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**IVRCL Infrastructures:** Low valuations, possible on overstated Andhra concern, provide opportunity

### News Round-up

- ▶ ONGC (ONGC IN) is in talks with energy majors BP Plc, Exxon Mobil, BG Group, Eni and BHP Biliton for a strategic tie-up for its Krishna Godavari basin gas block. *(BSTD)*
- ▶ Bharti Airtel (BHARTI IN) raises USD 1.80 bn to pay for 3G licence fee. *(FNLE)*
- ▶ Aban Offshore (ABAN IN) is planning to raise additional long-term resources through issue of FCCBs, GDRs and ADRs not exceeding to USD 400 mn. *(FNLE)*
- ▶ Bank of India (BOI IN) plans to re-enter mutual fund business, for which it is scouting a foreign partner. *(ECNT)*
- ▶ Tata Teleservices (TTLS IN) has raised over USD 957 mn to pay for the 3G auction and finance its roll out that includes bonds floated by the company and loans from commercial banks. *(BSTD)*
- ▶ Coal India has received preliminary expression of interest from NTPC (NATP IN) and Damodar Valley Corporation (DVC) for import of approximately 5 mn tonne of coal in 2010-2011. *(THBL)*
- ▶ Hotel Leelaventure (LELA IN) plans to raise USD 159 mn through QIP and FCCBs to cut debt and expand its Delhi property. *(BSTD)*
- ▶ GMR Infrastructure (GMRI IN) plans to raise up to USD 1.06 mn through various instruments to fund its expansion plans. *(BSTD)*
- ▶ Reliance Infrastructure (RELI IN) expects extra revenue of USD 425 mn by 2011-12 from 11 infrastructure projects, to operationalise during the current financial year. *(BSTD)*
- ▶ Marico (MRCO IN) today announced the acquisition of the aesthetics skincare business of Singapore-based Derma Rx Asia Pacific Private Ltd. *(BSTD)*
- ▶ MTNL (MTNL IN) will invite fresh bids to outsource its 3G network in Mumbai and Delhi by next month. *(BSTD)*
- ▶ HCC (HCC IN) bags USD 189 mn order from Nuclear Power Corporation of India. *(FNLE)*

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

### EQUITY MARKETS

India	Change %			
	25-May	1-day	1-mo	3-mo
Sensex	16,022	(2.7)	(9.7)	(2.5)
Nifty	4,807	(2.8)	(9.7)	(2.3)
<b>Global/Regional indices</b>				
Dow Jones	10,044	(0.2)	(10.4)	(2.7)
Nasdaq Composite	2,211	(0.1)	(12.4)	(1.2)
FTSE	4,941	(2.5)	(14.1)	(7.7)
Nikkei	9,485	0.3	(15.0)	(6.3)
Hang Seng	19,132	0.8	(11.4)	(7.2)
KOSPI	1,552	(0.6)	(11.4)	(2.7)
<b>Value traded – India</b>				
Cash (NSE+BSE)	160.3	177.2	178.5	
Derivatives (NSE)	1,496.3	1,024.5	1,221.0	
Deri. open interest	1,542	1,377	1,297	

### Forex/money market

	Change, basis points			
	25-May	1-day	1-mo	3-mo
Rs/US\$	47.7	73	331	132
10yr govt bond, %	7.4	(4)	(68)	(44)
<b>Net investment (US\$m)</b>				
	24-May	MTD	CYTD	
FII	(189)	(1,459)	(230)	
MFs	60	(271)	(282)	

### Top movers -3mo basis

Best performers	Change, %			
	25-May	1-day	1-mo	3-mo
IBULL IN Equity	132.9	(7.1)	0.6	34.4
BJFIN IN Equity	424.7	(1.0)	29.9	22.4
ADE IN Equity	580.8	(2.2)	1.3	19.4
BOB IN Equity	674.6	(2.1)	(0.0)	15.6
AL IN Equity	57.0	(4.8)	0.9	14.8
<b>Worst performers</b>				
ABAN IN Equity	688.0	(1.8)	(43.7)	(41.8)
NMDC IN Equity	266.0	(2.3)	(11.5)	(38.7)
EDSL IN Equity	450.3	(7.2)	(36.6)	(32.9)
HDIL IN Equity	204.8	(2.0)	(24.7)	(32.3)
PUNJ IN Equity	126.7	(3.2)	(23.8)	(27.6)

**No respite, indeed.** In FY2010-12E, watch for (1) detergents volumes (may not sustain at current levels, in our view), (2) soap market shares—ITC versus HUL, (3) adspends (option to moderate spends to manage margins exist), (4) success (or otherwise) of the recent launches/extensions, (5) limited excitement on likely uptick in volumes and (6) inherent mix deterioration in the near term. We are surprised at the Street's excitement over 11% volume growth in 4QFY10 (4.5% decline in base). REDUCE.

### Company data and valuation summary

Hindustan Unilever

#### Stock data

52-week range (Rs) (high,low)	307-218
Market Cap. (Rs bn)	502.5

#### Shareholding pattern (%)

Promoters	52.0
FIs	14.5
MFs	3.2

#### Price performance (%)

	1M	3M	12M
Absolute	(3.6)	(2.0)	(1.1)
Rel. to BSE-30	6.5	(0.6)	(14.1)

#### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	9.7	10.4	11.8
EPS growth (%)	1.7	7.3	14.0
P/E (X)	23.8	22.2	19.5
Sales (Rs bn)	175.2	191.4	217.4
Net profits (Rs bn)	21.1	22.6	25.8
EBITDA (Rs bn)	29.0	29.7	34.6
EV/EBITDA (X)	15.9	14.9	12.5
ROE (%)	91.6	82.2	80.8
Div. Yield (%)	3.3	3.7	4.2

### What to expect in FY2010-12E

#### ► Detergents volumes may not sustain at current levels

Rin powder volumes were up 50% in 4QFY10 and 80% in March month. We note that Rin had effected a 30% price cut (Rs50 from Rs70) in February 2010, which key competitors like P&G matched by end-March/early-April. HUL likely had higher volume push due to favorable timing mismatch of price cuts by competition.

#### ► Soap market shares: It is ITC versus HUL

HUL has relaunched its entire soaps portfolio and is playing the full pyramid (implying that the 'power brand' strategy is effectively scrapped in this category). The company indicated good volume growth in soaps in the quarter—we highlight price cuts and major activation spends being the key reasons.

However, HUL's good performance in soaps faces the ITC challenge in FY2011E. ITC has achieved an exit-March 2010 market share of 5% and 3.5% in soaps and shampoo, respectively—a highly notable achievement in less than 30 months of category entry. We believe this growth in market share was led by product differentiation (Fiama Di Wills gel bathing bar), aggressive trade promotions (buy three get one free in Superia) and focused investment in distribution (~50% of distributors are dedicated distributors for non-cigarette FMCG).

#### ► Adspends could remain elevated for a while; option to moderate spends to manage margins exist

HUL's adspends to sales ratio is at its highest ever at 14.5% to sales in 4QFY10 and 13.6% in FY2010. We note that the potential to moderate the spends in 2HFY11E or in FY2012E poses upside risks to our estimates. However, we would view any cut in adspends cautiously as it could lead to back-ended loss in volume market share

## REDUCE

MAY 26, 2010

### RESULT

Coverage view: **Attractive**

Price (Rs): **231**

Target price (Rs): **230**

BSE-30: **16,022**

### HIGHLIGHTS

- Soap market shares: It is ITC versus HUL
- Detergents volumes may not sustain at current levels
- Adspends—option to moderate spends to manage margins exist
- Inherent mix deterioration in near term
- Reiterate REDUCE due to prevalence of irrational competition in mature categories

Manoj Menon

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

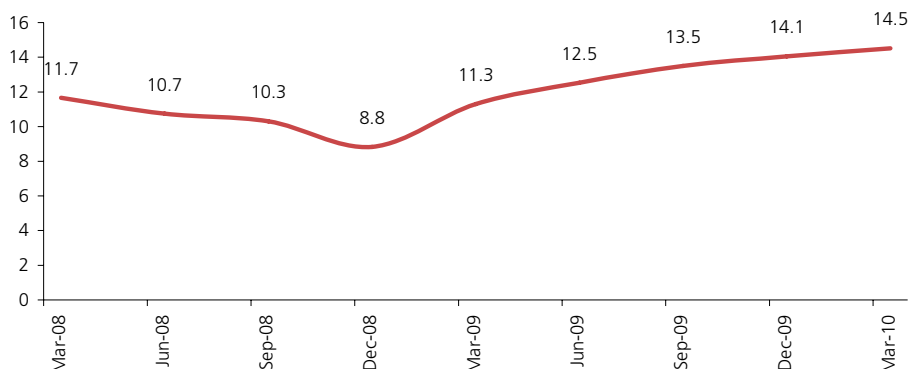
Amrita Basu

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

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

**Potential to cut adspends to protect margins exists**

HUL adspends as % of sales



Source: Company, Kotak Institutional Equities

**► Success (or otherwise) of the recent launches/extensions**

Over the last few years, HUL has seeded quite a few new categories / launched meaningful brand extensions. The ones with high potential are Comfort fabric conditioner, Dove shampoo and conditioner, Sure anti-perspirant, Vaseline Men's range, Knorr soupy noodles, Brookebond Sehatmand (nutritional tea) etc. We note that success (or otherwise) of these new launches are critical for HUL as maintaining market share in most of the categories is possible only at a high incremental cost (of adspends).

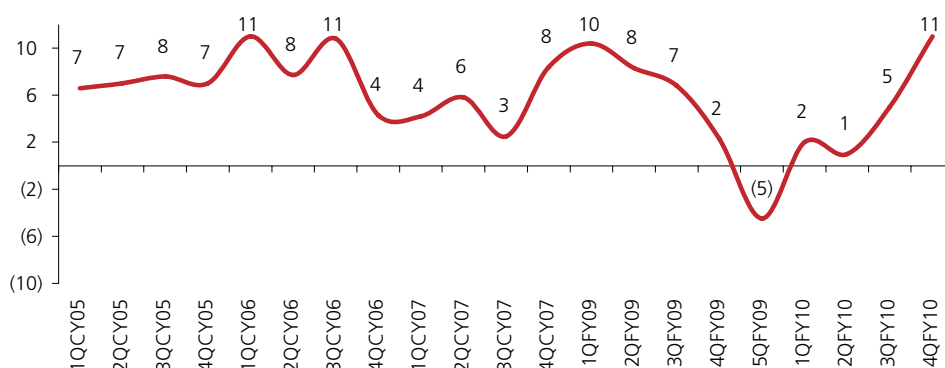
**► Limited excitement on likely uptick in volumes**

Apart from favorable base, substantial boost to volumes is likely due to the extra grammage offer (in detergents, soaps etc.). The company reports value-adjusted volume growth and hence extra grammage offer does not directly boost volumes—however (1) consumers typically stock up during such periods (household inventory increases) and (2) price differentiation was an inducement for the consumer to choose a particular brand (lesser relevance for brand equity per se).

We note that higher household inventory doesn't translate into higher per diem consumption, hence, our conviction in sustainability of this volume growth is muted.

However, one upside risk to our call is if the organized players (HUL, P&G, Henkel etc.) start gaining shares from unorganized/regional players.

**Double-digit volume growth in 4QFY10 on the back of favorable base**  
HUL FMCG volume growth (%)



Source: Company, Kotak Institutional Equities

#### ► Inherent mix deterioration in near term

HUL says it will defend its market shares 'unblinkingly' in all its categories. However, the company is facing irrational competition in mature categories, where competition from P&G and other regional players is forcing HUL to focus on volume growth by investing disproportionately (through price reductions and through higher brand/trade spends)

#### 4QFY10: Sales in line, margins disappoint

HUL reported net sales of Rs43.2 bn (+8%, KIE estimate Rs42.8 bn), EBITDA of Rs5.3 bn (+1%, KIE estimate Rs5.6 bn) and PAT of Rs4.2 bn (-16%, KIE estimate Rs5.1 bn).

Underlying volume growth of 11% (on the back of 4.5% decline in 4QFY09) during the quarter was marginally below our expectation of 13%. We highlight that a substantial part of this volume growth would have been led by extra grammage offers in soaps, detergents etc. and inducements for the consumer to increase household inventory levels.

Gross margin expansion (100 bps) was channelized to fund higher adspends especially in the detergent category. The company is also running consumer promotions in most personal care categories as well (predominantly shampoo).

On a segmental basis, soaps and detergents reported 2% sales decline - likely low single digit volume growth offset by price cuts taken. Personal products reported 19% sales growth likely driven by double digit volume growth (weak base, attributed reasons by management were (1) challenging environment, (2) trade de-stocking and (3) outlet consolidation in organized retail). Personal products margin at 22% was disappointing—significantly below the average of ~27% maintained over the last few years—likely due to higher adspends and brand relaunches.

## Interim results of Hindustan Unilever, March fiscal year-ends (Rs mn)

	4QFY10	4QFY10E	4QFY09	3QFY10	(% chg.)		
					4QFY10E	4QFY09	3QFY10
<b>Net sales</b>	<b>43,158</b>	<b>42,785</b>	<b>39,883</b>	<b>45,043</b>	<b>1</b>	<b>8</b>	<b>(4)</b>
Total expenditure	37,848	37,146	34,610	37,857	2	9	(0)
Material cost	22,175	22,074	20,805	22,111	0	7	0
Employee cost	2,381	2,365	2,344	2,120	1	2	12
Advertising and promotion	6,265	6,604	4,506	6,329	(5)	39	(1)
Other expenditure	7,026	6,103	6,956	7,298	15	1	(4)
<b>EBITDA</b>	<b>5,310</b>	<b>5,639</b>	<b>5,273</b>	<b>7,185</b>	<b>(6)</b>	<b>1</b>	<b>(26)</b>
OPM (%)	12.3	13.2	13.2	16.0			
Other income	929	1,156	892	1,079		4	
Interest	1	22	22	2		(94)	
Depreciation	503	421	413	450		22	
<b>Pretax profits</b>	<b>5,735</b>	<b>6,351</b>	<b>5,731</b>	<b>7,812</b>	<b>(10)</b>	<b>0</b>	<b>(27)</b>
Tax	1,511	1,220	710	1,614			
<b>PAT</b>	<b>4,223</b>	<b>5,131</b>	<b>5,021</b>	<b>6,198</b>	<b>(18)</b>	<b>(16)</b>	<b>(32)</b>
Extraordinary items	1434	0	(1071)	294			
<b>Net profit (reported)</b>	<b>5,657</b>	<b>5,132</b>	<b>3,950</b>	<b>6,491</b>	<b>10</b>	<b>43</b>	<b>(13)</b>
Income tax rate (%)	26.4	19.2	12.4	20.7			
<b>Costs as a % of sales</b>							
Material cost	51.4	51.6	52.2	49.1			
Employee cost	5.5	5.5	5.9	4.7			
Advertising and promotion	14.5	15.4	11.3	14.1			
Other expenditure	16.3	14.3	17.4	16.2			
<b>Segment results of Hindustan Unilever</b>							
<b>Revenues</b>							
Soaps and detergents	19,785	19,783	20,163	20,719	0	(2)	(5)
Personal products	12,552	12,482	10,557	13,770	1	19	(9)
Beverages	5,702	5,534	4,943	5,511	3	15	3
Foods	1,976	2,032	1,610	1,872	(3)	23	6
Icecreams	553	589	455	368	(6)	22	50
Exports	2,555	2,607	2,209	2,653	(2)	16	(4)
Others	644	657	651	958	(2)	(1)	(33)
<b>Segment PBIT margins</b>							
Soaps and detergents	2,527	2,524	3,335	2,785	0	(24)	(9)
Personal products	2,734	3,096	2,389	4,399	(12)	14	(38)
Beverages	790	625	655	817	26	21	(3)
Foods	79	81	(45)	(13)	(3)	(277)	(732)
Icecreams	(16)	(29)	(19)	(37)	(47)	(16)	(58)
Exports	133	156	144	75	(15)	(7)	77
Others	(193)	(347)	(242)	(150)	(44)	(20)	29
<b>Segment PBIT margins, %</b>							
Soaps and detergents	12.8	12.8	16.5	13.4			
Personal products	21.8	24.8	22.6	31.9			
Beverages	13.8	11.3	13.3	14.8			
Foods	4.0	4.0	(2.8)	(0.7)			
Icecreams	(2.8)	(5.0)	(4.1)	(10.2)			
Exports	5.2	6.0	6.5	2.8			
Others	(29.9)	(52.8)	(37.2)	(15.6)			
<b>Capital employed</b>							
Soaps and detergents	(2947)		5,935	(2614)			
Personal products	1548		229	(911)			
Beverages	2497		3,266	440			
Foods	(153)		440	(153)			
Icecreams	486		461	458			
Exports	1889		3,210	1,621			
Others	(500)		(506)	(992)			
Unallocated corporate	23,016		7,580	31,590			
<b>Total</b>	<b>25,835</b>		<b>20,615</b>	<b>29,438</b>		25	(12)

Source: Company, Kotak Institutional Equities

**Reiterate REDUCE on account of irrational competition in mature categories**

We reiterate our REDUCE rating as ~65% of the revenues are from categories which are mature and growing at best at 3% in volumes (where the company also faces irrational competition). We have cut our FY2011E and FY2012E EPS estimates by 3% as we model lower other operational income and higher adspends. We marginally increase our target price to Rs230 (Rs220 previously) as we roll forward to September-2011E EPS. We continue to believe that (1) HUL will likely underperform FMCG industry growth in FY2011E, (3) there is a likelihood of increasing competition in other categories, including personal care and (4) high likelihood of pre-emptive price corrections (by HUL) to align right price/value equation in other categories (Pepsodent toothpaste and Clear shampoo are examples, in our view).

HUL: Profit model, balance sheet, cash model, calendar year-ends 2006-07, March fiscal year-ends 2009-12E (Rs mn)

	2006	2007	15 months 2009 (a)	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>						
Net sales	121,034	136,754	202,393	175,238	191,387	217,423
<b>EBITDA</b>	<b>16621</b>	<b>18787</b>	<b>26780</b>	<b>25484</b>	<b>26535</b>	<b>31181</b>
Other income	3,545	4,315	5,678	3,496	5,195	5,765
Interest	(107)	(255)	(253)	(70)	(34)	(54)
Depreciation	(1,302)	(1,384)	(1,953)	(1,840)	(2,144)	(2,476)
Pretax profits	18,757	21,463	30,251	27,071	29,552	34,416
Tax	(3,218)	(4,049)	(5,729)	(5,981)	(6,928)	(8,630)
<b>Net profit</b>	<b>15539</b>	<b>17415</b>	<b>24522</b>	<b>21090</b>	<b>22624</b>	<b>25785</b>
<b>Earnings per share (Rs)</b>	<b>7.0</b>	<b>7.9</b>	<b>11.3</b>	<b>9.7</b>	<b>10.4</b>	<b>11.8</b>
<b>Balance sheet (Rs mn)</b>						
Total equity	27,235	14,392	20,615	25,518	25,643	25,786
Total borrowings	726	885	4,219	4,219	4,219	4,219
Current liabilities	45,231	51,110	57,838	51,426	64,581	72,981
<b>Total liabilities and equity</b>	<b>73191</b>	<b>66387</b>	<b>82673</b>	<b>81163</b>	<b>94443</b>	<b>102987</b>
Cash	4,169	2,009	17,773	24,034	31,573	33,016
Current assets	27,527	30,765	38,236	26,794	29,671	33,551
Total fixed assets	15,110	17,081	20,789	24,656	27,701	31,119
Investments	24,139	14,408	3,326	3,326	3,326	3,326
Deferred tax asset	2,245	2,124	2,548	2,352	2,173	1,975
<b>Total assets</b>	<b>73191</b>	<b>66387</b>	<b>82673</b>	<b>81163</b>	<b>94443</b>	<b>102987</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow, excl. working capital	20,209	20,674	26,581	23,498	24,947	28,460
Working capital	(471)	3,091	(2,592)	6,199	7,570	3,087
Capital expenditure	(1,576)	(3,355)	(5,660)	(5,708)	(5,188)	(5,894)
Investments	(4,309)	9,464	10,657	0	0	0
<b>Free cash flow</b>	<b>13852</b>	<b>29873</b>	<b>28986</b>	<b>23988</b>	<b>27329</b>	<b>25652</b>
<b>Key assumptions</b>						
Revenue Growth (%)	9.4	13.0	48.0	(13.6)	9.4	13.6
EBITDA Margin(%)	13.9	13.7	13.2	14.8	13.9	14.3
EPS Growth (%)	18.3	12.1	42.7	(14.0)	7.3	14.0

Note:

(a) 15 month period starting January 1, 2008 to March 31, 2009

Source: Kotak Institutional Equities estimates

**FY2011E sales growth guidance exciting but short on detail.** 4QFY10 confirmed that SUNP is back to being predictable. 18-20% sales growth guidance may excite the market in the short term but quality of growth is likely to become visible after 1QFY11E. Catalysts in 2010E are (1) resolution of Taro deal (2) progress at Caraco and (3) approval of Effexor XR. We expect base EPS to grow 17% in FY2011E. There are no material changes to FY2011-12E estimates. We retain our price target of Rs1,560 and our REDUCE rating.

### Company data and valuation summary

Sun Pharmaceuticals

Stock data				Forecasts/Valuations			
52-week range (Rs) (high,low)				2010			
1,853-1,050				2011E			
Market Cap. (Rs bn)				2012E			
328.8				EPS (Rs)			
Shareholding pattern (%)				(25.7)			
Promoters				3.8			
FII				14.6			
MFs				24.3			
2.6				23.4			
Price performance (%)				20.5			
1M				40.8			
3M				46.0			
12M				53.9			
Absolute				13.5			
(1.0)				14.0			
21.3				16.1			
Rel. to BSE-30				15.4			
9.7				15.7			
5.7				18.1			
2.9				18.4			
				17.5			
				14.6			
				17.8			
				16.2			
				16.2			
				0.9			
				0.9			
				0.9			

### 4QFY10 sales at Rs11 bn, 2% higher than our estimate

India finished dosage sales grew 19% yoy to Rs5.1 bn, 5% lower than our estimate. US generics sales at US\$23 mn were lower than our estimate of US\$58 mn due to lower sales of generic Eloxatin. These sales will likely continue till end June2010. SUNP has received an approval for a work plan submitted to USFDA covering remedial actions that would lead to resumption of manufacturing at the Caraco Michigan site. SUNP expects to resolve the issue during FY2011E. ROW sales at US\$30 mn were higher than our estimate of US\$28 mn and grew yoy.

### Adjusted EBITDA margin at 42.50% was 120 bps below our estimate

Material cost at 32% was higher than our estimate of 28% and 28% reported in 3QFY10. SUNP expects material costs for FY2011E to settle around these levels. Staff cost at Rs1.2 bn was as per our estimate. It was flat qoq. This, we think, means the manpower reduction at CPD has stopped.

### PAT at Rs3.9 bn, 2% lower than our estimate

Although EBITDA was 5% lower than our estimate, PAT was 2% lower than our estimate. This was due to lower interest income. SUNP earns around 5% on its cash balances and maintains that interest income declined qoq due to lower interest rate. SUNP expects this to continue. Tax was a negative number due to deferred tax benefit for subsidiaries being accounted in this quarter. We factored in a 7% effective tax rate.

### No material changes to FY2011-12E estimates, Price target and REDUCE rating unchanged

We include generic Eloxatin revenues for 1Q FY2011E only. SUNP is guiding for revenue growth of 18-20% in FY2011E on reported sales of FY2010. Our PT based on FY2012E EPS remains Rs1,560. At our PT, the stock will trade at 23X FY2011E and 20X FY20102E earnings.

## REDUCE

MAY 26, 2010

### RESULT

Coverage view: **Attractive**

Price (Rs): **1,587**

Target price (Rs): **1,560**

BSE-30: **16,022**

### QUICK NUMBERS

- Sales 2% higher than estimates
- EBITDA margin 120 bps below forecast
- No material changes to FY2011-2E

Prashant Vaishampayan  
prashant.vaishampayan@kotak.com  
Mumbai: +91-22-6634-1127

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

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

**4QFY10 sales at Rs10.8 bn, 2% above our estimate**

Sales were higher than estimates as SUNP continued to sell generic Protonix in US market that was not included in our forecasts. India dosage sales beat forecasts while emerging markets revenues was below forecasts. All other segments were broadly in line with our estimates.

India finished dosage sales grew 19% yoy to Rs5.1 bn, 5% lower than our estimate. Sales growth in 1HFY10 exhibited a yoy decline due to the higher sales reported in 4QFY09. The extra sales reported in 4QFY09 were adjusted in 1HFY10. 49 products were brought to the market in FY2010 and 11 were launched in 4QFY2010. Five major therapy areas for SUNP accounted for 70% of domestic sales.

US generics sales at US\$23 mn were lower than our estimate of US\$58 mn due to lower sales of generic Eloxatin. These sales will likely continue till end June2010. SUNP has received an approval for a work plan submitted to USFDA covering remedial actions that would lead to resumption of manufacturing at Caraco Michigan site. SUNP expects to resolve the issue during FY2011E. Combined with Caraco, SUNP now has 84 approvals and 123 products are waiting approval from USFDA. In FY2010, SUNP filed 30 ANDAs with 15 being filed in 4Q.

ROW sales at US\$30 mn were higher than our estimate of US\$28 mn and grew yoy. SUNP entered the European market and registered sales from this geography for the first time in 2QFY10. SUNP markets finished dosages in around 30-35 markets in rest of the world and reported sales of US\$90 mn (9% of total sales) from these markets in FY2009. CIS, Brazil, Mexico, Sri Lanka and South Africa are the key ROW markets for SUNP. The top five countries comprise less than 50% of sales from Row markets. The business from ROW markets is largely retail sales and includes a very small proportion of sales from institutional channels. In some of these countries, Sun has its own infrastructure while in others it markets through exclusive agents and dedicated field force. SUNP has not provided any clarification for this decline.

Global API sales were US\$22 mn against our estimate of US\$26 mn. We forecast higher revenues due to (1) Chattem chemicals acquisition during this year and (2) plant shutdown at CPD which has led to a freeing of capacity for APIs sales to third parties.

**Adjusted EBITDA margin at 42.5%, 120 bps lower than our estimate**

Material cost at 32% was higher than our estimate of 28% and 28% reported in 3QFY10. SUNP expects material costs for FY2011E to settle around these levels.

Staff cost at Rs1.2 bn was as per our estimate and flat qoq. We believe this indicates that manpower reduction at CPD has stopped. We expect this to increase in coming quarters as CPD has started recalling some of these employees as work relating to getting US FDA approval continues to build momentum.

Other expenses at Rs1.6 bn were lower than our estimate of Rs1.9 bn.

R&D at 6% of sales was Rs683 mn, higher than our estimate Rs531 mn but flat yoy. This was due to (1) cutback in R&D spending at CPD and (2) commencement of manufacturing operations at Cranbury, a site from which filings have been completed. SUNP expects R&D to increase to 8-10% of sales in coming quarters.

**PAT at Rs3.9 bn, 2% lower than our estimate**

EBITDA was 5% lower than our estimate while PAT came in 2% lower than our estimate. This was due to lower interest income. SUNP earns around 5% on its cash balances and maintains that interest income declined qoq due to lower interest rate. SUNP expects this to continue. Tax was a negative number due to deferred tax benefit for subsidiaries being accounted in this quarter. We factored in a 7% effective tax rate.

## Interim results- Sun, March fiscal year-ends (Rs mn)

	4QFY10	4QFY10E	4QFY09	3QFY10	% change		
					4QFY10E	4QFY09	3QFY10
<b>Gross revenues</b>	<b>10,254</b>	<b>10,842</b>	<b>11,565</b>	<b>10,398</b>	<b>(5)</b>	<b>(11)</b>	<b>(1)</b>
Excise duty	(571)	229	221	189	NM	NM	NM
<b>Net Sales</b>	<b>10,825</b>	<b>10,613</b>	<b>11,344</b>	<b>10,209</b>	<b>2</b>	<b>(5)</b>	<b>6</b>
Material cost	2,430	2,938	1,178	3,397	(17)	106	(28)
Stock changes	1004	—	988	(540)	NM	2	NM
Staff costs	1,160	1,186	1,193	1,163	(2)	(3)	(0)
Others	1,630	1,850	3,595	2,025	(12)	(55)	(20)
R&D	683	531	645	480	29	6	42
Operating costs	<b>6,906</b>	<b>6,504</b>	<b>7,599</b>	<b>6,525</b>	<b>6</b>	<b>(9)</b>	<b>6</b>
<b>EBITDA</b>	<b>3,918</b>	<b>4,109</b>	<b>3,746</b>	<b>3,684</b>	<b>(5)</b>	<b>5</b>	<b>6</b>
Depreciation	419	400	359	359	5	17	17
Other income	137	600	627	325	(77)	(78)	(58)
<b>PBT</b>	<b>3,903</b>	<b>4,309</b>	<b>4,013</b>	<b>3,650</b>	<b>(9)</b>	<b>(3)</b>	<b>7</b>
Tax	(13)	302	(45)	261	NM	NM	NM
<b>PAT before minority</b>	<b>3,915</b>	<b>4,007</b>	<b>4,058</b>	<b>3,389</b>	<b>(2)</b>	<b>(4)</b>	<b>16</b>
Minority interests	(29)	(10)	109	(0)	NM	NM	NM
<b>PAT for shareholders</b>	<b>3,944</b>	<b>4,017</b>	<b>3,949</b>	<b>3,390</b>	<b>(2)</b>	<b>(0)</b>	<b>16</b>
<b>India</b>	<b>5,309</b>	<b>5,731</b>	<b>6,740</b>	<b>5,615</b>	<b>(7)</b>	<b>(21)</b>	<b>(5)</b>
API	170	300	212	287	(43)	(20)	(41)
Finished dosage	5,136	5,431	6,526	5,326	(5)	(21)	(4)
Others	3	—	3	2	NM	7	26
<b>International</b>	<b>4,945</b>	<b>5,111</b>	<b>4,825</b>	<b>4,773</b>	<b>(3)</b>	<b>2</b>	<b>4</b>
API	996	1,191	1,305	1,125	(16)	(24)	(12)
Finished dosage	3,911	3,920	3,520	3,648	(0)	11	7
Caraco	156	0	893	155	NM	(83)	1
Rest of the world	1,381	1,264	981	1,223	9	41	13
Sun ANDAs	2,374	2,656	1,645	2,270	(11)	44	5
Others	39	—	0	10	NM	19250	291
<b>Total</b>	<b>10,254</b>	<b>10,842</b>	<b>11,565</b>	<b>10,388</b>	<b>(5)</b>	<b>(11)</b>	<b>(1)</b>

Source: Kotak Institutional Equities estimates, Company

**No material changes to FY2011-12E estimates**

We use Rs/US\$ forecast of Rs45 for FY2011E and Rs45.25 for FY2012E.

**Exclusion of sales of exclusivity products** SUNP sold generic Protonix selectively in FY2010E. This is a very high-margin product with EBITDA margin of nearly 80%. SUNP has now decided not to sell any further quantity into US market while it awaits a court decision. We exclude any additional sales from these products in FY2011E and beyond.

**Approval for its version of Effexor XR in US.** This is not a true generic and its sales potential depends on a number of factors including potential competition when SUNP gets its approval. We are not building any revenues from this opportunity in FY2011E and launch of this product could be an upside to our estimates.

**Revenues of CPD manufactured products included in estimates** CPD will continue to distribute SUNP products for which it will make about 12% gross margin. CPD has entered into an agreement with Forest and will be distributing some of its generic products. The deal has been cleared by US FTC and we will include these sales once we get further clarity from 10-K filing of CPD. SUNP expects the problems to be resolved in FY2011E. We build in revenues of US\$25 mn in FY2011E starting in 3Q and US\$60 mn in FY2012E.

**Increasing sales from SUN ANDAs in FY2011E** SUNP filed 30 products in US in FY10, as previously guided. With this strong pipeline, we expect revenues from SUN ANDAs, excluding exclusivity sales to grow to US\$116 mn in FY2011E and US\$133 mn in FY2012E.

Indian revenues were impacted by channel inventory created from Mar 2009 till last quarter. SUNP has clarified there was no impact on sales in 4QFY10E. It says adjusted sales growth was about 15% yoy. We are modeling gross sales growth of 18% for FY2011E.

EBITDA for the current quarter had no one off- items, we think SUNP earned EBITDA margin before R&D costs of 36.6% in this quarter. We expect it to increase it to 38.7% in 1QFY2011E due to sales of eloxatin in US and higher Indian sales growth rate due to low base a year ago. In the remaining three quarters margin is likely to be in the range of 35-37%.

#### Change in estimates

	Current estimates		Old estimates			% change	
	FY2011E	FY2012E	FY2010E	FY2011E	FY2012E	FY2011E	FY2012E
<b>Gross sales</b>	<b>46,011</b>	<b>53,853</b>	<b>41,183</b>	<b>45,397</b>	<b>53,584</b>	<b>1</b>	<b>1</b>
API	6,485	7,704	5,821	6,828	8,082	(5)	(5)
India finished dosages	24,251	29,101	18,596	24,598	29,518	(1)	(1)
Caraco	1,125—	2,263—	895	—	—		
SUN ANDAs	5,220	6,036	2,273	8,016	8,243	(35)	(27)
Exclusivity sales	2,485—	—	7,904	—	—		
RoW	6,446	8,750	4,718	5,955	7,741	8	13
Able Labs, Chattem	—	—	975	—	—		
Excise duty	0	0	(801)	(1,040)	(1,243)	(100)	(100)
<b>Net sales</b>	<b>46,011</b>	<b>53,853</b>	<b>40,383</b>	<b>44,357</b>	<b>52,341</b>	<b>4</b>	<b>3</b>
Materials	(14,229)	(16,574)	(11,361)	(12,150)	(15,171)	17	9
Selling and administration	(6,599)	(7,620)	(6,556)	(6,182)	(7,153)	7	7
Employee cost	(5,000)	(5,750)	(4,848)	(5,170)	(5,946)	(3)	(3)
R&D	(3,400)	(4,308)	(2,313)	(3,105)	(4,449)	9	(3)
Others	(2,301)	(2,693)	(2,791)	(2,218)	(2,617)	4	3
<b>Total expenditure</b>	<b>(31,529)</b>	<b>(36,945)</b>	<b>(27,870)</b>	<b>(28,826)</b>	<b>(35,337)</b>	<b>9</b>	<b>5</b>
<b>EBITDA</b>	<b>14,481</b>	<b>16,908</b>	<b>12,513</b>	<b>15,531</b>	<b>17,004</b>	<b>(7)</b>	<b>(1)</b>
Depreciation and amortisation	(1,850)	(2,000)	(1,514)	(1,850)	(2,000)	0	0
<b>EBIT</b>	<b>12,631</b>	<b>14,908</b>	<b>10,999</b>	<b>13,681</b>	<b>15,004</b>	<b>(8)</b>	<b>(1)</b>
Other income	2,400	2,400	2,516	2,400	2,400	0	0
<b>Pretax profits before extra-ord</b>	<b>15,031</b>	<b>17,308</b>	<b>13,515</b>	<b>16,081</b>	<b>17,404</b>	<b>(7)</b>	<b>(1)</b>
Current tax	(1,054)	(1,212)	(448)	(651)	(743)	62	63
Deferred tax	0	0	(475)	(475)	(475)	(100)	(100)
<b>Reported net profit</b>	<b>13,978</b>	<b>16,096</b>	<b>12,592</b>	<b>14,955</b>	<b>16,186</b>	<b>(7)</b>	<b>(1)</b>
Minority Interest	(51)	20	(43)	(219)	(80)	(77)	(125)
<b>Reported net profit after minoi</b>	<b>14,028</b>	<b>16,076</b>	<b>12,636</b>	<b>15,174</b>	<b>16,266</b>	<b>(8)</b>	<b>(1)</b>

Source: Kotak Institutional Equities estimates, Company

## Normalized EPS

	FY2009	FY2010E	FY2011E	FY2012E
<b>EPS (Rs)</b>				
Base adding back one-time costs	60.4	46.8	55.2	72.2
Generic Trileptal+Protonix+Ethyol	23.9	21.5	—	—
Generic Eloxatin	—	—	7.3	—
Interest income	5.7	1.2	5.4	5.4
One-time expenses	(2.4)	(3.7)	—	—
<b>Total</b>	<b>87.5</b>	<b>65.7</b>	<b>67.9</b>	<b>77.6</b>
<b>P/E (X)</b>				
Base		35.8	23.3	20.4
<b>Total</b>		<b>24.1</b>	<b>23.3</b>	<b>20.4</b>

Source: Kotak Institutional Equities estimates, Company

**We expect FY2011E EPS at Rs68 (down from Rs72) and FY2012E EPS at Rs78 (down from Rs78.5)**

We include generic Eloxatin revenues for 1Q FY2011E only. SUNP is guiding for revenue growth of 18-20% in FY2011E on reported sales of FY2010.

Our PT based on FY2012E EPS remains Rs1,560. At out PT, the stock will trade at 23X FY2011E and 20X FY20102E earnings. We think potential verdict in Protonix will remain an overhang on the stock

SUNP rallied on Tuesday in a weak market. We think market may have been impressed with sales growth guidance of 18-20%. Our sales growth rate is 13% currently. We would wait till 1QFY2011E results to see qualitative aspect of growth. Higher sales of generic Eloxatin will help achieve sales growth guidance but will not impress us as the opportunity may not last beyond June.

## SOTP based price target, FY2011-12E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	FY2011E	FY2012E	(X)	FY2011E	FY2012E
India finished dosage	6,584	8,258	20.0	131,684	165,166
India API	81	95	10.0	807	950
International finished dosage	1,586	2,285	16.0	25,382	36,559
International API	1,379	1,637	13.0	17,924	21,283
Caraco business	(41)	306	16.5	(679)	5,056
Sun Pharma ANDAs	1,757	2,274	15.0	26,356	34,116
Hungary	96	104	15.0	1,447	1,562
<b>Total (ex interest income)</b>	<b>12,949</b>	<b>14,960</b>		<b>202,919</b>	<b>264,693</b>
<b>Value per share (Rs)</b>				<b>983</b>	<b>1,278</b>
Cash per share (Rs)				211	264
<b>Share price target (Rs)</b>					<b>1,542</b>

Source: Kotak Institutional Equities, Kotak Institutional Equities estimates, Company

## Profit and loss statement, March fiscal year-ends, 2007-2012E

	2007	2008	2009	2010E	2011E	2012E
<b>Net sales</b>	<b>21,321</b>	<b>33,565</b>	<b>42,723</b>	<b>40,761</b>	<b>46,011</b>	<b>53,853</b>
Materials	(5,767)	(7,222)	(8,556)	(10,978)	(14,229)	(16,574)
Selling and administration	(2,616)	(3,759)	(5,543)	(6,317)	(6,599)	(7,620)
Employee cost	(1,989)	(2,331)	(3,401)	(4,822)	(5,000)	(5,750)
R& D	(2,440)	(2,725)	(3,099)	(2,472)	(3,400)	(4,308)
Others	(1,785)	(2,017)	(3,484)	(2,810)	(2,301)	(2,693)
<b>Total expenditure</b>	<b>(14,597)</b>	<b>(18,054)</b>	<b>(24,084)</b>	<b>(27,400)</b>	<b>(31,529)</b>	<b>(36,945)</b>
<b>EBITDA</b>	<b>6,724</b>	<b>15,511</b>	<b>18,640</b>	<b>13,361</b>	<b>14,481</b>	<b>16,908</b>
Depreciation and amortisation	(813)	(969)	(1,233)	(1,533)	(1,850)	(2,000)
<b>EBIT</b>	<b>5,910</b>	<b>14,543</b>	<b>17,407</b>	<b>11,828</b>	<b>12,631</b>	<b>14,908</b>
Net finance cost	(127)	(88)	—	—	—	—
Other income	2,551	1,539	2,085	2,320	2,400	2,400
<b>Pretax profits before extra-ordinaries</b>	<b>8,335</b>	<b>15,994</b>	<b>19,492</b>	<b>14,148</b>	<b>15,031</b>	<b>17,308</b>
Current tax	(91)	(1,288)	(1,192)	(679)	(1,054)	(1,212)
Deferred tax	158	804	481	0	0	0
<b>Reported net profit</b>	<b>8,402</b>	<b>15,509</b>	<b>18,780</b>	<b>13,469</b>	<b>13,978</b>	<b>16,096</b>
Minority Interests	559	640	603	(41)	(51)	20
<b>Reported net profit after minority interes</b>	<b>7,843</b>	<b>14,869</b>	<b>18,177</b>	<b>13,510</b>	<b>14,028</b>	<b>16,076</b>

Source: Kotak Institutional Equities, Kotak Institutional Equities estimates, Company

## Balance sheet, cash model, March fiscal year-ends, 2007-2012E

	2007	2008	2009	2010E	2011E	2012E
<b>Balance sheet</b>						
Total equity	27,728	49,915	70,449	81,164	92,396	105,676
Total debt	11,144	1,436	1,789	1,789	1,789	1,789
Current liabilities	3,046	6,373	7,198	7,021	7,421	8,022
Minority Interests	438	1,886	1,970	1,929	1,878	1,898
Deferred tax liabilities	895	92	(679)	(679)	(679)	(679)
<b>Total equity and liabilities</b>	<b>43,250</b>	<b>59,701</b>	<b>80,728</b>	<b>91,224</b>	<b>102,806</b>	<b>116,707</b>
Cash and cash equivalents	13,802	12,389	16,690	27,653	37,275	48,225
Current assets	16,086	26,983	25,993	25,360	27,669	31,120
<b>Net fixed assets</b>	<b>9,514</b>	<b>10,354</b>	<b>14,625</b>	<b>14,792</b>	<b>14,442</b>	<b>13,942</b>
Intangible assets	697	1,729	3,253	3,253	3,253	3,253
Capital -WIP	608	686	1,571	1,571	1,571	1,571
Investments	2,543	7,560	18,595	18,595	18,595	18,595
<b>Total assets</b>	<b>43,250</b>	<b>59,701</b>	<b>80,728</b>	<b>91,224</b>	<b>102,806</b>	<b>116,707</b>
<b>Free cash flow</b>						
Operating cash flow, excl. working capital	8,134	15,198	18,841	14,749	14,712	16,980
Working capital	(5,568)	(7,183)	1,113	476	(1,961)	(2,830)
Capital expenditure	(2,103)	(1,787)	(6,401)	(1,700)	(1,500)	(1,500)
Investments	998	(5,017)	(11,035)	—	—	—
<b>Free cash flow</b>	<b>1,461</b>	<b>1,210</b>	<b>2,519</b>	<b>13,525</b>	<b>11,251</b>	<b>12,651</b>

Source: Kotak Institutional Equities estimates, Company

**Business environment improving but pricing uncertainty remains.** Sales were in line with estimates; however, operating margins adjusted for one-time costs were lower qoq due to lower margin in chemicals business. We leave our estimates unchanged for FY2011-12E. We expect sales growth of 5% in FY2011-12E with share from fertilizer/consumer segment (including salt) to increase to 57% of sales in FY2012E from 50% in FY2010. We expect reported EPS of Rs30 in FY2011E increasing to Rs36 in FY2012E. Maintain ADD with TP of Rs340.

### Company data and valuation summary

Tata Chemicals

#### Stock data

52-week range (Rs) (high,low) 357-189

Market Cap. (Rs bn) 74.3

#### Shareholding pattern (%)

Promoters 28.1

FIs 12.6

MFs 8.8

#### Price performance (%)

Absolute (10.4) 8.6 34.8

Rel. to BSE-30 (3.7) 7.2 13.9

#### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	28.6	30.1	35.9
EPS growth (%)	7.4	5.1	19.3
P/E (X)	10.7	10.1	8.5
Sales (Rs bn)	95.4	100.2	106.5
Net profits (Rs bn)	7.0	7.3	8.7
EBITDA (Rs bn)	18.6	20.4	22.3
EV/EBITDA (X)	6.2	5.6	4.7
ROE (%)	17.2	17.3	17.9
Div. Yield (%)	2.9	3.0	3.0

### 4QFY10 sales in line with estimate at Rs24 bn

Overall sales at Rs24 bn were in line with our estimates. However, chemical business sales were lower than estimates due to dip in BMGL sales volume in 4QFY10. BMGL sales for the quarter at Rs3.7 bn was 33% lower than estimate due to (1) lower sales volume at BMGL at 0.22mtpa versus estimate of 0.28mt. According to TTCH, BMGL was shut down for 20 days during the quarter due to extreme cold weather. Fertilizer segment saw Rallis reporting sales higher than our estimate while Phosphatics fertilizer sales volumes were lower than our estimates due to the plant shutdown of around 60 days in 4QFY10.

### Adjusted operating margin at 17% versus our estimate of 20% and 19% in 3QFY10

Operating margin adjusted for the one-time charges at BMGL (restructuring costs of Rs29 mn in 4QY10 and impairment cost of Rs349 mn) declined qoq to 17% from 19% in 3QFY10. This was due to lower PBIT margins in the chemicals business at 15% this quarter versus 19% in 3QFY10. We think the lower margin may be on account of lower margin in GCIP on account of higher export volumes and lower realization net of freight. PBIT margin in fertilizers business and Rallis remained stable qoq.

### We expect reported EPS of Rs30 in FY2011E increasing to Rs36 in FY2012E—no change in est.

We expect share from fertilizer/consumer segment (including salt) to increase to 57% of sales in FY2012E from 50% in FY2010. We expect reported EPS of Rs30 in FY2011E increasing to Rs36 in FY2012E. Excluding amortization charge on restatement of long-term borrowings, we expect EPS of Rs33 in FY2011E increasing to Rs36 in FY2012E.

### Maintain ADD with TP of Rs340

We think soda ash pricing in India may be at risk if safeguard duty gets removed. We factor in sales volumes of around 0.62 mtpa from Mithapur plant in FY2011E, down from 0.68 mtpa reported in FY2010. TTCH is trading at 10X FY2011E and 8X FY2012E on our reported earnings estimate. Our price target of Rs340 implies PE of 10X FY2012E earnings.

# ADD

MAY 25, 2010

### RESULT

Coverage view: **Attractive**

Price (Rs): **298**

Target price (Rs): **340**

BSE-30: **16,022**

### QUICK NUMBERS

- **Adjusted operating margin at 17% versus our estimate of 20% and 19% in 3QFY10**
- **We expect reported EPS of Rs31 in FY2011E increasing to Rs36 in FY2012E**
- **Maintain ADD with TP of Rs340**

Prashant Vaishampayan  
prashant.vaishampayan@kotak.com  
Mumbai: +91-22-6634-1127

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

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

#### 4QFY10 sales in line with estimates at Rs24 bn

Overall sales at Rs24 bn were in line with estimates. However, chemical business sales were lower than estimates due to dip in BMGL sales volume in 4QFY10. Fertilizer segment saw Rallis reporting sales higher than our estimates while Phosphatics fertilizer sales were lower than our estimates due to the plant shutdown for around 2 months in 4QFY10.

- ▶ Fertilizer segment sales at Rs10 bn in 4QFY10 was 4% higher than our estimates. However, the Haldia plant witnessed a shutdown for around 2 months in 4QFY10 leading to lower sales volume of 100,000 tpa versus 160,000 tpa. Babrala plant reported 20% yoy sales increase to 1.2 mtpa despite the converter failure at the plant in 4QFY10. The plant is currently running at 75-80% capacity utilization and TTCH expects production at full capacity by June 2010E.

TTCH acquired majority stake in Rallis in November 2009. Rallis contributed Rs2 bn to TTCH sales in 4QFY10 vs Rs1.3 bn in 3QFY10 with EBIT margin of 17%, same as in 3QFY10. Rallis is largely in crop-protection business and has two streams of revenues: (1) Sales from India which accounts for 70% of total revenues, and (2) exports which is largely driven by contract manufacturing. With the commissioning of Dahej facility in July 2010E, Rallis expects to increase revenues from contract manufacturing. Rallis wants to increase contract manufacturing to 20% of total revenues from the current 10%.

- ▶ BMGL sales for the quarter at Rs3.7 bn was 33% lower than estimates due to (1) lower sales volume at BMGL at 0.22mtpa versus estimate of 0.28mt. According to TTCH, BMGL was shut down for 20 days during the quarter due to extreme cold weather.
- ▶ GCIP USA sales beat estimates with sales at Rs5.2 bn in 4QFY10 due to higher sales volume of 0.6mtpa versus estimate of 0.57 mtpa. This was on account of a pick-up in exports to Latin America which had dipped in 1HFY10 and demand normalization in domestic markets for GCIP. TTCH maintains that GCIP volumes are fully sold out for FY2011E and expects the plant to run at full capacity.
- ▶ Soda ash India sale volumes was largely in line with estimates of 0.19 mtpa aided by (1) revival in demand from key user segments of detergents and glass with domestic demand for soda ash growing at 12% yoy and (2) non removal of safeguard duty imposed in March 2009 in order to protect the industry realizations from cheap Chinese exports.

#### Adjusted operating margin at 17% versus our estimate of 20% and 19% in 3QFY10

Operating margin adjusted for the one-time charges at BMGL (restructuring costs of Rs29 mn in 4QY10 and impairment cost of Rs349 mn) declined qoq to 17% from 19% in 3QFY10. This was due to lower PBIT margins in the chemicals business at 15% this quarter versus 19% in 3QFY10.

- ▶ PBIT margin in fertilizers business and Rallis remained stable qoq. Operating margin in fertilizers improved in 2HFY10 to 12% from 5% seen in 1HFY10 due to improved profitability in phosphatics due to normalization of DAP output prices and lower levels of input costs.

- ▶ PBIT margins in the chemicals business adjusted for the one-time charges at BMGL (restructuring costs of Rs29 mn in 4QY10 and impairment cost of Rs349 mn) was 15% versus estimate of 18% and last quarter's margin of 19%. We think the lower margin may be on account of lower margin in GCIP on account of higher export volumes and lower realization net of freight. The company confirmed that GCIP increased volume and market share by lowering prices. TTCH reports GCIP sales inclusive of freight which leads to the illusion of higher sales realization qoq.

Net material cost including stores, spares at 37% was lower than our estimate of 42% and last quarter's 40% reflecting the benefits of lower input costs. However, freight and forwarding costs increased to Rs3.2 bn from Rs2.7 bn last quarter possibly due to higher export volumes in GCIP. Freight costs have doubled in 4QFY10 from the levels seen in 1QFY10. Similarly other expenses at Rs3 bn were higher qoq from Rs2.7 bn in 3QFY10. All other expenses—staff and fuel costs were largely in line with our estimates.

**PAT excluding restructuring cost at Rs1.3 bn was lower than estimates due to operating performance**

Despite EBITDA being 27% lower than estimates, PAT before minority was 22% lower due to (1) higher other income, and (2) lower tax rate. Depreciation and interest cost at Rs1.2 bn and Rs931 mn was largely in line with our estimates of Rs1.2 bn and Rs900 mn, respectively.

TTCH has accounted for actuarial gains and losses for overseas pension liabilities in FY2010 through the reserves in the balance sheet, a departure from the accounting policy followed in FY2009. TTCH is of the opinion that due to volatility and structure of pension fund such different accounting treatment is permitted under AS21. Had TTCH accounted for it in the P&L, the profit for the year would have been lower by Rs1.6 bn.

#### Interim results- TCL , March fiscal year-ends (Rs mn)

	4QFY10	4QFY10E	4QFY09	3QFY10	% change		
					4QFY10E	4QFY09	3QFY10
<b>Net sales</b>	<b>23,677</b>	<b>24,251</b>	<b>19,075</b>	<b>26,499</b>	<b>(2)</b>	<b>24</b>	<b>(11)</b>
Op. costs	19,933	19,135	17,287	20,938	4	15	(5)
<b>EBITDA</b>	<b>3,744</b>	<b>5,116</b>	<b>1,789</b>	<b>5,561</b>	<b>(27)</b>	<b>109</b>	<b>(33)</b>
Interest(net)	931	900	1,136	909	3	(18)	2
Depreciation	1,252	1,225	1,076	1,113	2	16	12
Other income	105	(18)	1,507	(158)	NM	(93)	NM
<b>PBT</b>	<b>1,666</b>	<b>2,973</b>	<b>1,084</b>	<b>3,380</b>	<b>(44)</b>	<b>54</b>	<b>(51)</b>
Tax	(11)	832	(800)	921	NM	NM	NM
<b>PAT</b>	<b>1,677</b>	<b>2,141</b>	<b>1,884</b>	<b>2,459</b>	<b>(22)</b>	<b>(11)</b>	<b>(32)</b>
Minority interest	366	270	163	335	36	125	9
<b>Reported PAT</b>	<b>1,311</b>	<b>1,871</b>	<b>1,721</b>	<b>2,124</b>	<b>(30)</b>	<b>(24)</b>	<b>(38)</b>
<b>Fertilizer business</b>	<b>10,063</b>	<b>9,639</b>	<b>6,602</b>	<b>12,586</b>	<b>4</b>	<b>52</b>	<b>(20)</b>
India	9,213	8,889	2,614	11,726	4	252	(21)
IMACID	850	750	3,989	860	13	(79)	(1)
<b>Chemical business (C</b>	<b>13,647</b>	<b>14,612</b>	<b>12,375</b>	<b>13,966</b>	<b>(7)</b>	<b>10</b>	<b>(2)</b>
Brunner Mond Grou	3,710	5,550	4,390	4,930	(33)	(15)	(25)
GCIP (USA)	5,240	4,512	3,220	4,550	16	63	15
India	4,697	4,550	5,415	4,486	3	(13)	5
Adjustments	—	—	(650)	—	NM	NM	NM
<b>Total</b>	<b>23,710</b>	<b>24,251</b>	<b>18,977</b>	<b>26,552</b>	<b>(2)</b>	<b>25</b>	<b>(11)</b>

Source: Kotak Institutional Equities estimates, Company

**No material changes to FY2010-11 operational assumptions—we expect reported EPS of Rs30 in FY2011E increasing to Rs36 in FY2012E**

We move to new Re/US\$ forecast of Rs45 for FY2011E, and Rs45.25 for FY2012E. We have made no material changes to our key sales and margin assumptions.

- ▶ **Soda ash:** TTCH reported soda ash sales volumes of 4.3mtpa in FY2010. We expect sales volume of 4.5mtpa in FY2011E, same as that reported in FY2009. We factor in sales volumes at full capacity in FY2011E for GCIP, BMGL. We estimate sales volume at full capacity of 2.5 mtpa for GCIP and 1 mtpa for BMGL, UK. However, Magadi operations are still running at less than full capacity (0.7 mtpa) due to (1) lower export volumes to Asian markets hit by Chinese supplies, and (2) increasing input costs. TTCH is still running the pure ash plant selectively. Accordingly, we factor in sales volumes of 0.5 mtpa in Magadi.
- ▶ **Soda ash pricing in India at risk post removal of safeguard duty in April 2010E.** Safeguard duty of 20%, which was extended six months ago, may be removed in future. TTCH is currently charging a premium of around Rs1,000/tonne to landed price of imported material. In a recent interview, TTCH management expressed its intention to protect its market share in domestic market. Due to overcapacity in Chinese system, we think soda ash pricing in India is at risk and assume a price reduction of Rs2,000 for TTCH in FY2011E. We factor in sales volumes of around 0.62 mtpa from Mithapur plant in FY2011E, down from 0.68 mtpa reported in FY2010.
- ▶ **Fertilizers.** We maintain our urea sales volume at 1.2 mtpa for FY2010-11E and pricing assumption at Rs10,000/tonne (exclusive of the IPP benefit). We account for the additional volume of urea above 0.957mtpa to be sold at US\$250/tonne, at the lower end of the IPP pricing band fixed as per the fertilizer policy.
- ▶ We maintain DAP/complex sales volume of 0.68mtpa in FY2011E and build in specialized fertilizer sales of 0.3 mtpa in 2HFY11E (0.13mtpa at 50% capacity utilization). TTCH is setting up a specialty fertilizer plant at its Babrala unit at a cost of Rs570 mn. This unit is expected to be operational by August 2010E. This initiative is part of TTCH's strategy to slowly shift from the regulated fertilizer market to deregulated fertilizer business. While TTCH has received approval from MoF to market 4 new specialized fertilizers, TTCH expects capacity utilization to reach 100% at this unit within 2-3 years of plant commissioning. TTCH wants to replicate this model by setting up four such units each year taking the total to 10 additional such plants throughout India.

#### We include new businesses in our FY2011-12E estimates

While a number of new business segments have come within TTCH over the last six months, we expect the impact to be meaningful in FY2012E earnings. We expect share from fertilizer/consumer segment (including salt) to increase to 57% of sales in FY2012E from 50% in FY2010. Excluding the amortization, we expect EPS growth of 6% in FY2011-12E. We expect EPS of Rs30 in FY2011E increasing to Rs36 in FY2012E. Excluding amortization charge on restatement of long-term borrowings, we expect EPS of Rs33 in FY2011E increasing to Rs36 in FY2012E.

- ▶ **We include sales of Rs7.2 bn and Rs8.6 bn from Rallis in FY2011-12E.** Rallis reported EBIT margin of 17% in 3Q-4QFY10. We think this is likely to continue as Rallis has discontinued sales of certain low-margin products. We estimate EBIT margin of 17% for this business in FY2011-12E.
- ▶ **We include sales of Rs990 mn from "Swach" in FY2011-12E.** We think this may not be a profitable business for TTCH in first year of operation. Swach, TTCH's low-cost water purifier, was rolled out in two states in FY2010. The current model is priced at Rs999 and has a replaceable filter priced at Rs249, which can run for about six months. TTCH has the capacity to manufacture 1 mn cartridges at its plant at Haldia, West Bengal, and is expecting to clock sales of Rs990 mn in the first full year of operation.

- ▶ We include specialty fertilizer sales of 32,000 tonnes for six months in FY2011E. (130,000 tpa at 50% capacity utilization). This is likely to be a high-margin product for TTCH since prices are deregulated. We think our estimates on pricing may be conservative and may be revised upwards as more clarity emerges from management.
- ▶ We include sales from expanded capacity of salt in FY2012E. Over the next 18 months, TTCH will invest Rs1.8 bn to increase its salt capacity to 900 tonnes per day. This capacity is expected to be operational by June 2011E. We, therefore, expect sales volumes from salt business to increase to 800,000 tonnes p.a. in FY2012E.

### Maintain ADD with TP of Rs340

TTCH is trading at 10X FY2011E and 8X FY2012E on our reported earnings estimate. Our target price of Rs340 implies P/E of 10X FY2012E earnings. We value Rallis business at 11X with no change in multiples for other two businesses—chemicals, mainly soda ash at 7X and fertilizers at 8X. We do not assign a multiple to the consumer business, mainly Swach since we believe it is unlikely to break even in FY2011-12E.

TCL—abridged profit model, balance sheet, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
<b>Profit model</b>						
Net revenues	57,538	59,757	121,533	95,438	100,233	106,539
EBITDA	9,438	9,277	17,548	18,025	20,252	21,307
EBITDA margin (%)	16.4	15.5	14.4	18.9	20.2	20.0
Other income	1,726	6,909	(196)	605	121	1,000
Depreciation	2,739	3,138	4,226	4,468	4,600	4,800
Net finance cost	944	1,289	3,953	3,932	3,325	2,900
PBT	7,481	11,759	9,173	10,231	12,448	14,607
Tax	2,401	2,115	1,575	2,093	3,733	4,382
(Profit)/loss in minority interest	—	—	(1,117)	(1,177)	(1,400)	(1,500)
<b>Reported net profit</b>	<b>5,080</b>	<b>9,644</b>	<b>6,481</b>	<b>6,961</b>	<b>7,314</b>	<b>8,725</b>
<b>Balance sheet</b>						
Total equity	25,718	37,185	47,698	47,164	53,316	60,979
Total debt	18,642	48,505	62,838	49,747	46,918	36,556
Minority interests	—	—	1,522	3,501	4,901	6,401
Net Deferred tax liabilities	2,511	2,837	216	(559)	(559)	(559)
<b>Total liabilities and equity</b>	<b>46,871</b>	<b>88,526</b>	<b>112,273</b>	<b>99,853</b>	<b>104,576</b>	<b>103,375</b>
Net fixed assets incl CWIP	30,561	33,712	39,959	40,684	39,084	37,284
Goodwill on consolidation	7,632	46,492	56,213	53,247	53,247	53,247
Investments	7,753	4,174	4,229	2,070	2,070	2,070
Net current assets	(619)	(2,620)	1,975	(4,038)	2,285	2,885
Cash	1,545	6,767	9,899	7,890	7,890	7,890
<b>Total assets</b>	<b>46,871</b>	<b>88,526</b>	<b>112,273</b>	<b>99,853</b>	<b>104,576</b>	<b>103,375</b>
<b>Ratios</b>						
Diluted EPS (Rs)	20.9	39.6	26.6	24.9	30.0	35.8
ROE (%)	21.2	30.7	17.9	17.2	17.3	17.9
Debt/equity (%)	72.5	130.4	131.7	105.5	88.0	59.9

Source: Kotak Institutional Equities estimates, Company

## SOTP based price target, FY2011-12E

	PAT (Rs mn)		P/E (X)	Valuation (Rs mn)	
	FY2011E	FY2012E		FY2011E	FY2012E
Chemicals	5,360	5,967	7.0	37,521	41,769
Fertilisers	2,144	2,867	8.0	17,156	22,934
Rallis	642	810	10.6	6,809	8,588
Consumer	(135)	(119)			
<b>Total</b>	<b>7,505</b>	<b>8,834</b>		<b>61,485</b>	<b>73,291</b>
Value per share				253	301
Value per share of investments				43	43
<b>Share price target (Rs)</b>					<b>344</b>

Source: Kotak Institutional Equities, Kotak Institutional Equities estimates, Company

## Estimates adjusted for forex (Rs mn)

	2009	2010E	2011E	2012E
Sales	121,533	95,438	100,233	106,539
YoY growth %		-21%	5%	6%
EBITDA	17,548	18,025	20,252	21,307
% to sales	14%	19%	20%	20%
PBT adjusted	11,246	11,314	13,327	14,607
PAT adjusted	8,198	7,822	7,930	8,725
EPS Diluted	33.7	32.1	32.6	35.8
YoY growth %		-5%	1%	10%
Rs/\$ rate	46.1	47.5	45.0	45.3

Source: Kotak Institutional Equities estimates, Company

**Input cost inflation-led cost pressure is likely behind us.** Pricing-led topline growth (+23%) partly compensated for input cost inflation during 4QFY10. Likely tailwinds in tea prices are important for margin improvement in FY2010-12E. Eight O' Clock Coffee sales have grown at ~15%; it has likely decelerated from 20%+ in 1HFY10. Positive triggers are (1) likely utilization of net cash of ~Rs150/share, (2) potential for upside in 'Himalayan' (due to likely JV with Pepsi), and (3) successful reorganization of businesses.

### Company data and valuation summary

Tata Tea

#### Stock data

52-week range (Rs) (high,low) 1,138-661

Market Cap. (Rs bn) 65.4

#### Shareholding pattern (%)

Promoters 35.4

FIs 8.1

MFs 9.4

#### Price performance (%)

Absolute 1M 1.8 3M 14.5 12M 51.0

Rel. to BSE-30 12.4 16.2 31.2

#### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	66.2	73.5	83.7
EPS growth (%)	23.4	11.1	13.8
P/E (X)	16.0	14.4	12.6
Sales (Rs bn)	57.8	63.4	70.2
Net profits (Rs bn)	4.1	4.5	5.2
EBITDA (Rs bn)	7.6	8.9	9.8
EV/EBITDA (X)	10.4	8.4	7.6
ROE (%)	10.9	11.4	12.0
Div. Yield (%)	2.0	2.3	2.6

### Good sales growth; modest disappointment in margins in a difficult input price environment

On a standalone basis, Tata Tea (TT) reported in-line net sales of Rs 4.1 bn (+17%, KIE estimate Rs 4.2 bn), EBITDA of Rs332 mn (+57%, KIE estimate of Rs457 mn) and PAT of Rs533 mn (+42%, KIE estimate Rs415 mn). Higher other income resulted in reported positive PAT surprise.

Sales growth of 17% was primarily led by price hikes (<5% volume growth, in our view). Material cost during the quarter was up 22% indicating higher consumption cost for tea commodity. EBITDA margins improved 200 bps yoy to 8.1% due to favorable base (4QFY09 had the worst impact of timing mismatch between price increases and higher tea prices).

We believe that holding gross margins during a period of higher tea prices is a significant positive and reflective of the company's strong leadership position in the market (full year FY2010 gross margins declined 110 bps when tea commodity prices were up ~40%). TT has maintained its market leadership in the Indian tea market, outperforming HUL. We expect modest expansion in EBITDA margins in FY2011E through benefits of favorable tailwinds in tea prices.

### EOC growth of 15%+, in our view

In 4QFY10, TT reported consolidated net sales of Rs15.7 bn (+23%, likely sales growth of ~15% excluding the recent Russian acquisition 'Grand'), EBITDA of Rs1.7 bn (+7%) and PAT of Rs 1.1 bn (+49%). Lower tax rate aided +49% PAT growth. Tetley sales increased by 25% in GBP terms, (pricing-led) in our view. EBIT margins of coffee segment improved 451 bps to 21.8%—we reckon that TT is deriving operating leverage benefits in Eight O' Clock business.

Eight O' Clock coffee (EOC) sales increased in US\$ terms by 15%+, in our view. We are somewhat disappointed at the seemingly deceleration in EOC growth after a strong 1HFY10. The company had positioned EOC in the value gourmet segment which had worked well during this recessionary phase in US (benefits of consumer trading down).

**BUY**

MAY 25, 2010

### RESULT

Coverage view: **Attractive**

Price (Rs): **1,057**

Target price (Rs): **1,250**

BSE-30: **16,022**

### QUICK NUMBERS

- **Net cash of ~Rs150/share**
- **Sales growth of 17% in India, 23% globally**
- **EOC growth of 15%+, somewhat disappointing**

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

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

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

## Interim standalone results of Tata Tea Ltd, March fiscal year-end (Rs mn)

	4QFY10	4QFY10E	4QFY09	3QFY10	(% chg)		
					4QFY10E	4QFY09	3QFY10
<b>Net sales</b>	<b>4,083</b>	<b>4,191</b>	<b>3,499</b>	<b>4,474</b>	<b>(3)</b>	<b>17</b>	<b>(9)</b>
Total expenditure	3,751	3,734	3,287	4,032	0	14	(7)
Material cost	2,312	2,274	1,891	2,594	2	22	(11)
Staff cost	316	329	304	173	(4)	4	82
Other expenditure	1,123	1,130	1,093	1,265	(1)	3	(11)
<b>EBITDA</b>	<b>332</b>	<b>457</b>	<b>212</b>	<b>443</b>	<b>(27)</b>	<b>57</b>	<b>(25)</b>
<b>OPM (%)</b>	<b>8.1</b>	<b>10.9</b>	<b>6.1</b>	<b>9.9</b>			
Other income	628	281	489	239		28	163
Interest	100	124	147	118		(32)	(15)
Depreciation	32	24	27	33		15	(3)
<b>Pretax profits</b>	<b>829</b>	<b>590</b>	<b>527</b>	<b>532</b>	<b>40</b>	<b>57</b>	<b>56</b>
Tax	296	176	153	142		94	108
<b>Net income (adj.)</b>	<b>533</b>	<b>415</b>	<b>374</b>	<b>389</b>	<b>28</b>	<b>42</b>	<b>37</b>
Extraordinary items	4	-	(82)	(22)			
<b>Reported PAT</b>	<b>537</b>	<b>415</b>	<b>293</b>	<b>368</b>	<b>29</b>	<b>84</b>	<b>46</b>
Income tax rate (%)	35.7	29.7	29.0	26.8			
<b>Cost as a % of sales</b>							
Material cost	56.6	54.3	54.0	58.0			
Staff cost	7.7	7.9	8.7	3.9			
Other expenditure	27.5	27.0	31.2	28.3			

Source: Company, Kotak Institutional Equities

## Interim consolidated results of Tata Tea Ltd, March fiscal year-end (Rs mn)

	4QFY10	4QFY09	3QFY10	(% )chg	
				4QFY09	3QFY10
<b>Net sales</b>	<b>15,705</b>	<b>12,762</b>	<b>15,401</b>	<b>23</b>	<b>2</b>
Total expenditure	13,968	11,132	13,533	25	3
Material cost	6,343	4,527	6,201	40	2
Staff cost	1,750	1,569	1,547	12	13
Advertising and promotion	2,565	2,303	2,800	11	(8)
Other expenditure	3,310	2,733	2,986	21	11
<b>EBITDA</b>	<b>1,737</b>	<b>1,630</b>	<b>1,867</b>	<b>7</b>	<b>(7)</b>
<b>OPM (%)</b>	<b>11.1</b>	<b>12.8</b>	<b>12.1</b>		
Other income	44	106	142	(58)	(69)
Interest	30	125	100	(76)	(70)
Depreciation	272	303	261	(10)	4
<b>Pretax profits</b>	<b>1,480</b>	<b>1,308</b>	<b>1,649</b>	<b>13</b>	<b>(10)</b>
Tax	386	574	613	(33)	(37)
<b>Net income</b>	<b>1,094</b>	<b>734</b>	<b>1,036</b>	<b>49</b>	<b>6</b>
Extraordinary items	(792)	(624)	(113)	27	598
<b>Reported PAT</b>	<b>302</b>	<b>110</b>	<b>922</b>	<b>175</b>	<b>(67)</b>
Income tax rate (%)	26.1	43.9	37.2		
<b>Cost as a % of sales</b>					
Material cost	40.4	35.5	40.3		
Staff cost	11.1	12.3	10.0		
Advertising and promotion	16.3	18.0	18.2		
Other expenditure	21.1	21.4	19.4		
<b>Segment results of Tata Tea Ltd</b>					
<b>Revenue</b>					
Tea	11,855	9,770	11,843	21	0
Coffee & Other Produce	3,568	2,793	3,554	28	0
Others	308	96	94	221	229
Unallocated	2	(212)	2	(101)	17
<b>EBIT</b>					
Tea	2,229	625	1,480	256	51
Coffee	778	483	592	61	32
Others	(14)	(99)	(39)	(86)	(65)
<b>EBIT Margin (%)</b>					
Tea	18.8	6.4	12.5		
Coffee	21.8	17.3	16.6		
Others	(4.4)	(102.8)	(41.7)		
<b>Capital Employed</b>					
Tea	26,911	35,013	32,244	(23)	(17)
Coffee	15,318	10,240	13,888	50	10
Others	213	695	252	(69)	(15)
Unallocated	5,362	717	6,578	648	(18)

Source: Company, Kotak Institutional Equities

## Auction tea prices (Rs/kg)

Tea auction prices														
(Rs/kg)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	% change (2010 / 2009)
January	92	68	67	74	50	50	55	56	58	62	68	85	95	13
February	89	64	62	69	47	62	50	55	57	57	60	80	87	8
March	80	59	52	56	43	55	46	52	55	58	59	78	74	-5
April	84	59	48	57	48	52	55	56	65	69	71	99		
May	75	74	60	63	57	54	62	57	66	67	78	120		
June	76	76	61	61	59	56	64	58	72	71	87	115		
July	75	76	68	66	60	60	66	60	71	70	88	108		
August	73	75	66	62	56	53	68	58	69	66	93	111		
September	71	79	64	59	60	52	71	55	72	69	100	107		
October	69	82	63	49	56	51	69	53	69	67	99	112		
November	72	80	58	54	57	53	68	59	63	69	94	115		
December	68	71	60	59	56	57	65	61	64	74	90	110		
<b>Yearly average</b>	<b>77</b>	<b>72</b>	<b>61</b>	<b>61</b>	<b>54</b>	<b>55</b>	<b>62</b>	<b>57</b>	<b>65</b>	<b>67</b>	<b>82</b>	<b>103</b>		
<b>Year-on-year (% change)</b>	<b>18</b>	<b>(7)</b>	<b>(16)</b>	<b>0</b>	<b>(11)</b>	<b>1</b>	<b>13</b>	<b>(8)</b>	<b>15</b>	<b>2</b>	<b>24</b>	<b>25</b>		

Source: Indian Tea Board

**Retain BUY, TP Rs1,250/share**

We retain our BUY rating and roll over our target price to September-2011E EPS—we upgrade our TP to Rs1,250 (Rs1,200 previously). At our TP, the stock would trade at 16X P/E. We model EPS of Rs73.5 and Rs83.7 for FY2011E and FY2012E, respectively.

Positive triggers are (1) likely utilization of net cash of ~Rs150/share, (2) successful inorganic forays, (3) potential for upside in 'Himalayan' (due to likely JV with Pepsi), and (4) successful reorganization of businesses.

Key risks to our rating are (1) higher-than-expected tea commodity prices and any inability to pass on cost increases, and (2) lack of pricing power in the UK market.

The Board of Directors of the company has approved (1) change in name of the company to Tata Global Beverages from Tata Tea Limited subject to shareholder approval, (2) sub-division of the equity shares from Rs10/share to Re1/share subject to shareholder approval.

Tata Tea: Consolidated profit model, balance sheet, cash model 2006-2012E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>						
<b>Net sales</b>	<b>40,249</b>	<b>43,096</b>	<b>48,479</b>	<b>57,830</b>	<b>63,406</b>	<b>70,216</b>
<b>EBITDA</b>	<b>6,846</b>	<b>6,820</b>	<b>6,243</b>	<b>6,837</b>	<b>8,002</b>	<b>8,797</b>
Other income	669	539	500	720	922	957
Interest	(2,614)	(2,074)	(448)	(279)	32	43
Depreciation	(967)	(916)	(987)	(1,029)	(1,068)	(1,339)
Extraordinary items	1,724	16,224	7,255	(191)	0	0
Pretax profits	5,657	20,593	12,563	6,058	7,888	8,459
Tax	(1,076)	(1,343)	(1,477)	(2,124)	(2,670)	(2,754)
<b>Net profits</b>	<b>4,581</b>	<b>19,250</b>	<b>11,086</b>	<b>3,933</b>	<b>5,218</b>	<b>5,705</b>
<b>Earnings per share (Rs)</b>	<b>47.4</b>	<b>46.8</b>	<b>53.7</b>	<b>66.2</b>	<b>73.5</b>	<b>83.7</b>
<b>Dividend per share (Rs)</b>	<b>15.0</b>	<b>35.0</b>	<b>17.5</b>	<b>21.6</b>	<b>24.0</b>	<b>27.3</b>
<b>Balance sheet (Rs mn)</b>						
Total equity	21,722	34,142	36,310	38,652	41,465	44,664
Total borrowings	45,778	26,093	24,311	22,741	20,864	19,163
Current liabilities	17,326	24,229	27,088	28,791	34,701	37,531
<b>Total liabilities and equity</b>	<b>84,825</b>	<b>84,465</b>	<b>87,708</b>	<b>90,184</b>	<b>97,031</b>	<b>101,358</b>
Cash	1,188	13,232	10,892	8,833	10,293	10,178
Current assets	12,627	20,054	34,974	40,516	46,137	51,109
Total fixed assets	64,889	37,268	38,330	38,122	37,887	37,358
Investments	6,122	13,910	3,513	2,713	2,713	2,713
<b>Total assets</b>	<b>84,825</b>	<b>84,465</b>	<b>87,708</b>	<b>90,184</b>	<b>97,031</b>	<b>101,358</b>
<b>Key assumptions</b>						
Revenue growth (%)	29.6	7.1	12.5	19.3	9.6	10.7
EBITDA margin(%)	17.0	15.8	12.9	11.8	12.6	12.5
EBITDA growth (%)	25.5	(0.4)	(8.5)	9.5	17.0	9.9
EPS growth (%)	(9.0)	(1.2)	14.7	23.4	11.1	13.8

Source: Kotak Institutional Equities estimates

### Exceptional items mar 4QFY10 results; maintain ADD on inexpensive valuations.

Aban reported 4QFY10 net income (consolidated) at Rs393 mn, significantly below our estimate of Rs2.25 bn. The negative variance was due to exceptional items (1) foreign exchange loss of Rs1.2 bn and (2) Rs1.2 bn for diminution in the value of investment in subsidiary. However, 4QFY10 reported EBITDA of Rs6.6 bn—in line with our estimate. We maintain our ADD rating given potential upside of 31% to our target price of Rs900. Key downside risks stem from debt-repayment capability.

#### Company data and valuation summary

Aban Offshore

##### Stock data

52-week range (Rs) (high,low) 1,682-631

Market Cap. (Rs bn) 29.9

##### Shareholding pattern (%)

Promoters 52.9

FIs 9.6

MFs 11.8

##### Price performance (%)

Absolute (43.7) (41.8) (19.4)

Rel. to BSE-30 (37.6) (40.4) (31.7)

##### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	94.5	172.3	103.6
EPS growth (%)	(2.5)	82.3	(39.8)
P/E (X)	7.3	4.0	6.6
Sales (Rs bn)	33.6	39.4	36.9
Net profits (Rs bn)	4.1	7.8	4.6
EBITDA (Rs bn)	21.0	23.7	20.7
EV/EBITDA (X)	8.1	5.9	6.4
ROE (%)	21.7	20.8	11.1
Div. Yield (%)	0.5	0.5	0.6

### 4QFY10 EBITDA in line with estimates; PAT much below estimate given extraordinary/one-offs

Aban reported 4QFY10 EBITDA (consolidated) at Rs6.6 bn which was in line with our estimate. However, net income (consolidated) was at Rs393 mn versus our expected Rs2.2 bn. The negative variance was due to extraordinary/one-off items—(1) foreign exchange loss of Rs1.2 bn and (2) Rs1.2 bn for diminution in the value of investment in subsidiary. The diminution in the value of investments reflects the bankruptcy of Petrojack which filed for bankruptcy in March 2010.

### Valuations are cheap

We maintain our ADD rating on the stock with a DCF-based target price of Rs900. We have retained our ADD rating on (1) inexpensive valuations, (2) sharp correction by 34% in the past two weeks, which more than reflects the impact of sinking of Aban Pearl and (3) significant potential upside of 31% to our target price. We note that the stock valuations look attractive with the stock currently trading at 6X FY2011E EBITDA and 6.5X FY2012E EBITDA. On a P/E basis, the stock is trading at 4X FY2011E EPS and 6.6X FY2012E EPS. We assume a higher WACC of 12.5% versus 12% previously to factor higher risk to cash flows and concerns regarding debt-repayment ability.

### Deployment of idle rigs gives some breathing space

We note that Aban's entire fleet except Aban Abraham is either deployed or has been contracted. This should allay concerns with respect to idle fleet. Exhibit 2 gives details of the existing and new contracts entered into in the past six months along with the contract amounts and tenure. The deployment of most if the fleet should provide some comfort to our earnings estimates for FY2011E and FY2012E. We note that we are building a sharp decline in dayrates (up to 35%) for jack-up rigs to reflect the demand-supply imbalance in the jack-up rig market.

### Key risk stems from ability to repay debt

We note that a key risk to the stock stems from the ability of the company to refinance its debt. We highlight that Aban's net debt/EBITDA ratio stands at 4.8X and 5X in FY2011E and FY2012E and the interest coverage ratio is at 2.7X and 2.6X in FY2011E and FY2012E. The company intends to raise US\$924 mn through issue of FCCB/ADR/GDR (US\$400 mn) and equity (Rs25 bn).

# ADD

MAY 26, 2010

### RESULT

Coverage view: **Cautious**

Price (Rs): **688**

Target price (Rs): **900**

BSE-30: **16,022**

### QUICK NUMBERS

- In-line 4QFY10 EBITDA at Rs6.6 bn (+27% qoq)
- Interest coverage ratio at 2.7X and 2.6X in FY2011E and FY2012E
- 31% upside to our fair value

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

Tarun Lakhota  
tarun.lakhota@kotak.com  
Mumbai: +91-22-6634-1188

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

## Key details of 4QFY10 results

Exhibit 1 gives details of Aban's 4QFY10 results and compares it with 3QFY10 and 4QFY09 results.

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

	4QFY10	4QFY10E	4QFY09	3QFY10	(% chg.)			yoy		
					deviation	yoy	qoq	FY2010	FY2009	(%chg.)
<b>Net sales</b>	<b>10,210</b>	<b>10,394</b>	<b>7,741</b>	<b>8,413</b>	<b>(1.8)</b>	<b>31.9</b>	<b>21.4</b>	<b>33,587</b>	<b>30,501</b>	<b>10.1</b>
<b>Total expenditure</b>	<b>(3,618)</b>	<b>(3,782)</b>	<b>(3,428)</b>	<b>(3,220)</b>	<b>(4.4)</b>	<b>5.5</b>	<b>12.4</b>	<b>(12,584)</b>	<b>(13,174)</b>	<b>(4.5)</b>
Consumption of stores and spares	(265)	—	(517)	(387)				(1,300)	(1,890)	(31.2)
Staff cost	(866)	—	(832)	(737)				(2,883)	(3,442)	(16.2)
Machinery rental	(263)	—	(307)	(18)				(463)	(1,111)	(58.4)
Repairs to machinery	(315)	—	(160)	(105)				(626)	(584)	7.1
Insurance	(172)	—	(176)	(240)				(688)	(628)	9.6
Other expenses	(1,737)	—	(1,437)	(1,733)				(6,623)	(5,518)	20.0
<b>EBITDA</b>	<b>6,592</b>	<b>6,611</b>	<b>4,313</b>	<b>5,193</b>	<b>(0.3)</b>	<b>52.8</b>	<b>26.9</b>	<b>21,003</b>	<b>17,327</b>	<b>21.2</b>
<b>OPM (%)</b>	<b>64.6</b>	<b>63.6</b>	<b>55.7</b>	<b>61.7</b>				<b>62.5</b>	<b>56.8</b>	
Other income	10	87	16	39	(88.2)	(34.1)	(73.8)	219	4,043	(94.6)
Interest	(2,194)	(2,537)	(2,258)	(2,599)	(13.5)	(2.8)	(15.6)	(9,768)	(8,553)	14.2
Depreciation	(1,281)	(1,681)	(1,228)	(1,352)	(23.8)	4.3	(5.2)	(4,616)	(6,015)	(23.3)
<b>Pretax profits</b>	<b>3,127</b>	<b>2,479</b>	<b>843</b>	<b>1,281</b>	<b>26.1</b>	<b>271.1</b>	<b>144.1</b>	<b>6,838</b>	<b>6,802</b>	<b>0.5</b>
Extraordinaries	(2,408)	—	(1,514)	—				(2,408)	—	
<b>Reported PBT</b>	<b>719</b>	<b>2,479</b>	<b>(671)</b>	<b>1,281</b>	<b>(71.0)</b>	<b>(207.2)</b>	<b>(43.9)</b>	<b>4,430</b>	<b>6,802</b>	<b>(34.9)</b>
Tax	(563)	(536)	(612)	(727)				(2,651)	(2,646)	
Deferred taxation	22	(4)	8	17				80	138	
<b>Net income</b>	<b>178</b>	<b>1,940</b>	<b>(1,275)</b>	<b>570</b>	<b>(90.8)</b>	<b>(114.0)</b>	<b>(68.8)</b>	<b>1,860</b>	<b>4,295</b>	<b>(56.7)</b>
Share in joint venture	215	311	344	324	(31.0)	(37.7)	(33.7)	1,250	1,116	12.0
Minority interest	—	—	(0)	—				—	(4)	
<b>Reported PAT</b>	<b>393</b>	<b>2,251</b>	<b>(931)</b>	<b>894</b>	<b>(82.6)</b>	<b>(142.2)</b>	<b>(56.1)</b>	<b>3,110</b>	<b>5,407</b>	<b>(42.5)</b>

Source: Company, Kotak Institutional Equities estimates

- **In-line revenues and EBITDA.** Aban reported 4QFY10 revenues at Rs10.2 bn (+32% yoy, +22% qoq) was marginally below our estimated Rs10.4 bn. Aban reported 4QFY10 EBITDA of Rs6.6 bn (+53% yoy, +27% qoq) in line with our estimate. EBITDA margin at 64.6% (up 280 bps qoq) was above our estimated 63.6%.
- **Diminution in the valuations of investment for Rs1.2 bn.** The company provided for of Rs1.2 bn in 4QFY10 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 Rs1.94 bn as on March 31, 2009.
- **Dividend payout of Rs3.6/share.** The company announced final dividend payout of Rs3.6 per share which is same as in FY2009.
- **Exchange loss.** Aban reported exchange fluctuation loss of Rs1.2 bn in 4QFY10.

## Earnings revision

We have revised our earnings estimates for Aban to Rs172.3 (+1%) and Rs103.6 (+5%) in FY2011E and FY2012E to reflect (1) higher-than-expected day rate from the plausible new contract of Deep Driller 6, (2) changes due to 4QFY10 earnings and (3) other minor changes. We note that the company has received a letter of intent for a charter valued at US\$187 mn on jack-up rig Deep Driller 6 in the Middle East for a period of four years.

## Aban Offshore, Contract details

Contract period and day rates

Name	Location	Contract period		Day rates	
		Start date	End date	Currency	Amount
Fleet- Aban Offshore Ltd					
Aban-II	East coast	26-May-07	25-Sep-10	INR	3,782,466
Aban-III	Mumbai High	1-Mar-08	30-Apr-11	USD	156,600
Aban-IV	Mumbai High	30-Dec-07	31-Jan-11	USD	156,600
Aban-V	Mumbai High	1-Mar-08	31-May-11	USD	156,600
Aban-VI	Persian Gulf	1-Jan-08	31-Dec-13	EUR	62,450
FPU Tahara	East coast	1-Jan-10	31-Jan-11	USD	49,000
Aban Ice	Mumbai High	1-Jul-09	30-Sep-12	INR	6,185,700
Fleet- Aban Singapore Pte Ltd					
Aban-VII	Qatar	1-Jun-10	13-Jul-10	USD	59,524
Aban-VIII	Middle East	1-Jun-08	30-Jun-12	USD	170,000
Aban Abraham	Gulf of Guinea	1-Jul-09	30-Apr-10	USD	325,000
Fleet- Sinvest					
Deep Driller 1	India	1-Jun-10	31-May-11	USD	117,143
Deep Driller 2	Middle East	1-Nov-09	31-Oct-12	USD	176,667
Deep Driller 3	Malaysia	15-Oct-08	30-Oct-12	USD	165,000
Deep Driller 4	Middle East	1-Nov-09	31-Oct-12	USD	176,667
Deep Driller 5	Middle East	1-Sep-09	30-Sep-12	USD	176,667
Deep Driller 6	Middle East	1-Jul-10	30-Jun-14	USD	133,571
Deep Driller 7	Mexico	1-Nov-09	31-Dec-11	USD	106,000
Deep Driller 8	Brunei	1-Jul-10	30-Jun-14	USD	113,571
Deep Venture	Angola	10-Aug-09	28-Feb-11	USD	525,000

Source: Company, Kotak Institutional Equities estimates

## Comparative valuation of drilling services companies

Company	25-May-10	Currency	Year-end	Mkt Cap. (US\$ mn)	EV/EBITDA (X)			PER (X)		
	Price (local)				LFY	FY1	FY2	LFY	FY1	FY2
Aban Offshore	688.3	INR	Mar	665	8.2	6.0	6.5	7.8	4.0	6.6
Atwood Oceanics	26.7	USD	Sep	1,718	5.4	4.9	4.2	6.8	6.5	5.7
Diamond Offshore	67.7	USD	Dec	9,418	4.4	4.8	4.7	6.8	8.2	8.0
Ensco International	37.8	USD	Dec	5,392	3.7	5.0	4.2	6.9	9.5	7.9
Noble Corp.	31.3	USD	Dec	7,995	3.2	3.7	3.8	4.9	5.7	5.9
Pride International	23.9	USD	Dec	4,197	7.6	9.0	5.3	12.4	13.1	7.3
Transocean	54.0	USD	Dec	17,264	4.6	5.1	4.6	5.5	6.3	5.4
Hercules	2.8	USD	Dec	322	7.7	6.8	5.5	NA	NA	NA
Average for comparables					5.2	5.6	4.6	7.2	8.2	6.7

Source: Bloomberg, Kotak Institutional Equities estimates

## Our DCF-based valuation for Aban is Rs900 per share

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

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	Terminal value
EBITDA	21,003	23,726	20,707	20,345	20,090	20,670	21,000	22,086	22,253	22,481	22,481	22,481	
Tax expense	(4,697)	(4,725)	(3,711)	(3,910)	(3,795)	(3,921)	(4,024)	(4,335)	(4,367)	(4,438)			
Income from joint venture	1,250	1,248	100	100	100	100	100	100	100	100			
Changes in working capital	(5,943)	6,047	841	(529)	81	(377)	55	(580)	(34)	(54)			
<b>Cash flow from operations</b>	<b>11,614</b>	<b>26,296</b>	<b>17,937</b>	<b>16,007</b>	<b>16,476</b>	<b>16,472</b>	<b>17,131</b>	<b>17,271</b>	<b>17,951</b>	<b>18,089</b>			
Capital expenditure	10,964	(825)	(880)	(808)	(950)	(891)	(1,033)	(787)	(754)	(757)			
Cash flow from insurance of Aban Pearl		10,800											
<b>Free cash flow to the firm</b>	<b>22,578</b>	<b>36,270</b>	<b>17,057</b>	<b>15,198</b>	<b>15,526</b>	<b>15,581</b>	<b>16,098</b>	<b>16,484</b>	<b>17,198</b>	<b>17,331</b>	<b>17,331</b>	<b>17,331</b>	<b>138,651</b>
Discounted cash flow-now	22,982	32,817	13,718	10,865	9,867	8,801	8,083	7,357	6,823	6,112			
Discounted cash flow-1 year forward		36,920	15,433	12,223	11,100	9,901	9,093	8,277	7,676	6,876	6,112		
Discounted cash flow-2 year forward			17,362	13,751	12,487	11,139	10,230	9,311	8,635	7,735	6,876	6,112	
Discount rate	12.5%												
Growth from 2019 to perpetuity	0.0%												
<b>Fiscal Year end</b>	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19			
<b>Today</b>	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10			
<b>Days left</b>	(55)	310	675	1,040	1,405	1,770	2,135	2,500	2,865	3,230			
<b>Years left</b>	(0.2)	0.8	1.8	2.8	3.8	4.8	5.8	6.8	7.8	8.8			
<b>Discount factor at WACC</b>	<b>1.02</b>	<b>0.90</b>	<b>0.80</b>	<b>0.71</b>	<b>0.64</b>	<b>0.56</b>	<b>0.50</b>	<b>0.45</b>	<b>0.40</b>	<b>0.35</b>			

	Now	+ 1-year	
<b>Total PV of free cash flow (a)</b>	<b>123,610</b>	<b>72%</b>	<b>103,639</b>
PV of terminal value (b)	48,894	28%	48,894
<b>EV (a) + (b)</b>	<b>172,504</b>		<b>152,533</b>
Net debt	142,541		113,376
<b>Equity value</b>	<b>29,963</b>		<b>39,157</b>
No. of shares	43.5		43.5
<b>Implied share price (Rs)</b>	<b>689</b>		<b>900</b>
Exit EV/EBITDA multiple (X)	6.2		
Exit FCF multiple (X)	8.0		

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

	WACC				
	11.5%	12.0%	12.5%	13.0%	13.5%
<b>-1.5%</b>	1,004	880	765	658	558
<b>-1.0%</b>	1,056	926	806	695	592
<b>-0.5%</b>	1,113	977	852	736	628
<b>0.0%</b>	1,174	1,031	<b>900</b>	779	667
<b>0.5%</b>	1,241	1,091	953	826	709
<b>1.0%</b>	1,315	1,155	1,010	877	754
<b>1.5%</b>	1,395	1,226	1,073	932	804

Source: Kotak Institutional Equities estimates

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

	2008	2009	2010E	2011E	2012E
<b>Profit model</b>					
Total income	20,211	30,501	33,587	39,361	36,914
<b>EBITDA</b>	<b>12,691</b>	<b>17,638</b>	<b>21,003</b>	<b>23,726</b>	<b>20,707</b>
Interest (expense)/income	(6,533)	(8,725)	(9,768)	(8,632)	(8,076)
Depreciation	(2,549)	(4,414)	(4,616)	(5,570)	(5,611)
Other income	733	224	219	309	296
<b>Pretax profits</b>	<b>4,342</b>	<b>4,722</b>	<b>6,838</b>	<b>9,832</b>	<b>7,317</b>
Extra ordinary items	(2,536)	2,080	(2,408)	10,800	—
<b>Reported PBT</b>	<b>1,807</b>	<b>6,802</b>	<b>4,430</b>	<b>20,632</b>	<b>7,317</b>
Tax	(1,514)	(2,646)	(2,651)	(3,331)	(2,806)
Deferred taxation	84	138	80	23	—
<b>Profit after tax</b>	<b>377</b>	<b>4,294</b>	<b>1,860</b>	<b>17,324</b>	<b>4,511</b>
Joint venture/ minority	853	1,113	1,250	1,248	100
<b>Reported consolidated net profit</b>	<b>1,230</b>	<b>5,407</b>	<b>3,110</b>	<b>18,572</b>	<b>4,611</b>
<b>Adjusted net profit</b>	<b>2,954</b>	<b>3,951</b>	<b>4,121</b>	<b>7,772</b>	<b>4,611</b>
<b>Diluted earnings per share (Rs)</b>	<b>70.8</b>	<b>96.9</b>	<b>88.3</b>	<b>172.3</b>	<b>103.6</b>
<b>Balance sheet</b>					
Total equity	5,063	14,188	18,546	36,999	40,978
Preference capital	3,060	3,260	3,260	3,260	1,250
Deferred taxation liability	654	516	436	412	412
Total borrowings	130,434	166,355	141,641	122,512	111,102
Current liabilities	7,517	14,090	9,342	13,206	13,137
<b>Total liabilities and equity</b>	<b>146,727</b>	<b>198,408</b>	<b>173,224</b>	<b>176,389</b>	<b>166,879</b>
Cash	6,453	5,948	2,360	12,395	8,010
Other current assets	7,637	11,106	12,269	10,088	9,363
Goodwill	44,289	55,991	49,612	49,667	49,998
Tangible fixed assets	81,958	119,612	104,033	99,288	94,558
Investments	6,391	5,751	4,951	4,951	4,951
<b>Total assets</b>	<b>146,727</b>	<b>198,408</b>	<b>173,225</b>	<b>176,389</b>	<b>166,879</b>
<b>Ratios (%)</b>					
EBITDA margin	62.8	57.8	62.5	60.3	56.1
Debt/equity	2,335	1,154	763	336	271.4
Net debt/equity	2,143	1,113	751	303	252.1
RoAE	51.7	26.9	21.7	20.8	11.1
<b>RoACE</b>	<b>3.4</b>	<b>5.9</b>	<b>4.7</b>	<b>9.2</b>	<b>6.1</b>

Source: Company, Kotak Institutional Equities estimates

**Strong execution pick-up, growth guidance—key positives.** NJCC reported 4Q10 standalone revenues of Rs15.2 bn, up 39% yoy versus only 7% growth till 9MFY10. NJCC met its revenue guidance at standalone level (Rs48 bn) and exceeded its guidance (of Rs55 bn) at the consol. level with revenues of Rs59 bn (up 25% yoy), potentially led by strong overseas subsidiary execution—guided for strong consol. revenues of Rs73 bn in FY11E as well. Strong backlog of Rs153.7 bn provides revenue visibility. Retain BUY.

### Company data and valuation summary

Nagarjuna Construction Co.

Stock data		Forecasts/Valuations			
52-week range (Rs) (high,low)	198-113	EPS (Rs)	2010	2011E	2012E
Market Cap. (Rs bn)	40.6	EPS growth (%)	6.1	47.4	21.3
Shareholding pattern (%)		P/E (X)	22.2	15.1	12.4
Promoters	20.2	Sales (Rs bn)	47.8	65.4	78.7
FIs	36.0	Net profits (Rs bn)	1.8	2.7	3.3
MFs	19.6	EBITDA (Rs bn)	4.8	6.2	7.4
Price performance (%)		EV/EBITDA (X)	10.3	9.1	7.5
Absolute	(14.1)	ROE (%)	9.3	11.5	12.6
Rel. to BSE-30	(7.7)	Div. Yield (%)	1.0	1.3	1.3
1M	3M	12M			

**Strong results—exceeds consolidated revenue guidance; guides for strong growth in FY11E as well**

- **Revenues:** Nagarjuna reported strong standalone revenues of Rs15.2 bn, up 39% yoy versus our estimate of Rs13 bn. The company exceeded its revenue guidance at the consolidated level at Rs59 bn, up 25% yoy versus guidance of Rs55 bn—implies strong subsidiary revenue growth of about 95%.
- **Margins and PAT:** Nagarjuna reported a 240 bps yoy margin expansion to 10% in 4QFY10 versus our estimate of 120 bps expansion. The higher-than-expected execution and margin expansion led to a PAT of Rs531 mn, about 16.5% higher than our estimates. The exceptional income of Rs496 mn in 4QFY10 was from profit on sale of investment in Gautami Power. Highlight strong margin expansion in subsidiaries to 15.6% versus 11.9% in FY2009.
- **Guidance:** Nagarjuna has guided for FY2011E consolidated revenues of Rs73 bn implying a strong revenue growth of 24% yoy. Highlight upside to our estimates—we have currently built in revenues of Rs65 bn in FY2011E from the standalone and international construction business.

**Robust inflow in 4QFY10, led by buildings and transportation segments**

Nagarjuna reported an FY2010-end order backlog of Rs153.7 bn which implies new orders worth Rs20.7 bn in 4QFY10 so far, compared to total inflow of Rs17.4 bn in 3QFY10. The company has booked orders to the tune of about Rs87 bn in FY2010, up 71% yoy. Key large orders secured in 4QFY10 include – (1) Rs6.5 bn order for construction of outer ring road in Hyderabad, (2) Rs4.9 bn order for dwelling unit for Indian Army in Vishakhapatnam, and (3) Rs3.6 bn order from Maharashtra State Electricity Distribution Co. for multiple turnkey electrical works.

**Retain estimates; reiterate BUY with a revised TP of Rs195/share (Sept-11E based valuation)**

We retain our estimates of Rs10.5 and Rs12.7 for FY2011E and FY2012E, respectively, and BUY rating (TP: Rs195) based on (1) relatively attractive valuations, (2) strong backlog-led growth visibility, (3) ramp-up of business segments, (4) progress in BOT projects and (5) long-term outlook of strong infrastructural investments. We will revisit our estimates post today's conference call.

**BUY**

MAY 26, 2010

**RESULT**

Coverage view: **Attractive**

Price (Rs): **157**

Target price (Rs): **195**

BSE-30: **16,022**

### QUICK NUMBERS

- **Strong consolidated revenues of Rs59 bn—implies yoy subsidiary revenue growth of 95%**
- **Guides for FY2011E-consolidated revenues of Rs73 bn**
- **Strong FY2010-end backlog of Rs154 bn**

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

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

Nitij Mangal  
nitij.mangal@kotak.com  
Mumbai: +91-22-6634-1453

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

### Robust execution helps beat estimates; strong guidance in FY2011E as well

Nagarjuna reported strong 4QFY10 revenues of Rs15.2 bn, about 17% higher than our estimate of Rs13 bn. This is versus an average growth of 6.6% witnessed in 9MFY10. EBITDA margin at 10%, up 240 bps yoy and relatively flat on a sequential basis, was also about 120 bps ahead of our estimate of 8.8%. The margin expansion in 4QFY10 was primarily led by lower raw material costs as a percentage of sales which declined by about 210 bps on a yoy basis. The stronger-than-expected execution and margin expansion led to a PAT growth of 61.7% yoy to Rs618 mn, 35.7% ahead of our estimate of Rs455 mn. The exceptional item of Rs496 mn during the quarter was from profit on sale of investment in Gautami Power Ltd. For the full-year ending March 31, 2010, Nagarjuna reported standalone revenues of Rs47.8 bn, up 15% yoy, broadly in line with its guidance.

#### Stronger-than-expected execution and margin expansion help beat estimates

Nagarjuna Construction - 4QFY10 - standalone key numbers (Rs mn)

	4QFY10	4QFY10E	4QFY09	3QFY10	% change			FY2010	FY2009	% chg
					4QFY10E	4QFY09	3QFY10			
<b>Net sales</b>	<b>15,227</b>	<b>13,000</b>	<b>10,981</b>	<b>11,870</b>	<b>17.1</b>	<b>38.7</b>	<b>28.3</b>	<b>47,778</b>	<b>41,514</b>	<b>15.1</b>
<b>Operating costs</b>	<b>(13,700)</b>	<b>(11,863)</b>	<b>(10,143)</b>	<b>(10,690)</b>	<b>15.5</b>	<b>35.1</b>	<b>28.2</b>	<b>(42,944)</b>	<b>(37,777)</b>	<b>13.7</b>
Construction costs	(12,954)		(9,574)	(9,987)				(40,133)	(34,972)	14.8
(Increase)/Decrease in Stock	(542)		(217)	335		150.1	(261.7)	(408)	1,378	(129.6)
Raw materials	(5,886)		(3,074)	(5,166)		91.5	13.9	(17,662)	(14,420)	22.5
Other construction expenses	(5,268)		(5,203)	(3,980)		1.3	32.4	(17,562)	(18,007)	(2.5)
Labour	(1,258)		(1,080)	(1,176)		16.5	7.0	(4,501)	(3,923)	14.7
Staff cost	(472)		(409)	(462)		15.5	2.1	(1,841)	(1,886)	(2.4)
Other expenditure	(274)		(161)	(241)		70.5	13.8	(969)	(920)	5.4
<b>Operating profit</b>	<b>1,527</b>	<b>1,138</b>	<b>838</b>	<b>1,181</b>	<b>34.3</b>	<b>82.3</b>	<b>29.4</b>	<b>4,834</b>	<b>3,737</b>	<b>29.4</b>
Other income	12	-	15	14		(16.2)	(9.2)	48	42	15.7
Interest cost	(348)	(325)	(213)	(306)	7.1	63.6	13.9	(1,322)	(964)	37.2
Depreciation	(136)	(133)	(123)	(133)	2.6	11.3	2.6	(525)	(533)	(1.4)
<b>Profit before tax</b>	<b>1,055</b>	<b>679</b>	<b>517</b>	<b>756</b>	<b>55.3</b>	<b>104.1</b>	<b>39.6</b>	<b>3,035</b>	<b>2,282</b>	<b>33.0</b>
Tax	(437)	(224)	(135)	(277)	95.1	224.4	57.9	(1,117)	(743)	50.3
<b>Profit after tax</b>	<b>618</b>	<b>455</b>	<b>382</b>	<b>479</b>	<b>35.7</b>	<b>61.7</b>	<b>29.1</b>	<b>1,918</b>	<b>1,539</b>	<b>24.6</b>
Exceptional items (net of tax)	408	-	-	-				408	-	
Reported PAT	1,026	455	382	479	125.4	168.6	114.4	2,326	1,539	51.2
<b>Key ratios (%)</b>										
Construction expenses/ Sales	85.1		87.2	84.1				84.0	84.2	
Staff cost	3.1		3.7	3.9				3.9	4.5	
Other expenditure	1.8		1.5	2.0				2.0	2.2	
<b>EBITDA margin</b>	<b>10.0</b>	<b>8.8</b>	<b>7.6</b>	<b>9.9</b>				<b>10.1</b>	<b>9.0</b>	
PBT margin	6.9	5.2	4.7	6.4				6.4	5.5	
PAT margin	4.1	3.5	3.5	4.0				4.0	3.7	
Effective tax rate	41.5	33.0	26.1	36.7				36.8	32.6	
<b>Order details</b>										
Order booking	20,787		8,791	17,350		136.5	19.8	86,787	50,694	71.2
Order backlog	153,700		122,000	148,140		26.0	3.8	153,700	122,980	25.0

Source: Company, Kotak Institutional Equities estimates

### Exceeds consolidated revenue guidance—implies very strong subsidiary growth

The company has exceeded its guidance at the consolidated level at revenues of Rs59 bn, versus its guidance of Rs55 bn. The 24.8% yoy revenue growth in FY2010 implies very strong revenue growth (about 95%) for the subsidiaries. Highlight strong margin expansion in the international subsidiaries as well to 15.6% in FY2010 versus 11.9% in FY2009.

## Nagarjuna Construction - 4QFY10 - consolidated and implied subsidiaries - key numbers (Rs mn)

	Consolidated			Standalone			Subsidiaries (implied)		
	FY2010	FY2009	% chg	FY2010	FY2009	% chg	FY2010	FY2009	% chg
<b>Net sales</b>	<b>58,973</b>	<b>47,241</b>	<b>24.8</b>	<b>47,778</b>	<b>41,514</b>	<b>15.1</b>	<b>11,195</b>	<b>5,727</b>	<b>95.5</b>
<b>Operating costs</b>	<b>(52,390)</b>	<b>(42,820)</b>	<b>22.3</b>	<b>(42,944)</b>	<b>(37,777)</b>	<b>13.7</b>	<b>(9,447)</b>	<b>(5,043)</b>	<b>87.3</b>
Construction costs	(48,036)	(38,817)	23.7	(40,133)	(34,972)	14.8	(7,903)	(3,845)	105.5
(Increase)/Decrease in Stock	283	2,234	(87.3)	(408)	1,378	(129.6)	691	855	(19.3)
Raw materials	(21,354)	(16,239)	31.5	(17,662)	(14,420)	22.5	(3,692)	(1,819)	103.0
Other construction expenses	(21,978)	(20,604)	6.7	(17,562)	(18,007)	(2.5)	(4,415)	(2,597)	70.0
Labour	(4,988)	(4,209)	18.5	(4,501)	(3,923)	14.7	(487)	(286)	70.4
Staff cost	(2,750)	(2,591)	6.1	(1,841)	(1,886)	(2.4)	(908)	(705)	28.9
Other expenditure	(1,605)	(1,413)	13.6	(969)	(920)	5.4	(635)	(493)	28.9
<b>Operating profit</b>	<b>6,583</b>	<b>4,421</b>	<b>48.9</b>	<b>4,834</b>	<b>3,737</b>	<b>29.4</b>	<b>1,748</b>	<b>684</b>	<b>155.6</b>
Other income	171	782	(78.2)	48	42	15.7	122	740	(83.5)
Interest cost	(2,211)	(1,737)	27.3	(1,322)	(964)	37.2	(889)	(773)	15.0
Depreciation	(966)	(823)	17.3	(525)	(533)	(1.4)	(440)	(290)	51.9
<b>Profit before tax</b>	<b>3,576</b>	<b>2,643</b>	<b>35.3</b>	<b>3,035</b>	<b>2,282</b>	<b>33.0</b>	<b>542</b>	<b>361</b>	<b>49.9</b>
Tax	(1,124)	(793)	41.8	(1,117)	(743)	50.3	(7)	(50)	(85.7)
<b>Profit after tax</b>	<b>2,452</b>	<b>1,850</b>	<b>32.5</b>	<b>1,918</b>	<b>1,539</b>	<b>24.6</b>	<b>535</b>	<b>312</b>	<b>71.5</b>
Exceptional items	408	-		408	-		-	-	
Reported PAT	2,861	1,850	54.6	2,326	1,539	51.2	535	312	71.5
<b>Key ratios (%)</b>									
Construction expenses/ Sales	81.5	82.2		84.0	84.2		70.6	67.1	
Staff cost	4.7	5.5		3.9	4.5		8.1	12.3	
Other expenditure	2.7	3.0		2.0	2.2		5.7	8.6	
<b>EBITDA margin</b>	<b>11.2</b>	<b>9.4</b>		<b>10.1</b>	<b>9.0</b>		<b>15.6</b>	<b>11.9</b>	
PBT margin	6.1	5.6		6.4	5.5		4.8	6.3	
PAT margin	4.2	3.9		4.0	3.7		4.8	5.4	
Effective tax rate	31.4	30.0		36.8	32.6		1.3	13.7	

Source: Company, Kotak Institutional Equities

**Strong revenue guidance of Rs73 bn in FY2011E; highlight upside to estimates**

Nagarjuna management has guided for consolidated revenues of Rs73 bn in FY2011E implying a strong yoy growth of 23.8%. We highlight upside to our estimate of Rs65 bn of revenues in FY2011E from standalone and international construction business.

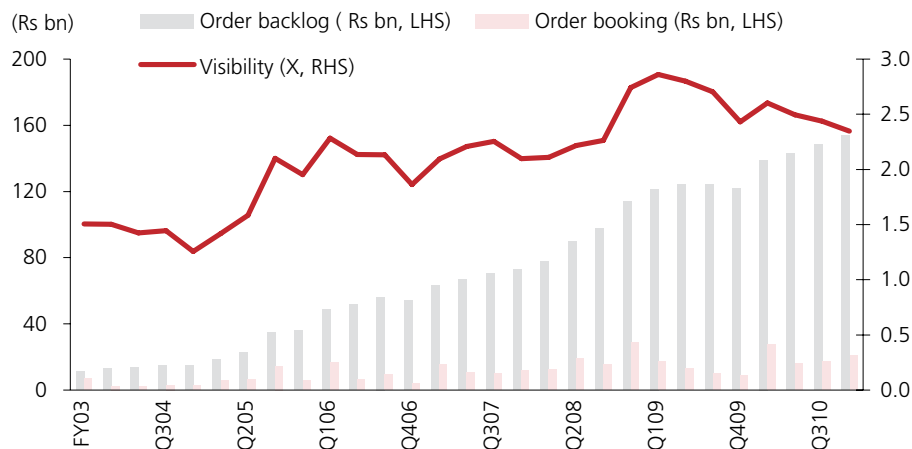
**Robust inflow in 4QFY10, led by buildings and transportation segments**

Nagarjuna reported a FY2010-end order backlog of Rs153.7 bn which implies new orders worth Rs20.7 bn in 4QFY10 so far, compared to total inflow of Rs17.4 bn in 3QFY10. The order backlog of Rs153.7 bn provides a revenue visibility of about 2.3 years based on forward four quarter revenue estimates. The company has booked orders to the tune of about Rs87 bn in FY2010, up 71% yoy.

The robust order inflow in 4QFY10 is led by buildings and transportation segments (based on order announcements). The company has announced buildings orders of Rs12 bn in 4QFY10 compared to segment order backlog of Rs37 bn at end-9MFY10. The company has secured a Rs6.5 bn order in the transportation segment which would substantially increase segment backlog from Rs6 bn at end-9MFY10.

Key large orders secured in 4QFY10 include – (1) Rs6.5 bn order for construction of outer ring road in Hyderabad, (2) Rs4.9 bn order for construction of dwelling unit for Indian Army in Vishakhapatnam, and (3) Rs3.6 bn order from Maharashtra State Electricity Distribution Co. for multiple turnkey electrical works. Buildings segment recorded inflows of Rs12 bn, about 45% of the announced orders.

**Nagarjuna Construction has visibility of 2.3 years based on forward four quarter revenues**  
Order backlog, order booking and visibility (X) of Nagarjuna Construction



Source: Company, Kotak Institutional Equities estimates

#### Order inflow announcements made by Nagarjuna Construction in FY2010

Date	Segment	Client	(Rs mn)	Profile of work
29-Mar-10	Buildings	Indian Army	4,920	Construction of dwelling units at Vishakapatnam
29-Mar-10	Buildings	Indian Oil Co. Ltd	2,300	Construction of various bulidings at Paradip
29-Mar-10	Buildings	Nagarjuna Oil Co. Ltd	2,490	Civil and structural work at Caddalore
8-Mar-10	Transportation	Hyderabad Growth Corridor Ltd	6,470	Construction of access controlled outer ring road
8-Mar-10	Water supply	NTPC	990	Cooling water and make-up water systems at Barh STPP
8-Mar-10	Electrical	Maharashtra State Electricity Distribution Company Ltd	3,580	Miscellaneous turnkey electrical works
8-Mar-10	Buildings	Indian Oil Co. Ltd	630	Construction of unit substation buildings at Paradip
8-Mar-10	Buildings	National Institute of Technology, Tripura	540	Construction of housing, guest house and director's residence
8-Feb-10	Buildings	SPL Realtoes Pvt Ltd	580	Residential project Shriram Surabhi at Mallasandra, Bangalore
8-Feb-10	Buildings	Slum Rehabilitation Authority, Bagpur	780	Development of tenements, infra and amenities under JNNURM
8-Feb-10	Others	Mahanadi Coal Fields Ltd	1,240	Drilling, evacuation, dumping and spreading work in Sambalpur district
8-Feb-10	International	National Water Supply and Drainage Board	850	Construction of Mahara and Blygama water supply scheme
8-Feb-10	Water supply	Dept of Public Health Engg, Kolkata	2,380	Surface water based piped water supply scheme at Chadak municipality
10-Nov-09	Water supply	Chennai Metropolitan Water Supply & Sewerage Board	600	Providing comprehensive water supply scheme
10-Nov-09	Transportation	Rail Vikas Nigam Ltd, New Delhi	910	Construction of road beds, bridges, track linings etc
10-Nov-09	Buildings	Jain Housing, Chennai	1,000	Construction of residential apartments
10-Nov-09	Transportation	Water Resources Department, Bihar	1,430	Construction of bituminous road
10-Nov-09	Water supply	Bangalore Water Supply and Sewerage Board, Bangalore	3,280	Water supply and sewerage project
1-Sep-09	Others	MRF Ltd, Chennai	320	Construction of radial tyre plant
1-Sep-09	Water supply	Water Resources Department, Bihar	4,490	Restoration of canal system
27-Aug-09	Buildings	Adhunik Power and Natural Resources Ltd, Kolkata	640	Civil, Structural and Architectural works
27-Aug-09	Buildings	Mantri Developers Pvt. Ltd, Hyderabad	650	RCC works in Hyderabad
27-Aug-09	Water supply	Osmanabad Municipal Council, Osmanabad	1,820	Augmentation of Osmanabad water supply scheme
20-Jul-09	Buildings	Employees State Insurance Corporation, New Delhi	6,000	Construction of medical college related works
20-Jul-09	Others	Mezgon Dock Ltd, Mumbai	1,360	Mazdock modernization project
20-Jul-09	Buildings	National Institute of Technology, Assam	400	Construction of boy's hostel
1-Jul-09	Transportation	Maharashtra State Road Development Corporation	790	Construction of flyovers at Kapurbawadi junction
1-Jul-09	Transportation	Bangalore Development Authority, Bangalore	1,320	Construction of flyovers at Bangalore
1-Jul-09	Electrical	Maharashtra State Electricity Distribution Company Ltd	1,680	Electrical works in Pandharpur division
1-Jul-09	Water supply	Superintendent Engineer, Alidabad district, AP	4,180	Construction of gravity canal and related works
22-Jun-09	Buildings	Center for Development of Advanced Computing	492	Conctruction of C-Dac Innovation Park, Pune
22-Jun-09	Buildings	Times of India Group	495	Construction of mail civil works, New Delhi
22-Jun-09	Water supply	Maharashtra Jeevan Pradikaran, Amaravati	649	Supply of drinking water to 105 villages
22-Jun-09	Water supply	Directorate of Public Health Engg, Kolkata	654	Lumpsum contract for water supply
<b>Total orders booked in FY2010 so far</b>			<b>60,910</b>	

Source: Company, BSE, Kotak Institutional Equities

**Retain estimates; reiterate BUY with a revised target price of Rs195/share**

We have retained our earnings estimates of Rs10.5 and Rs12.7 for FY2010E and FY2011E, respectively. We will be revisiting our estimates post today's conference call (scheduled at 10:30 am). We have revised our target price to Rs195/share (from Rs180/share earlier) based on shift to Sept-11E based valuation from FY2011E-based valuation earlier. Our SOTP-based target price of Rs190/share is comprised of (1) core construction business valuation of Rs151/share based on revision in target P/E multiple of 13X Sept-11E earnings, (2) Rs17/share contribution from book value of BOT projects, (3) Rs16/share from book value of real estate, and (4) Rs9.7/share from incremental value from roads, power and housing projects.

We maintain BUY based on (1) relatively attractive valuations, (2) strong growth visibility based on order backlog, (3) ramp-up of business segments in areas like metals, power and international—areas that hold immense potential, (4) strong progress in BOT projects, and (5) long-term outlook of strong infrastructural investments.

**Arrive at an SOTP-based target price of Rs195/share for Nagarjuna**

SOTP valuation of Nagarjuna Construction Company

<b>Project/Business</b>	<b>Equity commitment (Rs mn)</b>	<b>Valuation (Rs mn)</b>	<b>Rs/share</b>	<b>Valuation methodology</b>
Value of core construction business		38,797	151.2	P/E of 13.0X Sept-11E earnings
Book value of equity investments in real estate	4,052	4,052	15.8	1X book
Book value of investments in BOT assets	4,223	4,223	16.5	1X book
<b>Value accretion from roads, power and housing projects</b>	<b>4,356</b>	<b>2,476</b>	<b>9.7</b>	
Brindavan Infrastructure Co. Ltd.	150	60	0.2	Incremental P/B of 0.4
Bangalore elevated Corridor Project	973	730	2.8	Incremental P/B of 0.75
Western UP Tollway Ltd.	671	503	2.0	Incremental P/B of 0.75
Orai - Bhognipur	936	374	1.5	Incremental P/B of 0.4
Pondicherry Tindivanam Tollway Limited	330	132	0.5	Incremental P/B of 0.4
Gautami Power	522	522	2.0	Stake sale proceeds
Hydropower project in Himachal Pradesh	774	155	0.6	Incremental P/B of 0.2
<b>Total</b>			<b>193</b>	

Source: Company, Kotak Institutional Equities estimates

### Low valuations belie earnings potential from strong order book, provide entry.

IVRCL is trading at 8XFY2011E P/E, about 30% discount to its five-year average. The stock price may be impacted by perceived overexposure to AP government orders. It does not fully reflect the earnings potential of the strong backlog, which now reflects well diversified incremental order inflows. Core construction returns are reasonable but infra and real estate investments dilute these. Having separated these into a subsidiary would help IVRCL. Maintain estimates; BUY (TP : Rs215).

#### Company data and valuation summary

IVRCL

##### Stock data

52-week range (Rs) (high,low) 213-131

Market Cap. (Rs bn) 38.8

##### Shareholding pattern (%)

Promoters 9.7

FIs 57.4

MFs 9.8

##### Price performance (%)

Absolute (17.3) (9.0) 1.9

Rel. to BSE-30 (8.6) (7.7) (11.5)

##### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	7.8	10.3	12.4
EPS growth (%)	(7.7)	32.4	19.7
P/E (X)	18.6	14.0	11.7
Sales (Rs bn)	53.1	66.5	85.2
Net profits (Rs bn)	2.1	2.8	3.3
EBITDA (Rs bn)	5.0	6.3	7.8
EV/EBITDA (X)	10.3	8.5	7.3
ROE (%)	10.9	12.8	13.5
Div. Yield (%)	0.3	0.3	0.3

### Low valuations, about 30% discount to five-year average, possibly led by overstated AP concern

IVRCL is trading at about 30-35% discount to five-year historical average multiple (P/E, EV/EBITDA and EV/Backlog). We believe the low valuation may have been led by (1) concerns over exposure to Andhra Pradesh government projects, and (2) high FI holding leads to underperformance in case of FI outflows. The company has demonstrated its ability to secure orders from agencies other than AP state government, however, we believe the stock price does not fully reflect the earnings potential of the strong order backlog, particularly from recently secured projects.

### Core construction returns reasonable (14% RoCE; 18% RoE), diluted by real estate and infra

Our analysis of core ROCE and ROE of construction companies—after adjusting the capital employed and net worth for loans to and investments in subsidiaries—shows reasonable adjusted ROCE of about 14% and thus levered ROE of about 18-20% on an FY2009 basis. Reported returns are lower because of investments and loans and advances to real estate and infrastructure subsidiaries. IVRCL's newly separated real estate and infrastructure businesses into a step-down subsidiary is likely to raise its own capital, thus reducing the burden on the parent balance sheet.

### Reasonable 4QFY10E estimates, about 12% yoy revenue growth with slight margin expansion

We estimate that IVRCL would report 4QFY10E revenues of about Rs18 bn, up 12% yoy with EBITDA margins of about 9.4%, up 70 bps yoy. On an FY2010E basis, we believe revenue would be about Rs53 bn, up 9% yoy. EBITDA margin is expected to be about 9.5%, up 90 bps yoy. PAT is expected at Rs2.1 bn, down about 8% yoy.

### Maintain estimates, revise target price of Rs215 based on Sep-11E; reiterate BUY

We retain our earnings estimates at Rs7.8 and Rs10.3 for FY2010E and FY2011E. Our SOTP-based TP of Rs215/share comprises (1) core business valuation of Rs148/share (based on 13X Sep-11E P/E), (2) IVRCL Assets' contribution of Rs54/share, and (3) Rs13/share contribution from Hindustan Dorr Oliver. Retain BUY on (1) attractive valuations, (2) strong likely near-term earnings growth, (3) high revenue visibility and (4) long-term outlook for infrastructural investments.

**BUY**
**MAY 26, 2010**

#### UPDATE

Coverage view: **Attractive**

Price (Rs): **145**

Target price (Rs): **215**

BSE-30: **16,022**

#### QUICK NUMBERS

- News reports suggest IVRCL may secure a Rs30 bn NHAI project
- High core capital return facilitates about 20% growth without dilution
- Orders worth Rs17 bn for FY2011E, so far

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

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

Nitij Mangal  
nitij.mangal@kotak.com  
Mumbai: +91-22-6634-1453

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

### Reasonable 4Q estimates –12% yoy revenue growth, slight margin expansion

We estimate that IVRCL would report 4QFY10E revenues of about Rs18 bn, up 12% yoy. EBITDA margins are expected to be 9.4%, up 70 bps yoy. The company is expected to record PAT of Rs0.8 bn, almost flat yoy, as we have built in a full tax rate of 34% for FY2010E. On an FY2010E basis, we believe revenue would be about Rs53 bn, up 9% yoy. EBITDA margin are expected to be about 9.5%, up 90 bps yoy. PAT is expected at Rs2.1 bn, down about 8% yoy, on account of full tax rate assumption.

IVRCL - 4QFY10E estimates - key numbers (Rs mn)

	4QFY10E	4QFY09	3QFY10	% chg.		9MFY10	9MFY09	% chg.	FY2010E	FY2009	% chg.
<b>Net Sales</b>	<b>18,225</b>	<b>16,272</b>	<b>11,840</b>	<b>12.0</b>	<b>53.9</b>	<b>34,879</b>	<b>32,546</b>	<b>7.2</b>	<b>53,104</b>	<b>48,819</b>	<b>8.8</b>
Expenditure	(16,503)	(14,853)	(10,685)	11.1	54.5	(31,583)	(29,729)	6.2	(48,086)	(44,601)	7.8
<b>EBITDA</b>	<b>1,722</b>	<b>1,420</b>	<b>1,156</b>	<b>21.3</b>	<b>49.0</b>	<b>3,296</b>	<b>2,817</b>	<b>17.0</b>	<b>5,018</b>	<b>4,218</b>	<b>19.0</b>
Other income	33	87	39	(62.3)	(15.9)	135	212	(36.1)	168	299	(43.8)
Interest	(318)	(392)	(368)	(18.9)	(13.8)	(1,111)	(917)	21.2	(1,429)	(1,306)	9.4
Depreciation	(215)	(134)	(139)	59.8	54.8	(401)	(339)	18.5	(616)	(473)	30.2
<b>Profit before tax</b>	<b>1,222</b>	<b>980</b>	<b>688</b>	<b>24.7</b>	<b>77.8</b>	<b>1,919</b>	<b>1,773</b>	<b>8.2</b>	<b>3,141</b>	<b>2,738</b>	<b>14.7</b>
Tax	(434)	(181)	(229)	138.9	89.0	(622)	(302)	106.0	(1,055)	(478)	120.8
<b>Profit after tax</b>	<b>789</b>	<b>799</b>	<b>458</b>	<b>(1.3)</b>	<b>72.1</b>	<b>1,297</b>	<b>1,471</b>	<b>(11.8)</b>	<b>2,086</b>	<b>2,260</b>	<b>(7.7)</b>
<b>Key ratios (%)</b>											
<b>EBITDA margin</b>	<b>9.4</b>	<b>8.7</b>	<b>9.8</b>	<b>0.7</b>	<b>(0.3)</b>	<b>9.5</b>	<b>8.7</b>	<b>0.8</b>	<b>9.5</b>	<b>8.6</b>	
PBT Margin	6.7	6.0	5.8			5.5	5.4		5.9	5.6	
Net Profit margin	4.3	4.9	3.9			3.7	4.5		3.9	4.6	
Effective tax rate	35.5	18.5	33.4			32.4	17.0		33.6	17.5	

Source: Company, Kotak Institutional Equities estimates

### News run suggest IVRCL may secure a Rs30 bn NHAI project

News run suggest that IVRCL is likely to secure Rs30 bn road BOT project from NHAI which would be the largest toll road contract in India so far. The highway project is for BOT of 123 km highway on NH-17 on Maharashtra-Goa border.

### Core construction return ratios reasonable, diluted by extraneous investments

We have analyzed the core ROCE and ROE of construction companies after adjusting the capital employed and net worth for loans to and investments in subsidiaries respectively. The analysis shows that construction companies, such as IVRCL and Nagarjuna, have reasonable adjusted ROCE of about 14% and thus levered ROE of about 20% on FY2009 basis. Reported returns are lower than this because of investments and loans and advances to real estate and infrastructure subsidiaries.

IVRCL has separated real estate and infrastructure business into a separate step-down subsidiary, which may raise its own growth capital, thus reducing burden on parent balance sheet. We believe that this would help IVRCL parent company to realize full business potential in terms of returns possible from core construction business without the overhang of financing subsidiaries, if the subsidiaries can raise capital depending on market perception and environment. This would also reduce the overhang of equity dilution at the parent company level.

## Key asset efficiency parameters of construction companies, March fiscal year-ends, 2007-11E

	IVRCL			Nagarjuna			L&T (standalone)		
	FY2009	FY2010E	FY2011E	FY2009	FY2010E	FY2011E	FY2009	FY2010E	FY2011E
<b>Key numbers (Rs bn)</b>									
Capital Employed	32.2	34.2	39.3	29.5	36.9	42.5	190.2	254.9	270.0
Net worth	18.1	20.2	22.8	16.9	22.3	24.4	124.4	179.5	209.5
Net fixed assets	5.4	6.1	6.9	4.9	5.5	6.3	50.5	61.1	67.6
<b>Adjustments related to subs/JVs</b>									
Investment in subsidiaries	3.9	4.3	4.6	7.4	8.8	9.0	19.8	50.6	60.6
Loans and Advances to subs	5.2	5.2	4.2	3.1	3.1	3.1	23.6	23.6	23.6
<b>Key ratios (%)</b>									
ROCE	10.5	9.2	10.4	9.7	10.4	10.5	18.3	14.6	14.5
ROCE (adj.)	14.6	12.7	13.9	14.7	15.8	15.0	23.4	19.8	20.8
ROE	13.2	10.9	12.8	9.4	11.3	11.6	24.7	19.2	18.0
ROE (adj.)	21.8	18.2	21.3	22.9	23.9	24.2	31.4	25.5	24.4
Fixed asset turnover ratio (X)	10.7	9.2	10.3	8.1	10.5	11.1	7.9	6.5	6.9
<b>CROCI</b>									
Cash return	2.9	3.6	4.5	2.7	3.6	4.4	26.6	29.2	35.1
Cash Invested	23.0	25.3	31.3	19.4	25.3	30.8	80.5	98.2	134.9
CROCI (%)	12.8	14.1	14.3	13.8	14.4	14.2	33.1	29.8	26.0

Note:

(1) Cash return = EBIT \* (1 - effective tax rate) + depreciation and amortization.

(2) Cash invested = Gross fixed assets (gross block) + net working capital.

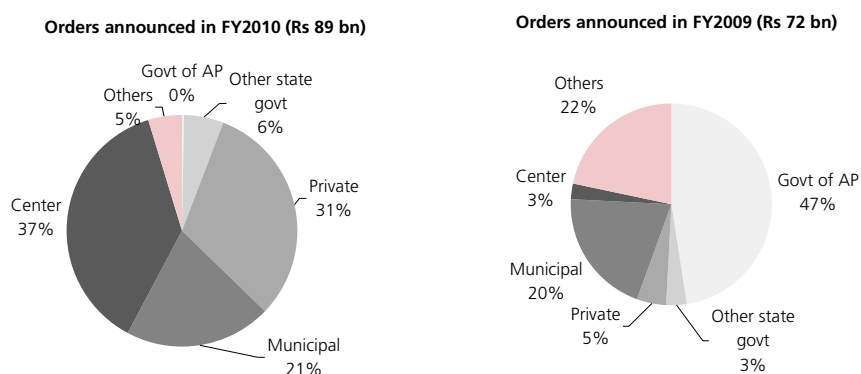
Source: Company, Kotak Institutional Equities estimates

## Strong order inflows; diversified away from Andhra government projects

IVRCL has been able to successfully diversify away its order inflows from Andhra Pradesh (AP) state government projects while the total value of announced orders in FY2010 have still grown by about 25% yoy. AP state orders, which comprised about 50% of announced orders inflows in FY2009, are virtually non-existent in announced inflows in FY2010. Exposure to AP state government orders has been a big concern as the socio-political instability in the state has led to slow execution not only for IVRCL but for construction peers such as HCC and Patel Engineering. The ability to secure projects from agencies other than AP government demonstrates company's strong execution capabilities and alleviates concerns of AP exposure.

## IVRCL has diversified away from Andhra Pradesh state government orders in FY2010

Customer-wise mix of orders announced by IVRCL, March fiscal year-ends, 2009-10

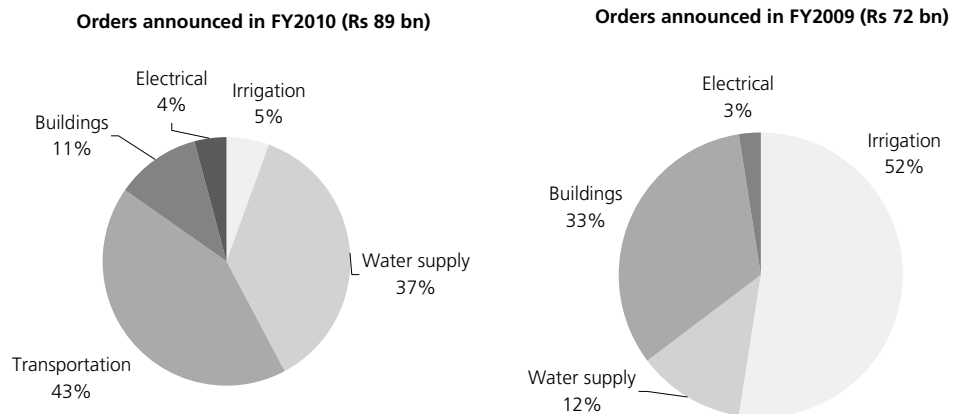


Source: Company, Kotak Institutional Equities

### Segment mix tilts towards roads from water supply and buildings

IVRCL has secured road projects worth Rs38 bn (Rs30 bn from NHAI) in FY2010 which form 43% of the announced orders. Large projects wins in transportation segment have more than compensated for slow inflows in water resources (potentially due to lack of ordering activity from AP state government) and in the building segments.

**Road and water supply projects more than compensated for slow inflows in buildings and irrigation**  
Segment-wise mix of orders announced by IVRCL, March fiscal year-ends, 2009-10



Source: Company, Kotak Institutional Equities

IVRCL has announced total orders worth Rs45 bn in 4QFY10 which include road projects that were earlier declared at L1. The company has also reported orders worth Rs16.6 bn secured for FY2011E so far.

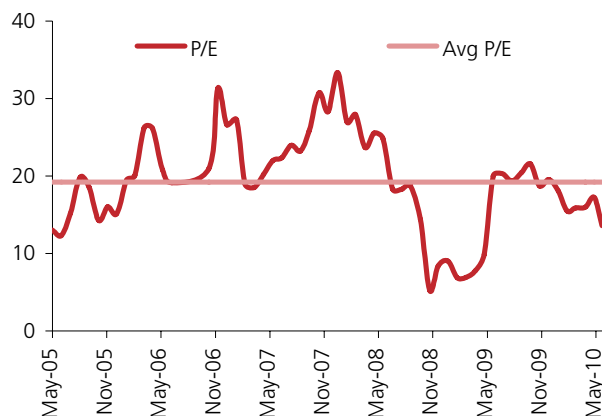
## List of orders announced by IVRCL in FY2010 and FY2011 so far

Date	Nature of Work	Segment	Value (Rs mn)	Agency	Customers
May-10	Construction of automotive test tracks at Pithampur and Chennai	Roads	5,260	Center	National Automotive Testing and R&D Infra Project
May-10	EPC for Ranchi water supply project under JNNURM	Water supply	2,347	State Govt	Drinking Water and Sanitation Dept, Jharkhand
May-10	Residential building works	Buildings	621	Others	IOCL, Paradip
Apr-10	EPC of pump-turbine and generator-motor for Koyna left bank	Water supply	4,600	Municipal	Water Resource Dept, Mumbai
Apr-10	Tower package for Pallantana GBPP and Bongalgaon TPS	Transmission	2,505	Center	Power Grid Corporation of India Ltd
Apr-10	Civil wok for coal handling for Rihand TPS III (2X500 MW)	Buildings	1,220	Private	FLSmith, Tamil Nadu
<b>Total announced in FY2011 so far</b>			<b>16,553</b>		
Mar-10	Eastern Kosi canal system	Irrigation	3,229	State Govt	Water resource department, Birpur, Bihar
Mar-10	Hogenakkal water supply and fluorosis mitigation project	Water supply	2,357	State Govt	Tamil Nadu water supply and drainage board
Mar-10	City water supply and sewerage project II	Water supply	2,106	Municipal	Bangalore water supply and sewerage board
Mar-10	Sewerage system to Bommanahalli areas	Water supply	984	Municipal	Bangalore water supply and sewerage board
Feb-10	BOT project for 55 km Chengapalli - Coimbatore highway	Roads	11,250	Center	NHAI
Jan-10	BOT project for Indore - Gujarat/MP border highway	Roads	15,500	Center	NHAI
Jan-10	Balance work for 4 laning of 44 km Bhogpur-Mukerian	Roads	3,600	Center	NHAI project in Punjab
Jan-10	Distribution system for water supply to Ambattur municipality	Water supply	1,233	Municipal	Chennai Metropolitan Water Supply & Sewage Board
Jan-10	Construction of drinking water supply system for Hemavathy project	Water supply	1,424	State Govt	Cauvery Neeravary Nigam Ltd, Govt. of Karnataka
Jan-10	Civil and EM work for multiple reservoirs in Karnataka	Water supply	1,336	Municipal	Bangalore Water Supply and Sewage Board
Jan-10	Multiple building, power and water supply projects	Buildings	1,989	Others	HPCL, Tata Teleservices, MRPL, PGCIL, Govt. of Jharkhand
Dec-09	Kapurbawadi-Bhandpur tunnel	Water supply	5,730	Municipal	Brihan Mumbai Mahanagar Palika, 50% JV
Nov-09	Construction of tunnel from Kapurbawadi to Bhandup Complex	Water supply	5,729	Municipal	Municipal Corporation of Greater Mumbai
Oct-09	Construction of building towers, hospital and hotel	Buildings	2,363	Private	Kakade Infrastructure, Pune
Oct-09	Sewerage works	Water supply	2,870	Municipal	UP Jal Nigam, Allahabad
Sep-09	Various works	Buildings	1,570	Municipal	NSG Kolkata, CIDCO Navi Mumbai and others
Sep-09	Four laning of Baramati-Phaltan and Phaltan-Lonand to Shirwal	Roads	4,000	State Govt	Govt of Maharashtra
Aug-09	Vallur Thermal power project	Power	572	Center	NTPC Tamil Nadu Energy Company Ltd
Aug-09	Laying and joining MS pipes	Water supply	1,041	Others	Busawath Thermal Power Station
Aug-09	Tansa mains from Tansa to Tarali	Water supply	4,213	Municipal	Municipal Corporation of Greater Mumbai
Aug-09	External coal handling system	Buildings	194	Private	FLSmith Minerals Pvt. Ltd, Tamil Nadu
Aug-09	Various building works	Buildings	765	Others	IOCL, Paradip and AP Medical housing Infrastructure
Aug-09	2,500 MW HVDC terminal stations	Transmission	805	Private	Siemens Ltd, Gurgaon
Aug-09	Construction of mechanized canal lining	Irrigation	1,628	State Govt	Maharashtra Krishna Valley Development Corporation
Aug-09	Upgradation of Darbhanga-Kamtaul-Basaita-Madhapur road	Roads	1,570	State Govt	Govt of Bihar
Jun-09	Construction of R.O.B	Roads	176	GoAP	Govt of Andhra Pradesh
Jun-09	Tower package works	Transmission	1,209	Center	Power Grid Corporation of India Ltd
Jun-09	Civil and structural works	Buildings	215	Private	Hindustan Dorr-Oliver Ltd
Jun-09	Construction of buildings	Buildings	235	State Govt	Uttar Pradesh Rajkiya Nirman Nigam
Jun-09	Construction of quarters, office, hospital for refinery township	Buildings	465	Others	Indian Oil Corporation Ltd, New Delhi
Jun-09	Constuction of hospital building	Buildings	578	State Govt	Uttar Pradesh Rajkiya Nirman Nigam
Jun-09	External coal handling system for Mundra, Gujarat	Buildings	1,446	Private	Coastal Gujarat Power Ltd, Mumbai
May-09	Water supply scheme	Water supply	2,990	State Govt	Public Health Engg Dept, Govt of Bihar
Apr-09	Rehabilitation of water treatment plant	Water supply	422	Municipal	Project Implementation Unit, Thrissur Corporation
Apr-09	Pump house ducts and cold water channel	Water supply	347	State Govt	UP Rajya Vidyut Utpadan Nigam Ltd
Apr-09	Tower package works	Transmission	298	Center	Power Grid Corporation of India Ltd
Apr-09	Supply of equipment and materials for tower package	Transmission	779	Center	Power Grid Corporation of India Ltd
Apr-09	Construction of Vivekananda road flyover	Roads	1,646	Municipal	Kolkata Metropolitan Development Authority
Apr-09	Construction of R.O.B	Roads	103	GoAP	Govt. of AP, Roads & Buildings Department
<b>Total announced in FY2010</b>			<b>88,965</b>		

Source: Company, Kotak Institutional Equities

**IVRCL is trading at 30% discount to historical P/E**

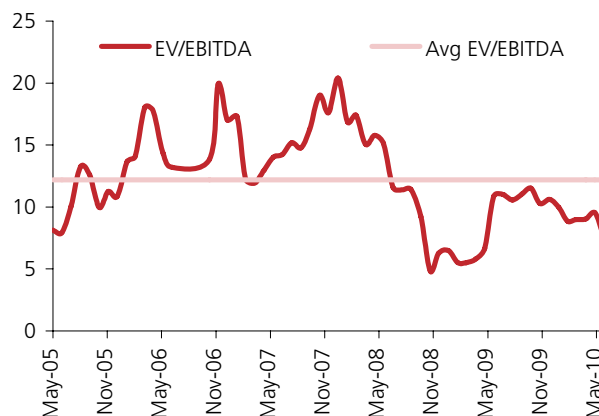
IVRCL P/E on 12-mth rolling forward EPS, May-05–May-10



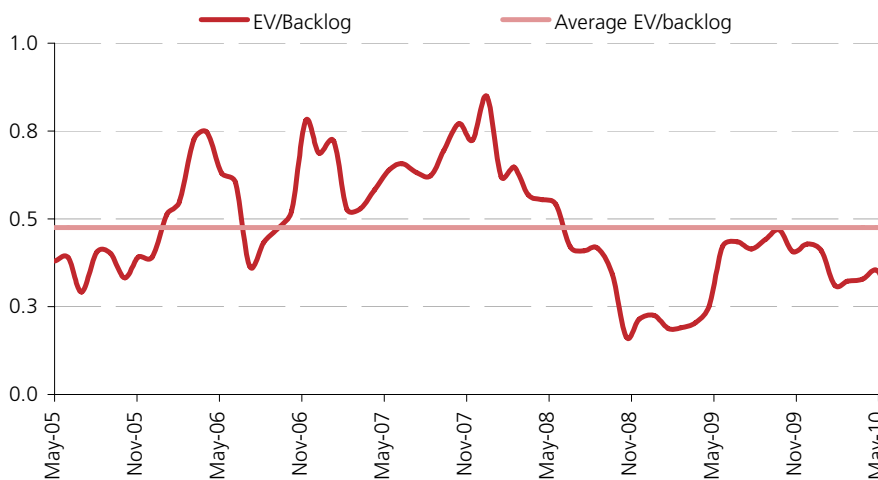
Source: Company, Kotak Institutional Equities estimates

**IVRCL is trading at 35% discount to historical EV/EBITDA**

IVRCL EV/EBITDA on 12-mth rolling forward EBITDA, May-05–May-10



Source: Company, Kotak Institutional Equities estimates

**Currently trading at 0.3X EV/Backlog, about 35% discount to last five-year average of 0.47X**  
EV/Backlog chart for IVRCL based on quarterly order backlog, May-05 to May-10

Source: Company, Factset, Kotak Institutional Equities estimates

Construction stocks currently trade at an average P/E of about 10X and EV/EBITDA of 7.1X based on FY2011E earnings

Comparison of valuation of various construction companies in India, March fiscal year-ends 2010-12E (Rs bn)

	Revenues				EBITDA				EPS (Rs)				P/E (X)			EV/EBITDA (X)			
Company	2009	2010E	2011E	2012E	2009	2010E	2011E	2012E	2009	2010E	2011E	2012E	2010E	2011E	2012E	0	2010E	2011E	2012E
Nagarjuna Constrn	42	55	65	79	3.7	5.2	6.2	7.4	6.7	8.6	10.5	12.7	13.3	10.9	9.0	#	7.9	6.6	5.5
Punj Lloyd Ltd.	119	122	140	156	4.4	10.9	12.9	14.4	(7.4)	9.8	14.0	16.6	12.9	9.0	7.6	#	7.2	5.8	5.0
IVRCL Infrastructure	49	53	67	85	4.1	5.0	6.3	7.8	16.9	7.8	10.3	12.4	10.0	7.6	6.3	#	6.7	5.7	5.0
L&T standalone	339	370	458	574	39.2	48.2	56.2	70.1	46.3	52.7	62.6	78.1	22.7	19.1	15.3	#	16.2	13.8	10.9
Sadbhav Engg	11	13	18	25	1.1	1.4	2.0	2.9	50.6	43.1	65.7	94.6	5.9	3.8	2.7	#	5.0	3.5	3.7
Average	112	122	150	184	10.5	14.1	16.7	20.5					12.9	10.1	8.2	#	8.6	7.1	6.0

**Note:**

(1) For Nagarjuna - adjusted Rs42/share for infrastructural investments (Rs26/share) and book value of real estate investments (Rs16/share).

(2) For Punj Lloyd estimates are based on consolidated estimates as they do not have any BOT projects.

(3) For IVRCL - adjusted value of IVR Prime (Rs54/share) and HDO (Rs13/share) for a total adjustment of Rs67/share.

(4) For L&T - deducted about Rs365/share, our total valuation of the value of subsidiaries/associates/JVs/investments.

(5) For Sadbhav Engineering - deducted Rs979/share as value of BOT projects.

Source: Bloomberg estimates, Kotak Institutional Equities estimates

**Derivation of SOTP based target price for IVRCL**

Project/ Business	Valuation		Valuation methodology
	(Rs mn)	Rs/ share	
Value of core construction business	39,885	148	P/E multiple of 13X Sep-11E earnings
Value of Hindustan Dorr Oliver	3,502	13	Discount to market price
Value of IVRCL Prime Developers Ltd	14,610	54	Discount to market price
<b>Total</b>		<b>215</b>	

Source: Kotak Institutional Equities estimates

## Quarterly results schedule

Mon	Tue	Wed	Thu	Fri	Sat
24-May	25-May	26-May	27-May	28-May	29-May
	Aban Offshore	Asian Electronics	Alkali Metals	Adhunik Metaliks	Aurobindo Pharma
	Apar Industries	Bajaj Electricals	Bharat Gears	Akruti City	Austin Engineering Company
	Asahi Songwon Colors	Bank of India	BPCL	Anant Raj Industries	Bhageria Dye Chem
	Bank of Baroda	Banswara Syntex	Britannia Industries	Apollo Tyres	Bhartiya International
	Datamatics Global Services	Barak Valley Cements	Cairn India	Asian Paints	Bodal Chemicals
	Deepak Fertilisers	BHEL	Carol Info Services	Bayer Corp	Cummins India
	Eclerx Services	City Union Bank	Coastal Roadways	BEML	Cyber-Tech Systems & Software
	Genesys International Corp.	Dalmia Cement (Bharat)	Colgate Palmolive	BGR Energy	Dhanuka Agritech
	Gujarat Industries Power Company	Emco	ElIH	Bombay Burmah Trading Corp	Dishman Pharma & Chemicals
	Hindustan Unilever	Ess Dee Aluminium	GEE	Century Plyboards (India)	FDC
	IL & FS Transportation	Everest Kanto Cylinder	Gujarat State Fertilizers	Classic Diamonds (India)	Hawkins Cookers
	Jai Corp	Gloster Jute Mills	Gujarat State Petronet	Deccan Cements	High Energy Batteries India
	JM Financial	Godrej Industries	Jagran Prakashan	Emami	Hindustan Oil Exploration
	Man Infraconstruction	Gujarat Alkalies & Chemicals	Neyveli Lignite	Fortis Healthcare	Ind-Swift Laboratories
	Mercator Lines	Gujarat Mineral Development Corp.	Orchid Chemicals & Pharma	Glenmark Pharma	IVRCL Infra
	Minda Industries	Gujarat Narmada Valley Fertilizers	Pennar Industries	HDIL	JK Cement
	Nagarjuna Consturction	HPCL	South India Paper Mills	Indian Oil Corp	JP Hydro Power
	Net 4 India	India Nippon	Tata Motors	IPCA Laboratories	Kallam Spinning Mills
	NHPC	Indian Hotels		Jeypore Sugar Company	Khaitan Electricals
	Power Grid Corp.	Jai Balaji Industries		Kalpatru Power Transmission	KSK Energy Ventures
	Provogue India	JJ Exporters		KCP	Mahindra & Mahindra
	Tamilnadu Newsprint & Papers	Kabra Extrusiontechnik		Kolte-Patil Developers	Max India
	Tata Tea	Kalyani Forge		NPR Finance	NG Industries
	Venkys (India)	Lakshmi Mills Company		ONGC	Nikhil Adhesives
		Mphasis		Punj Lloyd	Praj Industries
		OIL India		Punjab National Bank	Roto Pumps
		Plastiblends India		PVR	Savita Oil Technologies
		REI Agro		SAIL	Shipping Corp
		Simplex Projects		Shalimar Paints	Sudarshan Chemical Industries
		Tata Steel		Sun TV Network	Suzlon Energy
				Swaraj Mazda	Tulip Telecom
				Tourism Finance Corporation	Zenith Computers
				Trent	
				TVS Srichakra	
				Unitech	
				Unity Infraprojects	
				Voltas	
30-May	31-May				
Gujarat NRE Coke	Era Infra Engineering				
Himatsingka Seide	Polytex India				
Jaiprakash Associates	Swasti Vinayaka Synthetics				
Lanco Infratech	Tata Communications				
McLeod Russel India	Technojet Consultants				
NCL Industries					

Source: BSE, Kotak Institutional Equities

Source: Company, Bloomberg, Kotak Institutional Equities estimates

25-May-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
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(shrs)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)		
Automobiles																															
Ashok Leyland	57	ADD	75,827	1,589	1,330	2.8	3.9	5.0	84.5	37.5	29.7	20.2	14.7	11.3	12.2	9.4	8.0	1.9	1.8	1.6	2.6	1.8	1.8	11.1	12.7	15.0	60	5.3	9.1		
Bajaj Auto	2,019	ADD	292,051	6,122	145	117.5	159.9	173.2	159.8	36.1	8.3	17.2	12.6	11.7	10.9	8.7	7.9	9.2	5.8	4.2	1.0	1.0	1.0	66.6	54.8	39.8	2,330	15.4	11.7		
Hero Honda	1,869	SELL	373,139	7,822	200	111.8	121.5	135.7	74.1	8.7	11.7	16.7	15.4	13.8	10.7	10.0	8.6	10.4	7.1	5.2	1.6	1.7	1.9	59.1	56.6	43.8	1,800	(3.7)	23.6		
Mahindra & Mahindra	516	BUY	304,145	6,376	589	32.3	36.7	42.6	115.0	13.8	15.9	16.0	14.0	12.1	10.4	9.4	8.0	3.8	3.0	2.4	1.0	0.9	0.9	28.6	24.1	22.2	615	19.2	26.9		
Maruti Suzuki	1,199	REDUCE	346,439	7,262	289	86.4	94.4	106.1	104.9	9.2	12.4	13.9	12.7	11.3	7.3	6.7	5.7	2.9	2.4	2.0	0.4	0.4	0.4	23.3	20.6	19.1	1,400	16.8	19.9		
Tata Motors	673	ADD	401,497	8,416	596	26.0	30.3	35.2	159.2	16.5	16.4	25.9	22.3	19.1	12.6	11.5	10.2	2.0	1.8	1.5	0.8	0.9	0.9	8.9	8.4	8.6	875	29.9	110.8		
Automobiles			Cautious	1,799,098	37,587					118.1	17.4	13.4	17.6	15.0	13.2	10.5	9.3	8.1	3.5	2.9	2.4	1.0	1.0	1.1	20.1	19.3	18.1				
Banks/Financial Institutions																															
Andhra Bank	125	BUY	60,674	1,272	485	21.0	21.1	25.4	56.1	0.6	20.0	6.0	5.9	4.9	—	—	—	1.3	1.1	0.9	3.4	3.4	4.1	24.4	20.2	20.7	160	27.9	5.0		
Axis Bank	1,164	ADD	471,622	9,886	405	62.1	77.4	98.5	22.7	24.7	27.3	18.8	15.0	11.8	—	—	—	2.9	2.6	2.2	1.0	1.3	1.6	18.9	18.1	19.9	1,360	16.8	51.9		
Bank of Baroda	675	BUY	246,567	5,169	366	83.7	89.8	111.0	37.3	7.3	23.6	8.1	7.5	6.1	—	—	—	1.8	1.5	1.3	2.2	2.4	2.9	24.4	21.8	22.6	825	22.3	11.3		
Bank of India	320	REDUCE	168,187	3,526	526	33.1	40.5	56.0	(42.1)	22.2	38.3	9.7	7.9	5.7	—	—	—	1.3	1.2	1.0	2.2	2.7	3.7	14.3	15.9	19.3	360	12.6	6.3		
Canara Bank	398	ADD	163,242	3,422	410	73.7	77.0	93.6	45.8	4.5	21.4	5.4	5.2	4.3	—	—	—	1.3	1.1	0.9	2.0	2.5	3.0	23.0	19.6	20.1	500	25.6	6.5		
Corporation Bank	497	BUY	71,310	1,495	143	81.6	86.7	100.3	31.1	6.3	15.7	6.1	5.7	5.0	—	—	—	1.2	1.1	0.9	3.3	3.5	4.1	21.9	19.9	19.8	650	30.7	3.8		
Federal Bank	305	BUY	52,157	1,093	171	27.2	38.7	48.0	(7.2)	42.3	24.2	11.2	7.9	6.3	—	—	—	1.1	1.0	0.9	1.6	2.3	2.9	10.3	13.4	14.8	360	18.1	1.1		
HDFC	2,610	ADD	749,386	15,709	287	98.4	118.2	143.7	22.7	20.1	21.5	26.5	22.1	18.2	—	—	—	4.9	4.4	3.8	1.4	1.6	1.9	20.0	21.0	22.4	3,200	22.6	39.1		
HDFC Bank	1,804	BUY	815,401	17,093	452	65.2	86.2	112.2	23.6	32.1	30.2	27.7	20.9	16.1	—	—	—	3.8	3.3	2.9	0.7	0.9	1.2	16.2	17.0	19.2	2,200	22.0	33.2		
KICICI Bank	809	REDUCE	902,336	18,915	1,115	36.1	46.5	58.0	6.9	28.9	24.7	22.4	17.4	13.9	—	—	—	1.8	1.7	1.5	1.5	1.9	2.4	8.1	9.8	11.5	980	21.1	96.1		
IDFC	143	REDUCE	185,523	3,889	1,301	8.2	9.2	11.2	41.1	12.9	21.9	17.5	15.5	12.7	—	—	—	2.6	2.3	2.0	1.1	1.2	1.4	16.1	15.8	16.6	170	19.2	19.2		
India Infoline	97	BUY	30,167	632	312	8.1	8.9	10.0	59.2	9.8	12.5	11.9	10.8	9.6	—	—	—	1.9	1.6	1.3	3.3	2.0	2.4	16.4	15.9	16.1	140	44.7	3.7		
Indian Bank	203	BUY	87,394	1,832	430	35.1	35.5	43.8	25.5	1.1	23.6	5.8	5.7	4.6	—	—	—	1.3	1.1	0.9	3.0	3.0	3.7	24.0	20.3	21.2	280	37.7	3.9		
Indian Overseas Bank	92	BUY	49,958	1,047	545	13.0	15.4	26.4	(46.7)	18.9	71.3	7.1	5.9	3.5	—	—	—	0.8	0.7	0.6	4.5	4.9	5.4	9.6	10.6	16.3	120	30.9	2.9		
J&K Bank	750	BUY	36,368	762	48	105.7	112.3	140.6	25.1	6.3	25.2	7.1	6.7	5.3	—	—	—	1.3	1.1	1.0	2.9	3.1	3.9	17.3	16.9	18.5	850	13.3	0.6		
LIC Housing Finance	888	ADD	84,384	1,769	95	69.7	93.2	104.2	11.4	33.8	11.7	12.7	9.5	8.5	—	—	—	2.6	2.2	1.9	1.7	2.3	2.5	23.6	23.8	22.4	1,050	18.2	20.3		
Mahindra & Mahindra Financial	407	BUY	39,082	819	96	35.7	42.6	49.8	59.3	19.3	16.8	11.4	9.6	8.2	—	—	—	2.3	2.0	1.7	1.9	2.2	2.6	21.4	21.7	21.6	500	22.8	0.9		
Oriental Bank of Commerce	316	ADD	79,095	1,658	251	45.3	52.8	58.6	25.3	16.5	11.0	7.0	6.0	5.4	—	—	—	1.1	1.0	0.9	2.9	3.4	3.7	14.1	15.4	15.3	400	26.7	5.1		
PFC	281	SELL	322,868	6,768	1,148	20.5	22.5	25.9	53.5	9.9	15.1	13.7	12.5	10.9	—	—	—	2.5	2.2	1.9	1.8	2.0	2.3	18.8	18.0	18.2	240	(14.7)	2.7		
Punjab National Bank	940	BUY	296,321	6,212	315	123.8	128.0	156.5	26.3	3.4	22.2	7.6	7.3	6.0	—	—	—	1.8	1.5	1.3	2.3	2.7	3.3	26.4	22.7	23.3	1,150	22.4	7.3		
Reliance Capital	648	ADD	159,413	3,342	246	13.8	16.1	14.1	(64.9)	17.0	(12.4)	46.9	40.1	45.8	—	—	—	2.3	2.2	2.2	1.0	1.0	0.9	5.0	5.7	4.8	875	35.1	32.8		
Rural Electrification Corp.	267	ADD	263,880	5,531	987	20.3	24.6	30.7	23.2	21.2	24.9	13.2	10.9	8.7	—	—	—	2.4	2.1	1.8	2.4	2.8	3.4	22.0	20.5	22.2	300	12.3	16.0		
Shriram Transport	534	ADD	119,201	2,499	223	39.2	49.1	62.4	30.1	25.4	27.2	13.6	10.9	8.6	—	—	—	3.2	2.7	2.3	2.2	2.8	3.5	28.4	26.1	27.8	600	12.3	5.3		
SREI	80	NR	9,326	196	116	8.3	7.9	9.9	17.8	(4.8)	25.8	9.7	10.2	8.1	—	—	—	0.8	0.7	0.7	1.5	1.5	1.5	11.1	10.5	12.3	—	—	4.9		
State Bank of India	2,155	BUY	1,368,230	28,681	635	144.4	178.1	223.0	0.5	23.4	25.2	14.9	12.1	9.7	—	—	—	2.1	1.8	1.6	1.9	1.9	2.0	14.8	16.1	17.8	2,700	25.3	96.0		
Union Bank	280	BUY	141,332	2,963	505	41.1	45.8	57.3	20.2	11.5	25.0	6.8	6.1	4.9	—	—	—	1.6	1.3	1.1	2.0	2.4	3.0	26.2	23.7	24.3	380	35.8	4.7		
Banks/Financial Institutions			Attractive	6,973,423	146,178				14.4	17.3	24.3	14.0	11.9	9.6	—	—	—	2.2	1.9	1.7	1.7	1.9	2.3	15.5	16.0	17.4					
Cement																															
ACC	842	SELL	158,120	3,315	188	83.2	61.8	63.4	47.9	(25.7)	2.6	10.1	13.6	13.3	5.4	6.4	5.5	2.5	2.2	1.9	2.8	2.8	2.8	29.3	19.4	17.7	830	(1.4)	10.3		
Ambuja Cements	105	SELL	159,773	3,349	1,522	8.0	7.9	8.1	11.4	(1.8)	2.6	13.1	13.3	13.0	7.3	7.6	6.8	2.3	2.0	1.8	1.8	2.0	2.0	19.3	16.7	15.3	98	(6.6)	7.1		
Grasim Industries	2,319	REDUCE	212,629	4,457	92	301.0	240.1	282.0	26.1	(20.2)	17.5	7.7	9.7	8.2	4.6	4.7	3.7	1.7	1.5	1.3	1.4	1.5	1.5	22.9	16.4	16.7	2,520	8.7	10.8		
India Cements	110	SELL	33,803	709	307	10.0	10.4	11.3	n/a	3.1	9.1	11.0	10.6	9.7	5.5	5.5	5.3	0.8	0.7	0.7	1.9	2.9	2.9	8.2	7.7	8.0	110	(0.1)	4.7		
Shree Cement	1,940	BUY	67,570	1,416	35	208.0	221.1	242.5	n/a	6.3	9.7	9.3	8.8	8.0	4.6	4.4	3.5	3.7	2.6	2.0	0.5	0.5	0.5	48.0	35.0	28.1	2,550	31.5	0.8		
UltraTech Cement	925	SELL	115,110	2,413	124	88.2	67.1	77.2	12.0	(23.9)	15.0	10.5	13.8	12.0	5.4	6.2	5.1	2.1	1.9	1.6	0.9	0.9	0.9	26.6	16.8	16.7	940	1.7	4.0		
Cement			Neutral	747,005	15,659				19.3	(15.5)	10.4	9.7	11.5	10.4	5.3	5.6	4.7	2.0	1.7	1.5	1.7	1.8	1.8	20.5	15.1	14.6					
Consumer products																															
Asian Paints	2,074	BUY	198,938	4,170	96	72.9	83.4	95.0	88.8	14.4	14.0	28.5	24.9	21.8	17.9	15.4	13.1	14.2	11.7	9.8	1.9	2.2	2.5	57.2	53.4	50.4	2,100	1.3	2.5		
Colgate-Palmolive (India)	692	REDUCE	94,114	1,973	136	29.7	32.6	36.7	37.7	9.8	12.6	23.3	21.2	18.8	19.1	16.5	14.4	38.8	34.7	30.9	3.4	3.8	4.2	176.3	173.0	174.3	680	(1.7)	2.0		
Dabur India	178	BUY	153,767	3,223	866	5.8	6.8	8.2	28.1	17.6	20.8	30.6	26.0	21.6	22.7	18.2	15.0	14.6	12.0	9.9	1.7	2.0	2.4	54.3	51.1	50.7	200	12.7	2.3		
GlaxoSmithKline Consumer (a)	1,636	ADD	68,794	1,442	42	55.4	70.0	82.9	23.6	26.5	18.4	29.6	23.4	19.7	16.1	13.7	11.1	7.7	6.4	5.3	1.1	1.4	1.6	27.9	29.6	29.2	1,800	10.0	1.0		
Godrej Consumer Products	329	NR	84,995	1,782	258	10.4	11.7	13.9	54.9	13.2	18.7	31.8	28.1	23.8	22.5	20.0	16.7	7.3	6.3	6.1	1.2	1.2	1.2	30.8	23.9	27.4	—	—	2.6		
Hindustan Unilever	231	REDUCE	502,475	10,533	2,179	9.7	10.4	11.8	1.7	7.3	14.0	23.8	22.2	19.5	15.9																

## Kotak Institutional Equities: Valuation summary of key Indian companies

	25-May-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)
Energy																													
Bharat Petroleum	549	RS	198,576	4,163	362	58.1	61.7	65.3	181.9	6.2	5.8	9.5	8.9	8.4	5.0	4.5	4.3	1.4	1.2	1.2	4.2	4.5	4.8	14.1	13.7	13.3	—	—	8.3
Cairn India	272	SELL	514,945	10,794	1,897	6.0	20.3	37.9	—	237	86.9	45	13	7.2	34.2	8.3	5.0	1.5	1.5	1.4	—	5.5	9.2	3.4	11.0	19.9	250	(7.9)	18.3
Castrol India (a)	373	REDUCE	92,211	1,933	247	15.4	19.6	20.6	44.6	27.0	5.3	24.2	19.1	18.1	14.2	11.6	10.9	20.0	18.7	17.2	3.4	4.2	4.3	83.8	101.6	99.2	330	(11.5)	1.7
GAIL (India)	446	ADD	566,249	11,870	1,268	24.8	26.4	37.1	11.7	6.8	40.5	18.0	16.9	12.0	10.1	10.4	8.6	3.1	2.8	2.4	1.7	1.9	2.7	17.4	16.5	20.2	485	8.6	17.2
GSPL	88	REDUCE	49,641	1,041	563	7.6	10.0	10.4	244.2	31.8	4.7	11.7	8.9	8.5	6.3	4.8	4.4	3.1	2.6	2.3	2.9	5.6	5.9	28.8	31.7	28.8	80	(9.3)	4.0
Hindustan Petroleum	336	RS	114,009	2,390	339	46.3	49.7	54.8	173.1	7.2	10.4	7.3	6.8	6.1	2.5	2.3	2.0	0.9	0.8	0.8	7.7	8.3	9.2	11.2	11.4	11.8	—	—	6.9
Indian Oil Corporation	325	RS	788,109	16,520	2,428	33.0	32.1	33.4	235.4	(2.7)	3.9	9.8	10.1	9.7	6.2	5.2	4.6	1.4	1.3	1.2	2.0	1.9	2.0	15.3	13.1	12.3	—	—	5.6
Oil India	1,236	BUY	297,117	6,228	240	116.1	123.6	135.4	—	6.5	9.5	10.6	10.0	9.1	4.3	3.6	3.1	2.0	1.8	1.6	2.8	3.2	3.5	17.0	17.0	16.6	1,325	7.2	3.4
Oil & Natural Gas Corporation	1,080	BUY	2,310,640	48,436	2,139	92.6	116.4	140.0	2.0	25.7	20.2	11.7	9.3	7.7	4.2	3.2	2.7	1.8	1.6	1.4	3.0	3.5	4.3	14.9	17.0	18.2	1,350	25.0	24.0
Petronet LNG	80	REDUCE	60,225	1,262	750	5.4	6.2	7.9	—	14.9	28.0	14.9	13.0	10.1	9.4	7.7	6.7	2.4	2.0	1.8	2.2	2.5	3.4	15.9	15.9	17.6	82	2.1	4.3
Reliance Industries	986	SELL	2,933,294	61,488	2,976	49.4	61.6	79.3	(2.3)	24.6	28.8	19.9	16.0	12.4	10.1	7.6	6.2	2.0	1.8	1.6	0.7	0.9	1.1	11.4	12.9	14.8	1,040	5.5	124.3
Energy																													
Industrials																													
ABB	827	REDUCE	175,174	3,672	212	16.7	23.3	37.2	(35.2)	39.2	59.8	49.4	35.5	22.2	28.3	20.9	12.9	7.2	6.2	4.9	0.2	0.4	0.4	15.6	18.8	24.7	840	1.6	8.0
BGR Energy Systems	563	ADD	40,568	850	72	24.4	33.4	41.0	52.4	36.8	22.6	23.1	16.8	13.7	13.1	9.7	7.9	5.8	4.5	3.6	0.7	1.0	1.2	27.8	30.1	29.1	635	12.7	2.1
Bharat Electronics	1,693	REDUCE	135,436	2,839	80	93.9	111.8	127.4	(9.6)	19.1	13.9	18.0	15.1	13.3	8.6	6.9	5.8	3.0	2.6	2.3	1.5	1.5	1.5	17.9	18.7	18.5	1,790	5.7	3.8
Bharat Heavy Electricals	2,263	ADD	1,107,759	23,221	490	92.0	115.8	136.2	44.1	25.8	17.7	24.6	19.6	16.6	13.6	10.6	8.7	6.8	5.4	4.3	0.9	1.1	1.3	30.8	30.7	28.9	2,500	10.5	30.4
Crompton Greaves	223	BUY	143,290	3,004	642	12.8	13.3	15.8	46.5	3.2	19.0	17.4	16.9	14.2	10.0	9.1	7.4	5.5	4.3	3.4	0.8	0.8	1.0	36.8	28.5	26.8	290	29.8	9.1
Larsen & Toubro	1,559	BUY	936,638	19,634	601	58.1	69.7	87.7	16.0	19.9	25.9	26.8	22.4	17.8	14.6	12.5	10.4	4.2	3.5	3.0	0.7	0.8	0.9	18.6	17.2	18.3	1,850	18.7	51.3
Maharashtra Seamless	378	BUY	26,653	559	71	40.2	43.6	49.8	12.1	8.5	14.2	9.4	8.7	7.6	4.9	4.3	3.4	1.7	1.4	1.3	1.6	2.1	2.6	19.3	17.9	17.7	450	19.1	0.8
Siemens	672	REDUCE	226,454	4,747	337	25.0	29.6	34.3	55.2	18.6	16.0	26.9	22.7	19.6	15.7	12.9	10.8	6.7	5.4	4.5	0.7	0.9	1.0	27.3	26.3	25.1	635	(5.5)	7.1
Suzlon Energy	58	REDUCE	92,445	1,938	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(9.8)	223.6	11.0	16.9	8.7	5.7	0.8	0.9	0.8	—	—	0.3	(8.8)	0.4	7.5	70	20.7	32.2
Thermax	677	BUY	80,671	1,691	119	21.7	29.4	37.6	(10.4)	35.4	27.7	31.2	23.0	18.0	16.6	12.8	10.1	7.4	6.1	5.0	0.5	1.2	1.6	24.9	29.1	30.5	750	10.8	1.2
Voltas	162	ADD	53,662	1,125	331	9.6	10.4	11.8	38.5	8.5	13.6	17.0	15.6	13.8	9.2	8.2	6.8	5.2	4.3	3.5	1.6	1.7	1.9	34.6	30.1	27.9	195	20.2	3.4
Industrials																													
Infrastructure																													
Container Corporation	1,264	REDUCE	164,230	3,443	130	61.1	74.3	85.9	0.3	21.7	15.6	20.7	17.0	14.7	14.5	11.8	9.8	3.8	3.3	2.8	1.1	1.4	1.6	19.6	20.6	20.5	1,250	(1.1)	2.0
GMR Infrastructure	54	ADD	199,321	4,178	3,667	0.6	0.6	0.5	(24.5)	(3.1)	(16.6)	93.9	96.9	116.1	18.9	13.9	13.4	2.0	1.8	1.8	—	—	—	3.2	3.0	2.5	68	25.1	6.3
GVK Power & Infrastructure	40	BUY	63,010	1,321	1,579	0.8	1.1	1.4	6.7	33.5	32.4	49.0	36.7	27.7	17.3	16.0	16.4	2.0	1.9	1.8	—	0.8	0.8	4.7	5.3	6.7	54	35.3	6.8
IRB Infrastructure	248	RS	82,277	1,725	332	9.7	12.6	12.1	83.8	29.2	(3.7)	25.4	19.7	20.5	12.3	11.0	10.3	3.6	2.7	2.2	—	—	—	15.6	15.7	11.9	—	—	4.5
Mundra Port and SEZ	643	REDUCE	259,545	5,441	403	15.1	24.1	35.7	40.8	59.5	48.4	42.6	26.7	18.0	27.7	17.8	12.6	7.1	5.5	4.1	—	—	—	18.5	23.2	26.1	725	12.7	16.6
Infrastructure																													
Media																													
DB Corp	227	ADD	41,216	864	181	10.4	13.1	16.2	268.9	25.6	23.5	21.8	17.4	14.1	11.4	9.4	7.5	5.8	4.6	4.0	0.2	1.2	2.8	39.3	29.8	30.4	290	27.7	9.9
DishTV	36	ADD	38,389	805	1,063	(2.5)	(1.2)	0.6	(61.6)	(52.4)	(146.5)	(14.3)	(30.1)	64.7	56.5	18.4	10.0	9.4	13.7	11.3	—	—	—	248.6	(37.1)	19.1	45	24.7	2.8
HT Media	143	NR	33,535	703	235	6.1	7.8	9.4	623.3	27.0	20.9	23.4	18.4	15.2	11.7	9.7	7.9	3.4	3.1	2.8	0.7	1.4	2.8	15.6	17.6	19.2	—	—	0.3
Jagran Prakashan	107	ADD	32,210	675	301	5.9	6.7	7.9	92.4	14.3	18.3	18.3	16.0	13.5	11.0	9.4	7.9	5.3	4.8	4.3	3.3	3.8	4.4	30.1	31.4	33.7	130	21.6	1.9
Sun TV Network	404	REDUCE	159,130	3,336	394	12.1	14.6	17.8	33.3	21.0	21.6	33.4	27.6	22.7	19.2	15.5	12.8	7.7	6.8	5.9	1.0	1.5	2.0	25.4	26.4	28.0	295	(26.9)	2.2
Zee Entertainment Enterprises	276	REDUCE	119,893	2,513	434	10.5	12.0	14.7	24.4	14.4	22.2	26.3	23.0	18.8	19.5	15.4	12.2	3.2	3.1	3.0	0.9	1.1	1.3	13.0	14.1	16.4	265	(4.1)	8.2
Media																													
Metals																													
Hindalco Industries	138	ADD	263,646	5,527	1,914	4.2	12.4	14.9	(74.0)	197.9	20.7	33.1	11.1	9.2	7.9	8.0	8.2	1.2	1.1	1.0	1.0	1.0	1.0	9.1	10.3	11.3	190	37.9	35.1
Hindustan Zinc	925	BUY	391,011	8,196	423	95.6	70.1	76.6	48.2	(26.8)	9.4	9.7	13.2	12.1	5.7	7.5	5.7	2.1	1.8	1.6	0.6	0.6	0.6	24.2	14.8	14.1	1,400	51.3	4.4
Jindal Steel and Power	617	SELL	572,942	12,010	928	38.5	48.7	50.8	17.2	26.5	4.3	16.0	12.7	12.2	10.1	8.1	7.6	5.0	3.6	2.8	0.2	0.2	0.2	37.3	33.0	25.7	575	(6.9)	34.5
JSW Steel	994	REDUCE	197,592	4,142	199	80.4	106.4	136.9	447.0	32.3	28.7	12.4	9.3	7.3	8.0	6.8	5.4	1.7	1.4	1.1	0.9	0.5	0.5	15.4	16.4	17.3	1,150	15.6	52.3
National Aluminium Co.	394	SELL	253,923	5,323	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	39.1	14.1	14.2	17.1	6.7	6.1	2.3	2.0	1.8	0.5	0.5	0.5	6.1	15.4	13.3	320	(18.8)	2.1
Sesa Goa	309	REDUCE	275,007	5,765	890	29.6	61.4	62.4	32.2	107.6	1.8	10.5	5.0	5.0	8.4	3.0	2.3	3.6	2.1	1.5	1.0	1.0	1.0	36.7	48.0	34.1	420	35.9	64.5
Sterile Industries	607	ADD	509,963	10,690	840	48.1	67.6	83.3	21.9	40.6	23.2	12.6	9.0	7.3	9.8	7.1	5.3	1.4	1.2	1.0	0.6	0.6	0.6	13.0	14.4	15.4	875	44.2	42.5
Tata Steel	477	BUY	422,980	8,867	887	3.2	78.7	93.5	(97.1)	2,331.6	18.7	147.2	6.1	5.1	17.0	5.7	4.8	1.7	1.3	1.1	1.7	1.7	1.7	1.1	24.7	23.8	700	46.9	92.9
Metals																													
Pharmaceutical																													
Biocin	281	BUY	56,270	1,180	200	14.7	18.3	22.4	212.6	24.8	22.7	19.2	15.4	12.5	11.0	9.2	7.4	3.1	2.7	2.3	—	—	0.1	17.9	19.3	20.3	345	22.6	4.0
Cipla	313	REDUCE	251,234	5,266	803	12.7	12.8	15.6	27.9	1.1	21.9	24.7	14.4	20.0	17.2	16.2	13.5	4.3	3.8	3.3	0.8	0.8	0.8	20.1	16.6	17.6	280	(10.5)	10.9
Cadila Healthcare	605	REDUCE	123,842	2,596	205	24.7	29.6	34.9	66.9	20.0	17.6	24.5	20.4	17.3	15.8	13.3	11.5	7.7	5.9	4.7	0.8	1.0	1.2	36.1	32.8	30.3	535	(11.5)	1.6
Dishman Pharma & Chemicals	207	BUY	16,812	352	81	16.1	18.4	29.6	(61.3)	13.9	61.3	12.8	11.3	7.0	10.1	8.4	6.2	2.0	1.7	1.4	—	—	—	17.0	16.7	22.6	300	45.1	0.9
Divi's Laboratories	697	ADD	92,124	1,931	132	25.8	34.3																						

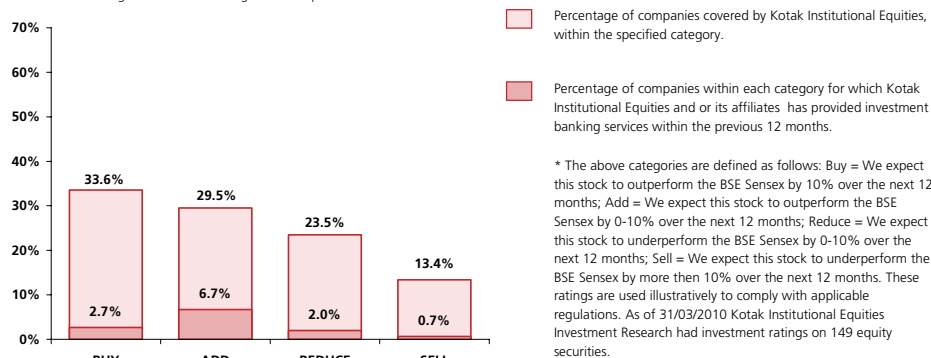
## Kotak Institutional Equities: Valuation summary of key Indian companies

	25-May-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target			
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
<b>Retail</b>																														
Titan Industries	2,156	ADD	95,717	2,006	44	62.7	76.1	96.2	41.5	21.3	26.5	34.4	28.4	22.4	24.4	19.1	14.9	12.1	9.1	6.8	0.5	0.6	0.6	40.7	36.6	34.8	2,400	11.3	4.4	
<b>Retail</b>		<b>Neutral</b>	<b>95,717</b>	<b>2,006</b>					<b>41.5</b>	<b>21.3</b>	<b>26.5</b>	<b>34.4</b>	<b>28.4</b>	<b>22.4</b>	<b>24.4</b>	<b>19.1</b>	<b>14.9</b>	<b>12.1</b>	<b>9.1</b>	<b>6.8</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>35.2</b>	<b>32.0</b>	<b>30.5</b>				
<b>Sugar</b>																														
Bajaj Hindustan	100	SELL	19,203	403	191	9.7	9.9	8.9	—	2.2	(10.4)	10.3	10.1	11.3	6.6	5.4	5.0	0.8	0.7	0.7	0.7	0.7	0.7	8.1	7.5	6.3	99	(1.3)	10.4	
Balrampur Chini Mills	76	ADD	19,526	409	257	3.7	10.4	7.0	—	183.7	(32.7)	20.7	7.3	10.8	8.9	5.1	5.5	1.4	1.2	1.1	0.6	0.6	0.6	7.0	18.1	11.0	92	21.0	9.6	
Shree Renuka Sugars	55	BUY	36,638	768	670	9.9	7.6	7.8	196.4	(23.2)	3.1	5.5	7.2	7.0	3.9	4.3	3.6	1.4	1.2	1.0	0.7	0.6	0.6	32.0	18.1	15.7	76	38.9	23.6	
<b>Sugar</b>		<b>Cautious</b>	<b>75,367</b>	<b>1,580</b>					<b>96.1</b>	<b>2.5</b>	<b>(9.4)</b>	<b>8.0</b>	<b>7.8</b>	<b>8.6</b>	<b>5.6</b>	<b>4.9</b>	<b>4.5</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>14.9</b>	<b>13.3</b>	<b>10.8</b>				
<b>Technology</b>																														
HCL Technologies	355	REDUCE	244,950	5,135	690	17.8	25.1	28.5	2.0	40.6	13.6	19.9	14.2	12.5	10.1	8.7	7.2	3.8	3.2	2.7	1.1	1.1	1.7	20.8	24.9	23.3	370	4.2	8.8	
Hexaware Technologies	72	REDUCE	10,379	218	144	9.3	5.1	9.4	127.7	(45.4)	84.0	7.7	14.2	7.7	3.7	7.6	4.0	1.2	1.1	1.0	1.4	1.4	1.4	17.8	8.4	14.0	72	(0.3)	2.5	
Infosys Technologies	2,533	BUY	1,454,172	30,483	574	108.3	125.2	150.5	5.7	15.6	20.2	23.4	20.2	16.8	16.9	13.8	11.2	6.3	5.2	4.3	1.0	1.4	1.7	30.1	28.2	28.0	3,100	22.4	70.1	
Mphasis BFL	631	REDUCE	131,505	2,757	208	43.6	48.7	47.9	207.5	11.7	(1.5)	14.5	13.0	13.2	11.5	10.2	8.8	5.6	4.0	3.2	0.6	0.6	0.7	48.1	36.2	26.9	570	(9.6)	10.3	
Mindtree	517	REDUCE	21,275	446	41	52.2	38.9	51.6	294.3	(25.5)	32.6	9.9	13.3	10.0	8.5	8.1	5.7	3.2	2.6	2.1	0.4	0.8	1.0	35.2	21.4	23.1	550	6.4	3.0	
Patni Computer Systems	538	REDUCE	71,649	1,502	133	36.6	42.3	38.6	36.4	15.6	(8.7)	14.7	12.7	13.9	7.8	6.9	6.1	2.0	1.9	1.7	1.3	1.6	1.4	18.2	15.8	12.8	450	(16.3)	5.0	
Polaris Software Lab	167	SELL	16,615	348	100	15.4	19.1	18.6	16.9	24.3	(2.7)	10.8	8.7	9.0	5.2	6.8	5.8	1.9	1.6	1.4	2.1	2.2	2.3	18.6	20.1	17.0	180	8.0	3.7	
TCS	700	BUY	1,369,159	28,701	1,957	35.1	41.1	46.3	32.8	16.9	12.8	19.9	17.0	15.1	15.3	12.3	10.2	6.5	5.4	4.6	2.9	2.3	2.6	37.6	34.8	32.8	900	28.7	34.9	
Wipro	634	ADD	926,396	19,419	1,462	31.4	36.7	41.9	22.1	16.7	14.4	20.2	17.3	15.1	15.1	12.4	10.2	4.7	3.9	3.2	0.9	1.2	1.4	26.5	24.6	23.2	775	22.3	16.4	
<b>Technology</b>		<b>Attractive</b>	<b>4,246,100</b>	<b>89,007</b>					<b>22.9</b>	<b>16.6</b>	<b>14.4</b>	<b>20.3</b>	<b>17.4</b>	<b>15.2</b>	<b>14.7</b>	<b>12.2</b>	<b>10.0</b>	<b>5.4</b>	<b>4.5</b>	<b>3.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.9</b>	<b>26.7</b>	<b>25.8</b>	<b>24.6</b>				
<b>Telecom</b>																														
Bharti Airtel	265	REDUCE	1,004,845	21,064	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	11.0	12.4	10.9	6.2	5.9	5.0	2.3	1.9	1.7	1.1	1.5	1.9	24.1	17.0	16.5	290	9.6	44.0	
IDEA	51	REDUCE	169,610	3,555	3,900	2.7	1.3	2.3	(5.8)	(51.7)	71.9	18.8	38.9	22.6	6.9	6.9	5.6	1.5	1.4	1.4	—	—	—	7.2	3.8	6.3	50	(2.7)	7.8	
MTNL	56	SELL	35,217	738	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(3.6)	(5.4)	(6.1)	0.2	0.2	0.3	0.3	0.3	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(10.6)	1.7	
Reliance Communications	139	SELL	296,207	6,209	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	6.3	9.9	7.6	6.3	6.9	5.1	0.8	0.7	0.6	0.6	—	—	—	11.7	7.4	8.9	140	0.8	13.6
Tata Communications	237	REDUCE	67,645	1,418	285	14.0	15.2	15.7	3.2	8.2	3.5	16.9	15.7	15.1	7.0	6.4	6.1	0.9	0.9	0.9	2.7	3.2	3.6	5.2	5.5	5.5	400	68.5	1.1	
<b>Telecom</b>		<b>Cautious</b>	<b>1,573,523</b>	<b>32,984</b>					<b>(15.1)</b>	<b>(19.8)</b>	<b>20.7</b>	<b>11.0</b>	<b>13.7</b>	<b>11.4</b>	<b>6.5</b>	<b>6.4</b>	<b>5.2</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>	<b>0.9</b>	<b>1.1</b>	<b>1.4</b>	<b>12.7</b>	<b>9.3</b>	<b>10.2</b>				
<b>Utilities</b>																														
Adani Power	114	ADD	249,392	5,228	2,180	0.8	4.9	16.4	—	524.1	235.3	146.0	23.4	7.0	115.9	16.1	5.8	4.6	3.8	2.5	—	—	—	4.4	17.8	43.0	130	13.6	9.9	
CESC	363	ADD	45,314	950	125	34.1	43.3	46.7	5.6	27.0	7.9	10.6	8.4	7.8	6.2	6.0	6.8	1.1	1.0	0.9	1.2	1.5	1.6	10.7	12.1	11.7	455	25.4	2.0	
Lanco Infratech	54	BUY	130,351	2,732	2,405	1.8	3.6	4.3	23.9	101.3	18.5	30.1	14.9	12.6	21.8	9.1	8.9	3.8	3.0	2.5	—	—	—	14.5	20.9	20.0	60	10.7	9.9	
NTPC	193	REDUCE	1,588,901	33,307	8,245	10.6	12.4	14.7	7.8	16.8	18.9	18.2	15.6	13.1	14.2	12.1	10.1	2.5	2.3	2.1	2.1	2.4	2.9	14.2	15.3	16.6	200	3.8	14.7	
Reliance Infrastructure	1,030	ADD	253,505	5,314	246	61.8	62.7	80.3	(1.5)	1.6	28.0	16.7	16.4	12.8	18.0	17.4	11.9	1.3	1.2	1.1	0.8	0.9	1.0	6.3	7.3	10.1	1,100	6.8	38.0	
Reliance Power	145	SELL	346,690	7,267	2,397	2.5	3.1	5.1	—	24.4	66.1	58.7	47.2	28.4	-	-	-	2.4	2.3	2.1	—	—	—	4.2	5.0	7.8	128	(11.5)	10.5	
Tata Power	1,204	BUY	297,176	6,229	247	60.2	76.1	95.3	20.1	26.4	25.2	20.0	15.8	12.6	13.0	11.1	9.6	2.3	2.0	1.8	1.0	1.2	1.2	12.9	13.6	15.2	1,500	24.6	12.9	
<b>Utilities</b>		<b>Attractive</b>	<b>2,911,330</b>	<b>61,028</b>					<b>14.8</b>	<b>25.8</b>	<b>35.9</b>	<b>21.9</b>	<b>17.4</b>	<b>12.8</b>	<b>18.3</b>	<b>14.1</b>	<b>10.6</b>	<b>2.4</b>	<b>2.2</b>	<b>1.9</b>	<b>1.3</b>	<b>1.5</b>	<b>1.8</b>	<b>10.8</b>	<b>12.4</b>	<b>15.0</b>				
<b>Others</b>																														
Aban Offshore	688	ADD	29,928	627	43	115.4	171.2	98.5	19.0	48.4	(42.4)	6.0	4.0	7.0	7.8	6.0	6.4	0.8	0.6	0.5	0.5	0.5	0.6	15.1	15.3	7.9	900	30.8	45.8	
Havells India	545	SELL	32,777	687	60	5.3	31.6	45.0	3.7	497.9	42.6	103.1	17.2	12.1	14.8	9.1	7.4	9.0	5.9	4.0	0.5	0.5	0.5	6.6	41.6	39.7	480	(11.9)	8.7	
Jaiprakash Associates	116	BUY	244,924	5,134	2,107	4.3	7.1	10.1	115.0	65.5	42.2	27.0	16.3	11.5	14.9	13.2	9.3	3.0	2.6	2.2	—	—	—	12.3	17.1	20.5	170	46.2	36.6	
Jindal Saw	181	ADD	53,255	1,116	294	27.5	19.3	17.9	121.9	(29.8)	(7.2)	6.6	9.4	10.1	4.8	5.5	5.2	1.4	1.2	1.0	0.5	0.5	0.5	20.5	12.9	11.1	243	34.2	10.0	
PSL	121	BUY	6,458	135	53	29.8	25.4	24.1	34.1	(14.8)	(5.1)	4.1	4.8	5.0	2.7	2.5	2.7	0.7	0.6	0.6	5.4	5.4	5.8	13.6	11.7	10.8	175	44.9	0.7	
Sintex	273	BUY	37,304	782	136	24.1	29.8	34.3	0.5	23.5	15.1	11.3	9.2	8.0	8.5	6.4	5.3	1.7	1.4	1.2	0.4	0.4	0.5	15.1	15.6	15.2	380	39.0	4.6	
Tata Chemicals	298	ADD	72,482	1,519	243	27.3	31.0	36.1	2.5	13.4	16.5	10.9	9.6	8.3	6.0	5.2	4.6	1.4	1.3	1.1	2.9	2.9	2.9	15.6	15.7	16.0	340	14.2	3.7	
Welspun Gujarat Stahl Rohren	215	REDUCE	44,197	926	205	25.1	23.0	24.4	44.9	(8.1)	5.8	8.6	9.3	8.8	4.8	5.0	4.3	1.5	1.3	1.1	0.9	1.0	1.0	20.6	14.8	13.5	245	13.9	10.7	
United Phosphorus	159	BUY	73,544	1,542	463	11.9	14.6	18.1	18.8	22.5	23.5	13.3	10.9	8.8	7.7	6.7	5.3	2.1	1.8	1.6	0.9	1.3	1.3	17.7	18.0	18.8	195	22.7	5.8	
<b>Others</b>			<b>594,869</b>	<b>12,470</b>		<b>43.1</b>	<b>25.1</b>	<b>13.2</b>	<b>13.6</b>	<b>10.9</b>	<b>9.6</b>	<b>8.7</b>	<b>8.0</b>	<b>6.8</b>	<b>1.9</b>	<b>1.6</b>	<b>1.4</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>	<b>14.3</b>	<b>14.9</b>	<b>14.6</b>							
<b>KS universe (b)</b>			<b>39,144,619</b>	<b>820,556</b>		<b>11.6</b>	<b>22.6</b>	<b>21.3</b>	<b>17.1</b>	<b>13.9</b>	<b>11.5</b>	<b>10.5</b>	<b>8.5</b>	<b>7.1</b>	<b>2.5</b>	<b>2.2</b>	<b>1.9</b>	<b>1.4</b>	<b>1.6</b>	<b>1.9</b>	<b>1.4</b>	<b>1.8</b>	<b>1.9</b>	<b>14.7</b>	<b>15.8</b>	<b>16.7</b>				
<b>KS universe (b) ex-Energy</b>			<b>31,219,602</b>	<b>654,430</b>		<b>8.0</b>	<b>22.4</b>	<b>20.4</b>	<b>18.0</b>	<b>14.7</b>	<b>12.2</b>	<b>12.5</b>	<b>10.2</b>	<b>8.5</b>	<b>2.8</b>	<b>2.4</b>	<b>2.1</b>	<b>1.3</b>	<b>1.4</b>	<b>1.6</b>	<b>1.5</b>	<b>1.6</b>	<b>1.5</b>	<b>15.4</b>	<b>16.4</b>	<b>17.1</b>				
<b>KS universe (d) ex-Energy &amp; ex-Commodities</b>			<b>27,585,334</b>	<b>578,252</b>		<b>14.9</b>	<b>17.4</b>	<b>22.0</b>	<b>18.6</b>	<b>15.9</b>	<b>13.0</b>	<b>13.7</b>	<b>11.6</b>	<b>9.6</b>	<b>2.9</b>	<b>2.6</b>	<b>2.2</b>	<b>1.4</b>	<b>1.5</b>	<b>1.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>15.6</b>	<b>16.1</b>	<b>17.1</b>				

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As of March 31, 2010

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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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