient/ scanty sub-divisions drop to 19 from 30 in June and 22 a week ago
- Deficiency unchanged in the Northern belt (which produces 50% of national foodgrains and sugarcane)

Rainfall deficiency drops further

The monsoon has improved (see Exhibit 1) and looks like it will sustain through July after the dryest June in half a century. Rainfall during last week was good in most parts of the country, raising hopes that drought can be averted.

- Cumulative rainfall deficiency has dropped to 19% from 27% in mid-July and 46% in June
- Of a total of 36, the number of sub-divisions receiving deficient/scanty rainfall on a cumulative basis has now dropped to 19 from 22 a week ago and 30 in June.

Monsoon has improved considerably since our first Economy note on this issue dated June 22, 'Monsoon 2009: Elusive Monsoon poses Economic Risk' and its weekly updates in July. However, the agricultural economy is still not out of woods as risks of drought from the normal, arising from the continued dry spell in several parts of Northern/Indo-Gangetic plains.

Exhibit 1: Monsoon plays truant in June; but recovers partially in July
Rainfall till date specified, CY2004-CY2009

	2004			2005			2006			2007			2008			2009		
Rainfall till date	30-Jun	21-Jul	30-Sep	29-Jun	20-Jul	30-Sep	28-Jun	19-Jul	30-Sep	4-Jul	25-Jul	30-Sep	2-Jul	23-Jul	30-Sep	1-Jul	15-Jul	22-Jul
Normal/Excess	**28**	**19**	**23**	**17**	**29**	**32**	**23**	**24**	**26**	**31**	**29**	**30**	**28**	**21**	**32**	**6**	**14**	**17**
Excess	9	4	—	3	11	9	7	1	6	20	14	13	18	9	2	2	2	4
Normal	19	15	23	14	18	23	16	23	20	11	15	17	10	12	30	4	12	13
Deficient/Scanty	**8**	**17**	**13**	**19**	**7**	**4**	**13**	**12**	**10**	**5**	**7**	**6**	**8**	**15**	**4**	**30**	**22**	**19**
Deficient	8	17	13	17	7	4	10	12	10	5	7	6	8	14	4	22	20	17
Sacnty/no rain	—	—	—	2	—	—	3	—	—	—	—	—	—	1	—	8	2	2
Total	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**	**36**
Rainfall deviation from normal (%)			-13			-1			-1			5			-2	-46	-27	-19
Foodgrains output (in mt)			198.4			208.6			217.3			230.8			229.9			
Kharif foodgrains (in mt)			103.3			109.9			110.6			121.0			118.8			
Foodgrains growth (%)			-7.1			5.2			4.2			6.2			-0.4			
All crops index growth (%)			-1.6			12.2			13.9			0.9			3.0E			
Growth in GDP in agriculture & allied(%)			0.1			5.8			4.0			4.9			1.6			
Growth in GDP(%)			7.5			9.5			9.7			9.0			6.7			

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

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

Monsoon still playing truant in Northern/Indo-Gangetic Plains

Spatially, the Northern/Indo-Gangetic Plains food belt has received very little rain (see Exhibit 2). The cumulative deficiency level in this region is in the range of 41%-65%, compared with 47-63% last week (see Exhibit 2 of this note).

Since this region accounts for 50% of the country's foodgrains and sugarcane crop (see Exhibit 3), the spatial pattern of monsoon may remain a worry this year even though overall monsoon deficiency may be substantially made good. Considering that June rains were the worst in half a century and also that the El Nino factor may weaken the monsoon towards the end of the season, we remain apprehensive about the temporal pattern as well. El Nino is an abnormal warming of surface ocean waters in the eastern tropical Pacific that impacts climatic conditions and adversely affects rainfall in several parts of the world, including India, China, South East Asia, Australia and even parts of Africa.

Exhibit 2: Drought still likely in parts of Northern/Indo-Gangetic Plain food belt
Rainfall deficiency in sub-divisions of Northern/Indo-Gangetic Plain (%)

as on:	July 1, 2009	July 8, 2009	July 15, 2009	July 22, 2009
Haryana, Chandigarh & Delhi	-42	-62	-59	-65
Bihar	-52	-54	-63	-64
East Uttar Pradesh	-66	-89	-56	-58
West Uttar Pradesh	-74	-50	-60	-58
Himachal Pradesh	-55	-69	-59	-53
Punjab	-38	-71	-56	-49
Uttranchal	-58	-65	-57	-42
Gangetic West Bengal	-62	-50	-47	-41

Source: India Meteorological Department; Kotak Institutional Equities

Exhibit 3: Share of Rainfall deficient Northern/Indo-Gangetic Plain States in major crops
Share in country's output for major crops, FY2007 and FY2008 average, (%)

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

Source: Ministry of Agriculture; Kotak Institutional Equities

Official data suggest brisk sowing last week

Data collected by the Ministry of Agriculture suggests brisk sowing over week-ending July 17. Area sown increased to 48 mn hectares on July 17 from 30.7 mn hectares. As a result, the decline in area sown from last year is now just 8.5%, compared with 25.5% on July 10 and 17% on June 17

- Last year, by mid-July, area sown was 50% of the normal. This year about 46% of the sowing has been completed (see Exhibit 4)
- If rains continue to be good throughout the rest of the monsoon season, normal sowing can still occur
- If rains picks up in North even now, sowing is unlikely to suffer as sowing occurs till mid-August
- Moreover, drought-resistant variety of seeds can bring up crops fairly quickly
- However, area under rice is down by 21% and its output is likely to drop in FY2010E as the crop requires good water-logged fields

Exhibit 4: Sowing improves in July; decline 8.5% (on July 17) vs 25.5% (on July 10)
Area sown under main Kharif (summer) crops, March fiscal year-ends, (mn hectares)

	Crop	normal area	till July 17				% of normal	
			2008	2009	increase	increase(%)	2008	2009
1	Rice	39.2	14.5	11.5	(3.1)	(21.1)	37.0	29.2
2	Jowar	3.9	1.7	1.7	(0.1)	(3.4)	43.9	42.4
3	Bajra	9.7	4.6	3.5	(1.1)	(24.6)	47.4	35.7
4	Maize	6.8	4.7	4.6	(0.1)	(2.6)	69.7	67.9
5	Other cereals	2.5	0.5	0.4	(0.1)	(18.1)	21.5	17.6
6	Total coarse cereals (2 to 5)	23.0	11.6	10.2	(1.4)	(12.2)	50.5	44.4
7	**Total cereals (1+6)**	**62.2**	**26.1**	**21.7**	**(4.5)**	**(17.1)**	**42.0**	**34.8**
8	Arhar (tur)	3.6	1.3	1.6	0.4	29.5	35.0	45.4
9	Urad	2.4	0.8	0.9	0.1	8.2	33.8	36.5
10	Moong	2.7	1.2	0.9	(0.3)	(26.2)	44.8	33.0
11	Other pulses	2.4	0.8	0.4	(0.4)	(45.4)	32.0	17.5
12	**Total pulses (8 to 11)**	**11.2**	**4.1**	**3.8**	**(0.2)**	**(5.8)**	**36.5**	**34.4**
13	**TOTAL FOODGRAINS (7+10)**	**73.3**	**30.2**	**25.5**	**(4.7)**	**(15.6)**	**41.2**	**34.8**
14	Groundnut	5.4	2.8	2.6	(0.2)	(7.0)	51.5	47.9
15	Soyabean	7.8	7.2	7.1	(0.1)	(1.4)	92.7	91.4
16	Sunflower	0.8	0.1	0.3	0.2	143.4	17.8	43.2
17	Sesamum	1.8	0.8	0.5	(0.3)	(33.5)	43.8	29.1
18	Nigerseed	0.4	0.0	0.0	(0.0)	(54.5)	7.7	3.5
19	Castorseed	0.7	0.1	0.1	0.0	48.9	11.8	17.5
20	**Total nine oilseeds (14 to 19)**	**16.9**	**11.0**	**10.7**	**(0.3)**	**(2.9)**	**65.2**	**63.3**
21	Cotton	8.7	6.2	6.9	0.7	11.7	70.7	79.0
22	Sugarcane	4.4	4.4	4.3	(0.1)	(2.9)	99.5	96.5
23	Jute	0.8	0.7	0.7	(0.0)	(2.4)	88.5	86.3
24	**TOTAL NON-FOODGRAINS (20 to 24)**	**30.8**	**22.3**	**22.5**	**0.3**	**1.1**	**72.3**	**73.1**
25	**TOTAL ALL CROPS (13+24)**	**104.2**	**52.5**	**48.0**	**(4.5)**	**(8.5)**	**50.4**	**46.1**

Source: Ministry of Agriculture, Kotak Institutional Equities

Reservoir level improves; crop output unlikely to fall much in FY2010

Water storage in important reservoirs across the country has improved markedly over the past week. The deficiency from normal is now just 22% versus 45% a week ago (see Exhibit 5). This augurs well for Rabi crop substantially making good the shortfall in Kharif.

Exhibit 5: Reservoir levels deficiency drops to 22% from 45% a week ago
Reservoir levels (for 81 large reservoirs), billion cubic meters (BCM)

as on:	July 9, 2009	July 16, 2009	July 23, 2009
Current live storage (BCM)	16.0	20.7	34.3
Live capacity at FRL (BCM)	151.8	151.8	151.8
Corresponding storage last year	37.3	42.8	43.5
Corresponding storage last 10-year average	33.0	37.8	44.0
% storage as FRL capacity	10.5	13.7	22.6
corresponding % last year	24.6	28.2	28.6
corresponding % (last 10-year average)	21.7	24.9	29.0
current years's storage as % of last year	42.9	48.4	79.0
current years's storage as % of last 10-yr average	48.5	54.8	78.0

Source: Ministry of Water Resources, Kotak Institutional Equities

However, we note that:

- Water storage in reservoirs in Ganga and Indus basins are still 40% and 55% less, respectively, than normal levels at this point and can adversely impact crops in the northern belt

- Water deficiency in reservoirs also remain large in Godavari basin at 60%, and Tapi basin at 45%

- Only Kaveri basin and 'West flowing rivers of South' have storage above normal at 46% and 27%, respectively

Crop loss may be small in FY2010E

In our assessment, considering improved reservoir levels, the decline in agricultural output in FY2010E may be small. Given the uncertainty on output and sowing, we would not like to hazard a guess as yet. But factoring in the current information, we believe that India may still record real GDP growth exceeding 6% in FY2010E and inflation could still be contained at about 8-9% at end-FY2010E

Kotak Institutional Equities: Valuation summary of key Indian companies

	23-Jul-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Automobiles																													
Ashok Leyland	33	ADD	43,901	907	1,330	1.5	1.8	2.4	(57.8)	18.5	32.7	21.6	18.2	13.7	14.6	9.5	7.4	1.2	1.2	1.1	3.0	3.0	3.0	6.2	6.4	8.3	32	(3.0)	3.7
Bajaj Auto	1,171	ADD	169,432	3,499	145	45.2	85.0	100.9	(13.4)	87.9	18.7	25.9	13.8	11.6	15.2	8.5	7.5	9.0	6.2	4.5	1.7	1.7	1.7	37.7	53.1	44.0	1,260	7.6	5.3
Hero Honda	1,667	REDUCE	332,810	6,873	200	64.2	83.8	91.2	32.4	30.5	8.8	26.0	19.9	18.3	17.5	13.6	12.1	8.5	6.6	5.2	1.2	1.3	1.3	36.6	37.4	31.9	1,000	(40.0)	17.1
Mahindra & Mahindra	802	ADD	212,759	4,394	265	21.7	40.4	43.6	(42.9)	86.0	8.0	36.9	19.9	18.4	32.1	14.8	13.3	4.5	3.4	2.9	1.1	1.2	1.2	12.3	19.3	17.0	670	(16.5)	20.4
Maruti Suzuki	1,296	SELL	374,486	7,733	289	42.2	70.0	73.0	(29.6)	65.9	4.3	30.7	18.5	17.8	26.9	12.1	10.7	3.9	3.2	2.8	0.4	0.3	0.4	13.4	19.0	16.8	1,100	(15.1)	21.7
Tata Motors	340	SELL	189,339	3,910	556	20.8	15.2	20.0	(58.3)	(27.0)	32.2	16.4	22.5	17.0	21.7	14.1	12.0	1.4	1.3	1.3	1.6	1.6	1.6	9.0	6.1		235	(31.0)	37.9
Automobiles		**Cautious**	**1,322,727**	**27,315**					**(169.6)**	**261.8**	**104.7**	**157.5**	**112.7**	**96.7**	**127.9**	**72.6**	**62.9**	**28.5**	**21.9**	**17.8**	**9.1**	**9.1**	**9.2**	**115.1**	**141.3**	**117.9**			
Banks/Financial Institutions																													
Andhra Bank	89	REDUCE	43,165	891	485	13.5	11.1	12.6	14.0	(17.9)	13.6	6.6	8.0	7.1				1.3	1.2	1.1	5.1	3.1	3.5	19.0	14.0	14.4	90	1.1	1.8
Axis Bank	894	BUY	320,933	6,627	359	50.6	59.1	68.2	56.9	16.8	15.6	17.7	15.1	13.1				3.5	3.1	2.7	1.1	1.3	1.5	19.1	19.2	19.2	850	(4.9)	74.0
Bank of Baroda	430	REDUCE	157,213	3,247	366	60.9	55.7	60.2	55.1	(8.6)	8.0	7.1	7.7	7.1				1.5	1.5	1.3	2.1	1.9	2.1	18.7	15.0	14.5	440	2.3	10.9
Bank of India	357	ADD	187,988	3,882	526	57.2	46.3	53.2	40.7	(19.1)	14.9	6.3	7.7	6.7				1.9	1.7	1.6	2.2	1.8	2.1	29.2	19.0	18.7	360	0.7	15.5
Canara Bank	272	ADD	111,664	2,306	410	50.5	41.4	51.1	32.4	(18.1)	23.3	5.4	6.6	5.3				1.4	1.4	1.2	2.9	2.9	3.7	18.3	13.2	14.7	295	8.3	5.7
Corporation Bank	347	BUY	49,773	1,028	143	62.2	51.5	55.3	21.4	(17.3)	7.4	5.6	6.7	6.3				1.0	0.9	0.8	3.7	3.0	3.3	19.6	14.3	13.8	395	13.8	1.0
Federal Bank	246	BUY	42,100	869	171	27.8	31.4	38.2	(19.2)	13.1	21.5	8.9	7.8	6.4				1.0	0.9	0.8	2.1	2.4	2.9	11.5	11.8	13.0	320	30.0	3.3
Future Capital Holdings	272	BUY	17,219	356	63	4.5	28.8		(198.6)	546.1	(100.0)	61.2	9.5					2.3	1.8					3.8	21.4		440	61.6	1.2
HDFC	2,451	NR	697,230	14,398	284	80.2	91.5	103.6	(6.5)	14.0	13.3	30.6	26.8	23.7				5.3	4.8	4.2	1.2	1.3	1.5	18.2	18.3	18.3		(100.0)	63.1
HDFC Bank	1,459	REDUCE	659,576	13,621	452	52.8	63.3	73.5	17.6	20.0	16.0	27.6	23.0	19.9				4.4	3.1	2.8	0.6	0.8	1.0	16.9	15.8	14.7	1,430	(2.0)	51.1
ICICI Bank	776	REDUCE	863,410	17,830	1,113	33.8	32.3	38.5	(15.4)	(4.4)	19.2	23.0	24.0	20.2				1.7	1.7	1.6	1.4	1.2	1.2	7.8	7.1	8.0	685	(11.7)	189.8
IDFC	131	ADD	169,422	3,499	1,295	5.8	7.7	8.7	1.9	33.9	12.6	22.6	16.9	15.0				2.7	2.4	2.1	0.9	1.0	1.1	12.9	15.4	15.3	120	(8.3)	50.7
India Infoline	127	ADD	39,661	819	312	5.1	7.7	8.2	(8.7)	50.5	7.3	24.9	16.5	15.4	9.8	7.2	6.1	3.5	2.9	2.5	1.8	2.4	2.8	11.9	17.5	17.2	145	14.0	13.3
Indian Bank	146	BUY	62,789	1,297	430	28.0	27.6	30.2	24.1	(1.4)	9.7	5.2	5.3	4.8				1.1	1.0	0.8	3.4	3.3	3.6	22.9	19.2	18.2	185	26.6	3.1
Indian Overseas Bank	88	BUY	47,915	989	545	24.3	16.6	22.2	10.3	(31.9)	33.8	3.6	5.3	4.0				0.8	0.7	0.6	6.0	4.3	4.7	24.7	14.5	17.0	130	47.8	4.2
J&K Bank	464	BUY	22,500	465	48	84.5	86.6	96.3	13.8	2.4	11.2	5.5	5.4	4.8				1.0	0.9	0.8	3.6	3.7	4.1	16.7	15.1	14.9	550	18.5	0.5
LIC Housing Finance	590	NR	50,173	1,036	85	62.5	68.8	80.3	37.3	10.0	16.8	9.4	8.6	7.3				2.1	1.7	1.4	2.3	2.6	3.0	26.2	23.9	23.4		(100.0)	20.7
Mahindra & Mahindra Financial	260	ADD	24,858	513	96	22.4	27.5	30.0	7.5	22.9	8.7	11.6	9.4	8.7				1.8	1.5	1.4	2.1	2.7	2.9	15.4	16.9	16.3	240	(7.6)	1.0
Oriental Bank of Commerce	165	REDUCE	41,339	854	251	36.1	29.1	31.5	51.4	(19.4)	8.3	4.6	5.7	5.2				0.8	0.8	0.8	4.4	3.6	3.9	13.7	9.6	9.7	190	15.2	3.0
PFC	220	SELL	252,394	5,212	1,148	13.0	18.0	20.0	14.3	38.6	11.1	16.9	12.2	11.0				2.3	2.0	1.8	1.2	2.5	2.7	13.8	17.3	17.2	185	(15.9)	6.1
Punjab National Bank	738	BUY	232,536	4,802	315	98.0	98.5	115.1	50.9	0.5	16.8	7.5	7.5	6.4				1.9	1.7	1.5	2.7	2.7	3.1	23.0	19.9	20.1	800	8.5	16.7
Reliance Capital	886	ADD	218,024	4,502	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	22.5	30.5	30.7				3.2	3.0	2.8	0.7	0.5	0.5	15.3	10.2	9.3	875	(1.2)	158.6
Rural Electrification Corp.	173	BUY	148,881	3,074	859	16.5	17.5	20.8	50.7	6.5	18.8	10.5	9.9	8.3				2.1	1.8	1.6	1.2	1.9	2.2	21.2	19.6	20.3	155	(10.6)	5.1
Shriram Transport	306	ADD	64,795	1,338	212	30.1	32.5	36.9	56.8	7.9	13.7	10.2	9.4	8.3				3.0	2.5	2.1	2.8	3.2	3.6	29.6	27.0	25.8	300	(2.1)	3.0
SREI	68	ADD	7,943	164	116	7.7	6.9	8.2	(32.8)	(10.1)	18.6	8.9	9.9	8.3				0.7	0.7	0.7	3.4	4.1	4.7	14.0	11.5	13.0	95	39.1	4.0
State Bank of India	1,727	BUY	1,096,740	22,648	635	143.6	121.1	139.2	34.8	(15.7)	14.9	12.0	14.3	12.4				2.2	2.2	1.9	1.7	1.7	1.9	17.1	12.7	13.3	1,870	8.3	111.7
Union Bank	247	BUY	124,663	2,574	505	34.2	32.4	35.4	24.5	(5.1)	9.2	7.2	7.6	7.0				1.8	1.5	1.3	2.0	1.9	2.1	27.2	21.2	19.5	280	13.5	7.6
Banks/Financial Institutions		**Attractive**	**5,754,904**	**118,842**					**329.7**	**588.1**	**263.9**	**383.0**	**317.5**	**273.5**	**9.8**	**7.2**	**6.1**	**56.2**	**49.4**	**42.1**	**62.8**	**61.6**	**69.5**	**487.8**	**440.5**	**419.8**			
Cement																													
ACC	854	REDUCE	160,440	3,313	188	56.3	74.0	57.1	(12.2)	31.6	(22.8)	15.2	11.5	14.9	7.7	5.8	6.8	3.0	2.5	2.2	2.7	2.7	2.7	24.7	27.1	18.4	875	2.5	12.9
Ambuja Cements	97	REDUCE	147,670	3,049	1,522	7.2	7.9	6.6	(5.0)	10.2	(16.8)	13.5	12.3	14.7	7.3	6.8	7.6	2.4	2.1	1.9	3.1	1.9	2.2	19.7	19.1	14.1	85	(12.4)	6.8
Grasim Industries	2,800	REDUCE	256,741	5,302	92	238.5	235.7	239.1	(16.2)	(1.2)	1.4	11.7	11.9	11.7	6.5	5.9	5.7	2.3	2.0	1.8	1.2	1.2	1.2	21.7	18.2	16.0	2,300	(17.9)	11.5
India Cements	141	ADD	39,865	823	282	17.8	19.4	15.2	(27.4)	9.1	(21.8)	7.9	7.3	9.3	5.5	4.4	4.9	1.1	0.9	0.9	1.3	1.5	2.3	14.8	14.6	10.4	155	9.8	9.0
Shree Cement	1,411	BUY	49,164	1,015	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	8.1	15.4	16.4	5.5	6.0	6.4	4.1	3.4	2.9	0.7	0.7	0.7	65.7	24.0	18.9	1,150	(18.5)	0.7
UltraTech Cement	765	BUY	95,198	1,966	124	78.8	90.2	73.8	(3.1)	14.5	(18.2)	9.7	8.5	10.4	5.8	4.5	5.1	2.2	1.8	1.5	0.8	1.1	1.1	31.1	27.3	18.3	900	17.7	5.6
Cement		**Neutral**	**749,078**	**15,469**					**29.8**	**16.7**	**(84.2)**	**66.1**	**66.8**	**77.4**	**38.3**	**33.4**	**36.5**	**15.2**	**12.7**	**11.2**	**9.8**	**9.2**	**10.2**	**177.6**	**130.3**	**96.1**			
Constructions																													
Consolidated Construction Co.	266	ADD	9,814	203	37	19.7	26.5	31.4	(18.1)	34.6	18.3	13.5	10.0	8.5	8.6	6.3	5.3	1.9	1.6	1.4	0.9	1.4	1.6	15.0	17.6	17.9	190	(28.5)	0.1
IVRCL	331	BUY	44,762	924	135	16.7	17.9	22.1	7.4	7.4	23.1	19.8	18.4	15.0	13.4	10.1	8.0	2.5	2.2	1.9	0.2	0.2	0.2	13.2	12.6	13.6	350	5.8	31.2
Nagarjuna Construction Co.	136	BUY	31,190	644	229	6.7	7.5	8.5	(6.4)	11.9	13.3	20.3	18.1	16.0	12.5	9.6	8.2	1.8	1.7	1.6	1.0	1.2	1.5	9.4	9.8	10.3	145	6.5	8.2
Punj Lloyd	244	BUY	75,849	1,566	311	(7.2)	17.6	20.6	(172.4)	(343.2)	17.2	(33.8)	13.9	11.8	23.5	8.2	7.3	3.1	2.5	2.1	0.1	0.3	0.4	(8.6)	19.9	19.4	300	23.0	41.7
Sadbhav Engineering	715	BUY	8,937	185	13	50.6	55.6	77.9	25.0	9.8	40.2	14.1	12.9	9.2	10.0	7.6	6.2	2.6	2.2	1.8	0.7	0.8	1.0	18.0	16.8	19.4	830	16.1	0.2
Constructions		**Attractive**	**170,551**	**3,522**					**(164.5)**	**(279.4)**	**112.1**	**33.9**	**73.3**	**60.5**	**67.9**	**41.7**	**35.1**	**11.8**	**10.2**	**8.8**	**3.0**	**4.0**	**4.7**	**47.0**	**76.7**	**80.7**			
Consumer Products																													
Asian Paints	1,288	ADD	123,559	2,552	96	38.4	49.1	57.5	(2.2)	27.9	17.1	33.6	26.2	22.4	19.5	15.3	12.9	10.9	8.9	7.3	1.4	1.6	1.7	36.3	38.5	36.8	1,200	(6.8)	0.9
Colgate-Palmolive (India)	654	REDUCE	88,960	1,837	136	21.6	28.0	31.0	26.3	29.7	10.7	30.3	23.4	21.1	25.0	19.7	16.5	41.1	37.2	41.4	2.3	3.4	4.3	155.1	167.1	185.2	620	(5.2)	3.0
GlaxosmithKline Consumer	1,021	ADD	42,934	887	42	44.8	56.1	63.6	15.8	25.2	13.5	22.8	18.2	16.0	12.9	10.4	9.2	5.6	4.8	4.2	1.5	2.0	2.9	26.8	28.5	28.0	1,050	2.9	0.9
Godrej Consumer Products	196	ADD	50,512	1,043	258	6.8	8.7	9.8	(3.9)	27.8	12.8	28.9	22.6	20.0	25.2	18.5	15.7	7.6	6.6	5.6	2.0	2.0	2.0	42.7	42.7	33.1	180	(8.0)	0.7
Hindustan Unilever	277	BUY	603,166	12,456	2,179	9.5	10.6	12.2	19.0	11.1	15.0	29.1	26.2	22.8	22.3	19.6	16.9	29.3	26.2	23.4	3.2	3.4	3.9	112.4	105.9	108.9	320	15.6	22.8
ITC	230	BUY	865,838	17,880	3,769	8.7	10.3	11.8	2.8	19.3	14.3	26.5	22.2	19.5	16.2	13.7	12.0	5.9	5.2	4.5	1.6	1.7	2.0	25.3	26.3	26.0	255	11.0	34.9
Jyothy Laboratories	101	ADD	7,304	151	73	5.6	10.1	12.6	(11.2)	78.5	25.0	17.9	10.0	8.0	11.4	6.8	5.3							10.7	16.7	19.4	145	44.1	0.2
Nestle India	2,004	ADD	193,174	3,989	96	58.6	70.5	82.4	31.0	20.4	16.8	34.2	28.4	24.3	21.8	18.6	16.1	40.8	33.5	27.7	2.1	2.6	3.0	126.7	129.6	124.8	2,100	4.8	1.6
Tata Tea	785	BUY	48,563	1,003	62	57.0	62.8	69.2	5.3	10.1	10.2	13.8	12.5	11.3	7.3	6.5	5.3	1.0	0.9	0.9	2.2	2.4	2.6	9.8	10.1	10.4	900	14.6	3.1
Consumer Products		**Attractive**	**2,024,010**	**41,797**					**82.8**	**250.0**	**135.2**	**237.0**	**189.8**	**165.5**	**161.6**	**129.2**	**110.0**	**142.2**	**123.4**	**115.1**	**16.2**	**19.2**	**22.5**	**545.8**	**565.3**	**572.6**			
Energy																													
Bharat Petroleum	452	SELL	163,309	3,372	362	20.4	32.1	41.8	(50.7)	57.8	30.1	22.2	14.1	10.8	8.2	7.8	6.1	1.2	1.1	1.1	1.5	2.7	3.5	5.2	7.7	9.4	475	5.2	10.5
Cairn India	239	REDUCE	453,589	9,367	1,897	4.3	9.2	31.2	(3,703.0)	115.1	238.0	55.7	25.9	7.7	36.6	13.4	5.5	1.4	1.3	1.3			10.5	2.5	5.1	16.5	225	(5.9)	35.4
Castrol India	409	BUY	50,538	1,044	124	21.3	25.5	26.6	20.8	19.5	4.3	19.2	16.0	15.4	10.9	9.3	8.9	11.3	10.1	9.5	3.7	4.4	4.9	61.2	66.5	63.7	390	(4.6)	0.8
GAIL (India)	346	ADD	438,385	9,053	1,268	23.4	20.6	21.8	14.7	(11.8)	5.7	14.8	16.7	15.8	8.2	9.5	9.8	2.7	2.5	2.2	2.1	1.9	1.9	18.4	14.5	14.0	300	(13.2)	16.6
GSPL	63	REDUCE	35,540	734	563	2.2	3.5	6.7	21.7	58.3	92.7	28.8	18.2	9.4	10.4	6.1	3.9	2.7	2.4	2.4	1.2	1.9	10.6	9.6	13.9	25.7	65	2.9	6.8
Hindustan Petroleum	324	SELL	109,721	2,266	339	17.0	16.7	34.9	(49.3)	(1.6)	109.2	19.1	19.4	9.3	7.1	7.4	5.8	0.9	0.8	0.8	1.6	3.7	7.8	4.4	3.9	7.8	350	8.1	13.6
Indian Oil Corporation	530	REDUCE	631,777	13,047	1,192	18.9	44.3	43.1	(69.1)	133.8	(2.6)	28.0	12.0	12.3	10.3	5.5	5.3	1.4	1.3	1.2	1.4	3.4	3.3	4.6	10.2	9.3	550	3.8	8.6
Oil & Natural Gas Corporation	1,093	BUY	2,337,803	48,277	2,139	91.4	95.8	114.6	(1.5)	4.9	19.6	12.0	11.4	9.5	4.3	4.0	3.4	2.1	1.9	1.7	2.9	3.3	3.8	17.3	16.2	17.5	1,200	9.8	58.6
Petronet LNG	69	REDUCE	51,713	1,068	750	6.9	7.2	8.6	9.2	3.6	19.6	10.0	9.6	8.0	7.2	6.5	5.6	2.3	1.9	1.6	2.5	2.9	3.3	23.9	20.6	20.6	64	(7.2)	8.5
Reliance Industries	2,042	SELL	3,212,154	66,333	1,573	103.4	112.5	144.7	(1.5)	8.8	28.6	19.7	18.2	14.1	14.2	9.5	7.5	2.7	2.4	2.2	0.6	0.7	0.9	15.1	14.1	16.2	1,600	(21.6)	233.2
Reliance Petroleum	127	NR	570,825	11,788	4,500	0.2	8.3	13.8		4,351.0	65.6	679.6	15.3	9.2	314.9	11.2	7.6	4.2	3.5	2.7		1.6	1.6	0.6	25.1	33.0		(100.0)	24.8
Energy		**Cautious**	**8,055,353**	**166,347**					**(3,808.8)**	**4,739.4**	**610.7**	**908.9**	**176.7**	**121.6**	**432.2**	**90.3**	**69.3**	**32.7**	**29.2**	**26.6**	**17.6**	**26.4**	**51.9**	**162.8**	**197.8**	**233.7**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	23-Jul-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Industrials																													
ABB	718	REDUCE	152,066	3,140	212	25.0	29.6		(3.4)	18.7	(100.0)	28.8	24.2		18.1	14.9		5.9	4.9		0.4	0.4		22.6	22.2		500	(30.3)	8.2
BGR Energy Systems	347	REDUCE	25,009	516	72	15.6	23.1	26.4	29.0	47.8	14.2	22.2	15.0	13.2	12.3	9.0	7.6	4.4	3.5	2.9	0.8	1.1	1.2	21.6	26.0	24.3	315	(9.3)	1.6
Bharat Electronics	1,391	REDUCE	111,244	2,297	80	101.9	111.1	119.0	(0.0)	9.0	7.1	13.6	12.5	11.7	5.9	6.1	5.5	2.8	2.4	2.1	1.8	1.8	1.8	22.4	20.9	19.2	1,025	(26.3)	2.8
Bharat Heavy Electricals	2,168	REDUCE	1,061,377	21,918	490	64.1	93.1	106.8	9.8	45.1	14.8	33.8	23.3	20.3	25.3	15.8	13.2	8.2	6.5	5.2	0.8	0.9	1.1	26.4	31.0	28.5	1,900	(12.4)	57.0
Crompton Greaves	294	ADD	107,854	2,227	367	15.3	17.7	20.3	37.3	15.3	15.0	19.2	16.6	14.5	10.8	9.5	8.1	5.9	4.5	3.6	0.7	0.8	0.9	35.9	30.8	27.6	315	7.1	5.3
Larsen & Toubro	1,490	ADD	888,964	18,358	597	52.6	60.1	71.7	38.7	14.3	19.3	28.3	24.8	20.8	18.9	16.4	14.0				0.7	0.7	0.8	22.5	19.7	19.0	1,425	(4.3)	110.2
Maharashtra Seamless	256	BUY	18,020	372	71	35.9	33.0	35.3	22.2	(7.9)	6.9	7.1	7.7	7.2	4.1	4.1	3.6	1.3	1.2	1.0	2.1	1.9	2.5	20.3	16.0	15.0	285	11.5	1.3
Siemens	472	REDUCE	159,072	3,285	337	22.8	22.7	26.3	61.0	(0.5)	15.9	20.7	20.8	17.9	11.8	11.9	9.9	5.8	4.8	4.0	1.5	0.9	1.1	30.8	25.2	24.2	450	(4.6)	7.7
Suzlon Energy	96	BUY	151,415	3,127	1,571	7.4	6.4	9.4	12.8	(14.1)	47.0	13.0	15.1	10.3	10.5	10.1	7.9	1.6	1.4	1.2	0.5	0.5	1.0	12.6	9.8	12.6	140	45.2	153.1
Industrials		**Neutral**	**2,675,021**	**55,241**					**207.3**	**127.6**	**40.1**	**186.7**	**160.1**	**115.8**	**117.6**	**97.9**	**69.8**	**36.0**	**29.2**	**20.0**	**9.2**	**9.1**	**10.4**	**215.1**	**201.6**	**170.3**			
Infrastructure																													
GVK Power & Infrastructure	784	ADD	1,102,818	22,774	1,406	0.8	0.7	1.1	(20.6)	(3.6)	49.4	1,028.7	1,067.1	714.3	578.3	189.7	156.4	47.5	35.1	33.9			0.0				205	(73.9)	22.5
IRB Infrastructure	182	BUY	60,456	1,248	332	5.8	11.3	12.7	69.2	95.7	11.7	31.4	16.0	14.3	16.6	8.9	7.6	3.2	2.6	2.2				11.0	18.1	16.5	190	4.5	10.4
Infrastructure		**Attractive**	**1,163,275**	**24,022**					**48.6**	**92.1**	**61.1**	**1,060.1**	**1,083.1**	**728.6**	**594.9**	**198.6**	**164.0**	**50.7**	**37.7**	**36.0**	**-**	**-**	**0.0**	**11.0**	**18.1**	**16.5**			
Media																													
DishTV	43	REDUCE	40,363	834	946	(7.3)	(4.1)	(3.2)	(23.9)	(44.4)	(22.6)	(5.8)	(10.4)	(13.5)	(25.2)	(154.9)	49.1	-6.3	-19.9	-8.0				86.1	91.1	84.8	32	(25.0)	14.9
HT Media	102	ADD	23,940	494	234	0.8	4.2	6.3	(80.4)	399.4	49.2	120.3	24.1	16.1	24.8	10.2	8.1	2.8	2.6	2.4	0.4	0.8	2.5	2.3	11.3	15.6	120	17.4	0.5
Jagran Prakashan	81	BUY	24,425	504	301	2.9	4.2	5.5	(12.1)	47.2	29.6	28.3	19.2	14.8	15.9	10.7	8.4	4.4	4.1	3.8	2.5	3.1	3.7	15.8	22.1	26.5	92	13.4	0.9
Sun TV Network	244	REDUCE	96,096	1,984	394	9.1	11.1	13.0	9.3	22.9	16.5	26.9	21.9	18.8	14.1	12.1	10.2	5.5	4.8	4.3	1.0	1.6	2.5	22.5	23.8	24.4	215	(11.8)	2.4
Zee Entertainment Enterprises	184	REDUCE	79,941	1,651	435	8.3	10.0	12.0	(6.5)	20.6	19.5	22.2	18.4	15.4	15.9	13.2	10.7	2.4	2.2	2.1	1.3	1.4	1.7	11.9	13.0	14.4	160	(13.0)	8.2
Zee News	43	ADD	10,214	211	240	1.9	2.2	2.7	21.3	14.7	23.4	22.7	19.8	16.0	11.7	9.5	8.1	4.1	3.5	3.0	0.9	0.9	1.4	20.1	19.6	20.7	45	5.6	1.5
Media		**Neutral**	**274,979**	**5,678**					**(92.4)**	**460.5**	**115.7**	**214.6**	**93.0**	**67.7**	**57.1**	**(99.1)**	**94.6**	**13.0**	**-2.5**	**7.6**	**6.1**	**7.9**	**11.8**	**158.8**	**180.9**	**186.4**			
Metals																													
Hindalco Industries	91	BUY	159,137	3,286	1,753	7.7	2.0	10.0	(44.4)	(73.3)	386.0	11.8	44.3	9.1	6.7	9.3	7.1	0.4	0.4	0.4				10.3	5.2	6.7	135	48.7	24.4
Hindustan Zinc	685	BUY	289,329	5,975	423	64.6	57.3	74.1	(38.0)	(11.2)	29.3	10.6	12.0	9.2	6.7	6.8	4.4	1.9	1.7	1.4	0.6	0.7	0.7	20.1	15.1	16.7	825	20.5	5.5
Jindal Steel and Power	2,922	REDUCE	449,813	9,289	154	198.0	172.4	196.2	139.3	(12.9)	13.8	14.8	16.9	14.9	9.8	10.1	8.5	6.2	4.5	3.5	0.2	0.2	0.2	53.1	31.0	26.4	2,000	(31.5)	42.6
JSW Steel	620	SELL	115,980	2,395	187	13.1	36.8	65.9	(84.7)	180.1	79.1	47.2	16.8	9.4	9.4	8.9	6.7	1.3	1.0	0.9	0.2	0.5	0.8	11.7	5.1	10.7	440	(29.0)	52.7
National Aluminium Co	296	SELL	190,426	3,932	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	15.0	21.6	14.5	9.2	9.4	6.1	1.8	1.7	1.5	1.2	0.7	0.7	12.7	8.1	11.1	290	(1.9)	3.8
Sesa Goa	235	BUY	184,608	3,812	787	24.8	25.5	34.2	30.8	3.0	34.0	9.5	9.2	6.9	6.2	5.6	3.6	4.1	3.0	2.1	1.5	1.5	1.5	52.8	37.1	36.0	240	2.3	47.1
Sterlite Industries	633	REDUCE	532,327	10,993	840	49.2	29.8	38.0	(23.6)	(39.3)	27.2	12.9	21.2	16.7	9.2	9.0	6.7	2.1	1.5	1.3				14.3	8.1	8.4	550	(13.2)	57.9
Tata Steel	416	BUY	368,937	7,619	887	110.0	41.2	78.8	45.3	(62.6)	91.6	3.8	10.1	5.3	4.8	7.8	5.8	0.9	0.9	0.8	3.5	3.8	3.8	36.3	15.5	25.7	465	11.8	136.6
Metals		**Neutral**	**2,290,556**	**47,301**					**2.7**	**(46.9)**	**709.8**	**125.4**	**152.1**	**86.0**	**61.9**	**66.9**	**48.9**	**18.7**	**14.7**	**12.0**	**7.1**	**7.5**	**7.8**	**211.4**	**125.3**	**141.8**			
Others																													
Aban Offshore	966	SELL	36,603	756	38	87.8	125.3	214.6	21.5	42.7	71.3	11.0	7.7	4.5	9.2	7.8	6.6	2.6	2.0	1.4	0.4	0.5	0.5	33.7	33.3	36.7	365	(62.2)	83.6
Havells India	285	REDUCE	17,275	357	61	4.5	12.2	19.0	(83.0)	170.4	55.5	63.2	23.4	15.0	10.0	8.1	7.3	2.7	3.2	2.7	0.9	0.9	0.9	4.1	12.5	19.3	175	(38.7)	2.6
Jaiprakash Associates	230	ADD	322,304	6,656	1,403	3.0	6.8	9.9	(38.7)	126.3	45.5	76.5	33.8	23.2	25.0	16.6	15.4	5.8	5.1	4.3	0.0	0.0	0.0	8.0	16.1	20.0	190	(17.3)	105.7
Jindal Saw	410	BUY	22,523	465	55	64.3	47.8	41.7	(0.8)	(25.6)	(12.8)	6.4	8.6	9.8	4.1	4.2	4.1	0.7	0.6	0.6	1.2	1.0	1.0	10.8	7.4	6.2	300	(26.9)	3.5
PSL	121	BUY	5,278	109	44	22.0	36.8	30.0	4.3	67.4	(18.5)	5.5	3.3	4.0	4.8	3.7	3.1	0.8	0.7	0.6	4.1	5.4	5.4	10.2	13.4	11.1	160	32.1	1.0
Sintex	205	BUY	27,995	578	136	23.8	25.2	27.6	21.9	5.6	9.6	8.6	8.2	7.4	6.2	5.6	4.7	1.4	1.2	1.1	0.5	0.6	0.6	16.6	15.0	14.2	275	34.1	4.6
Tata Chemicals	219	ADD	51,479	1,063	235	27.6	23.1	27.2	(30.4)	(16.4)	17.9	7.9	9.5	8.1	5.3	4.3	3.7	1.1	1.0	0.9	4.2	4.1	4.1	17.9	12.9	13.7	200	(8.6)	5.3
United Phosphorus	150	BUY	69,277	1,431	462	10.7	13.9	18.0	27.8	29.7	29.6	14.0	10.8	8.3	9.9	6.8	5.3	2.3	1.9	1.6	0.8	1.0	1.3	18.1	19.1	20.8	160	6.7	6.0
Welspun Gujarat Stahl Rohren	208	REDUCE	39,341	812	189	17.3	24.0	17.8	(15.7)	38.7	(25.8)	12.0	8.7	11.7	6.9	5.0	5.8	2.2	1.7	1.5	1.0	0.7	0.8	17.8	21.7	13.4	145	(30.4)	24.3
Others		**-**	**592,074**	**12,227**					**(93.1)**	**438.8**	**172.2**	**205.1**	**113.9**	**92.2**	**81.5**	**62.2**	**56.1**	**19.6**	**17.4**	**14.6**	**13.1**	**14.1**	**14.6**	**137.3**	**151.3**	**155.3**			
Pharmaceuticals																													
Biocon	219	BUY	43,780	904	200	4.7	14.4	18.6	(79.9)	206.8	29.3	46.7	15.2	11.8	14.0	9.8	7.9	2.9	2.5	2.1	0.0	0.1	0.1	6.2	17.8	20.0	270	23.3	5.6
Cipla	284	ADD	221,023	4,564	777	9.9	13.9	15.5	9.5	40.6	11.9	28.8	20.5	18.3	21.8	15.3	13.5	5.1	4.3	3.7	0.9	1.1	1.2	19.1	23.0	21.8	250	(12.1)	10.4
Dishman Pharma & chemicals	194	BUY	15,799	326	81	18.0	21.2	27.3	22.1	17.9	28.7	10.8	9.2	7.1	8.8	7.0	5.5	2.2	1.8	1.5	0.0	0.0	0.0	22.8	21.9	22.9	280	44.1	0.5
Divi's Laboratories	1,100	BUY	71,815	1,483	65	63.8	74.6	86.5	19.9	16.9	16.0	17.2	14.7	12.7	14.7	11.8	9.4	5.8	4.3	3.3	0.1	0.1	0.1	39.8	33.5	29.3	1,375	25.0	3.5
Dr Reddy's Laboratories	785	BUY	132,967	2,746	169	32.4	49.3	52.5	24.3	52.2	6.4	24.2	15.9	15.0	10.8	8.6	7.6	3.8	3.1	2.7	0.8	0.9	1.0	13.6	21.4	19.2	860	9.6	7.9
Glenmark Pharmaceuticals	267	BUY	71,049	1,467	266	11.1	12.1	16.2	(57.0)	8.7	33.6	24.0	22.1	16.5	14.0	12.5	10.4	3.4	3.0	2.5	0.0	0.0	0.0	15.9	14.4	16.6	315	17.9	10.7
Jubilant Organosys	168	BUY	28,718	593	171	16.6	24.5	32.9	(26.1)	48.2	34.2	10.1	6.8	5.1	11.9	7.5	5.9	2.2	1.7	1.4	0.8	0.8	1.0	16.2	28.7	30.8	250	48.9	0.5
Lupin	965	BUY	85,496	1,766	89	60.7	66.0	71.3	21.9	8.7	8.0	15.9	14.6	13.5	15.4	12.8	10.9	5.0	3.9	3.2	1.2	1.2	1.4	33.7	30.3	26.1	1,075	11.4	3.5
Piramal Healthcare	317	BUY	66,243	1,368	209	17.3	22.1	28.5	(1.9)	28.0	29.0	18.4	14.3	11.1	13.5	9.6	7.8	5.0	3.9	3.0	1.3	1.4	1.4	26.2	30.9	31.1	390	23.0	2.1
Ranbaxy Laboratories	274	REDUCE	117,188	2,420	427	(8.1)	(5.7)	5.1	(134.7)	(29.5)	(189.8)	(33.9)	(48.1)	53.6	(82.4)	(200.6)	22.9	2.4	2.0	2.1	3.7	4.2	4.6	(8.8)	(4.7)	4.1	150	(45.3)	16.7
Sun Pharmaceuticals	1,271	ADD	263,229	5,436	207	87.8	78.5	82.5	17.6	(10.6)	5.2	14.5	16.2	15.4	11.6	11.9	10.6	3.9	3.2	2.7	1.1	1.1	1.1	31.6	22.6	19.9	1,665	31.0	25.9
Pharmaceuticals		**Attractive**	**1,117,306**	**23,073**					**(184.2)**	**387.9**	**12.5**	**176.7**	**101.5**	**180.2**	**54.1**	**(93.9)**	**112.3**	**41.7**	**33.8**	**28.3**	**9.9**	**10.7**	**11.9**	**216.3**	**239.7**	**241.7**			
Property																													
DLF	370	REDUCE	634,759	13,108	1,716	29.3	16.3	17.5	(36.6)	(44.4)	7.2	12.6	22.7	21.2	12.8	18.4	15.7	2.6	2.4	2.2	0.8	0.8	1.1	22.5	10.8	10.6	320	(13.5)	165.5
Housing Development & Infrastructur	251	NR	69,149	1,428	275	30.6	19.8	24.8	(40.1)	(35.3)	25.1	8.2	12.7	10.1	11.0	12.6	10.3	1.6	1.5	1.4	2.0	2.4	3.2	21.2	12.1	13.9		(100.0)	122.3
Indiabulls Real Estate	229	ADD	92,014	1,900	401	3.0	3.1	7.5	(81.8)	3.8	141.1	76.5	73.6	30.5	(239.5)	61.0	14.6	1.4	1.0	1.0	0.0	0.0	0.0	1.3	1.6	3.2	235	2.5	73.4
Mahindra Life Space Developer	285	BUY	11,994	248	42	10.2	10.8	15.4	(39.2)	5.3	42.5	27.9	26.5	18.6	43.2	25.1	12.9	1.4	1.3	1.3	1.4	1.4	1.4	4.8	4.9	6.7	410	43.8	1.0
Phoenix Mills	100	BUY	14,434	298	145	5.2	7.1	8.7	63.1	38.3	21.4	19.3	13.9	11.5	21.8	9.9	8.6	1.0	0.9	0.9	1.0	1.0	1.5	5.1	6.7	7.7	210	110.7	0.3
Puravankara Projects	86	REDUCE	18,269	377	213	6.8	7.0	7.4	(39.8)	2.8	6.9	12.7	12.3	11.5	19.1	15.6	12.7	1.4	1.3	1.2		2.3	2.3	11.5	10.8	10.7	55	(35.7)	0.3
Sobha	201	ADD	19,706	407	98	15.1	14.3	16.1	(52.3)	(5.6)	12.5	13.3	14.1	12.5	13.9	10.8	9.7	1.8	1.1	1.1	1.5	2.0	2.0	10.4	9.8	8.8	215	7.0	1.7
Unitech	84	SELL	190,952	3,943	2,261	7.7	4.5	4.6	(25.8)	(41.0)	0.9	11.0	18.7	18.5	14.9	12.8	12.4	4.2	2.0	1.8				29.4	13.5	10.1	60	(29.0)	162.5
Property		**Cautious**	**1,051,276**	**21,709**					**(252.6)**	**(76.0)**	**257.6**	**181.4**	**194.5**	**134.5**	**(102.7)**	**166.2**	**96.9**	**15.2**	**11.4**	**10.7**	**6.7**	**9.9**	**11.5**	**106.2**	**70.2**	**71.8**			
Retail																													
Titan Industries	1,309	REDUCE	58,101	1,200	44	45.9	50.1	56.9	30.8	9.2	13.7	28.5	26.1	23.0	18.3	15.9	13.7	10.1	7.8	6.2	0.8	0.8	0.9	38.9	33.6	29.9	850	(35.1)	2.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

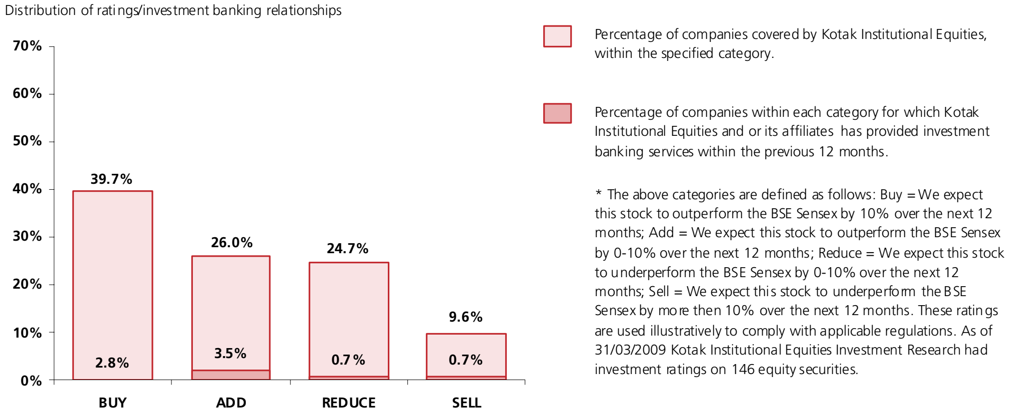
	23-Jul-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Retail		**Neutral**	**58,101**	**1,200**					**30.8**	**9.2**	**13.7**	**28.5**	**26.1**	**23.0**	**18.3**	**15.9**	**13.7**	**10.1**	**7.8**	**6.2**	**0.8**	**0.8**	**0.9**	**38.9**	**33.6**	**29.9**			
Technology																													
HCL Technologies	225	REDUCE	156,271	3,227	695	16.2	13.1	17.0	6.0	(19.0)	29.5	13.9	17.2	13.2	7.7	7.6	7.3	2.5	2.4	2.3	5.3	5.3	5.3	18.6	14.4	17.7	135	(40.0)	6.2
Hexaware Technologies	58	SELL	8,396	173	144	3.6	4.0		(12.7)	11.5	(100.0)	16.3	14.6		4.5	4.3		1.2	1.1		1.7	1.7		7.6	8.0		35	(40.1)	1.4
Infosys Technologies	1,959	BUY	1,124,323	23,218	574	102.4	102.5	112.8	29.6	0.1	10.1	19.1	19.1	17.4	14.1	13.4	11.3	6.2	5.0	4.2	1.2	1.3	1.7	36.7	28.9	26.3	1,900	(3.0)	65.5
Mindtree	454	BUY	18,674	386	41	13.2	37.0	43.9	(50.5)	179.5	18.5	34.3	12.3	10.3	5.9	8.5	6.5	3.4	2.6	2.1	0.4		1.0	5.5	24.0	22.5	500	10.2	4.9
Mphasis BFL	410	REDUCE	85,418	1,764	208	14.2	38.9	33.5	15.7	174.5	(13.9)	28.9	10.5	12.2	22.0	7.5	7.0	5.9	4.0	3.1	1.0	1.1	1.2	22.8	45.4	28.8	335	(18.2)	4.6
Patni Computer Systems	276	REDUCE	35,446	732	129	24.7	26.8		(7.8)	8.5	(100.0)	11.2	10.3		4.0	3.8		1.2	1.1		1.8	1.9		11.0	11.2		220	(20.2)	2.1
Polaris Software Lab	110	SELL	10,822	223	99	13.1	13.8	12.9	76.0	5.4	(6.4)	8.4	7.9	8.5	3.2	3.8	4.0	1.4	1.2	1.1	2.5	1.8	1.8	18.1	16.4	13.6	80	(27.0)	3.6
TCS	476	ADD	930,942	19,224	1,957	26.4	30.5	33.8	3.1	15.2	10.8	18.0	15.6	14.1	12.5	11.0	9.7	5.9	4.8	4.0	1.5	1.9	2.8	36.9	33.9	31.1	510	7.2	37.0
Wipro	457	ADD	667,403	13,782	1,462	25.7	27.5	32.0	15.8	6.6	16.6	17.7	16.6	14.3	13.0	11.6	9.5	4.4	3.6	3.1	0.9	1.7	2.0	26.9	24.0	23.3	520	13.9	16.8
Technology		**Attractive**	**3,037,696**	**62,730**					**75.2**	**382.3**	**(134.8)**	**167.7**	**124.1**	**90.0**	**86.8**	**71.5**	**55.3**	**32.2**	**25.9**	**19.9**	**16.3**	**16.8**	**15.9**	**184.1**	**206.2**	**163.2**			
Telecom																													
Bharti Airtel	814	ADD	1,544,886	31,903	1,898	44.6	53.8	61.3	26.4	20.5	13.9	18.2	15.1	13.3	10.7	9.0	7.7	4.9	3.7	2.9	0.5	0.7	1.0	31.4	28.0	24.6	850	4.4	90.1
IDEA	78	REDUCE	242,101	4,999	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	26.9	26.9	24.2	9.9	8.9	7.4	1.8	1.7	1.5				10.4	6.4	6.8	65	(16.7)	22.2
MTNL	98	SELL	61,551	1,271	630	5.1	5.5	6.5	(28.4)	7.6	17.7	19.1	17.7	15.1	5.3	5.0	4.6	0.5	0.5	0.5	6.1	6.1	6.1	2.2	2.4	2.9	50	(48.8)	4.7
Reliance Communications	275	SELL	585,910	12,099	2,133	27.7	20.3	21.1	4.7	(26.6)	3.9	9.9	13.5	13.0	8.9	8.5	6.6	1.7	1.5	1.3	0.3			18.6	11.7	10.9	200	(27.2)	79.5
Tata Communications	495	REDUCE	141,104	2,914	285	13.6	14.0	15.2	24.0	3.2	8.2	36.5	35.3	32.7	15.5	14.1	13.1	2.0	2.0	1.9	1.0	1.3	1.5	5.4	5.2	5.5	400	(19.2)	8.7
Telecom		**Cautious**	**2,575,551**	**53,186**					**0.3**	**4.6**	**54.6**	**110.6**	**108.6**	**98.3**	**50.3**	**45.4**	**39.4**	**10.9**	**9.4**	**8.2**	**7.9**	**8.2**	**8.6**	**67.8**	**53.8**	**50.6**			
Transportation																													
Container Corporation	1,034	ADD	134,399	2,775	130	64.4	67.8	80.3	11.6	5.3	18.5	16.0	15.2	12.9	11.6	10.4	8.6	3.5	3.0	2.6	1.4	1.5	1.7	24.0	21.4	21.7	1,125	8.8	1.3
Transportation		**Cautious**	**134,399**	**2,775**					**11.6**	**5.3**	**18.5**	**16.0**	**15.2**	**12.9**	**11.6**	**10.4**	**8.6**	**3.5**	**3.0**	**2.6**	**1.4**	**1.5**	**1.7**	**24.0**	**21.4**	**21.7**			
Utilities																													
CESC	290	ADD	36,219	748	125	31.2	38.0	42.1	12.3	21.8	10.8	9.3	7.6	6.9	5.1	5.9	6.4	1.0	0.9	0.8	1.6	1.9	2.1	11.4	12.2	11.9	345	19.0	2.7
Lanco Infratech	390	ADD	86,619	1,789	222	14.5	20.2	35.1	(2.5)	39.7	73.7	26.9	19.3	11.1	23.5	16.7	8.2	4.0	3.2	2.5				16.1	18.6	25.3	385	(1.2)	26.7
NTPC	208	SELL	1,715,057	35,417	8,245	9.4	10.8	12.2	1.1	14.7	12.6	22.1	19.2	17.1	16.7	14.2	13.5	2.9	2.7	2.5	1.7	1.9	2.2	13.7	14.5	15.0	180	(13.5)	40.6
Reliance Infrastructure	1,166	BUY	264,075	5,453	226	64.1	58.8	62.9	70.5	(8.2)	6.9	18.2	19.8	18.6	19.5	19.9	15.5	1.6	1.5	1.4	0.6	0.7	0.8	6.3	7.0	9.0	1,250	7.2	116.6
Reliance Power	169	REDUCE	404,212	8,347	2,397	1.0	2.5	3.1	168.2	140.3	25.3	165.3	68.8	54.9	133.6	1,105.2	86.7	2.9	2.8	2.7				1.8	4.2	5.0	160	(5.1)	37.3
Tata Power	1,144	ADD	254,728	5,260	223	56.2	76.6	86.5	76.6	36.2	12.9	20.3	14.9	13.2	11.2	11.6	10.9	2.5	2.2	2.0	1.0	1.0	1.2	13.4	15.8	15.7	1,100	(3.9)	13.9
Utilities		**Attractive**	**2,760,910**	**57,014**					**326.3**	**244.5**	**142.2**	**262.1**	**149.7**	**121.8**	**209.7**	**1,173.6**	**141.0**	**14.9**	**13.3**	**11.7**	**4.9**	**5.6**	**6.3**	**62.8**	**72.2**	**81.9**			
KS universe (b)			**24,376,367**	**487,771**					**26.0**	**2.0**	**7.8**	**12**	**12.1**	**11.2**	**7.9**	**8.0**	**7.0**	**2.2**	**1.9**	**1.7**	**1.7**	**1.7**	**2.0**	**17.9**	**15.3**	**14.8**			
KS universe (b) ex-Energy			**18,082,077**	**361,822**					**30.8**	**5.1**	**(0.2)**	**12.1**	**11.5**	**11.5**	**8.6**	**8.6**	**8.1**	**2.3**	**1.9**	**1.7**	**1.7**	**1.7**	**1.9**	**19.2**	**16.8**	**14.9**			
KS universe (d) ex-Energy & ex-Commodities			**16,258,901**	**325,341**					**36.0**	**6.2**	**6.9**	**13.6**	**12.8**	**12.0**	**10.6**	**10.3**	**9.0**	**2.6**	**2.2**	**1.9**	**1.7**	**1.7**	**1.9**	**18.7**	**16.8**	**15.9**			

Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 48.42

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

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

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

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