kotak® Institutional Equities

INDIA DAILY

August 4, 2010

Contents

Results

Updates

News Round-up

- Sail (SAIL IN) hopes to stitch up a JV with Japan's Kobe Steel within next 6 months. The 2 cos. are in talks to set up a 0.5 million tonne greenfield steel plant in India using Kobe Steel's pioneering new steel-making technology. *(ECNT)*
- The joint venture between Cairn India (CAIR IN), ONGC (ONGC IN), Videocon Industries (VCLF IN) and Ravva Oil will get a new price of USD 4.2/mBtu for gas produced from its East Coast Ravva Fields. This is lower than the USD 4.75/mBtu that the joint venture was seeking. *(THBL)*
- Adani Enterprises (ADE IN) has acquired an Australian coal asset of Linc Energy in a cash and royalty deal worth USD 2.7 bn. Entire 50 mt yearly output for its power projects here; looking for more mine buys. *(BSTD)*
- Jubilant FoodWorks Ltd (JUBI IN) in talks to bring global brands to India. *(BSTD)*
- Godrej Ind. (GDSP IN) is planning a major expansion in its agri & chemical business at an investment of around USD 63.83mn. *(ECNT)*
- GMR Infra (GMRI IN) has refinanced its bridge loan of USD 737mn with a five year debt. *(ECNT)*
- Government spending to eat into 3G surplus. Seeks nod to spend additional USD 10.81 bn. *(BSTD)*
- Reliance, Essar to bid for BP's USD 500 mn assets. *(BSTD)*
- ArcelorMittal said that it had launched a bond issue to raise USD 2.5 bn to reduce debt. *(BSTD)*
- Emami (HMN IN) said it would set up its first manufacturing plant in Bangladesh by March 2011, as part of its international expansion plan. *(BSTD)*
- Strides Arcolab (STR IN) said it had received the UK health regulator's approval for its antibiotics manufacturing facility in Brazil. *(BSTD)*
- IDBI (IDBI IN) plans to raise USD 350 mn more. The proposal is part of the bank's plan to raise a total USD 1 bn in the current financial year. *(BSTD)*
- Union Bank of India (UNBK IN) would raise at least USD 300 mn through 66-month bonds later today. *(BSTD)*
- BPCL (BPCL IN) looks at expansion in operating refineries. *(THBL)*
- Apollo Hospitals (APHS IN) to invest USD 652 mn for expansion. In talks with PE firms to raise funds; plans to add 4,000 beds. *(THBL)*

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

EQUITY MARKETS

		Change %		
India	**3-Aug**	**1-day**	**1-mo**	**3-mo**
Sensex	18,115	0.2	3.7	5.7
Nifty	5,440	0.1	3.9	5.7
Global/Regional indices				
Dow Jones	10,636	(0.4)	9.8	(2.7)
Nasdaq Composite	2,284	(0.5)	9.2	(5.8)
FTSE	5,396	(0.0)	11.5	(0.3)
Nikkie	9,536	(1.6)	3.6	(13.8)
Hang Seng	21,458	0.2	7.8	3.3
KOSPI	1,782	(0.5)	6.6	3.7
Value traded – India				
Cash (NSE+BSE)	172		165	169
Derivatives (NSE)	578		646	539
Deri. open interest	1,357		1,268	1,078

Forex/money market

		Change, basis points		
	3-Aug	**1-day**	**1-mo**	**3-mo**
Rs/US$	46.2	4	(59)	157
10yr govt bond, %	7.9	(1)	31	(19)
Net investment (US$mn)				
	2-Aug		**MTD**	**CYTD**
FIIs	187		-	10,477
MFs	29		-	(282)

Top movers -3mo basis

		Change, %		
Best performers	**3-Aug**	**1-day**	**1-mo**	**3-mo**
HPCL IN Equity	442.0	1.5	(7.0)	35.1
BJAUT IN Equity	2713.2	(0.5)	10.5	31.0
BJFIN IN Equity	431.7	(0.0)	0.2	27.3
BPCL IN Equity	653.8	1.6	(1.9)	26.8
MM IN Equity	651.8	(1.5)	8.3	26.0
Worst performers				
RNR IN Equity	39.5	(3.5)	(38.3)	(41.4)
ABAN IN Equity	894.9	1.7	7.3	(21.5)
PUNJ IN Equity	128.0	(3.4)	(4.1)	(19.1)
FTECH IN Equity	1221.1	(1.3)	(9.9)	(17.9)
SUEL IN Equity	56.5	(1.1)	(3.5)	(17.2)

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

kotak Institutional Equities

Hindalco Industries (HNDL)

Metals

ADD

AUGUST 03, 2010

RESULT

Coverage view: Cautious

Price (Rs): 166

Target price (Rs): 185

BSE-30: 18,115

Good operational quarter; Novelis and new projects are the key for valuations.

Hindalco reported 1QFY11 EBITDA of Rs8.3 bn and net income of Rs5.3 bn, 5.6% and 11.2% higher than our estimate. Better-than-expected performance despite qoq decline in aluminium realization can be attributed to strong cost management and increase in by-product realization in copper business. We retain ADD rating on (1) potential value accretion from new expansion projects and (2) strong valuation support from Novelis.

Company data and valuation summary

Hindalco Industries

Stock data			
52-week range (Rs) (high,low)			193-95
Market Cap. (Rs bn)			316.8
Shareholding pattern (%)			
Promoters			32.1
FIIs			37.6
MFs			2.9
Price performance (%)	**1M**	**3M**	**12M**
Absolute	15.1	(4.3)	52.8
Rel. to BSE-30	11.0	(8.2)	34.3

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	5.7	12.6	15.1
EPS growth (%)	(64.5)	122.5	19.4
P/E (X)	29.2	13.1	11.0
Sales (Rs bn)	607.2	647.5	703.5
Net profits (Rs bn)	10.9	24.2	28.8
EBITDA (Rs bn)	70.1	71.9	77.4
EV/EBITDA (X)	8.6	9.2	9.3
ROE (%)	10.3	10.4	11.2
Div. Yield (%)	0.8	0.8	0.8

Steady 1QFY11 performance

Hindalco reported 1QFY11 EBITDA of Rs8.3 bn (-0.3% qoq, +9.9% yoy). We attribute better-than-expected performance to (1) strong overall cost management; and (2) better-than-expected performance in the copper business led largely by strong by-product realization. Net income of Rs5.3 bn (-19.5% qoq, +11.2% yoy) was 11.2% higher than our estimate.

Aluminium business- steady but rest of the year to be impacted by disruption at Hirakud smelter

Aluminium business reported EBIT of Rs5.5 bn (-10.1% qoq, +21.3% yoy), marginally below our estimate of Rs5.8 bn. Realization declined 10% on qoq on account of (1) shift in sales mix towards primary aluminium and (2) 4.1% qoq decline in benchmark aluminium prices. Production grew marginally on a qoq and yoy comparison. Performance of aluminium business will be impacted in 2QFY11E due to outage at Hirakud smelter caused by heavy rains and continuous bad weather. As a result production will likely by lower by at least 20K tons (8.5% of FY2011E sales). Hindalco expects to complete the phased restart of Hirakud smelter by end-August 2010.

Copper business likely to be under pressure

Copper business EBIT of Rs1.2 bn was 10.1% higher than our expectations led by better-than-expected acid realization even as TC/RC declined on a qoq basis. Production of 76 kt (+2.1% qoq, -4.4% yoy) was impacted on account of planned plant shutdown. We expect pressure on TC/RC margins (overcapacity on custom smelting business) to impact performance in FY2011E.

Hindalco provides an ideal mix of steady cash flow and value accretion from new projects

We retain our ADD rating on Hindalco with a 12-month target price of Rs185. Hindalco is an ideal mix of steady cash-flow generating business (Novelis) that can potentially fund significant value accreting new Greenfield projects. Novelis remains on track to generate US$1 bn of EBITDA, while work on new projects continues at full steam. Our TP of Rs185 is based on (1) 6X multiple to standalone aluminium and copper business; (2) 6.5X EBITDA multiple to Novelis and (3) Rs12/share as value of listed investments (after assigning 20% holding co discount). We assign book value to capital invested in new projects.

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

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

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

New project expansion on track

Exhibit 1 details the key projects under construction. We believe that the immediate focus will be on 1.5 mn Utkal Alumina project (for which the company completed financial closure), 359 ktpa Mahan Aluminum and 359 ktpa Aditya Aluminium smelters. Utkal Alumina will feed the raw material requirements of the Mahan and Aditya aluminum smelters. Note that we expect cost of production of the new aluminium smelters to be US$1,100/ ton, which will place it comfortably in the first quartile of the global cost curve. Our expectations of low cost of production is driven by tighter supply chain management, presence of power plant and alumina refinery very close to raw material sources and efficiency of new smelters, that will lower power consumption.

Exhibit 1: Aggressive expansion plan
Details of Hindalco's planned capacity expansions

Project Name	Commisioning date	Project type	Capacity (ktpa)
1. Brownfield Expansion Projects			
Hirakud Smelter & Power expansion:			
155 KTPA to 161 KTPA	Q2FY11	Smelter	8
161 KTPA to 213 KTPA	Q4FY12	Smelter	52
213 KTPA to 360 KTPA		Smelter	147
Flat rolled products at Hirakud	Q2FY12	FRP	
2. Greenfield Projects			
UTKAL Alumina Project	Q2FY12	Alumina refinery	1,500
Mahan Alumina Project	Q2FY12	Smelter	359
Aditya Aluminium Project	Q3FY12	Smelter	359
Aditya Refinery Project	Q1FY14	Alumina refinery	1,500
Jharkhand Aluminium Project	Q1FY14	Smelter	359

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Interim results of Hindalco (standalone), March fiscal year-ends (Rs mn)

					(% chg.)		
	1QFY11	1QFY11E	1QFY10	4QFY10	1QFY11E	1QFY10	4QFY10
Net sales	**51,783**	**46,134**	**38,995**	**54,044**	**12.2**	**32.8**	**(4.2)**
Total expenditure	(43,458)	(38,254)	(31,417)	(45,690)	13.6	38.3	(4.9)
Stock adjustment	(1,942)	—	3,174	(2,380)	—	(161.2)	(18.4)
Raw materials	(29,271)	(25,904)	(28,294)	(31,320)	13.0	3.5	(6.5)
Employee cost	(2,279)	(2,293)	(2,070)	(2,226)	(0.6)	10.1	2.4
Power and fuel cost	(5,099)	(4,989)	(4,210)	(4,843)	2.2	21.1	5.3
Other costs	(4,867)	(5,069)	(18)	(4,921)	(4.0)	27,555.1	(1.1)
EBITDA	**8,325**	**7,880**	**7,578**	**8,354**	**5.6**	**9.9**	**(0.3)**
OPM (%)	**16.1**	**16.1**	**16.1**	**16.1**			
Other income	689	699	753	777	(1.4)	(8.5)	(11.3)
Interest	(593)	(720)	(682)	(705)	(17.5)	(13.0)	(15.9)
Depreciation	(1,691)	(1,701)	(1,653)	(1,684)	(0.6)	2.3	0.4
Pretax profits	**6,730**	**6,158**	**5,996**	**6,741**	**9.3**	**12.2**	**(0.2)**
Extraordinaries	—	—	—	—	—	—	—
Tax	(1,386)	(1,355)	(1,190)	(102)	2.3	16.4	1,263.8
Net income	**5,344**	**4,804**	**4,806**	**6,639**	**11.2**	**11.2**	**(19.5)**
Income tax rate (%)	20.6	22.0	19.8	1.5			
Ratios							
EBITDA margin (%)	16.1	17.1	19.4	15.5			
ETR (%)	20.6	22.0	19.8	1.5			
EPS (Rs)	2.8	2.7	2.7	3.5			
Operational details							
Alumina production (tons)	341,419	345,520	311,917	343,801	(1.2)	9.5	(0.7)
Aluminium metal production (tons)	140,061	140,783	135,439	138,023	(0.5)	3.4	1.5
Copper cathode productio (tons)	76,309	83,340	79,782	74,734	(8.4)	(4.4)	2.1
Copper rods production (tons)	40,708	32,635	36,241	36,870	24.7	12.3	10.4
Average Realizations (Rs/ton)							
Aluminium	133,296	136,936	104,926	148,135	(2.7)	27.0	(10.0)
Copper	322,733	322,239	310,808	449,769	—	3.8	(28.2)
Average Realizations (US$/ton)							
Aluminium	2,917	3,001	2,155	3,227	(2.8)	35.3	(9.6)
Copper	9,162	9,162	6,385	9,799	—	43.5	(6.5)
Segmental revenue							
Aluminium	18,670	19,278	14,211	20,446	(3.2)	31.4	(8.7)
Copper	33,142	26,855	24,797	33,613	23.4	33.7	(1.4)
Segmental PBIT							
Aluminium	5,522	5,750	4,554	6,143	(4.0)	21.3	(10.1)
Copper	1,242	1,128	1,563	1,273	10.1	(20.5)	(2.5)
Segmental PBIT (%)							
Aluminium	29.6	29.8	32.0	30.0			
Copper	3.7	4.2	6.3	3.8			

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Hindalco Industries, Valuation (Rs mn)

		Multiple	Value	
		(X)	(Rs mn)	(Rs/share)
Hindalco FY2011E EBITDA	25,039	6.0	150,234	78
Novelis FY2011E EBITDA	41,348	6.5	268,761	140
ABML FY2011E EBITDA (proportionate stake)	2,867	5.0	14,337	7
Total Enterprise Value			**433,332**	**226**
Add: Value of listed investments (20% to market price)			23,530	12
Less: Net debt (adjusted for CWIP)	104,827		104,827	55
Arrived market capitalization			**328,505**	**184**
Target price (Rs)				**185**

Source: Kotak Institutional Equities estimates

Exhibit 4: Hindalco Industries, Key assumptions, March fiscal-year ends, FY2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Aluminium						
Hindalco						
Aluminium price (US$/ton)	2,623	2,234	1,900	1,950	2,050	2,200
Metal sales volume (tons)	473,118	521,069	555,404	571,780	602,640	1,084,600
Blended realization (Rs/ton)	131,937	127,384	113,091	110,327	114,947	118,589
Cost/ton (US$/ton)	2,102	1,939	1,708	1,876	1,941	1,736
EBITDA/ton (US$/ton)	1,337	981	753	603	635	885
Alumina price (US$/ton)	370	278	305	313	329	353
Alumina sales volume (tons)	259,627	238,350	247,415	333,841	319,949	480,198
Alumina EBITDA (Rs mn)	2,497	2,189	2,144	2,638	2,585	4,969
Novelis						
Average realization (US$/ton)	3,570	3,458	3,203	3,227	3,393	3,564
Conversion premium (US$/ton)	947	1,224	1,303	1,277	1,343	1,364
Shipments ('000 tons)	3,150	2,943	2,708	2,816	2,929	2,988
EBITDA/ton (US$/ton)	169	192	401	319	330	301
EBITDA (US$ mn)	533	566	1,085	899	965	899
EBITDA (Rs mn)	21,448	25,997	51,538	41,348	44,395	41,337
Copper						
Price (US$/ton)	7,521	5,885	6,112	6,700	7,100	7,250
Copper cathode volumes (tons)	180,668	153,236	188,560	206,592	206,990	202,250
Copper rods volumes (tons)	138,543	146,323	147,450	151,874	156,430	161,123
TCRC margin (cents/lb)	24	15	22	18	18	20
EBITDA (Rs mn)	6,693	5,476	8,342	7,435	7,366	8,806

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Hindalco (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	600,128	656,252	607,221	647,456	703,493	803,213
EBITDA	**66,351**	**53,584**	**70,094**	**71,917**	**77,438**	**104,971**
Other income	6,560	6,878	3,227	3,979	3,863	4,737
Interest	(18,491)	(12,323)	(11,041)	(15,617)	(15,007)	(28,717)
Depreciation	(24,883)	(30,378)	(27,836)	(25,562)	(24,190)	(29,467)
Profit before tax	**29,537**	**17,761**	**34,444**	**34,717**	**42,104**	**51,524**
Extraordinaries	5,481	(22,319)	28,394	—	—	—
Taxes	(11,889)	8,046	(19,319)	(9,293)	(11,721)	(14,129)
Profit after tax	**23,130**	**3,488**	**43,519**	**25,423**	**30,383**	**37,395**
Minority interest	(2,194)	1,718	(4,237)	(1,230)	(1,509)	(1,594)
Share in profit/(loss) of associates	998	(353)	(27)	(27)	(27)	(27)
Reported net income	**21,933**	**4,853**	**39,255**	**24,167**	**28,848**	**35,774**
Adjusted net income	**16,452**	**19,791**	**19,617**	**24,167**	**28,848**	**35,774**
Fully diluted EPS (Rs)	**12.9**	**11.6**	**10.2**	**12.6**	**15.1**	**18.7**
Balance sheet (Rs mn)						
Equity	172,866	158,536	222,465	243,608	269,433	302,184
Deferred tax liability	41,723	27,571	28,167	28,566	28,742	32,388
Total Borrowings	323,524	283,098	256,950	332,750	409,350	429,350
Current liabilities	172,201	162,602	145,657	153,173	163,642	180,070
Minority interest	16,154	12,866	17,103	18,332	19,841	21,435
Total liabilities	**726,467**	**644,672**	**670,342**	**776,430**	**891,008**	**965,427**
Net fixed assets	267,820	275,249	268,155	250,136	223,425	469,229
Capital work in progress	24,571	29,495	55,105	150,615	257,493	6,747
Goodwill	79,247	42,908	42,908	42,908	42,908	42,908
Investments	140,077	104,308	104,281	104,255	104,228	104,201
Cash	17,169	21,918	13,498	34,873	54,639	111,281
Other current assets	197,574	170,791	186,395	193,644	208,315	231,062
Miscellaneous expenditure	10	4	—	—	—	—
Total assets	**726,467**	**644,672**	**670,342**	**776,430**	**891,008**	**965,427**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	27,709	(7,156)	60,081	47,405	50,886	65,770
Working capital changes	7,576	29,309	(25,366)	267	(4,203)	(6,318)
Capital expenditure	(27,507)	(25,988)	(46,352)	(103,054)	(104,357)	(24,525)
Free cash flow	**7,778**	**(3,834)**	**(11,638)**	**(55,382)**	**(57,674)**	**34,927**
Ratios						
EBITDA margin (%)	11.1	8.2	11.5	11.1	11.0	13.1
EBIT margin (%)	6.9	3.5	7.0	7.2	7.6	9.4
Debt/equity (X)	1.9	1.8	1.2	1.4	1.5	1.4
Net debt/equity (X)	1.2	1.4	0.9	1.0	1.2	0.9
Net debt/EBITDA (X)	3.2	4.1	2.9	3.5	4.0	2.6
RoAE (%)	10.9	11.9	10.3	10.4	11.2	12.5
RoACE (%)	**7.9**	**5.4**	**4.8**	**6.4**	**6.1**	**8.0**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

GlaxosmithKline Consumer (SKB)

Consumer products

ADD

AUGUST 04, 2010

RESULT

Coverage view: Attractive

Price (Rs): 1,800

Target price (Rs): 2,000

BSE-30: 18,115

Foodles has the potential to surprise on the upside. 2QCY10: +10% volumes and +5% pricing in malted food drink, gross margins managed well in an input cost inflationary environment. Wider acceptance of Foodles could likely have a rub off effect on mother-brand Horlicks in North and West India. Most of the other new launches are either showing initial signs of fatigue or require sustained investments, in our view. We are positively surprised at the new-found confidence to effect price increases in MFD.

Company data and valuation summary

GlaxoSmithKline Consumer (a)

Stock data			
52-week range (Rs) (high,low)			1,915-1,005
Market Cap. (Rs bn)			75.7
Shareholding pattern (%)			
Promoters			43.2
FIIs			9.6
MFs			10.5
Price performance (%)	1M	3M	12M
Absolute	(0.0)	15.7	62.5
Rel. to BSE-30	(3.6)	9.5	42.0

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	55.4	68.6	81.3
EPS growth (%)	23.6	23.9	18.6
P/E (X)	32.5	26.2	22.1
Sales (Rs bn)	19.2	22.6	26.8
Net profits (Rs bn)	2.3	2.9	3.4
EBITDA (Rs bn)	3.8	4.4	5.2
EV/EBITDA (X)	18.0	15.6	12.7
ROE (%)	27.9	29.0	28.7
Div. Yield (%)	1.0	1.2	1.5

Wider acceptance of Foodles could likely have a rub off effect on mother brand Horlicks

We highlight that while malted food drinks always has the potential to improve penetration in North and West; it has been a challenge for GSK due to abundant availability of milk and milk products in those regions. Horlicks Foodles, if successful, in North and West, has the potential to improve brand equity scores for Horlicks, in our view.

Horlicks association is the key differentiator for Foodles

- Higher proportion of multi-grain variant in Foodles sales likely indicates consumer acceptance to the differentiated positioning—GSK says that the Rs15 multigrain variant is ~30% of sales (Maggi derives ~15% from its Vegetable atta noodles, in our view)
- Foodles has a market share of 5% and 4% in south and east India in <1 year of launch (south and east accounts for 40% of the noodles market in India)
- We note that GSK derives ~85% of MFD sales from South and East where it has a strong distribution reach which could aid Foodles' distribution

GSK has entered the Rs13 bn instant noodles market under the brand Foodles. The instant noodles market is virtually a monopoly with Nestlé's Maggi accounting for ~90% market share. Top Ramen Smoodles and Cup Noodles (Indo-Nissin), Chings Instant Noodles and Wai-Wai (Capital Foods) are other players but have not been able to gain a foothold in the market. More recently, Hindustan Unilever has entered the segment with its brand Knorr Soupy Noodles.

+10% volumes and +5% pricing in malted food drink, gross margins managed well in an input cost inflationary environment

2QCY10: GSK reported net sales of Rs5.4 bn, (+14%, KIE estimate Rs5.6 bn), EBITDA of Rs894 mn (+19%, KIE estimate Rs888 mn) and PAT of Rs718 mn (+30%, KIE estimate Rs681 mn).

QUICK NUMBERS

- Wider acceptance of Horlicks Foodles could positively impact mother-brand Horlicks in North and West India
- We are positively surprised at the new-found confidence to effect price increases
- Foodles has 5% and 4% market share in South and East India in <1 year of launch

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

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

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

Sales growth during the quarter was led by 10% volume growth and 5% pricing growth. Horlicks posted volume growth rate of 10% and Boost of 17%. Material cost was marginally higher by ~100bps, however savings in adspends (likely phasing out) by ~200bps aided EBITDA margin expansion of ~70bps to 16.6%. Business auxiliary income during the quarter stood at Rs140 mn, an increase of 8% on yoy basis (income from Group Company for distribution of products).

Management comments from the concall and our take on it

Raw material cost. During the quarter, liquid milk price was up 25%, milk powder price was up 15% and barley was also inflationary. The company expects 1) milk prices to ease as the flush season sets in from October 2) malted barley price to remain firm due to shortfall in production and 3) sugar prices to witness some softening.

Our view: Gross margin management when faced with significant input cost inflation is commendable. GSK's margins could potentially improve in 2HCY10 as most input costs are coming off its peaks except for malted barley.

Exports. ~8% of sales for the company are from exports. According to the management, exports during the quarter grew only 3% due to competitive pressure in Sri Lanka (Viva is the key brand in Sri Lanka and faces competition from local players as well as MNCs).

Our view: GSK's exports has doubled over CY2007-09 as the group shifted manufacturing to India (from South Asia mostly). We continue to model a sedate 8% growth in exports over CY2009-11E as we believe that the growth in exports will mimic the category growth rates in the respective countries (adjusting for market shares).

Pricing power. GSK effected price increase of about 5% in January 2010 and believes that it can take price hikes upto 6-7% annually without hurting volumes.

Our view: This is a steady shift from the early 2000 period, when the malted food drink segment did not have much pricing power. While the category still remains a discretionary spend, factors helping GSK in having better pricing power are (1) better acceptance in consumer households and (2) has increased significantly, over the years

New launches. New products / launches contribute 15% of the company's turnover. Horlicks biscuits are performing well (15% yoy growth) and are in line with internal expectations of the management. Nutribar has been launched nationally and the company is focusing on introducing new variants. Horlicks Asha is still being test marketed and the company believes that national launch of the product may still be some time away. Chill Dood has been positioned as an urban product and is being marketed in modern trade outlets. The company maintains the guidance for 15% (of sales) adspends for CY2010E

Our view: Most of the new launches are either showing initial signs of fatigue or require sustained investments, in our view. Foodles is the only exception.

Capex. GSK is planning capex of Rs1.5 bn for CY2010E towards capacity expansion. In 1HCY10, the company spent ~Rs300 mn. The new capacity addition would suffice for two years of requirement (at current growth rates)

Distribution reach. The company had direct distribution to 0.5 mn outlets in CY2009 and is targeting to reach 0.6 mn outlets by end of CY2010E. It has ~0.9 mn distribution through indirect channels.

Cash position. As on June30, 2010 the company had cash of Rs8.3 bn on its books (Rs200/share).

Our view: The treasury yield continues to be a surprising low 4.5% (pre-tax). Potential improvement in dividend payout ratio from the current <50% is a key trigger to watch for.

Interim results of Glaxo SmithKline Consumer Healthcare Ltd. , December fiscal year-ends (Rs mn)

					(% chg)		
	2QCY10	2QCY10E	2QCY09	1QCY10	2QCY10E	2QCY09	1QCY10
Net sales	**5,374**	**5,567**	**4,694**	**6,484**	**(3)**	**14**	**(17)**
Total expenditure	(4,480	(4,679)	(3,946)	(5,154)	(4)	14	(13)
Material cost	(2,025	(2,068)	(1,722)	(2,561)	(2)	18	(21)
Staff cost	(589	(632)	(523)	(516)	(7)	13	14
Advertising & promotion cost	(749	(814)	(747)	(982)	(8)	0	(24)
Other expenditure	(1,117	(1,165)	(953)	(1,094)	(4)	17	2
EBITDA	**894**	**888**	**748**	**1,331**	**1**	**19**	**(33)**
OPM (%)	**16.6**	**16.0**	**15.9**	**16.0**			
Other income	281	268	226	236		24	19
Interest	(6	(13)	(11)	(6)		(41)	9
Depreciation	(93	(115)	(105)	(96)		(12)	(3)
Pretax profits	**1,076**	**1,028**	**858**	**1,465**	**5**	**25**	**(27)**
Tax	(358	(346)	(307)	(503)	3	17	(29)
Net income	**718**	**681**	**552**	**962**	**5**	**30**	**(25)**
Income tax rate (%)	33.3	33.7	35.7	34.4			
Costs as a % of net sales							
Material cost	37.7	37.2	36.7	39.5			
Staff cost	11.0	11.3	11.2	8.0			
Advertising & promotion cost	13.9	14.6	15.9	15.2			
Other expenditure	20.8	20.9	20.3	16.9			

Source: Company, Kotak Institutional Equities

Maintain ADD rating, 21% CAGR EPS growth in CY2009-11E

We maintain our ADD rating and our positive bias on GSK Consumer as we forecast 21% CAGR EPS growth in CY2009-11E. At 22X CY2011E, we do not see further scope for multiple rerating (unless the company improves the payout ratio from the current <50%) Our EPS estimates are broadly maintained at Rs68.6 for CY2010E and Rs81.3 for CY2011E. Our target price of Rs2, 000 for GSK is based on 23X CY2011E. Key risks to our ADD rating are (1) input cost inflation not neutralized by price increases and (2) higher-than-expected impact of monsoons on consumer demand in Tier II and III towns.

GSK Consumer: Profit model, balance sheet, cash model 2006-2011E, December fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Profit model (Rs mn)						
Net sales	**11,079**	**12,778**	**15,418**	**19,215**	**22,607**	**26,771**
EBITDA	**1,859**	**2,244**	**2,375**	**3,108**	**3,698**	**4,403**
Other income	392	440	593	649	704	804
Interest	95	203	308	202	454	558
Depreciation	(427)	(435)	(419)	(420)	(596)	(761)
Pretax profits	1,918	2,451	2,857	3,539	4,260	5,004
Tax	(636)	(824)	(974)	(1,211)	(1,376)	(1,584)
Net profits	**1,282**	**1,627**	**1,883**	**2,328**	**2,884**	**3,420**
Earnings per share (Rs)	**30.5**	**38.7**	**44.8**	**55.4**	**68.6**	**81.3**
Balance sheet (Rs mn)						
Total equity	5,427	6,464	7,609	9,051	10,838	12,957
Currrent liabilities	2,326	2,668	3,186	5,001	5,088	5,963
Total liabilities and equity	**7,753**	**9,131**	**10,795**	**14,052**	**15,926**	**18,919**
Cash	479	937	4,710	8,198	7,230	9,455
Current assets	2,498	2,783	3,824	3,531	4,169	4,899
Total fixed assets	2,579	2,433	2,261	2,323	4,527	4,566
Investments	2,197	2,978	0	0	0	0
Total assets	**7,753**	**9,131**	**10,795**	**14,052**	**15,926**	**18,919**
Free cash flow (Rs mn)						
Operating cash flow	1,615	1,923	2,152	2,574	3,361	3,969
Working capital	(82)	125	(626)	1,737	166	168
Capital expenditure	(168)	(289)	(247)	(482)	(2,800)	(800)
Investments	(2,311)	(782)	2,978	0	0	0
Free cash flow	**(946)**	**977**	**4,257**	**3,829**	**727**	**3,336**
Key assumptions						
Revenue growth (%)	14.6	15.3	20.7	24.6	17.7	18.4
EBITDA margin(%)	16.8	17.6	15.4	16.2	16.4	16.4
EPS growth (%)	22.7	26.9	15.8	23.6	23.9	18.6

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Punj Lloyd (PUNJ)

Construction

REDUCE

AUGUST 04, 2010

RESULT

Coverage view: Attractive

Price (Rs): 128

Target price (Rs): 140

BSE-30: 18,115

Results continue to significantly miss estimates. Results remain significantly below estimates led by slower-than-expected off-take of the Libyan orders. The company has booked no revenues from the Libyan orders in this quarter. Negative operating leverage due to sedate revenues led to an EBITDA decline of 270 bps yoy and a net loss of Rs306 mn. Subsidiary profits were impacted by reversal of GBP2.5 mn in Ensus order. Moderate inflows of Rs32 bn; backlog declines on a sequential basis. Retain REDUCE.

Company data and valuation summary

Punj Lloyd

Stock data			
52-week range (Rs) (high,low)			299-113
Market Cap. (Rs bn)			44.9
Shareholding pattern (%)			
Promoters			37.4
FIIs			13.2
MFs			17.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(0.8)	(18.8)	(47.8)
Rel. to BSE-30	(4.2)	(22.0)	(54.0)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	(12.9)	9.8	12.0
EPS growth (%)	79.2	(175.4)	22.4
P/E (X)	(10.2)	13.6	11.1
Sales (Rs bn)	105.4	116.2	130.2
Net profits (Rs bn)	(4.4)	3.3	4.1
EBITDA (Rs bn)	2.2	10.7	12.0
EV/EBITDA (X)	36.8	7.2	6.6
ROE (%)	(15.8)	10.3	11.4
Div. Yield (%)	(0.1)	0.3	0.8

Results continue to remain far below expectations

- **Disappointing revenues at consolidated and standalone level:** Punj Lloyd reported very disappointing revenues of Rs17.3 bn in 1QFY11, about 34% below our estimates and down 42% on a yoy basis. Even at the standalone level the company has recorded a 42% yoy decline in revenues and 14% decline on a sequential basis.
- **Margin decline primarily on negative operating leverage:** Punj Lloyd reported a 270 bps yoy decline in consolidated EBITDA margin to 7.7%, about 150 bps below our estimates, primarily on account of negative operating leverage due to decline in sales number.
- **Low execution and margins lead to net loss:** The sedate revenues and EBITDA followed by continued high interest costs led to a net consolidated loss of Rs306 mn in 1QFY11, versus a profit of Rs1.25 bn in 1QFY10 and our estimate of a profit of Rs639 mn. At the standalone level, the company has reported a net loss of Rs185 mn versus a profit of Rs687 mn in 1QFY10.

Moderate order inflows; backlog declines on a sequential basis

Punj Lloyd reported moderate inflows of Rs32.8 bn, down 67% yoy and 47% on a sequential basis (1QFY10 order inflows were boosted by large orders of Rs77 bn from Libya). Sedate inflows have led to a sequential decline in the backlog to Rs255 bn versus Rs278 bn at end-FY2010.

Auditor qualifications to the tune of Rs3.1 bn still remains

The company has residual auditor qualifications to the tune of Rs3.1 bn for (1) accounting for claims of Rs2.4 bn on a contract due to cost over run and design changes and (2) non-accounting of Rs655 mn of liquidated damages deducted by a customer.

Retain estimates and target price of Rs140; reiterate REDUCE

Retain estimates of Rs9.8 and Rs12 for FY2011E and FY2012E, respectively, and TP of Rs140. Reiterate REDUCE rating on (1) slower-than-expected pick-up in execution of Libyan orders, (2) high debt levels and (3) potential for further one-off losses in certain orders.

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

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

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

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

Results continue to significantly miss estimates

Punj Lloyd reported disappointing consolidated revenues of Rs17.3 bn in 1QFY11, significantly below our estimates (by 33.7%) of Rs26.1 bn. The company has reported a yoy revenue decline of 41.7%. Our revenue estimate was based on some pick-up in execution of the Libyan orders. The management has attributed the sedate revenues in 1QFY11 to client-related delays in several projects, including those in Libya. The company has booked no revenues from the Libyan orders in this quarter. About 58.1% of the total consolidated income was derived from international operations.

Negative operating leverage leads to lower-than-expected margin

The company reported an EBITDA margin of 7.7% on a consolidated basis, about 270 bps down on a yoy basis and 150 bps lower than our estimate. The decline in margins was primarily led by negative operating leverage due to the sedate revenues in the quarter. Staff cost and other expenses as a percentage of sales recorded a sharp rise of 570 bps and 660 bps, respectively, on a yoy basis. The material cost as a percentage of sales in fact reported a 960 bps decline on a yoy basis.

The lower-than-expected revenues and margins led to a net consolidated loss of Rs306 mn in 1QFY11 versus our estimate of a profit of Rs639 mn and a profit of Rs1.25 mn in 1QFY10.

Results far below expectations
Punj Lloyd (consolidated) - 1QFY11 - key numbers (Rs mn)

					% change					
	1QFY11	1QFY11E	1QFY10	4QFY10	1QFY11E	1QFY10	4QFY10	FY2011E	FY2010	% change
Net Sales	**17,339**	**26,145**	**29,728**	**17,765**	**(33.7)**	**(41.7)**	**(2.4)**	**116,201**	**105,388**	**10.3**
Expenditure	**(15,998)**	**(23,727)**	**(26,634)**	**(22,912)**	**(32.6)**	**(39.9)**	**(30.2)**	**(105,452)**	**(103,205)**	**2.2**
Material	(9,005)		(18,305)	(11,788)		(50.8)	(23.6)	(72,916)	(66,914)	9.0
Staff cost	(2,876)		(3,239)	(3,814)		(11.2)	(24.6)	(12,492)	(13,452)	(7.1)
Other expenditure	(4,117)		(5,090)	(7,310)		(19.1)	(43.7)	(20,045)	(22,839)	(12.2)
EBITDA	**1,341**	**2,418**	**3,094**	**(5,147)**	**(44.5)**	**(56.7)**	**NA**	**10,749**	**2,183**	**392.3**
Other Income	41	215	63	(14)	(81.1)	(35.1)	NA	861	136	
Interest	(810)	(1,092)	(744)	(728)	(25.8)	8.9	11.3	(4,368)	(3,063)	42.6
Depreciation	(640)	(629)	(541)	(680)	1.9	18.3	(5.8)	(2,515)	(2,270)	10.8
Profit before Tax	**(69)**	**913**	**1,872**	**(6,569)**	**(107.5)**	**(103.7)**	**NA**	**4,727**	**(3,014)**	**NA**
Tax	(235)	(274)	(622)	322	(14.1)	(62.1)		(1,418)	(1,373)	3.3
Profit after Tax	**(304)**	**639**	**1,250**	**(6,247)**	**(147.6)**	**(124.3)**	**NA**	**3,309**	**(4,386)**	**NA**
MI & exceptional	(2)	—	—	3,238				—	3,302	
Net Profit	**(306)**	**639**	**1,250**	**(3,009)**				**3,309**	**(1,084)**	
Key ratios (%)										
Material costs/ Sales	51.9		61.6	66.4		(9.6)		62.8	63.5	
Staff cost/ Sales	16.6		10.9	21.5		5.7		10.8	12.8	
Other expense/ Sales	23.7		17.1	41.1		6.6		17.3	21.7	
EBITDA margin	**7.7**	**9.3**	**10.4**	**(29.0)**				**9.2**	**2.1**	
PBT margin	(0.4)	3.5	6.3	(37.0)				4.1	(2.9)	
PAT margin	(1.8)	2.4	4.2	(35.2)				2.8	(4.2)	
Effective tax rate	(342.6)	30.0	33.2	4.9				30.0	NA	
Order details										
Order backlog	255,565		278,893	277,695		(8.4)	(8.0)	285,433	277,695	2.8
Order booking	32,840		99,460	61,460		(67.0)	(46.6)	130,450	175,050	(25.5)

Source: Company, Kotak Institutional Equities estimates

Standalone also reported low execution and loss at PAT level

Even at the standalone level the company has recorded a 42% yoy decline in revenues and 14% decline on a sequential basis. EBITDA margin for the quarter was at 8%, down from 9.8% in 1QFY10 based on higher employee and other expenses as a percentage of sales. The decline in revenues and margins led to a net loss of Rs185 mn in 1QFY11 versus a profit of Rs687 mn in 1QFY10.

Punj Lloyd (standalone) - 1QFY10 - key numbers (Rs mn)

	1QFY11	1QFY10	4QFY10	% change 1QFY10	% change 4QFY10
Net Sales	**11,155**	**19,245**	**12,965**	**(42.0)**	**(14.0)**
Expenditure	**(10,262)**	**(17,352)**	**(14,348)**	**(40.9)**	**(28.5)**
Material + contractor	(5,945)	(11,442)	(8,519)	(48.0)	(30.2)
Staff cost	(1,634)	(1,657)	(1,886)	(1.4)	(13.4)
Other expenditure	(2,683)	(4,252)	(3,942)	(36.9)	(32.0)
EBITDA	**894**	**1,894**	**(1,383)**	**NA**	**NA**
Other Income	46	78	7	(40.6)	560.0
PBIDT	**940**	**1,971**	**(1,376)**	**(52.3)**	**NA**
Interest	(702)	(642)	(642)	9.4	9.3
Depreciation	(377)	(320)	(341)	17.6	10.5
Profit before Tax	**(139)**	**1,009**	**(2,359)**	**NA**	**NA**
Tax	(46)	(322)	641	(85.7)	(107.2)
Profit after Tax	**(185)**	**687**	**(1,718)**	**NA**	**NA**
Exceptional items	-	-	3,111		
Net Profit	**(185)**	**687**	**1,393**		
Key ratios (%)					
Material/ Sales	53.3	59.5	65.7		
Staff cost/ Sales	14.7	8.6	14.5		
Other expense/ Sales	24.0	22.1	30.4		
EBITDA margin	**8.0**	**9.8**	**(10.7)**		
PBT margin	(1.2)	5.2	(18.2)		
PAT margin	(1.7)	3.6	(13.2)		
Effective tax rate	(33.1)	31.9	27.2		

Source: Company, Kotak Institutional Equities

Subsidiary profits impacted by reversal of GBP2.5 mn in Ensus order; project now operating at 98% capacity

The profit of Simon Carves subsidiary was impacted during the quarter on account of a reversal of GBP2.5 mn due to a settlement with one of the sub-contractors on the bioethanol project for Ensus Ltd (UK).

Execution expertise appears to lag aspirations for regional/sector diversification

The management has highlighted its aspirations for further regional and sector diversification, such as taking up projects in Caspian region and bidding for large infrastructure projects. We are concerned that the company may find itself stretched, especially if it takes significant exposure to Caspian region, and could potentially face execution challenges as already seen in UK and Libya.

Delayed execution in Libya; order book has not translated to revenues thus far

Punj has thus far been unable to translate its robust order backlog into revenue primarily due to substantial delays in start of execution in Libyan projects. Libyan government projects, which potentially form about 35-40% of the backlog, are facing significant delays in execution owing to – (1) ongoing design and engineering stage work, (2) changes in architects for some projects, and (3) ownership change in various contracts among government entities. We highlight that the company continues to carry risk of large exposure to Libya, especially in light of changes in project ownership.

Order inflows moderate in 1QFY11; backlog declines on a sequential basis

Punj Lloyd reported moderate inflows of Rs32.8 bn, down 67% yoy and 47% on a sequential basis. Highlight that the 1QFY10 order inflows were boosted by two large orders to the tune of about Rs77 bn from Libya. This is versus an average quarterly order inflow of about Rs43-45 bn witnessed in FY2010. The inflows have reverted to the FY2009 average levels of about Rs32 bn. The moderation in inflows during the quarter has led to a sequential decline in the backlog to Rs255 bn versus Rs278 bn at end-FY2010. The key orders won during the quarter include (1) Rs20.6 bn order for the Shah Gas Development project in Abu Dhabi (in consortium with Technicas Reunidas, Spain) and (2) Rs13.9 bn order from Sentosa, Singapore for the construction of a hotel, spa, theme park etc.

Some moderation in order inflows versus FY2010 levels

Key order wins announced by Punj Lloyd in FY2010 and 1QFY11

Date	Segment	Client	Value (Rs mn)	Description
Jun-10	Infrastructure	Sentosa Pte Ltd, Singapore	13,940	Hotel, Spa, Beach Villas, Oceanarium and Water Theme Park
Jun-10	Infrastructure	Rajiv Gandhi Institute of Petroleum Tech.	1,799	Construct a technical institute at Rae Bareli, UP
Jun-10	Process	Hyundai Engineering & Construction Co. Ltd	960	5 Utilities & Offsites Project
May-10	Process	Abu Dhabi Gas Development Company Ltd	20,560	Gas gathering package for Shah Gas Development project
Apr-10	Infrastructure	Ministry of Health & Family Welfare	1,150	Medical College and Hostel Complex at AIIMS, Raipur
Apr-10	Process	Nagarjuna Oil Corporation Ltd	3,200	Installation of ISBL units and Pipe Rack at Cuddalore Refinery
Apr-10	Infrastructure	Public Health Engg Dept, Bihar	2,320	EPC of 850 solar-powered water treatment plants
Apr-10	Process	MRPL, Engineers India Ltd	2,350	Structural and errection for process unit and offsite facility
Total orders announced in FY2011 so far			**46,279**	
Mar-10	Oil and Gas	Abu Dhabi Gas Industries Ltd (GASCO)	1,800	EPC of NGI (mixed case) project
Mar-10	Infrastructure	Dhariwal Infra Pvt Ltd, an RPG group co	10,230	BoP of 2x300 MW plant in Tadali, Chandrapur, Maharashtra
Jan-10	Infrastructure	GMR Hyderabad Vijayawada Expy Pvt. Ltd	11,000	EPC works for the Hyderabad-Vijayawada highway project
Jan-10	Oil and Gas	PTT Public Company Ltd, Thailand	5,740	Platform compression facilities in the Gulf of Thailand
Jan-10	Infrastructure	Ind-Barath Energy (Utkal) Ltd	9,470	BoP and civil work for 2X350 MW TPP in Orissa
Sep-09	Oil and Gas	IndianOil Petronas Pvt. Ltd	2,758	EPC for Propane / Butane / LPG Import Terminal at Ennore
Sep-09	Process	MRPL	5,500	EPC works for refinery project
Aug-09	Oil and Gas	GAIL (India) Ltd	1,675	Dahej Vijaipur pipeline upgradation project
Jul-09	Infrastructure	Intl Investment and Services Co, Libya	59,040	Commercial and residential developments
Jul-09	Oil and Gas	Saudi Aramco Total Refinery & Petro Co	12,100	EPC of port tank farm in Saudi Arabia
Jul-09	Infrastructure	Housing and Infrastructure Board, Libya	18,732	Utilities in 3 towns in Libya
Jul-09	Infrastructure	Land Transport Authority, Singapore	12,630	Construction of 2 MRT stations
Apr-09	Infrastructure	Bangalore Metro Rail Corporation	3,080	Construction of 8 stations
Total orders announced in FY2010 so far			**153,755**	

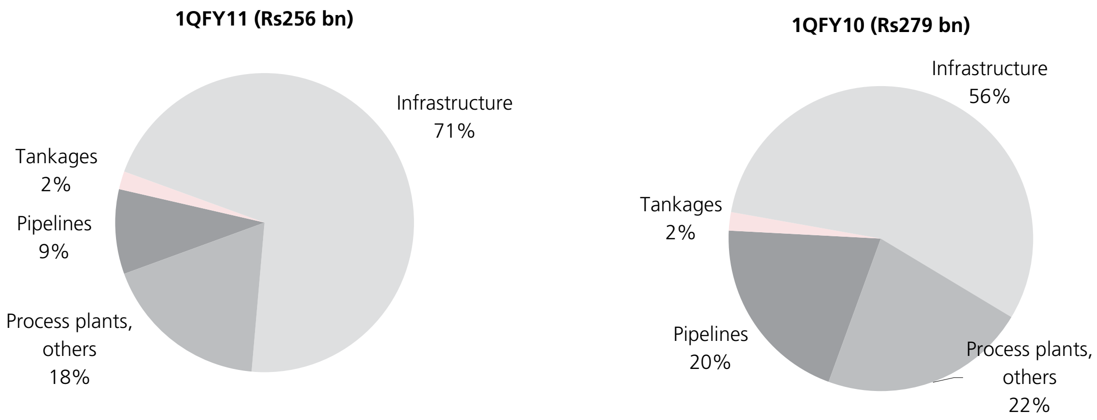
Source: Company, Kotak Institutional Equities

Further concentration in infrastructure sector in the backlog

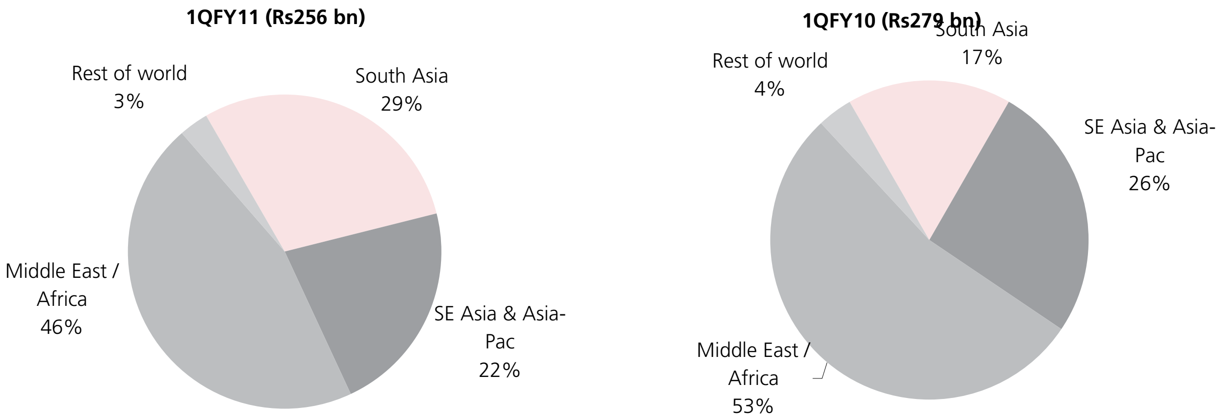
The infrastructure segment continues to dominate the order backlog, contributing to 71% of the total 1QFY11-end backlog of Rs256 bn. This is versus 56% in 1QFY10. The other key segments contributing to the backlog include process segment (18% of backlog) and pipelines (9% of backlog). African and Middle East geography contribute to a majority of the backlog (46%) primarily led by the large Libyan orders won in FY2009-10.

Sectoral and Geographical mix of Punj-Lloyd's 1QFY11-end backlog

Segmental break up



Geographical break up



Source: Company, Kotak Institutional Equities

Consolidated balance sheet, profit model and cash flow statement of Punj Lloyd, March fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Balance sheet						
Shareholders' funds	**12,789**	**27,433**	**24,845**	**30,525**	**33,641**	**37,218**
Loan Funds	16,992	16,072	35,592	44,092	44,092	44,092
Deffered Tax liability	361	915	1,482	1,482	1,482	1,482
Minority Interest	59	222	420	420	420	420
Total sources of funds	**30,201**	**44,642**	**62,339**	**76,519**	**79,635**	**83,212**
Net block	13,182	16,169	21,653	21,572	23,057	25,205
Investments	1,698	5,458	6,609	6,675	3,142	3,142
Cash and bank balances	10,027	6,898	8,122	8,555	11,283	9,481
Net current assets (excl cash)	5,146	16,053	25,880	39,644	42,079	45,310
Total	**30,201**	**44,642**	**62,339**	**76,519**	**79,635**	**83,212**
Profit model						
Operating Income	**51,266**	**77,529**	**119,120**	**105,388**	**116,201**	**130,196**
Expenditure	(47,522)	(70,608)	(114,716)	(95,933)	(105,452)	(118,152)
EBITDA	**3,744**	**6,922**	**4,404**	**2,183**	**10,749**	**12,043**
Other Income	794	811	899	136	861	925
PBDIT	4,538	7,732	5,303	2,319	11,610	12,968
Finance charges	692	1,806	3,519	3,063	4,368	4,327
Depreciation	1,062	1,462	1,771	2,270	2,515	2,852
Profit Before Tax	2,784	4,447	(55)	(3,014)	4,727	5,788
Tax	690	1,235	2,260	1,373	1,418	1,736
PAT	**1,969**	**3,212**	**(2,315)**	**(4,387)**	**3,309**	**4,052**
Extraordinary items (net of taxes)	—	371	—	3,302	—	—
Reported PAT	1,969	3,583	(2,315)	(1,085)	3,309	4,052
Cash flow statement						
Operating cashflow before working capital changes	3,602	7,052	3,610	946	10,192	11,231
Change in working capital	3,536	(10,907)	(9,828)	(13,764)	(2,435)	(3,231)
Cashflow from operating activites	**7,138**	**(3,855)**	**(6,218)**	**(12,818)**	**7,757**	**8,000**
Fixed Assets	(7,223)	(4,535)	(7,244)	(2,189)	(4,000)	(5,000)
Investments	(1,283)	(3,759)	(1,151)	(65)	3,533	—
Cash (used) / realised in investing activities	**(8,506)**	**(8,294)**	**(8,396)**	**(2,254)**	**(467)**	**(5,000)**
Issue of share capital	(304)	11,203	(166)	6,702	—	—
Borrowings	11,427	(920)	19,520	8,500	—	—
Dividend and Dividend Tax paid	(92)	(142)	(107)	63	(194)	(474)
Interest charges	(692)	(1,806)	(3,519)	(3,063)	(4,368)	(4,327)
Cash (used) /realised in financing activities	**10,339**	**8,334**	**15,729**	**12,202**	**(4,562)**	**(4,801)**
Cash generated /utilised	8,972	(3,461)	1,047	433	2,728	(1,801)
Cash at beginning of year	1,122	10,027	6,898	8,122	8,555	11,283
Cash at end of year	**10,094**	**6,566**	**7,945**	**8,555**	**11,283**	**9,481**
Key ratios (%)						
Net current assets (excl cash) as days of sales	37	76	79	137	132	127
EBITDA margin	7.3	8.9	3.7	2.1	9.2	9.3
PAT margin	3.8	4.1	(1.9)	(4.2)	2.8	3.1
RoE	16.4	16.0	(8.9)	(15.8)	10.3	11.4
RoCE	9.1	9.7	(3.2)	(3.0)	7.5	8.0
EPS (Rs)	**7.5**	**10.3**	**(7.4)**	**(12.9)**	**9.8**	**12.0**

Source: Company, Kotak Institutional Equities estimates

ATTRACTIVE

AUGUST 03, 2010

UPDATE

BSE-30: 18,115

Cognizant results—good or bad for the industry? CTSH reported an astounding 15% qoq revenue growth and increased its CY2010E revenue growth guidance to 36% on a revenue base comparable to peers. While the results once again highlight the strong demand environment, the success of CTSH's differentiated business model and HCLT's aggressive pricing and innovative deal structure model shifts the attention to likely response of the relatively unchanged business models of the Big 3.

CTSH performance—running out of superlatives

CTSH reported 15% qoq revenue growth to US$1,105 mn. The company also raised CY2010E revenue guidance to atleast 36% growth (25% earlier) on a revenue base, which will be just 8% lower than Wipro and 19% lower than Infosys. Several aspects of CTSH's performance stand out

- Absolute revenues added during the quarter of US$145 mn are the highest ever for any offshore pureplay. Incremental revenue share of 36% among Tier 1 players is also the highest.
- Gap in absolute quarterly revenues between CTSH and Wipro is down to just US$99 mn, which can shrink further noting CTSH's pace of growth.
- Revenues from Top 5 clients are 57% higher than Wipro and almost on par with Infosys, reflecting smart utilization of excess margin reinvestment in creating an outstanding client engagement model.
- Revenues from US geography are 26% higher than Wipro and just 5% short of Infosys. Gap in revenues from BFSI vertical has reduced to US$19 mn a quarter when compared to Infosys.
- This is highest quarterly growth rate after 4 years for CTSH, remarkable noting that the company has more than doubled in size.

Performance of CTSH and HCLT raises some concerns for other Tier-1 IT

We maintain that the offshore pureplays are not operating in a demand constrained environment; CTSH's result is another validation of that view. Growth, in our view, will be determined by the efficiency of supply side management. We maintain our positive view on Tier-1 IT names with Infosys and TCS as our top picks. However, the performance of CTSH and even HCLT in the recent quarters raises some points worth noting.

CTSH and HCLT have gained 390 bps and 170 bps revenue market share among Tier-1 players over the last 8-9 quarters, while the Big 3 have lost revenue market share. CTSH has gained market share through building up an enviable sales and marketing team through re-investment of excess margins, strong emphasis on supply side and flexibility in engagement models. HCLT has utilized its leadership in infrastructure management and flexibility in pricing to gain.

We presume that no company likes to lose revenue market share; Wipro is on the verge of losing out to CTSH on revenue size. Response of the Big 3 (with largely similar business approach) will be worth watching out for, noting the success of different approaches of both these companies. Response from the Big 3 in the form of additional investments in sales and marketing may not lead to desired results and entails margin risks. On the other hand, a pricing-based response will throw the market out of equilibrium, an area where Tier-1 players had behaved with remarkable restraint during the downturn.

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

Rohit Chordia
rohit.chordia@kotak.com
Mumbai: +91-22-6634-1397

Vineet Thodge
vineet.thodge@kotak.com
Mumbai: +91-22-6634-1225

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

What drove CTSH's strong revenue growth?

We believe that the following factors could have contributed to CTSH's strong revenue growth performance (1) significant gain in wallet share of clients' IT budgets in multi-vendor situations; (2) ramp-up from strategic customers added during the downturn. CTSH added 27 strategic customers in the last six quarters. CTSH proactively focused on new account penetration and maintained S&M investments even as its peers optimized on all possible "discretionary spend" areas; (3) M&A integration and regulatory compliance projects and (4) a strong rebound in discretionary IT spending.

Key highlights of CTSH results

- Cognizant has guided for revenues of 'at least' US$1,175 mn, a sequential growth of 6.3% for 3QCY10. This implies a revenue growth rate of 3.9% for 4QCY10 for the company to meet its full year guidance of 36%.
- Among verticals, BFSI was the growth driver with 18.2% qoq revenue growth, while manufacturing, retail and logistics grew by 17.7% qoq.
- Strong client additions (116 for 2QCY10, including 54 clients due to acquisitions of Galileo and PIPC) is an outcome of reinvestments in the sales and marketing engine. Top-5 clients grew by 22% for the quarter.
- Utilization for the quarter increased sharply to 82% (offshore ex-trainees) from 76% in1QCY10. Onsite utilization also increased to 93% from 89% in 1QCY10.
- Increased attrition is an industry-wide phenomenon and CTSH was not an exception. Quarterly annualized attrition increased 430 bps to 20.7%.

Exhibit 1: Revenue market share for Top Indian IT companies
Cognizant has garnered a significant incremental market share

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Revenues (US$ mn)									
Infosys	1,156	1,218	1,171	1,122	1,122	1,154	1,232	1,296	1,358
Wipro	1,068	1,110	1,100	1,046	1,033	1,065	1,127	1,166	1,204
TCS	1,525	1,574	1,483	1,433	1,481	1,538	1,635	1,686	1,794
HCL Tech	504	505	512	565	607	630	652	685	738
Cognizant	685	735	753	746	777	853	903	960	1,105
Total	**4,938**	**5,141**	**5,018**	**4,911**	**5,019**	**5,241**	**5,548**	**5,793**	**6,199**
Incremental revenues (US$ mn)									
Infosys	13	62	(47)	(49)	0	32	78	64	62
Wipro	36	42	(10)	(54)	(13)	33	62	39	38
TCS	8	49	(91)	(50)	48	57	97	51	108
HCL Tech	19	1	7	53	43	23	22	34	52
Cognizant	42	49	18	(7)	31	77	49	57	145
Total	**119**	**203**	**(122)**	**(107)**	**108**	**221**	**307**	**245**	**406**
Market share of incremental revenues (%)									
Infosys	11.2	30.5	NM	NM	0.4	14.5	25.4	26.2	15.3
Wipro	30.2	20.9	NM	NM	(12.4)	14.7	20.0	16.0	9.3
TCS	6.9	24.0	NM	NM	44.3	25.7	31.6	20.9	26.6
HCL Tech	16.0	0.3	NM	NM	39.4	10.3	7.0	13.7	12.9
Cognizant	35.6	24.3	NM	NM	28.3	34.7	16.0	23.3	35.9
Market share of total revenues (%)									
Infosys	23.4	23.7	23.3	22.8	22.4	22.0	22.2	22.4	21.9
Wipro	21.6	21.6	21.9	21.3	20.6	20.3	20.3	20.1	19.4
TCS	30.9	30.6	29.6	29.2	29.5	29.3	29.5	29.1	28.9
HCL Tech	10.2	9.8	10.2	11.5	12.1	12.0	11.7	11.8	11.9
Cognizant	13.9	14.3	15.0	15.2	15.5	16.3	16.3	16.6	17.8

Note:
(a) HCL revenues include consolidation of Axon from March 2009

Source: Companies, Kotak Institutional Equities

Exhibit 2: Cognizant is fast catching up on size with Infosys and Wipro
QoQ revenue growth trajectory of Tier-I names

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10E
Revenues (US$ mn)										
Infosys	1,156	1,218	1,171	1,122	1,122	1,154	1,232	1,296	1,358	1,452
Wipro	1,068	1,110	1,100	1,046	1,033	1,065	1,127	1,166	1,204	1,278
TCS	1,525	1,574	1,483	1,433	1,481	1,538	1,635	1,686	1,794	1,907
Cognizant	685	735	753	746	777	853	903	960	1,105	1,175
qoq growth (%)										
Infosys	1.2	5.3	(3.8)	(4.2)	0.0	2.9	6.8	5.2	4.8	6.9
Wipro	3.5	4.0	(0.9)	(4.9)	(1.3)	3.2	5.8	3.5	3.2	6.1
TCS	0.5	3.2	(5.8)	(3.4)	3.3	3.8	6.3	3.1	6.4	6.3
Cognizant	**6.6**	**7.2**	**2.5**	**(1.0)**	**4.1**	**9.9**	**5.8**	**6.3**	**15.2**	**6.3**
yoy growth (%)										
Infosys	24.5	19.2	8.0	(1.8)	(2.9)	(5.2)	5.2	15.5	21.0	25.8
Wipro	37.0	29.4	12.4	1.4	(3.3)	(4.0)	2.4	11.5	16.6	19.9
TCS	20.3	13.1	(0.4)	(5.5)	(2.9)	(2.3)	10.2	17.7	21.1	24.0
Cognizant	**32.7**	**31.5**	**25.5**	**16.0**	**13.3**	**16.2**	**19.9**	**28.7**	**42.3**	**37.7**
Gap in revenues										
Infosys - Cognizant	470	483	418	376	345	301	329	336	253	
Wipro - Cognizant	382	375	347	300	256	212	224	206	99	

Note:
(a) KIE estimates for Infosys, Wipro and TCS; actual point guidance for Cognizant.

Source: Companies, Kotak Institutional Equities estimates

Exhibit 3: Cognizant interim results, December fiscal year-ends, US$ mn

	2QCY09	1QCY10	2QCY10	% qoq	% yoy
Revenues	**776.6**	**959.7**	**1,105.2**	**15.2**	**42.3**
Cost of revenues	(433.3)	(555.9)	(641.0)	15.3	47.9
SG&A expenses	(170.0)	(195.0)	(234.5)	20.3	38.0
EBITDA	**173.2**	**208.8**	**229.6**	**9.9**	**32.5**
Depreciation and amortization	(21.6)	(25.8)	(23.7)	(8.3)	9.7
EBIT	**151.7**	**183.0**	**205.9**	**12.5**	**35.8**
Other income	17.5	(4.3)	2.1	NM	(88.0)
PBT	**169.2**	**178.8**	**208.0**	**16.4**	**23.0**
Provision for taxes	(27.9)	(27.3)	(35.9)	31.7	28.6
Net income	**141.3**	**151.5**	**172.1**	**13.6**	**21.9**
Margins (%)					
EBITDA	22.3	21.8	20.8		
EBIT	19.5	19.1	18.6		
Net income	18.2	15.8	15.6		
Tax rate (%)	16.5	15.2	17.3		

Source: Company

June 2010: Earnings announcement calendar

Mon	Tue	Wed	Thu	Fri	Sat
2-Aug	**3-Aug**	**4-Aug**	**5-Aug**	**6-Aug**	**7-Aug**
GAIL	Hindalco Industries	Adani Power	Anant Raj Industries	Fortus Healthcare	GMR Infra
Glaxosmithkline Consumer	Punj Lloyd	Gujarat Industries	Dredging Corp	Maharashtra Polybutenes	KSK Energy Ventures
India Cements	NDTV	IDFC	Garware Polyester	Power Grid Corp	Sterling Biotech
Madras Cement		IL&FS Trans	Oracle Financial Services		
Nestle India		Mundra Port & SEZ			
NMDC					
9-Aug	**10-Aug**	**11-Aug**	**12-Aug**	**13-Aug**	**14-Aug**
Jain Irrigation	Educomp Solutions	Bharti Airtel	Apollo Hospitals	Adani Enterprises	Lanco Infratech
Opto Circuits	IVRCL Infra	Financial Technologies	Cummins India	Suzlon Energy	
Reliance Capital	Jai Corp	MTNL	Divis Laboratories		
Tulip Telecom	Nagarjuna Constructions		Hindustan Copper		
	Piramal Healthcare		Ranbaxy Laboratories		
	Rashtriya Chemicals & Fertilisers		Tata Power		
	Rolta India		Tata Steel		
	Tata Motors				

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	3-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	73	ADD	97,444	2,110	1,330	2.8	4.3	5.9	84.5	52.3	37.5	26.0	17.0	12.4	14.9	11.2	8.8	2.4	2.2	1.9	2.0	1.4	1.4	10.9	13.5	16.7	78	6.5	10.6
Bajaj Auto	2,713	ADD	392,600	8,500	145	117.7	169.0	189.5	160.1	43.6	12.2	23.1	16.1	14.3	14.9	11.4	9.9	13.4	7.8	5.3	0.7	0.7	0.7	70.9	61.4	44.0	2,650	(2.3)	13.8
Bharat Forge	330	ADD	78,853	1,707	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	479.8	26.6	16.7	19.8	8.8	5.5	2.1	2.0	1.8	—	—	—	0.9	0.4	0.1	360	9.2	4.6
Hero Honda	1,860	SELL	371,522	8,043	200	111.8	115.3	130.1	74.1	3.1	12.8	16.6	16.1	14.3	10.7	10.6	9.0	10.3	7.2	5.3	1.6	1.7	1.9	59.1	52.5	42.8	1,800	(3.2)	20.4
Mahindra & Mahindra	652	BUY	388,128	8,403	595	33.9	44.1	51.7	125.8	30.1	17.3	19.2	14.8	12.6	12.7	10.6	8.9	4.8	3.9	3.1	1.4	1.4	1.5	30.0	29.0	27.3	760	16.6	26.5
Maruti Suzuki	1,213	REDUCE	350,615	7,591	289	86.4	77.6	88.3	104.9	(10.2)	13.9	14.0	15.6	13.7	7.4	7.8	6.7	2.9	2.5	2.1	0.5	0.4	0.5	23.3	17.3	16.7	1,200	(1.1)	22.7
Tata Motors	842	ADD	527,133	11,412	626	23.8	27.1	32.8	137.8	13.5	21.4	35.3	31.1	25.6	16.2	14.9	12.9	2.9	2.5	2.2	1.6	0.6	0.6	8.6	8.6	9.1	900	6.9	81.3
Automobiles		**Cautious**	**2,206,294**	**47,766**					**109.9**	**19.4**	**17.3**	**21.6**	**18.1**	**15.4**	**12.6**	**11.2**	**9.4**	**4.2**	**3.5**	**2.9**	**1.2**	**0.9**	**1.0**	**19.4**	**19.1**	**18.6**			
Banks/Financial Institutions																													
Andhra Bank	147	BUY	71,125	1,540	485	21.6	22.9	26.7	60.1	6.4	16.4	6.8	6.4	5.5	—	—	—	1.6	1.4	1.2	3.4	3.6	4.2	26.0	23.1	22.7	180	22.7	4.8
Axis Bank	1,356	ADD	549,416	11,895	405	62.1	78.1	98.3	22.7	25.9	25.9	21.8	17.4	13.8	—	—	—	3.4	3.0	2.5	0.9	1.1	1.4	19.2	18.3	19.9	1,500	10.6	48.1
Bank of Baroda	778	BUY	284,362	6,156	366	83.7	95.1	115.7	37.3	13.7	21.7	9.3	8.2	6.7	—	—	—	2.1	1.7	1.4	1.9	2.2	2.7	24.4	23.0	23.3	950	22.1	9.8
Bank of India	437	REDUCE	229,825	4,976	526	33.1	49.9	58.1	(42.1)	50.9	16.4	13.2	8.8	7.5	—	—	—	1.8	1.6	1.3	1.6	2.4	2.8	14.2	19.0	19.2	460	5.3	7.8
Canara Bank	492	ADD	201,823	4,369	410	73.7	82.2	98.3	45.8	11.6	19.5	6.7	6.0	5.0	—	—	—	1.6	1.3	1.1	1.6	2.0	2.4	22.4	20.8	20.8	580	17.8	6.7
Corporation Bank	575	BUY	82,427	1,785	143	82.0	88.0	102.6	31.8	7.3	16.6	7.0	6.5	5.6	—	—	—	1.4	1.2	1.0	2.9	3.1	3.6	22.0	20.2	20.2	700	21.8	1.1
Federal Bank	345	ADD	58,929	1,276	171	27.2	36.4	49.0	(7.2)	34.1	34.4	12.7	9.5	7.0	—	—	—	1.3	1.1	1.0	1.5	1.9	2.6	10.3	12.6	15.2	360	4.5	6.3
HDFC	3,052	ADD	876,116	18,968	287	98.4	116.1	138.9	22.7	17.9	19.6	31.0	26.3	22.0	—	—	—	5.8	5.1	4.5	1.2	1.3	1.6	20.0	20.6	21.7	3,450	13.1	39.6
HDFC Bank	2,122	BUY	971,537	21,033	458	64.4	87.2	113.8	22.1	35.4	30.5	32.9	24.3	18.7	—	—	—	4.5	3.9	3.4	0.6	0.8	1.0	16.1	17.3	19.5	2,400	13.1	32.3
ICICI Bank	962	REDUCE	1,072,523	23,220	1,115	36.1	45.2	57.3	6.9	25.3	26.6	26.6	21.3	16.8	—	—	—	2.1	2.0	1.8	1.2	1.6	2.0	8.0	9.5	11.3	1,000	4.0	84.2
IDFC	185	ADD	269,869	5,843	1,459	8.2	9.2	11.3	41.1	13.3	22.8	22.7	20.0	16.3	—	—	—	3.8	2.5	2.1	0.8	0.9	1.2	16.1	15.2	14.5	205	10.8	24.5
India Infoline	94	BUY	29,184	632	312	8.1	7.2	8.7	59.2	(11.9)	21.6	11.5	13.1	10.7	—	—	—	1.8	1.6	1.3	3.4	1.6	2.2	16.4	12.9	14.4	120	28.2	4.0
Indian Bank	230	ADD	98,761	2,138	430	35.1	32.4	44.1	25.5	(7.7)	36.2	6.5	7.1	5.2	—	—	—	1.5	1.3	1.1	2.8	2.5	3.4	24.1	18.8	21.7	280	21.8	4.4
Indian Overseas Bank	120	BUY	65,213	1,412	545	13.0	16.7	24.8	(46.7)	29.0	48.4	9.2	7.2	4.8	—	—	—	1.0	0.9	0.8	2.9	3.2	3.5	9.6	11.6	15.4	160	33.7	3.8
J&K Bank	815	BUY	39,512	855	48	105.7	119.3	139.9	25.1	12.8	17.3	7.7	6.8	5.8	—	—	—	1.3	1.2	1.0	2.7	3.0	3.6	18.2	17.9	18.3	930	14.1	0.6
LIC Housing Finance	1,130	ADD	107,296	2,323	95	69.7	100.7	109.9	11.5	44.5	9.1	16.2	11.2	10.3	—	—	—	3.3	2.7	2.3	1.3	1.9	2.1	23.6	25.5	23.2	1,250	10.7	19.9
Mahindra & Mahindra Financial	567	BUY	54,461	1,179	96	35.9	46.4	56.2	60.0	29.4	21.2	15.8	12.2	10.1	—	—	—	3.2	2.7	2.3	1.3	1.7	2.1	21.5	23.5	23.8	590	4.0	1.3
Oriental Bank of Commerce	405	ADD	101,381	2,195	251	45.3	57.8	66.8	25.3	27.6	15.5	8.9	7.0	6.1	—	—	—	1.4	1.2	1.0	2.2	2.9	3.3	14.5	16.5	16.9	430	6.3	5.1
PFC	329	SELL	377,559	8,174	1,148	20.5	22.9	27.6	53.5	11.9	20.3	16.1	14.4	11.9	—	—	—	2.9	2.6	2.3	1.6	1.7	2.1	18.8	18.3	19.2	275	(16.4)	3.8
Punjab National Bank	1,118	BUY	352,634	7,634	315	123.9	133.4	163.3	26.4	7.7	22.4	9.0	8.4	6.8	—	—	—	2.1	1.8	1.5	2.0	2.4	3.0	26.2	23.2	23.7	1,300	16.2	9.2
Reliance Capital	784	ADD	193,076	4,180	246	13.8	16.1	14.1	(64.9)	17.0	(12.4)	56.8	48.6	55.5	—	—	—	2.8	2.7	2.7	0.8	0.8	0.7	5.0	5.7	4.8	875	11.6	40.7
Rural Electrification Corp.	316	ADD	311,522	6,744	987	20.3	25.3	31.2	23.2	24.5	23.4	15.6	12.5	10.1	—	—	—	2.8	2.5	2.1	2.1	2.4	3.0	22.0	21.0	22.5	325	3.0	14.0
Shriram Transport	711	ADD	158,541	3,432	223	39.2	53.4	64.8	30.1	36.4	21.3	18.1	13.3	11.0	—	—	—	4.3	3.6	3.0	1.7	2.3	2.7	28.4	28.2	28.4	700	(1.5)	4.5
SREI	85	NR	9,890	214	116	8.3	7.9	9.9	17.8	(4.8)	25.8	10.3	10.8	8.6	—	—	—	0.8	0.8	0.7	1.4	1.4	1.4	11.1	10.5	12.3	—	—	4.0
State Bank of India	2,601	BUY	1,651,044	35,745	635	144.4	170.9	210.6	0.5	18.3	23.2	18.0	15.2	12.3	—	—	—	2.5	2.2	1.9	1.2	1.2	1.3	14.8	15.5	16.7	2,900	11.5	95.3
Union Bank	323	BUY	163,128	3,532	505	41.1	45.7	56.9	20.2	11.3	24.5	7.9	7.1	5.7	—	—	—	10.1	10.9	11.7	1.7	1.9	2.4	26.2	23.7	24.1	400	23.9	4.5
Yes Bank	309	BUY	105,042	2,274	340	15.0	17.7	22.5	46.7	18.2	26.6	20.6	17.4	13.8	—	—	—	3.4	2.9	2.4	0.5	0.6	0.7	20.3	18.0	19.3	350	13.2	20.0
Banks/Financial Institutions		**Attractive**	**8,486,196**	**183,724**					**14.8**	**19.5**	**23.1**	**16.9**	**14.1**	**11.5**	**—**	**—**	**—**	**2.7**	**2.3**	**2.0**	**1.3**	**1.5**	**1.8**	**15.8**	**16.5**	**17.7**			
Cement																													
ACC	829	ADD	155,828	3,374	188	83.2	66.0	72.4	47.9	(20.7)	9.8	10.0	12.6	11.5	5.2	5.8	4.7	2.4	2.1	1.9	3.2	2.8	2.8	29.3	20.0	19.2	920	10.9	7.6
Ambuja Cements	117	SELL	178,499	3,864	1,522	8.0	8.4	8.9	11.4	5.3	5.1	14.7	13.9	13.2	8.1	7.6	6.6	2.6	2.3	2.0	1.6	1.8	1.8	19.3	17.8	16.5	108	(7.9)	5.5
Grasim Industries	1,885	ADD	172,794	3,741	92	301.0	229.0	273.3	26.1	(23.9)	19.4	6.3	8.2	6.9	4.0	4.3	3.3	1.4	1.2	1.1	1.8	1.8	1.8	22.9	15.7	16.3	2,200	16.7	8.1
India Cements	103	SELL	31,501	682	307	10.0	8.7	10.6	(43.5)	(13.1)	21.1	10.2	11.8	9.7	5.7	7.1	4.8	0.7	0.7	0.7	2.1	3.1	3.1	8.2	6.7	7.7	95	(7.4)	2.4
Shree Cement	1,802	BUY	62,770	1,359	35	208.0	221.1	242.5	19.0	6.3	9.7	8.7	8.2	7.4	4.2	4.0	3.2	3.4	2.4	1.8	0.6	0.6	0.6	48.0	35.0	28.1	2,550	41.5	1.0
UltraTech Cement	862	ADD	107,348	2,324	124	88.2	66.9	75.1	12.0	(24.2)	12.4	9.8	12.9	11.5	5.1	6.2	5.2	2.0	1.7	1.5	0.7	0.9	0.9	25.9	16.7	16.3	985	14.2	2.9
Cement		**Neutral**	**708,739**	**15,344**					**19.3**	**(15.4)**	**12.7**	**9.2**	**10.9**	**9.7**	**5.0**	**5.5**	**4.3**	**1.9**	**1.7**	**1.5**	**1.8**	**1.8**	**1.9**	**20.6**	**15.2**	**15.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	3-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products																													
Asian Paints	2,598	BUY	249,224	5,396	96	71.5	89.0	107.1	85.3	24.4	20.4	36.3	29.2	24.2	22.4	18.2	14.9	15.5	12.1	9.7	1.0	1.5	1.7	51.8	47.9	45.4	3,000	15.5	4.6
Colgate-Palmolive (India)	850	REDUCE	115,614	2,503	136	31.1	34.5	39.6	44.2	10.9	14.6	27.3	24.6	21.5	22.4	18.3	15.6	35.5	30.2	25.8	2.4	3.0	3.5	156.1	132.3	129.4	830	(2.4)	2.3
Dabur India	196	REDUCE	169,837	3,677	866	5.8	6.8	8.2	28.1	17.6	20.8	33.8	28.8	23.8	25.1	20.1	16.7	16.1	13.3	10.9	1.6	1.8	2.2	54.3	51.1	50.7	210	7.1	4.0
GlaxoSmithkline Consumer (a)	1,800	ADD	75,694	1,639	42	55.4	68.6	81.3	23.6	23.9	18.6	32.5	26.2	22.1	18.0	15.6	12.7	8.5	7.0	5.9	1.0	1.2	1.5	27.9	29.0	28.7	2,000	11.1	0.6
Godrej Consumer Products	349	ADD	112,933	2,445	324	11.3	13.0	17.3	69.5	14.4	33.1	30.8	26.9	20.2	24.4	19.3	14.5	11.7	6.4	5.9	1.1	0.9	0.9	44.6	31.0	30.4	400	14.6	3.1
Hindustan Unilever	253	REDUCE	552,730	11,966	2,182	9.4	10.2	11.8	(0.9)	8.4	15.3	26.9	24.8	21.5	18.3	17.5	14.6	21.4	18.5	16.0	3.0	3.3	3.8	71.1	80.2	80.0	250	(1.3)	11.1
ITC	154	BUY	1,181,244	25,574	7,651	5.3	6.1	6.9	22.6	15.8	12.9	29.1	25.1	22.3	17.6	15.6	13.6	8.0	8.1	8.1	3.2	3.6	3.9	29.2	33.7	38.4	165	6.9	24.6
Jubilant Foodworks	420	REDUCE	26,820	581	64	5.5	9.7	12.1	340.6	75.7	24.6	75.8	43.1	34.6	40.3	24.4	17.0	22.8	14.9	10.4	—	—	—	46.6	41.8	35.4	370	(11.9)	7.0
Jyothy Laboratories	282	NR	20,443	443	73	11.0	12.9	15.3	99.6	17.0	18.3	25.5	21.8	18.5	19.8	15.0	12.3	5.0	4.3	3.7	1.7	1.2	1.7	18.6	20.2	20.5	—	—	1.3
Nestle India (a)	2,963	REDUCE	285,675	6,185	96	74.4	83.9	100.9	27.0	12.8	20.1	39.8	35.3	29.4	26.3	23.6	20.3	49.1	40.7	33.5	1.6	2.1	2.5	136.0	126.1	125.1	3,000	1.3	1.8
Tata Global Beverages	118	ADD	73,157	1,584	618	6.6	7.4	8.4	23.4	11.1	13.8	17.9	16.1	14.1	11.4	9.3	8.4	1.5	1.4	1.3	1.8	2.0	2.3	10.9	11.4	12.0	125	5.7	4.0
Consumer products		**Attractive**	**2,863,369**	**61,991**					**24.0**	**15.0**	**16.1**	**30.0**	**26.1**	**22.5**	**19.3**	**16.9**	**14.4**	**10.1**	**9.3**	**8.6**	**2.5**	**2.8**	**3.2**	**33.7**	**35.6**	**38.4**			
Constructions																													
IVRCL	180	BUY	48,129	1,042	267	7.8	10.3	12.4	(7.7)	32.4	19.7	23.1	17.4	14.6	12.2	10.0	8.5	2.4	2.1	1.8	0.2	0.2	0.2	10.9	12.8	13.5	215	19.3	7.2
Nagarjuna Construction Co.	174	BUY	44,684	967	257	7.1	11.5	14.3	6.1	61.1	24.1	24.4	15.2	12.2	11.9	9.0	7.4	2.0	1.8	1.6	0.9	1.1	1.1	9.3	12.5	13.9	210	20.6	3.2
Punj Lloyd	128	REDUCE	43,377	939	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(9.9)	13.1	10.7	36.1	7.1	6.5	1.4	1.3	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	9.4	12.3
Sadbhav Engineering	1,430	BUY	21,451	464	15	43.1	62.0	84.0	(15.8)	43.9	35.5	33.2	23.1	17.0	18.3	11.8	9.6	5.2	3.5	2.9	0.2	0.4	0.4	13.3	14.1	17.4	1,575	10.1	0.3
Construction		**Attractive**	**157,640**	**3,413**					**(96.9)**	**14,481**	**24.4**	**2,328.3**	**16.0**	**12.8**	**16.6**	**8.7**	**7.5**	**2.0**	**1.8**	**1.6**	**0.3**	**0.5**	**0.7**	**0.1**	**11.3**	**12.5**			
Energy																													
Aban Offshore	895	ADD	38,928	843	43	94.5	154.1	139.3	(2.5)	63.0	(9.6)	9.5	5.8	6.4	8.5	6.8	6.6	1.8	1.6	1.4	0.4	0.4	0.4	21.7	33.1	22.9	935	4.5	55.7
Bharat Petroleum	654	ADD	236,375	5,117	362	62.1	57.4	65.7	201	(8)	14.5	11	11	10.0	5.8	5.6	5.1	1.7	1.5	1.4	2.1	2.9	3.3	15.6	13.0	13.5	690	5.5	27.3
Cairn india	342	SELL	648,099	14,031	1,897	5.5	20.5	36.0	29.0	270.6	75.1	61.7	16.6	9.5	48.5	10.0	6.1	1.9	1.7	1.5	—	—	4.4	3.1	10.7	17.0	270	(21.0)	18.8
Castrol India (a)	456	REDUCE	112,871	2,444	247	15.4	20.7	21.2	45	34	2.4	30	22	21.6	17.6	13.7	13.2	24.5	23.0	21.8	2.7	3.6	3.7	83.8	107.4	103.7	380	(16.7)	1.1
GAIL (India)	444	BUY	563,586	12,201	1,268	24.8	27.2	40.2	11.7	10.1	47.4	17.9	16.3	11.1	10.0	10.1	8.2	3.1	2.8	2.3	1.7	1.9	2.8	17.4	17.0	21.6	550	23.8	16.9
GSPL	108	SELL	60,801	1,316	562	7.4	7.2	8.0	235	(3)	12.1	15	15	13.5	7.5	7.3	6.2	3.6	3.0	2.6	0.9	1.7	3.0	27.3	21.4	20.8	83	(23.2)	4.3
Hindustan Petroleum	442	ADD	149,842	3,244	339	52.6	53.5	58.6	210.1	1.8	9.5	8.4	8.3	7.5	3.0	3.0	2.8	1.1	1.0	0.9	2.7	3.8	4.1	13.3	12.2	12.1	535	21.0	33.8
Indian Oil Corporation	362	ADD	879,161	19,034	2,428	49.9	38.8	41.1	407	(22)	5.9	7	9	8.8	5.0	5.0	4.4	1.6	1.5	1.3	3.6	3.3	3.4	22.7	15.6	15.1	415	14.6	17.7
Oil India	1,385	BUY	332,981	7,209	240	115.1	133.6	153.4	13.8	16.1	14.8	12.0	10.4	9.0	5.1	4.0	3.3	2.3	2.0	1.7	2.5	3.2	3.7	16.7	18.1	18.3	1,550	11.9	7.7
Oil & Natural Gas Corporation	1,272	BUY	2,719,916	58,885	2,139	91.4	116.6	136.1	1	27	16.7	14	11	9.3	5.1	4.3	3.4	2.1	1.8	1.7	2.6	3.3	3.8	14.6	16.8	17.6	1,480	16.4	38.2
Petronet LNG	98	REDUCE	73,350	1,588	750	5.4	5.8	7.9	(22.0)	8.1	35.3	18.1	16.8	12.4	10.6	9.8	8.0	2.9	2.5	2.2	1.8	2.0	2.8	15.9	15.1	17.8	86	(12.1)	4.6
Reliance Industries	1,028	SELL	3,058,584	66,217	2,976	49.6	59.0	74.4	(2)	19	26.2	21	17	13.8	10.5	8.2	6.8	2.1	1.9	1.7	0.7	0.8	1.0	11.4	12.3	13.9	1,060	3.1	115.7
Energy		**Cautious**	**8,874,493**	**192,130**					**38.1**	**16.2**	**22.0**	**14.7**	**12.7**	**10.4**	**7.2**	**6.1**	**5.0**	**2.0**	**1.8**	**1.6**	**1.7**	**2.1**	**2.7**	**13.8**	**14.4**	**15.8**			
Industrials																													
ABB	800	REDUCE	169,580	3,671	212	16.7	18.3	33.1	(35.2)	9.3	80.7	47.8	43.8	24.2	27.4	25.1	14.0	7.0	6.2	5.1	0.2	0.4	0.4	15.6	15.0	23.0	725	(9.4)	7.4
BGR Energy Systems	769	BUY	55,386	1,199	72	16.0	28.0	39.7	32.2	74.6	41.9	48.0	27.5	19.4	27.0	15.6	11.3	9.8	7.9	6.0	0.4	0.9	1.0	22.3	31.8	35.1	875	13.7	3.5
Bharat Electronics	1,813	REDUCE	145,032	3,140	80	93.9	107.3	122.4	(9.6)	14.3	14.1	19.3	16.9	14.8	9.4	7.8	6.6	3.3	2.9	2.5	1.4	1.4	1.4	17.9	18.0	17.9	1,835	1.2	2.0
Bharat Heavy Electricals	2,468	REDUCE	1,207,964	26,152	490	88.1	116.3	135.4	37.9	32.1	16.4	28.0	21.2	18.2	15.7	11.9	10.1	7.6	6.0	4.8	0.8	1.0	1.2	29.9	31.5	29.2	2,600	5.4	29.1
Crompton Greaves	275	BUY	176,573	3,823	642	12.8	14.0	16.3	46.5	9.0	16.6	21.4	19.7	16.9	12.4	10.9	9.2	7.0	5.4	4.3	0.5	0.7	0.8	37.9	31.1	28.2	320	16.3	8.6
Larsen & Toubro	1,785	ADD	1,075,017	23,274	602	57.9	71.7	89.0	15.6	23.8	24.1	30.8	24.9	20.0	17.3	13.6	11.4	4.8	4.0	3.4	0.7	0.7	0.8	18.6	17.7	18.5	2,075	16.2	59.3
Maharashtra Seamless	408	BUY	28,808	624	71	40.2	43.6	49.8	12.1	8.5	14.2	10.2	9.4	8.2	5.5	4.8	3.8	1.8	1.6	1.4	1.5	1.9	2.4	19.3	17.9	17.7	450	10.2	0.4
Siemens	707	REDUCE	238,490	5,163	337	25.2	27.0	31.9	56.4	7.3	18.0	28.1	26.2	22.2	17.1	15.5	12.8	7.0	5.8	4.8	0.7	0.8	0.9	27.6	24.2	23.8	635	(10.2)	6.9
Suzlon Energy	56	REDUCE	89,974	1,948	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(9.5)	217.6	10.7	16.7	8.6	5.6	0.8	0.8	0.8	—	—	0.4	(8.8)	0.4	7.5	70	24.0	25.1
Thermax	744	ADD	88,701	1,920	119	21.7	29.5	39.7	(10.4)	35.9	34.4	34.3	25.2	18.7	17.6	13.7	10.2	8.2	6.8	5.5	0.7	1.2	1.5	25.0	29.5	32.2	865	16.2	1.2
Voltas	210	REDUCE	69,405	1,503	331	10.9	11.8	13.4	57.4	8.2	14.3	19.3	17.8	15.6	11.4	9.9	8.3	6.5	5.2	4.3	1.5	1.6	1.9	38.3	32.5	30.2	225	7.2	5.1
Industrials		**Attractive**	**3,344,930**	**72,417**					**1.8**	**35.1**	**26.6**	**31.4**	**23.3**	**18.4**	**16.0**	**12.4**	**10.0**	**5.0**	**4.3**	**3.6**	**0.7**	**0.9**	**1.0**	**16.1**	**18.4**	**19.6**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	3-Aug-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)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US$ mn)
Infrastructure																													
Container Corporation	1,378	REDUCE	179,171	3,879	130	61.1	74.3	85.9	0.3	21.7	15.6	22.6	18.5	16.0	16.0	13.0	10.9	4.1	3.5	3.1	1.0	1.2	1.4	19.6	20.6	20.5	1,250	(9.3)	1.9
GMR Infrastructure	58	ADD	210,853	4,565	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	133.4	261.2	435.0	23.5	15.2	14.2	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	13.0	5.4
GVK Power & Infrastructure	44	BUY	68,775	1,489	1,579	0.8	1.1	1.4	6.7	33.5	32.4	53.5	40.1	30.3	18.3	16.8	17.2	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	24.0	5.1
IRB Infrastructure	286	RS	95,156	2,060	332	9.7	12.6	12.1	83.8	29.2	(3.7)	29.4	22.8	23.7	13.8	12.2	11.3	4.1	3.2	2.5	—	—	—	15.6	15.7	11.9	—	—	8.1
Mundra Port and SEZ	744	REDUCE	300,116	6,497	403	15.1	24.1	35.7	40.8	59.5	48.4	49.3	30.9	20.8	31.6	20.3	14.5	8.2	6.4	4.8	—	—	—	18.5	23.2	26.1	725	(2.5)	5.4
Infrastructure		**Attractive**	**854,070**	**18,490**					**12.7**	**29.5**	**24.1**	**42.4**	**32.8**	**26.4**	**21.3**	**15.7**	**13.5**	**3.6**	**3.0**	**2.7**	**—**	**—**	**0.4**	**8.4**	**9.2**	**10.2**			
Media																													
DB Corp	249	BUY	45,150	977	182	10.6	13.0	15.7	286.5	22.4	21.0	23.4	19.1	15.8	13.0	10.8	8.8	7.0	5.6	4.9	0.8	1.2	1.6	40.3	32.6	33.2	290	16.7	0.3
DishTV	46	ADD	49,342	1,068	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(18.6)	(26.1)	354.7	61.4	24.8	13.1	12.0	22.2	20.9	—	—	—	249.3	(59.7)	6.1	47	1.3	3.6
HT Media	161	NR	37,870	820	235	6.1	7.7	9.2	623.3	25.9	19.8	26.4	21.0	17.5	13.2	11.1	9.2	3.9	3.5	3.2	0.6	1.2	2.5	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	123	BUY	37,149	804	301	5.9	6.6	7.7	92.3	12.3	17.8	21.1	18.8	15.9	12.7	10.9	9.3	6.1	5.5	5.1	2.8	3.2	4.1	30.1	30.8	33.3	140	13.5	0.6
Sun TV Network	473	REDUCE	186,557	4,039	394	13.1	18.0	22.5	44.8	36.9	25.2	36.0	26.3	21.0	20.4	15.2	12.2	9.6	8.1	6.7	1.6	1.6	1.9	28.4	33.7	35.1	420	(11.3)	2.0
Zee Entertainment Enterprises	303	REDUCE	131,648	2,850	435	10.6	11.8	14.4	25.0	12.0	21.5	28.7	25.6	21.1	21.3	17.0	13.5	3.6	3.4	3.2	0.8	1.0	1.2	13.1	13.8	16.0	270	(10.8)	8.7
Media		**Neutral**	**487,717**	**10,559**					**185.5**	**35.8**	**37.2**	**40.2**	**29.6**	**21.6**	**19.3**	**14.8**	**11.6**	**5.9**	**5.4**	**4.9**	**1.2**	**1.3**	**1.7**	**14.7**	**18.4**	**22.8**			
Metals																													
Hindalco Industries	166	ADD	316,758	6,858	1,914	5.7	12.6	15.1	(64.5)	122.5	19.4	29.2	13.1	11.0	8.3	8.7	8.9	1.4	1.3	1.2	0.8	0.8	0.8	10.3	10.4	11.2	185	11.8	42.6
Hindustan Zinc	1,079	BUY	456,102	9,874	423	95.6	102.5	116.0	48.2	7.2	13.1	11.3	10.5	9.3	7.2	5.8	4.1	2.4	2.0	1.6	0.6	0.6	0.6	24.1	20.8	19.4	1,240	14.9	4.3
Jindal Steel and Power	618	REDUCE	575,503	12,459	931	38.4	50.9	56.0	17.3	32.7	9.9	16.1	12.1	11.0	11.3	8.1	6.7	5.1	3.6	2.7	0.2	0.4	0.4	37.8	34.9	28.0	625	1.1	28.5
JSW Steel	1,128	REDUCE	284,602	6,162	252	80.4	68.5	108.5	481.1	(14.8)	58.5	14.0	16.5	10.4	10.6	9.0	6.0	2.6	1.6	1.2	0.6	0.8	0.8	16.0	12.0	13.3	1,075	(4.7)	56.7
National Aluminium Co.	425	SELL	273,542	5,922	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	42.2	15.1	15.3	18.7	7.3	6.8	2.5	2.2	1.9	0.5	0.5	0.5	6.1	15.4	13.3	320	(24.6)	1.0
Sesa Goa	370	REDUCE	329,145	7,126	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.5	6.3	8.0	10.3	4.4	4.4	4.1	2.5	2.0	1.0	1.0	1.0	35.8	41.5	23.7	340	(8.1)	77.5
Sterlite Industries	178	ADD	599,215	12,973	3,362	12.0	14.2	19.3	2.8	18.4	35.5	14.8	12.5	9.2	12.5	11.0	7.1	1.6	1.4	1.3	0.5	0.5	0.5	12.9	12.2	14.6	210	17.8	46.1
Tata Steel	547	BUY	485,408	10,509	887	3.2	78.7	93.5	(97.1)	2,331.6	18.7	168.9	6.9	5.8	18.1	6.1	5.2	1.9	1.5	1.3	1.5	1.5	1.5	1.1	24.7	23.8	700	28.0	109.2
Metals		**Cautious**	**3,320,275**	**71,883**					**(28.9)**	**78.8**	**13.8**	**18.5**	**10.4**	**9.1**	**11.5**	**7.4**	**6.1**	**2.3**	**1.8**	**1.5**	**0.7**	**0.7**	**0.7**	**12.4**	**17.8**	**16.8**			
Pharmaceutical																													
Biocon	321	BUY	64,260	1,391	200	14.8	17.8	22.0	216.4	19.8	23.7	21.7	18.1	14.6	12.5	10.5	8.7	3.6	3.1	2.7	—	—	0.0	17.9	18.8	20.0	400	24.5	3.8
Cipla	326	REDUCE	261,632	5,664	803	13.5	12.8	15.6	35.9	(4.9)	21.9	24.2	25.4	20.9	17.9	16.8	14.1	4.4	3.9	3.4	0.8	0.8	0.8	19.9	16.3	17.4	280	(14.1)	9.2
Cadila Healthcare	628	REDUCE	128,603	2,784	205	24.7	33.2	37.7	66.9	34.2	13.7	25.4	18.9	16.7	16.6	12.7	11.3	7.9	5.9	4.7	0.8	1.1	1.2	36.0	35.8	31.3	580	(7.7)	1.5
Dishman Pharma & chemicals	217	BUY	17,670	383	81	14.4	17.2	28.8	(19.7)	19.4	67.0	15.1	12.6	7.5	10.8	9.0	6.4	2.2	1.9	1.5	—	—	—	15.5	16.3	22.7	300	38.1	0.5
Divi's Laboratories	754	ADD	99,688	2,158	132	25.8	34.3	43.9	(18.3)	33.3	27.9	29.3	22.0	17.2	21.8	16.1	12.3	6.6	5.4	4.4	—	—	—	24.8	27.2	28.4	800	6.0	3.0
Dr Reddy's Laboratories	1,373	REDUCE	232,589	5,035	169	48.1	66.7	70.8	48.3	38.8	6.1	28.6	20.6	19.4	15.8	11.9	11.1	6.2	4.9	4.0	0.5	0.6	0.7	22.2	26.3	22.6	1,150	(16.2)	17.4
GlaxoSmithkline Pharmaceuticals (a)	2,003	REDUCE	169,660	3,673	85	59.1	69.7	79.2	8.1	18.0	13.5	33.9	28.7	25.3	19.4	16.5	14.2	9.5	8.1	6.9	—	—	—	29.8	30.4	29.4	1,880	(6.1)	1.7
Glenmark Pharmaceuticals	269	NR	73,711	1,596	274	12.7	19.2	20.3	14.7	50.6	5.6	21.1	14.0	13.3	13.6	8.9	8.5	3.1	2.6	2.2	—	—	—	16.7	19.9	17.6	—	—	5.2
Jubilant Organosys	361	BUY	57,358	1,242	159	26.5	31.8	38.9	49.0	19.8	22.4	13.6	11.4	9.3	9.8	8.8	7.1	2.6	2.1	1.8	0.5	0.7	0.8	26.3	21.7	21.1	400	10.7	2.6
Lupin	1,921	ADD	169,962	3,680	88	77.0	99.1	127.6	27.9	28.7	28.7	24.9	19.4	15.1	21.3	15.4	11.8	7.3	5.6	4.2	0.7	0.8	0.8	36.6	33.0	32.2	2,000	4.1	8.1
Piramal Healthcare	480	REDUCE	100,289	2,171	209	23.4	13.4	11.0	35.5	(42.9)	(17.6)	20.5	35.9	43.6	15.2	5.4	3.4	6.0	1.1	0.9	1.1	1.3	0.7	32.1	141.2	16.6	490	2.1	29.9
Ranbaxy Laboratories	449	SELL	192,309	4,163	428	7.1	28.0	11.7	(128.4)	297.1	(58.3)	63.6	16.0	38.4	15.6	9.4	18.6	4.9	3.9	3.6	—	0.9	0.9	6.9	24.6	9.1	220	(51.0)	10.1
Sun Pharmaceuticals	1,789	REDUCE	370,610	8,024	207	65.2	80.0	85.1	(25.7)	22.6	6.4	27.4	22.4	21.0	20.8	16.3	14.4	4.5	3.8	3.3	0.8	0.8	0.8	17.8	18.8	17.2	1,685	(5.8)	7.7
Pharmaceuticals		**Attractive**	**1,938,340**	**41,964**					**44.7**	**30.9**	**5.5**	**26.9**	**20.6**	**19.5**	**16.8**	**12.7**	**11.9**	**5.1**	**3.6**	**3.1**	**0.5**	**0.6**	**0.6**	**18.9**	**17.7**	**15.9**			
Property																													
DLF	306	ADD	521,851	11,298	1,708	9.6	16.3	25.1	(64.0)	69.4	53.8	31.7	18.7	12.2	20.2	12.8	9.6	1.9	1.8	1.6	1.0	1.0	1.6	6.4	9.9	13.8	340	11.3	47.3
Housing Development & Infrastructure	268	ADD	103,138	2,233	385	12.4	14.2	16.7	(41.2)	14.2	17.9	21.6	18.9	16.0	10.8	12.2	8.1	1.5	1.3	1.2	1.0	1.9	1.9	10.0	9.3	9.9	318	18.7	35.8
Indiabulls Real Estate	167	RS	66,925	1,449	401	1.6	4.0	8.0	109.7	151.7	101.7	105.2	41.8	20.7	(75.0)	37.3	9.7	0.7	0.7	0.7	0.0	0.0	0.0	0.8	1.8	3.5	285	70.9	19.0
Mahindra Life Space Developer	480	ADD	20,184	437	42	18.9	20.3	27.5	82.4	7.3	35.8	25.4	23.7	17.4	21.5	17.9	9.9	2.1	2.0	1.8	0.8	0.8	0.8	8.4	8.5	10.7	540	12.5	0.5
Phoenix Mills	220	BUY	31,866	690	145	4.1	6.6	7.6	(16.7)	59.0	15.6	53.2	33.5	28.9	42.6	23.5	19.6	2.1	2.0	1.9	0.5	0.7	0.9	3.9	6.0	6.7	260	18.2	0.8
Puravankara Projects	116	REDUCE	24,832	538	213	6.4	8.2	8.1	(5.2)	28.4	(2.0)	18.1	14.1	14.4	22.3	15.1	14.7	1.7	1.6	1.5	1.7	1.7	1.7	10.0	11.9	10.7	110	(5.5)	0.5
Sobha	340	ADD	33,371	722	98	14.1	17.0	26.2	(7.1)	20.8	54.0	24.2	20.0	13.0	17.9	13.9	9.2	1.9	1.8	1.6	0.3	0.4	0.5	9.7	9.2	12.8	372	9.3	1.9
Unitech	82	SELL	215,704	4,670	2,616	3.4	4.3	5.6	(54.2)	26.3	30.2	24.4	19.3	14.9	21.5	14.8	9.4	2.0	1.7	1.6	—	—	1.8	9.7	9.4	11.1	72	(12.7)	49.9
Property		**Cautious**	**914,732**	**19,804**					**(53.1)**	**58.0**	**47.2**	**31.9**	**20.2**	**13.7**	**21.4**	**13.8**	**9.8**	**1.8**	**1.6**	**1.5**	**0.6**	**0.7**	**1.5**	**5.5**	**8.0**	**10.8**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	3-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	2,818	ADD	125,080	2,708	44	57.3	83.4	110.2	29.3	45.6	32.2	49.2	33.8	25.6	31.3	22.8	17.4	17.0	12.1	8.6	0.5	0.4	0.5	38.7	41.8	39.4	3,000	6.5	5.2
Retail		**Neutral**	**125,080**	**2,708**					**29.3**	**45.6**	**32.2**	**49.2**	**33.8**	**25.6**	**31.3**	**22.8**	**17.4**	**17.0**	**12.1**	**8.6**	**0.5**	**0.4**	**0.5**	**34.5**	**35.8**	**33.8**			
Sugar																													
Bajaj Hindustan	118	SELL	22,666	491	191	9.7	9.9	8.9	201.1	2.2	(10.4)	12.2	11.9	13.3	7.1	5.9	5.5	0.9	0.9	0.8	0.6	0.6	0.6	8.1	7.5	6.3	99	(16.4)	6.1
Balrampur Chini Mills	86	ADD	21,991	476	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	19.8	8.2	12.2	9.1	5.5	6.0	1.6	1.4	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	8.6	5.8
Shree Renuka Sugars	67	BUY	44,642	966	670	9.9	7.6	7.8	196.4	(23.2)	3.1	6.7	8.8	8.5	4.6	5.2	4.5	1.8	1.5	1.2	0.6	0.5	0.5	32.0	18.1	15.7	76	14.0	13.8
Sugar		**Cautious**	**89,299**	**1,933**					**99.6**	**0.7**	**(9.4)**	**9.3**	**9.2**	**10.2**	**6.1**	**5.5**	**5.2**	**1.4**	**1.2**	**1.1**	**0.6**	**0.5**	**0.5**	**15.1**	**13.2**	**10.7**			
Technology																													
HCL Technologies	393	REDUCE	271,032	5,868	690	17.5	24.5	30.1	0.2	39.7	23.0	22.4	16.0	13.0	10.9	9.5	7.8	3.9	3.2	2.8	1.0	1.0	1.5	19.3	22.0	21.2	390	(0.7)	12.2
Hexaware Technologies	81	REDUCE	11,693	253	144	9.3	5.0	9.4	127.7	(46.3)	87.7	8.7	16.2	8.6	4.4	10.3	5.2	1.4	1.3	1.1	1.2	1.2	1.2	17.8	8.2	14.0	72	(11.5)	2.8
Infosys Technologies	2,784	BUY	1,598,188	34,600	574	108.3	124.1	150.0	5.7	14.5	20.9	25.7	22.4	18.6	18.7	15.3	12.4	6.9	5.7	4.8	0.9	1.2	1.5	30.1	28.0	28.0	3,100	11.3	58.2
Mphasis BFL	594	REDUCE	123,739	2,679	208	43.6	49.0	45.6	207.5	12.5	(7.0)	13.6	12.1	13.0	10.8	9.6	8.8	5.3	3.8	3.0	0.6	0.7	0.8	48.1	36.4	25.8	550	(7.3)	7.6
Mindtree	531	REDUCE	21,856	473	41	52.2	32.6	51.6	294.3	(37.5)	58.1	10.2	16.3	10.3	8.7	9.3	6.1	3.3	2.7	2.2	0.4	0.6	1.0	35.2	19.2	23.7	550	3.6	1.1
Patni Computer Systems	467	REDUCE	62,198	1,347	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.8	11.3	12.5	6.4	5.5	4.6	1.7	1.6	1.5	1.5	1.8	1.6	18.2	15.1	12.4	450	(3.6)	7.1
Polaris Software Lab	176	SELL	17,557	380	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.5	9.2	9.4	5.6	7.3	6.2	2.0	1.7	1.5	2.0	2.1	2.2	18.6	20.1	17.2	180	2.2	4.5
TCS	832	BUY	1,628,488	35,256	1,957	35.1	42.1	48.2	32.8	19.8	14.5	23.7	19.8	17.3	17.9	14.4	11.9	7.8	6.4	5.4	2.4	2.0	2.3	37.6	35.6	33.9	965	16.0	29.3
Wipro	412	ADD	1,007,904	21,821	2,447	18.9	22.3	25.7	22.1	18.1	15.6	21.9	18.5	16.0	16.5	13.3	11.0	5.1	4.2	3.5	0.9	1.1	1.3	26.5	25.0	23.7	465	12.9	13.5
Technology		**Attractive**	**4,742,656**	**102,677**					**22.7**	**17.4**	**16.0**	**22.7**	**19.3**	**16.7**	**16.4**	**13.6**	**11.1**	**6.0**	**5.0**	**4.2**	**1.4**	**1.5**	**1.7**	**26.4**	**25.7**	**24.9**			
Telecom																													
Bharti Airtel	328	REDUCE	1,247,322	27,004	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	13.7	15.3	13.5	7.7	7.4	6.3	2.8	2.4	2.1	0.9	1.2	1.5	24.1	17.0	16.5	290	(11.7)	52.5
IDEA	73	REDUCE	239,730	5,190	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	26.6	33.1	47.9	9.0	9.8	8.3	2.1	2.0	1.9	—	—	—	7.2	6.2	4.2	55	(24.3)	12.6
MTNL	67	SELL	42,494	920	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.3)	(6.5)	(7.4)	(0.6)	(0.8)	(1.1)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(25.9)	3.1
Reliance Communications	174	SELL	370,952	8,031	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	7.9	12.4	9.6	7.2	8.0	6.0	1.0	0.9	0.8	0.4	—	—	11.7	7.4	8.9	175	0.6	43.6
Tata Communications	276	REDUCE	78,774	1,705	285	14.0	15.2	15.7	3.2	8.2	3.5	19.7	18.2	17.6	8.1	7.4	7.1	1.1	1.1	1.0	2.4	2.7	3.1	5.2	5.5	5.5	225	(18.6)	1.8
Telecom		**Cautious**	**1,979,272**	**42,851**					**(15.1)**	**(17.8)**	**15.7**	**13.8**	**16.8**	**14.6**	**8.0**	**8.1**	**6.7**	**1.8**	**1.6**	**1.5**	**0.8**	**0.9**	**1.1**	**12.7**	**9.5**	**10.0**			
Utilities																													
Adani Power	134	ADD	292,774	6,338	2,180	0.8	4.9	16.4	—	524.1	235.3	171.4	27.5	8.2	131.4	17.9	6.4	5.3	4.5	2.9	—	—	—	4.4	17.7	42.8	130	(3.2)	2.8
CESC	398	ADD	49,756	1,077	125	35.2	37.3	44.3	9.3	5.7	18.9	11.3	10.7	9.0	7.2	6.0	6.4	1.2	1.1	1.0	1.1	1.2	1.4	11.1	10.4	11.3	466	17.0	2.0
Lanco Infratech	69	BUY	165,945	3,593	2,405	2.0	3.7	5.0	35.1	87.6	34.9	35.1	18.7	13.9	20.5	8.7	8.2	4.8	3.9	3.0	—	—	—	15.8	21.2	22.7	77	11.6	7.6
NHPC	31	REDUCE	384,398	8,322	12,301	1.9	1.3	1.6	74.9	(27.5)	20.6	16.9	23.3	19.3	10.8	11.6	9.0	1.5	1.5	1.4	1.8	1.1	1.4	9.7	6.4	7.4	28	(10.4)	20.0
NTPC	198	REDUCE	1,632,190	35,336	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.4	15.8	13.5	14.1	12.3	10.3	2.6	2.3	2.1	2.0	2.4	2.8	14.5	15.4	16.6	210	6.1	10.1
Reliance Infrastructure	1,121	ADD	275,797	5,971	246	61.8	65.0	84.5	(1.5)	5.3	30.0	18.2	17.2	13.3	19.4	17.1	12.0	1.4	1.3	1.2	0.7	0.8	0.9	6.3	7.3	10.1	1,160	3.5	49.0
Reliance Power	158	SELL	379,286	8,211	2,397	2.9	3.1	5.3	179.7	9.8	70.0	55.5	50.5	29.7		228.5	35.7	2.6	2.5	2.3	—	—	—	4.8	5.1	8.1	135	(14.7)	22.5
Tata Power	1,329	ADD	327,919	7,099	247	60.2	69.2	88.5	20.1	15.0	27.8	22.1	19.2	15.0	13.9	12.5	10.7	2.5	2.3	2.0	0.9	1.1	1.1	12.9	12.5	14.3	1,420	6.9	10.4
Utilities		**REDUCE**	**3,508,066**	**75,949**					**23.5**	**16.4**	**35.4**	**22.2**	**19.1**	**14.1**	**17.5**	**14.4**	**10.7**	**2.4**	**2.2**	**2.0**	**1.3**	**1.4**	**1.6**	**10.6**	**11.4**	**13.8**			
Others																													
Havells India	685	SELL	41,242	893	60	5.3	31.6	45.0	3.7	497.9	42.6	129.7	21.7	15.2	17.7	10.9	8.9	11.3	7.5	5.1	—	—	—	6.6	41.6	39.7	497	(27.5)	6.8
Jaiprakash Associates	119	BUY	253,330	5,485	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	81.7	21.5	16.0	21.2	15.6	11.1	3.0	2.6	2.2	—	—	—	4.1	12.8	14.9	170	42.9	31.3
Jindal Saw	200	ADD	58,932	1,276	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.0	10.7	11.2	5.2	6.0	5.7	1.5	1.3	1.2	—	—	—	20.5	12.9	11.1	256	27.8	3.7
PSL	133	BUY	7,134	154	53	22.9	25.4	28.2	3.3	10.6	11.0	5.8	5.3	4.7	3.3	2.7	2.9	0.8	0.7	0.6	4.9	4.9	5.2	12.6	11.7	12.0	175	31.1	0.6
Sintex	364	BUY	49,739	1,077	136	24.1	28.3	33.3	0.5	17.4	17.5	15.1	12.9	11.0	12.4	8.4	7.2	2.3	2.0	1.7	—	—	—	15.5	15.3	15.2	380	4.3	4.5
Tata Chemicals	350	REDUCE	85,053	1,841	243	26.4	33.2	37.5	(27.1)	25.8	12.7	13.2	10.5	9.3	7.0	6.0	5.0	1.8	1.6	1.4	2.5	2.6	2.6	16.0	18.7	18.3	360	3.0	3.2
Welspun Corp	249	ADD	51,070	1,106	205	32.0	27.0	25.6	85.2	(15.7)	(5.4)	7.8	9.2	9.7	4.5	4.9	4.6	1.6	1.3	1.2	0.9	0.9	0.9	24.8	15.6	12.8	286	15.1	5.7
United Phosphorus	186	BUY	86,268	1,868	463	11.9	13.8	17.4	18.8	15.8	25.9	15.6	13.5	10.7	9.0	8.2	6.5	2.5	2.2	1.9	0.8	1.1	1.1	17.7	17.2	18.3	225	20.7	9.2
Others			**632,768**	**13,699**					**16.3**	**32.3**	**17.6**	**18.8**	**14.2**	**12.1**	**11.0**	**9.8**	**8.1**	**2.3**	**2.0**	**1.7**	**0.7**	**0.7**	**0.7**	**12.4**	**14.0**	**14.3**			
KS universe (b)			**45,233,936**	**979,301**					**14.4**	**21.4**	**20.8**	**19.2**	**15.8**	**13.1**	**11.6**	**9.6**	**8.0**	**2.8**	**2.5**	**2.2**	**1.3**	**1.4**	**1.7**	**14.8**	**15.7**	**16.6**			
KS universe (b) ex-Energy			**36,359,443**	**787,171**					**8.0**	**23.2**	**20.4**	**20.8**	**16.8**	**14.0**	**14.2**	**11.6**	**9.5**	**3.2**	**2.7**	**2.4**	**1.2**	**1.3**	**1.5**	**15.2**	**16.2**	**16.9**			
KS universe (d) ex-Energy & ex-Commodities			**32,330,429**	**699,944**					**14.5**	**18.5**	**21.9**	**21.6**	**18.2**	**15.0**	**15.7**	**13.2**	**10.7**	**3.3**	**2.9**	**2.5**	**1.2**	**1.3**	**1.6**	**15.4**	**15.9**	**17.0**			

Note:
(1) For banks we have used adjusted book values.
(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 46.19

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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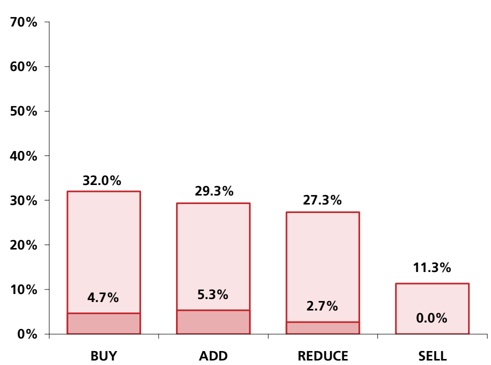

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Source: Kotak Institutional Equities

As of June 30, 2010

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

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

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Corporate Office	Overseas Offices	
Kotak Securities Ltd.	Kotak Mahindra (UK) Ltd	Kotak Mahindra Inc
Bakhtawar, 1st Floor	6th Floor, Portsoken House	50 Main Street, Suite No.310
229, Nariman Point	155-157 The Minories	Westchester Financial Centre
Mumbai 400 021, India	London EC 3N 1 LS	White Plains, New York 10606
Tel: +91-22-6634-1100	Tel: +44-20-7977-6900 / 6940	Tel:+1-914-997-6120

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