kotak Institutional Equities

INDIA DAILY

December 30, 2011

Contents

Daily Alerts

Company

State Bank of India: Lower slippages despite economic down-cycle

Sector

Energy: Rupee at historical low may result in subsidy at historical high

Industrials: Government inaction may not be the only one; cycle itself has a big role

Strategy

Strategy: FCCB yields exceed 20% as the Rupee continues to remain weak

News Round-up

- Food inflation fell to a five and a half year low of 0.42% for the week ended December 17 & raised hopes of overall inflation falling below 9% in December, the first time in over a year. (BSTD)
- State run oil companies plan to raise petrol prices by about INR 2.25 a liter from Sunday unless the government asks them to defer the move in view of assembly elections. (ECNT)
- The Reserve Bank of India buys bonds worth USD 1.56 billion under open market operations. (BSTD)
- Lok Pal Bill in limbo as Rajya Sabha adjourned. (BSRD)
- SBI (SBIN IN) may go for another round of fund raising via a QIP in the next financial year. (BSTD)
- Reversal of rate cycle seen as Union Bank (UNBK IN) has reduced its base rate, the benchmark lending rate, by 10 basis points to 10.65% with immediate effect. (BSTD)
- Aditya Birla group plans to invest USD 500 million over the next five years to set up a Viscose Staple Fibre (VSF) plant in Turkey's Adana Organized Industrial Zone. (BSTD)
- Ashok Leyland (AL IN) owns 26% stake in British bus company Optare and has announced its intention to treble it to 75%. (BSTD)
- The private equity firm SUN Apollo has picked up 49% stake in a unit of Godrej Properties (GPL IN) for USD 8.65 million. (BSTD)
- Chennai Port Trust (CPT) has rejected the bid by Mundra Port (MSEZ IN) for its USD 711.54 million mega container terminal project in this metropolis, the reason according to CPT is the revenue share offer of 5% was "too low". (BSTD)
- REC Limited (RECL IN) which initially planned to raise USD 1 billion through Foreign Currency Convertible Bonds (FCCB), would now be able to raise only USD 500 million to maintain the government shareholding at 60% or more. (BSTD)
- SAIL (SAIL IN) and Japan's Kobe Steel will invest USD 288.46 million in an equal JV plant in West Bengal to make 500,000 tones of iron ore nuggets annually. (ECNT)

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

EQUITY MARKETS

		Change %		
India	**29-Dec**	**1-day**	**1-mo**	**3-mo**
Sensex	15,544	(1.2)	(2.9)	(6.9)
Nifty	4,646	(1.3)	(3.3)	(7.4)
Global/Regional indices				
Dow Jones	12,287	1.1	6.3	10.2
Nasdaq Composite	2,614	0.9	3.9	5.4
FTSE	5,567	1.1	4.3	7.1
Nikkie	8,426	0.3	(0.1)	(3.1)
Hang Seng	18,470	0.4	2.7	5.0
KOSPI	1,826	0.0	(1.2)	3.2
Value traded – India				
Cash (NSE+BSE)	104		114	121
Derivatives (NSE)	1,792		923	2,279
Deri. open interest	1,421		1,055	1,470

Forex/money market

		Change, basis points		
	29-Dec	**1-day**	**1-mo**	**3-mo**
Rs/US$	53.1	6	81	410
10yr govt bond, %	8.5	2	(29)	10
Net investment (US$mn)				
	28-Dec		**MTD**	**CYTD**
FIIs	32		88	(412)
MFs	1		88	(282)

Top movers -3mo basis

		Change, %		
Best performers	**29-Dec**	**1-day**	**1-mo**	**3-mo**
HUVR IN Equity	414.3	0.6	4.3	21.6
WPRO IN Equity	398.4	0.3	5.6	16.9
TTMT IN Equity	179.2	(0.6)	3.7	14.8
TCOM IN Equity	213.1	0.9	11.2	14.3
CIPLA IN Equity	321.5	(0.3)	(2.0)	14.3
Worst performers				
SUEL IN Equity	17.7	(8.1)	(23.9)	(51.6)
HDIL IN Equity	53.7	(5.6)	(10.9)	(45.2)
ADE IN Equity	313.0	(3.7)	3.8	(40.6)
ESOIL IN Equity	49.8	2.2	(28.1)	(38.1)
UNSP IN Equity	512.7	(6.6)	(26.7)	(35.6)

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kotak Institutional Equities

State Bank of India (SBIN)

Banks/Financial Institutions

BUY

DECEMBER 29, 2011

UPDATE

Coverage view: Attractive

Price (Rs): 1,629

Target price (Rs): 2,300

BSE-30: 15,544

Lower slippages despite economic down-cycle. Our recent interaction with the management indicates that SBI's slippages will likely decline due to significant strengthening of its monitoring systems even as the economic cycle trends otherwise. However, overall revenue growth is likely to be subdued despite healthy NIM as loan growth and fees remain weak. We expect the bank to raise capital by 4QFY12E though the quantum is not yet clear. Stability in slippages will be the key stock driver over the next few quarters, in our view. Maintain BUY with TP of ₹2,300 from ₹2,600.

Company data and valuation summary

State Bank of India

Stock data			
52-week range (Rs) (high,low)			2,960-1,571
Market Cap. (Rs bn)			1,034.3
Shareholding pattern (%)			
Promoters			59.4
FIIs			11.5
MFs			5.1
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(7.5)	(16.6)	(40.9)
Rel. to BSE-30	(4.8)	(10.4)	(23.0)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	130.2	172.6	216.5
EPS growth (%)	(9.9)	32.6	25.4
P/E (X)	12.5	9.4	7.5
NII (Rs bn)	325.3	409.6	450.3
Net profits (Rs bn)	82.6	109.6	137.5
BVPS	1,023.4	1,154.0	1,326.2
P/B (X)	1.6	1.4	1.2
ROE (%)	12.6	15.9	17.5
Div. Yield (%)	2.1	2.2	2.3

Slippages to remain above normal though pace is likely to decelerate from current levels

SBI's recent initiatives in HR and technology are likely to result in decline in slippages and reduce the incidence of NPLs from extraneous factors such as the migration exercise, incomplete documentation etc. The bank is comfortable with the early warning signals that are in place across most product verticals and branches. In the near term, we expect a healthy harvest season to reduce slippages and improve recovery in this portfolio. However, weak macro environment will keep slippages at higher-than-average levels. We expect slippages at 2.8% levels and loan-loss provisions at 1.4% levels for FY2011-13E.

Subdued revenue outlook on the back of lower fee and loan growth; NIM outlook comfortable

We expect revenue growth to remain subdued at 13% CAGR for FY2011-13E as loan growth is likely to be below industry average while fee and forex income will remain weak. Weak macro, focus on slippages over growth and capital conservation is likely to moderate loan growth. We expect muted fee income performance but contribution from treasury to increase on the back of decline in interest rates in FY2013E. RBI's move to curb foreign exchange activities is likely to impact forex income from the next quarter.

Discussion continues on capital infusion; we don't see an immediate requirement

The bank is in active dialogue with the GoI for capital and expects the exercise to be completed by 4QFY12. The timing, quantum and nature of infusion are yet to be finalized. Tier-1 is at 7.5% with overall capital adequacy ratio at 11.4% for 2QFY12 but this excludes 1HFY12 profits.

We believe that SBI does not have any immediate requirement for capital. (1) Growth has definitely slowed over the past few quarters and we are building 14% CAGR for FY2011-13E, (2) Internal accruals are reasonably strong with RoEs (pre-dilution) at 17% levels and payout ratios of 20%—reasonably sufficient for underlying loan growth trends, (3) management shifting focus on capital conservation through loan guarantees and is likely to release capital, especially in segments like export and SME credit. However, some of these benefits are likely to be countered by deterioration in ratings of its loan portfolio resulting in increase of risk-weighted assets.

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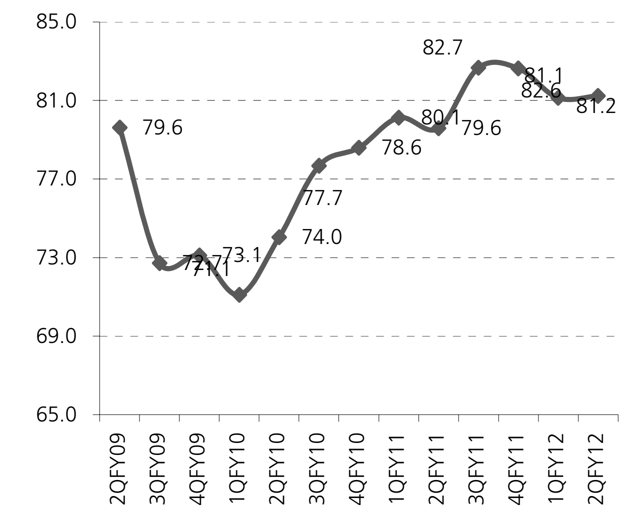
Valuations attractive for a strong franchise

We maintain a favorable outlook on SBI valuing the bank at Rs2,300/share. We are valuing the core bank at 1.4X book and its banking subsidiaries at 1.2X FY2013E book. Valuations are attractive at 0.8X book and 5X FY2013E EPS for RoEs in the range of 17-18% levels and earnings growth of 30% CAGR for FY2011-13E. Valuation multiples are moving closer to the bottom levels witnessed in FY2009.

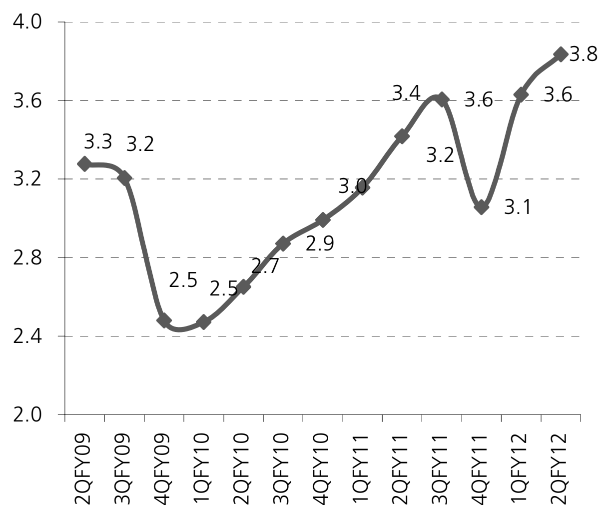
On the back of subdued outlook, we are revising our earnings downwards by 14% for FY2013-14E to factor (1) lower revenue growth on the back of lower loan growth and fee income and (2) higher loan-loss provisions on the back of weak macro trends. Our NIM assumptions are conservative as we factor compression in the next few quarters as pricing power shifts to borrowers. Sharp reduction in interest rates is likely to result in lower provisions for retirement benefits and higher treasury gains which would result in an improvement in cost-income ratios; but we are factoring cost-income ratio to increase to 49% from 45% levels witnessed currently.

Credit /deposit ratio has been stable for the quarter
March fiscal year-ends, 2QFY08-2QFY12 (%)



Source: Kotak Institutional Equities, Company

Better re-pricing of lending book resulted in NIM expansion
March fiscal year-ends, 2QFY09-2QFY12 (%)



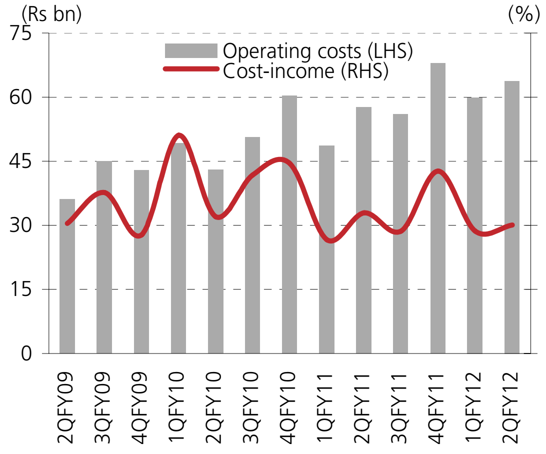
Source: Kotak Institutional Equities, Company

SME and agriculture have seen a sharp rise in slippages in the current quarter
Slippages from various sectors, March fiscal year-ends, 1QFY11-2QFY12

	Corporate	International	SME	Agri	Retail	Total
1QFY11	5	0	11	13	11	41
2QFY11	19	5	12	10	7	53
3QFY11	16	2	2	5	6	32
4QFY11	19	5	14	13	6	56
1QFY12	17	1	20	14	9	62
2QFY12	25	1	22	20	12	80
Loans - 4QFY2011	2,793	1,107	1,203	955	1,651	7,709
Slippages (%, annualised)	3.5	0.5	7.5	8.4	2.8	4.2

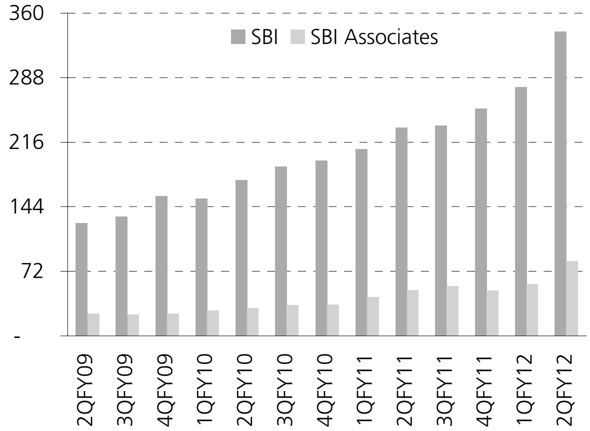
Source: Kotak Institutional Equities

Cost-income ratio was stable qoq, made normalized provisions
Operating costs and cost-income ratio, March fiscal year-ends, 2QFY09-2QFY12



Source: Kotak Institutional Equities, Company

Higher slippages result in increase in gross NPLs
Gross NPL for SBI and associates, March fiscal year-ends, 2QFY09-2QFY12 (₹ mn)



Source: Kotak Institutional Equities, Company

Key changes to our estimates for FY2012-14E
Old and new estimates, March fiscal year-ends, 2012-2014E (₹ mn)

	New estimates			Old estimates			% change		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Net interest income	409,637	450,268	520,092	415,162	463,829	540,303	(1.3)	(2.9)	(3.7)
Loan growth	13.5	14.2	15.3	15.6	17.3	17.3			
NIM (%)	3.3	3.0	2.9	3.3	3.1	3.0			
Loan loss provisions	117,110	110,366	126,683	114,185	95,013	111,450	2.6	16.2	13.7
Other income	151,270	169,033	191,099	152,926	172,483	199,706	(1.1)	(2.0)	(4.3)
Fee income	108,695	117,390	131,477	109,851	120,836	140,170	(1.1)	(2.9)	(6.2)
Treasury income	9,500	15,000	18,000	10,000	15,000	18,000	(5.0)	-	-
Operating expenses	255,246	300,288	351,012	255,246	300,288	351,012	-	-	-
Employee expenses	158,065	185,771	212,540	158,065	185,771	212,540	-	-	-
Investment depreciation	22,000	5,000	2,000	22,000	5,000	5,000	-	-	(60.0)
PBT	166,051	202,146	229,696	176,157	234,511	268,796	(5.7)	(13.8)	(14.5)
Tax	56,457	64,687	68,909	65,178	75,044	80,639	(13.4)	(13.8)	(14.5)
Net profit	**109,594**	**137,459**	**160,787**	**110,979**	**159,468**	**188,157**	**(1.2)**	**(13.8)**	**(14.5)**
PBT - treasury+loan loss provisions	295,661	302,513	340,379	302,342	319,524	367,246	(2.2)	(5.3)	(7.3)

Source: Kotak Institutional Equities

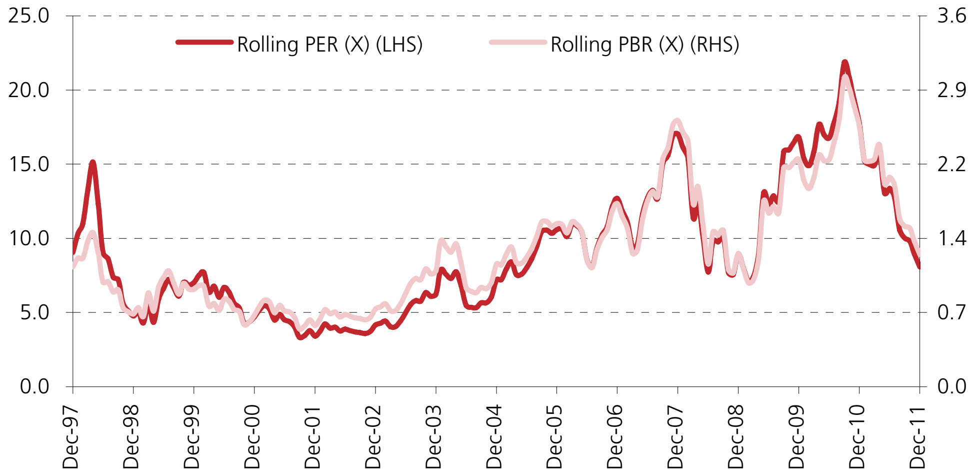
SBI forecasts and valuation
March fiscal year-ends, 2009-2014E

	Net int. income	PAT	EPS	P/E	BVPS	P/B	BVPS incl banking subs.	P/B Cons banking book	RoE
	(Rs bn)	(Rs bn)	(Rs)	(X)	(Rs)	(X)	(Rs)	(X)	(%)
2009	209	91	144	11.3	913	1.8	1,088	1.3	17.1
2010	237	92	144	11.3	1,039	1.6	1,295	1.1	14.8
2011	325	83	130	12.5	1,023	1.6	1,301	1.1	12.6
2012E	410	110	173	9.4	1,154	1.4	1,490	0.9	15.9
2013E	450	137	216	7.5	1,326	1.2	1,669	0.8	17.5
2014E	520	161	253	6.4	1,533	1.1	1,886	0.7	17.7

Notes:
(1) RoEs are high as we are yet to factor the dilution

Source: Kotak Institutional Equities, Company

State Bank of India: Rolling PER and PBR (X)
December 1997-December 2011



Source: Kotak Institutional Equities

SBI SOTP valuation based on FY2013E

	SBI holding (%)	NW FY2013E (Rs mn)	Multiple assumed (X)	Value FY2013 (Rs mn)	Value per share FY2013 (Rs)	Methodology adopted
SBI standalone					**1,666**	**Residual income model**
Non banking subsidiaries and investments						
SBI Life				85,195	134	Based on appraisal value
SBI MF	63%			12,807	20	4% of AUM of Rs60 tn (10% CAGR - AUM)
NSE	8%			14,976	24	NSE value at Rs130 bn (last transaction)
UTI MF	17%			5,529	9	4% of Rs810 bn AUM (10% CAGR - AUM)
SBI Caps	86%			14,985	24	12X 2013 PAT
SBI DFHI	72%			8,659	14	1X FY2013 networth
Value of all non-bank subsidiaries					**225**	
SBI Associate banks						
State Bank of Bikaner and Jaipur	75%	34,704	1.2	41,645		BV multiple based on RoE
State Bank of Hyderabad	100%	70,039	1.2	84,047		BV multiple based on RoE
State Bank of Mysore	92%	40,689	1.2	48,827		BV multiple based on RoE
State Bank of Patiala	100%	49,339	1.2	59,207		BV multiple based on RoE
State Bank of Travancore	75%	35,553	1.2	42,663		BV multiple based on RoE
Banking subsidiaries and associates		230,324		276,388		
post discount of 10%		**207,291**		**248,750**	**392**	
Value of all subsidiaries					**617**	
Total value of the bank					**2,282**	

Source: Kotak Institutional Equities

SBI—growth rates and key ratios
March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
Growth rates (%)						
Net loan	30.2	16.5	19.8	13.5	14.2	15.3
Total Asset	33.7	9.2	16.2	16.2	19.0	18.1
Deposits	38.1	8.4	16.1	16.6	19.3	17.3
Current	12.9	10.7	7.0	16.6	20.2	18.1
Savings	28.5	29.9	28.3	11.7	17.6	15.5
Fixed	51.9	(2.1)	11.4	20.1	20.3	18.2
Net interest income	22.6	13.4	37.4	25.9	9.9	15.5
Loan loss provisions	5.5	92.9	86.9	19.9	(5.8)	14.8
Total other income	46.1	17.9	5.7	(4.4)	11.7	13.1
Net fee income	28.8	26.6	19.9	(6.0)	8.0	12.0
Net capital gains	171.2	(17.5)	(56.5)	3—	58—	20—
Net exchange gains	70.2	34.6	(7.8)	14.0	5.0	10.0
Operating expenses	24.1	29.8	13.3	10.9	17.6	16.9
Employee expenses	25.2	30.9	13.5	9.2	17.5	14.4
Key ratios (%)						
Yield on average earning assets	8.1	7.4	7.5	8.5	7.9	7.7
Yield on average loans	9.7	8.6	8.6	9.9	9.3	9.2
Yield on average investments	7.0	6.5	7.0	7.8	7.0	6.8
Average cost of funds	5.8	5.3	4.9	5.7	5.5	5.5
Interest on deposits	5.9	5.6	5.0	6.0	5.7	5.7
Difference	**2.3**	**2.1**	**2.7**	**2.8**	**2.4**	**2.2**
Net interest income/earning assets	**2.6**	**2.5**	**3.0**	**3.3**	**3.0**	**2.9**
New provisions/average net loans	0.6	0.9	1.4	1.5	1.2	1.2
Interest income/total income	62.2	61.3	67.3	73.0	72.7	73.1
Fee income to total income	22.7	25.0	23.9	19.4	19.0	18.5
Operating expenses/total income	46.6	52.6	47.6	45.5	48.5	49.4
Tax rate	35.7	34.2	44.7	34.0	32.0	30.0
Dividend payout ratio	20.2	23.4	26.0	20.8	17.5	15.8
Share of deposits						
Current	14.9	15.2	14.0	14.0	14.1	14.2
Fixed	58.4	52.7	50.6	52.1	52.5	52.9
Savings	26.7	32.0	35.4	33.9	33.4	32.9
Loans-to-deposit ratio	73.1	78.6	81.0	78.8	75.5	74.2
Equity/assets (EoY)	6.0	6.3	5.3	5.2	5.0	4.9
Asset quality trends (%)						
Gross NPL (%)	2.9	3.0	3.3	3.5	3.6	3.8
Net NPL (%)	1.8	1.4	1.6	1.7	1.7	1.9
Slippages (%)	2.7	2.2	2.9	3.0	2.7	2.6
Provision coverage (%, ex write-off)	39.2	55.6	51.2	52.4	54.4	52.8
Dupont analysis (%)						
Net interest income	2.5	2.3	2.9	3.1	2.9	2.8
Loan loss provisions	0.3	0.5	0.9	0.9	0.7	0.7
Net other income	1.5	1.5	1.4	1.1	1.1	1.0
Operating expenses	1.9	2.0	2.0	1.9	1.9	1.9
Invt. depreciation	0.1	(0.1)	—	—	—	—
(1- tax rate)	64.3	65.8	55.3	66.0	68.0	70.0
ROA	1.1	0.9	0.7	0.8	0.9	0.9
Average assets/average equity	15.8	16.3	17.4	19.1	19.8	20.3
ROE	17.1	14.8	12.6	15.9	17.5	17.7

Source: Kotak Institutional Equities

SBI –P&L and balance sheet
March fiscal year-ends, 2009-2014E (₹ mn)

	2009	2010	2011	2012E	2013E	2014E
Income statement						
Total interest income	637,884	709,939	813,944	1,066,442	1,183,595	1,379,058
Loans	464,047	506,326	599,760	798,557	854,864	967,470
Investments	155,741	177,363	196,514	248,371	299,308	378,112
Total interest expense	429,153	473,225	488,680	656,804	733,327	858,966
Net interest income	208,731	236,714	325,264	409,637	450,268	520,092
Loan loss provisions	27,098	52,279	97,687	117,110	110,366	126,683
Net interest income (after prov.)	181,634	184,435	227,577	292,528	339,902	393,409
Other income	126,908	149,682	158,246	151,270	169,033	191,099
Net fee income	76,172	96,409	115,633	108,695	117,390	131,477
Net capital gains	25,667	21,168	9,210	9,500	15,000	18,000
Net exchange gains	11,792	15,871	14,640	16,690	17,525	19,277
Operating expenses	156,487	203,187	230,154	255,246	300,288	351,012
Employee expenses	97,473	127,546	144,802	158,065	185,771	212,540
Depreciation on investments	7,072	(9,880)	6,468—	22,000—	5,000—	2,000—
Other Provisions	3,176	1,549	(341)	500	1,500	1,800
Pretax income	141,806	139,261	149,542	166,051	202,146	229,696
Tax provisions	50,594	47,600	66,897	56,457	64,687	68,909
Net Profit	**91,212**	**91,661**	**82,645**	**109,594**	**137,459**	**160,787**
% growth	35.5	0.5	(9.8)	32.6	25.4	17.0
PBT - Treasury + Provisions	153,485	162,041	244,145	296,161	304,013	342,179
% growth	26.21	5.57	50.67	21.31	2.65	12.55
Balance sheet						
Cash and bank balance	1,044,038	861,887	1,228,741	1,373,146	1,569,175	1,778,440
Cash	42,955	68,410	74,766	74,766	74,766	74,766
Balance with RBI	512,507	544,499	869,189	1,013,594	1,209,623	1,418,888
Balance with banks	116,152	21,559	39,806	39,806	39,806	39,806
Net value of investments	2,759,540	2,957,852	2,956,006	3,756,716	5,046,454	6,411,479
Govt. and other securities	2,262,175	2,267,060	2,307,414	3,112,362	4,402,100	5,767,125
Shares	45,904	71,994	88,646	88,646	88,646	88,646
Debentures and bonds	148,890	161,274	151,341	151,341	151,341	151,341
Net loans and advances	5,425,032	6,319,142	7,567,194	8,585,888	9,808,518	11,305,298
Fixed assets	38,378	44,129	47,642	61,222	51,984	42,561
Other assets	377,333	351,128	437,778	437,778	437,778	437,778
Total assets	**9,644,321**	**10,534,137**	**12,237,362**	**14,214,750**	**16,913,910**	**19,975,557**
Deposits	7,420,731	8,041,162	9,339,328	10,890,935	12,997,242	15,245,765
Current	1,107,536	1,225,794	1,311,953	1,529,917	1,838,800	2,172,158
Fixed	4,330,953	4,240,765	4,724,114	5,672,328	6,821,345	8,062,421
Savings	1,982,243	2,574,603	3,303,261	3,688,690	4,337,097	5,011,185
Borrowings and bills payable	1,029,880	1,241,122	1,412,725	1,412,725	1,412,725	1,412,725
Other liabilities	614,233	592,361	835,449	1,178,292	1,661,828	2,343,793
Total liabilities	**9,064,844**	**9,874,645**	**11,587,502**	**13,481,952**	**16,071,795**	**19,002,282**
Total shareholders' equity	**579,477**	**659,492**	**649,860**	**732,798**	**842,115**	**973,275**

Source: Kotak Institutional Equities

ATTRACTIVE

DECEMBER 29, 2011

UPDATE

BSE-30: 15,544

Rupee at historical low may result in subsidy at historical high. We see weakness in the Rupee as hurting the investment thesis (if there is one) for downstream oil companies given (1) burgeoning gross under-recoveries and (2) tough operating conditions. However, we expect a repeat of the scenario in FY2009 when the Government had to fully compensate the downstream companies to ensure profitability for these companies. We maintain our RS ratings on the downstream stocks (BPCL, HPCL and IOCL) given an uncertain macro-environment.

Stumped by the Rupee; all players in a fix

The recent weakening of the Rupee (17% since September 2011) will likely result in very high gross under-recoveries for FY2012E which, in turn, will put pressure on the financials of all the participants (downstream companies, upstream companies and the Government). We compute gross under-recoveries at ₹1.3 tn for FY2012E assuming exchange rate of ₹52/US$ for the remainder of FY2012E. This does not auger well for the earnings of downstream companies which are already languishing under tough operating conditions. Exhibit 1 gives our estimate of gross under-recoveries and likely subsidy-sharing arrangement. We do highlight that the negative impact of the weakening of the Rupee would be mitigated to some extent given positive impact on the refining and petrochemical businesses of the downstream companies.

1HFY12 was harsh, 2HFY12E may be worse

We highlight that the downstream companies have reported a total EBITDA loss of ₹175 bn in 1HFY12 which was the result of (1) high net under-recoveries of ₹283 bn, (2) forex-related losses due to weakening of Rupee and (3) high inventory/adventitious losses. The situation has been exacerbated in 3QFY12 led by (1) further weakening of Rupee (₹50.9/US$ versus ₹45.3/US$ in 1HFY12), (2) decline in refining margins (see Exhibit 2), (3) no respite from high crude oil prices and (4) low likelihood of change in prices of regulated products given political compulsions.

A repeat of FY2009 imminent—downstream not in a position to bear any under-recoveries

We do not rule out a repeat of FY2009 in terms of the subsidy support provided by the Government to the downstream companies. We expect operating earnings of downstream companies to be severely impacted by (1) recent weakness in refining margins, (2) under-recoveries on sale of petrol which is deregulated and (3) high forex losses given the weakening of the Rupee. We believe that the Government may have to fully compensate the downstream companies in FY2012E for under-recoveries on regulated products (LPG, diesel and kerosene).

Gross under-recoveries will likely be high in FY2013E

We estimate gross under-recoveries for FY2013E at ₹1.2 tn (see Exhibit 3) assuming (1) crude oil (Dated Brent) price at US$100/bbl, (2) exchange rate of ₹52.5/US$ and (3) no change in retail prices of regulated products. However, we find it difficult to forecast net under-recoveries (and hence earnings of downstream companies) given (1) limited clarity on subsidy-sharing policy to be adopted by the Government, (2) no pragmatic pricing policy on regulated products and (3) highly volatile crude oil prices.

Revised earnings to reflect (1) weaker Rupee and (2) nil net under-recoveries

We have revised our earnings estimates for BPCL, HPCL and IOCL (see Exhibit 4) to reflect (1) weaker exchange rate assumptions, (2) nil under-recoveries for FY2012E and (3) other minor changes. We have revised our exchange rate assumptions for FY2012-14E to ₹48.7/US$, ₹52.5/US$ and ₹51/US$ from ₹47.3/US$, ₹49.75/US$ and ₹48.5/US$ previously.

QUICK NUMBERS

- ₹1.3 tn of gross under-recoveries in FY2012E at crude price of US$110/bbl
- ₹74 bn increase in gross under-recoveries for every ₹1/US$ depreciation
- ₹175 bn of EBITDA losses in 1HFY12 for downstream oil companies

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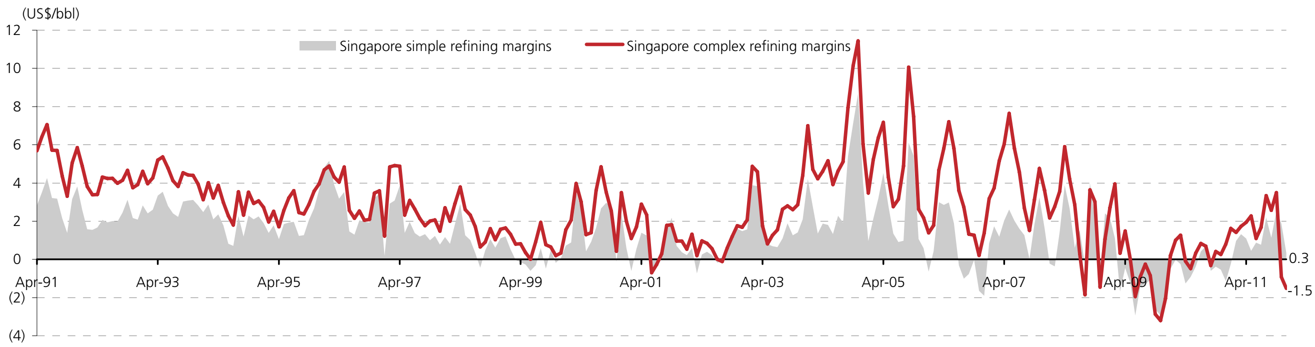
We assume nil subsidy burden on downstream companies for FY2012E
Share of various participants of under-recoveries, March fiscal year-ends, 2007-13E (₹ bn)

	2007	2008	2009	2010	2011	2012E	2013E
Dated Brent crude oil price (US$/bbl)	65	79	89	67	84	110	100
Gross under-recoveries	**521**	**798**	**1,061**	**491**	**814**	**1,318**	**1,210**
Payment by government (direct budgetary support)	**27**	**27**	**29**	**30**	**32**	**31**	**31**
Payment by government (oil bonds/cash)	**241**	**353**	**713**	**260**	**410**	**708**	**633**
Share of BPCL	53	86	162	53	94	162	144
Share of HPCL	49	77	147	56	90	155	138
Share of IOCL	138	190	404	152	227	392	350
Receipt from upstream companies	**205**	**257**	**329**	**144**	**303**	**579**	**472**
Share of ONGC	170	220	282	116	249	470	381
Share of GAIL	15	14	18	13	21	37	29
Share of Oil India	20	23	29	15	33	69	56
Net under-recovery of OMCs	**48**	**161**	**(10)**	**56**	**69**	**—**	**75**

Source: Company, Kotak Institutional Equities estimates

Singapore complex refining margins have improved from trough levels but remain in the negative territory
Singapore refining margins (US$/bbl)



Simple refining margins, March fiscal year-ends (US$/bbl)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012YTD
1Q	0.5	0.3	1.0	1.7	3.0	2.5	2.3	2.4	(1.5)	(0.9)	0.8
2Q	0.4	0.1	1.2	3.1	2.8	(0.7)	1.0	1.7	(1.3)	0.2	1.3
3Q	1.1	1.4	1.6	6.5	2.2	(1.2)	2.3	1.3	(2.5)	(0.7)	1.6
4Q	(0.0)	3.0	2.9	2.1	1.1	1.2	0.2	0.7	(0.3)	0.7	
Average	**0.5**	**1.2**	**1.7**	**3.3**	**2.3**	**0.5**	**1.5**	**1.5**	**(1.4)**	**(0.2)**	**1.2**

Weekly margins				
Current	**-1 Wk**	**-2 Wk**	**-3 Wk**	**-4 Wk**
1.0	**0.2**	0.2	0.1	(0.2)

Complex refining margins, March fiscal year-ends (US$/bbl)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012YTD
1Q	1.3	0.8	1.2	4.6	4.9	6.2	6.6	4.3	(0.1)	(0.1)	1.8
2Q	0.6	0.1	2.3	5.8	6.1	2.5	2.9	0.7	(0.7)	0.4	2.5
3Q	1.2	1.6	3.2	9.0	3.9	1.0	3.9	1.0	(2.7)	0.5	0.4
4Q	0.6	3.7	5.4	5.0	2.8	4.1	2.8	2.4	0.8	1.6	
Average	**0.9**	**1.5**	**3.1**	**6.1**	**4.4**	**3.4**	**4.0**	**2.1**	**(0.7)**	**0.6**	**1.6**

Weekly margins				
Current	**-1 Wk**	**-2 Wk**	**-3 Wk**	**-4 Wk**
(0.3)	**(0.9)**	(2.0)	(2.8)	(3.1)

Source: Bloomberg, Kotak Institutional Equities estimates

Under-recovery will be difficult to manage at current level of crude prices
Subsidy loss breakdown at various levels of crude oil price, March fiscal year-end, 2013E (₹ bn)

Dated Brent crude price (US$/bbl)	**90**	**95**	**100**	**105**	**110**
LPG	223	272	320	369	418
Kerosene	235	253	270	288	306
Diesel	360	490	619	748	878
Auto fuels	360	490	619	748	878
Cooking fuels	458	524	591	657	724
Total subsidy loss	**818**	**1,014**	**1,210**	**1,406**	**1,601**
Share of upstream companies	315	393	472	550	628
Share of downstream companies	75	75	75	75	75
Required compensation from government	**428**	**546**	**663**	**781**	**898**

Source: Kotak Institutional Equities estimates

Revision in EPS estimates, March fiscal year-ends, 2012-14E (₹)

	2012E		2013E		2014E	
	Old EPS	New EPS	Old EPS	New EPS	Old EPS	New EPS
BPCL	33	31	49	46	58	49
HPCL	14	14	29	24	31	24
IOCL	16	16	33	32	38	35

Source: Kotak Institutional Equities estimates

Gross under-recoveries show high sensitivity to crude oil price and exchange rate

Under-recoveries at various levels of crude oil price and exchange rate, March fiscal year-end, 2013E (₹ bn)

Sensitivity of under-recoveries to crude oil price and exchange rate

Exchange rate (Rs/US$)	Dated Brent crude oil price (US$/bbl)						
	85	**90**	**95**	**100**	**105**	**110**	**115**
49.5	432	617	801	986	1,171	1,355	1,540
50.5	495	684	872	1,061	1,249	1,437	1,626
51.5	559	751	943	1,135	1,327	1,519	1,712
52.5	622	818	1,014	1,210	1,406	1,601	1,797
53.5	686	885	1,085	1,284	1,484	1,684	1,883
54.5	749	952	1,156	1,359	1,562	1,766	1,969
55.5	812	1,019	1,227	1,434	1,641	1,848	2,055

Source: Kotak Institutional Equities estimates

BPCL earnings model assumptions, March fiscal year-ends, 2007-2014E

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rs/US$	45.3	40.3	45.8	47.4	45.6	48.7	52.5	51.0
Weighted average duty on products (%)	6.7	6.6	3.3	2.6	5.8	3.0	2.2	2.2
Import tariff on crude (%)	5.1	5.2	0.9	0.4	5.2	1.2	—	—
Import 'tariff' on domestic crude (%)	2.6	2.6	0.5	0.2	2.6	0.6	—	—
Effective duty protection (%)	**1.6**	**1.4**	**2.4**	**2.2**	**0.7**	**1.8**	**2.2**	**2.2**
Refinery yield (US$/bbl)	71.5	89.6	97.5	73.2	93.9	115.6	104.8	100.2
Cost of crude (US$/bbl)								
-Imported	64.0	78.8	90.0	69.8	84.7	110.7	100.7	95.7
-Domestic	68.7	84.1	94.9	70.8	88.0	114.0	104.0	99.0
Landed cost of crude (US$/bbl)	68.3	84.0	92.4	70.3	89.4	112.8	101.7	96.7
Net refining margin (US$/bbl)	**3.2**	**5.6**	**5.2**	**2.9**	**4.5**	**2.8**	**3.1**	**3.6**
Crude throughput (mn tons)	**19.8**	**20.9**	**20.0**	**20.4**	**21.8**	**22.1**	**22.7**	**22.7**
-Imported	13.5	13.9	13.1	14.1	14.8	15.1	15.7	15.7
-Domestic	6.3	7.0	6.8	6.3	7.0	7.0	7.0	7.0
Production of main products	17.9	19.0	18.1	18.6	19.9	20.2	20.7	20.7
Production of other products	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Fuel and loss	1.3	1.4	1.3	1.2	1.2	1.3	1.3	1.3
Fuel and loss (%)	6.6	6.6	6.6	5.9	5.7	5.7	5.7	5.7
Sales volume (mn tons)	**24.5**	**26.7**	**27.8**	**29.5**	**31.3**	**32.7**	**34.1**	**35.8**
Marketing margins (Rs/ton)	**(1,140)**	**(3,010)**	**(5,944)**	**573**	**(1,933)**	**(6,330)**	**(4,647)**	**(2,658)**

Source: Company, Kotak Institutional Equities estimates

HPCL earnings model assumptions, March fiscal year-ends, 2007-2014E

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rs/US$	45.3	40.3	45.8	47.4	45.6	48.7	52.5	51.0
Weighted average duty on products (%)	6.6	6.5	3.3	2.9	6.7	3.6	2.6	2.6
Import duty on crude	5.1	5.2	0.9	0.4	5.2	1.2	—	—
Import 'tariff' on domestic crude (%)	2.6	2.6	0.5	0.2	2.6	0.6	—	—
Effective duty protection (%)	**1.4**	**1.3**	**2.4**	**2.5**	**1.6**	**2.4**	**2.6**	**2.6**
Refinery yield (US$/bbl)	73.1	89.8	96.0	73.3	94.7	114.6	103.9	99.4
Cost of crude (US$/bbl)								
-Imported	64.8	78.1	89.9	70.1	84.6	110.6	100.6	95.6
-Domestic	69.3	84.5	95.2	71.0	88.1	114.1	104.1	99.1
Landed cost of crude	68.8	83.2	92.0	70.6	89.4	112.7	101.5	96.4
Net refining margin (US$/bbl)	**4.3**	**6.6**	**4.0**	**2.7**	**5.3**	**2.0**	**2.4**	**3.0**
Crude throughput (mn tons)	**16.7**	**16.8**	**15.8**	**15.8**	**14.8**	**16.8**	**17.7**	**18.0**
-Imported	12.9	12.6	11.7	11.3	10.6	12.6	13.5	13.8
-Domestic	3.8	4.2	4.2	4.5	4.2	4.2	4.2	4.2
Production of main products	15.2	15.2	14.4	14.1	13.1	15.0	15.8	16.1
Production of other products	0.4	0.6	0.4	0.6	0.5	0.5	0.5	0.5
Fuel and loss	1.0	1.0	1.0	1.1	1.1	1.3	1.3	1.3
Fuel and loss (%)	6.0	6.0	6.1	7.2	7.5	7.5	7.5	7.5
Sales volume (mn tons)	**23.4**	**26.2**	**27.0**	**27.7**	**27.7**	**28.5**	**29.7**	**31.1**
Marketing margin (Rs/ton)	**(710)**	**(2,345)**	**(5,021)**	**698**	**(1,885)**	**(5,709)**	**(4,187)**	**(2,394)**

Source: Company, Kotak Institutional Equities estimates

IOCL earnings model assumptions, March fiscal year-ends, 2007-2014E

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rs/US$	45.3	40.3	45.8	47.4	45.6	48.7	52.5	51.0
Weighted average duty on products (%)	6.7	6.5	3.7	2.6	5.9	3.1	2.3	2.3
Import duty on crude (%)	5.1	5.2	0.9	0.4	5.2	1.2	—	—
Effective 'import duty' on domestic crude (%)	2.6	2.6	0.5	0.2	2.6	0.6	—	—
Effective duty protection (%)	**1.6**	**1.3**	**2.8**	**2.2**	**0.8**	**1.9**	**2.3**	**2.3**
Refinery yield (US$/bbl)	71.1	91.0	94.9	73.7	94.3	117.4	106.7	102.0
Cost of crude (US$/bbl)								
Domestic - Northeast	61.8	74.8	87.3	67.6	82.4	108.4	98.4	93.4
- Gujarat	58.4	73.8	84.1	64.4	80.0	106.0	96.0	91.0
- Rest of India	67.2	82.2	92.9	69.2	85.9	111.9	101.9	96.9
Imported	65.2	80.3	91.3	69.7	85.5	111.5	101.5	96.5
Landed cost of crude (US$/bbl)	66.9	82.8	91.1	69.2	88.3	111.9	100.8	95.8
Net refining margin (US$/bbl)	**4.2**	**8.2**	**3.7**	**4.5**	**6.0**	**5.6**	**5.9**	**6.3**
Crude throughput (mn tons)	**44.0**	**47.4**	**51.3**	**50.7**	**53.0**	**55.3**	**56.2**	**56.2**
Domestic - Northeast	1.5	1.5	2.1	2.1	2.2	2.2	2.2	2.2
- Gujarat	5.9	5.9	6.0	5.8	5.9	6.0	6.1	6.1
- Rest of India	2.7	2.7	4.9	4.8	4.8	5.0	5.0	5.0
Imported	33.9	37.3	38.3	38.0	40.0	42.2	42.9	42.9
Other products	1.1	1.1	1.4	1.4	1.5	1.4	1.4	1.4
Fuel and loss	3.9	4.2	4.2	4.5	4.7	4.9	4.9	4.9
Production of main products	38.9	42.1	45.7	44.8	46.8	49.0	49.9	49.9
Fuel and loss (%)	8.9	8.8	8.2	8.8	8.8	8.8	8.8	8.8
Sales volume (mn tons)	**53.4**	**57.4**	**61.0**	**64.0**	**67.1**	**69.1**	**72.1**	**75.6**
Marketing margin (Rs/ton)	**(633)**	**(2,203)**	**(5,266)**	**955**	**(1,338)**	**(5,484)**	**(4,071)**	**(2,301)**

Source: Company, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	965,569	1,102,081	1,340,734	1,202,170	1,508,382	1,968,910	1,955,983	1,917,023
EBITDA	**35,362**	**28,472**	**27,507**	**32,635**	**32,737**	**34,131**	**37,488**	**40,176**
Other income	7,332	13,954	15,087	22,402	17,550	16,603	19,241	15,569
Interest	(4,774)	(6,725)	(22,699)	(10,110)	(11,008)	(15,378)	(12,983)	(9,320)
Depreciation	(9,041)	(10,982)	(10,755)	(12,423)	(16,554)	(18,980)	(19,257)	(20,289)
Pretax profits	28,879	24,719	9,141	32,505	22,724	16,376	24,488	26,136
Extraordinary items	(68)	—	—	(8,290)	1,503	—	—	—
Tax	(9,286)	(9,059)	(5,103)	(11,317)	(7,177)	(5,513)	(7,630)	(7,795)
Deferred taxation	(268)	(1,108)	2,421	3,033	(1,482)	200	(315)	(685)
Adjusted net profits	**18,100**	**15,806**	**6,324**	**20,830**	**14,602**	**11,062**	**16,543**	**17,656**
Earnings per share (Rs)	**50.1**	**43.7**	**17.5**	**57.6**	**40.4**	**30.6**	**45.8**	**48.8**
Balance sheet (Rs mn)								
Total equity	102,735	116,768	121,281	130,867	140,576	147,431	157,682	168,623
Deferred taxation liability	13,826	14,814	12,392	8,593	10,075	9,875	10,190	10,875
Total borrowings	108,292	150,224	211,714	221,952	189,719	181,719	149,719	118,638
Currrent liabilities	112,767	145,803	128,313	171,312	219,583	251,648	258,159	253,759
Total liabilities and equity	**337,620**	**427,608**	**473,701**	**532,724**	**559,954**	**590,673**	**575,750**	**551,895**
Cash	8,640	9,616	4,416	3,424	3,800	2,487	2,312	2,294
Current assets	127,698	187,457	148,469	232,416	272,259	313,154	312,611	305,524
Goodwill	—	—	—	—	—	—	—	—
Total fixed assets	118,334	127,354	140,033	161,871	170,116	176,253	182,047	185,298
Investments	82,949	103,182	180,784	135,013	113,780	98,780	78,780	58,780
Total assets	**337,621**	**427,608**	**473,701**	**532,724**	**559,954**	**590,673**	**575,750**	**551,895**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	29,920	22,988	19,717	22,972	16,688	12,430	16,191	22,570
Working capital	11,451	(25,161)	20,585	(48,542)	14,758	(8,830)	7,053	2,688
Capital expenditure	(17,908)	(20,665)	(23,323)	(33,698)	(24,813)	(24,308)	(24,368)	(23,050)
Investments	(45,481)	(21,684)	(82,456)	35,270	20,872	15,000	20,000	20,000
Other income	4,337	6,434	6,655	13,694	10,146	16,603	19,241	15,569
Free cash flow	**(17,682)**	**(38,088)**	**(58,822)**	**(10,304)**	**37,651**	**10,895**	**38,117**	**37,778**
Ratios (%)								
Debt/equity	105.4	128.7	174.6	169.6	135.0	123.3	94.9	70.4
Net debt/equity	97.0	120.4	170.9	167.0	132.3	121.6	93.5	69.0
RoAE	16.3	12.7	4.8	11.3	10.7	7.2	10.2	10.2
RoACE	**10.9**	**7.3**	**7.2**	**7.9**	**6.2**	**6.3**	**7.7**	**7.8**
Key assumptions (standalone until FY2005)								
Crude throughput (mn tons)	19.8	20.9	20.0	20.4	21.8	22.1	22.7	22.7
Effective tariff protection (%)	1.6	1.4	2.4	2.2	0.7	1.8	2.2	2.2
Net refining margin (US$/bbl)	3.2	5.6	5.2	2.9	4.5	2.8	3.1	3.6
Sales volume (mn tons)	24.5	26.7	27.8	29.5	31.3	32.7	34.1	35.8
Marketing margin (Rs/ton)	(1,140)	(3,010)	(5,944)	573	(1,933)	(6,330)	(4,647)	(2,658)
Subsidy under-recoveries (Rs mn)	(10,400)	(33,354)	2,728	(12,375)	(15,841)	—	(17,619)	(17,389)

Source: Company, Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	889,959	1,043,130	1,249,348	1,073,004	1,332,138	1,824,437	1,799,409	1,754,943
EBITDA	**24,036**	**15,757**	**28,707**	**32,469**	**30,705**	**21,608**	**23,492**	**28,071**
Other income	6,845	11,980	9,057	16,462	13,435	12,181	15,033	10,979
Interest	(4,230)	(7,925)	(20,828)	(9,038)	(8,840)	(11,070)	(10,543)	(8,004)
Depreciation	(7,040)	(8,508)	(9,813)	(11,644)	(14,070)	(15,508)	(16,094)	(19,006)
Pretax profits	19,611	11,303	7,122	28,249	21,230	7,211	11,888	12,041
Extraordinary items	3,030	—	—	(6,999)	2,231	—	—	—
Tax	(6,625)	(1,799)	(2,416)	(5,616)	(3,340)	(1,443)	(2,745)	(2,409)
Deferred taxation	(365)	(2,025)	(343)	(2,046)	(3,910)	(897)	(1,112)	(1,498)
Prior period adjustment	61	3,870	1,387	(575)	(822)	—	—	—
Adjusted net profits	**13,617**	**11,349**	**5,750**	**17,489**	**13,848**	**4,871**	**8,031**	**8,134**
Earnings per share (Rs)	**40.2**	**33.5**	**17.0**	**51.6**	**40.8**	**14.4**	**23.7**	**24.0**
Balance sheet (Rs mn)								
Total equity	95,987	105,633	107,306	115,580	125,458	128,583	133,736	138,955
Deferred tax liability	14,209	15,960	16,034	18,080	31,956	32,853	33,965	35,463
Total borrowings	105,175	167,867	227,552	213,024	250,212	266,712	232,135	207,635
Currrent liabilities	101,195	124,337	117,558	165,551	196,066	243,584	250,903	247,093
Total liabilities and equity	**316,566**	**413,797**	**468,450**	**512,234**	**603,692**	**671,733**	**650,739**	**629,146**
Cash	868	2,940	6,083	2,432	800	736	1,004	1,138
Current assets	113,779	190,034	153,844	203,988	265,110	337,867	337,099	327,618
Total fixed assets	130,644	152,452	166,558	191,943	224,432	239,779	254,393	262,147
Investments	71,275	68,371	141,965	113,872	113,350	93,350	58,243	38,243
Total assets	**316,566**	**413,796**	**468,450**	**512,234**	**603,692**	**671,733**	**650,739**	**629,146**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	23,966	(18,679)	(12,139)	28,120	26,967	3,982	4,701	12,374
Working capital changes	8,936	(6,504)	48,461	(6,530)	(25,876)	(25,239)	8,087	5,671
Capital expenditure	(38,510)	(31,638)	(19,275)	(36,180)	(46,101)	(25,742)	(25,205)	(21,475)
Investments	(31,704)	(1,851)	(70,386)	16,521	4,365	20,000	35,107	20,000
Other income	2,067	4,692	3,187	8,037	6,919	12,181	15,033	10,979
Free cash flow	**(35,246)**	**(53,980)**	**(50,151)**	**9,968**	**(33,724)**	**(14,818)**	**37,723**	**27,550**
Ratios (%)								
Debt/equity	95.4	138.1	184.5	159.4	159.0	165.2	138.4	119.0
Net debt/equity	94.7	135.6	179.6	157.6	158.4	164.8	137.8	118.4
RoAE	14.9	9.8	4.7	10.1	10.6	3.1	4.9	4.8
RoACE	**8.6**	**5.0**	**5.3**	**6.8**	**5.5**	**3.0**	**3.7**	**3.5**
Key assumptions								
Crude throughput (mn tons)	16.7	16.8	15.8	15.8	14.8	16.8	17.7	18.0
Effective tariff protection (%)	1.4	1.3	2.4	2.5	1.6	2.4	2.6	2.6
Net refining margin (US$/bbl)	4.3	6.6	4.0	2.7	5.3	2.0	2.4	3.0
Sales volume (mn tons)	23.4	26.2	27.0	27.7	27.7	28.5	29.7	31.1
Marketing margin (Rs/ton)	(710)	(2,345)	(5,021)	698	(1,885)	(5,709)	(4,187)	(2,394)
Subsidy under-recoveries (Rs mn)	(7,685)	(31,191)	5,587	(12,297)	(15,042)	—	(16,502)	(16,405)

Source: Company, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	2,149,428	2,444,378	3,041,265	2,660,338	3,268,847	5,276,133	5,394,429	5,298,026
EBITDA	**110,451**	**120,872**	**61,445**	**146,723**	**130,233**	**128,505**	**175,928**	**184,304**
Other income	27,451	43,748	45,155	68,588	47,740	31,251	44,471	36,474
Interest	(17,058)	(17,556)	(41,758)	(16,638)	(29,243)	(54,823)	(46,050)	(33,948)
Depreciation	(28,686)	(29,918)	(31,389)	(34,943)	(48,611)	(52,565)	(56,469)	(57,795)
Pretax profits	92,157	117,145	33,453	163,729	100,119	52,368	117,880	129,035
Extraordinary items	24,757	5,374	—	(14,995)	(787)	—	—	—
Tax	(25,834)	(38,293)	(13,316)	(47,193)	(2,843)	(10,914)	(32,747)	(39,879)
Deferred taxation	(8,040)	(473)	1,435	5,556	(16,090)	(6,077)	(5,499)	(1,986)
Net profits	82,729	83,430	25,523	108,238	79,570	38,732	79,634	87,170
Net profits after minority interests	**62,702**	**74,517**	**27,437**	**116,128**	**77,742**	**38,599**	**78,314**	**85,561**
Earnings per share (Rs)	**26.3**	**31.2**	**11.5**	**47.9**	**32.0**	**15.9**	**32.3**	**35.2**
Balance sheet (Rs mn)								
Total equity	378,117	450,449	470,654	547,804	585,889	610,663	661,498	717,128
Deferred tax liability	59,859	60,331	58,876	54,072	69,411	75,488	80,986	82,972
Total borrowings	290,215	382,818	465,250	497,522	569,564	713,191	610,613	498,102
Currrent liabilities	330,791	386,724	376,107	472,991	629,775	768,503	782,462	765,426
Total liabilities and equity	**1,058,981**	**1,280,322**	**1,370,888**	**1,572,389**	**1,854,638**	**2,167,845**	**2,135,560**	**2,063,629**
Cash	9,385	8,413	8,076	13,501	13,068	13,296	13,199	13,204
Current assets	437,178	599,256	473,965	648,895	896,572	1,233,420	1,242,842	1,207,299
Total fixed assets	415,014	460,307	565,545	690,165	754,268	753,811	742,200	735,807
Investments	197,403	212,345	323,301	219,828	190,731	167,318	137,318	107,318
Total assets	**1,058,981**	**1,280,322**	**1,370,888**	**1,572,389**	**1,854,638**	**2,167,845**	**2,135,560**	**2,063,629**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	(37,508)	(97,660)	(355,838)	137,666	87,149	63,298	95,535	108,539
Working capital changes	3,022	(13,588)	96,862	(180,915)	(52,481)	(198,120)	4,537	18,507
Capital expenditure	(48,752)	(72,423)	(131,274)	(136,063)	(133,765)	(49,282)	(43,263)	(49,464)
Investments	99,909	92,679	300,134	147,314	27,599	23,413	30,000	30,000
Other Income	13,372	18,048	16,423	24,514	24,042	59,208	39,529	34,204
Free cash flow	**30,042**	**(72,944)**	**(73,692)**	**(7,484)**	**(47,456)**	**(101,484)**	**126,339**	**141,786**
Ratios (%)								
Debt/equity	66.3	74.9	87.9	82.7	86.9	103.9	82.2	62.3
Net debt/equity	64.1	73.3	86.3	80.4	84.9	102.0	80.5	60.6
RoAE	16.1	16.3	5.5	21.2	12.8	5.9	11.3	11.4
RoACE	**11.2**	**11.4**	**5.1**	**12.4**	**9.0**	**5.5**	**8.0**	**8.3**
Key assumptions (IOC standalone)								
Crude throughput (mn tons)	44.0	47.4	51.3	50.7	53.0	55.3	56.2	56.2
Effective tariff protection (%)	1.6	1.3	2.8	2.2	0.8	1.9	2.3	2.3
Net refining margin (US$/bbl)	4.2	8.2	3.7	4.5	6.0	5.6	5.9	6.3
Sales volume (mn tons)	53.4	57.4	61.0	64.0	67.1	69.1	72.1	75.6
Marketing margin (Rs/ton)	(633)	(2,203)	(5,266)	955	(1,338)	(5,484)	(4,071)	(2,301)
Subsidy under-recoveries (Rs mn)	(21,900)	(97,738)	—	(31,588)	(38,032)	—	(41,109)	(41,098)

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Industrials

India

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DECEMBER 29, 2011

UPDATE

BSE-30: 15,728

Government inaction may not be the only one; cycle itself has a big role. We highlight data points that partially belie the predominant explanation that government inaction and lack of clearances have caused the slowdown. For example, (1) percentage of proposals receiving environmental clearances have not materially changed, (2) the same goes for forest clearances (hectares of area cleared), (3) land acquisition by NHAI has picked up implied by increased award activity (FY2012 target of 3-4X of FY2009-10 levels). The positive business cycle may be moderating itself (11X growth over FY2003-10) and the cycle itself has had a role in exposing long- standing bottlenecks (lack of incremental reform) and imbalances (mining, labor)

Data points show government Inaction and lack of clearances are not the only cause of slowdown

- **Environmental clearances**: The Ministry of Environment and Forests (MoEF) continues to maintain its rate of approving proposals for environmental clearance at the rate of its decadal average of about 50%.
- **Forest clearances**: The ministry has broadly maintained the quantum of forest land cleared at about 67,000 hectares a year over FY2010-11 (76,000 hectares a year over FY2006-09).
- **Land acquisition by NHAI**: NHAI has significantly stepped up land acquisition activity as implied by the sharp increase in its award activity. It awarded 2,476 km in 1HFY12 (targeting 7,300 km for the full year) and 5,058 km in FY2011 versus an average of 2,000 km of awards over FY2009-10.

Slowdown partly cyclical; strong cycle may be exposing bottlenecks that have always been there

We believe the present slowdown in capex is more related to the cycle moderating after a period of strong activity (financial closures grew 11-12X over FY2003-10). The strong positive cycle has helped to expose long-standing impediments to growth such as (1) political indecision, delaying key reforms and (2) slow development of key inputs (coal, labor). Among the inputs, we focus on slow pace of coal production not keeping pace with coal-based capacity addition (present production can support only two-thirds of coal-based installed capacity). The government is trying to address the issue as is reflected in (1) coal ministry and MoEF now questioning the legal sanctity of the go-no go policy (production potential - 660 MT or 130 GW of electricity) and (2) fast tracking of appraisal of incremental coal projects as well as existing mines.

Activity picks up: transmission, mining and distribution may hold out some hope

- **Transmission**: PGCIL stepped up activity in FY2012 and has awarded projects worth Rs87 bn in 8MFY12 versus Rs57 bn in 9MFY11.
- **Mining**: The sector has seen strong growth in lending from banks in FY2012 (up 42% yoy). This may enhance coal production, boosting fresh investment in power projects.
- **Distribution**: Key utilities have been revising power tariffs in various states including (1) Rajasthan (20-30%), (2) Delhi (22%) and (3) Jharkhand (19%). This would help to lower the debt burden and increase potential to absorb incremental supply.

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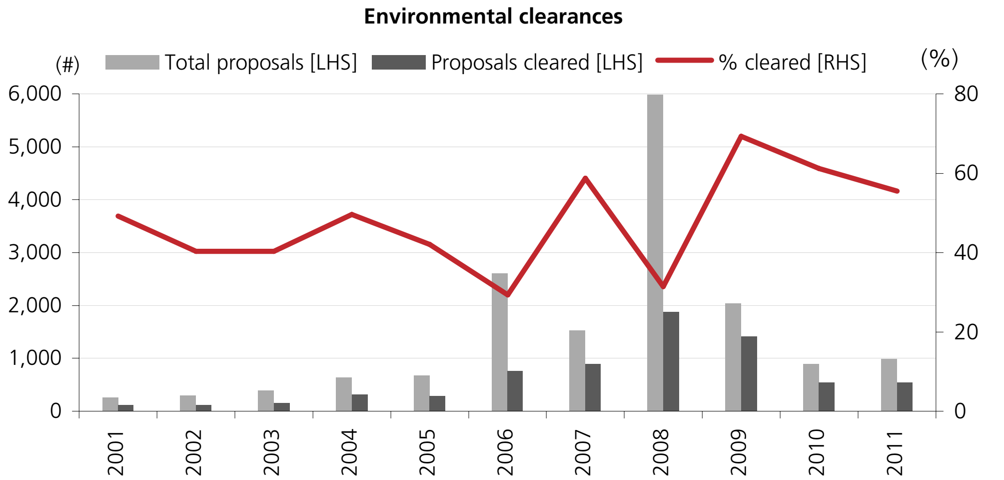
Our tracking of environmental and forest clearances shows business as usual

- **Environmental clearances**: Our tracking of proposals for environmental clearances suggests the Ministry of Environment and Forests (MoEF) has maintained its rate of clearing projects. Excluding years of an extraordinary jump in activity, (FY2006 and FY2008) the MoEF has maintained its rate of clearing about 50% of the proposals at hand. In recent times the quantum of proposals for clearance has been falling, which led to a higher clearance rate in FY2010 and FY2011. The number of proposals for environmental clearance rose sharply, increasing to about 2,600 a year over FY2006-09 proposals from about 450 proposals over FY2001-05. Over FY2010-9MFY11 they corrected to about 950 a year.

MoEF's rate of awarding environmental clearances is consistent with the past
Progress in award of environmental clearances over FY2001-December 2010

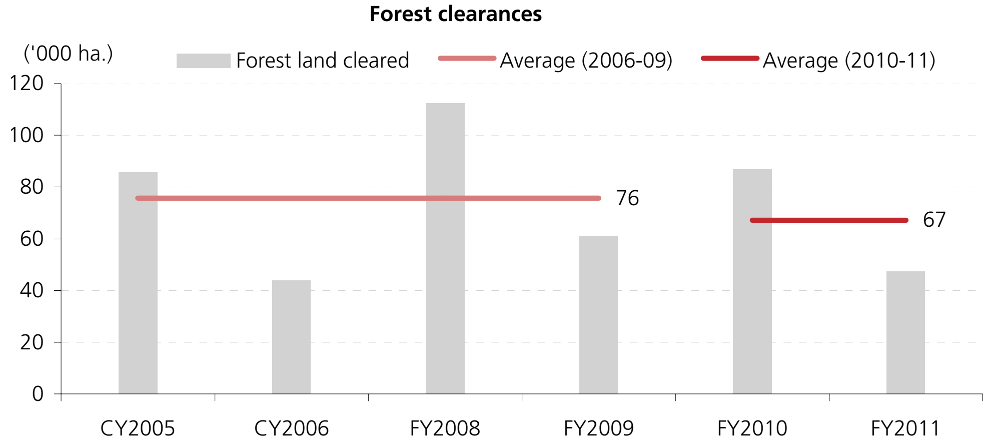


Note: Figures for FY2008 and FY2011 have been annualized from reported 9M figures

Source: MoEF, Kotak Institutional Equities

- **Forest clearances**: We note that forest clearances are also being given at a pace similar to that in the past. About 76,000 hectares of land was cleared a year over FY2006-09, which has declined marginally to about 67,000 over FY2010-11. We believe the present rate of forest land cleared is significant considering the moderation in the number of proposals made for forest land.

Business as usual reflected in similar averages over FY2005-09 and FY2010-11
Quantum of forest land cleared by MoEF (hectares)

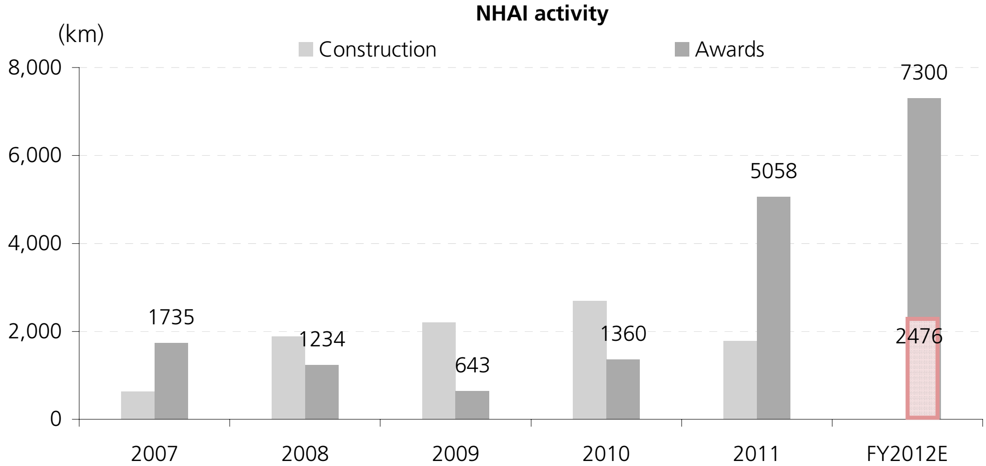


Note: FY2008 and FY2011 have been annualized from the available 9M figures

Source: MoEF, Kotak Institutional Equities

- **Land acquisition by NHAI**: NHAI has significantly stepped up land acquisition activity over the past few years as is implied by a sharp increase in its award activity. NHAI awarded 2,476 km in 1HFY12 (targeting 7,300 km for the full year) and 5,058 km in FY2011 versus an average of 2,000 km of awards over FY2009-10.

Strong pick up in awards activity by NHAI
Trends in the award and construction activity for NHAI, March fiscal year ends



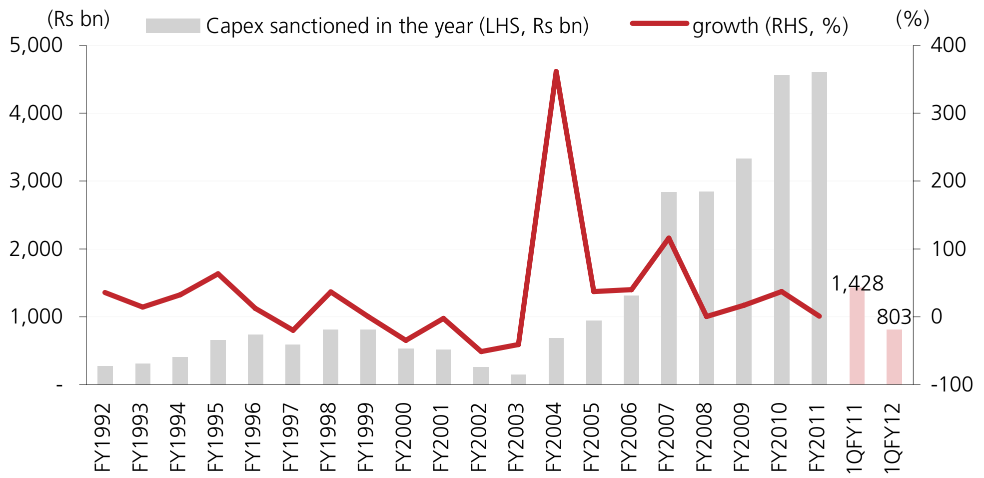
Note: Highlighted portion in FY2012E outline activity till September 2012

Source: Company, Kotak Institutional Equities

Strong positive business cycle may be moderating

We believe the present slowdown is more related to the business cycle (interest rates firming and liquidity drying up) than a breakdown in the functioning of the government. We are possibly seeing moderation playing out after a strong uptick in activity (financial closures) growing 11-12X over FY2003-10 and then stagnating in FY2011 (1QFY12 financial closures fell 44%).

Financial closures remain flat at FY2010 level, decline sharply in 1Q
Capital expenditure sanctioned assistance by banks/FIs, March fiscal year-ends, 1991-2011



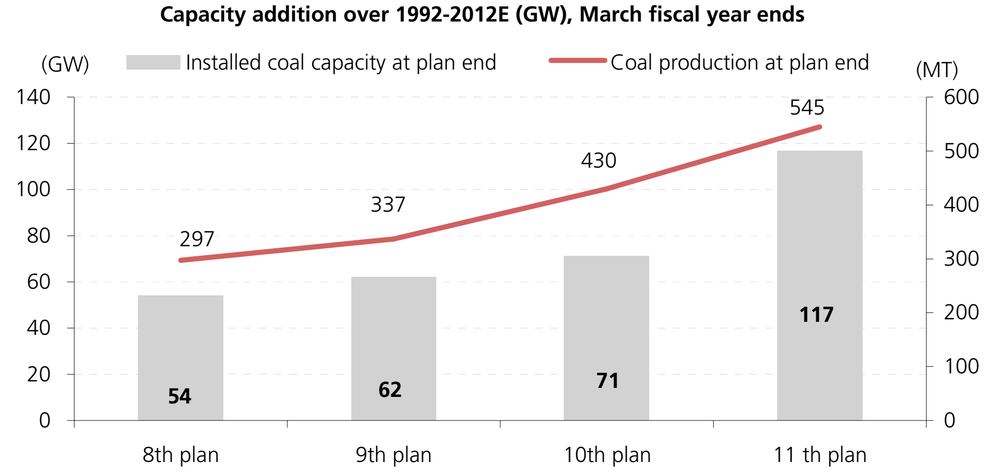
Source: RBI, Kotak Institutional Equities

Cycle exposing long standing bottlenecks and imbalances

The strong increase in investment in infrastructure and subsequent moderation has exposed key impediments to India maintaining its growth trajectory. We highlight constraints of (1) political indecision (shelving of FDI in retail and insurance) and (2) development of inputs (coal, labor).

We focus our attention on the key constraint of sedate coal production affecting capex in the infrastructure sector. CEA estimates about 117 GW of coal-based power capacity at the end of the XI plan against 545 MT of coal production (KIE estimate). Assuming two thirds of coal being used in power, the present coal production can support only about 72 GW or two thirds of power capacity (5 MTPA needed to support 1GW). Key impediments to increasing coal supply are (1) policy (go-no go zone) (2) clearances (environmental, forest) and (3) infrastructure. The government is trying to address these issues through the recent reversal of the go-no go policy. Scrapping of the policy will free up nine coal blocks with about 660 mn tons of production potential (equivalent to about 130 GW of electricity).

Significant growth in thermal power capacity addition but moderate growth in domestic coal supply
Details of the thermal power capacity addition (GW) and domestic coal supply, March fiscal year ends

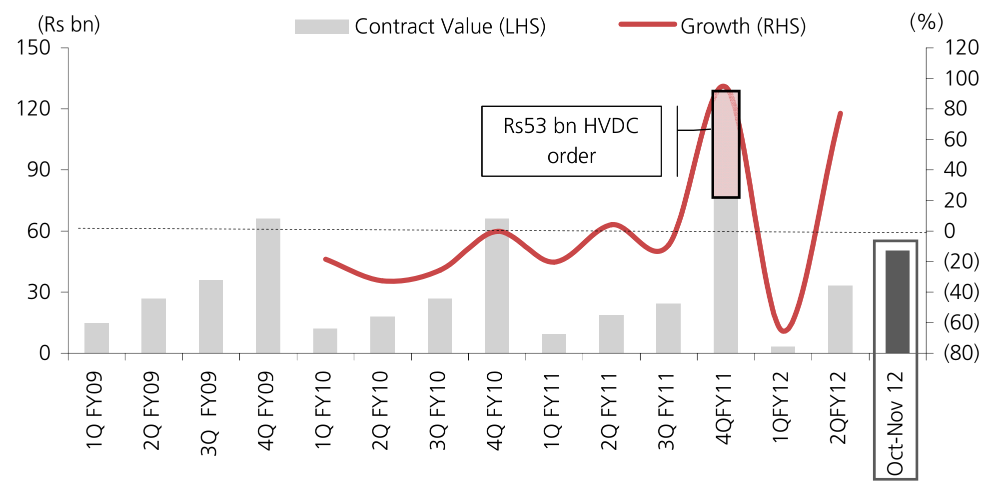


Source: CEA, Kotak Institutional Equities

Activity picks up in transmission, mining and distribution

- **Transmission**: PGCIL has stepped up awards in FY2012. It awarded projects worth Rs87 bn in 8MFY12 against Rs57 bn in 9MFY11. After October, PGCIL approved awards worth Rs24 bn and now has tenders in the pipeline worth about Rs138 bn (tenders worth Rs53 bn are currently open). Based on the time lag between tendering to award (4-5 months) If these tenders are awarded in FY2012 (it generally takes 4-5 months from tendering to awarding) 2HFY12 ordering might also be very strong.

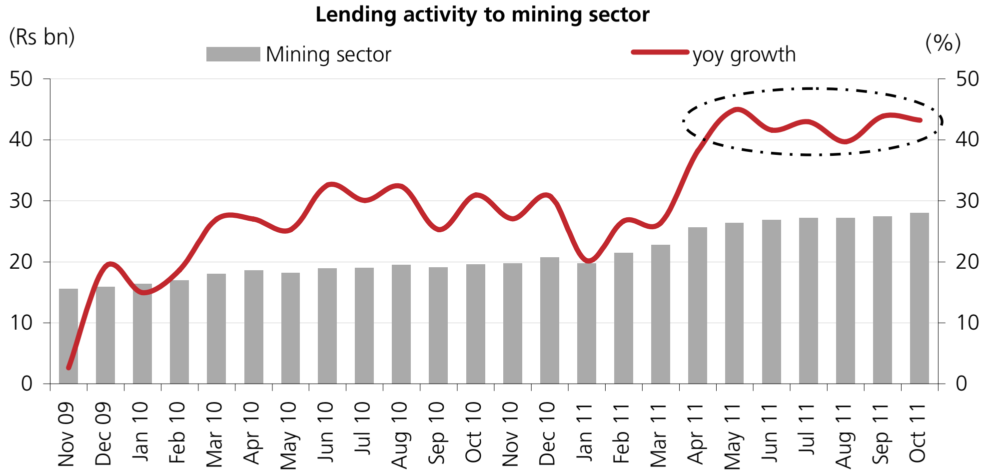
PGCIL ordering activity picks up over past four months
Total ordering activity from PGCIL, March Fiscal year ends



Source: PGCIL, Kotak Institutional Equities

- **Mining**: The sector has seen strong growth in lending from banks in FY2012 (up 42% yoy over 8MFY12). This may enhance coal production, boosting fresh investment in power projects.

Strong increase in lending for mining after March 2011
Outstanding loans in the mining sector by SCBs (Rs bn)



Source: RBI, Kotak Institutional Equities

- **Distribution**: Key utilities have been revising power tariffs in various states, including (1) Rajasthan (20-30%), (2) Delhi (22%) and (3) Jharkhand (19%). This would help to lower the debt burden and increase potential to absorb incremental supply.

Details of announcement of tariff revisions by states

State	Amount	Announcement date
Rajasthan	20-30%	September-11
Gujarat	5%	September-11
Delhi	22%	August-11
Jharkhand	19%	July-11
Himachal Pradesh	12%	July-11
Bihar	19%	June-11
Punjab	9%	May-11
Orissa	20%	March-11
Chattisgarh	14-22%	March-11

Source: Media reports, Kotak Institutional Equities

kotak Institutional Equities

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DECEMBER 30, 2011

UPDATE

BSE-30: 15,544

FCCB yields exceed 20% as the Rupee continues to remain weak. Activity has increased in the FCCB space as large redemptions in FY2012E and a weaker Rupee raise concerns regarding these obligations

FCCB activity – previous and upcoming

We witnessed a lot of developments in this space last month. While Financial Technologies paid off its obligations amounting to US$133.1 mn on December 21, others like Orchid Chemicals announced that they had managed to raise US$100 mn through the ECB route in order to pay off their upcoming FCCB obligations in Feb 2012. Welspun Corp. offered to repurchase their FCCB worth US$150 mn maturing in 2014 through a tender offer which began on December 7, 2011. With bond holders unwilling to take a haircut on the convertibles, the tender offer failed. This could be considered a positive as it implies that bond holders were confident about the repayment capability of Welspun and were willing to take on the credit risk of Welspun. The next couple of months are relatively subdued with Orchid Chemicals, the largest FCCB, coming up for redemption in Feb 2012.

FCCB universe – companies in the FCCB space

The average yield for a basket of prominent FCCBs has shot past 20% in the last month after hovering around 7-8% till August. For the prominent issuers (under KIE coverage), SUEL is yielding 25-47% for its different tranches. These yields are almost 20-25% above the YTD averages indicating the spike in implied credit risk premium for SUEL in the past few months. Vedanta Group companies like Sesa Goa and Sterlite have also seen yields rise from 10-12% to 14-15% during the last month. Smaller companies like Everest Kanto and Rolta are yielding ~22% and 30%, respectively while Jaiprakash Associates is trading at ~24%.

KIE generalized CB valuation model – mispricing and implied credit risk premium

Companies like Aksh Optifibre, GTL Infrastructure and Subex are implying the highest probability of default considering the fact that their CB prices are an indication of their implied credit risk premium. Based on our generalized model, the implied credit risk premium for Suzlon and RCOM is ~37% and 28%, respectively.

QUICK NUMBERS

- Average FCCB yields exceed 20%
- A few SUEL FCCBs are yielding in excess of 40%
- Aksh Optifibre, GTL Infra and Subex yields imply a high probability of default

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Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	29-Dec-11		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)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	(Rs)	(%)	(US$ mn)
Automobiles																													
Ashok Leyland	23	ADD	60,664	1,143	2,661	2.4	1.9	2.3	68.1	(19.7)	22.5	9.6	12.0	9.8	6.9	7.6	6.7	1.3	1.3	1.2	4.4	4.4	4.4	21.8	15.9	18.2	26	14.0	2.5
Bajaj Auto	1,602	ADD	463,720	8,738	289	90.4	114.0	133.2	43.9	26.1	16.9	17.7	14.1	12.0	13.5	11.0	9.3	9.4	6.7	4.9	2.5	2.5	2.5	84.9	55.8	47.4	1,865	16.4	15.0
Bharat Forge	248	ADD	58,767	1,107	237	12.5	16.7	19.8	1,402.1	32.8	18.7	19.7	14.9	12.5	9.5	7.7	6.6	2.6	2.2	1.9	1.4	—	—	8.2	14.3	15.2	315	27.2	1.8
Exide Industries	107	SELL	91,333	1,721	850	7.5	4.5	6.1	18.0	(39.5)	35.6	14.4	23.8	17.6	10.4	15.9	12.1	3.3	3.0	2.7	1.4	1.2	1.2	25.5	13.4	16.3	100	(6.9)	4.8
Hero Motocorp	1,905	SELL	380,329	7,167	200	99.3	120.5	135.4	(11.1)	21.3	12.4	19.2	15.8	14.1	12.6	11.2	9.5	8.1	7.0	5.8	5.5	3.7	3.7	56.5	67.0	60.0	1,900	(0.2)	24.0
Mahindra & Mahindra	686	BUY	421,388	7,940	614	41.7	43.9	49.0	22.7	5.3	11.6	16.4	15.6	14.0	12.7	11.9	10.3	4.0	3.3	2.8	1.7	1.4	1.4	27.3	23.1	21.7	840	22.4	28.7
Maruti Suzuki	922	ADD	266,294	5,018	289	79.2	60.3	90.5	(8.4)	(23.9)	50.1	11.6	15.3	10.2	6.7	9.1	5.3	1.9	1.7	1.5	0.8	0.8	0.8	17.6	11.8	15.7	1,240	34.5	15.6
Tata Motors	179	ADD	595,674	11,224	3,325	27.2	25.0	27.4	737.9	(8.1)	9.7	6.6	7.2	6.5	4.8	4.8	4.4	3.1	2.2	1.7	2.1	1.6	1.6	66.1	36.5	30.0	195	8.8	60.7
Automobiles		**Cautious**	**2,368,287**	**44,626**					**82.8**	**(2.0)**	**16.4**	**11.6**	**11.8**	**10.1**	**7.7**	**7.5**	**6.4**	**3.6**	**2.9**	**2.4**	**2.5**	**2.0**	**2.0**	**31.1**	**25.0**	**23.8**			
Banks/Financial Institutions																													
Andhra Bank	79	BUY	44,263	834	560	22.6	23.4	22.3	5.0	3.2	(4.7)	3.5	3.4	3.6	—	—	—	0.7	0.6	0.5	7.0	7.2	6.8	23.2	18.8	15.8	170	114.9	1.2
Axis Bank	816	BUY	346,061	6,521	424	82.5	96.1	111.8	33.0	16.4	16.3	9.9	8.5	7.3	—	—	—	1.8	1.6	1.3	1.7	2.0	2.3	19.3	19.8	19.6	1,500	83.9	50.2
Bajaj Finserv	442	ADD	63,992	1,206	145	78.2	62.7	61.4	102.3	(19.8)	(2.1)	5.7	7.0	7.2	—	—	—	1.8	1.3	1.1	2.8	2.8	2.8	37.2	21.8	16.4	650	47.0	1.0
Bank of Baroda	683	BUY	268,189	5,053	393	108.0	107.7	122.3	29.1	(0.3)	13.6	6.3	6.3	5.6	—	—	—	1.4	1.2	1.0	2.8	2.8	3.2	25.9	20.1	19.5	1,100	61.1	7.9
Bank of India	269	BUY	147,038	2,771	547	45.5	45.2	63.3	37.4	(0.7)	40.2	5.9	5.9	4.2	—	—	—	0.9	0.8	0.7	3.0	3.0	4.2	17.3	14.6	18.0	450	67.5	4.2
Canara Bank	358	BUY	158,461	2,986	443	90.9	80.9	101.5	23.3	(10.9)	25.4	3.9	4.4	3.5	—	—	—	0.9	0.8	0.6	3.1	3.4	3.4	23.2	16.7	18.1	550	53.8	6.5
Corporation Bank	352	BUY	52,105	982	148	95.4	86.2	89.5	16.3	(9.7)	3.9	3.7	4.1	3.9	—	—	—	0.7	0.6	0.6	5.7	5.1	5.3	21.9	16.8	15.4	600	70.6	0.6
Federal Bank	331	BUY	56,651	1,067	171	34.3	42.5	51.3	26.3	23.7	20.9	9.6	7.8	6.5	—	—	—	1.1	1.0	0.9	2.6	3.2	3.8	12.0	13.5	14.8	500	51.0	3.1
HDFC	657	REDUCE	963,167	18,149	1,467	24.1	27.8	31.6	22.4	15.5	13.7	27.2	23.6	20.7	—	—	—	5.6	4.9	3.8	1.4	1.6	1.9	21.7	22.1	21.3	725	10.4	31.5
HDFC Bank	430	ADD	999,305	18,830	2,326	16.9	22.0	28.1	31.0	30.2	27.8	25.5	19.5	15.3	—	—	—	3.9	3.4	2.9	0.8	1.0	1.3	16.7	18.7	20.5	560	30.4	35.0
ICICI Bank	686	BUY	790,091	14,888	1,152	44.7	52.0	53.7	23.9	16.3	3.3	15.3	13.2	12.8	—	—	—	1.4	1.3	1.3	2.0	2.3	2.4	9.7	10.5	10.1	1,100	60.4	92.7
IDFC	95	ADD	142,947	2,694	1,509	8.8	10.3	12.1	4.6	17.1	18.2	10.8	9.2	7.8	—	—	—	1.4	1.1	1.0	2.3	2.2	2.6	14.7	13.6	13.9	150	58.3	15.4
India Infoline	44	SELL	14,514	273	327	7.4	3.5	(6.1)	(9.3)	(52.3)	(274.8)	6.0	12.6	(7.2)	—	—	—	0.9	0.8	0.8	6.9	1.6	(3.0)	12.9	6.4	(10.8)	70	57.7	0.5
Indian Bank	182	BUY	78,197	1,473	430	38.8	40.9	48.3	10.5	5.5	18.1	4.7	4.4	3.8	—	—	—	1.0	0.8	0.7	4.1	4.2	5.0	22.3	19.9	20.1	300	64.9	1.1
Indian Overseas Bank	74	BUY	45,787	863	619	17.3	20.1	29.1	33.6	15.8	45.1	4.3	3.7	2.5	—	—	—	0.6	0.5	0.4	6.7	5.7	6.3	12.7	12.7	16.3	160	116.2	0.9
IndusInd Bank	232	BUY	108,081	2,037	466	12.4	15.6	18.2	45.2	26.1	16.6	18.7	14.8	12.7	—	—	—	3.0	2.6	2.3	0.9	1.1	1.3	20.8	18.1	17.8	325	40.1	3.3
J&K Bank	814	ADD	39,473	744	48	126.9	149.9	160.5	20.1	18.1	7.1	6.4	5.4	5.1	—	—	—	1.1	1.0	0.9	3.2	3.8	4.0	19.0	19.4	18.0	950	16.7	0.3
LIC Housing Finance	225	ADD	107,030	2,017	475	20.5	22.7	27.1	47.2	10.8	19.2	11.0	9.9	8.3	—	—	—	2.7	2.3	1.9	2.0	2.2	2.6	25.8	23.6	23.6	260	15.4	13.4
Mahindra & Mahindra Financial	593	BUY	60,713	1,144	102	45.2	55.7	70.7	26.1	23.2	26.9	13.1	10.6	8.4	—	—	—	2.5	2.2	1.8	1.7	2.1	2.6	22.0	21.1	22.8	825	39.2	1.4
Muthoot Finance	154	BUY	57,142	1,077	371	15.7	21.6	26.7	108.4	37.1	23.7	9.8	7.1	5.8	—	—	—	4.3	1.9	1.4	—	—	—	51.5	36.7	28.1	230	49.5	—
Oriental Bank of Commerce	194	BUY	56,587	1,066	292	51.5	48.0	59.5	13.7	(6.9)	23.9	3.8	4.0	3.3	—	—	—	0.6	0.5	0.4	5.4	5.0	6.2	15.5	12.1	13.6	430	121.7	2.9
PFC	132	BUY	174,236	3,283	1,320	22.8	17.0	27.9	11.1	(25.3)	63.8	5.8	7.7	4.7	—	—	—	1.2	0.9	0.8	3.0	2.6	4.2	18.4	12.7	17.0	210	59.1	12.4
Punjab National Bank	781	BUY	247,399	4,662	317	140.0	157.0	181.8	13.0	12.2	15.8	5.6	5.0	4.3	—	—	—	1.2	1.0	0.9	2.8	4.1	4.8	24.4	22.7	22.1	1,350	72.9	8.0
Reliance Capital	238	ADD	58,512	1,103	246	9.3	12.6	24.2	(25.3)	35.8	91.7	25.5	18.8	9.8	—	—	—	0.8	0.8	0.8	1.6	2.1	4.1	3.3	4.4	8.1	470	97.7	22.4
Rural Electrification Corp.	149	BUY	147,467	2,779	987	26.0	27.7	31.9	28.1	6.6	15.0	5.7	5.4	4.7	—	—	—	1.2	1.0	0.9	5.0	5.3	6.1	21.5	20.0	20.1	220	47.3	9.4
Shriram Transport	418	ADD	93,228	1,757	223	55.1	58.3	67.7	40.8	5.7	16.2	7.6	7.2	6.2	—	—	—	1.9	1.6	1.4	1.6	2.8	3.2	28.1	24.1	23.3	600	43.6	5.8
SKS Microfinance	95	RS	7,012	132	74	15.7	(89.1)	(27.5)	(41.8)	(667.7)	(69.1)	6.1	(1.1)	(3.5)	—	—	—	0.4	0.6	0.7	—	—	—	8.3	(44.7)	(19.3)	—	—	1.4
State Bank of India	1,629	BUY	1,034,318	19,490	635	130.2	172.6	216.5	(9.9)	32.6	25.4	12.5	9.4	7.5	—	—	—	1.6	1.4	1.2	2.1	2.2	2.3	12.6	15.9	17.5	2,300	41.2	140.3
Union Bank	164	BUY	86,069	1,622	524	39.5	43.0	56.1	(3.9)	9.0	30.3	4.2	3.8	2.9	—	—	—	0.8	0.7	0.6	4.9	5.3	6.9	20.9	19.0	21.2	340	107.1	4.3
Yes Bank	239	BUY	83,072	1,565	347	20.9	25.3	29.5	39.6	20.9	16.5	11.4	9.4	8.1	—	—	—	2.2	1.8	1.5	1.0	1.3	1.5	21.1	21.1	20.5	375	56.7	15.2
Banks/Financial Institutions		**Attractive**	**6,531,106**	**123,066**					**20.0**	**10.9**	**21.7**	**10.7**	**9.6**	**7.9**	—	—	—	**1.7**	**1.5**	**1.3**	**2.1**	**2.3**	**2.6**	**16.0**	**15.5**	**16.4**			
Cement																													
ACC	1,151	SELL	216,306	4,076	188	55.6	57.3	69.0	(33.2)	3.1	20.4	20.7	20.1	16.7	12.8	11.5	8.9	3.2	2.9	2.6	3.1	2.0	2.0	17.5	16.5	17.4	980	(14.9)	6.5
Ambuja Cements	157	SELL	239,241	4,508	1,522	7.9	7.9	9.8	(1.5)	(0.2)	24.8	19.9	20.0	16.0	12.2	11.2	8.8	3.0	2.8	2.5	1.3	1.4	1.5	16.6	14.8	16.8	135	(14.1)	6.7
Grasim Industries	2,515	BUY	230,708	4,347	92	232.0	254.4	271.5	(22.9)	9.7	6.7	10.8	9.9	9.3	6.6	5.1	4.5	1.6	1.4	1.2	0.8	1.4	1.4	15.7	15.0	14.1	2,900	15.3	3.3
India Cements	67	ADD	20,581	388	307	1.9	9.9	10.1	(81.2)	424.3	1.8	35.4	6.8	6.6	13.7	4.7	4.3	0.5	0.4	0.4	2.4	4.8	4.8	1.4	7.3	7.0	90	34.3	1.2
Shree Cement	2,108	REDUCE	73,430	1,384	35	57.2	76.4	116.8	(72.5)	33.7	52.9	36.9	27.6	18.0	8.7	7.0	6.1	3.8	3.5	3.2	0.7	0.8	0.9	10.7	13.2	18.3	1,850	(12.2)	0.4
UltraTech Cement	1,158	ADD	317,242	5,978	274	44.9	75.7	89.7	(49.2)	68.7	18.5	25.8	15.3	12.9	12.6	8.2	6.7	2.6	2.2	1.9	0.4	0.5	0.5	16.7	17.8	17.9	1,220	5.4	3.5
Cement		**Neutral**	**1,097,509**	**20,680**					**(23.7)**	**23.8**	**16.6**	**18.7**	**15.1**	**13.0**	**9.9**	**7.5**	**6.3**	**2.3**	**2.0**	**1.8**	**1.3**	**1.3**	**1.3**	**12.2**	**13.5**	**14.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	29-Dec-11 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2011	EPS (Rs) 2012E	EPS (Rs) 2013E	EPS growth (%) 2011	EPS growth (%) 2012E	EPS growth (%) 2013E	PER (X) 2011	PER (X) 2012E	PER (X) 2013E	EV/EBITDA (X) 2011	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	Price/BV (X) 2011	Price/BV (X) 2012E	Price/BV (X) 2013E	Dividend yield (%) 2011	Dividend yield (%) 2012E	Dividend yield (%) 2013E	RoE (%) 2011	RoE (%) 2012E	RoE (%) 2013E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products																													
Asian Paints	2,627	SELL	251,952	4,748	96	80.8	94.4	106.9	13.0	16.8	13.3	32.5	27.8	24.6	21.6	18.9	15.2	12.3	9.4	7.7	1.2	1.1	1.3	43.9	39.9	35.6	2,500	(4.8)	3.9
Colgate-Palmolive (India)	981	SELL	133,375	2,513	136	29.6	32.5	39.1	(4.9)	9.9	20.3	33.1	30.1	25.1	28.8	25.9	20.8	34.7	35.3	28.2	2.2	2.9	2.8	113.4	116.1	124.9	900	(8.2)	1.5
Dabur India	102	REDUCE	176,735	3,330	1,740	3.3	3.6	4.4	12.8	11.3	19.9	31.1	27.9	23.3	25.1	21.0	17.7	13.5	10.5	8.3	1.1	1.3	1.5	51.2	42.9	40.3	105	3.4	2.3
GlaxoSmithkline Consumer (a)	2,497	ADD	105,021	1,979	42	71.3	86.6	104.1	28.8	21.5	20.1	35.0	28.8	24.0	25.3	22.3	18.6	11.3	9.5	8.0	2.0	1.5	1.8	32.2	34.8	35.2	2,900	16.1	1.2
Godrej Consumer Products	389	ADD	125,893	2,372	324	14.9	16.8	21.8	31.3	13.1	29.8	26.1	23.1	17.8	22.4	17.9	13.3	7.3	5.5	4.4	1.3	0.8	0.8	35.9	27.6	28.9	460	18.2	1.7
Hindustan Unilever	414	ADD	894,655	16,858	2,159	9.9	11.8	14.2	4.8	19.7	19.7	41.9	35.0	29.3	36.1	28.9	23.1	34.0	29.2	25.1	1.8	2.4	2.8	66.3	89.8	92.4	420	1.4	22.8
ITC	201	ADD	1,541,511	29,047	7,681	6.4	7.9	9.0	20.7	22.5	14.1	31.3	25.6	22.4	20.7	17.4	15.0	9.2	7.9	6.9	2.2	1.9	2.2	33.2	34.9	34.3	230	14.6	29.3
Jubilant Foodworks	771	SELL	50,601	953	66	11.2	16.1	23.6	99.6	43.8	46.5	68.9	47.9	32.7	42.1	26.3	18.2	26.4	17.0	11.2	—	—	—	46.6	43.2	41.3	750	(2.8)	25.2
Jyothy Laboratories	156	ADD	12,088	228	78	10.3	8.4	10.8	(6.2)	(18.8)	28.0	15.1	18.5	14.5	11.5	28.6	21.4	1.8	1.7	1.6	3.9	3.0	3.8	12.3	9.7	11.7	190	22.0	0.2
Marico	146	BUY	89,695	1,690	615	3.9	5.0	6.5	(12.8)	28.1	30.2	37.6	29.3	22.5	23.2	20.7	15.9	9.6	7.5	5.9	0.5	0.5	0.6	30.3	29.2	29.7	175	20.1	0.9
Nestle India (a)	4,113	SELL	396,514	7,472	96	86.8	106.6	125.0	16.7	22.8	17.3	47.4	38.6	32.9	31.5	25.5	21.3	46.4	32.9	24.5	1.2	1.5	1.7	116.5	99.7	85.4	3,600	(12.5)	2.2
Tata Global Beverages	90	BUY	55,718	1,050	618	4.0	5.6	6.6	(34.6)	42.7	16.7	22.8	15.9	13.7	8.8	9.7	7.2	1.1	1.1	1.0	2.2	3.2	3.7	6.5	8.9	10.0	110	22.1	1.8
Titan Industries	172	BUY	153,054	2,884	888	4.8	6.5	7.9	69.1	34.5	20.9	35.6	26.5	21.9	25.9	19.1	15.1	14.1	10.6	8.3	0.7	1.3	1.7	47.1	45.7	42.5	210	21.8	18.1
United Spirits	513	BUY	64,392	1,213	126	35.3	36.6	42.7	29.5	3.5	16.9	14.5	14.0	12.0	11.7	10.0	9.2	1.5	1.4	1.3	0.5	0.5	0.6	11.2	10.5	11.1	900	75.5	8.6
Consumer products		**Attractive**	**4,051,204**	**76,337**					**16.3**	**19.6**	**17.7**	**33.7**	**28.2**	**23.9**	**23.7**	**19.8**	**16.5**	**10.5**	**9.0**	**7.7**	**1.7**	**1.8**	**2.1**	**31.0**	**31.8**	**32.3**			
Constructions																													
IVRCL	27	BUY	7,276	137	267	5.9	4.2	5.0	(25.2)	(28.5)	18.5	4.6	6.4	5.4	5.2	6.3	5.6	0.4	0.3	0.3	2.3	1.5	1.5	8.2	5.5	6.2	59	116.5	3.6
Nagarjuna Construction Co.	33	BUY	8,390	158	257	6.4	4.1	5.5	(29.7)	(35.5)	32.7	5.1	8.0	6.0	6.5	6.9	6.2	0.4	0.3	0.3	3.2	6.1	6.1	7.1	4.4	5.7	85	159.9	0.7
Punj Lloyd	41	REDUCE	14,008	264	340	(1.5)	3.4	6.5	(56.6)	(328.7)	90.7	(27.8)	12.1	6.4	11.5	6.4	5.5	0.5	0.5	0.4	(0.2)	0.7	1.4	(1.7)	3.8	6.9	60	45.5	3.6
Sadbhav Engineering	101	BUY	15,085	284	150	7.8	10.8	11.9	51.0	38.9	10.6	13.0	9.3	8.4	8.1	6.6	6.0	2.4	1.9	1.6	0.6	0.6	0.6	18.1	20.4	18.6	180	78.8	0.3
Construction		**Attractive**	**44,759**	**843**					**(1.1)**	**27.8**	**35.7**	**11.6**	**9.0**	**6.7**	**7.6**	**6.5**	**5.7**	**0.6**	**0.5**	**0.5**	**1.1**	**1.8**	**2.0**	**4.8**	**5.9**	**7.5**			
Energy																													
Aban Offshore	349	BUY	15,207	287	44	134.2	96.5	115.8	25.9	(28.1)	19.9	2.6	3.6	3.0	6.4	7.0	6.3	0.7	0.8	0.7	1.0	1.1	1.3	33.3	24.4	22.7	635	81.7	6.7
Bharat Petroleum	479	RS	173,051	3,261	362	38.9	30.6	45.8	(32.5)	(21.3)	49.5	12.3	15.6	10.5	8.8	8.7	7.6	1.1	1.1	1.0	2.9	2.1	3.1	9.2	6.8	9.6	—	—	5.8
Cairn india	304	ADD	578,955	10,909	1,903	33.3	43.5	54.6	501.1	30.7	25.3	9.1	7.0	5.6	6.7	5.1	3.7	1.4	1.3	1.1	—	1.6	4.9	16.9	19.0	21.3	335	10.1	14.0
Castrol India (a)	402	REDUCE	99,493	1,875	247	19.8	19.7	21.6	28.5	(0.6)	9.9	20.3	20.4	18.6	12.9	13.8	12.3	19.3	18.0	16.7	3.7	3.9	4.2	100.2	91.0	93.0	410	1.9	0.6
GAIL (India)	382	BUY	484,686	9,133	1,268	28.2	31.8	33.8	13.8	12.8	6.5	13.6	12.0	11.3	8.5	8.7	7.8	2.3	2.0	1.8	2.0	2.2	2.5	17.5	17.1	15.8	535	40.0	8.6
GSPL	81	REDUCE	45,822	863	563	8.9	9.1	8.6	21.7	2.1	(5.2)	9.2	9.0	9.5	6.1	5.6	5.6	2.0	1.7	1.5	1.2	2.2	3.2	25.2	20.4	16.6	93	14.2	1.7
Hindustan Petroleum	247	RS	83,888	1,581	339	40.8	14.4	23.7	(20.8)	(64.8)	64.9	6.1	17.2	10.4	2.7	3.9	3.6	0.5	0.5	0.5	5.7	1.8	3.0	9.0	2.9	4.6	—	—	5.0
Indian Oil Corporation	253	RS	613,179	11,554	2,428	32.4	14.5	32.3	(34.0)	(55.2)	122.2	7.8	17.4	7.8	7.8	9.1	6.0	1.0	1.0	0.9	3.8	1.9	3.9	13.3	5.6	11.7	—	—	3.2
Oil India	1,172	BUY	281,916	5,312	240	120.0	154.5	186.9	4.2	28.8	21.0	9.8	7.6	6.3	4.6	2.7	2.0	1.7	1.5	1.3	3.2	4.0	4.9	16.2	18.4	19.3	1,720	46.7	1.8
Oil & Natural Gas Corporation	258	BUY	2,206,040	41,569	8,556	24.7	33.7	38.2	7.4	36.8	13.3	10.5	7.6	6.7	3.9	3.2	2.5	1.5	1.3	1.2	3.4	4.3	4.8	14.3	17.3	17.3	355	37.7	14.3
Petronet LNG	160	SELL	119,775	2,257	750	8.1	13.3	12.8	50.3	64.1	(3.5)	19.7	12.0	12.4	11.4	8.2	8.6	4.0	3.2	2.6	1.3	1.9	1.9	20.9	28.1	21.9	135	(15.5)	6.3
Reliance Industries	712	BUY	2,122,174	39,988	2,981	62.0	70.4	76.5	24.8	13.6	8.7	11.5	10.1	9.3	6.4	5.2	4.6	1.3	1.2	1.0	1.1	1.3	1.4	13.0	13.3	12.9	925	29.9	76.1
Energy		**Attractive**	**6,824,186**	**128,588**					**11.6**	**12.6**	**18.7**	**10.2**	**9.0**	**7.6**	**5.7**	**4.9**	**4.0**	**1.4**	**1.3**	**1.1**	**2.3**	**2.6**	**3.4**	**13.8**	**13.9**	**14.8**			
Industrials																													
ABB	576	SELL	121,996	2,299	212	3.0	11.7	22.7	(82.2)	291.5	94.5	192.9	49.3	25.3	138.4	32.7	16.4	5.0	4.7	4.1	0.3	0.6	0.6	2.6	9.9	17.3	515	(10.5)	1.6
BGR Energy Systems	179	REDUCE	12,921	243	72	44.8	32.5	20.3	60.0	(27.3)	(37.6)	4.0	5.5	8.8	3.0	3.9	3.4	1.4	1.1	1.0	5.6	3.6	2.3	39.0	22.5	12.3	175	(2.3)	3.1
Bharat Electronics	1,348	ADD	107,812	2,032	80	107.3	127.2	134.5	11.6	18.6	5.7	12.6	10.6	10.0	4.7	4.3	3.1	2.1	1.8	1.6	1.6	1.9	1.9	18.2	18.3	16.9	1,850	37.3	0.7
Bharat Heavy Electricals	236	REDUCE	578,246	10,896	2,448	24.6	25.0	25.4	39.7	1.9	1.4	9.6	9.4	9.3	6.1	6.1	5.7	2.9	2.3	2.0	2.6	2.3	2.3	33.3	27.3	22.9	310	31.2	20.2
Crompton Greaves	127	BUY	81,214	1,530	642	14.3	9.2	10.3	11.5	(36.0)	12.3	8.8	13.8	12.3	5.7	8.1	6.8	2.5	2.2	1.9	1.9	1.1	1.1	31.7	16.7	16.3	135	6.6	5.6
Larsen & Toubro	1,000	REDUCE	608,546	11,467	609	67.7	77.5	84.5	18.1	14.5	8.9	14.8	12.9	11.8	11.7	9.3	8.8	2.3	1.9	1.7	1.5	1.4	1.4	17.0	16.2	15.0	1,175	17.6	67.9
Maharashtra Seamless	321	BUY	22,637	427	71	48.2	42.1	46.8	24.8	(12.6)	11.0	6.7	7.6	6.9	4.1	4.1	3.4	0.9	0.8	0.8	2.6	2.6	2.9	13.8	11.1	11.5	460	43.3	0.4
Siemens	638	SELL	217,244	4,094	340	25.5	27.2	30.5	13.6	6.6	12.1	25.0	23.5	20.9	17.1	14.6	13.0	5.5	4.7	4.0	0.8	0.9	1.0	24.2	21.7	20.7	640	0.3	2.9
Suzlon Energy	18	REDUCE	30,809	581	1,746	(6.0)	1.9	3.8	(4.6)	(132.4)	96.6	(2.9)	9.1	4.6	15.4	5.6	4.7	0.5	0.4	0.4	—	1.1	1.1	(15.8)	4.9	9.2	40	126.6	10.9
Tecpro Systems	164	BUY	8,270	156	50	27.0	28.8	24.8	24.2	6.9	(14.1)	6.1	5.7	6.6	4.3	4.8	4.8	1.2	1.1	0.9	—	—	—	26.8	20.2	15.2	200	22.1	0.1
Thermax	401	ADD	47,726	899	119	31.6	32.8	31.4	44.3	3.7	(4.3)	12.7	12.2	12.8	8.1	7.8	7.8	3.6	3.0	2.6	2.2	2.3	2.2	31.5	27.0	21.9	440	9.8	1.0
Voltas	73	ADD	24,028	453	331	9.8	6.4	7.6	(14.3)	(34.4)	17.6	7.4	11.3	9.6	3.8	7.1	5.3	1.7	1.6	1.5	2.8	2.7	3.2	26.1	14.8	15.9	90	23.9	2.2
Industrials		**Cautious**	**1,870,639**	**35,249**					**23.9**	**14.1**	**8.4**	**13.9**	**12.1**	**11.2**	**9.1**	**8.0**	**7.4**	**2.5**	**2.1**	**1.8**	**1.8**	**1.6**	**1.7**	**17.7**	**17.2**	**16.2**			
Infrastructure																													
Container Corporation	808	ADD	105,043	1,979	130	67.6	71.7	77.9	11.7	6.1	8.7	12.0	11.3	10.4	8.2	7.1	6.1	2.1	1.9	1.6	1.9	2.0	2.2	18.9	17.5	16.8	1,150	42.3	0.9
GMR Infrastructure	20	RS	73,715	1,389	3,667	(0.0)	(0.4)	0.5	(102.0)	3,980.8	(243.5)	(2,318.9)	(56.8)	39.6	11.0	9.6	7.7	0.7	0.7	0.7	—	—	—	(0.0)	(2.0)	2.8	—	—	2.3
Gujarat Pipavav Port	54	ADD	22,703	428	424	(1.2)	1.2	2.3	(65.8)	(195.8)	102.4	(44.6)	46.6	23.0	23.8	15.8	12.0	3.1	2.9	2.6	—	—	—	(9.1)	8.9	12.2	63	17.5	0.5
GVK Power & Infrastructure	11	RS	17,766	335	1,579	1.0	1.0	0.3	(0.6)	1.6	(73.4)	11.5	11.3	42.4	16.3	15.1	17.9	0.5	0.5	0.5	—	2.7	3.1	4.7	4.6	1.2	—	—	2.8
IRB Infrastructure	134	BUY	44,437	837	332	13.6	12.1	15.7	30.4	(10.7)	29.1	9.8	11.0	8.5	7.1	7.5	5.7	1.7	1.3	1.0	1.1	—	—	19.3	13.4	13.4	200	49.6	5.3
Mundra Port and SEZ	124	BUY	250,567	4,721	2,017	4.6	5.6	8.5	36.3	22.0	53.2	27.3	22.4	14.6	22.5	17.3	12.4	5.8	4.7	3.7	1—	—	—	23.4	23.2	28.3	155	24.8	3.9
Infrastructure		**Cautious**	**514,231**	**9,690**					**16.9**	**7.8**	**41.2**	**21.9**	**20.3**	**14.4**	**13.2**	**11.4**	**9.1**	**1.9**	**1.7**	**1.6**	**0.8**	**0.5**	**0.6**	**8.8**	**8.6**	**10.9**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	29-Dec-11		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)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	(Rs)	(%)	(US$ mn)
Media																													
DB Corp	188	BUY	34,521	650	183	14.1	11.4	14.0	32.7	(19.4)	22.9	13.4	16.6	13.5	8.7	9.7	7.9	4.2	3.7	3.3	2.1	2.7	3.2	35.0	23.7	25.7	300	59.3	0.1
DishTV	60	BUY	63,461	1,196	1,063	(1.8)	(0.2)	1.1	(27.7)	(89.8)	(733.5)	(33.5)	(329.2)	52.0	29.7	12.4	9.3	101.1	146.0	38.3	—	—	—	(81.9)	(36.3)	116.8	90	50.8	5.1
Eros International	201	BUY	19,446	366	97	11.8	15.6	19.6	19.0	32.7	25.6	17.0	12.8	10.2	11.8	9.0	6.5	2.9	2.3	1.9	—	—	—	24.9	20.1	20.4	270	34.6	1.6
Hindustan Media Ventures	121	BUY	8,880	167	73	7.3	9.8	11.9	198.0	34.7	20.7	16.6	12.3	10.2	7.7	6.8	5.1	2.3	2.0	1.7	0.8	0.8	1.7	23.3	17.4	18.0	210	73.6	0.0
HT Media	126	ADD	29,694	560	235	7.7	7.1	9.0	31.0	(8.0)	27.2	16.4	17.9	14.0	7.6	7.9	5.9	2.1	1.9	1.8	0.3	1.6	3.2	14.9	11.2	13.2	160	26.7	0.1
Jagran Prakashan	93	BUY	29,427	554	316	6.8	6.6	7.9	16.7	(3.1)	20.0	13.7	14.1	11.7	8.1	7.9	6.6	4.2	3.8	3.3	3.8	3.8	4.3	32.8	28.1	30.1	150	61.2	0.1
Sun TV Network	266	BUY	104,648	1,972	394	19.5	20.0	23.8	48.1	2.5	18.9	13.6	13.3	11.2	8.2	7.7	6.6	4.3	3.8	3.4	3.3	3.8	5.3	36.5	32.1	33.8	400	50.6	6.2
Zee Entertainment Enterprises	118	BUY	115,300	2,173	978	5.8	6.2	7.7	10.0	6.4	23.3	20.2	19.0	15.4	13.5	12.4	9.8	2.7	2.6	2.5	1.1	1.1	1.3	14.2	14.3	16.9	160	35.8	3.1
Media		**Neutral**	**405,377**	**7,639**					**51.6**	**10.7**	**28.4**	**20.5**	**18.5**	**14.4**	**10.9**	**9.6**	**7.7**	**3.8**	**3.5**	**3.1**	**1.7**	**1.9**	**2.6**	**18.4**	**18.6**	**21.6**			
Metals & Mining																													
Coal India	299	ADD	1,887,014	35,557	6,316	17.3	22.9	27.4	13.6	32.1	20.0	17.3	13.1	10.9	9.8	7.3	6.1	5.4	4.3	3.4	1.3	2.3	2.8	35.1	36.5	34.9	380	27.2	30.7
Hindalco Industries	117	ADD	224,426	4,229	1,915	12.8	15.4	16.0	(36.0)	20.6	4.1	9.2	7.6	7.3	5.5	6.4	6.0	0.8	0.7	0.7	1.3	1.3	1.3	9.7	9.7	9.3	150	28.0	24.9
Hindustan Zinc	118	ADD	498,761	9,398	4,225	11.6	12.8	14.2	21.8	9.5	11.3	10.1	9.3	8.3	6.4	5.3	3.9	2.2	1.9	1.6	0.8	2.1	2.1	24.3	22.0	20.7	145	22.8	1.6
Jindal Steel and Power	463	REDUCE	432,768	8,155	934	40.2	41.7	46.4	5.1	3.9	11.2	11.5	11.1	10.0	8.9	8.1	7.7	3.1	2.4	2.0	0.3	0.4	0.4	30.9	24.6	21.9	540	16.6	21.6
JSW Steel	525	REDUCE	118,616	2,235	226	78.6	48.5	77.6	(2.2)	(38.4)	60.1	6.7	10.8	6.8	5.7	6.2	5.6	0.7	0.7	0.6	2.3	1.9	1.9	13.6	9.5	9.7	545	3.8	30.1
National Aluminium Co.	50	SELL	128,862	2,428	2,577	4.2	3.5	3.9	36.4	(16.7)	13.1	12.0	14.4	12.8	4.9	5.8	4.8	1.2	1.1	1.1	3.0	3.0	3.0	9.9	7.8	8.5	55	10.0	0.2
Sesa Goa	160	REDUCE	143,018	2,695	895	47.0	38.8	52.3	59.8	(17.3)	34.7	3.4	4.1	3.1	2.8	4.0	3.0	1.1	0.9	0.7	2.5	2.5	2.6	36.8	20.6	26.3	190	18.9	11.7
Sterlite Industries	90	BUY	303,684	5,722	3,361	15.2	13.2	15.2	26.2	(12.9)	15.2	6.0	6.8	5.9	3.7	3.1	2.4	0.7	0.7	0.6	1.2	1.4	1.4	13.0	10.2	10.7	155	71.6	14.2
Tata Steel	342	BUY	332,125	6,258	971	75.3	42.4	56.2	(2,258.1)	(43.7)	32.6	4.5	8.1	6.1	5.1	6.5	5.3	0.9	0.8	0.7	3.5	3.5	3.5	24.7	9.2	12.7	490	43.3	46.7
Metals & Mining		**Cautious**	**4,069,274**	**76,677**					**39.1**	**(0.3)**	**18.1**	**9.8**	**9.9**	**8.3**	**6.3**	**6.1**	**5.2**	**1.9**	**1.6**	**1.4**	**1.4**	**2.1**	**2.3**	**19.0**	**16.4**	**16.8**			
Pharmaceutical																													
Apollo Hospitals	547	BUY	75,955	1,431	139	13.2	17.1	21.2	21.0	29.3	24.0	41.3	31.9	25.8	18.8	13.9	12.0	3.9	3.0	2.6	—	—	—	9.8	10.3	10.5	650	18.9	4.7
Biocon	268	BUY	53,530	1,009	200	18.4	16.6	23.0	23.9	(9.7)	38.8	14.6	16.1	11.6	8.2	8.9	6.7	2.6	2.4	2.1	—	—	—	19.4	15.5	19.0	390	45.7	1.8
Cipla	321	SELL	258,099	4,863	803	12.3	15.6	18.4	(10.0)	26.2	18.0	26.1	20.7	17.5	22.6	15.4	12.3	3.9	3.4	2.9	0.9	0.9	1.1	15.4	17.2	18.0	330	2.7	8.9
Cadila Healthcare	694	REDUCE	142,085	2,677	205	34.7	32.6	45.6	40.6	(6.1)	39.7	20.0	21.3	15.2	17.4	15.2	11.8	6.5	5.3	4.2	0.9	0.9	1.3	37.5	27.5	30.8	765	10.2	1.2
Dishman Pharma & chemicals	36	REDUCE	2,944	55	81	9.8	(0.9)	11.0	(31.8)	(109.1)	(1,325.4)	3.7	(40.5)	3.3	6.9	9.9	5.7	0.3	0.3	0.3	—	—	—	9.6	(0.8)	9.9	40	10.5	0.1
Divi's Laboratories	768	ADD	101,929	1,921	133	32.4	38.8	49.8	25.7	19.8	28.4	23.7	19.8	15.4	19.6	15.0	11.1	5.7	4.8	4.0	—	—	—	25.9	26.2	28.2	915	19.1	2.0
Dr Reddy's Laboratories	1,569	ADD	266,701	5,025	170	64.9	85.3	108.4	932.5	31.4	27.0	24.2	18.4	14.5	17.0	12.4	9.9	5.8	4.6	3.6	0.7	0.8	0.9	24.8	27.8	27.8	1,800	14.7	10.6
GlaxoSmithkline Pharmaceuticals (a)	1,939	SELL	164,197	3,094	85	68.3	75.5	83.3	15.5	10.6	10.3	28.4	25.7	23.3	18.7	17.8	15.5	8.4	8.6	8.0	2.1	2.6	2.9	30.9	33.2	35.7	1,930	(0.4)	0.8
Glenmark Pharmaceuticals	279	BUY	75,444	1,422	270	17.0	22.3	27.6	33.6	31.4	23.7	16.5	12.5	10.1	18.7	15.5	9.5	3.7	2.9	2.3	—	—	—	20.6	26.0	25.2	375	34.4	3.8
Jubilant Life Sciences	182	REDUCE	28,945	545	159	14.4	11.6	34.9	(45.6)	(19.8)	201.6	12.6	15.7	5.2	10.5	6.7	6.0	1.3	1.2	1.0	1.1	1.1	1.7	12.3	19.8	18.8	180	(0.9)	0.5
Lupin	440	ADD	197,160	3,715	448	19.2	20.8	27.7	25.6	8.3	33.0	22.9	21.1	15.9	19.2	17.5	12.2	5.9	4.8	3.8	0.7	0.8	1.0	29.5	25.5	27.4	545	23.9	7.4
Ranbaxy Laboratories	404	REDUCE	171,022	3,223	423	40.6	20.4	42.9	474.9	(49.7)	109.8	10.0	19.8	9.4	12.3	12.8	7.6	3.0	2.8	2.1	—	—	—	34.5	14.9	26.1	450	11.3	9.1
Sun Pharmaceuticals	497	ADD	514,279	9,691	1,036	17.5	21.7	28.3	34.4	23.5	30.5	28.3	22.9	17.6	24.1	16.9	13.1	5.0	4.1	3.4	0.7	0.8	1.0	21.0	21.6	23.4	625	25.9	8.8
Pharmaceuticals		**Neutral**	**2,052,290**	**38,671**					**43.1**	**8.5**	**34.6**	**21.5**	**19.8**	**14.7**	**17.3**	**13.6**	**10.1**	**3.4**	**3.0**	**2.5**	**0.8**	**0.8**	**1.0**	**16.0**	**15.0**	**16.9**			
Property																													
DLF	187	ADD	320,025	6,030	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	20.6	15.7	11.9	14.6	11.5	8.7	1.2	1.1	1.1	1.1	1.3	1.6	5.4	7.5	9.2	270	44.7	28.0
Housing Development & Infrastructure	54	BUY	23,682	446	441	19.8	24.8	32.7	24.2	25.0	32.1	2.7	2.2	1.6	3.9	5.1	3.3	0.2	0.2	0.2	—	1.9	2.8	10.0	10.7	12.4	150	179.3	14.9
Indiabulls Real Estate	47	RS	18,986	358	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	11.9	5.6	3.1	9.9	7.7	3.3	0.2	0.2	0.1	1—	1.1	1.5	1.4	2.9	5.0	—	—	8.1
Mahindra Life Space Developer	247	BUY	10,092	190	41	24.9	30.8	37.5	30.2	23.7	21.6	9.9	8.0	6.6	7.4	5.3	3.8	1.0	0.9	0.8	2.0	1.8	2.0	10.4	11.6	12.7	450	82.0	0.1
Oberoi Realty	211	BUY	69,397	1,308	330	15.7	17.2	27.4	14.8	9.7	59.3	13.4	12.2	7.7	9.6	8.4	4.5	2.1	1.8	1.5	0.5	0.7	1.2	19.9	15.8	21.4	310	47.3	0.2
Phoenix Mills	161	BUY	23,313	439	145	6.3	7.4	10.7	53.0	17.2	44.1	25.4	21.7	15.1	18.9	15.8	11.8	1.5	1.4	1.3	1.1	1.2	1.2	5.8	6.6	8.9	300	86.4	0.1
Puravankara Projects	56	REDUCE	11,888	224	213	5.5	9.0	10.9	(18.9)	62.8	21.5	10.1	6.2	5.1	15.5	8.5	7.2	0.8	0.7	0.6	1.8	2.7	3.6	8.0	12.0	13.1	80	43.6	0.0
Sobha Developers	197	BUY	19,338	364	98	18.8	18.9	27.4	33.8	0.5	44.9	10.5	10.4	7.2	10.0	9.2	6.3	1.0	1.0	0.9	1.5	1.8	2.0	10.2	9.5	12.6	350	77.5	0.7
Unitech	19	RS	50,756	956	2,616	2.3	2.3	2.3	(23.4)	0.2	(3.0)	8.4	8.3	8.6	11.3	9.7	8.1	0.4	0.4	0.4	1—	1.0	1.5	5.4	5.0	4.4	—	—	9.4
Property		**Cautious**	**580,331**	**10,935**					**5.3**	**35.7**	**33.9**	**13.6**	**10.0**	**7.5**	**11.6**	**9.3**	**6.6**	**0.8**	**0.8**	**0.7**	**0.9**	**1.3**	**1.6**	**6.1**	**7.6**	**9.3**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	29-Dec-11		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)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	(Rs)	(%)	(US$ mn)
Technology																													
HCL Technologies	388	REDUCE	273,434	5,152	705	22.9	33.0	38.7	30.4	44.2	17.3	17.0	11.8	10.0	10.3	7.1	6.0	3.2	2.5	2.1	1.9	2.1	2.1	21.0	23.2	22.8	450	16.0	10.5
Hexaware Technologies	75	ADD	21,678	408	290	3.0	8.6	9.5	(36.8)	191.2	10.8	25.3	8.7	7.8	18.6	6.8	4.6	2.2	1.9	1.7	2.0	4.0	4.4	9.3	24.0	23.1	100	34.0	2.2
Infosys	2,742	BUY	1,573,965	29,658	574	119.7	147.8	180.6	10.5	23.5	22.2	22.9	18.5	15.2	15.7	12.4	9.5	6.1	5.0	4.2	2.2	1.7	2.1	28.0	29.6	30.0	3,300	20.3	75.5
Mahindra Satyam	64	REDUCE	75,617	1,425	1,176	4.2	7.5	8.1	68.9	79.5	7.0	15.3	8.5	8.0	10.6	4.7	3.3	4.4	2.9	2.1	—	—	—	27.6	41.0	30.8	80	24.4	4.7
Mindtree	402	ADD	16,532	312	41	24.7	44.3	51.2	(52.7)	79.6	15.5	16.3	9.1	7.8	9.1	6.0	4.3	2.1	1.8	1.5	0.6	1.1	3.8	14.4	21.3	21.0	500	24.5	0.5
Mphasis	296	SELL	62,437	1,177	211	51.8	39.0	34.6	18.8	(24.6)	(11.4)	5.7	7.6	8.6	4.8	6.3	5.6	1.9	1.6	1.4	1.3	1.5	1.7	38.6	22.8	17.3	310	4.6	1.8
Polaris Software Lab	120	REDUCE	11,984	226	100	19.3	20.8	23.2	25.7	7.8	11.3	6.2	5.8	5.2	3.2	2.2	1.5	1.2	1.0	0.9	3.1	3.2	3.4	20.2	18.4	17.6	145	20.6	1.4
TCS	1,166	BUY	2,281,508	42,991	1,957	44.5	55.8	68.6	26.8	25.2	23.0	26.2	20.9	17.0	19.8	14.8	11.8	9.0	7.3	6.0	1.5	1.9	2.4	37.8	38.8	38.8	1,300	11.5	36.4
Tech Mahindra	580	SELL	73,118	1,378	126	48.0	75.2	80.0	(26.3)	56.5	6.5	12.1	7.7	7.2	8.2	8.9	7.3	2.2	1.9	1.7	0.7	0.7	1.7	20.2	27.2	25.3	600	3.4	2.2
Wipro	398	ADD	977,551	18,420	2,454	21.6	23.2	27.9	14.5	7.5	20.0	18.5	17.2	14.3	13.6	11.5	9.3	4.1	3.4	2.9	1.1	1.2	1.5	24.3	21.7	22.0	450	13.0	13.3
Technology		**Attractive**	**5,426,020**	**102,243**					**17.0**	**21.3**	**19.6**	**21.1**	**17.4**	**14.6**	**15.2**	**12.0**	**9.6**	**5.5**	**4.6**	**3.8**	**1.8**	**1.7**	**2.1**	**26.2**	**26.2**	**26.0**			
Telecom																													
Bharti Airtel	341	ADD	1,294,792	24,398	3,798	15.9	14.4	25.2	(32.6)	(9.4)	75.0	21.4	23.6	13.5	9.5	8.0	6.0	2.7	2.8	2.3	—	—	—	13.3	11.5	18.8	405	18.8	45.4
IDEA	80	ADD	264,759	4,989	3,303	2.7	2.1	4.6	(0.5)	(24.2)	125.0	29.5	38.9	17.3	9.8	7.8	5.9	2.2	2.1	1.9	—	—	—	7.6	5.5	11.7	95	18.5	13.2
MTNL	23	RS	14,459	272	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(2.2)	(2.5)	(2.7)	1.6	2.2	2.7	0.1	0.1	0.2	—	—	—	(6.1)	(5.7)	(5.5)	-	(100.0)	0.3
Reliance Communications	68	SELL	140,558	2,649	2,064	6.5	3.5	2.6	(71.1)	(46.9)	(24.9)	10.4	19.7	26.2	5.7	7.5	6.3	0.3	0.3	0.3	—	—	—	3.2	1.7	1.3	60	(11.9)	12.5
Tata Communications	213	REDUCE	60,719	1,144	285	(24.9)	(27.0)	(26.6)	(13.0)	8.4	(1.4)	(8.6)	(7.9)	(8.0)	11.2	8.4	7.6	1.7	2.4	3.9	—	—	—	(17.5)	(25.1)	(37.0)	215	0.9	0.8
Telecom		**Cautious**	**1,775,287**	**33,452**					**(45.8)**	**(20.1)**	**87.5**	**25.7**	**32.1**	**17.1**	**8.8**	**8.0**	**6.1**	**1.5**	**1.6**	**1.5**	—	—	—	**6.0**	**4.9**	**8.5**			
Utilities																													
Adani Power	64	REDUCE	151,968	2,864	2,393	2.4	5.3	10.1	200.7	126.4	90.2	27.0	11.9	6.3	32.0	13.6	5.7	2.4	1.9	1.4	—	—	—	8.5	17.7	26.0	74	16.5	1.2
CESC	197	BUY	24,612	464	125	39.1	37.8	41.4	13.1	(3.4)	9.5	5.0	5.2	4.8	3.8	5.2	5.5	0.5	0.5	0.4	2.0	2.4	2.5	10.8	9.6	9.6	400	103.0	1.2
JSW Energy	38	REDUCE	61,500	1,159	1,640	5.1	2.3	2.5	12.9	(55.4)	9.1	7.3	16.4	15.0	9.8	10.9	6.8	1.1	1.0	1.0	(2.7)	—	—	16.1	6.4	6.6	43	14.7	0.8
Lanco Infratech	10	BUY	21,119	398	2,223	1.6	1.9	2.6	(22.6)	14.7	36.9	5.8	5.0	3.7	9.5	9.9	7.0	0.5	0.4	0.4	—	—	—	9.2	8.4	10.3	39	310.5	2.8
NHPC	18	BUY	220,183	4,149	12,301	1.3	2.1	2.2	(27.2)	52.4	5.4	13.3	8.7	8.3	10.4	7.7	6.8	0.8	0.8	0.7	3.4	3.1	3.3	6.4	9.2	9.1	29	62.0	2.2
NTPC	161	REDUCE	1,324,634	24,960	8,245	10.9	11.5	12.5	4.2	5.2	8.5	14.7	14.0	12.9	11.3	11.7	10.4	1.9	1.8	1.6	2.5	2.1	2.3	13.6	13.2	13.1	175	8.9	8.0
Reliance Infrastructure	344	BUY	91,275	1,720	265	58.0	57.2	75.6	(6.5)	(1.4)	32.2	5.9	6.0	4.6	8.8	5.8	5.4	0.4	0.4	0.3	2.1	3.0	3.3	6.8	10.3	9.0	890	158.6	12.9
Reliance Power	72	SELL	202,530	3,816	2,805	2.7	2.7	2.9	(0.2)	(2.0)	7.7	26.6	27.2	25.2	112.0	39.2	19.0	1.2	1.2	1.1	—	—	—	4.9	4.3	4.5	76	5.3	6.1
Tata Power	89	BUY	218,448	4,116	2,468	7.6	7.1	8.2	21.5	(6.5)	14.1	11.6	12.4	10.9	9.9	7.9	8.2	1.5	1.4	1.3	1.6	1.7	1.9	13.8	11.6	12.1	125	41.2	6.7
Utilities		**Cautious**	**2,316,270**	**43,646**					**4.3**	**8.8**	**16.8**	**13.6**	**12.5**	**10.7**	**12.0**	**10.5**	**8.6**	**1.3**	**1.2**	**1.1**	**1.9**	**1.8**	**2.0**	**9.9**	**10.0**	**10.7**			
Others																													
Carborundum Universal	138	REDUCE	25,882	488	187	9.1	11.6	12.5	67.7	26.6	7.8	15.2	12.0	11.1	9.5	6.9	6.4	3.0	2.5	2.1	1.4	1.8	1.9	25.2	25.9	23.4	155	12.0	0.1
Havells India	385	ADD	48,007	905	125	24.5	27.5	30.5	334.1	12.0	10.8	15.7	14.0	12.6	10.3	9.1	7.9	6.8	4.9	3.6	0.6	0.7	0.8	53.9	40.4	32.8	450	17.0	2.7
Jaiprakash Associates	53	BUY	113,233	2,134	2,126	6.0	6.4	6.9	230.2	5.9	7.6	8.8	8.4	7.8	10.9	8.1	7.2	1.1	1.0	0.9	—	—	—	13.3	12.0	11.7	105	97.2	23.1
Jet Airways	172	BUY	14,849	280	86	(10.1)	(105.5)	4.4	(91.0)	949	(104.2)	(17.1)	(1.6)	39.0	9.2	14.9	7.3	0.9	2.2	2.1	—	—	—	(5.0)	—	—	500	190.7	8.0
SpiceJet	16	BUY	6,973	131	441	2.5	(5.4)	3.0	(1.8)	(317.9)	(154.4)	6.3	(2.9)	5.3	8.8	(8.1)	9.0	2.2	4.7	2.5	—	—	—	(961)	(102.5)	61.4	50	216.5	1.1
Tata Chemicals	308	REDUCE	78,338	1,476	255	26.2	32.9	38.8	(0.7)	25.4	17.9	11.7	9.3	7.9	7.3	5.1	4.3	1.4	1.3	1.1	3.3	3.9	4.9	16.9	18.6	19.5	365	18.7	1.9
United Phosphorus	125	BUY	57,910	1,091	462	12.3	14.6	23.5	3.9	17.9	61.6	10.2	8.6	5.3	6.2	4.2	3.4	1.6	1.4	1.1	1.6	2.4	2.8	18.0	16.9	23.3	170	35.6	3.0
Others			**345,193**	**6,504**					**233.8**	**(19.8)**	**89.6**	**12.2**	**15.2**	**8.0**	**9.5**	**7.9**	**6.3**	**1.5**	**1.4**	**1.2**	**1.2**	**1.5**	**1.8**	**12.1**	**9.0**	**15.0**			
KS universe (b)			**40,288,555**	**759,159**					**18.5**	**9.2**	**21.4**	**13.7**	**12.6**	**10.4**	**9.1**	**8.0**	**6.6**	**2.1**	**1.9**	**1.7**	**1.7**	**1.9**	**2.2**	**15.4**	**15.0**	**16.0**			
KS universe (b) ex-Energy			**33,464,369**	**630,570**					**20.7**	**8.3**	**22.2**	**14.8**	**13.7**	**11.2**	**10.6**	**9.4**	**7.7**	**2.4**	**2.1**	**1.8**	**1.6**	**1.7**	**1.9**	**16.0**	**15.3**	**16.4**			
KS universe (d) ex-Energy & ex-Commodities			**28,297,586**	**533,212**					**19.3**	**9.7**	**23.3**	**15.8**	**14.4**	**11.7**	**12.1**	**10.4**	**8.4**	**2.5**	**2.2**	**1.9**	**1.7**	**1.7**	**1.9**	**15.6**	**15.2**	**16.4**			

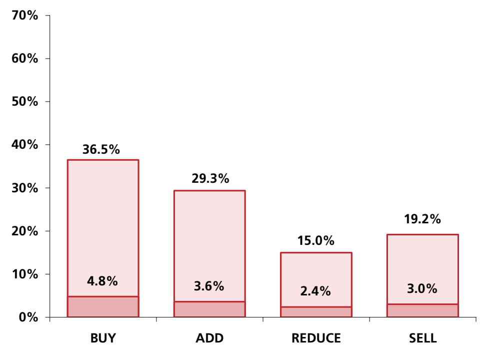
Notes:
(a) For banks we have used adjusted book values.
(b) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(c) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(d) Rupee-US Dollar exchange rate (Rs/US$)= 53.07

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 17.5% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 7.5-17.5% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-7.5% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more than 0% over the next 12 months. Our target prices are also on a 12-month horizon basis. These ratings are used illustratively to comply with applicable regulations. As of 30/09/2011 Kotak Institutional Equities Investment Research had investment ratings on 167 equity securities.

Source: Kotak Institutional Equities

As of September 30, 2011

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 17.5% returns over the next 12 months.

ADD. We expect this stock to deliver 7.5-17.5% returns over the next 12 months.

REDUCE. We expect this stock to deliver 0-7.5% returns over the next 12 months.

SELL. We expect this stock to deliver less than 0% returns over the next 12 months.

Our target prices are also on a 12-month horizon basis.

Other definitions

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

Other ratings/identifiers

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

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

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

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