

Contents

Results

Larsen & Toubro: Positive takeaways on execution, margins and order inflows

HDFC: In-line quarter; strong outlook but priced in

Sesa Goa: Realizations take a hit

Updates

Biocon: Biocon monetizes its insulin portfolio, out licensing of oral insulin awaited

News Round-up

- ▶ Biocon (BIOS IN) has struck a USD 200 mn deal with Pfizer, which will see the US pharmaceutical multinational sell the Bangalore-headquartered biotechnology company's insulin products globally. *(BSTD)*
- ▶ The Supreme Court extended the stay on closure of Sterlite Industries (STLT IN) copper smelting unit at Tuticorin in Tamil Nadu till the second week of December. *(BSTD)*
- ▶ Reliance Industries Ltd (RIL IN) four gas pipelines are likely to be delayed. Envisaged with an investment of USD 4.53 bn, these were scheduled to be completed by 2012. RIL shows interest in Nelp-IX auction for oil and gas blocks. *(BSTD)*
- ▶ State run Indian Oil Corp. (IOCL IN) will start short listing merchant bankers next week for its public issue that is likely to raise about USD 4.22bn, making it the largest ever equity offer in the country. The issue is likely in January 2011. *(ECNT)*
- ▶ ONGC's (ONGC IN) fuel subsidy bill will increase by nearly 15% to USD 670.89mn in the second quarter this fiscal. *(ECNT)*
- ▶ Infosys Technologies (INFO IN) to build 20,000 seat campus in Shanghai. *(FNLE)*
- ▶ DrReddy's (DRRD IN) to launch Lansoprazole in US. *(FNLE)*
- ▶ Adani Enterprises (ADE IN) will invest USD 6.9bn to develop its recently acquired Australian coal mines. *(ECNT)*
- ▶ The board of Emami group (HMN IN) has approved a plan to raise up to USD 1.11bn through debt & equity dilution, throwing open speculations that the company may still be a contender for Paras Pharmaceuticals despite the latter's high valuation. *(ECNT)*
- ▶ RCom (RCOM IN) corporate customer business is undergoing a major restructuring, with its domestic enterprise business being merged with its global operations. *(ECNT)*
- ▶ Clearing air on marketing freedom on natural gas, the govt. said companies will continue to have the right to discover the market price of the fuel & govt. will in no way dictate the rates. *(ECNT)*
- ▶ McNally Bharat (MCNA IN) bags USD 5 mn order from Essar Projects (India). *(FNLE)*
- ▶ Pratibha Industries (PRIL IN) raises USD 23 mn via issue of 12 mn shares at INR 82 a share. *(FNLE)*
- ▶ Cairn India (CAIR IN) to invest USD 2 bn in 2 years. *(FNLE)*

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

EQUITY MARKETS

India	Change %			
	18-Oct	1-day	1-mo	3-mo
Sensex	20,169	0.2	2.9	12.5
Nifty	6,076	0.2	3.2	12.8
Global/Regional indices				
Dow Jones	11,144	0.7	5.1	9.7
Nasdaq Composite	2,481	0.5	7.1	12.8
FTSE	5,743	0.7	4.2	11.5
Nikkei	9,540	0.4	(0.9)	1.4
Hang Seng	23,551	0.3	7.2	17.2
KOSPI	1,868	(0.4)	2.2	7.9
Value traded – India				
Cash (NSE+BSE)	205		222	201
Derivatives (NSE)	1,409		1,165	624
Deri. open interest	1,839		2,079	1,543

Forex/money market

	Change, basis points			
	18-Oct	1-day	1-mo	3-mo
Rs/US\$	44.4	(1)	(134)	(275)
10yr govt bond, %	8.1	3	11	46

Net investment (US\$m)

	15-Oct	MTD	CYTD
FIs	148	4,078	23,332
MFs	(245)	(1,054)	(282)

Top movers -3mo basis

Best performers	Change, %			
	18-Oct	1-day	1-mo	3-mo
TTMT IN Equity	1169.0	1.1	12.9	41.6
HNDL IN Equity	211.4	(0.6)	11.8	38.5
BOI IN Equity	531.8	(0.2)	6.7	35.3
BOB IN Equity	987.0	2.8	13.1	34.6
TTCH IN Equity	425.4	(1.4)	3.1	30.7
Worst performers				
IVRC IN Equity	152.3	(0.5)	(3.6)	(20.4)
Z IN Equity	274.3	1.5	(4.2)	(13.5)
FTECH IN Equity	1174.0	1.2	(17.4)	(12.4)
RNR IN Equity	40.0	1.0	0.3	(10.8)
DIVI IN Equity	703.4	(1.6)	(2.4)	(10.6)

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

OCTOBER 18, 2010
RESULT

Coverage view: **Attractive**

Price (Rs): **2,015**

Target price (Rs): **2,200**

BSE-30: **20,169**

Positive takeaways on execution, margins and order inflows. Highlights from the 2QFY11 results include (1) strong revenue growth of 18% yoy (in line with estimates) alleviates concerns on execution, (2) contribution margin expands by 130 bps yoy despite higher raw material costs, (3) higher other income boosts PAT and (4) strong inflows of Rs204 bn boosted by power, infrastructure and in-house projects. Maintains inflows (25%) and revenue (20%) growth guidance. Reiterate ADD (TP: Rs2,200).

Company data and valuation summary

Larsen & Toubro

Stock data

52-week range (Rs) (high,low) 2,120-1,371

Market Cap. (Rs bn) 1,213.7

Shareholding pattern (%)

Promoters 0.0

FIIs 18.1

MFs 5.3

Price performance (%)

Absolute 1M 3M 12M 2.7 7.7 19.2

Rel. to BSE-30 (0.3) (4.1) 2.4

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	57.9	76.7	90.5
EPS growth (%)	15.6	32.3	18.1
P/E (X)	34.8	26.3	22.3
Sales (Rs bn)	439.7	541.7	674.2
Net profits (Rs bn)	34.9	46.4	54.8
EBITDA (Rs bn)	63.7	91.9	115.2
EV/EBITDA (X)	22.2	14.7	11.7
ROE (%)	18.6	18.8	18.5
Div. Yield (%)	0.6	0.6	0.7

Results broadly in line; strong execution and contribution margin expansion—key positives
► Strong execution—in line with estimates; possibly lifts subjective execution concerns:

L&T reported revenues of Rs93 bn, marginally (2.4%) above our estimates, up 17.8% yoy. Pick-up in the execution of several large-value projects possibly alleviates concerns on future execution. The core E&C segment and MIP segment reported strong performance while the E&E segment recorded a 5% yoy de-growth and 200 bps margin contraction.

► EBITDA margins in line; highlight strong contribution margin expansion: L&T reported relatively flat EBITDA margin of 10.8% in 2QFY11 (broadly in line). The contribution margin of the company recorded a strong 130 bps yoy expansion led by lower subcontracting expenses.

► Higher other income helps beat our estimates at PAT level: Net PAT of Rs6.9 bn was 6.7% higher than our estimate led by higher-than-expected other income on account of profit from sale of investment in Satyam and sale of property. Adjusted for this, L&T would have reported in-line results at the PBT level as well.

Strong inflows driven by power, infrastructure and in-house projects; maintains full-year guidance

L&T reported very strong order inflows of Rs360 bn in 1HFY11, up 29% yoy from Rs279 bn in 1HFY10. Order inflows were driven by the power and infrastructure segments led by (1) additional Rs30 bn for Rajpura power plant, (2) Rs28 bn turbine order from Jaypee Group (Karchana project) and (3) Rs16 bn BoP order for Raigarh power project. L&T's own in-house development projects contributed to 28% the total inflows (versus 5% in 1HFY10). The management has maintained its full-year order inflow guidance of 25% and revenue growth guidance of 20% for FY2011E.

Revise estimates and target price to Rs2,200; reiterate ADD

We have marginally revised our consolidated estimates to Rs76.7 and Rs90.5 from Rs74.5 and Rs90 for FY2011E and FY2012E. We reiterate our ADD rating with a revised target price of Rs2,200 (from Rs2,150) on (1) expected execution pick-up in 2H, (2) scale-up of power equipment business, (3) capex revival, (4) value creation in subsidiaries and (5) strong balance sheet.

Lokesh Garg

lokesh.garg@kotak.com

Mumbai: +91-22-6634-1496

Supriya Subramanian

supriya.subramanian@kotak.com

Mumbai: +91-22-6634-1383

Kotak Institutional Equities Research
kotak.research@kotak.com

Mumbai: +91-22-6634-1100

Strong execution and contribution margin expansion—key positives

L&T reported 2QFY11 revenues of Rs93 bn, marginally (about 2.4%) above our estimate of Rs91 bn, recording a strong growth of 17.8% yoy (from Rs79.2 bn in 2QFY10). The company cited that pick-up in the execution of several large-value projects (which were in the initial stage of execution in 1Q) drove the strong revenues for the quarter. The revenue growth was led by the core engineering & construction and the Machinery and Industrial products segment which recorded very strong growth while the Electrical and Electronics segment reported weak results. L&T reported EBITDA margin of 10.8%, relatively flat on a yoy basis (up 20 bps yoy from 10.6% in 2QFY10), broadly in line with our estimate of 11%.

Meets PAT-level estimates—adjusted for one-offs

The bottom line of the company was boosted by higher-than-expected other income of Rs3.8 bn, up 75.7% yoy and versus our estimate of Rs2.4 bn. The higher other income was attributed to (1) profit from sale of stake in Satyam Computers (about Rs700 mn) and (2) sale of property to the tune of about Rs700 mn. The company also specified certain one-time expenses charged to the financial expenses in the quarter to the tune of about Rs300-320 mn. Adjusted for these, the company would have reported a PBT of about Rs9.65 bn, broadly in line with our estimate of Rs9.7 bn. L&T reported a net PAT (before extraordinary items) of Rs6.9 bn, up 25.5% yoy and about 6.7% above our estimate of Rs6.5 bn. The company also reported an exceptional income of Rs708 mn on account of reversal of provision made towards L&T's investment in Satyam, proportional to the sale of stake in Satyam made during the quarter.

For the half year ending September 30, 2010, the company has reported revenues of Rs172 bn, up 12% yoy. EBITDA margin of 11.7% was up 80 bps yoy leading to a net PAT growth of 20% to Rs13.6 bn in 1HFY11 versus Rs11.3 bn in 1HFY10.

Contribution margin expansion on lower subcontracting

L&T has reported a 130 bps yoy expansion in contributions margins, which is a key positive. The expansion in contribution margin was primarily due to lower subcontracting expenses as a percentage of sales which declined to 20% of sales in 2QFY11 from 24.4% of sales in 2QFY10. Note that raw material and other manufacturing expenses as a percentage of sales increased by about 160 bps each. Higher selling and administration expenses (up 110 bps yoy as a percentage of sales) led to the relatively flat margins at the EBITDA levels despite the strong contribution margin expansion. Higher SG&A expenses were attributed to exchange variation loss on balance sheet exposure (of about Rs600 mn) and provisions for cost escalation.

The management suggested that the full-year FY2011E margin is likely to remain broadly at FY2010 levels of about 13%. The margin expansion witnessed in 1HFY11 is unlikely to sustain for the remaining FY2011E.

Strong execution and contribution margin expansion - key positives

Larsen & Toubro (standalone) - 2QFY11 results - key numbers (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	% change			1HFY11	1HFY10	% change
					vs est.	yoy	qoq			
Net sales	93,308	91,128	79,188	78,853	2.4	17.8	18.3	172,161	153,271	12.3
Expenses	(83,251)	(81,104)	(70,816)	(68,783)	2.6	17.6	21.0	(152,033)	(136,580)	11.3
Total RM consumption	(24,956)		(23,065)	(18,299)		8.2	36.4	(43,255)	(42,523)	1.7
Subcontracting charges	(18,632)		(19,350)	(16,681)		(3.7)	11.7	(35,313)	(38,632)	(8.6)
Construction materials	(19,203)		(13,114)	(17,934)		46.4	7.1	(37,138)	(26,837)	38.4
Employee	(8,288)		(7,087)	(5,633)		17.0	47.2	(13,921)	(12,201)	14.1
Other mfg. expenses	(7,067)		(4,769)	(6,525)		48.2	8.3	(13,592)	(9,522)	42.7
Other S,G&A	(5,105)		(3,433)	(3,710)		48.7	37.6	(8,815)	(6,863)	28.4
EBITDA	10,057	10,024	8,372	10,071	0.3	20.1	(0.1)	20,127	16,692	20.6
Other income	3,822	2,414	2,176	2,268	58.3	75.7	68.5	6,090	4,403	38.3
Interest	(1,932)	(1,423)	(1,310)	(1,423)	35.7	47.5	35.7	(3,355)	(2,406)	39.5
Depreciation	(1,212)	(1,304)	(1,001)	(1,142)	(7.0)	21.1	6.2	(2,354)	(1,939)	21.4
PBT	10,735	9,711	8,237	9,773	10.5	30.3	9.8	20,508	16,751	22.4
Tax	(3,794)	(3,205)	(2,707)	(3,112)	18.4	40.2	21.9	(6,905)	(5,437)	27.0
Net profit	6,941	6,506	5,530	6,662	6.7	25.5	4.2	13,603	11,314	20.2
Extraordinary items	708	-	274	-	NA	NA	NA	708	10,473	NA
RPAT	7,650	6,506	5,804	6,662	17.6	31.8	14.8	14,312	21,786	(34.3)
Order details										
Order booking	204,640		183,650	156,260		11.4	31.0	360,900	279,350	29.2
Order backlog	1,153,930		816,230	1,078,160		41.4	7.0	1,153,930	816,230	41.4
Key ratios (%)										
Raw materials/sales	47.3		45.7	46.0		1.6	1.4	46.7	45.3	
Subcontracting charges	20.0		24.4	21.2		(4.5)	(1.2)	20.5	25.2	
Other manufacturing exp.	7.6		6.0	8.3		1.6	(0.7)	7.9	6.2	
Contribution margins	25.1		23.9	24.6		1.3	0.5	24.9	23.3	
Employee expenses/sales	8.9		8.9	7.1		(0.1)	1.7	8.1	8.0	
S G and A expenses/sales	5.5		4.3	4.7		1.1	0.8	5.1	4.5	
EBITDA margin	10.8	11.0	10.6	12.8		0.2	(2.0)	11.7	10.9	
PBT Margin	11.5	11.0	10.4	12.4				11.9	10.9	
PAT margin	7.4	7.1	7.0	8.4				7.9	6.6	
Tax rate	35.3	33.0	32.9	31.8				33.7	32.5	

Source: Company, Kotak Institutional Equities estimates

E&C and MIP segments drive growth; electrical segment records a de-growth

The core Engineering & Construction segment of L&T (about 83-85% of sales) reported a strong revenue growth of 17% yoy to Rs80.1 bn in 2QFY11 from Rs68.5 bn in 2QFY10. The E&C segment also reported a strong EBITDA margin expansion of 120 bps yoy. The products segment of L&T, Machinery & Industrial Products segment, also recorded a very strong revenue growth of 37% yoy and 27% on a sequential basis.

De-growth, margin contraction in Electrical segment may reflect market pressure in electrical equipment space

The electrical and electronics segment, however, recorded weak results, with revenues declining by about 5% on a yoy basis. The segment also witnessed a margin decline by about 200 bps. The slowdown in this segment was attributed to delays/deferrals in order inflows impacting sales and increase in input costs and rising competition impacting margins. We believe that this is likely to be a reflection of high competition and pricing pressure in the domestic electrical products segment. This may not bode well for companies such as Crompton, ABB, Siemens, etc.

L&T - segmental numbers, 2QFY11 (Rs mn)

	2QFY11	2QFY10	1QFY11	% change		1HFY11	1HFY10	% change
				yoy	qoq			
Engineering and Construction								
Revenues	80,150	68,541	66,438	16.9	20.6	144,430	134,270	7.6
EBITDA	9,920	7,580	8,940	30.9	11.0	18,860	15,180	
EBITDA margin (%)	12.4	11.1	13.5			13.1	11.3	
Electrical and Electronics								
Revenues	6,724	7,088	7,451	(5.1)	(9.8)	12,950	12,847	0.8
EBITDA	930	1,130	820	(17.7)	13.4	1,750	1,870	(6.4)
EBITDA margin (%)	13.8	15.9	11.0			13.5	14.6	
Machinery & Industrial Products								
Revenues	6,981	5,096	5,482	37.0	27.3	11,930	9,465	26.0
EBITDA	1,230	970	1,200	26.8	2.5	2,430	1,960	24.0
EBITDA margin (%)	17.6	19.0	21.9			20.4	20.7	
Total								
Revenues	95,453	81,648	80,592	16.9	18.4	172,127	158,276	8.8
EBITDA	12,080	9,870	11,295	22.4	7.0	23,375	19,260	21.4
EBITDA margin (%)	12.7	12.1	14.0			13.6	12.2	

Source: Company, Kotak Institutional Equities

Expect company to meet its full-year execution growth guidance

The management has maintained its full-year revenue growth guidance of 20% in FY2011E. This implies a 25% yoy revenue growth in the second half of FY2011E. We expect the company to meet its FY2011E guidance; build in revenues of Rs450 mn in FY2011E. Our estimates imply a revenue requirement of Rs277 bn in 2HFY10—a yoy growth requirement of 28%. We have built in a slight decline in EBITDA margin in 2HFY11E to 14% from 14.5% in 2HFY10 leading to full-year margins of about 13%—flat on a yoy basis. We expect the company to report a net PAT of Rs39.6 bn, up 25% yoy implying a PAT requirement of Rs26 bn in 2HFY11E (up 27% yoy).

Larsen & Toubro (standalone) - 2HFY11E implied results - key numbers (Rs mn)

	1HFY11	1HFY10	% chg.	2HFY11E-imp	2HFY10A	% chg.	FY2011E	FY2010	% chg.
Net sales	172,161	153,271	12.3	278,055	217,077	28.1	450,215	370,348	21.6
Expenses	(152,033)	(136,580)	11.3	(239,023)	(185,613)	28.8	(391,057)	(322,193)	21.4
EBITDA	20,127	16,692	20.6	39,031	31,464	24.1	59,159	48,156	22.8
Other income	6,090	4,403	38.3	5,038	4,699	7.2	11,127	9,103	22.2
Interest	(3,355)	(2,406)	39.5	(2,691)	(2,648)	1.6	(6,046)	(5,053)	19.6
Depreciation	(2,354)	(1,939)	21.4	(2,619)	(2,207)	18.6	(4,972)	(4,146)	19.9
PBT	20,508	16,751	22.4	38,760	31,308	23.8	59,268	48,059	23.3
Tax	(6,905)	(5,437)	27.0	(12,772)	(10,972)	16.4	(19,677)	(16,409)	19.9
Net profit	13,603	11,314	20.2	25,988	20,337	27.8	39,591	31,650	25.1
Extraordinary items	708	10,473	NA	(708)	1,632	NA	-	12,105	NA
RPAT	14,312	21,786	(34.3)	25,280	21,969	15.1	39,591	43,755	(9.5)
Order details									
Order booking	360,900	279,350	29.2	522,053	416,370	25.4	882,953	695,720	26.9
Key ratios (%)									
EBITDA margin	11.7	10.9		14.0	14.5		13.1	13.0	
PBT Margin	11.9	10.9		13.9	14.4		13.2	13.0	
PAT margin	7.9	7.4		9.3	9.4		8.8	8.5	
Tax rate	33.7	32.5		33.0	35.0		33.2	34.1	
Segmental revenues									
Engg. & Construction	144,430	134,270	7.6	242,752	188,888	28.5	387,182	323,158	19.8
Electrical & Electronics	12,950	12,847	0.8	19,902	17,019	16.9	32,852	29,865	10.0
Machinery & Industrial Products	11,930	9,465	26.0	15,259	12,730	19.9	27,189	22,195	22.5

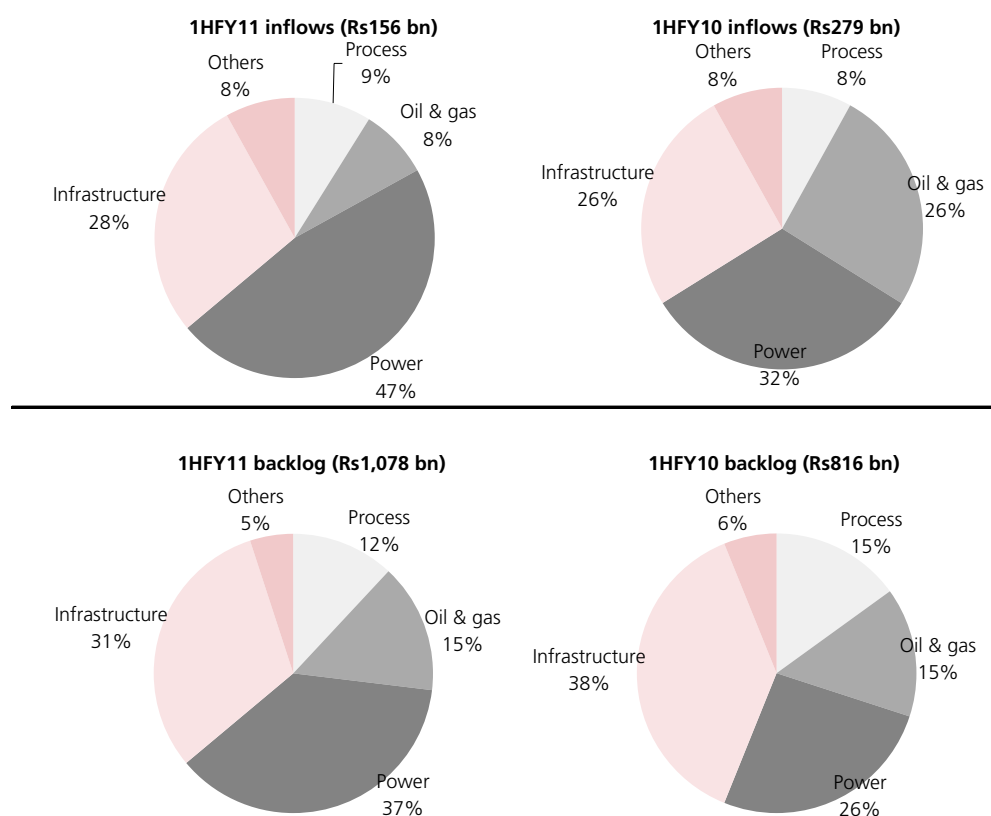
Source: Company, Kotak Institutional Equities estimates

Strong inflows in 1HFY11 primarily driven by in-house projects

L&T reported very strong order inflows of Rs360 bn in 1HFY11, up 29% yoy from Rs279 bn in 1HFY10. The order inflows were primarily led by the power segment which grew almost 2X to Rs170 bn in 1HFY11 (from Rs89 bn) comprising 47% of the total inflows during the quarter. Key power sector orders in 2QFY11 included (1) additional EPC order for 1X700 MW Rajpura power project (in-house project) worth Rs30 bn, (2) Rs28 bn turbine package order for 3X660 MW from Jaypee Group (Karchana project) and (3) Rs16 bn BoP order for Raigarh power project from Visa Power. The other key contributors to the order inflows for the quarter was the infrastructure segment which recorded inflows of about Rs101 bn—about 28% of the total inflows in 1HFY11.

Strong order inflows in 1HFY11 primarily driven by in-house development projects

Segmental break-up of L&T's order inflows and backlog, 1HFY11 and 1HFY10



Source: Company

Sharp increase in share of development projects to total inflows; likely to sustain going forward as well

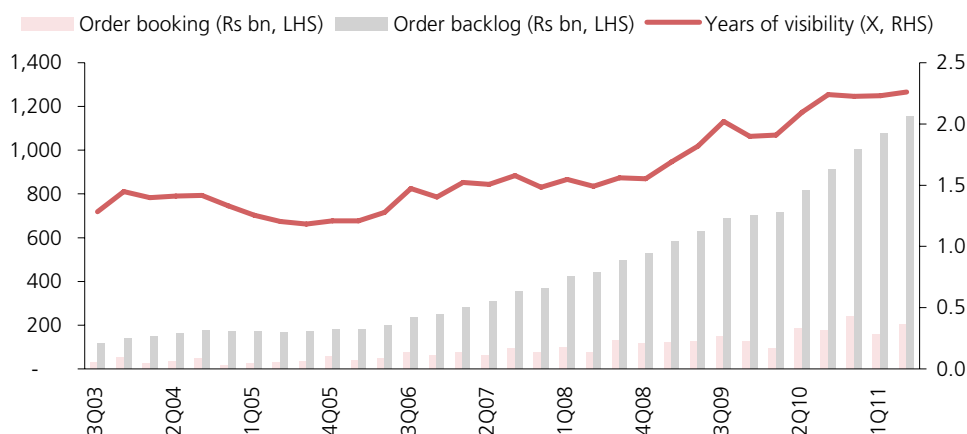
We note that the share of in-house development projects has increased to 28% of total order inflows versus just 5% in 1HFY10. These include Rajpura power project and Krishnagiri-Walajahpet road construction order. Going forward as well, we believe that several in-house infrastructure and power projects would boost the backlog of L&T in FY2011E. These would be led by (1) Rs150 bn order for the Hyderabad metro rail project—L&T declared as lowest bidder; however, may dilute return ratios in the near term, and (2) Samaikhiali-Gandhidham (56 km) and Devihalli-Hassan (73 km) road projects which are pending financial closure.

Large order backlog provides revenue visibility

L&T reported a 1HFY11-end order backlog of Rs1,154 bn recording a growth of 41% yoy from Rs816 bn at end-1HFY10. This large order backlog provides revenue visibility of about 2.3 years for L&T (based on forward four quarters revenue estimates). The order backlog is almost equally split between infrastructure, power and process, oil & gas segments, each contributing to about a third of the total backlog.

Order flows remain strong, visibility maintained at about 2.3 years

Order booking, Order backlog & Visibility trend for L&T (Rs mn)



Source: Company, Kotak Institutional Equities estimates

Management maintains FY2011E order inflow growth guidance of 25%

L&T management has retained its full-year FY2011E guidance of 25% growth in order inflows. The 25% order inflow growth target includes the Rs150 bn potential order for the Hyderabad Metro project as well as certain road development projects where L&T has been awarded the project but is awaiting financial closure. This implies an order inflow requirement of about Rs500-510 bn in the remainder of FY2011E in order to meet its full-year order inflow guidance (implies 22% inflow growth in 2HFY11E). We expect the company to record full-year order inflows of about Rs822 bn—requirement of Rs460 bn inflows in 2HFY11E.

Rough break-up of sector-wise order inflows of L&T

Segment	2008	2009	2010	1QFY11		2QFY11		1HFY11		2HFY11E-implied		FY2011E orders	
				Ann.	Rep.	Ann.	Rep.	Ann.	Rep.	(Rs bn)	(%)	(Rs bn)	(%)
Process	63	83	90	5	13	31	20.0	36	32.5	68	14.6	100	12.2
Refineries				—		12		12				20	
Petrochemicals				—		—		—				30	
Minerals & metals				2		17		20				50	
Bulk material handling				3		2		4				—	
Oil & gas	105	62	139	4	11	—	17.9	4	28.9	46	10.0	75	9.1
Platforms				4		—		4				75	
Pipelines				—		—		—				—	
Power	59	129	230	73	81	81	88.4	154	169.6	110	23.9	280	34.1
BOP				11		16		27				65	
EPC				52		—		52				110	
Equipment				—		65		65				45	
Electrification/ T&D				10		—		10				60	
Infrastructure	130	201	188	40	39	16	62.0	55	101.1	199	43.2	300	36.5
Roads and bridges				15		—		15				70	
Ports and airports				—		—		—				—	
Railways				—		—		—				125	
Industrial & commercial bldg.				14		10		25				90	
Water				11		5		16				20	
Others	63	41	49	1	13	—	16.4	1	28.9	38	8.2	67	8.1
Total	420	516	696	123	156	128	205	251	361	461	100.0	822	100.0

Source: Company, Kotak Institutional Equities estimates

Strong subsidiary performance; financial subs to be monetized soon

L&T reported a sharp pick-up in the performance in its technology subsidiary, L&T Infotech, led by the recovery of the IT sector. L&T Infotech reported 25% yoy growth in revenues; this is post a revenue decline of 10% witnessed in FY2010. The subsidiary also reported a strong improvement at the PAT level, up 37% yoy to Rs780 mn in 2QFY11 from Rs570 mn in 2QFY10. The improvement in profitability of the technology subsidiary is in line with the trend seen in the past few quarters.

Strong performance of technology subsidiary continues

Performance of L&T Infotech Ltd in 1HFY11 (Rs mn)

	2QFY11	2QFY10	1QFY11	% change		1HFY11	1HFY10	% change
				yoy	qoq			
L&T Infotech Ltd								
Revenues	5,880	4,690	5,650	25.4	4.1	11,530	9,420	22.4
PAT	780	570	790	36.8	(1.3)	1,570	1,180	33.1
PAT margin (%)	13.3	12.2	14.0			13.6	12.5	

Source: Company, Kotak Institutional Equities

Financials subsidiary IPO likely value accretive as capital aids growth, reduces pressure on parent

L&T Finance Holdings Ltd, a subsidiary of the company, proposes to enter the capital market with an Initial Public Offering (IPO) of equity shares for an amount aggregating to Rs15 bn. L&T Finance Holdings Ltd (earlier called L&T Capital Holding Co. Ltd) is the holding company for the finance subsidiaries of L&T. The company owns 100% stake in the two key finance subsidiaries of L&T, viz. L&T Finance Ltd and L&T Infrastructure Finance Ltd.

Investment details of L&T Finance Holdings Ltd, March fiscal year-ends, 2009-10 (Rs mn)

	2010	2009
In subsidiaries		
L&T Finance Ltd	6,410	5,160
L&T Infrastructure Finance Company Ltd	7,751	5,000
India Infrastructure Developers Ltd	561	561
L&T Aviation Services Pvt. Ltd	10	—
In associate companies		
NAC Infrastructure Equipment Ltd	45	45
Others: (quoted)		
Federal Bank Ltd	1,238	—
City Union Bank Ltd	279	—
Total investments	16,293	10,765

Source: Company

Increased investments in subs & associates funded by sale of current investments

L&T increased its investments in its subsidiaries and associates (in the form of equity investments, ICDs, loans & advances) by Rs12 bn to Rs88.8 bn at end-1HFY11 from FY2010-end level of Rs77 bn. This was primarily led by increase in investment in L&T Power Development to the tune of about Rs4.4 bn. A significant part of this increase was funded through sale of current investments which declined by about Rs13 bn since end-FY2010.

The net working capital of the company increased to Rs49.5 bn at end-1HFY11 (40 days of FY2011E sales) from Rs26.3 bn at end-FY2010 (26 days of sales). The deterioration in net working capital was due to (1) increase in segmental net working capital to 9.1% of sales from 7.6% of sales and (2) payment of dividend to the tune of about Rs7.5 bn. Also highlight an increase in debt levels to Rs77 bn at end-1HFY11 from FY2010-end level of Rs68 bn. This has led to an increase in interest cost during the quarter.

L&T - balance sheet highlights, as on September 30, 2010 (Rs mn)

	Sep-10	Jun-10	Mar-10	Mar-09	Mar-08
Net worth	199,410	190,840	183,120	124,590	95,520
Loan funds	77,236	79,300	68,010	65,560	35,840
Deferred tax liabilities	845	950	770	490	610
Total sources of funds	277,492	271,090	251,900	190,640	131,970
Net fixed assets	69,791	66,170	63,660	51,950	36,450
Current investments	66,410	87,660	79,650	48,800	42,830
Invnt./ ICDs/ L&A to subsidiaries & associates	88,780	80,950	76,790	53,900	26,800
Other investments	3,021	5,500	5,490	3,520	3,190
Net current assets	49,490	30,810	26,310	32,470	2,270
Total application of funds	277,492	271,090	251,900	190,640	111,540

Increase in investment in Subsidiaries & associates:

- L&T Power development: Rs4.4 bn
- L&T Power (MHI JV): Rs1.5 bn
- L&T Finance, Infra Finance: Rs1.7 bn
- L&T General Insurance: Rs1.5 bn
- Road SPVs: Rs1.2 bn
- L&T IDPL: Rs1.2 bn

Source: Company, Kotak Institutional Equities

Revise estimates; reiterate ADD with a revised target price of Rs2,200/share

We have marginally revised our standalone earnings estimates to Rs65.4 and Rs78 from Rs63.9 and Rs78 for FY2011E and FY2012E, respectively. We have correspondingly revised our estimates for the consolidated entity to Rs76.7 and Rs90.5 from Rs74.5 and Rs90.2 for FY2011E and FY2012E, respectively.

Change in earnings estimates of L&T, March fiscal year-ends, 2011E and 2012E (Rs mn)

	New estimates		Old estimates		% revision	
	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Consolidated						
Revenues	541,736	674,187	540,555	681,751	0.2	(1.1)
Operating profit	91,928	115,241	90,744	113,287	1.3	1.7
Operating profit margin (%)	17.0	17.1	16.8	16.6		
Profit after tax	46,404	54,794	45,231	54,581	2.6	0.4
EPS (Rs)	76.7	90.5	74.7	90.2	2.6	0.4
Standalone						
Revenues	450,215	561,145	450,015	569,139	0.0	(1.4)
Operating profit	59,159	73,341	58,157	71,492	1.7	2.6
Operating profit margin (%)	13.1	13.1	12.9	12.6		
Profit after tax	39,591	47,216	38,696	47,200	2.3	0.0
EPS (Rs)	65.4	78.0	63.9	78.0	2.3	0.0
Order booking	882,953	940,432	814,689	924,126	8.4	1.8
Order booking growth (%)	26.9	6.5	17.1	13.4		
Order backlog	1,431,288	1,805,497	1,366,987	1,724,196	4.7	4.7

Source: Company, Kotak Institutional Equities estimates

We revise our SOTP-based target price to Rs2,200/share (from Rs2,150/share earlier) comprised of (1) Rs1,647/share from the core construction business based on 21X FY2012E expected earnings, (2) Rs238/share from L&T's service subsidiaries, (3) Rs76/share from the manufacturing subsidiaries, (4) Rs119/share from the infrastructure SPVs and (5) Rs94/share from other subsidiaries and investments. The target price revision is primarily due to increased value from the finance subsidiaries (L&T Finance, L&T Infra Finance) as additional capital would aid growth and reduce pressure on the parent's balance sheet.

We arrive at an SOTP-based target price of Rs2,200/share for L&T

FY2012E-based Sum of The Parts (SOTP) valuation of Larsen and Toubro

	Earnings/Book (Rs mn)	FY12E multiple (X)	Valuation basis	Stake (%)	Value (Rs bn)	Per share (Rs)
Core company valuation	47,216	21.0	P/E	100	992	1,647
Key subsidiaries - services	22,467				144	238
L&T Finance	18,377	2.5	P/B	100	46	76
L&T Infrastructure Finance	14,519	2.5	P/B	100	36	60
L&T Infotech	4,089	15.0	P/E	100	61	102
Key subsidiaries - mfg	2,892				46	76
Tractor Engineers	87	15.0	P/E	100	1	2
Associate companies*	2,805	15.0	P/E	50	21	35
Power equipment JV	NA		DCF	51	24	39
Infrastructure SPVs	34,093	2.5	P/B	84.3	72	119
Other subsidiaries	37,626	1.5	P/B	100	56	94
Total subsidiaries					318	528
Grand total					1,309	2,174

2.5X value of investments made so far + requirement in FY2011E

Details of other investments enlisted in next exhibit

Source: Company, Kotak Institutional Equities estimates

Other subsidiaries value primarily from L&T International FZE and Seawoods

A value of about Rs37.6 bn (Rs125/share) from 'other subsidiaries' of L&T is primarily from L&T International FZE (Rs12.5 bn of equity investment) and L&T Seawoods (Rs8.6 bn of equity investment). The other key contributors include stake in Satyam Computer Services Ltd (Rs4.4 bn) and investment in L&T Realty (Rs5 bn).

Details of equity investments and advances towards subsidiaries of L&T, March fiscal year-ends, 2009-10 (Rs mn)

	2009		2010			yoy change	
	Equity	L&A	Equity	L&A	Total	Equity	L&A
Subsidiary companies							
Bhillai Power supply co	0.5	71.9	0.5	71.9	72.4	—	—
L&T General Insurance Co.	—	—	290	—	290	290	—
L&T Realty	472	—	472	4,620	5,092	—	4,620
L&T Seawoods	0.1	5,899	0.1	8,583	8,583	—	2,683
L&T Shipbuilding	1	—	1	6,231	6,231	—	6,231
L&T Special Steels & Heavy Forgings	—	—	1,110	—	1,110	1,110	—
L&T Western India Tollbridge	140	—	140	—	140	—	—
L&T Sargent Lundy	15	—	15	—	15	—	—
L&T International FZE	10,498	—	11,474	—	11,474	976	—
Spectrum Infotech	68	—	68	—	68	—	—
Others	41	—	31	—	31	(11)	—
Subsidiaries total	11,211	5,971	13,600	19,505	33,105	2,389	13,534
Associate companies							
Gujarat Leather Industries	6	—	6	—	6	—	—
Intl Seaport Dredging	402	110	399	118	518	(3)	9
Associates total	402	110	—	118	118	(402)	9
Other investments							
City Union Bank Ltd	253	—	—	—	—	(253)	—
Satyam Computer Services	1,764	—	4,363	—	4,363	2,599	—
Ultratech Cement	143	—	—	—	—	(143)	—
Investments in Integrated JVs	1,278	—	1,088	—	1,088	(190)	—
Other investments total	2,241	—	4,403	—	4,403	2,162	—
Grand total	13,854	6,081	18,003	19,624	37,626	4,149	13,543

Source: Company, Kotak Institutional Equities

Retain ADD on potential growth on back of strong backlog, capex revival, strong balance sheet

We retain our ADD rating on the stock based on (1) expected execution to pick up in 2HFY11E on the back of strong order inflows during FY2010 and FY2011E, (2) scale-up of power equipment and EPC that is both less cyclical and competitive (versus other segments), (3) revival in capex activity, (4) strong investments in capacity and capability enhancement that would open new growth areas such as power equipment, nuclear energy and defense, (5) value creation in subsidiaries, particularly with incremental capital being raised from market raising growth visibility and reducing funding pressure on standalone parent balance sheet and (6) strong balance sheet and cash flows that enable L&T to capture opportunities in various areas including infrastructure development.

Key risks emanate from (1) dependence on in-house orders from infrastructure and power verticals—long gestation periods for such projects requiring large amounts of capital squeeze the returns on capital, (2) exposure to very large development projects such as Hyderabad Metro exposing the company to risks of execution, politics, real estate etc., and (3) likely pressure on working capital and margins with likely dominance of infrastructure orders.

Standalone balance sheet and income statement of L&T, March fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Income statement						
Net operating revenues	176,142	248,779	339,385	370,348	450,215	561,145
Cost of goods sold	(158,247)	(220,515)	(300,164)	(322,592)	(391,057)	(487,804)
Construction materials	(36,510)	(56,103)	(75,100)	(74,781)	(90,073)	(112,347)
Sub contracts	(33,920)	(44,904)	(70,533)	(86,618)	(105,297)	(131,241)
Stores, spares and tools	(4,694)	(6,995)	(9,008)	(10,523)	(11,255)	(14,029)
Other mfg exp	(13,635)	(16,772)	(22,455)	(24,826)	(30,164)	(36,474)
S, G & A	(10,280)	(13,856)	(17,703)	(14,627)	(17,558)	(20,201)
Salaries & wages	(12,592)	(15,354)	(19,745)	(23,791)	(28,657)	(36,031)
EBIDTA	17,895	28,264	39,222	47,756	59,159	73,341
<i>EBIDTA margin (%)</i>	<i>10.2</i>	<i>11.4</i>	<i>11.56</i>	<i>12.9</i>	<i>13.1</i>	<i>13.1</i>
Other income	4,927	6,520	7,398	9,502	11,127	9,977
Interest	(930)	(1,227)	(4,156)	(5,053)	(6,046)	(6,821)
Depreciation	(1,715)	(2,022)	(3,073)	(4,159)	(4,972)	(5,815)
PBT	20,191	31,534	39,404	48,059	59,268	70,683
Tax	(6,019)	(9,821)	(12,312)	(16,409)	(19,677)	(23,467)
PAT	14,172	21,714	27,092	31,650	39,591	47,216
Extraordinaries	—	(8)	7,725	12,105	—	—
Reported PAT	14,172	21,706	34,817	43,755	39,591	47,216
EPS (Rs)	50.0	37.1	46.3	52.6	65.4	78.0
Balance sheet						
Equity capital	567	585	1,171	1,204	1,210	1,210
Reserves & surplus	56,839	94,707	123,180	181,679	216,373	253,677
Shareholders funds	57,405	95,292	124,351	182,884	217,584	254,887
Reval reserves	279	259	246	233	233	233
Secured loans	2,454	3,085	11,024	9,557	9,557	9,557
Unsecured loans	18,324	32,755	54,537	58,451	78,451	78,451
Total debt	20,778	35,840	65,560	68,008	88,008	88,008
Total sources of funds	78,462	131,391	190,157	251,125	305,825	343,128
Net Block	17,083	28,544	40,128	53,654	65,682	73,867
Capital WIP	4,357	6,990	10,410	8,577	5,000	5,000
Total fixed assets	21,440	35,534	50,538	62,231	70,682	78,867
Intangible assets	807	920	1,408	1,427	1,427	1,427
Investments	31,044	69,223	82,637	137,053	142,053	152,053
Net working capital (excl. cash)	14,530	16,652	48,303	36,869	78,883	101,631
Cash and bank balances	10,944	9,645	7,753	14,319	13,554	9,924
Total application of funds	78,462	131,391	190,157	251,124	305,825	343,128

Source: Company, Kotak Institutional Equities estimates

In-line quarter; strong outlook but priced in. HDFC reported PAT of Rs8.08 bn, up 22% yoy and 1% above estimates. Business traction was strong – 20% loan growth and stable qoq margins buoyed by the recent PLR hike. The overall margins outlook is turning out to be somewhat benign for NBFCs, as borrowing costs have not yet been moving up – likely to start from next quarter. Despite strong growth outlook, we find the stock fully priced at current valuations; REDUCE.

Company data and valuation summary

HDFC

Stock data

52-week range (Rs) (high,low)	861-390
Market Cap. (Rs bn)	1,039.9

Shareholding pattern (%)

Promoters	0.0
FIs	57.9
MFs	3.5

Price performance (%)

	1M	3M	12M
Absolute	6.0	19.9	28.8
Rel. to BSE-30	2.9	6.8	10.6

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	19.7	24.0	28.1
EPS growth (%)	22.7	21.8	17.2
P/E (X)	36.8	30.2	25.8
NII (Rs bn)	35.8	43.6	50.9
Net profits (Rs bn)	28.3	34.4	40.3
BVPS	102.0	115.6	131.6
P/B (X)	7.1	6.3	5.5
ROE (%)	20.0	21.2	21.9
Div. Yield (%)	1.0	1.1	1.3

Core business growth underpins earnings

HDFC reported PAT of Rs8.08 bn, up 22% yoy and 1% above estimate. Operating income (excluding capital gains) was up 37% yoy on the back of 20% loan growth including loan sell-down (19% on-balance sheet loan growth), yoy improvement in spreads and higher fee income.

Strong loan growth

The buoyancy in real estate sales has driven HDFC's business – retail disbursements were up about 30% yoy in 2QFY11 as compared to 63% growth reported for 1QFY11. Overall disbursements growth was 28% yoy in 2QFY11, somewhat above 25% reported in 1QFY11. The company has not sold down any loans during this quarter.

We expect HDFC's loan growth to remain moderate at about 22% over the next few quarters. We believe that mortgage demand will likely remain strong on the back of a vibrant economy. Our real estate analysts team expects revenue from real estate sales (for the industry) to rise by about 35-40% yoy in FY2011E; this will in turn drive disbursement growth for mortgage finance companies. On the large base, new retail property bookings will likely rise by about 20% (will drive retail loan approvals). Prices have risen by 15-25% across most major markets. Despite rising income levels, sharp rise in prices coupled with higher interest rates will likely affect affordability over the medium term.

Reported spreads stable qoq; calculated margins higher than expected

HDFC's reported spreads were stable at 2.34% qoq. However, our calculated margins/spreads improved in 2Q, as borrowing costs declined qoq for HDFC. The management highlighted that a higher liquidity at the beginning of the quarter; higher fees charged by the banks (not reflected as interest expense) on loans taken by HDFC; and repayment of high cost borrowings taken during 2008-2009 are resulting in lower borrowing costs. HDFC raised its PLR from September and the complete impact will be visible from 3QFY11E; we believe that higher PLR should provide cushion against rising borrowing costs.

REDUCE

OCTOBER 18, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **724**

Target price (Rs): **720**

BSE-30: **20,169**
QUICK NUMBERS

- **PAT up 22% yoy-1% above estimates**
- **Loans under management up by 20%**
- **Retail disbursements up about 30%**

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

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

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

Competition is a concern

We believe that the competitive environment will continue to remain challenging. SBI has raised its PLR (for existing loans) yet retained the dual rate home loan scheme. We do not rule out competition from other players as well. See exhibit 6 for a comparison of interest rates offered by various banks and housing finance companies.

- ▶ A likely change in stance by ICICI Bank to increase business traction will likely affect the dynamics of the housing finance market.
- ▶ LICHF continues to report strong growth and is now amongst the largest retail housing finance players. Its five-year fixed-rate home loan product (at 9.25%) will likely be successful though we are not very clear about LICHF's ability to manage interest rate risk.
- ▶ PNB has recently launched a special housing finance scheme, offering loans at 8.5% – fixed for three years.
- ▶ New players like India Infoline and Indiabulls are also offering competitive interest rates. However, these players are yet to gain significant traction in the mortgage business.

A comparison of dual-rate home loan rates for loans up to Rs3 mn

	HDFC (%)	SBI (%)	PNB (%)	LICHF (%)	Indiabulls (%)	India Infoline (%)
Year 1	8.25	8.0	8.5	8.9	8.25	8.5
Year 2	9	8.5	8.5	8.9	9.25	
Year 3		8.5	8.5	8.9		
Year 4 onwards	9.25 (1) (2)	9.5 (1)		9.75 (1)		
Prepayment penalty (%)	3	2		2	NA	NA

Note

DR- Dual rate home loan scheme

(1) Linked to PLR; indicative rate based on current PLR

(2) Applicable from year 3

Source: Company

Sharp qoq rise in fees

HDFC reported fees of Rs681 mn in 2QFY11 – stable yoy and up 2.9X qoq. The management has highlighted that higher fees on corporate business has driven earnings in this segment.

Investment book will likely provide positive earnings surprises

HDFC has non-strategic equity investments of about Rs10 bn which includes listed and unlisted investments. We believe that the current environment will likely help the company to book capital gains from its unlisted investment book. We are modeling capital gains of Rs2.5 bn for FY2011E and Rs3 bn for FY2012E in our estimates – which could provide an upside.

SOTP-based target price of Rs720; retain REDUCE

We are tweaking our earnings, retain SOTP-based target price of Rs720. In our fair value estimate, we value HDFC's mortgage business at Rs400/share—6X core PBR and 19X core PER FY2012E. In order to capture the impact of the likely warrant conversion in FY2013, we have valued the business using a residual growth model as of March 2013E and discounted back the value to March 2011E at 12.5%. At our fair value estimate, the mortgage business will trade at 4X core PBR and 15X core PER FY2013E for RoEs of about 26-30% (2% core RoA and leverage of 13-15X).

HDFC -Quarterly results (Rs mn)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	YoY(%)	2Q11E	Actual vs KS (%)
Operating income	28,441	28,449	27,570	28,922	27,963	29,664	4	29,631	0
Interest on loans	26,313	25,730	25,586	26,876	26,160	27,379	6	27,531	(1)
Fees and other charges	442	673	478	724	234	681	1	400	70
Dividend	562	925	409	432	1,181	229	(75)	500	(54)
Sale of investment	513	613	514	454	0	590	(4)	800	(26)
Other op income	612	509	583	436	388	786	55	400	97
Interest expense	19,628	18,365	17,042	15,595	17,196	17,176	(6)	17,368	(1)
Net operating income	8,813	10,084	10,527	13,327	10,767	12,488	24	12,263	2
Op. inc. excl. gains, capital gains and lease income	7,738	8,546	9,605	12,441	9,586	11,670	37	10,963	6
Net Fund based income	8,372	9,411	10,049	12,603	10,533	11,807	25	11,863	(0)
Net Fund based income (int income less int exp)	6,685	7,365	8,544	11,281	8,964	10,203	39	10,163	0
Other exp.	1,024	963	962	686	1,117	1,146	19	1,111	3
Other exp.	599	635	574	362	666	677	7	711	(5)
Staff expenses	425	329	389	324	451	470	43	400	17
PBDT	7,789	9,121	9,565	12,641	9,650	11,342	24	11,152	2
Depreciation	40	45	45	53	40	44	(1)	45	(2)
Other income	49	54	53	70	48	47	(13)	50	(6)
PBT	7,798	9,130	9,573	12,658	9,658	11,345	24	11,157	2
Tax	2,150	2,490	2,860	3,395	2,720	3,260	31	3,124	4
PAT	5,648	6,640	6,713	9,263	6,938	8,085	22	8,033	1
Tax rate	28	27	30	27	28	29	5	28	0
PBT excl. capital gains, other income and lease income	6,675	7,538	7,897	11,002	7,729	9,780	30	9,107	7
Cost to income (%)	11.6	9.6	9.1	5.1	10.4	9.2		9.1	
Other details - Rs bn	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11			
Approval for the quarter	123	162	127	250	160	207	28		
Disbursement for the quarter	87	137	112	169	109	175	28		
Outstanding (Rs bn)	870	895	908	979	1,016	1,063	19	1,067	(0)
Loan portfolio incl. Pref. & debt	870	895	908	979	1,016	1,063	19	1,067	(0)
Individuals	549	571	575	613	641	683			
Annualised NII (Rs mn)	26,740	29,458	34,176	45,122	35,856	40,812			
NIMs (%)	3.1	3.3	3.8	4.6	3.5	3.8			
Gross NPAs (Rs mn)	8,530	8,602	8,538	7,734	9,042	9,140			
Gross NPL ratio (%)	1.0	1.0	0.9	0.8	0.9	0.9			
CAR (%)	15.0	14.9	14.8	14.6	14.8	14.1			
Tier I (%)	13.7	13.4	13.3	12.8	13.6	13.0			
Avg spread(%)	2.19	2.20	2.25	2.50	2.34	2.34			
Balance sheet (Rs mn)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	YoY(%)		
Sharecapital	2,846	2,849	2,859	2,871	2,909	2,920	2		
Reserves	133,996	143,565	150,906	149,106	160,685	168,887	18		
Term loans	237,321	268,669	270,540	321,369	327,860	350,004	30		
Bonds/debentures/CPs	403,349	425,063	401,508	413,473	430,600	472,897	11		
Deposits	197,277	205,298	219,787	230,811	239,056	268,810	31		
Commercial paper									
Total Borrowings									
Total liabilities and shareholders funds	974,788	1,045,444	1,045,500	1,117,624	1,161,110	1,263,557	21		
Loans	870,458	895,189	904,000	979,669	1,016,245	1,062,875	19		
Individuals	548,537	570,676	575,449	613,045	641,375	682,635	20		
Corporate bodies	304,361	308,354	313,063	351,187	359,667	365,226	18		
Others	17,560	16,159	15,489	15,437	15,203	15,014	(7)		
Investments	104,958	133,104	141,791	107,274	146,582	175,590	32		
Against property									
Deferred tax	2,275	2,255	2,285	2,857	2,956	3,110	38		
Current assets	43,500	53,239	36,770	73,632	45,168	66,425	25		
Current liabilities	48,424	40,363	41,352	48,030	52,056	46,671	16		
Fixed assets	2,021	2,020	2,006	2,221	2,215	2,228	10		
Total assets	974,788	1,045,444	1,045,500	1,117,624	1,161,110	1,263,557	21		
Loan on balance sheet	870,458	895,189	904,000	979,669	1,016,245	1,062,875	19		
Loans outside balance sheet	73,261	75,043	77,250	100,000	110,809	102,939	37		
Loans under management	943,719	970,231	981,250	1,079,669	1,127,054	1,165,814	20		

Source: Company, Kotak Institutional Equities estimates

HDFC, Sum-of-the-parts-based valuation (FY2012E)

Business/ subsidiaries	HDFC's holding (%)	Value of companies (Rs mn)	Value per share (Rs)	Valuation methodology
HDFC			410	Based on residual growth model; exit multiple of 3.9X PBR FY2013E discounted to FY2012E
Value of subsidiaries and associates			258	
HDFC Bank	23	1,130,000	164	Based on target price
HDFC Standard Life MF	60	54,720	23	4% of March 2012E AUMs- 20% growth assumed
-PMS business	60	2,074	1	10% of AUMs (March 2012E - 20% yoy growth)
Life Insurance	72	115,000	54	13.5% margins and 17X NBV multiple
General insurance	74	9,890	5	Based on deal with ERGO
Gruh Finance	62.0	15,738	6	Based on market price
IDFC	1.9	265,042	3	Based on market price
HDFC Venture capital				
HDFC Property Fund	81	1,500	1	Rs10bn of fund assuming value of 15%
HDFC IT Corridor Fund	81	697	0	Rs4.64bn of fund assuming value of 15%
Real estate fund	60	2,520	1	US\$800 mn assuming value of 7.5%
Equity investments			56	
BVPS of non-strategic investments			6	
Unrealised gains on above			50	
Total value per share			724	

Source: Kotak Institutional Equities

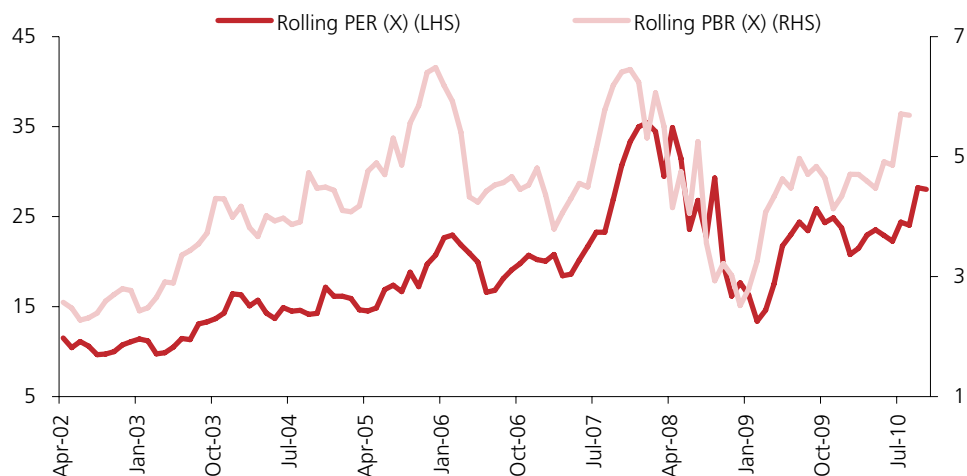
HDFC, Valuation

March fiscal year-ends, 2008-2012E

March y/e	Profit after tax (Rs mn)	EPS (Rs)	EPS core (Rs)	P/E (X)	PE on core operations (X)	BVPS (Rs)	BVPS Core (Rs)	P/B (X)	P/B on core operations (X)	RoA (%)	RoE (%)	Core Ro (%)
2008	24,362	17	11	42	36.7	84	56.9	8.6	7.3	3.2	27.8	27.2
2009	22,825	16	14	45	28.5	92	59.0	7.9	7.0	2.5	18.2	25.0
2010	28,265	20	17	37	24.9	106	46.5	6.9	8.9	2.6	20.0	30.3
2011E	34,439	24	20	30	20.6	120	59.0	6.1	7.0	7.8	21.2	38.1
2012E	40,350	28	23	26	17.7	137	73.8	5.3	5.6	8.1	21.9	35.1
Share price (Rs)				727								
Market Capitalisation (Rs mn)				1,043,860								
Less :value of subsidiaries and investments (Rs mn)				450,572								
Price adjusted for subsidiaries and investments (Rs)				593,288								
Price per share adjt for subsidiaries and investments (Rs)				413.3								

Source: Kotak Institutional Equities

HDFC – One year forward rolling PER and PBR (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

HDFC's repayment rate has been steadily going up
 Repayment rate for rolling four quarters, 1Q10-2Q11

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11
Opening loan book (Rs mn)	773,271	811,919	828,957	894,481	943,719	970,231
Disbursements (last four quarters) (Rs mn)	411,340	442,040	459,660	504,100	525,850	564,423
Gross loan book (Rs mn)	1,184,611	1,253,959	1,288,617	1,398,581	1,469,569	1,534,655
Reported loan book (adding loans sold to HDFC Bank) (Rs mn)	943,719	970,231	981,250	1,079,669	1,127,054	1,165,814
Repayments (Rs mn)	240,892	283,728	307,366	318,912	342,515	368,841
Repayments/ opening loan book (%)	31	35	37	36	36	38

Source: Company

Loan growth somewhat low for HDFC

O/s mortgage loan book of key players, quarterly data (Rs bn), 2Q09-2Q11E

	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11E
SBI (Rs bn)	506	521	541	575	624	673	712	747	787
QoQ growth (Rs bn)		15	20	35	49	49	39	35	40
YoY (%)	23	22	21	25	23	29	32	30	26
HDFC (Rs bn)	812	829	894	944	970	981	1,080	1,127	1,166
QoQ growth (Rs bn)		17	66	49	27	11	98	47	39
YoY (%)	31	24	23	20	18	18	21	19	20
ICICI Bank (Rs bn)	617	607	573	535	490	484	474	473	480
QoQ growth (Rs bn)		(10)	(33)	(39)	(45)	(6)	(10)	(1)	7
YoY (%)	(8)	(9)	(14)	(18)	(21)	(20)	(17)	(12)	(2)
LIC Housing Fin (Rs bn)	241	253	277	292	319	6	13	4	13
QoQ growth (Rs bn)		12	23	15	27	(313)	7	(9)	9
YoY (%)	26	26	26	28	32	(98)	(95)	(99)	(96)

Note

(1) In 2QFY11, data for LICHF and HDFC is actual, others is estimate

Source: Company, Kotak Institutional Equities estimates

HDFC- A comparison of old and new estimates

Old and new estimates, March fiscal year-ends, 2011E-2013E

	Old estimates			New estimates			% change		
	FY2011E	FY2012E	FY2013E	FY2011E	FY2012E	FY2013E	FY2011E	FY2012E	FY2013E
NIM (post provisions - %)	3.7	3.7	3.9	3.9	3.9	4.0			
Loan book	1,189,934	1,472,994	1,812,020	1,168,516	1,419,502	1,728,066			
Operating income	137,139	165,685	202,442	126,273	156,998	190,024	(8)	(5)	(6)
Interest income	121,498	147,793	183,961	110,632	139,106	171,542	(9)	(6)	(7)
Capital gains	2,500	3,000	3,500	2,500	3,000	3,500	0	0	0
Interest expense	89,186	108,087	130,555	76,913	99,023	119,064	(14)	(8)	(9)
Net operating income	47,953	57,598	71,887	49,360	57,975	70,960	3	1	(1)
Net operating inc. excl. gains	45,453	54,598	68,387	46,860	54,975	67,460	3	1	(1)
Loan loss provisions	650	728	815	650	728	815	0	0	0
Fee income	2,876	3,085	3,720	2,876	3,085	3,720	0	0	0
Operating expenses	3,454	3,922	4,455	3,454	3,922	4,455	0	0	0
Employee expenses	1,662	1,901	2,175	1,662	1,901	2,175	0	0	0
PBT	46,758	56,056	70,350	48,166	56,433	69,423	3	1	(1)
Net profit	33,432	40,080	50,300	34,439	40,350	49,637	3	1	(1)
PBT bef cap gains	44,258	53,056	66,850	45,666	53,433	65,923	3	1	(1)

Source: Kotak Institutional Equities estimates

HDFC (standalone): Key ratios, March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
Spread calc						
Average yield on assets (incl fees)	11.8	11.9	10.4	10.3	10.8	11.0
- interest on housing loans	11.1	12.6	10.9	10.3	10.8	10.9
Average cost of funds	8.1	9.7	8.0	7.5	8.0	8.0
Overall spread	3.7	2.2	2.4	2.8	2.8	3.0
Spread on housing loans	3.0	2.8	2.9	2.8	2.8	2.9
NIMs (post-provision)	4.8	3.7	3.7	3.9	3.9	4.0
NIM (pre provisions)	4.8	3.7	3.7	3.9	3.9	4.0
DU PONT Analysis						
Net total income	4.8	3.7	3.7	3.9	3.9	4.0
Net interest income	3.7	3.5	3.3	3.5	3.4	3.6
Capital gains	1.0	0.0	0.2	0.2	0.2	0.2
Dividend income	0.1	0.2	0.2	0.2	0.3	0.2
Net other income	0.1	0.1	0.2	0.2	0.2	0.2
Operating expenses	0.4	0.3	0.3	0.3	0.3	0.3
(1- tax rate)	72.2	70.9	72.2	71.5	71.5	71.5
ROA	3.2	2.5	2.6	2.7	2.7	2.8
Average assets/average equity	8.6	7.4	7.7	7.8	8.1	7.8
ROE	27.8	18.2	20.0	21.2	21.9	21.8
Growth(%)						
Net loans	29	17	15	19	21	22
Total assets	29	20	15	17	19	19
Total income	51	24	2	14	24	21
Interest on Housing Loans	49	38	0	11	26	23
Net income before provision	69	(4)	17	22	17	22
Total expenses	22	12	2	13	14	14
PBT	71	(5)	22	23	17	23
PAT	55	(6)	24	22	17	23

Source: Company, Kotak Institutional Equities estimates

HDFC (standalone): P&L and balance sheet, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total income excluding fee income	87,494	108,798	111,066	126,273	156,998	190,024
Interest on Housing Loans	72,164	99,310	99,790	110,632	139,106	171,542
Dividends	686	1,957	2,327	3,084	3,850	3,294
Lease rentals	155	147	241	217	195	176
Other operating income	14,489	7,384	8,708	12,340	13,847	15,012
Income from investments	6,794	7,132	6,614	7,907	8,122	8,358
Capital gains	7,695	252	2,094	2,500	3,000	3,500
Income/ gains on securitisation	—	—	0	1,933	2,725	3,154
Interest payable	51,429	74,324	70,631	76,913	99,023	119,064
Net Income before provision	36,065	34,474	40,435	49,360	57,975	70,960
Provision	320	500	580	650	728	815
Fee income	632	1,149	2,317	2,876	3,085	3,720
Total income	88,126	109,948	113,383	129,149	160,083	193,744
Staff expenses	1,178	1,386	1,467	1,662	1,901	2,175
Total expenses	2,673	2,987	3,056	3,454	3,922	4,455
Depreciation	166	175	182	192	202	212
Other income	197	229	226	226	226	226
Profit before tax	33,735	32,190	39,160	48,166	56,433	69,423
Tax	9,373	9,365	10,895	13,727	16,083	19,786
Profit after tax	24,362	22,825	28,265	34,439	40,350	49,637
- .EPS	17	16	20	24	28	33
EPS (core)	11	14	17	20	23	29
Book value	84	92	106	120	137	173
Book value (core)	57	59	47	59	74	111
Balance sheet						
Net loans	729,980	851,981	979,670	1,168,516	1,419,502	1,728,066
Total Investments	69,150	104,688	107,275	111,723	116,366	121,223
In equity	38,616	47,525	85,185	87,685	90,185	92,685
Fixed securities	30,534	57,162	22,089	24,037	26,180	28,538
Diminution in value of invt	(548)	(853)	(364)	(364)	(364)	(364)
Cash & deposits	8,586	17,185	52,241	52,241	52,241	52,241
Loans and advances and other assets	32,938	38,523	22,150	22,150	22,150	22,150
Deferred tax assets	1,466	2,158	2,857	2,857	2,857	2,857
Fixed assets owned	2,085	2,034	2,221	2,399	2,591	2,798
Total assets	844,205	1,016,569	1,166,415	1,359,887	1,615,707	1,929,336
Total borrowings and CL	724,732	885,195	1,014,438	1,187,562	1,419,542	1,670,981
Share capital	2,840	2,845	2,871	2,871	2,871	2,981
Reserves	116,633	128,529	149,106	169,454	193,294	255,374
Shareholders fund	119,473	131,374	151,977	172,325	196,165	258,355

Source: Company, Kotak Institutional Equities estimates

OCTOBER 18, 2010
RESULT

Coverage view: **Cautious**

Price (Rs): **372**

Target price (Rs): **340**

BSE-30: **20,169**

Realizations take a hit. Sesa's 2QFY11 EBITDA of Rs3.0 bn (+98.7% yoy, -80.4% qoq) was 19.8% lower than our estimate and impacted by (1) surprisingly lower-than-expected iron ore realization and (2) higher-than-expected inland transportation costs. Net income of Rs3.8 bn was in line with our estimate and helped by tax write-back. We will review our estimates post quarterly earnings call. Maintain REDUCE rating on account of (1) our view on softening of iron ore prices; (2) regulatory uncertainties and (3) diversion of cash flows into unrelated areas.

Company data and valuation summary

Sesa Goa

Stock data

52-week range (Rs) (high,low) 495-266

Market Cap. (Rs bn) 331.3

Shareholding pattern (%)

Promoters 55.7

FIs 27.2

MFs 0.5

Price performance (%)

Absolute 1M 3M 12M 14.6 8.5 4.0

Rel. to BSE-30 11.3 (3.4) (10.7)

Forecasts/Valuations

2010 2011E 2012E

EPS (Rs) 29.6 58.6 46.3

EPS growth (%) 23.5 98.4 (21.0)

P/E (X) 12.6 6.4 8.0

Sales (Rs bn) 58.6 101.8 101.8

Net profits (Rs bn) 26.3 52.2 41.2

EBITDA (Rs bn) 31.4 64.1 57.2

EV/EBITDA (X) 10.4 4.5 4.4

ROE (%) 35.8 41.5 23.7

Div. Yield (%) 1.0 0.9 0.9

Operational results significantly lower than our estimate

2QFY11 EBITDA of Rs3.0 bn (+98.7% yoy, -80.4% qoq) was significantly lower than our estimate of Rs3.8 bn. Iron ore realization of US\$76/ ton (+49% yoy, -16.8% qoq) was lower than our estimate of US\$82/ ton. Increase in gap between realized prices and spot iron ore prices is surprising given that Sesa derives higher proportion of revenues from better Fe grade Orissa and Karnataka mines in the Sep quarter. Transportation cost of Rs1.7 bn was 44.6% higher than our estimate, presumably on account of higher shipments from Orissa mines; on a per ton basis transportation cost of US\$18.5. Iron ore EBITDA was modest US\$23/ ton, a significant decline from US\$59/ ton in 1QFY11.

Iron ore shipments of 2.0 mn tons (+24.7% yoy) was in line with our estimate. Net income of Rs3.8 bn (+131.3% yoy) was in line with our estimate and helped by (1) MTM gain on FCCB of Rs364 mn and (2) tax write-back leading to effective tax rate of 4.6% versus our expected 22.5%.

Potential change in regulations and unnecessary diversification will be a continued overhang

We believe that the following concerns will continue to weigh on Sesa's stock performance (1) imposition of ban on iron ore exports by the Karnataka Government. Near-term volumes may be hit by this ban, while medium-term expansion plans may be impacted by lack of environment clearances (Sesa has EC approval for iron ore mining up to 25 mn tons); (2) potential changes in MMDR Act that may call for sharing of 26% of profit generated with the population displaced from the mine and (3) unrelated and value-destructive move to acquire 20% in Cairn India. Not only Sesa is overpaying for the asset, the move appears to be driven to fund group aspirations. Note that total cash outflow for Sesa to acquire interest in Cairn India will range from US\$2.88-3.29 bn.

We will review our earnings estimates post quarterly earnings call

We will seek clarifications on (1) reasons for weak operational performance especially realizations; (2) EC status for mine expansion program; and (3) status on likely lifting of ban on iron ore exports by the Karnataka Government. We maintain our REDUCE rating on the stock. Our target price of Rs340 has further downside on incorporation of Cairn India financials.

Kawaljeet Saluja

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

Karan Durante

karan.durante@kotak.com
Mumbai: +91-22-6634-1527

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

Interim results of Sesa Goa, March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	(% chg.)	
						2QFY10	1QFY11
Net sales	9,068	10,247	5,341	23,940	(11.5)	69.8	(62.1)
Total expenditure	(6,150)	(6,656)	(3,860)	(8,624)	(7.6)	59.3	(28.7)
(Inc)/Dec in stock	1,387	—	1,566	1,392	—	(11.4)	(0.4)
Consumption of raw materials	(871)	(770)	(881)	(855)	13.1	(1.2)	1.8
Staff costs	(466)	(467)	(334)	(444)	(0.2)	39.5	4.8
Stores	(614)	(774)	(526)	(737)	(20.7)	16.8	(16.8)
Inland transportation cost	(1,739)	(1,202)	(1,577)	(2,556)	44.6	10.3	(32.0)
Other transportation services	(938)	(946)	(729)	(901)	(0.8)	28.7	4.2
Purchase of ore	(1,068)	(692)	(557)	(1,471)	54.3	91.8	(27.4)
Export tax	(527)	(419)	(47)	(1,276)	25.8	NM	(58.7)
Other expenditure	(1,346)	(1,387)	(822)	(1,863)	(2.9)	63.7	(27.7)
Expenses recovered	32	—	45	87	—	(30.2)	(63.9)
Other operating income	115	190	46	190	(39.5)	149.9	(39.5)
EBITDA	3,034	3,782	1,527	15,507	(19.8)	98.7	(80.4)
OPM (%)	33	37	29	65			
Other income	1,004	1,642	893	1,609	(38.8)	12.5	(37.6)
Interest	(140)	(137)	(20)	(137)	2.0	607.6	2.0
Depreciation	(194)	(195)	(202)	(191)	(0.5)	(4.0)	1.5
Pretax profits	4,068	5,091	2,198	15,877	(20.1)	85.1	(74.4)
Extraordinaries							
Tax	(189)	(1,145)	(503)	(2,832)	(83.5)	(62.5)	(93.3)
Net income before minority interest	3,879	3,945	1,694	13,045	(1.7)	128.9	(70.3)
Minority interest	(30)	(27)	(30)	(27)	9.2	(0.7)	9.2
PAT after minority interest	3,849	3,918	1,665	13,018	(1.8)	131.3	(70.4)
Income tax rate (%)	4.6	22.5	22.9	17.8	—	—	—
Ratios							
EBITDA margin (%)	33.5	36.9	28.6	64.8	(9.3)	17.0	(48.4)
ETR (%)	4.6	22.5	22.9	17.8	(79.4)	(79.7)	(74.0)
EPS (Rs)	4.5	4.6	2.2	15.2	(1.7)	109.6	(70.3)
Volume details ('000 tons)							
Iron ore sales	2,019	1,969	1,619	5,442	2.5	24.7	(62.9)
Pig iron	84	65	67	54	29.6	25.4	55.6
Realization (US\$/ ton)							
Iron ore	76	82	51	91	(7.2)	49.0	(16.8)
Iron ore EBITDA	23	32	13	59	(27.9)	78.8	(60.8)
Segmental revenues (Rs mn)	10,436	10,247	6,028	25,213	1.8	73.1	(58.6)
Iron ore	7,124	7,484	3,986	22,685	(4.8)	78.7	(68.6)
Metallurgical coke	1,316	1,218	758	1,160	8.0	73.6	13.4
Pig iron	1,996	1,545	1,285	1,368	29.2	55.4	46.0
Segmental PBIT (Rs mn)	2,845	3,586	1,331	15,335	(20.7)	113.7	(81.4)
Iron ore	2,170	2,628	1,007	14,744	(17.4)	115.6	(85.3)
Metallurgical coke	333	309	(32)	281	7.9	NM	18.7
Pig iron	341	341	356	310	0.2	(4.2)	10.2

Source: Company, Kotak Institutional Equities estimates

China import Indian iron ore fines 63% Fe (CFR China) (US\$/ton)



Source: Bloomberg, Kotak Institutional Equities estimates

OCTOBER 18, 2010
UPDATE

Coverage view: **Attractive**

Price (Rs): **403**

Target price (Rs): **430**

BSE-30: **20,169**

Biocon monetizes its insulin portfolio, out licensing of oral insulin awaited.

Biocon capitalizes its first-mover advantage worldwide in biosimilar insulin through a strategic deal with Pfizer. Upfront payment of US\$200 mn does not surprise us given that Biocon (1) sells biosimilar insulin across emerging markets (10-14% of Biocon's sales) and is in lead globally in commercializing in developed markets (has started Phase III in EU, potential launch date, 2012E) and (2) will remain responsible for development costs. While launch of insulin in EU is some time away, we believe payments linked to Pfizer's sales across developing markets are not likely in FY2012E due to time required for registration. We believe out licensing of oral Insulin is a strong near-term stock trigger. We increase PT to Rs430, maintain BUY.

Company data and valuation summary

Biocon

Stock data

52-week range (Rs) (high,low) 417-230

Market Cap. (Rs bn) 80.6

Shareholding pattern (%)

Promoters 60.9

FIs 3.8

MFs 8.4

Price performance (%)

Absolute 1M 3M 12M 13.9 28.0 47.0

Rel. to BSE-30 10.7 14.0 26.2

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	14.8	17.5	21.7
EPS growth (%)	216.4	17.8	24.3
P/E (X)	27.2	23.1	18.6
Sales (Rs bn)	23.7	27.9	30.9
Net profits (Rs bn)	2.9	3.5	4.3
EBITDA (Rs bn)	4.7	5.5	6.4
EV/EBITDA (X)	17.0	14.5	12.0
ROE (%)	17.9	18.5	19.9
Div. Yield (%)	0.0	0.0	0.0

Pfizer gets worldwide commercialization rights to Biocon's insulin portfolio

As per the deal, Pfizer attains worldwide commercialization rights to Biocon's insulin portfolio. Pfizer will have exclusive rights globally; however, in certain markets such as Germany, India and certain developing markets, Pfizer will have co-exclusive rights. According to Pfizer, Biocon was selected as a partner due to (1) first-mover's advantage in biosimilar insulin with products being sold across emerging markets, (2) Biocon is in the lead globally in bringing biosimilar Insulin to market across developed markets, and (3) manufacturing scale. According to Pfizer, Biocon has adequate capacity for Pfizer's global supplies for next five years. Pfizer expects to commercialize Recombinant Human Insulin in Europe in 2012 followed by US in 2016.

With Biocon in the lead globally in insulin, upfront payment of US\$200 mn does not surprise us

Upfront payment of US\$200 mn does not surprise us given that Biocon (1) is in the lead globally in biosimilar insulin. Biocon is conducting phase III trials for Recombinant Human Insulin in EU and phase I in US with possible launch date of 2012 in EU and 2016 in US, (2) has two products in market—human insulin in emerging markets and Glargine in India and two insulin products in development, and (3) will remain responsible for clinical development, regulatory approval and supply of products. However, while this payment is not linked to any milestone, we believe it will be staggered over FY2011-12E. In addition, Biocon will also get payments of up to US\$150 mn and payments linked to Pfizer's sales across markets worldwide.

We add cash/share to PT, maintain BUY with PT of Rs430, out licensing of oral insulin awaited

While launch of insulin in EU is still some time away, we believe payments linked to Pfizer's sales across developing markets is not likely in FY2012E due to time taken to register products. We believe out licensing of oral Insulin post completion of Phase III trials in India (expected early 2011E) is a strong near-term stock trigger. We leave our estimates unchanged, add cash/share to our PT. We maintain BUY with PT of Rs430 (was Rs400).

QUICK NUMBERS

- Upfront payment of US\$200 mn does not surprise us
- Out licensing of oral Insulin is a strong near-term stock trigger
- We leave our estimates unchanged, add cash/share to our PT

Priti Arora

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

Anmol Ganjoo

anmol.ganjoo@kotak.com
Mumbai: +91-22-6634-1160

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

Biocon's insulin portfolio comprises four products

We believe Biocon's insulin portfolio comprises 10-14% of sales of Rs24 bn in FY2010. Biocon's Insulin portfolio comprises

- ▶ **Recombinant Human Insulin** which is sold under "Insugen" in India. Biocon's Insugen in India has 15% market share and is priced 40% lower than competition. In addition, Biocon's Recombinant Human Insulin formulations are commercialized across 23 developing markets. Biocon has started Phase III trials for its biosimilar version of Recombinant Human Insulin in Europe and will begin Phase I trials in US shortly.
- ▶ **Insulin Glargine** sold under "Basalog" in India. Biocon launched Glargine in early FY2010 in India.
- ▶ **Insulin Lispro and Aspart** are currently in pre-clinical development.

Biocon's insulin portfolio comprises four products

Product	Status	Marketed in		US/EU
		India	Em. markets	
Human Insulin	Marketed	Yes	Yes	No
Insulin Glargine	Marketed	Yes	No	No
Lispro	Development			
Aspart	Development			

Source: Kotak Institutional Equities estimates, Company

Profit and loss statement, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Net sales	9,857	10,538	16,086	23,678	27,949	30,915
Total expenditure	(7,022)	(7,552)	(12,853)	(18,963)	(22,483)	(24,559)
EBITDA	2,834	2,986	3,233	4,715	5,466	6,356
Depreciation and amortisation	(665)	(939)	(1,103)	(1,401)	(1,580)	(1,750)
EBIT	2,169	2,047	2,131	3,314	3,886	4,606
Net finance cost	(98)	(102)	(177)	(169)	(160)	0
Other income	38	364	646	370	500	500
Loss/(gain) on forward covers	—	—	(1,472)	—	—	—
Pretax profits before extra-ordinaries	2,109	2,309	1,128	3,515	4,226	5,106
Current tax	(18)	(97)	(98)	(445)	(653)	(664)
Deferred tax	(151)	(17)	(1)	(42)	—	—
Fringe benefit tax	—	(15)	(19)	—	—	—
Reported net profit	1,940	2,180	1,009	3,028	3,574	4,442
Profit/(loss) in minority interest	(62)	(65)	79	96	79	98
Reported net profit after minority interests	2,002	2,245	930	2,932	3,495	4,344
Exceptional items	—	2,394	—	—	—	—
Reported net profit after minority interests a	2,002	4,639	930	2,932	3,495	4,344

Source: Kotak Institutional Equities estimates, Company

Balance sheet, cash model, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Balance sheet						
Total equity	10,686	14,841	15,107	17,578	20,164	23,598
Total debt	1,868	2,551	5,239	5,136	—	—
Current liabilities	2,749	3,005	4,375	5,799	7,201	8,135
Minority interests	(8)	(73)	248	338	417	514
Deferred tax liabilities	448	465	466	508	508	508
Total equity and liabilities	15,744	20,789	25,436	29,359	28,289	32,755
Cash and cash equivalents	87	96	118	1,399	150	150
Current assets	5,209	5,250	7,806	9,520	12,098	13,705
Net assets incl intangibles	9,657	10,695	13,836	14,134	15,054	14,804
Investments	790	4,748	3,676	4,306	987	4,096
Total uses of funds	15,744	20,789	25,436	29,359	28,289	32,755
Free cash flow						
Operating cash flow, excl. working ca	2,660	2,872	3,009	4,256	4,866	5,757
Working capital	(1,557)	(20)	(1,302)	(363)	(1,311)	(674)
Capital expenditure	(2,040)	(1,836)	(4,243)	(1,547)	(2,500)	(1,500)
Investments	(212)	3,957	(1,071)	630	(3,319)	3,109
Free cash flow	(1,148)	4,974	(3,607)	2,976	(2,264)	6,692

Source: Kotak Institutional Equities estimates, Company

September 2010: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
18-Oct	19-Oct	20-Oct	21-Oct	22-Oct	23-Oct
	Bajaj Auto	Ashok Leyland	ACC	Bank of India	Bharat Forge
	Bajaj Holdings	Canara Bank	Allahabad Bank	Biocon	Dr Reddys Laboratories
	Cadila Healthcare	Gujarat State Fertilisers	Alstom Projects	D B Corp	
	Container Corp	HCL Technologies	Ambuja Cements	Indian Bank	
	Coromandal International	Hindustan Zinc	Corporation Bank	Kirloskar Industries	
	HDFC Bank	Indiabulls Real Estate	Indiabulls Financial Services	Piramal Healthcare	
	Mindtree	Kotak Mahindra Bank	Novartis India	Sobha Developers	
	Polaris Software Lab	Mahindra Life Space Developers	SKF India	Vijaya Bank	
	Religare Enterprises	Power Grid Corp	South Indian Bank	Wipro	
		Tanla Solutions	TCS		
		Yes Bank	TVS Motor		
25-Oct	26-Oct	27-Oct	28-Oct	29-Oct	30-Oct
Adani Power	Bosch	Asian Paints	Adani Enterprises	ABB	Aditya Birla Nuvo
Crompton Greaves	Central Bank of India	Cummins India	Bank of Baroda	Bharat Electronics	Areva T&D
Hindustan Oil Exploration	DishTV India	Dabur India	BGR Energy	BHEL	GVK Power
Hindustan Uniliver	JB Chemicals	Glenmark Pharma	Cairn India	BPCL	Maruti Suzuki
Idea Cellular	Jindal Steel & Power	Godrej Industries	Colgate Palmolive	Federal Bank	National Aluminium Co.
Mundra Port & SEZ	JSW Steel	Gujarat State Petronet	EIH	Hindustan Construction Co	Sun Pharma
Petronet LNG	Mangalore Refinery & Petrochemicals	Hindustan Copper	Glaxosmithkline Pharma	ICICI Bank	
Procter & Gamble	Marico	HPCL	Grasim Industries	Indian Oil Corp	
Rural Electrification Corp	NTPC	IFCI	IRB Infrastructure	ITC	
Titan Industries	Sterlite Industries	Indian Hotels	Monsanto India	Mahindra & Mahindra	
	Tech Mahindra	Patni Computer	NHPC	Motherson Sumi	
	Ultratech Cement	Shriram Transport	NMDC	National Fertilizers	
	United Phosphorus	Thermax	ONGC	Nestle India	
	Voltas	Torrent Power	Phoenix Mills	Syndicate Bank	
		Union Bank	SAIL	Tata Chemicals	
		United Spirits	Tata Communications	UCO Bank	
			Tata Global Beverages		
			Zee Entertainment Enterprises		
1-Nov	2-Nov	3-Nov	4-Nov	5-Nov	6-Nov
Century Textiles	Jai Corp	Oriental Bank			
JSW Energy	Neyveli Lignite				
8-Nov	9-Nov	10-Nov	11-Nov	12-Nov	13-Nov
IDFC	Hindalco Industries		Ranbaxy Laboratories	Tata Power	
			Shree Cement		

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

	18-Oct-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)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	price	Upside	ADVT-3mo
																											(Rs)	(%)	(US\$ mn)
Automobiles																													
Ashok Leyland	73	ADD	96,912	2,184	1,330	2.8	4.3	5.9	84.5	52.3	37.5	25.8	17.0	12.3	14.9	11.2	8.8	2.4	2.2	1.9	2.1	1.4	1.4	10.9	13.5	16.7	78	7.1	8.3
Bajaj Auto	1,520	REDUCE	439,751	9,912	289	117.7	87.8	101.3	160.2	(25.4)	15.4	12.9	17.3	15.0	16.7	12.2	10.4	15.0	9.2	6.2	0.7	1.3	1.3	70.9	65.8	49.5	1,420	(6.6)	22.7
Bharat Forge	368	REDUCE	87,974	1,983	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	535.3	29.6	18.6	27.1	12.7	9.0	2.3	2.2	2.0	—	—	—	0.9	0.4	0.1	360	(2.2)	4.8
Hero Honda	1,802	REDUCE	359,909	8,112	200	111.8	114.9	129.8	74.1	2.8	12.9	16.1	15.7	13.9	10.1	10.0	8.5	9.9	6.9	5.2	1.7	1.7	1.9	59.0	52.1	42.7	1,800	(0.1)	24.1
Mahindra & Mahindra	701	BUY	417,544	9,412	595	33.9	44.1	51.7	125.8	30.1	17.3	20.7	15.9	13.6	13.6	11.4	9.6	5.2	4.1	3.3	1.3	1.3	1.4	30.0	29.0	27.3	760	8.4	25.9
Maruti Suzuki	1,492	REDUCE	430,924	9,713	289	86.4	80.6	93.4	105.0	(6.7)	15.8	17.3	18.5	16.0	9.4	9.5	7.9	3.6	3.0	2.6	0.4	0.4	0.4	23.3	17.8	17.5	1,330	(10.8)	23.4
Tata Motors	1,169	ADD	732,009	16,500	626	27.4	94.8	109.2	(182.5)	246.1	15.2	42.7	12.3	10.7	14.5	7.6	6.6	4.7	3.3	2.5	1.2	0.5	0.5	8.7	11.9	11.1	1,150	(1.6)	98.2
Automobiles		Cautious	2,565,023	57,816					276.0	58.9	16.9	24.6	15.5	13.2	13.3	9.4	8.0	5.1	4.0	3.1	1.0	0.9	1.0	20.9	25.7	23.7			
Banks/Financial Institutions																													
Andhra Bank	170	BUY	82,402	1,857	485	21.6	22.9	26.7	60.1	6.4	16.4	7.9	7.4	6.4	—	—	—	1.9	1.6	1.3	2.9	3.1	3.6	26.0	23.1	22.7	190	11.8	7.2
Axis Bank	1,482	ADD	600,448	13,534	405	62.1	78.6	99.9	22.7	26.6	27.2	23.9	18.9	14.8	—	—	—	3.7	3.2	2.8	0.8	1.0	1.3	19.2	18.4	20.2	1,700	14.7	46.2
Bank of Baroda	987	BUY	360,776	8,132	366	83.7	95.1	115.7	37.3	13.7	21.7	11.8	10.4	8.5	—	—	—	2.6	2.2	1.8	1.5	1.7	2.1	24.4	23.0	23.3	1,000	1.3	8.5
Bank of India	532	ADD	279,655	6,304	526	33.1	54.5	62.0	(42.1)	64.7	13.6	16.1	9.7	8.6	—	—	—	2.2	1.9	1.6	1.3	2.2	2.5	14.2	20.7	20.1	560	5.3	14.0
Canara Bank	647	ADD	265,270	5,979	410	73.7	82.2	98.3	45.8	11.6	19.5	8.8	7.9	6.6	—	—	—	2.1	1.7	1.4	1.2	1.5	1.9	22.4	20.8	20.8	580	(10.4)	9.3
Corporation Bank	722	ADD	103,562	2,334	143	82.0	101.5	118.1	31.8	23.8	16.3	8.8	7.1	6.1	—	—	—	1.8	1.5	1.3	2.3	2.8	3.3	22.0	23.0	22.5	750	3.9	2.0
Federal Bank	438	ADD	74,878	1,688	171	27.2	36.4	49.0	(7.2)	34.1	34.4	16.1	12.0	8.9	—	—	—	1.6	1.4	1.3	1.1	1.5	2.1	10.3	12.6	15.2	430	(1.8)	7.2
HDFC	724	REDUCE	1,039,912	23,440	1,436	19.7	24.0	28.1	22.7	21.8	17.2	36.8	30.2	25.8	—	—	—	6.8	6.0	5.3	1.0	1.2	1.4	20.0	21.2	21.9	720	(0.6)	52.0
HDFC Bank	2,398	REDUCE	1,097,874	24,746	458	64.4	84.9	111.1	22.1	31.7	30.9	37.2	28.3	21.6	—	—	—	5.1	4.5	3.8	0.5	0.7	0.9	16.1	16.9	19.2	2,500	4.2	43.4
ICICI Bank	1,116	REDUCE	1,244,384	28,049	1,115	36.1	45.2	57.3	6.9	25.3	26.6	30.9	24.7	19.5	—	—	—	2.4	2.3	2.1	1.1	1.3	1.7	8.0	9.5	11.3	1,000	(10.4)	90.8
IDFC	207	ADD	302,243	6,813	1,458	8.4	9.4	11.2	44.9	12.4	18.7	24.7	22.0	18.5	—	—	—	4.3	2.8	2.3	0.6	0.8	1.1	16.6	15.5	14.3	205	(1.1)	25.7
India Infoline	116	BUY	36,044	812	312	8.1	7.2	8.7	59.2	(11.9)	21.6	14.2	16.1	13.3	—	—	—	2.3	1.9	1.6	2.7	1.3	1.8	16.4	12.9	14.4	130	12.5	6.2
Indian Bank	300	ADD	128,845	2,904	430	35.1	32.4	44.1	25.5	(7.7)	36.2	8.5	9.3	6.8	—	—	—	1.9	1.7	1.4	2.2	1.9	2.6	24.1	18.8	21.7	280	(6.6)	5.9
Indian Overseas Bank	159	BUY	86,841	1,957	545	13.0	16.7	24.8	(46.7)	29.0	48.4	12.3	9.5	6.4	—	—	—	1.4	1.2	1.0	2.2	2.4	2.7	9.6	11.6	15.4	160	0.4	5.5
J&K Bank	787	ADD	38,149	860	48	105.7	119.3	139.6	25.0	12.9	17.1	7.4	6.6	5.6	—	—	—	1.3	1.2	1.0	2.8	3.2	3.7	18.2	17.9	18.3	850	8.0	3.4
LIC Housing Finance	1,351	REDUCE	128,341	2,893	95	69.7	109.0	119.0	11.5	56.3	9.2	19.4	12.4	11.4	—	—	—	4.0	3.3	2.7	1.1	1.7	1.9	23.6	27.4	24.6	1,325	(1.9)	35.0
Mahindra & Mahindra Financial	699	REDUCE	67,104	1,513	96	35.9	46.4	56.2	60.0	29.4	21.2	19.5	15.1	12.4	—	—	—	3.9	3.3	2.8	1.1	1.4	1.7	21.5	23.5	23.8	635	(9.2)	4.5
Oriental Bank of Commerce	477	ADD	119,570	2,695	251	45.3	57.8	66.8	25.3	27.6	15.5	10.5	8.3	7.1	—	—	—	1.6	1.4	1.2	1.9	2.4	2.8	14.5	16.5	16.9	450	(5.7)	9.1
PFC	364	SELL	417,846	9,418	1,148	20.5	22.9	27.6	53.5	11.9	20.3	17.8	15.9	13.2	—	—	—	3.2	2.9	2.5	1.4	1.6	1.9	18.8	18.3	19.2	275	(24.5)	4.6
Punjab National Bank	1,300	BUY	410,035	9,242	315	123.9	133.4	163.3	26.4	7.7	22.4	10.5	9.7	8.0	—	—	—	2.5	2.1	1.7	1.7	2.1	2.6	26.2	23.2	23.7	1,450	11.5	9.4
Reliance Capital	840	NR	206,651	4,658	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	65.3	61.3	85.9	—	—	—	3.0	2.9	2.9	0.7	0.7	0.5	4.7	4.8	3.4	—	—	32.4
Rural Electrification Corp.	373	REDUCE	368,000	8,295	987	20.3	25.3	31.2	23.2	24.5	23.4	18.4	14.8	12.0	—	—	—	3.3	2.9	2.5	1.7	2.0	2.5	22.0	21.0	22.5	325	(12.8)	10.8
Shriram Transport	770	ADD	171,751	3,871	223	39.2	53.3	65.1	30.1	36.2	22.0	19.7	14.4	11.8	—	—	—	4.6	3.9	3.3	1.5	2.1	2.5	28.4	28.2	28.6	800	3.9	8.8
SKS Microfinance	1,082	ADD	79,744	1,797	74	26.9	48.9	77.5	61.1	81.3	58.6	40.2	22.2	14.0	—	—	—	8.4	3.9	3.0	-	-	-	21.7	23.9	24.7	1,400	29.4	-
SREI	112	NR	13,036	294	116	8.3	7.9	9.9	17.8	(4.8)	25.8	13.5	14.2	11.3	—	—	—	1.1	1.0	1.0	1.1	1.1	1.1	11.1	10.5	12.3	-	-	5.2
State Bank of India	3,168	BUY	2,011,149	45,332	635	144.4	176.8	209.3	0.5	22.4	18.4	21.9	17.9	15.1	—	—	—	3.0	2.7	2.4	0.9	1.0	1.1	14.8	15.9	16.6	3,400	7.3	129.2
Union Bank	399	BUY	201,643	4,545	505	41.1	48.8	60.2	20.2	18.8	23.5	9.7	8.2	6.6	—	—	—	2.3	1.9	1.5	1.4	1.6	2.0	26.2	25.1	25.1	450	12.7	5.9
Yes Bank	355	BUY	120,514	2,716	340	15.0	18.7	25.8	46.7	24.5	38.3	23.6	19.0	13.7	—	—	—	3.9	3.3	2.7	0.4	0.5	0.7	20.3	18.8	21.7	375	5.7	15.7
Banks/Financial Institutions		Attractive	10,056,668	226,680					15.0	21.9	22.2	19.9	16.3	13.4	—	—	—	3.1	2.7	2.3	1.1	1.3	1.6	15.5	16.4	17.4			
Cement																													
ACC	970	REDUCE	182,300	4,109	188	83.2	66.0	72.9	47.9	(20.7)	10.4	11.7	14.7	13.3	6.2	7.0	5.6	2.9	2.5	2.2	2.8	2.4	2.4	29.3	20.0	19.3	980	1.0	10.6
Ambuja Cements	137	SELL	208,109	4,691	1,522	8.0	8.4	8.9	11.4	5.3	5.1	17.1	16.2	15.4	9.5	9.0	7.7	3.0	2.6	2.3	1.4	1.5	1.6	19.3	17.8	16.5	108	(21.0)	7.1
Grasim Industries	2,263	ADD	207,481	4,677	92	301.0	242.3	292.5	26.1	(19.5)	20.7	7.5	9.3	7.7	4.5	4.8	3.6	1.7	1.4	1.2	1.5	1.5	1.5	22.9	16.5	17.2	2,500	10.5	6.7
India Cements	115	SELL	35,371	797	307	10.0	7.4	9.4	(43.5)	(26.5)	27.5	11.5	15.6	12.2	6.2	8.1	5.8	0.8	0.8	0.8	1.8	2.8	2.8	8.2	5.7	7.0	100	(13.2)	5.4
Shree Cement	2,044	BUY	71,204	1,605	35	208.0	200.4	265.2	19.0	(3.7)	32.4	9.8	10.2	7.7	4.8	4.7	3.0	3.9	2.9	2.1	0.5	0.5	0.5	48.0	32.4	31.6	2,400	17.4	1.8
UltraTech Cement	1,132	ADD	30,318	6,995	274	88.2	66.2																						

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	18-Oct-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
	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)		
Consumer products																													
Asian Paints	2,659	ADD	255,046	5,749	96	71.5	89.0	104.3	85.3	24.4	17.3	37.2	29.9	25.5	23.0	18.6	15.7	15.9	12.4	9.9	1.0	1.4	1.7	51.8	47.9	44.4	3,000	12.8	9.0
Colgate-Palmolive (India)	858	SELL	116,702	2,631	136	31.1	34.5	39.6	44.2	10.9	14.6	27.6	24.9	21.7	22.6	18.4	15.8	35.8	30.5	26.1	2.3	3.0	3.5	156.1	132.3	129.4	830	(3.3)	3.1
Dabur India	101	ADD	174,938	3,943	1,731	2.9	3.4	4.2	28.2	16.8	23.3	34.9	29.8	24.2	25.9	20.8	16.9	16.6	12.8	10.6	1.5	1.8	2.2	54.3	49.0	48.4	115	13.8	5.4
GlaxoSmithkline Consumer (a)	2,087	ADD	87,772	1,978	42	55.4	68.8	83.9	23.6	24.3	22.0	37.7	30.3	24.9	21.2	18.2	14.6	9.8	8.1	6.8	0.9	1.1	1.3	27.9	29.1	29.6	2,200	5.4	1.1
Godrej Consumer Products	383	ADD	124,016	2,795	324	11.3	13.5	18.0	69.5	18.9	33.4	33.8	28.4	21.3	26.8	20.3	15.2	12.9	7.0	6.3	1.0	0.8	0.8	44.6	31.9	31.1	450	17.4	2.5
Hindustan Unilever	297	SELL	647,852	14,603	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	31.5	29.1	24.7	21.7	20.8	17.0	25.1	21.7	18.7	2.6	2.8	3.3	71.1	80.2	81.3	250	(15.8)	14.9
ITC	172	ADD	1,312,451	29,583	7,651	5.3	6.4	7.5	22.6	20.5	17.8	32.3	26.8	22.8	19.6	16.9	14.1	8.8	7.4	6.3	2.9	1.6	1.7	29.2	31.6	31.3	175	2.0	27.7
Jubilant Foodworks	507	SELL	32,385	730	64	5.5	10.0	13.1	340.6	79.9	31.4	91.5	50.9	38.7	48.7	29.0	19.4	27.5	17.9	12.2	—	—	—	46.6	42.6	37.5	400	(21.1)	26.1
Jyothy Laboratories	294	ADD	22,482	507	77	11.0	14.3	17.0	99.6	30.1	18.2	26.6	20.5	17.3	21.6	13.7	11.0	5.5	3.7	3.1	1.5	1.3	1.7	16.0	18.4	19.6	320	9.0	0.8
Marico	129	ADD	78,860	1,778	612	4.4	5.3	6.4	32.9	20.2	20.4	29.0	24.1	20.0	19.8	16.2	13.4	11.8	8.5	6.4	0.5	0.7	0.9	48.9	41.6	36.7	140	8.6	1.9
Nestle India (a)	3,208	REDUCE	309,306	6,972	96	74.4	90.7	109.8	27.0	22.0	21.0	43.1	35.4	29.2	28.5	23.6	20.0	53.2	40.3	30.8	1.5	1.9	2.3	136.0	129.7	119.5	3,100	(3.4)	4.0
Tata Global Beverages	130	ADD	80,145	1,806	618	6.1	7.3	8.7	14.5	20.7	19.0	21.4	17.7	14.9	10.3	7.8	6.6	1.7	1.5	1.4	1.5	1.9	2.2	10.2	11.7	12.9	130	0.3	4.7
Consumer products	Cautious		3,241,954	73,075					23.8	18.4	19.0	33.2	28.0	23.5	21.2	18.1	15.0	11.2	9.3	7.9	2.2	1.8	2.1	33.8	33.1	33.7			
Constructions																													
IVRCL	152	BUY	40,652	916	267	7.9	9.1	11.6	(6.7)	15.0	27.9	19.3	16.8	13.1	10.0	9.5	7.5	2.0	1.8	1.6	0.3	0.3	0.3	11.0	11.3	12.9	205	34.6	7.9
Nagarjuna Construction Co.	154	BUY	39,527	891	257	7.1	8.9	11.6	6.1	24.3	31.1	21.6	17.4	13.3	10.9	9.5	7.9	1.8	1.6	1.5	0.9	1.3	1.3	9.3	9.8	11.8	205	33.1	4.3
Punj Lloyd	128	REDUCE	43,394	978	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(9.9)	13.1	10.7	36.2	7.1	6.5	1.4	1.3	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	9.3	13.9
Sadbhav Engineering	1,505	BUY	22,580	509	15	42.8	61.8	87.2	(16.3)	44.3	41.0	35.1	24.4	17.3	19.2	12.8	9.9	5.6	3.7	3.1	0.2	0.4	0.4	15.8	15.1	17.8	1,750	16.3	0.4
Construction	Attractive		146,152	3,294					(91.1)	4,479	28.0	748.8	16.4	12.8	15.4	8.7	7.4	1.9	1.7	1.5	0.3	0.6	0.7	0.3	10.3	11.8			
Energy																													
Aban Offshore	835	ADD	36,350	819	44	94.5	151.1	129.7	(2.5)	59.9	(14.2)	8.8	5.5	6.4	8.4	7.0	6.6	1.6	1.5	1.3	0.4	0.4	0.5	21.7	32.9	21.9	915	9.5	36.8
Bharat Petroleum	699	BUY	252,789	5,698	362	58.6	57.0	65.4	230	(3)	14.8	12	12	10.7	6.7	6.5	6.0	1.8	1.6	1.5	2.0	2.7	3.1	14.9	13.3	13.8	855	22.3	28.0
Cairn India	340	RS	644,687	14,531	1,897	5.5	20.5	36.6	29.0	270.1	78.3	61.3	16.6	9.3	48.2	9.9	6.0	1.9	1.7	1.5	—	—	4.4	3.1	10.7	17.2	—	—	32.1
Castrol India (a)	459	SELL	113,502	2,558	247	15.4	21.0	21.7	45	36	3.5	30	22	21.1	17.7	13.6	12.9	24.7	23.4	22.2	2.7	3.7	3.8	83.8	109.9	107.9	390	(15.0)	2.4
GAIL (India)	502	BUY	636,270	14,342	1,268	24.8	26.8	40.3	11.7	8.2	50.4	20.3	18.7	12.5	11.4	11.3	8.8	3.5	3.1	2.6	1.5	1.7	2.5	17.4	16.6	21.7	550	9.6	18.1
GSPL	117	SELL	65,778	1,483	562	7.3	7.1	8.0	233	(3)	12.6	16	17	14.7	8.0	7.9	6.6	3.9	3.2	2.9	0.9	1.5	2.7	27.1	21.2	20.6	83	(29.0)	6.0
Hindustan Petroleum	493	BUY	167,098	3,766	339	51.6	52.1	58.5	204.2	1.0	12.4	9.6	9.5	8.4	3.4	3.1	2.9	1.3	1.1	1.0	2.4	3.3	3.7	13.1	11.9	12.1	625	26.8	29.3
Indian Oil Corporation	406	ADD	985,748	22,219	2,428	49.1	37.9	41.9	399	(23)	10.7	8	11	9.7	6.0	6.1	5.4	1.8	1.7	1.5	3.2	2.8	3.1	22.4	15.3	15.4	480	18.2	13.5
Oil India	1,422	REDUCE	341,902	7,707	240	115.2	131.9	149.0	13.9	14.6	12.9	12.3	10.8	9.5	5.7	4.2	3.7	2.3	2.0	1.8	2.4	3.1	3.6	16.8	17.9	17.9	1,550	9.0	3.7
Oil & Natural Gas Corporation	1,364	BUY	2,918,190	65,777	2,139	90.3	116.4	136.7	(1)	29	17.5	15	12	10.0	5.3	4.7	4.0	2.2	2.0	1.8	2.4	3.1	3.5	14.4	16.8	17.7	1,500	9.9	33.0
Petronet LNG	125	SELL	93,488	2,107	750	5.4	6.5	7.9	(22.0)	20.5	21.8	23.1	19.2	15.7	13.0	11.0	9.6	3.7	3.1	2.8	1.4	1.6	2.2	15.9	16.7	17.6	88	(29.4)	9.6
Reliance Industries	1,047	REDUCE	3,117,211	70,263	2,976	49.6	57.7	74.4	(2)	16	28.9	21	18	14.1	10.6	8.5	7.0	2.1	1.9	1.7	0.7	0.8	1.0	11.4	12.1	13.9	1,015	(3.1)	131.8
Energy	Cautious		9,373,012	211,270					36.6	15.9	23.9	15.7	13.5	10.9	7.7	6.5	5.5	2.1	1.9	1.7	1.7	1.9	2.6	13.7	14.3	15.8			
Industrials																													
ABB	915	REDUCE	193,970	4,372	212	16.7	18.3	33.1	(35.2)	9.3	80.7	54.7	50.0	27.7	31.4	28.8	16.1	8.0	7.1	5.8	0.2	0.3	0.4	15.6	15.0	23.0	725	(20.8)	5.7
BGR Energy Systems	734	BUY	52,812	1,190	72	16.0	28.0	41.1	32.2	74.4	46.9	45.8	26.2	17.9	25.7	15.1	10.7	9.4	7.5	5.7	0.4	1.0	1.1	22.3	31.7	36.1	950	29.5	4.3
Bharat Electronics	1,777	REDUCE	142,168	3,205	80	96.1	105.9	120.3	(7.4)	10.2	13.6	18.5	16.8	14.8	8.7	7.6	6.4	3.2	2.8	2.4	1.1	1.4	1.4	17.5	17.7	17.6	1,800	1.3	3.5
Bharat Heavy Electricals	2,520	REDUCE	1,233,688	27,808	490	87.9	114.3	135.5	37.7	30.0	18.5	28.7	22.0	18.6	16.1	12.4	10.3	7.8	6.1	4.9	0.7	1.0	1.1	29.8	31.1	29.3	2,600	3.2	31.6
Crompton Greaves	309	REDUCE	198,191	4,467	642	12.8	14.0	16.3	46.5	9.0	16.6	24.1	22.1	18.9	13.9	12.4	10.4	7.9	6.1	4.8	0.4	0.6	0.7	37.9	31.1	28.2	320	3.6	9.3
Larsen & Toubro	2,015	ADD	1,213,674	27,357	602	57.9	76.7	90.5	15.6	32.3	18.1	34.8	26.3	22.3	19.2	13.9	11.8	5.4	4.5	3.8	0.6	0.6	0.7	18.6	18.8	18.5	2,200	9.2	54.4
Maharashtra Seamless	435	BUY	30,645	691	71	40.2	43.6	49.8	12.1	8.5	14.2	10.8	10.0	8.7	5.9	5.1	4.1	1.9	1.7	1.4	1.4	1.8	2.3	19.3	17.9	17.7	450	3.6	0.6
Siemens	811	REDUCE	273,386	6,162	337	25.2	27.0	31.9	56.4	7.3	18.0	32.2	30.0	25.4	19.8	18.0	15.0	8.0	6.7	5.5	0.6	0.7	0.8	27.6	24.2	23.8	635	(21.7)	8.7
Suzlon Energy	59	REDUCE	93,870	2,116	1,594	(6.2)	(0.8)	3.3	(185.4)	(86.8)	(504.1)	(9.6)	(72.6)	18.0	15.0	12.5	8.4	1.4	1.3	1.2	—	—	0.3	(11.4)	(1.8)	6.9	55	(6.6)	23.8
Thermax	793	ADD	94,474	2,129	119	21.7	29.5	39.7	(10.4)	35.9	34.4	36.5	26.8	20.0	18.9	14.7	11.0	8.8	7.2	5.8	0.6	1.1	1.5	25.0	29.5	32.2	865	9.1	1.5
Voltas	236	REDUCE	77,971	1,757	331	10.9	11.8	13.4	57.4	8.2	14.3	21.7	20.0	17.5	13.0	11.4	9.6	7.3	5.9	4.8	1.3	1.4	1.7	38.3	32.5	30.2	225	(4.6)	6.0
Industrials	Attractive		3,604,850	81,254					1.3	35.9	24.9	34.0	25.0	20.0	17.0	13.3	10.9	5.8	4.8	4.0	0.7	0.8	0.9	17.1	19.2	20.1			

Kotak Institutional Equities: Valuation summary of key Indian companies

	18-Oct-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)	(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)
Infrastructure																													
Container Corporation	1,294	REDUCE	168,220	3,792	130	61.1	74.3	85.9	0.3	21.7	15.6	21.2	17.4	15.1	14.9	12.1	10.1	3.9	3.3	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(3.4)	2.7
GMR Infrastructure	55	ADD	201,502	4,542	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	127.5	249.6	415.7	22.8	14.7	13.8	1.9	1.6	1.6	—	—	—	2.4	1.2	0.7	65	18.3	6.7
GVK Power & Infrastructure	43	BUY	67,195	1,515	1,579	0.8	1.1	1.4	6.7	33.5	32.4	52.3	39.2	29.6	18.1	16.6	17.0	2.1	2.0	1.9	—	0.7	0.7	4.7	5.3	6.7	54	26.9	6.9
IRB Infrastructure	252	RS	83,606	1,885	332	9.7	12.6	12.1	83.8	29.2	(3.7)	25.9	20.0	20.8	12.5	11.2	10.4	3.6	2.8	2.2	—	—	—	15.6	15.7	11.9	—	—	14.1
Mundra Port and SEZ	159	REDUCE	320,674	7,228	2,017	3.3	4.3	7.0	55.7	28.9	63.7	47.6	36.9	22.6	35.5	23.3	16.3	9.0	7.5	5.9	—	—	—	20.8	22.3	29.3	150	(5.6)	6.6
Infrastructure			Attractive	841,197	18,961				16.3	20.5	28.4	40.5	33.6	26.2	21.3	15.8	13.5	3.5	3.0	2.7	—	0.3	0.4	8.7	9.0	10.4			
Media																													
DB Corp	280	BUY	50,891	1,147	182	10.6	13.0	15.7	286.5	22.4	21.0	26.3	21.5	17.8	14.7	12.1	10.0	7.8	6.3	5.5	0.7	1.1	1.4	40.3	32.6	33.2	290	3.5	0.6
DishTV	55	ADD	58,593	1,321	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(22.1)	(31.0)	421.2	72.2	28.9	15.2	14.3	26.4	24.8	—	—	—	249.3	(59.7)	6.1	47	(14.7)	3.7
HT Media	160	NR	37,506	845	235	6.1	7.7	9.2	623.3	25.9	19.8	26.1	20.8	17.3	13.1	10.9	9.1	3.9	3.4	3.1	0.6	1.3	2.5	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	136	BUY	41,077	926	301	5.8	6.6	7.7	92.0	13.4	17.0	23.4	20.6	17.6	14.1	11.9	10.2	6.7	6.1	5.6	2.6	2.9	3.7	30.0	31.1	33.3	145	6.3	1.8
Sun TV Network	511	REDUCE	201,198	4,535	394	13.1	18.0	22.5	44.8	36.9	25.2	38.8	28.4	22.7	22.0	16.4	13.2	10.4	8.7	7.3	1.5	1.5	1.8	28.4	33.7	35.1	420	(17.7)	3.6
Zee Entertainment Enterprises	274	REDUCE	119,216	2,687	435	10.6	11.8	14.8	25.7	11.0	25.2	25.8	23.3	18.6	18.8	15.1	11.7	3.1	3.0	2.9	0.9	1.1	1.4	12.8	13.2	16.0	300	9.4	14.5
Media			Neutral	508,481	11,461				186.0	35.6	38.2	41.8	30.8	22.3	20.1	15.4	12.0	6.0	5.6	5.1	1.1	1.3	1.6	14.4	18.1	22.7			
Metals																													
Hindalco Industries	211	ADD	404,620	9,120	1,914	20.0	14.5	16.3	25.0	(27.4)	12.7	10.6	14.6	12.9	6.1	8.2	8.4	1.9	1.7	1.5	0.6	0.6	0.6	20.4	12.2	12.3	225	6.4	32.0
Hindustan Zinc	1,220	BUY	515,679	11,624	423	95.6	102.5	116.0	48.2	7.2	13.1	12.8	11.9	10.5	8.5	6.9	5.0	2.7	2.2	1.9	0.5	0.5	0.5	24.1	20.8	19.4	1,240	1.6	4.9
Jindal Steel and Power	711	REDUCE	661,968	14,921	931	38.4	50.9	56.0	17.3	32.7	9.9	18.5	14.0	12.7	12.7	9.2	7.7	5.9	4.1	3.1	0.2	0.3	0.3	37.8	34.9	28.0	625	(12.1)	23.5
JSW Steel	1,319	REDUCE	332,698	7,499	252	80.4	71.9	112.2	481.1	(10.6)	56.1	16.4	18.3	11.8	11.8	9.7	6.6	3.0	1.8	1.4	0.5	0.7	0.7	16.0	12.5	13.6	1,150	(12.8)	40.2
National Aluminium Co.	400	SELL	257,724	5,809	644	12.6	14.3	17.3	(34.9)	13.3	20.5	31.7	27.9	23.2	15.1	12.4	10.2	2.5	2.4	2.2	0.6	1.3	1.3	8.1	8.6	9.8	260	(35.0)	1.8
Sesa Goa	372	REDUCE	331,325	7,468	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.6	6.4	8.0	10.4	4.5	4.4	4.1	2.6	2.0	1.0	0.9	0.9	35.8	41.5	23.7	340	(8.7)	44.4
Sterite Industries	176	ADD	592,324	13,351	3,362	12.0	13.7	18.7	2.8	13.6	36.7	14.7	12.9	9.4	9.4	8.1	5.0	1.6	1.4	1.3	0.5	0.5	0.5	12.9	11.7	14.2	200	13.5	36.7
Tata Steel	646	REDUCE	590,755	13,316	914	(3.6)	66.5	70.0	(103.6)	(1,968.8)	5.2	(181.5)	9.7	9.2	11.5	6.2	5.9	2.6	1.9	1.6	1.2	1.2	—	(1.5)	22.4	18.8	650	0.6	107.8
Metals			Cautious	3,687,092	83,108				(19.7)	50.9	11.5	18.3	12.1	10.9	9.9	7.5	6.3	2.6	2.1	1.7	0.6	0.7	0.5	14.3	17.2	16.0			
Pharmaceutical																													
Apollo Hospitals	516	BUY	66,393	1,497	129	10.9	14.1	17.8	28.8	28.4	26.5	47.1	36.7	29.0	22.7	16.6	13.9	4.0	3.8	3.3	—	—	—	8.3	9.8	11.4	72	(86.0)	1.9
Biocon	403	BUY	80,620	1,817	200	14.8	17.5	21.7	216.4	17.8	24.3	27.2	23.1	18.6	15.7	13.3	11.1	4.5	3.9	3.3	—	—	—	17.9	18.5	19.9	430	6.7	7.4
Cipla	326	REDUCE	261,752	5,900	803	13.7	14.0	16.6	38.1	1.9	19.2	23.8	23.4	19.6	17.1	15.7	13.3	4.4	3.9	3.3	0.6	0.8	0.8	21.1	17.6	18.2	295	(9.5)	11.6
Cadila Healthcare	691	REDUCE	141,379	3,187	205	24.7	33.4	37.7	66.9	35.2	13.0	27.9	20.7	18.3	18.1	13.9	12.4	8.7	6.5	5.1	0.7	1.0	1.1	36.0	36.0	31.2	580	(16.0)	1.9
Dishman Pharma & chemicals	178	ADD	14,498	327	81	14.4	17.8	22.8	(19.7)	23.7	28.0	12.4	10.0	7.8	9.4	7.7	6.0	1.8	1.6	1.3	—	—	—	15.5	16.8	18.3	230	29.0	0.8
Divi's Laboratories	703	REDUCE	91,866	2,071	131	26.1	34.0	44.9	(18.2)	30.4	32.1	27.0	20.7	15.7	19.9	15.2	10.9	6.1	5.0	4.0	—	—	—	24.7	26.4	28.5	800	13.7	3.1
Dr Reddy's Laboratories	1,615	REDUCE	274,289	6,183	170	48.0	68.4	72.2	48.1	42.6	5.5	33.6	23.6	22.4	18.6	13.4	12.6	7.3	5.7	4.7	0.7	0.5	0.6	22.2	27.0	22.9	1,150	(28.8)	16.1
GlaxoSmithkline Pharmaceuticals (a)	2,351	REDUCE	199,154	4,489	85	59.1	69.7	79.2	8.1	18.0	13.5	39.8	33.7	29.7	23.2	19.7	17.0	11.2	9.5	8.1	—	—	—	29.8	30.4	29.4	1,880	(20.0)	2.0
Glenmark Pharmaceuticals	295	NR	80,852	1,822	274	12.7	19.2	20.3	14.7	50.6	5.6	23.2	15.4	14.6	14.7	9.6	9.2	3.4	2.8	2.4	0.0	0.0	0.0	16.7	19.9	17.6	—	—	6.1
Jubilant Organosys	303	BUY	48,108	1,084	159	26.5	31.8	38.9	49.0	19.8	22.4	11.4	9.5	7.8	8.7	7.8	6.3	2.2	1.8	1.5	0.6	0.8	1.0	26.3	21.7	21.1	400	32.0	1.8
Lupin	415	ADD	183,617	4,139	442	15.4	19.8	25.5	27.9	28.7	28.7	26.9	20.9	16.3	22.9	16.6	13.1	7.9	7.5	6.6	3.1	3.5	3.7	36.6	37.2	43.6	400	(3.6)	9.0
Piramal Healthcare	531	REDUCE	110,881	2,499	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	23.7	39.7	55.9	17.1	8.1	6.6	6.6	1.2	1.0	1.0	1.1	0.7	30.7	140.7	16.5	490	(7.6)	27.6
Ranbaxy Laboratories	580	SELL	248,601	5,604	428	7.1	27.5	14.8	(128.4)	289.4	(46.0)	82.1	21.1	39.1	19.8	12.1	20.1	6.3	4.5	4.1	—	0.7	0.7	6.9	22.9	10.5	340	(41.4)	15.4
Sun Pharmaceuticals	2,049	REDUCE	424,410	9,566	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	31.4	22.7	23.4	24.2	17.0	16.5	5.1	4.3	3.7	0.7	0.7	0.7	17.8	21.0	17.3	1,835	(10.4)	9.2
Pharmaceuticals			Attractive	2,226,419	50,184				45.2	34.3	4.7	30.2	22.5	21.5	18.7	13.9	13.1	5.6	4.0	3.5	0.7	0.8	0.8	18.6	18.0	16.1			
Property																													
DLF	378	ADD	645,096	14,541	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	35.4	23.1	15.1	23.6	15.1	11.4	2.4	2.2	2.0	0.8	0.8	1.3	7.1	9.9	13.8	378	0.1	49.7
Housing Development & Infrastructure	271	ADD	104,273	2,350	385	12.4	14.2	16.7	(41.2)	14.2	17.9	21.8	19.1	16.2	10.8	12.3	8.1	1.5	1.3	1.2	1.0	1.8	1.8	10.0	9.3	9.9	311	14.8	37.0
Indiabulls Real Estate	206	RS	82,693	1,864	401	0.3	2.5	7.4	(62.7)	777.3	195.3	723.8	82.5	27.9	(38.4)	(404.9)	17.4	0.9	0.9	0.9	—	—	—	0.1	1.1	3.2	285	38.3	19.3
Mahindra Life Space Developer	478	ADD	20,192	455	42	20.1	23.6	35.8	77.8	17.6	51.5	23.8	20.2	13.4	21.1	15.2	7.6	2.1	1.9	1.7	0.8	0.8	0.8	8.9	9.7	13.4	540	13.0	0.9
Phoenix Mills	252	BUY	36,465	822	145	4.1	6.6	7.6	(16.7)	59.0	15.6	60.9	38.3	33.1	48.7	26.8	22.5	2.4	2.3	2.2	0.4	0.6	0.8	3.9	6.0	6.7	303	20.4	0.7
Puravankara Projects	126	REDUCE	26,955	608	213	6.8	8.2	8.0	0.6	20.1	(1.9)	18.5	15.4	15.8	20.7	15.7	15.2	1.9	1.7	1.6	1.6	1.6	1.6	10.5	11.6	10.5	122	(3.4)	0.7
Sobha Developers	366	ADD	35,911	809	98	14.1	17.0	26.2	(7.1)	20.8	54.0	26.0	21.6	14.0	18.9	14.7	9.7	2.1	1.9	1.7	0.3	0.3	0.4	9.7	9.2	12.8	414	13.1	3.0
Unitech	95	SELL	252,499	5,691	2,666	3.0	3.8	5.1	(58.8)	25.0																			

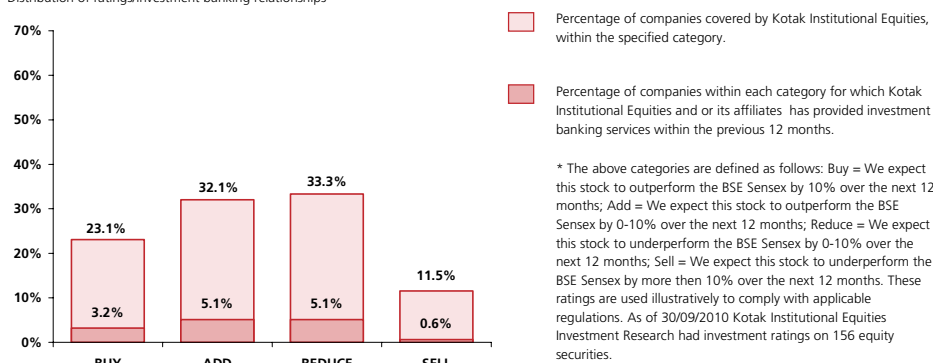
Kotak Institutional Equities: Valuation summary of key Indian companies

	18-Oct-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)
Retail																													
Titan Industries	3,216	ADD	142,756	3,218	44	57.3	83.9	110.9	29.3	46.5	32.2	56.2	38.3	29.0	35.7	25.8	19.7	19.4	13.6	9.6	0.5	0.4	0.4	38.7	41.7	38.8	3,600	11.9	13.0
Retail		Neutral	142,756	3,218					29.3	46.5	32.2	56.2	38.3	29.0	35.7	25.8	19.7	19.4	13.6	9.6	0.5	0.4	0.4	34.5	35.4	33.2			
Sugar																													
Bajaj Hindustan	128	SELL	24,398	550	191	4.9	9.9	8.9	52.3	101.0	(9.9)	25.9	12.9	14.3	8.6	6.2	5.9	1.1	1.0	0.9	0.5	0.5	0.5	4.2	7.9	6.5	99	(22.4)	4.7
Balrampur Chini Mills	88	ADD	22,633	510	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	20.3	8.5	12.6	9.3	5.7	6.2	1.6	1.4	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	5.5	4.6
Shree Renuka Sugars	80	BUY	53,751	1,212	670	9.9	7.7	8.1	195.3	(21.9)	4.7	8.1	10.4	10.0	5.0	5.8	5.1	1.8	1.5	1.3	0.5	0.4	0.4	22.4	17.0	14.8	76	(5.3)	14.0
Sugar		Cautious	100,782	2,272					80.0	12.4	(8.4)	11.6	10.4	11.3	6.8	5.9	5.6	1.5	1.3	1.2	0.5	0.5	0.5	13.1	12.8	10.5			
Technology																													
HCL Technologies	446	REDUCE	308,051	6,944	690	17.5	24.5	30.1	0.2	39.7	23.0	25.5	18.2	14.8	12.4	10.9	8.9	4.4	3.7	3.2	0.9	0.9	1.3	19.3	22.0	21.2	390	(12.6)	9.4
Hexaware Technologies	83	REDUCE	11,901	268	144	9.3	5.0	9.4	127.7	(46.3)	87.7	8.9	16.5	8.8	4.5	10.5	5.3	1.4	1.3	1.2	1.2	1.2	1.2	17.8	8.2	14.0	72	(13.1)	1.7
Infosys Technologies	3,107	BUY	1,783,447	40,199	574	108.3	122.4	153.4	5.7	13.0	25.3	28.7	25.4	20.3	21.1	17.5	14.0	7.7	6.9	5.6	0.8	2.0	1.5	30.1	28.7	30.5	3,400	9.4	64.3
Mphasis BFL	631	SELL	132,913	2,996	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.5	12.5	13.8	11.6	10.0	9.4	5.7	4.0	3.2	0.5	0.6	0.7	48.1	37.5	25.8	550	(12.8)	6.9
Mindtree	516	REDUCE	21,228	478	41	52.2	32.6	51.6	294.3	(37.5)	58.1	9.9	15.8	10.0	8.5	9.0	5.9	3.2	2.6	2.1	0.4	0.6	1.0	35.2	19.2	23.7	550	6.6	1.0
Patni Computer Systems	460	REDUCE	61,212	1,380	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.6	11.1	12.3	6.2	5.4	4.4	1.7	1.6	1.4	1.5	1.8	1.6	18.2	15.1	12.4	450	(2.1)	14.0
Polaris Software Lab	174	SELL	17,333	391	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.3	9.1	9.3	5.5	7.2	6.1	2.0	1.7	1.5	2.0	2.1	2.2	18.6	20.1	17.2	180	3.5	3.1
Satyam Computer Services	83	REDUCE	97,490	2,197	1,176	2.5	5.0	5.4	(190.7)	102.3	7.0	33.4	16.5	15.4	16.7	10.7	7.9	5.2	5.4	4.0	—	—	—	58.5	32.2	30.0	80	(3.5)	38.2
TCS	981	BUY	1,920,503	43,289	1,957	35.1	42.1	48.2	32.8	19.8	14.5	27.9	23.3	20.4	21.2	17.1	14.3	9.2	7.6	6.3	2.0	1.7	2.0	37.6	35.6	33.9	965	(1.7)	35.3
Tech Mahindra	756	REDUCE	93,656	2,111	124	65.1	68.9	67.8	(9.6)	5.7	(1.5)	11.6	11.0	11.1	9.3	11.4	10.1	3.2	2.7	2.2	0.5	0.3	0.3	29.5	20.3	16.2	735	(2.8)	8.8
Wipro	468	ADD	1,144,673	25,801	2,447	18.9	22.3	25.7	22.1	18.1	15.6	24.8	21.0	18.2	18.8	15.2	12.6	5.8	4.8	3.9	0.8	1.0	1.2	26.5	25.0	23.7	465	(0.6)	14.3
Technology		Attractive	5,592,407	126,054					24.0	18.0	16.3	25.4	21.5	18.5	18.4	15.4	12.7	6.7	5.7	4.7	1.2	1.5	1.5	26.3	26.3	25.4			
Telecom																													
Bharti Airtel	327	REDUCE	1,242,765	28,012	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	13.8	16.4	15.8	7.9	8.6	7.0	2.9	2.5	2.2	—	—	—	24.4	16.5	14.7	305	(6.8)	43.0
IDEA	73	REDUCE	239,236	5,392	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	26.5	33.0	47.8	9.0	9.8	8.3	2.1	2.0	1.9	—	—	—	7.2	6.2	4.2	55	(24.1)	9.8
MTNL	66	SELL	41,675	939	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.2)	(6.4)	(7.2)	(0.5)	(0.7)	(0.9)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(24.4)	2.4
Reliance Communications	176	SELL	375,110	8,455	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	8.0	29.3	18.8	7.3	9.9	8.2	1.0	0.9	0.9	0.4	—	—	11.7	3.2	4.9	125	(28.9)	20.7
Tata Communications	328	REDUCE	93,466	2,107	285	14.0	15.2	15.7	3.2	8.2	3.5	23.4	21.6	20.9	9.5	8.8	8.4	1.3	1.3	1.2	2.0	2.3	2.6	5.2	5.5	5.5	225	(31.4)	3.1
Telecom		Cautious	1,992,251	44,906					(15.9)	(33.1)	9.5	14.1	21.0	19.2	8.2	9.2	7.6	1.8	1.7	1.5	0.2	0.1	0.1	12.8	7.9	8.0			
Utilities																													
Adani Power	133	ADD	289,504	6,526	2,180	0.8	4.8	19.1	NM	510.9	298.8	169.5	27.7	7.0	139.1	23.3	6.5	5.0	4.2	2.6	—	—	—	4.2	16.6	46.7	143	7.7	5.4
CESC	385	ADD	48,075	1,084	125	35.2	37.3	44.3	9.3	5.7	18.9	10.9	10.3	8.7	6.9	5.8	6.3	1.1	1.0	0.9	1.2	1.2	1.4	11.1	10.4	11.3	466	21.1	2.6
Lanco Infratech	67	BUY	161,736	3,646	2,405	2.1	4.1	5.4	46.6	92.8	30.4	31.6	16.4	12.5	16.7	9.1	7.7	4.8	3.8	2.9	—	—	—	17.4	23.9	24.2	83	23.4	6.3
NHPC	32	SELL	393,009	8,859	12,301	1.9	1.4	1.7	74.9	(25.2)	19.7	17.2	23.1	19.3	11.0	11.6	9.0	1.6	1.5	1.4	1.7	1.1	1.4	9.7	6.6	7.6	28	(12.4)	8.0
NTPC	207	REDUCE	1,710,109	38,546	8,245	10.8	12.5	14.7	9.6	16.2	17.4	19.3	16.6	14.1	14.7	12.8	10.7	2.7	2.5	2.2	1.9	2.3	2.7	14.5	15.4	16.6	210	1.3	13.4
Reliance Infrastructure	1,074	ADD	264,344	5,958	246	61.8	65.0	84.5	(1.5)	5.3	30.0	17.4	16.5	12.7	18.7	16.5	11.5	1.4	1.3	1.2	0.8	0.9	1.0	6.3	7.3	10.1	1,160	8.0	26.5
Reliance Power	162	SELL	387,195	8,727	2,397	2.9	3.1	5.3	179.7	9.8	70.0	56.6	51.6	30.3	(525.5)	230.9	36.0	2.7	2.5	2.3	—	—	—	4.8	5.1	8.1	135	(16.4)	7.9
Tata Power	1,395	ADD	344,346	7,762	247	60.2	69.2	88.5	20.1	15.0	27.8	23.2	20.1	15.8	14.3	12.9	11.0	2.6	2.4	2.1	0.9	1.0	1.1	12.9	12.5	14.3	1,420	1.8	12.3
Utilities		Attractive	3,598,319	81,107					23.8	16.9	38.3	22.7	19.5	14.1	17.7	15.0	10.8	2.4	2.2	2.0	1.3	1.4	1.6	10.6	11.4	14.1			
Others																													
Havells India	408	SELL	24,561	554	60	5.3	31.6	45.0	3.7	497.9	42.6	77.3	12.9	9.1	12.1	7.4	5.9	6.8	4.5	3.0	0.6	0.6	0.7	6.6	41.6	39.7	497	21.8	9.1
Jaiprakash Associates	128	BUY	273,235	6,159	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	88.1	23.2	17.3	22.0	16.1	11.5	3.2	2.8	2.4	—	—	—	4.1	12.8	14.9	170	32.5	26.7
Sintex	412	REDUCE	56,291	1,269	136	24.1	29.3	33.7	0.5	21.6	14.9	17.1	14.1	12.3	14.0	9.2	8.0	2.7	2.2	1.9	0.3	0.3	0.3	15.5	15.8	15.3	420	1.8	7.7
Tata Chemicals	425	REDUCE	103,469	2,332	243	26.4	35.1	39.2	(27.1)	32.9	11.7	16.1	12.1	10.8	7.8	6.2	5.3	2.2	1.9	1.6	2.1	2.2	2.2	16.0	19.6	18.9	370	(13.0)	7.2
United Phosphorus	188	BUY	87,124	1,964	463	11.9	13.8	17.4	18.8	15.8	25.9	15.8	13.6	10.8	9.1	8.3	6.6	2.5	2.2	1.9	0.8	1.1	1.1	17.7	17.2	18.3	225	19.5	6.1
Others			544,679	12,277					(13.2)	74.7	24.8	29.2	16.7	13.4	14.5	11.4	9.0	2.8	2.4	2.1	0.6	0.7	0.7	9.7	14.6	15.6			
KS universe (b)			50,440,909	1,136,953					16.2	21.8	21.2	21.2	17.4	14.3	12.4	10.3	8.5	3.2	2.7	2.4	1.1	1.3	1.5	15.0	15.8	16.7			
KS universe (b) ex-Energy			41,067,897	925,682					10.6	23.7	20.4	23.2	18.6	15.5	15.0	12.3	10.0	3.6	3.0	2.6	1.0	1.1	1.2	15.5	16.3	17.0			
KS universe (d) ex-Energy & ex-Commodities			36,366,023	819,701					16.1	21.4	21.7	24.0	19.9	16.4	17.0	13.9	11.3	3.7	3.2	2.8	1.1	1.2	1.3	15.4	16.2	17.2			

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Kawaljeet Saluja, Manish Karwa, Lokesh Garg, Priti Arora."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

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

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office

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

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

Overseas Offices

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

Copyright 2010 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

1. Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.