

March 31, 2010

BSE-30: 17,590

Process of elimination eliminates nearly everything. We find very few strong investment ideas among large-cap. names currently given (1) full-to-rich valuations for the India-specific consumer and investment stories, (2) doubts about sustenance of commodity cycle, (3) expensive valuations of high-quality banking and technology stocks (our large overweight areas) and (4) corporate governance issues in others. We have moved 7.5% of the portfolio to cash.

Very little value in large-cap. stocks; we move 7.5% of portfolio to cash

We have tweaked our model portfolio to reflect (1) current full-to-rich valuations for most large-cap. stocks and (2) low visibility on earnings upgrades. In fact, we fear downgrades in several sectors and stocks given high FY2011E consensus EPS estimates, which may not adequately factor in potential unfavorable developments in several sectors. We have increased the weight of cash to 7.5% from nil previously and gone more defensive now.

Earnings estimates have hardly changed over the past 6-9 months

We would highlight that our earnings estimates for FY2010E and FY2011E have remained largely unchanged over the past 6-9 months with upgrades in some sectors (automobiles, cement and technology) being eroded by downgrades in others (consumer, energy and industrials). The BSE-30 Index is trading at 15.9X our FY2011E 'EPS' of Rs1,108 and 13.3X our FY2012E 'EPS' of Rs1,327.

Overweight on banks, technology—on account of quality, lack of ideas rather than valuations

We continue to be overweight on banks and technology with 43% of our portfolio in these two sectors. In the case of banks, (1) concerns about higher yields and (2) rich valuations for the private banks leave very little scope for further expansion in multiples. Technology stocks also look fairly valued and may find it hard to do well in the face of a stronger rupee. We have increased the weight of infrastructure stocks noting (1) their underperformance over the past few months and (2) recent favorable developments in ordering activity. We are quite underweight now on consumption stories (auto, consumer, media, real estate and telecom).

Other sectors have other problems but the market is largely impervious to these

We see risks to the earnings of most large-cap. stocks from a variety of factors—(1) increasing competition (automobiles, cement, consumer, telecom), (2) poor supply-demand balance and likely weak margins for the next 12-18 months (domestic and global cyclical commodities), (3) government and regulatory policies (banking, energy) and (4) higher taxation.

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Kotak Institutional Equities
Research

Important disclosures appear
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The prices in this report are based on the market close of March 30, 2010.

A PUZZLE AND THEN ONE MORE: WHERE IS THE VALUE?

We believe the market may be too sanguine about the earnings of Indian companies led by increasing signs of strong global and domestic economic recovery. We do not dispute these positive factors but believe that micro factors deserve more attention as the broader top-down 'India' trade may have largely played out with a significant re-rating of most large-cap. stocks. The market (BSE-30 Index) is trading at 15.9X FY2011E 'EPS' (no adjustment for free float) with several India-specific stories trading even higher.

Match the following

Exhibit 1 gives the valuation of BSE-30 Index stocks and a few key sector or company characteristics. However, we have jumbled the same for investors to match the stocks with (1) valuations and (2) industry/company characteristics. These issues are not new but we hope that a few minutes spent in matching the stocks with their corresponding entries on valuations and issues may result in some amount of soul-searching among investors.

Exhibit 1: Groping for ideas? Match the following to see if you can find any

Key valuation and industry/company characteristic of BSE-30 Index companies; however, we have deliberately jumbled things

	Valuation	Industry/company characteristic
1	ACC	0.5% discount to FY2011E SOTP value of Rs850
2	BHEL	11.9% discount to FY2011E SOTP value
3	Bharti Airtel	12.7% premium to FY2011E SOTP value of Rs950
4	DLF	13% discount to FY2011E SOTP value of Rs170
5	Grasim Industries	26% discount to FY2011E SOTP value of Rs1,250
6	HDFC Bank	60% premium to replacement cost, 15.8% CROCI
7	HDFC	8.2% discount to FY2011E SOTP value of Rs1,485
8	Hero Honda	Current implied value of JLR 2.1X acquisition price
9	Hindalco Industries	FY2011 P/E of 16.2X
10	Hindustan Unilever	FY2011 P/E of 18.6X
11	ICICI Bank	FY2011 P/E of 19.5X
12	Infosys Technologies	FY2011 P/E of 21.3X
13	ITC	FY2011 P/E of 21.8X
14	Jaiprakash Associates	FY2011E EV/EBITDA of 6.6X
15	Larsen & Toubro	FY2011E EV/EBITDA of 9.2X
16	Mahindra & Mahindra	FY2011E P/E of 10.2X
17	Maruti Suzuki	FY2011E P/E of 12.4X
18	NTPC	FY2011E P/E of 15.1X
19	ONGC	FY2011E P/E of 15.5X
20	Reliance Communications	FY2011E P/E of 19.3X
21	Reliance Industries	FY2011E P/E of 20.8X
22	Reliance Infrastructure	FY2011E P/E of 22.8X
23	State Bank of India	FY2011E P/E of 25.4X
24	Sterlite Industries	Implied cement replacement cost of US\$122/ton
25	Sun Pharmaceuticals	P/B of 1.8X, ROE of 15.8% on FY2011E data
26	Tata Motors	P/B of 1.9X, ROE of 10.2% on FY2011E data
27	Tata Power	P/B of 1.9X, ROE of 9.8% on FY2011E data
28	Tata Steel	P/B of 2.4X, ROE of 15.2% on FY2011E data
29	TCS	P/B of 3.5X, ROE of 16.7% on FY2011E data
30	WIPRO	P/B of 4.6X, ROE of 20.3% on FY2011E data

Source: Kotak Institutional Equities estimates

VALUATION, EARNINGS: LIMITED VALUE AND EARNINGS UPGRADES

We find very little value in most large-cap. stocks in the context of (1) full-to-rich valuations in India-specific consumer and investment stocks, (2) risks to earnings in several sectors such as automobiles, cement, consumer, energy, metals, telecom and (3) corporate governance issues in others. Also, we see limited scope for large earnings upgrades given our strong 20.7% CAGR growth in FY2010-12E 'EPS' for the BSE-30 Index. We have tweaked our portfolio to a more defensive one and moved 7.5% of the portfolio to cash.

Model portfolio: We have to have a portfolio at all times, we guess

Exhibit 2 shows our model portfolio while Exhibit 3 gives our Top-10 stocks. We discuss key changes below.

Exhibit 2: We have increased the weight of cash to 7.5% from nil previously
Kotak Institutional Equities Model Portfolio

Company	30-Mar		Weightage (%)		Diff. (bps)	Company	30-Mar		Weightage (%)		Diff. (bps)
	Price (Rs)	Rating	BSE-30	KS reco.			Price (Rs)	Rating	BSE-30	KS reco.	
Hero Honda	1,967	SELL	1.5	—	(150)	Larsen & Toubro	1,637	BUY	6.8	7.8	100
Mahindra & Mahindra	550	ADD	0.9	2.4	150	Nagarjuna Construction Co.	165	BUY	—	1.0	100
Maruti Suzuki	1,408	REDUCE	1.6	—	(156)	Thermax	674	ADD	—	1.0	100
Tata Motors	756	ADD	2.0	—	(204)	Industrials/Construction			9.9	14.9	500
Automobiles			6.0	2.4	(360)	Hindalco Industries	184	ADD	1.9	—	(189)
Bank of Baroda	643	BUY	—	1.5	150	Sterlite Industries	846	ADD	2.4	3.4	100
Punjab National Bank	1,008	BUY	—	1.0	100	Tata Steel	635	BUY	3.0	1.5	(150)
State Bank of India	2,083	BUY	4.6	4.6	—	Metals			7.4	5.0	(239)
Union Bank	296	BUY	—	1.0	100	Sun Pharmaceuticals	1,753	ADD	1.1	1.1	—
PSU Banking			4.6	8.1	350	Pharmaceuticals			1.1	1.1	—
HDFC	2,639	ADD	5.2	5.2	—	DLF	309	REDUCE	1.0	—	(100)
HDFC Bank	1,907	BUY	5.3	4.3	(100)	Real estate			1.0	—	(100)
ICICI Bank	960	REDUCE	8.2	7.2	(100)	Infosys Technologies	2,644	BUY	9.9	11.4	150
Pvt. Banking/Financing			18.6	16.6	(200)	TCS	800	BUY	3.6	4.6	100
ACC	954	SELL	0.8	—	(75)	Wipro	702	ADD	1.6	2.6	100
Grasim Industries	2,810	REDUCE	1.5	—	(148)	Technology			15.0	18.5	350
Jaiprakash Associates	150	BUY	1.3	2.8	150	Bharti Airtel	311	REDUCE	3.2	—	(316)
Cement			3.6	2.8	(73)	Reliance Communications	167	SELL	0.9	—	(92)
Hindustan Unilever	242	REDUCE	2.0	1.0	(100)	Telecom			4.1	—	(408)
ITC	269	BUY	5.4	6.9	150	NTPC	203	REDUCE	2.6	1.6	(100)
Consumers			7.4	7.9	50	Reliance Infrastructure	992	BUY	1.1	2.6	150
Oil & Natural Gas Corporation	1,097	REDUCE	3.6	1.6	(200)	Tata Power	1,373	BUY	1.8	3.3	150
Reliance Industries	1,088	SELL	12.1	6.0	(620)	Utilities			5.5	7.5	200
Energy			15.7	7.5	(820)	Cash			—	7.5	750
Bharat Heavy Electricals	2,409	ADD	3.2	3.2	—	BSE-30			17,590	100.0	100.0
Crompton Greaves	258	BUY	—	1.0	100						
IVRCL	166	BUY	—	1.0	100						

Note:

(a) Weights are with respect to March 30, 2010 prices

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: We include a basket of mid-cap construction and industrial stocks
Kotak Institutional Equities Top-10 List

Companies	Sector	Rating	Mkt cap.	CMP	Target	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
			(US\$ mn)	(Rs)	(Rs)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
ITC	Consumer products	BUY	22,462	269	280	10.5	12.3	14.0	25.5	21.8	19.1	15.5	13.5	11.6
Mahindra & Mahindra	Automobiles	ADD	7,183	550	615	32.2	36.3	39.4	17.1	15.1	14.0	11.1	10.0	9.1
Sterlite Industries	Metals	ADD	15,755	846	850	44.9	54.2	64.3	18.8	15.6	13.1	10.4	8.0	5.7
Jaiprakash Associates	Diversified	BUY	7,027	150	170	4.3	7.1	10.1	35.0	21.2	14.9	17.3	15.0	10.5
Infosys Technologies	Technology	BUY	33,648	2,644	3,000	108.5	124.2	150.1	24.4	21.3	17.6	17.2	13.9	11.4
Reliance Infrastructure	Utilities	BUY	4,982	992	1,250	63.7	68.6	91.7	15.6	14.5	10.8	18.3	14.7	10.2
Tata Power	Utilities	BUY	7,514	1,373	1,485	57.7	67.0	86.2	23.8	20.5	15.9	14.2	13.0	11.0
Larsen & Toubro	Industrials	BUY	21,815	1,637	1,750	53.7	64.5	78.7	30.5	25.4	20.8	16.7	14.2	12.1
Construction and Industrial stocks basket														
Crompton Greaves	Industrials	BUY	3,674	258	290	11.9	13.6	15.8	21.7	19.1	16.3	11.9	10.4	8.7
IVRCL	Constructions	BUY	982	166	185	7.9	9.7	12.1	20.9	17.1	13.7	11.5	9.5	7.7
Nagarjuna Construction Co.	Constructions	BUY	937	165	180	8.6	10.5	12.7	19.1	15.7	12.9	10.6	9.3	7.8
Thermax	Industrials	ADD	1,780	674	725	21.4	29.8	38.7	31.5	22.6	17.4	16.8	12.5	9.6
PSU bank basket														
Bank of Baroda	Banking	BUY	5,211	643	650	75.0	77.2	91.9	8.6	8.3	7.0	—	—	—
Punjab National Bank	Banking	BUY	7,044	1,008	1,020	116.4	124.7	153.2	8.7	8.1	6.6	—	—	—
Union Bank	Banking	BUY	3,319	296	350	37.9	38.7	45.8	7.8	7.7	6.5	—	—	—
BSE-30				17,590										

Source: Company, Kotak Institutional Equities estimates

- ▶ **7.5% of portfolio in cash (again).** We suggest a higher cash weight to reflect our concerns about valuations, limited earnings upgrades and ongoing monetary policy tightening. We believe it would be best to have some cash in the portfolio to take advantage of any corrections in the market over the next 3-6 months. We see (1) earnings disappointments, (2) larger-than-expected policy rate increases by the RBI and (3) re-mergence of global macro-economic issues as three potential triggers for market correction. We have followed this strategy since early October 2009, when the BSE-30 Index reached 17,000 for the first time. We had subsequently reduced the weight of cash on market corrections in November 2009 and January 2010.
- ▶ **Reduced weight of private banks after recent outperformance.** We have reduced the weight of HDFC Bank and ICICI Bank by 250 bps and 100 bps and also removed HDFC Bank from our Top-10 list. However, we continue to be overweight on banks with a 150 bps overweight (versus 500 bps previously). We still like them given the good quality of earnings of certain banks (private banks and a few public banks) and inexpensive valuations of others (public banks).

We believe banking stocks may provide better entry points over the next two quarters as the market grapples with (1) higher yields (up to 8.25% on 10-year G-Sec) in 1HFY11E, which would lead to mark-to-market losses in and (2) higher provisioning related to NPLs in certain banks due to new RBI regulations. Beyond the 1HFY11 hump of higher yields and inflation, we expect banks to do well led by (1) strong credit pick-up, (2) moderate improvements in NIMs and (3) likely decline in yields, which would boost the value of banks' investment portfolio.

- ▶ **Reduced the weight of metals in the portfolio.** We have reduced the weight of Tata Steel by 300 bps to an underweight position and also removed it from the Top-10 list. The stock has performed 2.8% CYTD and outperformed the BSE-30 Index 2% CYTD. We do not find its risk-reward favorable at current levels especially in light of (1) steep increase in coking coal prices and (2) likely higher yoy iron ore prices that would test Corus's profitability. We retain Sterlite Industries in our Top-10 list in light of the stock's reasonable valuations and upside risks posed to its 65% subsidiary, Hindustan Zinc's earnings by higher-than-assumed zinc prices.

We find the prices of most base metals to be well above those suggested by fundamentals (supply-demand balance and inventories). In fact, there appears to be very little link between the supply-demand balance (capacity utilization, in other words) and prices. Prices of most base metals (and crude oil) have increased sharply over the past few months despite (1) low global capacity utilization (around 70%) in the case of most metals and large OPEC spare capacity (around 6 mn b/d in CY2010-11E), (2) the expectation of low capacity utilization over the next 24-36 months (range of 70-80%) and (3) high inventories. We suspect that speculative activity may be driving prices rather than fundamentals.

- ▶ **Added M&M to Top-10 list and reduced weight on Maruti proportionately.** We have added M&M to the Top-10 list in the place of HDFC Bank. We have increased the weight of M&M by 100 bps to 150 bps overweight and reduced the weight of Maruti to nil.

We are concerned about the increasing competition in the 'B' and 'C' sub-segments of the passenger vehicle segment with several global players set to launch new models at attractive price points or increase capacities. We compute a 40% capacity utilization for six large global players (Fiat, Ford, GM, Honda, Toyota, Volkswagen) for FY2011E, leading to likely disruptive prices by these players as they attempt to increase their respective production volumes through aggressive pricing. At the same time, we note cost pressures arising from (1) recent 2 ppts increase in excise duty and (2) steep increase in aluminum and steel prices.

- ▶ **Increased the weight of infrastructure in the portfolio.** We have increased the weight of capital goods, engineering and infrastructure sectors to 15% (+500 bps overweight from +300 bps previously) by including Crompton Greaves and Thermax in the model portfolio. We have also included a mid-cap. basket of construction and industrial stocks (Crompton Greaves, IVRCL, Nagarjuna Construction and Thermax) in our Top-10 list.
- ▶ **Other changes to model portfolio.** We have fine-tuned weights of several other stocks to create room for cash in our portfolio.

Valuation: At 15.9X FY2011E 'EPS', no point being brave

Exhibit 4 gives the valuation of the BSE-30 Index broken down by sectors. As can be seen, the India-specific consumer and investment sectors are trading at over 20X FY2011E earnings and the technology sector is trading at 19.9X FY2011E earnings. On an ex-energy and ex-commodities basis, the BSE-30 Index is trading at 18.2X FY2011E 'EPS' and 15.3X FY2012E 'EPS'.

Exhibit 4: BSE-30 Index is trading at 15.9X FY2011E and 13.3X FY2012E basis
Valuation summary of BSE-30 sectors, March fiscal year-ends, 2010E-2012E

	Adj. mkt cap.		EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)		RoE (%)		
	(US\$ mn)	(US\$ mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2010E	2011E	2012E
Automobiles	31,145	17,453	110.6	11.7	12.0	17.5	15.7	14.0	10.8	9.5	8.3	3.3	2.7	2.3	0.8	0.8	18.9	17.5	16.5
Banking	88,753	67,145	13.2	18.7	19.7	20.3	17.1	14.3	—	—	—	2.6	2.4	2.1	1.2	1.4	12.9	13.8	14.7
Cement	9,686	6,470	32.2	(14.9)	13.3	10.2	12.0	10.6	5.4	5.8	4.6	2.1	1.9	1.6	1.7	1.7	21.1	15.6	15.4
Consumers	34,148	21,567	16.3	11.9	14.8	24.8	22.2	19.3	15.7	13.5	11.6	8.3	7.4	6.5	2.5	2.8	33.3	33.3	33.8
Diversified	7,027	3,865	115.0	65.5	42.2	35.0	21.2	14.9	16.2	14.4	10.3	3.9	3.4	2.8	0.0	0.0	11.2	15.9	18.8
Energy	122,403	45,592	2.0	26.3	23.0	15.6	12.3	10.0	7.0	5.6	4.6	1.9	1.7	1.5	1.7	2.2	12.2	13.9	15.3
Industrials	47,956	28,783	27.5	23.7	19.4	28.0	22.6	18.9	15.6	12.7	10.6	5.7	4.7	3.9	0.8	0.9	20.2	20.6	20.5
Metals	36,048	21,295	(67.8)	186.5	19.1	33.5	11.7	9.8	11.4	6.9	6.0	1.9	1.7	1.5	0.6	0.6	5.8	14.5	15.1
Pharmaceuticals	8,050	3,220	(25.5)	38.7	2.2	26.8	19.3	18.9	19.8	13.9	12.9	4.4	3.7	3.1	0.8	0.8	16.3	19.0	16.6
Property	11,582	2,895	(54.7)	32.1	39.2	25.4	19.3	13.8	15.5	13.4	10.5	2.0	1.9	1.7	1.0	1.3	8.0	9.8	12.5
Technology	91,101	43,562	18.7	17.4	15.3	23.4	19.9	17.2	16.1	13.0	10.7	6.6	5.5	4.6	1.1	1.7	28.3	27.5	26.4
Telecom	33,788	11,826	(14.0)	(17.2)	20.2	11.5	13.9	11.6	7.0	7.1	5.8	1.8	1.6	1.3	0.7	1.0	15.4	11.4	11.5
Utilities	49,605	15,920	13.1	11.5	21.8	18.6	16.7	13.7	12.1	11.3	9.7	2.4	2.2	2.0	1.8	2.0	12.7	13.0	14.4
BSE-30	571,292	289,592	0.1	21.7	19.7	19.3	15.9	13.3	10.3	8.6	7.2	2.8	2.5	2.1	1.3	1.6	14.3	15.5	16.2
BSE-30 ex-Energy	448,889	244,001	(0.6)	20.0	18.5	20.7	17.2	14.5	12.0	10.2	8.5	3.2	2.8	2.4	1.2	1.4	15.3	16.1	16.6
BSE-30 ex-Energy, Com.	403,155	216,236	10.7	12.5	18.6	20.5	18.2	15.3	12.6	11.2	9.4	3.4	3.0	2.6	1.2	1.5	16.5	16.4	16.9

Note:

(a) EV/EBITDA excludes Banking sector.

Source: BSE, Kotak Institutional Equities estimates

Exhibit 5 shows the valuation of BSE-30 Index stocks based on their most widely-followed valuation parameter and also highlights our areas of concern, if any, for the stock. This is the correct representation of our 'Jumbled' Exhibit 1.

Exhibit 5: Anything catch the eye here?

Key valuation and industry/company characteristic of BSE-30 Index companies

	Valuation	Industry/company characteristic
1 ACC	60% premium to replacement cost, 15.8% CROCI	1HCY10 new supply is 16.6% of end-CY2009 industry capacity
2 BHEL	FY2011E P/E of 20.8X	Current order book 3.6X one-year forward revenues but new competition emerging
3 Bharti Airtel	FY2011E P/E of 15.1X	Industry consolidation may be some time away; EPS CAGR of 11.4% in FY2011-13E
4 DLF	P/B of 1.9X, ROE of 10.2% on FY2011E data	Demand picking up in residential segment, slow in commercial segment
5 Grasim Industries	Implied cement replacement cost of US\$122/ton	1HCY10 new supply is 16.6% of end-CY2009 industry capacity
6 HDFC Bank	P/B of 3.5X, ROE of 16.7% on FY2011E data	High CASA beneficial in rising interest rate environment
7 HDFC	P/B of 4.6X, ROE of 20.3% on FY2011E data	Extension of 'teaser' rates may cramp ROAs and hurt profitability
8 Hero Honda	FY2011 P/E of 16.2X	New competition from Honda Motors and M&M + higher input costs
9 Hindalco Industries	FY2011E EV/EBITDA of 9.2X	Current commodity price 4% lower than mid-cycle price at 70% global capacity utilization
10 Hindustan Unilever	FY2011E P/E of 22.8X	Extensive competition in detergents (10% of FY2010E EBIT) may extend to other segments
11 ICICI Bank	P/B of 1.9X, ROE of 9.8% on FY2011E data	Loan growth may pick up in FY2011E although specific challenges remain
12 Infosys Technologies	FY2011 P/E of 21.3X	EPS CAGR of 18.6% in FY2011-13E; higher Rs/1US\$ = Rs3.5 negative impact on EPS
13 ITC	FY2011 P/E of 21.8X	15% price increase required in key segment to achieve our FY2011E earnings
14 Jaiprakash Associates	13% discount to FY2011E SOTP value of Rs170	Construction and real estate business account for 50.7% of enterprise value
15 Larsen & Toubro	FY2011E P/E of 25.4X	Current order book 2.3X one-year forward revenues
16 Mahindra & Mahindra	11.9% discount to FY2011E SOTP value	Limited amount of competition in core auto businesses; uncertainty on valuation of subsidiaries
17 Maruti Suzuki	FY2011E P/E of 15.5X	Several large global players increasing capacity + higher input costs
18 NTPC	P/B of 2.4X, ROE of 15.2% on FY2011E data	Investments comprise 24.4% of book value
19 ONGC	FY2011E P/E of 10.2X	High earnings uncertainty due to government pricing policies
20 Reliance Communications	FY2011E P/E of 12.4X	Large inexplicable gap between revenues reported to shareholders and TRAI
21 Reliance Industries	12.7% premium to FY2011E SOTP value of Rs950	Large supply-demand imbalance in chemicals and refining + balance sheet issues
22 Reliance Infrastructure	26% discount to FY2011E SOTP value of Rs1,250	Balance sheet issues, execution challenges and uncertain profitability of infrastructure projects
23 State Bank of India	P/B of 1.8X, ROE of 15.8% on FY2011E data	Increase in provision coverage to mandated levels may lead to a sharp decline in profits versus expectations
24 Sterlite Industries	0.5% discount to FY2011E SOTP value of Rs850	Zinc prices strong despite weak fundamentals and valuation of power business uncertain
25 Sun Pharmaceuticals	FY2011E P/E of 19.3X	Continued problems in US subsidiary; resolution may take time
26 Tata Motors	Current implied value of JLR 2.1X acquisition price	Pace of recovery in JLR's volumes uncertain
27 Tata Power	8.2% discount to FY2011E SOTP value of Rs1,485	Core power business accounts for 58% of our SOTP valuation
28 Tata Steel	FY2011E EV/EBITDA of 6.6X	Profitability of Corus may be an issue given rapid increase in coking coal and iron ore prices
29 TCS	FY2011 P/E of 19.5X	EPS CAGR of 11% in FY2011-13E; higher Rs/1US\$ = Rs1.4 negative impact on EPS
30 WIPRO	FY2011 P/E of 18.6X	EPS CAGR of 13.1% in FY2011-13E; higher Rs/1US\$ = Rs1 negative impact on EPS

Source: Kotak Institutional Equities estimates

Earnings: No meaningful earnings upgrades over the past 6-9 months

Exhibit 6 shows that our FY2010E and FY2011E earnings estimates for the BSE-30 Index have largely remained constant over the past 6-9 months. We have seen upgrades in a few sectors such as automobiles, cement and technology but downgrades to earnings in consumer, energy, industrials and telecom have largely offset the increases elsewhere.

Exhibit 6: No major upgrades except in automobiles, cement and technology sectors
Earnings growth of BSE-30 Index sectors, March fiscal year-end, 2010E-11E (%)

	Earnings growth (%)															Current
	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	
2010E																
Automobiles	(5)	19	21	20	25	31	30	52	54	61	105	97	100	110	110	111
Banking	5	3	0	0	(1)	(4)	(4)	1	1	12	12	14	13	13	13	13
Cement	(21)	(22)	(22)	(21)	(21)	(12)	(1)	14	14	14	29	29	29	33	32	32
Consumers	15	14	14	14	14	12	13	16	16	16	19	19	19	17	17	16
Diversified	31	33	33	33	33	20	126	124	124	124	100	102	102	115	115	115
Energy	21	12	7	18	18	7	18	4	7	20	11	10	10	1	1	2
Industrials	26	29	29	26	29	31	27	30	34	36	31	31	31	28	28	28
Metals	(19)	(34)	(49)	(46)	(45)	(48)	(48)	(48)	(50)	(50)	(41)	(49)	(49)	(55)	(62)	(68)
Pharmaceuticals	NA	49	45	48	48	5	8	(46)	(46)	(46)	(34)	(34)	(34)	(34)	(32)	(25)
Property	6	(26)	(24)	(24)	(24)	(45)	(45)	(45)	(50)	(50)	(50)	(51)	(51)	(55)	(55)	(55)
Technology	6	5	5	9	6	1	0	7	9	10	13	13	15	19	19	19
Telecom	23	3	3	(4)	(4)	(1)	(1)	1	3	3	(2)	(19)	(19)	(19)	(14)	(14)
Utilities	14	11	18	19	20	19	14	15	18	17	16	14	14	13	13	13
BSE-30	10.8	3.5	—	3.0	3.2	(1.7)	1.4	0.7	2.0	7.4	6.9	4.0	4.2	1.5	1.5	0.1
BSE-30 ex-Energy	6.7	0.1	(2.6)	(2.6)	(2.5)	(5.1)	(4.7)	(0.6)	0.2	2.8	5.3	1.8	2.1	1.8	1.7	(0.6)
2011E																
Automobiles						13	14	7	7	7	10	9	9	11	11	12
Banking						17	17	15	15	18	21	18	18	19	19	19
Cement						(7)	(7)	(5)	(5)	(5)	(17)	(17)	(17)	(15)	(15)	(15)
Consumers						14	15	15	15	15	17	17	17	20	20	12
Diversified						50	46	70	70	70	82	84	84	65	65	65
Energy						29	26	30	31	29	32	32	32	30	30	26
Industrials						17	17	17	19	25	26	26	26	24	24	24
Metals						55	62	79	79	79	65	92	92	150	188	187
Pharmaceuticals						41	30	35	35	35	13	13	13	13	7	39
Property						8	7	7	19	18	18	28	28	32	32	32
Technology						10	11	12	13	14	13	13	14	17	17	17
Telecom						11	11	11	12	12	(11)	(9)	(9)	(13)	(17)	(17)
Utilities						12	12	12	12	12	11	11	11	12	12	11
BSE-30						20.7	19.9	21.0	21.7	22.0	19.9	21.1	21.2	23.1	22.9	21.7
BSE-30 ex-Energy						16.9	17.2	17.5	18.1	19.1	15.5	17.0	17.1	20.5	20.2	20.0

Source: BSE, Kotak Institutional Equities estimates

More important, we model very strong earnings growth for the BSE-30 Index over the next two years, 21.7% in FY2011E and 19.7% in FY2012E. Exhibit 7 gives the breakdown of earnings and incremental earnings by sectors. Thus, we see limited scope for positive earnings surprises currently. In fact, we do not rule out downside risks in several stocks based on emerging unfavorable developments in several sectors.

Exhibit 7: Scope for upside surprises may be limited in FY2011E given our 22% earnings growth
Break-up of earnings of BSE-30 Index across sectors, March fiscal year-ends, 2008-12E

	Net profit (Rs bn)					Contribution (%)					Incremental profits			
	2008	2009	2010E	2011E	2012E	2008	2009	2010E	2011E	2012E	2011E		2012E	
											(Rs bn)	(%)	(Rs bn)	(%)
Automobiles	55	38	80	90	100	4	3	6	6	5	9	3	11	3
Banking	149	174	197	234	280	12	13	15	14	14	37	13	46	14
Cement	38	32	43	37	41	3	2	3	2	2	(6)	(2)	5	2
Consumers	49	53	62	69	80	4	4	5	4	4	7	3	10	3
Diversified	6	4	9	15	21	0	0	1	1	1	6	2	6	2
Energy	346	347	354	448	550	27	26	27	28	28	93	32	103	32
Reliance Industries	147	153	162	219	267	12	11	12	13	14	57	20	49	15
Industrials	51	61	77	96	114	4	5	6	6	6	18	6	19	6
Metals	123	151	49	139	166	10	11	4	9	9	91	31	27	8
Pharmaceuticals	15	18	14	19	19	1	1	1	1	1	5	2	0	0
Property	79	45	21	27	38	6	3	2	2	2	7	2	11	3
Technology	128	148	176	207	238	10	11	13	13	12	31	11	32	10
Telecom	127	154	133	110	132	10	12	10	7	7	(23)	(8)	22	7
Utilities	93	106	120	134	163	7	8	9	8	8	14	5	29	9
BSE-30	1,258	1,333	1,334	1,623	1,944	100	100	100	100	100	289	100	320	100
BSE-30 change (%)		6.0	0.1	21.7	19.7									
BSE-30 ex-energy change (%)		8.0	(0.6)	20.0	18.5									

Source: BSE, Kotak Institutional Equities estimates

We have discussed these issues several times over the past 6-9 months, most recently in our March 15, 2010 report titled *Good times may not last for a few industries* about the very high CROCI of Indian companies and risks to the same from unfavorable changes in (1) market structure, (2) supply-demand balance, (3) regulatory and policy changes and (4) taxation changes. We won't go into these issues again but highlight that the market appears quite sanguine about risks to earnings from the aforementioned factors.

In addition to the risks highlighted in the report, we note risks to earnings from a stronger-than-expected exchange rate. Exhibit 8 compares our FY2011E and FY2012E base-case earnings of certain global commodity and technology companies with likely earnings under a scenario of the Indian rupee being stronger by Rs1/US\$ versus our base-case estimates (Rs46/US\$ for both FY2011E and FY2012E). The rupee is currently trading at Rs45.1/US\$.

Exhibit 8: Technology and commodity stocks have high sensitivity to exchange rate changes
 EPS sensitivity of global commodities and technologies companies to Re/US\$ rate assumptions (Rs/share)

Re/US\$ rate	Base					Change from base case (%)			
	44.0	45.0	46.0	47.0	48.0	44.0	45.0	47.0	48.0
FY2011E									
Energy									
Cairn India	19.6	20.3	21.0	21.6	22.3	(6.6)	(3.3)	3.3	6.6
ONGC	97.2	102.2	107.1	112.0	117.0	(9.2)	(4.6)	4.6	9.2
Reliance Industries	61.5	64.0	66.5	69.0	71.6	(7.6)	(3.8)	3.8	7.6
Metals									
Hindalco	10.8	11.6	12.4	13.1	13.9	(12.4)	(6.2)	6.2	12.3
Hindustan Zinc	99.1	102.3	105.4	108.6	111.8	(6.0)	(3.0)	3.0	6.0
Jindal Steel and Power	44.5	45.7	47.0	48.1	49.3	(5.4)	(2.9)	2.2	4.7
JSW Steel	75.1	84.4	93.7	103.0	112.3	(19.8)	(9.9)	9.9	19.8
Sterlite Industries	50.8	52.5	54.2	55.9	57.6	(6.3)	(3.2)	3.2	6.3
Tata Steel	71.4	74.7	78.0	81.3	84.7	(8.5)	(4.2)	4.2	8.5
Technology									
HCL Technologies	23.2	24.1	25.1	26.1	27.1	(7.8)	(3.9)	3.9	7.8
Infosys	117.2	120.7	124.2	127.7	131.2	(5.7)	(2.8)	2.8	5.7
TCS	38.3	39.7	41.0	42.4	43.8	(6.7)	(3.4)	3.4	6.7
Wipro	35.6	36.6	37.6	38.7	39.7	(5.4)	(2.7)	2.7	5.4
FY2012E									
Energy									
Cairn India	36.4	37.6	38.7	39.9	41.0	(6.0)	(3.0)	3.0	5.9
ONGC	121.1	126.7	132.3	137.9	143.5	(8.4)	(4.2)	4.2	8.4
Reliance Industries	75.9	78.6	81.4	84.2	87.0	(6.8)	(3.4)	3.4	6.8
Metals									
Hindalco	13.2	14.1	14.9	15.8	16.7	(11.5)	(5.7)	5.7	11.4
Hindustan Zinc	120.2	123.9	127.6	131.2	134.9	(5.7)	(2.9)	2.9	5.7
Jindal Steel and Power	46.3	47.6	48.9	50.2	51.4	(5.3)	(2.6)	2.6	5.3
JSW Steel	106.4	119.1	131.7	144.3	156.9	(19.2)	(9.6)	9.6	19.2
Sterlite Industries	60.2	62.3	64.3	66.4	68.4	(6.4)	(3.2)	3.2	6.4
Tata Steel	85.7	89.2	92.8	96.4	99.9	(7.7)	(3.8)	3.8	7.7
Technology									
HCL Technologies	25.0	26.0	27.1	28.1	29.2	(7.8)	(3.9)	3.9	7.8
Infosys	141.6	145.9	150.1	154.3	158.6	(5.7)	(2.8)	2.8	5.7
TCS	42.8	44.3	45.9	47.4	49.0	(6.7)	(3.4)	3.4	6.7
Wipro	40.4	41.5	42.7	43.8	45.0	(5.4)	(2.7)	2.7	5.4

Source: Kotak Institutional Equities estimates

Exhibit 9: Kotak Institutional Equities: Valuation summary of key Indian companies

Company	30-Mar-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)	
Automobiles																														
Ashok Leyland	54	ADD	71,971	1,596	1,330	3.1	3.9	4.2	105.8	24.5	7.5	17.2	13.8	12.8	11.5	8.9	8.4	1.8	1.6	1.5	1.8	1.8	1.8	1.2	12.4	12.4	55	1.7	5.1	
Bajaj Auto	1,981	ADD	286,618	6,356	145	110.7	137.9	149.7	144.8	24.5	8.6	17.9	14.4	13.2	11.1	9.5	8.7	9.2	6.1	4.4	1.0	1.0	1.0	64.0	50.4	38.0	1,930	(2.6)	12.7	
Hero Honda	1,967	SELL	392,880	8,712	200	108.3	121.5	136.0	68.8	12.1	12.0	18.2	16.2	14.5	11.6	10.0	8.5	7.0	5.2	4.1	1.1	1.1	1.1	45.4	37.1	31.6	1,700	(13.6)	20.2	
Mahindra & Mahindra	550	ADD	324,010	7,185	589	32.2	36.3	39.4	114.5	12.8	8.4	17.1	15.1	14.0	11.1	10.0	9.1	4.1	3.2	2.6	0.9	0.9	0.9	28.6	23.9	20.8	615	11.9	27.0	
Maruti Suzuki	1,408	REDUCE	406,811	9,021	289	85.1	90.9	101.7	101.7	6.9	11.8	16.5	15.5	13.8	9.3	8.3	7.1	3.4	2.8	2.4	0.4	0.4	0.4	23.0	20.0	18.6	1,350	(4.1)	25.3	
Tata Motors	756	ADD	443,146	9,827	586	26.3	30.1	35.2	162.7	14.4	16.7	28.7	25.1	21.5	15.1	13.2	11.7	2.6	2.3	2.0	0.7	0.7	0.7	9.9	9.7	10.1	810	7.1	89.7	
Automobiles		Cautious	1,925,436	42,697					115.2	14.3	11.2	19.2	16.8	15.1	11.8	10.3	9.1	3.9	3.2	2.7	0.8	0.8	0.8	20.2	19.0	17.7				
Banks/Financial Institutions																														
Andhra Bank	106	BUY	51,362	1,139	485	19.4	14.7	18.8	44.1	(24.4)	28.1	5.5	7.2	5.6	—	—	—	1.2	1.0	0.9	3.7	2.8	3.6	23.5	15.3	17.3	125	18.0	2.8	
Axis Bank	1,173	ADD	470,423	10,432	401	63.3	74.5	88.7	25.1	17.7	19.1	18.5	15.7	13.2	—	—	—	2.9	2.6	2.2	1.0	1.3	1.5	18.4	17.5	18.1	1,160	(1.1)	49.3	
Bank of Baroda	643	BUY	235,053	5,212	366	75.0	77.2	91.9	23.1	2.9	19.1	8.6	8.3	7.0	—	—	—	1.7	1.5	1.3	1.7	1.8	2.1	22.0	19.1	19.4	650	1.1	11.5	
Bank of India	343	REDUCE	180,257	3,997	526	38.9	47.8	64.3	(32.0)	22.9	34.6	8.8	7.2	5.3	—	—	—	1.3	1.2	1.0	1.6	1.9	2.6	16.2	17.3	19.9	360	5.0	5.8	
Canara Bank	413	ADD	169,330	3,755	410	75.2	69.7	83.0	48.8	(7.3)	19.1	5.5	5.9	5.0	—	—	—	1.3	1.1	0.9	1.9	2.4	2.9	22.8	17.8	18.3	470	13.8	4.5	
Corporation Bank	496	BUY	71,152	1,578	143	71.1	65.0	86.2	14.1	(8.5)	32.6	7.0	7.6	5.8	—	—	—	1.3	1.1	1.0	2.9	2.6	3.5	19.3	15.5	18.0	540	8.9	0.6	
Federal Bank	268	BUY	45,897	1,018	171	30.6	38.0	48.7	4.5	24.1	28.2	8.8	7.1	5.5	—	—	—	1.0	0.9	0.8	1.9	2.4	3.1	11.5	13.0	14.8	340	26.7	3.2	
HDFC	2,639	ADD	750,578	16,644	284	98.5	115.4	133.4	22.7	17.2	15.5	26.8	22.9	19.8	—	—	—	5.2	4.6	4.0	1.3	1.5	1.8	19.7	20.3	20.3	2,700	2.3	43.6	
HDFC Bank	1,907	BUY	862,008	19,115	452	64.8	84.4	107.7	22.8	30.2	27.6	29.4	22.6	17.7	—	—	—	4.0	3.5	3.1	0.6	0.8	1.1	16.1	16.7	18.6	1,800	(5.6)	41.1	
ICICI Bank	960	REDUCE	1,068,536	23,695	1,113	37.3	47.0	59.0	10.5	26.0	25.4	25.7	20.4	16.3	—	—	—	2.1	1.9	1.8	1.3	1.6	2.0	8.2	9.8	11.5	910	(5.2)	94.2	
IDFC	162	REDUCE	210,353	4,665	1,295	8.4	9.1	10.6	45.4	8.0	16.3	19.3	17.9	15.4	—	—	—	3.0	2.6	2.3	0.9	0.9	1.1	16.4	15.6	16.0	145	(10.7)	17.4	
India Infoline	117	BUY	39,803	883	340	7.7	9.2	10.5	50.4	19.2	14.1	15.2	12.8	11.2	—	—	—	2.7	2.2	1.9	2.6	1.7	1.9	17.6	18.7	18.1	170	45.3	5.1	
Indian Bank	174	BUY	74,952	1,662	430	34.2	34.7	40.5	22.4	1.4	16.8	5.1	5.0	4.3	—	—	—	1.1	1.0	0.8	3.4	3.4	4.0	23.3	20.0	19.9	230	31.9	1.9	
Indian Overseas Bank	92	BUY	50,067	1,110	545	22.7	13.3	33.2	(6.9)	(41.1)	148.7	4.1	6.9	2.8	—	—	—	0.7	0.7	0.5	4.1	4.5	4.9	16.1	8.6	19.1	150	63.2	2.4	
J&K Bank	659	BUY	31,973	709	48	105.5	112.3	137.2	24.8	6.4	22.2	6.3	5.9	4.8	—	—	—	1.2	1.1	0.9	3.2	3.4	4.2	18.1	16.9	18.0	700	6.2	0.7	
LIC Housing Finance	863	ADD	81,949	1,817	95	82.6	77.4	95.8	32.0	(6.2)	23.7	10.4	11.1	9.0	—	—	—	2.5	2.2	1.9	2.0	2.0	2.4	26.2	19.8	21.1	925	7.2	13.7	
Mahindra & Mahindra Financial	382	BUY	36,519	810	96	31.9	37.2	42.9	42.2	16.5	15.4	12.0	10.3	8.9	—	—	—	2.2	1.9	1.7	2.1	2.4	2.8	19.3	19.6	19.7	415	8.8	0.8	
Oriental Bank of Commerce	324	REDUCE	81,187	1,800	251	41.3	47.7	53.8	14.3	15.5	12.7	7.8	6.8	6.0	—	—	—	1.2	1.0	0.9	2.6	3.0	3.4	13.3	14.0	14.3	280	(13.6)	4.5	
PFC	259	SELL	297,158	6,590	1,148	19.7	21.4	25.2	47.7	8.6	18.0	13.1	12.1	10.3	—	—	—	2.4	2.1	1.8	1.9	2.1	2.4	18.4	17.6	18.3	210	(18.9)	3.1	
Punjab National Bank	1,008	BUY	317,730	7,046	315	116.4	124.7	153.2	18.7	7.2	22.9	8.7	8.1	6.6	—	—	—	2.0	1.7	1.4	2.3	2.5	3.0	25.2	22.5	23.2	1,020	1.2	7.2	
Reliance Capital	762	ADD	187,525	4,158	246	17.7	17.5	17.5	(55.1)	(1.1)	0.2	43.1	43.6	43.5	—	—	—	2.6	2.5	2.4	0.3	0.3	0.3	6.3	5.9	5.7	875	14.9	46.6	
Shriram Transport	521	ADD	120,702	2,677	232	36.6	48.3	54.5	21.6	32.0	12.9	14.3	10.8	9.6	—	—	—	3.1	2.7	2.3	2.1	2.8	3.1	26.5	25.1	24.2	500	(4.1)	4.3	
SREI	75	NR	8,768	194	116	8.3	7.9	9.9	17.8	(4.8)	25.8	9.1	9.6	7.6	—	—	—	0.7	0.7	0.6	1.6	1.6	1.6	11.1	10.5	12.3	—	—	5.3	
State Bank of India	2,083	BUY	1,322,170	29,320	635	154.8	174.4	201.5	7.7	12.7	15.5	13.5	11.9	10.3	—	—	—	2.0	1.8	1.6	1.4	1.5	1.6	15.9	15.8	16.1	2,400	15.2	100.0	
Union Bank	296	BUY	149,692	3,319	505	37.9	38.7	45.8	11.0	2.0	18.3	7.8	7.7	6.5	—	—	—	1.7	1.5	1.2	1.9	1.9	2.3	24.4	20.7	20.6	350	18.1	4.3	
Banks/Financial Institutions		Attractive	7,130,995	158,133					15.3	10.4	21.8	14.2	12.9	10.6	—	—	—	2.2	2.0	1.7	1.5	1.6	1.9	15.8	15.4	16.4				
Cement																														
ACC	954	SELL	179,247	3,975	188	83.2	53.2	55.2	47.9	(36.1)	3.8	11.5	17.9	17.3	6.2	7.9	6.9	2.8	2.5	2.3	2.5	2.5	2.5	29.3	17.1	16.1	800	(16.1)	11.7	
Ambuja Cements	119	SELL	181,087	4,016	1,522	8.0	6.9	7.0	11.4	(13.5)	0.7	14.9	17.2	17.1	8.3	8.7	8.6	2.6	2.3	2.2	1.6	1.8	1.8	19.3	14.7	13.5	92	(22.7)	6.8	
Grasim Industries	2,810	REDUCE	257,653	5,714	92	297.3	289.2	338.2	24.6	(2.7)	16.9	9.5	9.7	8.3	5.0	4.9	3.8	1.8	1.6	1.4	1.2	1.2	1.2	21.4	17.6	17.6	2,500	(11.0)	12.6	
India Cements	132	SELL	37,154	824	282	13.7	12.4	13.4	n/a	(9.1)	7.6	9.6	10.6	9.8	5.6	5.8	6.0	0.9	0.9	0.8	1.6	2.4	2.4	10.5	9.0	9.0	100	(24.0)	5.3	
Shree Cement	2,298	BUY	80,063	1,775	35	267.3	228.9	237.5	52.9	(14.4)	3.7	8.6	10.0	9.7	5.2	4.9	4.2	3.8	2.8	2.1	0.5	0.5	0.5	56.1	31.8	24.9	2,400	4.4	0.9	
UltraTech Cement	1,145	SELL																												

Kotak Institutional Equities: Valuation summary of key Indian companies

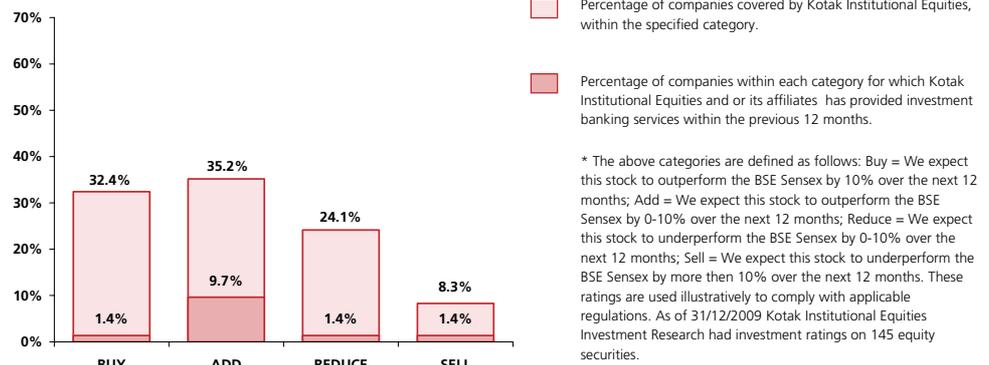
Company	30-Mar-10 Price (Rs)	Rating	Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
			(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
Energy																													
Bharat Petroleum	522	RS	188,760	4,186	362	58.1	61.7	65.3	181.9	6.2	5.8	9.0	8.5	8.0	4.8	4.3	4.2	1.3	1.2	1.1	4.5	4.7	5.0	14.1	13.7	13.3	—	—	10.5
Cairn India	299	SELL	567,293	12,580	1,897	5.3	21.0	38.7	—	298	84.9	57	14	7.7	39.6	8.9	5.3	1.6	1.6	1.5	—	5.0	8.4	2.9	11.4	20.3	250	(16.4)	19.8
Castrol India (a)	688	REDUCE	85,089	1,887	124	30.8	39.7	40.6	44.7	28.8	2.3	22.3	17.3	16.9	13.7	10.8	10.5	18.5	16.6	14.8	3.6	4.4	4.4	83.8	101.0	92.5	640	(7.0)	2.9
GAIL (India)	400	REDUCE	507,899	11,263	1,268	22.7	23.5	31.4	2.3	3.7	33.4	17.7	17.0	12.8	10.3	10.7	8.5	2.9	2.6	2.3	2.0	2.0	2.7	15.9	15.0	17.8	370	(7.6)	15.9
GSPL	88	REDUCE	49,360	1,095	563	7.6	10.0	10.4	244.2	31.8	4.7	11.6	8.8	8.4	6.3	4.8	4.4	3.0	2.6	2.3	2.9	5.7	6.0	28.8	31.7	28.8	80	(8.8)	5.7
Hindustan Petroleum	317	RS	107,432	2,382	339	46.3	49.7	54.8	173.1	7.2	10.4	6.8	6.4	5.8	2.4	2.1	1.9	0.8	0.8	0.7	8.2	8.8	9.7	11.2	11.4	11.8	—	—	9.5
Indian Oil Corporation	300	RS	727,896	16,141	2,428	33.0	32.1	33.4	235.4	(2.7)	3.9	9.1	9.3	9.0	5.8	4.9	4.3	1.3	1.2	1.1	2.2	2.1	2.2	15.3	13.1	12.3	—	—	5.6
Oil India	1,156	REDUCE	277,905	6,163	240	112.2	110.6	115.0	—	(1.5)	4.0	10.3	10.5	10.0	4.0	3.5	3.0	1.9	1.7	1.5	3.0	3.2	3.3	16.5	15.5	14.6	1,150	(0.5)	3.1
Oil & Natural Gas Corporation	1,097	REDUCE	2,347,001	52,046	2,139	89.9	107.1	132.3	(1.0)	19.1	23.5	12.2	10.2	8.3	4.3	3.7	3.1	1.8	1.7	1.5	3.3	4.0	4.6	14.4	15.7	17.7	1,200	9.4	23.8
Petronet LNG	77	ADD	57,788	1,281	750	5.3	8.1	9.7	—	51.2	20.3	14.4	9.5	7.9	8.6	6.1	5.4	2.3	1.9	1.6	1.9	2.6	2.9	15.8	20.5	20.5	90	16.8	4.3
Reliance Industries	1,088	SELL	3,228,541	71,594	2,967	49.3	66.5	81.4	(2.5)	34.9	22.9	22.1	16.4	13.4	10.9	8.2	6.7	2.0	1.8	1.6	0.6	0.8	1.0	10.9	12.8	14.0	950	(12.7)	147.6
Energy																													
Cautious 8,144,965 180,618 21.8 24.4 22.9 14.9 12.0 9.8 7.0 5.7 4.7 1.8 1.7 1.5 1.9 2.6 3.1 12.3 13.9 15.3																													
Industrials																													
ABB	825	SELL	174,750	3,875	212	16.7	27.6	34.9	(35.2)	65.0	26.2	49.3	29.9	23.7	28.1	17.0	13.2	7.3	6.1	5.0	0.3	0.4	0.4	15.7	22.2	23.1	690	(16.3)	6.3
BGR Energy Systems	515	ADD	37,094	823	72	23.6	30.2	37.7	47.4	27.8	25.0	21.8	17.1	13.6	12.3	9.5	7.7	5.3	4.2	3.4	0.8	1.0	1.3	26.9	27.6	27.7	500	(3.0)	2.9
Bharat Electronics	2,189	REDUCE	175,080	3,882	80	117.7	126.2	140.1	13.4	7.2	10.9	18.6	17.3	15.6	9.4	8.5	7.3	3.8	3.2	2.8	1.1	1.1	1.1	22.0	20.1	19.1	1,870	(14.6)	4.5
Bharat Heavy Electricals	2,409	ADD	1,179,107	26,147	490	92.0	115.8	136.2	44.1	25.8	17.7	26.2	20.8	17.7	14.6	11.4	9.3	7.2	5.7	4.6	0.8	1.0	1.2	30.8	30.7	28.9	2,500	3.8	34.1
Crompton Greaves	258	BUY	165,712	3,675	642	11.9	13.6	15.8	35.6	14.0	16.6	21.7	19.1	16.3	11.9	10.4	8.7	6.5	5.0	4.0	0.6	0.7	0.8	34.7	29.8	27.3	290	12.3	8.3
Larsen & Toubro	1,637	BUY	983,995	21,821	601	53.7	64.5	78.7	7.2	20.2	22.0	30.5	25.4	20.8	16.7	14.2	12.1	4.5	3.8	3.3	0.7	0.7	0.9	17.4	16.3	17.0	1,750	6.9	60.1
Maharashtra Seamless	360	BUY	25,423	564	71	40.2	41.1	46.7	12.0	2.3	13.8	9.0	8.8	7.7	4.6	4.3	3.4	1.6	1.4	1.2	1.7	2.1	2.6	19.2	16.9	16.8	400	11.0	1.4
Siemens	740	REDUCE	249,650	5,536	337	25.0	29.6	34.3	55.2	18.6	16.0	29.7	25.0	21.6	17.5	14.4	12.1	7.3	6.0	4.9	0.7	0.8	0.9	27.3	26.3	25.1	635	(14.2)	8.6
Suzlon Energy	72	REDUCE	121,173	2,687	1,679	(2.2)	2.9	7.2	(130.8)	(231.4)	145.2	(32.5)	24.7	10.1	12.2	7.7	5.3	1.0	1.0	0.9	—	—	0.3	(3.4)	4.2	9.7	80	10.9	47.8
Thermax	674	ADD	80,259	1,780	119	21.4	29.8	38.7	(11.7)	39.2	29.7	31.4	22.6	17.4	16.8	12.5	9.6	7.4	6.0	4.9	0.5	1.3	1.6	24.5	29.4	31.1	725	7.6	2.4
Volta	173	BUY	57,283	1,270	331	9.4	10.3	11.6	36.2	9.0	12.9	18.4	16.9	15.0	10.1	8.9	7.6	5.6	4.6	3.8	1.5	1.6	1.7	34.1	29.8	27.6	185	6.8	4.6
Industrials																													
Attractive 3,249,528 72,060 7.6 30.5 23.0 28.8 22.1 18.0 14.8 11.8 9.7 4.8 4.1 3.5 0.7 0.9 1.0 16.8 18.5 19.3																													
Infrastructure																													
GMR Infrastructure	62	ADD	228,660	5,071	3,667	0.6	0.6	0.5	(24.5)	(3.1)	(16.6)	107.7	111.2	133.2	20.8	15.4	14.8	2.3	2.1	2.0	—	—	—	3.2	3.0	2.5	68	9.1	7.0
GVK Power & Infrastructure	45	ADD	70,907	1,572	1,579	0.8	1.1	1.4	6.7	33.5	32.4	55.2	41.3	31.2	18.7	17.1	17.5	2.2	2.2	2.0	—	0.7	0.7	4.7	5.3	6.7	50	11.4	9.1
IRB Infrastructure	262	RS	87,113	1,932	332	9.7	12.6	12.1	83.8	29.2	(3.7)	26.9	20.9	21.7	12.9	11.5	10.7	3.8	2.9	2.3	—	—	—	15.6	15.7	11.9	—	—	5.7
Mundra Port and SEZ	787	ADD	317,385	7,038	403	15.1	24.1	35.7	40.8	59.5	48.4	52.1	32.7	22.0	33.3	21.4	15.3	8.7	6.7	5.0	—	—	—	18.5	23.2	26.1	725	(7.8)	12.1
Infrastructure																													
Attractive 704,064 15,613 28.0 38.7 27.0 55.3 39.9 31.4 22.0 16.5 14.4 3.7 3.2 2.8 — — 0.1 6.6 8.0 9.0																													
Media																													
DishTV	37	ADD	39,080	867	1,063	(2.5)	(1.2)	0.6	(61.6)	(52.4)	(146.5)	(14.6)	(30.6)	65.8	57.4	18.7	10.2	9.6	13.9	11.5	—	—	—	248.6	(37.1)	19.1	45	22.4	5.5
HT Media	138	NR	32,465	720	235	5.7	7.3	9.1	572.1	29.5	23.9	24.3	18.8	15.2	11.7	9.9	7.9	3.4	3.0	2.7	0.7	1.4	2.5	14.6	17.0	18.9	—	—	0.6
Jagran Prakashan	118	ADD	35,568	789	301	5.8	6.6	7.9	90.9	14.3	18.5	20.3	17.8	15.0	12.3	10.4	8.7	5.8	5.3	4.8	3.0	3.4	4.0	29.8	31.2	33.5	130	10.1	1.8
Sun TV Network	421	REDUCE	165,908	3,679	394	12.1	14.6	17.8	33.3	21.0	21.6	34.8	28.7	23.6	20.0	16.2	13.3	8.1	7.1	6.2	1.0	1.4	1.9	25.4	26.4	28.0	295	(29.9)	4.9
Zee Entertainment Enterprises	273	REDUCE	118,656	2,631	434	10.6	12.8	15.5	25.9	20.3	21.0	25.7	21.4	17.7	19.8	15.6	12.4	3.1	2.8	2.6	0.9	1.2	1.4	13.0	14.2	15.7	245	(10.4)	6.1
Zee News	67	NR	15,995	355	240	2.6	3.1	4.3	38.4	20.1	39.9	25.9	21.6	15.4	12.8	10.8	8.4	5.4	4.5	3.7	0.6	1.0	1.5	23.3	23.2	26.9	—	—	1.1
Media																													
Neutral 407,671 9,040 145.8 39.4 36.9 39.2 28.1 20.5 18.7 14.5 11.3 5.0 4.6 4.1 1.0 1.4 1.8 12.8 16.3 20.0																													
Metals																													
Hindalco Industries	184	ADD	352,071	7,807	1,914	4.2	12.4	14.9	(74.0)	197.9	20.7	44.3	14.9	12.3	9.2	9.2	9.3	1.6	1.5	1.3	0.7	0.7	0.7	9.1	10.3	11.3	190	3.3	50.3
National Aluminium Co.	415	SELL	267,324	5,928	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	41.2	14.8	15.0	18.2	7.1	6.5	2.5	2.1	1.9	0.5	0.5	0.5	6.1	15.4	13.3	320	(22.9)	8.2
Jindal Steel and Power	711	SELL	659,609	14,627	928	40.6	47.0	48.9	23.7	15.9	3.9	17.5	15.1	14.5	11.2	9.1	8.3	5.7	4.1	3.2	0.1	0.1	0.1	39.2	31.8	24.7	530	(25.4)	43.3
JSW Steel	1,240	SELL	231,847	5,141	187	68.1	93.7	131.7	363.6	37.5	40.6	18.2	13.2	9.4	9.1	7.9	6.6	2.0	1.6	1.2	0.2	0.4	0.4	12.4	13.3	14.6	850	(31.4)	50.1
Hindustan Zinc	1,211	BUY	511,559	11,344	423	93.5	105.4	127.6	44.8	12.8	21.0	13.0	11.5	9.5	8.9	6.6	4.3	2.7	2.2	1.8	0.4	0.4	0.4	23.5	21.3	20.9	1,400	15.6	6.0
Sesa Goa	457	REDUCE	406,905	9,023	890	25.9	38.9	49.4	2.5	50.5	26.9	17.7	11.7	9.3	14.7	8.7	6.2	5.5	3.9	2									

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	30-Mar-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Retail																													
Titan Industries	1,833	REDUCE	81,343	1,804	44	60.4	68.1	85.1	36.3	12.7	25.0	30.3	26.9	21.5	20.8	17.7	13.8	10.2	7.8	6.1	0.5	0.7	0.7	39.1	32.9	31.7	1,300	(29.1)	4.3
Retail		Neutral	81,343	1,804					36.3	12.7	25.0	30.3	26.9	21.5	20.8	17.7	13.8	10.2	7.8	6.1	0.5	0.7	0.7	33.7	29.1	28.1			
Sugar																													
Bajaj Hindustan	138	SELL	26,331	584	191	23.7	17.6	10.2	—	(25.6)	(42.2)	5.8	7.8	13.5	5.1	4.7	5.7	1.0	0.9	0.8	0.4	0.4	0.4	19.3	11.9	6.3	150	9.0	21.1
Balrampur Chini Mills	96	ADD	24,623	546	257	14.0	13.9	11.0	—	(0.6)	(21.1)	6.8	6.9	8.7	4.4	4.1	4.1	1.6	1.3	1.2	0.5	—	0.5	25.3	20.8	14.3	140	46.0	10.3
Shree Renuka Sugars	72	BUY	48,259	1,070	670	14.8	11.5	8.0	329.4	(22.2)	(30.7)	4.9	6.2	9.0	3.3	3.4	3.8	1.7	1.3	1.1	0.6	0.5	0.5	43.9	23.1	13.2	130	80.4	28.5
Sugar		Attractive	99,213	2,200					342.8	(18.8)	(31.0)	5.5	6.8	9.8	4.0	4.0	4.5	1.4	1.1	1.0	0.5	0.5	0.5	25.3	17.0	10.5			
Technology																													
HCL Technologies	359	REDUCE	249,714	5,537	695	17.8	25.1	27.1	1.7	41.2	7.8	20.2	14.3	13.3	10.2	8.9	7.6	3.9	3.2	2.6	1.1	1.1	1.1	20.6	24.7	21.9	350	(2.6)	8.6
Hexaware Technologies	66	REDUCE	9,538	212	144	9.4	7.5	11.2	127.7	(19.5)	48.3	7.1	8.8	5.9	2.6	3.0	1.7	1.2	1.1	0.9	1.5	1.5	1.5	18.6	13.1	17.0	80	20.5	1.2
Infosys Technologies	2,644	BUY	1,517,713	33,656	574	108.5	124.2	150.1	5.9	14.4	20.9	24.4	21.3	17.6	17.2	13.9	11.4	6.7	5.5	4.6	1.0	1.3	1.6	30.4	28.4	28.3	3,000	13.5	67.3
Mphasis BFL	622	REDUCE	129,712	2,876	208	43.6	48.7	47.9	207.5	11.7	(1.5)	14.3	12.8	13.0	11.3	10.0	8.7	5.5	4.0	3.1	0.6	0.6	0.7	48.1	36.2	26.9	570	(8.4)	12.9
Mindtree	595	BUY	24,502	543	41	49.4	55.1	63.2	273.2	11.6	14.7	12.0	10.8	9.4	9.7	6.9	5.3	3.2	2.5	2.0	0.4	0.9	1.1	31.1	26.3	24.0	825	38.6	2.0
Patni Computer Systems	538	REDUCE	69,119	1,533	129	36.6	44.2	40.9	36.4	20.9	(7.6)	14.7	12.2	13.2	7.7	7.2	6.3	2.2	2.0	1.8	1.4	1.6	1.5	19.7	17.9	14.6	450	(16.3)	3.8
Polaris Software Lab	168	SELL	16,586	368	99	15.6	16.1	14.8	18.3	3.7	(8.2)	10.8	10.4	11.3	5.4	5.3	4.9	1.9	1.6	1.5	1.8	1.9	2.0	18.5	16.7	13.7	160	(4.8)	4.5
TCS	800	BUY	1,565,760	34,721	1,957	34.5	41.0	45.9	30.6	18.8	11.8	23.2	19.5	17.4	17.3	14.4	12.0	7.7	6.3	5.3	1.1	2.1	2.3	37.5	35.6	33.1	900	12.5	38.2
Wipro	702	ADD	1,025,739	22,746	1,462	31.5	37.6	42.7	22.4	19.5	13.4	22.3	18.6	16.4	16.6	13.4	11.2	5.4	4.5	3.8	1.3	1.6	1.8	27.1	26.3	24.8	830	18.3	20.3
Technology		Attractive	4,608,383	102,193					22.3	18.0	13.5	22.1	18.8	16.5	15.7	13.1	10.9	6.0	5.0	4.2	1.1	1.6	1.8	27.2	26.6	25.1			
Telecom																													
Bharti Airtel	311	REDUCE	1,180,297	26,174	3,797	23.8	20.6	23.5	6.6	(13.5)	13.8	13.0	15.1	13.2	7.6	7.9	6.6	2.9	2.5	2.1	1.0	1.3	1.6	25.3	18.0	17.4	300	(3.5)	47.6
IDEA	67	REDUCE	220,045	4,880	3,304	2.5	1.2	1.9	(13.9)	(51.2)	54.2	26.7	54.6	35.4	8.6	9.1	7.9	1.5	1.5	1.4	—	—	—	5.5	2.8	4.2	50	(24.9)	6.1
MTNL	74	SELL	46,463	1,030	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.7)	(7.1)	(8.1)	(1.1)	(1.3)	(1.8)	0.4	0.4	0.5	—	—	—	(8.5)	(6.1)	(5.7)	50	(32.2)	3.9
Reliance Communications	167	SELL	343,763	7,623	2,064	18.5	13.4	18.6	(41.4)	(27.8)	38.8	9.0	12.4	9.0	7.9	8.2	5.4	0.7	0.7	0.6	—	—	—	8.9	6.0	7.3	150	(9.9)	17.4
Tata Communications	279	REDUCE	79,472	1,762	285	14.0	15.2	15.7	3.2	8.2	3.5	19.9	18.4	17.8	8.1	7.5	7.1	1.1	1.1	1.1	2.3	2.7	3.0	5.2	5.5	5.5	400	43.4	2.6
Telecom		Cautious	1,870,040	41,469					(20.2)	(17.0)	22.8	13.9	16.8	13.6	8.1	8.3	6.6	1.6	1.4	1.3	0.7	0.9	1.1	11.3	8.7	9.3			
Transportation																													
Container Corporation	1,319	ADD	171,418	3,801	130	63.9	76.6	89.0	5.0	19.9	16.1	20.6	17.2	14.8	14.4	11.9	9.9	3.9	3.4	2.9	1.1	1.3	1.6	20.4	21.0	21.0	1,250	(5.2)	2.6
Transportation		Cautious	171,418	3,801					5.0	19.9	16.1	20.6	17.2	14.8	14.4	11.9	9.9	3.9	3.4	2.9	1.1	1.3	1.6	19.0	19.5	19.5			
Utilities																													
CESC	378	ADD	47,232	1,047	125	33.1	42.8	46.3	2.6	29.5	8.0	11.4	8.8	8.2	6.4	6.1	6.9	1.1	1.0	0.9	1.1	1.4	1.5	10.4	12.0	11.6	410	8.5	2.2
Lanco Infratech	54	BUY	130,231	2,888	2,405	1.8	3.7	4.1	25.4	105.7	8.1	29.7	14.4	13.4	21.8	9.1	9.1	3.8	3.0	2.5	—	—	—	14.7	21.5	18.9	60	10.8	11.9
Reliance Infrastructure	992	BUY	224,740	4,984	226	63.7	68.6	91.7	1.6	7.8	33.7	15.6	14.5	10.8	18.3	14.7	10.2	1.2	1.2	1.1	0.8	0.9	1.0	6.1	7.8	10.1	1,250	26.0	34.6
Reliance Power	150	REDUCE	360,232	7,988	2,397	2.5	3.1	5.7	—	24.4	86.0	61.0	49.0	26.4	—	—	—	2.5	2.4	2.2	—	—	—	4.2	5.0	8.7	160	6.5	7.5
Tata Power	1,373	BUY	338,916	7,516	247	57.7	67.0	86.2	15.0	16.2	28.6	23.8	20.5	15.9	14.2	13.0	11.0	2.7	2.4	2.2	0.9	1.0	1.1	12.6	12.4	14.4	1,485	8.2	16.0
Utilities		Attractive	2,775,180	61,541					15.8	15.5	23.6	20.7	17.9	14.5	17.0	14.4	11.8	2.4	2.2	2.0	1.4	1.6	1.9	11.5	12.2	13.6			
Others																													
Aban Offshore	1,167	BUY	50,764	1,126	43	114.8	265.5	204.2	18.4	131.3	(23.1)	10.2	4.4	5.7	8.8	5.9	6.0	1.4	1.1	0.9	0.3	0.3	0.3	15.0	27.1	16.9	1,500	28.5	59.3
Havells India	584	SELL	35,144	779	60	22.6	30.2	32.8	343.8	33.8	8.5	25.8	19.3	17.8	12.6	9.9	9.0	9.3	6.3	4.7	0.4	0.4	0.5	27.7	39.0	30.4	350	(40.1)	14.1
Jaiprakash Associates	150	BUY	316,979	7,029	2,107	4.3	7.1	10.1	115.0	65.5	42.2	35.0	21.2	14.9	(17.3)	15.0	10.5	3.9	3.4	2.8	—	—	—	12.3	17.1	20.5	170	13.0	41.0
Jindal Saw	215	ADD	63,315	1,404	294	26.5	19.3	17.9	113.8	(27.2)	(7.3)	8.1	11.2	12.0	5.8	6.4	6.2	1.7	1.4	1.3	0.4	0.4	0.4	19.8	13.0	11.1	235	9.2	13.1
PSL	138	BUY	7,388	164	53	29.8	25.4	24.1	34.1	(14.8)	(5.1)	4.6	5.4	5.7	2.9	2.8	2.9	0.8	0.7	0.7	4.7	4.7	5.1						

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As of December 31, 2009

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