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News Round-up

- ▶ The union government has threatened to cancel coal block allocations of as many as 17 companies for failure to develop those allotted to them years before. These includes big companies such as Tata Steel (TATA IN), Sterlite Energy, GMR Energy, ArcelorMittal India, Reliance Energy, GVK Power (GVKP IN), Lanco Group and Rungta Mines. *(BSTD)*
- ▶ India is considering a USD 10bn joint debt fund with the US to finance infrastructure, as the country looks for the over trillion dollar it needs over the 12th Plan to fund creation of physical assets. *(ECNT)*
- ▶ Reliance Ind. (RIL IN) telecommunication arm, Infotel Broadband Services, is in talks to raise additional USD 1.5bn to fund rollout of operations & buying equipments. *(ECNT)*
- ▶ The government is likely to dilute its stake in IOC (IOCL IN), SAIL (SAIL IN) and ONGC (ONGC IN) in the January-March quarter of 2011. *(BSTD)*
- ▶ SAIL (SAIL IN) is in talks with Railways to foray into track laying business. *(ECNT)*
- ▶ IOC (IOCL IN) hiked prices by INR 0.32 a litre with effect from midnight tonight in line with rise in cost of crude. *(BSTD)*
- ▶ Copper production at one of the Hindalco's (HNDL IN) smelters at its Dahej plant in Gujarat is affected as the cooling tower of a sulphuric acid plant has broken down. The company said copper cathodes production would suffer to the tune of 8,000 tonnes and it would take a couple of weeks for the company to repair and restart the cooling tower. *(BSTD)*
- ▶ HCL Technologies (HCLT IN) made an entry into the Australian life sciences market by signing a deal with clinical research organization Novotech to provide a software solution that will help the firm collect and track relevant information about clinical trials. *(BSTD)*
- ▶ Glenmark Pharmaceuticals (GNP IN) is close to become the first Indian company to develop an original novel chemical entity (NCE) to treat diseases. Completes Phase-III trial of Crofelemer. *(BSTD)*
- ▶ Coal India (COAL IN) to enter MSCI indices from November 22. *(BSTD)*
- ▶ Titan (TTAN IN) set to add 100 stores in three years. *(FNLE)*

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

EQUITY MARKETS

India	Change %		
	8-Nov	1-day	1-mo 3-mo
Sensex	20,852	1.7	(0.7) 0.3
Nifty	5,111	1.8	(0.7) 0.6
Global/Regional indices			
Dow Jones	10,255	0.1	(6.1) (1.8)
Nasdaq Composite	2,303	1.0	(5.0) 0.5
FTSE	5,211	1.2	(3.7) (5.7)
Nikkie	9,939	0.3	(10.1) (2.0)
Hang Seng	19,787	1.6	(4.7) (3.8)
KOSPI	1,669	0.4	(2.9) 3.1
Value traded – India			
Cash (NSE+BSE)	156		175 178
Derivatives (NSE)	770		539 676
Deri. open interest	1,190		1,078 1,008

Forex/money market

	Change, basis points			
	3-Jun	1-day	1-mo	3-mo
Rs/US\$	46.7	(28)	217	99
10yr govt bond, %	7.6	6	(47)	(40)
Net investment (US\$m)				
	2-Jun		MTD	CYTD
FIs	(27)		(101)	(230)
MFs	(3)		-	(282)

Top movers -3mo basis

Best performers	Change, %			
	3-Jun	1-day	1-mo	3-mo
BJFIN IN Equity	482.3	4.3	42.2	42.6
IBULL IN Equity	141.9	(0.8)	(3.6)	26.8
BOB IN Equity	745.0	4.7	7.2	22.3
DRRD IN Equity	1395.4	(0.7)	13.2	20.6
AL IN Equity	64.3	5.3	5.5	17.3
Worst performers				
ABAN IN Equity	695.5	0.1	(39.0)	(44.2)
NMDC IN Equity	274.2	(0.3)	(7.4)	(37.1)
GRASIM IN Equity	1789.6	0.7	(30.9)	(35.9)
PUNJ IN Equity	117.8	1.9	(25.6)	(34.0)
SUEL IN Equity	55.3	2.0	(18.9)	(28.8)

NOVEMBER 09, 2010

NEW RELEASE

BSE-30: 20,852

The Old Man and the QE. We see several negative implications for the Indian economy of the US Federal Bank's recent decision to pursue a second round of quantitative easing program (QE2). (1) India's CAD may widen further, (2) inflation may be higher versus expectations, (3) oil under-recoveries may be significantly higher versus FY2011E levels and (4) India's central bank may be forced to respond with unintended monetary policies. We do not rule out a likely bubble in the Indian equities

Cover page bullet. QE2 is not good for India fundamentally

We see higher commodity prices, particularly of crude oil, arising from the Fed's QE2 program hurting India's CAD and GFD (if oil prices are not raised proportionately, which is unlikely). India is vulnerable to high crude oil prices with a US\$1/bbl increase resulting in additional outflow of US\$800 mn. Crude oil prices have risen US\$15/bbl since September 1, 2010 when the market started building in expectations of QE2 following the Fed Chairman's August 27, 2010 speech. India's CAD/GDP could slip by 0.5% in FY2012E (to 4%) if crude oil prices average US\$90/bbl (US\$10/bbl higher versus YTD FY2011 levels) and fiscal deficit could also be modestly higher.

QE2 may have serious implications for Indian government policies

The Indian government and central bank have limited defenses against large capital inflows and higher commodity prices. A moderate level of capital inflows is welcome given India's large CAD. However, excess inflows may result in (1) rupee appreciation (not good for exports and not a good outcome if other competing countries engage in currency wars), and (2) unintended monetary action (rupee versus interest rates). Also, higher commodity prices may result in (1) higher inflation from higher 'imported' inflation (and possibly wealth effect) and (2) delay in ongoing reforms in the oil sector; we can rule out diesel deregulation if oil prices are above US\$90/bbl in FY2012E.

QE2 could create an equities bubble if large FII inflows continue

Additional portfolio inflows may push valuations of stocks to beyond the current fair-to-full levels to 'bubble' valuations. India has seen US\$14 bn of inflows from September 1, 2010 and could potentially see more inflows. At 18.9X FY2011E 'EPS' and 15.7X FY2012E 'EPS' (BSE-30 Index), Indian market is fairly valued with pockets of rich valuations; valuations could spiral up with additional FII inflows. Capital account inflows may offset current account outflows but that leaves more assets in foreign hands with attendant risks of volatile capital flows.

QUICK NUMBERS

- CAD may be near 4% of GDP in FY2012E
- WPI inflation may be 5% at end-FY2012E versus our base-case scenario of around 4%
- FY2012E under-recoveries on oil to balloon to `890 bn without deregulation of diesel prices

Sanjeev Prasad
sanjeev.prasad@kotak.com
Mumbai: +91-22-6634-1229

Indranil Pan
Indranil.pan@kotak.com
Mumbai: +91-22-6634-1245

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

Dramatized conversation with my old man to explain QE2 and its implications

We present the implications of the Fed's QE2 program on the Indian economy through a dramatized conversation between the author of this report and his father (henceforth referred to as the Old Man). The conversation is fictitious but highlights the issues faced by investors and the Indian economy.

Old Man (OM): Hey son, the Indian stock market has gone up a lot over the past two months. Is there anything going on that I should be aware of?

Self: Dad, the Fed just launched QE2 after two months of speculation since late August, 2010.

OM: What's QE2? Isn't it a ship?

Self: Very funny, dad! Now I know where I got my sense of humor from. No, QE stands for quantitative easing program of the US Federal Reserve Bank and since it is the second one, it is known as QE2.

OM: What is it exactly? How does it work?

Self: The Fed essentially prints currency and uses the same to buy US government bonds from holders of the bonds. In the current round of QE, the Fed will buy US\$600 bn of bonds at about US\$75 bn every month.

OM: Wow! That's quite neat! We could all get quite rich like this. Why don't more governments do the same? I could do with some more money.

Self: It's not that simple, dad. If there is money in the system, prices of everything will adjust upward. If the government increased the amount of money held by Indian citizens overnight, it wouldn't help anybody since the amount of products and services in the Indian economy would still remain the same; prices would simply adjust upward. Suppose everybody in the Indian economy had 2X of their current bank deposits and currency. In that case, the price of every product and service will also double.

OM: That's too bad. How does QE2 help in that case?

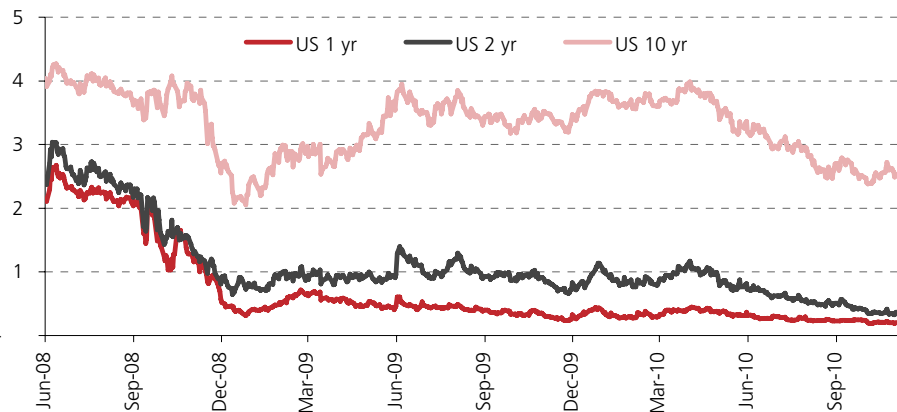
Self: Nobody knows but the US Fed believes that it will help bring down long-term interest rates and encourage companies and individuals to invest more in businesses and other assets that yield more returns rather than in US government bonds only. US policymakers are grappling with high unemployment rates currently and they are keen to use all available resources to revive economic activity and employment. Also, it will help increase inflation in the economy and avoid the dangers of deflation that can be terrible for a seriously indebted economy.

US academicians and economists and even officials within the US Federal Reserve Bank are quite divided on the subject. (1) Some think it is the only option for the US government having exhausted its normal monetary and fiscal programs to stimulate the economy. The Fed's Federal Funds rate (rate at which banks lend to each other) is already near zero for the past 22 months. (2) Others think that it will not work and will only create asset bubbles in other parts of the world.

We certainly know that the US Dollar is the reserve currency of the world to a large extent and its value will depreciate with respect to other currencies in the world leading to US exports hopefully becoming more competitive. Also, prices of most commodities will move up since they are mostly priced in US Dollars. Remember the earlier part of the conversation, where I had highlighted that more money will push the prices of products and services upwards.

However, it is not clear whether the lower rates will incite more investments in the US, which will result in higher employment. That is the single most important problem for the US economy at present with unemployment rates stuck stubbornly at around 9.6%. However, interest rates are already quite low in the US and it is not clear as to how low the rates should be before the economy turns around. The current yield on two-year US bond is only 0.36% (see Exhibit 1). Most economists suggest 30-50 bps impact on 10-year yields (currently at 2.51%).

Yields on US government bonds have declined to very low levels
US government 1-year, 2-year and 10-year bond yields, 2008-10 (%)



Source: Bloomberg data, Kotak Institutional Equities

It is not clear if that will be sufficient to encourage more investments in the US economy (US companies are already sitting on large amounts of cash) or it will result in more money seeking higher returns in other asset classes. Many emerging economies are quite worried about large capital inflows and the destabilizing effect of the same on the country's exchange rate and economy.

OM: That's a lot more complex than I had thought earlier. Wouldn't other countries be upset by a 'devaluation' of the US Dollar against their currencies leading to some attempts by them to devalue their own currencies? Also, if money comes to emerging markets, wouldn't it be good for them?

Self: Right and wrong, dad. Several Asian countries have already expressed their displeasure in varying measures at the recent policy measures. For example, the chairman of the People's Bank of China recently stated that, "We can understand the Fed's QE2 policy, from the angle that it wants to revive the US economy and increase employment. But the problem is the Dollar is the global reserve currency. It may not be the right choice for the global economy, though it is a good option for the US economy." Many emerging economies are export-oriented economies and a devaluation of the US Dollar versus their currencies makes exports from these countries costlier. The US Dollar has depreciated significantly against other currencies ever since the market started building in expectations of QE2. Exhibit 2 shows the movement in the US Dollar Index over the past 24 months.

US Dollar Index has declined significantly over the past two months
US Dollar Index, 2008-10 (X)



Source: Bloomberg data, Kotak Institutional Equities

On more money flowing into emerging markets, it creates problems if the inflows are more than an economy can handle. Many countries are worried about this phenomenon and have been actively considering capital controls to manage capital inflows better. We would see more clarity on this issue when the G-20 heads of states meet in South Korea on November 11-12, 2010. If the money is absorbed as investments in productive assets, it can be a boon. However, it is not easy to absorb so much money suddenly and the increased money supply usually ends up in (1) stock markets in emerging markets, (2) commodities and/or (3) property markets. In that case, it could be a bane.

Also, it encourages more irresponsible behavior if market participants believe that money will continue to flow into their markets (whatever those may be). Investors may no longer invest based on the fundamentals of the company, commodity or real estate market but invest largely on the premise that prices will go up. This results in increased speculation that eventually results in asset bubbles.

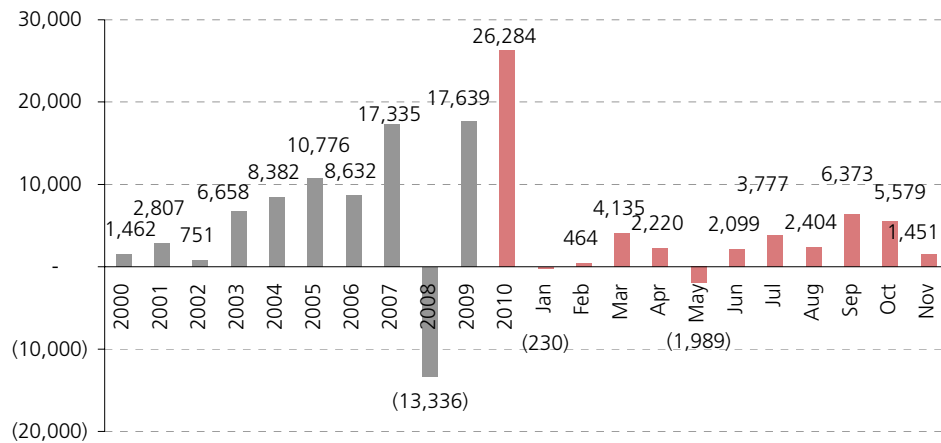
OM: Coming back to India, how will it impact India? Doesn't India require capital inflows?

Self: Based on my limited understanding of this rather complex matter, it could be through several ways. You are right about the fact that India requires capital inflows. However, the issue is the size of the inflows—the economy can handle moderate quantities of inflows and indeed, it requires some inflows given our current account and investment requirements. Very low capital inflows may result in a large BOP deficit with negative implications for the Indian Rupee. Very large inflows can counter-intuitively have a potentially destabilizing impact on the economy and policies.

Let us look at the likely impact of QE2 and resultant additional inflows into the Indian economy.

- ▶ Stock prices may go up higher. If India continues to receive large FII inflows over the next few months, it is quite likely that stock prices will go up from current levels. Valuations are quite rich in India for most stocks but more demand for stocks from foreign funds can push up their prices. India has already seen US\$14 bn of FII inflows since September 1, 2010 (see Exhibit 3) and the stock market has also gone up nicely over this period. I would highlight that the market hadn't moved up much since January 1, 2010 until August 31, 2010. Almost all the gains in the current year have come from the movement in the market after the Fed Chairman's speech on August 27, 2010 at the annual economic symposium at Jackson Hole, Wyoming.

FII's have invested US\$26 bn into the Indian markets in CY2010 so far
 Net FII inflows, calendar year-ends, 2000-10 (US\$ mn)



Source: Bloomberg data, Kotak Institutional Equities

- ▶ India's BOP could potentially worsen. Commodity prices will likely go up since they are mostly traded in US Dollars; that will be a negative for the Indian BOP given India's high imports of crude oil. A US\$1/bbl change in crude oil price impacts India's current account by US\$800 mn. If crude prices average US\$90/bbl in FY2012E, about US\$10/bbl higher than FY2011E average prices, India's FY2012E CAD could touch nearly 4% of GDP. India may also see more foreign inflows due to QE2, which may offset the impact of higher crude prices. Exhibit 4 gives India's FY2012E BOP under two scenarios (crude oil price of US\$81/bbl and US\$90/bbl).

CAD/GDP can widen to nearly 4% with oil at US\$90/bbl; capital account to remain strong
India's balance of payments, March fiscal year-ends, 2008-12E (US\$ bn)

	2008	2009	2010	2011E	2012E	
					Crude@81	Crude@90
Current account	(15.7)	(28.7)	(38.3)	(58.0)	(65.7)	(70.8)
GDP	1,229	1,217	1,328	1,595	1,783	1,803
CAD/GDP (%)	(1.3)	(2.4)	(2.9)	(3.6)	(3.7)	(3.9)
Trade balance	(91.5)	(118.7)	(117.2)	(150.0)	(182.9)	(196.8)
Trade balance/GDP (%)	(7.4)	(9.8)	(8.8)	(9.4)	(10.0)	(10.9)
- Exports	166.2	189.0	182.2	208.0	237.1	242.3
- Imports	257.6	307.7	299.4	358.0	420.0	439.1
o/w Oil imports	79.7	91.3	78.9	102.9	110.0	125.3
o/w Non-oil imports	178.0	216.3	220.5	255.1	310.1	313.8
Invisibles (net)	75.7	89.9	78.9	92.0	117.2	125.9
- Services	38.9	49.6	34.2	46.0	58.7	66.0
o/w Software	36.9	43.5	48.2	52.0	60.3	65.0
o/w Non-software	1.9	6.1	(14.0)	(6.0)	(1.7)	1.0
- Transfers	41.9	44.8	52.1	56.0	65.5	66.9
- Income (net)	(5.1)	(4.5)	(7.4)	(10.0)	(7.0)	(7.0)
Capital account	106.6	7.2	53.7	82.9	85.9	97.0
Capital account/GDP (%)	8.7	0.6	4.1	5.2	4.8	5.4
Foreign investment	43.3	3.5	52.1	47.0	44.0	50.0
- FDI	15.9	17.5	19.7	15.0	17.0	17.0
- FII	20.8	(15.2)	29.0	30.0	25.0	30.0
- ADRs/GDRs	6.6	1.2	3.3	2.0	2.0	3.0
Banking capital	11.8	(3.2)	2.1	7.0	8.0	9.0
- NRI deposits	0.2	4.3	2.9	2.6	3.0	4.0
Short-term credit	15.9	(1.9)	7.7	18.0	20.0	23.0
ECBs	22.6	7.9	2.5	10.0	12.0	14.0
External assistance	2.1	2.6	2.0	4.0	4.0	4.0
Other capital account items	10.8	(1.6)	(12.7)	(3.1)	(2.1)	(3.0)
E&O	1.3	1.4	(1.7)	(1.0)	(1.0)	(1.0)
Overall balance	92.2	(20.1)	13.6	23.9	19.2	25.2
Memo items:						
Average exchange rate (Rs/US\$)	40.26	46.01	47.41	45.50	46.00	45.50
Average Indian crude (US\$/b)	78.2	84.0	70.0	78.0	81.0	90.0

Source: RBI data, Kotak Institutional Equities estimates

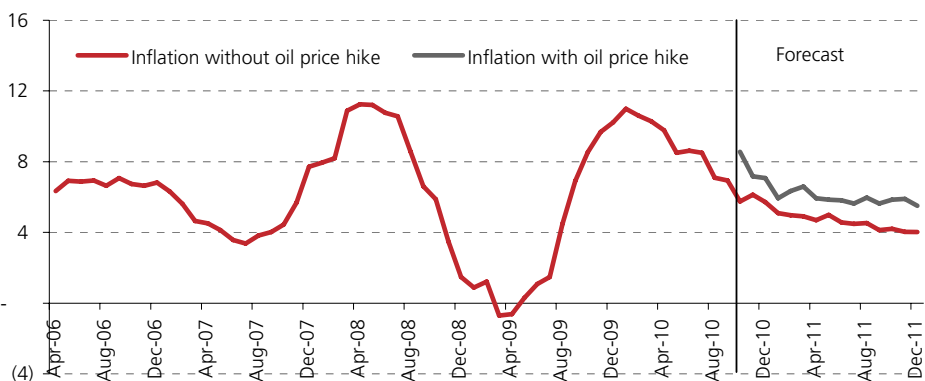
Please note that crude oil prices have already gone up 21% since September 1, 2010, at the time the market started building in expectations of QE2. However, the amount of foreign capital inflows is not certain. I expect the large amounts of FII flows seen in the past few months to continue over the next few months due to large global liquidity. However, that is not a given. These capital flows, welcome as they are, do expose India to the vagaries of foreign capital flows.

- Inflation could remain high contrary to expectations. Higher commodity prices, particularly of oil and steel, will likely lead to higher input prices for several fuels and manufactured products. Also, large inflows may create artificially high prices of equities and real estate leading to 'wealth effect' among households and more aggressive consumption. This may push up prices of certain products and services higher.

My analysis shows that India may have to raise diesel prices by ₹5/liter (that's 12.5% of current selling prices) and gasoline prices by ₹4.7/liter (8.3% of current selling prices) for oil marketing companies to earn reasonable marketing margins. This will push up inflation in India since diesel is an important transportation fuel for the economy.

However, the good thing is that inflation may still come down from current high levels due to a high base currently. Exhibit 5 shows likely inflation trajectory with corresponding price increases in diesel and gasoline to match the increase in global crude oil prices (average US\$90/bbl in FY2012E). Low inflation in general in FY2012E due to base effects may allow the government to raise prices of diesel and limit the impact of higher under-recoveries on its own finances and those of the government-owned oil companies.

Petrol and diesel price hikes may push up the inflation trajectory in FY2012E
WPI inflation (yoy change), 2006-12E (%)



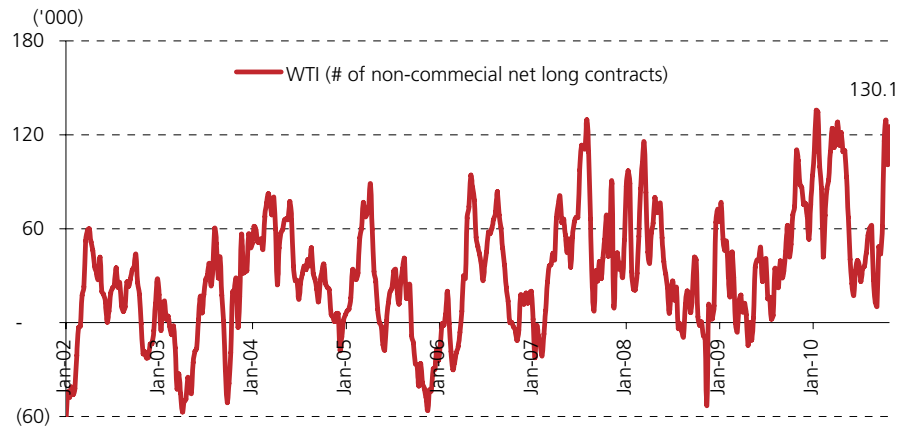
Notes:

(a) For inflation with oil price hike, crude oil is assumed at US\$90/bbl; base case at US\$81/bbl.

Source: Gol data, Kotak Institutional Equities estimates

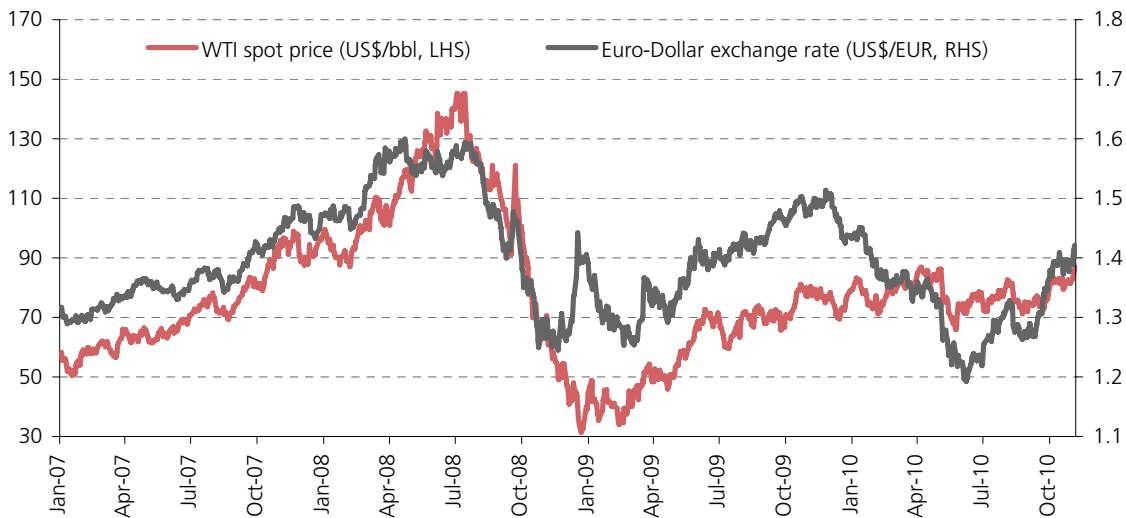
- Oil under-recoveries will likely increase. Crude oil prices have already gone up 21% since September 1, 2010, at the time the market started building in expectations of QE2. It is not as if global supply-demand balance of crude oil has changed so dramatically over the past few months. However, speculators have invested aggressively in crude oil futures (see Exhibit 6) in anticipation of QE2 and depreciation of the US Dollar. Exhibit 7 shows the increase in crude oil prices and depreciation in the US Dollar at the same time over the past few years; the inverse correlation has been quite high over the past two weeks.

Speculative net long positions remain at historic high levels
 WTI non-commercial futures contracts, 2002-10 (#)



Source: Bloomberg data, Kotak Institutional Equities

Crude oil prices and US Dollar have shown high inverse correlation
 Movement in crude oil price and US Dollar-Euro exchange rate



Source: Bloomberg data, Kotak Institutional Equities

Oil under-recoveries in FY2012E may be significantly higher versus FY2011E levels if crude oil prices remain high (US\$90/bbl and higher) and the government is not able to deregulate retail prices. Under such a scenario, the government may have to dole out more compensation to the downstream oil companies in order to protect their financials. This would also impact inflation indirectly through likely higher government borrowing. Even if the government deregulates diesel prices (and that is a big if), the government's compensation at US\$90/bbl crude oil price would amount to ₹250 bn (see Exhibit 8) versus ₹206 bn at a crude oil price of US\$81/bbl (our base-case scenario). If the government is unable to deregulate diesel prices, then the required compensation would be much higher. The under-recovery on diesel alone could amount to ₹388 bn at US\$90/bbl (see Exhibit 9).

Required compensation from the government may increase at higher levels of crude oil prices
Share of various participants of under-recoveries, March fiscal year-ends, 2007-12E (Rs bn)

	2007	2008	2009	2010	2011E	2012E	
Dated Brent crude oil price (US\$/bbl)	65	79	89	67	79	81	90
Gross under-recoveries	521	798	1,061	490	621	436	503
Payment by government (direct budgetary support)	27	27	29	30	32	32	32
Payment by government (oil bonds/cash)	241	353	713	260	330	206	250
Share of BPCL	53	86	162	53	75	47	29
Share of HPCL	49	77	147	56	72	45	28
Share of IOCL	138	190	404	152	183	114	72
Receipt from upstream companies	205	257	329	144	196	135	157
Share of ONGC	170	220	282	116	160	110	128
Share of GAIL	15	14	18	13	15	10	12
Share of Oil India	20	23	29	15	21	15	17
Net under-recovery of OMCs	48	161	(10)	56	63	63	64

Notes:

(a) We assume deregulation of diesel from April 1, 2011.

Source: Kotak Institutional Equities estimates

Under-recoveries could increase sharply without diesel deregulation

Subsidy loss breakdown at various levels of crude oil price, March fiscal year-end, 2012E (Rs bn)

Dated Brent crude oil price (US\$/bbl)	81	85	90
LPG	259	278	301
Kerosene	176	187	201
Diesel	198	282	388
Total subsidy loss	633	748	891

Notes:

(a) Subsidy losses assuming current domestic retail prices.

Source: Kotak Institutional Equities estimates

- ▶ Diesel deregulation may get impacted, which may also affect the chances of proposed divestments in the government-owned oil companies. The government's stated intention to deregulate the pricing of diesel may get impacted if crude oil prices remain very high. At US\$90/bbl, the under-recovery on diesel will increase to ₹5/liter and on gasoline to ₹4.7/liter without any change to their retail prices. At US\$81/bbl, the under-recovery amount is a more manageable ₹2.5/liter for diesel. The government may find it tough to deregulate diesel prices in such a scenario although low inflation in general in the economy may allow it some leeway to raise prices in FY2012E. It would be critical for the government to deregulate diesel prices if it intends to sell 10% stake in Indian Oil Corp. (IOCL) and IOCL plans to sell another 10% stake in an FPO.
- ▶ RBI may have to respond through unintended monetary policies. It appears that the RBI has allowed unfettered Rupee appreciation over the past few months as an offsetting factor against higher global commodity prices in order to combat high inflation. However, this may be tested with the steep appreciation in commodity prices over the past two weeks and upside risks to commodity prices from QE2. A Rupee appreciation may not be enough to offset higher commodity prices and this policy has its limitations in curbing inflation in that it impacts exports negatively.

If capital inflows do not match the outgo arising from higher commodity prices, then it may impact India's BOP quite negatively leading to a possible weakening of the Indian Rupee. I see low probability of this event—foreign inflows will likely be large but as highlighted earlier, it does increase the exposure of the economy and the stock market to volatile capital flows. An outflow of foreign capital will likely be quite painful for the economy and the stock market.

It is more probable that India receives large foreign inflows. In such a scenario, RBI may need to manage the Rupee against undue appreciation. The RBI may have to intervene and buy US Dollars, which would push up domestic liquidity. It may then have to issue bonds (known as Market Stabilization Scheme—MSS) to absorb the surplus liquidity thus created. It can also use the CRR to reduce liquidity in the system. However, the RBI's decision to suck out liquidity through issue of MSS bonds (sterilize, in other words) or not will depend on the aggregate liquidity conditions.

OM: Hmm! I don't understand most of this but this doesn't sound like it is such a good thing for India. What should I do with my stocks since you are the stock market 'expert'?

Self: I am sorry, dad. I can't tell you that. You are not a client and my compliance regulations strictly forbid me from sharing information and views with people who are not our clients.

NOVEMBER 08, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **3,425**

Target price (Rs): **3,500**

BSE-30: **21,005**

Strong margins neutralize provisioning impact. SBI reported a strong quarter on margins, which further improved by 25 bps over last quarter to 3.43%, resulting in an NII growth of 44% yoy. However, slippages continued to remain high (at ₹44bn, 2.7%) and were somewhat disappointing resulting in higher provisions and lower profits. We expect the stock price to correct in the near term, as result expectations were running high coupled with a very strong price performance in recent times. Retain positive view. Stock trades at 2x FY2012E PBR for core banking business. BUY with a TP of ₹3,500.

Company data and valuation summary

State Bank of India

Stock data

52-week range (Rs) (high,low) 3,500-1,863

Market Cap. (Rs bn) 2,215.7

Shareholding pattern (%)

Promoters 59.4

FIs 17.1

MFs 4.1

Price performance (%)

Absolute 1M 3M 12M 7.5 33.2 58.3

Rel. to BSE-30 3.6 15.1 21.8

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	144.4	176.6	224.1
EPS growth (%)	0.5	22.3	26.9
P/E (X)	24.2	19.8	15.6
NII (Rs bn)	236.7	322.5	370.5
Net profits (Rs bn)	91.7	112.1	142.3
BVPS	1,038.8	1,183.7	1,368.0
P/B (X)	3.4	2.9	2.6
ROE (%)	14.8	15.9	17.6
Div. Yield (%)	0.9	0.9	1.0

QUICK NUMBERS

- NIMs impressive at 3.4% for the quarter; up 25 bps qoq
- Slippages disappoint at 2.7%
- Financials for the quarter include SBI Indore

Earnings cushioned by strong margins despite higher provisioning impact

SBI is an ideal bank at times of tight systemic liquidity and it continues to improve its liability profile by mobilizing CASA deposits at a very aggressive pace, resulting in steady funding costs and high margins. The management appeared very confident of sustaining NIMs at current elevated levels due to its improved funding mix. On NPLs, slippages have remained high even during this quarter resulting in larger provisions. We believe that slippage will remain high over next few quarters, but recoveries/upgradations will pick up over time. We expect provisions to remain high as its needs to catch up with regulatory requirements and likely higher slippages. However, we expect higher margins to neutralize the impact of higher provisions. We reduce earnings by 1% in FY2011E, but increase earnings by 6-8% for FY2012E and FY2013E, factoring in the State Bank of Indore merger, higher margins and stable cost-income ratios. Retain BUY with a TP of ₹3,500.

Margins continue to impress at 3.4% led by higher lending yields

Margins further improved by 25 bps qoq to 3.43%, on back of rising lending yields (20 bps qoq to 9.5%) coupled with stable funding costs (at 53%). Credit-deposit ratio for the quarter remained flat at 80% (domestic CD ratio at 75%). CASA mobilisation continued to remain very strong with savings deposit growth of 31%. CASA% at 47% gives strong comfort on its ability to sustain margins at higher levels. Management guides of sustaining margins at current levels, on back of a reasonable pricing power owing to tighter liquidity coupled with stable funding costs.

Growth in line with the industry - aided by State bank of Indore merger

Overall loans grew by 19.5% yoy (broadly in line with industry) and 4.4% qoq to ₹6.9 tn as of September 2010; growth for the quarter led by the merger with SBI Indore. Retail continues to dominate growth (housing, auto and education loans) while international loans were subdued mainly due to negative impact of currency movement. Growth in mid corporate/SME segment has improved compared to 1QFY11 at 20% levels. However, focus on shedding bulk deposits and excess liquidity in the balance sheet resulted in deposits growth subdued at 11% yoy and 5% qoq (mainly due to SBI Indore) at ₹8.5 tn.

Manish Karwa

manish.karwa@kotak.com
Mumbai: +91-22-6634-1350

M B Mahesh

mb.mahesh@kotak.com
Mumbai: +91-22-6634-1231

Nischint Chawathe

nischint.chawathe@kotak.com
Mumbai: +91-22-6634-1545

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

Savings deposits growth commendable; maintained CASA share at 48% qoq

For the quarter, SBI has maintained its CASA ratio at 48% as of September 2010. However, the bank continues to impress on mobilizing savings deposits - it is adding about ₹80 bn of savings deposits every month, resulting in savings deposits growing by 32% yoy. Growth in current account deposits has been slower at 14% yoy.

Slippages rise across all segments; rise in NPL partly due to merger

2QFY11 saw a sharp rise in slippages at ₹44 bn (2.7% annualized) with about 4% slippages each in SME/agri, select corporate and restructured loans. Slippages for the quarter include ₹2.5 bn for Dubai World, ₹ 6 bn from restructured SME loans and ₹2.1 bn from agriculture. For the quarter gross NPLs increased by 11% qoq to ₹232 bn (3.4% of loans) while net NPLs increased by 5% qoq to ₹116 bn (1.7% of loans). SBI Indore resulted in an addition of ₹ 8.5 bn or 35% of the incremental change in NPLs for the quarter.

Slippages (including gross additions of SBI Indore) witnessed in retail, agriculture and SME in 2QFY11

	Corporate	International	SME	Agri	Retail	Total
Slippages (Rs bn)	19	5	12	10	7	53
Loans - One quarter lag (Rs bn)	2,324	1,052	1,129	634	1,394	6,532
Slippages (% , annualised)	3.3	2.0	4.2	6.0	2.0	3.2

Source: Kotak Institutional Equities

Loan loss provisions remain high; slippage from restructured loans at 15%

Provision coverage (including write-off) improved by about 200 bps to 63% in September 2010 from 61% in June 2010 while has increased by 320 bps qoq to 50% ex write-off. Loan loss provisions for the quarter remained high at 1.3% compared to 1.1% in 1QFY11. The bank wrote off nearly ₹ 8 bn of loans in the current quarter. We see provisions declining from FY2012 as slippages eases from current levels as well as the bank complete meeting its regulatory requirements. The bank's outstanding restructured book was at ₹307 bn (4.5% of loans). Slippage from the restructured book (special dispensation) has increased to 14.5%, emerging mainly from SME portfolio. While provisions continues to remain higher, the strong margins of over 3.3% is currently providing adequate cushion without seriously impairing return ratios.

Cost-income ratio at 48%; one-offs continue

Cost-income ratio for the quarter was at 48%, ahead of expectations, as the bank made higher retirement provisions while non-staff expenses continues to remain at elevated levels. The bank provided ₹3 bn for revised gratuity benefits during the quarter (1HFY11 at ₹14 bn against an estimated liability of ₹22 bn). Revised pension benefit for SBI Indore was taken through the subsidiaries profits at the time of merger. Hence, there is unlikely to be a material impact going forward. We are building improvement in cost-income ratio at 46% in FY2012 to factor 1) Completion of peak infrastructure investments 2) revision in staff costs reported in FY2010-11 (catch up to 17.5% wage revision and revised retirement benefits)

State Bank of Indore merger impacts consolidated earnings

As on the date of merger, SBI Indore has taken charges to its P&L to align the staff retirement benefits to SBI and meet regulatory provision coverage ratios. SBI Indore reported a loss of ₹9 bn (₹6 bn liability was estimated for revised pension benefits) in the current quarter to account for these differences. This has resulted in consolidated earnings for the quarter being lower than stand-alone earnings. Advances declined to ₹216 bn compared to ₹232 bn in June 2010. Gross NPLs have increased to ₹ 8.5 bn from ₹5.8 bn in June 2010.

Other key financial highlights in 2QFY11

- ▶ Treasury income was ₹1.97 bn (down 64% yoy). Fee income was at ₹29.5 bn — a strong growth of 40% yoy mainly due to higher transaction banking fees.
- ▶ Consolidated earnings declined by 22% yoy to ₹24.3 bn for 2QFY11 mainly due to higher charges taken for the merger with SBI Indore. Consolidated NII grew 46% to ₹115 bn. SBI Life has recorded a profit of ₹1.03 bn for 2QFY11 while SBI Capital Markets posted a profit of ₹1.1 bn.

SBI SOTP valuation based on FY2012E

	SBI holding (%)	NW FY2012E (Rs mn)	Multiple assumed (X)	Value FY2012 (Rs mn)	Value per share FY2012 (Rs)	Methodology adopted
SBI standalone					2,847	Residual income model
Non banking subsidiaries and investments						
SBI Life				85,195	134	Based on appraisal value
SBI MF	63%			13,572	21	4% of AUM of Rs37.4 tn (20% CAGR - AUM)
NSE	8%			14,976	24	NSE value at Rs130 bn (last transaction)
UTI MF	17%			3,966	6	4% of Rs583 bn AUM (20% AUM growth over FY2010)
SBI Caps	86%			18,731	30	12X 2012 PAT
SBI DFHI	57%			6,892	11	1X FY2012 networkth
Value of all non-bank subsidiaries					227	
SBI Associate banks						
State Bank of Bikaner and Jaipur	75%	22,918	1.7	38,960		BV multiple based on RoE
State Bank of Hyderabad	100%	50,632	1.7	86,075		BV multiple based on RoE
State Bank of Mysore	92%	36,223	1.7	61,579		BV multiple based on RoE
State Bank of Patiala	100%	40,057	1.7	68,097		BV multiple based on RoE
State Bank of Travancore	75%	27,977	1.7	47,560		BV multiple based on RoE
Banking subsidiaries and associates		197,866		302,271		
post discount of 10%		178,079		272,044	428	
Value of all subsidiaries					655	
Total value of the bank					3,502	

Source: Kotak Institutional Equities

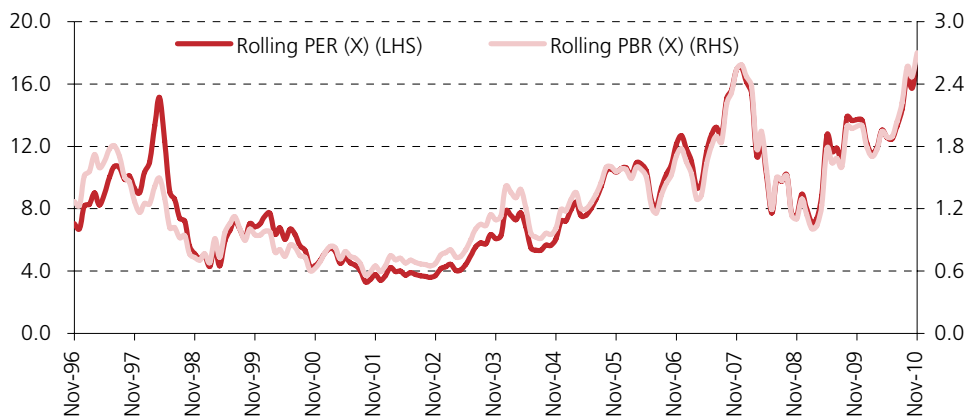
We revise our estimates by 6-8% in FY2012-13E

Old and new estimates, March fiscal year-ends, 2010-2013E, Rs mn

	Old estimates			New estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
NII post invt amortization	309,863	363,074	421,340	322,506	370,529	433,110	4.1	2.1	2.8
Loan growth	21.8	20.7	20.0	18.7	20.7	20.0			
NIM assumed (%)	2.8	2.8	2.7	2.9	2.8	2.8			
Loan loss provisions	70,081	84,942	91,985	86,357	86,883	89,606	23.2	2.3	(2.6)
Other income	158,762	181,181	201,952	162,231	186,398	209,284	2.2	2.9	3.6
Fee income	110,870	126,392	142,823	115,690	131,887	150,351	4.3	4.3	5.3
Treasury income	12,000	15,000	15,000	10,000	14,000	14,000	(16.7)	(6.7)	(6.7)
Operating expenses	222,628	249,509	283,907	226,549	253,409	292,512	1.8	1.6	3.0
Employee expenses	138,574	155,203	173,827	142,496	159,104	182,433	2.8	2.5	5.0
Investment depreciation	1,500	2,500	2,500	3,000	2,500	2,500	100.0	-	-
PBT	168,417	200,104	236,260	167,330	212,334	255,616	(0.6)	6.1	8.2
Tax	55,578	66,034	77,966	55,219	70,070	84,353	(0.6)	6.1	8.2
Net profit	112,839	134,069	158,294	112,111	142,264	171,263	(0.6)	6.1	8.2
PBT - treasury+loan loss provisions	227,998	272,546	313,245	246,687	287,717	333,722	8.2	5.6	6.5

Source: Kotak Institutional Equities

State Bank of India: Rolling PER (X) and PBR (X)
November 1996-November 2010



Source: Kotak Institutional Equities

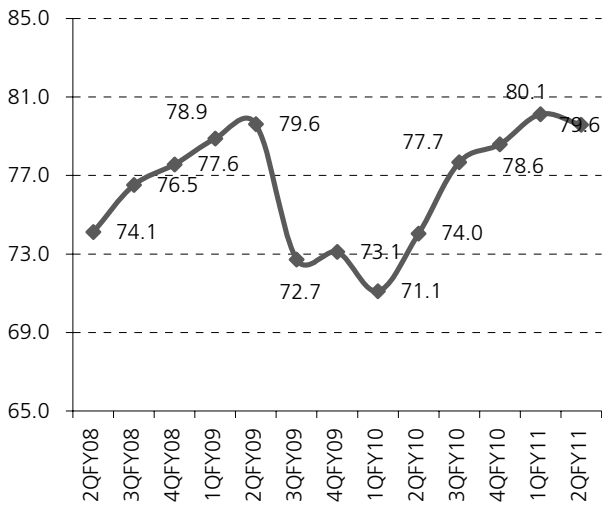
SBI quarterly results

March fiscal year-ends, 2QFY10 - 2QFY11, Rs mn

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	% chg	2QFY11E	Actual Vs KS
Income earned	177,759	177,797	179,658	184,521	198,081	11	194,483	2
Income on advances	126,688	126,394	129,673	134,221	145,808	15	143,257	2
Income on investments	45,121	44,333	44,523	44,722	48,044	6	45,370	6
Interest on balance with RBI	5,949	7,070	5,461	5,578	4,230	(29)	5,857	(28)
Interest expense	121,671	114,634	112,441	111,484	116,932	(4)	116,861	0
Nil adjt for invest. amortization	56,088	63,163	67,217	73,037	81,149	45	77,621	5
Other income	35,252	33,657	45,085	36,900	40,052	14	37,420	7
Fees, commission	21,030	21,900	34,858	24,096	29,451	40		
Invnt. income	5,454	4,370	4,256	1,734	1,973	(64)	1,734	14
Forex income	5,237	4,036	1,895	5,025	3,087	(41)		
Dividend	1,682	-	471	3,772	2,877	71		
Other income excl. treasury	29,798	31,894	40,829	35,166	38,079	28	35,686	7
Total income	91,340	96,820	112,302	109,937	121,201	33	115,042	5
Operating expenses	42,990	50,639	60,361	48,593	57,631	34	50,503	14
Staff expenses	23,602	25,376	28,266	14,507	28,545	21	15,957	79
Pension contributions	2,739	5,799	7,652	16,233	8,213	200	16,233	(49)
Other operating expenses	16,648	19,464	24,443	17,854	20,873	25	18,313	14
Pre-provision operating profit	48,350	46,181	51,941	61,344	63,570	31	64,539	(2)
Provisions and extraordinary	10,161	8,566	23,494	15,514	26,215	158	20,730	26
Loan loss provisions	9,974	4,437	21,868	17,334	21,625	117	19,067	13
Standard assets	(87)	23	725	1,059	146	(268)		
Investment depreciation	(494)	2,458	356	(2,983)	4,318	(974)		
Other provisions	767	1,649	546	104	126	(84)	104	22
PBT	38,189	37,615	28,447	45,830	37,355	(2)	43,808	(15)
Less tax	13,289	12,824	9,779	16,688	12,342	(7)	14,457	(15)
Profit after tax	24,900	24,791	18,668	29,142	25,014	0	29,352	(15)
Fees to PBT (%)	55.1	58.2	122.5	52.6	78.8			
Treasury income/PBT (%)	15.6	5.1	13.7	10.3	(6.3)			
Cost income ratio (%)	47.1	52.3	53.7	44.2	47.5			
Tax rate (%)	34.8	34.1	34.4	36.4	33.0			
Key balance sheet data (Rs bn)								
Advances gross	5,802	6,072	6,415	6,638	6,932	19		
Advances net	5,722	5,989	6,319	6,532	6,807	19		
Deposits	7,729	7,710	8,041	8,153	8,553	11		
Low cost deposits (%)	41.0	42.9	46.7	47.5	47.8			
Investments	3,080	2,810	2,858	2,800	2,855	(7)		
Yield management ratios (%)								
Cost of deposits	6.1	5.9	5.8	5.3	5.3			
Yield on advances	10.0	9.8	9.7	9.3	9.5			
Yield on resources	6.5	6.5	6.5	6.8	6.9			
Net interest margin (Reported, Qtly)	2.4	2.6	2.7	3.2	3.3			
Net interest margin (Reported)	2.7	2.9	3.0	3.2	3.4			
Asset quality details								
Gross NPLs (Rs bn)	174	189	195	208	232	34		
Gross NPLs (%)	3.0	3.1	3.1	3.1	3.4			
Net NPLs (Rs bn)	99	113	109	111	116	17		
Net NPLs (%)	1.7	1.9	1.7	1.7	1.7			
Slippages	67.2	26.2	25.0	40.8	44.1			
Provision Coverage (%)	42.9	40.2	44.4	46.8	50.0			
Provision coverage (inc tech w/o, %)	59.1	59.2	59.2	60.7	62.8			
Restructured loans	240	260	268	269	307			
% of loans	4.2	4.3	4.2	4.1	4.5			
Slippage-restructured (%)		5.9	9.6	10.6	14.5			
Capital adequacy details (%)								
CAR	14.1	13.8	13.4	13.5	13.20			
Tier I	9.8	9.7	9.5	9.8	9.62			

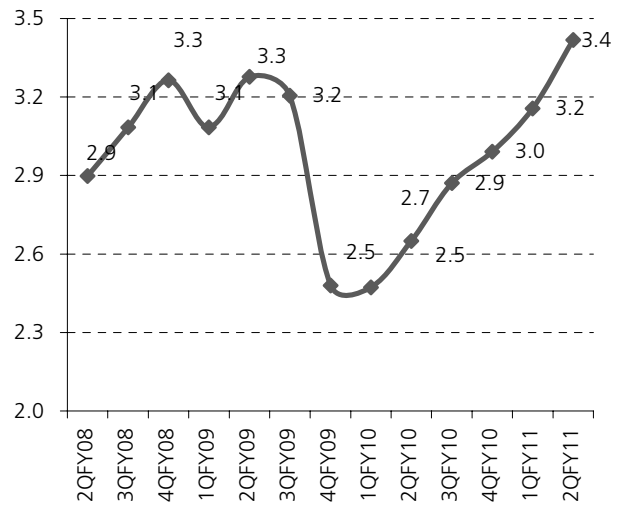
Source: Kotak Institutional Equities

Credit / Deposit Ratio - implying better margin trend
March fiscal year-ends, 2QFY08-2QFY11, (%)



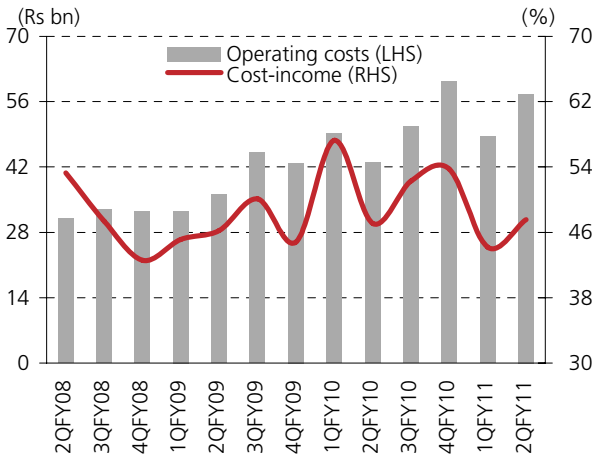
Source: Kotak Institutional Equities, Company

NIMs are on an improving trend
March fiscal year-ends, 2QFY08-2QFY11, (%)



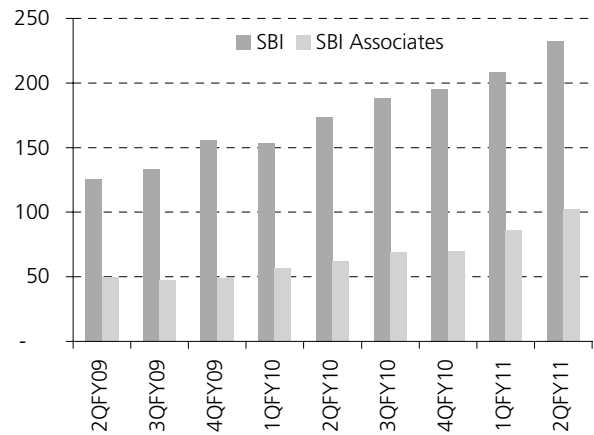
Source: Kotak Institutional Equities, Company

Heavy costs mainly due to investments on branches, employees
Operating costs and cost-income ratio, March fiscal year-end, 4QFY08-2QFY11



Source: Kotak Institutional Equities, Company

Asset quality has been under pressure
Gross NPA for SBI and associates, March fiscal year-end, 2QFY09-2QFY11 (₹ mn)



Source: Kotak Institutional Equities, Company

SBI forecasts and valuation
March fiscal year-ends, 2008-2013E

	Net int. income	PAT	EPS	P/E	BVPS	P/B	BVPS incl banking subs.	P/B Cons banking book	RoE
		(Rs mn)	(Rs)	(X)	(Rs)	(X)	(Rs)	(X)	(%)
2008	170,212	67,291	106.6	32.8	772	4.5	954	3.7	16.8
2009	208,731	91,212	143.7	24.3	913	3.8	1,122	3.1	17.1
2010	236,714	91,661	144.4	24.2	1,039	3.4	1,295	2.7	14.8
2011E	322,506	112,111	176.6	19.8	1,184	2.9	1,492	2.3	15.9
2012E	370,529	142,264	224.1	15.6	1,368	2.6	1,677	2.1	17.6
2013E	433,110	171,263	269.8	12.9	1,596	2.2	1,928	1.8	18.2

Source: Kotak Institutional Equities, Company

SBI --growth rates and key ratios
 March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan	23.5	30.2	16.5	18.7	20.7	20.0
Total Asset	27.4	33.7	9.2	18.9	17.2	17.2
Deposits	23.4	38.1	8.4	23.9	20.7	20.0
Current	19.7	12.9	10.7	19.8	22.8	22.0
Savings	19.4	28.5	29.9	22.0	18.8	18.1
Fixed	27.0	51.9	(2.1)	26.3	21.3	20.6
Net interest income	13.0	22.6	13.4	36.2	14.9	16.9
Loan loss provisions	27.2	5.5	92.9	65.2	0.6	3.1
Total other income	28.6	46.1	17.9	8.4	14.9	12.3
Net fee income	23.1	28.8	26.6	20.0	14.0	14.0
Net capital gains	(1,397.4)	171.2	(17.5)	(52.8)	40—	—
Net exchange gains	109.0	70.2	34.6	15.0	10.0	10.0
Operating expenses	6.6	24.1	29.8	11.5	11.9	15.4
Employee expenses	(1.8)	25.2	30.9	11.7	11.7	14.7
Key ratios (%)						
Yield on average earning assets	8.2	8.1	7.4	7.5	7.7	7.9
Yield on average loans	9.3	9.7	8.6	8.6	8.7	8.8
Yield on average investments	7.4	7.0	6.6	6.7	6.8	6.9
Average cost of funds	5.6	5.8	5.3	5.0	5.2	5.4
Interest on deposits	5.6	5.9	5.6	5.2	5.4	5.5
Difference	2.6	2.3	2.1	2.6	2.5	2.5
Net interest income/earning assets	2.8	2.6	2.5	2.9	2.8	2.8
New provisions/average net loans	0.7	0.6	0.9	1.3	1.1	0.9
Interest income/total income	66.2	62.2	61.3	66.5	66.5	67.4
Fee income to total income	23.0	22.7	25.0	23.9	23.7	23.4
Operating expenses/total income	49.1	46.6	52.6	46.7	45.5	45.5
Tax rate	35.5	35.7	34.2	33.0	33.0	33.0
Dividend payout ratio	20.2	20.2	20.8	18.1	15.2	13.3
Share of deposits						
Current	18.3	14.9	15.2	14.7	15.0	15.2
Fixed	53.0	58.4	52.7	53.7	54.0	54.2
Savings	28.7	26.7	32.0	31.5	31.0	30.5
Loans-to-deposit ratio	77.6	73.1	78.6	75.3	75.3	75.3
Equity/assets (EoY)	6.8	6.0	6.3	6.0	5.9	5.9
Dupont analysis (%)						
Net interest income	2.6	2.5	2.3	2.8	2.7	2.7
Loan loss provisions	0.4	0.3	0.5	0.7	0.6	0.6
Net other income	1.3	1.5	1.5	1.4	1.4	1.3
Operating expenses	2.0	1.9	2.0	2.0	1.9	1.8
Invt. depreciation	(0.0)	0.1	(0.1)	—	—	—
(1- tax rate)	64.5	64.3	65.8	67.0	67.0	67.0
ROA	1.0	1.1	0.9	1.0	1.0	1.1
Average assets/average equity	16.0	15.8	16.3	16.3	16.8	17.0
ROE	16.8	17.1	14.8	15.9	17.6	18.2

Source: Kotak Institutional Equities

SBI –P&L and balance sheet

March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total interest income	489,503	637,884	709,939	830,711	1,011,980	1,213,071
Loans	352,281	464,047	506,326	595,798	723,112	879,816
Investments	119,442	155,741	177,363	210,346	261,789	303,047
Total interest expense	319,291	429,153	473,225	508,206	641,452	779,961
Net interest income	170,212	208,731	236,714	322,506	370,529	433,110
Loan loss provisions	25,679	27,098	52,279	86,357	86,883	89,606
Net interest income (after prov.)	144,533	181,634	184,435	236,149	283,646	343,504
Other income	86,839	126,908	149,682	162,231	186,398	209,284
Net fee income	59,143	76,172	96,409	115,690	131,887	150,351
Net capital gains	9,463	25,667	21,168	10,000	14,000	14,000
Net exchange gains	6,927	11,792	15,871	18,252	20,077	22,085
Operating expenses	126,086	156,487	203,187	226,549	253,409	292,512
Employee expenses	77,859	97,473	127,546	142,496	159,104	182,433
Depreciation on investments	(887)	7,072	(9,880)	3,000—	2,500—	2,500—
Other Provisions	1,894	3,176	1,549	1,500	1,800	2,160
Pretax income	104,389	141,806	139,261	167,330	212,334	255,616
Tax provisions	37,098	50,594	47,600	55,219	70,070	84,353
Net Profit	67,291	91,212	91,661	112,111	142,264	171,263
% growth	48.2	35.5	0.5	22.3	26.9	20.4
PBT - Treasury + Provisions	121,612	153,485	162,041	248,187	289,517	335,882
% growth	20.73	26.21	5.57	53.16	16.65	16.01
Balance sheet						
Cash and bank balance	674,663	1,044,038	961,816	915,506	1,018,705	1,138,979
Cash	32,203	42,955	68,410	68,410	68,410	68,410
Balance with RBI	483,143	512,507	544,476	498,166	601,366	721,639
Balance with banks	37,135	116,152	121,511	121,511	121,511	121,511
Net value of investments	1,895,013	2,759,540	2,857,901	3,715,415	4,217,595	4,828,587
Govt. and other securities	1,407,340	2,262,175	2,267,060	3,135,584	3,637,764	4,248,756
Shares	45,025	45,904	71,994	71,994	71,994	71,994
Debentures and bonds	176,288	148,890	161,274	161,274	161,274	161,274
Net loans and advances	4,167,682	5,425,032	6,319,142	7,497,900	9,051,160	10,861,392
Fixed assets	33,735	38,378	44,129	47,271	49,295	38,166
Other assets	444,170	377,333	351,128	351,128	351,128	351,128
Total assets	7,215,263	9,644,321	10,534,115	12,527,220	14,687,883	17,218,251
Deposits	5,374,060	7,420,731	8,041,162	9,963,317	12,027,311	14,432,773
Current	981,335	1,107,536	1,225,794	1,468,991	1,803,374	2,200,131
Fixed	2,850,411	4,330,953	4,240,765	5,354,108	6,493,330	7,828,078
Savings	1,542,293	1,982,243	2,574,603	3,140,218	3,730,607	4,404,564
Borrowings and bills payable	921,767	1,029,880	1,241,099	1,241,099	1,241,099	1,241,099
Other liabilities	429,110	614,233	592,361	571,269	550,927	531,310
Total liabilities	6,724,936	9,064,844	9,874,622	11,775,684	13,819,337	16,205,182
Total shareholders' equity	490,327	579,477	659,492	751,535	868,546	1,013,069

Source: Kotak Institutional Equities

NOVEMBER 08, 2010
RESULT

Coverage view: **Attractive**

Price (Rs): **216**

Target price (Rs): **205**

BSE-30: **21,005**

Strong growth traction drives core earnings. IDFC reported PAT of Rs3.4 bn, up 16% yoy and 4% above estimates. Steady traction in lending and non-lending activities has driven earnings; contribution of capital gains was low. Strong loan growth (56% yoy and 19% qoq), largely from lending to transportation and energy sectors, was the key positive highlight of the quarter. We will revisit our estimates after today's concall.

Company data and valuation summary

IDFC				Forecasts/Valuations				
Stock data				2010	2011E	2012E		
52-week range (Rs) (high,low)		218-141		EPS (Rs)	8.4	9.4	11.2	
Market Cap. (Rs bn)		314.3		EPS growth (%)	44.9	12.4	18.7	
Shareholding pattern (%)				P/E (X)	25.7	22.9	19.3	
Promoters		0.0		NII (Rs bn)	11.6	15.2	19.7	
FIs		51.3		Net profits (Rs bn)	10.9	13.8	16.9	
MFs		3.7		BVPS	46.5	71.3	85.6	
Price performance (%)				P/B (X)	4.6	3.0	2.5	
		1M	3M	12M	ROE (%)	16.6	15.5	14.3
Absolute		4.1	19.0	36.7	Div. Yield (%)	0.6	0.8	1.0
Rel. to BSE-30		0.4	2.8	5.1				

QUICK NUMBERS

- **PAT up 16% yoy, 4% above estimates**
- **Loan growth -56% yoy and 19% qoq**

Strong growth in lending

IDFC's loan book was up 56% yoy to Rs343 bn – up 19% qoq on the back of 15% qoq growth delivered in 1QFY11. Approvals and disbursements were up over 200% yoy. About 40% of IDFC's incremental business was driven by the energy sector. Transportation, a sector that was sluggish for a couple of quarters, reported strong traction accounting for about 40% of incremental business. IDFC's management has highlighted that some of its large-ticket loans will likely be sold down in the subsequent quarters, as such its annual growth rate will likely moderate from the current levels.

NIM appears to have declined qoq despite a capital issuance of about Rs35 bn (48% of opening net worth) during the quarter. Large lending (which will likely be sold down) has likely tempered margins. We will seek more guidance from IDFC's management on their balance sheet strategy and medium-term margins.

Strong quarter for investment banking, lower income from AMC business

Strong loan growth has also driven IDFC's core fee income (linked to the lending business) - up 234% yoy.

Investment banking business was in sweet spot with income of Rs590 mn in 2QFY11 as against Rs220 mn in 1QFY11. Income from institutional equities business was almost flat qoq – Rs150 mn in 2QFY10 as compared to Rs140 mn in 1QFY11.

IDFC Mutual Fund's AUMs were down almost 12% qoq. However, mutual fund income reported a sharper (39%) qoq decline to Rs170 mn. Aggregate asset management income was up - Rs750 mn in 2QFY11 from Rs650 mn in 1QFY11. However, the company has booked carry income of Rs190 mn during 2QFY11. Excluding the same, core income was down qoq.

Nischint Chawathe
nischint.chawathe@kotak.com
Mumbai: +91-22-6634-1545

Manish Karwa
manish.karwa@kotak.com
Mumbai: +91-22-6634-1350

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

Asset quality performance was stable

IDFC's NPLs were stable during the quarter - gross NPL ratio was 0.23%. However, the company made large provisions of Rs515 mn as compared to our estimate of Rs350 mn. Notably, IDFC's provisioning policy for standard assets is linked to disbursements. Higher-than-expected disbursements have likely pushed provision during the quarter. We would seek more clarity on IDFC's provisioning policy in light of likely loan sell-down.

IDFC - Quarterly results

Rs mn

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	YoY (%)	2Q11KS	Actual vs KS (%)
Consolidated financials									
Total Income	9,946	10,344	9,979	10,333	10,972	12,191	-	-	-
Operating Income	9,946	10,344	9,974	10,238	10,913	12,040	-	-	-
Interest and other charges	5,267	5,121	4,785	4,362	4,852	5,688	-	-	-
Net operating income	4,679	5,223	5,194	5,971	6,120	6,503	25	6,022	8
Net operating inc excl cap gains	3,999	4,555	4,125	4,981	4,920	6,383	40	5,022	27
Net interest income on infr	2,190	2,520	2,600	2,900	3,040	3,590	42	3,100	16
Treasury (incl secu and others)	250	250	190	270	330	150	(40)	350	(57)
Fees and advisory	1,500	1,640	1,330	1,700	1,590	2,710	65	1,572	72
Asset management	720	690	680	810	650	750	9	650	15
IDFC SSKI / Investment banking	350	630	340	510	360	740	17	461	61
Institutional brokerage	210	120	-	-	140	150	-	161	(7)
Advisory and other fees	430	320	310	380	440	1,070	234	300	257
Profit on sale of equity	680	610	1,050	990	1,200	120	(80)	1,000	(88)
Miscellaneous income	-	-	-	-	-	-	-	-	-
Total expenditure	865	1,241	1,409	2,859	1,580	1,650	33	1,575	5
Staff expenses	494	576	557	1,445	590	645	12	625	3
Other expenses	437	423	427	717	544	490	16	600	(18)
Provisions and contingencies	(66)	242	424	697	445	515	113	350	47
PBDT	3,814	3,982	3,785	3,112	4,540	4,853	22	4,447	9
Depreciation	95	98	107	104	97	103	5	100	3
Profit before Tax	3,718	3,884	3,679	3,008	4,443	4,750	22	4,347	9
Provision for Tax	973	975	979	738	1,098	1,375	41	1,087	27
Profit after tax	2,745	2,908	2,700	2,270	3,346	3,375	16	3,260	4
Share of profit in associates / minority interest	(20)	10	1	5	(0)	(9)	(184)	-	-
PAT (incl minorities share/ after minority share)	2,724	2,918	2,699	2,265	3,346	3,384	16	3,260	4
Balance sheet (Rs mn)									
Shareholders funds	64,500	67,440	70,100	70,100	73,210	111,168			
Loan funds	236,520	245,880	235,410	265,440	312,840	352,996			
Minority interest	10	10	60	70	70	57			
Total	307,530	319,820	312,010	335,610	386,120	464,221			
Goodwill	11,600	11,600	11,600	11,690	11,600	11,596			
Fixed assets	4,520	4,450	4,390	4,330	4,450	4,469			
Investments	79,870	83,180	60,940	70,430	78,000	86,367			
Equity	12,680	15,480	13,180	20,000	17,410	20,920			
Treasury	67,190	67,700	47,760	50,430	60,590	65,447			
Infrastructure loans	211,140	220,450	234,500	250,310	289,010	343,987			
Deferred Tax	1,390	1,490	1,620	1,770	1,990	2,095			
Net current assets	(990)	(1,350)	(960)	(2,920)	1,070	15,705			
Total	307,530	319,820	312,090	335,610	386,120	464,220			

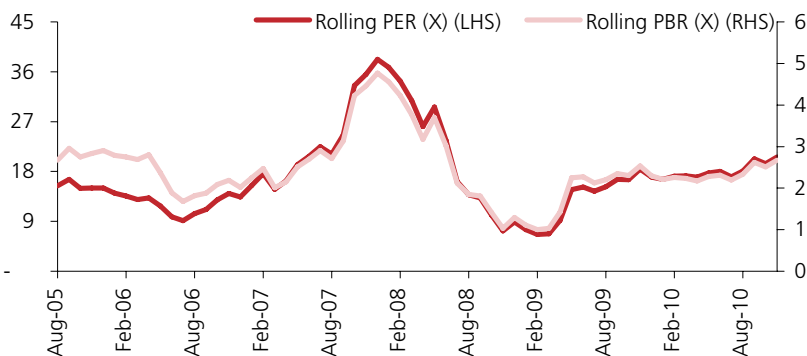
Source: Company, Kotak Institutional Equities estimates

IDFC - Quarterly results

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	YoY (%)
Key ratios (%)							
NIMs (KS calc- %)	3.6	3.9	3.9	4.3	4.1	3.9	
Other details							
Gross approvals (Rs bn)	44	55	67	139	130	198	257
Gross disbursements (Rs bn)	15	34	31	49	62	112	233
Loan book (Rs bn)	211	220	235	250	289	344	56
Outstanding disbursements (Rs bn)							
Loans	211	219	233	252	291	346	58
Project loans	111	115	125	138	146	190	65
Corporate loans	84	86	93	99	129	149	72
Loans against shares	15	17	15	15	15	75	338
Mezzanine products	5	6	6	4	3	4	(43)
Non-funded	4	3	3	3	9	14	365
Sectorwise break ups							
Total exposure (Rs bn)	328	324	348	438	510	621	91
Energy	127	124	139	168	222	264	113
Transportation	71	72	65	87	106	174	143
Telecom	50	52	64	107	113	121	135
Others	31	31	32	31	69	64	109
O/s disbursements	232	227	256	279	321	386	329
Energy	85	91	95	103	127	153	68
Telecom	32	40	46	55	82	98	147
Transportation	55	50	55	57	57	84	69
Commercial/Industrial	28	26	24	33	-	-	(100)
Others	32	21	36	30	55	51	144
Tax rate							
Breakup of outstanding borrowings (% of total)							
Short term	12	18	15	15	17	15	
LT Rupee loans	24	21	16	15	14	15	
LT bonds	52	49	56	59	61	62	
Foreign currency loans	9	9	10	8	7	6	
ROA analysis (%)							
Net interest income	3.2	3.5	3.5	3.6	3.7	3.6	
Infrastructure	2.7	2.9	3.1	3.3	3.3	3.4	
Treasury	0.5	0.5	0.4	0.3	0.3	0.3	
Non Interest income	2.2	2.3	2.8	3.1	3.0	2.9	
Fees, syndication and advisory	0.6	0.4	0.4	2.0	1.6	1.5	
Capital gains & dividend	0.9	0.5	0.9	1.1	0.9	1.0	
Mis. Fees	0.3	0.4	0.4	0.1	0.5	0.4	
Operating income	5.5	5.8	6.4	6.7	6.8	6.6	
Operating expenses	1.3	1.4	1.5	1.8	1.7	1.6	
Pre- provisioning profits	4.2	4.5	4.9	5.0	5.1	5.0	
Provisions and losses	0.4	0.5	0.6	0.4	0.5	0.6	
PBT	3.5	4.0	4.3	4.6	4.5	4.4	
Tax	1.1	1.1	1.1	1.2	1.1	1.2	
Net Income (PAT)	2.7	2.9	3.2	3.4	3.4	3.3	

Source: Company

IDFC- 1 year fwd rolling PER and PBR (X)



Source: Bloomberg, Kotak Institutional Equities estimates

IDFC : Sum-of-the parts based valuation

	Valuation (Rs mn)	Value per share (Rs)	Comments
IDFC (core)	168,539	130	Based on residual growth model- implies 2.1X core PBR for medium term RoE of 17%
IDFC (India Development fund)	2,250	1	25% of AUMs - US\$200 mn
IDFC (Private equity)	10,878	7	15% of FY2012E AUM - US\$2 bn
IDFC (Project equity)	8,400	6	10% of FY2012E AUM - US\$1.4 bn
IDFC investment advisors (PMS)	536	0.4	10% of FY2012E AUMs - US\$100 mn
IDFC MF	19,500	12	4% of FY2012E AUMs
IDFC SSKI	13,770	9	18X FY2012E PAT
IDFC's investment in NSE	17,595	12	18X FY2012E PER
Value of market investments	30,071	23	2X book value (including unrealised value)
Total	241,467	201	

Source: Kotak Institutional Equities estimates

IDFC (consolidated) key ratios, March fiscal year-ends, 2007-2013E

	2007	2008	2009	2010	2011E	2012E	2013E
Income Statement							
Operating income	64	70	38	4	25	37	38
Net fund based income	51	63	35	26	31	30	35
Fee income	160	64	8	16	18	23	26
On AUM	84	5	287	(8)	20	18	24
Other operating income	7	29	(15)	81	1	20	(6)
Operating expenses	43	228	55	9	24	29	22
Net profit	60	21	1	44	26	23	28
Core operating profit (PBT-treasury+provisions)	84	42	16	26	24	31	37
Balance Sheet							
Assets							
Investments	52	174	40	(24)	10	10	10
Infrastructure loans	37	43	3	22	41	41	40
Total assets	44	61	7	13	31	33	35
Liabilities							
Loan funds	57	57	7	13	26	39	42
Total liabilities	52	55	6	13	25	38	40
Shareholders equity	14	90	10	14	53	20	13
Key ratios (%)							
Yield on							
Earning assets exld treasury assets	9.1	10.2	11.3	10.7	10.8	10.9	11.0
Earning assets incl treasury income and assets	9.7	10.5	11.1	10.9	10.9	11.1	11.1
Infrastructure loans	9.3	10.2	11.8	11.3	11.4	11.4	11.4
Interest on bank deposits	8.4	16.0	10.0	12.7	105.3	142.2	129.5
Average cost of funds	7.2	8.1	9.1	7.8	7.9	8.4	8.4
Capital gains to eqty investments	21.3	20.6	10.1	14.1	12.9	14.1	12.0
NIM (excl capital gains)	2.8	3.0	3.2	3.6	3.8	3.8	3.8
Employee .exp to income	0.5	1.1	1.3	1.3	1.3	12.8	12.7
Operating expnses/ income	9.0	18.9	24.8	20.7	21.0	21.4	20.5
Du Pont (%age of average assets)							
Net interest income	2.8	3.0	3.1	3.6	3.8	3.7	3.7
Loan loss provisions	0.1	0.3	0.5	0.4	0.3	0.3	0.3
Other operating income	2.7	2.7	2.1	2.6	2.4	2.2	1.9
Operating expenses	0.5	1.1	1.3	1.3	1.3	1.3	1.1
Invnt. depreciation	—	—	—	—	—	—	—
ROA	4.1	3.2	2.6	3.3	3.4	3.2	3.0
Average assets/average equity	5.5	5.5	5.0	4.9	4.5	4.5	5.2
ROE	22.6	17.6	12.9	16.6	15.5	14.3	15.7

Source: Company, Kotak Institutional Equities estimates

IDFC (consolidated) : Income statement and balance sheet, March fiscal year-ends, 2007-2013E

	2007	2008	2009	2010	2011E	2012E	2013E
(Rsmn)							
Total income	16,917	27,928	36,338	39,446	48,563	64,843	86,573
Operating income	12,778	21,700	30,032	31,132	38,935	53,181	73,284
Dividend	91	62	542	1,321	171	184	203
Interest on deposits	100	—	—	—	—	—	—
Other charges	136	101	-	15	15	15	15
Net fund based income	4,223	6,866	9,237	11,630	15,183	19,662	26,503
Less: provisions for NPLs	174	688	1,495	1,304	1,057	1,703	2,391
Net fund based income post provisions	4,049	6,178	7,742	10,326	14,125	17,959	24,112
Fee income	2,406	3,944	4,253	4,951	5,845	7,211	9,071
SSKI	—	1,873	1,070	1,793	1,912	2,205	2,506
Fees - upfront fees, prepayments	—	—	—	—	—	—	—
On guarantees/commissions- standalone	656	1,515	1,032	1,184	1,571	2,214	3,108
Fees on AMC	528	556	2,150	1,975	2,362	2,791	3,457
Net operating income	8,137	12,288	13,835	18,608	23,329	29,197	36,977
Operating expenses	745	2,447	3,795	4,121	5,124	6,610	8,055
Profit before tax	7,444	9,959	10,254	14,519	18,630	23,011	29,345
Tax	1,235	2,463	2,697	3,611	4,878	6,152	7,814
Net profit	6,209	7,496	7,557	10,908	13,752	16,859	21,531
% growth	60	21	1	44	26	23	28
Minority interest	—	143	62	-	-	-	-
Net profit post minority interest	6,209	7,353	7,495	10,908	13,752	16,859	21,531
PBT - treasury	5,710	7,675	8,200	11,157	14,846	18,560	25,128
% chg	112	34	7	36	33	25	35
PBT - treasury + provisions	5,884	8,363	9,695	12,190	15,103	19,763	27,019
No. of shares	1,126	1,294	1,295	1,301	1,458	1,506	1,506
Balance Sheet							
Assets							
Mutual Funds	3,477	7,148	100	1,378	1,376	1,376	1,376
Equity Shares	6,147	12,606	19,652	20,910	21,955	24,151	26,566
Venture Capital Units	954	1,273	2,983	3,784	5,308	5,887	6,416
Infrastructure loans	139,155	199,024	205,918	250,270	353,928	497,584	697,842
Current assets	18,287	28,674	17,950	31,954	28,340	28,955	29,746
Fixed assets	486	3,812	4,438	4,330	4,269	4,427	4,647
Other assets	854	953	1,393	1,743	1,830	1,922	2,018
Total assets	178,506	286,600	305,583	345,830	451,862	602,949	811,497
Liabilities							
Subordinated debt (unsecured)	6,500	6,500	6,500	6,500	6,500	6,500	6,500
Loan funds	137,136	214,784	228,791	258,940	327,138	456,147	647,367
Current liabilities and provisions	5,561	9,484	8,622	10,290	10,839	11,420	12,037
Total liabilities	149,197	230,767	243,913	275,730	344,476	474,068	665,904
Paid-up capital	11,259	12,943	12,953	13,006	14,584	15,061	15,061
Reserves and surplus	18,049	42,889	48,717	57,094	92,802	113,820	130,532
Shareholders equity	29,308	55,832	61,670	70,100	107,386	128,881	145,593

Source: Company, Kotak Institutional Equities estimates

NOVEMBER 09, 2010

RESULT

Coverage view: **Cautious**

Price (Rs): **841**

Target price (Rs): **930**

BSE-30: **20,852**

Strong EBITDA but one-offs impact bottom line. Aban reported 2QFY11 EBITDA (consolidated) at ₹5.6 bn (+6.9% qoq and +22.8% yoy) versus our estimate of ₹5 bn. Revenues at Rs8.3 bn were marginally above our estimated Rs8.1 bn. However, reported net income at ₹752 mn (-152% qoq and +5.2% yoy) was lower versus our expected ₹1.25 bn due to (1) unexpected loss from joint venture, (2) provision of ₹139 mn for diminution in the value of investment and (3) higher-than-expected taxation. We maintain our ADD rating with a revised DCF-based target price of ₹930.

Company data and valuation summary

Aban Offshore

Stock data

52-week range (Rs) (high,low)	1,539-636
Market Cap. (Rs bn)	36.6

Shareholding pattern (%)

Promoters	53.0
FIs	3.5
MFs	2.4

Price performance (%)

	1M	3M	12M
Absolute	(2.8)	(7.8)	(34.8)
Rel. to BSE-30	(5.6)	(19.8)	(49.5)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	94.5	129.5	130.5
EPS growth (%)	(2.5)	37.0	0.8
P/E (X)	8.9	6.5	6.4
Sales (Rs bn)	33.6	35.2	36.6
Net profits (Rs bn)	4.1	5.9	5.8
EBITDA (Rs bn)	21.0	22.1	21.6
EV/EBITDA (X)	8.4	6.9	6.6
ROE (%)	21.7	30.1	22.3
Div. Yield (%)	0.4	0.4	0.5

QUICK NUMBERS

- 2QFY11 EBITDA at ₹5.6 bn (+6.9% qoq, +22.8% yoy)
- Potential upside of 10% to our target price from current levels
- EBITDA-to-interest coverage ratio at 2.4X and 2.8X in FY2011E and FY2012E

2QFY11 EBITDA higher than our estimate; one-offs impact net income

Aban reported 2QFY11 EBITDA (consolidated) at ₹5.6 bn (+6.9% qoq and +22.8% yoy) versus our estimate of ₹5 bn. EBITDA margin was healthy at 67.2% versus 61.7% in 1QFY11 and 64.4% in 2QFY10; the improvement in margins was led by sharp reduction in other expenditure (-31% qoq and -22.5% yoy). However, reported net income at ₹752 mn (-152% qoq and +5.2% yoy) was lower versus our expected ₹1.25 bn due to (1) unexpected loss of ₹302 mn from joint venture, (2) provision of ₹139 mn for diminution in the value of investment in Petrojack and (3) higher-than-expected taxation.

Valuations are reasonable

We maintain our ADD rating on the stock with a revised DCF-based target price of ₹930 (₹915 previously). We have kept an ADD rating given (1) inexpensive valuations and (2) potential upside of 10.5% to our target price. We note that the stock valuations look reasonable with the stock currently trading at 7X FY2011E EBITDA and 6.7X FY2012E EBITDA. On P/E basis, the stock is trading at 6.4X FY2011E EPS and FY2012E EPS. Key downside risks stem from debt-repayment capability. We highlight that Aban's net debt/EBITDA ratio stands at 5.4X and 5X in FY2011E and FY2012E and EBITDA to interest coverage ratio is at 2.4X and 2.8X in FY2011E and FY2012E.

Deployment of assets lends certainty to earnings

We note that Aban's entire fleet except Deep Venture is either deployed or has been contracted. This should allay concerns with respect to earnings uncertainty. We highlight that we assume a decline in jack-up rates of 12-15% when the contracts are due for renewal. We do not rule out upside to our earnings estimates from higher-than-expected dayrates led by improved demand-supply balance.

Earnings revision

We have revised our FY2011-13E EPS to ₹129 (-14%), ₹131 (+0.6%) and ₹141 (+2.7%) to reflect (1) stronger rupee (-ve impact), (2) 2QFY11 results and (3) other minor changes.

Gundeep Singh
gundeep.singh@kotak.com
Mumbai: +91-22-6634-1286

Tarun Lakhotia
tarun.lakhotia@kotak.com
Mumbai: +91-22-6634-1188

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

Key details of 2QFY11 results

Exhibit 1 gives details of Aban's 2QFY11 results and compares it with 1QFY11 and 2QFY10 results.

Interim results of Aban Offshore (consolidated) , March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg.)			yoy		
					2QFY11E	2QFY10	1QFY11	1HFY10	1HFY10	(%chg.)
Net sales	8,281	8,129	7,029	8,425	1.9	17.8	(1.7)	16,705	14,964	11.6
Total expenditure	(2,718)	(3,113)	(2,500)	(3,223)	(12.7)	8.7	(15.7)	(5,940)	(5,745)	3.4
Consumption of stores and spares	(276)	—	(266)	(333)				(609)	(648)	(6.0)
Staff cost	(870)	—	(544)	(884)				(1,754)	(1,280)	37.0
Machinery rental	(121)	—	(20)	(129)				(251)	(182)	37.7
Repairs to machinery	(171)	—	(67)	(102)				(274)	(206)	33.1
Insurance	(142)	—	(135)	(126)				(268)	(277)	(3.1)
Other expenses	(1,137)	—	(1,468)	(1,648)	#DIV/0!	(22.5)	(31.0)	(2,785)	(3,153)	(11.7)
EBITDA	5,563	5,016	4,529	5,202	10.9	22.8	6.9	10,765	9,218	16.8
OPM (%)	67.2	61.7	64.4	61.7				64.4	61.6	
Other income	24	80	70	143	(70.0)	(65.9)	(83.2)	167	170	(1.7)
Interest	(2,406)	(2,100)	(2,611)	(2,272)	14.6	(7.8)	5.9	(4,678)	(4,975)	(6.0)
Depreciation	(1,230)	(1,200)	(994)	(1,291)	2.5	23.7	(4.7)	(2,521)	(1,983)	27.1
Pretax profits	1,950	1,796	995	1,783	8.6	96.0	9.4	3,733	2,430	53.6
Extraordinaries	(139)	—	—	(3,496)				(3,635)	—	
Reported PBT	1,811	1,796	995	(1,713)	0.8	82.0	(205.7)	98	2,430	(96.0)
Tax	(795)	(647)	(733)	(712)				(1,508)	(1,360)	
Deferred taxation	38	—	22	35				72	41	
Net income	1,054	1,150	284	(2,391)	(8.4)	270.8	(144.1)	(1,337)	1,111	(220.3)
Share in joint venture	(302)	100	430	952	(402.0)	(170.2)	(131.7)	650	712	(8.7)
Minority interest	—	—	—	—				—	—	
Reported PAT	752	1,250	714	(1,439)	(39.8)	5.2	(152.2)	(687)	1,823	(137.7)
Adjusted PAT	891	1,250	714	2,057	(28.7)	24.7	(56.7)	2,948	1,823	61.7
Effective tax rate (%)	42	36	71	(40)				1,464	54	

Source: Company, Kotak Institutional Equities

- ▶ **Better-than-expected revenues and EBITDA.** Aban reported 2QFY11 revenues at ₹8.3 bn (+17.8% yoy, -1.7% qoq) slightly above our estimated ₹8.1 bn. Aban reported 2QFY11 EBITDA of ₹5.6 bn (+22.8% yoy, +6.9% qoq), higher than our estimate of ₹5 bn. EBITDA margin at 67.2% was above our estimated 61.7%.
- ▶ **Lower other expenditure.** Other expenses were lower at ₹1.1 bn (-22.5%yoy and -31% qoq). The management highlighted that there tends to be seasonality in this head of expenditure depending on the deployment schedule and other maintenance expenditure. It highlighted that there were no operational efficiencies which resulted in lower-than-expected other expenses.
- ▶ **Diminution in the valuations of investment for ₹139 mn.** The company provided for ₹139 mn in 2QFY11 as diminution in the value of investment in Petrojack which filed for bankruptcy in March 2010. We note that Aban's investment in Petrojack (20% stake) stood at ₹516 mn as of March 31, 2010. The company has provided for ₹276 mn as addition provision in 1HFY11. The value of investment in Petrojack currently stands at ₹240 mn which will likely be written off in the subsequent quarters.
- ▶ **Loss of ₹302 mn from joint venture.** Aban reported a loss of ₹302 mn from its joint venture. The management highlighted that it reflects the cost associated with the early termination of the contract and idling of the rig. The management also guided that the costs will be significantly lower in the subsequent quarters even if the rig remains idle.

Our DCF-based valuation for Aban is ₹930 per share

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

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	Terminal value		
EBITDA	22,051	21,588	21,297	21,438	22,440	22,727	23,936	24,345	24,594	25,220	25,220	25,220			
Tax expense	(4,838)	(4,406)	(4,569)	(4,533)	(4,775)	(4,871)	(5,229)	(5,319)	(5,398)	(5,508)					
Income from joint venture	960	100	100	100	100	100	100	100	100	100					
Changes in working capital	5,273	652	388	170	(363)	85	(607)	(164)	(94)	(311)					
Cash flow from operations	23,447	17,934	17,216	17,176	17,401	18,041	18,200	18,962	19,202	19,501					
Capital expenditure	(693)	(675)	(753)	(894)	(836)	(977)	(732)	(699)	(702)	(581)					
Cash flow from insurance of Aban Pearl	10,810														
Free cash flow to the firm	33,564	17,260	16,463	16,282	16,566	17,063	17,468	18,263	18,499	18,920	18,920	18,920	157,664		
Discounted cash flow-now	32,117	14,746	12,558	11,089	10,074	9,265	8,468	7,905	7,149	6,528					
Discounted cash flow-1 year forward		16,515	14,065	12,420	11,283	10,376	9,484	8,854	8,007	7,312	6,528				
Discounted cash flow-2 year forward			15,753	13,910	12,636	11,622	10,623	9,916	8,968	8,189	7,312	6,528			
Discount rate	12.0%														
Growth from FY2020E to perpetuity	0.0%														
Fiscal Year end	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20					
Today	9-Nov-10	9-Nov-10	9-Nov-10	9-Nov-10	9-Nov-10	9-Nov-10	9-Nov-10	9-Nov-10	9-Nov-10	9-Nov-10					
Days left	142	507	872	1,237	1,602	1,967	2,332	2,697	3,062	3,427					
Years left	0.4	1.4	2.4	3.4	4.4	5.4	6.4	7.4	8.4	9.4					
Discount factor at WACC	0.96	0.85	0.76	0.68	0.61	0.54	0.48	0.43	0.39	0.35					
	Now	+ 1-year	+ 2-years	Sensitivity of share price to WACC and growth rate (Rs)											
Total PV of free cash flow (a)	119,899	104,844	105,457	WACC (%)											
PV of terminal value (b)	54,403	54,403	54,403												
EV (a) + (b)	174,302	159,247	159,860	Growth rate (%)	11.0%	11.5%	12.0%	12.5%	13.0%						
Net debt	142,541	118,851	107,564		-1.5%	1,055	908	773	647	530					
Equity value	31,761	40,397	52,296		-1.0%	1,116	962	821	690	569					
No. of shares (# mn)	43.5	43.5	43.5		-0.5%	1,181	1,020	872	736	610					
Implied share price (Rs)	730	928	1,202		0.0%	1,253	1,084	928	786	655					
Exit EV/EBITDA multiple (X)	6.3				0.5%	1,331	1,152	989	840	703					
Exit FCF multiple (X)	8.3				1.0%	1,418	1,228	1,056	899	755					
				1.5%	1,513	1,311	1,129	963	811						

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model (consolidated) for Aban Offshore, March fiscal year-ends, 2008-2012E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model						
Total income	20,211	30,501	33,587	35,170	36,580	37,368
EBITDA	12,691	17,638	21,004	22,051	21,588	21,297
Interest expense	(6,533)	(8,725)	(9,768)	(9,187)	(7,805)	(6,525)
Depreciation	(2,549)	(4,414)	(4,616)	(5,142)	(5,167)	(5,153)
Other income	733	224	218	382	382	382
Pretax profits	4,342	4,722	6,838	8,104	8,998	10,001
Extra ordinary items	(2,536)	2,080	(2,408)	(3,737)	—	—
Reported PBT	1,807	6,802	4,430	4,368	8,998	10,001
Tax	(1,514)	(2,646)	(2,651)	(3,175)	(3,316)	(3,904)
Deferred taxation	84	138	80	23	—	—
Profit after tax	377	4,294	1,860	1,215	5,682	6,097
Joint venture/ minority	853	1,113	1,250	960	100	100
Reported consolidated net profit	1,230	5,407	3,110	2,176	5,782	6,197
Adjusted net profit	2,954	3,951	4,121	5,912	5,782	6,197
Diluted earnings per share (Rs)	71	97	88	129	131	141
Balance sheet						
Total equity	5,063	14,188	18,547	19,201	25,500	31,838
Preference capital	3,060	3,260	3,260	3,260	1,250	600
Deferred taxation liability	654	516	436	413	413	413
Total borrowings	130,434	166,355	141,641	118,161	109,770	100,032
Current liabilities	7,517	14,090	9,342	11,311	12,071	12,629
Total liabilities and equity	146,727	198,408	173,225	152,345	149,003	145,512
Cash	6,453	5,948	2,360	2,193	3,078	3,787
Other current assets	7,637	11,106	12,269	9,017	9,281	9,481
Goodwill	44,289	55,991	49,555	50,713	50,713	50,713
Tangible fixed assets	81,958	119,612	104,090	85,472	80,980	76,581
Investments	6,391	5,751	4,951	4,951	4,951	4,951
Total assets	146,727	198,408	173,225	152,345	149,003	145,512
Free cash flow						
Operating cash flow, excl. working capital	3,146	10,306	7,862	21,081	10,567	10,968
Working capital changes	(1,654)	2,313	2,131	5,273	652	388
Capital expenditure	(32,638)	(50,742)	(3,935)	(693)	(675)	(753)
Investment changes	(386)	2,314	8,097	—	—	—
Other income	458	245	48	382	382	382
Free cash flow	(31,074)	(35,564)	14,204	26,044	10,926	10,985
Ratios (%)						
EBITDA margin	62.8	57.8	62.5	62.7	59.0	57.0
Debt/equity	2,335	1,154	763	619	428	312
Net debt/equity	2,222	1,113	751	608	417	300
RoAE	51.7	26.9	21.7	30.1	22.3	19.2
RoACE	3.4	5.9	4.7	5.6	7.7	7.5

Source: Company, Kotak Institutional Equities estimates

All bets are off. We are closing four trades – (1) Long Infosys, Short Bharti (-4.3%), (2) Long Grasim, Short Ambuja (-5.8%), (3) Long Gail, Short Reliance Industries (+1.2%) and (4) Long Reliance Infra, Short Reliance Power (-10.6%). We see high levels of volatility in stock prices given large liquidity based on US Fed's QE2 program, which may overshadow companies' fundamentals.

INDIA

NOVEMBER 08, 2010

UPDATE

BSE-30: 21,005

QUICK NUMBERS

- Closing trades

Sanjeev Prasad
sanjeev.prasad@kotak.com
Mumbai: +91-22-6634-1229

Amit Kumar
amit.ckumar@kotak.com
Mumbai: +91-22-6634-1392

Sunita Baldawa
sunita.baldawa@kotak.com
Mumbai: +91-22-6634-1325

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

KIE Alpha Bet trades

Statistics of trades, current price, initiation price, gross expected/actual return

	Stock	Current price (Rs)	Initiation price (Rs)	Return (%)
Trade 1 (Jun 11, 2010 - Nov 8, 2010)				
Buy	Infosys Technologies	3,016	2,631	14.6
Sell	Bharti Airtel	328	274	19.7
	Starting ratio (X)	9.2	9.6	(4.3)
	Return (%)			(4.3)
Trade 2 (Jun 11, 2010 - Nov 8, 2010)				
Buy	Grasim Industries	2,456	1,820	34.9
Sell	Ambuja Cements	165	115	43.3
	Starting ratio (X)	14.9	15.8	(5.8)
	Return (%)			(5.8)
Trade 3 (Aug 2, 2010 - Nov 8, 2010)				
Buy	Gail (India)	496	447	11.0
Sell	Reliance Industries	1,112	1,015	9.6
	Starting ratio (X)	0.45	0.44	1.2
	Return (%)			1.2
Trade 4 (Aug 2, 2010 - Nov 8, 2010)				
Buy	Reliance Infrastructure	1,058	1,117	(5.2)
Sell	Reliance Power	172	162	6.0
	Starting ratio (X)	6.1	6.9	(10.6)
	Return (%)			(10.6)
Closed trade (Jul 21, 2010 - Aug 2, 2010)				
Buy	Mahindra & Mahindra	661	606	9.1
Sell	Hero Honda	1,825	1,957	(6.7)
	Starting ratio (X)	0.4	0.3	17.0
	Return (%)			17.0
Closed trade (Jul 21, 2010 - Aug 2, 2010)				
Buy	HDFC Bank	2,136	2,048	4.3
Sell	Hindustan Unilever	253	265	(4.4)
	Starting ratio (X)	8.4	7.7	9.1
	Return (%)			9.1
Closed trade (Feb 10, 2010 - July 19, 2010)				
Buy	Oil & Natural Gas Corp.	1,259	1,087	15.8
Sell	Cairn India	315	260	21.2
	Starting ratio (X)	4.0	4.2	(4.4)
	Return (%)			(4.4)
Closed trade (Feb 10, 2010 - July 19, 2010)				
Buy	Larsen & Toubro	1,894	1,677	13.0
Sell	Siemens	726	718	1.2
	Starting ratio (X)	2.6	2.3	11.7
	Return (%)			11.7
Closed trade (Feb 10, 2010 - Jun 11, 2010)				
Buy	Tata Steel	474	522	(9)
Sell	Hindalco	140	137	2
	Starting ratio (X)	3.4	3.8	(11.2)
	Return (%)			(11.2)
Closed trade (April 27, 2010 - Jun 11, 2010)				
Buy	HDFC Bank	1,946	1,980	(2)
Sell	ICICI Bank	846	947	(11)
	Starting ratio (X)	2.3	2.1	10.0
	Return (%)			10.0
Closed trade (April 27, 2010 - Jun 11, 2010)				
Buy	Mahindra & Mahindra	607	537	13
Sell	Maruti Suzuki	1,357	1,283	6
	Starting ratio (X)	0.4	0.4	6.9
	Return (%)			6.9

Note:

(a) Closing prices are adjusted for dividend.

Source: Kotak Institutional Equities estimates

September 2010: Results calendar

8-Nov	9-Nov	10-Nov	11-Nov	12-Nov	13-Nov
	Apollo Hospitals	Bharti Airtel	Anant Raj Industries	AIA Engineering	Balrampur Chini Mills
	Brigade Enterprises	BPCL	Apollo Tyres	Allcargo Global	Cox & Kings
	Divi's Laboratories	DLF	Bharti Shipyard	BEML	Dredging Corp
	Financial Technologies	Eros International	Bhushan Steel	Educomp Solutions	Indian Oil Corp
	GMR Infrastructure	Great Offshore	Cipla	Gammon India	IVRCL Infra
	Hathway Cable	Nagarjuna Constructions	Gujarat NRE Coke	HPCL	McNally Bharat Engineering
	Hindalco Industries	Nitesh Estates	HDIL	IL&FS Transportation	Patel Engineering
	Microsec Financial	Omaxe	Indraprastha Gas	India Cements	Titagarh Wagons
	Opto Circuits	Power Finance Corp	Jubilant Life Science	Indraprastha Gas	Unitech
	Tata Motors	Ruchi Soya	Lanco Infratech	Oil India	
	UB Holdings	Sunteck Realty	Man Infra	Parshvnath Developers	
			MMTC	Pipavav Shipyard	
			Ranbaxy Laboratories	Shiv Vani Oil	
			Shree Cement	Tata Power	
				Tata Steel	
				Wockhardt	
15-Nov					
Ansal Housing					
CESC					
Shree Renuka Sugars					

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	8-Nov-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Automobiles																													
Ashok Leyland	81	ADD	107,155	2,414	1,330	2.8	4.9	6.5	84.5	75.1	31.9	28.5	16.3	12.4	16.2	10.9	8.8	2.7	2.4	2.1	1.9	1.2	1.2	10.9	15.4	17.9	85	5.5	8.4
Bajaj Auto	1,600	REDUCE	463,117	10,434	289	58.8	91.0	103.6	160.2	54.6	13.9	27.2	17.6	15.4	17.5	12.5	10.8	15.8	9.5	6.4	0.6	1.2	1.2	70.9	67.4	49.6	1,450	(9.4)	21.2
Bharat Forge	374	ADD	89,349	2,013	239	0.7	12.4	20.3	(92.0)	1,707.0	63.3	543.6	30.1	18.4	27.4	12.4	8.7	2.3	2.3	2.0	—	—	—	0.9	16.2	20.6	400	7.0	4.5
Hero Honda	1,829	REDUCE	365,321	8,231	200	111.8	109.0	126.8	74.1	(2.5)	16.3	16.4	16.8	14.4	10.2	10.6	8.8	10.1	7.2	5.4	1.6	1.6	1.9	59.0	49.9	42.5	1,775	(3.0)	20.3
Mahindra & Mahindra	777	BUY	462,591	10,422	595	33.9	47.2	54.7	125.8	39.2	15.9	22.9	16.5	14.2	15.0	11.8	10.0	5.7	4.5	3.6	1.2	1.2	1.3	30.0	30.7	28.2	805	3.6	28.9
Maruti Suzuki	1,489	REDUCE	430,072	9,690	289	86.4	80.6	93.4	105.0	(6.7)	15.8	17.2	18.5	15.9	9.3	9.6	8.0	3.6	3.0	2.6	0.4	0.4	0.4	23.3	17.8	17.5	1,330	(10.7)	18.2
Tata Motors	1,269	ADD	794,817	17,907	626	27.4	94.8	109.2	(182.5)	246.1	15.2	46.3	13.4	11.6	15.4	8.1	7.1	5.1	3.6	2.7	1.1	0.4	0.4	8.7	11.9	11.1	1,150	(9.4)	100.3
Automobiles																													
Banks/Financial Institutions																													
Andhra Bank	180	BUY	87,494	1,971	485	21.6	24.0	26.7	60.1	11.5	11.1	8.4	7.5	6.8	—	—	—	2.0	1.7	1.4	2.8	3.1	3.4	26.0	24.1	22.6	210	16.4	7.6
Axis Bank	1,556	ADD	630,410	14,203	405	62.1	78.6	99.9	22.7	26.6	27.2	25.1	19.8	15.6	—	—	—	3.9	3.4	2.9	0.8	1.0	1.2	19.2	18.4	20.2	1,700	9.3	45.3
Bank of Baroda	1,031	BUY	377,005	8,494	366	83.7	103.0	121.2	37.3	23.1	17.7	12.3	10.0	8.5	—	—	—	2.7	2.3	1.9	1.5	1.8	2.1	24.4	24.7	24.0	1,250	21.2	9.7
Bank of India	506	ADD	266,034	5,994	526	33.1	56.3	63.2	(42.1)	70.2	12.2	15.3	9.0	8.0	—	—	—	2.1	1.8	1.5	1.4	2.4	2.6	14.2	21.3	20.4	580	14.7	15.9
Canara Bank	810	ADD	332,223	7,485	410	73.7	90.7	102.8	45.8	23.1	13.4	11.0	8.9	7.9	—	—	—	2.6	2.1	1.7	1.2	1.2	1.5	22.5	22.8	21.4	740	(8.7)	14.4
Corporation Bank	795	ADD	113,961	2,568	143	82.0	86.7	100.7	31.8	5.7	16.2	9.7	9.2	7.9	—	—	—	2.0	1.7	1.5	2.1	2.2	2.6	22.0	19.9	19.9	800	0.7	2.1
Federal Bank	487	ADD	83,336	1,878	171	27.2	34.7	47.2	(7.1)	27.7	35.9	17.9	14.0	10.3	—	—	—	1.8	1.6	1.4	1.0	1.3	1.8	10.3	12.0	14.7	530	8.8	8.5
HDFC	726	REDUCE	1,042,496	23,488	1,436	19.7	24.0	28.1	22.7	21.8	17.2	36.9	30.3	25.8	—	—	—	6.9	6.0	5.3	1.0	1.2	1.4	20.0	21.2	21.9	720	(0.9)	57.4
HDFC Bank	2,335	REDUCE	1,069,014	24,085	458	64.4	84.9	111.2	22.1	31.8	31.0	36.3	27.5	21.0	—	—	—	5.0	4.4	3.7	0.5	0.7	0.9	16.1	16.9	19.2	2,500	7.0	45.3
ICICI Bank	1,255	ADD	1,444,711	32,550	1,151	36.1	45.0	58.0	6.9	24.6	29.0	34.8	27.9	21.6	—	—	—	2.8	2.6	2.4	0.9	1.1	1.4	8.0	9.7	11.6	1,230	(2.0)	103.9
IDFC	215	ADD	313,619	7,066	1,458	8.4	9.4	11.2	44.9	12.4	18.7	25.6	22.8	19.2	—	—	—	4.5	2.9	2.4	0.6	0.8	1.0	16.6	15.5	14.3	205	(4.7)	24.8
India Infoline	122	BUY	38,024	857	312	8.1	7.7	9.2	59.2	(5.2)	19.0	15.0	15.8	13.3	—	—	—	2.4	2.0	1.7	2.6	1.4	1.8	16.4	13.8	15.0	150	23.0	6.0
Indian Bank	300	ADD	128,995	2,906	430	35.1	35.7	44.9	25.5	1.6	25.9	8.6	8.4	6.7	—	—	—	1.9	1.6	1.4	2.2	2.1	2.7	24.1	20.5	21.8	350	16.6	5.4
Indian Overseas Bank	171	BUY	93,406	2,104	545	13.0	16.8	24.1	(46.7)	29.8	43.2	13.2	10.2	7.1	—	—	—	1.5	1.3	1.1	2.0	2.2	2.5	9.6	11.6	15.0	200	16.7	5.7
J&K Bank	900	ADD	43,640	983	48	105.7	123.0	143.9	25.0	16.4	17.0	8.5	7.3	6.3	—	—	—	1.5	1.3	1.2	2.4	2.8	3.3	18.2	18.4	18.7	1,000	11.1	4.0
LIC Housing Finance	1,347	REDUCE	127,918	2,882	95	69.7	109.0	119.0	11.5	56.3	9.2	19.3	12.4	11.3	—	—	—	3.9	3.2	2.7	1.1	1.7	1.9	23.6	27.4	24.6	1,325	(1.6)	36.1
Mahindra & Mahindra Financial	772	BUY	74,069	1,669	96	35.9	51.3	60.3	60.0	43.0	17.5	21.5	15.0	12.8	—	—	—	4.4	3.6	3.0	1.0	1.4	1.7	21.5	25.7	25.0	750	(2.8)	6.7
Oriental Bank of Commerce	534	ADD	133,801	3,015	251	45.3	59.0	65.8	25.3	30.2	11.6	11.8	9.1	8.1	—	—	—	1.8	1.6	1.4	1.7	2.2	2.5	14.5	16.8	16.6	580	8.6	9.2
PFC	373	SELL	428,520	9,655	1,148	20.5	22.9	27.6	53.5	11.9	20.3	18.2	16.3	13.5	—	—	—	3.3	2.9	2.6	1.4	1.5	1.8	18.8	18.3	19.2	275	(26.3)	3.9
Punjab National Bank	1,361	BUY	429,016	9,666	315	123.9	139.8	165.5	26.4	12.9	18.4	11.0	9.7	8.2	—	—	—	2.6	2.2	1.8	1.6	2.1	2.5	26.2	24.2	23.9	1,500	10.2	9.3
Reliance Capital	827	NR	203,648	4,588	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	64.3	60.4	84.6	—	—	—	3.0	2.9	2.8	0.7	0.7	0.5	4.7	4.8	3.4	—	—	30.3
Rural Electrification Corp.	378	REDUCE	372,838	8,400	987	20.3	26.5	31.8	23.2	30.8	19.8	18.6	14.2	11.9	—	—	—	3.4	2.9	2.5	1.7	2.1	2.5	22.0	22.0	22.8	350	(7.3)	12.3
Shriram Transport	873	ADD	194,745	4,388	223	39.2	55.4	68.1	30.1	41.4	23.0	22.3	15.8	12.8	—	—	—	5.3	4.4	3.6	1.3	1.9	2.3	28.4	29.1	29.6	850	(2.6)	9.3
SKS Microfinance	998	ADD	73,569	1,658	74	26.9	48.9	77.5	61.1	81.3	58.6	37.1	20.4	12.9	—	—	—	7.7	3.6	2.7	—	—	—	21.7	23.9	24.7	1,400	40.2	—
SREI	139	NR	16,106	363	116	8.3	7.9	9.9	17.8	(4.8)	25.8	16.7	17.6	14.0	—	—	—	1.4	1.3	1.2	0.9	0.9	0.9	11.1	10.5	12.3	—	—	7.0
State Bank of India	3,425	BUY	2,174,568	48,993	635	144.4	176.6	224.1	0.5	22.3	26.9	23.7	19.4	15.3	—	—	—	3.3	2.9	2.5	0.9	0.9	1.0	14.8	15.9	17.6	3,500	2.2	134.7
Union Bank	384	BUY	194,167	4,375	505	41.1	42.4	56.1	20.2	3.1	32.6	9.4	9.1	6.8	—	—	—	2.2	1.8	1.5	1.4	1.5	2.0	26.2	22.1	24.1	450	17.1	7.3
Yes Bank	372	BUY	126,220	2,844	340	15.0	21.0	26.6	46.7	40.2	26.6	24.8	17.7	14.0	—	—	—	4.1	3.4	2.8	0.4	0.6	0.7	20.3	21.0	22.0	400	7.6	15.5
Banks/Financial Institutions																													
Cement																													
ACC	1,116	REDUCE	209,665	4,724	188	83.2	56.4	63.6	47.9	(32.3)	12.9	13.4	19.8	17.5	7.2	9.4	7.7	3.3	2.9	2.6	2.4	2.1	2.1	29.3	17.5	17.6	940	(15.8)	12.8
Ambuja Cements	164	SELL	249,061	5,611	1,522	8.0	8.1	9.0	11.4	1.4	10.6	20.4	20.2	18.2	11.4	11.2	9.3	3.6	3.2	2.8	1.1	1.3	1.3	19.3	17.1	16.8	108	(34.0)	8.2
Grasim Industries	2,426	ADD	222,426	5,011	92	301.0	194.9	238.6	26.1	(35.2)	22.4	8.1	12.4	10.2	4.8	5.9	4.4	1.8	1.6	1.4	1.4	1.4	1.4	22.9	13.5	14.7	2,500	3.1	7.0
India Cements	125	SELL	38,274	862	307	10.0	7.4	9.4	(43.5)	(26.5)	27.5	12.4	16.9	13.2	6.5	8.6	6.2	0.9	0.9	0.8	1.7	2.6	2.6	8.2	5.7	7.0	100	(19.7)	5.7
Shree Cement	2,255	BUY	78,563	1,770	35	208.0	200.4	265.2	19.0	(3.7)	32.4	10.8	11.3	8.5	5.3	5.3	3.4	4.3	3.2	2.3	0.5	0.5	0.5	48.0	32.4	31.6	2,400	6.4	1.5
UltraTech Cement	1,12																												

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	8-Nov-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)
Consumer products																													
Asian Paints	2,741	ADD	262,902	5,923	96	71.5	86.0	102.5	85.3	20.3	19.1	38.3	31.9	26.8	23.7	19.9	16.5	16.4	12.9	10.4	1.0	1.3	1.6	51.8	46.6	44.0	3,000	9.5	8.4
Colgate-Palmolive (India)	878	SELL	119,340	2,689	136	31.1	33.6	38.4	44.2	8.0	14.2	28.2	26.1	22.9	23.1	19.5	16.7	36.6	31.3	26.9	2.3	2.9	3.3	156.1	129.2	126.3	830	(5.4)	3.4
Dabur India	99	ADD	171,302	3,859	1,731	2.9	3.3	4.1	28.1	13.2	25.2	34.2	30.2	24.1	25.8	21.4	16.9	18.1	12.5	9.6	1.0	1.1	1.4	57.4	49.6	45.3	115	16.2	4.3
GlaxoSmithkline Consumer (a)	2,306	ADD	96,963	2,185	42	55.4	70.5	83.9	23.6	27.3	19.1	41.7	32.7	27.5	23.6	20.2	16.3	10.8	8.9	7.4	0.8	1.0	1.2	27.9	29.7	29.5	2,200	(4.6)	1.0
Godrej Consumer Products	433	BUY	139,985	3,154	324	11.3	14.3	18.9	69.5	25.8	32.6	38.2	30.3	22.9	30.3	21.7	16.4	14.6	7.7	7.0	0.9	0.7	0.7	44.6	33.5	32.1	490	13.3	2.8
Hindustan Unilever	307	SELL	669,014	15,073	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	32.5	30.0	25.5	22.5	21.6	17.6	25.9	22.4	19.3	2.5	2.7	3.2	71.1	80.2	81.3	250	(18.5)	16.5
ITC	176	ADD	1,343,818	30,276	7,651	5.3	6.5	7.6	22.6	22.0	17.8	33.1	27.1	23.0	20.1	17.1	14.2	9.0	7.6	6.4	2.8	1.6	1.7	29.2	32.0	31.5	180	2.5	29.5
Jubilant Foodworks	623	SELL	39,795	897	64	5.6	10.0	13.1	347.1	78.3	30.4	111.0	62.3	47.7	59.4	35.9	24.1	33.9	21.9	15.0	—	—	—	47.3	42.8	37.4	400	(35.8)	26.5
Jyothy Laboratories	283	ADD	21,655	488	77	11.0	13.6	16.4	99.6	23.3	20.9	25.6	20.8	17.2	20.7	14.0	10.9	5.3	3.6	3.1	1.6	1.3	1.7	16.1	17.6	19.3	300	6.1	0.8
Marico	141	ADD	86,138	1,941	612	4.4	5.2	6.1	32.9	16.9	17.0	31.7	27.1	23.2	21.6	18.8	15.5	12.9	9.4	7.1	0.5	0.6	0.8	48.9	40.6	35.2	140	(0.6)	2.0
Nestle India (a)	3,732	REDUCE	359,823	8,107	96	74.4	91.0	111.4	27.0	22.3	22.5	50.2	41.0	33.5	33.2	27.8	23.2	61.9	46.7	35.2	1.3	1.6	2.0	136.0	129.8	119.9	3,100	(16.9)	4.1
Tata Global Beverages	125	ADD	77,393	1,744	618	6.1	7.3	8.7	14.5	20.7	19.0	20.7	17.1	14.4	9.9	7.5	6.4	1.6	1.5	1.4	1.6	1.9	2.3	10.2	11.7	12.9	130	3.9	4.9
Consumer products		Cautious	3,388,129	76,335					23.8	18.7	19.2	34.6	29.2	24.5	22.3	19.0	15.7	11.8	9.7	8.2	2.1	1.7	2.0	34.0	33.1	33.5			
Constructions																													
IVRCL	153	BUY	40,839	920	267	7.9	9.1	11.6	(6.7)	15.0	27.9	19.4	16.8	13.2	10.0	9.5	7.5	2.0	1.8	1.6	0.3	0.3	0.3	11.0	11.3	12.9	205	34.0	7.7
Nagarjuna Construction Co.	155	BUY	39,694	894	257	7.1	8.9	11.6	6.1	24.3	31.1	21.7	17.4	13.3	11.0	9.6	8.0	1.8	1.6	1.5	0.9	1.3	1.3	9.3	9.8	11.8	205	32.5	5.2
Punj Lloyd	130	REDUCE	44,078	993	340	(3.4)	9.8	12.0	(52.6)	(385.6)	22.6	(37.9)	13.3	10.8	22.6	7.2	6.6	1.5	1.3	1.2	0.1	0.3	0.8	(4.2)	10.4	11.6	140	7.9	14.0
Sadbhav Engineering	1,423	BUY	21,345	481	15	42.8	61.8	87.2	(16.3)	44.3	41.0	33.2	23.0	16.3	18.3	12.2	9.5	5.3	3.5	2.9	0.2	0.4	0.4	15.8	15.1	17.8	1,750	23.0	0.5
Construction		Attractive	145,956	3,288					56.1	16.2	28.1	42.7	16.3	12.7	14.1	8.7	7.4	1.9	1.7	1.5	0.4	0.6	0.7	4.4	10.4	11.9			
Energy																													
Aban Offshore	841	ADD	36,607	825	44	94.5	129.5	130.5	(2.5)	37.0	0.8	8.9	6.5	6.4	8.4	6.9	6.6	1.6	1.6	1.3	0.4	0.4	0.5	21.7	30.1	22.3	930	10.5	28.4
Bharat Petroleum	741	BUY	267,919	6,036	362	58.6	57.0	65.4	230	(3)	14.8	13	13	11.3	7.0	6.7	6.3	1.9	1.7	1.6	1.9	2.5	2.9	14.9	13.3	13.8	855	15.4	27.5
Cairn India	332	RS	629,606	14,185	1,897	5.5	22.7	40.8	29.0	309.7	79.6	59.9	14.6	8.1	47.1	9.4	5.4	1.8	1.6	1.5	—	—	4.5	3.1	11.8	18.8	—	—	31.9
Castrol India (a)	485	SELL	119,881	2,701	247	15.4	21.0	21.7	45	36	3.5	31	23	22.3	18.7	14.4	13.7	26.0	24.7	23.5	2.6	3.5	3.6	83.8	109.9	107.9	390	(19.6)	2.5
GAIL (India)	496	BUY	628,976	14,171	1,268	24.8	28.4	39.7	11.7	14.9	39.7	20.0	17.4	12.5	11.3	10.5	8.5	3.5	3.0	2.5	1.5	1.7	2.5	17.4	17.6	21.1	565	13.9	16.8
GSPL	119	SELL	66,960	1,509	562	7.3	7.3	8.1	233	(0)	11.4	16	16	14.7	8.2	8.0	6.7	3.9	3.3	2.9	0.8	1.5	2.7	27.1	21.8	20.9	87	(26.9)	7.3
Hindustan Petroleum	468	BUY	158,691	3,575	339	51.6	52.1	58.5	204.2	1.0	12.4	9.1	9.0	8.0	3.2	3.0	2.7	1.2	1.1	1.0	2.6	3.5	3.9	13.1	11.9	12.1	625	33.5	27.2
Indian Oil Corporation	409	ADD	992,789	22,368	2,428	49.1	37.9	41.9	399	(23)	10.7	8	11	9.7	6.0	6.2	5.4	1.8	1.7	1.5	3.2	2.8	3.1	22.4	15.3	15.4	480	17.4	13.8
Oil India	1,453	REDUCE	349,308	7,870	240	115.2	131.9	149.0	13.9	14.6	12.9	12.6	11.0	9.7	5.8	4.4	3.8	2.4	2.1	1.8	2.3	3.0	3.5	16.8	17.9	17.9	1,550	6.7	3.4
Oil & Natural Gas Corporation	1,351	BUY	2,888,888	65,087	2,139	90.3	113.9	137.7	(1)	26	20.9	15	12	9.8	5.2	4.5	3.8	2.2	2.0	1.7	2.4	3.0	3.6	14.4	16.4	17.8	1,500	11.1	34.0
Petronet LNG	120	SELL	89,738	2,022	750	5.4	6.9	8.3	(22.0)	28.1	20.2	22.2	17.3	14.4	12.5	10.2	9.0	3.5	3.0	2.6	1.5	1.7	2.3	15.9	17.7	18.2	90	(24.8)	9.9
Reliance Industries	1,112	REDUCE	3,308,866	74,549	2,976	49.6	59.2	72.5	(2)	19	22.4	22	19	15.3	11.2	8.6	7.1	2.2	2.0	1.8	0.6	0.7	0.9	11.4	12.4	13.6	1,050	(5.6)	142.2
Energy		Cautious	9,538,227	214,898					35.6	16.9	23.4	16.0	13.6	11.1	7.8	6.4	5.3	2.2	2.0	1.7	1.6	1.9	2.5	13.7	14.4	15.8			
Industrials																													
ABB	869	REDUCE	184,212	4,150	212	16.7	10.8	31.4	(35.2)	(35.4)	190.2	51.9	80.4	27.7	29.8	42.3	16.0	7.6	7.1	5.8	0.2	0.4	0.4	15.6	9.2	23.2	725	(16.6)	3.8
BGR Energy Systems	812	BUY	58,435	1,317	72	16.0	28.0	41.7	32.2	74.6	49.1	50.6	29.0	19.5	28.4	16.5	11.8	10.4	8.3	6.2	0.4	0.9	1.0	22.3	31.8	36.6	950	17.1	4.6
Bharat Electronics	1,746	REDUCE	139,700	3,147	80	96.1	105.9	120.3	(7.4)	10.2	13.6	18.2	16.5	14.5	8.5	7.4	6.2	3.1	2.7	2.4	1.1	1.4	1.4	17.5	17.7	17.6	1,800	3.1	3.7
Bharat Heavy Electricals	2,526	REDUCE	1,236,699	27,863	490	87.9	115.5	138.6	37.7	31.4	20.0	28.7	21.9	18.2	16.1	12.6	10.3	7.8	6.1	4.9	0.7	1.0	1.2	29.8	31.3	29.9	2,675	5.9	33.9
Crompton Greaves	325	ADD	208,263	4,692	642	12.8	14.5	17.3	46.5	12.9	19.6	25.3	22.4	18.7	14.7	12.7	10.4	8.3	6.3	4.9	0.4	0.6	0.7	37.9	32.0	29.5	340	4.7	8.9
Larsen & Toubro	2,161	ADD	1,301,083	29,314	602	57.9	76.7	90.5	15.6	32.3	18.1	37.3	28.2	23.9	20.5	14.8	12.5	5.8	4.8	4.1	0.6	0.6	0.7	18.6	18.8	18.5	2,200	1.8	54.7
Maharashtra Seamless	427	BUY	30,120	679	71	38.6	44.2	50.9	7.7	14.4	15.1	11.1	9.7	8.4	6.0	4.8	3.8	1.3	1.2	1.1	1.4	1.9	2.4	14.8	12.8	13.4	518	21.3	0.6
Siemens	831	REDUCE	280,146	6,312	337	25.2	27.0	31.9	56.4	7.3	18.0	33.0	30.8	26.1	20.4	18.6	15.4	8.2	6.8	5.7	0.6	0.6	0.8	27.6	24.2	23.8	635	(23.6)	9.4
Suzlon Energy	58	REDUCE																											

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	8-Nov-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)
Infrastructure																													
Container Corporation	1,319	REDUCE	171,385	3,861	130	61.1	74.3	85.9	0.3	21.7	15.6	21.6	17.7	15.3	15.2	12.4	10.3	3.9	3.4	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(5.2)	2.5
GMR Infrastructure	54	ADD	198,201	4,466	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	125.4	245.5	408.9	22.6	14.6	13.6	1.9	1.6	1.6	—	—	—	2.4	1.2	0.7	65	20.3	6.9
GVK Power & Infrastructure	46	BUY	72,012	1,622	1,579	0.7	0.9	1.1	(3.4)	23.7	25.2	61.9	50.0	40.0	20.2	18.2	18.9	2.3	2.2	2.1	—	0.7	0.7	4.2	4.5	5.4	54	18.4	7.1
IRB Infrastructure	261	RS	86,764	1,955	332	9.7	12.6	12.1	83.8	29.2	(3.7)	26.8	20.8	21.6	12.8	11.4	10.7	3.7	2.9	2.3	—	—	—	15.6	15.7	11.9	—	—	11.8
Mundra Port and SEZ	161	REDUCE	325,616	7,336	2,017	3.3	4.5	7.2	55.7	34.2	61.6	48.3	36.0	22.3	36.0	23.6	16.6	9.2	7.6	5.9	0.5	—	—	20.8	23.1	29.8	150	(7.1)	7.0
Infrastructure		Attractive	853,978	19,240					15.6	21.7	27.7	41.4	34.0	26.6	21.7	16.0	13.8	3.6	3.1	2.8	—	0.3	0.4	8.6	9.0	10.4			
Media																													
DB Corp	277	BUY	50,364	1,135	182	10.6	13.0	15.7	286.5	22.4	21.0	26.1	21.3	17.6	14.5	12.0	9.9	7.8	6.3	5.5	0.7	1.1	1.4	40.3	32.6	33.2	290	4.6	0.5
DishTV	67	REDUCE	71,088	1,602	1,063	(2.5)	(1.9)	0.4	(61.9)	(25.7)	(122.5)	(26.7)	(35.9)	159.6	87.6	32.9	15.0	17.3	33.5	27.7	—	—	—	249.0	(63.6)	19.0	57	(14.7)	4.4
HT Media	167	NR	39,245	884	235	6.1	7.7	9.2	623.3	25.9	19.8	27.3	21.7	18.1	13.7	11.5	9.5	4.0	3.6	3.3	0.6	1.2	2.4	15.6	17.5	18.9	—	—	1.0
Jagran Prakashan	131	BUY	39,330	886	301	5.8	6.8	7.8	92.0	16.9	14.2	22.4	19.1	16.7	13.5	11.2	9.8	6.4	5.8	5.3	2.7	3.1	3.8	30.0	31.9	33.2	150	14.9	0.8
Sun TV Network	518	REDUCE	204,074	4,598	394	13.1	18.3	22.7	44.0	39.7	24.1	39.6	28.4	22.9	22.5	16.4	13.4	10.5	8.8	7.4	1.4	1.4	1.9	28.3	34.2	35.5	450	(13.1)	3.5
Zee Entertainment Enterprises	296	REDUCE	128,562	2,897	435	10.7	10.8	13.5	26.6	0.7	25.4	27.7	27.5	21.9	20.4	17.7	13.6	3.3	3.1	2.9	0.8	1.0	1.2	12.9	11.8	13.9	270	(8.7)	16.7
Media		Neutral	532,664	12,001					185.9	32.6	40.2	43.8	33.0	23.5	21.1	16.3	12.5	6.3	5.7	5.2	1.1	1.2	1.6	14.4	17.3	22.1			
Metals																													
Hindalco Industries	230	ADD	440,699	9,929	1,914	20.0	14.5	16.3	25.0	(27.4)	12.7	11.5	15.9	14.1	6.5	8.6	8.8	2.0	1.8	1.6	0.6	0.6	0.6	20.4	12.2	12.3	225	(2.3)	34.9
Hindustan Zinc	1,294	BUY	546,756	12,318	423	95.6	95.4	116.4	48.2	(0.2)	22.0	13.5	13.6	11.1	9.2	8.2	5.6	2.9	2.4	2.0	0.5	0.5	0.5	25.1	20.2	20.4	1,430	10.5	4.9
Jindal Steel and Power	714	REDUCE	664,715	14,976	931	38.2	45.7	56.2	16.9	19.4	23.1	18.7	15.6	12.7	12.8	10.5	7.8	5.9	3.9	3.0	0.2	0.3	0.3	37.7	30.3	26.8	625	(12.4)	22.8
JSW Steel	1,339	REDUCE	332,390	7,489	248	80.4	73.6	108.0	481.1	(8.5)	46.8	16.7	18.2	12.4	11.8	10.1	6.9	3.0	1.8	1.4	0.5	0.7	0.7	16.0	12.6	13.0	1,115	(16.7)	34.7
National Aluminium Co.	408	SELL	263,007	5,926	644	12.2	17.0	19.1	(37.2)	39.6	12.2	33.5	24.0	21.4	15.6	11.1	9.7	2.5	2.4	2.2	0.6	1.2	1.2	7.8	10.2	10.6	285	(30.2)	1.7
Sesa Goa	342	REDUCE	304,278	6,855	890	29.6	52.5	54.0	23.5	77.6	2.8	11.6	6.5	6.3	9.5	4.3	6.0	3.8	2.5	1.8	1.0	1.0	1.0	35.8	34.9	31.5	320	(6.4)	42.7
Sterlite Industries	186	BUY	625,772	14,099	3,362	12.0	13.7	18.3	2.8	13.9	33.5	15.5	13.6	10.2	10.0	8.2	5.1	1.7	1.5	1.3	0.5	0.5	0.5	12.9	11.8	13.9	200	7.4	36.3
Tata Steel	633	REDUCE	579,004	13,045	914	(3.6)	66.5	70.0	(103.6)	(1,968.8)	5.7	(177.9)	9.5	9.1	11.4	6.1	5.8	2.5	1.9	1.6	1.2	1.3	—	(1.5)	22.4	18.8	650	2.7	114.2
Metals		Cautious	3,756,621	84,637					(19.9)	45.5	47.2	18.6	13.8	10.9	10.1	7.8	6.6	2.7	2.1	1.8	0.6	0.7	0.5	14.3	16.5	16.2			
Pharmaceutical																													
Apollo Hospitals	524	BUY	67,423	1,519	129	10.9	14.1	17.8	28.8	28.4	26.5	47.8	37.3	29.5	23.0	16.8	14.1	4.0	3.8	3.4	—	—	—	8.3	9.8	11.4	520	(0.7)	2.0
Biocon	434	ADD	86,700	1,953	200	14.8	17.0	24.4	216.4	14.7	43.6	29.2	25.5	17.7	16.9	14.5	11.3	4.8	4.2	3.5	—	—	—	17.9	18.1	22.2	470	8.4	12.2
Cipla	349	REDUCE	280,139	6,312	803	13.7	14.0	16.6	38.1	1.9	19.2	25.5	25.0	21.0	18.3	16.8	14.3	4.7	4.1	3.5	0.6	0.7	0.7	21.1	17.6	18.2	295	(15.4)	14.1
Cadila Healthcare	743	REDUCE	152,067	3,426	205	24.7	33.9	39.3	66.9	37.2	16.1	30.1	21.9	18.9	19.4	14.9	12.8	9.3	6.9	5.4	0.7	0.9	1.1	36.0	36.4	32.3	600	(19.2)	1.8
Dishman Pharma & chemicals	176	ADD	14,302	322	81	14.4	15.8	20.7	(19.7)	9.7	30.7	12.2	11.1	8.5	9.4	8.3	6.5	1.8	1.6	1.3	—	—	—	15.5	15.1	17.0	210	19.4	0.9
Dii's Laboratories	737	REDUCE	96,307	2,170	131	26.1	34.0	44.9	(18.2)	30.4	32.1	28.3	21.7	16.4	20.9	16.0	11.5	6.3	5.2	4.2	—	—	—	24.7	26.4	28.5	800	8.5	3.0
Dr Reddy's Laboratories	1,760	REDUCE	298,961	6,736	170	48.0	68.4	72.2	48.1	42.6	5.5	36.7	25.7	24.4	20.2	14.7	13.7	7.9	6.2	5.1	0.6	0.5	0.5	22.2	27.0	22.9	1,150	(34.7)	15.0
GlaxoSmithkline Pharmaceuticals (a)	2,294	REDUCE	194,266	4,377	85	59.1	70.2	79.6	8.1	18.7	13.5	38.8	32.7	28.8	22.6	19.1	16.5	10.9	9.3	7.9	—	—	—	29.8	30.7	29.7	2,000	(12.8)	1.9
Glenmark Pharmaceuticals	377	NR	103,426	2,330	274	12.7	19.2	20.3	14.7	50.6	5.6	29.6	19.7	18.6	18.1	11.9	11.4	4.4	3.6	3.1	—	—	—	16.7	19.9	17.6	—	—	7.8
Jubilant Organosys	316	BUY	50,204	1,131	159	26.5	31.8	38.9	49.0	19.8	22.4	11.9	9.9	8.1	8.9	8.1	6.5	2.3	1.9	1.5	0.6	0.8	0.9	26.3	21.7	21.1	400	26.5	1.7
Lupin	448	ADD	199,181	4,488	445	15.3	19.7	24.3	27.3	28.4	23.4	29.2	22.8	18.5	24.4	18.2	14.4	7.7	6.0	4.8	0.6	0.8	1.0	34.1	30.0	29.3	490	9.4	8.6
Piramal Healthcare	474	REDUCE	98,968	2,230	209	22.4	4.1	8.8	29.7	(81.7)	113.0	21.1	115.2	54.1	15.4	(9.3)	(11.2)	5.9	0.7	0.6	1.1	1.3	0.7	30.7	159.4	11.4	490	3.5	30.6
Ranbaxy Laboratories	616	SELL	264,066	5,949	428	7.1	27.5	14.8	(128.4)	289.4	(46.0)	87.2	22.4	41.5	20.9	12.8	21.3	6.7	4.8	4.4	—	0.6	0.6	6.9	22.9	10.5	340	(44.8)	17.4
Sun Pharmaceuticals	2,295	REDUCE	475,330	10,709	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	35.2	25.4	26.3	27.5	19.3	18.9	5.7	4.8	4.2	0.6	0.6	0.6	17.8	21.0	17.3	1,835	(20.0)	9.2
Pharmaceuticals		Attractive	2,381,341	53,652					45.2	31.5	7.0	32.3	24.5	22.9	20.0	14.9	13.7	6.0	3.9	3.4	0.4	0.5	0.5	18.4	15.9	14.6			
Property																													
DLF	358	ADD	611,274	13,772	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	33.6	21.9	14.3	22.6	14.4	10.9	2.3	2.1	1.9	0.8	0.8	1.4	7.1	9.9	13.8	378	5.6	49.3
Housing Development & Infrastructure	263	ADD	101,175	2,279	385	12.4	14.1	16.7	(41.2)	13.8	18.3	21.2	18.6	15.7	10.6	12.0	7.5	1.4	1.3	1.2	1.1	1.9	1.9	10.0	9.2	9.9			

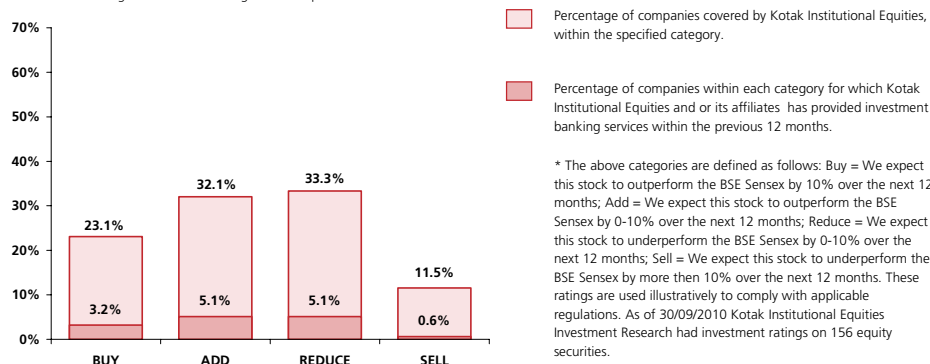
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	8-Nov-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E				
Retail																														
Titan Industries	3,818	ADD	169,463	3,818	44	57.3	83.9	110.9	29.3	46.5	32.2	66.7	45.5	34.4	42.5	30.7	23.4	23.0	16.1	11.4	0.4	0.3	0.4	38.7	41.7	38.8	3,600	(5.7)	16.6	
Retail		Neutral	169,463	3,818					29.3	46.5	32.2	66.7	45.5	34.4	42.5	30.7	23.4	23.0	16.1	11.4	0.4	0.3	0.4	34.5	35.4	33.2				
Sugar																														
Bajaj Hindustan	140	SELL	26,780	603	191	4.3	1.8	13.3	34.1	(57.7)	626.9	32.3	76.4	10.5	9.5	9.0	6.0	1.2	1.1	1.0	0.5	0.5	0.5	3.7	1.5	10.3	93	(33.5)	4.6	
Balrampur Chini Mills	94	ADD	24,251	546	257	4.5	10.1	10.2	(41.1)	124.1	1.6	21.0	9.4	9.2	9.7	6.0	5.0	1.7	1.5	1.4	0.5	0.5	0.5	8.5	17.3	15.5	102	8.0	4.4	
Shree Renuka Sugars	102	REDUCE	68,454	1,542	670	8.8	5.1	5.8	164.2	(42.4)	15.1	11.6	20.1	17.5	6.9	9.3	8.3	2.7	2.2	1.9	0.4	0.3	0.3	29.1	13.0	13.1	80	(21.7)	16.1	
Sugar		Cautious	119,485	2,692					64.0	(19.6)	43.4	15.1	18.8	13.1	8.2	8.4	6.6	1.9	1.7	1.5	0.4	0.4	0.4	12.7	9.1	11.3				
Technology																														
HCL Technologies	406	REDUCE	279,899	6,306	690	17.5	22.8	28.3	0.2	29.9	24.3	23.1	17.8	14.3	11.3	10.6	8.4	4.0	3.5	3.0	1.0	1.5	1.5	19.3	21.4	23.0	390	(3.9)	8.4	
Hexaware Technologies	93	BUY	13,374	301	144	9.3	5.1	10.1	127.7	(45.2)	96.1	10.0	18.2	9.3	5.2	11.5	6.0	1.6	1.4	1.3	1.1	1.1	1.1	17.8	8.3	14.6	110	18.2	2.1	
Infosys Technologies	3,016	BUY	1,731,127	39,003	574	108.3	122.4	153.4	5.7	13.0	25.3	27.8	24.6	19.7	20.4	17.0	13.6	7.5	6.7	5.5	0.8	2.0	1.5	30.1	28.7	30.5	3,400	12.7	71.4	
Mphasis BFL	592	SELL	124,663	2,809	211	43.6	50.3	45.6	207.5	15.5	(9.3)	13.6	11.8	13.0	10.9	9.3	8.8	5.3	3.8	3.0	0.6	0.7	0.8	48.1	37.5	25.8	550	(7.0)	6.8	
Mindtree	516	REDUCE	21,222	478	41	52.2	27.4	39.3	294.3	(47.5)	43.3	9.9	18.8	13.1	8.5	10.3	7.0	3.2	2.9	2.4	0.4	0.3	0.8	35.2	16.1	20.2	450	(12.7)	0.9	
Patni Computer Systems	489	REDUCE	65,169	1,468	133	36.6	40.4	33.7	36.4	10.5	(16.6)	13.4	12.1	14.5	6.8	7.7	7.1	1.8	2.3	2.0	0.6	13.5	1.4	18.2	17.2	14.9	400	(18.2)	14.0	
Polaris Software Lab	166	SELL	16,565	373	100	15.4	19.4	19.8	16.9	26.2	2.2	10.8	8.6	8.4	5.2	6.7	5.6	1.9	1.6	1.4	2.1	2.2	2.3	18.6	20.4	18.0	180	8.3	2.6	
Satyam Computer Services	86	REDUCE	101,489	2,287	1,176	2.5	5.0	5.4	(190.7)	102.3	7.0	34.7	17.2	16.0	17.5	11.2	8.3	5.4	5.7	4.2	—	—	—	58.5	32.2	30.0	80	(7.3)	40.2	
TCS	1,068	BUY	2,090,583	47,101	1,957	35.1	43.0	50.0	32.8	22.4	16.3	30.4	24.8	21.4	23.2	18.1	15.0	10.0	8.2	6.8	1.9	1.6	1.9	37.6	36.3	34.9	1,100	3.0	37.3	
Tech Mahindra	749	REDUCE	92,783	2,090	124	65.1	71.1	70.4	(9.6)	9.2	(1.0)	11.5	10.5	10.6	9.2	10.0	9.3	3.2	2.6	2.2	0.5	0.3	0.3	34.5	29.1	24.1	760	1.5	8.6	
Wipro	431	ADD	1,055,003	23,769	2,447	18.9	21.1	24.3	22.1	12.1	15.0	22.9	20.4	17.7	17.3	14.5	12.0	5.4	4.4	3.7	0.8	1.0	1.2	26.5	23.8	22.8	465	7.8	15.6	
Technology		Attractive	5,591,875	125,986					24.0	17.1	16.5	25.4	21.7	18.6	18.4	15.4	12.7	6.7	5.8	4.8	1.2	1.7	1.5	26.3	26.5	25.6				
Telecom																														
Bharti Airtel	328	REDUCE	1,245,803	28,068	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	13.9	16.4	15.8	7.9	8.6	7.1	3.0	2.5	2.2	—	—	—	24.4	16.5	14.7	305	(7.0)	42.2	
IDEA	69	REDUCE	227,356	5,122	3,300	2.7	1.6	0.9	(5.8)	(42.7)	(44.9)	25.2	44.0	79.8	8.6	10.2	8.5	2.0	1.9	1.9	—	—	—	7.2	4.5	2.6	55	(20.2)	8.5	
MTNL	66	SELL	41,832	942	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.2)	(6.4)	(7.3)	(0.6)	(0.7)	(0.9)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(24.7)	2.6	
Reliance Communications	180	SELL	383,107	8,631	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	8.1	29.9	19.2	7.4	10.0	8.3	1.0	1.0	0.9	0.4	—	—	11.7	3.2	4.9	125	(30.4)	19.6	
Tata Communications	313	REDUCE	89,077	2,007	285	14.0	15.2	15.7	3.2	8.2	3.5	22.3	20.6	19.9	9.1	8.4	8.0	1.3	1.2	1.2	2.1	2.4	2.7	5.2	5.5	5.5	225	(28.0)	3.2	
Telecom		Cautious	1,987,175	44,771					(15.9)	(34.6)	9.7	14.0	21.4	19.5	8.1	9.3	7.6	1.8	1.7	1.5	0.2	0.1	0.1	12.8	7.8	7.9				
Utilities																														
Adani Power	142	ADD	309,233	6,967	2,180	0.8	3.5	19.0	NM	351.8	436.1	181.0	40.1	7.5	146.2	30.8	6.6	5.4	4.7	2.9	—	—	—	4.2	12.5	48.0	143	0.8	5.0	
CESC	392	BUY	48,975	1,103	125	34.6	36.6	42.7	8.5	5.8	16.8	11.3	10.7	9.2	6.6	6.0	6.6	1.1	1.0	1.0	1.1	1.2	1.4	10.8	10.2	10.8	480	22.4	2.5	
Lanco Infratech	64	BUY	152,958	3,446	2,405	2.1	4.1	5.4	46.6	92.8	30.4	29.8	15.5	11.9	16.1	8.9	7.5	4.6	3.6	2.8	—	—	—	17.4	23.9	24.2	83	30.5	7.1	
NHPC	31	SELL	386,243	8,702	12,301	1.9	1.3	1.6	74.9	(28.2)	21.4	16.9	23.6	19.5	10.9	11.7	8.9	1.5	1.5	1.4	1.8	1.1	1.4	9.7	6.4	7.4	28	(10.8)	7.4	
NTPC	193	REDUCE	1,591,375	35,854	8,245	10.8	12.5	14.7	9.6	16.2	17.4	17.9	15.4	13.1	13.7	12.1	10.1	2.5	2.3	2.1	2.1	2.4	2.9	14.5	15.4	16.6	210	8.8	16.2	
Reliance Infrastructure	1,058	ADD	260,321	5,865	246	61.8	65.0	84.5	(1.5)	5.3	30.0	17.1	16.3	12.5	18.4	16.3	11.4	1.4	1.3	1.2	0.8	0.9	1.0	6.3	7.3	10.1	1,160	9.6	23.8	
Reliance Power	172	SELL	412,481	9,293	2,397	2.9	3.1	5.3	179.7	9.8	70.0	60.3	54.9	32.3	(549.0)	238.6	37.0	2.9	2.7	2.5	—	—	—	4.8	5.1	8.1	135	(21.6)	8.1	
Tata Power	1,393	ADD	343,877	7,748	247	60.2	69.2	88.5	20.1	15.0	27.8	23.1	20.1	15.7	14.3	12.9	11.0	2.6	2.4	2.1	0.9	1.0	1.1	12.9	12.5	14.3	1,420	1.9	12.2	
Utilities		Attractive	3,505,463	78,979					23.8	14.7	40.5	22.2	19.3	13.8	17.3	14.9	10.6	2.4	2.2	1.9	1.3	1.4	1.6	10.6	11.2	14.1				
Others																														
Havells India	407	REDUCE	50,833	1,145	125	5.6	19.1	26.1	118.6	242.4	36.7	73.2	21.4	15.6	18.8	13.0	10.5	11.9	8.0	5.5	0.5	0.6	0.7	13.0	44.8	41.6	390	(4.3)	8.1	
Jaiprakash Associates	138	BUY	305,912	6,892	2,214	1.7	4.4	6.2	(12.7)	153.2	41.1	79.0	31.2	22.1	27.1	17.1	12.2	3.6	3.2	2.8	—	—	—	5.1	10.8	13.5	155	12.2	29.2	
Sintex	224	REDUCE	30,630	690	136	24.1	29.3	33.7	0.5	21.6	14.9	9.3	7.7	6.7	9.1	5.5	4.6	1.4	1.2	1.0	0.5	0.6	0.6	15.5	15.8	15.3	420			

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As of September 30, 2010

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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 than 10% over the next 12 months.

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

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Corporate Office

Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120

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