kotak® Institutional Equities

# INDIA DAILY

August 29, 2011

Contents

## Daily Alerts



## KIE communication

We suspend our ratings on GMR and GVK due to constraints in determining their fair value due to a lack of clarity on key issues (1) regulatory environment in the airport vertical (which drives a large part of the value) and (2) certain corporate actions (aggressive asset acquisitions, especially in the case of GVK).

## News Round-up

- The Supreme Court's decision to extend suspension of mining won't impact JSW Steel (JSTL IN), as it can access alternate source from a 25 million-tonne inventory lying unsold. (ECNT)
- The finance ministry has agreed to directly infuse about USD 652.17 mn into SBI (SBIN IN) in a compromise solution to meet the bank's immediate capital needs. The bank is now likely to defer its proposed rights issue to later in the year or even next fiscal. (ECNT)
- Uncertain market conditions have hit Gujarat State Petroleum Corporation's plan to raise finance through private placement of its equity shares and, unlocking value in city gas subsidiary (GSPC Gas- to part finance its USD 1.7 billion KG asset development plan. (THBL MON)
- ONGC (ONGC IN) is likely to start oil and gas production from Krishna-Godavari basin field GS-15 next month. While production from some oil wells in the GS-15 field is set to commence from September, ONGC plans to initiate production from its G-1 marginal field in the KG Basin from July 2012. (BSTD-MON)
- Oil India (OINL IN) is chalking out an expansion and diversification strategy that could also include an entry into the city gas distribution space. (BSTD-MON)

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

## EQUITY MARKETS

| | | Change % | | |
|---|---|---|---|---|
| **India** | **26-Aug** | **1-day** | **1-mo** | **3-mo** |
| Sensex | 15,849 | (1.8) | (12.9) | (13.2) |
| Nifty | 4,748 | (1.9) | (13.4) | (13.3) |
| **Global/Regional indices** | | | | |
| Dow Jones | 11,285 | 1.2 | (7.1) | (9.3) |
| Nasdaq Composite | 2,480 | 2.5 | (10.0) | (11.3) |
| FTSE | 5,130 | (0.0) | (11.8) | (13.6) |
| Nikkie | 8,845 | 0.5 | (10.0) | (7.1) |
| Hang Seng | 19,831 | 1.3 | (11.6) | (14.2) |
| KOSPI | 1,821 | 2.4 | (14.6) | (13.3) |
| **Value traded – India** | | | | |
| Cash (NSE+BSE) | 126 | | 141 | 134 |
| Derivatives (NSE) | 1,014 | | 2,337 | 2,123 |
| Deri. open interest | 1,553 | | 1,530 | 1,589 |

**Forex/money market**

| | Change, basis points | | | |
|---|---|---|---|---|
| | **26-Aug** | **1-day** | **1-mo** | **3-mo** |
| Rs/US$ | 46.2 | 0 | 197 | 108 |
| 10yr govt bond, % | 8.3 | 6 | (15) | (14) |
| **Net investment (US$mn)** | | | | |
| | **25-Aug** | | **MTD** | **CYTD** |
| FIIs | (324) | | (2,015) | 146 |
| MFs | 44 | | 449 | (282) |

**Top movers -3mo basis**

| | Change, % | | | |
|---|---|---|---|---|
| **Best performers** | **26-Aug** | **1-day** | **1-mo** | **3-mo** |
| IDEA IN Equity | 95.9 | (2.8) | 1.6 | 42.5 |
| BJAUT IN Equity | 1503.7 | (0.9) | 2.3 | 14.2 |
| GNP IN Equity | 321.4 | (0.9) | (2.7) | 10.1 |
| NEST IN Equity | 4380.1 | (0.1) | 0.5 | 9.7 |
| APNT IN Equity | 3263.2 | (0.0) | 4.1 | 8.5 |
| **Worst performers** | | | | |
| EDSL IN Equity | 199.2 | (2.3) | (42.4) | (57.8) |
| IVRC IN Equity | 32.1 | (8.4) | (48.4) | (53.6) |
| CRG IN Equity | 137.0 | 0.1 | (19.2) | (46.9) |
| HDIL IN Equity | 95.9 | (4.6) | (32.8) | (40.5) |
| ESOIL IN Equity | 79.7 | (7.0) | (31.7) | (36.9) |


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kotak Institutional Equities

# ICICI Bank (ICICIBC)

Banks/Financial Institutions

**BUY**

AUGUST 29, 2011

CHANGE IN RECO.

Coverage view: Attractive

Price (Rs): 820

Target price (Rs): 1,100

BSE-30: 15,849

**Strong franchise at attractive valuation; Upgrade to BUY.** We believe the shift in liability profile, increasing share of low risk assets, healthy coverage ratio, relatively lower risk profile of international business and strong capital position provides comfort on earnings; however, medium-term RoEs will likely be moderate due to excess capitalization. The recent sharp stock correction appears to ignore the changing risk profile of the balance sheet, in our view. We upgrade our rating to BUY with a price target of ₹1,100/share and reiterate ICICI Bank as our top pick among private banks.

**Company data and valuation summary**

ICICI Bank

| Stock data | | | |
|---|---|---|---|
| 52-week range (Rs) (high,low) | | | 1,279-814 |
| Market Cap. (Rs bn) | | | 944.8 |
| **Shareholding pattern (%)** | | | |
| Promoters | | | 0.0 |
| FIIs | | | 64.7 |
| MFs | | | 8.0 |
| **Price performance (%)** | **1M** | **3M** | **12M** |
| Absolute | (21.1) | (20.1) | (16.6) |
| Rel. to BSE-30 | (7.8) | (9.0) | (4.1) |

| Forecasts/Valuations | 2011 | 2012E | 2013E |
|---|---|---|---|
| EPS (Rs) | 44.7 | 58.0 | 63.1 |
| EPS growth (%) | 23.9 | 29.7 | 8.8 |
| P/E (X) | 18.3 | 14.1 | 13.0 |
| NII (Rs bn) | 90.2 | 107.0 | 128.1 |
| Net profits (Rs bn) | 51.5 | 66.8 | 72.6 |
| BVPS | 478.3 | 515.9 | 556.9 |
| P/B (X) | 1.7 | 1.6 | 1.5 |
| ROE (%) | 9.7 | 11.7 | 11.8 |
| Div. Yield (%) | 1.7 | 2.1 | 2.3 |

## Valuations attractive; Upgrade to BUY

We upgrade ICICI Bank to BUY with TP at ₹1,100/share (from ₹1,270/share earlier in FY2013), representing a 35% upside from current levels. At the current price, the stock is trading attractively at 1.3X book and 10X FY2013E EPS. We expect earnings growth of 19% CAGR for FY2011-13E and RoEs to reach 14-15% levels on the back of steadily improving leverage.

## Strong liability franchise to drive earnings

We see revenue growth at 18-19% CAGR for FY2011-13E with margins improving by 5-10 bps in FY2012E (as against a decline of 20-25 bps for the industry) on the back of a stronger liability profile and a change in the composition of assets. Loan growth is likely to remain at 18% CAGR with the overall composition maintained between the retail (with more secured lending) and corporate segments while lending in the international loan book is likely to remain opportunistic in nature.

## Asset quality risk magnified by the street; risk profile significantly better than FY2009

We expect ICICI Bank's loan loss provisions at 1% levels and slippages at 1.5% levels for FY2011-13E as compared to 3% in FY2010. The current environment poses risks to the infrastructure loan book (10% of loans), however, the high share of retail loans (38% of loans) versus the sector (19% of loans) improves the risk profile of the bank. Notably, in 2009, unsecured retail loans primarily affected the performance of this book (9% peak NPL); currently, 6% of retail loans are unsecured.

## Banking international subsidiaries pose substantially lower risk

We believe international subsidiaries pose substantially lower risk despite the increase in volatility in international markets. These currently contribute to only 20% (peak of 25%) of overall loans. These businesses provides more comfort at the current juncture as (1) some portion of these exposures are short term in nature, (2) in UK, Canada and Eurasia, the share of cash is 20% of balance sheet. (3) exposure to financial institutions in ICICI UK is only 11% of balance sheet (30% at peak) (4) CDS exposure is just 2.4% (6.6% in 2009) and (5) capital adequacy ratio is much above regulatory requirements at 25-30% across regions.

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## Attractive valuations for improving risk profile

We find ICICI Bank trading at attracting valuations for a risk profile that has changed over the past few years. ICICI Bank's balance sheet, over the past few years, has transformed itself, making it far more resilient to external shocks. At current price, the stock is trading at 1.3X book and 10X FY2013E EPS. The stock offers strong upside of 35% from current levels. A key risk to our call would be a substantial deterioration in the corporate balance sheet, mainly India related exposures, resulting in higher provisions led by deep restructuring of select exposures, which could delay RoE improvement and keep valuations in check.

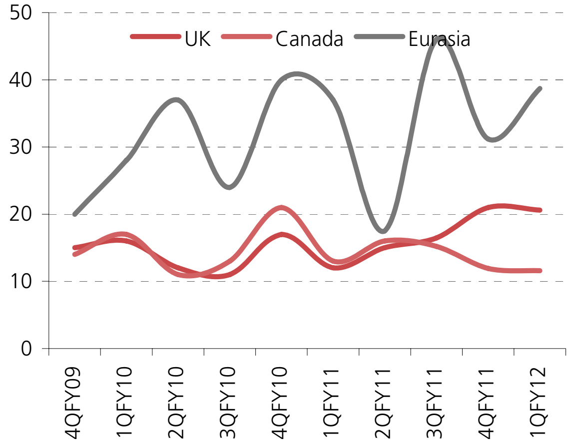
We upgrade ICICI Bank to BUY with a target price of ₹1,100/share (from ₹1,270/share earlier in FY2013E), representing a 35% upside from current levels. We are, however, revising our target price downwards, to ₹1,100/share (from ₹1,270/share earlier) factor 7% decline in earnings (FY2013E) on the back of higher provisions in the stand-alone business, and revising our valuations downwards for the subsidiary business (life insurance and banking subsidiaries). We expect the RoEs (adjusted for subsidiaries) to improve to 14% levels from 10% levels reported in FY2011 and earnings growth to remain healthy at 19% CAGR.

- **Improvement in liability profile.** Post FY2008, ICICI Bank has significantly changed its asset and liability profile, which is less risky and focused on improving underlying financial metrics. The standalone loan book today has lower proportion of unsecured loans while average CASA ratio is at 40% levels, one of the largest amongst banks. International balance sheets have seen a steady shift towards a higher share of retail deposits.

- **Lower NPLs, healthy coverage and better capitalization.** ICICI Bank's balance sheet is stronger with net NPLs lower at 1% levels, slippages declining to historic low levels and a healthy provision coverage ratio of about 76%. Capital adequacy ratios are healthy at 19.6% (Tier-1 ratio at 13.4%). The bank has excess capital invested in its subsidiaries (ICICI Pru Life, UK and Canada) though the repatriation exercise in some of these entities would be difficult in the medium term. Higher capitalization affects profitability, even while significantly improves the ability of the bank to withstand likely liquidity shocks.

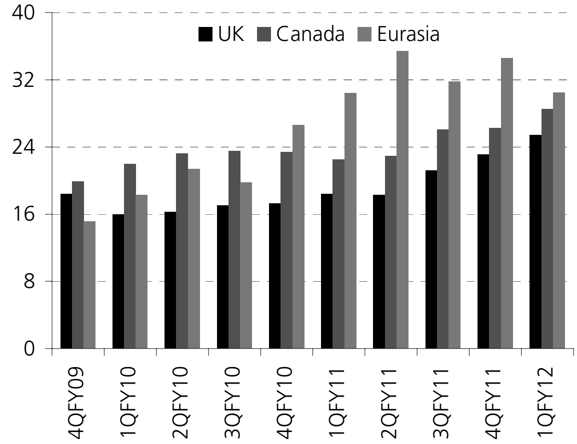
- **Better profile of investment book as well.** The investment book has declined and the bank has lower exposure to international financial institutions. Also, exposures to risky products like CDS have declined and contribute to less than 3% of loans which should minimize the possibility of negative earnings surprises. It is important to note that this decline is visible both in the stand-alone as well as international subsidiaries.

**Proportion of cash in balance sheet has increased in UK**
Cash equivalents, March fiscal year-ends, 4QFY09-1QFY12 (%)




Source: Company, Kotak Institutional Equities

**Healthy CAR across all subsidiaries**
Capital adequacy ratios, March fiscal year-ends, 4QFY09-1QFY12 (%)




Source: Company, Kotak Institutional Equities

### Valuing the business at ₹1,100/share

We are valuing the business at ₹1,100/share with the standalone business (adjusted for investments in subsidiaries and revised earnings) at ₹860/share (from ₹970/share earlier) giving an implied valuation of 1.9X FY2013 book and 15X EPS. We are valuing the subsidiaries at ₹240/share (₹290/share earlier) reducing our fair value for ICICI Pru Life and international banking subsidiaries.

- **Life insurance contribution at 10% of overall SOTP.** As compared to FY2007-08, the contribution of this business to our overall valuation has been gradually declining, currently at 10% of our overall SOTP, on the back of better performance of the banking business as well as headline industry pressure on insurance business. We are valuing the life insurance business at ₹107/share (₹130/share earlier) which implies margins at 11% and NBAP multiple of 16X FY2013E NBAP.

- **Reducing valuation of UK and Canada subsidiaries to factor weak performance.** We are reducing our valuation for Canada and UK subsidiaries to 0.6X FY2013E book (from 1X FY2013E book). Our Cautious outlook on loan growth and the balance sheet that is relatively under-leveraged (capital adequacy ratios exceeding 25% levels) should result in RoEs in these two key subsidiaries in single digits. A prolonged period of uncertainty in international markets may restrict the repatriation of excess capital from these entities.

ICICI Bank --forecasts and valuation
March fiscal year-ends, 2008-2013E

| | PAT | EPS | P/E | BVPS | P/B | RoE | Core RoE | P/E (standalone) | BVPS (standalone) | P/B (standalone) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Rs bn) | (Rs) | (X) | (Rs) | (X) | (%) | (%) | (X) | (Rs) | (X) |
| 2009 | 37.6 | 33.8 | 24.3 | 445 | 1.8 | 7.8 | 9.2 | 19.0 | 331 | 1.8 |
| 2010 | 40.2 | 36.1 | 22.7 | 463 | 1.8 | 8.0 | 9.7 | 17.8 | 348 | 1.7 |
| 2011 | 51.5 | 44.7 | 18.3 | 478 | 1.7 | 9.7 | 11.5 | 14.2 | 365 | 1.6 |
| 2012E | 66.8 | 58.0 | 14.1 | 516 | 1.6 | 11.7 | 14.1 | 10.8 | 402 | 1.5 |
| 2013E | 72.6 | 63.1 | 13.0 | 557 | 1.5 | 11.8 | 13.9 | 10.0 | 443 | 1.3 |
| 2014E | 84.2 | 73.1 | 11.2 | 604 | 1.4 | 12.6 | 14.6 | 8.6 | 491 | 1.2 |

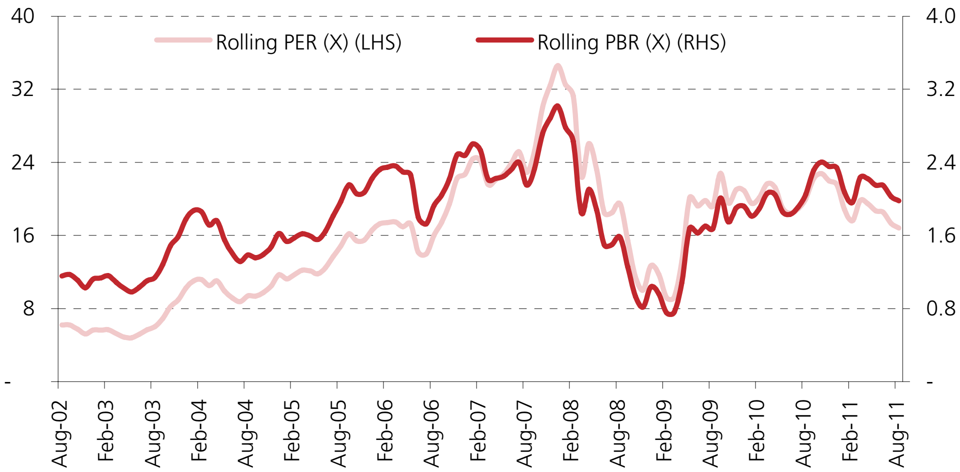
Source: Company, Bloomberg, Kotak Institutional Equities estimates

ICICI Bank SOTP (FY2013) valuation

| | ICICI Share (%) | FY2013 | Valuation methodoly adopted |
|---|---|---|---|
| **Value of ICICI standalone** | **100** | **862** | Based on Residual growth model |
| **Subsidiaries** | | | |
| **ICICI Financial Services** | **94** | **144** | |
| ICICI Prudential Life | 74* | 107 | 16X NBAP, margin assumed is 11% |
| General Insurance | 74* | 20 | 1.5X FY2013 PBR |
| Mutual Fund | 51* | 17 | 3% of AUMs |
| **Other subsidiaries/associates** | | | |
| ICICI Securities Ltd | 100 | 12 | 10X FY2013 PER |
| ICICI Securities Primary Dealer | 100 | 6 | 1X FY2013 PBR |
| ICICI Homes Ltd | 100 | 20 | 1.5X FY2013 PBR |
| ICICI Bank UK | 100 | 17 | 0.6XFY2013 PBR |
| ICICI Bank Canada | 100 | 23 | 0.6XFY2013 PBR |
| Venture capital/MF | 100 | 13 | 10% of AUM of US$2 bn |
| **Value of subsidiaries** | | **235** | ` |
| **Value of company** | | **1,097** | |

Source: Company, Kotak Institutional Equities estimates

**Rolling PER and PBR for ICICI Bank**
March fiscal year-ends, 2002-2011 (X)




Source: Company, Kotak Institutional Equities

**ICICI Bank-- change in estimates**
March fiscal year-ends, 2011-2013E (₹ mn)

| | Old estimates | | New estimates | | % change in estimates | |
|---|---|---|---|---|---|---|
| | **2012E** | **2013E** | **2012E** | **2013E** | **2012E** | **2013E** |
| Net interest income | 104,665 | 126,774 | 107,043 | 128,059 | 2.3 | 1.0 |
| Spread | 2.1 | 2.2 | 2.2 | 2.2 | | |
| NIM (%) | 2.6 | 2.7 | 2.7 | 2.7 | | |
| Customer assets (Rs bn) | 3,078 | 3,566 | 3,078 | 3,566 | 0.0 | 0.0 |
| Loan loss provisions | 17,714 | 21,870 | 18,895 | 30,842 | 6.7 | 41.0 |
| Other income | 81,108 | 96,188 | 81,018 | 96,188 | (0.1) | (0.0) |
| Fee income | 63,418 | 73,920 | 63,418 | 73,920 | 0.0 | 0.0 |
| Treasury income | 2,000 | 4,000 | 2,000 | 4,000 | 0.0 | 0.0 |
| Operating expenses | 77,905 | 92,011 | 77,905 | 92,011 | 0.0 | (0.0) |
| Employee expenses | 34,463 | 42,147 | 34,463 | 42,147 | 0.0 | 0.0 |
| PBT | 89,064 | 108,582 | 90,261 | 100,894 | 1.3 | (7.1) |
| Tax | 23,157 | 30,403 | 23,468 | 28,250 | 1.3 | (7.1) |
| **Net profit** | **65,908** | **78,179** | **66,793** | **72,644** | **1.3** | **(7.1)** |
| **PBT-treasury+provisions** | **104,778** | **126,451** | **107,156** | **127,736** | **2.3** | **1.0** |

Source: Company, Kotak Institutional Equities estimates

## Revenue growth to remain strong at 19% CAGR; inline with loan growth

After having consolidated its business in the past few years, we see revenue growth at 18-19% CAGR over FY2011-13E on the back of positive margin outlook, 18-19% CAGR loan growth and a pick up in fee income business.

### Maintain our positive outlook on margins; franchise strength not to be overlooked

We expect margins to improve in FY2012E by 5-10 bps as against a decline of 20-25 bps for the industry on the back of strong liability profile and change in the composition of assets.

- **Improvement in CASA.** Average CASA ratio in FY2011 improved to 39% levels from 33% in FY2010. 1QFY12 saw this improving further by 50 bps though reported period ending average balances declined qoq. Bulk exposure to overall deposits is declining (currently at about 35% of overall deposits). The bank has a strong presence in key deposit markets like Mumbai, Delhi and Southern geographies and is building a strong payment/wholesale business practice that should result in better traction on CA deposits.

- **Opportunistic lending in the international book.** On the assets side, the overall proportion of low-yielding international loans are likely to remain at current levels or decline depending on the underlying opportunity and pricing (focus on underwriting incremental loans at over 1% level margins).

- **Re-pricing of loans to continue.** We believe re-pricing in loans is yet to be fully completed as corporate loans have different reset periods. Over the past two quarters, we note that lending yields (KS calc) increased by only 70 bps while the base rate/PLR increased by over 200 bps. 1QFY12 was a bit subdued as there has been negative impact on select PSL exposures. Average interest earning assets for FY2011 is much lower than reported growth yoy, as the growth was largely back-ended.

- **One-off impact on NII to reduce.** Negative drag from higher slippages resulting in income de-recognition as well as yields stabilizing at the retail loan portfolio with unsecured loans forming less than 5% of overall loans. NIM impact due to de-recognition from securitization was about 15 bps each in FY2011 (₹5.5 bn with loans outstanding of ₹ 28 bn) and FY2010 (₹ 5.1 bn with loans outstanding of ₹ 75.6 bn). We expect a further decline in the outstanding securitized book in FY2012 as no fresh securitization has been done in FY2011 and the average maturity in retail assets, especially unsecured, are comparatively low.

Two key negatives which would add pressure on the positive outlook of margins would be the steady increase in retail term deposit rates as well as the low-yielding investment book (RIDF investments has increased to ₹150 bn - 15% of the overall investment book).

### Expect stable fee income performance with higher focus on transaction banking

We expect fee income trends to grow in line with the overall balance sheet growth as the bank has been investing in the transaction banking piece during its period of consolidation. The bank has indicated that fee income from forex, derivatives, remittances and other transaction related businesses (all non balance sheet related items) are doing well when compared to income from structuring (project finance). The retail side (40% of the overall fee income) would see a bit of pressure from third party income (5% of the overall income).

## Loan growth to remain inline with industry trends

We expect loan growth at 18-19% CAGR for FY2011-13E. Overall contribution is likely to be maintained between retail (though more secured in nature) and corporate segment while lending in the international loan book is likely to remain opportunistic in nature. Secured loans (housing and auto loans) would dominate retail loan growth and the bank is unlikely to increase exposure on the unsecured space. Unsecured loans (personal loans and credit cards) have declined to 6% of retail loans compared to 17% at their peak.

Past investments aimed at strengthening the payments business should result in a higher share of working capital related lending, a business can deliver better margins for the bank with the structural shift in the underlying liability structure. Near-term growth in corporate loans would be driven by sanctions made in infrastructure.

**Share of non retail segment on a rise**
Break-up of gross advances, March fiscal year-ends, 2007-2011 (%)

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Retail loans | 65.2 | 58.6 | 49.3 | 44.4 | 39.7 |
| - Home loans | 32.2 | 28.9 | 25.8 | 25.3 | 24.1 |
| - Auto Loans | 9.7 | 7.6 | 5.9 | 4.5 | 3.8 |
| - Commercial business/SME | 10.2 | 8.9 | 7.4 | 7.3 | 6.8 |
| - Two wheeler loans | 1.2 | 1.3 | 0.8 | 0.2 | 0.1 |
| - Personal loans | 6.3 | 6.3 | 4.9 | 3.1 | 1.8 |
| - Credit cards | 3.1 | 4.2 | 4.0 | 3.2 | 2.2 |
| - LAS | 2.6 | 1.5 | 0.6 | 0.7 | 0.9 |
| Services - Non finance | 2.8 | 6.3 | 7.5 | 7.2 | 7.7 |
| Services - Finance | 4.9 | 2.9 | 3.5 | 3.4 | 7.2 |
| Crude/refining | 2.5 | 2.5 | 6.4 | 7.1 | 6.3 |
| Infrastructure ex power | 1.5 | 2.2 | 4.2 | 5.5 | 5.8 |
| Power | 2.1 | 2.5 | 2.4 | 3.0 | 4.4 |
| Iron and steel | 2.5 | 4.1 | 4.4 | 4.6 | 4.2 |
| Food and beverages | 2.2 | 2.8 | 2.4 | 3.3 | 3.1 |
| Wholesale/retail trade | 1.2 | 1.1 | 1.2 | 2.4 | 2.3 |
| Electronics and engineering | 0.0 | 0.9 | 1.6 | 1.7 | 2.0 |
| Mining | 0.0 | 0.0 | 0.0 | 0.2 | 1.8 |
| Construction | 0.0 | 1.3 | 1.1 | 1.0 | 1.6 |
| Chemical and fertilizers | 2.5 | 1.7 | 2.3 | 2.5 | 1.3 |
| Textiles | 0.8 | 1.0 | 0.8 | 1.0 | 0.9 |
| Other industries | 11.7 | 12.1 | 12.9 | 12.7 | 11.5 |

Source: Company, Kotak Institutional Equities

## Healthy asset quality despite cyclical rise in slippages/ corporate restructuring

We continue to have a favorable outlook on the underlying asset quality cycle for ICICI Bank, in comparison with the industry. With a substantially higher proportion of loans in retail, primarily secured products like housing and auto, we see limited risk in comparison to the previous cycle that had a higher share of unsecured loans. On the corporate side, risks have increased in industries where the bank has seen strong loan growth in recent years: power (4% of loans) and other infrastructure (6%), pressure on pricing and availability of inputs in these industries should result in a select restructuring exercise over the next few years.

We build provisions to increase to 1% levels in FY2013-14 from 80 bps previously (substantially lower than 1.7-2.2% in FY2009-10) factoring higher risk in the corporate loan portfolio, where we select possibility of restructuring of loans. In the medium term, we believe there is a strong argument for the bank to improve its coverage levels (1QFY12 at 77%) to ease the earnings pressure in the event of large slippages in the corporate loans.

**Agriculture saw a sharp rise in gross NPLs in FY2011**
Break-up of NPLs, March fiscal year-ends, 2009-2011 (%)

| | Gross NPLs (%) | | | Net NPLs (%) | | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2009 | 2010 | 2011 |
| Agriculture and allied | 3.6 | 5.6 | 7.6 | 2.1 | 3.1 | 3.0 |
| Industry | 1.8 | 2.4 | 2.1 | 0.9 | 1.2 | 0.8 |
| Services | 2.5 | 2.6 | 1.8 | 1.7 | 1.2 | 0.5 |
| Personal loans | 7.5 | 9.0 | 9.8 | 3.2 | 3.3 | 1.8 |

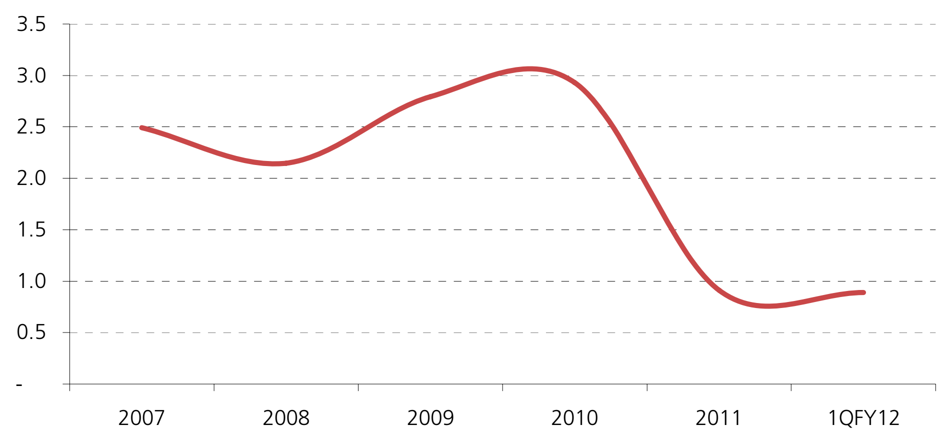
Source: Company, Kotak Institutional Equities

**Slippages to increase on the back of cyclical low NPLs in retail as well as higher risk in corporate**
Non-performing loans, March fiscal year-ends, 2007-14E (%)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| Gross NPL | 2.1 | 3.3 | 4.3 | 4.9 | 4.3 | 3.8 | 3.7 | 3.9 |
| Net NPL | 1.0 | 1.5 | 2.1 | 2.1 | 1.1 | 0.8 | 0.9 | 1.1 |
| Slippage ratio | 1.5 | 1.9 | 2.2 | 2.9 | 1.6 | 1.1 | 1.4 | 1.5 |
| Loan loss provisions | 1.3 | 1.3 | 1.7 | 2.2 | 1.0 | 0.8 | 1.0 | 1.0 |
| Provision coverage | 50.5 | 52.0 | 52.8 | 59.5 | 76.0 | 79.7 | 76.3 | 74.4 |

Source: Company, Kotak Institutional Equities

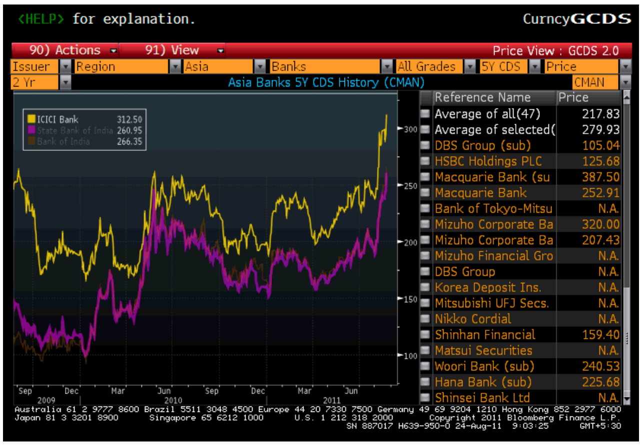
**Expect increase in restructured loans in FY2013-14 if infrastructure exposure raises serious concerns**
Restructured loans to total loans, March fiscal year-ends, 2007-1QFY12 (%)




Source: Company, Kotak Institutional Equities

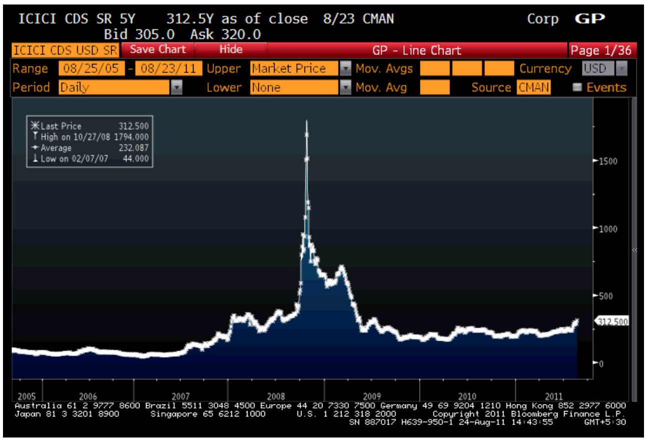
We see limited risks for the international book (explained later), especially from a MTM perspective. The bank has seen its own CDS spreads increasing sharply but the bank is monitoring its maturity profile carefully, has a larger proportion in cash/ cash equivalents and lower risk in the investment book.

**Banks have seen an increase in CDS spreads in the past few weeks**
CDS spread, March fiscal year-ends, 2008-2011 (%)




Source: Bloomberg

**CDS spreads have widened as risks have increased substantially in international markets**
CDS spreads, March fiscal year-ends, 2008-2011 (%)




Source: Bloomberg

## International subsidiaries is relatively less risky and well capitalized

We note a few key positive differences in the structure of ICICI Bank's international loan book as compared to FY2009 which is giving us tremendous comfort in the event of risk rising sharply in the international market. (1) The overall contribution of the international assets has been steadily declining especially in UK and Canada. The underlying assets holds significantly lower risk assets and higher proportion of cash and cash equivalents in the unlikely event of a relapse of liquidity freeze in international markets. (2) On the liabilities side, retail deposit composition has significantly improved, especially in the UK. Further, the bank is looking to match ALMs as closely as possible. (3) The capital adequacy ratio is much above regulatory requirements at 25-30% across regions.

### Contribution of the international loans declined to 20% levels from 25% in FY2010

The overall contribution of international loans is currently lower at 20% levels (adjusting for the exposure in Canada which saw a change in reporting securitized assets in 1QFY12) compared to peak levels of 25% in FY2010. Exposure in the stand-alone balance sheet is the highest at similar levels of 12% levels.

We are broadly comfortable with the international exposure of the bank:

- The primary exposure is to Indian companies. Also, exposure in the parent entity has short-term loans (e.g. export refinancing) which are self liquidating and the bank may not take higher exposure if the situation in the international market deteriorates sharply. Also, the proportion of cash and cash equivalents (investments in short-term papers) has seen a rise in almost all markets – 21% in UK, 12% in Canada and about 40% in Eurasia.

- UK, for example, has seen a sharp reduction of risk in its underlying assets. Investments in bonds and notes of financial institutions have declined to 11% of overall assets compared to a peak of 30% in FY2009. Also, sovereign related risks are fairly low while exposure to financial entities has a wide range of banks across the world.

- Credit derivative related exposure has been coming off sharply in the past few quarters with the options expiring on maturity. It is currently at 2.4% levels compared to a peak of 6.6% levels in FY2009.

Proportion of UK and Canada to overall loans has dropped to 9% from a peak of 13% in 2QFY10
Contribution of international loans to total loans, March fiscal year-ends, 2QFY09-1QFY12

| | 2QFY09 | 3QFY09 | 4QFY09 | 1QFY10 | 2QFY10 | 3QFY10 | 4QFY10 | 1QFY11 | 2QFY11 | 3QFY11 | 4QFY11 | 1QFY12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet (Rs bn)** | | | | | | | | | | | | |
| Domestic | 3,850 | 3,744 | 3,793 | 3,674 | 3,664 | 3,563 | 3,634 | 3,597 | 3,900 | 3,929 | 4,062 | 4,152 |
| UK | 409 | 370 | 370 | 398 | 385 | 349 | 333 | 321 | 324 | 313 | 285 | 268 |
| Canada | 243 | 259 | 258 | 260 | 261 | 256 | 252 | 227 | 218 | 210 | 207 | 236 |
| Eurasia | | | 22 | 21 | 22 | 21 | 18 | 16 | 12 | 16 | 14 | 15 |
| Total | 4,501 | 4,373 | 4,443 | 4,353 | 4,331 | 4,189 | 4,237 | 4,161 | 4,455 | 4,469 | 4,569 | 4,671 |
| **International loans/assets (Rs bn)** | | | | | | | | | | | | |
| Domestic | 577 | 553 | 546 | 515 | 515 | 466 | 453 | 479 | 486 | 504 | 552 | 558 |
| UK | 311 | 311 | 315 | 334 | 339 | 311 | 276 | 282 | 275 | 261 | 225 | 213 |
| Canada | 187 | 207 | 222 | 216 | 232 | 223 | 199 | 198 | 184 | 178 | 182 | 209 |
| Eurasia | | | 18 | 15 | 14 | 16 | 11 | 10 | 10 | 9 | 10 | 9 |
| Total | 1,075 | 1,070 | 1,100 | 1,080 | 1,100 | 1,016 | 939 | 969 | 954 | 953 | 969 | 989 |
| **Proportion of international loans (%)** | | | | | | | | | | | | |
| Domestic | 12.8 | 12.6 | 12.3 | 11.8 | 11.9 | 11.1 | 10.7 | 11.5 | 10.9 | 11.3 | 12.1 | 12.0 |
| UK | 6.9 | 7.1 | 7.1 | 7.7 | 7.8 | 7.4 | 6.5 | 6.8 | 6.2 | 5.8 | 4.9 | 4.5 |
| Canada | 4.2 | 4.7 | 5.0 | 5.0 | 5.4 | 5.3 | 4.7 | 4.7 | 4.1 | 4.0 | 4.0 | 4.5 |
| Eurasia | - | - | 0.4 | 0.3 | 0.3 | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Total** | **23.9** | **24.5** | **24.8** | **24.8** | **25.4** | **24.2** | **22.2** | **23.3** | **21.4** | **21.3** | **21.2** | **21.2** |

Notes:
(1) Period ending currency rates have been used for translation of the balance sheet of UK and Canada.
(2) Canada has seen an increase in total loans in 1QFY12 due to a change in accounting policy wherein ₹35.6 bn (CAD 769 mn), 0.7% of total (consolidated) assets, has been added to loans which were earlier part of off-balance sheet exposure (securitized loans).
(3) Loans for UK and Canada only excludes cash and cash equivalents

Source: Company, Bloomberg, Kotak Institutional Equities

UK has witnessed significant shift towards less risky assets in the past few quarters
Break-up of assets in UK, Canada and Eurasia, March fiscal year-ends, 2QFY09-1QFY12 (%)

| | 2QFY09 | 3QFY09 | 4QFY09 | 1QFY10 | 2QFY10 | 3QFY10 | 4QFY10 | 1QFY11 | 2QFY11 | 3QFY11 | 4QFY11 | 1QFY12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ICICI Bank - UK** | | | | | | | | | | | | |
| Advances | 29.0 | 36.0 | 45.0 | 46.0 | 50.0 | 52.0 | 52.0 | 57.0 | 55.0 | 56.5 | 56.4 | 57.4 |
| Bank bonds/ FI | 30.0 | 31.0 | 28.0 | 25.0 | 27.0 | 25.0 | 19.0 | 18.0 | 18.0 | 16.1 | 10.6 | 10.7 |
| Asset backed securities | 7.0 | 6.0 | 4.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 1.7 | 1.9 | 2.0 |
| Cash and liquid investments | 24.0 | 16.0 | 15.0 | 16.0 | 12.0 | 11.0 | 17.0 | 12.0 | 15.0 | 16.5 | 21.0 | 20.6 |
| India linked investments | 6.0 | 6.0 | 4.0 | 5.0 | 5.0 | 6.0 | 5.0 | 5.0 | 4.0 | 4.1 | 4.0 | 3.3 |
| Others | 4.0 | 5.0 | 4.0 | 6.0 | 4.0 | 4.0 | 5.0 | 6.0 | 6.0 | 5.1 | 6.1 | 6.0 |
| **ICICI Bank - Canada** | | | | | | | | | | | | |
| Loans to customers | 46.0 | 55.0 | 64.0 | 60.0 | 61.0 | 61.0 | 58.0 | 68.0 | 68.0 | 66.1 | 66.0 | 54.1 |
| Federally insured mortgages | 22.0 | 17.0 | 14.0 | 13.0 | 15.0 | 15.0 | 10.0 | 7.0 | 4.0 | 6.7 | 6.9 | 21.5 |
| Asset backed securities | 3.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 1.7 | 1.7 | 1.4 |
| Cash and liquid securities | 23.0 | 20.0 | 14.0 | 17.0 | 11.0 | 13.0 | 21.0 | 13.0 | 16.0 | 15.2 | 11.9 | 11.6 |
| India linked investments | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 2.5 | 1.8 | 0.8 |
| Others | 3.0 | 3.0 | 3.0 | 5.0 | 8.0 | 6.0 | 6.0 | 7.0 | 7.0 | 7.8 | 11.7 | 10.6 |
| **ICICI Bank - Eurasia** | | | | | | | | | | | | |
| Loans to corporates | | | 51.0 | 45.0 | 39.0 | 54.0 | 34.0 | 38.0 | 44.0 | 32.7 | 38.0 | 39.0 |
| Corporate bonds | | | 8.0 | 8.0 | 7.0 | 4.0 | 4.0 | 4.0 | 3.5 | 1.7 | 2.0 | 2.1 |
| Retail loans | | | 18.0 | 17.0 | 16.0 | 15.0 | 16.0 | 18.0 | 22.0 | 15.7 | 17.4 | 16.0 |
| Cash and cash equivalents | | | 20.0 | 28.0 | 37.0 | 24.0 | 40.0 | 37.0 | 17.5 | 46.0 | 31.2 | 38.7 |
| Others | | | 3.0 | 2.0 | 1.0 | 3.0 | 6.0 | 3.0 | 13.0 | 3.9 | 11.4 | 4.2 |

Notes
(1) Canada has seen increase in total loans of ₹35.6 bn (CAD 769 mn) in 1QFY12 due to a change in accounting policy. Adjusting for this change cash and cash equivalents would have increased to 14% and overall assets declined qoq by 4% (compared to 14% qoq increase)

Source: Company, Bloomberg, Kotak Institutional Equities

**Indian corporate related credit derivatives has declined to negligible levels across all geographies**
Credit derivative exposure (including off balance sheet exposure), March fiscal year-ends, (₹ bn)

| | 4QFY09 | 1QFY10 | 2QFY10 | 3QFY10 | 4QFY10 | 1QFY11 | 2QFY11 | 3QFY11 | 4QFY11 | 1QFY12 |
|---|---|---|---|---|---|---|---|---|---|---|
| Standalone | 57.1 | 54.1 | 54.1 | 51.9 | 48.3 | 49.4 | 45.1 | 42.4 | 38.8 | 21.3 |
| UK | 7.8 | 7.6 | 7.9 | 7.9 | 7.4 | 6.4 | 5.4 | 5.5 | 4.4 | 0.6 |
| Canada | 6.0 | 5.9 | 6.3 | 5.8 | 4.9 | 4.5 | 3.8 | 3.6 | 3.0 | 1.3 |
| Total | 70.9 | 67.6 | 68.3 | 65.6 | 60.6 | 60.4 | 54.3 | 51.5 | 46.1 | 23.3 |
| % of balance sheet | 6.6 | 6.3 | 6.3 | 6.6 | 6.5 | 6.3 | 5.8 | 5.5 | 4.8 | 2.4 |

Notes:
(1) Balance sheet of only these three entities has been taken.

Source: Company, Bloomberg, Kotak Institutional Equities

### Higher retail deposit contribution and healthy CAR can cushion a short term impact

We note that the international subsidiaries have witnessed a combination of higher retail deposits contribution (UK) and comfortable CAR that exceeds 25% across all regions.

UK, which contributes about 5% of the total international exposure of the bank, has seen a complete shift in its liability profile. The contribution of retail deposits to total deposits has increased to 76% in 1QFY12 from 58% in 4QFY09.

Across all regions, capital adequacy ratios are extremely comfortable. The parent (stand alone) has a CAR of 19.6% (tier-1 ratio of 13.4%) while the Canada is currently at 28.5% (5X leverage), UK is at 25.4% (9X leverage) and Eurasia is 30.5%. With low business growth outlook in most of these geographies (barring stand-alone) we see limited to risk to the underlying business if there is a short-term negative impact in international markets.

**Strong capital adequacy and higher proportion of retail deposits should enable the bank to manage liabilities in the event of any crisis**
Liability profile of UK, Canada and Eurasia (%)

| | 4QFY09 | 1QFY10 | 2QFY10 | 3QFY10 | 4QFY10 | 1QFY11 | 2QFY11 | 3QFY11 | 4QFY11 | 1QFY12 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ICICI Bank - UK** | | | | | | | | | | |
| Term deposits | 38.0 | 42.0 | 43.0 | 41.0 | 42.0 | 46.0 | 51.0 | 50.8 | 50.1 | 47.9 |
| Long term debt | 16.0 | 14.0 | 14.0 | 15.0 | 15.0 | 10.0 | 16.0 | 12.0 | 13.0 | 14.1 |
| Demand deposits | 25.0 | 24.0 | 22.0 | 22.0 | 20.0 | 19.0 | 16.0 | 14.4 | 15.3 | 15.4 |
| Net worth | 6.0 | 6.0 | 7.0 | 8.0 | 8.0 | 9.0 | 9.0 | 9.3 | 10.6 | 11.6 |
| Others | 15.0 | 14.0 | 14.0 | 14.0 | 15.0 | 16.0 | 8.0 | 13.5 | 11.0 | 11.0 |
| *Retail deposits % of deposits* | *58.0* | *63.0* | *65.0* | *64.0* | *66.0* | *69.0* | *75.0* | *75.0* | *77.0* | *76.0* |
| *CAR* | *18.4* | *16.0* | *16.3* | *17.0* | *17.3* | *18.4* | *18.3* | *21.2* | *23.1* | *25.4* |
| **ICICI Bank - Canada** | | | | | | | | | | |
| Term deposits | | 72.0 | 69.0 | 67.0 | 66.0 | 62.0 | 62.0 | 60.2 | 58.2 | 48.1 |
| Demand deposits | | 9.0 | 11.0 | 14.0 | 14.0 | 15.0 | 15.0 | 15.1 | 15.7 | 14.1 |
| Other liabilities | | 48.0 | 41.0 | 36.0 | 35.0 | 28.0 | 28.0 | 24.3 | 20.7 | 14.7 |
| Net worth | | 15.0 | 17.0 | 17.0 | 17.0 | 19.0 | 19.0 | 20.8 | 21.8 | 19.3 |
| *CAR* | *19.9* | *22.0* | *23.2* | *23.5* | *23.4* | *22.5* | *22.9* | *26.1* | *26.3* | *28.5* |
| **ICICI Bank - Eurasia** | | | | | | | | | | |
| *CAR* | *15.1* | *18.3* | *21.4* | *19.8* | *26.6* | *30.4* | *37.7* | *31.8* | *34.6* | *30.5* |

Source: Company, Kotak Institutional Equities

**Canada and UK business continue to witness weak RoE performance despite improvement in NIMs in FY2011**
Break-up of RoE for Canada and UK subsidiaries, March fiscal year-ends, 2006-2011 (%)

| | Canada | | | | | | UK | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Net interest income | 1.5 | 1.4 | 0.7 | 0.6 | 0.5 | 0.8 | 1.0 | 0.9 | 0.7 | 1.0 | 0.6 | 1.1 |
| Net other income | 0.4 | 0.9 | 1.8 | 1.4 | 0.6 | 0.7 | 1.6 | 1.6 | 0.9 | 1.5 | 1.0 | 0.6 |
| - Fee income | 0.2 | 0.7 | 0.7 | 0.5 | 0.2 | 0.0 | 1.5 | 1.0 | 1.2 | 0.4 | 0.5 | 0.3 |
| Total income | 1.9 | 2.3 | 2.6 | 1.9 | 1.2 | 1.5 | 2.6 | 2.4 | 1.6 | 2.5 | 1.6 | 1.6 |
| Operating expenses | 1.5 | 1.1 | 0.8 | 0.6 | 0.5 | 0.5 | 1.1 | 0.7 | 0.7 | 0.8 | 0.6 | 0.6 |
| - Employees | 0.6 | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 | 0.5 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Pre provision income | 0.4 | 1.2 | 1.8 | 1.4 | 0.6 | 0.9 | 1.5 | 1.7 | 0.9 | 1.6 | 0.9 | 1.0 |
| Loan loss provisions | 0.4 | 0.2 | 0.3 | 0.2 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 | 0.3 |
| Invt. depreciation | - | 0.9 | 1.0 | 0.8 | (0.1) | (0.1) | - | - | - | - | - | - |
| Pre -tax income | (0.0) | 0.2 | 0.4 | 0.4 | 0.7 | 0.9 | 1.4 | 1.7 | 0.8 | 1.4 | 0.7 | 0.7 |
| (1- tax rate) | 98.3 | 69.8 | 62.7 | 63.2 | 69.0 | 71.9 | 68.2 | 70.6 | 67.7 | 67.6 | 70.7 | 71.6 |
| ROA | (0.0) | 0.1 | 0.3 | 0.2 | 0.5 | 0.7 | 1.0 | 1.2 | 0.6 | 1.0 | 0.5 | 0.5 |
| Leverage | 17.1 | 13.1 | 10.9 | 10.8 | 8.4 | 6.0 | 12.5 | 21.4 | 19.9 | 13.8 | 11.5 | 10.2 |
| ROE | (0.5) | 1.6 | 3.0 | 2.5 | 3.9 | 4.1 | 11.9 | 24.9 | 11.1 | 13.3 | 5.4 | 5.4 |

Source: Kotak Institutional Equities

**ICICI Bank, growth rates, key ratios and Du Pont analysis**
March fiscal year-ends, 2009-2014E

| | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|---|
| **Growth rates (%)** | | | | | | |
| Net loan growth | (3.2) | (17.0) | 19.4 | 18.3 | 19.0 | 20.3 |
| Customer assets growth | (2.9) | (10.4) | 24.4 | 14.8 | 15.8 | 17.3 |
| Corporate loans | (4.3) | (9.3) | 29.8 | 19.5 | 20.8 | 21.6 |
| Total retail loans | (2.2) | (24.6) | 7.2 | 16.7 | 16.5 | 18.2 |
| Deposits growth | (10.7) | (7.5) | 11.7 | 18.1 | 19.0 | 20.2 |
| Borrowings growth | 5.9 | 2.1 | 16.5 | 18.1 | 9.8 | 12.1 |
| Net interest income | 14.5 | (3.0) | 11.1 | 18.7 | 19.6 | 19.7 |
| Loan loss provisions | 38.8 | 16.3 | (54.7) | (4.4) | 63.2 | 30.6 |
| Non-interest income | (13.7) | (1.7) | (11.1) | 21.9 | 18.7 | 16.0 |
| Net fee income | 0.4 | (14.1) | 14.2 | 15.0 | 16.6 | 16.6 |
| Net capital gains | (29.0) | (43.1) | (133.3) | (182.2) | 100.0 | - |
| Total income | (0.9) | (2.4) | 0.5 | 20.1 | 19.2 | 18.1 |
| Operating expenses | (13.6) | (16.8) | 12.9 | 17.7 | 18.1 | 16.5 |
| Employee expenses | (5.2) | (2.3) | 46.3 | 22.3 | 22.3 | 20.1 |
| DMA | (65.7) | (76.3) | 25.1 | (10.4) | 33.1 | 33.6 |
| **Asset management measures (%)** | | | | | | |
| Yield on average earning assets | 8.9 | 7.8 | 7.5 | 8.3 | 8.3 | 8.5 |
| Interest on advances | 10.0 | 8.7 | 8.2 | 9.2 | 9.1 | 9.1 |
| Interest on investments | 7.6 | 6.4 | 6.8 | 7.5 | 7.8 | 8.1 |
| Average cost of funds | 7.0 | 5.7 | 5.3 | 6.2 | 6.1 | 6.1 |
| Interest on deposits | 6.8 | 5.5 | 4.7 | 5.8 | 5.6 | 5.7 |
| Other interest | 7.5 | 6.3 | 6.6 | 7.0 | 7.2 | 7.2 |
| **Difference** | **1.8** | **2.0** | **2.2** | **2.2** | **2.2** | **2.3** |
| Net interest income/earning assets | 2.4 | 2.4 | 2.6 | 2.7 | 2.7 | 2.8 |
| New provisions/average net loans | 1.7 | 2.2 | 1.0 | 0.8 | 1.1 | 1.2 |
| Loans-to-deposit ratio | 69.7 | 60.6 | 63.9 | 64.0 | 65.7 | 67.2 |
| Share of deposits | | | | | | |
| Current | 9.9 | 15.3 | 15.4 | 14.3 | 13.5 | 12.7 |
| Fixed | 71.3 | 58.3 | 54.9 | 56.1 | 58.6 | 60.9 |
| Savings | 18.8 | 26.3 | 29.6 | 29.6 | 28.0 | 26.4 |
| Tax rate | 26.6 | 24.7 | 23.8 | 26.0 | 28.0 | 28.0 |
| Dividend payout ratio | 32.6 | 33.2 | 31.3 | 30.0 | 30.0 | 30.0 |
| **Asset quality metrics (%)** | | | | | | |
| Gross NPL | 4.3 | 4.9 | 4.3 | 3.8 | 3.7 | 3.9 |
| Net NPL | 2.1 | 2.1 | 1.1 | 0.8 | 0.8 | 0.7 |
| Slippages | 2.2 | 2.9 | 1.6 | 1.1 | 1.4 | 1.5 |
| Provision coverage (ex write-off) | 51.7 | 57.0 | 74.3 | 79.6 | 79.6 | 81.1 |
| **ROA decomposition - % of average assets** | | | | | | |
| Net interest income | 2.1 | 2.2 | 2.3 | 2.4 | 2.5 | 2.6 |
| Loan loss provisions | 1.0 | 1.2 | 0.5 | 0.4 | 0.6 | 0.7 |
| Net other income | 2.0 | 2.0 | 1.7 | 1.8 | 1.9 | 1.9 |
| Operating expenses | 1.8 | 1.6 | 1.7 | 1.8 | 1.8 | 1.8 |
| Invt. Depreciation | — | (—) | — | — | — | — |
| (1- tax rate) | 73.4 | 75.3 | 76.2 | 74.0 | 72.0 | 72.0 |
| **ROA** | **1.0** | **1.1** | **1.3** | **1.5** | **1.4** | **1.4** |
| Average assets/average equity | 8.1 | 7.3 | 7.2 | 7.7 | 8.2 | 8.8 |
| **ROE** | **7.8** | **8.0** | **9.7** | **11.7** | **11.8** | **12.6** |

Source: Company, Kotak Institutional Equities estimates

**ICICI Bank income statement and balance sheet**
March fiscal year-ends, 2009-2014E

| | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|---|
| Total interest income | 310,925 | 257,069 | 259,741 | 335,159 | 390,565 | 463,025 |
| Interest on advances | 223,238 | 173,727 | 164,248 | 217,236 | 254,199 | 304,883 |
| Interest on investments | 74,031 | 64,663 | 79,052 | 99,674 | 118,595 | 138,300 |
| Total interest expense | 227,259 | 175,926 | 169,572 | 228,116 | 262,506 | 309,729 |
| Deposits from customers | 157,852 | 115,135 | 100,709 | 141,790 | 162,016 | 198,062 |
| Net interest income | 83,666 | 81,144 | 90,169 | 107,043 | 128,059 | 153,295 |
| Loan loss provisions | 37,500 | 43,622 | 19,769 | 18,895 | 30,842 | 40,282 |
| **Net interest income (after prov.)** | **46,166** | **37,522** | **70,400** | **88,148** | **97,217** | **113,013** |
| Other income | 76,037 | 74,777 | 66,479 | 81,018 | 96,188 | 111,599 |
| Net fee income | 56,259 | 48,308 | 55,146 | 63,418 | 73,920 | 86,176 |
| Net capital gains | 12,864 | 7,316 | (2,434) | 2,000 | 4,000 | 4,000 |
| Miscellaneous income | 3,306 | 3,054 | 73 | 73 | 87 | 105 |
| Operating expenses | 70,451 | 58,598 | 66,172 | 77,905 | 92,011 | 107,150 |
| Employee expense | 19,717 | 19,258 | 28,169 | 34,463 | 42,147 | 50,614 |
| DMA | 5,289 | 1,255 | 1,570 | 1,407 | 1,873 | 2,503 |
| Pretax income | 51,170 | 53,453 | 67,607 | 90,261 | 100,894 | 116,962 |
| Tax provisions | 13,588 | 13,203 | 16,093 | 23,468 | 28,250 | 32,749 |
| **Net Profit** | **37,581** | **40,250** | **51,514** | **66,793** | **72,644** | **84,213** |
| % growth | (9.6) | 7.1 | 28.0 | 29.7 | 8.8 | 15.9 |
| **PBT+provision-treasury gains** | **76,388** | **90,005** | **92,909** | **108,156** | **128,236** | **153,744** |
| % growth | 24.2 | 17.8 | 3.2 | 16.4 | 18.6 | 19.9 |
| **Balance sheet (Rs mn)** | | | | | | |
| Cash and bank balance | 299,666 | 388,737 | 340,901 | 374,740 | 415,078 | 466,763 |
| Cash | 28,557 | 33,410 | 37,844 | 44,691 | 53,173 | 63,932 |
| Balance with RBI | 146,806 | 241,733 | 171,226 | 198,218 | 230,074 | 271,000 |
| Balance with banks | 44,016 | 45,742 | 56,014 | 56,014 | 56,014 | 56,014 |
| Outside India | 80,286 | 67,852 | 75,817 | 75,817 | 75,817 | 75,817 |
| Net value of investments | 1,030,583 | 1,208,928 | 1,346,860 | 1,570,313 | 1,727,533 | 1,932,329 |
| Investments in India | 934,784 | 1,117,553 | 1,252,941 | 1,471,963 | 1,622,536 | 1,817,362 |
| Govt. and other securities | 633,775 | 683,991 | 641,287 | 860,635 | 1,011,208 | 1,206,034 |
| Shares | 17,031 | 27,557 | 28,134 | 28,134 | 28,134 | 28,134 |
| Subsidiaries | 61,195 | 62,227 | 64,797 | 64,797 | 64,797 | 64,797 |
| Debentures and bonds | 26,001 | 36,354 | 161,463 | 161,463 | 161,463 | 161,463 |
| Net loans and advances | 2,183,108 | 1,812,056 | 2,163,659 | 2,560,032 | 3,047,550 | 3,666,111 |
| Corporate loans | 1,080,908 | 980,866 | 1,272,919 | 1,520,860 | 1,837,224 | 2,234,979 |
| Total retail loans | 1,102,200 | 831,190 | 890,740 | 1,039,172 | 1,210,325 | 1,431,132 |
| Fixed assets | 38,016 | 32,127 | 47,443 | 56,210 | 61,983 | 67,044 |
| Net leased assets | 4,623 | 3,534 | 2,570 | 4,161 | 3,537 | 3,006 |
| Net owned assets | 33,393 | 28,593 | 44,872 | 52,049 | 58,446 | 64,038 |
| Other assets | 241,636 | 192,149 | 163,475 | 163,475 | 163,475 | 163,475 |
| **Total assets** | **3,793,010** | **3,633,997** | **4,062,337** | **4,724,770** | **5,415,619** | **6,295,721** |
| | | | | | | |
| Deposits | 2,183,478 | 2,020,166 | 2,256,021 | 2,664,218 | 3,169,898 | 3,811,262 |
| Borrowings and bills payable | 949,806 | 969,705 | 1,129,848 | 1,334,455 | 1,465,884 | 1,643,045 |
| Preference capital | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 |
| Other liabilities | 164,395 | 127,943 | 125,559 | 131,837 | 138,428 | 145,350 |
| **Total liabilities** | **3,297,679** | **3,117,813** | **3,511,427** | **4,130,510** | **4,774,210** | **5,599,656** |
| Paid-up capital | 11,133 | 11,149 | 11,518 | 11,518 | 11,518 | 11,518 |
| Reserves & surplus | 484,197 | 505,035 | 539,391 | 582,742 | 629,890 | 684,547 |
| **Total shareholders' equity** | **495,330** | **516,184** | **550,909** | **594,260** | **641,408** | **696,065** |

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

# Hindalco Industries (HNDL)

## Metals & Mining

**ADD**

AUGUST 26, 2011

UPDATE

Coverage view: Attractive

Price (Rs): 139

Target price (Rs): 175

BSE-30: 15,849

**Annual report analysis.** We update our earning models for FY2011 annual report released recently. Key takeaways include (1) FY2011 earnings were impacted by one-time refinancing charges and non-cash derivative adjustments, (2) book value increased to Rs152 from Rs113 in FY2010 primarily on write-back of goodwill, and (3) operating cash generation was strong at Rs37.1 bn despite high working capital requirements for Novelis and the copper smelting business. We retain ADD rating and marginally fine-tune our earnings and TP to Rs175 (Rs180 earlier).

**Company data and valuation summary**

Hindalco Industries

| Stock data | | | |
|---|---|---|---|
| 52-week range (Rs) (high,low) | | | 253-128 |
| Market Cap. (Rs bn) | | | 266.3 |
| **Shareholding pattern (%)** | | | |
| Promoters | | | 32.1 |
| FIIs | | | 40.1 |
| MFs | | | 2.3 |
| **Price performance (%)** | 1M | 3M | 12M |
| Absolute | (21.8) | (25.4) | (15.2) |
| Rel. to BSE-30 | (8.6) | (15.1) | (2.5) |

| Forecasts/Valuations | 2011 | 2012E | 2013E |
|---|---|---|---|
| EPS (Rs) | 12.8 | 18.3 | 17.6 |
| EPS growth (%) | (36.0) | 43.3 | (4.0) |
| P/E (X) | 10.9 | 7.6 | 7.9 |
| Sales (Rs bn) | 720.8 | 827.3 | 876.2 |
| Net profits (Rs bn) | 24.5 | 35.1 | 33.7 |
| EBITDA (Rs bn) | 80.0 | 93.0 | 95.6 |
| EV/EBITDA (X) | 6.0 | 5.8 | 6.1 |
| ROE (%) | 9.7 | 11.4 | 10.0 |
| Div. Yield (%) | 1.1 | 1.1 | 1.1 |

### Key highlights from FY2011 annual report

Hindalco released its FY2011 annual report recently. Notable points include

- Hindalco wrote back Rs35.9 bn of goodwill written off in FY2010. Accordingly, goodwill and reserves increased by an equivalent amount. Book value increased by Rs39/share (higher than EPS of Rs12) to Rs152 in FY2011. FY2011 book value excluding goodwill stands at Rs133/share.

- Reported FY2011 EPS declined to Rs12.8 from Rs22.2 in FY2010. Earnings were impacted by (1) unrealized losses on derivatives of Novelis versus gain in the previous year impacting numbers by Rs30 bn at the EBITDA level, (2) one-time interest charge resulting from refinancing of Novelis debt, (3) lower interest expense of Rs1.6 bn directly adjusted against reserves versus Rs3 bn in FY2010, and (4) non-inclusion of proportionate earnings of Idea.

- Hindalco generated operating cash flow of Rs37.1 bn in FY2011, an increase of 11% over FY2010. High cash generation was despite working capital locked in for the conversion business of Novelis and custom copper smelting business.

- Hindalco capitalized Rs3.9 bn of interest expenses. Interest expenses recognized in the profit and loss statement were Rs18.4 bn versus Rs22.3 bn paid out in FY2011.

- Capex for greenfield and brownfield projects has shown some acceleration (Exhibit 2 details project-wise capex) with total spending in excess of US$1.7 bn in FY2011. Note that Hindalco has outlined total capex of US$9.5 bn over the next few years on Novelis, brownfield expansion, Utkal Alumina and Mahan and Aditya Aluminium smelters.

- Net debt at end-FY2011 stood at US$4.3 bn. Net debt increased by US$0.8 bn. Net debt/adjusted EBITDA and net debt/adjusted equity on FY2011 numbers stood at 2.4X and 0.8X. As highlighted in our earlier notes, high leverage can be managed due to predictability of cash flows and relatively lower risks to aluminium prices (refer Exhibit 5).

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- Novelis refinanced US$4.8 bn debt with relaxed covenants to ensure cash fungibility and drive an efficient capital structure. New debt has longer tenure with debt maturity in 2017/20. Revised debt covenants provide headroom for more leverage with net debt/adjusted EBITDA of up 4.75X in FY2012E and 4X by FY2016E. Novelis has to maintain interest coverage ratio of more than 2X. Post restructuring, Novelis' debt increased to US$4.1 bn from US$2.5 bn in 2QFY11. Novelis also paid out US$1.7 bn to Hindalco, resulting in decline in shareholder funds to US$422 mn. Hindalco used this cash to retire debts in AV Minerals (Netherlands) BV of US$1 bn and US$650 mn was received by the standalone entity.

- Bauxite sourced from third parties declined in absolute levels to 1.1 mn tonnes from 1.4 mn tonnes. However, cost of bauxite increased by 28% yoy to Rs1,786/tonne.

## Maintain ADD rating; fine-tune target price to Rs175 (Rs180 earlier)

We like Hindalco's core business for low volatility and cost-competitiveness. However, investors may have to contend with two key negatives (1) likely delay in commissioning of greenfield projects and potential escalation in project costs, and (2) high though manageable leverage. On the positive side, downside to aluminium prices is low and the stock builds in significant correction to commodity prices.

We have made minor changes to our estimates; our revised EPS stands at Rs18.3/17.6 for FY2012/13E, respectively from Rs18.5/17.8 earlier (refer Exhibit 1). Target price fine-tuned to Rs175 from Rs180 earlier.

Exhibit 1: Hindalco, change in estimates, March fiscal year-ends, 2012-14E (Rs mn)

| | Revised estimates | | | Old estimates | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012E | 2013E | 2014E | 2012E | 2013E | 2014E | 2012E | 2013E | 2014E |
| **Hindalco** | | | | | | | | | |
| Aluminium metal sales (tonnes) | 561,660 | 669,410 | 825,300 | 561,660 | 669,410 | 825,300 | — | — | — |
| Aluminium price (US$/tonne) | 2,400 | 2,400 | 2,450 | 2,400 | 2,400 | 2,450 | — | — | — |
| Net revenues | 270,920 | 281,207 | 308,350 | 273,118 | 283,009 | 309,547 | (0.8) | (0.6) | (0.4) |
| EBITDA | 31,968 | 31,493 | 42,492 | 32,322 | 31,485 | 42,213 | (1.1) | 0.0 | 0.7 |
| PAT | 21,370 | 18,634 | 18,000 | 22,579 | 19,915 | 19,151 | (5.4) | (6.4) | (6.0) |
| **Novelis** | | | | | | | | | |
| Shipments (tonnes) | 3,236 | 3,382 | 3,450 | 3,236 | 3,382 | 3,450 | — | — | — |
| Net revenues | 532,944 | 571,766 | 588,040 | 532,944 | 571,766 | 588,040 | — | — | — |
| EBITDA | 52,539 | 56,263 | 58,753 | 52,539 | 56,263 | 58,753 | — | — | — |
| PAT | 11,956 | 13,548 | 15,403 | 11,956 | 13,548 | 15,403 | — | — | — |
| **Consolidated** | | | | | | | | | |
| Net revenues | 827,324 | 876,185 | 919,285 | 829,522 | 877,987 | 920,482 | (0.3) | (0.2) | (0.1) |
| EBITDA | 93,007 | 95,604 | 108,836 | 93,362 | 95,596 | 108,557 | (0.4) | 0.0 | 0.3 |
| PAT | 35,061 | 33,666 | 34,446 | 35,370 | 34,048 | 34,799 | (0.9) | (1.1) | (1.0) |
| EPS (Rs) | 18.3 | 17.6 | 18.0 | 18.5 | 17.8 | 18.2 | (0.9) | (1.2) | (1.1) |

Source: Kotak Institutional Equities estimates

Exhibit 2: Details of Hindalco's planned capacity expansion

| Project Name | Commisioning date | | | Project | Capacity | Capex |
|---|---|---|---|---|---|---|
| | 9 months ago | Q4FY11 | Revised | type | (ktpa) | (Rs bn) |
| **1. Brownfield Expansion Projects** | | | | | | |
| Hirakud Smelter & Power expansion: | | | | | | 9 |
| 155 KTPA to 161 KTPA | Q4FY11 | Completed | Completed | Smelter | 8 | |
| 161 KTPA to 213 KTPA | Q4FY12 | Q4FY12 | Early 2012 | Smelter | 52 | |
| 213 KTPA to 360 KTPA | | | | Smelter | 147 | |
| Flat rolled products at Hirakud | Oct-11 | End- 2011 | End- 2011 | FRP | | 9 |
| Belgaum Special Alumina Project | Not finalised | Not finalised | Not finalised | Alumina refinery | 178 | |
| **2. Greenfield Projects** | | | | | | |
| UTKAL Alumina Project | Early 2012 | 2012 | 2HCY12 | Alumina refinery | 1500 | 76 |
| Mahan Aluminium Project | Oct-11 | End- 2011 | End- 2011 | Smelter | 359 | 105 |
| Aditya Aluminium Project | End 2012 | Early 2013 | Early 2013 | Smelter | 359 | 92 |
| Aditya Refinery Project | End 2014 | End 2014 | 2014 | Alumina refinery | 1500 | 60 |
| Jharkhand Aluminium Project | Mid 2015 | 2015 | 2015 | Smelter | 359 | 100 |
| **Total** | | | | | | **450** |

Note:

1. UTKAL Alumina project cost has gone up by Rs6 bn owing to additional cost incurred towards contractors.
2. Mahan Aluminium project cost has gone up by Rs13 bn on higher financing cost.
3. Aditya Alumina and Aditya and Jharkhand aluminium project costs does not include any financing costs.

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Details of existing and expanded capacity of Novelis (tonnes)

| | Existing capacity | | Post expansion capacity | |
|---|---|---|---|---|
| Location | tonnes | %age of total | tonnes | %age of total |
| North America | 1,100 | 36.7 | 1,360 | 34.0 |
| Europe | 900 | 30.0 | 990 | 24.8 |
| Asia | 600 | 20.0 | 1,000 | 25.0 |
| South America | 400 | 13.3 | 650 | 16.3 |
| | **3,000** | **100.0** | **4,000** | **100.0** |

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Capex plans of Novelis (US$ mn)

| | | 2012E capex (US$ mn) |
|---|---|---|
| Pinda Mill expansion | Brazil | 180 |
| Automotive capacity expansion | North America | 80 |
| Can, automotive and electronic expansion | South Korea | 80 |
| Others | | 120 |
| Maintainence capex | | 140 |
| | | **600** |

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Hindalco Industries consolidated leverage details, March fiscal year-ends, FY2012-14E (X)

| | 2011 reported | 2011 adjusted | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|
| **Existing** | | | | | |
| EBITDA (Rs mn) | 80,017 | 82,927 | 93,007 | 95,604 | 108,836 |
| Shareholders funds | 290,233 | 254,260 | 322,270 | 352,912 | 384,334 |
| Net debt | 196,134 | 196,134 | 254,550 | 296,625 | 298,032 |
| Net debt/ EBITDA (X) | 2.5 | 2.4 | 2.7 | 3.1 | 2.7 |
| **Net debt/ Equity (X)** | **0.7** | **0.8** | **0.8** | **0.8** | **0.8** |

Source: Kotak Institutional Equities estimates

Exhibit 6: Hindalco Industries, valuation, FY2013E basis (Rs mn)

| | | Multiple | Value | |
|---|---|---|---|---|
| | | (X) | (Rs mn) | (Rs/share) |
| Hindalco FY2013E EBITDA | 31,493 | 5.8 | 181,085 | 95 |
| Novelis FY2013E EBITDA | 56,263 | 6.3 | 351,647 | 184 |
| ABML FY2013E EBITDA (proportionate stake) | 4,002 | 5.0 | 20,011 | 10 |
| **Total Enterprise Value** | | | **552,742** | **289** |
| Add: Value of listed investments (20% discount to market price) | | | 29,663 | 15 |
| Less: Net debt (adjusted for CWIP) | 249,866 | | 249,866 | 130 |
| **Arrived market capitalization** | | | **332,540** | **174** |
| **Target price (Rs)** | | | | **175** |

Source: Kotak Institutional Equities estimates

Exhibit 7: Hindalco Industries, key assumptions, March fiscal-year ends, FY2009-2014E (Rs mn)

| | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|---|
| **Aluminium** | | | | | | |
| **Hindalco** | | | | | | |
| Aluminium price (US$/tonne) | 2,234 | 1,868 | 2,257 | 2,400 | 2,400 | 2,450 |
| Metal sales volume (tonnes) | 521,069 | 555,066 | 534,400 | 561,660 | 669,410 | 825,300 |
| Blended realization (Rs/tonne) | 127,384 | 110,516 | 128,533 | 139,296 | 138,463 | 139,394 |
| Cost/tonne (US$/tonne) | 1,983 | 1,710 | 2,106 | 2,468 | 2,476 | 2,387 |
| EBITDA/tonne (US$/tonne) | 937 | 722 | 846 | 775 | 667 | 799 |
| Aluminium EBITDA (Rs mn) | 22,428 | 19,045 | 20,622 | 19,477 | 20,359 | 29,660 |
| Alumina price (US$/tonne) | 278 | 300 | 330 | 372 | 396 | 404 |
| Alumina sales volume (tonnes) | 238,350 | 241,095 | 309,566 | 335,675 | 156,697 | 349,352 |
| Alumina EBITDA (Rs mn) | 3,237 | 3,198 | 4,130 | 2,876 | 1,612 | 3,620 |
| Alumina EBITDA (US$/ tonne) | 296 | 279 | 293 | 191 | 226 | 230 |
| **Novelis** | | | | | | |
| Average realization (US$/tonne) | 3,458 | 3,039 | 3,415 | 3,680 | 3,705 | 3,788 |
| Conversion premium (US$/tonne) | 1,224 | 1,171 | 1,158 | 1,280 | 1,305 | 1,338 |
| Shipments ('000 tonnes) | 2,943 | 2,854 | 3,097 | 3,236 | 3,382 | 3,450 |
| EBITDA/tonne (US$/tonne) | 192 | 380 | 302 | 363 | 365 | 378 |
| EBITDA (US$ mn) | 566 | 1,085 | 935 | 1,174 | 1,233 | 1,306 |
| EBITDA (Rs mn) | 25,997 | 51,538 | 42,636 | 52,539 | 56,263 | 58,753 |
| **Copper** | | | | | | |
| Price (US$/tonne) | 5,885 | 6,112 | 8,300 | 8,800 | 8,360 | 8,360 |
| Copper cathode volumes (tonnes) | 153,236 | 185,213 | 207,640 | 202,786 | 208,370 | 213,370 |
| Copper rods volumes (tonnes) | 146,323 | 146,164 | 142,167 | 145,742 | 150,114 | 150,114 |
| EBITDA (Rs mn) | 5,476 | 8,256 | 7,753 | 10,385 | 10,330 | 10,060 |

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Hindalco (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2009-2014E (Rs mn)

| | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|---|
| **Profit model (Rs mn)** | | | | | | |
| Net sales | 656,252 | 607,221 | 720,779 | 827,324 | 876,185 | 919,285 |
| **EBITDA** | **53,584** | **97,458** | **80,017** | **93,007** | **95,604** | **108,836** |
| Other income | 6,878 | 3,227 | 4,309 | 5,039 | 5,349 | 6,125 |
| Interest | (12,323) | (11,041) | (18,393) | (15,403) | (17,892) | (26,082) |
| Depreciation | (30,378) | (27,836) | (27,500) | (28,669) | (30,787) | (33,903) |
| **Profit before tax** | **17,761** | **61,808** | **38,432** | **53,974** | **52,274** | **54,975** |
| Extraordinaries | (22,319) | 1,030 | 100 | — | — | — |
| Taxes | 8,046 | (19,319) | (9,739) | (14,285) | (14,180) | (16,206) |
| **Profit after tax** | **3,488** | **43,519** | **28,793** | **39,690** | **38,094** | **38,770** |
| Minority interest | 1,718 | (4,237) | (3,659) | (4,058) | (3,856) | (3,752) |
| Share in profit/(loss) of associates | (353) | (27) | (571) | (571) | (571) | (571) |
| **Reported net income** | **4,853** | **39,255** | **24,564** | **35,061** | **33,666** | **34,446** |
| Adjusted net income | 19,791 | 38,225 | 24,463 | 35,061 | 33,666 | 34,446 |
| **Fully diluted EPS (Rs)** | **11.6** | **20.0** | **12.8** | **18.3** | **17.6** | **18.0** |
| | | | | | | |
| **Balance sheet (Rs mn)** | | | | | | |
| Equity | 158,536 | 215,446 | 290,233 | 322,270 | 352,912 | 384,334 |
| Deferred tax liability | 27,571 | 39,382 | 37,596 | 37,816 | 39,557 | 41,477 |
| Total Borrowings | 283,098 | 239,987 | 276,920 | 351,512 | 430,594 | 468,553 |
| Current liabilities | 162,602 | 180,166 | 216,840 | 220,834 | 224,237 | 228,199 |
| Minority interest | 12,866 | 17,372 | 22,169 | 26,227 | 30,083 | 33,836 |
| **Total liabilities** | **644,672** | **692,353** | **843,758** | **958,659** | **1,077,383** | **1,156,398** |
| Net fixed assets | 275,249 | 290,006 | 234,640 | 259,929 | 353,632 | 443,283 |
| Capital work in progress | 29,495 | 58,008 | 131,308 | 178,152 | 155,864 | 98,204 |
| Goodwill | 42,908 | — | 89,414 | 89,414 | 89,414 | 89,414 |
| Investments | 104,308 | 112,455 | 108,549 | 107,978 | 107,407 | 106,836 |
| Cash | 21,918 | 21,954 | 25,563 | 41,739 | 78,746 | 115,298 |
| Other current assets | 170,791 | 209,930 | 254,285 | 281,445 | 292,319 | 303,362 |
| Miscellaneous expenditure | 4 | — | — | — | — | — |
| **Total assets** | **644,672** | **692,353** | **843,758** | **958,658** | **1,077,382** | **1,156,397** |
| | | | | | | |
| **Free cash flow (Rs mn)** | | | | | | |
| Operating cash flow excl. working | (7,156) | 39,333 | 44,082 | 63,540 | 65,272 | 68,468 |
| Working capital changes | 29,309 | (5,984) | (7,031) | (23,167) | (7,471) | (7,080) |
| Capital expenditure | (28,898) | (41,708) | (77,171) | (100,804) | (102,201) | (65,895) |
| **Free cash flow** | **(6,744)** | **(8,359)** | **(40,120)** | **(60,431)** | **(44,400)** | **(4,507)** |
| | | | | | | |
| **Ratios** | | | | | | |
| EBITDA margin (%) | 8.2 | 16.0 | 11.1 | 11.2 | 10.9 | 11.8 |
| EBIT margin (%) | 3.5 | 11.5 | 7.3 | 7.8 | 7.4 | 8.2 |
| Debt/equity (X) | 1.8 | 1.1 | 1.0 | 1.1 | 1.2 | 1.2 |
| Net debt/equity (X) | 1.4 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| Net debt/EBITDA (X) | 4.1 | 1.6 | 2.4 | 2.7 | 3.1 | 2.7 |
| RoAE (%) | 11.9 | 20.4 | 9.7 | 11.4 | 10.0 | 9.3 |
| **RoACE (%)** | **5.4** | **10.4** | **7.7** | **7.4** | **6.4** | **6.6** |

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

# Godrej Consumer Products (GCPL)

Consumer products

**BUY**

AUGUST 26, 2011

UPDATE

Coverage view: Cautious

Price (Rs): 416

Target price (Rs): 510

BSE-30: 15,849

**Taking a deep dive into what matters most – insecticides category.** GCPL's household insecticides category accounts for ~50% of revenues and ~55% of profits. We articulate our views on continuing good category growth and reasons for Godrej's category outperformance (near oligopolistic category structure due to strong brands, regional domination by each player, necessity for government approvals etc.). GCPL's demonstrated superior innovation capabilities (12-hour jumbo coil, dual dispensation vaporizer, low-smoke coil, magic paper etc.) help it outperform category growth, in our view. BUY. Our preferred picks in the sector are ITC, HUL, GCPL, GSK and Marico.

**Company data and valuation summary**

Godrej Consumer Products

| Stock data | | | |
|---|---|---|---|
| 52-week range (Rs) (high,low) | | | 485-325 |
| Market Cap. (Rs bn) | | | 134.6 |
| **Shareholding pattern (%)** | | | |
| Promoters | | | 67.3 |
| FIIs | | | 19.3 |
| MFs | | | 1.8 |
| **Price performance (%)** | **1M** | **3M** | **12M** |
| Absolute | (4.7) | 7.8 | 7.1 |
| Rel. to BSE-30 | 11.3 | 22.8 | 23.2 |

| Forecasts/Valuations | 2011 | 2012E | 2013E |
|---|---|---|---|
| EPS (Rs) | 14.9 | 18.4 | 22.7 |
| EPS growth (%) | 31.3 | 23.4 | 23.8 |
| P/E (X) | 27.9 | 22.6 | 18.3 |
| Sales (Rs bn) | 36.4 | 43.7 | 50.8 |
| Net profits (Rs bn) | 4.8 | 5.9 | 7.4 |
| EBITDA (Rs bn) | 6.9 | 9.0 | 10.8 |
| EV/EBITDA (X) | 22.2 | 15.2 | 11.8 |
| ROE (%) | 35.9 | 28.7 | 27.0 |
| Div. Yield (%) | 1.2 | 0.8 | 0.8 |

## Household insecticides – a fast growing and profitable category, forms ~50% of GCPL's sales mix

GCPL is the only stock with a BUY rating in our consumer universe. Large part of our bullishness stems from confidence on the strong growth and profitability of the household insecticides category which forms ~50% of overall sales mix (of which, India forms ~35% of overall sales mix). Good category growth of ~20% over the past few years is driven by changes in consumer habits, in our view. Mosquito repellant products have evolved from being just a seasonal product used during mosquito menace seasons (monsoons and the period after winter). The higher urban penetration for the category has been due to product usage as a disease prevention device, in our view.

We articulate our views on continuing good category growth and reasons for Godrej's category outperformance.

- Household insecticides are a relatively low competitive intensity category with primarily four players in the organized segment – Godrej Consumer, Reckitt Benckiser, SC Johnson and Jyothy Laboratories (JYL). While the category has grown at ~20% CAGR in the past ten years, surprisingly, there has been no new national entrant in the segment.
- There are likely three reasons for this, in our view,

    a) The category falls under the purview of the Agricultural Ministry and any new product/ format launch by new or existing player requires a license and an approval which likely acts as an entry barrier. The necessity for approvals etc. increases the go-to-market time.

    b) Each of the players has a dominant market share in the four regions thereby creating an effective entry barrier for new entrants—for example, Godrej Consumer has ~55% market share in South India whereas Reckitt Benckiser has a leading share in North (as per industry sources).

    c) Presence of strong brands—Good Knight, Mortein and All Out.

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In our view, GCPL is relatively well-positioned compared to competition on following grounds:

- As per industry sources, Reckitt Benckiser and SC Johnson have their research facilities for insecticides category overseas (Reckitt's in Australia and SC Johnson's in US) whereas GCPL's R&D operations are based in India. This is likely resulting in better-perceived innovations by GCPL—it has been at the forefront in terms of innovations such as 12-hour jumbo coil, dual dispensation vaporizer, low smoke coil etc.

- GCPL has a market share of ~40% in the overall insecticides category and a meaningful presence in all the segments of household insecticides including coils, mats, aerosols and liquids.

- Jyothy Laboratories (JYL) management says that it has increased the trade price of Maxo which has resulted in short-term decline in its sales (Maxo sales have been declining over the past four quarters and JYL is likely witnessing market share loss, in our view). Further, as the company is in the midst of integrating its recent acquisition of Henkel India, focus of the company in turning around this part of the business may likely be limited (as profit contribution of household insecticides for JYL is low).

- With respect to margin profile, GCPL is substantially superior to JYL. GCPL has EBITDA margin of ~20% and also generates double-digit EBITDA margins in coils (as per industry sources). JYL primarily operates in coils and has margins in low single digits (mostly losses).

- Megasari has a market share of ~35% in the household insecticides market in Indonesia. This is remarkable given that ~40% of the Indonesian market is coils and Megasari does not have any presence in this segment. Recently, the company has launched a household insecticide product in paper form (called as 'Magic Paper'), likely the first of its kind, globally, in our view. It is priced at almost half the price of coils and gross margin in the segment is higher than coils. This product has already achieved an 8% penetration in the Indonesia market, as per GCPL management. Launch of the product in India is underway.

- Erstwhile Godrej Saralee had healthy financials even before the acquisition by GCPL. As per industry sources, between FY1999 and FY2011, the company reported sales growth CAGR of ~20% and EBITDA CAGR of ~30%.

## We keep a close watch on the following

- Performance of the new launches—(1) gel-based hair color portfolio in India, (2) ammonia free hair colour in LatAm under Issue brand and (3) household insecticide in paper format in Indonesia. Gauging the success of these new launches is imperative given the high brand investments the company is making towards them.

- Likely improvement in standalone gross margins with correction in palm oil costs and price hike taken in the soap segment.

- Synergy benefits, accruing from the acquisitions made—(1) Megasari and GHPL, (2) GCPL and GHPL, (3) Darling Group and Kinky, (4) Argencos and the Indian hair color business.

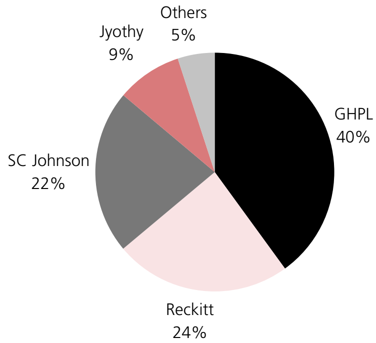
- Performance of acquisitions in FY2012E—GHPL, Megasari, Tura, Argencos, Issue Group would have completed about two years under the GCPL fold.

- Movement of Re versus foreign currency basket and movement of the LIBOR rates.

## Retain BUY with target price of Rs510

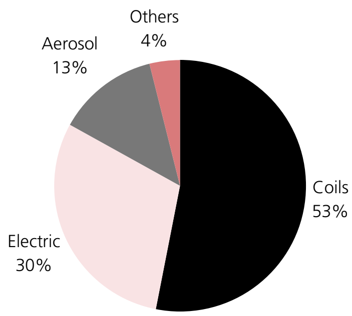
We retain BUY rating with a target price of Rs510. We have not included the Darling Group in our estimates. We value GCPL on an SOTP basis as the company operates in multiple categories with varying growth characteristics and multiple geographies (India, Indonesia, Africa, UK and Latin America). The key risks are (1) integration of the recent acquisitions, (2) increasing business, political and currency risks due to operations in multiple geographies and (3) any unexpected increase in competitive activity in domestic insecticides business.

**GHPL is the market leader in household insecticides**
Market share of players in the household insecticides market (%)



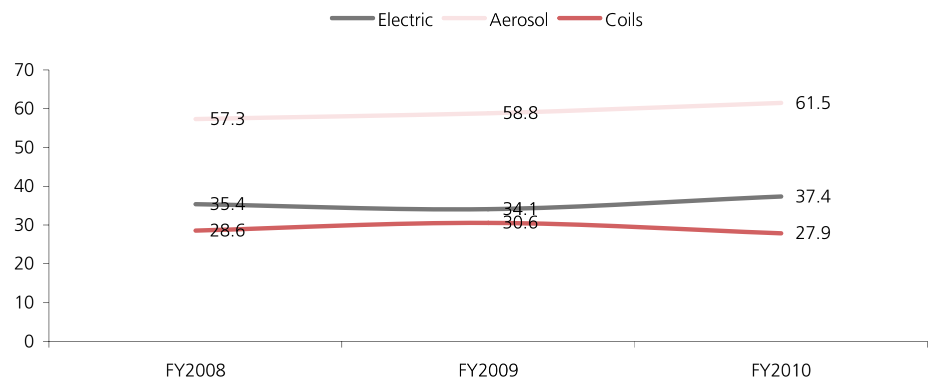

Source: Industry sources

**Coils dominate the household insecticides market**
Break-up of the household insecticides market by format (%)




Source: Company, Kotak Institutional Equities

Break-up of GHPL's market share by segment



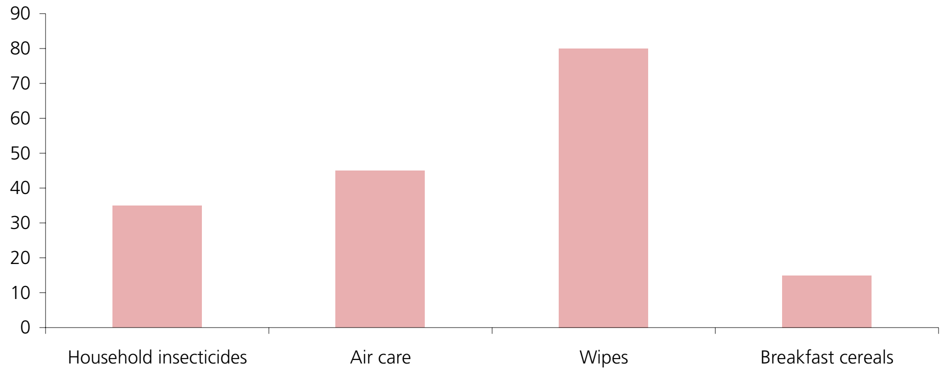

Source: Company, Kotak Institutional Equities

Healthy financial history of GHPL
Key financials, March fiscal year-ends, 2007-10 (Rs mn)

| | 2007 | 2008 | 2009 | 2010 | CAGR (%) |
|---|---|---|---|---|---|
| Sales | 5,292 | 6,652 | 7,706 | 9,425 | 16 |
| EBITDA | 824 | 1,119 | 1,341 | 1,736 | 20 |
| *% margin* | *15.6* | *16.8* | *17.4* | *18.4* | |
| PAT | 661 | 875 | 1,045 | 1,372 | 20 |
| *% margin* | *12.5* | *13.2* | *13.6* | *14.6* | |

Source: Kotak Institutional Equities

Market share of Megasari in the categories that it operates in (%)

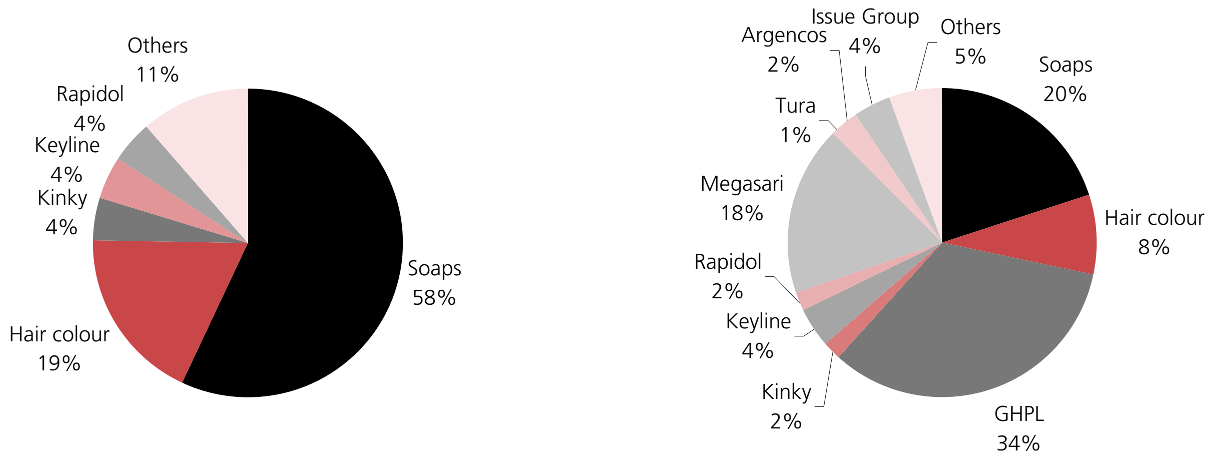



Source: Company

Paper-based household insecticide launched in Indonesia

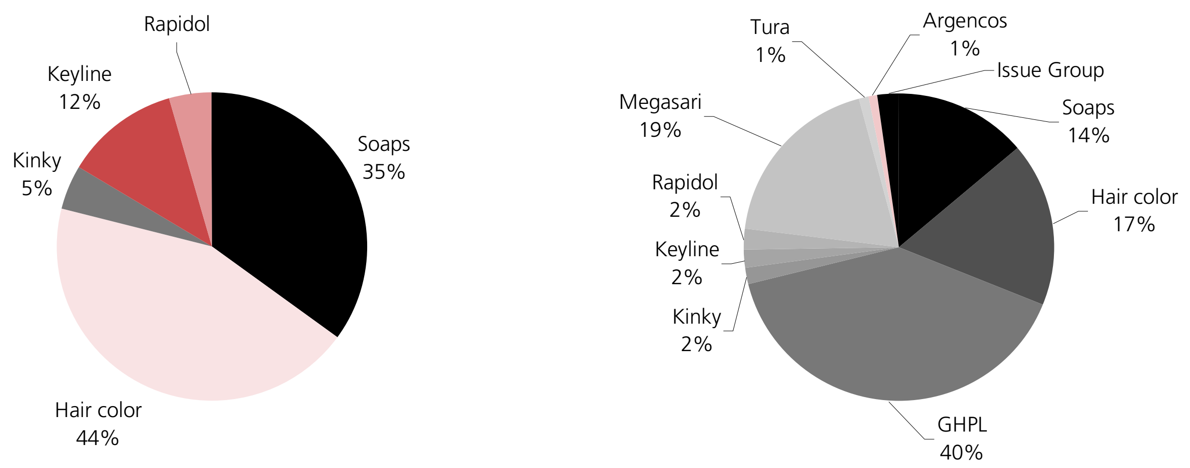
Source: Kotak Institutional Equities

**Household insecticides and hair color are the key categories**
Break-up of GCPL's sales, March fiscal year-ends, 2009, 2012E (%)



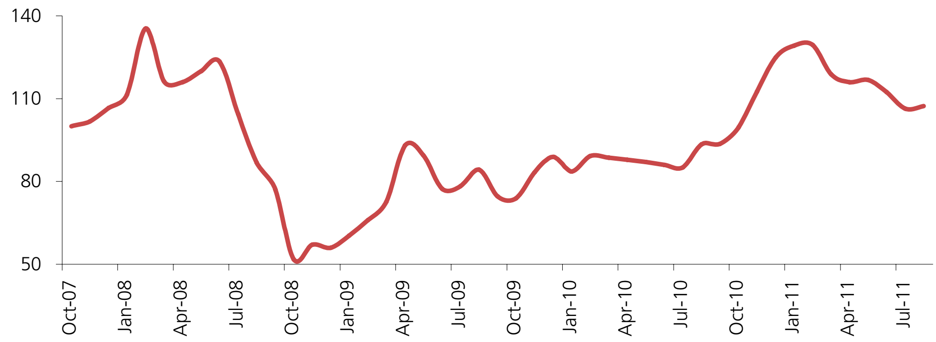

Source: Kotak Institutional Equities estimates

**Household insecticides and hair color are the key categories**
Break-up of GCPL's EBITDA, March fiscal year-ends, 2009, 2012E (%)




Source: Kotak Institutional Equities estimates

**Palm oil price has started correcting**
Trend in palm oil price (indexed to base)




Source: Bloomberg

**SOTP valuation of GCPL**

| | | EBITDA (Rs mn) | | EBITDA multiple (x | EV | | as % of EBITDA | | as % of EV |
|---|---|---|---|---|---|---|---|---|---|
| **Business segment** | **Country** | **FY2012E** | **FY2013E** | **FY2013E** | **(Rs mn)** | **Remarks** | **FY2012E** | **FY2013E** | **FY2013E** |
| Domestic (soaps, hair color) | India | 5,858 | 7,113 | 16 | 115,236 | (a) 16 FY2013E, at par with Dabur | 71 | 71 | 73 |
| International | South Africa, UK | 485 | 524 | 12 | 6,362 | 25% discount to (a) | 6 | 5 | 4 |
| Tura | Nigeria | 48 | 52 | 12 | 637 | 25% discount to (a) | 1 | 1 | 0 |
| Megasari | Indonesia | 1,551 | 1,824 | 16 | 29,548 | At par with (a) | 19 | 18 | 19 |
| Argencos | Argentina | 72 | 119 | 12 | 1,448 | 25% discount to (a) | 1 | 1 | 1 |
| Issue | Argentina | 196 | 323 | 12 | 3,923 | 25% discount to (a) | 2 | 3 | 2 |
| **EV #** | | **8,209** | **9,955** | | **157,154** | | | | |
| **Less: Net debt** | | | | | **7,945** | | | | |
| **Equity value** | | | | | **165,098** | | | | |
| **Price per share (Rs)** | | | | | **510** | | | | |
| **Implied PE on FY2013E (x)** | | | | | **22** | | | | |
| **Earnings growth CAGR (FY2011-13E)** | | | | | **24** | | | | |

Source: Kotak Institutional Equities estimates

GCPL: Profit model, balance sheet, 2008-2014E, March fiscal year-ends (Rs mn)

| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|---|---|
| **Profit model (Rs mn)** | | | | | | | |
| Net sales | 11,026 | 13,930 | 20,412 | 36,430 | 43,654 | 50,769 | 58,168 |
| **EBITDA** | **2,148** | **2,037** | **4,073** | **6,407** | **8,209** | **9,955** | **11,859** |
| Other income | 60 | 436 | 473 | 729 | 785 | 834 | 877 |
| Interest | (148) | (189) | (111) | (519) | (543) | (419) | (407) |
| Depreciation | (182) | (192) | (236) | (499) | (473) | (490) | (506) |
| Pretax profits | 1,878 | 2,092 | 4,199 | 6,118 | 7,979 | 9,880 | 11,822 |
| Tax | (283) | (366) | (803) | (1,302) | (2,035) | (2,520) | (3,692) |
| **Net profits** | **1,595** | **1,726** | **3,396** | **4,816** | **5,944** | **7,361** | **8,131** |
| **Earnings per share (Rs)** | **7.1** | **6.7** | **11.3** | **14.9** | **18.4** | **22.7** | **25.1** |
| | | | | | | | |
| **Balance sheet (Rs mn)** | | | | | | | |
| Total equity | 1,687 | 5,668 | 9,547 | 17,252 | 24,221 | 30,226 | 35,303 |
| Total borrowings | 1,871 | 2,776 | 369 | 20,054 | 12,553 | 8,051 | 8,049 |
| Currrent liabilities | 3,227 | 3,299 | 5,528 | 8,673 | 6,251 | 10,069 | 13,950 |
| Deferred tax liability | 89 | 42 | 66 | 14 | 85 | 85 | 85 |
| **Total liabilities and equit** | **6,874** | **11,785** | **15,510** | **45,993** | **43,110** | **48,431** | **57,387** |
| Cash | 426 | 3,783 | 3,052 | 2,269 | 10,685 | 15,995 | 23,334 |
| Current assets | 3,093 | 3,544 | 6,044 | 12,793 | 8,404 | 8,437 | 10,089 |
| Total fixed assets | 2,399 | 2,297 | 2,626 | 15,527 | 12,617 | 12,595 | 12,559 |
| Investments | 0 | 75 | 670 | 0 | 0 | 0 | 0 |
| Other non current assets | 956 | 2,086 | 3,119 | 15,404 | 11,404 | 11,404 | 11,404 |
| **Total assets** | **6,874** | **11,785** | **15,510** | **45,993** | **43,110** | **48,431** | **57,387** |
| | | | | | | | |
| **Key assumptions** | | | | | | | |
| Revenue Growth (%) | 15.9 | 26.3 | 46.5 | 78.5 | 19.8 | 16.3 | 14.6 |
| EBITDA Margin(%) | 19.5 | 14.6 | 20.0 | 17.6 | 18.8 | 19.6 | 20.4 |
| EPS Growth (%) | 18.9 | (5.3) | 69.5 | 31.3 | 23.4 | 23.8 | 10.5 |

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

# Suzlon Energy (SUEL)

Industrials

**REDUCE**

AUGUST 25, 2011

UPDATE

Coverage view: Cautious

Price (Rs): 36

Target price (Rs): 40

BSE-30: 16,146

**Risk-reward improves but sustainable upside would need more.** Suzlon stock has corrected sharply (30% in 20 days) slightly improving the risk-reward even as we highlight several challenges for sustainable upside: (1) lower-than-requisite trend inflows (350-400 MW of inflows in FY2012E so far versus an asking rate of ~600 MW /quarter), (2) investment slowdown in India and Europe, (3) precarious state of balance sheet (4X debt:EBITDA and high Wcap) and (4) potential execution issues. We revise our target price to Rs40 from Rs60.

**Company data and valuation summary**

Suzlon Energy

| Stock data | | | |
|---|---|---|---|
| 52-week range (Rs) (high,low) | | | 66-36 |
| Market Cap. (Rs bn) | | | 57.1 |
| **Shareholding pattern (%)** | | | |
| Promoters | | | 54.8 |
| FIIs | | | 13.2 |
| MFs | | | 3.9 |
| **Price performance (%)** | 1M | 3M | 12M |
| Absolute | (34.3) | (28.6) | (27.7) |
| Rel. to BSE-30 | (23.2) | (21.1) | (18.6) |

| Forecasts/Valuations | 2011 | 2012E | 2013E |
|---|---|---|---|
| EPS (Rs) | (5.4) | 0.7 | 2.6 |
| EPS growth (%) | (14.7) | (112.5) | 290.1 |
| P/E (X) | (6.7) | 53.5 | 13.7 |
| Sales (Rs bn) | 167.9 | 217.7 | 241.9 |
| Net profits (Rs bn) | (9.4) | 1.2 | 4.6 |
| EBITDA (Rs bn) | 7.6 | 19.2 | 22.8 |
| EV/EBITDA (X) | 19.2 | 7.4 | 6.1 |
| ROE (%) | (14.0) | 1.7 | 6.6 |
| Div. Yield (%) | 0.6 | 0.6 | 0.6 |

## Order inflows remain below requisite trend; high asking rate in the rest of FY2012E

Suzlon reported sedate inflows of only 350-400 MW in FY2012E to date (205 MW reported in 1QFY12 + 163 MW of announcements in 2QFY12). Our reduced inflow estimates (1,100 MW for domestic and 400 MW for international) in FY2012E imply a need for further quarterly inflow of about 1,000 MW in the rest of FY2012E - versus only about 200 MW/qtr seen in the past two quarters. Near-term sales would be led by execution of a 1,000 MW Caparo order, we would look for new similar orders laced to build in visibility for and beyond FY2013E. Traction in international business remains sedate for the fourth year and may need to grow beyond the natural constraints of the Indian market given Suzlon's high fixed cost structure. A slowdown in the domestic/ overseas markets may defer recovery.

## Balance sheet remains precarious (high debt and working capital) low ability to withstand

Suzlon's balance sheet remains stretched with high debt (Rs109 bn) and working capital levels (Rs42 bn) at 1QFY12-end. Suzlon may have about 4X consolidated Debt/EBITDA and 2X EBITDA/Interest in FY13E post building in receivable from Edison, Hansen sale proceeds. Thus, the company could find it difficult to (1) withstand volume disappointments versus estimates as well as (2) deleveraging quickly. Unaccounted FCCB premium would also contribute debt (about Rs9 bn on FY2012E repayments).

## Regulatory environment favorable but REC mechanism needs to settle down; 16% IRR for IPP likely

Several incentives exist to catalyze wind capacity addition, such as (1) accelerated depreciation or generation-based incentive and (2) preferential tariffs or renewable energy certificates. Withdrawal of accelerated depreciation with DTC is a risk to volume estimates. We estimate that an IPP selling at an average pooled price of Rs2.45 (and escalations each year) + floor REC price of Rs1.45 + GBI of Rs0.5 would earn 16% equity IRR at Rs60 mn/MW, 25% PLF, 12.5% interest cost.

## Revise estimates and TP to Rs40 (from Rs60) on execution and inflows downwards; retain REDUCE

W revise our estimates to Rs0.7 and Rs2.6 from Rs0.6 and Rs4 for FY2012E and FY2013E on lower inflow and execution assumptions (2,054 and 2,143 MW) and revise our target price to Rs40 from Rs60 on (1) estimates revision, and (2) increased net debt (on 1.5X par value of FCCBs). We retain REDUCE as we wait for data points pointing to sustainable business upside. Upside risk originate from positive regulation and Repower's offshore lead.

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## Order inflows remain elusive; implies high asking rate in 2HFY12E

We build in execution of 2,006 MW in FY2012E for Suzlon's wind business led by 1,367 MW of execution in the domestic market and 639 MW for the international market. Domestic sales would be primarily led by execution of the existing backlog (of 1,353 MW at end-FY2011). Near-term sales would be led by execution of the large 1,000 MW Caparo order won in 3QFY11, but Suzlon would need to replace this with new order wins to build in revenue visibility beyond FY2012E. Despite the company's strong foothold in the domestic market, we believe Suzlon would have to build traction in international orders versus the sharp slowdown in FY2010. We also highlight the potential for a slowdown in the domestic market led by a weak investment environment, further necessitating international order inflows.

We have reduced our order inflow estimates to 1,100 MW for the domestic business and 400 MW for international business in FY2012E on sedate order inflow traction so far.

Order backlog, booking and execution, FY2008-13E (MW)

| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|---|---|
| **Order backlog** | | | | | | |
| Domestic | 160 | 75 | 230 | 1,353 | 988 | 550 |
| Internaional | 3,294 | 1,388 | 896 | 878 | 589 | 495 |
| **Total backlog** | **3,454** | **1,463** | **1,126** | **2,231** | **1,577** | **1,044** |
| **Order inflows** | | | | | | |
| Domestic | 870 | 664 | 843 | 2,292 | 1,100 | 1,210 |
| Internaional | 2,937 | 135 | 280 | 334 | 300 | 400 |
| **Total inflows** | **3,807** | **799** | **1,123** | **2,626** | **1,400** | **1,610** |
| **Execution** | | | | | | |
| Domestic | 976 | 749 | 688 | 1,169 | 1,465 | 1,649 |
| Internaional | 1,335 | 2,041 | 772 | 352 | 589 | 495 |
| **Total execution** | **2,311** | **2,790** | **1,460** | **1,521** | **2,054** | **2,143** |

FY2011 inflows led by single large 1,000 MW order from Caparo

Lower inflows assumptions on sedate track record in FY2012E so far

Lower inflows assumptions on sedate track record in FY2012E so far

Source: Company, Kotak Institutional Equities estimates

Suzlon reported weak order inflows 237 MW led by 205 MW of order inflows in the domestic market. Weak order inflows led to sequential decline in the order backlog to 2,030 MW at end-1QFY12. Order inflows have remained relatively sedate in 2QFY12 (so far) as well - Suzlon has announced order to the tune of only 163 MW in post 1QFY12-end all from domestic market. We believe this increases risk of meeting management's full-year guidance as well as our estimates implying high asking rate in remaining FY2012E.

Order inflow, backlog and sales trend for Suzlon, March fiscal year-ends FY2007-09 (MW)

| | FY2007 | FY2008 | FY2009 | 1QFY10 | 2QFY10 | 3QFY10 | 4QFY10 | FY2010 | 1QFY11 | 2QFY11 | 3QFY11 | 4QFY11 | FY2011 | 1QFY11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Backlog** | | | | | | | | | | | | | | |
| Domestic | 267 | 160 | 75 | 66 | 123 | 314 | 230 | 230 | 580 | 693 | 1,624 | 1,353 | 1,353 | 1,255 |
| International | 1,692 | 3,294 | 1,388 | 1,435 | 1,366 | 1,170 | 896 | 896 | 878 | 857 | 954 | 878 | 878 | 775 |
| **Total** | **1,958** | **3,454** | **1,463** | **1,501** | **1,489** | **1,484** | **1,126** | **1,126** | **1,458** | **1,550** | **2,578** | **2,231** | **2,231** | **2,030** |
| **Sales** | | | | | | | | | | | | | | |
| Domestic | 956 | 976 | 749 | 58 | 129 | 140 | 361 | 688 | 139 | 290 | 325 | 415 | 1,169 | 304 |
| International | 500 | 1,335 | 2,041 | 65 | 154 | 264 | 289 | 772 | 68 | 71 | 136 | 77 | 352 | 133 |
| **Total** | **1,456** | **2,311** | **2,790** | **123** | **283** | **404** | **650** | **1,460** | **207** | **361** | **461** | **492** | **1,521** | **437** |
| **Inflows** | | | | | | | | | | | | | | |
| Domestic | 1,036 | 870 | 815 | 49 | 186 | 331 | 227 | 793 | 489 | 403 | 1,255 | 144 | 2,291 | 205 |
| International | 1,659 | 2,937 | 137 | 111 | 84 | 68 | 16 | 279 | 51 | 50 | 233 | — | 334 | 32 |
| **Total** | **2,695** | **3,807** | **952** | **160** | **270** | **399** | **243** | **1,072** | **540** | **453** | **1,488** | **144** | **2,625** | **237** |

Source: Kotak Institutional Equities, Company

Order inflow announcements made by Suzlon in FY2012E so far

| Date | Customer | Country | Product Configuration MW | Capacity MW |
|---|---|---|---|---|
| 17-Aug-11 | Indian Oil Corporation Ltd | India | 2.1 | 48.3 |
| 11-Aug-11 | Malpani Group | India | 29.7 | 29.7 |
| 10-Aug-11 | Various customers including GAIL | India | 2.1 | 85 |
| 15-Jul-11 | Orient Green Power (Shriram EPC Group) | India | 2.1 | 100 |
| 16-Jun-11 | National Aluminium Company Ltd (NALCO) | India | 2.1 | 50.4 |
| 14-Jun-11 | Sprott Power Corp | Canada | 2.1 | 31.5 |
| | **Total order announcements in FY2012E so far** | | | **345** |

Source: Company

### Dependence on Indian market (China, Brazil small and US and Australia seem shut): Risk of small market size and execution challenges

Suzlon management expects to win orders to the tune of about 2-2.2 GW in FY2012E led by the domestic market (1.6-1.7 GW). The company expects international markets to contribute to about 600-800 MW of FY2012E inflows (versus a meager 32 MW of inflows in FY2012E so far).

- **India to be a key driver of future inflows. Company expects the** Indian market - potential size of about 3-3.5 GW. We would need more data points for reaffirming that as execution issues (land, transmission, grid stability, high interest rates, slow investment environment) may push back volume development. The company aims to win orders to the tune of about 1.6-1.7 GW of inflows in FY2012E and about 2 GW in FY2013E. This is versus only about 350-400 MW of order inflows in FY2012E so far (205 MW inflows reported in 1QFY12 and 163 MW of order announcements made in 2QFY12 so far).

- **Expects to gain traction in the China/Brazil markets.** Suzlon through its subsidiary Suzlon Energy Tianjin Ltd, expects to gain more traction in the Chinese wind energy market. Suzlon already executes orders to the tune of 200-300 MW in China. The company also expects to win about 200 MW of order inflows form Brazil although this expectation has remained unfulfilled for long.

- **Europe - would primarily target via Repower.** Suzlon would target the European wind market primarily via REpower due to established brand name for REpower in key geographies such as Germany and better-suited product configurations. The management expects pick-up in demand from these markets on the back of increased offshore projects.

- **US and Australian markets to remain sedate in FY2012E.**

### Balance sheet quality remains precarious

Suzlon's balance sheet remains stretched with high debt and working capital levels. Suzlon reported a high net working capital of Rs41.5 bn at end-1QFY12 from about Rs37 bn at end-FY2011. Working capital levels have remained relatively flat since end-FY2010 levels significantly below expectations given the aim to reduce the working capital by at least Rs10 bn by the end-FY2011. Working capital levels are significantly higher than FY2009-end levels of about 100-110 days of sales.

Note our estimates build in some improvement in working capital levels to FY2009-levels of about 105 days of sales. We assume payment of about Rs10 bn from sticky debtors (Edison Mission) to come through in FY2012E thereby leading to lowered debtor levels.

**Working capital levels remain high**

Working capital details of Suzlon's wind business, March fiscal year-ends, 2009-1QFY11 (Rs mn)

| | | | FY2011 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 1QFY11 | 2QFY11 | 3QFY11 | FY2011 | 1QFY12 | FY2012E | FY2013E |
| **In Rs mn** | | | | | | | | | |
| Inventories | 38,780 | 28,770 | 29,100 | 30,130 | 32,410 | 31,440 | 32,070 | 35,598 | 37,145 |
| Sundry debtors | 63,540 | 47,260 | 37,980 | 33,040 | 41,800 | 41,560 | 45,100 | 44,074 | 45,989 |
| Loans and advances | 18,290 | 16,360 | 15,240 | 18,880 | 16,330 | 16,630 | 16,460 | 20,342 | 21,226 |
| **Total current assets** | **120,610** | **92,390** | **82,320** | **82,050** | **90,540** | **89,630** | **93,630** | **100,015** | **104,360** |
| **Total current liabilities** | **73,460** | **53,810** | **47,180** | **46,330** | **50,750** | **52,730** | **52,150** | **64,416** | **67,215** |
| **Net working capital** | **47,150** | **38,580** | **35,140** | **35,720** | **39,790** | **36,900** | **41,480** | **35,598** | **37,145** |
| **As days of sales** | | | | | | | | | |
| Inventories | 89 | 109 | | | | 125 | | 105 | 105 |
| Sundry debtors | 146 | 179 | | | | 165 | | 130 | 130 |
| Loans and advances | 42 | 62 | | | | 66 | | 60 | 60 |
| **Total current assets** | **277** | **350** | | | | **357** | | **295** | **295** |
| **Total current liabilities** | **169** | **204** | | | | **210** | | **190** | **190** |
| **Net working capital** | **108** | **146** | | | | **147** | | **105** | **105** |

Build in some improvement in working capital on payment from sticky debtors of Rs10 bn in FY2012E

Source: Company, Kotak Institutional Equities

Expensive past acquisitions and high working capital levels led to sharp increase in debt levels over the past 2-3 years. Suzlon reported gross external debt of Rs118 bn at end-1QFY12 and net debt of Rs108 bn.

**Gross external debt increases yoy**

Details of debt of Suzlon's wind business, March fiscal year-ends, 2009-1QFY11 (Rs mn)

| | | | FY2011 | | | | |
|---|---|---|---|---|---|---|---|
| | FY2009 | FY2010 | 1QFY11 | 2QFY11 | 3QFY11 | FY2011 | 1QFY12 |
| Acquisition loans | 34,020 | 20,830 | 21,550 | 20,850 | 20,730 | 20,740 | 20,740 |
| FCCBs | 25,360 | 21,510 | 22,250 | 21,530 | 21,410 | 21,360 | 29,240 |
| WCap, Capex, other loans | 65,140 | 62,840 | 64,730 | 68,320 | 68,980 | 70,230 | 68,380 |
| **Gross external debt** | **124,520** | **105,180** | **108,530** | **110,700** | **111,120** | **112,330** | **118,360** |
| Loans from promoters | — | 11,750 | 11,750 | — | — | — | — |
| **Total gross debt** | **124,520** | **116,930** | **120,280** | **110,700** | **111,120** | **112,330** | **118,360** |
| Cash | 1,359 | 15,410 | 12,580 | 12,600 | 9,450 | 10,230 | 9,550 |
| **Net debt** | **123,161** | **101,520** | **107,700** | **98,100** | **101,670** | **102,100** | **108,810** |

Source: Company, Kotak Institutional Equities

Debt coverage/service ratios remain sub optimal with EBITDA barely sufficient to service debt (interest coverage ratio of 1.7-2X for FY2012E-13E and net debt/ EBITDA ration of over 4X).

**Key debt service ratios of Suzlon's consolidated business, March fiscal year-ends, 2011-13E**

| | 2011 | 2012E | 2013E |
|---|---|---|---|
| Interest coverage (X) | 0.6 | 1.7 | 2.2 |
| Net debt/ EBITDA (X) | 14.7 | 4.7 | 3.7 |
| Net debt/ Equity (X) | 1.4 | 1.4 | 1.2 |

Source: Kotak Institutional Equities estimates

## Build margin expansion on potential operating leverage

We expect Suzlon's wind business margins to revert to FY2009 levels of about 9-10% over FY2012-13E, primarily led by operating leverage, leading in turn to lower other expenses as a percentage of sales - down to about 17% of sales versus about 22.6% of sales in FY2011.

## Indian wind energy market buoyed by several favorable regulatory incentives

The government of India has taken several measures to boost the renewable energy industry of the country including (1) accelerated depreciation scheme, (2) Generation Based Incentive (GBI) scheme, (3) Renewable Energy Certificates (RECs) and (4) preferential tariffs for power purchased from wind farms. Benefits and key risks of the various incentive schemes available to wind power plant developers are detailed below.

**Key benefits and risks of incentive schemes available to wind IPPs**

| Scheme | Benefits | Key risks |
|---|---|---|
| Accelerated depreciation | 80% depreciation for income tax purposes for wind energy equipment in the first year of operations | May be withdrawn once DTC is implemented |
| Generation based incentive | Incentive of Rs0.5/unit of electricity over tariff given by the state utilities<br>Overall cap of Rs6.2 mn/MW to be availed in a period between 4 to 10 years | Available only till end of 11th plan period; needs to be renotified by the government post 2012 |
| Renewable Energy Certificates (RECs) | RECs issued to generators to improve viability of project<br>To open up merchant/trading market for renewable sector thereby aiding RoE<br>Average procurement tariff: basket price: Rs2.5-3.5/kWh<br>RE certificates: Floor price (Rs1.5/kWh) and forbearance price (Rs3.9/kWh) | Not well established |
| Preferential tariffs | Several states have announced preferential tariff for power purchased from wind projects<br>Tariffs based on 4 wind zones which provide a pre-tax RoE of 19-24% | |

Source: Ministry of New and Renewable Energy, Kotak Institutional Equities

We believe a power plant developer could potentially earn equity IRR of about 16% based on an averaged pooled purchase price of Rs2.43 (Maharashtra) + Floor price of REC (Rs1.45) + Rs0.5 of GBI scheme. However, PLF levels at the plant (assumed at 25% in the model) have a significant bearing on the potential returns earned, which is a key risk. The exhibit below demonstrates the potential equity IRR for 1 MW of installed wind capacity in the state of Maharashtra.

**An equity IRR of 16% at 25% PLF and 13% interest cost for an IPP using Mah avg pooled price + REC + GBI**

Calculation of the economics of setting up a wind energy generator as an IPP

| KEY ASSUMPTIONS | |
|---|---|
| Installed cap (MW) | 1 |
| State | Maharashtra |
| Equipment cost (Rs mn) | 56 |
| Land / other cost (Rs mn) | 4.00 |
| **Total installation cost (Rs mn)** | **60.00** |
| Possible generation as per indianwindpower.com (mn KWH) | 1.50 |
| Implied PLF (%) | 17.12 |
| **Assumed PLF (%)** | **25.0** |
| % captive consumption | - |
| % sold to grid | 100 |
| Tax rate (MAT, %) | 19.00 |
| **Generation credit for ten years (Rs/Kwh)** | **0.50** |
| **Interest rates (%)** | **12.5** |
| Carbon Credits Included | No |

| Sensitivity of IRR to interest rates and PLF assumption | | | | | | |
|---|---|---|---|---|---|---|
| | | Interest rates (%) | | | | |
| | | 10.0 | 11.0 | **12.5** | 13.0 | 14.0 |
| | 22.0 | 10.0 | 9.1 | 7.6 | 7.0 | 5.6 |
| | 25.0 | 13.8 | 13.1 | 11.9 | 11.5 | 10.6 |
| **PLF (%)** | **28.0** | 17.1 | 16.5 | **15.5** | 15.1 | 14.4 |
| | 31.0 | 20.2 | 19.6 | 18.7 | 18.4 | 17.7 |
| | 34.0 | 23.1 | 22.6 | 21.7 | 21.4 | 20.8 |

**Base case**

| **Year #** | | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** | **... 20** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Generation (mn KWH) | Based on assumed PLF | | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Wheeling charges (mn KWH) | 2% T&D loss | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net generation (mn KWH)** | | | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** |
| Sold to grid | Based on assumption above | | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Unit sale price (Rs/KWH) | Mah APPC (2.43) + 1.45 (floor) | | 4.0 | 4.2 | 4.3 | 4.5 | 4.6 | 4.8 | 4.9 | 5.1 | 5.2 | 5.4 | 5.5 | 5.7 | 6.0 |
| Generation credit as per policy (Rs mn) | | | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | - | - | - |
| **Sales (Rs mn)** | | | **9.7** | **10.0** | **10.3** | **10.6** | **11.0** | **11.3** | **11.6** | **11.9** | **12.3** | **12.6** | **11.8** | **12.1** | **12.8** |
| O&M cost (Rs mn) | 2% initial capital cost with 4% escalation | | - | - | 1.2 | 1.2 | 1.3 | 1.3 | 1.4 | 1.5 | 1.5 | 1.6 | 1.6 | 1.7 | 2.3 |
| Interest (Rs mn) | Assuming 70:30 DER, 12% interest rate | | 5.3 | 5.3 | 4.7 | 4.2 | 3.7 | 3.1 | 2.4 | 1.6 | 0.8 | - | - | - | - |
| Depreciation (Rs mn) | 5% SLM, assuming useful life of 20 yrs | | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Pre-tax cost (Rs mn) | | | 8.1 | 8.1 | 8.7 | 8.2 | 7.8 | 7.2 | 6.6 | 5.9 | 5.1 | 4.4 | 4.4 | 4.5 | 5.1 |
| Pre-tax profit (Rs mn) | | | 1.6 | 2.0 | 1.6 | 2.4 | 3.2 | 4.1 | 5.0 | 6.0 | 7.1 | 8.2 | 7.4 | 7.6 | 7.6 |
| Tax rate % | MAT rates | | 19.0 | 19.0 | 19.0 | 19.0 | 19.0 | 19.0 | 19.0 | 19.0 | 19.0 | 19.0 | 33.0 | 33.0 | 33.0 |
| Less: tax (Rs mn) | | | 0.3 | 0.4 | 0.3 | 0.5 | 0.6 | 0.8 | 0.9 | 1.1 | 1.4 | 1.6 | - | - | 2.5 |
| MAT Credit | | | 0.3 | 0.7 | 1.0 | 1.4 | 2.0 | 2.8 | 3.8 | 4.9 | 6.3 | 7.8 | 5.4 | 2.9 | - |
| **Net profit (Rs mn)** | | | **1.3** | **1.6** | **1.3** | **2.0** | **2.6** | **3.3** | **4.0** | **4.9** | **5.8** | **6.6** | **7.4** | **7.6** | **5.1** |
| **Cash profit (Rs mn)** | | | **4.1** | **4.4** | **4.1** | **4.8** | **5.4** | **6.1** | **6.8** | **7.7** | **8.6** | **9.4** | **10.2** | **10.4** | **7.9** |
| Debt repayments | | | - | 4.1 | 4.4 | 4.1 | 4.8 | 5.4 | 6.1 | 6.8 | 6.3 | - | - | - | - |
| **Equity cash flows** | | **(18.0)** | **4.1** | **0.3** | **(0.3)** | **0.7** | **0.6** | **0.7** | **0.8** | **0.8** | **2.2** | **9.4** | **10.2** | **10.4** | **7.9** |
| **Equity IRR (%)** | **15.9** | | | | | | | | | | | | | | |
| **- without generation incentive (%)** | **13.9** | | | | | | | | | | | | | | |

Source: Industry, Kotak Institutional Equities estimates

## Revise earnings estimates and target price to Rs40/share; retain REDUCE

We have revised our earnings estimates to Rs0.7 and Rs2.6 from Rs0.6 and Rs4 for FY2012E and FY2013E, respectively, based on lower inflow and execution assumptions for FY2012E. We correspondingly revised our target price to Rs40/share from Rs60/share based on (1) revision in order inflow and execution assumptions, (2) increased stake in REpower to 100% (from 95% earlier assuming completion of buy out), (3) increased net debt by about Rs9 bn for building in a redemption premium i.e. 1.5X par value of FCCBs and (4) cash from stake sale of Hansen (built in directly in FY2012E net PAT).

We retain REDUCE as we wait for data points pointing to sustainable business upside. Upside risk originate from positive regulation and Repower's offshore lead.

**Target price of Rs40/share**

Estimation of target price of Suzlon Energy

| | FY2013E-based valn |
|---|---|
| **Target EV/EBITDA multiple** | **7X** |
| **REpower** | |
| FY2013E EBITDA (Euro mn) | 153 |
| EV (Euro mn) | 1,072 |
| Net debt (Euro mn) | (219) |
| Market capitalisation (Euro mn) | 1,292 |
| Repower per share price (Euro) | 140 |
| Suzlon's stake in REpower (%) | 100 |
| **Contr to Suzlon MCap (Rs mn)** | **80,081** |
| **Suzlon wind business (Rs mn)** | |
| **MW sales** | **2,143** |
| FY2013E EBITDA | 13,362 |
| **EV of wind business** | **93,532** |
| Net debt as on Mar' 2013E | 103,171 |
| Mcap. of Suzlon wind business | (9,640) |
| Mcap. contribution of Repower | 80,081 |
| Mcap. including Repower | 70,442 |
| **No. of shares (mn)** | **1,746** |
| **Suzlon target price (Rs)** | **40** |

7X FY2013E EV/EBITDA appears reasonable for a high working capital company

Increased stake in REpower to 100%

Includes Rs9 bn of additional debt on FCCB conversion at 1.5X par value

Source: Company, Kotak Institutional Equities estimates

Key risks originate from continued negative execution surprises related to sectoral and company specific problems; we highlight that Suzlon did not have a strong execution track record when the sector scenario was buoyant. Furthermore, over the long term, the competitive intensity of the sector would increase, with new players from China and other industrial companies joining the renewable energy bandwagon.

Wind business financials of Suzlon Energy, March fiscal year-ends, 2008-13E (Rs mn)

| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| **Total MW sales** | **2,311** | **2,790** | **1,460** | **1,521** | **2,054** | **2,143** |
| **Sales** | **114,665** | **159,120** | **96,350** | **91,750** | **123,747** | **129,123** |
| **Total Expenditure** | **(97,529)** | **(143,240)** | **(96,930)** | **(90,780)** | **(111,353)** | **(115,762)** |
| Raw Material cost | (78,130) | (104,810) | (63,910) | (60,610) | (81,673) | (85,221) |
| Manpower | (5,179) | (8,970) | (9,110) | (9,410) | (9,881) | (9,881) |
| Other op exp | (14,220) | (29,460) | (23,910) | (20,760) | (19,799) | (20,660) |
| **EBITDA** | **17,136** | **15,880** | **(580)** | **970** | **12,394** | **13,362** |
| Other income | 1,968 | 2,460 | 820 | 1,240 | 574 | 519 |
| Financial charges | (4,603) | (7,780) | (9,720) | (9,930) | (10,196) | (9,721) |
| Depreciation | (1,703) | (2,600) | (3,120) | (3,590) | (3,532) | (3,639) |
| **Profit before tax** | **12,798** | **7,960** | **(12,600)** | **(11,310)** | **(761)** | **520** |
| Tax | (1,493) | (30) | (2,360) | 270 | — | (114) |
| One-off costs | — | (8,963) | — | — | — | 1 |
| **Profit after tax** | **11,305** | **(1,030)** | **(14,960)** | **(11,040)** | **7,519** | **405** |
| **Balance sheet** | | | | | | |
| Share capital | 2,994 | 2,997 | 3,114 | 3,491 | 3,491 | 3,491 |
| Reserves and surplus | 62,990 | 62,450 | 53,480 | 53,947 | 61,466 | 61,871 |
| **Total shareholders funds** | **66,084** | **65,527** | **56,754** | **58,500** | **65,157** | **65,563** |
| **Total loan funds** | **86,430** | **124,520** | **116,940** | **112,330** | **102,330** | **102,330** |
| **Total sources of funds** | **153,284** | **192,227** | **176,264** | **173,400** | **170,057** | **170,463** |
| **Net fixed assets** | **17,320** | **25,710** | **25,050** | **23,910** | **19,928** | **17,289** |
| Investments | 57,560 | 98,620 | 92,860 | 99,470 | 104,470 | 104,470 |
| Cash and bank balance | 48,870 | 13,590 | 16,374 | 9,730 | 6,661 | 8,159 |
| **Net current assets (excl. cash)** | **29,200** | **47,150** | **38,580** | **36,890** | **35,598** | **37,145** |
| **Total application of funds** | **153,284** | **192,227** | **176,264** | **173,400** | **170,057** | **170,463** |

Source: Company, Kotak Institutional Equities estimates

Consolidated financials of Suzlon Energy, March fiscal year-ends, 2008-13E (Rs mn)

| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| **Sales** | **136,794** | **260,817** | **206,197** | **167,932** | **217,744** | **241,920** |
| **Total Expenditure** | **(116,901)** | **(232,902)** | **(195,732)** | **(161,935)** | **(199,458)** | **(220,109)** |
| Raw Material cost | (88,702) | (168,568) | (136,282) | (120,794) | (156,307) | (174,782) |
| Manpower | (17,753) | (42,675) | (37,996) | (26,093) | (26,379) | (28,555) |
| Other op exp | (10,446) | (21,658) | (21,454) | (15,049) | (16,772) | (16,772) |
| **EBITDA** | **19,894** | **27,915** | **10,465** | **5,997** | **18,286** | **21,811** |
| Other income | 2,646 | 4,488 | 2,290 | 1,594 | 963 | 947 |
| Financial charges | (5,969) | (10,539) | (14,580) | (10,239) | (10,506) | (10,031) |
| Depreciation | (2,894) | (5,731) | (6,630) | (4,888) | (4,989) | (5,205) |
| **Profit before tax** | **13,676** | **16,133** | **(8,455)** | **(7,537)** | **3,755** | **7,521** |
| Tax | (1,993) | (2,881) | (3,561) | (1,363) | (2,191) | (2,763) |
| One-off costs | (1,512) | (8,963) | 2,119 | - | — | — |
| **Profit after tax** | **10,301** | **2,365** | **(9,826)** | **(9,396)** | **1,170** | **4,563** |
| **EPS (Rs)** | **6.6** | **1.6** | **(6.3)** | **(5.4)** | **0.7** | **2.6** |
| **Balance sheet** | | | | | | |
| Share capital | 2,994 | 2,997 | 3,114 | 3,491 | 3,491 | 3,491 |
| Reserves and surplus | 78,019 | 79,291 | 60,362 | 60,671 | 60,039 | 62,800 |
| **Total shareholders funds** | **81,013** | **82,287** | **63,476** | **64,163** | **63,530** | **66,291** |
| Minority interest | 10,244 | 23,135 | 3,285 | 3,582 | 3,981 | 4,463 |
| **Total loan funds** | **99,346** | **148,696** | **126,679** | **116,675** | **106,675** | **106,675** |
| **Total sources of funds** | **190,628** | **254,143** | **193,465** | **184,449** | **174,216** | **177,459** |
| **Net fixed assets** | **42,954** | **80,884** | **44,695** | **34,758** | **34,228** | **31,589** |
| Goodwill | 13,923 | 71,770 | 61,047 | 61,047 | 61,047 | 61,047 |
| Investments | 31,418 | 51 | 10,923 | 17,533 | 22,533 | 22,533 |
| Cash and bank balance | 69,602 | 30,698 | 29,043 | 28,328 | 20,641 | 25,046 |
| **Net current assets (excl. cash)** | **32,949** | **72,607** | **48,723** | **40,701** | **46,179** | **49,842** |
| **Total application of funds** | **190,628** | **254,143** | **193,465** | **184,449** | **174,216** | **177,459** |

Source: Company, Kotak Institutional Equities estimates

REpower Systems financials, March fiscal year-ends, 2006-13E (EUR mn)

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | |
| **Income from operations** | **466** | **685** | **153** | **1,241** | **1,344** | **1,216** | **1,500** | **1,800** |
| **Expenditure** | **(449)** | **(650)** | **(148)** | **(1,149)** | **(1,225)** | **(1,136)** | **(1,406)** | **(1,666)** |
| Raw material costs | (387) | (552) | (120) | (981) | (1,001) | (961) | (1,191) | (1,430) |
| Staff cost | (29) | (50) | (14) | (81) | (97) | (90) | (110) | (110) |
| Sales and distribution costs | (34) | (49) | (13) | (87) | (127) | (85) | (105) | (126) |
| **EBITDA** | **17** | **35** | **5** | **91** | **119** | **100** | **130** | **153** |
| **EBITDA margin (%)** | **3.5** | **5.1** | **3.3** | **7.4** | **8.9** | **8.2** | **8.6** | **8.5** |
| Other income | 0 | 6 | 2 | 6 | 5 | 6 | 6 | 7 |
| Interest & finance charges | (1) | (5) | (2) | (6) | (20) | (5) | (5) | (5) |
| Depreciation | (4) | (7) | (2) | (15) | (21) | (21) | (23) | (25) |
| **PBT** | **11** | **29** | **3** | **77** | **84** | **80** | **108** | **130** |
| Tax | (4) | (8) | (2) | (25) | (26) | (26) | (35) | (42) |
| **PAT** | **7** | **21** | **1** | **52** | **58** | **54** | **73** | **88** |
| | | | | | | | | |
| **Balance Sheet** | | | | | | | | |
| **Share holder's Funds** | **188** | **326** | **329** | **408** | **483** | **537** | **610** | **698** |
| Capital | 8 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| Reserves and Surplus | 180 | 317 | 320 | 399 | 474 | 528 | 601 | 688 |
| **Loan Funds** | **20** | **21** | **18** | **41** | **76** | **76** | **76** | **76** |
| **Total sources of funds** | **208** | **347** | **347** | **449** | **559** | **613** | **686** | **774** |
| Net Block | 53 | 85 | 110 | 148 | 200 | 215 | 250 | 250 |
| Cash & Bank Balances | 120 | 145 | 178 | 101 | 216 | 325 | 244 | 295 |
| Investments | 4 | 5 | 5 | 7 | 6 | 6 | 6 | 6 |
| **Net Current Assets** | **30** | **112** | **55** | **193** | **130** | **67** | **185** | **222** |
| **Total application of funds** | **208** | **347** | **347** | **449** | **552** | **613** | **686** | **774** |

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities

# Metals & Mining

India

**ATTRACTIVE**

AUGUST 26, 2011

UPDATE

BSE-30: 15,849

**Another setback.** The Supreme Court has banned mining in the Chitradurga and Tumkur regions of Karnataka – it could now take as long as 6-8 months for iron ore production to restart. The SC may allow 25 mn tonnes of iron ore inventory in the banned regions to be sold though the modalities of sale including pricing and transportation are not clear. Even if JSW's steel production for FY2012E is not impacted, concerns regarding a permanent increase in iron ore sourcing cost remain. Sesa's FY2012E production may be impacted by the ban. We maintain our REDUCE rating on JSW and Sesa.

## Supreme Court extends ban; production unlikely for 6-8 months

The Supreme Court (SC) has accepted CEC recommendations and extended ban on mining in the Chitradurga and Tumkur region of Karnataka. The Court also directed the Indian Council of Forestry Research and Education to extend the environmental impact assessment to Tumkur and Chitradurga. The Supreme Court may review the ban after the EIA report is submitted; completion of this process can be time consuming and can take at least 6-8 months to complete.

## More questions than answers even as SC allows 25 mn tonnes of inventory to be sold

The SC has allowed 25 mn tonnes of iron ore to be released in a calibrated fashion. The SC asked the steel industry to give inputs of iron ore requirement within two days to CEC. The CEC and the Attorney General will submit a report on ore requirements in Karnataka and modalities of sale and transportation of the stockpile for the SC's next hearing on Sep 2. However, a lot of aspects still remain unclear including:

(1) of the 25 mn tonnes inventory, 11 mn is high grade and 14 mn tonnes is low grade. The quantum of usability of low grade ore remains a question; (2) Inventory between miners and public miners is unavailable. It is possible that 11 mn tonnes of inventory includes operational NMDC iron ore inventory; (3) the pricing at which this iron ore can be sold remains unclear; left to miners, pricing terms can be unfavorable for steel mills and (4) the transportation and ease of evacuation of iron ore.

## Sesa Goa—Murphy's Law at work

Sesa has been impacted a host of negatives over the past few months including an increase in export duty, logistical constraints, termination of mining lease agreement in Orissa and delay in EC clearance for expansion. Sesa has A.Narrain mine in Chitradurga region with EC clearance to mine 6 mn tonnes and accounts for ~23% of iron ore volumes. The ban will hurt volumes in FY2012E; we lower volumes by 8.8% for FY2012E while keeping estimates for FY2013E unchanged. Note that Sesa has 1 mn tonne of inventory at A Narrain mine in Karnataka. We lower our target price to Rs230 from Rs295 earlier on the back of (1) assigning a 20% holdco discount for investment in Cairn India and (2) change in long-term iron ore pricing estimates

## JSW—company may sustain production though structural concerns emerge

JSW was sourcing 20-25K tonnes of ore from the Chitradurga and Tumkur region (35-40% of requirement). The SC may decide on modalities on sale of inventory on Sep 2. Any delays may hurt JSW's production target of 8 mn tonnes for FY2012E, JSW has iron ore inventory of only seven days. The price at which JSW may have to source iron ore from inventory is also uncertain. We are also not sure about continuation of iron ore supplies from NMDC's Bailadila mine in Chattisgarh (10K tonnes per day currently). Even if JSW's production in FY2012E is not impacted, structural concerns on iron ore pricing and sourcing remain. Exhibit 5 present sensitivity and EBITDA at various iron ore price levels. High leverage does not help either. We build in the risk of these moving parts through a lower EBITDA multiple (5.5X versus 5.75X earlier) and cut our target price to Rs650.

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**Exhibit 1: Sesa Goa, Change in estimates, March fiscal year ends, 2012-13E (Rs mn)**

| | Revised estimates | | Old estimates | | Change (%) | |
|---|---|---|---|---|---|---|
| | **2012E** | **2013E** | **2012E** | **2013E** | **2012E** | **2013E** |
| Blended iron ore realizations (Rs/tonne) | 4,348 | 4,060 | 4,348 | 4,060 | — | — |
| Iron ore volumes ('000 WMT) | 19,434 | 23,598 | 21,301 | 23,598 | (8.8) | — |
| Benchmark iron ore price (US$/tonne) | 157 | 140 | 157 | 140 | — | — |
| | | | | | | |
| Net revenues | 94,081 | 107,888 | 102,200 | 107,888 | (7.9) | — |
| EBITDA | 50,047 | 50,974 | 53,780 | 50,974 | (6.9) | — |
| PAT | 35,864 | 37,369 | 38,640 | 37,495 | (7.2) | (0.3) |
| **EPS (Rs)** | **40.1** | **41.6** | **43.2** | **41.7** | **(7.2)** | **(0.3)** |
| | | | | | | |
| **USD INR** | **44.8** | **45.6** | **44.8** | **45.6** | — | — |

Source: Kotak Institutional Equities estimates

**Exhibit 2: Our DCF-based valuation for Sesa Goa**
DCF valuation of Sesa, March fiscal year-ends, 2012E-22E

| | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EBITDA | 50,047 | 50,974 | 35,880 | 19,501 | 19,545 | 18,882 | 17,260 | 15,904 | 14,483 | 12,990 | 11,418 |
| Tax expense | (16,424) | (16,577) | (11,390) | (5,803) | (5,747) | (5,459) | (4,848) | (4,327) | (3,784) | (3,217) | (2,623) |
| Changes in working capital | 10,620 | (596) | 570 | (429) | 231 | (73) | 43 | 43 | 42 | 42 | 41 |
| **Cash flow from operations** | **44,243** | **33,801** | **25,060** | **13,268** | **14,029** | **13,350** | **12,455** | **11,619** | **10,741** | **9,815** | **8,836** |
| Capital expenditure | (8,050) | (6,038) | (4,210) | (4,200) | (4,200) | (4,200) | (4,200) | (4,200) | (4,200) | (4,200) | (4,200) |
| **Free cash flow to the firm** | **36,193** | **27,763** | **20,850** | **9,068** | **9,829** | **9,150** | **8,255** | **7,419** | **6,541** | **5,615** | **4,636** |
| Dicounted cash flow-now | 33,580 | 22,695 | 15,016 | 5,754 | 5,495 | 4,507 | 3,582 | 2,837 | 2,204 | 1,667 | 1,212 |
| Discounted cash flow-1 year forward | — | 25,759 | 17,044 | 6,531 | 6,237 | 5,116 | 4,066 | 3,220 | 2,501 | 1,892 | 1,376 |
| Discounted cash flow-2 year forward | — | — | 19,344 | 7,413 | 7,079 | 5,806 | 4,615 | 3,655 | 2,839 | 2,147 | 1,562 |
| **Discount rate** | **13.5%** | | | | | | | | | | |

| | Mar-13 |
|---|---|
| **Total PV of free cash flow (a)** | **73,741** |
| PV of terminal value (b) | — |
| EV (a) + (b) | 73,741 |
| EV (US$ mn) | 1,616 |
| Net debt | (51,981) |
| **Equity value** | **125,722** |
| No. of shares | 899 |
| **Implied share price (Rs)** | **140** |

| | Value | |
|---|---|---|
| | (Rs mn) | (Rs/share) |
| DCF valuation of core business | 125,722 | 140 |
| Add: Value of investments in Cairn India | 83,038 | 92 |
| **Arrived market capitalization** | **208,760** | **232** |
| **Target price (Rs)** | | **230** |

Source: Kotak Institutional Equities estimates

Exhibit 3: Sesa Goa, Key assumptions (standalone), March fiscal year-ends, 2010-14E (Rs mn)

| | 2010 | 2011 | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|
| **Tonnages ('000 dmt)** | | | | | |
| Iron ore production | 11,543 | 10,952 | 10,246 | 13,119 | 15,087 |
| Iron ore purchases | 5,185 | 4,029 | 2,872 | 2,872 | 2,872 |
| Iron ore sales | 15,177 | 14,368 | 13,118 | 15,991 | 17,959 |
| Metallurgical coke sales | 263 | 266 | 344 | 420 | 420 |
| Pig Iron sales | 270 | 266 | 349 | 500 | 500 |
| **Tonnages ('000 dmt) (consolidated)** | | | | | |
| Iron ore production | 12,633 | 13,162 | 12,677 | 16,036 | 18,588 |
| Iron ore purchases | 7,445 | 5,794 | 4,814 | 5,202 | 5,668 |
| Iron ore sales | 19,434 | 18,256 | 17,491 | 21,238 | 24,256 |
| Metallurgical coke sales | 263 | 266 | 344 | 420 | 420 |
| Pig Iron sales | 270 | 266 | 349 | 500 | 500 |
| **Realizations** | | | | | |
| Weighted average ore realization (Rs/tonne) | 2,909 | 4,665 | 4,348 | 4,060 | 3,106 |
| Average ore realization (US$/tonne) | 53 | 93 | 97 | 89 | 69 |
| Metallurgical coke prices (Rs/tonne) | 13,545 | 17,731 | 22,722 | 21,858 | 19,025 |
| Raw material cost (Rs/tonne) | 415 | 778 | 879 | 821 | 749 |

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Sesa Goa (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2009-2014E (Rs mn)

| | 2009 | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|---|
| **Profit model (Rs mn)** | | | | | |
| Net sales | 49,591 | 58,583 | 92,051 | 94,081 | 107,888 |
| **EBITDA** | **25,388** | **31,448** | **51,543** | **50,047** | **50,974** |
| Other income | 2,240 | 4,260 | 5,399 | 5,498 | 6,622 |
| Interest | (10) | (517) | (381) | (1,289) | (644) |
| Depreciaiton | (517) | (745) | (964) | (1,167) | (1,636) |
| **Profit before tax** | **27,102** | **34,446** | **55,597** | **53,089** | **55,316** |
| Taxes | (7,153) | (8,056) | (13,372) | (17,225) | (17,947) |
| **Net profit** | **19,949** | **26,390** | **42,225** | **35,864** | **37,369** |
| Minority interest | (68) | (99) | — | — | — |
| **PAT** | **19,881** | **26,291** | **42,225** | **35,864** | **37,369** |
| **Earnings per share (Rs)** | **23.9** | **29.4** | **47.0** | **40.1** | **41.6** |
| **Balance sheet (Rs mn)** | | | | | |
| Equity | 47,157 | 79,177 | 128,104 | 160,425 | 204,533 |
| Deferred tax liability | 664 | 750 | 682 | 682 | 682 |
| Total Borrowings | 19 | 19,606 | 9,995 | 17,180 | — |
| Minority interest | 334 | 433 | — | — | — |
| Current liabilities | 5,840 | 12,400 | 17,256 | 17,541 | 19,483 |
| **Total liabilities** | **54,015** | **112,366** | **156,037** | **195,828** | **224,699** |
| Net fixed assets | 5,930 | 22,557 | 31,443 | 38,326 | 42,728 |
| Investments | 31,252 | 45,649 | 87,998 | 130,654 | 130,653 |
| Cash | 177 | 23,918 | 8,970 | 9,557 | 31,489 |
| Other current assets | 16,656 | 20,242 | 27,626 | 17,291 | 19,829 |
| Miscellaneous expenditure | 0 | (0) | — | — | — |
| **Total assets** | **54,015** | **112,366** | **156,037** | **195,828** | **224,699** |
| **Free cash flow (Rs mn)** | | | | | |
| Operating cash flow excl. working capital | 18,221 | 23,922 | 38,372 | 31,533 | 32,382 |
| Working capital changes | 3,199 | 1,791 | (3,037) | 10,620 | (596) |
| Capital expenditure | (1,363) | (1,316) | (8,330) | (50,706) | (6,038) |
| **Free cash flow** | **20,058** | **24,397** | **27,005** | **(8,552)** | **25,749** |
| **Ratios** | | | | | |
| Debt/equity (%) | 0.0 | 0.2 | 0.1 | 0.1 | — |
| Net debt/equity (%) | (0.7) | (0.8) | (0.8) | (0.1) | (0.3) |
| RoAE (%) | 52.4 | 36.1 | 36.8 | 22.1 | 17.9 |
| **RoACE (%)** | **52.4** | **31.6** | **32.6** | **20.7** | **17.2** |

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: JSW Steel, Impact on EPS and EBITDA due to increase in iron ore prices (%)

| | Iron ore price increases impact | | | | % change | | |
|---|---|---|---|---|---|---|---|
| **FY2012E** | **Base case** | **10%** | **20%** | **30%** | **10%** | **20%** | **30%** |
| Net sales (Rs mn) | 318,026 | 318,026 | 318,026 | 318,026 | — | — | — |
| EBITDA (Rs mn) | 53,821 | 51,305 | 48,789 | 46,273 | (4.7) | (9.3) | (14.0) |
| PAT (Rs mn) | 17,079 | 15,318 | 13,557 | 11,796 | (10.3) | (20.6) | (30.9) |
| **EPS (Rs/share)** | **75.6** | **67.8** | **60.0** | **52.2** | **(10.3)** | **(20.6)** | **(30.9)** |
| | | | | | | | |
| Iron ore prices (Rs/tonne) | 3,110 | 3,291 | 3,472 | 3,654 | 5.8 | 11.7 | 17.5 |

| | Iron ore price increases impact | | | | % change | | |
|---|---|---|---|---|---|---|---|
| **FY2013E** | **Base case** | **10%** | **20%** | **30%** | **10%** | **20%** | **30%** |
| Net sales (Rs mn) | 367,453 | 367,453 | 367,453 | 367,453 | — | — | — |
| EBITDA (Rs mn) | 66,110 | 61,283 | 56,455 | 51,627 | (7.3) | (14.6) | (21.9) |
| PAT (Rs mn) | 25,254 | 21,875 | 18,496 | 15,117 | (13.4) | (26.8) | (40.1) |
| **EPS (Rs/share)** | **111.7** | **96.8** | **81.8** | **66.9** | **(13.4)** | **(26.8)** | **(40.1)** |
| | | | | | | | |
| Iron ore prices (Rs/tonne) | 2,913 | 3,180 | 3,447 | 3,714 | 9.2 | 18.3 | 27.5 |

Note:
1. We have assumed here that the hike in prices does not get passed through

Source: Kotak Institutional Equities estimates

Exhibit 6: JSW Steel consolidated leverage details, March fiscal year ends, FY2012-14E (X)

| | 2012E | 2013E | 2014E |
|---|---|---|---|
| **EBITDA (Rs mn)** | **53,821** | **66,110** | **69,566** |
| Shareholders funds | 178,807 | 200,496 | 224,181 |
| Net debt | 195,393 | 213,736 | 219,500 |
| **Net debt/ EBITDA (X)** | **3.6** | **3.2** | **3.2** |
| **Net debt/ Equity (X)** | **1.1** | **1.1** | **1.0** |

Source: Kotak Institutional Equities estimates

Exhibit 7: JSW Steel, Valuation details, March fiscal-year ends 2013E basis (Rs mn)

| | EBITDA | Multiple | Value | |
|---|---|---|---|---|
| | (Rs mn) | (X) | (Rs mn) | (Rs/share) |
| Consolidated EBITDA | 65,058 | 5.5 | 354,567 | 1,569 |
| Net debt | | | 213,736 | 946 |
| **Arrived market capitalization** | | | **140,830** | **623** |
| **Value of stake in Ispat** | | | **6,576** | **29** |
| **Target price (Rs)** | | | | **650** |

Source: Kotak Institutional Equities estimates

Exhibit 8: JSW Steel, Key assumptions, March fiscal year-ends, 2009-14E (Rs mn)

| | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|---|
| Crude steel capacity ('000 tonnes) | 4,800 | 7,800 | 7,800 | 11,000 | 11,000 | 11,000 |
| Saleable steel volumes ('000 tonnes) | 3,421 | 5,705 | 6,099 | 7,381 | 8,813 | 9,456 |
| HRC price (US$/tonne) | 831 | 647 | 744 | 792 | 770 | 738 |
| Average realizations, net (US$/ tonne) | 892 | 695 | 833 | 895 | 853 | 811 |
| **EBITDA (US$/tonne)** | **181** | **163** | **165** | **150** | **154** | **152** |
| **Re/US$ rate** | **45.8** | **45.9** | **45.6** | **44.8** | **45.6** | **45.0** |

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: JSW Steel (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2009-2014E (Rs mn)

| | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|---|
| **Profit model (Rs mn)** | | | | | | |
| Net sales | 159,348 | 190,738 | 239,002 | 318,026 | 367,453 | 369,969 |
| **EBITDA** | **29,818** | **41,873** | **46,627** | **53,821** | **66,110** | **69,566** |
| Other income | 2,717 | 4,194 | 2,840 | 372 | 405 | 440 |
| Interest | (11,556) | (11,080) | (9,454) | (10,864) | (11,312) | (12,661) |
| Depreciaiton | (9,878) | (12,987) | (15,597) | (17,838) | (20,591) | (22,173) |
| **Profit before tax** | **11,101** | **22,000** | **24,417** | **25,490** | **34,612** | **35,172** |
| Extra-ordinary items | (7,948) | — | — | — | — | — |
| Current tax | 63 | (2,286) | (3,855) | (4,051) | (7,414) | (8,007) |
| Deferred tax | (789) | (4,182) | (3,968) | (2,474) | (1,841) | (1,354) |
| **Net profit** | **2,427** | **15,533** | **16,594** | **18,965** | **25,356** | **25,811** |
| Minority interest | 205 | 332 | 239 | (716) | (722) | (843) |
| Share of earnings from associates | 117 | 111 | 707 | (1,170) | 621 | 2,283 |
| **PAT** | **2,749** | **15,976** | **17,540** | **17,079** | **25,254** | **27,251** |
| **Adjusted PAT** | **10,856** | **15,976** | **17,540** | **17,079** | **25,254** | **27,251** |
| **Earnings per share (Rs)** | **13.8** | **80.4** | **78.6** | **75.6** | **111.7** | **120.6** |
| **Balance sheet (Rs mn)** | | | | | | |
| Equity | 78,040 | 92,572 | 165,293 | 178,807 | 200,496 | 224,181 |
| Deferred tax liability | 12,768 | 16,848 | 20,494 | 22,968 | 24,809 | 26,163 |
| Total Borrowings | 165,502 | 161,730 | 164,744 | 202,137 | 229,088 | 254,004 |
| Current liabilities | 82,628 | 80,727 | 106,014 | 99,838 | 99,834 | 84,532 |
| Minority interest | 2,732 | 2,187 | 2,358 | 3,074 | 3,797 | 4,640 |
| **Total liabilities** | **341,670** | **354,063** | **458,903** | **506,824** | **558,024** | **593,521** |
| Net fixed assets | 278,943 | 284,090 | 323,183 | 361,851 | 389,392 | 407,480 |
| Goodwill on consolidation | 7,831 | 8,992 | 10,932 | 10,932 | 10,932 | 10,932 |
| Investments | 3,966 | 6,282 | 29,138 | 27,969 | 28,589 | 30,873 |
| Cash | 5,093 | 3,030 | 20,480 | 6,745 | 15,352 | 34,504 |
| Other current assets | 45,836 | 51,669 | 75,169 | 99,329 | 113,759 | 109,733 |
| **Total assets** | **341,670** | **354,063** | **458,903** | **506,824** | **558,024** | **593,521** |
| **Free cash flow (Rs mn)** | | | | | | |
| Operating cash flow excl. working capital | 19,143 | 38,323 | 41,439 | 39,277 | 47,789 | 49,338 |
| Working capital changes | 26,781 | (4,710) | (13,137) | (30,335) | (14,434) | (11,275) |
| Capital expenditure | (57,279) | (27,245) | (52,994) | (56,505) | (48,132) | (40,261) |
| **Free cash flow** | **(11,355)** | **6,368** | **(24,691)** | **(47,564)** | **(14,778)** | **(2,198)** |
| **Ratios** | | | | | | |
| Debt/equity (X) | 2.1 | 1.7 | 1.0 | 1.1 | 1.1 | 1.1 |
| Net debt/equity (X) | 2.1 | 1.7 | 0.9 | 1.1 | 1.1 | 1.0 |
| RoAE (%) | 3.5 | 18.7 | 13.6 | 9.9 | 13.3 | 12.8 |
| **RoACE (%)** | **9.1** | **10.9** | **9.5** | **9.0** | **9.4** | **8.7** |

Source: Company, Kotak Institutional Equities estimates

ATTRACTIVE

AUGUST 26, 2011

UPDATE

BSE-30: 15,849

**Realign estimates and target prices; remain selectively positive.** We factor in modest deceleration in volume growth and some pricing pressure on account of increased macro uncertainty and cut our FY2012/13E EPS for all companies. Further lowering of multiples (from peak-cycle to mid-cycle) drives a 10-26% cut in our fair value estimates. Nonetheless, we remain positive longer term and see the recent correction as an opportunity to enter select names. Prefer INFO/TCS among large caps and HEXW/MTCL among the mid-cap names.

## Cut estimates to factor in increased macro risk

We lower our FY2013E US$ revenue growth estimates for the Tier-I stocks to 13-17% from 18-22% earlier and for the Tier-II names to 10-15% from 13-21% earlier. Two key drivers – (1) increased macro uncertainty to drive a modest deceleration in volume growth and lead to some pricing pressure across all players, and (2) relative growth differential between Tier-I names (TCS/Cognizant leading while Infosys/Wipro lagging) has the potential of driving aggressive (though only in select accounts and not broad-based) pricing actions from the laggards. Lower revenue growth estimates also drive modest reductions in margin estimates – all in, a 5-10% cut in FY2013E EPS estimates for Tier-Is and 3-15% for Tier-IIs.

## Lower target multiples as well; relative preferences unchanged

We also lower our target multiples on Tier-I names to 15-19X from 17-21X earlier, and for Tier-II stocks to 7-12X from 8-14X earlier. Our revised target multiples reflect mid-cycle multiples as opposed to the peak-cycle multiples that we were using earlier (please see our recent notes dated August 8, 2011 and August 19, 2011 for a detailed discussion on target multiples and growth cycles). Reduced earnings and multiples lead to a 10-26% cut in our end-FY2013E target prices of various stocks. Our ratings remain the same – BUY on Infosys and TCS, ADD on Wipro, Hexaware, MindTree and Patni, REDUCE on HCLT, Mahindra Satyam, and Tech Mahindra, and SELL on Mphasis and Polaris.

Exhibit 1 details the changes to estimates and TP for Tier-I names while Exhibit 2 details the same for Tier-II companies.

## Recent correction an opportunity to enter select names from a medium-term perspective

We believe select Indian IT names are approaching levels (we are possibly 10-15% away) where an uncertain macro environment is being extrapolated into a severe, sharp, and permanent loss of earnings growth power of these companies. Business model, and consequently, earnings power of these companies based upon market share gains for IT offshoring remains intact, in our view. Post recent macro developments, we are headed into an uncertain environment and we do not know how FY2013E would pan out – our estimates depict our current view on a highly uncertain 2HFY12E/ FY2013E; there could be downside risks. Nonetheless, the key is to appreciate the risk/reward at current levels – this appears favorable to us. We see the recent correction as an opportunity to BUY into the long-term secular market share gain story for IT offshoring through high-quality names. TCS and Infosys are our top picks. Of course, in the current market scenario where sentiments are broadly negative, it would be foolhardy to call the bottom – this remains a near-term risk to our positive thesis on select names, as discussed above.

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Exhibit 1: Changes to estimates and target prices for Tier-I IT companies under coverage

| | Revenues (US$ mn) | | Revenue growth (%) | | EBITDA margin (%) | | EPS (Rs/share) | | Target price | Target FY2013E PE |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY2012 | FY2013 | FY2012 | FY2013 | FY2012 | FY2013 | FY2012 | FY2013 | (Rs/share) | (X) |
| **TCS** | | | | | | | | | | |
| New | 10,386 | 12,140 | 26.9 | 16.9 | 29.0 | 28.5 | 52.8 | 61.1 | 1,160 | 19.0 |
| Old | 10,530 | 12,868 | 28.6 | 22.2 | 29.5 | 28.5 | 54.5 | 64.4 | 1,350 | 21.0 |
| Change | (1.4) | (5.7) | (176) | (532) | (56) | 1 | (3.2) | (5.2) | (14.1) | |
| **Infosys** | | | | | | | | | | |
| New | 7,195 | 8,254 | 19.1 | 14.7 | 30.6 | 30.6 | 134.3 | 160.3 | 2,900 | 18.1 |
| Old | 7,353 | 8,855 | 21.7 | 20.4 | 31.3 | 31.6 | 140.2 | 168.9 | 3,400 | 20.1 |
| Change | (2.2) | (6.8) | (262) | (570) | (74) | (107) | (4.2) | (5.1) | (14.7) | |
| **Wipro** | | | | | | | | | | |
| New | 5,971 | 6,731 | 14.4 | 12.7 | 24.5 | 23.2 | 22.4 | 24.5 | 370 | 15.1 |
| Old | 6,023 | 7,086 | 15.4 | 17.6 | 24.7 | 23.7 | 22.9 | 26.3 | 450 | 17.1 |
| Change | (0.9) | (5.0) | (101) | (491) | (26) | (54) | (1.9) | (7.0) | (17.8) | |
| **HCL Tech** | | | | | | | | | | |
| New | 4,374 | 5,008 | 23.4 | 14.5 | 16.5 | 15.5 | 29.5 | 32.8 | 375 | 11.4 |
| Old | 4,437 | 5,324 | 25.2 | 20.0 | 16.6 | 16.1 | 30.1 | 36.5 | 490 | 13.4 |
| Change | (1.4) | (5.9) | (177) | (550) | (10) | (60) | (2.3) | (10.3) | (23.5) | |

Source: Kotak Institutional Equities estimates

Exhibit 2: Changes to estimates and target prices for mid-cap IT companies under coverage

| | Revenues (US$ mn) | | Revenue growth (%) | | EBITDA margin (%) | | EPS (Rs/share) | | Target price | Target FY2013E PE |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY2012 | FY2013 | FY2012 | FY2013 | FY2012 | FY2013 | FY2012 | FY2013 | (Rs/share) | (X) |
| **Satyam** | | | | | | | | | | |
| New | 1,369 | 1,566 | 21.4 | 14.4 | 13.8 | 13.7 | 6.7 | 7.0 | 70 | 10.0 |
| Old | 1,376 | 1,598 | 21.9 | 16.2 | 13.8 | 14.0 | 6.7 | 7.3 | 80 | 11.0 |
| Change | (0.4) | (2.0) | (54) | (182) | (1) | (35) | (0.4) | (4.2) | (12.5) | |
| **Tech Mahindra** | | | | | | | | | | |
| New | 1,214 | 1,336 | 7.8 | 10.1 | 17.3 | 16.8 | 72.1 | 75.5 | 600 | |
| Old | 1,214 | 1,367 | 7.8 | 12.7 | 17.3 | 16.8 | 72.2 | 78.0 | 665 | SOTP-based |
| Change | - | (2.3) | - | (260) | - | 0 | (0.2) | (3.2) | (9.8) | |
| **Mphasis (recently revised)** | | | | | | | | | | |
| New | 1,123 | 1,246 | 4.7 | 10.9 | 19.0 | 15.1 | 38.6 | 30.0 | 300 | 10.0 |
| **Patni** | | | | | | | | | | |
| New | 761 | 840 | 8.5 | 10.4 | 14.4 | 15.9 | 25.9 | 27.2 | 300 | 11.0 |
| Old | 762 | 867 | 8.6 | 13.8 | 14.4 | 17.1 | 26.0 | 30.8 | 370 | 12.0 |
| Change | (0.1) | (3.1) | (14) | (340) | (8) | (116) | (0.7) | (11.7) | (18.9) | |
| **Polaris** | | | | | | | | | | |
| New | 430 | 473 | 23.6 | 10.0 | 12.7 | 11.7 | 18.8 | 19.0 | 130 | 6.9 |
| Old | 434 | 500 | 24.6 | 15.1 | 13.1 | 13.1 | 19.5 | 22.3 | 175 | 7.9 |
| Change | (0.8) | (5.3) | (102) | (515) | (34) | (135) | (3.4) | (14.8) | (25.7) | |
| **Mindtree** | | | | | | | | | | |
| New | 395 | 453 | 19.3 | 14.7 | 12.4 | 12.7 | 35.2 | 37.2 | 375 | 10.1 |
| Old | 398 | 480 | 20.4 | 20.4 | 12.6 | 13.2 | 36.4 | 42.6 | 430 | 10.1 |
| Change | (0.9) | (5.6) | (108) | (566) | (26) | (54) | (3.5) | (12.6) | (12.8) | |
| **Hexaware** | | | | | | | | | | |
| New | 306 | 353 | 32.4 | 15.3 | 15.0 | 14.7 | 7.5 | 7.3 | 80 | 11.0 |
| Old | 307 | 372 | 32.7 | 21.2 | 15.0 | 15.5 | 7.5 | 8.0 | 90 | 11.3 |
| Change | (0.3) | (5.1) | (35) | (592) | 1 | (79) | (0.2) | (9.1) | (11.1) | |

Note:
1. Hexaware and Patni estimates are for CY2011E and CY2012E
2. Mphasis estimates are for fiscal years ending Oct 2011 and Oct 2012

Source: Kotak Institutional Equities estimates

## Exhibit 3: Valuation summary of key Indian technology companies

| Company | 26-Aug-11 Price (Rs) | Rating | Mkt cap. (Rs m) | Mkt cap. (US$ m) | EPS (Rs) 2011 | EPS (Rs) 2012E | EPS (Rs) 2013E | PER (X) 2011 | PER (X) 2012E | PER (X) 2013E | EV/EBITDA (X) 2011 | EV/EBITDA (X) 2012E | EV/EBITDA (X) 2013E | EV/Sales (X) 2011 | EV/Sales (X) 2012E | EV/Sales (X) 2013E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| HCL Technologies | 363 | REDUCE | 255,774 | 5,540 | 22.9 | 29.5 | 32.8 | 15.9 | 12.3 | 11.1 | 9.6 | 7.4 | 6.5 | 1.6 | 1.2 | 1.0 |
| Hexaware Technologies | 68 | ADD | 19,863 | 430 | 3.0 | 7.5 | 7.3 | 23.2 | 9.1 | 9.4 | 16.6 | 7.6 | 6.4 | 1.5 | 1.1 | 0.9 |
| Infosys Technologies | 2,203 | BUY | 1,264,264 | 27,386 | 119.7 | 134.3 | 160.3 | 18.4 | 16.4 | 13.7 | 12.2 | 10.7 | 8.7 | 4.0 | 3.3 | 2.7 |
| Mindtree | 327 | ADD | 13,452 | 291 | 24.7 | 35.2 | 37.2 | 13.2 | 9.3 | 8.8 | 7.3 | 5.7 | 4.5 | 0.9 | 0.7 | 0.6 |
| Mphasis BFL | 348 | SELL | 73,226 | 1,586 | 51.8 | 38.6 | 30.0 | 6.7 | 9.0 | 11.6 | 5.7 | 6.8 | 7.3 | 1.4 | 1.3 | 1.1 |
| Patni Computer Systems | 266 | ADD | 35,451 | 768 | 42.6 | 25.9 | 27.2 | 6.2 | 10.3 | 9.8 | 3.1 | 3.3 | 2.2 | 0.6 | 0.5 | 0.3 |
| Polaris Software Lab | 125 | SELL | 12,453 | 270 | 19.3 | 18.8 | 19.0 | 6.5 | 6.6 | 6.6 | 3.4 | 2.6 | 2.2 | 0.5 | 0.3 | 0.3 |
| Mahindra Satyam | 63 | REDUCE | 74,323 | 1,610 | 4.2 | 6.7 | 7.0 | 15.1 | 9.5 | 9.1 | 10.3 | 5.2 | 4.0 | 0.9 | 0.7 | 0.5 |
| TCS | 948 | BUY | 1,856,306 | 40,210 | 44.5 | 52.8 | 61.1 | 21.3 | 18.0 | 15.5 | 16.0 | 13.1 | 10.9 | 4.8 | 3.8 | 3.1 |
| Tech Mahindra | 613 | REDUCE | 77,181 | 1,672 | 48.8 | 72.1 | 75.5 | 12.6 | 8.5 | 8.1 | 8.6 | 8.7 | 7.6 | 1.7 | 1.5 | 1.3 |
| Wipro | 320 | ADD | 784,667 | 16,997 | 21.6 | 22.4 | 24.5 | 14.8 | 14.3 | 13.1 | 10.8 | 9.6 | 8.4 | 2.3 | 1.9 | 1.6 |
| ***Technology*** | | **Attractive** | ***4,466,960*** | ***96,761*** | | | | ***17.4*** | ***15.4*** | ***13.6*** | ***12.4*** | ***10.6*** | ***9.0*** | ***3.1*** | ***2.5*** | ***2.1*** |
| ***KS universe (b)*** | | | ***42,464,228*** | ***919,836*** | | | | ***14.5*** | ***12.2*** | ***10.5*** | ***9.4*** | ***7.8*** | ***6.7*** | ***1.5*** | ***1.2*** | ***1.1*** |

| Company | Target Price | O/S shares (mn) | EPS growth (%) 2011 | EPS growth (%) 2012E | EPS growth (%) 2013E | Net Profit (Rs mn) 2011 | Net Profit (Rs mn) 2012E | Net Profit (Rs mn) 2013E | EBITDA (Rs mn) 2011 | EBITDA (Rs mn) 2012E | EBITDA (Rs mn) 2013E | Sales (Rs mn) 2011 | Sales (Rs mn) 2012E | Sales (Rs mn) 2013E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| HCL Technologies | 375 | 705 | 30.4 | 28.9 | 11.3 | 16,214 | 20,824 | 23,305 | 26,270 | 32,473 | 34,813 | 158,551 | 196,644 | 225,154 |
| Hexaware Technologies | 80 | 290 | (36.8) | 154.4 | (3.4) | 1,073 | 2,182 | 2,107 | 938 | 2,045 | 2,357 | 10,546 | 13,662 | 16,013 |
| Infosys Technologies | 2,900 | 574 | 10.5 | 12.1 | 19.4 | 68,720 | 77,065 | 92,029 | 89,640 | 98,468 | 115,081 | 275,010 | 322,047 | 376,496 |
| Mindtree | 375 | 41 | (52.7) | 42.4 | 5.8 | 1,017 | 1,447 | 1,532 | 1,777 | 2,182 | 2,626 | 15,091 | 17,655 | 20,664 |
| Mphasis BFL | 300 | 211 | 18.8 | (25.5) | (22.2) | 10,908 | 8,124 | 6,319 | 12,649 | 9,713 | 8,595 | 50,365 | 51,026 | 56,854 |
| Patni Computer Systems | 300 | 133 | 16.5 | (39.3) | 5.2 | 5,675 | 3,445 | 3,623 | 6,165 | 4,894 | 6,023 | 31,696 | 34,092 | 37,821 |
| Polaris Software Lab | 130 | 100 | 25.7 | (2.6) | 0.7 | 1,926 | 1,876 | 1,890 | 2,139 | 2,454 | 2,530 | 15,863 | 19,258 | 21,598 |
| Mahindra Satyam | 70 | 1,176 | 68.9 | 58.4 | 4.7 | 4,938 | 7,824 | 8,195 | 4,551 | 8,448 | 9,750 | 51,450 | 61,285 | 71,362 |
| TCS | 1,160 | 1,957 | 26.8 | 18.6 | 15.6 | 87,165 | 103,366 | 119,511 | 111,985 | 134,741 | 157,719 | 373,246 | 464,928 | 553,214 |
| Tech Mahindra | 600 | 126 | (25.2) | 47.8 | 4.7 | 6,388 | 9,450 | 9,888 | 10,033 | 9,383 | 10,228 | 51,402 | 54,348 | 60,889 |
| Wipro | 370 | 2,454 | 14.5 | 3.9 | 9.1 | 52,974 | 55,053 | 60,073 | 67,434 | 72,635 | 78,989 | 310,986 | 356,271 | 405,688 |
| ***Technology*** | | | ***17.1*** | ***13.1*** | ***13.0*** | ***256,996*** | ***290,657*** | ***328,472*** | ***333,580*** | ***377,436*** | ***428,711*** | ***1,344,207*** | ***1,591,216*** | ***1,845,754*** |
| ***KS universe (b)*** | | | ***18.1*** | ***18.7*** | ***16.3*** | | | | | | | | | |

Notes

(a) HCL Technologies is June fiscal year-ending

(b) Patni Computers Systems and Hexaware Technologies are December year-ending.

Source: Company reports, Kotak Institutional Equities estimates kotak

Economy

RBI Annual Report

# INDIA

AUGUST 26, 2011

UPDATE

BSE-30: 15,849

**RBI Annual Report: Domestic sources shore up gross income.** Interest income from domestic sources accounted for a major share in the total income of the RBI. The gross income was about 12.7% higher than last year with higher contingency reserves pulling down net income lower. Consequently, surplus transferred to the government fell by about 20% from FY2010. The RBI continued to be concerned on the impact of global economic conditions on domestic growth and reiterated the importance of supply-side measures in controlling inflation.

## Transfer of surplus to the government falls by 20% to Rs150.1 bn

Total gross income of the RBI was shored up with a sharp rise in domestic interest income which was at Rs150.3 bn, up from Rs66.5 bn in FY2010 (see Exhibit 1). This is reflective of the higher interest rates in FY2011. According to the report, earnings from domestic sources increased due to LAF operations, cash management operation of the government which had higher ways and means advances (WMA) this year and higher receipt from coupons on a larger portfolio of G-Secs. The rate of earnings in FY2011 was at 3.77% against 3.45% in FY2010. However, net income fell by around 13% due to higher transfers to the contingency reserves which increased by 135% over last year to Rs121.7 bn. Expenditures increased marginally by 3% to Rs86.6 bn. Consequently, with lower net income and higher expenditure, the surplus to the government fell by 20% to Rs150.1 bn.

Balance sheet expansion was mainly on account of the liquidity management operations. The liabilities expansion came from an increase in notes in circulation and higher deposits with RBI while the assets-side expansion was due to a significant increase in RBI's G-Sec portfolio from OMOs, repo purchases and disinvestment of government's surplus balance with the RBI.

## Growth outlook has downside risks; inflation pressures need supply responses

With increasing global uncertainties and slower domestic demand, the RBI highlighted that its FY2012 growth projection of 8% is likely to see downside risks. Along with this, domestic concerns emanating from inflationary pressures, rising input costs, higher interest rates pushing up cost of capital and slow project execution are weighing on the growth trajectory. Services sector is likely to remain resilient though risks remain from both global and domestic fronts. Transport, communication, finance and insurance sectors are not experiencing a cyclical slowdown given the favorable demographics, low product penetration and steady demand from rural areas. The RBI expects the hotel and restaurant segment to register robust growth driven by domestic demand though outlook for external demand-driven sectors remain uncertain.

Inflation projection of 7% may see some positives from global growth slowdown and global commodity prices cooling off. However, the extent of decline till now has not been encouraging. The RBI reiterated the need for supply-side responses given that for the past two years inflation moderation has been limited in the absence of supply-side responses. Monetary policy is more useful in arresting second round effects of supply-led inflation.

## Close watch required on twin deficits

In case of a slowdown, fiscal consolidation may become a great concern as already based on current assessments of the RBI, the fiscal deficit is likely to overshoot budget projections. Room for counter-cyclical policies is also limited compared to the crisis period. On the other hand, CAD concerns for the moment are minimal though in the event of a global slowdown, exports may not be so robust. Also, capital flows may be lumpy and prospects for the external sector remain uncertain post the US debt downgrade and Euro area debt crisis.

### QUICK NUMBERS

- Transfer of surplus to government at Rs150 bn in FY2011
- Domestic interest earnings grow by 126%
- RBI estimate for GDP growth at 8% with downward risks from global uncertainties
- End-FY2012E inflation estimate at 7%; positives may be from a slowing global economy

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## Some interesting takeaways from the Annual Report

- Power sector in FY2012E may moderate if the coal sector continues to underperform given that 70% of the total power generation is from thermal power.
- Real demand remains steady as wage growth, especially in the rural areas, has outstripped commodity price inflation.
- Net financial savings of the household sector moderated to 9.7% of GDP in FY2011 from 12.1% in FY2010. This is likely to be reflective of slower growth in savings in bank deposits and life insurance and decline in investment in shares and debentures. Households' financial liabilities have increased reflecting higher borrowings from commercial banks.
- Moderation on the demand side is expected as investment remains weak and private consumption decelerates. In this scenario, expenditure switching from government consumption to public sector investments would be essential.
- With weak growth in advanced economies, to grow at 9-9.5% during the plan period of 2012-17, an investment rate of 40.5% would be required if ICOR of 4.5% (as of 11th plan period) remains unchanged.
- CAD that finances the saving-investment gap in the economy has averaged about 1% of GDP over the past two decades. Even if this was to go up to 2%, savings rate of the economy needs to go up by 5% from 2009-10 levels to 33.7%.
- Calculations show that a 10 ppt increase in oil price inflation, with complete pass-through, leads to GDP growth reduction by 0.3 ppt while inflation rises by 2 ppt (inclusive of direct and secondary impacts). These are minimal impacts and impacts will be greater given the complexities involved in a real economy.
- Empirical findings indicate that threshold inflation (or inflation level beyond which inflation should be controlled even at the cost of sacrificing growth) is in a range of 4-6%.
- Empirical results show that a 1% increase in real GDP leads to 1.24% increase in demand for currency. Similarly, 1% increase in WPI leads to 1.05% increase in demand for currency. Further, interest rate *per se* is not a key determinant of currency but in periods when real return on term deposits is negative (like in last year or so), interest rate becomes a determinant of currency demand.
- Government consumption positively impacts both real and nominal GDP in the short term. Quantitatively, the government consumption multiplier peaks in the first three quarters (in a range of 0.11-0.2) and then peters out. On the other hand, government investment in terms of capital outlays has a multiplier effect of 1.5. Hence, improving the quality of government expenditure is very important.
- In essence with the principles of Domar debt model (we used this condition for our public debt sustainability note on August 22: "*Don't worry about the debt situation in India*"), CAD/GDP in India is sustainable at 2.7-3% given (1) GDP growth is between 7-9% and inflation is around 5%, (2) average interest cost on external liabilities is between 2% and 3.5% and (3) capital flows range around 4-4.5% of GDP and 3/5th of these flows are non-debt creating inflows. So for India, other than inflation most of the conditions are fulfilled (at least with some relaxations).
- At the current level of CAD/GDP, the exchange rate is close to its equilibrium value.

**RBI income rises by about 13% in FY2011**
Trends in gross income, expenditure and net income, March fiscal year-ends, 2006-2011 (Rs bn)

| | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 |
|---|---|---|---|---|---|---|
| 1. Foreign Sources: | | | | | | |
| Interest , Discount, Exchange | 245.4 | 351.5 | 518.8 | 508.0 | 251.0 | 211.5 |
| 2. Domestic Sources | 17.8 | 402.0 | 58.7 | 99.4 | 77.8 | 159.2 |
| Interest | 12.1 | 51.4 | 49.6 | 90.6 | 66.5 | 150.3 |
| Profit on sale of investment in shares of SBI | — | 343.1 | — | — | — | — |
| Other earnings | 5.8 | 7.4 | 9.1 | 8.8 | 11.4 | 8.9 |
| **3. Total Income (Gross) (1+2)** | **263.2** | **753.5** | **577.5** | **607.3** | **328.8** | **370.7** |
| Less transfer to: | | | | | | |
| Contingency reserve | 109.4 | 204.9 | 334.3 | 261.9 | 51.7 | 121.7 |
| Asset development reserve | 11.3 | 19.7 | 32.1 | 13.1 | 5.5 | 12.3 |
| 4. Total transfers | 120.6 | 224.6 | 366.4 | 275.0 | 57.2 | 134.0 |
| **Total Income (Net) (3-4)** | **142.6** | **528.9** | **211.1** | **332.3** | **271.7** | **236.7** |
| **5. Total Expenditure** | **58.5** | **71.6** | **61.0** | **82.2** | **84.0** | **86.6** |
| Net disposable income | 84.1 | 457.2 | 150.2 | 250.1 | 187.6 | 150.1 |
| **Transfer of surplus to government** | **84.0** | **457.2** | **150.1** | **250.1** | **187.6** | **150.1** |

Source: RBI Annual Report FY2011, Kotak Economic Research

## Kotak Institutional Equities: Valuation summary of key Indian companies

| | 26-Aug-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)** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **(Rs)** | **(%)** | **(US$ mn)** |
| **Automobiles** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Ashok Leyland | 25 | SELL | 65,985 | 1,429 | 2,661 | 2.4 | 2.1 | 2.4 | 68.1 | (11.9) | 12.8 | 10.5 | 11.9 | 10.5 | 7.3 | 7.7 | 7.0 | 1.5 | 1.4 | 1.3 | 4.0 | 4.0 | 4.0 | 21.8 | 17.4 | 18.2 | 26 | 4.8 | 4.7 |
| Bajaj Auto | 1,504 | ADD | 435,171 | 9,427 | 289 | 90.4 | 99.8 | 109.6 | 43.9 | 10.4 | 9.9 | 16.6 | 15.1 | 13.7 | 12.7 | 11.7 | 11.0 | 8.8 | 6.8 | 5.4 | 2.7 | 2.7 | 2.7 | 84.9 | 50.6 | 43.0 | 1,550 | 3.1 | 12.5 |
| Bharat Forge | 263 | ADD | 62,481 | 1,354 | 237 | 12.5 | 16.4 | 20.3 | 1,402.1 | 30.8 | 23.5 | 21.0 | 16.0 | 13.0 | 10.0 | 8.0 | 6.8 | 2.8 | 2.4 | 2.0 | 1.3 | — | — | 8.2 | 14.1 | 15.2 | 320 | 21.5 | 3.1 |
| Exide Industries | 144 | REDUCE | 122,060 | 2,644 | 850 | 7.5 | 8.1 | 10.0 | 18.0 | 9.2 | 22.9 | 19.3 | 17.7 | 14.4 | 13.9 | 12.8 | 10.5 | 4.5 | 3.7 | 3.0 | 1.0 | 0.9 | 0.9 | 25.5 | 22.9 | 23.2 | 160 | 11.4 | 5.7 |
| Hero Honda | 1,952 | REDUCE | 389,725 | 8,443 | 200 | 99.3 | 111.3 | 127.9 | (11.1) | 12.1 | 14.9 | 19.6 | 17.5 | 15.3 | 13.8 | 12.8 | 10.5 | 8.4 | 8.6 | 8.2 | 5.4 | 3.6 | 3.6 | 56.5 | 63.6 | 60.1 | 1,730 | (11.4) | 18.4 |
| Mahindra & Mahindra | 704 | BUY | 432,471 | 9,369 | 614 | 41.7 | 46.8 | 50.4 | 22.7 | 12.1 | 7.7 | 16.9 | 15.1 | 14.0 | 13.0 | 11.0 | 10.0 | 4.1 | 3.4 | 2.8 | 1.6 | 1.3 | 1.3 | 27.3 | 24.4 | 22.0 | 800 | 13.6 | 30.6 |
| Maruti Suzuki | 1,083 | BUY | 312,994 | 6,781 | 289 | 79.2 | 79.9 | 100.3 | (8.4) | 0.9 | 25.5 | 13.7 | 13.6 | 10.8 | 8.3 | 8.0 | 5.9 | 2.2 | 1.9 | 1.7 | 0.7 | 0.7 | 0.7 | 17.6 | 15.4 | 16.7 | 1,475 | 36.1 | 11.1 |
| Tata Motors | 699 | REDUCE | 464,503 | 10,063 | 665 | 136.0 | 119.6 | 126.0 | 737.9 | (12.0) | 5.3 | 5.1 | 5.8 | 5.5 | 4.1 | 4.5 | 4.2 | 2.4 | 1.8 | 1.4 | 2.7 | 2.1 | 2.1 | 66.1 | 35.2 | 28.3 | 930 | 33.1 | 61.8 |
| **Automobiles** | | **Cautious** | **2,285,389** | **49,510** | | | | | **88.4** | **(0.9)** | **10.9** | **11.4** | **11.5** | **10.4** | **7.6** | **7.6** | **6.8** | **3.6** | **3.0** | **2.5** | **2.6** | **2.1** | **2.1** | **31.7** | **25.9** | **23.8** | | | |
| **Banks/Financial Institutions** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Andhra Bank | 121 | BUY | 67,961 | 1,472 | 560 | 22.6 | 24.2 | 27.5 | 5.0 | 6.9 | 13.5 | 5.4 | 5.0 | 4.4 | — | — | — | 1.0 | 0.9 | 0.8 | 4.5 | 4.8 | 5.5 | 23.2 | 19.4 | 19.2 | 190 | 56.4 | 1.9 |
| Axis Bank | 1,000 | BUY | 410,669 | 8,897 | 411 | 82.5 | 98.9 | 119.7 | 33.0 | 19.8 | 21.1 | 12.1 | 10.1 | 8.4 | — | — | — | 2.2 | 1.8 | 1.6 | 1.4 | 1.7 | 2.0 | 19.3 | 19.7 | 20.3 | 1,700 | 69.9 | 46.5 |
| Bank of Baroda | 691 | BUY | 271,528 | 5,882 | 393 | 108.0 | 109.5 | 129.1 | 29.1 | 1.4 | 17.9 | 6.4 | 6.3 | 5.4 | — | — | — | 1.4 | 1.2 | 1.0 | 2.8 | 2.8 | 3.3 | 25.9 | 20.4 | 20.5 | 1,250 | 80.8 | 7.4 |
| Bank of India | 298 | ADD | 162,798 | 3,527 | 547 | 45.5 | 54.0 | 70.7 | 37.4 | 18.7 | 30.9 | 6.5 | 5.5 | 4.2 | — | — | — | 1.0 | 0.9 | 0.8 | 2.7 | 3.2 | 4.2 | 17.3 | 17.2 | 19.5 | 470 | 58.0 | 8.2 |
| Canara Bank | 404 | ADD | 179,149 | 3,881 | 443 | 90.9 | 86.3 | 108.7 | 23.3 | (5.0) | 25.9 | 4.4 | 4.7 | 3.7 | — | — | — | 1.0 | 0.8 | 0.7 | 2.7 | 3.0 | 3.0 | 23.2 | 17.7 | 19.0 | 600 | 48.4 | 8.4 |
| Corporation Bank | 416 | ADD | 61,570 | 1,334 | 148 | 95.4 | 93.4 | 114.1 | 16.3 | (2.1) | 22.2 | 4.4 | 4.5 | 3.6 | — | — | — | 0.9 | 0.8 | 0.7 | 4.8 | 4.7 | 5.8 | 21.9 | 18.1 | 19.2 | 630 | 51.6 | 0.9 |
| Federal Bank | 334 | BUY | 57,104 | 1,237 | 171 | 34.3 | 44.5 | 56.2 | 26.3 | 29.8 | 26.1 | 9.7 | 7.5 | 5.9 | — | — | — | 1.1 | 1.0 | 0.9 | 2.5 | 3.3 | 4.2 | 12.0 | 14.2 | 16.0 | 500 | 49.8 | 5.0 |
| HDFC | 622 | REDUCE | 912,118 | 19,760 | 1,467 | 24.1 | 27.8 | 31.9 | 22.4 | 15.6 | 14.6 | 25.8 | 22.3 | 19.5 | — | — | — | 5.3 | 4.6 | 3.6 | 1.4 | 1.7 | 2.0 | 21.7 | 22.1 | 21.5 | 730 | 17.4 | 39.1 |
| HDFC Bank | 439 | REDUCE | 1,021,054 | 22,120 | 2,326 | 16.9 | 22.0 | 28.0 | 31.0 | 30.2 | 27.5 | 26.0 | 20.0 | 15.7 | — | — | — | 4.0 | 3.5 | 3.0 | 0.8 | 1.0 | 1.2 | 16.7 | 18.7 | 20.5 | 560 | 27.6 | 36.2 |
| ICICI Bank | 820 | BUY | 944,780 | 20,468 | 1,152 | 44.7 | 58.0 | 63.1 | 23.9 | 29.7 | 8.8 | 18.3 | 14.1 | 13.0 | — | — | — | 1.7 | 1.6 | 1.5 | 1.7 | 2.1 | 2.3 | 9.7 | 11.7 | 11.8 | 1,100 | 34.1 | 79.8 |
| IDFC | 105 | ADD | 158,185 | 3,427 | 1,509 | 8.8 | 10.1 | 12.4 | 4.6 | 14.7 | 23.5 | 12.0 | 10.4 | 8.4 | — | — | — | 1.5 | 1.3 | 1.1 | 2.1 | 1.9 | 2.4 | 14.7 | 13.3 | 14.3 | 150 | 43.1 | 26.1 |
| India Infoline | 72 | SELL | 23,439 | 508 | 327 | 7.4 | 4.8 | 6.5 | (9.3) | (34.5) | 33.8 | 9.7 | 14.8 | 11.1 | — | — | — | 1.4 | 1.2 | 1.1 | 4.3 | 1.4 | 1.9 | 12.9 | 8.7 | 10.3 | 70 | (2.4) | 1.6 |
| Indian Bank | 187 | BUY | 80,281 | 1,739 | 430 | 38.8 | 42.0 | 50.9 | 10.5 | 8.2 | 21.2 | 4.8 | 4.4 | 3.7 | — | — | — | 1.0 | 0.9 | 0.7 | 4.0 | 4.2 | 5.1 | 22.3 | 20.4 | 21.0 | 300 | 60.6 | 1.7 |
| Indian Overseas Bank | 107 | BUY | 66,021 | 1,430 | 619 | 17.3 | 21.1 | 30.8 | 33.6 | 22.0 | 45.4 | 6.2 | 5.0 | 3.5 | — | — | — | 0.8 | 0.7 | 0.6 | 4.7 | 4.0 | 4.4 | 12.7 | 13.3 | 17.0 | 190 | 78.1 | 1.7 |
| IndusInd Bank | 227 | BUY | 105,588 | 2,287 | 466 | 12.4 | 15.2 | 18.2 | 45.2 | 22.6 | 19.9 | 18.3 | 14.9 | 12.4 | — | — | — | 2.9 | 2.5 | 2.2 | 0.9 | 1.1 | 1.3 | 20.8 | 17.7 | 17.9 | 325 | 43.4 | 3.9 |
| J&K Bank | 784 | ADD | 38,020 | 824 | 48 | 126.9 | 141.8 | 152.8 | 20.1 | 11.8 | 7.7 | 6.2 | 5.5 | 5.1 | — | — | — | 1.1 | 1.0 | 0.8 | 3.3 | 3.7 | 4.0 | 19.0 | 18.4 | 17.3 | 950 | 21.2 | 0.7 |
| LIC Housing Finance | 200 | ADD | 94,848 | 2,055 | 475 | 20.5 | 22.9 | 27.5 | 47.2 | 11.4 | 20.4 | 9.7 | 8.7 | 7.3 | — | — | — | 2.4 | 2.0 | 1.7 | 2.2 | 2.5 | 3.0 | 25.8 | 23.7 | 23.9 | 260 | 30.2 | 23.6 |
| Mahindra & Mahindra Financial | 594 | BUY | 60,856 | 1,318 | 102 | 45.2 | 56.4 | 69.2 | 26.1 | 24.8 | 22.7 | 13.1 | 10.5 | 8.6 | — | — | — | 2.5 | 2.1 | 1.8 | 1.7 | 2.1 | 2.6 | 22.0 | 21.4 | 22.3 | 825 | 38.9 | 1.4 |
| Muthoot Finance | 169 | BUY | 62,824 | 1,361 | 371 | 15.7 | 19.0 | 24.5 | 108.4 | 20.5 | 29.0 | 10.7 | 8.9 | 6.9 | — | — | — | 4.7 | 2.1 | 1.6 | — | — | — | 51.5 | 33.0 | 26.8 | 220 | 30.1 | — |
| Oriental Bank of Commerce | 300 | BUY | 87,426 | 1,894 | 292 | 51.5 | 55.6 | 65.4 | 13.7 | 8.0 | 17.6 | 5.8 | 5.4 | 4.6 | — | — | — | 0.9 | 0.8 | 0.7 | 3.5 | 3.7 | 4.4 | 15.5 | 13.9 | 14.7 | 430 | 43.5 | 3.9 |
| PFC | 133 | ADD | 175,617 | 3,805 | 1,320 | 22.8 | 23.7 | 28.5 | 11.1 | 3.8 | 20.4 | 5.8 | 5.6 | 4.7 | — | — | — | 1.2 | 0.9 | 0.8 | 3.0 | 3.6 | 4.3 | 18.4 | 17.2 | 16.8 | 235 | 76.6 | 22.1 |
| Punjab National Bank | 909 | BUY | 288,046 | 6,240 | 317 | 140.0 | 163.0 | 201.5 | 13.0 | 16.5 | 23.6 | 6.5 | 5.6 | 4.5 | — | — | — | 1.4 | 1.2 | 1.0 | 2.4 | 3.7 | 4.5 | 24.4 | 23.5 | 24.2 | 1,500 | 65.0 | 6.3 |
| Reliance Capital | 344 | REDUCE | 84,728 | 1,836 | 246 | 9.3 | 16.5 | 24.8 | (25.3) | 77.0 | 50.4 | 37.0 | 20.9 | 13.9 | — | — | — | 1.2 | 1.2 | 1.1 | 1.1 | 1.9 | 2.9 | 3.3 | 5.7 | 8.3 | 470 | 36.5 | 18.6 |
| Rural Electrification Corp. | 165 | ADD | 162,870 | 3,528 | 987 | 26.0 | 28.9 | 32.4 | 28.1 | 11.4 | 11.9 | 6.3 | 5.7 | 5.1 | — | — | — | 1.3 | 1.1 | 1.0 | 4.5 | 5.9 | 6.6 | 21.5 | 20.9 | 20.6 | 240 | 45.5 | 13.2 |
| Shriram Transport | 592 | REDUCE | 132,121 | 2,862 | 223 | 55.1 | 65.6 | 75.3 | 40.8 | 19.0 | 14.8 | 10.7 | 9.0 | 7.9 | — | — | — | 2.7 | 2.3 | 1.9 | 1.1 | 2.2 | 2.5 | 28.1 | 26.8 | 25.2 | 700 | 18.2 | 12.2 |
| SKS Microfinance | 218 | SELL | 16,035 | 347 | 74 | 15.7 | (39.1) | 3.9 | (41.8) | (349.4) | (109.9) | 13.9 | (5.6) | 56.1 | — | — | — | 0.9 | 1.1 | 1.0 | — | — | — | 8.3 | (17.4) | 1.9 | 350 | 60.8 | 9.3 |
| State Bank of India | 1,888 | BUY | 1,198,783 | 25,970 | 635 | 130.2 | 195.6 | 256.1 | (9.9) | 50.3 | 30.9 | 14.5 | 9.7 | 7.4 | — | — | — | 1.8 | 1.6 | 1.4 | 1.8 | 1.9 | 2.0 | 12.6 | 17.8 | 20.0 | 2,750 | 45.7 | 108.6 |
| Union Bank | 231 | BUY | 121,304 | 2,628 | 524 | 39.5 | 50.2 | 60.4 | (3.9) | 27.1 | 20.5 | 5.9 | 4.6 | 3.8 | — | — | — | 1.1 | 0.9 | 0.8 | 4.0 | 5.1 | 6.1 | 20.9 | 21.9 | 22.5 | 425 | 83.7 | 4.6 |
| Yes Bank | 259 | BUY | 90,050 | 1,951 | 347 | 21.5 | 26.2 | 32.3 | 43.2 | 22.1 | 23.3 | 12.1 | 9.9 | 8.0 | — | — | — | 2.4 | 2.0 | 1.6 | 1.0 | 1.2 | 1.4 | 21.7 | 21.7 | 22.2 | 420 | 61.9 | 16.4 |
| **Banks/Financial Institutions** | | **Attractive** | **7,135,775** | **154,588** | | | | | **20.1** | **20.0** | **23.0** | **11.7** | **9.7** | **7.9** | **—** | **—** | **—** | **1.9** | **1.6** | **1.4** | **1.9** | **2.2** | **2.6** | **16.0** | **16.6** | **17.6** | | | |
| **Cement** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ACC | 993 | REDUCE | 186,480 | 4,040 | 188 | 55.6 | 60.1 | 72.7 | (33.2) | 8.2 | 20.9 | 17.9 | 16.5 | 13.7 | 10.9 | 9.1 | 7.1 | 2.7 | 2.5 | 2.2 | 3.6 | 2.4 | 2.4 | 17.5 | 17.3 | 18.1 | 980 | (1.3) | 5.3 |
| Ambuja Cements | 132 | SELL | 201,334 | 4,362 | 1,522 | 7.9 | 7.8 | 9.8 | (1.5) | (0.5) | 25.5 | 16.8 | 16.9 | 13.4 | 10.1 | 9.2 | 7.1 | 2.6 | 2.3 | 2.1 | 1.6 | 1.7 | 1.8 | 16.6 | 14.8 | 16.9 | 135 | 2.1 | 5.5 |
| Grasim Industries | 2,093 | BUY | 191,914 | 4,158 | 92 | 233.3 | 259.5 | 289.3 | (22.5) | 11.2 | 11.5 | 9.0 | 8.1 | 7.2 | 5.8 | 5.0 | 4.1 | 1.3 | 1.2 | 1.0 | 1.6 | 1.6 | 1.6 | 15.8 | 15.3 | 15.0 | 2,900 | 38.6 | 3.3 |
| India Cements | 63 | REDUCE | 19,337 | 419 | 307 | 1.9 | 8.3 | 9.2 | (81.2) | 339.0 | 10.4 | 33.3 | 7.6 | 6.9 | 13.3 | 5.3 | 4.8 | 0.5 | 0.4 | 0.4 | 2.5 | 5.1 | 5.1 | 1.4 | 6.2 | 6.5 | 82 | 30.3 | 1.3 |
| Shree Cement | 1,652 | REDUCE | 57,553 | 1,247 | 35 | 57.2 | 83.1 | 132.9 | (72.5) | 45.5 | 59.8 | 28.9 | 19.9 | 12.4 | 6.4 | 6.1 | 4.2 | 3.0 | 2.8 | 2.4 | 0.6 | 0.6 | 0.6 | 10.7 | 14.5 | 20.7 | 1,730 | 4.7 | 1.1 |
| UltraTech Cement | 1,060 | BUY | 290,359 | 6,290 | 274 | 44.9 | 73.1 | 85.9 | (49.2) | 63.0 | 17.5 | 23.6 | 14.5 | 12.3 | 11.5 | 7.7 | 6.4 | 2.3 | 2.0 | 1.7 | 0.5 | 0.6 | 0.6 | 16.7 | 17.3 | 17.3 | 1,220 | 15.1 | 3.4 |
| **Cement** | | **Neutral** | **946,977** | **20,515** | | | | | **(23.5)** | **23.6** | **18.8** | **16.1** | **13.1** | **11.0** | **8.6** | **6.8** | **5.6** | **2.0** | **1.8** | **1.6** | **1.6** | **1.5** | **1.5** | **12.3** | **13.5** | **14.2** | | | |

Source: Company, Bloomberg, Kotak Institutional Equities estimates

## Kotak Institutional Equities: Valuation summary of key Indian companies

| Company | 26-Aug-11 Price (Rs) | Rating | Mkt cap. (Rs mn) | Mkt cap. (US$ mn) | O/S shares (mn) | EPS (Rs) 2011E | EPS (Rs) 2012E | EPS (Rs) 2013E | EPS growth (%) 2011E | EPS growth (%) 2012E | EPS growth (%) 2013E | PER (X) 2011E | PER (X) 2012E | PER (X) 2013E | EV/EBITDA (X) 2011E | EV/EBITDA (X) 2012E | EV/EBITDA (X) 2013E | Price/BV (X) 2011E | Price/BV (X) 2012E | Price/BV (X) 2013E | Dividend yield (%) 2011E | Dividend yield (%) 2012E | Dividend yield (%) 2013E | RoE (%) 2011E | RoE (%) 2012E | RoE (%) 2013E | Target price (Rs) | Upside (%) | ADVT-3mo (US$ mn) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Consumer products** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Asian Paints | 3,263 | REDUCE | 313,005 | 6,781 | 96 | 80.8 | 94.6 | 111.4 | 13.0 | 17.1 | 17.7 | 40.4 | 34.5 | 29.3 | 27.0 | 22.0 | 18.0 | 15.3 | 11.8 | 9.5 | 1.0 | 0.9 | 1.1 | 43.9 | 40.0 | 36.8 | 2,900 | (11.1) | 8.9 |
| Colgate-Palmolive (India) | 946 | SELL | 128,608 | 2,786 | 136 | 29.6 | 34.1 | 38.8 | (4.9) | 15.0 | 14.1 | 31.9 | 27.8 | 24.3 | 27.8 | 24.2 | 20.2 | 33.5 | 34.1 | 27.2 | 2.3 | 3.1 | 2.9 | 113.4 | 121.6 | 124.2 | 900 | (4.8) | 2.2 |
| Dabur India | 108 | REDUCE | 187,961 | 4,072 | 1,740 | 3.3 | 3.7 | 4.4 | 12.8 | 14.1 | 18.8 | 33.1 | 29.0 | 24.4 | 26.6 | 21.9 | 18.5 | 14.3 | 11.1 | 8.7 | 1.1 | 1.2 | 1.4 | 51.2 | 43.8 | 40.6 | 110 | 1.9 | 4.3 |
| GlaxoSmithkline Consumer (a) | 2,297 | ADD | 96,587 | 2,092 | 42 | 71.3 | 82.6 | 101.9 | 28.8 | 15.8 | 23.4 | 32.2 | 27.8 | 22.5 | 23.0 | 19.8 | 16.4 | 10.3 | 8.4 | 6.9 | 2.2 | 1.2 | 1.4 | 32.2 | 32.5 | 32.8 | 2,700 | 17.6 | 0.7 |
| Godrej Consumer Products | 416 | BUY | 134,597 | 2,916 | 324 | 14.9 | 18.4 | 22.7 | 31.3 | 23.4 | 23.8 | 27.9 | 22.6 | 18.3 | 23.8 | 16.6 | 12.7 | 7.8 | 5.5 | 4.4 | 1.2 | 0.8 | 0.8 | 35.9 | 28.7 | 27.0 | 510 | 22.6 | 2.9 |
| Hindustan Unilever | 320 | ADD | 690,264 | 14,954 | 2,159 | 9.9 | 11.3 | 13.3 | 4.8 | 14.1 | 17.7 | 32.4 | 28.4 | 24.1 | 27.4 | 23.9 | 19.6 | 26.2 | 22.7 | 19.6 | 2.4 | 2.9 | 3.5 | 66.3 | 85.9 | 87.5 | 340 | 6.4 | 17.1 |
| ITC | 197 | ADD | 1,511,941 | 32,754 | 7,681 | 6.4 | 8.0 | 9.1 | 20.7 | 24.9 | 13.1 | 30.7 | 24.6 | 21.7 | 20.3 | 16.6 | 14.4 | 9.0 | 7.7 | 6.7 | 2.3 | 1.9 | 2.3 | 33.2 | 35.5 | 34.4 | 230 | 16.8 | 33.8 |
| Jubilant Foodworks | 940 | SELL | 61,514 | 1,333 | 65 | 11.2 | 16.5 | 22.2 | 99.6 | 47.0 | 34.8 | 83.9 | 57.1 | 42.4 | 51.2 | 31.7 | 23.8 | 32.1 | 20.5 | 13.8 | — | — | — | 46.6 | 43.9 | 39.0 | 650 | (30.9) | 32.3 |
| Jyothy Laboratories | 166 | REDUCE | 13,357 | 289 | 81 | 10.5 | 11.7 | 13.3 | (5.0) | 11.4 | 14.2 | 15.8 | 14.2 | 12.4 | 13.1 | 9.6 | 7.7 | 2.0 | 1.8 | 1.7 | 3.5 | 2.8 | 3.5 | 12.3 | 13.3 | 14.0 | 240 | 44.9 | 0.5 |
| Marico | 155 | ADD | 94,547 | 2,048 | 612 | 4.2 | 5.4 | 7.1 | 10.9 | 27.3 | 32.6 | 36.6 | 28.8 | 21.7 | 24.4 | 19.7 | 15.0 | 10.1 | 7.9 | 6.1 | 0.5 | 0.6 | 0.8 | 32.8 | 31.3 | 32.2 | 185 | 19.7 | 1.2 |
| Nestle India (a) | 4,380 | REDUCE | 422,306 | 9,149 | 96 | 86.8 | 103.6 | 123.2 | 16.7 | 19.3 | 18.9 | 50.5 | 42.3 | 35.6 | 33.6 | 27.5 | 22.7 | 49.4 | 35.9 | 27.1 | 1.1 | 1.4 | 1.6 | 116.5 | 98.3 | 86.8 | 3,500 | (20.1) | 2.3 |
| Tata Global Beverages | 89 | ADD | 55,254 | 1,197 | 618 | 4.0 | 6.0 | 6.8 | (34.6) | 52.6 | 13.0 | 22.6 | 14.8 | 13.1 | 8.8 | 7.4 | 6.4 | 1.1 | 1.1 | 1.0 | 2.2 | 3.4 | 3.9 | 6.5 | 9.6 | 10.4 | 110 | 23.1 | 5.0 |
| Titan Industries | 202 | REDUCE | 179,155 | 3,881 | 888 | 4.9 | 7.4 | 8.8 | 71.7 | 51.5 | 17.8 | 41.0 | 27.1 | 23.0 | 30.0 | 18.8 | 15.4 | 16.5 | 11.7 | 8.9 | 0.6 | 1.1 | 1.5 | 47.8 | 50.5 | 44.0 | 240 | 18.9 | 33.0 |
| United Spirits | 860 | ADD | 107,986 | 2,339 | 126 | 29.5 | 39.2 | 50.6 | 8.3 | 32.8 | 29.0 | 29.1 | 21.9 | 17.0 | 15.3 | 11.7 | 10.1 | 2.5 | 2.2 | 2.0 | 0.4 | 0.3 | 0.4 | 9.1 | 10.7 | 12.5 | 1,300 | 51.2 | 5.6 |
| **Consumer products** | | **Cautious** | **3,997,081** | **86,592** | | | | | **16.3** | **22.0** | **16.9** | **33.4** | **27.4** | **23.4** | **23.3** | **18.9** | **15.9** | **10.3** | **8.7** | **7.5** | **1.8** | **1.8** | **2.1** | **30.8** | **31.9** | **31.9** | | | |
| **Constructions** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| IVRCL | 32 | BUY | 8,558 | 185 | 267 | 5.9 | 5.7 | 6.6 | (25.2) | (4.1) | 15.6 | 5.4 | 5.7 | 4.9 | 5.5 | 5.2 | 5.1 | 0.4 | 0.4 | 0.4 | 1.2 | 1.2 | 1.2 | 8.2 | 7.3 | 7.9 | 75 | 134.0 | 5.1 |
| Nagarjuna Construction Co. | 52 | BUY | 13,419 | 291 | 257 | 6.4 | 5.9 | 7.7 | (29.7) | (7.8) | 30.8 | 8.2 | 8.9 | 6.8 | 7.6 | 7.1 | 6.7 | 0.6 | 0.5 | 0.5 | 3.8 | 3.8 | 3.8 | 7.1 | 6.3 | 7.8 | 100 | 91.2 | 1.2 |
| Punj Lloyd | 53 | REDUCE | 18,049 | 391 | 340 | (1.5) | 5.5 | 7.4 | (56.6) | (467.8) | 34.9 | (35.8) | 9.7 | 7.2 | 12.5 | 5.6 | 4.9 | 0.6 | 0.6 | 0.5 | (0.1) | 0.9 | 1.2 | (1.7) | 6.1 | 7.7 | 65 | 22.3 | 12.0 |
| Sadbhav Engineering | 126 | BUY | 18,953 | 411 | 150 | 8.0 | 9.8 | 10.9 | 55.1 | 23.5 | 10.4 | 15.9 | 12.8 | 11.6 | 9.8 | 8.2 | 7.3 | 3.0 | 2.4 | 2.0 | 0.5 | 0.5 | 0.5 | 18.6 | 19.0 | 17.5 | 180 | 42.5 | 0.3 |
| **Construction** | | **Attractive** | **58,979** | **1,278** | | | | | **(0.3)** | **62.7** | **23.6** | **15.1** | **9.3** | **7.5** | **8.4** | **6.2** | **5.7** | **0.7** | **0.7** | **0.6** | **1.2** | **1.5** | **1.6** | **4.9** | **7.5** | **8.6** | | | |
| **Energy** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Aban Offshore | 350 | BUY | 15,215 | 330 | 44 | 116.2 | 95.3 | 107.2 | 9.0 | (18.0) | 12.4 | 3.0 | 3.7 | 3.3 | 6.6 | 6.6 | 6.3 | 0.7 | 0.7 | 0.6 | 1.0 | 1.1 | 1.3 | 29.2 | 19.4 | 18.0 | 700 | 100.2 | 10.1 |
| Bharat Petroleum | 671 | ADD | 242,539 | 5,254 | 362 | 45.7 | 58.9 | 58.9 | (20.7) | 28.9 | 0.1 | 14.7 | 11.4 | 11.4 | 10.2 | 6.9 | 6.8 | 1.6 | 1.5 | 1.4 | 2.1 | 2.9 | 2.9 | 10.8 | 12.8 | 11.8 | 800 | 19.3 | 8.5 |
| Cairn india | 252 | REDUCE | 480,139 | 10,402 | 1,902 | 33.3 | 45.8 | 49.7 | 501.1 | 37.4 | 8.6 | 7.6 | 5.5 | 5.1 | 5.5 | 3.9 | 3.0 | 1.2 | 1.0 | 0.9 | — | 2.0 | 5.9 | 16.9 | 19.8 | 19.2 | 295 | 16.9 | 15.0 |
| Castrol India (a) | 505 | SELL | 124,889 | 2,706 | 247 | 19.8 | 21.9 | 22.3 | 28.5 | 10.8 | 1.6 | 25.5 | 23.0 | 22.7 | 16.4 | 15.4 | 14.9 | 24.2 | 22.0 | 20.9 | 3.0 | 3.4 | 3.6 | 100.2 | 100.2 | 94.7 | 425 | (15.8) | 2.0 |
| GAIL (India) | 411 | ADD | 521,662 | 11,301 | 1,268 | 28.1 | 36.6 | 39.2 | 13.4 | 30.3 | 7.1 | 14.6 | 11.2 | 10.5 | 9.0 | 8.3 | 7.3 | 2.5 | 2.1 | 1.8 | 1.8 | 2.4 | 2.7 | 17.4 | 19.6 | 17.9 | 560 | 36.2 | 9.4 |
| GSPL | 93 | REDUCE | 52,461 | 1,136 | 563 | 9.0 | 8.5 | 8.4 | 23.1 | (6.1) | (0.1) | 10.4 | 11.0 | 11.0 | 6.7 | 6.5 | 6.3 | 2.3 | 1.9 | 1.7 | 1.1 | 1.8 | 2.7 | 25.5 | 19.1 | 16.4 | 92 | (1.3) | 5.2 |
| Hindustan Petroleum | 375 | ADD | 127,163 | 2,755 | 339 | 45.7 | 26.3 | 39.3 | (11.4) | (42.4) | 49.5 | 8.2 | 14.3 | 9.5 | 3.2 | 3.9 | 3.2 | 0.8 | 0.8 | 0.7 | 3.7 | 2.2 | 3.2 | 10.1 | 5.3 | 7.4 | 460 | 22.6 | 8.4 |
| Indian Oil Corporation | 305 | ADD | 739,675 | 16,024 | 2,428 | 31.8 | 33.1 | 35.7 | (35.4) | 4.4 | 7.6 | 9.6 | 9.2 | 8.5 | 7.7 | 6.8 | 5.7 | 1.3 | 1.2 | 1.1 | 3.1 | 3.3 | 3.6 | 12.9 | 12.5 | 12.4 | 420 | 37.9 | 4.9 |
| Oil India | 1,307 | BUY | 314,160 | 6,806 | 240 | 120.0 | 171.7 | 190.1 | 4.2 | 43.1 | 10.7 | 10.9 | 7.6 | 6.9 | 5.5 | 3.1 | 2.5 | 1.9 | 1.6 | 1.4 | 2.9 | 4.2 | 4.6 | 16.2 | 20.1 | 19.4 | 1,750 | 33.9 | 1.8 |
| Oil & Natural Gas Corporation | 278 | BUY | 2,378,006 | 51,517 | 8,556 | 24.7 | 37.2 | 40.8 | 7.4 | 50.8 | 9.7 | 11.3 | 7.5 | 6.8 | 4.3 | 3.2 | 2.6 | 1.6 | 1.4 | 1.2 | 3.1 | 4.3 | 5.0 | 14.3 | 19.1 | 18.3 | 380 | 36.7 | 26.6 |
| Petronet LNG | 169 | SELL | 126,713 | 2,745 | 750 | 8.1 | 11.5 | 11.4 | 50.3 | 41.3 | (0.7) | 20.8 | 14.8 | 14.9 | 12.0 | 9.6 | 9.8 | 4.2 | 3.5 | 2.9 | 1.2 | 1.8 | 1.8 | 20.9 | 24.6 | 20.2 | 125 | (26.0) | 10.4 |
| Reliance Industries | 719 | ADD | 2,144,531 | 46,459 | 2,981 | 62.0 | 67.4 | 74.9 | 24.8 | 8.8 | 11.0 | 11.6 | 10.7 | 9.6 | 6.4 | 5.7 | 4.8 | 1.3 | 1.2 | 1.0 | 1.1 | 1.3 | 1.4 | 13.0 | 12.7 | 12.6 | 1,045 | 45.3 | 84.4 |
| **Energy** | | **Neutral** | **7,267,153** | **157,434** | | | | | **11.8** | **26.1** | **9.6** | **10.8** | **8.6** | **7.8** | **5.9** | **4.7** | **4.0** | **1.5** | **1.3** | **1.2** | **2.1** | **2.8** | **3.5** | **13.8** | **15.4** | **15.1** | | | |
| **Industrials** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ABB | 816 | SELL | 172,992 | 3,748 | 212 | 3.0 | 21.1 | 27.3 | (82.2) | 606.1 | 29.6 | 273.6 | 38.7 | 29.9 | 199.3 | 26.2 | 19.6 | 7.1 | 6.2 | 5.3 | 0.2 | 0.4 | 0.4 | 2.6 | 17.1 | 19.1 | 700 | (14.3) | 1.6 |
| BGR Energy Systems | 298 | REDUCE | 21,498 | 466 | 72 | 44.8 | 41.1 | 41.7 | 60.0 | (8.3) | 1.5 | 6.7 | 7.3 | 7.1 | 4.4 | 4.7 | 4.0 | 2.3 | 1.8 | 1.5 | 3.0 | 2.8 | 2.8 | 39.0 | 27.8 | 23.2 | 410 | 37.6 | 4.4 |
| Bharat Electronics | 1,557 | ADD | 124,536 | 2,698 | 80 | 102.9 | 120.8 | 133.9 | 7.0 | 17.4 | 10.8 | 15.1 | 12.9 | 11.6 | 9.0 | 6.5 | 5.6 | 2.5 | 2.1 | 1.9 | 1.6 | 1.6 | 1.6 | 17.2 | 17.7 | 17.2 | 1,850 | 18.8 | 1.5 |
| Bharat Heavy Electricals | 1,736 | REDUCE | 849,562 | 18,405 | 490 | 122.8 | 134.8 | 145.4 | 39.7 | 9.8 | 7.9 | 14.1 | 12.9 | 11.9 | 9.3 | 8.5 | 7.4 | 4.2 | 3.4 | 2.8 | 1.5 | 1.7 | 1.8 | 33.3 | 29.2 | 25.6 | 2,000 | 15.2 | 31.7 |
| Crompton Greaves | 137 | BUY | 87,853 | 1,903 | 642 | 14.3 | 10.6 | 13.5 | 11.5 | (25.8) | 26.7 | 9.6 | 12.9 | 10.2 | 6.2 | 7.1 | 5.3 | 2.7 | 2.3 | 1.9 | 1.8 | 1.2 | 1.3 | 31.7 | 19.1 | 20.5 | 210 | 53.3 | 17.2 |
| Larsen & Toubro | 1,531 | REDUCE | 932,362 | 20,198 | 609 | 67.7 | 79.6 | 98.2 | 18.1 | 17.5 | 23.4 | 22.6 | 19.2 | 15.6 | 15.9 | 12.0 | 10.3 | 3.5 | 2.9 | 2.5 | 0.9 | 0.9 | 0.9 | 17.0 | 16.6 | 17.2 | 1,800 | 17.5 | 58.5 |
| Maharashtra Seamless | 344 | BUY | 24,294 | 526 | 71 | 46.1 | 41.6 | 46.7 | 19.3 | (9.7) | 12.3 | 7.5 | 8.3 | 7.4 | 3.9 | 3.9 | 3.2 | 1.0 | 0.9 | 0.8 | 2.4 | 2.4 | 2.7 | 13.3 | 11.1 | 11.5 | 460 | 33.5 | 0.1 |
| Siemens | 854 | SELL | 287,850 | 6,236 | 337 | 22.4 | 28.9 | 32.5 | 39.5 | 28.8 | 12.3 | 38.0 | 29.5 | 26.3 | 22.5 | 18.9 | 16.5 | 8.9 | 7.2 | 6.0 | 0.6 | 0.7 | 0.8 | 25.2 | 26.9 | 24.8 | 830 | (2.8) | 3.4 |
| Suzlon Energy | 34 | REDUCE | 59,785 | 1,295 | 1,746 | (5.4) | 0.7 | 2.6 | (14.7) | (112.5) | 290.1 | (6.4) | 51.1 | 13.1 | 24.7 | 8.0 | 6.5 | 0.9 | 0.9 | 0.8 | 0.6 | 0.6 | 0.6 | (14.0) | 1.7 | 6.6 | 40 | 16.8 | 20.4 |
| Tecpro Systems | 242 | ADD | 12,220 | 265 | 50 | 27.0 | 29.4 | 32.7 | 24.2 | 8.9 | 11.4 | 9.0 | 8.2 | 7.4 | 5.6 | 5.7 | 5.0 | 1.8 | 1.6 | 1.3 | — | — | — | 26.8 | 20.5 | 19.6 | 300 | 23.9 | 0.3 |
| Thermax | 481 | REDUCE | 57,263 | 1,241 | 119 | 31.6 | 33.0 | 35.1 | 44.3 | 4.4 | 6.3 | 15.2 | 14.6 | 13.7 | 10.1 | 9.1 | 8.4 | 4.4 | 3.6 | 3.1 | 1.9 | 2.0 | 2.1 | 31.5 | 27.2 | 24.3 | 550 | 14.4 | 1.8 |
| Voltas | 111 | BUY | 36,580 | 792 | 331 | 9.8 | 9.7 | 10.5 | (14.3) | (1.1) | 8.8 | 11.3 | 11.4 | 10.5 | 6.7 | 6.4 | 5.3 | 2.6 | 2.3 | 1.9 | 1.8 | 2.7 | (0.0) | 26.1 | 21.6 | 19.9 | 150 | 35.6 | 3.7 |
| **Industrials** | | **Cautious** | **2,666,796** | **57,773** | | | | | **26.2** | **21.5** | **16.4** | **20.1** | **16.6** | **14.2** | **12.9** | **10.4** | **9.0** | **3.6** | **3.0** | **2.6** | **1.1** | **1.2** | **1.2** | **17.8** | **18.2** | **18.1** | | | |
| **Infrastructure** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Container Corporation | 930 | ADD | 120,901 | 2,619 | 130 | 63.5 | 70.0 | 77.9 | 4.9 | 10.3 | 11.2 | 14.7 | 13.3 | 11.9 | 9.5 | 8.3 | 7.3 | 2.4 | 2.1 | 1.9 | 1.6 | 1.7 | 1.9 | 17.6 | 16.9 | 16.6 | 1,150 | 23.6 | 0.7 |
| GMR Infrastructure | 26 | RS | 96,819 | 2,097 | 3,667 | (0.0) | (0.4) | 0.5 | (102.0) | 3,980.8 | (243.5) | (3,045.8) | (74.6) | 52.0 | 12.5 | 10.8 | 8.7 | 0.9 | 0.9 | 0.9 | — | — | — | (0.0) | (2.0) | 2.8 | — | — | 2.5 |
| Gujarat Pipavav Port | 66 | ADD | 27,955 | 606 | 424 | (1.2) | 1.2 | 2.6 | (65.8) | (201.6) | 115.2 | (54.9) | 54.1 | 25.1 | 28.2 | 16.7 | 11.2 | 3.8 | 3.5 | 3.1 | — | — | — | (9.1) | 9.4 | 13.6 | 78 | 18.2 | 0.7 |
| GVK Power & Infrastructure | 16 | RS | 25,267 | 547 | 1,579 | 1.0 | 1.0 | 0.3 | (0.6) | 1.6 | (73.4) | 16.3 | 16.0 | 60.3 | 17.8 | 16.3 | 19.3 | 0.7 | 0.7 | 0.7 | — | 1.9 | 2.2 | 4.7 | 4.6 | 1.2 | — | — | 3.6 |
| IRB Infrastructure | 140 | ADD | 46,597 | 1,009 | 332 | 13.1 | 11.7 | 13.4 | 12.9 | (10.4) | 14.0 | 10.7 | 12.0 | 10.5 | 7.2 | 6.9 | 6.1 | 1.7 | 1.3 | 1.1 | — | — | — | 17.6 | 12.4 | 11.5 | 220 | 56.9 | 6.6 |
| Mundra Port and SEZ | 141 | BUY | 283,552 | 6,143 | 2,017 | 4.6 | 6.8 | 10.5 | 36.3 | 50.3 | 53.2 | 30.9 | 20.5 | 13.4 | 25.1 | 16.8 | 11.9 | 6.5 | 5.2 | 4.0 | — | — | — | 23.2 | 28.0 | 33.5 | 175 | 24.5 | 7.1 |
| **Infrastructure** | | **Cautious** | **601,092** | **13,022** | | | | | **11.2** | **21.1** | **41.7** | **26.4** | **21.8** | **15.4** | **14.6** | **11.8** | **9.7** | **2.2** | **2.0** | **1.8** | **0.3** | **0.4** | **0.5** | **8.4** | **9.3** | **11.8** | | | |

Source: Company, Bloomberg, Kotak Institutional Equities estimates

## Kotak Institutional Equities: Valuation summary of key Indian companies

| | 26-Aug-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)** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **(Rs)** | **(%)** | **(US$ mn)** |
| **Media** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DB Corp | 238 | BUY | 43,630 | 945 | 183 | 14.1 | 14.2 | 17.1 | 32.7 | 0.6 | 20.3 | 16.9 | 16.8 | 13.9 | 10.9 | 9.9 | 8.3 | 5.3 | 4.5 | 4.1 | 1.7 | 2.5 | 4.2 | 35.0 | 29.1 | 31.0 | 350 | 47.0 | 0.8 |
| DishTV | 72 | ADD | 76,790 | 1,664 | 1,062 | (1.8) | 0.0 | 1.3 | (27.5) | (101.9) | 3,944.0 | (40.4) | 2,182.8 | 54.0 | 36.1 | 16.6 | 11.2 | 36.5 | 35.9 | 21.6 | — | — | — | (62.3) | 1.7 | 49.9 | 100 | 38.3 | 8.6 |
| Eros International | 197 | BUY | 19,087 | 414 | 97 | 11.8 | 15.8 | 19.9 | 19.0 | 34.0 | 25.9 | 16.7 | 12.5 | 9.9 | 11.5 | 8.8 | 6.3 | 2.8 | 2.3 | 1.8 | — | — | — | 24.9 | 20.2 | 20.5 | 250 | 27.0 | 1.9 |
| Hindustan Media Ventures | 141 | BUY | 10,343 | 224 | 73 | 7.3 | 9.0 | 12.1 | 198.7 | 22.8 | 35.0 | 19.3 | 15.7 | 11.6 | 9.4 | 8.1 | 5.9 | 2.6 | 2.2 | 1.9 | — | — | 2.1 | 22.3 | 15.1 | 17.7 | 220 | 56.1 | 0.2 |
| HT Media | 147 | ADD | 34,451 | 746 | 235 | 7.7 | 8.9 | 11.0 | 26.3 | 15.3 | 23.6 | 19.0 | 16.5 | 13.3 | 9.0 | 7.6 | 5.8 | 2.5 | 2.3 | 2.2 | 1.4 | 2.7 | 4.1 | 15.0 | 14.4 | 16.6 | 190 | 29.6 | 0.5 |
| Jagran Prakashan | 99 | BUY | 31,440 | 681 | 316 | 6.8 | 7.0 | 8.4 | 17.2 | 2.0 | 20.4 | 14.5 | 14.2 | 11.8 | 8.7 | 8.0 | 6.6 | 4.5 | 4.1 | 3.7 | 3.4 | 4.0 | 5.0 | 31.5 | 30.1 | 32.7 | 160 | 61.0 | 0.5 |
| Sun TV Network | 295 | ADD | 116,392 | 2,521 | 394 | 19.6 | 21.6 | 25.4 | 48.6 | 10.0 | 17.9 | 15.1 | 13.7 | 11.6 | 9.0 | 8.0 | 6.8 | 4.8 | 4.3 | 3.9 | 3.0 | 4.1 | 5.4 | 36.6 | 34.7 | 36.6 | 440 | 49.0 | 26.4 |
| Zee Entertainment Enterprises | 115 | BUY | 112,414 | 2,435 | 978 | 5.8 | 6.7 | 8.2 | 9.1 | 15.6 | 22.6 | 19.8 | 17.2 | 14.0 | 13.2 | 11.2 | 8.9 | 2.7 | 2.6 | 2.5 | 1.2 | 1.2 | 1.5 | 14.0 | 15.6 | 18.6 | 180 | 56.7 | 6.8 |
| **Media** | | **Neutral** | **444,547** | **9,631** | | | | | **50.1** | **23.1** | **26.8** | **22.6** | **18.4** | **14.5** | **12.0** | **10.0** | **7.9** | **4.1** | **3.8** | **3.5** | **1.6** | **2.1** | **2.9** | **18.1** | **20.5** | **23.8** | | | |
| **Metals & Mining** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Coal India | 359 | BUY | 2,270,101 | 49,179 | 6,316 | 17.3 | 25.5 | 29.4 | 13.6 | 47.6 | 15.1 | 20.8 | 14.1 | 12.2 | 12.3 | 8.6 | 7.2 | 6.5 | 5.0 | 4.0 | 1.4 | 2.1 | 2.5 | 35.1 | 40.3 | 36.4 | 470 | 30.8 | 35.7 |
| Hindalco Industries | 139 | ADD | 266,458 | 5,772 | 1,915 | 12.8 | 18.3 | 17.6 | (36.0) | 43.3 | (4.0) | 10.9 | 7.6 | 7.9 | 6.0 | 5.8 | 6.2 | 0.9 | 0.8 | 0.8 | 1.1 | 1.1 | 1.1 | 9.7 | 11.4 | 10.0 | 175 | 25.8 | 28.9 |
| Hindustan Zinc | 118 | BUY | 498,550 | 10,800 | 4,225 | 11.6 | 13.1 | 14.7 | 21.8 | 12.7 | 11.8 | 10.1 | 9.0 | 8.0 | 6.3 | 4.8 | 3.5 | 2.2 | 1.8 | 1.5 | 0.8 | 0.8 | 0.8 | 24.3 | 22.2 | 20.4 | 160 | 35.6 | 3.0 |
| Jindal Steel and Power | 463 | REDUCE | 432,207 | 9,363 | 934 | 40.2 | 45.2 | 55.2 | 5.1 | 12.4 | 22.2 | 11.5 | 10.2 | 8.4 | 8.9 | 8.4 | 7.1 | 3.1 | 2.4 | 1.9 | 0.4 | 0.4 | 0.4 | 30.8 | 26.3 | 25.0 | 650 | 40.5 | 17.0 |
| JSW Steel | 609 | REDUCE | 137,668 | 2,982 | 226 | 78.6 | 75.6 | 111.7 | (2.2) | (3.9) | 47.9 | 7.7 | 8.1 | 5.5 | 5.6 | 5.3 | 4.6 | 0.8 | 0.8 | 0.7 | 2.0 | 2.0 | 2.0 | 13.6 | 9.9 | 13.3 | 740 | 21.5 | 30.6 |
| National Aluminium Co. | 61 | SELL | 156,438 | 3,389 | 2,577 | 4.1 | 5.0 | 4.8 | 36.3 | 20.5 | (4.1) | 14.6 | 12.1 | 12.7 | 6.6 | 5.2 | 5.0 | 1.4 | 1.3 | 1.2 | 2.5 | 2.5 | 2.5 | 9.9 | 11.1 | 10.0 | 65 | 7.1 | 0.6 |
| Sesa Goa | 204 | REDUCE | 182,339 | 3,950 | 895 | 47.0 | 40.1 | 41.6 | 59.8 | (14.6) | 3.7 | 4.3 | 5.1 | 4.9 | 3.6 | 3.8 | 3.0 | 1.4 | 1.1 | 0.9 | 1.9 | 1.9 | 2.0 | 36.8 | 22.1 | 17.9 | 230 | 12.9 | 14.3 |
| Sterlite Industries | 122 | BUY | 410,403 | 8,891 | 3,361 | 15.2 | 17.0 | 19.0 | 26.2 | 12.0 | 11.5 | 8.0 | 7.2 | 6.4 | 5.0 | 3.8 | 3.2 | 1.0 | 0.9 | 0.8 | 0.9 | 0.9 | 0.9 | 13.0 | 13.0 | 12.8 | 185 | 51.5 | 16.7 |
| Tata Steel | 422 | BUY | 410,226 | 8,887 | 971 | 75.3 | 68.7 | 76.9 | (2,258.1) | (8.8) | 12.0 | 5.6 | 6.1 | 5.5 | 5.6 | 5.9 | 5.0 | 1.2 | 0.9 | 0.8 | 2.8 | 1.9 | 1.9 | 24.7 | 15.5 | 15.7 | 625 | 48.0 | 49.1 |
| **Metals & Mining** | | **Attractive** | **4,764,392** | **103,215** | | | | | **39.1** | **16.8** | **12.9** | **11.5** | **9.9** | **8.7** | **7.2** | **6.2** | **5.3** | **2.2** | **1.8** | **1.6** | **1.4** | **1.7** | **1.8** | **19.0** | **18.6** | **17.9** | | | |
| **Pharmaceutical** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Apollo Hospitals | 542 | BUY | 75,267 | 1,631 | 139 | 13.2 | 17.8 | 21.4 | 21.0 | 34.5 | 19.9 | 40.9 | 30.4 | 25.4 | 18.6 | 14.2 | 11.7 | 3.9 | 3.0 | 2.6 | — | — | — | 9.8 | 10.7 | 10.5 | 565 | 4.3 | 1.1 |
| Biocon | 320 | BUY | 64,060 | 1,388 | 200 | 18.4 | 19.4 | 21.4 | 23.9 | 5.6 | 10.3 | 17.4 | 16.5 | 15.0 | 9.9 | 9.5 | 8.6 | 3.1 | 2.8 | 2.5 | — | — | — | 19.4 | 17.9 | 17.4 | 445 | 38.9 | 3.6 |
| Cipla | 277 | REDUCE | 222,570 | 4,822 | 803 | 12.3 | 14.5 | 16.5 | (10.0) | 17.5 | 13.7 | 22.5 | 19.1 | 16.8 | 19.5 | 13.9 | 11.4 | 3.3 | 3.0 | 2.6 | 1.0 | 1.1 | 1.3 | 15.4 | 16.0 | — | 325 | 17.2 | 9.1 |
| Cadila Healthcare | 836 | ADD | 171,108 | 3,707 | 205 | 34.7 | 39.6 | 48.4 | 40.6 | 14.0 | 22.3 | 24.1 | 21.1 | 17.3 | 20.8 | 17.2 | 13.2 | 7.9 | 6.1 | 4.8 | 0.7 | 0.9 | 1.2 | 37.5 | 32.7 | 31.3 | 1,065 | 27.4 | 2.6 |
| Dishman Pharma & chemicals | 68 | SELL | 5,551 | 120 | 81 | 9.8 | 8.0 | 9.4 | (31.8) | (18.7) | 17.2 | 6.9 | 8.5 | 7.3 | 8.5 | 6.5 | 5.8 | 0.6 | 0.6 | 0.6 | — | — | — | 9.6 | 7.2 | 7.9 | 95 | 39.2 | 0.3 |
| Divi's Laboratories | 700 | BUY | 92,880 | 2,012 | 133 | 32.4 | 36.7 | 45.0 | 25.7 | 13.5 | 22.4 | 21.6 | 19.1 | 15.6 | 17.8 | 13.6 | 11.1 | 5.2 | 4.4 | 3.8 | — | — | — | 25.9 | 25.0 | 26.2 | 880 | 25.7 | 3.7 |
| GlaxoSmithkline Pharmaceuticals (a) | 2,125 | REDUCE | 180,015 | 3,900 | 85 | 68.3 | 78.2 | 88.6 | 15.5 | 14.6 | 13.3 | 31.1 | 27.2 | 24.0 | 20.7 | 18.4 | 15.8 | 9.2 | 8.5 | 7.8 | 1.9 | 2.4 | 2.7 | 30.9 | 32.6 | 33.9 | 2,220 | 4.5 | 1.4 |
| Glenmark Pharmaceuticals | 321 | ADD | 86,925 | 1,883 | 270 | 17.0 | 26.2 | 23.5 | 33.6 | 54.5 | (10.3) | 19.0 | 12.3 | 13.7 | 21.0 | 14.0 | 12.0 | 4.3 | 3.2 | 2.6 | — | — | — | 20.6 | 29.8 | 21.2 | 395 | 22.9 | 4.8 |
| Jubilant Life Sciences | 176 | REDUCE | 28,069 | 608 | 159 | 14.4 | 16.5 | 22.7 | (45.6) | 14.5 | 37.6 | 12.2 | 10.7 | 7.8 | 10.4 | 8.3 | 7.0 | 1.3 | 1.2 | 1.0 | 1.1 | 1.1 | 1.7 | 12.3 | 11.7 | 14.2 | 225 | 27.7 | 1.0 |
| Lupin | 454 | ADD | 203,255 | 4,403 | 448 | 19.2 | 20.1 | 24.6 | 25.6 | 4.4 | 22.5 | 23.6 | 22.6 | 18.4 | 19.8 | 17.5 | 13.4 | 6.1 | 5.0 | 4.1 | 0.7 | 0.8 | 1.0 | 29.5 | 24.7 | 24.9 | 500 | 10.3 | 9.9 |
| Ranbaxy Laboratories | 454 | SELL | 192,072 | 4,161 | 423 | 40.6 | 16.9 | 20.8 | 475.0 | (58.3) | 22.7 | 11.2 | 26.8 | 21.8 | 13.7 | 23.2 | 18.0 | 3.4 | 3.0 | 2.6 | — | — | — | 34.5 | 11.9 | 12.8 | 435 | (4.2) | 8.3 |
| Sun Pharmaceuticals | 465 | ADD | 481,916 | 10,440 | 1,036 | 17.5 | 20.4 | 24.4 | 34.4 | 16.3 | 19.6 | 26.5 | 22.8 | 19.1 | 22.5 | 18.1 | 14.4 | 4.7 | 3.9 | 3.3 | 0.8 | 0.9 | 1.1 | 21.0 | 20.4 | 20.7 | 560 | 20.3 | 10.5 |
| **Pharmaceuticals** | | **Cautious** | **2,122,597** | **45,983** | | | | | **26.0** | **7.1** | **2.8** | **22.9** | **21.3** | **20.8** | **17.3** | **14.3** | **13.6** | **3.6** | **3.0** | **2.9** | **0.7** | **0.8** | **0.9** | **15.5** | **14.3** | **13.9** | | | |
| **Property** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DLF | 176 | ADD | 301,936 | 6,541 | 1,715 | 9.1 | 11.9 | 15.7 | (14.5) | 31.3 | 31.8 | 19.4 | 14.8 | 11.2 | 14.1 | 11.1 | 8.4 | 1.1 | 1.1 | 1.0 | 1.1 | 1.4 | 1.7 | 5.4 | 7.5 | 9.2 | 270 | 53.3 | 36.5 |
| Housing Development & Infrastructure | 96 | ADD | 42,654 | 924 | 445 | 19.8 | 28.7 | 34.3 | 24.0 | 44.8 | 19.7 | 4.8 | 3.3 | 2.8 | 5.1 | 3.5 | 3.0 | 0.4 | 0.4 | 0.3 | — | 1.0 | 1.6 | 10.0 | 12.3 | 12.7 | 150 | 56.5 | 20.5 |
| Indiabulls Real Estate | 77 | RS | 30,953 | 671 | 402 | 4.0 | 8.5 | 15.4 | (1,095.5) | 114.1 | 81.5 | 19.4 | 9.1 | 5.0 | 13.6 | 10.9 | 4.8 | 0.3 | 0.3 | 0.2 | — | 0.6 | 0.9 | 1.4 | 2.9 | 5.0 | — | — | 8.6 |
| Mahindra Life Space Developer | 304 | ADD | 12,422 | 269 | 41 | 24.9 | 30.8 | 37.5 | 30.2 | 23.7 | 21.6 | 12.2 | 9.9 | 8.1 | 9.3 | 6.7 | 4.9 | 1.2 | 1.1 | 1.0 | 1.6 | 1.5 | 1.6 | 10.4 | 11.6 | 12.7 | 450 | 47.8 | 0.3 |
| Oberoi Realty | 219 | BUY | 72,166 | 1,563 | 330 | 15.7 | 20.0 | 28.0 | 14.8 | 27.6 | 39.7 | 13.9 | 10.9 | 7.8 | 10.1 | 7.0 | 4.3 | 2.2 | 1.8 | 1.5 | 0.5 | 0.7 | 1.1 | 19.9 | 18.2 | 21.3 | 315 | 43.9 | 0.3 |
| Phoenix Mills | 199 | BUY | 28,853 | 625 | 145 | 6.3 | 7.5 | 10.7 | 52.5 | 18.4 | 43.8 | 31.6 | 26.7 | 18.6 | 23.0 | 19.1 | 14.1 | 1.8 | 1.7 | 1.6 | 0.8 | 1.0 | 1.0 | 5.8 | 6.6 | 8.9 | 300 | 50.6 | 0.3 |
| Puravankara Projects | 66 | REDUCE | 14,118 | 306 | 213 | 5.5 | 9.0 | 10.9 | (18.9) | 62.8 | 21.5 | 12.0 | 7.4 | 6.1 | 17.0 | 9.4 | 7.9 | 0.9 | 0.8 | 0.8 | 1.5 | 2.3 | 3.0 | 8.0 | 12.0 | 13.1 | 80 | 20.9 | 0.1 |
| Sobha Developers | 209 | BUY | 20,471 | 443 | 98 | 18.8 | 20.6 | 27.2 | 33.8 | 9.2 | 32.2 | 11.1 | 10.2 | 7.7 | 10.3 | 9.3 | 6.5 | 1.1 | 1.0 | 0.9 | 1.4 | 1.7 | 1.9 | 10.2 | 10.3 | 12.4 | 370 | 77.2 | 0.9 |
| Unitech | 25 | RS | 65,800 | 1,425 | 2,616 | 2.3 | 2.6 | 2.7 | (23.4) | 12.8 | 4.9 | 10.8 | 9.6 | 9.2 | 13.0 | 10.5 | 8.6 | 0.6 | 0.5 | 0.5 | — | 0.8 | 1.2 | 5.4 | 5.7 | 5.4 | — | — | 17.2 |
| **Property** | | **Cautious** | **620,330** | **13,439** | | | | | **5.3** | **44.3** | **29.6** | **14.5** | **10.0** | **7.7** | **12.1** | **8.7** | **6.5** | **0.9** | **0.8** | **0.7** | **0.9** | **1.2** | **1.5** | **6.1** | **8.1** | **9.5** | | | |

Source: Company, Bloomberg, Kotak Institutional Equities estimates

## Kotak Institutional Equities: Valuation summary of key Indian companies

| | 26-Aug-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)** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **2011E** | **2012E** | **2013E** | **(Rs)** | **(%)** | **(US$ mn)** |
| **Sugar** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bajaj Hindustan | 51 | REDUCE | 11,648 | 252 | 228 | 1.9 | 3.7 | 1.6 | (28.7) | 90.5 | (57.3) | 26.4 | 13.9 | 32.5 | 17.5 | 5.9 | 5.7 | 0.4 | 0.4 | 0.4 | 1.1 | 1.1 | 1.1 | 1.7 | 2.7 | 1.1 | 65 | 27.5 | 1.5 |
| Balrampur Chini Mills | 53 | BUY | 13,174 | 285 | 247 | 6.7 | 4.0 | 7.7 | 111.0 | (40.5) | 94.0 | 8.0 | 13.4 | 6.9 | 11.1 | 8.8 | 5.9 | 0.9 | 0.9 | 0.8 | 1.5 | 1.4 | 1.4 | 11.6 | 6.5 | 11.9 | 80 | 50.0 | 1.6 |
| Shree Renuka Sugars | 54 | BUY | 36,033 | 781 | 670 | 10.5 | 6.4 | 5.0 | 214.7 | (39.4) | (21.0) | 5.1 | 8.5 | 10.7 | 8.1 | 6.3 | 5.2 | 1.4 | 1.3 | 1.2 | 1.9 | 1.9 | 1.9 | 34.4 | 16.1 | 11.4 | 75 | 39.5 | 9.6 |
| **Sugar** | | **Cautious** | **60,856** | **1,318** | | | | | **122.4** | **(24.7)** | **(7.4)** | **7.5** | **10.0** | **10.8** | **10.6** | **6.5** | **5.5** | **0.9** | **0.8** | **0.8** | **1.6** | **1.6** | **1.6** | **11.6** | **8.1** | **7.0** | | | |
| **Technology** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HCL Technologies | 363 | REDUCE | 255,774 | 5,541 | 705 | 22.9 | 29.5 | 32.8 | 30.4 | 28.9 | 11.3 | 15.9 | 12.3 | 11.1 | 9.6 | 7.4 | 6.5 | 3.0 | 2.6 | 2.2 | 2.1 | 2.2 | 2.2 | 21.0 | 22.6 | 21.7 | 375 | 3.4 | 9.1 |
| Hexaware Technologies | 68 | ADD | 19,863 | 430 | 290 | 3.0 | 7.5 | 7.3 | (36.8) | 154.4 | (3.4) | 23.2 | 9.1 | 9.4 | 16.6 | 7.6 | 6.4 | 2.1 | 1.8 | 1.7 | 2.2 | 4.4 | 4.8 | 9.3 | 21.3 | 18.6 | 80 | 17.0 | 2.9 |
| Infosys Technologies | 2,203 | BUY | 1,264,264 | 27,389 | 574 | 119.7 | 134.3 | 160.3 | 10.5 | 12.1 | 19.4 | 18.4 | 16.4 | 13.7 | 12.2 | 10.7 | 8.7 | 4.9 | 4.1 | 3.4 | 2.7 | 1.9 | 2.2 | 28.0 | 27.1 | 27.2 | 2,900 | 31.7 | 76.1 |
| Mahindra Satyam | 63 | REDUCE | 74,323 | 1,610 | 1,176 | 4.2 | 6.7 | 7.0 | 68.9 | 58.4 | 4.7 | 15.1 | 9.5 | 9.1 | 10.3 | 5.2 | 4.0 | 4.3 | 3.0 | 2.2 | — | — | — | 27.6 | 37.1 | 28.2 | 70 | 10.8 | 13.6 |
| Mindtree | 327 | ADD | 13,452 | 291 | 41 | 24.7 | 35.2 | 37.2 | (52.7) | 42.4 | 5.8 | 13.2 | 9.3 | 8.8 | 7.3 | 5.7 | 4.5 | 1.7 | 1.5 | 1.3 | 0.8 | 1.1 | 3.4 | 14.4 | 17.2 | 16.1 | 375 | 14.7 | 2.2 |
| Mphasis BFL | 348 | SELL | 73,226 | 1,586 | 211 | 51.8 | 38.6 | 30.0 | 18.8 | (25.5) | (22.2) | 6.7 | 9.0 | 11.6 | 5.7 | 6.8 | 7.3 | 2.2 | 1.8 | 1.6 | 1.2 | 1.3 | 1.4 | 38.6 | 22.3 | 14.8 | 300 | (13.7) | 3.9 |
| Patni Computer Systems | 266 | ADD | 35,451 | 768 | 133 | 42.6 | 25.9 | 27.2 | 16.5 | (39.3) | 5.2 | 6.2 | 10.3 | 9.8 | 3.1 | 3.3 | 2.2 | 1.1 | 1.0 | 1.0 | 24.8 | 1.9 | 2.0 | 18.4 | 8.2 | 10.2 | 300 | 12.7 | 2.3 |
| Polaris Software Lab | 125 | SELL | 12,453 | 270 | 100 | 19.3 | 18.8 | 19.0 | 25.7 | (2.6) | 0.7 | 6.5 | 6.6 | 6.6 | 3.4 | 2.6 | 2.2 | 1.2 | 1.0 | 0.9 | 3.0 | 3.1 | 3.3 | 20.2 | 16.8 | 14.8 | 130 | 4.1 | 2.3 |
| TCS | 948 | BUY | 1,856,306 | 40,215 | 1,957 | 44.5 | 52.8 | 61.1 | 26.8 | 18.6 | 15.6 | 21.3 | 18.0 | 15.5 | 16.0 | 13.1 | 10.9 | 7.4 | 6.0 | 5.0 | 1.9 | 2.2 | 2.6 | 37.8 | 36.9 | 35.2 | 1,160 | 22.3 | 42.6 |
| Tech Mahindra | 613 | REDUCE | 77,181 | 1,672 | 126 | 48.8 | 72.1 | 75.5 | (25.2) | 47.8 | 4.7 | 12.6 | 8.5 | 8.1 | 8.6 | 8.7 | 7.6 | 2.3 | 2.0 | 1.8 | 0.7 | 0.7 | 1.6 | 20.5 | 26.0 | 23.8 | 600 | (2.0) | 4.0 |
| Wipro | 320 | ADD | 784,667 | 16,999 | 2,454 | 21.6 | 22.4 | 24.5 | 14.5 | 3.9 | 9.1 | 14.8 | 14.3 | 13.1 | 10.8 | 9.6 | 8.4 | 3.3 | 2.8 | 2.4 | 1.4 | 1.5 | 1.7 | 24.3 | 21.1 | 19.7 | 370 | 15.7 | 11.2 |
| **Technology** | | **Attractive** | **4,466,960** | **96,771** | | | | | **17.1** | **13.1** | **13.0** | **17.4** | **15.4** | **13.6** | **12.4** | **10.6** | **9.0** | **4.6** | **3.8** | **3.2** | **2.2** | **1.9** | **2.2** | **26.2** | **24.9** | **23.8** | | | |
| **Telecom** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bharti Airtel | 399 | REDUCE | 1,513,913 | 32,797 | 3,798 | 15.9 | 17.9 | 27.1 | (32.6) | 12.7 | 50.8 | 25.0 | 22.2 | 14.7 | 10.6 | 8.3 | 6.4 | 3.1 | 2.7 | 2.3 | — | — | — | 13.3 | 13.1 | 16.9 | 390 | (2.2) | 49.0 |
| IDEA | 96 | REDUCE | 316,621 | 6,859 | 3,303 | 2.7 | 2.7 | 4.8 | (0.5) | (1.4) | 78.0 | 35.2 | 35.7 | 20.1 | 11.2 | 8.5 | 6.6 | 2.6 | 2.4 | 2.1 | — | — | — | 7.6 | 7.0 | 11.3 | 95 | (0.9) | 17.6 |
| MTNL | 33 | SELL | 20,885 | 452 | 630 | (10.4) | (9.1) | (8.4) | (33.7) | (11.9) | (8.1) | (3.2) | (3.6) | (3.9) | 0.8 | 1.0 | 1.3 | 0.2 | 0.2 | 0.2 | — | — | — | (6.1) | (5.7) | (5.5) | 35 | 5.6 | 0.8 |
| Reliance Communications | 72 | SELL | 153,968 | 3,336 | 2,133 | 6.3 | 3.3 | 6.4 | (71.1) | (46.9) | 90.6 | 11.4 | 21.6 | 11.3 | 5.2 | 5.9 | 4.9 | 0.4 | 0.4 | 0.4 | — | — | — | 3.4 | 2.0 | 3.7 | 95 | 31.6 | 18.3 |
| Tata Communications | 190 | REDUCE | 54,164 | 1,173 | 285 | 15.2 | 15.7 | 15.9 | 8.2 | 3.5 | 1.5 | 12.5 | 12.1 | 11.9 | 5.8 | 5.5 | 5.2 | 0.7 | 0.7 | 0.7 | 3.9 | 4.5 | 4.7 | 5.5 | 5.5 | 5.4 | 205 | 7.9 | 1.6 |
| **Telecom** | | **Cautious** | **2,059,551** | **44,618** | | | | | **(42.4)** | **2.8** | **58.6** | **25.6** | **24.9** | **15.7** | **9.3** | **7.9** | **6.2** | **1.8** | **1.7** | **1.5** | **0.1** | **0.1** | **0.1** | **7.0** | **6.8** | **9.7** | | | |
| **Utilities** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Adani Power | 86 | REDUCE | 205,576 | 4,454 | 2,393 | 2.4 | 11.0 | 15.0 | 200.7 | 368.5 | 35.8 | 36.5 | 7.8 | 5.7 | 36.4 | 7.6 | 4.9 | 3.3 | 2.2 | 1.6 | — | — | — | 8.5 | 33.5 | 31.8 | 100 | 16.4 | 3.7 |
| CESC | 277 | BUY | 34,657 | 751 | 125 | 37.7 | 42.5 | 51.3 | 9.1 | 12.7 | 20.8 | 7.4 | 6.5 | 5.4 | 5.4 | 5.8 | 5.5 | 0.7 | 0.7 | 0.6 | 1.8 | 1.9 | 2.2 | 10.5 | 10.7 | 11.5 | 440 | 58.6 | 2.0 |
| JSW Energy | 52 | SELL | 85,116 | 1,844 | 1,640 | 5.1 | 6.1 | 5.1 | 12.9 | 19.8 | (17.3) | 10.1 | 8.4 | 10.2 | 11.5 | 6.5 | 5.4 | 1.5 | 1.3 | 1.1 | (1.9) | — | — | 16.1 | 16.3 | 11.7 | 70 | 34.9 | 1.8 |
| Lanco Infratech | 15 | BUY | 33,901 | 734 | 2,223 | 2.0 | 3.0 | 3.4 | (5.8) | 47.2 | 16.6 | 7.6 | 5.2 | 4.4 | 8.3 | 7.7 | 7.3 | 0.9 | 0.7 | 0.6 | — | — | — | 12.2 | 15.0 | 14.6 | 45 | 195.1 | 9.3 |
| NHPC | 24 | BUY | 293,988 | 6,369 | 12,301 | 1.3 | 1.8 | 2.1 | (27.2) | 36.0 | 16.3 | 17.7 | 13.0 | 11.2 | 13.1 | 9.9 | 7.9 | 1.1 | 1.0 | 1.0 | 1.7 | 2.1 | 2.4 | 6.3 | 8.0 | 8.8 | 30 | 25.5 | 2.4 |
| NTPC | 166 | REDUCE | 1,372,458 | 29,733 | 8,245 | 11.0 | 11.9 | 12.7 | 5.3 | 7.4 | 6.8 | 15.1 | 14.0 | 13.1 | 12.5 | 11.6 | 10.8 | 2.0 | 1.8 | 1.7 | 2.3 | 2.1 | 2.3 | 13.7 | 13.5 | 13.3 | 200 | 20.2 | 11.3 |
| Reliance Infrastructure | 416 | BUY | 110,345 | 2,390 | 265 | 58.0 | 64.1 | 76.3 | (6.5) | 10.5 | 19.0 | 7.2 | 6.5 | 5.5 | 7.0 | 3.7 | 2.7 | 0.5 | 0.4 | 0.4 | 2.3 | 2.5 | 2.7 | 6.4 | 11.2 | 12.2 | 920 | 121.1 | 16.7 |
| Reliance Power | 78 | SELL | 218,656 | 4,737 | 2,805 | 2.7 | 2.9 | 2.9 | (5.0) | 7.6 | (0.5) | 28.8 | 26.7 | 26.8 | 158.4 | 67.8 | 14.3 | 1.3 | 1.3 | 1.2 | — | — | — | 4.9 | 4.9 | 4.7 | 88 | 12.9 | 6.3 |
| Tata Power | 1,013 | BUY | 250,080 | 5,418 | 247 | 76.5 | 75.9 | 87.6 | 21.5 | (0.7) | 15.4 | 13.2 | 13.3 | 11.6 | 10.6 | 8.8 | 8.2 | 1.7 | 1.6 | 1.4 | 1.4 | 1.5 | 1.7 | 13.8 | 12.3 | 12.9 | 1,350 | 33.2 | 7.3 |
| **Utilities** | | **Cautious** | **2,604,776** | **56,429** | | | | | **5.1** | **23.3** | **12.4** | **15.1** | **12.3** | **10.9** | **13.8** | **10.1** | **8.4** | **1.5** | **1.4** | **1.3** | **1.6** | **1.6** | **1.8** | **10.1** | **11.3** | **11.5** | | | |
| **Others** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Carborundum Universal | 289 | BUY | 27,004 | 585 | 93 | 18.3 | 18.9 | 21.0 | 67.7 | 3.7 | 10.6 | 15.8 | 15.2 | 13.8 | 11.5 | 9.8 | 8.6 | 3.2 | 2.7 | 2.3 | 1.3 | 1.4 | 1.5 | 20.7 | 18.4 | 17.8 | 290 | 0.4 | 0.2 |
| Havells India | 315 | REDUCE | 39,341 | 852 | 125 | 24.5 | 25.8 | 28.8 | 334.1 | 5.1 | 11.5 | 12.9 | 12.2 | 11.0 | 8.7 | 8.1 | 7.0 | 5.5 | 3.9 | 3.0 | 0.8 | 0.9 | 1.0 | 53.9 | 37.6 | 30.9 | 370 | 17.3 | 4.6 |
| Jaiprakash Associates | 55 | BUY | 116,423 | 2,522 | 2,126 | 6.0 | 6.3 | 7.2 | 230.2 | 3.9 | 15.6 | 9.1 | 8.8 | 7.6 | 11.0 | 9.5 | 9.2 | 1.1 | 1.0 | 0.9 | — | — | — | 13.3 | 11.7 | 12.3 | 115 | 110.0 | 19.1 |
| Jet Airways | 253 | BUY | 21,846 | 473 | 86 | (10.1) | (43.4) | 16.9 | (91.0) | 331 | (139.0) | (25.2) | (5.8) | 15.0 | 9.3 | 9.8 | 6.9 | 1.3 | 1.7 | 1.5 | — | — | — | (5.0) | (11.7) | 10.9 | 650 | 156.9 | 11.3 |
| SpiceJet | 22 | BUY | 8,765 | 190 | 403 | 2.2 | 2.1 | 4.3 | (12.4) | (4.3) | 101.0 | 9.8 | 10.2 | 5.1 | 8.3 | 12.7 | 7.4 | 2.9 | 2.3 | 1.6 | — | — | — | (466) | 24.8 | 36.2 | 65 | 198.9 | 3.2 |
| Tata Chemicals | 334 | REDUCE | 85,140 | 1,844 | 255 | 26.2 | 32.9 | 38.8 | (0.7) | 25.4 | 17.9 | 12.7 | 10.2 | 8.6 | 7.7 | 5.4 | 4.6 | 1.6 | 1.4 | 1.2 | 3.0 | 3.6 | 4.5 | 16.9 | 18.6 | 19.5 | 385 | 15.2 | 3.2 |
| United Phosphorus | 136 | BUY | 62,782 | 1,360 | 462 | 12.3 | 15.9 | 19.8 | 3.9 | 28.8 | 24.3 | 11.0 | 8.5 | 6.9 | 6.7 | 4.7 | 3.9 | 1.7 | 1.5 | 1.2 | 1.5 | 2.2 | 2.6 | 18.0 | 18.5 | 19.8 | 220 | 61.8 | 3.7 |
| **Others** | | | **361,301** | **7,827** | | | | | **232.5** | **10.1** | **38.5** | **12.8** | **11.6** | **8.4** | **9.6** | **8.2** | **7.3** | **1.5** | **1.4** | **1.2** | **1.1** | **1.4** | **1.7** | **12.0** | **12.0** | **14.5** | | | |
| **KS universe (b)** | | | **42,464,551** | **919,943** | | | | | **18.1** | **18.7** | **16.2** | **14.5** | **12.2** | **10.5** | **9.4** | **7.8** | **6.7** | **2.2** | **2.0** | **1.7** | **1.7** | **1.8** | **2.1** | **15.4** | **16.0** | **16.4** | | | |
| **KS universe (b) ex-Energy** | | | **35,197,398** | **762,509** | | | | | **20.1** | **16.5** | **18.3** | **15.5** | **13.3** | **11.3** | **11.0** | **9.2** | **7.8** | **2.5** | **2.2** | **1.9** | **1.6** | **1.6** | **1.8** | **16.0** | **16.2** | **16.8** | | | |
| **KS universe (d) ex-Energy & ex-Commodities** | | | **29,486,029** | **638,779** | | | | | **18.6** | **16.2** | **19.5** | **16.4** | **14.2** | **11.8** | **12.4** | **10.3** | **8.7** | **2.6** | **2.2** | **2.0** | **1.6** | **1.6** | **1.9** | **15.6** | **15.9** | **16.7** | | | |

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.

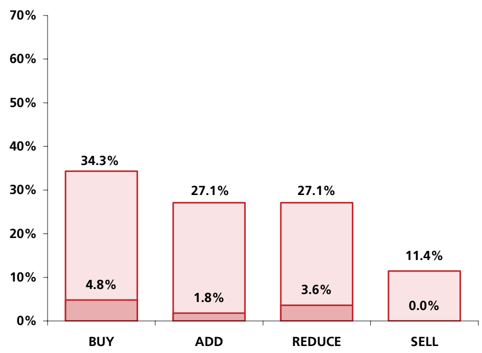
(d) Rupee-US Dollar exchange rate (Rs/US$)= 46.16

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: Kawaljeet Saluja, Indranil Pan, Lokesh Garg, Manoj Menon, M.B. Mahesh,."

**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 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/06/2011 Kotak Institutional Equities Investment Research had investment ratings on 166 equity securities.

Source: Kotak Institutional Equities

As of June 30, 2011

## 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.

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

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

### 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.

**CS = Coverage Suspended.** Kotak Securities has suspended coverage of this company.

**NC = Not Covered.** Kotak Securities does not cover this company.

**RS = Rating Suspended.** Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

**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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