kotak® Institutional Equities

INDIA DAILY

July 1, 2010

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Economy: India's CAD: Eyes wide shut?

Updates

BHEL: Likely sedate inflows would squeeze growth prospects in medium term

Tata Chemicals: Safeguard duty on soda ash reimposed, removes pricing risk in India

Petronet LNG: `Spot' of bother

Media: Positive for C&S distribution in India, not necessarily for Dish TV

News Round-up

- State-owned oil firms raised aviation turbine fuel (ATF) prices by 3.2%. ATF constitutes 40% of the operating cost of an airline. *(BSTD)*
- The mobile number portability services in India will not be launched before Oct 31, missing the earlier deadline of June 30. *(ECNT)*
- ONGC (ONGC IN) is planning to set up a major onshore facility in Daman for processing gas to be produced from offshore fields. *(THBL)*
- Tata Power (TPWR IN) will raise USD 300 mn from private equity fund Olympus capital, by selling 14-15% stake in its two special purposes vehicles (SPVs) that own 30% in KPC and Arutmin, which own the Bumi Resources coal mines in Indonesia. *(BSTD)*
- L&T's (LT IN) construction division has secured a slew of orders aggregating USD 221 mn from transmission and distribution projects in the international and domestic markets. *(BSTD)*
- M&M (MM IN) eyes boeing in Australia. May go in for Boeing's components or aircraft manufacturing facilities. *(BSTD)*
- The shareholders in GVK Power & Infrastructure Ltd (GVKP IN) have approved through postal ballot a proposal to transfer assets of four power special vehicle (SPVs) into a sub-holding company , GVK Energy Ltd. *(THBL)*
- MTNL (MTNL IN) slashed ISD calling rates to six countries, including the US, Canada and China, for its GSM and 3G subscribers to INR 1 a minute. MTNL is considering bond issue for repaying a part of the USD 1.61 bn debt it has taken to pay for 3G spectrum in Delhi and Mumbai. *(BSTD)*
- Paint Majors, Asian Paints (APNT IN), Berger (BRGR IN) and Kansai Nerolac (KNPL IN) are planning to increase prices by 3%. *(BSTD)*
- Shoppers Stop (SHOP IN) said it had bought another 32% in group company Hypercity Retail for USD 27 mn. *(BSTD)*
- Sundaram Finance to buy out BNP Paribas 49.9% in MF JV, decision follows SEBI's diktat to BNP to limit presence to single MF entity. *(ECNT)*
- Adani Group is considering setting up yet another 4000 MW coal-fired plant at Mundra in Gujarat's Kutch district. *(THBL)*

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

EQUITY MARKETS

		Change %		
India	**30-Jun**	**1-day**	**1-mo**	**3-mo**
Sensex	17,701	1.0	6.8	0.0
Nifty	5,313	1.1	6.9	0.4
Global/Regional indices				
Dow Jones	9,774	(1.0)	(2.5)	(10.6)
Nasdaq Composite	2,109	(1.2)	(5.1)	(12.2)
FTSE	4,917	0.1	(4.8)	(14.4)
Nikkie	9,244	(1.5)	(4.8)	(17.8)
Hang Seng	20,129	(0.6)	3.2	(6.5)
KOSPI	1,676	(1.3)	2.8	(2.5)
Value traded – India				
Cash (NSE+BSE)	199		168	175
Derivatives (NSE)	804		686	602
Deri. open interest	1,210		997	939

Forex/money market				
		Change, basis points		
	30-Jun	**1-day**	**1-mo**	**3-mo**
Rs/US$	46.5	(3)	9	150
10yr govt bond, %	7.6	(1)	(2)	(19)
Net investment (US$mn)				
	29-Jun		**MTD**	**CYTD**
FIIs	(38)		-	6,738
MFs	(61)		-	(282)

Top movers -3mo basis				
		Change, %		
Best performers	**30-Jun**	**1-day**	**1-mo**	**3-mo**
HPCL IN Equity	469.5	7.7	29.5	48.6
IOCL IN Equity	403.1	2.5	12.9	35.1
IBULL IN Equity	142.3	(0.9)	2.4	34.4
BPCL IN Equity	662.8	4.3	14.9	29.5
BJFIN IN Equity	437.2	(0.6)	(4.2)	26.7
Worst performers				
EDSL IN Equity	532.6	(1.1)	(1.6)	(31.5)
ABAN IN Equity	842.5	2.6	21.9	(29.8)
TATA IN Equity	485.7	0.8	1.2	(25.5)
SESA IN Equity	352.7	(0.9)	(2.6)	(25.0)
SAIL IN Equity	192.7	(0.1)	(3.0)	(23.6)

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Economy

Balance of Payments

INDIA

JULY 1, 2010

UPDATE

BSE-30: 17,701

India's CAD: Eyes wide shut? The 4QFY10 BOP data reaffirms our view that India's CAD may not be an immediate worry, but it does expose the economy to an event risk of a sudden stop in capital flows. If the global risk aversion sets in again in FY2011E, the comfort on external balance can evaporate and rupee could depreciate further from here. While not a base case, investors may need to factor in this event risk.

4QFY10 CAD still too wide for comfort; economy remains vulnerable to capital flow volatility

Indian economy remains vulnerable to capital flow volatility. The 4QFY10 CAD touched an all time high of US$13.0 bn (3.4% of GDP); wider than ours and market expectations (see Exhibit 1). Despite the expected improvement from the strong seasonality in the last quarter and a high 21% growth in nominal GDP, the CAD/GDP ratio still stayed wide at 3.4% of GDP (3.5% of GDP in 3QFY10). Strong total capital account inflows at US$16.1 bn (4.2% of GDP) ensured that BOP pressures were not visible, but in our view, this level of CAD is not sustainable in the long run.

FY2010 CAD/GDP ratio at 2.9%; revisions in past data keeps ratio under 3% mark

FY2010 CAD/GDP ratio at 2.9% of GDP was just under our full year 3.0% warning given at the time the 2QFY10 BOP data came out. However, the marginally lower than 3% outturn was mainly the result of downward revision of CAD for each of the last three quarters in the data revisions carried out now (see Exhibit 2). These revisions lowered CAD for the Apr-Dec 2010 by US$4.9 bn taking it to 2.7% of GDP from 3.3% (or to 2.9% from 3.3% in the full year).

Event risks leave us with some worries on FY2011E BOP

In our assessment, there are significant event risks arising from (1) possible widening or deepening of the euro zone (EZ) debt crisis, (2) oil prices spiking up again if the EZ crisis wanes away, (3) possible hard landing as India combats current double-digit inflation and (4) monsoon remaining markedly deficient for the second successive year. Any of these events can expose external sector vulnerability that has got masked by strong capital inflows. If India (a) again faces a sudden stop of capital inflows or post-Lehman style capital flows reversals or (b) the CAD widen further from here, the current account may put sizeable pressure on India's large FX reserves holding of US$276 bn.

We expect INR to depreciate further

We are revising our exchange rate forecasts in light of (1) the weaker FY2010 BOP, (2) vulnerabilities highlighted from the event risks spelled out above, (3) increased global risk aversion that may lead to further US dollar appreciation against global major currencies, putting further pressure on the rupee. The event risks are not the base case as yet, but are neither the tail risks to be ignored in our exchange rate forecasts. Accordingly, we revise our INR/USD forecast to an average of 46 (from 45) and end-year to 47 (from 46). As a caution, we may add that in events such as sudden stop of capital inflows, rupee can depreciate quickly to 48-50 to a dollar zone.

QUICK NUMBERS

- 4QFY10 CAD/GDP stays wide at 3.4% (3.5%of GDP in 3QFY10)
- FY2010 CAD/GDP at 2.9%; we expect it to widen to 3.4% in FY2011E
- Net outflows of US$14 bn in non-software services in FY2010 a new worry
- Revise our FY2011E INR/USD forecasts – average: 46(from 45); end-year: 47 (from 46)

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CAD anxiety grows

India's current account deficit (CAD) is giving more anxiety than before.

- India's 4QFY10 CAD at US$13.0 bn (3.4% of GDP) stayed wide (see Exhibit 1). Despite the expected improvement from the strong seasonality in the last quarter and an unprecedented 21% growth in nominal GDP, the CAD/GDP ratio still stayed wide at 3.4% of GDP (3.5% of GDP in 3QFY10).

- The full year FY2010 CAD turned out to be 2.9%, just under our '3% or more' warning given at the time of 2QFY10 BOP, though earlier in the year the street was still debating if current account in FY2010 would turn into surplus or deficit. See our Economy note of January 4, 2010, *'CAD may cross 3% of GDP in FY2010E despite soft oil'*. The 3% mark was missed by whiskers because with the 4QFY10 BOP data, RBI revised the BOP data for the preceding three quarters reducing the CAD for that period by US$4.9 bn (0.6% of GDP) (see Exhibit 2).

Our CAD anxiety has grown even further. This is because the 4QFY10 CAD has stayed wide at 3.4% of GDP (versus 3.5% of GDP in 3QFY10 and a surplus of 1.6% of GDP in 4QFY09) despite:

(1) strong seasonality favoring lower CAD in the last quarter

(2) an exceptionally high 21% growth in nominal GDP in 4QFY10 that has prevented the CAD/GDP ratio from widening sequentially, though at US$12.998 bn it was just under the record

Instead CAD rose nominally to a new high though as a percentage of GDP it was still less than in 2Q and 3Q of FY2009. It belied our expectation (US$8 bn) and market consensus (US$5 bn).

Non-software services outflows drill a US$14 bn hole in the current account

Why has India's CAD widened so much in FY2010? One explanation is that as recovery set in pots-Lehman slump, the import growth outstripped export growth for the full year as India recovered faster than the rest of the world. But a more important explanation lies in a new hole getting drilled in India's CAD, viz., outflows in non-services exports which touched US$14 bn (1.1% of GDP). These services outflows are mainly on account of transportation, business, financial and communication services that include project contracts, merchant services, telecom services, franchise payments, etc (see Exhibit 3). See also the section on non-software services outflows in our Economy note of April 1, 2010 '*3QFY10 BOP: Morning light and haze*', where we spotted this trend.

Services surplus (mainly arising from software exports along with private remittances has been the mainstay of India's current account as it offsets about 80% of the trade deficit. However, we are now seeing significant outflows in non-software services exports that have reduced the total services surplus.

The unusually wide 4QFY10 CAD was the outcome of:

(1) trade deficit widening by US$0.4 bn sequentially to US$31.5 bn despite export growth (11.4%) outstripping import growth (7.4%),

(2) marginal fall in transfers (mainly private remittances) by US$0.4 bn sequentially to US$12.6 bn amidst weak global growth,

(3) wider deficit on non-software earnings by US$1.4 bn sequentially to US$5.9 bn.

Clearly, again the non-software outflows has been a major explanation for the deteriorating CAD, though the RBI release on the 4QFY10 BOP remains cast in conventional write-up and does not offer any explanations, nor even draw specific attention to this new trend.

Exhibit 1: CAD/GDP ratio touches 3.4% in 4QFY10; may stay at that level in FY2011E

India's quarterly balance of payments, March fiscal year-ends, 1QFY09-4QFY10,(US$ bn)

	2008	2009	2010	2011E	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10
Current account	**(15.7)**	**(28.7)**	**(38.3)**	**(51.5)**	**(3.3)**	**(12.6)**	**(11.7)**	**(1.2)**	**(4.4)**	**(8.7)**	**(12.1)**	**(13.0)**
GDP	1,229	1,212	1,328	1,531	310	309	300	279	286	303	353	386
% of GDP	(1.3)	(2.4)	(2.9)	(3.4)	(1.1)	(4.1)	(3.9)	(0.4)	(1.5)	(2.9)	(3.4)	(3.4)
Trade balance	(91.5)	(118.7)	(117.2)	(140.8)	(25.3)	(39.1)	(34.0)	(20.2)	(25.6)	(29.1)	(31.0)	(31.5)
% of GDP	(7.4)	(9.8)	(8.8)	(9.2)	(8.1)	(12.7)	(11.4)	(7.2)	(9.0)	(9.6)	(8.8)	(8.2)
- Exports	166.2	189.0	182.2	208.2	57.5	53.6	39.4	38.5	39.2	43.5	47.1	52.4
- Imports	257.6	307.7	299.4	349.0	82.7	92.8	73.5	58.7	64.8	72.6	78.1	83.9
o/w Oil imports	79.7	91.3	78.9	91.0	29.6	35.3	21.0	13.1	16.6	20.7	20.4	21.2
o/w Non-oil imports	178.0	216.3	220.5	258.0	53.2	57.4	52.5	45.6	48.3	51.9	57.7	62.7
Invisibles (net)	75.7	89.9	78.9	89.3	22.0	26.5	22.4	19.0	21.2	20.4	18.9	18.5
- Services	38.9	49.6	34.2	36.9	10.7	14.4	13.9	10.7	10.4	7.6	8.2	8.1
o/w Software	36.9	43.5	48.2	56.9	11.2	11.2	10.7	10.4	10.6	10.8	12.9	14.0
- Transfers	41.9	44.8	52.1	59.4	12.1	12.9	10.2	9.6	12.9	13.7	13.0	12.6
- Other invisibles	(5.1)	(4.5)	(7.4)	(7.0)	(0.8)	(0.8)	(1.6)	(1.2)	(2.1)	(0.9)	(2.3)	(2.1)
Capital account	**106.6**	**7.2**	**53.7**	**54.4**	**4.9**	**7.1**	**(6.1)**	**1.4**	**4.0**	**18.8**	**14.7**	**16.1**
Foreign investment	43.3	3.5	52.1	36.4	4.8	3.6	(5.4)	0.5	14.4	16.2	9.7	11.9
- FDI	15.9	17.5	19.7	17.0	9.0	4.9	0.4	3.2	6.1	6.5	3.9	3.2
- FII	20.8	(15.2)	29.0	15.0	(5.2)	(1.4)	(5.8)	(2.7)	8.2	7.0	5.3	8.5
- ADRs/GDRs	6.6	1.2	3.3	4.4	1.0	0.1	0.0	0.0	0.0	2.7	0.5	0.1
Banking capital	11.8	(3.2)	2.1	4.0	2.7	2.3	(5.0)	(3.3)	(3.4)	4.4	1.9	(0.9)
- NRI deposits	0.2	4.3	2.9	2.5	0.8	0.3	1.0	2.2	1.8	1.0	0.6	(0.6)
Short-term credit	15.9	(1.9)	7.7	7.5	4.5	0.4	(4.2)	(2.6)	(1.5)	0.8	3.3	5.0
ECBs	22.6	7.9	2.5	11.5	1.5	1.7	3.8	1.0	(0.5)	1.2	1.7	0.1
External assistance	2.1	2.6	2.0	2.0	0.4	0.5	1.0	0.8	0.1	0.5	0.6	0.8
Other capital account items	10.8	(1.6)	(12.7)	(7.0)	(8.9)	(1.4)	3.7	5.0	(5.2)	(4.3)	(2.4)	(0.9)
E&O	1.3	1.4	(1.7)	0.0	0.7	0.7	(0.1)	0.1	0.6	(0.6)	(0.7)	(1.0)
Overall balance	**92.2**	**(20.1)**	**13.6**	**2.9**	**2.2**	**(4.7)**	**(17.9)**	**0.3**	**0.2**	**9.5**	**1.9**	**2.1**
memo items:												
Average exchange rate (Rs/US$)	40.26	46.01	47.41	45.00	41.74	43.75	48.76	49.78	48.68	48.42	46.64	45.90
Average Indian crude (US$/b)	78.2	84.0	70.0	75.0	119.1	114.6	54.7	44.8	59.2	68.4	75.4	76.5

Source: RBI and Kotak Institutional Equities estimates

Exhibit 2: Past data revisions result in FY2010 CAD/GDP ratio to fall to 2.9% from 3.3%

Revisions in India's quarterly balance of payments, March fiscal year-ends, 1QFY09-4QFY10,(US$ bn)

	2010P	2010R	Revision	1QFY10P	1QFY10R	2QFY10P	2QFY10R	3QFY10P	3QFY10R	4QFY10P
Current account	**(43.3)**	**(38.4)**	**4.9**	**(6.4)**	**(4.5)**	**(11.9)**	**(8.8)**	**(12.0)**	**(12.2)**	**(13.0)**
GDP	1,316	1,328	12	282	286	297	303	351	353	386
% of GDP	(3.3)	(2.9)	0.4	(2.3)	(1.6)	(4.0)	(2.9)	(3.4)	(3.5)	(3.4)
Trade balance	(121.0)	(117.3)	3.7	(26.9)	(25.6)	(31.9)	(29.1)	(30.7)	(31.1)	(31.5)
% of GDP	(9.2)	(8.8)	0.4	(9.5)	(9.0)	(10.7)	(9.6)	(8.8)	(8.8)	(8.2)
- Exports	176.9	182.2	5.3	37.9	39.2	41.9	43.5	44.6	47.1	52.4
- Imports	297.9	299.5	1.6	64.8	64.8	73.8	72.6	75.4	78.1	83.9
o/w Oil imports	82.0	82.0	0.0	16.6	16.6	20.5	20.5	20.5	20.5	24.5
o/w Non-oil imports	215.9	217.5	1.6	48.3	48.2	53.3	52.1	54.9	57.6	59.5
Invisibles (net)	77.7	78.9	1.2	20.5	21.2	20.0	20.4	18.7	18.9	18.5
- Services	32.7	34.2	1.6	9.7	10.4	7.2	7.6	7.7	8.2	8.1
o/w Software	47.7	47.7	0.0	10.6	10.6	10.4	10.4	12.7	12.7	14.0
- Transfers	52.1	52.1	0.0	12.9	12.9	13.7	13.7	13.0	13.0	12.6
- Other invisibles	(7.1)	(7.4)	(0.3)	(2.0)	(2.1)	(1.0)	(0.9)	(2.0)	(2.3)	(2.1)
Capital account	**59.3**	**53.6**	**(5.7)**	**5.9**	**4.0**	**22.6**	**18.8**	**14.7**	**14.7**	**16.1**
Foreign investment	52.1	52.1	0.0	14.4	14.4	16.2	16.2	9.6	9.6	12.0
- FDI	19.7	19.7	0.0	6.1	6.1	6.5	6.5	3.9	3.9	3.2
- FII	29.1	29.1	0.0	8.2	8.2	7.0	7.0	5.2	5.2	8.6
- ADRs/GDRs	3.3	3.3	0.0	0.0	0.0	2.7	2.7	0.4	0.5	0.1
Banking capital	2.1	2.1	(0.0)	(3.4)	(3.4)	4.4	4.4	1.9	1.9	(0.9)
- NRI deposits	2.9	2.9	0.0	1.8	1.8	1.0	1.0	0.6	0.6	(0.6)
Short-term credit	7.7	7.7	0.0	(1.5)	(1.5)	0.8	0.8	3.3	3.3	5.0
ECBs	2.4	2.5	0.1	(0.5)	(0.5)	1.2	1.2	1.5	1.7	0.1
External assistance	2.0	2.0	0.0	0.1	0.1	0.5	0.5	0.6	0.6	0.8
Other capital account items	(7.0)	(12.8)	(5.8)	(3.3)	(5.2)	(0.6)	(4.3)	(2.2)	(2.4)	(0.9)
E&O	(2.5)	(1.7)	0.8	0.6	0.6	(1.2)	(0.6)	(0.9)	(0.7)	(1.0)
Overall balance	**13.4**	**13.4**	**(0.0)**	**0.1**	**0.1**	**9.4**	**9.4**	**1.8**	**1.8**	**2.1**
memo items:										
Average exchange rate (Rs/US$)	47.41	47.41		48.68	48.68	48.42	48.42	46.64	46.64	45.94
Average Indian crude basket price (US$/b)	70.0	70.0		59.2	59.2	68.4	68.4	75.4	75.4	76.5

Source: RBI

Exhibit 3: Non-software services outflows of US$14 bn in 2010 drill new hole in CAD

Breakup of services earnings in BOP, March fiscal year-ends, 2007-10 (US$ bn)

	2007			2008			2009			2010		
	Inflow	outflow	Net	Inflow	outflow	Net	Inflow	outflow	Net	Inflow	outflow	Net
Services (total)	**73.8**	**44.3**	**29.5**	**90.3**	**51.5**	**38.9**	**101.7**	**52.0**	**49.6**	**93.8**	**59.6**	**34.2**
Software services	**31.3**	**2.3**	**29.0**	**40.3**	**3.4**	**36.9**	**46.3**	**2.8**	**43.5**	**49.7**	**1.5**	**48.2**
Non-software exports	**42.5**	**42.0**	**0.4**	**50.0**	**48.1**	**1.9**	**55.4**	**49.2**	**6.1**	**44.1**	**58.1**	**(14.0)**
Travel	9.1	6.7	2.4	11.3	9.3	2.1	10.9	9.4	1.5	11.9	9.3	2.5
Transportation	8.0	8.1	(0.1)	10.0	11.5	(1.5)	11.3	12.8	(1.5)	11.1	11.9	(0.8)
Insurance	1.2	0.6	0.6	1.6	1.0	0.6	1.4	1.1	0.3	1.6	1.3	0.3
Business services	14.5	15.9	(1.3)	16.8	16.6	0.2	16.4	15.4	1.0	11.6	18.6	(7.0)
Financial services	3.1	3.0	0.1	3.2	3.1	0.1	3.9	3.0	1.0	3.7	4.7	(1.0)
Communication services	2.3	0.8	1.5	2.4	0.9	1.5	2.2	1.1	1.1	1.2	1.4	(0.2)
Others	35.6	9.3	26.3	44.9	9.1	35.8	55.5	9.2	46.3	52.6	12.3	40.3

Source: RBI

India's external balance vulnerable to capital flow volatility

With CAD/GDP ratio likely crossing 3% mark in FY2011E, it is intuitively obvious that a sudden drop in capital flows can make external balance unsustainable in that it may put enormous pressure on exchange rate. Any of the following possibility can impact BOP sustainability in FY2011E:

- Possible widening or deepening of the euro zone (EZ) debt crisis, While not a base case, we give a high 20% probability that EZ crisis contagion would occur in 2HFY11E leading to a sudden stop in capital flows to emerging markets as risk aversion returns.

- Oil prices spiking up again if the EZ crisis wanes away. This would put pressure on CAD that can cross US$50 bn if oil price averages beyond 52. However, any sharp increase in oil prices would require global growth to rebound in which case exports should improve.

- Possible hard landing as India combats current double-digit inflation. If excessive monetary tightening becomes necessary, foreign investment flows may drop and may not get necessarily counterbalanced by arbitrage driven debt flows.

- Monsoon remaining markedly deficient for the second successive year. Rainfall currently is 11% deficient and has not progressed to cover the entire country as it should. If sowing is affected, it can taper off capital inflows and also require larger food imports.

Any of these events can expose external sector vulnerability that has got masked by strong capital inflows. If India (a) again faces a sudden stop of capital inflows or post-Lehman style capital flows reversals or (b) the CAD widen further from here, the current account may put sizeable pressure on India's large FX reserves holding of US$276 bn. Debt servicing should still not be a problem.

Expect rupee to depreciate

Newer factors suggest a weaker rupee. These are:

- the weaker FY2010 BOP,

- vulnerabilities highlighted from the event risks spelled out above,

- increased global risk aversion that may lead to further US dollar appreciation against global major currencies, putting further pressure on the rupee.

The event risks are not the base case as yet, but are neither the tail risks to be ignored in our exchange rate forecasts. Accordingly, we revise our INR/USD forecast to:

- an average of 46 (from 45),
- end-year to 47 (from 46).

As a caution, we may add that in events such as sudden stop of capital inflows, rupee can depreciate quickly to 48-50 to a dollar zone.

Bharat Heavy Electricals (BHEL)

Industrials

REDUCE

JULY 1, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 2,460

Target price (Rs): 2,500

BSE-30: 17,701

Likely sedate inflows would squeeze growth prospects in medium term. BHEL may face headwind in order inflows as (1) about half of XIIth plan ordering may already be complete, (2) new competition appears credible, and (3) other segments unlikely to scale up to counter sedate power inflows. Chinese competition has reduced but is not over yet. Bulk tenders and state JVs unlikely to be positive. Valuation de-rating possible despite strong near-term earnings. Marginally revise estimate; REDUCE; TP Rs2,500.

Company data and valuation summary

Bharat Heavy Electricals

Stock data			
52-week range (Rs) (high,low)			2,585-1,923
Market Cap. (Rs bn)			1,204.1
Shareholding pattern (%)			
Promoters			67.7
FIIs			15.2
MFs			6.5
Price performance (%)	1M	3M	12M
Absolute	4.5	2.9	11.6
Rel. to BSE-30	0.1	1.9	(8.6)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	88.1	113.1	137.5
EPS growth (%)	37.9	28.4	21.6
P/E (X)	27.9	21.8	17.9
Sales (Rs bn)	328.8	410.5	504.0
Net profits (Rs bn)	43.1	55.4	67.3
EBITDA (Rs bn)	55.7	76.7	94.4
EV/EBITDA (X)	19.9	14.0	11.3
ROE (%)	29.9	30.8	29.8
Div. Yield (%)	0.8	1.0	1.2

Inflows traction to squeeze growth post FY2012E; industry/exports/R&M may not grow as much

BHEL may find limited upside to current inflows of about Rs600 bn (16-17 GW in power segment) as – (1) about half of XIIth plan ordering may already be complete even assuming optimistic 120 GW execution in the period, (2) scale-up of competition on back of credible global partners, and (3) likely inability of other segments to scale up to counter sedate power inflows – industry (already scaled up in last two years on large captive orders), exports (mainly to small countries) and R&M (Rs30 bn current inflows; scale-up already built). Lower inflows traction would reduce visibility and revenue growth post FY2012E despite assuming stronger execution as order book matures.

Global partners make newcomers credible; Chinese still in game; bulk orders/state JVs not positive

New competition is credible based on JV with strong partners and progress in establishing business plans and capacities. Chinese competition has reduced but is not over as some recent orders have been decided in their favor. Our assumption of 15 GW p.a. power inflows for BHEL is reasonably optimistic as (1) competitors would secure 5-8 GW (L&T: 3 GW + other Indian: 2-3 GW + foreign: 2-3 GW) leading to 20-23 GW p.a. (mainly thermal as hydro and nuclear are additional), (2) BHEL would have 20 GW capacity, part of which may be used for captive, exports and spares. We are not positive on events such as (1) bulk tendering (helps competition find foothold with a customer dominated by BHEL), and (2) state JVs (capital commitment to win business has limited potential).

Stock has not underperformed so far; valuation de-rating possible in spite of near-term earnings

Stock has not underperformed materially versus BSE-30 Index (6M: flat, 1Y: -8%) and has actually outperformed 50% over last two years. We believe that in spite of strong visible FY2011E and FY2012E earnings, stock can underperform as sedate order inflows reduce (1) visibility, (2) potential revenue growth expectations, and (3) o/p cash flows. Margin pressure originating from commodities, move to supercritical and private sector orders could bring additional downside.

Marginally revise estimates; maintain TP of Rs2,500/share; recommend REDUCE

We revise estimates to Rs113 and Rs138 (from Rs116 and Rs136) for FY2011E and FY2012E, respectively. Maintain TP of Rs2,500 (20X Sep-11E); downgrade to REDUCE as we expect potential headwind in order inflows which would lead to contraction in revenue growth post FY2012E.

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Sedate order inflow traction likely to squeeze revenue growth in medium term

We believe that order inflows for BHEL would grow at a modest CAGR of about 6% over FY2011E-13E which would materially squeeze revenue growth prospects of the company in the medium term. Our expectation of sedate inflow traction is based on (1) about 50% of XIIth Plan equipment ordering may already be complete, (2) upcoming competition appears credible on the back of JVs with global equipment players, and (3) industry, spares/R&M, and exports inflows are unlikely to pick the full tab of shortfall in power sector inflows. We estimate that revenue growth could contract to about 10-12% yoy by FY2013E despite assuming (1) reasonably optimistic success rate for BHEL in winning utility orders in remaining XIIth Plan activity and (2) improvement in execution days as order book matures.

Sedate order inflow traction likely to squeeze revenue growth in medium term
Segment-wise inflow and execution for BHEL, March fiscal year-ends, 2008-2015E (Rs bn)

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Power								
Utility order inflow (GW)	**14.6**	**17.0**	**16.5**	**15.0**	**15.0**	**15.0**	**15.0**	**15.0**
Realization (Rs mn / MW)	26.6	26.1	23.6	26.0	26.0	27.0	27.0	28.0
Utility order inflow	**387**	**444**	**389**	**390**	**390**	**405**	**405**	**420**
Spare orders	24	28	31	36	42	48	55	63
International orders	23	33	36	39	43	48	52	58
Orders received during the year	**434**	**504**	**456**	**466**	**475**	**501**	**513**	**541**
% growth	46.4	16.3	(9.7)	2.2	2.0	12.0	10.0	10.0
Revenues	**159**	**213**	**269**	**342**	**411**	**456**	**513**	**543**
% growth	14.9	34.1	25.8	27.2	20.3	10.9	12.4	5.9
Order backlog - year end	743	1,034	1,221	1,344	1,408	1,453	1,453	1,451
% growth	58.6	39.2	18.1	10.1	4.7	3.2	(0.0)	(0.1)
Order execution days	**1,074**	**1,270**	**1,405**	**1,304**	**1,193**	**1,127**	**1,034**	**977**
Industry								
Orders received during the year	**79**	**103**	**144**	**161**	**180**	**202**	**226**	**253**
% growth	19.9	30.5	40.1	12.0	12.0	12.0	12.0	12.0
Revenues	**60**	**72**	**79**	**109**	**142**	**163**	**184**	**208**
% growth	11.8	20.6	8.7	37.8	30.5	14.8	13.4	12.7
Order backlog - year end	96	126	191	243	282	321	363	408
% growth	23.8	31.3	51.4	27.4	15.8	13.9	13.0	12.5
Order execution days	**471**	**484**	**584**	**642**	**627**	**632**	**635**	**637**
Total								
Orders received during the year	**512**	**607**	**599**	**626**	**655**	**703**	**739**	**794**
% growth	41.6	18.4	(1.3)	4.6	4.6	7.3	5.1	7.5
Revenues	**219**	**286**	**347**	**450**	**553**	**619**	**697**	**751**
% growth	**14.0**	**30.4**	**21.5**	**29.6**	**22.8**	**11.9**	**12.7**	**7.7**
Order backlog - year end	839	1,160	1,412	1,588	1,690	1,774	1,815	1,858
% growth	53.7	38.3	21.7	12.5	6.4	5.0	2.3	2.4
Order execution days	**909**	**1,071**	**1,219**	**1,144**	**1,048**	**997**	**929**	**883**

15 GW inflow in FY11E-13E from XIIth Plan orders based on sector-wise break up of likely remaining orders and assuming a reasonably optimistic success rate for BHEL

Realizations inline with historicals

15% CAGR in spares and 10% CAGR in export inflows over FY11E-13E. Exports to small countries with potentially limited scale-up opportunity

Assume improvement in execution days as the order backlog matures over time

Expect 12% CAGR in industry orders, moderate upside post strong growth in FY2009-10.

Order inflow growth expected to significanly lag revenue growth impacting visbility

Lack of substantial upside to order inflow would meaningfully squeeze growth prospects in the medium-term

Source: Company, Kotak Institutional Equities estimates

Build 15 GW utility inflow; optimistic vs. bottom up estimate of 10-12 GW in thermal

An optimistic case scenario of total capacity addition of about 120 GW in the XIIth plan period would imply additional equipment ordering of about 60 GW. We estimate that of the 120 GW about 100 GW would be based on thermal plants out of which orders for about 58 GW have already been placed. Based on a detailed sector-wise analysis of likely remaining orders and assuming a reasonably optimistic success rate for BHEL, we believe that BHEL may get additional thermal orders of about 30 GW over FY2011E-13E. We believe that most of the XIIth Plan orders would be placed by end-FY2013E as order placed in FY2014E and beyond are less likely to be commissioned in the XIIth Plan period. This would imply average thermal inflows of about 10-12 GW (about Rs260-320 bn based on average realization of about Rs26 mn/ MW) per year over FY2011E-13E compared to 16.5 GW (Rs420 bn) in FY2010 and 17 GW (Rs470 bn) in FY2009. Our estimate of 30 GW already includes (1) 7.5 GW (about 60%) from 660 MW and 800 MW bulk tendering and (2) 6.2 GW of orders from JVs with state utilities. We have assumed a substantially high percentage of private and UMPP orders for BHEL compared to the success in the segments so far. We have mainly focused on the thermal orders as realizations in hydro and nuclear are much lower.

Estimate BHEL to secure additional thermal orders of about 10-12 GW p.a. over FY2011E-13E for XIIth plan projects
Projects expected to be commissioned in the XIIth Plan period (MW)

Total projects in the XIIth Plan - Likely to be taken up for commissioning (MW)								
	Thermal					Hydro	Nuclear	Total
	Coal			Gas	Total			
	Supercritical	Subcritical	Total					
Centre	**16,160**	**7,500**	**23,660**	**3,460**	**27,110**	**9,480**	**6,400**	**42,990**
NTPC	14,840	5,140	19,980	2,730	22,710	2,270	—	24,980
NHPC	—	—	—	—	—	4,760	—	4,760
DVC	1,320	500	1,820	—	1,820	—	—	1,820
Others	—	1,860	1,860	730	2,580	2,440	6,400	11,430
State	13,280	9,330	22,610	520	23,130	2,500	—	25,640
Private	12,090	19,490	31,580	2,930	34,520	2,510	—	37,030
UMPP	16,000	—	16,000	—	16,000	—	—	16,000
Total	**57,530**	**36,320**	**93,850**	**6,910**	**100,760**	**14,490**	**6,400**	**121,650**

Awarded so far (MW)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**3,300**	**6,390**	**9,690**	**726**	**10,416**
NTPC	3,300	4,640	7,940	—	**7,940**
NHPC	—	—	—	—	**—**
DVC	—	500	500	—	**500**
Others	—	1,250	1,250	726	**1,976**
State	6,780	8,000	14,780	—	**14,780**
Private	8,580	18,520	27,100	—	**27,100**
UMPP	5,700	—	5,700	—	**5,700**
Total	**24,360**	**32,910**	**57,270**	**726**	**57,996**

Potential remaining ordering activity (MW)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**12,860**	**1,110**	**13,970**	**2,730**	**16,700**
NTPC	11,540	500	12,040	2,730	**14,770**
NHPC	—	—	—	—	**—**
DVC	1,320	—	1,320	—	**1,320**
Others	—	610	610	—	**610**
State	6,500	1,330	7,830	520	**8,350**
Private	3,510	970	4,480	2,930	**7,420**
UMPP	10,300	—	10,300	—	**10,300**
Total	**33,170**	**3,410**	**36,580**	**6,180**	**42,760**

BHEL share in projects awarded so far (%)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**40**	**100**	**80**	**100**	**81**
NTPC	40	100	75	—	**75**
NHPC	—	—	—	—	**—**
DVC	—	100	100	—	**100**
Others	—	100	100	100	**100**
State	71	85	78	—	**78**
Private	23	69	55	—	**55**
UMPP	—	—	—	—	**—**
Total	**33**	**79**	**60**	**100**	**60**

Awarded to BHEL so far (MW)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**1,320**	**6,390**	**7,710**	**726**	**8,436**
NTPC	1,320	4,640	5,960	—	**5,960**
NHPC	—	—	—	—	**—**
DVC	—	500	500	—	**500**
Others	—	1,250	1,250	726	**1,976**
State	4,800	6,800	11,600	—	**11,600**
Private	1,980	12,830	14,810	—	**14,810**
UMPP	—	—	—	—	**—**
Total	**8,100**	**26,020**	**34,120**	**726**	**34,846**

Expected BHEL share in remaining projects (%)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**58**	**83**	**60**	**100**	**66**
NTPC	53	100	55	100	**63**
NHPC	—	—	—	—	**—**
DVC	100	—	100	—	**100**
Others	—	69	69	—	**69**
State	95	50	87	65	**86**
Private	99	84	95	50	**77**
UMPP	47	—	47	—	**47**
Total	**66**	**70**	**66**	**73**	**67**

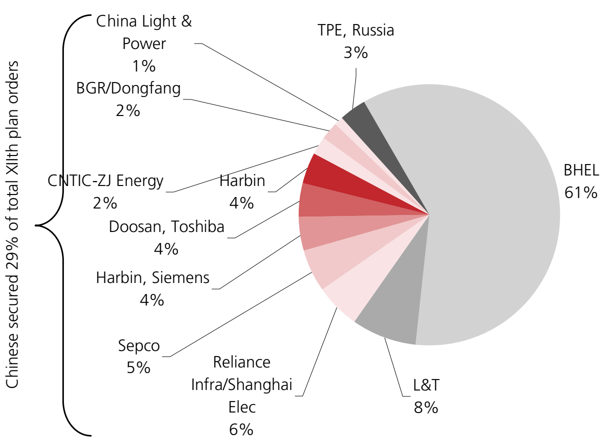
Estimates of incremental order inflow for BHEL (MW)					
	Thermal				
	Coal			Gas	Total
	Supercritical	Subcritical	Total		
Centre	**7,420**	**920**	**8,340**	**2,730**	**11,070**
NTPC	6,100	500	6,600	2,730	**9,330**
NHPC	—	—	—	—	**—**
DVC	1,320	—	1,320	—	**1,320**
Others	—	420	420	—	**420**
State	6,150	660	6,820	340	**7,160**
Private	3,460	820	4,280	1,470	**5,740**
UMPP	4,800	—	4,800	—	**4,800**
Total	**21,830**	**2,400**	**24,240**	**4,530**	**28,770**

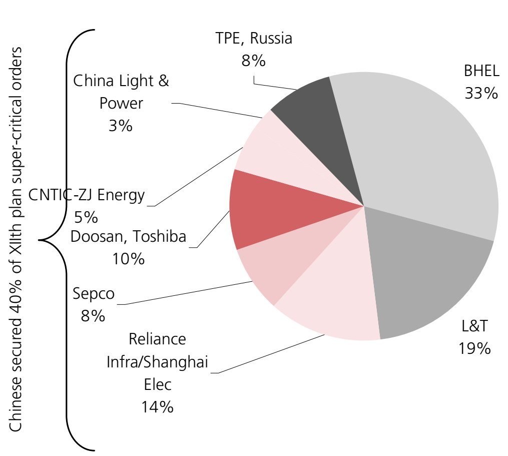
Source: CEA, Kotak Institutional Equities estimates

Likely supply side dynamics also suggest 15 GW as a reasonably optimistic estimate

Based on likely player-wise capacity on the equipment supply side, we believe that 15 GW may be a reasonably optimistic estimate. The total equipment market of about 20-23 GW p.a. (based on estimate of 60 GW additional ordering activity over FY2011E-13E), could potentially be split as about (1) 15 GW for BHEL, (2) 3 GW for L&T, (3) 2-3 GW for Chinese players, (4) 2 GW for Thermax (boilers only), and (5) 2 GW each for JSW and Bharat Forge only on the turbine side. An assumption of 15 GW p.a. for BHEL also appears in line with expected capacity of 20 GW as the company would also execute about 3-4 GW of captive/export orders p.a.

BHEL has secured about 60% (35 GW) of the XII Plan capacity ordered so far but only 30% (8 GW) of super critical orders placed so far
Player-wise mix of total orders and super-critical orders placed for commissioning during the XIIth Plan period





Source: Kotak Institutional Equities

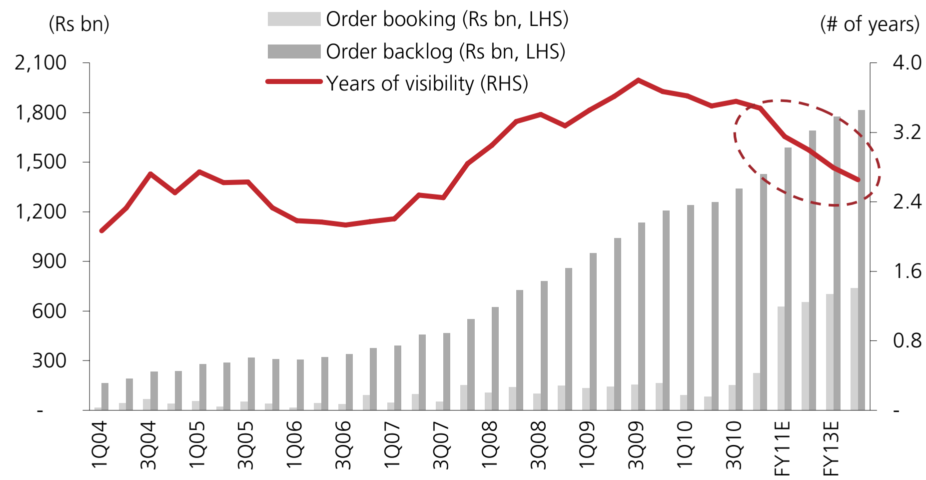
Fuel linkage, land acquisition, MOEF clearance may limit power equipment market

In our view, 120 GW would be a reasonably optimistic estimate for power equipment market for the XIIth Plan period despite the strong demand for power infrastructure in the country as the capacity addition would be at least partially constrained by bureaucratic and execution issues such as fuel linkage, land acquisition and environmental clearance.

Visibility may reduce as inflow growth likely to lag revenue growth over FY11E-13E

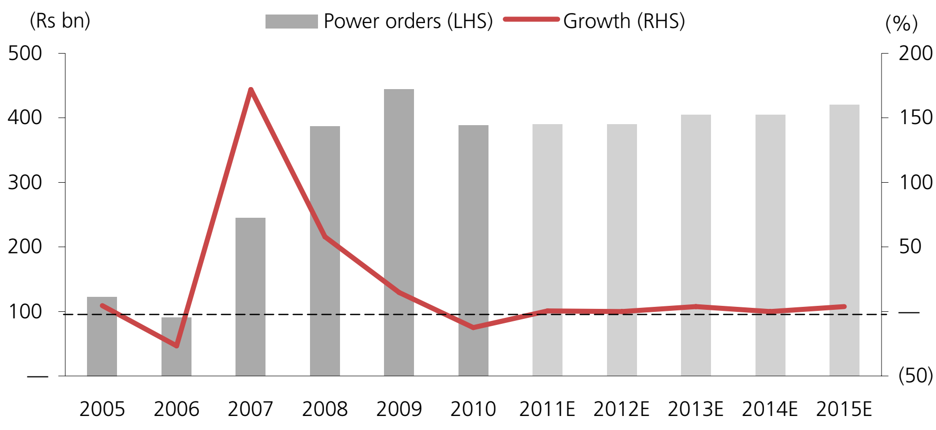
Order book visibility of the company may reduce to about 3.0X by FY2012E and about 2.8X by 2013E (from about 3.5 years at end-FY2010) as the order inflow growth is likely to lag revenue growth over FY2011E-13E. We estimate order inflow growth to grow at about 6% CAGR over FY2011E-13E while revenue to grow at about 21% CAGR over the same period.

Expect visibility to decrease as order inflow growth is likely to lag revenue growth over FY2011E-13E
Order booking, Order backlog & visibility trend for BHEL



Source: Company, Kotak Institutional Equities estimates

Assume 15 GW utility inflow p.a. in FY11E-13E, optimistic vs. base estimate of 10-12 GW in thermal
Power order inflow (excl. spares and R&M) for BHEL, March fiscal year-ends, 2005-2015E



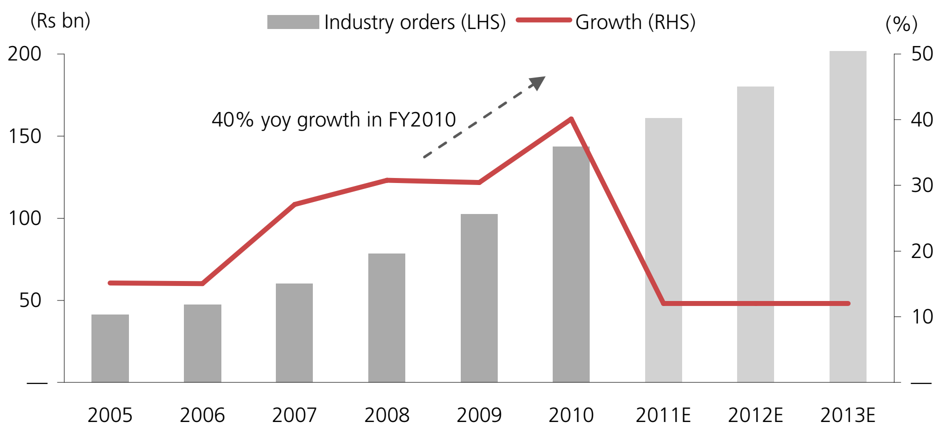
Source: Company, Kotak Institutional Equities estimates

Industry, spares/R&M, exports inflow to grow but unlikely to pick the full tab

Limited upside to strong industry inflows of Rs144 bn in FY2010, up 40% yoy

BHEL reported strong order inflow of Rs144 bn in industry segment in FY2010, up 40% yoy, led by captive power plant orders – (1) Rs42 bn order for 2x520 MW plant for HPCL at Vizag, (2) Rs33 bn combined cycle plant for IOCL Paradip refinery, and (3) Rs20 bn repeat order for 6x150 MW from Hindalco for Sambalpur plant. We believe in limited upside to this strong ordering in the industry segment in the near-term on account of (1) limited overall market size for captive plants and (2) increasing competition with players such as Thermax scaling up to deliver larger captive power plants. We estimate industry segment inflows to grow at about 10% CAGR over FY2011E-13E.

Potentially limited upside to strong industry inflows of Rs144 bn in FY2010, up 40% yoy
Industry order inflow for BHEL, March fiscal year-ends, 2005-2013E



Source: Company, Kotak Institutional Equities estimates

Even if we assume 25% yoy growth in industry segment inflows over FY2011E-13E, the revenue growth of the company reduces to about 15% by FY2013E and about 10% by FY2015E as the growth in industry segment does not make up for potential shortfall in power segment orders.

Industry inflow and execution for BHEL assuming higher industry segment inflow growth, March fiscal year-ends, 2008-2015E (Rs bn)

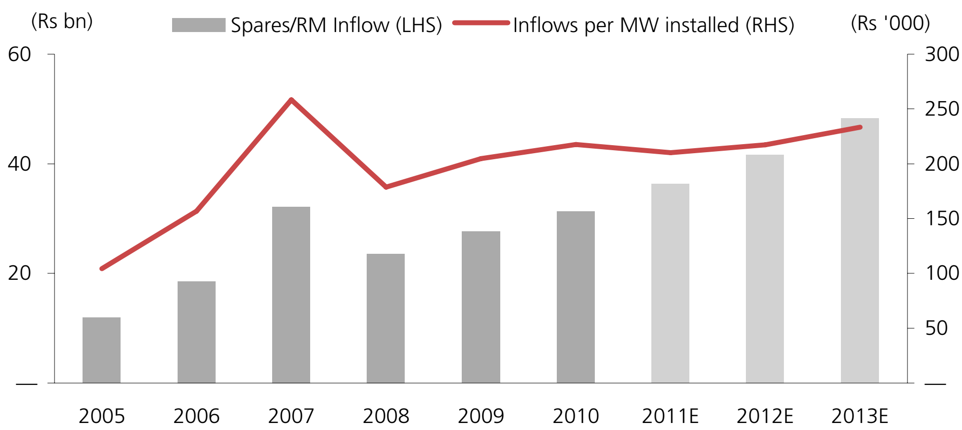
	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Industry								
Orders received during the year	**79**	**103**	**144**	**180**	**224**	**281**	**314**	**352**
% growth	19.9	30.5	40.1	25.0	25.0	25.0	12.0	12.0
Revenues	**60**	**72**	**79**	**112**	**157**	**198**	**240**	**280**
% growth	11.8	20.6	8.7	42.5	40.2	25.7	21.4	16.4
Total								
Orders received during the year	**512**	**607**	**599**	**645**	**699**	**781**	**827**	**893**
% growth	41.6	18.4	(1.3)	7.7	8.4	11.7	5.8	7.9
Revenues	**219**	**286**	**347**	**454**	**569**	**654**	**753**	**822**
% growth	**14.0**	**30.4**	**21.5**	**30.7**	**25.2**	**15.0**	**15.1**	**9.2**
% change vs. base case	**—**	**—**	**—**	**0.8**	**2.8**	**5.7**	**8.0**	**9.6**

Source: Company, Kotak Institutional Equities estimates

Spares and R&M contracts expected to be a growing but overall small opportunity

We estimate that the company order inflow for spare and R&M could grow at about 15% over FY2011E-13E. The estimate is arrived based on (1) average spares/R&M spending of about Rs0.2 mn per installed MW capacity per year (in line with historical trend), and (2) planned capacity addition in the country as per CEA schedule. However, the total size of the opportunity is expected to be limited, about Rs125bn, over the next three years. R&M and LE (Life Extension) execution has significantly lagged planned activities primarily due to reluctance to take unit shutdown and delayed supplies of material. For instance, CEA originally planned to perform R&M works on 57 units (14 GW at cost of about Rs10 bn) and LE works on 106 units (10 GW at estimated cost of Rs92 bn). However, actual achievement was far below planned with R&M works completed on 14 units and LE works completed on 11 units. Similarly for the XIth Plan period, actual achievement so far has been R&M works on 20 units (compared to 77 planned) and LE works on 6 units versus 81 planned. Execution of R&M and LE works may eventually pick up as units age over time and thus could lead to incremental inflow; however, we would a visible signs of increase in pace of activity would make us comfortable to assume higher order inflows in the segment.

Spares and R&M contracts expected to be a growing but overall small opportunity
Spares and R&M order inflow for BHEL, March fiscal year-ends, 2005-2013E

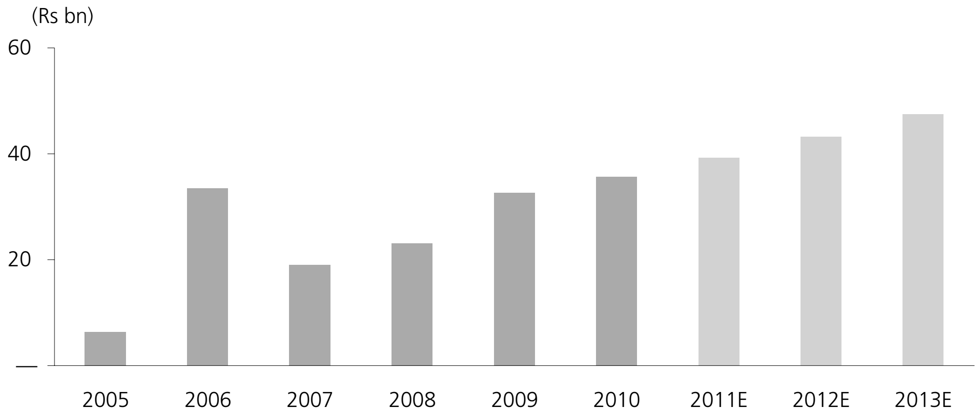


Source: Company, Kotak Institutional Equities estimates

Exports to small countries – Oman, Syria, Bhutan – unlikely to scale up significantly

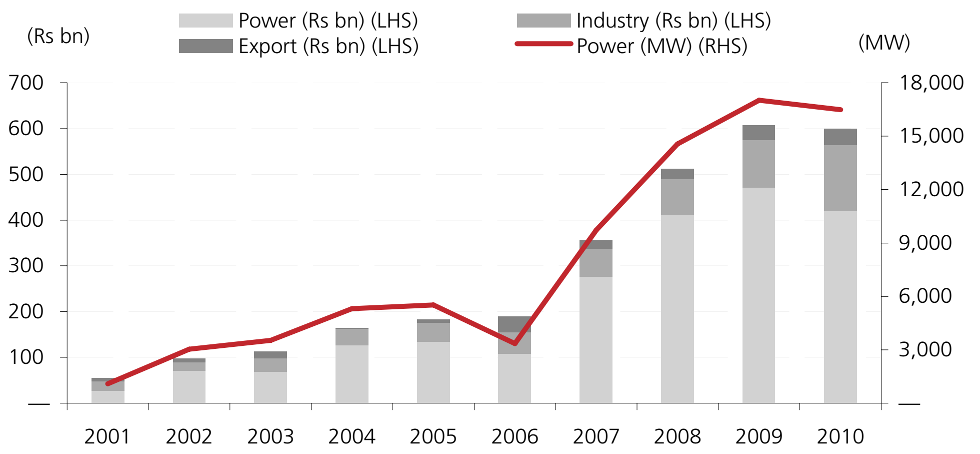
Most of the export orders for BHEL are from small countries, such as Bhutan, Syria and Oman; and hence the segment is unlikely to see a significant scale-up. Order inflows from international business have remained in the range of Rs20-30 bn over FY2006-10. We estimate export order inflows to grow at 10% CAGR over FY2011E-13E.

Most of the export orders are to small countries, unlikely to see a significant scale up
Export order inflow for BHEL, March fiscal year-ends, 2005-2013E



Source: Company, Kotak Institutional Equities estimates

BHEL total order inflow, March fiscal year-ends, 2001-2010



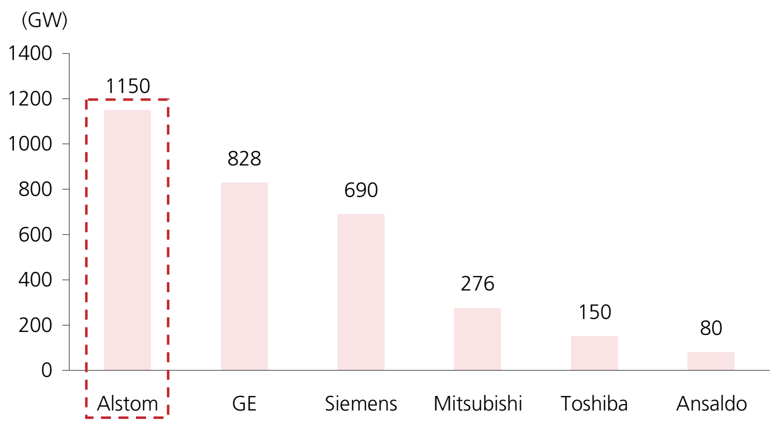
Source: Company, Kotak Institutional Equities

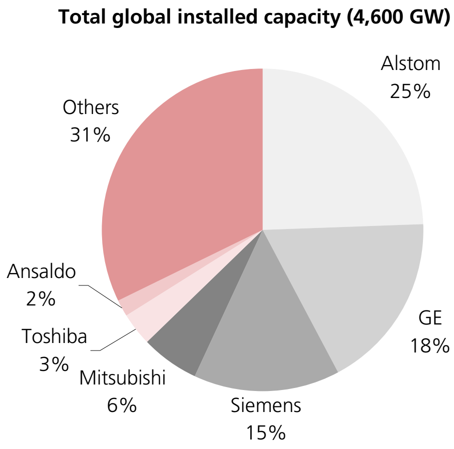
Global partners make newcomers credible; Chinese competition far from over

Commitment of leading global players makes upcoming competition credible

Upcoming private competition in the sector is primarily via joint ventures with established global power equipment manufacturers, such as Alstom and Toshiba, which makes the commitment more credible. For example, Alstom, Bharat Forge's JV partner, is the global leader in the sector contributing 25% of the total global installed capacity of about 4,600 GW. Toshiba, JSW JV partner, is a leading provider of steam turbines and generators, with over 1,800 units (150 GW) installed capacity.

Upcoming competition is primarily via JV with established global manufacturers which provides credibility
Installed capacities of leading global power equipment manufacturers (GW)





Source: Company, Kotak Institutional Equities

Competition ramping up in utility; could lead to significant overcapacity

Based on capacity addition plans by various players, power equipment manufacturing capacity is expected to significantly exceed the likely demand in the next few years. The total utility equipment market of about 20-23 GW p.a. could potentially be split as about (1) 15 GW for BHEL, (2) 3 GW for L&T, (3) 2 GW for Thermax (boilers only), (4) 2-3 GW each for JSW and Bharat Forge (turbine only), and (5) 2-3 GW for Chinese players. An assumption of 15 GW p.a. for BHEL also appears in line with expected capacity of 20 GW as the company is also likely to execute about 3-4 GW of captive/export orders p.a. We also believe that the changing dynamics of the power equipment industry – (1) adoption of super-critical technology and (2) increasing share of private players in capacity addition – reduces incumbent's advantage and facilitates the entry of new players.

Prima-facie, equipment manufacturing capacity may exceed likely demand of about 20-23 GW p.a.
Details of capacity addition by various players over the next few years

						Estimated utility orders	
	Structure	Capital investment	Boiler capacity (MW/ annum)	Turbine capacity (MW/ annum)	Likely start of manufacturing	Boiler (MW/ annum)	Turbine (MW/ annum)
L&T - Mitsubishi	51:49	30,000	4,000	4,000	Jun-10	3,000	3,000
BGR Energy - Hitachi	51:49	32,000	4,000	4,000	Jul-13	—	—
JSW - Toshiba	25:75	11,800	—	3,000	Jun-11	—	2,000
Bharat Forge - Alstom	49:51	24,000	—	5,000	Jun-11	—	3,000
Thermax - B&W PCG	51:49	7,000	3,000	—	NA	2,000	—
GB Engineering - Ansaldo(Gammon)	15:85		2,000	—		—	—
Total for new players			**13,000**	**16,000**		**5,000**	**8,000**
BHEL current capacity			15,000	15,000			
BHEL - incremental capacity			5,000	5,000			
Total for BHEL			**20,000**	**20,000**		**15,000**	**15,000**
Total supply			**33,000**	**36,000**		**20,000**	**23,000**

Source: Company, News flows, Kotak Institutional Equities

Chinese competition reduced but not disappeared; forex could tilt the balance

Chinese equipment manufacturers have run out of favor to some extent due to (1) unfavorable currency movement, and (2) government preference for domestic manufacturing such as awarding super critical contracts in a majority of public sector orders to only those companies/ventures which have set up manufacturing facilities in India. However, we continue to see some large orders placed to Chinese firms such as 1,980 MW order for Talwandi Sabo plant of Sterlite Energy awarded in Nov-2009.

Chinese firms continue to secure some of the recent orders
Recent orders placed with Chinese equipment firms

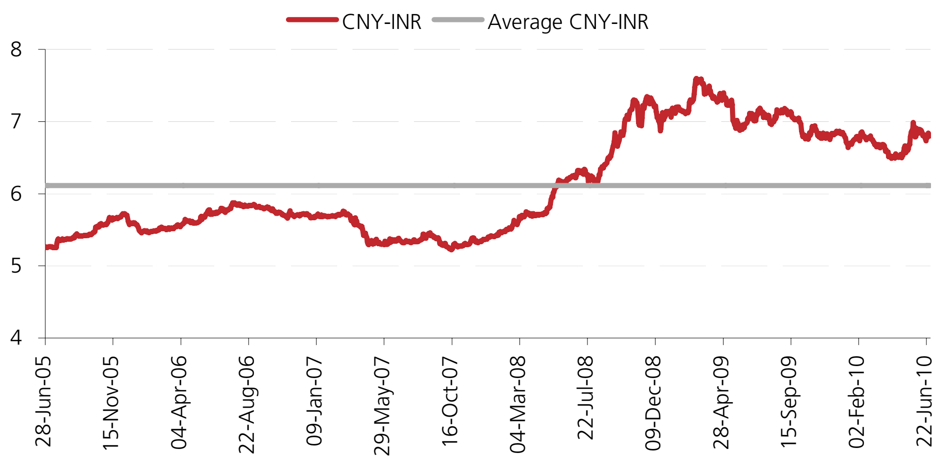
	Supplier	Award Date	Capacity (MW)
Talwandi Sabo, Punjab (Sterlite Energy)	SEPCO	Nov-09	1,980
Mahan, MP (Essar Group)	Harbin	Jul-09	1,200
Salaya, Gujarat (Essar Group)	Harbin	Jul-09	1,200
Tadali, Maharashtra (Dhariwal Infrastructure)	Sanghai Power	FY2010	600
Tiroda, Maharashtra (Adani Power)	SCMEC	Apr-08	1,980
			6,960

Source: Kotak Institutional Equities

Exchange rate continues to favor domestic firms for now, could potentially reverse

The exchange rate of Chinese Renminbi to Indian Rupee continues to favor domestic manufacturer despite slight correction in the rates recently. Further correction in the exchange rate could increase the attractiveness of Chinese equipment and potentially results in higher level of orders to the Chinese manufacturers.

Exchange rate continues to favor domestic manufacturers for now, could potentially reverse
CNYINR exchange rate for Jun-05 to Jun-10



Source: Factset, Kotak Institutional Equities

NTPC bulk tendering opens up BHEL stronghold for private participation

In our view, NTPC bulk tendering is far from being a positive for BHEL as it would increase private participation in central utilities orders which is traditionally a stronghold for BHEL. BHEL secured all of the sub-critical and more than 80% of the total orders placed by NTPC for the XIth Plan. However, share of NTPC orders secured by BHEL may go down to 50-60% for the XIIth Plan as NTPC is likely to spread out orders across bidding participants, in line with the government policy to encourage setting up of domestic manufacturing facilities.

Guidance of about Rs600 bn inflow in FY2011E likely based on bulk tenders and JVs

BHEL management expects to achieve order inflows of about Rs600 bn in FY2011E which would imply order inflows of about 16-17 GW. We believe that the inflow guidance is partially based on expectation of finalization of NTPC 11X660 MW bulk orders where BHEL could get about 3-4 GW. Despite several domestic players setting up manufacturing facilities in India, the competition was relatively sedate in this tender with only BHEL and L&T being the key bidders. We believe 800 MW bulk orders are unlikely to be finalized in FY2012E.

About 13 GW of opportunity in NTPC bulk tendering
Units planned under NTPC bulk tendering

Project	State	Agency	Units	Capacity (MW)
Projects under 660 MW bulk tendering				
Mouda STPP, Stage-II	Maharashtra	NTPC Ltd.	2	1,320
Solapur STPP	Maharashtra	NTPC Ltd.	2	1,320
Nabinagar STPP	Bihar	JV of NTPC & Bihar State Electricity Board	3	1,980
Meja TPP	Uttar Pradesh	JV of NTPC & UP Rajya Vidyut Utpadan Nigam	2	1,320
Raghunathpur TPP, Phase-II	West Bengal	Damoder Valley Corporation (DVC)	2	1,320
Total under 660 MW bulk tendering			**11**	**7,260**
Projects under 800 MW bulk tendering				
Kudgi	Karnataka	NTPC	3	2,400
Lara	Chattisgarh	NTPC	2	1,600
Daalipali	Orissa	NTPC	2	1,600
Total under 800 MW bulk tendering			**7**	**5,600**
Total under bulk tendering			**18**	**12,860**

Source: NTPC, Kotak Institutional Equities

Potential re-tendering of bulk order could lead to delay and further competition

Recent news flows suggest that L&T may be disqualified from the 11X660 MW NTPC bulk tender for supercritical boilers on technical grounds for not fulfilling the criterion of complete technology transfer. L&T and BHEL were the only two bidders in this tender as several of the other private players were still pending completion of procedures for pre-qualification. A re-tender may result in higher competition with other domestic players such as BGR Energy-Hitachi, Thermax-B&W, Gammon-Ansaldo etc. likely to submit bids.

JVs ramp-up super-critical market share; but capital commitment may not be positive

We expect BHEL to receive about 6.1 GW additional orders from JVs formed with state utilities for super-critical plants. The company has already received a 1600 MW order for JV with Karnataka Power Co. Excluding the JV order, BHEL had a relatively low share of about 30% in about 21 GW of super-critical order placed for projects in the XIIth Plan. The formation of JVs could have partially led by the motivation to secure a larger share of super-critical orders by using the balance sheet of the company and to that extent capital commitment by the company may not be considered positive.

Expect additional inflows of 4.5 GW from JVs with state utilities
JVs/MoU with state utilities announced by BHEL for super-critical plants

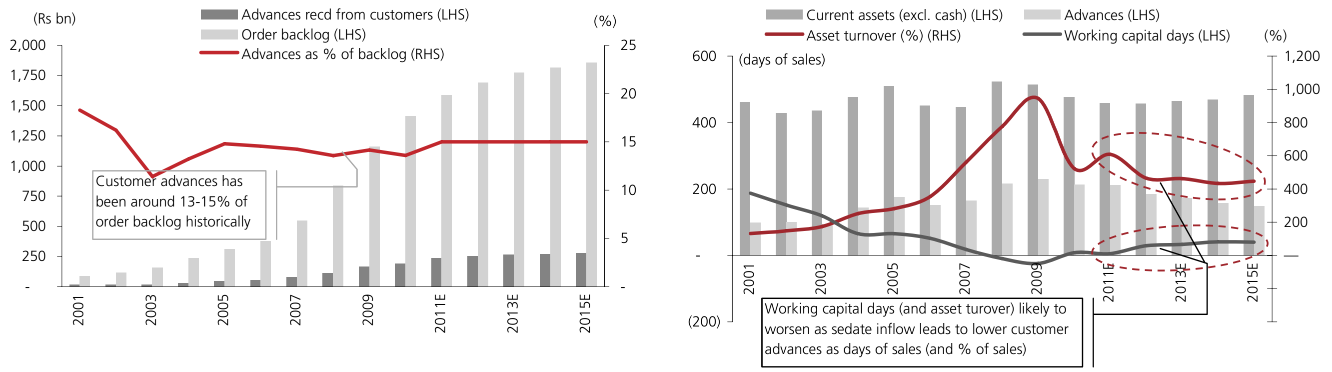
Parnter	Capacity (MW)	Cfg	Status
Karnataka Power Co. Ltd (KPCL)	1,600	2 X 800	2x800 MW order placed with BHEL in Apr-2010
Tamil Nadu Electricity Board (TNEB)	1,600	2 X 800	JV formed
Madhya Pradesh Power Generation Co. Ltd (MPPGCL)	1,600	2 X 800	JV formed
Maharashtra State Power Generation Co. Ltd (Mahgenco)	1,320	2 X 600	MoU signed
Gujarat State Electricity Corporation Ltd. (GSECL)	1,600	2 X 800	MoU signed
Total	**7,720**		

Source: Company, Kotak Institutional Equities

Working capital might worsen as backlog drives liabilities side through advances

The working capital requirement of the company is directly linked to the order backlog as the customer advances are the main driver for current liabilities of the company (customers advances have been about 13.5-15% of order backlog over FY2005-10). We estimate that the working capital as days of sales could increase going forward from about 8 days in FY2010 to about 30 days in FY2012E-13E and about 40 days by FY2015E. The increase would be led by lower customer advances as the company order backlog would significantly lag revenue growth due to sedate order inflow traction.

Working capital may increase going forward as customer advances, which are driven by order backlog, may reduce as days of sales
Customer advances, order backlog and working capital trends for BHEL, March fiscal year-ends, 2001-2015E



Source: Company, Kotak Institutional Equities estimates

Stock has not underperformed so far; valuation de-rating possible in spite of near-term earnings

Stock has not underperformed BSE-30 Index materially (6M: flat, 1Y: –8%); and has actually outperformed 50% versus market over last two years. We believe that in spite of strong visible FY2011E and FY2012E earnings stock can underperform as sedate order inflows reduce (a) visibility, (b) potential revenue growth expectations and (c) operational cash flows. Margin pressure originating from commodities, move to supercritical and private sector orders would be another source of downside.

Visible underperformance to L&T over 12M led by L&T correction during slowdown

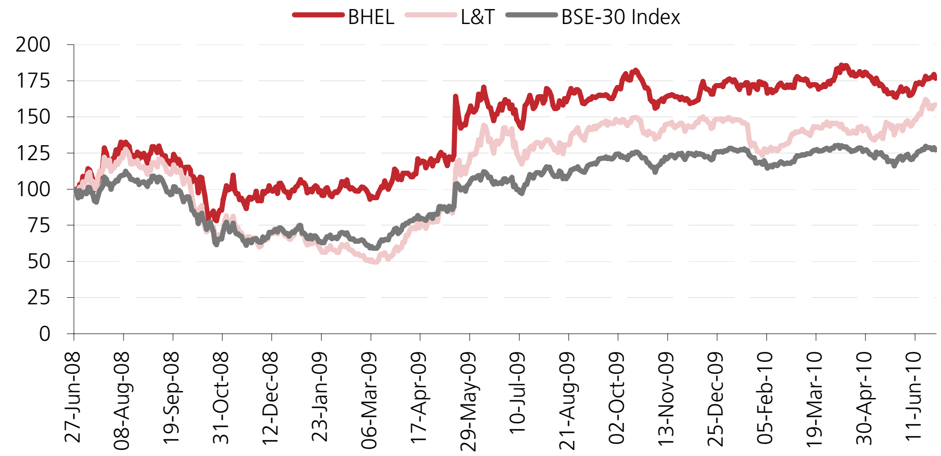
BHEL has performed in line with BSE-30 Index over the 6 months and has outperformed the index over last 24 months by about 50%. While one may argue for some underperformance compared to L&T over the last 12 months, the visible behavior is led by the fact that BHEL stock did not show the same level of correction as L&T during the time of slowdown. Over the last 24 months, BHEL has outperformed L&T by about 20%.

Visible underperformance versus L&T over last 12 months is led by larger correction in L&T stock during slowdown
Absolute and relative stock performance of BHEL and L&T

	Absolute					Relative				
	1M	3M	6M	12M	24M	1M	3M	6M	12M	24M
Bharat Heavy Electricals	**5.2**	**2.2**	**2.7**	**12.1**	**76.7**	**1.2**	**3.2**	**1.9**	**(7.7)**	**49.6**
Larsen & Toubro	10.3	8.1	6.5	27.6	58.3	6.3	9.1	5.8	7.7	31.2
Benchmark (SENSEX)	4.0	(1.0)	0.8	19.9	27.0					

Source: Bloomberg, Kotak Institutional Equities

Indexed stock price for BHEL, L&T and BSE-30 Index, Jun-08 to Jun-10



Source: Bloomberg, Kotak Institutional Equities

DCF suggest that reasonably positive assumptions are already priced in

Our target price of Rs2,500/share for BHEL implies (1) revenue growth of about 12% from FY2016E-31E and (2) gradual decline in EBIT margins to 14% by FY2020E from about 20% in FY2011E, (3) terminal growth rate of 5%, and (4) WACC of 12.5%.

DCF valuation of BHEL, March fiscal year-ends, 2011E-31E (Rs mn)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2020E	2022E	2024E	2028E	2031E
Revenue													
Power	311,513	374,854	415,664	467,303	494,666	554,026	620,509	694,970	871,771	1,093,549	1,371,748	2,158,472	3,032,498
Commissioning (MW)	**10,384**	**12,495**	**13,855**	**15,577**	**16,489**	**18,468**	**20,684**	**23,166**	**29,059**	**36,452**	**45,725**	**71,949**	**101,083**
Industry	98,951	129,144	148,248	168,112	189,478	212,215	237,681	266,203	333,925	418,876	525,438	826,786	1,161,575
Revenues	**410,464**	**503,998**	**563,912**	**635,415**	**684,144**	**766,242**	**858,190**	**961,173**	**1,205,696**	**1,512,425**	**1,897,186**	**2,985,259**	**4,194,073**
Growth (%)	24.8	22.8	11.9	12.7	7.7	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
EBIT (excl finl income)	82,842	101,121	113,088	126,533	135,161	137,923	145,892	153,788	168,797	211,739	265,606	417,936	587,170
Growth (%)	30	22	12	12	7	2	6	5	5	12	12	12	12
EBIT Margins	20.2	20.1	20.1	19.9	19.8	18.0	17.0	16.0	14.0	14.0	14.0	14.0	14.0
Effective tax rate	34	34	34	34	34	34	34	34	34	34	34	34	34
EBIT*(1-tax rate)	**54,676**	**66,740**	**74,638**	**83,512**	**89,206**	**91,029**	**96,289**	**101,500**	**111,406**	**139,748**	**175,300**	**275,838**	**387,532**
Growth (%)	30	22	12	12	7	2	6	5	5	12	12	12	12
Depreciation / Amortisation	5,284	6,316	7,143	7,885	8,695	8,862	8,517	8,343	8,462	9,168	10,456	14,960	20,432
Change in Working Capital	1,104	(34,209)	(10,855)	(20,564)	(3,363)	(13,957)	(15,631)	(17,507)	(21,961)	(27,548)	(34,556)	(54,374)	(76,392)
Capital Expenditure	(11,000)	(13,000)	(10,000)	(12,000)	(12,000)	(6,568)	(7,356)	(8,239)	(10,335)	(12,964)	(16,262)	(25,588)	(35,949)
Free Cash Flows	**50,064**	**25,847**	**60,926**	**58,833**	**82,538**	**79,367**	**81,819**	**84,097**	**87,573**	**108,405**	**134,938**	**210,836**	**295,624**
Growth (%)	1,152	(48)	136	(3)	40	(4)	3	3	2	11	12	12	12
Years discounted	-	1	2	3	4	5	6	7	9	11	13	17	20
Discount factor	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.4	0.3	0.3	0.2	0.1	0.1
Discounted cash flow	**50,064**	**22,975**	**48,139**	**41,320**	**51,528**	**44,043**	**40,359**	**36,873**	**30,339**	**29,674**	**29,185**	**28,468**	**28,034**

WACC calculation		
Risk-free rate (Rf)	7.5%	10-year G-Sec yield
Beta (B)	100.0%	2-year W. Beta against BSE 30
Equity risk premium	5.0%	
Expected market return (Rm)	12.5%	
Cost of Equity (Ke)	12.5%	Ke = Rf + B * (Rm-Rf)
Cost of Debt (Kd) (Post-tax)	8.0%	Estimated gross cost of debt
WACC	**12.5%**	
Calculated WACC	12.4%	

Terminal value Calc	**NPV**
Terminal yr cash flow	295,624
g	5.0%
Capitalisation rate	7.5%
Terminal value	4,138,730
Discount period (yrs)	20.0
Discount factor	0.09
Discounted value	392,479

Capital Structure	
Net debt	1%
Equity	99%

NPV Calc		**% of val**
Sum of free cash flow	720,829	58.4
Terminal value	392,479	31.8
Enterprise value	1,113,308	90.3
Add Investments	83	0.0
Net debt	(120,114)	9.7
Net present value-equity	1,233,505	
Shares o/s	490	
NPV /share(Rs)	**2,520**	

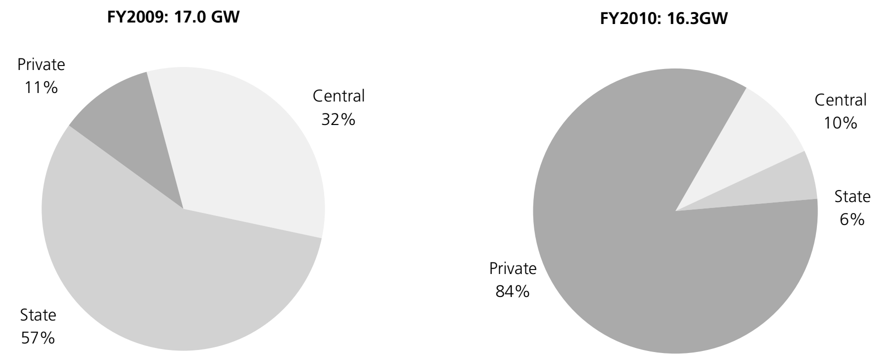
Source: Kotak Institutional Equities estimates

The stock also appears fairly priced on long-term P/E multiple basis. For instance, if we take FY2014E EPS of Rs174 and ascribe about 18X multiple to the stock (about 10% discount to 20X multiple used for Sep-11E basis valuation as the growth prospect would potentially taper down), we arrive at a FY2013 based stock price of Rs3,135; which discounted to FY2011 would imply about Rs2,470/share.

Traction in private orders positive as private share in utility is increasing

We highlight increasing traction of private sector orders which constituted about 85% the power segment orders announced by BHEL in FY2010. The company announced a handful of major orders from state utilities in FY2010; state utilities formed 57% of the power segment orders announced in FY2009. Furthermore, orders from central utilities as a percentage of announced power segment orders have decreased to 10% in FY2010 from about 32% in FY2009.

Private sector orders have dominated inflows for BHEL in FY2010
Sector-wise mix of power orders for BHEL, March fiscal year-ends, 2009-10, (GW)



Source: Company, Kotak Institutional Equities

BHEL secured about one-half of XIth Plan projects, led by central and state orders

BHEL secured about 48% (35 GW) of the orders from XIth Plan projects led by high share of orders for central and state sub-critical plants. BHEL secured all of the sub-critical and more than 80% of the total orders placed by NTPC.

BHEL has about 50% market share in XIth Plan projects
Projects under construction/ commissioned in the XIth Plan, (MW)

Total projects under construction/ commissioned in the XIth Plan, (MW)

	Thermal						
	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	1,980	16,480	18,460	740	4,178	3,380	**26,758**
NTPC	1,980	9,230	11,210	—	800	—	**12,010**
NHPC	—	—	—	—	1,958	—	**1,958**
DVC	—	6,500	6,500	—	—	—	**6,500**
Others	—	750	750	740	1,420	3,380	**6,290**
State	—	15,685	15,685	3,336	3,132	—	**22,153**
Private	6,220	13,801	20,021	2,165	3,062	—	**25,248**
Total	**8,200**	**45,966**	**54,166**	**6,241**	**10,372**	**3,380**	**74,159**

Projects in the XIth plan -Commissioned so far (MW)

	Thermal						
	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	—	3,740	3,740	740	1,030	660	**6,170**
NTPC	—	2,990	2,990	—	—	—	**2,990**
NHPC	—	—	—	—	510	—	**510**
DVC	—	750	750	—	—	—	**750**
Others	—	—	—	740	520	—	**1,260**
State	—	7,335	7,335	726	2,451	—	**10,512**
Private	—	4,028	4,028	1,892	—	—	**5,920**
Total	**—**	**15,103**	**15,103**	**3,358**	**3,481**	**660**	**22,602**

Under construction/ commissioned with BHEL having the order, (MW)

	Thermal						
	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	—	15,280	15,280	—	2,000	—	**17,280**
NTPC	—	9,230	9,230	—	800	—	**10,030**
NHPC	—	—	—	—	800	—	**800**
DVC	—	5,300	5,300	—	—	—	**5,300**
Others	—	750	750	—	400	—	**1,150**
State	—	12,685	12,685	2,870	150	—	**15,705**
Private	—	1,500	1,500	—	922	—	**2,422**
Total	**—**	**29,465**	**29,465**	**2,870**	**3,072**	**—**	**35,407**

BHEL's market share for under construction/ commissioned projects (%)

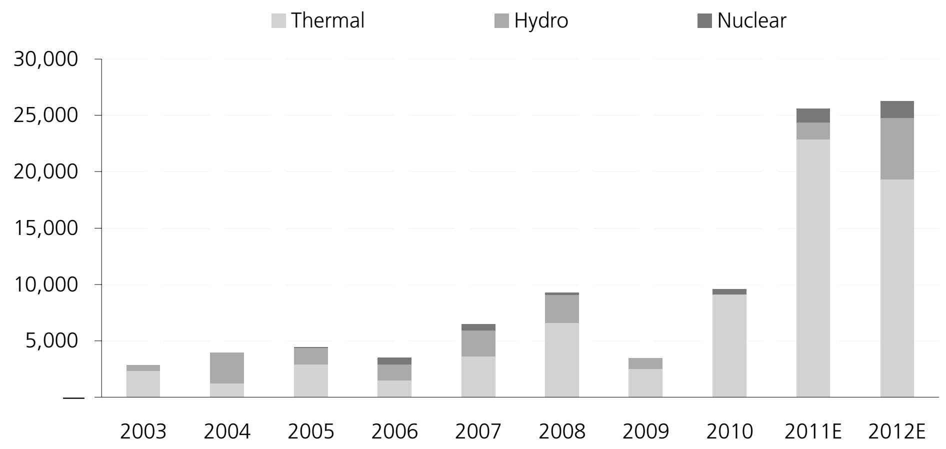
	Thermal						
	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	—	92.7	82.8	—	47.9	—	**64.6**
NTPC	—	100.0	82.3	—	100.0	—	**83.5**
NHPC	—	—	—	—	40.9	—	**40.9**
DVC	—	81.5	81.5	—	—	—	**81.5**
Others	—	100.0	100.0	—	—	—	**18.3**
State	—	80.9	80.9	86.0	4.8	—	**70.9**
Private	—	10.9	7.5	—	30.1	—	**9.6**
Total	**—**	**64.1**	**54.4**	**46.0**	**29.6**	**—**	**47.7**

Source: CEA, Company, Kotak Institutional Equities

Stiff commissioning targets for FY11E-12E; only 30% of XI plan achieved so far

Of about 74 GW of planned capacity addition under the XIth Plan period, the country has commissioned just 22 GW (about 30%) in the first three years of the plan period. CEA has published stiff target to commission about 26 GW each in FY2011E and FY2012E.

Just 30% of the planned capacity addition under XIth Plan has been commissioned so far
Capacity addition schedule and achievement under the XIth Plan, (MW)



Source: CEA, Kotak Institutional Equities estimates

Marginally revise estimates; maintain TP of Rs2,500/share; recommend REDUCE

We marginally revise earnings estimates to Rs113 and Rs138 (from Rs116 and Rs136) for FY2011E and FY2012E, respectively. We maintain our target price of Rs2,500 based on 20X Sep-11E earnings estimate. We downgrade the stock to REDUCE (from ADD earlier) as we believe that BHEL could face potential headwind in order inflows which would lead to contraction in revenue growth to about 10-12% yoy by FY2013E in spite of assuming (1) reasonably optimistic success rate for BHEL in winning utility orders in remaining XIIth Plan activity and (2) improvement in execution days as order book matures. Although we are positive on near-term earning potential of the company led by (1) margin expansion on account of operating leverage, and (2) execution of large order backlog; we believe there may be contraction in valuation multiples accorded to the stock as order inflow pressure becomes apparent in addition to (1) incremental earnings squeeze originating from margins and (2) potentially higher working capital (order backlog is proportional to advances, as order backlog declines as percentage of sales working capital metrics may suffer). Furthermore, we perceive bulk tendering event of NTPC as a negative for BHEL as it opens virtually captive customer's (NTPC) business to new competition and helps them take a foothold in the sector.

Revised estimates for BHEL, March fiscal year-ends, 2011E-12E (Rs mn)

	New estimates		Old estimates		% change	
Target price (Rs)	**2,500**		**2,500**		—	
Rating	**REDUCE**		**ADD**			
	FY2011E	**FY2012E**	**FY2011E**	**FY2012E**	**FY2011E**	**FY2012E**
Revenues	410	504	403	486	1.8	3.8
EBITDA	77	94	79	93	(2.8)	1.5
EBITDA margin (%)	18.7	18.7	19.6	19.2		
PBT	86	105	88	104	(2.1)	1.1
PAT	55	67	57	67	(2.2)	1.0
EPS (Rs)	**113.2**	**137.6**	**115.8**	**136.2**	**(2.2)**	**1.0**
yoy growth (%)						
Revenues	24.8	22.8	24.9	20.4		
EBITDA	37.8	23.1	28.8	17.9		
EPS	28.5	21.6	25.8	17.7		

Source: Kotak Institutional Equities estimates

Expect strong margins on o/p leverage in spite of potential rise in material cost

We have built margins of about 18.5-19% over FY2011E-15E versus about 17% reported by the company for FY2010.We have assumed about 150-200 bps EBITDA margin increase over FY2011E-12E as we expect that operating leverage would help the company expand margins in spite of (1) potential increase in raw material costs, as a percentage of sales, and (2) competition related margin pressure going forward. We see a pick-up in prices of most commodities since 2HFY10 and thereby believe that the most industrial companies including BHEL are likely to face potential headwinds of margin pressure. For example, the current spot price of hot-rolled steel at CNY4,183 /ton is about 11% above the average of CNY3,763/ton during Oct-2008 to Mar-2010 (recent peak of CNY4,698/ton in April-2010). However, operating leverage from expected revenue growth of about 25% in FY2011E-12E would help support margins for BHEL.

Key financials of BHEL, March fiscal year-ends, 2006-15E (Rs bn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Income Statement									
Total net revenues	**172.4**	**193.0**	**262.1**	**328.8**	**410.5**	**504.0**	**563.9**	**635.4**	**684.1**
Cost of goods sold	(140.2)	(159.9)	(225.1)	(273.1)	(333.7)	(409.6)	(458.0)	(516.9)	(557.5)
EBIDTA	**32.2**	**33.2**	**37.0**	**55.7**	**76.7**	**94.4**	**105.9**	**118.5**	**126.6**
Other income	8.2	14.4	15.0	15.2	14.8	16.7	18.9	22.0	25.7
Interest	(0.4)	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Depreciation	(2.7)	(3.0)	(3.3)	(4.6)	(5.3)	(6.3)	(7.1)	(7.9)	(8.7)
Pre-tax Profit	37.3	44.3	48.4	65.9	86.1	104.7	117.4	132.5	143.5
Tax	(13.2)	(15.7)	(17.1)	(22.8)	(30.7)	(37.3)	(41.8)	(47.2)	(51.1)
PAT	**24.1**	**28.6**	**31.3**	**43.1**	**55.4**	**67.4**	**75.6**	**85.3**	**92.4**
Balance sheet									
Shareholders' equity	87.9	107.7	129.4	159.2	200.7	251.3	307.9	371.9	441.2
Loan funds	0.9	1.0	1.5	1.3	1.3	1.3	1.3	1.3	1.3
Total source of funds	**88.8**	**108.7**	**130.9**	**160.5**	**202.0**	**252.5**	**309.2**	**373.2**	**442.4**
Net block	9.9	9.8	14.7	28.1	38.9	47.1	50.0	54.1	57.4
WIP	3.0	6.6	11.6	11.6	6.5	5.0	5.0	5.0	5.0
Investments	0.1	0.1	0.5	0.8	0.8	0.8	0.8	0.8	0.8
Net current assets (excl cash)	8.3	(5.0)	(17.5)	7.0	5.9	40.1	51.0	71.6	74.9
Cash and bank balance	58.1	83.9	103.1	97.7	134.6	144.2	187.2	226.5	289.1
Deferred Tax Assets	9.4	13.4	18.4	15.3	15.3	15.3	15.3	15.3	15.3
Total applications	**88.8**	**108.7**	**130.9**	**160.5**	**202.0**	**252.5**	**309.2**	**373.2**	**442.4**
Cash flow statement									
Net profit before tax and extraordinary items	**37.3**	**44.3**	**48.4**	**65.9**	**86.1**	**104.7**	**117.4**	**132.5**	**143.5**
Add: Depreciation / amortisation / non-cash prov	2.7	3.0	3.3	4.6	5.3	6.3	7.1	7.9	8.7
Tax paid	(15.8)	(19.7)	(22.1)	(19.7)	(30.7)	(37.3)	(41.8)	(47.2)	(51.1)
Operating profit before working capital changes	24.2	27.5	29.6	50.8	60.7	73.7	82.7	93.2	101.0
Change in working capital / other adjustments	10.4	13.4	12.4	(24.5)	1.1	(34.2)	(10.9)	(20.6)	(3.4)
Net cashflow from operating activites	**34.6**	**40.9**	**42.0**	**26.3**	**61.8**	**39.5**	**71.9**	**72.6**	**97.7**
Fixed Assets	(4.3)	(6.6)	(12.8)	(18.0)	(11.0)	(13.0)	(10.0)	(12.0)	(12.0)
Investments	—	0.0	(0.4)	(0.3)	—	—	—	—	—
Net cashflow from investing activites	**(4.3)**	**(6.6)**	**(13.2)**	**(18.3)**	**(11.0)**	**(13.0)**	**(10.0)**	**(12.0)**	**(12.0)**
Free cash flow	**30.3**	**34.3**	**28.8**	**8.0**	**50.8**	**26.5**	**61.9**	**60.6**	**85.7**
Issue of share capital	—	0.0	(0.0)	(2.5)	—	—	—	—	—
Borrowings	(4.7)	0.1	0.5	(0.2)	—	—	—	—	—
Dividend paid	(6.9)	(8.7)	(9.7)	(10.8)	(13.8)	(16.8)	(18.9)	(21.3)	(23.1)
Net cashflow from financing activites	**(11.6)**	**(8.7)**	**(9.2)**	**(13.5)**	**(13.8)**	**(16.8)**	**(18.9)**	**(21.3)**	**(23.1)**
Cash generated /utilised	18.7	25.6	19.7	(5.5)	36.9	9.6	43.0	39.3	62.6
Net cash at end of year	**58.1**	**83.9**	**103.1**	**97.7**	**134.6**	**144.2**	**187.2**	**226.5**	**289.1**
Ratios (%)									
EBITDA margin	**18.7**	**17.2**	**14.1**	**16.9**	**18.7**	**18.7**	**18.8**	**18.7**	**18.5**
PAT margin	14.0	14.8	11.9	13.1	13.5	13.4	13.4	13.4	13.5
RoE	29.9	29.2	26.4	29.9	30.8	29.8	27.0	25.1	22.7
RoCE	29.1	29.2	26.3	29.7	30.6	29.7	26.9	25.0	22.7
Net current assets (excl cash) as days of sales	17.7	(9.5)	(24.3)	7.8	5.3	29.1	33.0	41.1	40.0
EPS (Rs)	**49.2**	**58.4**	**63.9**	**88.1**	**113.2**	**137.6**	**154.4**	**174.2**	**188.7**

Source: Company, Kotak Institutional Equities estimates

BHEL has secured about 60% (35 GW) of the XII Plan capacity ordered so far but only 30% (8 GW) of super critical orders placed so far
Orders placed for commissioning during the XIIth Plan period

Project	State	Agency	Sector	Awarded to	XIIth plan capacity (MW)	Technology
Raigarh - Extn	Chhattisgarh	Jindal Power	Private	BHEL	2,400	Sub critical
Bara	Uttar Pradesh	Jai Prakash Associates	Private	BHEL	1,980	Super critical
Krishnapatnam	Andhra Pradesh	APGENCO	State	BHEL	1,600	Super critical
Raichur	Karnataka	KPCL	State-JV	BHEL	1,600	Super critical
Obra	Uttar Pradesh	UPRVUNL	State	BHEL	1,600	Super critical
Amravati	Maharashtra	India Bulls	Private	BHEL	1,350	Sub critical
Nashik	Maharashtra	India Bulls	Private	BHEL	1,350	Sub critical
Barh - II	Bihar	NTPC	Center	BHEL	1,320	Super critical
Pipavav Power Project, Videocon	Gujarat	GPCL	Private	BHEL	1,200	Sub critical
Malwa	Madhya Pradesh	MPGENCO	State	BHEL	1,200	Sub critical
Derang (Angul), Arung District	Orissa	Jindal Power	Private	BHEL	1,200	Sub critical
Angul	Orissa	Monnet	Private	BHEL	1,050	Sub critical
Marwa	Chhattisgarh	CSEB	State	BHEL	1,000	Sub critical
Chandrapur	Maharashtra	Mahgenco	State	BHEL	1,000	Sub critical
Tuticorin JV	Tamil Nadu	NLC	Center	BHEL	1,000	Sub critical
Ennore-JV	Tamil Nadu	NTPC	Center	BHEL	1,000	Sub critical
Rihand	Uttar Pradesh	NTPC	Center	BHEL	1,000	Sub critical
Nabinagar	Bihar	NTPC	Center	BHEL	750	Sub critical
Tripura Gas IIL&FS	TRI	ONGC	Center	BHEL	726	Sub critical
Kakatiya II	Andhra Pradesh	APGENCO	State	BHEL	600	Sub critical
Korba West, Avantha Bhandar	Chhattisgarh	KWPCL	Private	BHEL	600	Sub critical
Jhabua Power, Seoni Unit I	MP	Avantha	Private	BHEL	600	Sub critical
Usha Jayaswal Ph II, Latehar	Jharkhand	Corporate Power	Private	BHEL	540	Sub critical
Saraikela (Padampur) Unit I & II	Jharkhand	Adhunik Power	Private	BHEL	540	Sub critical
Goindwal Sahib	Punjab	GVK	Private	BHEL	540	Sub critical
Korba West	Chhattisgarh	CSEB	State	BHEL	500	Sub critical
Sikka Extn	Gujarat	GSECL	State	BHEL	500	Sub critical
BECL, Bhavnagar	Gujarat	PSU JVs	State	BHEL	500	Sub critical
Bokaro Replacement	Jharkhand	DVC	Center	BHEL	500	Sub critical
Bina	Madhya Pradesh	Jaypee Power	Private	BHEL	500	Sub critical
Vindhyachal STPP	Madhya Pradesh	NTPC	Center	BHEL	500	Sub critical
Mauda	Maharashtra	NTPC	Center	BHEL	500	Sub critical
Chhabra U-3, 4	Rajasthan	RRVUNL	State	BHEL	500	Sub critical
Vallur Phase II	TN	NTPC	Center	BHEL	500	Sub critical
Anpara - D	Uttar Pradesh	UPRVUNL	State	BHEL	500	Sub critical
Surana Power, Raichur	Karnataka	Surana Group	Private	BHEL	420	Sub critical
Muzaffarpur, KBUNL	Uttar Pradesh	NTPC	Center	BHEL	390	Sub critical
Jamshedpur	Jharkhand	Tata Power	Private	BHEL	270	Sub critical
Adhunik, Bela Village	Maharashtra	Ideal Energy	Private	BHEL	270	Sub critical
Satpura Extn	Madhya Pradesh	MPGENCO	State	BHEL	250	Sub critical
Barsingsar Ext	Rajasthan	NLC	Center	BHEL	250	Sub critical
Durgapur Power Ltd U8	West Bengal	WBPDCL	State	BHEL	250	Sub critical
Total XII Plan capacity awarded to BHEL so far					**34,846**	
Koradi	Maharashtra	MAHGENCO	State	L&T	1,980	Super critical
JP Nigrie	Madhya Pradesh	JP Group	Private	L&T	1,320	Super critical
Nabha, Rajpura	Punjab	L&T	Private	L&T	1,320	Super critical
Total XII Plan capacity awarded to L&T so far					**4,620**	
Sasan UMPP	Madhya Pradesh	Reliance Power	Private	Reliance Infra/	3,300	Super critical
Mundra UMPP	Gujarat	Adani power	Private	Doosan and Toshiba	2,400	Super critical
Talwandi Sabo	Punjab	Sterlite Energy	Private	Sepco	1,980	Super critical
Barh-I	Bihar	NTPC	Center	RUSSIA	1,980	Super critical
Bhaiyathan	Chhattisgarh	India Bulls	Private	Chinese player	1,320	Super critical
Kalisindh	Rajasthan	RRVUNL	State	BGR/Dongfang	1,200	Sub critical
Tuticorn	TN	Coastal Energen	Private	Harbin, China	1,200	Sub critical
Salaya	Gujarat	Essar Power	Private	Harbin, Siemens	1,200	Sub critical
Mahan	Madhya Pradesh	Essar Power	Private	Harbin, Siemens	1,200	Sub critical
Kamalanga	Orissa	GMR Energy	Private	Sepco	1,050	Sub critical
Malaxmi	Orissa	Navbharat	Private	Harbin, China	1,040	Sub critical
Jhajjar	Haryana	HPGCL	Private	China Light & Power	660	Super critical
Total XII Plan capacity awarded to foreign players so far					**18,530**	
Total XII Plan capacity awarded so far					**57,996**	

Source: Kotak Institutional Equities

Major orders received by BHEL since beginning-FY2009

	Project	Agency	Capacity (MW)	Configuration	Value (Rs mn)
Power	Raichur Power Co. Ltd, JV of Karnataka Power Co. Ltd and BHEL	State	1,600	2X 800	63,000
	Orders announced in FY2011 so far		**1,600**		**63,000**
Power	Bara project, Prayagraj, UP, Jaiprakash Associates Limited (JAL)	Private	1,980	3X 660	56,000
	Raigarh Extn, Jindal Power Limited, Chattisgarh TPP	Private	2,400	4X 600	50,400
	India Bulls Amravati	Private	1,350	5X 270	28,890
	India Bulls Nasik	Private	1,350	5X 270	28,890
	Angul TPP in Orissa, Monnet Power Company Limited (MPCL)	Private	1,050	2X 525	26,300
	Angul TPP in Orissa, Jindal India Thermal Power Limited (JITPL)	Private	1,200	2X 600	26,000
	Pipavav, Gujarat (Videocon Power Ltd)	Private	1,200	2X 600	24,860
	BECL, Bhavnagar	State	500	2X 250	18,650
	Avantha Bhandar TPP, Chattisgarh, Korba West Power Company Limited	Private	600	1X 600	14,750
	Vallur TPP, NTPC-Tamil Nadu Energy Company Limited (NTECL)	Centre	500	1X 500	13,000
	Jhabua Power Ltd, Seoni, MP TPP Unit I (Avantha Group)	Private	600	1X 600	12,870
	Abhijeet, Matrishri Usha Jayaswal MPP Ph II (Corporate Power Ltd), Latehar,	Private	540	2X 270	12,630
	DPL, Durgapur Unit 8, WBPDCL	State	250	1X 250	12,430
	Surana Power Ltd, Raichur TPS	Private	420	2X 210	11,400
	KBUNL (NTPC), Muzaffarpur TPP Stage II	Centre	390	2X 195	10,770
	Bela TPP, Ideal Energy Projects Limited, Butibori, Maharashtra	Private	270	1X 270	7,030
	Nuclear Power Corporation of India limited (NPCIL)	Centre	700	1X 700	7,000
	TPP in Jharkhand, Adhunik Power, Saraikela, Padampur, Unit II	Private	270	1X 270	6,400
	TPP in Jharkhand, Adhunik Power, Saraikela, Padampur, Unit I	Private	270	1X 270	6,400
	Krishanganga hydro-electric plant in Jammu & Kashmir, HCC	Private	330	3X 110	4,950
	Ramgarh	State	160	1X 160	4,000
Captive	HNPCL, Vizag	Private	1,040	2X 520	41,800
	Captive plant at Paradip refinery of IOCL, Orissa	Private	376	NA	33,480
	Sambalpur TPP in Orissa, HINDALCO	Private	900	6X 150	20,075
	OPG Power Gujarat Power Ltd	Private	300	2X 150	7,000
	Sterlite, Tutitcorn	Private	160	2X 80	4,000
	Oil India Limited (OIL)	Private	20	1X 20	1,900
	Chennai Petroleum Corporation Limited (CPCL)	Private	20	1X 20	1,700
	Barauni refinery of Indian Oil Corporation (IOC)	Private	20	1X 20	1,050
Industry	Indian Railways	Centre	NA	NA	9,900
	Power Grid Corporation of India Ltd (PGCIL)	Centre	NA	NA	2,000
Export	Punatsangchhu-I hydro-electric project in Bhutan	Export	1,200	6X 200	10,000
	Petroleum Development Oman (PDO)	Export	252	2X 126	4,100
	Sultanate of Oman	Export	252	2X 126	3,750
	Grodnoenergo, Republic of Belarus	Export	126	1X 126	2,700
	Orders announced in FY2010		**21,041**		**528,675**
Power	Pragati Power Corporation Limited	State	1,371	NA	35,880
	Korba West TPP, Chhattisgarh State Electricity Board	State	1,500	3X 500	33,680
	Malwa TPP, Madhya Pradesh Power Generating Company Ltd	State	1,200	2X 600	31,500
	Krishnapatnam, Andhra Pradesh Power Dev Co Ltd (APPDCL)	State	1,600	2X 800	25,000
	Pallatana CPP, ONGC Tripura Power Company Limited (OTPCL)	Private	726	2X 363	22,000
	Chandrapur TPP, Mahgenco	State	1,000	2X 500	22,000
	Marwa TPP, Chattisgarh State Electricity Board	State	1,000	2X 500	22,000
	Tamil Nadu Electricity Board TNEB, North Chennai Thermal Power Station	State	600	1X 600	21,750
	Rihand TPP, NTPC	Centre	1,000	2X 500	21,538
	Tuticorn TPP, JV of NLC and TNEB	State	1,000	2X 500	21,538
	Vindhyachal TPP, NTPC	Centre	1,000	2X 500	21,538
	Mauda TPP, NTPC Ltd	Centre	1,000	2X 500	21,000
	Bokaro TPP, Damodar Valley Corporation	Centre	500	1X 500	18,400
	Barh II, NTPC Ltd	Centre	1,320	2X 660	14,740
	Kakatiya TPP, APGENCO	State	600	1X 600	13,250
	Bina Power Supply Company Ltd, Jai Prakash Group	Private	500	2X 250	11,750
	Goindwal TPP, GVK Power Ltd	Private	540	2X 270	11,550
	Chabra TPP Units 3&4, Rajasthan Rajya Vidyut Utpadan Nigam Limited	State	500	2X250	9,900
	Satluj Jal Vidyut Nigam Limited (SJVNL)	Centre	412	6x 69	6,410
	Parli 3 TPP of Mahagenco	State	250	1X 250	5,385
	Nuclear Power Corporation of India limited (NPCIL)	Centre	1,400	2X 700	3,450
Captive	Mahan CPP, Hindalco	Private	900	6X 150	20,000
	Guru Gobind Singh refinery, Bhatinda, JV of HPCL and Mittal Energy	Private	153	1X 153	11,500
	CPP for MRPL	Private	68	NA	3,400
Industry	Oil and Natural Gas Corporation Limited ONGC	Private	NA	NA	5,060
	SAIL	Private	NA	NA	3,380
	Mundra UMPP, Coastal Gujarat Power Limited (CGPL), Tata Power	Private	4,000	5X 800	2,400
	Tirora TPP, Powergen Infrastructure	Private	NA	NA	810
Export	Ministry of Electricity, Syria	Export	400	2X 200	20,800
	Ministry of Infrastructure, Government of the Republic of Rwanda	Export	28	2X 14	4,000
	Nam Chien Hydropower Joint Stock Company, Vietnam	Export	200	2X 100	2,000
	Petroleum Development Oman (PDO)	Export	126	1X 126	1,890
	International Energy Resources, UAE	Export	84	2X 42	1,600
	International Energy Resources (IER), UAE	Export	84	2X 42	1,400
	Orders announced in FY2009		**25,162**		**472,825**

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Tata Chemicals (TTCH)

Others

ADD

JUNE 30, 2010

UPDATE

Coverage view:

Price (Rs): 334

Target price (Rs): 360

BSE-30: 17,701

Safeguard duty on soda ash re-imposed; removes pricing risk in India. Safeguard duty of 16% has been re-imposed on soda ash imports from China till April 2011E. Entry of cheap soda ash material from China was a continuing threat and re-imposition of duty removes the pricing risk. We increase TTCH sales by 4% and 2% and EPS by 8% and 4% in FY2011-12E on account of (1) re-imposition of duty (2) debottlenecking of capacity at Mithapur plant (to 1 mtpa from 850,000 tpa). We expect reported EPS of Rs32 in FY2011E increasing to Rs37 in FY2012E. Maintain ADD with TP of Rs360 (was Rs340)

Company data and valuation summary

Tata Chemicals

Stock data			
52-week range (Rs) (high,low)			357-189
Market Cap. (Rs bn)			81.3
Shareholding pattern (%)			
Promoters			28.1
FIIs			12.6
MFs			8.8
Price performance (%)	**1M**	**3M**	**12M**
Absolute	4.0	1.9	53.8
Rel. to BSE-30	(0.5)	0.9	25.9

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	26.4	32.4	37.3
EPS growth (%)	(27.1)	22.6	15.1
P/E (X)	12.6	10.3	9.0
Sales (Rs bn)	95.4	104.6	109.1
Net profits (Rs bn)	6.4	7.9	9.1
EBITDA (Rs bn)	18.1	21.2	22.8
EV/EBITDA (X)	6.8	5.7	4.9
ROE (%)	16.0	18.4	18.3
Div. Yield (%)	2.6	2.7	2.7

Safeguard duty on soda ash imports from China re-imposed for a year till April 2011E

Safeguard duty of 16% has been re-imposed on soda ash imports from China till April 2011E. The earlier duty imposed in 2009 had been extended till April 2010.

We estimate an upside to TTCH's soda ash sales in India in FY2011E

Entry of cheap soda ash material from China was a continuing threat to soda ash companies in India. TTCH had suffered on this account in early 2009 with TTCH's soda ash sales volumes dipping to 165-157,000 tonnes per quarter, in quarter ending March and June 2009, the lowest in last eight quarters. Since then the sales volumes have picked up to 163-185,000 tonnes per quarter due to the extension of the duty last year.

We increase FY2011-12E sales by 4% and 2% and EPS by 8% and 4%

Since the last extension of this duty expired in April 2010, we had assumed yoy decline in prices/lower volumes for TCL's India soda ash in FY2011E. We estimate a volume/price upside in soda ash India for TTCH in FY2011E due to (1) re-imposition of duty and (2) debottlenecking of capacity at Mithapur plant which has now been completed. We expect sales upside of 4% and 2% and EPS upside of 8% and 4% in FY2011-12E. We expect reported EPS of Rs32 in FY2011E increasing to Rs37 in FY2012E. Our FY2012E estimates factor in the benefit from new businesses/capacities coming on stream namely (1) sales of Rs990 mn from "Swach" in FY2011-12E and (2) sales of specialty fertilizer in FY2012E (130,000 tpa to be operational in 2HFY11E).

Maintain ADD with TP of Rs360 (was Rs340)

We think soda ash duty imposition removes an overhang on the stock. We now factor in sales volumes of around 0.785 mtpa from Mithapur plant (80% capacity utilization) in FY2011-12E, up from 0.68 mtpa reported in FY2010 due to (1) re-imposition of duty and (2) debottlenecking of capacity at Mithapur plant which has now been completed (to 1 mtpa from 850,000 tpa). TTCH is trading at 10X FY2011E and 9X FY2012E on our reported earnings estimate. Our target price of Rs360 implies PE of 10X FY2012E earnings.

QUICK NUMBERS

- Safeguard duty of 16% has been re-imposed on soda ash imports from China till April 2011E
- We increase FY2011-12E sales by 4% and 2% and EPS by 8% and 4%
- We expect reported EPS of Rs32 in FY2011E increasing to Rs37 in FY2012E

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Safeguard duty re-imposed on soda ash imports from China— we increase FY2011-12E sales by 4% and 2% and EPS by 8% and 4%

Entry of cheap soda ash material from China was a continuing threat to soda ash companies in India. Since the last extension of this duty expired in April 2010, we had assumed yoy decline in prices/lower volumes for TTCH in India in FY2011E. TTCH typically sells at a price higher than landed cost of imported material, which was at threat in case of non-imposition of duty. Due to overcapacity in Chinese system, we think soda ash pricing in India was at risk and had assumed a price reduction for TTCH in FY2011E.

We think soda ash duty imposition removes an overhang on the stock. We now factor in sales volumes of 0.785 mtpa from Mithapur plant (80% capacity utilization) in FY2011E, up from 0.68 mtpa reported in FY2010 due to (1) re-imposition of duty and (2) debottlenecking of capacity at Mithapur plant which has now been completed (to 1 mtpa from 850,000 tpa).

TCL—change in estimates, 2011-2012E (Rs mn)

	New estimates		Old estimates		% change	
	2011E	2012E	2011E	2012E	2011E	2012E
Profit model						
Net revenues	**104,552**	**109,119**	**100,402**	**106,539**	**4**	**2**
EBITDA	**20,763**	**21,810**	**19,975**	**21,307**	**4**	**2**
EBITDA margin (%)	19.9	20.0	19.9	20.0	(0.0)	(0.0)
Other income	430	1,000	430	1,000	0	0
Depreciation	4,600	4,800	4,600	4,800	0	0
Net finance cost	3,325	2,900	3,325	2,900	0	0
PBT	**13,268**	**15,110**	**12,480**	**14,607**	6	3
Tax	3,979	4,533	3,743	4,382	6	3
(Profit)/loss in minority interest	(1,400)	(1,500)	(1,400)	(1,500)	0	0
Reported net profit	**7,889**	**9,077**	**7,337**	**8,725**	**8**	**4**
Diluted EPS (Rs)	**32.4**	**37.3**	**30.2**	**35.9**	**8**	**4**

Source: Kotak Institutional Equities estimates, Company

TTCH international soda ash volumes fully sold in 2010E at marginally lower prices yoy

TTCH reported soda ash sales volumes of 4.3mtpa in FY2010—(1)1.4 mtpa in BMGL, (2) 2.1 mtpa in US and (3) 0.67 mtpa in India.

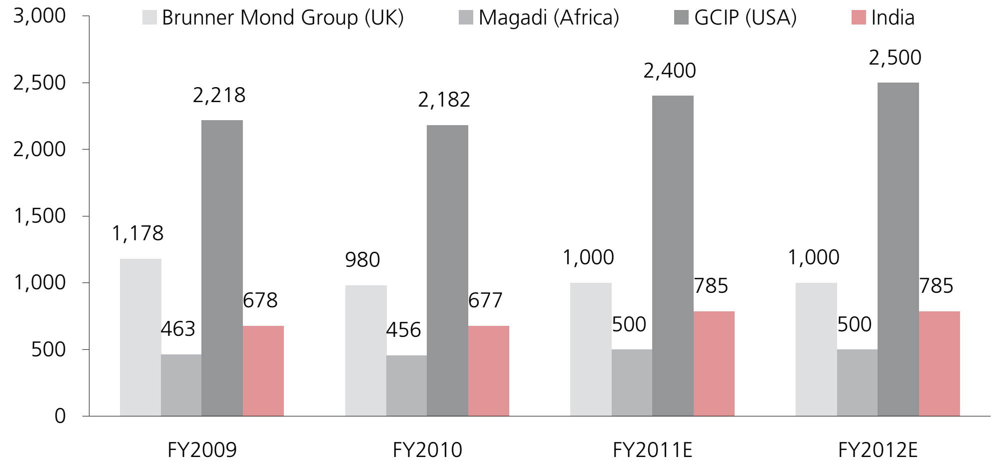
In FY2011E we expect TTCH soda ash sales volume of 4.7 mtpa due to

(1) Higher sales volume at GCIP, USA at 2.4 mtpa. GCIP sales volume got hit in 1HFY10 on account of exports to Latin America due to increasing Chinese exports. GCIP recovered the lost export volumes in 2HFY10 due to its compelling cost position and price cuts taken in order to maintain volumes.

(2) Sales volumes of 0.785 mtpa from Mithapur plant (80% capacity utilization) in FY2011-12E, up from 0.68 mtpa reported in FY2010 due to (1) re-imposition of duty, (2) debottlenecking of capacity at Mithapur plant which has now been completed (to 1 mtpa from 850,000 tpa).

(3) We estimate sales volume at BMGL to be maintained at 1.5 mtpa in FY2011E. Magadi operations are still running at less than full capacity (0.7 mtpa) due to lower export volumes to Asian markets hit by Chinese supplies. Accordingly, we factor in sales volumes of 0.5 mtpa in Magadi.

TCL—soda ash volumes, 2009-2012E ('000 tonnes per annum)



Source: Kotak Institutional Equities estimates, Company

Maintain ADD with TP of Rs360 (was Rs340)

TTCH is trading at 10X FY2011E and 9X FY2012E on our reported earnings estimate. Our target price of Rs360 implies PE of 10X FY2012E earnings.

SOTP based price target, FY2011-12E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	FY2011E	FY2012E	(X)	FY2011E	FY2012E
Chemicals	5,875	6,287	7.0	41,122	44,011
Fertilisers	2,194	2,893	8.0	17,553	23,142
Rallis	651	815	10.6	6,904	8,643
Consumer	(134)	(119)			
Total	**8,586**	**9,877**		**65,580**	**75,796**
Value per share				270	312
Value per share of investments				50	50
Share price target (Rs)					**362**

Source: Kotak Institutional Equities estimates, Company

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

	2007	2008	2009	2010	2011E	2012E
Profit model						
Net revenues	**57,538**	**59,757**	**121,533**	**95,438**	**104,552**	**109,119**
EBITDA	**9,438**	**9,277**	**18,740**	**18,374**	**20,763**	**21,810**
EBITDA margin (%)	16.4	15.5	15.4	19.3	19.9	20.0
Other income	1,726	6,909	954	(272)	430	1,000
Depreciation	2,739	3,138	4,226	4,468	4,600	4,800
Net finance cost	944	1,289	3,953	3,932	3,325	2,900
PBT	**7,481**	**11,759**	**11,515**	**9,703**	**13,268**	**15,110**
Tax	2,401	2,115	1,575	2,093	3,979	4,533
(Profit)/loss in minority interest	—	—	(1,117)	(1,177)	(1,400)	(1,500)
Restructuring costs				(374)		
Reported net profit	**5,080**	**9,644**	**8,823**	**6,059**	**7,889**	**9,077**
Balance sheet						
Total equity	25,718	37,185	47,698	47,164	53,891	61,905
Total debt	18,642	48,505	62,838	49,810	46,723	35,885
Minority interests	—	—	1,522	3,501	4,901	6,401
Net Deferred tax liabilities	2,511	2,837	216	(559)	(559)	(559)
Total liabiilities and equity	**46,871**	**88,526**	**112,273**	**99,916**	**104,955**	**103,632**
Net fixed assets incl CWIP	30,561	33,712	39,959	40,684	39,084	37,284
Goodwill on consolidation	7,632	46,492	56,213	53,247	53,247	53,247
Investments	7,753	4,174	4,229	2,070	2,070	2,070
Net current assets	(619)	(2,620)	1,975	(4,085)	2,554	3,031
Cash	1,545	6,767	9,899	8,000	8,000	8,000
Total assets	**46,871**	**88,526**	**112,273**	**99,916**	**104,955**	**103,632**
Ratios						
Diluted EPS (Rs)	20.9	39.6	36.3	24.9	32.4	37.3
ROE (%)	21.2	30.7	23.4	16.0	18.4	18.3
Debt/equity (%)	72.5	130.4	131.7	105.6	86.7	58.0

Source: Kotak Institutional Equities estimates, Company

kotak Institutional Equities

Petronet LNG (PLNG)

Energy

REDUCE

JULY 01, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 78

Target price (Rs): 82

BSE-30: 17,701

'Spot' of bother. We view the drying up of spot volumes for PLNG as creating risks to our FY2011E volumes and earnings assumptions. PLNG management has indicated its unwillingness to tap the spot market until December 2010. We expect muted stock performance over the next few quarters reflecting subdued off-take of imported LNG given (1) pipeline capacity constraints and (2) 'weak' demand. We maintain our REDUCE rating on the stock with a 12-month DCF-based target price of Rs82.

Company data and valuation summary

Petronet LNG

Stock data			
52-week range (Rs) (high,low)			87-51
Market Cap. (Rs bn)			58.4
Shareholding pattern (%)			
Promoters			50.0
FIIs			10.1
MFs			4.3
Price performance (%)	1M	3M	12M
Absolute	(5.5)	2.4	10.9
Rel. to BSE-30	(8.7)	2.4	(8.3)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	5.4	5.5	8.2
EPS growth (%)	(22.0)	2.6	47.8
P/E (X)	14.4	14.1	9.5
Sales (Rs bn)	106.5	111.7	157.2
Net profits (Rs bn)	4.0	4.2	6.1
EBITDA (Rs bn)	8.5	9.9	13.2
EV/EBITDA (X)	8.8	8.3	6.7
ROE (%)	15.9	14.3	18.6
Div. Yield (%)	2.2	2.6	3.5

QUICK NUMBERS

- No spot cargoes until December 2010
- Total FY2011E and FY2012E volumes at 7.8 mn tons and 9.5 mn tons

KG D-6 gas dries up demand for imported LNG; emergence of new demand key

We have long highlighted our concerns on the acceptability of high-priced imported LNG in India once supply of cheaper domestic gas ramps up. Imported LNG is facing this problem (hopefully temporary) as gas from RIL's KG D-6 gas has ramped up to ~60 mcm/d putting pressure on the off-take of more expensive imported LNG. As per media reports, PLNG does not intend to tap the spot markets until December 2010. We believe this reflects (1) paucity of demand in areas with gas pipeline network; immediate demand has been met by RIL's KG D-6 gas and (2) pipeline capacity constraints, which has precluded consumption of gas in other areas.

Full valuations, potential disappointment on off-take will likely lead to muted stock performance

We had downgraded the stock in June 2009 on concerns of lower-than-expected off-take of imported LNG with the commencement of gas production from RIL's KG D-6 gas. We note that the stock has underperformed BSE-30 Sensex by 14% since then. We expect the underperformance to continue given (1) risks to volume off-take and (2) lack of positive triggers. We maintain our REDUCE rating on the stock with a target price of Rs82. Finally, we continue to remain cautious on the long-term sustainability of the business model beyond CY2013E due to likely sharp increase in supply of domestic gas.

Earnings revisions

We have revised our EPS estimates for FY2011-13E to Rs5.5 (-10.7 %), Rs8.2 (+3.1%) and Rs8.4 (+1.7%) to reflect (1) lower volumes, (2) higher re-gasification tariffs and (3) FY2010 annual report. We assume total volumes (contracted plus spot) at 7.8 mn tons for FY2011E, 9.5 mn tons for FY2012E and 11 mn tons for FY2013E. We model PLNG's re-gasification tariff to increase by 5% and 7.6% in FY2011E and FY2012E, and remain flat thereafter.

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Update on key projects

- **Dahej expansion.** PLNG has expanded its Dahej terminal capacity to 10 mtpa from 5 mtpa at a cost of Rs15.7 bn in July 2009; the cost was moderately lower than the earlier estimate of Rs16 bn.

- **Additional jetty.** PLNG is in the process of selection of bids for the EPC contractor and is likely to award the same by 2QFY11E. The second jetty will likely be completed by 1QCY13E and will likely cost Rs6 bn. PLNG can take maximum 10.5 mtpa of imported cargo until the completion of the second jetty and can take 12.5 mtpa post the completion of the same.

- **Kochi project.** The contracts for Kochi project have already been awarded to (1) IHI for storage tanks, (2) AFCON for barren work and (3) CTCI for Taiwan for re-gasification terminals. The roof raising for the two storage tanks has been completed in May 2010. The project is expected to be completed by end-FY2012E at a cost of Rs37 bn. PLNG plans to commence operations at Kochi with a capacity of 2.5 mtpa (expandable to 5 mtpa).

Key assumptions

We discuss our key assumptions underlying our earnings model below (see Exhibit 1).

We model PLNG's volumes ramping up to 11 mtpa by FY2013E
Key volume/price assumptions for Petronet LNG, March fiscal year-ends, 2006-13E

	2006	2007	2008	2009	2010E	2011E	2012E	2013E
Volume assumptions								
Contract LNG volume (mn tons)	4.8	5.1	4.8	4.8	7.1	7.5	7.5	8.0
Spot LNG volume (mn tons)	—	0.6	1.5	1.5	0.8	0.3	2.0	3.0
Price assumptions								
LNG purchase price (FOB) (US$/mn BTU)	2.5	3.3	3.7	4.2	4.7	4.9	5.7	5.9
Landed cost (incl. import tariff) (US$/mn BTU)	2.9	3.8	4.2	4.7	5.3	5.5	6.4	6.6
Base re-gasification charges (US$/mn BTU)	0.57	0.58	0.69	0.64	0.65	0.71	0.76	0.76
Base re-gasification charges (Rs/mn BTU)	25.2	26.5	27.8	29.2	30.6	32.2	34.6	34.6
Escalation in re-gasification charges (%)		**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**7.6**	**—**
Sales price (US$/mn BTU)	3.5	4.4	4.9	5.4	5.9	6.3	7.1	7.4
Other assumptions								
Rupee/US dollar exchange rate	44.3	45.3	40.1	45.8	47.4	45.0	45.3	45.3

Source: Company, Kotak Institutional Equities estimates

- **Volumes.** We model contract LNG volume at 7.5 mn tons, 7.5 mn tons and 8 mn tons in FY2011E, FY2012E and FY2013E. In addition, we model spot LNG imports of 0.3 mn tons in FY2011E, 2 mn tons in FY2012E and 3 mn tons in FY2013E.

- **Re-gasification tariffs.** We model PLNG's re-gasification tariff to increase by 5% and 7.6% in FY2011E and FY2012E, and remain flat thereafter until FY2020E, the terminal year of our DCF model (see Exhibit 2).

We value PLNG at Rs82 using DCF methodology
Calculation of equity value of PLL using discounted cash flow analysis (Rs mn)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	9,887	13,226	14,992	17,240	18,299	20,042	21,778	21,685	21,587	21,475	21,475	21,475
Adjusted tax expense	(1,694)	(2,782)	(2,579)	(2,646)	(2,843)	(3,178)	(3,934)	(5,772)	(6,074)	(6,249)		
Change in working capital	(2,172)	(1,534)	(1,164)	(2,249)	(435)	(802)	(65)	995	(341)	(410)		
Operating cash flow	**6,020**	**8,910**	**11,249**	**12,345**	**15,021**	**16,062**	**17,779**	**16,908**	**15,171**	**14,816**		
Capital expenditure	(10,000)	(10,000)	(12,816)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(2,500)		
Free cash flow	**(3,980)**	**(1,090)**	**(1,567)**	**11,345**	**14,021**	**15,062**	**16,779**	**15,908**	**14,171**	**12,316**	**12,316**	**12,316**
Discounted cash flow-now	(3,644)	(887)	(1,133)	7,294	8,013	7,648	7,574	6,383	5,054	3,903		
Discounted cash flow-1 year forward		(998)	(1,275)	8,205	9,014	8,607	8,520	7,181	5,686	4,392	3,903	
Discounted cash flow-2 year forward			(1,435)	9,231	10,141	9,683	9,588	8,078	6,397	4,941	4,392	3,903

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.5%	12.5%	12.5%
Total PV of free cash flow	40,204	53,236	64,921
Terminal value assumption			
Growth in perpetuity	0.0%	0.0%	0.0%
FCF in 2021E	12,316	12,316	12,316
Exit FCF multiple (X)	8.0	8.0	8.0
Exit EV/EBITDA multiple (X)	4.6	4.6	4.6
Terminal value	98,526	98,526	98,526
PV of terminal value	31,225	31,225	31,225
Total company value	**71,429**	**84,461**	**96,145**
Net debt	16,207	23,761	29,694
Equity value	55,222	60,699	66,451
Shares outstanding (mn)	750	750	750
Estimated share price using DCF	**73.6**	**80.9**	**88.6**

Sensitivity of 12-month fair value to WACC and perpetual growth

		Perpetual growth (%)				
		-1.0%	**-0.5%**	**0.0%**	**0.5%**	**1.0%**
WACC (%)	**11.5%**	87.6	89.9	92.5	95.3	98.3
	12.0%	82.1	84.2	86.5	88.9	91.6
	12.5%	77.0	78.9	**80.9**	83.1	85.5
	13.0%	72.3	74.0	75.8	77.8	79.9
	13.5%	67.9	69.5	71.1	72.8	74.7

Fiscal Year end (March 31, XXXX)	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20	March-21	March-22
Today	1-Jul-10	1-Jul-10	1-Jul-10	1-Jul-10	1-Jul-10	1-Jul-10	1-Jul-10	1-Jul-10	1-Jul-10	1-Jul-10	1-Jul-10	1-Jul-10
Days left	273	639	1,004	1,369	1,734	2,100	2,465	2,830	3,195	3,561	3,926	4,291
Years left	0.75	1.75	2.75	3.75	4.75	5.75	6.75	7.75	8.75	9.76	10.76	11.76
Discount factor at WACC	**0.92**	**0.81**	**0.72**	**0.64**	**0.57**	**0.51**	**0.45**	**0.40**	**0.36**	**0.32**	**0.28**	**0.25**

Source: Kotak Institutional Equities estimates

- **Exchange rate.** We maintain exchange rate assumption for FY2011E, FY2012E and FY2013E at Rs45/US$, Rs45.3/US$ and Rs45.3/US$.

Petronet LNG: Profit model, balance sheet, cash model March fiscal year-ends, 2006-2013E (Rs mn)

	2006	2007	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)								
Net sales	38,197	55,090	65,553	84,287	106,491	111,725	157,174	185,979
EBITDA	**4,707**	**6,481**	**8,661**	**9,013**	**8,465**	**9,887**	**13,226**	**14,992**
Other income	194	366	536	765	978	469	434	413
Interest	(1,116)	(1,070)	(1,024)	(1,012)	(1,839)	(2,286)	(2,541)	(3,554)
Depreciation	(1,010)	(1,020)	(1,022)	(1,025)	(1,609)	(1,855)	(1,933)	(2,465)
Extraordinary items	175	—	—	—	—	—	—	—
Pretax profits	2,950	4,756	7,152	7,740	5,995	6,215	9,186	9,387
Tax	(256)	(6)	(2,185)	(2,526)	(1,410)	(1,239)	(2,179)	(1,871)
Deferred taxation	(745)	(1,617)	(220)	(30)	(540)	(826)	(872)	(1,247)
Net profits	**1,949**	**3,133**	**4,747**	**5,184**	**4,045**	**4,151**	**6,135**	**6,269**
Earnings per share (Rs)	**2.4**	**4.2**	**6.3**	**6.9**	**5.4**	**5.5**	**8.2**	**8.4**
Balance sheet (Rs mn)								
Total equity	10,719	12,755	16,185	19,834	22,349	24,750	28,480	32,125
Deferred taxation liability	605	2,472	2,692	2,722	3,262	4,088	4,960	6,207
Total borrowings	12,599	13,832	15,776	22,817	24,998	31,998	37,498	44,498
Currrent liabilities	1,725	5,877	8,588	8,922	9,006	9,010	11,540	13,149
Total liabilities and equity	**25,648**	**34,936**	**43,242**	**54,295**	**59,614**	**69,846**	**82,478**	**95,980**
Cash	2,506	3,405	3,586	6,578	3,405	2,850	2,417	2,248
Current assets	2,946	7,478	7,890	11,519	8,811	10,988	15,052	17,825
Total fixed assets	18,627	21,273	26,293	33,156	42,012	50,622	59,623	70,520
Investments	1,569	2,780	5,473	3,043	5,386	5,386	5,386	5,386
Total assets	**25,648**	**34,936**	**43,242**	**54,295**	**59,614**	**69,846**	**82,478**	**95,980**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	3,524	4,927	6,982	5,378	5,513	5,898	7,572	9,022
Working capital	(2,057)	(710)	1,589	(3,384)	3,026	(2,172)	(1,534)	(1,164)
Capital expenditure	(335)	(36)	(263)	(27)	(15,757)	(10,000)	(10,000)	(12,816)
Investments	(1,390)	(1,211)	(2,780)	2,462	(2,339)	—	—	—
Free cash flow	**(258)**	**2,970**	**5,528**	**4,429**	**(9,556)**	**(6,274)**	**(3,962)**	**(4,959)**
Other income	184	326	(414)	695	452	469	434	413
Ratios (%)								
Debt/equity	111	91	84	101	98	111	112	116
Net debt/equity	89	68	65	72	84	101	105	110
RoAE	19.5	23.6	27.8	25.0	16.8	15.2	19.7	17.5
RoACE	**11.9**	**14.5**	**17.0**	**14.7**	**11.0**	**10.2**	**11.9**	**11.2**
Adjusted CROCI	**20.0**	**29.6**	**33.2**	**28.7**	**19.2**	**20.7**	**24.4**	**13.7**
Key assumptions								
Contract LNG volume (mn tons)	4.8	5.1	4.8	4.8	7.1	7.5	7.5	8.0
LNG purchase price (FOB) (US$/mn BTU)	2.5	3.3	3.7	4.2	4.7	4.9	5.7	5.9
Base re-gasification charges (US$/mn BTU)	0.57	0.58	0.69	0.64	0.65	0.71	0.76	0.76
Sales price (US$/mn BTU)	3.5	4.4	4.9	5.4	5.9	6.3	7.1	7.4
Rupee/US dollar exchange rate	44.3	45.3	40.1	45.8	47.4	45.0	45.3	45.3

Source: Company, Kotak Institutional Equities estimates

Media - C&S distribution

India

NEUTRAL

JUNE 30, 2010

UPDATE

BSE-30: 17,701

Positive for C&S distribution in India, not necessarily for Dish TV. TRAI has revisited its recommendations for foreign investment limits for the broadcasting sector in India—recommended (1) increase in FII/FDI limit for DTH operators to 74% from 49% previously and (2) for large national/state-MSOs to 74% from 49% previously. This is positive for the nascent organized C&S distribution segment in India given large capital requirements; however, it may also increase competition for incumbents such as Dish TV. We sound a note of caution on the euphoria; these recommendations may undergo changes before being accepted by the government of India.

TRAI's recommendations on FII/FDI limits positive for C&S distribution segment

TRAI has revisited the issue of foreign investment limits for the broadcasting sector (C&S broadcasting, FM radio broadcasting and C&S distribution). Exhibit 1 provides a brief summary of its revised and previous recommendations. TRAI has recommended the FII/FDI limit for DTH operators to be increased to 74% from 49% (with an FDI cap of 20%) previously. Similarly, the FII/FDI limit on large (national or state) MSOs is proposed to be increased to 74% from 49% previously, in line with the Telecom sector in view of the convergence of technologies (voice, data and video); TRAI has tried to give a fillip to digitization and addressability, the two pressing problems in the industry, since the 74% limit applies only to those MSOs that are upgrading their networks to digital, addressable platforms.

The recommendations are positive for the growth of organized C&S segment in India, which is in a nascent stage of its development with significant capital requirements for consolidation as well as digitization. The availability of funds from multiple sources will potentially help in sourcing funds at more competitive rates. However, the increase in FII/FDI limits for MSOs (Multi-System Operators) comes with riders that need to be clarified. TRAI has recommended 74% FII/FDI limit for MSOs that are taking up digitization and addressability at the national or state level but has not defined any parameters for the same; we note the legacy analog cable networks in India are being digitized by certain MSOs (DEN Networks, Hathway) but progress is slow. Additionally, TRAI has recommended a cap of 26% FII/FDI for LCOs (Local Cable Operators); certain MSOs (Hathway, InCable) have acquired LCOs within their network and thus, are effectively a combination of an MSO and LCO. Nonetheless, we also note that these are only recommendations that may undergo changes before being accepted by the government of India.

What is positive for the segment is also positive for Dish TV—not necessarily so!

Though the recommendations are positive for the growth of a nascent C&S distribution segment in India, the same (if accepted) also raises the prospects of significant increase in competition. It may be difficult currently to visualize potential new competitors that may enter the market though the possibility of large C&S distribution companies (and with limited growth prospects in their markets) entering India in collaboration with a minority partner is very real.

Nonetheless, the existing operators also require capital and had exhausted the option of capital infusion by existing strategic investors (see Exhibit 2). The competitive intensity in the DTH market has been relatively stable for some time but the status quo can change quickly; Dish TV had to reduce the price of its HD service by half (Rs2,990 versus Rs5,990 previously; see our note "*For real, High-Definition (HD) arrives in India*" dated June 23, 2010) post the entry of Tata Sky. Dish TV and Airtel Digital TV were likely the only well-capitalized players with potential to grow faster than the market by capturing incremental market share. However, capital infusion by strategic partners may be the game changer for Sun Direct, Tata Sky and Reliance Big TV.

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Revised TRAI recommendations on Foreign Investment limits for broadcasting sector (%)

		TRAI recommendations	
Segment	**Existing**	**Revised**	**Previous**
Teleport	49	74 (a)	74 (b)
DTH	**49 (c)**	**74 (a)**	**74 (b)**
HITS	74 (a)	74 (a)	74 (b)
National or state MSOs	**49**	**74 (a) (d)**	**74 (b)**
Other MSOs	**49**	**49 (a)**	**74 (b)**
LCOs	**49**	**26 (a)**	**74 (b)**
FM Radio	20	26 (a)	49
Downlinking of TV channels	100	100	100
Uplinking of News channels	26	26	49
Uplinking of non-News channels	100	100	100
Mobile TV	NA	74 (a)	74 (b)

Notes:
(b) 26% foreign investment (FI) through automatic route.
(b) 49% foreign investment (FI) through automatic route.
(c) Foreign direct investment (FDI) limit of 20%.
(d) MSOs that are upgrading their networks to digital with addressability.

Source: TRAI, Kotak Institutional Equities

FDI ownership of various DTH operators currently (%)

	Dish TV	Tata Sky	Sun Direct	Airtel Digital TV	Reliance Big TV
FDI					
Existing	—	**20.0**	**20.0**	15.7	—
Limit	20.0	**20.0**	**20.0**	20.0	20.0
Partner	NA	News Corp.	Astro Malaysia	Singtel	NA
FDI+FII					
Existing	20.4	10.0	—	18.2	9.0
Limit	49.0	49.0	49.0	49.0	49.0
Partner	Apollo	Temasek	NA	NA	NA

Source: BSE, Kotak Institutional Equities estimates

In the game between and among DTH and cable operators, broadcasters may take the cake. The Indian broadcasters such as ZEEL, IBN18 and Sun TV may be the biggest beneficiaries of these recommendations if the same are accepted and if it eventually results in renewed land-grab for subscribers among the various C&S distribution players. We highlight that the growth of DTH has been one of the key drivers of the growth of subscription revenues of Indian broadcasters; cable subscription revenues have been flat for some time due to lack of digitization/addressability (resulting in under-declaration of subscribers by LCOs) in the Indian cable networks.

Thus, (1) strong volume-led growth on DTH and (2) increasing addressability on cable will give a fillip to the domestic subscription revenues of broadcasters. We assume rising competitive intensity to be a natural corollary to the easy availability of capital, as has been in Telecom, given the very nature of the business (economies and bargaining power with rising scale and thus, fight to achieve scale). However, we also hope that some lessons from the bruising pricing wars previously have been learnt.

Financial summary of Dish TV, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E	2013E
Profit model							
Net revenues	1,909	4,127	7,377	10,848	13,888	17,778	20,316
EBITDA	**(1,852)**	**(2,152)**	**(1,350)**	**862**	**2,499**	**4,682**	**6,275**
Other income	34	30	13	711	731	689	736
Interest (expense)/income	(118)	(513)	(1,019)	(1,144)	(927)	(1,042)	(1,102)
Depreciation	(565)	(1,480)	(2,144)	(3,043)	(3,860)	(3,872)	(4,182)
Amortization	(10)	(10)	(10)	—	—	—	—
Pretax profits	**(2,511)**	**(4,126)**	**(4,511)**	**(2,614)**	**(1,556)**	**457**	**1,727**
Extraordinary items	(5)	—	(244)	—	—	—	—
Tax	(3)	(6)	(7)	—	—	(52)	(196)
Deferred taxation	—	—	—	—	247	136	202
Net income	**(2,519)**	**(4,132)**	**(4,763)**	**(2,614)**	**(1,309)**	**542**	**1,734**
Earnings per share (Rs)	**(5.9)**	**(9.6)**	**(6.9)**	**(2.5)**	**(1.2)**	**0.5**	**1.6**
Balance sheet							
Total equity	(395)	(4,527)	(6,241)	4,151	2,842	3,384	5,117
Deferred taxation liability	—	—	—	—	(247)	(383)	(586)
Total borrowings	1,751	5,266	11,311	7,015	8,015	10,015	10,015
Current liabilities	8,596	11,376	15,899	14,196	14,195	13,265	12,293
Total liabilities and equity	**9,952**	**12,116**	**20,969**	**25,362**	**24,806**	**26,280**	**26,840**
Cash	113	199	540	2,484	663	1,277	2,027
Other current assets	2,271	3,276	8,297	8,701	8,961	9,293	9,512
Total fixed assets	6,107	7,190	11,187	13,233	14,238	14,765	14,357
Intangible assets	516	506	—	—	—	—	—
Investments	945	945	945	945	945	945	945
Total assets	**9,952**	**12,116**	**20,969**	**25,362**	**24,806**	**26,280**	**26,840**
Free cash flow							
Operating cash flow, excl. working capital	(1,814)	(2,552)	(2,675)	(282)	1,573	3,589	4,977
Working capital changes	3,507	2,129	(883)	(2,106)	(261)	(1,263)	(1,190)
Capital expenditure	(2,921)	(2,579)	(5,102)	(5,089)	(4,864)	(4,400)	(3,774)
Investments	(451)	(293)	14	—	—	—	—
Other income	5	9	11	711	731	689	736
Free cash flow	**(1,674)**	**(3,287)**	**(8,635)**	**(6,766)**	**(2,821)**	**(1,385)**	**750**
Ratios (%)							
Debt/equity	(443.6)	(116.3)	(181.3)	169.0	282.0	296.0	195.7
Net debt/equity	(414.9)	(111.9)	(172.6)	109.2	258.7	258.2	156.1
ROAE (%)	(331.3)	167.9	88.5	250.2	(38.8)	19.4	46.0
ROACE (%)	**(283.2)**	**(345.3)**	**(120.4)**	**(18.1)**	**(4.9)**	**15.0**	**20.6**

Source: Company data, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	30-Jun-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	64	ADD	84,673	1,823	1,330	2.8	3.9	5.0	84.5	37.5	29.7	22.6	16.4	12.6	13.4	10.3	8.7	2.2	2.0	1.8	2.4	1.6	1.6	11.1	12.7	15.0	60	(5.7)	10.0
Bajaj Auto	2,488	ADD	359,915	7,748	145	117.5	159.9	173.2	159.8	36.1	8.3	21.2	15.6	14.4	13.4	10.7	9.7	11.4	7.2	5.1	0.8	0.8	0.8	66.6	54.8	39.8	2,330	(6.3)	11.3
Hero Honda	2,049	SELL	409,095	8,807	200	111.8	121.5	135.7	74.1	8.7	11.7	18.3	16.9	15.1	11.9	11.2	9.6	11.4	7.8	5.8	1.5	1.6	1.8	59.1	56.6	43.8	1,800	(12.1)	21.8
Mahindra & Mahindra	627	BUY	362,859	7,811	578	34.9	40.7	48.7	132.5	16.5	19.7	18.0	15.4	12.9	11.9	10.1	8.4	4.5	3.6	2.9	1.5	1.5	1.6	30.0	25.8	24.6	680	8.4	27.6
Maruti Suzuki	1,424	ADD	411,464	8,858	289	86.4	94.1	104.2	104.9	8.9	10.8	16.5	15.1	13.7	9.0	8.3	7.2	3.5	2.8	2.4	0.4	0.5	0.5	23.3	20.6	18.9	1,400	(1.7)	19.7
Tata Motors	779	ADD	464,126	9,991	596	23.9	27.2	35.5	138.9	13.5	30.6	32.5	28.6	21.9	12.9	12.9	11.3	2.3	2.0	1.8	0.7	0.7	0.7	8.1	7.5	8.6	900	15.6	96.5
Automobiles		**Cautious**	**2,092,132**	**45,038**					**118.1**	**17.3**	**15.7**	**20.5**	**17.5**	**15.1**	**11.8**	**10.7**	**9.2**	**4.1**	**3.4**	**2.8**	**1.0**	**1.0**	**1.1**	**19.9**	**19.2**	**18.4**			
Banks/Financial Institutions																													
Andhra Bank	130	BUY	63,002	1,356	485	21.0	21.1	25.4	56.1	0.6	20.0	6.2	6.1	5.1	—	—	—	1.3	1.2	1.0	3.2	3.3	3.9	24.4	20.2	20.7	160	23.2	5.8
Axis Bank	1,242	ADD	503,388	10,837	405	62.1	77.4	98.5	22.7	24.7	27.3	20.0	16.1	12.6	—	—	—	3.1	2.7	2.3	1.0	1.2	1.5	18.9	18.1	19.9	1,360	9.5	52.0
Bank of Baroda	702	BUY	256,546	5,523	366	83.7	89.8	111.0	37.3	7.3	23.6	8.4	7.8	6.3	—	—	—	1.9	1.6	1.3	2.1	2.3	2.8	24.4	21.8	22.6	825	17.5	11.0
Bank of India	350	REDUCE	183,807	3,957	526	33.1	42.7	56.7	(42.1)	28.9	32.8	10.6	8.2	6.2	—	—	—	1.4	1.3	1.1	2.0	2.6	3.4	14.2	16.4	19.1	360	3.0	5.8
Canara Bank	449	ADD	183,988	3,961	410	73.7	77.0	93.6	45.8	4.5	21.4	6.1	5.8	4.8	—	—	—	1.5	1.2	1.0	1.8	2.2	2.7	23.0	19.6	20.1	500	11.4	6.8
Corporation Bank	525	BUY	75,341	1,622	143	81.6	86.7	100.3	31.1	6.3	15.7	6.4	6.1	5.2	—	—	—	1.3	1.1	1.0	3.1	3.3	3.9	21.9	19.9	19.8	650	23.8	1.1
Federal Bank	317	BUY	54,260	1,168	171	27.2	38.7	48.0	(7.2)	42.3	24.2	11.7	8.2	6.6	—	—	—	1.2	1.0	0.9	1.6	2.2	2.8	10.3	13.4	14.8	360	13.5	5.4
HDFC	2,944	ADD	845,309	18,197	287	98.4	118.2	143.7	22.7	20.1	21.5	29.9	24.9	20.5	—	—	—	5.6	4.9	4.3	1.2	1.4	1.7	20.0	21.0	22.4	3,200	8.7	39.8
HDFC Bank	1,919	BUY	878,409	18,910	458	64.4	84.1	110.4	22.1	30.6	31.2	29.8	22.8	17.4	—	—	—	4.1	3.6	3.1	0.6	0.8	1.1	16.1	16.7	19.1	2,200	14.6	30.3
ICICI Bank	862	REDUCE	960,701	20,681	1,115	36.1	46.5	58.0	6.9	28.9	24.7	23.9	18.5	14.8	—	—	—	1.9	1.8	1.6	1.4	1.8	2.2	8.1	9.8	11.5	980	13.7	94.0
IDFC	179	ADD	233,139	5,019	1,301	8.2	9.2	11.2	41.1	12.9	21.9	22.0	19.5	16.0	—	—	—	3.3	2.9	2.6	0.9	0.9	1.1	16.1	16.0	17.1	195	8.8	20.9
India Infoline	97	BUY	30,198	650	312	8.1	8.9	10.0	59.2	9.8	12.5	11.9	10.9	9.6	—	—	—	1.9	1.6	1.3	3.3	2.0	2.4	16.4	15.9	16.1	140	44.6	3.8
Indian Bank	226	BUY	97,107	2,090	430	35.1	35.5	43.8	25.5	1.1	23.6	6.4	6.4	5.2	—	—	—	1.5	1.2	1.0	2.7	2.7	3.3	24.0	20.3	21.2	280	23.9	4.2
Indian Overseas Bank	104	BUY	56,714	1,221	545	13.0	15.4	26.4	(46.7)	18.9	71.3	8.0	6.7	3.9	—	—	—	0.9	0.8	0.7	3.9	4.3	4.8	9.6	10.6	16.3	120	15.3	3.9
J&K Bank	833	BUY	40,370	869	48	105.7	112.3	140.6	25.1	6.3	25.2	7.9	7.4	5.9	—	—	—	1.4	1.3	1.1	2.6	2.8	3.5	17.3	16.9	18.5	850	2.1	0.5
LIC Housing Finance	998	ADD	94,772	2,040	95	69.7	93.2	104.2	11.4	33.8	11.7	14.3	10.7	9.6	—	—	—	2.9	2.5	2.1	1.5	2.0	2.2	23.6	23.8	22.4	1,050	5.2	20.7
Mahindra & Mahindra Financial	449	BUY	43,118	928	96	35.7	42.6	49.8	59.3	19.3	16.8	12.6	10.5	9.0	—	—	—	2.6	2.2	1.8	1.7	2.0	2.4	21.4	21.7	21.6	500	11.3	1.0
Oriental Bank of Commerce	326	ADD	81,739	1,760	251	45.3	52.8	58.6	25.3	16.5	11.0	7.2	6.2	5.6	—	—	—	1.2	1.0	0.9	2.8	3.3	3.6	14.1	15.4	15.3	400	22.6	4.4
PFC	300	REDUCE	344,503	7,416	1,148	20.5	22.5	25.9	53.5	9.9	15.1	14.7	13.3	11.6	—	—	—	2.7	2.4	2.1	1.7	1.9	2.2	18.8	18.0	18.2	240	(20.0)	2.9
Punjab National Bank	1,049	BUY	330,737	7,120	315	123.8	128.0	156.5	26.3	3.4	22.2	8.5	8.2	6.7	—	—	—	2.0	1.7	1.4	2.1	2.4	3.0	26.4	22.7	23.3	1,150	9.6	7.5
Reliance Capital	763	ADD	187,759	4,042	246	13.8	16.1	14.1	(64.9)	17.0	(12.4)	55.3	47.2	53.9	—	—	—	2.7	2.6	2.6	0.9	0.8	0.7	5.0	5.7	4.8	875	14.7	36.7
Rural Electrification Corp.	305	ADD	300,710	6,473	987	20.3	24.6	30.7	23.2	21.2	24.9	15.0	12.4	9.9	—	—	—	2.7	2.4	2.1	2.1	2.4	3.0	22.0	20.5	22.2	300	(1.5)	15.1
Shriram Transport	576	ADD	128,618	2,769	223	39.2	49.1	62.4	30.1	25.4	27.2	14.7	11.7	9.2	—	—	—	3.5	3.0	2.5	2.0	2.6	3.2	28.4	26.1	27.8	600	4.1	4.4
SREI	81	NR	9,454	204	116	8.3	7.9	9.9	17.8	(4.8)	25.8	9.8	10.3	8.2	—	—	—	0.8	0.7	0.7	1.5	1.5	1.5	11.1	10.5	12.3	—	—	4.1
State Bank of India	2,302	BUY	1,461,494	31,462	635	144.4	178.1	223.0	0.5	23.4	25.2	15.9	12.9	10.3	—	—	—	2.2	2.0	1.7	1.7	1.8	1.9	14.8	16.1	17.8	2,700	17.3	98.6
Union Bank	311	BUY	157,117	3,382	505	41.1	45.8	57.3	20.2	11.5	25.0	7.6	6.8	5.4	—	—	—	1.8	1.5	1.2	1.8	2.2	2.7	26.2	23.7	24.3	380	22.2	4.6
Banks/Financial Institutions		**Attractive**	**7,693,770**	**165,627**					**14.7**	**17.5**	**24.2**	**15.3**	**13.0**	**10.5**	**—**	**—**	**—**	**2.4**	**2.1**	**1.8**	**1.5**	**1.8**	**2.1**	**15.5**	**16.1**	**17.4**			
Cement																													
ACC	878	SELL	164,977	3,552	188	83.2	61.8	63.4	47.9	(25.7)	2.6	10.5	14.2	13.8	5.7	6.7	5.8	2.6	2.3	2.0	2.7	2.7	2.7	29.3	19.4	17.7	830	(5.5)	8.6
Ambuja Cements	115	SELL	174,921	3,766	1,522	8.0	7.9	8.1	11.4	(1.8)	2.6	14.4	14.6	14.2	8.0	8.3	7.5	2.5	2.2	2.0	1.6	1.9	1.9	19.3	16.7	15.3	98	(14.7)	5.9
Grasim Industries	1,828	ADD	167,577	3,607	92	301.0	240.1	282.0	26.1	(20.2)	17.5	6.1	7.6	6.5	3.9	3.9	3.0	1.3	1.2	1.0	1.8	1.9	1.9	22.9	16.4	16.7	2,150	17.6	9.1
India Cements	108	SELL	33,112	713	307	10.0	10.4	11.3	(43.5)	3.1	9.1	10.7	10.4	9.5	5.5	5.4	5.2	0.8	0.7	0.7	2.0	3.0	3.0	8.2	7.7	8.0	110	2.0	3.2
Shree Cement	2,034	BUY	70,873	1,526	35	208.0	221.1	242.5	19.0	6.3	9.7	9.8	9.2	8.4	4.8	4.6	3.7	3.9	2.8	2.1	0.5	0.5	0.5	48.0	35.0	28.1	2,550	25.3	0.8
UltraTech Cement	879	SELL	109,464	2,356	124	88.2	67.1	77.2	12.0	(23.9)	15.0	10.0	13.1	11.4	5.2	5.8	4.8	2.0	1.8	1.5	0.9	0.9	0.9	26.6	16.8	16.7	940	6.9	2.6
Cement		**Neutral**	**720,925**	**15,520**					**19.3**	**(15.5)**	**10.4**	**9.4**	**11.1**	**10.1**	**5.1**	**5.4**	**4.5**	**1.9**	**1.7**	**1.5**	**1.7**	**1.8**	**1.8**	**20.5**	**15.1**	**14.6**			
Consumer products																													
Asian Paints	2,302	BUY	220,788	4,753	96	71.6	82.1	98.1	85.4	14.7	19.5	32.2	28.0	23.5	20.1	17.3	14.1	13.6	10.9	8.8	1.2	1.5	1.8	51.6	44.5	42.5	2,300	(0.1)	2.5
Colgate-Palmolive (India)	837	REDUCE	113,846	2,451	136	29.7	33.0	37.6	37.6	11.1	13.9	28.2	25.4	22.3	20.9	18.4	15.7	35.6	27.9	22.3	2.4	2.7	3.1	150.2	122.2	109.9	760	(9.2)	2.4
Dabur India	211	BUY	182,441	3,927	866	5.8	6.8	8.2	28.1	17.6	20.8	36.3	30.9	25.6	27.0	21.7	18.0	17.3	14.2	11.7	1.5	1.7	2.1	54.3	51.1	50.7	200	(5.0)	2.4
GlaxoSmithkline Consumer (a)	1,809	ADD	76,083	1,638	42	55.4	70.0	82.9	23.6	26.5	18.4	32.7	25.8	21.8	18.1	15.3	12.5	8.5	7.0	5.9	1.0	1.3	1.5	27.9	29.6	29.2	1,800	(0.5)	0.9
Godrej Consumer Products	345	NR	106,218	2,287	308	8.7	9.8	11.6	29.7	13.2	18.2	39.7	35.1	29.7	28.1	25.1	21.1	9.0	7.9	7.9	1.2	1.2	1.2	30.7	24.1	27.8	—	—	3.5
Hindustan Unilever	268	REDUCE	583,115	12,553	2,179	9.7	10.4	11.8	1.7	7.3	14.0	27.6	25.8	22.6	18.7	17.6	14.8	22.9	19.7	17.0	2.8	3.2	3.6	91.6	82.2	80.8	230	(14.0)	13.7
ITC	305	BUY	1,151,122	24,781	3,769	10.8	12.4	14.5	24.4	15.4	16.9	28.3	24.6	21.0	17.5	15.4	13.0	8.1	7.0	5.9	3.3	1.8	2.0	29.9	32.2	32.1	315	3.1	22.7
Jubilant Foodworks	305	REDUCE	19,763	425	65	5.5	7.7	9.7	340.6	39.3	25.3	55.0	39.5	31.5	29.7	20.8	14.7	16.8	11.8	8.6	—	—	—	46.6	35.1	31.5	290	(4.9)	12.9
Jyothy Laboratories	250	ADD	18,135	390	73	11.0	12.9	15.3	99.6	17.0	18.3	22.7	19.4	16.4	17.4	13.2	10.8	4.5	3.8	3.3	1.9	1.4	1.9	18.6	20.2	20.5	230	(8.0)	1.3
Nestle India (a)	2,880	REDUCE	277,634	5,977	96	74.4	87.0	105.5	27.0	17.0	21.3	38.7	33.1	27.3	25.6	22.7	19.5	47.8	37.9	30.0	1.7	2.1	2.5	136.0	127.8	122.7	3,000	4.2	2.3
Tata Tea	122	BUY	75,166	1,618	618	6.6	7.4	8.4	23.4	11.1	13.8	18.4	16.5	14.5	11.7	9.5	8.6	1.5	1.4	1.3	1.8	2.0	2.2	10.9	11.4	12.0	1,250	928.4	3.8
Consumer products		**Attractive**	**2,824,312**	**60,800**					**23.4**	**13.8**	**16.9**	**29.7**	**26.1**	**22.4**	**19.1**	**16.9**	**14.2**	**10.1**	**8.7**	**7.5**	**2.5**	**2.1**	**2.3**	**34.0**	**33.4**	**33.8**			
Constructions																													
IVRCL	188	BUY	50,158	1,080	267	7.8	10.3	12.4	(7.7)	32.4	19.7	24.0	18.2	15.2	12.6	10.3	8.7	2.5	2.2	1.9	0.2	0.2	0.2	10.9	12.8	13.5	215	14.5	7.6
Nagarjuna Construction Co.	188	BUY	48,353	1,041	257	7.1	11.5	14.3	6.1	61.1	24.1	26.4	16.4	13.2	12.7	9.6	7.9	2.2	2.0	1.7	0.8	1.1	1.1	9.3	12.5	13.9	210	11.4	4.0
Punj Lloyd	136	REDUCE	46,139	993	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(10.5)	13.9	11.4	37.4	7.3	6.7	1.5	1.4	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	2.8	12.9
Sadbhav Engineering	1,278	BUY	19,174	413	15	43.1	62.0	84.0	(15.8)	43.9	35.5	29.7	20.6	15.2	16.6	10.7	8.8	4.6	3.1	2.6	0.3	0.5	0.5	13.3	14.1	17.4	1,450	13.4	0.3
Construction		**Attractive**	**163,824**	**3,527**					**(96.9)**	**14,481**	**24.4**	**2,419.6**	**16.6**	**13.3**	**17.1**	**8.9**	**7.7**	**2.1**	**1.9**	**1.7**	**0.3**	**0.5**	**0.7**	**0.1**	**11.3**	**12.5**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	30-Jun-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)
Energy																													
Aban Offshore	842	ADD	36,646	789	43	94.5	172.3	103.6	(2.5)	82.3	(39.8)	8.9	4.9	8.1	8.4	6.2	6.7	1.6	0.9	0.9	0.4	0.4	0.5	21.7	20.8	11.1	900	6.8	48.8
Bharat Petroleum	663	ADD	239,611	5,158	362	63.5	54.3	67.6	208	(14)	24.5	10	12	9.8	5.8	6.0	5.0	1.7	1.5	1.4	2.1	2.7	3.4	16.0	12.3	13.9	660	(0.4)	17.6
Cairn india	304	SELL	576,204	12,404	1,897	5.3	28.5	40.0	24.3	433.4	40.5	56.9	10.7	7.6	44.5	7.3	5.2	1.7	1.5	1.3	—	—	4.9	3.0	14.6	18.1	250	(17.7)	17.5
Castrol India (a)	442	REDUCE	109,261	2,352	247	15.4	19.6	20.6	45	27	5.3	29	23	21.4	17.0	13.8	13.0	23.7	22.2	20.4	2.8	3.5	3.6	83.8	101.6	99.2	365	(17.4)	1.3
GAIL (India)	467	ADD	592,761	12,761	1,268	24.8	26.2	38.8	11.7	5.8	48.0	18.9	17.8	12.1	10.6	11.0	8.6	3.3	2.9	2.5	1.6	1.8	2.7	17.4	16.3	21.1	495	5.9	18.6
GSPL	102	REDUCE	57,538	1,239	562	7.4	8.9	9.1	235	22	1.3	14	11	11.3	7.1	6.0	5.4	3.4	2.7	2.4	1.0	2.2	3.5	27.3	26.3	22.5	80	(21.8)	4.3
Hindustan Petroleum	470	ADD	159,165	3,426	339	54.7	45.0	62.0	222.7	(17.9)	38.0	8.6	10.4	7.6	3.2	3.7	2.9	1.2	1.1	1.0	2.6	3.0	4.1	13.9	10.3	13.0	500	6.5	19.5
Indian Oil Corporation	403	ADD	978,707	21,069	2,428	49.9	34.0	37.4	407	(32)	10.0	8	12	10.8	5.4	6.4	5.3	1.8	1.7	1.5	3.2	2.6	2.8	22.7	13.8	14.0	410	1.7	13.8
Oil India	1,442	BUY	346,831	7,466	240	115.1	130.7	152.0	13.8	13.5	16.3	12.5	11.0	9.5	5.4	4.4	3.5	2.3	2.1	1.8	2.4	3.1	3.5	16.7	17.8	18.2	1,440	(0.2)	6.5
Oil & Natural Gas Corporation	1,321	BUY	2,825,042	60,816	2,139	91.4	124.9	141.1	1	37	12.9	14	11	9.4	5.3	4.4	3.6	2.1	1.9	1.7	2.5	3.2	3.6	14.6	17.9	18.0	1,450	9.8	34.8
Petronet LNG	78	REDUCE	58,238	1,254	750	5.4	6.2	7.9	(22.0)	14.9	28.0	14.4	12.5	9.8	9.1	7.6	6.6	2.3	2.0	1.7	2.3	2.6	3.5	15.9	15.9	17.6	82	5.6	4.3
Reliance Industries	1,090	SELL	3,243,394	69,822	2,976	49.6	62.9	80.2	(2)	27	27.5	22	17	13.6	11.0	8.3	7.0	2.2	2.0	1.8	1.3	1.7	2.1	11.4	13.2	15.3	985	(9.6)	124.5
Energy		**Cautious**	**9,223,397**	**198,555**					**33.2**	**20.9**	**20.7**	**15.3**	**12.6**	**10.4**	**7.5**	**6.3**	**5.2**	**2.1**	**1.9**	**1.7**	**1.9**	**2.3**	**3.0**	**13.8**	**15.0**	**16.3**			
Industrials																													
ABB	863	REDUCE	182,856	3,936	212	16.7	23.3	37.2	(35.2)	39.2	59.8	51.6	37.0	23.2	29.6	21.8	13.5	7.5	6.4	5.2	0.2	0.4	0.4	15.6	18.8	24.7	840	(2.7)	7.2
BGR Energy Systems	734	BUY	52,826	1,137	72	16.0	28.0	39.7	32.2	74.6	41.9	45.8	26.2	18.5	25.7	14.9	10.8	9.4	7.5	5.7	0.4	1.0	1.1	22.3	31.8	35.1	800	9.0	3.2
Bharat Electronics	1,737	REDUCE	138,996	2,992	80	93.9	111.8	127.4	(9.6)	19.1	13.9	18.5	15.5	13.6	8.9	7.1	6.0	3.1	2.7	2.4	1.4	1.4	1.4	17.9	18.7	18.5	1,790	3.0	3.0
Bharat Heavy Electricals	2,460	ADD	1,204,072	25,921	490	92.0	115.8	136.2	44.1	25.8	17.7	26.7	21.3	18.1	14.9	11.7	9.5	7.4	5.9	4.7	0.8	1.0	1.2	30.8	30.7	28.9	2,500	1.6	30.8
Crompton Greaves	258	BUY	165,392	3,560	642	12.8	13.3	15.8	46.5	3.2	19.0	20.1	19.5	16.3	11.6	10.7	8.8	6.3	4.9	3.9	0.7	0.7	0.8	36.8	28.5	26.8	290	12.5	7.9
Larsen & Toubro	1,809	BUY	1,087,155	23,404	601	58.1	71.2	90.4	16.0	22.4	27.0	31.1	25.4	20.0	16.6	14.0	11.5	4.9	4.1	3.4	0.6	0.7	0.8	18.6	17.5	18.7	1,900	5.0	56.1
Maharashtra Seamless	390	BUY	27,489	592	71	40.2	43.6	49.8	12.1	8.5	14.2	9.7	8.9	7.8	5.1	4.5	3.5	1.7	1.5	1.3	1.5	2.0	2.6	19.3	17.9	17.7	450	15.5	0.4
Siemens	737	REDUCE	248,386	5,347	337	25.0	29.6	34.3	55.2	18.6	16.0	29.5	24.9	21.5	17.4	14.3	12.1	7.3	6.0	4.9	0.7	0.8	0.9	27.3	26.3	25.1	635	(13.8)	7.1
Suzlon Energy	58	REDUCE	92,285	1,987	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(9.7)	223.2	11.0	16.9	8.7	5.7	0.8	0.9	0.8	—	—	0.3	(8.8)	0.4	7.5	70	20.9	27.9
Thermax	755	BUY	89,958	1,937	119	21.7	29.4	37.6	(10.4)	35.4	27.7	34.7	25.7	20.1	18.7	14.4	11.3	8.3	6.8	5.6	0.5	1.1	1.4	24.9	29.1	30.5	750	(0.7)	1.0
Voltas	199	REDUCE	65,667	1,414	331	10.9	11.3	12.6	57.4	3.8	12.1	18.3	17.6	15.7	10.7	9.5	8.1	6.1	5.0	4.1	1.6	1.7	1.9	38.3	31.3	28.8	200	0.7	4.6
Industrials		**Attractive**	**3,355,083**	**72,226**					**3.7**	**33.5**	**27.4**	**31.0**	**23.2**	**18.2**	**15.5**	**12.3**	**9.8**	**5.0**	**4.3**	**3.6**	**0.7**	**0.9**	**1.0**	**16.2**	**18.4**	**19.7**			
Infrastructure																													
Container Corporation	1,350	REDUCE	175,473	3,777	130	61.1	74.3	85.9	0.3	21.7	15.6	22.1	18.2	15.7	15.6	12.7	10.6	4.0	3.5	3.0	1.0	1.3	1.5	19.6	20.6	20.5	1,250	(7.4)	1.7
GMR Infrastructure	60	ADD	218,187	4,697	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	138.1	270.3	450.1	24.0	15.5	14.5	2.1	1.8	1.8	—	—	—	2.4	1.2	0.7	65	9.2	6.1
GVK Power & Infrastructure	44	BUY	69,880	1,504	1,579	0.8	1.1	1.4	6.7	33.5	32.4	54.4	40.7	30.8	18.5	16.9	17.4	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	22.0	5.9
IRB Infrastructure	267	RS	88,874	1,913	332	9.7	12.6	12.1	83.8	29.2	(3.7)	27.5	21.3	22.1	13.1	11.6	10.8	3.8	3.0	2.4	—	—	—	15.6	15.7	11.9	—	—	4.8
Mundra Port and SEZ	739	REDUCE	297,977	6,415	403	15.1	24.1	35.7	40.8	59.5	48.4	48.9	30.7	20.7	31.4	20.2	14.4	8.2	6.3	4.7	—	—	—	18.5	23.2	26.1	725	(1.8)	11.8
Infrastructure		**Attractive**	**850,391**	**18,307**					**12.7**	**29.5**	**24.1**	**42.3**	**32.6**	**26.3**	**21.2**	**15.6**	**13.4**	**3.5**	**3.0**	**2.7**	**—**	**—**	**0.4**	**8.4**	**9.2**	**10.2**			
Media																													
DB Corp	240	ADD	43,530	937	181	10.6	12.9	15.7	276.4	21.0	22.3	22.6	18.7	15.3	12.5	10.3	8.2	6.2	5.0	4.2	0.8	1.7	2.5	38.2	29.6	29.9	280	16.7	0.4
DishTV	47	ADD	50,405	1,085	1,063	(2.5)	(1.2)	0.5	(62.6)	(49.9)	(141.4)	(19.3)	(38.5)	93.1	62.6	22.7	12.4	12.1	17.7	14.9	—	—	—	250.2	(37.4)	17.4	47	(0.8)	3.5
HT Media	149	NR	35,097	756	235	6.1	7.8	9.4	623.3	27.0	20.9	24.5	19.3	15.9	12.2	10.1	8.3	3.6	3.2	2.9	0.7	1.3	2.7	15.6	17.6	19.2	—	—	0.3
Jagran Prakashan	124	ADD	37,481	807	301	5.8	6.4	7.5	91.9	9.5	16.7	21.3	19.5	16.7	12.8	11.3	9.7	6.1	5.5	4.9	2.8	2.8	3.2	30.0	29.8	31.0	130	4.5	0.7
Sun TV Network	437	REDUCE	172,213	3,707	394	13.1	17.9	22.8	44.8	36.0	27.5	33.2	24.4	19.2	18.9	14.1	11.2	8.9	7.5	6.2	1.7	1.7	2.1	28.4	33.5	35.5	420	(3.9)	1.8
Zee Entertainment Enterprises	305	REDUCE	132,305	2,848	434	10.5	12.0	14.7	24.4	14.4	22.2	29.0	25.3	20.7	21.6	17.1	13.6	3.6	3.4	3.3	0.8	1.0	1.2	13.0	14.1	16.4	265	(13.1)	9.5
Media		**Neutral**	**471,031**	**10,140**					**185.0**	**40.2**	**36.2**	**38.8**	**27.6**	**20.3**	**18.7**	**14.3**	**11.1**	**5.7**	**5.2**	**4.6**	**1.2**	**1.4**	**1.8**	**14.6**	**18.7**	**22.8**			
Metals																													
Hindalco Industries	145	ADD	276,565	5,954	1,914	5.7	12.6	15.1	(64.5)	122.5	19.4	25.5	11.4	9.6	7.7	8.2	8.4	1.2	1.1	1.0	0.9	0.9	0.9	10.3	10.4	11.2	185	28.0	42.0
Hindustan Zinc	969	BUY	409,624	8,818	423	95.6	117.5	133.2	48.2	22.8	13.4	10.1	8.3	7.3	6.1	4.2	2.8	2.2	1.7	1.4	0.6	0.6	0.6	24.2	23.5	21.4	1,400	44.4	4.4
Jindal Steel and Power	625	SELL	579,484	12,475	928	38.5	48.7	50.8	17.2	26.5	4.3	16.2	12.8	12.3	10.2	8.2	7.6	5.1	3.6	2.8	0.2	0.2	0.2	37.3	33.0	25.7	575	(7.9)	32.1
JSW Steel	1,061	REDUCE	210,915	4,540	199	80.4	106.4	136.9	447.0	32.3	28.7	13.2	10.0	7.8	8.3	7.0	5.6	1.8	1.5	1.2	0.8	0.4	0.4	15.4	16.4	17.3	1,150	8.3	54.6
National Aluminium Co.	426	SELL	274,283	5,905	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	42.3	15.2	15.4	18.7	7.4	6.8	2.5	2.2	1.9	0.5	0.5	0.5	6.1	15.4	13.3	320	(24.8)	1.5
Sesa Goa	353	REDUCE	313,753	6,754	890	29.6	61.4	62.4	32.2	107.6	1.8	11.9	5.7	5.6	9.7	3.5	2.8	4.1	2.4	1.7	0.8	0.8	0.8	36.7	48.0	34.1	420	19.1	82.1
Sterlite Industries	170	ADD	571,145	12,295	3,362	12.0	16.9	20.8	21.9	40.6	23.2	14.1	10.1	8.2	10.7	7.8	5.9	1.6	1.4	1.3	2.1	2.1	2.1	13.2	15.0	16.4	220	29.5	49.6
Tata Steel	486	BUY	430,966	9,278	887	3.2	78.7	93.5	(97.1)	2,331.6	18.7	150.0	6.2	5.2	17.2	5.8	4.9	1.7	1.4	1.1	1.6	1.6	1.6	1.1	24.7	23.8	700	44.1	111.7
Metals		**Cautious**	**3,066,735**	**66,019**					**(28.9)**	**89.6**	**13.7**	**17.1**	**9.0**	**7.9**	**10.4**	**6.4**	**5.5**	**2.1**	**1.8**	**1.5**	**1.0**	**1.0**	**1.0**	**12.4**	**19.4**	**18.3**			
Pharmaceutical																													
Biocon	325	BUY	65,090	1,401	200	14.7	18.7	23.0	212.6	27.7	23.0	22.2	17.4	14.1	12.7	10.6	8.7	3.6	3.1	2.7	—	—	0.1	17.9	19.7	20.7	345	6.0	4.0
Cipla	339	REDUCE	271,789	5,851	803	13.5	12.8	15.6	35.9	(4.9)	21.9	25.1	26.4	21.7	18.6	17.5	14.6	4.6	4.1	3.5	0.7	0.7	0.7	19.9	16.3	17.4	280	(17.3)	10.9
Cadila Healthcare	660	REDUCE	135,185	2,910	205	24.7	29.6	34.9	66.9	20.0	17.6	26.7	22.3	18.9	17.2	14.4	12.6	8.4	6.5	5.2	0.8	0.9	1.1	36.1	32.8	30.3	535	(19.0)	1.6
Dishman Pharma & chemicals	217	BUY	17,625	379	81	14.4	17.2	28.8	(19.7)	19.4	67.0	15.0	12.6	7.5	10.8	9.0	6.3	2.2	1.9	1.5	—	—	—	15.5	16.3	22.7	300	38.4	0.8
Divi's Laboratories	773	ADD	102,199	2,200	132	25.8	34.3	43.9	(18.3)	33.3	27.9	30.0	22.5	17.6	22.4	16.5	12.7	6.8	5.6	4.5	—	—	—	24.8	27.2	28.4	800	3.4	3.4
Dr Reddy's Laboratories	1,451	REDUCE	245,836	5,292	169	48.1	66.7	70.8	48.3	38.8	6.1	30.2	21.8	20.5	16.7	12.6	11.7	6.5	5.2	4.2	0.5	0.5	0.6	22.2	26.3	22.6	1,150	(20.8)	15.2
GlaxoSmithkline Pharmaceuticals (a)	2,184	REDUCE	184,987	3,982	85	59.1	69.1	79.2	8.1	17.0	14.5	37.0	31.6	27.6	21.4	18.3	15.7	10.4	8.8	7.5	—	—	—	29.8	30.2	29.5	1,800	(17.6)	1.6
Glenmark Pharmaceuticals	270	NR	74,123	1,596	274	12.7	19.2	20.3	14.7	50.6	5.6	21.2	14.1	13.3	13.7	8.9	8.5	3.1	2.6	2.2	—	—	—	16.7	19.9	17.6	—	—	5.4
Jubilant Organosys	350	BUY	55,611	1,197	159	26.5	33.7	39.3	49.0	27.1	16.7	13.2	10.4	8.9	9.6	8.5	7.0	2.5	2.0	1.7	0.6	0.7	0.9	26.3	22.0	21.1	400	14.2	2.5
Lupin	1,968	ADD	174,318	3,753	89	76.9	104.1	122.5	27.8	35.3	17.6	25.6	18.9	16.1	21.8	15.8	12.4	7.5	5.6	4.3	0.7	0.7	0.8	36.6	34.4	30.7	1,920	(2.4)	6.9
Piramal Healthcare	481	REDUCE	100,477	2,163	209	23.4	13.4	11.0	35.5	(42.9)	(17.6)	20.6	36.0	43.7	15.2	5.4	3.5	6.0	1.1	0.9	1.1	1.2	0.7	32.1	141.2	16.6	490	1.9	32.1
Ranbaxy Laboratories	460	SELL	197,235	4,246	428	7.1	28.0	11.7	(128.4)	297.1	(58.3)	65.3	16.4	39.4	16.0	9.6	19.1	5.0	4.0	3.7	—	0.9	0.9	6.9	24.6	9.1	220	(52.2)	10.8
Sun Pharmaceuticals	1,785	REDUCE	369,730	7,959	207	65.2	67.7	77.6	(25.7)	3.8	14.6	27.4	26.4	23.0	20.7	18.7	15.8	4.4	3.9	3.4	0.8	0.8	0.8	17.8	16.2	16.2	1,560	(12.6)	8.8
Pharmaceuticals		**Attractive**	**1,994,204**	**42,930**					**44.7**	**27.3**	**5.9**	**27.7**	**21.8**	**20.6**	**17.3**	**13.3**	**12.5**	**5.2**	**3.8**	**3.2**	**0.5**	**0.6**	**0.6**	**18.9**	**17.3**	**15.6**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	30-Jun-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)
Property																													
DLF	289	ADD	493,068	10,614	1,708	9.6	16.3	25.1	(64.0)	69.4	53.8	30.0	17.7	11.5	19.4	12.3	9.2	1.8	1.7	1.5	1.0	1.0	1.7	6.4	9.9	13.8	340	17.8	53.6
Indiabulls Real Estate	158	RS	63,254	1,362	401	1.6	4.0	8.0	109.7	151.7	101.7	99.4	39.5	19.6	(63)	32.1	8.3	0.7	0.7	0.7	—	—	—	0.8	1.8	3.5	285	80.8	21.3
Mahindra Life Space Developer	458	ADD	19,265	415	42	18.9	20.3	27.5	82.4	7.3	35.8	24.3	22.6	16.7	20.3	16.9	9.3	2.0	1.9	1.8	0.8	0.8	0.8	8.4	8.5	10.7	540	17.9	1.5
Phoenix Mills	218	BUY	31,612	681	145	5.1	7.7	8.7	2.5	51.0	13.5	42.9	28.4	25.0	33.0	21.2	17.7	2.0	1.9	1.8	0.5	0.7	0.9	4.8	7.0	7.5	260	19.1	1.0
Puravankara Projects	106	REDUCE	22,644	487	213	6.4	8.2	8.1	(5.2)	28.4	(2.0)	16.5	12.9	13.1	20.9	14.1	13.9	1.6	1.5	1.4	1.9	1.9	1.9	10.0	11.9	10.7	110	3.7	0.7
Sobha	289	ADD	28,355	610	98	14.4	17.5	24.7	(4.8)	21.1	41.6	20.1	16.6	11.7	15.2	12.1	7.5	1.6	1.5	1.4	0.7	1.4	1.4	9.8	9.4	12.2	325	12.4	2.3
Unitech	74	SELL	194,513	4,187	2,616	3.4	4.3	5.6	(54.2)	26.3	30.2	22.0	17.4	13.4	19.8	13.6	8.6	1.8	1.5	1.4	—	—	2.0	9.7	9.4	11.1	72	(3.2)	58.4
Property		**Cautious**	**852,711**	**18,357**					**(52.9)**	**57.8**	**46.6**	**29.6**	**18.7**	**12.8**	**20.1**	**13.0**	**9.2**	**1.6**	**1.5**	**1.4**	**0.7**	**0.7**	**1.6**	**5.5**	**8.0**	**10.8**			
Retail																													
Titan Industries	2,370	ADD	105,214	2,265	44	62.7	76.1	96.2	41.5	21.3	26.5	37.8	31.2	24.6	26.8	21.0	16.4	13.3	10.0	7.5	0.4	0.5	0.6	40.7	36.6	34.8	2,400	1.3	4.0
Retail		**Neutral**	**105,214**	**2,265**					**41.5**	**21.3**	**26.5**	**37.8**	**31.2**	**24.6**	**26.8**	**21.0**	**16.4**	**13.3**	**10.0**	**7.5**	**0.4**	**0.5**	**0.6**	**35.2**	**32.0**	**30.5**			
Sugar																													
Bajaj Hindustan	117	SELL	22,379	482	191	9.7	9.9	8.9	201.1	2.2	(10.4)	12.0	11.8	13.1	7.0	5.8	5.5	0.9	0.9	0.8	0.6	0.6	0.6	8.1	7.5	6.3	99	(15.3)	7.1
Balrampur Chini Mills	84	ADD	21,683	467	257	3.7	10.4	7.0	(51.9)	183.7	(32.7)	23.0	8.1	12.0	9.7	5.5	6.0	1.6	1.4	1.3	0.5	0.5	0.5	7.0	18.1	11.0	92	8.9	7.1
Shree Renuka Sugars	68	BUY	45,446	978	670	9.9	7.6	7.8	196.4	(23.2)	3.1	6.9	8.9	8.7	4.7	5.3	4.6	1.8	1.5	1.3	0.6	0.5	0.5	32.0	18.1	15.7	76	12.0	16.7
Sugar		**Cautious**	**89,508**	**1,927**					**96.1**	**2.5**	**(9.4)**	**9.5**	**9.3**	**10.2**	**6.2**	**5.5**	**5.2**	**1.4**	**1.2**	**1.1**	**0.6**	**0.5**	**0.5**	**14.9**	**13.3**	**10.8**			
Technology																													
HCL Technologies	364	REDUCE	251,264	5,409	690	17.8	25.1	28.5	2.0	40.6	13.6	20.4	14.5	12.8	10.4	8.9	7.4	3.9	3.3	2.7	1.1	1.1	1.6	20.8	24.9	23.3	370	1.6	13.6
Hexaware Technologies	75	REDUCE	10,831	233	144	9.3	5.1	9.4	127.7	(45.4)	84.0	8.1	14.8	8.0	4.0	8.1	4.3	1.3	1.2	1.1	1.3	1.3	1.3	17.8	8.4	14.0	72	(4.5)	2.8
Infosys Technologies	2,791	BUY	1,602,034	34,488	574	108.3	125.2	150.5	5.7	15.6	20.2	25.8	22.3	18.5	18.8	15.4	12.5	7.0	5.7	4.8	0.9	1.2	1.5	30.1	28.2	28.0	3,100	11.1	67.3
Mphasis BFL	564	REDUCE	117,484	2,529	208	43.6	49.0	45.6	207.5	12.5	(7.0)	12.9	11.5	12.4	10.3	9.1	8.3	5.0	3.6	2.9	0.6	0.7	0.8	48.1	36.4	25.8	550	(2.4)	9.2
Mindtree	551	REDUCE	22,658	488	41	52.2	38.9	51.6	294.3	(25.5)	32.6	10.5	14.1	10.7	9.0	8.7	6.2	3.4	2.7	2.2	0.4	0.7	0.9	35.2	21.4	23.1	550	(0.1)	2.4
Patni Computer Systems	518	REDUCE	69,025	1,486	133	36.6	42.3	38.6	36.4	15.6	(8.7)	14.2	12.3	13.4	7.4	6.5	5.7	1.9	1.8	1.6	1.4	1.6	1.5	18.2	15.8	12.8	450	(13.2)	6.3
Polaris Software Lab	180	SELL	17,921	386	100	15.4	19.1	18.6	16.9	24.3	(2.7)	11.7	9.4	9.7	5.8	7.5	6.4	2.1	1.8	1.5	1.9	2.1	2.2	18.6	20.1	17.0	180	0.1	3.1
TCS	751	BUY	1,469,857	31,642	1,957	35.1	41.1	46.3	32.8	16.9	12.8	21.4	18.3	16.2	16.4	13.3	11.0	7.0	5.8	4.9	2.7	2.2	2.5	37.6	34.8	32.8	900	19.8	32.2
Wipro	385	ADD	940,743	20,252	2,447	18.9	21.9	25.0	22.1	16.2	14.4	20.4	17.6	15.4	15.4	12.6	10.4	4.8	3.9	3.3	0.9	1.1	1.4	26.5	24.6	23.2	465	20.9	15.9
Technology		**Attractive**	**4,501,817**	**96,912**					**22.9**	**16.7**	**14.2**	**21.5**	**18.5**	**16.2**	**15.6**	**13.0**	**10.7**	**5.7**	**4.8**	**4.0**	**1.5**	**1.5**	**1.8**	**26.7**	**25.8**	**24.6**			
Telecom																													
Bharti Airtel	263	REDUCE	998,009	21,485	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	10.9	12.3	10.8	6.1	5.8	4.9	2.3	1.9	1.7	1.1	1.5	1.9	24.1	17.0	16.5	290	10.4	45.7
IDEA	59	REDUCE	195,843	4,216	3,300	2.7	1.3	2.3	(5.8)	(51.7)	71.9	21.7	44.9	26.1	7.7	7.7	6.3	1.7	1.7	1.6	—	—	—	7.2	3.8	6.3	50	(15.8)	9.3
MTNL	66	SELL	41,801	900	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.2)	(6.4)	(7.3)	(0.6)	(0.7)	(0.9)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(24.6)	2.6
Reliance Communications	198	SELL	422,879	9,103	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	9.0	14.1	10.9	7.9	8.8	6.6	1.1	1.0	0.9	0.4	—	—	11.7	7.4	8.9	175	(11.7)	38.4
Tata Communications	262	REDUCE	74,756	1,609	285	14.0	15.2	15.7	3.2	8.2	3.5	18.7	17.3	16.7	7.7	7.1	6.7	1.0	1.0	1.0	2.5	2.9	3.2	5.2	5.5	5.5	225	(14.2)	1.3
Telecom		**Cautious**	**1,733,287**	**37,313**					**(15.1)**	**(19.8)**	**20.7**	**12.1**	**15.1**	**12.5**	**7.1**	**7.0**	**5.7**	**1.5**	**1.4**	**1.3**	**0.9**	**1.0**	**1.2**	**12.7**	**9.3**	**10.2**			
Utilities																													
Adani Power	127	ADD	276,860	5,960	2,180	0.8	4.9	16.4	-	524.1	235.3	162.1	26.0	7.7	125.8	17.2	6.2	5.1	4.2	2.7	—	—	—	4.4	17.8	43.0	130	2.4	3.4
CESC	376	ADD	46,963	1,011	125	35.2	42.2	45.7	9.3	19.6	8.4	10.7	8.9	8.2	6.8	6.2	7.0	1.1	1.0	0.9	1.2	1.4	1.5	11.1	11.7	11.4	439	16.8	2.0
Lanco Infratech	67	BUY	161,135	3,469	2,405	2.0	3.6	4.5	35.1	82.2	26.4	34.1	18.7	14.8	20.3	8.6	8.4	4.7	3.8	3.0	—	—	—	15.8	20.6	21.0	70	4.5	9.8
NTPC	200	REDUCE	1,645,795	35,430	8,245	10.6	12.4	14.7	7.8	16.8	18.9	18.9	16.2	13.6	14.6	12.4	10.4	2.6	2.4	2.2	2.0	2.3	2.8	14.2	15.3	16.6	200	0.2	11.5
Reliance Infrastructure	1,201	ADD	295,506	6,361	246	61.8	62.7	80.3	(1.5)	1.6	28.0	19.4	19.1	15.0	20.7	19.9	13.6	1.5	1.4	1.3	0.7	0.8	0.9	6.3	7.3	10.1	1,100	(8.4)	47.6
Reliance Power	171	SELL	410,803	8,844	2,397	2.5	3.1	5.1	141.5	24.4	66.1	69.6	55.9	33.7		97.9	35.7	2.9	2.7	2.5	—	—	—	4.2	5.0	7.8	128	(25.3)	19.0
Tata Power	1,308	BUY	322,946	6,952	247	60.2	76.1	95.3	20.1	26.4	25.2	21.7	17.2	13.7	13.7	11.6	10.0	2.5	2.2	2.0	0.9	1.1	1.1	12.9	13.6	15.2	1,500	14.6	10.7
Utilities		**Attractive**	**3,160,008**	**68,027**					**15.3**	**25.2**	**36.3**	**23.6**	**18.9**	**13.9**	**19.4**	**14.7**	**11.0**	**2.6**	**2.3**	**2.1**	**1.2**	**1.4**	**1.7**	**10.8**	**12.4**	**15.0**			
Others																													
Havells India	628	SELL	37,789	813	60	5.3	31.6	45.0	3.7	497.9	42.6	118.9	19.9	13.9	16.5	10.2	8.3	10.4	6.9	4.6	—	—	—	6.6	41.6	39.7	480	(23.6)	9.1
Jaiprakash Associates	129	BUY	273,660	5,891	2,129	1.5	5.9	7.9	(27.2)	305.4	34.4	88.3	21.8	16.2	22.0	14.0	10.3	3.2	2.9	2.5	—	—	—	4.1	13.9	16.3	183	42.4	35.0
Jindal Saw	201	ADD	59,241	1,275	294	27.5	19.3	17.9	121.9	(29.8)	(7.2)	7.3	10.4	11.2	5.3	6.0	5.8	1.5	1.3	1.2	—	—	—	20.5	12.9	11.1	243	20.7	6.0
PSL	132	BUY	7,046	152	53	22.9	25.4	28.2	3.3	10.6	11.0	5.7	5.2	4.7	3.2	2.7	2.9	0.8	0.7	0.6	4.9	4.9	5.3	12.6	11.7	12.0	175	32.8	0.6
Sintex	323	BUY	44,115	950	136	24.1	29.8	34.3	0.5	23.5	15.1	13.4	10.9	9.4	9.7	7.4	6.2	2.0	1.7	1.4	—	—	—	15.1	15.6	15.2	380	17.6	3.8
Tata Chemicals	334	ADD	81,342	1,751	243	28.6	30.1	35.9	7.4	5.1	19.3	11.7	11.1	9.3	6.6	5.9	5.0	1.7	1.5	1.3	2.6	2.7	2.7	17.2	17.3	17.9	340	1.7	3.2
Welspun Gujarat Stahl Rohren	233	REDUCE	47,875	1,031	205	25.1	23.0	24.4	44.9	(8.1)	5.8	9.3	10.1	9.6	5.2	5.3	4.7	1.6	1.4	1.2	0.8	0.9	0.9	20.6	14.8	13.5	245	5.2	8.7
United Phosphorus	184	BUY	85,158	1,833	463	11.9	15.6	19.0	18.8	30.2	22.1	15.4	11.8	9.7	8.9	7.4	6.0	2.5	2.1	1.8	0.8	1.1	1.1	17.7	19.0	19.5	250	35.8	9.1
Others			**636,226**	**13,696**					**23.5**	**36.3**	**20.0**	**19.4**	**14.3**	**11.9**	**11.1**	**9.1**	**7.5**	**2.4**	**2.0**	**1.8**	**0.7**	**0.7**	**0.7**	**12.2**	**14.3**	**14.9**			
KS universe (b)			**43,534,575**	**937,185**					**13.2**	**23.2**	**20.7**	**18.7**	**15.2**	**12.6**	**11.4**	**9.3**	**7.8**	**2.8**	**2.4**	**2.1**	**1.4**	**1.5**	**1.8**	**14.9**	**16.0**	**16.9**			
KS universe (b) ex-Energy			**34,311,178**	**738,629**					**7.6**	**23.9**	**20.7**	**19.9**	**16.0**	**13.3**	**13.8**	**11.0**	**9.1**	**3.0**	**2.6**	**2.3**	**1.2**	**1.3**	**1.5**	**15.3**	**16.4**	**17.1**			
KS universe (d) ex-Energy & ex-Commodities			**30,523,518**	**657,091**					**14.1**	**18.0**	**22.4**	**20.7**	**17.6**	**14.4**	**15.4**	**12.8**	**10.5**	**3.2**	**2.8**	**2.4**	**1.3**	**1.3**	**1.6**	**15.5**	**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$)= 46.45

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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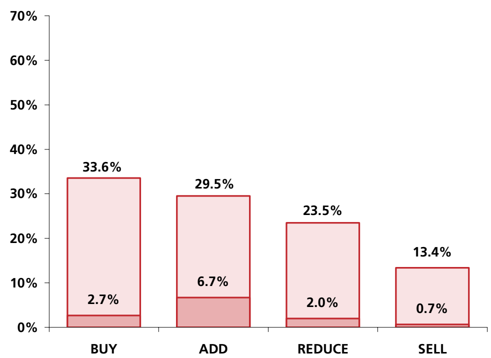

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Source: Kotak Institutional Equities | As of March 31, 2010

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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