kotak® Institutional Equities

INDIA DAILY

March 15, 2010

Contents

News Round-up

- Reliance Industries Ltd (RIL IN) entered into an equal joint venture with US-based sports marketing company ING Worldwide, for developing marketing and managing sports and entertainment in the country. The venture will create infrastructure and coaching facilities to train sporting talent. *(THBL)*
- ONGC (ONGC IN) may invest USD 20 bn on its core upstream business over the 10 years, to acquire oil and gas assets abroad. *(THBL)*
- Govt counts on public sector units (PSU's) to drive mega solar projects.
- ONGC (ONGC IN) to start off with a 10 MW solar PV plant with plans also for a solar thermal project. NTPC (NATP IN) takes up grid interactive 15 MW solar thermal-based projects at Anta in Rajasthan. *(THBL)*
- The government-appointed special auditor has given Bharti Airtel (BHARTI IN) a clean chit. The special audit was ordered by the department of telecommunications last year on the country's top five telecom service providers to verify if the firms had underpaid license and spectrum charges to government. *(FNLE)*
- Vedanta Resources is likely to demerge a large aluminum project in Orissa into a separate entity to help the Conglomerate get a better valuation for the Aluminum business. *(ECNT)*
- Mahindra & Mahindra (MM IN) has joined the long lists of corporate houses looking to obtain banking license after the finance minister's budget speech revealed that banking regulator RBI was planning to allow more players in the sector. *(ECNT SAT)*
- Fortis Healthcare's (FORH IN) plans to reach out to the world from the shoulders of Singapore based hospital chain Parkway will be funded by short-term loans estimated at around USD 543 mn to be raised from a host of banks and financial institutions. *(ECNT)*
- Govt. is considering up to 10% equity dilution in Nalco (NACL IN), which may fetch the exchequer about USD 478.26mn. *(BSTD)*
- Havells India Ltd. (HAVL IN) has entered into a pact to sell its Rajasthan unit that makes & deals in bath fitting items. *(BSTD-Sat)*

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

EQUITY MARKETS

		Change %		
India	**12-Mar**	**1-day**	**1-mo**	**3-mo**
Sensex	17,167	(0.0)	7.0	1.7
Nifty	5,137	0.1	7.0	2.1
Global/Regional indices				
Dow Jones	10,625	0.1	5.2	1.7
Nasdaq Composite	2,368	(0.0)	8.4	7.6
FTSE	5,626	0.1	8.9	6.4
Nikkie	10,730	(0.2)	7.2	6.4
Hang Seng	21,036	(0.8)	3.8	(3.6)
KOSPI	1,657	(0.3)	4.0	(0.5)
Value traded - India				
Cash (NSE+BSE)	164.4		173.7	149.9
Derivatives (NSE)	646.5		737.5	713
Deri. open interest	1,214.4		1,170	1,118

Forex/money market

		Change, basis points		
	12-Mar	**1-day**	**1-mo**	**3-mo**
Rs/US$	45.4	1	(88)	(127)
10yr govt bond, %	8.0	1	15	44
Net investment (US$mn)				
	11-Mar		**MTD**	**CYTD**
FIIs	98		2,094	(230)
MFs	(54)		(250)	(282)

Top movers -3mo **basis**

		Change, %		
Best performers	**12-Mar**	**1-day**	**1-mo**	**3-mo**
SIEM IN Equity	735.7	0.2	14.2	32.4
MSEZ IN Equity	699.3	0.9	9.7	25.2
BOB IN Equity	618.9	(0.4)	11.7	25.1
JSTL IN Equity	1178.8	1.1	16.6	23.7
AXSB IN Equity	1151.1	(0.0)	11.9	19.9
Worst performers				
IBULL IN Equity	106.4	(1.5)	(0.4)	(19.8)
DLFU IN Equity	310.8	(0.4)	2.4	(18.5)
IBREL IN Equity	174.0	(1.9)	(3.1)	(18.4)
HUVR IN Equity	219.4	(4.1)	(4.5)	(17.6)
GMRI IN Equity	56.9	(0.9)	2.2	(15.8)

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Kotak Institutional Equities

Strategy

INDIA

MARCH 15, 2010

NEW RELEASE

BSE-30: 17,167

Good times may not last long for a few industries. We analyze the drivers of profitability and returns for major Indian companies and conclude that the high returns seen over the past several years may not sustain in many cases. We could see some industries and prominent companies beset by lower profitability and returns on account of (1) increased domestic competition, (2) deterioration in supply-demand balance, (3) changes in regulatory framework and (4) removal of tax (both direct and indirect) exemptions.

Returns of Indian companies have been very high historically

Our analysis of CROCI and ROE of the top companies in the major sectors in India shows that their returns on investment have been very high historically. Companies have earned returns well above WACC or COE or 'reasonable' returns on account of (1) limited competition, (2) slack regulations and (3) a benign taxation regime. We compute the average CROCI and ROE of the companies in the BSE-30 Index in FY2005-09 at 20% and 19%.

Historical favorable factors may be less supportive in future

We note that historical favorable factors may be less supportive in the future due to (1) increased competition from the entry of more players in every sector, (2) tighter regulations in a few sectors and (3) withdrawal of tax (direct and indirect) exemptions in several sectors. We see all the three changes being relevant over the next 2-3 years and see a likely decline in their financial return ratios.

Automobiles, cement and gas transportation may be the worst impacted

We expect the returns of the automobiles and cement sectors to be the worst impacted by an onslaught of price competition triggered by the entry of new players (automobiles) and excess capacity (cement). We see the implementation of regulations as negative for Indian gas transportation companies; the companies currently earn returns that are significantly above regulated returns. We expect many companies in our coverage universe to be impacted by a likely withdrawal of tax exemptions over a period of time.

Demise can be swift and unexpected; telecom experience can repeat almost anywhere

We note that almost all sectors face the threat of deterioration in returns given their high profitability and excess returns compared to the cost of capital. We highlight the example of the Indian telecom sector that enjoyed fantastic profitability and returns until the entry of new players resulted in enhanced competition and slashed excess returns quickly.

QUICK NUMBERS

- BSE-30 CROCI at 20% in FY2005-09; 17% in FY2010-12E
- Rising competition and commodity price key threats for autos, cement
- Regulations (or the lack of it) key driver for gas distribution

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High returns will likely decline in most sectors

Exhibit 1 shows the ROE of the BSE-30 companies in FY2005-12E. We see (1) a decline in ROEs of the automobiles, cement and telecom sectors, (2) recovery in ROEs of the global cyclical commodity businesses led by improved global supply-demand balance and (3) stable ROEs in consumer, industrial and IT sectors. In addition, we see several specific cases of decline in CROCI or ROE led by (1) tighter regulations (gas transportation and distribution sectors) and (2) withdrawal of extant income tax or excise duty exemptions (consumer companies and smaller IT companies).

RoEs of Indian companies have declined of late

Return on Equity of stocks in BSE-30 Index, March fiscal-year ends, 2005-12E (%)

Company	2005	2006	2007	2008	2009	2010E	2011E	2012E
ACC	21.6	29.4	39.7	33.3	24.7	29.3	17.1	16.1
Bharat Heavy Electricals	16.9	25.1	29.9	29.2	26.4	30.8	30.7	28.9
Bharti Airtel	27.3	33.5	42.4	39.1	31.4	25.3	18.0	17.4
DLF	12.3	22.6	79.0	66.5	20.7	8.3	10.2	13.1
Grasim Industries	26.2	22.2	34.3	33.1	21.1	21.4	17.6	17.6
HDFC	28.5	30.1	31.3	27.8	18.2	19.7	20.3	20.3
HDFC Bank	18.5	17.7	19.5	17.7	16.9	16.1	16.7	18.6
Hero Honda	57.4	52.2	36.3	34.0	36.4	45.1	35.8	30.7
Hindalco Industries	—	—	18.5	12.3	2.4	3.8	9.7	9.9
Hindustan Unilever	56.1	59.7	61.9	83.9	112.4	108.4	125.9	140.9
ICICI Bank	0.0	14.6	13.4	11.7	7.8	8.2	9.8	11.5
Infosys Technologies	42.6	40.1	40.7	36.1	36.7	30.4	28.4	28.3
ITC	24.4	26.4	27.7	28.2	25.3	27.0	27.6	27.5
Jaiprakash Associates	19.8	9.8	18.2	15.4	7.3	12.3	17.1	20.5
Larsen & Toubro	23.5	24.7	27.6	22.7	21.7	17.4	16.3	17.0
Mahindra & Mahindra	24.2	24.8	29.3	23.4	17.1	28.6	23.9	20.8
Maruti Suzuki	20.7	23.7	24.9	22.2	13.5	23.0	20.0	18.6
NTPC	13.0	13.3	15.1	14.9	14.3	14.9	15.2	16.6
Oil & Natural Gas Corporation	22.6	20.5	20.4	19.6	16.6	14.4	15.8	17.8
Reliance Communications	—	8.2	17.8	16.8	18.9	8.9	6.0	7.3
Reliance Industries	17.4	17.7	19.3	19.0	13.6	10.6	12.2	13.2
Reliance Infrastructure	—	—	11.2	4.3	4.9	6.1	7.8	10.1
State Bank of India	19.4	17.0	15.4	16.8	17.1	15.9	15.8	16.1
Sterlite Industries	18.7	28.8	50.7	25.5	14.0	11.0	11.9	12.8
Sun Pharmaceuticals	40.7	42.1	36.0	38.3	30.2	16.5	15.5	16.7
Tata Motors	28.4	25.3	27.4	22.8	4.4	9.9	9.7	10.1
Tata Power	9.4	10.8	9.8	9.6	12.0	12.6	12.4	14.4
Tata Steel	—	—	28.5	24.1	27.5	1.1	24.7	23.8
TCS	97.2	63.8	55.8	47.0	36.9	37.5	35.6	33.1
Wipro	30.7	29.9	31.5	27.9	26.9	27.1	26.3	24.8
BSE-30	**19.9**	**18.7**	**21.0**	**19.0**	**16.3**	**14.2**	**15.3**	**16.1**
BSE-30 ex-Energy	**20.0**	**19.0**	**22.1**	**19.3**	**17.5**	**15.2**	**16.0**	**16.5**

Source: BSE, Kotak Institutional Equities estimates

We note that ROEs of Indian companies have trended down over the past few years, led by (1) enhanced competition (automobiles, cement, telecom), (2) weaker global prices and margins (global commodities), (3) ambitious overseas acquisitions at expensive valuations and (4) increasing maturity of businesses (IT) resulting in lower profitability per unit of investment.

Exhibit 2 gives the CROCI of the BSE-30 companies in FY2005-12E. In the next section, we analyze the reasons for the high CROCI of the top companies in every major sector and examine the sustainability of the factors. We use CROCI instead of ROE or ROCE since (1) CROCI is a measure of cash returns and (2) it is not affected by the different accounting policies of companies—(a) differences in depreciation policies, (b) treatment of one-off items such as impact of foreign currency fluctuations, impairment of goodwill and (c) revaluation of assets/gross block.

CROCI of Indian companies in certain sectors is remarkably high

Cash Return on Cash Invested of stocks in BSE-30 Index, March fiscal-year ends, 2005-12E (%)

Company	**2005**	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
ACC	12.9	9.1	28.6	32.0	26.7	28.7	15.8	16.0
Bharat Heavy Electricals	18.7	28.1	43.8	57.0	72.2	54.2	47.1	48.2
Bharti Airtel	27.5	30.8	35.7	33.4	31.0	25.7	20.5	19.6
DLF	15.8	5.4	15.5	19.0	11.7	12.7	8.0	10.3
Grasim Industries	13.3	14.2	22.3	25.5	17.1	17.8	15.9	18.6
HDFC	28.5	30.1	31.3	27.8	18.2	19.7	20.3	20.3
HDFC Bank	18.5	17.7	19.5	17.7	16.9	16.1	16.7	18.6
Hero Honda	168.6	115.1	66.7	88.8	92.0	124.6	119.9	114.5
Hindalco Industries	16.8	16.7	21.3	22.1	6.4	14.0	15.9	16.4
Hindustan Unilever	66.7	91.6	107.3	118.6	125.5	142.4	163.0	156.4
ICICI Bank	0.0	14.6	13.4	11.7	7.8	8.2	9.8	11.5
Infosys Technologies	69.4	95.2	67.3	77.3	72.4	68.7	65.7	66.8
ITC	30.3	32.9	32.4	29.1	26.9	30.3	30.3	30.8
Jaiprakash Associates	—	—	14.4	15.0	9.5	16.0	13.5	14.4
Larsen & Toubro	12.7	18.7	30.1	34.3	26.2	24.6	22.7	23.1
Mahindra & Mahindra	22.2	24.9	32.7	30.9	24.0	37.7	34.4	31.5
Maruti Suzuki	23.6	26.1	28.0	28.5	17.4	26.4	24.0	23.1
NTPC	12.8	13.2	14.7	15.1	13.5	13.3	12.7	13.7
Oil & Natural Gas Corporation	18.2	17.1	18.6	19.2	17.1	16.0	16.5	16.3
Reliance Communications	—	16.5	26.8	26.3	19.2	12.5	10.6	12.3
Reliance Industries	18.2	18.8	20.5	21.7	18.7	13.6	16.5	18.2
Reliance Infrastructure	—	—	2.0	1.6	3.7	5.1	2.9	5.8
State Bank of India	19.4	17.0	15.4	16.8	17.1	15.9	15.8	16.1
Sterlite Industries	13.6	20.8	45.1	34.2	23.2	17.7	20.6	20.4
Sun Pharmaceuticals	32.2	23.6	24.8	41.2	44.7	28.2	29.1	32.6
Tata Motors	28.6	18.9	21.1	26.7	11.0	20.0	19.2	18.3
Tata Power	14.5	11.2	10.4	9.4	11.5	12.5	11.8	11.9
Tata Steel	31.6	27.3	30.1	10.9	11.3	3.8	9.4	9.9
TCS	93.5	73.4	79.6	67.5	78.9	71.0	67.1	63.7
Wipro	62.2	61.1	72.4	48.5	50.5	45.0	45.0	43.6
BSE-30	**20.0**	**19.6**	**22.3**	**19.9**	**17.8**	**16.1**	**16.7**	**17.5**
BSE-30 ex-Energy	**21.6**	**21.1**	**24.5**	**19.8**	**17.8**	**16.7**	**16.9**	**17.7**

Note:
1. For banks and financial institutions, data represents ROE.

Source: BSE, Kotak Institutional Equities estimates

CROCI can serve as a reality check for earnings, valuation of companies

In our view, an understanding of the CROCI of a sector or a company—based on an analysis of drivers of earnings and returns for an industry or for a company—can serve as a useful tool to assess the assumptions behind the earnings models of companies and understand the sustainability of their drivers. As a corollary, CROCI can also serve as a useful check for the appropriateness of valuations (multiples and long-term assumptions) of stocks.

We highlight two high-profile cases as examples below.

- Use of the 'right' multiples (P/E, EV/EBITDA or EV/DACF) based on the stage of the cycle and sustainability of earnings of companies. We believe an understanding of the sustainability of drivers of a company's earnings will result in the use of the right multiples to value the company/stock. It would be worthwhile to check the sustainability of the factors behind a company's high or low CROCI if the company is earning very high CROCI or very low CROCI compared to its WACC. This would naturally translate into use of a 'right' multiple for the company since returns tend to converge to WACC over a period of time.

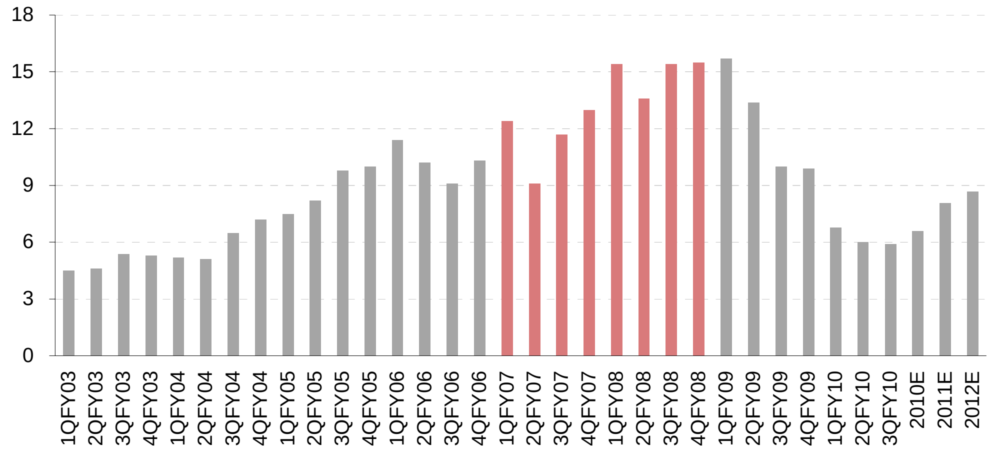
The above factor is most valid for cyclical businesses, either domestic cyclical or global cyclical. It would be logical to give a lower multiple compared to mid-cycle or 'average' multiples when a company is earning very high returns (CROCI) at the peak of a cycle. Such earnings are unlikely to sustain in perpetuity and will likely come down during a downturn following an up-cycle. Similarly, it would be appropriate to use a higher multiple compared to 'average' multiples for a company earning very low returns due to weak cyclical conditions; the reasons for depressed earnings may not last in perpetuity. An industry's or a company's weak returns may arise from an economic downturn but the earnings and returns would improve once macro-economic conditions improve. Similarly, very poor returns may force industry consolidation and limited investment in new capacities, leading to improvement in supply-demand balance and hence, pricing, margins and returns over a period of time.

However, we have often seen the market doing the reverse forced by exuberant or depressed market conditions. We have seen the market ascribing very high multiples to peak or near-peak earnings of cyclical businesses and doing the reverse at times of very low earnings resulting from trough or near-trough earnings.

We highlight the example of Reliance Industries in 2HCY07 as a case in point. The street had then used 8-10X forward EBITDA to value RIL's refining segment compared to a mid-cycle multiple of 6-7X for a typical global cyclical commodity business. This would suggest that the street was expecting further improvement in RIL's refining margins despite the company reporting very high refining margins (US$12-15/bbl) in this period. Most global refineries were earning extremely high CROCI over this period, which would have naturally attracted more investment in the refining sector. The sector did attract large investments, which accompanied by a global economic downturn, resulted in a steep decline in refining margins starting mid-CY2008; margins continue to be poor even now.

In hindsight, we can say that an appreciation of the cyclical nature of refining business and a realistic assessment of the drivers of the very high refining margins in 2HCY07 (great but deteriorating supply-demand balance) would have resulted in a more cautious view of the cycle, global refining margins and hence, use of more conservative multiples to value RIL's refining business during this period of irrational exuberance. Exhibit 3 shows RIL's quarterly refining margins starting FY2003 to 3QFY10 and our forecasts for the next two years.

RIL's reported margins were about US$12-15/bbl in FY2008-09
Reported refining margin of Reliance Industries , March fiscal year-ends, 2003-12E (US$/bbl)



Source: Company Data, Kotak Institutional Equities estimates

- Verification of long-term assumptions, particularly in DCF-based valuation of high-growth companies. In our view, an assessment of CROCI over the forecast period of a DCF valuation or in the terminal year of a DCF valuation would be useful in verifying the reasonableness of assumptions behind the earnings model of a company. We note that the terminal year assumptions are very critical since the explicit period (typically 10 years in a DCF model) may account for only 30-50% of the valuation of a company and even lesser for a high-growth company or for a company/an industry in its early stages of growth.

We note that very few industries have the capability to deliver very high returns for an extended period of time and probably none in perpetuity. However, we have very often seen the street making very aggressive assumptions in the terminal year of a DCF valuation. In many cases, the ROCE or CROCI in the terminal year would be well above the WACC, which would suggest that a company will continue to earn returns above its cost of capital in perpetuity. This is unlikely to be the case for most industries; even companies depending on intellectual property or brands lose this advantage over a period of time.

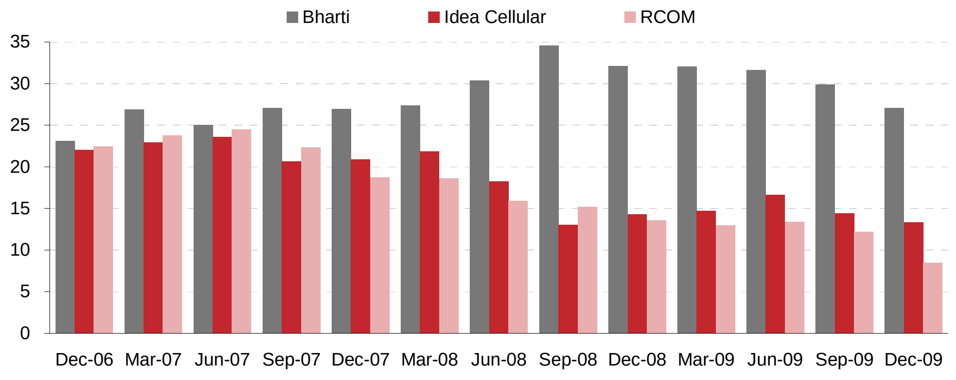
We highlight the example of Bharti Airtel in CY2004-08 as a case in point. Exhibit 4 gives the average CROCI for the explicit period and CROCI in the terminal year in our DCF models at various points of time. As can be seen, we had made assumptions that translated into very high CROCI in perpetuity; it's another matter that we could not justify Bharti's stock price despite our very aggressive assumptions. The street, which had a more bullish view of the stock, presumably had even more aggressive assumptions of pricing and margins than we did; the street's assumptions would have resulted in even higher CROCI for Bharti's telecom business in perpetuity. In hindsight, we can say that low competition in the market due to a limited number of players at that time allowed Bharti to earn super-normal returns; the street extrapolated that in perpetuity. However, the entry of new players subsequently resulted in a swift collapse of profitability and returns for the business. Exhibit 5 shows the rapid decline in quarterly CROCI of the wireless segment of the three major telecom players in India.

We were modeling very high CROCI in perpetuity for Bharti Airtel in 2005-08
Bharti CROCI estimation over the past five years, March fiscal year-ends (%)

	Jan-05	Jul-05	Jan-06	Jul-06	Jan-07	Jul-07	Jan-08	Jul-08	Jan-09	Jul-09	Jan-10
CROCI - explicit (%)	21.7	26.0	24.3	25.4	27.7	28.0	27.6	26.5	23.1	22.7	19.8
CROCI - terminal year (%)	18.0	21.4	20.9	21.5	22.1	22.6	22.1	22.7	18.7	18.3	16.5

Source: Kotak Institutional Equities estimates

CROCI of wireless business in India has declined sharply of late
Quarterly CROCI of wireless segment of Bharti, RCOM and Idea (%)



Source: Company data, Kotak Institutional Equities

Kotak Institutional Equities

Telecom

India

CAUTIOUS

MARCH 15, 2010

NEW RELEASE

BSE-30: 17,167

Auction house takes all. We expect the government to net US$11.4 bn from 3G + BWA spectrum auction, significantly higher than the US$7.6 bn built into FY2011E budget estimates. We highlight that the 3G payout by operators would be driven equally by the 'value loss' from not winning 3G spectrum and the value accretion from 3G rollout. We reiterate our Cautious view on the sector noting potential tangible value destruction for the operators.

3G spectrum bid likely to be greater than standalone 3G value

We believe the value an operator would ascribe to 3G spectrum in a given circle would derive from (1) standalone 3G value accretion, based on incremental cash flow estimates from rolling out 3G networks, and (2) the opportunity cost of not winning 3G, driven by potential loss of high-value subs to operators with 3G offerings—what we call the 'fear factor'. Scarcity of spectrum (only three slots being auctioned in most circles) compounds the fear factor, in our view.

We highlight that the 'opportunity cost' is operator-specific and does not add to the industry-wide tangible 3G value. Our calculations show that value destruction will be highest for silent players: BSNL/MTNL, as they will be required to match the clearing price decided by the winners in each circle.

Expect aggressive bids from incumbents—new players have little to lose from 'not having 3G'

With '2G opportunity loss' contributing equally to the operators' perceived 3G spectrum value, the value of a 3G license for a new player (not present in the Indian wireless market) or a recent entrant is possibly lower than for an incumbent as it does not face any or meaningful value loss in its 2G business, if it does not have a 3G offering. We highlight that in most economies, incumbents have invariably won 3G auctions. This also has implications for circle-wise bids—large incumbents in specific circles (e.g. Aircel in Chennai/Tamil Nadu) could take bids higher in these circles, even if they choose not to bid pan-India.

Spectrum scarcity + good auction design should yield the GOI a bounty

Our estimate of US$10.3 bn payout for four 3G slots of only 5 MHz each may appear a tad high; however, we note that this compares favorably with Cost/MHz/pop (PPP adjusted) in countries with auction dynamics similar to what we expect in India. India is following the European/US model of auctioning 3G + BWA spectrum as opposed to the assignment method used by some Asian peers. Designing auctions which attract entry and prevent collusion leads to high realization by the governments. Of course, the number of bidders needs to be materially higher than the number of slots available. A spectrum-scarcity-driven fear factor in an ultra-competitive Indian wireless market should set the stage for aggressive bidding, in our view.

3G auction may ease further fiscal constraints

The 3G auction could, in our view, fetch the government nearly Rs175 bn more than indicated in the Union budget estimate. Our economist estimates that this would provide the government scope to lower fiscal deficits further by about 0.3 ppt of the GDP. As a result, the gross fiscal deficit/GDP ratio can fall to 5.2% from the budget estimate of 5.5%, helping in remarkable improvement in the fiscal position. The GFD/GDP ratio was 6.9% in FY2010.

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GOI could raise US$11.4 bn from the 3G + BWA auctions
Table showing the quantum of money GOI could raise (US$ mn)

Auction	Methodology	US$ mn
3G	KIE proprietary model	10,282
BWA	3 slots at reserve price	1,140
Total		**11,422**

Source: Kotak Institutional Equities estimates

Bharti wins all licences, GOI nets US$10.3 bn
Table showing number of winning bids and payouts

Operator	# of winning circles	Pay-out (US$ mn)
Bharti	22	2,529
Vodafone	19	2,387
RCOM	11	608
TTSL	9	1,462
Idea	4	395
Aircel	6	373
New player	—	—
BSNL	20	1,989
MTNL	2	540
Total	**93**	**10,282**

Source: Kotak Institutional Equities estimates

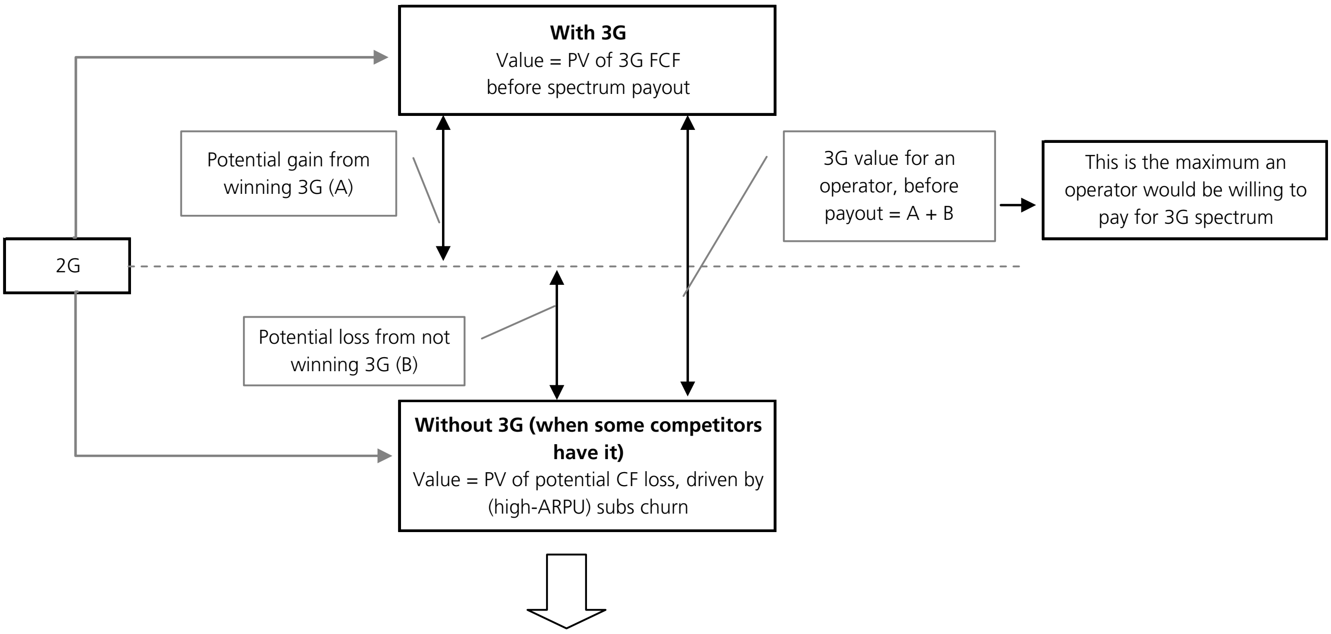
We estimate net value dilution for every operator from 3G spectrum auctions (US$ mn)

US$ mn	3G value-accretion in 'Win' circles	Value loss in 'Loss' circles	Payout in 'Win' circles	Net impact
Bharti	**2,273**	—	**(2,529)**	**(256)**
Vodafone	1,937	(73)	(2,387)	(524)
RCOM	**274**	**(594)**	**(608)**	**(927)**
TTSL	1,175	(336)	(1,462)	(623)
Idea	**207**	**(595)**	**(395)**	**(783)**
Aircel	184	(227)	(373)	(415)
New player	—	—	—	—
BSNL	88	—	(1,989)	(1,901)
MTNL	(30)	—	(540)	(570)
Total	**6,108**	**(1,825)**	**(10,282)**	**(5,999)**

Source: Kotak Institutional Equities estimates

Fear of value loss from 'not winning 3G' to drive aggressive bids, in our view

3G spectrum bid drivers for an operator



Payoff scenarios for an operator	
Wins spectrum, pays P	(a) P < A, tangible value creation = A - P
	(b) P = A, tangible value created = 0
	(c) A < P <=B, tangible value destruction, but still a better choice than not winning 3G spectrum
	(d) P > (A+B), tangible value destruction, would have been better off losing 3G spectrum
Loses spectrum	Tangible value loss = B

Source: Kotak Institutional Equities

kotak Institutional Equities

ONGC / OIL INDIA (ONGC / OINL)

Energy

REDUCE

MARCH 15, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 1,085 / 1,127

TP (Rs): 1,200 / 1,150

BSE-30: 17,167

Sad but true. We continue to see large risks to the earnings of upstream companies despite high crude prices due to a persistent lack of clarity on subsidies. We continue to be at a loss in valuing the energy sector given several key unpredictable factors. We have revised our earnings models for ONGC and OIL to reflect changes in factors within our control but see this as academic until the government decides on the larger issues of pricing and subsidies. We maintain our REDUCE ratings on ONGC and OIL.

Company data and valuation summary

Oil & Natural Gas Corporation

Stock data				Forecasts/Valuations	2010	2011E	2012E
52-week range (Rs) (high,low)			1,278-652	EPS (Rs)	89.9	107.1	132.3
Market Cap. (Rs bn)			2,320.1	EPS growth (%)	(1.0)	19.1	23.5
Shareholding pattern (%)				P/E (X)	12.1	10.1	8.2
Promoters			74.1	Sales (Rs bn)	1,001.7	1,058.0	1,170.1
FIIs			4.5	Net profits (Rs bn)	192.3	229.1	283.0
MFs			2.3	EBITDA (Rs bn)	465.0	508.8	573.5
Price performance (%)	1M	3M	12M	EV/EBITDA (X)	4.3	3.6	3.0
Absolute	(1.4)	(8.8)	58.9	ROE (%)	14.4	15.7	17.7
Rel. to BSE-30	(7.2)	(9.1)	(22.8)	Div. Yield (%)	3.3	4.1	4.6

Company data and valuation summary

Oil India

Stock data				Forecasts/Valuations	2010	2011E	2012E
52-week range (Rs) (high,low)			0-0	EPS (Rs)	112.2	110.6	115.0
Market Cap. (Rs bn)			256.1	EPS growth (%)	10.9	(1.5)	4.0
Shareholding pattern (%)				P/E (X)	10.0	10.2	9.8
Promoters			78.4	Sales (Rs bn)	76.8	80.0	86.4
FIIs			3.2	Net profits (Rs bn)	25.5	26.6	27.7
MFs			2.6	EBITDA (Rs bn)	45.3	50.3	55.3
Price performance (%)	1M	3M	12M	EV/EBITDA (X)	3.5	3.0	2.6
Absolute	(3.2)	(9.2)	0.0	ROE (%)	16.5	15.5	14.6
Rel. to BSE-30	(8.9)	0.0	0.0	Div. Yield (%)	3.1	3.2	3.4

Unresolved subsidy issue continues to mar stock performance

We see the underperformance of ONGC (-7.4 %) and OIL (-7.2%) since the announcement of the FY2011E Union Budget on February 26, 2010 as a reflection of the market's growing concerns about the subsidy-sharing mechanism. A provision of Rs150 bn for subsidy payment by the government in the Union Budget versus Rs360 bn of gross under-recoveries on cooking fuels has naturally raised concerns that the upstream companies may have to bear additional subsidy burden in 4QFY10E and FY2010E in addition to 100% of under-recoveries on auto fuels. We maintain our REDUCE rating on ONGC and OIL given (1) earnings uncertainty emanating from a lack of clarity on the subsidy-sharing issue and (2) low potential upside to our 12-month target prices (Rs1,200 for ONGC and Rs1,150 for OIL); target prices are somewhat irrelevant currently.

Strengthening rupee adds to risk to earnings of upstream companies

We highlight the risk to earnings of ONGC and OIL from the recent strength in the rupee—the rupee has appreciated by 1.5% since March 1, 2010. ONGC and OIL's earnings will be negatively impacted by appreciation in the value of the rupee versus the US dollar as it would lead to lower crude price in rupee terms. A stronger rupee will also lead to lower under-recoveries for the industry but the positive impact of the same on earnings is less clear; the impact of the same will depend on several factors, including the subsidy-sharing system. We compute that a Rs1/US$ change will impact ONGC's and OIL's FY2011E EPS by 4.6% and 4.3% without factoring in the positive impact of lower under-recoveries.

QUICK NUMBERS

- We model FY2011E net realized price of US$48.5/bbl for ONGC
- We model FY2011E net realized price of US$51.7/bl for OIL
- Rs1/US$ change to impact FY2011E EPS by 4.6% for ONGC and 4.3% for OIL

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Earnings revisions—ONGC and OIL

We have fine-tuned our FY2010E, FY2011E and FY2012E consolidated EPS estimates for ONGC to Rs89.9, Rs107.1 and Rs132.3 from Rs90.1, Rs107.8 and Rs133 to reflect (1) higher import tariff duty on crude oil of 5.15% versus nil previously (+ve impact), (2) lower discount of US$5/bbl on crude oil from Rajasthan block to bring it in line with our assumption for Cairn (+ve impact), (3) higher subsidy burden (–ve impact) and (4) lower corporate tax rates announced in the FY2011 Union Budget. We have increased the subsidy amount to Rs164 bn for FY2011E and Rs207 bn for FY2012E from Rs139 bn and Rs179 bn. It is very hard to get a handle on this amount. The situation is even more complicated now with the government providing making only a nominal provision of Rs32 bn for subsidy payment in the FY2011 Union Budget. This amount is quite inadequate against our estimated gross under-recovery of Rs445 bn (based on US$70/bbl Dated Brent crude price) and Rs1,025 bn at the current level of crude oil prices (US$80/bbl for Dated Brent).

We have revised our FY2010E, FY2011E and FY2012E EPS estimates for OIL to Rs112.2, Rs110.6 and Rs115, respectively, from Rs110.5, Rs111.7 and Rs116.3 to reflect (1) higher import tariff duty on crude oil, (2) higher subsidy burden, (3) lower corporate tax rates announced in the FY2011 Union Budget and (4) other housekeeping changes. We nave increased the subsidy amount to Rs23.4 bn for FY2011E from Rs19.5 bn and to Rs30.6 bn from Rs26.3 bn.

Key assumptions behind our earnings model

We discuss the key assumptions behind our earnings model for ONGC and OIL. Exhibits1 and 2 gives the major assumptions behind our earnings model and Exhibits 3 and 4 gives sensitivity of ONGC's EPS and OIL's EPS to key variables (rupee-dollar rate, crude oil price and natural gas price).

Key assumptions for ONGC, March fiscal year-ends, 2006-2012E

	2006	2007	2008	2009	2010E	2011E	2012E
Macro assumptions							
Rs/US$ rate	44.3	45.3	40.3	45.8	47.3	46.0	46.0
Subsidy share scheme loss (Rs bn)	119.6	170.2	220.0	282.3	130.4	163.7	207.0
Import tariff on crude oil (%)	5.1	5.1	5.2	0.9	0.4	5.2	5.2
Pricing and volumes assumptions							
Crude price							
Crude price, Bonny Light (US$/bbl)	57.2	64.8	78.9	83.0	67.5	70.0	75.0
Net crude price, ONGC-India (US$/bbl)	43.8	46.1	54.2	51.2	50.6	48.5	48.3
Natural gas price							
Ceiling natural gas price, India (Rs/cu m)	3.52	3.20	3.20	3.20	3.20	4.00	4.50
Ceiling natural gas price, India (US$/mn BTU)	2.12	1.89	2.12	1.87	1.81	2.32	2.61
International operations							
Net natural gas price, OVL-Vietnam (Rs/cu m)	3.1	3.2	2.8	3.2	3.3	3.2	3.2
Net crude price, OVL-Sudan (Rs/ton)	8,118	9,384	10,142	12,136	10,212	10,294	11,021
Net crude price, OVL-Russia (Rs/ton)	8,320	9,633	10,434	12,493	10,488	10,578	11,333
Sales volumes—Domestic fields (a)							
Crude oil (mn tons)	22.5	24.4	24.1	22.9	22.7	24.1	25.4
Natural gas (bcm)	20.5	20.3	20.4	20.5	20.7	20.4	19.9
Sales volumes—Overseas fields							
Crude oil (mn tons)	4.6	5.8	6.8	5.8	5.3	6.0	6.7
Natural gas (bcm)	1.8	2.1	2.0	2.2	2.7	2.9	2.9
Total sales							
Crude oil (mn tons)	27.0	30.2	30.9	28.7	28.1	30.1	32.1
Natural gas (bcm)	22.3	22.5	22.4	22.8	23.4	23.3	22.8
Total sales (mn toe)	**46.9**	**50.3**	**50.9**	**49.0**	**48.9**	**50.9**	**52.4**
Total sales (mn boe)	**342**	**367**	**372**	**358**	**357**	**371**	**383**
Crude oil (%)	58	60	61	59	57	59	61
Natural gas (%)	42	40	39	41	43	41	39

(a) Includes ONGC's share of production from joint venture fields.

Source: Company, Kotak Institutional Equities estimates

Key assumptions for OIL, March fiscal year-ends, 2006-2012E

	2006	2007	2008	2009	2010E	2011E	2012E
Rs/US$ rate	44.3	45.3	40.3	45.8	47.3	46.0	46.0
Subsidy share scheme loss (Rs mn)	9,775	19,938	23,051	30,233	17,455	23,372	30,575
Import tariff on crude oil (%)	5.1	5.1	5.2	0.9	0.4	5.2	5.2
Crude/natural gas prices							
Crude price							
Crude price, Bonny Light (US$/bbl)	57.2	64.8	78.9	83.0	67.5	70.0	75.0
Net crude price, OIL-India (US$/bbl)	49.7	47.9	60.9	56.2	53.7	51.7	51.7
Natural gas price							
Ceiling natural gas price, India (Rs/cu m)	3.52	3.20	3.20	3.20	3.20	4.00	4.50
Ceiling natural gas price, India (US$/mn BTU)	2.12	1.89	2.12	1.87	1.81	2.32	2.61
Net natural gas price, OIL-India (Rs/cu m)	3.16	2.88	2.88	2.88	2.88	3.60	4.05
Net natural gas price, OIL-India (US$/mn BTU)	1.91	1.70	1.91	1.68	1.63	2.09	2.35
Sales volumes—Domestic fields							
Crude oil (mn tons)	3.1	3.0	3.0	3.4	3.7	3.8	3.9
Natural gas (bcm)	1.7	1.8	1.8	1.7	1.9	2.2	2.9
Total sales (mn toe)	**4.7**	**4.6**	**4.7**	**4.9**	**5.4**	**5.8**	**6.5**
Total sales (mn boe)	**34**	**34**	**34**	**36**	**39**	**42**	**48**
Crude oil (%)	67	66	65	68	68	66	60
Natural gas (%)	33	34	35	32	32	34	40

Source: Company, Kotak Institutional Equities estimates

ONGC's earnings are highly sensitive to crude price and exchange rate assumptions
Earnings sensitivity of ONGC to key variables

	2010E			2011E			2012E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Rs/US$	46.3	47.3	48.3	45.0	46.0	47.0	45.0	46.0	47.0
Net profits (Rs mn)	183,111	192,305	201,499	218,537	229,090	239,641	271,017	282,956	294,894
Earnings per share (Rs)	85.6	89.9	94.2	102.2	107.1	112.0	126.7	132.3	137.9
% upside/(downside)	**(4.8)**		**4.8**	**(4.6)**		**4.6**	**(4.2)**		**4.2**
Average crude prices									
Crude price (US$/bbl)	65.5	67.5	69.5	68.0	70.0	72.0	73.0	75.0	77.0
Net profits (Rs mn)	179,965	192,305	204,646	215,692	229,090	242,487	268,710	282,956	297,202
Earnings per share (Rs)	84.1	89.9	95.7	100.8	107.1	113.4	125.6	132.3	139.0
% upside/(downside)	**(6.4)**		**6.4**	**(5.8)**		**5.8**	**(5.0)**		**5.0**
Cess									
Cess on domestic crude (Rs/ton)	3,090	2,575	2,060	3,090	2,575	2,060	3,090	2,575	2,060
Net profits (Rs mn)	185,266	192,305	199,344	221,750	229,090	236,429	275,320	282,956	290,592
Earnings per share (Rs)	86.6	89.9	93.2	103.7	107.1	110.5	128.7	132.3	135.9
% upside/(downside)	**(3.7)**		**3.7**	**(3.2)**		**3.2**	**(2.7)**		**2.7**
Natural gas prices									
Natural gas price ceiling (Rs/'000 cum)	2,700	3,200	3,700	3,500	4,000	4,500	4,000	4,500	5,000
Net profits (Rs mn)	186,847	192,305	197,763	223,606	229,090	234,571	277,591	282,956	288,319
Earnings per share (Rs)	87.4	89.9	92.5	104.5	107.1	109.7	129.8	132.3	134.8
% upside/(downside)	**(2.8)**		**2.8**	**(2.4)**		**2.4**	**(1.9)**		**1.9**

Source: Kotak Institutional Equities estimates

OIL's earnings are highly sensitive to crude price and exchange rate assumptions
Earnings sensitivity of OIL to key variables

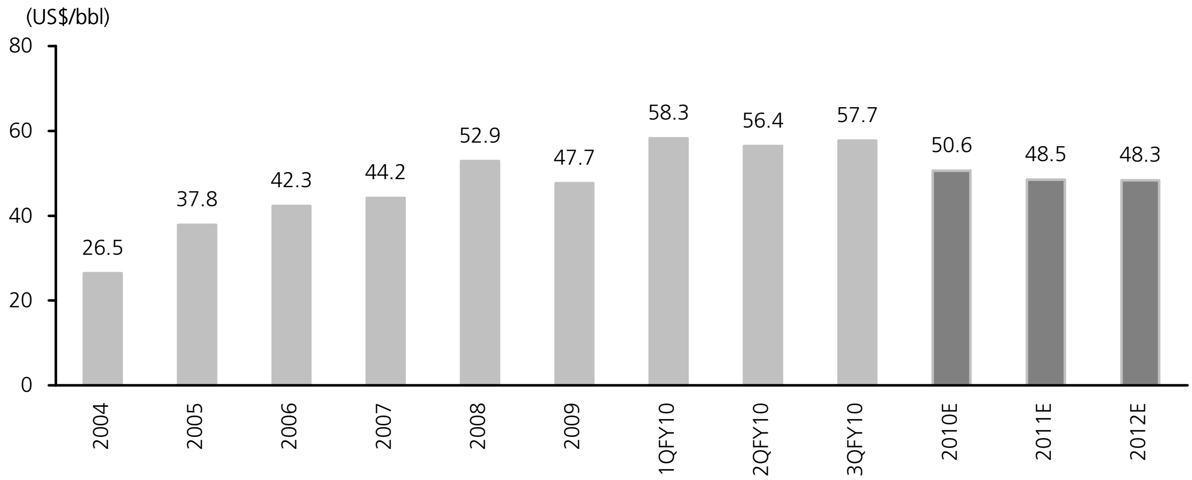
	2010E			2011E			2012E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Exchange rate									
Rs/US$	46.3	47.3	48.3	45.0	46.0	47.0	45.0	46.0	47.0
Net profits (Rs mn)	24,491	25,500	26,510	25,450	26,592	27,735	26,398	27,658	28,917
Earnings per share (Rs)	107.8	112.2	116.7	105.8	110.6	115.3	109.8	115.0	120.3
% upside/(downside)	**(4.0)**		**4.0**	**(4.3)**		**4.3**	**(4.6)**		**4.6**
Average crude prices									
Crude price (US$/bbl)	65.5	67.5	69.5	68.0	70.0	72.0	73.0	75.0	77.0
Net profits (Rs mn)	24,100	25,500	26,901	25,093	26,592	28,092	26,114	27,658	29,201
Earnings per share (Rs)	106.1	112.2	118.4	104.4	110.6	116.8	108.6	115.0	121.4
% upside/(downside)	**(5.5)**		**5.5**	**(5.6)**		**5.6**	**(5.6)**		**5.6**
Cess									
Cess on domestic crude (Rs/ton)	3,090	2,575	2,060	3,090	2,575	2,060	3,090	2,575	2,060
Net profits (Rs mn)	24,268	25,500	26,733	25,296	26,592	27,889	26,322	27,658	28,993
Earnings per share (Rs)	106.8	112.2	117.6	105.2	110.6	116.0	109.5	115.0	120.6
% upside/(downside)	**(4.8)**		**4.8**	**(4.9)**		**4.9**	**(4.8)**		**4.8**
Natural gas prices									
Natural gas price ceiling (Rs/'000 cum)	2,700	3,200	3,700	3,500	4,000	4,500	4,000	4,500	5,000
Net profits (Rs mn)	24,931	25,500	26,070	25,934	26,592	27,250	26,780	27,658	28,535
Earnings per share (Rs)	109.7	112.2	114.7	107.9	110.6	113.3	111.4	115.0	118.7
% upside/(downside)	**(2.2)**		**2.2**	**(2.5)**		**2.5**	**(3.2)**		**3.2**

Source: Kotak Institutional Equities estimates

- **Subsidy amount.** We admit that there is no fundamental basis for determining the amount of subsidy burden to be borne by the upstream companies pending finalization of a subsidy-sharing scheme, if any. We model subsidy amount for FY2010E, FY2011E and FY2012E at Rs130 bn, Rs164 bn and Rs207 bn for ONGC and Rs17.5 bn, Rs23.4 bn and Rs30.6 bn for OIL. However, we would clarify that the subsidy amount is very hard to predict for future years and it would depend on (1) global crude oil prices, (2) domestic retail prices as determined by the government and (3) subsidy-sharing mechanism. We note that all these three variables are very difficult to predict.

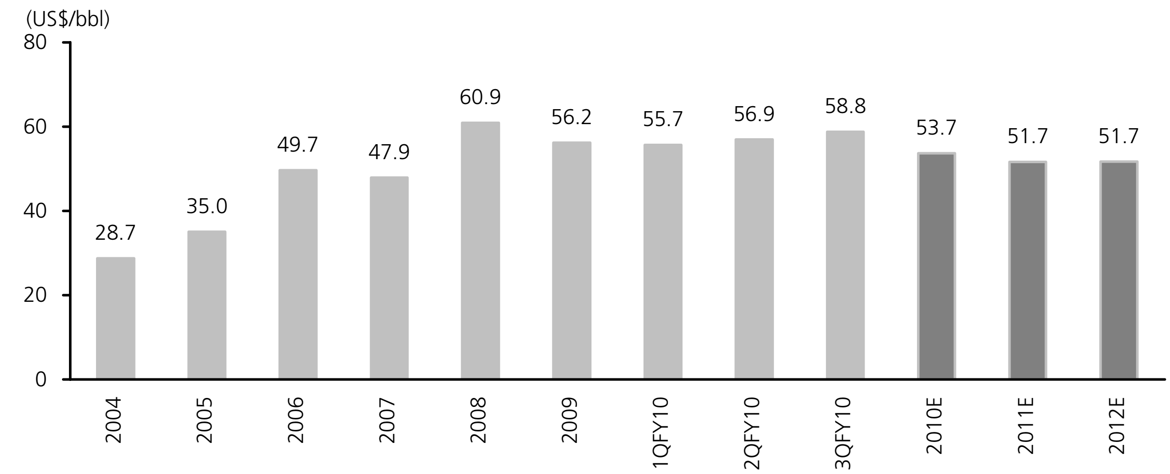
- **Crude oil price assumption.** We maintain our FY2010E, FY2011E and FY2012E crude oil (Dated Brent) price assumptions of US$67.5/bbl, US$70/bbl and US$75/bbl. However, we would focus more on net realized crude price and our long-term crude price assumption. Exhibits 5 and 6 give ONGC's and OIL's historical net realized prices and our assumptions for FY2010-12E.

ONGC's net realization has increased steadily over the past few years
ONGC's net crude price realization, March fiscal year-ends, 2004-2012E (US$/bbl)



Source: Company, Kotak Institutional Equities estimates

OIL's net realization has improved over the past few years
OIL's net crude price realization, March fiscal year-ends, 2004-2012E (US$/bbl)



Source: Company, Kotak Institutional Equities estimates

- **Natural gas price assumption.** We assume FY2010E, FY2011E and FY2012E natural gas (APM portion only) price at Rs3.2/cu m, Rs4/cu m and Rs4.5/cu m. We note that the petroleum ministry has proposed a gas price increase to Rs4.14/cu m effective from April 1, 2009. We assume that the price increase will become effective from the mid-1QFY11E although this is not a given since the price increase is pending since July 2005.

- **Exchange rate assumption.** We model exchange rate for FY2010E, FY2011E and FY2012E at Rs47.3/US$, Rs46/US$ and Rs46/US$.

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	807,603	966,542	1,091,644	1,200,176	1,001,690	1,057,981	1,170,129
EBITDA	**310,054**	**358,001**	**407,790**	**419,527**	**429,495**	**458,026**	**506,327**
Other income	27,350	45,378	53,565	56,197	35,529	50,742	67,125
Interest	(537)	394	(12,027)	(11,442)	(3,531)	(352)	(2,346)
Depreciation and depletion	(97,726)	(119,550)	(138,624)	(153,985)	(168,665)	(171,214)	(160,478)
Pretax profits	239,141	284,222	310,705	310,298	292,829	337,201	410,628
Tax	(71,196)	(88,986)	(102,908)	(111,333)	(94,647)	(106,377)	(118,342)
Deferred tax	(13,612)	(9,264)	(6,471)	(3,495)	(3,275)	610	(6,492)
Net profits	154,596	178,414	203,076	201,292	194,907	231,434	285,793
Net profits after minority interests	**153,542**	**176,922**	**199,466**	**197,908**	**192,305**	**229,090**	**282,956**
Earnings per share (Rs)	**71.8**	**82.7**	**93.3**	**92.5**	**89.9**	**107.1**	**132.3**
Balance sheet (Rs mn)							
Total equity	578,830	670,137	786,657	929,353	1,029,962	1,146,014	1,299,375
Deferred tax liability	71,557	80,976	87,227	92,076	95,352	94,742	101,234
Liability for abandonment cost	128,675	151,857	129,325	171,451	171,451	171,451	171,451
Total borrowings	28,767	21,826	22,039	73,633	23,377	40,224	114,124
Currrent liabilities	142,435	187,051	251,797	293,480	279,985	294,567	310,923
Total liabilities and equity	**950,264**	**1,111,847**	**1,277,045**	**1,559,994**	**1,600,128**	**1,746,998**	**1,997,108**
Cash	90,743	206,262	249,807	224,671	311,785	480,440	659,855
Current assets	240,210	192,652	257,384	309,494	259,783	269,049	285,079
Total fixed assets	565,722	643,219	695,227	871,287	869,079	833,089	887,754
Goodwill	14,172	27,686	22,847	111,108	111,108	111,108	111,108
Investments	35,753	36,888	45,041	36,926	41,866	46,806	46,806
Deferred expenditure	3,663	5,141	6,739	6,506	6,506	6,506	6,506
Total assets	**950,264**	**1,111,848**	**1,277,045**	**1,559,994**	**1,600,128**	**1,746,999**	**1,997,108**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	216,736	252,772	284,517	274,321	244,453	287,588	315,630
Working capital changes	46,461	(4,990)	(24,929)	(109,306)	27,137	158,381	325
Capital expenditure	(113,738)	(135,049)	(166,427)	(208,137)	(82,265)	(75,767)	(150,909)
Investments	(28,912)	53,822	(7,348)	(92,159)	(4,940)	—	—
Other income	14,537	20,422	22,822	31,612	35,529	50,742	67,125
Free cash flow	**135,083**	**186,976**	**108,636**	**(103,668)**	**219,914**	**420,944**	**232,172**
Ratios (%)							
Debt/equity	5.0	3.3	2.8	7.9	2.3	3.5	8.8
Net debt/equity	(10.7)	(27.5)	(29.0)	(16.3)	(28.0)	(38.4)	(42.0)
RoAE	25.9	25.5	24.8	21.2	18.2	19.6	21.7
RoACE	**22.0**	**22.1**	**21.9**	**18.5**	**15.8**	**17.1**	**19.3**
Key assumptions							
Rs/dollar rate	44.3	45.3	40.3	45.8	47.3	46.0	46.0
Crude fob price (US$/bbl)	57.2	64.8	78.9	83.0	67.5	70.0	75.0
Ceiling/actual natural gas price (Rs/'000 cm)	3,515	3,200	3,200	3,200	3,200	4,000	4,500
Subsidy loss (Rs bn)	119.6	170.2	220.0	282.3	130.4	163.7	207.0

Source: Company, Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of OIL, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	55,502	53,892	60,819	72,414	76,814	79,957	86,439
EBITDA	**26,554**	**22,292**	**23,852**	**28,339**	**37,748**	**40,147**	**44,475**
Other income	3,639	5,335	6,770	9,372	7,575	10,175	10,825
Interest	(152)	(151)	(383)	(26)	(38)	(24)	(9)
Depreciation and depletion	(3,314)	(2,595)	(3,093)	(3,768)	(6,654)	(10,480)	(13,877)
Pretax profits	26,728	24,881	27,145	33,916	38,631	39,819	41,415
Tax	(9,347)	(7,406)	(8,538)	(11,910)	(12,945)	(13,096)	(13,786)
Deferred tax	(498)	(1,020)	(707)	(343)	(185)	(131)	29
Net profits	**16,883**	**16,454**	**17,901**	**21,663**	**25,500**	**26,592**	**27,658**
Earnings per share (Rs)	**78.9**	**76.9**	**83.6**	**101.2**	**112.2**	**110.6**	**115.0**
Balance sheet (Rs mn)							
Total equity	58,483	68,491	79,330	93,310	136,737	153,061	170,040
Deferred tax liability	7,013	8,033	8,655	8,998	9,184	9,314	9,285
Liability for abandonment cost	10	11	11	15	15	15	15
Total borrowings	3,341	8,140	1,749	565	375	213	—
Currrent liabilities	11,668	10,320	17,541	30,914	30,171	30,511	30,974
Total liabilities and equity	**80,515**	**94,995**	**107,286**	**133,801**	**176,481**	**193,114**	**210,314**
Cash	31,015	32,757	42,808	60,700	90,898	98,937	108,827
Current assets	14,540	22,350	18,957	22,853	24,889	25,464	26,652
Total fixed assets	30,658	35,813	40,633	45,361	55,807	63,825	69,948
Investments	4,302	4,075	4,887	4,887	4,887	4,887	4,887
Deferred expenditure	—	—	—	—	—	—	—
Total assets	**80,515**	**94,995**	**107,286**	**133,801**	**176,481**	**193,114**	**210,314**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	19,843	18,357	20,104	27,246	22,515	23,028	24,681
Working capital changes	5,884	(8,696)	7,435	2,368	(2,778)	(236)	(724)
Capital expenditure	(6,108)	(9,370)	(9,492)	(8,496)	(14,851)	(14,498)	(14,000)
Investments	(2,482)	226	(811)	—	—	—	—
Other income	1,670	2,892	4,214	5,470	7,575	10,175	10,825
Free cash flow	**18,807**	**3,409**	**21,450**	**26,587**	**12,461**	**18,469**	**20,782**
Ratios (%)							
Debt/equity	5.7	11.9	2.2	0.6	0.3	0.1	—
Net debt/equity	(33.1)	(32.8)	(31.9)	(31.9)	(44.4)	(44.7)	(45.8)
RoAE	28.1	23.2	21.8	22.8	20.5	17.3	16.2
RoACE	**28.0**	**23.0**	**21.5**	**22.7**	**20.5**	**17.2**	**16.2**
Key assumptions							
Rs/dollar rate	44.3	45.3	40.3	45.8	47.3	46.0	46.0
Crude fob price (US$/bbl)	57.2	64.8	78.9	83.0	67.5	70.0	75.0
Ceiling/actual natural gas price (Rs/'000 cm)	3,515	3,200	3,200	3,200	3,200	4,000	4,500
Subsidy loss (Rs bn)	9.8	19.9	23.1	30.2	17.5	23.4	30.6

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities

Sun Pharmaceuticals (SUNP)

Pharmaceuticals

ADD

MARCH 12, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 1,656

Target price (Rs): 1,800

BSE-30: 17,167

Launching a lower risk generic Eloxatin in US. SUNP launched its version of Eloxatin in the US after a US court held that its agreement with patent holder Sanofi was valid. The agreement gives SUNP an edge in pricing and market share for Eloxatin. We are increasing EPS for FY2010E by 9%, FY2011E by 42% and FY2012E by 18%. This is not a limited period opportunity though the number of players could increase in the next 12 months. We raise our price target to Rs1,800 from Rs1,500 and retain ADD rating.

Company data and valuation summary

Sun Pharmaceuticals

Stock data			
52-week range (Rs) (high,low)			1,710-986
Market Cap. (Rs bn)			342.9
Shareholding pattern (%)			
Promoters			63.7
FIIs			20.0
MFs			2.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	8.3	13.9	62.7
Rel. to BSE-30	1.2	12.0	(17.0)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	65.4	90.7	92.7
EPS growth (%)	(25.5)	38.7	2.2
P/E (X)	25.3	18.3	17.9
Sales (Rs bn)	40.5	50.7	57.4
Net profits (Rs bn)	13.5	18.8	19.2
EBITDA (Rs bn)	14.8	20.8	21.4
EV/EBITDA (X)	20.1	13.7	12.7
ROE (%)	17.9	21.1	18.2
Div. Yield (%)	0.8	0.8	0.8

QUICK NUMBERS

- Risks for SUNP are much lower compared to other players
- Add Rs27 to FY2011E EPS
- Price target increased to Rs1,800 from Rs1,500

SUNP launches Generic Eloxatin

In October 2009, the US District Court for the District of New Jersey signed off on Sanofi-Aventis' settlement agreement with SUNP. This agreement ends the patent litigation between SUNP and SNY over generic Eloxatin. This was appealed By SNY. In early March 2010, a decision was issued in favor of SUNP. Based on this judgment, SUNP entered the market and launched the product on March 11, 2010.

Generic Eloxatin patent challenge continues, SUNP at an advantageous position due to settlement

Besides SUNP, TEVA, HSP two others—Sandoz and Fresenius—have received approvals for this product. One of them is expected to settle and be in the market shortly, according to SUNP. Since it is not possible to predict when additional competition will enter we conservatively assume a five-player market. We assume SUNP's market share at 30%, higher than a proportionate share of 20% in a five-player market since SUNP is in an advantageous position due to its patent settlement with SNY. We estimate SUNP will be able to garner a higher share in FY2011E since SUNP has not launched at risk and there is no risk of damages.

Generic Eloxatin adds Rs6 to FY2010E EPS and Rs27 to FY2011E EPS

In a potential five-player market with branded size of US$1.3 bn, we assume price erosion of 45% and SUNP market share at 30%. Based on these assumptions, we estimate SUNP will garner revenues of US$37 mn in FY2010E and US$185 mn in FY2011E. At an EBITDA margin of 75%, we expect this product to add around Rs5.6 to FY2010E EPS and Rs27 to FY2011E EPS.

We increase FY2010E PAT by 9% and FY2011E PAT by 42%

We use a Rs/US$ forecast of Rs47 for FY2010E and Rs46 for FY2011-12E. The only change in our estimates is the addition of generic Eloxatin revenues to FY2010-12E. Since this is not a limited period opportunity, we value this revenue stream at the multiple assigned to SUNP US business, 15X. Due to (1) a change in FY2012E earnings by 18% and (2) rolling forward 2 months ahead we increase PT to Rs1,800 (from Rs1,500) and maintain our ADD rating. At our target price, the stock will trade at 19.5X FY2012E earnings.

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SUNP launches Generic Eloxatin post settlement agreement with SNY

Eloxatin (Oxaliplatin) is a platinum-based cancer treatment. This was discovered in Japan and was licensed by Debipharm. Sanofi Aventis (SNY) markets the product in the US. Eloxatin revenues in US were US$1.3 bn.

In October 2009, the US District Court for the District of New Jersey approved Sanofi-Aventis' settlement agreement with SUNP. The agreement ended the litigation over generic Eloxatin. This was appealed By Sanofi. In early March2010, a decision was issued in favor of SUNP. Based on this judgment, SUNP launched the product on March 11, 2010.

The US District Court for the District of New Jersey ruled in March that Sanofi’s agreement with SUNP resolving the patent dispute over Eloxatin was enforceable. The agreement put an end to litigation between the two companies over SUNP’s alleged infringement. The District Court determined that Sanofi's actions were sufficient to render the agreement binding on both parties.

Sanofi's efforts to negate the agreement followed a summary judgment won by four other parties (Sandoz, Mayne, Hospira and Teva)—the judgment concluded that the parties all used methods for obtaining purification of oxaliplatin that differed from that disclosed in the '874 patent. However, because all essential terms of the agreement were set forth in the original January 2009 letter of intent and term sheet, the Court concluded that the contract was still enforceable.

Generic Eloxatin patent challenge continues

There are currently two court cases underway—(1) case between SNY and generic companies who have challenged the Eloxatin patent at the U.S. Court of Appeals for the Federal Circuit and (2) suit against FDA at the DC Circuit Court of Appeals.

In the ruling on September 10, 2009, the US Court of Appeals for the Federal Circuit reversed a lower court ruling that generic manufacturers did not infringe the patent on Sanofi's drug. The Court of Appeals for the Federal Circuit has remanded the case to the district court. The appeals court disagreed with the lower court by agreeing with Sanofi that the patent covered the end product regardless of what method was used to make it. The generic companies had contended that the patent covered the product only when a particular method was used to make it. SNY said during oral arguments at the Circuit court that it may seek a permanent injunction against further sales of the generics.

We think the ruling of September 10, where the US Court of Appeals for the Federal Circuit reversed a lower court ruling that generic manufacturers did not infringe the patent on Sanofi's drug increases the risk of a launch. SUNP had chosen to stay out of the market despite the fact that the six-month exclusivity started on August 11, 2009.

Teva and Hospira launched at risk in August 2009

In June 2009, the U.S. District Court for the District of New Jersey granted a summary judgment of non-infringement of SNY patent in favor of TEVA, HSP and SUNP. The US Court of Appeals for the Federal Circuit stayed the lower court ruling. Despite the stay, FDA approved ANDAs for oxaliplatin for these three companies. These companies, being patent challengers, were granted 180 days of exclusivity. On August 11, 2009, HSP and TEVA launched their products while SUNP did not.

Generic Eloxatin adds Rs6 to FY2010E EPS and Rs27 to FY2011E EPS

Besides SUNP, TEVA, HSP two others—Sandoz and Fresenius have received approvals for this product. One of them is expected to settle and be in the market shortly, according to SUNP. Since it is not possible to predict when additional competition will enter, we assume a conservative scenario of a five-player market. We assume SUNP's market share at 30%, higher than a proportionate share of 20% in a five-player market since SUNP is in an advantageous position due to its patent settlement with SNY. We estimate SUNP will be able to garner a higher share in FY2011E since SUNP has not launched at risk and there is no risk of damages. It will likely be more aggressive on pricing and market share due to its legal position.

The generic version of Eloxatin by TEVA and HSP is reportedly available at nearly 35% discount. With additional competition we assume a price erosion of 45%. We estimate SUNP to garner revenues of US$37 mn in FY2010E and US$185 mn in FY2011E based on the above assumptions. At EBITDA margin of 75% we expect, this product to add around Rs5.6 to FY2010E EPS and Rs27 to FY2011E EPS. Since this is not a limited period opportunity, we value this revenue stream at the multiple assigned to SUNP US business, 15X.

We increase FY2010E PAT by 9% and FY2011E PAT by 42%

We use Rs/US$ forecast of Rs47 for FY2010E and Rs46 for FY2011-12E. The only change in our estimates is due to the addition of generic Eloxatin revenues.

- **Inclusion of generic Eloxatin sales**—US$37 mn in FY2010E and US$185 mn in FY2011E. In FY2012E, we include US$110 mn from this product, expecting additional competition to enter the fray. At EBITDA margin of 75%, we expect this product to add around Rs5.6 to FY2010E EPS and Rs27 to FY2011E EPS. In FY2012E, we estimate lower contribution from generic Eloxatin due to additional competition with revenues at US$110 mn and EBITDA margin at 70%.

- **Exclusion of sales of exclusivity product, generic Protonix**. Sun Pharma continues to sell generic Protonix selectively. This is a very high-margin product with EBITDA margin of nearly 80% and management decision can bring high volatility to estimates. We continue to exclude any additional sales from these products in future.

- **SUNP is expected to launch Effexor XR post final approval from FDA.** This is not a true generic and its sales potential depends on a number of factors including potential competition when SUNP gets its approval. We are not building any revenues from this opportunity in FY2011E and the launch of this product could offer upside to our estimates.

- **No sales of CPD manufactured products included in estimates**. We exclude any revenues from CPD manufactured products from 4QFY10. CPD will continue to distribute SUNP products for which it will make about 12% gross margin. CPD has entered into agreement with Forest and will be distributing some of its generic products. CPD started selling two products from the Forest deal in 3QFY10. As part of the deal, CPD will pay royalties on net sales of these products.

- **Increasing sales from SUN ANDAs in FY2011E**. SUNP filed 15 products in US YTD FY2010 and is on track to fulfill its annual guidance of 30 ANDA filings in FY2010E. Including this, 108 ANDA's await approval. Four ANDAs were filed in 3QFY10. With this strong pipeline, we expect revenues from SUN ANDAs excluding exclusivity sales to grow to US$145 mn in FY2010E and US$313 mn in FY2011E with generic Eloxatin sales at US$37 mn in FY2010E and US$185 mn in FY2011E.

Change in estimates

	Current estimates			Old estimates			% change		
	FY2010E	FY2011E	FY2012E	FY2010E	FY2011E	FY2012E	FY2010E	FY2011E	FY2012E
Gross sales	**41,314**	**51,779**	**58,644**	**39,561**	**43,269**	**53,584**	**4**	**20**	**9**
API	5,813	6,828	8,082	5,821	6,828	8,082	—	—	—
India finished dosages	18,596	24,598	29,518	18,596	24,598	29,518	—	—	—
Caraco	895	—	—	895	—	—	—		
SUN ANDAs	5,021	14,398	13,303	3,268	5,888	8,243	54	145	61
Exclusivity sales	5,287	—	—	5,287	—	—	—		
RoW	4,718	5,955	7,741	4,718	5,955	7,741	—	—	—
Able Labs, Chattem	984	—	—	975	—	—	1		
Excise duty	(801)	(1,040)	(1,243)	(801)	(1,040)	(1,243)	—	—	—
Net sales	**40,514**	**50,739**	**57,401**	**38,760**	**42,229**	**52,341**	**5**	**20**	**10**
Materials	(10,482)	(14,029)	(16,832)	(10,042)	(11,825)	(14,968)	4	19	12
Selling and administration	(6,550)	(5,863)	(6,711)	(6,637)	(6,289)	(7,356)	(1)	(7)	(9)
Employee cost	(4,848)	(5,170)	(5,946)	(4,848)	(5,170)	(5,946)	—	—	—
R& D	(2,320)	(3,552)	(4,879)	(2,279)	(3,378)	(4,449)	2	5	10
Others	(2,798)	(2,537)	(2,870)	(2,710)	(2,111)	(2,617)	3	20	10
Total expenditure	**(26,997)**	**(31,151)**	**(37,238)**	**(26,517)**	**(28,773)**	**(35,337)**	**2**	**8**	**5**
EBITDA	**13,516**	**19,588**	**20,163**	**12,244**	**13,456**	**17,004**	**10**	**46**	**19**
Depreciation and amortisation	(1,514)	(1,850)	(2,000)	(1,514)	(1,850)	(2,000)	—	—	—
EBIT	**12,003**	**17,738**	**18,163**	**10,730**	**11,606**	**15,004**	**12**	**53**	**21**
Other income	2,516	2,400	2,400	2,516	2,400	2,400	—	—	—
Pretax profits before extra-ord	**14,519**	**20,138**	**20,563**	**13,246**	**14,006**	**17,404**	**10**	**44**	**18**
Current tax	(518)	(935)	(964)	(433)	(506)	(743)	20	85	30
Deferred tax	(475)	(475)	(475)	(475)	(475)	(475)	—	—	—
Reported net profit	**13,526**	**18,728**	**19,123**	**12,338**	**13,026**	**16,186**	**10**	**44**	**18**
Minority Interest	(22)	(59)	(80)	(51)	(218)	(80)	(58)	(73)	0
Reported net profit after mino	**13,548**	**18,787**	**19,203**	**12,390**	**13,243**	**16,266**	**9**	**42**	**18**

Source: Kotak Institutional Equities estimates, Company

Normalised EPS

	FY2009	FY2010E	FY2011E	FY2012E
EPS (Rs)				
Base adding back one-time costs	60.4	42.2	58.6	73.2
Generic Trileptal+Protonix+Ethyol	23.9	15.9	—	—
Generic Oxiplatin	—	5.6	26.8	14.2
Interest income	5.7	5.4	5.4	5.4
One-time expenses	(2.4)	(3.7)	—	—
Total	**87.5**	**65.4**	**90.7**	**92.7**
P/E (X)				
Base		34.6	19.4	19.0
Total		**25.3**	**18.2**	**17.8**

Source: Kotak Institutional Equities estimates, Company

SOTP based price target, FY2011-12E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	FY2011E	FY2012E	(X)	FY2011E	FY2012E
India finished dosage	6,951	8,322	20.0	139,020	166,446
India API	129	121	10.0	1,287	1,213
International finished dosage	1,849	2,320	16.0	29,582	37,115
International API	1,507	1,734	13.0	19,593	22,545
Caraco business	59	80	—	—	—
Sun Pharma ANDAs	7,031	5,359	15.0	105,465	80,386
Hungary	145	152	15.0	2,182	2,276
Total (ex interest income)	**17,671**	**18,088**		**297,128**	**309,980**
Value per share (Rs)				**1,435**	**1,497**
Cash per share (Rs)				228	300
Share price target (Rs)					**1,796**

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

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

	2007	2008	2009	2010E	2011E	2012E
Net sales	**21,321**	**33,565**	**42,723**	**40,514**	**50,739**	**57,402**
Materials	(5,767)	(7,222)	(8,556)	(10,482)	(14,029)	(16,832)
Selling and administration	(2,616)	(3,759)	(5,543)	(6,550)	(5,863)	(6,711)
Employee cost	(1,989)	(2,331)	(3,401)	(4,848)	(5,170)	(5,946)
R& D	(2,440)	(2,725)	(3,099)	(2,320)	(3,552)	(4,879)
Others	(1,785)	(2,017)	(3,484)	(2,798)	(2,537)	(2,870)
Total expenditure	**(14,597)**	**(18,054)**	**(24,084)**	**(26,997)**	**(31,151)**	**(37,238)**
EBITDA	**6,724**	**15,511**	**18,640**	**13,516**	**19,588**	**20,164**
Depreciation and amortisation	(813)	(969)	(1,233)	(1,514)	(1,850)	(2,000)
EBIT	**5,910**	**14,543**	**17,407**	**12,003**	**17,738**	**18,164**
Net finance cost	(127)	(88)	—	—	—	—
Other income	2,551	1,539	2,085	2,516	2,400	2,400
Pretax profits before extra-ordinaries	**8,335**	**15,994**	**19,492**	**14,519**	**20,138**	**20,564**
Current tax	(91)	(1,288)	(1,192)	(518)	(935)	(964)
Deferred tax	158	804	481	(475)	(475)	(475)
Reported net profit	**8,402**	**15,509**	**18,780**	**13,526**	**18,728**	**19,124**
Minority Interests	559	640	603	(22)	(59)	(80)
Reported net profit after minority interes	**7,843**	**14,869**	**18,177**	**13,548**	**18,787**	**19,204**

Source: Kotak Institutional Equities estimates, Company

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

	2007	2008	2009	2010E	2011E	2012E
Balance sheet						
Total equity	27,728	49,915	70,449	81,201	97,191	113,599
Total debt	11,144	1,436	1,789	1,789	1,789	1,789
Current liabilities	3,046	6,373	7,198	7,021	7,421	8,022
Minority Interests	438	1,886	1,970	1,949	1,890	1,810
Deferred tax liabilities	895	92	(679)	(204)	271	746
Total equity and liabilities	**43,250**	**59,701**	**80,728**	**91,756**	**108,563**	**125,967**
Cash and cash equivalents	13,802	12,389	16,690	28,106	40,713	55,643
Current assets	16,086	26,983	25,993	25,419	29,968	32,943
Net fixed assets	**9,514**	**10,354**	**14,625**	**14,812**	**14,462**	**13,962**
Intangible assets	697	1,729	3,253	3,253	3,253	3,253
Capital -WIP	608	686	1,571	1,571	1,571	1,571
Investments	2,543	7,560	18,595	18,595	18,595	18,595
Total assets	**43,250**	**59,701**	**80,728**	**91,756**	**108,563**	**125,967**
Free cash flow						
Operating cash flow, excl. working capital	8,134	15,198	18,841	13,922	19,462	20,008
Working capital	(5,568)	(7,183)	1,113	436	(4,208)	(2,453)
Capital expenditure	(2,103)	(1,787)	(6,401)	(1,700)	(1,500)	(1,500)
Investments	998	(5,017)	(11,035)	—	—	—
Free cash flow	**1,461**	**1,210**	**2,519**	**12,658**	**13,754**	**16,055**

Source: Kotak Institutional Equities estimates, Company

INDIA

MARCH 12, 2010

UPDATE

BSE-30: 17,168

January 2010 IIP: No news is good news. January IIP growth at 16.7% versus 17.6% (revised from 16.8% for December 2009) may be no news for financial markets as well as policy makers. The growth was only marginally below our estimate of 17.4% and street average forecast of 17%. It reinforced our view that current industrial buoyancy may extend into FY2011 with growth decelerating slightly on adverse base effects, but production levels remaining high as investment activity picks up.

Industrial activity remains on course to notching IIP growth of ≅11% in FY2011E

January IIP growth was by and large in line with market expectations. Manufacturing growth at 17.9% may have been a notch lower than expected, but not significant enough to alter our view that IIP growth may average ≅11% in FY2011E (see Exhibit 1). We retain our view that IIP growth may remain at current elevated levels of >15% through the rest of FY2011E.

Sustained high capital goods production indicates that investment may be reviving

We see signs of investment activity reviving in recent IIP data. Capital goods production jumped 56.2% yoy; highest since March 1995 growth of 65.6% (see Exhibit 2). Its mere 1% decline mom means that capital goods production that had jumped 41.2% mom in December 2009 has maintained high levels in January 2010 against the pattern of a seasonal decline expected this month. Consumer durables continue to surprise upwards with a further 4.4% mom growth that resulted in 31.6% yoy growth for this sector. Consumer durables growth has averaged >25% in FY2010 so far. Consumer non-durables growth disappointed again in January. Its production levels had improved by 26% over the past two months, but declined by 2.6% mom in January. Improved activity of core infrastructure industries also augurs well for sustainability of high industrial growth (see Exhibit 3). On a 4m MA basis, IIP growth has already risen to 14.1% from 0.3% at the end of FY2009 (see Exhibit 4). We see small further upside to it.

No news is good news: We expect policy of gradual withdrawal of stimulus to stay on course

January IIP numbers do not constitute news for either the markets or the policy makers. We see this no news as good news. It means that:

- Fiscal and monetary policies may stay calibrated for gradual withdrawal of stimulus.
- We continue to maintain that further monetary tightening is likely ahead, but monetary policy measures before the scheduled policy date of April 20, 2010 are unlikely (see our Economy note of February 15, 2010, '*Industry moves into top gear, but RBI unlikely to apply brakes any harder*'). Our view remains that a 50-75 bps hike in RBI repo and reverse repo rate is likely on April 20, with or without CRR hike; the latter would depend on liquidity conditions close to the policy.
- We expect IIP growth in FY2011E to decelerate slightly but still stay at 9-10% if (1) investment activity picks up, (2) monsoon is normal and (3) global growth remains on recovery track.

QUICK NUMBERS

- IIP growth likely at >15% in next two months; ≅ 11% in FY2010E
- Capital goods grow 56.2%; highest since March1995 (65.6%)
- Continue to expect 50-75 bps policy rate hike in April monetary policy

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Exhibit 1: January IIP maintains high growth with booming mining and manufacturing activity
Sectoral classification of IIP growth, March fiscal year-ends, 2008-2010 (%)

	Mining (%)			Manufacturing (%)			Electricity (%)			General (%)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Weights (%)			**10.5**			**79.4**			**10.2**			**100.0**
April	2.6	6.1	3.4	12.4	6.7	0.4	8.7	1.4	7.1	11.3	6.2	1.1
May	3.8	5.5	3.4	11.3	4.5	1.8	9.4	2.0	3.3	10.6	4.4	2.1
June	1.5	0.1	14.2	9.7	6.1	8.0	6.8	2.6	8.0	8.9	5.4	8.3
July	3.2	2.8	8.7	8.8	6.9	7.4	7.5	4.5	4.2	8.3	6.4	7.2
August	14.7	2.8	11.0	10.7	1.7	10.6	9.2	0.8	10.6	10.9	1.7	10.6
September	4.9	5.8	7.4	7.4	6.2	9.7	4.5	4.4	7.5	7.0	6.0	9.3
October	5.1	3.2	9.1	13.8	(0.6)	10.9	4.2	4.4	4.0	12.2	0.1	10.2
November	6.3	0.7	10.4	4.7	2.7	12.9	5.8	2.6	1.8	4.9	2.5	11.8
December	5.0	2.2	10.7	8.6	(0.6)	19.3	3.8	1.6	5.4	8.0	(0.2)	17.6
January	2.9	0.7	14.6	6.7	1.0	17.9	3.7	1.8	5.6	6.2	1.0	16.7
February	7.9	(0.2)		9.6	0.2		9.8	0.7		9.5	0.2	
March	4.9	1.9		5.7	(0.3)		3.7	6.3		5.5	0.3	
April-January	**4.9**	**2.9**	**9.3**	**9.3**	**3.4**	**10.0**	**6.3**	**2.6**	**5.7**	**9.1**	**3.6**	**9.6**
April-March (FY)	**5.1**	**2.6**		**9.0**	**2.7**		**6.3**	**2.8**		**8.5**	**2.7**	

Source: CSO and Kotak Institutional Equities

Exhibit 2: Capital goods grow 56.2% in January 2010; highest since March 1995 growth of 65.6%.
Use-based classification of IIP growth, March fiscal year-ends, 2008-2010 (%)

	Basic goods			Capital goods			Intermediate goods			Consumer goods			Consumer durables			Consumer non-durables		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Weights (%)			**35.6**			**9.3**			**26.5**			**28.7**			**5.4**			**23.3**
April	8.6	4.0	4.5	10.9	12.4	(5.9)	10.6	3.1	7.9	14.7	8.5	(4.6)	2.4	3.2	17.6	18.7	10.0	(10.5)
May	10.3	3.0	3.8	22.4	4.3	(3.6)	8.8	1.9	6.6	8.7	7.4	(1.1)	(0.7)	2.8	13.2	12.1	9.0	(5.5)
June	9.2	2.2	10.7	23.1	7.8	13.4	8.6	2.8	7.9	3.6	9.9	4.4	(3.6)	4.6	16.2	6.3	11.6	0.7
July	8.7	5.3	4.7	12.3	17.9	1.7	7.7	3.0	9.8	7.1	5.9	9.7	(2.7)	13.9	22.1	10.5	3.4	5.3
August	12.7	3.9	7.7	30.8	0.9	9.2	13.8	(5.5)	14.4	(0.0)	6.4	10.9	(6.2)	3.9	24.7	2.4	7.3	6.1
September	6.5	5.0	5.3	20.9	20.8	13.5	10.1	(2.5)	11.0	(0.2)	7.4	9.7	(7.3)	14.7	24.1	2.6	4.8	4.1
October	6.5	3.2	4.0	20.9	4.2	10.2	13.9	(4.4)	15.5	13.7	(0.9)	12.1	9.0	(1.6)	20.0	15.8	(0.6)	9.0
November	5.2	2.2	5.7	24.2	0.5	11.8	5.5	(3.9)	19.1	(2.9)	9.4	11.9	(5.5)	0.3	38.4	(2.0)	12.4	4.0
December	3.4	2.0	7.7	17.6	6.6	39.1	7.6	(8.9)	22.7	8.7	1.7	13.2	2.8	(4.2)	45.9	10.3	3.2	5.4
January	3.6	(0.7)	10.7	2.6	15.9	56.2	8.0	(7.2)	21.3	8.4	3.6	4.2	(0.5)	2.1	31.6	11.1	4.0	(3.1)
February	7.3	(0.1)		10.7	11.8		8.5	(3.0)		11.7	(1.3)		3.1	6.0		14.3	(3.4)	
March	3.3	1.9		20.3	(6.3)		4.9	1.9		0.9	1.3		(2.0)	8.4		1.9	(1.0)	
April-January	**7.3**	**3.0**	**6.5**	**18.5**	**8.9**	**15.7**	**9.4**	**(2.2)**	**13.5**	**6.1**	**5.8**	**6.9**	**(1.4)**	**3.9**	**25.1**	**8.7**	**6.4**	**1.2**
April-March (FY)	**7.0**	**2.6**		**18.0**	**7.3**		**8.9**	**(1.9)**		**6.1**	**4.7**		**(1.0)**	**4.5**		**8.5**	**4.8**	

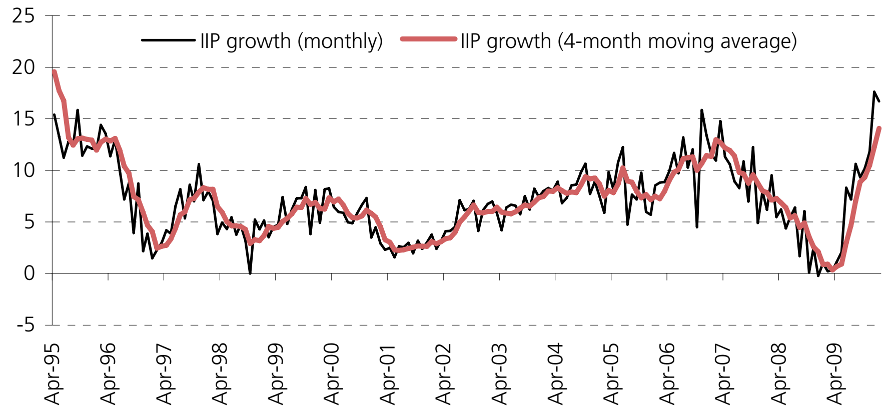
Source: CSO and Kotak Institutional Equities

Exhibit 3: Core sector growth recovers sharply in January 2010
Sector-wise growth rates in production for six infrastructure industries, March fiscal year-ends, 2009-2010 (%)

	Crude Oil		Refinery		Coal		Electricity		Cement		Finished Steel		General	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Weights (%)		**4.2**		**2.0**		**3.2**		**10.2**		**2.0**		**5.1**		**26.7**
April	1.0	(3.1)	4.3	(4.5)	10.3	13.2	1.4	7.1	6.9	11.8	7.5	(1.3)	4.6	3.7
May	3.2	(4.3)	0.1	(4.3)	8.8	10.2	2.0	3.3	3.8	11.8	8.3	2.8	4.4	3.2
June	(4.7)	4.0	5.6	(3.8)	6.1	14.7	2.6	8.0	6.6	12.8	8.1	3.6	4.4	6.3
July	(3.0)	(0.4)	11.8	(14.4)	5.5	9.7	4.5	4.2	5.5	14.0	6.3	4.0	5.2	3.3
August	(1.0)	(2.6)	2.5	3.1	5.9	12.9	0.8	10.6	1.9	17.6	3.3	0.3	2.0	6.5
September	(0.4)	(0.5)	2.8	3.4	11.2	6.5	4.4	7.9	8.1	6.5	2.3	0.8	4.1	4.5
October	(0.2)	(2.2)	5.0	7.2	10.6	5.0	4.4	4.7	6.2	5.2	(3.8)	2.5	2.4	3.8
November	0.5	(1.5)	(1.1)	4.9	9.7	4.7	2.6	3.3	8.7	9.0	(6.3)	11.7	0.8	6.0
December	(0.3)	1.1	3.0	0.8	11.2	2.5	1.5	6.7	11.6	11.0	(8.0)	9.6	0.7	6.0
January	(8.1)	9.7	(1.3)	3.8	6.7	5.9	1.8	5.6	8.3	12.4	3.2	16.2	2.2	9.4
February	(6.2)		0.5		6.0		0.6		8.3		2.4		1.9	
March	(2.3)		3.3		5.2		6.3		10.1		(1.8)		3.3	
April-January	**(1.3)**	**(0.1)**	**3.2**	**(0.5)**	**8.7**	**8.1**	**2.6**	**6.1**	**6.8**	**11.2**	**1.9**	**4.9**	**3.1**	**5.3**
April-March (FY)	**(1.8)**		**3.0**		**8.0**		**2.7**		**7.2**		**1.6**		**3.0**	

Source: CSO and Kotak Institutional Equities

Exhibit 4: Unprecedented V-shaped recovery in IIP growth in FY2010
IIP growth on a monthly and 4-month moving average basis, March fiscal year-ends, 1996-2010 (%)



Source: CSO and Kotak Institutional Equities

kotak Institutional Equities

Banks/Financial Institutions

India

ATTRACTIVE

MARCH 15, 2010

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BSE-30: 17,167

Rise in interest rates to impact near-term earnings. We expect 4QFY10E earnings to get impacted by 5-15% on the back of a sharp rise in G-Sec yields over the past few weeks even as loan growth and margins remain strong. Strong credit growth (up 16% yoy) and higher inflation (8.6%) have pushed G-Sec yields by over 40-50 bps across maturities. We believe the impact will likely be higher for PSU banks, primarily SBI, BoI, OBC, and IOB. In the private sector, large corporate bond books will likely impact Axis Bank's earnings. We retain our preference for HDFC Bank, Bank of Baroda and PNB.

Interest rates on an uptrend, driven by strong pick-up in credit and higher inflation

Interest rates have steadily been moving up, driven by the uptick in credit, higher inflation and the expected government borrowing program in FY2011E (likely to be frontloaded). The incremental credit-deposit ratio has been at ~90% for the past two quarters with credit growth showing strong improvement -- up16% yoy (February 26, 2010). We expect liquidity to get tighter in the near term due to advance tax outflows (liquidity has already reduced to Rs220 bn as of March 12, 2010 from its recent levels of about Rs700-800 bn).

4QFY10 profits to be lower by 5-15% from our current estimates

We believe that banks will likely make higher-than-expected provisions on their investment portfolios due to the rising in bond yields.

- The 10-year GSec yield has moved up 42 bps since 3QFY10 to 8%—in the past, managements have highlighted that they are cushioned up to ~7.8%
- The movement has been non-parallel, i.e.,1-year has risen by 41 bps and 2-year by 48 bps; the AFS books of most banks have duration of 2-3 years, thus the impact could be somewhat higher
- Corporate bond books will also have a relatively larger impact as corporate bond spreads have widened by 50 bps—the difference between corporate bond portfolio and 1-year G-Sec has now increased to 130 bps compared to 80 bps at end 3QFY10

Within the sector, we believe that the impact would be higher for PSU banks, especially the larger players like SBI and BoI with their last reported duration well above three years, while smaller PSUs like Indian Bank, IOB, and OBC have durations of three years.

Impact for most private banks should be relatively low given the low durations of their portfolios. Axis Bank will likely make higher provisions given its high-duration corporate bond/debenture portfolio.

Higher margins; faster loan growth and likely lower loan loss provisions provide cushions

We believe the impact of higher provisions will likely be cushioned by faster-than-anticipated credit growth, which will lead to better margins. Further, at times of higher MTM losses, managements may choose to make somewhat lower loan loss provisions, thereby reducing their total provisioning costs.

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Fiscal consolidation bodes well over the long term

We may see a bond rally during 2HFY11 as the base effects play out in inflation and government borrowing reduces, both of which we expect. Near-term interest rates are headed upwards, but we are not overly concerned about a rapid rise in interest rates. According to our chief economist, RBI may tighten rates by 50 bps in the April policy due to rapid economic growth and high inflation. High government borrowing during 1HFY11E may keep rates high for some time; we expect 10-year to peak at 8.25-8.50% during 1HFY11E.

PAT cold be lower by 5-15% that our estimate in case 10 year yields reach 8% by March 2010E
Sensitivity of higher Gsec yields on 4QFY10E PAT

				10 year yield at 8%		10 year at 8.25%	
	PAT-4QFY10E (Rs mn)	AFS book (Rs bn)	Duration (years)	Impact on PAT (Rs mn)	% impact on PAT	Impact on PAT (Rs mn)	% impact on PAT
Andhra Bank	1,358	35	2.0	(91)	(7)	(205)	(15)
BoB	5,902	100	2.2	(286)	(5)	(644)	(11)
BoI	7,311	184	3.8	(909)	(12)	(2,045)	(28)
Canara Bank	5,647	159	2.4	(496)	(9)	(1,116)	(20)
Corporation Bank	1,615	90	2.0	(233)	(14)	(524)	(32)
Indian Bank	3,631	117	3.0	(456)	(13)	(1,027)	(28)
IOB	6,547	80	3.0	(312)	(5)	(702)	(11)
OBC	2,171	71	3.0	(277)	(13)	(623)	(29)
PNB	8,989	135	2.5	(438)	(5)	(985)	(11)
SBI	25,252	670	3.5	(6,097)	(24)	(9,908)	(39)
Union Bank	4,350	147	1.9	(364)	(8)	(820)	(19)
Federal Bank	1,756	29	2.5	(93)	(5)	(210)	(12)

Note:
We calculate the MTM impact on PAT assuming a 35% tax rate; parallel movement in yield curve

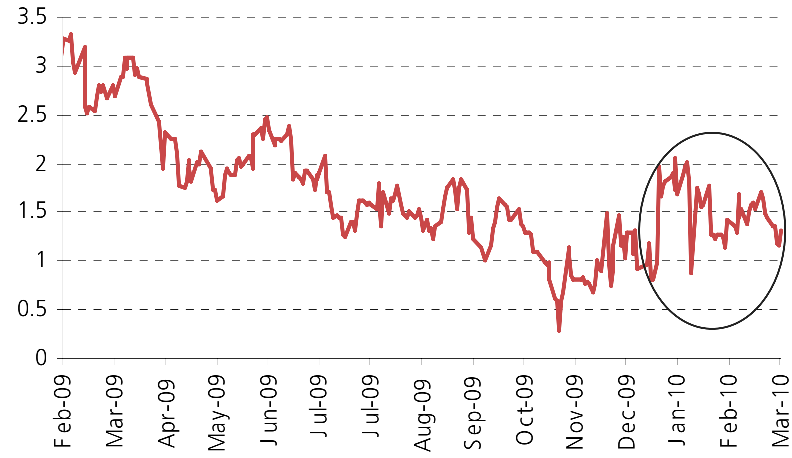
Source: Company, Kotak Institutional Equities

Impact on profits would be visible in 4QFY10 as 10 Year GSec has crossed 7.8% (%)
10 year G-sec yield, March 2008-March 2010 (%)

Source: Bloomberg

Corporate bond spreads have widened since 3QFY10

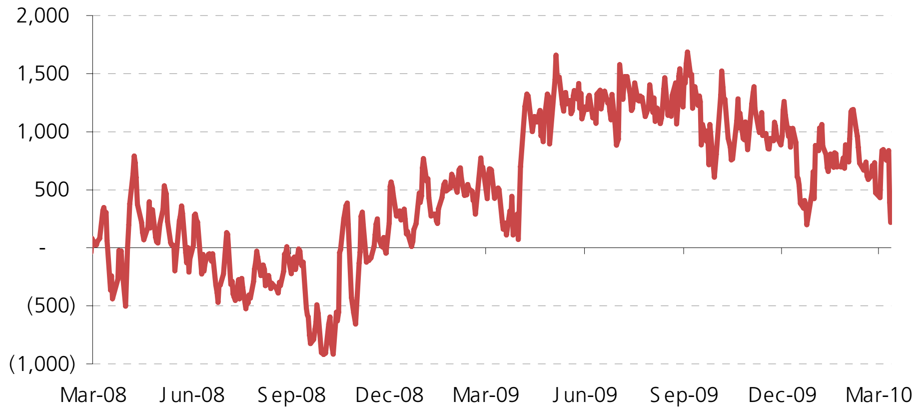
Spreads between 1 year corporate bond and 1 year G-Sec (%)



Source: Bloomberg

We expect liquidity to remain tight over the next few weeks

Net outstanding Reverse Repo (net of Repo), 2008-2010 (Rs bn)



Source: Bloomberg

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	12-Mar-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	51	ADD	67,515	1,486	1,330	1.5	3.1	3.9	(57.8)	105.8	24.5	33.2	16.1	12.9	18.1	10.9	8.5	1.8	1.7	1.5	2.0	2.0	2.0	6.2	12.1	12.4	55	8.4	4.9
Bajaj Auto	1,842	ADD	266,521	5,865	145	45.2	110.7	137.9	(13.4)	144.8	24.5	40.7	16.6	13.4	21.4	10.3	8.9	14.2	8.6	5.6	1.1	1.1	1.1	37.7	64.0	50.4	1,930	4.8	12.4
Hero Honda	1,919	REDUCE	383,134	8,431	200	64.2	107.4	116.0	32.4	67.3	8.0	29.9	17.9	16.5	18.0	11.2	9.9	9.7	6.9	5.2	1.0	1.1	1.1	36.4	45.1	35.8	1,625	(15.3)	18.9
Mahindra & Mahindra	1,141	ADD	336,257	7,399	295	30.0	64.4	72.7	(19.8)	114.5	12.8	38.0	17.7	15.7	26.5	11.5	10.3	6.4	4.3	3.4	0.8	0.8	0.8	17.1	28.6	23.9	1,230	7.8	26.1
Maruti Suzuki	1,464	REDUCE	422,980	9,308	289	42.2	85.1	90.9	(29.6)	101.7	6.9	34.7	17.2	16.1	20.9	9.7	8.7	4.5	3.6	2.9	0.2	0.3	0.3	13.5	23.0	20.0	1,350	(7.8)	25.4
Tata Motors	761	ADD	434,670	9,565	571	10.0	26.3	30.1	(78.2)	162.7	14.4	75.9	28.9	25.3	27.2	14.9	13.0	3.3	2.5	2.3	0.7	0.8	0.8	4.4	9.9	9.7	810	6.5	85.4
Automobiles		**Cautious**	**1,911,078**	**42,053**					**(30.7)**	**114.8**	**13.4**	**40.9**	**19.1**	**16.8**	**22.5**	**11.7**	**10.3**	**5.1**	**3.8**	**3.2**	**0.8**	**0.8**	**0.8**	**12.4**	**20.2**	**18.9**			
Banks/Financial Institutions																													
Andhra Bank	100	BUY	48,452	1,066	485	13.5	19.4	14.7	13.5	44.1	(24.4)	7.4	5.1	6.8	—	—	—	1.3	1.1	1.0	4.5	3.9	2.9	18.9	23.5	15.3	125	25.1	2.9
Axis Bank	1,151	ADD	437,407	9,625	380	50.6	63.3	74.5	56.9	25.1	17.7	22.8	18.2	15.5	—	—	—	4.3	2.7	2.4	0.8	1.1	1.4	19.1	18.4	17.5	1,160	0.8	49.5
Bank of Baroda	619	BUY	226,207	4,978	366	60.9	75.0	77.2	55.1	23.1	2.9	10.2	8.2	8.0	—	—	—	2.0	1.7	1.4	1.5	1.8	1.8	21.4	22.0	19.1	650	5.0	11.1
Bank of India	340	REDUCE	178,837	3,935	526	57.2	38.9	47.8	40.7	(32.0)	22.9	5.9	8.7	7.1	—	—	—	1.5	1.3	1.1	2.3	1.6	2.0	29.2	16.2	17.3	360	5.9	5.7
Canara Bank	409	ADD	167,629	3,689	410	50.5	75.2	69.7	32.4	48.8	(7.3)	8.1	5.4	5.9	—	—	—	1.7	1.3	1.1	2.0	2.0	2.4	18.3	22.8	17.8	470	15.0	4.8
Corporation Bank	462	BUY	66,290	1,459	143	62.3	71.1	65.0	21.5	14.1	(8.5)	7.4	6.5	7.1	—	—	—	1.4	1.2	1.0	2.7	3.1	2.8	19.6	19.3	15.5	540	16.8	0.6
Federal Bank	265	BUY	45,358	998	171	29.3	30.6	38.0	(14.8)	4.5	24.1	9.1	8.7	7.0	—	—	—	1.1	1.0	0.9	1.9	2.0	2.4	12.1	11.5	13.0	340	28.2	3.2
HDFC	2,716	ADD	772,481	16,998	284	80.2	98.5	115.4	(6.4)	22.7	17.2	33.8	27.6	23.5	—	—	—	5.9	5.4	4.7	1.1	1.3	1.5	18.2	19.7	20.3	2,700	(0.6)	42.4
HDFC Bank	1,801	BUY	814,271	17,918	452	52.8	64.8	84.4	17.6	22.8	30.2	34.1	27.8	21.3	—	—	—	5.4	3.8	3.4	0.5	0.7	0.9	16.9	16.1	16.7	1,800	(0.1)	37.8
ICICI Bank	937	ADD	1,042,763	22,946	1,113	33.8	37.3	47.0	(15.4)	10.6	26.0	27.7	25.1	19.9	—	—	—	2.1	2.0	1.9	1.2	1.3	1.7	7.8	8.2	9.8	890	(5.0)	94.8
IDFC	166	REDUCE	215,534	4,743	1,295	5.8	8.4	9.1	1.9	45.4	8.0	28.8	19.8	18.3	—	—	—	3.5	3.0	2.7	0.7	0.9	0.9	12.9	16.4	15.6	145	(12.9)	19.1
India Infoline	119	BUY	36,964	813	312	5.1	7.7	9.2	(8.7)	50.4	19.2	23.2	15.4	12.9	—	—	—	3.0	2.5	2.0	2.1	2.8	1.8	11.9	17.6	18.7	170	43.4	5.4
Indian Bank	168	BUY	72,201	1,589	430	28.0	34.2	34.7	24.1	22.4	1.4	6.0	4.9	4.8	—	—	—	1.3	1.1	0.9	3.0	3.5	3.6	22.9	23.3	20.0	230	36.9	2.2
Indian Overseas Bank	93	BUY	50,476	1,111	545	24.3	22.7	13.3	10.3	(6.9)	(41.1)	3.8	4.1	6.9	—	—	—	0.8	0.7	0.7	5.7	4.0	4.4	22.1	16.1	8.6	150	61.9	2.5
J&K Bank	650	BUY	31,517	694	48	84.5	105.5	112.3	13.8	24.8	6.4	7.7	6.2	5.8	—	—	—	1.4	1.2	1.0	2.6	3.2	3.5	16.7	18.1	16.9	700	7.7	0.7
LIC Housing Finance	810	ADD	72,902	1,604	90	62.5	82.6	77.4	37.3	32.0	(6.2)	13.0	9.8	10.5	—	—	—	3.7	2.2	1.9	1.6	2.2	2.2	26.2	26.2	19.8	925	14.2	12.6
Mahindra & Mahindra Financial	372	BUY	35,629	784	96	22.4	31.9	37.2	7.5	42.2	16.5	16.6	11.7	10.0	—	—	—	2.5	2.2	1.9	1.5	2.1	2.5	15.4	19.3	19.6	415	11.5	0.8
Oriental Bank of Commerce	291	REDUCE	73,007	1,606	251	36.1	41.3	47.7	51.4	14.3	15.5	8.1	7.1	6.1	—	—	—	1.2	1.1	0.9	2.5	2.9	3.3	13.7	13.3	14.0	280	(3.9)	4.4
PFC	265	SELL	304,389	6,698	1,148	13.3	19.7	21.4	17.4	47.7	8.6	19.9	13.5	12.4	—	—	—	2.8	2.4	2.1	1.5	1.9	2.0	18.9	18.4	17.6	210	(20.8)	3.6
Punjab National Bank	923	BUY	290,914	6,401	315	98.0	116.4	124.7	50.9	18.7	7.2	9.4	7.9	7.4	—	—	—	2.2	1.8	1.5	2.1	2.5	2.7	25.8	25.2	22.5	1,020	10.6	7.2
Reliance Capital	794	ADD	195,402	4,300	246	39.3	17.7	17.5	(5.6)	(55.1)	(1.1)	20.2	44.9	45.4	—	—	—	2.9	2.8	2.6	0.7	0.3	0.3	15.3	6.3	5.9	875	10.2	49.1
Shriram Transport	500	ADD	115,654	2,545	232	30.1	36.6	48.3	56.7	21.6	32.0	16.6	13.7	10.3	—	—	—	5.1	3.0	2.6	0.9	2.2	2.9	29.6	26.5	25.1	500	0.1	4.1
SREI	70	NR	8,111	178	116	7.0	8.3	7.9	(24.7)	17.8	(4.8)	9.9	8.4	8.8	—	—	—	0.8	0.7	0.6	1.4	1.7	1.7	12.8	11.1	10.5	115	64.9	4.7
State Bank of India	2,048	BUY	1,300,171	28,610	635	143.7	154.8	174.4	34.8	7.7	12.7	14.3	13.2	11.7	—	—	—	2.2	2.0	1.8	1.4	1.5	1.6	17.1	15.9	15.8	2,400	17.2	106.8
Union Bank	260	BUY	131,331	2,890	505	34.2	37.9	38.7	24.5	11.0	2.0	7.6	6.9	6.7	—	—	—	1.9	1.5	1.3	1.9	2.1	2.2	27.2	24.4	20.7	350	34.6	4.1
Banks/Financial Institutions		**Attractive**	**6,942,063**	**152,757**					**27.0**	**15.3**	**10.4**	**15.9**	**13.8**	**12.5**	**—**	**—**	**—**	**2.6**	**2.2**	**1.9**	**1.3**	**1.5**	**1.7**	**16.1**	**15.8**	**15.4**			
Cement																													
ACC	1,000	REDUCE	187,786	4,132	188	56.3	83.2	53.2	(12.2)	47.9	(36.1)	17.8	12.0	18.8	9.0	6.5	8.3	3.6	2.9	2.6	2.3	2.3	2.3	24.7	29.3	17.1	800	(20.0)	11.8
Ambuja Cements	116	REDUCE	177,281	3,901	1,522	7.2	8.0	6.9	(5.0)	11.4	(13.5)	16.2	14.6	16.8	8.8	8.1	8.5	2.9	2.6	2.3	2.6	1.6	1.8	19.7	19.3	14.7	92	(21.0)	6.3
Grasim Industries	2,891	REDUCE	265,071	5,833	92	238.6	297.3	289.2	(16.2)	24.6	(2.7)	12.1	9.7	10.0	6.8	5.1	5.1	2.3	1.9	1.6	1.2	1.2	1.2	21.1	21.4	17.6	2,500	(13.5)	12.4
India Cements	121	REDUCE	34,033	749	282	17.8	13.7	12.4	n/a	(23.1)	(9.1)	6.8	8.8	9.7	4.9	5.2	5.4	0.9	0.8	0.8	1.5	1.8	2.6	14.8	10.5	9.0	100	(17.0)	4.9
Shree Cement	2,280	BUY	79,411	1,747	35	174.8	267.3	228.9	93.8	52.9	(14.4)	13.0	8.5	10.0	8.5	5.2	4.8	6.6	3.7	2.7	0.4	0.5	0.5	65.7	56.1	31.8	2,400	5.3	0.8
UltraTech Cement	1,107	REDUCE	137,773	3,032	124	78.8	90.1	64.5	(3.1)	14.3	(28.4)	14.0	12.3	17.1	8.2	6.7	8.2	3.2	2.6	2.3	0.5	0.7	0.7	31.1	27.3	16.2	900	(18.7)	5.6
Cement		**Neutral**	**881,355**	**19,394**					**(8.0)**	**23.6**	**(16.2)**	**13.7**	**11.1**	**13.2**	**7.6**	**6.0**	**6.5**	**2.7**	**2.3**	**2.0**	**1.5**	**1.4**	**1.5**	**20.0**	**20.5**	**15.0**			
Consumer products																													
Asian Paints	1,918	BUY	183,989	4,049	96	38.6	72.9	83.4	(1.7)	88.8	14.4	49.7	26.3	23.0	29.7	16.6	14.2	16.1	13.1	10.8	0.9	2.1	2.4	36.6	57.2	53.4	2,100	9.5	2.0
Colgate-Palmolive (India)	736	REDUCE	100,145	2,204	136	21.6	29.4	33.4	26.3	36.1	13.8	34.1	25.1	22.0	28.3	20.5	16.9	46.3	41.7	37.4	2.0	3.2	3.6	155.1	174.9	178.8	700	(4.9)	1.8
Dabur India	167	BUY	145,061	3,192	866	4.5	5.8	7.0	17.0	27.6	21.2	37.0	29.0	23.9	28.4	21.0	16.8	17.7	13.8	11.2	1.0	1.8	2.2	55.3	53.9	52.2	200	19.4	2.6
GlaxoSmithkline Consumer (a)	1,525	ADD	64,139	1,411	42	44.8	55.3	70.3	15.8	23.6	27.0	34.1	27.6	21.7	20.0	15.7	12.9	8.4	7.2	6.4	1.0	1.5	2.3	26.8	28.4	31.4	1,500	(1.6)	0.9
Godrej Consumer Products	271	ADD	69,921	1,539	258	6.7	10.8	12.4	(5.3)	62.0	14.3	40.5	25.0	21.9	28.0	18.0	15.1	12.2	7.1	5.9	1.5	1.5	1.5	46.9	36.2	29.6	270	(0.3)	1.1
Hindustan Unilever	219	BUY	478,174	10,522	2,179	9.5	10.3	12.0	19.0	7.8	16.9	23.1	21.4	18.3	17.4	15.3	13.4	23.2	23.1	22.9	4.0	4.7	5.4	112.4	108.4	125.9	300	36.7	18.0
ITC	258	BUY	973,997	21,432	3,769	8.7	10.5	12.3	2.8	21.7	16.8	29.8	24.5	21.0	18.3	14.8	12.9	6.7	5.9	5.2	1.4	1.7	2.1	25.3	27.0	27.6	280	8.3	25.6
Jyothy Laboratories	175	ADD	12,707	280	73	5.5	9.7	12.1	(12.9)	75.4	24.4	31.7	18.1	14.5	21.5	13.0	9.3	3.5	3.1	2.6	1.3	1.7	2.0	10.7	16.4	19.0	200	14.2	0.5
Nestle India (a)	2,715	ADD	261,812	5,761	96	58.6	76.7	92.2	31.0	30.8	20.3	46.3	35.4	29.4	29.5	23.9	20.5	55.3	44.7	36.4	1.6	2.0	2.5	126.7	139.6	136.3	3,000	10.5	2.5
Tata Tea	960	BUY	59,372	1,306	62	53.7	56.9	69.7	14.7	6.1	22.3	17.9	16.9	13.8	10.7	9.1	7.5	1.3	1.2	1.1	1.8	1.9	2.4	9.4	9.4	10.8	1,200	25.0	2.7
Consumer products		**Attractive**	**2,349,317**	**51,696**					**10.7**	**23.3**	**17.5**	**30.6**	**24.8**	**21.1**	**20.2**	**16.0**	**13.8**	**9.1**	**8.0**	**7.1**	**1.9**	**2.4**	**2.9**	**29.9**	**32.4**	**33.8**			
Constructions																													
IVRCL	325	BUY	43,970	968	135	16.7	15.6	19.1	7.4	(6.4)	22.1	19.5	20.8	17.0	13.7	11.5	9.4	2.4	2.2	1.9	0.2	0.2	0.2	13.2	11.1	12.1	370	13.9	16.0
Nagarjuna Construction Co.	160	BUY	40,925	901	257	6.7	8.6	10.5	(6.3)	28.5	21.7	23.7	18.5	15.2	13.9	10.3	9.1	2.4	1.8	1.7	0.6	1.0	1.3	9.4	11.3	11.6	180	12.9	3.8
Punj Lloyd	177	REDUCE	60,050	1,321	339	(7.2)	9.8	14.0	(172.4)	(236.1)	42.8	(24.5)	18.0	12.6	19.9	8.8	7.1	2.4	1.7	1.5	0.1	0.2	0.3	(8.6)	11.2	12.9	205	15.7	18.8
Sadbhav Engineering	1,251	BUY	15,638	344	13	51.1	53.4	73.0	26.2	4.4	36.8	24.5	23.4	17.1	16.1	12.4	9.8	4.4	3.8	3.1	0.3	0.4	0.5	18.0	16.1	18.3	1,400	11.9	0.5
Construction		**Attractive**	**160,583**	**3,534**					**(70.6)**	**280.3**	**31.4**	**73.3**	**19.3**	**14.7**	**16.0**	**10.0**	**8.3**	**2.5**	**2.0**	**1.8**	**0.3**	**0.5**	**0.6**	**3.5**	**10.3**	**12.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	12-Mar-10		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	527	RS	172,679	3,800	328	20.6	58.1	61.7	(50.1)	181.9	6.2	25.6	9.1	8.5	5.3	4.5	4.0	1.3	1.2	1.1	1.5	4.9	5.2	5.3	14.1	13.7	—	—	9.9
Cairn india	277	SELL	524,713	11,546	1,897	4.3	5.4	17.8	—	26	228.0	64	51	15.6	45.0	35.8	9.7	1.6	1.5	1.6	—	—	7.2	2.5	3.0	9.9	230	(16.9)	17.4
Castrol India (a)	684	REDUCE	84,576	1,861	124	21.3	30.8	39.7	20.8	44.7	28.8	32.1	22.2	17.2	18.6	13.6	10.8	18.8	18.4	16.5	2.2	3.7	4.4	61.2	83.8	101.0	640	(6.4)	2.9
GAIL (India)	419	REDUCE	531,747	11,701	1,268	22.2	22.7	23.5	8.7	2.3	3.7	18.9	18.5	17.8	10.3	10.8	11.2	3.3	3.0	2.7	1.7	1.9	1.9	17.5	15.9	15.0	370	(11.7)	15.4
GSPL	90	REDUCE	50,626	1,114	563	2.2	7.5	12.4	21.9	241.9	64.6	41.0	12.0	7.3	13.6	6.5	4.1	3.8	3.1	2.6	0.8	2.8	6.9	9.6	28.7	38.9	95	5.6	5.8
Hindustan Petroleum	332	RS	112,534	2,476	339	17.0	46.3	49.7	(49.3)	173.1	7.2	19.6	7.2	6.7	3.0	2.5	2.2	0.9	0.9	0.8	1.6	7.8	8.4	4.4	11.2	11.4	—	—	9.3
Indian Oil Corporation	304	RS	720,401	15,852	2,372	9.8	33.0	32.1	(67.9)	235.4	(2.7)	30.8	9.2	9.4	8.3	5.8	4.8	1.5	1.3	1.2	1.2	2.2	2.1	4.8	15.3	13.1	—	—	5.7
Oil India	1,127	REDUCE	256,076	5,635	227	101.1	112.2	110.6	—	10.9	(1.5)	11.1	10.0	10.2	5.1	3.5	3.0	2.5	1.8	1.6	2.5	3.3	3.4	20.1	16.5	15.5	1,150	2.0	—
Oil & Natural Gas Corporation	1,085	REDUCE	2,320,051	51,052	2,139	90.8	89.9	107.1	(2.1)	(1.0)	19.1	11.9	12.1	10.1	4.5	4.3	3.6	1.9	1.8	1.6	3.0	3.3	4.1	16.6	14.4	15.7	1,200	10.6	22.8
Petronet LNG	77	ADD	57,563	1,267	750	6.9	5.3	8.1	—	(22.7)	51.2	11.1	14.4	9.5	7.9	8.5	6.1	2.6	2.2	1.9	2.3	2.0	2.6	23.9	15.8	20.5	90	17.3	4.4
Reliance Industries	1,022	SELL	2,980,007	65,574	2,917	50.6	47.7	62.6	(3.7)	(5.6)	31.3	20.2	21.4	16.3	13.4	10.3	7.9	2.2	1.9	1.7	0.6	0.6	0.9	13.6	10.6	12.2	940	(8.0)	143.2
Energy		**Cautious**	**7,810,972**	**171,877**					**(9.7)**	**20.7**	**22.3**	**17.5**	**14.5**	**11.8**	**8.0**	**6.8**	**5.5**	**2.0**	**1.8**	**1.6**	**1.5**	**2.0**	**2.8**	**11.4**	**12.2**	**13.6**			
Industrials																													
ABB	870	REDUCE	184,445	4,059	212	25.8	16.7	27.6	11.3	(35.2)	65.0	33.7	52.0	31.5	20.0	29.7	18.0	8.7	7.7	6.4	0.3	0.3	0.4	29.2	15.7	22.2	690	(20.7)	6.3
BGR Energy Systems	509	ADD	36,677	807	72	16.0	21.0	29.7	32.2	31.2	41.0	31.8	24.2	17.2	18.0	13.4	10.3	6.5	5.4	4.3	0.6	0.7	1.0	22.3	24.3	27.7	500	(1.8)	2.9
Bharat Electronics	2,086	REDUCE	166,856	3,672	80	103.8	117.7	126.2	1.8	13.4	7.2	20.1	17.7	16.5	10.7	8.9	8.0	4.3	3.6	3.1	0.9	1.2	1.2	20.7	22.0	20.1	1,870	(10.3)	3.8
Bharat Heavy Electricals	2,379	ADD	1,164,788	25,631	490	63.9	92.0	115.8	9.4	44.1	25.8	37.3	25.9	20.6	20.4	14.4	11.2	9.0	7.1	5.7	0.7	0.8	1.0	26.4	30.8	30.7	2,500	5.1	33.8
Crompton Greaves	246	BUY	157,629	3,469	642	15.3	11.9	13.5	37.3	(22.8)	14.1	16.0	20.7	18.2	14.9	11.4	9.8	8.5	6.2	4.8	0.5	0.6	0.7	35.6	34.6	29.8	260	5.8	7.9
Larsen & Toubro	1,565	BUY	940,394	20,693	601	50.1	53.7	64.5	32.1	7.2	20.2	31.2	29.1	24.2	20.1	16.0	13.7	6.2	4.3	3.6	0.7	0.7	0.8	21.7	17.4	16.3	1,700	8.6	60.2
Maharashtra Seamless	351	BUY	24,777	545	71	35.9	40.2	41.1	22.2	12.0	2.3	9.8	8.7	8.6	5.5	4.4	4.1	1.8	1.6	1.4	1.5	1.7	2.1	20.3	19.2	16.9	400	13.9	1.2
Siemens	736	REDUCE	248,032	5,458	337	14.2	16.1	24.6	(22.2)	13.5	52.7	51.9	45.7	29.9	25.5	22.2	17.7	11.0	9.0	7.3	0.4	0.7	0.7	23.3	21.6	27.0	635	(13.7)	8.8
Suzlon Energy	76	REDUCE	127,135	2,798	1,679	7.2	(2.2)	2.9	9.9	(130.8)	(231.4)	10.5	(34.1)	25.9	7.6	12.6	8.0	1.2	1.1	1.1	—	—	0.3	11.5	(3.4)	4.2	80	5.7	56.5
Voltas	169	BUY	55,993	1,232	331	6.9	9.4	10.3	29.8	36.2	9.0	24.5	18.0	16.5	13.5	9.9	8.7	7.0	5.5	4.5	0.9	1.5	1.6	33.0	34.1	29.8	185	9.3	4.6
Industrials		**Attractive**	**3,106,727**	**68,362**					**13.5**	**5.6**	**32.6**	**30.7**	**29.0**	**21.9**	**16.9**	**14.7**	**11.7**	**6.0**	**4.7**	**4.0**	**0.6**	**0.7**	**0.9**	**19.7**	**16.4**	**18.4**			
Infrastructure																													
GMR Infrastructure	57	ADD	208,489	4,588	3,667	0.8	0.6	0.6	(33.5)	(24.5)	(3.1)	74.1	98.2	101.3	27.3	19.5	14.4	2.5	2.1	1.9	—	—	—	4.4	3.2	3.0	68	19.6	6.8
GVK Power & Infrastructure	42	ADD	66,959	1,473	1,579	0.8	0.8	1.0	(20.6)	2.5	34.2	55.6	54.3	40.4	51.1	18.0	16.5	2.9	2.1	2.0	—	—	0.7	4.8	4.5	5.1	50	17.9	9.3
IRB Infrastructure	254	ADD	84,304	1,855	332	5.3	10.6	13.5	54.3	101.2	27.0	47.9	23.8	18.8	23.8	12.1	10.8	4.6	3.6	2.7	0.5	—	—	10.1	17.0	16.6	200	(21.2)	5.5
Mundra Port and SEZ	699	ADD	282,160	6,209	403	10.7	15.1	24.1	105.6	40.8	59.5	65.2	46.3	29.0	38.1	29.9	19.2	9.6	7.7	6.0	(0.4)	—	—	15.5	18.5	23.2	725	3.7	9.4
Infrastructure		**Attractive**	**641,912**	**14,125**					**48.6**	**30.5**	**38.0**	**64.5**	**49.4**	**35.8**	**32.0**	**20.2**	**15.3**	**4.2**	**3.3**	**2.9**	**(0.1)**	**—**	**0.1**	**6.5**	**6.8**	**8.1**			
Media																													
DishTV	37	REDUCE	39,771	875	1,063	(6.6)	(2.5)	(1.2)	(31.9)	(61.6)	(52.4)	(5.7)	(14.8)	(31.1)	(36.7)	58.3	19.0	(6.4)	9.7	14.2	—	—	—	83.9	248.6	(37.1)	45	20.3	5.8
HT Media	146	NR	34,275	754	235	0.8	5.7	7.3	(80.5)	572.1	29.5	172.8	25.7	19.9	39.0	12.4	10.4	4.0	3.6	3.2	0.2	0.7	1.4	2.3	14.6	17.0	—	—	0.6
Jagran Prakashan	119	ADD	35,734	786	301	3.0	5.9	6.6	(6.6)	92.8	13.2	39.0	20.2	17.9	22.2	12.2	10.4	6.4	5.8	5.3	1.7	3.0	3.4	16.7	30.1	31.1	130	9.6	2.0
Sun TV Network	409	REDUCE	161,139	3,546	394	9.1	12.1	14.6	9.5	32.7	20.8	45.0	33.9	28.1	23.9	19.6	15.8	9.1	7.9	6.9	0.6	1.0	1.5	22.5	25.3	26.3	295	(27.9)	4.6
Zee Entertainment Enterprises	277	REDUCE	120,283	2,647	434	8.4	10.6	12.8	(4.8)	25.9	20.3	32.8	26.1	21.7	22.6	20.1	15.8	3.5	3.2	2.9	0.7	0.9	1.1	11.8	13.0	14.2	245	(11.6)	6.3
Zee News	62	NR	14,856	327	240	1.9	2.4	2.9	20.4	28.2	20.0	33.3	26.0	21.6	16.2	12.6	10.7	6.1	5.1	4.3	0.6	0.6	1.1	20.1	21.8	22.0	—	—	1.0
Media		**Neutral**	**406,058**	**8,935**					**(21.0)**	**144.6**	**39.2**	**95.9**	**39.2**	**28.1**	**29.4**	**18.7**	**14.5**	**6.5**	**5.0**	**4.6**	**0.6**	**1.0**	**1.4**	**6.7**	**12.7**	**16.2**			
Metals																													
Hindalco Industries	165	ADD	315,468	6,942	1,911	2.8	4.3	13.3	(77.9)	56.9	205.5	59.6	38.0	12.4	16.1	8.5	7.4	1.7	1.3	1.1	—	—	—	2.4	3.8	9.7	160	(3.1)	51.0
National Aluminium Co.	398	SELL	256,693	5,648	644	19.7	10.1	28.0	(22.0)	(49.0)	178.6	20.2	39.6	14.2	9.9	17.3	6.8	2.5	2.4	2.0	1.3	0.5	0.5	12.8	6.1	15.4	320	(19.7)	7.9
Jindal Steel and Power	677	SELL	627,967	13,818	928	32.8	40.6	47.0	139.1	23.7	15.9	20.6	16.7	14.4	13.5	10.6	8.7	8.1	5.4	3.9	0.2	0.1	0.1	50.9	39.2	31.8	530	(21.7)	44.1
JSW Steel	1,179	SELL	220,493	4,852	187	14.7	68.1	93.7	(83.2)	363.6	37.5	80.2	17.3	12.6	12.9	8.8	7.7	2.4	1.9	1.5	0.1	0.3	0.4	11.7	12.4	13.3	850	(27.9)	48.4
Hindustan Zinc	1,250	BUY	528,249	11,624	423	64.6	93.5	105.4	(38.0)	44.8	12.8	19.4	13.4	11.9	15.8	9.2	6.9	3.5	2.8	2.3	0.3	0.4	0.4	20.2	23.5	21.3	1,400	12.0	12.6
Sesa Goa	433	REDUCE	383,984	8,449	887	25.3	25.9	38.9	29.0	2.5	50.5	17.1	16.7	11.1	15.1	13.8	8.2	8.0	5.2	3.6	0.5	0.7	0.7	46.6	32.8	33.8	350	(19.2)	47.1
Sterlite Industries	828	ADD	695,819	15,311	840	46.8	44.9	54.2	(25.8)	(4.0)	20.7	17.7	18.4	15.3	13.1	10.2	7.8	2.6	1.9	1.7	—	—	—	14.0	11.0	11.9	850	2.7	38.7
Tata Steel	608	BUY	539,140	11,864	887	110.1	3.2	78.7	45.3	(97.1)	2,331.6	5.5	187.6	7.7	5.9	19.0	6.4	1.8	2.1	1.7	2.4	1.3	1.3	27.5	1.1	24.7	700	15.2	119.5
Metals		**Cautious**	**3,567,814**	**78,508**					**(1.3)**	**(26.7)**	**77.9**	**15.5**	**21.2**	**11.9**	**10.4**	**11.6**	**7.3**	**2.9**	**2.4**	**2.0**	**0.6**	**0.4**	**0.4**	**18.8**	**11.4**	**17.0**			
Pharmaceutical																													
Biocon	272	BUY	54,340	1,196	200	4.7	14.6	18.1	(79.9)	210.6	24.1	57.9	18.7	15.0	23.2	10.9	8.8	3.5	3.1	2.7	—	—	0.1	6.2	18.0	19.4	300	10.4	5.7
Cipla	316	REDUCE	253,723	5,583	803	9.9	13.4	15.1	10.0	34.9	13.0	31.9	23.6	20.9	24.2	16.4	14.6	5.8	4.3	3.7	0.6	0.8	0.8	19.0	21.0	19.1	295	(6.6)	11.0
Cadila Healthcare	798	BUY	108,865	2,396	136	22.2	36.8	44.3	8.3	65.8	20.3	35.9	21.7	18.0	19.2	14.0	11.7	8.8	6.7	5.3	1	1	1.1	26.9	35.7	32.7	765	(4.1)	1.3
Dishman Pharma & chemicals	215	BUY	17,511	385	81	18.0	17.2	20.5	22.1	(4.3)	19.2	12.0	12.5	10.5	9.1	9.6	7.8	2.5	2.1	1.8	—	—	—	22.7	18.0	18.2	265	23.1	1.2
Divi's Laboratories	641	ADD	83,764	1,843	131	31.9	19.1	33.6	19.7	(40.1)	76.3	20.1	33.6	19.0	16.4	19.9	13.6	6.7	5.9	4.8	—	—	0.0	39.6	18.6	27.1	700	9.3	4.1
Dr Reddy's Laboratories	1,174	REDUCE	198,828	4,375	169	32.4	55.3	66.6	24.3	70.7	20.4	36.2	21.2	17.6	15.2	12.9	11.0	5.6	5.1	4.1	0.5	0.6	0.7	13.6	25.2	25.6	1,140	(2.9)	12.1
GlaxoSmithkline Pharmaceuticals (a)	1,729	REDUCE	146,485	3,223	85	54.6	59.1	67.7	13.8	8.1	14.6	31.6	29.3	25.6	18.1	16.6	14.5	9.3	8.2	7.0	—	—	—	31.3	29.7	29.5	1,700	(1.7)	1.4
Glenmark Pharmaceuticals	245	NR	67,233	1,479	274	11.1	12.9	16.5	(57.0)	16.6	27.6	22.1	19.0	14.9	13.9	11.3	9.3	4.2	2.9	2.4	—	—	—	17.7	17.2	17.5	—	—	5.9
Lupin	1,586	ADD	140,510	3,092	89	60.2	73.6	92.0	21.0	22.3	24.9	26.3	21.5	17.3	23.4	17.9	14.0	9.8	6.1	4.7	0.7	0.8	0.9	37.1	35.2	31.2	1,600	0.9	7.8
Ranbaxy Laboratories	464	SELL	198,592	4,370	428	(12.3)	6.0	12.3	(152.8)	(148.7)	105.0	(37.7)	77.4	37.7	(87.8)	18.7	20.8	6.3	6.1	5.5	—	0.9	0.9	(13.3)	5.9	11.5	220	(52.5)	22.6
Sun Pharmaceuticals	1,656	ADD	342,892	7,545	207	87.8	65.4	90.7	17.6	(25.5)	38.7	18.9	25.3	18.3	14.9	18.6	13.0	4.7	4.1	3.5	0.8	0.8	0.8	30.2	17.9	21.1	1,800	8.7	12.0
Pharmaceuticals		**Attractive**	**1,612,744**	**35,488**					**(17.1)**	**28.7**	**29.5**	**33.0**	**25.6**	**19.8**	**20.7**	**15.7**	**13.1**	**5.8**	**4.8**	**4.0**	**0.4**	**0.6**	**0.6**	**17.7**	**18.8**	**20.4**			
Property																													
DLF	311	REDUCE	525,536	11,564	1,691	26.7	12.1	16.0	(42.0)	(54.5)	32.1	11.6	25.6	19.4	12.1	16.8	14.5	2.2	2.1	1.9	1.0	1.0	1.3	20.7	8.3	10.2	315	1.4	82.6
Housing Development & Infrastructure	304	ADD	105,115	2,313	345	21.3	12.3	24.0	(58.5)	(42.0)	94.9	14.3	24.7	12.7	11.1	18.5	7.7	2.4	1.6	1.3	—	1.0	1.8	18.7	9.9	15.5	350	15.0	70.9
Indiabulls Real Estate	174	ADD	69,814	1,536	401	0.8	1.6	4.0	(95.4)	109.7	151.7	230.1	109.7	43.6	(40)	(84.2)	41.3	1.1	0.8	0.8	—	—	—	0.3	0.8	1.8	285	63.8	27.4
Mahindra Life Space Developer	388	BUY	16,323	359	42	10.4	18.9	20.3	(38.5)	82.4	7.3	37.5	20.6	19.2	55.2	16.7	13.6	1.8	1.7	1.6	1.0	1.0	1.0	4.8	8.4	8.5	510	31.4	1.1
Phoenix Mills	187	BUY	27,050	595	145	5.0	5.1	7.7	56.8	2.5	51.0	37.6	36.7	24.3	43.7	28.2	18.2	1.8	1.7	1.6	0.5	0.5	0.8	4.9	4.8	7.0	260	39.2	1.1
Puravankara Projects	105	REDUCE	22,378	492	213	6.8	8.3	7.9	(39.8)	22.4	(4.8)	15.5	12.7	13.3	22.2	13.9	13.2	1.7	1.5	1.4	—	1.9	1.9	11.5	12.7	11.1	100	(4.6)	1.1
Sobha	271	ADD	26,556	584	98	15.1	14.2	15.7	(52.3)	(5.9)	10.4	17.9	19.0	17.2	16.4	14.7	12.5	2.4	1.5	1.4	—	0.7	1.5	10.4	9.7	8.5	295	8.9	2.8
Unitech	74	SELL	190,028	4,181	2,559	7.4	3.8	4.1	(28.7)	(48.7)	9.7	10.1	19.6	17.9	17.3	17.6	13.8	3.7	1.8	1.5	—	—	—	27.3	10.8	9.1	65	(12.5)	81.2
Property		**Neutral**	**982,799**	**21,626**					**(42.4)**	**(42.0)**	**40.4**	**14.3**	**24.6**	**17.6**	**14.2**	**17.7**	**13.3**	**2.2**	**1.7**	**1.5**	**0.6**	**0.7**	**1.0**	**15.2**	**6.9**	**8.8**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	12-Mar-10		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)		
Company	**Price (Rs)**	**Rating**	**(Rs mn)**	**(US$ mn)**	**(mn)**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**
Retail														
Titan Industries	1,804	REDUCE	80,074	1,762	44	44.3	60.4	68.1	26.4	36.3	12.7	40.7	29.9	26.5
Retail		**Neutral**	**80,074**	**1,762**					**26.4**	**36.3**	**12.7**	**40.7**	**29.9**	**26.5**
Sugar														
Bajaj Hindustan	147	SELL	28,177	620	191	(12.6)	(1.0)	23.7	—	(92.1)	(2,471.7)	(11.7)	(147.6)	6.2
Balrampur Chini Mills	93	ADD	23,898	526	256	3.1	7.6	14.0	—	147.4	83.5	30.2	12.2	6.7
Shree Renuka Sugars	154	BUY	51,608	1,136	335	4.3	6.9	29.7	23.9	60.4	329.7	35.8	22.3	5.2
Sugar		**Attractive**	**103,684**	**2,282**					**(25.3)**	**2,436.2**	**342.9**	**644.8**	**25.4**	**5.7**
Technology														
HCL Technologies	361	REDUCE	250,582	5,514	695	17.5	17.8	25.1	14.5	1.7	41.2	20.6	20.3	14.3
Hexaware Technologies	73	REDUCE	10,479	231	144	4.1	9.4	7.5	(46.4)	127.7	(19.5)	17.8	7.8	9.7
Infosys Technologies	2,673	BUY	1,534,446	33,765	574	102.4	108.5	124.2	29.6	5.9	14.4	26.1	24.6	21.5
Mphasis BFL	666	REDUCE	138,927	3,057	208	14.2	43.6	48.7	15.7	207.5	11.7	47.0	15.3	13.7
Mindtree	557	BUY	22,907	504	41	13.2	49.4	55.1	(50.5)	273.2	11.6	42.0	11.3	10.1
Patni Computer Systems	521	REDUCE	66,947	1,473	129	26.8	36.6	44.2	(19.3)	36.4	20.9	19.4	14.2	11.8
Polaris Software Lab	158	SELL	15,555	342	99	13.2	15.6	16.1	77.3	18.3	3.7	12.0	10.1	9.8
TCS	797	BUY	1,559,791	34,323	1,957	26.4	34.5	41.0	3.1	30.6	18.8	30.1	23.1	19.4
Wipro	710	ADD	1,038,093	22,843	1,462	25.7	31.5	37.6	15.8	22.4	19.5	27.6	22.5	18.9
Technology		**Attractive**	**4,637,727**	**102,051**					**15.3**	**22.3**	**18.0**	**27.3**	**22.3**	**18.9**
Telecom														
Bharti Airtel	299	REDUCE	1,135,683	24,990	3,797	22.3	23.8	20.6	26.4	6.6	(13.5)	13.4	12.6	14.5
IDEA	60	REDUCE	187,162	4,118	3,104	2.9	2.5	1.2	(26.5)	(13.9)	(51.2)	20.8	24.1	49.4
MTNL	73	SELL	45,833	1,009	630	2.4	(15.6)	(10.4)	(66.3)	(750.8)	(33.7)	30.3	(4.6)	(7.0)
Reliance Communications	158	SELL	325,083	7,153	2,064	31.6	18.5	13.4	19.4	(41.4)	(27.8)	5.0	8.5	11.8
Tata Communications	286	REDUCE	81,553	1,795	285	13.6	14.0	15.2	24.0	3.2	8.2	21.1	20.4	18.9
Telecom		**Cautious**	**1,775,314**	**39,065**					**16.6**	**(20.2)**	**(17.0)**	**10.5**	**13.2**	**15.9**
Transportation														
Container Corporation	1,228	ADD	159,622	3,512	130	60.9	63.9	76.6	5.5	5.0	19.9	20.2	19.2	16.0
Transportation		**Cautious**	**159,622**	**3,512**					**5.5**	**5.0**	**19.9**	**20.2**	**19.2**	**16.0**
Utilities														
CESC	403	ADD	50,324	1,107	125	32.3	33.1	42.8	16.2	2.6	29.5	12.5	12.2	9.4
Lanco Infratech	53	BUY	127,585	2,807	2,405	1.5	1.8	3.7	(1.9)	25.4	105.7	36.5	29.1	14.2
Reliance Infrastructure	1,000	BUY	226,348	4,981	226	62.7	63.7	68.6	66.7	1.6	7.8	16.0	15.7	14.6
Reliance Power	141	REDUCE	337,103	7,418	2,397	1.0	2.5	3.1	—	141.5	24.4	137.9	57.1	45.9
Tata Power	1,352	BUY	333,782	7,345	247	50.2	57.7	67.0	57.5	15.0	16.2	27.0	23.4	20.2
Utilities		**Attractive**	**2,725,060**	**59,964**					**15.7**	**15.8**	**15.5**	**23.5**	**20.3**	**17.6**
Others														
Aban Offshore	1,245	BUY	54,152	1,192	43	96.9	114.8	265.5	34	18.4	131.3	12.8	10.8	4.7
Havells India	545	SELL	32,768	721	60	5.1	22.6	30.2	(81)	343.8	33.8	106.9	24.1	18.0
Jaiprakash Associates	145	BUY	306,445	6,743	2,107	2.0	4.3	7.1	(40)	115.0	65.5	72.7	33.8	20.4
Jindal Saw	216	ADD	63,476	1,397	294	12.4	26.5	19.3	(47)	113.8	(27.2)	17.4	8.1	11.2
PSL	157	BUY	8,369	184	53	22.2	29.8	25.4	5	34.1	(14.8)	7.1	5.3	6.2
Sintex	271	BUY	36,963	813	136	24.0	22.2	28.1	23	(7.6)	26.7	11.3	12.2	9.6
Tata Chemicals	305	ADD	74,284	1,635	243	26.6	27.3	31.0	(33)	2.5	13.4	11.5	11.2	9.9
Welspun Gujarat Stahl Rohren	264	REDUCE	54,141	1,191	205	17.3	25.1	23.0	(16)	44.9	(8.1)	15.2	10.5	11.4
United Phosphorus	159	BUY	73,359	1,614	463	10.1	11.8	14.7	20	17.2	24.6	15.8	13.4	10.8
Others			**703,958**	**15,490**					**(16.3)**	**44.5**	**32.6**	**23.1**	**16.0**	**12.1**
KS universe (b)			**39,897,569**	**877,931**					**1.3**	**11.5**	**20.6**	**20**	**17.7**	**14.6**
KS universe (b) ex-Energy			**32,086,596**	**706,053**					**4.9**	**8.8**	**20.1**	**20.3**	**18.7**	**15.5**
KS universe (d) ex-Energy & ex-Commodities			**27,637,427**	**608,151**					**6.9**	**14.4**	**15.5**	**21.5**	**18.8**	**16.3**

	EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**(Rs)**	**(%)**	**(US$ mn)**
Retail															
Titan Industries	24.4	20.5	17.4	13.9	10.1	7.7	0.6	0.6	0.7	37.5	39.1	32.9	1,300	(27.9)	4.1
Retail	**24.4**	**20.5**	**17.4**	**13.9**	**10.1**	**7.7**	**0.6**	**0.6**	**0.7**	**34.1**	**33.7**	**29.1**			
Sugar															
Bajaj Hindustan	36.4	11.1	5.2	2.3	1.4	1.1	0.3	0.4	0.4	(13.1)	(1.2)	19.3	150	1.9	21.4
Balrampur Chini Mills	11.3	6.8	4.3	2.1	1.9	1.5	0.4	—	0.5	7.4	16.2	25.3	140	50.1	10.7
Shree Renuka Sugars	22.6	12.8	3.5	5.9	3.2	1.7	0.1	0.6	0.3	17.2	18.4	43.1	260	68.7	26.6
Sugar	**21.3**	**10.3**	**4.2**	**3.2**	**2.1**	**1.4**	**0.2**	**0.5**	**0.4**	**0.5**	**8.2**	**25.1**			
Technology															
HCL Technologies	11.5	10.2	8.9	4.3	3.9	3.2	1.9	1.1	1.1	20.9	20.6	24.7	350	(2.9)	9.4
Hexaware Technologies	6.1	3.1	3.6	1.6	1.3	1.2	0.7	1.4	1.4	8.6	18.6	13.1	80	9.7	1.3
Infosys Technologies	19.8	17.4	14.1	8.4	6.8	5.6	0.9	1.0	1.3	36.7	30.4	28.4	3,000	12.2	64.9
Mphasis BFL	35.8	12.2	10.8	9.7	5.9	4.3	0.6	0.5	0.6	22.8	48.1	36.2	570	(14.5)	13.3
Mindtree	7.2	9.0	6.4	4.2	3.0	2.4	0.3	0.4	1.0	5.5	31.1	26.3	825	48.2	1.8
Patni Computer Systems	10.3	7.3	6.8	2.7	2.1	2.0	0.3	1.4	1.7	16.2	19.7	17.9	450	(13.6)	3.8
Polaris Software Lab	5.2	4.9	4.8	2.0	1.7	1.5	1.7	1.9	2.0	18.2	18.5	16.7	160	1.5	4.7
TCS	21.3	17.2	14.3	10.0	7.6	6.3	0.9	1.1	2.1	36.9	37.5	35.6	900	12.9	37.4
Wipro	20.3	16.8	13.6	6.9	5.5	4.5	0.6	1.2	1.5	26.9	27.1	26.3	830	16.9	22.2
Technology	**19.2**	**15.8**	**13.1**	**7.6**	**6.1**	**5.0**	**0.8**	**1.1**	**1.6**	**28.1**	**27.2**	**26.6**			
Telecom															
Bharti Airtel	8.0	7.3	7.6	3.6	2.8	2.4	0.7	1.0	1.3	31.4	25.3	18.0	300	0.3	48.2
IDEA	8.0	7.6	8.1	1.4	1.3	1.2	—	—	—	10.4	5.5	2.8	50	(17.1)	5.9
MTNL	(1.3)	0.2	0.3	0.4	0.4	0.4	1.4	—	—	1.2	(8.5)	(6.1)	50	(31.3)	3.7
Reliance Communications	6.5	7.6	7.9	0.8	0.7	0.7	0.5	—	—	18.9	8.9	6.0	150	(4.8)	18.4
Tata Communications	9.2	8.3	7.7	1.2	1.1	1.1	1.7	2.3	2.6	5.4	5.2	5.5	400	39.8	2.7
Telecom	**7.5**	**7.7**	**7.9**	**1.7**	**1.5**	**1.4**	**0.6**	**0.7**	**1.0**	**15.8**	**11.3**	**8.7**			
Transportation															
Container Corporation	14.6	13.3	10.9	4.2	3.7	3.1	1.1	1.2	1.4	22.8	20.4	21.0	1,250	1.8	2.4
Transportation	**14.6**	**13.3**	**10.9**	**4.2**	**3.7**	**3.1**	**1.1**	**1.2**	**1.4**	**21.0**	**19.0**	**19.5**			
Utilities															
CESC	6.8	6.7	6.4	1.3	1.2	1.1	1.0	1.0	1.3	11.7	10.4	12.0	410	1.8	2.1
Lanco Infratech	20.4	21.6	9.0	6.1	3.7	3.0	—	—	—	16.4	14.7	21.5	58	9.3	13.5
Reliance Infrastructure	20.0	18.5	14.8	1.3	1.2	1.2	0.7	0.8	0.9	4.9	6.1	7.8	1,250	25.1	35.3
Reliance Power	—	—	—	2.4	2.3	2.2	—	—	—	1.8	4.2	5.0	160	13.8	7.5
Tata Power	12.5	14.0	12.9	3.3	2.6	2.4	0.8	0.9	1.0	12.0	12.6	12.4	1,485	9.8	14.9
Utilities	**17.7**	**16.7**	**14.3**	**2.6**	**2.3**	**2.1**	**1.3**	**1.5**	**1.6**	**11.0**	**11.5**	**12.2**			
Others															
Aban Offshore	12.2	9.0	6.1	3.0	1.5	1.2	0.3	0.3	0.3	26.9	15.0	27.1	1,500	20.5	59.4
Havells India	14.8	11.9	9.4	5.4	8.7	5.9	0.5	0.5	0.5	4.6	27.7	39.0	350	(35.7)	18.0
Jaiprakash Associates	27.1	17.0	14.8	4.6	3.8	3.3	—	—	—	7.3	12.3	17.1	170	16.9	39.9
Jindal Saw	10.6	5.8	6.4	2.2	1.7	1.4	0.4	0.4	0.4	11.3	19.8	13.0	235	8.9	12.3
PSL	5.0	3.1	3.1	1.2	0.9	0.8	2.5	4.2	4.2	11.9	13.6	11.7	175	11.8	1.6
Sintex	9.4	8.8	6.7	2.0	1.7	1.4	0.4	0.4	0.4	17.6	14.1	15.0	310	14.5	5.0
Tata Chemicals	7.0	6.1	5.3	1.6	1.4	1.3	2.9	2.8	2.8	17.9	15.6	15.7	340	11.4	4.5
Welspun Gujarat Stahl Rohren	8.8	5.7	5.9	3.0	1.8	1.6	0.9	0.7	0.8	17.7	20.6	14.8	245	(7.0)	7.9
United Phosphorus	9.8	8.4	6.6	2.7	2.1	1.8	0.9	0.9	1.3	19.3	17.4	18.0	195	23.0	3.6
Others	**13.0**	**9.7**	**8.6**	**3.0**	**2.3**	**2.0**	**0.6**	**0.6**	**0.6**	**12.9**	**14.4**	**16.2**			
KS universe (b)	**12.4**	**10.9**	**9.0**	**3.0**	**2.6**	**2.3**	**1.1**	**1.3**	**1.6**	**15.3**	**14.5**	**15.4**			
KS universe (b) ex-Energy	**14.7**	**13.1**	**10.8**	**3.4**	**2.9**	**2.5**	**1.0**	**1.1**	**1.3**	**16.9**	**15.4**	**16.1**			
KS universe (d) ex-Energy & ex-Commodities	**16.7**	**14.1**	**12.1**	**3.5**	**3.0**	**2.6**	**1.0**	**1.2**	**1.4**	**16.5**	**15.8**	**16.0**			

Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 45.45

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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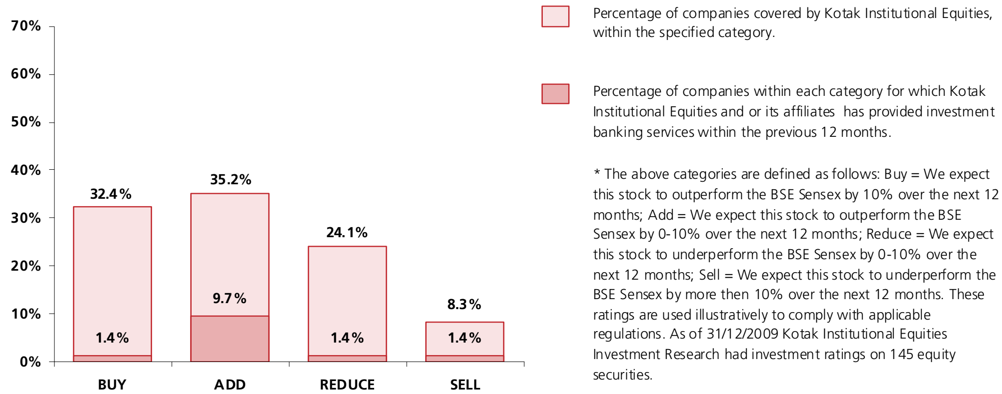

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/12/2009 Kotak Institutional Equities Investment Research had investment ratings on 145 equity securities.

Source: Kotak Institutional Equities

As of December 31, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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