

### Contents

#### Change in recommendations

**Reliance Industries:** We can't win them all

#### Updates

**Reliance Communications:** Rich valuation and sub-par performance. Higher disclosures required. SELL

**Reliance Power:** Court rules in favor of RNRL, orders RIL to supply 28 mmscmd gas at US\$2.34/mmbtu

**Cipla:** Generic Tamiflu demand changing sentiment but impact on fundamentals is low for now

### News Roundup

- British financial services group **HSBC** has said it has a "preferential arrangement" with **Canara Bank and Oriental Bank of Commerce**, its local life insurance JV partners, to increase its stake in HSBC Canara Life Insurance to 49% when laws permit higher foreign direct investment (FDI) into the insurance sector. (ET)
- Japanese financial services group **Nomura** has agreed to pick up a 30.5 per cent stake in LIC Mutual Fund for around Rs227 crore. The deal values the Indian company at over Rs700 crore. The Japanese firm plans to take its stake up to 35%. (BL)
- Larsen & Toubro (L&T)** announced the formation of a joint venture company with **EADS Defence & Security** to develop and manufacture defence electronics products including radars, avionics, electronic warfare in India to cater to domestic and overseas markets. (BS)
- GAIL (India) Ltd** has plans to invest Rs5,558 crore in 2009-10. Of this, a major portion will be earmarked for the pipeline projects. Of this total investment (Rs 5,558 crore) Rs 4,020 crore will be diverted towards pipeline projects. (BL)
- Hyderabad-based pharmaceutical major **Dr Reddy's Laboratories (DRL)** has entered into a partnership with **GlaxoSmithKline (GSK)** to develop and market select products across emerging markets outside India. (BS)
- Advertisers are in a fix because they have invested around Rs185 crore in ad spots for the world **Twenty20 cricket** tournament that is being broadcast on the **STAR Cricket** channel in India, and India's exit means they'll get less bang for the buck. At least a dozen advertisers, including **Reliance Communications, Nokia, Pepsi, Hero Honda, Maruti** and **Visa** among others, and host broadcaster **ESPN STAR Sports** may find themselves on a sticky wicket with India's exit from the tournament. (BS)

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

### EQUITY MARKETS

India	Change, %			
	15-Jun	1-day	1-mo	3-mo
Sensex	14,876	(2.4)	22.2	69.9
Nifty	4,484	(2.2)	22.1	64.9

#### Global/Regional indices

Dow Jones	8,612	(2.1)	4.2	19.2
FTSE	4,326	(2.6)	(0.5)	15.2
Nikkei	9,859	(1.8)	6.4	28.0
Hang Seng	18,499	(2.1)	10.2	42.6
KOSPI	1,400	(0.9)	0.6	24.4

#### Value traded - India

	Moving avg, Rs bn		
	15-Jun	1-mo	3-mo
Cash (NSE+BSE)	277.6	297.9	222.5
Derivatives (NSE)	691.1	528.5	477
Deri. open interest	856.5	833	628

#### Forex/money market

	Change, basis points			
	15-Jun	1-day	1-mo	3-mo
Rs/US\$	47.7	5	(172)	(367)
10yr govt bond, %	6.9	(2)	48	(20)

#### Commodity market

	Change, %			
	15-Jun	1-day	1-mo	3-mo
Gold (US\$/OZ)	930.8	0.3	(0.1)	0.8
Silver (US\$/OZ)	14.2	0.7	1.4	9.7
Crude (US\$/BBL)	68.8	(0.5)	24.6	54.1

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

	12-Jun	MTD	CYTD
FIs	109	822	5,097
MFs	63	(353)	(5)

#### Top movers -3mo basis

Best performers	Change, %			
	15-Jun	1-day	1-mo	3-mo
Welspun-Gujarat St	212	(8.0)	88.9	273.0
Aban Offshore Limi	958	(4.8)	54.9	254.4
Jsw Steel Limited	671	(5.1)	60.4	262.2
Suzlon Energy Limit	117	(1.9)	52.1	231.1
Unitech Limited	87	0.6	70.7	230.0

#### Worst performers

	15-Jun	1-day	1-mo	3-mo
Housing Developme	247	(3.6)	35.4	242.9
Tata Communicatio	496	(4.2)	(5.3)	7.5
Hindustan Unilever	259	1.3	15.5	10.1
Itc Ltd	198	0.4	6.2	16.1
Nestle India Limited	1,799	(0.3)	5.9	17.8

#### Kotak Institutional Equities Research

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**Energy****RELI.BO, Rs2179**

Rating	SELL
Sector coverage view	Neutral
Target Price (Rs)	1,650
52W High -Low (Rs)	2535 - 930
Market Cap (Rs bn)	2,991

**Financials**

March y/e	2009	2010E	2011E
Sales (Rs bn)	1,500	1,794	1,985
Net Profit (Rs bn)	157.1	201.4	266.0
EPS (Rs)	103.4	128.0	169.0
EPS gth	(1.5)	23.8	32.0
P/E (x)	21.1	17.0	12.9
EV/EBITDA (x)	12.4	7.8	6.1
Div yield (%)	0.6	0.7	0.9

**Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
11.7	64.1	56.9	(4.5)

**Shareholding, March 2009**

	% of Pattern Portfolio	Over/(under) weight
Promoters	42.4	-
FIs	19.4	11.5
MFs	2.6	7.1
UTI	-	-
LIC	5.5	10.7

**Reliance Industries : We can't win them all**

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- **Unfavorable verdict for RIL in RIL-RNRL court case; RIL may approach Supreme Court**
- **Likely negative impact of Rs71-183/share but long-term issues equally relevant**
- **Downgraded to SELL with revised 12-month fair valuation to Rs1,650 (Rs1,750 previously)**

We compute a negative impact of Rs71/share on the fair valuation of RIL consequent to the recent unfavorable verdict of the Bombay High Court in the long-pending RIL-RNRL court case. The impact will likely be higher at Rs183/share if the government of India uses US\$4.2/mn BTU as the price for computation of its share of profit petroleum, royalties and payment of income tax. We have downgraded the stock to SELL noting (1) significant potential downside from current levels (-32%) and (2) potential risks to earnings. We have reduced our 12-month SOTP-based target price by to Rs1,650 from Rs1,750, previously. We have fine-tuned our FY2010E, FY2011E and FY2012E earnings estimates for other reasons but note meaningful long-term risks to earnings if RIL does not have sufficient gas in the future for internal use and obligatory external sales. We also see significant risks to earnings from (1) very weak refining margins (Singapore complex margins are negative) and (2) no income tax exemption on gas production. Key upside risks to our negative view stem from continued high global liquidity and announcements of significant oil and gas discoveries.

**Revised 12-month SOTP valuation to Rs1,650**

Exhibit 1 is our revised SOTP valuation for RIL based on FY2011E estimates. We have reduced the value of RIL's emerging E&P business to Rs355/share from Rs426 previously. We now assume that RIL will supply 40 mcm/d of gas broken down between 28 mcm/d to RNRL/affiliates and 12 mcm/d to NTPC at US\$2.34/mn BTU for 17 years. We assume RIL will supply gas to RNRL/affiliates and NTPC from FY2013E and will sell gas at US\$4.2/mn BTU to others in FY2010-12E. Our DCF valuation of KG D-6 gas block is now Rs231 versus Rs297 previously. In addition, we see the two other negative implications discussed below.

- **Compensation to government based on US\$4.2/mn BTU versus US\$2.34/mn BTU.** We compute an additional Rs112/share negative impact on RIL's fair valuation in the government was to use US\$4.2/mn BTU rather than US\$2.34/mn BTU to compute its share of profit petroleum, royalties and income tax. Our current estimates do not factor in this scenario.
- **Non-availability of gas for internal use unless RIL makes meaningful gas discoveries.** We highlight that RIL's long-term refining margins will get impacted by about US\$1.5-2/bbl if it is not able to use cheaper natural gas versus more expensive liquid fuels. We note that this is not relevant over the next 2-3 years or until the time RNRL/affiliates and NTPC are in a position to use their quota of natural gas. However, we note that RIL may not be in a position to use gas for internal use in case it does not have sufficient production to sell 40 mcm/d to RNRL/affiliates and NTPC and the balance 40 mcm/d to high-priority sectors as per the Gas Utilization Policy of the government of India. RIL's peak gas production from KG D-6 will be 80 mcm/d although it has the ability to scale production to 120 mcm/d. We note that RIL has made gas discoveries in a few blocks (NEC-25 being the most prominent) and has several prospective blocks (see Exhibit 3).

We continue to find RIL stock expensive despite the 7.5% correction in its stock price on June 15, 2009 on the aforementioned development. Exhibits 4 and 5 give our reverse valuation of RIL stock and shows that the stock is factoring in US\$21 bn of new oil and gas discoveries or 37 tcf of equivalent gas reserves.

### Fine-tuned earnings

We have fine-tuned FY2010E, FY2011E and FY2012E consolidated EPS to Rs128, Rs169 and Rs215, respectively, from Rs127, Rs169 and Rs215 due to minor changes in the model. However, we see significant earnings risks given (1) very weak refining margins and (2) weak chemical margins. Exhibits 6 and 7 show the recent steep fall in margins. Exhibit 8 shows the sensitivity of RIL's earnings (standalone) to key variables and Exhibit 9 is our financial summary sheet for RIL.

### SOTP valuation of Reliance is Rs1,650 per share on FY2011E estimates

Sum-of-the-parts valuation of Reliance Industries, FY2011E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV (Rs bn)	Value share (Rs)
	Other	EBITDA	Multiple	EV/EBITDA		
Chemicals		74		6.0	442	306
Refining & Marketing		183		6.0	1,098	761
Oil and gas—producing		27		5.0	133	92
Gas—developing (DCF-based) (a)	512	—	100%	—	512	355
Oil—KG-DWN-98/3 (b)	86	—	100%	—	86	60
Investments						
Others	27	—	100%	—	27	19
Loans & advances to affiliates less accounts payables to affiliates	83	—	100%	—	83	58
Retailing	60	—	80%	—	48	33
SEZ development	62	—	80%	—	50	34
<b>Total enterprise value</b>					<b>2,481</b>	<b>1,719</b>
Net debt					91	63
<b>Implied equity value</b>					<b>2,389</b>	<b>1,655</b>

Note:

(a) We value the KG D-6 and NEC-25 gas discoveries on DCF and CBM discoveries based on KG D-6's valuation.

(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.

(c) Net debt is for 'merged' entity.

(d) We use 1.443 bn shares post merger of RPET with RIL (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

### We see significant downside risks to RIL's earnings and valuations

Potential downside risks on RIL's FY2011E EPS and valuation (Rs)

	EPS	SOTP valuation
<b>Base-case assumption</b>	<b>169</b>	<b>1,733</b>
Impact of supply of gas to RNRL and NTPC at US\$2.34/mn BTU	—	(71)
Impact of royalty, income tax and government share of profit petroleum being computed at US\$4.2/mn BTU	—	(112)
Impact of non-availability of tax exemption on gas production	(16)	(81)
Impact of non-availability of gas for internal consumption	(12)	(129)
<b>Total potential downside to earnings and valuation</b>	<b>(28)</b>	<b>(393)</b>
<b>Hypothetical EPS and valuation</b>	<b>141</b>	<b>1,340</b>

Source: Kotak Institutional Equities estimates

**RIL has several blocks with good prospects**

Details of Reliance's E&amp;P blocks in India

Block	NELP round	Area	RIL stake (%)	Discovery announcement	Status	Reserves/resources	Classification
KG-DWN-98/1	I	10,810	100	September 2007 (oil)			
KG-DWN-98/3	I	7,645	90	October 2002 (gas)	Gas production commenced in April 2009	13 tcf	2P recoverable reserves
KG-DWN-98/3	I	7,645	90	June 2006 (oil)	Oil production commenced in September 2008	180 mn bbls	Recoverable reserves
NEC-OSN-97/2	I	14,535	90	June 2004 (gas)	Production expected to commence in mid-FY2012	4.8 tcf	Recoverable reserves
GS-OSN-2000/1	II	8,841	90	May 2007 (gas)		< 1 tcf	Management guidance
CY-DWN-2001/2	III	14,325	100	July 2007 (oil) and October 2007 (oil)			
KG-DWN-2001/1	III	11,605	90		One well to be drilled in CY2009	10.8 tcf of gas and 143 mn bbls of oil	GCA estimate of prospective resources
KG-OSN-2001/1	III	1,100	100	January 2008 (gas)			
KG-OSN-2001/2	III	210	100	December 2005 (gas)			
NEC-DWN-2002/1	IV	25,565	90				
KG-DWN-2003/1	V	3,288	90	February 2008 (gas) and April 2008 (gas)	Appraisal program for two discoveries (D39 and D41) has been submitted to the DGH in February 2009	9.5 tcf	GCA estimate of prospective resources
MN-DWN-2003/1	V	17,050	85		First well to be drilled in mid-CY2010		
Panna Mukta Tapti	Pre-NELP		30		Gas production being ramped upto 18 mcm/d in from 15 mcm/d in FY2008 and 10.4 mcm/d in FY2007		
SR-OS-94/1	Pre-NELP	6,860	100	Oil discovery notified to DGH			

Source: Company, Niko press release, Hardy Oil press release, Industry sources

**RIL stock price is implying US\$21 bn of new discoveries of hydrocarbons in the future**

Estimation of implied valuation of new businesses of Reliance Industries (US\$ bn)

		Comments
<b>1. Valuation of extant businesses</b>		<b>Chemicals, RIL refinery, extant oil and gas</b>
FY2009 EPS of Reliance (standalone) (Rs)	103	FY2009 EPS
FY2009 EPS adjusted for treasury shares (Rs)	112	Adjusted for 199 mn treasury shares and shares issued on merger of RPET
Effective tax rate in FY2009 (%)	17	
FY2009 EPS adjusted for tax rate	89	Normalized for 34% tax rate for extant earnings
Appropriate P/E multiple (X)	7	Reasonable given near peak-cycle margins, earnings in FY2009 and cost of equity of 12.5%
<b>Valuation of extant businesses excluding RPET (Rs)</b>	<b>622</b>	
<b>Valuation of extant businesses excluding RPET</b>	<b>18</b>	<b>Reasonable in the context of replacement value, returns</b>
FY2010E earnings of RPET (US\$ bn)	1	
FY2010E EPS of RPET	25	
Appropriate P/E multiple (X)	9	
<b>Valuation of RPET refinery (Rs)</b>	<b>229</b>	
<b>Valuation of extant businesses (including RPET) (Rs)</b>	<b>851</b>	
<b>Valuation of extant businesses</b>	<b>25</b>	
<b>2. Valuation of investments</b>		<b>Others (without Reliance Retail)</b>
<b>Other investments (Rs)</b>	<b>23</b>	
<b>Valuation of RIL ex-new E&amp;P, retailing, SEZs (Rs)</b>	<b>874</b>	
Current stock price	2,179	
<b>3. Valuation of new businesses</b>		<b>Emerging E&amp;P business, retailing, SEZs</b>
<b>Market-ascribed value of new businesses</b>	<b>1,305</b>	
<b>Market-ascribed value of new businesses (US\$ bn)</b>	<b>38</b>	
Estimated valuation of retailing (US\$ bn)	1.0	Valued at 0.8X of amount invested (Rs60 bn) at end-FY2009E
Estimated valuation of SEZs (US\$ bn)	1.0	Value will take time to emerge
<b>Market-ascribed value of emerging E&amp;P business</b>	<b>36</b>	<b>Seems high based on official reserves, announced discoveries</b>
Estimated value of Reliance's stake in KG D-6 (gas)	8.8	Based on gas production of 18.2 tcf, US\$8.8 bn capex and sale of 40 mcm/d of gas to RNRL and NTPC at US\$2.34/mn BTU
Estimated value of Reliance's stake in KG D-6 (oil)	1.8	0.5 bn bbls of OOIP assumed versus current announced reserves of 180 mn bbls
Estimated value of Reliance's stakes in NEC-25	2.8	Based on 5.1 tcf of production, US\$1.15 bn capex, US\$4.5/mn BTU
Estimated value of Reliance's stakes in CBM	1.3	Based on 2.8 tcf of production
<b>Implied value of new discoveries</b>	<b>21</b>	

Source: Kotak Institutional Equities estimates

**Reliance's current stock price is implying additional recoverable reserves of ~37 tcf of gas today**

Valuation of Reliance's E&amp;P segment and implied valuation for potential discoveries (US\$ bn)

		Comments
DCF valuation of KG D-6 block, gas for D1 & D3 fields	8.8	15.4 tcf of net recoverable gas reserves
Valuation of KG D-6 block, oil for MA-1 field	1.8	450 mn bbls of net proved reserves of oil at EV/bbl of US\$10
Valuation of Reliance's stakes in NEC-25	2.8	4.6 tcf of net recoverable gas reserves
Valuation of Reliance's stakes in CBM blocks	1.3	2.8 tcf of net recoverable gas reserves
<b>Total valuation of extant announced reserves</b>	<b>15</b>	
<b>Total recoverable reserves (tcf)</b>	<b>25</b>	
Implied valuation of E&P segment	36	
Implied valuation of new E&P discoveries	21	
<b>Implied additional recoverable reserves in stock price (tcf)</b>	<b>37</b>	<b>This is what Reliance needs to announce today</b>
# of years from discovery to production	6	KG D-6 first gas discovered in Oct-02, production in 2HFY09
Cost of capital (%)	12	
<b>Additional gas reserves required to be added in six years (tcf)</b>	<b>72</b>	<b>This is what Reliance needs to bring in production in six years</b>

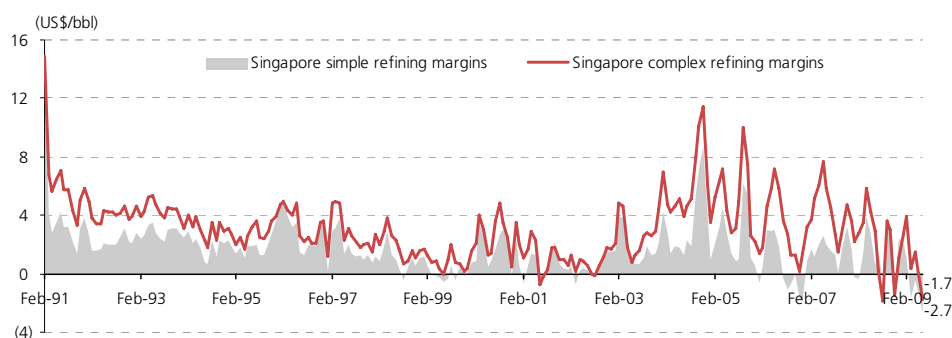
Note:

(a) The above exercise assumes for simplicity that all future gas and oil discovery would have similar PSC terms as the KG D-6 block.

Source: Kotak Institutional Equities estimates

**Refining margins have collapsed in the recent week**

Singapore refining margins (US\$/bbl)



Simple refining margins, March fiscal year-ends (US\$/bbl)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
1Q	1.29	0.51	0.30	1.05	1.69	3.02	2.52	2.25	2.40	(1.22)
2Q	2.47	0.45	0.07	1.20	3.13	2.78	(0.70)	0.99	1.71	
3Q	1.74	1.06	1.44	1.57	6.46	2.22	(1.25)	2.32	1.31	
4Q	0.21	(0.03)	2.98	2.88	2.08	1.09	1.25	0.25	0.65	
Average	1.43	0.50	1.20	1.67	3.34	2.28	0.45	1.45	1.52	(1.22)

Weekly margins				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(3.54)	(1.89)	(1.98)	(1.58)	(1.42)

Singapore refining margins, March fiscal year-ends (US\$/bbl)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
Simple	1.43	0.50	1.20	1.67	3.34	2.28	0.45	1.45	1.52	(1.22)
Complex	1.86	1.34	0.79	1.24	4.57	4.93	3.45	4.05	2.09	0.23

Complex refining margins, March fiscal year-ends (US\$/bbl)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
1Q	1.86	1.34	0.79	1.24	4.57	4.93	6.24	6.58	4.31	0.23
2Q	3.96	0.58	0.14	2.35	5.80	6.11	2.46	2.91	0.66	
3Q	2.25	1.22	1.56	3.23	9.04	3.94	0.98	3.91	1.04	
4Q	1.60	0.65	3.70	5.44	5.02	2.77	4.11	2.78	2.36	
Average	2.42	0.95	1.55	3.06	6.10	4.44	3.45	4.05	2.09	0.23

Weekly margins				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(2.53)	(0.95)	(0.24)	0.14	(0.23)

Source: Bloomberg

**Asia chemical margins (US\$/ton)**

Calendar year-ending

	Annual average prices					Quarterly average					Monthly average				Recent			
	2005	2006	2007	2008	2009	3Q08	4Q08	1Q09	2Q09	2Q09 vs. 1Q09 (%)	Mar	Apr	May	June	May 22	May 29	Jun 5	Jun 12
Ethylene chain																		
Ethylene – naphtha	389	549	441	336	211	359	123	203	218	8	188	249	215	191	229	165	190	193
HDPE – 1.015 x ethylene	147	88	171	258	349	252	332	302	396	31	351	415	440	332	413	378	352	312
LLDPE – 1.015 x ethylene	175	87	185	317	348	352	433	322	374	16	362	388	398	335	373	343	327	342
LDPE – 1.015 x ethylene	243	94	291	422	357	464	525	308	406	32	363	391	459	367	428	398	372	362
HDPE – naphtha	548	655	629	611	570	632	463	515	625	21	548	674	666	535	653	554	554	517
LLDPE – naphtha	577	654	643	670	569	732	563	535	603	13	559	648	624	538	613	519	529	547
LDPE – naphtha	644	660	749	775	578	844	656	521	635	22	560	650	685	570	668	574	574	567
Propylene chain																		
Propylene – naphtha	424	509	373	353	278	468	144	239	316	32	293	414	310	225	268	209	229	222
PP – 1.01 x propylene	154	125	244	265	201	264	338	176	225	28	161	194	252	229	285	227	227	232
PP – naphtha	587	645	628	630	486	748	488	422	550	30	462	617	570	463	561	444	464	462
Styrene chain																		
Benzene – naphtha	339	278	325	153	60	183	72	(14)	134	(1,062)	19	166	121	116	113	46	95	136
Styrene – 0.81 x benzene	131	139	163	131	210	133	139	212	209	(1)	283	270	173	183	171	179	185	181
– 0.29 x ethylene																		
Polystyrene – 0.98 styrene	125	90	132	161	123	173	275	140	106	(24)	116	141	95	83	96	69	88	78
PS – naphtha	670	649	730	571	473	630	533	427	520	22	497	643	461	455	458	374	444	467
Vinyl chain																		
EDC – (0.3 x ethylene)	99	11	85	35	81	73	10	22	141	545	45	93	162	168	174	171	169	167
PVC – 1.025 (0.235 x ethylene + 0.864 x EDC)	281	249	294	405	284	428	409	323	245	(24)	312	266	234	236	218	235	235	237
PVC – naphtha	326	250	249	199	233	174	296	240	226	(6)	235	252	241	185	238	184	194	177
Polyester/intermediates																		
PSF – 0.85 x PTA – 0.34 x MEG	247	240	324	347	291	395	380	250	352	41	356	293	411	—	442	—	—	—
PFY – 0.85 x PTA – 0.34 x MEG	398	391	541	578	352	584	524	332	382	15	396	308	456	—	487	—	—	—
PTA – 0.67 x PX	201	124	123	126	148	110	163	148	148	(0)	144	172	130	141	126	102	127	156
PX – naphtha	414	572	435	337	486	359	312	431	541	26	439	590	625	409	575	486	454	364
MEG – naphtha	384	270	419	105	52	(84)	138	71	34	(52)	18	102	49	(50)	21	(49)	(33)	(67)
MEG – 0.6 x ethylene	345	174	433	235	112	106	213	115	109	(5)	77	133	118	76	86	85	86	65

Source: Platts, Kotak Institutional Equities

**Reliance's earnings have high leverage to refining margins**

Sensitivity of RIL's standalone (without RPET) earnings to key variables

	Fiscal 2010E			Fiscal 2011E			Fiscal 2012E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
<b>Rupee-dollar exchange rate</b>									
Rupee-dollar exchange rate	47.0	48.0	49.0	46.8	47.8	48.8	46.5	47.5	48.5
Net profits (Rs mn)	169,819	175,132	180,444	216,116	222,384	228,651	274,997	282,157	289,317
EPS (Rs)	107.9	111.3	114.7	137.4	141.3	145.3	174.8	179.3	183.9
<b>% upside/(downside)</b>	<b>(3.0)</b>		<b>3.0</b>	<b>(2.8)</b>		<b>2.8</b>	<b>(2.5)</b>		<b>2.5</b>
<b>Chemical prices</b>									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	170,305	175,132	179,959	218,195	222,384	226,572	277,713	282,157	286,601
EPS (Rs)	108.2	111.3	114.4	138.7	141.3	144.0	176.5	179.3	182.2
<b>% upside/(downside)</b>	<b>(2.8)</b>		<b>2.8</b>	<b>(1.9)</b>		<b>1.9</b>	<b>(1.6)</b>		<b>1.6</b>
<b>Refining margins (US\$/bbl)</b>									
Margins (US\$/bbl)	8.8	9.8	10.8	10.1	11.1	12.1	11.4	12.4	13.4
Net profits (Rs mn)	167,632	175,132	182,626	214,953	222,384	229,812	274,789	282,157	289,525
EPS (Rs)	106.5	111.3	116.1	136.6	141.3	146.1	174.6	179.3	184.0
<b>% upside/(downside)</b>	<b>(4.3)</b>		<b>4.3</b>	<b>(3.3)</b>		<b>3.3</b>	<b>(2.6)</b>		<b>2.6</b>

Source: Kotak Institutional Equities estimates

## RIL consolidated with RPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2003-2012E (Rs mn)

	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>										
Net sales	451,133	510,715	656,223	809,113	1,114,927	1,334,430	1,499,690	1,793,946	1,985,156	2,077,653
<b>EBITDA</b>	<b>75,808</b>	<b>91,148</b>	<b>123,820</b>	<b>139,991</b>	<b>198,462</b>	<b>233,056</b>	<b>236,220</b>	<b>359,172</b>	<b>438,736</b>	<b>520,813</b>
Other income	10,012	11,381	14,498	6,829	4,783	8,953	20,570	34,626	36,277	43,225
Interest	(15,552)	(14,347)	(14,687)	(8,770)	(11,889)	(10,774)	(17,450)	(50,943)	(36,931)	(14,849)
Depreciation & depletion	(28,371)	(32,470)	(37,235)	(34,009)	(48,152)	(48,471)	(51,720)	(93,053)	(102,501)	(113,944)
Pretax profits	41,897	55,711	86,397	104,041	143,205	182,764	187,620	249,802	335,581	435,245
Extraordinary items	7,845	7,300	4,290	3,000	2,000	47,335	(3,700)	—	—	—
Tax	(2,459)	(3,510)	(7,050)	(9,307)	(16,574)	(26,520)	(21,290)	(29,688)	(56,467)	(84,401)
Deferred taxation	(6,240)	(7,900)	(7,920)	(7,040)	(9,196)	(8,999)	(9,000)	(7,594)	5,186	10,677
Minority interest	—	—	—	—	—	—	(249)	(11,075)	(18,339)	(23,508)
Net profits	41,043	51,601	75,717	90,693	119,434	194,580	153,381	201,446	265,960	338,013
<b>Adjusted net profits</b>	<b>34,570</b>	<b>45,623</b>	<b>72,135</b>	<b>88,152</b>	<b>117,789</b>	<b>152,605</b>	<b>156,472</b>	<b>201,446</b>	<b>265,960</b>	<b>338,013</b>
<b>Earnings per share (Rs)</b>	<b>24.8</b>	<b>32.7</b>	<b>51.7</b>	<b>63.3</b>	<b>81.0</b>	<b>105.0</b>	<b>103.4</b>	<b>128.0</b>	<b>169.0</b>	<b>214.8</b>
<b>Balance sheet (Rs mn)</b>										
Total equity	303,744	344,525	404,033	430,543	673,037	847,853	1,130,178	1,299,727	1,528,490	1,810,688
Deferred taxation liability	26,848	34,748	42,668	49,708	69,820	78,725	87,725	95,320	90,134	79,457
Minority interest	—	—	—	—	33,622	33,622	33,832	40,547	53,394	66,271
Total borrowings	197,583	209,447	187,846	218,656	332,927	493,072	710,346	608,160	371,160	169,512
Current liabilities	109,666	122,855	171,315	164,545	192,305	251,427	301,513	248,300	259,368	258,574
<b>Total liabilities and equity</b>	<b>637,842</b>	<b>711,574</b>	<b>805,863</b>	<b>863,452</b>	<b>1,301,712</b>	<b>1,704,700</b>	<b>2,263,594</b>	<b>2,292,053</b>	<b>2,302,546</b>	<b>2,384,501</b>
Cash	1,472	2,242	36,087	21,461	18,449	42,822	256,703	265,544	279,906	388,681
Current assets	227,809	218,159	248,438	224,283	286,566	402,721	483,779	515,333	539,621	544,900
Total fixed assets	340,863	351,460	350,823	626,745	899,403	1,081,638	1,333,592	1,321,657	1,293,500	1,261,401
Investments	67,227	139,714	170,515	(9,038)	97,294	177,519	189,519	189,519	189,519	189,519
Deferred expenditure	472	—	—	—	—	—	—	—	—	—
<b>Total assets</b>	<b>637,842</b>	<b>711,574</b>	<b>805,863</b>	<b>863,452</b>	<b>1,301,712</b>	<b>1,704,700</b>	<b>2,263,594</b>	<b>2,292,053</b>	<b>2,302,546</b>	<b>2,384,501</b>
<b>Free cash flow (Rs mn)</b>										
Operating cash flow, excl. working capital	67,072	83,301	107,002	119,520	164,285	180,718	168,460	271,886	339,827	414,961
Working capital	(17,614)	20,265	46,875	(32,188)	(13,075)	(31,071)	(30,973)	(84,767)	(13,219)	(6,072)
Capital expenditure	(37,043)	(43,191)	(52,440)	(94,273)	(247,274)	(239,691)	(238,171)	(74,940)	(73,616)	(82,895)
Investments	(34,204)	(68,430)	(48,192)	(32,364)	(105,760)	(78,953)	(12,000)	—	—	—
Other income	5,219	5,902	3,032	5,159	4,143	6,132	20,570	34,626	36,277	43,225
<b>Free cash flow</b>	<b>(16,569)</b>	<b>(2,153)</b>	<b>56,276</b>	<b>(34,146)</b>	<b>(197,681)</b>	<b>(162,865)</b>	<b>(92,114)</b>	<b>146,805</b>	<b>289,269</b>	<b>369,219</b>
<b>Ratios (%)</b>										
Debt/equity	59.8	55.2	42.1	45.5	44.8	53.2	58.3	43.6	22.9	9.0
Net debt/equity	59.3	54.6	34.0	41.1	42.3	48.6	37.2	24.6	5.6	(11.6)
RoAE	10.7	12.7	17.6	19.9	20.3	18.9	15.0	15.9	18.1	19.6
<b>RoACE</b>	<b>8.8</b>	<b>9.7</b>	<b>13.0</b>	<b>13.8</b>	<b>13.9</b>	<b>12.7</b>	<b>9.9</b>	<b>12.7</b>	<b>15.4</b>	<b>18.0</b>

Source: Kotak Institutional Equities estimates



**Telecom****RLCM.BO, Rs319**

Rating	SELL
Sector coverage view	Cautious
Target Price (Rs)	180
52W High -Low (Rs)	555 - 131
Market Cap (Rs bn)	658.5

**Financials**

March y/e	2009	2010E	2011E
Sales (Rs bn)	229.4	277.9	342.9
Net Profit (Rs bn)	61.6	45.5	47.4
EPS (Rs)	27.7	20.3	21.1
EPS gth	4.7	(26.6)	3.9
P/E (x)	11.5	15.7	15.1
EV/EBITDA (x)	9.7	9.2	7.2
Div yield (%)	0.2	-	-

**Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
37.2	103.6	36.5	(40.3)

**Shareholding, March 2009**

	% of Pattern Portfolio	Over/(under) weight
Promoters	66.1	-
FIs	9.6	0.9
MFs	2.3	1.0
UTI	-	-
LIC	6.3	1.8

**Reliance Communications : Rich valuation and sub-par performance. Higher disclosures required. SELL**

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- **Newsflow-driven optimism faces stern valuation test**
- **Valuations appear rich despite assuming substantial market share gains**
- **Underperformance on subscriber net adds continues in May 2009**
- **Our 12-month forward target price of Rs180/share builds in a 20% discount to fair value on account of lower financial disclosures**

We reiterate our SELL recommendation on Reliance Communications (RCOM) given (1) expensive valuations, trading at 9.3X FY2010E and 7.2X FY2011E EV/EBITDA, a marginal premium to Bharti; (2) likely disappointment on wireless metrics—the company added just 2.4 mn subs in May 2009 after just 2.2 mn in April 2009 (lower than both Bharti and Vodafone-Essar) and (3) weak disclosures—UASL revenue reported by RCOM to TRAI is now lower than Idea. The market's recent optimism on the stock may be driven by the expectation of equity dilution (at the parent company level). We believe this optimism is unlikely to stand valuation scrutiny for much longer given the sub-optimal business operating performance of the wireless business and lack of external tenants for the passive infra division. We reiterate our SELL recommendation with an unchanged DCF-based target price of Rs180/ share—the target price builds in a 20% discount to fair value. We continue to refrain from ascribing any valuation to the tower business for lack of visibility on external tenancy.

**Newsflow-driven optimism faces stern valuation test.** RCOM's robust stock performance over the past few months (up 37% and 117% over the past one month and three months, respectively) has not been driven by any change in fundamentals or earnings expectations. Consensus estimates continue to build in a sharp yoy decline in EPS in FY2010E. The buoyant stock performance, in our view, has been driven by (1) wider rally in the market and (2) optimism on fund-raising by the company; press reports indicate that RCOM is looking to raise funds by either diluting equity at the parent company level through a QIP or a stake sale in Reliance Infratel.

We find the news-flow-triggered optimism unjustified. RCOM's balance sheet is stretched and the company does need an equity infusion. Equity dilution above our fair value will increase our fair value only marginally (see Exhibit 1). However, equity dilution above the fair value would be up against (1) underperformance in wireless business and (2) the declining probability of substantial value accretion from the recent GSM launch given the recent subscriber net adds and ARPU performance.

We also emphasize that RITL does not have any external tenancy yet. A premium valuation for RITL, hence, would simply be a case of value transfer from the parent to the subsidiary (given that the parent is the sole customer), doing little to enhance the underlying fair value of the parent. More importantly, the lack of external tenancy despite several new network launches/announcements depicts the execution/pricing challenges that RITL faces in the market.

**Valuations appear rich despite assuming substantial market share gains.** Exhibit 2 depicts the valuation summary of the Indian wireless stocks under our coverage. RCOM trades at 9.3X FY2010E and 7.2X FY2011 EV/EBITDA, a marginal premium to Bharti. We highlight that our estimates build in significant subscriber market share gain for RCOM in FY2010E (Exhibit 3); however, the execution and pace of additions seen over the past two months have been below our expectations; we discuss this in detail below. Sustained underperformance relative to peers may erode the 'benefit of doubt' element from RCOM's execution (ascribed given RCOM's legacy CDMA-only presence), in our view.



**Underperformance in net adds continues in May 2009.** RCOM added 2.4 mn subs in May and 2.2 mn in April 2009, a substantial downtick from the 3.8 mn average monthly net adds reported in the Jan-Mar 2009 quarter (immediately after the pan-India GSM network launch). We do not have the break-up of CDMA and GSM subs addition but presume that the company would have lost market share momentum in both platforms; the company's GSM offerings could have cannibalized some of its extant CDMA subs base as well. Infact, some of the initial net adds reported could have been the migration of company's CDMA subs to its GSM platform, which is impacting net adds with a lag (given the delayed churn norms followed by the Indian wireless operators). Our conversations with dealers and retailers indicate that the complexity of tariff plans and account balances has led to weak follow-up recharges and retention of GSM subs.

**UASL (primarily wireless) revenues reported to TRAI now lower than Idea (including Spice).** Our reservations on RCOM's ability to attract quality subscribers are based on weak revenues from the wireless business in the March 2009 quarter. Interestingly, RCOM's reported UASL gross revenues (to the regulator) stood at Rs31.3 bn for 4QFY09, lower than Idea's (including 100% of Spice) Rs31.8 bn (see Exhibit 4); we highlight that Idea was present in 15/23 telecom circles in India (as a pure-play GSM operator) in the March 2009 quarter whereas RCOM had dual (GSM + CDMA) networks in all the 23 circles.

Even the numbers reported to the investor community were substantially below Street expectations. In 4QFY09, RCOM's wireless business reported incremental revenues of an insignificant Rs896 mn. Viewed against the net wireless subs addition of 11.3 mn during the quarter, incremental ARPU works out to an insignificant Rs26/sub/month. This ARPU may comprise only of upfront money collected on start-up kits. Effectively, the new subs are marginal with very little recharge and ARPU. RCOM may have to come up with simpler tariff structures and better value proposition to increase usage from its existing subscriber base.

**Lower disclosures.** Without the help of the management, we are unable to explain the increasing gap between revenues disclosed to investors and TRAI. The gap in revenues reported to TRAI continues to be high. In the March 2009 quarter, the gap in gross revenues increased to 44% from 34% in the December 2008 quarter. The gap in net revenues has also increased to 69% from 60% in the December 2008 quarter. Please refer to Exhibit 5 for details.

RCOM's past diligence in disclosures appears to have slackened in recent months. The company did not provide details on its balance sheet and cash flows at the time of disclosing results for March 2009 quarter, citing the pending de-merger of optic fiber network. We note that the Street had questions on the balance sheet—most of these continue to await clarity from the management. RCOM has also stopped reporting non-voice revenues in the wireless business segment.

Exhibit 6 gives our DCF model for RCOM while Exhibit 7 gives the condensed financial forecasts for the company.

**Equity dilution above our fair value estimate raises our target price on RCOM only marginally****Assumptions**

Stake diluted (%)	10.0
Revised share count (mn)	2,333
Current market price (Rs)	319
Current fair value estimate (Rs/share)	227
Current target price (at 20% discount to fair value) (Rs/share)	180

**Change in our fair value estimate for the stock under various scenarios for placement pricing**

<b>Dilution price (Rs/share)</b>	<b>275</b>	<b>325</b>	<b>375</b>	<b>425</b>
Premium/(discount) to CMP (%)	(14)	2	18	33
<b>Cash raised (Rs mn)</b>	<b>64,167</b>	<b>75,833</b>	<b>87,500</b>	<b>99,167</b>
EV (same as pre-dilution) (Rs mn)	719,384	719,384	719,384	719,384
Net debt (lower for the amount of cash raised) (Rs mn)	179,289	167,622	155,956	144,289
Revised equity value (Rs mn)	540,095	551,762	563,429	575,095
Revised fair value (Rs/share)	231	236	241	246
<b>Revised target price (at 20% discount to fair value) (Rs/share)</b>	<b>185</b>	<b>189</b>	<b>193</b>	<b>197</b>
<b>Change from current target price (%)</b>	<b>2.9</b>	<b>5.1</b>	<b>7.3</b>	<b>9.5</b>

Source: Kotak Institutional Equities estimates

**Indian telecom companies valuation analysis, March fiscal year-ends, 2008-2011E**

	Price (Rs)	Target price	P/E (X)				EV/EBITDA (X)			
	15-Jun-09	(Rs)	2008	2009	2010E	2011E	2008	2009	2010E	2011E
Bharti	819	775	23.2	18.4	15.7	13.7	14.1	10.7	9.2	7.9
Idea	83	65	21.0	28.6	28.6	25.8	14.1	10.4	9.3	7.8
MTNL	107	50	14.9	26.8	26.1	23.3	4.6	15.5	12.5	9.0
RCOM	319	180	12.1	11.5	15.7	15.1	11.0	9.8	9.3	7.2
TCOM	496	400	45.3	36.5	35.4	32.7	23.4	17.8	16.0	14.7

	KS rating	Market cap. (US\$ bn)	Revenues (Rs bn)				EBITDA (Rs bn)			
			2008	2009	2010E	2011E	2008	2009	2010E	2011E
Bharti	ADD	31.1	270	370	433	501	113	152	175	196
Idea	REDUCE	5.1	67	101	136	176	23	28	36	44
MTNL	SELL	1.3	47	42	45	48	7	2	3	5
RCOM	SELL	13.0	191	229	278	343	82	93	104	131
TCOM	REDUCE	2.8	33	38	42	46	6	8	9	10

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

Source: Bloomberg, Kotak Institutional Equities estimates

**We build in a sharp subscriber market share gain for RCOM in FY2010-11E**

	2007	2008	2009	2010E	2011E	2012E
<b>Subscribers ('000)</b>						
Reliance	28,968	45,793	72,666	101,014	122,716	135,570
BSNL	27,430	36,211	46,685	56,755	64,681	69,424
Bharti	37,141	61,985	93,923	120,823	140,494	152,144
Hutch	26,442	44,126	68,769	91,567	108,244	117,975
IDEA	14,011	24,002	38,889	54,595	66,687	73,945
TTSL	16,026	24,330	35,122	46,120	54,867	60,082
Aircel	5,514	10,610	18,478	27,268	35,397	40,982
Others	6,756	9,121	11,430	14,507	16,729	17,993
<b>Total</b>	<b>162,287</b>	<b>256,178</b>	<b>385,964</b>	<b>512,649</b>	<b>609,815</b>	<b>668,115</b>
<b>Market share (%)</b>						
<b>Reliance</b>	<b>17.8</b>	<b>17.9</b>	<b>18.8</b>	<b>19.7</b>	<b>20.1</b>	<b>20.3</b>
BSNL	16.9	14.1	12.1	11.1	10.6	10.4
Bharti	22.9	24.2	24.3	23.6	23.0	22.8
Hutch	16.3	17.2	17.8	17.9	17.8	17.7
IDEA	8.6	9.4	10.1	10.6	10.9	11.1
TTSL	9.9	9.5	9.1	9.0	9.0	9.0
Aircel	3.4	4.1	4.8	5.3	5.8	6.1
Others	4.2	3.6	3.0	2.8	2.7	2.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Net adds per month</b>						
Reliance	971	1,402	2,239	2,362	1,808	1,071
BSNL	856	732	873	839	661	395
Bharti	1,464	2,070	2,662	2,242	1,639	971
Hutch	923	1,474	2,054	1,900	1,390	811
IDEA	554	833	1,241	1,309	1,008	605
TTSL	631	692	899	916	729	435
Aircel	242	425	656	732	677	465
Others	112	197	192	256	185	105
<b>Total</b>	<b>5,753</b>	<b>7,824</b>	<b>10,815</b>	<b>10,557</b>	<b>8,097</b>	<b>4,858</b>
<b>Net add share (%)</b>						
<b>Reliance</b>	<b>16.9</b>	<b>17.9</b>	<b>20.7</b>	<b>22.4</b>	<b>22.3</b>	<b>22.0</b>
BSNL	14.9	9.4	8.1	7.9	8.2	8.1
Bharti	25.4	26.5	24.6	21.2	20.2	20.0
Hutch	16.1	18.8	19.0	18.0	17.2	16.7
IDEA	9.6	10.6	11.5	12.4	12.4	12.5
TTSL	11.0	8.8	8.3	8.7	9.0	8.9
Aircel	4.2	5.4	6.1	6.9	8.4	9.6
Others	2.0	2.5	1.8	2.4	2.3	2.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Kotak Institutional Equities estimates

## Gross UASL revenue matrix for Indian wireless operators for the March 2009 quarter

	Bharti	Reliance	BSNL	VOD	IDEA (1)	TTSL	Aircel	MTNL	BPL	Shyam	HFCL	Total
GR - March 2009 quarter	88,960	31,323	29,311	55,008	31,834	21,359	8,946	2,220	1,734	306	395	271,396
GR market share	32.8%	11.5%	10.8%	20.3%	11.7%	7.9%	3.3%	0.8%	0.6%	0.1%	0.1%	100%
Circle-wise AGR (Rs mn)												
Metro + Circle A												
Calcutta	2,273	1,243	588	2,295		798	137					7,334
Delhi	8,887	2,720		5,411	2,412	3,181	3	1,215				23,828
Mumbai	4,332	3,090		6,249	591	2,785		1,005	1,734			19,786
Andhra Pradesh	8,870	2,308	2,221	3,030	4,030	2,391	2					22,852
Gujarat	3,107	1,316	1,327	6,097	2,658	913						15,418
Karnataka	10,403	1,812	1,515	3,202	1,191	1,405						19,526
Maharashtra	4,855	1,833	2,692	3,905	5,859	2,107						21,252
Tamil Nadu + Chennai	8,232	2,161	2,740	5,086		1,139	5,684					25,041
Circle B												
Haryana	1,165	533	861	1,467	1,134	617						5,776
Kerala	2,468	1,613	1,876	2,486	3,449	715	6					12,613
Madhya Pradesh	3,581	2,314	1,963	93	3,189	510						11,650
Punjab	4,205	582	1,470	1,800	1,967	748					395	11,167
Rajasthan	5,584	1,027	1,823	2,936	794	822				306		13,292
Uttar Pradesh (east)	4,229	1,679	2,331	4,733	1,228	614						14,812
Uttar Pradesh (west)	1,952	1,226	1,257	2,798	2,920	885						11,037
West Bengal and A&N islands	2,189	1,045	1,100	2,775		365	276					7,750
Circle C												
Assam	1,355	744	948	71		34	1,008					4,158
Bihar	5,338	2,363	1,259	269	312	863	389					10,792
Himachal Pradesh	867	407	383	23	102	91	31					1,903
North East	902	265	696	52		10	647					2,571
Orissa	2,348	1,043	1,124	233		335	293					5,376
J&K	1,822	2	1,137			33	470					3,463

Note:

(1) Including 100% of Spice revenues in Idea.

Source: TRAI, Compiled by Kotak Institutional Equities

## Gap in revenues reported to the TRAI and the investor community continues to be high

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Gross revenues	36,213	37,669	41,259	39,409	43,076	43,187	41,786	45,535	44,553	43,198
UASL	26,356	28,261	31,382	29,063	32,883	33,146	31,608	34,182	32,984	31,323
NLD	4,693	5,013	5,334	5,464	5,673	5,804	5,914	6,736	7,240	7,797
ILD	5,164	4,395	4,543	4,882	4,521	4,238	4,265	4,618	4,328	4,078
Adjusted gross revenues	23,944	25,449	28,571	27,337	30,297	29,148	30,185	28,535	30,809	29,976
UASL	20,174	21,662	24,654	22,329	25,662	25,589	24,778	22,902	24,149	22,266
NLD	2,137	2,278	2,660	2,761	2,917	3,014	3,421	4,000	4,444	4,880
ILD	1,633	1,510	1,257	2,246	1,718	545	1,986	1,633	2,216	2,830
License Fees	2,019	2,152	2,411	2,254	2,495	2,429	2,500	2,347	2,517	2,395
UASL	1,793	1,924	2,176	1,954	2,217	2,216	2,175	2,009	2,117	1,933
NLD	128	137	160	166	175	181	205	240	267	293
ILD	98	91	75	135	103	33	119	98	133	170
Spectrum charges	416	416	507	495	518	509	491	446	475	452
UASL	416	416	507	495	518	509	491	446	475	452
Gross wireless revenues reported to investors	27,520	29,682	33,730	37,230	39,567	41,608	41,187	43,356	44,119	45,015
Net wireless revenues reported to investors	19,308	20,673	24,244	27,722	28,892	31,757	31,280	33,626	34,445	33,683
Reported Interconnection & access charges	8,212	9,009	9,486	9,508	10,675	9,851	9,907	9,730	9,674	11,332
Difference between revenues disclosed to the investor community and the TRAI (%)										
Gross Revenues	4.4	5.0	7.5	28.1	20.3	25.5	30.3	26.8	33.8	43.7
Net revenues	7.5	7.0	10.3	39.4	26.0	38.9	41.5	64.5	59.8	69.4

Source: TRAI reports, Company

**Our one-year forward target price for RCOM is Rs180 (applying 20% discount to core business fair value)**

Discounted cash flow valuation of Reliance Communications (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
<b>EBITDA</b>	<b>104,382</b>	<b>131,412</b>	<b>150,326</b>	<b>165,080</b>	<b>176,028</b>	<b>188,468</b>	<b>200,511</b>	<b>210,980</b>
Tax	(3,775)	(8,305)	(9,301)	(10,316)	(10,972)	(14,388)	(31,766)	(35,483)
Change in working capital	(42,464)	1,210	(3,668)	(1,255)	1,464	1,537	1,377	2,636
<b>Post-tax operating cash flow</b>	<b>58,144</b>	<b>124,317</b>	<b>137,357</b>	<b>153,509</b>	<b>166,520</b>	<b>175,617</b>	<b>170,122</b>	<b>178,133</b>
Capex	(108,296)	(100,849)	(85,641)	(78,234)	(77,435)	(77,656)	(78,137)	(81,645)
<b>Free cash flow</b>	<b>(50,153)</b>	<b>23,468</b>	<b>51,716</b>	<b>75,275</b>	<b>89,085</b>	<b>97,961</b>	<b>91,985</b>	<b>96,488</b>

	Now	+ 1-year	WACC and terminal year assumptions	
PV of cash flows	111,378	290,128	<b>Terminal growth (%)</b>	<b>4.5</b>
PV of terminal value	410,771	429,256	<b>WACC (%)</b>	<b>13.5</b>
EV	522,150	719,384		
Net debt	139,439	243,456		
<b>Equity value (Rs mn)</b>	<b>382,711</b>	<b>475,929</b>		
<b>Equity value (US\$ mn)</b>	<b>7,973</b>	<b>9,915</b>		
RCL shares (mn)	2,100	2,100		
<b>Equity value (Rs/RCOM share)</b>	<b>182</b>	<b>227</b>		
Exit FCF multiple (X)	11.1	11.1		
<b>Exit EBITDA multiple (X)</b>	<b>5.1</b>	<b>5.1</b>		

<b>Key assumptions (%)</b>	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenue growth	21.2	23.4	13.6	8.0	6.2	5.1	4.5	4.1
EBITDA growth	12.4	25.9	14.4	9.8	6.6	7.1	6.4	5.2
<b>EBITDA margin</b>	<b>40.5</b>	<b>37.6</b>	<b>38.3</b>	<b>38.6</b>	<b>39.3</b>	<b>39.4</b>	<b>40.1</b>	<b>40.9</b>
Capex/sales	39.0	29.4	22.0	18.6	17.3	16.5	15.9	16.0
Cash tax rate	5.7	11.3	11.3	11.3	11.3	13.8	28.1	29.3
Effective tax rate	3.5	11.3	11.3	11.3	11.3	13.8	18.4	25.9
<b>Return on avg. capital employed</b>	<b>7.3</b>	<b>7.8</b>	<b>8.9</b>	<b>9.7</b>	<b>10.4</b>	<b>11.0</b>	<b>10.0</b>	<b>10.6</b>

Source: Kotak Institutional Equities estimates

## RCL's condensed financial statements, March fiscal year ends, 2008-2017E

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
<b>Profit model (Rs mn)</b>										
Revenue	190,678	229,411	277,938	342,894	389,454	420,549	446,668	469,576	490,656	510,633
EBITDA	81,992	92,875	104,382	131,412	150,326	165,080	176,028	188,468	200,511	210,980
EBIT	53,939	53,562	52,502	65,381	77,264	85,840	91,098	97,883	104,142	108,659
Net interest income / (expense)	6,401	7,867	(5,311)	(11,888)	(10,862)	(6,490)	(1,926)	3,583	8,533	12,499
Tax	(2,836)	123	(1,673)	(6,061)	(7,523)	(8,990)	(10,103)	(13,968)	(20,734)	(31,354)
Net profit	56,416	59,153	43,358	45,057	56,266	67,617	76,189	84,474	88,766	86,469
<b>Fully diluted EPS</b>	<b>26.5</b>	<b>27.7</b>	<b>20.3</b>	<b>21.1</b>	<b>26.4</b>	<b>31.7</b>	<b>35.7</b>	<b>39.6</b>	<b>41.6</b>	<b>40.5</b>
<b>Balance sheet (Rs mn)</b>										
Cash	8,782	68,575	44,212	44,186	50,782	55,143	66,101	80,528	127,932	186,336
Other current assets	97,035	111,890	126,820	136,340	143,164	147,721	151,549	154,907	157,996	160,924
Fixed assets	523,126	677,980	734,396	769,214	781,794	780,789	773,293	760,365	742,132	721,456
Other long term assets	—	1,772	2,772	2,772	2,772	2,772	2,772	2,772	13,730	17,859
Short term debt	(35,396)	58,413	58,413	54,563	(5,437)	(16,187)	(16,187)	(16,187)	(16,187)	(16,187)
Other current liabilities	200,776	209,702	182,168	192,898	196,054	199,357	204,648	209,543	214,009	219,573
Long term debt	183,617	253,617	283,617	273,617	231,256	176,256	99,185	11,648	—	—
Other long term liabilities	1,028	—	—	—	—	—	—	—	—	—
Shareholders funds (incl. minorities)	314,573	374,140	419,657	467,089	592,294	662,654	741,724	829,222	879,622	918,844
Net (debt)/ cash	(249,435)	(259,642)	(314,005)	(300,181)	(191,223)	(121,112)	(33,084)	68,880	127,932	186,336
<b>Free cash flow (Rs mn)</b>										
<b>EBITDA</b>	<b>81,992</b>	<b>92,875</b>	<b>104,382</b>	<b>131,412</b>	<b>150,326</b>	<b>165,080</b>	<b>176,028</b>	<b>188,468</b>	<b>200,511</b>	<b>210,980</b>
Change in working capital	1,435	(5,929)	(42,464)	1,210	(3,668)	(1,255)	1,464	1,537	1,377	2,636
Cash tax (paid)	(1,645)	(2,677)	(2,673)	(6,061)	(7,523)	(8,990)	(10,103)	(13,968)	(31,693)	(35,483)
Cash interest (paid)	(4,858)	(15,100)	(19,450)	(19,808)	(15,685)	(11,696)	(7,669)	(3,048)	(262)	—
Capex on PP&E and intangibles	(212,272)	(194,168)	(108,296)	(100,849)	(85,641)	(78,234)	(77,435)	(77,656)	(78,137)	(81,645)
Miscellaneous	15,689	11,633	(7,228)	(6,219)	(3,096)	384	536	888	2,164	3,703
<b>Free cash flow</b>	<b>(119,658)</b>	<b>(113,365)</b>	<b>(75,729)</b>	<b>(315)</b>	<b>34,712</b>	<b>65,288</b>	<b>82,822</b>	<b>96,221</b>	<b>93,961</b>	<b>100,192</b>
<b>Ratios (%)</b>										
Sales growth	31.8	20.3	21.2	23.4	13.6	8.0	6.2	5.1	4.5	4.1
EBITDA growth	43.3	13.3	12.4	25.9	14.4	9.8	6.6	7.1	6.4	5.2
EPS growth	76.7	4.7	(26.6)	3.9	24.9	20.2	12.7	10.9	5.1	(2.6)
FCF growth	NM	NM	NM	(99.6)	(11,126.1)	88.1	26.9	16.2	(2.3)	6.6
<b>EBITDA margin</b>	<b>43.0</b>	<b>40.5</b>	<b>37.6</b>	<b>38.3</b>	<b>38.6</b>	<b>39.3</b>	<b>39.4</b>	<b>40.1</b>	<b>40.9</b>	<b>41.3</b>
Net margin	29.6	25.8	15.6	13.1	14.4	16.1	17.1	18.0	18.1	16.9
FCF margin	(62.8)	(49.4)	(27.2)	(0.1)	8.9	15.5	18.5	20.5	19.2	19.6
RoAE	21.7	18.6	11.7	10.9	11.3	11.4	11.5	11.3	11.0	10.2
<b>ROAE (excl. cash and int. income)</b>	<b>20.0</b>	<b>13.4</b>	<b>9.5</b>	<b>10.3</b>	<b>11.6</b>	<b>11.7</b>	<b>11.8</b>	<b>11.7</b>	<b>11.6</b>	<b>11.1</b>
RoACE	13.4	11.2	8.5	8.2	8.9	9.7	10.3	10.8	9.5	9.7
<b>ROACE (excl. cash and int. income)</b>	<b>11.8</b>	<b>8.6</b>	<b>7.3</b>	<b>7.8</b>	<b>8.9</b>	<b>9.7</b>	<b>10.4</b>	<b>11.0</b>	<b>10.0</b>	<b>10.6</b>
Net debt/EBITDA (X)	3.0	2.8	3.0	2.3	1.3	0.7	0.2	(0.4)	(0.6)	(0.9)
Net debt/equity (X)	0.8	0.7	0.7	0.6	0.3	0.2	0.0	(0.1)	(0.1)	(0.2)
Total debt/capital (X)	0.5	0.8	0.8	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate (%)	2.2	4.4	5.7	11.3	11.3	11.3	11.3	13.8	28.1	29.3

Source: Kotak Institutional Equities estimates

**Utilities****RPOL.BO, Rs200**

Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	160
52W High -Low (Rs)	210 - 81
Market Cap (Rs bn)	479.8

**Financials**

March y/e	2009	2010E	2011E
Sales (Rs bn)	0.0	1.2	17.0
Net Profit (Rs bn)	2.4	5.9	7.4
EPS (Rs)	1.0	2.5	3.1
EPS gth	-	303.0	54.6
P/E (x)	196.2	81.7	65.2
EV/EBITDA (x)	163.0	#####	95.3
Div yield (%)	1.3	-	-

**Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
55.0	96.2	61.8	8.4

**Shareholding, March 2009**

	Pattern	% of Portfolio	Over/(under) weight
Promoters	84.8	-	-
FII's	3.8	0.2	(0.7)
MFs	0.3	0.1	(0.8)
UTI	-	-	(0.9)
LIC	-	-	(0.9)

**Reliance Power : Court rules in favor of RNRL, orders RIL to supply 28 mmscmd gas at US\$2.34/mmbtu**

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- **Availability of gas at US\$2.34/mmbtu adds Rs40/share in value for RPWR**
- **Corresponding benefit of Rs190/share for RELI; plus incremental revenues for EPC**
- **Concerns on short-supply of gas to extant power plants get confounded**
- **Positives priced-in for RPWR (TP:Rs160); RELI (TP:Rs1,250) still offers limited upside**

According to media reports, the Bombay High Court has ordered Reliance Industries (RIL) to enter into a gas supply agreement for the supply of 28 mmscmd of gas for a period of 17 years at US\$2.34/mmbtu to Reliance Natural Resources (RNRL) from the former's KG-D6 gas fields. The verdict improves the visibility for Reliance Power's (RPWR) gas-based capacity at Dadri in Uttar Pradesh. Lower price of gas at US\$2.34/mmbtu compared to the government-determined price of US\$4.2/mmbtu (factored by us previously) significantly improves the profitability of the gas-based project, translating into incremental value of Rs40/share for RPWR. Dadri project now contributes Rs64/share of gross value to our SOTP-based target price of Rs160/share (Rs120 previously) for RPWR. Correspondingly, we revise the target price for Reliance Infrastructure (RELI), which owns a 45% stake in RPWR, to Rs1,250/share. While the favorable outcome bodes well for RPWR (and RELI), it further compounds the gas-supply position for extant gas-based capacities, which were likely to benefit from RIL's gas supplies. We recommend that investors REDUCE positions in RPWR as the CMP of Rs205 already factors in the positive from the High Court ruling, although we maintain our BUY rating on RELI.

**Reliance Power—favorable court ruling improves profitability (and visibility) for gas-based project.** We ascribe Rs40/share of additional value on availability of natural gas at US\$2.34/mmbtu (compared to US\$4.2 factored previously) for the Dadri power project. We value the Dadri project at Rs152 bn (Rs64/share implying a P/B of 4X) and increase our target price for RPWR to Rs160/share (Rs120 previously). However, we maintain our REDUCE rating, as the stock (CMP of Rs205/share) is trading significantly above our target price. We note that RIL could appeal against the verdict in the Supreme Court, which can delay the implementation of the project. In our financial projections, we assume the first unit at Dadri to start generating by December 2011.

The court ruling for sale of gas at US\$2.34/mmbtu considerably improves the profitability compared to the government-determined gas price of US\$4.2/mmbtu (factored previously by us). According to media reports, the Bombay High Court, has ruled in favor of RNRL and asked RIL to supply 28 mmscmd of gas supply for 17 years at the price of US\$2.34/mmbtu. We assume the gas will be made available by RNRL to RPWR for its gas-based power projects with normal marketing and transportation charges. We estimate 28 mmscmd of gas from RIL (calorific value of ~8,100 kcal/m<sup>3</sup>) sufficient to meet the fuel requirement of 6,400 MW of generation capacity of a PLF of 85%. We model 6,400 MW power project at Dadri for Reliance Power.

**Lower cost of gas translates into fuel cost of Rs1.33/kwh, saving of Rs0.63/kwh.**

Gas price of US\$2.34/mmbtu at the well-head compared to US\$4.2 based on government-determined formula results in reduction of fuel cost from Rs1.96/kwh to Rs1.33/kwh. We factor in a transportation cost (and taxes) of US\$1.66/mmbtu for delivery of gas to RPWR's Dadri plant. Any reduction in transportation cost, due to alternate gas-pipeline route (in the future) or relocation of the gas-based capacity closer to the gas-source would translate into incremental savings for RPWR.



**Commissioning of gas-based capacities to support equity requirement for future projects.** Commercial operation of the gas-based projects will help ease the cash-flow requirement for funding future power projects. We estimate the equity funding requirement of RPWR at Rs200 bn till FY2015E for executing its current portfolio of 20.9 GW projects. These include gas-based power project at Dadri; Sasan and Krishnapatnam UMPPs and coal-based projects at Chitrangi, Rosa (both phases) and Butibori. RPWR had raised Rs134 bn for investment and our estimates of likely cash generation (see Exhibit 4) from power projects (upon commissioning) suggest only a small transient gap in equity funding.

**Reliance Infrastructure—benefits from lower gas-price (and likely construction revenues).** We have revised our target price for RELI to Rs1,250/share (from Rs970/share previously) factoring in (1) higher value for stake in RPWR (Rs610/share) and (2) using 6X EV/EBITDA on FY2011E for valuation of EPC business (compared to 5X previously). RELI, through its 45% ownership in RPWR, benefits from value accretion on account of assured gas supply at lower-than-market rates. The Rs40/share increment in RPWR's target price, translates into Rs150/share incremental value accretion for RELI. RELI will also benefit from construction revenues that will likely accrue over the next few years, due to fast-track implementation of the gas-based project at Dadri. We note that the Dadri power plant is in possession of land for the power project and has all key clearances in place.

**Power Sector— lack of clarity on long-term supply of gas gets further confounded for extant power plants.** The High Court verdict bodes well for assurance on fuel supply for RPWR, and likely improves the probability of NTPC to secure fuel for its gas-based capacities at Kawas and Gandhar. However, the availability of ~40 mmscmd of gas (for the power sector) from RIL's KG-D6 basin, raises concerns on fuel supply for other gas-based capacities. We estimate the existing and under construction gas-based capacities cumulating to about 14 GW require additional 34 mmscmd of gas for running at 85% PLF. We note that RIL is entering into a 5-year gas supply agreement with extant power plants (including those which have recently commissioned).

#### Exhibit 1: Dadri contributes 35% of our gross value of power projects

Gross value of power projects (Rs bn)

Project	Type	Capacity (MW)	Equity Investment (Rs bn)	P/B (X)	RPWR's share	Value (Rs bn)	Cost of equity (%)
Rosa I	Coal	600	6.0	2.0	100%	11.9	12.5
Rosa II	Coal	600	6.2	2.6	100%	15.8	12.5
Butibori	Coal	600	7.0	4.3	74%	22.1	12.5
Sasan UMPP	Coal	3,960	41.0	0.9	100%	35.7	12.5
Krishnapatnam UMPP	Imported coal	4,000	48.6	1.2	100%	56.6	12.5
Dadri	Gas	6,400	38.4	4.0	100%	152.5	15.0
Chitrangi	Coal	3,960	47.5	3.0	100%	140.7	15.0
<b>Total</b>		<b>20,120</b>		<b>2.3</b>		<b>435.4</b>	

Source: Company data, Kotak Institutional Equities estimates

**Exhibit 2: Equity deficit will likely be met from internal cash generation**

Valuation of Reliance Power

	Valuation	
	(Rs bn)	(Rs/share)
Gross value of power projects	435	182
Coal mine	15	6
Less: Equity to be invested	(200)	(84)
Add: Cash available/equity infused	135	56
<b>Net Value</b>	<b>385</b>	<b>161</b>

Source: Kotak Institutional Equities estimates

**Exhibit 3: Merchant power adds variability to return profile**

Sensitivity of valuation (P/B) to coal cost assumption

		Gas price (well-head) (US\$/mmbtu)				
		0.34	1.34	2.34	3.34	4.34
Tariff (Rs/unit)	2.20	4.32	2.64	0.95	(0.73)	(2.51)
	2.50	5.81	4.16	2.48	0.79	(0.90)
	2.80	7.28	5.66	4.00	2.32	0.63
	3.10	8.75	7.13	5.50	3.84	2.16
	3.50	10.70	9.09	7.46	5.84	4.19

Source: Kotak Institutional Equities estimates.

**Exhibit 4: Equity investment capacity will likely increase with improved contribution from gas-based capacities**

Mismatch between FCFE and equity funding requirements (Rs mn)

	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E
RPWR's share of FCFE from projects	—	—	280	2,755	12,136	27,185	64,700	87,426
RPWR's share of project equity requirement	(5,018)	(12,268)	(60,159)	(51,127)	(30,176)	(21,720)	(15,206)	(1,426)
Yearwise funding (gap) in projects	(5,018)	(12,268)	(59,879)	(48,373)	(18,040)	5,465	49,493	86,000
Equity raised	134,434	—	—	—	—	—	—	—
Cumulative (gap) in funding project equity	129,416	117,148	57,269	8,896	(9,144)	(3,680)	45,814	131,814

Note:

a) We have not assumed any loss of value through dividend distribution tax on cumulative surplus cash from project SPVs.

Source: Company data, Kotak Institutional Equities estimates

## Exhibit 5: Reliance Infrastructure, Sum-of-the-parts valuation

	Methodology	Key assumptions	Per share value (Rs)												
BSES (Mumbai distribution, Dahanu)	DCF-equity CoE: 12% Terminal year growth: 2%	The business enjoys a stable regulated regime and very high predictability of cash flows. We have not built in any incremental generation capacity in Mumbai.	146												
Other generating assets - BAPL, RSPCL, BSES Kerala Power, Windmills	DCF-equity CoE: 12% Terminal year growth: Nil	We assign a value of 1.8X Price to Book as FCFe for these projects is likely to be ~16-18%. Gas power stations are liable to get returns based on availability, irrespective of lower PLF caused by unavailability of natural gas.	32												
Delhi distribution 26% equity stake	DCF-equity CoE: 12% Terminal year growth: 4%	Distcoms earn 16% RoE on achieving the specified A,T&C loss reduction. The distcoms earn higher returns in the event of bettering the benchmarks. Our valuation takes a hit due to past capex of Rs5.35 bn disallowed by the regulator.	15												
EPC business	EV/EBITDA 6X FY2011E - in line with the Engineering sector in Kotak coverage universe	<table><tr><td></td><td>FY2008</td><td>FY2011E</td></tr><tr><td>Revenues (Rs mn)</td><td>14,444</td><td>75,085</td></tr><tr><td>EBITDA (Rs mn)</td><td>1,087</td><td>6,007</td></tr><tr><td>EBITDA %</td><td>7.5</td><td>8.0</td></tr></table>		FY2008	FY2011E	Revenues (Rs mn)	14,444	75,085	EBITDA (Rs mn)	1,087	6,007	EBITDA %	7.5	8.0	159
	FY2008	FY2011E													
Revenues (Rs mn)	14,444	75,085													
EBITDA (Rs mn)	1,087	6,007													
EBITDA %	7.5	8.0													
Road projects 5 BOT projects under construction	DCF-equity CoE:15%	RELI has spent ~Rs5 bn till March 2008 out of the total projected capex of Rs30 bn. Our DCF-equity valuation implies a weighted average P/B of 1.7X for these five projects.	19												
Reliance Power Limited 45% stake	DCF-equity CoE: 12.5% - 15%	We use a 20% discount to our target price of Rs160/share for RPWR.	610												
Cash and investible surplus on books	Book value	Marketable securities & cash on books (Rs mn) 97,267 Less unallocable debt (Rs mn) (39,192) Net cash and investible surplus (Rs mn) 58,074	256												
Total			1,236												

Source: Company data, Kotak Institutional Equities estimates

**Exhibit 6: Demand for natural gas from extant and proposed power capacities exceeds the peak production of 80 mmscmd**

Existing and future natural gas-based capacities (MW) and demand for fuel (mmscmd)

	Capacity (MW)	Gas demand (mmscmd)		
		Gross demand	Existing supply	Net demand
<b>Existing stations</b>	<b>11,683</b>	<b>51.5</b>	<b>28.7</b>	<b>22.7</b>
NTPC	3,604	15.9	13.7	2.2
Ratnagiri	2,220	9.8	0.5	9.3
Andhra Pradesh	1,875	8.3	4.1	4.2
Maharashtra	930	4.1	2.8	1.3
Gujarat	1,949	8.6	4.1	4.5
Others	1,104	4.9	3.6	1.3
<b>Plants recently commissioned</b>	<b>909</b>	<b>4.0</b>	<b>—</b>	<b>4.0</b>
Gautami (GVKPIL)	464	2.0	—	2.0
Konaseema	445	2.0	—	2.0
<b>Plants operating on liquid fuel required to switch over to gas</b>	<b>220</b>	<b>1.0</b>	<b>—</b>	<b>1.0</b>
Tanir Bavi (GMR)	220	1.0	—	1.0
<b>Plants likely to be commissioned in 2008-10</b>	<b>1,602</b>	<b>7.1</b>	<b>0.9</b>	<b>6.2</b>
Sugen Power (Torrent Power)	1,128	5.0	0.9	4.1
Lanco Kondapalli Extn (Lanco Infratech)	366	1.6	—	1.6
Rithala (NDPL)	108	0.5	—	0.5
<b>Proposed projects</b>	<b>20,595</b>	<b>90.8</b>	<b>—</b>	<b>90.8</b>
Dadri (Reliance Power)	7,480	33.0	—	33.0
Shahapur (Reliance Power)	2,800	12.3	—	12.3
NTPC	2,600	11.5	—	11.5
Others	7,715	34.0	—	34.0
<b>Total</b>	<b>35,009</b>	<b>154</b>	<b>30</b>	<b>125</b>

Note:

Gross demand estimated at 85% PLF assuming calorific value of gas at 8,100 kcal/m<sup>3</sup> and a station heat rate of 1,750 kcal/kwh.

Source: Infraline, Kotak Institutional Equities estimates

**Exhibit 7: Profit model, balance sheet, cash model of Reliance Power Ltd, March fiscal year ends, 2007-2015E (Rs mn)**

	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
<b>Profit model</b>									
Net revenues	—	—	—	1,250	14,734	48,915	149,064	292,745	339,902
<b>EBITDA</b>	<b>(17)</b>	<b>(407)</b>	<b>(1,031)</b>	<b>584</b>	<b>8,066</b>	<b>27,722</b>	<b>72,540</b>	<b>163,669</b>	<b>194,151</b>
Other income	23	1,329	3,604	5,740	5,536	6,358	3,247	13,151	18,919
Interest (expense)/income	—	—	—	(268)	(3,336)	(9,561)	(31,054)	(51,309)	(55,962)
Depreciation	—	—	(2)	(64)	(1,419)	(5,427)	(18,535)	(32,076)	(37,403)
<b>Pretax profits</b>	<b>5</b>	<b>921</b>	<b>2,570</b>	<b>5,991</b>	<b>8,846</b>	<b>19,092</b>	<b>26,197</b>	<b>93,434</b>	<b>119,705</b>
Tax	(4)	(58)	(119)	(36)	(375)	(2,002)	(4,371)	(12,162)	(14,050)
Deferred taxation	—	—	—	(50)	(1,125)	(3,146)	(4,250)	(18,128)	(12,404)
Minority interest	—	—	—	—	1	(303)	(951)	(995)	(1,033)
<b>Net income</b>	<b>2</b>	<b>859</b>	<b>2,445</b>	<b>5,906</b>	<b>7,346</b>	<b>13,642</b>	<b>16,625</b>	<b>62,150</b>	<b>92,218</b>
Extraordinary items	—	(6)	—	—	—	—	—	—	—
Reported profit	2	854	2,445	5,906	7,346	13,642	16,625	62,150	92,218
<b>Earnings per share (Rs)</b>	<b>—</b>	<b>0.5</b>	<b>1.1</b>	<b>2.5</b>	<b>3.1</b>	<b>5.7</b>	<b>6.9</b>	<b>25.9</b>	<b>38.5</b>
<b>Balance sheet</b>									
Paid-up common stock	2,000	22,600	23,968	23,968	23,968	23,968	23,968	23,968	23,968
Total shareholders' equity	2,012	135,334	137,779	143,685	151,031	164,673	181,298	243,448	319,483
Deferred taxation liability	—	—	—	50	1,175	4,321	8,571	26,698	39,102
Minority interest	—	—	538	1,462	1,679	1,982	2,933	3,928	4,961
Total borrowings	—	4,483	63,156	244,172	402,007	480,013	521,981	523,111	490,212
<b>Total liabilities and equity</b>	<b>2,012</b>	<b>139,817</b>	<b>201,473</b>	<b>389,368</b>	<b>555,892</b>	<b>650,988</b>	<b>714,783</b>	<b>797,185</b>	<b>853,758</b>
Net fixed assets	889	2,131	2,131	16,916	95,782	232,710	559,689	683,867	671,917
Capital work-in progress	719	8,178	84,900	304,071	432,280	398,568	126,960	21,648	—
Investments	412	131,234	—	—	—	—	—	—	—
Cash	9	4,270	114,441	67,923	24,562	8,926	7,964	64,412	150,268
Net current assets (excl. cash)	(18)	(5,996)	—	458	3,268	10,785	20,170	27,259	31,572
Net current assets (incl. cash)	(9)	(1,727)	114,441	68,381	27,830	19,711	28,134	91,670	181,840
<b>Total assets</b>	<b>2,012</b>	<b>139,817</b>	<b>201,473</b>	<b>389,368</b>	<b>555,892</b>	<b>650,988</b>	<b>714,783</b>	<b>797,185</b>	<b>853,758</b>
<b>Free cash flow</b>									
Operating cash flow, excl. working capital	2	854	2,447	6,020	9,889	22,517	40,361	113,349	143,058
Working capital changes	18	5,979	(5,996)	(458)	(2,811)	(7,517)	(9,385)	(7,089)	(4,313)
Capital expenditure	(1,608)	(8,701)	(76,724)	(234,020)	(208,494)	(108,642)	(73,907)	(50,942)	(3,806)
<b>Free cash flow</b>	<b>(1,589)</b>	<b>(1,869)</b>	<b>(80,273)</b>	<b>(228,458)</b>	<b>(201,416)</b>	<b>(93,642)</b>	<b>(42,930)</b>	<b>55,318</b>	<b>134,939</b>
<b>Ratios</b>									
Net debt/equity (%)	—	—	(37)	121	247	283	279	185	105
Return on equity (%)	—	1.3	1.8	4.2	5.0	8.6	9.6	29.3	32.8
Book value per share (Rs)	—	59.9	57.5	60.0	63.5	70.5	79.2	112.7	149.6
<b>ROCE (%)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2.1</b>	<b>2.1</b>	<b>3.5</b>	<b>5.6</b>	<b>12.9</b>	<b>16.6</b>

Source: Company data, Kotak Institutional Equities estimates

**Exhibit 8: Profit model, balance sheet, cash model of Reliance Infrastructure, 2007-2012E, March fiscal year-ends (Rs mn)**

	2007	2008	2009E	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>						
Net sales	68,489	83,462	125,013	136,463	176,679	188,919
<b>EBITDA</b>	<b>5,503</b>	<b>5,722</b>	<b>10,660</b>	<b>12,218</b>	<b>16,867</b>	<b>21,888</b>
Other income	8,455	11,744	12,114	10,254	9,909	9,557
Interest	(3,130)	(4,021)	(4,394)	(5,467)	(7,604)	(10,045)
Depreciation	(3,032)	(3,074)	(3,304)	(4,467)	(5,075)	(5,600)
Pretax profits	7,796	10,371	15,076	12,538	14,097	15,800
Tax	(238)	(1,891)	(1,504)	(1,863)	(3,174)	(3,953)
Minority interest / share of associates	(15)	379	941	2,658	3,306	6,139
<b>Net profits</b>	<b>7,543</b>	<b>8,859</b>	<b>14,514</b>	<b>13,333</b>	<b>14,228</b>	<b>17,986</b>
Extraordinary items	802	2,923	(982)	—	—	—
<b>Earnings per share (Rs)</b>	<b>33.0</b>	<b>37.6</b>	<b>64.1</b>	<b>58.9</b>	<b>62.8</b>	<b>79.4</b>
<b>Balance sheet (Rs mn)</b>						
Total equity	95,344	163,587	173,017	188,465	203,460	220,234
Deferred taxation liability	2,511	2,678	1,940	2,152	2,129	1,993
Total borrowings	66,304	59,036	78,166	94,457	103,543	100,340
Current liabilities	32,729	38,615	48,395	61,472	83,338	87,747
Service line deposits from customers	246	202	202	202	202	202
Minority interest	0	513	520	520	520	520
<b>Total liabilities and equity</b>	<b>197,134</b>	<b>264,630</b>	<b>302,240</b>	<b>347,268</b>	<b>393,191</b>	<b>411,035</b>
Cash	22,263	1,154	(1,153)	857	11,317	27,493
Current assets	78,730	96,361	101,824	116,995	132,486	138,124
Total fixed assets	43,919	50,118	84,571	112,419	132,391	128,421
Investments	52,222	116,997	116,997	116,997	116,997	116,997
<b>Total assets</b>	<b>197,134</b>	<b>264,630</b>	<b>302,240</b>	<b>347,268</b>	<b>393,191</b>	<b>411,035</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow, excl. working capital	10,121	15,023	16,098	18,012	19,281	23,450
Working capital	(51,372)	(11,745)	4,317	(2,094)	6,375	(1,228)
Capital expenditure	(4,707)	(9,468)	(37,757)	(32,315)	(25,047)	(1,630)
Investments	(13,191)	909	—	—	—	—
<b>Free cash flow</b>	<b>(59,150)</b>	<b>(5,281)</b>	<b>(17,342)</b>	<b>(16,397)</b>	<b>608</b>	<b>20,591</b>

Source: Company data, Kotak Institutional Equities estimates

**Pharmaceuticals****CIPL.BO, Rs255**

Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	250
52W High -Low (Rs)	259 - 145
Market Cap (Rs bn)	198.3

**Financials**

March y/e	2009	2010E	2011E
Sales (Rs bn)	49.7	58.6	67.7
Net Profit (Rs bn)	7.7	10.7	11.6
EPS (Rs)	9.9	13.8	15.0
EPS <i>gth</i>	9.5	39.5	8.6
P/E (x)	25.8	18.5	17.1
EV/EBITDA (x)	18.5	13.3	12.1
Div yield (%)	1.0	1.2	1.4

**Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
10.5	26.5	38.5	17.3

**Shareholding, March 2009**

	% of Pattern Portfolio	Over/(under) weight
Promoters	39.4	-
FIs	14.5	0.6 (0.0)
MFs	4.5	0.9 0.2
UTI	-	- (0.6)
LIC	13.5	1.9 1.2

**Cipla: Generic Tamiflu demand changing sentiment but impact on fundamentals is low for now**

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- **WHO declaration of H1N1 influenza pandemic has improved sentiment for Cipla**
- **We think it may not make material difference to estimates for FY2010-11E yet**
- **Share price may trade above our fundamental price target of Rs250 for some time, Maintain ADD rating**

Sentiment for Cipla stock appears to be improving following WHO raising pandemic alert to level 6. Initial sales of generic Tamiflu could add US\$18 mn to Cipla's FY2010E revenues. This is not significant though the situation could change in the next few months. Our new Rs/US\$ assumption has not resulted in material changes to forecasts for FY2010-11E. Headline growth for FY2010E appears attractive but EPS growth adjusted for forex losses is 11% falling to 9% in FY2011E. We reiterate our ADD rating with SOTP-based target price of Rs250. A key risk to the share price is the movement of the Indian Rupee against the US\$.

**WHO raises pandemic alert to level 6.** In late April, WHO announced the emergence of a novel influenza A virus. This particular H1N1 strain has not circulated previously in humans. The virus has proved to be contagious, spreading easily between people and now between countries. As of today, nearly 30,000 confirmed cases have been reported across 74 countries. Further spread is considered inevitable. On present evidence, the overwhelming majority of patients experience mild symptoms and make a rapid and full recovery, often in the absence of any form of medical treatment.

**Generic Tamiflu will be a part of the treatment.** There are two classes of antiviral drugs for influenza: (1) inhibitors of neuraminidase such as oseltamivir and zanamivir; and (2) adamantanes such as amantadine and rimantadine. Tests on viruses obtained from patients in Mexico and the United States have indicated that current new H1N1 viruses are sensitive to neuraminidase inhibitors, but that the viruses are resistant to the adamantanes.

**Cipla will supply relevant antiviral drugs to governments across the world.** Generic Tamiflu is called oseltamivir and is patented by Roche. In the past, it was difficult to make since it was made from a weed grown in China and Vietnam. Since 2007, synthetic versions of the raw material became available. During the Avian 'flu scare, Cipla and Ranbaxy had offered to supply the product to various governments. Roche entered into an agreement with Hetero to produce it in India under a license. Globally, it has made similar arrangements with many companies worldwide.

**Not a very significant opportunity, yet.** In the past, Roche charged governments in developing countries roughly US\$15 for a treatment course (rich nations pay US\$18); Cipla was quoting about US\$12. A course requires 10 pills for an adult. Other generic drug makers have quoted prices in the same range. If there is again a sudden resurgence of demand, prices will be renegotiated. There are issues related to respecting Roche's patents and what markets will be available for companies such as Cipla.

Cipla recently mentioned that it can produce 1.5 mn doses within 4-6 weeks. This can lead to revenues of US\$18 mn. To put this in context, Cipla's revenues for FY2009 were US\$1 bn. Related revenues for Cipla can increase based on severity of the global problem. Currently, we do not think this opportunity can materially change the growth rate for FY2010E.



**South African issue resolves itself.** The South African company Adcock Ingram announced its plans to buy Cipla Medpro, one of South Africa's top 10 pharma firms, at 4.75 rand per share. Cipla has no equity stake in Cipla Medpro but has a 20-year agreement to supply key mainly HIV drugs which expires in September 2025. Cipla has significant exports to Cipla Medpro (Rs507 mn) accounting to about 7% of Cipla's total exports (Rs7.2 bn in FY2009). Cipla believed that there are built in conflicts of interest in marketing and sourcing of raw materials if Ingram takes over Medpro. Cipla did not favour the deal that seemed to be hostile to Cipla Medpro's management. Adcock gave up its offer in late May due to opposition from Cipla.

**New estimates reflect new currency forecasts.** We have adjusted our estimates to reflect our new currency forecast of Rs48 to the USD (from 50.75) for FY2010E and 47.8 (from 50.5) for FY2011E. The negative impact of this assumption is mitigated somewhat by lower forex related losses now estimated in FY2010E. Cipla informed us that their current efforts are revolving around protecting the realization of sales that have already taken place.

**Maintain ADD rating with SOTP-based target price of Rs250.** Cipla's share price was impacted negatively by two issues: (1) the receipt of Form 483 from US FDA and (2) uncertainty relating to its South African business. The South African issue has been resolved while the USFDA's response is awaited regarding Form 483. We believe that recent news flows relating to the swine flu pandemic is reflecting positively on Cipla. While there is no earnings impact, we think positive sentiment may prevail and keep share price above our price target while this news flow continues. We are reiterating our ADD rating with an SOTP-based target price of Rs250. We remind investors that our ratings are relative to BSE Sensex and not absolute.

#### Forecasts and valuation, March fiscal year-ends, 2007-2011E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(x)
2007	34,382	18.7	8,462	4.4	6,680	9.9	8.6	20.1	25.6	29.8
2008	40,104	16.6	8,557	1.1	7,010	4.9	9.0	13.3	20.1	28.4
2009E	49,727	24.0	12,589	47.1	7,678	9.5	9.9	17.0	19.1	25.9
2010E	58,600	17.8	15,876	26.1	10,712	39.5	13.8	19.4	22.8	18.6
2011E	67,750	15.6	18,126	14.2	11,632	8.6	15.0	20.6	21.1	17.1

Source: Company data, Kotak Institutional Equities.

**Profit and loss statement, March fiscal year-ends, 2007-2011E**

	2007	2008E	2009E	2010E	2011E
<b>Net sales</b>	<b>34,382</b>	<b>40,104</b>	<b>49,727</b>	<b>58,600</b>	<b>67,750</b>
<b>Operating expenses</b>					
Materials	(16,949)	(21,130)	(23,497)	(27,534)	(32,134)
Selling and administration	(5,085)	(6,135)	(7,825)	(8,493)	(9,836)
Employee cost	(1,846)	(2,555)	(3,181)	(3,475)	(3,927)
R&D	(1,473)	(2,029)	(2,735)	(3,223)	(3,726)
Others	(2,152)	(1,845)	(2,636)	(3,223)	(3,726)
<b>Total expenditure</b>	<b>(27,505)</b>	<b>(33,693)</b>	<b>(39,873)</b>	<b>(45,948)</b>	<b>(53,350)</b>
<b>EBITDA</b>	<b>6,877</b>	<b>6,410</b>	<b>9,854</b>	<b>12,653</b>	<b>14,400</b>
Depreciation and amortisation	(1,034)	(1,307)	(1,757)	(2,200)	(2,550)
<b>EBIT</b>	<b>5,844</b>	<b>5,104</b>	<b>8,097</b>	<b>10,453</b>	<b>11,850</b>
Net finance cost	(70)	(117)	(335)	(600)	(300)
Other income	2,306	3,393	1,339	2,600	1,975
<b>Pretax profits before extra-ordinaries</b>	<b>8,080</b>	<b>8,379</b>	<b>9,101</b>	<b>12,453</b>	<b>13,525</b>
Current tax	(1,218)	(940)	(1,023)	(1,241)	(1,394)
Deferred tax	(147)	(365)	(300)	(400)	(400)
Fringe benefit tax	(35)	(64)	(100)	(100)	(100)
<b>Reported net profit</b>	<b>6,680</b>	<b>7,010</b>	<b>7,678</b>	<b>10,712</b>	<b>11,632</b>

Source: Company data, Kotak Institutional Equities.

**SOTP based price target, FY2010-FY2011E**

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	2010E	2011E	(X)	2010E	2011E
Finished dosage India	3,669	4,090	20.0	73,370	81,799
API global	1,008	970	11.5	11,590	11,151
Finished dosage USA	1,386	1,535	15.0	20,794	23,032
Finished dosage Europe	1,220	1,351	15.0	18,298	20,268
Finished dosage RoW	2,939	3,255	15.0	44,082	48,828
<b>Total</b>	<b>10,221</b>	<b>11,202</b>		<b>168,134</b>	<b>185,079</b>
<b>Value per share (Rs)</b>				<b>216</b>	<b>238</b>
<b>Price target</b>					<b>248</b>

Source: Company data, Kotak Institutional Equities.

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

	2008	2009E	2010E	2011E
Sales	40,104	49,727	58,600	67,750
YoY growth %		24%	18%	16%
EBITDA	6,410	9,854	12,653	14,400
% to sales	16%	20%	22%	21%
PBT adjusted	7,712	11,419	12,453	13,525
PAT adjusted	6,452	9,634	10,712	11,632
EPS Rs wgt average	8.3	12.4	13.8	15.0
EPS Rs Diluted	8.3	12.4	13.8	15.0
YoY growth %		49%	11%	9%
Rs/\$ rate	40.29	46.22	48.03	47.75
Forex gain (loss )	667	(2318)	0	0
Reported PBT	8,379	9,101	12,453	13,525
Reported PAT	7,010	7,678	10,712	11,632

Source: Company data, Kotak Institutional Equities.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

15-Jun-09	Company	Rating	Mkt cap.		Shares O/S (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Dividend yield (%)			RoE (%)			ADVT. price Upside					
			(Rs mn)	(US\$ mn)		2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US\$ mn)			
1,003	SELL	Bajaj Auto	145,103	3,045	145	48.7	65.3	73.1	(6.7)	34.0	12.0	20.6	15.4	13.7	11.5	8.7	8.6	7.6	5.9	4.6	2.0	2.0	2.0	40.2	42.8	36.8	780	(22.2)	4.8
1,435	REDUCE	Hero Honda	286,659	6,015	369	64.2	83.8	91.2	32.4	30.5	8.8	22.4	17.1	15.7	13.7	10.1	8.8	7.3	5.7	4.5	1.4	1.5	1.5	36.6	37.4	31.9	1,000	(30.3)	19.1
755	ADD	Mahindra & Mahindra	200,173	4,200	265	21.7	40.4	43.6	(42.9)	86.0	8.0	34.8	18.7	17.3	22.6	12.5	11.4	4.2	3.2	2.7	1.2	1.2	1.2	12.3	13.9	17.0	670	(11.1)	18.4
1,065	SELL	Maruti Suzuki	307,915	6,461	289	42.9	58.3	63.4	(29.5)	38.1	8.6	25.5	18.3	16.8	14.4	9.4	7.9	3.2	2.7	2.4	0.3	0.5	0.5	13.3	16.1	15.1	780	(26.8)	26.1
343	SELL	Tata Motors	190,646	4,000	556	20.8	15.2	20.0	(58.3)	(27.0)	3.2	16.5	22.6	17.1	12.3	10.6	9.2	1.4	1.3	1.3	2—	2—	2—	9.0	6.1	—	235	(31.4)	40.8
	Cautious	Automobiles	1,130,497	23,720					(26.0)	30.7	12.3	23.8	18.2	16.2	14.0	10.2	9.1	3.3	2.9	2.5	1.2	1.3	1.3	14.1	15.8	15.6			
Banks/Financial Institutions																													
84	ADD	Andhra Bank	40,619	852	485	13.5	11.1	12.6	14.0	(17.9)	13.6	6.2	7.5	6.6	—	—	—	1.2	1.1	1.0	5.4	3.3	3.8	19.0	14.0	14.4	75	(10.4)	1.6
718	BUY	Axe Bank	257,909	5,411	359	50.6	56.1	66.6	56.9	11.0	18.7	14.2	12.8	10.8	—	—	—	2.8	2.4	2.1	1.4	1.5	1.8	19.1	18.3	18.9	700	(2.6)	72.2
422	ADD	Bank of Baroda	154,344	3,328	366	60.9	54.9	58.5	55.1	(9.8)	6.5	6.9	7.7	7.2	—	—	—	1.5	1.4	1.3	2.1	1.9	2.0	18.7	14.9	14.2	370	(12.4)	12.4
236	ADD	Bank of India	164,532	3,452	526	57.2	46.3	53.2	40.7	(19.1)	14.9	5.5	6.8	5.9	—	—	—	1.7	1.5	1.4	2.6	2.1	2.4	29.2	19.0	18.7	310	(0.9)	16.3
313	REDUCE	Canara Bank	96,904	2,033	410	50.5	38.6	41.4	32.4	(23.6)	7.1	4.7	6.1	5.7	—	—	—	1.2	1.1	1.0	3.4	3.4	3.4	18.3	12.4	12.2	220	(6.9)	5.8
303	BUY	Corporation Bank	43,390	910	143	62.2	51.5	55.3	21.4	(17.3)	7.4	4.9	5.9	5.5	—	—	—	0.9	0.8	0.7	4.2	3.5	3.7	19.6	14.3	13.8	310	2.5	0.5
250	BUY	Federal Bank	42,784	898	177	27.8	31.4	38.2	(19.2)	13.1	21.5	9.0	8.0	6.5	—	—	—	1.0	0.9	0.9	2.1	2.3	2.8	11.5	11.8	13.0	280	11.9	3.4
250	BUY	Future Capital Holdings	15,775	331	63	4.5	28.8	NA	(198.6)	546.1	(100.0)	56.1	8.7	NA	—	—	—	2.1	1.7	NA	—	—	—	3.8	21.4	NA	440	76.4	1.5
2,283	REDUCE	HDFC	13,628	284	80.2	91.5	103.6	(6.5)	14.0	13.3	28.5	25.0	22.0	—	—	—	4.9	4.4	4.0	1.3	1.4	1.6	18.2	18.3	18.3	2,025	(11.3)	69.8	
1,533	ADD	HDFC Bank	14,166	440	55.4	63.2	75.1	20.4	14.2	18.8	27.7	24.2	20.4	—	—	—	4.5	3.2	2.8	0.6	0.8	0.9	16.9	15.4	15.0	1,460	(4.8)	54.7	
735	REDUCE	ICICI Bank	17,159	1,113	33.8	32.3	38.5	(15.4)	(4.4)	19.2	21.8	22.8	19.1	—	—	—	1.7	1.6	1.5	1.2	1.3	1.3	7.8	7.1	8.0	685	(6.8)	204.9	
139	ADD	India Infoline	3,775	1,294	311	5.0	5.8	6.5	(10.0)	15.5	12.3	24.5	21.2	18.9	—	—	—	2.9	2.6	2.3	0.7	0.9	0.9	12.9	14.1	14.2	85	(38.8)	38.7
123	ADD	Indian Bank	38,444	807	311	5.0	5.8	6.5	(10.0)	15.5	12.3	24.5	21.2	18.9	—	—	—	3.0	2.7	2.4	3.2	3.1	3.5	22.7	13.5	14.6	90	(27.1)	10.6
130	BUY	Indian Overseas Bank	55,995	1,175	430	28.1	26.6	30.6	24.7	(5.3)	15.0	4.6	4.9	4.3	—	—	—	1.1	1.0	0.9	3.2	3.1	3.5	22.7	18.3	18.1	165	26.6	3.1
82	BUY	J&K Bank	44,592	936	545	24.3	16.6	22.2	10.3	(31.9)	33.8	3.4	4.9	3.7	—	—	—	0.8	0.7	0.6	6.4	4.6	5.0	24.7	14.5	17.0	110	34.4	4.6
505	ADD	LIC Bank	24,484	514	48	84.5	80.8	95.4	13.8	(4.3)	18.0	6.0	6.2	5.3	—	—	—	1.0	1.0	0.9	3.3	3.2	3.8	16.7	14.1	14.9	510	1.0	0.4
554	BUY	LIC Housing Finance	47,050	987	85	62.5	68.8	80.3	37.3	10.0	16.8	8.9	8.0	6.9	—	—	—	2.0	1.6	1.4	2.5	2.7	3.2	26.2	23.9	23.4	390	(29.5)	11.6
268	ADD	Mahindra & Mahindra Financial	25,628	538	96	22.4	27.3	30.0	7.5	22.9	8.7	11.9	9.7	8.9	—	—	—	1.8	1.6	1.4	2.1	2.6	2.8	15.4	16.9	16.3	240	(10.1)	3.5
178	ADD	Oriental Bank of Commerce	44,596	936	251	36.1	27.3	34.6	51.4	(24.5)	26.7	4.9	6.5	5.1	—	—	—	0.8	0.8	0.8	4.1	3.1	3.9	14.8	10.2	11.8	150	(15.7)	10.6
194	SELL	PFC	223,183	4,683	1,148	13.0	16.5	19.3	14.3	26.7	17.6	15.0	11.8	10.1	—	—	—	2.0	1.8	1.6	1.4	2.5	2.3	13.8	15.8	16.7	160	(17.7)	6.1
611	BUY	Punjab National Bank	192,776	4,045	315	98.0	98.5	115.1	50.9	0.5	16.8	6.2	6.2	5.3	—	—	—	1.6	1.4	1.2	3.2	3.2	3.8	23.0	19.9	20.1	760	24.3	22.7
157	BUY	Rural Electrification Corp.	134,972	2,832	859	16.5	17.5	20.8	50.7	6.5	18.8	9.6	9.0	7.5	—	—	—	1.9	1.6	1.4	1.3	2.0	2.4	21.2	19.6	20.3	155	(14.1)	3.7
296	ADD	Shriram Transport	62,690	1,315	212	30.1	32.5	36.9	56.8	7.9	13.7	9.8	9.1	8.0	—	—	—	2.9	2.5	2.0	2.9	3.3	3.7	29.6	27.0	25.8	300	1.2	2.9
62	ADD	SREI	7,198	151	116	7.0	5.9	7.9	(38.4)	(16.7)	35.3	8.8	10.5	7.8	—	—	—	0.7	0.6	0.6	1.6	1.9	1.9	12.5	10.2	12.5	95	53.5	3.2
1,642	BUY	State Bank of India	21,876	635	143.6	121.1	139.2	34.8	(15.7)	14.9	11.4	13.6	11.8	—	—	—	—	2.1	2.1	1.8	1.8	1.9	1.9	17.1	12.7	13.3	1,870	13.9	123.5
231	BUY	Union Bank	116,910	2,453	505	34.2	29.6	35.5	24.5	(13.5)	19.9	6.8	7.8	6.5	—	—	—	1.4	1.2	1.0	2.2	1.9	2.3	27.2	19.5	19.9	220	(4.9)	7.0
	Attractive	Banks/Financial Institutions	5,199,758	109,101					27.9	(4.6)	15.7	12.2	12.8	11.1	—	—	—	2.1	1.9	1.7	1.7	1.7	1.9	16.9	14.8	15.4			
Banks/Financial Institutions																													
Cement																													
855	REDUCE	ACC	160,600	3,370	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	15.2	15.5	20.3	7.7	7.7	8.9	3.1	2.7	2.5	2.7	2.7	2.7	24.7	21.3	15.1	725	(15.2)	12.9
99	REDUCE	Ambuja Cements	210,639	3,161	1,522	7.2	6.8	5.4	(5.0)	(4.7)	(20.5)	13.8	14.5	18.2	7.4	7.6	9.1	2.5	2.2	2.0	3.0	1.9	2.2	21.7	16.2	12.0	80	(19.2)	5.6
2,399	REDUCE	Grasim Industries	219,987	4,616	92	238.5	235.7	239.1	(16.2)	(1.2)	1.4	10.1	10.2	10.0	5.8	5.2	4.9	2.0	1.7	1.5	1.4	1.4	1.4	19.7	18.2	16.0	2,300	(4.1)	10.4
159	ADD	India Cements	44,916	942	282	22.7	19.8	17.5	n/a	(12.8)	(11.2)	7.0	8.1	9.1	4.7	4.9	5.2	1.2	1.0	0.9	1.3	1.3	2.0	15.7	14.7	11.7	155	(2.7)	8.6
1,179	BUY	Shree Cement	47,073	862	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	6.7	12.9	13.7	4.7	5.0	5.4	3.4	2.8	2.4	0.9	0.9	0.9	65.7	24.0	18.9	1,150	(2.5)	0.7
728	ADD	UltraTech Cement	1,914	125	125	78.0	70.5	49.3	(4.1)	(9.7)	(30.0)	9.3	10.3	14.8	6.0	5.6	7.1	2.1	1.8	1.6	1.1	1.1	1.1	31.2	22.3	13.4	725	(0.5)	5.4
	Cautious	Cement	14,865						(5.1)	(9.5)	(12.9)	10.7	11.8	13.6	6.2	6.0	6.5	2.2	1.9	1.7	2.0	1.7	1.8	21.0	16.4	12.9			
Consumer products																													
1,169	ADD	Asian Paints	112,106	2,352	96	38.4	49.1	57.5	(2.2)	27.9	17.1	30.4	23.8	20.3	17.7	13.9	11.7	9.9	8.1	6.7	1.5	1.7	1.9	36.3	38.5	36.8	1,000	(14.4)	0.9
561	ADD	Colgate-Palmolive (India)	76,244	1,600	136	21.6	24.4	25.7	26.3	12.9	5.4	26.0	23.0	21.8	20.9	18.6	16.2	35.6	29.4	27.8	2.7	3.2	3.7	156.1	140.2	131.1	520	(7.3)	2.4
925	ADD	GloboSkinline Consumer (a)	38,897	816	42	44.8	56.1	63.6	19.8	25.2	13.5	20.7	16.5	14.5	11.5	9.3	8.2	5.1	4.3	3.8	1.6	2.2	3.2	26.8	28.5	28.0	900	(2.7)	0.9
175	ADD	Godrej Consumer Products	45,195	948	258	6.8	8.7	9.8	(3.9)	27.8	12.8	25.8	20.2	17.9	22.5	16.5	13.7	6.8	5.9	5.0	2.3	2.3	2.3	42.7	42.7	33.1	160	(8.6)	0.7
259	BUY	Hindustan Unilever	564,808	11,851	1,113	11.3	10.6	12.2	40.7	(6.0)	15.2	23.0	24.5	21.3	18.0	18.8	16.3	27.4	24.5	21.9	3.4	3.7	4.2	140.5	105.9	108.9	320	23.5	25.5
198	ADD	ITC	744,300	15,617	3,769	8.7	9.9	11.3	4.8	14.2	14.4	22.8	19.9	17.4	13.8	12.3	10.9	5.2	4.6	4.0	1.9	2.0	2.3	25.4	25.4	25—	239	33.0	32.0
116	ADD	Jyothy Laboratories	8,447	177	73	7.2	10.6	13.0	10.2	47.3	22.1	16.1	19.0	9.0	10.7	7.6	6.1	2.2	1.9	1.6	2.0	2.5	3.0	13.0	16.5	12.8	127	9.1	9.1
1,799	ADD	Nestle India (a)	173,940	3,640	96	58.6	70.5																						

## Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	15-Jun-09	129	BUY	O/S shares (mn)	Mkt cap. (Rs mn)	EPS (Rs)	EPS growth (%)	PER (X)	EV/EBITDA (X)	Price/BV (X)	Dividend yield (%)	RoE (%)	Target price Upside (Rs)	ADVT-3mo (US\$ mn)															
<b>Energy</b>																													
Bharat Petroleum	429	SELL	2,949	328	20—	32.1	41.8	(50.7)	58	NA	21	NA	10.3	4.9	4.9	4.5	1.0	1.0	0.9	2—	3.1	4.0	5.2	7.7	9.4	4.75	10.8	10.5	
Cairn India	238	REDUCE	9,455	1,897	4.3	9.2	31.2	(3.708)	115	238.0	55	26	76	36.3	13.3	5.4	1.3	1.3	1.2	—	—	—	10.5	2.5	5.1	16.5	22.5	(5.3)	35.8
Castrol India (a)	340	BUY	4,994	881	21.3	25.5	26.6	8.4	15.9	13.3	12.8	8.9	7.7	7.3	7.3	9.4	8.4	7.9	4.4	5.3	5.9	61.2	66.5	63.7	390	14.8	0.6	0.6	
GAIL India	283	ADD	358,661	7,525	22.1	21.9	22.6	8.4	(0.8)	3.2	12.8	12.9	12.5	6.7	7.3	7.2	2.2	1.9	1.7	1.7	1.9	1.9	17.6	15.3	14.1	300	6.1	14.5	
GSPL	52	REDUCE	28,984	608	563	1.9	2.5	3.7	4.4	30.5	52.6	27.4	21.0	13.7	9.4	6.0	5.1	2.2	2.0	2.0	1.0	1.3	7.3	8.2	9.8	14.4	45	(12.6)	5.6
Hindustan Petroleum	314	SELL	106,534	2,235	339	17.0	16.7	34.9	(49.3)	(1.6)	109.2	18.5	18.8	9.0	6.0	5.9	NA	0.8	0.8	NA	1.7	3.8	8.0	4.4	3.9	7.8	350	11.4	12.6
Indian Oil Corporation	563	REDUCE	13,924	1,179	18.9	44.3	43.1	(69.1)	133.8	(2.6)	29.7	12.7	13.1	10.6	5.7	5.6	1.4	1.3	1.2	1.3	3.2	3.2	4.6	10.2	9.3	550	(2.3)	7.7	
Oil & Natural Gas Corporation	1,125	BUY	2,407,210	50,508	1,139	100.3	95.3	119.2	8.1	(5.0)	25.1	11.2	11.8	9.4	4.3	4.2	3.5	2.1	1.9	1.7	3.0	3.6	3.7	18.9	15.9	18.2	1,100	(2.3)	51.3
Petronet LNG	71	REDUCE	53,288	1,118	750	6.9	7.3	8.5	—	5.9	16.8	10.3	9.7	8.3	7.4	6.3	5.7	2.4	2.0	1.6	2.5	2.8	3.2	23.9	21.1	20.5	57	(19.8)	6.7
Reliance Industries	2,179	SELL	2,991,492	62,767	1,373	103.4	128.0	169.0	(1.5)	23.8	32.0	21.1	17.0	12.9	12.4	7.8	6.1	2.5	2.2	2.0	0.6	0.7	0.9	15.1	16.0	18.6	1,650	(24.3)	243.5
Reliance Petroleum	136	NR	612,000	12,841	4,500	—	8.3	13.8	n/a	n/a	n/a	n/a	n/a	9.9	n/a	n/a	8.1	4.5	3.8	2.9	—	1.5	1.5	0.6	25.1	33.0	—	—	27.1
<b>Energy</b>																													
<b>Industrials</b>																													
ABB	749	REDUCE	158,688	3,330	212	25.8	24.9	29.6	11.3	(3.6)	18.7	29.0	30.1	25.3	17.2	17.0	13.9	7.5	6.2	5.1	0.3	0.4	0.4	29.2	22.6	22.1	500	(33.2)	8.4
BGR Energy Systems	347	REDUCE	24,973	524	72	15.3	20.7	24.3	26.1	35.4	17.5	22.7	16.7	14.2	12.4	9.9	8.5	4.4	3.7	3.0	0.7	1.0	1.1	21.3	23.9	23.2	165	(52.4)	1.6
Bharat Electronics	1,367	REDUCE	109,372	2,295	80	101.9	111.1	119.0	(0.0)	9.0	7.1	13.4	12.3	11.5	5.8	5.2	4.6	2.8	2.4	2.1	1.8	1.8	1.8	22.4	20.9	19.2	1,025	(50.0)	2.0
Bharat Heavy Electricals	2,158	REDUCE	1,056,213	22,161	490	64.1	92.0	106.8	9.8	43.5	16.1	33.6	23.4	20.2	18.3	13.0	11.0	8.1	6.5	5.2	0.8	0.9	1.1	26.4	30.7	28.6	1,900	(11.9)	65.3
Crompton Greaves	285	ADD	104,642	2,196	367	15.3	17.0	20.0	37.3	11.0	17.5	18.6	16.8	14.3	10.4	9.4	8.1	5.9	4.5	3.5	0.7	0.7	0.8	36.5	30.5	27.9	300	5.1	7.6
Larsen & Toubro	1,506	ADD	898,809	18,859	597	52.6	57.5	68.2	38.6	9.4	18.5	28.6	26.2	22.1	17.2	15.1	13.0	5.7	4.6	3.9	0.7	0.7	0.8	22.5	19.4	19.1	1,375	(8.7)	101.0
Maharashtra Seamless	289	BUY	20,387	428	71	35.9	33.0	39.6	22.2	(8.1)	20.3	8.1	8.8	7.3	5.4	5.6	4.4	1.5	1.3	1.1	1.9	1.7	2.5	20.3	16.0	16.8	225	(22.2)	1.4
Siemens	484	REDUCE	163,034	3,421	337	14.2	19.8	21.1	(22.2)	39.7	6.4	34.1	24.4	22.9	16.2	14.0	13.3	7.2	6.1	5.1	0.6	1.4	0.9	23.3	27.1	24.2	360	(25.6)	8.2
Suzlon Energy	117	ADD	183,065	3,841	1,371	7.0	7.1	11.4	6.0	2.1	59.7	16.7	16.4	10.3	11.0	9.7	7.8	1.8	1.5	1.3	0.4	0.4	0.9	11.3	10.1	13.9	90	(22.8)	114.2
<b>Industrials</b>																													
<b>Infrastructure</b>																													
IRB Infrastructure	134	ADD	44,387	931	332	5.6	10.4	10.8	63.5	85.5	3.9	23.8	12.8	12.4	13.2	7.3	6.6	2.4	2.0	1.7	—	—	—	10.6	16.8	14.5	135	1.1	8.0
<b>Media</b>																													
Dishtv	38	REDUCE	35,962	755	946	(7.3)	(4.1)	(3.2)	n/a	(44.4)	(22.6)	(5.2)	(9.3)	(12.0)	(22.9)	(139.4)	44.6	(5.6)	(17.7)	(7.2)	—	—	—	86.1	91.1	NA	22	(42.1)	12.5
HT Media	96	ADD	22,523	473	234	0.8	4.2	6.3	(80.4)	39.4	49.2	113.2	27.7	15.2	23.3	9.6	7.6	2.7	2.5	2.3	0.4	0.8	2.6	2.3	11.3	15.6	120	24.8	0.5
Jagran Prakashan	79	BUY	23,898	501	301	2.9	4.2	5.5	(12.1)	47.2	29.6	27.7	18.8	14.5	15.6	10.4	8.3	4.3	4.0	3.7	2.5	3.2	3.8	15.8	22.1	26.5	90	13.4	0.2
Sun TV Network	251	REDUCE	98,875	2,075	394	9.3	11.1	12.8	11.8	19.2	15.8	27.1	22.7	19.6	16.9	15.0	13.2	5.8	5.3	5.0	1.6	2.4	3.2	23.5	25.1	26.7	200	(20.3)	1.5
Zee Entertainment Enterprises	180	REDUCE	77,912	1,635	434	8.1	9.3	11.2	(9.0)	15.5	20.0	22.3	19.3	16.1	15.5	13.3	11.1	2.3	2.2	2.1	1.3	1.5	1.8	11.6	12.2	13.7	145	(19.3)	8.8
Zee News	42	ADD	10,058	211	240	1.9	2.1	2.5	20.4	11.1	18.8	22.5	20.3	17.1	11.6	9.8	8.6	4.1	3.5	3.0	1.0	1.4	2.0	19.0	19.5	40	(4.6)	1.5	
<b>Media</b>																													
<b>Metals</b>																													
Hindalco Industries	96	BUY	168,076	3,527	1,753	9.0	3.5	11.4	(33.9)	(61.4)	227.6	10.7	27.6	8.4	6.3	8.4	6.5	0.5	0.4	0.4	—	—	—	10.3	5.2	6.7	135	40.8	23.5
National Aluminium Co	363	SELL	233,981	4,909	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	18.4	26.5	17.8	9.5	10.2	7.0	2.2	2.1	1.9	1.0	0.6	0.6	12.7	8.1	11.1	290	(20.1)	3.6
Jindal Steel and Power	2,519	ADD	387,782	8,136	1,514	196.0	172.4	196.2	139.3	(12.9)	13.8	12.7	14.6	12.8	8.6	8.8	7.4	5.3	3.9	3.0	—	0.3	0.3	53.1	31.0	26.4	1,820	(27.7)	32.7
JSW Steel	671	SELL	125,584	2,635	187	13.1	24.1	53.5	(84.7)	83.3	121.8	51.1	27.9	12.6	9.8	9.8	7.6	1.2	1.1	1.0	0.1	0.7	0.7	11.0	4.3	8.3	340	(49.4)	44.1
Hindustan Zinc	633	BUY	267,251	5,607	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	9.8	10.1	7.8	5.9	5.3	3.3	1.8	1.5	1.3	0.6	0.8	0.8	20.1	16.5	17.9	610	(3.6)	4.4
Sesa Goa	203	BUY	159,888	3,355	787	24.8	25.5	34.2	30.8	3.0	34.0	8.2	8.0	5.9	5.2	4.6	2.8	3.5	2.6	1.8	1.7	1.7	52.8	37.1	36.0	240	18.2	38.5	
Sterite Industries	664	ADD	470,440	9,871	708	49.2	41.0	50.5	(23.6)	(16.7)	23.4	13.5	16.2	13.1	8.2	8.9	6.7	1.8	1.6	1.5	—	—	—	14.3	10.7	11.8	490	(26.2)	49.0
Tata Steel	434	BUY	356,579	7,482	822	123.9	55.5	87.0	63.6	(55.2)	56.7	3.5	7.8	5.0	3.9	5.3	4.1	0.8	0.7	0.7	3.0	3.0	3.0	36.8	15.7	21.3	280	(35.5)	117.1
<b>Metals</b>																													
<b>Pharmaceutical</b>																													
Biocon	205	BUY	41,080	862	200	4.7	13.6	19.4	(80.0)	192.2	42.8	44.1	15.1	10.6	18.1	9.0	6.5	2.7	2.4	2.0	0.0	0.0	0.1	6.2	16.9	20.9	235	14.4	4.2
Cipla	255	ADD	198,326	4,161	777	9.9	13.8	15.0	9.5	39.5	8.6	25.8	18.5	17.1	18.5	13.3	12.1	4.6	3.9	3.3	1.0	1.2	1.4	19.1	22.8	21.1	250	(2.0)	9.6
Dabur Pharma & Chemicals	173	BUY	14,050	295	81	18.0	21.2	27.3	22.1	17.9	28.7	9.6	8.2	6.3	8.2	6.5	5.1	2.0	1.6	1.3	0.0	0.0	0.0	22.8	21.9	22.9	280	62.1	0.6
Dix's Laboratories	1,121	BUY	72,335	1,518	65	63.8	74.6	86.5	19.9	16.9	16.0	17.6	15.0	12.9	14.1	11.4	9.1	5.9	4.4	3.3	0.1	0.1	0.1	39.8	33.5	29.3	1,375	22.7	4.5
Dr Reddy's Laboratories	706	BUY	119,372	2,505	169	32.4	44.8	48.4	24.5	38.2	8.0	21.7	15.7	14.6	9.5	7.8	6.8	3.4	2.9	2.5	0.9	1.0	1.1	13.7	19.8	18.2	750	6.3	6.1
Glenmark Pharmaceuticals	220	BUY	58,448	1,226	266	16.0	18.2	22.5	(36.2)	13.9	23.6	13.8	12.1	9.8	9.2	7.9	6.6	2.6	2.2	1.8	0.0	0.0	0.0	22.0	19.8	20.2	390	77.4	9.2
Jubilant Organosys	170	BUY	29,053	610	171	16.5	18.6	21.8	(26.2)	12.6	17	10.3	9.1	7.8	12.0	7.5	5.5	2.3	1.9	1.5	0.8	0.8	1.0	18.6	22.6	21.7	250	47.3	0.5

## Kotak Institutional Equities: Valuation Summary of Key Indian Companies

15-Jun-09	Company	shares (mn)	Mkt cap. (US\$ mn)			EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			price (Rs)	Upside (%)	3mo (US\$ mn)
			38.0	REDUCE	52,683	1,105	56.9	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E			
1,187	REDUCE	44	52,683	1,105	56.9	30.8	9.2	13.7	25.9	23.7	20.8	16.6	14.4	12.4	9.1	7.0	5.6	0.8	0.9	1.0	38.9	33.6	29.9	850	(28.4)	3.4			
	Neutral					30.8	9.2	13.7	25.9	23.7	20.8	16.6	14.4	12.4	9.1	7.0	5.6	0.8	0.9	1.0	35.3	29.7	26.8						
201	REDUCE	695	139,382	2,925		6.0	(19.0)	29.5	12.4	15.3	11.8	7.0	6.9	6.5	2.2	2.2	2.0	6.0	6.0	6.0	18.6	14.4	17.7	135	(32.7)	6.3			
1,715	BUY	574	984,467	20,656		29.6	(3.1)	12.7	16.7	17.3	15.3	12.1	12.3	10.1	5.4	4.4	3.7	1.4	1.4	1.6	36.7	28.1	26.1	1,800	5.0	65.5			
347	REDUCE	208	72,346	1,518		15.7	173.5	(21.9)	24.5	9.0	11.5	18.6	6.4	6.2	5.0	3.4	2.7	1.2	1.3	1.4	22.8	45.3	26.4	240	(30.8)	2.9			
428	BUY	41	17,621	370		(50.5)	23.5	15.1	32.3	9.7	8.4	5.6	5.6	4.7	3.2	2.4	1.9	0.4	—	1.2	5.5	20.4	18.4	400	(6.6)	4.8			
242	REDUCE	129	31,128	653		(19.3)	(12.4)	11.1	9.0	10.3	9.3	3.4	2.9	2.7	1.2	1.0	0.9	0.7	1.9	2.2	16.2	10.0	10.3	150	(38.1)	2.0			
97	SELL	202	9,608			72.1	12.1	76.0	7.4	7.3	8.0	2.6	3.1	3.2	1.2	1.1	1.0	2.8	2.1	2.1	18.1	15.9	12.9	50	(48.6)	3.9			
778	REDUCE	979	761,359	15,975		3.1	(4.1)	8.1	14.7	15.3	14.2	10.3	10.7	9.2	4.9	4.0	3.5	1.8	2.0	2.8	36.9	28.7	26.4	650	(16.5)	32.3			
402	ADD	1,462	587,651	12,330		15.8	2.6	10.3	15.6	15.2	13.8	11.4	10.5	8.8	3.9	3.2	2.8	1.0	1.8	2.1	26.9	23.3	21.6	400	(0.5)	15.1			
	Cautious		56,674			15.0	(1.9)	9.2	15.1	15.4	14.1	10.4	10.2	8.8	3.3	3.5	3.1	1.6	1.9	2.3	28.2	23.0	21.6						
819	ADD	1,899	1,555,726	32,642		26.4	17.0	14.6	18.4	15.7	13.7	10.7	9.2	7.9	4.9	3.7	2.9	0.5	0.7	1.0	31.4	27.0	23.8	775	(5.4)	99.7			
83	REDUCE	3,104	257,465	5,402		(26.5)	(0.1)	10.9	28.6	28.6	25.8	10.4	9.3	7.8	1.9	1.8	1.6	—	—	—	10.4	6.4	6.8	65	(21.6)	19.6			
107	SELL	67,127	1,408	630		4.0	4.1	4.6	(44.3)	2.6	11.8	26.8	26.1	23.3	15.5	11.4	7.8	0.6	0.6	0.6	5.6	5.6	1.6	1.9	50	(53.1)	4.0		
319	SELL	2,064	658,526	13,817		4.7	(26.6)	3.9	11.5	15.7	15.1	9.7	9.2	7.2	1.9	1.7	1.5	0.2	—	—	18.6	11.7	10.9	180	(43.6)	79.9			
496	REDUCE	285	141,431	2,968		24.0	3.2	8.2	36.5	35.4	32.7	15.5	14.1	13.1	2.1	2.0	1.9	1.0	1.3	1.5	5.4	5.2	5.5	400	(19.4)	7.6			
	Cautious		56,237			11.5	(0.5)	11.3	16.6	16.7	15.0	10.6	9.4	7.8	2.7	2.3	2.0	0.5	0.6	0.8	16.3	14.0	13.6						
1,025	ADD	2,794	133,171	2,794		11.6	10.8	16.6	15.9	14.3	12.3	11.4	9.7	8.1	3.5	3.0	2.5	1.4	1.6	1.8	24.0	22.5	22.2	850	(17.0)	1.2			
	Cautious					11.6	10.8	16.6	15.9	14.3	12.3	11.4	9.7	8.1	3.5	3.0	2.5	1.4	1.6	1.8	22.1	20.5	20.5						
322	ADD	843	40,192	843		12.3	21.8	10.8	10.3	8.5	7.6	5.6	6.3	6.7	1.1	1.0	0.9	1.4	1.7	1.9	11.4	12.2	11.9	345	7.2	1.7			
362	ADD	1,689	80,517	1,689		(2.5)	25.1	86.9	25.0	20.0	10.7	22.9	17.5	8.2	3.7	3.1	2.4	—	—	—	16.1	16.9	25.0	360	(0.6)	20.2			
221	SELL	8,245	1,823,897	38,269		1.1	14.7	12.6	23.5	20.5	18.2	17.8	15.0	14.2	3.1	2.8	2.6	1.6	1.8	2.1	13.7	14.5	15.0	180	(18.6)	39.7			
1,197	BUY	271,038	5,687	226		64.1	58.8	62.9	70.5	(8.2)	6.9	18.7	20.3	19.0	20.1	20.4	15.8	1.6	1.5	1.4	0.6	0.7	0.8	6.3	7.0	9.0	1,250	4.4	120.9
200	REDUCE	10,068	479,830	10,068		2.5	3.1	—	140.3	25.3	196.2	81.7	65.2	—	—	3.5	3.3	3.2	—	—	1.8	4.2	5.0	160	(20.1)	34.9			
1,141	ADD	253,871	5,327	223		56.2	76.6	86.5	76.6	36.2	12.9	20.3	14.9	13.2	11.1	11.5	10.8	2.5	2.2	1.9	1.0	1.1	1.2	13.4	15.8	15.7	1,100	(3.6)	14.3
	Attractive		2,948,345			14.0	17.4	14.8	25.8	22.0	19.1	18.4	17.5	15.4	2.8	2.6	2.4	1.1	1.3	1.5	10.8	11.7	12.3						
958	SELL	36,304	762	38		87.8	125.3	214.6	21	42.7	71.3	10.9	7.7	4.5	9.1	7.8	6.6	2.6	2.0	1.4	0.4	0.5	0.5	33.7	33.3	36.7	365	(61.9)	66.7
274	REDUCE	16,609	348	61		(1.0)	10.3	14.7	(104)	NA	43.0	NA	26.7	18.7	10.6	9.2	8.3	2.3	2.2	2.1	1.2	1.5	1.8	(0.9)	8.5	11.4	120	(56.3)	2.5
211	ADD	295,428	6,199	1,403		3.0	6.8	9.9	(39)	126.3	45.5	70.1	31.0	21.3	23.4	15.7	14.7	5.3	4.7	3.9	0.0	0.0	0.0	8.0	16.1	20.0	190	(9.7)	93.7
394	BUY	21,606	453	55		64.3	47.8	41.7	(1)	(25.6)	(12.8)	6.1	8.2	9.4	4.0	4.1	4.0	0.6	0.6	0.6	1.3	1.0	1.0	10.8	7.4	6.2	300	(23.8)	3.6
125	BUY	5,428	114	44		22.0	36.8	30.0	4	67.4	(18.5)	5.7	3.4	4.2	5.6	4.6	4.0	0.6	0.6	0.5	7.4	7.2	7.2	10.2	13.4	11.1	160	28.5	0.9
240	BUY	32,820	689	136		23.8	24.8	27.3	22	4.1	10.2	10.1	9.7	8.8	7.1	6.5	5.5	1.7	1.4	1.2	0.5	0.5	0.5	16.6	14.8	14.1	175	(27.2)	4.7
241	ADD	56,652	1,189	235		27.6	23.1	27.2	(30)	(16.4)	17.9	8.7	10.5	8.9	5.6	4.6	4.0	1.2	1.1	1.0	3.8	3.7	3.7	17.9	12.9	13.7	200	(17.0)	4.8
212	REDUCE	39,954	838	189		17.3	23.4	17.3	(16)	35.0	(25.7)	12.2	9.1	12.2	7.6	5.4	6.3	2.2	1.7	1.5	0.9	0.7	0.7	17.6	20.8	12.9	125	(40.9)	20.8
157	BUY	72,626	1,524	462		10.7	13.5	18.0	28	25.7	33.9	14.7	11.7	8.7	9.8	7.2	5.5	2.4	2.0	1.7	0.8	1.0	1.3	18.1	18.2	20.5	140	(10.9)	5.2
	Others																												
	KS universe (b)																												
	KS universe (b) ex-Energy																												
	KS universe (d) ex-Energy & ex-Commodities																												

Note:

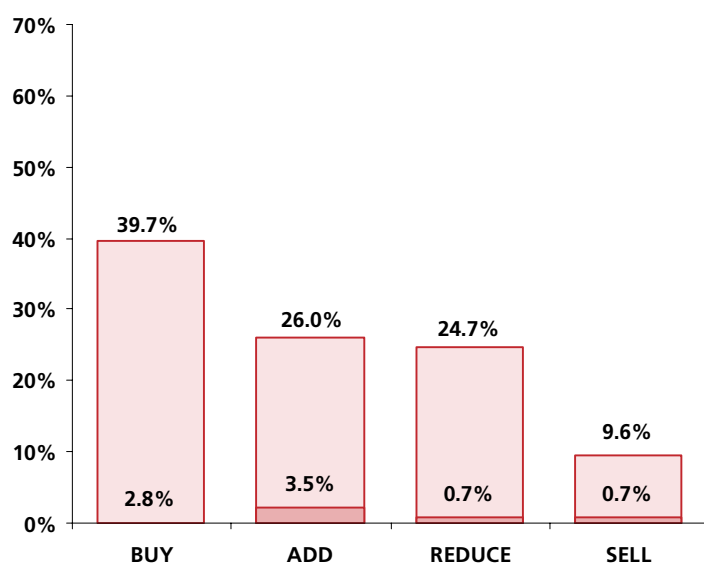
- (1) For banks we have used adjusted book values.  
(2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.  
(3) EV/Sales & EV/EBITDA For KS universe excludes Banking Sector.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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Source: Kotak Institutional Equities

As of March 31, 2009

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