

# **INDIA DAILY**

July 11, 2011

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# **Daily Alerts**

# Results

**HDFC:** Performance in line; good growth, lower margins **IndusInd Bank:** Impressive earnings quality; retain BUY

# Strategy

Strategy: A new approach to some old problems

**Strategy:** Capital Ideas

# **EQUITY MARKETS**

	Change %								
India	8-Jul	1-day	1-mo	3-mo					
Sensex	18,858	(1.2)	3.2	(2.1)					
Nifty	5,661	(1.2)	3.2	(2.2)					
Global/Regional indices									
Dow Jones	12,657	(0.5)	5.9	2.2					
Nasdaq Composite	2,860	(0.4)	8.2	3.2					
FTSE	5,991	(1.1)	3.9	(1.0)					
Nikkie	10,097	(0.4)	6.1	3.9					
Hang Seng	22,544	(0.8)	0.6	(7.2)					
KOSPI	2,163	(0.8)	5.7	1.9					
Value traded – Ind	ia								
Cash (NSE+BSE)	155		133	138					
Derivatives (NSE)	1,016		687	962					
Deri. open interest	1,214		1,264	1,283					

### Forex/money market

	Change, basis points									
	8-Jul 1-day 1-mo 3-n									
Rs/US\$	44.3	(11)	(38)	25						
10yr govt bond, %	8.4	(1)	8	39						
Net investment (US\$	mn)	***************************************								
	7-Jul		MTD	CYTD						
FIIs	169		1,124	1,618						

### Top movers -3mo basis

	C	Change, %						
Best performers	8-Jul	1-day	1-mo	3-mo				
IDEA IN Equity	81.7	1.0	13.2	25.0				
APNT IN Equity	3158.6	(1.3)	1.9	23.1				
HUVR IN Equity	333.5	(0.7)	7.1	21.9				
RBXY IN Equity	550.6	1.3	2.9	19.9				
HH IN Equity	1902.2	1.1	10.3	16.1				
Worst performers				•				
POWF IN Equity	194.0	(3.0)	(3.3)	(22.5)				
GMRI IN Equity	32.5	(1.5)	1.2	(22.0)				
WLCO IN Equity	171.9	(1.8)	(1.3)	(19.9)				
SAIL IN Equity	136.5	(3.9)	(5.7)	(18.6)				
UT IN Equity	36.6	4.3	9.1	(18.5)				
				•				

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# HDFC (HDFC)

# Banks/Financial Institutions

Performance in line; good growth, lower margins. HDFC reported 22% earnings growth (in line with estimates). However, its NIMs (as per our estimates) declined (and were below estimates) while loan growth improved to 22% yoy. We tweak estimates; expect near-term performance to remain stable. At 4.3X PBR FY2013E, HDFC trades close to full valuation, retain REDUCE rating with price target of Rs730.

### Company data and valuation summary **HDFC** Stock data 52-week range (Rs) (high,low) 861-576 Market Cap. (Rs bn) 1,062.6 Shareholding pattern (%) **Promoters** 0.0 FIIs 58.6 MFs 28 Price performance (%) 1M 3M 12M

10.0

6.1

1.9

3.9

23.113.9

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	24.1	27.9	31.8
EPS growth (%)	27.7	15.9	14.1
P/E (X)	30.1	25.9	22.7
NII (Rs bn)	44.9	52.3	63.2
Net profits (Rs bn)	35.4	41.0	48.5
BVPS	113.8	129.0	168.5
P/B (X)	6.4	5.6	4.3
ROE (%)	21.7	22.2	21.4
Div. Yield (%)	1.2	1.4	1.6

# Core earnings in line

Absolute

Rel. to BSE-30

HDFC's core earnings (PBT before capital gains and extraordinary items) were up 23% to Rs9.5 bn yoy and in line with estimates. Reported PAT was up 22% yoy to Rs8.4 bn. We expect near-term earnings to remain strong; we are modeling core PBT growth of 17% and 23% in FY2012E and FY2013E, respectively.

# Loan growth accelerates...

HDFC reported 22% growth in approvals and 20% growth in disbursements. Non-retail disbursements continue to be about 40% of overall disbursements. Overall loan growth was 22%, 21% pre-loan sell-down. Repayment rate declined to 35% from 38% at peak (in 2QFY11).

While real estate demand remains sluggish in select pockets, lower competitive intensity has likely driven faster growth for HDFC. HDFC now offers new home loans at 10.25% while SBI offers home loans at 10.5% (base rate + 1%); during the quarter SBI's home loan rate was about 10%. The management has highlighted that demand is sluggish in Mumbai and Delhi while other geographies continue to do well. We believe that rising real estate prices and interest rates will put near-term pressure on growth over the medium term, lower competitive intensity of SBI is a positive development in this regard. As such, we continue to model 20% loan growth over the next two years.

# ...while margin pressure was visible

Higher borrowings cost, post rise in bank base rates, has put pressure on margins despite hike in HDFC's home loan rates and developer loans. Reported spreads declined to 2.3% from 2.34% in FY2011; annualized NIM declined to 3.2% from 3.5% in 1QFY11 and 4.4% in 4QFY11. A decline in bulk borrowings rates (CP and CD rates) over the last five weeks is a sign of comfort; we expect incremental margins to improve in the next two quarters. Reported margins will likely decline in FY2012E.

# REDUCE

### JULY 08, 2011

### RESULT

Coverage view: Attractive

Price (Rs): 724

Target price (Rs): 730

BSE-30: 19,078

### **QUICK NUMBERS**

- Loan growth of 22% yoy
- PAT up 22% yoy
- NIM (KS-calc) declined to 3.2% from 3.5% in 1QFY11

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### Investment book earnings muted in 1QFY12

HDFC earned dividend income from HDFC Bank in 1QFY11. Capital gains were muted at Rs163 mn as compared to Rs1.3 bn in 4QFY11.

HDFC has non-strategic equity investments of about Rs9 bn which includes listed and unlisted investments. HDFC is awaiting approval for stake sale in Intelenet—this will contribute Rs580 mn. We are modeling capital gains of Rs3.5 bn for FY2012E and Rs3.75 bn for FY2013E in our estimates.

HDFC's NPLs remain low at 0.9%. The company has excess provisions of Rs3.5 bn. According to news reports, NHB will likely impose standard asset provisions of 40 bps on home loans—this will have an impact of Rs1.5 bn (which can be adjusted with excess provisions).

# SOTP-based target price of Rs730; retain REDUCE

Our SOTP-based target price works out to Rs730/share (no change). In our fair value estimate, we value HDFC's mortgage business at Rs433/share—4X core PBR and 15X core PER FY2013E for normalized RoEs of about 26-30% (2% core RoA and leverage of 13-15X).

# Zero coupon bonds buoy reported spreads

HDFC has zero coupon bonds of Rs75 bn (7% of overall borrowings). According to the management, the overall ZCBs quantum is maintained equal to equity investments in subsidiaries and group companies.

In FY2011, the premium on redemption (Rs5 bn, 11% of PBT) on these bonds was adjusted with the share premium account; in 1QFY12 the premium was Rs1.5 bn. Interest rates on most of these bonds are about 7-8%. As the existing bonds mature, we expect the new ZCB to carry a higher rate of interest. As such, we expect the premium on redemption of ZCB to increase to Rs6.5 bn (12% of PBT) by FY2012E.

HDFC—Quarterly results 1QFY11-1QFY12 (Rs mn)

Actual vs KS 2Q11 3Q11 4Q11 1Q12 YoY (%) 1Q11 1Q12E (%) 27,963 29,664 33,162 37,741 38,169 36 34,407 11 Operating income 9 26,160 27,379 30,205 34,327 35,131 34 32,177 Interest on loans 91 Fees and other charges 234 681 503 786 573 145 300 1,181 269 575 1,322 12 1,330 (1) Dividend 229 Sale of investment 590 1,672 1,336 163 0 100 63 Other op income 388 786 513 719 980 153 500 96 17 Interest expense 17,196 17,176 19,928 21,300 25,149 46 21,495 13,019 21 1 Net operating income 10,767 12,488 13,234 16,442 12,912 0 Op. inc. excl. gains, capital gains 9,586 11,661 11,293 14,531 11,535 20 11,482 and lease income 10,533 11,807 12,731 15,656 12,446 18 12,612 (1) Net Fund based income 9,982 11 10,682 (7) Net Fund based income (int income 8,964 10,203 10,277 13,027 less int exp) 1,146 1,117 1,098 957 1,267 13 1,300 (3) Other exp Other exp 6 677 647 384 739 11 700 666 470 451 574 600 (12) Staff expenses 451 528 17 **PBDT** 11,342 12,136 15,485 11,753 22 11,612 9,650 1 Depreciation 52 11 (11)Other income 48 47 49 107 47 (3)50 (7) PBT 12,129 15,540 11,755 9,658 11,345 22 11,612 1 4,120 Tax 2,720 3,260 3,220 3,310 22 3,135 6 11,420 8,445 PAT 6,938 8,085 8,909 22 8,477 (0) Tax rate 28 29 27 27 28 0 27 0 PBT excl. capital gains, other 7,129 9,171 8,840 12,222 8,773 23 9,432 0

Source: Company, Kotak Institutional Equities estimates

income and lease income

HDFC Quarterly results—balance sheet and other details 1QFY11-1QFY12 (Rs mn)

							Act	ual vs KS
Other details - Rs bn	1Q11	2Q11	3Q11	4Q11	1Q12	YoY (%)	1Q12E	(%)
Disbursement for the quarter	109	175	135	184	130	20		
Outstanding (Rs bn)	1,016	1,063	1,091	1,171	1,242	22	1,219	2
Annualised NII (Rs mn)	35,856	40,812	41,108	52,108	39,928	11	42,728	0
NIMs (%)	3.5	3.8	3.8	4.4	3.2	(8.9)	3.5	0.0
Gross NPAs (Rs mn)	9,042	9,140	9,540	9,038	10,382	14.8		
Gross NPL ratio (%)	0.9	0.9	0.9	0.8	0.8	(6.7)		
CAR (%)	14.8	14.1	14.3	14.0	13.8	, , , , , , , , , , , , , , , , , , ,		
Tier I (%)	13.6	13.0	12.5	12.2	12.0			
Avg spread(%)	2.34	2.34	2.33	2.33	2.30			
ROA	2.4	2.7	2.8	3.5	2.5			
ROE	18	19	20	26	19			
Balance sheet (Rs mn)								
Sharecapital	2,909	2,920	2,929	2,934	2,939	1		
Reserves	160,685	168,887	175,164	170,231	177,760	11		
Term loans	327,860	350,004	375,191	424,898	414,279	26		
Bonds/debentures/CPs	430,600	472,897	443,906	482,955	515,904	20		
Deposits	239,056	268,810	259,087	246,251	305,003	28		
Total liabilities and	1,161,110	1,263,557	1,256,277	1,327,272	1,415,885	22		
shareholders funds								
Loans	1,016,245	1,062,875	1,090,512	1,171,268	1,241,675	22		
Individuals	641,375	682,635	701,494	736,492	778,859	21		
Corporate bodies	359,667	365,226	373,318	421,407	448,232	25		
Others	15,203	15,014	15,701	13,366	14,584	(4)		
Investments	146,582	175,590	145,671	118,324	173,281	18		
Deferred tax	2,956	3,110	4,369	4,481	4,651	57		
Current assets	45,168	66,425	63,398	98,610	66,302	47		
Current liabilities	52,056	46,671	50,003	67,751	72,373	39		
Fixed assets	2,215	2,228	2,329	2,340	2,349	6		
Total assets	1,161,110	1,263,557	1,256,277	1,327,272	1,415,885	22		
Loan book calculations								
Loan on balance sheet	1,016,245	1,062,875	1,090,512	1,171,268	1,241,675	22		
Loans outside balance sheet	110,809	102,939	116,313	121,470	118,028	7		
Individual loans pre sell down	752,184	785,574	817,807	857,962	896,887	19		
Loans under management	1,127,054	1,165,814	1,206,825	1,292,738	1,359,703	21		
YoY loan growth (%)								
Total loan book	19	20	23	19	21			
Individual loans under management	21	22	25	20	19			
Non-retail loans	16	17	18	19	23			
Compostition of loan book								
Total loan under management	1,127,054	1,165,814	1,206,825	1,292,738	1,359,703			
Individual loans under	752,184	785,574	817,807	857,962	896,887			
Other loans	374,870	380,240	389,019	434,776	462,816			
Share of retail (%)	33	33	32	34	34			
Repayment rate- rolling 4 qtrs (%)				3.1				
Loan book pre securitisation	1,127,054	1,165,814	1,206,825	1,292,738	1,359,703			
Disbursements (rolling 4 quarters)	525,850	564,423	587,912	603,140	624,866			
(. ching 1 quarters)	323,030	551,125	337,312	555,110	52 1,000			
Gross loan book	1,469,569	1,534,655	1,569,162	1,685,819	1,751,920			
Repayments	342,515	368,841	362,337	393,081	392,217			
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Source: Company, Kotak Institutional Equities estimates

KOTAK INSTITUTIONAL EQUITIES RESEARCH

HDFC, Sum-of-the-parts-based valuation (based on FY2013E)

	HDFC's holding	Value of companies	Value per share	
Business/ subsidiaries	(%)	(Rs mn)	(Rs)	Valuation methodology
HDFC			433	Based on residual growth model; exit multiple of 3.9X PBR FY2013E
Value of subsidiaries and associates			255	
HDFC Bank	23	1,265,600	174	Based on target price
HDFC Standard Life MF	60	54,720	22	4% of March 2013E AUMs- 20% growth assumed
-PMS business	60	2,488	1	10% of AUMs (March 2013E - 20% yoy growth)
Life Insurance	72	104,650	45	11% margins and 16X NBV multiple
General insurance	74	11,374	5	Based on deal with ERGO
Gruh Finance	62.0	14,180	5	Based on market price
IDFC	1.9	173,381	2	Based on market price
HDFC Venture capital				
HDFC Property Fund	81	1,500	1	Rs10bn of fund assuming value of 15%
HDFC IT Corridor Fund	81	697	0	Rs4.64bn of fund assuming value of 15%
Real estate fund	60	2,520	1	US\$800 mn assuming value of 7.5%
Equity investments			36	
BVPS of non-strategic investments			6	
Unrealised gains on above			30	
Total value per share			724	

Source: Kotak Institutional Equities estimates

HDFC, Valuation

March fiscal year-ends, 2008-13E

	Profit after				PE on core				P/B on core			
	tax	EPS	EPS core	P/E	operations	BVPS	<b>BVPS Core</b>	P/B	operations	RoA	RoE	Core RoE
March y/e	(Rs mn)	(Rs)	(Rs)	(X)	(X)	(Rs)	(Rs)	(X)	(X)	(%)	(%)	(%)
2008	24,362	17	11	42	37.6	84	57	8	7.4	3.2	27.8	27.2
2009	22,825	16	14	45	29.2	92	59	8	7.2	2.5	18.2	25.0
2010	28,265	20	17	36	25.5	106	47	7	9.1	2.6	20.0	30.3
2011E	35,351	24	20	30	21.0	118	58	6	7.3	2.8	21.7	38.9
2012E	40,850	28	24	26	17.8	134	72	5	5.9	2.7	22.1	36.7
2013E	48,566	32	28	22	15.3	169	107	4	3.9	2.8	21.5	31.3
Share price (Rs)				714								
Market Capitalisation (Rs mn)				1,047,660								
Less :value of subsidiaries ar	nd investments	(Rs mn)		427,245								
Price adjusted for subsidiarie	es and investmen	nts (Rs)		620,415								
Price per share adjt for subs	sidiaries and in	vestmer	nts (Rs)	423								

Source: Kotak Institutional Equities



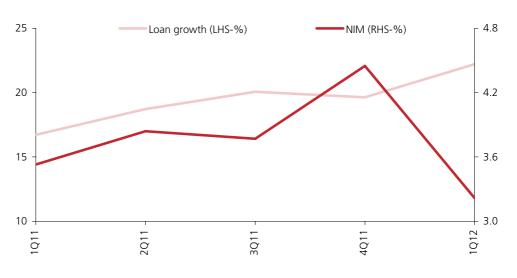
Monthly data, April 2002-July 2011 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

# HDFC's NIM declined while loan growth accelerated in 1QFY12

Trends in yoy loan growth and annualized NIM, 1QFY11-1QFY12 (%)



Source: Company

# SBI's home loan rates are now higher than others

Home loan rates for loan over Rs3 mn (%)

	Interest rate
	(%)
Bank of India	10.50%
Citibank (for high ticket loans)	10.00%
HDFC	10.25%
HSBC (for high ticket loans)	10.00%
ICICI Bank	10.25%
Indiabulls	10.00%
LICHF (Advantage 5- old product)	10.15%
LICHF (new product)	9.90%
SBI	10.5% (base rate +1%)

Source: Kotak Institutional Equities

# Affordability index close to 2006-08 levels

Measurement of affordability of housing in India, March fiscal year-ends, 1999-12E

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012E
Housing loan interest rates (%)	13.9	12.8	12.1	10.4	8.9	8.0	8.5	9.5	10.5	10.5	9.00	10.25	10.25
EMI per Rs100,000 on 20 yr loan (Rs)	1,240	1,160	1,110	995	895	836	868	932	998	998	900	982	982
Avg annual household income (for households with annual income > Rs200,000)	577,201	606,061	636,364	668,182	701,591	736,671	788,238	843,414	902,453	947,576	1,013,906	1,084,880	1,160,821
Income growth (%)		5.0%	5.0%	5.0%	5.0%	5.0%	7.0%	7.0%	7.0%	5.0%	7.0%	7.0%	7.0%
Taxes	115,440	121,212	127,273	133,636	140,318	147,334	157,648	168,683	180,491	189,515	202,781	216,976	232,164
Post tax income	461,761	484,849	509,091	534,546	561,273	589,337	630,590	674,731	721,963	758,061	811,125	867,904	928,657
Selling prices rise by 5% FY2010E													
Capital price in Koramangala, Bangalore	1,900	1,800	1,750	1,900	2,350	2,800	4,500	4,750	4,750	3,600	4,320	4,968	5,465
Price of 1,500 sq. ft house (Rs mn)	2.9	2.7	2.6	2.9	3.5	4.2	6.8	7.1	7.1	5.4	6.5	7.5	8.2
EMI payable assuming 70% LTV	24,738	21,924	20,396	19,850	22,084	24,578	41,013	46,484	49,775	37,724	40,824	51,206	56,327
Price/income ratio (X)	4.9	4.5	4.1	4.3	5.0	5.7	8.6	8.4	7.9	5.7	6.4	6.9	7.1
Affordability Index (assuming FY2000 as 100)	100	84	75	69	73	78	121	129	129	93	94	110	113

HDFC: Key ratios March fiscal year-ends, 2008-13E (%)

	2008	2009	2010	2011E	2012E	2013E
Spread calc						
Average yield on assets (incl fees)	11.8	11.9	10.4	10.1	10.8	10.8
- interest on housing loans	11.1	12.6	10.9	10.3	11.0	11.0
Average cost of funds	8.1	9.7	8.0	7.3	8.1	8.0
Overall spread	3.7	2.2	2.4	2.8	2.7	2.8
Spread on housing loans	3.0	2.8	2.9	3.0	2.9	2.9
NIMs (post-provision)	4.8	3.7	3.7	3.9	3.8	3.9
NIM (pre provisions)	4.8	3.7	3.7	4.0	3.9	4.0
DU PONT Analysis						
Net total income	4.8	3.7	3.7	4.0	3.9	4.0
Net interest income	3.7	3.5	3.3	3.5	3.5	3.6
Capital gains	1.0	0.0	0.2	0.3	0.2	0.2
Dividend income	0.1	0.2	0.2	0.2	0.2	0.2
Net other income	0.1	0.1	0.2	0.2	0.2	0.2
Operating expenses	0.4	0.3	0.3	0.3	0.3	0.3
(1- tax rate)	72.2	70.9	72.2	72.6	72.6	72.6
ROA	3.2	2.5	2.6	2.8	2.7	2.8
Average assets/average equity	8.6	7.4	7.7	7.9	8.2	7.8
ROE	27.8	18.2	20.0	21.7	22.1	21.5
Growth(%)						
Net loans	29	17	15	20	19	19
Total assets	29	20	15	20	16	17
Total income	51	24	2	14	26	17
Interest on Housing Loans	49	38	0	11	27	18
Net income before provision	69	(4)	17	25	16	19
Total expenses	22	12	2	18	14	14
PBT	71	(5)	22	24	16	19
PAT	55	(6)	24	25	16	19

# HDFC—Old and new estimates

March fiscal year-ends, 2012-13E (Rs mn)

	New esti	mates	Old esti	mates	% cha	nge
	2012E	2013E	2012E	2013E	2012E	2013E
NIM (post provisions - %)	3.8	3.9	3.8	3.9		
Loan book	1,389,728	1,656,540	1,389,728	1,656,540		
Operating income	159,196	186,233	159,133	186,054	_	0.1
Interest income	140,855	166,783	140,855	167,545	_	(0.5)
Capital gains	3,500	3,750	3,500	3,750	_	0.0
Interest expense	100,555	116,742	100,642	117,041	(0.1)	(0.3)
Net operating income	58,640	69,491	58,491	69,014	0.3	0.7
Net operating inc. excl. gains	55,140	65,741	54,991	65,264	0.3	0.7
Loan loss provisions	784	878	784	878	0.0	0.0
Fee income	2,462	2,918	2,564	3,040	(4.0)	(4.0)
Operating expenses	4,126	4,706	4,125	4,704	0.0	0.0
Employee expenses	2,005	2,291	2,004	2,289	0.1	0.1
PBT	56,242	66,865	56,397	66,723	(0.3)	0.2
Net profit	40,850	48,566	40,963	48,463	(0.3)	0.2
PBT bef cap gains	52,742	63,115	52,897	62,973	(0.3)	0.2

HDFC Standalone P&L and Balance Sheet

March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total income excluding fee income	87,494	108,798	111,066	126,325	159,196	186,233
Interest on Housing Loans	72,164	99,310	99,790	110,683	140,855	166,783
Dividends	686	1,957	2,327	2,252	2,538	2,821
Lease rentals	155	147	241	231	207	187
Other operating income	14,489	7,384	8,708	13,159	15,596	16,441
Income from investments	6,794	7,132	6,614	7,799	9,691	9,946
Capital gains	7,695	252	2,094	3,597	3,500	3,750
Income/ gains on securitisation	_	_	0	1,762	2,404	2,746
Interest payable	51,429	74,324	70,631	75,597	100,555	116,742
Net Income before provision	36,065	34,474	40,435	50,728	58,640	69,491
Provision	320	500	580	700	784	878
Fee income	632	1,149	2,317	2,204	2,462	2,918
Total income	88,126	109,948	113,383	128,528	161,657	189,151
Staff expenses	1,178	1,386	1,467	1,755	2,005	2,291
Total expenses	2,673	2,987	3,056	3,619	4,126	4,706
Depreciation	166	175	182	192	202	212
Other income	197	229	226	251	251	251
Profit before tax	33,735	32,190	39,160	48,671	56,242	66,865
Tax	9,373	9,365	10,895	13,320	15,392	18,299
Profit after tax	24,362	22,825	28,265	35,351	40,850	48,566
EPS	17	16	20	24	28	32
EPS (core)	11	14	17	20	24	28
Book value	84	92	106	118	134	169
Book value (core)	57	59	47	58	72	107
Balance sheet						
Net loans	729,980	851,981	979,670	1,171,268	1,389,728	1,656,540
Total Investments	69,150	104,688	107,275	118,324	123,511	128,975
In equity	38,616	47,525	85,185	88,446	90,946	93,446
Fixed securities	30,534	57,162	22,089	29,871	32,565	35,529
Diminution in value of invt	(548)	(853)	(364)	(569)	(569)	(569)
Cash & deposits	8,586	17,185	52,241	76,460	76,460	76,460
Loans and advances and other assets	32,938	38,523	22,150	22,150	22,150	22,150
Deferred tax assets	1,466	2,158	2,857	4,481	4,481	4,481
Fixed assets owned	2,085	2,034	2,221	2,340	2,527	2,729
Total assets	844,205	1,016,569	1,166,415	1,395,023	1,618,857	1,891,335
Total borowings and CL	724,732	885,195	1,014,438	1,221,856	1,422,676	1,634,929
Share capital	2,840	2,845	2,871	2,934	2,934	3,043
Reserves	116,633	128,529	149,106	170,231	193,247	253,363
Shareholders fund	119,473	131,374	151,977	173,165	196,181	256,406



# IndusInd Bank (IIB)

# Banks/Financial Institutions

Impressive earnings quality; retain BUY. IndusInd Bank reported another strong quarter with net profits growing by 52% yoy on the back of impressive revenue/loan growth and stable asset quality. Execution from the management has been impressive on all parameters which should result in sustenance of the premium valuations at which the bank is currently trading (2.8X FY2013E book). We retain our BUY recommendation and increase our TP to ₹325 (from ₹315 earlier), valuing the bank at 3.1X book and 18X EPS for RoEs of about 18% and over 20% EPS growth for FY2011-13E.

# Company data and valuation summary

IIIuusiiiu balik			
Stock data			
52-week range (Rs) (hig	h,low)		309-181
Market Cap. (Rs bn)			132.6
Shareholding pattern (9	%)		
Promoters			19.5
FIIs			48.7
MFs			7.8
Price performance (%)	1M	3M	12M
Absolute	8.3	4.7	30.0
Rel. to BSE-30	4.4	6.7	20.3

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	12.4	15.2	18.2
EPS growth (%)	26.2	22.6	19.9
P/E (X)	23.0	18.7	15.6
NII (Rs bn)	13.8	16.4	20.6
Net profits (Rs bn)	5.8	7.1	8.5
BVPS	78.6	89.6	102.4
P/B (X)	3.6	3.2	2.8
ROE (%)	20.8	17.7	17.9
Div. Yield (%)	0.7	0.9	1.0

### Limited concern in business despite headwinds; maintain BUY

We maintain our BUY rating with TP of ₹325, despite strong price performance and reasonably rich valuations compared to peers on back of an impressive execution by the management on most operating metrics. We are valuing the bank at 3.1X book and 18X FY2013 EPS delivering EPS growth of about 20% CAGR and RoEs in the range of 18% for FY2011-13E.

We broadly maintain our positive outlook on the bank's core business as (1) loan growth is likely to remain healthy despite volume headwinds in the vehicle business, as the bank has been improving market share as well as investing in alternate business like used vehicle financing and loans against property. (2) Fee income trends to remain stable as the bank has invested in new initiatives like housing loan origination and investment banking. (3) Asset quality and provisioning trends to remain stable as we don't expect NPLs to pick up sharply in the near term though we assume higher provisions in our estimates.

# Higher corporate lending yields cushion sharp rise in deposit costs; margins decline 10 bps qoq

NIMs for the quarter declined marginally by about 10 bps qoq to 3.4% levels led by improvement in asset yields and CD ratio. Yields on the corporate loan portfolio showed further improvement of 90 bps qoq while investment yields (calc) improved 60 bps qoq. CD ratio improved to 81% from 76% in 4Q. Cost of deposits increased by 70 bps qoq to 7.7%. CASA ratio improved 100 bps.

While we build NIMs to decline by about 20 bps yoy in FY2012E, we believe that IndusInd Bank has scope to surprise positively, especially from 3Q onwards as deposit costs may start to come off from 3Q onwards. Deposit costs have re-priced upwards by over 170 bps in the past three quarters (one of the highest among peers) and the bank has seen only about 20 bps decline in margins during this period.

# BUY

### JULY 08, 2011

### RESULT

Coverage view: Attractive

Price (Rs): 285

Target price (Rs): 325

BSE-30: 19,078

### **QUICK NUMBERS**

- Net profits grew by 52% yoy. Margins at 3.4%
- Slippage trends stable at 1%
- Maintain earnings.
   Revise TP to ₹325 (from ₹315)

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# Loan growth healthy; limited headwinds witnessed in retail

Loans grew by 31% yoy (8.5% qoq) to ₹284 bn with retail loans growing by 42% yoy and the non-retail portfolio growing by 24% yoy. Despite headline volumes showing signs of slowdown, the vehicle loan portfolio of the bank continues to grow impressively with CV loans growing by 40%, 2/3-wheelers by over 35%. The bank has strengthened its used vehicle finance portfolio during the quarter (contributing to 15% of disbursements in this portfolio from 10% earlier). Loans from credit cards contributed to about 80 bps.

We broadly maintain our positive outlook on loan growth for the bank at 25% CAGR for FY2011-13E, given the relatively smaller balance sheet size of the bank, the attractiveness of the target segments and new initiatives in used vehicle loans, loans against property and credit cards.

# Slippages trends stable despite higher additions to gross NPLs

Gross NPL showed an increase of 16% qoq to ₹3.1 bn (1.1% of loans) from ₹2.7 bn (1% of loans) in the previous quarter. However, slippages trends have been stable at 1.1% compared to 0.9% in 4Q. We believe the sharp rise in gross NPLs is probably due to lower write-offs during the quarter. We are not seeing any sharp rise in delinquency trends across its retail portfolio currently. We have not seen higher NPLs from the credit card business also, based on the retail NPLs disclosed for the quarter.

Loan loss provisions (annualized) were at 0.6% for the quarter. Entry into the marginally higher risk segment of used vehicles and credit cards would imply a rise in slippages from FY2012-13E and we are building loan loss provisions to be 1.1% in FY2013E.

# Core fee income impressive driving overall non-interest income growth

Non-interest income grew impressively by 34% yoy to ₹2.1 bn while performance on the core fee income was better than the past few quarters at ₹1.8 bn. We note that the improvement in core fee has been driven by forex, third party and trade fees Income. Income from investment banking was weak qoq. We are building fee income to grow by 26% CAGR for FY2011-13E.

# Other highlights for the quarter

- ▶ Cost-income ratio for the quarter was at 48.5% and we expect this trend to be maintained at current levels for FY2012-13E. The bank opened 26 branches and 39 ATMs for the quarter taking the total branch network to 326 and ATMs to 633.
- ▶ Capital adequacy ratio stands at 15.0% with tier-1 currently at 11.7%. Given the current headroom and healthy return ratios, we believe that the current capital position is comfortable for near-term growth.

# IndusInd Bank, quarterly performance March fiscal year-ends, 1QFY10-1QFY12 (₹ mn)

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	% change	1QFY12E	Actual Vs KS
Interest income	7,715	8,541	9,149	10,488	11,646	50.9	11,097	4.9
Interest on advances	6,048	6,771	7,231	8,297	9,007	48.9	8,789	2.5
Interest on investments	1,645	1,752	1,874	2,062	2,474	50.4	2,259	9.5
Other interest	23	18	44	129	165	(48.4)	49	(7.0)
Interest expense	4,759	5,244	5,519	6,608	7,746	62.8	7,289	6.3
Net interest income	2,957	3,297	3,630	3,881	3,900	31.9	3,808	2.4
Non-int.income	1,610	1,751	1,960	1,816	2,154	33.8	2,003	7.5
- fee income	1,296	1,630	1,719	1,649	1,871	44.4	-	
- sale of invts.	199	130	240	192	278	39.4	200	39.0
Non treasury income	1,410	1,621	1,720	1,624	1,876	33.0	1,803	4.0
Total income	4,566	5,049	5,590	5,697	6,054	32.6	5,811	4.2
Op. expenses	2,260	2,430	2,678	2,717	2,937	29.9	2,866	2.5
Employee cost	890	954	980	1,002	1,107	24.3	1,113	(0.5)
Other cost	1,370	1,476	1,698	1,715	1,830	33.6	1,753	4.4
Operating profit	2,306	2,619	2,912	2,980	3,117	35.2	2,945	5.9
Provisions and cont.	487	567	562	403	446	(8.5)	462	(3.5)
NPLs	400	331	446	339	387	-	339	14.1
Others	87	236	116	64	59	(8.5)	123	(17.7)
PBT	1,819	2,051	2,350	2,578	2,671	46.9	2,482	7.6
Tax	633	720	811	860	870	37.3	832	4.6
Net profit	1,186	1,332	1,539	1,718	1,802	52.0	1,651	9.2
Tax rate (%)	34.8	35.1	34.5	33.4	32.5	-	33.5	-
Op.profit excl treasury gains	2,107	2,489	2,672	2,788	2,839	(4.3)	2,745	(33.1)
Key balance sheet items (Rs bn)								
Total deposits	274	313	307	344	353	28.8		
Savings deposits	20	24	26	31	32	58.3		
Current deposits	46	56	56	63	67	45.3		
Term deposits	207	233	224	250	253	45.5		
CASA ratio (%)	24.3	25.4	26.8	27.2	28.2			<del></del>
CASA Tatio (70)	24.3	23.4	20.0	21.2	20.2			
Loans	216	235	250	262	284	31.4		
Retail credit	90	98	106	116	127	41.5		
Commercial vehicles	44	49	52	57	62	39.6		
Utility vehicles	7	8	9	8	9	21.5		
Cars	5	6	7	8	9	73.1		
2 wheelers	9	9	10	11	12	36.9		
3 wheelers	10	11	12	14	15	45.9		
Equipments	12	13	14	15	16	33.3		
Personal loans	0	0	0	0	0	-		
Home loans/Personal loans	2	1	2	2	1	(9.8)		
Corporate Advances	61	76	80	68	86	40.2		
SME/Commercial banking	46	42	45	51	43	(6.7)		
SME/Commercial banking Others		42 19	45 19	51 27	43 27	(6.7) 48.3		

IndusInd Bank—key parameters and balance sheet March fiscal year-ends, 1QFY10-1QFY12

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Yield management measures (%)					
Yield on advances	12.2	12.1	12.3	12.9	13.5
- Corporate and commercial banking	9.2	9.2	9.5	10.3	11.2
- Consumer finance division	16.1	16.1	16.0	16.3	16.3
Cost of deposits	6.0	6.0	6.2	7.0	7.7
NIM	3.3	3.4	3.6	3.5	3.4
Asset quality details					
Gross NPL(Rs mn)	2,752	2,864	3,060	2,659	3,093
Net NPLs (Rs mn)	825	837	910	728	838
Gross NPL (%)	1.3	1.2	1.2	1.0	1.1
Net NPL (%)	0.4	0.4	0.4	0.3	0.3
Provision coverage (%)	70.0	70.8	70.3	72.6	72.9
Capital adequacy ratios (%)					
CAR	13.7	16.2	15.6	15.9	15.0
Tier I	8.7	12.2	11.7	12.3	11.7
Tier II	5.0	4.1	3.9	3.6	3.3
Other key details					
Branches	224	238	258	300	326
ATM network	533	544	565	594	633
Balance sheet snapshot (Rs mn)					
Capital and liabilities					
Capital	4,111	4,674	4,650	4,739	4,660
Reserves and surplus	21,078	33,455	35,170	35,763	37,650
Deposits	273,824	312,903	306,630	343,654	352,640
Borrowings	41,854	36,321	49,810	55,254	66,420
Other liabilities and provisions	14,188	20,128	18,740	16,949	17,010
Total	355,056	407,481	415,000	456,358	478,380
Assets					
Cash and bank balance	20,894	26,375	22,130	24,560	24.610
Balance with bank and money at call	4,352	8,067	5,570	15,686	24,610 7,750
Investments	94,223	120,004	118,680	135,508	142,330
Advances	216,081	234,525	250,010	261,657	283,840
Fixed Assets	6,491	6,512	5,890	5,965	6,130
Other assets	13,014	11,999	12,720	12,983	13,720
Total	355,055	407,481	415,000	456,358	478,380
IUlai	333,033	407,481	415,000	420,528	4/0,380

Source: Company

# IndusInd Bank—estimate changes

March fiscal year-ends, 2012-13E (₹ bn)

	New est	imates	Old estimates % c		% chan	change	
	2012E	2013E	2012E	2013E	2012E	2013E	
Net loan growth (%)	24.5	24.7	24.5	24.7			
Loans (Rs bn)	326	406	326	406			
Total income	25,770	32,321	25,684	32,590	0.3	(8.0)	
Net interest income	16,375	20,626	16,562	21,036	(1.1)	(1.9)	
NIM (%)	3.4	3.5	3.4	3.4			
Other income	9,395	11,695	9,289	11,710	1.1	(0.1)	
Fee income	3,239	4,076	3,390	4,351	(4.5)	(6.3)	
Expenses	12,310	15,421	12,754	16,034	(3.5)	(3.8)	
Employee cost	4,735	5,921	4,926	6,254	(3.9)	(5.3)	
Other cost	7,576	9,499	7,829	9,779	(3.2)	(2.9)	
Loan loss provisions	2,315	3,842	2,119	3,511	9.3	9.4	
PBT	10,645	12,758	10,627	13,152	0.2	(3.0)	
PAT	7,079	8,484	6,900	8,290	2.6	2.3	
% growth yoy	22.6	19.9	24.8	23.8			
PBT-treasury+provisions	12,660	16,100	12,296	15,912	3.0	1.2	

Source: Company, Kotak Institutional Equities estimates

# IndusInd Bank—Rolling PBR and PER

March fiscal year-ends, July 2004-July 2011



# IndusInd Bank growth rates and key ratios

March fiscal year-ends, 2008-13E (%)

	2008	2009	2010	2011	2012E	2013E
Growth rates (%)						
Net loan	15.4	23.3	30.3	27.3	24.5	24.7
Customer assets	14.5	23.0	30.3	27.7	24.4	24.6
Investments excld. CPs and debentures growth	12.4	15.6	35.2	17.5	21.5	18.4
Net fixed and leased assets	69.2	(0.3)	3.5	(7.5)	55.4	26.9
Cash and bank balance	(16.1)	(11.7)	35.3	54.6	11.2	13.2
Total Asset	11.4	18.4	28.1	29.0	20.5	20.2
Deposits	7.9	16.1	20.8	28.7	23.1	24.7
Current	5.3	64.0	49.1	42.3	32.5	29.7
Savings	28.8	9.6	47.3	59.7	32.8	40.2
Fixed	6.9	11.3	14.2	22.8	19.5	21.1
Net interest income	10.8	52.8	93.1	55.3	19.0	26.0
Loan loss provisions	4.0	93.3	15.2	20.9	25.7	65.9
Total other income	(1.3)	53.1	21.3	28.9	31.6	24.5
Net fee income	5.0	(3.3)	176.1	39.5	26.0	25.9
Net exchange gains	54.7	148.8	17.5	82.5	30.0	30.0
Operating expenses	16.9	36.0	34.5	37.0	22.1	25.3
Employee expenses	26.6	53.5	55.3	31.7	23.7	25.1
Key ratios (%)						
Yield on average earning assets	9.1	9.8	9.1	9.3	10.2	10.4
Yield on average loans	11.9	12.6	11.6	12.1	13.2	13.2
Yield on average investments	6.5	6.6	6.1	6.1	7.1	7.1
Average cost of funds	7.8	8.0	6.4	6.1	7.4	7.3
Interest on deposits	7.6	7.7	6.4	6.0	6.8	6.8
Difference	1.4	1.8	2.8	3.2	2.8	3.1
Net interest income/earning assets	1.5	1.9	3.0	3.6	3.4	3.5
New provisions/average net loans	0.6	0.9	0.8	0.8	0.8	1.1
Total provisions/gross loans	0.8	0.5	0.7	0.7	1.3	2.0
Fee income to total income	12.1	7.7	13.4	12.3	12.6	12.6
Net trading income to PBT	13.3	41.3	20.9	3.7	5.6	4.7
Exchange income to PBT	25.3	31.6	15.8	17.5	18.8	20.4
Operating expenses/total income	67.2	59.8	51.1	48.2	47.8	47.7
Operating expenses/assets	1.8	2.1	2.3	2.5	2.4	2.5
Tax rate	34.3	34.8	34.3	34.4	33.5	33.5
Dividend payout ratio	25.6	30.1	21.1	16.1	16.1	16.1
Share of deposits	-	-	-	-	-	-
Current	9.5	13.4	16.5	18.3	19.7	20.5
Fixed	84.3	80.8	76.3	72.8	70.7	68.7
Savings	6.2	5.9	7.2	8.9	9.6	10.8
Loans-to-deposit ratio	67.2	71.3	76.9	76.1	77.0	77.0
Equity/assets (EoY)	5.8	6.0	6.8	8.9	8.4	8.0
Asset quality trends (%)						
Gross NPL	3.0	1.6	1.2	1.0	1.5	1.8
Net NPL	2.3	1.1	0.5	0.3	0.5	0.6
Slippages	1.4	1.7	1.4	0.9	1.7	1.7
Provision coverage	25.8	29.8	60.1	72.6	69.2	67.8
Dupont analysis (%)						
Net interest income	1.4	1.8	2.8	3.4	3.3	3.4
Loan loss provisions	0.3	0.5	0.5	0.5	0.5	0.6
Net other income	1.3	1.8	1.8	1.8	1.9	1.9
Operating expenses	1.9	2.2	2.4	2.5	2.5	2.6
Invt. depreciation	0.0	(0.0)	(0.0)	0.0	0.0	0.0
(1- tax rate)	65.7	65.2	65.7	65.6	66.5	66.5
ROA	0.3	0.6	1.1	1.4	1.4	1.4
Average assets/average equity	25.6	24.6	20.1	14.6	12.6	12.8

IndusInd	l Bank P&L	and ba	lance s	heet
March fis	cal year-end	ls, 2008	-13E (₹	mn)

Income		2008	2009	2010	2011	2012E	2013E
Loans	Income statement						
Investments	Total interest income	18,803	23,095	27,070	35,894	49,332	60,423
Cash and deposits	Loans	14,253	17,933	21,129	28,346	38,707	48,206
Total Interest expenses   15,799   18,504   18,206   22,129   32,957   39,797   Deposits from customers   14,012   15,760   15,601   18,285   26,019   32,395   Met Interest Income   3,004   4,590   8,864   13,765   16,375   20,625   Loan loss provisions   684   1,322   1,523   1,841   2,315   3,842   Chericome (effer prov.)   2,221   3,269   7,411   11,924   14,060   16,784   Chiber income (effer prov.)   2,979   4,563   5,535   7,137   9,395   11,695   Net fee income   725   701   19,36   2,570   3,239   4,076   Net capital gains   188   909   1,110   404   800   800   Net exchange gains   289   719   845   1,542   2,004   2,605   Cherating expenses   4,022   5,470   7,360   10,685   12,310   15,421   Employee expenses   1,219   1,871   2,906   3,826   4,735   5,921   Employee expenses   3,99   11,7   189   101   300   100	Investments	4,031	4,832	5,592	7,333	10,413	11,979
Deposits from customers   14,012   15,760   15,601   18,285   26,019   32,395   Net interest income   3,004   4,590   8,864   13,765   16,375   20,626   Loan loss provisions   664   1,322   1,523   1,841   2,315   3,842   Net interest income (after prov.)   2,321   3,269   7,341   11,924   14,060   16,784   10,760   16,784   10,760   10,785   11,695   10,765   11,695	Cash and deposits	519	329	349	215	213	239
Net interest income   3,004   4,590   8,864   13,765   16,375   20,626   Loan loss provisions   684   1,322   1,523   1,841   2,315   3,842   Met interest income (after prov.)   2,321   3,269   7,341   11,924   14,060   16,784   Met interest income   2,979   4,563   5,535   7,137   9,395   11,695   Met fee income   7275   701   1,936   2,570   3,239   4,076   Met capital gains   188   909   1,110   404   800   800   Met exchange gains   289   71,91   845   1,542   2,004   2,605   Qperating expenses   4,022   5,470   7,360   10,085   12,310   15,421   Employee expenses   4,022   5,470   7,360   10,085   12,310   15,421   Employee expenses   1,219   1,871   2,906   3,826   4,755   5,921   Employee expenses   1,219   1,871   2,906   3,826   4,755   5,921   Employee expenses   1,219   1,871   1,891   101   300   100   200   Meter Provisions   99   117   189   101   300   100   200   Meter Provisions   392   792   1,827   3,025   3,566   4,274   4,767   4,773   4,773   4,773   4,773   4,773   4,773   4,773   4,774   4,773   4,773   4,773   4,774   4,773   4,774   4,773   4,774   4	Total interest expense	15,799	18,504	18,206	22,129	32,957	39,797
Loan loss provisions         684         1,322         1,523         1,841         2,315         3,842           Other income         2,321         3,269         7,341         11,924         14,060         16,784           Other income         2,979         4,563         5,535         7,137         9,395         11,695           Net capital gains         188         909         1,110         404         800         800           Net exchange gains         289         719         845         1,542         2,004         2,605           Operating expenses         4,022         5,470         7,360         10,085         12,310         15,421           Imployee expenses         1,219         1,871         2,906         3,826         4,735         5,921           Depreciation on investments         36         (31)         (3)         76         200         200           Other Provisions         99         117         189         101         300         100           Other Provisions         392         792         1,827         3,025         3,566         4,274           Net Profit         750         1,883         3,503         5,773         7,079	Deposits from customers	14,012	15,760	15,601	18,285	26,019	32,395
Net interest income (after prov.)   2,321   3,269   7,341   11,924   14,060   16,784	Net interest income	3,004	4,590	8,864	13,765	16,375	20,626
Other income         2,979         4,563         5,535         7,137         9,395         11,695           Net fee income         725         701         1,936         2,570         3,239         4,076           Net capital gains         188         909         1,110         404         800         800           Net exchange gains         289         719         845         1,542         2,004         2,605           Operating expenses         4,022         5,470         7,360         10,885         12,310         15,421           Employee expenses         1,219         1,871         2,906         3,826         4,735         5,921           Depreciation on investments         36         (31)         (3)         76         200         200           Other Provisions         39         117         189         101         300         100           Other Provisions         392         792         1,827         3,025         3,566         4,274           Net profit         750         1,483         3,503         5,773         7,079         8,484           Se growth         (40.4)         9,77         136.1         64.8         22.6         19.99     <	Loan loss provisions	684	1,322	1,523	1,841	2,315	3,842
Net lee income   725	Net interest income (after prov.)				11,924	14,060	16,784
Net capital gains	Other income						
Net exchange gains	Net fee income		701	,			
Operating expenses         4,022         5,470         7,360         10,085         12,310         15,211           Employee expenses         1,219         1,871         2,906         3,826         4,735         5,921           Depreciation on investments         36         (31)         (3)         76         200         200           Other Provisions         99         117         189         101         300         100           Pretax income         1,142         2,275         5,331         8,798         10,645         12,758           Tax provisions         392         792         1,827         3,025         3,566         4,274           Net Profit         750         1,483         3,503         5,773         7,079         8,484           % growth         (404)         9,77         136,1         64.8         22,6         19.9           PBT - Treasury + Provisions         1,774         2,773         5,929         10,413         12,660         16,100           % growth         (36.2)         56.3         113.8         75.6         21.6         27.2           Balance sheet         21,780         19,237         26,032         40,246         44,761	Net capital gains		909	1,110	404	800	
Employee expenses	Net exchange gains		719		1,542	2,004	2,605
Depreciation on investments         36         (31)         (3)         76         200         200           Other Provisions         99         117         189         101         300         100           Pretax income         1,142         2,275         5,331         8,798         10,645         12,758           Tax provisions         392         792         1,827         3,025         3,566         4,274           Net Profit         750         1,483         3,503         5,773         7,079         8,484           % growth         (404)         97.7         136.1         64.8         22.6         19.9           PBT - Treasury + Provisions         1,774         2,773         5,929         10,413         12,660         16,100           % growth         (36.2)         56.3         113.8         75.6         21.6         27.2           Balance sheet         2         2,780         19,237         26,032         40,246         44,761         50,670           Cash         1,081         1,419         1,986         2,070         2,484         2,609           Balance with RIS         14,182         10,489         19,096         22,490         23,454	Operating expenses		5,470	7,360	10,085	12,310	
Other Provisions         99         117         189         101         300         100           Pretax income         1,142         2,275         5,331         8,798         10,645         12,758           Tax provisions         392         792         1,827         30,25         3,566         4,274           Net Profit         750         1,483         3,503         5,773         7,079         8,484           % growth         (40,4)         97.7         136.1         64.8         22.6         19.9           PBT - Treasury + Provisions         1,774         2,773         5,99         10,413         12,660         16,100           % growth         (36.2)         56.3         113.8         75.6         21.6         27.2           Balance with         1,081         1,419         1,896         2,070         2,484         2,607           Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash         1,081         1,419         1,966         22,490         23,454         29,239           Balance with Bank         14,182         10,489         19,06         22,490         23,454 <td>Employee expenses</td> <td>1,219</td> <td>1,871</td> <td>2,906</td> <td>3,826</td> <td>4,735</td> <td>5,921</td>	Employee expenses	1,219	1,871	2,906	3,826	4,735	5,921
Pretax income         1,142         2,275         5,331         8,798         10,645         12,758           Tax provisions         392         792         1,827         3,025         3,566         4,274           Net Profit         750         1,483         3,503         5,773         7,079         8,484           % growth         (40,4)         97.7         136.1         64.8         22.6         19.9           PBT - Treasury + Provisions         1,774         2,773         5,929         10,413         12,660         16,100           % growth         (36.2)         56.3         113.8         75.6         21.6         27.2           Balance sheet         2         2         56.3         113.8         75.6         21.6         27.2           Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash and bank balance         21,780         41,418         10,489 </td <td></td> <td>36</td> <td></td> <td></td> <td></td> <td></td> <td></td>		36					
Tax provisions         392         792         1,827         3,025         3,566         4,274           Net Profit         750         1,483         3,503         5,773         7,079         8,484           % growth         (40,4)         9.77         136.1         64.8         22.6         19.99           PBT - Treasury + Provisions         1,774         2,773         5,929         10,413         12,660         16,100           % growth         (36.2)         56.3         113.8         75.6         21.6         27.2           Balance sheet         2         2         56.3         113.8         75.6         21.6         27.2           Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash         1,081         1,419         1,886         2,070         2,484         2,609           Balance with Bl         14,182         10,489         19,096         22,490         23,454         29,239           Balance with Bl         4,182         10,489         19,096         22,490         23,454         29,239           Balance with Bl         4,182         10,489         19,096         22,490	· ·						
Net Profit         750         1,483         3,503         5,773         7,079         8,484           % growth         (40,4)         97.7         136.1         64.8         22.6         19.9           PBT - Treasury + Provisions         1,774         2,773         5,929         10,413         12,660         16,100           % growth         (36.2)         56.3         113.8         75.6         21.6         27.2           Balance sheet           Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash         1,081         1,419         1,896         2,070         2,484         2,609           Balance with Bl         14,182         10,489         19,096         22,490         23,454         29,239           Balance with banks         6,518         7,329         5,040         15,686         18,823         18,823           Net value of investments         66,297         80,834         104,018         135,508         157,073         179,500           Govt. and other securities         54,357         62,944         85,215         100,219         121,887         144,407           Shares         <							
% growth         (40.4)         97.7         136.1         64.8         22.6         19.9           PBT - Treasury + Provisions         1,774         2,773         5,929         10,413         12,660         16,100           % growth         (36.2)         56.3         113.8         75.6         21.6         27.2           Balance sheet           Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash and bank balance with Bank         1,081         1,419         1,896         2,070         2,484         2,609           Balance with banks         6,518         7,329         5,040         15,686         18,823         18,823           Net value of investments         66,297         80,834         104,018         135,508         157,073         179,500           Shares         391         357         362         370         370         370           Shares         391         357         362         370         370         370           Debentures and bonds         402 </td <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>							
PBT - Treasury + Provisions         1,774         2,773         5,929         10,413         12,660         16,100           % growth         (36.2)         56.3         113.8         75.6         21.6         27.2           Balance sheet         Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash         1,081         1,419         1,896         2,070         2,484         2,609           Balance with RBI         14,182         10,489         19,096         22,490         23,454         29,239           Balance with banks         6,518         7,329         5,040         15,686         18,823         18,823           Net value of investments         66,297         80,834         104,018         135,508         157,073         179,500           Govt. and other securities         54,357         62,944         85,215         100,219         21,887         144,407           Shares         391         357         362         370         370         370           Sbentumes and bonds         402         143         135         10,34         931         838           Net loans and advances         6,252	Net Profit	750	•	3,503	5,773	7,079	
Megrowith         (36.2)         56.3         113.8         75.6         21.6         27.2           Balance sheet         Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash         1,081         1,419         1,896         2,070         2,484         2,609           Balance with RBI         14,182         10,489         19,096         22,490         23,454         29,239           Balance with banks         6,518         7,329         5,040         15,686         18,823         18,823           Net value of investments         66,297         80,334         104,018         135,508         157,073         179,500           Govt. and other securities         54,357         62,944         85,215         100,219         121,887         144,407           Shares         391         357         362         370         370         370           Debentures and bonds         402         143         135         10,041         931         838           Net loans and advances         127,953         157,706         205,066         261,656         325,762         406,117           Fixed assets         6,252		, ,					
Balance sheet         21,780         19,237         26,032         40,246         44,761         50,670           Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash         1,081         1,419         1,896         2,070         2,484         2,609           Balance with RBI         14,182         10,489         19,096         22,490         23,454         29,239           Balance with banks         6,518         7,329         5,040         15,686         18,823         18,823           Net value of investments         66,297         80,834         104,018         135,508         157,073         179,500           Govt. and other securities         54,357         62,944         85,215         100,219         121,887         144,407           Shares         391         357         362         370         370         370           Shares         391         357         362         370         370         370           Debentures and bonds         402         143         135         1,034         931         838           Net loans and advances         6,252         6,232         6,448         5,96	PBT - Treasury + Provisions	1,774		5,929		12,660	16,100
Cash and bank balance         21,780         19,237         26,032         40,246         44,761         50,670           Cash         1,081         1,419         1,896         2,070         2,484         2,609           Balance with RBI         14,182         10,489         19,096         22,490         23,454         29,239           Balance with banks         6,518         7,329         5,040         15,686         18,823         18,823           Net value of investments         66,297         80,834         104,018         135,508         157,073         179,500           Govt. and other securities         54,357         62,944         85,215         100,219         121,887         144,407           Shares         391         357         362         370         370         370           Debentures and bonds         402         143         135         1,034         931         838           Net loans and advances         127,953         157,706         205,506         261,656         325,762         406,117           Fixed assets         6,252         6,232         6,448         5,965         9,268         11,757           Other assets         10,911         12,138         1	% growth	(36.2)	56.3	113.8	75.6	21.6	27.2
Cash         1,081         1,419         1,896         2,070         2,484         2,609           Balance with RBI         14,182         10,489         19,096         22,490         23,454         29,239           Balance with banks         6,518         7,329         5,040         15,686         18,823         18,823           Net value of investments         66,297         80,834         104,018         135,508         157,073         179,500           Govt. and other securities         54,357         62,944         85,215         100,219         121,887         144,407           Shares         391         357         362         370         370         370           Debentures and bonds         402         143         135         1,034         931         838           Net loans and advances         127,953         157,706         205,506         261,656         325,762         406,117           Fixed assets         6,252         6,232         6,448         5,965         9,268         11,757           Net leased assets         -         -         -         -         -         -         -         -         -         -         -         -         - <td< td=""><td>Balance sheet</td><td></td><td></td><td></td><td></td><td></td><td></td></td<>	Balance sheet						
Cash         1,081         1,419         1,896         2,070         2,484         2,609           Balance with RBI         14,182         10,489         19,096         22,490         23,454         29,239           Balance with banks         6,518         7,329         5,040         15,686         18,823         18,823           Net value of investments         66,297         80,834         104,018         135,508         157,073         179,500           Govt. and other securities         54,557         62,944         85,215         100,219         121,887         144,407           Shares         391         357         362         370         370         370           Debentures and bonds         402         143         135         1,034         931         838           Net loans and advances         127,953         157,706         205,506         261,656         325,762         406,117           Fixed assets         6,252         6,232         6,448         5,965         9,268         11,757           Net leased assets         -         -         -         -         -         -         -         -         -         -         -         -         - <td< td=""><td>Cash and bank balance</td><td>21,780</td><td>19,237</td><td>26,032</td><td>40,246</td><td>44,761</td><td>50,670</td></td<>	Cash and bank balance	21,780	19,237	26,032	40,246	44,761	50,670
Balance with RBI         14,182         10,489         19,096         22,490         23,454         29,239           Balance with banks         6,518         7,329         5,040         15,686         18,823         18,823           Net value of investments         66,297         80,834         104,018         135,508         157,073         179,500           Govt. and other securities         54,357         62,944         85,215         100,219         121,887         144,407           Shares         391         357         362         370         370         370           Debentures and bonds         402         143         135         1,034         931         838           Net loans and advances         127,953         157,706         205,506         261,656         325,762         406,117           Fixed assets         6,252         6,232         6,448         5,965         9,268         11,757           Net leased assets         -	Cash	1,081	1,419	1,896	2,070	2,484	2,609
Balance with banks         6,518         7,329         5,040         15,686         18,823         18,823           Net value of investments         66,297         80,834         104,018         135,508         157,073         179,500           Govt. and other securities         54,357         62,944         85,215         100,219         121,887         144,407           Shares         391         357         362         370         370         370           Debentures and bonds         402         143         135         1,034         931         838           Net loans and advances         127,953         157,706         205,506         261,656         325,762         406,117           Fixed assets         6,252         6,232         6,448         5,965         9,268         11,757           Net leased assets         -	Balance with RBI	14,182					
Govt. and other securities         54,357         62,944         85,215         100,219         121,887         144,407           Shares         391         357         362         370         370         370           Debentures and bonds         402         143         135         1,034         931         838           Net loans and advances         127,953         157,706         205,506         261,656         325,762         406,117           Fixed assets         6,252         6,232         6,448         5,965         9,268         11,757           Net leased assets         -	Balance with banks	6,518	7,329	5,040	15,686	18,823	18,823
Govt. and other securities         54,357         62,944         85,215         100,219         121,887         144,407           Shares         391         357         362         370         370         370           Debentures and bonds         402         143         135         1,034         931         838           Net loans and advances         127,953         157,706         205,506         261,656         325,762         406,117           Fixed assets         6,252         6,232         6,448         5,965         9,268         11,757           Net leased assets         -	Net value of investments	66,297	80,834	104,018	135,508	157,073	179,500
Debentures and bonds         402         143         135         1,034         931         838           Net loans and advances         127,953         157,706         205,506         261,656         325,762         406,117           Fixed assets         6,252         6,232         6,448         5,965         9,268         11,757           Net leased assets         -	Govt. and other securities	54,357	62,944	85,215	100,219	121,887	144,407
Net loans and advances         127,953         157,706         205,506         261,656         325,762         406,117           Fixed assets         6,252         6,232         6,448         5,965         9,268         11,757           Net leased assets         -	Shares	391	357	362	370	370	370
Fixed assets         6,252         6,232         6,448         5,965         9,268         11,757           Net leased assets         -	Debentures and bonds	402	143	135	1,034	931	838
Net leased assets         -	Net loans and advances	127,953	157,706	205,506	261,656	325,762	406,117
Net leased assets         -	Fixed assets	6 252	6 232	6 448	5 965	9 268	11 757
Net Owned assets         6,252         6,232         6,448         5,965         9,268         11,757           Other assets         10,911         12,138         11,691         12,983         12,983         12,983           P&L account balance (loss)         2,202         2,437         2,235         2,065         -         -           Total assets         233,193         276,147         353,695         456,358         549,847         661,028           Deposits         190,374         221,103         267,102         343,654         423,015         527,358           Borrowings and bills payable         23,088         30,919         53,173         58,854         67,285         67,285           Other liabilities         6,239         7,493         9,448         13,349         13,349         13,349           Total liabilities         219,701         259,514         329,723         415,856         503,649         607,992           Prefernce capital         -		-	-	-	-	-	
Other assets         10,911         12,138         11,691         12,983         12,983         12,983           P&L account balance (loss)         2,202         2,437         2,235         2,065         -         -           Total assets         233,193         276,147         353,695         456,358         549,847         661,028           Deposits         190,374         221,103         267,102         343,654         423,015         527,358           Borrowings and bills payable         23,088         30,919         53,173         58,854         67,285         67,285           Other liabilities         6,239         7,493         9,448         13,349         13,349         13,349           Total liabilities         219,701         259,514         329,723         415,856         503,649         607,992           Prefernce capital         -		6 252	6 232	6 448	5 965	9 268	11 757
P&L account balance (loss)         2,202         2,437         2,235         2,065         -         -         -           Total assets         233,193         276,147         353,695         456,358         549,847         661,028           Deposits         190,374         221,103         267,102         343,654         423,015         527,358           Borrowings and bills payable         23,088         30,919         53,173         58,854         67,285         67,285           Other liabilities         6,239         7,493         9,448         13,349         13,349         13,349           Total liabilities         219,701         259,514         329,723         415,856         503,649         607,992           Prefernce capital         -							
Total assets         233,193         276,147         353,695         456,358         549,847         661,028           Deposits         190,374         221,103         267,102         343,654         423,015         527,358           Borrowings and bills payable         23,088         30,919         53,173         58,854         67,285         67,285           Other liabilities         6,239         7,493         9,448         13,349         13,349         13,349           Total liabilities         219,701         259,514         329,723         415,856         503,649         607,992           Prefernce capital         - <t< td=""><td></td><td></td><td></td><td></td><td></td><td>-</td><td>-</td></t<>						-	-
Deposits         190,374         221,103         267,102         343,654         423,015         527,358           Borrowings and bills payable         23,088         30,919         53,173         58,854         67,285         67,285           Other liabilities         6,239         7,493         9,448         13,349         13,349         13,349           Total liabilities         219,701         259,514         329,723         415,856         503,649         607,992           Prefernce capital         -						549.847	661.028
Borrowings and bills payable         23,088         30,919         53,173         58,854         67,285         67,285           Other liabilities         6,239         7,493         9,448         13,349         13,349         13,349           Total liabilities         219,701         259,514         329,723         415,856         503,649         607,992           Prefernce capital         -					100,000	0.10,0.11	
Other liabilities         6,239         7,493         9,448         13,349         13,349         13,349           Total liabilities         219,701         259,514         329,723         415,856         503,649         607,992           Prefernce capital         -	Deposits	190,374	221,103	267,102	343,654	423,015	527,358
Total liabilities         219,701         259,514         329,723         415,856         503,649         607,992           Prefernce capital         - <t< td=""><td>Borrowings and bills payable</td><td>23,088</td><td>30,919</td><td>53,173</td><td>58,854</td><td>67,285</td><td></td></t<>	Borrowings and bills payable	23,088	30,919	53,173	58,854	67,285	
Prefernce capital         -	Other liabilities	6,239	7,493	9,448	13,349	13,349	13,349
Paid-up capital         3,200         3,552         4,106         4,660         4,660         4,660           Reserves & surplus         10,292         13,081         19,866         35,842         41,539         48,376	Total liabilities	219,701	259,514	329,723	415,856	503,649	607,992
Reserves & surplus 10,292 13,081 19,866 35,842 41,539 48,376	Prefernce capital				-	-	-
		3,200	3,552	4,106	4,660	4,660	
Total shareholders' equity 13,492 16,632 23,972 40,502 46,198 53,035		<u>.</u>		19,866	35,842	41,539	
· ·	Total shareholders' equity	13,492	16,632	23,972	40,502	46,198	53,035



# Strategy

A new approach to some old problems. We see the pragmatic approach of direct transfer of subsidy recommended by the 'Task Force on direct transfer of subsidies on kerosene, LPG and fertilizers' as having the potential to address the issue of subsidies to some extent. We compute a potential annual saving of ₹225 bn for the government from the implementation of the proposed scheme for LPG and kerosene. However, there are several challenges that need to be addressed for successful implementation of the new scheme: (1) Complete rollout of Unique Identification (UID) system in India as well as (2) full financial inclusion, among others.

# Pragmatic approach to handle the menace of subsidies

We see the direct transfer of subsidy as recommended by the 'Task Force on direct transfer of subsidies on kerosene, LPG and fertilizers' as a pragmatic and implementable solution to tackle the problem of burgeoning subsidies for the government. The task force intends to implement pilot projects in few locations and submit its final report after incorporating the experience from these projects. We compute annual savings of ₹225 bn for the government towards oil subsidies from the implementation of the proposed scheme.

### Government is saddled with subsidies and current subsidy schemes are highly inefficient

Exhibit 1 presents the subsidy on food, oil and fertilizer borne by the government of India during FY2006-12E. We highlight that the food and fertilizer subsidy is entirely borne by government but the under-recoveries on oil is also shared by the government-owned downstream and upstream oil companies. The subsidy burden has increased sharply to ₹1.6 tn in FY2011 versus ₹556 bn in FY2006. The spurt in subsidies reflects (1) sharp rise in consumption of regulated commodities and (2) spike in commodity prices. In addition, the situation has exacerbated due to the inability of the current system to limit the subsidy to needful consumers and leakage of subsidized products.

# Subsidy on LPG and kerosene will balloon without any preventive measures

We note that the subsidy on LPG and kerosene constitutes a significant chunk of the overall gross under-recoveries for the oil sector (Exhibit 2). We compute gross under-recoveries on LPG and kerosene at ₹575 bn for FY2012E assuming crude oil (Dated Brent) price of US\$105/bbl. However, the gross under-recoveries from cooking fuels balloon to ₹745 bn at crude oil price of US\$120/bbl assuming (1) no change in retail prices and (2) current subsidy mechanism.

# New scheme will likely (1) remove inefficiencies and (2) has potential to improve targeting

The objective of the proposed scheme of direct transfer of subsidies is to (1) remove inefficiencies in the existing system (dual-market pricing), which will help reduce leakages, and (2) potential to ensure that the subsidies are utilized only by the targeted vulnerable population, which will help in reducing overall subsidies. We note that the prevalent scheme provides a blanket subsidy to all consumers for the subsidized products resulting in (1) errors of inclusion and (2) errors of exclusions. The current system of subsidies also creates incentives for pilferage and diversion (as is widely prevalent in the case of kerosene and diesel).

# **INDIA**

JULY 11, 2011

**UPDATE** 

BSE-30: 18,858

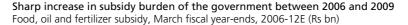
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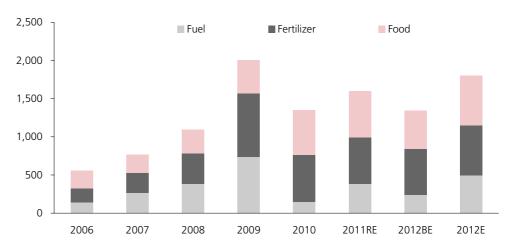
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Source: Budget documents, Kotak Institutional Equities estimates

LPG and kerosene constitutes a significant chunk of the overall gross under-recoveries Product-wise under-recoveries, March fiscal year-ends, 2007-11 (Rs bn)

	2007	2008	2009	2010	2011
Kerosene	179	191	282	174	196
LPG	107	155	176	143	220
Petrol	20	73	52	52	22
Diesel	188	352	523	93	344
Cooking fuels	286	346	458	316	416
Auto fuels	208	425	575	144	366
Total	494	771	1,033	461	782

Source: Kotak Institutional Equities estimates

# Proposed subsidy framework and solution architecture

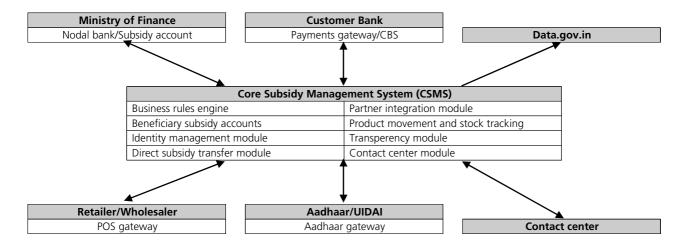
"The social programs of India are complex systems with millions of participants that have evolved over the last few decades. Hundreds of millions of beneficiaries depend upon these programs for basic sustenance. Such systems cannot be overhauled by legislation alone and neither is technology a panacea. Eventual success will hinge upon political will, good governance, incentive-compatible solution design, judicious use of technology, a structured transition plan, meticulous project management, effective supervision, audit and execution."

—Interim Report of the Task Force on Direct Transfer of Subsidies

The interim report of the Task Force on Direct Transfer of Subsidies has proposed a general framework as well as an implementable solution architecture for the direct transfer of subsidies to beneficiaries, aiming to incorporate the following elements of an effective subsidy regime: (1) Choice for beneficiaries, (2) one price for all subsidized goods, (3) transparency in administration, (4) efficiency in production, (5) convenient and effective grievance redressal, (6) full electronic service delivery, (7) support for all types of direct subsidy transfer models and (8) effective reporting mechanisms. The framework aims to limit leakages and minimize inefficiencies prevalent currently. The Core Subsidy Management System (CSMS) is at the heart of the framework, along with Unique Identification (UID) and financial inclusion, as described below.

▶ Core Subsidy Management System (CSMS). Exhibit 3 presents the basic architecture of CSMS, a fully electronic back-office system that automates all business processes related to direct transfer of subsidies. The CSMS would maintain the subsidy accounts of all the beneficiaries, and all policies related to subsidy management. It is important to highlight that the policies and business rules will continue to be framed by the policy makers; the CSMS will support all forms of direct transfers of subsidies and thus, would be customizable as per requirements. It would integrate with a number of external systems including government, partners and service providers for smooth flow of goods and information and effective monitoring. The concept is similar to Core Banking Solution (CBS) implemented by all banks today.

### Core Subsidy Management System (CSMS) architecture



Source: Task Force interim report, Kotak Institutional Equities

- ▶ Identification module and role of Aadhaar/UID. Robust identification of the beneficiary is critical in the direct transfer of subsidies and thus, CSMS would be closely linked to Aadhaar/UIDIA (Unique Identification Authority of India). The Aadhaar/UID number links to the individual's basic and demographic and biometric details, confirming that the person is who she says she is. The CSMS-UIDAI gateway will (1) ensure one beneficiary has one number across subsidy programs, (2) enable real-time authentication of identity and (3) enable delivery of welfare benefits and subsidies through direct transfers into Aadhaar-enabled bank accounts (AEBA).
- ▶ Direct subsidy transfer module and role of banks/financial inclusion. Access to electronic payments at the last mile is an integral part of the solution for direct transfer of subsidies. A number of actions have been initiated by the government of India to facilitate complete financial inclusion in India using (1) mobile phones, (2) India post and (3) bank accounts linked to Aadhaar. The latter allows 64 empanelled banks to open accounts for residents who choose to open one during Aadhaar enrolment without prejudice. Total financial inclusion is critical for direct transfer of subsidies.

India Strategy

# Details of the current and proposed subsidy mechanism for LPG

- Current scheme. At present, the government provides a direct subsidy from the budget at a fixed rate on LPG. In addition, there is under-recovery on LPG given that the domestic price is lower than the import parity or free-market price. The under-recovery is borne by upstream companies, downstream companies and the government. The current underrecovery on LPG is ₹278/cylinder.
- ▶ **Proposed scheme.** The Task Force has adopted a phase-wise implementation of the proposed scheme which is given below:
  - Phase I—Capping the consumption of subsidized cylinders for all customers. The capping of subsidized LPG cylinders for every household has been proposed by the ministry of oil and natural gas (MoPNG) as an interim measure to reduce the subsidy burden.

The number of subsidized cylinders allowed for every household and other rules will be notified by MoPNG before the onset of this phase. However, it must be noted that the implementation of Phase I is a policy decision of the government and not a specific recommendation of the task force.

We highlight that the Chatturvedi Committee had made a similar recommendation in August 2008. The committee has recommended that the entitlement to subsidized LPG be restricted to six refills in a year and subsequently be phased out over three years with future entitlements of four, two and zero refills.

We compute an annual saving of ₹98 bn to the gross under-recoveries if the entitlement is restricted to six subsidized LPG cylinders per annum (see Exhibit 4). We note that consumption of LPG in FY2011 was 14.3 mn tons. However, only 9.7 mn tons of LPG would be required to be sold at subsidized price if the number of subsidized cylinders are restricted to six per household.

# Savings from proposed subsidy mechanism for LPG (Rs bn)

LPG consumption in FY2011 (mn tons)	14
LPG households in FY2011 (# mn)	114
LPG cylinder per household (#)	9
Under-recovery in the present scenario (Rs bn)	307
Consumption capped to six cylinders per annum	
LPG cylinder per household (#)	6
Subsidized LPG consumption (mn tons)	10
Savings (Rs bn)	98
Subsidy to BPL households	
BPL households (# mn)	65
Subsidized LPG consumption (mn tons)	8
Savings (Rs bn)	132

### Notes:

(a) We compute LPG under-recovery assuming crude price of US\$105/bbl.

Source: Kotak Institutional Equities estimates

Phase II—Direct transfer of subsidy to customer. Phase II of the project involves linking of the OMCs database with the Aadhaar-Enabled Bank Account (AEBA). All LPG cylinders will be sold at market prices and the government would fix the subsidy per cylinder and the same will be transferred to the targeted customer's bank account upon authentication of the delivery of LPG cylinder.

Phase III—Identification and targeting of segmented customers. This phase
would involve identifying the targeted customers who need to be subsidized. Once
the process of identification is completed, the subsidy amount will be transferred for
the targeted customers only.

Exhibit 5 gives details of the challenges faced in the current subsidy scheme and the benefits that will likely accrue from the proposed scheme.

### Proposed subsidy framework to benefit stakeholders

Stakeholder	Current challenges	New benefits
	Not able to receive cylinders without a connection; process for registering and receiving a connection	Targeting to enable government to consider provide larger subsidy to the economically needy
Resident household	Only one connection per household	More resources with effective targeting enabling more inclusive execution of subsidy
	Non subsidized LPG is expensive	Non subsidized can become a commodity which can be purchased without customer having a connection
010.6	Sharing subsidy burden	Financially soundness of LPG retail sale, encouraging more players to participate
Oil & Gas exploration companies	Safe transportation of fuel production of LPG	. 33 17
Oil Markatina Companies (OMCs)	Under-recovery on domestic LPG sale	Market Price selling to eliminate under-recovery
Oil Marketing Companies (OMCs)	Illegal diversion of LPG	Incentive for illegal diversion of LPG removed with single market price
	Illegal diversion of LPG	Incentive for illegal diversion of LPG removed with single market price
LPG distributors of OMCs	Demand & supply forecasting	Market price selling to encourage more players, competition & overall larger benefit to all
	Taking new initiatives in meeting customer expectations	
State Government	Kerosene allocation and LPG connections	Indirect benefit in kerosene subsidy management, with increased penetration of LPG
	Funding under-recovery on domestic LPG sale	Rationing & targeting to reduce subsidy bill
MoPNG	Illegal diversion of LPG	Incentive for illegal diversion of LPG removed with single market price
MOFING	Hindrance in geographic distribution expansion	Freeing resources for inclusion, better targeting
		Expanding the market for more players
	Increasing under-recovery Bill	Reduction/better utilization of subsidy funds
Ministry of Finance	Subsidy misuse	Increased targeted inclusion for better nation building
	Limited Inclusion	

Source: Task Force interim report, Kotak Institutional Equities

# PDS, kerosene and challenges to the proposed subsidy mechanism

**Public Distribution System (PDS)**. The PDS program implemented in 1951 aims to ensures the availability of the basic necessities of life (food, fuel) to everyone, especially the below-poverty-line (BPL) population, through the network of ~0.5 mn Fair Price Shops (FPS) operated by the state governments. The latest version of PDS, implemented since 1997, in the Targeted PDS (TPDS), which is biased towards the 'really' poor section like the landless agricultural laborers, marginal farmers, etc. The distribution to the targeted population is made through FPS against a valid identity proof, which is the ration card.

PDS kerosene to the States and Union Territories on a quarterly basis, which is supplied by the OMCs to the wholesale dealers. The government provides a direct subsidy from the budget at a fixed rate on PDS kerosene (₹0.82/liter). In addition, there is under-recovery on kerosene given that the domestic price is lower than the import parity or free-market price. The under-recovery is borne by upstream companies, downstream companies as well as the government. The current under-recovery on kerosene is ₹23/liter.

The current subsidy scheme for kerosene suffers from the problems of (1) adulteration of diesel with kerosene given similar characteristics and (2) diversion to black market given sharp difference in price of kerosene and alternate fuels. As per NCAER (2005), 39% of kerosene does not reach the target population; the proportion may have risen over time given the increased price differential. Thus, the benefits largely elude the targeted population despite government subsidy, additional support from upstream companies as well as losses borne by OMCs.

India Strategy

▶ Proposed scheme. Under the proposed scheme, a direct transfer of cash equivalent to the subsidy as per actual usage of the beneficiaries would be made. The product will be supplied by the OMCs at non-subsidized rate throughout the value chain. However, considering the large number of ration cards beneficiaries, an elaborate mechanism is required for the subsidies to reach the intended beneficiaries, including creation of Aadhaar-enabled bank accounts (AEBA). Thus, the proposed changes will be done in two phases detailed below:

- Phase I—Direct transfer of subsidy through state governments/ Union Territory administration. Kerosene will be sold to end-users at market prices in Phase I. The government will provide for subsidy to the extent of kerosene uplifted in a State/Union Territory. The state governments will then transfer the subsidy amount to the customers of kerosene.
- Phase II—Subsidy transfer to beneficiaries. This phase envisages transfer of cash equivalent to the beneficiary. This will be achieved by opening of 'kerosene' account for beneficiaries with Aadhars and transfer of cash subsidy in proportion of the actual quantity of kerosene lifted by the consumer.

# ▶ Potential and challenges.

- Dependencies on state government/ministries. In Phase-I, the state governments will be responsible for transferring the subsidy only to those consumers who have actually lifted the product from the FPS. A failure to evolve an institutional mechanism for the same may result in public unrest. In general, the task force provides for implementable solution framework for delivery of direct subsidies to the intended beneficiary; key decisions on policies and business rules will be prerogative of the Centre and state governments.
- Complete rollout of Aadhaar/UID and financial inclusion. The success of Phase-II is critically dependent on the complete rollout of Aadhaar (Unique Identification-UID) as well as financial inclusion program of the government of India (since the cash transfer will be done to an account linked to Aadhaar identification). We highlight that Aadhaar/UID as well as financial inclusion goals are yet in their infancy (target to cover 50% of population by end-CY2014E) and prevalence of Aadhaar-enabled bank accounts (AEBA) would be a further challenge.
- 'Ghost' ration cards and leakages. The ration card (or Household Consumer Card) entitles the household to a quota of subsidized basic items (food and kerosene). There are currently 40-60 mn 'ghost' cards in circulation, given issuance of 240 mn ration cards against a total estimated 180 mn households in India (see Exhibit 6). This results in potentially significant leakage of subsidy provided by the government. The leakage can be effectively tackled with UID-based direct transfer.

Around 60 mn more ration cards than the number of households Population, households and number of ration cards as of August 2009 (mn)

	Estimated	Total		Ration cards		
	population	households	BPL	AAY	APL	Total
Uttar Pradesh	162.6	26.1	6.6	4.1	33.1	43.8
Maharashtra	91.1	17.7	4.5	2.5	14.4	21.4
West Bengal	79.0	14.5	3.8	1.5	12.2	17.5
Andhra Pradesh	75.5	15.8	17.6	1.6	3.9	23.0
Bihar	73.1	11.9	4.0	2.4	1.6	8.0
Tamil Nadu	61.8	13.9	18.2	1.9		20.1
Madhya Pradesh	54.8	9.7	5.3	1.6	8.2	15.1
Rajasthan	53.6	8.9	1.7	0.9	11.2	13.7
Karnataka	52.1	9.4	9.5	1.2	5.4	16.1
Gujarat	48.3	8.8	2.6	0.8	8.9	12.3
Orissa	35.9	6.8	3.8	1.3	3.6	8.6
Kerala	32.3	6.1	1.5	0.6	5.0	7.0
Jharkhand	26.8	4.4	1.5	0.9	0.5	2.9
Assam	26.2	4.5	1.2	0.7	3.9	5.8
Chhattisgarh	24.9	4.4	1.2	0.7	2.6	4.5
Punjab	23.5	4.0	0.3	0.2	5.6	6.0
Haryana	19.8	3.1	0.9	0.3	4.2	5.4
Delhi	14.0	2.8	0.3	0.2	2.7	3.1
Jammu and Kashmir	9.9	1.8	0.5	0.3	1.1	1.8
Uttarakhand	7.6	1.2	0.3	0.2	1.8	2.3
Himachal Pradesh	6.7	1.3	0.3	0.2	1.0	1.6
Tripura	3.8	0.7	0.2	0.1	0.4	0.7
Manipur	2.5	0.4	0.1	0.1	0.2	0.4
Meghalaya	2.4	0.4	0.1	0.1	0.3	0.4
Nagaland	1.7	0.3	0.1	0.0	0.2	0.3
Goa	1.6	0.3	0.0	0.0	0.3	0.3
Arunachal Pradesh	1.2	0.2	0.1	0.0	0.2	0.3
Puducherry	1.1	0.2	0.1	0.0	0.2	0.3
Mizoram	1.0	0.2	0.0	0.0	0.2	0.3
Sikkim	0.6	0.1	0.0	0.0	0.4	0.4
India	995.3	180.0	86.0	24.3	133.3	243.6

Source: Government of India, Kotak Institutional Equities

■ Errors of inclusion (targeting) and exclusion. However, there is no simple solution to all the errors of inclusion (targeting) as well as exclusion. In the current scheme, the state governments are responsible for identifying the beneficiaries; it is estimated that ~57% of BPL families are covered under PDS. A more robust mechanism for identification of the vulnerable population needs to be formulated, beyond the scope of the task force (UID would have limited utility, since it captures very basic demographic data, at an individual level). We note the failure of past schemes to implement targeted subsidies (smart card schemes for kerosene) due to the lack of coordination between various arms of the government and uncooperative stance of the state governments and local authorities.

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Exhibit 7 gives the phase-wise implementation of the proposed scheme for LPG, kerosene as well as fertilizers.

# Phase-wise implementation of proposed direct transfer scheme

	Phase I	Phase II	Phase III
LPG	Cap consumption of	Direct transfer of subsidy	Identify and target
	subsidized cylinders	to consumers bank	segmented customers for
		accounts	subsidy
Kerosene	Cash transfer through	Cash transfer to account	
	state governments	of beneficiaries	
Fertilizer	Establish information	Direct transfer of subsidy	Direct transfer of subsidy
	visibility till retail level	to the retailer	to the farmers bank
			accounts

Source: Task Force interim report, Kotak Institutional Equities



# Strategy

# Capital Ideas

Capital Ideas. Continuing our regular meetings with policy makers in the capital of the country, our second edition of Capital Ideas this financial year led us to meet with movers and shakers in various fields of infrastructure: water, power, coal and oil. We also met with two soft infrastructure creators: media and skills-development. We came back with a positive stance on India's current 'corrective phase' and skilling, while the concerns on coal and power remain. Expect tariffs for water and power to rise.

### Patrick Rousseau, CMD, Veolia India: Water distribution in India

India is increasingly beginning to realize that 'water is free but service needs to be priced'. India currently is in the process of developing transparent and fair rules and accountability provisions that can facilitate private sector entry. Veolia has recently signed up a water supply agreement with Nagpur Municipal Corporation where it will meter and bill its 2.7 mn people. Veolia believes that Indian cities have enough water if the distribution is well-managed—expensive production options like desalination are best avoided, except in certain areas.

# Shoma Chaudhury, Editor, Tehelka: Corrective phase

India is passing through a corrective phase in its politics and governance: the excessive land-grab attitude of business without consideration for the people or environment is manifesting itself in the inevitable collision. The right lesson to draw from the current phase is not that there should be flight of capital from India but that Indian business and politics need to take into account the current and future generations along with them: the idea should be to create long-term sustainable profits, rather than short-term gains.

# Dilip Chenoy, MD and CEO, National Skills Development Corporation: Skilling India

Lack of skilled workers is creating bottlenecks in growth (while inflating costs) and is creating capital-intensive projects. India needs to upgrade the skills of its workforce to make them employable and more productive. The current issue in skill-development is the lack of scale of current operators: NSDC is helping various ventures scale up by creating the right eco-system and via funding as it goes about its task of creating 150 mn skilled employees over the next 10 years.

# Tantra Narayan Thakur, MD, PTC India: Rising tariffs

Power tariff rise is going to be the new reality as state governments try to find a mechanism to fill the annual losses of the SEBs and repay the bonds issued in 2002. Bihar and Punjab recently raised tariffs by 19% and 9%, respectively and Delhi is expected to follow suit soon. The power purchase agreements may need to be revised to take into account the new realities of coal prices, Chinese currency appreciation and interest rates.

# GC Chaturvedi, Secretary, Ministry of Oil: Updating the understanding

Recent government moves on oil pricing have led to an easing of pressure on the OMCs: a more sustainable and rule-based method is under evaluation. On the Reliance gas block, he expressed confidence that the stated reserves exist though technical issues on pumping them out need to be solved. On ONGC, he expects the subsidy to go back the levels as earlier. On Iran, there is no clear path on how to resolve the issue. He expects LPG subsidy-targeting to start soon.

# Alok Perti, Special Secretary, Coal: Auctions and availability

Coal-block auctions should become a reality in the near future as guidelines get formalized in the next 2-3 months. His bigger concern is on the availability of coal for the ambitious XIIth Plan targets for power generation: there can be an annual gap of around 110 mn tons by end of the next plan period, even after accounting for imported coal. Such a shortfall could inevitably lead to deficit in power generation.

# **INDIA**

JULY 11, 2011

BSE-30: 18,858

**UPDATE** 

# **QUICK NUMBERS**

- Get ready to pay more for water and power
- Governance challenges
- Empowering people with skill development
- Policy framework on natural resources: oil and coal

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# PATRICK ROUSSEAU, CMD, VEOLIA INDIA: WATER DISTRIBUTION IN INDIA

India is increasingly beginning to realize that 'water is free but service needs to be priced'. India currently is in the process of developing transparent and fair rules and accountability provisions that can facilitate private sector entry. Veolia has recently signed up a water supply agreement with Nagpur Municipal Corporation where it will meter and bill its 2.7 mn people. Veolia believes that Indian cities have enough water if the distribution is well-managed—expensive production options like desalination are best avoided, except in certain areas.

# Understanding the company

Mr. Rousseau has been associated with Veolia for the last 35 years and since 1995 has been heading operations in new geographies outside of France. He has been associated with Veolia's entry into South Africa, Morocco and countries in central Africa and eastern Europe. He has been heading India since 2002.

Veolia has 4 main lines of businesses: (1) water (2) solid waste management (3) energy and (4) public operators. In water, they look at public utilities in urban areas (and hence bottled water or supplying rural irrigation water is not their area of activity). They also leave the management of the water resource to the local (state) government. As public operators in India, they will operate the Mumbai Metro Line I and II, where they will look after items like train running and maintenance, ticketing, crowd control, etc. Their guiding philosophy is to be an operator, not an investor.

# Water business in India

The jurisdiction over water in India rests with the urban local bodies (ULBs), making water a very local business as each authority has a different approach and framework of engaging private players (for more on the business of water in India, refer our GameChanger report: Water: A Deluge of Opportunity)

At a more macro level, India is still in the process of developing clearer rules where a fair and clean request for proposal (RFP) can be developed and then the effective enforcement of standards and regulations remains as an issue. The ideal situation would require creation of these processes so that the utilities (whether public or private) can be held accountable.

India has 'plenty of water' but the issue is around distribution of water, the production of water (which was seen as more glamorous) has attracted talent but distribution has lagged behind. The pipes laid are non-standard and the lack of investments over time has meant that the gap between the desired and actual distribution has widened significantly.

Veolia believes that there is a paying capacity for water in India and according to their estimates the average burden that can be borne is in the range of ₹15 per cubic meter (1,000 liters). This is enough to cover the operation and maintenance costs of the project but not the capital cost. He believes that 'full-cost recovery' is also not the right approach in India currently. This average tariff will possibly be realized by charging industry at ₹45-50 per cubic meter and households at ₹5 per cubic meter.

# Nagpur: Understanding water concession agreement

Veolia has, three weeks ago, signed a 25-year-long concession agreement with the Nagpur Municipal Corporation (NMC) to manage the water utility. The utility, which serves 2.7 mn people and expects a through-put of 500-600 mn liters a day (mld), will require an initial investment of ₹3.5 bn and will possibly require further investments between ₹5 bn and ₹10 bn. Most of the investments will go in pipe and pipe-laying and in metering.

The project, a joint venture with a local company, Vishwa Raj, is approved under JNNURM and hence funding for the initial investment is coming via central government (50%), state government (20%) and private investments (30%).

The final cost to the customer will be ₹15 per cubic meter. This comprises a tariff of ₹7.9 per cubic meter, administration cost of NMC and collection for loan repayments of NMC. The city is currently 30-40% metered and Veolia expects to meter it 100%. It has been decided that the poor areas of the city will also be metered but in those identified areas the pricing will be fixed fees and 'non-volumetric'. There is an escalation clause in the tariff and a five-year re-basement mechanism.

# Process of bidding

The bidding for the project was two-step: technical and price-based. The initial round saw 12-13 bidders which were narrowed down to three after the technical bids were evaluated. The pricing bid was a quote as a discount to a tariff specified by NMC. While he did not answer the question on how close the final bids were, he mentioned that the bidding was ration from the perspective of Veolia and they do not see this project as a 'flagship' or 'investment' project—this needed to make sense on a standalone basis. The four-year process from conceptualization to award of tender is, in his opinion, par for the course.

### Other cities

Veolia is working on 'demo projects' in World Bank-financed projects in Karnataka in towns like Hubli-Dharwad and Gulbarga. The objective is to demonstrate that it is possible to deliver 24/7 water supply. The other cities which are in the process of awarding full city contracts include Patna, Bhopal and Shimla, among others. He mentioned that desalination is not a good option in India because of the high capex and opex: this should not be tried in cities like Mumbai which have reasonable amount of water supply—getting the distribution right is important.

India Strategy

# SHOMA CHAUDHURY, EDITOR, TEHELKA: CORRECTIVE PHASE

India is passing through a corrective phase in its politics and governance: the excessive land-grab attitude of business without consideration for the people or environment is manifesting itself in the inevitable collision. The right lesson to draw from the current phase is not that there should be flight of capital from India but that Indian business and politics needs to take into account the current and future generations along with them: the idea should be to create long-term sustainable profits, rather than short-term gains.

### Batting for an equitable world

The journey of Tehelka is not a fight for an equal world (we are not communists or socialists) but for a world of equal opportunities and justice. The discussion drew upon Ms. Chaudhury's on-the-ground experiences across a variety of locations like Singur, Nandigram, Singrauli, among others. Her politics changed after her Singur visit: she thinks business houses should recognize the need for doing business with consensus and taking the considerations of the impacted people in mind.

She believes that the current phase of demonstrations and oppositions is a corrective phase and the democracy of India ensures that we don't veer off too much to an extreme: this is a phase of taking corrective-action. The issues that are hampering growth are issues of justice and she believes that efficiency cannot be the only marker for business: they need to take into account longevity of the enterprise.

The recent worries espoused by the captains of industry that India is witnessing a flight of capital, in her mind, is a wrong lesson learnt from the current state. She believes that India needs to have confidence in its market and not be worried about business opportunities running away—business cannot ignore India given its potential. India needs to get its priorities right.

# Maoism as a response to colonization?

The way businesses went about land-acquisition and mining recently, she believes, is a form of colonization where the wealth of rural/hinterland India was funding the growth of urban India. She believes that environmentalism that we are witnessing currently comes from the micro issues of livelihoods and the future of upcoming generations (else why would a Narmada Bachao Andolan continue for 22 years). The rampant trampling of rights (whether it was via the SEZ policy or the mining policies) lead people into extremism.

She believes that the next leg of extremism will start to impact urban India. She exemplifies the tin-roof housing provided to the workers at construction sites (where they are building glitzy malls or expensive high-rises) which lack the basic facilities lead to frustration. Apparently the reason such facilities are provided is to meet the specified norms of the labor laws requirement and no more. Her contention is that such profiteering (by following the letter of the law rather than the spirit) causes consternation.

However, the bigger issue is why should the democratically elected government vacate the rights discourse and leave it to the left-wing extremists to take it on? Should the government not think about the issues progressively?

# Lessons being learnt—right takeaways important

The recent voting out of the governments in West Bengal and Tamil Nadu has had an impact on the minds of the politicians and policy makers. Similarly, the fact that CEOs and ministers are in jail the message is being sent loud and clear. She believes that right lessons need to be learnt: business need not run away, they need to take the human element along with them, politicians need a transparent rule making system (starting with political funding) and media needs to start being less shrill and show-justice and lot more substance.

# DILIP CHENOY, MD AND CEO, NATIONAL SKILLS DEVELOPMENT CORP.: SKILLING INDIA

Lack of skilled workers is creating bottlenecks in growth and project executions (while inflating costs) and is creating capital intensive projects. India needs to upgrade the skills of its workforce to make them employable and more productive. The current issue in skill development is the lack of scale of current operators: NSDC is helping various ventures scale up by creating the right eco-system and via funding as it goes about its task of creating 150 mn skilled employees over the next 10 years.

# Skilled employees—one of the largest challenges before India Inc

People and their productivity have become the biggest issue for India Inc. With only 17% of companies in the manufacturing sector sending their employees out for training (the lowest in the BRIC nations) and only 2% of the shop floor workers having received any formal training, productivity enhancement is a critical issue that India businesses must face.

Lack of skilled workers can create (1) bottlenecks in growth or project execution or (2) dependency on capital-intensive projects. The low number of skilled workers has meant that there has been a lot of horizontal movement (movement across various companies in an industry) rather than vertical movement (growth of the employee) in the company, with a resultant increase in wages/salaries but hardly any increase in productivity.

Some of the examples that Mr. Chenoy laid out for the lack of skilled workers include the (1) involvement of Chinese labors in Delhi airport, (2) lack of availability of glass fitting technician holding up the completion of the CII building by 3 months, (3) local workers in Mumbai not willing to work beyond four floors in height and hence, projects needing to wait for outside labor to take up such jobs.

A study by NASSCOM estimated that the IT industry spends around US\$3 bn annually on the training of its employees. While the model of large IT companies have been to create corecompetencies of training in-house (refer the case study of Infosys in the GameChanger report, 'The Great Unskilled – Can we fix it?'), many other firms (he cited Genpact, for example) have outsourced their training needs to other companies (in this case, NIIT).

### How to go about it?

The current issue with the training set-ups in the country is that many of them are operating at a woefully small scale. The current set up of institutes catering to 2,000 to 3,000 students leads to a cost of ₹15,000 a student: if the model is scaled up, the cost can come down to ₹6,000. He believes that, while there are challenges in finding trained faculty, it is not a challenge that can be overcome—for example, post the retirement age of 58, many can become trainers till say, about the age of 65.

For the organizations setting up the training management institutes, they require 70% of their students to be placed so that the institute becomes sustainable. A multi-sectoral venture would work better than a single-skill based institute. Unlike in the filed of education, there is no restriction either on profit making or dividend distribution in vocational training. In light of all this, the business plans that NSDC is funding show an IRR of between 21% and 55%.

# **Genesis of NSDC**

A couple of things led to the start of NSDC (1) Dr. CK Prahalad, as an advisor to the PM, mooted the idea of a helping hand of entrepreneurs in the skill development space such that robust business models emerge in the sector, and (2) state governments began requiring its vendors to offer them services rather than products—for example, under JNNURM the state governments and ULBs wanted busses as a service rather than as equipments. Since the vendors were signing service level agreements (SLAs) specifying that the busses will be up and running 98% of the time, they needed trained drivers and mechanics. Such requirement from the industry created a significant push to creating trained personnel.

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Some of the various other industries where he sees such a transition are healthcare (for example, hospitals want to pay per X-ray image for example, rather than for an X-ray machine), telecom (where a full service is required for the towers) and facility managements (where guards are doubling up as plumbers, etc.).

# Creating the eco-system

NSDC is taking the lead in creating the sector skill councils so that individual industries can set up their own standards of how they want the students to be trained. 37 such councils are in various stages of being formed with the lead being taken by IT, health, media and energy sectors, among others. A product that the NSDC has helped develop is a loan product for the students where NSDC gives a 10% first loss default guarantee. They are also getting Indian skilled technicians to participate in the World Skills Olympics.

# MR. TANTRA NARAYAN THAKUR, MD, PTC INDIA: RISING TARIFFS

Power tariff rise is going to be the new reality as state governments try to find a mechanism to fill the annual losses of the SEBs and repay the bonds issued in 2002. Bihar and Punjab recently raised tariffs by 19% and 9%, respectively and Delhi is expected to follow suit soon. The power purchase agreements may need to be revised to take into account the new realities of coal prices, Chinese currency appreciation and interest rates.

# Get ready for tariffs rising

The current consternation in the investing community about the health of the state electricity boards (SEBs) is surprising given that the situation, according to him, has not been dramatically different over the last 16 years since he has been associated with the power sector. Drawing upon the FY2009 figures of ₹300 bn of SEB losses, he expects that, on the higher side, the current SEB losses would not be more than ₹600 bn annually. Given that India produces around 800 bn units of power, an increase of less than ₹0.8 per unit will can help wipe out the deficit.

The current average rates of tariff in India are between ₹3 and ₹4 per unit and hence a ₹0.8 per unit increase is an increase of around 20-27%. This increase can of course, not happen overnight but recent examples give comfort that increases are possible. Bihar recently raised power prices by 19%, Punjab by 9%, and in Delhi the Chief Minister has recently mentioned that the city needs to gear up for higher prices of power. He believes that there is paying capacity for power if the right quality of power (stability, timing, etc.) is provided.

The ₹300 bn 10-year tax-free bonds issued by the SEBs in 2002 (on the basis of a tripartite agreement between the states, centre and RBI) will come due now. It is this cash outflow that the state governments will need to make that will force them into taking some strong decisions on the pricing of power. Possibly, the regulators will be allowed to suo-motto increase tariffs, even if no recommendation is presented to them.

# Re-open the PPAs?

The power purchase agreements that were signed over the last 5-6 years, there have been significant changes in the basic economic variables on the basis of which the agreements were signed: (1) the price of coal, which had historically risen by 2-3% per annum shot up suddenly rendering meaningless the 4.5% per annum price rise cap that was built into the agreements, (2) the value of rupee has depreciated against the Chinese currency, thereby increasing the prices of equipment and (3) the interest rates have changed dramatically. Agreements, amounting to 40,000 MW of power, are being re-thought.

However, reopening the PPAs is not easy, especially in light of the current situation where it is difficult to take any action which seems to benefit a private company.

### Status updates

The coal shortage is well-known and in engaging the attention of the relevant people. In the case of hydro power projects, other than a few cases of concern in damming the Ganga or Bhagirathi, most of the others are on track. The SEBs have always paid (there may sometimes be delays, but then the penal interest has also been paid) and hence, there is limited need to worry on account of SEB dues.

On the Karcham Wangtoo project, there is an active process of resolving the technical issue that has cropped up between the operator and PTC: at what price should the power be sold. The pricing was to be decided by CERC or by applying CERC norms on CEA certified costs. Both CERC and CEA have refrained from giving a tariff or approving the costs. The costs are now being vetted by IIT, Rourkee, which has expertise in this matter.

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# MR. GC CHATURVEDI, SECRETARY, MINISTRY OF OIL: UPDATING THE UNDERSTANDING

Recent government moves on oil pricing have led to an easing of pressure on the oil marketing companies: a more sustainable and rule-based method is under evaluation. On the Reliance gas block, he expressed confidence that the stated reserves exist though technical issues on pumping them out needs to be solved. On ONGC, he expects the subsidy to go back the levels as earlier. On Iran, there is no clear path on how to resolve the issue. He expects LPG subsidy-targeting to start soon.

# Under-recovering the under-recoveries

The recent government decisions have led to the falling of under-recoveries by ₹490 bn: ₹280 bn via duty cuts and ₹210 bn by passing it on to the customers. What the decision has not been able to achieve is making good the under-recovery for the first few months of the year and solving what would happen if the prices remain high for the year (beyond the Indian crude basket price of US\$90 or US\$95 per barrel).

Various methods of apportioning the under-recoveries are under consideration of the Ministry of Finance. One which is considered possible is that the under-recoveries will be borne one-third each by the Ministry of Finance, Ministry of Oil and Petroleum and the last one-third will be passed on to the consumers.

### On Reliance

On the issue of Reliance's gas production, he was of the opinion that the reserves seem to be there (despite the current write-downs by Niko): he says that if BP has done a due diligence and the seismographic reports both suggest that the reserves are intact. What needs to be done of course is to resolve the technical issue of how to get the reserves out. The involvement of BP should help bring in the expertise. He says that the deal approval is in process: it must be noted that this deal is different from Cairn-Vedanta since there is no change in operator here.

### On ONGC

ONGC's share of the under-recovery at 38% in Q4FY2011 was a *fait accompli* based on how the subsidies were divided among the other companies. The tiered formula which has appeared in the press is not being considered. It is for the government of disinvestment to decide when they want to do the follow-on public offering.

# On gas

The price of APM gas will remain fixed till March 2014 as was decided by the GoM, post which it can change. He believes that there is significant demand for gas and now since supply is an issue, a re-consideration for LNG may set in. If that were to happen (that seems not to be the case now as PLNG is still not able to convince NTPC to offtake gas from the Kochi terminal), the infrastructure around LNG (finalizing contracts, setting up a terminal and laying pipelines) can be done in 3-4 years. He believes the setting up of pipelines for the gas should be done post there being some clarity on where the gas will come from.

### On other issues

On Iran, he was not sure how or when the issue will get solved but MRPL which has the largest exposure is also considering if it can get substitutes, say from Venezuela, which has a similar type of crude. On smart card for direct transfer of subsidies, he expects an easier roll out for LPG as the database exists with the three oil marketing companies. They are in the process of putting the data of the various OMCs on one platform and de-duping. However, how the cap of subsidy will be implemented is another matter altogether.

# MR. ALOK PERTI, SPECIAL SECRETARY, COAL: AUCTIONS AND AVAILABILITY

Coal-block auctions should become a reality in the near future as guidelines get formalized in the next 2-3 months. His bigger concern is on the availability of coal for the ambitious XIIth Plan targets for power generation: there can be an annual gap of around 110 mn tons by end of the next plan period, even after accounting for imported coal. Such a shortfall could inevitably lead to deficit in power generation.

# Auctioning the coal blocks

The process of auctioning of coal blocks is on track. After the amendment to the statute last year, the work on framing the guidelines is on and should complete in the next 2-3 months, post which the auctioning process can begin. In tracing the history of auctioning, Mr. Perti traced back to the year 1993 when coal fields were allotted to captive users (for example, steel plant operators) as not getting coal was hampering their production. In 2003, the process was changed to bring in the concept of allotment letters, which while initially did not pick up, saw a rush of applications as the power sector demand shot up and a selection committee was formed to judge the priority and preparedness of the mine allocation recipient. As the value of coal shot up, the concept of auctioning is now being brought in.

### Coal availability

According to the XIIth Plan, the target is to create new power generation capacity of 100,000 MW, of which 70,000 MW is expected to be coal-based. The ~60% achievement of the XIth Plan target raises concerns on whether this ambitious target will be met—the Xith Plan coal-based capacity addition is expected to be less than 40,000 MW. The hope for the XIIth Plan rests on a significantly larger expectation from the private sector. However, whether public or private sector is expected to deliver, the issues holding up capacity expansion are similar, whether it is environmental clearances or coal linkages.

Given an average consumption of 4.5 mn tons of coal of producing 1,000 MW (1 GW) of power, producing 70,000 MW would require 315 mn tons of coal (70 GW \* 4.5 mn tons). Assuming that 12,000 MW of this capacity will be set up by port based plants, this still requires 58,000 MW to be set up inland and hence, requires 261 mn tons of inland coal. The imported coal-based capacity that is coming up in coastal areas suffers from the low berthing and vacating capacity at the ports.

Deep diving into the inland coal-based production, he is not very hopeful of a more an 5% per annum rise in coal production in India, which compares with the 4.5% per annum growth as witnessed in the XIth Plan period. Given the current production of around 550 mn tons, even assuming a 5% per annum growth rate, the production at the end of fifth year will be around 700 mn tons, implying an incremental capacity creation of around 150 mn tons, Given the requirement of 261 mn tons, this will leave a significant shortfall.

He believes that there is significant optimism attached in expecting a 5% growth. The current additional capacity that Coal India expects to create over the XIIth Plan period is 110 mn tons (which appears conservative). However, growth has to come from Coal India as there is limited scope for volume growth from Singreni. The growth of Coal India also needs to come in from capacity expansions of current facilities only: even in the 'go areas' (as opposed to the 'no-go areas') if new work were to be started, the first set of production will accrue only in the XIIth Plan period.

### MMDR Act

He decided to refrain from answering specific questions or conjecturing on what the outcome of the Group of Ministers meeting would be as the said meeting was going on even as we were meeting with Mr. Perti. Since then there have been media reports and comments from our respective analysts in the coal and metals space on this issue.

					O/S																						Target		
	8-Jul-11		Mkt o		shares		EPS (Rs)			S growth (			PER (X)			/EBITDA			ice/BV (X			end yield			RoE (%)		price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)
Automobiles																													
Ashok Leyland	53	SELL	70,239	1,585	1,330	4.7	4.2	4.7	68.2	(10.8)	11.7	11.1	12.5	11.2	7.7	8.3	7.5	1.6	1.4	1.3	1.9	1.9	1.9	21.3	16.4	16.3	52	(1.5)	6.4
Bajaj Auto	1,460	ADD	422,466	9,531	289	90.6	99.8	109.8	44.2	10.2	10.0	16.1	14.6	13.3	15.1	13.7	12.4	8.6	6.6	5.2	2.7	2.7	2.7	85.0	50.8	43.1	1,550	6.2	14.1
Bharat Forge	331	ADD	78,511	1,771	237	11.9	18.3	23.0	1,324.3	54.0	25.6	27.8	18.1	14.4	12.3	9.1	7.5	3.5	2.9	2.4	1.1	_	_	7.8	14.6	16.7	355	7.3	2.4
Exide Industries	168	ADD	142,545	3,216	850	7.3	8.8	10.8	15.4	20.1	23.4	23.0	19.2	15.5	16.1	13.5	11.1	5.2	4.2	3.4	0.8	0.8	0.8	25.0	24.4	24.5	175	4.4	5.7
Hero Honda	1,902	REDUCE	379,869	8,570	200	99.3	108.5	127.6	(11.1)	9.2	17.5	19.2	17.5	14.9	12.5	9.3	7.8	8.1	8.4	8.0	5.5	3.7	3.7	56.5	62.5	60.8	1,722	(9.5)	23.2
Mahindra & Mahindra	718	ADD	440,606	9,940	614	41.7	43.9	48.9	22.7	5.2	11.4	17.2	16.4	14.7	13.2	12.2	10.7	4.1	3.5	3.0	1.6	1.6	1.6	27.3	23.2	22.0	770	7.3	27.2
Maruti Suzuki	1,184	BUY	342,130	7,718	289	79.2	84.5	103.2	(8.4)	6.7	22.2	15.0	14.0	11.5	9.4	8.6	6.4	2.4	2.1	1.8	0.5	0.5	0.5	17.6	16.1	16.9	1,515	27.9	11.0
Tata Motors	1,054	REDUCE	700,910	15,812	665	136.0	123.6	134.4	737.9	(9.1)	8.8	7.8	8.5	7.8	5.5	5.9	5.3	3.6	2.6	2.0	1.8	1.4	1.4	66.1	36.2	29.6	1,060	0.6	61.3
Automobiles		Cautious	2,577,277	58,142					88.2	0.6	12.8	12.9	12.8	11.3	8.7	8.4	7.3	4.1	3.3	2.7	2.2	1.8	1.8	31.7	26.1	24.3			
Banks/Financial Institutions																													
Andhra Bank	134	BUY	75,124	1,695	560	22.6	23.7	27.9	5.0	4.7	17.6	5.9	5.7	4.8	_	_	_	1.2	1.0	0.9	4.1	4.3	5.0	23.2	19.0	19.5	190	41.5	2.4
Axis Bank	1,306	BUY	536,152	12,095	411	82.5	99.2	121.1	33.0	20.2	22.1	15.8	13.2	10.8	_	_	_	2.8	2.4	2.0	1.1	1.3	1.6	19.3	19.7	20.5	1,700	30.2	47.5
Bank of Baroda	896	BUY	351,854	7,938	393	108.0	116.4	139.6	29.1	7.8	19.9	8.3	7.7	6.4	_	_	_	1.8	1.5	1.3	1.8	2.0	2.4	25.3	21.1	21.3	1,250	39.5	7.9
Bank of India	413	ADD	225,947	5,097	547	45.5	59.9	69.6	37.4	31.6	16.2	9.1	6.9	5.9	_	_	_	1.4	1.2	1.0	2.0	2.6	3.0	17.3	19.0	19.0	500	21.1	11.2
Canara Bank	529	ADD	234,281	5,285	443	90.9	87.1	108.6	23.3	(4.2)	24.7	5.8	6.1	4.9	_	_	_	1.3	1.1	0.9	2.1	2.3	2.3	23.2	17.8	19.0	600	13.5	11.7
Corporation Bank	519	ADD	76,895	1,735	148	95.4	88.3	104.1	16.3	(7.5)	18.0	5.4	5.9	5.0	_	_	_	1.1	0.9	0.8	3.9	3.6	4.2	21.9	17.1	17.7	630	21.4	0.9
Federal Bank	461	ADD	78,777	1,777	171	34.3	44.9	57.0	26.3	31.0	26.7	13.4	10.2	8.1	_	_	_	1.6	1.4	1.3	1.8	2.4	3.1	12.0	14.3	16.2	500	8.6	5.8
HDFC	714	REDUCE	1,047,660	23,635	1,467	24.1	27.8	31.9	22.4	15.6	14.6	29.6	25.6	22.4	_	_	_	6.1	5.3	4.1	1.3	1.5	1.7	21.7	22.1	21.5	730	2.2	43.0
HDFC Bank	2,559	ADD	1,190,582	26,859	465	84.4	110.2	140.4	31.0	30.6	27.3	30.3	23.2	18.2	_	_	_	4.7	4.1	3.5	0.6	0.8	1.1	16.7	18.7	20.5	2,800	9.4	43.3
ICICI Bank	1,060	ADD	1,221,160	27,549	1,152	44.7	57.5	68.3	23.9	28.6	18.8	23.7	18.4	15.5	_	_	_	2.2	2.1	1.9	1.3	1.6	1.9	9.7	11.6	12.7	1,270	19.8	91.6
IDFC	134	ADD	202,266	4,563	1,506	8.8	10.1	12.2	4.8	15.1	21.0	15.3	13.3	11.0	_	_	_	1.9	1.6	1.5	1.1	1.5	1.8	14.7	13.3	14.0	160	19.1	24.4
India Infoline	87	ADD	28,538	644	327	7.4	6.8	8.4	(9.3)	(8.3)	24.4	11.8	12.9	10.4	_	_	_	1.7	1.4	1.3	3.2	1.7	2.1	12.9	12.0	13.0	100	14.5	2.0
Indian Bank	216	BUY	92,895	2,096	430	38.8	43.9	53.8	10.5	13.1	22.6	5.6	4.9	4.0	_	_	_	1.2	1.0	8.0	3.5	3.6	4.5	22.3	21.2	21.9	300	38.8	2.1
Indian Overseas Bank	144	BUY	88,821	2,004	619	17.3	23.5	30.7	33.6	35.4	30.9	8.3	6.1	4.7	_	_	_	1.1	0.9	0.8	3.5	3.0	3.2	12.7	14.6	16.8	190	32.4	2.6
IndusInd Bank	288	BUY	133,965	3,022	466	12.4	15.2	18.2	45.2	22.6	19.9	23.2	18.9	15.8	_	_	_	3.7	3.2	2.8	0.7	0.9	1.0	20.8	17.7	17.9	325	13.0	4.3
J&K Bank	849	ADD	41,178	929	48	126.9	136.9	152.9	20.1	7.9	11.7	6.7	6.2	5.6	_	_	_	1.2	1.1	0.9	3.1	3.3	3.7	19.0	17.8	17.4	900	6.0	0.6
LIC Housing Finance	217	ADD	102,898	2,321	475	20.5	22.4	27.6	47.2	9.0	23.3	10.6	9.7	7.9	_	_	_	2.5	2.1	1.7	2.0	2.2	2.7	25.8	23.3	24.0	270	24.6	29.3
Mahindra & Mahindra Financial	677	BUY	69,350	1,564	102	45.2	56.5	67.1	26.0	25.0	18.8	15.0	12.0	10.1	_	_	_	2.8	2.4	2.1	1.5	1.8	2.2	22.0	21.4	21.6	825	21.9	2.6
Muthoot Finance	166	BUY	61,785	1,394	371	15.7	19.0	24.5	108.4	20.5	29.0	10.6	8.8	6.8	_	_	_	4.6	2.1	1.6	_	_	_	51.5	33.0	26.8	220	32.3	_
Oriental Bank of Commerce	331	BUY	96,442	2,176	292	51.5	56.8	65.8	13.7	10.3	15.8	6.4	5.8	5.0	_	_	_	0.9	0.8	0.7	3.1	3.5	4.0	15.5	14.2	14.8	430	30.1	5.1
PFC	194	REDUCE	256,001	5,775	1,320	22.8	24.7	30.1	11.0	8.2	22.0	8.5	7.9	6.4	_	_	_	1.7	1.3	1.1	2.0	2.5	3.1	18.3	17.9	17.6	250	28.9	17.5
Punjab National Bank	1,153	BUY	365,329	8,242	317	139.9	166.4	201.5	13.0	18.9	21.1	8.2	6.9	5.7	_	_	_	1.8	1.5	1.2	2.5	2.9	3.6	24.0	23.5	23.7	1,500	30.1	6.3
Reliance Capital	590	REDUCE	145,197	3,276	246	9.3	16.5	24.6	(25.3)	77.0	49.6	63.4	35.8	23.9	_	_	_	2.1	2.0	1.9	0.6	1.1	1.7	3.3	5.7	8.2	600	1.7	18.3
Rural Electrification Corp.	206	ADD	203,452	4,590	987	26.0	29.3	32.8	28.1	12.7	12.2	7.9	7.0	6.3				1.6	1.4	1.2	3.6	4.8	5.3	21.5	21.2	20.9	250	21.3	12.4
Shriram Transport	673	REDUCE	150,062	3,385	223	55.1	65.5	77.2	40.8	18.8	17.9	12.2	10.3	8.7	_	_	_	3.1	2.6	2.2	1.6	1.9	2.3	28.1	26.7	25.8	700	4.1	16.2
SKS Microfinance	494	SELL	36,401	821	74	15.7	(39.1)	3.9	(41.8)	(349.4)	(109.9)	31.5	(12.6)		_	_	_	2.0	2.4	2.3	_	_	_	8.3	(17.4)	1.9	350	(29.2)	7.2
State Bank of India	2,478	BUY	1,573,813	35,504	635	130.2	213.1	266.4	(9.9)	63.7	25.0	19.0	11.6	9.3	_	_	_	2.4	2.1	1.7	1.4	1.4	1.5	12.6	19.2	20.4	2,900	17.0	137.9
Union Bank	300	BUY	157,326	3,549	524	39.5	50.9	61.9	(3.9)	29.1	21.5	7.6	5.9	4.8	_	_	_	1.4	1.2	1.0	3.1	4.0	4.8	20.9	22.3	22.9	425	41.6	4.8
Yes Bank	322	BUY	111,868	2,524	347	21.5	25.9	32.7	43.2	20.7	26.3	15.0	12.4	9.8	_	_	_	2.9	2.4	2.0	0.8	0.9	1.2	21.7	21.5	22.5	420	30.3	18.4
Banks/Financial Institutions		Attractive	8,956,019	202,042					20.1	23.5	22.3	14.6	11.8	9.7				2.3	2.0	1.7	1.5	1.8	2.1	15.9	17.0	17.8			
Cement																													
ACC	975	REDUCE	183,249	4,134	188	55.6	63.8	79.1	(33.2)	14.8	24.1	17.6	15.3	12.3	10.6	8.5	6.5	2.7	2.4	2.1	3.6	2.4	2.4	17.5	18.2	19.4	1,050	7.7	6.0
Ambuja Cements	126	SELL	192,200	4,336	1,522	7.9	8.4	10.9	(1.5)	6.6	29.2	16.0	15.0	11.6	9.6	8.2	6.0	2.4	2.2	2.0	1.6	1.8	1.9	16.6	15.8	18.3	145	14.9	9.5
Grasim Industries	2,167	BUY	198,682	4,482	92	233.3	277.7	319.7	(22.5)	19.0	15.1	9.3	7.8	6.8	6.0	4.5	3.6	1.4	1.2	1.0	1.6	1.6	1.6	15.8	16.3	16.3	3,100	43.1	4.0
India Cements	74	REDUCE	22,854	516	307	2.2	8.3	10.8	(77.6)	270.2	29.5	33.1	8.9	6.9	11.0	5.8	4.0	0.5	0.5	0.5	4.3	4.3	4.3	1.8	6.4	8.0	92	23.7	1.7
Shree Cement	1,747	REDUCE	60,864	1,373	35	57.2	137.4	155.1	(72.5)	140.4	12.9	30.6	12.7	11.3	6.8	4.8	3.9	3.2	2.7	2.3	0.6	0.6	0.6	10.7	22.9	21.8	2,025	15.9	0.5
UltraTech Cement	982	BUY	269,011	6,069	274	44.9	84.1	103.1	(49.2)	87.4	22.6	21.9	11.7	9.5	10.7	6.4	4.9	2.2	1.8	1.5	0.6	0.6	0.6	16.7	19.6	20.0	1,350	37.5	2.9
Cement		Neutral	926,860	20,909					(23.4)	37.1	21.2	15.8	11.5	9.5	8.4	6.0	4.7	1.9	1.7	1.5	1.7	1.5	1.5	12.3	14.9	15.6			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

KOTAK INSTITUTIONAL EQUITIES RESEARCH

# Kotak Institutional Equities: Valuation summary of key Indian companies

					O/S																						Target		
	8-Jul-11		Mkt ca		shares		EPS (Rs)	20425		S growth (			PER (X)	20425		/EBITDA			rice/BV ()			nd yield			RoE (%)	20425		Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)
Consumer products Asian Paints	2.150	REDUCE	202.072	6,835	96	80.8	94.6	111.4	13.0	17.1	17.7	39.1	33.4	28.4	26.1	21.2	17.4	14.8	11.4	9.2	1.0	0.9	1.1	43.9	40.0	36.8	2,900	(8.2)	10.1
Colgate-Palmolive (India)	3,159 1,007	SELL	302,972 136,897	3,088	136	29.6	34.3	39.2	(4.9)	16.0	17.7	34.0	29.3	25.7	26.1 29.5	25.4	21.4	35.6	31.1	25.5	2.2	2.6	2.7	113.4	113.2	108.9	900	(10.6)	2.3
Dabur India	1,007	ADD	193,288	4,360	1,731	3.3	34.3	4.3	13.4	11.8	16.5	34.0	30.4	26.1	26.7	21.4	18.9	14.9	11.5	9.1	1.0	1.1	1.3	51.5	43.3	39.5	110	(10.6)	5.7
GlaxoSmithkline Consumer (a)	2.487	ADD	104,588	2,359	42	71.3	85.4	101.5	28.8	19.8	18.9	34.9	29.1	24.5	25.2	21.5	17.8	11.2	9.1	7.4	2.0	1.1	1.3	32.2	33.5	32.5	2.700	8.6	0.7
Godrej Consumer Products	438	BUY	141,571	3,194	324	14.6	18.1	22.4	29.1	23.7	23.6	29.9	24.2	19.5	24.0	18.0	14.4	7.9	7.2	6.3	1.0	0.7	0.7	34.6	31.3	34.4	510	16.6	2.5
Hindustan Unilever	333	ADD	720,064	16,244	2,159	9.6	11.3	13.4	2.1	17.7	17.9	34.7	29.4	25.0	28.7	24.6	20.2	27.3	23.4	20.0	2.3	2.8	3.3	80.6	85.8	86.5	340	2.0	16.5
ITC TIMEVE	201	ADD	1,543,660	34,824	7,697	6.5	8.0	9.1	22.1	23.1	13.5	30.9	25.1	22.1	21.0	17.0	14.8	9.7	8.3	7.2	2.2	1.9	2.2	34.3	37.3	36.2	230	14.7	32.0
Jubilant Foodworks	854	SELL	55,098	1,243	65	11.2	14.7	20.0	98.7	31.7	35.9	76.6	58.1	42.8	46.0	31.3	23.5	28.8	19.3	13.3	2.2	1.5	2.2	46.5	39.7	36.7	550	(35.6)	35.1
Jyothy Laboratories	219	ADD	17,642	398	81	10.5	11.7	13.3	(5.0)	11.4	14.2	20.9	18.7	16.4	18.5	14.0	11.4	2.6	2.4	2.2	2.7	2.1	2.7	12.3	13.3	14.0	240	9.7	1.0
Marico	165	ADD	100,846	2,275	612	4.2	5.5	6.5	10.9	29.4	18.6	39.1	30.2	25.5	25.9	20.7	17.4	10.8	8.4	6.7	0.4	0.6	0.7	32.8	31.8	29.5	160	(3.0)	1.2
Nestle India (a)	4,262	REDUCE	410,967	9,271	96	86.8	104 6	123.9	16.7	20.5	18.4	49.1	40.8	34.4	32.7	26.6	22.0	48.0	34.6	26.0	1.1	1.4	1.7	116.5	98.7	86.3	3,500	(17.9)	2.6
Tata Global Beverages	100	ADD	61,840	1,395	618	4.0	6.0	6.8	(34.6)	52.6	13.0	25.3	16.6	14.7	9.9	8.4	7.3	1.2	1.2	1.1	2.0	3.1	3.4	6.5	9.6	10.4	110	10.0	3.3
Titan Industries	226	REDUCE	200,773	4,529	888	5.3	6.5	7.7	83.9	24.0	17.5	42.9	34.6	29.5	31.3	24.1	20.0	18.5	13.9	11.0	0.6	1.0	1.3	51.3	45.8	41.6	240	6.1	43.6
United Spirits	1,079	ADD	135,547	3.058	126	29.5	39.2	50.6	8.3	32.8	29.0	36.5	27.5	21.3	17.8	13.7	11.7	3.1	2.8	2.5	0.3	0.2	0.4	9.1	10.7	12.5	1,300	20.5	7.5
Consumer products		Cautious	4.125.753	93,074					15.9	21.6	16.5	34.6	28.4	24.4	24.0	19.5	16.5	10.8	9.3	8.0	1.7	1.7	2.0	31.4	32.7	32.7			
Constructions																													
IVRCL	73	BUY	19,425	438	267	5.9	7.9	9.8	(25.2)	33.6	24.5	12.3	9.2	7.4	7.6	6.5	5.9	1.0	0.9	0.8	0.6	0.6	0.6	8.2	10.1	11.3	125	71.8	5.1
Nagarjuna Construction Co.	83	BUY	21,412	483	257	6.4	7.0	8.9	(10.7)	10.5	25.8	13.1	11.9	9.4	9.2	8.4	7.5	0.9	0.9	0.8	2.4	2.4	2.4	7.1	7.4	8.9	140	67.8	2.2
Punj Lloyd	78	REDUCE	26,420	596	340	(1.5)	5.2	8.2	(56.6)	(449.2)	57.5	(52.4)	15.0	9.5	9.4	6.9	5.8	0.9	0.8	0.8	(0.1)	0.6	0.9	(1.7)	5.8	8.5	75	(3.6)	12.5
Sadbhav Engineering	142	BUY	21,263	480	150	8.0	10.0	12.1	55.1	25.4	21.1	17.8	14.2	11.7	10.8	8.8	7.4	3.3	2.7	2.2	0.4	0.4	0.4	18.6	19.2	19.0	190	34.0	0.5
Construction		Attractive	88,519	1,997					14.1	83.7	32.2	22.7	12.3	9.3	9.0	7.4	6.4	1.1	1.0	0.9	0.8	1.0	1.1	4.9	8.4	10.1			
Energy																													
Aban Offshore	526	BUY	22,871	516	44	116.2	103.6	104.0	9.0	(10.8)	0.3	4.5	5.1	5.1	7.0	6.5	6.6	1.1	0.9	0.8	0.7	0.8	0.9	29.2	19.9	16.5	775	47.4	13.1
Bharat Petroleum	669	ADD	241,961	5,458	362	45.7	46.0	60.0	(20.7)	0.6	30.5	14.6	14.6	11.2	10.2	8.9	7.0	1.6	1.5	1.4	2.1	2.2	2.9	10.8	10.1	12.2	800	19.5	10.2
Cairn india	323	REDUCE	614,701	13,867	1,902	33.3	51.2	48.2	501.1	53.8	(6.0)	9.7	6.3	6.7	7.1	4.6	4.3	1.5	1.3	1.2	_	1.5	4.6	16.9	21.9	18.2	280	(13.4)	59.6
Castrol India (a)	555	SELL	137,228	3,096	247	19.8	20.7	21.3	28.7	4.6	2.7	28.0	26.8	26.1	17.9	17.7	17.0	26.6	24.4	23.0	2.7	2.9	3.1	100.5	95.0	90.9	385	(30.6)	2.6
GAIL (India)	463	ADD	587,116	13,245	1,268	28.1	39.9	41.5	13.4	42.2	3.9	16.5	11.6	11.2	10.3	8.4	7.7	2.8	2.3	2.0	1.6	2.4	2.5	17.4	21.1	18.5	570	23.2	10.3
GSPL	97	REDUCE	54,345	1,226	563	9.0	8.1	9.0	23.1	(10.3)	11.9	10.7	12.0	10.7	6.9	7.1	6.5	2.4	2.0	1.7	1.0	1.7	2.8	25.5	18.2	17.4	92	(4.8)	3.0
Hindustan Petroleum	393	ADD	133,095	3,003	339	45.7	32.5	43.5	(11.4)	(28.8)	33.9	8.6	12.1	9.0	3.4	3.8	3.1	0.8	0.8	0.7	3.6	2.6	3.4	10.1	6.5	8.1	500	27.4	8.9
Indian Oil Corporation	339	ADD	821,982	18,543	2,428	31.8	31.8	36.9	(35.4)	0.2	16.0	10.7	10.6	9.2	8.3	7.6	5.9	1.4	1.3	1.2	2.8	2.8	3.3	12.9	12.0	12.8	435	28.5	5.5
Oil India	1,271	BUY	305,666	6,896	240	120.1	187.1	191.4	4.3	55.8	2.3	10.6	6.8	6.6	4.4	2.7	2.3	1.8	1.5	1.3	2.9	4.6	4.6	16.2	21.6	19.2	1,760	38.5	2.2
Oil & Natural Gas Corporation	277	BUY	2,371,170	53,492	8,556	25.2	39.8	40.0	9.9	57.8	0.4	11.0	7.0	6.9	4.2	3.1	2.7	1.6	1.4	1.2	3.2	4.5	4.7	14.7	20.6	18.0	370	33.5	34.2
Petronet LNG	142	SELL	106,650	2,406	750	8.1	9.3	9.5	50.5	15.0	1.8	17.5	15.2	15.0	10.3	9.3	9.6	3.5	3.0	2.6	1.4	2.1	2.1	20.9	20.2	17.7	105	(26.2)	5.7
Reliance Industries	855	REDUCE	2,548,308	57,488	2,981	62.0	68.0	70.9	24.8	9.8	4.2	13.8	12.6	12.1	7.5	6.6	6.0	1.6	1.4	1.3	0.9	1.1	1.2	13.0	12.9	12.0	1,020	19.3	91.9
Energy		Cautious	7,945,093	179,236					12.6	30.3	3.4	11.7	9.0	8.7	6.3	5.1	4.5	1.6	1.4	1.3	2.0	2.7	3.1	14.0	16.0	14.9			
Industrials																												(	
ABB	859	SELL	182,072	4,107	212	3.0	21.1	27.3	(82.2)	606.1	29.6	287.9	40.8	31.5	210.2	27.6	20.6	7.5	6.5	5.5	0.2	0.4	0.4	2.6	17.1	19.1	700	(18.5)	1.8
BGR Energy Systems	466	REDUCE	33,629	759	72	44.8	45.8	46.9	60.0	2.2 17.4	2.6	10.4	10.2	9.9	6.6	6.0 7.3	5.5	3.5	2.8	2.3	1.9	2.0	2.0	39.0 17.2	30.6	25.4	470	0.9	6.4
Bharat Electronics	1,670 1,984	REDUCE	133,596 971,257	3,014	80 490	102.9	120.8	133.9 150.1	7.0 39.7	9.6	10.8	16.2	13.8	12.5	10.0	7.3 9.7	6.3 8.3	2.6 4.8	2.3 3.9	2.0 3.2	1.5	1.5	1.5	33.3	29.1	17.2 26.4	1,850 2,100	10.8	1.1 32.7
Bharat Heavy Electricals Crompton Greaves	1,984	BUY	9/1,25/ 162,075	21,911 3,656	490 642	122.8	134.6 15.4	150.1	39.7 11.5	9.6 7.8	11.5	16.2 17.6	16.4	13.2	10.8	9.7	8.3	4.8	3.9	3.2	0.9	0.8	0.9	33.3	29.1	24.9	310	22.7	32.7 7.5
Larsen & Toubro	1,837	ADD	1,111,510	25,075	605	69.3	84.1	102.9	19.5	21.4	22.4	26.5	21.8	17.8	17.4	12.7	10.6	4.9	3.5	3.0	0.9	0.8	0.9	17.2	17.4	17.9	1,875	2.1	69.1
Maharashtra Seamless	375	ADD	26,442	597	71	46.6	42.4	47.2	20.6	(9.0)	11.4	8.0	8.8	7.9	4.0	4.2	3.5	1.0	1.0	0.9	2.2	2.3	2.5	13.4	11.2	11.6	418	11.5	0.2
Siemens	916	REDUCE	308,670	6,963	337	22.4	31.7	33.6	39.5	41.3	5.9	40.8	28.9	27.3	24.0	18.4	17.1	9.5	7.6	6.3	0.5	0.7	0.7	25.2	29.3	25.2	860	(6.1)	7.7
Suzion Energy	52	REDUCE	82,874	1,870	1,594	(6.0)	(0.0)	4.6	(2.8)	(99.9)	(62,927.5)	(8.7)	(7 145 8)	11.4	30.5	9.9	6.6	1.3	1.3	1.2	-	-	0.7	(14.4)	(0.0)	11.1	55	5.8	23.8
Tecpro Systems	280	BUY	14 118	318	50	27.0	31.0	36.5	24.2	14.8	17.7	10.4	9.0	7.7	6.2	5.8	4.8	2.1	1.8	1.5			0.4	26.5	21.3	21.3	365	30.5	0.3
Thermax	609	REDUCE	72,562	1,637	119	31.6	35.1	39.4	44.3	11.0	12.4	19.2	17.3	15.4	13.2	11.3	9.8	5.5	4.6	3.8	1.5	1.7	1.9	31.5	28.8	26.8	670	10.0	1.5
Voltas	165	ADD	54,605	1,232	331	10.1	11.1	12.3	(11.5)	9.7	10.6	16.4	14.9	13.5	9.6	8.3	6.9	4.0	3.4	2.7	1.9	2.1	(0.0)	27.3	25.0	22.7	185	12.1	3.4
Industrials	.55	Cautious	3,153,409	71,139	55.				26.7	25.7	19.4	23.7	18.9	15.8	14.9	11.5	9.6	4.3	3.6	3.0	0.9	1.0	1.1	17.9	18.9	19.2	.03		3.4
Infrastructure			-,,	,																									
Container Corporation	1,138	REDUCE	147,956	3,338	130	63.5	73.5	83.7	4.9	15.7	13.9	17.9	15.5	13.6	12.2	10.1	8.6	2.9	2.6	2.3	1.3	1.5	1.7	17.6	17.7	17.7	1,350	18.6	1.1
GMR Infrastructure	33	ADD	119,191	2,689	3,667	(0.0)	(0.1)	0.7	(102.0)	1.494.0	(635.9)	(3.749.5)	(235.2)	43.9	13.9	11.4	9.1	1.1	1.1	1.1	_	_	_	(0.0)	(0.8)	4.0	45	38.5	2.7
Gujarat Pipavav Port	66	BUY	28,040	633	424	(1.2)	1.5	2.8	(65.8)	(221.0)	92.2	(55.1)	45.5	23.7	28.3	16.4	11.0	3.8	3.5	3.1	_	_	_	(9.1)	11.1	14.3	75	13.3	0.3
GVK Power & Infrastructure	20	BUY	31,268	705	1,579	0.9	0.6	1.0	(9.1)	(33.7)	71.2	22.1	33.3	19.5	13.8	17.6	11.6	1.0	0.9	0.9	1.5	1.5	1.8	4.4	2.9	4.8	34	71.7	5.1
IRB Infrastructure	176	ADD	58,363	1,317	332	13.1	10.3	12.2	12.9	(21.0)	17.6	13.4	17.0	14.4	8.2	8.2	7.0	2.1	1.7	1.4	_	_	_	17.6	11.0	10.6	200	13.9	6.8
Mundra Port and SEZ	158	BUY	318,454	7,184	2,017	4.6	6.8	10.5	36.3	50.3	53.2	34.7	23.1	15.1	27.8	18.7	13.3	7.3	5.8	4.5	-	_	_	23.2	28.0	33.5	175	10.9	6.7
Infrastructure		Cautious	703,272	15,865					10.6	22.8	49.4	31.0	25.3	16.9	15.9	13.1	10.2	2.6	2.4	2.1	0.3	0.4	0.4	8.4	9.4	12.5			

					O/S																						Target		
	8-Jul-11		Mkt o		shares		EPS (Rs)			S growth (			PER (X)			/EBITDA			ice/BV ()			nd yield			RoE (%)				ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)
Media																													
DB Corp	231	BUY	41,934	946	182	14.2	14.6	17.5	33.5	2.8	19.8	16.3	15.8	13.2	10.4	9.4	7.9	5.1	4.4	3.9	1.7	2.6	4.3	35.1	29.8	31.4	320	38.6	0.2
DishTV	87	ADD	92,456	2,086	1,062	(1.8)	(0.0)	1.2	(27.5)	(97.2)	(2,583.4)	(48.6)	(1,749.4)		42.6	19.9	13.4	44.0	45.1	27.5	_	_	_	(62.3)	(2.5)	48.5	85	(2.4)	6.8
Eros International	187	BUY	17,319	391	93	12.7	16.2	20.3	31.4	28.1	24.7	14.7	11.5	9.2	10.8	8.6	6.4	2.5	2.0	1.6	_	_	_	25.0	19.4	19.7	230	23.2	1.1
Hindustan Media Ventures	140	BUY	10,255	231	73	7.3	9.0	12.1	198.7	22.8	35.0	19.1	15.5	11.5	9.3	8.1	5.8	2.5	2.2	1.9	_	_	2.1	22.3	15.1	17.7	220	57.4	0.2
HT Media	161	ADD	37,718	851	235	7.7	8.9	11.0	26.3	15.3	23.6	20.8	18.1	14.6	10.0	8.5	6.5	2.7	2.5	2.4	1.2	2.5	3.7	15.0	14.4	16.6	190	18.4	0.4
Jagran Prakashan	121	BUY	36,289	819	301	6.8	7.6	8.9	17.2	11.1	17.1	17.6	15.8	13.5	10.1	9.1	7.7	5.2	4.6	4.1	2.9	3.3	4.1	31.5	30.9	32.3	170	41.1	0.4
Sun TV Network	317	ADD	124,923	2,818	394	19.6	22.5	26.7	48.5	14.8	18.8	16.2	14.1	11.9	9.7	8.3	6.9	5.2	4.5	4.0	2.8	3.8	5.0	36.6	35.9	37.6	480	51.4	25.5
Zee Entertainment Enterprises	128	BUY	125,524	2,832	978	5.8	6.7	8.2	9.1	15.6	22.6	22.1	19.2	15.6	14.9	12.7	10.1	3.0	2.9	2.8	1.1	1.1	1.3	14.0	15.6	18.6	180	40.3	6.8
Media		Neutral	486,417	10,973					50.5	25.0	26.5	24.8	19.8	15.6	13.2	10.8	8.6	4.5	4.1	3.7	1.4	1.9	2.7	18.1	20.7	23.9			
Metals & Mining																													
Coal India	363	BUY	2,290,630	51,675	6,316	17.3	24.5	28.6	13.6	41.7	16.8	21.0	14.8	12.7	12.4	9.6	7.8	6.6	5.1	4.1	1.4	2.0	2.4	35.1	38.9	35.8	460	26.8	37.2
Hindalco Industries	188	ADD	360,023	8,122	1,914	12.8	18.2	18.6	(36.0)	42.7	2.1	14.7	10.3	10.1	7.6	7.0	7.3	1.2	1.1	1.0	0.8	0.8	0.8	9.7	11.4	10.5	225	19.6	29.8
Hindustan Zinc	131	BUY	553,898	12,496	4,225	11.6	14.6	16.0	21.8	25.1	9.5	11.3	9.0	8.2	7.1	4.7	3.7	2.4	1.9	1.5	0.8	0.8	0.8	24.2	24.3	21.5	170	29.7	4.9
Jindal Steel and Power	644	REDUCE	601,315	13,565	934	40.2	51.3	58.6	5.1	27.6	14.2	16.0	12.6	11.0	11.5	9.2	8.5	4.0	3.0	2.4	0.3	0.3	0.3	30.8	29.3	25.7	700	8.8	15.9
JSW Steel	883	REDUCE	219,107	4,943	248	78.6	87.4	113.7	(2.2)	11.2	30.0	11.2	10.1	7.8	7.3	5.4	5.1	1.2	0.9	0.8	1.2	1.0	1.0	11.9	10.3	11.4	990	12.1	21.6
National Aluminium Co.	84	SELL	216,617	4,887	2,577	4.1	5.0	5.3	36.3	20.5	6.0	20.3	16.8	15.9	10.9	8.6	7.7	1.9	1.8	1.7	1.8	1.8	1.8	9.9	11.1	11.0	76	(9.6)	0.6
Sesa Goa	282	REDUCE	250,674	5,655	890	47.5	41.9	36.7	60.6	(11.8)	(12.3)	5.9	6.7	7.7	3.0	4.7	5.0	1.9	1.5	1.2	1.4	1.4	1.4	36.6	23.2	17.2	305	8.3	15.4
Sterlite Industries	163	BUY	549,295	12,392	3,362	15.2	20.1	22.3	26.2	32.2	11.4	10.8	8.1	7.3	7.2	4.7	3.9	1.3	1.1	1.0	0.7	0.7	0.7	13.0	15.1	14.6	210	28.5	18.2
Tata Steel	595	BUY	577,892	13,037	971	76.0	70.8	85.8	(2,278.5)	(6.9)	21.2	7.8	8.4	6.9	6.7	6.3	5.4	1.6	1.4	1.2	2.0	_	_	24.9	17.8	18.4	750	26.1	48.0
Metals & Mining		Attractive	5,619,450	126,771					39.3	22.3	12.7	13.5	11.1	9.8	8.4	6.9	6.1	2.5	2.1	1.8	1.2	1.2	1.4	18.6	18.9	18.1			
Pharmaceutical																													
Apollo Hospitals	494	BUY	65,327	1,474	132	13.9	17.6	21.8	27.0	26.9	23.5	35.5	28.0	22.7	16.3	12.7	10.8	3.6	3.1	2.7	_	_	_	10.0	11.4	12.2	565	14.4	0.8
Biocon	358	BUY	71,640	1,616	200	18.4	21.6	24.2	23.8	17.4	12.3	19.5	16.6	14.8	11.2	9.6	8.5	3.5	2.9	2.5	_	_	_	19.4	19.4	18.7	480	34.0	3.6
Cipla	333	REDUCE	267,052	6,025	803	12.1	16.3	18.8	(12.0)	35.4	15.4	27.6	20.4	17.7	22.4	15.9	13.3	4.0	3.5	3.0	0.8	0.8	0.8	15.4	18.2	_	330	(0.8)	8.4
Cadila Healthcare	940	BUY	192,474	4,342	205	34.7	42.2	51.7	40.6	21.4	22.7	27.1	22.3	18.2	23.3	17.3	13.9	8.9	6.8	5.3	0.7	0.9	1.1	37.5	34.5	32.8	1.130	20.2	2.3
Dishman Pharma & chemicals	90	SELL	7,304	165	81	9.8	8.0	9.4	(31.8)	(18.7)	17.2	9.1	11.2	9.6	9.6	7.4	6.6	0.8	0.8	0.7	_	_	_	9.6	7.2	7.9	95	5.8	0.2
Divi's Laboratories	811	BUY	107,570	2,427	133	32.4	40.3	46.2	25.7	24.4	14.7	25.1	20.1	17.6	20.6	15.3	13.0	6.0	5.0	4.3	_	_	_	25.9	27.1	26.2	900	10.9	6.2
GlaxoSmithkline Pharmaceuticals (a)	2,318	REDUCE	196,354	4,430	85	68.3	80.2	91.8	15.5	17.5	14.4	34.0	28.9	25.3	22.9	19.7	16.8	10.1	9.2	8.4	17	2.2	2.5	30.9	33.3	34.7	2.300	(0.8)	1.2
Glenmark Pharmaceuticals	310	REDUCE	83,704	1,888	270	17.0	18.4	24.3	33.5	8.7	32.1	18.3	16.8	12.7	20.4	14.5	11.7	4.1	3.4	2.7	-			20.8	22.0	23.6	330	6.5	5.0
Jubilant Life Sciences	210	REDUCE	33.397	753	159	14.4	16.4	19.3	(45.6)	13.7	17.4	14.5	12.8	10.9	11.3	9.3	8.5	1.5	1.4	1.3	1.0	1.2	17	12.3	11.5	12.2	195	(7.0)	0.9
Lupin	455	ADD	203,199	4,584	446	19.3	20.4	25.2	26.1	5.8	23.3	23.6	22.3	18.1	19.8	16.4	13.3	6.1	5.0	4.1	0.7	0.8	0.9	29.5	25.0	25.2	500	9.8	10.1
Ranbaxy Laboratories	551	SELL	231,804	5,229	421	40.8	18.8	21.9	478.2	(54.0)	16.6	13.5	29.3	25.2	16.5	20.3	17.1	4.1	3.6	3.1		-	-	34.5	13.2	13.4	450	(18.3)	11.1
Sun Pharmaceuticals	503	ADD	520.700	11.747	1.036	17.5	19.5	22.7	34.4	10.9	16.6	28.7	25.8	22.2	24.4	20.8	17.1	5.0	4.3	3.7	0.7	0.8	1.0	22.9	19.6	19.6	515	2.4	10.1
Pharmaceuticals	505	Cautious	2,325,876	52,470	1,050	17.5	15.5	22.7	26.0	8.1	3.8	25.0	23.2	22.3	18.9	15.2	14.7	3.9	3.4	3.2	0.6	0.7	0.8	15.6	14.5	14.2	313	2.4	10.1
Property		Cautious	2,323,670	32,470					20.0	0.1	3.0	25.0	23.2	22.5	10.5	15.2	14.7	3.9	3.4	3.2	0.0	0.7	0.8	15.0	14.5	14.2			
DLF	237	ADD	406,611	9,173	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	26.1	19.9	15.1	16.9	13.3	10.1	1.5	1.5	1.4	0.8	1.0	1.3	5.4	7.5	9.2	270	13.9	35.3
Housing Development & Infrastructure	173	ADD	76,073	1,716	441	19.8	28.9	34.6	24.3	46.0	19.7	8.7	6.0	5.0	10.5	5.4	4.4	0.8	0.7	0.6	0.0	0.6	0.9	10.0	12.4	12.8	190	10.1	20.1
Indiabulls Real Estate	117	RS	47.062	1,062	402	4.0	8.5	15.4	(1.095.5)	114.1	81.5	29.5	13.8	7.6	18.6	15.2	6.7	0.4	0.4	0.4	_	_	0.6	1.4	2.9	5.0	-	-	10.2
Mahindra Life Space Developer	375	ADD	15,305	345	41	25.0	29.7	37.2	30.3	18.9	25.4	15.0	12.6	10.1	11.6	8.2	6.0	1.5	1.3	1.2	1.3	1.2	1.3	10.4	11.2	12.7	470	25.3	0.3
Oberoi Realty	241	BUY	79,534	1,794	330	15.7	20.0	28.0	14.7	27.6	39.7	15.4	12.0	8.6	11.4	7.9	4.9	2.4	2.0	1.7	0.4	0.6	1.0	19.9	18.2	21.3	315	30.6	0.3
Phoenix Mills	213	BUY	30,838	696	145	6.3	7.5	10.7	52.5	18.4	43.8	33.8	28.5	19.8	24.6	20.4	15.1	1.9	1.8	1.7	0.7	0.9	0.9	5.8	6.6	8.9	300	40.9	0.4
Puravankara Projects	92	REDUCE	19,571	442	213	5.5	9.1	11.2	(18.9)	65.2	22.4	16.6	10.0	8.2	20.8	10.5	8.6	1.3	1.2	1.0	1.1	1.6	2.2	8.0	12.1	13.4	110	20.0	0.2
Sobha Developers	285	BUY	27,943	630	98	18.7	23.4	27.7	33.0	25.0	18.5	15.2	12.2	10.3	12.6	9.8	7.8	1.5	1.3	1.2	1.1	1.2	-	10.1	11.6	12.3	385	35.1	1.4
Unitech	37	RS	95,626	2,157	2,616	2.3	3.9	5.3	(23.4)	69.1	35.2	15.7	9.3	6.9	16.2	9.3	6.2	0.8	0.7	0.7	_	_	-	5.4	8.4	10.3	_	_	21.3
Property		Cautious	798,564	18,015					5.1	44.6	33.1	19.3	13.3	10.0	15.4	10.7	7.7	1.2	1.1	1.0	0.6	0.8	1.0	6.0	8.0	9.7			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

KOTAK INSTITUTIONAL EQUITIES RESEARCH

# India Daily Summary - July 11, 2011

# Kotak Institutional Equities: Valuation summary of key Indian companies

					O/S		-nc (n )						nen (14)		-	(ED) ED 4 (		_					(0/)		D = (0/)		Target		
Company	8-Jul-11 Price (Rs)	Rating	(Rs mn)		shares (mn)		2012E	2013F	2011E	S growth (% 2012E	2013E	2011E	PER (X) 2012E	2013F		/EBITDA ( 2012E		2011E	rice/BV () 2012F			end yield 2012E		2011E	2012F	2013F	price (Rs)	Upside (%)	(US\$ mn)
Sugar	11100 (115)	naung	(15 1111)	(033)	(,	20112	LUILL	20152	LUTTE	LUILL	LUISE	20112	LUILL	LUISE	20112	LUILL	20132	20112	LUILL	LUISE	20112	LUILL	20152	20112	LUILL	20132	(1.5)	(,0)	(033)
Bajaj Hindustan	74	REDUCE	16,845	380	228	(8.0)	(1.2)	2.1	(348.8)	(85.6)	(282.4)	(9.2)	(63.7)	34.9	18.8	7.7	6.5	0.6	0.5	0.5	0.8	0.8	0.8	(6.0)	(0.9)	1.6	65	(11.9)	1.8
Balrampur Chini Mills	65	BUY	16,663	376	257	0.8	8.3	8.4	(89.9)	974.0	1.0	83.7	7.8	7.7	11.6	5.0	4.1	1.2	1.1	1.0	0.7	0.7	0.7	1.5	14.8	13.1	80	23.3	1.9
Shree Renuka Sugars	75	BUY	50,178	1,132	670	10.5	4.3	5.9	214.7	(59.5)	37.9	7.1	17.6	12.8	9.3	7.1	5.9	2.0	1.9	1.7	1.3	1.3	1.3	34.4	11.1	13.8	75	0.2	8.1
Sugar		Cautious	83,686	1,888					18.4	(17.0)	39.1	14.7	17.7	12.7	11.7	6.9	5.8	1.2	1.1	1.1	1.1	1.1	1.1	8.4	6.5	8.4			
Technology																													
HCL Technologies	502	REDUCE	354,086	7,988	705	23.1	30.8	36.4	31.9	33.4	18.1	21.7	16.3	13.8	13.2	10.1	8.5	4.5	3.8	3.2	1.5	1.6	1.6	22.1	25.4	25.5	490	(2.4)	9.5
Hexaware Technologies	76	BUY	22,189	501	291	3.0	6.6	7.4	(36.5)	122.6	11.3	25.7	11.5	10.4	20.1	9.1	7.4	2.3	2.0	1.7	1.9	1.6	2.0	9.4	18.5	17.9	80	4.9	2.1
Infosys Technologies	2,977	BUY	1,708,540	38,544	574	119.7	144.8	172.6	10.5	20.9	19.2	24.9	20.6	17.2	17.2	14.0	11.5	6.6	5.5	4.5	2.0	1.5	1.8	28.0	29.0	28.7	3,450	15.9	100.3
Mahindra Satyam	90	REDUCE	105,252	2,374	1,176	4.2	4.9	6.1	68.9	17.0	23.2	21.3	18.2	14.8	17.1	9.8	7.7	6.1	4.6	3.5	_	_	_	27.6	28.8	26.9	80	(10.6)	14.8
Mindtree	373	REDUCE	15,341	346	41	24.7	33.9	38.6	(52.7)	37.3	14.0	15.1	11.0	9.6	8.4	6.3	5.2	2.0	1.7	1.5	0.7	0.9	3.1	14.4	16.6	16.7	370	(0.7)	1.0
Mphasis BFL	464	SELL	97,754	2,205	211	51.8	36.6	36.0	18.8	(29.2)	(1.7)	9.0	12.7	12.9	7.6	9.6	8.4	3.0	2.5	2.1	0.9	1.0	1.1	38.6	21.3	17.7	360	(22.4)	3.5
Polaris Software Lab	185	SELL	18,474	417	100	19.3	18.9	20.9	25.7	(2.2)	10.8	9.6	9.8	8.8	6.3	5.1	4.5	1.8	1.5	1.4	2.0	2.1	2.2	20.2	16.9	16.4	175	(5.6)	3.6
TCS	1,172	BUY	2,293,153	51,732	1,957	44.4	54.2	63.1	26.3	22.2	16.5	26.4	21.6	18.6	19.9	15.6	13.2	9.1	7.4	6.1	1.5	1.9	2.2	37.6	37.8	36.2	1,350	15.2	42.6
Tech Mahindra	736	REDUCE	92,692	2,091	126	48.8	66.3	70.8	(25.2)	36.0	6.7	15.1	11.1	10.4	10.2	9.8	9.2	2.8	2.4	2.1	0.5	0.5	1.4	20.5	23.9	22.3	665	(9.6)	3.6
Wipro	432	ADD	1,058,901	23,888	2,454	21.6	24.2	27.5	14.5	11.9	13.8	20.0	17.9	15.7	14.8	12.6	10.6	4.4	3.7	3.1	1.0	1.2	1.4	24.3	22.5	21.6	525	21.7	11.2
Technology		Attractive	5,811,984	131,115					16.9	17.9	15.9	22.7	19.2	16.6	16.4	13.4	11.2	6.0	5.0	4.2	1.7	1.5	1.8	26.4	25.9	25.2			
Telecom																													
Bharti Airtel	398	SELL	1,512,014	34,110	3,798	15.9	19.7	24.5	(32.6)	23.9	24.1	25.0	20.2	16.3	10.6	8.2	6.7	3.1	2.7	2.3	_	_	_	13.3	14.3	15.3	345	(13.3)	40.8
IDEA	82	REDUCE	269,714	6,085	3,303	2.7	1.6	3.1	(1.0)	(40.1)	91.5	30.2	50.4	26.3	10.0	8.7	6.9	2.2	2.1	1.9	_	_	_	7.6	4.4	7.9	65	(20.4)	5.9
MTNL	44	SELL	27,972	631	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(4.3)	(4.9)	(5.3)	(0.2)	(0.3)	(0.4)	0.3	0.3	0.3	_	_	_	(6.1)	(5.7)	(5.5)	35	(21.2)	0.7
Reliance Communications	98	SELL	208,454	4,703	2,133	6.3	7.1	9.7	(68.0)	12.0	37.6	15.5	13.8	10.1	5.8	6.2	5.1	0.6	0.6	0.5	_	_	_	3.4	4.1	5.4	95	(2.8)	15.2
Tata Communications	212	REDUCE	60,349	1,361	285	15.2	15.7	15.9	8.2	3.5	1.5	14.0	13.5	13.3	6.5	6.1	5.8	0.8	0.8	0.8	3.5	4.0	4.3	5.5	5.5	5.4	205	(3.2)	1.3
Telecom		Cautious	2,078,503	46,890					(42.4)	17.1	31.0	25.8	22.0	16.8	9.3	7.9	6.5	1.8	1.7	1.5	0.1	0.1	0.1	7.0	7.6	9.1			
Utilities																													
Adani Power	109	REDUCE	237,838	5,365	2,180	2.4	15.2	16.8	200.4	544.8	10.5	46.3	7.2	6.5	33.1	6.4	4.7	3.8	2.5	1.8	_	_	_	8.5	41.6	32.0	120	10.0	1.7
CESC	325	BUY	40,660	917	125	37.7	42.5	51.3	9.1	12.7	20.8	8.6	7.7	6.3	6.0	6.3	5.9	0.9	0.8	0.7	1.5	1.6	1.9	10.5	10.7	11.5	440	35.2	1.3
JSW Energy	68	SELL	111,274	2,510	1,640	5.1	6.6	5.5	12.9	28.9	(16.2)	13.2	10.3	12.2	13.2	7.3	6.2	2.0	1.6	1.5	(1.5)	_	_	16.1	17.5	12.6	74	9.1	1.8
Lanco Infratech	24	BUY	54,352	1,226	2,223	2.0	4.0	4.6	(5.8)	97.6	15.9	12.2	6.2	5.3	10.6	8.1	7.4	1.4	1.1	0.9	_	_		12.2	19.6	18.3	54	120.9	8.1
NHPC	25	BUY	305,673	6,896	12,301	1.3	1.9	2.3	(27.2)	39.6	20.8	18.4	13.2	10.9	13.4	9.2	7.4	1.1	1.1	1.0	1.7	2.0	2.5	6.3	8.2	9.4	30	20.7	2.4
NTPC	191	REDUCE	1,573,647	35,500	8,245	11.0	11.9	12.7	5.3	7.4	6.8	17.3	16.1	15.1	14.2	12.9	11.9	2.3	2.1	1.9	2.0	1.9	2.0	13.7	13.5	13.3	200	4.8	10.0
Reliance Infrastructure	583	BUY	155,841	3,516	267	58.0	66.6	73.3	(6.5)	14.8	10.0	10.0	8.7	8.0	10.2	5.6	4.3	0.7	0.6	0.6	1.6	1.8	1.9	6.4	10.5	11.5	975	67.3	19.1
Reliance Power	119	SELL	332,822	7,508	2,805	2.7	3.8	3.1	(5.0)	40.1	(17.9)	43.8	31.2	38.1	252.9	107.5	17.8	2.0	1.9	1.8		-	-	4.9	6.3	4.9	110	(7.3)	6.1
Tata Power	1,291	ADD	318,577	7,187	247	76.4	107.9	121.0	20.2	41.2	12.1	16.9	12.0	10.7	12.5	10.0	8.0	2.2	1.9	1.7	1.1	1.2	1.3	13.9	17.2	16.7	1,480	14.7	7.1
Utilities Others		Cautious	3,130,685	70,626					5.0	35.8	8.0	18.2	13.4	12.4	16.1	11.2	9.1	1.8	1.6	1.5	1.3	1.4	1.5	10.1	12.3	12.0			
Carborundum Universal	299	BUY	27.918	630	93	17.8	18.0	22.1	62.9	1.3	23.1	16.8	16.6	13.5	10.6	9.5	7.9	3.4	2.9	2.5	1.2	1.3	1.6	21.4	20.0	20.9	300	0.3	0.3
Havells India	396	REDUCE	49,392	1,114	125	22.7	27.3	31.1	302.5	19.8	13.9	17.4	14.5	12.7	11.3	9.5	8.1	7.3	5.0	3.7	0.6	0.7	0.8	51.3	40.7	33.2	440	11.2	4.9
Jaiprakash Associates	80	BUY	176,483	3,981	2,214	5.5	5.8	5.8	214.7	5.2	(0.3)	14.5	13.8	13.8	11.3	9.7	9.4	1.8	1.6	1.5	0.0	0.7	0.8	13.2	12.3	11 1	135	69.4	22.5
Jet Airways	481	BUY	41,538	937	86	(10.1)	31.6	70.8	(85.6)	(414)	124.2	(47.9)	15.2	6.8	9.1	7.6	6.0	2.4	2.1	1.6				(5.0)	14.6	26.5	650	35.1	10.6
Sintex	184	SELL	50,021	1,128	272	17.0	19.2	20.3	40.2	13.4	5.7	10.8	9.6	9.1	8.4	7.0	6.6	1.9	1.6	1.0	0.7	0.8	0.8	17.9	16.9	15.1	170	(7.6)	6.8
SpiceJet	33	BUY	13,380	302	403	2.4	3.2	4.6	(4.2)	32.1	41.6	13.6	10.3	7.3	9.1	10.9	7.8	4.3	3.0	2.1	0.7	0.0	0.8	(653)	34.4	34.4	65	95.8	2.9
Tata Chemicals	380	REDUCE	96,680	2,181	255	26.1	32.6	38.6	(1.3)	25.1	18.2	14.5	11.6	9.8	8.3	6.1	5.2	1.8	1.6	1.4	2.6	3.2	4.0	16.9	18.5	19.5	380	0.1	3.2
United Phosphorus	155	BUY	71,556	1,614	462	12.4	17.5	20.3	4.0	41.5	15.9	12.6	8.9	7.7	7.5	5.1	4.3	1.0	1.6	1.4	1.3	1.9	2.3	17.9	19.7	19.5	220	41.9	4.2
Others		501	526,967	11.888	-102	12.4		20.5	125.4	25.3	18.0	15.2	12.1	10.3	9.9	8.2	7.4	2.1	1.8	1.6	0.8	1.0	1.3	13.7	15.0	15.3	223		
KS universe (b)			49,338,334	1,113,041					18.1	23.5	14.1	16.7	13.6	11.9	10.5	8.5	7.4	2.6	2.3	2.0	1.4	1.6	1.8	15.5	16.6	16.6			
KS universe (b) ex-Energy			41,393,241	933,805					19.9	21.5	17.6	18.2	15.0	12.8	12.5	10.1	8.5	2.9	2.5	2.2	1.3	1.4	1.6	16.0	16.8	17.2			
KS universe (d) ex-Energy & ex-Commo	dities		34,846,932	786.124					18.3	20.8	18.6	19.4	16.1	13.6	14.1	11.4	9.5	3.0	2.6	2.3	1.3	1.4	1.6	15.6	16.5	17.1			
I Side (a) ex Energy a ex-commo			3-10-101332	,00,.24					.0.5		.0.0						3.5	3.0											

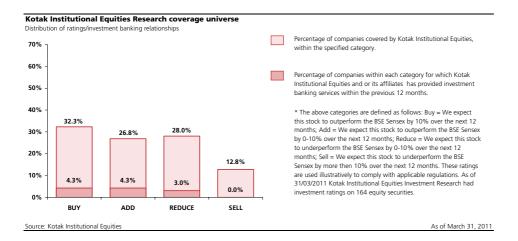
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(a) For banks we have used adjusted book values.

(b) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.

(c) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(d) Rupee-US Dollar exchange rate (Rs/US\$)=
44.33

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