kotak® Institutional Equities

INDIA DAILY

November 13, 2009

Contents

Update

GSPL: Infinite possibilities

Dish TV: HIT or miss - government approves Headend-in-the-Sky (HITS) policy

Economy: Case for an early 'exit' becomes stronger with IIP growth in full throttle

News Round-up

- **Larsen & Toubro** Ltd (L&T) has bagged a Rs 6,897-crore contract from **Maharashtra State Power Generation Co Ltd** (Mahagenco) for three 660 MW super-critical Boiler Turbine Generator (BTG) units. *(BS)*

- In other news, **L&T** is likely to raise over Rs 300 crore by selling one-third of its stake in Mahindra Satyam by Friday morning. *(ET)*

- **Tata Steel**, the world's eighth largest steel maker by output, has approved an exchange offer for an existing $875 million of securities into foreign currency convertible bonds (FCCBs), in a move to reduce costs and ease repayment. The move gives an option to extend the repayment schedule by two years. *(BS)*

- India's second-biggest software exporter **Infosys Technologies** on Thursday acquired the US-based back-office firm McCamish Systems for around US$38 million in order to tap into over US$5-billion insurance services market in the country. *(ET)*

- Delhi-based Pramod Jain, who describes himself as a serial investor and has interests in telecom and real estate, has launched a hostile takeover bid for Sanjay Dalmia's **Golden Tobacco** (**GTL**), saying that he wants to prevent a stripping of assets, and sparking a scramble for the stock. *(Mint)*

- The **RBI** on Thursday proposed to allow importers and exporters to write and sell "put" options both in foreign currency-rupee and cross-currencies and earn premium on them. *(Mint)*

Source: ET= Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

		Change %		
India	**12-Nov**	**1-day**	**1-mo**	**3-mo**
Sensex	16,696	(0.9)	(1.9)	11.2
Nifty	4,953	(1.0)	(2.0)	11.1
Global/Regional indices				
Dow Jones	10,197	(0.9)	3.2	8.9
Nasdaq Composite	2,149	(0.8)	0.5	7.5
FTSE	5,277	0.2	1.3	11.9
Nikkie	9,752	(0.5)	(3.2)	(7.3)
Hang Seng	22,351	(0.2)	4.1	7.1
KOSPI	1,564	(0.5)	(4.0)	(0.0)
Value traded - India				
Cash (NSE+BSE)	253.3		228.5	235.0
Derivatives (NSE)	820.9		720.1	733
Deri. open interest	1,058.1		1,009	761

Forex/money market				
	Change, basis points			
	12-Nov	**1-day**	**1-mo**	**3-mo**
Rs/US$	46.6	33	16	(172)
10yr govt bond, %	7.4	3	1	31
Net investment (US$mn)				
	11-Nov		**MTD**	**CYTD**
FIIs	209		376	14,589
MFs	5		155	(441)

Top movers -3mo basis				
	Change, %			
Best performers	**12-Nov**	**1-day**	**1-mo**	**3-mo**
AL IN Equity	52.6	(3.7)	25.7	46.0
RBXY IN Equity	412.1	(1.1)	4.4	39.7
CRG IN Equity	394.7	(1.4)	16.3	39.3
SESA IN Equity	337.6	(4.3)	12.1	38.8
IH IN Equity	88.2	(0.6)	10.4	38.8
Worst performers				
IDEA IN Equity	50.8	2.8	(20.1)	(35.0)
RCOM IN Equity	174.6	2.1	(29.5)	(34.0)
IBULL IN Equity	133.9	(2.4)	(29.5)	(28.8)
BHARTI IN Equity	299.0	(0.3)	(14.9)	(27.6)
TCOM IN Equity	374.9	1.2	(23.7)	(23.9)

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

kotak Institutional Equities

GSPL (GUJS)

Energy

REDUCE

NOVEMBER 13, 2009

UPDATE

Coverage view: Cautious

Price (Rs): 91

Target price (Rs): 95

BSE-30: 16,696

Infinite possibilities. We note that GSPL's valuation will vary widely depending on assumptions for transmission tariffs. GSPL stock is discounting a transmission tariff of Rs0.55/cu m in perpetuity, which may look low versus its current tariffs (Rs0.89/cu m in 2QFY10). However, the implied tariff results in average CROCI of 21% in perpetuity. This is well above the likely CROCI possible under the new regulatory regime, which restricts post-tax ROCE to 12%. We recommend investors book profits in the stock.

Company data and valuation summary

GSPL

Stock data			
52-week range (Rs) (high,low)			96-25
Market Cap. (Rs bn)			51.3
Shareholding pattern (%)			
Promoters			37.8
FIIs			12.6
MFs			9.8
Price performance (%)	1M	3M	12M
Absolute	9.6	29.5	200.7
Rel. to BSE-30	11.3	16.5	71.7

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	2.2	6.4	11.8
EPS growth (%)	21.7	190.8	84.6
P/E (X)	41.5	14.3	7.7
Sales (Rs bn)	4.9	9.6	15.5
Net profits (Rs bn)	1.2	3.6	6.6
EBITDA (Rs bn)	4.5	9.1	14.7
EV/EBITDA (X)	13.9	7.0	4.4
ROE (%)	9.6	24.7	42.0
Div. Yield (%)	0.8	2.4	11.6

Infinite possibilities but be wary of the risks attached

Exhibit 1 gives the valuation of GSPL stock under different tariff assumptions. We note that the valuation of the stock can vary from Rs46 (based on tariffs resulting in 14% CROCI) to Rs181 (assuming 2QFY10 tariffs in perpetuity). However, we would advocate investors to focus on the corresponding CROCI at different tariff assumptions and resultant valuations. A fair valuation of Rs95 results in an average CROCI of 21% over FY2011-20E, which seems very high for a gas transmission company. We doubt a rational regulatory framework will allow a gas transmission company to earn such super-normal profits in perpetuity. Current regulations permit 12% post-tax or 18.18% pre-tax returns on capital employed.

Appreciation of 79% in the past four months is a fabulous return; book it

GSPL stock has rallied 79% since July 1, 2009 versus the BSE-30 Index's 14% rise over the same period. We believe this a fabulous performance and would advice investors take advantage of the gratuitous increase in stock price and book profits. The stock is currently trading at 3.3X FY2010E book value and 1.7X FY2010E gross cash invested (GCI). We find this expensive for a gas transmission company, which will earn regulated returns. Our reverse valuation exercise suggests that the current stock price is implying an average tariff of Rs0.55/cu m resulting in CROCI of 21% in perpetuity.

Valuing the stock is an academic exercise pending clarity on regulations

We maintain our REDUCE rating on the stock with a 12-month DCF-based target price of 95. However, valuing the stock is an academic plug-and-play exercise pending clarity on regulations and likely tariffs. As highlighted above, the fair value of the stock could swing meaningfully depending on tariff assumptions. We see significant risks to our earnings assumption arising from (1) lower-than-expected volumes and (2) lower-than expected tariffs. Exhibit 2 gives our key assumptions underlying our earnings model. We are unsure about the impact of new regulations for gas transportation pipelines on GSPL's tariffs (and earnings/cash flows) but are fairly sure that a strict application of the same will result in meaningfully lower tariffs versus our assumptions.

QUICK NUMBERS

- Stock trading at 3.3X FY2010E book value and 1.7X FY2010E GCI
- Outperformed Sensex by 65% since July 1, 2009

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

A simple cross-check may help

We note that our tariff and volume assumptions for FY2012E result in EBIT of Rs12.2 bn. We believe this is well above the likely EBIT possible under the new regulatory framework of 12% post-tax return on capital employed (EBIT X (1-t)/capital employed) or 18.2% pre-tax return on capital employed (EBIT/capital employed). We compute that18.2% pre-tax return on 'capital employed' (gross fixed assets and net working) of Rs44 bn will result in EBIT of Rs8 bn. Assuming depreciation of 4% per annum on pipeline life of 25 years, GSPL's 'regulated' EBIT would be even lower.

We see significant downside risks to GSPL's valuation from lower transmission tariffs
GSPL stock valuation and CROCI at various levels of average transmission tariff

Average tariff (Rs/cu m)	Valuation (Rs/share)	CROCI (%)	ROCE (%)	Comments
0.89	**180.7**	**32.6**	**80.9**	**2QFY10 tariffs in perpetuity**
0.68	116.4	24.0	49.2	
0.62	102.0	22.0	43.2	
0.58	**93.2**	**20.7**	**39.6**	**Base case**
0.50	73.9	18.0	31.4	
0.45	59.9	16.0	25.4	
0.39	**45.9**	**14.0**	**19.3**	**Likely regulated CROCI**

Source: Kotak Institutional Equities estimates

GSPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	2,635	3,176	4,179	4,875	9,594	15,490	16,718
EBITDA	**1,942**	**2,677**	**3,645**	**4,245**	**8,903**	**14,547**	**15,653**
Other income	45	175	294	243	199	193	189
Interest	(413)	(457)	(815)	(870)	(1,044)	(1,369)	(1,416)
Depreciation	(791)	(1,026)	(1,632)	(1,705)	(2,640)	(3,333)	(3,412)
Pretax profits	783	1,369	1,491	1,914	5,418	10,039	11,013
Contribution towards GSEDS	—	—	—	—	—	—	—
Tax	(2)	(70)	(389)	(535)	(1,535)	(2,974)	(3,758)
Deferred taxation	(315)	(409)	(82)	(145)	(294)	(439)	14
Net profits	**467**	**894**	**999**	**1,234**	**3,589**	**6,627**	**7,270**
Earnings per share (Rs)	**1.2**	**1.6**	**1.8**	**2.2**	**6.4**	**11.8**	**12.9**
Balance sheet (Rs mn)							
Total equity	9,075	9,659	11,410	12,156	14,314	13,963	13,578
Deferred tax liability	508	917	999	1,144	1,438	1,877	1,862
Total borrowings	5,786	8,638	9,660	12,150	13,650	15,150	14,650
Currrent liabilities	1,771	1,845	5,106	4,148	3,808	3,266	1,067
Total liabilities and equity	**17,140**	**21,059**	**27,175**	**29,599**	**33,211**	**34,256**	**31,159**
Cash	2,372	1,811	2,569	991	1,636	1,479	1,475
Current assets	995	2,126	2,928	2,795	3,044	3,372	3,440
Total fixed assets	13,651	17,029	21,259	25,394	28,112	28,987	25,825
Investments	—	—	356	356	356	356	356
Deferred expenditure	123	93	63	63	63	63	63
Total assets	**17,140**	**21,059**	**27,175**	**29,599**	**33,211**	**34,256**	**31,159**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,562	2,212	2,743	2,674	6,142	10,205	10,479
Working capital changes	471	(1,058)	2,460	(825)	(590)	(870)	(2,267)
Capital expenditure	(6,049)	(4,404)	(5,863)	(5,673)	(5,176)	(4,208)	(250)
Investments	—	—	(356)	—	—	—	—
Other income	40	146	—	243	199	193	189
Free cash flow	**(3,976)**	**(3,103)**	**(659)**	**(3,580)**	**576**	**5,320**	**8,151**
Ratios (%)							
Debt/equity	60.4	81.7	77.9	91.4	86.7	95.6	94.9
Net debt/equity	37.6	45.0	43.8	47.7	46.4	48.9	48.7
RoAE	6.8	8.8	8.8	9.6	24.7	42.0	46.5
RoACE	**9.9**	**10.0**	**8.2**	**8.4**	**16.9**	**26.6**	**26.8**
CROCI	**13**	**13**	**13**	**11**	**19**	**27**	**26**
Key assumptions							
Volumes-old pipelines (mcm/d)	10.4	12.6	12.7	11.1	13.0	17.5	20.0
Volumes-new pipelines (mcm/d)	—	1.7	4.1	3.8	18.2	33.1	41.6
Volumes (mcm/d)	**10.5**	**14.3**	**16.8**	**14.9**	**31.2**	**50.6**	**61.6**
Average tariff (Rs/cu m)	**0.69**	**0.61**	**0.67**	**0.83**	**0.84**	**0.84**	**0.74**

Source: Company, Kotak Institutional Equities estimates kotak Institutional Equities

DishTV (DITV)

Media

REDUCE

NOVEMBER 13, 2009

UPDATE

Coverage view: Neutral

Price (Rs): 41

Target price (Rs): 37

BSE-30: 16,696

HIT or miss—government approves Headend-in-the-Sky (HITS) policy. We find the approval of Headend-in-the-Sky policy guidelines by the Government of India to be positive for large all-India MSOs as it would preclude the need to maintain digital head-ends in each city. However, the guidelines may have come in a tad late with digital expansion plans of most MSOs already halfway through. We find limited impact on DTH since it is already competing with digital cable in most large urban areas.

Company data and valuation summary

DishTV

Stock data			
52-week range (Rs) (high,low)			60-13
Market Cap. (Rs bn)			38.7
Shareholding pattern (%)			
Promoters			72.8
FIIs			4.3
MFs			5.3
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(11.6)	(10.7)	154.8
Rel. to BSE-30	(9.4)	(19.7)	45.6

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	(6.6)	(1.8)	0.0
EPS growth (%)	(31.9)	(72.2)	(101.9)
P/E (X)	(6.2)	(22.4)	1,162.7
Sales (Rs bn)	7.4	12.2	17.0
Net profits (Rs bn)	(4.5)	(1.7)	0.0
EBITDA (Rs bn)	(1.4)	1.6	3.8
EV/EBITDA (X)	(35.9)	28.1	12.1
ROE (%)	83.9	59.0	8.5
Div. Yield (%)	0.0	0.0	0.0

Headend-in-the-Sky (HITS) policy—HIT or miss

- The salient features of the HITS policy approved by the Government of India are—(1) HITS to be allowed in both 'C-band' and 'Ku-band' transmission obviating the waiting period given the scarcity of transponders, (2) total foreign investment (direct and indirect) including FDI allowed upto 74%, similar to telecom, (3) continuation of cross-media holding restrictions of 20% among the various segments of the broadcasting services and (4) HITS operators not allowed to target subscribers directly but through the distribution network of an LCO (local cable operator). The detailed policy document release is awaited.

- We find that the national footprint of HITS will be cost effective for large MSOs (multi-system operators) eliminating the need to setup expensive digital terrestrial head-ends in each city. Also, the all-India digital network expansion can be completed in a much shorter timeframe. However, we highlight that most large MSOs have extant digital presence in key cities of India (see Exhibit 1) as they could not wait for the long-awaited government approval given competition from DTH. Also, HITS versus terrestrial digital head-ends is a classic 'opex versus capex' trade-off with the need for annual operating expenses on transponders in the former. Thus, the HITS policy may have come in a tad later in the day for most large MSOs.

Impact on DTH industry—minimal, if at all

- We highlight that DTH has stolen a march over cable as regards the digital television services in the country (see Exhibit 2); the number of DTH subscribers in India is likely to increase to 27 mn by end-FY2012E versus around 6.5 ,m digital subscribers. As discussed, DTH platforms are already competing against digital cable in most large urban areas.

- The positives for the DTH industry from the approval to HITS policy are largely on account of two factors—(1) increased likelihood of revision in foreign investment guidelines for DTH (49% foreign investment allowed currently), (2) likely acceleration in decision-making post the formation of the new government, which will help in quick resolution of critical issues pertaining to license fees, taxation and content costs.

Amit Kumar
amit.ckumar@kotak.com
Mumbai: +91-22-6634-1392

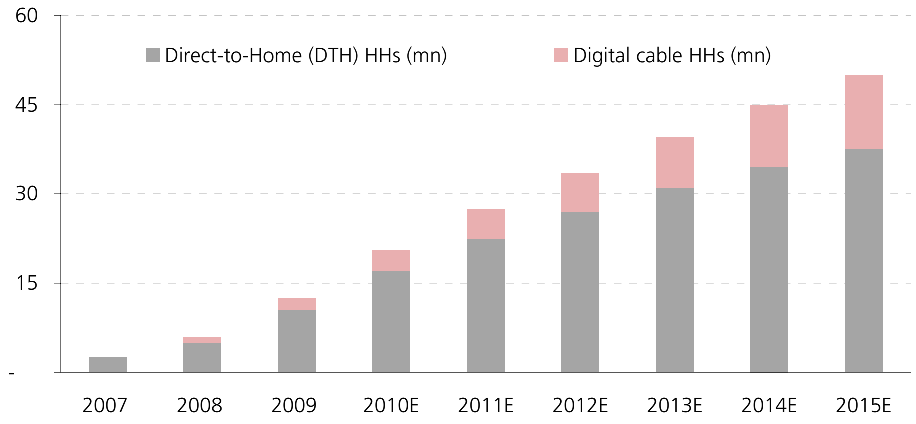
Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Location of digital headends of Hathway, DEN, Incable and WWIL

City	Hathway	DEN	Incable	WWIL
Delhi	YES	YES	YES	YES
Mumbai	YES	YES	YES	YES
Kolkata				YES
Bangalore	YES	YES	YES	YES
Hyderabad	YES			
Ahmedabad	YES		YES	
Pune		YES		
Surat	YES			
Ludhiyana	YES			
Indore	YES			
Jaipur	YES	YES		
Bhopal	YES			
Raipur	YES			
Lucknow	YES	YES		
Allahabad	YES			
Goa	YES			
Kanpur		YES		
Meerut		YES		
Cochin		YES		
Rajkot		YES		
Surat		YES		
Nasik		YES		
Baroda			YES	
Belgaun			YES	
Nagpur			YES	
Sholapur			YES	
Kolhapur			YES	
Total digital headends	**19**	**15**	**11**	**5**
Headend-in-the-Sky (HITS)				**YES**

Source: Company data, Kotak Institutional Equities

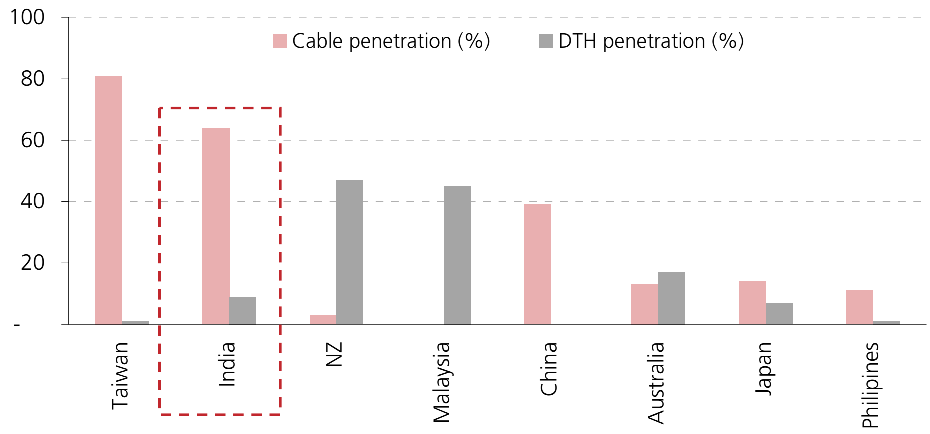
Estimation of digital TV HHs in India, March fiscal year-ends, 2007-2015E (mn)



Source: Industry data, Kotak Institutional Equities

HITS may drive consolidation and cable expansion in semi-urban areas. HITS service provides a national footprint to large all-India MSOs to drive their digital cable expansion in multiple cities and geographic areas without the need for setting up expensive digital head-ends in multiple cities. The HITS policy guidelines may have come in a tad later in the day with most large all-India MSOs already halfway through their digital cable expansion through digital terrestrial head-ends (sunk cost now). However, HITS does provide an opportunity for some MSOs that are at the initial stage of their digital expansion (listed players WWIL and HVL) to drive digital penetration not only in their existing areas of operations but also new markets such as semi-urban areas, which are not easily accessible by cable. We highlight that cable is still the dominant television platform in India (see Exhibit 3) and HITS provides another avenue for MSOs to compete effectively against the new entrants, DTH.

Cable versus DTH penetration in India and its Asian peers, 2008 (%)



Source: Media Partners Asia, Kotak Institutional Equities

Conditional Access System (CAS) would expand the scope for value creation but government does not appear to be keen. The introduction of HITS services will help lower the cost of operations of digital cable services and improve the economics of scale thus resulting in savings for the MSOs as well as quick expansion of services across the country. However, the requirement that HITS operator cannot target the consumer directly but needs to go through the LCO network does nothing to change the fundamental problem of lack of addressability. Currently, LCOs appropriate a large portion of subscription revenues (see Exhibit 4) leaving a very small share for the MSOs. An addressable system (CAS) would improve transparency of subscription revenues but the government does not appear to be in favor of mandatory rollout. Voluntary CAS, delivered on a scalable digital platform like HITS, will still result in improved financials but at a much lower pace versus mandatory CAS.

Share of revenues of various cable players under different scenarios (Rs)

	No CAS	CAS
Average revenue of local cable operator (Rs/sub/month)	**200**	**200**
Service tax (@12.36%)	5	25
Entertainment tax (Rs20/sub/month)	4	20
Total cost to subscriber	**209**	**245**
% declaration of subscriber base (%)	20	100
Basic Tier package cost under CAS	—	78
Pay-TV channels rate	200	122
LCO's share of pay-channel fees under CAS (@25%)	—	31
MSO's share of pay-channel fees under CAS (@30%)	—	37
Broadcasters share of pay-channel fees under CAS (@45%)	—	55
Net retention of cable operator	**160**	**109**
Amount payable to broadcasters/MSOs	**40**	**92**
Assumed share of MSO (%)	30	—
Net retention of MSO	**12**	**37**
Net retention of broadcaster	**28**	**55**

Source: Industry data, Kotak Institutional Equities

Limited impact on Dish TV; we focus on more substantive issues. The nascent DTH industry in India and Dish TV have done well against the digital cable services of incumbent MSOs in key urban markets and the entry of the HITS platform will likely have only a marginal negative incremental impact. The positives coming from the HITS policy announcement stem from likely higher foreign investment (including FDI) limits for the DTH industry (currently 49%) given level playing field with HITS and Telecom (74% FII/FDI limit). However, we do not believe Dish TV derives significant benefit from the former since it has funding in place with its recently concluded rights issue. Another positive from the HITS policy approval may be the indication of quicker policy decisions on key issues such as license fees, taxation and content costs; we have already factored in 6% license fees (10% currently) for Dish TV from FY2012E. We retain our cautious view on Dish TV (12-month DCF-based target price of Rs37) given some substantive market (as opposed to regulatory) issues.

- ARPUs. Dish TV reported relatively weak 2QFY10 ARPU of Rs139 (Rs142 in 1QFY10) versus our expectation of modest growth in (Rs144 in 2QFY10E). We highlight the inability of DTH operators to increase ARPUs given strong intra-segment and inter-segment (analog cable) competition as the key overhang on Dish TV stock.

- Churn. We highlight that Dish TV has substantial subscriber acquisition costs (Rs2,500-2.700 in recent times) due to the subsidy on STBs and various schemes on offer to attract new consumers to its DTH service. The loss of subscribers to new DTH players or to cable has implications on Dish TV valuation.

- Competition. Te competitive intensity in the DTH market is high with six players competing against one another (Videocon D2H+ is the latest entrant). The cable MSOs are also beefing up their services with the introduction of digital cable and broadband (dual-play) in their service offering.

- Valuations not attractive. Given the emerging nature of the DTH industry, limited visibility on ARPUs and churn with high competitive intensity, we believe Dish TV is trading at significant premium valuations. The recent experience of telecom has demonstrated (1) the price sensitive nature of the Indian subscriber and (2) low value of the Indian subscriber given low ARPUs.

Summary financials of Dish TV, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model						
Net revenues	1,909	4,127	7,377	12,181	17,018	20,899
EBITDA	**(1,852)**	**(2,152)**	**(1,350)**	**1,557**	**3,772**	**5,706**
Other income	34	30	13	666	662	690
Interest (expense)/income	(118)	(513)	(1,019)	(1,117)	(917)	(1,017)
Depreciation	(565)	(1,480)	(2,144)	(2,948)	(3,703)	(3,602)
Amortization	(10)	(10)	(10)	—	—	—
Pretax profits	**(2,511)**	**(4,126)**	**(4,511)**	**(1,843)**	**(186)**	**1,777**
Extraordinary items	(5)	—	(244)	—	—	—
Tax	(3)	(6)	(7)	—	—	(201)
Deferred taxation	—	—	—	111	219	109
Net income	**(2,519)**	**(4,132)**	**(4,763)**	**(1,731)**	**33**	**1,684**
Earnings per share (Rs)	**(5.9)**	**(9.6)**	**(6.9)**	**(1.8)**	**0.0**	**1.8**
Balance sheet						
Total equity	(395)	(4,527)	(6,241)	376	409	2,093
Deferred taxation liability	—	—	—	(111)	(331)	(439)
Total borrowings	1,751	5,266	11,311	6,311	8,311	9,311
Current liabilities	8,596	11,376	15,899	16,662	15,937	14,667
Total liabilities and equity	**9,952**	**12,116**	**20,969**	**23,238**	**24,327**	**25,632**
Cash	113	199	540	363	557	1,179
Other current assets	2,271	3,276	8,297	8,815	9,230	9,564
Total fixed assets	6,107	7,190	11,187	13,115	13,596	13,944
Intangible assets	516	506	—	—	—	—
Investments	945	945	945	945	945	945
Total assets	**9,952**	**12,116**	**20,969**	**23,238**	**24,327**	**25,632**
Free cash flow						
Operating cash flow, excl. working capital	(1,814)	(2,552)	(2,675)	440	2,855	4,487
Working capital changes	3,507	2,129	(883)	245	(1,140)	(1,605)
Capital expenditure	(2,921)	(2,579)	(5,102)	(4,876)	(4,183)	(3,950)
Investments	(451)	(293)	14	—	—	—
Other income	5	9	11	666	662	690
Free cash flow	**(1,674)**	**(3,287)**	**(8,635)**	**(3,525)**	**(1,807)**	**(377)**
Ratios (%)						
Debt/equity	(443.6)	(116.3)	(181.3)	1,678.3	2,030.4	444.8
Net debt/equity	(414.9)	(111.9)	(172.6)	1,581.7	1,894.4	388.5
ROAE (%)	(331.3)	167.9	88.5	57.9	19.4	194.4
ROACE (%)	**(283.2)**	**(345.3)**	**(120.4)**	**(11.7)**	**(1.8)**	**27.4**

Source: Company data, Kotak Institutional Equities

INDIA

NOVEMBER 13, 2009

UPDATE

BSE-30: 16,696

Case for an early 'exit' becomes stronger with IIP growth in full throttle. IIP growth surprises once again (9.1% in September). We now see IIP growth for FY2010E at about 8.5%, led by double-digit IIP growth in 3QFY10E. Strong IIP numbers in a rising inflationary environment make a case for an early exit from fiscal and monetary stimulus. With a stretched fiscal position, GOI may consider a CENVAT tax cut roll-back before end-FY10 to help keep the 'on-budget centre's GFD' at about 7.0% of GDP.

IIP growth headed for double digits in 3QFY10E; 8.5% in FY2010E

India's industrial economy has quickly bounced back from a two-year industrial slowdown in FY2008 and FY2009. IIP growth has averaged 8.9% over last four months, up from an average of 0.9% in the eight months after the collapse of Lehman. We expect IIP growth to move to double-digits in 3QFY10E, moderate slightly in 4QFY10E and record a growth of about 8.5% in FY2010E.

Case for early exit now becomes stronger

With India's non-agricultural economy staging a sharp recovery, activity levels have returned to normal, and the case for an early exit from stimulus has become stronger. This is more so because in our assessment: (1) inflation is running high, with headline WPI inflation likely at 8.0% by end-FY10E from 1.5% currently, and (2) the fiscal gaps have spun out of control, with GFD/GDP ratio expected at 7.2% in FY2010E and about 6.5% in FY2011E.

Consumer durables-led IIP growth extends to investment goods in September

In September, capital goods output jumped 31.3% mom and 12.8% yoy, touching an 18-month-high production level, indicating better capacity utilization on back of strong order-book for investment goods supported by large pipeline investment. Consumer durables continued to outperform, with 12.9% mom and 22.2% yoy growth. However, it is still not clear if the IIP growth has become truly broad-based with modest performance of other sectors.

Core sector, especially oil and electricity, remains a worry

We reiterate our concerns on drag on overall IIP growth, arising from dismal performance of some core infrastructure industries, viz., crude oil, refinery products, steel and electricity. We also note that ramp-up in new capacities in some core industries are materializing at a lower rate than was earlier expected. Electricity output may record no growth next month, even though we expect the overall IIP growth to be in double digits. Strong base effects, contributing to high IIP growth in FY2010, may mask some of these weak spots.

QUICK NUMBERS

- IIP growth at 8.9% during June-Sep.'09
- We expect IIP growth ≥ 10% in 3QFY10E
- Inflation at 8.0% by end-FY10E and GFD/GDP≥7.0% in FY2010E may prompt early 'exit'

Dr. Mridul Saggar
mridul.saggar@kotak.com
Mumbai: +91-22-6634-1245

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

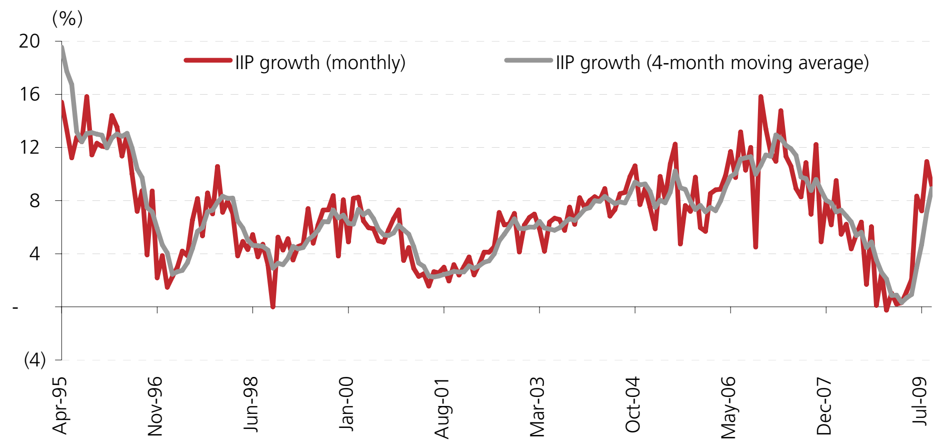
IIP growth surprise turns even bigger in September

A V-shaped recovery in India's industrial economy is now a reality. IIP growth has been surprising on the upside since June 2009. It surprised once again clocking 9.1% yoy growth against a consensus of 7% and about a percentage higher than the best estimate. IIP growth has now:

- Averaged 6.5% in 1HFY10 versus 5.5% in 1HFY09 and 0.6% in 2HFY09
- Averaged 8.9% during last four months (June-September 2009).

On a 4-m MA basis, the increase in growth to 8.9% from 0.3% at end-FY2009 indicates a V-shaped industrial recovery (see Exhibit 1 and 2).

Exhibit 1: V-shaped recovery in IIP growth in FY2010 YTD
IIP growth on a monthly and 4-month moving average basis, March fiscal year-ends, 1996-2010 (%)



Source: Central Statistical Organization, compiled by Kotak Institutional Equities

Exhibit 2: IIP growth surprises on the upside for the fourth straight month
Sectoral classification of IIP growth, March fiscal year-ends, 2008-2010 (%)

	Mining (%)			Manufacturing (%)			Electricity (%)			General (%)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Weights (%)			**10.5**			**79.4**			**10.2**			**100.0**
April	2.6	6.1	3.4	12.4	6.7	0.4	8.7	1.4	7.1	11.3	6.2	1.1
May	3.8	5.5	3.4	11.3	4.5	1.8	9.4	2.0	3.3	10.6	4.4	2.1
June	1.5	0.1	14.2	9.7	6.1	8.0	6.8	2.6	8.0	8.9	5.4	8.3
July	3.2	2.8	9.0	8.8	6.9	7.4	7.5	4.5	4.2	8.3	6.4	7.2
August	14.7	2.8	11.0	10.7	1.7	11.0	9.2	0.8	10.6	10.9	1.7	11.0
September	4.9	5.8	8.6	7.4	6.2	9.3	4.5	4.4		7.0	6.0	9.1
October	5.1	3.2		13.8	(0.6)		4.2	4.4		12.2	0.1	
November	6.3	0.7		4.7	2.7		5.8	2.6		4.9	2.5	
December	5.0	2.2		8.6	(0.6)		3.8	1.6		8.0	(0.2)	
January	2.9	0.7		6.7	1.0		3.7	1.8		6.2	1.0	
February	7.9	(0.2)		9.6	0.2		9.8	0.7		9.5	0.2	
March	4.9	1.9		5.7	(0.3)		3.7	6.3		5.5	0.3	
April-Sept (1H)	**4.9**	**3.8**	**8.2**	**10.0**	**5.3**	**6.3**	**7.7**	**2.5**	**6.8**	**9.5**	**5.0**	**6.5**
April-March (FY)	**5.1**	**2.6**		**9.0**	**2.7**		**6.3**	**2.8**		**8.5**	**2.7**	

Source: Central Statistical Organization, compiled by Kotak Institutional Equities

Growth headed for double digits in the near term

We see further acceleration in IIP growth in the near term, even though on a sequential basis growth may taper off as the output levels have already recovered to normal levels in our view. As such, we see:

- IIP growth exceeding 10% 3QFY10E
- In spite of electricity decelerating sharply/stagnating in October, we see the possibility of strong manufacturing growth (likely at well above 10%) to drive overall IIP growth above 10% in October 2009
- We see FY2010E IIP growth at 8.5% or more, even with the possibility of slight moderation in IIP growth numbers in 4QFY10E on weaker private consumption demand

Growth surprises may prompt an early exit

An early withdrawal of fiscal stimulus, *inter alia*, through:

- CENVAT tax cut roll-back in FY2011 budget, if not in 3QFY10, now looks a certainty. We see the possibility of a surprise roll-back of 2-ppt in the CENVAT rates in end-December itself. CENVAT was cut to 6% from 12% as part of the fiscal stimulus
- Possible CRR hike of 50 bps in December 2009 if strong capital flows on back of large IPOs, QIPs and disinvestments require dollar buying by RBI to prevent a sharp appreciation in the rupee
- Rate hikes in CY2010, along with more CRR hikes

See our Economy notes of October 27, 2009, '*RBI nudges a bit more firmly, starts exiting accommodation*'. Though concerns about low credit off-take may generate debate and strengthen arguments for delaying exit, we feel that on balance of considerations, the decision may be tilted in favor of an early exit on the following three grounds:

(1) Sharp rise in price level in 1HFY10, followed with sharp expected rise in inflation in 2HFY10 may prompt policymakers to give more weight to inflation than growth. We continue to expect WPI inflation to touch 8% by end-March 2010.

(2) Expected strong capital inflows, requiring active liquidity management to suck off some of the surplus liquidity, especially if dollar buying interventions in FX-markets become necessary.

(3) Strong likelihood that GOI is unable to meet the budgeted GFD/GDP ratio of 6.8% in FY2010BE, leaving a choice between early partial roll-back of CENVAT tax cuts or resort to moderate extra-market borrowing once again in February and March 2010. The latter may lead to interest rates firming up.

IIP internals suggest pick-up in investment demand

September IIP gives a strong indication that investment demand is picking up in addition to strong consumption demand for durables (see Exhibit 3).

Exhibit 3: Capital goods add to consumer durables-lead recovery in FY2010; consumer non-durables disappoint
Use-based classification of IIP growth, March fiscal year-ends, 2008-2010 (%)

	Basic goods			Capital goods			Intermediate goods			Consumer goods			Consumer durables			Consumer non-durables		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
Weights (%)			**35.6**			**9.3**			**26.5**			**28.7**			**5.4**			**23.3**
April	8.6	4.0	4.5	10.9	12.4	(5.9)	10.6	3.1	7.9	14.7	8.5	(4.6)	2.4	3.2	17.6	18.7	10.0	(10.5)
May	10.3	3.0	3.8	22.4	4.3	(3.6)	8.8	1.9	6.6	8.7	7.4	(1.1)	(0.7)	2.8	13.2	12.1	9.0	(5.5)
June	9.2	2.2	10.7	23.1	7.8	13.4	8.6	2.8	7.9	3.6	9.9	4.4	(3.6)	4.6	16.2	6.3	11.6	0.7
July	8.7	5.3	4.7	12.3	17.9	1.7	7.7	3.0	9.8	7.1	5.9	9.8	(2.7)	13.9	21.3	10.5	3.4	5.8
August	12.7	3.9	9.6	30.8	0.9	8.7	13.8	(5.5)	14.2	(0.0)	6.4	10.5	(6.2)	3.9	22.3	2.4	7.3	6.4
September	6.5	5.0	6.7	20.9	20.8	12.8	10.1	(2.5)	10.8	(0.2)	7.4	8.2	(7.3)	14.7	22.2	2.6	4.8	2.6
October	6.5	3.2		20.9	(24.3)		13.9	(4.4)		13.7	(0.9)		9.0	(1.6)		15.8	(0.6)	
November	5.2	2.2		24.2	0.5		5.5	(3.9)		(2.9)	9.4		(5.5)	0.3		(2.0)	12.4	
December	3.4	2.0		17.6	6.6		7.6	(8.9)		8.7	1.7		2.8	(4.2)		10.3	3.2	
January	3.6	(0.7)		2.6	15.9		8.0	(7.2)		8.4	3.6		(0.5)	2.1		11.1	4.0	
February	7.3	(0.1)		10.7	11.8		8.5	(3.0)		11.7	(1.3)		3.1	6.0		14.3	(3.4)	
March	3.3	1.9		20.3	(6.3)		4.9	1.9		0.9	1.3		(2.0)	8.4		1.9	(1.0)	
April-Sept (1H)	**9.3**	**3.9**	**6.7**	**20.2**	**10.7**	**5.3**	**9.9**	**0.4**	**9.5**	**5.5**	**7.6**	**4.3**	**(3.2)**	**7.2**	**18.9**	**8.8**	**7.7**	**(0.5)**
April-March (FY)	**7.0**	**2.6**		**18.0**	**7.3**		**8.9**	**(1.9)**		**6.1**	**4.7**		**(1.0)**	**4.5**		**8.5**	**4.8**	

Source: Central Statistical Organization, compiled by Kotak Institutional Equities

- Capital goods output jumped 31.3% mom and 12.8% yoy, touching an 18-month high.
- Consumer durables continued to outperform, with 12.9% mom and 22.2% yoy growth.

However, some slack remains in basic and intermediate goods that declined by about 3.0% mom. Consumer non-durables continued to disappoint with 3.1% contraction mom on the back of agro-based industries getting adversely impacted due to Kharif output losses.

Risks to growth remain from core sector woes, easing of private demand

In our assessment, though the probability of IIP growth of 8.5% or more in FY2010E is high, risks to our estimate remain from (1) poor performance of the core sector, (2) possibility that private consumption demand may soften in 4QFY10 as demand stimulus policies may be reversed and (3) continued weak external demand, with very slow improvement in global trade.

Growth in the core sector has been dismal in case of crude oil, refinery products, electricity and steel due largely to supply-side constraints (see Exhibit 4).

Exhibit 4: Core infrastructure industries shows continue to disappoint
Sector-wise growth rates in production for six infrastructure industries, March fiscal year-ends, 2009-2010 (%)

	Crude Oil		Refinery		Coal		Electricity		Cement		Finished Steel		General	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Weights (%)		**4.2**		**2.0**		**3.2**		**10.2**		**2.0**		**5.1**		**26.7**
April	1.0	(3.1)	4.3	(4.5)	10.3	13.2	1.4	7.1	6.9	11.9	(0.6)	3.8	2.3	5.3
May	3.2	(4.3)	0.1	(4.3)	8.8	11.2	2.0	3.3	3.8	11.8	3.3	1.9	3.1	3.0
June	(4.7)	4.0	5.6	(3.8)	6.1	14.7	2.6	8.0	6.6	12.7	5.6	6.2	3.8	7.0
July	(3.0)	(0.4)	11.8	(14.4)	5.5	9.7	4.5	4.2	5.5	13.8	6.0	2.2	5.1	2.7
August	(1.0)	(2.5)	2.5	3.1	5.9	12.9	0.8	10.6	1.9	17.5	3.4	4.3	2.1	7.8
September	(0.4)	(0.5)	2.8	3.4	10.7	7.0	4.4	7.5	8.1	6.5	2.1	(0.4)	4.0	4.0
October	(0.3)		5.0		10.9		4.4		6.2		(4.9)		2.1	
November	0.5		(1.1)		9.6		2.6		8.7		(2.5)		1.9	
December	(0.3)		3.0		9.4		1.5		11.6		(6.0)		1.1	
January	(8.1)		(1.3)		6.3		1.8		8.3		1.6		1.8	
February	(6.2)		0.5		6.0		0.6		8.3		0.5		1.4	
March	(2.3)		3.3		5.2		6.3		10.1		(2.2)		3.2	
April-July	**(0.8)**	**(1.2)**	**4.5**	**(3.6)**	**7.9**	**11.4**	**2.6**	**6.8**	**5.5**	**12.3**	**3.3**	**3.0**	**3.4**	**5.0**

Source: Central Statistical Organization, compiled by Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

	12-Nov-09		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)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Automobiles																													
Ashok Leyland	53	ADD	69,909	1,499	1,330	1.5	2.9	3.2	(57.8)	87.2	11.0	34.4	18.4	16.5	18.6	10.5	9.4	1.9	1.7	1.6	1.9	1.9	1.9	6.2	11.2	10.3	47	(10.6)	5.4
Bajaj Auto	1,457	ADD	210,753	4,518	145	45.2	97.4	112.3	(13.4)	115.2	15.3	32.2	15.0	13.0	17.1	9.1	8.1	11.2	7.2	5.1	1.4	1.4	1.4	37.7	58.5	45.4	1,575	8.1	8.3
Hero Honda	1,521	REDUCE	303,724	6,511	200	64.2	100.4	109.6	32.4	56.4	9.2	23.7	15.2	13.9	13.9	9.1	7.9	7.7	5.6	4.3	1.3	1.4	1.4	36.4	42.8	35.0	1,535	0.9	17.4
Mahindra & Mahindra	1,037	ADD	305,751	6,555	295	30.0	56.4	61.7	(19.8)	88.0	9.4	34.6	18.4	16.8	24.3	12.1	10.9	5.8	4.0	3.3	0.9	0.9	0.9	17.4	27.3	21.4	1,025	(1.2)	31.0
Maruti Suzuki	1,423	SELL	411,276	8,817	289	42.2	79.4	83.1	(29.6)	88.3	4.7	33.7	17.9	17.1	20.2	10.4	9.3	4.3	3.5	3.0	0.2	0.4	0.4	13.5	21.7	18.8	1,250	(12.2)	34.9
Tata Motors	619	SELL	353,695	7,583	571	10.0	26.2	29.3	(78.2)	161.0	12.2	61.8	23.7	21.1	23.2	12.9	11.4	2.7	2.1	1.9	0.9	0.9	0.9	9.1	14.4	11.4	465	(24.9)	84.0
Automobiles		**Cautious**	**1,655,108**	**35,483**					**(30.7)**	**98.1**	**10.1**	**35.5**	**17.9**	**16.3**	**19.6**	**10.9**	**9.7**	**4.4**	**3.4**	**2.9**	**0.9**	**1.0**	**1.0**	**12.5**	**19.0**	**17.6**			
Banks/Financial Institutions																													
Andhra Bank	118	BUY	57,133	1,225	485	13.5	15.4	13.5	13.5	14.2	(12.1)	8.7	7.7	8.7	—	—	—	1.6	1.4	1.2	3.8	2.6	2.3	18.9	19.0	14.7	125	6.1	2.8
Axis Bank	980	ADD	372,445	7,985	380	50.6	61.8	71.6	56.9	22.2	15.9	19.4	15.9	13.7	—	—	—	3.6	2.3	2.1	1.0	1.2	1.5	19.1	18.0	16.9	980	(0.0)	56.9
Bank of Baroda	544	ADD	198,701	4,260	366	60.9	68.6	71.3	55.1	12.6	3.8	8.9	7.9	7.6	—	—	—	1.8	1.5	1.3	1.7	1.9	1.9	21.4	20.3	18.0	560	3.0	8.4
Bank of India	364	REDUCE	191,170	4,098	526	57.2	45.0	48.5	40.7	(21.3)	7.8	6.4	8.1	7.5	—	—	—	1.6	1.4	1.2	2.2	1.7	1.9	29.2	18.5	17.2	360	(1.0)	18.7
Canara Bank	386	ADD	158,096	3,389	410	50.5	57.2	60.3	32.4	13.2	5.4	7.6	6.7	6.4	—	—	—	1.6	1.3	1.1	2.1	2.1	2.6	18.3	17.8	16.4	410	6.3	6.8
Corporation Bank	433	BUY	62,137	1,332	143	62.3	61.3	61.5	21.5	(1.5)	0.2	7.0	7.1	7.0	—	—	—	1.3	1.1	1.0	2.9	2.8	2.9	19.6	16.8	14.9	515	18.9	0.9
Federal Bank	231	BUY	39,492	847	171	29.3	32.1	39.6	(14.8)	9.8	23.1	7.9	7.2	5.8	—	—	—	0.9	0.8	0.7	2.2	2.4	2.9	12.1	12.1	13.4	340	47.2	4.5
HDFC	2,739	ADD	778,981	16,700	284	80.2	99.6	117.1	(6.4)	24.1	17.6	34.1	27.5	23.4	—	—	—	5.9	5.4	4.8	1.1	1.3	1.5	18.2	20.0	20.8	2,575	(6.0)	49.3
HDFC Bank	1,717	REDUCE	775,982	16,636	452	52.8	65.2	85.0	17.6	23.5	30.5	32.5	26.3	20.2	—	—	—	5.2	3.6	3.2	0.5	0.7	0.9	16.9	16.2	16.8	1,600	(6.8)	30.3
ICICI Bank	893	ADD	993,722	21,304	1,113	33.8	37.4	45.8	(15.4)	10.8	22.5	26.4	23.9	19.5	—	—	—	2.0	1.9	1.8	1.2	1.4	1.7	7.8	8.2	9.5	850	(4.8)	126.7
IDFC	167	REDUCE	215,728	4,625	1,295	5.8	8.4	9.1	1.9	45.7	8.4	28.8	19.8	18.2	—	—	—	3.5	3.0	2.7	0.7	0.8	0.9	12.9	16.5	15.6	145	(12.9)	36.9
India Infoline	140	BUY	43,714	937	312	5.1	8.4	9.4	(8.7)	63.7	12.9	27.4	16.8	14.9	—	—	—	3.5	2.9	2.3	1.8	2.5	1.6	11.9	19.0	19.1	175	24.8	13.6
Indian Bank	162	BUY	69,537	1,491	430	28.0	32.5	34.1	24.1	16.4	4.9	5.8	5.0	4.7	—	—	—	1.3	1.1	0.9	3.1	3.5	3.6	22.9	22.3	19.8	225	39.1	4.5
Indian Overseas Bank	116	BUY	62,979	1,350	545	24.3	22.9	14.9	10.3	(6.0)	(35.1)	4.8	5.1	7.8	—	—	—	1.1	0.9	0.8	4.6	3.2	3.6	22.1	16.3	9.5	150	29.8	5.9
J&K Bank	634	BUY	30,722	659	48	84.5	95.0	104.1	13.8	12.4	9.6	7.5	6.7	6.1	—	—	—	1.4	1.2	1.0	2.7	3.0	3.3	16.7	16.5	15.9	700	10.5	1.2
LIC Housing Finance	874	NR	83,036	1,780	95	62.5	79.0	83.6	37.3	26.4	5.8	14.0	11.1	10.5	—	—	—	2.7	2.3	1.9	1.4	2.0	2.1	26.5	21.2	22.8	—	—	29.6
Mahindra & Mahindra Financial	267	BUY	25,557	548	96	22.4	30.7	35.6	7.5	36.9	16.0	11.9	8.7	7.5	—	—	—	1.8	1.6	1.4	2.1	2.9	3.3	15.4	18.7	19.0	330	23.6	1.7
Oriental Bank of Commerce	264	REDUCE	66,230	1,420	251	36.1	39.9	39.8	51.4	10.5	(0.4)	7.3	6.6	6.6	—	—	—	1.1	1.0	0.9	2.8	3.1	3.0	13.7	12.9	11.8	280	5.9	6.2
PFC	223	SELL	256,240	5,493	1,148	13.3	18.7	20.9	17.4	40.2	11.9	16.7	11.9	10.7	—	—	—	2.3	2.1	1.8	1.8	2.1	2.3	18.9	17.5	17.3	200	(10.4)	3.9
Punjab National Bank	909	BUY	286,705	6,147	315	98.0	111.3	119.7	50.9	13.5	7.6	9.3	8.2	7.6	—	—	—	2.2	1.8	1.5	2.2	2.4	2.6	25.8	24.2	21.8	930	2.3	12.8
Reliance Capital	807	ADD	198,676	4,259	246	39.3	17.7	17.5	(5.6)	(55.1)	(1.1)	20.5	45.7	46.2	—	—	—	3.0	2.8	2.7	0.7	0.3	0.3	15.3	6.3	5.9	875	8.4	95.5
Rural Electrification Corp.	229	ADD	196,619	4,215	859	16.5	21.2	23.1	50.7	28.9	8.7	13.9	10.8	9.9	—	—	—	2.8	2.3	2.0	0.9	1.9	2.0	21.2	23.2	21.3	200	(12.7)	6.9
Shriram Transport	433	ADD	91,491	1,961	212	30.1	35.6	40.9	56.7	18.4	14.8	14.4	12.1	10.6	—	—	—	4.1	3.4	2.9	1.1	2.5	2.8	29.6	29.4	28.0	440	1.7	3.5
SREI	81	BUY	9,373	201	116	7.0	8.7	8.4	(24.7)	23.4	(3.6)	11.5	9.3	9.6	—	—	—	0.9	0.8	0.7	1.2	1.5	1.5	12.8	11.9	11.4	115	42.7	2.8
State Bank of India	2,294	BUY	1,456,193	31,219	635	143.7	155.6	175.3	34.8	8.3	12.7	16.0	14.7	13.1	—	—	—	2.5	2.2	2.0	1.3	1.3	1.4	17.1	16.0	15.9	2,400	4.6	140.0
Union Bank	263	BUY	132,846	2,848	505	34.2	35.0	37.8	24.5	2.5	7.8	7.7	7.5	7.0	—	—	—	1.9	1.6	1.3	1.9	1.9	2.1	27.2	22.7	20.5	310	17.9	6.0
Banks/Financial Institutions		**Attractive**	**6,853,504**	**146,929**					**27.0**	**11.7**	**11.1**	**15.7**	**14.1**	**12.7**	**—**	**—**	**—**	**2.5**	**2.2**	**1.9**	**1.3**	**1.5**	**1.7**	**16.0**	**15.4**	**15.1**			
Cement																													
ACC	737	REDUCE	138,524	2,970	188	56.3	84.1	53.3	(12.2)	49.4	(36.7)	13.1	8.8	13.8	6.5	4.5	6.0	2.6	2.1	1.9	3.2	3.2	3.2	24.7	30.1	16.8	800	8.5	11.2
Ambuja Cements	85	REDUCE	129,935	2,786	1,522	7.2	8.1	6.2	(5.0)	12.2	(23.7)	11.9	10.6	13.9	6.4	5.9	7.0	2.1	1.9	1.7	3.5	2.2	2.5	19.7	19.4	13.2	85	(0.4)	10.4
Grasim Industries	2,267	REDUCE	207,866	4,456	92	238.6	284.8	270.7	(16.2)	19.4	(4.9)	9.5	8.0	8.4	5.6	4.3	4.2	1.8	1.5	1.3	1.5	1.5	1.5	21.1	20.6	16.7	2,325	2.6	14.1
India Cements	106	REDUCE	29,938	642	282	17.8	15.7	13.0	n/a	(11.4)	(17.6)	6.0	6.7	8.2	4.5	4.1	4.5	0.8	0.7	0.7	1.7	2.0	3.0	14.8	12.1	9.2	110	3.8	6.7
Shree Cement	1,725	BUY	60,099	1,288	35	174.7	209.9	195.6	93.7	20.1	(6.8)	9.9	8.2	8.8	6.7	4.7	4.4	5.0	3.0	2.3	0.6	0.6	0.6	65.7	46.0	29.4	2,200	27.5	1.2
UltraTech Cement	729	BUY	90,697	1,944	124	78.8	94.0	73.9	(3.1)	19.2	(21.3)	9.2	7.8	9.9	5.6	4.3	4.9	2.1	1.7	1.4	0.8	1.1	1.1	31.1	28.3	18.1	925	27.0	5.2
Cement		**Neutral**	**657,059**	**14,086**					**(8.0)**	**20.7**	**(17.7)**	**10.2**	**8.5**	**10.3**	**5.9**	**4.6**	**5.0**	**2.0**	**1.7**	**1.5**	**2.1**	**1.9**	**2.0**	**20.0**	**20.0**	**14.5**			
Consumer products																													
Asian Paints	1,659	ADD	159,097	3,411	96	38.6	66.8	75.6	(1.7)	73.0	13.3	43.0	24.8	21.9	25.6	15.4	13.2	13.9	11.5	9.6	1.1	2.2	2.5	36.6	52.9	49.6	1,840	10.9	1.7
Colgate-Palmolive (India)	681	REDUCE	92,659	1,986	136	21.6	29.9	33.4	26.3	38.3	12.0	31.6	22.8	20.4	26.1	18.9	15.7	42.8	38.5	43.2	2.2	3.5	4.4	155.1	177.6	199.3	700	2.7	2.2
GlaxoSmithkline Consumer (a)	1,387	ADD	58,333	1,251	42	44.8	61.6	72.3	15.8	37.6	17.3	31.0	22.5	19.2	18.1	13.4	11.5	7.6	6.4	5.5	1.1	1.6	2.3	26.8	31.0	31.0	1,300	(6.3)	0.7
Godrej Consumer Products	281	ADD	72,554	1,555	258	6.7	10.9	12.6	(5.3)	63.0	15.6	42.0	25.8	22.3	29.1	18.1	14.5	12.7	7.4	6.1	1.4	1.4	1.4	46.9	36.4	30.0	270	(3.9)	0.9
Hindustan Unilever	264	BUY	576,250	12,354	2,179	9.5	10.6	12.2	19.0	11.1	15.0	27.8	25.0	21.7	21.2	18.7	16.1	28.0	25.0	22.4	3.3	3.6	4.1	112.4	105.9	108.9	320	21.0	20.5
ITC	253	BUY	953,270	20,437	3,769	8.7	10.8	12.8	2.8	24.4	18.6	29.2	23.5	19.8	17.9	14.6	12.4	6.5	5.6	4.8	1.5	1.6	1.8	25.3	27.3	27.6	290	14.6	27.6
Jyothy Laboratories	148	ADD	10,758	231	73	5.5	10.4	12.8	(12.9)	88.4	22.7	26.8	14.2	11.6	17.9	9.1	6.9	3.0	2.6	2.2	1.6	2.0	2.4	10.6	17.3	19.7	170	14.7	
Nestle India (a)	2,629	ADD	253,491	5,434	96	58.6	77.2	93.1	31.0	31.8	20.6	44.9	34.1	28.2	28.6	22.7	19.2	53.6	43.3	35.1	1.6	2.1	2.6	126.7	140.5	137.3	2,700	2.7	1.6
Tata Tea	915	BUY	56,568	1,213	62	53.7	64.8	70.9	14.7	20.7	9.4	17.0	14.1	12.9	10.3	9.2	7.9	1.2	1.1	1.0	1.9	2.3	2.5	9.4	10.7	10.9	1,000	9.3	6.0
Consumer products		**Attractive**	**2,232,981**	**47,872**					**10.4**	**25.7**	**16.7**	**30.6**	**24.3**	**20.9**	**20.1**	**16.1**	**13.7**	**9.0**	**7.8**	**6.8**	**2.0**	**2.3**	**2.7**	**29.3**	**31.9**	**32.4**			
Constructions																													
IVRCL	397	BUY	53,729	1,152	135	16.7	19.7	23.6	7.4	18.1	19.7	23.8	20.1	16.8	16.1	12.1	10.0	3.0	2.6	2.3	0.2	0.2	0.2	13.2	13.8	14.4	410	3.3	22.8
Nagarjuna Construction Co.	166	BUY	42,516	911	257	6.7	7.8	10.0	(6.3)	15.8	28.7	24.6	21.3	16.5	14.3	11.0	9.7	2.5	1.9	1.8	0.6	1.0	1.2	9.4	10.3	11.1	180	8.6	7.6
Punj Lloyd	215	REDUCE	72,826	1,561	339	(7.2)	13.7	16.6	(172.4)	(289.7)	20.9	(29.7)	15.7	13.0	22.8	9.3	7.5	2.9	2.0	1.8	0.1	0.3	0.3	(8.6)	15.3	14.6	240	11.7	40.3
Sadbhav Engineering	938	BUY	11,729	251	13	51.1	55.3	77.4	26.2	8.0	40.0	18.3	17.0	12.1	12.6	9.7	7.8	3.3	2.8	2.3	0.4	0.5	0.6	18.0	16.6	19.1	1,025	9.2	0.3
Construction		**#N/A**	**180,800**	**3,876**					**(70.6)**	**356.6**	**23.4**	**82.5**	**18.1**	**14.6**	**17.5**	**10.3**	**8.6**	**2.9**	**2.2**	**1.9**	**0.3**	**0.4**	**0.5**	**3.5**	**12.1**	**13.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	12-Nov-09		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)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	514	BUY	168,483	3,612	328	20.6	75.0	64.3	(50.1)	264.1	(14.3)	24.9	6.9	8.0	5.2	3.7	3.9	1.3	1.1	1.0	1.5	6.4	5.5	5.3	17.7	13.7	675	31.3	9.2
Cairn india	278	REDUCE	527,274	11,304	1,897	6.4	21.8	29.0	50	240	32.8	43	13	9.6	26.7	8.4	6.7	1.5	1.5	1.5	—	7.2	9.0	3.6	12.0	15.9	225	(19.1)	20.6
Castrol India (a)	535	ADD	66,123	1,418	124	21.3	33.2	36.5	20.8	55.7	10.1	25.1	16.1	14.6	14.4	9.7	8.7	14.7	13.0	11.5	2.8	4.5	4.9	61.2	85.8	83.3	550	2.8	1.7
GAIL (India)	378	ADD	479,359	10,277	1,268	22.2	21.0	22.3	8.7	(5.0)	6.1	17.1	18.0	16.9	9.2	10.4	10.6	3.0	2.7	2.5	1.9	2.1	2.1	17.5	14.8	14.4	365	(3.4)	17.0
GSPL	91	REDUCE	51,270	1,099	563	2.2	6.4	11.8	21.7	190.8	84.6	41.5	14.3	7.7	13.9	7.0	4.4	3.9	3.3	3.2	0.8	2.4	11.6	9.6	24.7	42.0	95	4.3	10.1
Hindustan Petroleum	348	BUY	117,942	2,528	339	17.0	64.0	61.1	(49.3)	277.1	(4.5)	20.5	5.4	5.7	3.1	2.0	2.1	1.0	0.9	0.8	1.5	7.5	7.1	4.4	15.6	13.5	525	50.9	11.2
Indian Oil Corporation	295	BUY	700,123	15,010	2,372	9.8	47.6	38.2	(67.9)	383.2	(19.6)	30.0	6.2	7.7	8.1	4.2	3.8	1.5	1.3	1.2	1.3	6.8	5.4	4.8	21.2	15.3	400	35.5	9.7
Oil India	1,183	BUY	268,721	5,761	227	101.1	108.5	123.3	—	7.3	13.6	11.7	10.9	9.6	5.4	3.7	2.9	2.6	1.9	1.7	2.4	3.7	4.4	20.1	16.0	17.3	1,275	7.8	—
Oil & Natural Gas Corporation	1,148	BUY	2,455,442	52,641	2,139	89.6	103.0	127.8	(3.4)	15.0	24.2	12.8	11.2	9.0	4.6	3.9	3.1	2.1	1.9	1.7	2.8	3.1	3.8	16.6	16.9	18.8	1,325	15.4	39.0
Petronet LNG	69	REDUCE	51,900	1,113	750	6.9	6.7	8.0	—	(3.6)	20.7	10.0	10.4	8.6	7.2	6.9	5.9	2.3	1.9	1.6	2.5	2.9	3.3	23.9	19.2	19.6	64	(7.5)	5.5
Reliance Industries	2,101	SELL	3,061,521	65,634	1,457	101.2	96.6	137.5	(3.7)	(4.5)	42.4	20.8	21.8	15.3	13.7	10.5	7.8	2.2	2.0	1.8	0.6	0.6	0.9	13.6	10.9	13.8	1,750	(16.7)	218.8
Energy		**Cautious**	**7,948,158**	**170,397**					**(9.8)**	**44.5**	**18.2**	**17.7**	**12.3**	**10.4**	**8.0**	**5.9**	**4.9**	**2.0**	**1.8**	**1.6**	**1.5**	**2.9**	**3.2**	**11.5**	**14.8**	**15.8**			
Industrials																													
ABB	769	REDUCE	162,862	3,492	212	25.8	21.6	30.4	11.3	(16.6)	41.3	29.8	35.7	25.2	17.6	20.0	14.3	7.7	6.5	5.3	0.3	0.4	0.4	29.2	19.8	23.3	660	(14.1)	6.4
BGR Energy Systems	469	ADD	33,739	723	72	16.0	24.3	32.9	32.2	51.4	35.5	29.2	19.3	14.2	16.6	11.3	9.0	6.0	4.8	3.8	0.6	0.9	1.2	22.3	27.6	29.7	530	13.1	3.4
Bharat Electronics	1,602	ADD	128,124	2,747	80	103.8	117.7	126.2	1.8	13.4	7.2	15.4	13.6	12.7	7.7	6.3	5.6	3.3	2.8	2.4	1.2	1.6	1.6	20.7	22.0	20.1	1,625	1.5	2.6
Bharat Heavy Electricals	2,267	ADD	1,109,766	23,792	490	63.9	92.5	113.1	9.4	44.8	22.2	35.5	24.5	20.1	19.4	13.7	11.0	8.6	6.8	5.4	0.7	0.9	1.1	26.4	30.9	30.1	2,425	7.0	46.1
Crompton Greaves	395	BUY	144,679	3,102	367	15.3	20.7	23.7	37.3	35.2	14.1	25.7	19.0	16.7	13.7	10.4	8.9	7.9	5.8	4.5	0.5	0.7	0.8	35.9	35.3	30.5	400	1.4	7.1
Larsen & Toubro	1,640	ADD	985,859	21,135	601	50.1	57.1	74.0	32.1	13.9	29.6	32.7	28.7	22.2	20.9	15.9	12.8	6.5	4.5	3.7	0.6	0.7	0.7	21.7	18.4	18.4	1,725	5.2	77.2
Maharashtra Seamless	324	BUY	22,816	489	71	35.9	36.9	39.6	22.2	2.8	7.4	9.0	8.8	8.2	5.0	4.4	3.8	1.7	1.4	1.3	1.7	1.7	2.2	20.3	17.8	16.5	335	3.6	1.1
Siemens	550	ADD	185,387	3,974	337	14.2	22.8	22.7	(22.2)	61.0	(0.5)	38.8	24.1	24.2	18.7	14.0	14.2	8.2	6.8	5.6	0.5	1.3	0.8	23.3	30.8	25.2	515	(6.3)	6.6
Suzlon Energy	69	ADD	116,555	2,499	1,679	7.2	(2.4)	2.6	9.9	(133.1)	(210.5)	9.6	(29.0)	26.2	7.2	12.3	8.0	1.1	1.0	1.0	—	—	0.3	11.5	(3.6)	3.8	90	29.7	97.7
Industrials		**Attractive**	**2,889,788**	**61,953**					**13.1**	**10.3**	**30.5**	**29.2**	**26.5**	**20.3**	**16.2**	**13.6**	**11.0**	**5.7**	**4.5**	**3.8**	**0.6**	**0.8**	**0.9**	**19.5**	**16.9**	**18.6**			
Infrastructure																													
GMR Infrastructure	68	ADD	125,332	2,687	1,834	0.8	0.5	0.4	(33.5)	(38.3)	(6.8)	89.1	144.3	154.7	19.5	14.1	10.5	1.5	1.3	1.2	—	—	—	4.4	2.6	2.4	68	(0.5)	11.3
GVK Power & Infrastructure	49	ADD	76,592	1,642	1,579	0.8	0.8	1.0	(20.6)	2.5	34.2	63.6	62.1	46.3	56.0	19.7	17.9	3.3	2.4	2.3	—	—	0.6	4.8	4.5	5.1	50	3.1	18.1
IRB Infrastructure	263	ADD	87,395	1,874	332	5.3	10.6	13.5	54.3	101.2	27.0	49.7	24.7	19.4	24.5	12.4	11.1	4.8	3.9	3.2	0.4	—	—	10.1	17.3	18.0	200	(23.9)	11.1
Infrastructure		**Attractive**	**289,319**	**6,203**					**22.5**	**15.7**	**19.3**	**51.4**	**44.4**	**37.2**	**25.0**	**14.7**	**12.0**	**2.3**	**1.9**	**1.7**	**0.1**	**—**	**0.2**	**4.5**	**4.2**	**4.6**			
Media																													
DishTV	41	REDUCE	38,707	830	946	(6.6)	(1.8)	0.0	n/a	(72.2)	(101.9)	(6.2)	(22.4)	#####	(35.9)	28.1	12.1	(6.2)	102.9	94.6	—	—	—	83.9	59.0	NA	37	(9.5)	9.3
HT Media	130	ADD	30,562	655	235	0.8	5.4	7.1	(80.5)	540.7	31.9	154.0	24.0	18.2	34.7	11.8	9.5	3.5	3.2	2.9	0.2	0.8	1.5	2.3	14.0	16.7	135	3.8	0.5
Jagran Prakashan	120	ADD	36,110	774	301	3.0	5.9	6.8	(6.6)	93.7	15.9	39.4	20.3	17.6	22.4	12.1	10.2	6.4	5.9	5.3	1.7	2.9	3.1	16.7	30.3	31.7	130	8.4	1.0
Sun TV Network	315	REDUCE	124,076	2,660	394	9.1	12.1	14.6	9.5	32.7	20.8	34.7	26.1	21.6	18.3	15.0	12.1	7.0	6.1	5.3	0.8	1.3	1.9	22.5	25.3	26.3	295	(6.3)	1.9
Zee Entertainment Enterprises	257	NR	111,560	2,392	434	8.4	10.2	12.5	(4.8)	21.0	22.3	30.4	25.2	20.6	21.1	18.4	14.7	3.2	2.9	2.7	0.8	1.0	1.2	11.8	12.5	14.0	NA		9.3
Zee News	54	NR	12,997	279	240	1.9	2.4	3.2	20.4	28.9	34.0	29.1	22.6	16.9	14.3	11.2	8.8	5.3	4.4	3.7	0.7	0.7	1.3	20.1	21.9	24.4	NA		2.4
Media		**Neutral**	**354,012**	**7,589**					**(21.0)**	**161.6**	**41.7**	**83.6**	**31.9**	**22.6**	**25.7**	**15.8**	**12.0**	**5.6**	**4.6**	**4.1**	**0.7**	**1.2**	**1.5**	**6.7**	**14.3**	**18.2**			
Metals																													
Hindalco Industries	129	BUY	226,175	4,849	1,753	2.8	4.5	13.1	(77.9)	61.1	193.3	46.6	28.9	9.9	13.6	9.2	6.9	1.2	0.8	0.7	—	—	—	9.6	5.9	8.0	135	4.6	36.2
National Aluminium Co.	390	SELL	251,249	5,386	644	19.7	8.3	27.1	(22.0)	(57.9)	226.9	19.7	47.0	14.4	9.7	19.5	6.8	2.4	2.3	2.0	1.3	0.5	0.5	12.8	5.1	15.1	310	(20.5)	2.3
Jindal Steel and Power	680	SELL	631,215	13,532	928	196.9	41.1	49.0	138.0	(79.1)	19.2	3.5	16.5	13.9	13.6	10.9	8.7	8.1	5.5	3.9	0.2	0.1	0.1	50.9	39.7	33.0	530	(22.1)	81.5
JSW Steel	827	SELL	154,652	3,316	187	13.1	80.2	88.1	(84.7)	510.1	9.8	62.9	10.3	9.4	10.7	6.3	6.6	1.7	1.3	1.0	0.1	0.4	0.6	11.7	14.7	12.5	670	(19.0)	40.5
Hindustan Zinc	921	BUY	388,983	8,339	423	64.6	79.7	93.9	(38.0)	23.4	17.8	14.3	11.6	9.8	10.7	7.6	5.4	2.6	2.1	1.8	0.4	0.5	0.5	20.2	20.4	19.8	1,100	19.5	7.8
Sesa Goa	338	REDUCE	276,965	5,938	821	24.7	22.2	29.1	30.2	(10.0)	30.9	13.7	15.2	11.6	10.0	9.9	7.1	6.1	4.2	3.2	0.7	1.0	1.0	52.4	32.4	30.9	265	(21.5)	76.3
Sterlite Industries	835	ADD	701,476	15,039	840	46.8	37.7	45.3	(25.8)	(19.4)	20.1	17.8	22.1	18.4	13.2	10.7	8.1	2.6	1.9	1.7	—	—	—	14.0	9.9	9.8	780	(6.5)	58.3
Tata Steel	512	BUY	454,394	9,742	887	110.1	43.0	76.6	45.3	(60.9)	78.2	4.7	11.9	6.7	5.4	7.5	5.8	1.5	1.4	1.2	2.8	1.6	1.6	24.0	12.2	19.1	525	2.5	128.1
Metals		**Cautious**	**3,085,107**	**66,140**					**(1.3)**	**(17.8)**	**44.5**	**13.5**	**16.4**	**11.3**	**9.2**	**9.0**	**6.8**	**2.5**	**2.0**	**1.7**	**0.7**	**0.5**	**0.5**	**18.8**	**12.0**	**14.7**			
Pharmaceutical																													
Biocon	258	BUY	51,620	1,107	200	4.7	14.1	17.3	(79.9)	200.5	23.1	55.0	18.3	14.9	22.0	10.4	8.7	3.4	3.0	2.6	—	—	0.0	6.2	17.5	18.8	285	10.4	6.0
Cipla	305	ADD	244,570	5,243	803	9.9	12.6	15.1	10.0	26.5	20.7	30.7	24.3	20.1	23.4	16.5	14.0	5.6	4.2	3.6	0.6	0.8	0.8	19.0	19.9	19.3	285	(6.4)	13.0
Dishman Pharma & chemicals	218	BUY	17,698	379	81	18.0	18.6	22.4	22.1	3.3	20.7	12.1	11.7	9.7	9.2	8.5	6.9	2.5	2.1	1.7	—	—	—	22.7	19.3	19.5	265	21.8	2.7
Divi's Laboratories	580	ADD	37,449	803	65	31.9	19.0	30.0	19.7	(40.4)	57.8	18.2	30.5	19.4	7.2	8.5	6.0	6.1	5.3	4.3	—	0.0	0.0	39.6	18.5	24.5	550	(5.2)	5.7
Dr Reddy's Laboratories	1,109	BUY	187,818	4,027	169	32.4	54.4	60.8	24.3	67.8	11.8	34.2	20.4	18.2	14.4	11.6	9.9	5.3	4.3	3.6	0.6	0.6	0.7	13.6	23.3	21.5	990	(10.7)	13.3
GlaxoSmithkline Pharmaceuticals (a)	1,600	REDUCE	135,491	2,905	85	54.6	60.1	66.1	13.8	10.0	10.0	29.3	26.6	24.2	16.5	15.0	13.2	8.6	7.3	6.3	—	—	—	31.3	29.7	27.9	1,450	(9.4)	1.2
Glenmark Pharmaceuticals	222	NR	60,767	1,303	274	11.1	12.1	16.5	(57.0)	9.3	36.2	20.0	18.3	13.4	12.8	10.9	8.6	3.8	2.6	2.2	—	—	—	17.7	16.2	17.7	320	44.3	10.3
Jubilant Organosys	291	BUY	49,690	1,065	171	16.6	28.2	31.2	(26.1)	70.2	10.6	17.6	10.3	9.3	16.0	9.0	7.6	3.8	2.8	2.2	0.4	0.4	0.6	16.2	33.8	30.0	300	3.2	2.2
Lupin	1,322	BUY	117,071	2,510	89	60.2	75.7	83.9	21.0	25.8	10.8	21.9	17.5	15.7	19.8	15.5	12.8	8.1	5.0	4.0	0.9	1.0	1.1	37.1	36.1	28.7	1,400	5.9	6.6
Piramal Healthcare	397	BUY	82,952	1,778	209	17.3	21.5	28.3	(1.9)	24.4	31.7	23.0	18.5	14.0	16.2	12.1	9.5	6.3	5.0	3.8	1.1	1.1	1.1	26.2	30.2	31.1	425	7.1	2.2
Ranbaxy Laboratories	412	REDUCE	176,531	3,785	428	(12.3)	5.3	5.6	(152.8)	(142.7)	6.8	(33.5)	NA	73.3	(78.7)	29.3	29.5	6.0	6.1	6.0	—	1.0	1.0	(13.6)	5.5	5.9	190	(53.9)	19.8
Sun Pharmaceuticals	1,441	ADD	298,538	6,400	207	87.8	57.7	65.2	17.6	(34.3)	13.1	16.4	25.0	22.1	12.8	17.9	15.1	4.2	3.7	3.2	1.0	0.9	0.9	30.2	15.9	15.9	1,400	(2.9)	18.0
Pharmaceuticals		**Attractive**	**1,539,050**	**32,995**					**(18.2)**	**27.1**	**18.5**	**28.2**	**22.2**	**18.7**	**17.9**	**14.1**	**11.9**	**5.1**	**4.2**	**3.6**	**0.5**	**0.7**	**0.7**	**18.2**	**18.9**	**19.0**			
Property																													
DLF	370	SELL	625,062	13,400	1,691	26.7	13.1	16.8	(42.0)	(50.9)	27.8	13.8	28.2	22.0	13.9	18.6	16.3	2.6	2.4	2.2	0.8	0.8	1.1	20.7	8.9	10.6	320	(13.4)	137.5
Housing Development & Infrastructure	366	ADD	126,449	2,711	345	21.3	12.3	24.0	(58.5)	(42.0)	94.9	17.2	29.7	15.2	12.7	21.4	9.1	2.9	1.9	1.6	—	0.8	1.5	18.7	9.9	15.5	350	NA	113.4
Indiabulls Real Estate	239	ADD	95,773	2,053	401	0.8	1.6	4.0	(95.4)	109.7	151.7	315.6	150.5	59.8	(62)	(166.2)	78.0	1.4	1.0	1.1	—	—	—	0.3	0.8	1.8	285	19.4	60.4
Mahindra Life Space Developer	351	BUY	14,742	316	42	10.4	12.5	15.8	(38.5)	20.5	26.3	33.9	28.1	22.3	52.1	24.9	15.9	1.7	1.6	1.5	1.1	1.1	1.1	4.8	5.7	6.9	435	24.1	0.8
Phoenix Mills	189	BUY	27,376	587	145	5.0	5.8	8.3	57.7	15.6	42.8	37.8	32.7	22.9	44.2	26.6	18.0	1.8	1.7	1.6	0.5	0.5	0.8	4.9	5.5	7.4	230	21.7	1.3
Puravankara Projects	102	REDUCE	21,801	467	213	6.8	8.3	7.9	(39.8)	22.4	(4.8)	15.1	12.3	13.0	21.7	13.6	12.9	1.6	1.5	1.4	—	2.0	2.0	11.5	12.7	11.1	100	(2.1)	3.2
Sobha	222	ADD	21,795	467	98	15.1	13.4	14.9	(52.3)	(11.3)	11.3	14.7	16.6	14.9	14.7	12.1	11.6	2.0	1.3	1.2	1.3	1.8	1.8	10.4	9.3	8.2	245	10.2	3.4
Unitech	84	SELL	206,282	4,422	2,446	7.4	3.9	4.4	(28.7)	(46.5)	12.0	11.5	21.4	19.1	18.3	16.1	13.9	4.0	1.9	1.6	—	—	—	27.3	11.2	9.2	65	(22.9)	149.7
Property		**Neutral**	**1,139,281**	**24,424**					**(42.4)**	**(39.4)**	**37.4**	**16.6**	**27.4**	**19.9**	**16.0**	**18.9**	**14.8**	**2.5**	**2.0**	**1.8**	**0.5**	**0.6**	**0.9**	**15.2**	**7.2**	**9.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	12-Nov-09		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)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Retail																													
Titan Industries	1,385	REDUCE	61,477	1,318	44	44.3	53.1	61.9	26.4	19.8	16.7	31.3	26.1	22.4	18.8	16.6	13.9	10.7	8.0	6.2	0.7	0.7	0.9	37.5	35.1	31.4	1,200	(13.4)	2.4
Retail		**Neutral**	**61,477**	**1,318**					**26.4**	**19.8**	**16.7**	**31.3**	**26.1**	**22.4**	**18.8**	**16.6**	**13.9**	**10.7**	**8.0**	**6.2**	**0.7**	**0.7**	**0.9**	**34.1**	**30.8**	**27.9**			
Sugar																													
Bajaj Hindustan	220	SELL	42,022	901	191	(1.0)	23.9	17.7	(92.1)	(2,491.2)	(25.8)	(220.1)	9.2	12.4	13.7	6.6	6.3	2.0	1.6	1.4	0.3	0.3	0.3	(1.2)	19.4	12.0	150	(31.7)	30.7
Balrampur Chini Mills	145	ADD	37,027	794	256	10.0	13.4	13.0	223.2	34.5	(2.9)	14.5	10.8	11.1	8.3	6.4	6.1	2.7	2.2	1.8	0.3	—	0.3	20.2	22.1	17.8	140	(3.4)	21.3
Shree Renuka Sugars	228	BUY	76,206	1,634	335	8.1	24.2	20.4	88.3	198.6	(15.9)	28.1	9.4	11.2	14.5	5.5	6.0	4.4	2.6	2.1	0.1	0.2	0.2	20.7	34.9	20.8	235	3.3	24.2
Sugar		**Attractive**	**155,256**	**3,328**					**3,055.5**	**217.4**	**(15.9)**	**30.6**	**9.6**	**11.5**	**12.2**	**6.0**	**6.1**	**3.0**	**2.1**	**1.8**	**0.2**	**0.2**	**0.2**	**9.8**	**22.2**	**15.6**			
Technology																													
HCL Technologies	333	REDUCE	231,678	4,967	695	17.5	16.6	22.9	14.5	(5.0)	37.9	19.1	20.1	14.5	10.6	9.7	8.7	4.0	3.6	3.1	3.6	3.6	3.6	20.9	19.5	23.0	300	(10.0)	12.7
Infosys Technologies	2,326	BUY	1,335,354	28,628	574	102.4	104.5	118.0	29.6	2.0	12.9	22.7	22.3	19.7	17.0	15.9	13.5	7.3	5.9	4.9	1.0	1.1	1.4	36.7	29.4	27.3	2,500	7.5	75.2
Mphasis BFL	757	REDUCE	157,879	3,385	208	14.2	41.5	42.2	15.7	192.6	1.8	53.4	18.3	17.9	40.7	13.4	12.1	11.0	7.2	5.4	0.5	0.6	0.7	22.8	47.7	34.2	450	(40.6)	18.5
Mindtree	609	BUY	25,066	537	41	13.2	46.8	53.6	(50.5)	253.5	14.5	46.0	13.0	11.4	7.8	9.8	7.0	4.5	3.4	2.6	0.3	—	0.9	5.5	29.7	26.0	700	14.9	4.3
Patni Computer Systems	488	REDUCE	62,744	1,345	129	26.8	36.5	41.0	(19.3)	36.1	12.4	18.2	13.4	11.9	9.5	7.2	7.1	2.5	2.0	1.9	0.4	1.5	1.7	16.2	16.0	16.7	410	(16.0)	11.5
Polaris Software Lab	165	SELL	16,251	348	99	13.2	14.5	13.9	76.6	10.5	(4.6)	12.5	11.3	11.9	5.5	6.1	6.5	2.1	1.8	1.6	1.7	1.2	1.2	18.2	17.2	14.4	125	(24.1)	8.4
TCS	655	ADD	1,282,651	27,498	1,957	26.4	32.2	36.0	3.1	21.9	11.8	24.8	20.3	18.2	17.4	15.1	13.4	8.2	6.5	5.5	1.1	1.5	2.2	36.9	35.6	32.6	650	(0.8)	45.0
Wipro	625	ADD	913,019	19,574	1,462	25.7	30.5	35.4	15.8	18.6	15.8	24.3	20.5	17.7	17.9	15.1	12.7	6.1	4.9	4.1	0.6	1.4	1.6	26.9	26.4	25.0	675	8.1	18.5
Technology		**Neutral**	**4,036,794**	**86,543**					**15.3**	**16.7**	**13.6**	**23.7**	**20.3**	**17.9**	**16.6**	**14.3**	**12.5**	**6.7**	**5.4**	**4.5**	**1.1**	**1.4**	**1.8**	**28.1**	**26.4**	**25.1**			
Telecom																													
Bharti Airtel	299	REDUCE	1,135,113	24,335	3,797	22.3	23.8	21.7	26.4	6.4	(8.8)	13.4	12.6	13.8	7.9	7.5	7.3	3.6	2.8	2.3	0.7	1.0	1.3	31.4	25.1	18.6	300	0.4	121.5
IDEA	51	REDUCE	157,676	3,380	3,104	2.9	2.0	1.2	(26.5)	(32.2)	(38.0)	17.5	25.8	41.6	6.9	7.1	7.4	1.1	1.1	1.1	—	—	—	10.4	4.4	2.9	45	(11.4)	16.0
MTNL	78	SELL	49,109	1,053	630	2.4	(2.4)	(3.2)	(66.3)	(199.6)	32.8	32.4	(32.6)	(24.5)	0.6	(1.3)	(0.9)	0.4	0.4	0.4	1.3	—	—	1.2	(1.3)	(1.7)	50	(35.9)	2.0
Reliance Communications	175	SELL	360,275	7,724	2,064	31.6	14.9	13.0	19.4	(52.8)	(12.9)	5.5	11.7	13.4	6.9	8.6	8.0	0.9	0.8	0.7	0.5	—	—	18.9	7.3	5.9	150	(14.1)	64.9
Tata Communications	375	REDUCE	106,847	2,291	285	13.6	14.0	15.2	24.0	3.2	8.2	27.6	26.8	24.7	11.9	10.8	10.0	1.5	1.5	1.5	1.3	1.7	2.0	5.4	5.2	5.5	400	6.7	3.9
Telecom		**Cautious**	**1,809,019**	**38,783**					**16.6**	**(20.9)**	**(10.4)**	**10.7**	**13.6**	**15.2**	**7.6**	**7.9**	**7.7**	**1.7**	**1.5**	**1.4**	**0.6**	**0.7**	**1.0**	**15.8**	**11.2**	**9.1**			
Transportation																													
Container Corporation	1,176	ADD	152,837	3,277	130	60.9	65.7	82.4	5.5	7.8	25.5	19.3	17.9	14.3	13.9	12.6	9.7	4.1	3.5	3.0	1.2	1.3	1.6	22.8	21.0	22.4	1,250	6.3	2.2
Transportation		**Cautious**	**152,837**	**3,277**					**5.5**	**7.8**	**25.5**	**19.3**	**17.9**	**14.3**	**13.9**	**12.6**	**9.7**	**4.1**	**3.5**	**3.0**	**1.2**	**1.3**	**1.6**	**21.0**	**19.5**	**20.7**			
Utilities																													
CESC	369	ADD	46,058	987	125	32.3	37.9	42.0	16.2	17.4	11.0	11.4	9.7	8.8	(0.5)	(1.0)	(0.9)	0.8	0.6	0.5	7.8	11.8	14.1	11.7	11.9	11.6	375	1.7	2.9
Lanco Infratech	521	ADD	125,216	2,684	241	14.5	21.1	35.4	(1.9)	44.8	68.1	35.8	24.7	14.7	20.1	18.0	8.9	6.0	3.6	2.9	—	—	—	16.4	16.8	20.2	475	(8.8)	26.5
NTPC	215	REDUCE	1,770,713	37,961	8,245	9.8	11.1	12.4	5.3	13.2	11.4	21.9	19.3	17.4	18.1	14.6	13.2	3.0	2.8	2.5	1.7	1.9	2.2	14.3	14.9	15.2	190	(11.5)	19.1
Reliance Infrastructure	1,142	BUY	258,538	5,543	226	62.7	63.7	68.6	66.7	1.6	7.8	18.2	17.9	16.6	22.8	20.9	16.6	1.5	1.4	1.3	0.6	0.7	0.8	4.9	6.1	7.8	1,250	9.5	62.5
Reliance Power	144	REDUCE	344,533	7,386	2,397	1.0	2.5	3.1	—	141.5	24.4	140.9	58.3	46.9	—	—	—	2.5	2.4	2.3	—	—	—	1.8	4.2	5.0	160	11.3	13.2
Tata Power	1,327	ADD	314,957	6,752	237	50.2	72.0	80.9	57.5	43.5	12.4	26.4	18.4	16.4	12.0	12.5	12.0	3.2	2.4	2.2	0.8	0.9	1.1	12.0	14.9	13.9	1,400	5.5	17.2
Utilities		**Attractive**	**2,860,015**	**61,315**					**16.3**	**18.5**	**14.7**	**21.4**	**18.1**	**15.7**	**15.3**	**13.9**	**12.1**	**2.6**	**2.2**	**2.1**	**1.4**	**1.7**	**1.9**	**11.9**	**12.4**	**13.1**			
Others																													
Havells India	321	REDUCE	19,338	415	60	5.1	12.2	19.5	(81)	NA	60.1	NA	26.4	16.5	10.1	9.0	7.5	3.2	3.7	3.1	0.8	0.8	0.8	4.6	13.0	20.5	210	(34.7)	1.9
Jaiprakash Associates	237	ADD	333,286	7,145	1,406	3.0	6.0	11.1	(39)	101.5	84.2	79.1	39.3	21.3	28.7	17.8	15.0	5.1	4.0	3.4	—	—	—	7.3	11.4	17.3	250	5.5	92.3
Jindal Saw	769	ADD	42,168	904	55	85.9	71.7	79.1	39	(16.6)	10.3	8.9	10.7	9.7	5.8	6.2	5.3	1.2	1.1	1.0	0.7	0.5	0.5	13.4	9.9	10.3	690	(10.2)	15.2
PSL	148	BUY	7,899	169	53	22.2	29.3	24.7	5	32.0	(15.9)	6.7	5.0	6.0	4.8	3.6	3.0	1.2	0.8	0.8	2.7	4.4	4.4	11.9	12.3	11.1	175	18.4	2.5
Sintex	219	BUY	29,852	640	136	24.0	25.0	27.9	23	4.0	11.7	9.1	8.8	7.8	8.0	6.9	5.5	1.6	1.4	1.2	0.5	0.5	0.5	17.6	15.5	14.7	280	28.0	3.7
Tata Chemicals	285	ADD	69,451	1,489	243	26.6	22.2	27.8	(33)	(16.5)	25.1	10.7	12.8	10.3	6.7	6.0	5.1	1.5	1.4	1.3	3.1	3.0	3.0	17.9	13.1	14.7	300	5.2	3.7
Welspun Gujarat Stahl Rohren	280	REDUCE	52,782	1,132	189	17.3	24.2	20.2	(16)	39.7	(16.4)	16.2	11.6	13.8	8.6	6.4	7.0	2.9	2.3	1.9	0.7	0.6	0.7	17.7	21.7	14.8	210	(24.9)	20.4
United Phosphorus	145	BUY	67,136	1,439	463	10.1	11.0	14.4	20	9.5	31.1	14.4	13.2	10.0	9.0	7.7	6.3	2.5	2.0	1.7	1.0	1.0	1.4	19.3	16.2	17.6	180	24.1	6.5
Others			**668,421**	**14,330**					**(6.4)**	**23.0**	**31.9**	**21.0**	**17.1**	**12.9**	**12.4**	**10.1**	**9.1**	**2.7**	**2.3**	**2.0**	**0.6**	**0.6**	**0.7**	**13.1**	**13.5**	**15.3**			
KS universe (b)			**38,210,804**	**819,183**					**1.7**	**16.6**	**16.2**	**19**	**16.0**	**13.7**	**11.7**	**9.6**	**8.3**	**2.9**	**2.4**	**2.1**	**1.2**	**1.6**	**1.8**	**15.4**	**15.2**	**15.6**			
KS universe (b) ex-Energy			**30,262,646**	**648,786**					**5.4**	**8.8**	**15.5**	**18.9**	**17.4**	**15.0**	**13.6**	**11.8**	**10.2**	**3.2**	**2.7**	**2.3**	**1.1**	**1.2**	**1.4**	**16.9**	**15.4**	**15.5**			
KS universe (d) ex-Energy & ex-Commodities			**26,520,480**	**568,560**					**7.5**	**12.9**	**13.5**	**20.3**	**18.0**	**15.8**	**15.5**	**13.2**	**11.5**	**3.4**	**2.8**	**2.5**	**1.1**	**1.3**	**1.5**	**16.5**	**15.7**	**15.7**			

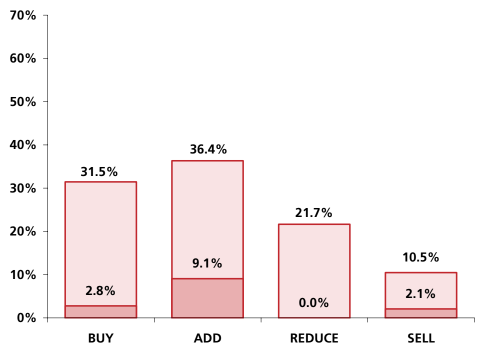
Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 0.00

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, Mridul Saggar, Amit Kumar"

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 30/9/2009 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities

As of September 30, 2009

Ratings and other definitions/identifiers

Rating system

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 Sensexby 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 (A), Neutral (N), Cautious (C).

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.

Corporate Office

Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel:+1-914-997-6120