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News Round-up

- ▶ The government has notified amendments to telecom licence conditions which will make it mandatory for companies to appoint Indian nationals to manage networks. (BSTD)
- ▶ The Centre was able to rein in fiscal deficit at 4.68% of the gross domestic product during 2010-11, lower than the 5.1% projected in the revised estimates. (BSTD)
- ▶ GDP growth slows to 7.8% in Q4, up at 8.5% in FY11. Slowest in five quarters; oil above USD 100 could upset growth story. (FNLE)
- ▶ Flat steel prices are set to increase by INR 500-1,000 a tonne from June on the back of a cost push from raw materials like coking coal and iron ore. While coking coal for the quarter have been at USD 330 a tonne, iron ore prices have been around USD 185 a tonne. (BSTD)
- ▶ NMDC (NMDC IN) signed the contract for setting up the country's largest blast furnace with Tata Projects Ltd, Danieli Corus, Netherlands and Danieli Corus India. (THBL)
- ▶ NHPC (NHPC IN) plans to bring on stream 1,080 MW of hydropower by end of the Eleventh Plan (2007-12). (THBL)
- ▶ Coal India (COAL IN) has shot down the Adani Group's proposal to form a JV for exploiting the group's newly acquired coal mines in Australia. (ECNT)
- ▶ Oil India (OINL IN) plans to spend about USD 1bn to acquire oil & gas producing blocks abroad in the next couple of years. (ECNT)
- ▶ Tata Steel (TATA IN) has offloaded a 51% stake in group company Tata Refractories to Nippon Steel's associate Krosaki Harima Corp. & inducted the Japanese firm as a strategic partner. (ECNT)

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

EQUITY MARKETS

India	Change %			
	31-May	1-day	1-mo	3-mo
Sensex	18,503	1.5	(3.3)	3.8
Nifty	5,560	1.6	(3.3)	4.3
Global/Regional indices				
Dow Jones	12,570	1.0	(1.9)	2.8
Nasdaq Composite	2,835	1.4	(1.3)	1.9
FTSE	5,990	0.9	(1.3)	(0.1)
Nikkei	9,698	0.0	(1.5)	(9.8)
Hang Seng	23,687	0.0	(0.1)	1.2
KOSPI	2,147	0.2	(2.1)	10.7
Value traded – India				
Cash (NSE+BSE)	183		131	147
Derivatives (NSE)	967		1,010	1,864
Deri. open interest	1,113		1,087	1,107

Forex/money market

	Change, basis points			
	31-May	1-day	1-mo	3-mo
Rs/US\$	45.1	(2)	72	(22)
10yr govt bond, %	8.4	(5)	29	41

Net investment (US\$m)

	30-May	MTD	CYTD
FIs	26	-	(520)
MFs	34	-	(282)

Top movers -3mo basis

		Change, %			
		31-May	1-day	1-mo	3-mo
Best performers					
DIVI	IN Equity	775.9	0.9	9.8	27.9
ABB	IN Equity	864.4	0.7	1.1	26.3
HH	IN Equity	1854.8	1.0	8.5	24.3
APNT	IN Equity	3133.4	1.7	12.9	23.7
RBXY	IN Equity	551.9	2.9	20.6	22.2
Worst performers					
POWF	IN Equity	202.3	1.1	(12.7)	(20.7)
SBIN	IN Equity	2298.0	2.7	(18.1)	(15.1)
RECL	IN Equity	212.9	2.1	(10.8)	(14.8)
NACL	IN Equity	91.4	(0.1)	(1.5)	(14.7)
GMRI	IN Equity	35.6	4.6	(5.7)	(13.2)

MAY 31, 2011

NEW RELEASE

BSE-30: 18,503

A few silver linings and some ifs. We see inexpensive valuations and reasonable earnings visibility as positives in an otherwise gloomy near-term macro outlook due to high crude oil prices and inflation. A potential decline in crude oil prices and improved governance (policy reforms, crackdown on corruption) may shore up sentiment for India but the government would need to act more decisively. We expect the market to return about 8% by end-CY2011 (20,000) and 18% by end-CY2012 (22,000).

Inexpensive valuations is a silver lining amidst the doom and gloom

The BSE-30 Index is trading at 14.4X FY2012E and 12.7X FY2013E 'EPS' (full market-capitalization basis) and 15.2X FY2012E 'EPS' and 13.2X FY2013E 'EPS' (free-float basis). This is at the lower end of its historical trading band. We would also highlight that sectors and stocks with earnings risks are already trading at very low multiples. Finally, earnings appear to be reasonably resilient despite a tough macro environment (high interest rates and inflation).

High crude prices, inflation and governance to remain as overhangs

The case for Indian equities continues to be weak in the context of (1) high crude oil prices, (2) high interest rates and inflation and (3) weak governance. We see the government's tough stance on corruption as a positive. However, it would need to do much more (subsidy reforms, higher FDI in certain sectors, increased infrastructure focus) for Indian equities to become more attractive for domestic (high rates on bank deposits and rapid escalation in prices of other assets such as gold and real estate are deterrents) and overseas investors.

4QFY11 results—not so bad eventually despite two large misses

4QFY11 results were passable despite two large stocks (SBI and ONGC) disappointing significantly. The BSE-30 Index's net income grew 2.6% yoy and declined 2.1% qoq in 4QFY11 versus our expected 17.6% yoy and 11.7% qoq. We have fine-tuned FY2012E BSE-30 Index 'EPS' to ₹1,216 (free-float basis) from ₹1,231 before the start of the results season.

Modified portfolio—more private banks, quality names

We have moved the portfolio from a broadly 'neutral' position to a more focused yet aggressive one. We have increased the weight on private banks and a few other quality stocks and have now cut out several sectors completely; we have had low weights in cement, infrastructure, real estate, telecom and utilities previously but have virtually no exposure to these sectors now. Also, we see interest and funds coming into high-quality names as and when India finds favor again with global investors.

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Recent decline offers potential upside to 12-month target prices in some stocks

Valuation summary of BSE-30 Index stocks, March fiscal year-ends, 2011-13E

	P/E (X)			EV/EBITDA (X)			Price (Rs)	Target price (Rs)		Upside (%)		Performance			
	2011	2012E	2013E	2011	2012E	2013E		2012E	2013E	2012E	2013E	1-mo	3-mo	6-mo	1-Year
Hero Honda	18.7	17.1	14.5	12.2	9.1	7.5	1,855	1,510	1,722	(19)	(7)	8.5	26.6	(6.5)	(4.3)
Bharti Airtel	23.5	19.0	15.3	10.2	7.8	6.4	374	305	345	(18)	(8)	(1.6)	12.9	3.9	42.3
Cipla	27.0	20.0	17.3	21.9	15.6	13.0	326	300	330	(8)	1	5.3	8.8	(5.0)	2.5
Reliance Communications	14.2	12.7	9.2	5.6	5.9	5.0	90	83	95	(7)	6	(10.5)	4.4	(32.1)	(38.3)
HDFC	28.4	24.5	21.5	—	—	—	684	660	745	(4)	9	(3.2)	8.7	(0.4)	22.6
DLF	26.3	20.1	15.2	17.0	13.4	10.2	239	235	270	(2)	13	7.2	12.8	(22.1)	(13.6)
Hindustan Unilever	31.7	26.9	22.8	26.0	22.3	18.2	305	300	340	(1)	12	6.8	8.0	2.1	28.4
Jindal Steel and Power	16.2	12.7	11.1	11.6	9.3	8.6	649	640	700	(1)	8	(0.8)	(1.3)	2.0	(0.7)
TCS	26.1	21.4	18.3	19.7	15.4	13.0	1,157	1,200	1,350	4	17	(0.7)	4.2	7.5	57.7
HDFC Bank	28.4	21.7	16.7	—	—	—	2,400	2,500	2,900	4	21	4.5	16.9	5.0	27.1
Wipro	20.7	18.5	16.2	15.4	13.0	11.0	446	470	525	5	18	(0.9)	1.9	6.4	11.1
Reliance Industries	15.4	13.9	13.0	8.2	7.3	6.5	952	1,015	1,100	7	16	(3.2)	(1.3)	(3.4)	(9.0)
Larsen & Toubro	23.8	19.6	16.0	15.9	11.6	9.8	1,642	1,770	1,875	8	14	2.9	7.5	(15.8)	0.7
ITC	29.8	24.2	21.4	20.2	16.4	14.2	193	210	230	9	19	0.5	14.4	12.5	39.5
ICICI Bank	24.3	18.7	15.7	—	—	—	1,086	1,180	1,300	9	20	(2.5)	11.9	(4.9)	25.1
Infosys Technologies	23.3	19.2	16.1	15.9	12.9	10.6	2,786	3,100	3,450	11	24	(4.1)	(7.1)	(8.7)	5.9
Bajaj Auto	14.9	13.5	12.2	13.9	13.0	12.3	1,345	1,500	1,550	12	15	(8.8)	5.9	(14.7)	21.7
Bharat Heavy Electricals	15.8	14.4	12.9	10.6	9.5	8.1	1,943	2,175	2,275	12	17	(2.9)	(2.9)	(11.8)	(17.4)
Hindalco Industries	12.0	11.1	10.1	7.6	7.4	7.3	197	225	250	14	27	(8.7)	(2.0)	(4.5)	31.3
Tata Power	16.2	12.9	11.2	12.2	10.5	8.3	1,236	1,415	1,480	14	20	(5.2)	7.5	(4.4)	(3.8)
Tata Steel	7.7	8.3	6.9	6.7	6.3	5.4	589	675	750	15	27	(4.5)	(3.0)	0.7	17.6
NTPC	15.2	14.2	13.3	12.6	11.7	10.9	168	195	200	16	19	(7.7)	(0.9)	(8.6)	(16.8)
Sterlite Industries	11.3	8.1	7.0	7.5	4.7	3.8	172	200	220	17	28	(5.6)	4.5	6.4	3.6
State Bank of India	17.8	10.8	8.7	—	—	—	2,298	2,700	3,100	17	35	(18.1)	(12.6)	(23.2)	1.3
Maruti Suzuki	15.5	13.0	11.1	9.9	8.2	6.3	1,230	1,460	1,730	19	41	(6.6)	1.8	(13.5)	(0.5)
Tata Motors	8.1	8.2	7.5	5.6	5.8	5.2	1,095	1,300	1,290	19	18	(11.4)	1.2	(11.3)	45.1
Mahindra & Mahindra	16.1	15.3	13.7	12.4	11.4	10.0	672	800	770	19	15	(11.1)	9.2	(12.2)	17.5
Oil & Natural Gas Corporation	11.1	9.0	8.9	4.2	3.8	3.4	281	340	340	21	21	(8.7)	4.0	(9.7)	(3.7)
Jaiprakash Associates	15.7	14.9	15.0	11.7	10.0	9.7	87	130	135	50	56	(6.5)	12.1	(21.4)	(30.5)
Reliance Infrastructure	9.8	8.5	7.8	9.9	5.5	4.2	569	920	975	62	71	(13.8)	(6.7)	(32.6)	(46.7)
BSE-30 Index	17.2	14.4	12.7	9.7	8.4	7.4	18,503	20,010	21,871	8.1	18.2	(3.3)	3.8	(5.2)	9.2

Source: Company, Kotak Institutional Equities estimates

Earnings changes by sectors for FY2012E and FY2013E over a period of time

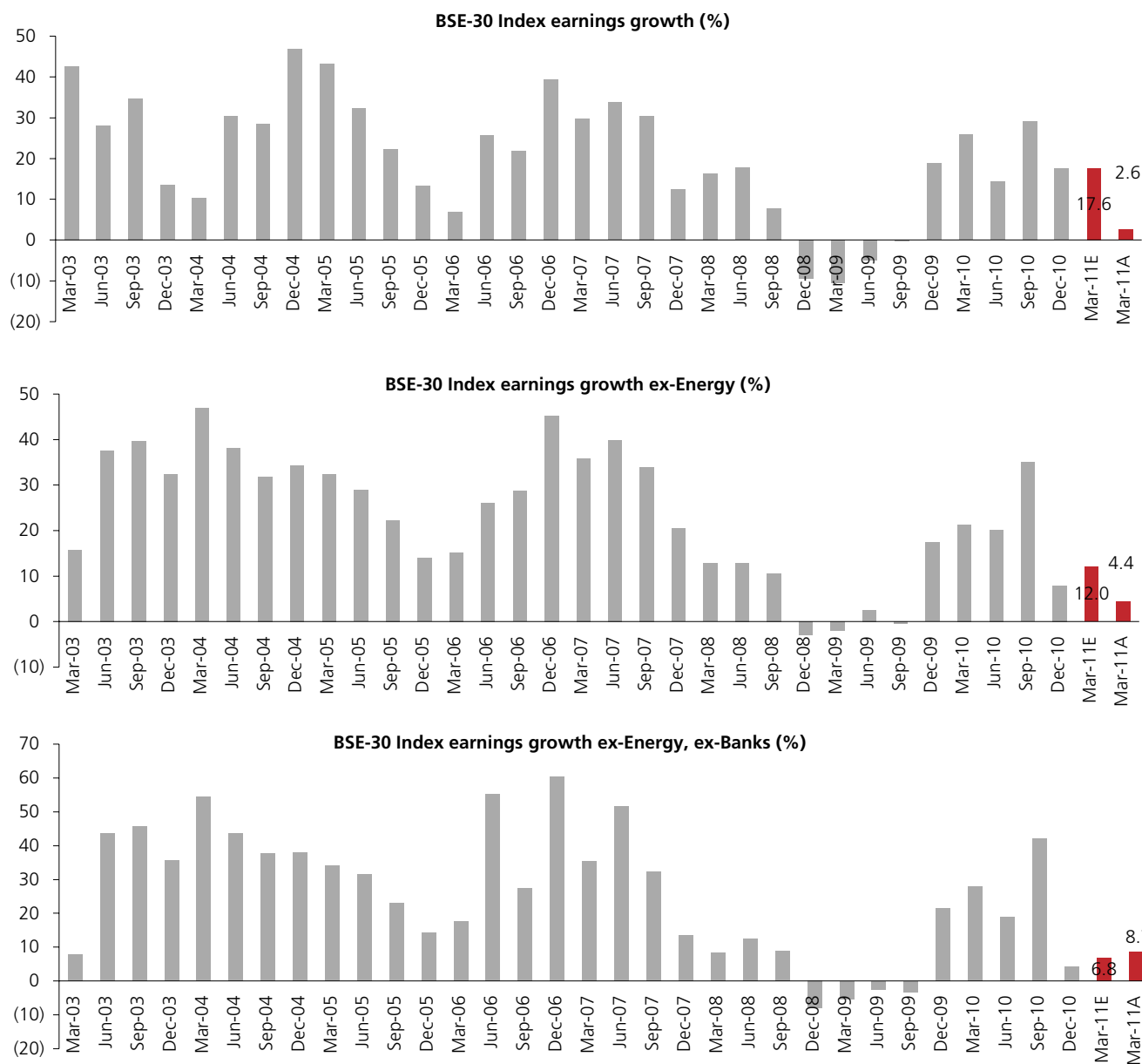
Earnings growth of BSE-30 Index sectors, March fiscal year-ends, 2011-13E (%)

	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	Current
2012E													
Automobiles	16	17	16	15	15	15	19	17	10	8	8	8	5
Banking	25	26	24	23	23	22	27	26	26	26	26	27	41
Consumers	16	16	16	16	18	18	18	18	18	18	21	20	21
Diversified	36	34	34	34	34	34	41	41	12	12	12	12	5
Energy	16	19	21	21	22	24	22	21	15	15	15	16	17
Industrials	21	22	20	21	21	18	19	19	18	17	17	17	14
Metals	17	17	21	15	15	18	16	20	23	20	19	20	15
Pharmaceuticals	22	22	22	19	19	19	19	19	19	32	32	32	35
Property	54	54	54	54	54	54	55	55	55	37	37	37	31
Technology	16	16	17	17	17	19	19	25	23	23	23	19	19
Telecom	17	17	17	11	11	11	20	20	20	23	23	23	22
Utilities	21	21	20	20	20	20	22	18	18	18	18	18	11
BSE-30 Index	18.9	19.9	20.5	19.3	19.8	20.7	21.3	21.8	19.2	18.4	18.4	18.6	18.9
BSE-30 ex-Energy	20.1	20.1	20.4	18.8	18.8	19.4	21.2	22.0	20.8	19.8	19.8	19.5	19.4
2013E													
Automobiles											16	16	12
Banking											21	22	23
Consumers											15	14	15
Diversified											(4)	(4)	(0)
Energy											11	10	3
Industrials											14	14	16
Metals											18	17	16
Pharmaceuticals											16	16	15
Property											63	63	32
Technology											16	17	17
Telecom											21	21	26
Utilities											16	16	9
BSE-30 Index											16.3	16.1	13.5
BSE-30 ex-Energy											18.1	18.3	17.0

Source: Kotak Institutional Equities estimates

Adjusted net profits of the BSE-30 Index increased by 2.6% yoy; and 4.4% yoy on an ex-Energy basis

Adjusted net income growth of BSE-30 Index (%)



Source: Company, Kotak Institutional Equities estimates

ONGC and SBI disappointed significantly

Comparison of 4QFY11 net income of BSE-30 stocks, actual versus expected (Rs bn)

	Adjusted net income (Rs bn)				Change A versus E	Growth (%)	
	Mar-10	Dec-10	Mar-11A	Mar-11E		yoy	qoq
Bajaj Auto	5.6	6.7	6.8	6.4	5.6	19.8	1.3
Hero Honda	6.0	4.8	5.0	5.0	0.3	(16.3)	3.4
Mahindra & Mahindra	5.7	6.2	6.1	7.0	(12.9)	6.4	(1.7)
Maruti Suzuki	6.6	5.7	6.6	6.0	9.7	0.5	16.8
Tata Motors	11.7	23.6	28.0	27.0	3.6	140.1	18.7
HDFC	9.3	8.9	11.4	11.0	4.0	23.3	28.2
HDFC Bank	8.4	10.9	11.1	10.9	2.6	33.2	2.5
ICICI Bank	10.1	14.4	14.5	15.2	(4.7)	44.4	1.1
State Bank of India	18.7	28.3	0.2	28.0	(99.3)	(98.9)	(99.3)
Hindustan Unilever	4.2	5.9	5.1	4.6	11.5	21.9	(12.3)
ITC	10.3	13.9	12.8	13.1	(2.5)	24.6	(7.7)
Oil & Natural Gas Corporation	37.6	57.8	27.9	59.9	(53.4)	(25.7)	(51.7)
Reliance Industries	47.1	51.4	53.8	56.0	(4.0)	14.1	4.7
Bharat Heavy Electricals	19.1	14.0	22.0	24.4	(9.8)	15.3	56.9
Larsen & Toubro	13.4	8.1	15.3	15.9	(4.2)	14.2	89.7
Hindalco Industries	5.5	4.6	7.1	5.6	25.9	28.6	53.9
Jindal Steel and Power	9.6	9.3	10.0	11.0	(8.5)	4.0	7.2
Sterlite Industries	13.8	11.1	19.6	14.0	39.3	41.7	77.0
Tata Steel	27.9	8.8	19.0	14.5	30.7	(32.1)	115.3
Jaiprakash Associates	2.5	2.3	2.9	2.8	3.1	17.4	23.4
Cipla	2.3	2.3	2.1	2.1	(0.3)	(6.4)	(8.0)
DLF	5.1	4.7	2.2	4.1	(47.6)	(58.0)	(54.3)
Infosys Technologies	15.7	17.8	18.2	18.4	(1.2)	15.9	2.1
TCS	19.3	23.3	24.0	23.6	1.7	24.4	3.1
Wipro	12.1	13.2	13.8	13.8	(0.1)	13.8	4.3
Bharti Airtel	20.4	13.0	14.0	18.4	(24.0)	(31.5)	7.5
Reliance Communications	12.2	4.8	1.6	2.9	(45.5)	(87.2)	(67.5)
NTPC	20.2	22.6	24.2	22.2	9.0	20.1	7.2
Reliance Infrastructure	2.5	1.7	5.0	1.8	184.4	98.5	200.8
Tata Power	0.1	1.5	2.6	1.9	37.9	2,607.5	77.4
BSE-30 Index	383	401	393	448	(12.2)	2.6	(2.1)
BSE-30 Index (ex Energy)	298	292	311	332	(6.2)	4.4	6.5

Source: Company, Kotak Institutional Equities estimates

MAY 31, 2011

NEW RELEASE

BSE-30: 18,503

Fund allocations to India coming off peaks. KIE's new foreign fund-flow tracker gives us a comprehensive view of market activity in India and among its emerging market peers. Using a top-down approach, we analyze country flows and the underlying factors which affect them such as fund flows and country allocations for different fund types.

Country flows—South Korea and Taiwan overshadow India in the last four weeks

In the last four weeks, country flows into India have remained tepid as ETFs, the larger contributor to net Indian inflows in the last 12 months, remained relatively inactive. On the other hand, Taiwan and Korea saw strong inflows on an mom basis. Thailand and Indonesia have seen strong inflows on a 1-month and a 3-month basis if we consider the flows in percentage terms. As emerging markets have corrected 7-8% in the last month, estimated net asset allocations have fallen on an mom basis.

Country allocations—allocations to India comes off peak

Indian allocations by Asia ex-Japan and BRIC-focused funds head lower as cash balances increase in these funds on an mom basis. Indian allocation in Asia ex-Japan funds has fallen from peak levels of 12.8% in July 2010 to April 2011 levels of 10.8%. On an mom basis, South Korea and Taiwan have eaten into India's pie within the universe of Asia ex-Japan funds while BRIC funds have increased their Russian allocations by ~2% in the last three months.

Fund flows—Wisdom Tree India Earnings and HSBC GIF India Equity Fund show outflows mom

Two of the largest funds in the India-dedicated fund universe saw outflows in the last four weeks adding to their outflows witnessed in the last 12 weeks. Three out of the top-10 outflows (as a % of total fund size) turned out to be ETFs. iPath MSCI India Index ETN witnessed an estimated outflow of US\$74 mn in the last 12 weeks which was ~9% of its total fund size. On the back of bearishness towards emerging markets, NAVs for the largest EM funds were down 5-8% mom.

QUICK NUMBERS

- **India allocations down from 12.8% to 10.8% in April**
- **Korea and Taiwan rope in the flows mom**

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RESULT

Coverage view: **Attractive**

Price (Rs): **68**

Target price (Rs): **75**

BSE-30: **18,503**

Stable quarter; but concerns on Libya exposure, repeated auditor qualifications.

Punj Lloyd reported 4QFY11 revenues of Rs23.3 bn, up 31% (on low base) and EBITDA margin of 8.9% (versus one-off related loss in 4QFY10). Backlog declined to Rs228 bn on removal of inactive Libyan orders (Rs62.5 bn); note execution risk to the remaining Rs37 bn of Libyan orders (16% of backlog). Punj Lloyd received additional auditor qualifications of Rs897 mn. Strong inflows, intact balance sheet quality are positives. Retain REDUCE.

Company data and valuation summary

Punj Lloyd

Stock data		Forecasts/Valuations			
52-week range (Rs) (high,low)	150-53	EPS (Rs)	2011	2012E	2013E
Market Cap. (Rs bn)	23.1	EPS growth (%)	(1.5)	5.2	8.2
Shareholding pattern (%)		P/E (X)	(56.6)	(449.2)	57.5
Promoters	37.1	Sales (Rs bn)	(45.9)	13.1	8.3
FIs	9.8	Net profits (Rs bn)	81.7	97.5	114.5
MFs	6.8	EBITDA (Rs bn)	(0.5)	1.8	2.8
Price performance (%)		EV/EBITDA (X)	6.2	8.8	10.9
Absolute	1M 3M 12M	ROE (%)	8.9	6.6	5.5
Rel. to BSE-30	2.3 13.7 (43.3)	Div. Yield (%)	(1.7)	5.8	8.5
	5.7 9.5 (48.0)		(0.1)	0.7	1.1

Strong results on low base and absence of project-specific one-offs; broadly in line at EBITDA level

Punj Lloyd reported 4QFY11 revenues of Rs23.3 bn, up 31% yoy primarily on account of low base of 4QFY10 which had witnessed a 45% yoy decline in revenues. EBITDA margin at 8.9% was broadly in line with our estimates, versus a negative margin of 29% in 4QFY10 (on one-offs in Simon Carves and ONGC orders). Punj Lloyd reported a net PAT of Rs185 mn, lower than our estimate of Rs327 mn led by higher-than-expected tax expenses (effective tax rate of 59% in 4QFY11), versus a loss of Rs6.2 bn in 4QFY10 and a loss of Rs599 mn in 3QFY11.

Removes inactive Libyan orders from backlog; execution risk to remaining Libyan orders in backlog

Punj Lloyd has removed three inactive projects from the backlog to the tune of Rs62.5 bn—projects in Libya which have been non-moving for over 18 months. This has led to a decline in backlog to Rs228 bn at end-FY2011, down 19% (from Rs277 bn) on a yoy as well as sequential basis. We note that the company still has outstanding orders to the tune of Rs37 bn (about 16% of the backlog) in Libya which may face several delays. The execution of these orders is likely to continue to remain under stress due to the ongoing political unrest in the country.

Other highlights: Strong FY2011 inflows, BS quality remains intact, additional auditor qualifications

Other highlights include (1) reported strong inflows in FY2011 to the tune of Rs110 bn led by several large orders (cited that the company is L1 in Rs40-45 bn of orders), (2) balance sheet quality remains intact with slight improvement in net debt:equity ratio to 1.1X versus 1.2X at end-FY2010, and (3) company received additional auditor qualifications to the tune of Rs897 mn (apart from Rs2.4 bn related to ONGC's Heera project) on cost overruns in two projects.

Revise estimates and target price to Rs75/share; reiterate REDUCE

We revise our estimates to Rs5.2 and Rs8.2 from Rs8.5 and Rs12.6 for FY2012E and FY2013E on lower execution and higher interest cost assumptions. Retain REDUCE with a revised TP of Rs75 (from Rs90) on (1) significant delays in Libyan projects, (2) concentration of infrastructure orders in the backlog and (3) repeated one-offs in subsidiaries related to contract-specific issues.

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Revenue growth on low base; EBITDA margin of 8.9%—broadly in line

Punj Lloyd reported 4QFY11 revenues of Rs23.3 bn, up 31% yoy and marginally (about 4%) ahead of our estimate. The strong revenue growth was primarily on account of low base of 4QFY10 (revenues of Rs17.7 bn) which had witnessed a 45% yoy decline in revenues. EBITDA margin at 8.9% was broadly in line with our estimates, versus a negative margin of 29% in 4QFY10 and margin of 4.5% in 3QFY11. The sequential improvement in margins was primarily led by lower employee and other expenses as a percentage of sales. Staff cost has in fact declined on an absolute basis on a yoy as well as sequential basis.

Punj Lloyd reported a net PAT of Rs185 mn, significantly lower than our estimate of Rs327 mn led by higher-than-expected tax expenses (effective tax rate of 59% in 4QFY11), versus a loss of Rs6.2 bn in 4QFY10 and a loss of Rs599 mn in 3QFY11.

For the full year ending March 31, 2011, Punj Lloyd reported revenues of Rs81.7 bn, a decline of 22% yoy. EBITDA margin was significantly higher at 7.6% versus low margins of 2.1% in FY2010. Punj Lloyd reported a FY2011 net loss of Rs504 mn, versus a loss of Rs4.4 bn in FY2010.

Revenues and EBITDA margin broadly in line

Punj Lloyd (consolidated) - 4QFY11 - key numbers (Rs mn)

	4QFY11	4QFY11E	4QFY10	3QFY11	% change			FY2011	FY2010	% change
					vs est.	yoy	qoq			
Net Sales	23,260	22,270	17,765	21,189	4.4	30.9	9.8	81,663	105,388	(22.5)
Expenditure	(21,179)	(25,070)	(22,912)	(20,231)	(15.5)	(7.6)	4.7	(75,451)	(103,205)	(26.9)
Material	(13,856)	(17,207)	(11,788)	(12,689)		17.5	9.2	(46,668)	(66,914)	(30.3)
Staff cost	(2,641)	(3,885)	(3,814)	(2,827)		(30.8)	(6.6)	(11,260)	(13,452)	(16.3)
Other expenditure	(4,683)	(3,977)	(7,310)	(4,715)		(35.9)	(0.7)	(17,523)	(22,839)	(23.3)
EBITDA	2,080	2,004	(5,147)	958	3.8	NA	117.1	6,212	2,183	184.5
Other Income	57	60	(14)	78	(4.7)	(505.7)	(26.2)	208	136	52.2
Interest	(989)	(996)	(728)	(845)	(0.6)	36.0	17.1	(3,568)	(3,063)	16.5
Depreciation	(699)	(580)	(680)	(674)	20.5	2.8	3.7	(2,692)	(2,270)	18.6
Profit before Tax	449	488	(6,569)	(483)	(8.0)	NA	NA	159	(3,014)	NA
Tax	(265)	(161)	322	(116)	64.1	NA	NA	(663)	(1,373)	(51.7)
Profit after Tax	185	327	(6,247)	(599)	(43.6)	NA	NA	(504)	(4,386)	NA
MI & exceptional	(8)	—	3,238	(22)				(7)	3,302	
Net Profit	177	327	(3,009)	(621)				(511)	(1,084)	
Key ratios (%)										
Material costs/ Sales	59.6	77.3	66.4	59.9				57.1	63.5	
Staff cost/ Sales	11.4	17.4	21.5	13.3				13.8	12.8	
Other expense/ Sales	20.1	17.9	41.1	22.3				21.5	21.7	
EBITDA margin	8.9	9.0	(29.0)	4.5				7.6	2.1	
PBT margin	1.9	2.2	(37.0)	(2.3)				0.2	(2.9)	
PAT margin	0.8	1.5	(35.2)	(2.8)				(0.6)	(4.2)	
Effective tax rate	58.9	33.0	4.9	(24.0)				416.8	NA	
Order details										
Order backlog	228,050		277,695	277,800		(17.9)	(17.9)	228,050	277,695	(17.9)
Order booking	(26,491)		61,460	49,870		(143.1)	(153.1)	66,510	175,050	(62.0)

Source: Company, Kotak Institutional Equities estimates

Strong yoy standalone numbers as well on absence of one-offs

Punj Lloyd reported standalone revenues of Rs12.3 bn, about 4.8% lower than 4QFY10 revenues of Rs13 bn. The company reported EBITDA margin of 12% in 4QFY11 versus a negative margin of 10.7% in 4QFY10 and positive margin of 8.9% in 3QFY11. Note that previous year margin was impacted primarily due to one-offs related to the ONGC platform project. Punj Lloyd reported a net PAT of Rs319 mn in 4QFY11 versus a loss of Rs1.7 bn in 4QFY10 and a loss of Rs23 mn in 3QFY11.

For the full year ending March 31, 2011, Punj Lloyd reported standalone revenues of Rs44.6 bn, down 38% yoy. EBITDA margin at 10.2% recorded a sharp expansions of 370 bps yoy on absence of certain order related one-offs. Reported net PAT of Rs124 mn in FY2011 was down 78% yoy from Rs563 mn in FY2010.

Punj Lloyd (standalone) - 4QFY11 - key numbers (Rs mn)

	4QFY11	4QFY10	3QFY11	% change		FY2011	FY2010	% change
				yoy	qoq			
Net Sales	12,343	12,965	11,032	(4.8)	11.9	44,576	72,031	(38.1)
Expenditure	(10,862)	(14,348)	(10,052)	(24.3)	8.1	(40,029)	(67,324)	(40.5)
Material+contractor	(6,624)	(8,519)	(6,026)	(22.2)	9.9	(23,618)	(44,466)	(46.9)
Staff cost	(1,795)	(1,886)	(1,328)	(4.8)	35.2	(6,207)	(7,046)	(11.9)
Other expenditure	(2,442)	(3,942)	(2,699)	(38.1)	(9.5)	(10,203)	(15,812)	(35.5)
EBITDA	1,482	(1,383)	980	NA	51.3	4,547	4,706	(3.4)
Other Income	37	7	116	427	(68.1)	226	275	(17.7)
PBIDT	1,519	(1,376)	1,095	NA	38.7	4,773	4,981	(4.2)
Interest	(859)	(642)	(754)	33.7	13.9	(3,101)	(2,638)	17.6
Depreciation	(401)	(341)	(395)	17.8	1.5	(1,565)	(1,327)	18.0
Profit before Tax	259	(2,359)	(54)	NA	NA	107	1,016	(89.5)
Tax	60	641	31	(90.6)	91.4	17	(453)	(103.7)
Profit after Tax	319	(1,718)	(23)	NA	NA	124	563	(78.0)
Exceptional items	-	3,111	-			-	3,111	
Net Profit	319	1,393	(23)			124	3,674	(96.6)
Key ratios (%)								
Material/ Sales	53.7	65.7	54.6			53.0	61.7	
Staff cost/ Sales	14.5	14.5	12.0			13.9	9.8	
Other expense/Sales	19.8	30.4	24.5			22.9	22.0	
EBITDA margin	12.0	(10.7)	8.9			10.2	6.5	
PBT margin	2.1	(18.2)	(0.5)			0.2	1.4	
PAT margin	2.6	(13.2)	(0.2)			0.3	0.8	
Effective tax rate	(23.2)	27.2	58.0			(15.5)	44.6	

Source: Company, Kotak Institutional Equities

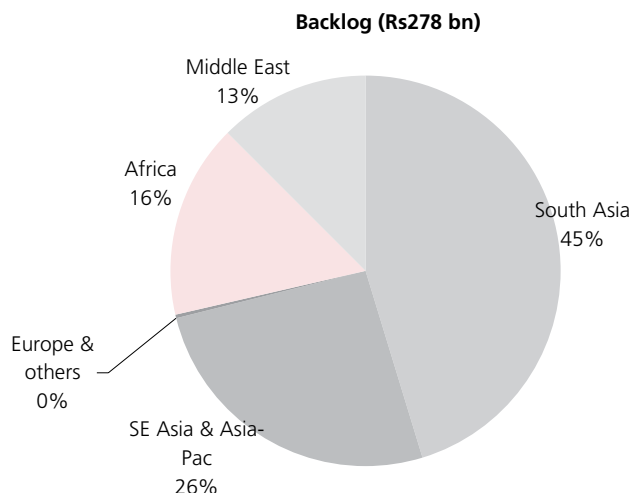
Removes inactive projects from backlog (of Rs62.5 bn), results in decline in backlog

Punj Lloyd reported an order backlog of Rs228 bn at end-FY2011, a decline of about 19% (from Rs277 bn) on a yoy as well as sequential basis. This decline was primarily on account of removal of inactive projects (placed on Sembawang Engg) from the backlog to the tune of Rs62.5 bn which have been non-moving for the past 18 months. These include (1) Rs37 bn order for the construction of Al-Mea'tega Resort Village, (2) Rs16.5 bn order for the construction of Al-Ghiran Village and (3) Rs9.05 bn order for the construction of the Al-Froseyah Hotel—all three orders were placed by International Investment & Services Company (IISCO).

Highlight risk to remaining exposure to Libya and existing investments made

We note that the company still has outstanding orders to the tune of Rs37 bn (about 16% of the backlog) in Libya which may face execution delays. The execution of these orders is likely to continue to remain under stress due to the ongoing political unrest in the country. The management has, however, cited that they have received assurances from the UN as well as the existing and opposing regimes in Tripoli that all existing contracts would be honored.

Geographical mix of order backlog of Punj Lloyd, March fiscal year-ends, 2011



Source: Company

Strong FY2011 inflows led by large Abu Dhabi Gas, IOCL, PTT (Thailand) orders

The company reported strong order inflows to the tune of about Rs110 bn in FY2011. Key orders won during the year include (1) Rs20 bn gas gathering package from Abu Dhabi Gas Development Company Ltd, (2) Rs14 bn order for hotel, beach villas etc from Sentosa Pte Ltd, Singapore, (3) Rs13 bn order for an onshore gas pipeline from PTT Public Company Ltd, Thailand and (4) Rs11.3 bn lump sum turnkey package for IOCL's Paradip refinery project.

The management also cited that the company has received L1 status in projects to the tune of about Rs40-45 bn (Rs20 bn domestic orders and Rs20-25 bn of international orders).

Key orders won by Punj Lloyd in FY2011

Date	Segment	Client	Value (Rs mn)	Description
Apr-11	Infrastructure	UPRVUNL	1,140	Construction of railway sidings
Feb-11	Infrastructure	NHAI	7,350	Khagaria-Purnea 2-laning project - on BOT annuity basis
Jan-11	Oil and Gas	Petroleum Co. Occidental Mukhaizna, Oman	3,226	Water treatment plant at oil production fields in Oman
Jan-11	Oil and Gas	Pertamina, Indonesia	2,710	Well head platform and pipeline project
Jan-11	Oil and Gas	GAIL (India) Ltd	510	112 km pipeline from Vijaipur (MP) to Boreri (Rajasthan)
Dec-10	Infrastructure	HIRCO Group	2,411	Construction of two commercial buildings
Dec-10	Oil and Gas	Indian Oil Corporation Ltd	1,690	Fluid catalytic cracker, propylene recovery unit at Paradip refinery
Dec-10	Oil and Gas	PTT Public Company Ltd	12,992	Onshore gas pipeline in Thailand
Nov-10	Infrastructure	Govt. of West Bengal	1,836	Construction of 3 Medical Colleges including ancillary requirements
Nov-10	Oil and Gas	Harouge Oil Operations	2,876	Oil storage complex at at Ras Lanuf Export Terminal, Libya
Nov-10	Oil and Gas	Indian Oil Corporation Ltd	11,232	Lumpsum turnkey package B for Paradip refinery project
Oct-10	Oil and Gas	GAIL	5,390	Laying of 820 km pipeline from Dabhol to Bidadi
Oct-10	Infrastructure	PUB, National Water agency of Singapore	6,140	Construction of new 60 mn galllons of water waterworks
Sep-10	Oil and Gas	Saudi Aramco	4,508	EPC for offsite pipelines for Yanbu export refinery project
Jun-10	Infrastructure	Sentosa Pte Ltd, Singapore	13,944	Hotel, Spa, Beach Villas, Oceanarium and Water Theme Park
Jun-10	Infrastructure	Rajiv Gandhi Institute of Petroleum Tech.	1,798	Construct a technical institute at Rae Bareli, UP
Jun-10	Process	Hyundai Engineering & Construction Co. Ltd	960	5 Utilities & Offsites Project
May-10	Process	Abu Dhabi Gas Development Company Ltd	20,560	Gas gathering package for Shah Gas Development project
Apr-10	Infrastructure	Ministry of Health & Family Welfare	1,152	Medical College and Hostel Complex at AIIMS, Raipur
Apr-10	Process	Nagarjuna Oil Corporation Ltd	3,200	Installation of ISBL units and Pipe Rack at Cuddalore Refinery
Total orders announced in FY2011 so far			105,625	

Source: Company

Additional auditor qualifications of Rs897 mn (apart from ONGC's Heera project)

The company has received auditor qualifications to the tune of Rs3.3 bn for FY2011 towards claims/ amount withheld by customers. These include (1) a claim of Rs2.4 bn on Heera Redevelopment Project (HRP) with ONGC on cost overrun (due to design changes, change in scope) and non-accounting of liquidated damages to the tune of Rs655 mn, and (2) claims of Rs897 mn on two projects based on cost over-runs arising due to delay in supply of free issue materials by the customers. The management has initiated arbitration proceedings against the customers and cited its confidence of recovering the same.

The auditors have also qualified assets aggregating to Rs9.9 bn and Rs12.2 bn with respect to the company's branch and subsidiary located in Libya. The branch has also received advances from customer of Rs5.1 bn.

Revise estimates; retain REDUCE with a revised target price of Rs75/share

We have revised our consolidated estimates to Rs5.2 and Rs8.2 from Rs8.5 and Rs12.6 for FY2012E and FY2013E respectively. Our revisions are based on lower revenue assumptions with continued issues in Libyan orders and higher interest expenses. We revise our target price to Rs75/share from Rs90/share earlier based on 9X FY2013E earning (versus 10X FY2012E-based valuation earlier).

Change in consolidated earnings estimates of Punj Lloyd, March fiscal year-ends, 2012-13E (Rs mn)

	New estimates		Old estimates		% revision	
	2012E	2013E	2012E	2013E	2012E	2013E
Revenues	97,454	114,544	111,209	133,754	(12.4)	(14.4)
EBITDA	8,771	10,882	10,565	13,375	(17.0)	(18.6)
EBITDA margin (%)	9.0	9.5	9.5	10.0		
Profit before tax	2,515	3,960	4,124	6,112	(39.0)	(35.2)
Profit after tax	1,760	2,772	2,887	4,279	(39.0)	(35.2)
EPS (Rs)	5.2	8.2	8.5	12.6	(39.0)	(35.2)
Growth (%)						
Revenue growth (%)	19.3	17.5	29.0	20.3		
EBITDA growth (%)	41.2	24.1	53.1	26.6		
EPS growth (%)	(449.2)	57.5	567.0	48.2		
Order book (%)						
Order booking	122,881	136,634	129,678	155,613	(5.2)	(12.2)
Order booking growth (%)	238.6	11.2	28.3	20.0		
Bill-to-Book ratio (%)	33.1	35.0	31.0	34.3		

Source: Kotak Institutional Equities estimates

We retain our REDUCE rating on the company as (1) execution issues on order wins in geographies such as Libya leading to significant delays in the projects—contributes to about 16% of backlog, (2) significant concentration of infrastructure orders in the backlog—contributed to over 40% of the FY2011-end backlog, and (3) repeated one-offs in subsidiaries related to contract-specific issues.

Consolidated balance sheet, profit model and cash flow statement of Punj Lloyd, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Balance sheet						
Shareholders' funds	27,433	24,845	30,283	29,809	31,363	33,811
Loan Funds	16,072	35,592	44,554	44,554	44,554	49,554
Deffered Tax liability	915	1,482	1,804	1,804	1,804	1,804
Minority Interest	222	420	415	415	415	415
Total sources of funds	44,642	62,339	77,057	76,582	78,137	85,585
Net block	16,169	21,653	23,382	23,200	25,278	27,930
Investments	5,458	6,609	3,818	3,824	3,824	3,824
Cash and bank balances	6,898	8,122	6,110	12,530	10,148	12,731
Net current assets (excl cash)	16,053	25,880	43,747	37,028	38,886	41,100
Total	44,642	62,339	77,057	76,582	78,137	85,585
Profit model						
Operating Income	77,529	119,120	104,478	81,663	97,454	114,544
Expenditure	(70,608)	(114,716)	(100,833)	(75,451)	(88,683)	(103,663)
EBITDA	6,922	4,404	3,645	6,212	8,771	10,882
Other Income	811	899	4,269	208	1,124	1,199
PBDIT	7,732	5,303	7,915	6,419	9,894	12,081
Finance charges	1,806	3,519	5,435	3,568	4,458	4,772
Depreciation	1,462	1,771	2,270	2,692	2,922	3,348
Profit Before Tax	4,447	(55)	305	159	2,515	3,960
Tax	1,235	2,260	1,372	663	754	1,188
PAT	3,212	(2,315)	(1,067)	(504)	1,760	2,772
Extraordinary items (net of taxes)	371	—	—	—	—	—
Reported PAT	3,583	(2,315)	(1,067)	(504)	1,760	2,772
Cash flow statement						
Operating cashflow before working capital changes	7,052	3,610	6,960	5,756	9,140	10,893
Change in working capital	(10,907)	(9,828)	(17,867)	6,719	(1,858)	(2,213)
Cashflow from operating activities	(3,855)	(6,218)	(10,907)	12,475	7,282	8,680
Fixed Assets	(4,535)	(7,244)	(4,073)	(2,510)	(5,000)	(6,000)
Investments	(3,759)	(1,151)	2,792	(6)	—	—
Cash (used) / realised in investing activities	(8,294)	(8,396)	(1,281)	(2,516)	(5,000)	(6,000)
Issue of share capital	11,203	(166)	6,564	(0)	0	0
Borrowings	(920)	19,520	8,962	—	—	5,000
Dividend and Dividend Tax paid	(142)	(107)	(58)	29	(206)	(324)
Interest charges	(1,806)	(3,519)	(5,435)	(3,568)	(4,458)	(4,772)
Cash (used) /realised in financing activities	8,334	15,729	10,033	(3,539)	(4,664)	(97)
Cash generated /utilised	(3,461)	1,047	(2,060)	6,420	(2,382)	2,583
Cash at beginning of year	10,027	6,898	8,122	6,110	12,530	10,148
Cash at end of year	6,566	7,945	6,062	12,530	10,148	12,731
Key ratios (%)						
Net current assets (excl cash) as days of sales	76	79	153	166	146	131
EBITDA margin	8.9	3.7	3.5	7.6	9.0	9.5
PAT margin	4.1	(1.9)	(1.0)	(0.6)	1.8	2.4
RoE	16.0	(8.9)	(3.9)	(1.7)	5.8	8.5
RoCE	9.7	(3.2)	0.5	2.7	5.7	(0.0)
EPS (Rs)	10.3	(7.4)	(3.1)	(1.5)	5.2	8.2

Source: Company, Kotak Institutional Equities estimates

MAY 31, 2011

RESULT

Coverage view: **Attractive**

Price (Rs): **86**

Target price (Rs): **140**

BSE-30: **18,503**

Results disappoint on revenues, margins and inflows. NCC reported disappointing results with revenue and margins both below estimates. Higher interest, depreciation and tax expense led to PAT decline of 42% (38% below estimate) in 4QFY11. Balance sheet deteriorated led by increase in working capital and loans & advances (higher investment in subsidiaries) leading to higher debt levels (by Rs9.5 bn). Weak inflows (on sedate international business) led to a qoq decline in backlog. BUY on attractive valuations.

Company data and valuation summary

Nagarjuna Construction Co.

Stock data				Forecasts/Valuations			
52-week range (Rs) (high,low)				2011			
197-79				2012E			
Market Cap. (Rs bn)				2013E			
22.1				EPS (Rs)			
Shareholding pattern (%)				(10.7)			
Promoters				13.5			
20.0				12.2			
FII's				9.7			
38.4				Sales (Rs bn)			
MF's				50.7			
14.7				57.1			
Price performance (%)				66.6			
1M				1.6			
3M				1.8			
12M				2.3			
Absolute				EBITDA (Rs bn)			
(15.8)				4.9			
Rel. to BSE-30				5.5			
(12.9)				6.6			
(17.8)				7.6			
(54.6)				EV/EBITDA (X)			
				9.3			
				8.6			
				7.6			
				ROE (%)			
				7.1			
				7.4			
				8.9			
				Div. Yield (%)			
				2.3			
				2.3			
				2.3			

Results disappoint on several counts; 4QFY11 PBT down 42% yoy

Disappointing 4QFY11 revenues were attributed to a revenue shortfall of about Rs7.6 bn in FY2011 led by heavy monsoons, delays in release of payments from clients, delays in handing over land and lower-than-expected inflows. NCC reported 4QFY11 revenues of Rs14.5 bn, down 5% yoy and 17% below estimates. EBITDA margin of 9% was about 100 bps lower than 4QFY10 levels likely led by negative operating leverage on lower sales. Sharp increase in interest expense and additional tax burden further put pressure on the bottom line. Nagarjuna reported a net PAT of Rs357 mn, about 38% below our estimate and about 42% down on a yoy basis.

Deterioration in working capital levels partly on higher L&A to subsidiaries

Nagarjuna has reported a Rs.9.5 bn increase in debt levels to Rs24.8 bn versus FY2010-end levels of Rs15.3 bn. This was primarily utilized towards (1) Rs3.9 bn increase in investments in subsidiaries (reflected in higher investment and L&A to subsidiary numbers), (2) Rs1.7 bn towards capital expenditure and (3) Rs4-5 bn to fund higher working capital requirements. Net working capital of the company (excluding cash and L&A to subsidiaries) increased to about 153 days of sales at end-FY2011 versus end-FY2010 levels of 124 days.

Low inflows in 4Q lead to sequential decline in backlog; international business reflects weakness

The FY2011-end backlog of Rs162 bn (marginal growth of 5% yoy, 6.3% down versus 9MFY11-end levels) implies weak inflows of just Rs3.6 bn versus average quarterly inflows of about Rs20-21 bn in FY2010 and 9MFY11. Although the order backlog of the company remains strong, we highlight slowdown in contribution from the international segment—down to about 14% of the backlog versus about 21% in the previous year.

Revise estimates and target price to Rs140/share; retain BUY on attractive valuations

We revise our estimates to Rs7 and Rs8.9 (from Rs9.7 and Rs13.1) for FY2012E and FY2013E, respectively on lower inflows and higher interest cost. Retain BUY with a revised TP of Rs140 (from Rs160) on (1) relatively attractive valuations of 5X FY2012E and 4X FY2013E EPS, and (2) reasonably well-diversified backlog and visibility.

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Results disappoint on several counts; 4QFY11 PBT down 42% yoy

Nagarjuna reported disappointing revenues of Rs14.5 bn in 4QFY11, a yoy decline of about 5% and 17% below our estimate of Rs17.5 bn. The management cited that the company has recorded a shortfall of about Rs7.6 bn of revenues in FY2011 (versus targeted levels) comprised of (1) Rs1.73 bn of lower revenues due to heavy monsoons in 2Q/3Q FY2011, (2) Rs2.2 bn due to delays in release of payments from clients, (3) Rs2.5 bn on account of delays in handing over land and work front for orders and (4) Rs1.2 bn loss on revenues due to lower-than-expected order inflows in FY2011.

Nagarjuna reported an EBITDA margin of 9% (versus our estimate of 9.5%) about 100 bps lower than 4QFY10 levels led by higher staff cost and other expenses as a percentage of sales (likely on negative operating leverage). Sharp increase in interest expense and additional tax burden further put pressure on the bottom line of the company. Nagarjuna reported a net PAT of Rs357 mn, about 38% below our estimate of Rs575 mn and about 42% down on a yoy basis.

For the full year ending March 31, 2011, Nagarjuna reported revenues of Rs50.7 bn, recording a marginal growth of 6% yoy. EBITDA margin contracted slightly (by about 50 bps) to 9.6%. High interest cost and additional tax burden led to a decline in FY2011 net PAT to Rs1.63 bn, (down 15% yoy) from Rs1.9 bn in FY2010.

Disappointing results; PBT down 42% yoy

Nagarjuna Construction - 4QFY11 - standalone key numbers (Rs mn)

	4QFY11	4QFY11E	4QFY10	3QFY11	% change			FY2011	FY2011E	FY2010	% change	
					vs est.	yoy	qoq				vs est.	yoy
Net sales	14,504	17,468	15,227	13,355	(17.0)	(4.7)	8.6	50,737	53,701	47,778	(5.5)	6.2
Operating costs	(13,195)	(15,804)	(13,700)	(12,079)	(16.5)	(3.7)	9.2	(45,861)	(48,470)	(42,944)	(5.4)	6.8
Construction costs	(12,331)		(12,954)	(11,114)				(42,221)		(40,133)		5.2
Staff cost	(551)		(472)	(632)		16.8	(12.8)	(2,438)		(1,841)		32.4
Other expenditure	(313)		(274)	(333)		14.2	(6.1)	(1,201)		(969)		23.9
Operating profit	1,309	1,663	1,527	1,276	(21.3)	(14.3)	2.6	4,876	5,231	4,834	(6.8)	0.9
Other income	56	7	12	23	745.7	354.9	145.8	146	97	48	51.4	204.0
Interest cost	(575)	(559)	(348)	(438)	3.0	65.3	31.3	(1,682)	(1,665)	(1,322)	1.0	27.2
Depreciation	(186)	(174)	(136)	(175)	7.0	36.1	6.2	(685)	(673)	(525)	1.8	30.4
Profit before tax	605	938	1,055	686	(35.5)	(42.7)	(11.8)	2,656	2,989	3,035	(11.2)	(12.5)
Tax	(248)	(363)	(437)	(282)	(31.7)	(43.3)	(11.9)	(1,021)	(1,136)	(1,117)	(10.1)	(8.6)
Profit after tax	357	575	618	404	(38.0)	(42.3)	(11.8)	1,635	1,853	1,918	(11.8)	(14.8)
Exceptional items	-	-	408	-				-	-	408		
Reported PAT	357	575	1,026	404	(38.0)	(65.2)	(11.8)	1,635	1,853	2,326	(11.8)	(29.7)
Key ratios (%)												
Construction exp./Sales	85.0		85.1	83.2				83.2		84.0		
Staff cost/Sales	3.8		3.1	4.7				4.8		3.9		
Other exp./Sales	2.2		1.8	2.5				2.4		2.0		
EBITDA margin	9.0	9.5	10.0	9.6				9.6	9.7	10.1		
PBT margin	4.2	5.4	6.9	5.1				5.2	5.6	6.4		
PAT margin	2.5	3.3	4.1	3.0				3.2	3.5	4.0		
Effective tax rate	41.0	38.7	41.5	41.0				38.5	38.0	36.8		
Order details												
Order booking	3,614		20,787	27,410	(82.6)	(86.8)		65,974	75,023	86,787	(12.1)	(24.0)
Order backlog	161,800		153,700	172,690		5.3	(6.3)	161,800	142,372	153,700	13.6	5.3

Source: Company, Kotak Institutional Equities estimates

Higher depreciation and interest cost causes de-growth in consolidated PAT

At the consolidated level the company reported a revenue growth of 5.6% yoy to Rs62.3 bn in FY2011 versus Rs59 bn in FY2010 (revenues up 8.8% yoy in 4QFY11). Consolidated EBITDA margin expanded slightly by about 30 bps yoy to 11.5% in FY2011 on account of lower construction expenses as a percentage of sales. Revenue growth and margin expansion led to 8.5% growth in operating profit but was negated by higher depreciation and interest cost leading to yoy decline of 6.2% at the PAT level.

Nagarjuna Construction - 4QFY11 - consolidated key numbers (Rs mn)

	4QFY11	4QFY10	3QFY11	% change		FY2011	FY2010	% change
				yoy	qoq			
Net sales	17,337	18,122	15,937	(4.3)	8.8	62,299	58,973	5.6
Operating costs	(15,367)	(15,914)	(14,182)	(3.4)	8.4	(55,149)	(52,384)	5.3
Construction costs	(13,984)	(14,743)	(12,594)	(5.1)	11.0	(49,357)	(48,036)	2.8
(Incr.)/Decr. in Stock	(95)	(449)	618	(78.8)	(115.4)	2,393	283	745.2
Raw materials	(5,716)	(6,726)	(5,916)	(15.0)	(3.4)	(21,500)	(21,354)	0.7
Other constrn exp.	(6,458)	(6,163)	(5,520)	4.8	17.0	(24,016)	(21,978)	9.3
Labour	(1,715)	(1,405)	(1,777)	22.0	(3.5)	(6,234)	(4,988)	25.0
Staff cost	(828)	(721)	(1,068)	14.8	(22.5)	(3,817)	(2,750)	38.8
Other expenditure	(555)	(450)	(519)	23.3	6.8	(1,975)	(1,598)	23.5
Operating profit	1,970	2,208	1,755	(10.8)	12.2	7,150	6,589	8.5
Other income	22	45	55	(52.5)	(61.1)	222	164	35.2
Interest cost	(883)	(637)	(645)	38.7	36.9	(2,764)	(2,211)	25.0
Depreciation	(359)	(246)	(349)	45.7	2.7	(1,360)	(966)	40.8
Profit before tax	750	1,370	816	(45.3)	(8.1)	3,248	3,576	(9.2)
Tax	(236)	(523)	(290)	(55.0)	(18.8)	(1,030)	(1,211)	(15.0)
Profit after tax	514	847	526	(39.3)	(2.2)	2,218	2,365	(6.2)
Key ratios (%)								
Constrn exp./Sales	80.7	81.4	79.0			79.2	81.5	
Staff cost/Sales	4.8	4.0	6.7			6.1	4.7	
Other exp./Sales	3.2	2.5	3.3			3.2	2.7	
EBITDA margin	11.4	12.2	11.0			11.5	11.2	
PBT margin	4.3	7.6	5.1			5.2	6.1	
PAT margin	3.0	4.7	3.3			3.6	4.0	
Effective tax rate	31.4	38.2	35.6			31.7	33.9	

Source: Company, Kotak Institutional Equities

Deterioration in working capital levels partly in higher L&A to subsidiaries

Nagarjuna has reported a strong increase in debt levels by about Rs9.5 bn to Rs24.8 bn at end-FY2011 versus FY2010-end levels of Rs15.3 bn. The company also generated cash profit of Rs2.3 bn (net PAT + depreciation). These funds were primarily utilized towards (1) Rs3.9 bn increase in investments in subsidiaries (reflected in higher investment and L&A to subsidiary numbers), (2) Rs1.7 bn towards capital expenditure and (3) Rs4-5 bn to fund higher working capital requirements. Net working capital of the company (excluding cash and L&A to subsidiaries) increased to about 153 days of sales at end-FY2011 versus end-FY2010 levels of 124 days.

Rough working of sources and utilization of funds in FY2011 (Rs mn)

PAT	1,635
Add: depreciation	685
Operating cash flow (excl. WCap)	2,320
Increase in debt	9,539
Total sources	11,859
Utilization of funds	
Increase in working capital	7,683
- L&A to subsidiaries	2,578
Increase in investments	2,596
Increase in net fixed assets	1,242
Total utilization	11,521

Source: Company, Kotak Institutional Equities estimates

Standalone balance sheet of NCC, March fiscal year-ends, 2008-11 (Rs mn)

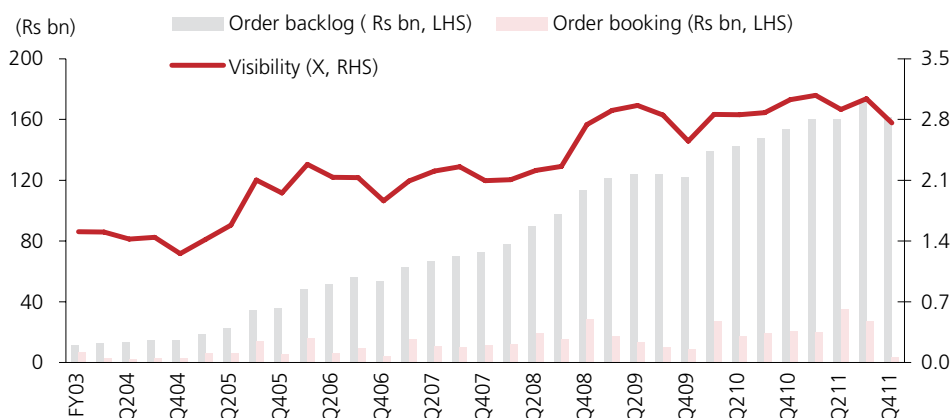
	2008	2009	2010	2011
Shareholders funds	15,724	16,856	22,457	23,787
Share capital	458	458	513	513
Reserves & surplus	15,266	16,398	21,943	23,274
Loan funds	8,938	12,439	15,302	24,841
Deferred tax liability (net)	167	188	255	308
Total sources of funds	24,829	29,482	38,013	48,935
Net fixed assets	5,340	4,873	5,972	7,215
Investments	5,648	7,402	9,412	12,008
Cash & bank balances	2,330	1,345	1,997	1,397
Current assets	27,956	32,270	39,086	48,058
Inventories	5,493	7,495	7,539	8,960
Sundry debtors	8,677	10,260	12,995	14,536
Other current assets	61	30	32	93
Loans & advances	13,725	14,484	18,520	24,469
Current liabilities & provisions	16,444	16,408	18,453	19,743
Current liabilities	15,564	15,541	17,497	19,031
Provisions	880	867	957	712
Net working capital (excl. cash)	11,512	15,861	20,633	28,315
Total application of funds	24,829	29,482	38,013	48,935
WCap days of sales				
Current assets	294	284	299	346
Inventories	58	66	58	64
Sundry debtors	91	90	99	105
Other current assets	1	0	0	1
Loans & advances	144	127	141	176
Current liabilities & provisions	173	144	141	142
Current liabilities	164	137	134	137
Provisions	9	8	7	5
Net working capital (excl. cash)	121	139	158	204
Net working capital (excl. cash, L&A to subs)	97	112	124	153

Source: Company

Weak inflows in 4Q result in sequential decline in backlog

The company reported an order backlog of Rs162 bn at end-FY2011, a marginal growth of 5% over FY2010-end levels. The backlog has in fact declined by about 6.3% on a sequential basis from 9MFY11-end levels of Rs173 bn. The order backlog implies weak order inflows of just Rs3.6 bn versus average quarterly inflows of about Rs20-21 bn in FY2010 and 9MFY11. The year-end order backlog of Rs162 bn provides a revenue visibility of about 2.8 years based on forward four quarter revenues.

Nagarjuna Construction has visibility of 2.8 years based on forward four quarter revenues
Order backlog, order booking and visibility (X) of Nagarjuna Construction



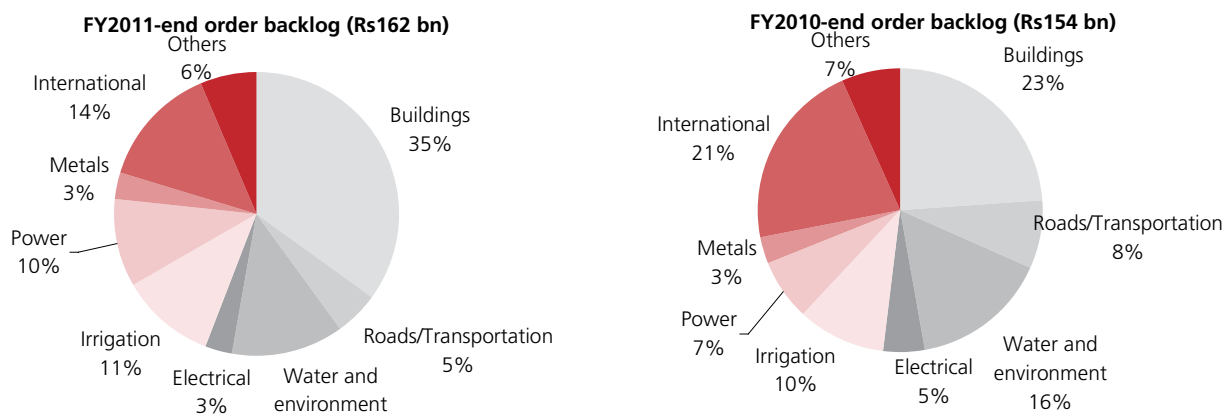
Source: Company, Kotak Institutional Equities estimates

Buildings segment increasing contribution versus decline international segment

The order backlog is well-diversified among several sectors with maximum contribution from the buildings segment at 35% of the total backlog. The remaining backlog is well-diversified between international, water & environment, irrigation and other segments. Although the order backlog of the company remains strong, we highlight slowdown in contribution for the international segment.

Comparison with order backlog of FY2010 suggests that the share of buildings has increased to 35% in March 2011 versus about 23% a year ago, whereas the share of the international segment has decreased to 14% from 21% in March 2010.

Buildings segment increasing contribution versus decline in international segment
Nagarjuna order backlog break-up, March fiscal year-ends, 2010-11



Source: Company, Kotak Institutional Equities

May need to invest Rs2.4 bn equity in upcoming power project

The management cited that the upcoming 2X660 MW power plant may require an equity investment of about Rs2.4 bn in FY2012E. The company has already invested about Rs2 bn towards equity in the power plant primarily for land acquisition. The company has already completed land acquisition and has obtained environmental clearance and coal linkage for the project. The project would require a total equity investment of Rs9.7 bn (NCC's share) spread over the next 3-4 years (total project cost of Rs70 bn).

Our assumptions presently do not build in inflows for the EPC portion of the power project.

No more equity requirement for existing road projects

Existing road projects in the portfolio of the company are close to completion and are unlikely to require any further equity investments.

- ▶ **Bangalore Elevated Tollway:** Project is already operational and the company has already started toll collections since April 2010.
- ▶ **Western UP Tollway:** The company has received partial CoD for 58 km (total length of 79 km) and has started toll collections; average collection of about Rs1.8 mn per day. The company expects to receive CoD for the remaining portion in the next two months which would lead to an increase in toll collection to about Rs2.4 mn per day.
- ▶ **OB Infra:** The company has completed all works and is awaiting NHAI notification.
- ▶ **Pondicherry-Tindivanam:** Expects to complete the project in July 2011.

Reduce earnings estimates; reiterate BUY with a target price of Rs140

We have revised our earnings estimates to Rs7 and Rs8.9 from Rs9.7 and Rs13.1 for FY2012E and FY2013E, respectively. Our revision in estimates is based on lower order inflow assumption in FY2012E and FY2013E and higher interest costs. We have currently not included order inflows for the EPC portion of the 1,320 MW power project. EBITDA margins are expected to remain relatively flat at about 9.5-10%.

Change in standalone earnings estimates of Nagarjuna, March fiscal year-ends, 2012-13E (Rs mn)

	FY2011	New estimates		Old estimates		% revision	
		FY2012E	FY2013E	FY2012E	FY2013E	FY2012E	FY2013E
Key numbers							
Revenues	50,737	57,103	66,554	65,941	81,660	(13.4)	(18.5)
EBITDA	4,876	5,480	6,554	6,329	8,041	(13.4)	(18.5)
EBITDA margin (%)	9.6	9.6	9.8	9.6	9.8	—	—
Profit before tax	2,656	2,696	3,392	3,714	5,029	(27.4)	(32.6)
Profit after tax	1,635	1,806	2,272	2,488	3,369	(27.4)	(32.6)
EPS (Rs)	6.4	7.0	8.9	9.7	13.1	(27.4)	(32.6)
Growth (%)							
Revenue growth (%)	5.2	12.5	16.6	22.8	23.8		
EBITDA growth (%)	2.3	12.4	19.6	21.0	27.1		
EPS growth (%)	(41.4)	10.5	25.8	34.3	35.4		
EMP order book							
Order booking	64,760	74,318	80,601	93,401	107,412	(20.4)	(25.0)
Order booking growth (%)	136,240	14.8	8.5	24.5	15.0		

Source: Company, Kotak Institutional Equities estimates

We have revised our SOTP-based target price to Rs140/share (from Rs160/share) based on (1) change in estimates, (2) roll-forward to FY2013E-based valuation (from FY2012E-based earlier) and (3) lower target multiple for the international construction business on likely lower growth prospects.

Our target price of Rs140/share is comprised of (1) standalone construction business valuation of Rs89/share based on target P/E multiple of 10X March 2013E earnings, (2) Rs15/share from the international construction subsidiaries based on 8X March 2013E earnings, (3) Rs19/share contribution from book value of BOT projects, and (4) Rs16/share from book value of real estate investments.

Arrive at SOTP-based target price of Rs140/share

Derivation of SOTP-based target price for NCCL

Project/Business	Equity commitment (Rs mn)	Valuation (Rs mn)	Rs/share	Valuation methodology
Value of core construction business		22,723	88.6	10X Mar-13E earnings
Value of international subsidiary		3,849	15.0	8X Mar-13E earnings
Investments in real estate	4,052	4,052	15.8	0.5X book
Investments in BOT assets	4,838	4,838	18.9	1.0X book
Total			138	

Source: Company, Kotak Institutional Equities estimates

We retain BUY rating based on (1) relatively attractive valuations – about 5X FY2012E P/E, 4X FY2013E P/E, and (2) reasonably well-diversified backlog and visibility.

Profit model and balance sheet of NCC, March fiscal year-ends, 2005-13E (Rs mn)

	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Income statement									
Operating Income	11,885	18,404	28,711	34,729	41,514	47,778	50,737	57,103	66,554
Operating Expenses	(10,978)	(16,764)	(26,036)	(31,132)	(37,777)	(42,944)	(45,861)	(51,622)	(60,000)
EBITDA	907	1,641	2,698	3,599	3,737	4,834	4,876	5,480	6,554
Other Income	49	86	428	56	42	48	146	46	50
Interest & Finance charges	(147)	(283)	(640)	(719)	(964)	(1,322)	(1,682)	(1,995)	(2,236)
Depreciation	(109)	(182)	(299)	(482)	(533)	(525)	(685)	(835)	(977)
Profit Before Tax	700	1,262	1,824	2,431	2,282	3,035	2,656	2,696	3,392
Tax expense	(127)	(214)	(667)	(811)	(743)	(1,204)	(1,021)	(890)	(1,119)
PAT	573	1,048	1,519	1,642	1,539	1,831	1,635	1,806	2,272
EPS (Rs)	3.6	5.1	7.3	7.2	6.7	7.1	6.4	7.0	8.9
Balance sheet									
Total share holders funds	3,255	9,461	10,391	15,724	16,856	22,457	23,787	24,743	26,438
Share Capital	159	207	418	458	458	513	513	513	513
Reserves & Surplus	3,096	9,254	9,973	15,266	16,398	21,943	23,274	24,230	25,925
Loan Funds	648	1,779	6,370	8,938	12,439	15,302	24,841	26,302	28,302
Working Capital Loan	383	1,203	2,398	5,613	6,739	6,969	6,969	6,969	6,969
Long term	265	576	3,971	3,325	5,699	8,333	17,872	19,333	21,333
Total Sources of Funds	3,970	11,306	16,876	24,829	29,482	38,013	48,935	51,352	55,047
Net fixed assets	1,098	1,916	4,229	5,340	4,873	5,972	7,215	7,518	8,541
Net block	1,089	1,850	4,043	5,197	4,592	5,538	7,215	7,518	8,541
Capital WIP	9	67	186	143	281	434	—	—	—
Investments	462	877	4,768	5,648	7,402	9,412	12,008	14,489	14,989
Net Current Assets (excl Cash)	1,003	5,673	5,435	11,512	15,861	20,633	28,315	27,900	30,914
Cash and Bank Balances	1,372	2,818	2,434	2,330	1,345	1,997	1,397	1,445	603
Total	3,970	11,306	16,875	24,829	29,482	38,013	48,935	51,352	55,047
Free cash flow									
Net cashflow from operating activites	393	(2,730)	1,609	(4,098)	(1,294)	(994)	(3,681)	5,051	2,471
Net PBT	700	1,262	1,824	2,431	2,282	3,035	2,656	2,696	3,392
Add: Depreciation	109	182	299	482	533	525	685	835	977
Add: Financial Charges	126	217	640	719	964	1,322	1,682	1,995	2,236
Tax paid	(278)	(437)	(603)	(759)	(722)	(1,105)	(1,021)	(890)	(1,119)
Change in wcap.	(302)	(4,049)	(562)	(6,981)	(4,350)	(4,771)	(7,683)	415	(3,014)
Cash flow from investing activities	(502)	(1,936)	(6,447)	(2,451)	(1,505)	(3,490)	(4,524)	(3,619)	(2,500)
Free cash flow	(109)	(4,666)	(4,838)	(6,549)	(2,799)	(4,484)	(8,205)	1,432	(29)
Key ratios									
EBITDA margin (%)	7.6	8.9	9.4	10.4	9.0	10.1	9.6	9.6	9.8
PAT margin (%)	4.8	5.7	5.3	4.7	3.7	3.8	3.2	3.2	3.4
Debt/ equity (X)	0.2	0.2	0.6	0.6	0.7	0.7	1.0	1.1	1.1
Net debt/ equity (X)	(0.2)	(0.1)	0.4	0.4	0.7	0.6	1.0	1.0	1.0
ROAE (%)	25.9	19.0	23.8	27.0	21.8	24.5	24.4	45.0	59.0
ROACE (%)	20.0	18.2	18.5	15.3	12.2	12.6	10.2	10.5	12.0

Source: Company, Kotak Institutional Equities estimates

MAY 31, 2011

UPDATE

Coverage view: **Cautious**

Price (Rs): **281**

Target price (Rs): **340**

BSE-30: **18,503**

Upbeat on operations, downbeat on subsidy. The ONGC management (at the analyst meet) exuded confidence at achieving its operational targets of (1) 28 mn tons of crude oil production by FY2014E versus 24.4 mn tons in FY2011 and (2) 72 mcm/d of gas production by FY2014E and 100 mcm/d by FY2016E versus 63.3 mcm/d in FY2011. However, the management highlighted its inability to estimate the subsidy burden to be levied on ONGC, which raises risks to the earnings of the company. We retain our BUY rating on the stock with a target price of ₹340.

Company data and valuation summary

Oil & Natural Gas Corporation

Stock data

52-week range (Rs) (high,low)	368-260
Market Cap. (Rs bn)	2,404.5

Shareholding pattern (%)

Promoters	74.1
FIs	4.4
MFs	2.1

Price performance (%)	1M	3M	12M
Absolute	(8.7)	4.0	(3.7)
Rel. to BSE-30	(5.6)	0.1	(11.8)

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	25.2	31.2	31.4
EPS growth (%)	9.9	23.7	0.7
P/E (X)	11.1	9.0	8.9
Sales (Rs bn)	1,247.5	1,495.8	1,526.3
Net profits (Rs bn)	215.8	267.0	268.8
EBITDA (Rs bn)	540.2	622.2	646.6
EV/EBITDA (X)	4.0	3.5	3.1
ROE (%)	14.7	16.4	14.7
Div. Yield (%)	3.1	3.2	3.6

Management hopeful of meeting its oil and gas production targets

ONGC management maintained its earlier guidance of (1) increase in oil production to 28 mn tons by FY2014E from 24.4 mn tons in FY2011 and (2) increase in gas production to 72 mcm/d by FY2014E and 100 mcm/d by FY2016E from 63.3 mcm/d currently. The target oil production is expected to be achieved through (1) commencement of production from its marginal fields and (2) maintaining production from its existing producing fields.

Management expectedly fails to provide explanation for higher subsidy burden on upstream

The ONGC management expressed its inability to provide any rationale for the increase in share of upstream companies in the subsidy-sharing mechanism to 38.7% in FY2011 versus 33.33% previously. The management acknowledged that the government's decision to increase the share of upstream companies in FY2011 has resulted in earnings uncertainty for upstream companies and may hurt investor sentiment.

Reserve accretion encouraging for FY2011

We are encouraged by the addition of 83.6 mn tons (610 mboe) of 3P reserves in ONGC alone (without overseas and domestic JVs), which result in reserves replacement ratio (RRR) of 1.76X (see Exhibits 1 and 2). We note that ONGC has maintained a reserve replacement ratio of more than 1X for the past six years. The performance in FY2011 will likely allay concerns about ONGC's ability to find hydrocarbons. ONGC (standalone) made 24 discoveries in FY2011 out of which 15 are new prospects and 9 are new pools of hydrocarbons within extant discovered areas.

Maintain BUY with a target price of ₹340

We maintain our BUY rating on the stock and target price of ₹340 based on 10X FY2013E EPS plus value of investments. However, we do acknowledge that investors have a tough choice between (1) ad hoc subsidy-sharing mechanism which creates earnings uncertainty and (2) attractive valuations, with the stock trading at 9X FY2012E EPS and 4.8X FY2012E DACF.

QUICK NUMBERS

- Oil production of 28 mn tons by FY2014E
- Gas production to reach 72 mcm/d by FY2014E
- 21% upside from current levels

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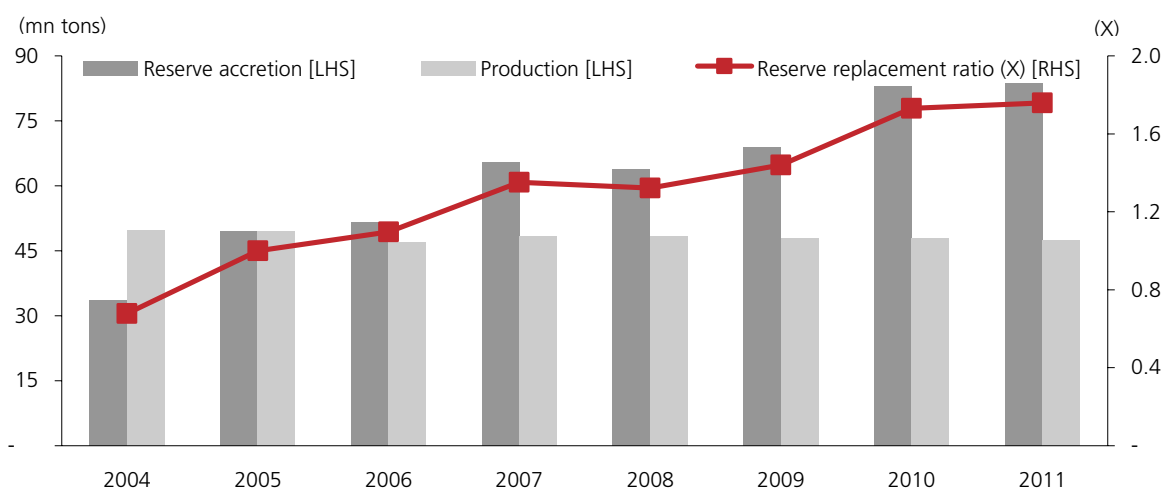
ONGC reserves data, March fiscal year-ends, 2008-11 (mn tons)

	Ultimate reserves (O+OEG)			
	2008	2009	2010	2011
Domestic				
ONGC	63.8	68.9	83.0	83.6
JV fields	(0.3)	2.8	4.4	0.3
Total	63	72	87	84

Source: Company, Kotak Institutional Equities

ONGC's reserve replacement ratio has been encouraging

Reserve accretion and production data, March fiscal year-ends, 2004-11 (mn tons)



Source: Company, Kotak Institutional Equities

Other key takeaways from analyst meet

- ▶ **Continued emphasis on EOR/IOR/redevelopment projects.** The management discussed the IOR/EOR initiatives undertaken by the company to arrest the natural decline at its mature fields. The company has a total investment outlay of Rs387 bn on its IOR/EOR initiatives and redevelopment projects (completed and under implementation). The incremental gain in production from IOR/EOR was 8.48 mn tons in FY2011 versus 7.1 mn tons in FY2010 and cumulative gain till FY2011 has been ~66 mn tons. The IOR/EOR initiatives and redevelopment projects have resulted in improvement of recovery factor from ONGC's assets to 33.5% in FY2011 versus 27.5% in FY2000.
- ▶ **Pilot project for development of shale gas.** The management was very upbeat on its pilot shale gas project. The original plan included drilling of four wells (two in Raniganj and two in North Karanpura). The first well in Raniganj was drilled successfully in January 2011. However, the management highlighted that the realization of shale gas potential in India will take time as currently no policy is in place.
- ▶ **Update on Imperial Energy.** The management highlighted that the current production from Imperial is at 19,000 b/d which has ramped up from 6,000 b/d at the time of the acquisition. However, the management has revised its guidance lower for Imperial asset and expects to achieve 20,000 b/d by FY2012E (versus 25,000 b/d by FY2011 earlier). However, it expects to ramp up production to 45,000 b/d over the next 2-3 years. The management attributed the slower-than-expected ramp-up to (1) tight reserves in the region and (2) ongoing negotiations with the Russian government for certain tax breaks.

Fair value of ONGC (₹/share)

FY2013E EPS	31
Less: income from investments valued separately	0
Adjusted EPS for FY2013E	31
P/E (X)	10
Valuation	310
Investments	15
Indian Oil Corp.	10
GAIL	4
Petronet LNG	1
New discoveries	16
Fair value	342

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2007-14E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	966,542	1,091,644	1,200,176	1,070,520	1,247,463	1,495,806	1,526,295	1,639,883
EBITDA	357,906	408,423	419,955	445,845	510,110	570,576	587,868	673,787
Other income	45,378	53,565	50,721	50,409	30,130	51,664	58,753	69,475
Interest	394	(12,027)	(5,966)	(3,019)	(4,826)	(3,681)	(2,943)	(4,400)
Depreciation and depletion	(119,550)	(138,624)	(153,985)	(186,838)	(206,027)	(227,479)	(253,758)	(249,666)
Pretax profits	284,127	311,338	310,725	306,397	329,387	391,080	389,920	489,197
Tax	(88,986)	(102,908)	(111,333)	(95,580)	(107,997)	(111,753)	(110,450)	(137,852)
Deferred tax	(9,264)	(6,471)	(3,495)	(11,457)	(7,191)	(9,594)	(8,475)	(10,594)
Net profits	178,318	203,710	201,719	199,951	228,375	269,732	270,995	340,750
Adjusted net profits after minority interests	181,772	198,963	194,664	196,409	215,817	266,977	268,817	339,032
Earnings per share (Rs)	21.2	23.3	22.8	23.0	25.2	31.2	31.4	39.6
Balance sheet (Rs mn)								
Total equity	670,137	786,657	929,353	1,024,615	1,162,780	1,340,957	1,510,877	1,716,133
Deferred tax liability	80,976	87,227	92,076	102,669	109,860	119,454	127,929	138,523
Liability for abandonment cost	151,857	129,325	171,451	174,590	186,226	186,226	186,226	186,226
Total borrowings	21,826	22,039	73,633	61,274	71,396	114,296	89,696	62,770
Current liabilities	187,051	251,797	293,499	306,532	389,100	364,726	376,069	399,696
Total liabilities and equity	1,111,847	1,277,045	1,560,013	1,669,680	1,919,361	2,125,659	2,290,797	2,503,348
Cash	206,262	249,807	224,671	222,348	285,774	317,509	459,001	684,836
Current assets	192,652	257,384	309,514	306,619	369,995	436,914	444,190	458,128
Total fixed assets	643,219	695,227	871,287	986,293	1,129,307	1,236,951	1,253,321	1,226,098
Goodwill	27,686	22,847	111,108	92,455	92,455	92,455	92,455	92,455
Investments	36,888	45,041	36,926	53,551	33,871	33,871	33,871	33,871
Deferred expenditure	5,141	6,739	6,506	8,413	7,960	7,960	7,960	7,960
Total assets	1,111,848	1,277,045	1,560,013	1,669,680	1,919,362	2,125,660	2,290,798	2,503,349
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	252,772	284,517	274,321	302,059	322,511	340,070	358,059	414,530
Working capital changes	(4,990)	(24,929)	(109,306)	(29,693)	84,192	(41,293)	51,789	9,689
Capital expenditure	(135,049)	(166,427)	(208,137)	(207,849)	(248,463)	(220,052)	(153,711)	(105,438)
Investments	53,822	(7,348)	(92,159)	(11,021)	15,288	—	—	—
Other income	20,422	22,822	31,612	22,154	30,130	51,664	58,753	69,475
Free cash flow	186,976	108,636	(103,668)	75,650	203,659	130,389	314,890	388,256
Ratios (%)								
Debt/equity	3.3	2.8	7.9	6.0	6.1	8.5	5.9	3.7
Net debt/equity	(27.5)	(29.0)	(16.3)	(15.7)	(18.4)	(15.2)	(24.4)	(36.2)
RoAE	25.5	24.9	21.2	18.6	19.0	19.8	17.6	19.7
RoACE	22.1	22.0	18.2	16.1	15.7	17.5	15.7	17.8
Key assumptions								
Rs/dollar rate	45.3	40.3	45.8	47.4	45.6	45.5	44.0	44.0
Crude fob price (US\$/bbl)	64.8	78.9	83.0	67.1	84.0	105.0	95.0	90.0
Ceiling/actual natural gas price (Rs/'000 cm)	3,200	3,200	3,200	3,200	6,783	7,500	7,500	7,500
Subsidy loss (Rs bn)	170.2	220.0	282.3	115.5	248.9	424.0	282.3	143.6

Source: Company, Kotak Institutional Equities estimates

MAY 31, 2011

UPDATE

Coverage view: **Attractive**

Price (Rs): **197**

Target price (Rs): **235**

BSE-30: **18,503**

Profitable growth shifts to FY2014E. At its annual analyst meet, Hindalco outlined progress on strategic projects and growth drivers for the next three to four years. While we do not doubt the potential value accretion from these projects (subject to allocation of captive coal mine), delay in execution of Utkal Alumina project implies that profitable growth will start only from FY2014E. Increased capex and delay in commissioning of new projects drives 6% cut in TP to Rs235. Retain ADD.

Company data and valuation summary

Hindalco Industries

Stock data				Forecasts/Valuations			
52-week range (Rs) (high,low)				EPS (Rs)	2011	2012E	2013E
				EPS growth (%)	12.8	18.2	18.6
Market Cap. (Rs bn)				P/E (X)	(36.0)	42.7	2.1
Shareholding pattern (%)				Sales (Rs bn)	15.4	10.8	10.6
Promoters				Net profits (Rs bn)	720.8	848.0	863.4
FIIIs				EBITDA (Rs bn)	24.5	34.9	35.6
MFs				EV/EBITDA (X)	80.0	93.5	95.9
Price performance (%)				ROE (%)	7.8	7.2	7.5
Absolute				Div. Yield (%)	9.7	11.4	10.5
Rel. to BSE-30					0.8	0.8	0.8
	1M	3M	12M				
	(8.7)	(2.0)	31.3				
	(5.5)	(5.6)	20.3				

Mahan Aluminium project profitability may be impacted initially

Hindalco expects metal tapping from Mahan Aluminium project by end-2011. The company will energize 40 pots in the first phase and expects metal production of around 195 ktpa in FY2013E. However, delay in Utkal Alumina project and uncertainty on availability of coal after Mahan coal block was put in NO GO zone, implies that profitability may be limited in the first year. Hindalco may be forced to import up to 50% of alumina till Utkal Alumina come on stream. Initial cost of metal production may range from US\$1,800-2,000/tonne; this cost will reduce materially once the company gets coal block and Utkal Alumina becomes operational. Note that Hindalco recently raised Mahan project cost by 14% to Rs105 bn; revision builds in financing cost for the project.

Utkal Alumina project likely by 2H2012E

Hindalco management guided for commissioning of 1.5 mtpa Utkal Alumina refinery by 2H2012E; in our view it is reasonable to assume some delays and material production in FY2014E. Hindalco has revised project cost to Rs76 bn from Rs70 bn earlier. On the positive side, the company has all approvals in place to take up alumina capacity to 3 mtpa. Incremental capex cost will be lower in case the company decides to pursue expansion to 3 mtpa from 1.5 mtpa. Captive source of bauxite and proximity to the mine will imply extremely low cost of production. At the current alumina prices, Utkal project has EBITDA payback of ~4 years.

Modest growth drivers over the next two years; retain ADD rating

While profitable greenfield expansion is shifted to FY2014E, we believe that the company has modest growth drivers in the near term including (1) 4-5% volume growth at Novelis and potential improvement in profitability, (2) expansion of capacity from low-cost Hirakud smelter to 213 ktpa from 161 ktpa currently and (3) increase in VAP from FRP project in Hirakud. We have broadly retained our EBITDA estimates for the next two years though we have increased our forecast for Novelis for FY2012E and FY2013E and cut standalone EBITDA for FY2013E. Higher capex spend and delays in new projects drive 6% cut to Rs235 in our end-FY2013E fair value. Fair value is arrived at after assigning 6.5X and 6X to Novelis and standalone EBITDA. ADD retained.

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Leverage to increase significantly over the next three years

Hindalco has outlined capex of US\$2.2 bn over the next two years and US\$9.5 bn thereafter taking into consideration all greenfield projects. We believe that net debt of Hindalco will increase to US\$5.2 bn and US\$6.4 bn by end-FY2012E and FY2013E, respectively. Net debt/EBITDA will likely increase to 2.5X and 2.9X in FY2012E and FY2013E, respectively. While manageable, the company may want to raise equity to have comfortable liquidity situation and sustain funding of new projects. Hindalco has opted for a rather aggressive 70:30 debt-equity structure for new projects.

Hindalco, change in estimates, March fiscal year-ends, 2012-13E (Rs mn)

	Revised estimates		Old estimates		Change (%)	
	2012E	2013E	2012E	2013E	2012E	2013E
Hindalco						
Aluminium metal sales (tonnes)	571,780	687,750	571,780	687,750	—	—
Aluminium price (US\$/tonne)	2,400	2,450	2,400	2,450	—	—
Net revenues	283,082	282,063	283,082	289,242	—	(2.5)
EBITDA	32,275	33,713	32,275	36,228	—	(6.9)
PAT	22,303	21,589	21,577	22,275	3.4	(3.1)
Novelis						
Shipments (tonnes)	3,236	3,382	3,221	3,366	—	—
Net revenues	541,023	558,911	539,068	556,893	0.4	0.4
EBITDA	52,597	54,638	48,069	49,942	9.4	9.4
PAT	11,739	13,534	10,306	13,603	13.9	(0.5)
Consolidated						
Net revenues	847,959	863,359	843,886	866,720	0.5	(0.4)
EBITDA	93,515	95,919	90,987	95,602	2.8	0.3
PAT	34,914	35,639	33,919	37,482	2.9	(4.9)
EPS (Rs)	18.2	18.6	17.7	19.6	2.9	(4.9)

Source: Company, Kotak Institutional Equities estimates

Hindalco Industries, valuation, FY2013E basis (Rs mn)

		Multiple (X)	Value	
			(Rs mn)	(Rs/share)
Hindalco FY2013E EBITDA	33,713	6.0	202,277	106
Novelis FY2013E EBITDA	54,638	6.5	355,148	186
ABML FY2013E EBITDA (proportionate stake)	3,860	5.0	19,298	10
Total Enterprise Value			576,724	301
Add: Value of listed investments (20% to market price)			25,869	14
Less: Net debt (adjusted for CWIP)	155,146		155,146	81
Arrived market capitalization			447,447	234
Target price (Rs)				235

Source: Kotak Institutional Equities estimates

Further delays in its expansion plans

Details of Hindalco's planned capacity expansions

Project Name	Commisioning date			Project type	Capacity	Capex
	1 year ago	6 months ago	Revised		(ktpa)	(Rs bn)
1. Brownfield Expansion Projects						
Hirakud Smelter & Power expansion:						9
155 KTPA to 161 KTPA	Q2FY11	Q4FY11	Completed	Smelter	8	
161 KTPA to 213 KTPA	Q4FY12	Q4FY12	Q4FY12	Smelter	52	
213 KTPA to 360 KTPA				Smelter	147	
Flat rolled products at Hirakud	Q2FY12	Oct-11	End- 2011	FRP		9
Belgaum Special Alumina Project	Not finalised	Not finalised	Not finalised	Alumina refinery	178	
2. Greenfield Projects						
UTKAL Alumina Project	Q2FY12	Early 2012	2012	Alumina refinery	1500	76
Mahan Aluminium Project	Q2FY12	Oct-11	End- 2011	Smelter	359	105
Aditya Aluminium Project	Q3FY12	End 2012	Early 2013	Smelter	359	92
Aditya Refinery Project	Q1FY14	End 2014	End 2014	Alumina refinery	1500	60
Jharkhand Aluminium Project	Q1FY14	Mid 2015	2015	Smelter	359	100
Total						450

Note:

1. UTKAL Alumina project cost has gone up by Rs6 bn owing to additional cost incurred towards contractors.
2. Mahan Aluminium project cost has gone up by Rs13 bn on higher financing cost.

Source: Company, Kotak Institutional Equities estimates

Hindalco Industries, key assumptions, March fiscal-year ends, FY2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Aluminium						
Hindalco						
Aluminium price (US\$/tonne)	2,623	2,234	1,868	2,257	2,400	2,450
Metal sales volume (tonnes)	473,118	521,069	555,066	538,890	571,780	687,750
Blended realization (Rs/tonne)	131,937	127,384	110,516	131,939	138,526	137,549
Cost/tonne (US\$/tonne)	2,141	1,983	1,710	2,208	2,354	2,437
EBITDA/tonne (US\$/tonne)	1,298	937	722	831	798	782
Aluminium EBITDA (Rs mn)	24,711	22,428	19,045	20,415	20,749	23,654
Alumina price (US\$/tonne)	370	278	300	330	372	404
Alumina sales volume (tonnes)	259,627	238,350	241,095	320,720	332,900	186,398
Alumina EBITDA (Rs mn)	3,232	3,237	3,198	3,294	3,320	2,108
Alumina EBITDA (US\$/ tonne)	309	296	279	225	219	257
Novelis						
Average realization (US\$/tonne)	3,570	3,458	3,039	3,415	3,674	3,756
Conversion premium (US\$/tonne)	947	1,224	1,171	1,158	1,274	1,306
Shipments ('000 tonnes)	3,150	2,943	2,854	3,097	3,236	3,382
EBITDA/tonne (US\$/tonne)	169	192	380	302	357	367
EBITDA (US\$ mn)	533	566	1,085	935	1,156	1,242
EBITDA (Rs mn)	21,448	25,997	51,538	42,636	52,597	54,638
Copper						
Price (US\$/tonne)	7,521	5,885	6,112	8,300	8,800	8,360
Copper cathode volumes (tonnes)	180,668	153,236	185,213	188,060	213,652	209,112
Copper rods volumes (tonnes)	138,543	146,323	146,164	145,470	149,834	154,330
EBITDA (Rs mn)	6,693	5,476	8,256	7,720	9,192	8,988

Source: Company, Kotak Institutional Equities estimates

Hindalco (Standalone), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	192,010	182,197	195,363	238,592	283,082	282,063
EBITDA	34,011	30,359	29,499	31,854	32,275	33,713
Other income	4,929	6,367	2,599	3,168	4,691	5,236
Interest	(2,806)	(3,369)	(2,780)	(2,200)	(900)	(3,139)
Depreciation	(5,878)	(6,453)	(6,672)	(6,875)	(7,472)	(8,133)
Profit before tax	30,256	26,903	22,646	25,947	28,594	27,678
Extraordinaries	5,407	1,508	1,132	—	—	—
Taxes	(7,053)	(6,109)	(4,621)	(4,578)	(6,291)	(6,089)
Reported net income	28,609	22,303	19,156	21,369	22,303	21,589
Adjusted net income	23,203	20,794	18,025	21,369	22,303	21,589
Fully diluted EPS (Rs)	16.8	13.1	10.0	11.2	11.7	11.3
Balance sheet (Rs mn)						
Equity	174,359	237,583	279,110	297,000	316,280	334,845
Deferred tax liability	13,237	14,107	13,664	12,875	12,976	14,665
Total Borrowings	83,286	83,243	63,569	72,715	152,715	222,715
Current liabilities	38,008	26,721	60,134	78,388	79,864	73,105
Total liabilities	308,889	361,653	416,477	460,978	561,835	645,330
Net fixed assets	78,093	78,869	77,348	73,469	68,998	176,091
Capital work in progress	11,198	13,896	37,028	97,014	178,152	155,864
Goodwill	—	—	—	—	—	—
Investments	141,080	191,489	214,808	182,468	182,468	182,468
Cash	1,470	8,437	1,402	2,334	21,836	21,947
Other current assets	77,047	68,962	85,891	105,693	110,381	108,961
Miscellaneous expenditure	1	—	—	—	—	—
Total assets	308,889	361,653	416,477	460,978	561,835	645,330
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	20,273	19,360	18,846	18,333	14,999	10,344
Working capital changes	(5,671)	3,777	(8,090)	(334)	(3,211)	(5,340)
Capital expenditure	(40,240)	(113,736)	(34,353)	(58,709)	(73,954)	(77,108)
Free cash flow	(25,638)	(90,598)	(23,596)	(40,710)	(62,166)	(72,103)
Ratios						
EBITDA margin (%)	17.7	16.7	15.1	13.4	11.4	12.0
EBIT margin (%)	14.7	13.1	11.7	10.5	8.8	9.1
Debt/equity (X)	0.5	0.4	0.2	0.2	0.5	0.7
Net debt/equity (X)	(0.1)	0.1	0.0	0.0	0.2	0.4
Net debt/EBITDA (X)	(0.4)	1.1	0.2	0.4	2.3	4.3
RoAE (%)	15.5	10.1	7.0	7.4	7.3	6.6
RoACE (%)	8.1	5.7	5.0	5.4	4.3	3.7

Source: Company, Kotak Institutional Equities estimates

Hindalco (Consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	600,128	656,252	607,221	720,779	847,959	863,359
EBITDA	66,351	53,584	97,458	80,017	93,515	95,919
Other income	6,560	6,878	3,227	4,309	5,428	6,201
Interest	(18,491)	(12,323)	(11,041)	(18,393)	(15,552)	(17,360)
Depreciation	(24,883)	(30,378)	(27,836)	(27,500)	(29,001)	(29,620)
Profit before tax	29,537	17,761	61,808	38,432	54,390	55,140
Extraordinaries	5,481	(22,319)	1,030	100	—	—
Taxes	(11,889)	8,046	(19,319)	(9,739)	(14,779)	(15,210)
Profit after tax	23,130	3,488	43,519	28,793	39,611	39,929
Minority interest	(2,194)	1,718	(4,237)	(3,659)	(4,126)	(3,719)
Share in profit/(loss) of associates	998	(353)	(27)	(571)	(571)	(571)
Reported net income	21,933	4,853	39,255	24,564	34,914	35,639
Adjusted net income	16,452	19,791	38,225	24,463	34,914	35,639
Fully diluted EPS (Rs)	12.9	11.6	20.0	12.8	18.2	18.6
Balance sheet (Rs mn)						
Equity	172,866	158,536	215,446	290,233	322,123	354,739
Deferred tax liability	41,723	27,571	39,382	37,596	37,697	39,386
Total Borrowings	323,524	283,098	239,987	276,920	356,512	424,471
Current liabilities	172,201	162,602	180,166	216,840	224,457	216,044
Minority interest	16,154	12,866	17,372	22,169	26,295	30,014
Total liabilities	726,467	644,672	692,353	843,758	967,084	1,064,654
Net fixed assets	267,820	275,249	290,006	297,374	347,186	441,162
Capital work in progress	24,571	29,495	58,008	122,014	178,152	155,864
Goodwill	79,247	42,908	—	35,973	—	—
Investments	140,077	104,308	112,455	108,549	107,978	107,407
Cash	17,169	21,918	21,954	25,563	65,788	88,933
Other current assets	197,574	170,791	209,930	254,285	267,980	271,289
Miscellaneous expenditure	10	4	—	—	—	—
Total assets	726,467	644,672	692,353	843,758	967,084	1,064,654
Free cash flow (Rs mn)						
Operating cash flow excl. working	27,709	(7,156)	39,333	54,707	63,284	65,038
Working capital changes	7,576	29,309	(5,984)	(7,680)	(6,077)	(11,722)
Capital expenditure	(166,531)	(28,898)	(41,708)	(78,300)	(98,979)	(101,308)
Free cash flow	(131,247)	(6,744)	(8,359)	(31,273)	(41,772)	(47,992)
Ratios						
EBITDA margin (%)	11.1	8.2	16.0	11.1	11.0	11.1
EBIT margin (%)	6.9	3.5	11.5	7.3	7.6	7.7
Debt/equity (X)	1.9	1.8	1.1	1.0	1.1	1.2
Net debt/equity (X)	1.2	1.4	0.7	0.7	0.7	0.8
Net debt/EBITDA (X)	3.2	4.1	1.6	2.4	2.5	2.9
RoAE (%)	10.9	11.9	20.4	9.7	11.4	10.5
RoACE (%)	7.9	5.4	10.4	7.7	7.5	6.6

Source: Company, Kotak Institutional Equities estimates

MAY 31, 2011

UPDATE

Coverage view: **Neutral**

Price (Rs): **136**

Target price (Rs): **180**

BSE-30: **18,232**

Happy ever after—if Star-Zee JV gets past honeymoon hurdles. Star and Zee, the two leading broadcasters in India, have announced a 50:50 JV to combine the distribution of their channels. The JV aims at (1) improving distribution efficiency, (2) tackling under-declaration in analog cable and (3) incentivizing digitization in India. Upgrade to BUY; revised fair value of Rs180 (Rs145 previously; rollover to FY2013E) led by (1) end of structural IPL overhang (from FY2013E), (2) broadening of advertising spends on C&S TV and (3) continued strong uptake of DTH in India.

Company data and valuation summary

Zee Entertainment Enterprises

Stock data

52-week range (Rs) (high,low) 162-106

Market Cap. (Rs bn) 133.2

Shareholding pattern (%)

Promoters 42.8

FIIs 35.9

MFs 5.9

Price performance (%)

Absolute 1M 14.7 3M 14.7 12M (2.2)

Rel. to BSE-30 6.0 12.1 (9.5)

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	5.7	7.1	8.4
EPS growth (%)	7.3	24.9	18.5
P/E (X)	23.9	19.1	16.1
Sales (Rs bn)	29.3	33.6	38.5
Net profits (Rs bn)	5.6	7.0	8.3
EBITDA (Rs bn)	7.4	9.7	11.7
EV/EBITDA (X)	16.2	12.4	10.3
ROE (%)	13.8	16.4	18.8
Div. Yield (%)	1.0	1.2	1.3

Star-Zee channel distribution JV: In the right direction

Star and Zee, India's leading broadcasters, have announced the creation of Media Pro Enterprises India (MPEI) for the combined distribution of their respective channel bouquets. MPEI will be a 50:50 JV between Star-DEN (SD) and Zee-Turner (ZT)—the existing distribution companies—and will distribute ~70 non-sports channels (Exhibit 1; future channels as well) of Star-Zee as well as their partners, Turner India and Den Networks. MPEI will aim at (1) improving distribution efficiency, (2) tackling piracy and (3) accelerating digitization in India, thus helping improve the subscription revenues generated by the broadcasters.

Happily ever after IF MPEI can get past honeymoon hurdles

The Star-Zee distribution JV is a step in the right direction given the challenges of the distribution market and subscription revenue opportunity, provided the hurdles are tackled (1) internal conflict resolution mechanisms given significant overlap between Star-Zee channels, (2) views of Competition Commission of India (CCI) given large share in some genres and (3) market response from large LCOs and MSOs, who may look to organize themselves.

Upgrade to BUY given emerging advertising and subscription drivers

We upgrade Zee stock to BUY (ADD previously) with a revised fair value of Rs180 (Rs145 previously; rollover to FY2013E) without recourse to the Star-Zee JV even though we like the idea; the JV will be operational soon but will take time to be integrated (12-18 months) given legacy contracts. We have fine-tuned our FY2012E-13E EPS estimates to Rs7.1 (Rs7.0 previously) and Rs8.4 (Rs8.1) led by higher assumed ad growth in FY2013E.

The strong sports calendar in FY2011 is behind Zee and other GE broadcasters; more important, the structural overhang of IPL (>Rs8 bn advertising property in four years) is over with declining ratings (Exhibits 3-4). The competitive intensity in Hindi GE segment has stabilized (structural overhang of Colors in last 3 years) and Zee seems poised for market share gains given its commitment to renewed content investment. The C&S TV advertising market has become broad-based in FY2011 led by SME advertisers and fears of slowdown in FMCG ad spending seem overstated (Exhibits 5-6). Continued strong uptake of DTH in India and renewal of Zee's contracts with DTH operators (capturing past growth) will drive subscription revenues.

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Channel bouquets of Zee Turner and Star DEN

Genre	Zee-Turner		Star-DEN	
	Channel	A-la-carte rate (Rs)	Channel	A-la-carte rate (Rs)
Hindi GE	Zee TV	13.9	Star Plus	18.7
	Zee Smile	6.6	Star One	21.9
	9X	NA	Star Utsav	NA
	Imagine TV - Turner	NA		
	Real - Turner	13.0		
Hindi Cinema	Zee Cinema	13.9	Star Gold	17.7
	Zee Classic	10.7		
	Zee Action	10.7		
	Zee Premier	12.0		
Hindi News	Zee News	8.0	Star News	FTA
	Zee Business	5.1	NDTV India	8.0
	Zee News UP	FTA		
English Movies	HBO - Turner	16.7	Star Movies	17.7
	Zee Café	8.6	MGM	6.4
English GE	WB - Turner	6.6	Star World	4.9
	Zee Studio	7.5	FX	15.5
Bengali	Zee Bangla	8.7	Star Jalsha	12.0
	24 Ghanta TV	6.4	Star Ananda	6.0
Marathi	Zee Marathi	8.6	Star Pravah	FTA
	Zee Talkies	16.6	Star Majha	NA
	Zee 24 Taas	9.1		
Kids	CN - Turner	13.4	Baby TV	13.3
	Pogo - Turner	13.4		
English News	CNN - Turner	1.6	NDTV 24X7	9.1
			NDTV Profit	6.4
Niche	ETC Punjabi	9.6	NGC	6.2
	Zing	5.4	Channel V	1.1
	ETC	3.2	Fox History	4.7
	Zee Punjabi	1.6	Fox Crime	15.5
	Zee Jagran	2.1	NAT GEO Wild	16.0
	Zee Salaam	15.0	NG Adventure	16.0
	Zee Khana Khazana	30.0	NAT GEO Music	7.4
	Zee Trendz	1.1	NDTV Goodtimes	9.6
			Star CJ Alive	NA
Tamil	Zee Tamil	FTA	Star Vijay	12.6
Telugu	Zee Telugu	11.1	Asianet Sitara	NA
	Zee 24 Ghantalu	5.6		
Kannada	Zee Kannada	8.0	Asianet Suvarna	12.0
Malayalam			Asianet	NA
			Asianet Plus	NA
HD channels			Nat Geo HD	16.0
			Star Plus HD	30.0
			Star Gold HD	30.0
			Star Movies HD	30.0
			Star World HD	20.0

Notes:

(a) Certain channels of Zee and Star not part of Zee Turner or Star DEN currently are highlighted as NA.

Source: Company websites, Kotak Institutional Equities estimates

Summary financials and valuations of Zee and Sun TV, March fiscal year-ends

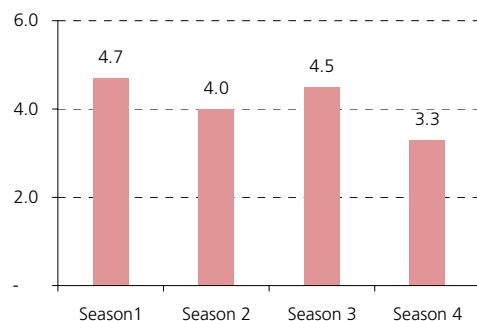
	Financials (Rs bn)				Valuations (X)			
	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Zee consolidated								
Revenues	22.0	29.4	33.5	38.4				
EBITDA	6.1	7.5	9.6	11.7	20.4	16.6	13.0	10.7
EPS (Rs/share)	5.3	5.8	7.1	8.4	26.6	24.3	19.8	16.6
Sports business								
Revenues	3.2	4.4	4.5	5.0				
EBITDA	(0.6)	(2.1)	(1.4)	(0.7)				
R-GECs business								
Revenues	1.1	5.2	6.1	7.3				
EBITDA	0.3	1.7	2.1	2.7				
Hindi-rest business								
Revenues	17.8	19.8	22.9	26.1				
EBITDA	6.4	7.9	8.9	9.7				
Zee core business								
Revenues	18.8	25.0	29.0	33.4				
EBITDA	6.7	9.6	11.0	12.4	18.6	13.0	11.4	10.1
EPS (Rs/share)	5.8	7.4	8.1	9.0	24.3	19.0	17.3	15.6
Sun TV consolidated								
Revenues	14.5	20.1	22.5	26.6				
EBIT	7.7	11.0	12.7	15.1	18.8	13.2	11.5	9.6
EPS (Rs/share)	13.2	19.6	22.5	26.7	29.6	19.9	17.3	14.6

Notes:

(a) Zee's FY2010 financials include only one quarter (4QFY10) of R-GEC financials.

Source: Company data, Kotak Institutional Equities estimates

Trend in average All-India ratings of IPL matches (%)



Source: TAM Media Research, Kotak Institutional Equities estimates

Details of the sports calendar, March fiscal year-end, 2011

Tournament	Type	Time period
IPL T20 Season 3	Cricket	Mar-Apr 2010
ICC T20 World Cup 2010	Cricket	May 2010
India's tour of Zimbabwe	Cricket	May-Jun 2010
Asia Cup 2010	Cricket	Jun 2010
FIFA World Cup	Soccer	Jun-Jul 2010
India's tour of Sri Lanka	Cricket	Jul-Aug 2010
Commonwealth Games 2010	Various	Oct 2010
Australia's tour of India	Cricket	Oct 2010
New Zealand's tour of India	Cricket	Nov-Dec 2010
India's tour of South Africa	Cricket	Dec-Jan 2011
ICC ODI World Cup 2011	Cricket	Feb-Mar 2011
IPL T20 Season 4	Cricket	Apr-May 2011

Source: Industry data, Kotak Institutional Equities estimates

Trends in advertising on Indian C&S TV, calendar year-ends, 2000-10

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
TV advertising volume											
Actuals (X=100)	133	167	245	352	452	591	781	1,021	1,306	1,711	2,121
Growth (%)	33	26	47	44	28	31	32	31	28	31	24
Avg. ads per day on a TV channel											
Actuals (X=100)	98	110	128	141	159	181	202	209	226	255	268
Growth (%)	(2)	12	16	10	13	14	12	3	8	13	5
TV advertisers											
Actuals (X=100)	100	95	112	152	180	183	188	206	189	202	238
Growth (%)	—	(5)	18	36	18	2	3	10	(8)	7	18
TV brands											
Actuals (X=100)	102	99	114	145	170	167	173	189	182	200	238
Growth (%)	2	(3)	15	27	17	(2)	4	9	(4)	10	19

Source: TAM Media Research, Kotak Institutional Equities

Ad spends of FMCG companies, March fiscal year-ends, 2009-12E

Company	Revenues (Rs bn)				Ad spends (Rs bn)				Adex-to-sales (%)			
	2009	2010	2011E	2012E	2009	2010	2011E	2012E	2009	2010	2011E	2012E
Asian Paints	42.7	51.3	63.2	78.6	2.0	2.4	3.0	3.7	4.6	4.8	4.7	4.7
Colgate	16.9	19.6	22.4	25.8	2.7	3.0	3.6	4.4	16.0	15.3	16.1	17.0
Dabur	28.1	33.9	40.8	50.1	3.4	4.9	5.3	6.2	12.2	14.6	13.1	12.4
GSK Consumer	15.4	19.2	23.1	26.6	1.9	3.0	3.7	3.9	12.6	15.7	16.1	14.8
HUL	161.9	175.2	194.0	221.0	17.0	23.9	27.6	30.2	10.5	13.6	14.2	13.6
ITC	30.1	36.4	45.3	56.7	5.8	6.0	6.8	8.2	19.2	16.4	15.0	14.5
Jubilant Foodworks	2.8	4.2	6.8	9.3	0.1	0.2	0.3	0.4	4.7	4.0	4.5	4.6
Jyothy Laboratories	3.5	5.7	6.5	7.6	0.2	0.4	0.6	0.6	5.1	6.4	9.2	8.2
Marico	23.9	26.6	31.3	38.4	2.4	3.5	3.5	4.7	10.2	13.2	11.1	12.2
Nestle	43.2	51.3	62.5	76.3	1.9	2.7	3.0	4.1	4.5	5.2	4.8	5.4
Titan	38.3	46.8	65.2	78.0	1.8	2.1	3.0	3.7	4.7	4.5	4.7	4.7
Total	406.9	470.3	561.1	668.5	39.4	52.1	60.5	70.1	9.7	11.1	10.8	10.5
Growth (%)		16	19	19		32	16	16				

Notes:

(a) HUL's 15-month FY2009 revenues and ad spends are normalized to 12 months.

(b) ITC's ad spends are divided by its FMCG sales/revenues to calculate Adex-to-sales ratio.

Source: Company data, Kotak Institutional Equities estimates

Market share of Hindi GE channels (%)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Colors	24	21	21	20	20	21
Imagine TV	8	8	6	7	6	6
SAB TV	6	7	8	9	11	11
Sony TV	12	12	13	15	13	12
Star One	3	3	4	3	3	3
Star Plus	22	26	26	28	26	27
Zee TV	20	20	18	15	17	17

Source: TAM Media Research, Kotak Institutional Equities

Distribution efficiency, reduced piracy and digitization key drivers

We discussed the large number of channels as well as genres (~70 non-sports channels, including HD channels) that would be covered by the MPEI bouquet in Exhibit 1, including a wide set of niche channels. However, beyond just the breath of channels, the MPEI bouquet would come to dominate the non-South C&S TV markets in India with leadership channels as well as 40-60% market share in genres such as Hindi GE, Hindi Cinema, Marathi GE and Bengali GE (Exhibits 8-11) as well as Hindi News, English GE, English Movies, Kids and niche channels. This gives the requisite bargaining power to MPEI to implement the envisioned improvements in the C&S distribution network.

Market share of key Hindi GE channels, calendar year-ends (%)

	2006	2007	2008	2009	2010	2011E
Colors	-	-	8	24	22	20
Imagine TV	-	-	7	8	7	6
SAB	4	5	3	5	8	11
Sony TV	13	12	9	10	13	12
Star Plus	48	39	30	23	26	26
Zee TV	21	27	22	20	18	17
Others	14	17	21	11	7	7
HH-Index	3,030	2,528	1,691	1,681	1,738	1,728

Source: TAM Media Research, Kotak Institutional Equities

Market share of key Hindi movie channels, calendar year-ends (%)

	2006	2007	2008	2009	2010	2011E
FILMY	7	8	7	5	5	5
SET MAX (a)	32	34	30	29	26	26
Star Gold	22	21	20	19	21	22
UTV Action	-	1	3	3	7	6
UTV Movies	-	-	5	7	8	7
Zee Cinema	32	30	29	30	25	24
Others	7	7	6	7	8	9
HH-Index	2,568	2,529	2,234	2,190	1,908	1,873

Notes:

(a) SET MAX ratings are adjusted for IPL.

Source: TAM Media Research, Kotak Institutional Equities

Market share of key Marathi GE channels, March fiscal year-ends (%)

	2006	2007	2008	2009	2010	2011E
DD Marathi	12	11	8	6	5	4
ETV Marathi	44	33	25	24	22	25
ETV Marathi	-	6	6	3	6	6
Star Pravah	-	-	1	14	18	19
Zee Marathi	43	45	48	39	36	33
Zee Talkies	-	4	11	12	10	11
Others	-	-	1	2	2	2
HH-Index	3,985	3,331	3,160	2,497	2,330	2,249

Source: TAM Media Research, Kotak Institutional Equities

Market share of key Bengali GE channels, calendar year-ends (%)

	2006	2007	2008	2009	2010	2011E
Akash Bangla	16	14	9	8	5	3
ETV Bangla	58	41	35	22	16	15
Rupashi Bangla	-	-	-	2	7	5
Sony Aath	-	0	6	4	6	5
Star Jalsha	-	-	5	35	40	38
Zee Bangla	21	38	39	27	23	31
Others	6	6	5	3	4	3
HH-Index	4,040	3,408	2,951	2,497	2,505	2,696

Source: TAM Media Research, Kotak Institutional Equities

MPEI will also have increased firepower to improve distribution in the South Indian regional language markets against strong incumbent local competition. Zee had launched its South Indian language channels in 2005-06 (Telugu and Kannada) while Star had acquired the leading broadcaster in Malayalam market, Asianet, in 2009 with expansions in Telugu and Kannada markets. Besides the Asianet channels in Malayalam market, the regional channels of Star and Zee likely generate nominal subscription revenues; Zee's regional channels likely generated ~Rs0.5 bn in subscription revenues in FY2010 versus domestic subscription revenues of ~Rs5.5 bn from other channels. Star-Zee regional channels have turned pay and MPEI may provide the fillip to improve realizations.

Potential of pay-TV market in regional markets (Rs bn)

Number of C&S TV households in Maharashtra (mn)	10.7
Number of C&S TV households in West Bengal (mn)	5.6
Average subscription rate (Rs/month)	150
C&S subscription/pay-TV revenue market	29.3
Likely size of pay-TV market (@15% share of broadcasters)	4.4
Pay-TV revenues of regional channels in FY2010	0.5
Pay-TV revenue share of regional channels in FY2010 (%)	11
Theoretical size of pay-TV market (@25% share of broadcasters)	7.3
Theoretical pay-TV revenue share of regional channels (%)	20
Theoretical pay-TV revenue potential for ZEEL from regional	1.5

Source: Company data, Kotak Institutional Equities estimates

- **Reduced under-declaration on analog cable.** One of the key targets for MPEI is to reduce the under-declaration on Indian cable network as a result of its analog nature and unique three-tier structure (LCOs, MSOs and broadcasters). Exhibit 13 presents the skewed distribution of consumer ARPU across the various stakeholders with LCOs capturing a disproportionate share of the pie. The under-declaration of subscribers at the LCO level has resulted in miniscule share of revenues flowing down to organized players (MSOs and broadcasters). MPEI will have the bargaining power and distribution efficiency (greater reach to LCOs at lower cost) to force reduction in under-declaration. Exhibit 14 presents an academic sensitivity (since MPEI does not envision any changes in FY2012E) of Zee's operating profits from improved cable revenues.

Share of revenues of various stakeholders from cable (Rs)

	Cable
Average revenue of local cable operator (Rs/sub/month)	200
Service tax (@12.36%)	5
Entertainment tax (Rs20/sub/month)	4
Total cost to subscriber	209
% declaration of subscriber base (%)	20
Pay-TV channels rate	250
Amount payable to broadcasters/MSOs	50
Net retention of cable operator	150
Assumed share of MSO (%)	30
Net retention of MSO	15
Net retention of broadcaster	35

Source: Industry data, Kotak Institutional Equities estimates

Estimated benefit of MPEI on subscription revenues of Zee, March fiscal year-ends (Rs mn)

	ZEEL			2012E		Sensitivity (%)		
	2010	2011E	2012E	Subs (mn)	ARPU (Rs)	+5%	+10%	+15%
Subscription revenues								
DTH	2.3	3.3	4.4	20.0	18.3	4.4	4.4	4.4
Cable	3.4	3.9	4.0	40.0	8.3	4.2	4.4	4.6
Carriage costs								
Business promotion	(1.0)	(0.9)	(1.0)			(1.0)	(1.0)	(1.0)
Financials								
EBITDA	6.1	7.6	9.6			9.8	10.0	10.2
Upside (%)						2.1	4.2	6.3

Source: Company data, Kotak Institutional Equities estimates

- **Improved distribution efficiency.** Star DEN and Zee Turner are essentially content aggregators with a significant overlap in operations, essentially establishing contracts for subscription revenues/carriage fees with LCOs/MSOs that wish to carry Star and Zee bouquet of channels. The function can be performed with similar efficiency at significant lower cost by combining the operations of SD and ZT in a single bouquet, also given the improved bargaining power. However, MPEI seems more focused on revenue enhancement rather than cost synergies. There are >50,000 LCOs in India, which cannot be efficiently monitored by a small team and thus, the focus remains confined to the low-hanging fruit. With a larger team and a superior bouquet, MPEI will likely be able to reach out to and monitor a large set of MSOs/LCOs.
- **Incentivizing digitization: The question is how?** Another stated aim of MPEI is to incentivize the digitization of analog cable network in India but we remain unsure exactly how it plans to achieve this goal. One aspect could be channelizing improved subscription revenues into niche and HD channels, which are not amenable to distribution on analog cable platform. The resultant consumer pull for these channels would result in LCOs agreeing to digitize their distribution networks. However, it is unclear if MPEI will also invest in digitization of analog cable in India. Star current has considerably investments in niche/HD channels; Zee has just started its food channel and plans to launch new niche as well as HD feeds of existing channels.

Channel overlap, competition commission and market response key risks

- ▶ **Internal conflicts resolution.** The strength of the MPEI (strong bouquet of channels in key genres) is also a potential challenge given the significant genre overlap between Star and Zee Turner. The good news is that the Star-Zee JV is very mindful of the potential pitfalls, as highlighted by the 12-24 months of discussions and negotiations that preceded the JV. The bad news is that the partners will still need to tackle amicably unknowns not envisaged currently; the conflict resolution mechanisms put in place and professional approach to conflict would be key variables to be monitored.
 - Exhibit 13 provides an example of the challenge in front of a broadcaster in managing two channels within the same distribution portfolio. Sony TV is the flagship GE channel of SET and SAB TV the flanking channel. SAB TV has managed to etch out a niche for itself in comedy content even as Sony TV has faltered on fiction content against competition. SAB TV delivers almost equal GRPs to Sony TV (measure of content and distribution strength) despite lower reach (measure of distribution strength of a channel).

Reach and GRPs of flagship Hindi GE channels, 2011 (%)

	Jan-11	Feb-11	Mar-11	Apr-11	May-11
GRPs (%)					
Star Plus	351	310	288	310	316
Colors	264	253	249	245	226
Zee TV	229	228	203	198	186
Sony TV	169	153	154	141	143
SAB TV	137	148	135	136	128
Imagine TV	81	83	74	63	65
Reach (%)					
Star Plus	61	58	60	61	60
Colors	59	59	60	60	59
Zee TV	54	56	54	55	54
Sony TV	57	55	56	54	52
SAB TV	42	43	42	43	41
Imagine TV	43	46	42	40	41

Source: TAM Media Research, Kotak Institutional Equities

- ▶ **Views of competition regulator.** The year 2010 may prove to be the watershed year for corporate and market regulation in India with the creation of Competition Commission of India (CCI), with its broad powers to promote competition in markets, to prevent practices that stifle competition and to protect the interest of consumers. The coming together of two leading broadcasters in India might raise some questions and CCI has indicated an examination of the JV. Star-Zee are confident that the JV would pass muster since the broadcasting operations of the companies remain separate and the JV partners continue to compete aggressively for eyeballs in the market.

- **Market/MSOs response.** The MSOs (multi-system operators) are the intermediaries between the broadcasters and last-mile LCOs (local cable operators) in India (representing the key stakeholders in the cable value chain). The larger MSOs seem threatened by the combined bargaining power that Star-Zee will command and fear (1) increased subscription payments to the broadcasters and (2) reduction in carriage fees; we would be disappointed if MPEI targets MSOs for improving the distribution value chain and their subscription revenues since MSOs only pass-through the subscription revenue collected from the LCOs. As discussed previously, subscriber under-declaration at LCO level has hurt MSOs more than broadcasters. Star-Zee carriage and placement fee payments are unlikely to be high given the strength of existing SD-ZT bouquets (and largely pay channels). We also note that DEN, a large MSO, is one of the partners in the JV.
- Exhibit 14 presents operating margins of various stakeholders in the C&S value chain, compiled by TRAI, the sector regulator. C&S broadcasters (barring some exceptions such as news channels due to competitive dynamics of the genre), though short-charged in terms of subscription revenues from cable, have been able to maintain reasonable operating margins given robust advertising market in India. MSOs, on the other hand, have delivered below par profitability and returns. Thus, the Star-Zee JV may turn out to be positive if it triggers a consolidation wave in the industry to counter the bargaining power of MPEI; this has been expected anyway for some time given the weak profitability and significant fragmentation among the LCOs and MSOs. Additionally, LCOs may be more amenable to selling out to larger players, resulting in vertical integration in the industry.

EBITDA margins of stakeholders in C&S value chain (%)

EBITDA margin (%)	
LCOs	
Average	35
MSOs	
National	5
Regional	15
Broadcasters	
Hindi GEC	25
Regional GEC	40
English GEC	10
Hindi News	15
Regional News	15
English News	(25)
Business News	(30)
Sports	15
Hindi Movies	25
Regional Movies	30
English Movies	50
Kids	10
Niche 1	15
Niche 2	30

Source: TRAI, Kotak Institutional Equities

MAY 31, 2011**UPDATE**BSE-30: **18,503**

First hints of an imminent slowdown. GDP growth in 4QFY11 slipped to 7.8% from 8.3% in the previous quarter as industrial sector growth slowed to 5.3%. Services sector growth rate remained unchanged from the last quarter at 8.6%. Signs of a slowdown arising from weakening consumption growth and investment growth set the tone for a weak FY2012E. Growth for FY2011 came in at 8.5% as the 1QFY11 was revised up to 9.3% from 8.9%. Today's GDP numbers are unlikely to change our policy call of another 75 bps of policy rate increase as RBI appears ready to sacrifice growth in the medium term in order to anchor inflationary expectations.

Agriculture sector remains strong; industrial sector further moderates

Agriculture sector on the back of a good monsoon in FY2011 saw 4QFY11 growth at 7.5% after 3QFY11 was revised up to 9.9%. With record output in food grains, agriculture growth in FY2011 was at 6.3% against 0.6% in FY2010, much of it coming on the back of base effects. On the other hand, industrial sector saw a steady decline in growth from 11.3% in 1QFY11 to 5.3% in 4QFY11. Mining sector expanded by 1.7% in 4QFY11 while manufacturing sector grew by 5.5%. Going forward, manufacturing sector is likely to see muted growth at least in 1HFY12E. Services sector, on the other hand, continued to exhibit strong growth. 'Financing, insurance, real estate and business services' sector showed some moderation from double digit growth most likely due to the high interest rate scenario.

Investment growth slumps, consumption moderates

On the demand side, consumption expenditure growth has continued to fall from 8.9% in 1QFY11 to around 8% this quarter. High inflation along with high interest rates is likely the main reason for the moderation of consumption. Recent evidence indicates that the manufacturing sector have been passing on the higher input cost to the end-users, thereby tending to protect margins.

Investment has also slowed down considerably and in 4QFY11, gross fixed capital formation showed a growth of only 0.4%, down from around 19% last fiscal for the same period and 17.4% in 1QFY11. The uncertain interest rate and inflation environment is definitely creating uncertainties on the consumption demand and thereby leading to shelving off of investments by the corporate sector. The effective hike of 400 bps in the policy rates and the liquidity tightness has also led to a significant increase in the borrowing costs, a deterrent for investments.

We expect FY2012E growth at 7.7% and FY2013E at 8.3%

We continue to expect FY2012E growth at about 7.7% even as the 4QFY11E real GDP numbers are below our expectations. We see 2QFY12E as the slowest quarter for growth at 7.2%. From thereon growth is likely to pick up to 8.3% in 4QFY12E. We also give our first estimates for FY2013E at 8.3% with revival of the manufacturing sector and return of investment demand assuming that inflation dynamics moderate lower, the current monsoon season turns out to be good and thus is a positive for rabi cultivation. The other big belief that we carry today is for a pause in the RBI rate hiking cycle at 8% for the repo rate. However, if this extends itself on account of global commodity price shocks, etc., there could be a downward risk to our estimate of 7.7%.

Looking more into the future, as of current understanding, we expect growth to revive moderately into FY2013E to around 8.2-8.3%. This is because we would not expect RBI to reverse its interest rate cycle by then. Further, the lagged implications of the current policy rate hikes could also be moderating the growth dynamics.

QUICK NUMBERS

- **4QFY11 growth at 7.8%; FY2011 growth at 8.5%**
- **Consumption growth slows to 8%; GFCF growth at 0.4%**
- **We expect FY2012E GDP at 7.7%; FY2013E at 8.3%**

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FY2012E the year of moderation; FY2013E back to trend path

The current headwinds for the Indian economy are likely to sustain for an extended period, leading to real GDP growth slowing further into 1HFY12E. We expect some reversal in trends after that as the economy could be benefiting from a more stable global environment, an easing of the supply side, an end to the policy interest rate tightening cycle by the RBI and a likely easing out of the current inflationary pressures.

For the overall FY2012E we have already pushed down the estimates for real GDP to 7.7% from 8.1% earlier as the RBI turned more hawkish and hiked the policy interest rate by 50 bps on May 3, 2011. We currently hold on to the 7.7% target for FY2012E but see some risks for this number to be revised lower, especially if risk aversion is strong from the global environment. On a quarterly basis, we expect the 2QFY12E to show up with the weakest growth as RBI continues to increase interest rates by an expected 75 bps. These interest rate increases are expected to be frontloaded, and the lagged effects of the previous rate hikes should transmit into moderating real sector activity.

Growth to moderate to 7.7% in FY2012E; 8.3% in FY2013E

Details of GDP growth, March fiscal year-ends, (%)

Sector	1QFY11	2QFY11	3QFY11	4QFY11	2011	1QFY12E	2QFY12E	3QFY12E	4QFY12E	2012E	2013E
Agriculture and allied activities	2.4	5.4	9.9	7.5	6.6	6.0	3.5	4.0	4.0	4.4	4.0
Industry	11.3	9.0	6.2	5.3	7.8	5.5	6.1	7.2	7.2	6.5	7.8
Mining and quarrying	7.1	8.2	6.9	1.7	5.8	(0.5)	0.9	1.0	4.4	1.5	3.0
Manufacturing	12.7	10.0	6.0	5.5	8.3	6.0	6.5	8.0	8.0	7.2	8.5
Electricity, gas and water supply	5.6	2.8	6.4	7.8	5.7	8.2	8.8	7.8	3.8	7.1	7.0
Services	10.3	9.5	8.6	8.6	9.2	8.3	8.2	9.0	9.6	8.8	9.3
Construction	7.7	6.7	9.7	8.2	8.1	7.5	7.0	7.5	8.5	7.7	8.5
Trade, hotels, transport, storage and communication	12.5	11.0	8.6	9.3	10.2	9.0	9.0	9.5	10.0	9.4	10.5
Financing, insurance, real estate and business services	9.8	10.0	10.8	9.0	9.9	8.5	8.5	9.0	10.0	9.0	9.5
Community, social and personal services	8.2	7.9	5.1	7.0	7.0	7.0	7.0	9.0	9.0	8.0	7.0
Real GDP at factor cost	9.3	8.9	8.3	7.8	8.5	7.4	7.2	7.8	8.3	7.7	8.3
non-agricultural GDP	10.5	9.4	8.0	7.8	8.9	7.6	7.7	8.6	9.1	8.3	8.9

Source: CEIC, Kotak Economic Research estimates

The growth dynamics for FY2012E is likely to witness both headwinds and tailwinds. To an extent, the uncertainty for the economy comes from the global growth outlook, the extent of risk appetite / averseness, the pace of withdrawal of QE2 and its implications for commodity prices, more crucially oil. The headwinds could come in the form of the following.

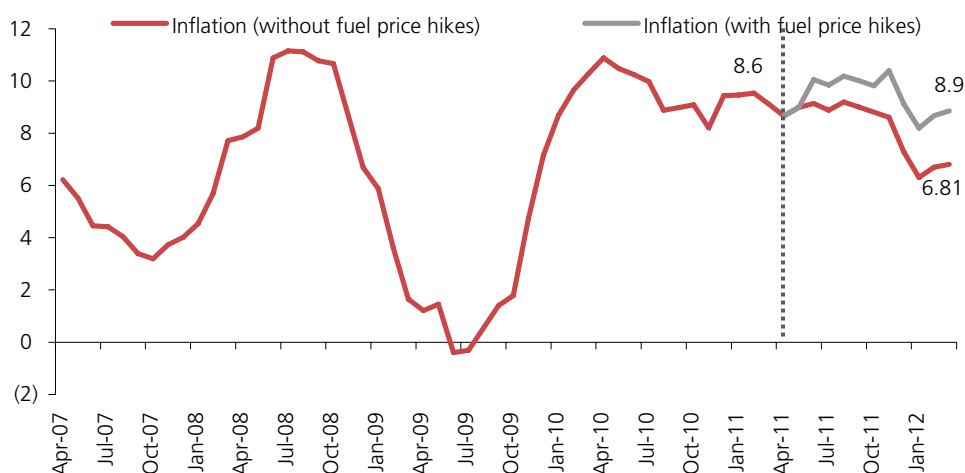
► **Global growth outlook.** We do expect global growth to moderate in 2HCY11E, as the fiscal stimulus is withdrawn. On the European side, the sovereign debt worries and the bailout debate for Greece is likely to keep the pressure up on the peripheral economies to tighten its fiscal belt, a negative for growth in the region. On the other hand, ECB is expected to hike interest rates further in moderate doses in reaction to the core inflation that is already above the critical 2% levels. The direct consequence of slowing global growth for the Indian economy would be a fallback in the export growth. Export growth had averaged at 42% in 4QFY11 from 28% in 3QFY11. The removal of the DEPB scheme is further expected to hamper India's exports.

- It is in the best benefit of India that global growth muddles along. In the event of a very strong global growth, commodity prices may go higher and thus have an implication for the domestic Headline WPI inflation. Consequently, monetary tightening could be much more aggressive than what we intend to see at the current juncture.

- On the other hand, if global growth were to slump significantly, it is likely to unleash a significant unwinding of carry-trade positions. This implies some possibility of capital outflows from India and tighter liquidity conditions and higher short-term borrowing costs.
- ▶ **QE2 withdrawal.** The Fed has clearly indicated that it is likely to carry the QE2 program to its logical end in June 2011 and is unlikely to be reinvesting the redeemed amounts. However, it is not clear as to the direction the commodity prices would follow once the liquidity infusion by the Fed via the QE2 was to ease out. We do not think that the reversal of liquidity will be immediate and hence the bias for commodity prices to remain firm is likely to continue. This is likely to be negative for growth. However, we think that the high level of global liquidity had definitely found its way to the emerging markets. Any reversal of QE2 could lead to withdrawal of liquidity from QE2 and thereby impact sentiments negatively.
- ▶ **Policy rate and inflation.** With inflation likely to remain sticky and high, RBI will maintain its hawkish stance and we expect to see about 75 bps hike in the repo rate by end-1HFY12E as our base case scenario. The EGO M is likely to meet on June 9, 2011 on the issue of fuel price hikes. In the event that the hikes are significant, this could lead to RBI turning more hawkish on policy interest rates. The continuing high inflation, especially of the food type, in itself is expected to drag down consumption demand. Consumption expenditure growth has anyway moved lower to 8.0% in 4QFY11 from 8.9% in 1QFY11. Further, consumers' sentiment could be impacted if global risk aversion leads to a downside bias for Indian equities.

Inflation likely to stay above 8% in 1HFY12E

Trends in WPI inflation with and without fuel price hikes, 2007-2011, (%)



Note:

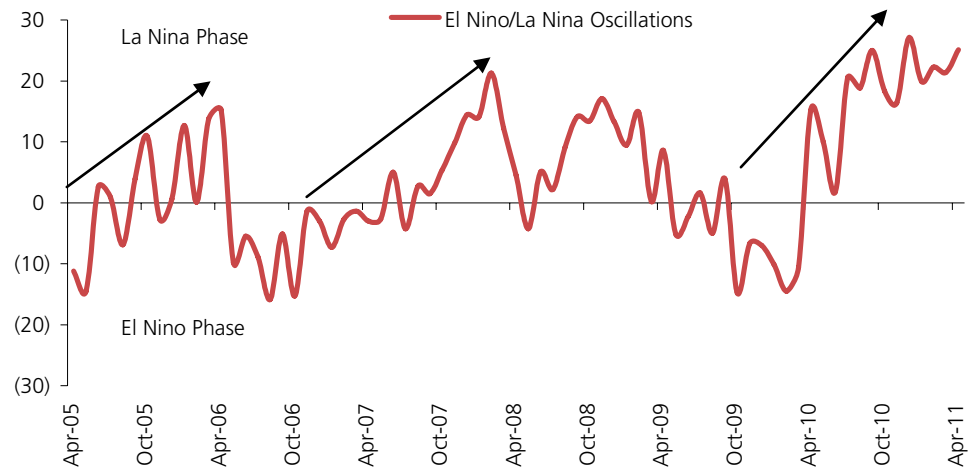
With fuel price hikes implies diesel price hike of Rs4/liter, kerosene price hike of Rs2/liter and LPG price increase of Rs50/cylinder in each of June and November 2011

Source: CEIC, Kotak Economic Research estimates

- ▶ **Weather-related uncertainties.** We would continue to keep a watch on the monsoons. The SW monsoon is crucial for India not only from the *kharif* point of view but it also fills up the reservoirs and is relevant for the *rabi* crops, too. The IMD has predicted the monsoons to remain normal at 98% of Long Period Average. However, there have been some recent indications that the La Nina phase is coming to an end. If the Southern Oscillation index goes into the El Nino phase, this is likely to lead to some risks for the monsoon. Even if the monsoons overall turn out to be good, the more important factors would be its spatial and timely distribution.

Indications for the onset of *El Nino* phase

Movement of El Nino Southern Oscillations Index, 2005-2011, (%)



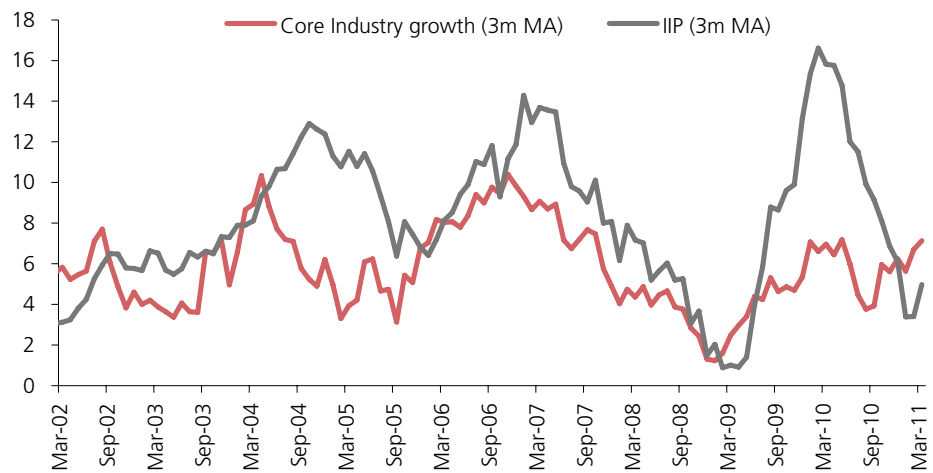
Source: Bloomberg, Kotak Economic Research

On the other hand, the tailwinds for growth could come in the form of:

- ▶ **Pause in the interest rate hiking cycle of the RBI.** This is expected to reduce the current uncertainty on interest rates and consumption demand going forward and is expected to start a revival process of shelved corporate expansion plans. This in effect will lead to a revival in the investment demand in the economy.
- ▶ **Core sector and IIP correlation to revive.** Core sector growth is seen to be closely correlated with the overall IIP growth. The core sector growth has been on a revival trend for some time now, but is yet to be associated with significant rise in the IIP. Some indications are already evident of a turn in the IIP growth. The logical reason for this correlation could be that the supply side bottlenecks to growth are seen to be removed as the core sector's growth moves higher. A visual glance at the Exhibit tends to indicate that the bottom for the IIP has already possibly been seen.

Core sector growth has recently seen a disconnect with overall IIP growth

Core industrial sector growth and overall IIP growth, March fiscal year-ends, (%)



Source: CEIC, Kotak Economic Research

- **Technical factors.** The next month would see the release of a new IIP series with 2004-05 as the base year. The new series is expected to be more representative of the current growth dynamics in the Indian economy and could provide for some upward bias in the Industrial production numbers. Further, in FY2011, the 1HFY11 was better in terms of industrial performance than 2HFY11. For FY2012E, this situation could be reversed and 2HFY12E is likely to be better in terms of industrial performance.

Kotak Institutional Equities: Valuation summary of key Indian companies

	31-May-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo	
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)	
Automobiles																														
Ashok Leyland	51	SELL	68,044	1,510	1,330	4.7	4.2	4.7	68.2	(10.8)	11.7	10.8	12.1	10.8	7.5	8.1	7.3	1.5	1.4	1.3	2.0	2.0	2.0	21.3	16.4	16.3	52	1.7	7.0	
Bajaj Auto	1,345	ADD	389,098	8,636	289	90.5	99.8	110.4	44.1	10.4	10.5	14.9	13.5	12.2	13.9	13.0	12.3	7.9	6.1	4.8	3.0	3.0	3.0	84.9	50.6	43.2	1,550	15.3	14.6	
Bharat Forge	320	ADD	75,877	1,684	237	11.9	18.3	23.0	1,236.7	54.0	25.6	26.9	17.5	13.9	11.9	8.8	7.3	3.4	2.8	2.4	1.1	—	—	7.8	14.6	16.7	355	11.0	2.5	
Exide Industries	160	ADD	135,915	3,016	850	7.3	8.8	10.8	15.4	20.1	23.4	21.9	18.3	14.8	15.4	12.9	10.6	5.0	4.0	3.3	0.8	0.8	0.8	25.0	24.4	24.5	175	9.4	5.5	
Hero Honda	1,855	REDUCE	370,394	8,220	200	99.3	108.5	127.6	(11.1)	9.2	17.5	18.7	17.1	14.5	12.2	9.1	7.5	7.9	8.2	7.8	5.7	3.8	3.8	56.5	62.5	60.8	1,722	(7.2)	24.7	
Mahindra & Mahindra	672	ADD	412,669	9,159	614	41.7	43.9	48.9	19.0	5.2	11.4	16.1	15.3	13.7	12.4	11.4	10.0	3.9	3.3	2.8	1.7	1.7	1.7	27.3	23.2	22.0	770	14.6	30.2	
Maruti Suzuki	1,230	BUY	355,403	7,888	289	79.2	94.4	110.4	(8.4)	19.2	17.0	15.5	13.0	11.1	9.9	8.2	6.3	2.5	2.1	1.8	0.4	0.5	0.5	17.6	17.8	17.7	1,730	40.6	13.2	
Tata Motors	1,095	ADD	728,375	16,165	665	136.0	134.2	146.0	636.4	(1.3)	8.7	8.1	8.2	7.5	5.6	5.8	5.2	3.8	2.7	2.0	1.8	1.3	1.3	66.1	38.7	31.0	1,290	17.8	64.0	
Automobiles																														
		Cautious	2,535,775	56,279					88.1	5.6	12.2	12.7	12.0	10.7	8.6	8.0	7.0	4.0	3.2	2.6	2.3	1.8	1.8	1.8	31.7	27.1	24.8			
Banks/Financial Institutions																														
Andhra Bank	143	BUY	80,188	1,780	560	22.6	23.7	27.9	5.0	4.7	17.6	6.3	6.0	5.1	—	—	—	1.2	1.1	0.9	3.8	4.0	4.7	23.2	19.0	19.5	190	32.6	2.8	
Axis Bank	1,283	BUY	526,530	11,686	411	82.5	99.3	123.4	33.0	20.3	24.3	15.5	12.9	10.4	—	—	—	2.8	2.4	2.0	1.1	1.3	1.6	19.3	19.8	20.8	1,700	32.6	51.2	
Bank of Baroda	864	BUY	339,363	7,532	393	108.0	116.4	139.6	29.1	7.8	19.9	8.0	7.4	6.2	—	—	—	1.7	1.4	1.2	1.9	2.1	2.5	25.3	21.1	21.3	1,250	44.7	9.3	
Bank of India	448	ADD	245,237	5,443	547	45.5	60.5	69.9	37.4	33.1	15.5	9.9	7.4	6.4	—	—	—	1.5	1.3	1.1	1.6	2.1	2.4	17.3	19.2	19.0	560	25.0	12.1	
Canara Bank	544	ADD	241,058	5,350	443	90.9	91.3	108.9	23.3	0.5	19.3	6.0	6.0	5.0	—	—	—	1.3	1.1	0.9	2.0	2.2	2.2	23.2	18.6	18.9	700	28.6	15.6	
Corporation Bank	544	ADD	80,561	1,788	148	95.4	96.1	114.1	16.4	0.7	18.7	5.7	5.7	4.8	—	—	—	1.1	1.0	0.8	3.7	3.6	4.2	21.9	18.5	19.0	700	28.7	1.0	
Federal Bank	444	BUY	75,921	1,685	171	34.3	44.9	57.0	26.3	31.0	26.7	12.9	9.9	7.8	—	—	—	1.5	1.4	1.2	1.9	2.5	3.2	12.0	14.3	16.2	500	12.7	4.5	
HDFC	684	REDUCE	1,003,433	22,270	1,467	24.1	27.9	31.8	22.4	15.9	14.1	28.4	24.5	21.5	—	—	—	5.8	5.1	3.9	1.3	1.5	1.8	21.7	22.2	21.4	745	8.9	43.9	
HDFC Bank	2,400	ADD	1,116,343	24,776	465	84.4	110.7	143.5	31.0	31.2	29.6	28.4	21.7	16.7	—	—	—	4.4	3.8	3.2	0.7	0.9	1.2	16.7	18.8	20.9	2,900	20.9	47.2	
ICICI Bank	1,086	ADD	1,250,992	27,764	1,152	44.7	58.2	69.0	23.9	30.1	18.7	24.3	18.7	15.7	—	—	—	2.3	2.1	1.9	1.3	1.6	1.9	9.7	11.8	12.9	1,300	19.7	98.8	
IDFC	142	ADD	214,164	4,753	1,506	8.8	10.5	12.9	4.8	19.4	22.9	16.2	13.6	11.0	—	—	—	2.1	1.7	1.5	1.1	1.4	1.7	14.7	13.8	14.7	170	19.5	22.6	
India Infoline	79	BUY	25,735	571	327	7.3	7.8	8.9	(9.8)	5.8	15.3	10.7	10.1	8.8	—	—	—	1.5	1.3	1.1	3.6	2.1	2.4	13.1	13.4	13.5	95	20.8	1.5	
Indian Bank	222	BUY	95,538	2,120	430	38.8	43.7	53.3	10.5	12.5	22.1	5.7	5.1	4.2	—	—	—	1.2	1.0	0.9	3.4	3.5	4.3	22.3	21.1	21.8	350	57.4	2.3	
Indian Overseas Bank	142	ADD	87,924	1,951	619	17.3	23.5	30.7	33.6	35.4	30.9	8.2	6.1	4.6	—	—	—	1.1	0.9	0.8	3.5	3.0	3.3	12.7	14.6	16.8	190	33.7	3.3	
IndusInd Bank	264	BUY	123,013	2,730	466	12.4	15.4	18.7	45.3	23.9	21.7	21.3	17.2	14.1	—	—	—	3.3	2.9	2.5	0.8	0.9	1.1	20.0	17.4	18.3	315	19.3	5.2	
J&K Bank	804	ADD	38,991	865	48	126.9	136.9	152.9	20.1	7.9	11.7	6.3	5.9	5.3	—	—	—	1.1	1.0	0.9	3.2	3.5	3.9	19.0	17.8	17.4	900	11.9	0.7	
LIC Housing Finance	231	ADD	109,618	2,433	475	20.5	22.4	27.6	47.2	9.0	23.3	11.2	10.3	8.4	—	—	—	2.7	2.2	1.8	1.9	2.1	2.6	25.8	23.3	24.0	270	17.0	37.2	
Mahindra & Mahindra Financial	641	ADD	65,661	1,457	102	45.2	61.9	70.9	26.0	36.9	14.6	14.2	10.4	9.0	—	—	—	2.7	2.3	1.9	1.6	2.1	2.4	22.0	23.3	22.5	925	44.3	2.6	
Oriental Bank of Commerce	352	ADD	102,787	2,281	292	51.5	56.8	65.8	13.7	10.3	15.8	6.8	6.2	5.4	—	—	—	1.0	0.9	0.8	2.9	3.2	3.8	15.5	14.2	14.8	450	27.7	5.7	
PFC	202	REDUCE	232,136	5,152	1,148	22.8	27.3	32.4	11.0	19.7	19.0	8.9	7.4	6.2	—	—	—	1.5	1.4	1.2	2.3	2.7	3.2	18.3	19.0	19.5	250	23.6	13.6	
Punjab National Bank	1,100	BUY	348,364	7,732	317	139.9	166.4	201.5	13.0	18.9	21.1	7.9	6.6	5.5	—	—	—	1.7	1.4	1.2	2.6	3.1	3.7	24.0	23.5	23.7	1,500	36.4	7.5	
Reliance Capital	501	ADD	123,412	2,739	246	9.3	16.5	24.6	(25.3)	77.0	49.6	53.9	30.4	20.3	—	—	—	1.8	1.7	1.6	0.7	1.3	2.0	3.3	5.7	8.2	600	19.7	32.5	
Rural Electrification Corp.	213	ADD	210,166	4,664	987	26.0	29.3	32.8	28.1	12.7	12.2	8.2	7.3	6.5	—	—	—	1.6	1.4	1.3	3.5	4.6	5.2	21.5	21.2	20.9	250	17.5	15.6	
Shriram Transport	703	REDUCE	156,901	3,482	223	55.1	65.5	77.2	40.8	18.8	17.9	12.8	10.7	9.1	—	—	—	3.2	2.7	2.3	1.6	1.9	2.2	28.1	26.7	25.8	750	6.7	13.7	
SKS Microfinance	359	REDUCE	26,454	587	74	15.7	(39.1)	3.9	(41.8)	(349.4)	(109.9)	22.9	(9.2)	92.6	—	—	—	1.5	1.7	1.7	—	—	—	8.3	(17.4)	1.9	350	(2.5)	5.7	
State Bank of India	2,298	BUY	1,470,688	32,640	640	129.1	212.3	264.6	(10.6)	64.4	24.6	17.8	10.8	8.7	—	—	—	2.3	1.9	1.6	1.3	1.4	1.5	12.6	19.3	20.3	3,100	34.9	146.2	
Union Bank	318	BUY	167,291	3,713	525	39.4	52.0	62.2	(4.0)	31.8	19.8	8.1	6.1	5.1	—	—	—	1.5	1.3	1.1	2.5	3.3	3.9	20.9	22.5	22.6	425	33.5	5.2	
Yes Bank	301	BUY	102,172	2,268	340	21.1	26.3	33.1	40.4	24.7	25.9	14.3	11.4	9.1	—	—	—	2.7	2.3	1.9	0.7	0.9	1.1	21.0	21.7	22.4	420	39.6	18.9	
Banks/Financial Institutions																														
		Attractive	8,660,642	192,213					19.6	24.4	21.8	14.3	11.5	9.4				2.3	2.0	1.7	1.5	1.8	2.1	15.9	17.2	17.9				
Cement																														
ACC	1,027	REDUCE	193,000	4,283	188	55.6	63.8	79.1	(33.2)	14.8	24.1	18.5	16.1	13.0	11.3	9.0	6.9	2.8	2.5	2.2	3.5	2.3	2.3	17.5	18.2	19.4	1,050	2.2	7.1	
Ambuja Cements	139	SELL	211,230	4,688	1,522	7.9	8.4	10.9	(1.5)	6.6	29.2	17.6	16.5	12.8	10.7	9.1	6.8	2.7	2.4	2.2	1.5	1.6	1.7	16.6	15.8	18.3	145	4.5	10.4	
Grasim Industries	2,303	BUY	211,162	4,687	92	233.3	277.7	319.7	(22.5)	19.0	15.1	9.9	8.3	7.2	6.3	4.7	3.8	1.5	1.3	1.1	1.5	1.5	1.5	15.8	16.3	16.3	3,100	34.6	6.1	
India Cements	84	REDUCE	25,941	576	307	2.2	8.3	10.8	(77.6)	270.2	29.5	37.6	10.2	7.8	11.7	6.2	4.4	0.6	0.6	0.6	3.8	3.8	3.8	1.8	6.4	8.0	92	8.9	1.8	
Shree Cement	1,819	REDUCE	63,351	1,406	35	57.2	137.4	155.1	(72.5)	140.4	12.9	31.8	13.2	11.7	7.1	5.0	4.1	3.3	2.8	2.										

Kotak Institutional Equities: Valuation summary of key Indian companies

	31-May-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo	
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)	
Consumer products																														
Asian Paints	3,133	REDUCE	300,555	6,670	96	80.8	94.6	111.4	13.0	17.1	17.7	38.8	33.1	28.1	25.9	21.1	17.3	14.7	11.3	9.1	1.0	0.9	1.1	43.9	40.0	36.8	2,900	(7.4)	8.5	
Colgate-Palmolive (India)	894	SELL	121,530	2,697	136	29.6	34.3	39.2	(4.9)	16.0	14.1	30.2	26.0	22.8	26.1	22.5	18.9	31.6	27.6	22.6	2.5	2.9	3.1	113.4	113.2	108.9	900	0.7	1.7	
Dabur India	118	ADD	203,589	4,518	1,731	3.3	3.7	4.3	13.4	11.8	16.5	35.8	32.0	27.5	28.1	23.0	19.9	15.7	12.1	9.6	1.0	1.1	1.3	51.5	43.3	39.5	110	(6.5)	4.9	
GlaxoSmithkline Consumer (a)	2,294	ADD	96,471	2,141	42	71.3	85.4	101.5	28.8	19.8	18.9	32.2	26.9	22.6	23.0	19.5	16.2	10.3	8.4	6.8	2.2	1.2	1.4	32.2	33.5	32.5	2,700	17.7	0.7	
Godrej Consumer Products	420	ADD	135,795	3,014	324	14.6	17.3	20.7	29.1	18.3	19.7	28.7	24.2	20.2	23.1	18.1	14.9	7.6	7.1	6.4	1.1	0.8	0.8	34.6	30.4	33.3	470	12.0	1.3	
Hindustan Unilever	305	ADD	657,656	14,596	2,159	9.6	11.3	13.4	2.1	17.7	17.9	31.7	26.9	22.8	26.0	22.3	18.2	25.0	21.4	18.3	2.5	3.0	3.6	80.6	85.8	86.5	340	11.6	14.0	
ITC	193	ADD	1,488,241	33,030	7,697	6.5	8.0	9.1	22.1	23.1	13.5	29.8	24.2	21.4	20.2	16.4	14.2	9.4	8.0	6.9	2.3	1.9	2.3	34.3	37.3	36.2	230	19.0	34.6	
Jubilant Foodworks	842	SELL	54,355	1,206	65	11.2	14.7	20.0	98.7	31.7	35.9	75.5	57.3	42.2	45.4	30.9	23.2	28.4	19.0	13.1	—	—	—	46.5	39.7	36.7	550	(34.7)	23.6	
Jyothy Laboratories	205	ADD	16,558	367	81	10.5	11.7	13.3	(5.0)	11.4	14.2	19.6	17.6	15.4	17.2	12.9	10.5	2.5	2.3	2.1	2.8	2.3	2.8	12.3	13.3	14.0	240	16.9	1.3	
Marico	150	ADD	91,672	2,035	612	4.2	5.5	6.5	10.9	29.4	18.6	35.5	27.4	23.1	23.7	18.8	15.8	9.8	7.6	6.1	0.5	0.6	0.8	32.8	31.8	29.5	160	6.7	1.1	
Nestle India (a)	4,059	REDUCE	391,380	8,686	96	86.8	104.6	123.9	16.7	20.5	18.4	46.8	38.8	32.8	31.1	25.3	20.9	45.8	33.0	24.8	1.2	1.5	1.8	116.5	98.7	86.3	3,500	(13.8)	2.8	
Tata Global Beverages	87	ADD	54,048	1,200	618	4.0	6.0	6.8	(34.6)	52.6	13.0	22.1	14.5	12.8	8.5	7.2	6.2	1.1	1.0	1.0	2.3	3.5	3.9	6.5	9.6	10.4	110	25.9	3.4	
Titan Industries	4,408	ADD	195,666	4,343	44	105.3	130.7	153.6	83.9	24.0	17.6	41.8	33.7	28.7	30.5	23.4	19.2	16.9	11.7	8.6	0.3	0.3	0.4	49.4	41.0	34.4	4,800	8.9	33.8	
United Spirits	1,061	ADD	133,218	2,957	126	29.5	39.2	50.6	8.3	32.8	29.0	35.9	27.0	21.0	17.6	13.5	11.6	3.1	2.8	2.5	0.3	0.2	0.4	9.1	10.7	12.5	1,300	22.6	8.7	
Consumer products		Cautious	3,940,734	87,460					15.9	21.4	16.3	33.0	27.2	23.4	22.9	18.7	15.8	10.3	8.8	7.6	1.8	1.8	2.1	31.3	32.5	32.4				
Constructions																														
IVRCL	73	BUY	19,492	433	267	7.0	8.9	12.6	(11.7)	28.1	40.7	10.5	8.2	5.8	7.1	6.0	4.9	1.0	0.9	0.8	0.5	0.5	0.5	9.6	11.2	13.9	125	71.2	6.1	
Nagarjuna Construction Co.	86	BUY	22,015	489	257	6.4	7.0	8.9	(10.7)	10.5	25.8	13.5	12.2	9.7	9.3	8.6	7.6	0.9	0.9	0.8	2.3	2.3	2.3	7.1	7.4	8.9	140	63.2	2.7	
Punj Lloyd	68	REDUCE	23,143	514	340	(1.5)	5.2	8.2	(56.6)	(449.2)	57.5	(45.9)	13.1	8.3	8.9	6.6	5.5	0.8	0.7	0.7	(0.1)	0.7	1.1	(1.7)	5.8	8.5	75	10.1	8.2	
Sadhav Engineering	144	BUY	21,525	478	150	8.0	10.0	12.1	55.1	25.4	21.1	18.0	14.4	11.9	10.9	8.9	7.5	3.4	2.8	2.3	0.4	0.4	0.4	18.6	19.2	19.0	190	32.4	0.6	
Construction		Attractive	86,174	1,913					22.5	77.9	37.1	20.6	11.6	8.4	8.7	7.2	6.0	1.1	1.0	0.9	0.8	1.0	1.1	5.2	8.6	10.7				
Energy																														
Aban Offshore	585	BUY	25,460	565	44	116.2	103.6	104.0	9.0	(10.8)	0.3	5.0	5.6	5.6	7.1	6.7	6.7	1.2	1.0	0.9	0.6	0.7	0.8	29.2	19.9	16.5	775	32.4	14.9	
Bharat Petroleum	633	ADD	228,855	5,079	362	45.7	41.7	54.1	(20.7)	(8.7)	29.7	13.9	15.2	11.7	9.8	9.2	7.3	1.5	1.4	1.3	2.2	2.2	2.8	10.8	9.2	11.1	735	16.1	9.2	
Cairn India	339	REDUCE	644,561	14,305	1,902	33.3	61.8	63.1	501.1	85.6	2.0	10.2	5.5	5.4	7.4	4.0	3.4	1.6	1.3	1.2	—	1.5	5.9	16.9	25.9	22.7	340	0.3	60.9	
Castrol India (a)	496	SELL	122,713	2,723	247	19.8	20.7	21.3	28.7	4.6	2.7	25.0	23.9	23.3	15.9	15.7	15.1	23.8	21.8	20.6	3.0	3.2	3.4	100.5	95.0	90.9	385	(22.4)	1.6	
GAIL (India)	445	ADD	564,220	12,522	1,268	28.1	34.3	35.0	13.4	22.3	1.8	15.8	13.0	12.7	9.9	9.2	8.7	2.7	2.3	2.0	1.7	2.0	2.1	17.4	18.3	16.0	525	18.0	11.6	
GSPL	101	REDUCE	56,849	1,262	563	9.0	8.1	9.0	23.1	(10.3)	11.9	11.2	12.5	11.2	7.1	7.3	6.7	2.5	2.1	1.8	1.0	1.6	2.7	25.5	18.2	17.4	92	(9.0)	2.5	
Hindustan Petroleum	381	ADD	128,993	2,863	339	45.7	29.2	39.3	(11.4)	(36.0)	34.6	8.3	13.0	9.7	3.3	3.8	3.1	0.8	0.8	0.7	3.7	2.4	3.2	10.1	5.8	7.4	455	19.6	7.8	
Indian Oil Corporation	328	ADD	797,096	17,691	2,428	31.8	30.3	35.1	(35.4)	(4.7)	15.9	10.3	10.9	9.4	8.1	7.8	6.1	1.4	1.3	1.2	2.9	2.8	3.3	12.9	11.5	12.2	410	24.9	5.3	
Oil India	1,285	ADD	308,936	6,856	240	120.1	141.1	147.7	4.3	17.5	4.7	10.7	9.1	8.7	4.4	3.6	3.1	1.8	1.6	1.5	2.9	3.5	3.7	16.2	16.9	15.8	1,515	17.9	2.2	
Oil & Natural Gas Corporation	281	BUY	2,404,537	53,366	8,556	25.2	31.2	31.4	9.9	23.7	0.7	11.1	9.0	8.9	4.2	3.8	3.4	1.6	1.5	1.3	3.1	3.2	3.6	14.7	16.4	14.7	340	21.0	30.6	
Petronet LNG	136	SELL	102,338	2,271	750	8.1	9.3	9.5	50.5	15.0	1.8	16.8	14.6	14.4	10.0	9.0	9.3	3.4	2.9	2.5	1.5	2.2	2.2	20.9	20.2	17.7	105	(23.0)	4.9	
Reliance Industries	952	REDUCE	2,834,609	62,911	2,978	62.0	68.5	73.1	24.8	10.5	6.7	15.4	13.9	13.0	8.2	7.3	6.5	1.7	1.5	1.4	0.8	0.9	1.1	13.0	12.9	12.3	1,100	15.6	96.8	
Energy		Cautious	8,219,165	182,415					12.6	19.0	5.2	12.1	10.2	9.7	6.5	5.7	5.0	1.7	1.5	1.4	1.9	2.1	2.7	14.0	14.7	14.0				
Industrials																														
ABB	864	SELL	183,174	4,065	212	3.0	21.1	27.3	(82.2)	606.1	29.6	289.7	41.0	31.7	211.5	27.7	20.8	7.6	6.6	5.6	0.2	0.4	0.4	2.6	17.1	19.1	700	(19.0)	2.3	
BGR Energy Systems	489	REDUCE	35,307	784	72	44.8	45.8	46.9	60.0	2.2	2.6	10.9	10.7	10.4	7.0	6.3	5.8	3.7	2.9	2.4	1.8	1.9	1.9	39.0	30.6	25.4	470	(3.9)	7.5	
Bharat Electronics	1,661	REDUCE	132,916	2,950	80	102.9	120.8	133.9	7.0	17.4	10.8	16.1	13.8	12.4	9.9	7.3	6.2	2.6	2.3	2.0	1.5	1.5	1.5	17.2	17.7	17.2	2,000	20.4	1.0	
Bharat Heavy Electricals	1,943	REDUCE	951,211	21,111	490	122.8	134.6	150.1	39.7	9.6	11.5	15.8	14.4	12.9	10.6	9.5	8.1	4.7	3.8	3.1	1.4	1.5	1.7	33.3	29.1	26.4	2,275	17.1	40.3	
Crompton Greaves	264	BUY	169,484	3,762	642	14.3	15.8	18.4	11.5	10.1	16.6	18.4	16.7	14.4	12.2	10.1	8.2	5.2	4.1	3.3	0.7	0.8	0.9	31.7	27.2	25.4	310	17.3	8.2	
Larsen & Toubro	1,642	ADD	993,950	22,060	605	68.9	83.7	102.4	18.9	21.4	22.4	23.8	19.6	16.0	15.9	11.6	9.8	3.8	3.1	2.7	0.7	0.9	0.9	17.2	17.4	17.9	1,875	14.2	74.6	
Maharashtra Seamless	358	ADD	25,250	560	71	46.6	42.4	47.2	20.6	(9.0)	11.4	7.7	8.4	7.6	3.8	3.9	3.2	1.0	0.9	0.8	2.3	2.4	2.6	13.4	11.2	11.6	418	16.8	0.3	
Siemens	874	REDUCE	294,610	6,539	337	22.4	31.7	33.6	39.5	41.3	5.9	38.9	27.5	26.0	23.0	17.5	16.2	9.1	7.2	6.0	0.6	0.7	0.8	25.2	29.3	25.2	860	(1.6)	12.3	
Suzlon Energy	54	REDUCE	85,902	1,906	1,194	(6.0)	(0.0)	4.6	(2.8)	(99.9)	(62,927.5)	(9.0)	(7,406.9)	11.8	31.1	10.1	6.7	1.3	1.4	1.3	—	—	0.4	(14.4)	(0.0)	11.1	55	2.0	27.7	
Thermax	605	REDUCE	72,056																											

Kotak Institutional Equities: Valuation summary of key Indian companies

	31-May-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)
Media																													
DB Corp	240	BUY	43,524	966	182	14.2	14.6	17.5	33.5	2.8	19.8	16.9	16.4	13.7	10.8	9.8	8.2	5.3	4.5	4.1	1.7	2.5	4.2	35.1	29.8	31.4	320	33.6	0.3
DishTV	78	ADD	83,322	1,849	1,062	(1.8)	(0.0)	1.2	(27.5)	(97.2)	(2,583.4)	(43.8)	(1,576.6)	63.5	38.8	18.2	12.2	39.6	40.7	24.8	—	—	—	(62.3)	(2.5)	48.5	85	8.3	4.3
Eros International	149	BUY	13,781	306	93	12.7	16.2	20.3	31.4	28.1	24.7	11.7	9.1	7.3	8.5	6.9	5.1	2.0	1.6	1.3	—	—	—	25.0	19.4	19.7	230	54.8	0.5
Hindustan Media Ventures	146	BUY	10,732	238	73	7.3	9.0	12.0	198.7	22.7	33.9	20.0	16.3	12.2	9.8	8.6	6.2	2.7	2.3	2.0	—	—	2.1	22.3	15.1	17.5	200	36.8	0.2
HT Media	161	ADD	37,788	839	235	7.7	8.6	11.3	26.3	11.5	31.2	20.9	18.7	14.3	10.0	8.6	6.7	2.7	2.5	2.3	1.2	2.5	3.7	15.0	13.9	17.1	170	5.7	0.4
Jagran Prakashan	129	BUY	38,878	863	301	6.8	7.6	8.9	17.2	11.1	17.1	18.9	17.0	14.5	10.9	9.8	8.3	5.6	5.0	4.4	2.7	3.1	3.9	31.5	30.9	32.3	170	31.7	0.3
Sun TV Network	390	ADD	153,711	3,411	394	19.6	22.5	26.7	48.5	14.8	18.8	19.9	17.3	14.6	12.0	10.4	8.7	6.4	5.6	5.0	2.2	3.1	4.1	36.6	35.9	37.6	480	23.1	2.6
Zee Entertainment Enterprises	137	BUY	134,134	2,977	978	5.7	7.1	8.4	7.3	24.9	18.5	24.0	19.3	16.2	16.4	12.5	10.4	3.2	3.1	3.0	1.0	1.1	1.3	13.8	16.4	18.8	180	31.3	6.1
Media		Neutral	515,870	11,449					49.8	27.3	25.9	26.4	20.7	16.4	14.1	11.3	9.1	4.7	4.3	3.9	1.4	1.8	2.5	18.0	20.9	24.0			
Metals & Mining																													
Coal India	408	BUY	2,579,919	57,258	6,316	17.3	24.5	28.6	13.6	41.7	16.8	23.6	16.7	14.3	14.4	11.2	9.2	7.4	5.8	4.6	1.3	1.8	2.1	35.1	38.9	35.8	460	12.6	40.4
Hindalco Industries	197	ADD	377,728	8,383	1,914	12.8	18.2	18.6	(36.0)	42.7	2.1	15.4	10.8	10.6	7.8	7.2	7.5	1.3	1.2	1.1	0.8	0.8	0.8	9.7	11.4	10.5	235	19.1	34.2
Hindustan Zinc	139	BUY	585,374	12,992	4,225	11.6	14.6	16.0	21.8	25.1	9.5	11.9	9.5	8.7	7.7	5.1	4.0	2.5	2.0	1.6	0.7	0.7	0.7	24.2	24.3	21.5	170	22.7	6.2
Jindal Steel and Power	649	REDUCE	606,548	13,462	934	40.2	51.3	58.6	5.1	27.6	14.2	16.2	12.7	11.1	11.6	9.3	8.6	4.0	3.0	2.4	0.3	0.3	0.3	30.8	29.3	25.7	700	7.8	18.0
JSW Steel	976	REDUCE	242,314	5,378	248	78.6	87.4	113.7	(2.2)	11.2	30.0	12.4	11.2	8.6	7.8	5.8	5.4	1.3	1.0	0.9	1.1	0.9	0.9	11.9	10.3	11.4	990	1.4	32.4
National Aluminium Co.	91	SELL	235,431	5,225	2,577	4.1	5.0	5.3	36.3	20.5	6.0	22.0	18.3	17.2	12.1	9.5	8.6	2.1	2.0	1.8	1.6	1.6	1.6	9.9	11.1	11.0	76	(16.8)	1.7
Sesa Goa	290	REDUCE	257,925	5,724	890	47.5	41.9	36.7	60.6	(11.8)	(12.3)	6.1	6.9	7.9	3.1	4.8	5.2	2.0	1.6	1.3	1.4	1.4	1.4	36.6	23.2	17.2	305	5.2	22.7
Sterilite Industries	172	BUY	576,524	12,795	3,362	15.2	21.3	24.4	26.2	40.2	14.8	11.3	8.1	7.0	7.5	4.7	3.8	1.4	1.2	1.0	0.7	0.7	0.7	13.0	15.9	15.7	220	28.3	18.6
Tata Steel	589	BUY	572,160	12,698	971	76.0	70.8	85.8	(2,278.5)	(6.9)	21.2	7.7	8.3	6.9	6.7	6.3	5.4	1.6	1.4	1.2	2.0	—	—	24.9	17.8	18.4	750	27.3	58.4
Metals & Mining		Attractive	6,033,923	133,916					39.3	23.2	13.1	14.5	11.8	10.4	9.0	7.3	6.4	2.7	2.3	1.9	1.1	1.1	1.3	18.6	19.1	18.2			
Pharmaceutical																													
Apollo Hospitals	495	BUY	65,453	1,453	132	13.9	17.6	21.8	27.0	26.9	23.5	35.6	28.0	22.7	16.4	12.8	10.8	3.6	3.1	2.7	—	—	—	10.0	11.4	12.2	565	14.2	0.9
Biocon	354	BUY	70,730	1,570	200	18.4	21.6	24.2	23.8	17.4	12.3	19.2	16.4	14.6	11.1	9.5	8.4	3.4	2.9	2.5	—	—	—	19.4	19.4	18.7	480	35.7	3.2
Cipla	326	REDUCE	261,793	5,810	803	12.1	16.3	18.8	(12.0)	35.4	15.4	27.0	20.0	17.3	21.9	15.6	13.0	3.9	3.4	2.9	0.8	0.8	0.8	15.4	18.2	—	330	1.2	9.2
Cadila Healthcare	920	BUY	188,410	4,182	205	34.7	42.2	51.7	40.6	21.4	22.7	26.5	21.8	17.8	22.8	17.0	13.6	8.7	6.7	5.2	0.7	0.9	1.1	37.5	34.5	32.8	1,130	22.8	1.9
Dishman Pharma & chemicals	98	SELL	7,934	176	81	9.8	8.0	9.4	(31.8)	(18.7)	17.2	9.9	12.2	10.4	10.0	7.7	6.8	0.9	0.9	0.8	—	—	—	9.6	7.2	7.9	95	(2.6)	0.3
Divi's Laboratories	776	BUY	102,882	2,283	133	32.4	40.3	46.2	25.7	24.4	14.7	24.0	19.3	16.8	19.6	14.5	12.4	5.7	4.8	4.1	—	—	—	25.9	27.1	26.2	900	16.0	5.1
GlaxoSmithkline Pharmaceuticals (a)	2,322	REDUCE	196,638	4,364	85	68.3	80.2	91.8	15.5	17.5	14.4	34.0	28.9	25.3	22.9	19.7	16.8	10.1	9.2	8.4	—	—	—	30.9	33.3	34.7	2,300	(0.9)	1.7
Glenmark Pharmaceuticals	307	REDUCE	86,055	1,910	280	17.6	20.6	25.9	38.3	17.3	25.9	17.5	14.9	11.8	15.5	12.3	10.1	3.1	2.6	2.2	—	—	—	18.4	18.2	19.3	330	7.4	5.4
Jubilant Life Sciences	161	REDUCE	25,671	570	159	14.4	16.4	19.3	(45.6)	13.7	17.4	11.2	9.8	8.4	9.9	8.2	7.5	1.2	1.1	1.0	1.2	1.6	2.2	12.3	11.5	12.2	195	21.0	0.6
Lupin	470	ADD	209,669	4,653	446	19.3	20.4	25.2	26.1	5.6	23.3	24.3	23.0	18.7	20.4	16.8	13.7	6.3	5.1	4.2	0.6	0.7	0.9	29.5	25.0	25.2	500	6.4	9.8
Ranbaxy Laboratories	552	SELL	236,434	5,247	428	23.4	20.3	21.9	231.8	(13.3)	7.6	23.5	27.2	25.2	17.2	18.1	17.2	4.3	3.7	3.2	—	—	—	19.5	13.9	13.0	365	(33.9)	12.0
Sun Pharmaceuticals	477	ADD	494,447	10,974	1,036	17.5	19.5	22.7	34.4	10.9	16.6	27.2	24.5	21.1	23.1	19.6	16.2	4.8	4.1	3.5	0.7	0.8	1.0	22.9	19.6	19.6	515	7.9	10.1
Pharmaceuticals		Cautious	2,297,558	50,992					20.3	14.2	3.3	25.9	22.7	22.0	17.9	14.7	14.4	3.8	3.3	3.1	0.5	0.5	0.6	14.7	14.4	14.1			
Property																													
DLF	239	ADD	409,697	9,093	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	26.3	20.1	15.2	17.0	13.4	10.2	1.6	1.5	1.4	0.8	1.0	1.2	5.4	7.5	9.2	270	13.0	32.4
Housing Development & Infrastructure	168	ADD	74,155	1,646	441	19.8	28.9	34.6	24.3	46.0	19.7	8.5	5.8	4.9	10.4	5.3	4.4	0.8	0.7	0.6	—	1—	1—	10.0	12.4	12.8	190	13.0	21.2
Indiabulls Real Estate	117	RS	47,203	1,048	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	29.5	13.8	7.6	18.6	15.2	6.7	0.4	0.4	0.4	—	—	—	0.6	1.4	2.9	5.0	—	12.0
Mahindra Life Space Developer	371	ADD	15,152	336	41	25.0	29.7	37.2	30.3	18.9	25.4	14.9	12.5	10.0	11.5	8.2	5.9	1.5	1.3	1.2	1.3	1.2	1.3	10.4	11.2	12.7	470	26.6	0.2
Oberoi Realty	224	BUY	73,814	1,638	330	15.7	20.0	28.0	14.7	27.6	39.7	14.3	11.2	8.0	10.4	7.2	4.4	2.2	1.9	1.6	0.4	0.7	1.1	19.9	18.2	21.3	315	40.7	0.3
Phoenix Mills	188	BUY	27,202	604	145	6.3	7.5	10.7	52.5	18.4	43.8	29.8	25.1	17.5	21.7	18.0	13.3	1.7	1.6	1.5	0.8	1.1	1.1	5.8	6.6	8.9	300	59.7	0.6
Puravankara Projects	97	REDUCE	20,681	459	213	5.5	9.1	11.2	(18.9)	65.2	22.4	17.5	10.6	8.7	21.5	10.9	9.0	1.4	1.2	1.1	1.0	1.5	2.1	8.0	12.1	13.4	110	13.5	0.2
Sobha Developers	272	BUY	26,639	591	98	18.7	23.4	27.7	33.0	25.0	18.5	14.5	11.6	9.8	12.2	9.4	7.5	1.4	1.3	1.1	1.1	1.3	—	10.1	11.6	12.3	385	41.7	1.8
Unitech	35	RS	94,520	2,098	2,666	2.3	3.9	5.3	(23.4)	69.1	35.2	15.3	9.0	6.7	16.1	9.2	6.1	0.8	0.7	0.7	—	—	—	5.4	8.4	10.3	—	—	28.9
Property		Cautious	789,064	17,512					5.1	44.6	33.1	19.1	13.2	9.9	15.3	10.6	7.7	1.1	1.1	1.0	0.6	0.8	1.0	6.0	8.0	9.7			

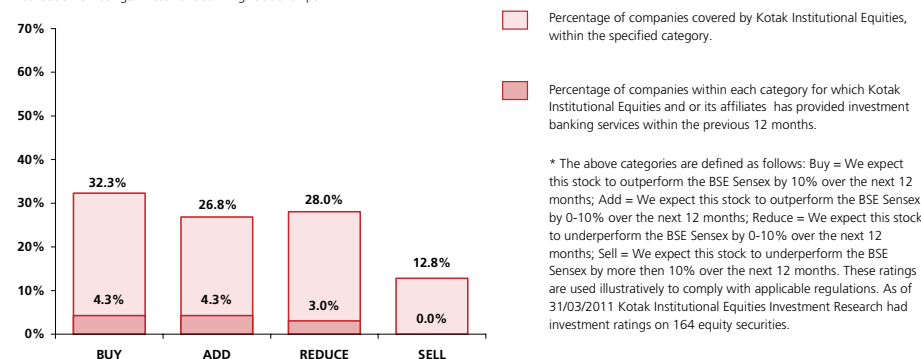
Kotak Institutional Equities: Valuation summary of key Indian companies

	31-May-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	price	(%)	(US\$ mn)
Sugar																													
Bajaj Hindustan	68	SELL	15,451	343	228	(8.0)	(1.2)	2.1	(348.8)	(85.6)	(282.4)	(8.4)	(58.5)	32.0	18.5	7.6	6.3	0.5	0.5	0.5	0.9	0.9	0.9	(6.0)	(0.9)	1.6	80	18.3	2.2
Balrampur Chini Mills	62	ADD	15,893	353	257	0.8	8.3	8.4	(89.9)	974.0	1.0	79.9	7.4	7.4	11.3	4.9	3.9	1.2	1.0	0.9	0.7	0.7	0.7	1.5	14.8	13.1	90	45.4	1.9
Shree Renuka Sugars	62	REDUCE	41,796	928	670	10.5	4.3	5.9	214.4	(59.5)	37.9	5.9	14.7	10.6	4.2	2.9	2.1	1.6	1.4	1.2	1.6	1.6	1.6	34.4	11.1	13.8	75	20.2	8.4
Sugar		Cautious	73,140	1,623					18.4	(17.0)	39.1	12.8	15.5	11.1	8.3	4.5	3.4	1.1	0.9	0.9	1.3	1.3	1.3	8.3	6.1	7.7			
Technology																													
HCL Technologies	515	REDUCE	362,934	8,055	705	23.1	30.8	36.4	31.9	33.4	18.1	22.3	16.7	14.1	13.6	10.4	8.7	4.6	3.9	3.3	1.4	1.6	1.6	22.1	25.4	25.5	490	(4.8)	10.3
Hexaware Technologies	68	BUY	19,657	436	291	3.0	6.6	7.4	(36.5)	122.6	11.3	22.7	10.2	9.2	17.4	7.8	6.3	2.0	1.8	1.5	2.2	1.9	2.2	9.4	18.5	17.9	80	18.4	2.6
Infosys Technologies	2,786	BUY	1,598,963	35,487	574	119.7	144.8	172.6	10.5	20.9	19.2	23.3	19.2	16.1	15.9	12.9	10.6	6.2	5.1	4.2	2.1	1.6	1.9	28.0	29.0	28.7	3,450	23.8	106.1
Mahindra Satyam	85	REDUCE	99,960	2,218	1,176	4.2	4.9	6.1	68.9	17.0	23.2	20.2	17.3	14.0	16.0	9.1	7.1	5.8	4.3	3.3	—	—	—	27.6	28.8	26.9	80	(5.9)	11.6
Mindtree	355	REDUCE	14,614	324	41	24.7	33.9	38.6	(52.7)	37.3	14.0	14.4	10.5	9.2	8.0	6.0	4.9	1.9	1.6	1.5	0.7	1.0	3.3	14.4	16.6	16.7	370	4.2	0.4
Mphasis BFL	468	SELL	98,681	2,190	211	51.8	36.6	36.0	18.8	(29.2)	(1.7)	9.0	12.8	13.0	7.7	9.7	8.5	3.0	2.5	2.1	0.9	1.0	1.1	38.6	21.3	17.7	360	(23.1)	8.6
Polaris Software Lab	191	SELL	18,998	422	100	19.3	18.9	20.9	25.7	(2.2)	10.8	9.9	10.1	9.1	6.5	5.3	4.7	1.8	1.6	1.4	1.9	2.0	2.2	20.2	16.9	16.4	175	(8.2)	4.2
TCS	1,157	BUY	2,264,774	50,264	1,957	44.4	54.2	63.1	26.3	22.2	16.5	26.1	21.4	18.3	19.7	15.4	13.0	9.0	7.3	6.0	1.5	1.9	2.2	37.6	37.8	36.2	1,350	16.7	44.5
Tech Mahindra	678	REDUCE	85,403	1,895	126	48.8	66.3	70.8	(25.2)	36.0	6.7	13.9	10.2	9.6	9.5	9.1	8.5	2.5	2.2	1.9	0.6	0.6	1.5	20.5	23.9	22.3	665	(1.9)	5.2
Wipro	446	ADD	1,095,466	24,313	2,454	21.6	24.2	27.5	14.5	11.9	13.8	20.7	18.5	16.2	15.4	13.0	11.0	4.6	3.8	3.2	1.0	1.1	1.4	24.3	22.5	21.6	525	17.6	12.6
Technology		Attractive	5,722,518	127,005					16.9	17.8	15.9	22.2	18.8	16.2	16.0	13.1	11.0	5.9	4.9	4.1	1.7	1.6	1.8	26.4	25.8	25.1			
Telecom																													
Bharti Airtel	374	REDUCE	1,420,872	31,535	3,798	15.9	19.7	24.5	(32.6)	23.9	24.1	23.5	19.0	15.3	10.2	7.8	6.4	2.9	2.5	2.2	—	—	—	13.3	14.3	15.3	345	(7.8)	35.3
IDEA	69	REDUCE	226,531	5,028	3,300	2.4	1.2	2.6	(11.2)	(48.9)	107.7	28.3	55.3	26.6	9.6	8.3	6.7	1.9	1.8	1.7	—	—	—	6.9	3.5	6.8	55	(19.9)	4.6
MTNL	45	SELL	28,602	635	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(4.4)	(5.0)	(5.4)	(0.3)	(0.4)	(0.5)	0.3	0.3	0.3	—	—	—	(6.1)	(5.7)	(5.5)	35	(22.9)	1.1
Reliance Communications	90	SELL	190,861	4,236	2,133	6.3	7.1	9.7	(68.0)	12.0	37.6	14.2	12.7	9.2	5.6	5.9	5.0	0.5	0.5	0.5	—	—	—	3.4	4.1	5.4	95	6.1	22.9
Tata Communications	215	REDUCE	61,247	1,359	285	15.2	15.7	15.9	8.2	3.5	1.5	14.2	13.7	13.5	6.6	6.2	5.9	0.8	0.8	0.8	3.5	4.0	4.2	5.5	5.5	5.4	205	(4.6)	2.0
Telecom		Cautious	1,928,112	42,792					(43.0)	16.7	30.9	24.2	20.7	15.8	9.0	7.6	6.2	1.7	1.6	1.4	0.1	0.1	0.1	7.0	7.5	9.0			
Utilities																													
Adani Power	116	REDUCE	252,008	5,593	2,180	2.4	15.2	16.8	200.4	544.8	10.5	49.1	7.6	6.9	34.2	6.6	4.9	4.0	2.6	1.9	—	—	—	8.5	41.6	32.0	120	3.8	2.5
CESC	279	BUY	34,832	773	125	37.7	42.5	51.3	9.1	12.7	20.8	7.4	6.6	5.4	5.4	5.8	5.5	0.7	0.7	0.6	1.8	1.9	2.2	10.5	10.7	11.5	440	57.8	0.6
JSW Energy	70	SELL	114,882	2,550	1,640	5.1	7.6	5.9	12.9	47.6	(22.0)	13.6	9.2	11.8	14.0	6.6	6.0	2.0	1.7	1.5	—	—	—	16.2	19.9	13.2	70	(0.1)	2.2
Lanco Infratech	34	BUY	75,471	1,675	2,223	2.0	4.0	4.6	(5.8)	97.6	15.9	16.9	8.6	7.4	11.8	8.8	7.9	1.9	1.5	1.2	—	—	—	12.2	19.6	18.3	54	59.1	7.7
NHPC	25	BUY	306,288	6,798	12,301	1.3	1.9	2.3	(27.2)	39.6	20.8	18.5	13.2	10.9	13.4	9.2	7.4	1.1	1.1	1.0	1.7	2.0	2.5	6.3	8.2	9.4	30	20.5	2.9
NTPC	168	REDUCE	1,387,299	30,790	8,245	11.0	11.9	12.7	5.3	7.4	6.8	15.2	14.2	13.3	12.6	11.7	10.9	2.0	1.8	1.7	2.3	2.1	2.3	13.7	13.5	13.3	200	18.9	9.1
Reliance Infrastructure	569	BUY	152,204	3,378	267	58.0	66.6	73.3	(6.5)	14.8	10.0	9.8	8.5	7.8	9.9	5.5	4.2	0.6	0.6	0.6	1.6	1.8	2.0	6.4	10.5	11.5	975	71.3	27.8
Reliance Power	118	SELL	330,999	7,346	2,805	2.7	3.8	3.1	(5.0)	40.1	(17.9)	43.5	31.1	37.9	252.2	107.2	17.7	2.0	1.9	1.8	—	—	—	4.9	6.3	4.9	110	(6.8)	9.7
Tata Power	1,232	ADD	304,051	6,748	247	76.4	96.1	110.4	20.2	25.7	15.0	16.1	12.8	11.2	12.2	10.5	8.3	2.1	1.9	1.6	1.1	1.2	1.4	13.9	15.4	15.6	1,480	20.1	8.2
Utilities		Cautious	2,958,034	65,650					5.0	35.0	7.8	17.2	12.7	11.8	15.5	10.9	8.9	1.7	1.6	1.4	1.4	1.4	1.6	10.1	12.3	12.0			
Others																													
Carborundum Universal	263	BUY	24,515	544	93	17.8	18.0	22.1	62.9	1.3	23.1	14.8	14.6	11.9	9.4	8.5	7.1	3.0	2.6	2.2	1.4	1.4	1.8	21.4	20.0	20.9	300	14.2	0.2
Havells India	409	ADD	51,089	1,134	125	22.8	28.9	32.0	270.5	27.1	10.7	18.0	14.2	12.8	11.7	9.3	8.1	7.5	5.0	3.7	0.6	0.7	0.7	51.3	42.6	33.4	450	9.9	3.3
Jaiprakash Associates	87	BUY	191,651	4,253	2,214	5.5	5.8	5.8	214.7	5.2	(0.3)	15.7	14.9	15.0	11.7	10.0	9.7	1.9	1.7	1.6	—	—	—	13.2	12.3	11.1	135	56.0	28.0
Jet Airways	447	BUY	38,559	856	86	(10.1)	31.6	70.8	(85.6)	(414)	124.2	(44.4)	14.1	6.3	8.9	7.4	5.8	2.2	1.9	1.5	—	—	—	(5.0)	14.6	26.5	650	45.5	12.6
Sintex	192	SELL	52,333	1,161	272	17.0	19.2	20.3	40.2	13.4	5.7	11.3	10.0	9.5	8.7	7.7	6.8	2.0	1.7	1.4	0.7	0.7	0.8	17.9	16.9	15.1	170	(11.6)	6.6
SpiceJet	41	BUY	16,402	364	403	2.4	3.2	4.6	(4.2)	32.1	41.6	16.7	12.7	8.9	12.4	12.5	8.5	5.3	3.7	2.6	—	—	—	(653)	34.4	34.4	65	59.7	2.9
Tata Chemicals	381	REDUCE	97,151	2,156	255	26.1	32.6	38.6	(1.3)	25.1	18.2	14.6	11.7	9.9	8.4	6.1	5.2	1.8	1.6	1.4	2.6	3.1	3.9	16.9	18.5	19.5	380	(0.4)	3.5
United Phosphorus	162	BUY	74,855	1,661	462	12.4	17.5	20.3	4.0	41.5	15.9	13.1	9.3	8.0	7.8	5.3	4.6	2.0	1.7	1.5	1.2	1.8	2.2	17.9	19.7	19.5	220	35.6	4.6
Others			546,557	12,130					124.6	25.9	17.7	15.7	12.5	10.6	10.1	8.3	7.5	2.2	1.9	1.6	0.8	1.0	1.2	13.7	15.1	15.3			
KS universe (b)			49,010,179	1,087,725					17.8	21.7	14.7	16.7	13.7	12.0	10.5	8.7	7.5	2.6	2.2	2.0	1.4	1.5	1.7	15.4	16.4	16.5			
KS universe (b) ex-Energy			40,791,013	905,310					19.5	22.6	17.4	18.1	14.7	12.6	12.3	9.9	8.4	2.9	2.5	2.2	1.3	1.4	1.6	15.9	16.9	17.3			
KS universe (d) ex-Energy & ex-Commodities			33,771,351	749,517					17.8	21.9	18.3	18.9	15.5	13.1	13.7	11.0	9.2	2.9	2.6	2.2	1.4	1.4	1.6	15.5	16.6	17.1			

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Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2011

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

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