kotak® Institutional Equities

INDIA DAILY

February 11, 2009

EQUITY MARKETS

India	10-Feb	1-day	1-mo	3-mo
		Change, %		
Sensex	9,647	0.7	2.6	(8.4)
Nifty	2,935	0.5	2.1	(6.8)
Global/Regional indices				
Dow Jones	7,889	(4.6)	(8.3)	(11.1)
FTSE	4,213	(2.2)	(5.3)	(4.3)
Nikkie	7,946	(0.3)	(10.1)	(9.8)
Hang Seng	13,881	0.8	(3.5)	(1.1)
KOSPI	1,180	(1.6)	(0.1)	4.5

Value traded - India

	10-Feb		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	133.8		117.4	53.3
Derivatives (NSE)	390.2		477.1	303
Deri. open interest	557.9		474	546

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Consumer Products: Consumer trading up seen in detergents; volume growth will take a while

News Roundup

Corporate

- **Infrastructure Leasing and Finance Company (IL&FS)** is poised to acquire management control of the troubled infrastructure company **Maytas Infrastructure** owned by family members of Ramalinga Raju, former chairman and managing director of **Satyam Computers**, who confessed to financial fraud on January 7. *(ET)*
- Japan's third largest auto maker by sales **Nissan Motor Co**. Ltd, which is facing losses globally, is reviewing its capital expenditure and manufacturing plans, according to two local parts suppliers to the firm. "The company has asked us to scale down the supplies by at least 30%," said a vendor for Nissan's project in Chennai, where it shares a manufacturing facility with French car maker **Renault SA**. *(Mint)*
- **Vedanta Resources Plc**. subsidiary of **Sterlite Industries** (India) Ltd may have finalized a new deal to buy **Asarco Llc**. from bankruptcy, after almost eight months of uncertainty following its original bid in June to buy the integrated copper producer for around $2.6 billion. The new deal is worth $1.5 billion, two people familiar with the development said. *(Mint, see our comment inside)*
- **Bharat Electronics Ltd** and **Boeing** plan to set up a joint analysis and experimentation centre to enable the Armed Forces explore alternative solutions in an atmosphere of simulation and modelling. BEL said an MoU would be signed during the Aero India 2009. *(BL)*
- **General Motors** has said that it may find it challenging to meet its target of sourcing $1 billion worth of components annually from Indian vendors by 2010. This comes despite the company expressing confidence in its Indian operations with regard to sales, capacity expansion plans and new launches. *(BL)*

Economic and political

- Indian airline companies, which are together expected to lose around $2 billion in 2008-09, have increased fares by 15-20% after the low fares, announced early this year, failed to generate the anticipated increase in demand. *(Mint)*

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

Forex/money market

	10-Feb	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	48.8	0	(4)	64
10yr govt bond, %	6.0	13	(20)	(174)

Commodity market

	10-Feb	1-day	1-mo	3-mo
		Change, %		
Gold (US$/OZ)	914.4	(0.1)	7.0	25.0
Silver (US$/OZ)	13.2	0.1	16.8	35.1
Crude (US$/BBL)	44.3	0.2	1.5	(18.9)

Net investment (US$mn)

	9-Feb		MTD	CYTD
FIIs	72		(21)	(1,075)
MFs	29		(123)	(301)

Top movers -3mo basis

Best performers	10-Feb	1-day	1-mo	3-mo
		Change, %		
Grasim Industries Lt	1,417	(0.1)	4.2	34.5
Ambuja Cements Li	74	1.4	1.9	33.2
Bharat Petroleum C	401	0.5	5.3	32.1
India Cements Limit	111	0.8	(3.3)	30.8
Sesa Goa Ltd	100	(0.2)	23.1	27.3
Worst performers				
Housing Developme	85	4.7	(19.1)	(24.9)
Satyam Computer S	44	(4.5)	86.1	(83.6)
Glenmark Pharmac	142	(1.7)	(44.2)	(55.0)
Aban Offshore Limi	440	1.1	(35.5)	(54.8)
Punj Lloyd Limited	96	4.4	(17.0)	(51.5)

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Metals

STRL.BO, Rs278	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	365
52W High -Low (Rs)	990 - 165
Market Cap (Rs bn)	197

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	247	222	163
Net Profit (Rs bn)	45.6	34.8	28.7
EPS (Rs)	64.3	49.1	40.5
EPS gth	*(22.6)*	*(23.8)*	*(17.5)*
P/E (x)	4.3	5.7	6.9
EV/EBITDA (x)	3.6	5.4	6.8
Div yield (%)	-	-	-

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
2.4	11.7	(55.4)	(60.3)

Shareholding, December 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.0	-	-
FIIs	18.9	0.8	0.1
MFs	3.9	0.8	0.1
UTI	-	-	(0.7)
LIC	2.1	0.3	(0.4)

Sterlite Industries: ASARCO—Acquisition story not over yet

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- **News reports indicate Sterlite is close to acquiring ASARCO**
- **Valuation concerns still exists, deal could be in the range of US$1.8-2 bn**
- **Reiterate BUY rating with TP of Rs365/share**

Recent news reports suggest that Sterlite is still pursuing the acquisition of ASARCO and a deal could be signed within the next few weeks. The acquisition price is expected to be lower than the US$2.6 bn agreed at the time of signing the deal. We expect the price could now be in the range of US$1.8-2 bn, based on average copper price assumption of US$4,500 and EBITDA multiples 4-4.5X, at which we believe the acquisition would be value neutral to Sterlite. Sterlite has earlier indicated that 50% of the funding for the acquisition would be raised in ASARCO and the remaining from Sterlite. However, given current copper prices, raising debt at ASARCO could be a challenge. We reiterate our BUY rating on Sterlite with a TP of Rs365/share.

ASARCO—initial deal

Sterlite had on May 31, 2008 announced that its definitive agreement to purchase all the operating assets of ASARCO for US$2.6 bn in cash. The operating assets include (1) three open-pit copper mines and a smelter in Arizona, US and (2) a copper refinery in Texas, US. ASARCO is the third largest copper producer in the US and produced 235,000 tons of refined copper in 2007. According to the management, ASARCO's mines have estimated reserves of 5 mn tons of copper and close to a 30 year mine life, ensuring sufficient longevity.

However, on October 22, 2008, ASARCO announced that it is terminating its contract with Sterlite (USA), Inc., for the sale of its operating assets and would draw on the US$50 mn letter of credit posted by Sterlite at the time of signing the deal. The move followed Sterlite's disclosure that it 'cannot and will not close the sale unless ASARCO agrees to a price reduction'. Sterlite demanded a reduction in the initial US$2.6 bn offer due to sharp 52% correction in copper LME spot prices which fell from US$7,935/ton in May 2008 to US$3,770/ton in October 2008 following the recent credit crises.

Valuation at the time of deal announcement

In its conference call post the acquisition, Sterlite had mentioned that the valuation for ASARCO had been arrived at on an assumption of US$5,500/ton—a 30% discount to the then prevailing copper price of US$7,935/ton but a good 85% premium to the 10 year average copper price of US$2,935/ton during 1997-2007. However, copper prices have fallen further and are now at US$3,500/ton.

ASARCO—Summary financials

ASARCO reported an EBITDA of US$640 mn in CY2007 at a time when copper prices averaged US$7,117/ton and we expect it would have reported US$711 mn in CY2008. However, copper prices have fallen significantly from July 2008 and are now quoting at US$3,500/ton undermining profitability. We expect ASARCO to report an EBITDA of US$188 mn in CY2009 and US$484 mn in CY2010 based on an average copper price assumption of US$3,750/ton and US$4,500/ton for CY2009 and CY2010, respectively. We note that at current copper prices of US$3,500/ton, more than 30% of the miners are incurring cash losses. It is estimated that the bottom 10 percentile of copper producers start incurring cash losses below US$4,500, which gives us comfort that copper prices could likely rise over the next 2-3 years. Please refer to Exhibit 3 for cost curves.

Funding

Sterlite indicated earlier that it would resort to non-recourse debt of upto 50% of the fund required, which in our estimates would not be more than US$1 bn in ASARCO itself. However, given the sharp decline in copper prices, the ability to raise debt in ASARCO could be a challenge. The remaining funding would be from Sterlite's balance sheet. As of December 31, 2008, Sterlite had cash and cash equivalents of Rs190.34 bn on its consolidated books and had cash and cash equivalents of Rs124 bn in its standalone books, of which Rs77 bn was in liquid mutual funds.

Potential synergistic benefits

Sterlite does not intend to send copper concentrates from ASARCO to its 400,000 ton copper smelter in Tuticorin, India. However, it has surplus refining capacity at ASARCO itself of about 250,000 tons which it intends to ramp-up to full capacity by increasing the mining output. Also, given Sterlite's demonstrated operational expertise in de-bottlenecking, increasing output and reduction of costs through marginal capital expenditures etc, the deal would be value accretive. Also, currently, the company is incurring about 10 c/lb out of legal and bankruptcy costs and a significant amount of management time and effort is spent towards environmental litigation. Sterlite would be completely insulated from all the liabilities arising out of environment-related litigation (including asbestos related issues) of the past and of all the non-operating assets.

Possible revised valuation

At current copper prices of US$3,500/ton ASARCO would be operating at break-even levels making the valuation even more difficult. Management has indicated that current cash cost of production is at 150 c/lb which includes about 10 c/lb for legal and bankruptcy costs. Also, owing to a sharp fall in crude oil prices there would be savings in oil related input costs. We believe that the revised valuation for ASARCO would be in the range of US$ 1.8-2 bn based on the average copper price assumption of U$4,500/ton from US$5,500 earlier based on 4-4.5X EV/EBITDA. We reiterate our BUY rating with a TP of Rs365/share. Given that ASARCO is a pure play on copper prices, continued weakness in demand and realization would remain a key risk.

SOTP-based target price of Sterlite Industries is Rs365/share

SOTP-based target price of Sterlite, March fiscal year-ends, 2010E basis (Rs mn)

	EBITDA	Multiple	EV	Sterlite's stake	Attributable EV	EV
	(Rs bn)	(X)	(Rs bn)	(%)	(Rs bn)	(Rs/ share)
Zinc business	26	4.0	104	64.9	67	76
Aluminium business	6	4.0	24	51.0	12	14
Copper smelting business	9	4.0	35	100.0	35	49
Vedanta Aluminium (VAL) (a)						15
Copper mining						2
Power business (b)						45
Total enterprise value					**114**	**201**
Net cash /(debt)					**117**	**165**
Cash / (Net debt)					138	195
Share of debt in Associates (VAL)					(21)	(30)
Attibutable market capitalization					**231**	**365**
Target price (Rs/share)						**365**

Notes:

(a) Given that VAL is currently on an investment phase and the poor outlook on aluminium we have applied a 50% discount to Sterlite equity investment in VAL

(b) We have valued investments in the power business (Sterlite energy) on DCF-to-equity implying a P/BV of 1.3X

(c) We have applied holding company discount of 20% in case of stake in Hindustan Zinc, BALCO, Sterlite Energy and CMT.

Source: Kotak Institutional Equities estimates

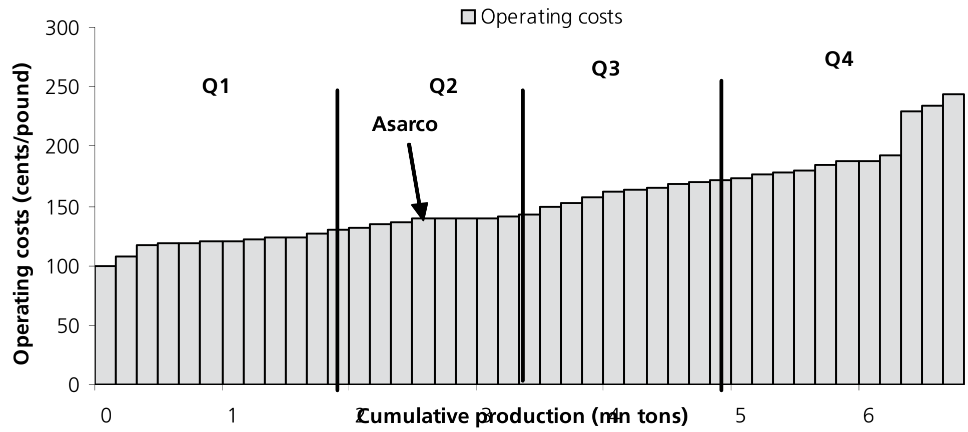
Asarco Inc, Mine details

Mine	Source of copper	Capacity ('000 tons)
Ray	Copper ore, concentrated and leached	170
Mission Complex	Copper ore, concentrated	70
Silver Bell	Copper ore, leached	22

Source: Wikipedia, Kotak Institutional Equities

Asarco operates in the second quartile of the cost curve

Copper producers' cost curve (US cents/pound)



Source: CRU, Kotak Institutional Equities

ASARCO Llc, Financial details, December year-ends, 2007-10E (US$ mn)

	2007	2008E	2009E	2010E
Average copper price (US$/ton)	7,117	6,870	3,750	4,500
Sterlite's Initial Estimate (US$/ton)	5,500	5,500	5,500	5,500
Refined copper production (mt)	235,000	246,750	251,685	264,269
Revenues	**1,900**	**2,034**	**1,180**	**1,427**
Total Expenditure	1,260	1,323	992	943
EBITDA	**640**	**711**	**188**	**484**
Depreciation	110	110	110	110
Interest	-	-	25	50
PBT	**530**	**602**	**53**	**325**
Tax	180	205	18	110
PAT	**350**	**397**	**35**	**214**

Notes:

(1) We have assumed a premium of US$300/ton for copper realisations.

(2) We have assumed costs will come down by 10% on account of savings in legal expenses post acquisition.

(3) We have assumed that Sterlite will raise a non-recourse debt of US$1 bn in ASARCO's books for acquisition financing as indicated earlier.

Source: Company data, Kotak Institutional Equities estimates.

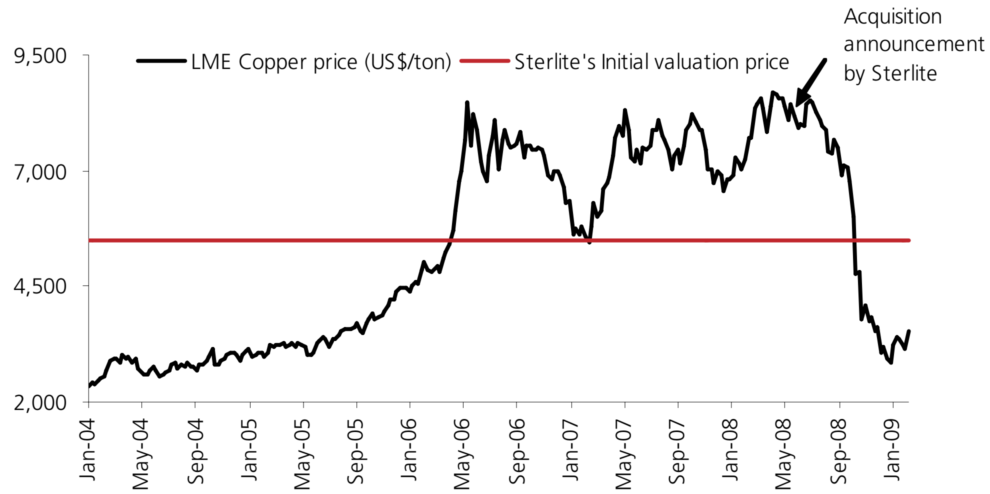
Sterlite Industries (consolidated incl. ASARCO), summary financials, March fiscal year-ends, 2008-11E (Rs mn)

	2008	2009E	2010E	2011E
EBITDA	**108,122**	**84,425**	**49,386**	**73,024**
Other income	15,661	17,218	16,704	17,188
Depreciation	10,996	13,972	14,425	15,702
Interest	3,186	3,733	4,778	5,975
PBT	**109,601**	**83,938**	**46,887**	**68,535**
Tax	29,321	18,178	7,700	13,431
PAT	**80,280**	**65,761**	**39,187**	**55,104**
Minority interest	18,591	11,690	9,229	11,924
Share of profit from associates	-	(2,174)	(1,506)	(1,506)
Net profit	**61,689**	**51,896**	**28,452**	**41,674**
EPS	**87.1**	**73.2**	**40.2**	**58.8**

Source: Kotak Institutional Equities estimates

Commodity prices-back to where they started from

LME metals prices (indexed), Sterlite stock price chart (indexed), March fiscal year-ends



Source: Bloomberg

Sterlite Industries (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)						
Net sales	131,272	243,868	247,054	222,061	163,312	184,640
EBITDA	**36,899**	**94,589**	**78,682**	**50,287**	**40,572**	**50,741**
Other income	3,343	6,817	15,661	19,131	18,560	18,093
Interest	(2,353)	(3,791)	(3,186)	(3,733)	(3,603)	(3,675)
Depreciaiton	(5,269)	(8,039)	(5,950)	(8,706)	(9,269)	(10,656)
Profit before tax	**32,518**	**88,004**	**84,679**	**56,979**	**46,260**	**54,503**
Taxes	(10,165)	(24,118)	(21,027)	(8,361)	(6,856)	(8,352)
Less: Minority interest	(5,568)	(19,045)	(18,591)	(11,690)	(9,229)	(11,924)
Add: share in associates	(4)	—	—	(2,174)	(1,506)	(1,506)
Net profit	**16,781**	**44,842**	**45,061**	**34,754**	**28,669**	**32,721**
Earnings per share (Rs)	**60.3**	**82.3**	**64.2**	**49.1**	**40.5**	**46.2**
Balance sheet (Rs mn)						
Equity	60,530	99,815	223,024	245,553	267,332	292,385
Deferred tax liability	7,511	9,174	13,537	12,816	14,586	16,814
Total Borrowings	68,822	82,365	106,981	111,783	133,499	155,443
Current liabilities	34,113	48,636	50,401	31,846	27,994	28,973
Total liabilities	**170,976**	**239,990**	**393,942**	**401,997**	**443,411**	**493,615**
Net fixed assets	85,497	97,176	124,367	129,745	164,926	182,021
Investments	24,952	52,219	162,941	140,758	140,758	140,758
Cash	11,153	11,134	24,536	38,998	54,331	82,875
Other current assets	49,269	79,460	82,099	92,496	83,395	87,962
Miscellaneous expenditure	105	—	—	—	—	—
Total assets	**170,976**	**239,990**	**393,942**	**401,997**	**443,411**	**493,615**
Cash flow model (Rs mn)						
Operating cash flow excl. working capital	28,131	75,568	61,736	55,195	48,833	57,102
Working capital changes	(8,339)	(18,647)	2,032	961	6,750	(3,537)
Capital expenditure	(11,783)	(20,871)	(30,119)	(19,475)	(42,950)	(27,700)
Free cash flow	**8,009**	**36,049**	**33,648**	**36,682**	**12,633**	**25,865**
Ratios						
Debt/equity (X)	1.0	0.8	0.5	0.4	0.5	0.5
Net debt/equity (X)	0.2	(0.2)	(0.6)	(0.5)	(0.5)	(0.5)
RoAE (%)	28.9	50.7	26.1	14.0	10.6	11.1
RoACE (%)	**14.7**	**29.0**	**17.7**	**10.6**	**8.1**	**8.1**

Source: Company, Kotak Institutional Equities estimates.

Retail

PART.BO, Rs157	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	165
52W High -Low (Rs)	595 - 145
Market Cap (Rs bn)	25.0

Financials

June y/e	2008	2009E	2010E
Sales (Rs bn)	50.5	66.9	81.5
Net Profit (Rs bn)	1.3	1.3	1.6
EPS (Rs)	7.9	8.3	10.2
EPS gth	*92.7*	*4.6*	*24.0*
P/E (x)	19.8	19.0	15.4
EV/EBITDA (x)	10.0	8.1	7.2
Div yield (%)	0.5	0.5	0.6

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(25.9)	(35.0)	(60.6)	(70.3)

Shareholding, December 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	46.5	-	-
FIIs	23.8	0.2	0.1
MFs	9.0	0.3	0.2
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Pantaloon Retail: Focus on margins at expense of growth

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- **Current management initiatives focused on margins with full impact visible from 4QFY09**
- **Funding for FY2009E rollout secure, FY2010 currently under review**
- **January retail numbers show a reversal of SSS decline buoyed by extra week of promotions; net retail expansion in line to achieve retail additions of 2.6 mn for FY2009**
- **Retain SOTP-based target price of Rs165 and REDUCE rating**

We met Pantaloon Retail (PRIL's) management recently. Key takeaways from our meeting (1) customer spending has reduced but not as much as commonly perceived (2) slowdown impact is more severe on the cost side (positive for PRIL) but could lead to delays in project executions (3) current focus on improving gross and EBITDA margins with full effect likely seen from 4QFY09 (4) funding for plans till end FY2009 in place with a review of FY2010E plans currently underway and (5) no plans for any cash and carry initiatives. We also highlight recently released January '09 retail numbers for PRIL which have shown 23% yoy growth, with a value segment growth of 21% and lifestyle segment growth of 22%. Same-store-sales (SSS) were up 5% for January, reversing the 7% decline seen in December with 4% growth in the value segment and 12% growth in the lifestyle segment. PRIL has added 0.26 mn sq. ft of retail space in January and year-to-date retail space addition is now 55% of our total retail space rollout of 2.6 mn sq. ft. Our short-term concerns on funding for expansion outweigh our endorsement of management efforts to improve profitability and we retain our REDUCE rating and target price of Rs165.

Slowdown in consumer spending not as dire as commonly perceived

Management indicated that the slowdown in consumer spending has not been as marked as commonly perceived, with some categories experiencing decent growth. Categories like furniture and home have been relatively more affected, but important categories like apparels and value segment continue to show modest growth.

This is partially borne out by PRIL's January retail sales data. As shown in Exhibit 2, total PRIL retail sales have grown 23% yoy in January, with value segment growth of 21% and lifestyle segment growth of 22%. More important, SSS growth in January has been 5%, with value segment growth of 4% and lifestyle segment growth of 12%. YTD SSS is 7%, with value segment growth of 8% and lifestyle segment growth of 6%.

We are heartened by signs of a rebound in SSS data in January, especially after abysmal December data. As per management, December sales were affected mainly due to around two weeks of poor sales in Mumbai, post the terror attacks in late November and the poor winter in North India, which affected winter wear in apparels. Hence, January sales data likely represents a more accurate presentation of retail spending than December sales.

We also highlight that January retail data is distorted for an extra week of discounted sales (PRIL extended its *"Great Indian Shopping festival"* by seven days to close on January 11 this year) across all formats. Management has indicated that the early onset of the festive season in 2009 (Dusshera is in September and Diwali in early October) would likely mean that promotional sales would be earlier than usual this year.

We maintain our SSS estimates (Exhibit 4), preferring to wait for more clarity on retail spends to take a final call.

Cost side more impacted—positive for margins but could delay rollout

PRIL has made rationalizing its existing cost structures its immediate priority, even at the cost of expansion and future roll-outs. Management indicated that the current economic slowdown offers a very good opportunity to prune costs, especially critical costs like lease rentals and employee costs which had increased dramatically in the retail boom of the last 2-3 years. PRIL has set up a team (under the leadership of Mr. Kishore Biyani) which is looking at all its lease rental agreements with a view on renegotiating earlier contracts. As mentioned in an earlier note, PRIL has set a target of reducing its average rental per effective sq. ft by 10-15%. Management has also indicated that current expansions also include a revenue share agreement (where the rental is based on the revenue generated at the store). Vendor agreements are being rationalized to extract maximum benefit. Distribution centres have been rationalized (Big Bazaar today operates out of 5 DCs as compared to 16 earlier).

A key tool to cost rationalization at PRIL is the extensive usage of technology, which is being implemented to not only reduce costs (for eg by rationalizing inventory) but also to increase sell-through rates. Most technology modules to rationalize costs will become operational by June '09.

This focus on cost control could likely come at the cost of expansion. Management indicated that it has increased its checks and balances preceding new property deals (where they have to commit inventory and deposits upfront). Exhibit 5 shows that PRIL's total retail space addition in January '09 was 0.26 mn sq. ft, and the company has added 1.4-1.5 mn sq. ft of retail space till January '09. This is around 55% of our total FY2009E estimate of 2.6 mn sq. ft.

Current focus on improving margins, both at gross and EBITDA level

The management's internal target for improvement of gross margins (net of markdowns) is 2-3%, which is very aggressive, in our view. Management indicated that a large part of this improvement should flow from 4QFY09 when most IT-led initiatives would flow into operations.

A frontline strategy to improve margins is the increased usage of private-labels in overall merchandise, which have 15-20% better margins than branded merchandise. Management feels that the apparel business will lead this initiative and plans to increase the share of private labels in the Pantaloon format to 84% from current 68-70%. It also plans to increase the share of private label apparel in the Central format to 18% from current 12%.

We welcome this initiative to increase margins. Coupled with lower salary expectations in the sector and the potential lowering of lease rentals, EBITDA margins could likely benefit significantly going forward. We highlight that we have built in a 20 bps increase in EBITDA for FY2009E to 9.3%. We have also modeled EBTIDA margin assumption of 9% and 8.5% (assuming a decline in gross margins due to higher markdowns due to pressure to maintain sales) in FY2010E and FY2011E, respectively. We retain our current estimates, pending more visibility of such initiatives on the bottom line.

Funding for FY2009E largely in place, review process for FY2010E underway

Management indicated that the current funding is sufficient for growth plans in FY2009 and there is a strategic review ongoing for targets for FY2010E (this process has started in Dec-08) as against earlier review done usually around April-May. The management is looking at various options (including capital funding through preferential allotment) for FY2010E operations.

To highlight, total standalone debt has increased to Rs29 bn in 2QFY09, up from Rs24.7 bn in 1QFY09 and Rs22 bn in end FY2008. Group subsidiaries have another Rs3 bn of debt. Of this incremental Rs7 bn debt, PRIL has invested Rs2 bn in capex and around Rs1.5 bn in capital WIP for stores expected to be rolled out over the next 3-6 months. PRIL has also invested close to Rs1 bn in subsidiaries during this period.

PRIL expects the current level of debt to suffice for rollouts planned over the next 6 months. Moreover, it has around Rs1 bn of term loans payable by June '09.

Our SOTP-based target price is Rs165 and retain REDUCE rating

Our SOTP-based target price is Rs165, see Exhibit 1 valuing the standalone business at 12X FY2010E EPS and HSRIL at Rs18. We value FCHL at a 20% discount to current market price. We maintain our REDUCE rating as we believe that funding issues and concerns on consumer spending will likely dominate retail sector sentiments in the short term.

Our SOTP-based value is Rs165

	Equity value	Per share value	Basis
PF standalone value (Rs/share)	10.2	122	12X FY2010E EPS
Value of Home Solutions (Rs mn)	2,921	18	6X FY2010E EV/EBITDA
Value of stake in Future Capital Holdings (Rs mn)	4,115	24	20% holding discount to current market price
Value of stake in Future Ventures		-	
Value of other businesses		-	None
Total (Rs per share)		**164**	

Source: Kotak Institutional equities estimates.

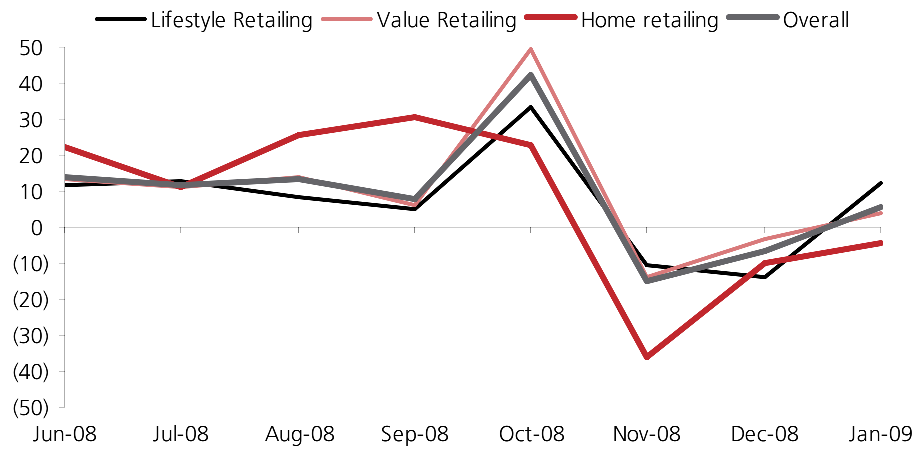
Segment revenue, June fiscal year-ends (Rs mn)

Revenue	Jan-08	Jan-09	% chg	YTD Jan-09	YTD Jan-08	% chg	2Q2009	2Q2008	% chg
Lifestyle retailing	1,668	1,367	22	10,590	8,249	28	4,406	3,594	23
Value retailing	4,529	3,740	21	27,794	21,043	32	12,235	9,401	30
Home retailing	1,324	999	33	7,304	4,925	48	2,863	2,379	20
Total	**7,520**	**6,106**	**23**	**45,688**	**34,217**	**34**	**19,504**	**15,374**	**27**
less: intercompany sales	618	516	20	2,964	2,326	27	1,046	1,074	(3)
Total retail sales	**6,902**	**5,590**	**23**	**42,724**	**31,891**	**34**	**18,458**	**14,300**	**29**

Source: Company data; compiled by Kotak Institutional Equities

SSS has increased to 5% from the 7% decline seen in December

Monthly yoy SSS, June fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Our SSS estimates remain unchanged

	New		
	2009E	2010E	2011E
Pantaloon	2	0	5
Big Bazaar	6	4	5
Food Bazaar	7	5	5
Central	2	4	5
Home Solution	(5)	0	2

Source: Kotak Institutional Equities estimates

PRIL is on track to achieving full year estimated rollout of 2.6mn sq. ft
Total retail space rollout, June fiscal year-ends, (thousands sq. ft)

	New additions			Total		
	January	YTD	2009E	2009E	2010E	2011E
Pantaloon		110	213	1253	1378	1503
Big Bazaar	189	847	1750	6791	7416	8791
Food Bazaar	45	181	55	356	438	535
Central		120	284	1524	2186	2944
Home Solutions	25	186	347	1825	2532	3250
Total				**12070**	**14371**	**17543**

Source: Company, Kotak Institutional Equities

Key estimates for standalone PRIL, June fiscal year-ends, (Rs mn)

				Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E
Total retail space (mn sq. ft)	10.25	11.8	14.3	30	15	21
Net Sales	66,924	81,512	98,133	33	22	20
EBITDA	**6,224**	**7,298**	**8,298**	**35**	**17**	**14**
EBITDA margin	9.3	9.0	8.5			
Depreciation	(1,332)	(1,483)	(1,663)	60	11	12
Interest and Fin Costs	(2,889)	(3,336)	(3,636)	56	15	9
PBT	**2,043**	**2,519**	**3,038**	**4**	**23**	**21**
PAT	**1,316**	**1,622**	**1,956**	**4**	**23**	**21**
EPS (Rs)	**8.3**	**10.2**	**12.3**	**5**	**23**	**21**

Source: Kotak Instituitonal Equities estimates

Pantaloon Retail: Abridged Profit model, balance sheet, cash model, June fiscal year-ends, 2005-11E, (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Profit Model (Rs mn)							
Total income (inc. other op. income)	**10,516**	**18,690**	**32,367**	**50,489**	**66,924**	**81,512**	**98,133**
EBITDA	**866**	**1,432**	**2,156**	**4,605**	**6,224**	**7,298**	**8,298**
EBITDA margin (%)	*8.2*	*7.7*	*6.7*	*9.1*	*9.3*	*9.0*	*8.5*
Depreciation	(133)	(208)	(369)	(834)	(1,332)	(1,483)	(1,663)
Other Income (inc. extraordinaries)	13	43	30	32	38	40	40
EBIT	**746**	**1,267**	**1,817**	**3,803**	**4,930**	**5,855**	**6,675**
Net finance cost	(244)	(335)	(898)	(1,853)	(2,889)	(3,336)	(3,636)
Profit before tax	**502**	**932**	**920**	**1,950**	**2,041**	**2,519**	**3,038**
Tax	**(145)**	**(277)**	**(610)**	**(697)**	**(727)**	**(897)**	**(1,082)**
Adjusted net profit	**386**	**642**	**611**	**1,260**	**1,316**	**1,622**	**1,956**
Diluted EPS (Rs)	**8.8**	**4.8**	**4.2**	**7.9**	**8.3**	**10.2**	**12.3**
Balance Sheet (Rs mn)							
Total Equity	2,215	5,269	10,923	18,466	19,022	20,485	22,123
Deferred tax liability	130	279	558	678	951	1,109	1,185
Total borrowings	2,862	6,014	12,996	21,918	28,918	28,918	32,918
Current liabilites & provisions	1,449	2,623	3,596	6,377	7,651	9,042	10,652
Total Liabilities and equity	**6,656**	**14,185**	**28,073**	**47,439**	**56,541**	**59,554**	**66,878**
Cash	215	218	1,630	1,211	3,909	1,352	1,363
Current assets excl. cash	3,824	8,606	15,865	25,075	31,037	36,439	43,110
Total net fixed assets	2,295	3,955	8,057	15,288	15,729	15,897	16,539
Investments	319	1,406	2,520	5,865	5,865	5,865	5,865
Miscellaneous expenditure	3	—	—	—	—	—	—
Total assets	**6,656**	**14,185**	**28,072**	**47,439**	**56,541**	**59,554**	**66,878**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	583	1,013	1,848	2,466	2,920	3,264	3,696
Working capital	(1,009)	(2,244)	(6,286)	(7,173)	(4,688)	(4,010)	(5,061)
Capital expenditure	(682)	(1,868)	(4,461)	(8,012)	(1,773)	(1,651)	(2,306)
Free cash flow	**(1,109)**	**(3,100)**	**(8,899)**	**(12,719)**	**(3,541)**	**(2,398)**	**(3,671)**

Source: Company, Kotak Instituitonal Equities estimates

Banking

Sector coverage view	Attractive

Company	Rating	Price, Rs 10-Feb	Target
SBI	BUY	1,164	1,600
HDFC Bank	BUY	947	1,350
ICICI Bank	ADD	429	500
Corp Bk	BUY	175	310
BoB	ADD	250	330
PNB	BUY	409	650
OBC	ADD	131	200
Canara Bk	REDUCE	189	220
Axis Bank	ADD	421	750
IOB	BUY	59	120
Andhra	ADD	55	75
Federal Bank	BUY	144	280
J&K Bank	ADD	325	480
Indian Bank	BUY	115	195
Union Bank	BUY	152	220
Central Bank c	SELL	38	55
Bank of India	ADD	254	330

Current market prices likely provide downside protection to investors

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- **Current market prices likely factor in a sharp deterioration in asset quality**
- **Our target prices are based on assuming a sharp increase in NPLs-2.4X by March 2010 compared to December 2008—providing a margin of safety for investing at current levels**
- **We reiterate our preference for SBI, PNB, Union Bank and BoB among public banks; HDFC Bank, Axis Bank and Federal Bank among private banks**

The stock price performance of bank stocks over the past month has been lackluster despite reporting stellar operational performance in 3QFY09. This likely reflects concerns of rising NPLs over the next few quarters given the expected moderation in economic activity. We believe that some of these concerns are likely overdone and already factored in the current stock prices. This conjecture is based on the current stock prices trading at substantial discounts to our fair value estimates, which in turn are calculated on conservative assumptions—(1) base case estimates factor in a sharp rise in NPLs by March 2010 -- 2.4X compared to reported NPLs as of December 2008, (2) reasonable treasury gains in FY2010E compared to potential gains and (3) modest long-term RoEs (beginning equity). We reiterate our preference for SBI, PNB, Union Bank and BoB among public banks. We like HDFC Bank, Axis Bank and Federal Bank among the private banks at current prices.

NPLs are likely to rise sharply by March 2010E. The global financial crisis is likely to impact the real sector activity in India and lead to higher NPLs for the banking system over the next few quarters. We expect the corporate sector loan book of banks to be under greater stress and contribute a larger proportion of incremental NPLs for the banking system. Hence, it is likely that the rise in reported NPLs will be higher at public banks and old private banks (during December 2008-March 2010) compared to the new private banks.

In the retail sector, new private banks have been the dominant players and seen rising NPL trends over the past few years. This challenging environment has led to a scaling down of their disbursements over the past year. Hence, we do not expect NPL trend to worsen significantly on the retail side (compared to corporate segment) and believe private banks might not see sharp deterioration in asset quality going forward.

Our financial models estimate the gross NPLs of the public banks under coverage to rise to Rs762 bn by March 2010E compared to Rs290 bn as of December 2008—an expected increase of 1.6X. The gross NPL ratio of public banks is expected to rise to 2.5-5.0% by March 2010E compared to 0.9-2.6% as of December 2008. The increase in gross NPLs of the new private banks is likely to be more subdued during this period given the higher concentration of retail portfolio in their loan assets and the relative ageing of this portfolio. We expect the gross NPLs of new private banks to rise to Rs246 bn by March 2010E compared to Rs123 bn as of December 2008-an expected increase of 1.0X during the next five quarters.

Expected rise in NPLs is significant from a historical perspective. A historical comparison of the gross NPLs of banks during periods of economic stress is made difficult by the gradual tightening of NPL recognition norms over the past 15 years. An analysis of the historical data suggests that the sharpest rise in reported gross NPLs of the banking system was between March 1998 and March 1999 of Rs79 bn (2.2% of gross advances as of March 1998) and the NPL recognition norms were based on four quarters overdue. We currently expect the gross NPLs for the banks under coverage to rise by Rs613 bn over the next five quarters, which is 3.3% of the gross loans as of December 2008 and likely captures the credit risk exposure of banks to a significant extent. The current NPL recognition norms are based on a 3-month (one quarter) overdue basis.

Diversified loan book could provide some support to asset quality. One of the key features of the credit growth over the past few years has been the diversified nature of credit growth. The proportion of retail and infrastructure sector loans to the outstanding loans as of December 19, 2008 was 33% compared to 19% as of March 2002. The higher concentration of retail and infrastructure loans in the overall portfolio of banks likely reduces the risk of ultimate write-offs and provides support for the asset quality of banks. The incremental growth in credit to the infrastructure segment has been 14% during the Dec'07- Dec'08 period, which is much higher than the 5-7% reported during the previous downcycle. The ultimate write-off in case of infrastructure loans could be lower compared to other sectors given the significant pent-up demand for these services in India.

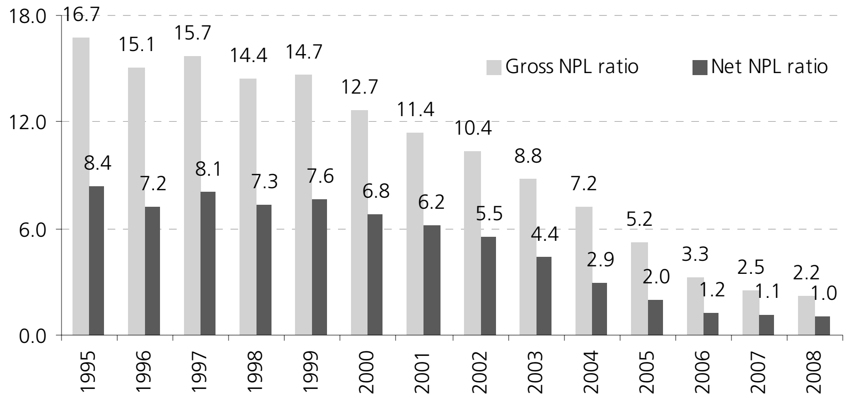
Differentiating between liquidity and solvency risks on books of banks is challenging. We believe that the liquidity crisis has posed two major risks for loan book of banks: (1) temporary liquidity pressure for select sets of borrowers as working capital cycles got elongated; (2) enhanced solvency risks for a set of borrowers as their business models/income earning capabilities are under question. Differentiating between the solvency and liquidity risks is likely to be a key challenge for investors in assessing the credit risk exposure of banks.

The greater leeway provided by RBI to restructure loans upto June 2009 will likely allow banks to provide support to corporates during the current period and might even be a prudent measure for entities facing temporary liquidity pressures. However, this relaxation of norms may delay the recognition of exposures with enhanced solvency risk as NPLs. In the interest of greater transparency and better communication to investors, it would be very useful if banks could have enhanced disclosures on the restructuring undertaken by them like type of restructuring, sectors, leverage of corporates, operating cash flows of corporates, etc.

Improved systems and better creditor rights provide are positive for asset quality of banks. Most banks have improved their information technology (IT) infrastructure over the past few years while significantly strengthening their internal processes. These improvements are likely to improve the ability of banks to identify their weaker assets and enhance their recovery efforts compared to the previous cycle. The legislative improvements like Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) ACT are likely to help banks get better returns on their stressed assets compared to earlier periods.

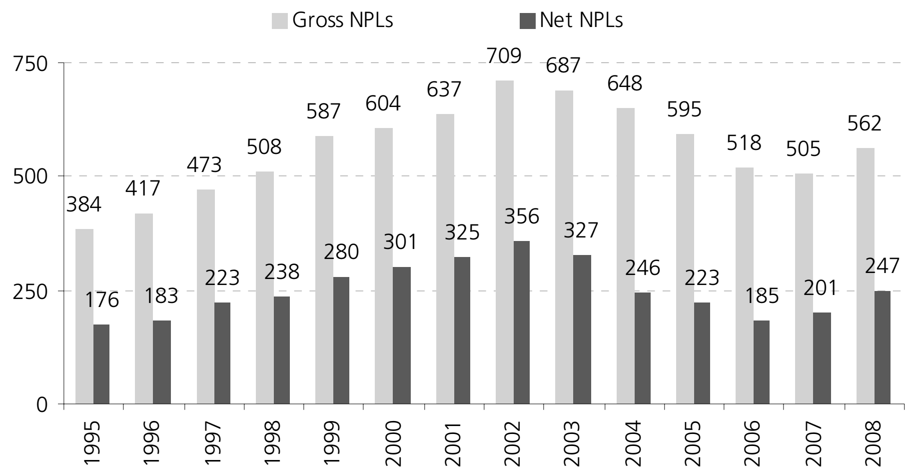
Treasury income could provide significant buffer for asset quality deterioration. We also highlight that the Gsec book of banks is likely to see a significant appreciation given the sharp decline in yields over the past few months. Our calculations suggest that the increase in net worth is likely to be around 10-12% for banks, assuming that they monetize only 50% of their realizable gains on their treasury book (benchmark 10-year Gsec yield at 6.0%). We currently model modest treasury gains in our financial models, which likely carry upside risks.

NPLs have trended downwards despite a tightening of recognition norms over the past 15 years
Trend in gross and net NPL ratio of banks, March fiscal year-ends, 1995-2008 (%)



Source: RBI.

Even in absolute levels the reported NPLs have been trending downwards since 2002 and increased modestly in 2008
Trend in gross and net NPLs of banks, March fiscal year-ends, 1995-2008 (Rs bn)



Source: RBI.

NPL recognition and provisioning norms for banking sector have been gradually tightened over the past 15 years

Time line of the tightening of NPL recognition and provisioning norms, March fiscal year-ends

	Recognition norms for NPLs		Provisioning norms as % of corresponding asset		
	Sub-standard asset	Doubtful asset	Standard asset	Sub-standard asset	Doubtful asset (secured portion)
1993	Period overdue of 4 quarters	Period overdue of 8 quarters	-	10.0	20-50
2000	Period overdue of 2 quarters	Period overdue of 8 quarters	0.25	10.0	20-50
2002	Period overdue of 2 quarters	Period overdue of 6 quarters	0.25	10.0	20-50
2003	Period overdue of 2 quarters	Period overdue of 6 quarters	0.25	10.0	20-50
2004	Period overdue of 1 quarter	Period overdue of 6 quarters	0.25	10.0	20-50
2005	Period overdue of 1 quarter	Period overdue of 4 quarters	0.25	10.0	20-50
2006	Period overdue of 1 quarter	Period overdue of 4 quarters	0.40	10.0	20-50
2007	Period overdue of 1 quarter	Period overdue of 4 quarters	Additional provisions for loans to 'sensitive' sectors	10.0	20-50

Source: RBI.

Our base-case assumptions factor in a sharp rise in reported NPLs to account for likely deterioration of asset quality

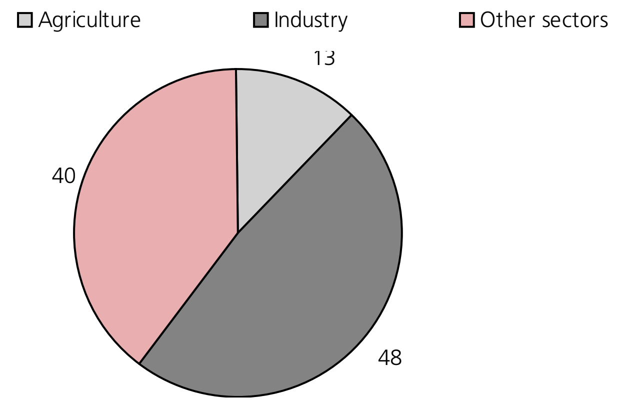
Gross NPLs, Net NPLs of banks

	Gross NPLs (Rs bn)			Gross NPLs (%)			Net NPLs (Rs bn)			Net NPLs (%)		
	3QFY09	2009E	2010E	3QFY09	2009E	2010E	3QFY09	2009E	2010E	3QFY09	2009E	2010E
Public banks												
Andhra Bank	4	6	17	0.9	1.4	3.2	1	1	7	0.2	0.2	1.4
Bank of Baroda	19	24	53	1.5	1.7	3.3	5	2	18	0.4	0.2	1.2
Bank of India	22	27	61	1.6	1.8	3.3	7	4	21	0.5	0.3	1.2
Canara Bank	25	28	71	1.9	2.1	4.5	17	12	36	1.3	0.9	2.3
Corporation Bank	6	9	24	1.2	1.8	4.0	1	2	13	0.3	0.5	2.2
Indian Bank	5	9	15	0.8	1.7	2.5	1	1	2	0.2	0.2	0.3
IOB	17	19	39	2.4	2.4	4.1	9	8	18	1.3	1.0	2.0
OBC	11	16	34	1.7	2.3	4.0	5	6	18	0.8	0.9	2.1
PNB	33	46	80	2.3	3.0	4.3	6	11	27	0.4	0.7	1.5
State Bank of India	133	182	324	2.6	3.4	5.0	69	85	152	1.4	1.6	2.4
Union Bank	16	24	45	1.7	2.5	3.9	1	2	10	0.1	0.2	0.9
Overall public banks	**290**	**390**	**762**	**2.0**	**2.6**	**4.2**	**121**	**134**	**322**	**0.9**	**0.9**	**1.8**
Old private banks												
Federal Bank	6	9	16	2.8	3.6	5.7	1	1	4	0.3	0.3	1.3
J&K Bank	5	6	14	2.6	2.7	5.0	3	2	7	1.2	1.0	2.7
Overall old private banks	**12**	**15**	**30**	**2.7**	**3.2**	**5.4**	**3**	**3**	**11**	**0.8**	**0.7**	**2.0**
New private banks												
Axis Bank	8	14	37	0.9	1.7	3.4	3	4	14	0.4	0.5	1.3
HDFC Bank	19	24	55	1.9	2.8	4.9	6	3	13	0.6	0.3	1.2
ICICI Bank	96	116	155	4.5	5.1	6.3	45	46	60	2.1	2.1	2.5
Overall new private banks	**123**	**153**	**246**	**3.1**	**3.9**	**5.3**	**54**	**53**	**87**	**1.3**	**1.0**	**1.8**
Total	**425**	**558**	**1,038**	**2.3**	**2.9**	**4.5**	**178**	**190**	**419**	**1.0**	**1.0**	**1.9**

Source: Companies, Kotak Institutional Equities estimates.

Industrial sector accounted for 48% of overall bank credit as of March 2002

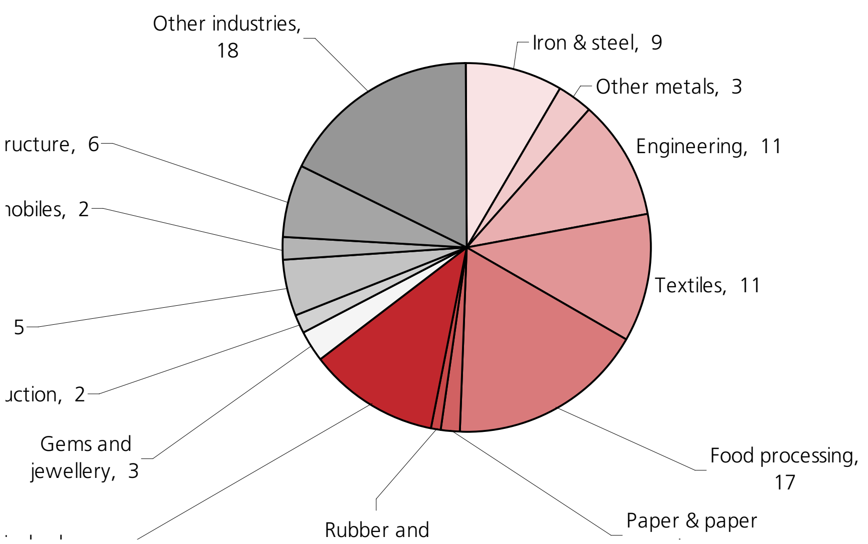
Break-up of credit as of March 2002 (%)



Source: RBI.

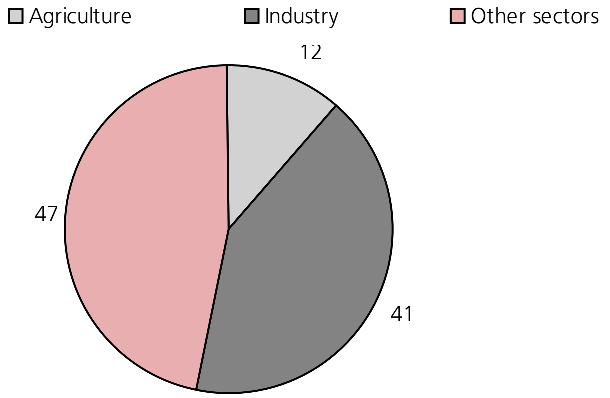
Commodity and export oriented sectors accounted for over 40% of industrial credit

Break-up of industrial credit as of March 2002 (%)



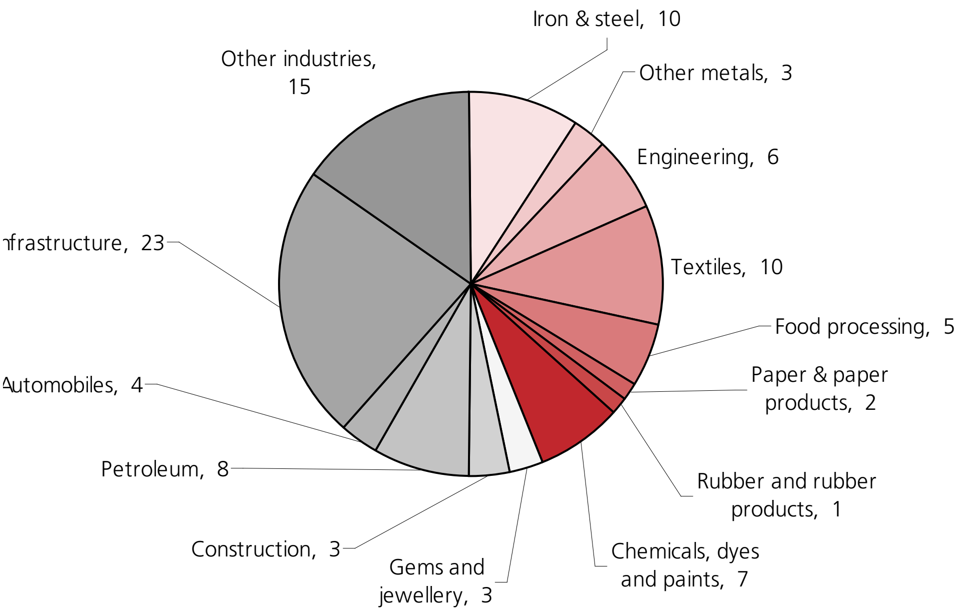
Source: RBI.

Share of industrial sector credit to overall credit has fallen to 41% as of December 2008



Source: RBI.

Commodity and export oriented sectors accounted for over 40% of industrial credit
Break-up of industrial credit as of December 2008 (%)



Source: RBI.

Treasury gains for banks are likely around 10-12% of their net worth

	Investment book details as of December 2008								
	Overall (Rs bn)	HTM (Rs bn)	AFS (Rs bn)	Duration of AFS book (years)	Gains on AFS book (Rs bn)	Gains on HTM book (Rs bn)	Overall post-tax gains (Rs bn)	Net worth (FY2010E) (Rs bn)	Gains as % of net worth (Rs bn)
Public banks									
Andhra Bank	164	120	44	1.8	2	12	9	41	11
Bank of Baroda	461	298	163	1.8	1	31	21	124	8
Bank of India	466	368	98	2.0	0	38	25	138	9
Canara Bank	524	379	145	1.6	3	39	27	112	12
Corporation Bank	233	186	47	1.8	2	19	14	55	12
Indian Bank	215	135	80	2.3	3	14	11	66	8
IOB	279	209	70	2.0	0	22	14	69	10
OBC	279	184	95	2.9	5	19	16	79	10
PNB	632	567	66	2.0	3	59	40	152	13
State Bank of India	2,450	1,622	828	1.8	35	169	133	627	11
Union Bank	412	260	152	1.4	7	27	22	85	13
Old private banks									
Federal Bank	97	56	41	2.6	3	6	6	48	6
J&K Bank	114	80	34	1.6	1	8	6	28	11

Note:
(1) 10-year Gsec yield assumed at 6% as of March 2010.
(2) Gains on AFS book equal
AFS book (as of December 2008) X Duration X (8.6-6.0)/100 - treasury gains booked in 3QFY09 - investment depreciation losses written-back in 3QFY09.
(3) Gains on HTM book equal
HTM book (as of December 2008) X 4.0 X (8.6-6.0)/100.
(4) Duration of HTM book assumed uniformly at 4 years for all banks.
(5) Assuming only 50% of potential gains are realized.

Source: Companies, Kotak Institutional Equities.

Banks had used to treasury gains to set off their credit losses in 2002-2005

Data on key macro economic parameters, bank asset quality, credit provisions and treasury gains, March fiscal year-ends, 2001-2008

	2001	2002	2003	2004	2005	2006	2007	2008
Key macro economic data								
GDP growth* (%)	4.0	5.2	3.8	8.4	8.3	9.2	9.7	9.0
Average IIP growth (%)	4.9	2.8	5.7	7.0	8.4	8.2	11.6	8.5
Asset quality data of banks								
Gross NPLs (Rs bn)	600	709	687	648	595	510	504	564
Gross NPL ratio (%)	11.4	10.4	8.8	7.2	5.2	3.3	2.5	2.3
Net NPLs (Rs bn)	326	356	297	244	218	185	201	247
Net NPL ratio (%)	6.2	5.5	4.4	2.9	2.0	1.2	1.0	1.0
Trading income and NPL provisions of banks (Rs bn)								
Trading income	34	95	132	229	63	18	(23)	NA
NPL provisions	73	105	127	174	71	4	18	25

Note;
* denotes GDP at market prices (constant price with base year of 1999-2000).
Source: RBI.

Our treasury gain assumptions are not aggressive

Treasury income of banks, March fiscal year-ends, 2008-2010E (Rs mn)

	2008	2009E	2010E
Public banks			
Andhra Bank	1,192	1,000	1,000
Bank of Baroda	5,322	7,500	6,000
Bank of India	3,662	6,500	4,000
Canara Bank	4,351	4,000	4,000
Corporation Bank	1,357	1,800	1,800
Indian Bank	2,412	1,500	1,800
IOB	1,912	4,500	3,000
OBC	1,537	4,500	3,000
PNB	4,419	5,300	4,300
State Bank of India	9,463	12,000	18,000
Union Bank	2,898	1,200	1,400
Old private banks			
Federal Bank	750	700	700
J&K Bank	958	650	400
New private banks			
Axis Bank	2,203	2,000	1,500
HDFC Bank	2,418	2,389	2,100
ICICI Bank	19,380	8,280	9,000

Source: Companies, Kotak Institutional Equities estimates.

We expect 10-15 bps decline in spread for most banks in 2010E compared to 2009E

Average yield on funds, average cost of funds and spread of banks, March fiscal year-ends, 2008-2010E (%)

	Avg yield on funds			Avg cost of funds			Spread		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Public banks									
Andhra Bank	8.5	8.9	8.3	6.0	6.5	6.0	2.5	2.5	2.3
Bank of Baroda	7.8	8.0	7.6	5.4	5.6	5.3	2.4	2.4	2.3
Bank of India	7.9	8.5	8.2	5.5	6.0	5.9	2.4	2.5	2.4
Canara Bank	8.4	8.7	8.1	6.7	6.7	6.2	1.7	2.0	1.9
Corporation Bank	7.9	8.4	7.9	5.8	6.5	6.1	2.1	1.9	1.7
Indian Bank	8.5	9.1	8.8	5.6	6.1	5.8	2.8	3.0	3.0
IOB	8.9	9.4	8.7	6.3	6.8	6.3	2.7	2.6	2.5
OBC	8.5	9.0	8.3	6.9	7.4	7.0	1.7	1.6	1.3
PNB	8.3	9.3	8.8	5.3	6.3	5.9	3.0	2.9	2.8
State Bank of India	8.1	8.7	8.1	5.6	6.2	5.7	2.5	2.5	2.4
Union Bank	8.5	9.0	8.3	6.1	6.2	5.8	2.4	2.7	2.6
Old private banks									
Federal Bank	9.1	10.1	9.7	6.6	7.0	6.6	2.5	3.0	3.1
J&K Bank	8.1	8.8	8.5	5.8	6.3	6.1	2.3	2.4	2.4
New private banks									
Axis Bank	7.9	8.6	8.4	5.3	6.1	5.8	2.7	2.5	2.6
HDFC Bank	9.7	11.1	10.3	5.2	6.7	5.7	4.6	4.4	4.6
ICICI Bank	9.0	8.9	8.4	7.3	7.2	6.6	1.7	1.7	1.9

Source: Companies, Kotak Institutional Equities estimates.

We also have modest assumptions on core non-interest (ex-treasury) income

Fee income of banks, March fiscal year-ends, 2008-2010E (Rs mn)

	Non-interest income			Non-interest income (ex-treasury)			Non-interest income (ex-treasury) yoy growth (%)		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Public banks									
Andhra Bank	6,614	6,987	7,580	5,422	5,987	6,580	16.3	10.4	9.9
Bank of Baroda	20,507	25,840	25,596	15,185	18,340	19,596	23.2	20.8	6.9
Bank of India	21,169	28,457	26,579	17,507	21,957	22,579	30.4	25.4	2.8
Canara Bank	23,072	22,318	23,255	18,721	18,318	19,255	35.9	(2.2)	5.1
Corporation Bank	7,001	8,154	8,809	5,644	6,354	7,009	9.9	12.6	10.3
Indian Bank	10,684	9,499	10,254	8,272	7,999	8,454	6.8	(3.3)	5.7
IOB	10,355	14,497	14,560	8,443	9,997	11,560	35.0	18.4	15.6
OBC	6,250	10,231	9,812	4,713	5,731	6,812	3.2	21.6	18.9
PNB	19,964	27,011	28,178	15,545	21,711	23,878	14.6	39.7	10.0
State Bank of India	86,839	110,151	128,150	77,375	98,151	110,150	13.4	26.9	12.2
Union Bank	12,330	12,120	13,410	9,432	10,920	12,010	28.6	15.8	10.0
Old private banks									
Federal Bank	3,950	4,367	4,725	3,199	3,667	4,025	26.7	14.6	9.8
J&K Bank	2,690	2,530	2,502	1,732	1,880	2,102	16.2	8.5	11.8
New private banks									
Axis Bank	18,107	27,325	31,879	15,904	25,325	30,379	67.0	59.2	20.0
HDFC Bank	22,825	31,213	37,698	20,407	28,824	35,598	28.7	41.2	23.5
ICICI Bank	87,452	80,257	88,012	68,071	71,977	79,012	19.3	5.7	9.8

Source: Companies, Kotak Institutional Equities estimates.

Our long-term estimates are likely conservative

Our long-term assumptions of return on equity (%)

Public banks	
Andhra Bank	14.0
BoB	14.0
BoI	15.0
Canara Bank	14.0
Corporation Bank	12.7
Indian Bank	14.9
IOB	15.1
OBC	13.0
PNB	15.0
SBI (standalone)	15.0
Union Bank	15.0
Old private banks	
Federal Bank	14.3
J&K Bank	13.8
New private banks	
Axis Bank	17.0
HDFC Bank	17.5
ICICI Bank (standalone)	14.5

Source: Kotak Institutional Equities estimates.

Telecom

Sector coverage view			Cautious

		Price, Rs	
Company	**Rating**	**10-Feb**	**Target**
Bharti	BUY	664	725
Rcom	SELL	172	200
MTNL	SELL	71	50
Tata Communi	REDUCE	452	400
Idea Cellular	REDUCE	45	55

Sharp jump in GSM net adds could be misleading, increase in competitive intensity not so

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- **Another month of strong net adds**
- **Reported subscriber net adds can be misleading**
- **Subs net adds do not mean much for valuations; we continue to focus on pricing trends and regulatory changes**

India's GSM net adds for the month of January 2009 (ex-RCOM) came in at 9.3 mn versus 8.1 mn in December 2008. Net adds including RCOM could be in the range of 11-12 mn versus 8.5 mn in the previous month (given the massive response to RCOM's GSM introductory offer in the market). We, however, highlight that the reported subscriber net adds in these initial months of numerous new network launches can be misleading. Subscriber deactivation norms followed by the wireless operators (a subscriber remains as an active subscriber for 3-6 months without making or receiving any calls) lead to double counting of subscribers that becomes even more stark when the subscriber churn is high (typically the case when a new operator enters a circle). In any case, we do not see aggregate subscriber additions as material to valuations. We would rather focus on disruptions in mom net adds market share trajectory and more importantly, pricing trends in the market. Pricing trends assume even greater significance (and potential for industry-wide value loss) after the recent aggressive GSM launch pricing announced by RCOM. We maintain our Cautious coverage view on the sector. Bharti remains relatively best positioned in the market to tide over the near-term pain and is our only BUY in the sector.

Reported subscriber net adds can be misleading. We remain wary of the likely subscriber double counting in this phase of rapid subscriber growth and numerous new network launches. The norms followed by industry players allow a non-paying subscriber to remain active (and counted in the subscriber base of that operator) for a period of 3-6 months. This, combined with the high churn rate (3-4% per month in the prepaid segment for various operators and possibly increasing with new operators launching services in various circles), could lead to double counting of subscribers for a sustained period (till gross add pace drops substantially). For example, a Bharti subscriber moving to Idea in the Mumbai circle would remain an active subscriber on Bharti's network for a period of three months from the date she stops making/receiving calls on the Bharti network. Thus, this subscriber would be counted as a subscriber by both Bharti and Idea for a period of three months. We illustrate the point with the net add numbers of two large circles which have seen new network launches in the past few months (analysis pertains only to GSM subscribers).

- **Mumbai.** Idea launched its services in the Mumbai circle in August 2008. BPL, MTNL, Vodafone and Bharti were the incumbent GSM operators in the circle. Reported numbers indicate net adds of 470,000 in the Mumbai circle in the month of January 2009, the highest ever reported in the circle; GSM net adds per month since Idea's launch has been 348,000, substantially higher than net adds run rate of 190,000 per month reported in 12 months prior to Idea's launch. More interesting, this sharp jump in net adds comes at a time when Mumbai has crossed 80% wireless penetration—this clearly demonstrates the impact of increased churn and subscriber double counting since Idea's launch.

- **Bihar.** Vodafone and Idea both launched their networks in the Bihar circle in the month of October 2008 with Bharti, BSNL, Reliance, and Aircel the GSM incumbents. GSM net adds in the Bihar circle too touched an all-time high in January 2009; reported GSM net adds of 850,000 (assuming 90,000 net adds for Reliance GSM) are substantially higher than the 440,000 monthly net adds in the 12-month prior to new launches. While one can argue that Bihar has a low wireless penetration, we would be hard pressed to attribute the jump in net adds to increased wireless accessibility as a result of new launches (network coverage of new operators would be lower than incumbents, in our view).

What would matter in this high-churn market is who keeps the high-paying subs. We have long argued that most of the new lifetime subs do not matter much for valuations. Aggressive launch pricing strategies by the new operators may see subscribers churning to them from the incumbents; however, what matters for value creation is the ARPU level of the churning subscribers. Operating metrics of the wireless operators (specially ARPU trends) over the next few quarters would be a good indicator of the quality of subs added by the new operators. A more likely outcome could be value loss for the industry as a whole. We expect challenging operating times for all the wireless operators in India in the near-to-medium term and back Bharti on its ability to tide over these near-term challenges and come out in a relatively better shape than competitors.

Pricing could take a beating as a slew of net network launches take place in CY2009-10. We highlight that CY2007 and CY2008 have seen very few new network launches—there were only 12 new network launches in CY2008 (6 by Vodafone, 2 by Idea, 3 by TTSL and 1 by Aircel). CY2009 could see 50+ new network launches (14 by RCOM GSM, 4-5 by Idea, 2 by Vodafone, 13 by Aircel, 10+ by Shyam Telelink, 5-6 by TTSL GSM and a few more by others). Aggressive pricing will likely remain the widely-adopted subscriber acquisition strategy by the new operators given (1) the propensity of Indian wireless subscribers to switch operators for 'better' deals and (2) the high churn in the Indian market (~3-4% in the prepaid segment). We have seen some instances of response from the incumbents to the launch pricing of new operators, but will likely see more as their net adds market share comes down further. The bottomline is that tariffs could come under significant pressure in CY2009, implying a downside risk to the Street's (and our) RPM estimates for the industry.

New operators clear gainers on net adds market share. We discuss our thoughts on the December 2008 net adds for various operators below

- **Bharti**. Bharti maintained its net adds pace with 2.73 mn net additions for the month. The company's net adds market share (ex-RCOM) dipped to 29.4% from 33.6% in December 2008. The fall in net adds market share would be sharper after including RCOM net adds as RCOM too launched its GSM service in several circles in January 2009. We expect the drop mom in Bharti's net adds market share to continue as other operators expand their footprint and would not worry about the same unless the magnitude surprises negatively. Our EPS estimates for FY2010E onwards build in a sharp decline in Bharti's net adds market share.

- **Vodafone, Idea—new launches drive net adds acceleration**. Vodafone added 2.41 mn subs in January 2009, up from 2.17 mn in December 2008, while Idea (including Spice) surprised positively (again) adding 2 mn subs versus 1.5 mn in the previous month. Exhibit 2 depicts the performance of Idea and Vodafone in their new circles.

- **Aircel, BSNL, others—BSNL surprises in the way only it can.** Aircel reported net adds of 686,000 for January 2009, a drop from 701,000 net adds in December 2008. BSNL surprised, adding 1.3 mn subs versus 0.7 mn in December 2008. Net adds for other players viz. MTNL and BPL were in line with expectations.

Subscriber details for leading GSM cellular operators, ('000)

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
Subs ('000)													
Bharti	57,418	59,670	61,985	64,370	66,826	69,384	72,078	74,778	77,479	80,200	82,921	85,651	88,383
Hutchison	41,145	42,557	44,126	45,780	47,467	49,195	50,950	52,759	54,625	56,704	58,764	60,933	63,340
IDEA-Escotel	21,955	22,874	24,002	25,040	26,141	27,194	28,248	29,278	30,380	31,583	32,810	34,211	36,064
BPL	1,257	1,276	1,295	1,314	1,331	1,378	1,440	1,517	1,664	1,808	1,882	1,948	2,007
Modi group	3,943	4,084	4,211	4,363	4,498	4,548	4,197	3,563	3,600	3,637	3,706	3,802	3,952
Reliance	6,338	6,676	7,016	7,359	7,711	8,080	8,455	8,831	9,206	9,583	9,964	10,354	10,354
MTNL	3,013	3,122	3,242	3,284	3,350	3,438	3,537	3,639	3,678	3,744	3,821	3,900	4,004
BSNL	33,749	34,573	36,210	36,683	36,997	37,363	37,916	38,490	39,167	39,811	40,488	41,362	42,673
Aircel	9,934	10,185	10,610	10,989	11,492	11,925	12,476	13,127	13,878	14,659	15,375	16,076	16,761
Total market	**178,751**	**185,017**	**192,696**	**199,182**	**205,813**	**212,505**	**219,298**	**225,983**	**233,677**	**241,728**	**249,730**	**258,236**	**267,539**
Market share of subs (%)													
Bharti	32.1	32.3	32.2	32.3	32.5	32.7	32.9	33.1	33.2	33.2	33.2	33.2	33.0
Hutchison	23.0	23.0	22.9	23.0	23.1	23.2	23.2	23.3	23.4	23.5	23.5	23.6	23.7
IDEA-Escotel	12.3	12.4	12.5	12.6	12.7	12.8	12.9	13.0	13.0	13.1	13.1	13.2	13.5
BPL	0.7	0.7	0.7	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8
Modi group	2.2	2.2	2.2	2.2	2.2	2.1	1.9	1.6	1.5	1.5	1.5	1.5	1.5
Reliance	3.5	3.6	3.6	3.7	3.7	3.8	3.9	3.9	3.9	4.0	4.0	4.0	3.9
MTNL	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5
BSNL	18.9	18.7	18.8	18.4	18.0	17.6	17.3	17.0	16.8	16.5	16.2	16.0	16.0
Aircel	5.6	5.5	5.5	5.5	5.6	5.6	5.7	5.8	5.9	6.1	6.2	6.2	6.3
Growth (%)													
Bharti	4.1	3.9	3.9	3.8	3.8	3.8	3.9	3.7	3.6	3.5	3.4	3.3	3.2
Hutchison	3.2	3.4	3.7	3.7	3.7	3.6	3.6	3.5	3.5	3.8	3.6	3.7	4.0
IDEA-Escotel	4.3	4.2	4.9	4.3	4.4	4.0	3.9	3.6	3.8	4.0	3.9	4.3	5.4
BPL	1.4	1.6	1.5	1.5	1.3	3.5	4.5	5.4	9.7	8.7	4.1	3.5	3.1
Modi group	3.7	3.6	3.1	3.6	3.1	1.1	(7.7)	(15.1)	1.0	1.0	1.9	2.6	4.0
Reliance	5.6	5.3	5.1	4.9	4.8	4.8	4.6	4.4	4.3	4.1	4.0	3.9	-
MTNL	2.0	3.6	3.8	1.3	2.0	2.6	2.9	2.9	1.1	1.8	2.1	2.1	2.7
BSNL	3.2	2.4	4.7	1.3	0.9	1.0	1.5	1.5	1.8	1.6	1.7	2.2	3.2
Aircel	5.4	2.5	4.2	3.6	4.6	3.8	4.6	5.2	5.7	5.6	4.9	4.6	4.3
Total market	**3.8**	**3.5**	**4.2**	**3.4**	**3.3**	**3.3**	**3.2**	**3.0**	**3.4**	**3.4**	**3.3**	**3.4**	**3.6**
Net monthly adds ('000)													
Bharti	2,255	2,253	2,315	2,386	2,456	2,558	2,694	2,700	2,701	2,721	2,721	2,730	2,732
Hutchison	1,281	1,412	1,569	1,654	1,686	1,728	1,755	1,808	1,866	2,079	2,061	2,169	2,407
IDEA-Escotel	901	919	1,128	1,038	1,101	1,054	1,054	1,030	1,102	1,203	1,227	1,401	1,853
BPL	17	20	19	19	17	47	61	77	147	144	74	65	60
Modi group	142	141	126	152	135	50	(351)	(634)	37	37	69	96	150
Reliance	336	338	340	342	352	370	375	376	376	377	381	390	-
MTNL	58	109	120	42	67	87	100	102	38	66	77	79	104
BSNL	1,036	824	1,637	473	314	365	553	574	677	644	676	874	1,312
Aircel	506	251	425	379	503	433	551	651	752	781	716	701	686
Total market	**6,531**	**6,266**	**7,680**	**6,486**	**6,630**	**6,693**	**6,793**	**6,685**	**7,694**	**8,051**	**8,002**	**8,505**	**9,303**
Market share of net adds (%)													
Bharti	34.5	35.9	30.1	36.8	37.0	38.2	39.7	40.4	35.1	33.8	34.0	32.1	29.4
Hutchison	19.6	22.5	20.4	25.5	25.4	25.8	25.8	27.1	24.3	25.8	25.8	25.5	25.9
IDEA-Escotel	13.8	14.7	14.7	16.0	16.6	15.7	15.5	15.4	14.3	14.9	15.3	16.5	19.9
BPL	0.3	0.3	0.2	0.3	0.3	0.7	0.9	1.2	1.9	1.8	0.9	0.8	0.6
Modi group	2.2	2.3	1.6	2.4	2.0	0.8	(5.2)	(9.5)	0.5	0.5	0.9	1.1	1.6
Reliance	5.1	5.4	4.4	5.3	5.3	5.5	5.5	5.6	4.9	4.7	4.8	4.6	-
MTNL	0.9	1.7	1.6	0.6	1.0	1.3	1.5	1.5	0.5	0.8	1.0	0.9	1.1
BSNL	15.9	13.2	21.3	7.3	4.7	5.5	8.1	8.6	8.8	8.0	8.5	10.3	14.1
Aircel	7.7	4.0	5.5	5.8	7.6	6.5	8.1	9.7	9.8	9.7	8.9	8.2	7.4
Circlewise subs ('000)													
Metros	28,823	29,510	30,235	30,903	31,555	32,250	33,015	33,880	34,901	35,919	36,773	37,626	38,733
Circle A	65,033	67,081	70,045	72,090	74,344	76,837	79,216	81,369	83,822	86,613	89,386	92,170	95,191
Circle B	64,870	67,289	70,077	72,920	75,636	78,228	80,931	83,573	86,515	89,575	92,478	95,926	99,739
Circle C	20,024	21,137	22,339	23,269	24,277	25,190	26,136	27,161	28,439	29,621	31,094	32,513	33,875
Total	**178,751**	**185,017**	**192,696**	**199,182**	**205,813**	**212,505**	**219,298**	**225,983**	**233,677**	**241,728**	**249,730**	**258,236**	**267,539**
Circlewise net adds ('000)													
Metros	689	687	725	667	652	696	764	865	1,021	1,019	853	854	1,107
Circle A	2,554	2,048	2,964	2,045	2,254	2,492	2,379	2,153	2,453	2,791	2,773	2,784	3,021
Circle B	2,289	2,418	2,788	2,843	2,716	2,592	2,703	2,642	2,942	3,061	2,903	3,448	3,813
Circle C	1,001	1,113	1,202	930	1,008	913	946	1,025	1,278	1,182	1,473	1,419	1,362
Total	**6,531**	**6,266**	**7,680**	**6,486**	**6,630**	**6,693**	**6,793**	**6,685**	**7,694**	**8,051**	**8,002**	**8,505**	**9,303**
Circlewise subs (%)													
Metros	16	16	16	16	15	15	15	15	15	15	15	15	14
Circle A	36	36	36	36	36	36	36	36	36	36	36	36	36
Circle B	36	36	36	37	37	37	37	37	37	37	37	37	37
Circle C	11	11	12	12	12	12	12	12	12	12	12	13	13
Circlewise net adds (%)													
Metros	11	11	9	10	10	10	11	13	13	13	11	10	12
Circle A	39	33	39	32	34	37	35	32	32	35	35	33	32
Circle B	35	39	36	44	41	39	40	40	38	38	36	41	41
Circle C	15	18	16	14	15	14	14	15	17	15	18	17	15

Note:
(1) RCOM GSM numbers not reported yet for January 2009.

Source: Cellular Operator's Association of India, Compiled by Kotak Institutional Equities.

Net add performance of new launches in the past few months

Company	Circle	Launch month	Monthly net adds ('000) May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
Idea											
	Mumbai	Aug-08				17	83	78	63	**84**	**278**
	Bihar	Oct-08						74	75	**120**	**260**
Vodafone											
	Assam	Sep-08					7	22	16	21	24
	Orissa	Aug-08				35	25	35	41	44	51
	North-east	Sep-08					3	13	14	17	26
	M.P.	Oct-08						5	25	55	90
	Bihar	Oct-08						26	50	**100**	**152**
	Himachal pradesh									10	7
Aircel											
	Kolkata	May-08	55	52	36	50	58	60	57	29	48

Source: COAI

Consumer products

Sector coverage view			Cautious

Company	Rating	Price, Rs 10-Feb	Target
Hindustan Unile	REDUCE	259	245
ITC	ADD	180	200
Nestle India	ADD	1,499	1,740
Colgate-Palmo	ADD	419	490
SmithKilne Cor	ADD	609	700
Asian Paints	REDUCE	831	800
Jyothy Laborat	ADD	53	127
Tata Tea	BUY	553	940
Godrej Consun	ADD	130	160

Consumer trading up seen in detergents; volume growth will take a while

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- **Consumer has rationalized on detergents consumption; purchase cycle elongated**
- **Relative price point for mid-segment seems to be prompting consumers to trade up**
- **Media reports suggest safeguard duty on LAB**

We recently spoke to two smaller FMCG players—Power (Rs4 bn sales, No.2 detergent player in Tamilnadu) and Henkel India (Rs5 bn sales, urban focused). The unprecedented product price increases (Exhibit 1) have led to the detergents industry volume contraction as consumers opted to rationalize on quantum of usage resulting in longer-than-expected consumer purchase cycles. In the call, Henkel indicated that the likelihood of regional competition re-emerging in the mass segment is real. We believe that the volume growth in detergents will be constrained in the medium term as it takes time for the consumer usage pattern to reverse. The silver lining for the detergent industry is that the relative price point for mid-segment seems to be favoring consumer trading up (the price increase in Wheel over the past three years is +79% and Rin +49%). We believe that the current market scenario offers tremendous opportunity for players like Henkel (urban focused) and Power (value-for-money player) to channelize the gross margin expansion to gain market shares and improve market positions. Hence, there is limited opportunity to retain significant component of cost comfort for players like HUL, in our view. However, considering that the parent companies face huge growth challenges in the developed markets (P&G, Unilever) the likelihood of rational competition from P&G in developing markets like India is high, in our view. Reiterate REDUCE on HUL, our discomfort on premium valuations (a 10-year high) remain.

Consumer has rationalized detergents consumption—volume growth will likely take a while

We recently spoke to two smaller FMCG players—Power (Rs4 bn sales, No.2 detergent player in Tamilnadu) and Henkel India (Rs5 bn sales, urban focused). Both the companies commented that the unprecedented product price increases have led to detergents industry volume contraction. The premium and mid-range are growing well at about 30% in value terms (pricing-led growth, flat-to-modest volume growth). In the December quarter results press release, HUL stated that the detergents category has contracted in volume terms. We have highlighted in our note dated December 18, 2008 that the unabated cost-led price increases as well as grammage reductions over the past two years (Exhibit 1) has likely resulted in consumers opting to rationalize on quantum of usage resulting in longer-than-expected consumer purchase cycles.

While we expected consumer rationalization in usage pattern, the decline in overall market surprised us. Our discussions with Henkel & Power in August 2008 had indicated that the unorganized players had mostly exited the market due to (1) implementation of VAT three years ago, (2) non-availability of key raw materials in time and (3) cost inflation as well as volatility in input costs. Hence, we were expecting the organized segment to grow albeit in low single digits. However, the current scenario of organized sector market contraction points that the loss due to consumer usage rationalization is higher than gains from unorganized sector. In the call, Henkel indicated that the likelihood of regional competition re-emerging in the mass segment is real—and that the game will continue to be played on the price front in that segment. Net, we believe that the volume growth in detergents business will be constrained in the medium term as it takes time for consumer usage pattern to reverse.

Not all is lost though

The silver lining for the detergent industry is that the relative price point for the mid-segment seems to be favoring consumer trading up (the price increase in Wheel over the last 3-years is +79%, Rin +49%). This is good news for the industry as brand loyalty as well pricing power favors the manufacturers as the consumer moves up the value chain. However, we believe that the current market scenario offers tremendous opportunity for players like Henkel (urban focused) and Power (value for money player) to channelize the gross margin expansion to gain market shares and improve market positions. Hence, there is limited opportunity to retain a significant component of cost comfort for players like HUL, in our view.

However, considering that the parent companies face huge growth challenges in the developed markets (P&G, Unilever) the likelihood of rational competition from P&G in developing markets like India is high, in our view. In a recent media briefing, Jim Lawrence, Unilever CFO commented, *"As a number of markets have gone into recession and consumers have adjusted their spending, the effect on volume has been more pronounced".* Further driving home the point regarding the current difficult market conditions in the key markets, Paul Polman, Unilever CEO commented *"In developed markets we see consumers trading down, drawing down from their pantry stocks or simply consuming less. At the same time we see retailers increasingly pushing their own brands and driving efficiencies in the supply chain by reducing their inventories. All of this puts pressure on the 'system'."*

Cost savings on some ingredients like perfumes, structural changes to formulation (for example, usage of lesser quantum of bleach, (without compromising on efficacy) will also help the industry to improve the margin profile. We further highlight that the structural cost efficiency measures implemented by companies over the past three years has likely increased their cost competitiveness.

Biggies to be kept under check—retaining the current prices could spell sales erosion to regional players

We believe 'Power' represents a growing band of smaller FMCG players that are well placed to drive growth by gaining market shares from unorganized segment and keep the profitability levels of MNC majors such as HUL under check. We believe margin expansion in detergents for HUL will be limited as retaining the current prices could result in loss of sales to regional brands, which offer similar product quality at lower prices (and margins). The 'Power' brand detergent with annual sales of ~Rs4 bn has ~2% value market share of the Indian detergents market and is a strong No.2 in Tamilnadu behind HUL. Henkel—with a strong distribution network in metros and top-23 cities—also has a 2% value market share in detergents and an Rs5 bn portfolio with leading brands like Henko and Mr.White.

Media reports suggest safeguard duty on LAB

Recent media reports suggest that the government plans to impose a safeguard duty of 20% on the import of linear alkyl benzene (LAB), a major ingredient for the detergents industry. Recently, the Director General of Safeguards has issued a public notice regarding the proposal to implement a safeguard duty on LAB imports. The domestic manufacturers (Reliance, Nirma, Indian Oil etc) had represented to the government that the share of imports in domestic consumption during 2005-08 rose to 14% in 2008 from 4% in 2005 and is consequently hampering the viability of domestic industry.

The safeguard duty, if imposed, could result in a reversal of input cost comfort for detergent manufacturers and would keep their margins under check. We keenly await the outcome of this development. However, contrary to Street expectations, we believe the imposition of safeguard duty could actually benefit larger players like HUL and P&G in the medium term as the inflation in input prices would keep the regional players at bay as well as hinder their ability to compete on the price platform.

Expect more product innovations in detergents category

We reiterate that the emerging cost comfort will likely see players refocusing on product innovations, brand extensions and investments in building newer segments. The acute cost inflation of the last three years resulted in companies channelizing the focus towards cost management. Recent examples of renewed focus are the launch of 'Rin Matic' (first ever mid-price detergent for semi-automatic washing machines) and the attempt to upgrade the 'Wheel' consumer by launching 'Wheel Gold' at about 10% price premium to 'Wheel Blue'. We expect increased focus on pre and post wash categories and effort to upgrade the consumer. Jyothy Laboratories' launch of 'Ujala Stiff n Shine' (fabric stiffener), Reckitt Benckiser's 'Vanish' (stain remover) and HUL's 'Comfort' (fabric softener with lasting perfume as the differentiator) are recent examples.

Reiterate REDUCE on HUL, our discomfort on premium valuations remain

We model 17% earnings growth for HUL in CY09E on the back of 100 bps expansion in EBITDA margins. We expect the company's detergents EBITDA margins to expand 300 bps in CY09E driven by better pricing power in top-end (Surf Excel). We see revenue growth slowing down to 12% in CY09E (from 19% in CY08E) due to (1) higher base of CY2008 and (2) deceleration in volume growth to low single digits. We note that yet-to-be-anniversaried price increases provide about 8% topline growth for CY09E as of now. We continue to believe that holding on to the MRP in key categories is difficult from now on and competitive pressures warrant higher trade spends.

At the current market price of Rs258/share the stock trades at 24X CY09E. A 150% premium to Sensex multiple (highest in a decade) is unjustified for a business which is incrementally showing signs of significant weakness. We reiterate our REDUCE rating on the stock. The defensiveness premium of the stock is at significant risk, in our view.

Key upside risks to our estimates include (1) ability to channelize emerging cost comfort to below-the-line activities and attain higher volume growth, (2) ineffective competition from regional competition and price warriors.

Exhibit 1: Price increases has likely hurt consumption at lower end of detergent portfolio

Retail prices of key HUL brands

Segment	Brand	SKU	Dec-05	Dec-07	Dec-08	Increase 1-year	Increase 3-years
			(Rs)	(Rs)	(Rs)	(%)	(%)
Premium	Lux/Hamam/Rexona	100g	13.0	16.0	18.0	13	38
Popular	Lifebuoy @	100g	9.0	12.2	14.4	18	60
Mass	Breeze @	100g	8.0	8.4	9.4	12	18
Premium	Surf Excel Blue	1 Kg	68.7	85.3	120.0	41	75
Mid-segment	Rin Advanced	1 Kg	47.0	54.0	70.0	30	49
Mass	Wheel Active @	1 Kg	27.0	30.3	40.0	32	48
Mass	Wheel Lemon Fresh @	1 Kg	20.0	23.5	35.7	52	79

@ Adjusted for pack-size changes.

The brand extension names of most HUL detergents have changed and the formulation is likely modified.

In the table, we have kept the current brand names for comparison purposes.

Source: Kotak Institutional Equities

HUL - P/E bands (one year forward)

Source : Kotak Institutional Equities

Stock likely to underperform from now on given the significant deterioration in quality of growth

Relative P/E of HUL over Sensex (x)

Source : Kotak Institutional Equities

HUL: Profit model, balance sheet, cash model 2006-2010E, December year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)					
Net sales	121,034	137,178	163,452	183,230	205,574
EBITDA	**16,621**	**18,874**	**21,288**	**25,719**	**28,917**
Other income	3,545	4,627	4,800	4,955	6,163
Depreciation	(1,302)	(1,384)	(1,541)	(1,810)	(2,105)
Pretax profits	18,757	21,862	24,546	28,789	32,901
Tax	(2,950)	(3,782)	(3,530)	(4,339)	(5,533)
Deferred taxation	(268)	(389)	(803)	(1,054)	(1,002)
Net profit	**15,539**	**17,690**	**20,213**	**23,397**	**26,365**
Earnings per share (Rs)	**7.0**	**8.0**	**9.2**	**10.7**	**12.1**
Balance sheet (Rs mn)					
Total equity	27,235	14,392	15,473	16,739	18,166
Total borrowings	726	885	885	885	885
Currrent liabilities	45,231	51,110	57,408	63,627	71,430
Total liabilities and equity	**73,191**	**66,387**	**73,766**	**81,252**	**90,481**
Cash	4,169	2,009	1,178	2,428	5,104
Current assets	27,527	30,765	33,502	37,098	41,610
Total fixed assets	15,110	17,081	20,134	23,828	26,870
Investments	24,139	14,408	17,632	17,632	17,632
Deferred tax asset	2,245	2,124	1,321	267	(736)
Total assets	**73,191**	**66,387**	**73,766**	**81,252**	**90,481**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	20,209	20,860	22,346	26,347	29,565
Working capital	(471)	3,092	4,783	1,635	2,411
Capital expenditure	(1,576)	(3,355)	(4,593)	(5,505)	(5,148)
Investments	(4,309)	9,294	(3,224)	—	—
Free cash flow	**13,852**	**29,890**	**19,312**	**22,477**	**26,828**
Key assumptions					
Revenue Growth (%)	9.4	13.3	19.2	12.1	12.2
EBITDA Margin(%)	13.9	13.7	13.0	14.0	14.1
EPS Growth (%)	18.3	13.8	14.5	17.0	12.7

Note: The company has extended the financial year ending 31 December 2008 to 31 March 2009 and will declare 15 months annual results.

The above mentioned estimates are for 12 month periods to facilitate meaningful comparison.

Source: Kotak Institutional Equities estimates.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	10-Feb-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Automobiles																													
Bajaj Auto	467	REDUCE	67,502	1,384	145	59.3	62.1	67.8	(53.4)	4.7	9.1	7.9	7.5	6.9	5.7	5.6	4.8	4.2	3.5	2.8	4.3	4.3	4.3	21.0	40.1	36.3	375	(19.6)	—
Hero Honda	889	REDUCE	177,433	3,638	200	48.5	60.2	74.4	12.8	24.3	23.5	18.3	14.7	11.9	11.6	9.7	8.2	5.7	4.6	3.7	2.1	2.3	2.3	34.0	34.8	34.3	890	0.2	8.4
Mahindra & Mahindra	283	ADD	72,926	1,495	258	38.1	18.6	31.2	(2.0)	(51.2)	67.9	7.4	15.2	9.1	6.0	10.7	7.2	1.7	1.4	1.2	3.9	3.3	3.4	27.8	10.8	15.1	330	16.8	4.5
Maruti Suzuki	608	SELL	175,828	3,605	289	59.9	45.0	50.5	10.8	(24.9)	12.4	10.2	13.5	12.0	5.8	7.3	6.3	2.0	1.8	1.6	0.8	0.8	0.8	22.2	14.2	14.0	435	(28.5)	16.3
Tata Motors	138	SELL	76,899	1,577	556	36.5	18.0	18.5	(22.4)	(50.7)	2.8	3.8	7.7	7.5	3.3	8.4	6.3	0.9	0.5	0.5	7.5	-	-	24.7	8.8	7.1	120	(13.2)	9.0
Automobiles		**Cautious**	**570,589**	**11,700**					**(0.8)**	**(25.3)**	**18.0**	**8.7**	**11.7**	**9.9**	5.8	8.1	6.6	**2.2**	**1.7**	**1.5**	**2.9**	**1.9**	**1.9**	**24.6**	**14.3**	**14.6**			
Banks/Financial Institutions																													
Andhra Bank	55	ADD	26,627	546	485	11.9	12.6	11.2	7.0	6.1	(11.4)	4.6	4.4	4.9	—	—	—	0.9	0.8	0.8	7.3	5.7	5.1	18.0	17.6	14.0	75	36.6	0.4
Axis Bank	421	ADD	150,596	3,088	358	32.2	47.0	53.9	37.7	46.0	14.6	13.1	9.0	7.8	—	—	—	1.8	1.6	1.5	1.4	2.1	2.4	17.6	17.9	17.8	750	78.1	37.4
Bank of Baroda	250	ADD	91,291	1,872	366	39.3	52.4	51.9	39.8	33.5	(0.9)	6.4	4.8	4.8	—	—	—	1.1	0.9	0.9	3.2	4.3	4.2	14.6	16.4	14.6	330	32.1	6.0
Bank of India	254	ADD	133,766	2,743	526	40.6	54.4	51.3	76.6	33.9	(5.8)	6.3	4.7	5.0	—	—	—	1.7	1.3	1.1	1.6	2.2	2.1	27.6	28.4	21.5	330	29.7	12.9
Canara Bank	189	REDUCE	77,654	1,592	410	38.2	45.9	38.6	10.1	20.3	(15.9)	5.0	4.1	4.9	—	—	—	1.1	0.9	0.9	4.2	3.2	3.2	15.0	16.7	12.5	220	16.2	4.6
Corporation Bank	175	BUY	25,116	515	143	51.3	62.9	57.1	37.2	22.7	(9.3)	3.4	2.8	3.1	—	—	—	0.6	0.5	0.5	6.0	7.4	6.7	18.4	19.7	15.7	310	77.0	0.6
Federal Bank	144	BUY	24,680	506	171	34.4	31.7	32.3	0.5	(7.7)	1.8	4.2	4.6	4.5	—	—	—	0.7	0.6	0.5	2.8	4.1	4.2	13.6	13.1	12.1	280	94.0	1.4
Future Capital Holdings	136	BUY	8,618	177	63	(4.5)	4.5	28.8	(689.8)	(198.6)	546.1	(30.2)	30.6	4.7	—	—	—	1.2	1.1	0.9	—	—	—	(6.7)	3.8	21.4	440	222.8	0.4
HDFC	1,510	REDUCE	433,473	8,888	287	85.8	75.0	85.4	38.2	(12.6)	14.0	17.6	20.1	17.7	—	—	—	3.6	3.1	2.8	1.6	1.5	1.7	27.8	16.7	16.8	1,550	2.6	65.0
HDFC Bank	947	BUY	400,853	8,219	423	46.0	53.5	67.1	28.7	16.4	25.4	20.6	17.7	14.1	—	—	—	3.5	2.7	2.3	0.8	1.0	1.2	17.7	17.3	17.9	1,350	42.6	42.2
ICICI Bank	429	ADD	477,005	9,781	1,113	39.9	34.3	34.7	15.4	(14.0)	1.1	10.7	12.5	12.4	—	—	—	1.0	1.0	0.9	2.6	2.4	2.3	11.7	8.0	7.7	500	16.6	105.4
IDFC	57	ADD	73,775	1,513	1,294	5.7	6.0	6.3	3.0	5.3	5.9	10.0	9.5	9.0	—	—	—	1.3	1.2	1.1	2.1	1.8	1.9	17.6	13.2	12.7	75	31.6	14.4
India Infoline	46	ADD	13,119	269	287	5.6	4.9	4.3	85.6	(12.0)	(12.5)	8.2	9.3	10.6	—	—	—	1.1	1.1	1.0	2.6	6.2	5.4	20.7	11.5	9.8	60	31.4	3.5
Indian Bank	115	BUY	49,445	1,014	430	22.5	27.4	28.5	33.9	21.4	4.1	5.1	4.2	4.0	—	—	—	1.1	0.9	0.8	2.6	3.0	3.2	23.4	22.1	19.4	195	69.5	1.3
Indian Overseas Bank	59	BUY	32,116	659	545	22.1	26.8	22.3	19.2	21.5	(16.7)	2.7	2.2	2.6	—	—	—	0.7	0.5	0.5	6.4	8.4	9.3	27.2	26.8	18.7	120	103.6	1.1
J&K Bank	325	ADD	15,743	323	48	74.2	82.7	72.3	31.2	11.4	(12.6)	4.4	3.9	4.5	—	—	—	0.8	0.7	0.7	4.8	5.3	4.6	16.8	16.5	12.9	480	47.9	0.1
LIC Housing Finance	214	BUY	18,198	373	85	45.5	58.1	58.5	38.7	27.6	0.8	4.7	3.7	3.7	—	—	—	1.0	0.8	0.7	4.7	6.0	6.0	-	-	-	330	54.1	5.3
Mahindra & Mahindra Financial	206	SELL	19,646	403	95	20.8	18.5	22.6	32.6	(11.2)	22.0	9.9	11.1	9.1	—	—	—	1.6	1.4	1.2	2.2	2.2	2.7	16.9	12.8	14.2	190	(7.8)	0.2
Oriental Bank of Commerce	131	ADD	32,695	670	251	23.9	37.1	27.8	(27.6)	55.3	(25.1)	5.5	3.5	4.7	—	—	—	0.7	0.5	0.5	3.6	5.7	4.3	6.2	14.0	9.0	200	53.3	2.9
PFC	138	ADD	158,392	3,248	1,148	11.4	12.2	15.8	2.4	7.4	29.8	12.1	11.3	8.7	—	—	—	1.6	1.5	1.3	2.5	2.8	3.4	13.5	13.6	15.5	145	5.1	1.8
Punjab National Bank	409	BUY	128,927	2,644	315	65.0	92.5	92.5	33.0	42.3	0.0	6.3	4.4	4.4	—	—	—	1.3	1.1	1.0	3.2	4.5	4.5	18.0	21.8	18.9	650	59.0	10.6
Shriram Transport	191	REDUCE	38,809	796	203	19.2	28.6	27.0	85.7	49.0	(5.6)	10.0	6.7	7.1	—	—	—	2.2	1.9	1.6	2.6	4.5	4.4	26.9	28.8	23.6	215	12.5	1.4
SREI	34	ADD	3,919	80	116	11.4	7.3	6.9	57.4	(36.2)	(5.7)	2.9	4.6	4.9	—	—	—	0.6	0.4	0.3	3.6	6.8	8.3	23.1	13.1	11.5	50	48.4	0.3
State Bank of India	1,164	BUY	735,095	15,073	631	106.6	137.1	130.3	23.5	28.7	(4.9)	10.9	8.5	8.9	—	—	—	1.7	1.5	1.5	1.8	1.8	1.9	16.8	16.5	13.9	1,600	37.4	106.7
Union Bank	152	BUY	76,955	1,578	505	27.5	34.7	33.8	64.0	26.2	(2.4)	5.5	4.4	4.5	—	—	—	1.0	0.9	0.8	2.6	3.4	3.3	26.8	27.6	22.0	220	44.4	4.0
Banks/Financial Institutions		**Attractive**	**3,246,511**	**66,568**					**37.4**	**22.7**	**0.5**	**10.0**	**8.2**	**8.1**	**—**	**—**	**—**	**1.5**	**1.3**	**1.2**	**2.2**	**2.4**	**2.5**	**15.3**	**16.3**	**15.2**			
Cement																													
ACC	543	REDUCE	102,516	2,102	189	64.1	56.0	44.4	13.0	(12.5)	(20.8)	8.5	9.7	12.2	4.4	4.2	5.7	2.3	1.9	1.8	4.3	4.3	4.3	33.3	25.6	17.4	550	1.2	5.8
Ambuja Cements	74	REDUCE	112,656	2,310	1,522	7.6	7.6	5.8	(11.2)	0.2	(23.7)	9.8	9.8	12.8	5.0	5.3	6.2	2.2	1.9	1.7	3.5	4.0	2.5	26.6	20.8	14.1	60	(18.9)	2.7
Grasim Industries	1,413	ADD	129,581	2,657	92	284.6	221.6	171.9	32.6	(22.1)	(22.4)	5.0	6.4	8.2	3.3	4.0	4.3	1.4	1.2	1.1	2.2	2.4	2.4	33.1	20.3	13.8	1,400	(0.9)	6.7
India Cements	111	ADD	31,330	642	282	24.5	18.8	19.8	n/a	(23.0)	4.9	4.5	5.9	5.6	4.0	4.3	3.8	0.9	0.8	0.7	1.6	1.9	1.9	25.8	15.7	14.7	130	17.0	2.7
Shree Cement	549	BUY	19,127	392	35	90.2	129.9	72.5	99.5	44.0	(44.2)	6.1	4.2	7.6	2.5	2.5	3.1	2.9	1.8	1.5	1.5	1.5	1.5	56.9	53.2	21.7	850	54.8	0.2
UltraTech Cement	419	BUY	52,471	1,076	125	81.4	73.0	54.2	28.5	(10.3)	(25.7)	5.1	5.7	7.7	3.7	4.1	4.6	1.6	1.2	1.1	1.8	2.0	2.0	45.2	29.5	17.9	525	25.3	1.3
Cement		**Cautious**	**447,681**	**9,179**					**19.3**	**(12.1)**	**(22.1)**	**6.4**	**7.3**	**9.4**	**3.8**	**4.2**	**4.7**	**1.7**	**1.4**	**1.3**	**2.9**	**3.1**	**2.7**	**26.8**	**19.7**	**13.7**			
Consumer (Discretionary)																													
Radico Khaitan	72	REDUCE	7,362	151	102	2.2	2.6	3.3	(41.4)	15.0	26.3	32.0	27.9	22.0	11.9	12.1	10.3	2.9	2.7	2.4	0.8	—	—	11.7	10.0	11.4	65	(9.5)	0.4
United Breweries	79	REDUCE	18,868	387	240	2.1	1.9	2.4	(2.2)	(11.4)	31.0	37.3	42.1	32.1	12.0	9.4	7.2	3.1	1.8	1.7	—	—	—	8.0	3.6	5.4	85	8.1	0.1
United Spirits	713	BUY	67,139	1,377	94	28.9	32.7	48.0	(52.0)	13.2	46.9	24.7	21.8	14.8	11.1	10.8	9.2	2.9	2.9	2.2	0.2	0.3	0.3	14.0	13.5	16.8	900	26.2	26.3
Consumer (Discretionary)		**Neutral**	**93,368**	**1,914**					**(3.6)**	**15.4**	**40.5**	**27.4**	**23.7**	**16.9**	**11.3**	**10.7**	**9.0**	**3.0**	**2.3**	**2.1**	**0.2**	**0.2**	**0.2**	**10.9**	**9.9**	**12.3**			
Consumer products																													
Asian Paints	831	REDUCE	79,690	1,634	96	39.3	35.7	44.3	40.4	(9.2)	24.3	21.2	23.3	18.7	12.8	13.9	10.8	8.3	7.2	6.1	2.0	2.1	2.4	45.0	34.2	36.2	800	(3.7)	1.1
Colgate-Palmolive (India)	419	ADD	57,042	1,170	136	17.1	20.4	23.5	16.5	19.4	15.5	24.6	20.6	17.8	20.4	18.0	14.9	31.2	33.8	37.5	3.1	4.4	5.0	100.1	157.8	200.3	490	16.8	0.8
GlaxoSmithkline Consumer (a)	609	ADD	25,610	525	42	38.7	44.8	50.4	26.9	15.8	12.6	15.7	13.6	12.1	8.1	7.3	6.3	3.9	3.3	2.8	2.0	2.4	2.7	27.4	26.7	25.6	700	15.0	0.1
Godrej Consumer Products	130	ADD	33,425	685	258	7.1	6.7	8.7	18.7	(5.5)	31.2	18.4	19.4	14.8	15.9	17.2	12.0	18.8	5.1	4.4	2.8	3.1	3.1	109.6	42.1	43.1	160	23.6	0.4
Hindustan Unilever	259	REDUCE	564,372	11,572	2,179	8.1	9.2	10.7	15.4	12.9	17.0	31.9	28.2	24.1	25.9	22.6	18.5	39.2	36.4	33.7	4.1	3.4	3.9	85.2	134.3	145.7	245	(5.4)	18.9
ITC	180	ADD	679,669	13,936	3,769	8.3	8.7	9.8	15.4	4.6	12.8	21.8	20.8	18.5	13.9	12.8	11.3	5.4	4.8	4.2	1.9	2.1	2.2	27.7	25.4	25.2	200	10.9	18.3
Jyothy Laboratories	53	ADD	3,832	79	73	6.5	7.2	10.6	(8.6)	10.2	47.3	8.1	7.3	5.0	4.5	4.0	2.6	1.1	1.0	0.8	4.4	4.4	5.5	13.5	13.0	16.5	127	140.5	
Nestle India (a)	1,499	ADD	144,551	2,964	96	44.5	56.4	68.1	31.3	26.8	20.7	33.7	26.6	22.0	20.3	16.8	14.1	28.0	21.5	16.7	1.8	2.3	2.8	94.8	91.4	85.4	1,740	16.1	0.9
Tata Tea	553	BUY	34,219	702	62	54.2	60.1	67.7	3.9	10.9	12.7	10.2	9.2	8.2	4.6	4.9	3.9	0.8	0.7	0.7	6.3	3.1	3.5	11.9	10.3	10.8	940	69.9	1.0
Consumer products		**Cautious**	**1,622,410**	**33,267**					**17.1**	**8.7**	**15.9**	**24.5**	**22.5**	**19.4**	**16.1**	**15.0**	**12.7**	**7.6**	**6.7**	**5.9**	**2.9**	**2.7**	**3.0**	**31.0**	**29.6**	**30.5**			
Constructions																													
Consolidated Construction Co.	132	ADD	4,871	100	37	24.0	22.3	27.2	67.6	(7.4)	22.1	5.5	5.9	4.8	3.8	4.1	3.4	1.1	0.9	0.8	1.9	2.4	3.0	27.7	16.8	17.8	190	44.2	0.0
IVRCL	121	BUY	16,378	336	135	15.5	14.9	16.1	27.2	(4.0)	8.0	7.8	8.1	7.5	7.1	6.4	5.4	1.0	0.9	0.8	1.2	0.7	0.7	14.4	11.9	11.5	175	44.6	13.5
Nagarjuna Construction Co.	52	BUY	11,993	246	229	7.2	7.3	8.8	14.5	2.5	19.7	7.3	7.1	6.0	5.2	5.5	4.9	0.8	1.4	0.6	2.1	2.6	3.1	12.6	10.3	11.3	100	91.0	2.8
Punj Lloyd	96	REDUCE	30,954	635	323	10.0	9.6	16.4	323.5	(4.0)	71.5	9.6	10.0	5.8	5.8	7.1	4.4	1.1	1.0	0.9	0.3	0.4	0.8	16.8	10.8	16.3	105	9.7	26.5
Sadbhav Engineering	341	BUY	4,462	91	13	40.5	46.2	57.6	68.2	13.9	24.8	8.4	7.4	5.9	6.0	4.8	4.1	1.5	1.2	1.1	1.1	1.5	1.8	16.5	16.7	18.1	650	90.8	0.1
Construction		**Attractive**	**68,657**	**1,408**					**94.7**	**(1.7)**	**37.3**	**8.2**	**8.4**	**6.1**	**5.8**	**6.2**	**4.6**	**1.0**	**0.9**	**0.8**	**1.0**	**1.1**	**1.4**	**12.5**	**11.1**	**13.4**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Energy																																
Bharat Petroleum	401	REDUCE	131,358	2,693	328	41.1	37.9	34.3	(21.6)	(7.9)	(9.5)	9.7	10.6	11.7	4.4	4.3	3.7	1.0	1.0	0.8	1.1	1.0	0.9	11.8	9.7	8.0	400	(0.2)	6.4
Cairn india	166	BUY	311,316	6,383	1,871	(0.1)	4.2	5.0	(105)	(3,619)	20	(1,396)	40	33.2	38.4	22.8	16.3	1.0	0.9	0.9	—	—	—	(0.1)	2.5	2.8	225	35.2	14.6
Castrol India (a)	315	ADD	38,922	798	124	17.6	21.3	25.8	44.4	20.7	21.3	17.8	14.8	12.2	9.8	8.3	6.8	9.4	8.6	7.7	4.4	4.8	5.7	52.2	61.0	66.8	390	23.9	0.3
GAIL (India)	213	REDUCE	270,249	5,541	1,268	20.4	22.9	22.4	21.0	12.2	(1.9)	10.4	9.3	9.5	5.1	4.9	6.7	1.9	1.7	1.5	3.1	3.8	3.8	18.1	18.0	15.8	230	8.0	10.4
GSPL	32	BUY	18,234	374	563	1.8	1.4	2.4	10.1	(22.4)	68.6	18.0	23.2	13.7	6.4	6.9	4.5	1.5	1.4	1.3	1.5	1.2	2.0	8.8	6.2	9.7	45	38.9	1.6
Hindustan Petroleum	299	REDUCE	101,330	2,078	339	33.5	14.7	32.0	(16.4)	(56.1)	118.1	8.9	20.3	9.3	7.5	6.2	3.7	0.8	0.8	0.7	1.0	0.4	1.0	9.6	3.9	7.9	285	(4.7)	8.2
Indian Oil Corporation	449	REDUCE	529,161	10,850	1,179	61.3	32.3	53.4	31.0	(47.4)	65.4	7.3	13.9	8.4	4.4	8.5	6.2	1.2	1.1	1.0	1.2	0.7	1.2	17.4	8.0	12.0	550	22.6	3.8
Oil & Natural Gas Corporation	717	BUY	1,534,544	31,465	2,139	92.7	102.0	107.2	9.1	10.0	5.1	7.7	7.0	6.7	2.7	2.4	2.1	1.5	1.3	1.2	4.5	4.7	5.3	19.6	19.2	17.8	900	25.4	36.5
Petronet LNG	38	ADD	28,425	583	750	6.3	5.5	5.9	—	(12.6)	6.6	6.0	6.9	6.4	4.1	6.0	4.7	1.5	1.3	1.1	4.0	4.0	4.0	26.7	19.2	17.2	52	37.2	1.7
Reliance Industries	1,402	ADD	1,924,877	39,468	1,373	105.0	97.7	115.7	25.5	(6.9)	18.4	13.4	14.3	12.1	8.9	8.3	5.4	2.2	1.8	1.5	0.8	1.0	1.1	19.0	14.3	14.6	1,400	(0.1)	225.4
Reliance Petroleum	87	REDUCE	391,950	8,037	4,500	-	(0.0)	7.1	n/a	n/a	n/a	n/a	n/a	12.3	n/a	n/a	9.4	2.9	2.9	2.5	—	—	2.3	-	(0.0)	22.0	85	(2.4)	32.6
Energy		**Neutral**	**5,280,367**	**108,271**					**12.9**	**(2.3)**	**23.9**	**11.1**	**11.3**	**9.1**	**5.6**	**5.8**	**4.5**	**1.6**	**1.4**	**1.3**	**2.0**	**2.1**	**2.6**	**14.9**	**12.4**	**13.9**			
Industrials																																
ABB	455	SELL	96,440	1,977	212	23.2	25.5	27.3	44.5	10.0	6.8	19.6	17.8	16.7	11.2	10.0	9.4	5.9	4.6	3.8	0.5	0.6	0.7	34.8	29.2	24.9	425	(6.6)	4.3
BGR Energy Systems	153	REDUCE	11,016	226	72	12.1	15.3	20.7	(67.4)	26.1	35.4	12.6	10.0	7.4	7.4	5.8	5.0	2.3	2.0	1.6	1.3	1.6	2.2	31.4	21.3	23.9	165	7.8	0.7
Bharat Electronics	889	ADD	71,120	1,458	80	102.0	105.5	111.8	11.2	3.4	6.0	8.7	8.4	7.9	3.7	3.0	2.6	2.1	1.8	1.5	2.3	2.8	2.8	27.7	23.1	20.8	950	6.9	1.1
Bharat Heavy Electricals	1,452	BUY	710,979	14,578	490	58.4	64.9	92.6	22.9	11.2	42.5	24.9	22.4	15.7	13.2	11.7	8.4	6.6	5.4	4.3	1.0	1.0	1.4	29.2	26.6	30.5	1,475	1.6	56.7
Larsen & Toubro	699	REDUCE	414,031	8,489	593	37.9	48.5	55.3	20.8	27.8	14.1	18.4	14.4	12.6	12.7	9.4	8.4	3.5	2.6	2.2	1.2	2.9	2.9	22.7	20.9	19.4	750	7.4	63.2
Maharashtra Seamless	123	BUY	8,696	178	71	29.4	37.4	37.9	(23.5)	27.6	1.2	4.2	3.3	3.3	2.4	2.0	1.9	0.8	0.6	0.5	4.1	4.6	4.6	19.7	21.1	18.0	215	74.4	0.3
Siemens	207	REDUCE	69,640	1,428	337	18.2	14.2	15.7	60.4	(22.2)	10.5	11.3	14.6	13.2	6.0	5.9	6.6	3.8	3.0	2.6	1.2	1.7	2.1	39.9	23.1	21.3	220	6.5	5.7
Suzlon Energy	45	REDUCE	70,434	1,444	1,567	6.6	6.9	4.3	9.5	4.4	(37.5)	6.8	6.6	10.5	4.4	6.9	8.4	0.8	0.7	0.6	2.1	1.1	1.1	16.3	11.0	6.2	60	33.5	52.3
Industrials		**Cautious**	**1,452,356**	**29,780**					**24.6**	**12.2**	**16.6**	**17.4**	**15.5**	**13.3**	**10.0**	**8.9**	**7.8**	**3.6**	**2.9**	**2.5**	**1.2**	**1.6**	**1.9**	**20.8**	**19.0**	**18.7**			
Infrastructure																																
IRB Infrastructure	113	ADD	37,656	772	332	3.4	6.6	13.9	150.9	92.3	111.2	33.1	17.2	8.1	12.3	10.7	5.5	2.3	2.0	1.6	—	—	—	10.7	12.4	21.4	130	14.7	0.3
Media																																
DishTV	24	REDUCE	15,684	322	644	(9.6)	(7.4)	(4.1)	n/a	(23.1)	(44.2)	(2.5)	(3.3)	(5.9)	(9.2)	(12.0)	(57.0)	(3.5)	(2.4)	(7.3)	—	—	—	167.9	86.7	NA	22	(9.7)	1.6
HT Media	59	BUY	13,891	285	234	4.3	3.1	4.8	4.7	(28.5)	53.7	13.7	19.2	12.5	7.5	8.7	5.7	1.6	1.5	1.4	0.7	0.7	1.3	12.2	8.2	11.8	115	93.9	0.1
Jagran Prakashan	53	BUY	15,932	327	301	3.3	2.9	4.1	33.5	(9.7)	38.7	16.2	18.0	13.0	8.9	9.9	7.1	3.0	2.8	2.5	3.8	2.8	3.9	18.7	15.9	20.4	75	41.8	0.0
Sun TV Network	165	BUY	64,925	1,331	394	8.3	9.3	11.4	30.7	12.0	23.0	19.9	17.7	14.4	10.5	9.4	7.8	4.3	3.8	3.5	1.5	2.4	3.6	24.8	23.6	25.8	215	30.5	2.6
Zee Entertainment Enterprises	129	BUY	56,039	1,149	434	8.9	8.2	9.3	62.6	(7.5)	13.7	14.6	15.7	13.8	10.7	11.2	9.9	1.9	1.7	1.6	1.5	1.8	2.0	14.2	11.8	12.2	145	12.2	5.6
Zee News	31	BUY	7,469	153	240	1.5	1.9	2.1	396.2	24.0	6.9	20.1	16.2	15.2	10.9	9.1	8.1	3.5	3.0	2.6	1.3	1.3	1.6	19.2	20.5	18.9	38	22.0	0.2
Media		**Attractive**	**173,939**	**3,567**					**30.8**	**(17.1)**	**68.2**	**32.5**	**39.2**	**23.3**	**13.3**	**13.0**	**9.3**	**3.1**	**2.8**	**2.4**	**1.5**	**1.9**	**2.5**	**9.5**	**7.3**	**10.5**			
Metals																																
Hindalco Industries	45	ADD	78,780	1,615	1,753	13.8	7.7	2.4	(10.0)	(44.4)	(69.2)	3.3	5.9	19.0	5.5	5.0	7.0	0.4	0.2	0.2	—	—	—	14.4	10.3	5.2	65	44.6	10.1
National Aluminium Co.	193	SELL	124,384	2,550	644	25.3	19.7	10.3	(31.5)	(22.2)	(47.8)	7.6	9.8	18.8	3.2	4.5	5.7	1.3	1.2	1.1	3.1	1.8	1.0	18.3	12.7	6.2	135	(30.1)	2.9
Jindal Steel and Power	1,075	BUY	165,555	3,395	154	101.8	92.4	78.9	123.0	(9.2)	(14.6)	10.6	11.6	13.6	8.7	7.9	8.6	3.9	2.9	2.3	0.4	0.5	0.7	43.8	28.3	18.9	1,250	16.2	17.8
JSW Steel	224	SELL	41,974	861	187	86.1	8.7	21.5	16.1	(89.9)	146.2	2.6	25.7	10.4	4.6	7.1	7.3	0.5	0.4	0.4	6.2	0.9	0.9	20.7	10.2	3.9	185	(17.6)	5.5
Hindustan Zinc	341	BUY	143,978	2,952	423	104.0	66.5	59.0	(1.0)	(36.1)	(11.2)	3.3	5.1	5.8	1.2	1.7	1.9	1.2	1.0	0.8	1.5	2.2	2.9	43.6	20.8	15.7	470	37.9	2.6
Sesa Goa	100	BUY	78,567	1,611	787	19.0	23.2	18.3	146.0	22.6	(21.3)	5.3	4.3	5.5	2.7	2.5	2.5	2.8	1.8	1.4	2.6	3.5	3.5	67.8	50.5	28.9	115	15.2	12.6
Sterlite Industries	278	BUY	197,245	4,044	708	64.3	49.1	40.5	(22.6)	(23.8)	(17.5)	4.3	5.7	6.9	3.6	5.4	6.8	0.8	0.8	0.7	-	-	-	26.1	14.0	10.6	365	31.1	23.1
Tata Steel	197	BUY	161,809	3,318	822	75.7	107.1	69.8	43.8	41.4	(34.8)	2.6	1.8	2.8	3.7	3.2	3.9	0.4	0.4	0.3	7.4	6.5	6.6	46.3	33.7	20.2	300	52.4	49.0
Metals		**Attractive**	**992,290**	**20,346**					**12.7**	**(7.7)**	**(30.4)**	**4.2**	**4.5**	**6.5**	**3.9**	**4.2**	**5.1**	**0.8**	**0.7**	**0.6**	**2.3**	**2.0**	**2.1**	**19.9**	**14.5**	**9.4**			
Pharmaceutical																																
Biocon	105	BUY	21,070	432	200	23.3	5.0	14.5	126.0	(78.4)	186.6	4.5	20.9	7.3	5.7	8.6	4.5	1.4	1.4	1.2	0.1	0.0	0.1	17.6	6.6	17.3	230	118.3	0.4
Cipla	195	REDUCE	151,339	3,103	777	9.0	10.0	12.9	4.9	11.0	29.1	21.6	19.4	15.1	15.9	14.2	11.1	4.0	3.5	3.0	1.0	1.3	1.5	20.1	19.3	21.5	220	13.0	5.9
Dishman Pharma & chemicals	121	BUY	9,874	202	81	14.7	12.6	20.7	30.5	(14.3)	64.4	8.2	9.6	5.9	8.0	8.1	5.3	1.7	1.5	1.2	0.0	0.0	0.0	26.8	16.6	22.9	250	105.9	0.2
Divi's Laboratories	910	BUY	58,757	1,205	65	53.2	65.3	72.2	85.8	22.6	10.5	17.1	13.9	12.6	13.9	10.8	9.0	6.9	4.7	3.5	0.1	0.1	0.1	49.8	40.4	32.2	1,300	42.8	5.2
Dr Reddy's Laboratories	464	BUY	78,563	1,611	169	26.1	28.7	37.8	(57.2)	10.0	31.7	17.8	16.2	12.3	8.7	7.2	6.0	1.7	1.6	1.4	0.8	0.9	0.9	10.3	10.3	12.2	675	45.4	3.8
Glenmark Pharmaceuticals	142	BUY	37,711	773	266	25.8	16.3	17.4	98.4	(37.1)	6.8	5.5	8.7	8.2	5.4	6.4	5.8	2.5	1.6	1.4	0.1	0.1	0.1	57.4	22.4	18.9	390	174.9	9.1
Jubilant Organosys	124	BUY	22,074	453	179	22.4	(3.9)	21.7	72.3	(117.4)	(659)	5.5	(31.7)	5.7	6.3	23.2	6.9	1.7	1.6	1.5	1.0	1.3	1.7	37.0	(5.8)	29.8	300	142.8	0.4
Lupin	624	BUY	55,307	1,134	89	49.8	49.6	59.5	30.2	(0.4)	20.0	12.5	12.6	10.5	14.8	11.2	9.0	4.3	2.7	2.3	1.5	1.5	1.8	37.9	26.9	24.0	950	52.2	1.5
Piramal Healthcare	190	BUY	39,720	814	209	17.7	15.6	20.3	66.8	(12.0)	30.3	10.7	12.2	9.3	8.3	9.3	6.8	3.6	3.0	2.4	2.2	2.1	2.4	30.9	26.0	28.9	340	78.9	0.8
Ranbaxy Laboratories	233	ADD	97,518	2,000	419	23.3	(8.1)	13.0	70.4	NA	NA	10.0	NA	17.9	9.1	(136.6)	7.3	3.2	1.9	1.1	3.3	4.4	5.1	32.3	(8.8)	8.4	340	46.1	7.5
Sun Pharmaceuticals	1,122	BUY	232,436	4,766	207	74.7	86.0	76.7	78.9	15.2	(10.8)	15.0	13.0	14.6	12.6	10.0	10.1	4.5	3.4	2.8	0.9	1.0	1.2	38.3	30.9	22.1	1,675	49.3	17.3
Pharmaceuticals		**Attractive**	**804,369**	**16,493**					**34.1**	**(25.8)**	**46.5**	**13.4**	**18.1**	**12.3**	**10.3**	**11.8**	**8.0**	**3.3**	**2.6**	**2.0**	**1.2**	**1.4**	**1.6**	**24.5**	**14.3**	**16.3**			
Property																																
DLF	153	REDUCE	260,152	5,334	1,705	46.1	30.9	22.8	263.2	(33.0)	(26.3)	3.3	4.9	6.7	3.7	6.2	6.8	1.3	1.1	1.0	2.6	2.6	2.6	66.5	24.0	15.1	190	24.5	90.8
Housing Development & Infrastruc	85	REDUCE	23,348	479	275	51.2	30.6	19.8	118.6	(40.1)	(35.3)	1.7	2.8	4.3	3.0	6.2	7.0	0.6	0.5	0.5	4.6	5.9	7.1	64.5	21.2	12.1	120	41.6	53.8
Indiabulls Real Estate	105	ADD	27,142	557	258	16.4	3.0	3.4	2,383.9	(81.5)	11.6	6.4	34.6	31.0	(725.3)	(13.5)	11.8	0.5	0.4	0.4	0.3	0.1	0.0	10.6	1.3	1.3	180	70.9	34.4
Mahindra Life Space Developer	125	BUY	5,265	108	42	16.8	10.2	10.8	307.7	(39.2)	5.3	7.4	12.2	11.6	13.5	17.6	9.4	0.6	0.6	0.6	2.1	3.1	3.1	8.4	4.8	4.9	410	227.5	0.1
Phoenix Mills	57	BUY	8,300	170	145	12.4	5.4	8.7	89.5	(56.7)	62.3	4.6	10.6	6.6	3.8	11.1	4.7	0.6	0.6	0.5	1.7	1.7	1.7	22.1	5.3	8.1	210	266.5	0.1
Puravankara Projects	41	REDUCE	8,761	180	213	11.2	7.6	7.5	67.3	(32.1)	(2.2)	3.6	5.4	5.5	7.0	10.7	10.2	0.7	0.7	0.6	4.9	-	4.9	34.2	12.9	11.4	55	34.0	0.3
Sobha	84	REDUCE	6,098	125	73	31.7	15.9	11.9	42.9	(50.0)	(24.8)	2.6	5.3	7.0	6.4	7.6	10.8	0.6	0.6	0.5	7.8	4.8	4.8	25.3	11.0	7.8	90	7.6	0.5
Unitech	32	SELL	51,704	1,060	1,623	10.3	6.9	5.5	28.5	(33.4)	(20.5)	3.1	4.6	5.8	5.5	7.2	8.6	1.4	1.1	0.9	0.8	-	-	59.9	26.8	17.2	24	(24.6)	61.9
Property		**Cautious**	**390,771**	**8,013**					**190.6**	**(36.1)**	**(24.5)**	**3.2**	**5.1**	**6.7**	**4.2**	**6.6**	**7.4**	**1.1**	**0.9**	**0.8**	**2.4**	**2.3**	**2.4**	**32.5**	**17.2**	**11.8**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Retail																													
Pantaloon Retail	157	REDUCE	25,002	513	159	7.9	8.3	10.2	90.0	4.4	23.3	19.8	19.0	15.4	10.0	8.1	7.2	1.4	1.3	1.2	0.5	0.5	0.6	8.2	6.7	7.8	165	5.1	0.7
Titan Industries	859	REDUCE	38,113	781	44	35.1	41.4	46.5	55.2	18.2	12.2	24.5	20.7	18.5	16.6	12.6	11.0	8.1	6.2	4.9	0.9	1.1	1.3	37.7	33.8	29.7	930	8.3	3.0
Vishal Retail	49	ADD	1,099	23	22	18.1	10.6	10.8	37.2	(41.2)	1.9	2.7	4.6	4.5	4.7	4.5	3.6	0.4	0.4	0.3	—	—	—	20.2	8.3	7.8	75	52.9	0.2
Retail			**64,213**	**1,317**					**31.9**	**5.4**	**15.8**	**19.9**	**18.9**	**16.3**	**11.1**	**8.8**	**7.7**	**2.5**	**2.3**	**2.0**	**0.7**	**0.9**	**1.0**	**12.4**	**12.1**	**12.5**			
Technology																													
HCL Technologies	117	REDUCE	81,628	1,674	695	15.3	18.7	17.3	(19.0)	22.4	(7.7)	7.7	6.3	6.8	3.6	4.3	4.0	1.7	1.3	1.2	6.8	10.2	10.2	21.4	21.3	18.1	140	19.2	4.2
Hexaware Technologies	20	SELL	2,843	58	142	7.7	2.9	3.8	(13.7)	(62.4)	32.1	2.6	6.9	5.3	(0.3)	0.9	0.5	0.4	0.4	0.4	4.5	8.0	8.0	15.1	5.8	7.4	25	25.0	0.0
Infosys Technologies	1,308	BUY	751,022	15,399	574	79.1	101.6	107.7	18.0	28.5	5.9	16.5	12.9	12.2	12.7	9.1	8.2	5.4	4.2	3.3	2.5	1.9	2.0	36.1	36.6	30.5	1,500	14.6	55.5
Mphasis BFL	148	REDUCE	30,867	633	208	12.2	22.3	23.4	67.6	81.7	5.0	12.1	6.7	6.3	7.2	4.2	3.3	2.7	0.3	1.6	2.4	2.7	3.0	23.6	34.6	28.4	190	28.3	0.7
Mindtree	205	BUY	8,107	166	40	26.7	21.0	37.1	12.3	(21.6)	76.9	7.7	9.8	5.5	6.8	3.1	2.9	1.5	1.3	1.0	1.3	—	—	21.3	11.9	17.8	400	94.9	0.2
Patni Computer Systems	117	SELL	15,003	308	129	33.2	26.3	30.8	29.2	(20.8)	16.9	3.5	4.4	3.8	0.3	0.4	(0.5)	0.5	0.5	0.4	1.9	2.3	2.6	19.2	14.1	12.0	160	37.2	0.3
Polaris Software Lab	51	SELL	4,974	102	98	7.4	14.9	12.7	(27.6)	100.0	(14.9)	6.8	3.4	4.0	2.7	1.1	1.0	0.8	0.6	0.6	3.5	3.5	3.5	11.7	20.4	15.0	50	(1.2)	1.8
TCS	525	REDUCE	513,379	10,527	979	51.3	53.9	55.7	21.5	5.1	3.3	10.2	9.7	9.4	8.1	6.8	6.5	4.1	3.3	2.8	2.7	3.6	4.2	47.0	37.8	32.1	550	4.8	21.1
Tech Mahindra	237	BUY	29,505	605	125	59.1	67.6	58.7	25.7	14.5	(13.2)	4.0	3.5	4.0	3.5	2.0	1.8	2.3	1.4	1.1	2.3	2.5	2.6	70.7	53.1	31.6	320	35.1	1.9
Wipro	226	ADD	330,193	6,770	1,462	22.2	25.1	26.2	12.6	12.8	4.3	10.2	9.0	8.6	8.1	6.1	5.4	2.6	2.1	1.8	2.8	3.3	3.5	27.9	25.7	22.6	280	24.0	10.8
Technology		**Cautious**	**1,767,519**	**36,242**					**15.7**	**16.7**	**3.4**	**11.3**	**9.7**	**9.4**	**8.4**	**6.5**	**6.0**	**3.4**	**2.7**	**2.3**	**2.8**	**3.1**	**3.4**	**30.3**	**28.1**	**24.4**			
Telecom																													
Bharti Airtel Ltd	664	BUY	1,259,352	25,822	1,898	35.3	44.2	52.1	65.0	25.1	18.0	18.8	15.0	12.7	11.4	8.6	7.2	5.6	4.1	3.1	—	0.6	0.9	39.1	31.4	27.5	725	9.3	67.1
IDEA	45	REDUCE	146,121	2,996	3,236	3.9	2.6	2.8	78.5	(33.2)	6.0	11.4	17.1	16.1	8.9	6.0	5.5	4.1	1.1	1.0	—	—	—	36.4	10.1	6.7	55	21.8	4.7
MTNL	71	SELL	44,573	914	630	7.1	4.0	4.1	(11.0)	(44.3)	2.6	9.9	17.8	17.3	1.5	4.7	3.4	0.4	0.4	0.4	5.7	8.5	8.5	3.5	1.6	1.6	50	(29.3)	1.2
Reliance Communications	172	SELL	354,186	7,262	2,064	26.5	26.7	22.2	86.4	0.7	(16.5)	6.5	6.4	7.7	6.0	6.8	6.3	1.2	1.0	0.9	0.4	—	—	16.8	18.4	12.9	200	16.6	62.2
Tata Communications	452	REDUCE	128,735	2,640	285	10.9	13.6	14.0	(36.3)	24.0	3.2	41.3	33.3	32.2	17.2	14.2	12.9	1.9	1.9	1.8	1.0	1.1	1.4	4.4	5.4	5.2	400	(11.4)	3.2
Telecom		**Cautious**	**1,932,966**	**39,634**					**65.7**	**12.7**	**3.2**	**13.4**	**11.9**	**11.5**	**9.2**	**7.9**	**6.9**	**2.6**	**2.0**	**1.7**	**0.5**	**0.7**	**0.9**	**19.6**	**16.7**	**14.8**			
Transportation																													
Container Corporation	681	REDUCE	88,549	1,816	130	57.7	68.3	72.9	7.8	18.3	6.8	11.8	10.0	9.3	7.9	6.5	5.9	2.8	2.3	2.0	1.9	2.3	2.4	25.8	25.3	22.6	800	17.4	0.6
Transportation		**Cautious**	**88,549**	**1,816**					**7.8**	**18.3**	**6.8**	**11.8**	**10.0**	**9.3**	**7.9**	**6.5**	**5.9**	**2.8**	**2.3**	**2.0**	**1.9**	**2.3**	**2.4**	**23.6**	**23.1**	**20.9**			
Utilities																													
CESC	231	BUY	28,885	592	125	27.8	31.9	36.9	(23.3)	14.9	15.8	8.3	7.2	6.3	4.3	4.0	5.1	0.9	0.8	0.7	1.7	2.0	2.3	12.5	11.7	11.9	385	66.5	0.7
Lanco Infratech	126	BUY	27,965	573	222	14.8	15.2	19.9	75.2	2.6	30.9	8.5	8.3	6.3	8.3	16.2	10.9	1.5	1.3	1.1	—	—	—	19.7	16.9	18.5	320	154.4	8.2
NTPC	180	REDUCE	1,486,657	30,483	8,245	9.3	9.0	9.7	7.9	(3.2)	7.9	19.3	20.0	18.5	13.4	14.4	13.6	2.8	2.5	2.3	1.9	1.9	2.0	14.9	13.2	13.1	160	(11.3)	29.9
Reliance Infrastructure	564	BUY	130,118	2,668	231	37.6	59.9	56.2	13.9	59.4	(6.2)	15.0	9.4	10.0	10.6	10.2	10.2	0.8	0.8	0.7	1.1	1.3	1.5	4.3	6.2	6.7	970	72.1	85.6
Reliance Power	103	REDUCE	247,465	5,074	2,397	0.4	1.3	2.5	—	252.9	82.7	271.5	76.9	42.1	—	—	—	1.8	1.7	1.7	—	—	—	1.3	2.3	4.2	120	16.2	13.0
Tata Power	794	BUY	176,641	3,622	223	31.8	65.8	95.2	19.5	106.7	44.5	24.9	12.1	8.3	12.0	9.1	8.6	2.0	1.7	1.4	1.4	1.4	1.5	9.6	15.4	18.8	1,140	43.7	12.0
Utilities		**Attractive**	**2,097,732**	**43,013**					**12.2**	**13.2**	**14.0**	**20.9**	**18.5**	**16.2**	**13.1**	**13.9**	**13.7**	**2.1**	**2.0**	**1.8**	**1.6**	**1.6**	**1.7**	**10.3**	**10.7**	**11.3**			
Others																													
Aban Offshore	440	REDUCE	16,667	342	38	72.3	140.2	342.5	(1,066)	94.0	144.3	6.1	3.1	1.3	11.1	7.7	4.3	1.9	1.0	0.6	0.8	0.9	1.1	51.7	44.2	52.4	500	13.6	11.7
Educomp Solutions	1,883	BUY	35,803	734	19	35.2	64.2	108.1	114	82.7	68.3	53.6	29.3	17.4	28.5	12.8	7.8	11.6	4.9	3.9	0.1	0.3	0.5	33.5	23.4	24.3	2,550	35.5	70.6
Havells India	120	REDUCE	7,244	149	61	26.6	(1.0)	10.3	40	(103.7)	####	4.5	####	11.7	5.1	6.9	6.0	1.1	1.0	1.0	2.0	2.7	3.4	33.7	(0.9)	8.5	120	0.3	0.2
Jaiprakash Associates	75	BUY	105,189	2,157	1,403	4.9	5.3	7.1	7	8.6	33.4	15.3	14.1	10.6	12.0	10.5	8.9	2.1	1.8	1.6	0.0	0.0	0.0	15.4	13.9	16.3	105	40.1	42.3
Jindal Saw	185	BUY	11,346	233	61	66.6	86.9	82.9	(43)	30.6	(4.7)	2.8	2.1	2.2	2.6	1.3	0.9	0.4	0.3	0.3	3.9	7.1	8.1	12.5	14.4	12.3	500	170.3	0.5
PSL	71	BUY	3,094	63	44	21.1	24.3	43.7	4	15.3	79.6	3.4	2.9	1.6	3.2	3.5	2.7	0.6	0.5	0.4	7.2	7.0	8.5	11.3	10.6	14.2	145	104.2	0.1
Welspun Gujarat Stahl Rohren	72	BUY	13,516	277	189	20.6	20.9	21.0	94	1.5	0.7	3.5	3.4	3.4	5.5	3.8	3.2	0.8	0.6	0.5	1.8	2.5	1.7	27.1	20.0	17.3	100	39.7	3.4
Others			**192,860**	**3,954**					**24.3**	**49.0**	**41.3**	**11.1**	**7.5**	**5.3**	**9.1**	**7.2**	**5.5**	**1.6**	**1.3**	**1.1**	**0.6**	**0.9**	**1.1**	**14.5**	**17.1**	**20.0**			
KS universe (b)			**21,324,803**	**437,252**					**25.8**	**2.3**	**6.0**	**10.9**	**10.7**	**10.1**	**7.0**	**7.2**	**6.4**	**2.0**	**1.6**	**1.5**	**1.9**	**2.0**	**2.2**	**18.0**	**15.4**	**14.6**			
KS universe (b) ex-Energy			**16,044,436**	**328,982**					**30.7**	**3.8**	**0.6**	**10.9**	**10.5**	**10.4**	**7.8**	**7.9**	**7.6**	**2.1**	**1.7**	**1.6**	**1.9**	**2.0**	**2.1**	**19.3**	**16.6**	**14.9**			
KS universe (d) ex-Energy & ex-Commodities			**14,604,465**	**299,456**					**35.9**	**7.0**	**7.1**	**12.5**	**11.7**	**10.9**	**9.7**	**9.5**	**8.4**	**2.4**	**2.0**	**1.8**	**1.8**	**2.0**	**2.1**	**18.8**	**16.9**	**16.1**			

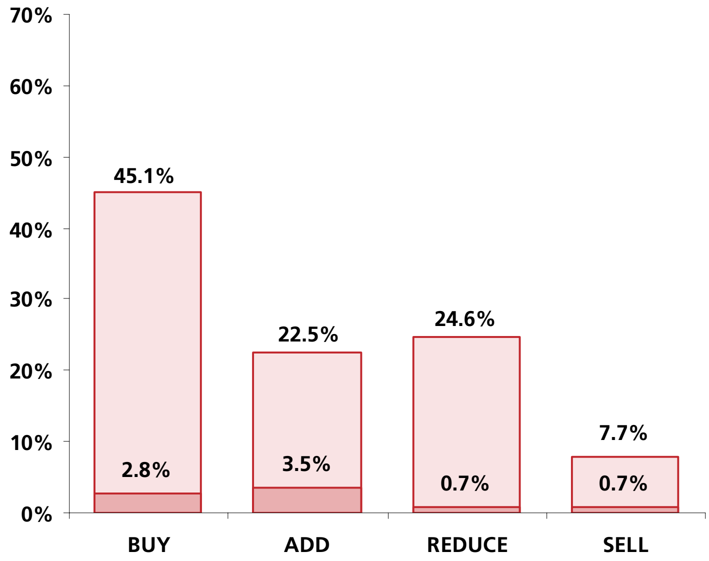
Note:
(1) For banks we have used adjusted book values.
(2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 48.77

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Rahul Jain, Ravi Agrawal, Manish Karwa, Kawaljeet Saluja, Manoj Menon."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/12/2008 Kotak Institutional Equities Investment Research had investment ratings on 142 equity securities.

Source: Kotak Institutional Equities

As of December 31, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.
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RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA = Not Available or Not Applicable. The information is not available for display or is not applicable.
NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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