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Updates

Nestle India: Can Nestle India manage competition?

Reliance Infrastructure: Regulatory relief

Petronet LNG: Opening PLNG's box

GSPL: Cut positions before tariffs cut

News Round-up

ADR/GDR's: ABNL dn 2.26%, BJH up 2.20%, CESC up 2.70%, EID dn 3.42%, GRASIM up 1.98%, RW dn 2.02%, SBIN dn 2.38%, TTMT up 2.88%, WPRO up 2.16%.

- ▶ Timely commissioning of over 50,000 Mw of power generation capacity has been jeopardized owing to the environment ministry's latest move to classify India's coal-bearing regions as "go" and "no-go" areas. This comes at a time when the country is striving to bridge the widening gap in the demand and supply of electricity. (BSTD)
- ▶ Headline inflation, as measured by WPI on a revised base of 2004-05, decelerated to 8.5% in August thanks to cheaper primary articles. (BSTD)
- ▶ The govt. was open to providing an exit route to new mobile phone cos. that were given licences & airwaves under controversial circumstances 2 years ago. The details of the new policy would be decided by the Telecom Commission, the highest decision making body in the communications ministry. (ECNT)
- ▶ Just 2 days after Reliance Infra (RELI IN) announced a steep hike for its electricity consumers in the suburban Mumbai, consumers of 2 other distribution cos. Tata Power (TPWR IN) & BEST, have been granted a significant reduction in electricity charges. (ECNT)
- ▶ America's worsening economic climate & incendiary political rhetoric could end up hurting the fortunes of India's USD 50bn outsourcing industry as US firms start avoiding overseas contracts fearing a backlash from skittish politicians. At least 6 customers of India's top three IT cos. Wipro (WPRO IN), TCS (TCS IN), Infosys (INFO IN) have postponed decisions on new contract in the past quarter. (ECNT)
- ▶ TCS (TCS IN) to invest USD 217 mn in Kerala training campus. (BSTD)
- ▶ RPower (RPWR IN), Adani Power (ADANI IN), GMR are in the race for a coal mine asset in Australia. The valuation of the asset is close to USD 1 bn. (BSTD)
- ▶ London Stock Exchange-listed Essar Energy Plc plans to bid for coal-bed methane and shale gas blocks in Indonesia next month. (BSTD)

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

EQUITY MARKETS

India	Change %			
	14-Sep	1-day	1-mo	3-mo
Sensex	19,347	0.7	6.5	11.1
Nifty	5,796	0.6	6.3	11.0
Global/Regional indices				
Dow Jones	10,526	(0.2)	2.2	1.2
Nasdaq Composite	2,290	0.2	5.4	(0.7)
FTSE	5,567	0.0	5.5	6.7
Nikkie	9,412	1.2	1.7	(4.8)
Hang Seng	21,696	0.2	3.0	8.1
KOSPI	1,819	0.2	4.2	7.6
Value traded – India				
Cash (NSE+BSE)	220		194	179
Derivatives (NSE)	1,564		949	1,001
Deri. open interest	1,973		1,702	1,394

Forex/money market

	Change, basis points			
	14-Sep	1-day	1-mo	3-mo
Rs/US\$	46.5	5	(35)	(4)
10yr govt bond, %	7.9	(3)	8	27
Net investment (US\$m)				
	13-Sep		MTD	CYTD
FIs	569		867	13,748
MFs	(94)		52	(282)

Top movers -3mo basis

Best performers	Change, %			
	14-Sep	1-day	1-mo	3-mo
HPCL IN Equity	545.9	3.2	12.5	61.3
BOI IN Equity	496.7	(0.7)	7.3	47.5
BPCL IN Equity	770.1	2.4	14.8	45.1
TTMT IN Equity	1055.2	2.7	4.1	38.9
IDEA IN Equity	74.9	0.3	3.0	37.7
Worst performers				
RNR IN Equity	39.4	0.6	2.2	(41.2)
MMTC IN Equity	1386.4	0.1	(0.5)	(19.7)
HH IN Equity	1721.7	(0.3)	(8.6)	(15.1)
RCOM IN Equity	162.2	(0.4)	(3.5)	(13.2)
IVRC IN Equity	159.9	(2.0)	(1.1)	(12.9)

Can Nestle India manage competition? While we like the market opportunity for most of Nestlé's categories, we await demonstration by it in managing head-on competition—most of its categories have been either a monopoly or duopoly, so far. Some investors believe that Nestle SA turning cash rich is positive for Nestle India for (1) potentially aggressive investments in India and (2) the parent could potentially increase its stake in Nestle India. Maintain REDUCE, stock trades at 30XFY2012E.

Company data and valuation summary

Nestle India (a)

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	3,300-2,189	EPS (Rs)	74.4	86.6	104.8
Market Cap. (Rs bn)	306.9	EPS growth (%)	27.0	16.4	20.9
Shareholding pattern (%)		P/E (X)	42.8	36.7	30.4
Promoters	61.8	Sales (Rs bn)	51.3	60.9	72.5
FIs	10.6	Net profits (Rs bn)	7.2	8.4	10.1
MFs	3.0	EBITDA (Rs bn)	10.8	12.4	14.6
Price performance (%)		EV/EBITDA (X)	28.3	24.6	20.9
Absolute	1M 3M 12M	ROE (%)	136.0	127.5	122.9
Rel. to BSE-30	7.8 (3.2) 22.0	Div. Yield (%)	1.5	1.9	2.3

Some investors believe that Nestle SA turning cash rich is positive for Nestle India

- ▶ Nestle SA's cash position has likely improved substantially as it sold its 52% stake in Alcon, a global eye care company to Novartis for US\$28 bn (moreover, Nestle SA's 30% stake in L'Oreal is worth ~US\$20 bn). Some investors expect Nestle SA to implement a more aggressive investment program (including M&As) in emerging markets, including India.

Our view: With ~90% PAT to FCF conversion, Nestle India generates adequate resources for investment, in our view. We do not think that the changing balance sheet position of parent could impact the operations of Nestle India in a significant way.

- ▶ Nestle SA could increase the stake in its subsidiary, Nestle India.

Our view: Nestle SA holds 62% in Nestle India which is the highest amongst the peer group—Unilever holds 52% in HUL, GSK Plc holds 43% in GSK CH India. There are no filings in BSE (as of today) regarding any stake purchase by parent. However, we note that as per the creeping acquisition regulations, companies need to report to exchanges only if the stake purchased is >2%.

Can Nestle India manage competition?—Most of its categories are monopoly or duopoly, so far

We like the structural growth opportunity for most of Nestlé's categories, but look for better entry points into the stock. We keenly await demonstration by Nestle India in managing competition in culinary effectively. We highlight that most of the categories which Nestle India operates in are either a near-monopoly or duopoly.

Maintain estimates and reiterate REDUCE. Our rating is underpinned by (1) limited opportunity for earnings upgrades, in our view, (2) challenging competitive environment for Nestle in culinary—both Knorr (HUL) and Foodles (GSK) are targeting product substitution from Maggi, in our view and (3) expensive valuations (28X CY2011E) for estimated 18% earnings CAGR over CY2009-11E.

REDUCE

SEPTEMBER 15, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **3,204**

Target price (Rs): **3,000**

BSE-30: **19,347**

QUICK NUMBERS

- **62% shareholding of Nestle SA in Nestle India, is amongst the highest its peers**
- **Nestle has so far enjoyed monopoly/duopoly in the categories that it operates in**

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Key risks are (1) higher-than-expected sales growth due to distribution gains and (2) better-than-expected margin expansion.

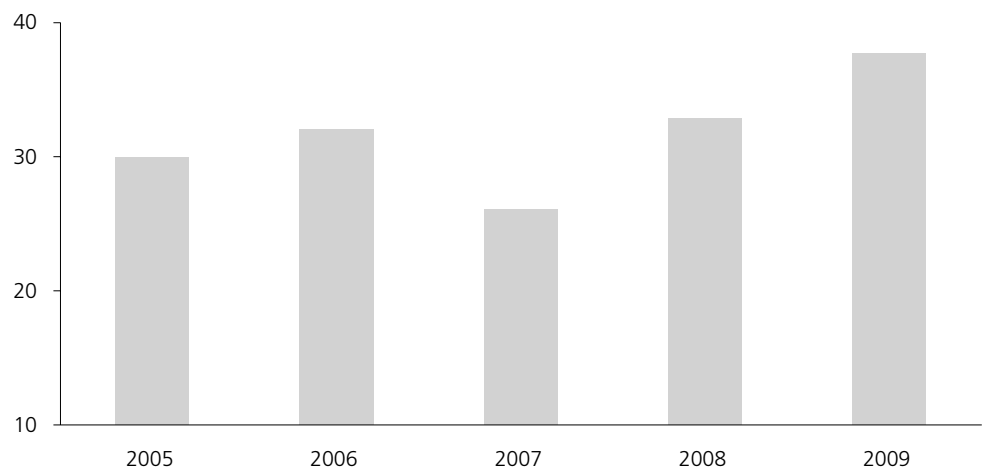
Nestle has never had to face severe competition in the categories that it is present in
Category-wise Nestle's market share and market status

Category	Market share (%)		Market status	Remarks
	Nestle	Nearest competitor		
Nutrition / Infant food	~90	~5	Monopoly	High entry barriers as advertising is banned
Culinary / Maggi	~90	~5	Monopoly	Nestle has done a good job in category creation
Beverages / Coffee	55	45	Duopoly	Duopoly with HUL
Chocolates and confectionary	25	70	Duopoly	Nestle dominates the wafer segment

Source: Kotak Institutional Equities

Processed foods (Maggi) was a major contributor to Nestlé's growth

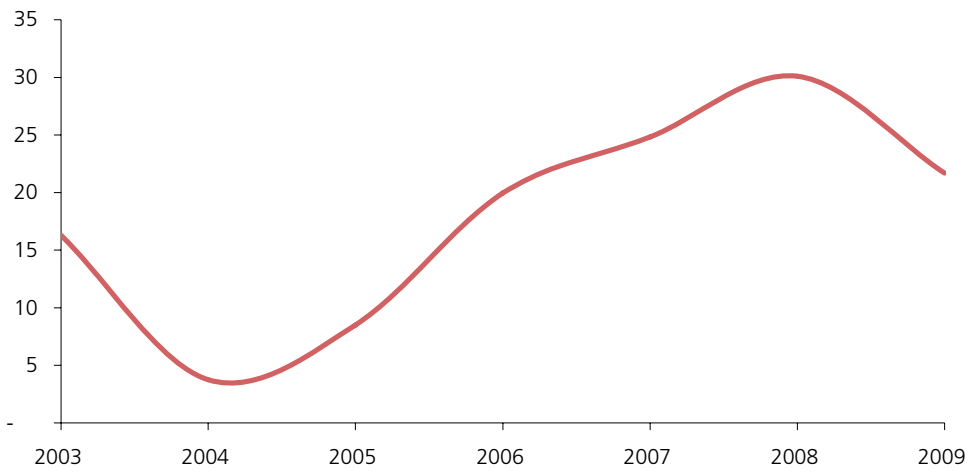
Processed foods' contribution to Nestlé's incremental sales growth, December calendar year-ends, 2005-09 (%)



Source: Company, Kotak Institutional Equities

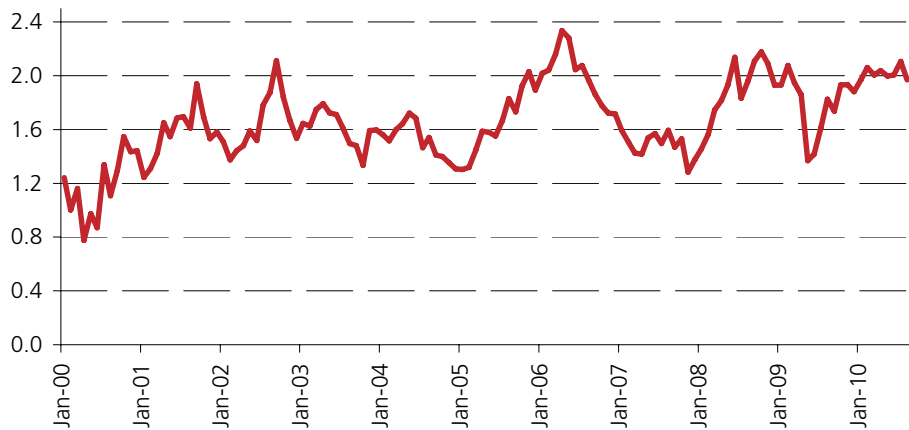
Maggi growth is likely coming off the peak

Volume growth in Nestlé's Prepared Dishes and Cooking Aids segment, December calendar year-ends 2003-2009 (%)



Source: Company, Kotak Institutional Equities

Relative PE of Nestle versus Sensex closer to an all-time high



Source: Bloomberg, Kotak Institutional Equities

Nestle: Profit model, balance sheet, 2007-2012E, December fiscal year-ends (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	35,043	43,242	51,294	60,913	72,465	86,381
EBITDA	6,962	8,638	10,542	12,324	14,473	17,669
Other income	246	322	364	425	499	578
Depreciation	(747)	(924)	(1,113)	(1,418)	(1,737)	(1,978)
Pretax profits	6,461	8,036	9,793	11,331	13,235	16,268
Tax	(2,148)	(2,387)	(2,620)	(2,978)	(3,133)	(3,942)
Net profits	4,313	5,649	7,173	8,352	10,102	12,327
Earnings per share (Rs)	44.7	58.6	74.4	86.6	104.8	127.9
Balance sheet (Rs mn)						
Total equity	4,184	4,733	5,813	7,284	9,151	11,430
Total borrowings	29	8	6	6	6	6
Current liabilities and provisions	9,865	12,208	14,538	16,314	18,644	22,072
Total liabilities and equity	14,078	16,950	20,356	23,604	27,801	33,508
Cash	1,322	2,286	3,588	2,713	3,792	6,176
Current assets	6,001	6,043	7,010	7,551	8,906	11,270
Total fixed assets	6,755	8,622	9,758	13,340	15,103	16,062
Total assets	14,078	16,950	20,356	23,604	27,801	33,508
Free cash flow (Rs mn)						
Operating cash flow, excl. working c	4,363	5,568	7,065	8,771	10,642	12,846
Working capital	361	1,149	1,355	872	626	597
Capital expenditure	(1,702)	(2,790)	(2,249)	(5,000)	(3,500)	(2,937)
Free cash flow	3,022	3,927	6,170	4,642	7,768	10,505
Key assumptions						
Revenue Growth (%)	24.4	23.4	18.6	18.8	19.0	19.2
EBITDA Margin(%)	19.9	20.0	20.6	20.2	20.0	20.5
EPS Growth (%)	31.9	31.0	27.0	16.4	20.9	22.0

Source: Kotak Institutional Equities estimates

SEPTEMBER 15, 2010

UPDATE

Coverage view: **Attractive**

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

Target price (Rs): **1,160**

BSE-30: **19,347**

Regulatory relief. Maharashtra Electricity Regulatory Commission (MERC) has revoked its earlier stay order on RELI's Mumbai distribution business. Our earnings estimates already factored the benefit of a favorable outcome, though the conduct of the regulator in imposing a stay on tariff increase re-affirms the political risk of high power cost for the end-consumer. We continue to like RELI based on incremental value accretion from infrastructure portfolio and earnings cushion of stable power business.

Company data and valuation summary

Reliance Infrastructure

Stock data

52-week range (Rs) (high,low)	1,405-950
Market Cap. (Rs bn)	260.1

Shareholding pattern (%)

Promoters	25.1
FIs	45.2
MFs	9.6

Price performance (%)

	1M	3M	12M
Absolute	(2.5)	(10.7)	(12.2)
Rel. to BSE-30	(8.4)	(19.6)	(25.3)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	61.8	65.0	84.5
EPS growth (%)	(1.5)	5.3	30.0
P/E (X)	17.1	16.3	12.5
Sales (Rs bn)	145.0	148.6	190.2
Net profits (Rs bn)	15.2	16.0	20.8
EBITDA (Rs bn)	15.4	18.3	25.9
EV/EBITDA (X)	18.4	16.2	11.4
ROE (%)	6.3	7.3	10.1
Div. Yield (%)	0.8	0.9	1.0

MERC revokes stay on RELI's tariff hike, better cash flows from distribution business

Reliance Infrastructure had not accrued revenues of Rs1.9 bn in FY2010 and Rs1 bn in 1QFY11 on account of the stay on tariff hike imposed in July 2009 following the intervention by the Government of Maharashtra. Higher tariffs will also help reduce the mounting regulatory asset (earnings accrued but not received), which stood at ~Rs16 bn as of end-March 2010. MERC has revoked its earlier stay order pertaining to a tariff hike by RELI for which the regulator had also previously appointed an investigating authority to scrutinize the sanctity of the electricity tariffs levied by RELI. The order does not impact our earnings estimates, which were already factoring in the effect of increased tariff, but will likely boost sequential earning on a reported basis.

Higher tariffs may accelerate switchover of consumers, unless cross-subsidy issue addressed

Increased in tariffs will further encourage migration of customers from RELI to TPWR, which has a lower dependence on purchased power and hence lower end-consumer tariffs. RELI's dependence on power purchase from short-term market has increased steadily on account of increasing demand in Mumbai and cut in supply by Tata Power (TPWR) from 760 MW to current levels of 200 MW (see Exhibit 2). We note that as TPWR is 'cherry-picking' high tariff consumers who bear the cross-subsidy burden for lower-end consumers, the migration further accentuates the problem recovery of annual revenues. Exhibit 3 highlights the end consumer tariffs for RELI and TPWR in Mumbai license area.

Maintain ADD with a target price of Rs1,160/share

We maintain our ADD rating with a target price of Rs1,160/share. Our SOTP-based target price comprises (1) Rs230/share from the existing generation, transmission and distribution businesses, (2) Rs212/share for the EPC business, (3) Rs473/share for 45% stake in Reliance Power valued at 20% discount to our target price of Rs135/share, (4) Rs42/share as the equity-value of the five BOT road projects under-construction, (5) Rs51/share for equity investment made in the various infrastructure projects and (5) cash and investible surplus in books of Rs155/share.

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Exhibit 1: Reliance Infrastructure, Sum-of-the-parts valuation

	Methodology	Key assumptions	Per share value (Rs)												
BSES (Mumbai distribution, Dahanu)	DCF-equity CoE: 12% Terminal year growth: 2%	The business enjoys a stable regulated regime and very high predictability of cash flows. We have not built in any incremental generation capacity in Mumbai.	166												
Other generating assets BAPL, RSPCL, BSES Kerala Power, Windmills	DCF-equity CoE: 12% Terminal year growth: Nil	We assign a value of 1.8X Price to Book as FCFe for these projects is likely to be ~16-18%. Gas power stations are liable to get returns based on availability, irrespective of lower PLF caused by unavailability of natural gas.	33												
Delhi distribution 49% equity stake	DCF-equity CoE: 12% Terminal year growth: 4%	Distcoms earn 16% RoE on achieving the specified A,T&C loss reduction. The distcoms earn higher returns in the event of bettering the benchmarks. Our valuation takes a hit due to past capex of Rs5.35 bn disallowed by the regulator.	32												
EPC business	EV/EBITDA 7X FY2012E EBITDA	<table border="1"> <thead> <tr> <th></th> <th>FY2011E</th> <th>FY2012E</th> </tr> </thead> <tbody> <tr> <td>Revenues (Rs mn)</td> <td>52,280</td> <td>82,653</td> </tr> <tr> <td>EBITDA (Rs mn)</td> <td>6,012</td> <td>7,439</td> </tr> <tr> <td>EBITDA %</td> <td>11.5</td> <td>9.0</td> </tr> </tbody> </table>		FY2011E	FY2012E	Revenues (Rs mn)	52,280	82,653	EBITDA (Rs mn)	6,012	7,439	EBITDA %	11.5	9.0	212
	FY2011E	FY2012E													
Revenues (Rs mn)	52,280	82,653													
EBITDA (Rs mn)	6,012	7,439													
EBITDA %	11.5	9.0													
Road projects 5 BOT projects under construction	DCF-equity CoE: 15%	RELI has spent ~Rs9 bn till March 2009 out of the total projected capex of Rs30 bn. Our DCF-equity valuation implies a weighted average P/B of 1.7X for these five projects.	42												
Reliance Power Limited 45% stake	DCF-equity CoE: 12.5% - 15%	We use a 20% discount to our target price of Rs135/share for RPWR.	473												
Cash and investible surplus on books	Book value	<table border="1"> <tbody> <tr> <td>Marketable securities & cash on books (Rs mn):</td> <td>102,045</td> </tr> <tr> <td>Less unallocable debt (Rs mn)</td> <td>(63,807)</td> </tr> <tr> <td>Net cash and investible surplus (Rs mn)</td> <td>38,239</td> </tr> </tbody> </table>	Marketable securities & cash on books (Rs mn):	102,045	Less unallocable debt (Rs mn)	(63,807)	Net cash and investible surplus (Rs mn)	38,239	155						
Marketable securities & cash on books (Rs mn):	102,045														
Less unallocable debt (Rs mn)	(63,807)														
Net cash and investible surplus (Rs mn)	38,239														
Infrastructure projects	Book value	Metro projects in Delhi and Mumbai; Real estate project in Hyderabad and SEZ in Navi Mumbai	51												
Total			1,163												

Source: Company, Kotak Institutional Equities estimates

Limited earnings impact of customer exodus

We note that post the MERC order in October 2009 that enabled TPWR to supply power to consumers using Reliance Infrastructure network in Mumbai suburbs, TPWR has added over 50,000 customers. We see limited near-term impact to RELI's earnings from continued switchover of RELI customers to Tata Power distribution, as RELI will likely continue to be compensated for the regulated equity invested in the distribution network in Mumbai. However, this could potentially risk RELI's ability to service a higher consumer base and consequently put at risk future capex approved by the regulator.

We note that RELI had also filed a petition with MERC for recovery of loss of cross subsidiary from customers who are switching over to TPWR. RELI contended that most of the switchover customers are commercial and industrial consumers and the switchover results in loss of cross subsidy for its residential consumers that account for 77% of its customer base. MERC has rejected RELI's petition and ordered that status quo be maintained in the switchover mechanism for now.

Exhibit 2: RELI's dependence on external purchases increased from 2008
Energy procurement of RELI, March fiscal year-ends, 2004-09 (MU)

	2004	2005	2006	2007	2008	2009
Enerfy sales (MU)	6,117	6,502	6,881	7,453	7,807	8,270
Energy requirement (MU)	7,157	7,457	7,923	8,662	9,208	9,676
Energy purchases						
RELI generation	4,084	4,105	3,995	4,118	4,089	4,025
TPWR generation	3,072	3,352	3,923	4,408	4,748	2,972
RPS					2	22
External purchases				66	466	1,718
Imbalance pool				93	80	1,075
External sales				(23)	(177)	(136)
Total	7,156	7,457	7,918	8,662	9,208	9,676

Note:
Energy requirement is inclusive of T&D losses

Source: MERC, Kotak Institutional Equities

Exhibit 3: Higher cost of purchased power results in higher tariff for RELI customers
Tariff comparison for RELI and TPWR customers

	LT Residential and commercial													
	LT I Residential - 100 units/month		LT I Residential - 300 units/month		LT I Residential - 500 units/month		LT I Residential - 700 units/month		LT II Commercial < 20 KW		LT II Commercial > 20 KW & <50 KW		LT II Commercial > 50 KW	
	RELI	TPWR	RELI	TPWR	RELI	TPWR	RELI	TPWR	RELI	TPWR	RELI	TPWR	RELI	TPWR
Units billable	100	110	300	330	500	550	700	769	350	385	4,500	4,945	13,500	14,835
Fixed charges (Rs/month)	30	30	50	50	50	50	100	100	200	150	0	0	0	0
Demand charges (Rs/month)											7,500	7,500	11,250	11,250
Energy charges (Rs/month)	296	157	1,408	795	3,240	1,752	5,362	2,829	2,783	1,481	46,170	21,264	147,285	68,984
Wheeling charges (Rs/month)		97		290		484		677		338		4,352		13,055
Average billing rate (Rs/kwh)	3.26	2.83	4.86	3.78	6.58	4.57	7.80	5.15	8.52	5.63	11.93	7.36	11.74	6.91
	LT Industrial and HT													
	LT III Industrial < 20 KW		LT IV Industrial > 20 KW		HT I Industry		HT II Commercial		HT III Group housing					
	RELI	TPWR	RELI	TPWR	RELI	TPWR	RELI	TPWR	RELI	TPWR				
Units billable	800	879	9,000	9,890	225,000	228,426	150,000	152,284	150,000	152,284				
Fixed charges (Rs/month)	200	150	0	0	0	0	0	0	0	0				
Demand charges (Rs/month)			6,000	6,000	71,250	71,250	82,500	82,500	60,000	60,000				
Energy charges (Rs/month)	6,208	3,604	66,690	45,495	1,701,000	936,548	1,261,500	662,437	774,000	578,680				
Wheeling charges (Rs/month)		774		8,703		105,076		70,051		70,051				
Average billing rate (Rs/kwh)	8.01	5.66	8.08	6.69	7.88	4.95	8.96	5.43	5.56	4.72				

Source: MERC, Kotak Institutional Equities

Exhibit 4: Switchover customers will continue to use existing RELI network
Regulated assets, debt and equity of RELI and TPWR

	FY2007	FY2008	FY2009	FY2010
TPWR				
Gross fixed assets (Rs mn)	3,950	4,363	5,233	8,471
Debt (Rs mn)	755	960	1,025	1,030
Equity (Rs mn)	1,287	1,401	1,455	1,486
RELI				
Gross fixed assets (Rs mn)	23,474	25,942	29,560	34,796
Debt (Rs mn)	6,570	6,752	7,373	7,933
Equity (Rs mn)	10,246	10,312	10,749	11,337

Source: MERC, Kotak Institutional Equities

Exhibit 5: Profit model, balance sheet, cash model for Reliance Infrastructure (Consolidated), March fiscal year-ends 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	83,462	125,781	144,960	148,638	190,215	244,225
EBITDA	5,722	8,213	11,515	14,697	21,970	27,033
Other income	11,744	14,238	11,937	11,224	11,285	12,677
Interest	(4,021)	(4,394)	(5,251)	(5,754)	(7,766)	(7,516)
Depreciation	(3,074)	(3,304)	(4,724)	(5,232)	(6,068)	(6,558)
Pretax profits	10,371	14,753	13,476	14,934	19,421	25,636
Tax	(1,891)	(1,504)	(1,498)	(2,245)	(4,463)	(7,377)
Minority interest / share of associates	379	941	3,216	3,306	5,832	5,298
Net profits	8,859	14,190	15,194	15,994	20,791	23,557
Extraordinary items	2,923	(658)	—	—	—	—
Earnings per share (Rs)	37.6	62.7	61.8	65.0	84.5	95.7
Balance sheet (Rs mn)						
Total equity	163,587	168,976	201,877	218,455	237,831	259,708
Deferred taxation liability	2,678	2,113	2,191	2,578	2,965	3,336
Total borrowings	59,036	101,054	95,141	85,903	88,412	88,618
Current liabilities	38,615	72,077	55,375	66,486	87,937	119,041
Service line deposits from customers	202	—	—	—	0	—
Minority interest	513	1,116	1,118	1,118	1,118	1,118
Total liabilities and equity	264,630	345,336	355,702	374,539	418,263	471,821
Cash	1,154	4,583	12,773	21,972	28,727	29,185
Current assets	96,361	91,113	105,505	119,343	154,764	206,873
Total fixed assets	50,118	90,277	108,060	133,861	135,408	136,400
Investments	116,997	159,364	129,364	99,364	99,364	99,364
Total assets	264,630	345,336	355,702	374,539	418,263	471,821
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	15,023	16,272	19,996	21,612	27,246	30,486
Working capital	(11,745)	38,711	(31,094)	(2,727)	(13,971)	(21,004)
Capital expenditure	(9,468)	(47,537)	(22,508)	(31,032)	(7,615)	(7,550)
Investments	909	(37,486)	30,000	30,000	—	0
Free cash flow	(5,281)	(30,041)	(3,606)	17,853	5,660	1,933

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 15, 2010
UPDATE

Coverage view: **Cautious**

Price (Rs): **110**

Target price (Rs): **88**

BSE-30: **19,347**

Opening PLNG's box. We expect the regulator's proposal to open up certain infrastructure including LNG terminals for common use to raise issues about the re-gasification tariffs of PLNG. We have long highlighted that PLNG's re-gasification tariffs are too high and only possible because of a favorable arrangement with its marketing entities, which are also its major shareholders. We maintain SELL rating with a 12-month DCF-based target price of ₹88.

Company data and valuation summary

Petronet LNG

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	120-61	EPS (Rs)	5.4	6.5	7.9
Market Cap. (Rs bn)	82.2	EPS growth (%)	(22.0)	20.5	21.8
Shareholding pattern (%)		P/E (X)	20.3	16.9	13.8
Promoters	50.0	Sales (Rs bn)	106.5	122.4	154.2
FIs	8.5	Net profits (Rs bn)	4.0	4.9	5.9
MFs	7.0	EBITDA (Rs bn)	8.5	10.6	12.9
Price performance (%)		EV/EBITDA (X)	11.6	9.9	8.7
Absolute	1M 3M 12M	ROE (%)	15.9	16.7	17.6
Rel. to BSE-30	3.9 35.4 45.6	Div. Yield (%)	1.6	1.8	2.5
	(2.5) 21.3 22.0				

LNG terminals may be designated as 'Common User Facilities' (CUF)

The Petroleum and Natural Gas Regulatory Board has prepared draft regulations for access to certain infrastructure in the oil and gas sector. This includes LNG terminals, aviation fuelling stations and some storage facilities. The regulator has incorporated the suggestions of stakeholders in the draft regulations and will finalize the regulation for sharing of infrastructure facilities after an 'Open House' on September 28, 2010.

Designation of CUF may not necessarily result in lower re-gasification tariffs though

We note that LNG re-gasification tariffs do not fall under the purview of the regulator and thus, designation of LNG import terminals may not necessarily lead to lower tariffs for PLNG. However, any entity seeking access to LNG terminals may raise the issue of PLNG's 'high' re-gasification charges that may lead to a review later. In our view, PLNG's tariffs are too high and largely supported by a rather indulgent attitude of the marketing companies (also, its major shareholders).

PLNG earned an average CROCI of 26% in FY2006-10; seems like a great business

We compute PLNG's average CROCI at 26% in FY2006-10 adjusting for C-WIP. A part of its profits (cash generated) reflects favorable imports of spot LNG cargoes that boosted its profits through marketing profits. Nonetheless, we note that PLNG has earned consistently very high financial returns that do not appear commensurate with the business risks (see Exhibit 1). PLNG has raised re-gasification tariffs by 5% per annum (calendar-year basis) since inception; its tariff has gone up to ₹31.76/mn BTU from ₹23.7/mn BTU in January 2005 despite it earning high returns from the start of the terminal.

Expensive valuations even assuming current tariffs persist; large risks to business model exist

We note that PLNG stock is trading at 1.8X FY2011E GCI and 2.8X FY2011E BV. The key issue is whether PLNG's returns will persist or not. We model a 5% per annum increase in re-gasification tariffs in FY2012E and FY2013E and flat tariffs after that. Our 12-month fair valuation comes to ₹88. We also highlight large risks to PLNG's business model in case of large future discoveries of gas in India.

QUICK NUMBERS

- Average CROCI of 26.1% in FY2006-10
- FY2010 CROCI of 19.2% even with low capacity utilization of expanded capacity
- Stock trades at 1.8X FY2011E GCI and 2.8X FY2011E BV

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PLNG earns very high CROCI; FY2010's CROCI was pulled down because of Dahej expansion
Trends of returns for Petronet LNG, March fiscal year-ends, 2006-10 (%)

	2006	2007	2008	2009	2010
CROCI	20.0	29.6	33.2	28.7	19.2
ROACE	11.9	14.5	17.0	14.7	11.0
ROAE	19.5	23.6	27.8	25.0	16.8

Source: Company, Kotak Institutional Equities estimates

We value PLNG's re-gasification business at ₹88 using DCF methodology
Calculation of equity value using discounted cash flow analysis (₹ mn)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	10,634	12,858	15,415	19,198	22,506	23,199	23,112	23,019	22,920	22,809	22,809	22,809
Adjusted tax expense	(1,856)	(2,863)	(2,668)	(3,007)	(3,661)	(3,803)	(4,981)	(6,193)	(6,578)	(6,892)		
Change in working capital	(2,664)	(1,182)	(1,669)	(2,989)	(1,064)	(264)	840	425	(344)	(413)		
Operating cash flow	6,114	8,813	11,078	13,202	17,781	19,132	18,971	17,251	15,999	15,504		
Capital expenditure	(10,000)	(10,000)	(16,816)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(2,500)		
Free cash flow	(3,886)	(1,187)	(5,738)	12,202	16,781	18,132	17,971	16,251	14,999	13,004	13,004	13,004
Discounted cash flow-now	(3,607)	(979)	(4,207)	7,952	9,721	9,333	8,223	6,609	5,422	4,177		
Discounted cash flow-1 year forward		(1,102)	(4,733)	8,945	10,936	10,503	9,251	7,436	6,100	4,701	4,177	
Discounted cash flow-2 year forward			(5,326)	10,064	12,303	11,816	10,410	8,365	6,863	5,289	4,701	4,177
	Now	+ 1-year	+ 2-years									
Discount rate (%)	12.5%	12.5%	12.5%									
Total PV of free cash flow	42,645	56,215	68,662									
Terminal value assumption				Sensitivity of 12-month fair value to WACC and perpetual growth								
Growth in perpetuity	0.0%	0.0%	0.0%	Perpetual growth (%)								
FCF in 2021E	13,004	13,004	13,004									
Exit FCF multiple (X)	8.0	8.0	8.0									
Exit EV/EBITDA multiple (X)	4.6	4.6	4.6									
Terminal value	104,033	104,033	104,033									
PV of terminal value	33,420	33,420	33,420									
Total company value	76,064	89,634	102,082									
				WACC (%)								
					-1.0%	-0.5%	0.0%	0.5%	1.0%			
					11.5%	95.4	97.9	100.6	103.6	106.9		
					12.0%	89.6	91.8	94.2	96.9	99.8		
					12.5%	84.2	86.2	88.3	90.7	93.2		
					13.0%	79.1	80.9	82.9	85.0	87.3		
					13.5%	74.5	76.1	77.8	79.7	81.7		
Net debt	16,207	23,384	29,304									
Equity value	59,857	66,251	72,778									
Shares outstanding (mn)	750	750	750									
Estimated share price using DCF	80	88	97									
Estimated share price excluding Kochi	62	67	72									
Kochi project	18	21	25									
Fiscal Year end (March 31, XXXX)	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20	March-21	March-22
Today	12-Aug-10	12-Aug-10	12-Aug-10	12-Aug-10	12-Aug-10	12-Aug-10	12-Aug-10	12-Aug-10	12-Aug-10	12-Aug-10	12-Aug-10	12-Aug-10
Days left	231	597	962	1,327	1,692	2,058	2,423	2,788	3,153	3,519	3,884	4,249
Years left	0.63	1.64	2.64	3.64	4.64	5.64	6.64	7.64	8.64	9.64	10.64	11.64
Discount factor at WACC	0.93	0.82	0.73	0.65	0.58	0.51	0.46	0.41	0.36	0.32	0.29	0.25

Source: Kotak Institutional Equities estimates

Petronet LNG: Profit model, balance sheet, cash model March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	55,090	65,553	84,287	106,491	122,381	154,171	189,218	228,570
EBITDA	6,481	8,661	9,013	8,465	10,634	12,858	15,415	19,198
Other income	366	536	765	978	532	511	481	463
Interest	(1,070)	(1,024)	(1,012)	(1,839)	(2,011)	(2,541)	(3,754)	(4,525)
Depreciation	(1,020)	(1,022)	(1,025)	(1,609)	(1,855)	(1,933)	(2,510)	(4,575)
Extraordinary items	—	—	—	—	—	—	—	—
Pretax profits	4,756	7,152	7,740	5,995	7,301	8,895	9,633	10,561
Tax	(6)	(2,185)	(2,526)	(1,410)	(1,455)	(2,227)	(1,920)	(2,105)
Deferred taxation	(1,617)	(220)	(30)	(540)	(970)	(728)	(1,280)	(1,403)
Net profits	3,133	4,747	5,184	4,045	4,876	5,940	6,433	7,053
Earnings per share (Rs)	4.2	6.3	6.9	5.4	6.5	7.9	8.6	9.4
Balance sheet (Rs mn)								
Total equity	12,755	16,185	19,834	22,349	25,476	29,011	32,820	37,250
Deferred taxation liability	2,472	2,692	2,722	3,262	4,232	4,960	6,240	7,643
Total borrowings	13,832	15,776	22,817	24,998	31,998	37,498	48,498	41,998
Current liabilities	5,877	8,588	8,922	9,006	9,607	11,381	13,318	15,447
Total liabilities and equity	34,936	43,242	54,295	59,614	71,312	82,850	100,876	102,337
Cash	3,405	3,586	6,578	3,405	3,228	2,808	2,376	2,294
Current assets	7,478	7,890	11,519	8,811	12,076	15,033	18,639	23,757
Total fixed assets	21,273	26,293	33,156	42,012	50,622	59,623	74,475	70,900
Investments	2,780	5,473	3,043	5,386	5,386	5,386	5,386	5,386
Total assets	34,936	43,242	54,295	59,614	71,312	82,850	100,876	102,337
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	4,927	6,982	5,378	5,513	6,704	7,156	9,195	12,568
Working capital	(710)	1,589	(3,384)	3,026	(2,664)	(1,182)	(1,669)	(2,989)
Capital expenditure	(36)	(263)	(27)	(15,757)	(10,000)	(10,000)	(16,816)	(1,000)
Investments	(1,211)	(2,780)	2,462	(2,339)	—	—	—	—
Free cash flow	2,970	5,528	4,429	(9,556)	(5,960)	(4,026)	(9,290)	8,579
Other income	326	(414)	695	452	532	511	481	463
Ratios (%)								
Debt/equity	91	84	101	98	108	110	124	94
Net debt/equity	68	65	72	84	97	102	118	88
RoAE	23.6	27.8	25.0	16.8	17.6	18.7	17.6	16.8
RoACE	14.5	17.0	14.7	11.0	11.1	11.5	11.2	11.6
Adjusted CROCI	29.6	33.2	28.7	19.2	22.0	23.4	13.4	16.3
Key assumptions								
Contract LNG volume (mn tons)	5.1	4.8	4.8	7.1	7.5	7.5	8.0	10.5
LNG purchase price (FOB) (US\$/mn BTU)	3.3	3.7	4.2	4.7	4.9	5.5	5.9	5.7
Base re-gasification charges (US\$/mn BTU)	0.58	0.69	0.64	0.65	0.70	0.73	0.77	0.77
Sales price (US\$/mn BTU)	4.4	4.9	5.4	5.9	6.3	6.9	7.4	7.3
Rupee/US dollar exchange rate	45.3	40.1	45.8	47.4	46.0	46.0	46.0	46.0

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 15, 2010
UPDATE

Coverage view: **Cautious**

Price (Rs): **109**

Target price (Rs): **83**

BSE-30: **19,347**

Cut positions before tariffs are cut. A simple IRR model (please see attached worksheet) of GSPL reveals an implied pre-tax project IRR of 40% assuming 1QFY11 transmission tariffs in perpetuity. We find this extremely optimistic in light of the 18% pre-tax project IRR prescribed by the regulator. We compute that GSPL's tariffs will drop to ₹0.44/cu m to generate the regulated IRR. We see significant downside risk to the stock from current levels as the stock seems to be discounting 1QFY11 transmission tariffs in perpetuity. We retain our SELL rating on the stock with a 12-month DCF-based target price of ₹83.

Company data and valuation summary

GSPL				Forecasts/Valuations		
Stock data		1M	3M	2010	2011E	2012E
52-week range (Rs) (high,low)		124-75		EPS (Rs)	7.3	8.0
Market Cap. (Rs bn)		61.1		EPS growth (%)	232.7	12.6
Shareholding pattern (%)						
Promoters		37.7		P/E (X)	14.8	13.6
FIs		12.5		Sales (Rs bn)	9.9	12.2
MFs		10.1		Net profits (Rs bn)	4.1	4.5
Price performance (%)						
Absolute		(2.0)	13.9	EBITDA (Rs bn)	9.5	11.4
Rel. to BSE-30		(8.0)	2.1	EV/EBITDA (X)	7.5	6.2
				ROE (%)	27.1	20.6
				Div. Yield (%)	0.9	2.9

No cut in tariffs implies 40% pre-tax IRR for GSPL

Our computation of GSPL's implied returns assuming no potential cut in tariffs results in pre-tax IRR of 40% (see Exhibit 1). We find this IRR extremely high in light of the regulated return of 18%. Our exercise assumes (1) ₹45.7 bn of capex as the opening capital employed, (2) ₹0.77/cu m tariff in perpetuity, (3) volumes assumptions based on our earnings model and (4) operating costs as reported by the company. We compute GSPL's tariff at ₹0.44/cu m for a pre-tax IRR of 18%.

Low recovery in initial years a myth; company has consistently earned high returns

A section of the Street has argued that GSPL has earned low returns in the initial years due to (1) low capacity utilization and (2) higher depreciation charge and hence it should be allowed 'higher-than-regulated' tariff as compensation in the future. We do not find the argument tenable as GSPL has earned an average CROCI of 17.1% in FY2003-10 with a minimum of 13.5% in FY2007 and maximum of 23.2% in FY2010. High depreciation due to an aggressive depreciation policy resulted in low ROE but that's irrelevant, in our view. Exhibit 2 shows the sensitivity of CROCI and ROCE at various levels of tariffs assuming computation from FY2002.

Valuation is expensive; stock could decline 40% from current levels in a realistic scenario

We maintain our SELL rating on the stock with a 12-month target price of ₹83 given (1) potential 24% downside to our 12-month target price and (2) significant downside risk to GSPL's transportation tariffs and fair valuation. We estimate GSPL's current fair valuation at ₹110 if we assume GSPL's current tariffs remain in perpetuity. We do not ascribe any value to the proposed cross-country pipelines as we have serious concerns about the viability of the pipelines; see our September 9, 2010 reported titled *Pipelines to Nowhere*.

Fine-tuned earnings for FY2010 annual report

We have updated our earnings model for the FY2010 annual report and fine-tuned FY2011E, FY2012E and FY2013E EPS to ₹7.1, ₹8 and ₹8.9 from ₹7.2, ₹8 and ₹9, respectively.

QUICK NUMBERS

- Fair value of ₹48 assuming regulated returns over FY2002-21E
- Fair value of ₹61 assuming regulated returns over FY2011-21E
- Current stock price factoring in a high CROCI of 21.4% in FY2011-21E

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Tariff calculation for GSPL, March fiscal year-ends (₹ mn)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Capex	(45,693)									(5,000)					
Volumes (mcm/d)	39	47	54	58	60	63	63	63	63	63	63	63	63	63	63
Revenues	10,905	13,223	15,050	16,174	16,737	17,580	17,580	17,580	17,580	17,580	17,580	17,580	17,580	17,580	17,580
Opex	(789)	(1,000)	(1,189)	(1,335)	(1,444)	(1,585)	(1,656)	(1,731)	(1,809)	(1,890)	(1,975)	(2,064)	(2,157)	(2,254)	(2,356)
EBITDA	10,116	12,224	13,861	14,839	15,292	15,995	15,923	15,849	15,771	15,689	15,604	15,516	15,423	15,326	15,224
FCF	(35,577)	12,224	13,861	14,839	15,292	15,995	15,923	15,849	15,771	10,689	15,604	15,516	15,423	15,326	15,224
DCF	(30,158)	8,783	8,443	7,662	6,693	5,934	5,008	4,225	3,564	2,048	2,534	2,136	1,800	1,516	1,277
NPV	36,837														
Inflation (%)	4.5														
Target pre-tax IRR (%)	17.97														
Current tariff (Rs/cu m)	0.77	INPUT													
Pre-tax project IRR	39.60	OUTPUT													

Note:

(a) Exhibit truncated due to space constraints; please refer to the attached excel file.

Source: Kotak Institutional Equities estimates

Stable transmission tariff implies extremely high IRR

Our calculations result in pre-tax IRR of 40% based on very generous assumptions. We assume (1) capital employed as gross block, C-WIP and net working capital as on March 31, 2010 and FY2011E capex, (2) transmission tariff of ₹0.77/cu m, same as 1QFY11 levels and (3) operating costs as reported by the company in FY2010 and increased later for inflation and higher volumes; the latter assumption may be generous since operating costs are largely fixed. We have attached our plug-and-play model for computation of GSPL's implied IRR for the benefit of investors.

Investors can appreciate the high tariffs by simply comparing GSPL's likely annual tariffs from the pipeline of ₹17 bn (computed as 62 mcm/d X 365 days X ₹0.75/cu m tariff) with the applicable capex of ₹45.7 bn. Typically, a pipeline has very little opex (GSPL operates at around 90% EBITDA margin). This would suggest that the payback period is about three years for GSPL's pipeline.

Another way to look at the issue is to compute 18% pre-tax return on capital employed and compare that with the company's reported FY2010 EBITDA or Street estimates for FY2011E or FY2012E. Assuming FY2011E gross block and net working capital as a proxy for capital employed, we compute an EBITDA (pre-tax return on capital employed or EBIT plus depreciation) of Rs8.2 bn based on 18% pre-tax return on gross block plus net working capital (Rs46 bn). This compares with a reported EBITDA of Rs9.3 bn in FY2010 and our estimated Rs11.2 bn in FY2012E.

Risks to valuation increase if we compute returns from FY2002

DCF valuation, CROCI and ROCE at various levels of average tariff, 2002-21E

Average tariff (Rs/cu m)	Valuation (Rs/share)	CROCI (%)	ROCE (%)	Comments
0.77	123	18.9	29.4	1QFY11 tariffs in perpetuity
0.70	107	17.8	26.3	
0.61	83	16.4	21.3	Base case
0.50	60	14.8	17.2	
0.45	48	14.0	14.9	Likely regulated CROCI

Note:

(a) CROCI and ROCE are average for 2002-21E.

Source: Company, Kotak Institutional Equities estimates

GSPL's valuation is highly sensitive to tariff assumptions
DCF valuation, CROCI and ROCE at various levels of average tariff, 2011-21E

Average tariff (Rs/cu m)	Valuation (Rs/share)	CROCI (%)	ROCE (%)	Comments
0.77	123	21.4	46.3	1QFY11 tariffs in perpetuity
0.70	107	19.5	40.7	
0.61	83	16.8	31.6	Base case
0.55	72	15.4	28.5	
0.50	61	14.0	24.4	Likely regulated CROCI

Note:

(a) CROCI and ROCE are average for 2011-21E.

Source: Kotak Institutional Equities estimates

DCF valuation of GSPL, March fiscal year-ends, 2011-23E (₹ mn)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
EBITDA	9,780	11,173	11,560	11,455	11,289	11,866	11,836	11,804	11,771	11,735	11,697	11,697	11,697
Adjusted tax expense	(1,600)	(2,641)	(2,955)	(3,054)	(3,113)	(3,430)	(3,551)	(3,657)	(3,751)	(3,833)	(4,444)		
Change in working capital	(5,785)	(1,843)	(42)	4	11	(57)	—	—	—	—	—	—	—
Operating cash flow	2,395	6,688	8,563	8,405	8,187	8,379	8,285	8,147	8,020	7,901	7,253		
Capital expenditure	(3,652)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(1,746)		
Free cash flow	(1,257)	6,438	8,313	8,155	7,937	8,129	8,035	7,897	7,770	7,651	5,506	5,506	5,506
Discounted cash flow	(1,182)	5,406	6,232	5,459	4,744	4,336	3,827	3,358	2,950	2,593	1,666		
Discounted cash flow-1 year forward		6,056	6,980	6,114	5,313	4,858	4,286	3,761	3,304	2,905	1,866	1,666	
Discounted cash flow-2 year forward			7,820	6,847	5,950	5,441	4,802	4,212	3,701	3,254	2,091	1,866	1,666
	Now	+ 1-year	+ 2-years										
Discount rate (%)	12.0	12.0											
Total PV of free cash flow	39,388		47,109		47,650								
Terminal value assumption													
Growth to perpetuity (%)	—	—	—	—	—	—	—	—	—	—	—	—	—
FCF in 2021E	5,506		5,506		5,506								
Exit FCF multiple (X)	8.3		8.3		8.3								
Exit EV/EBITDA multiple (X)	3.9		3.9		3.9								
Terminal value	45,886		45,886		45,886								
PV of terminal value	13,884		13,884		13,884								
Total company value	53,272		60,994		61,534								
Net debt	10,854		14,041		10,266								
Equity value	42,419		46,953		51,268								
Shares outstanding (mn)	562		562		562								
Estimated share price using DCF	75		83		91								
Fiscal Year end (March 31, XXXX)	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20	March-21	March-22	March-23
Today	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10
Days left	197	563	928	1,293	1,658	2,024	2,389	2,754	3,119	3,485	3,850	4,215	4,580
Years left	0.54	1.54	2.54	3.54	4.54	5.55	6.55	7.55	8.55	9.55	10.55	11.55	12.55
Discount factor at WACC	0.94	0.84	0.75	0.67	0.60	0.53	0.48	0.43	0.38	0.34	0.30	0.27	0.24

Source: Kotak Institutional Equities estimates

GSPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2007-14E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	3,176	4,179	4,875	9,920	10,666	12,155	12,623	12,578
EBITDA	2,677	3,645	4,249	9,297	9,780	11,173	11,560	11,455
Other income	175	294	243	247	283	270	275	270
Interest	(457)	(815)	(870)	(938)	(1,173)	(1,265)	(852)	(387)
Depreciation	(1,026)	(1,632)	(1,705)	(2,365)	(2,938)	(3,477)	(3,469)	(3,465)
Pretax profits	1,369	1,491	1,918	6,242	5,952	6,701	7,514	7,873
Contribution towards GSEDS	—	—	—	—	—	—	—	—
Tax	(70)	(389)	(536)	(1,878)	(1,337)	(2,222)	(2,654)	(2,911)
Deferred taxation	(409)	(82)	(145)	(261)	(640)	(4)	158	296
Net profits	894	999	1,234	4,138	3,975	4,475	5,018	5,258
Earnings per share (Rs)	1.6	1.8	2.2	7.3	7.1	8.0	8.9	9.3
Balance sheet (Rs mn)								
Total equity	9,659	11,410	12,152	15,638	18,451	20,838	22,931	24,510
Deferred tax liability	917	999	1,144	1,405	2,046	2,050	1,891	1,596
Total borrowings	8,638	9,660	11,509	12,595	15,065	11,565	6,365	1,765
Current liabilities	1,845	5,106	5,331	8,334	2,755	1,045	1,045	1,045
Total liabilities and equity	21,059	27,175	30,137	37,973	38,317	35,498	32,233	28,916
Cash	1,811	2,569	975	1,742	1,024	1,299	1,211	1,113
Current assets	2,126	2,928	4,641	5,808	6,013	6,146	6,188	6,184
Total fixed assets	17,029	21,259	24,132	29,755	30,610	27,384	24,165	20,950
Investments	—	356	356	666	666	666	666	666
Deferred expenditure	93	63	33	3	3	3	3	3
Total assets	21,059	27,175	30,137	37,973	38,317	35,498	32,233	28,916
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	2,212	2,743	2,918	6,367	7,129	7,686	8,054	8,157
Working capital changes	(1,058)	2,460	(1,752)	1,420	(5,785)	(1,843)	(42)	4
Capital expenditure	(4,404)	(5,863)	(4,579)	(7,777)	(3,652)	(250)	(250)	(250)
Investments	—	(356)	—	0	—	—	—	—
Other income	146	—	297	157	283	270	275	270
Free cash flow	(3,103)	(659)	(3,116)	167	(2,025)	5,862	8,037	8,181
Ratios (%)								
Debt/equity	81.7	77.9	86.6	73.9	73.5	50.5	25.6	6.8
Net debt/equity	45.0	43.8	46.4	42.5	42.4	33.6	20.4	6.3
RoAE	8.8	8.8	9.6	27.1	21.2	20.6	21.0	20.6
RoACE	10.0	8.2	8.6	18.5	16.9	15.2	16.5	17.6
CROCI	13.5	16.9	14.8	23.2	17.9	17.9	17.9	17.4
Key assumptions								
Volumes-old pipelines (mcm/d)	12.6	12.7	11.1	13.8	14.0	15.0	17.0	20.0
Volumes-new pipelines (mcm/d)	1.7	4.1	3.8	18.2	24.8	32.1	36.6	37.6
Volumes (mcm/d)	14.3	16.8	14.9	32.0	38.8	47.1	53.6	57.6
Average tariff (Rs/cu m)	0.61	0.67	0.83	0.86	0.75	0.71	0.65	0.60

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	14-Sep-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)
Automobiles																														
Ashok Leyland	77	ADD	102,765	2,212	1,330	2.8	4.3	5.9	84.5	52.3	37.5	27.4	18.0	13.1	15.6	11.7	9.2	2.5	2.3	2.0	1.9	1.3	1.3	10.9	13.5	16.7	78	1.0	7.4	
Bajaj Auto	1,472	ADD	426,050	9,172	289	117.7	84.5	94.8	160.2	(28.2)	12.2	12.5	17.4	15.5	16.1	12.3	10.8	14.5	9.1	6.3	0.7	1.4	1.4	70.9	64.1	47.9	1,325	(10.0)	18.8	
Bharat Forge	371	ADD	88,691	1,909	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	539.6	29.9	18.8	27.3	12.8	9.0	2.3	2.3	2.0	—	—	—	0.9	0.4	0.1	360	(3.0)	5.2	
Hero Honda	1,722	SELL	343,823	7,402	200	111.8	115.3	130.1	74.1	3.1	12.8	15.4	14.9	13.2	9.8	9.7	8.2	9.5	6.6	4.9	1.7	1.8	2.0	59.1	52.5	42.8	1,800	4.5	20.8	
Mahindra & Mahindra	671	BUY	399,531	8,601	595	33.9	44.1	51.7	125.8	30.1	17.3	19.8	15.2	13.0	13.0	10.9	9.2	5.0	4.0	3.2	1.4	1.4	1.4	30.0	29.0	27.3	760	13.3	24.1	
Maruti Suzuki	1,341	REDUCE	389,139	8,377	289	86.4	77.6	88.3	104.9	(10.2)	13.9	15.6	17.4	15.2	8.4	8.8	7.6	3.3	2.8	2.4	0.4	0.4	0.5	23.3	17.3	16.7	1,200	(10.9)	20.7	
Tata Motors	1,055	ADD	660,777	14,225	626	27.4	94.8	109.2	(182.5)	246.1	15.2	38.5	11.1	9.7	13.5	7.1	6.1	4.3	3.0	2.3	1.3	0.5	0.5	8.7	11.9	11.1	1,150	9.0	86.9	
Automobiles																														
Cautious																														
2,410,776																														
51,898																														
276.0																														
57.2																														
16.1																														
23.1																														
14.7																														
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20.9																														
25.5																														
23.5																														
Banks/Financial Institutions																														
Andhra Bank	162	BUY	78,691	1,694	485	21.6	22.9	26.7	60.1	6.4	16.4	7.5	7.1	6.1	—	—	—	1.8	1.5	1.3	3.1	3.3	3.8	26.0	23.1	22.7	180	10.9	5.4	
Axis Bank	1,426	ADD	577,900	12,441	405	62.1	78.1	98.3	22.7	25.9	25.9	23.0	18.3	14.5	—	—	—	3.6	3.1	2.7	0.8	1.1	1.3	19.2	18.3	19.9	1,500	5.2	38.5	
Bank of Baroda	871	BUY	318,411	6,855	366	83.7	95.1	115.7	37.3	13.7	21.7	10.4	9.2	7.5	—	—	—	2.3	1.9	1.6	1.7	2.0	2.4	24.4	23.0	23.3	950	9.1	8.1	
Bank of India	497	REDUCE	261,195	5,623	526	33.1	49.9	58.1	(42.1)	50.9	16.4	15.0	9.9	8.5	—	—	—	2.0	1.8	1.5	1.4	2.1	2.5	14.2	19.0	19.2	460	(7.4)	10.2	
Canara Bank	583	ADD	239,051	5,146	410	73.7	82.2	98.3	45.8	11.6	19.5	7.9	7.1	5.9	—	—	—	1.9	1.5	1.3	1.4	1.7	2.1	22.4	20.8	20.8	580	(0.5)	7.5	
Corporation Bank	653	BUY	93,600	2,015	143	82.0	88.0	102.6	31.8	7.3	16.6	8.0	7.4	6.4	—	—	—	1.6	1.4	1.2	2.5	2.7	3.2	22.0	20.2	20.2	700	7.3	1.5	
Federal Bank	370	ADD	63,308	1,363	171	27.2	36.4	49.0	(7.2)	34.1	34.4	13.6	10.2	7.6	—	—	—	1.4	1.2	1.1	1.4	1.8	2.4	10.3	12.6	15.2	360	(2.7)	5.6	
HDFC	673	ADD	965,407	20,783	1,436	19.7	23.2	27.8	22.7	17.9	19.6	34.2	29.0	24.2	19.7	—	—	—	6.4	5.6	4.9	1.1	1.2	1.4	20.0	20.6	21.7	690	2.6	40.6
HDFC Bank	2,334	BUY	1,068,464	23,001	458	64.4	84.9	111.1	22.1	31.7	30.9	36.2	27.5	21.0	—	—	—	5.0	4.4	3.7	0.5	0.7	0.9	16.1	16.9	19.2	2,400	2.8	33.6	
ICICI Bank	1,100	REDUCE	1,226,545	26,404	1,115	36.1	45.2	57.3	6.9	25.3	26.6	30.5	24.3	19.2	—	—	—	2.4	2.2	2.1	1.1	1.4	1.7	8.0	9.5	11.3	1,000	(9.1)	81.2	
IDFC	192	ADD	279,566	6,018	1,458	8.4	9.4	11.2	44.9	12.4	18.7	22.9	20.3	17.1	—	—	—	4.0	2.6	2.2	0.7	0.9	1.2	16.6	15.5	14.3	205	6.9	24.3	
India Infoline	99	BUY	30,899	665	312	8.1	7.2	8.7	59.2	(11.9)	21.6	12.2	13.8	11.4	—	—	—	1.9	1.6	1.4	3.2	1.5	2.1	16.4	12.9	14.4	130	31.2	4.8	
Indian Bank	262	ADD	112,406	2,420	430	35.1	32.4	44.1	25.5	(7.7)	36.2	7.5	8.1	5.9	—	—	—	1.7	1.5	1.2	2.5	2.2	3.0	24.1	18.8	21.7	280	7.1	4.6	
Indian Overseas Bank	140	BUY	76,190	1,640	545	13.0	16.7	24.8	(46.7)	29.0	48.4	10.8	8.4	5.6	—	—	—	1.2	1.1	0.9	2.5	2.8	3.0	9.6	11.6	15.4	160	14.4	5.0	
J&K Bank	843	ADD	40,884	880	48	105.7	119.3	139.6	25.0	12.9	17.1	8.0	7.1	6.0	—	—	—	1.4	1.2	1.1	2.6	2.9	3.4	18.2	17.9	18.3	850	0.8	2.4	
LIC Housing Finance	1,225	REDUCE	116,396	2,506	95	69.7	100.7	109.9	11.5	44.5	9.1	17.6	12.2	11.2	—	—	—	3.6	3.0	2.5	1.2	1.8	1.9	23.6	25.5	23.2	1,250	2.0	24.3	
Mahindra & Mahindra Financial	658	REDUCE	63,202	1,361	96	35.9	46.4	56.2	60.0	29.4	21.2	18.4	14.2	11.7	—	—	—	3.7	3.1	2.6	1.2	1.5	1.8	21.5	23.5	23.8	635	(3.5)	2.4	
Oriental Bank of Commerce	463	ADD	116,088	2,499	251	45.3	57.8	66.8	25.3	27.6	15.5	10.2	8.0	6.9	—	—	—	1.6	1.4	1.2	2.0	2.5	2.9	14.5	16.5	16.9	430	(7.2)	7.0	
PFC	357	SELL	410,213	8,831	1,148	20.5	22.9	27.6	53.5	11.9	20.3	17.5	15.6	13.0	—	—	—	3.2	2.8	2.4	1.4	1.6	1.9	18.8	18.3	19.2	275	(23.1)	4.3	
Punjab National Bank	1,258	BUY	396,714	8,540	315	123.9	133.4	163.3	26.4	7.7	22.4	10.2	9.4	7.7	—	—	—	2.4	2.0	1.7	1.7	2.2	2.6	26.2	23.2	23.7	1,300	3.3	8.9	
Reliance Capital	802	NR	197,359	4,249	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	62.4	58.6	82.0	—	—	—	2.9	2.8	2.8	0.8	0.7	0.5	4.7	4.8	3.4	—	—	39.7	
Rural Electrification Corp.	353	ADD	348,944	7,512	987	20.3	25.3	31.2	23.2	24.5	23.4	17.4	14.0	11.3	—	—	—	3.2	2.7	2.4	1.8	2.1	2.6	22.0	21.0	22.5	325	(8.0)	9.0	
Shriram Transport	790	ADD	176,236	3,794	223	39.2	53.4	64.8	30.1	36.4	21.3	20.2	14.8	12.2	—	—	—	4.8	4.0	3.3	1.5	2.0	2.5	28.4	28.2	28.4	700	(11.4)	6.6	
SREI	99	NR	11,478	247	116	8.3	7.9	9.9	17.8	(4.8)	25.8	11.9	12.5	9.9	—	—	—	1.0	0.9	0.8	1.2	1.2	1.2	11.1	10.5	12.3	—	—	4.8	
State Bank of India	3,110	BUY	1,974,199	42,499	635	144.4	177.7	211.2	0.5	23.1	18.8	21.5	17.5	14.7	—	—	—	3.0	2.6	2.3	1.0	1.0	1.1	14.8	16.0	16.7	3,100	(0.3)	107.0	
Union Bank	371	BUY	187,475	4,036	505	41.1	45.7	56.9	20.2	11.3	24.5	9.0	8.1	6.5	—	—	—	2.1	1.7	1.4	1.5	1.6	2.1	26.2	23.7	24.1	400	7.8	5.0	
Yes Bank	329	BUY	111,649	2,404	340	15.0	17.7	22.5	46.7	18.2	26.6	21.9	18.5	14.6	—	—	—	3.6	3.1	2.6	0.4	0.5	0.7	20.3	18.0	19.3	350	6.5	19.1	
Banks/Financial Institutions																														
Attractive																														
9,542,470																														
205,424																														
14.8																														
20.1																														
22.2																														
19.0																														
15.8																														
12.9																														
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20.6																														
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16.1																														
Cement																														
ACC	970	REDUCE	182,253	3,923	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	8.8	
Ambuja Cements	137	SELL	208,109	4,480	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)	5.6	
Grasim Industries	2,201	ADD	201,787	4,344	92	301.0	242.3	292.5	26.1	(19.5)	20.7	7.3	9.1	7.5	4.4	4.7	3.5													

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	14-Sep-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)
Consumer products																													
Asian Paints	2,861	ADD	274,383	5,907	96	71.5	89.0	107.1	85.3	24.4	20.4	40.0	32.2	26.7	24.7	20.1	16.5	17.1	13.3	10.6	0.9	1.3	1.6	51.8	47.9	45.4	3,000	4.9	7.7
Colgate-Palmolive (India)	818	REDUCE	111,276	2,395	136	31.1	34.5	39.6	44.2	10.9	14.6	26.3	23.7	20.7	21.5	17.5	15.0	34.1	29.1	24.9	2.4	3.2	3.6	156.1	132.3	129.4	830	1.4	2.1
Dabur India	109	REDUCE	187,922	4,045	1,731	2.9	3.4	4.1	28.2	17.7	20.8	37.4	31.8	26.3	27.8	22.2	18.4	17.8	13.7	11.4	1.4	1.6	2.0	54.3	49.3	47.8	105	(3.3)	5.2
GlaxoSmithkline Consumer (a)	1,812	ADD	76,188	1,640	42	55.4	68.6	81.3	23.6	23.9	18.6	32.7	26.4	22.3	18.1	15.7	12.8	8.5	7.1	5.9	1.0	1.2	1.5	27.9	29.0	28.7	2,000	10.4	0.5
Godrej Consumer Products	398	ADD	128,805	2,773	324	11.3	13.5	18.0	69.5	18.9	33.4	35.1	29.5	22.1	27.9	21.0	15.8	13.4	7.2	6.5	1.0	0.8	0.8	44.6	31.9	31.1	420	5.5	1.5
Hindustan Unilever	278	REDUCE	606,836	13,064	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	29.5	27.2	23.2	20.2	19.4	15.9	23.5	20.3	17.5	2.7	3.0	3.5	71.1	80.2	81.3	250	(10.1)	11.2
ITC	165	BUY	1,263,870	27,208	7,651	5.3	6.3	7.3	22.6	18.2	15.8	31.1	26.3	22.7	18.9	16.6	14.0	8.5	7.2	6.2	3.0	1.7	1.8	29.2	31.1	30.5	165	(0.1)	22.2
Jubilant Foodworks	531	REDUCE	33,930	730	64	5.5	9.7	12.1	340.6	75.7	24.6	95.9	54.6	43.8	51.0	31.0	21.7	28.9	18.9	13.2	—	—	—	46.6	41.8	35.4	370	(30.4)	15.8
Jyothy Laboratories	299	NR	21,716	467	73	11.0	12.9	15.3	99.6	17.0	18.3	27.1	23.2	19.6	21.1	16.0	13.2	5.3	4.5	3.9	1.6	1.2	1.6	18.6	20.2	20.5	—	—	1.0
Marico	125	ADD	76,095	1,638	609	4.5	5.4	6.4	33.8	19.6	20.4	27.9	23.3	19.4	18.3	15.5	12.8	12.3	8.8	6.6	0.8	0.9	1.1	50.8	43.9	38.8	140	12.0	2.0
Nestle India (a)	3,204	REDUCE	308,906	6,650	96	74.4	86.6	104.8	27.0	16.4	20.9	43.1	37.0	30.6	28.5	24.7	21.0	53.1	42.4	33.8	1.5	1.9	2.3	136.0	127.5	122.9	3,000	(6.4)	3.0
Tata Global Beverages	124	ADD	76,620	1,649	618	6.6	7.4	8.4	23.4	11.1	13.8	18.7	16.8	14.8	11.9	9.7	8.7	1.5	1.4	1.3	1.7	1.9	2.2	10.9	11.4	12.0	125	0.9	4.3
Consumer products																													
Attractive																													
			3,166,547	68,167					24.2	16.6	17.9	32.3	27.7	23.5	20.8	18.1	15.1	10.9	9.1	7.8	2.3	1.9	2.2	33.9	32.9	33.4			
Constructions																													
IVRCL	160	BUY	42,695	919	267	7.9	9.1	11.6	(6.7)	15.0	27.9	20.2	17.6	13.8	10.3	9.8	7.7	2.1	1.9	1.7	0.3	0.3	0.3	11.0	11.3	12.9	205	28.2	6.6
Nagarjuna Construction Co.	160	BUY	41,092	885	257	7.1	9.2	11.8	6.1	29.6	27.8	22.4	17.3	13.6	11.3	9.7	8.1	1.8	1.7	1.5	0.8	1.2	1.2	9.3	10.2	11.9	210	31.1	3.4
Punj Lloyd	114	REDUCE	38,480	828	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(8.8)	11.6	9.5	33.9	6.6	6.1	1.3	1.1	1.0	(0.1)	0.4	0.9	(15.8)	10.3	11.4	140	23.3	10.3
Sadbhav Engineering	1,525	BUY	22,874	492	15	42.8	61.8	87.2	(16.3)	44.3	41.0	35.6	24.7	17.5	19.5	13.0	10.0	5.6	3.7	3.1	0.2	0.4	0.4	15.8	15.1	17.8	1,750	14.8	0.4
Construction																													
Attractive																													
			145,140	3,124					(91.1)	4,528	27.2	743.7	16.1	12.6	15.3	8.7	7.4	1.9	1.7	1.5	0.3	0.6	0.7	0.3	10.4	11.9			
Energy																													
Aban Offshore	826	ADD	35,946	774	43	94.5	154.1	139.3	(2.5)	63.0	(9.6)	8.7	5.4	5.9	8.3	6.7	6.5	1.6	1.5	1.3	0.4	0.4	0.5	21.7	33.1	22.9	935	13.1	43.8
Bharat Petroleum	770	ADD	278,404	5,993	362	58.6	57.0	65.4	230	(3)	14.8	13	14	11.8	7.2	6.9	6.4	2.0	1.8	1.6	1.8	2.4	2.8	14.9	13.3	13.8	855	11.0	36.8
Cairn India	327	RS	619,647	13,339	1,897	5.5	20.5	36.6	29.0	270.1	78.3	59.0	15.9	8.9	46.4	9.6	5.8	1.8	1.6	1.5	—	—	4.6	3.1	10.7	17.2	—	—	28.0
Castrol India (a)	525	REDUCE	129,723	2,793	247	15.4	20.7	21.2	45	34	2.4	34	25	24.8	20.4	15.8	15.2	28.2	26.4	25.1	2.4	3.1	3.2	83.8	107.4	103.7	380	(27.6)	1.9
GAIL (India)	465	BUY	589,716	12,695	1,268	24.8	27.2	40.2	11.7	10.1	47.4	18.8	17.1	11.6	10.5	10.6	8.5	3.2	2.9	2.4	1.6	1.8	2.7	17.4	17.0	21.6	550	18.3	16.0
GSPL	109	SELL	61,054	1,314	562	7.3	7.1	8.0	233	(3)	12.6	15	15	13.6	7.5	7.5	6.2	3.6	3.0	2.7	0.9	1.6	2.9	27.1	21.2	20.6	83	(23.5)	5.0
Hindustan Petroleum	546	BUY	185,066	3,984	339	51.6	52.1	58.5	204.2	1.0	12.4	10.6	10.5	9.3	3.8	3.5	3.2	1.4	1.2	1.1	2.2	3.0	3.4	13.1	11.9	12.1	625	14.5	44.7
Indian Oil Corporation	438	ADD	1,064,535	22,917	2,428	49.1	37.9	41.9	399	(23)	10.7	9	12	10.5	6.4	6.5	5.7	1.9	1.8	1.6	3.0	2.6	2.9	22.4	15.3	15.4	480	9.5	20.2
Oil India	1,585	BUY	381,060	8,203	240	115.1	133.6	153.4	13.8	16.1	14.8	13.8	11.9	10.3	6.2	4.8	4.0	2.6	2.3	2.0	2.1	2.8	3.2	16.7	18.1	18.3	1,550	(2.2)	7.2
Oil & Natural Gas Corporation	1,396	BUY	2,986,528	64,292	2,139	90.3	116.4	136.7	(1)	29	17.5	15	12	10.2	5.4	4.8	4.1	2.3	2.0	1.8	2.4	3.0	3.4	14.4	16.8	17.7	1,500	7.4	33.9
Petronet LNG	110	SELL	82,238	1,770	750	5.4	6.5	7.9	(22.0)	20.5	21.8	20.3	16.9	13.8	11.6	9.9	8.7	3.2	2.8	2.4	1.6	1.8	2.5	15.9	16.7	17.6	88	(19.7)	7.9
Reliance Industries	988	REDUCE	2,940,734	63,306	2,976	49.6	57.7	74.4	(2)	16	28.9	20	17	13.3	10.1	8.0	6.6	2.0	1.8	1.6	0.7	0.8	1.0	11.4	12.1	13.9	1,015	2.7	111.7
Energy																													
Cautious																													
			9,354,650	201,381					36.6	16.1	23.9	15.6	13.5	10.9	7.6	6.5	5.4	2.1	1.9	1.7	1.7	1.9	2.6	13.7	14.3	15.8			
Industrials																													
ABB	790	REDUCE	167,408	3,604	212	16.7	18.3	33.1	(35.2)	9.3	80.7	47.2	43.2	23.9	27.0	24.7	13.8	6.9	6.1	5.0	0.3	0.4	0.4	15.6	15.0	23.0	725	(8.2)	4.7
BGR Energy Systems	832	BUY	59,868	1,289	72	16.0	28.0	39.7	32.2	74.6	41.9	51.9	29.7	20.9	29.1	16.9	12.2	10.6	8.5	6.5	0.4	0.8	1.0	22.3	31.8	35.1	950	14.3	4.4
Bharat Electronics	1,778	REDUCE	142,200	3,061	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	2.4
Bharat Heavy Electricals	2,502	REDUCE	1,224,999	26,371	490	87.9	114.3	135.5	37.7	30.0	18.5	28.5	21.9	18.5	15.9	12.3	10.3	7.7	6.1	4.9	0.8	1.0	1.2	29.8	31.1	29.3	2,600	3.9	23.9
Crompton Greaves	307	BUY	197,197	4,245	642	12.8	14.0	16.3	46.5	9.0	16.6	23.9	22.0	18.8	13.9	12.3	10.4	7.9	6.0	4.7	0.4	0.6	0.7	37.9	31.1	28.2	320	4.1	7.8
Larsen & Toubro	1,920	ADD	1,156,344	24,893	602	57.9	71.7	89.0	15.6	23.8	24.1	33.1	26.8	21.6	18.4	14.5	12.2	5.2	4.3	3.7	0.7	0.6	0.7	18.6	17.7	18.5	2,075	8.1	49.2
Maharashtra Seamless	382	BUY	26,967	581	71	40.2	43.6	49.8	12.1	8.5	14.2	9.5	8.8	7.7	5.0	4.4	3.4	1.7	1.5	1.3	1.6	2.1	2.6	19.3	17.9	17.7	450	17.7	0.4
Siemens	731	REDUCE	246,329	5,303	337	25.2	27.0	31.9	56.4	7.3	18.0	29.0	27.1	22.9	17.7	16.0	13.3	7.2	6.0	5.0</									

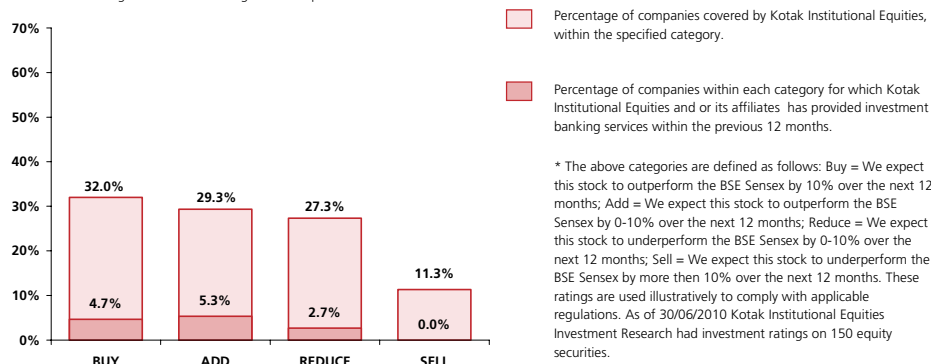
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	14-Sep-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Infrastructure																													
Container Corporation	1,302	REDUCE	169,286	3,644	130	61.1	74.3	85.9	0.3	21.7	15.6	21.3	17.5	15.2	15.0	12.2	10.2	3.9	3.4	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(4.0)	1.8
GMR Infrastructure	59	ADD	214,520	4,618	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	135.7	265.7	442.5	23.8	15.3	14.4	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	11.1	6.7
GVK Power & Infrastructure	49	BUY	77,302	1,664	1,579	0.8	1.1	1.4	6.7	33.5	32.4	60.2	45.1	34.0	19.8	18.0	18.4	2.4	2.3	2.2	—	0.6	0.6	4.7	5.3	6.7	54	10.3	6.4
IRB Infrastructure	283	RS	94,209	2,028	332	9.7	12.6	12.1	83.8	29.2	(3.7)	29.1	22.6	23.4	13.6	12.1	11.2	4.1	3.1	2.5	—	—	—	15.6	15.7	11.9	—	—	12.4
Mundra Port and SEZ	806	REDUCE	325,031	6,997	403	16.7	21.9	34.1	55.7	31.0	56.1	48.3	36.8	23.6	36.0	23.5	17.0	9.2	7.8	6.1	(0.5)	—	—	20.8	22.9	28.9	750	(6.9)	5.8
Infrastructure																													
Attractive																													
880,348 18,952 16.3 21.2 26.0 42.4 35.0 27.8 22.1 16.3 14.1 3.7 3.2 2.9 — — 0.3 8.7 9.1 10.3																													
Media																													
DB Corp	264	BUY	47,939	1,032	182	10.6	13.0	15.7	286.5	22.4	21.0	24.8	20.3	16.8	13.8	11.4	9.4	7.4	6.0	5.2	0.8	1.1	1.5	40.3	32.6	33.2	290	9.9	0.4
DishTV	59	ADD	62,262	1,340	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(23.5)	(32.9)	447.6	76.4	30.5	16.1	15.1	28.0	26.4	—	—	—	249.3	(59.7)	6.1	47	(19.7)	3.8
HT Media	167	NR	39,128	842	235	6.1	7.7	9.2	623.3	25.9	19.8	27.3	21.7	18.1	13.7	11.4	9.5	4.0	3.6	3.3	0.6	1.2	2.4	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	134	BUY	40,369	869	301	5.8	6.6	7.7	92.0	13.4	17.0	23.0	20.2	17.3	13.8	11.7	10.0	6.6	6.0	5.5	2.6	3.0	3.7	30.0	31.1	33.3	145	8.2	1.6
Sun TV Network	502	REDUCE	197,986	4,262	394	13.1	18.0	22.5	44.8	36.9	25.2	38.2	27.9	22.3	21.7	16.1	13.0	10.2	8.6	7.1	1.5	1.5	1.8	28.4	33.7	35.1	420	(16.4)	2.8
Zee Entertainment Enterprises	293	REDUCE	127,236	2,739	435	10.6	11.8	14.4	25.0	12.0	21.5	27.7	24.8	20.4	20.6	16.3	13.1	3.4	3.3	3.1	0.8	1.0	1.2	13.1	13.8	16.0	270	(7.8)	8.3
Media																													
Neutral																													
514,920 11,085 185.4 36.0 37.0 42.4 31.2 22.8 20.4 15.6 12.3 6.2 5.7 5.2 1.1 1.3 1.6 14.7 18.4 22.8																													
Metals																													
Hindalco Industries	186	ADD	356,855	7,682	1,914	5.7	13.6	15.5	(64.5)	139.5	14.2	32.9	13.7	12.0	8.1	8.1	8.4	1.6	1.5	1.3	0.7	0.7	0.7	10.3	11.1	11.5	200	7.3	31.9
Hindustan Zinc	1,100	BUY	464,743	10,005	423	95.6	102.5	116.0	48.2	7.2	13.1	11.5	10.7	9.5	7.4	6.0	4.2	2.5	2.0	1.7	0.5	0.5	0.5	24.1	20.8	19.4	1,240	12.7	4.0
Jindal Steel and Power	711	REDUCE	661,828	14,247	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)	22.7
JSW Steel	1,216	REDUCE	306,827	6,605	252	80.4	68.5	108.5	481.1	(14.8)	58.5	15.1	17.8	11.2	11.2	9.4	6.3	2.8	1.7	1.3	0.6	0.7	0.8	16.0	12.0	13.3	1,075	(11.6)	38.4
National Aluminium Co.	406	SELL	261,719	5,634	644	12.6	14.3	17.3	(34.9)	13.3	20.5	32.1	28.4	23.5	15.4	12.6	10.4	2.5	2.4	2.2	0.6	1.2	1.2	8.1	8.6	9.8	260	(36.0)	1.5
Sesa Goa	319	REDUCE	283,948	6,113	890	29.6	58.6	46.3	23.5	98.4	(21.0)	10.8	5.4	6.9	8.9	3.7	3.6	3.5	2.2	1.7	1.1	1.1	1.1	35.8	41.5	23.7	340	6.5	52.2
Tarlite Industries	171	ADD	575,852	12,397	3,362	12.0	14.2	19.3	2.8	18.4	35.5	14.8	35.5	14.0	9.1	8.0	5.0	1.6	1.4	1.2	0.5	0.5	0.5	12.9	12.2	14.6	200	16.8	35.2
Tata Steel	597	REDUCE	545,811	11,750	914	(3.6)	63.4	65.5	(103.6)	(1,880.2)	3.4	(167.7)	12.0	9.1	11.0	6.1	5.8	2.4	1.8	1.6	1.3	1.3	—	(1.5)	22.0	18.7	550	(7.9)	91.3
Metals																													
Cautious																													
3,457,584 74,433 (30.6) 72.5 11.3 19.8 11.5 10.3 10.1 7.2 6.1 2.4 2.0 1.6 0.7 0.8 0.6 12.3 17.1 15.9																													
Pharmaceutical																													
Biocon	342	BUY	68,340	1,471	200	14.8	17.8	22.0	216.4	19.8	23.7	23.0	19.2	15.5	13.3	11.1	9.3	3.8	3.3	2.8	—	—	—	17.9	18.8	20.0	400	17.1	5.1
Cipla	310	REDUCE	249,267	5,366	803	13.7	14.0	16.6	38.1	1.9	19.2	22.7	22.2	18.7	16.2	14.9	12.7	4.2	3.7	3.2	0.6	0.8	0.8	21.1	17.6	18.2	295	(5.0)	8.8
Cadila Healthcare	614	REDUCE	125,777	2,708	205	24.7	33.2	37.7	66.9	34.2	13.7	24.9	18.5	16.3	16.2	12.5	11.0	7.7	5.8	4.6	0.8	1.1	1.2	36.0	35.8	31.3	580	(5.6)	1.5
Dishman Pharma & chemicals	192	ADD	15,653	337	81	14.4	17.8	22.8	(19.7)	23.7	28.0	13.3	10.8	8.4	9.9	8.1	6.3	2.0	1.7	1.4	—	—	—	15.5	16.8	18.3	230	19.5	0.7
Divi's Laboratories	750	REDUCE	97,959	2,109	131	26.1	34.0	44.9	(18.2)	30.4	32.1	28.8	22.1	16.7	21.3	16.3	11.7	6.5	5.3	4.3	—	—	—	24.7	26.4	28.5	800	6.7	2.6
Dr Reddy's Laboratories	1,462	REDUCE	247,640	5,331	169	48.1	66.7	70.8	48.3	38.8	6.1	30.4	21.9	20.7	16.8	12.7	11.8	6.6	5.2	4.3	0.5	0.5	0.6	22.2	26.3	22.6	1,150	(21.3)	15.4
GlaxoSmithkline Pharmaceuticals (a)	1,939	REDUCE	164,197	3,535	85	59.1	69.7	79.2	8.1	18.0	13.5	32.8	27.8	24.5	18.7	15.9	13.6	9.2	7.8	6.7	—	—	—	29.8	30.4	29.4	1,880	(3.0)	1.5
Glenmark Pharmaceuticals	291	NR	79,756	1,717	274	12.7	19.2	20.3	14.7	50.6	5.6	22.8	15.2	14.4	14.5	9.5	9.1	3.4	2.8	2.4	—	—	—	16.7	19.9	17.6	—	—	4.5
Jubilant Organosys	357	BUY	56,635	1,219	159	26.5	31.8	38.9	49.0	19.8	22.4	13.4	11.2	9.2	9.7	8.8	7.1	2.5	2.1	1.7	0.5	0.7	0.8	26.3	21.7	21.1	400	12.2	2.4
Lupin	372	ADD	164,508	3,541	442	15.4	19.8	25.5	27.9	28.7	24.1	18.8	14.6	14.6	20.6	15.0	11.8	7.1	6.7	5.9	3.5	3.9	4.2	36.6	37.2	43.6	400	7.6	7.3
Piramal Healthcare	524	REDUCE	109,418	2,355	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	23.4	39.2	55.2	16.9	7.8	6.2	6.5	1.2	1.0	1.0	1.1	0.7	30.7	140.7	16.5	490	(6.4)	26.9
Ranbaxy Laboratories	505	SELL	216,192	4,654	428	7.1	27.0	11.6	(128.4)	282.7	(57.0)	71.4	18.7	43.4	17.4	10.7	20.4	5.5	3.9	3.7	—	0.8	0.8	6.9	22.6	8.3	255	(49.5)	10.1
Sun Pharmaceuticals	1,746	REDUCE	361,725	7,787	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	26.8	19.3	20.0	20.2	14.1	13.6	4.4	3.6	3.2	0.8	0.8	0.8	17.8	21.0	17.3	1,835	5.1	6.8
Pharmaceuticals																													
Attractive																													
1,957,066 42,130 45.5 33.7 3.2 27.0 20.2 19.6 16.9 12.6 11.9 5.1 3.7 3.1 0.7 0.9 0.9 19.0 18.2 16.1																													
Property																													
DLF	341	ADD	582,747	12,545	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	32.0	20.9	13.6	21.8	13.9	10.5	2.2	2.0	1.8	0.9	0.9	1.5	7.1	9.9	13.8	340	(0.3)	41.6
Housing Development & Infrastructure	271	ADD	104,138	2,242	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	318	17.5	32.2
Indiabulls Real Estate	177	RS	70,997	1,528	401	0.3	2.5	7.4	(62.7)	777.3	195.3	621.4	70.8	24.0	(26.5)	(285.3)	12.2	0.8	0.8	0.8	—	—	—	0.0	1.1	3.2	285	61.1	17.3
Mahindra Life Space Developer	458	ADD	19,342	416	42	20.1	23.6	35.8	77.8	17.6	51.5	22.8	19.4	12.8	20.1	14.4	7.1	2.0	1.9	1.7	0.8	0.8	0.8	8.9	9.7	13.4	540	18.0	0.7
Phoenix Mills	255	BUY	36,878	794	145	4.1	6.6	7.6	(16.7)	59.0	15.6	61.6	38.7	33.5	49.3	27.1	22.7	2.4	2.3	2.2	0.4	0.6	0.8	3.9	6.0	6.7	260	2.1	0.7
Puravankara Projects	121	REDUCE	25,814	556	213	6.8	8.2	8.0	0.6	20.1	(1.9)																		

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Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2010

Ratings and other definitions/identifiers

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

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

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

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