kotak® Institutional Equities

INDIA DAILY

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News Round-up

- Bharti Airtel (BHARTI IN) has started the process of giving orders for setting up new telecom towers in the region. The company has already sought bids to set up towers in Nigeria, Kenya and Tanzania. *(BSTD)*
- Power equipment makers such as L&T (LT IN), BHEL (BHEL IN), Bharat Forge (BHFC IN), are lobbying for a higher import duty to thwart cheap Chinese imports that are being increasingly used in mega power projects & affecting expansion plans & profitability of Indian firms. *(ECNT)*
- With production from Reliance Industries' (RIL IN) KG-D6 field stuck at 60 mn standard cubic metres day, the government has decided not to make any fresh gas allocation from it. *(BSTD)*
- Reliance Industries (RIL IN) has made a gas discovery in a block close to its prolific D6 area in the Krishna-Godavari basin in the Bay of Bengal. *(BSTD)*
- HDFC raises home loan rates by 50 bps. *(BSTD)*
- US drug regulator again warns Sun Pharma manufacturing norms. *(BSTD)*
- Reliance Media Works said it would raise funds up to USD 106 mn by private placement of shares with potential investors. *(BSTD)*
- Natco Pharma Ltd (NTCPH IN) files abbreviated new drug application (ANDA) for anti-tumor drug. *(BSTD)*
- Britannia (BRIT IN) will raise prices across its products by 5-10%. *(BSTD)*
- Coal India may set up power plants to use the dry fuel piling up due to limited availability of rolling stock to carry supplies to utilities. *(BSTD)*
- Dabur (DABUR IN) aims USD 1.49 bn sales in 4 years. *(FNLE)*
- Honda in talks to sell Hero stake to Munjals, at current price, Honda's 26% valued at USD 2bn. *(ECNT)*
- Steel prices may go up by INR 1500 per tonne from today. *(ECNT)*
- State owned Coal India may not take any anchor investor in its planned IPO in Oct. because of high interest from institutional investors. *(ECNT)*
- Glenmark Pharma (GNP IN) has announced the discovery of a novel chemical entity GRC 17536 for pain & respiratory disorders. *(TTOI)*
- SAIL (SAIL IN) follow-on issue like in January. The two-phase FPO likely to raise USD 3.4 bn. *(THBL)*

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

EQUITY MARKETS

		Change %		
India	**31-Aug**	**1-day**	**1-mo**	**3-mo**
Sensex	17,971	(0.3)	0.6	8.4
Nifty	5,402	(0.2)	0.6	8.7
Global/Regional indices				
Dow Jones	10,015	0.1	(4.3)	(0.1)
Nasdaq Composite	2,114	(0.3)	(6.2)	(4.9)
FTSE	5,225	0.5	(0.6)	1.2
Nikkie	8,887	0.7	(6.8)	(8.5)
Hang Seng	20,536	(1.0)	(2.3)	5.3
KOSPI	1,759	1.0	0.0	7.9
Value traded – India				
Cash (NSE+BSE)	185		193	175
Derivatives (NSE)	874		684	686
Deri. open interest	1,485		1,211	997

Forex/money market				
		Change, basis points		
	31-Aug	**1-day**	**1-mo**	**3-mo**
Rs/US$	47.1	15	106	70
10yr govt bond, %	8.0	(5)	13	42
Net investment (US$mn)				
	30-Aug		**MTD**	**CYTD**
FIIs	58		-	12,709
MFs	2		-	(282)

Top movers -3mo basis				
		Change, %		
Best performers	**31-Aug**	**1-day**	**1-mo**	**3-mo**
IDEA IN Equity	71.6	1.1	1.3	46.0
HPCL IN Equity	525.9	(1.4)	21.3	45.1
TCOM IN Equity	333.0	0.0	23.0	41.4
TTMT IN Equity	1010.4	2.1	19.4	39.4
BOI IN Equity	442.4	(0.1)	7.7	37.4
Worst performers				
RNR IN Equity	37.3	(0.4)	(10.2)	(29.0)
SUEL IN Equity	46.3	(1.0)	(18.1)	(16.8)
NMDC IN Equity	240.5	(2.3)	(7.8)	(12.5)
SESA IN Equity	317.8	0.0	(12.0)	(12.2)
PUNJ IN Equity	105.4	(2.8)	(16.8)	(11.3)

Kotak Institutional Equities Research
kotak.research@kotak.com . Mumbai: +94-22-6634-1100

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Infosys Technologies (INFO)

Technology

BUY

AUGUST 31, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 2,714

Target price (Rs): 3,100

BSE-30: 17,971

Robust outlook, attractive valuations – reiterate BUY. We expect strong micro trends (IT spending surge amongst large enterprises) to mitigate weak macro trends (deteriorating economic data in US, sustained weakness in Europe) for Tier-I Indian IT companies and aid strong FY2011/12E. At 18X FY2012E earnings, and potential for earnings upgrades over the next 3-6 months, we find Infosys attractive and reiterate our BUY rating on the stock with a target price of Rs3,100/share.

Company data and valuation summary

Infosys Technologies

Stock data			
52-week range (Rs) (high,low)			2,912-2,120
Market Cap. (Rs bn)			1,557.7
Shareholding pattern (%)			
Promoters			16.0
FIIs			54.5
MFs			4.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(2.7)	2.1	27.3
Rel. to BSE-30	(3.2)	(3.7)	11.0

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	108.3	124.1	150.0
EPS growth (%)	5.7	14.5	20.9
P/E (X)	25.1	21.9	18.1
Sales (Rs bn)	227.4	276.0	334.0
Net profits (Rs bn)	62.2	71.2	86.1
EBITDA (Rs bn)	78.6	93.4	111.5
EV/EBITDA (X)	18.2	14.9	12.1
ROE (%)	30.1	28.0	28.0
Div. Yield (%)	0.9	1.3	1.5

A tug-of-war between 'visible' tailwinds and 'potential' headwinds

Market worries around potential headwinds have kept the IT stocks under pressure over the past few weeks – the main concerns are (1) a double-dip recession in developed markets (key customer geographies for Indian IT services companies) impacting the growth outlook, and (2) supply-side issues/ Rupee appreciation exerting margin pressures –. Even as we remain wary of margins (and hence negative on mid-caps), we remain positive on the Tier-I names, and Infosys/TCS in particular on the back of the strength of the tailwinds, including:

- **Strong volume momentum, becoming more broad-based.** Lag verticals like Telecom, and geographies like Europe (new deals ramping up) have begun to stabilize and will likely start contributing to growth from Sep 2010 quarter onwards. Infosys management corroborated our view in a conference call with US investors recently. We also see strong revenue traction sustaining in the BFSI (led by M&A work, compliance-related spending surge, technology refresh), retail (new deals signed in the past 12-18 months), energy and utilities (market share gains in large accounts), and hi-tech (increased R&D spends) verticals.

- **Favorable currency movements.** Rupee (Re has depreciated versus USD over the course of 2QFY11) as well as cross currencies (GBP, EUR, and AUD have all appreciated versus the USD) have moved favorably and should aid strong margin performance for companies with lower supply-side pressures. Infosys has had some challenges on the attrition front in the past couple of quarters, but the management has indicated recently that attrition is trending down. In addition, Infosys' relatively low utilization rate is a strong mitigating factor to supply-side challenges.

Valuations undemanding; potential for earnings upgrade exists; we reiterate BUY

Infosys has corrected to 18X FY2012E earnings, presenting a favorable risk/reward, in our view. We highlight that we are 5% ahead of consensus EPS estimate for FY2012E and see potential for FY2012E earnings upgrades ahead. Reiterate our BUY rating on the stock.

Exhibit 1 gives our condensed financial model, while Exhibit 2 depicts the key assumptions.

Kawaljeet Saluja
kawaljeet.saluja@kotak.com
Mumbai: +91-22-6634-1243

Rohit Chordia
rohit.chordia@kotak.com
Mumbai: +91-22-6634-1397

Vineet Thodge
vineet.thodge@kotak.com
Mumbai: +91-22-6634-1225

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Exhibit 1: Profit model, balance sheet, cash model of Infosys Technologies, 2008-2012E, March fiscal year-ends (Rs mn)

	2008	2009	2010	2011E	2012E
Profit model					
Revenues	**166,920**	**216,930**	**227,420**	**275,997**	**334,021**
Cost of sales	(92,070)	(117,650)	(120,710)	(147,701)	(179,710)
SG&A expenses	(22,470)	(27,330)	(28,100)	(34,933)	(42,854)
EBITDA	**52,380**	**71,950**	**78,610**	**93,362**	**111,457**
Depreciation	(5,980)	(7,610)	(9,050)	(9,176)	(10,408)
EBIT	**46,400**	**64,340**	**69,560**	**84,186**	**101,049**
Other income	7,040	4,730	9,430	10,226	12,515
Pre-tax profits	**53,440**	**69,070**	**78,990**	**94,412**	**113,564**
Provision for tax	(8,060)	(10,270)	(16,810)	(23,196)	(27,459)
Recurring net income	**45,380**	**58,800**	**62,180**	**71,217**	**86,105**
Extraordinaries	1,210	1,080	480	—	—
Reported net income	**46,590**	**59,880**	**62,660**	**71,217**	**86,105**
EPS (Rs)	**79.1**	**102.4**	**108.3**	**124.1**	**150.0**
Balance Sheet					
Shareholders funds	137,950	182,540	230,490	278,347	336,366
Deferred tax liability/(assets)	(1,190)	(1,260)	(2,000)	(2,000)	(2,000)
Borrowings	—	—	—	—	—
Minority interest	—	—	—	—	—
Total liabilities	**136,760**	**181,280**	**228,490**	**276,347**	**334,366**
Gross block	54,390	70,930	78,390	91,820	108,567
Accumulated depreciation	(19,860)	(24,160)	(28,930)	(38,106)	(48,514)
Net block	34,530	46,770	49,460	53,714	60,053
CWIP	13,240	6,770	4,090	4,090	4,090
Net fixed assets	47,770	53,540	53,550	57,804	64,143
Cash and bank balances	83,960	112,460	124,480	165,251	212,771
Net current assets excluding cash	5,030	15,280	50,460	53,292	57,451
Total assets	**136,760**	**181,280**	**228,490**	**276,347**	**334,366**
Cashflow statement					
Operating profit before working capital changes	52,380	71,950	78,610	93,362	111,457
Change in working capital/other adjustments	(8,590)	(3,390)	(250)	(2,832)	(4,159)
Capital expenditure	(14,940)	(13,270)	(6,750)	(13,430)	(16,747)
Taxes paid	(6,700)	(9,020)	(17,530)	(23,196)	(27,459)
Free cash flow	**22,150**	**46,270**	**54,080**	**53,905**	**63,091**

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Key assumptions driving Infosys earnings model, 2009-2012E, March fiscal year-ends

	2009	2010	2011E	2012E
Key assumptions				
Revenue growth (US$ terms) (%)	**11.7**	**2.9**	**25.0**	**21.0**
Volume growth yoy (%) (IT only)	**14.8**	**7.4**	**26.4**	**17.9**
Pricing change yoy (%)				
Onsite	(1.8)	0.0	2.8	2.1
Offshore	(1.8)	(5.1)	(4.3)	3.1
Blended	(3.1)	(4.2)	(2.3)	2.3
Total employees (#)	**104,850**	**113,796**	**131,957**	**153,966**
Employee additions	**13,663**	**8,946**	**18,161**	**22,009**
Utilization rate (%)	**68.7**	**67.1**	**74.0**	**73.2**
SG&A expense as % of revenues	**12.6**	**12.4**	**12.7**	**12.8**
Re/US$ rate	**46.5**	**47.4**	**46.0**	**46.0**

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities

Godrej Consumer Products (GCPL)

Consumer products

ADD

AUGUST 31, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 377

Target price (Rs): 420

BSE-30: 18,032

Why we value GCPL on SOTP. About 45% of GCPL's sales are from fast-growing household insecticides whereas categories with low-market-growth—India soaps and UK business—form ~30%. The GHPL business (Good Knight, Hit brands etc.) is the most attractive and accounts for ~45% of GCPL's EV, in our view. India soaps (~12% of GCPL's EBITDA) will likely face sustained competitive pressures, in our view. A key risk is the unhedged US$ loan (1% change in LIBOR = 2% of FY2011E EPS). ADD.

Company data and valuation summary

Godrej Consumer Products

Stock data			
52-week range (Rs) (high,low)			403-209
Market Cap. (Rs bn)			122.1
Shareholding pattern (%)			
Promoters			71.4
FIIs			18.9
MFs			0.5
Price performance (%)	**1M**	**3M**	**12M**
Absolute	9.7	18.6	60.2
Rel. to BSE-30	8.7	10.9	41.4

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	11.3	13.5	18.0
EPS growth (%)	69.5	18.9	33.4
P/E (X)	33.3	28.0	21.0
Sales (Rs bn)	20.4	35.1	44.8
Net profits (Rs bn)	3.4	4.4	5.8
EBITDA (Rs bn)	4.3	6.7	8.6
EV/EBITDA (X)	28.1	20.0	15.0
ROE (%)	44.6	31.9	31.1
Div. Yield (%)	1.0	0.8	0.8

Diverse nature of business dynamics: Valuing GCPL on SOTP is right methodology, in our view

The GHPL business (Good Knight, Hit brands etc.) is the most attractive and accounts for ~45% of GCPL's EV, in our view. We value GCPL on SOTP as the company operates in multiple categories (personal wash, hair color and household insecticides) with varying growth characteristics and multiple geographies (India, Indonesia, Africa, UK and Latin America). About 45% of GCPL's sales are from fast-growing household insecticides whereas categories with low-market-growth—India soaps and UK business—form ~30%.

Moreover, considering the business transformation of GCPL (risk profile as well), we note that comparing the historical trading multiples is not meaningful. Please see Exhibit 3 for our detailed SOTP and Exhibit 5 for our assumptions. We forecast earnings growth of 18.9% in FY2011E and 33.4% in FY2012E. The full-year consolidation of the acquisitions and the resultant synergies will be seen in FY2012E.

The key risk is the unhedged US$ loan raised for overseas acquisitions (1% change in LIBOR = 2% of FY2011E EPS)—we model a 5% interest cost for FY2011E and FY2012E, respectively. Other risks are (1) inflation in input costs not neutralized by price increases, (2) underperformance of overseas subsidiaries and (3) inability to outperform market growth rate in hair color.

Five reasons to 'ADD' GCPL—one of our preferred picks in the sector

1. Godrej Household Products (GHPL) (Good Knight, Hit brands) business forms ~36% of consolidated EBITDA and 45% of EV. This business has grown at a sales and PAT CAGR of 24% and 27% over FY2007-10 and ~17% over FY2000-10. GCPL acquired this business for ~13X trailing FY2010. Unlike competition, GHPL has higher contribution of sales from high margin liquids, mats and aerosols (which are faster growing segments as well).

QUICK NUMBERS

- Potential for scale benefits in sourcing in household insecticides
- GHPL accounts for ~45% of GCPL's EV, in our view
- India soaps will likely face higher competition; it contributes just ~12% of GCPL's EBITDA
- Key risk is unhedged US$ loan (1% change in LIBOR = 2% of FY2011E EPS)

Manoj Menon
manoj.menon@kotak.com
Mumbai: +91-22-6634-1391

Amrita Basu
amrita.basu@kotak.com
Mumbai: +91-22-6634-1147

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

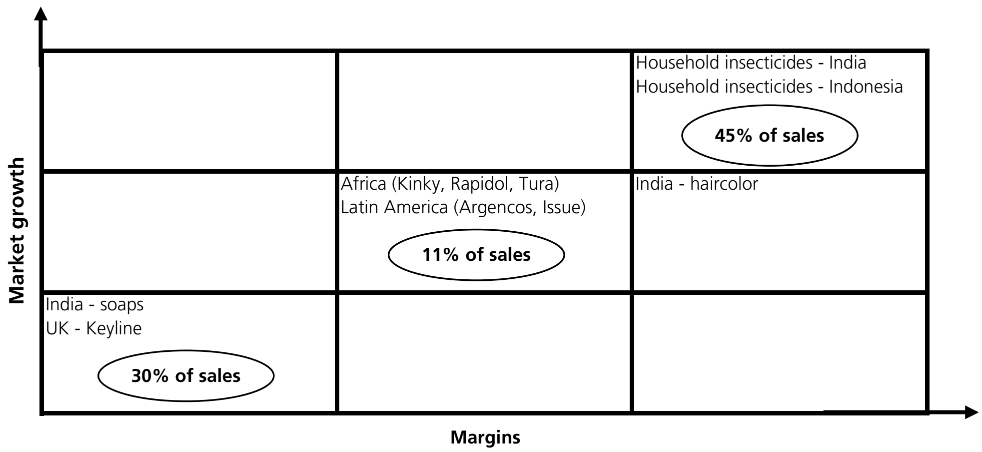
2. There is potential for scale benefits in sourcing (in active ingredients, packing material) in household insecticides due to the acquisition of Megasari (Indonesia), in our view. This company predominantly operates in household insecticides (similar to GHPL) and puts the combined entity at No. 3 in Asia (ex-Japan) in household insecticides (behind Reckitt Benckiser and SC Johnson).

3. The extant India business (soaps and hair color) is ~35% of FY2011E EBITDA and ~30% of EV. While India soaps will likely face sustained competitive pressures, it contributes only ~12% of GCPL's EBITDA, in our view.

4. Low hanging fruit of distribution synergies and overheads savings—we do not build in either of this now. Potential for geographical distribution benefit exists—GHPL is strong in South India (Good Knight) whereas GCPL is strong in North India. We expect GCPL's domestic business to benefit from distribution synergies such that its soap portfolio may be actively marketed in south and household insecticides portfolio may be marketed in north. Moreover, there is scope to increase the active distribution coverage in existing markets due to integration of current distribution set-up (even without rationalizing on the number of distributors).

5. Channel checks (as well as media reports) suggest that the performance of mosquito repellant business is very strong in this monsoon season due to outbreak of mosquito-related infections this year.

Exhibit 1: Faster growing and high margin household insecticides business forms 45% of sales
GCPL business matrix



Source: Kotak Institutional Equities

Exhibit 2: Press reports on mosquito-related infections (this will likely aid the household insecticide business)


You are here: HOME > INDIA > Report

Centre concerned at malaria, dengue outbreak; to help states

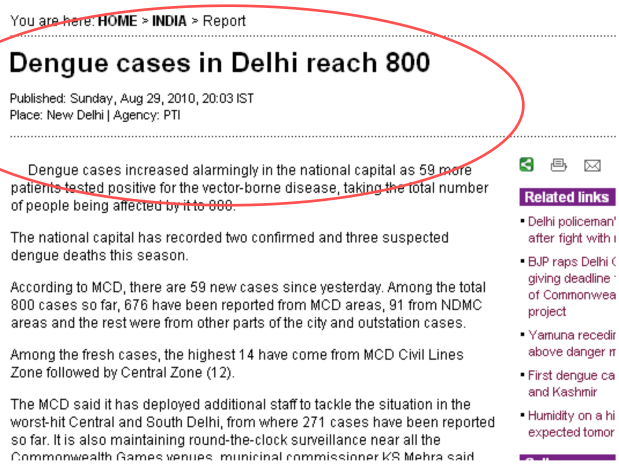
Published: Saturday, Aug 21, 2010, 19:54 IST
Place: Kolkata | Agency: PTI

Expressing concern over the outbreak of malaria and dengue nation-wide, Union health minister Ghulam Nabi Azad today assured full support to the state governments in combating these diseases.

"We are worried at the national level on (the outbreak of) malaria and dengue across the country. Perennial breeding place (for mosquitoes) during the rainy season are available in greater numbers in the metro cities," Azad told newspersons after a meeting with Kolkata mayor Sovan Chatterjee and health officials of the Kolkata Municipal Corporation.

Assuring full support to the state governments and civic bodies in minimising the effects of malaria and dengue, Azad said his ministry was already issuing kits to the civic bodies for managing the diseases. "We can also give them any other help that they may require against these diseases."

Related links
- Dengue mess ahead of C'Wealth Games in Delhi
- Running a fever? Do not medicate yourself
- Dengue cases in Delhi reach 800
- First dengue case in Jammu and Kashmir
- 30% drop in malaria cases: BMC


You are here: HOME > INDIA > Report

Dengue cases in Delhi reach 800

Published: Sunday, Aug 29, 2010, 20:03 IST
Place: New Delhi | Agency: PTI

Dengue cases increased alarmingly in the national capital as 59 more patients tested positive for the vector-borne disease, taking the total number of people being affected by it to 800.

The national capital has recorded two confirmed and three suspected dengue deaths this season.

According to MCD, there are 59 new cases since yesterday. Among the total 800 cases so far, 676 have been reported from MCD areas, 91 from NDMC areas and the rest were from other parts of the city and outstation cases.

Among the fresh cases, the highest 14 have come from MCD Civil Lines Zone followed by Central Zone (12).

The MCD said it has deployed additional staff to tackle the situation in the worst-hit Central and South Delhi, from where 271 cases have been reported so far. It is also maintaining round-the-clock surveillance near all the Commonwealth Games venues, municipal commissioner KS Mehra said

Related links
- Delhi policeman' after fight with
- BJP raps Delhi giving deadline of Commonwea project
- Yamuna recedi above danger m
- First dengue ca and Kashmir
- Humidity on a hi expected tomor

Source: DNA, Kotak Institutional Equities

Exhibit 3: SOTP valuation of GCPL

		EBITDA (Rs mn)		EBITDA multiple (x)	EV	
Business segment	**Country**	**FY2011E**	**FY2012E**	**FY2012E**	**(Rs mn)**	**Remarks**
Domestic	India	2,576	2,707	14.8	40,062	(a) 15X FY2012E, 20% discount to Dabur
International	South Africa, UK	544	603	13.3	8,029	10% discount to (a)
Tura	Nigeria	55	87	13.3	1,160	10% discount to (a)
Megasari	Indonesia	1,137	1,543	14.8	22,843	At par with (a)
Godrej Household	India	1,977	3,081	20.4	62,691	10% premium to (a)
Argencos	Argentina	87	128	13.3	1,709	10% discount to (a)
Issue	Argentina	175	261	13.3	3,474	10% discount to (a)
EV #		**6,550**	**8,410**		**139,968**	
Less: Net debt					**(7,110)**	
Equity value					**132,858**	
Price per share (Rs)					**416**	
Implied PE on FY2012E (x)					**23**	

Note:
FY2010 EBITDA includes domestic, international and Godrej Household Products

Source: Kotak Institutional Equities estimates

Exhibit 4: Snapshot of GCPL's business segments

				Sales (Rs mn)			EBITDA (Rs mn)			
Business segm	**Country**	**Category**	**Brands**	**FY2010**	**FY2011E**	**FY2012E**	**FY2010**	**FY2011E**	**FY2012E**	**Remarks**
Domestic	India	Soaps, Hair color	Godrej No.1, Cinthol, Godrej Expert hair dye	12,679	13,807	15,109	2,659	2,576	2,707	
International	South Africa, UK	Hair color etc.	Kinky, Rapidol ,Keyline (UK)	3,644	3,379	3,676	658	544	603	
Tura	Nigeria	Soaps	Tura	450	365	544	68	55	87	FY2010 - Tura had sales of US$11 mn and assuming exchange rate of 1US$ = Rs45. FY2011E - Financials for 9 months has been incorporated
Megasari	Indonesia	Household insecticides	Hit, Stella etc.	5,400	5,576	7,915	1,080	1,137	1,543	FY2011E - Megasari financials is for 10 months
Godrej Household	India	Household insecticides	Good Knight, Hit etc.	4,089	10,162	14,811	756	1,977	3,081	FY2010 - Financials are for 10 months for 49% stake that GCPL had in GHPL. FY2011E - Financials are for 49% stake for 2 months and 100% stake for 10 months
Argencos	Argentina	Hair color		720	583	855	101	87	128	FY2011E - Argencos financials is for 9 months
Issue	Argentina	Hair color		1,485	1,247	1,863	208	175	261	FY2011E - Issue financials is for 9 months
Total					**35,119**	**44,773**		**6,550**	**8,410**	

Note:
FY2010 sales and EBITDA includes domestic, international and Godrej Household Products

Source: Kotak Institutional Equities estimates

Exhibit 5: Key assumptions

Sales (Rs mn)	2009	2010	2011E	2012E	Comments
Domestic	10,843	12,679	13,807	15,109	
- Soaps	7,125	8,241	8,736	9,347	
- Hair colour	2,305	2,789	3,024	3,338	
Godrej Household		4,089	10,162	14,811	FY2010 - Financials are for 10 months for 49% stake that GCPL had in GHPL. FY2011E - Financials are for 49% stake for 2 months and 100% stake for 10 months
Kinky	558	762	804	901	
Keyline	1,999	2,146	1,814	1,923	
Rapidol	530	736	761	852	
Megasari			5,576	7,915	FY2011E - Megasari financials is for 10 months
Tura			365	544	FY2011E - Financials for 9 months has been incorporated
Argencos			583	855	FY2011E - Argencos financials is for 9 months
Issue Group			1,247	1,863	FY2011E - Issue financials is for 9 months
			35,119	44,773	
Sales growth (%)	**2009**	**2010**	**2011E**	**2012E**	**Comments**
Domestic					
- Soaps	26	16	6	7	Assuming single-digit sales growth, given the rising competition in this segment
- Hair colour	13	21	8	10	
Godrej Household			20	21	Bullish on sales growth in insecticides. Will likely benefit from synergies in distribution gro
Kinky		40	12	12	
Keyline	11	21	(8)	6	
Rapidol	21	41	10	12	
Megasari			18	18	
Tura			8	12	
Argencos			8	10	
Issue Group			12	12	

EBITDA margin (%)	2009	2010	2011E	2012E	Comments
Domestic	15	21	19	18	
Godrej Household		19	19	21	~60% of non coil business helps clock higher margins
Kinky	18	18	17	18	
Keyline	14	15	14	14	
Rapidol	18	25	21	21	
Megasari			20	20	
Tura			15	16	
Argencos			15	15	
Issue Group			14	14	

Company (Rs mn)	2009	2010	2011E	2012E	Comments
Sales	13,930	20,412	35,119	44,773	
EBITDA	2,037	4,073	6,550	8,410	
EBIT	1,845	3,837	6,220	7,957	
Interest	172	159	(758)	(584)	US$ 350mn net debt as on March 31, 2010. Assuming 5% interest rate on offshore debt
Other income	75	203	187	204	
PBT	2,092	4,199	5,649	7,578	
Tax	(366)	(803)	(1,289)	(1,762)	
PAT	1,726	3,396	4,360	5,815	
Effective tax rate (%)	17	19	23	23	

Source: Kotak Institutional Equities estimates

Exhibit 6: Companies with good franchise value has outperformed
Performance of consumer companies under KIE universe

	Price	30-Aug-10		Change (%)				Relative change (%)			
Company	Rs	Mkt cap (Rs mn)	Rating	1-mo	3-mo	6-mo	1-Year	1-mo	3-mo	6-mo	1-Year
Titan	2,999	133,104	ADD	7	35	72	141	6	26	56	113
Jyothy Laboratories	262	19,031	NR	(8)	29	48	105	(8)	21	35	81
Asian Paints	2,713	260,221	BUY	4	29	50	94	3	21	37	71
Dabur India	205	177,243	REDUCE	4	10	21	64	3	3	10	45
Glaxosmithkline Consumer	1,785	75,069	ADD	1	9	25	62	0	2	14	43
Godrej Consumer Products	377	122,074	ADD	10	19	53	60	9	11	39	41
Nestle India	3,107	299,544	REDUCE	3	9	18	41	2	2	8	25
Marico	122	74,116	ADD	(2)	14	18	39	(3)	6	7	23
ITC	159	1,218,731	BUY	3	15	40	38	2	7	28	21
Colgate-Palmolive (India)	795	108,141	REDUCE	(6)	8	16	31	(7)	1	5	16
Tata Global Beverages	118	72,724	ADD	1	11	25	24	0	4	14	10
Hindustan Unilever	264	575,202	REDUCE	5	12	12	1	4	4	2	(11)
Jubilant Foodworks	491	31,376	REDUCE	41	72			40	61		
Consumer Products		**3,033,473**	**Attractive**	**3**	**15**	**29**	**34**	**3**	**7**	**17**	**18**
KS universe		**45,566,662**		**3**	**11**	**14**	**24**	**2**	**4**	**4**	**9**
Sensex	**18,032**			**1**	**7**	**10**	**13**				

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 7: GCPL: Profit model, balance sheet, 2007-2012E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Profit model (Rs mn)						
Net sales	9,515	11,026	13,930	20,412	35,119	44,773
EBITDA	**1,797**	**2,148**	**2,037**	**4,073**	**6,550**	**8,410**
Other income	26	37	75	203	187	204
Interest	(96)	(126)	172	159	(758)	(584)
Depreciation	(142)	(182)	(192)	(236)	(329)	(453)
Pretax profits	1,585	1,878	2,092	4,199	5,649	7,578
Tax	(243)	(283)	(366)	(803)	(1,289)	(1,762)
Net profits	**1,342**	**1,595**	**1,726**	**3,396**	**4,360**	**5,815**
Earnings per share (Rs)	**5.9**	**7.1**	**6.7**	**11.3**	**13.5**	**18.0**
Balance sheet (Rs mn)						
Total equity	1,220	1,687	5,668	9,547	17,775	19,670
Total borrowings	1,736	1,871	2,776	369	15,776	9,576
Currrent liabilities	2,617	3,227	3,299	5,528	4,520	4,972
Deferred tax liability	80	89	42	66	63	63
Total liabilities and equit	**5,653**	**6,874**	**11,785**	**15,510**	**38,135**	**34,281**
Cash	475	426	3,783	3,052	2,872	2,466
Current assets	2,300	3,093	3,544	6,044	4,230	4,741
Total fixed assets	1,992	2,399	2,297	2,626	3,618	3,661
Investments	0	0	75	670	670	670
Other non current assets	886	956	2,086	3,119	26,744	22,744
Total assets	**5,653**	**6,874**	**11,785**	**15,510**	**38,135**	**34,281**
Key assumptions						
Revenue Growth (%)	36.0	15.9	26.3	46.5	72.1	27.5
EBITDA Margin(%)	18.9	19.5	14.6	20.0	18.7	18.8
EPS Growth (%)	12.5	18.9	(5.3)	69.5	18.9	33.4

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Sadbhav Engineering (SADE)

Construction

BUY

AUGUST 31, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 1,477

Target price (Rs): 1,750

BSE-30: 17,971

Annual report highlights better working capital, capex; funding gap closed.

FY2010 annual report highlights (1) working capital improvement (at 84 days of sales from 92), (2) strong capex of Rs770 mn strengthens execution capability and (3) Rs1.4 bn already invested in infra SPVs as loans and advances. Rs4 bn from PE investors in SIPL (implied pre-money valuation - Rs14 bn versus our estimate of Rs9.6 bn) and rights issue close the funding gap and lay foundation for growth. Retain BUY.

Company data and valuation summary

Sadbhav Engineering

Stock data			
52-week range (Rs) (high,low)			1,639-729
Market Cap. (Rs bn)			22.2
Shareholding pattern (%)			
Promoters			47.5
FIIs			23.9
MFs			17.7
Price performance (%)	1M	3M	12M
Absolute	9.9	22.5	92.0
Rel. to BSE-30	9.3	15.5	67.4

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	42.8	61.8	87.2
EPS growth (%)	(16.3)	44.3	41.0
P/E (X)	34.5	23.9	17.0
Sales (Rs bn)	12.6	18.1	25.7
Net profits (Rs bn)	0.6	0.9	1.3
EBITDA (Rs bn)	1.4	2.0	2.9
EV/EBITDA (X)	18.9	12.6	9.7
ROE (%)	15.8	15.1	17.8
Div. Yield (%)	0.2	0.4	0.4

Working capital improves, strong capex to help build execution capability of large backlog

Key highlights from the FY2010 annual report include (1) working capital (excluding cash and loans to subsidiaries) improved to 84 days of sales at end-FY2010 versus 92 days at end-FY2009 - expect trend to continue as BOT projects typically have low working capital, (2) significant increase in loans to subsidiaries (at Rs1.4 bn in FY2010 versus Rs72 mn in FY2009) primarily to road SPVs and (3) strong capex of Rs770 mn in FY2010 (versus Rs278 mn in FY2009) likely towards building capabilities to execute a slew of BOT projects.

Raises Rs4 bn in SIPL; pre-money value at Rs14 bn implies significant premium to our valuation

Sadbhav Engg announced that SIPL is receiving private equity of Rs 4 bn from Norwest Venture Partners and Xander Group Inc (post-money stake of 22.2% in SIPL implying a pre-money value of Rs14 bn). This is at a significant premium to out asset-wise DCF valuation of Rs9.6 bn for the current road assets. Sadbhav has option to invest Rs2 bn more at same pre-money valuation (allows for existing loans and advances to be converted to equity with same valuation) and pre-money valuation increases based on positive approvals potentially in projects such as Nagpur-Seoni.

Ahmedabad road collects Rs1.4 mn/day; still groping for big opportunity in mining

Ahmedabad Ring Road collected toll at an average of Rs1.4 mn/day. Aurangabad-Jalna (51% stake) and Mumbai Nasik (20% stake started from May 29, 2010) have also started collecting toll. Mining related backlog at the end of 1QFY11 was only Rs12 bn (18% of total) and total bids outstanding as per annual were Rs22 bn.

Reiterate BUY with a revised target price of Rs1,750/share

We have revised our SOTP-based target price to Rs1,750 (from Rs1,600) based on (1) Rs4 bn cash coming in from PE investors in SIPL and resulting stake dilution, (2) potential for incremental project wins to bridge gap between PE valuation of business platform and our valuation of existing projects. We reiterate BUY on (1) attractive valuations, (2) strong order book and execution, providing near-term earnings visibility and (3) reasonably strong balance sheet and (4) positive long-term outlook.

Lokesh Garg
lokesh.garg@kotak.com
Mumbai: +91-22-6634-1496

Supriya Subramanian
supriya.subramanian@kotak.com
Mumbai: +91-22-6634-1383

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Raises Rs4 bn in SIPL from Norwest Venture Partners and Xander Group

Sadbhav Engineering's wholly owned subsidiary, Sadbhav Infrastructure Project Ltd (SIPL), entered into a binding agreement with Norwest Venture Partners (NVP) and Xander Group Inc. (Xander) to receive Rs4 bn. SIPL is Sadbhav's holding company for all of its infrastructure development projects, including nine projects currently held directly by Sadbhav. These proceeds would be used primarily towards funding of equity requirements of existing roads projects. Sadbhav has already invested Rs2.6 bn in SIPL so far.

Implied value at Rs14 bn pre-money is at significant premium to our existing valuation of Rs9.6 bn

Sadbhav management has cited that the post-money stake of the private equity investors would be at about 22.2%. This implies a pre-money valuation of Rs14 bn (Rs18 bn of post-money value) for SIPL. This is at significant premium to our asset-wise DCF-based value of Rs9.6 bn for SIPL.

Sadbhav Engineering also has the right to put in another Rs2 bn (at the entry valuation of Rs14 bn) within 18 months from the date of closing of this transaction. If Sadbhav exercises this right, it would imply a post-money valuation of Rs20 bn bringing down the new investor's share in SIPL to 20%.

Higher net worth would help Sadbhav qualify for mega highway projects

Post the equity investment of Rs4 bn from the investors, the net worth of SIPL would go up to Rs6.6 bn (including Rs2.6 bn already put in by Sadbhav Engg so far). This may go up by a further Rs2 bn (to Rs8.6 bn) if the company were to exercise its rights to invest an additional Rs2 bn in SIPL. This would help the company meet the minimum net worth criterion for bidding for the mega highway projects.

BOT project would require equity of about Rs8 bn over the next 2-3 years

We estimate that the current portfolio of BOT projects would require additional equity investment of about Rs8 bn over the next 2-3 years. Possible sources of funds include - (1) internal accruals of standalone construction, (2) cash generation from BOT projects itself (Border check post projects has provision for partial CODs), and (3) Rs4 bn from PE investment in Sadbhav Infrastructure Private Ltd (SIPL), and (4) incremental debt raising at the parent level. The management has cited that the proceeds from the PE investments would be used towards funding the equity requirements for the BOT projects while that from the recent rights issue would be used primarily in the mining business. SIPL also already has a loan sanction of Rs1.8 bn from a bank for a seven-year period which is yet to be exercised and could potentially help fund the BOT projects.

High level of loans and advances and debt, potentially towards funding road SPVs

The company reported debt of Rs4.2 bn at end-FY2010 versus Rs2.1 bn at end-FY2009. Majority of the increase in debt appears to have gone towards loans and advances which increased to Rs4.7 bn at end-FY2010 versus Rs2.8 bn at end-FY2009. We believe that bulk of these loans would be to SPVs implementing the BOT projects and would be ultimately used towards investments in the SPVs for providing equity funding. With a likely stronger balance sheet after rights issue, we believe that would be able to raise additional debt of about Rs1.45 bn (assuming target D/E of 1X).

BOT project would require equity of about Rs8 bn over the next 2-3 years
Total equity requirement and potential funding sources for BOT projects of Sadbhav (Rs mn)

		Equity requirement as per company				
	Sadbhav Stake	FY2010E	FY2011E	FY2012E	FY2013E	Total
Ahmedabad Ring Road	Sadbhav - 80%, PBA - 20%					—
Mumbai Nasik	Sadbhav - 20%, Gammon -80%					—
Aurangabad-Jalna	Sadbhav - 51%, PBA - 49%					—
Nagpur-Seoni	Sadbhav - 51%, SREI - 49%					—
Maharashtra Border- Dhule	Sadbhav - 20%, HCC Laing - 80%	95	285	570	—	950
Maharashtra border check post	Sadbhav - 90%, SREI - 10%	—	770	770	1,026	2,565
Hyderabad-Yadgiri	Sadbhav - 100%	—	180	180	240	600
Rohtak-Panipat	Sadbhav - 100%	—	825	825	1,100	2,750
Bijapur - Hungund	Sadbhav - 77%, MCL - 23%	—	330	330	440	1,100
Total		**95**	**2,390**	**2,675**	**2,806**	**7,965**
Sources of equity						
Free cash flow from construction		(1,291)	1,481	(300)	(345)	(455)
Ahmedabad Ring Road		(49)	(54)	(38)	(8)	(149)
Total of operating sources		**(1,340)**	**1,427**	**(338)**	**(353)**	**(604)**
Equity deficit		**1,435**	**963**	**3,013**	**3,159**	**8,569**
Debt raised in FY2010 (assuming bulk to be used towards financing BOT projects)						1,250
Potential to raise additional debt post rights issue and warrants (at D/E of 1X)						1,450
From SIPL divestment						4,000
Total source of funds						**6,096**

Source: Company, Kotak Institutional Equities estimates

Only Rohtak-Panipat BOT project remaining to achieve financial closure

Apart from the Rohtak-Panipat Rs13.5 bn BOT project, Sadbhav Engineering has been able to successfully achieve financial closure for all other projects in its portfolio. The financial closure of its projects allows the company to start execution as well as facilitates the company to bid for further projects. We have currently built in a revenue CAGR of over 40% over the next two years (FY2011-12E) primarily led by execution of the large BOT projects. Furthermore, the company may have found itself constrained in bidding for additional projects in light of new norms for financial closure requirement. The company would probably exercise caution in extensive bidding particularly if there is a particular stretch it may have a keen interest in.

Only Rohtak-Panipat BOT project remaining to achieve financial closure
Details of BOT projects of Sadbhav Engineering

	Sadbhav Stake	Total cost (Rs mn)	Length (km)	Concession (years)	Construction (months)	Status
Ahmedabad Ring Road	Sadbhav - 80%, PBA - 20%	4,571	76	Dec-26		Operational
Mumbai Nasik	Sadbhav - 20%, Gammon -80%	7,020	100	Oct-26		One year extension till Apr-2010
Aurangabad-Jalna	Sadbhav - 51%, PBA - 49%	2,770	69	Oct-31		Operational
Nagpur-Seoni (Annuity)	Sadbhav - 51%, SREI - 49%	4,890	56	Nov-27	30	Half completed
Mah. Border- Dhule	Sadbhav - 20%, HCC Laing - 80%	14,200	97	Sep-27	30	Financial closure achieved in Dec-09
Mah. border check post	Sadbhav - 90%, SREI - 10%	14,300	NA	Mar-33	Phased	Financial closure achieved in Feb-10
Hyderabad-Yadgiri	Sadbhav - 60%, GKC - 40%	4,800	35	Mar-33	22	Financial closure achieved in Mar-10
Bijapur - Hungund	Sadbhav - 77%, MCL - 23%	12,250	100	Mar-30	30	Financial closure achieved
Rohtak-Panipat	**Sadbhav - 100%**	**13,500**	**80**	**Mar-35**	**30**	**Financial closure awaited**
Total		**78,301**	**613**			

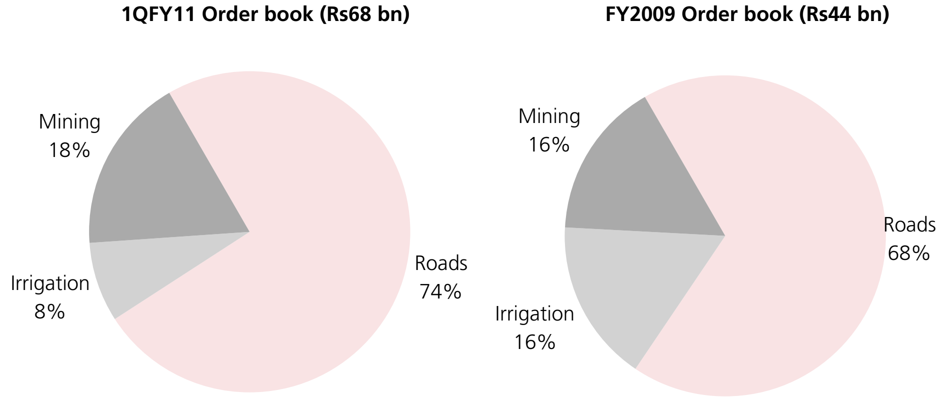
Note: Dhule, MBCP and Rohtak-Panipat revenue estimates are for FY2013E

Source: Company, Kotak Institutional Equities estimates

Strong order book, fuelled by BOT road project wins

The company had reported an order backlog of Rs67.5 bn at end-1QFY11 versus Rs44 bn at end-FY2009 (relatively flat on a yoy basis). The recent large BOT order wins has boosted the order backlog of the company, almost 74% of the 1QFY11-end order backlog was contributed by the roads segment. Mining segment contributed to about 18% of the year-end backlog and the remaining 8% was from the irrigation segment.

Sadbhav's current order book is concentrated in the roads segment
Segmental split of order book at end-1QFY11 and end-FY2009



Source: Company, Kotak Institutional Equities

Marginal decline in working capital levels - expect trend to continue

Sadbhav Engineering reported net working capital (excluding cash and loads to subsidiaries) of 84 days of sales at end of FY2010 versus FY2009-end levels of 92 days of sales. Total current assets (excluding cash) increased to 280 days of sales in FY2010 from 186 days led by higher debtor levels (128 days versus 96 days in FY2009) and higher loans and advances (136 days versus 81 days in FY2009). The increase in loans and advances was primarily due to increase in advances to subsidiaries which stood at Rs1.4 bn at end-FY2010 versus only Rs72 mn at end-FY2009. These loans were primarily towards the road SPVs of Sadbhav (Aurangabad-Jalna, Maharashtra Border checkpost, Nagpur-Seoni and SIPL).

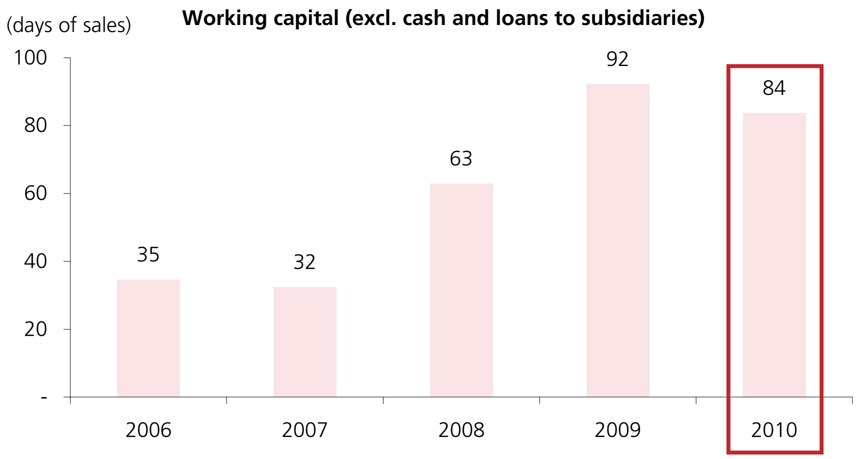
Outstanding loans and advances to subsidiaries, March fiscal year-ends, 2009-10 (Rs mn)

	2010	2009
Aurangabad Jalna Tollway Ltd.	142	46
Maharashtra Border Check Post Network Ltd	448	0
Nagpur Seoni Expressway Ltd.	496	20
Sadbhav Infrastructure Project Ltd	336	6
Total loans to subsidiaries	**1,423**	**72**

Source: Company

Adjusted for this, the current assets were at 239 days of sales versus 183 days in FY2009. The higher debtor levels were offset by higher creditor (42 days from 19 days) and customer advances (94 days from 50 days) in FY2010. This led to a net working capital of 84 days of sales for FY2010 - a slight improvement versus FY2009-end levels of 92 days.

Working capital level of Sadbhav Engg, March fiscal year-ends, 2006-10 (days of sales)



Source: Company, Kotak Institutional Equities

Lower working capital going forward as BOT would contribute most of revenues

We expect lower working capital requirement for the company going forward as BOT projects would contribute bulk of the revenues.

Working capital requirement of Sadbhav (standalone), March fiscal year-ends, 2007-12E (Rs mn)

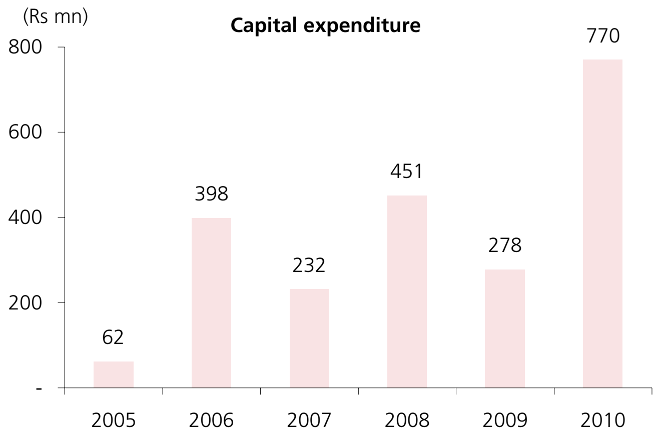
	2007	2008	2009	2010	2011E	2012E
Working capital (Rs mn)						
Inventory	467	850	276	540	742	1,055
Sundry debtors	1,339	1,537	2,782	4,408	3,464	4,923
Other current assets	191	161	5	28	28	28
Loans and advances	986	1,259	2,344	4,668	3,958	5,626
Current liability and provisions	2,551	2,102	2,651	5,336	4,628	6,504
Working capital (Days of sales)						
Inventory	35	36	9	16	15	15
Sundry debtors	100	64	96	128	70	70
Other current assets	14	7	0	1	1	0
Loans and advances	74	53	81	136	80	80
Current liability and provisions	191	88	91	155	94	92
NWC (excl. cash)	**32**	**71**	**95**	**125**	**72**	**73**
NWC (excl. cash and loans & advances)	**(41)**	**19**	**14**	**(10)**	**(8)**	**(7)**
NWC (excl. cash and loans to subs)	**32**	**63**	**92**	**84**		

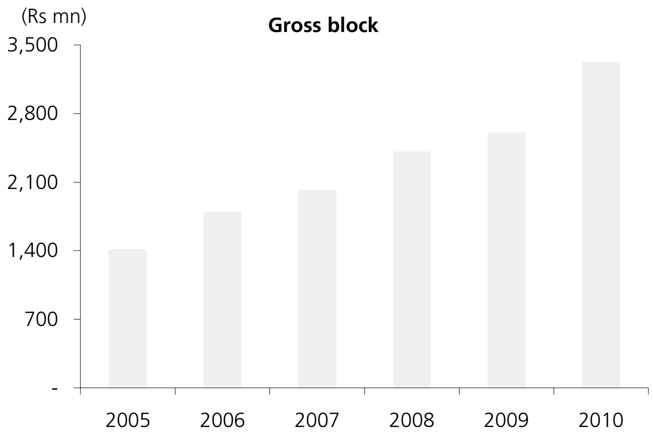
Source: Company, Kotak Institutional Equities estimates

Strong capex likely towards building capabilities to execute slew of BOT projects

Sadbhav Engineering reported a capital expenditure of about Rs770 mn in FY2010, increasing gross block from Rs2.6 bn at FY2009-end to Rs3.3 bn at FY2010-end (27% increase y-o-y). This is versus an annual average capex of about Rs320 mn over the past three years, i.e. FY2007-09 (FY2009 capital expenditure of Rs278 mn). The capex was used primarily towards purchase of machinery likely towards building capabilities to execute several of the recently won BOT projects as well as towards purchase of mining equipment in order to scale up presence in that segment. We believe that as the company starts focusing on mining orders, the capex requirement would continue to remain high as the company would have to invest in mining equipment.

Capex and gross block of Sadbhav Engg, March fiscal year-ends, 2005-10 (Rs mn)





Source: Kotak Institutional Equities

Execution of BOT projects to drive construction revenues

Sadbhav Engg reported FY2010 standalone revenues of Rs12.6 bn, up 18.3% yoy driven by strong growth in the road segment revenues led by start of construction activities of the new BOT projects. FY2010 EBITDA margin expanded to 11%, up about 80 bps yoy from 10.2% in FY2009 led by lower raw material and construction expenses as a percentage of sales. Raw material + construction expenses declined to 83.8% of sales in FY2010 from 84.9% of sales in FY2009. This led to a 27% yoy growth in operating profit to Rs1.4 bn in FY2010. However, lower other income, higher depreciation and tax costs (80-IA adjustment) led to a yoy decline in net profit. Sadbhav reported a net profit after tax of Rs538 mn in FY2010, down about 15% yoy from Rs633 mn in FY2009.

We expect strong revenue growth (>40%) over the next two years, FY2011E-12E, in the construction business based on (1) pick-up of execution of the two large BOT projects (Maharashtra border checkpost, Maharashtra/MP border-Dhule) and (2) start of construction works for the recently won BOT projects (Hyderabad-Yadgiri, Bijapur-Hungund, Rohtak-Panipat). Margins are expected to remain relatively stable at about 11.3%.

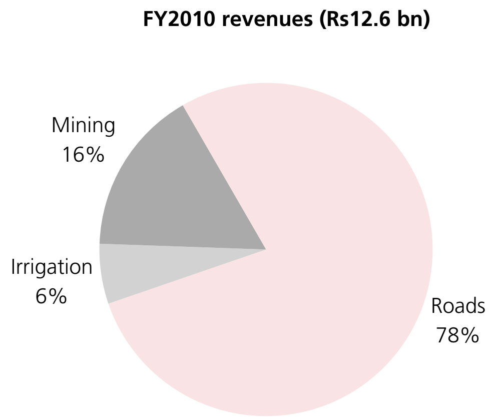
Sadbhav Engg standalone income statement, March fiscal year-ends, 2006-12E (Rs mn)

	2006	2007	2008	2009	2010	2011E	2012E
Operational income	**2,913**	**4,901**	**8,721**	**10,625**	**12,569**	**18,060**	**25,669**
Total expenditure	(2,563)	(4,310)	(7,757)	(9,542)	(11,193)	(16,025)	(22,773)
EBITDA	**350**	**591**	**964**	**1,083**	**1,377**	**2,035**	**2,895**
Other income	7	14	39	117	45	68	81
Depreciation	(139)	(149)	(139)	(157)	(233)	(292)	(363)
Net Interest	(91)	(69)	(157)	(214)	(209)	(422)	(657)
PBT	**128**	**386**	**706**	**829**	**980**	**1,391**	**1,959**
Taxes	(12)	(120)	(218)	(196)	(441)	(464)	(651)
Adjusted PAT	**116**	**266**	**489**	**633**	**538**	**927**	**1,307**
EPS (Rs)	**14.1**	**24.1**	**40.5**	**51.1**	**42.8**	**61.8**	**87.2**
Key ratios (%)							
EBITDA margin	**12.0**	**12.0**	**11.0**	**10.2**	**11.0**	**11.3**	**11.3**
PBT margin	4.4	7.9	8.1	7.8	7.8	7.7	7.6
PAT margin	4.0	5.4	5.6	6.0	4.3	5.1	5.1
Yoy growth (%)							
Revenues		**68.2**	**77.9**	**21.8**	**18.3**	**43.7**	**42.1**
EBITDA		68.7	63.2	12.4	27.1	47.8	42.3
PBT		202.8	82.9	17.4	18.1	42.0	40.8
PAT		129.9	83.8	29.5	(14.9)	72.2	41.0

Source: Company, Kotak Institutional Equities estimates

Roads and highways segment constituted about 78% of the total reported revenues while mining and irrigation contributed to 16% and 6% of FY2010 revenues, respectively.

Segmental revenue break-up of Sadbhav Engg, March fiscal year-ends 2010



Source: Company, Kotak Institutional Equities

Revise target price to Rs1,750/share; no change to standalone estimates

We have revised our SOTP-based target price to Rs1,750/share from Rs1,600/share earlier. The change is primarily led by change of value of SIPL based on (1) inflow of cash of Rs4 bn in SIPL from the PE investment, (2) value of Rs2.25 bn for incremental project wins of about 100 kms - valued at 0.5X P/B at debt:equity of 70:30 and assuming about Rs100 mn project cost per km and (3) reduction of stake of Sadbhav in SIPL from 100% earlier to 78% (post-money stake of investors expected to be at 22.2%). Highlight that we have not changed our estimates for the construction business as well as our DCF-based valuations for the individual BOT projects.

Our SOTP target price is comprised of (1) Rs920/share from the construction business based on EV/EBITDA multiple of 6X to FY2012E estimate, (2) Rs823/share from stake in SIPL.

Our SOTP valuation for Sadbhav is Rs1,750/share

Business	Value (Rs mn)	Shareholding (%)	Per share (Rs)	Comments
Construction business (a)	**13,807**	**100**	**920**	**Based on FY2012E EBITDA - 6X for construction business**
Sadbhav Infrastructure Projects Ltd (b)	**15,877**	**78**	**823**	
Cash coming in from pvt. equity	**4,000**			
BOT projects	**9,627**			**Based on DCF valuation of projects**
Ahmedabad Ring Road	2,702			SIPL has 80% stake
Mumbai Nasik	153			SIPL has 20% stake
Aurangabad-Jalna	300			SIPL has 51% stake
Nagpur-Seoni	117			SIPL has 51% stake
Dhule	1,068			SIPL has 27% stake
Maharashtra border checkpost	1,512			SIPL has 90% stake
Rohtak-Panipat	1,534			SIPL has 100% stake
Hyderabad-Yadgiri	771			SIPL has 60% stake
Bijapur-Hungund	1,469			SIPL has 77% stake
Value of incremental projects	**2,250**			**100 km projects at 70:30 debt equity and 0.5X incr. P/B**
Total (a) + (b)	**31,934**		**1,744**	
Target price			**1,750**	

Source: Company, Kotak Institutional Equities estimates

Reiterate BUY rating

We reiterate our BUY recommendation on the stock based on (1) relatively attractive valuations, (2) strong order book, which provides near-term earnings visibility and (3) positive long-term outlook for infrastructural investments. Key risks include (1) sensitivity to base-year traffic and traffic growth assumptions, (2) margin pressures due to volatility in commodity prices, (3) higher-than-expected interest costs, and (4) deterioration in working capital parameters.

Financials of Sadbhav Engg (standalone), March fiscal year-ends, 2006-12E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model							
Total income	**2,906**	**4,886**	**8,721**	**10,625**	**12,569**	**18,060**	**25,669**
Expenses	(2,553)	(4,307)	(7,749)	(9,530)	(11,198)	(16,025)	(22,773)
EBITDA	**353**	**579**	**972**	**1,095**	**1,371**	**2,035**	**2,895**
Interest (expense)/income	(84)	(54)	(157)	(214)	(331)	(420)	(655)
Depreciation	(139)	(149)	(139)	(157)	(233)	(292)	(363)
Other income	(2)	6	30	108	158	68	81
Pretax profits	**129**	**381**	**706**	**832**	**966**	**1,391**	**1,959**
Tax	(11)	(129)	(221)	(179)	(297)	(450)	(632)
Adjusted net income	**117**	**263**	**489**	**639**	**642**	**927**	**1,307**
EPS (Rs)	**14.1**	**24.1**	**39.1**	**51.1**	**51.4**	**61.8**	**87.2**
Balance sheet							
Total equity	1,254	1,466	2,861	3,435	3,915	5,987	7,189
Deferred taxation liability	108	93	97	110	141	155	174
Total borrowings	522	730	1,503	2,111	4,242	4,000	6,500
Total liabilities and equity	**1,884**	**2,290**	**4,461**	**5,656**	**8,298**	**10,142**	**13,863**
Net fixed assets	1,038	1,119	1,430	1,545	2,101	2,609	3,246
Investments	104	461	1,205	1,246	1,441	3,533	5,033
Net current assets (excl. cash)	275	433	1,706	2,756	4,308	3,565	5,128
Cash	432	251	103	100	448	435	456
Miscl. exp. not written off	34	26	17	8	-	-	-
Total assets	**1,884**	**2,290**	**4,461**	**5,656**	**8,298**	**10,142**	**13,863**
Free cash flow							
Cash flow from operations	**551**	**278**	**(485)**	**(105)**	**(521)**	**2,281**	**700**
Pre-tax income	129	381	706	832	966	1,391	1,959
Depreciation & amortization	139	149	139	157	233	292	363
Taxes paid	(69)	(62)	(221)	(235)	(393)	(450)	(632)
Interest expense	80	54	121	128	238	422	657
Working capital changes	245	(260)	(1,298)	(999)	(1,569)	696	(1,563)
Cash flow from investing	**(502)**	**(588)**	**(1,195)**	**(319)**	**(965)**	**(2,892)**	**(2,500)**
Capital investment	(398)	(232)	(451)	(278)	(770)	(800)	(1,000)
Investment changes	(104)	(356)	(744)	(41)	(195)	(2,092)	(1,500)
Free cash flow	**49**	**(310)**	**(1,680)**	**(424)**	**(1,486)**	**(611)**	**(1,800)**
Ratios							
EBITDA margin (%)	12.1	11.8	11.1	10.3	10.9	11.3	11.3
PAT margin (%)	4.0	5.4	5.6	6.0	5.1	5.1	5.1
Debt/equity (X)	38.3	46.8	50.8	59.6	104.6	65.1	88.3
Net debt/equity (X)	6.6	30.7	47.4	56.7	93.5	58.0	82.1
RoAE (%)	8.6	16.8	16.5	18.0	15.8	15.1	17.8
RoACE (%)	10.4	(349.7)	36.2	17.7	14.2	15.2	13.5

Source: Kotak Institutional Equities

kotak Institutional Equities

Technology

India

ATTRACTIVE

AUGUST 31, 2010

UPDATE

BSE-30: 17,971

Undue worries an opportunity to buy Tier-I names. We view the recent weakness in Indian IT stocks as an opportunity to buy Tier-I names – TCS and Infosys are our top picks; Wipro also presents favorable risk/reward. Volume tailwinds and return of secular offshoring trend should mitigate potential risks arising out of further global slowdown and supply-side led margin pressures, for the Tier-I companies. Other recent sentiment dampeners (visa cost increase, GE news-flow) are immaterial, in our view.

Recent weakness in IT stocks driven by worries on global slowdown and some negative news flow

Worries on deeper global slowdown have been on the rise, impacting comfort on demand outlook for the Indian IT services players. Negative news-flow on a variety of unrelated issues (protectionism, GE reducing its India outsourcing exposure, tax notices to a couple of small IT services companies) appears to have impacted sentiments further. We present our take on these news-flow items before discussing the large demand issue:

- **Protectionism/ visa curbs.** The Schumer border security bill, passed in early-August in the US, increases the cost of applying for a new H1-B visa or a renewal by US$2,000. We estimate the impact on the Indian IT companies to be around 20 to 40 bps on operating margins, manageable, in our view. More important issue, in our view, is whether this signals a more serious protectionist intent; however, even a worst case outcome on this front could be a mandated local hires to visa ratio, say 50:50 – this would necessitate increased hiring of locals, something that the large companies have already started doing.

- **GE looking to geographically de-risk its IT outsourcing.** GE is among the largest IT outsourcers to India. There has been some recent news-flow on GE looking to reduce its outsourcing exposure to India to de-risk geographically. Even assuming the news is true, We see it immaterial as – (1) GE now accounts for <2% of India's total IT exports, (2) GE has not been a meaningful driver of industry growth for the past few years, and (3) geographical de-risking does not necessarily translate into loss of revenues for the Indian companies, who have been more than willing to set up development centers in low-cost locations outside India to service key customers.

- **Tax notice to a couple of small IT services companies.** Some recent press reports suggest that the Indian tax authorities have served notices to a couple of IT services companies with regard to STPI tax exemption (on software development exports) claimed on T&M work. We understand that the issue is related to firms engaged in 'pure staff augmentation' and is unlikely to impact the larger companies.

Demand outlook – we remain bullish

We remain positive on the demand outlook for the Indian IT services industry. We expect the volume momentum seen over the past 3 quarters to sustain over the next few quarters driven by (1) growth in IT spends as large enterprises make up for their IT under-investments over CY2008-09, and undergo technology refresh cycle, and (2) further market share gains for the Indian players. Even as fears of a double-dip recession and further slowdown in the global economy may impact the former driver, we take confidence in the latter and reiterate our view on sustenance of strong volume momentum for the Indian IT services industry. The counter-cyclical demand upsurge for the offshore players failed to play out when the slowdown first hit in 2HCY08, as unprepared, shocked companies froze all decision making. We believe the situation is different now.

Kawaljeet Saluja
kawaljeet.saluja@kotak.com
Mumbai: +91-22-6634-1243

Rohit Chordia
rohit.chordia@kotak.com
Mumbai: +91-22-6634-1397

Vineet Thodge
vineet.thodge@kotak.com
Mumbai: +91-22-6634-1225

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Supply-side led margin pressure a reality – drives our preference for Tier-I names

We do see reasons to be a tad cautious on margins – revenue-growth led operating leverage argument (leading to an improvement in margins, as some sections of the Street believed) may not hold water in the high attrition environment. In addition, most mid-sized companies need to make up for prolonged under-investment in the front-end, likely to pressure their margins further.

We continue to recommend playing the demand upsurge through the Tier-I names, for two reasons – (1) Tier-I companies are likely to outperform on revenue growth – we expect the Tier-I pack to deliver mid-20s US$ revenue growth in FY2011E and ~20% in FY2012E and (2) large companies are also better positioned to manage margin pressure given superior execution.

More importantly, valuations of the Tier-I names at 16-18X FY2012E earnings are attractive and present an opportunity for a 15-20% upside, in our view. Reiterate our BUY rating on TCS and Infosys, and ADD on Wipro. We shall wait for the September quarter earnings reports of the mid-sized companies to decide if a change in view on select mid-cap names is warranted.

Exhibit 1: Performance of Indian IT stocks

	Stock price	Market Cap	Performance (%)					Relative to BSE-Sensex (%)				
	(Rs)	(US$ mn)	1-day	1-month	3-month	6-month	1-year	1-day	1-month	3-month	6-month	1-year
TCS	844	35,100	(0.2)	0.5	15.0	12.2	62.2	0.1	(0.1)	9.0	2.8	47.5
Infosys	2,714	33,110	0.5	(2.7)	2.1	4.3	27.3	0.8	(3.2)	(4.0)	(5.1)	12.6
Wipro	400	20,815	0.6	(2.9)	(0.4)	(1.5)	21.3	0.9	(3.5)	(6.4)	(10.9)	6.6
HCL Tech	383	5,610	(2.7)	(2.5)	0.1	4.2	27.5	(2.4)	(3.0)	(6.0)	(5.2)	12.8
Tech Mahindra	638	1,681	(2.0)	(8.8)	0.3	(28.4)	(32.7)	(1.6)	(9.4)	(5.7)	(37.7)	(47.4)
Mindtree	501	439	(1.9)	(5.9)	(9.0)	(5.9)	(4.5)	(1.6)	(6.5)	(15.0)	(15.3)	(19.2)
Mphasis	621	2,781	(0.3)	5.1	8.6	(6.4)	11.5	(0.0)	4.5	2.5	(15.7)	(3.2)
Polaris	164	348	(0.6)	(6.2)	(4.3)	11.7	13.3	(0.3)	(6.8)	(10.3)	2.4	(1.4)
Hexaware	68	206	(3.6)	(17.7)	(8.5)	4.2	(19.3)	(3.2)	(18.3)	(14.5)	(5.1)	(34.0)
Patni	454	1,284	(2.2)	9.4	(7.2)	8.0	20.9	(1.9)	8.8	(13.3)	(1.3)	6.2
BSE- IT Index			**0.0**	**(1.8)**	**5.2**	**3.9**	**28.3**	**0.4**	**(2.4)**	**(0.9)**	**(5.5)**	**13.6**
BSE-Sensex	**17,971**		**(0.3)**	**0.6**	**6.1**	**9.4**	**14.7**					

Source: Factset, Bloomberg

Exhibit 2: Consensus estimates for Indian IT companies

	EPS (Rs/share)		Revenue (Rs mn)		EBITDA (Rs mn)	
Consensus estimates	**FY2011**	**FY2012**	**FY2011**	**FY2012**	**FY2011**	**FY2012**
TCS	40.8	45.8	355,030	420,618	102,971	121,067
Infosys	121.2	142.8	270,833	319,714	89,879	106,564
Wipro	22.0	24.6	313,510	367,426	67,909	78,739
HCL Tech	25.4	30.7	150,788	179,076	28,243	33,599
Tech Mahindra	55.2	59.9	47,557	53,362	9,346	10,348
Mindtree Consulting	32.1	48.5	15,068	18,062	2,150	3,010
Mphasis	50.2	52.4	49,804	58,921	12,502	14,333
Polaris	20.7	22.0	15,417	17,750	2,254	2,660
Hexaware	5.7	9.0	10,040	11,865	1,025	1,554
Patni	41.4	41.1	32,214	36,695	6,405	7,194

	EPS (Rs/share)		Revenue (Rs mn)		EBITDA (Rs mn)	
KIE estimates	**FY2011**	**FY2012**	**FY2011**	**FY2012**	**FY2011**	**FY2012**
TCS	42.1	48.2	360,438	434,330	106,313	125,114
Infosys	124.1	150.0	275,997	334,021	93,362	111,457
Wipro	22.3	25.7	314,363	371,723	71,017	83,103
HCL Tech	24.5	30.1	153,552	180,666	27,627	32,720
Tech Mahindra	49.6	47.2	49,544	58,097	9,018	10,027
Mindtree Consulting	32.6	51.6	15,554	18,973	2,279	3,316
Mphasis	50.3	45.6	50,466	59,823	12,674	12,832
Polaris	19.1	18.8	15,409	17,673	2,100	2,330
Hexaware	5.0	9.4	10,310	12,895	858	1,545
Patni	41.3	37.5	32,060	37,159	6,510	7,149

KIE estimates vs	EPS		Revenue		EBTIDA	
consensus	**FY2011**	**FY2012**	**FY2011**	**FY2012**	**FY2011**	**FY2012**
TCS	3.0	5.2	1.5	3.3	3.2	3.3
Infosys	2.4	5.1	1.9	4.5	3.9	4.6
Wipro	1.0	4.6	0.3	1.2	4.6	5.5
HCL Tech	(3.6)	(1.9)	1.8	0.9	(2.2)	(2.6)
Tech Mahindra	(10.2)	(21.2)	4.2	8.9	(3.5)	(3.1)
Mindtree Consulting	1.7	6.3	3.2	5.0	6.0	10.1
Mphasis	0.4	(12.9)	1.3	1.5	1.4	(10.5)
Polaris	(7.7)	(14.6)	(0.1)	(0.4)	(6.9)	(12.4)
Hexaware	(12.5)	4.7	2.7	8.7	(16.3)	(0.5)
Patni	(0.4)	(8.7)	(0.5)	1.3	1.6	(0.6)

Source: Factset, Kotak Institutional Equities estimates

Exhibit 3: Valuation summary of key Indian technology companies

	31-Aug-10		Mkt cap.		EPS (Rs)			PER (X)			EV/EBITDA (X)			EV/Sales (X)		
Company	Price (Rs)	Rating	(Rs m)	(US$ m)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
HCL Technologies	383	REDUCE	263,960	5,610	17.5	24.5	30.1	21.8	15.6	12.7	10.6	9.3	7.6	2.1	1.7	1.4
Hexaware Technologies	68	REDUCE	9,696	206	9.3	5.0	9.4	7.2	13.4	7.2	3.4	7.9	3.9	0.7	0.7	0.5
Infosys Technologies	2,714	BUY	1,557,750	33,110	108.3	124.1	150.0	25.1	21.9	18.1	18.2	14.9	12.1	6.3	5.0	4.0
Mindtree	501	REDUCE	20,637	439	52.2	32.6	51.6	9.6	15.4	9.7	8.3	8.7	5.7	1.6	1.3	1.0
Mphasis BFL	621	REDUCE	130,817	2,781	43.6	50.3	45.6	14.2	12.3	13.6	11.4	9.8	9.3	3.0	2.5	2.0
Patni Computer Systems	454	REDUCE	60,413	1,284	36.6	41.3	37.5	12.4	11.0	12.1	6.1	5.2	4.3	1.2	1.1	0.8
Polaris Software Lab	164	SELL	16,371	348	15.4	19.1	18.8	10.7	8.6	8.7	5.1	6.8	5.7	0.8	0.9	0.8
TCS	844	BUY	1,651,388	35,100	35.1	42.1	48.2	24.0	20.1	17.5	18.1	14.6	12.1	5.2	4.3	3.5
Tech Mahindra	638	REDUCE	79,079	1,681	55.4	49.6	47.2	11.5	12.9	13.5	8.0	9.8	8.7	2.0	1.8	1.5
Wipro	400	ADD	979,278	20,815	18.9	22.3	25.7	21.2	18.0	15.6	16.0	12.9	10.6	3.5	2.9	2.4
Technology		**Attractive**	***4,769,389***	***101,374***				***22.1***	***18.9***	***16.4***	***15.8***	***13.3***	***10.9***	***4.2***	***3.4***	***2.8***
KS universe (b)			***45,390,794***	***964,787***				***19.2***	***15.8***	***13.1***	***11.3***	***9.5***	***7.9***	***1.9***	***1.6***	***1.4***

	Target	O/S shares	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)		
Company	Price	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
HCL Technologies	390	690	0.2	39.7	23.0	13,195	17,553	21,319	24,779	27,627	32,720	125,650	153,552	180,666
Hexaware Technologies	72	144	127.7	(46.3)	87.7	1,343	722	1,355	2,023	858	1,545	10,386	10,310	12,895
Infosys Technologies	3,100	574	5.7	14.5	20.9	62,180	71,217	86,105	78,610	93,362	111,457	227,420	275,997	334,021
Mindtree	550	41	294.3	(37.5)	58.1	2,148	1,343	2,122	2,456	2,279	3,316	12,960	15,554	18,973
Mphasis BFL	550	211	207.5	15.5	(9.3)	9,086	10,607	9,619	11,274	12,674	12,832	42,639	50,466	59,823
Patni Computer Systems	450	133	36.4	12.8	(9.1)	4,700	5,495	4,995	6,439	6,510	7,149	31,646	32,060	37,159
Polaris Software Lab	180	100	16.9	24.3	(1.7)	1,533	1,905	1,873	2,220	2,100	2,330	13,538	15,409	17,673
TCS	965	1,957	32.8	19.8	14.5	68,729	82,337	94,307	86,798	106,313	125,114	300,289	360,438	434,330
Tech Mahindra	0	124	(23.1)	(10.4)	(4.8)	7,143	6,509	6,187	11,325	9,018	10,027	46,254	49,544	58,097
Wipro	465	2,447	22.1	18.1	15.6	45,935	54,450	62,970	59,056	71,017	83,103	271,242	314,363	371,723
Technology			***20.4***	***16.7***	***15.4***	***215,992***	***252,138***	***290,851***	***284,980***	***331,758***	***389,592***	***1,082,024***	***1,277,693***	***1,525,359***
KS universe (b)			***15.3***	***21.6***	***20.2***									

Note

(a) HCL Technologies is June fiscal year-ending

(b) Patni Computers Systems and Hexaware Technologies are December year-ending.

Source: Kotak Institutional Equities estimates

INDIA

AUGUST 31, 2010

UPDATE

BSE-30: 17,971

1QFY11 GDP numbers raise serious methodological issues. Our forecasted real GDP growth for 1QFY11 hit a bull's-eye at 8.8%, but has still left us unhappy as we see a host of methodological issues with its estimation. These have policy ramifications as either India was running much higher inflation in 1Q than captured in official price indices or the GDP estimation may have statistical errors. We stick to our view that growth has hit a cyclical peak in 1QFY11, but see FY2011E growth at 8.3%.

GDP growth at 8.8%; in line with market expectations

GDP growth for 1QFY11 came in at 8.8% after 8.6% in 4QFY10 (See Exhibit 1). On a factor cost basis, agriculture sector output grew by 2.8%, underlining the good Rabi (winter crop) outturn. Industries sector grew at 11.4% with mining and quarrying at 8.9% proving to be a slight disappointment. The IIP numbers indicated a possible double-digit growth for this sector but it seems lower-than-expected coal mining may have pulled down the sector's growth. Manufacturing and electricity sectors remained robust at 12.4% and 6.6%, respectively. Services sector grew at 9.4% with construction sector as the weak link at 7.5%. Community, social and personal services sector growth was a surprise at 6.7% after two quarters of anemic growth. Non-agricultural GDP came in at 9.9%, highlighting the buoyancy in the economy as a whole.

Significant disparity in the outcome of the two methodologies of National Accounting

While on a factor cost basis (GDP by economic activity), growth stood at 8.8%, the numbers were not so promising on an expenditure approach basis. GDP at market prices came in at just 3.7% (see discussion on the next page). If the estimation is correct, the metric is worrisome given that private consumption grew by a meagre 0.3% against 2.6% in 4QFY10. If we take a look at the IIP it shows that consumer non-durable goods production was indeed quite low in 1QFY11 at 2.4%, but consumer durables grew 27.8%, resulting in consumer goods growth of 9.2%. Added to private consumption woes, government consumption actually fell by 0.6% on a yoy basis, which further added to the overall weakness. Gross capital formation expanded by remarkable 41% but rather than fixed capital formation contributing, it was valuables and inventories which pushed up the growth rate. Corporate finished good inventories rise seasonally in 1Q after they run down in 4Q. What is important is that fixed capital formation grew by 3.7% yoy after 17.7% in 4QFY10. Net exports reverted to being in the red after last quarter's small positive outturn.

We raise our GDP growth forecast for FY2011E

We raise our forecast for GDP growth for FY2011E to 8.3% from 8%, primarily on the basis of the normal monsoons and larger area under sowing and its likely favorable effects on rural demand (see Exhibit 1). Till August 30, monsoons are 1% deficient and area under sowing is up by 95 mn hectares or 9% compared to last year. Added to this, the buoyancy in the system is well pronounced. The upsides are on account of improvement in capex, a better-than-expected winter crop and improvement in the global economy. The downsides are mainly from US and Euro area recovery not gathering steam, private consumption and investment not picking up sufficiently and inflation continuing to remain sticky despite rate hikes.

RBI likely to raise reverse repo by 25 bps on September 16

Though today's release is slightly dated as compared to the monetary policy decision, it gives a psychological advantage. Keeping in mind the lower-than-expected IIP numbers and inflation on a slight downward trend, we expect the RBI to turn a little dovish in the September meeting. This will be a good time to improve the policy transmission channel by narrowing the interest rate corridor to 100 bps. Hence, we expect a reverse repo hike of 25 bps. CRR hike is likely only if liquidity condition at that time warrants so.

QUICK NUMBERS

- 1QFY11 GDP growth at 8.8%; agriculture: 2.8%; industry: 11.4%; services: 9.4%
- GDP at market prices grow at 3.7%; perhaps due to faulty estimation, in our view
- We revise real GDP growth for FY2011E to 8.3% from 8%; 2QFY11E growth likely at ≅8.5%
- Likely reverse repo hike by 25 bps on September 16 policy

Mridul Saggar
mridul.saggar@kotak.com
Mumbai: +91-22-6634-1245

Suvodeep Rakshit
suvodeep.rakshit@kotak.com
Mumbai: +91-22-6634-1409

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

1QFY11 GDP estimation may need a methodology revisit

We think the devil lies in details. In the exhibits given below we take a look at the GDP deflator calculated from supply as well as demand side for computing GDP.

GDP deflator based on factor cost shows close similarity to WPI and CPI inflation
Monthly yoy percentage change in deflator, WPI, CPI, Jun-2005- Jun-2010, (%)

	GDP deflator	WPI inflation	CPI-IW inflation	Agriculture	Mining & quarrying	Manufacturing	Electricity, gas & water supply	Construction	Trade, hotel, transport & comm.	Finance, insurance, real estate and business services	Social & personal services
Jun-05	5.2	5.3	4.0	6.1	15.1	7.0	1.0	6.7	4.7	1.7	4.7
Sep-05	4.2	4.0	3.7	7.8	7.2	4.8	4.6	5.4	3.3	0.4	3.8
Dec-05	5.1	4.5	5.0	9.4	8.8	5.1	2.3	5.9	3.8	0.6	4.6
Mar-06	4.4	4.0	4.9	10.1	8.8	4.0	2.4	5.4	2.9	-0.3	4.3
Jun-06	4.9	4.6	6.3	7.2	10.2	3.6	2.3	5.7	4.3	3.0	6.3
Sep-06	5.2	5.1	6.6	6.7	8.1	5.1	0.4	6.2	4.6	3.3	6.8
Dec-06	5.7	5.6	6.9	7.4	2.7	6.2	5.4	6.7	5.0	3.5	7.1
Mar-07	6.4	6.5	7.0	8.9	1.5	7.5	2.8	7.6	5.5	4.1	7.7
Jun-07	6.6	5.4	6.3	11.7	11.2	5.3	2.0	8.4	4.1	5.7	6.9
Sep-07	5.0	4.1	6.7	10.5	0.8	4.3	0.6	7.1	2.5	4.4	6.2
Dec-07	4.1	3.4	5.5	7.2	-1.3	3.6	-2.0	6.3	1.9	3.5	5.3
Mar-08	6.4	5.7	6.3	7.9	33.8	4.9	-0.1	8.7	3.6	5.8	6.9
Jun-08	8.8	9.6	7.8	7.3	8.7	9.1	0.6	12.7	7.6	11.3	9.3
Sep-08	11.6	12.5	9.1	9.2	22.4	11.1	0.6	15.7	10.3	14.3	11.5
Dec-08	8.7	8.6	10.2	10.0	17.8	7.8	0.6	11.7	6.2	9.8	9.7
Mar-09	3.2	3.2	9.4	7.0	-16.6	4.0	-0.8	6.2	0.3	3.8	6.4
Jun-09	0.9	0.6	8.9	6.0	-7.7	1.4	-2.6	-1.4	-1.0	-0.3	3.6
Sep-09	0.7	-0.1	11.8	8.6	-10.3	0.1	0.4	-2.0	-1.7	-0.9	4.8
Dec-09	5.8	5.0	13.3	13.6	-1.4	3.7	1.9	2.9	3.3	4.9	8.5
Mar-10	9.7	10.2	15.3	16.5	9.9	7.2	2.8	7.6	7.8	9.7	12.1
Jun-10	**11.8**	**11.0**	**13.7**	**9.6**	**17.9**	**4.5**	**11.2**	**4.2**	**16.8**	**15.2**	**15.3**

Note: GDP deflator is defined as Nominal GDP/Real GDP expressed as percentage

Source: Central Statistical Organization, Kotak Institutional Equities

June 2010 GDP deflator based on market prices shows huge discrepancy with official inflation data
Monthly yoy percentage change in deflator, WPI, CPI, Jun-2005- Jun-2010, (%)

	GDP deflator	WPI inflation	CPI-IW inflation	Pvt. Consumption	Govt. Consumption	GFCF	Inventories	Valuables	Exports	Imports
Jun-05	5.2	5.3	4.0	2.4	4.2	6.7	5.8	5.2	-0.3	-1.7
Sep-05	4.1	4.0	3.7	2.1	3.8	4.8	3.6	4.0	-1.1	-2.3
Dec-05	5.0	4.5	5.0	3.5	5.3	4.4	3.9	4.5	-0.2	-1.4
Mar-06	4.4	4.0	4.9	3.3	5.2	4.1	2.9	-0.9	-0.7	-1.8
Jun-06	4.9	4.6	6.3	5.5	6.1	3.1	2.4	4.6	4.7	4.5
Sep-06	5.2	5.1	6.6	5.8	6.5	3.6	3.8	5.1	4.9	4.6
Dec-06	5.7	5.6	6.9	6.0	6.6	5.0	5.0	5.6	5.5	5.3
Mar-07	6.4	6.5	7.0	6.2	6.6	6.1	6.3	2.3	6.3	6.2
Jun-07	6.4	5.4	6.3	4.1	5.5	6.5	5.5	5.4	7.2	7.3
Sep-07	3.8	4.1	6.7	4.5	5.7	5.7	4.5	4.1	5.5	5.5
Dec-07	4.0	3.4	5.5	3.3	4.6	4.2	3.9	3.4	4.4	4.4
Mar-08	6.3	5.7	6.3	4.1	5.9	4.2	5.1	6.5	7.0	7.2
Jun-08	8.2	9.6	7.8	5.6	7.2	9.9	10.1	9.6	8.5	8.0
Sep-08	12.0	12.5	9.1	6.9	8.5	11.1	12.1	12.5	11.2	10.8
Dec-08	8.0	8.6	10.2	8.0	9.6	8.6	8.7	8.6	8.8	8.7
Mar-09	2.4	3.2	9.4	7.2	8.5	4.7	4.9	1.3	3.2	3.0
Jun-09	0.4	0.6	8.9	2.9	2.8	0.4	4.6	0.5	4.5	6.6
Sep-09	0.1	-0.1	11.8	3.5	3.2	-0.4	3.3	-0.1	1.2	1.7
Dec-09	5.2	5.0	13.3	7.4	7.3	2.6	6.9	5.0	6.4	7.1
Mar-10	8.8	10.2	15.3	11.3	11.2	6.7	10.5	13.4	10.0	10.6
Jun-10	**20.4**	**11.0**	**13.7**	**26.0**	**24.0**	**14.6**	**0.3**	**-19.9**	**25.5**	**25.3**

Note: GDP deflator is defined as Nominal GDP/Real GDP expressed as percentage

Source: Central Statistical Organization , Kotak Institutional Equities

There are a lot of methodological questions on which CSO may need to throw light.

- Why has private final consumption demand grown less than 1% in 1Q GDP when all other indicators, including IIP point to robust consumption growth?
- Why has GDP at market prices grown by 24.8% in current prices when in constant price term it has grown just 3.7%?
- If real growth in terms of market prices has been 3.7%, how has growth in factor cost been at 8.8%? Excise duty was rolled back by 2 ppt and subsidies were cut in the Union budget, so market prices should have risen faster than factors cost as the national accounting identity is that GDP at market price ≡ GDP at factor cost + indirect taxes-subsidies.
- There seems to be a huge discrepancy in current and constant price series and such divergence in deflators is unusual and one finds it difficult to find a logical explanation for the same. We know WPI inflation had averaged 11% in 1QFY11. Inflation rate based on private final consumption deflator comes to 26%. Has this high consumption deflator caused CSO to underestimate real private final consumption expenditure? So are the inflation indices missing something or are our GDP numbers wrong? If the former is the case and private consumption actually faced a 26% inflation rate, then the policy errors on aggregate demand management by monetary and fiscal authorities may have crept in due to unrepresentative WPI and CPI indices.
- Inflation based on 1QFY11 GDP deflator works out to be 11.84% from supply side data captured by GDP at factor cost but as high as 20.38% from the aggregate demand side measured by GDP at market prices. What explains this discrepancy?
- The difference in the growth rates calculated by the two methodologies has historically varied by a maximum of about 3% but on an average differs by about 0.3%. For Q1FY11 this difference is 5.2%

In our view, it would be useful for official statistical agency to offer a cogent explanation which the outsiders may have missed, while preserving the integrity of the data, as India has a reputation of reliable national account statistics that is not matched by some other emerging market economies, including China.

Exhibit 1: GDP growth accelerates further to 8.8% in 1QFY11

Sector-wise quarterly real GDP growth rates (new base FY2005), March fiscal year-ends, 1QFY09-2QFY11E

	Sector	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11E
I	**Agriculture and allied activities**	**3.2**	**2.4**	**(1.4)**	**3.3**	**1.9**	**0.9**	**(1.8)**	**0.7**	**2.8**	**4.0**
II	**Industry (2+3+4)**	**5.2**	**4.9**	**1.7**	**0.8**	**4.6**	**9.0**	**12.3**	**15.1**	**11.4**	**8.2**
2	Mining and quarrying	2.6	1.6	2.7	(0.3)	8.2	10.1	9.6	14.0	8.9	8.5
3	Manufacturing	5.9	5.5	1.3	0.6	3.8	9.1	13.8	16.3	12.4	8.7
4	Electricity, gas and water supply	3.3	4.3	4.0	4.1	6.6	7.7	4.7	7.1	6.6	4.2
III	**Services (5+6+7+8)**	**9.4**	**9.4**	**10.3**	**8.0**	**7.5**	**10.0**	**7.3**	**8.5**	**9.4**	**9.4**
5	Construction	9.8	7.2	1.1	5.7	4.6	4.7	8.1	8.7	7.5	9.8
6	Trade, hotels, transport, storage and communication	10.8	10.0	4.4	5.7	5.5	8.5	10.2	12.4	12.2	11.0
7	Financing, insurance, real estate and business services	9.1	8.5	10.2	12.3	11.8	11.5	7.9	7.9	8.0	9.9
8	Community, social and personal services	8.7	10.4	28.7	8.8	7.6	14.0	0.8	1.6	6.7	5.6
	Real GDP at factor cost (I+II+III)	**7.8**	**7.5**	**6.1**	**5.8**	**6.0**	**8.6**	**6.5**	**8.6**	**8.8**	**8.5**
	non-agricultural GDP	8.4	8.3	8.2	6.2	6.8	9.7	8.4	10.0	9.9	9.1

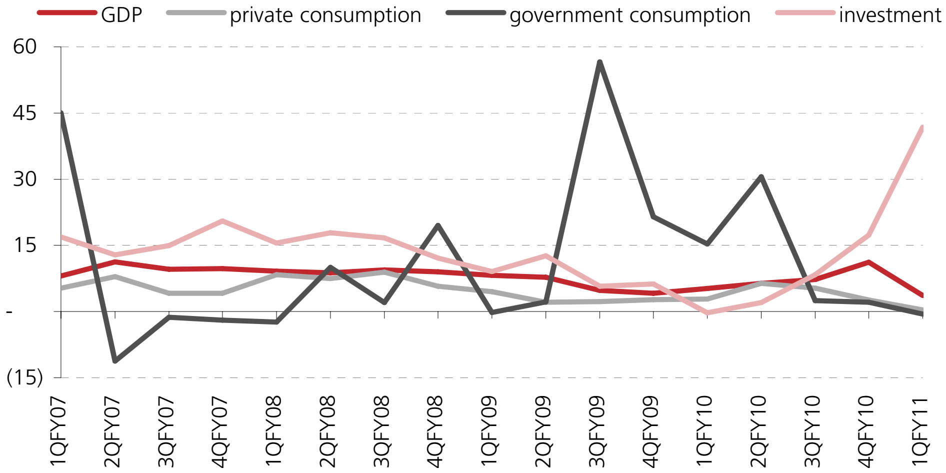
Source: Central Statistical Organization, Kotak Institutional Equities

Exhibit 2: Indian economy likely to grow 8.3% in FY2011E; slow marginally to 7.6% in FY2012E
Growth in real (new base FY2005) GDP at factor cost and components, March fiscal year-ends, 2007-2012E (%)

Sector	2007	2008	2009	2010	2011E	2011RE	2012E
Agriculture and allied activities	**3.7**	**4.7**	**1.6**	**0.2**	**3.1**	**4.3**	**3.0**
Industry	**13.6**	**9.3**	**3.1**	**10.4**	**9.5**	**9.1**	**8.1**
Mining and quarrying	8.7	3.9	1.6	10.6	7.8	8.4	7.2
Manufacturing	15.0	10.3	3.2	10.8	10.0	9.5	8.4
Electricity, gas and water supply	10.0	8.5	3.9	6.5	7.3	6.3	6.6
Services	**10.2**	**10.4**	**9.3**	**8.3**	**8.6**	**9.0**	**8.6**
Construction	10.6	10.0	5.9	6.5	9.6	9.6	10.1
Trade, hotels, transport, storage and communication	11.7	10.7	7.6	9.3	10.0	10.1	9.8
Financing, insurance, real estate and business services	14.5	13.2	10.1	9.7	9.4	8.6	8.2
Community, social and personal services	2.6	6.7	13.9	5.6	4.0	6.7	5.9
Real GDP at factor cost	**9.7**	**9.2**	**6.7**	**7.4**	**8.0**	**8.3**	**7.7**
non-agricultural GDP	11.0	10.2	7.7	8.8	8.8	9.0	8.5

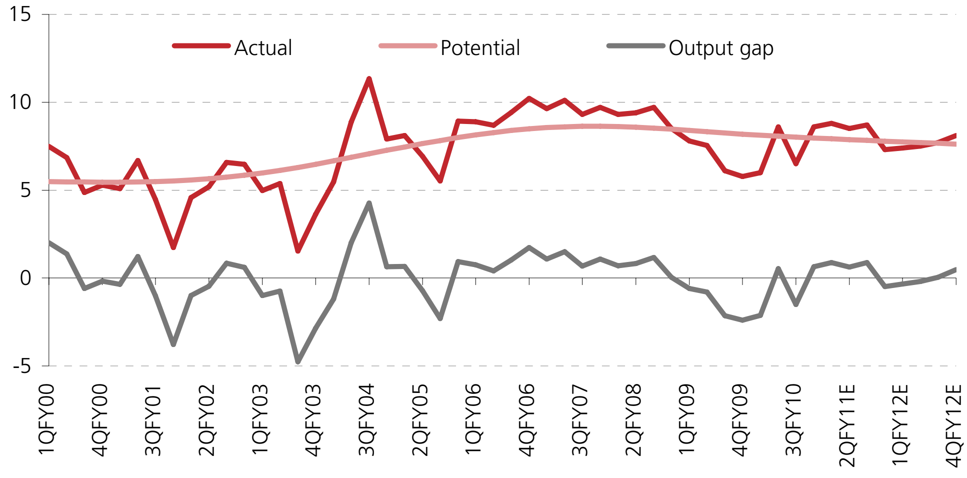
Note: 2011RE denotes revised KIE estimates
Source: Central Statistical Organisation, Kotak Institutional Equities

Exhibit 3: Aggregate demand decelerates as the key growth driver, government spending falls sharply
yoy growth in components of real aggregate demand, March fiscal year-ends, 1QFY07-1QFY11 (%)



Source: Central Statistical Organisation, Kotak Institutional Equities

Exhibit 4: GDP growth hits a cyclical peak in 1QFY11E; may decelerate ahead
Growth in actual output, potential output and output gap, 1QFY00-4QFY12E (%)



Source: Central Statistical Organization, Kotak Institutional Equities estimates

ATTRACTIVE

AUGUST 31, 2010

UPDATE

BSE-30: 17,971

Decoding compulsory licensing. DIPP has initiated discussions to lay down norms for the issuance of compulsory licensing (CL) in India. A paper in this regard highlights the issues which need to be addressed while formulating such a framework. India became TRIPS-compliant starting 2005, but the grounds on which a CL can be issued are not stipulated within TRIPS; thus allowing significant flexibility to member countries for issuing CLs. CLs have been an integral part of the patent regime with 52 countries issuing those. No CLs have been issued in India since the amended Patents Act was implemented in 2005. We examine below the key concern raised in the paper and developments leading to the concern.

What is compulsory licensing (CL)?

CL is a system whereby government allows third parties (other than the patent holder) to produce and market a patented product/process without the consent of the patent owner. No CLs have been issued in India under the amended Patents Act.

Why the concern?

Three recent developments in the pharmaceutical sector in India have heightened the government's concern—while stressing the need to increase the availability and accessibility of drugs to all in the country. These are:

(1) The enactment of the amendments to the Indian Patents Act in 2005. The first pharmaceutical product patent under the amended act was granted in 2006 in India. Since product patents are granted to post-1995 patented drugs, bulk of the market is not impacted by the new regime. However, new products will steadily be issued product patents, resulting in focusing of monopoly power among the patent holders. Till 2008, around 15 product patents have been granted (see exhibit below).

(2) The recent restructuring of ownership in the sector. Six Indian companies have been taken over by foreign companies. After the recent takeover, three of the top 10 companies in India are multinationals. In 1998-99, only one of the top 10 companies ranked by sales was a multinational company.

(3) The strategic alliances being forged by some large Indian players in this sector. These include alliances between GSK and Dr Reddy's; Pfizer with three companies — Aurobindo, Strides Arcolab and Claris Life Sciences; Abbot with Cadilla Health Care and Astra Zeneca with Torrent.

What is the concern?

If large Indian generic companies with the capability to manufacture drugs based on a CL are themselves taken over, then the regime of cheap and effective drugs may be threatened. There is also a concern that some of the Indian companies taken over were recipients of substantial grants — they were allowed to work patents owned by the CSIR at concessional prices.

Our thoughts

Sales from patented products are still a miniscule proportion of domestic market currently, however, we think the long-term CL may be used as a mechanism not only to address affordability of medicines in categories such as anti-AIDS etc. where cheaper Indian generics are already available but more in the areas of anti diabetics/cancer where affordability remains a key issue and where newer innovative products will be introduced under product patents.

QUICK NUMBERS

- While India became TRIPS-compliant starting 2005, grounds on which a CL can be issued are not stipulated within TRIPS
- Three recent developments in the pharmaceutical sector in India have heightened the government's concern

Priti Arora
priti.arora@kotak.com
Mumbai: +91-22-6634-1551

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Policy responses proposed

- If the circumstances so require; for example a public emergency like a pandemic, or whenever the demand for a critical drug is not being met, then a CL can be issued promptly to a qualified company to produce such a drug. The TRIPS agreement does not prevent members from addressing demand for chronic medicines such as cancer and diabetes through CL. The discussion paper focuses on this point only. While India became TRIPS-compliant starting 2005, grounds on which a CL can be issued are not stipulated within TRIPS, thus allowing significant flexibility to member countries for issuing a CL.

- **Review the policy on foreign investment for pharmaceutical companies.** Currently investment up to 100% in the pharmaceutical sector is on the automatic route. This could be shifted to the government route so that proposals for mergers and acquisitions could be scrutinized.

- **Expand the ambit of the National Pharmaceutical Pricing Authority to regulate the prices of a larger number of drugs than the current 74.** To address this issue, the draft policy proposed the following—creating a National List of Essential Medicines consisting of 354 drugs, strengthening the drug regulatory system, limiting trade margins and negotiating prices for patented drugs. The draft policy has, however, not yet been finalized and no progress has been made regarding this policy.

Way forward

The objective of the paper is to develop a framework for use of CL. Views and suggestions have been invited by September 30, 2010 on various issues open for resolution regarding use of CL in India (issues open for resolution are discussed in the paper—please let us know if you would like a copy of the discussion paper).

# of patented product launches in India* (till 2008)

Product	Company	Launch date
Vfend	Pfizer	Feb-05
Avandia	GSK	May-05
Viagra	Pfizer	Dec-05
Lyrica	Pfizer	Feb-06
Caduet	Pfizer	Feb-06
Coreg	GSK	Mar-06
Genotropin	Pfizer	Mar-06
Tamiflu	Roche	Apr-06
Pegasys	Roche	May-06
Aprovel	Sanofi Aventis	Jul-06
Stilnox	Sanofi Aventis	Jan-07
Arixtra	GSK	Mar-08
Champix	Pfizer	Mar-08
Flutivate-E	GSK	
Lescol	Novartis	

*Not Exhaustive

Source: CRISIL

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	31-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	74	ADD	97,909	2,080	1,330	2.8	4.3	5.9	84.5	52.3	37.5	26.1	17.1	12.5	15.0	11.2	8.9	2.4	2.2	2.0	2.0	1.4	1.4	10.9	13.5	16.7	78	6.0	7.3
Bajaj Auto	2,732	ADD	395,284	8,398	145	117.7	169.0	189.5	160.1	43.6	12.2	23.2	16.2	14.4	15.0	11.4	10.0	13.5	7.9	5.3	0.7	0.7	0.7	70.9	61.4	44.0	2,650	(3.0)	15.0
Bharat Forge	350	ADD	83,635	1,777	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	508.9	28.2	17.7	26.0	12.2	8.6	2.2	2.1	1.9	—	—	—	0.9	0.4	0.1	360	2.9	4.8
Hero Honda	1,792	SELL	357,773	7,601	200	111.8	115.3	130.1	74.1	3.1	12.8	16.0	15.5	13.8	10.2	10.2	8.6	9.9	6.9	5.1	1.7	1.7	1.9	59.1	52.5	42.8	1,800	0.5	19.9
Mahindra & Mahindra	627	BUY	373,181	7,928	595	33.9	44.1	51.7	125.8	30.1	17.3	18.5	14.2	12.1	12.2	10.2	8.6	4.6	3.7	3.0	1.5	1.5	1.5	30.0	29.0	27.3	760	21.3	24.7
Maruti Suzuki	1,258	REDUCE	363,418	7,721	289	86.4	77.6	88.3	104.9	(10.2)	13.9	14.6	16.2	14.2	7.8	8.1	7.0	3.0	2.6	2.2	0.5	0.4	0.5	23.3	17.3	16.7	1,200	(4.6)	21.3
Tata Motors	1,010	ADD	632,692	13,442	626	27.4	94.8	109.2	(182.5)	246.1	15.2	36.9	10.7	9.3	13.1	6.9	5.9	4.1	2.9	2.2	1.4	0.5	0.5	8.7	11.9	11.1	1,150	13.8	88.5
Automobiles		**Cautious**	**2,303,891**	**48,946**					**276.0**	**57.2**	**16.1**	**22.1**	**14.0**	**12.1**	**12.1**	**8.7**	**7.4**	**4.6**	**3.6**	**2.8**	**1.2**	**0.9**	**1.0**	**20.9**	**25.3**	**23.3**			
Banks/Financial Institutions																													
Andhra Bank	152	BUY	73,647	1,565	485	21.6	22.9	26.7	60.1	6.4	16.4	7.0	6.6	5.7	—	—	—	1.7	1.4	1.2	3.3	3.5	4.1	26.0	23.1	22.7	180	18.5	5.1
Axis Bank	1,331	ADD	539,145	11,454	405	62.1	78.1	98.3	22.7	25.9	25.9	21.4	17.0	13.5	—	—	—	3.4	2.9	2.5	0.9	1.1	1.4	19.2	18.3	19.9	1,500	12.7	39.3
Bank of Baroda	805	BUY	294,232	6,251	366	83.7	95.1	115.7	37.3	13.7	21.7	9.6	8.5	7.0	—	—	—	2.1	1.8	1.5	1.9	2.1	2.6	24.4	23.0	23.3	950	18.0	8.6
Bank of India	442	REDUCE	232,638	4,942	526	33.1	49.9	58.1	(42.1)	50.9	16.4	13.4	8.9	7.6	—	—	—	1.8	1.6	1.4	1.6	2.4	2.8	14.2	19.0	19.2	460	4.0	8.9
Canara Bank	514	ADD	210,720	4,477	410	73.7	82.2	98.3	45.8	11.6	19.5	7.0	6.3	5.2	—	—	—	1.7	1.4	1.1	1.6	1.9	2.3	22.4	20.8	20.8	580	12.9	6.7
Corporation Bank	570	BUY	81,724	1,736	143	82.0	88.0	102.6	31.8	7.3	16.6	6.9	6.5	5.6	—	—	—	1.4	1.2	1.0	2.9	3.1	3.6	22.0	20.2	20.2	700	22.9	1.1
Federal Bank	340	ADD	58,160	1,236	171	27.2	36.4	49.0	(7.2)	34.1	34.4	12.5	9.3	6.9	—	—	—	1.2	1.1	1.0	1.5	2.0	2.7	10.3	12.6	15.2	360	5.9	5.8
HDFC	627	ADD	900,090	19,122	1,436	19.7	23.2	27.8	22.7	17.9	19.6	31.8	27.0	22.6	—	—	—	5.9	5.2	4.6	1.1	1.3	1.6	20.0	20.6	21.7	690	10.0	39.4
HDFC Bank	2,134	BUY	976,939	20,755	458	64.4	87.2	113.8	22.1	35.4	30.5	33.1	24.5	18.8	—	—	—	4.5	4.0	3.4	0.6	0.8	1.0	16.1	17.3	19.5	2,400	12.5	32.4
ICICI Bank	978	REDUCE	1,090,027	23,158	1,115	36.1	45.2	57.3	6.9	25.3	26.6	27.1	21.6	17.1	—	—	—	2.1	2.0	1.9	1.2	1.5	1.9	8.0	9.5	11.3	1,000	2.3	77.8
IDFC	178	ADD	259,587	5,515	1,458	8.4	9.4	11.2	44.9	12.4	18.7	21.2	18.9	15.9	—	—	—	3.7	2.4	2.0	0.8	1.0	1.2	16.6	15.5	14.3	205	15.2	23.3
India Infoline	93	BUY	29,075	618	312	8.1	7.2	8.7	59.2	(11.9)	21.6	11.5	13.0	10.7	—	—	—	1.8	1.5	1.3	3.4	1.6	2.2	16.4	12.9	14.4	120	28.7	4.6
Indian Bank	248	ADD	106,776	2,268	430	35.1	32.4	44.1	25.5	(7.7)	36.2	7.1	7.7	5.6	—	—	—	1.6	1.4	1.2	2.6	2.3	3.2	24.1	18.8	21.7	280	12.7	4.2
Indian Overseas Bank	125	BUY	67,937	1,443	545	13.0	16.7	24.8	(46.7)	29.0	48.4	9.6	7.5	5.0	—	—	—	1.1	1.0	0.8	2.8	3.1	3.4	9.6	11.6	15.4	160	28.3	4.6
J&K Bank	769	Under Review	37,312	793	48	105.7	119.3	139.6	25.0	12.9	17.1	7.3	6.5	5.5	—	—	—	1.3	1.1	1.0	2.9	3.2	3.8	18.2	17.9	18.3	-	(100.0)	1.6
LIC Housing Finance	1,203	REDUCE	114,235	2,427	95	69.7	100.7	109.9	11.5	44.5	9.1	17.3	11.9	10.9	—	—	—	3.5	2.9	2.5	1.2	1.8	2.0	23.6	25.5	23.2	1,250	3.9	23.1
Mahindra & Mahindra Financial	588	BUY	56,424	1,199	96	35.9	46.4	56.2	60.0	29.4	21.2	16.4	12.7	10.5	—	—	—	3.3	2.8	2.4	1.3	1.7	2.0	21.5	23.5	23.8	590	0.4	2.2
Oriental Bank of Commerce	424	ADD	106,329	2,259	251	45.3	57.8	66.8	25.3	27.6	15.5	9.4	7.3	6.4	—	—	—	1.5	1.3	1.1	2.1	2.7	3.2	14.5	16.5	16.9	430	1.3	6.3
PFC	349	SELL	400,744	8,514	1,148	20.5	22.9	27.6	53.5	11.9	20.3	17.1	15.2	12.7	—	—	—	3.1	2.7	2.4	1.5	1.6	2.0	18.8	18.3	19.2	275	(21.2)	4.1
Punjab National Bank	1,180	BUY	372,136	7,906	315	123.9	133.4	163.3	26.4	7.7	22.4	9.5	8.8	7.2	—	—	—	2.3	1.9	1.6	1.9	2.3	2.8	26.2	23.2	23.7	1,300	10.1	8.7
Reliance Capital	758	NR	186,688	3,966	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	59.0	55.4	77.6	—	—	—	2.7	2.6	2.6	0.8	0.7	0.5	4.7	4.8	3.4	—	—	39.7
Rural Electrification Corp.	328	ADD	324,160	6,887	987	20.3	25.3	31.2	23.2	24.5	23.4	16.2	13.0	10.5	—	—	—	2.9	2.6	2.2	2.0	2.3	2.8	22.0	21.0	22.5	325	(1.0)	10.5
Shriram Transport	718	ADD	160,215	3,404	223	39.2	53.4	64.8	30.1	36.4	21.3	18.3	13.4	11.1	—	—	—	4.3	3.7	3.0	1.6	2.2	2.7	28.4	28.2	28.4	700	(2.5)	5.5
SREI	88	NR	10,274	218	116	8.3	7.9	9.9	17.8	(4.8)	25.8	10.7	11.2	8.9	—	—	—	0.9	0.8	0.8	1.4	1.4	1.4	11.1	10.5	12.3	—	—	4.3
State Bank of India	2,766	BUY	1,756,339	37,313	635	144.4	177.7	211.2	0.5	23.1	18.8	19.2	15.6	13.1	—	—	—	2.7	2.3	2.0	1.1	1.2	1.2	14.8	16.0	16.7	3,100	12.1	97.7
Union Bank	329	BUY	166,184	3,531	505	41.1	45.7	56.9	20.2	11.3	24.5	8.0	7.2	5.8	—	—	—	1.9	1.5	1.3	1.7	1.9	2.3	26.2	23.7	24.1	400	21.6	4.9
Yes Bank	311	BUY	105,704	2,246	340	15.0	17.7	22.5	46.7	18.2	26.6	20.7	17.5	13.8	—	—	—	3.4	2.9	2.5	0.5	0.6	0.7	20.3	18.0	19.3	350	12.5	20.1
Banks/Financial Institutions		**Attractive**	**8,717,440**	**185,202**					**14.8**	**20.3**	**22.1**	**17.3**	**14.4**	**11.8**	**—**	**—**	**—**	**2.7**	**2.3**	**2.0**	**1.3**	**1.5**	**1.8**	**15.5**	**16.2**	**17.2**			
Cement																													
ACC	870	ADD	163,521	3,474	188	83.2	66.0	72.4	47.9	(20.7)	9.8	10.5	13.2	12.0	5.5	6.2	5.0	2.6	2.2	2.0	3.1	2.7	2.7	29.3	20.0	19.2	920	5.7	7.1
Ambuja Cements	126	SELL	191,134	4,061	1,522	8.0	8.4	8.9	11.4	5.3	5.1	15.7	14.9	14.2	8.7	8.2	7.1	2.7	2.4	2.2	1.5	1.6	1.7	19.3	17.8	16.5	108	(14.0)	4.7
Grasim Industries	2,021	ADD	185,319	3,937	92	301.0	229.0	273.3	26.1	(23.9)	19.4	6.7	8.8	7.4	4.2	4.6	3.5	1.5	1.3	1.1	1.6	1.7	1.7	22.9	15.7	16.3	2,200	8.8	6.4
India Cements	107	SELL	32,868	698	307	10.0	8.7	10.6	(43.5)	(13.1)	21.1	10.7	12.3	10.1	5.9	7.3	5.0	0.8	0.7	0.7	2.0	3.0	3.0	8.2	6.7	7.7	95	(11.2)	2.4
Shree Cement	1,872	BUY	65,227	1,386	35	208.0	221.1	242.5	19.0	6.3	9.7	9.0	8.5	7.7	4.4	4.2	3.3	3.6	2.5	1.9	0.6	0.6	0.6	48.0	35.0	28.1	2,550	36.2	1.2
UltraTech Cement	903	ADD	112,352	2,387	124	88.2	66.9	75.1	12.0	(24.2)	12.4	10.2	13.5	12.0	5.4	6.5	5.4	2.1	1.8	1.6	0.6	0.9	0.9	25.9	16.7	16.3	985	9.1	2.9
Cement		**Neutral**	**750,422**	**15,943**					**19.3**	**(15.4)**	**12.7**	**9.8**	**11.6**	**10.3**	**5.3**	**5.8**	**4.6**	**2.0**	**1.8**	**1.5**	**1.7**	**1.7**	**1.8**	**20.6**	**15.2**	**15.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	31-Aug-10		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US$ mn)
Consumer products																													
Asian Paints	2,763	BUY	264,993	5,630	96	71.5	89.0	107.1	85.3	24.4	20.4	38.6	31.1	25.8	23.9	19.4	15.9	16.5	12.9	10.3	1.0	1.4	1.6	51.8	47.9	45.4	3,000	8.6	6.5
Colgate-Palmolive (India)	826	REDUCE	112,269	2,385	136	31.1	34.5	39.6	44.2	10.9	14.6	26.5	23.9	20.9	21.7	17.7	15.1	34.4	29.3	25.1	2.4	3.1	3.6	156.1	132.3	129.4	830	0.5	2.4
Dabur India	209	REDUCE	181,272	3,851	866	5.8	6.8	8.2	28.1	17.6	20.8	36.1	30.7	25.4	26.8	21.5	17.9	17.2	14.1	11.6	1.5	1.7	2.1	54.3	51.1	50.7	210	0.4	4.6
GlaxoSmithkline Consumer (a)	1,815	ADD	76,339	1,622	42	55.4	68.6	81.3	23.6	23.9	18.6	32.8	26.5	22.3	18.1	15.7	12.8	8.5	7.1	5.9	1.0	1.2	1.5	27.9	29.0	28.7	2,000	10.2	0.6
Godrej Consumer Products	371	ADD	120,068	2,551	324	11.3	13.5	18.0	69.5	18.9	33.4	32.7	27.5	20.6	25.9	19.7	14.8	12.5	6.7	6.1	1.0	0.9	0.9	44.6	31.9	31.1	420	13.2	1.9
Hindustan Unilever	265	REDUCE	577,056	12,260	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	28.1	25.9	22.0	19.1	18.4	15.0	22.3	19.3	16.7	2.9	3.2	3.7	71.1	80.2	81.3	250	(5.5)	10.9
ITC	163	BUY	1,248,186	26,518	7,651	5.3	6.3	7.3	22.6	18.2	15.8	30.7	26.0	22.5	18.7	16.3	13.8	8.4	7.1	6.1	3.1	1.7	1.8	29.2	31.1	30.5	165	1.1	22.0
Jubilant Foodworks	487	REDUCE	31,079	660	64	5.5	9.7	12.1	340.6	75.7	24.6	87.8	50.0	40.1	46.7	28.3	19.8	26.4	17.3	12.1	—	—	—	46.6	41.8	35.4	370	(24.0)	13.7
Jyothy Laboratories	259	NR	18,788	399	73	11.0	12.9	15.3	99.6	17.0	18.3	23.5	20.1	17.0	18.1	13.7	11.2	4.6	3.9	3.4	1.8	1.4	1.8	18.6	20.2	20.5	—	—	1.2
Nestle India (a)	3,079	REDUCE	296,845	6,306	96	74.4	86.6	104.8	27.0	16.4	20.9	41.4	35.5	29.4	27.3	23.8	20.2	51.1	40.8	32.4	1.6	2.0	2.4	136.0	127.5	122.9	3,000	(2.6)	2.1
Tata Global Beverages	121	ADD	74,517	1,583	618	6.6	7.4	8.4	23.4	11.1	13.8	18.2	16.4	14.4	11.6	9.5	8.5	1.5	1.4	1.3	1.8	2.0	2.3	10.9	11.4	12.0	125	4	3.9
Consumer products		**Attractive**	**3,077,933**	**65,391**					**24.2**	**16.6**	**17.9**	**31.4**	**26.9**	**22.8**	**20.2**	**17.6**	**14.6**	**10.6**	**8.9**	**7.6**	**2.3**	**1.9**	**2.2**	**33.9**	**32.9**	**33.4**			
Constructions																													
IVRCL	157	BUY	41,947	891	267	7.9	9.1	11.6	(6.7)	15.0	27.9	19.9	17.3	13.5	10.2	9.7	7.6	2.1	1.9	1.6	0.3	0.3	0.3	11.0	11.3	12.9	205	30.5	7.2
Nagarjuna Construction Co.	155	BUY	39,642	842	257	7.1	9.2	11.8	6.1	29.6	27.8	21.7	16.7	13.1	11.0	9.4	7.9	1.8	1.6	1.5	0.9	1.3	1.3	9.3	10.2	11.9	210	35.9	3.5
Punj Lloyd	105	REDUCE	35,718	759	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(8.1)	10.8	8.8	32.6	6.4	5.8	1.2	1.1	1.0	(0.1)	0.4	1.0	(15.8)	10.3	11.4	140	32.8	11.8
Sadbhav Engineering	1,477	BUY	22,162	471	15	42.8	61.8	87.2	(16.3)	44.3	41.0	34.5	23.9	17.0	18.9	12.6	9.7	5.5	3.6	3.0	0.2	0.4	0.4	15.8	15.1	17.8	1,750	18.4	0.3
Construction		**Attractive**	**139,469**	**2,963**					**(91.1)**	**4,528**	**27.2**	**714.6**	**15.4**	**12.1**	**14.9**	**8.4**	**7.2**	**1.8**	**1.6**	**1.4**	**0.3**	**0.6**	**0.8**	**0.3**	**10.4**	**11.9**			
Energy																													
Aban Offshore	765	ADD	33,297	707	43	94.5	154.1	139.3	(2.5)	63.0	(9.6)	8.1	5.0	5.5	8.2	6.6	6.4	1.5	1.4	1.2	0.5	0.5	0.5	21.7	33.1	22.9	935	22.2	44.6
Bharat Petroleum	761	ADD	275,222	5,847	362	62.1	57.4	65.7	201	(8)	14.5	12	13	11.6	6.5	6.3	5.7	1.9	1.7	1.6	1.8	2.5	2.8	15.6	13.0	13.5	690	(9.4)	34.6
Cairn india	333	RS	630,839	13,402	1,897	5.5	20.5	36.6	29.0	270.1	78.3	60.0	16.2	9.1	47.2	9.7	5.9	1.8	1.6	1.5	—	—	4.5	3.1	10.7	17.2	—	—	27.4
Castrol India (a)	477	REDUCE	117,940	2,506	247	15.4	20.7	21.2	45	34	2.4	31	23	22.5	18.4	14.3	13.8	25.6	24.0	22.8	2.6	3.5	3.6	83.8	107.4	103.7	380	(20.3)	1.7
GAIL (India)	462	BUY	586,101	12,452	1,268	24.8	27.2	40.2	11.7	10.1	47.4	18.7	17.0	11.5	10.5	10.5	8.5	3.2	2.9	2.4	1.6	1.8	2.7	17.4	17.0	21.6	550	19.0	16.5
GSPL	115	SELL	64,738	1,375	562	7.4	7.2	8.0	235	(3)	12.1	16	16	14.3	7.9	7.7	6.5	3.8	3.1	2.8	0.9	1.6	2.8	27.3	21.4	20.8	83	(27.9)	4.8
Hindustan Petroleum	526	ADD	178,268	3,787	339	52.6	53.5	58.6	210.1	1.8	9.5	10.0	9.8	9.0	3.6	3.6	3.3	1.3	1.2	1.1	2.3	3.2	3.5	13.3	12.2	12.1	535	1.7	41.3
Indian Oil Corporation	411	ADD	998,252	21,208	2,428	49.9	38.8	41.1	407	(22)	5.9	8	11	10.0	5.5	5.5	5.0	1.8	1.7	1.5	3.2	2.9	3.0	22.7	15.6	15.1	415	0.9	18.7
Oil India	1,455	BUY	349,777	7,431	240	115.1	133.6	153.4	13.8	16.1	14.8	12.6	10.9	9.5	5.5	4.3	3.6	2.4	2.1	1.8	2.3	3.0	3.5	16.7	18.1	18.3	1,550	6.6	7.3
Oil & Natural Gas Corporation	1,338	BUY	2,860,975	60,781	2,139	91.4	116.6	136.1	1	27	16.7	15	11	9.8	5.3	4.6	3.7	2.2	1.9	1.7	2.5	3.1	3.6	14.6	16.8	17.6	1,480	10.6	35.0
Petronet LNG	108	REDUCE	81,300	1,727	750	5.4	6.5	7.9	(22.0)	20.5	21.8	20.1	16.7	13.7	11.5	9.8	8.6	3.2	2.7	2.4	1.6	1.8	2.5	15.9	16.7	17.6	88	(18.8)	7.2
Reliance Industries	919	REDUCE	2,735,539	58,116	2,976	49.6	59.0	74.4	(2)	19	26.2	19	16	12.3	9.5	7.3	6.1	1.8	1.7	1.5	0.8	0.9	1.1	11.4	12.3	13.9	1,060	15.3	107.8
Energy		**Cautious**	**8,912,248**	**189,340**					**38.2**	**16.2**	**22.1**	**14.8**	**12.7**	**10.4**	**7.2**	**6.1**	**5.0**	**2.0**	**1.8**	**1.6**	**1.7**	**2.1**	**2.7**	**13.8**	**14.4**	**15.8**			
Industrials																													
ABB	779	REDUCE	165,140	3,508	212	16.7	18.3	33.1	(35.2)	9.3	80.7	46.6	42.6	23.6	26.6	24.4	13.6	6.8	6.0	4.9	0.3	0.4	0.4	15.6	15.0	23.0	725	(7.0)	4.7
BGR Energy Systems	793	BUY	57,110	1,213	72	16.0	28.0	39.7	32.2	74.6	41.9	49.5	28.3	20.0	27.8	16.1	11.6	10.1	8.1	6.2	0.4	0.9	1.0	22.3	31.8	35.1	950	19.8	4.3
Bharat Electronics	1,660	REDUCE	132,824	2,822	80	93.9	107.3	122.4	(9.6)	14.3	14.1	17.7	15.5	13.6	8.4	7.0	5.9	3.0	2.6	2.3	1.5	1.5	1.5	17.9	18.0	17.9	1,835	10.5	2.3
Bharat Heavy Electricals	2,407	REDUCE	1,178,079	25,028	490	87.9	114.3	135.5	37.7	30.0	18.5	27.4	21.1	17.8	15.3	11.8	9.8	7.4	5.9	4.7	0.8	1.0	1.2	29.8	31.1	29.3	2,600	8.0	24.6
Crompton Greaves	296	BUY	190,076	4,038	642	12.8	14.0	16.3	46.5	9.0	16.6	23.1	21.2	18.2	13.3	11.8	9.9	7.6	5.8	4.6	0.4	0.6	0.7	37.9	31.1	28.2	320	8.0	7.5
Larsen & Toubro	1,814	ADD	1,092,180	23,203	602	57.9	71.7	89.0	15.6	23.8	24.1	31.3	25.3	20.4	17.5	13.8	11.6	4.9	4.1	3.5	0.7	0.7	0.8	18.6	17.7	18.5	2,075	14.4	49.1
Maharashtra Seamless	377	BUY	26,558	564	71	40.2	43.6	49.8	12.1	8.5	14.2	9.4	8.6	7.6	4.9	4.3	3.3	1.7	1.4	1.2	1.6	2.1	2.6	19.3	17.9	17.7	450	19.5	0.4
Siemens	693	REDUCE	233,517	4,961	337	25.2	27.0	31.9	56.4	7.3	18.0	27.5	25.7	21.7	16.7	15.1	12.5	6.9	5.7	4.7	0.7	0.8	0.9	27.6	24.2	23.8	635	(8.3)	5.6
Suzlon Energy	46	REDUCE	73,710	1,566	1,594	(6.2)	(0.8)	3.3	(185.4)	(86.8)	(504.1)	(7.5)	(57.0)	14.1	13.4	11.1	7.4	1.1	1.0	1.0	—	—	0.4	(11.4)	(1.8)	6.9	55	18.9	20.9
Thermax	758	ADD	90,334	1,919	119	21.7	29.5	39.7	(10.4)	35.9	34.4	34.9	25.7	19.1	17.9	14.0	10.4	8.4	6.9	5.6	0.7	1.1	1.5	25.0	29.5	32.2	865	14.1	1.2
Voltas	200	REDUCE	66,196	1,406	331	10.9	11.8	13.4	57.4	8.2	14.3	18.4	17.0	14.9	10.8	9.4	7.8	6.2	5.0	4.1	1.6	1.7	1.9	38.3	32.5	30.2	225	12.4	4.8
Industrials		**Attractive**	**3,305,725**	**70,230**					**1.4**	**33.1**	**26.8**	**31.2**	**23.4**	**18.5**	**15.7**	**12.6**	**10.2**	**5.3**	**4.4**	**3.7**	**0.7**	**0.9**	**1.0**	**17.1**	**18.9**	**20.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	31-Aug-10		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	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)
Infrastructure																													
Container Corporation	1,304	REDUCE	169,546	3,602	130	61.1	74.3	85.9	0.3	21.7	15.6	21.4	17.6	15.2	15.0	12.2	10.2	3.9	3.4	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(4.2)	1.7
GMR Infrastructure	56	ADD	204,252	4,339	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	129.2	253.0	421.3	23.0	14.8	13.9	1.9	1.7	1.7	—	—	—	2.4	1.2	0.7	65	16.7	6.4
GVK Power & Infrastructure	45	BUY	71,380	1,516	1,579	0.8	1.1	1.4	6.7	33.5	32.4	55.6	41.6	31.4	18.8	17.1	17.6	2.3	2.2	2.1	—	0.7	0.7	4.7	5.3	6.7	54	19.5	5.6
IRB Infrastructure	278	RS	92,364	1,962	332	9.7	12.6	12.1	83.8	29.2	(3.7)	28.6	22.1	23.0	13.4	11.9	11.1	4.0	3.1	2.5	—	—	—	15.6	15.7	11.9	—	—	11.7
Mundra Port and SEZ	769	REDUCE	310,142	6,589	403	16.7	21.9	34.1	55.7	31.0	56.1	46.0	35.1	22.5	34.5	22.5	16.2	8.7	7.4	5.8	(0.5)	—	—	20.8	22.9	28.9	750	(2.4)	5.6
Infrastructure		**Attractive**	**847,685**	**18,009**					**16.3**	**21.2**	**26.0**	**40.8**	**33.7**	**26.7**	**21.4**	**15.8**	**13.7**	**3.5**	**3.0**	**2.8**	**—**	**—**	**0.4**	**8.7**	**9.1**	**10.3**			
Media																													
DB Corp	249	BUY	45,186	960	182	10.6	13.0	15.7	286.5	22.4	21.0	23.4	19.1	15.8	13.1	10.8	8.8	7.0	5.6	4.9	0.8	1.2	1.6	40.3	32.6	33.2	290	16.6	0.3
DishTV	51	ADD	53,861	1,144	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(20.3)	(28.5)	387.2	66.7	26.8	14.2	13.1	24.3	22.8	—	—	—	249.3	(59.7)	6.1	47	(7.2)	3.8
HT Media	166	NR	39,045	830	235	6.1	7.7	9.2	623.3	25.9	19.8	27.2	21.6	18.0	13.6	11.4	9.5	4.0	3.6	3.3	0.6	1.2	2.4	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	126	BUY	37,827	804	301	5.9	6.6	7.7	92.3	12.3	17.8	21.5	19.1	16.2	12.9	11.1	9.5	6.2	5.6	5.2	2.8	3.2	4.0	30.1	30.8	33.3	140	11.5	1.5
Sun TV Network	478	REDUCE	188,252	3,999	394	13.1	18.0	22.5	44.8	36.9	25.2	36.3	26.5	21.2	20.6	15.3	12.3	9.7	8.2	6.8	1.6	1.6	1.9	28.4	33.7	35.1	420	(12.1)	2.6
Zee Entertainment Enterprises	287	REDUCE	124,824	2,652	435	10.6	11.8	14.4	25.0	12.0	21.5	27.2	24.3	20.0	20.2	16.0	12.8	3.4	3.2	3.1	0.8	1.0	1.2	13.1	13.8	16.0	270	(6.0)	8.0
Media		**Neutral**	**488,995**	**10,389**					**185.5**	**35.8**	**37.2**	**40.3**	**29.6**	**21.6**	**19.4**	**14.9**	**11.7**	**5.9**	**5.4**	**4.9**	**1.2**	**1.3**	**1.7**	**14.7**	**18.4**	**22.8**			
Metals																													
Hindalco Industries	166	ADD	318,481	6,766	1,914	5.7	13.6	15.5	(64.5)	139.5	14.2	29.3	12.2	10.7	7.6	7.6	8.0	1.4	1.3	1.2	0.8	0.8	0.8	10.3	11.1	11.5	200	20.2	37.0
Hindustan Zinc	1,046	BUY	442,116	9,393	423	95.6	102.5	116.0	48.2	7.2	13.1	10.9	10.2	9.0	6.9	5.5	3.8	2.3	1.9	1.6	0.6	0.6	0.6	24.1	20.8	19.4	1,240	18.5	3.9
Jindal Steel and Power	684	REDUCE	637,197	13,537	931	38.4	50.9	56.0	17.3	32.7	9.9	17.8	13.4	12.2	12.3	8.9	7.4	5.7	4.0	3.0	0.2	0.3	0.3	37.8	34.9	28.0	625	(8.7)	22.8
JSW Steel	1,131	REDUCE	285,384	6,063	252	80.4	68.5	108.5	481.1	(14.8)	58.5	14.1	16.5	10.4	10.7	9.0	6.0	2.6	1.6	1.2	0.6	0.8	0.8	16.0	12.0	13.3	1,075	(5.0)	41.7
National Aluminium Co.	398	SELL	256,306	5,445	644	12.6	14.3	17.3	(34.9)	13.3	20.5	31.5	27.8	23.1	15.0	12.3	10.2	2.5	2.3	2.2	0.6	1.3	1.3	8.1	8.6	9.8	260	(34.6)	1.5
Sesa Goa	318	REDUCE	282,747	6,007	890	29.6	58.6	46.3	23.5	98.4	(21.0)	10.8	5.4	6.9	8.9	3.7	3.6	3.5	2.2	1.7	1.1	1.1	1.1	35.8	41.5	23.7	340	7.0	60.6
Sterlite Industries	151	ADD	507,610	10,784	3,362	12.0	14.2	19.3	2.8	18.4	35.5	12.6	10.6	7.8	8.0	7.1	4.4	1.4	1.2	1.1	0.6	0.6	0.6	12.9	12.2	14.6	200	32.5	37.4
Tata Steel	523	REDUCE	477,962	10,154	914	(3.6)	63.4	65.5	(103.6)	(1,880.2)	3.4	(146.8)	8.2	8.0	10.3	5.7	5.4	2.1	1.6	1.4	1.5	1.5	—	(1.5)	22.0	18.7	550	5.2	90.3
Metals		**Cautious**	**3,207,804**	**68,150**					**(30.6)**	**72.5**	**11.3**	**18.4**	**10.7**	**9.6**	**9.5**	**6.8**	**5.7**	**2.3**	**1.8**	**1.5**	**0.7**	**0.8**	**0.6**	**12.3**	**17.1**	**15.9**			
Pharmaceutical																													
Biocon	340	BUY	67,980	1,444	200	14.8	17.8	22.0	216.4	19.8	23.7	22.9	19.1	15.5	13.3	11.1	9.2	3.8	3.3	2.8	—	—	—	17.9	18.8	20.0	400	17.7	5.0
Cipla	303	REDUCE	243,486	5,173	803	13.7	14.0	16.6	38.1	1.9	19.2	22.1	21.7	18.2	15.9	14.6	12.4	4.1	3.6	3.1	0.7	0.8	0.8	21.1	17.6	18.2	295	(2.7)	8.8
Cadila Healthcare	605	REDUCE	123,791	2,630	205	24.7	33.2	37.7	66.9	34.2	13.7	24.5	18.2	16.0	16.0	12.3	10.8	7.6	5.7	4.5	0.8	1.1	1.2	36.0	35.8	31.3	580	(4.1)	1.5
Dishman Pharma & chemicals	190	ADD	15,445	328	81	14.4	17.8	22.8	(19.7)	23.7	28.0	13.2	10.6	8.3	9.8	8.0	6.3	1.9	1.7	1.4	—	—	—	15.5	16.8	18.3	230	21.1	0.6
Divi's Laboratories	744	REDUCE	97,169	2,064	131	26.1	34.0	44.9	(18.2)	30.4	32.1	28.6	21.9	16.6	21.1	16.2	11.6	6.4	5.3	4.3	—	—	—	24.7	26.4	28.5	800	7.5	2.7
Dr Reddy's Laboratories	1,364	REDUCE	231,132	4,910	169	48.1	66.7	70.8	48.3	38.8	6.1	28.4	20.5	19.3	15.7	11.9	11.0	6.1	4.8	4.0	0.5	0.6	0.7	22.2	26.3	22.6	1,150	(15.7)	16.5
GlaxoSmithkline Pharmaceuticals (a)	1,861	REDUCE	157,607	3,348	85	59.1	69.7	79.2	8.1	18.0	13.5	31.5	26.7	23.5	17.8	15.1	13.0	8.8	7.5	6.4	—	—	—	29.8	30.4	29.4	1,880	1.0	1.6
Glenmark Pharmaceuticals	286	NR	78,289	1,663	274	12.7	19.2	20.3	14.7	50.6	5.6	22.4	14.9	14.1	14.3	9.3	8.9	3.3	2.8	2.3	—	—	—	16.7	19.9	17.6	—	—	4.4
Jubilant Organosys	341	BUY	54,102	1,149	159	26.5	31.8	38.9	49.0	19.8	22.4	12.8	10.7	8.8	9.4	8.5	6.8	2.4	2.0	1.7	0.6	0.7	0.9	26.3	21.7	21.1	400	17.4	2.6
Lupin	356	ADD	157,651	3,349	442	15.4	19.8	25.5	27.9	28.7	28.7	23.1	18.0	14.0	19.8	14.4	11.4	6.8	6.4	5.6	3.7	4.1	4.3	36.6	37.2	43.6	400	12.2	7.1
Piramal Healthcare	498	REDUCE	104,099	2,212	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	22.2	37.3	52.5	16.1	6.7	4.8	6.2	1.1	1.0	1.1	1.2	0.7	30.7	140.7	16.5	490	(1.6)	18.3
Ranbaxy Laboratories	491	SELL	210,194	4,466	428	7.1	27.0	11.6	(128.4)	282.7	(57.0)	69.4	18.1	42.2	17.0	10.4	19.8	5.4	3.8	3.6	—	0.8	0.8	6.9	22.6	8.3	255	(48.0)	9.2
Sun Pharmaceuticals	1,762	REDUCE	365,028	7,755	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	27.0	19.5	20.2	20.4	14.2	13.7	4.4	3.7	3.2	0.8	0.8	0.8	17.8	21.0	17.3	1,835	4.1	6.1
Pharmaceuticals		**Attractive**	**1,905,975**	**40,492**					**45.5**	**33.7**	**3.2**	**26.3**	**19.7**	**19.1**	**16.4**	**12.2**	**11.6**	**5.0**	**3.6**	**3.1**	**0.7**	**0.9**	**0.9**	**19.0**	**18.2**	**16.1**			
Property																													
DLF	302	ADD	515,786	10,958	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	28.3	18.5	12.0	19.9	12.7	9.5	1.9	1.8	1.6	1.0	1.0	1.6	7.1	9.9	13.8	340	12.6	42.6
Housing Development & Infrastructure	252	ADD	97,077	2,062	385	12.4	14.2	16.7	(41.2)	14.2	17.9	20.3	17.8	15.1	10.3	11.6	7.7	1.4	1.2	1.1	1.1	2.0	2.0	10.0	9.3	9.9	318	26.1	33.0
Indiabulls Real Estate	167	RS	67,146	1,427	401	0.3	2.5	7.4	(62.7)	777.3	195.3	587.7	67.0	22.7	(22.6)	(245.9)	10.4	0.7	0.7	0.7	—	—	—	0.1	1.1	3.2	285	70.3	18.2
Mahindra Life Space Developer	457	ADD	19,321	410	42	20.1	23.6	35.8	77.8	17.6	51.5	22.8	19.4	12.8	20.1	14.4	7.1	2.0	1.9	1.7	0.9	0.9	0.9	8.9	9.7	13.4	540	18.1	0.7
Phoenix Mills	238	BUY	34,466	732	145	4.1	6.6	7.6	(16.7)	59.0	15.6	57.5	36.2	31.3	46.1	25.4	21.2	2.2	2.1	2.0	0.4	0.6	0.8	3.9	6.0	6.7	260	9.3	0.9
Puravankara Projects	109	REDUCE	23,359	496	213	6.8	8.2	8.0	0.6	20.1	(1.9)	16.1	13.4	13.7	18.6	14.1	13.8	1.6	1.5	1.4	1.8	1.8	1.8	10.5	11.6	10.5	110	0.5	0.5
Sobha	329	ADD	32,268	686	98	14.1	17.0	26.2	(7.1)	20.8	54.0	23.4	19.4	12.6	17.5	13.6	9.0	1.9	1.7	1.5	0.3	0.4	0.5	9.7	9.2	12.8	372	13.1	2.1
Unitech	78	SELL	206,772	4,393	2,666	3.0	3.8	5.1	(58.8)	25.0	34.0	25.6	20.5	15.3	25.6	18.5	11.9	2.0	1.7	1.6	—	—	1.9	9.0	8.7	10.6	74	(4.6)	47.3
Property		**Cautious**	**899,118**	**19,102**					**(51.9)**	**49.2**	**50.1**	**30.6**	**20.5**	**13.7**	**22.1**	**14.4**	**10.2**	**1.7**	**1.6**	**1.5**	**0.8**	**0.7**	**1.5**	**5.6**	**7.7**	**10.7**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	31-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	2,932	ADD	130,132	2,765	44	57.3	83.4	110.2	29.3	45.6	32.2	51.2	35.2	26.6	32.6	23.7	18.1	17.7	12.6	9.0	0.5	0.4	0.5	38.7	41.8	39.4	3,000	2.3	7.5
Retail		**Neutral**	**130,132**	**2,765**					**29.3**	**45.6**	**32.2**	**51.2**	**35.2**	**26.6**	**32.6**	**23.7**	**18.1**	**17.7**	**12.6**	**9.0**	**0.5**	**0.4**	**0.5**	**34.5**	**35.8**	**33.8**			
Sugar																													
Bajaj Hindustan	114	SELL	21,805	463	191	4.9	9.9	8.9	52.3	101.0	(9.9)	23.2	11.5	12.8	8.2	5.9	5.5	0.9	0.9	0.8	0.6	0.6	0.6	4.2	7.9	6.5	99	(13.1)	4.8
Balrampur Chini Mills	84	ADD	21,516	457	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	19.3	8.0	11.9	9.0	5.5	5.9	1.5	1.3	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	11.0	4.1
Shree Renuka Sugars	64	BUY	42,700	907	670	9.9	7.7	8.1	195.3	(21.9)	4.7	6.5	8.3	7.9	4.1	4.6	3.9	1.5	1.2	1.1	0.6	0.5	0.5	22.4	17.0	14.8	76	19.2	11.0
Sugar		**Cautious**	**86,021**	**1,828**					**80.0**	**12.4**	**(8.4)**	**9.9**	**8.8**	**9.7**	**6.1**	**5.3**	**4.9**	**1.3**	**1.1**	**1.0**	**0.6**	**0.6**	**0.6**	**13.1**	**12.8**	**10.5**			
Technology																													
HCL Technologies	383	REDUCE	263,960	5,608	690	17.5	24.5	30.1	0.2	39.7	23.0	21.8	15.6	12.7	10.6	9.3	7.6	3.8	3.2	2.7	1.0	1.0	1.6	19.3	22.0	21.2	390	1.9	12.2
Hexaware Technologies	68	REDUCE	9,696	206	144	9.3	5.0	9.4	127.7	(46.3)	87.7	7.2	13.4	7.2	3.4	7.9	3.9	1.1	1.1	0.9	1.5	1.5	1.5	17.8	8.2	14.0	72	6.7	1.8
Infosys Technologies	2,714	BUY	1,557,750	33,094	574	108.3	124.1	150.0	5.7	14.5	20.9	25.1	21.9	18.1	18.2	14.9	12.1	6.8	5.6	4.6	0.9	1.3	1.5	30.1	28.0	28.0	3,100	14.2	52.7
Mphasis BFL	621	REDUCE	130,817	2,779	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.2	12.3	13.6	11.4	9.8	9.3	5.6	4.0	3.1	0.6	0.6	0.7	48.1	37.5	25.8	550	(11.4)	7.9
Mindtree	501	REDUCE	20,637	438	41	52.2	32.6	51.6	294.3	(37.5)	58.1	9.6	15.4	9.7	8.3	8.7	5.7	3.1	2.6	2.1	0.4	0.7	1.0	35.2	19.2	23.7	550	9.7	0.9
Patni Computer Systems	454	REDUCE	60,413	1,283	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.4	11.0	12.1	6.1	5.2	4.3	1.7	1.6	1.4	1.6	1.8	1.7	18.2	15.1	12.4	450	(0.8)	13.8
Polaris Software Lab	164	SELL	16,371	348	100	15.4	19.1	18.8	16.9	24.3	(1.7)	10.7	8.6	8.7	5.1	6.8	5.7	1.9	1.6	1.4	2.1	2.3	2.4	18.6	20.1	17.2	180	9.6	4.3
TCS	844	BUY	1,651,388	35,084	1,957	35.1	42.1	48.2	32.8	19.8	14.5	24.0	20.1	17.5	18.1	14.6	12.1	7.9	6.5	5.4	2.4	2.0	2.3	37.6	35.6	33.9	965	14.4	28.6
Wipro	400	ADD	979,278	20,805	2,447	18.9	22.3	25.7	22.1	18.1	15.6	21.2	18.0	15.6	16.0	12.9	10.6	5.0	4.1	3.4	0.9	1.1	1.4	26.5	25.0	23.7	465	16.2	12.0
Technology		**Attractive**	**4,769,389**	**101,325**					**20.4**	**16.7**	**15.4**	**22.1**	**18.9**	**16.4**	**15.8**	**13.3**	**10.9**	**5.8**	**4.8**	**4.0**	**1.4**	**1.5**	**1.7**	**26.4**	**25.5**	**24.6**			
Telecom																													
Bharti Airtel	327	REDUCE	1,243,144	26,411	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	13.8	16.4	15.8	7.9	8.6	7.0	2.9	2.5	2.2	—	—	—	24.4	16.5	14.7	305	(6.8)	46.2
IDEA	72	REDUCE	236,101	5,016	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	26.2	32.6	47.2	8.9	9.7	8.2	2.1	2.0	1.9	—	—	—	7.2	6.2	4.2	55	(23.1)	11.0
MTNL	61	SELL	38,556	819	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(3.9)	(5.9)	(6.7)	(0.2)	(0.3)	(0.3)	0.3	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(18.3)	3.0
Reliance Communications	156	SELL	332,780	7,070	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	7.1	26.0	16.6	6.7	9.2	7.7	0.9	0.8	0.8	0.5	—	—	11.7	3.2	4.9	150	(3.9)	41.0
Tata Communications	333	REDUCE	94,905	2,016	285	14.0	15.2	15.7	3.2	8.2	3.5	23.8	22.0	21.2	9.6	8.9	8.5	1.3	1.3	1.3	2.0	2.3	2.6	5.2	5.5	5.5	225	(32.4)	3.0
Telecom		**Cautious**	**1,945,486**	**41,332**					**(15.9)**	**(33.1)**	**9.5**	**13.7**	**20.5**	**18.7**	**8.0**	**9.1**	**7.5**	**1.8**	**1.6**	**1.5**	**0.2**	**0.1**	**0.1**	**12.8**	**7.9**	**8.0**			
Utilities																													
Adani Power	136	ADD	296,371	6,296	2,180	0.8	4.3	17.4	—	455.1	300.9	173.5	31.3	7.8	132.8	23.2	6.9	5.4	4.6	2.9	—	—	—	4.4	15.9	45.5	146	7.4	3.5
CESC	378	ADD	47,170	1,002	125	35.2	37.3	44.3	9.3	5.7	18.9	10.7	10.1	8.5	6.8	5.7	6.2	1.1	1.0	0.9	1.2	1.2	1.5	11.1	10.4	11.3	466	23.4	2.0
Lanco Infratech	66	BUY	158,971	3,377	2,405	2.0	3.7	5.0	35.1	87.6	34.9	33.7	17.9	13.3	20.1	8.5	8.1	4.6	3.7	2.9	—	—	—	15.8	21.2	22.7	77	16.5	7.0
NHPC	30	REDUCE	373,942	7,944	12,301	1.9	1.3	1.6	74.9	(27.5)	20.6	16.4	22.6	18.8	10.6	11.4	8.8	1.5	1.4	1.4	1.8	1.2	1.4	9.7	6.4	7.4	28	(7.9)	5.5
NTPC	196	REDUCE	1,615,699	34,325	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.2	15.7	13.4	13.9	12.2	10.2	2.5	2.3	2.1	2.1	2.4	2.8	14.5	15.4	16.6	210	7.2	7.6
Reliance Infrastructure	1,002	ADD	246,517	5,237	246	61.8	65.0	84.5	(1.5)	5.3	30.0	16.2	15.4	11.9	17.5	15.5	10.9	1.3	1.2	1.1	0.8	0.9	1.0	6.3	7.3	10.1	1,160	15.8	41.2
Reliance Power	152	SELL	365,026	7,755	2,397	2.9	3.1	5.3	179.7	9.8	70.0	53.4	48.6	28.6	(504.8)	224.2	35.1	2.5	2.4	2.2	—	—	—	4.8	5.1	8.1	135	(11.4)	19.2
Tata Power	1,222	ADD	301,730	6,410	247	60.2	69.2	88.5	20.1	15.0	27.8	20.3	17.7	13.8	13.2	11.9	10.3	2.3	2.1	1.9	1.0	1.1	1.2	12.9	12.5	14.3	1,420	16.2	9.5
Utilities		**REDUCE**	**3,405,426**	**72,348**					**23.5**	**15.6**	**37.5**	**21.6**	**18.7**	**13.6**	**17.1**	**14.3**	**10.5**	**2.3**	**2.1**	**1.9**	**1.3**	**1.4**	**1.7**	**10.6**	**11.3**	**13.9**			
Others																													
Havells India	793	SELL	47,695	1,013	60	5.3	31.6	45.0	3.7	497.9	42.6	150.0	25.1	17.6	19.8	12.3	10.1	13.1	8.7	5.9	0.3	0.3	0.3	6.6	41.6	39.7	497	(37.3)	10.5
Jaiprakash Associates	109	BUY	232,148	4,932	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	74.9	19.7	14.7	20.4	15.1	10.8	2.7	2.3	2.1	—	—	—	4.1	12.8	14.9	170	55.9	23.9
Jindal Saw	202	ADD	59,402	1,262	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.1	10.8	11.3	5.3	6.0	5.8	1.6	1.3	1.2	0.5	0.4	0.4	20.5	12.9	11.1	256	26.8	3.2
PSL	123	BUY	6,600	140	53	22.9	25.4	28.2	3.3	10.6	11.0	5.4	4.9	4.4	3.1	2.6	2.8	0.7	0.6	0.6	5.3	5.3	5.7	12.6	11.7	12.0	182	47.4	0.6
Sintex	355	BUY	48,510	1,031	136	24.1	28.3	33.3	0.5	17.4	17.5	14.7	12.6	10.7	12.2	8.2	7.0	2.3	1.9	1.6	0.3	0.4	0.4	15.5	15.3	15.2	380	6.9	4.6
Tata Chemicals	395	REDUCE	96,209	2,044	243	26.4	33.2	37.5	(27.1)	25.8	12.7	15.0	11.9	10.6	7.6	6.5	5.5	2.0	1.8	1.5	2.2	2.3	2.3	16.0	18.7	18.3	360	(9.0)	4.6
Welspun Corp	233	ADD	47,895	1,018	205	32.0	27.0	25.6	85.2	(15.7)	(5.4)	7.3	8.6	9.1	4.2	4.6	4.3	1.5	1.3	1.1	1.0	0.9	1.0	24.8	15.6	12.8	286	22.7	4.4
United Phosphorus	184	BUY	85,297	1,812	463	11.9	13.8	17.4	18.8	15.8	25.9	15.4	13.3	10.6	8.9	8.1	6.5	2.5	2.2	1.8	0.8	1.1	1.1	17.7	17.2	18.3	225	22.1	8.5
Others			**623,757**	**13,252**					**16.3**	**32.3**	**17.6**	**18.6**	**14.0**	**11.9**	**10.9**	**9.7**	**8.0**	**2.3**	**2.0**	**1.7**	**0.7**	**0.7**	**0.7**	**12.4**	**14.0**	**14.3**			
KS universe (b)			**45,516,915**	**967,005**					**15.3**	**21.6**	**20.2**	**19.3**	**15.9**	**13.2**	**11.4**	**9.5**	**7.9**	**2.9**	**2.5**	**2.2**	**1.3**	**1.4**	**1.6**	**14.9**	**15.7**	**16.5**			
KS universe (b) ex-Energy			**36,604,667**	**777,664**					**9.1**	**23.4**	**19.6**	**20.8**	**16.9**	**14.1**	**13.7**	**11.3**	**9.3**	**3.2**	**2.7**	**2.4**	**1.1**	**1.2**	**1.4**	**15.3**	**16.2**	**16.8**			
KS universe (d) ex-Energy & ex-Commodities			**32,646,441**	**693,572**					**16.3**	**19.7**	**21.3**	**21.7**	**18.1**	**14.9**	**15.4**	**12.8**	**10.5**	**3.4**	**2.9**	**2.5**	**1.2**	**1.2**	**1.4**	**15.5**	**16.1**	**17.0**			

Note:
(1) For banks we have used adjusted book values.
(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 47.07

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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Kotak Institutional Equities Research coverage universe

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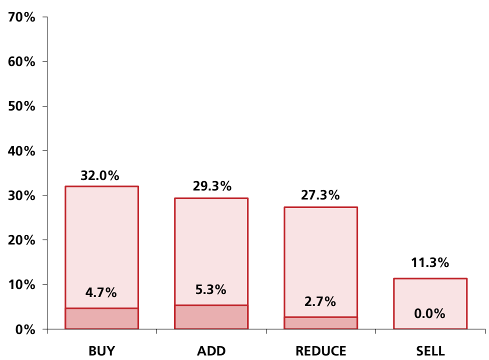

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* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this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

Source: Kotak Institutional Equities

As of June 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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Corporate Office	Overseas Offices	
Kotak Securities Ltd.	Kotak Mahindra (UK) Ltd	Kotak Mahindra Inc
Bakhtawar, 1st Floor	6th Floor, Portsoken House	50 Main Street, Suite No.310
229, Nariman Point	155-157 The Minories	Westchester Financial Centre
Mumbai 400 021, India	London EC 3N 1 LS	White Plains, New York 10606
Tel: +91-22-6634-1100	Tel: +44-20-7977-6900 / 6940	Tel:+1-914-997-6120