kotak® Institutional Equities

INDIA DAILY

June 15, 2009

EQUITY MARKETS

India	12-Jun	1-day	1-mo	3-mo
		Change, %		
Sensex	15,238	(1.1)	25.2	74.0
Nifty	4,583	(1.2)	24.8	68.6
Global/Regional indices				
Dow Jones	8,799	0.3	6.4	21.8
FTSE	4,442	(0.4)	2.2	18.3
Nikkie	10,089	(0.5)	8.9	33.3
Hang Seng	18,890	0.5	12.5	50.8
KOSPI	1,417	(0.8)	1.8	25.8

Value traded - India

		Moving avg, Rs bn		
	12-Jun		1-mo	3-mo
Cash (NSE+BSE)	314.7		297.9	222.5
Derivatives (NSE)	754.5		536.8	495
Deri. open interest	848.7		763	611

Contents

News Roundup

- **Shipping Corporation of India** (**SCI**) and **Oil and Natural Gas Corp** (**ONGC**) are planning to revive a proposed joint venture (JV) for services related to vessel operations and are working on hiring a consultant for the purpose. (*BS*)
- **Pfizer Inc**. is in an advanced stage of talks with **Wockhardt Ltd** to acquire part of the business of the embattled Indian pharmaceutical firm. The deal, which could value the comparatively smaller businesses at around Rs120 crore, may be signed in June itself.(*Mint*)
- Chinese state oil group **Sinopec** is believed to have tabled a US$7.9 bn offer for London- based **Addax Petroleum**, which has fields in Iraqi Kurdistan and Nigeria, a move that will secure China's access to global oil reserves. (*BS*)
- The power ministry has asked **NTPC Ltd** to sign the gas purchase deal with Reliance Industries Ltd (RIL) for projects other than expanding the Kawas and Gandhar units, on which a legal dispute is on with the private company. (BL)
- India's top tech firms **TCS** and **Wipro**, apart from several multinational rivals, are preparing to bid for a US$200-mn outsourcing contract being considered by Britain's public postal service **Royal Mail Group** (**RMG**). (*ET*)
- **Air India** is to delay payment of salaries and productivity linked incentives (PLI) for June to all its 31,500 employees by about two weeks. The airline's monthly wages and PLI bill comes to around Rs 350 crore. (*ET*)
- **Novartis AG** said on Friday (a day after WHO declared swine flu a pandemic) that it has successfully produced a first batch of swine flu vaccine weeks ahead of expectations. (*Mint*)

Forex/money market

	12-Jun	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	47.6	1	(171)	(428)
10yr govt bond, %	6.9	7	50	2

Commodity market

	12-Jun	1-day	1-mo	3-mo
		Change, %		
Gold (US$/OZ)	938.2	(0.1)	0.7	0.9
Silver (US$/OZ)	14.7	(1.0)	5.1	11.2
Crude (US$/BBL)	70.5	(0.5)	27.8	58.9

Net investment (US$mn)

	11-Jun		MTD	CYTD
FIIs	209		822	5,097
MFs	63		(353)	(5)

Top movers -3mo basis

Best performers	12-Jun	1-day	1-mo	3-mo
		Change, %		
Welspun-Gujarat St	230	3.6	105.4	327.0
Aban Offshore Limi	1,007	(3.9)	62.7	295.2
Jsw Steel Limited	707	11.0	69.0	290.0
Suzlon Energy Limit	119	(1.9)	55.1	243.5
Unitech Limited	86	-	69.7	226.2
Worst performers				
Housing Developme	257	(5.8)	40.6	276.5
Hindustan Unilever	256	(1.6)	14.0	11.5
Bharat Petroleum C	417	(2.1)	12.6	20.8
Hindustan Petroleu	304	(1.0)	16.8	25.6
Itc Ltd	197	(0.5)	5.7	18.9

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Energy

GAIL.BO, Rs287	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	300
52W High -Low (Rs)	323 - 165
Market Cap (Rs bn)	364.6

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	239.6	344.5	398.7
Net Profit (Rs bn)	28.0	27.8	28.7
EPS (Rs)	22.1	21.9	22.6
EPS gth	*8.4*	*(0.8)*	*3.2*
P/E (x)	13.0	13.1	12.7
EV/EBITDA (x)	6.8	7.4	7.8
Div yield (%)	1.6	1.9	1.9

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
6.5	36.8	29.4	12.7

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.3	-	-
FIIs	14.5	1.1	(0.1)
MFs	3.4	1.2	0.0
UTI	-	-	(1.2)
LIC	9.2	2.3	1.1

GAIL (India) : So-so 4QFY09 results; upgraded to ADD on defensiveness, underperformance

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- **Net income up 149% qoq but down 13% yoy**
- **Risks from (1) new regulations and (2) weaker chemical profitability in stock price**
- **Upgraded to ADD rating with 12-month SOTP-based target price of Rs300**

GAIL (India) reported 4QFY09 net income at Rs6.3 bn (+149% qoq and -13% yoy) versus our expected Rs8 bn. The variance in net income was due to (1) lower other income at Rs881 mn versus our expected Rs1.9 bn and (2) higher taxation. GAIL's 4QFY09 EBITDA was Rs10.9 bn in line with our expected Rs10.6 bn (Rs13.1 bn in 4QFY08). We have upgraded the stock to ADD from REDUCE noting the stock's 37% and 20% underperformance to the broad market over the past three and six months. GAIL stock is trading below our 12-month SOTP-based target price of Rs300 (Rs270 previously) and we see the stock as a good defensive play in the current frothy market. We believe risks to earnings from (1) lower tariffs for extant pipelines and (2) weaker chemical margins are largely priced in. We have fine-tuned our FY2010E, FY2011E and FY2012E EPS estimates to Rs21.9, Rs22.6 and Rs30.1, respectively, from Rs20.6, Rs21.8 and Rs29.1. Key downside risks stem from higher-than-expected subsidy losses and weaker-than-expected commodity prices.

4QFY09 results on expected lines. GAIL reported 4QFY09 EBITDA at Rs10.9 bn, versus our expected Rs10.6 bn and Rs2.7 bn in 3QFY09. Exhibit 1 gives details of GAIL's 4QFY09 results.

1. **4QFY09 results boosted by zero subsidy.** GAIL reported strong EBITDA at Rs10.9 bn in 4QFY09 versus Rs2.7 bn in 3QFY09 due to zero subsidy versus Rs9 bn in 3QFY09. We highlight that the quarterly comparison is not meaningful due to sharp variation in the subsidy burden every quarter. GAIL did not bear any subsidy loss in 4QFY09 due to the sharp decline in crude prices and consequent over-recovery by downstream oil companies. However, we note that other upstream companies (ONGC and OIL) gave discounts in 4QFY09 to the downstream oil companies to ensure their profitability in FY2009. We find this perplexing given that the subsidy losses were incurred on kerosene and LPG only in 4QFY09.

2. **Petrochemicals segment's EBIT increased 153% qoq to Rs3.3 bn** despite a sharp decline in sales volumes (-13% qoq). 4QFY09's sales volume was 0.11 mn tons (-12.3% qoq), which reflects continued low demand. We are surprised by the strong performance of the petrochemical segment given the sharp decline in volumes; this could be partly explained by higher prices qoq for polymers.

3. **Other expenditure increased 30% qoq** due to write-off of Rs1.3 bn in 4QFY09 on account of dry wells written off.

Valuations offer moderate upside to target price. We have upgraded GAIL stock to ADD despite the facts that (1) the stock offers only moderate upside (+4.5%) to our 12-month SOTP-based target price of Rs300 and (2) we do not see any positive triggers for the stock in the near future. We believe our previously highlighted concerns about (1) negative impact of new regulations in the form of lower transmission tariffs; our calculations suggest a steep 35-40% decline in composite tariff of HVJ and DV pipelines and (2) lower-than-expected gas transportation volumes are largely priced in following the stock's large underperformance over the past three months (see Exhibit 3).

Earnings estimates and key assumptions. We have revised our FY2010E, FY2011E and FY2012E EPS estimates to Rs21.9, Rs22.6 and Rs30.1, respectively, from Rs20.6, Rs21.8 and Rs29.1. We discuss the changes to our earnings estimates and our key assumptions below. Exhibit 4 gives our key assumptions for GAIL.

1. **Gas transportation volumes.** We model transportation volumes for FY2010E, FY2011E and FY2012E at 105 mcm/d, 117 mcm/d and 157 mcm/d versus 83 mcm/d in FY2009. We highlight that the ramp-up in gas volumes will be likely gradual, based on a phased commissioning of the pipelines.

2. **Subsidy amount.** We model FY2010E subsidy loss at Rs3 bn versus the Rs1 bn assumed previously to reflect high crude price assumption of US$60/bbl versus US$55/bbl previously. For FY2010-12E, we assume subsidy losses such that they result in stable 'net' EBITDA for the LPG segment (gross EBITDA of LPG segment less subsidy amount). However, we note that the subsidy amount would depend on (1) global crude oil prices, (2) government-fixed domestic retail selling prices of diesel, gasoline, kerosene and LPG and (3) subsidy-sharing formula.

3. **Crude oil and LPG price assumptions.** We have changed our crude oil price assumptions for FY2010E to US$60/bbl versus US$55/bbl previously noting the recent surge in crude prices. We maintain our crude price assumption for FY2011E and FY2012E at US$65/bbl and US$70/bbl.

4. **Petrochemical margins.** We retain our cautious view on margins but note that GAIL will likely benefit from higher petrochemical prices since its raw material (natural gas) costs are largely fixed. We have raised petrochemical prices moderately reflecting our higher crude price assumptions. This largely explains our earnings revisions.

5. **12% post-tax ROCE for new pipelines.** We assume 12% ROCE (post-tax) on pipeline assets to compute transmission tariffs for new pipelines.

6. **Rupee-dollar exchange rate.** We maintain our rupee-dollar exchange rate assumption for FY2010-12E at Rs48/US$, Rs47.8/US$ and Rs47.5/US$.

GAIL interim results, March fiscal year-ends (Rs mn)

					(% chg)			yoy		
	4QFY09	4QFY09E	4QFY08	3QFY09	*4QFY09E*	*4QFY08*	*3QFY09*	2009	2008	*% chg*
Sales	62,340	55,125	49,353	58,160	*13*	*26*	*7*	239,608	180,082	*33*
Total expenditure	51,468	44,510	36,249	55,457	*16*	*42*	*(7)*	197,216	139,086	*42*
(Inc)/dec in stock	(227)	—	(821)	626				(50)	(299)	
Purchase	39,582	32,357	28,890	41,717	*22*	*37*	*(5)*	150,804	102,007	*48*
Raw material	5,570	7,407	3,607	5,240	*(25)*	*54*	*6*	21,283	17,148	*24*
Staff cost	495	1,281	699	3,226	*(61)*	*(29)*	*(85)*	5,767	3,196	*80*
Other expenditure	6,048	3,464	3,874	4,649	*75*	*56*	*30*	19,413	17,033	*14*
EBITDA	**10,871**	**10,615**	**13,104**	**2,703**	***2***	***(17)***	***302***	**42,392**	**40,996**	***3***
Other income	881	1,906	997	2,308	*(54)*	*(12)*	*(62)*	6,118	5,564	*10*
Interest	306	191	195	185	*60*	*57*	*65*	870	796	*9*
Depreciation	1,410	1,384	1,425	1,374	*2*	*(1)*	*3*	5,599	5,710	*(2)*
Pretax profits	**10,037**	**10,945**	**12,480**	**3,452**	*(8)*	*(20)*	*191*	**42,040**	**40,054**	*5*
Tax	3,796	2,878	4,328	782	*32*	*(12)*	*386*	13,941	12,525	*11*
Deferred	(59)	125	(576)	137	*(147)*	*(90)*	*(143)*	62	10	*512*
Prior period adjust.	—	—	(1,504)	—				—	(1,504)	
Net income	**6,300**	**7,942**	**7,224**	**2,534**	***(21)***	***(13)***	***149***	**28,037**	**26,015**	***8***
Tax rate (%)	37.2	27.4	30.1	26.6				33.3	31.3	
Volume data										
Gas sales (mcm/d)	77.4		68.8	80.0		*12.5*	*(3.2)*	79.1	69.4	*13.9*
Gas transmission (mcm/d)	82.5		82.2	84.5		*0.5*	*(2.3)*	83.3	82.5	*0.9*
LPG transported ('000 tons)	715		783	763		*(8.7)*	*(6.3)*	2,744	2,754	*(0.4)*
LPG production ('000 tons)	257		254	282		*1.2*	*(8.9)*	1,088	1,044	*4.2*
LPG sales ('000 tons)	261		250	279		*4.4*	*(6.5)*	1,092	1,039	*5.1*
Other liquids prodn ('000 tons)	83		78	77		*6.4*	*7.8*	313	305	*2.6*
Other liquids sales ('000 tons)	83		73	75		*13.7*	*10.7*	313	304	*3.0*
Polymers ('000 tons)-prodn	104		109	107		*(4.6)*	*(2.8)*	420	386	*8.8*
Polymers ('000 tons)-sales	114		109	130		*4.6*	*(12.3)*	423	391	*8.2*
Subsidy payment	—		(3,872)	(9,050)				(17,812)	(13,137)	*35.6*
Segment revenue (Sales/Income)										
Transmission services										
(1) Natural gas	6,511		5,762	6,141		*13.0*	*6.0*	25,081	22,865	*9.7*
(2) LPG	992		1,079	1,065		*(8.0)*	*(6.8)*	3,819	3,893	*(1.9)*
Natural gas trading	47,430		33,802	49,507		*40.3*	*(4.2)*	183,084	126,577	*44.6*
Petrochemicals	6,813		7,467	6,227		*(8.8)*	*9.4*	27,335	25,912	*5.5*
LPG and liquid hydrocarbons	7,671		7,898	3,330		*(2.9)*	*130.4*	29,900	26,614	*12.3*
Telecom	49		72	64		*(31.5)*	*(22.7)*	243	286	*(14.8)*
Unallocated	63		1,055	2,526		*(94.0)*	*(97.5)*	5,749	5,064	*13.5*
Total	69,530		57,133	68,860		*21.7*	*1.0*	275,211	211,210	*30.3*
Less: Inter-segment revenue	8,487		6,784	8,392		*25.1*	*1.1*	31,663	25,564	*23.9*
Sales/Income from operations	**61,043**		**50,350**	**60,468**		***21.2***	***1.0***	**243,548**	**185,646**	***31.2***
Segment results (Profit before tax and interest)										
Transmission services										
(1) Natural gas	4,342		3,755	3,591		*15.6*	*20.9*	16,223	15,535	*4.4*
(2) LPG	640		688	615		*(7.0)*	*4.0*	2,261	2,318	*(2.5)*
Natural gas trading	592		692	823		*(14.4)*	*(28.1)*	3,476	2,044	*70.1*
Petrochemicals	3,275		3,628	1,297		*(9.7)*	*152.6*	12,254	12,542	*(2.3)*
LPG and liquid hydrocarbons	2,240		3,533	(2,473)		*(36.6)*	*(190.6)*	8,696	9,004	*(3.4)*
Telecom	(17)		4	9		*(522.5)*	*(287.8)*	(41)	31	*(232.5)*
Total	11,072		12,300	3,861		*(10.0)*	*186.7*	42,869	41,475	*3.4*
Less: Interest	306		195	185		*56.5*	*65.2*	870	796	*9.3*
Less: Other unallocable exp (net)	729		1,128	224		*(35.4)*	*225.5*	(41)	2,129	*(101.9)*
Total PBT	**10,037**		**10,976**	**3,452**		***(8.6)***	***190.7***	**42,040**	**38,550**	***9.1***
Capital employed										
Transmission services										
(1) Natural gas	67,949		54,162	60,216				67,949	54,162	
(2) LPG	9,526		9,883	9,409				9,526	9,883	
Petrochemicals	19,918		20,021	18,433				19,918	20,021	
LPG and liquid hydrocarbons	12,156		10,352	7,791				12,156	10,352	
Telecom	302		373	301				302	373	
Total	**109,851**		**94,791**	**96,151**				**109,851**	**94,791**	

Source: Company, Kotak Institutional Equities estimates

We value GAIL stock at Rs300 per share

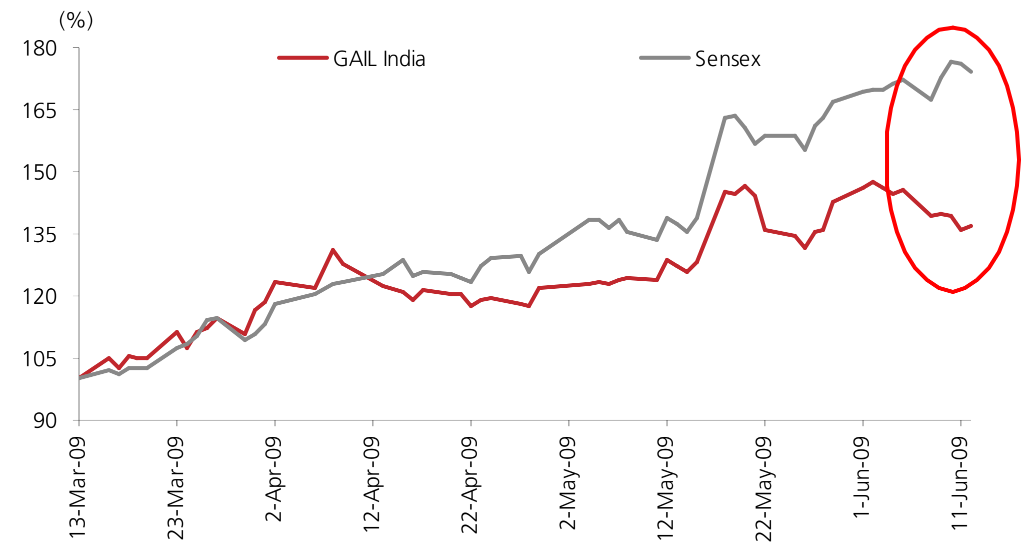
Sum-of-the-parts valuation of GAIL, FY2011E basis (Rs bn)

	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	19				19		15
DV pipeline	28				28		22
DUPD pipeline	31				31		24
DBN pipeline	18				18		14
CGJH pipeline	6				6		5
DV GREP pipeline	62				62		49
Short distance pipelines		5.6		6.0		33	26
Total natural gas transportation							**155**
Other businesses							
LPG transportation		2.7		6.0		16	13
LPG production	25		1.0		25		20
Petrochemicals		5.5		7.0		39	30
Oil and gas upstream	22		1.0		22		17
Subsidy sharing scheme		(5.0)		1.0		(5)	(4)
Total other business segments							**76**
Investments							
ONGC shares	58		0.9		52		41
Others	26		0.9		24		19
Investments	**84**		**0.9**		**76**		**60**
Total						**83**	**291**
Net debt/(cash)					(4)	(4)	(3)
Implied value of share (Rs/share)							**294**

Source: Kotak Institutional Equities estimates

GAIL India stock has underperformed the broad market over the last three months

Relative performance of Petronet LNG and BSE-30 Index (%)



Source: Bloomberg, Kotak Institutional Equities

We model strong increase in gas volumes between FY2008 and FY2012E
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	39	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**	**83**	**105**	**117**	**157**
LPG (000 tons)							
Sold	1,039	1,037	1,039	1,092	1,100	1,100	1,100
Transported	2,228	2,490	2,754	2,800	2,800	2,800	2,800
Petrochemicals (000 tons)							
Polyethylene							
Domestic sales	271	337	381	423	440	450	450
Exports	40	10	10	—	—	—	—
Total petrochemicals	**311**	**347**	**391**	**423**	**440**	**450**	**450**
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	7.05	8.98	8.94	8.91
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					1.04	1.04	1.04
Dadri-Bawana-Nangal					0.69	0.69	0.69
Chainsa-Jhajjar-Hissar					0.50	0.50	0.50
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
LPG							
LPG (US$/ton)	510	531	702	685	455	490	525
Transmission charges (Rs/ton)							
Jamnagar-Loni	1,522	1,522	1,522	1,522	1,522	1,522	1,522
Vizag-Secunderabad	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Other assumptions							
Polyethylene, HDPE (US$/ton)	1,055	1,315	1,500	1,360	1,060	1,075	1,175
Import tariff, Polyethylene	10%	5%	5%	5%	5%	5%	5%
Import tariff, LPG	0%	0%	0%	0%	0%	0%	0%
Exchange rate (Rs/US$)	44.3	45.3	40.3	45.8	48.0	47.8	47.5
Subsidy losses	10,640	14,880	13,137	17,812	3,000	5,000	8,500

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

Source: Company, Kotak Institutional Equities estimates

Gas transportation segment to drive growth

Segment breakdown of GAIL India's revenues and profits, March fiscal year-ends, 2003-2012E

	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Revenues										
Gas transportation-extant pipelines	71,814	74,506	88,788	102,951	112,773	128,141	189,649	307,403	347,448	382,179
Gas transportation-new pipelines								2,675	15,846	147,741
RLNG shipping charges			335	1,110	1,340	2,229	2,241	2,898	2,902	2,902
LPG transportation	2,151	2,644	3,230	3,332	3,440	3,893	4,219	4,219	4,219	4,219
LPG production	20,932	27,377	29,739	32,447	35,024	26,033	26,628	28,204	28,463	27,199
Petrochemicals	10,819	10,901	17,020	16,736	22,918	26,583	29,393	24,913	25,661	27,782
Others	117	3,232	184	183	252	350	1,371	1,148	1,250	1,350
Subsidy-sharing scheme		(4,280)	(11,380)	(10,640)	(14,880)	(13,137)	(17,812)	(3,000)	(5,000)	(8,500)
Trading revenues/profits			2,370							
Total	**105,833**	**114,381**	**130,286**	**146,118**	**160,867**	**174,092**	**235,688**	**368,460**	**420,788**	**584,871**
EBITDA										
Gas transportation-extant pipelines	14,150	14,700	15,114	17,826	17,701	18,044	19,270	17,044	19,732	23,621
Gas transportation-new pipelines								186	937	14,348
RLNG shipping charges							2,241	2,898	2,902	2,902
LPG transportation	1,680	2,170	2,395	2,054	2,590	2,987	2,684	2,698	2,725	2,623
LPG production	9,560	12,560	18,470	15,895	16,764	23,028	27,735	13,861	16,052	17,893
Petrochemicals	4,820	4,920	9,342	7,674	10,934	14,003	9,462	6,012	5,508	7,117
Others	60	3,620	(11)	1,402	(4,547)	(6,610)	(2,176)	(452)	(353)	(254)
Subsidy-sharing scheme		(4,280)	(11,380)	(10,640)	(14,880)	(13,137)	(17,812)	(3,000)	(5,000)	(8,500)
Trading revenues/profits			2,108	610	1,903	2,044				
Total	**30,270**	**33,690**	**36,040**	**34,820**	**30,464**	**40,359**	**41,403**	**39,247**	**42,504**	**59,750**

Source: Company, 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	239,608	344,484	398,694	566,375
EBITDA	**35,731**	**29,896**	**38,976**	**42,392**	**39,247**	**42,504**	**59,750**
Other income	4,555	5,450	5,564	6,118	7,573	7,447	7,790
Interest	(1,174)	(1,071)	(796)	(870)	(923)	(1,805)	(5,862)
Depreciation	(5,595)	(5,754)	(5,710)	(5,599)	(5,812)	(6,474)	(9,178)
Pretax profits	**33,518**	**28,521**	**38,034**	**42,040**	**40,085**	**41,672**	**52,500**
Tax	(9,221)	(7,941)	(12,525)	(13,941)	(12,107)	(12,193)	(10,343)
Deferred taxation	(445)	(190)	(10)	(62)	(159)	(774)	(3,922)
Net profits	**23,101**	**23,867**	**25,716**	**28,037**	**27,819**	**28,705**	**38,235**
Earnings per share (Rs)	**18.2**	**18.8**	**20.3**	**22.1**	**21.9**	**22.6**	**30.1**
Balance sheet (Rs mn)							
Total equity	99,733	113,929	130,049	151,160	171,064	191,854	219,206
Deferred taxation liability	12,997	13,187	13,197	13,259	13,418	14,193	18,115
Total borrowings	19,166	13,379	12,659	20,159	18,959	67,759	100,559
Current liabilities	37,522	45,512	60,604	51,454	57,534	62,415	77,207
Total liabilities and equity	**169,418**	**186,007**	**216,509**	**236,033**	**260,975**	**336,221**	**415,087**
Cash	44,959	26,604	44,730	47,501	29,695	32,927	35,036
Other current assets	28,309	50,851	59,370	69,489	79,434	89,307	107,600
Total fixed assets	81,716	93,913	97,500	104,133	136,937	199,078	257,542
Investments	14,434	14,638	14,909	14,909	14,909	14,909	14,909
Total assets	**169,418**	**186,007**	**216,509**	**236,033**	**260,975**	**336,221**	**415,087**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	25,165	23,920	33,692	27,358	25,711	26,702	42,080
Working capital changes	5,950	(10,151)	(388)	(19,269)	(3,865)	(4,992)	(3,502)
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	6,118	7,573	7,447	7,790
Free cash flow	**22,837**	**(3,002)**	**24,658**	**2,197**	**(8,691)**	**(37,653)**	**(19,809)**
Ratios (%)							
Debt/equity	17.0	10.5	8.8	12.3	10.3	32.9	42.4
Net debt/equity	(22.9)	(10.4)	(22.4)	(16.6)	(5.8)	16.9	27.6
ROAE (%)	21.8	19.9	19.0	18.2	15.9	14.7	17.2
ROACE (%)	**19.7**	**15.5**	**17.6**	**16.8**	**14.7**	**12.6**	**13.9**

Source: Kotak Institutional Equities estimates

Banking

SREI.BO, Rs67	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	95
52W High -Low (Rs)	130 - 22
Market Cap (Rs bn)	7.8

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	3.9	3.6	4.4
Net Profit (Rs bn)	0.8	0.7	0.9
EPS (Rs)	7.0	5.9	7.9
EPS gth	*(38.4)*	*(16.7)*	*35.3*
P/E (x)	9.6	11.5	8.5
P/B (x)	0.8	0.7	0.6
Div yield (%)	1.5	1.8	1.8

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
57.4	179.3	43.4	(44.6)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	30.0	-	-
FIIs	41.1	0.0	0.0
MFs	4.5	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Srei Infrastructure Finance : Challenging macro environment affects 4Q performance; improving outlook provides comfort

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- **Core and non-core items affect Srei's 4QFY09 performance**
- **Reducing bulk borrowings cost and impetus on infrastructure improves business outlook**
- **We raise our price target to Rs95, retain ADD rating**

Srei's construction equipment finance business (JV) reported PAT of Rs126 mn in 4QFY09-significantly below our estimate of Rs255 mn, primarily due to lower-than-expected margins. The parent company reported marginal PAT of Rs8 mn somewhat below our estimate of Rs18 mn as loan growth, fees income remained subdued and forex losses affected reported earnings. We are reducing our estimates by 15% for FY2010E and 3% for FY2011E primarily to factor lower-than-expected loan book. Despite the reduction in near-term earnings, we are raising our fair value estimate to Rs93 from Rs70 as we (a) lower cost of equity to 14.5% from 15% earlier on the back of an improving macro environment and (b) rollover to FY2011E. We believe that MTM gains on Srei's forex position and capital gains from its equity investments (stake in eight road projects, commitment to two ports) and higher-than-expected income from advisory business provide an upside risk to our estimates. The stock will trade at 0.9XPBR FY2011E at our target price for medium term RoEs of about 12-13% (without assuming capital gains on its investments).

Project finance (parent company) disappoints on margins and forex losses. Srei's reported (standalone) PAT of Rs8 mn was somwhat below our estimate of Rs18 mn. However, the company reported pre-tax loss due to sharp rise in interest expenses (Rs769 mn in 4QFY09 versus Rs414 mn in 3QFY09). The rise in interest expenses was likely on account of (a) high borrowings cost during the quarter, (b) large equity investments (about Rs4 bn) without any capital gains/dividend income and (c) MTM losses on its forex exposures. The company had a partly-hedged forex exposure of about Rs7.2 bn in March 2009. We are awaiting details of the forex loss booked during the quarter from the management.

Business model unique; one-off earnings difficult to project, provide upside risk. We believe that the company will likely book MTM gain on its forex exposure in 1QFY10 as the Indian Rupee has appreciated—not factored in our estimates. We are factoring loan growth of 40% in FY2010E—which is not challenging considering Srei's low base and significant growth potential in the segment. Srei's business model involves promotion/ participation in infrastructure projects in partnership with construction companies which will yield the company income from lending, capital gains and fees on syndication/ advisory assignments. In FY2009, the company has earned gross fees of Rs647 mn from an advisory assignment for the Ganga Expressway Project in Uttar Pradesh. High yield (over 20%) from its lending to Quippo telecom for the acquisition of Spice telecom's business also supported its earnings. We find it challenging to project income based on such one-off opportunities and hence we are assigning a 15% premium to our fair value estimate in our target price.

JV disappoints as well, we factor moderate growth. Srei's JV (construction equipment finance) business reported PAT of Rs126 mn versus our estimate of Rs255 mn. We attribute the lower-than-expected earnings to the lower loan book, qoq decline in margins due to high borrowings cost and forex losses (break-up not yet available) . Notably, the borrowings cost for most large NBFCs declined in 4QFY09 as G-sec and 'AAA' bond yields came off. However, we believe that smaller NBFCs like Srei did not get a commensurate benefit till 4QFY09. However, in the absence of a break-up of interest expenses between interest costs and forex MTM losses, it is difficult to make a conclusive comment. We are factoring moderate growth of 10% for FY2010E in our estimates versus the 20% guided by the management. The impetus in infrastructure and increase in road and irrigation will likely increase the business potential in the sector. However, the benefits may be visible in FY2011E. Hence, we continue to assume high (25%) disbursements growth for FY2011E. Rise in gross NPLs to 2.27% in 4QFY09 from 1.83% in 3QFY09 is somewhat worrying though an improvement in the macro environment provides comfort.

Quippo telecom valued at Rs13/ share. Srei proposes to infuse additional Rs0.9 bn in Quippo Telecom (post its merger with the telecom tower business of Tata Teleservices). Srei will then have an economic stake of about 3% in the telecom tower business of Quippo/ WTTIL down from 17% it had in Quippo before the acquisition of Spice and Tata's telecom businesses. The merged entity (Quippo/WTTIL) will have about 20,000 telecom towers. We are factoring a valuation of Rs2.5 mn/ tower and assigning Rs13/ share to Srei's investment in the business.

Srei Infrastructure finance - Sum-of-parts-based valuation

	Stake (%)	Value of the firm (Rs mn)	Value per share (Rs)	Comments
Project related business and stake in subsidiary		7,888	68	Residual growth model assuming 14.5% cost of equity
Investments in Quippo				
Quippo Telecom (post merger)	3%	50,000	13	20,000 telecom towers, assigning value of Rs2.5 mn/ tower
Fair value estimate			**81**	
Premium to capture value in various equity investments (15%)			12	Equity investments of Rs3 bn in various unlisted projects
Target price			**93**	

Source: Kotak Institutional equities estimates

Srei Infrastructure Finance - quarterly results (equipment finance business - JV)
(Rs mn)

	4Q08	1Q09	2Q09	3Q09	4Q09	YoY(%)	4Q09KS	Actual vs KS (%)
Operational income	1,875	2,035	2,306	2,401	2,432	30	2,665	(9)
Interest expenses	1,478	1,491	1,553	1,777	1,852	25	1,865	(1)
Provision for forex	-	-	110	99			100	(100)
Net operational income	397	544	642	525	581	46	700	(17)
Provision expenses	66	80	121	53	150	127	115	30
Provisions for forex	-	-					-	
Net operational income (post provisions)		464	522	473	431		585	(26)
Other income	225	16	45	56	51	(77)	50	2
Operating expenses	-	175	247	324	254		247	3
Admin and other expenses	196	90	137	153	111	(43)	143	(22)
Employee expenses	-	75	95	157	129		105	23
Depreciation	-	10	14	14	14		(1)	(1,621)
Profit before tax	360	306	320	205	228	(37)	388	(41)
Tax	116	104	137	89	102	(12)	133	(23)
Profit after tax	244	202	183	116	126	(48)	255	(51)
Tax rate (%)	32	34	43	43	45		34	
NIM - calculated (%)	**4.7**	**3.27**	**3.81**	**3.45**	**3.16**		**3.78**	
Bal sheet (end of qtr)								
Loans under management	63,789	69,310	71,334	73,300	73,862		80,000	
Outside books	16,567	13,960	12,030	12,047	13,698			
Loans on books	47,222	55,350	59,304	61,253	60,735			
Operarting leases				3,750	3,693			

Source: Company, Kotak Institutional Equities estimates.

Srei Infrastructure Finance - standalone quarterly results
(Rs mn)

	4Q08	1Q09	2Q09	3Q09	4Q09	YoY (%)	4Q09KS	Actual vs KS (%)
Operational income	150	1015	1092	386	382			
Interest expenses	370	300	296	269	769			
Provision for forex	120	110	60	145				
Net operational income	**(340)**	**605**	**736**	**(28)**	**(386)**	**14**	**213**	**(281)**
Provision expenses	0	0	2	0	6		37	
Provisions for forex	0	0		0				
Net operational income (post provisions)	**0**	**605**	**734**	**(28)**	**(392)**			
Other income	640	0	10	20	359	(44)	-30	(1288)
Operating expenses	**0**	**137**	**517**	**(48)**	**198**		**127**	**56**
Admin and other expenses	50	113	487	(120)	104	107		
Employee expenses	0	21	30	51	42			
Depreciation	0	3		21	53			
Profit before tax	**250**	**469**	**227**	**40**	**(232)**	**(193)**	**19**	**(1312)**
Tax	(17)	159	65	16	(240)	1288	1	(18204)
Profit after tax	**267**	**309**	**163**	**24**	**8**	**(97)**	**18**	**(54)**
Bal sheet (end of qtr - Rs mn)								
Loan book	8,270	9,739	14,139	11,840	12,269	48	15,618	(21)
Investments	3,281	4,142	3,489	4,340	4,467			
Others	3,970	1,619	112	3,515	3,515	(11)	3,515	0
Total assets	**15,521**	**15,500**	**17,740**	**19,695**	**21,280**			
NW	6,580	6,820	7,000	7,089	7,084			
Borrowings	8,941	8,680	10,740	12,606	13,426	50	14,532	(8)

Source: Company, Kotak Institutional Equities estimates.

Srei Infrastructure Finance: Key ratios, March fiscal year-ends, 2007-2010E (%)

	2007	2008	2009E	2010E	2011E
Income statement growth (%)					
Net interest income	36	21	47	17	23
Loan loss provisions/ writeoffs	99	131	73	(8)	5
Non-interest income	343	4,243	31	(66)	(20)
Operating expenses	52	73	85	(21)	9
Balance sheet growth(%)					
Net loans	92	67	22	15	21
Net loans (incl securitised)	69	50	(2)	24	24
Asset management measures (%)					
Yield on average earning assets	12.0	12.3	15.5	12.3	12.7
Average cost of funds	8.6	10.2	14.4	11.0	11.0
Spreads	**3.4**	**2.1**	**1.2**	**1.3**	**1.7**
Net interest income/EA	**5.1**	**3.6**	**3.7**	**3.6**	**3.8**
Total credit cost/average net loans	0.4	0.5	0.6	0.5	0.4
Tax rate	7.6	11.5	27.7	32.4	29.0
Dividend payout ratio	13.7	10.5	10.3	11.9	9.2
Profitability measures (%)					
Net int. income/net total income	98.6	66.9	69.5	88.7	92.3
Operating expenses/total income	36.9	36.0	46.8	40.3	37.3
Payout ratio	13.7	10.5	10.3	11.9	9.2
Equity/assets (EoY)	11.7	10.6	13.1	12.2	10.9
Debt/ equity (X)	7.0	8.0	6.0	6.5	7.5
Du Pont Analysis (% of average assets)					
Net interest income	4.8	3.5	3.6	3.5	3.7
Loan loss provisions	0.3	0.5	0.5	0.4	0.4
Net other income	0.1	1.7	1.6	0.4	0.3
Gains on securitization	0.0	0.0	0.0	0.0	0.0
Operating expenses	1.8	1.9	2.5	1.6	1.5
(1- tax rate)	92.4	88.5	72.3	67.6	67.8
ROA	**2.5**	**2.6**	**1.5**	**1.3**	**1.4**
Average assets/average equity (x)	7.1	9.0	8.3	7.9	8.7
ROE	**18.1**	**23.1**	**12.5**	**10.2**	**12.5**

Source: Company, Kotak Institutional Equities estimates.

Srei Infrastructure Finance, income statement and balance sheet, March fiscal years 2007-2011E (%)

	2007	2008	2009E	2010E	2011E
Income statement					
Interest income	3,669	6,328	11,522	11,134	13,262
Interest expenses	2,155	4,502	8,829	7,977	9,376
Net interest income	**1,514**	**1,826**	**2,693**	**3,157**	**3,886**
Provisions and write/off	103	238	411	378	397
Net interest income (after prov.)	1,411	1,588	2,282	2,779	3,490
Other income	21	903	1,184	403	323
Operating expenses	**567**	**982**	**1,815**	**1,434**	**1,568**
Employee expenses	223	438	680	636	681
Admin and other expenses	264	486	1,061	721	803
Brokerage and service charges	20	20	20	20	20
other miscellaneous expenses	38	10	10	10	10
Depreciation	22	28	45	47	54
Pretax income	**858**	**1,502**	**1,567**	**1,741**	**2,237**
Tax provisions	65	173	434	32	195
Deferred Tax	0	0	0	532	526
Net Profit	**792**	**1,330**	**1,133**	**1,177**	**1,517**
Net Profit after minority interest	**792**	**1,330**	**820**	**683**	**918**
EPS (Rs)	7	11	7	6	8
BPS (Rs)	43	59	97	101	108
ABVPS (Rs)	42	56	89	101	108
Balance sheet					
Construction equipment finance	30,447	50,720	60,735	66,766	79,426
Project finance	5,373	8,951	12,269	17,177	22,330
Net loans	**35,820**	**59,671**	**73,004**	**83,942**	**101,756**
Total Investments	1,467	1,467	5,645	6,787	6,945
Cash & deposits	753	753	3,272	1,496	1,646
Stock in trade	88	100	215	227	239
Installments due	27	45	55	63	76
Other advances recoverable in cash & kind	1,712	1,712	3,055	3,260	3,486
Net fixed assets	257	386	494	520	575
Total assets	**40,124**	**64,134**	**85,739**	**96,296**	**114,722**
Total Borrowings	33,035	54,927	68,018	77,080	93,706
Current liabilities	1,079	1,079	719	719	719
Provisions	656	656	656	656	656
Deferred tax liability	645	645	645	1,131	1,578
Total liabilities	**35,414**	**57,306**	**70,038**	**79,586**	**96,658**
Share capital	1,091	1,163	1,163	1,163	1,163
Reserves	3,679	5,665	10,105	10,620	11,375
Shareholders fund	**4,710**	**6,828**	**11,268**	**11,783**	**12,537**
Minority interest	**—**	**—**	**4,434**	**4,927**	**5,526**

Source: Company, Kotak Institutional Equities estimates.

Srei Infrastructure finance

Old and new estimates, March fiscal years, 2010-2011E (Rs mn)

	Old estimates		New estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net interest income	3,502	3,979	3,157	3,886	(10)	(2)
Loan growth (%)	3	18	15	21		
Loan book (Rs bn)	91,993	108,846	83,942	101,756		
AUMs (Rs bn)	113,364	137,567	109,467	136,867		
NIM (%)	3.5	3.6	3.6	3.8		
NPL provisions	454	425	378	397	(17)	(7)
Other income	356	468	403	492	13	5
Operating expenses	1,440	1,733	1,434	1,729	(0)	(0)
Employee	620	726	636	746	3	3
Others	820	1,007	798	983	(3)	(2)
PBT	1,957	2,282	1,741	2,245	(11)	(2)
Tax	630	733	564	723	(10)	(1)
PAT	1,327	1,549	1,177	1,522	(11)	(2)
PAT (after minority interest)	804	953	683	924	(15)	(3)

Source: Kotak Institutional Equities estimates.

Consumer products

HLL.BO, Rs256	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	320
52W High -Low (Rs)	272 - 185
Market Cap (Rs bn)	557.4

Financials

December y/e	2008	2009E	2010E
Sales (Rs bn)	202.4	186.0	210.5
Net Profit (Rs bn)	24.5	23.1	26.5
EPS (Rs)	11.3	10.6	12.2
EPS gth	*40.7*	*(6.0)*	*15.0*
P/E (x)	22.7	24.2	21.0
EV/EBITDA (x)	17.7	18.5	16.0
Div yield (%)	3.4	3.7	4.3

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
14.0	11.5	4.8	12.8

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	14.3	1.8	(0.1)
MFs	4.6	2.7	0.7
UTI	-	-	(1.9)
LIC	5.9	2.5	0.5

Hindustan Unilever : Time to go with the leader. Upgrade to BUY

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- **HUL pricing power has a high correlation with inflation**
- **Volume growth to improve by 2QFY10, relaunches will drive market shares**
- **Renewed focus on regional brands augurs well**
- **Upgrade to BUY, roll over estimates to FY2011E, TP Rs320**

We upgrade HUL stock to BUY (from REDUCE) and revise our target price to Rs320 (from Rs235) as we see potential for HUL to outperform industry growth over FY2010-11E. Factors favoring HUL are (1) likely return of inflation, (2) stability in market shares as price cuts take effect and a revamped AC Nielsen retail panel, (3) likely major relaunches/brand activities in 2HFY10 and (4) renewed focus on regional jewel brands. We model EPS of Rs10.6 for FY2010E (+15.1%) and Rs12.2 (+15%) for FY2011E. We increase earnings estimates by 4% for FY2010E and FY2011E as we see increasing ability for HUL to grow margins ahead of topline in an inflationary economy and mix improvement in personal care (predominantly shampoo). We now value HUL at 26.5x FY2011E, at the last three-year average PE (valued earlier at 23x, at the lower end of band). One more reason to buy the stock—HUL's current relative PE versus Sensex is at a 10-year low. Key risks to our BUY rating are (1) continued market share loss, (2) emergence of irrational competition and (3) failure of monsoons,if any.

Upgrade to BUY, TP Rs320

We upgrade HUL's stock to BUY (from REDUCE) and revise TP to Rs320 (from Rs235) as we see potential for HUL to outperform industry growth in FY2010-11E. Factors favoring HUL are (1) likely return of inflation, (2) stability in market shares as price cuts take effect and a revamped AC Nielsen retail panel, (3) likely major relaunches/brand activities in 2HFY10 and (4) renewed focus on regional jewel brands. We model EPS of Rs10.6 for FY2010E (+15.1%) and Rs12.2 (+15%) for FY2011E. Break up of our target price revision:

- Rs12 from modest earnings revision (4% upwards for FY10E and FY11E) as we see increasing ability for HUL to grow margins ahead of topline in an inflationary economy and mix improvement in personal care (predominantly shampoo). We model 70 bps improvement (60 bps previously) in EBITDA margins to 13.9% in FY2010E and a further 30 bps to 14.2% in FY2011E
- Rs38 from assigning higher multiples. We now value HUL at 26.5x FY2011E, at the last three years average PE (valued earlier at 23x, at the lower end of band). Potentially, stable market shares in personal care gives us the confidence to assign the last three-year average multiple
- Rs35 comes from rolling over estimates to FY2011E from FY2010E and March year end from December year end

One more reason to buy the stock—HUL's current relative PE versus Sensex is at a 10-year low. Key risks to our BUY rating are, (1) continued market share loss, (2) emergence of irrational competition and (3) failure of monsoons, if any.

HUL's pricing power improves during periods of inflation

We see the potential for HUL to outperform industry sales growth in a favorable environment. HUL's pricing growth has a high correlation with inflation. Over 1997-2008, the correlation of urban consumer price inflation (CPI) and rural CPI with HUL sales growth was 0.58 and 0.78, respectively (Exhibit 1). Our economist Dr. Mridul Saggar expects inflation to be in high single digits by 3QFY10E (Exhibit 2). Consumer inflation along with high input costs (for example, palm prices are up 80% from the bottom in the last six months, Exhibit 3) gives a competitive advantage to market leader HUL.

Volume growth to improve by 2QFY10

Channel checks indicate that effective price cuts in soaps and detergents and higher promotional spends in personal care (to match competition) is helping HUL regain volumes. For example,

1) HUL is currently matching the higher trade spends by Santoor in relevant territories

2) Higher trade promotions by CavinKare is countered by consumer offer (extra grammage) in Clinic Plus shampoo

3) Price cuts in Pepsodent (Rs13 to Rs10 for 40 gms carton pack, Rs6 to Rs5 for 30 gms reusable sachet)

We forecast steady improvement in volume growth for HUL in FY2010E; +1.5%, +3.5%, +6% and +7% in four quarters of FY2010E (Exhibit 6). HUL faced volume decline in most categories in the first four months of CY2009. A combination of market factors and a delay in price cuts to match competition hurt HUL in 1QCY09.

Relaunches will drive market shares

Lack of brand renovation was one of the major reasons for HUL's continued market share loss in FY2008 and FY2009, in our view. We highlight that HUL's brands typically respond favorably to major activities/relaunches (Exhibit 5). During FY2008 and FY2009, given the intensity of input cost inflation, the focus of FMCG players including HUL was gross margin preservation, leaving very few resources for incremental brand activation spends. We see this situation improving in FY2010 and FY2011, wherein the company is likely to invest in major brand activation programs in soaps (Lux) and shampoo (Clinic portfolio – Plus and All Clear). Exhibit 4 provides a list of likely brand relaunches.

Think regional, act regional

Recent media reports suggest that HUL is implementing region-specific differentiated activation programs by focusing more on regional jewels. Apart from the national and regional players, HUL's faces major competition in soaps and detergents from smaller players who are focused on a few districts. The company faces two challenges while dealing with such competition, (1) ability to match the terms of trade (trade margins/ consumer offers) offered by these players and (2) a regional focused brand in HUL's portfolio (Hamam soap, Rexona soap, Lux shampoo, Sunlight detergent etc.) have better brand credentials in the local market to take on such competition, whereas brand spends are currently likely to be higher for national brands.

Reported market shares will likely improve

We believe the underlying market shares of HUL will improve due to pricing actions and likely relaunches, the potential revisions in AC Nielsen data—based on a reconstituted panel and processes—augurs well for better reported market shares. One of our main worries regarding HUL has been the consistent loss of market shares across categories. In its conference call with analysts after its March quarter results, HUL indicated that market share data as per the AC Nielsen retail panel and IMRB household panel are showing divergent trends in many categories—effectively questioning the accuracy of market share data. We heard similar concerns from other FMCG companies as well—Godrej Consumer, Dabur, Jyothy Laboratories etc. Trade sources indicate that these reactions have compelled AC Nielsen to revamp its sampling—it has therefore recently expanded its retail panel size to over 20,000 outlets from 16,000 and included modern retail stores and chemist shops in its sample. We believe the new sample composition augers well for data collection for HUL's personal care business.

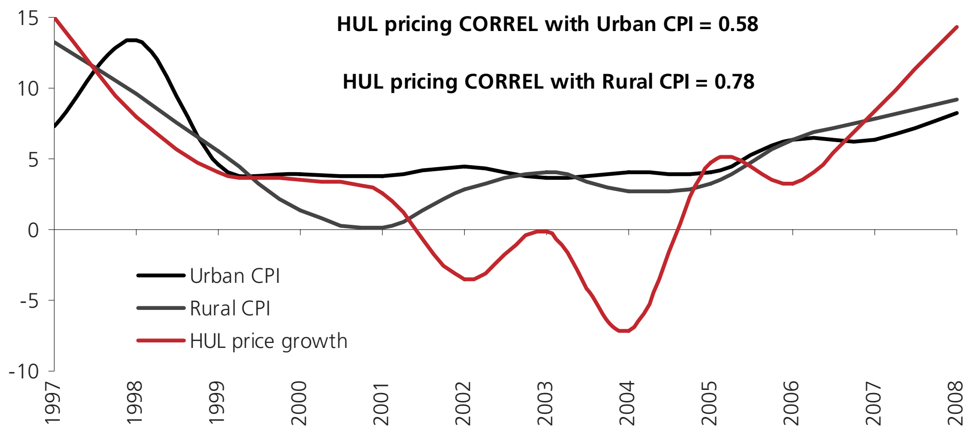
Concerns

Distributor rationalization is a boon for competition. The company is in the process of implementing a new GTM (go to market) strategy by reducing the number of distributors. For example, HUL reduced the number of distributors in Mumbai to 5 from 22 in CY2008. The company believes that this move will improve distributor working capital, return on investment and HUL own nimbleness (with fewer touch points in the channel). While we agree on the expected benefits, we are concerned about this strategy on two counts (1) bigger distributors mean likely loss of entrepreneurial drive which is imperative for effective secondary sales management and (2) distributors who are relieved by HUL are potential targets for competition for their geographical expansion plans.

Detergents market share will face pressure in the near term. Channel sources indicate that HUL is facing severe price-based competition in low-end detergent Wheel. While the company has implemented effective price cuts, the competition from smaller players is acute. Detergent market shares will likely face pressure in the near term, in our view. We continue to worry about industry volume decline in detergents, as consumers have opted for rationalizing on quantum of usage (resulting in longer-than-expected consumer purchase cycles).

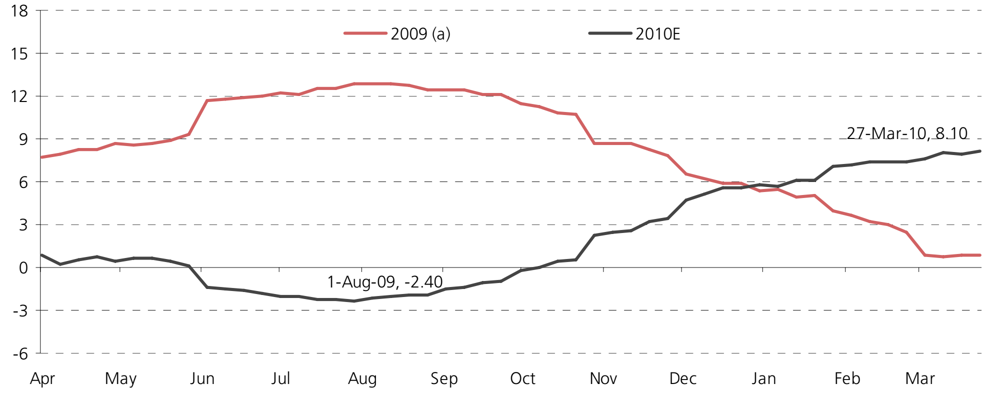
Exhibit 1: Demonstrated pricing benefit during inflationary times

HUL pricing growth, urban and rural consumer price inflation (CPI), %



Source: Company data, Kotak Institutional Equities estimates.

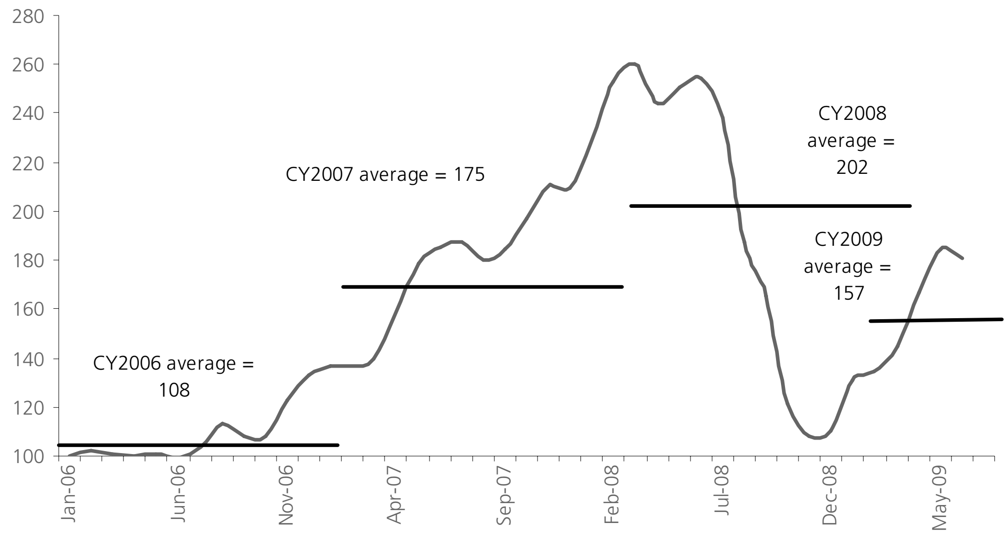
Exhibit 2: Inflation likely to comeback back sharply in 2HFY10E
Headline inflation rate, March fiscal year-ends, 2008-2010E (%)



Notes:
(a) Actual inflation data till May 30, 2009 and Kotak Institutional Equities estimates thereafter.

Source: Government of India, Kotak Institutional Equities estimates

Exhibit 3: Inflation in input costs will help HUL outperform industry growth
Crude palm oil price trends (January 2006 = Index 100)



Source: Bloomberg, Kotak Institutional Equities

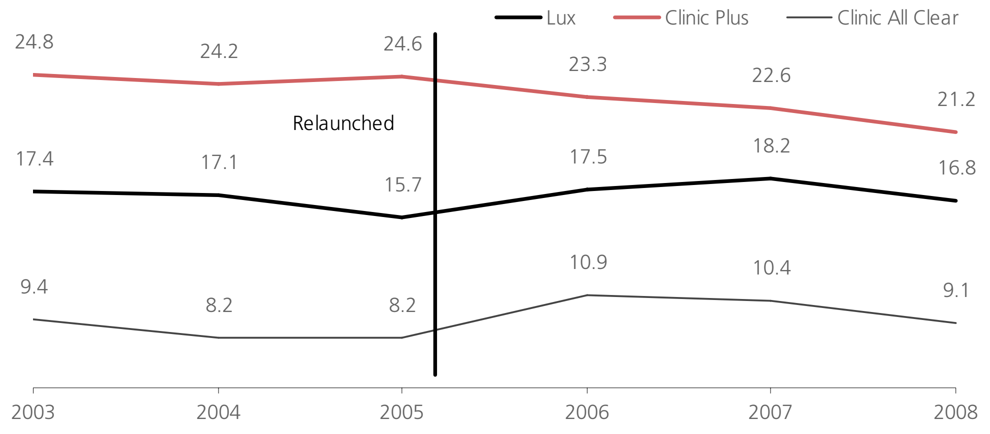
Exhibit 4: Likely HUL relaunches/innovations in FY2010

Category	Brand	Comment
Soaps	Lux	***Last major brand activity in 2005***
	Breeze	Continues to lose market shares to Godrej No.1
Detergents	Rin	***Last major brand activity in 2006***
Toothpaste	Pepsodent	Price cuts in low unit packs
Shampoo	Clinic All Clear	***Last major brand activity in 2005***
Skin	Fair & Lovely	

Source: Trade sources, Kotak Institutional Equities

Exhibit 5: Relaunches will drive growth

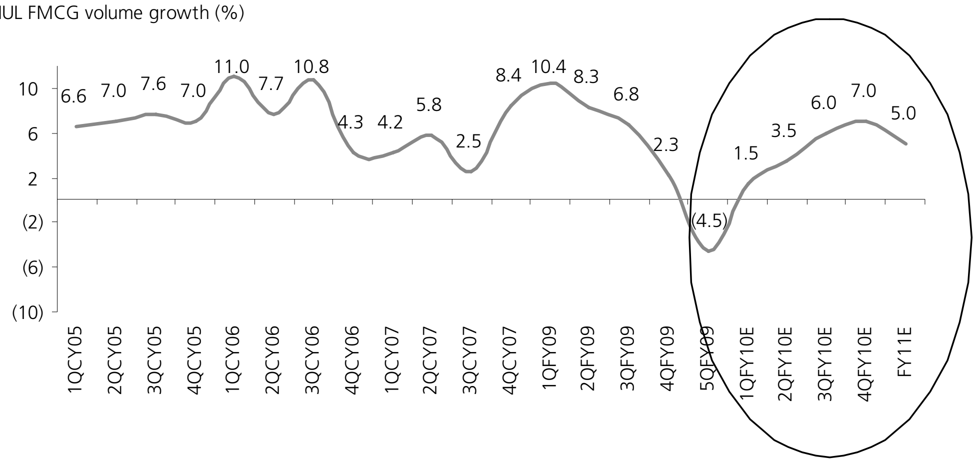
Value market shares of Lux, Clinic Plus and Clinic All Clear, %



Source: A C Nielsen, Kotak Institutional Equities estimates

Exhibit 6: Relaunches will drive growth

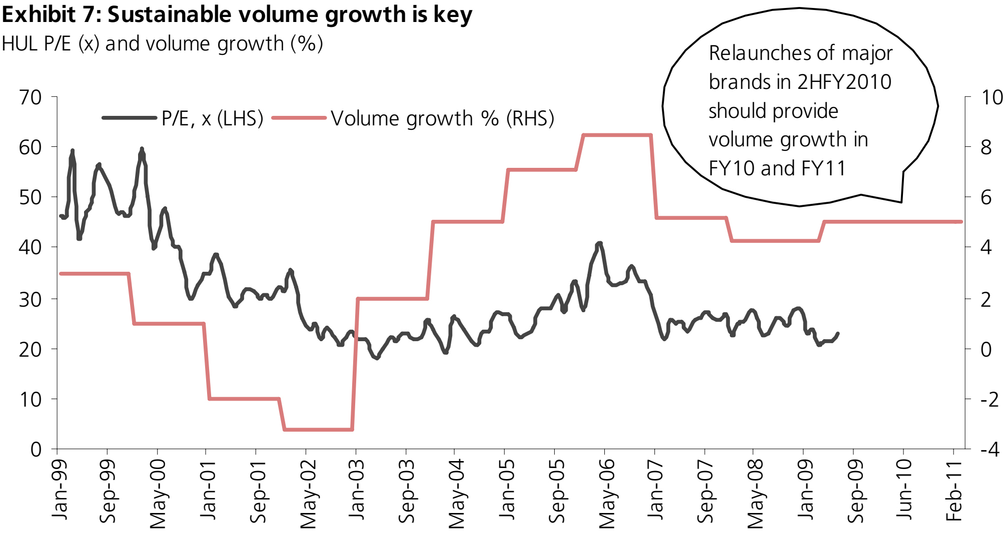
HUL FMCG volume growth (%)



Source: Kotak Institutional Equities estimates

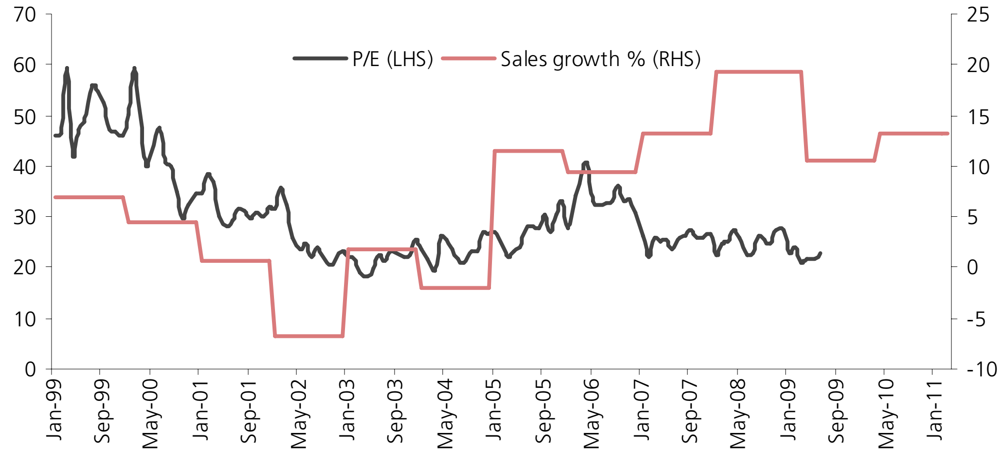
Exhibit 7: Sustainable volume growth is key

HUL P/E (x) and volume growth (%)



Source : Kotak Institutional Equities

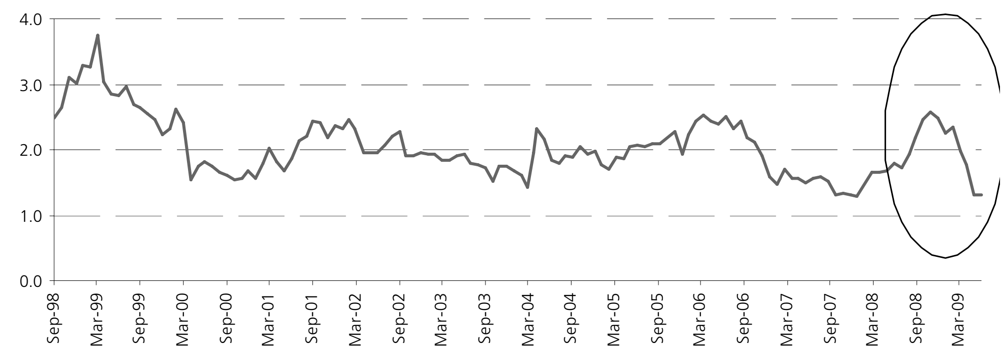
Exhibit 8: HUL - P/E and sales growth



Source : Kotak Institutional Equities

Exhibit 9: Concerns on market share losses priced in

Relative P/E of HUL over Sensex (x)



Source : Kotak Institutional Equities

Exhibit 10: We value HUL stock at last three year average PE

One-year forward PE of HUL (x)

	Minimum	Maximum	Average
1-year	22.6	26.8	24.2
3-years	21.9	36.3	**26.5**
5-years	20.8	40.8	26.9
10-years	18.1	59.5	29.6

Source: Kotak Institutional Equities estimates.

Exhibit 11: Stability in market shares will likely reverse HUL's underperformance versus Sensex

Company	Price (Rs)	Mkt Cap (Rs bn)	Rating	Absolute Change, % 1-mo	6-mo	1-Year	Relative Change, % 1-mo	6-mo	1-Year	52 Week High	Low
Hindustan Unilever	243	529	BUY	4	(3)	3	(14)	(5)	28	272	185
ITC	189	711	ADD	11	12	(9)	(8)	9	19	232	132
Nestle India	1,720	166	ADD	13	13	13	(7)	11	35	1,870	1,220
Colgate-Palmolive	463	63	ADD	1	18	10	(17)	16	33	482	341
Godrej Consumer Products	133	34	ADD	12	17	4	(8)	15	29	146	90
GlaxoSmithkline Consumer	735	31	ADD	21	21	22	(0)	19	42	766	452
Asian Paints	888	85	ADD	19	(14)	(28)	(2)	(16)	5	1,334	681
Jyothy Laboratories	65	5	ADD	8	19	(51)	(11)	17	-	136	42
Tata Tea	691	43	BUY	29	20	(20)	6	18	11	940	430
Consumer Products		**1667**	**Cautious**	**10**	**6**	**(4)**	**(10)**	**4**	**23**		
Sensex	**10,898**			**22**	**2**	**(35)**					

Note : Closing prices as of June 12, 2009

Source: Kotak Institutional Equities

Exhibit 12: HUL, change in estimates, March fiscal year-ends (Rs mn)

	FY10E	CY09E		FY11E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	185,987	179,464	3.6	210,525	201,318	4.6
EBIDTA	25,788	24,464	5.4	29,873	27,837	7.3
Net profit	23,050	22,280	3.5	26,504	25,301	4.8
EPS	10.6	10.2	3.5	12.2	11.6	4.8
Sales growth (%)	-8.1	9.8		13.2	12.2	
Profit growth (%)	-6.0	11.5		15.0	13.6	
EBITDA margin (%)	13.9	13.6		14.2	13.8	

Source: Kotak Institutional Equities estimates.

HUL: Profit model, balance sheet, cash model, calendar year-ends 2006-07, March fiscal year-ends 2009-11E (Rs mn)

			15 months		
	2006	**2007**	**2009**	**2010E**	**2011E**
Profit model (Rs mn)					
Net sales	121,034	136,754	202,393	185,987	210,525
EBITDA	**16,621**	**18,787**	**26,780**	**25,788**	**29,873**
Other income	3,545	4,315	5,678	5,073	6,049
Interest	(107)	(255)	(253)	(391)	(434)
Depreciation	(1,302)	(1,384)	(1,953)	(1,677)	(1,998)
Pretax profits	18,757	21,463	30,251	28,794	33,489
Tax	(2,950)	(3,660)	(5,729)	(5,548)	(6,795)
Deferred taxation	(268)	(389)	0	(195)	(191)
Net profit	**15,539**	**17,415**	**24,522**	**23,050**	**26,504**
Earnings per share (Rs)	**7.0**	**7.9**	**11.3**	**10.6**	**12.2**
Balance sheet (Rs mn)					
Total equity	27,235	14,392	20,615	23,008	25,760
Total borrowings	726	885	4,219	4,219	4,219
Currrent liabilities	45,231	51,110	57,838	54,185	61,272
Total liabilities and equity	**73,191**	**66,387**	**82,673**	**81,413**	**91,251**
Cash	4,169	2,009	17,773	15,731	17,580
Current assets	27,527	30,765	38,236	34,919	39,391
Total fixed assets	15,110	17,081	20,789	25,083	28,792
Investments	24,139	14,408	3,326	3,326	3,326
Deferred tax asset	2,245	2,124	2,548	2,353	2,163
Total assets	**73,191**	**66,387**	**82,673**	**81,413**	**91,251**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	20,209	20,674	26,581	24,922	28,693
Working capital	(471)	3,091	(2,592)	(1,035)	1,203
Capital expenditure	(1,576)	(3,355)	(5,660)	(5,972)	(5,707)
Investments	(4,309)	9,464	10,657	0	-
Free cash flow	**13,852**	**29,873**	**28,986**	**17,915**	**24,190**
Key assumptions					
Revenue Growth (%)	9.4	13.0	48.0	(8.1)	13.2
EBITDA Margin(%)	13.9	13.7	13.2	13.9	14.2
EPS Growth (%)	18.3	12.1	42.7	(6.0)	15.0

Source: Kotak Institutional Equities estimates.

Metals

SESA.BO, Rs203	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	240
52W High -Low (Rs)	226 - 60
Market Cap (Rs bn)	159.8

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	49.3	51.0	60.7
Net Profit (Rs bn)	19.5	20.1	26.9
EPS (Rs)	24.8	25.5	34.2
EPS gth	*30.8*	*3.0*	*34.0*
P/E (x)	8.2	8.0	5.9
EV/EBITDA (x)	5.2	4.6	2.8
Div yield (%)	1.7	1.7	1.7

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
39.3	154.9	137.1	8.2

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.2	-	-
FIIs	19.7	0.4	0.1
MFs	1.6	0.1	(0.2)
UTI	-	-	(0.3)
LIC	1.0	0.1	(0.2)

Sesa Goa : Acquired becomes acquirer. Reiterate BUY

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Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **Dempo is earnings-accretive and low-cost, we view the acquisition positively**
- **Need for preferential allotment questionable**
- **Maintain BUY. Raise target to Rs240**

Sesa Goa's all cash acquisition of Dempo's Goan mining asset for Rs17.5 bn is a positive move, in our view. With low-cost of operations at US$18-20/ton, it would be earnings-accretive right from the beginning. Dempo has an annual output of 4 mn tons and reserves and resources of 70 mn tons. The management has further raised its volume target to 50 mn tons of iron ore output over the next three years which is quite aggressive. The volume ramp-up would be through a mix of capacity increases and more acquisitions. We have raised our target to Rs240 (Rs200 earlier) and now value Sesa Goa based on DCF methodology compared to EV/EBITDA earlier. We maintain our BUY rating on the stock. New export duties and sharp falls in iron ore prices remain key risks to our call.

Raise target to Rs240

We now value Sesa Goa based on a DCF methodology compared to EV/EBITDA methodology earlier and arrive at a target of Rs240/share (Rs200 earlier) after taking to account the higher volumes from Dempo assets. Given the lack of operational and balance-sheet details, we have not consolidated earnings and other balance-sheet items. We have kept our other earnings assumptions unchanged and have also not factored earnings dilution arising out of the proposed preferential issue.

A part of the increase in target price is on account of value accretion from the Dempo asset, which we value at Rs26/share compared to the outflow of Rs20/share paid for the acquisition. We maintain our BUY rating on the stock.

70 mn tons of reserves added

Sesa Goa recently announced that it has acquired 100% equity of VS Dempo & Co. Pvt. Ltd., which in turn holds 100% stake in Dempo Mining Corporation and 50% stake in Goa Maritime Pvt. Ltd., for Rs17.5 bn. The mining reserves are conservatively estimated at 70 mn tons. It has mines in North and South Goa and one of its mines has a contiguous boundary with Sesa Goa's mine.

Most of the output (92%) is in the form of fines, the remaining is in the form of lumps. Of the total output of 4 mn tons, 1 mn ton is being sold to Nippon Steel on a long-term basis and the remaining is being sold to Chinese steel mills. The total long-term and spot mix is in the ratio of 60:40. Dempo has 1400 employees, which are on the higher side. In FY2009, Dempo had a cost of production of US$27/ton, they included certain one-time costs such as foreign exchange losses which amounted to about US $7.5/ton which would not recur. The normalized cost of production is US$18-20/ton, which are higher compared to Sesa's cost of production of US$15/ton for the Goa operations.

While the mines have a large, mine life of over 15 years, the current mine output is low. The management has stated that would make applications to the environmental authorities to raise the current mining limits of 4 mn tons and has stated that it would take 18-24 months to process the applications.

Raised volumes guidance to 50 mn tons

Management has raised its volume guidance to 50 mn tons over the next three years which is significantly higher than the earlier guidance of 25 mn tons. The volume increases would happen through a mix of volume increases at current operations and more acquisitions.

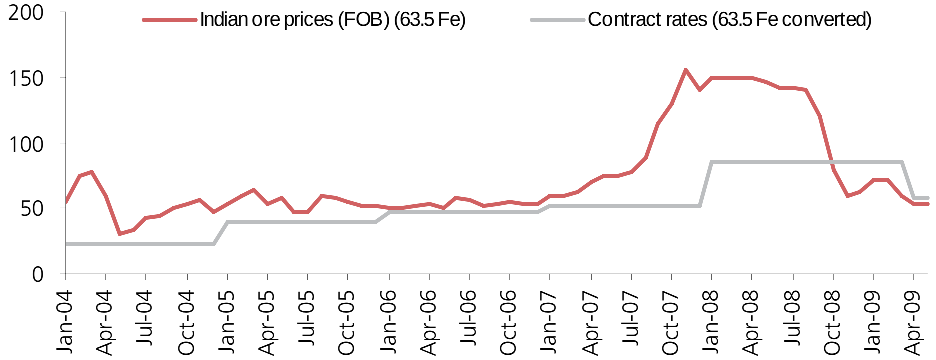
1.9% dilution through preferential allotment questionable

Sesa Goa plans to dilute its equity through a 1.9% preferential allotment to its promoters i.e. Vedanta Resources. Vedanta Resources has already raised its stake in Sesa Goa from 51.18% to 53.1% through open market purchases, during April to June 2009 and further increases in stake would be through preferential allotment. Assuming the preferential allotment would be at the current market price of Rs200/share, it would raise Rs3 bn for Sesa Goa. Sesa Goa even after the recent acquisition would have cash reserves of Rs24 bn. Adding to cash reserves which seem adequate for the time being would be clearly at the cost of minority shareholders who would face increased dilution.

Desire to increase shareholding would be best achieved through the market purchase route which the company has already been following.

Rio Tinto has negotiated contract prices for FY2010 at 33% lower levels; expect spot prices to move up

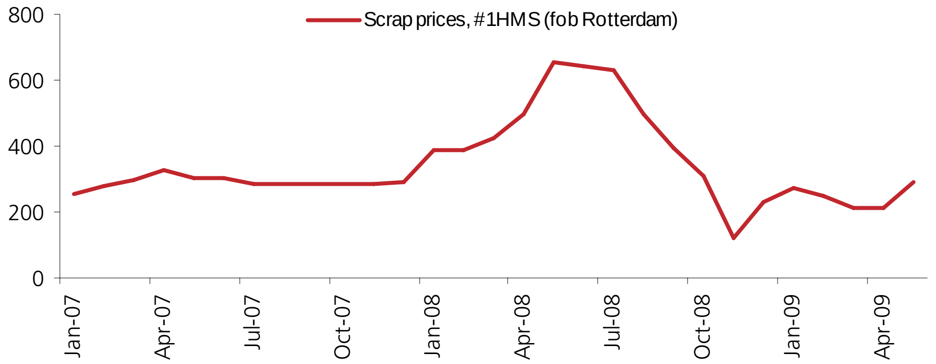
Indian ore prices (Fob) and annual contract rates (US$/ton)



Source: CRU, Kotak Institutional Equities

Scrap prices have been moved up in recent times

Scrap prices (fob Rotterdam), December fiscal year-ends, (US$/ton)



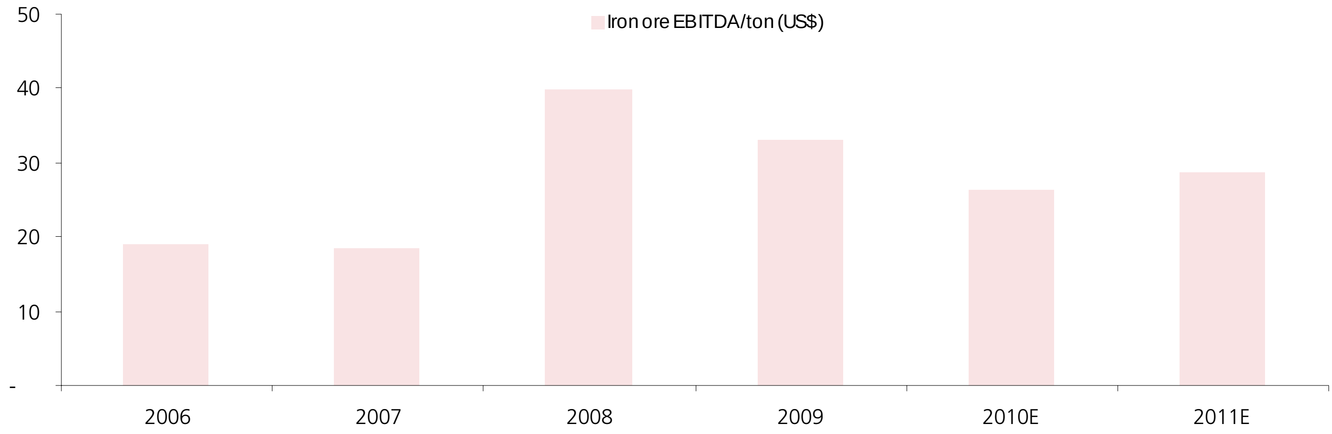
Source: CRU, Kotak Institutional Equities

Sesa Goa, Key assumptions, March fiscal year-ends, 2006-11E (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Tonnages ('000 ton)						
Iron ore sales	9,559	10,871	12,391	15,100	18,604	22,325
Metallurgical coke sales	242	238	266	224	240	250
Realizations						
Weighted average ore realization (Rs/ton)	1,612	1,642	2,156	2,685	2,497	2,497
Average ore realization (US$/ton)	36	37	50	58	52	52
Iron ore EBITDA/ton (US$)	**19**	**19**	**40**	**33**	**26**	**29**
Metallurgical coke prices	8,671	8,531	12,885	30,400	16,376	17,609

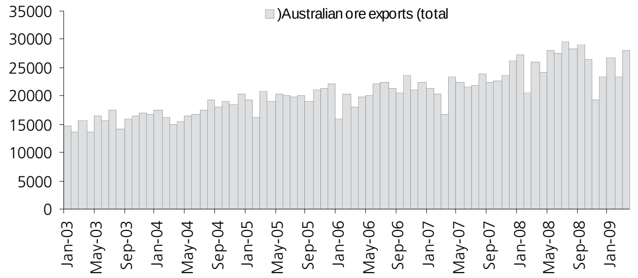
Source: Company data, Kotak Institutional Equities estimates

Sesa Goa, iron ore EBITDA chart, March fiscal year-ends, 2006-11E (Rs mn)



Source: Company data, Kotak Institutional Equities estimates

Australian iron ore exports have started picking up
Monthly iron ore exports from Australia, December fiscal year ends ('000 tons)

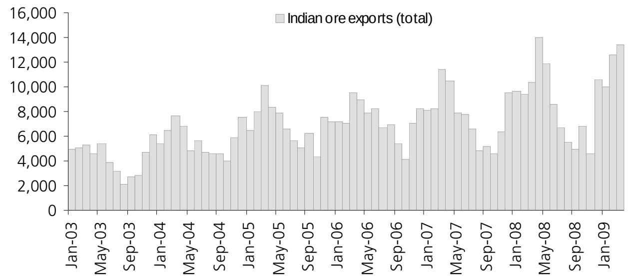


Source: CRU, Kotak Institutional Equities

Exports to China have hit all-time highs
Monthly iron ore exports from Australia to China, December fiscal year ends ('000 tons)

Source: CRU, Kotak Institutional Equities

India's exports of iron ore have started increasing led by increased offtake by China
Monthly iron ore exports from India, December fiscal year ends ('000 tons)



Source: CRU, Kotak Institutional Equities

Exports to China have gone up over the last quarter
Monthly iron ore exports from India to China, December fiscal year ends ('000 tons)

Source: CRU, Kotak Institutional Equities

Sesa Goa, Sum-of-the-parts valuation

	Value		
	(Rs mn)	(Rs/share)	Comments
Sesa Goa (standalone)	171,636	218	Based on 1-year forward DCF
Dempo industries	20,729	26	Based on 1-year forward DCF
Total equity value		**244**	
Target Price (Rs)		**240**	

Source: Kotak Institutional Equities estimates

Our DCF-based valuation for Sesa Goa

DCF valuation of Sesa, March fiscal year-ends, 2010E-18E

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal Value
EBITDA	24,371	32,035	39,072	38,586	48,576	44,961	46,034	47,088	48,108	
Tax expense	(6,696)	(8,975)	(11,034)	(11,523)	(14,755)	(14,708)	(15,895)	(17,076)	(18,250)	
Changes in working capital	(93)	(537)	(524)	(128)	(721)	33	(244)	(264)	(286)	
Cash flow from operations	**17,583**	**22,523**	**27,513**	**26,936**	**33,100**	**30,286**	**29,895**	**29,747**	**29,573**	
Capital expenditure	(600)	(600)	(800)	(800)	(800)	(1,000)	(1,000)	(1,000)	(1,000)	
Free cash flow to the firm	**16,983**	**21,923**	**26,713**	**26,136**	**32,300**	**29,286**	**28,895**	**28,747**	**28,573**	
Dicounted cash flow-now	15,362	17,473	18,758	16,170	17,606	14,065	12,226	10,717	9,385	
Discounted cash flow-1 year forward	-	19,832	21,291	18,353	19,983	15,964	13,877	12,164	10,652	
Discounted cash flow-2 year forward		-	24,165	20,830	22,681	18,119	15,750	13,806	12,090	
Discount rate	13.5%									
Growth from 2017 to perpetuity	0.0%									
Fiscal Year end	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	
Today	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	
Days left	289	654	1,019	1,384	1,749	2,114	2,479	2,844	3,209	
Years left	0.8	1.8	2.8	3.8	4.8	5.8	6.8	7.8	8.8	
Discount factor at WACC	**0.90**	**0.80**	**0.70**	**0.62**	**0.55**	**0.48**	**0.42**	**0.37**	**0.33**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**132,115**	**100%**	**127,441**	**100%**
PV of terminal value (b)	**-**	**0%**	**-**	**0%**
EV (a) + (b)	**132,115**		**127,441**	
EV (US$ mn)	**2,752**		**2,655**	
Net debt	(39,521)		(63,163)	
Equity value	**171,636**		**190,604**	
No. of shares	787.2		787.2	
Implied share price (Rs)	**218**		**242**	
Exit EV/EBITDA multiple (X)	-			
Exit FCF multiple (X)	**7.4**			

Sensitivity of DCF value to WACC and growth rate (Rs)

		WACC				
		12.5%	13.0%	13.5%	14.0%	14.5%
Growth rate	0.0%	224	221	218	215	213

EBITDA multiple(X)	**4.0**
EBITDA - Mar 2011 (Rs mn)	32,035
Enterprise Value (Rs mn)	128,142
less: Net debt (Rs mn)	(63,163)
Equity Value Mar 2010E(Rs mn)	**191,304**
No. of shares (mn)	787.2
Equity Value- March 2010 (Rs/share)	**243**

Our DCF-based valuation for Sesa Goa

DCF valuation of Sesa, March fiscal year-ends, 2010E-24E

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	Terminal Value
EBITDA	4,992	5,065	4,768	4,458	4,523	4,381	4,880	4,744	5,276	5,375	5,946	5,592	5,469	8,309	8,745	
Tax expense	(1,647)	(1,672)	(1,574)	(1,471)	(1,492)	(1,446)	(1,610)	(1,566)	(1,741)	(1,774)	(1,962)	(1,845)	(1,805)	(2,077)	(2,186)	
Cash flow from operations	**3,345**	**3,394**	**3,195**	**2,987**	**3,030**	**2,935**	**3,270**	**3,178**	**3,535**	**3,601**	**3,984**	**3,747**	**3,665**	**6,232**	**6,559**	
Capital expenditure	(175)	(175)	(233)	(233)	(233)	(292)	(292)	(292)	(292)	-	-	-	-	-	-	
Free cash flow to the firm	**3,170**	**3,219**	**2,961**	**2,754**	**2,797**	**2,643**	**2,978**	**2,887**	**3,243**	**3,601**	**3,984**	**3,747**	**3,665**	**6,232**	**6,559**	
Dicounted cash flow-now	2,867	2,565	2,079	1,704	1,525	1,270	1,260	1,076	1,065	1,042	1,016	842	725	1,087	1,008	
Discounted cash flow-1 year forward	-	2,912	2,360	1,934	1,730	1,441	1,430	1,222	1,209	1,183	1,153	955	823	1,233	1,144	
Discounted cash flow-2 year forward		-	2,679	2,195	1,964	1,635	1,623	1,386	1,372	1,343	1,308	1,084	934	1,400	1,298	

Discount rate	13.5%
Growth from 2017 to perpetuity	0.0%

Fiscal Year end	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20	March-21	March-22	March-23	March-24
Today	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09	15-Jun-09
Days left	289	654	1,019	1,384	1,749	2,114	2,479	2,844	3,209	3,574	3,939	4,304	4,669	5,034	5,399
Years left	0.8	1.8	2.8	3.8	4.8	5.8	6.8	7.8	8.8	9.8	10.8	11.8	12.8	13.8	14.8
Discount factor at WACC	**0.90**	**0.80**	**0.70**	**0.62**	**0.55**	**0.48**	**0.42**	**0.37**	**0.33**	**0.29**	**0.25**	**0.22**	**0.20**	**0.17**	**0.15**

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**20,729**	**100%**	**20,223**	**100%**
PV of terminal value (b)	**-**	**0%**	**-**	**0%**
EV (a) + (b)	**20,729**		**20,223**	
EV (US$ mn)	**432**		**421**	
Net debt	-			
Equity value	**20,729**		**20,223**	
No. of shares	787.2		787.2	
Implied share price (Rs)	**26**		**26**	
Exit EV/EBITDA multiple (X)	-			
Exit FCF multiple (X)	**7.4**			

Sensitivity of DCF value to WACC and growth rate (Rs

		WACC				
		12.5%	**13.0%**	**13.5%**	**14.0%**	**14.5%**
Growth rate	**0.0%**	28	27	**26**	26	25

EBITDA multiple(X)	**4.0**
EBITDA - Mar 2011 (Rs mn)	5,065
Enterprise Value (Rs mn)	20,261
less: Net debt (Rs mn)	-
Equity Value Mar 2010E(Rs mn)	**20,261**
No. of shares (mn)	787.2
Equity Value- March 2010 (Rs/share)	**26**

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

	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	14,094	17,070	20,051	36,022	49,257	50,950	60,743
EBITDA	**7,040**	**8,072**	**8,890**	**22,108**	**25,050**	**24,371**	**32,035**
Other income	145	278	443	703	2,137	2,974	4,474
Interest	(55)	(33)	(22)	(15)	(10)	-	-
Depreciaiton	(256)	(247)	(313)	(426)	(516)	(561)	(608)
Profit before tax	**6,874**	**8,071**	**8,998**	**22,369**	**26,662**	**26,784**	**35,902**
Current tax	(2,273)	(2,691)	(2,882)	(7,435)	(7,108)	(6,696)	(8,975)
Deferred tax	23	14	(52)	(14)	(45)	-	-
Net profit	**4,624**	**5,394**	**6,064**	**14,920**	**19,509**	**20,088**	**26,926**
Minority interest	-	-	-	(74)	(68)	(68)	(68)
PAT	**4,624**	**5,394**	**6,064**	**14,847**	**19,442**	**20,020**	**26,859**
Earnings per share (Rs)	**5.9**	**6.9**	**7.7**	**18.9**	**24.7**	**25.4**	**34.1**
Balance sheet (Rs mn)							
Equity	7,243	10,841	15,064	27,911	44,665	61,998	86,169
Deferred tax liability	492	478	521	535	580	580	580
Total Borrowings	166	98	-	-	-	-	-
Current liabilities	1,822	2,609	2,373	3,399	6,024	6,163	6,968
Total liabilities	**9,722**	**14,027**	**17,957**	**31,845**	**51,269**	**68,741**	**93,717**
Net fixed assets	2,875	3,291	3,988	4,139	4,199	4,237	4,230
Investments	3,460	5,162	8,678	20,004	24,567	49,567	74,567
Cash	100	311	144	132	15,252	7,453	6,095
Other current assets	3,286	5,263	5,146	7,569	7,251	7,483	8,824
Miscellaneous expenditure	2	-	-	-	-	-	-
Total assets	**9,722**	**14,027**	**17,957**	**31,845**	**51,269**	**68,741**	**93,717**
Free cash flow (Rs mn)							
Operating cash flow excl. working capital	4,705	5,545	5,867	14,932	20,070	20,649	27,534
Working capital changes	(1,241)	(1,630)	(25)	(1,863)	2,944	(93)	(537)
Capital expenditure	(284)	(661)	(1,008)	(575)	(575)	(600)	(600)
Free cash flow	**3,180**	**3,254**	**4,833**	**12,493**	**22,439**	**19,957**	**26,397**
Ratios							
Debt/equity (%)	0.0	0.0	-	-	-	-	-
Net debt/equity (%)	(0.4)	(0.5)	(0.6)	(0.7)	(0.9)	(0.9)	(0.9)
RoAE (%)	82.6	56.6	45.1	67.4	52.8	37.1	36.0
RoACE (%)	**76.8**	**56.1**	**45.0**	**67.5**	**52.8**	**37.1**	**36.0**

Source: Company, Kotak Institutional Equities estimates

Others

ABAN.BO, Rs1007	
Rating	SELL
Sector coverage view	0
Target Price (Rs)	365
52W High -Low (Rs)	3845 - 221
Market Cap (Rs bn)	38.1

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	31.8	32.4	36.7
Net Profit (Rs bn)	3.6	5.0	8.4
EPS (Rs)	87.8	125.3	214.6
EPS gth	*21.5*	*42.7*	*71.3*
P/E (x)	11.5	8.0	4.7
EV/EBITDA (x)	9.2	7.9	6.7
Div yield (%)	0.4	0.5	0.5

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
62.7	295.2	24.9	(73.0)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	60.8	-	-
FIIs	3.2	0.0	(0.0)
MFs	7.2	0.1	0.1
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Aban Offshore : Negative news continues—two deepwater rigs in trouble

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- **Two deepwater rigs—Aban Abraham and Deep Venture face contract cancellations**
- **Alternate valuation approaches also do no justify current stock price**
- **Maintain SELL as idle fleet and large debt compound Aban's problems**

Recent news flows indicate the contract cancellations for two of Aban's deepwater rigs—Aban Abraham and Deep Venture. The two-year contract for Aban Abraham with Addax Petroleum at US$410,000/day has been cancelled due to continuing delay in the delivery of the rig. This contract was supposed to begin after the completion of the current one-year contract which is yet to start. Drillship Deep Venture (taken on bareboat charter by a 50% JV) may have to be returned to its Russian owner—Arktikmorneftegazrazvedka (Arktik) due to legal claims challenging the validity of the lease agreement. Arktik has asked Aban to return the rig post the completion of its current contract in January 2011. We highlight that both these rigs had the highest dayrates in Aban's fleet; hence cancellation of these contracts will be a big hit to cash flows and earnings. We reduce our FY2010E and FY2011E EPS estimates to Rs125 and Rs214, respectively, from Rs148 and Rs277. We maintain our SELL rating with a revised DCF-based target price of Rs360 (from Rs300) due to concerns about its idle fleet and large debt. Our target price is increased as we change our WACC assumption to 13% from 13.5% to factor in lower interest rates and higher oil prices that improve business opportunities. We present alternative valuation approaches for Aban, none of which justify the current stock price. Our hypothetical scenario analysis—of (1) fresh equity issuance and/or (2) sale of few idle rigs—also suggest significantly lower value from current levels.

Negative news for deepwater rigs increase risks to cash flows

- **Aban Abraham—contract cancelled.** As per press updates by EHRC Energy (JV partner in the JDZ block near Nigeria) the contract for drillship Aban Abraham has been cancelled by the operator Addax Petroleum. The rig was contracted for a two-year term at US$410,000/day. It was originally to start work in May 2009; however, continuing delays have pushed back the delivery by almost an year. The rig is currently on site for a one-year contract working for Vanco Energy in Ghana at US$325,000/day; however, it has not started the work due to technical issues. Management has not yet confirmed the cancellation of the contract with Addax; however, they agree that, contractually, Addax has the right to terminate the contract since Aban failed to deliver the rig on schedule.
- **Deep Venture—bareboat charter may be cancelled.** As per a press release by Aban, the bareboat charter agreement for the drillship Deep Venture has been termed invalid by the Russian authorities. The lessor—Arktik has asked Aban to return the rig after completion of its contract with Maersk Oil in January 2011. We had highlighted this legal issue last year (July 22, 2008). Aban disputes the demand to return the rig, stating that the contract was done in good faith assuming Arktik's authority to enter into the contract. However, we believe Aban's claim may not be sustainable and it may have to return the rig. The broad terms of the contract are:-

  - Initial charter term of five years starting November 2006 at daily lease rate of US$21,000

  - Venture Drilling (Aban's 50% JV contracting the rig) has the option to renew the charter for three years at a time, with a maximum lease period of 17 years

  - Venture Drilling has paid an interest free advance of US$5 mn to Arktik which will reduce the daily charter rate by US$2,740. In the event of pre-mature termination of the charter the unadjusted amount will be refundable to Venture Drilling

- **Aban Pearl—mobilizing, but reduction in contracted dayrates cannot be ruled out.** Aban's third deepwater rig—Aban Pearl is expected to mobilize to Venezuela in June 2009 for its five-year contract with PdVSA—Venezuela's national oil company. As per latest news reports, PdVSA has reduced its outstanding payables to rig companies to US$7.5 bn from US$13.9 bn at end-CY2008. A large part of this reduction was due to renegotiation of the contract rates, resulting in lower liabilities. The Venezuelan government has also indicated that it will not hesitate to seize any rigs if the rig companies stop drilling due to non-payment of dues. Aban Pearl was scheduled to begin work in November 2008; however the delivery was delayed due to the above concerns. We cannot rule out a renegotiation of dayrates for Aban Pearl—which can negatively impact earnings and cash flows.

Risk from idle rigs and large debt persist

- **Idle rigs.** Aban has 7 jackup rigs idle with two more rigs becoming available shortly—FPU Tahara by July 2009 and Deep Driller 8 by September 2009. The demand for jackups has reduced significantly and with almost 60 new jackups to be delivered over the next two years utilization and dayrates for jackup rigs will remain under pressure. We currently model dayrates to bottom-out at around US$120,000 and utilization to improve in FY2011E; however, downside risks to our assumptions cannot be ruled out. Exhibit 1 shows the contractual status of Aban's fleet.

- **Refinancing required to service the large debt.** Aban is under discussion with its banks for reschedulement of its US$3.2 loans since its current cash flows are insufficient for repaying the debts. The company has a near-term bond repayment liability of US$160 mn in December 2009. We believe Aban will need significant refinancing to meet its debt obligations (see Exhibit 2).

Alternate valuation approaches also do not justify current stock price, maintain SELL

We maintain our SELL rating on the stock as different alternate valuation methodologies also do not justify the current stock price.

- **DCF-based target price of Rs365.** We value Aban on a DCFF basis to arrive at a target price of Rs365 (see Exhibit 5). Our target price is revised from Rs300 due to lower WACC assumption of 13% from 13.5% earlier. We reduce our WACC assumption to factor in lower interest rates and increase in oil price. The three-month LIBOR has dropped to 0.7% thus benefitting Aban whose majority of loan book is linked to LIBOR. Higher oil price increases the possibility of a revival in E&P capex which in turn will result in higher demand for oil rigs.

- **Relative valuation is difficult due to large debt component.** A relative valuation for Aban is difficult as the large debt forms the majority component of the Enterprise Value. Exhibit 6 shows various relative valuation scenarios for Aban. The current stock price implies 6.7X FY2011E EBITDA which is much higher than the average two-year forward EBITDA of peer companies at 4.5X. Our target price implies 5.6X FY2011E EBITDA which is still above the current peer valuations. We highlight that the global rig companies are largely debt free and have a lower proportion of their fleet idle; hence, Aban should rather trade at a discount to them. We reiterate our view that a P/E-based valuation is not appropriate due to (1) significant difference in the capital structure of the companies and (2) tax advantage available to Aban's Singapore-based subsidiary both of which make the EPS non-comparable.

- **Replacement cost barely covers up the debt.** Exhibit 7 shows the replacement cost-based valuation for Aban. We estimate the replacement value for Aban's current fleet at around US$3.3 bn, which just about covers the large outstanding debt. On a replacement cost basis, also we arrive at a value of just Rs300/share.

- **Price-to-book is a meaningless exercise.** Aban is currently trading at a P/B of 3.6X, much above the average of 1.6X for global peers. Further, Aban's total book value is Rs10 bn at end-FY2009 and it has a goodwill of Rs44 bn arising from the acquisition of Sinvest. We believe since the future expected cash flows from the Sinvest assets have reduced significantly from the earlier estimation at the time of acquisition, the goodwill on the balance sheet is likely to be impaired. Even a 20% write-down of the goodwill would wipe out almost the entire book equity. Therefore, in our view, the P/B valuation is a futile exercise.

Hypothetical fund raising options do not present much value for equity holders

We evaluate two hypothetical options for Aban—equity issuance and sale of idle rigs—but do not find any major value expansion for the equity holders from the current stock price. We evaluate three situations—(1) issue of fresh equity upto 30% of current market cap at three different prices, (2) sale of two of its jackup rigs for a combined valuation of US$300 mn and (3) a combination of the above two. Even under Scenario 3 with highest valuation for equity issue we arrive at a fair value of Rs650—35% below current level. (see Exhibit 8, 9 and 10).

Revise estimates for delay in deployment of rigs and exchange rate

We reduce our FY2010E and FY2011E EPS estimate to Rs125 and Rs214 from Rs148 and Rs277, respectively (see Exhibit 11). Key changes to our model include:-

- Delay in deployment of Aban Abraham and Frontier Ice
- Reduction in Aban Abraham's FY2011E dayrate estimate to US$375,000 from US$410,000
- Rs/US$ exchange rate assumption for FY2010E and FY2011E revised to Rs48 and Rs47.8 from Rs50.8 and Rs50.5, respectively
- Exclude Deep Venture from our estimates post January 2011E

Exhibit 1: Large number of Aban's jack ups are currently idle
Contract status of Aban's rigs upto FY2012

Aban India	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											
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 2: Aban will need to refinance its debt to meet its repayment obligations
Debt repayment schedule, and refinance required for Aban March fiscal year-ends, 2010-15E (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E
Loan repayments						
Sinvest bonds and loans	12,348	5,127	16,728	4,000	200	9,600
Convertible notes	—	—	—	—	7,105	—
FCCB	—	—	2,184	—	—	—
Term loans	11,238	11,238	11,238	11,238	11,238	11,508
Preference shares	—	—	2,010	650	600	—
Total repayments (A)	**23,586**	**16,364**	**32,159**	**15,888**	**19,143**	**21,108**
Cash flows						
Operating cash flow	11,611	12,372	13,513	12,695	12,509	12,348
Capex	(1,074)	(805)	(834)	(713)	(917)	(946)
Available cash flows (B)	**10,537**	**11,568**	**12,679**	**11,981**	**11,592**	**11,402**
Refinance required (A-B)	**13,049**	**4,797**	**19,480**	**3,906**	**7,551**	**9,707**

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Aban is trading at significant premium to global oil drilling companies
Comparative valuation of drilling services companies

	12-Jun-09			Mkt Cap.	EV/EBITDA (X)			PER (X)			P/B	Net debt/	
Company	**Price (local)**	**Currency**	**Year-end**	**(US$ mn)**	**LFY**	**FY1**	**FY2**	**LFY**	**FY1**	**FY2**	**(X)**	**Equity (X)**	**Mkt cap. (X)**
Aban Offshore	1,006.7	INR	Mar	778	9.3	8.0	6.7	11.5	8.1	4.7	3.6	11.7	3.3
Atwood Oceanics	21.7	USD	Sep	1,392	5.5	4.9	4.0	6.4	6.1	5.0	1.8	0.1	0.0
Diamond Offshore	74.3	USD	Dec	10,333	4.5	4.4	4.6	7.9	7.2	7.8	3.7	(0.1)	(0.0)
Ensco International	30.6	USD	Dec	4,339	2.3	2.9	3.5	3.7	5.0	6.7	1.2	(0.1)	(0.1)
Noble Corp.	27.7	USD	Dec	7,244	3.3	3.1	3.4	4.7	4.4	5.1	1.7	0.0	0.0
Pride International	22.3	USD	Dec	3,872	3.7	4.6	4.7	5.7	8.2	9.3	1.0	0.0	0.0
Transocean	66.4	USD	Dec	21,222	5.3	5.1	5.1	5.0	5.1	5.3	1.5	0.6	0.4
Hercules	5.4	USD	Dec	449	3.3	7.3	6.6	NM	NM	NM	0.5	0.9	1.9
Average for comparables					4.0	4.6	4.5	5.6	6.0	6.5	1.6	0.2	0.3

Source: Bloomberg, Kotak Institutional Equities estimates for Aban Offshore

Exhibit 4: Aban's stock has outperformed the crude price and other drilling stocks
Comparative share price performance of global rig companies versus crude oil (%)

	5D	1M	3M	6M	1 Yr	2 Yr	3 Yr
Brent Crude	**4**	**22**	**58**	**53**	**(48)**	**3**	**4**
Aban Offshore	(19)	117	339	32	(72)	6	137
Noble Corp	2	22	49	48	(42)	(3)	16
Diamond Offshore Drilling	7	19	63	44	(23)	8	64
Ensco International Inc.	4	27	63	31	(45)	(11)	9
Atwood Oceanics Inc.	3	16	86	84	(46)	(44)	(13)
Pride International Inc.	5	22	49	62	(40)	(15)	2
Transocean Inc.	3	14	52	49	(41)	(2)	41
China Oilfield	3	27	85	83	(25)	157	253
Hercules	18	17	251	0	(84)	41	93

Source: Bloomberg

Exhibit 5: Our DCF-based valuation for Aban is Rs365 per share

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

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Terminal value
EBITDA	19,040	20,756	20,178	18,726	17,139	17,140	17,158	18,722	19,382	19,811	
Tax expense	(3,454)	(3,470)	(2,456)	(2,457)	(2,032)	(2,036)	(2,046)	(2,472)	(2,625)	(2,810)	
Income from joint venture	1,258	1,311	517	645	799	855	916	981	1,051	1,128	
Changes in working capital	1,820	(133)	1,005	226	390	(125)	25	(667)	(284)	(168)	
Cash flow from operations	**18,663**	**18,465**	**19,245**	**17,140**	**16,297**	**15,834**	**16,053**	**16,564**	**17,525**	**17,960**	
Capital expenditure	(1,074)	(805)	(834)	(713)	(917)	(946)	(1,051)	(706)	(660)	(539)	
Free cash flow to the firm	**17,589**	**17,660**	**18,410**	**16,427**	**15,379**	**14,888**	**15,002**	**15,858**	**16,864**	**17,421**	**134,006**
Dicounted cash flow-now	15,967	14,187	13,088	10,334	8,562	7,335	6,541	6,119	5,759	5,264	
Discounted cash flow-1 year forward		16,031	14,790	11,678	9,675	8,289	7,391	6,914	6,507	5,949	
Discounted cash flow-2 year forward			16,712	13,196	10,933	9,366	8,352	7,813	7,353	6,722	
Discount rate	13.0%										
Growth from 2019 to perpetuity	0.0%										
Discount factor at WACC	**0.91**	**0.80**	**0.71**	**0.63**	**0.56**	**0.49**	**0.44**	**0.39**	**0.34**	**0.30**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**87,224**	**68%**	**80,449**	**64%**
PV of terminal value (b)	40,494	32%	45,758	36%
EV (a) + (b)	**127,719**		**126,207**	
Net debt	113,852		101,609	
Equity value	**13,867**		**24,597**	
No. of shares	37.9		37.9	
Implied share price (Rs)	**366**		**649**	
Exit EV/EBITDA multiple (X)	6.9			
Exit FCF multiple (X)	7.7			

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

Growth rate	WACC 12.0%	12.5%	13.0%	13.5%	14.0%
-1.5%	485	359	241	132	30
-1.0%	534	402	280	166	61
-0.5%	586	448	321	204	94
0.0%	643	499	**366**	244	130
0.5%	704	553	414	287	169
1.0%	771	612	467	333	210
1.5%	845	677	524	384	255

Source: Kotak Institutional Equities estimates

Exhibit 6: Relative valuation for Aban is difficult due to its large debt component

FY2011E-based relative valuation scenarios for Aban (Rs mn)

		Peer Comparale		Target Price		Current Price
FY2011E EBITDA	20,756	20,756	20,756	20,756	20,756	20,756
EV/EBITDA (X)	**4.0**	**4.5**	**5.0**	**5.6**	**6.0**	**6.7**
EV	83,025	93,403	103,781	115,443	124,537	139,763
FY2011E net debt	101,609	101,609	101,609	101,609	101,609	101,609
Equity value	(18,585)	(8,206)	2,172	13,834	22,928	38,154
No. of shares (mn)	37.9	37.9	37.9	37.9	37.9	37.9
Value per share (Rs)	**(490)**	**(217)**	**57**	**365**	**605**	**1,007**

Source: Kotak Institutional Equities estimates

Exhibit 7: Replacement cost of rigs just about covers the debt
Replacement cost valuation for Aban

Rig	Rig type	Year built/ refurbished	Water depth	Replacement Value (US$ mn)	Comments
Aban-II	Mat supported slot JU	1981	250 ft	100	Old rig largely depreciated
Aban-III	Independent leg cantilever JU	1974	300 ft	125	Old rig largely depreciated
Aban-IV	Independent leg cantilever JU	1983	300 ft	125	Old rig largely depreciated
Aban-V	Independent leg cantilever JU	1982	300 ft	125	Old rig largely depreciated
Aban-VI	4-Triangular leg JU	1975	250 ft	100	Old rig largely depreciated
FPU Tahara	Semi-submersible FPU	1973	800 ft	150	Old rig largely depreciated
Drillship Frontier Ice	Monohull	1959	2,000 ft	200	Old rig largely depreciated
Aban-VII	Cantilever JU	1973	250 ft	150	Old rig largely depreciated
Aban-VIII	Independent leg cantilever JU	2008	375 ft	160	Refurbished in 2008
Aban Abraham	Drillship	1976/2007	6,900 ft	500	Refurbished in 2008
Aban Pearl	Semi-submersible rig	1977	1,250 ft	200	Purchased for US$211 mn
Deep Driller 1	Independent leg cantilever JU	2006	375 ft	180	Purchase cost of around US$200 mn
Deep Driller 2	Independent leg cantilever JU	2006	350 ft	175	Purchase cost of around US$200 mn
Deep Driller 3	Independent leg cantilever JU	2006	350 ft	175	Purchase cost of around US$200 mn
Deep Driller 4	Independent leg cantilever JU	2007	375 ft	175	Purchase cost of around US$200 mn
Deep Driller 5	Independent leg cantilever JU	2007	350 ft	175	Purchase cost of around US$200 mn
Deep Driller 6	Independent leg cantilever JU	2008	350 ft	175	Purchase cost of around US$200 mn
Deep Driller 7	Independent leg cantilever JU	2008	375 ft	175	Purchase cost of around US$200 mn
Deep Driller 8	Independent leg cantilever JU	2009	350 ft	175	Purchase cost of around US$200 mn
Deep Venture	DP Drillship	2006	4200 ft	-	Taken on bare boat charter

Total replacement value (US$ mn)	**3,340**
less net debt (US$ mn)	3,100
Equity value (US$ mn)	240
Equity value (Rs mn)	11,400
Value per share (Rs)	**301**

Note: The replacement cost is KIE estimate of the best approximate current value for these assets.

Source: Kotak Institutional Equities estimates

Exhibit 8: Equity dilution at current high prices also do not increase valuations substantially
Hypothetical calculation of equity issuance at various price levels (Rs mn)

				Comments
Hypothetical issue price (Rs/share)	**800**	**1,000**	**1,200**	
Target EV	**127,633**	**127,633**	**127,633**	As per current DCF valuation
less FY2010E net debt	113,852	113,852	113,852	Current estimates
add: equity raising	11,440	11,440	11,440	Assuming 30% of current market cap = $240 mn
Adjusted equity value	**25,221**	**25,221**	**25,221**	
Current outstanding shares	37.9	37.9	37.9	
Further shares issued	14.3	11.4	9.5	
Total post issue shares	52.2	49.3	47.4	
Dilution (%)	37.7	30.2	25.2	
Target price (Rs/share)	**483**	**511**	**532**	
Post-issue leverage (FY2010E)				
Net debt/equity (X)	3.9	3.9	3.9	
Net debt/mkt cap. (X)	1.9	2.1	2.1	

Source: Kotak Institutional Equities estimates

Exhibit 9: Sale of rigs can help meet near-term debt obligations
Hypothetical valuation scenario assuming sale of two rigs, (Rs mn)

PV of free cash flow from 2011E-2019E	80,841
PV of terminal value	38,170
EV (1)	**119,011**
less net debt -FY2010E	113,852
add: proceed from sale of rigs (2)	14,100
Adjusted equity value	**19,259**
No. of shares (mn)	37.9
Value per shares (Rs)	**508**

Note:
(1) Excluding cash flows from rigs assumed to be sold.
(2) US$150 mn for each rig.

Source: Kotak Institutional Equities estimates

Exhibit 10: Equity dilution and asset sale at current high prices also gives a fair value of Rs650 only
Hypothetical calculation of equity issuance at various price levels (Rs mn)

				Comments
Hypothetical issue price (Rs/share)	**800**	**1,000**	**1,200**	
Target EV	**119,011**	**119,011**	**119,011**	Adjusted for sale of two rigs
less FY2010E net debt	99,752	99,752	99,752	Adjusted for sale proceeds of two rigs
add: equity raising	11,440	11,440	11,440	Assuming 30% of current market cap = $240 mn
Adjusted equity value	**30,699**	**30,699**	**30,699**	
Current outstanding shares	37.9	37.9	37.9	
Further shares issued	14.3	11.4	9.5	
Total post issue shares	52.2	49.3	47.4	
Dilution (%)	37.7	30.2	25.2	
Target price (Rs/share)	**588**	**622**	**647**	
Post-issue leverage (FY2010E)				
Net debt/equity (X)	3.3	3.3	3.3	
Net debt/mkt cap. (X)	1.7	1.8	1.8	

Source: Kotak Institutional Equities estimates

Exhibit 11: Aban, change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates		Old estimates		Change (%)	
	2010E	2011E	2010E	2011E	2010E	2011E
Revenue	32,420	36,655	34,939	40,882	(7.2)	(10.3)
EBITDA	19,040	20,756	20,559	23,571	(7.4)	(11.9)
EBITDA margin (%)	58.7	56.6	58.8	57.7	—	—
Interest cost	8,242	7,143	8,786	7,572	(6.2)	(5.7)
Adjusted net profit	5,013	8,390	5,880	10,775	(14.7)	(22.1)
Diluted EPS (Rs)	125.0	214.1	147.9	277.1	(15.5)	(22.7)
Re/US$	48.0	47.8	50.8	50.5	(5.4)	(5.4)

Source: Kotak Institutional Equities estimates

Exhibit 12: 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-Jul-09	31-May-12	INR	6,200,000	Under repairs	
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	1-Jul-09	30-Jun-10	USD	325,000	Mobilising	
Aban Pearl	1-Nov-08	30-Oct-13	USD	286,000	Mobilising	Issues with the client's ability to pay not yet fully resolved
Fleet- Sinvest						
Deep Driller 1					Non-operational	Idle since May 2009
Deep Driller 2			USD	185,500	Non-operational	Idle since May 2009
Deep Driller 3	15-Oct-08	30-Oct-12	USD	172,000	Operational	
Deep Driller 4					Non-operational	Idle since May 2009
Deep Driller 5					Non-operational	Idle since May 2009
Deep Driller 6					Non-operational	Idle since October 2008
Deep Driller 7					Non-operational	Idle since January 2009
Deep Driller 8	1-May-09	30-Sep-09	USD	200,000	Operational	
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

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	31,835	32,420	36,655
EBITDA	**2,847**	**3,842**	**12,691**	**17,638**	**19,040**	**20,756**
Interest (expense)/income	(456)	(2,836)	(6,533)	(7,920)	(8,242)	(7,143)
Depreciation	(1,014)	(1,266)	(2,549)	(4,570)	(6,110)	(5,363)
Other income	125	662	733	664	722	806
Pretax profits	**1,502**	**403**	**4,342**	**5,813**	**5,409**	**9,057**
Extra ordinary items	—	—	(2,536)	1,282	—	—
Reported PBT	**1,502**	**403**	**1,807**	**7,094**	**5,409**	**9,057**
Tax	(587)	(665)	(1,514)	(2,754)	(1,717)	(2,004)
Deferred taxation	(91)	(81)	84	102	63	25
Profit after tax	**823**	**(344)**	**377**	**4,442**	**3,755**	**7,078**
Joint venture/ minority	—	204	853	1,106	1,258	1,311
Reported consolidated net profit	**823**	**(140)**	**1,230**	**5,548**	**5,013**	**8,390**
Adjusted net profit	**823**	**(140)**	**2,954**	**3,591**	**5,013**	**8,390**
Diluted earnings per share (Rs)	**19.8**	**(7.5)**	**71.1**	**87.6**	**125.0**	**214.1**
Balance sheet						
Total equity	2,804	2,248	5,063	10,115	14,581	22,423
Preference capital	1,500	3,060	3,060	3,260	3,260	3,260
Deferred taxation liability	656	737	654	552	489	464
Total borrowings	11,098	108,525	130,434	140,830	122,945	109,756
Current liabilities	1,105	6,949	7,517	9,062	8,177	9,216
Total liabilities and equity	**17,163**	**121,520**	**146,727**	**163,819**	**149,453**	**145,120**
Cash	135	13,264	6,453	15,927	10,353	9,407
Other current assets	1,369	5,926	7,637	11,727	8,971	10,143
Goodwill	126	48,063	44,289	44,289	44,289	44,289
Tangible fixed assets	15,340	49,584	81,958	87,013	81,977	77,419
Investments	192	4,683	6,391	4,862	3,862	3,862
Total assets	**17,163**	**121,520**	**146,727**	**163,819**	**149,453**	**145,120**
Free cash flow						
Operating cash flow, excl. working capital	1,866	2,111	3,146	8,656	9,792	12,506
Working capital changes	211	(198)	(1,654)	(2,577)	1,820	(133)
Capital expenditure	(8,404)	(35,697)	(32,638)	(9,625)	(1,074)	(805)
Investment changes	84	(52,157)	(386)	1,528	1,000	—
Other income	65	119	458	1,359	1,269	1,222
Free cash flow	**(6,177)**	**(85,822)**	**(31,074)**	**(658)**	**12,807**	**12,790**
Ratios (%)						
EBITDA margin	58.1	53.5	62.8	55.4	58.7	56.6
Debt/equity	364	3,737	2,335	1,351	837	494
Net debt/equity	359	3,244	2,143	1,173	755	444
RoAE	23.8	(4.7)	51.7	33.7	33.3	36.7
RoACE	**8.3**	**(3.8)**	**3.4**	**5.8**	**7.3**	**10.1**

Source: Company data, Kotak Institutional Equities estimates

Economy

Sector coverage view	N/A

IIP growth still sluggish, or is it the lens?

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- **IIP growth at 1.4% in April 2009; March 2009 growth revised to (-)0.8% from (-)2.3%**
- **Consumer durable production jumps but non-durables and capital goods contract**
- **Retain estimates of 2.0-2.5% IIP growth in 1HFY10E on improvement in core industries**
- **Archaic estimation methodology may be underestimating industrial growth**

Industrial growth since October 2009 has been marked by sluggishness—slow heart beat reflected in modest growth. The new year (FY2010) has begun on a positive note but sluggishness in IIP remains. April IIP growth (yoy) at 1.4% was broadly in line with our estimates and above street's average expectation of flat IIP. We see recent economic data as a sign that output conditions are stabilizing but we have yet not seen signals that confirm quick, sustained or pronounced recovery. We may continue to see modest growth for some time as the growth trajectory may improve only marginally in 1HFY10E. We retain our view that industrial growth is likely to revive only in 2HFY10E. However, in our view, industrial production and growth in India is being underestimated due to the legacy index base and inadequate coverage of a changed industrial structure.

IIP numbers may be magnifying industrial slowdown. We believe that IIP data may be magnifying the industrial slowdown. In our view, IIP and yoy growth are being underestimated by an archaic estimation methodology that does not adequately capture the changing industrial structure or the new capacities that have come onstream. The IIP base is now 15-years old and the structure of industrial output in India has changed significantly since. Mobile phone production and new capacities in natural gas, for instance, are inadequately reflected in IIP data, in our view.

Analysis of quick estimates of April 2009 IIP

Mining, electricity helps lift growth to positive terrain. The quick estimates of April 2009 IIP show 1.4% yoy growth, which were broadly in line with our expectations and somewhat above street expectations. Market survey showed estimates in the range of -2.6% to 2.0% with average expectations of flat IIP. The robust IIP growth was aided by the following.

- Mining segment grew 3.8% yoy on the back of impressive growth in coal
- Electricity jumped 7.1% yoy in the IIP—surprisingly higher than the 6.0% growth shown in the core infrastructure industries data
- Manufacturing grew 0.7% on the back of impressive growth in cement, man-made fibers, wood and wood products and non-metallic minerals
- Output for consumer durables jumped 16.9% yoy and positively influenced overall growth

Capital goods and consumer non-durables goods production contract in April

- Capital goods recorded a 1.3% yoy contraction and a 37.9% mom contraction which though negative news from the capex point of view is not unduly worrying as the mom contraction is seasonal in nature
- Weak consumer non-durables output with a 10.4% yoy contraction is more worrying, in our view. The decline has been led by sugar output with shrinkage in acreage as well as yield of sugarcane production

Analysis of revised estimates of January and March 2009 IIP

IIP growth was impacted less than earlier estimated. IIP growth for January and March 2009 were revised significantly upwards suggesting that the impact on industrial growth less than previously estimated and the slowdown fears were magnified. The variance from quick estimates is explained by the following factors.

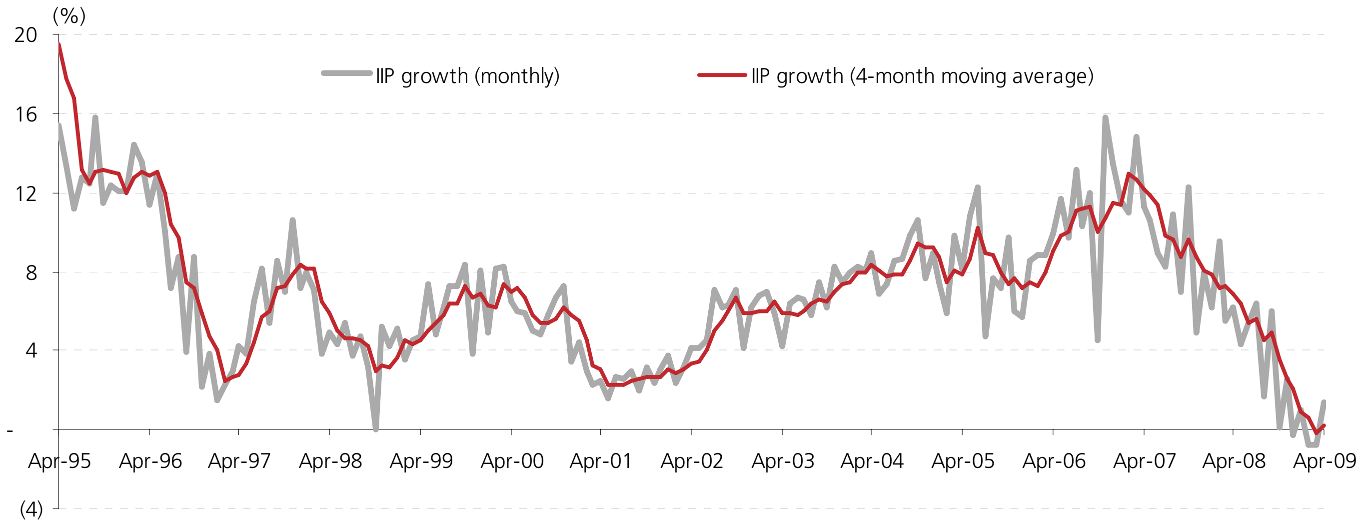
- IIP growth for January 2009 stands revised upwards to 1.0% from 0.4% earlier due to upward revision in manufacturing growth.
- IIP growth for March 2009 stands revised to (-)0.8% from (-)2.3% yoy growth estimated earlier; revisions in manufacturing growth to (-)1.6% from (-)3.3% and mining growth to 2.6% from 0.4% contributed to the large upward revision.

Sluggish in IIP likely to continue in 1HFY10E

We see the return to positive IIP growth as mildly comforting. It indicates that output conditions are stabilizing but it does not signal sustained or marked recovery yet, in our view. We may continue to see modest IIP growth for some time ahead and the growth trajectory may improve only marginally in 1HFY10E. We retain our view that industrial growth may be 2.0-2.5% in 1HFY10E and to recover significantly only in 2HFY10E.

Exhibit 1: IIP growth may have bottomed-out after continuous decline in 4-month moving average for two years

IIP growth on a monthly and 4-month moving average basis, March fiscal year-ends, 1996-2010 (%)



Source: Central Statistical Organization, compiled by Kotak Institutional Equities

Exhibit 2: April 2009 IIP growth led by robust recovery in electricity segment
Sectoral classification of IIP growth, March fiscal year-ends, 2008-2010 (%)

	Mining (%)			Manufacturing (%)			Electricity (%)			General (%)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Weights (%)		**10.5**			**79.4**			**10.2**			**100.0**	
April	2.6	6.1	3.8	12.4	6.7	0.7	8.7	1.4	7.1	11.3	6.2	1.4
May	3.8	5.5		11.3	4.5		9.4	2.0		10.6	4.4	
June	1.5	0.1		9.7	6.1		6.8	2.6		8.9	5.4	
July	3.2	2.8		8.8	6.9		7.5	4.5		8.3	6.4	
August	14.7	2.8		10.7	1.7		9.2	0.8		10.9	1.7	
September	4.9	5.8		7.4	6.2		4.5	4.4		7.0	6.0	
October	5.1	3.2		13.8	(0.6)		4.2	4.4		12.2	0.1	
November	6.3	0.7		4.7	2.7		5.8	2.6		4.9	2.5	
December	5.0	2.2		8.6	(0.6)		3.8	1.6		8.0	(0.2)	
January	2.9	0.7		6.7	1.0		3.7	1.8		6.2	1.0	
February	7.9	(0.8)		9.6	(0.9)		9.8	0.7		9.5	(0.7)	
March	4.9	2.6		5.7	(1.6)		3.7	6.3		5.5	(0.8)	

Source: Central Statistical Organization, compiled by Kotak Institutional Equities

Exhibit 3: Capital goods, Intermediate goods and Consumer non-durables contract
Use-based classification of IIP growth, March fiscal year-ends, 2008-2010 (%)

	Basic goods			Capital goods			Intermediate goods			Consumer goods			Consumer durables			Consumer non-durables		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Weights (%)		**35.6**			**9.3**			**26.5**			**28.7**			**5.4**			**23.3**	
April	8.6	4.0	4.6	10.9	12.4	(1.3)	10.6	3.1	7.1	14.7	8.5	(4.7)	2.4	3.2	16.9	18.7	10.0	(10.4)
May	10.3	3.0		22.4	4.3		8.8	1.9		8.7	7.4		(0.7)	2.8		12.1	9.0	
June	9.2	2.2		23.1	7.8		8.6	2.8		3.6	9.9		(3.6)	4.6		6.3	11.6	
July	8.7	5.3		12.3	17.9		7.7	3.0		7.1	5.9		(2.7)	13.9		10.5	3.4	
August	12.7	3.9		30.8	0.9		13.8	(5.5)		(0.0)	6.4		(6.2)	3.9		2.4	7.3	
September	6.5	5.0		20.9	20.8		10.1	(2.5)		(0.2)	7.4		(7.3)	14.7		2.6	4.8	
October	6.5	3.2		20.9	(24.3)		13.9	(4.4)		13.7	(0.9)		9.0	(1.6)		15.8	(0.6)	
November	5.2	2.2		24.2	0.5		5.5	(3.9)		(2.9)	9.4		(5.5)	0.3		(2.0)	12.4	
December	3.4	2.0		17.6	6.6		7.6	(8.9)		8.7	1.7		2.8	(4.2)		10.3	3.2	
January	3.6	(0.7)		2.6	15.9		8.0	(7.2)		8.4	3.6		(0.5)	2.1		11.1	4.0	
February	7.3	(0.2)		10.7	11.7		8.5	(5.4)		11.7	(2.2)		3.1	5.8		14.3	(4.5)	
March	3.3	2.1		20.3	(8.4)		4.9	0.9		0.9	(0.6)		(2.0)	8.2		1.9	(3.3)	

Source: Central Statistical Organization, compiled by Kotak Institutional Equities

Exhibit 4: Core infrastructure industries growth have started to pick up now
Sector-wise growth rates in production for six infrastructure industries, March fiscal year-ends, 2009-2010 (%)

		yoy		yoy		yoy		yoy		yoy	
Sector	**Weight**	**Dec-07**	**Dec-08**	**Jan-08**	**Jan-09**	**Feb-08**	**Feb-09**	**Mar-08**	**Mar-09**	**Apr-08**	**Apr-09**
Crude oil	4.2	(1.4)	(0.3)	(0.2)	(8.1)	2.3	(6.2)	(0.3)	(2.3)	1.0	(3.1)
Petroleum refinery	2.0	1.9	3.0	5.4	(1.3)	5.8	0.5	0.1	3.3	4.3	(4.3)
Coal	3.2	8.4	9.4	7.9	6.3	11.6	6.0	9.3	5.2	10.4	13.2
Electricity	10.2	3.9	0.7	3.7	1.4	9.8	0.3	3.6	5.9	1.4	6.0
Cement	2.0	4.4	11.6	5.6	8.3	12.8	8.3	9.3	10.1	6.9	11.7
Finished steel	5.1	4.8	(6.0)	0.3	1.6	2.4	0.5	(0.9)	(2.6)	(0.6)	1.6
Total	**26.7**	**4.0**	**0.8**	**3.1**	**1.6**	**7.1**	**1.3**	**2.9**	**2.9**	**2.3**	**4.3**

Source: Central Statistical Organization, compiled by Kotak Institutional Equities

Economy

Sector coverage view	N/A

India Economy Tracker, June 07-13, 2009—Climbing yields and illusions of recovery

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- **India's IIP growth for April 2009 at 1.4% marks positive growth after small contractions in the previous two months**
- **Baltic dry index slipped back to 3.5K after touching 4K mark last week and raising doubts about recovery in global trade**
- **Headline inflation (yoy increase in WPI) in India dropped to 0.13% but the price level has increased 1.7% YTD in FY2010**

10-year benchmark G-sec yield climbed 38 bps to 6.94% on June 12, 2009 from 6.56% a week ago. IIP growth turned positive at 1.4% in April 2009 surpassing street expectations. May direct tax collections have grown 17% yoy. Are these signs of green shoots? In our view, rising yields are a clear reflection of excess supply of government paper on the back of a deterioration of the fiscal position rather than a reflection of recovery in real activity. IIP numbers suggest that industrial growth is stabilizing but a recovery may still be some time away. Direct tax collection still remain at low levels despite good yoy growth.

Key highlights during the week. India's IIP growth for April 2009 at 1.4% marks positive growth after small contractions in the previous two months. The Baltic dry index slipped back to 3.5K after touching 4K mark last week, again raising doubts about a recovery in global trade and shipping freights. Headline inflation (yoy increase in WPI) in India dropped to 0.13% for the week-ended May 30, 2009 from 0. 48% in the preceding week. The price level has increased 1.7% YTD in the first two months of FY2010.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	12-Jun-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)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US$ mn)
Automobiles																													
Bajaj Auto	1,007	SELL	145,667	3,062	145	48.7	65.3	73.1	(6.7)	34.0	12.0	20.7	15.4	13.8	11.5	8.7	8.6	7.6	5.9	4.6	2.0	2.0	2.0	40.2	42.8	36.8	780	(22.5)	4.8
Hero Honda	1,467	REDUCE	293,000	6,158	200	64.2	83.8	91.2	32.4	30.5	8.8	22.9	17.5	16.1	13.4	10.4	9.0	7.5	5.8	4.6	1.4	1.5	1.5	36.6	37.4	31.9	1,000	(31.8)	18.8
Mahindra & Mahindra	784	ADD	207,905	4,370	265	21.7	40.4	43.6	(42.9)	86.0	8.0	36.1	19.4	18.0	23.4	12.9	11.7	4.4	3.3	2.8	1.1	1.2	1.2	12.3	19.3	17.0	670	(14.5)	18.4
Maruti Suzuki	1,085	SELL	313,594	6,591	289	42.2	58.3	63.4	(29.5)	38.1	8.6	25.7	18.6	17.1	14.7	9.6	8.1	3.2	2.8	2.4	0.3	0.5	0.5	13.3	16.1	15.1	780	(28.1)	26.7
Tata Motors	357	SELL	198,740	4,177	556	20.8	15.2	20.0	(58.3)	(27.0)	32.2	17.2	23.6	17.8	12.6	10.8	9.4	1.5	1.4	1.3	2—	2—	2—	9.0	6.1	—	235	(34.2)	40.4
Automobiles		**Cautious**	**1,158,907**	**24,357**					**(26.0)**	**30.7**	**12.3**	**24.4**	**18.6**	**16.6**	14.3	10.5	9.3	**3.4**	**2.9**	**2.6**	**1.2**	**1.2**	**1.2**	**14.1**	**15.8**	**15.6**			
Banks/Financial Institutions																													
Andhra Bank	84	ADD	40,934	860	485	13.5	11.1	12.6	14.0	(17.9)	13.6	6.2	7.6	6.7	—	—	—	1.2	1.1	1.0	5.3	3.3	3.7	19.0	14.0	14.4	75	(11.1)	1.5
Axis Bank	704	BUY	252,650	5,310	359	50.6	56.1	66.6	56.9	11.0	18.7	13.9	12.5	10.6	—	—	—	2.7	2.4	2.1	1.4	1.6	1.9	19.1	18.3	18.9	700	(0.5)	71.6
Bank of Baroda	431	ADD	157,524	3,311	366	60.9	54.9	58.5	55.1	(9.8)	6.5	7.1	7.8	7.4	—	—	—	1.5	1.5	1.3	2.1	1.9	2.0	18.7	14.9	14.2	370	(14.1)	12.2
Bank of India	316	ADD	166,320	3,496	526	57.2	46.3	53.2	40.7	(19.1)	14.9	5.5	6.8	5.9	—	—	—	1.7	1.5	1.4	2.5	2.0	2.3	29.2	19.0	18.7	310	(2.0)	16.6
Canara Bank	241	REDUCE	98,687	2,074	410	50.5	38.6	41.4	32.4	(23.6)	7.1	4.8	6.2	5.8	—	—	—	1.2	1.1	1.0	3.3	3.3	4.2	18.3	12.4	12.2	220	(8.6)	5.7
Corporation Bank	302	BUY	43,246	909	143	62.2	51.5	55.3	21.4	(17.3)	7.4	4.8	5.9	5.5	—	—	—	0.9	0.8	0.7	4.2	3.5	3.8	19.6	14.3	13.8	310	2.8	1.0
Federal Bank	246	BUY	42,057	884	171	27.8	31.4	38.2	(19.2)	13.1	21.5	8.9	7.8	6.4	—	—	—	1.0	0.9	0.8	2.1	2.4	2.9	11.5	11.8	13.0	280	13.9	3.3
Future Capital Holdings	262	BUY	16,581	348	63	4.5	28.8	NA	(198.6)	546.1	(100.0)	58.9	9.1	NA	—	—	—	2.2	1.8	NA	—	—	—	3.8	21.4	NA	440	67.8	1.5
HDFC	2,282	REDUCE	649,158	13,643	284	80.2	91.5	103.6	(6.5)	14.0	13.3	28.4	24.9	22.0	—	—	—	4.9	4.4	4.0	1.3	1.4	1.6	18.2	18.3	18.3	2,025	(11.3)	71.2
HDFC Bank	1,528	ADD	673,004	14,145	440	55.4	63.2	75.1	20.4	14.2	18.8	27.6	24.2	20.3	—	—	—	4.5	3.2	2.8	0.6	0.8	1.0	16.9	15.4	15.0	1,460	(4.5)	56.3
ICICI Bank	742	REDUCE	826,347	17,368	1,113	33.8	32.3	38.5	(15.4)	(4.4)	19.2	22.0	23.0	19.3	—	—	—	1.7	1.6	1.5	1.5	1.2	1.3	7.8	7.1	8.0	685	(7.7)	208.5
IDFC	139	ADD	179,519	3,773	1,294	5.8	7.0	8.0	2.3	21.0	13.3	23.9	19.7	17.4	—	—	—	2.9	2.6	2.3	0.7	0.9	0.9	12.9	14.1	14.2	85	(38.7)	37.7
India Infoline	137	ADD	42,648	896	311	5.0	5.8	6.5	(10.0)	15.5	12.3	27.2	23.5	20.9	—	—	—	3.4	3.0	2.7	1.9	2.4	2.9	11.7	13.5	14.6	90	(34.3)	10.3
Indian Bank	129	BUY	55,526	1,167	430	28.1	26.6	30.6	24.7	(5.3)	15.0	4.6	4.9	4.2	—	—	—	1.0	1.0	0.9	3.3	3.1	3.6	22.7	18.3	18.1	165	27.7	3.1
Indian Overseas Bank	83	BUY	45,409	954	545	24.3	16.6	22.2	10.3	(31.9)	33.8	3.4	5.0	3.8	—	—	—	0.8	0.7	0.6	6.3	4.5	4.9	24.7	14.5	17.0	110	32.0	4.6
J&K Bank	503	ADD	24,411	513	48	84.5	80.8	95.4	13.8	(4.3)	18.0	6.0	6.2	5.3	—	—	—	1.0	1.0	0.9	3.4	3.2	3.8	16.7	14.1	14.9	510	1.3	0.4
LIC Housing Finance	570	BUY	48,439	1,018	85	62.5	68.8	80.3	37.3	10.0	16.8	9.1	8.3	7.1	—	—	—	2.0	1.7	1.4	2.4	2.7	3.1	26.2	23.9	23.4	390	(31.6)	11.2
Mahindra & Mahindra Financial	282	ADD	26,968	567	96	22.4	27.5	30.0	7.5	22.9	8.7	12.6	10.2	9.4	—	—	—	1.9	1.7	1.5	2.0	2.4	2.7	15.4	16.9	16.3	240	(14.8)	1.0
Oriental Bank of Commerce	175	ADD	43,832	921	251	36.1	27.3	34.6	51.4	(24.5)	26.7	4.8	6.4	5.1	—	—	—	0.8	0.8	0.8	4.1	3.1	4.0	14.8	10.2	11.8	150	(14.3)	3.5
PFC	198	SELL	227,545	4,782	1,148	13.0	16.5	19.3	14.3	26.7	17.6	15.3	12.0	10.2	—	—	—	2.0	1.8	1.6	1.4	2.5	2.2	13.8	15.8	16.7	160	(19.3)	6.1
Punjab National Bank	593	BUY	186,974	3,930	315	98.0	98.5	115.1	50.9	0.5	16.8	6.0	6.0	5.2	—	—	—	1.5	1.3	1.2	3.3	3.3	3.9	23.0	19.9	20.1	760	28.2	22.9
Rural Electrification Corp.	158	BUY	135,745	2,853	859	16.5	17.5	20.8	50.7	6.5	18.8	9.6	9.0	7.6	—	—	—	1.9	1.7	1.4	1.3	2.0	2.4	21.2	19.6	20.3	155	(2.0)	3.7
Shriram Transport	298	ADD	63,039	1,325	212	30.1	32.5	36.9	56.8	7.9	13.7	9.9	9.2	8.1	—	—	—	2.9	2.5	2.0	2.9	3.3	3.7	29.6	27.0	25.8	300	0.7	2.9
SREI	67	ADD	7,844	165	116	7.0	5.9	7.9	(38.4)	(16.7)	35.3	9.6	11.5	8.5	—	—	—	0.8	0.7	0.6	1.5	1.8	1.8	12.5	10.2	12.5	110	63.1	3.1
State Bank of India	1,635	BUY	1,037,971	21,815	635	143.6	121.1	139.2	34.8	(15.7)	14.9	11.4	13.5	11.7	—	—	—	2.1	2.1	1.8	1.8	1.8	2.0	17.1	12.7	13.3	1,870	14.4	122.6
Union Bank	231	BUY	116,707	2,453	505	34.2	29.6	35.5	24.5	(13.5)	19.9	6.8	7.8	6.5	—	—	—	1.3	1.2	1.0	2.2	1.9	2.3	27.2	19.5	19.9	220	(4.8)	6.8
Banks/Financial Institutions		**Attractive**	**5,209,086**	**109,481**					**27.9**	**(4.6)**	**15.7**	**12.2**	**12.8**	**11.1**	**—**	**—**	**—**	**2.1**	**1.9**	**1.7**	**1.7**	**1.7**	**1.9**	**16.9**	**14.8**	**15.4**			
Cement																													
ACC	846	REDUCE	158,918	3,340	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	15.0	15.3	20.1	7.6	7.6	8.8	3.0	2.7	2.4	2.8	2.8	2.8	24.7	21.3	15.1	725	(14.3)	12.9
Ambuja Cements	97	REDUCE	148,203	3,115	1,522	7.2	6.8	5.4	(5.0)	(4.7)	(20.5)	13.5	14.2	17.9	7.3	7.5	9.0	2.4	2.2	2.0	3.1	1.9	2.2	19.7	16.6	12.0	80	(17.8)	5.6
Grasim Industries	2,374	REDUCE	217,686	4,575	92	238.5	235.7	239.1	(16.2)	(1.2)	1.4	10.0	10.1	9.9	5.7	5.1	4.9	2.0	1.7	1.5	1.4	1.4	1.4	21.7	18.2	16.0	2,300	(3.1)	10.6
India Cements	161	ADD	45,395	954	282	22.7	19.8	17.5	n/a	(12.8)	(11.2)	7.1	8.1	9.2	4.8	5.0	5.2	1.2	1.1	1.0	1.3	1.3	2.0	15.7	14.7	11.7	155	(3.8)	8.6
Shree Cement	1,175	BUY	40,927	860	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	6.7	12.8	13.6	4.6	5.0	5.4	3.4	2.8	2.4	0.9	0.9	0.9	65.7	24.0	18.9	1,150	(2.1)	0.7
UltraTech Cement	732	ADD	91,703	1,927	125	78.0	70.5	49.3	(4.1)	(9.7)	(30.0)	9.4	10.4	14.8	6.0	5.7	7.1	2.1	1.8	1.6	1.1	1.1	1.1	31.2	22.3	13.4	725	(1.0)	5.4
Cement		**Cautious**	**702,832**	**14,772**					**(5.1)**	**(9.5)**	**(12.9)**	**10.6**	**11.7**	**13.4**	**6.1**	**5.9**	**6.4**	**2.2**	**1.9**	**1.7**	**2.0**	**1.8**	**1.9**	**21.0**	**16.4**	**12.9**			
Consumer products																													
Asian Paints	1,157	ADD	111,013	2,333	96	38.4	49.1	57.5	(2.2)	27.9	17.1	30.1	23.6	20.1	17.5	13.7	11.6	9.8	8.0	6.6	1.5	1.7	1.9	36.3	38.5	36.8	1,000	(13.6)	0.9
Colgate-Palmolive (India)	561	ADD	76,319	1,604	136	21.6	24.4	25.7	26.3	12.9	5.4	26.0	23.0	21.8	20.9	18.6	16.2	35.6	29.4	27.8	2.7	3.2	3.7	156.1	140.2	131.1	520	(7.3)	2.4
GlaxoSmithkline Consumer (a)	901	ADD	37,898	797	42	44.8	56.1	63.6	15.8	25.2	13.5	20.1	16.1	14.2	11.2	9.0	7.9	4.9	4.2	3.7	1.7	2.3	3.3	26.8	28.5	28.0	900	(0.1)	0.8
Godrej Consumer Products	177	ADD	45,750	962	258	6.8	8.7	9.8	(3.9)	27.8	12.8	26.2	20.5	18.1	22.8	16.7	13.8	6.9	6.0	5.1	2.3	2.3	2.3	42.7	42.7	33.1	160	(9.7)	0.7
Hindustan Unilever	256	REDUCE	557,398	11,715	2,179	9.2	10.2	11.6	12.9	11.5	13.6	27.9	25.0	22.0	22.3	19.1	16.8	36.0	33.4	30.9	3.4	3.8	4.3	134.3	139.0	146.1	235	(8.1)	25.7
ITC	197	ADD	741,097	15,576	3,769	8.7	9.9	11.3	4.8	14.2	14.4	22.7	19.9	17.4	13.8	12.3	10.8	5.2	4.6	4.0	1.9	2.0	2.3	25.4	25.4	25—	225	14.4	31.8
Jyothy Laboratories	107	ADD	7,739	163	73	7.2	10.6	13.0	10.2	47.3	22.1	14.8	10.0	8.2	9.7	6.8	5.4	2.0	1.7	1.5	2.2	2.7	3.3	13.0	16.5	18.8	127	19.1	
Nestle India (a)	1,805	ADD	173,992	3,657	96	58.6	70.5	82.4	31.0	20.4	16.8	30.8	25.6	21.9	19.6	16.7	14.5	36.8	30.2	25.0	2.4	2.8	3.3	126.7	129.6	124.8	1,800	(0.3)	1.9
Tata Tea	761	BUY	47,079	989	62	60.1	67.7	75.8	10.9	12.7	11.9	12.7	11.2	10.0	6.8	5.5	4.8	1.0	0.9	0.8	2.3	2.6	2.9	10.3	10.8	11.3	940	23.5	2.8
Consumer products		**Cautious**	**1,798,285**	**37,795**					**9.8**	**15.3**	**14.0**	**24.7**	**21.4**	**18.8**	**16.3**	**14.0**	**12.3**	**7.4**	**6.6**	**5.8**	**2.4**	**2.7**	**3.1**	**30.0**	**30.7**	**30.9**			
Constructions																													
Consolidated Construction Co.	230	ADD	8,500	179	37	19.7	27.2	31.9	(18.1)	38.0	17.5	11.7	8.5	7.2	7.8	5.5	4.7	1.7	1.4	1.2	1.2	1.7	2.0	15.0	18.1	18.3	190	(17.4)	0.2
IVRCL	339	BUY	45,817	963	135	16.7	17.9	22.1	7.4	7.4	23.1	20.3	18.9	15.3	13.6	10.3	8.2	2.5	2.2	2.0	0.2	0.2	0.2	13.2	12.6	13.6	350	3.4	18.8
Nagarjuna Construction Co.	135	BUY	30,961	651	229	6.7	7.5	8.5	(6.4)	11.9	13.3	20.1	18.0	15.9	12.4	9.5	8.2	1.8	1.7	1.6	1.0	1.2	1.5	9.4	9.8	10.3	145	7.3	6.7
Punj Lloyd	213	BUY	66,169	1,391	311	(7.4)	15.9	17.2	(174.4)	(314.8)	7.7	(28.7)	13.3	12.4	29.5	7.6	7.2	2.7	2.2	1.9	(0.1)	0.3	0.4	(9.2)	18.9	17.1	200	(6.0)	35.2
Sadbhav Engineering	657	ADD	8,209	173	13	50.6	51.1	73.1	25.0	0.9	43.0	13.0	12.9	9.0	9.5	7.5	6.1	2.3	2.0	1.7	0.8	0.9	1.1	18.0	15.7	18.6	770	17.3	0.2
Construction		**Attractive**	**159,657**	**3,356**					**(67.0)**	**297.1**	**14.9**	**57.9**	**14.6**	**12.7**	**16.2**	**8.4**	**7.4**	**2.3**	**2.0**	**1.8**	**0.3**	**0.6**	**0.7**	**4.0**	**14.0**	**14.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	12-Jun-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	135.2	BUY	(Rs mn)	(US$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	417	SELL	136,587	2,871	328	20—	32.1	41.8	(50.7)	58	NA	20	NA	10.0	4.8	4.8	4.4	1.0	0.9	0.9	2—	3.2	4.1	5.2	7.7	9.4	475	14.0	10.4
Cairn india	244	REDUCE	463,356	9,738	1,897	4.3	9.2	31.2	(3,703)	115	238.0	57	26	7.8	37.4	13.6	5.6	1.4	1.3	1.3	—	—	10.2	2.5	5.1	16.5	225	(7.9)	35.4
Castrol India (a)	339	BUY	41,939	881	124	21.3	25.5	26.6	20.8	19.5	4.3	15.9	13.3	12.8	8.9	7.7	7.3	9.3	8.4	7.9	4.4	5.3	5.9	61.2	66.5	63.7	390	15.0	0.6
GAIL (India)	287	ADD	364,623	7,663	1,268	22.1	21.9	22.6	8.4	(0.8)	3.2	13.0	13.1	12.7	6.8	7.4	7.8	2.2	2.0	1.8	1.6	1.9	1.9	17.6	15.3	14.1	300	4.4	14.4
GSPL	56	REDUCE	31,460	661	563	1.9	2.5	3.7	4.4	30.5	52.6	29.7	22.8	14.9	10.0	6.4	5.4	2.4	2.1	2.2	0.9	1.2	6.7	8.2	9.8	14.4	45	(19.5)	5.4
Hindustan Petroleum	304	SELL	102,923	2,163	339	17.0	16.7	34.9	(49.3)	(1.6)	109.2	17.9	18.2	8.7	5.9	5.8	NA	0.8	0.8	NA	2—	4.0	8.3	4.4	3.9	7.8	350	15.3	12.4
Indian Oil Corporation	556	REDUCE	655,761	13,782	1,179	18.9	44.3	43.1	(69.1)	133.8	(2.6)	29.4	12.6	12.9	10.5	5.6	5.5	1.4	1.3	1.2	1—	3.3	3.2	4.6	10.2	9.3	550	(1.1)	7.5
Oil & Natural Gas Corporation	1,127	BUY	2,410,633	50,665	2,139	100.3	95.3	119.2	8.1	(5.0)	25.1	11.2	11.8	9.5	4.3	4.2	3.5	2.1	1.9	1.7	3.0	3.5	3.7	18.9	15.9	18.2	1,100	(2.4)	50.4
Petronet LNG	74	REDUCE	55,125	1,159	750	6.9	7.3	8.5	—	5.9	16.8	10.6	10.0	8.6	7.6	6.5	5.8	2.4	2.0	1.7	2.4	2.7	3.1	23.9	21.1	20.5	57	(22.4)	6.5
Reliance Industries	2,362	REDUCE	3,243,163	68,162	1,373	103.4	126.5	169.4	(1.5)	22.4	33.9	22.8	18.7	13.9	13.4	8.5	6.6	2.7	2.4	2.1	0.6	0.7	0.8	15.1	15.8	18.6	1,750	(25.9)	236.9
Reliance Petroleum	147	NR	661,950	13,912	4,500	—	8.3	13.8	n/a	n/a	n/a	n/a	n/a	10.7	n/a	n/a	8.6	4.9	4.1	3.1	—	1.4	1.4	0.6	25.1	33.0	—	—	26.5
Energy		**Neutral**	**8,167,520**	**171,659**					**(5.8)**	**26.0**	**34.6**	**18.2**	**14.4**	**10.7**	**8.8**	**6.7**	**5.4**	**2.2**	**2.0**	**1.8**	**1.4**	**1.9**	**2.7**	**12.1**	**13.8**	**16.7**			
Industrials																													
ABB	760	REDUCE	161,008	3,384	212	25.8	24.9	29.6	11.3	(3.6)	18.7	29.4	30.5	25.7	17.4	17.3	14.1	7.6	6.3	5.2	0.3	0.4	0.4	29.2	22.6	22.1	500	(34.2)	8.4
BGR Energy Systems	354	REDUCE	25,452	535	72	15.3	20.7	24.3	26.1	35.4	17.5	23.1	17.1	14.5	12.6	10.1	8.6	4.5	3.7	3.1	0.7	1.0	1.1	21.3	23.9	23.2	165	(53.3)	1.6
Bharat Electronics	1,348	REDUCE	107,864	2,267	80	101.9	111.1	119.0	(0.0)	9.0	7.1	13.2	12.1	11.3	5.7	5.1	4.5	2.7	2.4	2.0	1.9	1.9	1.9	22.4	20.9	19.2	1,025	(24.0)	2.0
Bharat Heavy Electricals	2,212	REDUCE	1,082,843	22,758	490	64.1	92.0	106.8	9.8	43.5	16.1	34.5	24.0	20.7	18.8	13.4	11.3	8.3	6.6	5.3	0.7	0.9	1.0	26.4	30.7	28.6	1,900	(14.1)	64.6
Crompton Greaves	293	ADD	107,226	2,254	367	15.3	17.0	20.0	37.3	11.0	17.5	19.1	17.2	14.6	10.7	9.6	8.3	6.0	4.6	3.6	0.7	0.7	0.8	36.5	30.5	27.9	300	2.6	7.5
Larsen & Toubro	1,582	ADD	943,860	19,837	597	52.6	57.5	68.2	38.6	9.4	18.5	30.1	27.5	23.2	18.0	15.8	13.6	5.9	4.9	4.0	0.6	0.7	0.8	22.5	19.4	19.1	1,375	(13.1)	98.3
Maharashtra Seamless	307	BUY	21,663	455	71	35.9	33.0	39.6	22.2	(8.1)	20.3	8.6	9.3	7.7	5.8	6.0	4.7	1.6	1.4	1.2	1.8	1.6	2.3	20.3	16.0	16.8	225	(26.7)	1.3
Siemens	502	REDUCE	169,170	3,555	337	14.2	19.8	21.1	(22.2)	39.7	6.4	35.4	25.3	23.8	16.9	14.6	13.9	7.5	6.3	5.3	0.6	1.3	0.8	23.3	27.1	24.2	360	(28.3)	8.0
Suzlon Energy	119	ADD	186,677	3,923	1,571	7.0	7.1	11.4	6.0	2.1	59.7	17.0	16.7	10.5	11.1	9.8	7.9	1.8	1.6	1.4	0.4	0.4	0.8	11.3	10.1	13.9	90	(24.3)	109.4
Industrials		**Cautious**	**2,805,764**	**58,969**					**15.5**	**20.1**	**20.0**	**27.7**	**23.1**	**19.2**	**15.6**	**13.0**	**11.1**	**5.5**	**4.5**	**3.8**	**0.7**	**0.8**	**0.9**	**19.8**	**19.6**	**19.6**			
Infrastructure																													
IRB Infrastructure	140	ADD	46,630	980	332	5.6	10.4	10.8	63.5	85.5	3.9	25.0	13.5	13.0	13.7	7.5	6.8	2.5	2.1	1.7	—	—	—	10.6	16.8	14.5	135	(3.8)	7.9
Media																													
DishTV	42	REDUCE	40,031	841	946	(7.3)	(4.1)	(3.2)	n/a	(44.4)	(22.6)	(5.8)	(10.4)	(13.4)	(25.1)	(153.7)	48.7	(6.2)	(19.7)	(8.0)	—	—	—	86.1	91.1	NA	22	(48.0)	12.2
HT Media	101	ADD	23,601	496	234	0.8	4.2	6.3	(80.4)	399.4	49.2	118.6	23.7	15.9	24.4	10.1	8.0	2.8	2.6	2.4	0.4	0.8	2.5	2.3	11.3	15.6	120	19.1	0.5
Jagran Prakashan	80	BUY	24,154	508	301	2.9	4.2	5.5	(12.1)	47.2	29.6	28.0	19.0	14.7	15.7	10.5	8.3	4.4	4.1	3.7	2.5	3.2	3.7	15.8	22.1	26.5	90	12.2	0.2
Sun TV Network	255	REDUCE	100,313	2,108	394	9.3	11.1	12.8	11.8	19.2	15.8	27.5	23.0	19.9	17.1	15.2	13.4	5.9	5.4	5.0	1.6	2.4	3.1	23.5	25.1	26.7	200	(21.4)	1.5
Zee Entertainment Enterprises	183	REDUCE	79,516	1,671	434	8.1	9.3	11.2	(9.0)	15.5	20.0	22.7	19.7	16.4	15.8	13.6	11.3	2.4	2.2	2.1	1.2	1.5	1.8	11.6	12.2	13.7	145	(20.9)	8.9
Zee News	43	ADD	10,406	219	240	1.9	2.1	2.5	20.4	11.1	18.8	23.3	21.0	17.7	12.0	10.1	8.9	4.2	3.6	3.2	0.9	0.9	1.4	20.0	19.0	19.5	40	(7.8)	1.5
Media		**Neutral**	**278,021**	**5,843**					**(48.7)**	**145.4**	**55.5**	**137.9**	**56.2**	**36.2**	**23.0**	**15.7**	**12.6**	**4.6**	**4.0**	**3.8**	**1.2**	**1.7**	**2.2**	**3.3**	**7.1**	**10.6**			
Metals																													
Hindalco Industries	101	BUY	176,663	3,713	1,753	9.0	3.5	11.4	(33.9)	(61.4)	227.6	11.2	29.0	8.9	6.4	8.5	6.7	0.5	0.5	0.4	—	—	—	10.3	5.2	6.7	135	33.9	21.5
National Aluminium Co.	363	SELL	233,723	4,912	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	18.4	26.5	17.8	9.5	10.1	7.0	2.2	2.1	1.9	1.0	0.6	0.6	12.7	8.1	11.1	290	(20.1)	3.4
Jindal Steel and Power	2,520	ADD	387,998	8,155	154	198.0	172.4	196.2	139.3	(12.9)	13.8	12.7	14.6	12.8	8.6	8.8	7.4	5.3	3.9	3.0	—	0.3	0.3	53.1	31.0	26.4	1,820	(27.8)	31.1
JSW Steel	707	SELL	132,299	2,781	187	13.1	24.1	53.5	(84.7)	83.3	121.8	53.8	29.3	13.2	10.0	10.0	7.7	1.3	1.1	1.0	0.1	0.7	0.7	11.0	4.3	8.3	340	(51.9)	40.2
Hindustan Zinc	665	BUY	281,068	5,907	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	10.3	10.6	8.2	6.4	5.8	3.7	1.9	1.6	1.3	0.6	0.8	0.8	20.1	16.5	17.9	610	(8.3)	3.8
Sesa Goa	203	BUY	159,810	3,359	787	24.8	25.5	34.2	30.8	3.0	34.0	8.2	8.0	5.9	5.2	4.6	2.8	3.5	2.6	1.8	1.7	1.7	1.7	52.8	37.1	36.0	200	(1.5)	30.8
Sterlite Industries	720	ADD	510,116	10,721	708	49.2	41.0	50.5	(23.6)	(16.7)	23.4	14.6	17.6	14.2	9.0	9.8	7.3	2.0	1.8	1.6	—	—	—	14.3	10.7	11.8	490	(31.9)	48.2
Tata Steel	458	BUY	376,266	7,908	822	123.9	55.5	87.0	63.6	(55.2)	56.7	3.7	8.2	5.3	4.0	5.5	4.2	0.8	0.8	0.7	2.8	2.8	2.8	36.8	15.7	21.3	280	(38.8)	113.8
Metals		**Attractive**	**2,257,944**	**47,456**					**7.7**	**(33.8)**	**44.4**	**8.9**	**13.5**	**9.3**	**6.2**	**7.4**	**5.6**	**1.5**	**1.3**	**1.2**	**0.8**	**0.8**	**0.8**	**16.4**	**9.8**	**12.5**			
Pharmaceutical																													
Biocon	214	BUY	42,760	899	200	4.7	13.6	19.4	(80.0)	192.2	42.8	45.9	15.7	11.0	18.8	9.4	6.8	2.8	2.5	2.1	0.0	0.0	0.1	6.2	16.9	20.9	235	9.9	4.0
Cipla	251	ADD	195,139	4,101	777	9.9	13.9	15.5	9.5	40.6	11.9	25.4	18.1	16.2	18.2	13.1	11.6	4.5	3.8	3.3	1.0	1.2	1.4	19.1	23.0	21.8	260	3.6	9.0
Dishman Pharma & chemicals	185	BUY	15,063	317	81	18.0	21.2	27.3	22.1	17.9	28.7	10.3	8.7	6.8	8.6	6.8	5.3	2.1	1.7	1.4	0.0	0.0	0.0	22.8	21.9	22.9	280	51.2	0.6
Divi's Laboratories	1,176	BUY	75,940	1,596	65	63.8	74.6	86.5	19.9	16.9	16.0	18.4	15.8	13.6	14.8	12.1	9.7	6.2	4.6	3.5	0.1	0.1	0.1	39.8	33.5	29.3	1,375	16.9	4.5
Dr Reddy's Laboratories	705	BUY	119,296	2,507	169	32.4	44.8	48.4	24.5	38.2	8.0	21.7	15.7	14.6	9.5	7.8	6.8	3.4	2.9	2.5	0.9	1.0	1.1	13.7	19.8	18.2	750	6.4	6.1
Glenmark Pharmaceuticals	222	BUY	58,900	1,238	266	16.0	18.2	22.5	(38.2)	13.9	23.6	13.9	12.2	9.9	9.2	7.9	6.6	2.7	2.2	1.8	0.0	0.0	0.0	22.0	19.8	20.2	390	76.0	8.8
Jubilant Organosys	173	BUY	29,575	622	171	16.5	18.6	21.8	(26.2)	12.6	17	10.4	9.3	7.9	12.1	7.6	5.6	2.3	1.9	1.6	0.7	0.7	1.0	18.6	22.6	21.7	250	44.7	0.5
Lupin	839	BUY	74,352	1,563	89	60.7	66.0	71.3	21.9	8.7	8.0	13.8	12.7	11.8	13.7	11.4	9.7	4.4	3.4	2.8	1.4	1.3	1.6	33.7	30.3	26.1	1,075	28.1	3.3
Piramal Healthcare	273	BUY	56,953	1,197	209	17.3	22.4	28.2	(2.7)	29.8	26.0	15.8	12.2	9.7	11.7	8.2	6.7	4.3	3.4	2.6	1.5	1.7	1.7	26.3	31.4	30.8	340	24.8	1.7
Ranbaxy Laboratories	283	REDUCE	120,711	2,537	427	(8.1)	(5.7)	5.1	(134.7)	NA	NA	(34.9)	NA	55.2	(164.9)	857.4	21.9	2.4	2.1	2.2	3.6	4.0	4.4	(8.8)	(4.7)	4.1	150	(46.9)	17.7
Sun Pharmaceuticals	1,322	BUY	273,725	5,753	207	87.8	91.5	92.2	17.6	4.3	0.8	15.1	14.4	14.3	11.5	10.0	9.2	4.0	3.2	2.7	1.0	1.0	1.0	31.6	25.8	21.3	1,800	36.2	24.1
Pharmaceuticals		**Attractive**	**1,062,413**	**22,329**					**(17.3)**	**26.4**	**19.8**	**21.4**	**16.9**	**14.1**	**14.2**	**10.9**	**8.9**	**3.6**	**3.0**	**2.5**	**1.2**	**1.3**	**1.4**	**16.8**	**17.5**	**18.0**			
Property																													
DLF	368	REDUCE	624,818	13,132	1,699	29.3	16.3	17.5	(36.6)	(44.4)	7.2	12.6	22.6	21.1	12.7	18.2	15.5	2.5	2.3	2.2	0.8	0.8	1.1	22.5	10.8	10.6	320	(13.0)	151.2
Housing Development & Infrastruc	257	NR	70,691	1,486	275	30.6	19.8	24.8	(40.1)	(35.3)	25.1	8.4	12.9	10.4	11.2	12.8	10.5	1.6	1.5	1.4	1.9	2.3	3.1	21.2	12.1	13.9	-	NA	102.4
Indiabulls Real Estate	225	ADD	90,437	1,901	401	3.0	3.1	7.5	(81.8)	3.8	141.1	75.2	72.4	30.0	(234)	58.9	14.1	1.4	1.0	1.0	0.0	0.0	0.0	1.3	1.6	3.2	235	4.3	64.2
Mahindra Life Space Developer	301	BUY	12,644	266	42	10.2	10.8	15.4	(39.2)	5.3	42.5	29.4	27.9	19.6	45.6	26.6	13.7	1.4	1.4	1.3	1.3	1.3	1.3	4.8	4.9	6.7	410	36.4	1.0
Phoenix Mills	123	BUY	17,787	374	145	5.2	7.1	8.7	63.1	38.3	21.4	23.8	17.2	14.2	27.1	12.3	10.5	1.2	1.1	1.1	0.8	0.8	1.2	5.1	6.7	7.7	210	71.0	0.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	12-Jun-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
	42.3	REDUCE	(Rs mn)	(US$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US$ mn)
Retail																													
Titan Industries	1,201	REDUCE	53,296	1,120	44	45.9	50.1	56.9	30.8	9.2	13.7	26.2	24.0	21.1	16.8	14.6	12.6	9.2	7.1	5.7	0.8	0.9	1.0	38.9	33.6	29.9	850	(29.2)	3.5
Retail		**Neutral**	**53,296**	**1,120**					**30.8**	**9.2**	**13.7**	**26.2**	**24.0**	**21.1**	**16.8**	**14.6**	**12.6**	**9.2**	**7.1**	**5.7**	**0.8**	**0.9**	**1.0**	**35.3**	**29.7**	**26.8**			
Technology																													
HCL Technologies	197	REDUCE	136,776	2,875	695	16.2	13.1	17.0	6.0	(19.0)	29.5	12.2	15.0	11.6	6.9	6.7	6.4	2.2	2.1	2.0	6.1	6.1	6.1	18.6	14.4	17.7	135	(31.4)	6.3
Infosys Technologies	1,728	BUY	992,130	20,852	574	102.4	99.3	111.9	29.6	(3.1)	12.7	16.9	17.4	15.4	12.2	12.4	10.2	5.4	4.4	3.7	1.4	1.4	1.6	36.7	28.1	26.1	1,800	4.1	65.4
Mphasis BFL	354	REDUCE	73,764	1,550	208	14.2	38.8	30.3	15.7	173.5	(21.9)	25.0	9.1	11.7	18.9	6.5	6.4	5.1	3.5	2.8	1.1	1.3	1.4	22.8	45.3	26.4	240	(32.2)	2.9
Mindtree	436	BUY	17,962	378	41	13.2	44.0	50.7	(50.5)	232.5	15.1	33.0	9.9	8.6	5.7	5.7	4.8	3.3	2.4	1.9	0.4	—	1.2	5.5	20.4	18.4	400	(8.4)	4.8
Patni Computer Systems	241	REDUCE	30,974	651	129	26.8	23.5	26.1	(19.3)	(12.4)	11.1	9.0	10.3	9.2	3.4	2.8	2.6	1.2	1.0	0.9	0.8	1.9	2.2	16.2	10.0	10.3	150	(37.8)	2.1
Polaris Software Lab	102	SELL	10,028	211	99	13.1	13.3	12.1	76.0	1.7	(8.9)	7.8	7.6	8.4	2.8	3.4	3.5	1.3	1.1	1.0	2.7	2.0	2.0	18.1	15.9	12.9	50	(50.8)	3.9
TCS	765	REDUCE	748,196	15,725	979	52.9	50.7	54.8	3.1	(4.1)	8.1	14.5	15.1	13.9	10.1	10.5	9.1	4.8	4.0	3.4	1.8	2.0	2.9	36.9	28.7	26.4	650	(15.0)	32.1
Wipro	410	ADD	599,420	12,598	1,462	25.7	26.4	29.2	15.8	2.6	10.3	15.9	15.5	14.1	11.7	10.7	9.0	4.0	3.3	2.8	1.0	1.8	2.1	26.9	23.3	21.6	400	(2.4)	15.0
Technology		**Cautious**	**2,709,470**	**56,946**					**15.0**	**(1.9)**	**9.2**	**15.2**	**15.5**	**14.2**	**10.5**	**10.3**	**8.9**	**4.3**	**3.6**	**3.1**	**1.6**	**1.9**	**2.3**	**28.2**	**23.0**	**21.6**			
Telecom																													
Bharti Airtel	828	ADD	1,572,243	33,044	1,899	44.6	52.2	59.8	26.4	17.0	14.6	18.6	15.9	13.8	10.8	9.3	8.0	5.0	3.8	2.9	0.5	0.7	1.0	31.4	27.0	23.8	775	(6.4)	103.0
IDEA	83	REDUCE	258,551	5,434	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	28.7	28.7	25.9	10.5	9.4	7.8	1.9	1.8	1.6	—	—	—	10.4	6.4	6.8	65	(22.0)	18.7
MTNL	110	SELL	69,017	1,451	630	4.0	4.1	4.6	(44.3)	2.6	11.8	27.5	26.8	24.0	16.3	12.0	8.2	0.6	0.6	0.6	5.5	5.5	5.5	1.6	1.6	1.9	50	(54.4)	3.8
Reliance Communications	332	SELL	685,874	14,415	2,064	27.7	20.3	21.1	4.7	(26.6)	3.9	12.0	16.3	15.7	10.0	9.4	7.4	2.0	1.8	1.6	0.2	—	—	18.6	11.7	10.9	180	(45.8)	78.7
Tata Communications	518	REDUCE	147,559	3,101	285	13.6	14.0	15.2	24.0	3.2	8.2	38.1	37.0	34.2	16.2	14.7	13.6	2.1	2.1	2.0	1.0	1.3	1.4	5.4	5.2	5.5	400	(22.7)	7.1
Telecom		**Cautious**	**2,733,243**	**57,445**					**11.5**	**(0.5)**	**11.3**	**17.0**	**17.1**	**15.3**	**10.8**	**9.5**	**7.9**	**2.8**	**2.4**	**2.1**	**0.5**	**0.6**	**0.8**	**16.3**	**14.0**	**13.6**			
Transportation																													
Container Corporation	1,018	ADD	132,359	2,782	130	64.4	71.4	83.3	11.6	10.8	16.6	15.8	14.3	12.2	11.4	9.6	8.1	3.5	3.0	2.5	1.4	1.6	1.8	24.0	22.5	22.2	850	(16.5)	1.2
Transportation		**Cautious**	**132,359**	**2,782**					**11.6**	**10.8**	**16.6**	**15.8**	**14.3**	**12.2**	**11.4**	**9.6**	**8.1**	**3.5**	**3.0**	**2.5**	**1.4**	**1.6**	**1.8**	**22.1**	**20.8**	**20.5**			
Utilities																													
CESC	322	ADD	40,248	846	125	31.2	38.0	42.1	12.3	21.8	10.8	10.3	8.5	7.7	5.6	6.3	6.7	1.1	1.0	0.9	1.4	1.7	1.9	11.4	12.2	11.9	345	7.1	1.7
Lanco Infratech	386	ADD	85,763	1,803	222	14.5	18.1	33.8	(2.5)	25.1	86.9	26.7	21.3	11.4	23.5	17.9	8.4	4.0	3.3	2.5	—	—	—	16.1	16.9	25.0	360	(6.7)	19.3
NTPC	222	SELL	1,826,370	38,385	8,245	9.4	10.8	12.2	1.1	14.7	12.6	23.5	20.5	18.2	17.8	15.0	14.2	3.1	2.8	2.6	1.6	1.8	2.1	13.7	14.5	15.0	180	(18.7)	39.2
Reliance Infrastructure	1,181	BUY	267,347	5,619	226	64.1	58.8	62.9	70.5	(8.2)	6.9	18.4	20.1	18.8	19.8	20.2	15.6	1.6	1.5	1.4	0.6	0.7	0.8	6.3	7.0	9.0	970	(17.8)	118.3
Reliance Power	192	REDUCE	461,135	9,692	2,397	1.0	2.5	3.1	—	140.3	25.3	188.6	78.5	62.6	—	—	—	3.3	3.2	3.1	—	—	—	1.8	4.2	5.0	120	(37.6)	30.9
Tata Power	1,178	ADD	262,174	5,510	223	56.2	76.6	86.5	76.6	36.2	12.9	20.9	15.4	13.6	11.4	11.7	11.0	2.6	2.3	2.0	1.0	1.0	1.2	13.4	15.8	15.7	1,100	(6.6)	14.4
Utilities		**Attractive**	**2,943,038**	**61,855**					**14.0**	**17.4**	**14.8**	**25.7**	**21.9**	**19.1**	**18.4**	**17.4**	**15.4**	**2.8**	**2.6**	**2.4**	**1.1**	**1.3**	**1.5**	**10.8**	**11.7**	**12.3**			
Others																													
Aban Offshore	1,007	SELL	38,134	801	38	87.8	125.3	214.6	21	42.7	71.3	11.5	8.0	4.7	9.2	7.9	6.7	2.7	2.1	1.5	0.4	0.5	0.5	33.7	33.3	36.7	300	(70.2)	64.5
Havells India	288	REDUCE	17,457	367	61	(1.0)	10.3	14.7	(104)	NA	43.0	NA	28.1	19.6	11.0	9.5	8.5	2.5	2.3	2.2	1.1	1.4	1.7	(0.9)	8.5	11.4	120	(58.4)	2.5
Jaiprakash Associates	214	ADD	299,709	6,299	1,403	3.0	6.8	9.9	(39)	126.3	45.5	71.1	31.4	21.6	23.7	15.8	14.8	5.4	4.7	4.0	0.0	0.0	0.0	8.0	16.1	20.0	190	(11.0)	91.6
Jindal Saw	410	BUY	22,498	473	55	64.3	47.8	41.7	(1)	(25.6)	(12.8)	6.4	8.6	9.8	4.1	4.2	4.1	0.7	0.6	0.6	1.2	1.0	1.0	10.8	7.4	6.2	300	(26.8)	3.5
PSL	131	BUY	5,692	120	44	22.0	36.8	30.0	4	67.4	(18.5)	5.9	3.5	4.4	5.7	4.7	4.1	0.6	0.6	0.5	7.0	6.9	6.9	10.2	13.4	11.1	160	22.5	0.9
Sintex	248	BUY	33,899	712	136	23.8	24.8	27.3	22	4.1	10.2	10.4	10.0	9.1	7.3	6.7	5.7	1.7	1.5	1.3	0.4	0.5	0.5	16.6	14.8	14.1	175	(29.5)	4.5
Tata Chemicals	246	ADD	57,887	1,217	235	27.6	23.1	27.2	(30)	(16.4)	17.9	8.9	10.7	9.1	5.7	4.7	4.1	1.2	1.1	1.0	3.7	3.7	3.7	17.9	12.9	13.7	200	(18.7)	4.7
Welspun Gujarat Stahl Rohren	230	REDUCE	43,447	913	189	17.3	23.4	17.3	(16)	35.0	(25.7)	13.3	9.9	13.3	8.0	5.7	6.8	2.4	1.9	1.6	0.9	0.6	0.7	17.6	20.8	12.9	125	(45.7)	19.5
United Phosphorus	165	BUY	76,322	1,604	462	10.7	13.5	18.0	28	25.7	33.9	15.4	12.3	9.2	10.2	7.5	5.8	2.5	2.1	1.8	0.7	0.9	1.2	18.1	18.2	20.5	140	(15.3)	5.1
Others			**595,043**	**12,506**					**(12.1)**	**29.2**	**24.8**	**19.8**	**15.3**	**12.3**	**10.8**	**8.9**	**8.4**	**2.6**	**2.2**	**1.9**	**0.7**	**0.7**	**0.8**	**12.9**	**14.6**	**15.7**			
KS universe (b)			**33,843,298**	**711,293**					**3.7**	**3.9**	**21.7**	**17**	**15.9**	**13.1**	**10.7**	**9.4**	**8.0**	**2.6**	**2.3**	**2.0**	**1.3**	**1.5**	**1.8**	**15.6**	**14.4**	**15.6**			
KS universe (b) ex-Energy			**25,675,778**	**539,634**					**6.7**	**(2.3)**	**17.0**	**16.1**	**16.5**	**14.1**	**11.6**	**11.1**	**9.5**	**2.7**	**2.4**	**2.1**	**1.2**	**1.4**	**1.5**	**17.0**	**14.7**	**15.2**			
KS universe (d) ex-Energy & ex-Commodities			**22,715,002**	**477,407**					**7.2**	**4.3**	**14.9**	**17.8**	**17.0**	**14.8**	**13.9**	**12.3**	**10.7**	**3.0**	**2.7**	**2.4**	**1.3**	**1.4**	**1.6**	**17.0**	**15.6**	**15.9**			

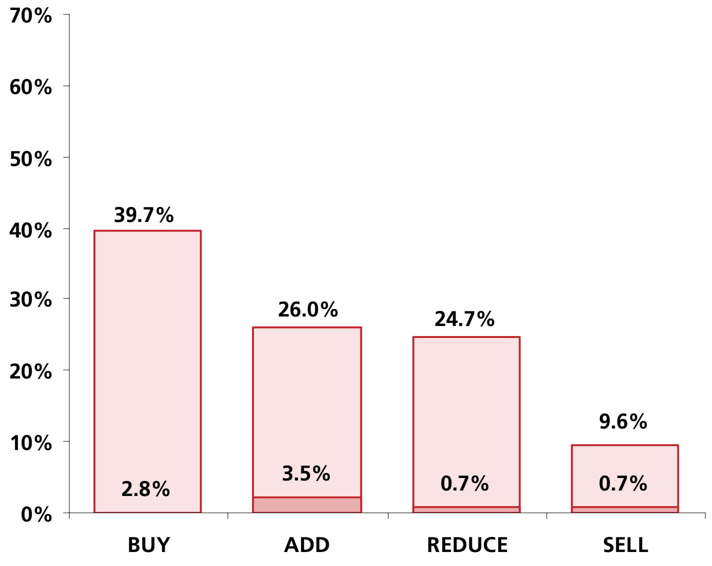
Note:
(1) For banks we have used adjusted book values.
(2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

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: Manoj Menon, Sanjeev Prasad, Nischint Chawathe, Rahul Jain, Augustya Somani, Mridul Saggar."

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 31/03/2009 Kotak Institutional Equities Investment Research had investment ratings on 146 equity securities.

Source: Kotak Institutional Equities

As of March 31, 2009

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.

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

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).

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