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Updates

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News Round-up

- ▶ Oil cos. plan to raise petrol & diesel prices by INR 2 a litre after a week as crude touches a two-year high of USD 90 a barrel, a move that will boost the finances of state run firms but stoke inflation. *(ECNT)*
- ▶ PNB (PNB IN) increased its retail deposit rates by 50-100 basis points. With this, the bank's peak rate for deposits of less than USD 2.22 mn will be 8.5%. The public sector bank which also increased its benchmark prime lending rate by 75 basis points to 12.50 %, said the new rates would be effective from tomorrow. *(BSTD)*
- ▶ ONGC (ONGC IN) board will consider giving special dividend & bonus shares & split its shares into two, ahead of its public offering on Dec. 16. *(ECNT)*
- ▶ Reliance (RIL IN) begins property sales at Navi Mumbai SEZ. The first phase of the Navi Mumbai airport is set to be operational by 2015, with an initial investment of USD 889 mn. *(BSTD)*
- ▶ RCom (RCOM IN), Tata get more GSM customers than CDMA. The total number of GSM subscribers of RCOM and Tata Teleservices (TTLS IN) by September-end was 41.2 mn and 38.1 mn, respectively. Their CDMA base was 55.28 mn and 40.9 mn, respectively. *(BSTD)*
- ▶ BHEL (BHEL IN) adopts strategy to venture into newer areas. BHEL and Toshiba Corporation have signed a MoU to explore the possibility of a JV for a transmission and distribution business in India and other countries, while with GE India, BHEL has joined hands for water treatment equipment. *(BSTD)*
- ▶ CESC (CESC IN) has diversified into hydro-electric power generation and is setting up a 90 Mw unit in west Siang district of Arunachal Pradesh at an investment of USD 140 mn. The project is expected to be commissioned by 2015-16. *(BSTD)*
- ▶ Jindal Steel and Power (JSP IN) said its 1.5 mn tonne capacity newly acquired steel plant in Oman has begun production nearly four months ahead of schedule. *(FNLE)*
- ▶ SAIL (SAIL IN) follow-on public offer likely by February. *(FNLE)*
- ▶ Jet Airways (JETIN IN) & Air India are leasing 35 Airbus aircraft in a deal valued at USD 5bn, signaling a boom in aviation business. *(ECNT)*
- ▶ NTPC (NATP IN) is interested in picking up 74% stake in West Bengal gov't.'s proposed USD 3.55bn greenfield Katwa power project in Burdwan district. *(ECNT)*
- ▶ L&T Power Ltd a subsidiary of L&T Ltd (LT IN) which manufacturers power equipment said that its current order book stands at USD 6.66 bn spread over four years. *(THBL)*
- ▶ Gail (GAIL IN) unveils bond issue, gets bids for USD 222.22mn. *(ECNT)*
- ▶ Bajaj Hindustan (BJHS IN) pledges 9.6% stake with IL&FS, Kotak Mahindra Prime at the end of last month. *(ECNT)*

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

EQUITY MARKETS

India	Change %			
	7-Dec	1-day	1-mo	3-mo
Sensex	19,935	(0.2)	(5.1)	#N/A
Nifty	5,977	(0.3)	(5.3)	6.6
Global/Regional indices				
Dow Jones	11,359	(0.0)	(0.7)	9.8
Nasdaq Composite	2,598	0.1	0.8	17.6
FTSE	5,808	0.7	(1.1)	7.4
Nikkie	10,213	0.7	4.9	13.2
Hang Seng	23,363	(0.3)	(6.4)	10.8
KOSPI	1,966	0.2	1.2	10.5
Value traded – India				
Cash (NSE+BSE)	176		219	217
Derivatives (NSE)	973		226	977
Deri. open interest	1,443		1,575	1,820

Forex/money market

	Change, basis points			
	7-Dec	1-day	1-mo	3-mo
Rs/US\$	44.6	(30)	25	(220)
10yr govt bond, %	8.1	(12)	11	15
Net investment (US\$m)				
	6-Dec		MTD	CYTD
FIs	17		-	28,992
MFs	(60)		-	(282)

Top movers -3mo basis

Best performers	Change, %			
	7-Dec	1-day	1-mo	3-mo
GNP IN Equity	384.8	0.6	2.0	35.9
SUNP IN Equity	463.4	1.6	0.9	32.1
DRRD IN Equity	1830.1	0.6	4.0	30.3
TTMT IN Equity	1335.4	(1.7)	5.2	29.3
MM IN Equity	801.0	0.8	3.1	26.1
Worst performers				
FTECH IN Equity	910.5	0.6	(13.9)	(33.6)
SCS IN Equity	64.0	(0.9)	(25.9)	(31.8)
HDIL IN Equity	201.1	(1.7)	(23.5)	(28.0)
HPCL IN Equity	396.7	(2.7)	(15.3)	(24.8)
MMTC IN Equity	1073.1	(1.0)	(17.3)	(23.6)

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NEW RELEASE

BSE-30: 19,935

Takeaways from KIE's water forum: Deluge of Opportunity. GameChanger Forum's second conference (after the successful first on agri in October) put the spotlight on a nascent but critical component of infrastructure in India--the water sector. The forum featured companies from desalination to domestic supply and from EPC to BOT projects, giving investors a wide perspective on the upcoming sector. The forum provided investors rich insights into the nitty-gritty of the challenges faced and the strategies employed by companies in converting the deluge of opportunity into cash flows and profitability.



COMPANIES

Befesa

Manoj Sharma, *ED*

Pratibha Industries

VL Ganesh, *Director*
TR Radhakrishnan, *CFO*

SPML Infra

Rishabh Sethi, *Director*
Aamir Jariwala, *Head-IR*

Tata Chemicals

Sabaleel Nandy, *GM,*
Water Purifier Business

Triveni Engineering

Nikhil Sawhney, *Corporate VP*
CN Narayanan, *General Manager,*
IR and Value Creation

Unity Infra

Madhav Nadkarni, *CFO*
Baiju Pupala, *VP-Commercial*

VA Tech Wabag

Rajiv Mittal, *MD*
S Varadrajana, *CFO*

Keynote Speaker: Dr Leena Srivastava, ED, TERI

Dr Srivastava listed the key constraints in the state of India's water resources as (1) increasing demand, (2) overuse of groundwater, (3) declining access and (4) deteriorating quality. She also noted the adverse health effects of polluted water – including disease and microbial resistance. On this note, she mentioned that only 13.5% of sewage is actually treated in India. Her talk focused on the increased need for PPPs in the water sector even as she emphasized the need to differentiate between 'privatization' and 'private participation', the latter being far more palatable idea. She outlined a bunch of opportunities in the sector, including water supply in cities, wastewater treatment, rejuvenation of wetlands, desalination and irrigation.

Takeaways from our panel discussion: Befesa, SPML Infra, VA Tech Wabag

The panel discussed a range of issues (1) credit risk for municipal bodies, (2) the challenges in collecting payments from consumers, (3) the institutional framework of model contracts and their enforceability. The panelists were clear that while, prima facie, the credit of the urban local bodies appears weak, there are mechanisms (guarantees, escrows) to work around the same, but this does remain a challenge. SPML, with its experience in collection, (while responding a Q&A on pricing) mentioned that they charge Rs150-200 per household per month in Latur for water supply, and they are seeing healthy collection from retail consumers. All panelists, however, bemoaned the lack of model contracts and enforceability of many of their contracts. They were all excited about the opportunity provided by the nascent sector, which they see as the next big infrastructure play in India.

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TAKEAWAYS FROM KEYNOTE SPEAKER

**Dr Leena Srivastava, TERI**

In a packed session, Dr Srivastava focused on the main issues plaguing access to water in India in view of an exponential growth in demand. The session stimulated a great deal of interest and discussion in the audience, more than the schedule had planned for. She highlighted the need to address the problems of quality, quantity and inequality of access. Dr Srivastava listed the key constraints in the state of India's water resources as (1) increasing demand, (2) overuse of groundwater, (3) declining access and (4) deteriorating quality. In elaborating, she highlighted the problems of inequitable access, unsustainable and inefficient use and irrational tariffs that do not represent actual O&M or the totality of water cost (which should include social and environmental costs). She also noted the adverse health effects of polluted water – including disease and microbial resistance. On this note, she mentioned that only 13.5% of sewage is actually treated in India. On the subject of zero discharge of treated water for industry – a norm in many other countries, Dr Srivastava said that many companies were working towards this despite the absence of regulation or compulsion.

PPPs in the water sector. Private sector investment in water and sewage is just 0.3% of the total. The challenges in making PPPs attractive for investors are many, primarily, the absence of a transparent, well articulated regulatory and policy framework. Execution by state governments has been weak in the past on account of political or other factors of volatility.

Opportunities. Dr Srivastava outlined a bunch of opportunities in the sector, illustrating her point with examples in India and Europe. Key segments—water supply in cities, wastewater treatment, rejuvenation of wetlands, conservation, desalination and irrigation.

Sensitivities. (1) **Privatization:** Dr Srivastava emphasized the differentiation between 'privatization' and 'private participation', the latter being far more palatable. (2) **Tariffs:** Dr Srivastava underscored the high hidden cost paid by consumer without direct access to water. She also quoted examples and studies that indicating that 'full pipes' actually decreased water consumption. In the final count, she said that the cost of 24X7 water would actually be lower than many are already paying.

Dr Leena Srivastava is Executive Director, TERI and Senior Vice President of TERI-NA (The Energy and Resources Institute, North America), Washington, DC, USA.

She held additional charge as Dean, Faculty of Policy and Planning, TERI University from June 2000 – June 2008. From November 1992 to January 1994, she was the Vice-President, TERI-NA. She has a number of publications to her credit and is on the editorial boards of several international journals dealing with issues related to energy and the environment.

She was a Co-ordinating Lead Author for Working Group III of the Third Assessment Report of IPCC and an anchor for Sustainable Development for AR4. Currently, she is a member of the Advisory Group on Energy and Climate of the UN Secretary General; an Independent Director on Reliance Infrastructure Ltd. - the largest private sector utility in India; Member, International Public Policy Advisory Board (IPPAB), The Coca Cola Company; Member of the Foresight Advisory Council of Suez Environment and various other Boards. She was also Member of the Expert Committee to formulate Energy Policy, Planning Commission, Government of India and Member, National Security Advisory Board, Government of India. She also serves on the research advisory councils of various academic institutions.

TAKEAWAYS FROM CORPORATE PARTICIPANTS

BEFESA**Befesa (Unlisted)**

Befesa, a Spanish company, specializes in the management of water supply and integrated management of industrial wastes. Abengoa, the parent company of Befesa, is a technology company with innovative solutions for sustainability in the infrastructure, environmental and energy sectors. Befesa had a turnover of Euro722 mn with an EBITDA of Euro119 mn for the year ending 2009.

Befesa has set up a 100 mld (million liters per day) desalination plant in Chennai along with a local Indian partner, IVRCL. The company claims that the Chennai plant has the lowest energy consumption plant in the world with energy consumption of 2.5 units of power as compared to global average of 3.5 units of power per kilo-liter of water. With power being a major cost in desalination, such technologies give Befesa a significant edge over its competitors. The Chennai desalination plant was delayed by about nine months due to a couple of cyclones hitting the coast, effectively stopping and delaying the work.

The capital cost of setting up a 1mld desal plant, according to the company, is Euro1 mn. The total cost of water per kilo-liter comes to Rs50, which is around the rate that they have contracted with the Municipality of Chennai. Befesa intends to focus on BOT projects in India, and not on EPC projects. All their projects are expected to feature a local partner, especially for civil construction. The company is clear that it will not get into the supply of water as the management believes collection will be big issue in India as it will be very difficult to bring non-revenue water (NRW) below 10% (from the current levels of more than 30%).

Pratibha Industries (NC)

Pratibha Industries is a well established infrastructure company with backward integration into the manufacturing of saw pipes. The company's core expertise lies in water supply and environmental engineering, urban infrastructure, buildings and road related projects. It has an order book of nearly Rs40 bn with water segment forming nearly 60-65% and urban infra contributing the remaining 35-40%. The company is lowest bidder in projects worth Rs5.5 bn and expects order inflow to increase in the coming quarters. It also has three BOT projects in its portfolio – two in roads while one in multilevel car parking. The company had also raised funds worth Rs1.5 bn through QIP and compulsorily convertible participatory preference share. These funds are likely to be utilized for the repayment of debt.

SPML Infra (NC)

SPML has grown over the last 32 years from being a player in the pumps business to a player operating the complete cycle of water procurement, transportation and management. At present, SPML Infra has a portfolio of two water projects and four waste management projects. Apart from water and waste management, the company is also involved in sewer pipeline rehabilitation, roads and power. The company has backlog of Rs37 bn comprising of 65% in water, 25-30% in power (covering T&D and BOP) and rest in infrastructure. SPML shareholders include CVC (15%) and Reliance Capital (9%) showcasing PE interest.

The water projects are operating out of Bhiwandi (Rs6.5 bn) and Latur (Rs520 mn). In Bhiwandi, the company is supplying water at a total cost of supply of around Rs25 per kilo-liter including water procurement and O&M expense. The deal is funded by SBI (70%). Latur is a relatively smaller project where the company is essentially managing the water network and collecting water charges directly from the end user (taking on collection risk). The waste management projects are in Allahabad, Delhi, Madurai and Mumbai. The Delhi project is the biggest, treating about 1,500 tons of waste. Roads represent a 11% stake in a multi-party project in MP and a 51% stake in a road project in Rajasthan. BOP project is happening in Ramgarh for setting up a 160 MW power plant.



Tata Chemicals (REDUCE, TP: Rs370)

Tata Swach is a portable water purifier which requires no electricity or running water to operate. It was launched by Tata Chemicals (TCL) in December 2009. Swach has redefined the water purifying business in India and the company claims to have only scratched the surface of the huge potential this business presents. Swach is targeted at households where there is no penetration of either filters or purifiers or households relying on boiling water. According to TCL, of 207 mn households in India, 183 mn do not use filtering systems or boil water.

Within its first year of launch, Swach attained market leadership in two states of Maharashtra, Karnataka based on (1) its superior product features versus peers and (2) its low price point. Swach is set to clock sales of 1 mn units in FY2011E, ahead of company expectations. TCL plans to drive future volumes through (1) expansion across the country (12 states covered now) (2) expansion into rural areas (urban India accounts for majority of sales) (3) sales of Rs499/749 models launched recently (most of current sales are the Rs999 variant) (4) tapping distribution channels of NGO's Tata Kisan centers. However, the business is still some time away from breaking even.

Besides Swach's low price point, the company claims it has superior product features versus peers. Swach has (1) higher storage capacity of upto 18 liters for Rs999 variant and 15 liters for Rs749 variant (2) longer life of bulb used to filter water (3) In addition, the cost of purifying 1 liter of water using Swach is Rs0.1 versus Rs0.22-0.25 using other purifiers such as Pureit, Aquasure. The replaceable bulb lasts for 3,000 liters, much higher than immediate peers, and the purifier has a lock feature ensuring that only genuine Swach bulbs are used as replacements.



Triveni Engineering (NC)

The company has recently formed a JV with GE for the exclusive global supply of all steam turbines in the 30 to 100 MW. The turbine business would be demerged with listing expected in Q4FY11. Company will ramp up existing capacity of 60 MW to 100 MW in the next two years. Triveni believes its technology to be better than GE and is only using GE for branding. The company is also in the High Speed Gears business domestically and intends to start global operations for low speed gears through another JV within a year. Its water revenues were Rs1.6 bn in FY2010 with an order backlog of Rs5.2 bn with an average execution cycle of 24 months. The company is focusing more on the industrial than the consumer side of the business where margins are higher. The overall revenue mix in industrial, municipal and product based segment is 40:40:20. In the sugar segment, Triveni is not investing any capex and the company could divest the business in case it gets a good price.

Triveni's steam turbine business has a negative working capital and Rs500-600 mn debt. The company believes that incremental capex is less due to productivity gains in the business. Global market for 30-100 MW turbines is about US\$2-2.5 bn with Siemens being the biggest player. Triveni is confident of getting 25% share of the market easily (it believes that its costing is at a 30% discount to Siemens). Triveni will not want to enter the boiler business (and hence on EPC plans) since boiler operation involves onsite deployment and a higher associated capex and competition is more there. The company also intends to get into compression pumps for the oil and gas sector but says it doesn't need a JV for the same.



Unity Infra (NC)

Unity Infraprojects is one of the leading players in the infrastructure segment with its key expertise in civil, urban infrastructure and water related projects. The company's current order book stands at Rs36 bn diversified across water and irrigation (50%), civil and urban (43%) and the remaining from the transportation segment. It is also the lowest bidder in Rs5 bn worth of projects in the buildings segment. Going forward, the company expects to bag significant order inflows from water meter projects, pumping stations as well as micro tunneling. The company also expects to maintain operating margins in the range of 13-14% due to its focus towards higher margin water and irrigation segment. As far as real estate diversification is concerned, the company has invested nearly Rs1.9 bn in the real estate division in the form of loans and advances to its real estate subsidiary for buying land parcels in Bangalore and Kolkata. It plans to launch a residential project in Bangalore during Q4FY11 and in Kolkata by end of Q1FY12. The key risks going forward could be lower than expected order inflows as well as execution delays.



VA Tech Wabag (NC)

VA Tech is an India-based multinational player in water treatment. It provides a range of EPC and O&M solutions for sewage treatment, processed and drinking water treatment, effluents treatment, sludge treatment, desalination and re-use for institutional clients like municipal corporations and companies in the infrastructure segment such as power, steel and oil and gas. It has R&D centers located in Chennai and at Vienna and Winterthur in Austria and Switzerland, respectively. The company owns 157 patents in the field of water treatment.

The municipal and industrial water market is forecasted to grow at a CAGR of 5% till 2016. The faster growing markets like Saudi Arabia, Romania and Algeria are expected to grow at higher rates of 10-16%. VA Tech is present in the 12 of the top 15 fastest growing markets. The company has employed an asset light model where only the high value added work is done in house and the civil construction is outsourced to dedicated contractors. Consequently the return on average capital employed is highest in the business (42% in FY2010). Revenues of the company are likely to grow at a CAGR of 24% over FY2010-13E. The order book of the company is Rs30 bn. The Chennai water desalination project was bagged on an L1 basis where VA Tech had bid Rs10 bn (including O&M) whereas the second highest bidder was at Rs12 bn. The company is confident of allaying concerns regarding executing the project profitably.

DECEMBER 07, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **435**

Target price (Rs): **465**

BSE-30: **19,935**

Examining the upside case post recent underperformance. Wipro's recent underperformance has opened up a historically high 15-20% PE discount to larger peers TCS and Infosys. Even as relatively subdued revenue performance has a lot to do with relative stock price and PE movement, we examine the basic $E \times P/E = P$ equation to see if there is a case for a relook. While we retain Infosys and TCS as our top picks, we believe Wipro is worth considering from re-rating and earnings surprise perspective.

Company data and valuation summary

Wipro

Stock data

52-week range (Rs) (high,low)	500-321
Market Cap. (Rs bn)	1,064.2

Shareholding pattern (%)

Promoters	79.4
FIs	7.0
MFs	0.6

Price performance (%)

	1M	3M	12M
Absolute	(0.7)	6.5	13.7
Rel. to BSE-30	4.6	(0.4)	(3.2)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	18.9	21.1	24.3
EPS growth (%)	22.1	12.1	15.0
P/E (X)	23.1	20.6	17.9
Sales (Rs bn)	271.2	309.6	360.9
Net profits (Rs bn)	45.9	51.7	59.5
EBITDA (Rs bn)	59.1	68.6	79.9
EV/EBITDA (X)	17.5	14.6	12.1
ROE (%)	26.5	23.8	22.8
Div. Yield (%)	0.8	1.0	1.2

Earnings upgrade and absolute PE re-rating present upside; relative PE discount could sustain

Exhibit 1 looks at the stock performance of Infosys, TCS and Wipro for the past one year, while Exhibit 2 looks at Wipro's historical P/E relative to Infosys and TCS. In the basic price (P) = earnings (E) X price/earnings multiple (P/E) equation, upside to Wipro's stock price could happen in three scenarios

- ▶ **Earnings upgrade.** In our recently published note (see 'FY2012E, top-3, 30% revenue growth? Check', dated Dec 1, 2010 for details), we argued for a potential EPS upside risk for Infosys and TCS on the back of revenue upside possibility. Even as we expect Wipro's revenue underperformance versus peers to sustain for the next 2-3 quarters, upside to Street's revenue estimates for Wipro cannot be ruled out either. Essentially, while the Wipro's revenue growth gap versus Infosys and TCS could sustain, revenue growth for the entire pack could surprise on the upside. We note that we build in 20% US\$ revenue growth for Wipro (Global IT services) in FY2012E versus 24.6% and 23.3% for Infosys and TCS, respectively. Exhibit 3 looks at the consensus FY2011/12E estimates for the three companies.
- ▶ **P/E discount narrows – relative re-rating for Wipro.** This scenario boils down to improvement in relative revenue performance. We emphasize here again, that in the current environment, relative margin trajectory will follow relative revenue performance and hence, Wipro will need to bridge the recent revenue growth gap versus the larger peers for the PE discount to narrow. Even as we assign low probability to this event in the next 1-2 quarters, favorable demand environment shifts (more broad-based growth versus BFSI-centric for a bulk of CY2010E) and better execution of account-mining initiatives at Wipro could change things.
- ▶ **Sector re-rating takes Wipro's P/E higher even as PE discount to Infosys and TCS sustains.** Again, as argued in our Dec 1, 2010 note, we see good probability of this scenario. EPS upgrade potential, good visibility for FY2012E, flight to quality, and/or a Re depreciation scenario could drive PE multiple upgrade for the Tier-I Indian IT pack. Wipro would participate in such an event even if the PE discount to Infosys and TCS sustains. We have seen this play out in a small manner over the past one week.

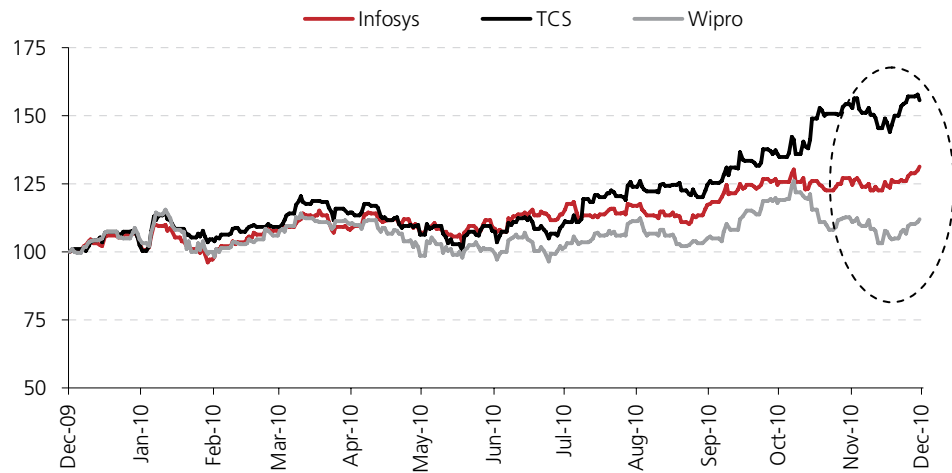
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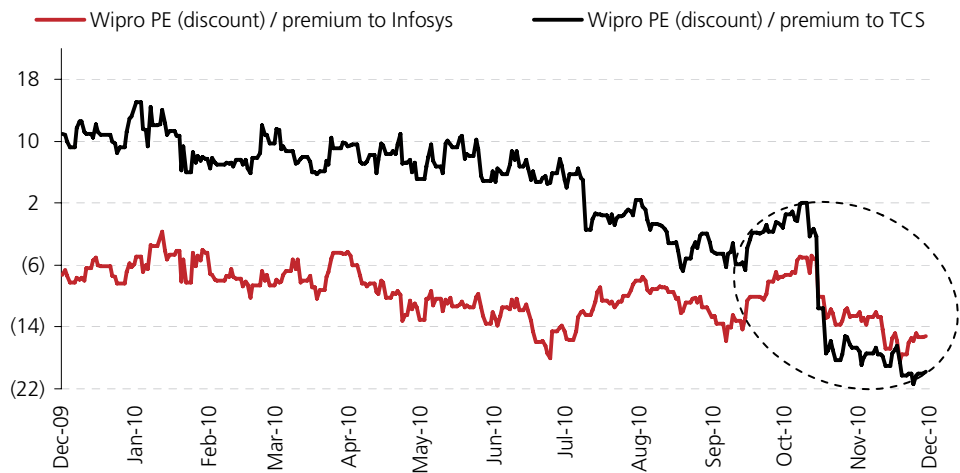
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Exhibit 1: Relative price performance of Infosys/TCS/Wipro in the past 1 year



Source: Bloomberg, Kotak Institutional Equities

Exhibit 2: Wipro's historical P/E relative to Infosys and TCS over the past 1 year



Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 3: Consensus estimates for Tier-I IT companies

	FY2011E			FY2012E		
	Infosys	TCS	Wipro	Infosys	TCS	Wipro
Revenues (US\$ mn)	6,055	8,160	5,196	7,476	10,089	6,377
Revenue growth (%)	26.1	28.7	18.3	23.5	23.6	22.7
EPS (Rs/share)	122.2	42.8	21.9	147.8	49.3	24.6
EPS growth (%)	12.8	21.8	16.1	20.9	15.4	12.1

Note:

(a) IT services revenues for Wipro are assumed to be in the same proportion as KIE estimates

(b) Consensus estimates converted to US\$ using Re-US\$ rate of 45.5 for FY2011E and 44.5 for FY2012E

Source: Bloomberg

DECEMBER 07, 2010

UPDATE

 Coverage view: **Cautious**

 Price (Rs): **2,708**

 Target price (Rs): **3,000**

 BSE-30: **19,935**

Paint industry in auto mode, for now. Sustaining good industry demand (~20%) despite price increases (~10%) was the key takeaway from our meeting with Akzo Nobel India—confirming our long-standing view that discretionary element in consumer purchase decision in decorative paints is reducing. The contours of the paint industry are slowly changing. APNT needs to watch for (1) higher activation spends and spate of new launches, (2) aggressive dealer acquisition activities by competition, and (3) investments in distribution and capacities by competition, particularly Nippon Paints.

Company data and valuation summary

Asian Paints

Stock data

52-week range (Rs) (high,low) 2,955-1,560

Market Cap. (Rs bn) 259.7

Shareholding pattern (%)

Promoters 52.0

FIs 14.9

MFs 2.0

Price performance (%)

	1M	3M	12M
Absolute	0.5	(5.1)	62.0
Rel. to BSE-30	5.9	(11.3)	38.0

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	71.5	86.0	102.5
EPS growth (%)	85.3	20.3	19.1
P/E (X)	37.9	31.5	26.4
Sales (Rs bn)	51.3	62.7	75.9
Net profits (Rs bn)	6.9	8.3	9.8
EBITDA (Rs bn)	10.9	12.9	15.4
EV/EBITDA (X)	23.4	19.6	16.3
ROE (%)	51.8	46.6	44.0
Div. Yield (%)	1.0	1.4	1.6

Meeting with Akzo Nobel—key takeaways

After a weak 2QFY11, 3QFY11E seems promising. Industry growth in October and November 2010 has been robust (>25%, in our view) likely due to (1) monsoon impact—shift in demand to 3Q from 2Q, and (2) Diwali was in 3Q this year versus 2Q last year (Please see our note on Asian Paints dated September 7, 2010 “Earnings upgrade cycle likely coming to an end, for now”).

Supply of titanium dioxide is a concern. The supplies of titanium dioxide were unsteady over the past few months as some existing capacities were scaled down and no new investments were made by producers. Industry experts expect this situation to prevail over CY2011E as well. While this should be a concern for the paints industry, there is pricing power to mitigate the impact of inflation in TiO₂, in our view.

Increasing brand relevance. With increasing competitive intensity, brand equity is becoming increasingly important. Consumer involvement in decision-making is increasing—ratio of consumers and painters in decision making is 50:50 now (estimated at 70:30 ten years back).

Pricing power is clearly with the market leader APNT. We reiterate that competition (Akzo, Berger, Kansai Nerolac) typically follows the benchmark set by the leader as pricing is not a major decision-making factor for the consumer (and hence the ability to gain market shares by resorting to undercutting is limited).

Contours of paint industry are slowly changing

- ▶ **Entry of MNCs.** There is growing interest among MNCs to scale-up in the Indian paint market. We see increasing activity levels from Nippon, Sherwin Williams and Jotun. According to industry sources, Nippon is planning to increase capacity to ~100,000 MT from 20,000 MT currently. The new players, after prototyping their business plans in one market (example of Nippon in South India), are likely to extend it to other contiguous markets.

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- ▶ **Competition in decoratives is increasing.** With the economic downturn behind, paint companies such as Kansai Nerolac and Nippon that have so far been focused on automotive and industrial paints are increasingly shifting focus to decorative paints.
- ▶ **Higher investments in distribution channels.** With higher competitive intensity, paint companies are trying to create demand at the painter level instead of just relying on the dealer channel. New initiatives include (1) organizing workshops for painters, (2) reward point system for painters, and (3) educate painters on benefits of the brand.
- ▶ **Consumer mindset is changing for good.** Painting is gradually shifting from being a discretionary spend to a necessity. This is being triggered by (1) increase in home ownership, (2) increase in salary levels and disposable income and (3) penetration-led opportunity—of the 210 mn households in India, industry experts estimate that <20 mn engage in painting/repainting activity.

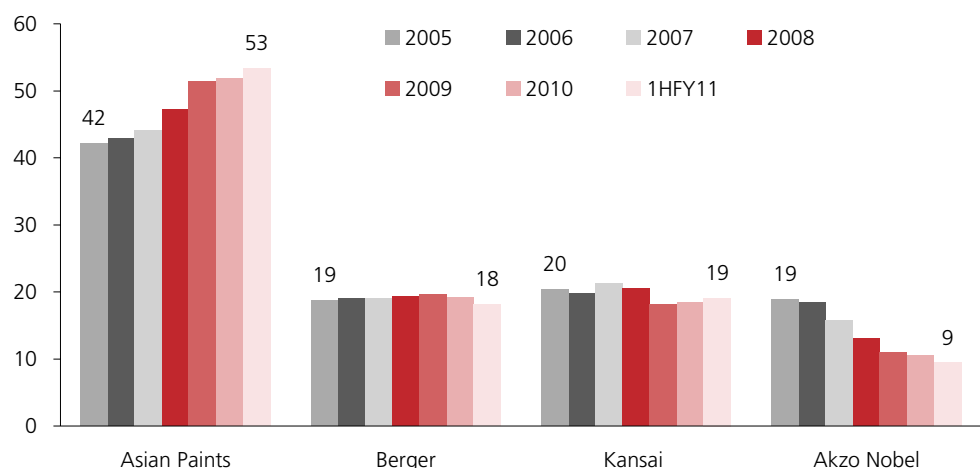
Reiterate ADD; retain TP at Rs3,000

We reiterate our ADD rating as the underlying demand conditions for paints continue to be good and competition is still rational (as evident by price increase to defend gross margins). Our standalone EPS estimates are Rs86 and Rs103 for FY2011E and FY2012E, respectively. We continue to believe that there is upside risk to our EPS estimates for FY2012-13E as APNT could benefit from supply chain savings due to the new distribution centers which it is building (apart from any potential benefits due to implementation of GST).

Key risks include higher-than-expected impact of raw material costs due to higher crude prices, significant slowdown in construction and housing demand and inability of the company to effect adequate price increases.

Impressive market share gains for APNT

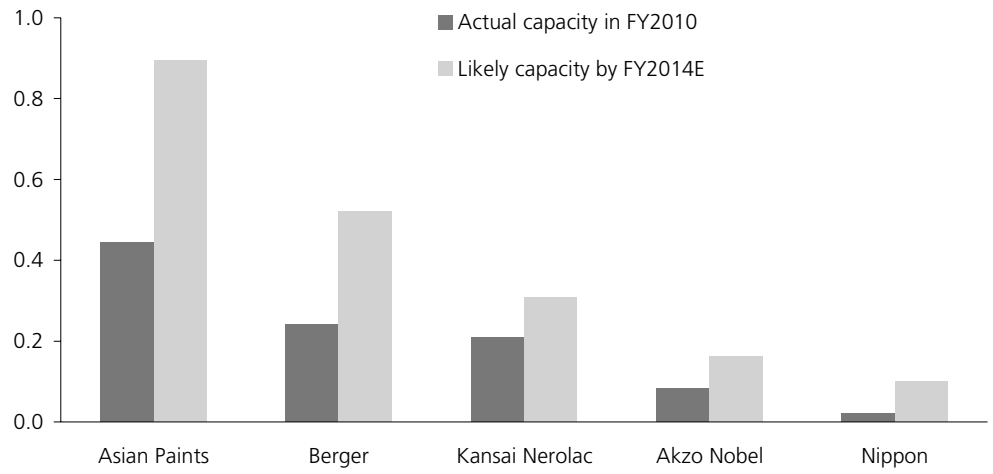
Value market shares of top-4 paint companies, March fiscal year-ends, 2005-2010, 1HFY11 (%)



Source: Company, Kotak Institutional Equities

Strong capacity addition plans indicate robust demand outlook

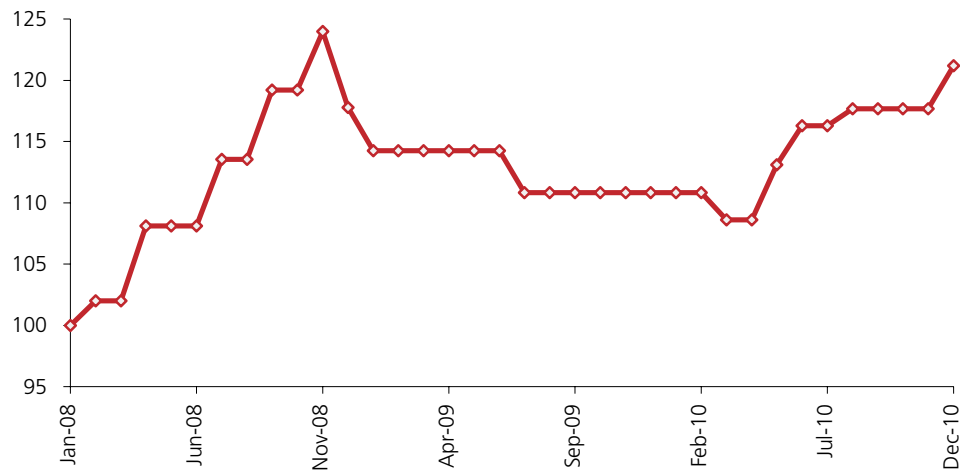
Capacities of leading paint companies, FY2010 and FY2014E (Mn MT)



Source: Company, Kotak Institutional Equities estimates

Price increase season is back

Price index of APNT's products (X)



Source: Company, Kotak Institutional Equities estimates

Asian Paints: Profit model, balance sheet, cash model 2007-2013E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)							
Net sales	28,196	34,191	42,701	51,251	62,660	75,947	89,595
EBITDA	4,200	5,564	5,613	10,153	12,223	14,690	17,424
Other income	405	602	601	808	999	1,161	1,344
Interest	(69)	(83)	(104)	(191)	(120)	(125)	(134)
Depreciation	(454)	(438)	(572)	(607)	(859)	(1,110)	(1,553)
Pretax profits	4,082	5,645	5,538	10,163	12,243	14,617	17,081
Tax	(1,400)	(1,880)	(1,836)	(3,302)	(3,991)	(4,789)	(5,598)
Net profits	2,682	3,766	3,702	6,861	8,252	9,828	11,483
Earnings per share (Rs)	28.0	39.3	38.6	71.5	86.0	102.5	119.7
Balance sheet (Rs mn)							
Total equity	7,441	9,285	10,945	15,572	19,881	24,820	33,273
Total borrowings	1,257	947	745	686	686	686	686
Current liabilities	6,482	9,516	9,577	14,604	18,097	21,906	24,114
Deferred tax liability	221	315	479	479	551	561	447
Total liabilities and equity	15,401	20,063	21,747	31,342	39,215	47,973	58,519
Cash	425	414	1,283	286	2,591	4,792	8,439
Current assets	8,167	10,029	10,999	13,137	16,064	19,487	22,934
Total fixed assets	3,465	5,392	7,118	10,882	13,523	16,656	20,109
Investments	3,344	4,229	2,348	7,037	7,037	7,037	7,037
Total assets	15,401	20,063	21,747	31,342	39,215	47,973	58,519
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	2,802	4,240	4,082	8,102	8,654	10,309	12,525
Working capital	282	27	(965)	2,054	(132)	(145)	(193)
Capital expenditure	(673)	(2,365)	(2,297)	(4,372)	(3,500)	(4,243)	(5,006)
Free cash flow	2,412	1,903	820	5,785	5,022	5,921	7,326
Key assumptions (%)							
Revenue growth	22.0	21.3	24.9	20.0	22.3	21.2	18.0
EBITDA margin	14.9	16.3	13.1	19.8	19.5	19.3	19.4
EPS growth	21.2	40.4	(1.7)	85.3	20.3	19.1	16.8

Source: Company, Kotak Institutional Equities estimates

Tata Swach—redefining household water purification business. We present key takeaways from our meeting with Mr. Sabaleel Nandy, Head of Tata Swach. Within its first year of launch, Swach has attained market leadership in Maharashtra and Karnataka based on its (1) superior product features versus peers and (2) low price point. Swach is set to clock sales of 1 mn units in FY2011E, ahead of company expectations. TCL plans to drive future volumes through (1) expansion across the country (12 states covered till now), (2) expansion into rural areas (urban India accounts for majority of sales), and (3) sales of Rs499/749 models (most of current sales are the Rs999 variant). However, breakeven of the business is still some time away.

Company data and valuation summary

Tata Chemicals

Stock data

52-week range (Rs) (high,low)	447-274
Market Cap. (Rs bn)	86.3

Shareholding pattern (%)

Promoters	31.4
FIs	14.8
MFs	7.7

Price performance (%)

	1M	3M	12M
Absolute	(14.6)	(14.1)	12.6
Rel. to BSE-30	(10.0)	(19.7)	(4.1)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	26.4	27.6	35.6
EPS growth (%)	(27.1)	4.5	29.0
P/E (X)	13.4	12.8	10.0
Sales (Rs bn)	94.5	112.6	122.6
Net profits (Rs bn)	6.4	6.7	8.7
EBITDA (Rs bn)	18.1	19.6	23.8
EV/EBITDA (X)	6.9	6.0	4.5
ROE (%)	16.0	17.3	19.4
Div. Yield (%)	2.5	2.7	2.7

Swach—redefining household water purification business in India

TATA Swach is a portable water purifier which requires no electricity or running water to operate. It was launched by TCL in December 2009. We believe Swach has redefined the water purification business in India and has only scratched the surface of the huge potential this business presents. Swach is targeted at those households which are aliens to the concept of filters or purifiers and/or rely on boiling water. According to TCL, out of 207 mn households in India, 183 mn do not use filtering systems or boil water.

Swach—superior product features versus peers in addition to low cost

Besides Swach's low price point, its superior product features versus peers were revealed to us. Swach has (1) higher storage capacity of up to 18 liters for the Rs999 variant and 15 liters for the Rs749 variant, (2) longer life of bulb used to filter water, and (3) in addition, the cost of purifying one liter of water using Swach is Rs0.1 versus Rs0.22-0.25 using other purifiers such as Pureit, Aquasure etc. The replaceable bulb lasts for 3,000 liters, much higher than immediate peers, and the purifier has a lock feature which ensures that only genuine Swach bulbs can be used during replacement.

Contrary to expectations, urban India accounts for majority of Swach sales estimated at Rs750 mn

According to TCL, penetration of water purifiers in urban households is only 2%. Contrary to our expectations, urban households account for majority of Swach's current sales of around 50,000 units per month with the Rs999 variant claiming the lion's share. With the launch of lower-cost versions in August 2010, sales are expected to reach 80,000 units/month by end-FY2011E from 50,000 currently. According to media reports, estimated sales of Swach are around Rs750 mn YTD FY2011E.

REDUCE

DECEMBER 07, 2010

UPDATE

Coverage view:

Price (Rs): 355

Target price (Rs): 370

BSE-30: 19,935

QUICK NUMBERS

- TCL redefines water purification business, with incumbents slashing prices
- Swach— superior product features versus peers in addition to low cost
- Urban India accounts for majority of Swach sales currently

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TCL redefines water purification business, with incumbents slashing prices

TCL's launch of Swach at Rs999 in December 2009 led to (1) incumbents such as HUL's Pureit slashing their prices for low-cost model to Rs1,000 from Rs2,000 earlier and (2) companies launching their low-cost versions. For example, the Godrej group, which already has a purifier for the urban market, is also developing a device for rural markets, while Eureka Forbes launched Aquasure.

Competitive landscape for low-cost water purifiers

	Swach	Pure It	Aquasure
Marketed by	TCL	HLL	Eureka Forbes
Unit price (Rs)	999	1,000	2,290
Bulb price (Rs)	299	NA	200
Cost of purifying (Rs/litre)	0.1	0.25	0.22

Source: Kotak Institutional Equities estimates, Company

Swach set to clock sales of 1 mn units in FY11E, ahead of company expectations

TCL started selling Swach on a pilot basis in Maharashtra and Karnataka. It has attained market leadership in these two states. TCL has now expanded to 12 states and 6,000 outlets, relying purely on word of mouth and micro awareness programs and utilizing (1) institutional channels through Croma outlets and (2) traditional distributional channels for FMCD (fast moving consumer durables) products. In order to keep costs low, TCL plans to avoid national advertising/print campaigns and instead intends to utilize channels such as NGOs and Tata Kisan centers to expand sales of its low-cost versions into rural markets.

Swach—uses natural ingredients thereby leading to low cost

Swach uses natural material (rice husk ash) which is a naturally occurring mesoporous material. This is impregnated with silver nanoparticles in small quantity. The product was developed in collaboration with TCS and Titan and is manufactured and marketed by TCL. Until TCL establishes scale, it will not pay any royalty to the other two group companies.

The material for the storage and outer case is food grade, non-toxic plastic which is outsourced from third-party vendors such as Sundaram, Simplex. TCL utilizes vendors close to target markets in order to keep costs of logistics minimum.

TCL to set up additional capacity for purifiers in FY2012E

The replaceable bulb is manufactured at TCL's Haldia plant which has an annual capacity of 3 mn bulbs. TCL plans to set up additional capacity for bulbs manufacturing at a cost of Rs500 mn in a location close to the rice-producing belt in the country in FY2012E.

Supply chain issues and creating awareness remain key challenges

According to TCL, demand has far exceeded the company expectations. The key challenges in this business are (1) creating awareness in rural India about perils of unsafe drinking water and (2) managing the supply chain such as capacity, distribution etc.

However, breakeven of the business is still some time away

Swach works on the printer cartridge model, where profitable growth of the business requires replacement demand to set in. According to the company, the breakeven point for this business is still some time away.

TCL—abridged profit model, balance sheet, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Profit model						
Net revenues	57,538	59,757	126,520	94,485	112,602	122,561
EBITDA	9,438	9,277	18,811	17,421	18,824	22,182
EBITDA margin (%)	16.4	15.5	14.9	18.4	16.7	18.1
Other income	1,726	6,909	883	681	822	1,600
Depreciation	2,739	3,138	4,226	4,468	4,485	4,800
Net finance cost	944	1,289	3,953	3,932	3,477	3,100
PBT	7,481	11,759	11,515	9,703	11,684	15,882
Tax	2,401	2,115	1,575	2,093	3,004	4,765
(Profit)/loss in minority interest	—	—	(1,117)	(1,177)	(1,960)	(2,450)
Restructuring costs			(2,342)	(374)		
Reported net profit	5,080	9,644	6,481	6,059	6,720	8,668
Balance sheet						
Total equity	25,718	37,185	47,698	47,164	53,139	61,553
Total debt	18,642	48,505	62,838	49,937	44,572	39,110
Minority interests	—	—	1,522	3,501	5,460	7,910
Net Deferred tax liabilities	2,511	2,837	216	182	182	182
Total liabilities and equity	46,871	88,526	112,273	100,784	103,353	108,754
Net fixed assets incl CWIP	30,561	33,712	39,959	38,389	36,903	34,103
Goodwill on consolidation	7,632	46,492	56,213	53,247	53,247	53,247
Investments	7,753	4,174	4,229	5,577	5,577	5,577
Net current assets	(619)	(2,620)	1,975	(8,017)	(7,373)	(6,173)
Cash	1,545	6,767	9,899	11,589	15,000	22,000
Total assets	46,871	88,526	112,273	100,784	103,353	108,754
Ratios						
Diluted EPS (Rs)	20.9	39.6	36.3	26.4	27.6	35.6
ROE (%)	21.2	30.7	23.4	16.0	17.3	19.4
Debt/equity (%)	72.5	130.4	131.7	105.9	83.9	63.5

Source: Kotak Institutional Equities estimates, Company

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	6-Dec-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)		Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Automobiles																													
Ashok Leyland	72	ADD	95,249	2,119	1,330	2.8	4.9	6.5	84.5	75.1	31.9	25.4	14.5	11.0	14.6	9.9	8.0	2.4	2.1	1.8	2.1	1.4	1.4	10.9	15.4	17.9	85	18.7	8.0
Bajaj Auto	1,585	REDUCE	458,777	10,208	289	58.8	91.0	103.6	160.2	54.6	13.9	26.9	17.4	15.3	17.4	12.4	10.7	15.7	9.4	6.4	0.6	1.3	1.3	70.9	67.4	49.6	1,450	(8.5)	18.7
Bharat Forge	391	ADD	93,485	2,080	239	0.7	12.4	20.3	(92.0)	1,707.0	63.3	568.8	31.5	19.3	28.5	12.9	9.0	2.5	2.4	2.1	—	—	—	0.9	16.2	20.6	400	2.3	4.4
Hero Honda	1,775	REDUCE	354,428	7,886	200	111.8	109.0	126.8	74.1	(2.5)	16.3	15.9	16.3	14.0	9.9	10.2	8.5	9.8	6.9	5.2	1.7	1.6	1.9	59.0	49.9	42.5	1,775	0.0	21.0
Mahindra & Mahindra	795	BUY	473,280	10,530	595	33.9	47.2	54.7	125.8	39.2	15.9	23.5	16.9	14.5	15.4	12.1	10.2	5.9	4.6	3.7	1.2	1.2	1.2	30.0	30.7	28.2	805	1.3	33.5
Maruti Suzuki	1,408	REDUCE	406,814	9,051	289	86.4	80.6	93.4	105.0	(6.7)	15.8	16.3	17.5	15.1	8.8	9.0	7.5	3.4	2.9	2.4	0.4	0.4	0.5	23.3	17.8	17.5	1,330	(5.5)	16.7
Tata Motors	1,358	ADD	874,233	19,451	644	27.4	125.8	148.1	(182.5)	359.4	17.7	49.6	10.8	9.2	16.5	7.5	6.2	5.6	3.2	2.4	1.0	0.4	0.4	8.7	9.3	10.4	1,420	4.6	98.6
Automobiles																													
Cautious																													
			2,756,266	61,325					276.0	82.0	19.3	26.4	14.5	12.2	14.2	9.3	7.8	5.5	3.9	3.0	1.0	0.9	0.9	20.9	27.2	25.1			
Banks/Financial Institutions																													
Andhra Bank	156	BUY	75,466	1,679	485	21.6	24.0	26.7	60.1	11.5	11.1	7.2	6.5	5.8	—	—	—	1.7	1.4	1.2	3.2	3.6	4.0	26.0	24.1	22.6	210	35.0	7.2
Axis Bank	1,382	ADD	560,133	12,463	405	62.1	78.6	99.9	22.7	26.6	27.2	22.3	17.6	13.8	—	—	—	3.5	3.0	2.6	0.9	1.1	1.4	19.2	18.4	20.2	1,700	23.0	49.9
Bank of Baroda	927	BUY	338,954	7,542	366	83.7	103.0	121.2	37.3	23.1	17.7	11.1	9.0	7.6	—	—	—	2.5	2.0	1.7	1.6	2.0	2.3	24.4	24.7	24.0	1,250	34.8	9.9
Bank of India	459	ADD	241,579	5,375	526	33.1	56.3	63.2	(42.1)	70.2	12.2	13.9	8.2	7.3	—	—	—	1.9	1.6	1.4	1.5	2.6	2.9	14.2	21.3	20.4	580	26.3	18.9
Canara Bank	693	ADD	284,151	6,322	410	73.7	90.7	102.8	45.8	23.1	13.4	9.4	7.6	6.7	—	—	—	2.3	1.8	1.5	1.4	1.4	1.7	22.5	22.8	21.4	740	6.8	22.2
Corporation Bank	676	ADD	96,964	2,157	143	82.0	86.7	100.7	31.8	5.7	16.2	8.2	7.8	6.7	—	—	—	1.7	1.4	1.2	2.4	2.6	3.0	22.0	19.9	19.9	800	18.3	2.0
Federal Bank	447	ADD	76,418	1,700	171	27.2	34.7	47.2	(7.1)	27.7	35.9	16.4	12.9	9.5	—	—	—	1.6	1.5	1.3	1.1	1.4	1.9	10.3	12.0	14.7	530	18.6	8.3
HDFC	705	REDUCE	1,011,847	22,513	1,436	19.7	24.0	28.1	22.7	21.8	17.2	35.8	29.4	25.1	—	—	—	6.7	5.9	5.2	1.0	1.2	1.4	20.0	21.2	21.9	720	2.1	56.5
HDFC Bank	2,383	REDUCE	1,090,917	24,272	458	64.4	84.9	111.2	22.1	31.8	31.0	37.0	28.1	21.4	—	—	—	5.1	4.4	3.8	0.5	0.7	0.9	16.1	16.9	19.2	2,500	4.9	45.6
ICICI Bank	1,151	ADD	1,324,904	29,478	1,151	36.1	45.0	58.0	6.9	24.6	29.0	31.9	25.6	19.8	—	—	—	2.6	2.4	2.2	1.0	1.2	1.5	8.0	9.7	11.6	1,230	6.8	110.0
IDFC	180	ADD	262,795	5,847	1,458	8.4	9.6	11.5	44.9	14.1	20.4	21.5	18.8	15.6	—	—	—	3.7	2.4	2.0	0.7	1.0	1.3	16.6	15.7	14.6	220	22.1	30.4
India Infoline	85	BUY	26,456	589	312	8.1	7.5	8.8	59.2	(8.0)	17.1	10.4	11.3	9.7	—	—	—	1.6	1.4	1.2	3.7	1.9	2.4	14.7	13.3	14.3	130	53.2	6.1
Indian Bank	272	ADD	116,962	2,602	430	35.1	35.7	44.9	25.5	1.6	25.9	7.8	7.6	6.1	—	—	—	1.8	1.5	1.2	2.4	2.4	3.0	24.1	20.5	21.8	350	28.6	4.8
Indian Overseas Bank	147	BUY	80,031	1,781	545	13.0	16.8	24.1	(46.7)	29.8	43.2	11.3	8.7	6.1	—	—	—	1.3	1.1	1.0	2.4	2.6	2.9	9.6	11.6	15.0	200	36.1	5.4
J&K Bank	832	ADD	40,350	898	48	105.7	123.0	143.9	25.0	16.4	17.0	7.9	6.8	5.8	—	—	—	1.4	1.2	1.1	2.6	3.1	3.6	18.2	18.4	18.7	1,000	20.2	3.1
LIC Housing Finance	1,029	ADD	97,702	2,174	95	69.7	107.2	105.7	11.5	53.7	(1.4)	14.8	9.6	9.7	—	—	—	3.0	2.5	2.1	1.5	2.2	2.2	23.6	27.0	22.2	1,030	0.1	66.5
Mahindra & Mahindra Financial	764	BUY	73,382	1,633	96	35.9	51.3	60.3	60.0	43.0	17.5	21.3	14.9	12.7	—	—	—	4.3	3.6	3.0	1.0	1.4	1.7	21.5	25.7	25.0	750	(1.9)	6.6
Oriental Bank of Commerce	412	ADD	103,135	2,295	251	45.3	59.0	65.8	25.3	30.2	11.6	9.1	7.0	6.3	—	—	—	1.4	1.2	1.1	2.2	2.9	3.2	14.5	16.8	16.6	580	40.9	9.5
PFC	321	SELL	368,492	8,199	1,148	20.5	24.1	28.7	54.0	17.5	19.1	15.6	13.3	11.2	—	—	—	2.9	2.5	2.2	1.4	1.5	1.8	19.0	19.3	19.8	325	1.2	3.9
Punjab National Bank	1,227	BUY	386,908	8,608	315	123.9	139.8	165.5	26.4	12.9	18.4	9.9	8.8	7.4	—	—	—	2.3	1.9	1.6	1.8	2.3	2.8	26.2	24.2	23.9	1,500	22.2	11.3
Reliance Capital	712	REDUCE	175,155	3,897	246	13.7	13.0	14.5	(65.2)	(4.7)	11.5	52.0	54.6	49.0	—	—	—	2.5	2.5	2.4	0.9	0.7	0.8	5.2	4.6	5.0	800	12.4	30.0
Rural Electrification Corp.	326	REDUCE	321,593	7,155	987	20.3	26.5	31.8	23.2	30.8	19.8	16.1	12.3	10.2	—	—	—	2.9	2.5	2.2	2.0	2.4	2.9	22.0	22.0	22.8	350	7.5	15.1
Shriram Transport	829	ADD	185,072	4,118	223	39.2	55.4	68.1	30.1	41.4	23.0	21.2	15.0	12.2	—	—	—	5.0	4.2	3.5	1.4	2.0	2.5	28.4	29.1	29.6	850	2.5	8.9
SKS Microfinance	710	BUY	52,344	1,165	74	26.9	35.5	55.9	61.1	31.9	57.4	26.4	20.0	12.7	—	—	—	5.5	2.7	2.2	—	—	—	21.7	18.0	19.3	950	33.7	23.5
SREI	111	NR	12,961	288	116	8.3	7.9	9.9	17.8	(4.8)	25.8	13.4	14.1	11.2	—	—	—	1.1	1.0	1.0	1.1	1.1	1.1	11.1	10.5	12.3	—	—	6.8
State Bank of India	2,952	BUY	1,874,396	41,704	635	144.4	176.6	224.1	0.5	22.3	26.9	20.4	16.7	13.2	—	—	—	2.8	2.5	2.2	1.0	1.1	1.2	14.8	15.9	17.6	3,500	18.5	169.6
Union Bank	357	BUY	180,378	4,013	505	41.1	42.4	56.1	20.2	3.1	32.6	8.7	8.4	6.4	—	—	—	2.0	1.7	1.4	1.5	1.6	2.1	26.2	22.1	24.1	450	26.0	7.6
Yes Bank	324	BUY	110,001	2,447	340	15.0	21.0	26.6	46.7	40.2	26.6	21.6	15.4	12.2	—	—	—	3.6	3.0	2.4	0.4	0.6	0.8	20.3	21.0	22.0	400	23.5	16.8
Banks/Financial Institutions																													
Attractive																													
			9,569,444	212,915					15.0	23.9	22.4	18.9	15.3	12.5	—	—	—	2.9	2.5	2.2	1.2	1.4	1.6	15.5	16.6	17.6			
Cement																													
ACC	976	REDUCE	183,352	4,079	188	83.2	56.4	63.6	47.9	(32.3)	12.9	11.7	17.3	15.3	6.3	8.1	6.5	2.9	2.6	2.3	2.8	2.4	2.4	29.3	17.5	17.6	940	(3.7)	12.5
Ambuja Cements	137	SELL	208,565	4,640	1,522	8.0	8.1	9.0	11.4	1.4	10.6	17.1	16.9	15.3	9.5	9.3	7.7	3.0	2.6	2.4	1.4	1.5	1.6	19.3	17.1	16.8	108	(21.2)	8.4
Grasim Industries	2,352	ADD	215,618	4,797	92	301.0	194.9	238.6	26.1	(35.2)	22.4	7.8	12.1	9.9	4.7	5.7	4.3	1.7	1.5	1.4	1								

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	6-Dec-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)
Consumer products																													
Asian Paints	2,682	ADD	257,266	5,724	96	71.5	86.0	102.5	85.3	20.3	19.1	37.5	31.2	26.2	23.2	19.4	16.1	16.0	12.6	10.1	1.0	1.4	1.6	51.8	46.6	44.0	3,000	11.9	7.0
Colgate-Palmolive (India)	878	SELL	119,436	2,657	136	31.1	33.6	38.4	44.2	8.0	14.2	28.2	26.1	22.9	23.1	19.5	16.7	36.6	31.3	26.9	2.3	2.9	3.3	156.1	129.2	126.3	830	(5.5)	4.1
Dabur India	98	ADD	170,264	3,788	1,731	2.9	3.3	4.1	28.1	13.2	25.2	33.9	30.0	24.0	25.6	21.3	16.8	18.0	12.4	9.5	1.0	1.2	1.4	57.4	49.6	45.3	115	16.9	4.5
GlaxoSmithkline Consumer (a)	2,252	ADD	94,726	2,108	42	55.4	70.5	83.9	23.6	27.3	19.1	40.7	32.0	26.8	23.0	19.7	15.9	10.6	8.7	7.3	0.8	1.0	1.2	27.9	29.7	29.5	2,400	6.6	1.1
Godrej Consumer Products	404	BUY	130,860	2,912	324	11.3	14.3	18.9	69.5	25.8	32.6	35.7	28.4	21.4	28.3	20.4	15.4	13.6	7.2	6.5	1.0	0.8	0.8	44.6	33.5	32.1	490	21.2	2.6
Hindustan Unilever	300	SELL	655,161	14,577	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	31.9	29.4	25.0	22.0	21.1	17.2	25.4	21.9	18.9	2.5	2.8	3.3	71.1	80.2	81.3	250	(16.7)	18.3
ITC	169	ADD	1,293,324	28,776	7,651	5.3	6.5	7.6	22.6	22.0	17.8	31.8	26.1	22.2	19.4	16.4	13.7	8.7	7.3	6.2	3.0	1.6	1.8	29.2	32.0	31.5	180	6.5	31.2
Jubilant Foodworks	624	SELL	39,865	887	64	5.6	10.0	13.1	347.1	78.3	30.4	111.2	62.4	47.8	59.5	35.9	24.1	33.9	22.0	15.1	—	—	—	47.3	42.8	37.4	400	(35.9)	17.1
Jyothy Laboratories	271	ADD	20,755	462	77	11.0	13.6	16.4	99.6	23.3	20.9	24.6	19.9	16.5	19.8	13.3	10.4	5.0	3.4	2.9	1.6	1.4	1.8	16.1	17.6	19.3	300	10.7	0.8
Marico	128	ADD	78,432	1,745	612	4.4	5.2	6.1	32.9	16.9	17.0	28.8	24.7	21.1	19.7	17.1	14.0	11.8	8.5	6.5	0.5	0.7	0.8	48.9	40.6	35.2	140	9.2	1.2
Nestle India (a)	3,746	REDUCE	361,144	8,035	96	74.4	88.4	108.0	27.0	18.8	22.1	50.3	42.4	34.7	33.3	28.5	23.5	62.1	48.4	37.5	1.3	1.6	1.9	136.0	128.5	121.8	3,100	(17.2)	3.8
Tata Global Beverages	115	ADD	71,085	1,582	618	6.1	7.3	8.7	14.5	20.7	19.0	19.0	15.7	13.2	9.1	6.9	5.8	1.5	1.4	1.3	1.7	2.1	2.5	10.2	11.7	12.9	130	13.1	4.6
Consumer products		Cautious	3,292,318	73,252					23.8	18.4	19.1	33.7	28.4	23.9	21.6	18.5	15.2	11.4	9.4	8.0	2.1	1.8	2.0	34.0	33.0	33.5			
Constructions																													
IVRCL	129	BUY	34,458	767	267	7.9	7.7	10.3	(6.6)	(2.3)	33.7	16.3	16.7	12.5	9.2	10.0	8.1	1.9	1.7	1.5	0.6	0.3	0.3	11.5	10.6	12.7	190	47.2	7.6
Nagarjuna Construction Co.	139	BUY	35,575	792	257	7.1	8.9	11.6	6.1	24.3	31.1	19.4	15.6	11.9	10.1	8.8	7.4	1.6	1.5	1.3	1.0	1.4	1.4	9.3	9.8	11.8	205	47.9	4.8
Punj Lloyd	107	REDUCE	36,353	809	340	(3.4)	9.8	12.0	(52.6)	(385.6)	22.6	(31.3)	11.0	8.9	20.5	6.5	6.0	1.2	1.1	1.0	0.1	0.4	1.0	(4.2)	10.4	11.6	140	30.8	15.6
Sadbhav Engineering	1,372	BUY	20,573	458	15	42.8	61.8	87.2	(16.3)	44.3	41.0	32.0	22.2	15.7	17.8	11.9	9.2	5.1	3.3	2.8	0.2	0.4	0.4	15.8	15.1	17.8	1,750	27.6	0.3
Construction		Attractive	126,958	2,825					56.2	150.9	29.5	37.1	14.8	11.4	13.0	8.3	7.1	1.7	1.5	1.4	0.5	0.7	0.8	4.5	10.2	11.8			
Energy																													
Aban Offshore	735	ADD	31,973	711	44	94.5	129.5	130.5	(2.5)	37.0	0.8	7.8	5.7	5.6	8.2	6.7	6.4	1.4	1.4	1.2	0.5	0.5	0.5	21.7	30.1	22.3	930	26.6	20.5
Bharat Petroleum	669	BUY	241,689	5,377	362	58.6	55.7	59.9	230	(5)	7.5	11	12	11.2	6.5	6.5	6.2	1.7	1.6	1.4	2.1	2.7	2.9	14.9	13.0	12.8	860	28.6	18.9
Cairn india	328	RS	621,544	13,829	1,897	5.5	22.7	40.8	29.0	309.7	79.6	59.1	14.4	8.0	46.5	9.3	5.3	1.8	1.6	1.4	—	—	—	4.6	3.1	11.8	18.8	—	19.1
Castrol India (a)	452	SELL	111,808	2,488	247	15.4	21.0	21.7	45	36	3.5	29	22	20.8	17.4	13.4	12.7	24.3	23.1	21.9	2.8	3.8	3.9	83.8	109.9	107.9	390	(13.7)	1.7
GAIL (India)	493	BUY	625,931	13,927	1,268	24.8	28.4	39.7	11.7	14.9	39.7	19.9	17.4	12.4	11.2	10.5	8.4	3.4	3.0	2.5	1.5	1.7	2.5	17.4	17.6	21.1	565	14.5	16.2
GSPL	112	SELL	62,994	1,402	562	7.3	7.3	8.1	233	(0)	11.4	15	15	13.8	7.7	7.6	6.3	3.7	3.1	2.7	0.9	1.6	2.9	27.1	21.8	20.9	87	(22.3)	7.1
Hindustan Petroleum	408	BUY	138,180	3,074	339	51.6	53.4	49.8	204.2	3.4	(6.7)	7.9	7.6	8.2	2.8	2.8	2.8	1.0	0.9	0.9	2.9	4.1	3.8	13.1	12.2	10.3	600	47.2	17.8
Indian Oil Corporation	377	ADD	914,366	20,344	2,428	49.1	38.6	40.2	399	(21)	4.0	8	10	9.4	5.7	5.9	5.4	1.7	1.5	1.4	3.5	3.1	3.2	22.4	15.6	14.8	500	32.8	12.6
Oil India	1,418	ADD	341,073	7,589	240	115.2	143.7	160.0	13.9	24.8	11.3	12.3	9.9	8.9	5.6	3.9	3.4	2.3	2.0	1.8	2.4	3.2	3.6	16.8	19.3	18.8	1,640	15.6	3.4
Oil & Natural Gas Corporation	1,321	BUY	2,824,400	62,841	2,139	90.3	113.9	137.7	(1)	26	20.9	15	12	9.6	5.1	4.4	3.7	2.1	1.9	1.7	2.5	3.0	3.6	14.4	16.4	17.8	1,500	13.6	32.5
Petronet LNG	120	SELL	90,038	2,003	750	5.4	6.9	8.3	(22.0)	28.1	20.2	22.3	17.4	14.5	12.6	10.2	9.0	3.5	3.0	2.6	1.5	1.7	2.3	15.9	17.7	18.2	90	(25.0)	7.4
Reliance Industries	1,020	REDUCE	3,035,966	67,548	2,976	49.6	59.2	72.5	(2)	19	22.4	21	17	14.1	10.4	8.0	6.4	2.0	1.8	1.6	0.7	0.8	1.0	11.4	12.4	13.6	1,050	2.9	137.7
Energy		Cautious	9,039,963	201,134					35.6	17.6	21.7	15.1	12.9	10.6	7.4	6.1	5.1	2.1	1.9	1.7	1.7	2.0	2.6	13.7	14.5	15.7			
Industrials																													
ABB	803	REDUCE	170,184	3,786	212	16.7	10.8	31.4	(35.2)	(35.4)	190.2	48.0	74.3	25.6	27.5	39.0	14.7	7.0	6.6	5.4	0.2	0.4	0.4	15.6	9.2	23.2	725	(9.7)	3.3
BGR Energy Systems	729	BUY	52,513	1,168	72	16.0	28.0	41.7	32.2	74.6	49.1	45.5	26.1	17.5	25.6	14.8	10.7	9.3	7.4	5.6	0.4	1.0	1.1	22.3	31.8	36.6	860	17.9	8.4
Bharat Electronics	1,781	REDUCE	142,448	3,169	80	96.1	105.9	120.3	(7.4)	10.2	13.6	18.5	16.8	14.8	8.7	7.6	6.4	3.2	2.8	2.4	1.1	1.4	1.4	17.5	17.7	17.6	1,800	1.1	3.8
Bharat Heavy Electricals	2,239	ADD	1,095,864	24,382	490	87.9	115.5	138.6	37.7	31.4	20.0	25.5	19.4	16.2	14.1	11.1	9.0	6.9	5.4	4.3	0.8	1.1	1.3	29.8	31.3	29.9	2,500	11.7	38.9
Crompton Greaves	338	ADD	216,731	4,822	642	12.8	14.5	17.3	46.5	12.9	19.6	26.3	23.3	19.5	15.3	13.2	10.9	8.6	6.6	5.1	0.4	0.6	0.6	37.9	32.0	29.5	340	0.6	9.5
Larsen & Toubro	2,009	ADD	1,216,089	27,057	605	57.9	76.7	90.5	15.6	32.3	18.1	34.7	26.2	22.2	19.3	13.9	11.8	5.4	4.5	3.8	0.6	0.6	0.7	18.6	18.8	18.5	2,200	9.5	57.9
Maharashtra Seamless	404	BUY	28,515	634	71	38.6	44.2	50.9	7.7	14.4	15.1	10.5	9.1	7.9	5.6	4.4	3.5	1.2	1.1	1.0	1.4	2.0	2.5	14.8	12.8	13.4	518	28.1	0.6
Siemens	784	REDUCE	264,317	5,881	337	22.4	27.9	33.7	39.5	24.1	21.2	34.9	28.1	23.2	18.2	16.1	13.1	8.0	6.6	5.4	0.6	0.7	0.9	24.9	25.6	25.5	725	(7.5)	9.5

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	6-Dec-10		Mkt cap.		shares O/S (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)
Infrastructure																													
Container Corporation	1,280	REDUCE	166,374	3,702	130	61.1	74.3	85.9	0.3	21.7	15.6	21.0	17.2	14.9	14.7	11.9	10.0	3.8	3.3	2.8	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(2.3)	2.5
GMR Infrastructure	49	ADD	179,500	3,994	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	113.6	223.3	370.3	21.2	13.6	12.8	1.7	1.5	1.5	—	—	—	2.4	1.2	0.7	60	22.6	5.7
GVK Power & Infrastructure	41	BUY	64,195	1,428	1,579	1.0	1.3	1.5	29.4	27.4	18.1	41.2	32.3	27.4	22.8	14.0	13.8	2.0	1.9	1.8	—	0.7	0.7	5.7	6.1	6.9	54	32.8	6.8
IRB Infrastructure	224	BUY	74,433	1,656	332	11.6	13.5	13.3	119.2	16.3	(1.5)	19.3	16.6	16.9	12.3	9.7	8.4	3.5	2.7	2.1	0.9	—	—	19.4	18.1	13.9	270	20.6	8.7
Mundra Port and SEZ	147	REDUCE	296,565	6,598	2,017	3.3	4.5	7.2	55.7	34.2	61.6	44.0	30.8	20.3	33.1	21.7	15.2	8.4	6.9	5.4	0.5	—	—	20.8	23.1	29.8	150	2.0	5.9
Infrastructure		Attractive	781,067	17,378					21.3	19.9	27.1	36.0	30.1	23.6	21.0	14.5	12.2	3.3	2.8	2.5	0.5	0.3	0.4	9.1	9.4	10.7			
Media																													
DB Corp	263	BUY	47,830	1,064	182	10.6	12.5	14.5	286.5	17.2	16.2	24.8	21.1	18.2	13.8	11.8	10.2	7.4	5.9	4.8	0.8	1.1	1.5	40.3	31.0	29.2	320	21.6	0.5
DishTV	73	REDUCE	77,575	1,726	1,063	(2.5)	(1.9)	0.4	(61.9)	(25.7)	(122.5)	(29.1)	(39.2)	174.1	95.2	35.6	16.2	18.9	36.6	30.2	—	—	—	249.0	(63.6)	19.0	57	(21.9)	5.1
Hindustan Media Ventures	169	BUY	12,394	276	73	2.5	9.6	11.3	NM	289.8	18.4	68.9	17.7	14.9	22.9	16.7	13.6	3.4	2.9	2.4	4.4	4.4	5.9	17.9	28.1	17.8	225	33.2	23.5
HT Media	150	NR	35,180	783	235	6.1	7.7	9.2	623.3	25.9	19.8	24.5	19.5	16.2	12.3	10.2	8.5	3.6	3.2	2.9	0.7	1.3	2.7	15.6	17.5	18.9	—	—	1.0
Jagran Prakashan	136	BUY	40,971	912	301	5.8	6.9	7.8	92.0	18.3	12.4	23.3	19.7	17.5	14.1	11.5	10.3	6.7	6.0	5.5	2.6	2.9	3.7	30.0	32.2	33.0	150	10.3	0.6
Sun TV Network	527	REDUCE	207,700	4,621	394	13.1	18.3	22.7	44.0	39.7	24.1	40.3	28.9	23.3	22.9	16.7	13.6	10.7	9.0	7.6	1.4	1.4	1.9	28.3	34.2	35.5	450	(14.6)	2.9
Zee Entertainment Enterprises	148	REDUCE	128,540	2,860	869	5.3	5.4	6.8	26.6	0.7	25.4	27.6	27.5	21.9	20.4	17.7	13.6	3.3	3.1	2.9	0.8	1.0	1.2	12.9	11.8	13.9	135	(8.7)	16.4
Media		Neutral	550,190	12,241					189.2	36.2	38.6	44.7	32.8	23.7	21.6	16.2	12.6	6.4	5.7	5.1	1.0	1.2	1.6	14.4	17.2	21.4			
Metals																													
Hindalco Industries	221	ADD	423,664	9,426	1,914	20.0	15.0	16.9	25.0	(25.1)	12.7	11.1	14.8	13.1	6.3	8.3	8.5	2.0	1.8	1.6	0.6	0.6	0.6	20.4	12.5	12.6	255	15.2	38.9
Hindustan Zinc	1,166	BUY	492,588	10,960	423	95.6	95.4	116.4	48.2	(0.2)	22.0	12.2	12.2	10.0	8.0	7.1	4.7	2.6	2.2	1.8	0.5	0.5	0.5	25.1	20.2	20.4	1,430	22.7	4.3
Jindal Steel and Power	699	REDUCE	650,933	14,483	931	38.2	45.7	56.2	16.9	19.4	23.1	18.3	15.3	12.4	12.6	10.3	7.7	5.8	3.8	2.9	0.2	0.3	0.3	37.7	30.3	26.8	625	(10.6)	22.8
JSW Steel	1,168	REDUCE	289,884	6,450	248	80.4	73.6	108.0	481.1	(8.5)	46.8	14.5	15.9	10.8	10.8	9.2	6.2	2.6	1.6	1.2	0.6	0.8	0.8	16.0	12.6	13.0	1,115	(4.5)	31.3
National Aluminium Co.	374	SELL	241,101	5,364	644	12.2	17.0	19.1	(37.2)	39.6	12.2	30.7	22.0	19.6	14.1	10.0	8.7	2.3	2.2	2.0	0.7	1.3	1.3	7.8	10.2	10.6	285	(23.8)	0.9
Sesa Goa	302	REDUCE	268,957	5,984	890	29.6	55.5	53.8	23.5	87.7	(3.0)	10.2	5.5	5.6	8.4	3.4	5.4	3.3	2.1	1.6	1.2	1.2	1.2	35.8	36.5	30.7	300	(0.8)	35.5
Sterite Industries	172	BUY	577,364	12,846	3,362	12.0	13.7	18.3	2.8	13.9	33.5	14.3	12.5	9.4	9.2	7.5	4.7	1.6	1.4	1.2	0.5	0.5	0.5	12.9	11.8	13.9	200	16.4	30.9
Tata Steel	635	—	580,696	12,920	914	(3.6)	69.3	69.9	(103.6)	(2,048.1)	0.8	(178.4)	9.2	9.1	11.4	6.2	6.0	2.5	1.8	1.6	1.2	1.3	—	(1.5)	23.2	18.6	—	—	114.2
Metals		Attractive	3,525,186	78,433					(19.9)	48.5	15.6	17.5	11.8	10.2	9.6	7.4	6.3	2.5	2.0	1.7	0.7	0.7	0.5	14.3	16.8	16.2			
Pharmaceutical																													
Apollo Hospitals	509	BUY	65,511	1,458	129	10.9	15.3	20.5	28.8	40.2	33.6	46.5	33.2	24.8	22.4	15.7	12.4	3.9	3.7	3.2	—	—	—	8.3	10.7	13.1	580	14.0	1.2
Biocon	403	ADD	80,530	1,792	200	14.8	17.0	24.4	216.4	14.7	43.6	27.1	43.6	27.1	16.5	15.7	13.4	4.5	3.9	3.3	—	—	—	17.9	18.1	22.2	470	16.7	11.4
Cipla	370	REDUCE	297,081	6,610	803	13.7	14.0	16.6	38.1	1.9	19.2	27.0	26.5	22.2	19.4	17.8	15.2	5.0	4.4	3.8	0.5	0.7	0.7	21.1	17.6	18.2	295	(20.3)	16.0
Cadila Healthcare	788	REDUCE	161,301	3,589	205	24.7	33.9	39.3	66.9	37.2	16.1	31.9	23.2	20.0	20.5	15.8	13.6	9.9	7.4	5.8	0.6	0.9	1.0	36.0	36.4	32.3	600	(23.8)	1.9
Dishman Pharma & chemicals	144	ADD	11,683	260	81	14.4	15.8	20.7	(19.7)	9.7	30.7	10.0	9.1	6.9	8.2	7.3	5.6	1.5	1.3	1.1	—	—	—	15.5	15.1	17.0	210	46.2	0.8
Dwi's Laboratories	613	REDUCE	80,046	1,781	131	26.1	27.4	38.4	(18.2)	5.1	40.3	23.5	22.4	16.0	17.2	16.7	11.3	5.3	4.6	3.8	—	—	—	24.7	21.9	26.1	700	14.2	3.4
Dr Reddy's Laboratories	1,819	REDUCE	309,042	6,876	170	48.0	68.4	72.2	48.1	42.6	5.5	37.9	26.6	25.2	20.9	15.2	14.2	8.2	6.4	5.3	0.6	0.4	0.5	22.2	27.0	22.9	1,150	(36.8)	14.9
GlaxoSmithkline Pharmaceuticals (a)	2,131	REDUCE	180,532	4,017	85	59.1	70.2	79.6	8.1	18.7	13.5	36.1	30.4	26.8	20.8	17.6	15.1	10.1	8.6	7.4	—	—	—	29.8	30.7	29.7	2,000	(6.2)	1.7
Glenmark Pharmaceuticals	383	NR	104,893	2,334	274	12.7	19.2	20.3	14.7	50.6	5.6	30.0	19.9	18.9	18.3	12.0	11.5	4.5	3.7	3.1	—	—	—	16.7	19.9	17.6	—	—	8.1
Jubilant Organosys	288	BUY	45,702	1,017	159	26.5	27.0	38.9	49.0	1.8	44.0	10.8	10.7	7.4	8.4	8.4	6.1	2.1	1.8	1.4	0.7	0.9	1.0	26.3	18.9	21.6	400	39.0	1.7
Lupin	478	ADD	212,633	4,731	445	15.3	19.7	24.3	27.3	28.4	23.4	31.2	24.3	19.7	26.0	19.4	15.3	8.2	6.4	5.1	0.6	0.7	0.9	34.1	30.0	29.3	490	2.5	14.6
Piramal Healthcare	441	REDUCE	92,164	2,051	209	22.4	4.1	8.8	29.7	(81.7)	113.0	19.7	107.3	50.4	14.5	(12.0)	(13.1)	5.5	0.6	0.6	1.2	1.4	0.8	30.7	159.4	11.4	490	11.1	13.0
Ranbaxy Laboratories	568	SELL	243,395	5,415	428	7.2	24.0	14.6	(128.9)	234.8	(39.4)	79.1	23.6	39.0	19.3	12.6	19.9	6.2	4.5	4.1	—	0.7	0.7	7.0	20.1	10.4	340	(40.2)	18.4
Sun Pharmaceuticals	456	BUY	472,182	10,506	1,036	13.0	18.0	19.6	(25.7)	38.2	8.8	34.9	25.3	23.2	27.9	18.8	15.5	5.6	4.7	3.9	0.6	0.6	0.6	17.2	20.7	19.0	482	5.7	9.8
Pharmaceuticals		Attractive	2,356,696	52,435					45.3	27.4	12.1	31.9	25.1	22.4	19.8	15.0	13.3	5.9	3.9	3.3	0.4	0.5	0.5	18.4	15.4	14.8			
Property																													
DLF	308	ADD	528,718	11,764	1,714	10.6	13.6	21.1	(60.1)	27.8	55.2	29.0	22.7	14.6	21.0	14.7	10.8	1.7	1.6	1.5	0.7	1.0	1.6	6.6	7.4	10.7	375		

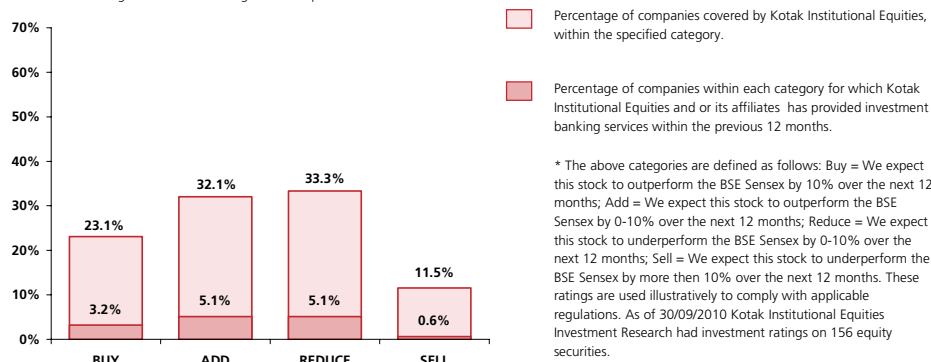
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	6-Dec-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	
Retail																														
Titan Industries	3,693	ADD	163,941	3,648	44	57.3	83.9	110.9	29.3	46.5	32.2	64.5	44.0	33.3	41.1	29.7	22.7	22.2	15.6	11.0	0.4	0.3	0.4	38.7	41.7	38.8	3,600	(2.5)	23.9	
		Neutral	163,941	3,648					29.3	46.5	32.2	64.5	44.0	33.3	41.1	29.7	22.7	22.2	15.6	11.0	0.4	0.3	0.4	34.5	35.4	33.2				
Sugar																														
Bajaj Hindustan	113	SELL	21,633	481	191	(7.8)	4.9	12.7	(340.2)	(162.7)	160.5	(14.6)	23.2	8.9	13.6	7.3	5.6	1.0	1.0	0.9	0.6	0.6	0.6	(7.0)	4.4	10.4	98	(13.3)	4.5	
Balrampur Chini Mills	80	ADD	20,540	457	257	4.3	9.9	10.7	(44.3)	131.9	8.3	18.8	8.1	7.5	9.5	5.3	4.1	1.5	1.3	1.1	0.6	0.6	0.6	8.0	17.1	16.3	102	27.5	4.7	
Shree Renuka Sugars	90	REDUCE	60,115	1,338	670	8.8	5.1	5.8	164.2	(42.4)	15.1	10.2	17.7	15.4	6.2	8.2	7.2	2.4	2.0	1.7	0.4	0.4	0.4	29.1	13.0	13.1	90	0.3	21.7	
		Cautious	102,288	2,276					14.7	24.5	32.3	18.5	14.9	11.3	8.6	7.2	5.9	1.7	1.5	1.3	0.5	0.5	0.5	9.2	10.0	11.5				
Technology																														
HCL Technologies	426	REDUCE	294,044	6,542	690	17.5	22.8	28.3	0.2	29.9	24.3	24.3	18.7	15.1	11.8	11.1	8.9	4.2	3.7	3.2	0.9	1.4	1.4	19.3	21.4	23.0	390	(8.5)	7.9	
Hexaware Technologies	88	BUY	12,648	281	144	9.3	5.1	10.1	127.7	(45.2)	96.1	9.4	17.2	8.8	4.9	10.7	5.6	1.5	1.4	1.2	1.1	1.1	1.1	17.8	8.3	14.6	110	24.9	2.2	
Infosys Technologies	3,143	BUY	1,804,312	40,145	574	108.3	122.4	153.4	5.7	13.0	25.3	29.0	25.7	20.5	21.4	17.7	14.2	7.8	6.9	5.7	0.8	1.9	1.5	30.1	28.7	30.5	3,400	8.2	75.7	
Mphasis BFL	601	SELL	126,581	2,816	211	43.6	51.8	46.4	207.6	18.8	(10.4)	13.8	11.6	13.0	11.1	9.9	9.0	5.4	3.8	3.0	0.6	0.7	0.7	48.1	38.6	26.2	550	(8.4)	6.6	
Mindtree	521	REDUCE	21,450	477	41	52.2	27.4	39.3	294.3	(47.5)	43.3	10.0	19.0	13.3	8.6	10.4	7.1	3.2	2.9	2.5	0.4	0.3	0.8	35.2	16.1	20.2	450	(13.7)	0.9	
Patni Computer Systems	465	REDUCE	61,918	1,378	133	36.6	40.4	33.7	36.4	10.5	(16.6)	12.7	11.5	13.8	6.3	7.2	6.6	1.7	2.1	1.9	0.6	14.2	1.4	18.2	17.2	14.9	400	(14.0)	5.5	
Polaris Software Lab	159	SELL	15,862	353	100	15.4	19.4	19.8	16.9	26.2	2.2	10.3	8.2	8.0	4.9	6.3	5.4	1.8	1.6	1.4	2.2	2.3	2.5	18.6	20.4	18.0	180	13.1	2.8	
Satyam Computer Services	65	REDUCE	75,852	1,688	1,176	2.5	2.7	4.1	(190.7)	6.9	53.5	26.0	24.3	15.8	11.9	12.1	7.6	4.0	4.1	3.8	—	—	—	58.5	16.8	25.0	70	8.5	42.1	
TCS	1,102	BUY	2,156,247	47,975	1,957	35.1	43.0	50.0	32.8	22.4	16.3	31.4	25.6	22.0	23.9	18.7	15.5	10.3	8.5	7.0	1.8	1.6	1.8	37.6	36.3	34.9	1,100	(0.2)	39.5	
Tech Mahindra	665	REDUCE	82,449	1,834	124	65.1	62.0	65.4	(9.6)	(4.8)	5.5	10.2	10.7	10.2	8.3	9.0	8.4	2.9	2.3	2.0	0.5	0.3	0.3	34.5	25.4	22.4	720	8.2	8.0	
Wipro	431	ADD	1,053,657	23,443	2,447	18.9	21.1	24.3	22.1	12.1	15.0	22.8	20.4	17.7	17.3	14.4	12.0	5.4	4.4	3.7	0.8	1.0	1.2	26.5	23.8	22.8	465	8.0	16.5	
		Attractive	5,705,021	126,933					24.0	15.4	17.4	25.9	22.5	19.1	18.7	15.9	13.0	6.8	5.9	4.9	1.2	1.6	1.5	26.3	26.1	25.6				
Telecom																														
Bharti Airtel	345	REDUCE	1,311,501	29,180	3,798	23.6	17.3	20.4	5.8	(26.9)	17.9	14.6	20.0	16.9	8.3	9.4	7.5	3.1	2.7	2.3	—	—	—	24.4	14.4	14.7	305	(11.7)	48.8	
IDEA	71	REDUCE	232,636	5,176	3,300	2.7	1.6	0.9	(5.8)	(42.7)	(44.9)	25.8	45.0	81.7	8.8	10.3	8.6	2.0	2.0	1.9	—	—	—	7.2	4.5	2.6	55	(22.0)	9.1	
MTNL	54	SELL	33,894	754	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(3.4)	(5.2)	(5.9)	0.3	0.4	0.5	0.3	0.3	0.3	—	—	—	(8.5)	(6.1)	(5.7)	50	(7.1)	2.8	
Reliance Communications	135	SELL	288,743	6,424	2,133	21.8	7.0	9.2	(23.0)	(67.7)	30.8	6.2	19.2	14.7	7.5	9.1	7.6	0.7	0.6	0.6	0.6	—	—	—	11.0	3.4	4.3	125	(7.7)	22.0
Tata Communications	264	REDUCE	75,354	1,677	285	14.0	15.2	15.7	3.2	8.2	3.5	18.9	17.4	16.9	7.7	7.1	6.8	1.1	1.0	1.0	2.5	2.8	3.2	5.2	5.5	5.5	225	(14.9)	1.6	
		Cautious	1,942,128	43,211					(12.7)	(40.0)	18.0	13.8	22.9	19.4	8.4	9.6	7.7	1.7	1.6	1.5	0.2	0.1	0.1	12.3	6.9	7.5				
Utilities																														
Adani Power	132	ADD	287,542	6,398	2,180	0.8	3.5	19.0	NM	351.8	436.1	168.3	37.3	7.0	138.4	29.4	6.4	5.0	4.4	2.7	—	—	—	4.2	12.5	48.0	143	8.4	4.6	
CESC	371	BUY	46,345	1,031	125	34.6	36.6	42.7	8.5	5.8	16.8	10.7	10.1	8.7	6.3	5.7	6.4	1.1	1.0	0.9	1.2	1.2	1.4	10.8	10.2	10.8	480	29.4	2.4	
Lanco Infratech	62	BUY	147,908	3,291	2,405	2.1	3.6	4.9	46.6	67.4	36.8	28.9	17.2	12.6	15.8	10.2	7.7	4.4	3.5	2.7	—	—	—	17.4	21.0	22.5	80	30.1	7.3	
NHPC	28	SELL	343,191	7,636	12,301	1.9	1.3	1.6	74.9	(28.2)	21.4	15.1	21.0	17.3	10.0	10.8	8.2	1.4	1.3	1.2	2.0	1.3	1.5	9.7	6.4	7.4	28	0.4	7.5	
NTPC	187	ADD	1,542,314	34,316	8,245	10.5	10.4	12.0	6.8	(0.4)	14.7	17.8	17.9	15.6	13.6	13.9	12.5	2.4	2.2	2.1	2.0	1.9	2.2	14.1	13.0	13.7	195	4.3	18.5	
Reliance Infrastructure	831	ADD	204,468	4,549	246	61.8	56.3	82.3	(1.5)	(8.8)	46.1	13.5	14.8	10.1	14.8	13.7	9.4	1.1	1.0	0.9	1.0	1.1	1.2	6.3	7.0	9.9	1,160	39.6	22.0	
Reliance Power	159	SELL	381,803	8,495	2,397	2.9	3.9	5.3	179.7	36.6	34.9	55.8	40.9	30.3	(375.4)	253.6	36.2	2.6	2.5	2.3	—	—	—	4.8	6.3	7.9	135	(15.3)	15.2	
Tata Power	1,292	ADD	318,885	7,095	247	60.2	69.2	88.5	20.1	15.0	27.8	21.5	18.7	14.6	13.6	12.3	10.6	2.4	2.2	2.0	0.9	1.1	1.2	12.9	12.5	14.3	1,420	9.9	11.6	
		Attractive	3,272,455	72,810					22.0	4.5	41.7	21.0	20.1	14.2	15.9	15.7	11.1	2.2	2.0	1.8	1.3	1.2	1.4	10.5	10.1	12.9				
Others																														
Havells India	399	ADD	49,779	1,108	125	6.1	23.2	28.9	141.3	278.2	24.5	64.9	17.2	13.8	18.1	11.4	9.1	11.7	7.3	4.9	0.5	0.6	0.7	14.3	52.1	42.4	425	6.5	3.9	
Jaiprakash Associates	109	BUY	242,249	5,390	2,214	1.7	4.4	6.2	(12.7)	153.2	41.1	62.5	24.7	17.5	24.2	15.5	11.2	2.8	2.5	2.2	—	—	—	5.1	10.8	13.5	155	41.7	33.0	
Jet Airways	820	BUY	70,799	1,575	86	(69.8)	44.7	93.9	(71.7)	(164.1)	110.0	(11.7)	18.3	8.7	14.4	8.3	6.4	4.1	3.3	2.4	—	—	—	20.1	32.2	1,220	48.8	23.5		
Sintex	201	REDUCE	54,740	1,218	272	12.1	14.7	16.9	(49.6)	21.6	14.9	16.6	13.7	11.9	13.7	9.0	7.8	2.6	2.2	1.8	0.6	0.6	0.7	15.3	15.7	15.4	210	4.3	7.6	
SpiceJet	87	BUY	34,920	777	403	2.5	6.0	9.2	(117.4)	136.6	53.5	34.1	14.4	9.4	40.1	8.5	5.7	(10.2)	7.7	4.2	—	—	—	(15.9)	424.8	57.9	120	38.5	23.5	
Tata Chemicals	361	REDUCE	87,864	1,955	243	26.4	27.6	35.6	(27.1)	4.5	29.0	13.7	13.1	10.1	7.0	6.1	4.6	1.9	1.7	1.4	2.5	2.6	2.6	16.0	17.3	1				

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Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

Other definitions

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