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News Round-up

- ▶ Reliance Comm. (RCOM IN) board approved, in principle, the sale of upto 26% in the mobile services company to a strategic or a private equity investor. *(BSTD)*
- ▶ The govt. made it mandatory for all listed cos. to have a minimum public float of 25%. Those below this level will have to get there by an annual addition of at least 5% to public holding. *(BSTD-Sat)*
- ▶ Shree Cement (SRCM IN) has entered into an MoU with the Karnataka govt. to invest USD 425.53mn for setting up a cement unit & a power plant. *(BSTD)*
- ▶ Welspun Corp. has bagged orders worth USD 148.94mn for pipes & plates. *(BSTD-Sat)*
- ▶ Lanco Infratech (LANCI IN) has bagged a contract worth USD 19.50mn for construction of a new terminal building at Biju Patnaik Airport, Bhubaneswar. *(BSTD-Sat)*
- ▶ Lupin (LPC IN) has received USFDA approval for marketing & distributing Lamotrigine tablets, used for treating bipolar disorders, in the American market. *(BSTD-Sat)*
- ▶ Jaiprakash Associates (JPA IN) would invest around USD 2.13bn in the next 3 years to increase its annual production capacity to 50 million tones from a little over 20 million tones at present. *(BSTD-sat)*
- ▶ Reliance Ind (RIL IN) may foray into nuclear energy after being freed from a non-compete agreement with the ADAG that barred it from investing in some businesses, including power. *(ECNT)*
- ▶ CESC (CESC IN) acquires 100% ownership by snapping the remaining 50% for share over USD 22 mn. *(ECNT)*
- ▶ Mahindra & Mahindra (MM IN) and Ruia enter final lap of race for Ssangyong Motor. *(FNLE-SAT)*
- ▶ Steel Authority of India Ltd (SAIL IN) will invest USD 650 mn on environment management efforts as part of its modernization and expansion plan. *(THBL SUN)*
- ▶ Mytas Infra Ltd (MAY IN) has bagged a contract from ITNL ENSO rail systems for design and construction of Elevated Viaduct (single/double lane) and six stations for Rapid Metro Rail Gurgaon Ltd. *(THBL SUN)*

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

EQUITY MARKETS

| India | Change % | | | |
|--------------------------------|----------|-------|-------|-------|
| | 4-Jun | 1-day | 1-mo | 3-mo |
| Sensex | 17,118 | 0.6 | 2.1 | 0.7 |
| Nifty | 5,136 | 0.5 | 2.3 | 0.9 |
| Global/Regional indices | | | | |
| Dow Jones | 9,932 | (3.2) | (4.3) | (6.0) |
| Nasdaq Composite | 2,219 | (3.6) | (2.1) | (4.6) |
| FTSE | 5,126 | (1.6) | 0.1 | (8.5) |
| Nikkie | 9,512 | (3.9) | (8.2) | (8.3) |
| Hang Seng | 19,780 | (0.0) | (0.7) | (4.8) |
| KOSPI | 1,623 | (2.4) | (1.5) | (0.7) |
| Value traded – India | | | | |
| Cash (NSE+BSE) | 146 | | 175 | 178 |
| Derivatives (NSE) | 641 | | 765 | 631 |
| Deri. open interest | 1,215 | | 1,118 | 1,040 |

Forex/money market

| Change, basis points | | | | |
|----------------------|-------|-------|------|------|
| | 4-Jun | 1-day | 1-mo | 3-mo |
| Rs/US\$ | 46.8 | 15 | 222 | 104 |
| 10yr govt bond, % | 7.6 | - | (4) | (40) |

Net investment (US\$m)

| | 4-Jun | MTD | CYTD |
|-----|-------|-------|-------|
| FII | 106 | (101) | (230) |
| MFs | (3) | - | (282) |

Top movers -3mo basis

| Change, % | | | | |
|------------------|--------|-------|--------|--------|
| Best performers | 4-Jun | 1-day | 1-mo | 3-mo |
| BJFIN IN Equity | 469.9 | (2.8) | 18.1 | 39.4 |
| BOB IN Equity | 741.8 | 0.5 | 7.2 | 24.7 |
| IBULL IN Equity | 140.2 | (1.2) | (4.4) | 24.6 |
| DRRD IN Equity | 1405.6 | 0.7 | 16.6 | 22.0 |
| ITC IN Equity | 290.9 | 1.9 | 12.2 | 18.8 |
| Worst performers | | | | |
| ABAN IN Equity | 700.0 | 0.6 | (30.8) | (43.7) |
| GRASIM IN Equity | 1772.5 | (1.0) | (30.8) | (37.0) |
| PUNJ IN Equity | 118.7 | 0.8 | (21.1) | (36.0) |
| NMDC IN Equity | 273.9 | (0.1) | (7.0) | (34.3) |
| SUEL IN Equity | 55.8 | 0.9 | (17.5) | (30.6) |

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RESULT

Coverage view: **Cautious**

Price (Rs): 148

Target price (Rs): 190

BSE-30: 17,118

Company data and valuation summary

Hindalco Industries

| Stock data | | | | Forecasts/Valuations | | | |
|-------------------------------|--------|--------|------|----------------------|--------|-------|-------|
| 52-week range (Rs) (high,low) | 193-68 | | | EPS (Rs) | 5.7 | 12.5 | 14.7 |
| Market Cap. (Rs bn) | 282.5 | | | EPS growth (%) | (64.5) | 119.8 | 18.2 |
| Shareholding pattern (%) | | | | P/E (X) | 26.0 | 11.8 | 10.0 |
| Promoters | 32.1 | | | Sales (Rs bn) | 607.2 | 660.3 | 716.3 |
| Flls | 37.6 | | | Net profits (Rs bn) | 10.9 | 23.9 | 28.2 |
| MFs | 2.9 | | | EBITDA (Rs bn) | 70.1 | 70.9 | 75.8 |
| Price performance (%) | 1M | 3M | 12M | EV/EBITDA (X) | 8.1 | 8.9 | 9.1 |
| Absolute | (9.4) | (12.1) | 58.8 | ROE (%) | 10.3 | 10.2 | 11.0 |
| Rel. to BSE-30 | (11.3) | (12.8) | 40.1 | Div. Yield (%) | 0.9 | 0.9 | 0.9 |

Consolidated net income grows 8X, helped by unrealized derivative gains and Novelis turnaround

Hindalco reported consolidated net income of Rs39.3 bn, 8X growth over FY2009. Net income was helped by Rs27.4 bn of unrealized derivative gains versus a loss of Rs23.8 bn in FY2009. Consolidated adjusted EBITDA increased by 31% to Rs71 bn, partly led by:

- ▶ Turnaround in operations of Aditya Birla Minerals with reported EBITDA of AUD113 mn versus a loss of AUD64 mn in FY2010. The turnaround was led by a 5% increase in realizations, a decline in cost structure (salary expenses declined 30%), higher forex income and an absence of inventory write-down. Aditya Birla Minerals reported net income of AUD61 mn versus a loss of AUD75 mn in FY2009.
- ▶ Strong turnaround in Novelis' operations with the company reporting adjusted EBITDA of US\$754mn versus US\$486 mn in FY2009. Novelis performance improvement was led by aggressive cost management, elimination of can ceiling contracts towards end-FY2010E and negotiations of pricing increases.

Fine-tune earnings estimates; Reiterate ADD rating

We update our model for consolidated FY2010 performance and have marginally changed our earnings estimates. Our revised EPS estimates stands at Rs12.5 for FY2011E and Rs14.7 for FY2012E versus Rs12.3 and Rs14.9 earlier. Our target price of Rs190 is based on aluminium price of US\$2,050/ ton and US\$2,150/ ton for FY2011E and FY2012E, respectively. At the spot aluminum price our target price will be lower by Rs30 at Rs165. We highlight that the steady performance of Novelis will provide valuation support to Hindalco in the near term. In addition, capacity expansion programs backed by raw material integration will create value in the medium term (FY2013E and beyond).

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

Karan Durante
karan.durante@kotak.com
Mumbai: +91-22-6634-1527

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

Capacity expansion projects on track and value accretive

Exhibit 1 details the key expansion projects of Hindalco. We highlight that the alumina refinery project and aluminium expansion is backed by allocation bauxite mines and coal blocks/linkages. These integrated projects will lead to cash cost of production of US\$1,100/ton (in the second quartile of the global cost curve).

Hindalco has also announced the expansion of smelting capacity at Hirakud smelter to 360 ktpa from the proposed 213 ktpa (to be commissioned by 4QFY12). This expansion will be backed by an increase in back-up captive power to 968 MW from proposed 468 MW. The company did not announce the quantum of investments for this brownfield expansion.

Details of Hindalco's planned capacity expansion

| Project Name | Commissioning date | Project type | Capacity ktpa | Capex (Rs bn) |
|---|--------------------|------------------|---------------|---------------|
| 1. Brownfield Expansion Projects | | | | |
| Hirakud Smelter & Power expansion: | | | | 9 |
| 155 KTPA to 161 KTPA | Q2FY11 | | 8 | |
| 161 KTPA to 213 KTPA | Q4FY12 | Smelter | 52 | |
| Flat rolled products at Hirakud | Q2FY12 | FRP | | 9 |
| 2. Greenfield Projects | | | | |
| UTKAL Alumina Project | Q2FY12 | Alumina refinery | 1,500 | 56 |
| Mahan Alumina Project | Q2FY12 | Smelter | 359 | 92 |
| Aditya Aluminium Project | Q3FY12 | Smelter | 359 | 92 |
| Aditya Refinery Project | Q1FY14 | Alumina refinery | 1,500 | 60 |
| Jharkhand Aluminium Project | Q1FY14 | Smelter | 359 | 100 |
| Total | | | | 417 |

Source: Company

Hindalco Industries - Consolidated results, March fiscal year-ends

| | 2009 | 2010 |
|---|----------------|----------------|
| Net revenues | 656,252 | 607,221 |
| Increase/ (decrease) in stock | (27,618) | 17,012 |
| Raw material costs | (421,345) | (381,004) |
| Purchase of traded goods | (1,167) | (738) |
| Employee costs | (49,544) | (50,650) |
| Power and fuel | (39,040) | (33,451) |
| Other expenses | (63,955) | (88,296) |
| EBITDA | 53,584 | 70,094 |
| Depreciation and amortization | (30,378) | (27,836) |
| EBIT | 23,206 | 42,258 |
| Other income | 6,878 | 3,227 |
| Interest income | | |
| Interest expense | (12,323) | (11,041) |
| Adjusted pre-tax profits | 17,761 | 34,444 |
| Extraordinary items | (23,810) | 27,364 |
| Prior Period Adjustments | 1,491 | 1,030 |
| Reported pre-tax profits | (4,558) | 62,837 |
| Current tax expense | (8,847) | (18,723) |
| Deferred tax (liability)/asset | 16,894 | (596) |
| Income before minorities | 3,488 | 43,519 |
| Minorities | 1,718 | (4,237) |
| Share in profit/ (losses) of associates | (353) | (27) |
| Net income | 4,853 | 39,255 |
| Adjusted net income | 19,791 | 19,617 |
| Adjusted EPS (Rs) | | |
| Year end | 11.6 | 10.2 |
| Average | 13.5 | 10.9 |
| Fully diluted | 11.6 | 10.2 |

Source: Company

Hindalco - Valuation, FY2011E basis (Rs mn)

| | | Multiple (X) | Value (Rs mn) (Rs/share) | |
|--|---------|-----------------|-----------------------------|------------|
| Hindalco FY2011E EBITDA | 27,916 | 6.0 | 167,496 | 88 |
| Novelis FY2011E EBITDA | 37,493 | 7.0 | 262,453 | 137 |
| ABML FY2011E EBITDA (proportionate stake) | 2,867 | 5.0 | 14,337 | 7 |
| Total Enterprise Value | | | 444,286 | 232 |
| Add: Value of listed investments (20% holding co discount) | | | 26,955 | 14 |
| Less: net debt (adjusted for CWIP) | 105,383 | | 105,383 | 55 |
| Arrived market capitalization | | | 338,903 | 191 |
| Target price (Rs) | | | | 190 |

Source: Kotak Institutional Equities estimates

Hindalco (consolidated) - Profit model, balance sheet and cash flow model, March fiscal year-ends, 2008-2013E (Rs mn)

| | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E |
|---|----------------|----------------|-----------------|-----------------|-----------------|----------------|
| Profit model (Rs mn) | | | | | | |
| Net sales | 600,128 | 656,252 | 607,221 | 660,323 | 716,266 | 804,991 |
| EBITDA | 66,351 | 53,584 | 70,094 | 70,940 | 75,844 | 99,156 |
| Other income | 6,560 | 6,878 | 3,227 | 4,004 | 3,963 | 4,913 |
| Interest | (18,491) | (12,323) | (11,041) | (15,617) | (15,007) | (28,933) |
| Depreciation | (24,883) | (30,378) | (27,836) | (25,562) | (24,190) | (29,467) |
| Profit before tax | 29,537 | 17,761 | 34,444 | 33,764 | 40,609 | 45,669 |
| Extraordinaries | 5,481 | (22,319) | 28,394 | - | - | - |
| Taxes | (11,889) | 8,046 | (19,319) | (8,637) | (10,849) | (11,846) |
| Profit after tax | 23,130 | 3,488 | 43,519 | 25,126 | 29,761 | 33,823 |
| Minority interest | (2,194) | 1,718 | (4,237) | (1,230) | (1,509) | (1,594) |
| Share in profit/(loss) of associates | 998 | (353) | (27) | (27) | (27) | (27) |
| Reported net income | 21,933 | 4,853 | 39,255 | 23,870 | 28,225 | 32,202 |
| Adjusted net income | 16,452 | 19,791 | 19,617 | 23,870 | 28,225 | 32,202 |
| Fully diluted EPS (Rs) | 12.9 | 11.6 | 10.2 | 12.5 | 14.7 | 16.8 |
| Balance sheet (Rs mn) | | | | | | |
| Equity | 172,866 | 158,536 | 222,465 | 243,311 | 268,513 | 297,693 |
| Deferred tax liability | 41,723 | 27,571 | 28,167 | 28,566 | 28,742 | 32,388 |
| Total Borrowings | 323,524 | 283,098 | 256,950 | 332,750 | 409,350 | 429,350 |
| Current liabilities | 172,201 | 162,602 | 145,657 | 155,577 | 166,028 | 180,398 |
| Minority interest | 16,154 | 12,866 | 17,103 | 18,332 | 19,841 | 21,435 |
| Total liabilities | 726,467 | 644,672 | 670,342 | 778,537 | 892,475 | 961,263 |
| Net fixed assets | 267,820 | 275,249 | 268,155 | 250,136 | 223,425 | 469,445 |
| Capital work in progress | 24,571 | 29,495 | 55,105 | 150,615 | 257,493 | 6,531 |
| Goodwill | 79,247 | 42,908 | 42,908 | 42,908 | 42,908 | 42,908 |
| Investments | 140,077 | 104,308 | 104,281 | 104,255 | 104,228 | 104,201 |
| Cash | 17,169 | 21,918 | 13,498 | 34,317 | 53,487 | 107,080 |
| Other current assets | 197,574 | 170,791 | 186,395 | 196,307 | 210,934 | 231,099 |
| Miscellaneous expenditure | 10 | 4 | - | - | - | - |
| Total assets | 726,467 | 644,672 | 670,342 | 778,537 | 892,475 | 961,263 |
| Free cash flow (Rs mn) | | | | | | |
| Operating cash flow excl. working capital | 27,709 | (7,156) | 60,081 | 47,083 | 50,164 | 62,022 |
| Working capital changes | 7,576 | 29,309 | (25,366) | 8 | (4,176) | (5,795) |
| Capital expenditure | (27,507) | (25,988) | (46,352) | (103,054) | (104,357) | (24,525) |
| Free cash flow | 7,778 | (3,834) | (11,638) | (55,963) | (58,369) | 31,702 |
| Ratios | | | | | | |
| EBITDA margin (%) | 11.1 | 8.2 | 11.5 | 10.7 | 10.6 | 12.3 |
| EBIT margin (%) | 6.9 | 3.5 | 7.0 | 6.9 | 7.2 | 8.7 |
| Debt/equity (X) | 1.9 | 1.8 | 1.2 | 1.4 | 1.5 | 1.4 |
| Net debt/equity (X) | 1.2 | 1.4 | 0.9 | 1.1 | 1.2 | 0.9 |
| Net debt/EBITDA (X) | 3.2 | 4.1 | 2.9 | 3.6 | 4.1 | 2.8 |
| RoAE (%) | 10.9 | 11.9 | 10.3 | 10.2 | 11.0 | 11.4 |
| RoACE (%) | 7.9 | 5.4 | 4.8 | 6.4 | 6.0 | 7.6 |

Source: Company, Kotak Institutional Equities

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UPDATE

Coverage view: **Attractive**

Price (Rs): **2,731**

Target price (Rs): **3,100**

BSE-30: **17,118**

On a roll (notes from management meetings). We discuss key takeaways from senior management meetings at Infosys – (1) FY2010 saw the highest G-1000 new account openings for Infosys (2) demand environment remains healthy driven by strong customer confidence and increase in spend/budget ratio, (3) situation in Eurozone not a worry, outside cross-currency impact of reported US\$ revenues, (4) cost pressure, led by increasing attrition in the industry, remains manageable, and (5) the company may hire more than its guidance of 30,000 (gross). Reiterate BUY.

Company data and valuation summary

Infosys Technologies

Stock data

52-week range (Rs) (high,low) 2,875-1,601

Market Cap. (Rs bn) 1,567.3

Shareholding pattern (%)

Promoters 16.0

FIs 55.0

MFs 4.0

Price performance (%)

Absolute 1M 3M 12M

Rel. to BSE-30 2.4 4.1 67.5

2.5 3.2 46.9

Forecasts/Valuations

| | 2010 | 2011E | 2012E |
|---------------------|-------|-------|-------|
| EPS (Rs) | 108.3 | 125.2 | 150.5 |
| EPS growth (%) | 5.7 | 15.6 | 20.2 |
| P/E (X) | 25.2 | 21.8 | 18.1 |
| Sales (Rs bn) | 227.4 | 273.2 | 328.4 |
| Net profits (Rs bn) | 62.2 | 71.9 | 86.4 |
| EBITDA (Rs bn) | 78.6 | 93.3 | 110.8 |
| EV/EBITDA (X) | 18.4 | 15.0 | 12.2 |
| ROE (%) | 30.1 | 28.2 | 28.0 |
| Div. Yield (%) | 0.9 | 1.3 | 1.5 |

Demand environment remains healthy; quality of client additions in the past 12 months impressive

Infosys management indicated that overall demand environment remains buoyant, driven by high customer confidence – this, in addition to on-time IT budget finalization in CY2010, is translating into a sharp increase in spend/budget ratio in CY2010 versus CY2009. A low-single digit increase in budgets, 5-15% increase in spend/budget ratio and continuous market share gains for offshore players should translate into ~20% revenue growth for the Indian IT services industry, in our view, with the Tier-I players growing faster than the industry.

Other key comments on demand scenario – (1) the company did indicate that clients are still being cautious on taking decisions on long-term discretionary spends, given the sustained uncertainty on the direction of global economy, (2) BFSI vertical continues to see strong demand traction; Infosys indicated manufacturing and retail as the other two strong growth drivers among verticals, and (3) troubles in some Eurozone countries have not impacted overall demand momentum in Europe (we are hosting a call with B G Srinivas, Head of Infosys' European operations on Monday, June 7, 2010 at 1730 hours IST – please get in touch with us for details).

Infosys indicated that FY2010 saw the largest G-1000 client additions (24, net) in the company's history – Infosys now works with 185 of G-1000 companies. The company also saw a sharp increase in first-year revenues per new client in FY2010, another indicator of quality of client wins.

Cost pressure manageable; attrition a worry

- ▶ Cost pressure remains manageable, despite pressure on wages on account of increasing attrition in the industry.
- ▶ Little scope for a like-on-like price increase over the course of CY2010 – stance differs with that of TCS/CTSH, who have indicated possibility of a pricing uptick over the next couple of quarters.
- ▶ Increasing attrition is a worry, and Infosys may have to hire more than its guidance of 30,000 gross to back-fill higher-than-expected attrition.

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

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

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

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

BFSI likely to remain strong; manufacturing/retail among the other key growth drivers

- ▶ BFSI – Infosys indicated that work around M&A integration and regulatory compliance has just started and will likely continue for the next few quarters, at the least. The company does not see a sudden-dip scenario (on account of M&A project completion) in the BFSI vertical.
- ▶ Telecom service providers – (1) capex cycle has returned; however, Infosys indicated that their TSP vertical performance is linked more to an increase in opex, which may still be some time away, (2) the company expects wireless segment (currently 8-10% of TSP vertical revenues) to be a strong growth driver in the medium term, and (3) Infosys has signed 7 new accounts in the CME vertical over the past 12 months and believes that some of these could start becoming meaningful growth drivers in the next 6-12 months.
- ▶ Other verticals – Infosys indicated manufacturing and retail as the other 'strong traction' verticals, growth being driven by new 'offshore adopters', especially in the European geography.

Reiterate BUY; remains our top pick in the sector

We remain positive on the Tier-I Indian IT names with a preference for Infosys within the pack. We expect Infosys to lead the industry in US\$ revenue growth in FY2011E (we build in 26% \$-revenue growth for FY2011E in our estimates). Infosys is also the best-positioned in the industry to manage attrition (given its low utilization rates) and margins (utilization and employee pyramid expansion are the key levers). Reiterate BUY with a target price of Rs3,100/share.

Profit model, balance sheet, cash model of Infosys Technologies, 2008-2012E, March fiscal year-ends (Rs mn)

| | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|----------------|----------------|----------------|----------------|----------------|
| Profit model | | | | | |
| Revenues | 166,920 | 216,930 | 227,420 | 273,224 | 328,425 |
| Cost of sales | (92,070) | (117,650) | (120,710) | (144,858) | (175,130) |
| SG&A expenses | (22,470) | (27,330) | (28,100) | (35,088) | (42,463) |
| EBITDA | 52,380 | 71,950 | 78,610 | 93,278 | 110,832 |
| Depreciation | (5,980) | (7,610) | (9,050) | (9,476) | (10,603) |
| EBIT | 46,400 | 64,340 | 69,560 | 83,802 | 100,229 |
| Other income | 7,040 | 4,730 | 9,430 | 10,725 | 12,775 |
| Pre-tax profits | 53,440 | 69,070 | 78,990 | 94,526 | 113,004 |
| Provision for tax | (8,060) | (10,270) | (16,810) | (22,662) | (26,631) |
| Recurring net income | 45,380 | 58,800 | 62,180 | 71,865 | 86,373 |
| Extraordinaries | 1,210 | 1,080 | 480— | — | — |
| Reported net income | 46,590 | 59,880 | 62,660 | 71,865 | 86,373 |
| EPS (Rs) | 79.1 | 102.4 | 108.3 | 125.2 | 150.5 |
| Balance Sheet | | | | | |
| Shareholders funds | 137,950 | 182,540 | 230,490 | 279,079 | 337,178 |
| Deferred tax liability/(assets) | (1,190) | (1,260) | (2,000) | (2,000) | (2,000) |
| Borrowings | — | — | — | — | — |
| Minority interest | — | — | — | — | — |
| Total liabilities | 136,760 | 181,280 | 228,490 | 277,079 | 335,178 |
| Gross block | 54,390 | 70,930 | 78,390 | 92,476 | 107,584 |
| Accumulated depreciation | (19,860) | (24,160) | (28,930) | (38,406) | (49,009) |
| Net block | 34,530 | 46,770 | 49,460 | 54,070 | 58,575 |
| CWIP | 13,240 | 6,770 | 4,090 | 4,090 | 4,090 |
| Net fixed assets | 47,770 | 53,540 | 53,550 | 58,160 | 62,665 |
| Cash and bank balances | 83,960 | 112,460 | 124,480 | 165,841 | 215,631 |
| Net current assets excluding cash | 5,030 | 15,280 | 50,460 | 53,078 | 56,882 |
| Total assets | 136,760 | 181,280 | 228,490 | 277,079 | 335,178 |
| Cashflow statement | | | | | |
| Operating profit before working capital changes | 52,380 | 71,950 | 78,610 | 93,278 | 110,832 |
| Change in working capital/other adjustments | (8,590) | (3,390) | (250) | (2,618) | (3,804) |
| Capital expenditure | (14,940) | (13,270) | (6,750) | (14,086) | (15,108) |
| Taxes paid | (6,700) | (9,020) | (17,530) | (22,662) | (26,631) |
| Free cash flow | 22,150 | 46,270 | 54,080 | 53,912 | 65,289 |

Source: Company, Kotak Institutional Equities estimates

JUNE 07, 2010
UPDATE

Coverage view: **Cautious**

Price (Rs): **168**

Target price (Rs): **140**

BSE-30: **17,118**

Event update – in-principle board approval to dilute equity. The Board of Reliance Communications has given in-principle approval for the company to dilute a 26% stake in the company (“to a financial or strategic investor at a premium to current market price”) to raise fresh cash in the company. We would view the event (fresh cash being raised at >CMP of Rs168, which is higher than our fair value of Rs140), if it happens, as positive for RCOM. However, we would also sound a note of caution on the sustained flow of risk-capital into the industry.

Company data and valuation summary

Reliance Communications

| Stock data | | | | Forecasts/Valuations | | | | 2010 | 2011E | 2012E |
|---------------------------------|-----|-----|--------|----------------------|--|--|--|--------|--------|-------|
| 52-week range (Rs) (high,low) | | | | EPS (Rs) | | | | 22.1 | 14.1 | 18.2 |
| Market Cap. (Rs bn) | | | | EPS growth (%) | | | | (30.2) | (36.2) | 29.1 |
| Shareholding pattern (%) | | | | P/E (X) | | | | 7.6 | 12.0 | 9.3 |
| Promoters | | | | Sales (Rs bn) | | | | 222.5 | 222.9 | 260.2 |
| FIs | | | | Net profits (Rs bn) | | | | 48.8 | 31.1 | 40.0 |
| MFs | | | | EBITDA (Rs bn) | | | | 78.9 | 67.4 | 83.0 |
| Price performance (%) | | | | EV/EBITDA (X) | | | | 7.1 | 7.8 | 5.8 |
| Absolute | | | | ROE (%) | | | | 11.7 | 7.4 | 8.9 |
| Rel. to BSE-30 | | | | Div. Yield (%) | | | | 0.5 | 0.0 | 0.0 |
| | 1M | 3M | 12M | | | | | | | |
| | 3.8 | 2.4 | (50.9) | | | | | | | |
| | 3.9 | 1.5 | (57.0) | | | | | | | |

RCOM board gives in-principle approval to dilute up to 26% equity

As per press reports, the board of RCOM has given in-principle approval for the company to raise fresh capital by diluting upto 26% of its equity. Highlights from a press release quoted in the media, the company – “will sell shares at an appropriate premium to the prevailing market price...to a strategic or private equity investor...examine and pursue other appropriate strategic combination or consolidation opportunities”.

Positive for the stock if the dilution takes place at a price higher than CMP

Our thoughts on what the event means for RCOM, the stock and its minority shareholders:

- ▶ 25% equity dilution (fresh issuance of 711 mn shares) at Rs170-210/share will raise Rs121-149 bn for RCOM. Including 3G payout and likely incremental capex, we estimate a net debt of Rs267 bn at end-FY2011E for RCOM, implying a net-debt to EBITDA of 4X, clearly outside the comfort zone (upto 3X) for telecom companies. We also highlight that RCOM may have some large debt repayments coming up (the two FCCB tranches of US\$296 mn, and US\$925 mn, mature in FY2011 and FY2012, respectively). At various price levels between 170 and 210, fresh equity issuance would bring down RCOM's end-FY2011E net-debt-to-EBITDA to 1.7-2.2X.
- ▶ We would view the event – essentially fresh equity issuance at a price greater than the CMP (Rs168/share), which is greater than our fair value of Rs140/share – if it happens, as positive for the RCOM stock from two perspectives: (1) technically, fresh capital raised at greater than pre-money fair value increases the post-money fair value, and (2) potential improvement in competitive positioning as the balance sheet situation improves.
- ▶ For the minority shareholders, a potential increase in the fair value of the stock aside, there is also a possibility of an open offer (for 20% of increased outstanding equity) if the fresh equity placement involved a single entity buying more than 15% stake in the company. A strategic sale could see such a scenario; however, placement to a set of PE investors may mean such a scenario does not play out.

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

Past resolutions have not materialized

We highlight that RCOM board had approved capital-raising plans earlier in the form of (1) a QIP at the parent level – resolution passed in May 2009, and (2) sale of upto 10% stake in its subsidiary Reliance Infratel, either through an IPO or a private placements. These events have not materialized – lack of success is partly understandable given the lack of appetite for telecom paper in the market.

We remain Cautious on the sector

The event would indeed be positive for RCOM, if it happens, however, we would view it as negative for the sector. This event would mean a further infusion of risk capital in the industry, without leading to any consolidation. Wireless operators in India continue to be engaged in a revenue market share dogfight and the battle, in our view, continues to be fought on the balance sheet rather than P&L considerations. In such a scenario, we view any event that strengthens the balance sheet of an operator, without consolidating the industry, as negative for the sector. Reiterate Cautious coverage view.

Assessing the impact of fresh money raised on RCOM's fair value

| | Pre-deal | Post-deal scenarios | | | | |
|------------------------------------|------------|---------------------|------------|------------|------------|------------|
| Fresh issue price (Rs/share) | | 170 | 180 | 190 | 200 | 210 |
| # of shares issued (mn) | | 711 | 711 | 711 | 711 | 711 |
| Total shares post-issue (mn) | 2,133 | 2,844 | 2,844 | 2,844 | 2,844 | 2,844 |
| Stake diluted (%) | | 25 | 25 | 25 | 25 | 25 |
| Cash raised | | 120,870 | 127,980 | 135,090 | 142,200 | 149,310 |
| Assuming no change in EV | | | | | | |
| EV pre/post-deal | 565,430 | 565,430 | 565,430 | 565,430 | 565,430 | 565,430 |
| Net debt (a) | 266,810 | 145,940 | 138,830 | 131,720 | 124,610 | 117,500 |
| Equity value | 298,620 | 419,490 | 426,600 | 433,710 | 440,820 | 447,930 |
| Per share equity value (Rs) | 140 | 148 | 150 | 153 | 155 | 158 |
| Assuming 10% increase in EV | | | | | | |
| EV post-deal | | 621,973 | 621,973 | 621,973 | 621,973 | 621,973 |
| Net debt | | 145,940 | 138,830 | 131,720 | 124,610 | 117,500 |
| Equity value | | 476,033 | 483,143 | 490,253 | 497,363 | 504,473 |
| Per share equity value (Rs) | | 167 | 170 | 172 | 175 | 177 |
| Assuming 20% increase in EV | | | | | | |
| EV post-deal | | 678,516 | 678,516 | 678,516 | 678,516 | 678,516 |
| Net debt | | 145,940 | 138,830 | 131,720 | 124,610 | 117,500 |
| Equity value | | 532,576 | 539,686 | 546,796 | 553,906 | 561,016 |
| Per share equity value (Rs) | | 187 | 190 | 192 | 195 | 197 |

Note:

(a) Including 3G investments.

Source: Kotak Institutional Equities estimates

RCOM's condensed financial statements, March year ends, 2009-2017E

| | 2009 | 2010 | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E |
|---|------------------|---------------|----------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Profit model (Rs mn) | | | | | | | | | |
| Revenue | 229,411 | 222,504 | 222,864 | 260,210 | 292,804 | 322,135 | 347,945 | 371,459 | 393,723 |
| EBITDA | 92,976 | 78,870 | 67,360 | 82,958 | 98,480 | 109,701 | 118,394 | 125,834 | 132,994 |
| EBIT | 56,899 | 41,404 | 27,830 | 40,727 | 53,006 | 60,976 | 66,339 | 70,338 | 73,891 |
| Net interest income / (expense) | 12,049 | 11,863 | 9,644 | 7,413 | 3,167 | 3,953 | 6,022 | 6,685 | 6,701 |
| Tax | 518 | (4,454) | (6,369) | (8,181) | (9,547) | (11,035) | (12,298) | (16,090) | (18,697) |
| Net profit | 67,430 | 47,385 | 29,989 | 38,730 | 45,337 | 52,540 | 58,640 | 59,440 | 60,327 |
| Fully diluted EPS | 31.6 | 22.1 | 14.1 | 18.2 | 21.3 | 24.6 | 27.5 | 27.9 | 28.3 |
| Balance sheet (Rs mn) | | | | | | | | | |
| Cash | 16,829 | 48,691 | 64,331 | 65,349 | 78,381 | 94,083 | 107,248 | 115,555 | 124,000 |
| Other current assets | 130,316 | 115,567 | 115,630 | 122,147 | 127,834 | 132,952 | 137,456 | 141,559 | 145,444 |
| Fixed assets | 727,053 | 715,395 | 712,699 | 724,383 | 733,754 | 740,753 | 745,479 | 749,481 | 753,224 |
| Other long term assets | — | 0 | 719 | 719 | 719 | 719 | 719 | 0 | 0 |
| Short term debt | (33,110) | 29,754 | 8,348 | (1,199) | (1,199) | (1,199) | (1,199) | (1,199) | (1,199) |
| Other current liabilities | 200,814 | 237,976 | 234,447 | 254,325 | 265,790 | 274,714 | 281,189 | 286,485 | 290,954 |
| Long term debt | 329,075 | 216,520 | 224,075 | 193,004 | 163,004 | 128,004 | 83,861 | 58,861 | 38,861 |
| Other long term liabilities | 281 | 0 | — | — | — | — | — | 2,281 | 7,281 |
| Shareholders funds (incl. minorities) | 429,352 | 395,297 | 426,403 | 466,361 | 512,988 | 566,882 | 626,945 | 660,061 | 686,666 |
| Net (debt)/ cash | (374,794) | (198,782) | (169,292) | (127,655) | (84,623) | (33,921) | 23,387 | 56,694 | 85,139 |
| Free cash flow (Rs mn) | | | | | | | | | |
| EBITDA | 92,976 | 78,870 | 67,360 | 82,958 | 98,480 | 109,701 | 118,394 | 125,834 | 132,994 |
| Change in working capital | (38,059) | 40,203 | (4,311) | 13,361 | 5,777 | 3,806 | 1,971 | 1,192 | 584 |
| Cash tax (paid) | (328) | (5,454) | (6,369) | (8,181) | (9,547) | (11,035) | (12,298) | (13,090) | (13,697) |
| Cash interest (paid) | (10,711) | (21,284) | (15,746) | (8,477) | (9,145) | (7,721) | (5,018) | (3,499) | (2,486) |
| Capex on PP&E and intangibles | (194,168) | (41,621) | (36,835) | (53,915) | (54,844) | (55,723) | (56,781) | (59,498) | (62,847) |
| Miscellaneous | 2,920 | 10,012 | (7,756) | (9,500) | (3,578) | (638) | (634) | (856) | (997) |
| Free cash flow | (147,370) | 60,725 | (3,656) | 16,246 | 27,142 | 38,390 | 45,634 | 50,084 | 53,551 |
| Ratios (%) | | | | | | | | | |
| Sales growth | 20.3 | (3.0) | 0.2 | 16.8 | 12.5 | 10.0 | 8.0 | 6.8 | 6.0 |
| EBITDA growth | 13.4 | (15.2) | (14.6) | 23.2 | 18.7 | 11.4 | 7.9 | 6.3 | 5.7 |
| EPS growth | 19.4 | (30.2) | (36.2) | 29.1 | 17.1 | 15.9 | 11.6 | 1.4 | 1.5 |
| FCF growth | NM | NM | NM | NM | NM | 41.4 | 18.9 | 9.8 | 6.9 |
| EBITDA margin | 40.5 | 35.4 | 30.2 | 31.9 | 33.6 | 34.1 | 34.0 | 33.9 | 33.8 |
| Net margin | 29.4 | 21.3 | 13.5 | 14.9 | 15.5 | 16.3 | 16.9 | 16.0 | 15.3 |
| FCF margin | (64.2) | 27.3 | (1.6) | 6.2 | 9.3 | 11.9 | 13.1 | 13.5 | 13.6 |
| RoAE | 18.9 | 11.7 | 7.4 | 8.9 | 9.5 | 9.9 | 10.0 | 9.5 | 9.2 |
| ROAE (excl. cash and int. income) | 12.9 | 4.5 | 2.6 | 6.9 | 8.6 | 9.7 | 10.2 | 9.9 | 9.8 |
| RoACE | 11.4 | 9.1 | 6.8 | 7.1 | 8.1 | 8.8 | 9.1 | 9.3 | 9.5 |
| ROACE (excl. cash and int. income) | 8.3 | 5.3 | 3.9 | 5.7 | 7.4 | 8.5 | 9.2 | 9.7 | 10.1 |
| Net debt/EBITDA (X) | 4.0 | 2.5 | 2.5 | 1.5 | 0.9 | 0.3 | (0.2) | (0.5) | (0.6) |
| Net debt/equity (X) | 0.9 | 0.5 | 0.4 | 0.3 | 0.2 | 0.1 | (0.0) | (0.1) | (0.1) |
| Total debt/capital (X) | 0.7 | 0.6 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax rate (%) | 0.5 | 10.3 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 |

Source: Kotak Institutional Equities estimates

JUNE 07, 2010

UPDATE

BSE-30: 17,118

More FPOs/QIPs and offers for sale to result from finance ministry's new policy on minimum public shareholding. The Ministry of Finance's new policy that mandates a minimum public shareholding of 25% in listed companies will likely see companies with low public shareholding going in for QIPs and/or FPOs to increase their public holdings. Many such companies are government-owned and the government will therefore pursue their divestment. Some foreign companies may also look at de-listing

Government's new policy mandates minimum public shareholding of 25%

A recent Ministry of Finance policy has made 25% minimum public shareholding mandatory for all listed companies. Companies can increase their public shareholding by at least 5% every year to comply with new policy. We expect companies to follow a combination of offers for sale, FPOs/QIPs to comply with the new policy and some foreign-owned companies to even consider the option of de-listing. However, we note that the latter is quite cumbersome.

Many government-owned companies have low public shareholding; expect more divestment

Exhibit 1 shows that many of the companies with low public shareholding are government-owned. The government has already targeted an ambitious divestment program for FY2011E with a target of Rs400 bn. The new policy will strengthen the government's case for more aggressive divestment and help it override any political opposition; however, there is general consensus for divestment up to 51% in government-owned companies. The government has already raised Rs245 bn from the sale of stake in seven companies since its re-election in May 2009 (see Exhibit 2).

Theoretically, a large amount of government paper can come to the market

Exhibit 3 shows that theoretical revenues from stake sales in government-owned companies to comply with the finance ministry's new policy could be around Rs1.2 tn. However, we note that the exact amount would depend on the mode of sale—offers for sale or new shares—to bring down public shareholding to 75% and the government will likely sell in phases. Also, the government can and will likely sell stakes in companies where it owns more than 51%. Finally, banks will likely issue new shares to shore up their capital rather than opt for offers for sale.

QUICK NUMBERS

- 60 companies in BSE-500 Index with <25% public shareholding
- 23 are government-owned
- Rs1.2 tn possible from stake sales in government-owned companies to comply with new policy

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

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

Sunita Baldawa
sunita.baldawa@kotak.com
Mumbai: +91-22-6634-1100

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

Most companies with low public shareholding are government-owned

Listed companies with public shareholding of less than 25% (%)

| Company | Promoters | | | Public |
|-------------------------------|-----------|--------|-------|--------|
| | Foreign | Indian | Total | |
| Hindustan Copper | — | 99.6 | 99.6 | 0.4 |
| MMTC | — | 99.3 | 99.3 | 0.7 |
| HMT | — | 98.9 | 98.9 | 1.1 |
| National Fertilizer | — | 97.6 | 97.6 | 2.4 |
| Neyveli Lignite | — | 93.6 | 93.6 | 6.4 |
| RCF | — | 92.5 | 92.5 | 7.5 |
| STC | — | 91.0 | 91.0 | 9.0 |
| Engineers India | — | 90.4 | 90.4 | 9.6 |
| Fres. Kabi Onco. | 90.0 | — | 90.0 | 10.0 |
| NMDC | — | 90.0 | 90.0 | 10.0 |
| Puravankara Proj. | — | 90.0 | 90.0 | 10.0 |
| Power Finance Corp. | — | 89.8 | 89.8 | 10.2 |
| BOC India | 89.5 | - | 89.5 | 10.5 |
| Omaxe | — | 89.1 | 89.1 | 10.9 |
| Alfa Laval (I) | 88.8 | - | 88.8 | 11.2 |
| Gillette India | 41.0 | 47.7 | 88.7 | 11.3 |
| MRPL | — | 88.6 | 88.6 | 11.4 |
| IVRCL Assets | — | 88.1 | 88.1 | 11.9 |
| JP Power Ventures | — | 87.7 | 87.7 | 12.3 |
| National Aluminium | — | 87.2 | 87.2 | 12.9 |
| NHPC Ltd | — | 86.4 | 86.4 | 13.6 |
| Power Grid Corp. | — | 86.4 | 86.4 | 13.6 |
| DB Corp. | — | 86.4 | 86.4 | 13.7 |
| SAIL | — | 85.8 | 85.8 | 14.2 |
| Reliance Power | — | 84.8 | 84.8 | 15.2 |
| NTPC | — | 84.5 | 84.5 | 15.5 |
| United Bank of India | — | 84.2 | 84.2 | 15.8 |
| Godrej Properties | — | 83.8 | 83.8 | 16.2 |
| Atlas Copco (I) | 83.8 | - | 83.8 | 16.2 |
| Essar Shipping | 69.3 | 14.4 | 83.7 | 16.3 |
| Kwality Dairy | — | 83.7 | 83.7 | 16.3 |
| Mahindra Holiday | — | 83.1 | 83.1 | 16.9 |
| Ackruti City | — | 82.5 | 82.5 | 17.5 |
| BGR Energy Systems | — | 81.3 | 81.3 | 18.7 |
| Oracle Financial Services | 80.5 | - | 80.5 | 19.5 |
| Central Bank | — | 80.2 | 80.2 | 19.8 |
| Mundra Port | 15.1 | 65.1 | 80.2 | 19.8 |
| SCI | — | 80.1 | 80.1 | 19.9 |
| Indian Bank | — | 80.0 | 80.0 | 20.0 |
| Jet Airways | 80.0 | 0.0 | 80.0 | 20.0 |
| Wipro | — | 79.5 | 79.5 | 20.5 |
| Godrej Inds. | — | 79.1 | 79.1 | 20.9 |
| Indain Oil Corp. | — | 78.9 | 78.9 | 21.1 |
| DLF Ltd | — | 78.6 | 78.6 | 21.4 |
| Dredging Corporation of India | — | 78.6 | 78.6 | 21.4 |
| Oil India | — | 78.4 | 78.4 | 21.6 |
| Tata Teleservices Maharashtra | 12.1 | 65.6 | 77.7 | 22.3 |
| Thomas Cook (I) | 77.3 | - | 77.3 | 22.7 |
| Nirma | — | 77.2 | 77.2 | 22.8 |
| Sun TV Network | — | 77.0 | 77.0 | 23.0 |
| Bank of Maharashtra | — | 76.8 | 76.8 | 23.2 |
| JSW Energy | — | 76.7 | 76.7 | 23.3 |
| Fortis Healthcare | — | 76.5 | 76.5 | 23.5 |
| Novartis India | 76.4 | - | 76.4 | 23.6 |
| Tata Comm | — | 76.2 | 76.2 | 23.9 |
| 3M India | 76.0 | - | 76.0 | 24.0 |
| Gammon Infrastructure | — | 76.0 | 76.0 | 24.0 |
| Bharat Electronics | — | 75.9 | 75.9 | 24.1 |
| Berger Paints | 13.7 | 61.9 | 75.6 | 24.4 |
| IL&FS Transport | — | 75.1 | 75.1 | 24.9 |

Source: BSE data, Kotak Institutional Equities

Government divestment proceeds reach Rs245 bn since re-election in May 2009

 Divestment proceeds to the government of India, March fiscal year-ends, 2010-11 (Rs bn)

| Name | Share (mn) | | | Issue price (Rs) | Proceeds (Rs bn) | Divestment (Rs bn) |
|-----------------------------|--------------|----------------|-------|---------------------|---------------------|-----------------------|
| | Public issue | Offer for sale | Total | | | |
| NTPC | — | 412 | 412 | 202 | 83 | 83 |
| Oil India | 26 | 21 | 48 | 1,050 | 50 | 22 |
| NHPC | 1,118 | 559 | 1,677 | 36 | 60 | 20 |
| Rural Electrification Corp. | 129 | 43 | 172 | 206 | 35 | 9 |
| United Bank of India | 50 | — | 50 | 66 | 3 | — |
| NMDC | — | 332 | 332 | 300 | 100 | 100 |
| SJVN Ltd | — | 415 | 415 | 26 | 11 | 11 |
| Total divestment | | | | | 343 | 245 |

 Source: Primedatabase, Bloomberg, Kotak Institutional Equities

The government may accelerate divestment of listed public companies

Likely receipts from divestment by the government of India (Rs bn)

| | Net sales (Rs bn) | Net income (Rs bn) | Market capitalization (Rs bn) | Government stake (%) | Divestment | |
|-------------------------------------|----------------------|-----------------------|-------------------------------------|----------------------------|-----------------|---------------------|
| | | | | | Dilution (%) | Proceeds (Rs bn) |
| Oil & Natural Gas Corp. Ltd | 636 | 161 | 2,481 | 74.1 | — | — |
| MMTC Limited | 368 | 1 | 1,471 | 99.3 | 24 | 358 |
| NTPC Limited | 419 | 82 | 1,659 | 84.5 | 10 | 158 |
| State Bank Of India | 638 | 91 | 1,434 | 59.4 | — | — |
| NMDC Limited | 76 | 44 | 1,119 | 90.0 | 15 | 168 |
| Bharat Heavy Electricals Ltd | 262 | 31 | 1,142 | 67.7 | — | — |
| Indian Oil Corp.oration Ltd | 3,046 | 29 | 858 | 78.9 | 4 | 34 |
| Steel Authority Of India | 431 | 62 | 850 | 85.8 | 11 | 92 |
| GAIL India Ltd | 238 | 28 | 575 | 57.3 | — | — |
| Power Grid Corp. Of India Ltd | 67 | 17 | 436 | 86.4 | 11 | 49 |
| NHPC Ltd | 27 | 11 | 357 | 86.4 | 11 | 41 |
| Punjab National Bank | 193 | 31 | 314 | 57.8 | — | — |
| Oil India Ltd | 72 | 22 | 304 | 78.4 | 3 | 10 |
| Power Finance Corporation | 66 | 20 | 336 | 89.8 | 15 | 50 |
| Hindustan Copper Limited | 12 | (0) | 399 | 99.6 | 25 | 98 |
| National Aluminium Company Ltd | 51 | 13 | 264 | 87.2 | 12 | 32 |
| Neyveli Lignite Corp. | 34 | 8 | 243 | 93.6 | 19 | 45 |
| Bank Of India | 163 | 30 | 173 | 64.5 | — | — |
| Bank Of Baroda | 151 | 22 | 261 | 53.8 | — | — |
| Bharat Petroleum Corp. Ltd | 1,352 | 7 | 209 | 54.9 | — | — |
| Rural Electrification Corp. | 47 | 13 | 286 | 81.8 | 7 | 19 |
| Canara Bank | 171 | 21 | 165 | 73.2 | — | — |
| Container Corporation Of India Ltd | 34 | 8 | 167 | 63.1 | — | — |
| Union Bank Of India | 119 | 17 | 147 | 55.4 | — | — |
| Bharat Electronics Limited | 46 | 7 | 139 | 75.9 | 1 | 1 |
| Hindustan Petroleum Corp. | 1,248 | 6 | 124 | 51.1 | — | — |
| IDBI Bank Limited | 115 | 9 | 82 | 52.7 | — | — |
| Engineers India Ltd | 15 | 3 | 108 | 90.4 | 15 | 17 |
| Indian Bank | 68 | 12 | 97 | 80.0 | 5 | 5 |
| Oriental Bank Of Commerce | 89 | 9 | 83 | 51.1 | — | — |
| Indian Overseas Bank | 96 | 13 | 49 | 61.2 | — | — |
| Central Bank Of India | 105 | 6 | 58 | 80.2 | 5 | 3— |
| Corp.oration Bank | 61 | 9 | 76 | 57.2 | — | — |
| Allahabad Bank | 74 | 8 | 73 | 55.2 | — | — |
| Andhra Bank | 54 | 7 | 66 | 51.6 | — | — |
| Shipping Corporation Of India Ltd | 42 | 9 | 68 | 80.1 | 5 | 3 |
| HMT Limited | 2 | (1) | 54 | 98.9 | 24 | 13 |
| Syndicate Bank | 96 | 9 | 47 | 66.5 | — | — |
| Mahanagar Telephone Nigam | 45 | 2 | 35 | 56.3 | — | — |
| BEML Limited | 28 | 3 | 41 | 54.0 | — | — |
| Rashtriya Chemicals & Fertilizers | 84 | 2 | 43 | 92.5 | 18 | 8 |
| Jammu & Kashmir Bank Ltd | 30 | 4 | 36 | 53.2 | — | — |
| UCO Bank | 81 | 6 | 42 | 63.6 | — | — |
| National Fertilizers Ltd | 51 | 1 | 52 | 97.6 | 23 | 12 |
| Vijaya Bank | 52 | 3 | 25 | 53.9 | — | — |
| Dena Bank | 34 | 4 | 25 | 51.2 | — | — |
| Bank Of Maharashtra | 43 | 4 | 24 | 76.8 | 2 | — |
| Dredging Corporation Of India Ltd | 7 | — | 15 | 78.6 | 4 | 1 |
| Fertilisers & Chemicals Travancore | 21 | — | 18 | 98.1 | 23 | 4 |
| ITI Limited | 17 | (7) | 12 | 93.0 | 18 | 2 |
| India Tourism Development Corp. | 4 | — | 9 | 92.1 | 17 | 2 |
| Total disinvestment proceeds | | | | | | 1,224 |

Source: Capital Line, Kotak Institutional Equities estimates

JUNE 04, 2010

UPDATE

BSE-30: 17,118

Limited impact of draft securitization guidelines for auto finance NBFCs. RBI has released the draft for modifying guidelines on securitization for NBFCs. Key proposals for loans over two years—(a) minimum holding period of 12 months and (b) minimum retention ratio of 10%. We do not find any significant impact on auto finance NBFCs under coverage (Shriram Transport Finance and Mahindra Finance) as (1) most NBFCs are currently engaged in bi-lateral transactions (which are not governed by the guidelines) and (2) currently, most NBFCs hold loans for about 6 months before sell-down and retention ratios are anyway close to 10%.

Draft securitization guidelines for NBFCs are not applicable on loan assignments

RBI's draft securitization guidelines for NBFCs (released last week) are mainly in line with those for banks. Most NBFCs are currently engaged in loan assignments which are bilateral transactions and may not be considered as 'securitization' as per the regulatory definition. Nevertheless, it would be imperative to study the impact on NBFCs as RBI may likely extend the guidelines to loan assignments; or introduction of 'base rate' for banks will likely prompt NBFCs to raise low-cost funds through the debt markets, though in this case replace 'loan assignments' by 'loan securitization'.

Minimum holding period of 9-12 months

The originator NBFC needs to hold loans for 9 months (before sell-down) in case of loans which have a tenure up to two years and for 12 months in case of loans which have tenure greater than two years. Notably, NBFCs engaged in auto finance business (Mahindra Finance and Shriram Transport Finance) season their loans for about four to six months before selling down. Thus, in case the guidelines are finalized, the seasoning will increase to 12 months. However, both the entities have headroom for increasing the seasoning; off-balance loans comprised 38% of Shriram Transport's loans under management and 19% of Mahindra Finance's loan under management as on March 2010. According to rough estimates, Shriram Transport can increase off-balance sheet loans up to 50% of loans under management and Mahindra Finance up to 40%. See exhibit for details.

Minimum retention ratio of 5-10%

The originator NBFC will need to hold 5% interest in the securitized pools wherein the underlying loans have tenure less than two years and 10% in case of loans with tenure > two years. In the latter case, 5% can be held as first loss piece, the balance 5% can have a pari-passu charge with other investors. Shriram Transport and Mahindra Finance anyway provide credit enhancement of 7-8% and 10-12% on their loan sell-downs. Thus, the minimum retention of 10% will not significantly alter the economics for both the players. In case the rating agency structures the entire retention (10%) as a credit enhancement, the marginal increase in case of Shriram Transport will positively temper the interest rate on the transaction.

Nischint Chawathe
nischint.chawathe@kotak.com
Mumbai: +91-22-6634-1545

Manish Karwa
manish.karwa@kotak.com
Mumbai: +91-22-6634-1350

M B Mahesh
mb.mahesh@kotak.com
Mumbai: +91-22-6634-1231

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

NBFCs have headroom for increasing off-balance sheet loans

On-balance sheet and off-balance sheet auto loans, March 2010 (Rs bn)

| | Disbursements (rolling 12 months) | On balance sheet loans | Off balance sheet loans | Total loans | Off bal sheet/ total loans | Max prop of off bal sheet |
|---------------------------|--|-----------------------------------|------------------------------------|------------------------|---------------------------------------|--------------------------------------|
| | (1) | (2) | (3) | (4) = (2) + (3) | (5) = (3)/ (4) | (4 -1)/(4) |
| Shriram Transport Finance | 147 | 179 | 112 | 291 | 38 | 50 |
| Mahindra Finance | 62 | 84 | 20 | 103 | 19 | 40 |

Source: Company, Kotak Institutional Equities

Source: Company, Bloomberg, Kotak Institutional Equities estimates

| 4-Jun-10 | | | Mkt cap. | | O/S | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target price | | |
|-------------------------------|------------|--------|------------|-----------|---------|----------|-------|-------|----------------|--------|--------|---------|-------|-------|---------------|-------|-------|--------------|-------|-------|--------------------|-------|-------|---------|-------|-------|--------------|------------|----------|
| Company | Price (Rs) | Rating | (Rs mn) | (US\$ mn) | (mn) | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | (Rs) | Upside (%) | ADVT-3mo |
| Automobiles | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Ashok Leyland | 64 | ADD | 85,272 | 1,820 | 1,330 | 2.8 | 3.9 | 5.0 | 84.5 | 37.5 | 29.7 | 22.7 | 16.5 | 12.7 | 13.4 | 10.3 | 8.7 | 2.2 | 2.0 | 1.8 | 2.3 | 1.6 | 1.6 | 11.1 | 12.7 | 15.0 | 60 | (6.4) | 9.8 |
| Bajaj Auto | 2,185 | ADD | 316,148 | 6,750 | 145 | 117.5 | 159.9 | 173.2 | 159.8 | 36.1 | 8.3 | 18.6 | 13.7 | 12.6 | 11.8 | 9.4 | 8.5 | 10.0 | 6.3 | 4.5 | 0.9 | 0.9 | 0.9 | 66.6 | 54.8 | 39.8 | 2,330 | 6.6 | 11.3 |
| Hero Honda | 1,996 | SELL | 398,651 | 8,511 | 200 | 111.8 | 121.5 | 135.7 | 74.1 | 8.7 | 11.7 | 17.9 | 16.4 | 14.7 | 11.5 | 10.8 | 9.3 | 11.1 | 7.6 | 5.6 | 1.5 | 1.6 | 1.8 | 59.1 | 56.6 | 43.8 | 1,800 | (9.8) | 23.7 |
| Mahindra & Mahindra | 585 | BUY | 338,479 | 7,226 | 578 | 34.9 | 39.0 | 43.9 | 132.5 | 11.7 | 12.5 | 16.8 | 15.0 | 13.3 | 11.1 | 9.8 | 8.7 | 4.2 | 3.4 | 2.8 | 1.6 | 1.6 | 1.7 | 30.0 | 24.9 | 22.8 | 630 | 7.7 | 27.3 |
| Maruti Suzuki | 1,330 | ADD | 384,384 | 8,206 | 289 | 86.4 | 94.1 | 104.2 | 104.9 | 8.9 | 10.8 | 15.4 | 14.1 | 12.8 | 8.3 | 7.7 | 6.6 | 3.2 | 2.7 | 2.2 | 0.5 | 0.5 | 0.5 | 23.3 | 20.6 | 18.9 | 1,400 | 5.3 | 19.2 |
| Tata Motors | 772 | ADD | 460,012 | 9,821 | 596 | 23.9 | 27.2 | 35.5 | 138.9 | 13.5 | 30.6 | 32.2 | 28.4 | 21.7 | 12.8 | 12.8 | 11.2 | 2.3 | 2.0 | 1.8 | 0.7 | 0.7 | 0.7 | 8.1 | 7.5 | 8.6 | 900 | 16.6 | 110.9 |
| Automobiles | | | Cautious | 1,982,947 | 42,334 | | | | 118.1 | 16.4 | 14.3 | 19.5 | 16.7 | 14.6 | 11.2 | 10.2 | 8.9 | 3.9 | 3.2 | 2.7 | 1.1 | 1.1 | 1.1 | 19.9 | 19.1 | 18.2 | | | |
| Banks/Financial Institutions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Andhra Bank | 138 | BUY | 66,760 | 1,425 | 485 | 21.0 | 21.1 | 25.4 | 56.1 | 0.6 | 20.0 | 6.5 | 6.5 | 5.4 | — | — | — | 1.4 | 1.2 | 1.0 | 3.1 | 3.1 | 3.7 | 24.4 | 20.2 | 20.7 | 160 | 16.2 | 5.8 |
| Axis Bank | 1,245 | ADD | 504,667 | 10,774 | 405 | 62.1 | 77.4 | 98.5 | 22.7 | 24.7 | 27.3 | 20.1 | 16.1 | 12.6 | — | — | — | 3.1 | 2.7 | 2.3 | 1.0 | 1.2 | 1.5 | 18.9 | 18.1 | 19.9 | 1,360 | 9.2 | 52.5 |
| Bank of Baroda | 742 | BUY | 271,148 | 5,789 | 366 | 83.7 | 89.8 | 111.0 | 37.3 | 7.3 | 23.6 | 8.9 | 8.3 | 6.7 | — | — | — | 2.0 | 1.7 | 1.4 | 2.0 | 2.2 | 2.7 | 24.4 | 21.8 | 22.6 | 825 | 11.2 | 11.2 |
| Bank of India | 334 | REDUCE | 175,813 | 3,753 | 526 | 33.1 | 40.5 | 56.0 | (42.1) | 22.2 | 38.3 | 10.1 | 8.3 | 6.0 | — | — | — | 1.4 | 1.2 | 1.1 | 2.1 | 2.6 | 3.5 | 14.3 | 15.9 | 19.3 | 360 | 7.7 | 6.1 |
| Canara Bank | 420 | ADD | 172,221 | 3,677 | 410 | 73.7 | 77.0 | 93.6 | 45.8 | 4.5 | 21.4 | 5.7 | 5.5 | 4.5 | — | — | — | 1.4 | 1.1 | 0.9 | 1.9 | 2.4 | 2.9 | 23.0 | 19.6 | 20.1 | 500 | 19.0 | 6.8 |
| Corporation Bank | 536 | BUY | 76,911 | 1,642 | 143 | 81.6 | 86.7 | 100.3 | 31.1 | 6.3 | 15.7 | 6.6 | 6.2 | 5.3 | — | — | — | 1.3 | 1.1 | 1.0 | 3.1 | 3.3 | 3.8 | 21.9 | 19.9 | 19.8 | 650 | 21.2 | 1.0 |
| Federal Bank | 342 | BUY | 58,442 | 1,248 | 171 | 27.2 | 38.7 | 48.0 | (7.2) | 42.3 | 24.2 | 12.6 | 8.8 | 7.1 | — | — | — | 1.2 | 1.1 | 1.0 | 1.5 | 2.1 | 2.6 | 10.3 | 13.4 | 14.8 | 360 | 5.4 | 4.7 |
| HDFC | 2,749 | ADD | 789,237 | 16,850 | 287 | 98.4 | 118.2 | 143.7 | 22.7 | 20.1 | 21.5 | 27.9 | 23.2 | 19.1 | — | — | — | 5.2 | 4.6 | 4.0 | 1.3 | 1.5 | 1.8 | 20.0 | 21.0 | 22.4 | 3,200 | 16.4 | 39.1 |
| HDFC Bank | 1,886 | BUY | 852,447 | 18,199 | 452 | 65.2 | 86.2 | 112.2 | 23.6 | 32.1 | 30.2 | 28.9 | 21.9 | 16.8 | — | — | — | 4.0 | 3.5 | 3.0 | 0.7 | 0.9 | 1.1 | 16.2 | 17.0 | 19.2 | 2,200 | 16.7 | 33.2 |
| KICICI Bank | 866 | REDUCE | 965,328 | 20,609 | 1,115 | 36.1 | 46.5 | 58.0 | 6.9 | 28.9 | 24.7 | 24.0 | 18.6 | 14.9 | — | — | — | 1.9 | 1.8 | 1.7 | 1.4 | 1.8 | 2.2 | 8.1 | 9.8 | 11.5 | 980 | 13.2 | 94.6 |
| IDFC | 163 | ADD | 212,583 | 4,539 | 1,301 | 8.2 | 9.2 | 11.2 | 41.1 | 12.9 | 21.9 | 20.0 | 17.7 | 14.6 | — | — | — | 3.0 | 2.7 | 2.3 | 1.0 | 1.0 | 1.2 | 16.1 | 16.0 | 17.1 | 180 | 10.2 | 18.6 |
| India Infoline | 94 | BUY | 29,434 | 628 | 312 | 8.1 | 8.9 | 10.0 | 59.2 | 9.8 | 12.5 | 11.6 | 10.6 | 9.4 | — | — | — | 1.9 | 1.5 | 1.3 | 3.4 | 2.0 | 2.5 | 16.4 | 15.9 | 16.1 | 140 | 48.3 | 3.6 |
| Indian Bank | 231 | BUY | 99,255 | 2,119 | 430 | 35.1 | 35.5 | 43.8 | 25.5 | 1.1 | 23.6 | 6.6 | 6.5 | 5.3 | — | — | — | 1.5 | 1.3 | 1.1 | 2.6 | 2.6 | 3.3 | 24.0 | 20.3 | 21.2 | 280 | 21.2 | 4.0 |
| Indian Overseas Bank | 92 | BUY | 50,013 | 1,068 | 545 | 13.0 | 15.4 | 26.4 | (46.7) | 18.9 | 71.3 | 7.1 | 5.9 | 3.5 | — | — | — | 0.8 | 0.7 | 0.6 | 4.5 | 4.9 | 5.4 | 9.6 | 10.6 | 16.3 | 120 | 30.7 | 3.0 |
| J&K Bank | 769 | BUY | 37,282 | 796 | 48 | 105.7 | 112.3 | 140.6 | 25.1 | 6.3 | 25.2 | 7.3 | 6.8 | 5.5 | — | — | — | 1.3 | 1.2 | 1.0 | 2.9 | 3.0 | 3.8 | 17.3 | 16.9 | 18.5 | 850 | 10.6 | 0.5 |
| LIC Housing Finance | 974 | ADD | 92,520 | 1,975 | 95 | 69.7 | 93.2 | 104.2 | 11.4 | 33.8 | 11.7 | 14.0 | 10.4 | 9.3 | — | — | — | 2.9 | 2.4 | 2.0 | 1.5 | 2.1 | 2.3 | 23.6 | 23.8 | 22.4 | 1,050 | 7.8 | 21.1 |
| Mahindra & Mahindra Financial | 439 | BUY | 42,182 | 901 | 96 | 35.7 | 42.6 | 49.8 | 59.3 | 19.3 | 16.8 | 12.3 | 10.3 | 8.8 | — | — | — | 2.5 | 2.1 | 1.8 | 1.7 | 2.1 | 2.4 | 21.4 | 21.7 | 21.6 | 500 | 13.8 | 1.0 |
| Oriental Bank of Commerce | 333 | ADD | 83,430 | 1,781 | 251 | 45.3 | 52.8 | 58.6 | 25.3 | 16.5 | 11.0 | 7.4 | 6.3 | 5.7 | — | — | — | 1.2 | 1.0 | 0.9 | 2.7 | 3.2 | 3.6 | 14.1 | 15.4 | 15.3 | 400 | 20.1 | 5.0 |
| PFC | 293 | SELL | 336,469 | 7,183 | 1,148 | 20.5 | 22.5 | 25.9 | 53.5 | 9.9 | 15.1 | 14.3 | 13.0 | 11.3 | — | — | — | 2.6 | 2.3 | 2.0 | 1.7 | 1.9 | 2.2 | 18.8 | 18.0 | 18.2 | 240 | (18.1) | 2.5 |
| Punjab National Bank | 1,016 | BUY | 320,300 | 6,838 | 315 | 123.8 | 128.0 | 156.5 | 26.3 | 3.4 | 22.0 | 8.2 | 7.9 | 6.5 | — | — | — | 2.0 | 1.7 | 1.4 | 2.2 | 2.5 | 3.1 | 26.4 | 22.7 | 23.3 | 1,150 | 13.2 | 7.3 |
| Reliance Capital | 679 | ADD | 167,130 | 3,568 | 246 | 13.8 | 16.1 | 14.1 | (64.9) | 17.0 | (12.4) | 49.2 | 42.0 | 48.0 | — | — | — | 2.4 | 2.4 | 2.3 | 1.0 | 1.0 | 0.8 | 5.0 | 5.7 | 4.8 | 875 | 28.9 | 29.0 |
| Rural Electrification Corp. | 277 | ADD | 273,655 | 5,842 | 987 | 20.3 | 24.6 | 30.7 | 23.2 | 21.2 | 24.9 | 13.7 | 11.3 | 9.0 | — | — | — | 2.5 | 2.2 | 1.9 | 2.3 | 2.7 | 3.3 | 22.0 | 20.5 | 22.2 | 300 | 8.2 | 16.2 |
| Shriram Transport | 585 | ADD | 130,470 | 2,785 | 223 | 39.2 | 49.1 | 62.4 | 30.1 | 25.4 | 27.2 | 14.9 | 11.9 | 9.4 | — | — | — | 3.5 | 3.0 | 2.5 | 2.0 | 2.5 | 3.2 | 28.4 | 26.1 | 27.8 | 600 | 2.6 | 5.2 |
| SREI | 83 | NR | 9,606 | 205 | 116 | 8.3 | 7.9 | 9.9 | 17.8 | (4.8) | 25.8 | 10.0 | 10.5 | 8.3 | — | — | — | 0.8 | 0.8 | 0.7 | 1.5 | 1.5 | 1.5 | 11.1 | 10.5 | 12.3 | — | — | 4.7 |
| State Bank of India | 2,341 | BUY | 1,486,096 | 31,727 | 635 | 144.4 | 178.1 | 223.0 | 0.5 | 23.4 | 25.2 | 16.2 | 13.1 | 10.5 | — | — | — | 2.3 | 2.0 | 1.7 | 1.7 | 1.8 | 1.9 | 14.8 | 16.1 | 17.8 | 2,700 | 15.3 | 95.4 |
| Union Bank | 315 | BUY | 159,163 | 3,398 | 505 | 41.1 | 45.8 | 57.3 | 20.2 | 11.5 | 25.0 | 7.7 | 6.9 | 5.5 | — | — | — | 1.8 | 1.5 | 1.2 | 1.7 | 2.1 | 2.7 | 26.2 | 23.7 | 24.3 | 380 | 20.6 | 4.9 |
| Banks/Financial Institutions | | | Attractive | 7,462,562 | 159,320 | | | | 14.4 | 17.3 | 24.3 | 15.0 | 12.8 | 10.3 | — | — | — | 2.3 | 2.1 | 1.8 | 1.6 | 1.8 | 2.1 | 15.5 | 16.0 | 17.4 | | | |
| Cement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ACC | 842 | SELL | 158,176 | 3,377 | 188 | 83.2 | 61.8 | 63.4 | 47.9 | (25.7) | 2.6 | 10.1 | 13.6 | 13.3 | 5.4 | 6.4 | 5.5 | 2.5 | 2.2 | 1.9 | 2.8 | 2.8 | 2.8 | 29.3 | 19.4 | 17.7 | 830 | (1.4) | 9.8 |
| Ambuja Cements | 113 | SELL | 171,267 | 3,656 | 1,522 | 8.0 | 7.9 | 8.1 | 11.4 | (1.8) | 2.6 | 14.1 | 14.3 | 13.9 | 7.8 | 8.1 | 7.4 | 2.5 | 2.2 | 2.0 | 1.7 | 1.9 | 1.9 | 19.3 | 16.7 | 15.3 | 98 | (12.9) | 6.8 |
| Grasim Industries | 1,773 | REDUCE | 162,521 | 3,470 | 92 | 301.0 | 240.1 | 282.0 | 26.1 | (20.2) | 17.5 | 5.9 | 7.4 | 6.3 | 3.8 | 3.8 | 2.9 | 1.3 | 1.1 | 1.0 | 1.9 | 1.9 | 1.9 | 22.9 | 16.4 | 16.7 | 2,100 | 18.5 | 10.5 |
| India Cements | 113 | SELL | 34,831 | 744 | 307 | 10.0 | 10.4 | 11.3 | n/a | 3.1 | 9.1 | 11.3 | 11.0 | 10.0 | 5.7 | 5.6 | 5.4 | 0.8 | 0.8 | 0.7 | 1.9 | 2.8 | 2.8 | 8.2 | 7.7 | 8.0 | 110 | (3.0) | 4.7 |
| Shree Cement | 2,037 | BUY | 70,976 | 1,515 | 35 | 208.0 | 221.1 | 242.5 | 19.0 | 6.3 | 9.7 | 9.8 | 9.2 | 8.4 | 4.8 | 4.6 | 3.7 | 3.9 | 2.8 | 2.1 | 0.5 | 0.5 | 0.5 | 48.0 | 35.0 | 28.1 | 2,550 | 25.2 | 0.9 |
| UltraTech Cement | 953 | SELL | 118,602 | 2,532 | 124 | 88.2 | 67.1 | 77.2 | 12.0 | (23.9) | 15.0 | 10.8 | 14.2 | 12.3 | 5.6 | 6.3 | 5.2 | 2.2 | 1.9 | 1.7 | 0.9 | 0.9 | 0.9 | 26.6 | 16.8 | 16.7 | 940 | (1.3) | 3.6 |
| Cement | | | Neutral | 716,373 | 15,294 | | | | 19.3 | (15.5) | 10.4 | 9.3 | 11.0 | 10.0 | 5.1 | 5.4 | 4.5 | 1.9 | 1.7 | 1.5 | 1.7 | 1.8 | 1.8 | 20.5 | 15.1 | 14.6 | | | |
| Consumer products | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Asian Paints | 2,147 | BUY | 205,916 | 4,396 | 96 | 71.6 | 82.1 | 98.1 | 85.4 | 14.7 | 19.5 | 30.0 | 26.1 | 21.9 | 18.7 | 16.1 | 13.1 | 12.7 | 10.1 | 8.2 | 1.3 | 1.6 | 1.9 | 51.6 | 44.5 | 42.5 | 2,300 | 7.1 | 2.4 |
| Colgate-Palmolive (India) | 813 | REDUCE | 110,569 | 2,361 | 136 | 29.7 | 33.0 | 37.6 | 37.6 | 11.1 | 13.9 | 27.4 | 24.6 | 21.6 | 20.3 | 17.9 | 15.2 | 34.6 | 27.1 | 21.7 | 2.5 | 2.8 | 3.1 | 150.2 | 122.2 | 109.9 | 760 | (6.5) | 2.2 |
| Dabur India | 192 | BUY | 166,675 | 3,558 | 866 | 5.8 | 6.8 | 8.2 | 28.1 | 17.6 | 20.8 | 33.2 | 28.2 | 23.4 | 24.6 | 19.8 | 16.4 | 15.8 | 13.0 | 10.7 | 1.6 | 1.9 | 2.2 | 54.3 | 51.1 | 50.7 | 200 | 4.0 | 2.2 |
| GlaxoSmithKline Consumer (a) | 1,661 | ADD | 69,833 | 1,491 | 42 | 55.4 | 70.0 | 82.9 | 23.6 | 26.5 | 18.4 | 30.0 | 23.7 | 20.0 | 16.4 | 13.9 | 11.3 | 7.8 | 6.5 | 5.4 | 1.1 | 1.4 | 1.6 | 27.9 | 29.6 | 29.2 | 1,800 | 8.4 | 1.0 |
| Godrej Consumer Products | 343 | NR | 88,441 | 1,888 | 258 | 10.4 | 11.7 | 13.9 | 54.9 | 13.2 | 18.2 | 33.1 | 29.2 | 24.7 | 23.4 | 20.8 | 17.4 | 7.6 | 6.5 | 6.4 | 1.2 | 1.2 | 1.2 | 30.8 | 23.9 | 27.4 | — | — | 3.2 |
| Hindustan Unilever | 252 | REDUCE | 548,517 | 11,712 | 2,179 | 9.7 | 10.4 | 11.8 | 1.7 | 7.3 | 14.0 | 26.0 | 24.2 | 21.3 | 17.5 | 16.4 | 13.8 | | | | | | | | | | | | |

Kotak Institutional Equities: Valuation summary of key Indian companies

| Company | 4-Jun-10 | | Mkt cap. | | O/S | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target | Upside | ADVT-3mo |
|---|------------|--------|-----------|-----------|-------|----------|-------|-------|----------------|---------|---------|---------|--------|-------|---------------|-------|-------|--------------|-------|-------|--------------------|-------|-------|---------|--------|-------|--------|--------|----------|
| | Price (Rs) | Rating | (Rs mn) | (US\$ mn) | (mn) | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | (Rs) | | |
| Energy | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bharat Petroleum | 580 | RS | 209,621 | 4,475 | 362 | 63.3 | 53.6 | 59.2 | 207.3 | (15.3) | 10.4 | 9.2 | 10.8 | 9.8 | 5.2 | 5.2 | 4.8 | 1.5 | 1.3 | 1.2 | 2.4 | 3.0 | 3.4 | 15.9 | 12.2 | 12.3 | — | — | 8.9 |
| Cairn India | 300 | SELL | 569,470 | 12,158 | 1,897 | 5.3 | 28.5 | 40.0 | — | 433 | 40.5 | 56 | 11 | 7.5 | 44.0 | 7.2 | 5.1 | 1.7 | 1.4 | 1.3 | — | — | 5.0 | 3.0 | 14.6 | 18.1 | 250 | (16.7) | 19.5 |
| Castrol India (a) | 398 | REDUCE | 98,405 | 2,101 | 247 | 15.4 | 19.6 | 20.6 | 44.6 | 27.0 | 5.3 | 25.8 | 20.3 | 19.3 | 15.2 | 12.4 | 11.7 | 21.4 | 20.0 | 18.4 | 3.1 | 3.9 | 4.0 | 83.8 | 101.6 | 99.2 | 330 | (17.1) | 1.6 |
| GAIL (India) | 461 | ADD | 584,452 | 12,478 | 1,268 | 24.8 | 26.4 | 37.1 | 11.7 | 6.8 | 40.5 | 18.6 | 17.4 | 12.4 | 10.4 | 10.8 | 8.9 | 3.2 | 2.9 | 2.5 | 1.6 | 1.8 | 2.6 | 17.4 | 16.5 | 20.2 | 485 | 5.3 | 17.4 |
| GSPL | 99 | REDUCE | 55,457 | 1,184 | 562 | 7.4 | 8.9 | 9.1 | 234.7 | 21.5 | 1.3 | 13.4 | 11.0 | 10.9 | 6.9 | 5.8 | 5.2 | 3.3 | 2.6 | 2.3 | 1.0 | 2.3 | 3.7 | 27.3 | 26.3 | 22.5 | 80 | (18.9) | 4.2 |
| Hindustan Petroleum | 367 | RS | 124,501 | 2,658 | 339 | 54.7 | 44.6 | 56.3 | 222.7 | (18.6) | 26.4 | 6.7 | 8.2 | 6.5 | 2.5 | 2.9 | 2.4 | 0.9 | 0.9 | 0.8 | 3.3 | 3.8 | 4.8 | 13.9 | 10.1 | 11.7 | — | — | 7.4 |
| Indian Oil Corporation | 355 | RS | 861,558 | 18,394 | 2,428 | 49.9 | 34.3 | 35.7 | 406.8 | (31.3) | 4.2 | 7.1 | 10.3 | 9.9 | 4.9 | 5.7 | 4.9 | 1.6 | 1.5 | 1.3 | 3.7 | 2.9 | 3.0 | 22.7 | 13.9 | 13.3 | — | — | 5.9 |
| Oil India | 1,299 | BUY | 312,254 | 6,666 | 240 | 115.1 | 127.0 | 140.6 | — | 10.3 | 10.7 | 11.3 | 10.2 | 9.2 | 4.7 | 3.9 | 3.3 | 2.1 | 1.9 | 1.7 | 2.6 | 3.0 | 3.3 | 16.7 | 17.3 | 17.0 | 1,350 | 4.0 | 3.6 |
| Oil & Natural Gas Corporation | 1,190 | BUY | 2,544,634 | 54,326 | 2,139 | 91.4 | 121.9 | 129.5 | 1.3 | 33.3 | 6.2 | 13.0 | 9.8 | 9.2 | 4.7 | 4.0 | 3.4 | 1.9 | 1.7 | 1.5 | 2.8 | 3.5 | 3.6 | 14.6 | 17.5 | 16.7 | 1,375 | 15.6 | 28.2 |
| Petronet LNG | 84 | REDUCE | 62,888 | 1,343 | 750 | 5.4 | 6.2 | 7.9 | — | 14.9 | 28.0 | 15.5 | 13.5 | 10.6 | 9.7 | 8.0 | 6.9 | 2.5 | 2.1 | 1.9 | 2.1 | 2.4 | 3.3 | 15.9 | 15.9 | 17.6 | 82 | (2.2) | 4.3 |
| Reliance Industries | 1,031 | SELL | 3,068,851 | 65,518 | 2,976 | 49.6 | 62.9 | 80.2 | (1.8) | 26.6 | 27.5 | 20.8 | 16.4 | 12.9 | 10.5 | 7.9 | 6.6 | 2.1 | 1.9 | 1.7 | 1.4 | 1.8 | 2.2 | 11.4 | 13.2 | 15.3 | 985 | (4.5) | 124.2 |
| Energy | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cautious | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8,492,091 181,300 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 33.5 19.3 17.1 14.1 11.8 10.1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6.9 5.8 4.9 2.0 1.8 1.6 2.1 2.5 3.1 13.8 14.9 15.7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Industrials | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ABB | 859 | REDUCE | 181,934 | 3,884 | 212 | 16.7 | 23.3 | 37.2 | (35.2) | 39.2 | 59.8 | 51.3 | 36.8 | 23.1 | 29.4 | 21.7 | 13.4 | 7.5 | 6.4 | 5.1 | 0.2 | 0.4 | 0.4 | 15.6 | 18.8 | 24.7 | 840 | (2.2) | 7.9 |
| BGR Energy Systems | 658 | BUY | 47,408 | 1,012 | 72 | 27.3 | 36.2 | 46.3 | 70.5 | 32.4 | 27.8 | 24.1 | 18.2 | 14.2 | 14.1 | 10.7 | 8.6 | 6.6 | 5.1 | 4.0 | 0.7 | 0.9 | 1.2 | 30.7 | 31.6 | 31.3 | 700 | 6.3 | 2.2 |
| Bharat Electronics | 1,716 | REDUCE | 137,276 | 2,931 | 80 | 93.9 | 111.8 | 127.4 | (9.6) | 19.1 | 13.9 | 18.3 | 15.3 | 13.5 | 8.7 | 7.0 | 5.9 | 3.1 | 2.7 | 2.3 | 1.5 | 1.5 | 1.5 | 17.9 | 18.7 | 18.5 | 1,790 | 4.3 | 3.7 |
| Bharat Heavy Electricals | 2,332 | ADD | 1,141,463 | 24,369 | 490 | 92.0 | 115.8 | 136.2 | 44.1 | 25.8 | 17.7 | 25.3 | 20.1 | 17.1 | 14.1 | 11.0 | 9.0 | 7.0 | 5.6 | 4.5 | 0.8 | 1.1 | 1.2 | 30.8 | 30.7 | 28.9 | 2,500 | 7.2 | 31.0 |
| Crompton Greaves | 247 | BUY | 158,495 | 3,384 | 642 | 12.8 | 13.3 | 15.8 | 46.5 | 3.2 | 19.0 | 19.2 | 18.6 | 15.7 | 11.1 | 10.2 | 8.3 | 6.0 | 4.7 | 3.8 | 0.7 | 0.7 | 0.9 | 36.8 | 28.5 | 26.8 | 290 | 17.4 | 9.2 |
| Larsen & Toubro | 1,672 | BUY | 1,004,850 | 21,453 | 601 | 58.1 | 69.7 | 87.7 | 16.0 | 19.9 | 25.9 | 28.8 | 24.0 | 19.1 | 15.5 | 13.3 | 11.0 | 4.5 | 3.8 | 3.2 | 0.7 | 0.7 | 0.8 | 18.6 | 17.2 | 18.3 | 1,850 | 10.6 | 50.5 |
| Maharashtra Seamless | 379 | BUY | 26,731 | 571 | 71 | 40.2 | 43.6 | 49.8 | 12.1 | 8.5 | 14.2 | 9.4 | 8.7 | 7.6 | 5.0 | 4.3 | 3.4 | 1.7 | 1.4 | 1.3 | 1.6 | 2.1 | 2.6 | 19.3 | 17.9 | 17.7 | 450 | 18.7 | 0.7 |
| Siemens | 696 | REDUCE | 234,596 | 5,008 | 337 | 25.0 | 29.6 | 34.3 | 55.2 | 18.6 | 16.0 | 27.9 | 23.5 | 20.3 | 16.4 | 13.4 | 11.3 | 6.9 | 5.6 | 4.6 | 0.7 | 0.8 | 1.0 | 27.3 | 26.3 | 25.1 | 635 | (8.7) | 7.2 |
| Suzlon Energy | 56 | REDUCE | 88,938 | 1,899 | 1,594 | (5.9) | 0.3 | 5.3 | (182.3) | (104.4) | 1,931.8 | (9.4) | 215.1 | 10.6 | 16.6 | 8.6 | 5.6 | 0.8 | 0.8 | 0.8 | — | — | 0.4 | (8.8) | 0.4 | 7.5 | 70 | 25.4 | 32.3 |
| Thermax | 688 | BUY | 81,945 | 1,749 | 119 | 21.7 | 29.4 | 37.6 | (10.4) | 35.4 | 27.7 | 31.6 | 23.4 | 18.3 | 16.9 | 13.0 | 10.2 | 7.5 | 6.2 | 5.1 | 0.5 | 1.2 | 1.6 | 24.9 | 29.1 | 30.5 | 750 | 9.1 | 1.1 |
| Volta | 185 | ADD | 61,169 | 1,306 | 331 | 10.9 | 11.3 | 12.6 | 57.4 | 3.8 | 12.1 | 17.0 | 16.4 | 14.6 | 9.9 | 8.7 | 7.4 | 5.7 | 4.7 | 3.9 | 1.7 | 1.8 | 2.0 | 38.3 | 31.3 | 28.8 | 215 | 16.2 | 3.7 |
| Industrials | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Attractive | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3,164,805 67,566 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4.2 32.3 26.9 29.0 21.9 17.3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 14.6 11.6 9.3 4.7 4.0 3.4 0.7 0.9 1.0 16.3 18.3 19.6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Infrastructure | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Container Corporation | 1,300 | REDUCE | 168,916 | 3,606 | 130 | 61.1 | 74.3 | 85.9 | 0.3 | 21.7 | 15.6 | 21.3 | 17.5 | 15.1 | 15.0 | 12.2 | 10.2 | 3.9 | 3.3 | 2.9 | 1.1 | 1.3 | 1.5 | 19.6 | 20.6 | 20.5 | 1,250 | (3.8) | 1.9 |
| GMR Infrastructure | 57 | ADD | 209,936 | 4,482 | 3,667 | 0.4 | 0.2 | 0.1 | (43.8) | (48.9) | (40.0) | 132.8 | 260.0 | 433.1 | 23.4 | 15.1 | 14.2 | 2.0 | 1.7 | 1.7 | — | — | — | 2.4 | 1.2 | 0.7 | 65 | 13.5 | 5.9 |
| GVK Power & Infrastructure | 43 | BUY | 68,064 | 1,453 | 1,579 | 0.8 | 1.1 | 1.4 | 6.7 | 33.5 | 32.4 | 53.0 | 39.7 | 30.0 | 18.2 | 16.7 | 17.1 | 2.1 | 2.1 | 2.0 | — | 0.7 | 0.7 | 4.7 | 5.3 | 6.7 | 54 | 25.3 | 6.2 |
| IRB Infrastructure | 260 | RS | 86,514 | 1,847 | 332 | 9.7 | 12.6 | 12.1 | 83.8 | 29.2 | (3.7) | 26.8 | 20.7 | 21.5 | 12.8 | 11.4 | 10.7 | 3.7 | 2.9 | 2.3 | — | — | — | 15.6 | 15.7 | 11.9 | — | — | 4.4 |
| Mundra Port and SEZ | 690 | REDUCE | 278,287 | 5,941 | 403 | 15.1 | 24.1 | 35.7 | 40.8 | 59.5 | 48.4 | 45.7 | 28.7 | 19.3 | 29.5 | 19.0 | 13.5 | 7.6 | 5.9 | 4.4 | — | — | — | 18.5 | 23.2 | 26.1 | 725 | 5.1 | 15.3 |
| Infrastructure | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Attractive | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 811,717 17,330 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12.7 29.5 24.1 40.3 31.1 25.1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 20.4 15.0 13.0 3.4 2.9 2.6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Media | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DB Corp | 238 | ADD | 43,131 | 921 | 181 | 10.6 | 12.9 | 15.7 | 276.4 | 21.0 | 22.3 | 22.4 | 18.5 | 15.1 | 12.4 | 10.2 | 8.1 | 6.2 | 4.9 | 4.2 | 0.8 | 1.7 | 2.5 | 38.2 | 29.6 | 29.9 | 280 | 17.8 | 10.3 |
| DishTV | 41 | ADD | 43,759 | 934 | 1,063 | (2.5) | (1.2) | 0.6 | (61.6) | (52.4) | (146.5) | (16.3) | (34.3) | 73.7 | 63.8 | 20.7 | 11.2 | 10.7 | 15.6 | 12.9 | — | — | — | 248.6 | (37.1) | 19.1 | 45 | 9.4 | 2.8 |
| HT Media | 164 | NR | 38,587 | 824 | 235 | 6.1 | 7.8 | 9.4 | 623.3 | 27.0 | 20.9 | 26.9 | 21.2 | 17.5 | 13.5 | 11.2 | 9.2 | 4.0 | 3.5 | 3.2 | 0.6 | 1.2 | 2.4 | 15.6 | 17.6 | 19.2 | — | — | 0.3 |
| Jagran Prakashan | 118 | ADD | 35,387 | 755 | 301 | 5.8 | 6.4 | 7.5 | 91.9 | 9.5 | 16.7 | 20.1 | 18.4 | 15.7 | 12.1 | 10.7 | 9.1 | 5.8 | 5.2 | 4.6 | 3.0 | 3.0 | 3.4 | 30.0 | 29.8 | 31.0 | 130 | 10.6 | 1.9 |
| Sun TV Network | 398 | REDUCE | 156,686 | 3,345 | 394 | 13.1 | 17.9 | 22.8 | 44.8 | 36.0 | 27.5 | 30.2 | 22.2 | 17.4 | 17.1 | 12.8 | 10.1 | 8.1 | 6.8 | 5.6 | 1.9 | 1.9 | 2.3 | 28.4 | 33.5 | 35.5 | 420 | 5.6 | 2.2 |
| Zee Entertainment Enterprises | 297 | REDUCE | 129,028 | 2,755 | 434 | 10.5 | 12.0 | 14.7 | 24.4 | 14.4 | 22.2 | 28.3 | 24.7 | 20.2 | 21.0 | 16.7 | 13.2 | 3.5 | 3.3 | 3.2 | 0.8 | 1.0 | 1.2 | 13.0 | 14.1 | 16.4 | 265 | (10.9) | 8.4 |
| Media | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Neutral | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 446,579 9,534 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 183.3 41.2 36.3 37.0 26.2 19.2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 17.8 13.5 10.5 5.4 4.9 4.4 1.3 1.4 1.9 14.5 18.8 22.9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Metals | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Hindalco Industries | 148 | ADD | 282,499 | 6,031 | 1,914 | 5.7 | 12.5 | 14.7 | (64.5) | 119.8 | 18.2 | 26.0 | 11.8 | 10.0 | 7.8 | 8.4 | 8.6 | 1.3 | 1.2 | 1.1 | 0.9 | 0.9 | 0.9 | 10.3 | 10.2 | 11.0 | 190 | 28.7 | 36.3 |
| Hindustan Zinc | 966 | BUY | 408,124 | 8,713 | 423 | 95.6 | 70.1 | 76.6 | 48.2 | (26.8) | 9.4 | 10.1 | 13 | 12.6 | 6.1 | 8.0 | 6.2 | 2.2 | 1.9 | 1.6 | 0.6 | 0.6 | 0.6 | 24.2 | 14.8 | 14.1 | 1,400 | 44.9 | 4.5 |
| Jindal Steel and Power | 630 | SELL | 584,262 | 12,474 | 928 | 38.5 | 48.7 | 50.8 | 17.2 | 26.5 | 4.3 | 16.4 | 12.9 | 12.4 | 10.3 | 8.3 | 7.7 | 5.1 | 3.7 | 2.8 | 0.2 | 0.2 | 0.2 | 37.3 | 33.0 | 25.7 | 575 | (8.7) | 34.0 |
| JSW Steel | 1,076 | REDUCE | 213,776 | 4,564 | 199 | 80.4 | 106.4 | 136.9 | 44.0 | 32.3 | 28.7 | 13.4 | 10.1 | 7.9 | 8.4 | 7.1 | 5.7 | 1.8 | 1.5 | 1.2 | 0.8 | 0.4 | 0.4 | 15.4 | 16.4 | 17.3 | 1,150 | 6.9 | 55.2 |
| National Aluminium Co. | 421 | SELL | 270,965 | 5,785 | 644 | 10.1 | 28.0 | 27.7 | (49.0) | 178.6 | (1.2) | 41.8 | 15.0 | 15.2 | 18.5 | 7.2 | 6.7 | 2.5 | 2.2 | 1.9 | 0.5 | 0.5 | 0.5 | 6.1 | 15.4 | 13.3 | 320 | (23.9) | 2.0 |
| Sesa Goa | 369 | REDUCE | 328,478 | 7,013 | 890 | 29.6 | 61.4 | 62.4 | 32.2 | 107.6 | 1.8 | 12.5 | 6.0 | 5.9 | 10.1 | 3.7 | 3.0 | 4.3 | 2.5 | 1.8 | 0.8 | 0.8 | 0.8 | 36.7 | 48.0 | 34.1 | 420 | 13.8 | 75.6 |
| Sterite Industries | 648 | ADD | 544,966 | 11,635 | 840 | 48.1 | 67.6 | 83.3 | 21.9 | 40.6 | 23.2 | 13.5 | 9.6 | 7.8 | 10.3 | 7.5 | 5.5 | 1.5 | | | | | | | | | | | |

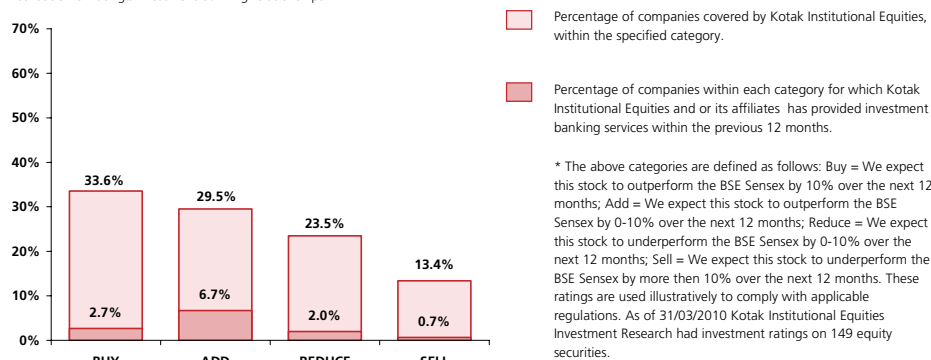
Kotak Institutional Equities: Valuation summary of key Indian companies

| Company | 4-Jun-10 | | Mkt cap. | | O/S shares (mn) | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target price (Rs) | Upside (%) | ADVT-3mo (US\$ mn) | |
|--|------------|------------|------------|-----------|-----------------|----------|--------|-------|----------------|--------|--------|---------|-------|-------|---------------|-------|-------|--------------|-------|-------|--------------------|-------|-------|---------|-------|-------|-------------------|------------|--------------------|------|
| | Price (Rs) | Rating | (Rs mn) | (US\$ mn) | | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | | | | |
| Retail | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Titan Industries | 2,249 | ADD | 99,825 | 2,131 | 44 | 62.7 | 76.1 | 96.2 | 41.5 | 21.3 | 26.5 | 35.9 | 29.6 | 23.4 | 25.5 | 19.9 | 15.5 | 12.6 | 9.5 | 7.1 | 0.4 | 0.5 | 0.6 | 40.7 | 36.6 | 34.8 | 2,400 | 6.7 | 4.4 | |
| Retail | | Neutral | 99,825 | 2,131 | | | | | 41.5 | 21.3 | 26.5 | 35.9 | 29.6 | 23.4 | 25.5 | 19.9 | 15.5 | 12.6 | 9.5 | 7.1 | 0.4 | 0.5 | 0.6 | 35.2 | 32.0 | 30.5 | | | | |
| Sugar | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bajaj Hindustan | 112 | SELL | 21,375 | 456 | 191 | 9.7 | 9.9 | 8.9 | — | 2.2 | (10.4) | 11.5 | 11.2 | 12.5 | 6.9 | 5.7 | 5.3 | 0.9 | 0.8 | 0.8 | 0.6 | 0.6 | 0.6 | 8.1 | 7.5 | 6.3 | 99 | (11.4) | 9.7 | |
| Balrampur Chini Mills | 82 | ADD | 21,067 | 450 | 257 | 3.7 | 10.4 | 7.0 | — | 183.7 | (32.7) | 22.3 | 7.9 | 11.7 | 9.5 | 5.4 | 5.9 | 1.5 | 1.3 | 1.2 | 0.5 | 0.5 | 0.5 | 7.0 | 18.1 | 11.0 | 92 | 12.1 | 9.3 | |
| Shree Renuka Sugars | 63 | BUY | 42,432 | 906 | 670 | 9.9 | 7.6 | 7.8 | 196.4 | (23.2) | 3.1 | 6.4 | 8.3 | 8.1 | 4.4 | 5.0 | 4.2 | 1.7 | 1.4 | 1.2 | 0.6 | 0.6 | 0.6 | 32.0 | 18.1 | 15.7 | 76 | 20.0 | 23.0 | |
| Sugar | | Cautious | 84,873 | 1,812 | | | | | 96.1 | 2.5 | (9.4) | 9.0 | 8.8 | 9.7 | 6.0 | 5.3 | 5.0 | 1.3 | 1.2 | 1.0 | 0.6 | 0.6 | 0.6 | 14.9 | 13.3 | 10.8 | | | | |
| Technology | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HCL Technologies | 387 | REDUCE | 266,961 | 5,699 | 690 | 17.8 | 25.1 | 28.5 | 2.0 | 40.6 | 13.6 | 21.7 | 15.4 | 13.6 | 11.0 | 9.5 | 7.9 | 4.2 | 3.5 | 2.9 | 1.0 | 1.0 | 1.6 | 20.8 | 24.9 | 23.3 | 370 | (4.4) | 8.5 | |
| Hexaware Technologies | 75 | REDUCE | 10,824 | 231 | 144 | 9.3 | 5.1 | 9.4 | 127.7 | (45.4) | 84.0 | 8.1 | 14.8 | 8.0 | 4.0 | 8.1 | 4.3 | 1.3 | 1.2 | 1.1 | 1.3 | 1.3 | 1.3 | 17.8 | 8.4 | 14.0 | 72 | (4.4) | 2.6 | |
| Infosys Technologies | 2,729 | BUY | 1,566,417 | 33,442 | 574 | 108.3 | 125.2 | 150.5 | 5.7 | 15.6 | 20.2 | 25.2 | 21.8 | 18.1 | 18.3 | 15.0 | 12.2 | 6.8 | 5.6 | 4.6 | 0.9 | 1.3 | 1.5 | 30.1 | 28.2 | 28.0 | 3,100 | 13.6 | 69.4 | |
| Mphasis BFL | 572 | REDUCE | 119,350 | 2,548 | 208 | 43.6 | 49.0 | 45.6 | 207.5 | 12.5 | (7.0) | 13.1 | 11.7 | 12.6 | 10.4 | 9.3 | 8.4 | 5.1 | 3.6 | 2.9 | 0.6 | 0.7 | 0.8 | 48.1 | 36.4 | 25.8 | 550 | (3.9) | 10.2 | |
| Mindtree | 540 | REDUCE | 22,236 | 475 | 41 | 52.2 | 38.9 | 51.6 | 294.3 | (25.5) | 32.6 | 10.3 | 13.9 | 10.5 | 8.9 | 8.5 | 6.0 | 3.3 | 2.7 | 2.2 | 0.4 | 0.7 | 1.0 | 35.2 | 21.4 | 23.1 | 550 | 1.8 | 2.9 | |
| Patni Computer Systems | 599 | REDUCE | 79,734 | 1,702 | 133 | 36.6 | 42.3 | 38.6 | 36.4 | 15.6 | (8.7) | 16.4 | 14.2 | 15.5 | 9.1 | 8.1 | 7.2 | 2.2 | 2.1 | 1.9 | 1.2 | 1.4 | 1.3 | 18.2 | 15.8 | 12.8 | 450 | (24.8) | 5.4 | |
| Polaris Software Lab | 181 | SELL | 18,026 | 385 | 100 | 15.4 | 19.1 | 18.6 | 16.9 | 24.3 | (2.7) | 11.8 | 9.5 | 9.7 | 5.9 | 7.5 | 6.4 | 2.1 | 1.8 | 1.6 | 1.9 | 2.0 | 2.2 | 18.6 | 20.1 | 17.0 | 180 | (0.4) | 3.7 | |
| TCS | 765 | BUY | 1,497,943 | 31,980 | 1,957 | 35.1 | 41.1 | 46.3 | 32.8 | 16.9 | 12.8 | 21.8 | 18.6 | 16.5 | 16.7 | 13.6 | 11.2 | 7.1 | 5.9 | 5.0 | 2.6 | 2.1 | 2.4 | 37.6 | 34.8 | 32.8 | 900 | 17.6 | 35.0 | |
| Wipro | 655 | ADD | 958,268 | 20,458 | 1,462 | 31.4 | 36.7 | 41.9 | 22.1 | 16.7 | 14.4 | 20.9 | 17.9 | 15.6 | 15.7 | 12.9 | 10.6 | 4.9 | 4.0 | 3.3 | 0.9 | 1.1 | 1.3 | 26.5 | 24.6 | 23.2 | 775 | 18.2 | 16.0 | |
| Technology | | Attractive | 4,539,759 | 96,921 | | | | | 22.9 | 16.7 | 14.2 | 21.7 | 18.6 | 16.3 | 15.8 | 13.1 | 10.8 | 5.8 | 4.8 | 4.0 | 1.5 | 1.5 | 1.8 | 26.7 | 25.8 | 24.6 | | | | |
| Telecom | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bharti Airtel | 276 | REDUCE | 1,049,277 | 22,401 | 3,798 | 24.0 | 21.4 | 24.2 | 7.5 | (10.8) | 13.2 | 11.5 | 12.9 | 11.4 | 6.5 | 6.1 | 5.2 | 2.4 | 2.0 | 1.7 | 1.1 | 1.4 | 1.8 | 24.1 | 17.0 | 16.5 | 290 | 5.0 | 43.8 | |
| IDEA | 56 | REDUCE | 184,624 | 3,942 | 3,300 | 2.7 | 1.3 | 2.3 | (5.8) | (51.7) | 71.9 | 20.5 | 42.4 | 24.6 | 7.4 | 7.3 | 6.0 | 1.6 | 1.6 | 1.5 | — | — | — | 7.2 | 3.8 | 6.3 | 50 | (10.6) | 9.1 | |
| MTNL | 56 | SELL | 35,564 | 759 | 630 | (15.6) | (10.4) | (9.1) | (750.8) | (33.7) | (11.9) | (3.6) | (5.4) | (6.2) | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | — | — | — | (8.5) | (6.1) | (5.7) | 50 | (11.4) | 1.7 | |
| Reliance Communications | 169 | SELL | 359,436 | 7,674 | 2,133 | 22.1 | 14.1 | 18.2 | (30.2) | (36.2) | 29.1 | 7.6 | 12.0 | 9.3 | 7.1 | 7.8 | 5.9 | 0.9 | 0.9 | 0.8 | 0.5 | — | — | — | 11.7 | 7.4 | 8.9 | 140 | (16.9) | 19.4 |
| Tata Communications | 247 | REDUCE | 70,509 | 1,505 | 285 | 14.0 | 15.2 | 15.7 | 3.2 | 8.2 | 3.5 | 17.7 | 16.3 | 15.8 | 7.3 | 6.7 | 6.4 | 1.0 | 1.0 | 0.9 | 2.6 | 3.0 | 3.4 | 5.2 | 5.5 | 5.5 | 225 | (9.1) | 1.3 | |
| Telecom | | Cautious | 1,699,409 | 36,281 | | | | | (15.1) | (19.8) | 20.7 | 11.9 | 14.8 | 12.3 | 7.0 | 6.9 | 5.6 | 1.5 | 1.4 | 1.3 | 0.9 | 1.0 | 1.3 | 12.7 | 9.3 | 10.2 | | | | |
| Utilities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Adani Power | 118 | ADD | 258,112 | 5,511 | 2,180 | 0.8 | 4.9 | 16.4 | — | 524.1 | 235.3 | 151.1 | 24.2 | 7.2 | 119.0 | 16.4 | 6.0 | 4.7 | 4.0 | 2.6 | — | — | — | 4.4 | 17.8 | 43.0 | 130 | 9.8 | 10.3 | |
| CESC | 376 | ADD | 47,020 | 1,004 | 125 | 34.1 | 43.3 | 46.7 | 5.6 | 27.0 | 7.9 | 11.0 | 8.7 | 8.1 | 6.3 | 6.2 | 6.9 | 1.1 | 1.0 | 0.9 | 1.2 | 1.4 | 1.6 | 10.7 | 12.1 | 11.7 | 455 | 20.9 | 2.1 | |
| Lanco Infratech | 63 | BUY | 152,477 | 3,255 | 2,405 | 2.0 | 3.6 | 4.5 | 35.1 | 82.2 | 26.4 | 32.3 | 17.7 | 14.0 | 19.7 | 8.4 | 8.2 | 4.4 | 3.6 | 2.9 | — | — | — | 15.8 | 20.6 | 21.0 | 70 | 10.4 | 10.3 | |
| NTPC | 202 | REDUCE | 1,667,233 | 35,594 | 8,245 | 10.6 | 12.4 | 14.7 | 7.8 | 16.8 | 18.9 | 19.1 | 16.4 | 13.8 | 14.8 | 12.5 | 10.5 | 2.6 | 2.4 | 2.2 | 2.0 | 2.3 | 2.7 | 14.2 | 15.3 | 16.6 | 200 | (1.1) | 13.5 | |
| Reliance Infrastructure | 1,111 | ADD | 273,275 | 5,834 | 246 | 61.8 | 62.7 | 80.3 | (1.5) | 1.6 | 28.0 | 18.0 | 17.7 | 13.8 | 19.2 | 18.6 | 12.7 | 1.4 | 1.3 | 1.2 | 0.7 | 0.8 | 0.9 | 6.3 | 7.3 | 10.1 | 1,100 | (1.0) | 38.6 | |
| Reliance Power | 160 | SELL | 383,840 | 8,195 | 2,397 | 2.5 | 3.1 | 5.1 | — | 24.4 | 66.1 | 65.0 | 52.3 | 31.5 | — | — | — | 2.7 | 2.5 | 2.4 | — | — | — | 4.2 | 5.0 | 7.8 | 128 | (20.1) | 11.4 | |
| Tata Power | 1,239 | BUY | 305,766 | 6,528 | 247 | 60.2 | 76.1 | 95.3 | 20.1 | 26.4 | 25.2 | 20.6 | 16.3 | 13.0 | 13.3 | 11.3 | 9.7 | 2.3 | 2.1 | 1.9 | 1.0 | 1.1 | 1.2 | 12.9 | 13.6 | 15.2 | 1,500 | 21.1 | 12.0 | |
| Utilities | | Attractive | 3,087,723 | 65,921 | | | | | 15.1 | 25.4 | 36.3 | 23.1 | 18.4 | 13.5 | 19.0 | 14.4 | 10.8 | 2.5 | 2.3 | 2.0 | 1.2 | 1.4 | 1.7 | 10.8 | 12.4 | 15.0 | | | | |
| Others | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Aban Offshore | 700 | ADD | 30,447 | 650 | 43 | 94.5 | 172.3 | 103.6 | (2.5) | 82.3 | (39.8) | 7.4 | 4.1 | 6.8 | 8.1 | 5.9 | 6.4 | 1.4 | 0.7 | 0.7 | 0.5 | 0.5 | 0.6 | 21.7 | 20.8 | 11.1 | 900 | 28.6 | 47.1 | |
| Havells India | 631 | SELL | 37,936 | 810 | 60 | 5.3 | 31.6 | 45.0 | 3.7 | 497.9 | 42.6 | 119.3 | 20.0 | 14.0 | 16.6 | 10.2 | 8.3 | 10.4 | 6.9 | 4.7 | 0.4 | 0.4 | 0.4 | 6.6 | 41.6 | 39.7 | 480 | (23.9) | 10.0 | |
| Jaiprakash Associates | 123 | BUY | 260,888 | 5,570 | 2,129 | 1.5 | 8.0 | 10.8 | (27.2) | 447.1 | 35.7 | 84.1 | 15.4 | 11.3 | 21.5 | 13.0 | 9.3 | 3.1 | 2.6 | 2.1 | — | — | — | 4.1 | 18.3 | 20.8 | 183 | 49.3 | 36.7 | |
| Jindal Saw | 191 | ADD | 56,314 | 1,202 | 294 | 27.5 | 19.3 | 17.9 | 121.9 | (29.8) | (7.2) | 7.0 | 9.9 | 10.7 | 5.0 | 5.7 | 5.5 | 1.5 | 1.2 | 1.1 | 0.5 | 0.4 | 0.4 | 20.5 | 12.9 | 11.1 | 243 | 26.9 | 9.3 | |
| PSL | 125 | BUY | 6,672 | 142 | 53 | 22.9 | 25.4 | 28.2 | 3.3 | 10.6 | 11.0 | 5.4 | 4.9 | 4.4 | 3.1 | 2.6 | 2.8 | 0.7 | 0.6 | 0.6 | 5.2 | 5.2 | 5.6 | 12.6 | 11.7 | 12.0 | 175 | 40.2 | 0.7 | |
| Sintex | 284 | BUY | 38,751 | 827 | 136 | 24.1 | 29.8 | 34.3 | 0.5 | 23.5 | 15.1 | 11.8 | 9.5 | 8.3 | 8.7 | 6.6 | 5.5 | 1.8 | 1.5 | 1.3 | 0.4 | 0.4 | 0.4 | 15.1 | 15.6 | 15.2 | 380 | 33.8 | 4.6 | |
| Tata Chemicals | 320 | ADD | 77,765 | 1,660 | 243 | 28.6 | 30.1 | 35.9 | 7.4 | 5.1 | 19.3 | 11.2 | 10.6 | 8.9 | 6.4 | 5.7 | 4.9 | 1.6 | 1.5 | 1.3 | 2.8 | 2.8 | 2.8 | 17.2 | 17.3 | 17.9 | 340 | 6.4 | 3.3 | |
| Welspun Gujarat Stahl Rohren | 231 | REDUCE | 47,361 | 1,011 | 205 | 25.1 | 23.0 | 24.4 | 44.9 | (8.1) | 5.8 | 9.2 | 10.0 | 9.5 | 5.1 | 5.3 | 4.6 | 1.6 | 1.4 | 1.2 | 0.8 | 0.9 | 1.0 | 20.6 | 14.8 | 13.5 | 245 | 6.3 | 10.7 | |
| United Phosphorus | 187 | BUY | 86,638 | 1,850 | 463 | 11.9 | 15.6 | 19.0 | 18.8 | 30.2 | 22.1 | 15.7 | 12.0 | 9.9 | 9.0 | 7.5 | 6.1 | 2.5 | 2.1 | 1.8 | 0.8 | 1.1 | 1.1 | 17.7 | 19.0 | 19.5 | 250 | 33.5 | 6.7 | |
| Others | | | 642,772 | 13,723 | | | | | 21.0 | 54.0 | 13.2 | 17.4 | 11.3 | 10.0 | 10.3 | 8.2 | 7.0 | 2.2 | 1.8 | 1.6 | 0.7 | 0.7 | 0.7 | 12.7 | 15.9 | 15.6 | | | | |
| KS universe (b) | | | 41,786,519 | 892,112 | | | | | 13.1 | 22.0 | 19.6 | 18.0 | 14.7 | 12.3 | 11.0 | 9.0 | 7.6 | 2.7 | 2.3 | 2.0 | 1.4 | 1.6 | 1.9 | 14.9 | 15.9 | 16.6 | | | | |
| KS universe (b) ex-Energy | | | 33,294,427 | 710,812 | | | | | 7.4 | 23.0 | 20.5 | 19.3 | 15.7 | 13.0 | 13.3 | 10.7 | 8.9 | 3.0 | 2.6 | 2.2 | 1.2 | 1.3 | 1.5 | 15.3 | 16.2 | 17.0 | | | | |
| KS universe (d) ex-Energy & ex-Commodities | | | 29,514,374 | 630,110 | | | | | 13.8 | 18.2 | 22.2 | 20.1 | 17.0 | 13.9 | 14.8 | 12.3 | 10.1 | 3.1 | 2.7 | 2.4 | 1.3 | 1.4 | 1.6 | 15.5 | 16.0 | 17.0 | | | | |

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As of March 31, 2010

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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.

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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

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