kotak® Institutional Equities

INDIA DAILY

August 31, 2010

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Infrastructure: Infra. spending keep pace led by pvt. sector investments in power and telecom

News Round-up

- NTPC (NATP IN) plans to offer up to 49% stake to Qatar Petroleum in its gas-based project in Kerala, and pick up stakes in two coal mines in Indonesia to secure fuel supply for its power plants. *(BSTD)*
- Mukesh Ambani comes to the rescue of Oberoi family, dashing ITC chairman YC Deveshwar's hopes of taking control of the luxury hotel chain. Reliance Ind. (RIL IN) bought 14.12% stake in EIH (EIH IN) for USD 217.23mn. *(ECNT)*
- Dr.Reddy's Laboratories Ltd (DRRD IN) has received permission to sell Quetiapine in New Zealand from Pharmac, the drug-funding agency of New Zealand Government. *(THBL)*
- Glenmark Pharmaceuticals (GNP IN) said it had discovered a new drug molecule, which could be used for treating pain and respiratory disorders. *(BSTD)*
- Mahindra (MM IN) terminates contract with US distributor for pick-ups. *(BSTD)*
- L&T (LT IN) is looking at revenue of about USD 1.5-2 bn every year from nuclear business in three years. *(BSTD)*
- Cement firms cut prices by INR 2-4/bag. Earlier this month, most cement makers raised prices by around INR 10 per 50 kg bag in western region markets. *(BSTD)*
- UB Group in talks with RIL (RIL IN) to sell Mangalore Chemical stake. Stake offload to save cash-strapped Kingfisher Air, says analysts. *(FNLE)*
- GMR Infrastructure (GMRI IN) has received 5-6 unsolicited offers to buy its stake in InterGen NV. *(FNLE)*
- Jubilant Organosys Ltd (JOL IN) has signed another Custom Research and manufacturing Services (CRAMS) contract with a US Life Sciences Company. *(THBL)*
- Mundra Port and SEZ Ltd (MSEZ IN) has announced commencement of operations at its 20 million tonnes a year (mtpa) dry bulk cargo terminal at Dahej in Baruch district of Gujarat. *(THBL)*
- Jet Airways (JETIN IN) is close to sell the right to develop its 2.5 acre plot in the Bandra Kurla Complex, to Godrej Properties for USD 117.02mn in a cash cum debt deal. *(ECNT)*
- Jindal Steel & Power (JSP IN) plans to rebid for a controlling stake in Zimbabwe Iron & Steel Co. or Zisco, more than 2 months after the African co. rejected the firms earlier bid. *(ECNT)*

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

EQUITY MARKETS

		Change %		
India	**30-Aug**	**1-day**	**1-mo**	**3-mo**
Sensex	18,032	0.2	0.9	6.4
Nifty	5,415	0.1	0.9	6.5
Global/Regional indices				
Dow Jones	10,010	(1.4)	(4.4)	(1.3)
Nasdaq Composite	2,120	(1.6)	(6.0)	(6.1)
FTSE	5,202	0.9	(1.1)	0.3
Nikkie	8,937	(2.3)	(6.3)	(8.5)
Hang Seng	20,737	0.7	(1.4)	4.9
KOSPI	1,745	(0.9)	(0.8)	6.3
Value traded – India				
Cash (NSE+BSE)	147		192	175
Derivatives (NSE)	874		684	686
Deri. open interest	1,485		1,211	997

Forex/money market

		Change, basis points		
	30-Aug	**1-day**	**1-mo**	**3-mo**
Rs/US$	46.9	3	44	55
10yr govt bond, %	8.0	(4)	18	43
Net investment (US$mn)				
	26-Aug		**MTD**	**CYTD**
FIIs	33		2,239	12,716
MFs	14		(619)	(282)

Top movers -3mo basis

		Change, %		
Best performers	**30-Aug**	**1-day**	**1-mo**	**3-mo**
HPCL IN Equity	533.5	0.3	23.1	46.7
IDEA IN Equity	70.8	1.5	0.2	40.1
TCOM IN Equity	332.9	(1.0)	23.0	35.7
BOI IN Equity	442.8	(0.9)	7.8	34.3
BPCL IN Equity	770.8	(0.7)	20.1	32.6
Worst performers				
RNR IN Equity	37.4	0.3	(9.9)	(28.6)
SUEL IN Equity	46.7	(2.1)	(17.3)	(17.0)
SESA IN Equity	317.8	(0.0)	(12.0)	(16.8)
NMDC IN Equity	246.2	(0.3)	(5.6)	(12.4)
MMTC IN Equity	1338.4	(1.5)	(23.5)	(10.2)

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INDIA

AUGUST 31, 2010

BSE-30: 18,032

DTC, 2010: some gain, some pain. We see The Direct Taxes Code (DTC), 2010 Bill tabled in the Parliament as a short-term negative for corporate India, whose effective tax rate may go up by 1-2 ppt. However, DTC ushers in a stable and efficient tax regime as well as stronger fiscal position in the long run (it kicks in from FY2013E). The immediate impact on capital markets may still be positive with short-term capital gains tax at 5-15% (15% currently) and continuation of nil long-term capital gains tax.

DTC positive for high tax payers; negative for MAT companies

Exhibit 1 presents a summary of the provisions under the DTC, 2010 Bill.

- The DTC, 2010 Bill proposes to reduce the effective corporate tax rate to 30% versus the existing 33.2% rate (30% corporate income tax rate + 7.5% surcharge + 3% cess), with the proposed removal of the surcharge and the education cess. So the proposed rate, inclusive of surcharge and cess is now lower by 3.2 ppt.
- However, in our assessment, the removal of exemptions may mean that effective tax rate is likely to go up for the Indian corporate sector over time. The effective tax rate for a sample of 0.37 mn Indian firms for FY2009 was 22.8%; with fewer exemptions under the DTC, the effective rate could go up by 1-2 ppt, as per our calculations.
- The new tax structure scores on grounds of equity and efficiency. It would mean that firms that pay very little taxes such as the ones which pay only the Minimum Alternate Tax (MAT) stand to lose while firms that already pay high taxes may stand to gain; Exhibits 2-3 provide a list of likely winners and losers under our coverage, depending on whether these firms are paying tax closer to the full 33.2% rate or below MAT rate (19.93% currently). The DTC, 2010 Bill has retained computation of MAT on book profits instead of on gross block, which was proposed initially in the draft DTC.
- The DTC, 2010 Bill has retained the proviso that foreign companies would need to pay branch profit tax at 15%, in addition to income tax. As a result, MNCs operating as subsidiaries would be better off than MNCs operating as branches.

Capital gains regime softer under DTC; positive for capital markets

- In our assessment, the capital gains regime under the DTC is softer than the earlier proposed DTC regime. The short-term capital gains tax, currently levied at 15%, would now be levied at 50% of the three income tax slabs of 10%, 20% and 30%, i.e. 5%, 10% and 15%. Additionally, status quo is maintained on long-term capital gains tax that would continue to attract no tax subject to the levy of Securities Transaction Tax (STT).
- However, short-term capital gains tax for the companies would now be at 30% flat rate and this may negatively impact corporate and capital market activity.
- Mutual Funds (MFs) and Unit Linked Insurance Products (ULIPs), currently exempt from dividend distribution tax would now be taxed at 5%. We think this may be only marginally negative, as MFs and ULIPs hardly distribute dividends.

QUICK NUMBERS

- Corporate tax rate reduced to 30% from 33.2% but effective tax rate may rise
- Short-term capital gains tax at 5-15% instead of flat 15%; nil long-term capital gains tax
- Personal income tax on individuals exempt up to Rs0.2 mn versus Rs0.16 mn currently

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Individuals to gain moderately from slightly lower personal taxes

The DTC, 2010 Bill, if implemented in its current form, will bring significant gains to individuals. The income tax exemption limit is now proposed to be raised to Rs0.2 mn from existing Rs0.16 mn. However, the tax slabs have been changed far less than envisaged earlier (see Exhibit 1). These changes barely compensate for a two-year inflation impact and the effective real tax rate may actually rise. Nonetheless, domestic consumption- and savings-led growth is likely set to continue with continued robust growth in sectors such as Automobiles, BFSI, Consumers, Media and Real Estate.

DTC, 2010 Bill proposals are positive for individuals and capital markets and companies paying the full tax rate
Proposed income tax rates and slabs for individuals and companies, March fiscal year-ends, 2011-13E

	Existing (2011, Income Tax Act)	Revised (2012, Direct Tax Code)	DTC Bill (2013, Direct Tax Code)
Individual income tax			
Individual tax rates	Total income <=Rs1,60,000: Nil	Total income <=Rs1,60,000: Nil	Total income <=Rs2,00,000: Nil
	> 1,60,000 <= 5,00,000: 10%	> 1,60,000 <= 10,00,000: 10%	> 2,00,000 <= 5,00,000: 10%
	> 5,00,000 <= 8,00,000: 20%	> 10,00,000 <= 25,00,000: 20%	> 5,00,000 <= 10,00,000: 20%
	> 8,00,000: 30%	>25,00,000: 30%	>10,00,000: 30%
Education cess	3%	NA	—
Method of taxation	EEE (Exempt at contribution, accretion and withdrawl stages)	EET in general; EEE only for GPF, PPF, RPF, PFRDA pension schemes, pure life insurance and annuity	EET in general; EEE for GPF, PPF, RPF, PFRDA pension schemes and pure life insurance under certain guidelines
Exemption limit	1,20,000	3,00,000	1,50,000
Corporate income tax			
Tax rates	30%	25%	30%
Surcharge rate	7.5%	NA	—
Education cess	3%	NA	—
Minimum Alternative Tax	19.93% of book profits; carry forward allowed	Some percentage of book profits; carry forward not allowed	20% of book profits; carry forward allowed upto 15 years
Dividend Distribution Tax	16.61% of dividend paid	Unspecified percentage of dividend paid	15% of dividend paid; dividend tax of holding company allowed to be set off against dividend tax paid by subsidiary
Capital markets			
STT	Applicable	Applicable; to be caliberated	Applicable
Tax on distributed income	—	NA	5% of income distributed and paid to holders of equity mutual fund and equity-oriented life insurance schemes
Capital gains tax on capital assets	STCG taxed at 15%; LTCG: Nil	STCG taxed at applicable tax slab rates; LTCG to be taxed at applicable tax slab rates after an allowed deduction	STCG taxed at applicable tax slab rates after giving effect to 50% deduction; LTCG: Nil
Capital gains tax on other assets	Base date for determining the cost of acquisition being April 01, 1981	Base date for determining the cost of acquisition shifted to April 01, 2000	STCG taxed at flat 30%; base date for determining the cost of acquisition shifted to April 01, 2000
FIIs	Capital market transactions as business income or capital gains	Capital market transactions liable to pay capital gains tax; concept of business income abolished	Capital market transactions liable to pay capital gains tax; concept of business income abolished

Source: Ministry of Finance, Kotak Institutional Equities

The winners: companies that pay >30% tax rate will likely benefit…
List of companies with FY2010 effective tax rate >30%

Company	Effective tax rate (%)
Ranbaxy Laboratories	69
Jaiprakash Associates	63
Aban Offshore	58
Hindalco Industries	56
GVK Power & Infrastructure	50
Sadbhav Engineering	49
Shree Renuka Sugars	47
Federal Bank	46
Nagarjuna Constructions	40
DB Corp	38
Sun TV Network	37
India Cements	37
Lanco Infratech	37
Larsen & Toubro	37
Hindustan Petroleum	37
IVRCL	36
Thermax	35
J&K Bank	35
Bharat Petroleum	35
Oil & Natural Gas Corporation	35
Axis Bank	35
Bharat Heavy Electricals	35
Castrol India	34
Yes Bank	34
GlaxoSmithkline Consumer	34
State Bank of India	34
Shriram Transport	34
Maharashtra Seamless	34
India Infoline	34
BGR Energy Systems	34
Tata Global Beverages	34
GSPL	34
Indian Bank	34
Punjab National Bank	34
Mahindra & Mahindra Financial	34
SREI Infrastructure	34
Tata Communications	34
Siemens	33
Tata Motors	33
Oil India	33
ABB	33
Petronet LNG	33
ITC	32
Asian Paints	32
Ambuja Cements	32
Jagran Prakashan	32
Zee Entertainment Enterprises	32
Welspun Corp	32
UltraTech Cement	32
Grasim Industries	31
GAIL (India)	31
HDFC Bank	31
Bharat Electronics	31

Source: Company data, Kotak Institutional Equities estimates

…and the losers: tax liabilities of certain companies may potentially increase

List of companies with FY2010 effective tax rate <20%

Company	Effective tax rate (%)
GMR Infrastructure	(17)
Bajaj Hindustan	(5)
Cairn india	(3)
DishTV	-
Jubilant Foodworks	0
Reliance Power	3
Piramal Healthcare	4
Sun Pharmaceuticals	5
Sintex	6
Mphasis BFL	7
Hexaware Technologies	7
Mundra Port and SEZ	8
Reliance Communications	8
MTNL	9
Reliance Infrastructure	11
Dishman Pharma & chemicals	11
Divi's Laboratories	12
IDEA	12
Cadila Healthcare	12
Colgate-Palmolive (India)	13
Bharti Airtel	13
United Phosphorus	14
Glenmark Pharmaceuticals	14
Biocon	14
Polaris Software Lab	14
TCS	15
HCL Technologies	15
Mindtree	16
CESC	16
Adani Power	16
Lupin	16
Indiabulls Real Estate	16
Balrampur Chini Mills	16
Dabur India	17
Sobha	17
Tech Mahindra	17
Wipro	17
NHPC	17
Jubilant Organosys	17
Sterlite Industries	18
Cipla	18
Puravankara Projects	19
Patni Computer Systems	19
Housing Development & Infrastruc	19
Phoenix Mills	19
Godrej Consumer Products	19
Hindustan Zinc	19

Source: Company data, Kotak Institutional Equities estimates

Macro impact of DTC: More stable and efficient tax regime; deferment to FY2013 a big setback

The DTC, 2010 Bill, if enacted into an Act after the approval of the parliament, will apply from April 1, 2012. This implies deferment of the DTC by a year to FY2013 from the earlier target of FY2012, also stated in the FM's budget speech. We see this deferment as a major setback to the process of fiscal consolidation in India. With GST also likely to be deferred to FY2013, we now think that it may not be possible for the government to reduce the GFD/GDP ratio to 4.8% in FY2012 as envisaged in the new fiscal rules.

As per our calculation, we expect DTC to bring in additional corporate income tax revenue of about Rs322 bn (0.36% of GDP) in FY2013E, if it is introduced. DTC is a major tax reform that would modernize the archaic existing direct tax laws, especially the Income-Tax Act, 1961 that will be scrapped with the approval of the DTC, 2010 bill. We expect the DTC to (1) widen the tax base, (2) remove plethora and multiplicity of tax rates that obfuscate the tax regime, result in costly litigation and gives incentives to exploit these exemptions unfairly to evade taxes, and (3) result in a stable tax regime in the near term, while enabling moderation of tax rates over time as the tax/GDP ratio improves from the current 10.3%.

Exhibit: Effective tax rate for the Indian corporate at 23% in FY2009

	Companies	Share in (%)			A/B	Eff. Tax rate
PBT	(#)	PBT(A)	Total Income (B)	Corp. tax payable	(%)	(%)
Less than Zero	132,356	—	0.6	0.4	—	—
Zero	24,529	—	3.3	1.4	—	—
Rs 0-1 Crore	188,584	3.2	3.8	3.6	80.0	25.5
Rs 1-10 Crore	16,596	7.5	7.6	7.9	67.9	24.0
Rs 10-50 Crore	2,907	9.3	8.5	9.1	61.4	22.4
Rs 50-100 Crore	531	5.5	5.0	5.4	60.8	22.2
Rs 100-500 Crore	551	17.0	15.5	16.6	61.3	22.3
Greater than Rs 500 Crore	179	57.5	55.8	55.7	65.2	22.1
All Sample Companies	**366,233**	**100**	**100**	**100**	**67**	**22.8**

Source: Government of India, Kotak Institutional Equities

BFSI sector impact: Negative for Insurance

The direct tax code proposes a limit of Rs50,000 for insurance (life, health) and education but not loan-tuition fees. Currently, insurance is one of the components u/s 80C with an overall cap of Rs100,000. Our banking and insurance team finds this negative for the insurance industry due to the sharp decline in the cap (the previous draft of DTC had propose to raise the overall limit u/s 80C to Rs300,000); however, exclusivity to insurance and education are somewhat positive.

In order to avail income tax benefits, insurance policies will be need to have a cover of 20X on the annual premium as against the current industry average of 5-7X. This will likely pressure the regulatory capital requirement of insurance companies although most large companies are currently well-capitalized.

The tax benefits on withdrawal will be available only on maturity (as compared to a cap of three years currently). Currently, most policyholders exit the policy before maturity. Policyholders will hence need to make a much longer commitment for availing the tax benefits on withdrawal. This could augur well for persistency ratios in the long term but business volumes may decline in the medium term.

Energy sector impact: Reliance Industries to take a hit

- **Positive for high-tax paying companies; most companies' effective tax rate is the same as the marginal tax rate.** We see the proposed direct tax code as (1) positive for the earnings of companies paying taxes at the marginal rate of 33.2% currently; this includes most government-owned companies and (2) is negative for companies paying lower taxes due to several exemptions. The companies paying marginal tax rate would benefit from DTC which provides for a corporate tax rate of 30% (no surcharge and cess). However, companies paying lower taxes due to several exemptions such as (1) exclusion from payment of MAT on profits from SEZ units and (2) income tax exemption from natural gas production may have to forego such benefits in the proposed DTC.

- **Reliance Industries likely to be impacted by MAT liability for its SEZ refinery.** We see significant downside to our earnings estimates and fair valuation of RIL from the proposed Direct Tax Code, which includes (1) applicability of MAT provisions on its SEZ refinery and (2) clarity on non-availability of income tax exemption in FY2010-12E on natural gas production from the KG D-6 block. We compute a negative EPS impact of Rs4.4 (-3.8%) and Rs4.6 (-4.1%) on FY2013E and FY2014E EPS estimates, assuming RIL has to pay taxes at the MAT rate of 20% on the profits of its SEZ refinery. We further compute a negative EPS impact of Rs4.8 (-8.2%) and Rs6.6 (-8.9%) on FY2011E and FY2012E EPS estimates, if RIL has to pay income taxes on natural gas production from its KG D-6 block (see Exhibit).

- **Investment-based deduction for E&P companies.** E&P companies will be allowed investment-based deduction from FY2013E under a new provision in the DTC bill that allows capital expenditure to be also treated as part of business expenditure while computing business profits (Eleventh Schedule). We note that oil and gas companies are treated similar to other companies in the current Income Tax Act, 1961.

  However, it is too early to quantify the impact of the new provision (investment-based deduction) for E&P companies such as OIL and ONGC as the tax (cash tax) implication would depend on the capital expenditure in FY2013E and beyond. Cairn will likely continue to benefit from the 100% income-tax exemption on mineral oil production from its Rajasthan block; the DTC, 2010 bill allows for continuation of benefits granted under Section 80-IB (9) of the current Income Tax Act, 1961.

Power sector impact: Negative for merchant power plants

We see the DTC as negative for merchant-based power plants, which will have a higher tax outgo over their useful life as their higher profits in the first years of operations would absorb the capital expenditure faster (depending upon profitability) versus the 10-year tax holiday currently enjoyed under the extant Sec 80-IA norms (irrespective of the quantum of profits). The DTC proposes to replace the prevailing tax holiday (10 years in a block of 15 years u/s 80-IA) for new power plants, with a scheme that allows deduction of capital expenditure (as per Schedule XIII of the DTC); deduction of capital expenditure is tantamount to accelerated depreciation and caps the quantum of exemption to the extent of capital expenditure incurred compared to the extant system that defined the benefit in terms of years of profitability exempted. However, we note that existing power projects enjoying the benefits of Section 80-IA will not be impacted.

- **Adani Power under the lens due to MAT liability of SEZ developers**. As per extant regulations, SEZ developers enjoyed exemption from payment of MAT and Adani Power (APL) amongst our utility coverage enjoys the benefits of zero tax as it is acting as the co-developer of Mundra Port SEZ and hence was under a zero tax regime for its Mundra Power Projects (4,620 MW). If SEZ developers are made liable to pay MAT, APL's fair valuation could erode by Rs14/share from our current 12-month target price of Rs146/share.

Real Estate sector impact: MAT is the wildcard

Special Economic Zone (SEZ) developers currently benefit from Section 80-IAB of the existing Income-Tax Act that provides 100% income tax exemption on development of SEZs for a block of 10 years within 15 years of the notification of the SEZ. The draft DTC had proposed continuing this exemption for existing SEZs and SEZs notified only up to March 31, 2011. As per the DTC, 2010 bill, this is retained for existing SEZs and extended for SEZs notified on or before March 31, 2012.

Units in SEZs currently benefit from the tax exemption under Section 10AA that provides for 100% exemption on profits for first five years, 50% for the next five years and 50% of ploughed back profit for next five years. The DTC had proposed withdrawal of all these exemptions. The DTC, 2010 Bill provides extension of these exemptions for units that commence operations before March 31, 2014.

However, the key negative is the likely imposition of MAT on both SEZ developers as well as units in SEZs; under the DTC, 2010 Bill, MAT at 20% of book profit will be applicable even on SEZ developers and SEZ units. This was specifically exempt under section 115JB of the current income tax act.

Oil & Natural Gas Corporation (ONGC)
Energy

BUY

AUGUST 30, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 1,318

Target price (Rs): 1,480

BSE-30: 17,998

The gainer in Cairn-Vedanta deal could be ONGC. We do not rule out a favorable outcome for ONGC through 'reimbursement' of royalty paid by ONGC for Cairn India's share in the ongoing Cairn-Vedanta transaction. We compute a potential upside of ₹4.8 for FY2011E and ₹7.6 for FY2012E to ONGC's EPS from a potential reimbursement of royalty currently paid by ONGC on behalf of Cairn. We maintain our BUY rating on the stock with a target price of ₹1,480 given (1) potential upside of 12% to our target price and (2) several potential triggers.

Company data and valuation summary
Oil & Natural Gas Corporation

Stock data			
52-week range (Rs) (high,low)			1,347-934
Market Cap. (Rs bn)			2,819.5
Shareholding pattern (%)			
Promoters			74.1
FIIs			4.2
MFs			2.3
Price performance (%)	1M	3M	12M
Absolute	6.2	16.4	11.8
Rel. to BSE-30	5.5	9.1	(1.1)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	91.4	116.6	136.1
EPS growth (%)	1.3	27.5	16.7
P/E (X)	14.4	11.3	9.7
Sales (Rs bn)	1,090.5	1,199.0	1,350.0
Net profits (Rs bn)	195.6	249.3	291.0
EBITDA (Rs bn)	498.9	549.8	642.8
EV/EBITDA (X)	5.3	4.5	3.6
ROE (%)	14.6	16.8	17.6
Div. Yield (%)	2.5	3.2	3.6

Cairn-Vedanta deal could benefit ONGC—potential upside of ₹75 to fair value

As per media reports, the government may seek an equitable royalty-sharing arrangement as part of the ongoing Vedanta-Cairn deal. We note that ONGC pays 100% royalty on the Rajasthan asset despite its 30% stake in the block. We see a significant upside to ONGC's earnings and valuations if the government reimburses ONGC for Cairn's share of royalty or ONGC bears royalty on its 30% share of production only; our FY2011-12E EPS estimates would increase by ₹4.8 (+4.1%) and ₹7.6 (+5.6%) and our fair valuation of ONGC would increase by ₹75. We note that the company has not received any confirmation of the development and a unilateral move by the government could lead to litigation by Vedanta/Cairn.

Proper deregulation of auto fuel prices could boost stock sentiment further

We believe that changes to auto, particularly diesel, prices could be a big potential trigger for ONGC stock. We assume that diesel prices will be deregulated from January 2011. We expect the street to accord a higher multiple to ONGC's earnings in the case of proper deregulation of auto fuel prices. The market has had concerns about a proper deregulation despite the June 25 announcement given the sharp rise in crude prices in July-August 2010 and lack of commensurate action. However, the recent decline in crude prices presents a good window of opportunity for setting the deregulation process in motion. We note that the under-recovery on diesel is a mere ₹0.3/liter at crude price (Dated Brent) of US$75/bbl.

Valuations attractive with 12% potential upside to our 12-month fair valuation of ₹1,480

We find ONGC's valuations attractive with the stock trading at 9.7X FY2012E EPS and 4.9X FY2012E DACF. We maintain our BUY rating on the stock with a target price of ₹1,480 based on 10X FY2012E EPS plus value of investments. We see significant upside to our earnings and fair valuation for ONGC in our blue-sky scenario case of (1) full deregulation of auto fuel prices, (2) government bearing 100% of the under-recovery on cooking fuels and (3) reimbursement of royalty on Rajasthan block (see Exhibit 1).

QUICK NUMBERS

- ₹75 to ONGC's fair value from reimbursement of royalty paid on behalf of Cairn in Rajasthan block
- 4%-7% potential upside to FY2011-13E EPS estimates
- 12% potential upside to our target price from current levels

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ONGC's earnings can jump significantly in a blue-sky scenario
EPS estimates, March fiscal year-ends, 2012-13E (₹)

	2012E	2013E
Base case	136	159
Scenario A: royalty reimbursement (a)	144	170
Scenario B: blue-sky (a) (b)	175	206
Potential upside (%)	**29**	**30**

Note:
(a) Assuming reimbursement of royalty for Cairn India's share of Rajasthan block.
(b) Assuming deregulation of auto fuel prices and full compensation of subsidy loss on cooking fuels.

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2006-2014E (₹ mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	807,603	966,542	1,091,644	1,200,176	1,090,473	1,198,966	1,350,041	1,503,920	1,531,901
EBITDA	**310,054**	**357,707**	**407,481**	**418,299**	**468,954**	**517,935**	**596,860**	**646,047**	**640,027**
Other income	27,350	45,378	53,565	56,197	29,934	31,902	45,918	61,451	75,437
Interest	(537)	394	(12,027)	(11,442)	(6,212)	(1,376)	(250)	(1,862)	(6,576)
Depreciation and depletion	(97,726)	(119,550)	(138,624)	(153,985)	(186,996)	(180,328)	(216,253)	(212,809)	(208,296)
Pretax profits	239,141	283,928	310,395	309,069	305,680	368,133	426,275	492,827	500,592
Tax	(71,196)	(88,986)	(102,908)	(111,333)	(94,961)	(115,247)	(135,071)	(146,045)	(146,551)
Deferred tax	(13,612)	(9,264)	(6,471)	(3,495)	(12,077)	(2,128)	2,553	(3,899)	(6,425)
Net profits	154,596	178,119	202,767	200,063	198,832	250,758	293,756	342,883	347,616
Net profits after minority interests	**153,542**	**176,627**	**199,156**	**196,679**	**195,675**	**249,295**	**291,043**	**340,379**	**346,297**
Earnings per share (Rs)	**71.8**	**82.6**	**93.1**	**92.0**	**91.5**	**116.6**	**136.1**	**159.1**	**161.9**
Balance sheet (Rs mn)									
Total equity	578,830	670,137	786,657	929,353	1,045,186	1,190,054	1,361,984	1,560,756	1,760,194
Deferred tax liability	71,557	80,976	87,227	92,076	104,153	106,281	103,728	107,627	114,052
Liability for abandonment cost	128,675	151,857	129,325	171,451	175,368	175,368	175,368	175,368	175,368
Total borrowings	28,767	21,826	22,039	73,633	57,256	37,724	83,124	119,024	106,924
Currrent liabilities	142,435	187,051	251,797	293,480	237,041	240,486	258,101	282,965	292,892
Total liabilities and equity	**950,264**	**1,111,847**	**1,277,045**	**1,559,994**	**1,619,004**	**1,749,913**	**1,982,305**	**2,245,740**	**2,449,430**
Cash	90,743	206,262	249,807	224,671	212,010	327,510	545,796	791,568	1,034,631
Current assets	240,210	192,652	257,384	309,494	295,048	327,444	347,186	371,718	381,194
Total fixed assets	565,722	643,219	695,227	871,287	950,589	928,661	923,026	916,157	867,306
Goodwill	14,172	27,686	22,847	111,108	111,108	111,108	111,108	111,108	111,108
Investments	35,753	36,888	45,041	36,926	43,744	48,684	48,684	48,684	48,684
Deferred expenditure	3,663	5,141	6,739	6,506	6,506	6,506	6,506	6,506	6,506
Total assets	**950,264**	**1,111,848**	**1,277,045**	**1,559,994**	**1,619,005**	**1,749,914**	**1,982,306**	**2,245,740**	**2,449,430**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	216,736	252,772	284,517	274,321	262,045	311,179	369,360	400,609	393,393
Working capital changes	46,461	(4,990)	(24,929)	(109,306)	(41,073)	21,049	57,873	33,397	450
Capital expenditure	(113,738)	(135,049)	(166,427)	(208,137)	(154,415)	(68,267)	(118,438)	(108,409)	(65,938)
Investments	(28,912)	53,822	(7,348)	(92,159)	(6,817)	—	—	—	—
Other income	14,537	20,422	22,822	31,612	29,934	31,902	45,918	61,451	75,437
Free cash flow	**135,083**	**186,976**	**108,636**	**(103,668)**	**89,674**	**295,863**	**354,712**	**387,048**	**403,342**
Ratios (%)									
Debt/equity	5.0	3.3	2.8	7.9	5.5	3.2	6.1	7.6	6.1
Net debt/equity	(10.7)	(27.5)	(29.0)	(16.3)	(14.8)	(24.4)	(34.0)	(43.1)	(52.7)
RoAE	25.9	25.5	24.8	21.0	18.3	20.7	21.4	22.0	19.8
RoACE	**22.0**	**22.0**	**21.9**	**18.3**	**16.1**	**18.0**	**18.9**	**19.8**	**18.1**
Key assumptions									
Rs/dollar rate	44.3	45.3	40.3	45.8	47.4	46.0	46.0	46.0	46.0
Crude fob price (US$/bbl)	57.2	64.8	78.9	83.0	67.1	75.0	75.0	80.0	80.0
Ceiling/actual natural gas price (Rs/'000 cm)	3,515	3,200	3,200	3,200	3,200	6,783	7,500	7,500	7,500
Subsidy loss (Rs bn)	119.6	170.2	220.0	282.3	115.5	151.1	109.9	126.3	129.6

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bharat Heavy Electricals (BHEL)

Industrials

REDUCE

AUGUST 30, 2010

RESULT

Coverage view: Attractive

Price (Rs): 2,443

Target price (Rs): 2,600

BSE-30: 18,032

WCap. and capex are positive; FY10 employee costs carry sizeable one-offs. Key highlights from annual report are: (1) Provision adj. working capital stable, (2) sharp rise in capex indicates progress on capacity addition (gross block of Rs66 bn is 3X FY07-end), (3) large one-offs in FY10 employee cost (Rs7.9 bn – shortfall in arrear provisions and pension provisioning) hint at big upside; however 1Q employee cost belies that, (4) import intensity high (33% of RM cost) and (5) sedate spares business. Retain REDUCE.

Company data and valuation summary

Bharat Heavy Electricals

Stock data			
52-week range (Rs) (high,low)			2,585-2,103
Market Cap. (Rs bn)			1,195.8
Shareholding pattern (%)			
Promoters			67.7
FIIs			14.9
MFs			6.7
Price performance (%)	1M	3M	12M
Absolute	0.2	5.3	4.8
Rel. to BSE-30	(0.7)	(1.5)	(7.4)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	87.9	114.3	135.5
EPS growth (%)	37.7	30.0	18.5
P/E (X)	27.8	21.4	18.0
Sales (Rs bn)	328.6	399.0	477.1
Net profits (Rs bn)	43.0	56.0	66.3
EBITDA (Rs bn)	54.3	73.1	87.7
EV/EBITDA (X)	20.2	14.7	12.1
ROE (%)	29.8	31.1	29.3
Div. Yield (%)	0.8	1.0	1.2

Working capital excluding provisions adjusted for provisions is stable; significant capex scale-up

BHEL reported a marginal deterioration in net working capital (excluding cash and provisions) to 57 days of sales in FY2010 versus 45 days in FY2009 led by slightly higher debtor levels and lower advances from customers. The decline in operating cash generated to Rs26.3 bn in FY2010 from Rs42 bn in FY2009 was primarily led by withdrawal of provisions to the tune of Rs17.5 bn due to cash settlement of wage revisions during the year. The company incurred a high capex (primarily towards capacity augmentation) of Rs17.3 bn in FY2010 versus an annual average of about Rs8 bn over FY2007-09. BHEL envisages incurring a capex of Rs55 bn during the XIth plan period.

Employee cost of FY10 carried two large one-offs; 1Q11 somehow does not suggest upside

Reported employee cost of Rs51.5 bn carried two large one-offs: (1) Shortfall of Rs3.4 bn between actual arrears paid in FY10 (accumulated till FY09-end - Rs20.9 bn) and provisions carried at beginning FY10 (Rs17.5 bn) and (2) Rs4.5 bn as pension provision. Adjusted (do not belong to FY10) post-hike base cost becomes Rs43.6 and FY2011E may surprise positively (15% growth implies Rs50 bn - vs our estimate of Rs58.3 bn). However, 1QFY11 employee cost of Rs13.4 bn belies much upside as 1Q typically has lowest cost, unless 1QFY11 itself had provisions. Annual report carries cash cost of Rs64.5 bn (Rs43.6 bn plus cash arrear payment of Rs20.9 bn).

Imports intensity stays high; lower per unit commodity cost helps; spares business remains sedate

Other highlights include (1) imports intensity remains high at Rs64.5 bn - about 33% of total raw material cost versus exports of Rs12.3 bn, (2) decline in per unit price of commodities aided margins in FY2010 - expect this to partially abate on the back of rise in commodity prices and (3) spares business continues to remain sedate with order inflows (Rs18.7 bn) declining by 25% yoy.

Retain REDUCE as inflow momentum peaks; credible competition; bulk tender/JVs not positive

BHEL may face headwind in inflows as (1) about half of XIIth plan ordering may be complete, (2) competition appears credible and (3) other segments unlikely to scale up to counter sedate power inflows. Lower inflows would reduce visibility and revenue growth post FY2013E despite assuming stronger execution. We are not positive on (1) bulk tender (brings competition into fray dominated by BHEL), and (2) state JVs (capital commitment to win business has limited potential).

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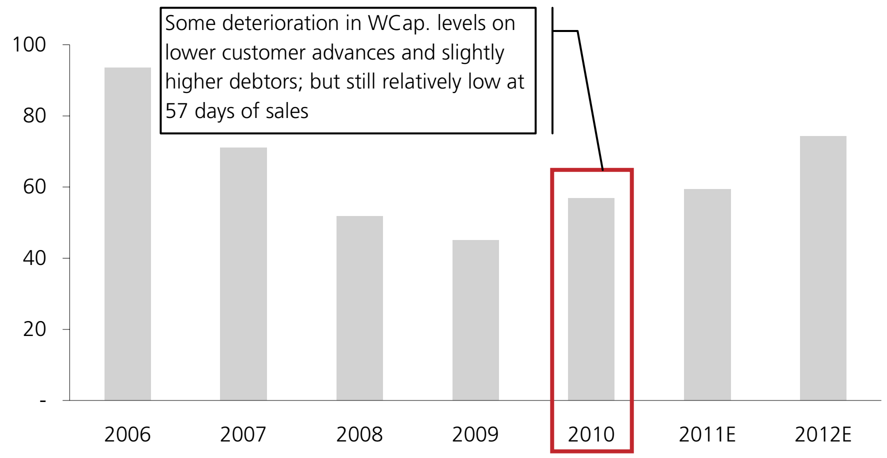
Working capital excluding provisions adjusted for provisions is stable

BHEL reported a net working capital (excluding cash and provisions) of Rs 51.2 bn at the end of FY2010 versus FY2009-end working capital of Rs32.3 bn. As number of days of sales, net working capital (excluding cash and provisions) increased from 45 days at end of FY2009 to 57 days at the end of FY2010. The slight deterioration in working capital levels was primarily led by higher debtor levels (increased to 230 days of sales in FY2010 from 223 days in FY2009) and a decrease in advances received from customers (decreased from 229 days of sales at FY2009-end to 213 days at the end of FY2010). Advances from customers were about 13.6% of outstanding order backlog, broadly in line with advances of 14.2% of outstanding order backlog last year.

BHEL's net working capital (excluding cash and provisions), March fiscal year-ends, 2006-12E (days of sales)



Source: Company, Kotak Institutional Equities estimates

BHEL also reported lower provisions of 49 days of sales (Rs44.2 bn) at the end of FY2010 versus FY2009-end provisioning of 69 days (Rs50 bn). The decline in provisions during the year was primarily led by settlement of wage revision during FY2010 and subsequent withdrawal of the provision created for wage revision to the tune of Rs17.5 bn.

BHEL generated Rs26.3 bn of operating cash (adjusted for working capital) in FY2010 versus about Rs42 bn in FY2009 and Rs41 bn in FY2008. The lower operating cash generation was primarily due to the increase in working capital levels and withdrawal of provisions due to cash settlement of wage revisions during the year. The operating cash generated was utilized towards a capex of Rs17.3 bn and dividend pay out of about Rs11 bn leading to net cash utilization of Rs5.2 bn in FY2010. The total cash and bank balances at the end of FY2010 stood at Rs98 bn versus FY2009-end level of Rs103 bn.

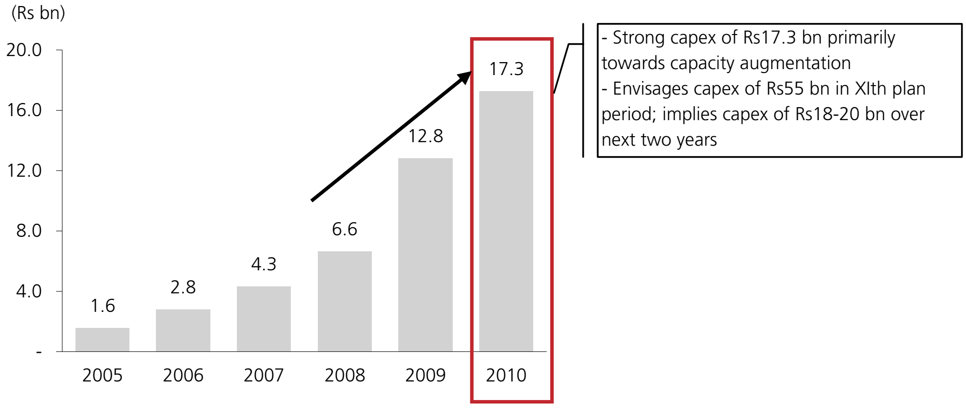
Very strong scale-up in capex; plans to incur Rs55 bn capex in XIth plan period

BHEL significantly scaled up its capital expenditure in FY2010. The company incurred a capex of Rs17.3 bn in FY2010 versus an annual average of about Rs8 bn over the past three years (capex of Rs12.8 bn in FY2009). The standalone gross block of the company grew by about 50% yoy. The total gross block of BHEL has grown to over 3X in the past three years to Rs39.5 bn at end-FY2010 from its FY2007-end gross block of Rs12.9 bn. The capital expenditure was primarily towards augmentation of manufacturing capacity and modernization of facilities.

BHEL envisages incurring a capital expenditure of Rs55 bn during the XIth plan period. Capital investment of Rs55 bn in the XIth plan envisage (1) capacity addition to 20 GW, (2) introduction of 765 KV transformers and other associated equipment, (3) capacity augmentation of transformers to 45,000 MVA from 35,500 MVA currently and (4) introduction of higher rating nuclear sets. We highlight that versus total envisaged spending of Rs55 bn in the XIth plan, BHEL has incurred a cumulative capital expenditure of Rs36.7 bn over FY2008-10 implying a capex of about Rs18-20 bn over the next two years.

Significant scale-up in capex; primarily towards capacity augmentation and modernization of facilities

Capital expenditure incurred by BHEL, March fiscal year-ends, 2005-10 (Rs mn)



Source: Company, Kotak Institutional Equities

Significant augmentation in power transformer and boiler auxiliary capacity; nameplate capacity is not a hard constraint on production

Most of the capacity enhancements have been reported in power transformers and boiler auxiliaries. BHEL doubled the power transformer capacity of its Bhopal plant from 15,000 MVA to 30,000 MVA in FY2010. Also highlight increase in capacity at the boiler auxiliaries plant at Ranipet (increased from 178,610 MT at end-FY2009 to 207,305 MT at the end of FY2010). There has been no nameplate capacity addition on other key products such as castings and forgings unit (at Haridwar) and switchgear etc. We highlight that nameplate capacity is not necessarily a hard constraint on BHEL's ultimate deliverable capacity because of the presence of ancillary vendors to whom the portion of work can be outsourced. The actual production has been above nameplate capacity across several product items for several years in a row.

Capacity addition has been visible only across a few product items, actual production has been above nameplate capacity across several product items for several years in a row

Nameplate capacity of BHEL across key product items, March fiscal year-ends, 2006-10

	Installed Capacity					Actual Production				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Bhopal										
Traction Machines (Nos)	2,850	3,200	3,200	3,200	3,200	2,608	2,556	2,920	3,122	2,379
Power Transformers (MVA)	12,000	12,000	15,000	15,000	30,000	10,672	12,672	11,986	15,483	14,231
Hydro Sets										
- Hydro Turbine (MW)	720	720	2,500	2,500	2,500	606	649	1,284	835	785
- Hydro Generator (MW)	720	720	2,500	2,500	2,500	546	497	869	658	1,399
Jhansi										
Power Transformers (MVA)	4,000	5,500	5,500	5,500	5,500	4,175	6,111	5,974	6,221	4,571
Heep, Hardwar										
Turbo Sets (MW)	3,500	3,500	5,750	5,750	5,750	1,880	4,830	2,530	4,960	2,355
Boiler Plant & SSTP Trichy										
Boilers (MT)	108,000	108,000	108,000	411,497	481,162	208,732	255,156	305,423	439,187	545,045
Valves (MT)	2,712	2,712	2,712	5,728	13,800	4,414	6,705	91,639		
BAP, Ranipet										
Boiler auxiliaries (MT)	57,000	118,000	118,000	178,610	207,305	106,792	129,903	152,028	184,550	244,933
Hyderabad										
Steam turbines (MW)	955	695	695	1,140	1,140	827	840	1,156	1,119	797
Generators (MW)	835	1,360	1,360	1,947	1,947	450	1,348	1,630	1,971	1,627
Gas turbines (MW)	-	480	480	992	992	525	499	396	999	1,288

Source: Company, Kotak Institutional Equities

Plans to enhance capacity to 20 GW by December 2011 seem on track

BHEL recently expanded its production capacity to 15 GW at end-December 2009. The company plans to increase its capacity to 20 GW per annum by the end of December 2011. BHEL envisages an investment of Rs15.9 bn (proposal already approved by board) for this capacity addition.

FY10 employee cost carried two large one-offs; 1Q11 does not suggest upside

BHEL reported a significant rise in employee cost in FY2010 to Rs51.5 bn (15.7% of sales), up about 73% versus FY2009 levels of about Rs30 bn (11.4% of sales). The sharp rise in FY2010 employee cost was primarily led by presence of two large one-offs: (1) Shortfall of Rs3.4 bn between actual arrears paid in FY2010 (Rs20.9 bn belonging to period till FY2009-end) and provisions carried at beginning FY2010-end (Rs17.5 bn) and (2) Rs4.5 bn as pension provision. Adjusted for these two costs not belonging to FY2010, total salary cost should be Rs43.6 bn as a base for FY2010. 15% growth on this base would imply an employee cost of Rs50 bn vs our current estimate of Rs58.3 bn. However, 1QFY11 employee cost of Rs13.4 bn belies much upside (as 1Q typically has lowest cost) unless 1Q itself had one-off provisions that were not explicitly declared.

Employee cost of Rs51.5 bn carries large one-offs of Rs7.9 bn not belonging to FY2010
Working of difference between employee cost reported in FY2010 annual report and audited P&L reported earlier

Cash employee cost reported in FY2010 annual report (A)	**64.5**
Cash payment of prior period arrears (before FY2009-end) (B)	20.9
Employee cost for FY2010 adj. for arrear payment (C = A-B)	**43.6**
Provision withdrawal for arrear payments (D)	17.5
Shortfall in provision versus actual cash payment (E = B - D)	3.4
Pension provision created in FY2010 (F)	4.5
Total extra cost carried in FY2010 (G = F + E)	**7.9**
Reported employee cost in FY2010 results (G = C + E + F)	**51.5**

Source: Kotak Institutional Equities, Company

BHEL income statement - key numbers, March fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010	1QFY11	2011E	2012E
Net revenues	**172,375**	**193,046**	**262,123**	**328,614**	**64,797**	**398,983**	**477,075**
Raw material cost	(96,512)	(106,622)	(160,300)	(193,074)	(39,346)	(233,515)	(284,192)
Staff cost	(23,690)	(26,077)	(29,837)	(51,529)	(13,378)	(58,228)	(65,215)
Other items	(19,955)	(27,169)	(34,941)	(29,745)	(4,889)	(34,108)	(39,989)
Total Expenditure	**(140,157)**	**(159,868)**	**(225,078)**	**(274,348)**	**(56,360)**	**(325,851)**	**(389,397)**
EBITDA	**32,219**	**33,178**	**37,046**	**54,266**	**8,437**	**73,132**	**87,678**
Other income	8,236	14,448	14,974	16,483	2,848	16,458	18,733
Interest	(433)	(354)	(307)	(335)	(38)	(153)	(153)
Depreciation	(2,730)	(2,972)	(3,343)	(4,580)	(1,269)	(5,677)	(6,964)
PBT	**37,291**	**44,299**	**48,370**	**65,834**	**9,978**	**83,760**	**99,294**
Tax	(13,214)	(15,711)	(17,106)	(22,800)	(3,301)	(27,808)	(32,966)
PAT	**24,078**	**28,589**	**31,263**	**43,034**	**6,677**	**55,951**	**66,329**
Key ratios (%)							
Raw material/sales	56.0	55.2	61.2	58.8	60.7	58.5	59.6
Staff cost/sales	13.7	13.5	11.4	15.7	20.6	14.6	13.7
Other exp./sales	11.6	14.1	13.3	9.1	7.5	8.5	8.4
EBITDA margin	**18.7**	**17.2**	**14.1**	**16.5**	**13.0**	**18.3**	**18.4**
PAT margin	14.0	14.8	11.9	13.1	10.3	14.0	13.9
Order details (Rs bn)							
Order backlog	550	859	1,207	1,427	1,480	1,586	1,702
Order inflow	347	503	597	590	108	600	629

Source: Company, Kotak Institutional Equities estimates

Imports intensity remains high; commodity price benefit, sedate spares business

Imports intensity remains high versus very low exports

BHEL reported total raw material and components imports of about Rs64.5 bn versus a total raw material cost of Rs193 bn, i.e. about 33% of total raw material cost is imports. This is broadly in line with the past two year levels of imports forming about 30-33% of total raw material cost. This is versus very small exports of only about Rs12 bn in FY2010 - about 4% of FY2010 sales.

Import-export details of BHEL, March fiscal year-ends, 2007-10 (Rs mn)

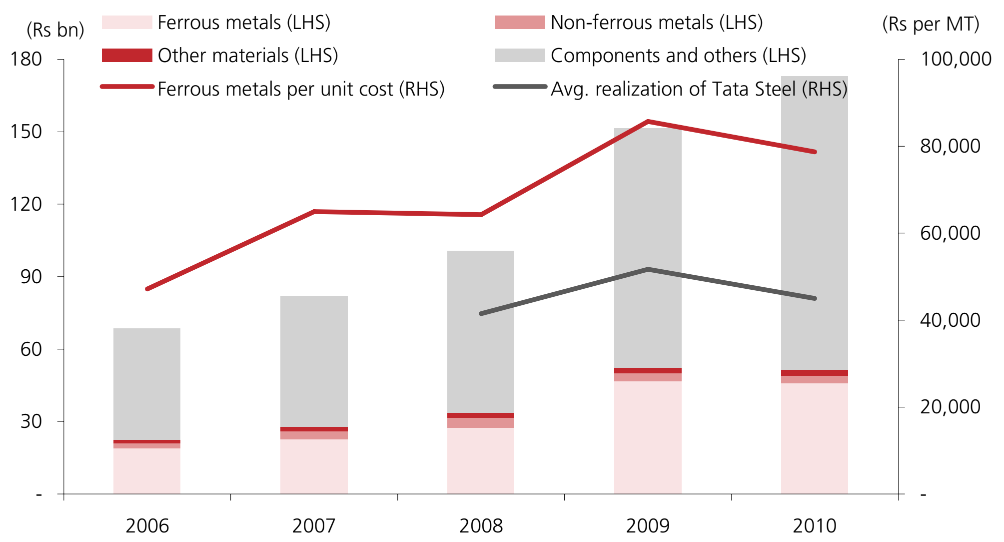
	2006	2007	2008	2009	2010
Total imports	22,871	22,846	32,066	53,776	64,523
Total exports	5,687	8,607	8,175	15,697	12,316
Net imports/ (exports)	**17,184**	**14,240**	**23,891**	**38,079**	**52,207**
Imports as % of RM cost	**30.4**	**23.7**	**30.1**	**33.5**	**33.5**
Exports as % of sales	**4.3**	**5.0**	**4.2**	**6.0**	**3.8**

Source: Company, Kotak Institutional Equities

Lower per unit commodity cost helps; may abate with rise in commodity prices

The decline in the per unit commodity price for key raw materials consumed by BHEL helped the margins of FY2010. For instance, in ferrous metals (forms about 25-30% of total raw materials and components), BHEL incurred a cost of Rs45.9 bn for 582,871 MT of material versus a cost of Rs46.6 bn for 544,168 MT implying a 8% decline in the average per unit cost of ferrous metals. The raw material cost as a percentage of sales declined by about 240 bps yoy to 58.7% of sale in FY2010 versus 61.2% of sales in FY2009.

Details of raw material consumed (quantity, value and per unit cost), March fiscal year-ends, 2009-10



		2009			2010			
	Unit	Quantity	Value	Per unit cost (Rs/unit)	Quantity	Value	Per unit cost (Rs/unit)	Per unit cost (% change)
Ferrous materials	MT	544,168	46,636	85,701	582,871	45,891	78,733	(8.1)
Non-ferrous materials	MT	18,966	3,392	178,846	20,071	3,062	152,553	(14.7)
Insulating materials	'000 mts	59,891	1,876	31	60,428	1,843	30	(2.7)
Insulated cables and magnet wire	'000 mts	2,730	451	165	5,450	593	109	(34.1)
Components			83,860			99,144		
Others			15,275			22,421		
Total raw material and components			**151,489**			**172,953**		

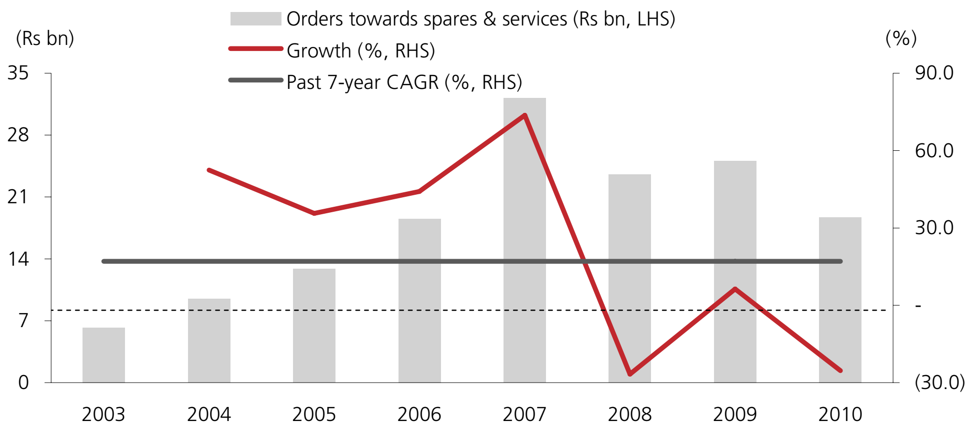
Source: Company, Kotak Institutional Equities

BHEL management has earlier shared that the company maintains about 6-9 months of inventory. Hence the commodity price fall in September-October 2008 would have benefitted the margins of FY2010 (especially 2HFY10). We see a significant pick-up in prices of most commodities since 4QFY10 and thereby believe that the company is likely to face potential headwinds of margin pressure. However, part of the commodity price rise would be absorbed by operating leverage led by strong revenue growth. We highlight that commodities, such as hot-rolled steel, aluminum and copper, are trading much above their average price over FY2010. For example, the current spot price of aluminum (on LME) at US$2,156/ton is about 15.5% above the average of US$1,867/ton during FY2010.

Spares business remains sedate

Spares business continued to remain sedate in FY2010 as well. BHEL reported a sharp 25% decline in the orders received in the spares and services business in FY2010 at Rs18.7 bn versus Rs25 bn in FY2009. The spares business has remained sedate over the past three years witnessing an average 16.5% annual de-growth over FY2007-10. Highlight that the spares business has recorded a 17% CAGR over the past seven years (FY2003-10) led by very strong growth over FY2003-07.

Sedate performance of spares business continues in FY2010 as well
Orders towards spares & services and its growth rate, March fiscal year-ends, 2003-10



Source: Company, Kotak Institutional Equities

Sedate order inflow traction likely to squeeze revenue growth in medium term

We believe that order inflows for BHEL would grow at a modest CAGR of about 6% over FY2011E-13E, which would materially squeeze revenue growth prospects of the company in the medium term. Our expectation of sedate inflow traction is based on (1) about 50% of XIIth Plan equipment ordering may already be complete, (2) upcoming competition appears credible on the back of JVs with global equipment players, and (3) industry, spares/R&M, and exports inflows are unlikely to pick the full tab of shortfall in power sector inflows. We estimate that revenue growth could contract to about 10-14% yoy by FY2014-15E despite assuming (1) reasonably optimistic success rate for BHEL in winning utility orders in remaining XIIth Plan activity and (2) improvement in execution days as order book matures.

Sedate order inflow traction likely to squeeze revenue growth in medium term
Segment-wise inflow and execution for BHEL, March fiscal year-ends, 2008-2015E (Rs bn)

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Power								
Utility order inflow (GW)	**14.6**	**17.0**	**16.5**	**14.0**	**14.0**	**14.0**	**15.0**	**15.0**
Realization (Rs mn / MW)	26.6	26.1	24.3	26.0	26.0	27.0	27.0	28.0
Utility order inflow	**387**	**444**	**401**	**364**	**364**	**378**	**405**	**420**
Spare orders	24	28	19	36	42	48	55	63
International orders	23	33	36	39	43	48	52	58
Orders received during the year	**434**	**504**	**456**	**440**	**449**	**474**	**513**	**541**
% growth	46.4	16.3	(9.7)	(3.5)	2.1	12.0	10.0	10.0
Revenues	**159**	**213**	**269**	**331**	**381**	**441**	**497**	**540**
% growth	14.9	34.1	25.8	23.3	14.9	15.9	12.7	8.6
Order backlog - year end	743	1,034	1,221	1,329	1,397	1,430	1,445	1,445
% growth	58.6	39.2	18.1	8.9	5.1	2.3	1.1	0.0
Order execution days	**1,074**	**1,270**	**1,405**	**1,345**	**1,275**	**1,156**	**1,049**	**976**
Industry								
Orders received during the year	**79**	**103**	**144**	**161**	**180**	**202**	**226**	**253**
% growth	19.9	30.5	40.1	12.0	12.0	12.0	12.0	12.0
Revenues	**60**	**72**	**79**	**95**	**132**	**162**	**194**	**214**
% growth	11.8	20.6	8.7	20.6	38.8	23.2	19.7	9.9
Order backlog - year end	96	126	191	257	305	345	376	416
% growth	23.8	31.3	51.4	34.5	18.8	12.9	9.2	10.5
Order execution days	**471**	**484**	**584**	**734**	**711**	**686**	**647**	**643**
Total								
Orders received during the year	**512**	**607**	**599**	**600**	**629**	**676**	**739**	**794**
% growth	41.6	18.4	(1.3)	0.2	4.8	7.4	9.3	7.5
Revenues	**219**	**286**	**347**	**426**	**512**	**604**	**692**	**754**
% growth	**14.0**	**30.4**	**21.5**	**22.7**	**20.2**	**17.8**	**14.6**	**9.0**
Order backlog - year end	839	1,160	1,412	1,586	1,702	1,774	1,821	1,861
% growth	53.7	38.3	21.7	12.3	7.4	4.2	2.6	2.2
Order execution days	**909**	**1,071**	**1,219**	**1,209**	**1,130**	**1,029**	**936**	**882**

15 GW inflow in FY11E-13E from XIIth Plan orders based on sector-wise break up of likely remaining orders and assuming a reasonably optimistic success rate for BHEL

Realizations inline with historicals

15% CAGR in spares and 10% CAGR in export inflows over FY11E-13E. Exports to small countries with potentially limited scale-up opportunity

Assume improvement in execution days as the order backlog matures over time

Expect 12% CAGR in industry orders, moderate upside post strong growth in FY2009-10.

Order inflow growth expected to significanly lag revenue growth impacting visbility

Lack of substantial upside to order inflow would meaningfully squeeze growth prospects in the medium-term

Source: Company, Kotak Institutional Equities estimates

Build 15 GW utility inflow; optimistic vs bottom-up estimate of 10-12 GW in thermal

An optimistic case scenario of total capacity addition of about 120 GW in the XIIth plan period would imply additional equipment ordering of about 60 GW. We estimate that of the 120 GW about 100 GW would be based on thermal plants out of which orders for about 58 GW have already been placed. Based on a detailed sector-wise analysis of likely remaining orders and assuming a reasonably optimistic success rate for BHEL, we believe that BHEL may get additional thermal orders of about 30 GW over FY2011E-13E. We believe that most of the XIIth Plan orders would be placed by end-FY2013E as order placed in FY2014E and beyond are less likely to be commissioned in the XIIth Plan period.

This would imply average thermal inflows of about 10-12 GW (about Rs260-320 bn based on average realization of about Rs26 mn/ MW) per year over FY2011E-13E compared to 16.5 GW (Rs420 bn) in FY2010 and 17 GW (Rs470 bn) in FY2009. Our estimate of 30 GW already includes (1) 7.5 GW (about 60%) from 660 MW and 800 MW bulk tendering and (2) 6.2 GW of orders from JVs with state utilities. We have assumed a much high percentage of private and UMPP orders for BHEL compared to the success in the segments so far. We have mainly focused on the thermal orders as realizations in hydro and nuclear are much lower.

Estimate BHEL to secure additional thermal orders of about 10-12 GW p.a. over FY2011E-13E for XIIth plan projects

Projects expected to be commissioned in the XIIth Plan period (MW)

Total projects in the XIIth Plan - Likely to be taken up for commissioning (MW)								
	Thermal							
	Coal			Gas	Total	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total					
Centre	**16,160**	**7,500**	**23,660**	**3,460**	**27,110**	**9,480**	**6,400**	**42,990**
NTPC	14,840	5,140	19,980	2,730	22,710	2,270	—	24,980
NHPC	—	—	—	—	—	4,760	—	4,760
DVC	1,320	500	1,820	—	1,820	—	—	1,820
Others	—	1,860	1,860	730	2,580	2,440	6,400	11,430
State	13,280	9,330	22,610	520	23,130	2,500	—	25,640
Private	12,090	19,490	31,580	2,930	34,520	2,510	—	37,030
UMPP	16,000	—	16,000	—	16,000	—	—	16,000
Total	**57,530**	**36,320**	**93,850**	**6,910**	**100,760**	**14,490**	**6,400**	**121,650**

Awarded so far (MW)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**3,300**	**6,390**	**9,690**	**726**	**10,416**
NTPC	3,300	4,640	7,940	—	**7,940**
NHPC	—	—	—	—	**—**
DVC	—	500	500	—	**500**
Others	—	1,250	1,250	726	**1,976**
State	6,780	8,000	14,780	—	**14,780**
Private	8,580	18,520	27,100	—	**27,100**
UMPP	5,700	—	5,700	—	**5,700**
Total	**24,360**	**32,910**	**57,270**	**726**	**57,996**

Potential remaining ordering activity (MW)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**12,860**	**1,110**	**13,970**	**2,730**	**16,700**
NTPC	11,540	500	12,040	2,730	**14,770**
NHPC	—	—	—	—	**—**
DVC	1,320	—	1,320	—	**1,320**
Others	—	610	610	—	**610**
State	6,500	1,330	7,830	520	**8,350**
Private	3,510	970	4,480	2,930	**7,420**
UMPP	10,300	—	10,300	—	**10,300**
Total	**33,170**	**3,410**	**36,580**	**6,180**	**42,760**

BHEL share in projects awarded so far (%)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**40**	**100**	**80**	**100**	**81**
NTPC	40	100	75	—	**75**
NHPC	—	—	—	—	**—**
DVC	—	100	100	—	**100**
Others	—	100	100	100	**100**
State	71	85	78	—	**78**
Private	23	69	55	—	**55**
UMPP	—	—	—	—	**—**
Total	**33**	**79**	**60**	**100**	**60**

Awarded to BHEL so far (MW)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**1,320**	**6,390**	**7,710**	**726**	**8,436**
NTPC	1,320	4,640	5,960	—	**5,960**
NHPC	—	—	—	—	**—**
DVC	—	500	500	—	**500**
Others	—	1,250	1,250	726	**1,976**
State	4,800	6,800	11,600	—	**11,600**
Private	1,980	12,830	14,810	—	**14,810**
UMPP	—	—	—	—	**—**
Total	**8,100**	**26,020**	**34,120**	**726**	**34,846**

Expected BHEL share in remaining projects (%)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**58**	**83**	**60**	**100**	**66**
NTPC	53	100	55	100	**63**
NHPC	—	—	—	—	**—**
DVC	100	—	100	—	**100**
Others	—	69	69	—	**69**
State	95	50	87	65	**86**
Private	99	84	95	50	**77**
UMPP	47	—	47	—	**47**
Total	**66**	**70**	**66**	**73**	**67**

Estimates of incremental order inflow for BHEL (MW)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**7,420**	**920**	**8,340**	**2,730**	**11,070**
NTPC	6,100	500	6,600	2,730	**9,330**
NHPC	—	—	—	—	**—**
DVC	1,320	—	1,320	—	**1,320**
Others	—	420	420	—	**420**
State	6,150	660	6,820	340	**7,160**
Private	3,460	820	4,280	1,470	**5,740**
UMPP	4,800	—	4,800	—	**4,800**
Total	**21,830**	**2,400**	**24,240**	**4,530**	**28,770**

Source: CEA, Kotak Institutional Equities estimates

Global partners make newcomers credible; bulk tender, state JVs not positive

Commitment of leading global players makes upcoming competition credible

Upcoming private competition is primarily via joint ventures with established global power equipment manufacturers, such as Alstom and Toshiba, which makes the commitment more credible. For example, Alstom, Bharat Forge's JV partner, is the global leader in the sector contributing 25% of the total global installed capacity of about 4,600 GW. Toshiba, JSW JV partner, is a leading provider of steam turbines and generators, with over 1,800 units (150 GW) installed. Based on capacity addition plans by various players, manufacturing capacity is expected to significantly exceed the likely demand in the next few years.

The total utility market of about 20-23 GW p.a. could potentially be split as about (1) 15 GW for BHEL, (2) 3 GW for L&T, (3) 2 GW for Thermax (boilers only), (4) 2-3 GW each for JSW and Bharat Forge (turbine only), and (5) 2-3 GW for Chinese players. An assumption of 15 GW p.a. for BHEL also appears in line with expected capacity of 20 GW as the company is also likely to execute about 3-4 GW of captive/export orders. We also believe that the changing dynamics of the industry – (1) adoption of super-critical technology and (2) increasing share of private players in capacity addition – reduces incumbent's advantage and facilitates entry of new players.

Prima-facie, equipment manufacturing capacity may exceed likely demand of about 20-23 GW p.a.
Details of capacity addition by various players over the next few years

	Structure	Capital investment	Boiler capacity (MW/ annum)	Turbine capacity (MW/ annum)	Likely start of manufacturing	Estimated utility orders (MW/ annum)
L&T - Mitsubishi	51:49	30,000	4,000	4,000	Jun-10	3000-3500
BGR Energy - Hitachi	51:49	32,000	4,000	4,000	Jul-13	
JSW - Toshiba	25:75	11,800	—	3,000	Jun-11	
Bharat Forge - Alstom	49:51	24,000	—	5,000	Jun-11	2,000-3,000
Thermax - B&W PCG	51:49	7,000	3,000	—	NA	
GB Engineering - Ansaldo(Gammon)	15:85		2,000	—		
Total for new players			**13,000**	**16,000**		**5,000-6500**
Imported equipment						**2,000-2,500**
BHEL current capacity			15,000	15,000		
BHEL - incremental capacity			5,000	5,000		
Total for BHEL			**20,000**	**20,000**		**11,000-13,000**
Total supply			**33,000**	**36,000**		
Total demand						**18,000-22,000**

Source: Company, News flows, Kotak Institutional Equities

Chinese competition reduced but not disappeared; forex could tilt the balance

Chinese manufacturers have run out of favor to some extent due to (1) unfavorable currency movement, and (2) government preference for domestic manufacturing such as awarding super critical contracts in a majority of public sector orders to companies with domestic manufacturing. However, we continue to see some large orders placed to Chinese firms such as 1,980 MW order for Talwandi Sabo in Nov-2009. The exchange rate continues to favor domestic manufacturer despite slight correction in the rates recently. Further correction in the exchange rate could increase the attractiveness of Chinese equipment and potentially result in higher level of orders to the Chinese manufacturers.

NTPC bulk tendering opens up BHEL stronghold for private participation

In our view, NTPC bulk tendering is far from being a positive for BHEL as it would increase private participation in central utilities orders which is traditionally a stronghold for BHEL. BHEL secured all of the sub-critical and more than 80% of the total orders placed by NTPC for the XIth Plan. However, share of NTPC orders secured by BHEL may go down to 50-60% for the XIIth Plan as NTPC is likely to spread out orders across bidding participants, in line with the government policy to encourage setting up of domestic manufacturing facilities.

JVs ramp up super-critical market share; but capital commitment may not be positive

We expect BHEL to receive additional orders of about 6 GW from JVs with state utilities for super-critical plants. Excluding the 1,600 MW order for JV with Karnataka Power, BHEL had a low share of about 30% in about 21 GW of super-critical order placed for XIIth Plan. The formation of JVs could have been partially led by the motivation to secure a larger share of super-critical orders by using the balance sheet of the company and to that extent, capital commitment by the company may not be considered positive.

Expect additional inflows of 6.1 GW from JVs with state utilities
JVs/MoU with state utilities announced by BHEL for super-critical plants

Parnter	Capacity (MW)	Cfg	Status
Karnataka Power Co. Ltd (KPCL)	1,600	2 X 800	2x800 MW order placed with BHEL in Apr-2010
Tamil Nadu Electricity Board (TNEB)	1,600	2 X 800	JV formed
Madhya Pradesh Power Generation Co. Ltd (MPPGCL)	1,600	2 X 800	JV formed
Maharashtra State Power Generation Co. Ltd (Mahgenco)	1,320	2 X 600	MoU signed
Gujarat State Electricity Corporation Ltd. (GSECL)	1,600	2 X 800	MoU signed
Total	**7,720**		

Source: Company, Kotak Institutional Equities

Reiterate REDUCE with a target price of Rs2,600/share

We marginally revise our earnings estimates to Rs114 and Rs135.5 from Rs116 and Rs135.4 for FY2011E and FY2012E, respectively. We retain our target price of Rs2,600 based on 19X FY2012E earnings. Although we are positive on near-term earning potential of the company led by execution of large order backlog, we believe there may be contraction in valuation multiples accorded to the stock as order inflow pressure becomes apparent in addition to (1) rising competition as several private players set up equipment capacities and (2) potentially higher working capital (order backlog is proportional to advances, as order backlog declines as percentage of sales, working capital metrics may suffer).

We reiterate our REDUCE rating based on limited upside to our FY2012E-based target price. We believe that BHEL could face potential headwind in order inflows which would lead to contraction in revenue growth to about 10-14% yoy by FY2014-15E despite assuming (1) reasonably optimistic success rate for BHEL in winning utility orders in remaining XIIth Plan activity and (2) improvement in execution days as order book matures. Furthermore, we perceive bulk tendering event of NTPC as a negative for BHEL as it opens virtually captive customer's (NTPC) business to new competition and helps them take a foothold in the sector.

Key financials of BHEL, March fiscal year-ends, 2007-15E (Rs bn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Income Statement									
Total net revenues	**172**	**193**	**262**	**329**	**399**	**477**	**562**	**644**	**702**
Cost of goods sold	(140)	(160)	(225)	(274)	(326)	(389)	(465)	(531)	(580)
EBIDTA	**32**	**33**	**37**	**54**	**73**	**88**	**97**	**113**	**122**
Other income	8	14	15	16	16	19	21	25	29
Interest	(0.4)	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Depreciation	(3)	(3)	(3)	(5)	(6)	(7)	(8)	(9)	(10)
Pre-tax Profit	37	44	48	66	84	99	111	129	141
Tax	(13)	(16)	(17)	(23)	(28)	(33)	(37)	(43)	(47)
PAT	**24**	**29**	**31**	**43**	**56**	**66**	**74**	**86**	**94**
Balance sheet									
Shareholders' equity	88	108	129	159	201	251	306	371	441
Loan funds	0.9	1.0	1.5	1.3	1.3	1.3	1.3	1.3	1.3
Total source of funds	**89**	**109**	**131**	**160**	**202**	**252**	**308**	**372**	**443**
Net block	10	10	15	24	38	46	48	51	54
WIP	3	7	12	15	7	5	5	5	5
Investments	0.1	0.1	0.5	0.8	0.8	0.8	0.8	0.8	0.8
Net current assets (excl cash)	8	(5)	(17)	7	21	52	67	94	103
Cash and bank balance	58	84	103	98	121	134	171	206	265
Deferred Tax Assets	9	13	18	15	15	15	15	15	15
Total applications	**89**	**109**	**131**	**160**	**202**	**252**	**308**	**372**	**443**
Cash flow statement									
Net profit before tax and extraordinary items	**37**	**44**	**48**	**66**	**84**	**99**	**111**	**129**	**141**
Add: Depreciation / amortisation / non-cash prov	3	3	3	5	6	7	8	9	10
Tax paid	(16)	(20)	(22)	(20)	(28)	(33)	(37)	(43)	(47)
Operating profit before working capital changes	24	28	30	51	62	73	82	95	104
Change in working capital / other adjustments	10	13	12	(24)	(14)	(31)	(15)	(27)	(9)
Net cashflow from operating activites	**35**	**41**	**42**	**26**	**48**	**42**	**66**	**68**	**95**
Fixed Assets	(4)	(7)	(13)	(17)	(11)	(13)	(10)	(12)	(12)
Investments	—	0.0	(0.4)	(0.3)	—	—	—	—	—
Net cashflow from investing activites	**(4)**	**(7)**	**(13)**	**(18)**	**(11)**	**(13)**	**(10)**	**(12)**	**(12)**
Free cash flow	**30**	**34**	**29**	**9**	**37**	**29**	**56**	**56**	**83**
Issue of share capital	—	—	—	—	—	—	—	—	—
Borrowings	(4.7)	0.1	0.5	(0.2)	—	—	—	—	—
Dividend paid	(7)	(9)	(10)	(11)	(14)	(17)	(18)	(21)	(24)
Net cashflow from financing activites	**(12)**	**(9)**	**(9)**	**(13)**	**(14)**	**(17)**	**(18)**	**(21)**	**(24)**
Cash generated /utilised	19	26	20	(5)	23	13	38	34	59
Net cash at end of year	**58**	**84**	**103**	**98**	**121**	**134**	**171**	**206**	**265**
Ratios (%)									
EBITDA margin	**18.7**	**17.2**	**14.1**	**16.5**	**18.3**	**18.4**	**17.3**	**17.5**	**17.4**
PAT margin	14.0	14.8	11.9	13.1	14.0	13.9	13.2	13.3	13.4
RoE	29.9	29.2	26.4	29.8	31.1	29.3	26.5	25.4	23.2
RoCE	29.1	29.2	26.3	29.7	30.9	29.2	26.4	25.3	23.2
Net current assets (excl cash) as days of sales	17.7	(9.5)	(24.3)	7.8	19.0	39.6	43.6	53.2	53.5
EPS (Rs)	**49.2**	**58.4**	**63.9**	**87.9**	**114.3**	**135.5**	**151.0**	**175.4**	**192.5**

Source: Company, Kotak Institutional Equities estimates

BHEL working capital details, March fiscal year-ends, 2007-12E

	2007	2008	2009	2010	2011E	2012E
In Rs mn						
Current assets	**152,541**	**193,187**	**265,864**	**331,447**	**382,690**	**449,967**
Inventories	42,177	57,364	78,370	92,355	109,310	130,705
Sundry debtors	96,958	119,749	159,755	206,888	235,017	274,482
Loans and advances	11,409	11,863	24,237	28,137	32,793	39,212
Other current assets	1,997	4,211	3,502	4,069	5,569	5,569
Current liabilities & provisions	**144,201**	**198,208**	**283,329**	**324,417**	**361,910**	**398,218**
Sundry creditors	35,944	44,838	59,200	76,221	84,811	101,350
Advance from customers	77,755	113,946	164,354	191,906	222,016	238,347
Other current liabilities	5,280	6,980	10,019	12,111	10,931	13,071
Provisions	25,222	32,444	49,756	44,180	44,153	45,450
WCap. excl. cash	**8,340**	**(5,021)**	**(17,465)**	**7,030**	**20,780**	**51,750**
WCap. excl. cash & provisions	**33,562**	**27,423**	**32,291**	**51,210**	**64,932**	**97,199**
As days of sales						
Current assets	**323**	**365**	**370**	**368**	**350**	**344**
Inventories	89	108	109	103	100	100
Sundry debtors	205	226	222	230	215	210
Loans and advances	24	22	34	31	30	30
Other current assets	4	8	5	5	5	4
Current liabilities & provisions	**305**	**375**	**395**	**360**	**331**	**305**
Sundry creditors	76	85	82	85	78	78
Advance from customers	165	215	229	213	203	182
Other current liabilities	11	13	14	13	10	10
Provisions	53	61	69	49	40	35
WCap. excl. cash	**18**	**(9)**	**(24)**	**8**	**19**	**40**
WCap. excl. cash & provisions	**71**	**52**	**45**	**57**	**59**	**74**

Source: Company, Kotak Institutional Equities estimates

Major orders announced by BHEL, March fiscal year-ends, 2009-11E

	Client/ project	Agency	Capacity (MW)	Configuration	Value (Rs mn)
Power	Dainik Bhaskar Power Limited	Private	1,200	2X 600	26,650
	Raichur Power Co. Ltd, JV of Karnataka Power Co. Ltd and BHEL	State	1,600	2X 800	63,000
	Orders announced in FY2011 so far		**2,800**		**89,650**
Power	Bara project, Prayagraj, UP, Jaiprakash Associates Limited (JAL)	Private	1,980	3X 660	56,000
	Raigarh Extn, Jindal Power Limited, Chattisgarh TPP	Private	2,400	4X 600	50,400
	India Bulls Amravati	Private	1,350	5X 270	28,890
	India Bulls Nasik	Private	1,350	5X 270	28,890
	Angul TPP in Orissa, Monnet Power Company Limited (MPCL)	Private	1,050	2X 525	26,300
	Angul TPP in Orissa, Jindal India Thermal Power Limited (JITPL)	Private	1,200	2X 600	26,000
	Pipavav, Gujarat (Videocon Power Ltd)	Private	1,200	2X 600	24,860
	BECL, Bhavnagar	State	500	2X 250	18,650
	Avantha Bhandar TPP, Chattisgarh, Korba West Power Co. Ltd	Private	600	1X 600	14,750
	Vallur TPP, NTPC-Tamil Nadu Energy Company Limited (NTECL)	Centre	500	1X 500	13,000
	Jhabua Power Ltd, Seoni, MP TPP Unit I (Avantha Group)	Private	600	1X 600	12,870
	Abhijeet Infra. Ltd, Matrishri Usha Jayaswal, Jharkhand	Private	1,080	4X 270	25,250
	DPL, Durgapur Unit 8, WBPDCL	State	250	1X 250	12,430
	Surana Power Ltd, Raichur TPS	Private	420	2X 210	11,400
	KBUNL (NTPC), Muzaffarpur TPP Stage II	Centre	390	2X 195	10,770
	Bela TPP, Ideal Energy Projects Limited, Butibori, Maharashtra	Private	540	2X 270	7,030
	Nuclear Power Corporation of India limited (NPCIL)	Centre	700	1X 700	7,000
	TPP in Jharkhand, Adhunik Power, Saraikela, Padampur, Unit II	Private	270	1X 270	6,400
	TPP in Jharkhand, Adhunik Power, Saraikela, Padampur, Unit I	Private	270	1X 270	6,400
	Krishanganga hydro-electric plant in Jammu & Kashmir, HCC	Private	330	3X 110	4,950
	Ramgarh	State	160	1X 160	4,000
Captive	HNPCL, Vizag	Private	1,040	2X 520	41,800
	Captive plant at Paradip refinery of IOCL, Orissa	Private	376	NA	33,480
	Sambalpur TPP in Orissa, HINDALCO	Private	900	6X 150	20,075
	OPG Power Gujarat Power Ltd	Private	300	2X 150	7,000
	Sterlite, Tutitcorn	Private	160	2X 80	4,000
	Oil India Limited (OIL)	Private	20	1X 20	1,900
	Chennai Petroleum Corporation Limited (CPCL)	Private	20	1X 20	1,700
	Barauni refinery of Indian Oil Corporation (IOC)	Private	20	1X 20	1,050
Industry	Indian Railways	Centre	NA	NA	9,900
	Power Grid Corporation of India Ltd (PGCIL)	Centre	NA	NA	2,000
Export	Punatsangchhu-I hydro-electric project in Bhutan	Export	1,200	6X 200	10,000
	Petroleum Development Oman (PDO)	Export	252	2X 126	4,100
	Sultanate of Oman	Export	252	2X 126	3,750
	Grodnoenergo, Republic of Belarus	Export	126	1X 126	2,700
	Orders announced in FY2010		**21,851**		**541,295**
Power	Pragati Power Corporation Limited	State	1,371	NA	35,880
	Korba West TPP, Chhattisgarh State Electricity Board	State	1,500	3X 500	33,680
	Malwa TPP, Madhya Pradesh Power Generating Company Ltd	State	1,200	2X 600	31,500
	Krishnapatnam, Andhra Pradesh Power Dev Co Ltd (APPDCL)	State	1,600	2X 800	25,000
	Pallatana CPP, ONGC Tripura Power Company Limited (OTPCL)	Private	726	2X 363	22,000
	Chandrapur TPP, Mahgenco	State	1,000	2X 500	22,000
	Marwa TPP, Chattisgarh State Electricity Board	State	1,000	2X 500	22,000
	Tamil Nadu Electricity Board TNEB, North Chennai TPS	State	600	1X 600	21,750
	Rihand TPP, NTPC	Centre	1,000	2X 500	21,538
	Tuticorn TPP, JV of NLC and TNEB	State	1,000	2X 500	21,538
	Vindhyachal TPP, NTPC	Centre	1,000	2X 500	21,538
	Mauda TPP, NTPC Ltd	Centre	1,000	2X 500	21,000
	Bokaro TPP, Damodar Valley Corporation	Centre	500	1X 500	18,400
	Barh II, NTPC Ltd	Centre	1,320	2X 660	14,740
	Kakatiya TPP, APGENCO	State	600	1X 600	13,250
	Bina Power Supply Company Ltd, Jai Prakash Group	Private	500	2X 250	11,750
	Goindwal TPP, GVK Power Ltd	Private	540	2X 270	11,550
	Chabra Units 3&4, Rajasthan Rajya Vidyut Utpadan Nigam Ltd	State	500	2X250	9,900
	Satluj Jal Vidyut Nigam Limited (SJVNL)	Centre	412	6x 69	6,410
	Parli 3 TPP of Mahagenco	State	250	1X 250	5,385
	Nuclear Power Corporation of India limited (NPCIL)	Centre	1,400	2X 700	3,450
Captive	Mahan CPP, Hindalco	Private	900	6X 150	20,000
	Guru Gobind Singh refinery, Bhatinda, HPCL - Mittal Energy JV	Private	153	1X 153	11,500
	CPP for MRPL	Private	68	NA	3,400
Industry	Oil and Natural Gas Corporation Limited ONGC	Private	NA	NA	5,060
	SAIL	Private	NA	NA	3,380
	Mundra UMPP, Coastal Gujarat Power Ltd (CGPL), Tata Power	Private	4,000	5X 800	2,400
	Tirora TPP, Powergen Infrastructure	Private	NA	NA	810
Export	Ministry of Electricity, Syria	Export	400	2X 200	20,800
	Ministry of Infrastructure, Govt of the Republic of Rwanda	Export	28	2X 14	4,000
	Nam Chien Hydropower Joint Stock Company, Vietnam	Export	200	2X 100	2,000
	Petroleum Development Oman (PDO)	Export	126	1X 126	1,890
	International Energy Resources, UAE	Export	84	2X 42	1,600
	International Energy Resources (IER), UAE	Export	84	2X 42	1,400
	Orders announced in FY2009		**25,162**		**472,825**

Source: Company, Kotak Institutional Equities

Energy

India

CAUTIOUS

AUGUST 31, 2010

UPDATE

BSE-30: 18,032

Government plays Robin Hood. We see the provisions in the Direct Taxes Code (DTC), 2010 Bill as (1) positive for companies paying tax at the marginal rate (33.2%) currently; this includes most government-owned companies and (2) negative for companies paying lower taxes. We see downside risk to earnings and valuations of RIL from (1) applicability of Minimum Alternate Tax (MAT) provisions for its SEZ refinery and (2) non-availability of tax exemption for gas production in FY2010-12E.

Tax exemption on gas production—going, going, gone (at least under the current tax regime)

E&P companies will be allowed investment-based deduction from FY2013E under a new provision in the DTC bill tabled in the Indian parliament recently that allows capital expenditure to be also treated as part of business expenditure while computing business profits (Eleventh Schedule). However, the DTC has clarified that the income tax exemption on gas production is available only for blocks awarded under NELP VIII. We have reproduced the relevant provisions later in the report. We note that non-availability of tax exemption on gas production from NELP I-VII blocks will be negative for RIL's FY2010-12E earnings. We compute a negative impact of Rs4.8 (-8.2%) on FY2011E EPS and Rs6.6 (-8.9%) on FY2012E EPS due to non-availability of tax exemption on natural gas production from RIL's KG D-6 block.

Units in Special Economic Zone (SEZ) to pay MAT

The proposed DTC does not specifically exempt units set up in a Special Economic Zone (SEZ) from the applicability of MAT provisions. We currently assume that 100% of the profits of the SEZ refinery will be exempt for the first five years and 50% of its profits will be exempt for the next five years. We compute a negative earnings impact of Rs4.4 (-3.8%) and Rs4.6 (-4.1%) on FY2013E and FY2014E EPS estimates, if RIL has to pay tax at the MAT rate of 20% on the profits from its SEZ refinery.

Lower corporate tax (30%) to benefit companies paying marginal rate of tax (33.2%)

We expect the companies paying tax at the current marginal tax rate of 33.2% to benefit from the DTC, which provides for a flat tax rate of 30% for companies (no surcharge and education cess). We see moderate upside to the earnings of all the energy companies under our coverage except for RIL (see Exhibit 1). However, we highlight that the DTC will be applicable from FY2013E onwards and will not impact the earnings of the companies for FY2011-12E.

No implications for gas transmission companies

There is no change in the taxation regime for pipeline companies, which will continue to enjoy an exemption based on the investment in business. We note that the computation of profits for a business of laying and operating a cross country pipeline has been laid out in the Thirteenth Schedule of the proposed DTC and the provisions are similar to Section 35AD of the Income Tax Act, 1961.

QUICK NUMBERS

- 3%-5% positive impact on FY20113-14E EPS of energy sector companies other than RIL
- 8%-9% negative impact on FY2011-12E EPS of RIL from payment of income tax on KG D-6 gas production
- 4% negative impact on FY2013-14E EPS of RIL from payment of MAT on profits of SEZ refinery

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Potential upside to earnings from the proposed DTC
EPS estimates, March fiscal year-ends, 2013-14E (Rs)

	Current estimates		Potential estimates		Change (%)	
	2013E	2014E	2013E	2014E	2013E	2014E
BPCL	73.3	76.7	76.8	80.4	4.8	4.8
Castrol	21.7	NA	22.7	NA	4.8	NA
GAIL	45.4	47.0	46.9	48.6	3.4	3.3
GSPL	9.0	9.4	9.4	9.9	4.8	4.8
HPCL	63.6	60.2	66.6	63.1	4.8	4.8
IOCL	43.8	45.3	45.9	47.4	4.7	4.7
Oil India	166.3	164.5	174.3	172.4	4.8	4.8
ONGC	159.1	161.9	165.4	168.4	4.0	4.0
PLL	8.6	9.4	9.0	9.9	4.8	4.8

Source: Kotak Institutional Equities estimates

DTC seeks to clarify non-availability of tax exemption on gas production

We reproduce the provision laid down in Section 318 (s) which deals with the tax exemption on oil and gas production:

"the deduction under sub-section (9) of section 80-IB of the repealed Income Tax Act shall continue to be allowed under this Code, if the undertaking referred to in the said sub-section also fulfills any of the following, namely:—

(A) it is engaged in commercial ***production of mineral oil in any blocks*** *licensed under a single contract, which is awarded under the New Exploration Licensing Policy announced by the Government of India vide Resolution No. O-19018/22/95-ONG.DO.DL, dated 10th February, 1999 (hereinafter referred as the NELP) or has been awarded in pursuance of any law for the time being in force or has been awarded by the Central or a State Government in any other manner, before the commencement of this Code*

(C) it is engaged in commercial ***production of natural gas in blocks licensed under the VIII Round*** *of bidding for award of exploration contracts under the NELP and begins commercial production of natural gas on or after the 1st day of April, 2009"*

It is clear from the above provisions that the tax exemption on production of natural gas was not available since the inception of the NELP. We see this as a significant negative for RIL as it will have to pay tax on the gas production from its KG D-6 block.

Two different tax provisions for oil and gas producers under proposed DTC

We highlight that there are two different provisions regarding computation of taxation for oil and gas companies. (1) Section 318 (s) of the proposed DTC provides for deduction of 100% of profits for a period of seven years for undertakings fulfilling certain criteria. (2) The Eleventh Schedule provides for deduction of capital expenditure (along with other business expenditure) in computing the profits of an undertaking engaged in the production of mineral oil or natural gas. It would appear that companies would have to choose between (1) seven-year tax exemption and (2) deduction based on capital investment. We will seek more clarity from companies and tax experts on this issue.

The provisions of the Eleventh Schedule are new in that oil and gas companies can deduct capital expenditure incurred in the business along with other allowed business expenditure from the gross income for computation of profits. We note that oil and gas companies are treated similar to other companies in the current Income Tax Act, 1961.

SEZ units to pay MAT

We highlight that the proposed DTC dos not specifically exempt units set up in a Special Economic Zone (SEZ) from the applicability of MAT provisions. We note that Section 115 JB (6) of the Income Tax Act, 1961 provides:

"The provisions of this section shall not apply to the income accrued or arising on or after the 1st day of April, 2005 from any business carried on, or services rendered, by an entrepreneur or a Developer, in a Unit or Special Economic Zone, as the case may be."

However, the proposed DTC does not make any specific exclusion for units operating in an SEZ. On the contrary, Clause 107 provides that

"apart from the specific exclusions provided in this Chapter from the application of certain provisions of the Code, all other provisions of the Code shall apply to a company referred to in this Chapter." This would suggest MAT would apply to SEZ units (including RIL's second refinery at Jamanagar).

CAUTIOUS

AUGUST 31, 2010

UPDATE

BSE-30: 18,032

Withdrawal of MAT exemption could override dilutions to earlier draft. The proposed Direct Tax Code (DTC) (1) strikes a balance between the Income Tax Act, 1961 and the draft DTC circulated earlier but (2) likely withdraws minimum alternative tax exemption for SEZ developers and units in SEZs. If MAT at the rate of 20% of book profit is applicable to both, it would be a key negative in the proposed bill. Mahindra Life and DLF are the two stocks in our coverage universe with potential negative impact.

Key provisions of the proposed DTC

Key provisions of the proposed DTC are (1) continuation of tax exemptions for existing SEZs units and notified SEZs, (2) time-frame for setting up tax-exempt new SEZs and starting new units in SEZs i.e. time-bound withdrawal of existing tax exemptions and (3) withdrawal of Minimum Alternate Tax (MAT) exemption for both SEZ developers and units in SEZs. If no MAT exemption is provided in the final bill, this would be the key negative provision for the sector.

SEZ developers – marginally better than earlier draft, excluding withdrawal of MAT exemption

As per the proposed DTC, tax exemption will continue for existing as well as SEZs notified on or before March 31, 2012. The earlier draft DTC had proposed continuing this exemption for notified SEZs and SEZs notified only up to March 31st 2011. Tax exemption for Special Economic Zone (SEZ) developers is as per section 80-IAB of the existing Income Tax Act, 1961 and provides 100% income tax exemption on development of SEZs for a block of 10 years in 15 years post notification of the SEZ.

Units in SEZ get time until March 2014 – positive for SEZ developers

As per the proposed DTC, units that commence operations in notified SEZs before March 31, 2014 will now be eligible for income tax exemption. This is substantially better than the provision in the draft DTC which had proposed a withdrawal of exemptions even for existing units. Tax exemption for units in SEZs is as per section 10AA of the current Income Tax Act, 1961 and provides for 100% exemption on profits for first five years, 50% for the next five years and 50% of ploughed back profit for the next five years.

No exemption from MAT is incrementally negative

The key negative is the likely imposition of minimum alternate tax (MAT) on both SEZ developers and units in SEZs. Both have been enjoying exemption from MAT under section 115JB of the Income Tax Act, 1961 but the new DTC does not mention any exemption despite clearly specifying the calculation of net profit (in the twelfth schedule) for SEZ developers and units in SEZs. As per the current DTC, MAT at the rate of 20% of book profit will be applicable on both SEZ developers and SEZ units which would be a key negative in the proposed bill.

Mahindra Life (Rs459, ADD) and DLF (Rs307, ADD) are the two stocks in our coverage universe with potential negative impact. Apart from valuation-led downside, we see a slower up-take of SEZ space if MAT becomes applicable. For Mahindra Life, its subsidiaries pay more than MAT already (Exhibit 2). DLF Cyber City Developers Pvt Ltd, 100% subsidiary of DLF has around 6 mn sq. ft of stabilized office space and 5.8 mn sq. ft of potential office space while CARAF has two commercial properties in Gurgaon and an IT park each at Kolkata and Chandigarh.

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Exhibit 1: Withdrawal of MAT exemption for SEZ units and SEZ developers
Impact of proposed DTC on SEZ units and SEZ developers

	Existing	Draft Direct Tax code	Currently proposed
SEZ developers	100% exemption under section 80-IAB in a block of 10 years in 15 years	Restricted to existing notified SEZs	Avaialble for existing and SEZs notified until 31st March 2012
Units in SEZs	Under section 10AA, 100% income tax exemption for first 5 years, 50% for next 5 and 50% of ploughed-back profit for next 5	Withdrawal of all exemption even for units currently operational	Units currently operational not impacted; even new units in notified SEZs starting operations by March 31st 2014 will be exempt
Exemption from Minimum Alternate Tax (MAT)	SEZ units & developers exempt from MAT under section 115 JB	Silent on specifics but policy slant towards reducing exemptions	No exemption

Source: Kotak Institutional Equities

Exhibit 2: Mahindra Lifespaces' profit-making subsidiaries pay higher than MAT already
2010 Revenues, PBT, provision for tax, PAT, subsidiaries of Mahindra Life, March fiscal year-ends (Rs mn)

Subsidiaries	Revenues (Rs mn)	PBT (Rs mn)	Provision for tax (Rs mn)	Tax rate (%)	PAT (Rs mn)
Mahindra Infrastructure Developers Limited	11.7	6.1	3.4	55.1	2.8
Mahindra World City Developers Limited	315.0	160.9	51.5	32.0	109.4
Mahindra World City (Jaipur) Limited	536.0	118.1	39.3	33.3	78.7
Mahindra World City (Maharashtra) Limited	0.0	(0.1)	0.0	0.0	(0.1)
Mahindra Integrated Township Limited	10.1	(44.4)	(0.0)	0.0	(44.4)
Knowledge Township Limited	0.1	(0.1)	0.0	0.0	(0.1)
Mahindra Residentail Developers Limited	110.6	(38.2)	0.0	0.0	(38.2)
Mahindra Bebenco Developers Limited	0.0	(0.1)	0.0	0.0	(0.1)
Indusrial Township (Maharashtra) Limited	0.1	(0.4)	0.0	0.0	(0.4)
Raigad Industrial and Business Park Limited	0.0	(0.6)	0.0	0.0	(0.6)

Source: Company, Kotak Institutional Equities

Exhibit 3: SEZ subsidiaries of DLF (major subsidiaries based on turnover)
2009 Revenues, PBT, provision for tax and PAT, major subsidiaries of DLF, March fiscal year-ends (Rs mn)

Subsidiaries	Revenues (Rs mn)	PBT (Rs mn)	Provision for tax (Rs mn)	Tax rate (%)	PAT (Rs mn)
DLF Akruti Info Parks (Pune)	1,563	271	0	0.0	271
DLF Commercial Developers Limited	7,052	2,464	(98)	-4.0	2562
DLF Cyber City Developers Limited	14,426	11,945	921	7.7	11024
DLF Info City Developers (Chennai) Limited	14,038	10,206	432	4.2	9774

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Industrials

India

ATTRACTIVE

AUGUST 30, 2010

UPDATE

BSE-30: 18,032

Infra. spending keeps pace led by pvt. sector investments in power and telecom.

Mid-term review of XIth plan highlights (1) infra investments broadly keep pace with envisaged spends of US$514 bn; stands at US$115 bn p.a. (7.9% of GDP), (2) strong investments from pvt. sector offset sedate public sector investments - pvt. sector to contribute over a third of XIth plan spends versus 25% in Xth plan, (3) state sector may offer larger and more diverse PPP opportunities vs central. Top picks: L&T, TMX, BGR.

Infra investments broadly keep pace with projections; stands at US$115 bn p.a. - 7.9% of GDP

We highlight that infra investments over past three years of XIIth plan have been keeping pace with earlier projections with US$266 bn having been spent already in first three years versus plan of US$513 bn for full five years. Infrastructure investments as percentage of GDP have now reached 7.5% from 5% during the XIth plan period and are likely to inch up to the envisaged 9%. Private sector seems to do much better than expectations contributing about 36% of infra investments versus expectation of 30% earlier and 25% on the Xth plan. This is significant achievement in light of global economic slowdown although minor technicalities like including oil pipelines in infra. have helped. Highlight strong investments from the private sector offsetting sedate central sector investments; state investments broadly keep pace.

Private sector investments in Telecom and Power are positive surprise; delay in award mars roads

The planning commission has increased its planned projections for the telecom sector by about 33% to US$86 bn from US$65 bn earlier on the back of very strong investments from the private sector. Private sector has also performed strongly in the power segment; however, it was offset by lower-than-expected contribution from the public sector - reduced capacity addition target of 62 GW (from 78 GW). In roads, delay in awards of projects adversely impacted actual spend by private sector. Electricity, telecom and roads and bridges would constitute a majority of the infrastructure spends at 32%, 17% and 14% of total spends, respectively.

Railways, water supply and ports fail to attract private participation; strong airports investments

The planning commission has reduced its envisaged investments in the railways, water supply and ports sectors due to sedate performance in the first two years. These sectors have failed to attract private sector participation and progress in awarding projects through the PPP route has been slow. Highlight that the ministry of Shipping has revised its target for additional major port capacity in the XIth plan period to 393 MMT versus 545 MMT earlier. The envisaged investment in XIth plan for the airports sector has been revised to US$9 bn, about 17% higher than the original estimate of US$7.7 bn on the back of strong private as well as public sector investments.

PPP project; state sector plays an equally important (if not more important) role as the central

As of December 2009, a total of 937 PPP projects with an investment of Rs7.2 tn were at various stages of award and implementation. Of these, 308 projects (Rs2.9 tn) are from the central sector while 629 projects (Rs4.3 tn) are from the state sector. It appears that the central sector provides a much larger opportunity for private players and across a more diverse set of sectors.

Top picks: L&T, Thermax and BGR likely to benefit from strong infra and industrial investments

Our top picks include (1) **L&T** on capex revival, scale-up of power business, capacity and capability expansion, and value creation in subsidiaries, (2) **Thermax** on likely benefit from capex revival, power sector build-up and concentrated domestic business and (3) **BGR Energy** on strong execution, reasonable valuation and upside from Hitachi equipment JV.

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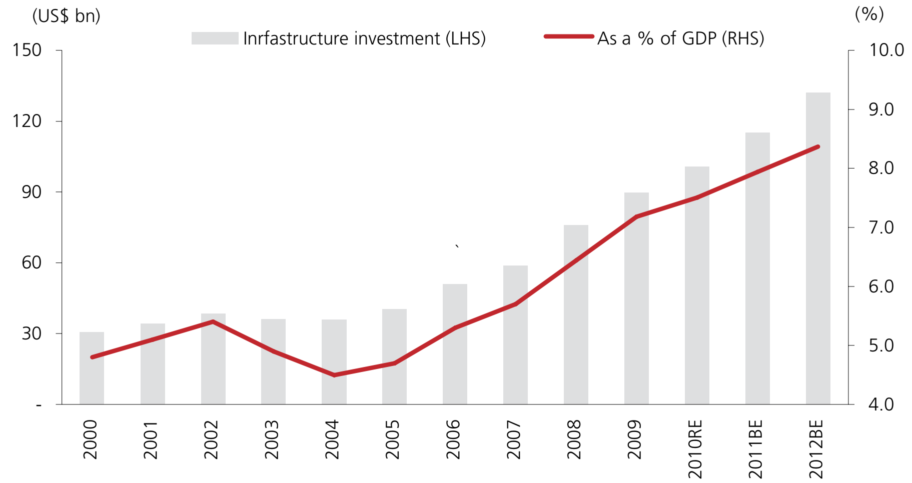
Infrastructure investments broadly keep pace with projections

The mid-term appraisal report released by the planning commission for the XIth plan period highlights that investment in infrastructure has broadly kept pace the projections of the XIth plan so far. The revised projections for the XIth plan period remain broadly the same at about US$513 bn. This is versus US$226 bn of actual investment in infrastructure in the Xth plan period. Investments to the tune of about US$266 bn has already been made forming about 52% of the total planned spends. The planning commission estimates to spend the remaining US$247 bn over the next two years - US$115 bn in FY2011E and US$132 bn in FY2012E.

Infra investments already at 7.5% of GDP; likely to reach close to originally envisaged 9%

The planning commission had envisaged investment in physical infrastructure to increase to about 9% of India's GDP by FY2012E versus about 5% during the Xth plan period. The infrastructure spend has already increased to 7.5% of the GDP in FY2010 (Revised budget estimates). The planning commission expects this figure to rise to about 8.4% of the country's GDP by FY2012E.

Investment in infrastructure as a % of GDP has been steadily rising since 2005
Investment in infrastructure in India - actual spends and as a % of GDP, March fiscal year-ends, 2000-12BE



Note:
An exchange rate of $1= Rs.40 has been used to ensure comparison at 2006-07 price levels

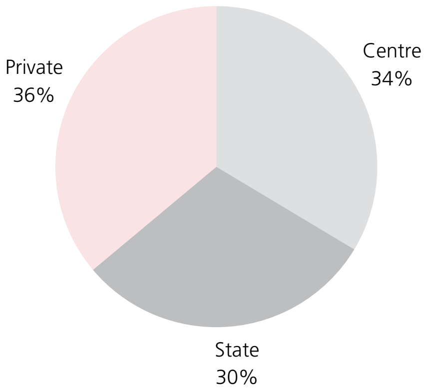
Source: Planning Commission documents, Kotak Institutional Equities

Private share likely to increase to over a third of infra spends vs 25% in Xth plan

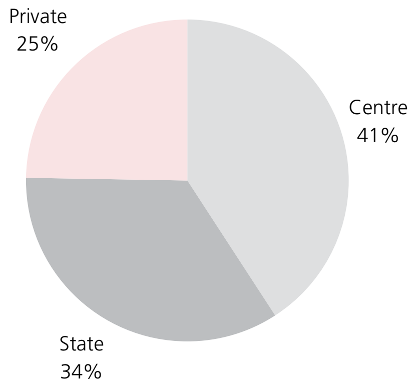
The trend of strong contribution of the private sector in total infrastructure spends seen in the last few years of the Xth plan continued in the XIth plan as well. Private sector contributed to 25% of the total planned spends in the Xth plan period (US$56 bn) versus envisaged level of about 20% (US$43 bn). This increase was due to higher-than-expected investments across several sectors such as electricity, ports, airports, storage and oil & gas pipelines. The private sector investments have continued to remain strong in the first two years of the XIth plan period as well, contributing to about 34% of the total infrastructure spends (higher than the original estimated contribution of about 30%). The planning commission has increased its projections of investment from the private sector by about 20% to US$186 bn in the XIth plan period. However, sedate performance by the public sector (especially central) led to a decrease in the public sector envisaged investments leading to a relatively unchanged projection of total envisaged infrastructure spend. Private sector is expected to contribute to about 36% of the total infrastructure spends in the XIth plan period.

Private sector share to increase to 36% of total XIth plan infra spends versus 25% in the Xth plan
Split between private, central and state sector infrastructure spends in the Xth and XIth plan periods (US$ bn)

XIth plan revised (US$513 bn)



Xth plan (US$227 bn)



	Xth plan	2008A	2009A	2010RE	2011BE	2012BE	XIth plan	
							Revised	Original
Centre	93	25	31	35	39	43	173	191
State	78	25	29	31	34	37	155	168
Private	56	26	30	35	42	52	186	155
Total	**227**	**76**	**90**	**101**	**115**	**132**	**514**	**514**

	Xth plan period				XIth plan period			
	Central	State	Private	Total	Central	State	Private	Total
Electricity	26	25	34	85	53	40	72	165
Roads & bridges	13	17	2	32	23	35	11	70
Telecommunications	12	—	13	25	15	—	71	86
Railways	25	1	0.2	26	46	3	2	50
Irrigation	2	24	—	27	3	59	—	62
Water supply & sanitation	5	10	0.3	15	11	17	0.1	28
Ports	1	0.2	5	6	1	1	8	10
Airports	1	0.2	1	2	3	0.3	6	9
Storage	0.4	1	1	1	0.0	0.1	2	2
Oil & gas pipelines	8	—	0.3	8	19	—	13	32
Total	**93**	**78**	**56**	**227**	**173**	**155**	**186**	**514**

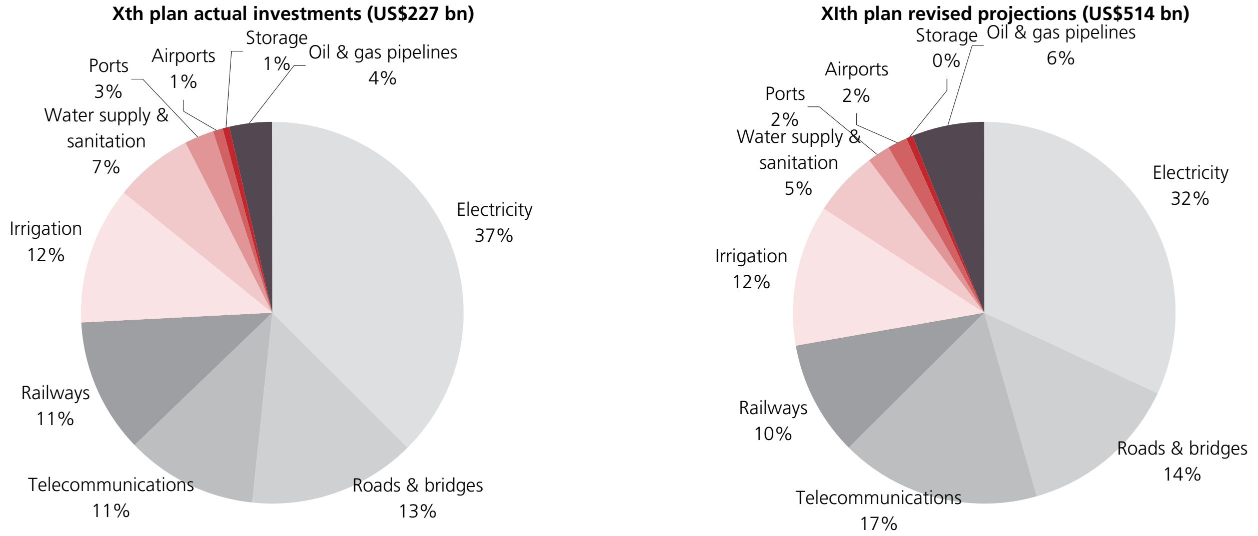
Note:
An exchange rate of $1= Rs.40 has been used to ensure comparison at 2006-07 price levels

Source: Planning Commission XIth Plan Mid-term Appraisal document, Kotak Institutional Equities

Better-than-expected telecom, O&G, airport spends offset miss in other sectors

Electricity, roads & bridges and telecom are expected to continue to dominate the infrastructure spends in the XIth plan as well contributing to 32%, 14% and 17% of the total envisaged spends in the XIth plan, respectively. Railways and Irrigation are also expected to contribute about 10-12% of the total infrastructure spends. The higher-than-expected investments in the first two years of the XIth Plan were primarily due to higher levels of investment in airports, telecom and oil & gas pipelines sectors. The figure for the envisaged spends in the XIth plan period was also partially aided by a technicality - change in definition of oil & gas to include oil pipelines leading to an additional investment of US$27 bn in the XIth plan.

Electricity, roads and telecom to dominate the infrastructure spends in the XIth plan period
Sectoral break-up of planned investments in infrastructure in the Xth and XIth plan period



Note:
An exchange rate of $1= Rs.40 has been used to ensure comparison at 2006-07 price levels

Source: Planning Commission XIth Plan Mid-term Appraisal document, Kotak Institutional Equities

Better-than-expected telecom, O&G, airport spends offset miss in other sectors
Key highlights of planned investments in infrastructure in the Xth and XIth plan period

	Xth plan	2008A	2009A	2010RE	2011BE	2012BE	XIth plan revised	Remarks
Electricity	85	28	29	31	36	40	165	Strong private sector investments offset by sedate public sector; reduces capacity addition target to 62 GW from 78 GW
Roads & bridges	32	11	12	14	16	17	70	Low investments due to delays in awarding project; aggressive target of 20 km per day likely to impact from XIIth plan
Telecommunications	25	8	13	16	21	28	86	Very strong private sector investments lead to sharp upward revision to projections; sharp rise in competition
Railways	26	8	10	11	10	12	50	Several measures taken to increase private participation; but still likely to remain low at <5% of total railway spends
Irrigation	27	10	11	12	14	15	62	Primarily a public sector activity; projects not commercially viable
Water supply & sanitation	15	5	5	5	6	7	28	Fail to attract private sector participation as much as envisaged; likely to reman low at <2% of total sector spends
Ports	6	1	2	2	2	3	10	Slow award of projects leads to lower-than-expected investments; reduces capacity addition target to 393 MMT from 545 MMT
Airports	2	2	2	2	2	2	9	Strong investments by both private and public sector; several projects envisaged through the PPP mode
Storage	1	0	0	0	1	1	2	
Oil & gas pipelines	8	4	5	7	7	8	32	Change in definition to include oil pipelines to higher figure for investment
Total	**227**	**76**	**90**	**101**	**115**	**132**	**514**	

Note:
An exchange rate of $1= Rs.40 has been used to ensure comparison at 2006-07 price levels

Source: Planning Commission XIth Plan Mid-term Appraisal document, Kotak Institutional Equities

Electricity - strong private sector momentum offset by slow central contribution

The revised projected investment in electricity has remained relatively unchanged (marginally lower by about 2%). The stronger-than-expected investments from the private sector were offset by lower-than-expected contribution from the public sector - primarily by the central sector. The planning commission envisages an estimated capacity addition of about 62 GW in the XIth plan period versus the original target of about 78.7 GW.

Telecom - very strong private sector investments lead to sharp upward revision to projections

The planning commission has increased its projections for the XIth plan telecom spends by 33% to US$86 bn from US$65 bn earlier led by very strong investments from the private sector (60% higher than original projections). The total number of telephone connections in India stood at 562 mn as of Dec-2009 versus the XIth plan target to reach a telecom subscriber base of 600 mn. The growth in telephony was primarily led by the wireless segment with over 10-12 million connections added every month on an average - highlight very sharp rise in competition in this sector.

Roads & bridges - slow award of NHAI projects leads to lower-than-expected spends

The projected investment in road sector was revised downwards to US$70 bn compared to original projections of US$78.5 bn. The decline in investment is due to a shortfall in the award of road projects by NHAI during the first three years of the plan period. The roads sector investment by the states is expected to increase due to higher investments under Pradhan Mantri Gram Sadak Yojana (PMGSY). The physical developments have also significantly missed the target levels by about 33% - target of 9,570 by end-FY2010 versus actual achievement of only 6,579 km. The planning commission expects some pick-up in roads sector investments in the last two years of the XIth plan period led by the aggressive target by the Ministry of Roads of developing 20 km per day; however, major build-up is expected only in the XIIth plan period.

Railways, water supply and ports - fail to attract private sector participation as much as envisaged

The planning commission has reduced its envisaged investments in the railways, water supply and ports sectors due to sedate performance in the first two years. These sectors have failed to attract private sector participation and progress in awarding projects through the PPP route has been slow. The railways ministry has taken several initiatives to attract private sector participation in this sector by opening up container movement to private player, development of stations through PPP route and metro rail projects – however, private participation remains very small in total railway spends (<5%). Highlight that the ministry of Shipping has also revised its target for additional port capacity in the XIth plan period to 393 MMT versus 545 MMT earlier.

Airports - increase projections on strong private as well as public spends

The envisaged investment in XIth plan for the airports sector has been revised to US$9 bn, about 17% higher than the original estimate of US$7.7 bn. Private investment is expected to contribute to 64% of the total investment. We highlight potential of increased private sector participation in the airport infrastructure space with several projects (Goa, Navi Mumbai, Kannur) being proposed through the PPP mode.

PPP projects - state sector appears to offer a larger opportunity space vs central

The government has been continuously striving towards increase of participation of private sector in infrastructure investments. One of the routes adopted by the government is awarding projects on a PPP basis with very long concession agreements. As of December 2009, a total of 937 PPP projects with an investment of Rs7.2 tn were at various stages of award and implementation. Out of these, 241 projects with an investment of Rs665 bn have been completed - comprised of 135 road projects, 43 port projects (23 major ports), 51 urban infrastructure projects and 3 airport projects (Bangalore, Hyderabad and Cochin). A total of 292 projects with an investment of Rs2.4 tn are under implementation and additional 404 projects involving an investment of Rs3.8 tn are in the pipeline.

From the data it appears that the central sector provides a much larger opportunity for private players and across a more diverse set of sectors. Of the present projects under implementation (292 projects), 83 projects are from the central sector (worth Rs759 bn) and 209 projects are from the state sector (worth Rs1,651 bn).

Status of PPP projects as of December 2009

	Completed projects		Projects under implementation		Projects in pipeline		Total	
Sector	# of projects	Cost (Rs bn)	# of projects	Cost (Rs bn)	# of projects	Cost (Rs bn)	# of projects	Cost (Rs bn)
Central sector								
National highways	39	137	64	419	81	763	184	1,320
Major ports	23	58	13	105	29	185	65	347
Airports	3	59	2	188	—	—	5	247
Railways	—	—	4	47	50	900	54	947
Central sector total	**65**	**253**	**83**	**759**	**160**	**1,848**	**308**	**2,861**
State sector								
Roads	96	64	69	609	86	395	251	1,067
Ports	20	197	37	515	18	174	75	887
Airports	—	—	1	5	7	41	8	46
Railways	—	—	1	5	3	3	4	8
Power	7	90	15	294	34	620	56	1,028
Urban Infrastructure	51	60	69	187	65	457	185	1,005
Other	2	1	17	36	31	226	50	262
State sector total	**176**	**412**	**209**	**1,651**	**244**	**1,916**	**629**	**4,304**
Grand total	**241**	**665**	**292**	**2,410**	**404**	**3,764**	**937**	**7,165**

Source: Company

Top picks in the industrial sector are L&T, Thermax and BGR Energy

We prefer companies with relatively cheaper valuations, positive long-term outlook and expanding opportunity set. Our top picks in the industrial sector are BGR Energy, L&T and Crompton Greaves.

- **L&T:** (1) Capex revival, (2) scale-up of power equipment and EPC that is both less cyclical and competitive (versus other segments), (3) investments for capacity and capability expansion, (4) value creation in subsidiaries and (5) pick-up in execution in FY2011-12E with modest margin decline.

- **Thermax:** (1) Recent underperformance providing a 14-15% upside to our target price (the company has underperformed the market by about 5% in the past month), (2) likely to benefit from a pick-up in capex momentum, (3) management upbeat on pick-up in execution of existing large backlog and (4) strong cash flows.

- **BGR Energy:** (1) Strong execution earns credibility in a sector with large opportunity, (2) potential upside to our estimates on incremental order inflows, (3) attractive valuation and (4) upside from equipment manufacturing JV with Hitachi. We have a negative view on ABB, Siemens, Suzlon, BHEL and Voltas.

Negative on ABB, Siemens, Suzlon, BHEL and Voltas

- **ABB/Siemens:** Pricing pressures, company-specific issues, volatility in operating performance.

- **Suzlon:** Weak order booking traction – thus FY2011E EBITDA may not even cover interest cost, requires sharp cost and WCap. reduction.

- **BHEL:** Expect potentially sedate traction in order inflows which may lead to sedate revenue growth post FY2012E.

- **Voltas:** (1) Continued slowdown in target MEP markets, (2) potential margins pressure, (3) slow execution of new projects.

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	30-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	72	ADD	96,047	2,047	1,330	2.8	4.3	5.9	84.5	52.3	37.5	25.6	16.8	12.2	14.7	11.1	8.7	2.4	2.2	1.9	2.1	1.4	1.4	10.9	13.5	16.7	78	8.0	7.3
Bajaj Auto	2,796	ADD	404,603	8,624	145	117.7	169.0	189.5	160.1	43.6	12.2	23.8	16.5	14.8	15.4	11.7	10.2	13.8	8.0	5.4	0.7	0.7	0.7	70.9	61.4	44.0	2,650	(5.2)	14.7
Bharat Forge	349	ADD	83,408	1,778	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	507.5	28.1	17.7	25.9	12.1	8.5	2.2	2.1	1.9	—	—	—	0.9	0.4	0.1	360	3.2	4.8
Hero Honda	1,791	SELL	357,663	7,623	200	111.8	115.3	130.1	74.1	3.1	12.8	16.0	15.5	13.8	10.2	10.2	8.6	9.9	6.9	5.1	1.7	1.7	1.9	59.1	52.5	42.8	1,800	0.5	19.3
Mahindra & Mahindra	609	BUY	362,850	7,734	595	33.9	44.1	51.7	125.8	30.1	17.3	18.0	13.8	11.8	11.9	10.0	8.3	4.5	3.6	2.9	1.5	1.5	1.6	30.0	29.0	27.3	760	24.7	24.7
Maruti Suzuki	1,235	REDUCE	357,016	7,609	289	86.4	77.6	88.3	104.9	(10.2)	13.9	14.3	15.9	14.0	7.6	7.9	6.8	3.0	2.5	2.2	0.5	0.4	0.5	23.3	17.3	16.7	1,200	(2.9)	21.4
Tata Motors	990	ADD	619,854	13,212	626	27.4	94.8	109.2	(182.5)	246.1	15.2	36.1	10.4	9.1	12.9	6.8	5.9	4.0	2.8	2.1	1.4	0.6	0.6	8.7	11.9	11.1	1,150	16.2	87.7
Automobiles		**Cautious**	**2,281,441**	**48,627**					**276.0**	**57.2**	**16.1**	**21.8**	**13.9**	**12.0**	**12.0**	**8.6**	**7.3**	**4.6**	**3.5**	**2.8**	**1.2**	**0.9**	**1.0**	**20.9**	**25.3**	**23.3**			
Banks/Financial Institutions																													
Andhra Bank	151	BUY	73,405	1,565	485	21.6	22.9	26.7	60.1	6.4	16.4	7.0	6.6	5.7	—	—	—	1.7	1.4	1.2	3.3	3.5	4.1	26.0	23.1	22.7	180	18.9	5.1
Axis Bank	1,324	ADD	536,430	11,433	405	62.1	78.1	98.3	22.7	25.9	25.9	21.3	16.9	13.5	—	—	—	3.3	2.9	2.5	0.9	1.1	1.4	19.2	18.3	19.9	1,500	13.3	39.6
Bank of Baroda	801	BUY	292,879	6,242	366	83.7	95.1	115.7	37.3	13.7	21.7	9.6	8.4	6.9	—	—	—	2.1	1.8	1.5	1.9	2.1	2.6	24.4	23.0	23.3	950	18.6	8.6
Bank of India	443	REDUCE	232,875	4,963	526	33.1	49.9	58.1	(42.1)	50.9	16.4	13.4	8.9	7.6	—	—	—	1.8	1.6	1.4	1.6	2.4	2.8	14.2	19.0	19.2	460	3.9	8.9
Canara Bank	503	ADD	206,312	4,397	410	73.7	82.2	98.3	45.8	11.6	19.5	6.8	6.1	5.1	—	—	—	1.6	1.3	1.1	1.6	2.0	2.4	22.4	20.8	20.8	580	15.3	6.7
Corporation Bank	580	BUY	83,244	1,774	143	82.0	88.0	102.6	31.8	7.3	16.6	7.1	6.6	5.7	—	—	—	1.4	1.2	1.1	2.8	3.1	3.6	22.0	20.2	20.2	700	20.6	1.2
Federal Bank	345	ADD	58,972	1,257	171	27.2	36.4	49.0	(7.2)	34.1	34.4	12.7	9.5	7.0	—	—	—	1.3	1.1	1.0	1.5	1.9	2.6	10.3	12.6	15.2	360	4.4	5.8
HDFC	628	ADD	901,310	19,211	1,436	19.7	23.2	27.8	22.7	17.9	19.6	31.9	27.0	22.6	—	—	—	5.9	5.3	4.6	1.1	1.3	1.5	20.0	20.6	21.7	690	9.9	39.3
HDFC Bank	2,132	BUY	975,771	20,798	458	64.4	87.2	113.8	22.1	35.4	30.5	33.1	24.4	18.7	—	—	—	4.5	4.0	3.4	0.6	0.8	1.0	16.1	17.3	19.5	2,400	12.6	32.6
ICICI Bank	968	REDUCE	1,079,101	23,000	1,115	36.1	45.2	57.3	6.9	25.3	26.6	26.8	21.4	16.9	—	—	—	2.1	2.0	1.8	1.2	1.5	2.0	8.0	9.5	11.3	1,000	3.3	78.1
IDFC	179	ADD	260,826	5,559	1,458	8.4	9.4	11.2	44.9	12.4	18.7	21.3	19.0	16.0	—	—	—	3.7	2.4	2.0	0.7	1.0	1.2	16.6	15.5	14.3	205	14.6	23.6
India Infoline	94	BUY	29,340	625	312	8.1	7.2	8.7	59.2	(11.9)	21.6	11.6	13.1	10.8	—	—	—	1.8	1.6	1.3	3.4	1.6	2.2	16.4	12.9	14.4	120	27.5	4.6
Indian Bank	252	ADD	108,152	2,305	430	35.1	32.4	44.1	25.5	(7.7)	36.2	7.2	7.8	5.7	—	—	—	1.6	1.4	1.2	2.6	2.3	3.1	24.1	18.8	21.7	280	11.3	4.2
Indian Overseas Bank	126	BUY	68,863	1,468	545	13.0	16.7	24.8	(46.7)	29.0	48.4	9.7	7.6	5.1	—	—	—	1.1	1.0	0.8	2.8	3.0	3.4	9.6	11.6	15.4	160	26.6	4.7
J&K Bank	788	Under Review	38,231	815	48	105.7	119.3	139.6	25.0	12.9	17.1	7.5	6.6	5.6	—	—	—	1.3	1.2	1.0	2.8	3.1	3.7	18.2	17.9	18.3	-	(100.0)	1.7
LIC Housing Finance	1,208	REDUCE	114,734	2,445	95	69.7	100.7	109.9	11.5	44.5	9.1	17.3	12.0	11.0	—	—	—	3.5	2.9	2.5	1.2	1.8	2.0	23.6	25.5	23.2	1,250	3.5	22.9
Mahindra & Mahindra Financial	576	BUY	55,301	1,179	96	35.9	46.4	56.2	60.0	29.4	21.2	16.1	12.4	10.2	—	—	—	3.3	2.7	2.3	1.3	1.7	2.1	21.5	23.5	23.8	590	2.4	2.2
Oriental Bank of Commerce	426	ADD	106,742	2,275	251	45.3	57.8	66.8	25.3	27.6	15.5	9.4	7.4	6.4	—	—	—	1.5	1.3	1.1	2.1	2.7	3.1	14.5	16.5	16.9	430	0.9	6.3
PFC	351	SELL	403,384	8,598	1,148	20.5	22.9	27.6	53.5	11.9	20.3	17.2	15.3	12.7	—	—	—	3.1	2.8	2.4	1.5	1.6	2.0	18.8	18.3	19.2	275	(21.8)	4.1
Punjab National Bank	1,190	BUY	375,068	7,994	315	123.9	133.4	163.3	26.4	7.7	22.4	9.6	8.9	7.3	—	—	—	2.3	1.9	1.6	1.8	2.3	2.8	26.2	23.2	23.7	1,300	9.3	8.8
Reliance Capital	773	NR	190,171	4,053	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	60.1	56.4	79.0	—	—	—	2.8	2.7	2.7	0.8	0.7	0.5	4.7	4.8	3.4	—	—	40.1
Rural Electrification Corp.	332	ADD	327,616	6,983	987	20.3	25.3	31.2	23.2	24.5	23.4	16.4	13.1	10.6	—	—	—	3.0	2.6	2.2	2.0	2.3	2.8	22.0	21.0	22.5	325	(2.0)	10.6
Shriram Transport	736	ADD	164,175	3,499	223	39.2	53.4	64.8	30.1	36.4	21.3	18.8	13.8	11.4	—	—	—	4.4	3.8	3.1	1.6	2.2	2.6	28.4	28.2	28.4	700	(4.9)	5.4
SREI	90	NR	10,518	224	116	8.3	7.9	9.9	17.8	(4.8)	25.8	10.9	11.5	9.1	—	—	—	0.9	0.8	0.8	1.3	1.3	1.3	11.1	10.5	12.3	—	—	4.3
State Bank of India	2,800	BUY	1,777,671	37,889	635	144.4	177.7	211.2	0.5	23.1	18.8	19.4	15.8	13.3	—	—	—	2.7	2.4	2.1	1.1	1.1	1.2	14.8	16.0	16.7	3,100	10.7	98.0
Union Bank	340	BUY	171,614	3,658	505	41.1	45.7	56.9	20.2	11.3	24.5	8.3	7.4	6.0	—	—	—	1.9	1.6	1.3	1.6	1.8	2.2	26.2	23.7	24.1	400	17.7	4.9
Yes Bank	316	BUY	107,471	2,291	340	15.0	17.7	22.5	46.7	18.2	26.6	21.1	17.8	14.1	—	—	—	3.5	3.0	2.5	0.4	0.6	0.7	20.3	18.0	19.3	350	10.6	20.3
Banks/Financial Institutions		**Attractive**	**8,750,177**	**186,501**					**14.8**	**20.3**	**22.1**	**17.4**	**14.5**	**11.8**	**—**	**—**	**—**	**2.7**	**2.3**	**2.0**	**1.3**	**1.5**	**1.8**	**15.5**	**16.2**	**17.2**			
Cement																													
ACC	876	ADD	164,498	3,506	188	83.2	66.0	72.4	47.9	(20.7)	9.8	10.5	13.3	12.1	5.6	6.2	5.0	2.6	2.3	2.0	3.1	2.7	2.7	29.3	20.0	19.2	920	5.1	7.1
Ambuja Cements	122	SELL	186,263	3,970	1,522	8.0	8.4	8.9	11.4	5.3	5.1	15.3	14.5	13.8	8.4	8.0	6.9	2.7	2.3	2.1	1.5	1.7	1.7	19.3	17.8	16.5	108	(11.7)	4.7
Grasim Industries	2,044	ADD	187,428	3,995	92	301.0	229.0	273.3	26.1	(23.9)	19.4	6.8	8.9	7.5	4.2	4.6	3.5	1.5	1.3	1.1	1.6	1.7	1.7	22.9	15.7	16.3	2,200	7.6	6.4
India Cements	107	SELL	32,883	701	307	10.0	8.7	10.6	(43.5)	(13.1)	21.1	10.7	12.3	10.1	5.9	7.3	5.0	0.8	0.7	0.7	2.0	3.0	3.0	8.2	6.7	7.7	95	(11.3)	2.4
Shree Cement	1,823	BUY	63,501	1,353	35	208.0	221.1	242.5	19.0	6.3	9.7	8.8	8.2	7.5	4.3	4.1	3.2	3.5	2.5	1.8	0.6	0.6	0.6	48.0	35.0	28.1	2,550	39.9	1.2
UltraTech Cement	920	ADD	114,531	2,441	124	88.2	66.9	75.1	12.0	(24.2)	12.4	10.4	13.8	12.2	5.5	6.6	5.6	2.1	1.8	1.6	0.6	0.9	0.9	25.9	16.7	16.3	985	7.1	2.9
Cement		**Neutral**	**749,104**	**15,966**					**19.3**	**(15.4)**	**12.7**	**9.8**	**11.5**	**10.2**	**5.3**	**5.7**	**4.6**	**2.0**	**1.8**	**1.5**	**1.7**	**1.7**	**1.8**	**20.6**	**15.2**	**15.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	30-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E
Consumer products											
Asian Paints	2,713	BUY	260,221	5,546	96	71.5	89.0	107.1	85.3	24.4	20.4
Colgate-Palmolive (India)	795	REDUCE	108,141	2,305	136	31.1	34.5	39.6	44.2	10.9	14.6
Dabur India	205	REDUCE	177,243	3,778	866	5.8	6.8	8.2	28.1	17.6	20.8
GlaxoSmithkline Consumer (a)	1,801	ADD	75,732	1,614	42	55.4	68.6	81.3	23.6	23.9	18.6
Godrej Consumer Products	377	ADD	122,074	2,602	324	11.3	13.5	18.0	69.5	18.9	33.4
Hindustan Unilever	264	REDUCE	575,202	12,260	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5
ITC	159	BUY	1,218,731	25,976	7,651	5.3	6.3	7.3	22.6	18.2	15.8
Jubilant Foodworks	491	REDUCE	31,376	669	64	5.5	9.7	12.1	340.6	75.7	24.6
Jyothy Laboratories	262	NR	19,031	406	73	11.0	12.9	15.3	99.6	17.0	18.3
Nestle India (a)	3,107	REDUCE	299,544	6,384	96	74.4	86.6	104.8	27.0	16.4	20.9
Tata Global Beverages	118	ADD	72,724	1,550	618	6.6	7.4	8.4	23.4	11.1	13.8
Consumer products		**Attractive**	**3,034,136**	**64,670**					**24.2**	**16.6**	**17.9**
Constructions											
IVRCL	155	BUY	41,413	883	267	7.9	9.1	11.6	(6.7)	15.0	27.9
Nagarjuna Construction Co.	152	BUY	39,039	832	257	7.1	9.2	11.8	6.1	29.6	27.8
Punj Lloyd	108	REDUCE	36,752	783	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4
Sadbhav Engineering	1,515	BUY	22,720	484	15	43.1	62.0	84.0	(15.8)	43.9	35.5
Construction		**Attractive**	**139,924**	**2,982**					**(95.8)**	**9,733**	**27.8**
Energy											
Aban Offshore	785	ADD	34,136	728	43	94.5	154.1	139.3	(2.5)	63.0	(9.6)
Bharat Petroleum	771	ADD	278,675	5,940	362	62.1	57.4	65.7	201	(8)	14.5
Cairn india	336	RS	637,478	13,587	1,897	5.5	20.5	36.6	29.0	270.1	78.3
Castrol India (a)	474	REDUCE	117,223	2,498	247	15.4	20.7	21.2	45	34	2.4
GAIL (India)	459	BUY	582,676	12,419	1,268	24.8	27.2	40.2	11.7	10.1	47.4
GSPL	117	SELL	65,610	1,398	562	7.4	7.2	8.0	235	(3)	12.1
Hindustan Petroleum	533	ADD	180,845	3,855	339	52.6	53.5	58.6	210.1	1.8	9.5
Indian Oil Corporation	412	ADD	999,344	21,300	2,428	49.9	38.8	41.1	407	(22)	5.9
Oil India	1,456	BUY	350,102	7,462	240	115.1	133.6	153.4	13.8	16.1	14.8
Oil & Natural Gas Corporation	1,344	BUY	2,874,985	61,277	2,139	91.4	116.6	136.1	1	27	16.7
Petronet LNG	110	REDUCE	82,200	1,752	750	5.4	6.5	7.9	(22.0)	20.5	21.8
Reliance Industries	948	REDUCE	2,821,099	60,129	2,976	49.6	59.0	74.4	(2)	19	26.2
Energy		**Cautious**	**9,024,373**	**192,346**					**38.2**	**16.2**	**22.1**
Industrials											
ABB	779	REDUCE	165,098	3,519	212	16.7	18.3	33.1	(35.2)	9.3	80.7
BGR Energy Systems	811	BUY	58,424	1,245	72	16.0	28.0	39.7	32.2	74.6	41.9
Bharat Electronics	1,672	REDUCE	133,744	2,851	80	93.9	107.3	122.4	(9.6)	14.3	14.1
Bharat Heavy Electricals	2,443	REDUCE	1,195,848	25,488	490	87.9	114.3	135.5	37.7	30.0	18.5
Crompton Greaves	301	BUY	193,092	4,116	642	12.8	14.0	16.3	46.5	9.0	16.6
Larsen & Toubro	1,819	ADD	1,095,251	23,344	602	57.9	71.7	89.0	15.6	23.8	24.1
Maharashtra Seamless	384	BUY	27,115	578	71	40.2	43.6	49.8	12.1	8.5	14.2
Siemens	699	REDUCE	235,742	5,025	337	25.2	27.0	31.9	56.4	7.3	18.0
Suzlon Energy	47	REDUCE	74,427	1,586	1,594	(6.2)	(0.8)	3.3	(185.4)	(86.8)	(504.1)
Thermax	751	ADD	89,452	1,907	119	21.7	29.5	39.7	(10.4)	35.9	34.4
Voltas	204	REDUCE	67,486	1,438	331	10.9	11.8	13.4	57.4	8.2	14.3
Industrials		**Attractive**	**3,335,680**	**71,097**					**1.4**	**33.1**	**26.8**

Company	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E
Consumer products									
Asian Paints	37.9	30.5	25.3	23.4	19.0	15.6	16.2	12.6	10.1
Colgate-Palmolive (India)	25.5	23.0	20.1	20.9	17.0	14.5	33.2	28.3	24.2
Dabur India	35.3	30.0	24.9	26.2	21.0	17.4	16.8	13.8	11.4
GlaxoSmithkline Consumer (a)	32.5	26.3	22.1	18.0	15.6	12.7	8.5	7.0	5.9
Godrej Consumer Products	33.3	28.0	21.0	26.4	20.0	15.0	12.7	6.8	6.2
Hindustan Unilever	28.0	25.8	22.0	19.1	18.3	15.0	22.3	19.3	16.6
ITC	30.0	25.4	21.9	18.2	15.9	13.5	8.2	6.9	6.0
Jubilant Foodworks	88.7	50.5	40.5	47.2	28.6	20.0	26.7	17.5	12.2
Jyothy Laboratories	23.8	20.3	17.2	18.3	13.9	11.4	4.7	4.0	3.4
Nestle India (a)	41.8	35.9	29.7	27.6	24.0	20.4	51.5	41.1	32.7
Tata Global Beverages	17.8	16.0	14.1	11.4	9.3	8.3	1.5	1.4	1.3
Consumer products	**30.9**	**26.5**	**22.5**	**19.9**	**17.3**	**14.4**	**10.5**	**8.7**	**7.5**
Constructions									
IVRCL	19.6	17.1	13.4	10.1	9.6	7.6	2.0	1.8	1.6
Nagarjuna Construction Co.	21.3	16.5	12.9	10.8	9.3	7.8	1.7	1.6	1.5
Punj Lloyd	(8.4)	11.1	9.1	33.1	6.5	5.9	1.2	1.1	1.0
Sadbhav Engineering	35.2	24.4	18.0	19.2	12.5	10.0	5.5	3.7	3.1
Construction	**1,535.8**	**15.6**	**12.2**	**14.9**	**8.4**	**7.2**	**1.8**	**1.6**	**1.4**
Energy									
Aban Offshore	8.3	5.1	5.6	8.3	6.6	6.4	1.5	1.4	1.2
Bharat Petroleum	12	13	11.7	6.5	6.4	5.8	1.9	1.8	1.6
Cairn india	60.6	16.4	9.2	47.7	9.8	6.0	1.9	1.7	1.5
Castrol India (a)	31	23	22.4	18.3	14.2	13.7	25.5	23.9	22.6
GAIL (India)	18.6	16.9	11.4	10.4	10.4	8.4	3.2	2.8	2.4
GSPL	16	16	14.5	8.0	7.8	6.6	3.8	3.2	2.9
Hindustan Petroleum	10.1	10.0	9.1	3.7	3.7	3.3	1.4	1.2	1.1
Indian Oil Corporation	8	11	10.0	5.5	5.5	5.0	1.8	1.7	1.5
Oil India	12.6	10.9	9.5	5.5	4.3	3.6	2.4	2.1	1.8
Oil & Natural Gas Corporation	15	12	9.9	5.4	4.6	3.7	2.2	2.0	1.8
Petronet LNG	20.3	16.9	13.8	11.6	9.9	8.7	3.2	2.8	2.4
Reliance Industries	19	16	12.7	9.7	7.6	6.3	1.9	1.7	1.5
Energy	**14.9**	**12.9**	**10.5**	**7.3**	**6.1**	**5.1**	**2.1**	**1.9**	**1.7**
Industrials									
ABB	46.6	42.6	23.6	26.6	24.4	13.6	6.8	6.0	4.9
BGR Energy Systems	50.6	29.0	20.4	28.4	16.5	11.9	10.4	8.3	6.3
Bharat Electronics	17.8	15.6	13.7	8.4	7.0	5.9	3.0	2.6	2.3
Bharat Heavy Electricals	27.8	21.4	18.0	15.5	12.0	10.0	7.5	5.9	4.8
Crompton Greaves	23.4	21.5	18.4	13.6	12.0	10.1	7.7	5.9	4.7
Larsen & Toubro	31.4	25.4	20.4	17.6	13.8	11.6	4.9	4.1	3.5
Maharashtra Seamless	9.6	8.8	7.7	5.1	4.4	3.5	1.7	1.5	1.3
Siemens	27.8	25.9	21.9	16.8	15.3	12.6	6.9	5.7	4.8
Suzlon Energy	(7.6)	(57.5)	14.2	13.5	11.2	7.5	1.1	1.0	1.0
Thermax	34.5	25.4	18.9	17.7	13.9	10.3	8.3	6.8	5.5
Voltas	18.8	17.4	15.2	11.1	9.6	8.0	6.3	5.1	4.2
Industrials	**31.5**	**23.6**	**18.6**	**15.8**	**12.7**	**10.3**	**5.4**	**4.5**	**3.8**

Company	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products									
Asian Paints	1.0	1.4	1.7	51.8	47.9	45.4	3,000	10.6	6.4
Colgate-Palmolive (India)	2.5	3.3	3.7	156.1	132.3	129.4	830	4.4	2.4
Dabur India	1.5	1.7	2.1	54.3	51.1	50.7	210	2.6	4.6
GlaxoSmithkline Consumer (a)	1.0	1.2	1.5	27.9	29.0	28.7	2,000	11.1	0.6
Godrej Consumer Products	1.0	0.8	0.8	44.6	31.9	31.1	420	11.3	2.0
Hindustan Unilever	2.9	3.2	3.7	71.1	80.2	81.3	250	(5.2)	10.9
ITC	3.1	1.7	1.9	29.2	31.1	30.5	165	3.6	21.9
Jubilant Foodworks	—	—	—	46.6	41.8	35.4	370	(24.7)	13.6
Jyothy Laboratories	1.8	1.3	1.8	18.6	20.2	20.5	—	—	1.2
Nestle India (a)	1.6	2.0	2.3	136.0	127.5	122.9	3,000	(3.4)	2.1
Tata Global Beverages	1.8	2.0	2.3	10.9	11.4	12.0	125	6	3.9
Consumer products	**2.4**	**2.0**	**2.3**	**33.9**	**32.9**	**33.4**			
Constructions									
IVRCL	0.3	0.3	0.3	11.0	11.3	12.9	205	32.2	7.3
Nagarjuna Construction Co.	0.9	1.3	1.3	9.3	10.2	11.9	210	38.0	3.5
Punj Lloyd	(0.1)	0.4	1.0	(15.8)	10.3	11.4	140	29.1	11.9
Sadbhav Engineering	0.2	0.4	0.4	13.3	14.1	17.4	1,575	4.0	0.3
Construction	**0.3**	**0.6**	**0.8**	**0.1**	**10.3**	**11.8**			
Energy									
Aban Offshore	0.5	0.5	0.5	21.7	33.1	22.9	935	19.1	45.1
Bharat Petroleum	1.8	2.4	2.8	15.6	13.0	13.5	690	(10.5)	34.8
Cairn india	—	—	4.5	3.1	10.7	17.2	—	—	27.5
Castrol India (a)	2.6	3.5	3.6	83.8	107.4	103.7	380	(19.8)	1.7
GAIL (India)	1.6	1.9	2.7	17.4	17.0	21.6	550	19.7	16.7
GSPL	0.9	1.5	2.8	27.3	21.4	20.8	83	(28.8)	4.8
Hindustan Petroleum	2.2	3.1	3.4	13.3	12.2	12.1	535	0.3	41.6
Indian Oil Corporation	3.2	2.9	3.0	22.7	15.6	15.1	415	0.8	18.8
Oil India	2.3	3.0	3.5	16.7	18.1	18.3	1,550	6.5	7.4
Oil & Natural Gas Corporation	2.5	3.1	3.6	14.6	16.8	17.6	1,480	10.1	35.1
Petronet LNG	1.6	1.8	2.5	15.9	16.7	17.6	88	(19.7)	7.2
Reliance Industries	0.7	0.8	1.1	11.4	12.3	13.9	1,060	11.8	105.9
Energy	**1.7**	**2.0**	**2.7**	**13.8**	**14.4**	**15.8**			
Industrials									
ABB	0.3	0.4	0.4	15.6	15.0	23.0	725	(6.9)	4.7
BGR Energy Systems	0.4	0.9	1.0	22.3	31.8	35.1	950	17.1	4.4
Bharat Electronics	1.5	1.5	1.5	17.9	18.0	17.9	1,835	9.8	2.3
Bharat Heavy Electricals	0.8	1.0	1.2	29.8	31.1	29.3	2,600	6.4	24.5
Crompton Greaves	0.4	0.6	0.7	37.9	31.1	28.2	320	6.3	7.6
Larsen & Toubro	0.7	0.7	0.8	18.6	17.7	18.5	2,075	14.1	49.4
Maharashtra Seamless	1.6	2.0	2.6	19.3	17.9	17.7	450	17.1	0.4
Siemens	0.7	0.8	0.9	27.6	24.2	23.8	635	(9.2)	5.6
Suzlon Energy	—	—	0.4	(11.4)	(1.8)	6.9	55	17.8	21.1
Thermax	0.7	1.1	1.5	25.0	29.5	32.2	865	15.2	1.2
Voltas	1.5	1.7	1.9	38.3	32.5	30.2	225	10.3	4.9
Industrials	**0.7**	**0.9**	**1.0**	**17.1**	**18.9**	**20.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	30-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Infrastructure																													
Container Corporation	1,295	REDUCE	168,279	3,587	130	61.1	74.3	85.9	0.3	21.7	15.6	21.2	17.4	15.1	14.9	12.1	10.1	3.9	3.3	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(3.4)	1.7
GMR Infrastructure	57	ADD	210,302	4,482	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	133.1	260.5	433.8	23.4	15.1	14.2	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	13.3	6.3
GVK Power & Infrastructure	46	BUY	73,196	1,560	1,579	0.8	1.1	1.4	6.7	33.5	32.4	57.0	42.7	32.2	19.1	17.4	17.8	2.3	2.2	2.1	—	0.6	0.6	4.7	5.3	6.7	54	16.5	5.7
IRB Infrastructure	281	RS	93,278	1,988	332	9.7	12.6	12.1	83.8	29.2	(3.7)	28.9	22.3	23.2	13.5	12.0	11.2	4.0	3.1	2.5	—	—	—	15.6	15.7	11.9	—	—	11.8
Mundra Port and SEZ	765	REDUCE	308,750	6,581	403	16.7	21.9	34.1	55.7	31.0	56.1	45.8	35.0	22.4	34.3	22.4	16.1	8.7	7.4	5.8	(0.5)	—	—	20.8	22.9	28.9	750	(2.0)	5.6
Infrastructure		**Attractive**	**853,806**	**18,198**					**16.3**	**21.2**	**26.0**	**41.1**	**33.9**	**26.9**	**21.6**	**15.9**	**13.8**	**3.6**	**3.1**	**2.8**	**—**	**—**	**0.4**	**8.7**	**9.1**	**10.3**			
Media																													
DB Corp	254	BUY	46,177	984	182	10.6	13.0	15.7	286.5	22.4	21.0	23.9	19.5	16.1	13.3	11.0	9.0	7.1	5.8	5.0	0.8	1.2	1.6	40.3	32.6	33.2	290	14.1	0.3
DishTV	51	ADD	54,074	1,153	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(20.4)	(28.6)	388.7	66.9	26.9	14.2	13.2	24.3	22.9	—	—	—	249.3	(59.7)	6.1	47	(7.6)	3.8
HT Media	167	NR	39,257	837	235	6.1	7.7	9.2	623.3	25.9	19.8	27.4	21.7	18.1	13.7	11.5	9.5	4.0	3.6	3.3	0.6	1.2	2.4	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	127	BUY	38,188	814	301	5.9	6.6	7.7	92.3	12.3	17.8	21.7	19.3	16.4	13.1	11.2	9.6	6.2	5.7	5.2	2.8	3.2	3.9	30.1	30.8	33.3	140	10.4	1.5
Sun TV Network	472	REDUCE	186,104	3,967	394	13.1	18.0	22.5	44.8	36.9	25.2	35.9	26.2	21.0	20.4	15.1	12.2	9.6	8.1	6.7	1.6	1.6	1.9	28.4	33.7	35.1	420	(11.1)	2.6
Zee Entertainment Enterprises	293	REDUCE	127,149	2,710	435	10.6	11.8	14.4	25.0	12.0	21.5	27.7	24.7	20.4	20.6	16.3	13.0	3.4	3.3	3.1	0.8	1.0	1.2	13.1	13.8	16.0	270	(7.7)	7.9
Media		**Neutral**	**490,949**	**10,464**					**185.5**	**35.8**	**37.2**	**40.4**	**29.8**	**21.7**	**19.5**	**14.9**	**11.7**	**5.9**	**5.5**	**4.9**	**1.2**	**1.3**	**1.7**	**14.7**	**18.4**	**22.8**			
Metals																													
Hindalco Industries	167	ADD	319,725	6,815	1,914	5.7	13.6	15.5	(64.5)	139.5	14.2	29.4	12.3	10.8	7.6	7.6	8.0	1.4	1.3	1.2	0.8	0.8	0.8	10.3	11.1	11.5	200	19.7	37.4
Hindustan Zinc	1,062	BUY	448,919	9,568	423	95.6	102.5	116.0	48.2	7.2	13.1	11.1	10.4	9.2	7.1	5.6	3.9	2.4	1.9	1.6	0.6	0.6	0.6	24.1	20.8	19.4	1,240	16.7	3.9
Jindal Steel and Power	701	REDUCE	652,981	13,918	931	38.4	50.9	56.0	17.3	32.7	9.9	18.3	13.8	12.5	12.6	9.1	7.6	5.8	4.0	3.1	0.2	0.3	0.3	37.8	34.9	28.0	625	(10.9)	22.9
JSW Steel	1,140	REDUCE	287,554	6,129	252	80.4	68.5	108.5	481.1	(14.8)	58.5	14.2	16.6	10.5	10.7	9.0	6.0	2.6	1.6	1.2	0.6	0.8	0.8	16.0	12.0	13.3	1,075	(5.7)	42.1
National Aluminium Co.	402	SELL	258,980	5,520	644	12.6	14.3	17.3	(34.9)	13.3	20.5	31.8	28.1	23.3	15.2	12.5	10.3	2.5	2.4	2.2	0.6	1.2	1.2	8.1	8.6	9.8	260	(35.3)	1.6
Sesa Goa	318	REDUCE	282,747	6,026	890	29.6	58.6	46.3	23.5	98.4	(21.0)	10.8	5.4	6.9	8.9	3.7	3.6	3.5	2.2	1.7	1.1	1.1	1.1	35.8	41.5	23.7	340	7.0	61.3
Sterlite Industries	153	ADD	513,493	10,945	3,362	12.0	14.2	19.3	2.8	18.4	35.5	12.7	10.7	7.9	8.1	7.2	4.5	1.4	1.2	1.1	0.6	0.6	0.6	12.9	12.2	14.6	200	30.9	37.6
Tata Steel	528	REDUCE	482,717	10,289	914	(3.6)	63.4	65.5	(103.6)	(1,880.2)	3.4	(148.3)	8.3	8.1	10.3	5.7	5.4	2.1	1.6	1.4	1.5	1.5	—	(1.5)	22.0	18.7	550	4.2	90.4
Metals		**Cautious**	**3,247,116**	**69,209**					**(30.6)**	**72.5**	**11.3**	**18.6**	**10.8**	**9.7**	**9.6**	**6.9**	**5.8**	**2.3**	**1.8**	**1.5**	**0.7**	**0.8**	**0.6**	**12.3**	**17.1**	**15.9**			
Pharmaceutical																													
Biocon	344	BUY	68,720	1,465	200	14.8	17.8	22.0	216.4	19.8	23.7	23.2	19.3	15.6	13.4	11.2	9.3	3.8	3.3	2.8	—	—	—	17.9	18.8	20.0	400	16.4	5.0
Cipla	305	REDUCE	244,570	5,213	803	13.7	14.0	16.6	38.1	1.9	19.2	22.2	21.8	18.3	15.9	14.6	12.4	4.1	3.6	3.1	0.7	0.8	0.8	21.1	17.6	18.2	295	(3.2)	8.7
Cadila Healthcare	611	REDUCE	125,030	2,665	205	24.7	33.2	37.7	66.9	34.2	13.7	24.7	18.4	16.2	16.1	12.4	10.9	7.7	5.7	4.5	0.8	1.1	1.2	36.0	35.8	31.3	580	(5.0)	1.5
Dishman Pharma & chemicals	197	ADD	15,994	341	81	14.4	17.8	22.8	(19.7)	23.7	28.0	13.6	11.0	8.6	10.1	8.2	6.4	2.0	1.7	1.5	—	—	—	15.5	16.8	18.3	230	17.0	0.6
Divi's Laboratories	748	REDUCE	97,750	2,083	131	26.1	34.0	44.9	(18.2)	30.4	32.1	28.7	22.0	16.7	21.3	16.3	11.7	6.4	5.3	4.3	—	—	—	24.7	26.4	28.5	800	6.9	2.7
Dr Reddy's Laboratories	1,347	REDUCE	228,142	4,863	169	48.1	66.7	70.8	48.3	38.8	6.1	28.0	20.2	19.0	15.5	11.7	10.8	6.0	4.8	3.9	0.5	0.6	0.7	22.2	26.3	22.6	1,150	(14.6)	16.4
GlaxoSmithkline Pharmaceuticals (a)	1,894	REDUCE	160,428	3,419	85	59.1	69.7	79.2	8.1	18.0	13.5	32.1	27.2	23.9	18.2	15.4	13.3	9.0	7.6	6.5	—	—	—	29.8	30.4	29.4	1,880	(0.7)	1.6
Glenmark Pharmaceuticals	286	NR	78,385	1,671	274	12.7	19.2	20.3	14.7	50.6	5.6	22.5	14.9	14.1	14.3	9.3	8.9	3.3	2.8	2.3	—	—	—	16.7	19.9	17.6	—	—	4.3
Jubilant Organosys	347	BUY	55,111	1,175	159	26.5	31.8	38.9	49.0	19.8	22.4	13.1	10.9	8.9	9.5	8.6	6.9	2.5	2.0	1.7	0.6	0.7	0.9	26.3	21.7	21.1	400	15.3	2.6
Lupin	365	ADD	32,318	689	88	77.0	99.1	127.6	27.9	28.7	28.7	4.7	3.7	2.9	5.2	3.7	2.7	1.4	1.1	0.8	3.6	4.0	4.2	36.6	33.0	32.2	2,000	447.5	7.1
Piramal Healthcare	490	REDUCE	102,448	2,184	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	21.9	36.7	51.7	15.9	6.3	4.3	6.1	1.1	1.0	1.1	1.2	0.7	30.7	140.7	16.5	490	(0.0)	17.1
Ranbaxy Laboratories	481	SELL	206,210	4,395	428	7.1	27.0	11.6	(128.4)	282.7	(57.0)	68.1	17.8	41.4	16.7	10.2	19.5	5.3	3.8	3.5	—	0.8	0.8	6.9	22.6	8.3	255	(47.0)	9.2
Sun Pharmaceuticals	1,751	REDUCE	362,626	7,729	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	26.8	19.4	20.0	20.3	14.1	13.6	4.4	3.7	3.2	0.8	0.8	0.8	17.8	21.0	17.3	1,835	4.8	6.1
Pharmaceuticals		**Attractive**	**1,777,731**	**37,891**					**45.5**	**33.7**	**3.2**	**24.6**	**18.4**	**17.8**	**15.4**	**11.4**	**10.7**	**4.7**	**3.3**	**2.8**	**0.5**	**0.7**	**0.7**	**19.0**	**18.0**	**15.7**			
Property																													
DLF	307	ADD	524,925	11,188	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	28.8	18.8	12.2	20.2	12.8	9.7	2.0	1.8	1.6	1.0	1.0	1.6	7.1	9.9	13.8	340	10.6	42.7
Housing Development & Infrastructure	260	ADD	100,021	2,132	385	12.4	14.2	16.7	(41.2)	14.2	17.9	21.0	18.3	15.6	10.5	11.9	7.9	1.4	1.2	1.2	1.1	1.9	1.9	10.0	9.3	9.9	318	22.4	33.0
Indiabulls Real Estate	172	RS	68,911	1,469	401	0.3	2.5	7.4	(62.7)	777.3	195.3	603.1	68.7	23.3	(24.4)	(263.9)	11.2	0.7	0.7	0.7	0.0	0.0	0.0	0.1	1.1	3.2	285	65.9	18.2
Mahindra Life Space Developer	459	ADD	19,395	413	42	20.1	23.6	35.8	77.8	17.6	51.5	22.9	19.4	12.8	20.2	14.4	7.1	2.0	1.9	1.7	0.8	0.8	0.8	8.9	9.7	13.4	540	17.7	0.7
Phoenix Mills	231	BUY	33,466	713	145	4.1	6.6	7.6	(16.7)	59.0	15.6	55.9	35.1	30.4	44.7	24.7	20.6	2.2	2.1	2.0	0.4	0.6	0.9	3.9	6.0	6.7	260	12.5	0.9
Puravankara Projects	109	REDUCE	23,274	496	213	6.8	8.2	8.0	0.6	20.1	(1.9)	16.0	13.3	13.6	18.5	14.0	13.8	1.6	1.5	1.4	1.8	1.8	1.8	10.5	11.6	10.5	110	0.9	0.5
Sobha	338	ADD	33,165	707	98	14.1	17.0	26.2	(7.1)	20.8	54.0	24.0	19.9	12.9	17.9	13.8	9.1	1.9	1.8	1.6	0.3	0.4	0.5	9.7	9.2	12.8	372	10.0	2.1
Unitech	78	SELL	208,371	4,441	2,666	3.0	3.8	5.1	(58.8)	25.0	34.0	25.8	20.6	15.4	25.7	18.6	12.0	2.0	1.7	1.6	—	—	1.9	9.0	8.7	10.6	74	(5.3)	47.6
Property		**Cautious**	**911,508**	**19,428**					**(51.9)**	**49.2**	**50.1**	**31.0**	**20.8**	**13.9**	**22.4**	**14.6**	**10.4**	**1.7**	**1.6**	**1.5**	**0.7**	**0.7**	**1.5**	**5.6**	**7.7**	**10.7**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	30-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	2,999	ADD	133,104	2,837	44	57.3	83.4	110.2	29.3	45.6	32.2	52.4	36.0	27.2	33.3	24.2	18.5	18.1	12.9	9.2	0.5	0.4	0.5	38.7	41.8	39.4	3,000	0.0	7.4
Retail		**Neutral**	**133,104**	**2,837**					**29.3**	**45.6**	**32.2**	**52.4**	**36.0**	**27.2**	**33.3**	**24.2**	**18.5**	**18.1**	**12.9**	**9.2**	**0.5**	**0.4**	**0.5**	**34.5**	**35.8**	**33.8**			
Sugar																													
Bajaj Hindustan	114	SELL	21,719	463	191	4.9	9.9	8.9	52.3	101.0	(9.9)	23.1	11.5	12.7	8.1	5.9	5.5	0.9	0.9	0.8	0.6	0.6	0.6	4.2	7.9	6.5	99	(12.8)	4.8
Balrampur Chini Mills	85	ADD	21,786	464	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	19.6	8.1	12.1	9.0	5.5	6.0	1.6	1.4	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	9.6	4.2
Shree Renuka Sugars	65	BUY	43,437	926	670	9.9	7.7	8.1	195.3	(21.9)	4.7	6.6	8.4	8.0	4.1	4.7	4.0	1.5	1.3	1.1	0.6	0.5	0.5	22.4	17.0	14.8	76	17.2	11.1
Sugar		**Cautious**	**86,941**	**1,853**					**80.0**	**12.4**	**(8.4)**	**10.0**	**8.9**	**9.8**	**6.1**	**5.3**	**4.9**	**1.3**	**1.1**	**1.0**	**0.6**	**0.6**	**0.6**	**13.1**	**12.8**	**10.5**			
Technology																													
HCL Technologies	393	REDUCE	271,377	5,784	690	17.5	24.5	30.1	0.2	39.7	23.0	22.4	16.1	13.1	10.9	9.5	7.8	3.9	3.3	2.8	1.0	1.0	1.5	19.3	22.0	21.2	390	(0.8)	12.2
Hexaware Technologies	70	REDUCE	10,056	214	144	9.3	5.0	9.4	127.7	(46.3)	87.7	7.5	13.9	7.4	3.6	8.4	4.2	1.2	1.1	1.0	1.4	1.4	1.4	17.8	8.2	14.0	72	2.9	1.8
Infosys Technologies	2,700	BUY	1,550,058	33,038	574	108.3	124.1	150.0	5.7	14.5	20.9	24.9	21.8	18.0	18.1	14.8	12.0	6.7	5.6	4.6	0.9	1.3	1.5	30.1	28.0	28.0	3,100	14.8	52.8
Mphasis BFL	623	REDUCE	131,270	2,798	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.3	12.4	13.6	11.5	9.9	9.3	5.6	4.0	3.2	0.6	0.6	0.7	48.1	37.5	25.8	550	(11.7)	8.0
Mindtree	511	REDUCE	21,039	448	41	52.2	32.6	51.6	294.3	(37.5)	58.1	9.8	15.7	9.9	8.4	8.9	5.8	3.1	2.6	2.1	0.4	0.6	1.0	35.2	19.2	23.7	550	7.6	0.9
Patni Computer Systems	464	REDUCE	61,792	1,317	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.7	11.2	12.4	6.3	5.4	4.5	1.7	1.6	1.5	1.5	1.8	1.6	18.2	15.1	12.4	450	(3.0)	13.9
Polaris Software Lab	165	SELL	16,470	351	100	15.4	19.1	18.8	16.9	24.3	(1.7)	10.7	8.6	8.8	5.2	6.8	5.8	1.9	1.6	1.4	2.1	2.2	2.4	18.6	20.1	17.2	180	9.0	4.4
TCS	846	BUY	1,655,106	35,277	1,957	35.1	42.1	48.2	32.8	19.8	14.5	24.1	20.1	17.5	18.2	14.6	12.1	7.9	6.5	5.5	2.4	2.0	2.3	37.6	35.6	33.9	965	14.1	28.8
Wipro	398	ADD	973,773	20,755	2,447	18.9	22.3	25.7	22.1	18.1	15.6	21.1	17.9	15.5	15.9	12.8	10.5	5.0	4.1	3.4	0.9	1.1	1.4	26.5	25.0	23.7	465	16.8	12.0
Technology		**Attractive**	**4,771,600**	**101,702**					**20.4**	**16.7**	**15.4**	**22.1**	**18.9**	**16.4**	**15.8**	**13.3**	**11.0**	**5.8**	**4.8**	**4.0**	**1.4**	**1.5**	**1.7**	**26.4**	**25.5**	**24.6**			
Telecom																													
Bharti Airtel	323	REDUCE	1,225,865	26,128	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	13.7	16.2	15.6	7.8	8.5	7.0	2.9	2.5	2.1	—	—	—	24.4	16.5	14.7	305	(5.5)	46.3
IDEA	71	REDUCE	233,461	4,976	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	25.9	32.2	46.6	8.8	9.6	8.2	2.1	1.9	1.9	—	—	—	7.2	6.2	4.2	55	(22.3)	11.0
MTNL	62	SELL	39,092	833	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.0)	(6.0)	(6.8)	(0.3)	(0.3)	(0.4)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(19.4)	3.0
Reliance Communications	162	SELL	344,402	7,341	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	7.3	26.9	17.2	6.9	9.4	7.8	0.9	0.9	0.8	0.5	—	—	11.7	3.2	4.9	150	(7.1)	41.5
Tata Communications	333	REDUCE	94,877	2,022	285	14.0	15.2	15.7	3.2	8.2	3.5	23.8	22.0	21.2	9.6	8.9	8.5	1.3	1.3	1.3	2.0	2.3	2.6	5.2	5.5	5.5	225	(32.4)	3.0
Telecom		**Cautious**	**1,937,696**	**41,300**					**(15.9)**	**(33.1)**	**9.5**	**13.7**	**20.4**	**18.7**	**8.0**	**9.0**	**7.4**	**1.8**	**1.6**	**1.5**	**0.2**	**0.1**	**0.1**	**12.8**	**7.9**	**8.0**			
Utilities																													
Adani Power	136	ADD	296,589	6,322	2,180	0.8	4.3	17.4	—	455.1	300.9	173.6	31.3	7.8	132.9	23.3	6.9	5.4	4.6	2.9	—	—	—	4.4	15.9	45.5	146	7.3	3.5
CESC	377	ADD	47,057	1,003	125	35.2	37.3	44.3	9.3	5.7	18.9	10.7	10.1	8.5	6.8	5.7	6.2	1.1	1.0	0.9	1.2	1.2	1.5	11.1	10.4	11.3	466	23.7	2.0
Lanco Infratech	69	BUY	165,224	3,522	2,405	2.0	3.7	5.0	35.1	87.6	34.9	35.0	18.6	13.8	20.5	8.7	8.2	4.8	3.8	3.0	—	—	—	15.8	21.2	22.7	77	12.1	7.0
NHPC	31	REDUCE	375,173	7,996	12,301	1.9	1.3	1.6	74.9	(27.5)	20.6	16.5	22.7	18.8	10.6	11.4	8.8	1.5	1.4	1.4	1.8	1.2	1.4	9.7	6.4	7.4	28	(8.2)	5.6
NTPC	195	REDUCE	1,611,164	34,340	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.2	15.6	13.3	13.9	12.2	10.2	2.5	2.3	2.1	2.1	2.4	2.8	14.5	15.4	16.6	210	7.5	7.6
Reliance Infrastructure	998	ADD	245,582	5,234	246	61.8	65.0	84.5	(1.5)	5.3	30.0	16.2	15.4	11.8	17.5	15.5	10.8	1.3	1.2	1.1	0.8	0.9	1.0	6.3	7.3	10.1	1,160	16.2	41.5
Reliance Power	153	SELL	365,864	7,798	2,397	2.9	3.1	5.3	179.7	9.8	70.0	53.5	48.7	28.7	(505.6)	224.5	35.1	2.5	2.4	2.2	—	—	—	4.8	5.1	8.1	135	(11.6)	19.4
Tata Power	1,231	ADD	303,791	6,475	247	60.2	69.2	88.5	20.1	15.0	27.8	20.4	17.8	13.9	13.2	12.0	10.3	2.3	2.1	1.9	1.0	1.1	1.2	12.9	12.5	14.3	1,420	15.4	9.6
Utilities		**REDUCE**	**3,410,444**	**72,690**					**23.5**	**15.6**	**37.5**	**21.6**	**18.7**	**13.6**	**17.1**	**14.3**	**10.5**	**2.3**	**2.1**	**1.9**	**1.3**	**1.4**	**1.7**	**10.6**	**11.3**	**13.9**			
Others																													
Havells India	806	SELL	48,496	1,034	60	5.3	31.6	45.0	3.7	497.9	42.6	152.6	25.5	17.9	20.1	12.4	10.2	13.3	8.8	6.0	0.3	0.3	0.3	6.6	41.6	39.7	497	(38.3)	10.5
Jaiprakash Associates	113	BUY	240,664	5,130	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	77.6	20.4	15.2	20.7	15.3	10.9	2.8	2.4	2.1	—	—	—	4.1	12.8	14.9	170	50.4	23.9
Jindal Saw	199	ADD	58,491	1,247	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	7.9	10.7	11.1	5.2	5.9	5.7	1.5	1.3	1.2	0.5	0.4	0.4	20.5	12.9	11.1	256	28.7	3.2
PSL	123	BUY	6,594	141	53	22.9	25.4	28.2	3.3	10.6	11.0	5.4	4.9	4.4	3.1	2.6	2.8	0.7	0.6	0.6	5.3	5.3	5.7	12.6	11.7	12.0	182	47.5	0.7
Sintex	361	BUY	49,289	1,051	136	24.1	28.3	33.3	0.5	17.4	17.5	15.0	12.8	10.9	12.4	8.3	7.1	2.3	2.0	1.7	0.3	0.4	0.4	15.5	15.3	15.2	380	5.2	4.7
Tata Chemicals	387	REDUCE	94,214	2,008	243	26.4	33.2	37.5	(27.1)	25.8	12.7	14.6	11.6	10.3	7.5	6.4	5.4	2.0	1.7	1.5	2.3	2.3	2.3	16.0	18.7	18.3	360	(7.0)	4.6
Welspun Corp	237	ADD	48,727	1,039	205	32.0	27.0	25.6	85.2	(15.7)	(5.4)	7.4	8.8	9.3	4.3	4.7	4.4	1.5	1.3	1.1	1.0	0.9	0.9	24.8	15.6	12.8	286	20.6	4.4
United Phosphorus	183	BUY	84,695	1,805	463	11.9	13.8	17.4	18.8	15.8	25.9	15.3	13.2	10.5	8.8	8.0	6.4	2.5	2.1	1.8	0.8	1.1	1.1	17.7	17.2	18.3	225	22.9	8.6
Others			**631,169**	**13,453**					**16.3**	**32.3**	**17.6**	**18.8**	**14.2**	**12.1**	**11.0**	**9.8**	**8.1**	**2.3**	**2.0**	**1.7**	**0.7**	**0.7**	**0.7**	**12.4**	**14.0**	**14.3**			
KS universe (b)			**45,566,900**	**971,213**					**15.3**	**21.6**	**20.2**	**19.3**	**15.9**	**13.2**	**11.4**	**9.5**	**7.9**	**2.9**	**2.5**	**2.2**	**1.2**	**1.4**	**1.6**	**14.9**	**15.7**	**16.5**			
KS universe (b) ex-Energy			**36,542,526**	**778,868**					**9.1**	**23.4**	**19.6**	**20.8**	**16.8**	**14.1**	**13.7**	**11.3**	**9.3**	**3.2**	**2.7**	**2.4**	**1.1**	**1.2**	**1.4**	**15.3**	**16.2**	**16.8**			
KS universe (d) ex-Energy & ex-Commodities			**32,546,306**	**693,692**					**16.3**	**19.7**	**21.3**	**21.6**	**18.0**	**14.9**	**15.4**	**12.7**	**10.4**	**3.3**	**2.9**	**2.5**	**1.2**	**1.2**	**1.4**	**15.5**	**16.0**	**16.9**			

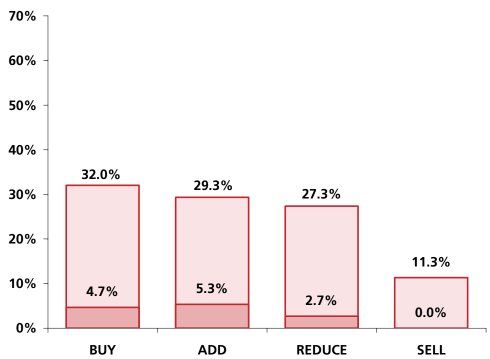
Note:
(1) For banks we have used adjusted book values.
(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 46.92

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Dr. Mridul Saggar, Lokesh Garg, Ajay Mathrani."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/06/2010 Kotak Institutional Equities Investment Research had investment ratings on 150 equity securities.

Source: Kotak Institutional Equities — As of June 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

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