kotak® Institutional Equities

INDIA DAILY

March 26, 2009

Contents

New Release

Change in recommendations

Updates

News Roundup

- **GAIL India** will spin off its marketing business into a separate firm from April 1 to comply with the policy guidelines outlined by the petroleum regulator. GAIL India will remain a gas transmission company and will construct cross-country pipelines to transport gas, while GAIL Gas (GGL) will carry out marketing business. GGL will be listed on the domestic bourses soon. (*ET*)
- **Essar** Oil is set to acquire a 50% stake in **Kenya Petroleum Refinery** (KPRL) in Mombasa. Essar Oil will buy the stake from existing shareholders — **Shell Petroleum Company**, **Chevron Global Energy** and **BP Africa** . (*ET*)
- **Virbac**, **Sanofi Aventis** and **Pfizer**, among other multinational pharma companies, have evinced interest in buying the animal healthcare unit of RFCL, the fine-chemical business owned by **ICICI Venture**. (*ET*)
- News has been flowing thick and fast in India's pharma sector: (1) **Ranbaxy Laboratories** has received the Australian drug regulator's nod to sell its generic version of drugmaker **Janssen-Cilag**'s anti-schizophrenia drug **Risperdal**. (2) DCGI has given approval to **Stempeutics Research**, a Manipal Group company, for conducting clinical trials in India for its new stem cell based drug for treating cardio vascular diseases. (3) Swiss drug maker **Novartis** has made an open offer to acquire up to an additional 39 per cent in its unit **Novartis India** at 351 rupees per share. The offer, if successful, will raise Novartis' stake in the Indian unit to nearly 90 per cent. (*ET*)
- **Tata Communication** sources sold one per cent of its stake in TTSL to Japan's telecom company **NTT DoCoMo** for Rs 424 crore while Tata Power has sold part of its stake in TTSL for Rs316.72 crore, but did not reveal the buyer or the stake size. (*BS*)

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

EQUITY MARKETS

		Change, %		
India	**25-Mar**	**1-day**	**1-mo**	**3-mo**
Sensex	9,668	2.1	8.0	3.6
Nifty	2,984	1.6	7.1	4.4
Global/Regional indices				
Dow Jones	7,750	1.2	7.9	(9.0)
FTSE	3,900	(0.3)	(0.4)	(7.5)
Nikkie	8,488	0.1	13.8	(2.9)
Hang Seng	13,622	(2.1)	5.6	(4.0)
KOSPI	1,232	0.3	16.8	10.2
Value traded - India				
			Moving avg, Rs bn	
	25-Mar		**1-mo**	**3-mo**
Cash (NSE+BSE)	163.5		121.4	109.5
Derivatives (NSE)	744.6		401.3	473
Deri. open interest	825.6		638	662

Forex/money market

		Change, basis points		
	25-Mar	**1-day**	**1-mo**	**3-mo**
Rs/US$	50.8	3	81	269
10yr govt bond, %	6.8	1	61	160

Commodity market

		Change, %		
	25-Mar	**1-day**	**1-mo**	**3-mo**
Gold (US$/OZ)	933.8	(0.0)	(1.3)	7.4
Silver (US$/OZ)	13.5	0.1	2.8	26.2
Crude (US$/BBL)	51.7	1.0	15.2	45.0

Net investment (US$mn)

	24-Mar		**MTD**	**CYTD**
FIIs	173		(283)	(2,004)
MFs	25		63	(372)

Top movers -3mo basis

		Change, %		
Best performers	**25-Mar**	**1-day**	**1-mo**	**3-mo**
Gmr Infrastructure	97	8.3	23.9	43.6
Mahindra & Mahinc	379	1.1	18.8	42.8
Jindal Steel & Powe	1,213	3.5	14.1	40.7
Sterlite Industries In	347	6.3	37.2	39.1
Steel Authority Of I	94	3.8	21.7	33.7
Worst performers				
Housing Developme	83	8.6	10.5	(34.3)
Satyam Computer S	40	(3.0)	(10.6)	(70.3)
Aban Offshore Limi	332	0.8	(4.7)	(50.5)
Glenmark Pharmac	151	4.7	6.0	(49.5)
Punj Lloyd Limited	82	1.9	(1.6)	(42.6)

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Strategy

Sector coverage view	N/A

Alpha Bet: Switching it on—initiating four pair trades

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- **Trade 1: Long RIL, Short GAIL—Relative potential triggers in the near term**
- **Trade 2: Long Ultratech, short ACC—Growth for a song**
- **Trade 3: Long REC, short PFCX—Valuation differential to narrow**
- **Trade 4: Long IBREL, short DLF—Contrasting business developments**

Trade 1: Long RIL, Short GAIL—Relative potential triggers in the near term

We recommend a long Reliance Industries (RIL), short GAIL pair trade given relative catalysts for the stocks which will determine performance in the near term. We see potential triggers for RIL on account of (1) availability of income tax exemption for gas production, (2) availability of gas for internal consumption and (3) disclosure of reserves. We do not see any positive triggers for GAIL in the near term, which will result in muted stock performance.

Trade 2: Long Ultratech, short ACC—Growth for a song

We recommend a long Ultratech Cements, short ACC pair trade offering 10% returns based on the following'(1) unjustified valuation premium of ACC trading at US$87/ton on FY2010E production relative to US$77/ton for Ultratech; (2) declining market share for ACC versus gains for Ultratech; and (3) cost-leverage available from switch over to coal-based captive power plants will reflect in better March 2009 quarter performance versus ACC.

Trade 3: Long REC, short PFC—Valuation differential to narrow

We recommend a pair trade of long Rural Electrification Corporation (REC) and short Power Finance Corporation (PFC) based on the 20% valuation gap between the two despite the superior ROE profile of REC. REC trades at 1X FY2010E PBR versus 1.2X PBR for PFC.

Trade 4: Long IBREL, short DLF—Contrasting business developments

We recommend a pair trade of long India Bulls Real Estate (IBREL) and short DLF on account of (1) IBREL trading a higher discount (52%) to the NAV versus DLF (42%); our comfort on NAV of IBREL is higher, (2) leasing concerns for IBREL's Mumbai commercial properties will reduce in the near term while business concerns for DLF will persist for at least thee quarters and (3) we expect weak March 2009 quarter performance from DLF.

Alpha Bet trades
Alpha Bet trade statistics (prices in INR)

Trade action	Stock	CMP	Expected gross return
Trade 1			
Buy	RIL	1,532	10.0%
Sell	GAIL	234	
Trade 2			
Buy	Ultratech	513	10.0%
Sell	ACC	563	
Trade 3			
Buy	REC	96	10.0%
Sell	PFC	132	
Trade 2			
Buy	IBREL	105	10.0%
Sell	DLF	177	

Source: Bloomberg, Kotak Institutional Equities estimates

Strategy

Sector coverage view	N/A

Hugging the index may be safe but may not make cake

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- **Despite uncertainties on elections and global events we recommend few high conviction buys and sells**
- **We include Wipro in place of BHEL in our top-10 conviction ideas**
- **Earnings upgrades and re-rating look difficult in the short term**

We do not see any meaningful catalyst for the Indian stock market barring limited surprises in 4QFY09 earnings (if any). We believe the market will likely trade in 8,500-10,000 (BSE-30 Index) range over the next 2-3 months pending outcome of national elections and a still uncertain global macro-environment. We continue to recommend a few high conviction ideas (buys and sells) to outperform a largely range-bound market. We continue to be overweight banks, metals, pharmaceuticals and utilities and underweight telecom and now industrials (see Exhibits 1 and 2 for our Top-10 list and Model Portfolio).

Market provides limited upside now—likely to trade in narrow range

- **Limited scope for earnings upgrades in the short term.** We do not expect meaningful upgrades to consensus earnings estimates in the short term or based on 4QFY09E results. As of now, the street still appears to be cutting estimates. Our own earnings estimate for FY2010E (see Exhibit 3) has come down to 1.7% for BSE-30 Index and to -2.6% for BSE-30 Index (ex-energy basis) (see Exhibit 4). Consensus estimates show +0.9% growth for the BSE-30 Index and -1.1% for BSE-30 (ex-energy basis).
- **Limited scope for re-rating of multiples across sectors.** We doubt the market will suddenly re-rate certain sectors, which are trading at historically low multiples. Exhibit 5 shows valuations of large-capitalization stocks. We see value in banking and commodity sectors but expect the current concerns surrounding these sectors to take time to abate. In case of banking, the market will likely have concerns on NPLs for the next several quarters. We believe NPLs will take time to emerge in the system (we expect from 2HFY10E) rather than in 4QFY09E results. In case of commodity stocks, earnings will likely be depressed for the next few quarters given weak global demand conditions for most commodities.
- **Bottom-up approach shows limited upside in most large capitalization stocks barring in banking and commodities.** Exhibit 6 shows potential upside or downside to our 12-month target prices for 50 large-capitalization stocks under our coverage. A handful of stocks offer large upside but most of them face certain issues (earnings uncertainty, corporate governance being amongst the most prevalent ones).

Retain faith in existing high conviction ideas (Buys and Sells)

We continue to recommend our extant high-conviction ideas (buys and sells) in order to generate alpha in a likely range-bound market. We see markets trading in a narrow range given (1) uncertain political scenario until May 2009 and (2) weak global economic scenario. We discuss the composition of and changes to our model portfolio and Top-10 list (see Exhibits 1 and 2) below. Our Model Portfolio has incidentally delivered 1.8% positive return since October 31, 2008 (the day we created the portfolio in our October 31 report titled *CY2009 may be a good time to visit India*) versus BSE-30's -1.2% return despite (1) zero cash in the portfolio at all times and (2) no short positions.

1. **Continue to overweight banking.** We continue to overweight banking (450 bps) notwithstanding a likely increase in G-Sec yields and deterioration in NPLs over the next 12 months. However, we have reduced the weight on the sector to reflect a lower weight on HDFC; we have increased the underweight to 400 bps from 250 bps to reflect the stock's recent sharp increase (27% over the last one month). We believe current inexpensive valuations of banks largely reflect the potential negatives from the above-mentioned issues. Exhibit 7 shows limited investment gains assumed by our banking team in their earnings models of companies relative to the size of possible gains even assuming G-Sec yields at 7% by end-FY2010E against 6.8% currently. Exhibit 8 shows our expected steep increase in gross and net NPLs for the banks under our coverage. Nonetheless, we find valuations of banks quite attractive on both P/B and P/E as can be see in Exhibit 9.
2. **Retained neutral stance on energy but overall presence in portfolio increased due to outperformance.** Exhibit 10 shows that the energy sector stocks (RIL, ONGC, Cairn) have significantly outperformed the benchmark index over the past three months. We retain our neutral weight on the sector and have made the following changes: (1) increased weight on RIL to 9.8% from 7.2% to make it as neutral as possible, (2) left ONGC largely unchanged at 6.3% weight and (3) changed Cairn to 4% from 3.5%. However, we have retained both ONGC and Cairn in our top-10 conviction buying list. We highlight that ONGC stock is currently discounting US$42/bbl crude price in perpetuity while Cairn stock is discounting US$63/bbl crude price in perpetuity and no further discoveries of crude oil, attractive in our view.
3. **Increase weight in technology with inclusion of Wipro in top-10 list.** We have increased our weight on the sector with the inclusion of Wipro in the place of BHEL in our top-10 conviction list. BHEL stock is trading close to our 12-month fair valuation and has outperformed the BSE-30 Index by 19% over the past six months.

We find valuations of Wipro attractive (9X FY2010E and 10% FCF yield), having factored in a somewhat weak overall outlook for the company given concerns in financial services (26% of revenues) and technology (accounts for 11% of revenues). We expect Telecom OEM vertical to remain stable in FY2010E as decline in discretionary spending is neutralized by market share gains in some large accounts (due to one of the large client of Satyam moving work to Wipro and further outsourcing). We also expect Wipro to improve its market share in the Telecom Service Providers (TSP) vertical and build in modest volume growth in this segment. We highlight that Wipro was a late entrant in this segment and has done remarkably well to enter key accounts in this vertical.

Also, Wipro has won a disproportionate share of deals in the other verticals (Manufacturing & Healthcare, Retail, and Energy & Utilities) in the past 12-18 months and ramp-ups in these new wins will likely ensure reasonable volume growth in these verticals in FY2010E. We believe the margins of the company will likely remain intact with less than 5% decline in prices in FY2010E.

Change in computation methodology of Nifty Index

We believe the recent announcement by NSE to change the computation methodology of Nifty Index to free-float market-capitalization from total market capitalization will have likely limited impact on stock prices. We note that stocks with likely lower weights in the revised format are already under-owned and as such, we do not see major selling by investors to match the new weights (see Exhibit 11). Exhibit 12 compares the current weight of the stocks in Nifty Index with likely weights under the revised free-float format.

Biased towards solid long-term stocks
Kotak Institutional Equities Top-10 List

			Mkt cap.	CMP	Target	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
Companies	**Sector**	**Rating**	**(US$ mn)**	**(Rs)**	**(Rs)**	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**
State Bank of India	Banking	BUY	13,064	1,050	1,600	106.6	135.3	125.5	9.9	7.8	8.4	—	—	—
Jindal Steel and Power	Metals	BUY	3,678	1,213	1,400	82.7	179.7	171.6	14.7	6.7	7.1	11.2	4.9	4.8
Sterlite Industries	Metals	BUY	4,846	347	400	64.3	48.0	46.6	5.4	7.2	7.4	2.1	3.6	3.6
Cairn India	Energy	BUY	6,995	190	225	(0.1)	4.2	4.4	0.0	45.1	42.9	43.8	26.2	19.4
HDFC Bank	Banking	BUY	8,108	972	1,250	46.0	53.5	65.6	21.1	18.2	14.8	—	—	—
Tata Power	Utilities	BUY	3,244	740	1,000	31.8	65.2	99.1	23.2	11.3	7.5	11.4	8.8	7.9
Wipro	Technology	ADD	6,987	243	280	22.2	25.3	26.9	10.9	9.6	9.0	8.7	6.8	5.7
Oil & Natural Gas Corporation	Energy	ADD	32,187	764	900	92.7	103.9	103.9	8.2	7.4	7.4	2.9	2.6	2.3
Sun Pharmaceuticals	Pharmaceuticals	BUY	4,337	1,063	1,800	74.7	86.8	85.7	14.2	12.2	12.4	11.9	9.3	8.6
ITC	Consumer products	ADD	13,199	178	200	8.3	8.7	9.8	21.5	20.5	18.2	13.7	12.6	11.2
BSE-30				**9,668**										

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Overweight banking, metals and pharmaceuticals
Kotak Institutional Equities Model Portfolio

	25-Mar		Weightage (%)		Diff.
Company	**Price (Rs)**	**Rating**	**BSE-30**	**KS reco.**	**(bps)**
Mahindra & Mahindra	379	ADD	1.1	—	(108)
Maruti Suzuki	734	ADD	1.6	—	(156)
Tata Motors	160	SELL	0.9	—	(85)
Automobiles			**3.5**	**—**	**(349)**
Punjab National Bank	398	BUY	—	1.5	150
State Bank of India	1,050	BUY	4.4	6.9	250
Union Bank	140	BUY	—	1.5	150
PSU Banking			**4.4**	**9.9**	**550**
HDFC	1,594	REDUCE	5.7	1.7	(400)
HDFC Bank	972	BUY	4.8	6.8	200
ICICI Bank	366	ADD	6.0	6.0	—
Rural Electrification Corp.	96	BUY	—	1.0	100
Pvt. Banking/Financing			**16.5**	**15.5**	**(100)**
ACC	563	REDUCE	0.9	—	(86)
Grasim Industries	1,549	ADD	1.6	—	(157)
Jaiprakash Associates	85	BUY	1.0	2.0	100
Cement			**3.5**	**2.0**	**(142)**
Hindustan Unilever	235	REDUCE	3.8	1.8	(200)
ITC	178	ADD	6.9	8.4	150
Consumers			**10.7**	**10.2**	**(50)**
Cairn India	190	BUY	—	4.0	400
Oil & Natural Gas Corporation	764	ADD	4.8	6.3	150
Reliance Industries	1,532	ADD	15.5	9.8	(572)
Energy			**20.3**	**20.1**	**(22)**
Bharat Heavy Electricals	1,482	ADD	3.7	3.7	—

	25-Mar		Weightage (%)		Diff.
Company	**Price (Rs)**	**Rating**	**BSE-30**	**KS reco.**	**(bps)**
Larsen & Toubro	624	REDUCE	4.9	1.9	(300)
Industrials			**8.6**	**5.6**	**(300)**
Hindalco Industries	50	ADD	0.9	—	(90)
Jindal Steel and Power	1,213	BUY	—	4.0	400
Sterlite Industries	347	BUY	1.4	2.9	150
Tata Steel	195	BUY	1.6	2.6	100
Metals			**4.0**	**9.6**	**560**
Glenmark Pharmaceuticals	151	BUY	—	1.0	100
Ranbaxy Laboratories	163	ADD	0.4	—	(40)
Sun Pharmaceuticals	1,063	BUY	1.3	3.3	200
Pharmaceuticals			**1.7**	**4.3**	**260**
DLF	177	REDUCE	0.7	—	(66)
Real estate			**0.7**	**—**	**(66)**
Infosys Technologies	1,339	BUY	9.6	9.6	—
TCS	526	REDUCE	1.9	—	(189)
Wipro	243	ADD	1.0	3.0	200
Technology			**12.5**	**12.6**	**11**
Bharti Airtel Limited	591	BUY	5.8	3.8	(200)
Reliance Communications	169	SELL	1.8	—	(179)
Telecom			**7.6**	**3.8**	**(379)**
NTPC	177	REDUCE	3.2	—	(322)
Reliance Infrastructure	538	BUY	1.2	1.2	—
Tata Power	740	BUY	1.7	5.2	350
Utilities			**6.1**	**6.4**	**28**
BSE-30	**9,668**		**100.0**	**100.0**	**—**

Note:
1. Weights are with respect to March 25, 2009 prices.

Source: Bloomberg, BSE, Kotak Institutional Equities

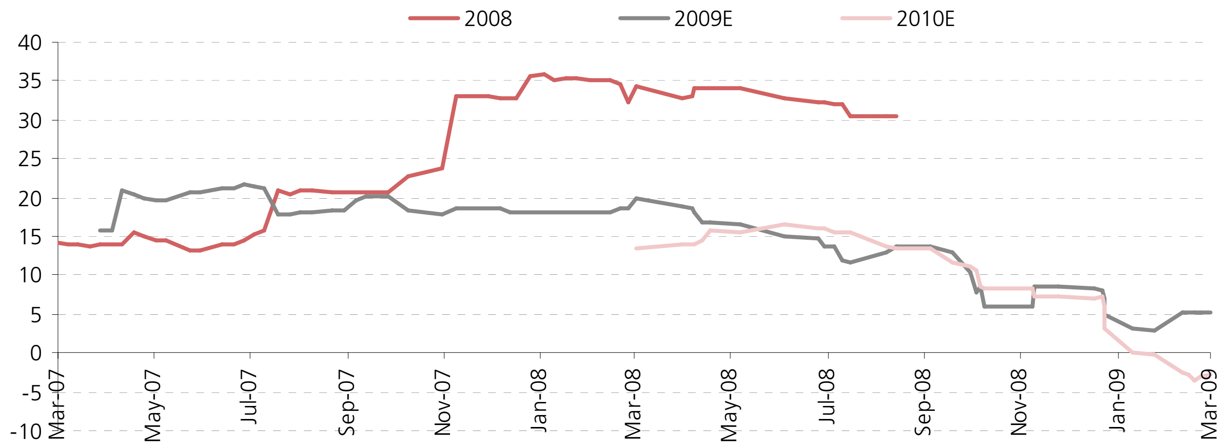
Valuation summary of BSE-30 Index sectors, March fiscal year-ends, 2008-11E

	Mkt cap.	EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)		RoE (%)		
	(US$ mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2008	2009E	2010E
Automobiles	7,695	6.0	(38.2)	20.1	8.5	13.7	11.4	5.1	8.4	6.5	1.8	1.4	1.2	2.5	1.0	21.6	10.3	10.8
Banking	37,385	43.9	12.5	0.1	13.0	11.6	11.5	—	—	—	1.7	1.5	1.4	1.9	1.8	13.3	13.4	12.6
Cement	4,779	25.7	(19.1)	(21.2)	6.5	8.0	10.2	3.8	4.4	5.0	1.8	1.5	1.4	2.9	3.0	28.0	19.2	13.6
Consumers	22,778	14.9	7.6	14.4	24.2	22.4	19.6	16.7	14.3	12.4	8.4	7.5	6.6	3.1	2.8	34.8	33.4	33.8
Diversified	2,287	20.7	22.7	33.4	19.5	15.9	11.9	11.4	10.3	8.8	2.4	2.1	1.8	0.0	0.0	12.2	13.0	15.3
Energy	72,063	13.9	8.5	12.9	10.8	10.0	8.8	5.3	4.8	3.8	2.0	1.6	1.4	2.3	2.5	18.2	16.1	16.2
Industrials	21,116	23.7	18.9	26.0	21.6	18.1	14.4	12.6	10.3	8.3	4.8	3.8	3.1	1.1	1.2	22.4	20.8	21.3
Metals	9,513	13.2	17.3	(46.3)	3.7	3.2	5.9	3.6	3.3	4.2	0.6	0.5	0.4	2.4	2.1	16.2	14.5	7.5
Pharmaceuticals	5,561	82.1	(37.8)	47.6	12.2	19.7	13.3	9.7	13.8	7.9	3.5	2.4	1.7	1.9	2.3	28.8	12.4	12.6
Property	5,807	304.9	(35.0)	(24.4)	3.8	5.9	7.8	4.0	6.7	7.8	1.5	1.2	1.1	2.3	2.3	39.9	20.9	14.0
Technology	31,583	19.1	15.5	9.0	12.8	11.1	10.2	9.2	7.8	6.4	4.2	3.4	2.8	2.5	2.3	32.7	30.5	27.1
Telecom	28,342	74.9	16.5	(4.4)	11.6	9.9	10.4	7.9	6.7	6.3	2.8	2.3	1.9	0.4	0.6	24.6	22.6	17.8
Utilities	33,710	9.9	13.5	18.5	18.8	16.6	14.0	10.0	9.8	9.5	2.2	2.0	1.9	1.9	1.9	11.7	12.2	13.2
BSE-30	**282,620**	**28.8**	**6.1**	**1.7**	**11.6**	**10.9**	**10.7**	**6.7**	**6.4**	**5.9**	**2.2**	**1.8**	**1.6**	**2.0**	**2.0**	**19.3**	**16.9**	**15.3**
BSE-30 ex-Energy	**210,558**	**35.5**	**5.2**	**(2.6)**	**11.8**	**11.3**	**11.6**	**7.4**	**7.3**	**7.1**	**2.3**	**1.9**	**1.7**	**1.9**	**1.8**	**19.7**	**17.2**	**14.9**
BSE-30 ex-Energy, Com.	**196,265**	**40.9**	**4.3**	**6.7**	**13.5**	**13.0**	**12.2**	**9.1**	**8.8**	**7.8**	**2.7**	**2.3**	**2.0**	**1.8**	**1.8**	**20.1**	**17.8**	**16.6**

Note:
1. EV/EBITDA excludes Banking sector.

Source: Company, Kotak Institutional Equities estimates

BSE-30 Index (ex-energy) earnings growth has declined sharply in the past few months
Expected growth in BSE-30 Index (ex-energy) earnings for FY2008, FY2009E and FY2010E (%)



Source: Kotak Institutional Equities estimates

Banks and commodity stocks are trading at low valuations

P/E, EV/EBITDA and P/B of large-cap. stocks, March fiscal year-end, 2009E-10E (X)

	P/E (X)		EV/EBITDA (X)		P/B (X)	
	2009E	2010E	2009E	2010E	2009E	2010E
Tata Steel	1.5	3.5	2.9	3.8	0.3	0.3
Hindustan Zinc	6.5	6.5	3.0	2.6	1.2	1.0
Jindal Steel and Power	6.7	7.1	4.9	4.8	2.6	1.9
Oil & Natural Gas Corporation	7.4	7.4	2.6	2.3	1.4	1.3
Sterlite Industries	7.2	7.4	3.6	3.6	1.0	0.9
Tata Power	11.3	7.5	8.8	7.9	1.6	1.3
DLF	5.9	7.8	7.1	8.1	1.2	1.1
State Bank of India	7.8	8.4	—	—	1.4	1.3
Indian Oil Corporation	16.1	8.4	7.9	4.3	1.0	0.9
Reliance Communications	6.3	8.4	6.7	6.6	1.0	0.9
TCS	9.9	9.0	6.8	6.0	3.3	2.8
Wipro	9.6	9.0	6.8	5.7	2.4	2.0
ICICI Bank	10.6	11.1	—	—	0.8	0.8
GAIL (India)	10.0	11.9	5.4	6.6	1.8	1.7
Infosys Technologies	13.2	12.0	9.2	7.8	4.3	3.4
Reliance Industries	15.2	12.0	9.0	5.7	2.0	1.6
Bharti Airtel Ltd	13.4	12.1	7.7	6.8	3.6	2.8
Larsen & Toubro	12.9	12.1	8.8	8.0	2.3	1.9
Sun Pharmaceuticals	12.2	12.4	9.3	8.6	3.2	2.6
Hero Honda	16.2	12.8	9.0	7.0	5.2	4.0
Maruti Suzuki	15.2	13.0	6.4	5.5	2.2	1.9
Cipla	20.9	13.8	15.1	10.5	3.7	3.1
HDFC Bank	18.2	14.8	—	—	2.8	2.4
Bharat Heavy Electricals	22.8	16.0	12.0	8.6	5.5	4.4
NTPC	19.0	16.2	13.2	12.2	2.5	2.3
ITC	20.5	18.2	12.6	11.2	4.7	4.2
HDFC	21.3	18.7	—	—	3.3	3.0
Hindustan Unilever	25.6	21.9	20.4	16.7	33.0	30.6
IDEA	18.5	23.4	6.4	6.3	1.2	1.1
Reliance Power	76.7	42.0	(306.2)	791.4	1.7	1.7
Cairn India	45.1	42.9	26.2	19.4	1.1	1.0

Source: Kotak Institutional Equities estimates

There are limited large-cap stocks in the universe which are offering >15% upside from current levels

Current price and 12-month target price of select large-cap stocks (Rs/share)

	Mkt cap. (US$ mn)	Price Current	Price Target	Upside (%)	Comments
Stocks offering >15% potential upside to our 12-month target price					
Axis Bank	2,806	398	750	88	NPL issue probably exaggerated
Reliance Infrastructure	2,446	538	970	80	Concerns on cash on balance sheet
Sun Pharmaceuticals	4,337	1,063	1,800	69	Included in Top-10 list
Punjab National Bank	2,473	398	650	63	NPL issue probably exaggerated
Bank of India	2,171	210	330	58	
State Bank of India	13,064	1,050	1,600	52	Included in Top-10 list
Tata Steel	3,154	195	290	49	
Tata Power	3,244	740	1,000	35	Included in Top-10 list
Indian Oil Corporation	9,114	392	525	34	Uncertainty on earnings given government influence on pricing
HDFC Bank	8,108	972	1,250	29	Included in Top-10 list
Cipla	3,118	204	260	28	
ICICI Bank	8,015	366	465	27	Included in KIE Model Portfolio but concerns exist on growth, overseas exposures
Jaiprakash Associates	2,337	85	105	24	Included in KIE Model Portfolio
Bharat Petroleum	2,265	351	425	21	Uncertainty on earnings given government influence on pricing
Hindustan Petroleum	1,679	251	300	19	Uncertainty on earnings given government influence on pricing
Cairn India	6,995	190	225	19	Included in Top-10 list
Hindustan Zinc	3,459	416	490	18	
Oil & Natural Gas Corporation	32,187	764	900	18	Included in Top-10 list
Reliance Power	4,860	103	120	17	Too early to focus upon given limited progress on power projects and execution risks
Jindal Steel and Power	3,678	1,213	1,400	15	Included in Top-10 list
Wipro	6,987	243	280	15	Included in Top-10 list
Sterlite Industries	4,846	347	400	15	Included in Top-10 list
Nestle India (a)	2,883	1,518	1,740	15	
Stocks offering <15% potential upside to our 12-month target price					
Bharti Airtel Ltd	22,102	591	675	14	
ITC	13,199	178	200	13	Included in Top-10 list
Infosys Technologies	15,144	1,339	1,500	12	Included in KIE Model Portfolio
Hindalco Industries	1,722	50	55	10	
PFC	2,977	132	145	10	
DLF	5,934	177	190	8	
Container Corporation	1,762	688	735	7	
TCS	10,143	526	550	5	
Hindustan Unilever	10,077	235	245	4	
Larsen & Toubro	7,283	624	650	4	
GAIL (India)	5,844	234	240	3	
IDEA	3,109	49	50	3	
NTPC	28,758	177	180	2	
Bajaj Auto	1,756	616	615	(0)	
Bharat Heavy Electricals	14,295	1,482	1,475	(0)	
Reliance Industries	41,452	1,532	1,500	(2)	
ACC	2,084	563	550	(2)	
Maruti Suzuki	4,179	734	715	(3)	
HDFC	9,015	1,594	1,550	(3)	
Hero Honda	3,979	1,011	950	(6)	
Grasim Industries	2,799	1,549	1,400	(10)	
Reliance Communications	6,863	169	150	(11)	
Mahindra & Mahindra	1,926	379	330	(13)	
Ambuja Cements	2,104	70	60	(14)	
Tata Communications	2,943	524	400	(24)	
Tata Motors	1,758	160	120	(25)	
National Aluminium Co.	2,942	232	135	(42)	

Source: Kotak Institutional Equities estimates

Our treasury gain assumptions are conservative

Modeled versus potential treasury gains, March fiscal year-end, 2010E (Rs bn)

	FY2010E treasury gains		Proportion
	Assumed	Potential	(%)
Public banks			
Andhra Bank	1.0	8.5	11.8
Bank of Baroda	5.0	17.2	29.0
Bank of India	4.0	21.7	18.4
Canara Bank	4.0	24.6	16.3
Corporation Bank	1.8	12.6	14.3
Indian Bank	1.8	10.0	17.9
IOB	3.0	12.3	24.4
OBC	2.5	14.5	17.3
PNB	4.3	38.1	11.3
State Bank of India	16.0	124.3	12.9
Union Bank	1.4	22.0	6.4
Old private banks			
Federal Bank	0.7	5.6	12.4
J&K Bank	0.4	5.9	6.7
Total	**45.9**	**317.4**	**14.5**

Source: Companies, Kotak Institutional Equities estimates.

Our base-case assumptions factor in a sharp rise in reported NPLs to account for likely deterioration of asset quality

Gross NPLs, Net NPLs of banks, March fiscal year-ends, 3QFY09, 2009E and 2010E

	Gross NPLs (Rs bn)			Gross NPLs (%)			Net NPLs (Rs bn)			Net NPLs (%)		
	3QFY09	2009E	2010E	3QFY09	2009E	2010E	3QFY09	2009E	2010E	3QFY09	2009E	2010E
Public banks												
Andhra Bank	4	6	17	0.9	1.4	3.3	1	1	7	0.2	0.2	1.5
Bank of Baroda	19	24	52	1.5	1.8	3.4	5	2	18	0.4	0.2	1.2
Bank of India	22	27	60	1.6	1.8	3.6	7	4	21	0.5	0.3	1.3
Canara Bank	25	28	71	1.9	2.1	4.6	17	12	36	1.3	0.9	2.3
Corporation Bank	6	9	24	1.2	1.9	4.1	1	2	13	0.3	0.5	2.3
Indian Bank	5	9	15	0.8	1.7	2.5	1	1	2	0.2	0.2	0.4
IOB	17	19	38	2.4	2.5	4.2	9	8	18	1.3	1.1	2.0
OBC	11	16	33	1.7	2.3	4.1	5	6	17	0.8	0.9	2.1
PNB	33	46	79	2.3	3.0	4.4	6	11	26	0.4	0.7	1.5
SBI	133	182	318	2.6	3.5	5.2	69	86	150	1.4	1.7	2.5
Union Bank	16	24	45	1.7	2.5	4.0	1	2	10	0.1	0.2	1.0
Overall public banks	**290**	**390**	**752**	**2.0**	**2.6**	**4.4**	**121**	**136**	**319**	**0.9**	**0.9**	**1.9**
Old private banks												
Federal Bank	6	9	14	2.8	3.7	5.1	1	1	1	0.3	0.4	0.5
J&K Bank	5	6	14	2.6	2.7	5.0	3	2	7	1.2	1.0	2.7
Overall old private banks	**12**	**15**	**28**	**2.7**	**3.2**	**5.1**	**3**	**3**	**9**	**0.8**	**0.7**	**1.6**
New private banks												
Axis Bank	8	14	36	0.9	1.7	3.5	3	4	14	0.4	0.5	1.4
HDFC Bank	19	24	55	1.9	2.8	5.1	6	3	14	0.6	0.3	1.3
ICICI Bank	96	116	155	4.5	5.1	6.4	45	46	60	2.1	2.1	2.6
Overall new private banks	**123**	**153**	**246**	**3.1**	**3.9**	**5.4**	**54**	**53**	**87**	**1.3**	**1.0**	**1.9**
Total	**425**	**558**	**1,026**	**2.3**	**2.9**	**4.6**	**178**	**192**	**415**	**1.0**	**1.0**	**1.9**

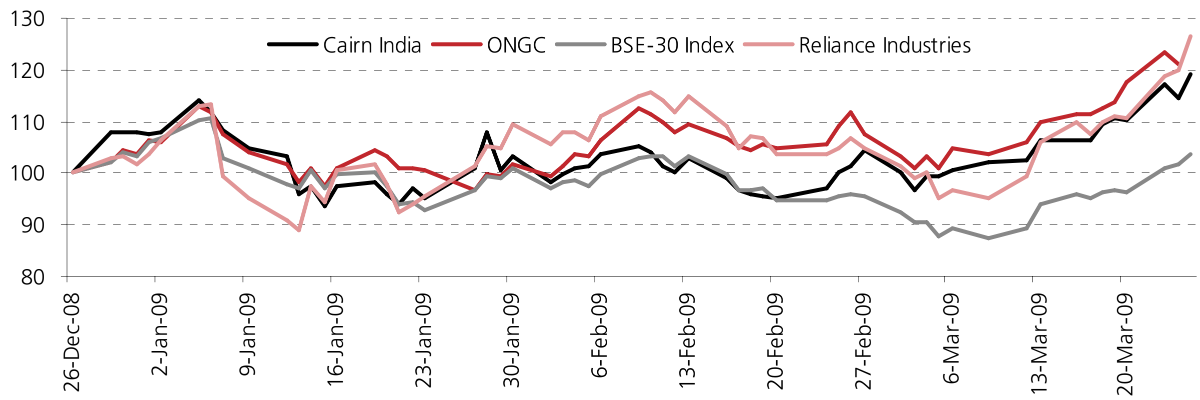
Source: Companies, Kotak Institutional Equities estimates

Most of the banks are currently trading well below their FY2010E book value
P/B ratio of Indian banks, March fiscal year-ends, 2009E-10E (X)

	P/B (X)	
	2009E	2010E
Indian Overseas Bank	0.4	0.4
Oriental Bank of Commerce	0.4	0.4
Corporation Bank	0.5	0.4
J&K Bank	0.5	0.5
Federal Bank	0.6	0.5
Indian Bank	0.7	0.6
Andhra Bank	0.6	0.6
Union Bank	0.8	0.7
ICICI Bank	0.8	0.8
Canara Bank	0.7	0.8
Bank of Baroda	0.8	0.8
Punjab National Bank	1.0	0.9
Bank of India	1.0	0.9
State Bank of India	1.3	1.3
Axis Bank	1.4	1.3
HDFC Bank	2.5	2.2

Source: Kotak Institutional Equities estimates

Cairn, ONGC and Reliance Industries have significantly outperformed BSE-30 Index over the past three months
Price performance of Cairn, ONGC and Reliance Industries stock (base as 100)



Source: Bloomberg

Stocks likely to lose weight in the new format of Nifty are mainly under-owned stocks

Analysis of over/under ownership by FIIs and MFs, December 2008

	Likely weight loss in Nifty (bps)	Over/(under) ownership FIIs (%) BSE-200	BSE-100	Nifty	MFs (%) BSE-200	BSE-100	Nifty
NTPC	(605)	(4.2)	(4.8)	(6.7)	(4.7)	(5.4)	(7.2)
Oil & Natural Gas Corporation	(557)	(3.5)	(4.1)	(5.9)	(2.5)	(3.1)	(4.9)
Power Grid Corporation of India	(150)	(1.1)	(1.3)	(1.7)	(1.1)	(1.2)	(1.7)
Steel Authority of India	(133)	(0.9)	(1.1)	(1.5)	(0.9)	(1.1)	(1.5)
Bharti Airtel Limited	(120)	1.9	1.3	(0.4)	(0.6)	(1.3)	(3.0)
TCS	(116)	(0.6)	(0.8)	(1.4)	(0.6)	(0.8)	(1.3)
DLF	(110)	(1.0)	(1.3)	(1.8)	(1.7)	(1.9)	(2.5)

Source: BSE, NSE, Kotak Institutional Equities

NTPC, ONGC likely to lose maximum weight in Nifty Index; Infosys, ICICI Bank and L&T to gain

Major gainers and losers of weight in Nifty Index after the computation method is changed to free-float market capitalization (bps)

Company	Weight in index (%) Total	Free-float	Diff. (bps)
NTPC	8.2	2.1	(605)
Oil & Natural Gas Corporation	9.1	3.5	(557)
Power Grid Corporation of India	2.3	0.8	(150)
Steel Authority of India	2.0	0.7	(133)
Bharti Airtel Limited	6.3	5.1	(120)
TCS	2.8	1.6	(116)
DLF	1.5	0.4	(110)
Wipro	1.9	1.0	(96)
Reliance Petroleum	2.2	1.3	(87)
Cairn India	1.9	1.1	(84)
Reliance Power	1.3	0.5	(83)
Bharat Heavy Electricals	3.9	3.1	(79)
National Aluminium Co.	0.8	0.3	(56)
Tata Communications	0.8	0.5	(33)
Reliance Communications	1.8	1.5	(30)
GAIL (India)	1.6	1.4	(20)
Sun Pharmaceutical Industries	1.2	1.1	(13)
Bharat Petroleum Corporation	0.7	0.6	(8)
HCL Technologies	0.4	0.3	(8)
Suzlon Energy	0.4	0.3	(6)
Unitech	0.3	0.2	(5)
Sterlite Industries (India)	1.3	1.2	(5)
Ranbaxy Laboratories	0.4	0.3	(4)
State Bank of India	3.6	3.6	(0)
Punjab National Bank	0.6	0.7	2
Siemens	0.4	0.5	5

Company	Weight in index (%) Total	Free-float	Diff. (bps)
Reliance Capital	0.5	0.5	7
ABB	0.4	0.5	8
Zee Entertainment Enterprises	0.2	0.4	11
Tata Motors	0.4	0.5	12
Hero Honda Motors	1.1	1.2	12
Maruti Suzuki India	1.2	1.3	15
ACC	0.6	0.7	18
Ambuja Cements	0.6	0.8	19
Idea Cellular	0.8	1.0	20
Hindalco Industries	0.5	0.7	27
Reliance Infrastructure	0.6	1.0	34
Cipla	0.9	1.3	43
Mahindra & Mahindra	0.6	1.0	46
Tata Steel	0.7	1.2	47
Hindustan Unilever	2.8	3.4	51
Tata Power Co.	0.8	1.4	54
Grasim Industries	0.8	1.4	64
Reliance Industries	12.5	13.9	142
HDFC Bank	2.2	4.3	215
I T C	3.6	6.0	243
Housing Development Finance Corporati	2.4	5.2	276
Larsen & Toubro	1.9	4.8	284
ICICI Bank	2.2	5.3	316
Infosys Technologies	4.1	8.5	436
Nifty Index	**100**	**100**	**—**

Source: NSE, Kotak Institutional Equities

Economy

Sector coverage view	N/A

India Policy Roadshow: Optimism amongst policy-makers in stark contrast with market pessimism

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- **Planning Commission: Fiscal stimulus may help India grow at 6.3% in FY2010E**
- **GOI: Likely to step up infrastructure funding through annuities rather than toll**
- **IIFCL: Hopes to gear Rs1.0 tn of infrastructure investment by raising another Rs0.3 tn through bonds in FY2010E**
- **Finance Commission: Rising deficits could be rolled back post-present cycle**

KIE's India Policy Roadshow revealed that policymakers are optimistic and are confident the fiscal stimulus and new infrastructure financing initiatives would work. This is in stark contrast with current pessimism in the financial markets. Key takeaways from the first India Policy Soadshow were: (1) policy-makers are confident of fiscal stimulus stepping up consumption, investment and growth, (2) investment in road projects has suffered in 2HFY09, but government aiming to push through infrastructure projects on the basis of BOT through annuity financing rather than tolls, (3) NPAs may rise from present low levels but are not a concern for the banking system, (4) new discoveries in oil and gas may have a significant impact on energy security; and (5) IIFCL targeting infrastructure financing of Rs250 bn in FY2010E to finance Rs1.0 tn of infrastructure financing, but slow bidding by NHAI delaying infrastructure investments.

Kotak Institutional Equities (KIE) organized an 'India Policy Roadshow' aimed at improving understanding on the implementation and impact of policy measures taken to counter the challenges of the global meltdown and economic slowdown. As part of this initiative, we met several top policy-makers at Delhi on March 25, 2009. The upshot from these:

Infrastructure financing constraints significant, addressed on 'annuity' basis

Secretary to the Ministry of Shipping, Road Transport and Highways, Mr. Brahm Dutt agreed that infrastructure projects were facing financing constraints after having evoked very good response till September 2008. Thereafter, of the 60 projects slated for investments, only 22 attracted bids. Of these, only 7 projects were awarded. Financial closures were becoming a problem. Earlier, it was possible to have financial closures with only 8-10% as equity. In current times, equity was hard to get and debt, in spite of government guarantees, was possible only with about 25% equity.

Government of India (GoI) is preparing to meet this situation by:

- Promoting infrastructure investments under public private partnerships (PPP) on Build, Operate and Transfer (BOT) on annuity basis rather than toll basis.

This is because toll-based BOT projects were evoking less interest. The SPV route was also not very popular.

GOI has taken several steps which may help avert a slowdown in infrastructure investment

Other steps already undertaken by the GOI include:

- Entire Viability Gap Funding (VGF) of 40% is provided upfront
- Total Project Cost (TPG) for several projects has been raised by 10% at 2007 prices and 20% at 2006 prices
- RBI making first tranche of US$250 mn funding to IIFCL PLC, a UK-based subsidiary of IIFCL as part of GOI's plan to use US$5 bn of India's FX reserves

A team of top NHAI officials assisting Secretary in the meeting said that (1) cost of construction has come down as material costs have declined, (2) cost of financing has come down and internal rate of return (IRR) has gone up after availability of lower cost IIFCL financing. The viability of infrastructure projects has therefore improved.

Toll revenues may fall ahead, but not significantly

On the question whether falling toll revenues can significantly impact the returns to infrastructure projects ahead, the NHAI officials agreed that deflation ahead could affect toll collections at the margin as the toll rates were inflation-linked. However, they clarified that under the present formula, a 3% p.a. increase in toll was guaranteed and that tolls were raised by 60% indexation of WPI inflation. As such, unless inflation falls more than (-)5%, tolls would not decline from the present levels.

IFFCL gearing for large infrastructure financing, but NHAI bidding process delayed

Mr. S.S. Kohli, Chairman, IIFCL exuded confidence that situation was not as bad in India as the markets seem to be pricing. He explained that IIFCL was gearing large sums as follows:

- Has raised Rs100 bn through 6.85% tax free bonds. These bonds are are tax free despite no holding prescribed.
- IIFCL was hoping to make these bonds repoable
- It expects to raise another Rs300 bn through such bonds in FY2010, subject to government nod.
- So far, IIFCL was lending only directly, but with additional bond raising, it hopes to provide refinance, against which it expects Rs1.0 tn of infrastructure investment to go through.
- Multilateral assistance coming to IIFCL with the World Bank set to lend Rs1.2 bn to IIFCL, KfW providing Rs400 mn of Euros, ADB sanctioning Rs500 mn for infrastructure projects and the Board likely to approve another 700 mn.
- IIFCL was starting financing in the form of subordinate debt, which can provide for quasi-equity and can substantially take care of equity component for making available debt finance
- IIFCL has already has begun sanctioning loans with an average maturity of 10 years and 88 requests had been sanctioned a total amount of Rs8.14 bn. Of these 77 projects involving total capex of Rs130 bn have reached financial closures.
- IIFCL financing was being made available at about 7.85% rate of interest against its cost of raising of 6.85%. Its 1% spread included 0.40% for provisioning against standard assets and 0.25% as fee payable to GOI for its guarantees. Since IIFCL would now be providing large sums as refinance against bank's lending to infrastructure for tenors exceeding five years, actual infrastructure loans would be available to banks at 10.85% rate of interest.

IIFCL was of the view that it is adequately geared to meet the funding requirements of road, railways, seaports, airports, power, urban transport, gas, SEZs, etc. However, delays were ocuring more because of NHAI not pushing the bidding process. IIFCL was not worried about future non-performing assets (NPAs) and said that risk systems supported by CRISIL were at place.

PNB: Banks need not be worried about the NPA cycle

PNB Chairman, Dr Chakrabarrty was of the view that fears of rising NPAs was overblown. Most of the lending was collateral backed. If real estate prices fall temporarily, they should be of no concern as banks can provide against these NPAs and can hold sticky portfolio till such time as the real estate prices turned back higher. He added that corporate exposure was manageable, even in case of some stressed real estate firms. Other key points:

- CASA would come down, but NIMs would remain protected

- Lending rates are sticky and can come down only when deposit rates come down, which could happen only if small saving rate is lowered and sub-PLR lending stopped to curb cross-subsidization of loans
- Interest rate scenario was currently benign, but the next shock could be upwards
- It may be appropriate for RBI to take private placement of government debt for a short period of 1-2 years in view of extra-ordinary circumstance
- PNB was not keen to invest in gilts beyond the prescribed SLR
- PNB expect a 20% loan growth and a 18% deposit growth in FY2010E in its books

ONGC: New discoveries significant

Mr. B.L. Ghasoliya, Director (Finance) ONGC was of the view that new discoveries in hydrocarbons in India was changing the landscape of business and providing better energy security. It was explained:

Key takeaways:

- ONGC had 33 new discoveries. It includes 13 prospects (i.e new fields) and 22 pools (new horizons in the existing fields)
- KG-DWN-98/2 block is significant in terms of new oil discovery in addition to the six gas discoveries it had earlier. It however, required further exploration at deep levels which required more technological facilitation.
- Block IG discovery in KG basin is important but its implications were as yet unclear. However, they indicated that while it was very significant, it may be less than what was being earlier thought and this production from this may still remain a small proportion of Bombay High.
- ONGC officials were also worried about steep rise in oil rig hiring rates.
- Ministry has informed that no oil subsidy would be due for 4QFY09 and ONGC agreed with the assessment that so long as crude stays at below US$52/b, no subsidy may be due.

13th Finance Commission: Fiscal worries appear overblown

Mr. Sumit Bose, Secretary, Finance Commission and Dr. Ratin Ray, Economic Advisor, were confident that fiscal deterioration was temporary and that Commission could recommend measures aimed at arresting some of deterioration. Their perception was:

- FRBM had worked, except for the exceptional circumstances this year. While there was a case for building anti-cyclical fiscal rules under FRBM, this was not easy and international experience suggests that they have not been very successful either.
- Introduction of Goods and Services Tax (GST) from April 2010 could make a significant difference even if introduced on a revenue neutral basis. GST could improve revenues considerably as growth picks up and was a plus sum game and can raise India's GDP by about 1%.
- NREG could be ramped up and down quickly and this gave fiscal space.
- There has been impressive turnaround in State government finances which have now moved to revenue surpluses. While there could be some deterioration ahead, State finances would remain quite manageable and in fact, there was a worry that some State's were compressing deficits too fast at the expense of their planned/capital spending.
- Of the two states whicxh are yet to sign fiscal responsibility legislation – Sikkim and West Bengal – the former's fiscal performance was exceptionally good.

Planning Commission: Fiscal stimulus would work

Dr. Kirit Parikh, Member, Planning Commission exuded confidence that fiscal stimulus measures would work for the economy. Highlights:

- He expects Indian economy to record a 6.3% real GDP growth in FY2010E on the back of the fiscal stimulus provided by GOI. Growth could rise to 7% plus with additional spendings.
- Fiscal stimulus would significantly push consumption demand, which in turn may revive investment demand and keep growth high even in the downturn
- Strategy was to direct investment spending to ready-shovel projects. These could give quick returns. Construction and road projects could be leading investments and this could have spin offs for cement and employment
- Export growth may still remain +5.0% in FY2010E as gems and jewelry and textile exports have already suffered
- FDI flows are expected to remain high through private remittances could fall
- Fiscal deficit was not a worry. It should not be seen as an absolute number and if ways to increase productivity and employment existed, they could be financed with increased deficits.
- Subsidies were an integral part of the political economic process. They cannot be cut easily, but could be targeted better. Furthermore, there was a case to eliminate subsidies on products consumed by the rich, which included petrol and LPG.

Overall perception

Overall perception from the India policy roadshow meetings was that there was some disconnect between confident policy-makers who expect policy measures to work and pessimistic markets which seem unduly worried about the contagion from the global financial meltdown and slowing advanced economies to affect Indian economy.

Our own view is that confidence amongst policy-makers was more than warranted. This may be the result of a communication strategy on their part to positively affects business confidence. On the other hand markets were overtly pessimistic and indeed it was possible to manage downturn. The reality may be a convex combination of the two views. More importantly, since the bad outcomes appear to be already priced in by the markets, there could be an upside from here as policy-measures can have some favorable impact ahead in terms of aggregate demand and investment.

Energy

GAIL.BO, Rs234	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	240
52W High -Low (Rs)	310 - 165
Market Cap (Rs bn)	296.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	180.1	231.9	341.7
Net Profit (Rs bn)	25.9	29.5	24.9
EPS (Rs)	20.4	23.3	19.7
EPS gth	*21.0*	*14.2*	*(15.6)*
P/E (x)	11.5	10.0	11.9
EV/EBITDA (x)	5.7	5.4	6.6
Div yield (%)	2.9	3.1	2.9

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
15.6	16.9	(12.9)	(17.7)

Shareholding, December 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.3	-	-
FIIs	15.9	1.0	(0.0)
MFs	2.8	0.8	(0.2)
UTI	-	-	(1.0)
LIC	8.9	2.0	1.0

GAIL (India): Better entry point could provide higher returns; downgraded to REDUCE

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- **Limited upside to our target price of Rs240**
- **Stock performance will be muted due to lack of positive triggers**
- **Time to book profits and look for better entry points; retain estimates**

We have downgraded GAIL to REDUCE from ADD noting that (1) the stock is trading near our 12-month target price of Rs240 and (2) its strong outperformance over the last two months. GAIL stock has rallied 19.7% since February 1, 2009 versus the BSE-30 Index's 2.6% rise over the same period (exhibit 2). We suggest investors book profits after the recent large outperformance. We continue to like the GAIL story given its strong fundamentals in a fast-growing gas market and expect it to benefit from the start of RIL's KG D-6 gas; however, the full impact will be seen in FY2012E. We do not see any positive triggers for the stock in the near term which could provide upside to the stock. Thus, we would look at more appropriate entry points into the stock. We retain our earning estimates and 12-month SOTP-based target price of Rs240. Key upside risk stems from stronger-than-expected commodity prices.

Valuations full—12-month target price of Rs240 offers limited upside. We have downgraded GAIL stock to REDUCE from ADD as we find it difficult to justify valuations beyond our SOTP-based target price of Rs240. Our target price of Rs240 is based on DCF-based valuations of existing pipelines assuming (1) tariffs as per the methodology given in the gas transportation regulations and (2) back-ended capacity augmentation with phase-II of the three new pipelines (Dahej–Vijaipur–GREP expansion [DVGREP], Dadri–Bawana–Nangal [DBN] and Chainsa–Gurgaon–Jhajar–Hissar [CGJH]) likely to be completed between April and October 2011. We continue to like the GAIL story given its strong fundamentals and likely growth in transmission volumes led by (1) start of RIL's KG D-6 gas and (2) higher LNG imports. However, we would look at more appropriate entry points into the stock given (1) limited upside to our target price and (2) strong outperformance in the past two months.

Lack of positive triggers in the near term will result in muted stock performance. We do not see any positive triggers for the stock in the near future which could result in strong stock performance. Although the company would benefit from the start of RIL's gas from KG D-6 block, we believe that the full impact will be seen only in FY2012E when it commissions three new long-distance pipelines. Exhibit 3 shows our expected increase in GAIL's gas transportation volumes in FY2008-12E and also gives the breakup of GAIL's transportation volumes and tariffs by various pipelines. The slow ramp-up until FY2011E primarily reflects the already high utilization in GAIL's extant pipelines (exhibit 4). However, we expect a significant jump in gas transportation volumes in FY2012E once GAIL commissions three new long-distance pipelines.

Risk to earnings from slower-than-expected ramp up in volumes. We see risk to our earnings estimates from slower-than-expected ramp up in transmission volumes. GAIL management has indicated transmission volumes of 94.8 mcm/d for FY2010E. This is lower versus our current assumption of 105 mcm/d of transmission volumes in FY2010E and reflects slower-than-expected ramp up in volumes. However, this could also reflect the company's conservatism to ensure that it meets/beats its budget numbers.

Our EPS estimate for FY2010E would decline to Rs18.5 from 19.7 currently if the volumes are lower than our expectations. We will revise our estimates of transmission volumes for GAIL once we get more clarity on (1) allocation of gas from RIL's KG D-6 block, (2) ramp-up of gas supply and (3) progress on GAIL's new pipelines and compressors installations.

We value GAIL stock at Rs240 per share

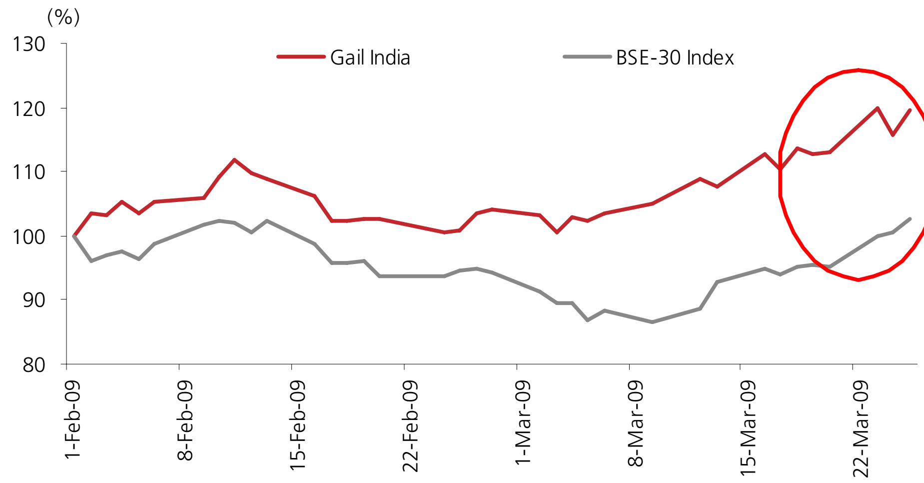
Sum-of-the-parts valuation of GAIL, FY2010E basis (Rs bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		EV
	Other	EBITDA	Other	EV/EBITDA	Other	EBITDA basis	(Rs/share)
Natural gas transportation							
HVJ pipeline	23				23		18
DV pipeline	30				30		24
DUPD pipeline	35				35		27
DBN pipeline	11				11		9
CGJH pipeline	5				5		4
DV GREP pipeline	46				46		36
Short distance pipelines		4.7		6.0		28	22
Total natural gas transportation							**140**
Other businesses							
LPG transportation		2.6		6.0		16	12
LPG production	25		1.00		25		20
Petrochemicals		3.3		6.0		20	16
Oil and gas upstream	22		0.80		17		14
Subsidy sharing scheme		(1.0)		1.0		(1)	(1)
Total other business segments							**61**
Investments							
ONGC shares	46		0.80		37		29
Others	23		0.80		18		14
Investments	**69**		**0.80**		**55**		**43**
Total						**63**	**244**
Net debt/(cash)					3	3	2
Implied value of share (Rs/share)							**241**

Source: Kotak Institutional Equities estimates

Gail India have outperformed the broad market since February 2009

Relative performance of Gail and BSE-30 Index (%)



Source: Bloomberg, Kotak Institutional Equities

We expect slow ramp up in gas volumes between FY2009 and FY2011E

Key assumptions behind GAIL model, March fiscal year-ends, 2006-2012E

	2006	2007	2008	2009E	2010E	2011E	2012E
Volumes							
Natural gas transportation, gross (mcm/day)							
HBJ pipeline	32	32	32	32	32	32	32
Dahej-Vijaypur-GREP upgradation							30
Dadri-Bawana-Nangal					1	3	16
Chainsa-Jhajjar-Hissar						3	8
Other pipelines	36	39	40	41	48	55	60
Regassified LNG							
Dahej-Vijaipur pipeline (transmitted and sold)	7	6	9	9	15	20	25
Dahej-Vijaipur pipeline (transmitted)	4	4	6	6	10	10	10
Dahej-Uran pipeline			6	9	12	12	12
Panvel-Dabhol pipeline			4	6	8	10	12
Elimination of double-counted volumes (a)	(1)	(3)	(15)	(18)	(21)	(28)	(48)
Total gas transmission	**79**	**77**	**82**	**85**	**105**	**117**	**157**
Prices							
Natural gas (Rs/cubic meter)							
Natural gas ceiling price	3.52	4.21	4.21	4.59	6.50	6.50	6.50
Regassified LNG including transportation	6.47	6.93	6.44	7.02	8.98	8.83	8.68
Transmission plus marketing charges							
HBJ pipeline, Dahej-Vijaipur pipeline (from FY2007)	1.15	0.99	0.96	1.05	0.66	0.66	0.66
Dahej-Vijaypur-GREP upgradation					0.94	0.94	0.94
Dadri-Bawana-Nangal					0.59	0.59	0.59
Chainsa-Jhajjar-Hissar					0.48	0.48	0.48
Dahej-Vijaipur, Dahej-Uran, Panvel-Dabhol pipeline	0.69	0.99	1.03	1.04	0.81	0.81	0.81
Other pipelines	0.42	0.40	0.42	0.44	0.43	0.42	0.41

Note:
(a) Gas transported through the HVJ or DV pipeline and then to smaller pipelines.

Source: Company, Kotak Institutional Equities estimates

GAIL has limited capacity available in its extant pipelines

Gas pipeline capacity & operating rate, March fiscal year-ends, 2008 (mcm/d)

	Capacity	Operating rate
Natural gas pipeline		
Hazira-Vijaipur-Jagdishpur	33.4	32.0
Dahej-Vijaipur	23.9	15.0
Dahej-Uran	12.0	6.0
Dabhol-Panvel	12.5	4.0

Source: Kotak Institutional Equities estimates

GAIL (India) Ltd: Profit model, balance sheet, cash model of GAIL, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	163,513	160,472	180,082	231,865	341,726	394,806	558,115
EBITDA	**35,731**	**29,896**	**38,976**	**41,853**	**35,593**	**39,720**	**55,357**
Other income	4,555	5,450	5,564	7,218	7,173	6,727	6,750
Interest	(1,174)	(1,071)	(796)	(756)	(923)	(1,805)	(5,862)
Depreciation	(5,595)	(5,754)	(5,710)	(5,574)	(5,816)	(6,478)	(9,182)
Pretax profits	**33,518**	**28,521**	**38,034**	**42,742**	**36,027**	**38,165**	**47,063**
Tax	(9,221)	(7,941)	(12,525)	(12,955)	(10,940)	(11,188)	(9,374)
Deferred taxation	(445)	(190)	(10)	(247)	(161)	(775)	(3,923)
Net profits	**23,101**	**23,867**	**25,716**	**29,540**	**24,926**	**26,201**	**33,766**
Earnings per share (Rs)	**18.2**	**18.8**	**20.3**	**23.3**	**19.7**	**20.7**	**26.6**
Balance sheet (Rs mn)							
Total equity	99,733	113,929	130,049	148,705	163,738	180,045	201,939
Deferred taxation liability	12,997	13,187	13,197	13,444	13,604	14,380	18,303
Total borrowings	19,166	13,379	12,659	20,159	18,959	67,759	100,559
Current liabilities	37,522	45,512	60,604	50,737	57,477	62,204	76,724
Total liabilities and equity	**169,418**	**186,007**	**216,509**	**233,044**	**253,777**	**324,387**	**397,525**
Cash	44,959	26,604	44,730	45,144	22,988	21,610	18,825
Other current assets	28,309	50,851	59,370	68,718	78,807	88,659	106,120
Total fixed assets	81,716	93,913	97,500	104,273	137,074	199,211	257,671
Investments	14,434	14,638	14,909	14,909	14,909	14,909	14,909
Total assets	**169,418**	**186,007**	**216,509**	**233,044**	**253,777**	**324,387**	**397,525**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	25,165	23,920	33,692	27,805	23,223	24,923	38,656
Working capital changes	5,950	(10,151)	(388)	(19,215)	(3,349)	(5,124)	(2,941)
Capital expenditure	(5,811)	(20,449)	(12,419)	(12,010)	(38,110)	(66,810)	(66,177)
Investments	(6,462)	(205)	(270)	—	—	—	—
Other income	3,995	3,884	4,042	7,218	7,173	6,727	6,750
Free cash flow	**22,837**	**(3,002)**	**24,658**	**3,797**	**(11,062)**	**(40,285)**	**(23,712)**
Ratios (%)							
Debt/equity	17.0	10.5	8.8	12.4	10.7	34.9	45.7
Net debt/equity	(22.9)	(10.4)	(22.4)	(15.4)	(2.3)	23.7	37.1
ROAE (%)	21.8	19.9	19.0	19.3	14.7	14.1	16.3
ROACE (%)	**19.7**	**15.5**	**17.6**	**17.8**	**13.5**	**12.0**	**13.0**

Source: Kotak Institutional Equities estimates

Metals

STRL.BO, Rs347	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	400
52W High -Low (Rs)	990 - 165
Market Cap (Rs bn)	245.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	247.1	220.6	192.9
Net Profit (Rs bn)	45.6	34.0	33.0
EPS (Rs)	64.3	48.0	46.6
EPS gth	*(22.6)*	*(25.4)*	*(2.9)*
P/E (x)	5.4	7.2	7.4
EV/EBITDA (x)	2.1	3.6	3.6
Div yield (%)	-	-	-

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
37.2	39.1	(22.4)	(51.1)

Shareholding, December 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.0	-	-
FIIs	18.9	0.8	0.1
MFs	3.9	0.8	0.1
UTI	-	-	(0.7)
LIC	2.1	0.3	(0.4)

Sterlite Industries: ASARCO breaks even in February; Maintain BUY with target price of Rs400/share

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- **ASARCO reports second month of profitability in February after loss in 4QCY08**
- **Copper prices continue to hold steady at US$3,800/ton**
- **Reiterate positive view on ASARCO, Maintain BUY with a TP of Rs400/share**

In its recent filings, ASARCO has reported a marginal EBITDA of US$2.94 mn for the month of February 2009 following a recovery in copper prices. However, it would have to be viewed in the backdrop of an EBITDA loss of US$68.44 mn in 4QCY08. The return to profitability is despite average LME copper prices for February 2009 at US$3,392/ton were lower compared to the 4QCY2008 average copper prices of US$3,793/ton. ASARCO has also announced that it would be reducing the working hours for some employees in response to weak market conditions and internal production requirements. Also, Hayden Copper in Arizona is scheduled for a planned shutdown from mid-May to end of June for annual maintenance. Meanwhile, ASARCO expects the first level of the approval it needs to change its agreement with Sterlite Industries by April 15, 2009. The entire agreement is subject to approval of the bankruptcy court in connection with the confirmation of ASARCO's plan of reorganization, which will enable ASARCO to conclude its chapter 11 case. We have a BUY rating on Sterlite Industries with TP of Rs400/share based on SOTP valuation.

ASARCO—acquisition to add value

Sterlite has announced the acquisition of ASARCO for a consideration of US$1.7 bn—of this, US$1.1 bn would be paid upfront and the balance US$600 mn would be paid over a period of nine years which would be in the form of a senior secured, non interest bearing promissory note. The deal has been backed by two letters of credit totaling US$100 mn issued by ABN AMRO, Chicago and an additional US$25 mn letter of credit would be issued if the bankruptcy court approves the disclosure statement for ASARCO's reorganization plan. Upon closing, ASARCO will release Sterlite from any claims arising out of the first purchase and sale agreement signed in May 2008.

In NPV terms, the acquisition value is US$1.3 bn. Sterlite would be acquiring the operating assets of ASARCO which include smelting capacity of 270,000 tons, refining capacity of 500,000 tons and copper mines with an estimated reserve of 5 m tons of copper (to last 25 years). Sterlite has indicated that it would not be acquiring any liabilities and would be completely ring-fenced from existing environmental liabilities. We believe the acquisition will likely be positive for Sterlite given (1) the mining reserves of ASARCO, (2) Sterlite's past operational track record, no other company would be better equipped to reduce costs at ASARCO and (3) attractive acquisition price given current copper prices.

Our DCF calculation indicates that, at a long-term copper price of US$3,800/ton, the ASARCO deal would be value neutral to Sterlite. Current copper prices are at US$3,850/ton.

About ASARCO

ASARCO is an integrated copper mining, smelting and refining company based in Tucson, Arizona, USA with approximately 2,500 employees. Formerly known as American Smelting and Refining Company, ASARCO is 110 years old and currently is the third largest copper producer in the United States. It sold 237,000 tons of refined copper in 2008 and had revenues of approximately US$1.9 bn. ASARCO's mines currently have estimated reserves of approximately 5 million tons of contained copper.

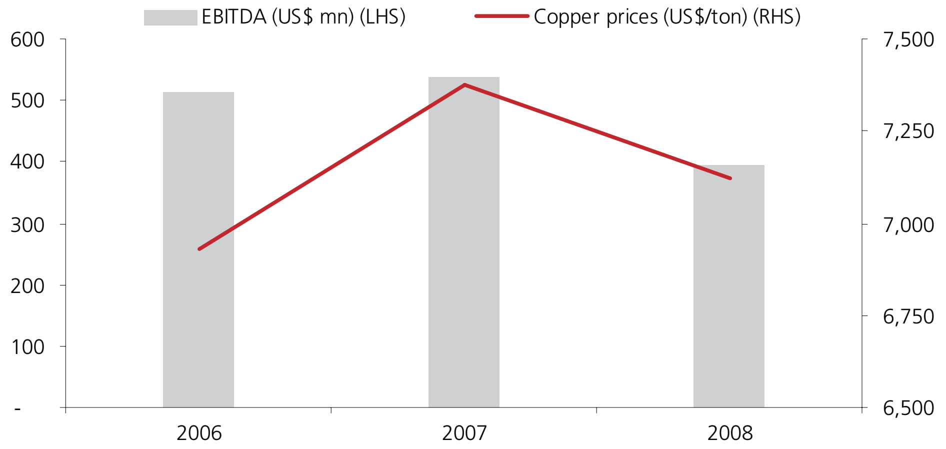
ASARCO, Consolidated statement of operations (US$ in '000)

	CY2006	CY2007	CY2008	1QCY08	2QCY08	3QCY08	4QCY08	Jan-09	Feb-09
Sales	1,327,084	1,687,904	1,696,382	534,644	470,463	468,206	223,069	55,471	67,285
Cost of products and services	775,676	1,101,843	1,259,636	407,110	260,918	308,878	282,730	51,734	61,869
SGA	36,578	42,538	37,351	10,656	9,651	9,680	7,364	1,950	2,384
Accretion expense	1,718	4,444	5,496	1,329	1,329	1,419	1,419	90	90
EBITDA	**513,112**	**539,079**	**393,899**	**115,549**	**198,565**	**148,229**	**(68,444)**	**1,697**	**2,942**
Other miscellaneous income/expense	139,150	82,738	105,048	19,361	24,832	37,562	23,293	3,612	2,354
Depreciation	27,310	35,972	37,402	8,903	8,976	11,346	8,177	3,500	3,339
EBIT	**624,952**	**585,845**	**461,545**	**126,007**	**214,421**	**174,445**	**(53,328)**	**1,809**	**1,957**
Interest expense	1,381	1,508	501	254	(128)	91	284	60	26
Interest income	16,838	39,008	27,667	8,341	9,322	6,083	3,921	458	377
Reorganisation expenses	31,833	76,362	92,203	16,887	29,647	25,109	20,560	3,367	2,669
PBT	**608,576**	**546,983**	**396,508**	**117,207**	**194,224**	**155,328**	**(70,251)**	**(1,160)**	**(361)**
Taxes	31,300	210,867	154,361	46,837	76,997	57,691	(27,164)	(455)	(141)
PAT	**577,276**	**336,116**	**242,147**	**70,370**	**117,227**	**97,637**	**(43,087)**	**(705)**	**(220)**
Adj PAT	**429,109**	**412,478**	**334,350**	**87,257**	**146,874**	**122,746**	**(22,527)**	**2,662**	**2,449**
Average Copper price (US$/ton)	**6,680**	**7,124**	**6,870**	**7,755**	**8,355**	**7,575**	**3,793**	**3,278**	**3,392**

Source: Company filings, US Bankruptcy Court

ASARCO's EBITDA has moved in line with copper prices

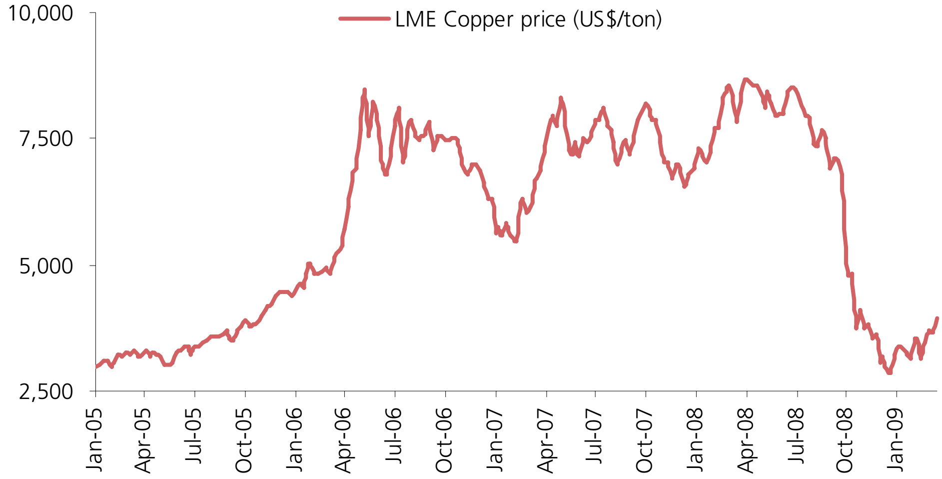
ASARCO's EBITDA (US$ mn) & copper prices (US$/ton), December calendar year-ends, 2006-08



Source: Kotak Institutional Equities

Copper prices have recovered 35% from its lows in December

LME cash prices of copper, December fiscal year-ends (US$/ton)



Source: LME, Kotak Institutional Equities

SOTP-based target price of Sterlite Industries is Rs400/share

SOTP-based target price of Sterlite, March fiscal year-ends, 2010E basis (Rs mn)

	EBITDA	Multiple	EV	Sterlite's stake	Attributable EV	EV
	(Rs bn)	(X)	(Rs bn)	(%)	(Rs bn)	(Rs/ share)
Zinc business	31	4.0	125	64.9	81	92
Aluminium business	9	4.0	35	51.0	18	20
Copper smelting business	11	4.0	44	100.0	44	62
Vedanta Aluminium (VAL) (a)						15
Copper mining						2
Power business (b)						45
Total enterprise value					**143**	**236**
Net cash /(debt)					**117**	**165**
Cash / (Net debt)					138	195
Share of debt in Associates (VAL)					(21)	(30)
Attibutable market capitalization					**260**	**401**
Target price (Rs/share)						**400**

Notes:

(a) Given that VAL is currently on an investment phase and the poor outlook on aluminium we have applied a 50% discount to Sterlite's equity investment in VAL

(b) We have valued investments in the power business (Sterlite Energy) on DCF-to-equity implying a P/BV of 1.3X

(c) We have applied holding company discount of 20% in case of stake in Hindustan Zinc, BALCO, Sterlite Energy and CMT.

Source: Company, Kotak Institutional Equities estimates

Sterlite Industries (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)						
Net sales	131,272	243,868	247,054	220,575	192,892	217,806
EBITDA	**36,899**	**94,589**	**78,682**	**48,906**	**50,981**	**62,208**
Other income	3,343	6,817	15,661	19,131	15,826	17,607
Interest	(2,353)	(3,791)	(3,186)	(3,772)	(3,663)	(3,715)
Depreciaiton	(5,269)	(8,039)	(5,950)	(8,706)	(9,269)	(10,656)
Profit before tax	**32,518**	**88,004**	**84,679**	**55,559**	**53,875**	**65,445**
Taxes	(10,165)	(24,118)	(21,027)	(8,096)	(8,379)	(10,546)
Less: Minority interest	(5,568)	(19,045)	(18,591)	(11,280)	(10,977)	(14,601)
Add: share in associates	(4)	-	-	(2,174)	(1,506)	(1,506)
Net profit	**16,781**	**44,842**	**45,061**	**34,008**	**33,012**	**38,792**
Earnings per share (Rs)	**60.3**	**82.3**	**64.2**	**48.0**	**46.6**	**54.8**
Balance sheet (Rs mn)						
Equity	60,530	99,815	223,024	244,809	270,863	301,914
Deferred tax liability	7,511	9,174	13,537	12,814	14,738	17,131
Total Borrowings	68,822	82,365	106,981	112,372	135,904	160,598
Current liabilities	34,113	48,636	50,401	31,817	29,738	30,950
Total liabilities	**170,976**	**239,990**	**393,942**	**401,812**	**451,243**	**510,593**
Net fixed assets	85,497	97,176	124,367	129,745	164,926	182,021
Investments	24,952	52,219	162,941	140,758	140,758	140,758
Cash	11,153	11,134	24,536	39,056	55,544	92,427
Other current assets	49,269	79,460	82,099	92,252	90,014	95,387
Miscellaneous expenditure	105	—	—	—	—	—
Total assets	**170,976**	**239,990**	**393,942**	**401,812**	**451,243**	**510,593**
Cash flow model (Rs mn)						
Operating cash flow excl. working capital	28,131	75,568	61,736	54,038	55,078	66,016
Working capital changes	(8,339)	(18,647)	2,032	1,177	1,658	(4,111)
Capital expenditure	(11,783)	(20,871)	(30,119)	(19,475)	(42,950)	(27,700)
Free cash flow	**8,009**	**36,049**	**33,648**	**35,740**	**13,786**	**34,205**
Ratios						
Debt/equity (X)	1.0	0.8	0.5	0.4	0.5	0.5
Net debt/equity (X)	0.2	(0.2)	(0.6)	(0.5)	(0.5)	(0.5)
RoAE (%)	28.9	50.7	26.1	13.8	12.2	12.8
RoACE (%)	**14.7**	**29.0**	**17.7**	**10.4**	**9.1**	**9.3**

Source: Company, Kotak Institutional Equities estimates.

Cement

ACC.BO, Rs563	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	550
52W High -Low (Rs)	860 - 365
Market Cap (Rs bn)	105.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	69.3	72.4	76.1
Net Profit (Rs bn)	12.1	10.6	8.6
EPS (Rs)	64.1	56.3	45.6
EPS gth	*13.0*	*(12.2)*	*(19.0)*
P/E (x)	8.8	10.0	12.4
EV/EBITDA (x)	4.5	4.9	5.9
Div yield (%)	4.1	4.2	4.2

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
0.6	23.2	(8.3)	(31.1)

Shareholding, December 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	46.2	-	-
FIIs	10.1	0.2	(0.1)
MFs	2.5	0.2	(0.1)
UTI	-	-	(0.3)
LIC	17.5	1.4	1.0

ACC: Large capex commitment to reverse market share loss

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- **Capex of Rs26 bn likely to be incurred over next two years**
- **ACC's coal costs up 47% yoy in FY2009 despite low dependence on imported coal**
- **Maintain REDUCE rating with target price of Rs550/share**

ACC's annual report for FY2009 suggests strong capex spending as the company builds capacity to correct volumes underperformance of the last few years. ACC incurred a capex of Rs14 bn during the year and at December-end had capital work in progress of Rs16 bn. We expect the capex momentum to continue in FY2010E as ACC plans to add almost 8 mn tpa capacity in the next two years. Higher other expenditure continues to weigh on profitability, while power and fuel cost increased by 25% yoy. ACC reported revenues of Rs72 bn (+4% yoy) and net profit of Rs10.5 bn (-13% yoy) for the full year ended December 2008. We have revised our earnings estimate to factor in higher depreciation and interest costs in FY2011E as well as firmness in near-term realizations. We maintain our REDUCE rating with target price of Rs550/share with revised EPS estimates of Rs45 (Rs44 previously) for FY2010E and Rs34 (Rs37 previously) for FY2011E. Our target price implies an EV/EBITDA of 5.8X on FY2010E earnings and EV/ton of US$88 on FY2010E production.

Debt of Rs2 bn raised to meet extant capex commitments, 8 mn tpa of capacity additions over the next two years. ACC raised Rs2 bn through non-convertible bond (@11.3% for a period of five years) to meet extant capex commitments. Upon completion of the extant capex plans, ACC's cement capacity will likely increase to 30 mn tpa by end-FY2011E. ACC has deferred plans for any new capital commitments on pipeline projects, though it remains committed to completing ongoing projects as per schedule. We estimate a further capex of Rs27 bn over the next two years in addition to extant CWIP of Rs16 bn already expensed on future capacity additions.

Volumes growth in FY2010E will be partially aided by expansion of the Bargarh plant by 1.2 mn tpa by mid-FY2010E. The expansion project at Wadi (3 mn tpa) is likely be commissioned by end-FY2010E. The new clinker line at Chanda (7,000 tpd equivalent to 3 mn tpa) along with a 25 MW captive power plant will also start production by end-FY2011E. We currently factor volumes of 22.4 mn tons in FY2010E and 24.3 mn tons in FY2011E.

Higher other expenditure continues to weigh on profitability, power and fuel cost rise by 25% yoy. ACC's profitability continues to be weighed down by higher other expenditure—30% higher than average of cement companies under coverage. We highlight that other expenditure has increased substantially on account of (1) higher repair and maintenance required to ensure efficient utilization of old capacities, and (2) consultancy charges, which likely includes expenses for ERP implementation and charges paid to parent company (~Rs475 mn).

We further highlight the 25% yoy increase in power and fuel costs on a per ton basis for ACC in FY2009, led by a 47% yoy increase on coal prices (partly compensated by higher blending and operating efficiencies). The increase in the price of coal remains a cause for concern, as ACC's low dependence on imported coal (less than 15%) suggests that the increase in coal prices was due to increased proportion of open market purchases (through e-auctions). We note ACC will not be able to capitalize on declining prices of imported coal as much as the regional players.

Key markets of ACC witnessing strong growth, but ACC may not best placed to capture growth. Uttar Pradesh, which contributes ~25% of ACCs cement sales, has seen a surge in demand in the past two months (18% increase yoy) accompanied by firming up of retail prices. ACC will likely see improvement in profitability on account of strong growth and firm prices in the near term in its key market. However, we note ACC's capacities in the region are running at full utilization and may not be able to capture volumes growth going forward. The new capacities being added by ACC are located in other regions (see Exhibit 1). We believe Jaiprakash Associates and Grasim, with their new capacities, will be able to better capture the volumes uptake.

RMC business has curtailed expansion plans, losses from extant capacities likely to continue. ACC's RMC business reported 40% yoy increase in revenues at Rs5.1 bn for FY2009E, and EBIT losses of Rs918 mn. We highlight that management has transferred the RMC business into a wholly-owned subsidiary ACC Concrete, and has ruled out any further expansion plans in the RMC business. We expect marginal improvement in profitability and estimate the RMC business to make EBIT loss of Rs720 mn in CY2009.

Maintain REDUCE rating with target price of Rs550/share. We maintain our target price of Rs550 and REDUCE rating on ACC. Our target price implies an EV/EBITDA of 5.8X on FY2010E and EV/ton of US$88/ton on FY2010E production. We have revised our earnings estimate to factor in higher depreciation and interest costs in FY2011E as well as firmness in near-term realizations.

Exhibit 1: ACC will likely incur a capex of Rs26 bn over the next two years

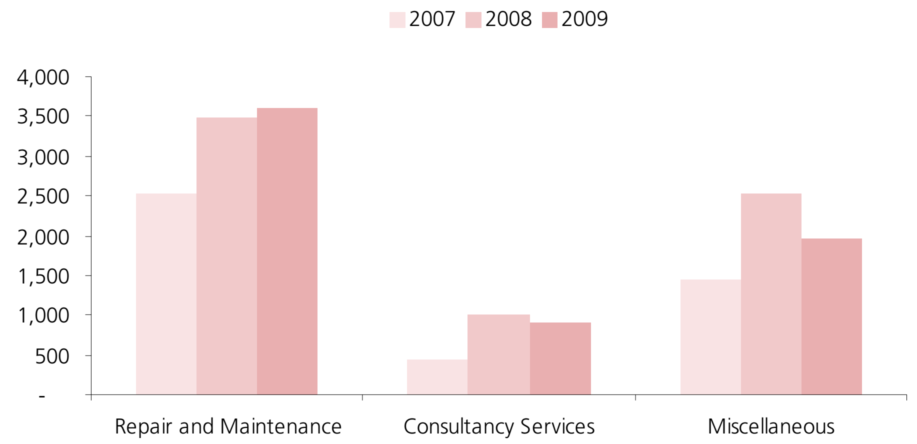
Details of capacity additions for ACC

Plant	State	Capacity (mn tpa)	Power (MW)	Commissioning
Bargarh	Orissa	2.0	30	Jun-09
Wadi II	Karnataka	3.0	50	Feb-10
Chanda	Maharashtra	3.0	25	Jun-10
Total		**8.0**	**105**	

Source: Company data, Kotak Institutional Equities estimates

Exhibit 2: ACCs other expenses continue to be significantly higher than industry average

Details of other expenses of ACC, FY2007-09 (Rs mn)



Source: Company data, Kotak Institutional Equities

Exhibit 3: Power and fuel costs were dented by 47% yoy increase in coal prices
Details of power and fuel costs, FY2006-09 (Rs mn)

	2006	2007	2008	2009
Coal consumption (mn tons)	1.8	2.4	2.5	2.3
Coal price (Rs/ton)	1,982	2,181	2,508	3,697
Growth (%)	*1.6*	*10.0*	*15.0*	*47.4*
Coal costs	**3,548**	**5,168**	**6,201**	**8,463**
Power and fuel costs	**6,699**	**9,727**	**11,946**	**15,990**
Power and fuel costs (Rs/ton)	517	514	589	742

Source: Company data, Kotak Institutional Equities

Exhibit 4: RMC business continues to report losses
Key financial data for RMC business (Rs mn)

	FY2009	FY2008	*(% Chg)*
Revenues	5,145	3,670	*40*
EBIT	(918)	(607)	*51*
Capital employed	1,121	866	*29*
RMC sales/Cement sales (X)	0.07	0.05	

Source: Company data

Exhibit 5: Change in estimates for ACC, December fiscal year-ends, 2009-11E (Rs mn)

	Revenues			EBITDA			Net profit		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
2009	72,333	72,370	0.1	20,215	19,712	(2.5)	10,570	10,571	0.0
2010E	75,246	76,061	1.1	16,988	17,373	2.3	8,373	8,562	2.3
2011E	77,555	79,123	2.0	15,579	15,960	2.4	7,119	6,544	(8.1)

Source: Kotak Institutional Equities estimates

Exhibit 6: Profit model, balance sheet, cash model of ACC (Consolidated), December fiscal year-ends, 2006-10E (Rs mn)

	2007	2008	2009	2010E	2011E
Profit model (Rs mn)					
Net sales	57,468	69,319	72,370	76,061	79,123
EBITDA	**15,666**	**18,421**	**16,608**	**14,747**	**13,617**
Other income	1,973	2,416	3,104	2,626	2,342
Interest	(752)	(739)	(400)	(262)	(371)
Depreciation	(2,543)	(3,051)	(2,942)	(3,333)	(4,451)
Pretax profits	14,345	17,048	16,371	13,778	11,138
Tax	(3,877)	(4,917)	(5,169)	(4,364)	(3,690)
Share in associates	231	(45)	(632)	(852)	(904)
Net profits	**10,699**	**12,086**	**10,571**	**8,562**	**6,544**
Extraordinary items	1,850	2,255	500	—	—
Earnings per share (Rs)	**56.7**	**64.1**	**56.3**	**45.6**	**34.8**
Balance sheet (Rs mn)					
Total equity	34,636	44,844	52,627	58,005	62,063
Total borrowings	7,712	3,064	4,820	2,791	7,761
Currrent liabilities	16,718	22,212	27,413	26,656	26,978
Total liabilities and equity	**59,066**	**70,120**	**84,860**	**87,452**	**96,802**
Cash	6,202	7,435	9,842	1,642	1,290
Current assets	13,861	14,596	17,510	18,019	18,793
Total fixed assets	33,959	39,641	50,718	61,000	69,928
Investments	5,035	8,448	6,791	6,791	6,791
Deferred Expenditure	9	—	—	—	—
Total assets	**59,066**	**70,120**	**84,860**	**87,452**	**96,802**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	13,614	15,819	14,391	13,294	13,187
Working capital	319	1,202	758	(1,266)	(452)
Capital expenditure	(5,366)	(8,283)	(14,940)	(13,616)	(13,379)
Investments	(1,939)	(2,921)	894—	—	—
Free cash flow	**6,627**	**5,818**	**1,103**	**(1,588)**	**(645)**

Source: Kotak Institutional Equities estimates

Industrials

CROM.BO, Rs106	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	140
52W High -Low (Rs)	290 - 99
Market Cap (Rs bn)	38.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	68.3	86.1	95.2
Net Profit (Rs bn)	4.1	5.1	5.6
EPS (Rs)	11.2	14.0	15.2
EPS gth	*43.0*	*25.3*	*8.4*
P/E (x)	9.5	7.6	7.0
EV/EBITDA (x)	5.4	4.6	4.1
Div yield (%)	1.5	1.6	1.7

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(16.2)	(18.4)	(57.4)	(60.8)

Shareholding, December 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	39.4	-	-
FIIs	13.2	0.2	(0.0)
MFs	20.5	1.1	0.9
UTI	-	-	(0.2)
LIC	1.5	0.1	(0.1)

Crompton Greaves: Correction over the top even reckoning for downside of group-compulsion-led investment; Downgrade to ADD

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- **Clearly a negative investment decision led by group-level financing considerations**
- **High merchant tariff unlikely; however, a book value investment may still have value**
- **Board dominated by independents; debt-free plans provide comfort**
- **Sector outlook could depress current confidence on core business**
- **Maintain earnings estimates with revised target price of Rs140; rate ADD**

Crompton Greaves' investment decision appears to be ill-founded given that (1) group-level financial considerations may have weighed in more than Crompton's own growth objectives and (2) management's investment case is based on very high return expectations which may not pan out. However, we maintain our estimates while downgrading the stock to ADD (from BUY) highlighting that (1) the investment is at book value, (2) the project has made partial progress and may have value given the proximity of coal and transmission system, (3) Crompton's board is dominated by independent directors (6 out of 8) with strong industry standing, (4) Avantha may not push both power projects considering tight capital situation and low demand visibility, limiting the equity requirement overhang, (5) no borrowings and investments to be funded from internal accruals, (6) existing capacity of Avantha may itself have profitability to justify portion of value and (7) sharp correction in the stock price over last two days. Strong core business guidance and winning 765 KV orders is positive, however, we note that (a) guidance may have a downside risks and (b) incremental evidence of intensification of import-based competition (from Hyosung) may be a medium-term sectoral negative.

A negative investment decision led by group level financing considerations

We believe that this investment decision is clearly a negative for the company and is probably led by group level financing considerations rather than independent opportunity evaluation for Crompton Greaves. This investment decision is likely to consume a large portion of cash flows of Crompton Greaves in a long gestation project which would start only in FY2013E.

The Avantha Group has two flagship companies i.e. Crompton Greaves and Ballarpur Industries. However, Crompton is probably the only company that is sizeable, debt free (on standalone basis) and free cash flow generating. Ballarpur Industries, on the other hand, had high consolidated debt-equity ratio of 1.3 at the end of its financial year in June 2008.

Full equity for the project has not been tied up; financial closure is actually only an underwriting commitment by Axis Bank

Full equity for even the first power project has not been tied up and the equity requirement may increase if the group decided to pursue second power plant as well. Crompton is likely to retain an equity stake of 26% in the Avantha Power and Infrastructure. Total project cost is likely to be Rs28.5 bn and at 75:25 debt-equity structure a total equity of Rs7.2 bn would be required. Current available equity is of the order of Rs5.5 bn. Thus, further equity of Rs2.2 to Rs2.4 bn would be required by the Korba project and if the Jhabua project also progresses, the equity requirement would further increase. We are not clear as to how the remaining equity gap of Rs2.2-Rs2.4 bn would be bridged by Avantha Power. Avantha Power is looking forward to induct further equity through (1) strategic investor, (2) promoters or (3) Ballarpur Industries. The management claimed to have placed the order on BHEL for EPC of the power plant (however no advance seems to have been paid so far) and have competed the 70% of land acquisition. Public hearing and ensuing environmental clearance is likely to be complete within a month or so.

Crompton would not borrow to fund the investment and would remain debt-free

Crompton categorically stated that both buyback as well as investment decision would be funded out of internal accruals and Crompton would not borrow to meet these commitments and would continue to remain a debt-free company.

Investment case based on high merchant tariff assumptions that may not pan out; however, a book value investment may have value

While making a case for investing in power venture, Crompton has stated that it expects RoE of the order of 40% from the power project post its completion in FY2013E. We highlight that this expectation is based on very high merchant tariff assumption of Rs4.4 that may not pan out considering the spate of capacities coming on the merchant power route. Blended realization is likely to be of the order of Rs3 versus the cost of generation of about Rs1.9. Blended realization is based on 5% sales to Chhattisgarh on a variable basis, 30-35% sales based on CERC tariff and rest of the 60-65% of capacity to be sold on merchant tariff.

We note that there are advantages in having a coal mine and transmission system located at short distances from the power project. The management cited the virtue of investing in power projects at book value despite the fact that the project has made some progress in terms of approvals process has better value.

Profitability of existing capacity of Avantha may itself justify part of the investment value

We believe that existing capacity of 160 MW (generation of about 1 bn units) may generate revenues of Rs3-4 bn and may have profitability of the order of Rs0.3-0.4 bn (10% net margin). This profitability itself could justify portion of the investment value for Crompton in Avantha power. The company had highlighted that they expect Rs5.5 bn of revenues in FY2010E and a PAT of Rs450 mn.

Unlikely that Avantha would push both MP and Chhattisgarh power projects in tight capital and unclear demand environment (merchant power)

Currently, progress is stronger on the Korba project and Jhabua project is running behind by about six months and may be taken up later on.

We believe the second project would be taken up only after the first project has taken off as the promoter may find it tough to bring in so much equity in the current environment of tight capital availability. However, the second project and its potential equity requirement may be challenging.

Board constitution – dominated by independents with strong standing and having clear separation of ownership and management

We highlight that Crompton has a strong board with only two non-independent members (i.e. Mr. Trahan and Mr. Thapar)—the rest all are independent with strong standing in the Indian industry (Exhibit 1). Crompton claims to have followed the letter of the law completely in terms of getting approvals from board committees etc. The investment proposal was also reviewed by the audit committee before being recommended to the board for approval. The investment of Rs2.3 bn is well within the limits prescribed by Section 372A of the Companies Act, 1956 and hence, shareholder approval is not mandatory.

Strong core business guidance in terms of growth, margins and working capital; however may have disappointments in face of sectoral downturn

Crompton is confident of 10% growth in overseas subsidiaries (ex-currency adjustments) and 15% growth in domestic business while sustaining margins. Crompton is confident that working capital has not deteriorated and is unlikely to deteriorate further.

However, we highlight that ABB and Areva have reported stress in the business in terms of price pressure, elongation of working capital and sedate demand momentum. Thus, we would be skeptical of Crompton's assertion that it is relatively unaffected by the current scenario.

765 KV order from PGCIL is positive, however, it may herald even more aggressive import-led competition than we saw in generation

Crompton has won an order from PGCIL for 14 765 KV transformers from PGCIL, the rest of the 35 transformer order has gone to the Korean company Hyosung. Crompton made the case that Hyosung's aggressive bid (about 27% lower than Crompton) may have been based on an erroneous calculation, we are not so sure and believe it could portend strong import-led competition for the T&D business—even worse than seen in the generation segment. We believe competition may be much stronger in T&D segment as (a) there is well developed domestic industry and (b) the product is less strategic than generation equipment and may not get a breather from the government.

Crompton has won the order based on Ganz's technology and first 11 transformers are likely to be imported from overseas subsidiaries and the remaining three would be manufactured in Bhopal. This completes one batch of ordering activity by PGCIL. Next year, another batch of sixty 765 transformer orders would be placed by PGCIL.

We cut rating to ADD from BUY earlier with a revised target price of Rs140

We maintain our earnings estimates and have cut our target price to Rs140/share (implying 9X FY2010E versus about 11X earlier, Exhibit 3) from Rs170/share and have reduced our rating to ADD from BUY. Our earnings estimates have not changed as we had assumed a sharp deterioration in working capital, which we have corrected slightly, leading to cash becoming available for investment in power venture without materially affecting other income etc.

We assign an ADD rating—despite perceptions of violations of corporate governance norms through the investment in a group's power venture—based on (a) book value investment, (b) some progress and value of the power project itself, particularly as coal and transmission system are nearby, (c) strong independent directors on the board with majority of 6 out of 8 seats, (d) investment being funded from core business and no borrowings, (e) strong near-term outlook on core business and (f) sharp correction in the stock price over the past two days.

Exhibit 1: Crompton has strong board constitution with only six independents out of eight board members
Details of the members comprising the Board of Directors of Crompton Greaves

Name	Status	Since	
Mr Gautam Thapar	Chairman	NA	NA
Mr SM Trehan	Managing Director	NA	NA
Mr Scott Bayman	Non-executive, Independent	2007	Ex. President and Chief Executive Officer, GE India
Dr Omkar Goswami	Non-executive, Independent	2004	Independent director on Infosys board
Mr Sanjay Labroo	Non-executive, Independent		Managing Director & CEO, Asahi India Glass Limited
Ms Meher Pudumjee	Non-executive, Independent	2006	Chairperson, Thermax Ltd
Mr SP Talwar	Non-executive, Independent	2005	Senior Adviser, Yes Bank; former Deputy Governor of RBI
Dr Valentin von Massow	Non-executive, Independent	2006	Independent Consultant; been associated with BCG for 19 years

Source: Company, Websites

Exhibit 2: Our DCF-based target price is Rs140 per share
DCF valuation of Crompton Greaves, Marc fiscal year-ends, 2009E-2020E

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues	86,117	95,210	106,532	119,627	129,197	139,533	150,696	162,751	175,772	189,833	205,020	221,421
Growth (%)	26.0	10.6	11.9	12.3	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
EBIT (excl finl income)	8,022	8,501	9,693	11,115	11,628	12,558	13,563	13,020	14,062	15,187	16,402	17,714
Growth (%)	29.9	6.0	85.2	14.7	4.6	8.0	8.0	(4.0)	8.0	8.0	8.0	8.0
EBIT Margins	9.3	8.9	9.1	9.3	9.0	9.0	9.0	8.0	8.0	8.0	8.0	8.0
Effective tax rate	33.2	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8
EBIT*(1-tax rate)	**5,362**	**5,624**	**6,415**	**7,355**	**7,694**	**8,310**	**8,975**	**8,616**	**9,305**	**10,049**	**10,853**	**11,721**
Growth (%)	(12.9)	4.9	14.1	14.6	4.6	8.0	8.0	(4.0)	8.0	8.0	8.0	8.0
Depreciation / Amortisation	1,196	1,239	1,298	1,380	1,587	1,596	1,619	1,654	1,702	1,762	1,836	1,922
Change in Working Capital	(4,488)	(2,631)	(3,725)	(1,933)	(1,436)	(1,550)	(1,674)	(2,049)	(2,213)	(2,390)	(2,734)	(2,952)
Capital Expenditure	(1,619)	(4,065)	(1,999)	(2,373)	(1,675)	(1,809)	(1,953)	(2,110)	(2,279)	(2,461)	(2,658)	(2,870)
Free Cash Flows	**451**	**168**	**1,990**	**4,429**	**6,171**	**6,547**	**6,965**	**6,110**	**6,515**	**6,960**	**7,297**	**7,821**
Growth (%)	(88.2)	(62.8)	1,085.5	122.6	39.3	6.1	6.4	(12.3)	6.6	6.8	4.8	7.2
Years discounted	—	—	1	2	3	4	5	6	7	8	9	10
Discount factor	1.0	1.0	0.9	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3
Discounted cash flow	**451**	**168**	**1,753**	**3,438**	**4,221**	**3,945**	**3,698**	**2,858**	**2,685**	**2,527**	**2,335**	**2,204**

WACC calculation (%)		Terminal value calculation		NPV calculation	
Risk-free rate (Rf)	8.5	Cash flow in terminal year	7,821	Sum of free cash flow	29,832
Beta (B)	1.0	Terminal growth rate (%)	5.0	Terminal value	27,231
Equity risk premium	6.5	Capitalisation rate (%)	8.5	Enterprise value	57,062
Expected market Return (Rm)	15.0	Terminal value	96,609	Add Investments	934
Cost of Equity (Ke)	15.0	Discount period (years)	10.0	Net debt	5,751
Cost of Debt (Kd) (Post-tax)	8.0	Discount factor	0.3	Net present value-equity	52,245
WACC	**13.5**	Discounted value	27,231	Shares o/s	367
Calculated WACC	12.3			**NPV /share(Rs)**	**143**

Capital Structure (%)	
Net debt	39.3
Equity	60.7

Source: Company, Kotak Institutional Equities estimates

Others

ABAN.BO, Rs332	
Rating	REDUCE
Sector coverage view	0
Target Price (Rs)	300
52W High -Low (Rs)	4292 - 221
Market Cap (Rs bn)	12.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	20.2	31.9	36.7
Net Profit (Rs bn)	1.2	7.6	7.3
EPS (Rs)	72.3	142.4	185.5
EPS gth	-	*97.0*	*30.3*
P/E (x)	4.6	2.3	1.8
EV/EBITDA (x)	10.8	7.5	5.6
Div yield (%)	1.1	1.2	1.5

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(4.7)	(50.5)	(84.2)	(88.9)

Shareholding, December 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	60.8	-	-
FIIs	10.8	0.1	(0.0)
MFs	6.3	0.2	0.1
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Aban Offshore: Dayrates continue downward spiral, cash flows remain at risk

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- **Low rig demand and increasing newbuilds push jackup dayrates down to US$120-130,000**
- **We expect rig utilization and dayrates to remain under pressure; reduce estimates further**
- **Reduce target price to Rs300; maintain REDUCE**

We believe Aban's cash flows will remain under severe stress with jackup dayrates continuing their downward spiral and low rig contracting activity. We expect utilization levels and dayrates to continue to remain under pressure due to low rig demand and increasing newbuild addition. Aban's current cash flows will be insufficient to meet its debt servicing obligations, requiring significant debt refinancing/restructuring. We revise our model for lower assumptions for rig utilization, dayrates and currency exchange rate. Our revised EPS estimates for FY2010E and FY2011E is Rs185 and Rs324, respectively, versus Rs342 and Rs395 earlier. We reduce our target price to ,Rs300 (from Rs500) and maintain REDUCE.

Key concerns—idle rigs and large debt liability

- **Idle rigs continue to remain a major concern.** Increasing number of idle rigs in Aban's portfolio is a major risk to near-term earnings and cash flows. Aban currently has four idle rigs and further four more rigs are completing their contract over the next 3-4 months without any follow-up contract (see Exhibit 1 and 2). We believe under current market conditions, getting new contracts is becoming increasingly difficult, hence we expect significant underutilization of the rigs in the near term.
- **Delays in deployment of deepwater rigs pushing back cash flows.** Aban's deepwater rigs—Aban Abraham and Aban Pearl—which have been contracted for more than six months have still not started work on the contracts, pushing earnings and cash flows further back. Management indicates that Aban Abraham is expected to begin work soon, however, no timeline was guided for the same. In case of Aban Pearl, industry reports suggest that the contractee company is facing funding issues due to which mobilization of the rig is getting delayed. We believe there is high possibility of the contract being cancelled or modified.
- **Refinancing required for meeting the large debt liability.** We believe Aban's current cash flows will be insufficient to meet its large debt liability of around US$3.2 bn. Exhibit 3 shows the debt repayment schedule and its available cash flows (operating cash less capex). Aban will need substantial refinancing in FY2010E and FY2012E as large part of its loans come up for repayment during that period. We understand that management has partly refinanced its FY2009E debt repayment requirements. We highlight that Aban's high leverage ratios at 9.5X net debt-to-equity at end-FY2009E and 5.1X net debt-to-EBITDA FY2010E is a key risk for the future cash flows to equity holders. However, going forward, the cash flows can be lower than our estimate if there is longer-than-expected delay in contracting the rigs.

Reducing estimates for lower utilization and dayrates

We reduce our EPS estimates for FY2010E and FY2011E to Rs185 and Rs324, respectively from Rs342 and Rs395 to factor in further delay in contracting of rigs, lower dayrates and lower exchange rate assumptions (see Exhibit 4). Key changes to assumptions are:-

- **Lower operating days in FY2010E and FY2011E.** We reduce our operating day estimates for the uncontracted rigs as we expect many of the rigs will fail to get contracts over the next few months amidst difficult market conditions. We also build in a further delay in deployment of deepwater rigs—Aban Abraham and Aban Pearl due to lack of clarity from the management on their deployment schedule. We highlight that our utilization assumptions face further downside risk due to worsening demand conditions and low contracting activity. Exhibit 5 shows the changes made to our operating day assumptions for the various assets for FY2010-11E.
- **Reduce dayrate estimates, further downside cannot be ruled out.** We reduce our jackup dayrate estimates for the uncontracted rigs to around US$120-125,000 from earlier estimate of around US$145-150,000. Our terminal year average dayrate is also reduced to around US$130,000 from US$138,000. We highlight that many of the large rig operators are currently choosing to cold/hot stack their rigs rather than bidding at current rates. However, further downside to day rates cannot be ruled out if demand conditions do not improve over the next few months. Exhibit 6 contains the changes made to our dayrate estimates.
- **Revise Re/US$ exchange rate assumption** for FY2009E, FY2010E and FY2011E to Rs46.3, Rs53.3 and Rs53, respectively from Rs45.8, 48 and Rs47.

Market overview—tough ride ahead

- **Utilization and dayrates continue to remain under pressure.** Utilization and dayrates for jackup rigs continue to remain under pressure due to low rig demand. Industry reports indicate many subletting windows are available on already contracted rigs leading to very few tenders being issued for new contracts. Jackup utilization rates are down to 82% from 93% in mid-2008 while current dayrates are in the range of US$120-130 (down 40% from the peak of US$220,000). We believe low oil price (ranging between US$40-50/bbl) and liquidity constraints is forcing oil companies to postpone their drilling programs leading to low rig demand.
- **Surplus capacity and upcoming supply a major concern.** We believe surplus rig capacity coupled with large upcoming newbuild supply will keep dayrates under pressure. As per ODS-Petrodata estimates the marketable surplus of jackup rigs is expected to be around 75 units at end-CY2009 and further rise to average of 89 units over CY2010E (see Exhibit 7). The upcoming newbuild jackup supply of 78 rigs over next three years (36 in CY2009) with only 23% contracted will add to the oversupply.

Regional jackup market—idle rigs to be a norm

We believe dearth of jackup demand and new supplies indicate that idle rigs will soon become a norm in the jackup market. Over the next few months, we expect lot of negative news flow in the form of stacking of rigs, cancellation of construction orders due to liquidity issues, higher subletting of rigs etc.

- **Asia-Pacific**—The APAC jackup market has almost come to a standstill with no new contracts being awarded. There are no new requirements scheduled to start before 3QCY09 and all the tentative demand in 1HCY09 is likely to be pushed back further. As per ODS-Petrodata estimate, an average surplus of 11 jackups is expected over CY2009 which may further increase to 21 units in CY2010 with the newbuilds joining the fleet.
- **Africa**—The stalemate in the West African jackup market continues, with the number of stacked rigs increasing as near-term demand continues to diminish. Operators are reluctant to award fixtures too soon as the market continues to falter, while contractors remain wary of agreeing to panic charters at vastly reduced dayrates. Around 15 jackup rigs are expected to be available by mid-CY2009 leading to a large surplus jackup capacity in the region.

- **Middle East and Mediterranean**—Falling rig demand and increasing supply are likely to create a surplus in CY2009E and CY2010E. As per ODS-Petrodata estimates, average surplus in the Mediterranean regions is expected to be around 3.7 units in CY2009E and 6 units in CY2010E. For the middle east market average jackup surplus is estimated at 15 and 18 units for CY2009E and CY2010E respectively. Further few of the contracts have been renegotiated at much lower dayrates indicating that the downward trend in dayrates is likely to continue.
- **Latin America**—Latin America is the only region where jackup demand still remains strong mainly led by requirements from PEMEX. The region is expected to have deficit of 1-2 units over next twelve months. We expect idle rigs from other regions to be tendered for orders in Latin America.
- **US Gulf of Mexico**—US Gulf of Mexico is the worst hit region with almost 36 rigs lying idle or in shipyard. Already 18 units have been cold stacked and we expect this number to increase further as operators continue to postpone/cancel their drilling programs.
- **North-west Europe**—Tender activity in the region continues to remain low as operators are evaluation their drilling programs and awaiting further drop in dayrates. Marketed surplus of jackup rigs is expected to rise to around 7 units by end-CY2009 and 13 units by end-CY2010.

Reduce target price to Rs300; maintain REDUCE

We revise our 12-month DCF-based target price to Rs300 (from Rs500) to factor in lower earnings and cash flows. Our target price is lower mainly on account of reduction in dayrate estimates and lower utilization over next two years. We find Aban's current valuation at 5.7X FY2010E EBITDA expensive as compared to larger global peers which are trading at 3.8X two-year forward EBITDA and have better contractual status and lower leverage. We believe the recent run-up in Aban's stock price was largely on account of improvement in crude oil price and general upside in overall markets and provides an opportunity to exit.

Exhibit 1: Aban faces a risk of large number of idle rigs in the near future

Aban currently has four idle rigs with four more becoming available in next four months

Rig	Type	Water Depth (ft)	Status	Comment
Aban VII	Jackup	250	Idle since April 2008	
Murmanskaya	Jackup	300	Idle since June 2008	On bareboat charter till Nov 2009
DD 6	Jackup	350	Idle since October 2008	Newbuild idle since delivery
DD 7	Jackup	375	Idle since January 2009	Recently completed its contract
DD 1	Jackup	375	Contracted till May 2009	No further contract yet
DD 2	Jackup	350	Contracted till May 2009	No further contract yet
DD 4	Jackup	375	Contracted till May 2009	No further contract yet
DD 5 (1)	Jackup	350	Contracted till March 2009	Industry reports suggest next contract has been cancelled

Note:

(1) As per ODS-Petrodata, the contract with Huskey oil for 6 month firm period and 6 month option has been cancelled.

Source: Company, Kotak Institutional Equities

Exhibit 2: Contract status of Aban's rigs upto FY2012

Aban India	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12
Aban-II												
Aban-III												
Aban-IV												
Aban-V												
Aban-VI												
FPU Tahara												
Drillship Frontier Ice												
Aban Singapore												
Aban-VII												
Aban-VIII												
Aban Abraham												
Aban Pearl												
Sinvest												
Murmanskaya												
Deep Driller 1												
Deep Driller 2												
Deep Driller 3												
Deep Driller 4												
Deep Driller 5												
Deep Driller 6												
Deep Driller 7												
Deep Driller 8												
Deep Venture												

Note:
(1) Rigs marked in red are currently idle.
(2) Rigs marked in blue are contracted; however, yet to be deployed

Source: Company, Kotak Institutional Equities

Exhibit 3: Aban will need to refinance its debt to meet its repayment obligations
Debt repayment schedule, and refinance required for Aban March fiscal year-ends, 2009-15E (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Loan repayments							
Sinvest bonds and loans	—	11,320	4,459	18,286	4,138	200	9,600
Convertible notes	—	—	—	—	—	7,105	—
FCCB	—	—	—	2,184	—	—	—
Term loans	11,238	11,238	11,238	11,238	11,238	11,238	11,508
Preference shares	—	—	—	2,010	650	600	—
Total repayments (A)	**11,238**	**22,558**	**15,697**	**33,717**	**16,026**	**19,143**	**21,108**
Cash flows							
Operating cash flow	10,687	10,156	15,752	16,423	14,668	13,973	13,728
Capex	(9,615)	(1,074)	(805)	(834)	(788)	(917)	(947)
Available cash flows (B)	**1,072**	**9,083**	**14,948**	**15,589**	**13,880**	**13,056**	**12,781**
Refinance required (A-B)	**10,166**	**13,475**	**749**	**18,128**	**2,146**	**6,087**	**8,327**

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Aban, change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Revenue	31,887	36,687	42,784	31,937	46,911	47,997	(0.2)	(21.8)	(10.9)
EBITDA	17,747	21,607	24,660	17,809	28,357	28,253	(0.3)	(23.8)	(12.7)
EBITDA margin (%)	55.7	58.9	57.6	55.8	60.4	58.9	—	—	—
Adjusted net profit	5,655	7,289	12,540	5,572	13,224	15,233	1.5	(44.9)	(17.7)
Diluted EPS (Rs)	142.1	185.1	323.7	139.9	341.7	394.8	1.6	(45.8)	(18.0)
Re/US$	46.3	53.3	53.0	45.8	48.0	47.0	1.1	11.0	12.8

Source: Kotak Institutional Equities estimates

Exhibit 5: We reudce our operating day assumption to factor in lower utilisation
Aban, operating day estimate, March fiscal year-ends, 2010-2011E

	FY2010E		FY2011E	
	New	Old	New	Old
Aban-II	350	350	309	309
Aban-III	350	350	323	323
Aban-IV	350	350	314	314
Aban-V	350	350	314	314
Aban-VI	350	350	350	350
FPU Tahara	300	300	324	324
Drillship Frontier Ice	350	350	350	350
Aban-VII	—	324	—	324
Aban-VIII	350	350	336	336
Murmanskaya	—	—	—	—
Deep Driller 1	123	211	243	324
Deep Driller 2	59	195	162	324
Deep Driller 3	350	350	350	350
Deep Driller 4	150	262	162	324
Deep Driller 5	174	262	222	324
Deep Driller 6	—	292	192	324
Deep Driller 7	168	287	243	324
Deep Driller 8	176	262	252	336
Aban Abraham	292	350	350	350
Aban Pearl	174	322	336	336
Deep Venture	350	350	324	324

Source: Kotak Institutional Equities estimates

Exhibit 6: Aban, change in dayrate assumptions, March fiscal year-ends, 2009-2018E

Day rates ($/day)		2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Aban-II (Rs mn / day)	New	3.68	3.68	2.47	2.35	2.35	2.28	2.28	2.22	2.22	2.22
	Old	3.68	3.68	2.47	2.35	2.35	2.28	2.28	2.22	2.22	2.22
Aban-III	New	156,600	156,600	156,600	101,790	101,790	99,754	99,754	96,762	96,762	96,762
	Old	156,600	156,600	156,600	101,790	101,790	99,754	99,754	96,762	96,762	96,762
Aban-IV	New	156,600	156,600	147,872	96,117	96,117	94,195	94,195	91,369	91,369	91,369
	Old	156,600	156,600	147,872	96,117	96,117	94,195	94,195	91,369	91,369	91,369
Aban-V	New	156,600	156,600	153,860	100,009	100,009	98,009	98,009	95,068	95,068	95,068
	Old	156,600	156,600	153,860	100,009	100,009	98,009	98,009	95,068	95,068	95,068
Aban-VI (EUR/day)	New	62,450	62,450	62,450	43,715	43,715	42,841	42,841	41,555	41,555	41,555
	Old	62,450	62,450	62,450	43,715	43,715	42,841	42,841	41,555	41,555	41,555
FPU Tahara	New	87,500	84,117	81,667	69,417	69,417	67,334	67,334	66,661	66,661	66,661
	Old	87,500	84,117	81,667	69,417	69,417	67,334	67,334	66,661	66,661	66,661
Drillship Frontier Ice (Rs mn/day)	New	3.44	6.19	6.19	5.26	5.26	5.15	5.15	5.00	5.00	5.00
	Old	3.44	6.19	6.19	5.26	5.26	5.15	5.15	5.00	5.00	5.00
Aban-VII	New	—	—	—	115,000	115,000	115,000	117,300	117,300	119,646	120,842
	Old	—	142,500	142,500	135,375	132,668	129,351	126,117	126,117	124,856	122,359
Aban-VIII	New	199,500	199,500	199,500	199,500	134,906	120,067	122,468	124,917	126,166	128,690
	Old	199,500	199,500	199,500	199,500	155,219	139,697	139,697	139,697	138,300	136,917
Murmanskaya	New	195,000	—	—	—	—	—	—	—	—	—
	Old	195,000	—	—	—	—	—	—	—	—	—
Deep Driller 1	New	194,000	145,756	122,500	120,050	120,050	121,251	123,676	126,149	127,411	129,959
	Old	194,000	139,089	148,294	145,328	142,421	139,573	139,573	139,573	138,177	138,177
Deep Driller 2	New	185,162	180,952	122,500	120,050	120,050	121,251	123,676	126,149	128,672	131,245
	Old	185,162	158,236	145,413	139,597	136,805	134,069	134,069	134,069	132,728	132,728
Deep Driller 3	New	198,826	172,000	172,000	172,000	146,025	121,347	123,774	126,249	128,774	131,350
	Old	198,826	172,000	172,000	172,000	158,492	140,265	140,265	140,265	138,862	138,862
Deep Driller 4	New	197,000	153,800	122,500	120,050	120,050	121,251	123,676	126,149	128,672	131,245
	Old	197,000	155,630	152,517	147,942	144,983	142,083	142,083	142,083	140,663	140,663
Deep Driller 5	New	191,254	125,000	122,500	120,050	120,050	121,251	123,676	126,149	128,672	131,245
	Old	191,254	150,000	147,000	144,060	141,179	138,355	138,355	138,355	136,972	136,972
Deep Driller 6	New	—	—	122,500	120,050	120,050	121,251	123,676	126,149	128,672	131,245
	Old	—	147,000	144,060	140,459	137,649	133,520	133,520	133,520	132,185	132,185
Deep Driller 7	New	200,000	125,000	122,500	120,050	120,050	121,251	123,676	126,149	128,672	131,245
	Old	200,000	150,000	147,000	142,590	139,738	136,943	136,943	136,943	135,574	135,574
Deep Driller 8	New	—	200,000	122,500	120,050	120,050	121,251	123,676	126,149	128,672	131,245
	Old	—	182,275	143,080	138,788	136,012	133,292	133,292	133,292	131,959	131,959
Aban Abraham	New	—	325,000	410,000	410,000	401,800	389,746	389,746	389,746	393,643	393,643
	Old	325,000	388,629	410,000	410,000	401,800	389,746	389,746	389,746	385,849	385,849
Deep Venture	New	443,857	471,533	495,000	495,000	495,000	480,150	480,150	480,150	484,952	484,952
	Old	443,857	471,533	495,000	495,000	495,000	480,150	480,150	480,150	475,349	475,349
Aban Pearl	New	—	286,000	288,145	296,789	305,693	290,408	284,600	284,600	287,446	290,321
	Old	—	288,292	296,789	305,693	314,864	314,864	308,567	308,567	305,481	308,536

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Large number of jackups are expected to remain idle over next 12-15 months

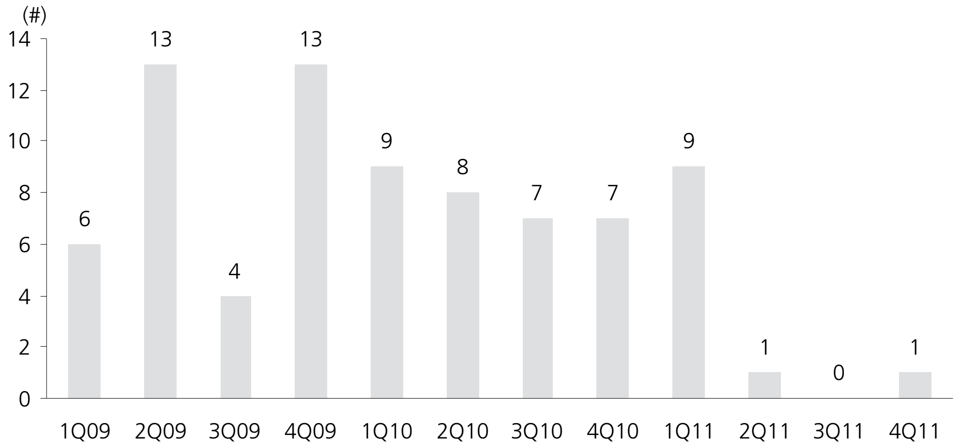
Estimated demand and supply for jackups

	2009	2010												
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg.
North America	30	32	33	35	38	37	37	36	35	35	36	36	36	36
Central America	46	46	46	46	46	46	46	46	46	46	46	46	46	46
South America	12	11	11	11	11	11	11	11	11	11	11	11	11	11
NW Europe	27	27	25	26	29	28	29	28	27	25	25	24	21	26
Baltic/Russian Arctic	2	2	2	2	2	1	1	1	1	1	1	1	1	1
Med/Black Sea	17	18	18	18	17	17	17	17	17	17	17	17	17	17
West Africa	16	16	16	17	17	17	17	17	17	17	17	17	17	17
Middle East	96	101	103	103	100	98	99	99	98	100	99	101	101	100
Caspian	6	5	5	5	6	6	6	6	7	6	6	5	5	6
Indian Ocean	35	36	35	33	34	33	33	34	32	32	32	32	32	33
Southeast Asia	40	39	37	33	36	37	38	35	37	35	36	36	35	36
Far East	30	30	30	32	32	34	36	36	36	36	36	35	35	34
Australia/New Zealand	3	3	3	3	3	3	3	3	3	3	3	2	2	3
Total demand	**360**	**366**	**364**	**364**	**371**	**368**	**373**	**369**	**367**	**364**	**365**	**363**	**359**	**366**
Marketed supply	435	443	443	445	449	451	458	460	461	462	464	463	465	455
Marketed surplus	75	77	79	81	78	83	85	91	94	98	99	100	106	89
Marketed utilisation (%)	82.8	82.6	82.2	81.8	82.6	81.6	81.4	80.2	79.6	78.8	78.7	78.4	77.2	80.4

Source: ODS-Petrodata

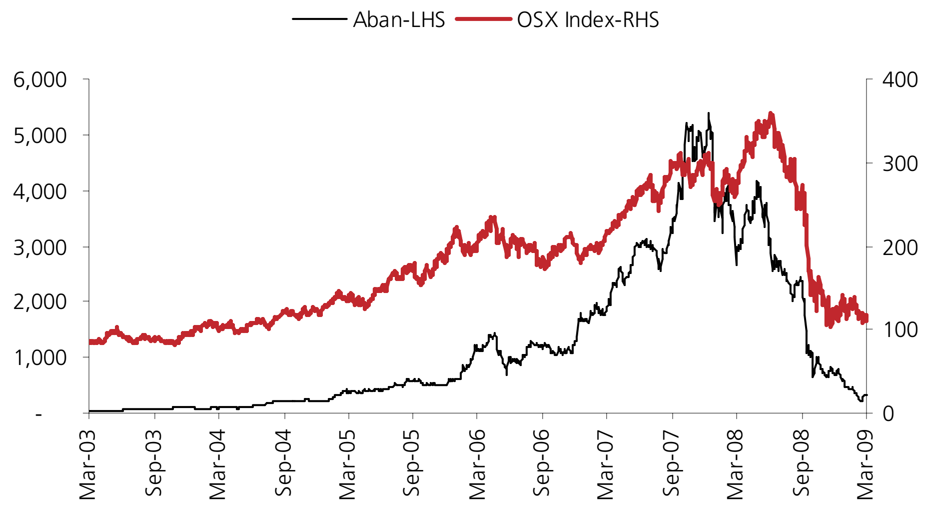
Exhibit 8: Upcoming jackup supply will keep dayrates under pressure

Expected jackup supply, 1QCY09-4QCY11



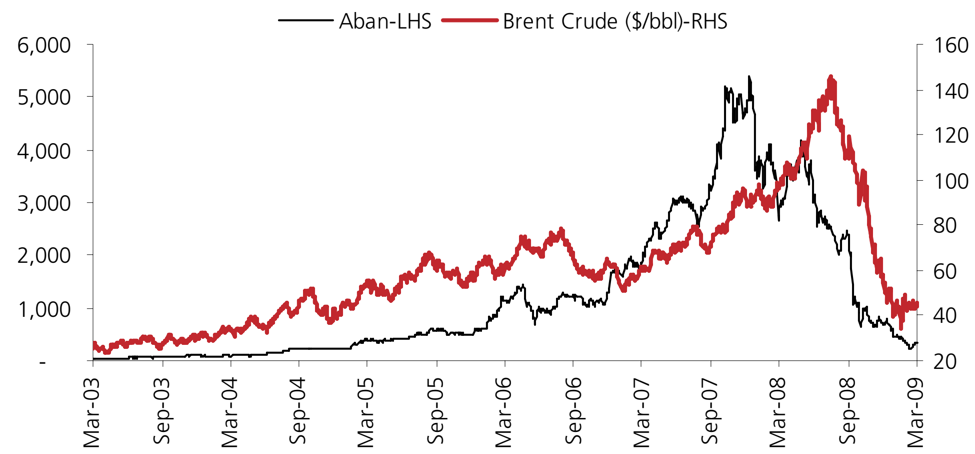
Source: Industry reports, Kotak Institutional Equities

Exhibit 9: Aban's stock price has underperformed the OSX index
Relative movement of Aban stock price and OSX index



Source: Bloomberg

Exhibit 10: Aban's stock price has high co-relation to crude oil price
Aban stock price, crude oil price



Source: Bloomberg

Exhibit 11: Comparative valuation of drilling services companies

	25-Mar-09			Mkt Cap.	EV/EBITDA (X)			PER (X)		
Company	**Price (local)**	**Currency**	**Year-end**	**(US$ mn)**	**LFY**	**FY1**	**FY2**	**LFY**	**FY1**	**FY2**
Aban Offshore	333.0	INR	Mar	257	10.6	7.5	5.7	4.7	2.3	1.8
China Oilfield Services-H	6.2	HKD	Dec	7,193	11.5	8.2	5.8	11.5	8.4	7.6
Atwood Oceanics	16.7	USD	Sep	1,069	4.0	3.0	2.6	4.9	3.9	3.5
Diamond Offshore	62.8	USD	Dec	8,724	5.9	3.9	3.5	10.2	6.5	5.7
Ensco International	27.4	USD	Dec	3,880	2.6	2.3	2.4	4.0	3.4	3.6
Noble Corp.	27.2	USD	Dec	7,111	3.4	2.9	3.0	4.6	4.1	4.3
Pride International	16.1	USD	Dec	2,790	3.4	2.9	3.3	6.2	4.4	5.4
Transocean	54.6	USD	Dec	17,433	9.2	4.4	4.2	3.7	3.8	3.7

Source: Bloomberg, Kotak Institutional Equities estimates for Aban Offshore

Exhibit 12: Our DCF-based valuation for Aban is Rs300 per share

Aban, DCF-based valuation, March fiscal year-ends (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal value
EBITDA	17,747	21,607	24,660	21,802	19,474	17,021	16,590	15,707	16,834	16,806	
Tax expense	(4,431)	(3,925)	(3,680)	(2,628)	(2,518)	(1,984)	(1,935)	(1,705)	(2,106)	(2,161)	
Income from joint venture	1,086	1,385	1,544	1,622	1,725	1,806	1,827	1,850	1,865	1,892	
Changes in working capital	283	(1,636)	(454)	1,299	180	440	(141)	191	(663)	(96)	
Cash flow from operations	**14,685**	**17,432**	**22,070**	**22,094**	**18,861**	**17,282**	**16,341**	**16,044**	**15,931**	**16,441**	
Capital expenditure	(9,615)	(1,074)	(805)	(834)	(788)	(917)	(947)	(1,101)	(707)	(736)	
Free cash flow to the firm	**5,069**	**16,358**	**21,265**	**21,260**	**18,072**	**16,365**	**15,395**	**14,943**	**15,224**	**15,705**	**116,334**
Dicounted cash flow-now	5,061	14,387	16,479	14,515	10,871	8,673	7,188	6,148	5,518	5,016	
Discounted cash flow-1 year forward		16,330	18,703	16,475	12,339	9,844	8,159	6,977	6,263	5,693	
Discounted cash flow-2 year forward			21,228	18,699	14,005	11,173	9,260	7,919	7,109	6,461	
Discount rate	13.5%										
Growth from 2018 to perpetuity	0.0%										
Discount factor at WACC	**1.00**	**0.88**	**0.77**	**0.68**	**0.60**	**0.53**	**0.47**	**0.41**	**0.36**	**0.32**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**84,454**	**69%**	**74,626**	**64%**
PV of terminal value (b)	37,153	31%	42,168	36%
EV (a) + (b)	121,606		116,795	
EV (US$ mn)	**2,432**		**2,336**	
Net debt	110,087		94,037	
Equity value	**11,519**		**22,758**	
No. of shares	37.9		37.9	
Implied share price (Rs)	**304**		**601**	
Exit EV/EBITDA multiple (X)	6.9			
Exit FCF multiple (X)	7.4			

Sensitivity of share price to WACC and growth rate (Rs)

		WACC				
		12.5%	**13.0%**	**13.5%**	**14.0%**	**14.5%**
Growth rate	**-1.5%**	404	295	193	97	8
	-1.0%	447	333	227	129	36
	-0.5%	493	374	264	162	67
	0.0%	542	419	**304**	198	99
	0.5%	596	467	347	236	133
	1.0%	655	518	393	277	170
	1.5%	718	575	443	322	210

Source: Kotak Institutional Equities estimates

Exhibit 13: Profit model, balance sheet, cash model (consolidated) for Aban Offshore, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model						
Total income	4,902	7,187	20,211	31,887	36,687	42,784
EBITDA	**2,847**	**3,842**	**12,691**	**17,747**	**21,607**	**24,660**
Interest (expense)/income	(456)	(2,836)	(6,533)	(7,558)	(8,130)	(6,930)
Depreciation	(1,014)	(1,266)	(2,549)	(4,555)	(6,184)	(5,348)
Other income	125	662	733	883	807	929
Pretax profits	**1,502**	**403**	**4,342**	**6,517**	**8,100**	**13,312**
Extra ordinary items	—	—	(2,536)	2,795	—	—
Reported PBT	**1,502**	**403**	**1,807**	**9,312**	**8,100**	**13,312**
Tax	(587)	(665)	(1,514)	(2,920)	(2,274)	(2,347)
Deferred taxation	(91)	(81)	84	134	79	32
Profit after tax	**823**	**(344)**	**377**	**6,526**	**5,905**	**10,996**
Joint venture/ minority	—	204	853	1,086	1,385	1,544
Reported consolidated net profit	**823**	**(140)**	**1,230**	**7,611**	**7,289**	**12,540**
Adjusted net profit	**823**	**(140)**	**2,954**	**5,655**	**7,289**	**12,540**
Diluted earnings per share (Rs)	**19.8**	**(7.5)**	**71.1**	**142.1**	**185.1**	**323.7**
Balance sheet						
Total equity	2,804	2,248	5,063	12,179	18,921	30,913
Preference capital	1,500	3,060	3,060	3,260	3,260	3,260
Deferred taxation liability	656	737	654	520	441	409
Total borrowings	11,098	108,525	130,434	135,830	119,841	106,601
Current liabilities	1,105	6,949	7,517	9,008	8,750	9,981
Total liabilities and equity	**17,163**	**121,520**	**146,727**	**160,796**	**151,213**	**151,165**
Cash	135	13,264	6,453	15,813	11,014	13,824
Other current assets	1,369	5,926	7,637	8,813	10,140	11,825
Goodwill	126	48,063	44,289	44,289	44,289	44,289
Tangible fixed assets	15,340	49,584	81,958	87,018	81,907	77,364
Investments	192	4,683	6,391	4,862	3,862	3,862
Total assets	**17,163**	**121,520**	**146,727**	**160,796**	**151,213**	**151,164**
Free cash flow						
Operating cash flow, excl. working capital	1,866	2,111	3,146	10,405	11,792	16,206
Working capital changes	211	(198)	(1,654)	283	(1,636)	(454)
Capital expenditure	(8,404)	(35,697)	(32,638)	(9,615)	(1,074)	(805)
Investment changes	84	(52,157)	(386)	1,528	1,000	—
Other income	65	119	458	1,628	1,603	1,650
Free cash flow	**(6,177)**	**(85,822)**	**(31,074)**	**4,228**	**11,685**	**16,597**
Ratios (%)						
EBITDA margin	58.1	53.5	62.8	55.7	58.9	57.6
Debt/equity	364	3,737	2,335	1,095	636	351
Net debt/equity	359	3,244	2,143	947	569	300
RoAE	23.8	(4.7)	51.7	44.5	37.6	40.0
RoACE	**8.3**	**(3.8)**	**3.4**	**7.5**	**9.0**	**12.9**

Source: Company data, Kotak Institutional Equities estimates

Exhibit 14: Aban Offshore, Fleet details

	Contract period		Day rates			
Name	Start date	End date	Currency	Amount	Status	Comments
Fleet- Aban Offshore Ltd						
Aban-II	26-May-07	25-May-10	INR	3,680,000	Operational	
Aban-III	1-Mar-08	28-Feb-11	USD	156,600	Operational	
Aban-IV	30-Dec-07	29-Dec-10	USD	156,600	Operational	
Aban-V	1-Mar-08	28-Feb-11	USD	156,600	Operational	
Aban-VI	1-Jan-08	1-Jan-14	EUR	62,450	Operational	Current dayrate for first 3 yrs, next 3 yrs to be decided over the course of contract
FPU Tahara	27-Jul-07	27-Jul-09	USD	87,500	Operational	
Drillship Frontier Ice	1-Apr-08	30-Sep-08	USD	43,000	Operational	Contracted with ONGC at Rs6.2 mn / day from Jan '09-Dec '11
Fleet- Aban Singapore Pte Ltd						
Aban-VII					Non-operational	Idle since April 2008
Aban-VIII	1-Jun-08	30-May-12	USD	199,500	Operational	
Aban Abraham					Mobilising	
Aban Pearl	1-Nov-08	30-Oct-13	USD	286,000	Non-operational	Awaiting client approval for mobilisation to site
Fleet- Sinvest						
Murmanskaya					Non-operational	Idle since June 2008
Deep Driller 1	8-May-07	7-May-09	USD	194,000	Operational	
Deep Driller 2	1-Aug-08	31-May-09	USD	185,500	Operational	
Deep Driller 3	15-Oct-08	30-Oct-12	USD	172,000	Operational	
Deep Driller 4	22-Oct-07	31-May-09	USD	197,000	Operational	6 months extension option
Deep Driller 5	1-May-08	31-Mar-09	USD	190,000	Operational	
Deep Driller 6					Non-operational	Idle since October 2008
Deep Driller 7					Non-operational	Idle since January 2009
Deep Driller 8	1-Apr-09	31-Aug-09	USD	200,000		Delivered, awaiting mobilisation
Deep Venture	30-Jun-07	31-Jul-09	USD	450,000	Operational	18 month contract with Maersk Oil Angola at US$495,000 / day to begin from July 2009 after completion of current contract

Source: Company, Kotak Institutioanl Equities

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	25-Mar-09		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)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Automobiles																													
Bajaj Auto	616	REDUCE	89,118	1,756	145	52.2	50.7	61.5	(58.9)	(2.9)	21.4	11.8	12.1	10.0	7.2	7.0	5.7	5.6	4.5	3.6	3.2	3.2	3.2	21.0	41.0	39.4	615	(0.2)	1.4
Hero Honda	1,011	ADD	201,937	3,979	200	48.5	62.6	79.1	12.8	29.1	26.4	20.9	16.2	12.8	11.5	9.0	7.0	6.5	5.2	4.0	1.9	2.0	2.0	34.0	35.9	35.7	950	(6.1)	9.6
Mahindra & Mahindra	379	ADD	97,730	1,926	258	38.1	18.6	31.3	(2.0)	(51.2)	68.4	10.0	20.4	12.1	7.6	13.4	8.8	2.2	1.9	1.6	2.9	2.4	2.5	27.8	10.8	15.1	330	(12.8)	7.4
Maruti Suzuki	734	ADD	212,097	4,179	289	59.9	48.4	56.4	10.8	(19.1)	16.4	12.3	15.2	13.0	5.4	6.4	5.5	2.5	2.2	1.9	0.7	0.7	0.7	22.2	15.2	15.3	715	(2.6)	20.0
Tata Motors	160	SELL	89,224	1,758	556	36.5	18.5	19.0	(22.4)	(49.2)	2.7	4.4	8.7	8.4	3.6	8.7	6.5	1.0	0.5	0.6	6.5	—	—	24.7	9.1	7.3	120	(25.2)	11.0
Automobiles		**Cautious**	**690,106**	**13,598**					**(2.4)**	**(23.9)**	**21.9**	**10.7**	**14.1**	**11.6**	6.2	8.3	6.5	**2.6**	**2.0**	**1.7**	**2.4**	**1.6**	**1.6**	**24.2**	**14.3**	**14.9**			
Banks/Financial Institutions																													
Andhra Bank	45	ADD	21,655	427	485	11.9	12.4	10.8	7.0	4.9	(12.9)	3.8	3.6	4.1	—	—	—	0.7	0.6	0.6	9.0	7.0	6.1	18.0	17.4	13.6	75	68.0	0.3
Axis Bank	398	ADD	142,404	2,806	358	32.2	46.8	53.1	37.7	45.3	13.3	12.4	8.5	7.5	—	—	—	1.7	1.5	1.4	1.4	2.2	2.5	17.6	17.8	17.6	750	88.4	31.3
Bank of Baroda	225	ADD	82,408	1,624	366	39.3	52.0	50.5	39.8	32.4	(2.9)	5.7	4.3	4.5	—	—	—	1.0	0.8	0.8	3.5	4.7	4.6	14.6	16.3	14.2	330	46.4	5.4
Bank of India	210	ADD	110,179	2,171	526	40.6	54.1	49.9	76.6	33.1	(7.7)	5.2	3.9	4.2	—	—	—	1.4	1.1	0.9	1.9	2.7	2.5	27.6	28.2	21.1	330	57.5	10.5
Canara Bank	153	REDUCE	62,874	1,239	410	38.2	45.8	38.2	10.1	19.9	(16.6)	4.0	3.3	4.0	—	—	—	0.9	0.7	0.8	5.2	3.9	3.9	15.0	16.7	12.4	220	43.5	4.0
Corporation Bank	168	BUY	24,133	476	143	51.3	62.3	55.8	37.2	21.6	(10.4)	3.3	2.7	3.0	—	—	—	0.6	0.5	0.4	6.2	7.6	6.8	18.4	19.6	15.4	310	84.2	0.6
Federal Bank	133	BUY	22,739	448	171	34.4	31.7	31.6	0.5	(7.7)	(0.3)	3.9	4.2	4.2	—	—	—	0.6	0.5	0.5	3.0	4.4	4.4	13.6	13.1	11.8	280	110.6	1.2
Future Capital Holdings	98	BUY	6,196	122	63	(4.5)	4.5	28.8	(689.8)	(198.6)	546.1	(21.7)	22.0	3.4	—	—	—	0.9	0.8	0.7	—	—	—	(6.7)	3.8	21.4	440	349.0	0.4
HDFC	1,594	REDUCE	457,526	9,015	287	85.8	75.0	85.4	38.2	(12.6)	14.0	18.6	21.3	18.7	—	—	—	3.8	3.3	3.0	1.6	1.4	1.6	27.8	16.7	16.8	1,550	(2.8)	58.2
HDFC Bank	972	BUY	411,499	8,108	423	46.0	53.5	65.6	28.7	16.4	22.5	21.1	18.2	14.8	—	—	—	3.6	2.8	2.4	0.7	1.0	1.1	17.7	17.3	17.5	1,250	28.6	36.7
ICICI Bank	366	ADD	406,740	8,015	1,113	39.9	34.3	32.8	15.4	(14.0)	(4.5)	9.2	10.6	11.1	—	—	—	0.9	0.8	0.8	3.0	2.8	2.5	11.7	8.0	7.3	465	27.2	119.4
IDFC	56	ADD	72,157	1,422	1,294	5.7	6.0	6.3	3.0	5.3	5.9	9.8	9.3	8.8	—	—	—	1.3	1.2	1.1	2.2	1.9	1.9	17.6	13.2	12.7	75	34.5	10.8
India Infoline	62	ADD	17,689	349	287	5.6	4.9	4.3	85.6	(12.0)	(12.5)	11.0	12.5	14.3	—	—	—	1.5	1.4	1.4	1.9	4.6	4.0	20.7	11.5	9.8	60	(2.5)	3.4
Indian Bank	82	BUY	35,091	691	430	22.5	27.4	28.0	33.9	21.4	2.4	3.6	3.0	2.9	—	—	—	0.8	0.7	0.6	3.7	4.3	4.4	23.4	22.1	19.1	195	138.8	1.2
Indian Overseas Bank	46	BUY	24,897	491	545	22.1	26.5	21.7	19.2	20.1	(18.1)	2.1	1.7	2.1	—	—	—	0.5	0.4	0.4	8.2	9.0	8.2	27.2	26.4	18.0	120	162.6	1.1
J&K Bank	241	ADD	11,684	230	48	74.2	82.7	72.3	31.2	11.4	(12.6)	3.2	2.9	3.3	—	—	—	0.6	0.5	0.5	6.4	7.2	6.3	16.8	16.5	12.9	480	99.2	0.1
LIC Housing Finance	229	BUY	19,490	384	85	45.5	58.1	58.5	38.7	27.6	0.8	5.0	3.9	3.9	—	—	—	1.0	0.9	0.8	4.4	5.6	5.6	—	—	—	330	43.9	3.3
Mahindra & Mahindra Financial	203	SELL	19,370	382	95	20.8	18.5	22.6	32.6	(11.2)	22.0	9.8	11.0	9.0	—	—	—	1.6	1.4	1.2	2.3	2.3	2.8	16.9	12.8	14.2	190	(6.5)	0.1
Oriental Bank of Commerce	108	ADD	27,159	535	251	23.9	36.5	27.3	(27.6)	52.7	(25.0)	4.5	3.0	4.0	—	—	—	0.6	0.4	0.4	4.3	6.7	5.0	6.2	13.8	8.9	200	84.5	2.9
PFC	132	ADD	151,103	2,977	1,148	11.4	12.2	15.8	2.4	7.3	29.7	11.6	10.8	8.3	—	—	—	1.5	1.4	1.3	2.7	2.9	3.6	13.5	13.6	15.5	145	10.1	1.4
Punjab National Bank	398	BUY	125,522	2,473	315	65.0	91.6	89.9	33.0	40.9	(1.8)	6.1	4.3	4.4	—	—	—	1.3	1.1	1.0	3.3	4.6	4.5	18.0	21.7	18.5	650	63.3	13.0
Rural Electrification Corp	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Shriram Transport	184	REDUCE	37,316	735	203	19.2	28.6	27.0	85.7	49.0	(5.6)	9.6	6.4	6.8	—	—	—	2.1	1.8	1.5	2.7	4.7	4.6	26.9	28.8	23.6	215	17.0	0.9
SREI	29	ADD	3,355	66	116	11.4	7.3	6.9	57.4	(36.2)	(5.7)	2.5	4.0	4.2	—	—	—	0.5	0.3	0.3	4.2	8.0	9.7	23.1	13.1	11.5	50	73.3	0.9
State Bank of India	1,050	BUY	663,012	13,064	631	106.6	135.3	125.5	23.5	27.0	(7.3)	9.9	7.8	8.4	—	—	—	1.6	1.4	1.3	2.0	2.0	2.1	16.8	16.3	13.4	1,600	52.4	80.4
Union Bank	140	BUY	70,641	1,392	505	27.5	34.6	33.3	64.0	25.9	(3.6)	5.1	4.0	4.2	—	—	—	1.0	0.8	0.7	2.9	3.7	3.6	26.8	27.5	21.7	220	57.3	3.5
Banks/Financial Institutions		**Attractive**	**3,109,350**	**61,268**					**36.9**	**22.5**	**(0.8)**	**9.4**	**7.6**	**7.7**	**—**	**—**	**—**	**1.4**	**1.2**	**1.2**	**2.3**	**2.6**	**2.7**	**15.3**	**16.3**	**15.0**			
Cement																													
ACC	563	REDUCE	105,786	2,084	188	64.1	56.3	45.6	13.0	(12.2)	(19.0)	8.8	10.0	12.4	4.5	4.9	5.9	2.4	2.0	1.8	4.1	4.2	4.2	33.3	24.7	18.2	550	(2.3)	7.6
Ambuja Cements	70	REDUCE	106,795	2,104	1,522	7.6	7.6	5.8	(11.2)	0.2	(23.7)	9.3	9.3	12.1	4.7	5.0	5.8	2.1	1.8	1.6	3.7	4.3	2.7	26.6	20.8	14.1	60	(14.5)	2.7
Grasim Industries	1,549	ADD	142,051	2,799	92	284.6	221.6	171.9	32.6	(22.1)	(22.4)	5.4	7.0	9.0	3.6	4.2	4.6	1.6	1.3	1.2	2.0	2.1	2.1	33.1	20.3	13.8	1,400	(9.6)	8.5
India Cements	103	ADD	28,962	571	282	24.5	22.7	19.8	n/a	(7.3)	(12.8)	4.2	4.5	5.2	3.8	3.5	3.6	0.8	0.8	0.7	1.8	2.1	2.1	25.8	15.7	14.7	130	26.5	2.4
Shree Cement	611	BUY	21,296	420	35	90.2	129.9	72.5	99.5	44.0	(44.2)	6.8	4.7	8.4	2.8	2.8	3.5	3.3	2.0	1.7	1.3	1.3	1.3	56.9	53.2	21.7	850	39.0	0.3
UltraTech Cement	513	ADD	64,227	1,266	125	81.4	71.4	62.3	28.5	(12.2)	(12.8)	6.3	7.2	8.2	4.3	4.8	4.8	2.0	1.5	1.3	1.5	1.6	1.6	45.2	28.9	20.4	550	7.3	0.9
Cement		**Cautious**	**469,116**	**9,244**					**19.3**	**(9.9)**	**(22.1)**	**6.7**	**7.5**	**9.6**	**4.0**	**4.4**	**4.9**	**1.8**	**1.5**	**1.3**	**2.7**	**3.0**	**2.6**	**26.8**	**20.2**	**14.0**			
Consumer (Discretionary)																													
Radico Khaitan	63	REDUCE	6,496	128	102	2.2	2.6	3.3	(41.4)	15.0	26.3	28.3	24.6	19.5	11.1	11.3	9.6	2.6	2.3	2.1	0.9	—	—	11.7	10.0	11.4	65	2.5	0.4
United Breweries	89	REDUCE	21,412	422	240	2.1	1.9	2.4	(2.2)	(11.4)	31.0	42.3	47.8	36.5	13.2	10.4	8.0	3.5	2.0	1.9	—	—	—	8.0	3.6	5.4	85	(4.7)	0.4
United Spirits	686	BUY	64,591	1,273	94	28.9	32.7	48.0	(52.0)	13.2	46.9	23.7	21.0	14.3	10.9	10.6	9.0	2.8	2.8	2.1	0.2	0.3	0.3	14.0	13.5	16.8	900	31.2	54.2
Consumer (Discretionary)		**Neutral**	**92,500**	**1,823**					**(3.6)**	**15.4**	**40.5**	**27.1**	**23.5**	**16.7**	**11.2**	**10.6**	**8.9**	**2.9**	**2.3**	**2.0**	**0.2**	**0.2**	**0.2**	**10.9**	**9.9**	**12.3**			
Consumer products																													
Asian Paints	758	REDUCE	72,750	1,434	96	39.3	35.7	44.3	40.4	(9.2)	24.3	19.3	21.3	17.1	11.6	12.7	9.8	7.6	6.6	5.5	2.2	2.3	2.6	45.0	34.2	36.2	800	5.5	0.9
Colgate-Palmolive (India)	455	ADD	61,918	1,220	136	17.1	20.4	23.5	16.5	19.4	15.5	26.7	22.4	19.4	22.2	19.6	16.2	33.8	36.7	40.7	2.8	4.0	4.6	100.1	157.8	200.3	490	7.6	1.2
GlaxoSmithkline Consumer (a)	625	ADD	26,291	518	42	38.7	44.8	50.4	26.9	15.8	12.6	16.2	14.0	12.4	8.3	7.6	6.5	4.0	3.4	2.9	1.9	2.3	2.6	27.4	26.7	25.6	700	12.0	0.1
Godrej Consumer Products	119	ADD	30,754	606	258	7.1	6.7	8.7	18.7	(5.5)	31.2	16.9	17.9	13.6	14.7	15.9	11.1	17.3	4.7	4.0	3.0	3.4	3.4	109.6	42.1	43.1	160	34.3	0.4
Hindustan Unilever	235	REDUCE	511,411	10,077	2,179	8.1	9.2	10.7	15.4	12.9	17.0	28.9	25.6	21.9	23.4	20.4	16.7	35.5	33.0	30.6	4.6	3.7	4.3	85.2	134.3	145.7	245	4.4	16.4
ITC	178	ADD	669,870	13,199	3,769	8.3	8.7	9.8	15.4	4.6	12.8	21.5	20.5	18.2	13.7	12.6	11.2	5.3	4.7	4.2	2.0	2.1	2.2	27.7	25.4	25.2	200	12.5	15.3
Jyothy Laboratories	57	ADD	4,133	81	73	6.5	7.2	10.6	(8.6)	10.2	47.3	8.7	7.9	5.4	5.0	4.5	3.0	1.2	1.1	0.9	4.1	4.1	5.1	13.5	13.0	16.5	127	123.0	
Nestle India (a)	1,518	ADD	146,325	2,883	96	44.5	56.4	68.1	31.3	26.8	20.7	34.1	26.9	22.3	20.5	17.0	14.3	28.4	21.7	16.9	1.8	2.3	2.7	94.8	91.4	85.4	1,740	14.7	0.8
Tata Tea	545	BUY	33,687	664	62	54.2	60.1	67.7	3.9	10.9	12.7	10.1	9.1	8.0	4.5	4.9	3.8	0.7	0.7	0.7	6.4	3.2	3.6	11.9	10.3	10.8	940	72.6	1.2
Consumer products		**Cautious**	**1,557,139**	**30,683**					**17.1**	**8.7**	**15.9**	**23.5**	**21.6**	**18.6**	**15.5**	**14.3**	**12.2**	**7.3**	**6.4**	**5.7**	**3.0**	**2.8**	**3.2**	**31.0**	**29.6**	**30.5**			
Constructions																													
Consolidated Construction Co.	109	ADD	4,017	79	37	24.0	22.3	27.2	67.6	(7.4)	22.1	4.5	4.9	4.0	3.2	3.5	2.9	0.9	0.8	0.7	2.3	3.0	3.6	27.7	16.8	17.8	190	74.8	0.0
IVRCL	124	BUY	16,716	329	135	15.5	14.9	16.1	27.2	(4.0)	8.0	7.9	8.3	7.7	7.2	6.5	5.4	1.0	0.9	0.8	1.2	0.6	0.6	14.4	11.9	11.5	175	41.7	8.3
Nagarjuna Construction Co.	53	BUY	12,084	238	229	7.2	7.3	8.8	14.5	2.5	19.7	7.4	7.2	6.0	5.2	5.5	5.0	0.8	1.4	0.6	2.1	2.6	3.0	12.6	10.3	11.3	100	89.6	2.2
Punj Lloyd	82	REDUCE	26,393	520	323	10.0	9.6	16.4	323.5	(4.0)	71.5	8.2	8.5	5.0	5.1	6.5	4.0	1.0	0.8	0.8	0.4	0.5	0.9	16.8	10.8	16.3	105	28.7	16.7
Sadbhav Engineering	297	BUY	3,896	77	13	40.5	46.2	57.6	68.2	13.9	24.8	7.3	6.4	5.2	5.4	4.3	3.7	1.3	1.1	0.9	1.3	1.7	2.0	16.5	16.7	18.1	650	118.6	0.1
Construction		**Attractive**	**63,107**	**1,243**					**94.7**	**(1.7)**	**37.3**	**7.6**	**7.7**	**5.6**	**5.5**	**5.9**	**4.4**	**0.9**	**0.9**	**0.8**	**1.1**	**1.2**	**1.5**	**12.5**	**11.1**	**13.4**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	25-Mar-09		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)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	351	SELL	114,967	2,265	328	41.3	0.0	42.0	(21.1)	(99.9)	NA	8.5	NA	8.4	4.0	7.4	4.3	0.9	1.0	0.8	1.3	—	5.3	11.8	0.0	10.2	425	21.2	5.5
Cairn india	190	BUY	355,001	6,995	1,871	(0.1)	4.2	4.4	(105)	(3,628)	5.2	(1,592)	45	42.9	43.8	26.2	19.4	1.2	1.1	1.0	—	—	—	(0.1)	2.5	2.5	225	18.6	13.1
Castrol India (a)	319	BUY	39,398	776	124	17.6	21.3	25.6	44.4	20.7	20.2	18.1	15.0	12.5	9.9	8.4	7.0	9.6	8.7	7.8	4.4	4.7	5.6	52.2	60.9	66.3	390	22.4	0.3
GAIL (India)	234	REDUCE	296,569	5,844	1,268	20.4	23.3	19.7	21.0	14.2	(15.6)	11.5	10.0	11.9	5.7	5.4	6.6	2.1	1.8	1.7	2.9	3.1	2.9	18.1	18.3	13.8	240	2.7	9.1
GSPL	37	BUY	20,879	411	563	1.8	1.4	2.4	10.1	(22.4)	68.6	20.6	26.5	15.7	7.1	7.5	4.9	1.7	1.6	1.4	1.3	1.0	1.8	8.8	6.2	9.7	45	21.3	1.6
Hindustan Petroleum	251	SELL	85,210	1,679	339	33.5	(10.5)	30.2	(16.4)	(131.5)	(386.8)	7.5	(23.8)	8.3	6.9	6.8	4.6	0.7	0.7	0.7	1.2	—	4.8	9.6	(2.9)	7.6	300	19.4	6.8
Indian Oil Corporation	392	REDUCE	462,529	9,114	1,179	61.3	24.3	46.8	31.0	(60.3)	92.1	6.4	16.1	8.4	4.0	7.9	4.3	1.0	1.0	0.9	1.4	—	4.6	17.4	6.2	10.3	525	33.9	3.0
Oil & Natural Gas Corporation	764	ADD	1,633,468	32,187	2,139	92.7	103.9	103.9	9.1	12.0	0.0	8.2	7.4	7.4	2.9	2.6	2.3	1.6	1.4	1.3	4.2	4.5	4.7	19.6	19.5	17.2	900	17.8	28.0
Petronet LNG	37	ADD	28,088	553	750	6.3	5.5	5.9	—	(12.6)	6.6	5.9	6.8	6.4	4.0	6.0	4.7	1.5	1.3	1.1	4.0	4.0	4.0	26.7	19.2	17.2	52	38.9	1.4
Reliance Industries	1,532	ADD	2,103,711	41,452	1,373	105.0	101.0	127.8	25.5	(3.8)	26.5	14.6	15.2	12.0	9.6	9.0	5.7	2.4	2.0	1.6	0.8	0.9	1.0	19.0	14.7	16.0	1,500	(2.1)	175.1
Reliance Petroleum	95	NR	426,150	8,397	4,500	—	(0.0)	9.0	n/a	n/a	n/a	n/a	n/a	10.6	n/a	n/a	8.6	3.2	3.2	2.6	—	—	2.1	—	(0.0)	27.0	-	(100.0)	25.6
Energy		**Neutral**	**5,565,971**	**109,674**					**12.9**	**(7.0)**	**32.3**	**11.7**	**12.5**	**9.5**	**5.9**	**6.2**	**4.5**	**1.7**	**1.5**	**1.3**	**1.9**	**1.9**	**2.7**	**14.9**	**11.9**	**14.2**			
Industrials																													
ABB	393	SELL	83,312	1,642	212	23.2	25.8	23.6	44.5	11.3	(8.8)	16.9	15.2	16.7	9.6	8.9	9.1	5.1	4.0	3.3	0.6	0.6	0.7	34.8	29.4	21.6	325	(17.3)	4.5
BGR Energy Systems	134	REDUCE	9,662	190	72	12.1	15.3	20.7	(67.4)	26.1	35.4	11.1	8.8	6.5	6.5	5.1	4.5	2.0	1.7	1.4	1.5	1.8	2.5	31.4	21.3	23.9	165	23.0	0.8
Bharat Electronics	826	ADD	66,040	1,301	80	102.0	105.5	111.8	11.2	3.4	6.0	8.1	7.8	7.4	3.3	2.6	2.3	2.0	1.7	1.4	2.5	3.0	3.0	27.7	23.1	20.8	950	15.1	0.9
Bharat Heavy Electricals	1,482	ADD	725,493	14,295	490	58.4	64.9	92.6	22.9	11.2	42.5	25.4	22.8	16.0	13.5	12.0	8.6	6.7	5.5	4.4	1.0	0.9	1.3	29.2	26.6	30.5	1,475	(0.5)	43.2
Crompton Greaves	106	ADD	38,913	767	367	11.2	14.0	15.2	43.0	25.3	8.4	9.5	7.6	7.0	5.4	4.6	4.1	3.0	2.2	1.8	1.5	1.6	1.7	36.1	33.7	28.1	140	31.9	3.4
Larsen & Toubro	624	REDUCE	369,608	7,283	593	37.9	48.2	51.6	20.8	27.1	7.0	16.4	12.9	12.1	11.6	8.8	8.0	3.1	2.3	1.9	1.3	1.6	1.8	22.7	20.6	17.6	650	4.2	50.7
Maharashtra Seamless	133	BUY	9,345	184	71	29.4	37.4	37.9	(23.5)	27.6	1.2	4.5	3.5	3.5	2.6	2.2	2.1	0.8	0.7	0.6	3.8	4.2	4.3	19.7	21.1	18.0	215	62.3	0.3
Siemens	240	REDUCE	80,767	1,591	337	18.2	14.2	15.7	60.4	(22.2)	10.5	13.2	16.9	15.3	7.2	7.2	7.9	4.4	3.5	3.0	1.0	1.5	1.8	39.9	23.1	21.3	220	(8.2)	4.7
Suzlon Energy	45	REDUCE	70,356	1,386	1,567	6.6	7.0	4.5	9.5	6.6	(36.4)	6.8	6.4	10.1	4.4	6.9	7.6	0.8	0.7	0.6	2.1	1.1	1.1	16.3	11.3	6.4	60	33.6	33.6
Industrials		**Cautious**	**1,453,496**	**28,640**					**25.3**	**13.0**	**13.2**	**16.6**	**14.7**	**13.0**	**9.5**	**8.5**	**7.5**	**3.5**	**2.8**	**2.4**	**1.2**	**1.3**	**1.5**	**21.1**	**19.2**	**18.2**			
Infrastructure																													
IRB Infrastructure	79	ADD	26,273	518	332	3.4	5.6	10.4	150.9	63.5	85.5	23.1	14.1	7.6	9.5	9.3	5.4	1.6	1.4	1.2	—	—	—	10.7	10.6	16.8	110	39.2	0.6
Media																													
DishTV	24	REDUCE	15,266	301	644	(9.6)	(7.4)	(4.1)	n/a	(23.1)	(44.2)	(2.5)	(3.2)	(5.7)	(9.0)	(11.7)	(55.7)	(3.4)	(2.3)	(7.1)	—	—	—	167.9	86.7	NA	22	(7.2)	2.4
HT Media	45	BUY	10,518	207	234	4.3	2.9	4.1	4.7	(32.3)	39.3	10.4	15.3	11.0	5.5	6.9	4.9	1.2	1.2	1.1	0.9	0.9	1.8	12.2	7.8	10.2	100	122.7	0.0
Jagran Prakashan	56	BUY	16,730	330	301	3.3	2.9	4.1	33.5	(9.7)	38.7	17.1	18.9	13.6	9.4	10.5	7.4	3.1	2.9	2.7	3.6	2.6	3.7	18.7	15.9	20.4	75	35.0	0.0
Sun TV Network	173	BUY	68,294	1,346	394	8.3	9.3	11.4	30.7	12.0	23.0	20.9	18.7	15.2	11.1	9.9	8.2	4.5	4.0	3.7	1.4	2.3	3.5	24.8	23.6	25.8	215	24.1	1.1
Zee Entertainment Enterprises	104	BUY	45,156	890	434	8.9	8.2	9.3	62.6	(7.5)	13.7	11.7	12.7	11.2	8.7	9.2	8.1	1.5	1.4	1.3	1.9	2.2	2.5	14.2	11.8	12.2	145	39.2	5.4
Zee News	30	BUY	7,181	141	240	1.5	1.9	2.1	396.2	24.0	6.9	19.4	15.6	14.6	10.5	8.8	7.9	3.4	2.9	2.5	1.3	1.3	1.7	19.2	20.5	18.9	38	26.9	0.3
Media		**Attractive**	**163,144**	**3,215**					**30.8**	**(17.8)**	**66.1**	**30.4**	**37.0**	**22.3**	**12.5**	**12.3**	**8.8**	**2.9**	**2.7**	**2.3**	**1.6**	**2.0**	**2.7**	**9.5**	**7.2**	**10.3**			
Metals																													
Hindalco Industries	50	ADD	87,368	1,722	1,753	13.8	7.7	2.4	(10.0)	(44.4)	(69.2)	3.6	6.5	21.1	5.6	5.1	7.1	0.4	0.2	0.3	—	—	—	14.4	10.3	5.2	55	10.3	7.0
National Aluminium Co.	232	SELL	149,287	2,942	644	25.3	19.7	10.3	(31.5)	(22.2)	(47.8)	9.2	11.8	22.5	4.1	5.7	7.2	1.6	1.4	1.4	2.6	1.5	0.9	18.3	12.7	6.2	135	(41.7)	1.7
Jindal Steel and Power	1,213	BUY	186,678	3,678	154	82.7	179.7	171.6	80.5	117.2	(4.5)	14.7	6.7	7.1	11.2	4.9	4.8	4.3	2.6	1.9	—	0.5	0.6	35.4	48.4	31.0	1,400	15.5	19.8
JSW Steel	194	SELL	36,362	716	187	86.1	8.7	45.7	16.1	(89.9)	423.3	2.3	22.2	4.2	4.5	7.0	5.5	0.4	0.4	0.3	7.2	1.0	1.0	20.7	10.2	7.9	185	(4.8)	4.7
Hindustan Zinc	416	BUY	175,562	3,459	423	104.0	63.8	64.0	(1.0)	(38.6)	0.2	4.0	6.5	6.5	1.8	3.0	2.6	1.4	1.2	1.0	1.2	1.8	2.4	43.6	20.0	17.0	490	17.9	3.1
Sesa Goa	89	BUY	69,986	1,379	787	19.0	23.7	19.6	146.0	24.8	(17.0)	4.7	3.8	4.5	2.3	2.1	1.9	2.5	1.6	1.2	3.0	3.9	3.9	67.8	51.2	30.5	115	29.4	10.9
Sterlite Industries	347	BUY	245,918	4,846	708	64.3	48.0	46.6	(22.6)	(25.4)	(2.9)	5.4	7.2	7.4	2.1	3.6	3.6	1.0	1.0	0.9	—	—	—	26.1	13.8	12.2	400	15.2	21.4
Tata Steel	195	BUY	160,083	3,154	822	75.7	130.7	56.1	43.8	72.5	(57.1)	2.6	1.5	3.5	3.7	2.9	3.8	0.4	0.3	0.3	7.4	6.6	6.7	46.3	38.1	15.6	290	48.9	40.5
Metals		**Attractive**	**1,111,243**	**21,896**					**12.0**	**6.1**	**(33.2)**	**4.7**	**4.4**	**6.6**	**3.9**	**3.8**	**4.4**	**0.9**	**0.7**	**0.7**	**2.0**	**1.8**	**1.8**	**19.8**	**16.3**	**10.0**			
Pharmaceutical																													
Biocon	136	BUY	27,270	537	200	23.3	5.6	16.0	126.0	(76.1)	187.0	5.9	24.5	8.5	7.5	10.7	5.3	1.8	1.7	1.5	0.1	0.0	0.1	17.6	7.3	18.8	235	72.4	0.5
Cipla	204	ADD	158,218	3,118	777	9.0	9.8	14.7	4.9	8.2	50.9	22.6	20.9	13.8	16.6	15.1	10.5	4.2	3.7	3.1	1.0	1.2	1.5	20.1	18.9	24.2	260	27.7	4.9
Dishman Pharma & chemicals	95	BUY	7,727	152	81	14.7	11.4	24.8	30.5	(22.7)	118.0	6.5	8.4	3.8	6.9	7.6	4.2	1.3	1.2	0.9	0.0	0.0	0.0	26.8	15.1	27.1	280	194.7	0.1
Divi's Laboratories	886	BUY	57,169	1,126	65	53.2	65.2	75.1	85.8	22.5	15.2	16.6	13.6	11.8	13.5	10.5	8.5	6.7	4.6	3.4	0.1	0.1	0.1	49.8	40.3	33.3	1,450	63.7	6.0
Dr Reddy's Laboratories	425	BUY	71,948	1,418	169	26.1	26.2	39.9	(57.2)	0.6	52.1	16.3	16.2	10.7	8.1	7.0	5.1	1.6	1.5	1.3	0.9	0.9	0.9	10.3	9.4	13.0	700	64.6	3.7
Glenmark Pharmaceuticals	151	BUY	40,011	788	266	25.8	15.8	18.2	98.4	(38.7)	14.7	5.8	9.5	8.3	5.7	6.8	5.8	2.6	1.8	1.5	0.1	0.0	0.1	57.4	21.9	19.8	390	159.1	9.0
Jubilant Organosys	90	BUY	16,008	315	179	22.4	(5.5)	21.7	72.3	(124.7)	(492)	4.0	(16.2)	4.1	5.3	24.1	6.2	1.3	1.2	1.1	1.4	1.8	2.3	37.0	(8.4)	30.4	300	234.8	0.2
Lupin	616	BUY	54,554	1,075	89	49.8	50.8	65.3	30.2	2.0	28.7	12.4	12.1	9.4	14.6	10.9	8.3	4.2	2.6	2.2	1.5	1.6	1.9	37.9	27.4	26.0	1,100	78.6	1.6
Piramal Healthcare	178	BUY	37,192	733	209	17.7	14.8	22.1	66.8	(16.4)	49.0	10.0	12.0	8.0	7.8	9.2	6.3	3.4	2.8	2.2	2.4	2.2	2.5	30.9	24.9	31.4	340	91.1	1.7
Ranbaxy Laboratories	163	ADD	68,308	1,346	419	23.3	(8.1)	8.9	70.4	NA	NA	7.0	NA	18.3	7.1	(101.0)	6.3	2.3	1.3	0.8	4.6	6.3	7.3	32.3	(8.8)	5.9	340	108.6	12.1
Sun Pharmaceuticals	1,063	BUY	220,092	4,337	207	74.7	86.8	85.7	78.9	16.3	(1.3)	14.2	12.2	12.4	11.9	9.3	8.6	4.2	3.2	2.6	1.0	1.0	1.3	38.3	31.1	24.3	1,800	69.4	14.7
Pharmaceuticals		**Attractive**	**758,496**	**14,946**					**34.1**	**(27.3)**	**57.9**	**12.6**	**17.4**	**11.0**	**9.7**	**11.4**	**7.3**	**3.1**	**2.4**	**1.9**	**1.3**	**1.5**	**1.7**	**24.5**	**14.0**	**17.1**			
Property																													
DLF	177	REDUCE	301,152	5,934	1,705	46.1	30.0	22.7	263.2	(35.0)	(24.4)	3.8	5.9	7.8	4.1	7.1	8.1	1.5	1.2	1.1	2.3	2.3	2.3	66.5	23.1	14.8	190	7.6	71.1
Housing Development & Infrastruc	83	REDUCE	22,990	453	275	51.2	30.6	19.8	118.6	(40.1)	(35.3)	1.6	2.7	4.2	3.0	6.2	6.9	0.6	0.5	0.5	4.6	6.0	7.2	64.5	21.2	12.1	120	43.8	32.4
Indiabulls Real Estate	105	ADD	26,923	530	258	16.4	3.0	3.5	2,383.9	(81.9)	17.0	6.4	35.1	30.0	(714.2)	(12.2)	10.7	0.5	0.4	0.4	0.3	0.1	0.0	10.6	1.2	1.3	180	72.2	22.0
Mahindra Life Space Developer	124	BUY	5,225	103	42	16.8	10.2	10.8	307.7	(39.2)	5.3	7.4	12.1	11.5	13.4	17.5	9.3	0.6	0.6	0.6	2.2	3.1	3.1	8.4	4.8	4.9	410	230.0	0.5
Phoenix Mills	58	BUY	8,408	166	145	3.2	5.4	7.3	(51.7)	70.0	34.7	18.3	10.8	8.0	13.4	11.3	6.2	0.6	0.6	0.5	1.7	1.7	1.7	5.6	5.3	6.8	210	261.8	0.1
Puravankara Projects	43	REDUCE	9,199	181	213	11.2	7.6	7.5	67.3	(32.1)	(2.2)	3.8	5.6	5.8	7.2	11.0	10.4	0.8	0.7	0.6	4.6	—	4.6	34.2	12.9	11.4	55	27.6	0.3
Sobha	78	REDUCE	5,675	112	73	31.7	15.9	11.9	42.9	(50.0)	(24.8)	2.5	4.9	6.5	6.3	7.5	10.6	0.6	0.5	0.5	8.4	5.1	5.1	25.3	11.0	7.8	90	15.6	0.3
Unitech	34	SELL	55,114	1,086	1,623	10.3	6.9	5.5	28.5	(33.4)	(20.5)	3.3	4.9	6.2	5.7	7.3	8.8	1.5	1.2	1.0	0.7	—	—	59.9	26.8	17.2	24	(29.3)	48.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

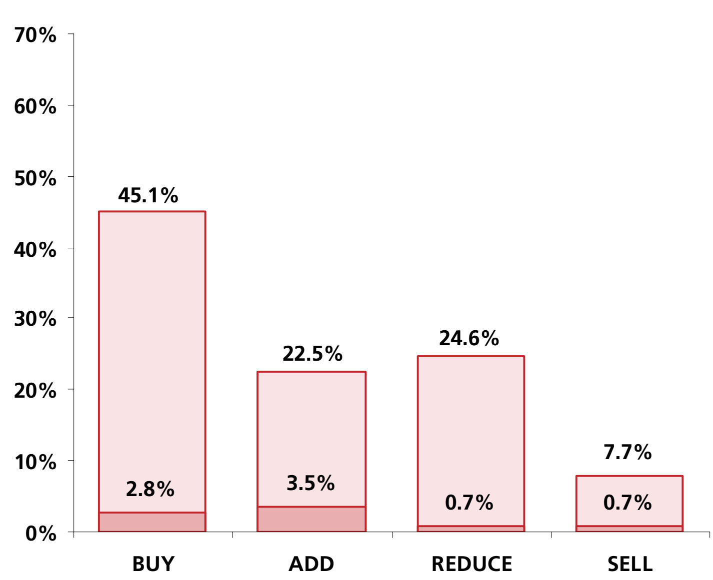
Company	25-Mar-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Property		Cautious	434,686	8,565					187.5	(36.7)	(23.4)	3.6	5.8	7.5	4.5	7.2	8.3	1.2	1.0	0.9	2.2	2.0	2.2	32.1	16.8	11.7			
Retail																													
Pantaloon Retail	154	REDUCE	24,484	482	159	7.9	8.3	10.2	90.0	4.4	23.3	19.4	18.6	15.1	9.9	8.0	7.2	1.3	1.3	1.2	0.5	0.5	0.7	8.2	6.7	7.8	165	7.4	1.3
Titan Industries	736	REDUCE	32,671	644	44	35.1	41.9	48.7	55.2	19.6	16.1	21.0	17.6	15.1	14.3	10.8	9.1	6.9	5.3	4.2	1.1	1.3	1.5	37.7	34.1	30.7	830	12.8	2.8
Vishal Retail	32	ADD	713	14	22	18.1	10.6	10.8	37.2	(41.2)	1.9	1.8	3.0	2.9	4.4	4.3	3.4	0.3	0.2	0.2	—	—	—	20.2	8.3	7.8	75	135.5	0.1
Retail			**57,868**	**1,140**					**31.9**	**6.0**	**17.9**	**18.0**	**16.9**	**14.4**	**10.4**	**8.2**	**7.1**	**2.2**	**2.1**	**1.8**	**0.8**	**0.9**	**1.1**	**12.4**	**12.1**	**12.8**			
Sugar																													
Balrampur Chini Mills	48	BUY	12,381	244	256	3.1	6.5	7.0	(272.9)	106.5	8.0	15.4	7.5	6.9	7.8	4.6	3.9	1.2	1.1	0.9	1.2	1.4	1.6	7.6	13.5	12.7	70	44.5	3.3
Shree Renuka Sugars	82	BUY	22,831	450	280	3.9	8.2	8.4	(87.3)	107.7	2.8	20.7	10.0	9.7	11.7	5.4	5.1	2.6	2.0	1.6	0.3	0.9	1.2	19.9	24.5	20.6	100	22.6	8.0
Bajaj Hindustan	45	SELL	6,413	126	141	(2.6)	(6.0)	0.8	375.9	126.2	NA	(17.2)	(7.6)	56.2	13.9	8.2	5.3	0.5	0.5	0.5	1.5	—	0.6	(6.8)	(7.0)	4.6	36	(20.6)	4.8
Sugar			**41,624**	**820**					**526.3**	**96.1**	**38.3**	**24.7**	**12.6**	**9.1**	**11.1**	**6.2**	**4.9**	**1.3**	**1.2**	**1.1**	**0.8**	**0.9**	**1.2**	**5.3**	**9.5**	**11.7**			
Technology																													
HCL Technologies	104	REDUCE	72,176	1,422	695	15.3	16.6	13.5	(19.0)	8.8	(18.6)	6.8	6.2	7.7	3.0	3.9	3.7	1.5	1.1	1.0	7.7	11.6	11.6	21.4	18.3	13.3	110	5.9	2.9
Hexaware Technologies	26	SELL	3,710	73	142	7.7	4.1	3.0	(13.7)	(46.4)	(27.8)	3.4	6.4	8.8	0.4	0.8	1.7	0.5	0.6	0.5	3.5	3.8	3.8	15.1	8.6	6.3	25	(4.2)	1.9
Infosys Technologies	1,339	BUY	768,557	15,144	574	79.1	101.8	112.0	18.0	28.8	10.0	16.9	13.2	12.0	13.1	9.2	7.8	5.6	4.3	3.4	2.5	1.9	2.0	36.1	36.7	31.6	1,500	12.0	48.8
Mphasis BFL	190	REDUCE	39,571	780	208	12.2	14.2	32.6	67.6	15.7	129.8	15.5	13.4	5.8	9.3	10.1	3.9	3.4	2.8	2.0	1.8	2.1	2.4	23.6	22.8	39.5	190	0.1	1.6
Mindtree	210	BUY	8,307	164	40	26.7	21.0	37.1	12.3	(21.6)	76.9	7.9	10.0	5.7	6.9	3.1	2.9	1.6	1.3	1.1	1.2	—	—	21.3	11.9	17.8	400	90.2	1.4
Patni Computer Systems	123	SELL	15,847	312	128	33.2	26.8	17.5	29.2	(19.3)	(34.7)	3.7	4.6	7.0	0.5	0.5	0.3	0.6	0.7	0.5	1.8	1.5	2.8	19.2	16.2	7.9	130	5.3	0.8
Polaris Software Lab	47	SELL	4,576	90	98	7.4	14.9	12.7	(27.6)	100.0	(14.9)	6.2	3.1	3.7	2.3	0.9	0.8	0.7	0.6	0.5	3.8	3.8	3.8	11.7	20.4	15.0	50	7.4	2.0
TCS	526	REDUCE	514,749	10,143	979	51.3	53.2	58.5	21.5	3.8	10.0	10.3	9.9	9.0	8.2	6.8	6.0	4.2	3.3	2.8	2.7	3.5	4.5	47.0	37.4	33.7	550	4.6	16.3
Tech Mahindra	271	BUY	33,816	666	125	59.1	67.6	58.7	25.7	14.5	(13.2)	4.6	4.0	4.6	4.0	2.4	2.3	2.7	1.6	1.2	2.0	2.2	2.3	70.7	53.1	31.6	320	17.9	3.0
Wipro	243	ADD	354,608	6,987	1,462	22.2	25.3	26.9	12.6	13.9	6.0	10.9	9.6	9.0	8.7	6.8	5.7	2.7	2.4	2.0	2.5	1.7	3.1	27.9	26.6	23.8	280	15.4	8.9
Technology		**Cautious**	**1,815,916**	**35,782**					**15.5**	**14.8**	**7.2**	**11.7**	**10.2**	**9.5**	**8.7**	**6.8**	**5.9**	**3.6**	**2.9**	**2.4**	**2.7**	**2.7**	**3.3**	**30.4**	**28.3**	**25.0**			
Telecom																													
Bharti Airtel Ltd	591	BUY	1,121,659	22,102	1,898	35.3	44.2	48.9	65.0	25.1	10.8	16.7	13.4	12.1	10.2	7.7	6.8	5.0	3.6	2.8	—	0.7	1.0	39.1	31.4	26.0	675	14.2	60.3
IDEA	49	REDUCE	157,772	3,109	3,236	3.9	2.6	2.1	78.5	(33.2)	(21.0)	12.3	18.5	23.4	9.5	6.4	6.3	4.5	1.2	1.1	—	—	—	36.4	10.1	5.1	50	2.6	4.9
MTNL	69	SELL	43,439	856	630	7.1	4.0	4.1	(11.0)	(44.3)	2.6	9.7	17.3	16.9	1.3	4.2	3.1	0.4	0.4	0.4	5.8	8.7	8.7	3.5	1.6	1.6	50	(27.5)	0.8
Reliance Communications	169	SELL	348,303	6,863	2,064	26.5	26.7	20.1	86.4	0.7	(24.7)	6.4	6.3	8.4	5.9	6.7	6.6	1.2	1.0	0.9	0.4	0.5	—	16.8	18.4	11.7	150	(11.1)	47.2
Tata Communications	524	REDUCE	149,340	2,943	285	10.9	13.6	14.0	(36.3)	24.0	3.2	47.9	38.6	37.4	19.9	16.4	14.9	2.3	2.2	2.1	0.9	1.0	1.2	4.4	5.4	5.2	400	(23.7)	2.0
Telecom		**Cautious**	**1,820,513**	**35,872**					**65.7**	**12.7**	**(4.8)**	**12.6**	**11.2**	**11.8**	**8.7**	**7.5**	**6.9**	**2.5**	**1.9**	**1.6**	**0.5**	**0.8**	**0.9**	**19.6**	**16.7**	**13.8**			
Transportation																													
Container Corporation	688	REDUCE	89,426	1,762	130	57.7	63.4	67.8	7.8	9.8	7.0	11.9	10.8	10.1	8.0	7.2	6.3	2.8	2.4	2.0	1.9	2.1	2.2	25.8	23.6	21.4	735	6.8	0.7
Transportation		**Cautious**	**89,426**	**1,762**					**7.8**	**9.8**	**7.0**	**11.9**	**10.8**	**10.1**	**8.0**	**7.2**	**6.3**	**2.8**	**2.4**	**2.0**	**1.9**	**2.1**	**2.2**	**23.6**	**21.7**	**19.9**			
Utilities																													
CESC	203	BUY	25,406	501	125	27.8	31.9	36.9	(23.3)	14.9	15.8	7.3	6.4	5.5	3.8	3.6	4.7	0.8	0.7	0.6	2.0	2.3	2.6	12.5	11.7	11.9	385	89.3	0.7
Lanco Infratech	132	BUY	29,355	578	222	14.8	14.6	17.1	75.2	(1.3)	16.6	8.9	9.0	7.7	8.5	19.6	15.1	1.6	1.3	1.1	—	—	—	19.7	16.2	15.8	265	100.7	4.5
NTPC	177	REDUCE	1,459,447	28,758	8,245	9.3	9.3	10.9	7.9	0.1	16.7	19.0	19.0	16.2	13.2	13.2	12.2	2.7	2.5	2.3	2.0	2.0	2.3	14.9	13.6	14.6	180	1.7	24.0
Reliance Infrastructure	538	BUY	124,149	2,446	231	37.6	59.9	56.2	13.9	59.4	(6.2)	14.3	9.0	9.6	9.9	9.7	9.8	0.8	0.7	0.7	1.2	1.4	1.5	4.3	6.2	6.7	970	80.4	76.7
Reliance Power	103	REDUCE	246,626	4,860	2,397	0.4	1.3	2.5	—	252.9	82.7	270.6	76.7	42.0	—	—	—	1.8	1.7	1.7	—	—	—	1.3	2.3	4.2	120	16.6	8.9
Tata Power	740	BUY	164,621	3,244	223	31.8	65.2	99.1	19.5	104.9	51.9	23.2	11.3	7.5	11.4	8.8	7.9	1.9	1.6	1.3	1.5	1.5	1.6	9.6	15.2	19.5	1,000	35.2	10.0
Utilities		**Attractive**	**2,049,603**	**40,386**					**12.2**	**15.5**	**20.2**	**20.4**	**17.7**	**14.7**	**12.8**	**13.2**	**12.8**	**2.1**	**1.9**	**1.8**	**1.6**	**1.6**	**1.9**	**10.3**	**10.9**	**12.0**			
Others																													
Aban Offshore	332	REDUCE	12,584	248	38	72.3	142.4	185.5	(1,066)	97.0	30.3	4.6	2.3	1.8	10.8	7.5	5.6	1.4	0.8	0.6	1.1	1.2	1.5	51.7	44.5	37.6	300	(9.7)	15.2
Educomp Solutions	2,049	BUY	38,972	768	19	35.2	64.2	108.1	114	82.7	68.3	58.3	31.9	19.0	31.0	14.0	8.6	12.7	5.3	4.3	0.1	0.3	0.5	33.5	23.4	24.3	2,550	24.4	82.0
Havells India	128	REDUCE	7,725	152	61	26.6	(1.0)	10.3	40	(103.7)	(1,135)	4.8	(128.7)	12.4	5.3	7.1	6.1	1.1	1.1	1.0	1.9	2.6	3.2	33.7	(0.9)	8.5	120	(6.0)	0.1
Jaiprakash Associates	85	BUY	118,592	2,337	1,403	4.9	5.3	7.1	7	8.6	33.4	17.3	15.9	11.9	12.8	11.1	9.4	2.4	2.1	1.8	0.0	0.0	0.0	15.4	13.9	16.3	105	24.3	34.8
Jindal Saw	183	BUY	11,208	221	61	66.6	86.9	82.9	(43)	30.6	(4.7)	2.7	2.1	2.2	2.6	1.2	0.9	0.4	0.3	0.3	3.9	7.2	8.2	12.5	14.4	12.3	500	173.6	0.4
PSL	64	BUY	2,783	55	44	21.1	24.3	43.7	4	15.3	79.6	3.0	2.6	1.5	4.5	4.3	3.5	0.4	0.3	0.3	14.1	12.5	12.5	11.3	10.6	14.2	145	127.1	0.1
Sintex	93	BUY	12,653	249	136	19.5	21.3	22.5	60	8.9	5.7	4.7	4.4	4.1	4.5	3.8	3.4	0.8	0.7	0.6	1.1	1.3	1.6	14.0	15.0	13.8	125	34.8	2.8
Tata Chemicals	134	BUY	31,501	621	235	39.6	25.5	24.3	90	(35.7)	(4.7)	3.4	5.3	5.5	5.7	4.0	3.3	1.5	1.2	1.0	1.0	1.3	0.9	30.7	17.2	13.7	190	41.8	1.5
Welspun Gujarat Stahl Rohren	78	BUY	14,687	289	189	20.6	20.9	21.0	94	1.5	0.7	3.8	3.7	3.7	5.7	4.0	3.3	0.8	0.7	0.6	1.7	2.3	1.6	27.1	20.0	17.3	100	28.5	3.8
United Phosphorus	95	BUY	43,913	865	462	9.3	11.4	14.8	30	21.7	30.4	10.2	8.4	6.4	6.5	4.9	3.3	2.0	1.4	1.2	1.0	1.5	2.1	20.0	18.7	20.0	140	47.3	0.9
Others			**294,617**	**5,805**					**42.9**	**20.2**	**15.7**	**8.9**	**7.4**	**6.4**	**7.8**	**6.4**	**5.3**	**1.5**	**1.2**	**1.0**	**1.3**	**1.5**	**1.7**	**17.0**	**16.2**	**16.1**			
KS universe (b)			**21,664,196**	**426,881**					**26.0**	**2.9**	**6.5**	**11.0**	**10.6**	**10.0**	**7.1**	**7.2**	**6.3**	**2.0**	**1.6**	**1.5**	**1.9**	**1.9**	**2.3**	**17.9**	**15.5**	**14.7**			
KS universe (b) ex-Energy			**16,098,226**	**317,206**					**30.8**	**6.0**	**(0.7)**	**10.7**	**10.1**	**10.2**	**7.7**	**7.6**	**7.3**	**2.1**	**1.7**	**1.5**	**1.9**	**2.0**	**2.2**	**19.2**	**16.9**	**14.9**			
KS universe (d) ex-Energy & ex-Commodities			**14,517,866**	**286,066**					**36.1**	**6.9**	**6.7**	**12.2**	**11.4**	**10.7**	**9.4**	**9.2**	**8.1**	**2.3**	**1.9**	**1.7**	**1.9**	**1.9**	**2.2**	**18.8**	**16.9**	**15.9**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/12/2008 Kotak Institutional Equities Investment Research had investment ratings on 142 equity securities.

Source: Kotak Institutional Equities

As of December 31, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

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Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
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