kotak® Institutional Equities

INDIA DAILY

September 2, 2010

Contents

News Round-up

- The government said it had made mistakes in the GDP data released on Tuesday and issued corrections for the first-quarter demand-side numbers. The overall economic growth measured at factor cost was, however, retained at 8.8% for the quarter ended June 2010. *(BSTD)*
- ONGC (ONGC IN) has over a month to decide if it chooses to exercise its pre-emption or right to first refusal to block sale of majority stake in Cairn India to Vedanta Resources. *(ECNT)*
- Sun Pharma (SUNP IN) has received approval from USFDA to sell generic strattera capsules, used in treating attention deficit hyperactivity disorder, in the American market. *(ECNT)*
- Ranbaxy Labs (RBXY IN) has opened a new manufacturing facility in Johannesburg, South Africa, with an investment of USD 30mn to cater to the African market. *(ECNT)*
- Reliance Ind. (RIL IN) hikes stake in EIH (EIH IN), fuels open offer talk, Mukesh Ambani companies total holding at 14.8%. *(TTOI)*
- L&T Power Ltd a subsidiary of Larsen & Toubro (LT IN), excepts its Hazira facility to be fully commissioned by the end of this year. *(THBL)*
- ONGC Videsh set sights on US shale gas assets, it may take partnership route instead of going in for complete buyouts. *(ECNT)*
- Colgate Palmolive (CLGT IN) has received judicial approval to merge its wholly owned subsidiary, CC Health Care Products with itself. *(BSTD)*
- Wipro (WPRO IN) has bagged a five-year outsourcing contract from Central Bank of India to provide core banking solutions to its seven sponsored regional rural banks. *(BSTD)*
- JSW Energy (JSW IN) announced the commissioning of the first unit of 300 Mw of its 1,200 Mw thermal power project at Jaigad in the Ratnagari district. The power generated will be sold to the Maharashtra State Electricity Distribution Company. *(BSTD)*
- Diligenta, the UK subsidiary of TCS (TCS IN) acquired Unisys Insurance Services from Unisys Corporation, in lieu of which the company received business worth USD 383 mn for the next six years. *(BSTD)*
- One year into its production, Cairn India's (CAIR IN) Mangala field is estimated to have saved nearly a billion dollars in foreign exchange. *(BSTD)*
- Reliance Broadcast Network Ltd plans to raise USD 85 mn through a preferential issue. *(BSTD)*

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

EQUITY MARKETS

		Change %		
India	**1-Sep**	**1-day**	**1-mo**	**3-mo**
Sensex	18,206	1.3	0.7	8.7
Nifty	5,472	1.3	0.7	9.0
Global/Regional indices				
Dow Jones	10,269	2.5	(3.8)	0.2
Nasdaq Composite	2,177	3.0	(5.2)	(4.6)
FTSE	5,366	2.7	(0.6)	4.2
Nikkie	9,036	1.2	(5.6)	(5.9)
Hang Seng	20,911	1.4	(2.3)	7.4
KOSPI	1,769	0.2	(0.7)	8.5
Value traded – India				
Cash (NSE+BSE)	182		191	176
Derivatives (NSE)	922		684	820
Deri. open interest	1,591		1,211	1,088

Forex/money market

		Change, basis points		
	1-Sep	**1-day**	**1-mo**	**3-mo**
Rs/US$	46.8	0	81	(16)
10yr govt bond, %	7.9	(2)	11	41
Net investment (US$mn)				
	31-Aug		**MTD**	**CYTD**
FIIs	114		-	12,767
MFs	(75)		-	(282)

Top movers -3mo basis

		Change, %		
Best performers	**1-Sep**	**1-day**	**1-mo**	**3-mo**
HPCL IN Equity	534.4	1.6	22.7	46.3
TCOM IN Equity	349.6	5.0	27.1	45.3
BOI IN Equity	451.6	2.1	2.8	37.8
BHFC IN Equity	356.1	1.8	8.4	36.3
TTMT IN Equity	1010.8	0.0	19.3	35.5
Worst performers				
RNR IN Equity	38.2	2.4	(6.7)	(29.3)
SUEL IN Equity	46.6	0.8	(18.4)	(14.0)
SESA IN Equity	325.8	2.5	(9.9)	(12.7)
HH IN Equity	1764.8	(1.5)	(3.3)	(11.2)
NMDC IN Equity	249.9	3.9	(4.7)	(9.1)

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

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Reliance Industries (RIL)

Energy

REDUCE

SEPTEMBER 02, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 936

Target price (Rs): 1,015

BSE-30: 18,206

We would have loved to but.... We retain our REDUCE rating on RIL stock despite the fact the stock has underperformed significantly over the past 15 months led by (1) weak fundamentals of the chemical and refining businesses, (2) limited progress in E&P and lower-than-expected gas production and (3) concerns about use of cash. We believe RIL management would need to take concrete steps to enhance investment sentiment; we suggest a few. We have cut our fair valuation to ₹1,015 from ₹1,060 earlier.

Company data and valuation summary

Reliance Industries

Stock data			
52-week range (Rs) (high,low)			1,185-841
Market Cap. (Rs bn)			2,786.1
Shareholding pattern (%)			
Promoters			41.1
FIIs			20.9
MFs			2.6
Price performance (%)	1M	3M	12M
Absolute	(7.3)	(7.4)	(5.5)
Rel. to BSE-30	(9.0)	(15.7)	(19.3)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	49.6	57.7	74.4
EPS growth (%)	(1.8)	16.2	28.9
P/E (X)	18.9	16.2	12.6
Sales (Rs bn)	1,924.6	2,576.0	2,693.2
Net profits (Rs bn)	162.4	188.6	243.2
EBITDA (Rs bn)	309.4	370.5	418.5
EV/EBITDA (X)	10.3	8.1	6.5
ROE (%)	11.4	12.1	13.9
Div. Yield (%)	0.7	0.8	1.0

Reduced fair valuation to ₹1,015 from ₹1,060 earlier

(1) We have ascribed a lower multiple to the R&M segment at 7X FY2012E EBITDA versus 7.5X FY2012E EBITDA previously to reflect the negative impact of the recent tax changes in the Direct Taxes Code, 2010 Bill. (2) We have postponed production from KG D-9 and MN D-4 blocks by one and two years to factor in slower-than-expected execution. (3) We have reduced KG D-6 gas production for FY2011E to 60 mcm/d from 64 mcm/d previously.

There are still potential pitfalls that constrain a more positive view

We are perplexed by frequent issuances (raised ₹93.3 bn in three tranches of treasury stock sale in FY2010) despite the reported large cash on balance sheet. We find RIL's balance sheet hard to interpret given low disclosures on the E&P segment and capex; we are still unable to reconcile the steep increase in fixed assets in FY2009 with the available disclosures. Finally, frequent changes to disclosures on 'uncomfortable' issues do not inspire confidence.

Fundamentals continue to be weak and pose downward risks to earnings

We see downside risks to earnings from weaker-than-expected chemical and refining margins. (1) We model FY2011E and FY2012E refining margins at US$8.5/bbl and US$9.5/bbl versus 1QFY11's US$7.3/bbl; margins continue to be very weak. (2) Oil and gas production from KG D-6 block may surprise negatively; we are maintaining oil production at 32,500 b/d and 40,000 b/d for FY2011E and FY2012E despite reports of production having slipped to 25,000 b/d of late.

A few measures to improve investment sentiment

We suggest a few measures to improve investment sentiment. (1) Cancellation of outstanding treasury shares (292 mn) would remove a key overhang; the market has been unnerved by frequent issuances and rumors of further sale given that RIL has large cash on its balance sheet and will likely generate large FCF. (2) Higher disclosures on the E&P segment with complete breakdown of capex into fixed assets and producing properties by blocks would help investors to better value the assets and also compute DD&A. (3) Higher dividends (versus uninspiring acquisitions so far) would suggest that RIL is serious about returning cash to shareholders.

QUICK NUMBERS

- Modeling gas production from KG D-6 at 60mcm/d and 72mcm/d in FY2011E and FY2012E
- Reduced valuation of R&M segment by ₹24/share
- Cut valuation of E&P segment by ₹20/share

Sanjeev Prasad
sanjeev.prasad@kotak.com
Mumbai: +91-22-6634-1229

Gundeep Singh
gundeep.singh@kotak.com
Mumbai: +91-22-6634-1286

Tarun Lakhotia
tarun.lakhotia@kotak.com
Mumbai: +91-22-6634-1188

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

Changes to SOTP valuation

We discuss the minor changes to our SOTP (see Exhibit 1) valuation below.

SOTP valuation of Reliance is Rs1,015 per share on FY2012E estimates
Sum-of-the-parts valuation of Reliance Industries, FY2012E basis (₹)

	Valuation base (Rs bn)		Multiple (X)		EV	Valuation
	Other	EBITDA	Multiple	EV/EBITDA	(Rs bn)	(Rs/share)
Chemicals		99		7.0	692	232
Refining & Marketing		142		7.0	993	333
Oil and gas—producing (PMT and Yemen)		25		4.5	113	38
Gas—producing and developing (DCF-based) (a)	799				799	268
KG D-6	441				441	148
NEC-25	122				122	41
CBM	66				66	22
KG D-3	99				99	33
KG D-9	10				10	3
MN D-4	61				61	20
Oil—KG-DWN-98/3 (b)	83				83	28
Investments other than valued separately	105				105	35
Loans & advances to affiliates	4				4	1
Cash with subsidiary from sale of treasury shares	86				86	29
Retailing	52		80%		42	14
SEZ development	30		80%		24	8
Total enterprise value					**2,941**	**987**
Net debt adjusted for 50% of C-WIP of E&P assets					(88)	(30)
Implied equity value					**3,029**	**1,017**

Note:
(a) We value KG D-6, NEC-25, CBM, KG D-3, KG D-9 and MN D-4 blocks on DCF.
(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
(c) We use 2.978 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

- **Reduced valuation of R&M segment.** We have reduced our fair valuation of the R&M segment by ₹24/share to reflect likely lower cash flows beyond FY2013E due to proposed changes in the Direct Taxes Code (DTC), 2010 Bill tabled recently in the parliament. The bill proposes to tax profits of SEZ units at the MAT rate of taxation (20%) versus the current 100% income-tax exemption in the first five years of operations and 50% income-tax exemption in the next five. This would impact the fair valuation of RIL's SEZ refinery. We now use 7X FY2012E EBITDA versus 7.5X FY2012E EBITDA to capture the impact of likely lower cash flows due to higher taxation. We note that the proposed change impacts RIL's SEZ refinery only.

- **Cut valuation of E&P segment.** We have reduced the valuation of the E&P segment by ₹20/share to reflect a likely delay in the production of gas from RIL's KG D-9 and MN D-4 blocks and lower production at PMT fields (the fields seem to be in terminal decline). We now assume gas production from KG D-9 to start from FY2017E versus FY2016E previously and gas production from MN D-4 block to start from FY2018E versus FY2016E earlier. We would caution that RIL is yet to establish commercial quantities of hydrocarbons in either of the two blocks. We assume that RIL will be in a position to produce gas from KG D-3 block from FY2016E although we do not rule out delays. We assume 9.6 tcf of recoverable gas reserves in the KG D-3 block; RIL has drilled four successful wells in the block.

- **Other minor changes.** We now model 60 mcm/d of gas production for FY2011E from RIL's KG D-6 block versus 64 mcm/d previously, which results in slightly lower cash balances at end-FY2011 and end-FY2012E. We have fine-tuned our FY2011E EPS to ₹57.7 accordingly versus ₹59 previously. There are no changes to our FY2012E assumptions and estimates barring a very marginal impact arising from a lower cash balance in FY2011E.

A few measures to improve investment sentiment

We suggest a few measures to enhance investment sentiment. Our interactions with investors suggest some concerns about the future use of cash and disclosures.

- **Cancellation of treasury shares.** In our view, cancellation of the balance outstanding treasury shares (292 mn) would remove a key overhang on the stock. The market has periodically speculated about further sales of treasury shares by RIL. We expect RIL to generate large FCF over the next few years (₹1.2 tn in FY2011-14E). Also, we would highlight that RIL can easily issue fresh shares as and when it requires even if it cancels the outstanding treasury shares; QIPs are fairly easy these days.

  RIL has so far 'issued' 89 mn treasury shares in FY2010. We were quite surprised by the sale of treasury shares since RIL did not presumably require cash in FY2010. RIL's acquisitions have been fairly small and it could have easily financed those through debt or internal cash generation. We note that RIL reported net income of ₹162 bn in FY2010 and its DDA was ₹105 bn.

- **More disclosures on E&P segment and capex.** We are unable to compute the 'true' level of profitability of RIL's E&P segment given the lack of adequate disclosures and in the absence of best practice accounting standards. We surmise that the profits of the E&P segment would have been significantly lower if it had followed the more conventional Successful Efforts Method of Accounting versus the Full Cost Method of Accounting (FCM); both are allowed currently. However, we are unable to quantify the same since RIL does not disclose capex by blocks and does not give breakdown of fixed assets into fixed assets and producing properties.

  RIL has presumably capitalized capex pertaining to all its blocks (whether in the exploration, development or production phases) under the Full Cost Method of Accounting (FCM) and is now amortizing the same over production from its KG D-6 block. However, it is difficult to compute DD&A in the absence of information on capex (and breakdown among survey expenses, exploration wells, development, wells and fixed assets) on the E&P segment.

  We note that RIL would have to necessarily adopt the more conventional Successful Efforts Method of Accounting from April 1, 2011 under IFRS to be implemented in India from April 1, 2011. This could have a large impact on profitability in the case of dry wells in the future; also, survey expenses would need to be written off in the year they are incurred.

- **Balance sheet and capex disclosures.** We note that RIL changed its disclosures on capex after we questioned its FY2009 annual report—we were unable to reconcile the increase in fixed assets with available disclosures (see Exhibit 2) at the time. RIL started disclosing net capex (including impact of changes in foreign currency loans on the balance sheet) from 2QFY10, which makes it very hard to figure out the actual capex from its quarterly press releases.

Clarity on increase in gross block and C-WIP required
Movement in fixed assets of RIL, March fiscal year-end, 2009 (Rs bn)

Gross block as on March 31, 2008	1,042
Capital work-in-progress as on March 31, 2008	230
Total fixed assets as on March 31, 2008 (A)	**1,272**
Gross block as on March 31, 2009	1,496
Capital work-in-progress as on March 31, 2009	690
Total fixed assets as on March 31, 2009 (B)	**2,187**
Net additions to fixed assets (C) = (B) - (A)	**914**
Expenditure on E&P, R&M and others as per FY2009 cash flow statement	247
Gross block and C-WIP of RPET as on March 31, 2008	213
Revaluation of assets at Gandhar and Nagothane	129
Exchange difference due to weaker rupee	109
Interest capitalized	34
Explained additions to fixed assets (D)	**732**
Remaining net additions (C)- (B)	**183**

Source: Company, Kotak Institutional Equities

- **Higher dividends.** We suggest RIL look at the option of stepping up its dividends given likely large FCF from FY2011E. This would support the stock price (though higher dividend yield) and also inspire confidence among investors that RIL will eventually return cash to shareholders if it is unable to invest the same in value-accretive projects. RIL's recent diversifications into retailing and SEZ have not been very successful and its entry telecom has puzzled investors. The investments in shale gas in the US may turn out to be value-accretive in the long term and offers it option value. However, the same in the face of apparent slowdown in E&P capex in India is somewhat surprising to us.

Reliance's earnings have high leverage to refining margins
Sensitivity of RIL's earnings to key variables

	Fiscal 2011E			Fiscal 2012E			Fiscal 2013E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	45.0	46.0	47.0	45.0	46.0	47.0	45.0	46.0	47.0
Net profits (Rs mn)	180,390	188,586	196,782	233,958	243,174	252,390	264,732	274,567	284,402
EPS (Rs)	55.2	57.7	60.2	71.5	74.4	77.2	80.9	84.0	87.0
% upside/(downside)	**(4.3)**		**4.3**	**(3.8)**		**3.8**	**(3.6)**		**3.6**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	183,969	188,586	193,204	238,534	243,174	247,814	269,746	274,567	279,387
EPS (Rs)	56.3	57.7	59.1	72.9	74.4	75.8	82.5	84.0	85.4
% upside/(downside)	**(2.4)**		**2.4**	**(1.9)**		**1.9**	**(1.8)**		**1.8**
Blended refining margins (US$/bbl)									
Margins (US$/bbl)	7.5	8.5	9.5	8.5	9.5	10.5	9.0	10.0	11.0
Net profits (Rs mn)	168,826	188,586	208,193	222,458	243,174	263,744	252,758	274,567	296,233
EPS (Rs)	51.6	57.7	63.7	68.0	74.4	80.6	77.3	84.0	90.6
% upside/(downside)	**(10.5)**		**10.4**	**(8.5)**		**8.5**	**(7.9)**		**7.9**

Source: Kotak Institutional Equities estimates

RIL: Profit model, balance sheet, cash model, March fiscal year-ends, 2006-2014E (Rs mn)

	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	809,113	1,114,927	1,334,430	1,418,475	1,924,610	2,576,007	2,693,165	2,822,512	2,840,282
EBITDA	**139,991**	**198,462**	**233,056**	**233,139**	**305,807**	**366,934**	**414,921**	**463,601**	**464,466**
Other income	6,829	4,783	8,953	20,599	24,605	24,390	22,358	35,302	58,643
Interest	(8,770)	(11,889)	(10,774)	(17,452)	(19,972)	(21,617)	(6,958)	(3,865)	(2,911)
Depreciation & depletion	(34,009)	(48,152)	(48,471)	(51,953)	(104,965)	(132,487)	(130,091)	(152,338)	(156,056)
Pretax profits	104,041	143,205	182,764	184,332	205,474	237,219	300,231	342,700	364,143
Extraordinary items	3,000	2,000	47,335	—	—	—	—	—	—
Tax	(9,307)	(16,574)	(26,520)	(12,634)	(31,118)	(47,925)	(60,887)	(83,675)	(100,637)
Deferred taxation	(7,040)	(9,196)	(8,999)	(18,605)	(12,000)	(707)	3,830	15,542	20,491
Net profits	90,693	119,434	194,580	153,093	162,357	188,586	243,174	274,567	283,996
Adjusted net profits	**88,152**	**117,789**	**152,605**	**153,093**	**162,357**	**188,586**	**243,174**	**274,567**	**283,996**
Earnings per share (Rs)	**31.6**	**40.5**	**52.5**	**50.6**	**49.6**	**57.7**	**74.4**	**84.0**	**86.8**
Balance sheet (Rs mn)									
Total equity	430,543	673,037	847,853	1,263,730	1,371,706	1,532,508	1,740,952	1,973,842	2,216,162
Deferred taxation liability	49,708	69,820	78,725	97,263	109,263	109,970	106,140	90,598	70,107
Minority interest	—	33,622	33,622	—	—	—	—	—	—
Total borrowings	218,656	332,927	493,072	739,045	624,947	342,592	111,866	110,598	109,382
Currrent liabilities	164,545	192,305	251,427	357,019	404,148	404,593	420,186	432,141	432,572
Total liabilities and equity	**863,452**	**1,301,712**	**1,704,700**	**2,457,057**	**2,510,064**	**2,389,663**	**2,379,144**	**2,607,178**	**2,828,223**
Cash	21,461	18,449	42,822	221,765	134,626	47,906	83,829	371,523	667,354
Current assets	224,283	286,566	402,721	325,358	489,165	516,606	528,692	544,165	545,739
Total fixed assets	626,745	899,403	1,081,638	1,693,869	1,653,987	1,592,864	1,534,337	1,459,204	1,382,844
Investments	(9,038)	97,294	177,519	216,065	232,286	232,286	232,286	232,286	232,286
Deferred expenditure	—	—	—	—	—	—	—	—	—
Total assets	**863,452**	**1,301,712**	**1,704,700**	**2,457,057**	**2,510,064**	**2,389,663**	**2,379,144**	**2,607,178**	**2,828,223**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	119,520	164,285	180,718	174,508	222,605	293,182	341,293	372,837	356,906
Working capital	(32,188)	(13,075)	(31,071)	(37,983)	(53,015)	(26,997)	3,507	(3,518)	(1,142)
Capital expenditure	(94,273)	(247,274)	(239,691)	(247,128)	(219,427)	(61,640)	(65,780)	(73,982)	(75,684)
Investments	(32,364)	(105,760)	(78,953)	(10,392)	14,206	—	—	—	—
Other income	5,159	4,143	6,132	16,195	22,043	24,390	22,358	35,302	58,643
Free cash flow	**(34,146)**	**(197,681)**	**(162,865)**	**(104,800)**	**(13,587)**	**228,934**	**301,378**	**330,639**	**338,723**
Ratios (%)									
Debt/equity	45.5	44.8	53.2	54.3	42.2	20.9	6.1	5.4	4.8
Net debt/equity	41.1	42.3	48.6	38.0	33.1	17.9	1.5	(12.6)	(24.4)
RoAE	19.9	20.3	18.9	13.6	11.8	12.3	14.1	14.2	13.2
RoACE	**13.8**	**13.9**	**12.7**	**11.2**	**9.3**	**10.2**	**12.6**	**12.8**	**11.7**

Source: Company, Kotak Institutional Equities estimates

CAUTIOUS

SEPTEMBER 01, 2010

UPDATE

BSE-30: 18,206

'Return to normalcy' expectations – premature and risky. Trading at 7-8X FY2012E EV/EBITDA, a 35-50% premium to emerging market peers, Indian wireless stocks appear to be building in a decisive end to the hyper-competitive state in the market. Some of the new licensees looking at exit options (spectrum return, M&A) make good fodder for the media—but such signs of consolidation are immaterial, in our view. We continue to remain Cautious and see risks of disappointment amid all the recent cheer.

More the cheer, greater the room for disappointment

Amid all the excitement (driven by recent traffic trends and news-flow items) for Indian wireless stocks, we see the Street underplaying the valuation premium that has opened up between Indian wireless stocks and other emerging market peers. Bharti now trades at 7.2X FY2012E EV/EBITDA, Idea at 8.2X, and RCOM at 7.9X, a 35-50% premium to the peer group. EV/EBITDA premium requires higher EBITDA growth, or better ROIC – we see risks to both of these assumptions. Even assuming sustained, strong growth in Indian wireless market revenues (and that is a big assumption in itself), the same translating into EBITDA growth would require competitive pressure to ease, an unlikely scenario for the next 18-24 months, in our view.

Greenfield was never the issue; be wary of brownfield aggression

Recent news-flow on some of the new licensees (Videocon, Etisalat, Loop) looking for exit options – approaching the DoT for a possible surrender of spectrum for return of license fee, exploring M&A – appears to have cheered a section of Street which sees this as early signs of consolidation. Some thoughts here

- Consolidation, strictly defining, is a reduction in number of players and/or capacity in the industry. Etisalat/Loop/Videocon giving up on their India wireless ambitions does not reduce capacity in the industry, even if it reduces the potential number of players in the industry.

- The Indian wireless market has seven players with substantial capital committed and reasonable balance sheets – more importantly, five of these need to gain revenue market share to generate reasonable rates of return. Hence, to cheer the (potential) demise of the 14th, 13th, 12th or 11th operator in the industry and view it as end of aggressive competition in the industry is a tad premature and fraught with risk, in our view.

- As highlighted in some of our recent notes, we continue to expect atleast one more round of serious pricing action in the market; the trigger could be 3G/MNP (likely) or empty networks or some other event – honestly, we do not know. What we do know/believe is that status quo (significant over-capacity in the urban and sub-urban markets) is a state of in equilibrium and will force fierce competitive action, over the next few months.

'Comfort in latest data point/ news-flow' syndrome – back again

Bharti's price chart over the past 18 months (see Exhibit 1) shows an interesting pattern – the stock has reacted negatively to certain events, and then retraced its way back once the negative event is out of the way. It appears to us that the Street is positively pre-disposed to the Indian telecom story and is finding a way to take comfort in extrapolating the latest positive data point (recently released TRAI revenue data for the June 2010 quarter being the latest one). We believe the Indian wireless market will witness a see-saw battle for at least the next 18-24 months and hence, would be wary of any extrapolation of quarter or two's data.

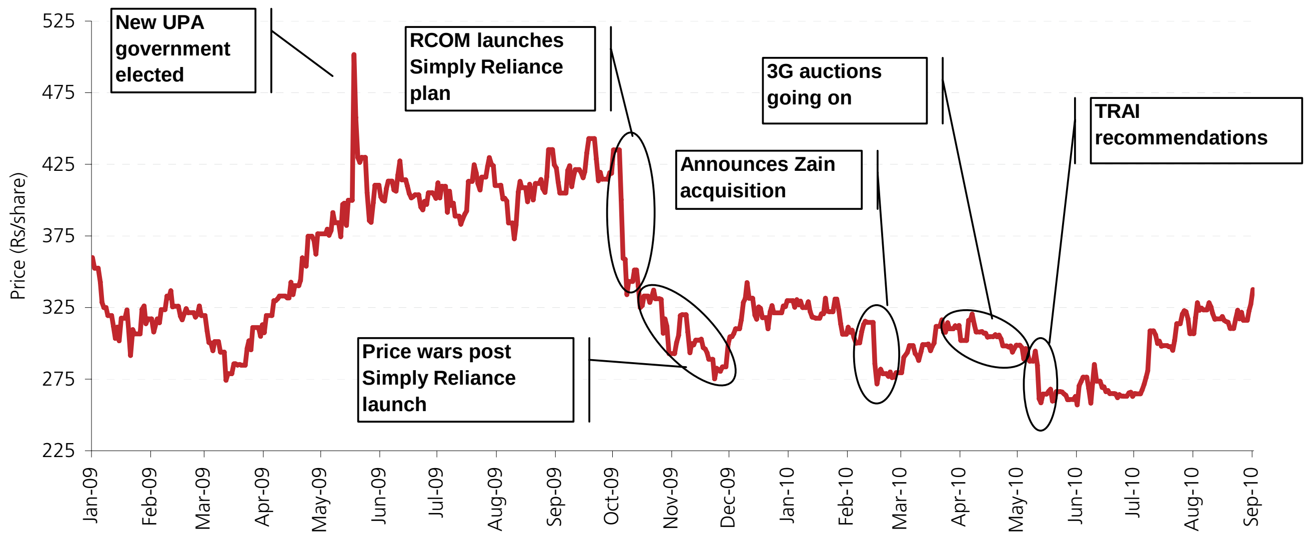
Rohit Chordia
rohit.chordia@kotak.com
Mumbai: +91-22-6634-1397

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

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

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

Exhibit 1: Bharti's share price movement pre/post important events



Source: Bloomberg, Kotak Institutional Equities

Challengers (brownfield operators) not calling it quits, yet

We clarify upfront that when we use the word challenger, we include players like RCOM, TTSL, Aircel, and Idea (in some circles). Our discussions with some of these 'challengers' give us no reason to believe that they have given up on the hope of gaining revenue market share from the incumbents. Even as they realize that a pure tariff-cut driven subs acquisition strategy is unlikely to tilt the scales in their favor, they continue to devise (and rollout) strategies to capture the meaty (mid to high end, revenue market share differentiator) segment of the market. We clarify that we are not arguing that the challengers would succeed – our point simply is that the disruption they cause to the market in a bid to succeed, will likely hurt the incumbents as well.

Recent surge an opportunity to pare exposure, in our view

As argued above, we see expectations of 'competitive relief' in the Indian wireless market premature and risky. We reiterate our Cautious coverage view on the sector with a REDUCE on Bharti/Idea, and SELL on RCOM.

Exhibit 2: Valuation of global wireless companies

Companies	Country	Currency	Price (LC) 31-Aug-2010	Market cap. (US$ mn)	EV/EBITDA (X) +1-year	EV/EBITDA (X) +2-year
EMEA						
MTN Group Ltd.	South Africa/Africa	ZAR	120.5	30,071	4.5	3.8
Partner Communications Co. Ltd.	Israel	ILS	63.5	2,583	5.7	5.8
Turkcell Iletisim Hizmetleri A.S.	Turkey	TRY	9.7	13,941	6.3	5.7
Average				**46,595**	**5.5**	**5.1**
Emerging Asia						
Advanced Info Service PCL	Thailand	THB	92.3	8,747	5.9	5.7
China Mobile Ltd.	China	HKD	79.2	204,161	4.9	4.4
China Unicom (Hong Kong) Ltd.	China	HKD	10.7	32,472	5.0	4.6
DiGi.com Bhd	Malaysia	MYR	24.7	6,130	8.6	8.1
Indosat	Indonesia	IDR	4,400	2,646	4.9	4.5
Hutchison Telecommunications	Hongkong	HKD	2.3	1,393	6.5	6.1
Average				**255,548**	**6.0**	**5.6**
India - KIE estimates			**1-Sep-2010**			
Bharti Airtel Ltd.	India	INR	338	27,396	8.8	7.2
Reliance Communications Ltd.	India	INR	164	7,472	9.5	7.9
Idea Cellular Ltd.	India	INR	72	5,083	9.7	8.2
Average				**39,951**	**9.3**	**7.8**
Emerging markets ex India average					**5.7**	**5.3**

Source: Factset, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	1-Sep-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	75	ADD	99,439	2,124	1,330	2.8	4.3	5.9	84.5	52.3	37.5	26.5	17.4	12.6	15.2	11.4	9.0	2.5	2.2	2.0	2.0	1.3	1.3	10.9	13.5	16.7	78	4.3	7.4
Bajaj Auto	2,749	ADD	397,802	8,497	145	117.7	169.0	189.5	160.1	43.6	12.2	23.4	16.3	14.5	15.1	11.5	10.0	13.6	7.9	5.3	0.7	0.7	0.7	70.9	61.4	44.0	2,650	(3.6)	15.9
Bharat Forge	356	ADD	85,141	1,819	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	518.0	28.7	18.0	26.3	12.4	8.7	2.2	2.2	1.9	—	—	—	0.9	0.4	0.1	360	1.1	4.8
Hero Honda	1,765	SELL	352,431	7,528	200	111.8	115.3	130.1	74.1	3.1	12.8	15.8	15.3	13.6	10.0	10.0	8.4	9.8	6.8	5.1	1.7	1.8	2.0	59.1	52.5	42.8	1,800	2.0	20.2
Mahindra & Mahindra	630	BUY	375,236	8,015	595	33.9	44.1	51.7	125.8	30.1	17.3	18.6	14.3	12.2	12.3	10.3	8.6	4.7	3.7	3.0	1.5	1.5	1.5	30.0	29.0	27.3	760	20.6	24.7
Maruti Suzuki	1,273	REDUCE	367,825	7,857	289	86.4	77.6	88.3	104.9	(10.2)	13.9	14.7	16.4	14.4	7.9	8.2	7.1	3.1	2.6	2.2	0.5	0.4	0.5	23.3	17.3	16.7	1,200	(5.7)	21.6
Tata Motors	1,011	ADD	632,942	13,520	626	27.4	94.8	109.2	(182.5)	246.1	15.2	36.9	10.7	9.3	13.1	6.9	5.9	4.1	2.9	2.2	1.4	0.5	0.5	8.7	11.9	11.1	1,150	13.8	88.8
Automobiles		**Cautious**	**2,310,815**	**49,361**					**276.0**	**57.2**	**16.1**	**22.1**	**14.1**	**12.1**	**12.1**	**8.7**	**7.4**	**4.6**	**3.6**	**2.8**	**1.2**	**0.9**	**1.0**	**20.9**	**25.3**	**23.3**			
Banks/Financial Institutions																													
Andhra Bank	155	BUY	75,272	1,608	485	21.6	22.9	26.7	60.1	6.4	16.4	7.2	6.8	5.8	—	—	—	1.7	1.4	1.2	3.2	3.4	4.0	26.0	23.1	22.7	180	16.0	5.2
Axis Bank	1,354	ADD	548,646	11,719	405	62.1	78.1	98.3	22.7	25.9	25.9	21.8	17.3	13.8	—	—	—	3.4	3.0	2.5	0.9	1.1	1.4	19.2	18.3	19.9	1,500	10.8	39.5
Bank of Baroda	819	BUY	299,203	6,391	366	83.7	95.1	115.7	37.3	13.7	21.7	9.8	8.6	7.1	—	—	—	2.2	1.8	1.5	1.8	2.1	2.5	24.4	23.0	23.3	950	16.1	8.7
Bank of India	452	REDUCE	237,503	5,073	526	33.1	49.9	58.1	(42.1)	50.9	16.4	13.6	9.0	7.8	—	—	—	1.9	1.6	1.4	1.6	2.3	2.7	14.2	19.0	19.2	460	1.9	9.0
Canara Bank	520	ADD	213,364	4,558	410	73.7	82.2	98.3	45.8	11.6	19.5	7.1	6.3	5.3	—	—	—	1.7	1.4	1.1	1.5	1.9	2.3	22.4	20.8	20.8	580	11.5	6.9
Corporation Bank	587	BUY	84,220	1,799	143	82.0	88.0	102.6	31.8	7.3	16.6	7.2	6.7	5.7	—	—	—	1.5	1.2	1.1	2.8	3.0	3.5	22.0	20.2	20.2	700	19.2	1.1
Federal Bank	347	ADD	59,297	1,267	171	27.2	36.4	49.0	(7.2)	34.1	34.4	12.8	9.5	7.1	—	—	—	1.3	1.1	1.0	1.4	1.9	2.6	10.3	12.6	15.2	360	3.8	5.6
HDFC	623	ADD	894,491	19,107	1,436	19.7	23.2	27.8	22.7	17.9	19.6	31.6	26.8	22.4	—	—	—	5.9	5.2	4.6	1.2	1.3	1.6	20.0	20.6	21.7	690	10.7	39.8
HDFC Bank	2,149	BUY	983,805	21,015	458	64.4	87.2	113.8	22.1	35.4	30.5	33.4	24.6	18.9	—	—	—	4.6	4.0	3.4	0.6	0.8	1.0	16.1	17.3	19.5	2,400	11.7	32.6
ICICI Bank	995	REDUCE	1,109,315	23,696	1,115	36.1	45.2	57.3	6.9	25.3	26.6	27.6	22.0	17.4	—	—	—	2.1	2.0	1.9	1.2	1.5	1.9	8.0	9.5	11.3	1,000	0.5	78.5
IDFC	181	ADD	264,472	5,649	1,458	8.4	9.4	11.2	44.9	12.4	18.7	21.6	19.2	16.2	—	—	—	3.8	2.5	2.1	0.7	1.0	1.2	16.6	15.5	14.3	205	13.0	23.4
India Infoline	94	BUY	29,294	626	312	8.1	7.2	8.7	59.2	(11.9)	21.6	11.6	13.1	10.8	—	—	—	1.8	1.6	1.3	3.4	1.6	2.2	16.4	12.9	14.4	120	27.7	4.5
Indian Bank	249	ADD	107,142	2,289	430	35.1	32.4	44.1	25.5	(7.7)	36.2	7.1	7.7	5.7	—	—	—	1.6	1.4	1.2	2.6	2.3	3.2	24.1	18.8	21.7	280	12.3	4.3
Indian Overseas Bank	125	BUY	68,345	1,460	545	13.0	16.7	24.8	(46.7)	29.0	48.4	9.7	7.5	5.1	—	—	—	1.1	1.0	0.8	2.8	3.1	3.4	9.6	11.6	15.4	160	27.5	4.6
J&K Bank	765	Under Review	37,099	792	48	105.7	119.3	139.6	25.0	12.9	17.1	7.2	6.4	5.5	—	—	—	1.2	1.1	1.0	2.9	3.2	3.8	18.2	17.9	18.3	-	(100.0)	1.7
LIC Housing Finance	1,199	REDUCE	113,917	2,433	95	69.7	100.7	109.9	11.5	44.5	9.1	17.2	11.9	10.9	—	—	—	3.5	2.9	2.5	1.3	1.8	2.0	23.6	25.5	23.2	1,250	4.2	23.4
Mahindra & Mahindra Financial	592	BUY	56,842	1,214	96	35.9	46.4	56.2	60.0	29.4	21.2	16.5	12.8	10.5	—	—	—	3.3	2.8	2.4	1.3	1.7	2.0	21.5	23.5	23.8	590	(0.4)	2.2
Oriental Bank of Commerce	435	ADD	108,947	2,327	251	45.3	57.8	66.8	25.3	27.6	15.5	9.6	7.5	6.5	—	—	—	1.5	1.3	1.1	2.1	2.7	3.1	14.5	16.5	16.9	430	(1.1)	6.3
PFC	349	SELL	400,514	8,555	1,148	20.5	22.9	27.6	53.5	11.9	20.3	17.0	15.2	12.7	—	—	—	3.1	2.7	2.4	1.5	1.6	2.0	18.8	18.3	19.2	275	(21.2)	4.2
Punjab National Bank	1,203	BUY	379,388	8,104	315	123.9	133.4	163.3	26.4	7.7	22.4	9.7	9.0	7.4	—	—	—	2.3	1.9	1.6	1.8	2.3	2.8	26.2	23.2	23.7	1,300	8.0	8.8
Reliance Capital	764	NR	188,017	4,016	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	59.4	55.8	78.1	—	—	—	2.7	2.7	2.6	0.8	0.7	0.5	4.7	4.8	3.4	—	—	40.1
Rural Electrification Corp.	329	ADD	325,246	6,947	987	20.3	25.3	31.2	23.2	24.5	23.4	16.2	13.0	10.6	—	—	—	2.9	2.6	2.2	2.0	2.3	2.8	22.0	21.0	22.5	325	(1.3)	10.3
Shriram Transport	725	ADD	161,843	3,457	223	39.2	53.4	64.8	30.1	36.4	21.3	18.5	13.6	11.2	—	—	—	4.4	3.7	3.1	1.6	2.2	2.7	28.4	28.2	28.4	700	(3.5)	5.6
SREI	91	NR	10,553	225	116	8.3	7.9	9.9	17.8	(4.8)	25.8	11.0	11.5	9.1	—	—	—	0.9	0.8	0.8	1.3	1.3	1.3	11.1	10.5	12.3	—	—	4.2
State Bank of India	2,777	BUY	1,762,752	37,654	635	144.4	177.7	211.2	0.5	23.1	18.8	19.2	15.6	13.1	—	—	—	2.7	2.4	2.1	1.1	1.2	1.2	14.8	16.0	16.7	3,100	11.7	98.3
Union Bank	337	BUY	170,048	3,632	505	41.1	45.7	56.9	20.2	11.3	24.5	8.2	7.4	5.9	—	—	—	1.9	1.6	1.3	1.6	1.8	2.3	26.2	23.7	24.1	400	18.8	5.0
Yes Bank	320	BUY	108,643	2,321	340	15.0	17.7	22.5	46.7	18.2	26.6	21.3	18.0	14.2	—	—	—	3.5	3.0	2.5	0.4	0.6	0.7	20.3	18.0	19.3	350	9.4	20.1
Banks/Financial Institutions		**Attractive**	**8,798,176**	**187,935**					**14.8**	**20.3**	**22.1**	**17.5**	**14.5**	**11.9**	**—**	**—**	**—**	**2.7**	**2.4**	**2.0**	**1.3**	**1.5**	**1.8**	**15.5**	**16.2**	**17.2**			
Cement																													
ACC	885	ADD	166,340	3,553	188	83.2	66.0	72.4	47.9	(20.7)	9.8	10.6	13.4	12.2	5.6	6.3	5.1	2.6	2.3	2.0	3.0	2.6	2.6	29.3	20.0	19.2	920	3.9	7.1
Ambuja Cements	124	SELL	189,079	4,039	1,522	8.0	8.4	8.9	11.4	5.3	5.1	15.5	14.7	14.0	8.6	8.1	7.0	2.7	2.4	2.1	1.5	1.7	1.7	19.3	17.8	16.5	108	(13.0)	4.7
Grasim Industries	2,045	ADD	187,492	4,005	92	301.0	229.0	273.3	26.1	(23.9)	19.4	6.8	8.9	7.5	4.2	4.6	3.5	1.5	1.3	1.1	1.6	1.7	1.7	22.9	15.7	16.3	2,200	7.6	6.3
India Cements	107	SELL	33,006	705	307	10.0	8.7	10.6	(43.5)	(13.1)	21.1	10.7	12.3	10.2	5.9	7.3	5.0	0.8	0.7	0.7	2.0	3.0	3.0	8.2	6.7	7.7	95	(11.6)	2.5
Shree Cement	1,879	BUY	65,454	1,398	35	208.0	221.1	242.5	19.0	6.3	9.7	9.0	8.5	7.7	4.4	4.2	3.3	3.6	2.5	1.9	0.6	0.6	0.6	48.0	35.0	28.1	2,550	35.7	1.2
UltraTech Cement	910	ADD	113,261	2,419	124	88.2	66.9	75.1	12.0	(24.2)	12.4	10.3	13.6	12.1	5.4	6.6	5.5	2.1	1.8	1.6	0.6	0.9	0.9	25.9	16.7	16.3	985	8.3	3.0
Cement		**Neutral**	**754,632**	**16,119**					**19.3**	**(15.4)**	**12.7**	**9.8**	**11.6**	**10.3**	**5.3**	**5.8**	**4.6**	**2.0**	**1.8**	**1.5**	**1.7**	**1.7**	**1.7**	**20.6**	**15.2**	**15.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	1-Sep-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products																													
Asian Paints	2,739	BUY	262,700	5,611	96	71.5	89.0	107.1	85.3	24.4	20.4	38.3	30.8	25.6	23.7	19.2	15.7	16.4	12.8	10.2	1.0	1.4	1.7	51.8	47.9	45.4	3,000	9.5	6.5
Colgate-Palmolive (India)	827	REDUCE	112,405	2,401	136	31.1	34.5	39.6	44.2	10.9	14.6	26.6	24.0	20.9	21.7	17.7	15.2	34.5	29.4	25.1	2.4	3.1	3.6	156.1	132.3	129.4	830	0.4	2.4
Dabur India	212	REDUCE	183,394	3,917	866	5.8	6.8	8.2	28.1	17.6	20.8	36.5	31.1	25.7	27.1	21.8	18.1	17.4	14.3	11.8	1.5	1.7	2.0	54.3	51.1	50.7	210	(0.8)	4.7
GlaxoSmithkline Consumer (a)	1,800	ADD	75,692	1,617	42	55.4	68.6	81.3	23.6	23.9	18.6	32.5	26.2	22.1	18.0	15.6	12.7	8.5	7.0	5.9	1.0	1.2	1.5	27.9	29.0	28.7	2,000	11.1	0.6
Godrej Consumer Products	380	ADD	122,997	2,627	324	11.3	13.5	18.0	69.5	18.9	33.4	33.5	28.2	21.1	26.6	20.2	15.1	12.8	6.9	6.2	1.0	0.8	0.8	44.6	31.9	31.1	420	10.5	1.9
Hindustan Unilever	267	REDUCE	581,529	12,422	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	28.3	26.1	22.2	19.3	18.5	15.1	22.5	19.5	16.8	2.8	3.1	3.7	71.1	80.2	81.3	250	(6.2)	11.1
ITC	163	BUY	1,248,186	26,662	7,651	5.3	6.3	7.3	22.6	18.2	15.8	30.7	26.0	22.5	18.7	16.3	13.8	8.4	7.1	6.1	3.1	1.7	1.8	29.2	31.1	30.5	165	1.1	22.0
Jubilant Foodworks	509	REDUCE	32,512	694	64	5.5	9.7	12.1	340.6	75.7	24.6	91.9	52.3	42.0	48.9	29.6	20.8	27.6	18.1	12.6	—	—	—	46.6	41.8	35.4	370	(27.3)	14.2
Jyothy Laboratories	273	NR	19,837	424	73	11.0	12.9	15.3	99.6	17.0	18.3	24.8	21.2	17.9	19.1	14.5	11.9	4.9	4.2	3.6	1.7	1.3	1.7	18.6	20.2	20.5	—	—	1.2
Nestle India (a)	3,069	REDUCE	295,909	6,321	96	74.4	86.6	104.8	27.0	16.4	20.9	41.3	35.4	29.3	27.3	23.7	20.1	50.9	40.6	32.3	1.6	2.0	2.4	136.0	127.5	122.9	3,000	(2.3)	2.2
Tata Global Beverages	123	ADD	76,063	1,625	618	6.6	7.4	8.4	23.4	11.1	13.8	18.6	16.7	14.7	11.8	9.6	8.7	1.5	1.4	1.3	1.8	2.0	2.2	10.9	11.4	12.0	125	2	4.0
Consumer products		**Attractive**	**3,086,923**	**65,939**					**24.2**	**16.6**	**17.9**	**31.4**	**27.0**	**22.9**	**20.3**	**17.6**	**14.7**	**10.7**	**8.9**	**7.7**	**2.3**	**1.9**	**2.2**	**33.9**	**32.9**	**33.4**			
Constructions																													
IVRCL	158	BUY	42,281	903	267	7.9	9.1	11.6	(6.7)	15.0	27.9	20.0	17.4	13.6	10.3	9.7	7.7	2.1	1.9	1.7	0.3	0.3	0.3	11.0	11.3	12.9	205	29.5	7.0
Nagarjuna Construction Co.	157	BUY	40,284	860	257	7.1	9.2	11.8	6.1	29.6	27.8	22.0	17.0	13.3	11.1	9.5	8.0	1.8	1.7	1.5	0.9	1.3	1.3	9.3	10.2	11.9	210	33.8	3.5
Punj Lloyd	107	REDUCE	36,379	777	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(8.3)	11.0	9.0	32.9	6.4	5.9	1.2	1.1	1.0	(0.1)	0.4	1.0	(15.8)	10.3	11.4	140	30.4	11.1
Sadbhav Engineering	1,486	BUY	22,292	476	15	42.8	61.8	87.2	(16.3)	44.3	41.0	34.7	24.0	17.1	19.0	12.7	9.8	5.5	3.6	3.0	0.2	0.4	0.4	15.8	15.1	17.8	1,750	17.8	0.3
Construction		**Attractive**	**141,235**	**3,017**					**(91.1)**	**4,528**	**27.2**	**723.6**	**15.6**	**12.3**	**15.0**	**8.5**	**7.2**	**1.8**	**1.6**	**1.5**	**0.3**	**0.6**	**0.8**	**0.3**	**10.4**	**11.9**			
Energy																													
Aban Offshore	775	ADD	33,729	720	43	94.5	154.1	139.3	(2.5)	63.0	(9.6)	8.2	5.0	5.6	8.2	6.6	6.4	1.5	1.4	1.2	0.5	0.5	0.5	21.7	33.1	22.9	935	20.6	44.5
Bharat Petroleum	779	ADD	281,531	6,014	362	62.1	57.4	65.7	201	(8)	14.5	13	14	11.9	6.6	6.4	5.8	2.0	1.8	1.6	1.8	2.4	2.8	15.6	13.0	13.5	690	(11.4)	34.9
Cairn india	340	RS	645,066	13,779	1,897	5.5	20.5	36.6	29.0	270.1	78.3	61.4	16.6	9.3	48.2	9.9	6.1	1.9	1.7	1.5	—	—	4.4	3.1	10.7	17.2	—	—	27.6
Castrol India (a)	488	REDUCE	120,586	2,576	247	15.4	20.7	21.2	45	34	2.4	32	24	23.1	18.9	14.6	14.1	26.2	24.6	23.3	2.6	3.4	3.5	83.8	107.4	103.7	380	(22.1)	1.8
GAIL (India)	470	BUY	596,249	12,736	1,268	24.8	27.2	40.2	11.7	10.1	47.4	19.0	17.3	11.7	10.7	10.7	8.6	3.3	2.9	2.5	1.6	1.8	2.7	17.4	17.0	21.6	550	17.0	16.6
GSPL	118	SELL	66,144	1,413	562	7.4	7.2	8.0	235	(3)	12.1	16	16	14.6	8.0	7.9	6.6	3.9	3.2	2.9	0.9	1.5	2.7	27.3	21.4	20.8	83	(29.4)	4.8
Hindustan Petroleum	534	ADD	181,167	3,870	339	52.6	53.5	58.6	210.1	1.8	9.5	10.2	10.0	9.1	3.7	3.7	3.3	1.4	1.2	1.1	2.2	3.1	3.4	13.3	12.2	12.1	535	0.1	41.8
Indian Oil Corporation	424	ADD	1,029,329	21,987	2,428	49.9	38.8	41.1	407	(22)	5.9	8	11	10.3	5.7	5.7	5.1	1.9	1.7	1.6	3.1	2.8	2.9	22.7	15.6	15.1	415	(2.1)	19.0
Oil India	1,471	BUY	353,744	7,556	240	115.1	133.6	153.4	13.8	16.1	14.8	12.8	11.0	9.6	5.6	4.4	3.6	2.4	2.1	1.9	2.3	3.0	3.5	16.7	18.1	18.3	1,550	5.4	7.3
Oil & Natural Gas Corporation	1,339	BUY	2,863,863	61,174	2,139	91.4	116.6	136.1	1	27	16.7	15	11	9.8	5.3	4.6	3.7	2.2	1.9	1.7	2.5	3.1	3.6	14.6	16.8	17.6	1,480	10.5	34.8
Petronet LNG	112	REDUCE	83,700	1,788	750	5.4	6.5	7.9	(22.0)	20.5	21.8	20.7	17.2	14.1	11.8	10.1	8.8	3.3	2.8	2.5	1.6	1.8	2.5	15.9	16.7	17.6	88	(21.1)	7.3
Reliance Industries	936	REDUCE	2,786,131	59,514	2,976	49.6	57.7	74.4	(2)	16	28.9	19	16	12.6	9.6	7.6	6.2	1.9	1.7	1.5	0.7	0.9	1.1	11.4	12.1	13.9	1,015	8.4	109.2
Energy		**Cautious**	**9,041,241**	**193,127**					**38.2**	**15.5**	**22.8**	**15.0**	**13.0**	**10.6**	**7.3**	**6.2**	**5.1**	**2.1**	**1.9**	**1.7**	**1.7**	**2.0**	**2.7**	**13.8**	**14.4**	**15.8**			
Industrials																													
ABB	781	REDUCE	165,564	3,537	212	16.7	18.3	33.1	(35.2)	9.3	80.7	46.7	42.7	23.6	26.7	24.4	13.6	6.8	6.1	4.9	0.3	0.4	0.4	15.6	15.0	23.0	725	(7.2)	4.7
BGR Energy Systems	805	BUY	57,967	1,238	72	16.0	28.0	39.7	32.2	74.6	41.9	50.2	28.8	20.3	28.2	16.4	11.8	10.3	8.2	6.3	0.4	0.9	1.0	22.3	31.8	35.1	950	18.0	4.2
Bharat Electronics	1,695	REDUCE	135,628	2,897	80	93.9	107.3	122.4	(9.6)	14.3	14.1	18.1	15.8	13.9	8.6	7.2	6.0	3.0	2.7	2.3	1.5	1.5	1.5	17.9	18.0	17.9	1,835	8.2	2.3
Bharat Heavy Electricals	2,421	REDUCE	1,184,932	25,311	490	87.9	114.3	135.5	37.7	30.0	18.5	27.5	21.2	17.9	15.4	11.9	9.9	7.4	5.9	4.7	0.8	1.0	1.2	29.8	31.1	29.3	2,600	7.4	24.6
Crompton Greaves	300	BUY	192,418	4,110	642	12.8	14.0	16.3	46.5	9.0	16.6	23.3	21.4	18.4	13.5	12.0	10.1	7.7	5.9	4.6	0.4	0.6	0.7	37.9	31.1	28.2	320	6.7	7.5
Larsen & Toubro	1,834	ADD	1,104,254	23,588	602	57.9	71.7	89.0	15.6	23.8	24.1	31.6	25.6	20.6	17.7	13.9	11.7	4.9	4.1	3.5	0.7	0.7	0.8	18.6	17.7	18.5	2,075	13.2	49.2
Maharashtra Seamless	385	BUY	27,147	580	71	40.2	43.6	49.8	12.1	8.5	14.2	9.6	8.8	7.7	5.1	4.4	3.5	1.7	1.5	1.3	1.6	2.0	2.6	19.3	17.9	17.7	450	16.9	0.4
Siemens	696	REDUCE	234,528	5,010	337	25.2	27.0	31.9	56.4	7.3	18.0	27.6	25.8	21.8	16.7	15.2	12.5	6.9	5.7	4.8	0.7	0.8	0.9	27.6	24.2	23.8	635	(8.7)	5.6
Suzlon Energy	47	REDUCE	74,267	1,586	1,594	(6.2)	(0.8)	3.3	(185.4)	(86.8)	(504.1)	(7.6)	(57.4)	14.2	13.5	11.2	7.5	1.1	1.0	1.0	—	—	0.4	(11.4)	(1.8)	6.9	55	18.0	20.3
Thermax	757	ADD	90,149	1,926	119	21.7	29.5	39.7	(10.4)	35.9	34.4	34.8	25.6	19.1	17.9	14.0	10.4	8.4	6.9	5.6	0.7	1.1	1.5	25.0	29.5	32.2	865	14.3	1.2
Voltas	204	REDUCE	67,453	1,441	331	10.9	11.8	13.4	57.4	8.2	14.3	18.8	17.3	15.2	11.1	9.6	8.0	6.3	5.1	4.2	1.5	1.7	1.9	38.3	32.5	30.2	225	10.3	4.7
Industrials		**Attractive**	**3,334,309**	**71,223**					**1.4**	**33.1**	**26.8**	**31.4**	**23.6**	**18.6**	**15.8**	**12.7**	**10.3**	**5.4**	**4.5**	**3.8**	**0.7**	**0.9**	**1.0**	**17.1**	**18.9**	**20.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	1-Sep-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Infrastructure																													
Container Corporation	1,321	REDUCE	171,736	3,668	130	61.1	74.3	85.9	0.3	21.7	15.6	21.6	17.8	15.4	15.2	12.4	10.4	4.0	3.4	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(5.4)	1.7
GMR Infrastructure	57	ADD	209,752	4,480	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	132.7	259.8	432.7	23.4	15.1	14.1	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	13.6	6.5
GVK Power & Infrastructure	46	BUY	73,354	1,567	1,579	0.8	1.1	1.4	6.7	33.5	32.4	57.1	42.8	32.3	19.1	17.4	17.8	2.3	2.2	2.1	—	0.6	0.6	4.7	5.3	6.7	54	16.3	5.7
IRB Infrastructure	288	RS	95,704	2,044	332	9.7	12.6	12.1	83.8	29.2	(3.7)	29.6	22.9	23.8	13.8	12.2	11.3	4.1	3.2	2.6	—	—	—	15.6	15.7	11.9	—	—	11.7
Mundra Port and SEZ	777	REDUCE	313,391	6,694	403	16.7	21.9	34.1	55.7	31.0	56.1	46.5	35.5	22.7	34.8	22.7	16.4	8.8	7.5	5.9	(0.5)	—	—	20.8	22.9	28.9	750	(3.4)	5.6
Infrastructure		**Attractive**	**863,938**	**18,454**					**16.3**	**21.2**	**26.0**	**41.6**	**34.3**	**27.2**	**21.8**	**16.1**	**13.9**	**3.6**	**3.1**	**2.8**	**—**	**—**	**0.4**	**8.7**	**9.1**	**10.3**			
Media																													
DB Corp	248	BUY	45,032	962	182	10.6	13.0	15.7	286.5	22.4	21.0	23.3	19.0	15.7	13.0	10.7	8.8	6.9	5.6	4.9	0.8	1.2	1.6	40.3	32.6	33.2	290	17.0	0.3
DishTV	54	ADD	57,211	1,222	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(21.6)	(30.3)	411.3	70.6	28.3	14.9	13.9	25.8	24.2	—	—	—	249.3	(59.7)	6.1	47	(12.6)	3.9
HT Media	170	NR	39,974	854	235	6.1	7.7	9.2	623.3	25.9	19.8	27.9	22.1	18.5	14.0	11.7	9.7	4.1	3.7	3.3	0.6	1.2	2.4	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	128	BUY	38,655	826	301	5.9	6.6	7.7	92.3	12.3	17.8	21.9	19.5	16.6	13.2	11.4	9.7	6.3	5.8	5.3	2.7	3.1	3.9	30.1	30.8	33.3	140	9.1	1.5
Sun TV Network	482	REDUCE	189,947	4,057	394	13.1	18.0	22.5	44.8	36.9	25.2	36.7	26.8	21.4	20.8	15.4	12.5	9.8	8.3	6.8	1.6	1.6	1.9	28.4	33.7	35.1	420	(12.9)	2.7
Zee Entertainment Enterprises	287	REDUCE	124,758	2,665	435	10.6	11.8	14.4	25.0	12.0	21.5	27.2	24.3	20.0	20.2	16.0	12.8	3.4	3.2	3.1	0.8	1.0	1.2	13.1	13.8	16.0	270	(5.9)	8.1
Media		**Neutral**	**495,576**	**10,586**					**185.5**	**35.8**	**37.2**	**40.8**	**30.0**	**21.9**	**19.6**	**15.1**	**11.8**	**6.0**	**5.5**	**5.0**	**1.1**	**1.3**	**1.7**	**14.7**	**18.4**	**22.8**			
Metals																													
Hindalco Industries	174	ADD	333,505	7,124	1,914	5.7	13.6	15.5	(64.5)	139.5	14.2	30.7	12.8	11.2	7.8	7.8	8.1	1.5	1.4	1.2	0.8	0.8	0.8	10.3	11.1	11.5	200	14.8	37.1
Hindustan Zinc	1,115	BUY	471,102	10,063	423	95.6	102.5	116.0	48.2	7.2	13.1	11.7	10.9	9.6	7.6	6.1	4.3	2.5	2.0	1.7	0.5	0.5	0.5	24.1	20.8	19.4	1,240	11.2	3.9
Jindal Steel and Power	698	REDUCE	650,188	13,888	931	38.4	50.9	56.0	17.3	32.7	9.9	18.2	13.7	12.5	12.5	9.0	7.6	5.8	4.0	3.0	0.2	0.3	0.3	37.8	34.9	28.0	625	(10.5)	22.9
JSW Steel	1,173	REDUCE	295,954	6,322	252	80.4	68.5	108.5	481.1	(14.8)	58.5	14.6	17.1	10.8	10.9	9.2	6.2	2.7	1.7	1.3	0.6	0.8	0.8	16.0	12.0	13.3	1,075	(8.4)	41.7
National Aluminium Co.	403	SELL	259,882	5,551	644	12.6	14.3	17.3	(34.9)	13.3	20.5	31.9	28.2	23.4	15.2	12.5	10.3	2.5	2.4	2.2	0.6	1.2	1.2	8.1	8.6	9.8	260	(35.5)	1.6
Sesa Goa	326	REDUCE	289,865	6,192	890	29.6	58.6	46.3	23.5	98.4	(21.0)	11.0	5.6	7.0	9.1	3.8	3.7	3.6	2.2	1.7	1.1	1.1	1.1	35.8	41.5	23.7	340	4.4	58.7
Sterlite Industries	157	ADD	526,099	11,238	3,362	12.0	14.2	19.3	2.8	18.4	35.5	13.0	11.0	8.1	8.3	7.4	4.6	1.4	1.3	1.1	0.6	0.6	0.6	12.9	12.2	14.6	200	27.8	37.4
Tata Steel	538	REDUCE	491,907	10,507	914	(3.6)	63.4	65.5	(103.6)	(1,880.2)	3.4	(151.1)	8.5	8.2	10.4	5.7	5.5	2.1	1.7	1.4	1.4	1.5	—	(1.5)	22.0	18.7	550	2.2	90.6
Metals		**Cautious**	**3,318,502**	**70,885**					**(30.6)**	**72.5**	**11.3**	**19.0**	**11.0**	**9.9**	**9.8**	**7.0**	**5.9**	**2.3**	**1.9**	**1.6**	**0.7**	**0.8**	**0.6**	**12.3**	**17.1**	**15.9**			
Pharmaceutical																													
Biocon	341	BUY	68,240	1,458	200	14.8	17.8	22.0	216.4	19.8	23.7	23.0	19.2	15.5	13.3	11.1	9.3	3.8	3.3	2.8	—	—	—	17.9	18.8	20.0	400	17.2	5.0
Cipla	305	REDUCE	245,212	5,238	803	13.7	14.0	16.6	38.1	1.9	19.2	22.3	21.9	18.4	16.0	14.7	12.4	4.1	3.6	3.1	0.7	0.8	0.8	21.1	17.6	18.2	295	(3.4)	8.7
Cadila Healthcare	616	REDUCE	126,094	2,693	205	24.7	33.2	37.7	66.9	34.2	13.7	24.9	18.6	16.3	16.3	12.5	11.0	7.7	5.8	4.6	0.8	1.1	1.2	36.0	35.8	31.3	580	(5.8)	1.5
Dishman Pharma & chemicals	193	ADD	15,697	335	81	14.4	17.8	22.8	(19.7)	23.7	28.0	13.4	10.8	8.4	10.0	8.1	6.3	2.0	1.7	1.4	—	—	—	15.5	16.8	18.3	230	19.2	0.6
Divi's Laboratories	745	REDUCE	97,306	2,079	131	26.1	34.0	44.9	(18.2)	30.4	32.1	28.6	21.9	16.6	21.2	16.2	11.6	6.4	5.3	4.3	—	—	—	24.7	26.4	28.5	800	7.4	2.6
Dr Reddy's Laboratories	1,369	REDUCE	231,827	4,952	169	48.1	66.7	70.8	48.3	38.8	6.1	28.5	20.5	19.3	15.8	11.9	11.0	6.1	4.9	4.0	0.5	0.6	0.7	22.2	26.3	22.6	1,150	(16.0)	16.6
GlaxoSmithkline Pharmaceuticals (a)	1,880	REDUCE	159,263	3,402	85	59.1	69.7	79.2	8.1	18.0	13.5	31.8	27.0	23.7	18.1	15.3	13.1	8.9	7.6	6.5	—	—	—	29.8	30.4	29.4	1,880	(0.0)	1.6
Glenmark Pharmaceuticals	289	NR	79,317	1,694	274	12.7	19.2	20.3	14.7	50.6	5.6	22.7	15.1	14.3	14.5	9.4	9.0	3.4	2.8	2.4	—	—	—	16.7	19.9	17.6	—	—	4.4
Jubilant Organosys	348	BUY	55,285	1,181	159	26.5	31.8	38.9	49.0	19.8	22.4	13.1	11.0	8.9	9.6	8.6	6.9	2.5	2.1	1.7	0.6	0.7	0.9	26.3	21.7	21.1	400	14.9	2.6
Lupin	357	ADD	157,828	3,371	442	15.4	19.8	25.5	27.9	28.7	28.7	23.2	18.0	14.0	19.9	14.4	11.4	6.8	6.4	5.6	3.7	4.1	4.3	36.6	37.2	43.6	400	12.1	7.2
Piramal Healthcare	514	REDUCE	107,422	2,295	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	22.9	38.5	54.2	16.6	7.3	5.7	6.4	1.2	1.0	1.1	1.2	0.7	30.7	140.7	16.5	490	(4.7)	19.8
Ranbaxy Laboratories	499	SELL	213,557	4,562	428	7.1	27.0	11.6	(128.4)	282.7	(57.0)	70.6	18.4	42.8	17.2	10.5	20.2	5.4	3.9	3.6	—	0.8	0.8	6.9	22.6	8.3	255	(48.8)	9.3
Sun Pharmaceuticals	1,751	REDUCE	362,574	7,745	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	26.8	19.4	20.0	20.3	14.1	13.6	4.4	3.7	3.2	0.8	0.8	0.8	17.8	21.0	17.3	1,835	4.8	6.2
Pharmaceuticals		**Attractive**	**1,919,624**	**41,004**					**45.5**	**33.7**	**3.2**	**26.5**	**19.8**	**19.2**	**16.6**	**12.3**	**11.7**	**5.0**	**3.6**	**3.1**	**0.7**	**0.9**	**0.9**	**19.0**	**18.2**	**16.1**			
Property																													
DLF	310	ADD	529,623	11,313	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	29.1	19.0	12.4	20.3	12.9	9.7	2.0	1.8	1.6	1.0	1.0	1.6	7.1	9.9	13.8	340	9.7	42.6
Housing Development & Infrastructure	259	ADD	99,674	2,129	385	12.4	14.2	16.7	(41.2)	14.2	17.9	20.9	18.3	15.5	10.5	11.9	7.9	1.4	1.2	1.1	1.1	1.9	1.9	10.0	9.3	9.9	318	22.8	33.2
Indiabulls Real Estate	174	RS	69,914	1,493	401	0.3	2.5	7.4	(62.7)	777.3	195.3	611.9	69.7	23.6	(25.4)	(274.2)	11.7	0.8	0.8	0.7	—	—	—	0.1	1.1	3.2	285	63.6	18.3
Mahindra Life Space Developer	464	ADD	19,602	419	42	20.1	23.6	35.8	77.8	17.6	51.5	23.1	19.7	13.0	20.4	14.6	7.2	2.0	1.9	1.7	0.8	0.8	0.8	8.9	9.7	13.4	540	16.4	0.7
Phoenix Mills	242	BUY	35,045	749	145	4.1	6.6	7.6	(16.7)	59.0	15.6	58.5	36.8	31.8	46.8	25.8	21.6	2.3	2.2	2.1	0.4	0.6	0.8	3.9	6.0	6.7	260	7.5	0.9
Puravankara Projects	112	REDUCE	23,925	511	213	6.8	8.2	8.0	0.6	20.1	(1.9)	16.5	13.7	14.0	18.9	14.3	14.0	1.7	1.5	1.4	1.8	1.8	1.8	10.5	11.6	10.5	110	(1.9)	0.5
Sobha	346	ADD	33,930	725	98	14.1	17.0	26.2	(7.1)	20.8	54.0	24.6	20.4	13.2	18.2	14.1	9.3	2.0	1.8	1.6	0.3	0.3	0.5	9.7	9.2	12.8	372	7.5	2.2
Unitech	80	SELL	213,837	4,568	2,666	3.0	3.8	5.1	(58.8)	25.0	34.0	26.5	21.2	15.8	26.3	18.9	12.3	2.1	1.7	1.6	—	—	1.9	9.0	8.7	10.6	74	(7.7)	47.4
Property		**Cautious**	**925,877**	**19,777**					**(51.9)**	**49.2**	**50.1**	**31.5**	**21.1**	**14.1**	**22.6**	**14.8**	**10.5**	**1.8**	**1.6**	**1.5**	**0.7**	**0.6**	**1.5**	**5.6**	**7.7**	**10.7**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	1-Sep-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	2,956	ADD	131,226	2,803	44	57.3	83.4	110.2	29.3	45.6	32.2	51.6	35.4	26.8	32.8	23.9	18.2	17.8	12.7	9.1	0.5	0.4	0.5	38.7	41.8	39.4	3,000	1.5	7.6
Retail		**Neutral**	**131,226**	**2,803**					**29.3**	**45.6**	**32.2**	**51.6**	**35.4**	**26.8**	**32.8**	**23.9**	**18.2**	**17.8**	**12.7**	**9.1**	**0.5**	**0.4**	**0.5**	**34.5**	**35.8**	**33.8**			
Sugar																													
Bajaj Hindustan	116	SELL	22,264	476	191	4.9	9.9	8.9	52.3	101.0	(9.9)	23.7	11.8	13.1	8.2	5.9	5.6	1.0	0.9	0.8	0.6	0.6	0.6	4.2	7.9	6.5	99	(14.9)	4.8
Balrampur Chini Mills	86	ADD	21,965	469	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	19.7	8.2	12.2	9.1	5.5	6.0	1.6	1.4	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	8.7	4.1
Shree Renuka Sugars	65	BUY	43,704	934	670	9.9	7.7	8.1	195.3	(21.9)	4.7	6.6	8.5	8.1	4.1	4.7	4.0	1.5	1.3	1.1	0.6	0.5	0.5	22.4	17.0	14.8	76	16.5	11.0
Sugar		**Cautious**	**87,934**	**1,878**					**80.0**	**12.4**	**(8.4)**	**10.2**	**9.0**	**9.9**	**6.2**	**5.4**	**5.0**	**1.3**	**1.2**	**1.0**	**0.6**	**0.5**	**0.5**	**13.1**	**12.8**	**10.5**			
Technology																													
HCL Technologies	386	REDUCE	266,409	5,691	690	17.5	24.5	30.1	0.2	39.7	23.0	22.0	15.8	12.8	10.7	9.4	7.6	3.8	3.2	2.8	1.0	1.0	1.6	19.3	22.0	21.2	390	1.0	12.3
Hexaware Technologies	68	REDUCE	9,775	209	144	9.3	5.0	9.4	127.7	(46.3)	87.7	7.3	13.5	7.2	3.4	8.0	4.0	1.2	1.1	1.0	1.5	1.5	1.5	17.8	8.2	14.0	72	5.8	1.8
Infosys Technologies	2,776	BUY	1,593,510	34,038	574	108.3	124.1	150.0	5.7	14.5	20.9	25.6	22.4	18.5	18.7	15.3	12.4	6.9	5.7	4.7	0.9	1.3	1.5	30.1	28.0	28.0	3,100	11.7	53.4
Mphasis BFL	627	REDUCE	132,134	2,822	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.4	12.5	13.7	11.6	9.9	9.4	5.6	4.0	3.2	0.6	0.6	0.7	48.1	37.5	25.8	550	(12.3)	7.4
Mindtree	503	REDUCE	20,716	442	41	52.2	32.6	51.6	294.3	(37.5)	58.1	9.6	15.4	9.8	8.3	8.8	5.7	3.1	2.6	2.1	0.4	0.6	1.0	35.2	19.2	23.7	550	9.3	0.9
Patni Computer Systems	460	REDUCE	61,252	1,308	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.6	11.1	12.3	6.2	5.4	4.4	1.7	1.6	1.4	1.5	1.8	1.6	18.2	15.1	12.4	450	(2.1)	14.0
Polaris Software Lab	168	SELL	16,725	357	100	15.4	19.1	18.8	16.9	24.3	(1.7)	10.9	8.8	8.9	5.3	6.9	5.9	1.9	1.6	1.4	2.1	2.2	2.3	18.6	20.1	17.2	180	7.3	4.4
TCS	858	BUY	1,680,060	35,887	1,957	35.1	42.1	48.2	32.8	19.8	14.5	24.4	20.4	17.8	18.5	14.9	12.3	8.0	6.6	5.5	2.3	2.0	2.2	37.6	35.6	33.9	965	12.4	28.8
Wipro	404	ADD	987,352	21,091	2,447	18.9	22.3	25.7	22.1	18.1	15.6	21.4	18.1	15.7	16.2	13.0	10.7	5.0	4.1	3.4	0.9	1.1	1.3	26.5	25.0	23.7	465	15.2	12.1
Technology		**Attractive**	**4,848,072**	**103,558**					**20.4**	**16.7**	**15.4**	**22.4**	**19.2**	**16.7**	**16.1**	**13.5**	**11.2**	**5.9**	**4.9**	**4.1**	**1.4**	**1.4**	**1.7**	**26.4**	**25.5**	**24.6**			
Telecom																													
Bharti Airtel	338	REDUCE	1,282,260	27,390	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	14.3	16.9	16.3	8.1	8.8	7.2	3.0	2.6	2.2	—	—	—	24.4	16.5	14.7	305	(9.7)	47.1
IDEA	72	REDUCE	237,916	5,082	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	26.4	32.9	47.5	8.9	9.7	8.3	2.1	2.0	1.9	—	—	—	7.2	6.2	4.2	55	(23.7)	11.0
MTNL	63	SELL	39,501	844	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.0)	(6.0)	(6.9)	(0.3)	(0.4)	(0.5)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(20.3)	3.0
Reliance Communications	164	SELL	349,733	7,471	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	7.4	27.3	17.5	6.9	9.5	7.9	0.9	0.9	0.8	0.5	—	—	11.7	3.2	4.9	150	(8.5)	41.3
Tata Communications	350	REDUCE	99,636	2,128	285	14.0	15.2	15.7	3.2	8.2	3.5	25.0	23.1	22.3	10.1	9.3	8.9	1.4	1.4	1.3	1.9	2.1	2.4	5.2	5.5	5.5	225	(35.6)	3.1
Telecom		**Cautious**	**2,009,046**	**42,915**					**(15.9)**	**(33.1)**	**9.5**	**14.2**	**21.2**	**19.3**	**8.2**	**9.2**	**7.6**	**1.8**	**1.7**	**1.5**	**0.2**	**0.1**	**0.1**	**12.8**	**7.9**	**8.0**			
Utilities																													
Adani Power	138	ADD	301,276	6,435	2,180	0.8	4.3	17.4	—	455.1	300.9	176.4	31.8	7.9	134.6	23.5	6.9	5.5	4.7	2.9	—	—	—	4.4	15.9	45.5	146	5.6	3.5
CESC	383	ADD	47,807	1,021	125	35.2	37.3	44.3	9.3	5.7	18.9	10.9	10.3	8.6	6.9	5.8	6.3	1.1	1.0	0.9	1.2	1.2	1.5	11.1	10.4	11.3	466	21.8	2.0
Lanco Infratech	68	BUY	162,578	3,473	2,405	2.0	3.7	5.0	35.1	87.6	34.9	34.4	18.3	13.6	20.3	8.6	8.1	4.7	3.8	3.0	—	—	—	15.8	21.2	22.7	77	13.9	7.0
NHPC	30	REDUCE	374,558	8,001	12,301	1.9	1.3	1.6	74.9	(27.5)	20.6	16.4	22.7	18.8	10.6	11.4	8.8	1.5	1.4	1.4	1.8	1.2	1.4	9.7	6.4	7.4	28	(8.0)	5.5
NTPC	198	REDUCE	1,628,891	34,794	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.4	15.8	13.5	14.0	12.3	10.3	2.6	2.3	2.1	2.0	2.4	2.8	14.5	15.4	16.6	210	6.3	7.6
Reliance Infrastructure	1,023	ADD	251,648	5,375	246	61.8	65.0	84.5	(1.5)	5.3	30.0	16.6	15.7	12.1	17.8	15.8	11.1	1.3	1.2	1.1	0.8	0.9	1.0	6.3	7.3	10.1	1,160	13.4	41.6
Reliance Power	155	SELL	372,096	7,948	2,397	2.9	3.1	5.3	179.7	9.8	70.0	54.4	49.6	29.1	(511.4)	226.4	35.4	2.6	2.4	2.3	—	—	—	4.8	5.1	8.1	135	(13.0)	19.2
Tata Power	1,239	ADD	305,828	6,533	247	60.2	69.2	88.5	20.1	15.0	27.8	20.6	17.9	14.0	13.3	12.0	10.3	2.3	2.1	1.9	1.0	1.1	1.2	12.9	12.5	14.3	1,420	14.6	9.6
Utilities		**REDUCE**	**3,444,681**	**73,581**					**23.5**	**15.6**	**37.5**	**21.8**	**18.9**	**13.7**	**17.2**	**14.4**	**10.6**	**2.3**	**2.1**	**1.9**	**1.3**	**1.4**	**1.7**	**10.6**	**11.3**	**13.9**			
Others																													
Havells India	801	SELL	48,183	1,029	60	5.3	31.6	45.0	3.7	497.9	42.6	151.6	25.4	17.8	20.0	12.4	10.2	13.3	8.7	5.9	0.3	0.3	0.3	6.6	41.6	39.7	497	(37.9)	10.6
Jaiprakash Associates	110	BUY	233,958	4,997	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	75.5	19.9	14.8	20.4	15.1	10.8	2.7	2.4	2.1	—	—	—	4.1	12.8	14.9	170	54.7	23.6
Jindal Saw	206	ADD	60,520	1,293	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.2	11.0	11.5	5.4	6.1	5.9	1.6	1.3	1.2	0.5	0.4	0.4	20.5	12.9	11.1	256	24.4	3.2
PSL	125	BUY	6,707	143	53	22.9	25.4	28.2	3.3	10.6	11.0	5.5	4.9	4.5	3.1	2.6	2.8	0.7	0.7	0.6	5.2	5.2	5.6	12.6	11.7	12.0	182	45.1	0.6
Sintex	365	BUY	49,875	1,065	136	24.1	28.3	33.3	0.5	17.4	17.5	15.2	12.9	11.0	12.5	8.4	7.2	2.4	2.0	1.7	0.3	0.4	0.4	15.5	15.3	15.2	380	4.0	4.6
Tata Chemicals	396	REDUCE	96,440	2,060	243	26.4	33.2	37.5	(27.1)	25.8	12.7	15.0	11.9	10.6	7.6	6.5	5.5	2.0	1.8	1.6	2.2	2.3	2.3	16.0	18.7	18.3	360	(9.2)	4.6
Welspun Corp	239	ADD	49,128	1,049	205	32.0	27.0	25.6	85.2	(15.7)	(5.4)	7.5	8.8	9.4	4.3	4.7	4.4	1.5	1.3	1.1	1.0	0.9	0.9	24.8	15.6	12.8	286	19.6	4.4
United Phosphorus	187	BUY	86,430	1,846	463	11.9	13.8	17.4	18.8	15.8	25.9	15.6	13.5	10.7	9.0	8.2	6.5	2.5	2.2	1.9	0.8	1.1	1.1	17.7	17.2	18.3	225	20.4	8.4
Others			**631,241**	**13,484**					**16.3**	**32.3**	**17.6**	**18.8**	**14.2**	**12.1**	**11.0**	**9.8**	**8.1**	**2.3**	**2.0**	**1.7**	**0.7**	**0.7**	**0.7**	**12.4**	**14.0**	**14.3**			
KS universe (b)			**46,143,048**	**985,647**					**15.3**	**21.4**	**20.4**	**19.5**	**16.1**	**13.4**	**11.5**	**9.7**	**8.0**	**2.9**	**2.5**	**2.2**	**1.2**	**1.3**	**1.6**	**14.9**	**15.7**	**16.5**			
KS universe (b) ex-Energy			**37,101,807**	**792,520**					**9.1**	**23.4**	**19.6**	**21.1**	**17.1**	**14.3**	**13.9**	**11.4**	**9.4**	**3.2**	**2.8**	**2.4**	**1.1**	**1.2**	**1.4**	**15.3**	**16.2**	**16.8**			
KS universe (d) ex-Energy & ex-Commodities			**33,028,673**	**705,515**					**16.3**	**19.7**	**21.3**	**21.9**	**18.3**	**15.1**	**15.6**	**12.9**	**10.6**	**3.4**	**2.9**	**2.6**	**1.2**	**1.2**	**1.4**	**15.5**	**16.1**	**17.0**			

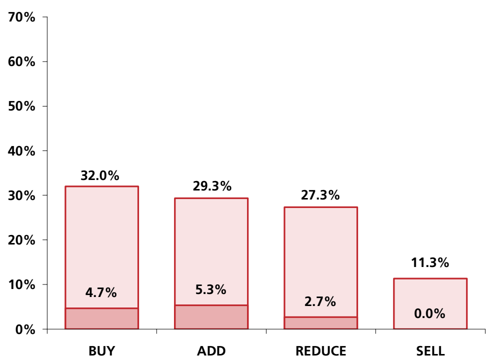
Note:
(1) For banks we have used adjusted book values.
(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 46.82

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: Sanjeev Prasad, Rohit Chordia."

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 30/06/2010 Kotak Institutional Equities Investment Research had investment ratings on 150 equity securities.

Source: Kotak Institutional Equities

As of June 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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.

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