kotak® Institutional Equities

INDIA DAILY

July 29, 2010

Contents

Results

News Round-up

- Wipro (WPRO IN) targets defence, government in policy haze. Wipro wishes to offer a variety of services to military. MoD asks the company to take FIPB permission. No express clause stops IT services firms from offering software services in the defence arena. FDI in defence sector is permissible up to 26%. FIPB says it isn't clear whether its nod is required. *(BSTD)*
- Reliance Industries Ltd (RIL IN) and Essar Oil (ESOIL IN) have joined the race of BP assets. RIL and Essar are interested in BP's retail outlets, terminals and aviation turbine fuel (ATF) facilities in at least four countries in Africa. *(BSTD)*
- ABB (ABB IN) has increased stake in its Indian subsidiary from 52.11 to 75% through an open offer. ABB buys 23% in Indian subsidiary at USD 965 mn. ABB will acquire the shares on a proportionate basis since the offer has been oversubscribed by around 1.5%. *(BSTD)*
- NTPC Ltd's (NATP IN) plans to sell electricity in the spot market under which around 65 percent power generated from two of its projects is to be offered at a market based price through short term sales, is to get the centre's nod shortly. *(THBL)*
- HDFC Bank (HDFCB IN), Lakshmi Vilas Bank (LVB IN) & Central Bank set off a round of deposit rate hikes to attract funds to meet accelerating investment & consumption, but lending rates may stay where they are, as banks high profitability provides cushion. Rates are being raised between 25 basis points & 75 basis points across maturities. *(ECNT)*
- Unitech (UT IN) plans to buy its London's AIM-listed group firm Unitech Corporate Parks in a deal that may cost over USD 159.57mn. *(ECNT)*

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

EQUITY MARKETS

		Change %		
India	**28-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	17,957	(0.7)	2.4	2.6
Nifty	5,398	(0.6)	2.7	2.7
Global/Regional indices				
Dow Jones	10,498	(0.4)	6.4	(6.0)
Nasdaq Composite	2,265	(1.0)	6.1	(9.8)
FTSE	5,320	(0.9)	8.3	(5.3)
Nikkie	9,704	(0.5)	1.4	(11.2)
Hang Seng	21,091	-	4.2	1.5
KOSPI	1,772	(0.1)	3.8	2.5
Value traded – India				
Cash (NSE+BSE)	196		162	168
Derivatives (NSE)	1,250		602	1,468
Deri. open interest	1,728		1,105	1,372

Forex/money market

		Change, basis points		
	28-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	46.8	4	58	214
10yr govt bond, %	7.8	4	12	(33)
Net investment (US$mn)				
	27-Jul		**MTD**	**CYTD**
FIIs	17		2,343	9,043
MFs	2		(520)	(282)

Top movers -3mo basis

		Change, %		
Best performers	**28-Jul**	**1-day**	**1-mo**	**3-mo**
HPCL IN Equity	439.7	1.5	0.8	49.1
AL IN Equity	72.5	0.9	13.7	31.9
IOCL IN Equity	361.6	(0.5)	(8.1)	31.8
BPCL IN Equity	643.6	2.1	1.3	31.0
BJAUT IN Equity	2701.7	1.8	8.8	30.0
Worst performers				
RNR IN Equity	43.0	(0.8)	(33.8)	(36.4)
ABAN IN Equity	898.0	8.8	9.3	(24.0)
PUNJ IN Equity	128.8	(1.2)	(5.0)	(21.4)
FTECH IN Equity	1233.7	(3.8)	(6.7)	(19.3)
JPA IN Equity	119.5	(0.9)	(6.7)	(19.1)

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Jindal Steel and Power (JSP)

Metals

SELL

JULY 28, 2010

RESULT

Coverage view: Cautious

Price (Rs): 630

Target price (Rs): 575

BSE-30: 17,957

Weak quarter. JSP's 1QFY11 standalone performance was below our estimate, primarily on lower-than-expected steel deliveries. Consolidated net income of Rs9.6 bn, declined 0.7% qoq and 3.2% yoy. Jindal Power's (JPL) performance was weak, impacted by sharp 28% yoy decline in realization. Sequential realizations have shown only a marginal improvement despite the onset of summer months where short-term tariffs are relatively higher. We will revisit our earnings and valuations post earnings call.

Company data and valuation summary

Jindal Steel and Power

Stock data			
52-week range (Rs) (high,low)			786-443
Market Cap. (Rs bn)			585.0
Shareholding pattern (%)			
Promoters			58.6
FIIs			23.5
MFs			2.6
Price performance (%)	1M	3M	12M
Absolute	(1.2)	(14.5)	25.3
Rel. to BSE-30	(2.2)	(17.3)	7.0

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	38.5	48.7	50.8
EPS growth (%)	17.2	26.5	4.3
P/E (X)	16.4	13.0	12.4
Sales (Rs bn)	110.9	131.9	135.6
Net profits (Rs bn)	35.7	45.2	47.1
EBITDA (Rs bn)	58.5	68.1	68.0
EV/EBITDA (X)	10.3	8.3	7.7
ROE (%)	37.3	33.0	25.7
Div. Yield (%)	0.2	0.2	0.2

Earnings miss estimates; JPL performance hit by weak realizations

Jindal Steel and Power (JSP) reported 1QFY11 net income of Rs4.4 bn, 34.5% lower than our estimate. Net income miss was led entirely by lower-than-expected steel deliveries; steel deliveries dipped 25.8% qoq and 4% yoy to 404K tons. However, steel production was strong, growing 2.8% qoq and 8% yoy to 506K tons. Stock in trade increased by Rs1.5 bn during the quarter. EBITDA of Rs7.9 bn, while lower than our estimate, grew 1.7% qoq and 41.6% yoy. In our view, JSP may have generated super-normal profits from pellet sales during the quarter.

Consolidated EBITDA of Rs15.6 bn, grew 7.3% qoq but declined 2% yoy. Consolidated net income of Rs9.6 bn, declined 0.7% qoq and 3.2% yoy. Performance was impacted by lower-than-expected standalone performance and decline in power realization.

Jindal Power—short-term realizations weak—down 27% yoy

JSPL's subsidiary Jindal Power (JPL) reported 1QFY11 net sales at Rs9.3 bn and PAT of Rs5.6 bn on generation of 2,210 MU. The implied realizations (assuming 8% AuX) dropped sharply from Rs6.3/kwh in 1QFY10 to Rs4.6/kwh in 1QFY11 (-27.6% yoy). The realizations showed only a marginal sequential improvement despite the onset of the summer months when short-term tariffs are relatively higher and demand at its peak as reflected in JPL's PLF at 101%. We note that tariffs in the bilateral market have improved by 17% sequentially and stood at Rs5.7/kwh and Rs6.2/kwh for April and May, respectively.

We will review estimates post quarterly earnings call

We will revisit our estimates post quarterly earnings call and gain clarity on (1) further details on product slate, cost of production etc. of recently acquired Shadeed Iron and Steel Company; (2) production ramp-up from the recently commissioned pellet plant; (3) progress on new capacity expansion projects and (4) resolution of dispute with the Bolivian Government on proposed investments and development of EL Mutun mine.

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Interim results of Jindal Steel & Power (standalone), March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg.) 1QFY11E	1QFY10	4QFY10
Net sales	**21,216**	**28,344**	**15,761**	**23,888**	**(25.1)**	**34.6**	**(11.2)**
Total expenditure	(13,303)	(18,595)	(10,174)	(16,105)	(28.5)	30.7	(17.4)
Inc/(Dec) in stock	1,504	—	(146)	(1,809)	—	(1,128.0)	(183.1)
Raw materials	(7,650)	(10,100)	(4,738)	(6,720)	(24.3)	61.5	13.8
Stores and spares consumed	(2,280)	(2,800)	(1,827)	(2,436)	(18.6)	24.8	(6.4)
Power & Fuel	(1,151)	(1,552)	(1,514)	(1,359)	(25.8)	(24.0)	(15.3)
Staff cost	(617)	(678)	(486)	(616)	(8.9)	27.0	0.2
Other expenditure	(3,109)	(3,465)	(1,464)	(3,165)	(10.3)	112.4	(1.8)
EBITDA	**7,913**	**9,749**	**5,587**	**7,784**	**(18.8)**	**41.6**	**1.7**
OPM (%)	**37.3**	**34.4**	**35.4**	**32.6**			
Other income	62	1,100	165	984	(94.4)	(62.4)	(93.7)
Interest	(742)	(750)	(328)	(836)	(1.1)	126.4	(11.3)
Depreciation	(1,475)	(1,575)	(1,229)	(1,313)	(6.4)	20.0	12.3
Pretax profits	**5,759**	**8,524**	**4,196**	**6,619**	**(32.4)**	**37.3**	**(13.0)**
Extraordinaries	—	—	—	—	—	—	—
Tax	(1,402)	(1,875)	(1,195)	(1,129)	(25.2)	17.3	24.2
Net income	**4,357**	**6,649**	**3,000**	**5,490**	**(34.5)**	**45.2**	**(20.6)**
Income tax rate (%)	24.3	22.0	28.5	17.1			
Ratios							
EBITDA margin (%)	37.3	34.4	35.4	32.6			
ETR (%)	24.3	22.0	28.5	17.1			
EPS (Rs)	4.7	7.2	3.2	5.9			
Segmental revenue							
Iron & Steel	20,347	27,977	15,068	23,565	(27.3)	35.0	(13.7)
Power	2,719	2,771	2,437	2,724	(1.9)	11.6	(0.2)
Others	209	496	101	496	(57.8)	108.2	(57.8)
Segmental PBIT							
Iron & Steel	5,947	—	3,739	6,958	—	59.0	(14.5)
Power	1,413	—	1,157	748	—	22.1	88.9
Others	20	—	24	(59)	—	(15.1)	(134.6)

Source: Company, Kotak Institutional Equities estimates

Interim results of Jindal Steel & Power (consolidated), March fiscal year-ends (Rs mn)

				(% chg.)	
	1QFY11	1QFY10	4QFY10	1QFY10	4QFY10
Net sales	**30,010**	**27,486**	**31,756**	**9.2**	**(5.5)**
Total expenditure	(14,362)	(11,512)	(17,169)	24.8	(16.4)
Inc/(Dec) in stock	1,746	(146)	(1,594)	(1,293.4)	(209.5)
Raw materials	(7,360)	(4,738)	(6,249)	55.3	17.8
Stores and spares consumed	(2,292)	(1,835)	(2,467)	24.9	(7.1)
Power & Fuel	(1,763)	(2,086)	(1,737)	(15.5)	1.4
Staff cost	(826)	(598)	(793)	38.2	4.1
Other expenditure	(3,869)	(2,110)	(4,329)	83.4	(10.6)
EBITDA	**15,648**	**15,973**	**14,587**	**(2.0)**	**7.3**
OPM (%)	**52.1**	**58.1**	**45.9**	(10.3)	13.5
Other income	89	377	303	(76.3)	(70.5)
Interest	(861)	(1,188)	(523)	(27.5)	64.7
Depreciation	(2,509)	(2,411)	(2,546)	4.1	(1.4)
Pretax profits	**12,367**	**12,752**	**11,821**	**(3.0)**	**4.6**
Extraordinaries	—	—	—	—	—
Tax	(2,797)	(2,867)	(2,187)	(2.4)	27.9
Net income	**9,570**	**9,885**	**9,634**	**(3.2)**	**(0.7)**
Ratios					
EBITDA margin (%)	52.1	58.1	45.9		
ETR (%)	22.6	22.5	18.5		
EPS (Rs)	10.3	10.6	10.3		
Segmental revenue					
Iron & Steel	20,347	15,068	23,937	35.0	(15.0)
Power	11,467	14,161	12,564	(19.0)	(8.7)
Others	255	100	(1,546)	154.0	(116.5)
Segmental PBIT					
Iron & Steel	5,947	3,739	6,958	59.0	(14.5)
Power	8,363	10,596	5,851	(21.1)	42.9
Others	(86)	24	125	(458.2)	(168.6)
Segmental PBIT (%)					
Iron & Steel	29.2	24.8	29.1	17.8	0.5
Power	72.9	74.8	46.6	(2.5)	56.6
Others	(33.6)	23.8	(8.1)	(241.0)	315.7

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities

DLF (DLFU)

Property

ADD

JULY 29, 2010

RESULT

Coverage view: Cautious

Price (Rs): 303

Target price (Rs): 340

BSE-30: 17,957

1QFY11 with puts and takes. DLF reported 1QFY11 revenues of ₹20 bn (+21% yoy, +2% qoq) versus KIE estimate of ₹23 bn but EBITDA margins were in line with expectations at 48%. Debtors declined 11% while leasing activity picked up qoq. We maintain our ADD rating and target price of ₹340/share and will review our estimates after the earnings call. Key events to watch for are (1) Mumbai residential launch, (2) commercial recovery and (3) qoq direction of operating cash flow.

Company data and valuation summary

DLF

Stock data			
52-week range (Rs) (high,low)			520-252
Market Cap. (Rs bn)			517.2
Shareholding pattern (%)			
Promoters			78.6
FIIs			14.8
MFs			0.3
Price performance (%)	**1M**	**3M**	**12M**
Absolute	15.4	(9.2)	8.7
Rel. to BSE-30	9.8	(9.7)	(18.1)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	9.6	16.3	25.1
EPS growth (%)	(64.0)	69.4	53.8
P/E (X)	31.4	18.6	12.1
Sales (Rs bn)	72.2	116.4	141.1
Net profits (Rs bn)	16.3	27.6	42.4
EBITDA (Rs bn)	34.9	54.1	70.6
EV/EBITDA (X)	20.1	12.7	9.6
ROE (%)	6.4	9.9	13.8
Div. Yield (%)	1.0	1.0	1.6

QUICK NUMBERS

- Sales volume of 1.9 mn sq. ft in 1QFY11
- Fresh lease signed for 1.1 mn sq. ft, more than entire FY2010

1QFY11 residential sales decline qoq but commercial and leasing activity picks up

DLF booked 1.9 mn sq. ft of sales in 1QFY11 versus 3.6 mn sq. ft in 4QFY10 and 2.7 mn sq. ft in 1QFY10. Along with residential sales of 1.44 mn sq. ft, commercial sales were 0.46 mn sq. ft, indicating at least a bottoming out of the commercial cycle. The leasing environment also improved with 1.12 mn sq, ft leased in 1QFY11, which is more than the 0.93 mn sq. ft leased in entire year FY2010. DLF also mentioned that lease rates are stabilizing across some micro markets.

EBITDA at ₹9.8 bn (+32% yoy but 12% lower than KIE) and PAT (+4% yoy, -15% versus KIE estimates) were impacted by lower revenues with operating margin remaining steady.

Balance sheet health remains a focus area; Debtors decline qoq but debt is up qoq

Debtors declined 11% qoq but debt increased 25% qoq to ₹18.4 bn. Operating cash flow remained positive at ₹6.55 bn. DLF has divested ₹3 bn of non-core assets including land for 3 mn sq. ft of projects and also done a preferential issue to a promoter group company which will bring down DLF's stake to 8% versus 100% at present. DLF intends to reduce its debt to 0.4-0.5X equity (currently 0.68X) through (1) disposal of non-core assets of ₹25 bn over the next 15-18 months and (2) operational cash flow.

Execution plans remain on track

DLF has 55 mn sq. ft under execution (versus 56 mn sq. ft as of end-FY10) as it handed over 1.4 mn sq. ft in 1QFY11. DLF intends to hand over around 30 mn sq. ft upto FY2013 and add 3-4 mn sq. ft in FY2011E.

Key triggers: Mumbai residential launch and commercial recovery

We believe that DLF stock performance would likely depend on the events that will pan-out over the next few months. DLF will likely launch the residential project in NTC Mills at Lower Parel, Mumbai in 2Q or 3QFY2011E. DLF had converted this site to a 3 mn sq. ft residential project and a 0.6 mn sq. ft retail mall from a commercial project in 4QFY10. DLF has 13 mn sq. ft of leasable space, of which only around 60% is leased. DLF will benefit from any recovery in commercial leasing as balance area is almost ready inventory, which can be delivered within six months.

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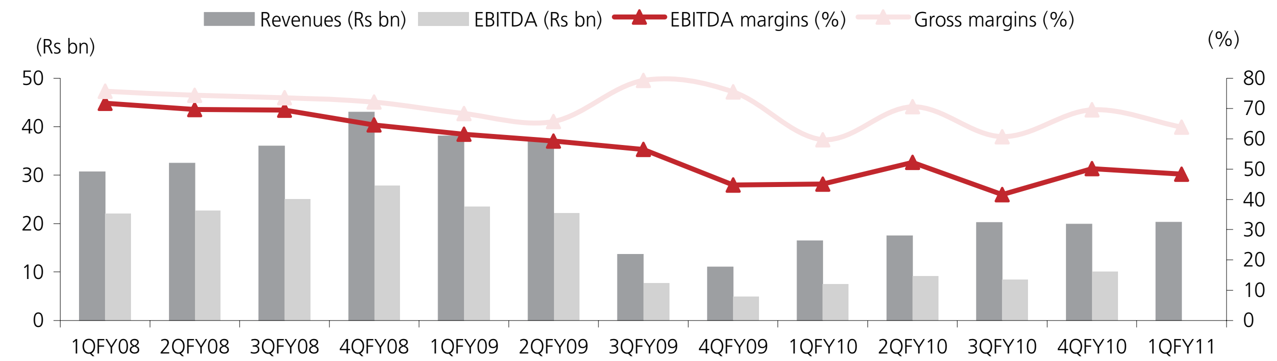
1QFY11 – lower revenues on lower sales volume
Interim results, DLF, March fiscal year-ends (₹ mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg) 1QFY11E	yoy	qoq
Net sales	**20,290**	**23,271**	**16,499**	**19,944**	**(12.8)**	**23.0**	**1.7**
Construction cost	(7,340)		(6,656)	(6,071)		10.3	20.9
Staff cost	(1,290)		(1,132)	(1,191)		14.0	8.3
Other expenditure	(1,860)		(1,270)	(2,682)		46.5	(30.6)
EBITDA	**9,800**	**11,170**	**7,441**	**10,000**	**(12.3)**	**31.7**	**(2.0)**
Other income	1,320	931	961	1,518	41.8	37.4	(13.0)
Interest costs	(3,880)	(4,654)	(2,874)	(3,147)	(16.6)	35.0	23.3
Depreciation	(1,500)	(1,047)	(734)	(947)	43.2	104.3	58.4
Pretax profits	**5,740**	**6,399**	**4,794**	**7,424**	**(10.3)**	**19.7**	**(22.7)**
Extraordinaries	30			(873)			(103.4)
Tax	(1,680)	(1,600)	(993)	(2,362)	5.0	69.2	(28.9)
Deferred tax							
Net income	**4,090**	**4,800**	**3,801**	**4,189**	**(14.8)**	**7.6**	**(2.4)**
Adjusted net income	**4,110**	**4,800**	**3,960**	**4,264**	**(14.4)**	**3.8**	**(3.6)**
Key ratios							
EBITDA margin (%)	48.3	48.0	45.1	50.1			
PAT margin (%)	20.2	20.6	23.0	21.0			
Effective tax rate (%)	29.3	25.0	20.7	31.8			

Source: Company, Kotak Institutional Equities estimates

EBITDA margins remain in the 45-50% band at 48% in 1QFY2011
Quarterly Revenues, EBITDA, EBITDA margins and gross margins, DLF, , March fiscal year-ends



Source: Company, Kotak Institutional Equities estimates

Consolidated summary statement of assets and liabilities

Quarterly Balance Sheet, DLF, March fiscal year-ends (₹ mn)

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Particulars	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Change 1QFY11-1QFY10
Net fixed assets	137,690	143,490	143,540	277,300	278,040	140,350
Investments	21,380	15,420	29,750	55,200	30,060	8,680
Current assets, loans and advances	289,220	292,050	309,390	280,740	279,640	(9,580)
Stocks	112,960	113,920	115,500	124,120	130,960	18,000
Sundry debtors	18,210	15,670	19,830	16,660	14,390	(3,820)
Cash and bank balances	7,170	6,340	8,140	9,130	12,970	5,800
Other current assets	64,950	73,060	82,630	44,830	47,680	(17,270)
Loans and advances	85,930	83,060	83,290	86,000	73,640	(12,290)
Goodwill	22,080	20,180	20,070	12,670	12,580	(9,500)
Total use of funds	**470,370**	**471,140**	**502,750**	**625,910**	**600,320**	**129,950**
Total loans	**147,750**	**147,290**	**171,680**	**216,770**	**233,740**	**85,990**
Secured loans	133,860	132,980	146,840	193,020	209,460	75,600
Unsecured loans	13,890	14,310	24,840	23,750	24,280	10,390
Current liabilities and provisions	71,500	68,310	70,580	92,510	86,110	14,610
Deferred tax liability (net)	(340)	(790)	(800)	2,620	2,970	3,310
Shareholders funds	251,460	256,330	261,290	314,010	277,500	26,040
Total sources of fund	**470,370**	**471,140**	**502,750**	**625,910**	**600,320**	**129,950**

Source: Company, Kotak Institutional Equities estimates

Our estimate of DLF's NAV is ₹340/share

NAV-based valuation, DLF, March fiscal year-ends (₹ bn)

		Sept '11 based NAV			
		Growth rate in selling prices			
	Valuation methodology	**0%**	**3%**	**5%**	**10%**
Valuation of land reserves		**537**	**626**	**727**	**883**
Residential		216	257	317	376
Retail		124	145	188	205
Commercial (sold)		76	97	126	160
Commercial (leased)		87	89	146	93
Add: 22 Hotel sites	1X land acquisition cost	25	25	25	25
Add: Construction JV	10X FY2010E P/E	4	4	4	4
Add: Investments in power business		15	15	15	15
Less: Net debt as on March 31, 2010		(183)	(183)	(183)	(183)
Less: Land cost to be paid as on March 31, 2010		(5)	(5)	(5)	(5)
NAV (Rs bn)		**392**	**481**	**583**	**738**
NAV/share (Rs)		**229**	**280**	**340**	**430**
Total no. of shares including ESOPs of 17 mn shares (mn)		1,716	1,716	1,716	1,716
Valuation/share (Rs)		**229**	**280**	**340**	**430**

Source: Kotak Institutional Equities estimates

Profit model of DLF
March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010E	2011E	2012E	2013E
Total revenues	**144,329**	**100,440**	**74,210**	**116,353**	**141,116**	**190,115**
Land costs	(39,998)			(13,686)	(13,559)	(19,082)
Construction costs	-	(33,330)	(25,840)	(30,834)	(36,937)	(53,240)
Employee costs	(2,998)	(4,590)	(4,690)	(6,045)	(7,980)	(10,533)
SG&A costs	(4,229)	(7,640)	(8,670)	(11,678)	(12,079)	(11,307)
EBITDA	**97,105**	**54,880**	**35,010**	**54,111**	**70,561**	**95,953**
Other income	2,464	4,970	4,330	3,131	4,188	1,193
Interest	(3,100)	(3,570)	(11,080)	(14,606)	(13,318)	(12,511)
Depreciation	(901)	(2,360)	(3,250)	(4,182)	(4,458)	(5,127)
Pretax profits	**95,568**	**53,920**	**25,010**	**38,453**	**56,974**	**79,508**
Profit/(loss) share of associates	—	—	—	—	—	—
Current tax	(17,146)	(7,790)	(6,960)	(11,874)	(15,513)	(20,417)
Deferred tax	(176)	680	186	1,018	975	1,077
Net income	**78,247**	**46,810**	**18,236**	**27,597**	**42,437**	**60,168**
Minority Interest	(91)	(510)	(100)	—	—	—
Reported net income	**78,156**	**46,300**	**18,136**	**27,597**	**42,437**	**60,168**
	67.3	54.6	24.6	23.7	30.1	50.5
EPS (Rs)						
Primary	47.1	27.6	10.8	16.3	25.1	35.6
Fully diluted	46.6	27.3	10.7	16.2	24.8	35.2
Shares outstanding (mn)						
Year end	1,705	1,697	1,691	1,691	1,691	1,691
Primary	1,661	1,697	1,691	1,691	1,691	1,691
Fully diluted	1,678	1,714	1,708	1,708	1,708	1,708
Cash flow per share (Rs)						
Primary	46.4	18.1	7.0	14.3	23.2	33.5
Fully diluted	45.9	17.9	6.9	14.2	23.0	33.2
Growth (%)						
Net income (adjusted)	302	(41)	(61)	52	54	42
EPS (adjusted)	259	(41)	(61)	51	54	42
DCF/share	1,000	(61)	(61)	105	62	44
Cash tax rate (%)	18	14	28	31	27	26
Effective tax rate (%)	**18**	**13**	**27**	**28**	**26**	**24**

Source: Company, Kotak Institutional Equities estimates

Balance Sheet of DLF
March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010E	2011E	2012E	2013E
Equity						
Share capital	3,410	3,394	3,382	3,382	3,382	3,382
Reserves/surplus	193,473	238,144	265,209	287,020	319,815	370,341
Total equity	**196,883**	**241,538**	**268,591**	**290,403**	**323,197**	**373,724**
Deferred tax liability/(asset)	359	(414)	(600)	(1,618)	(2,593)	(3,670)
Liabilities						
Secured loans	80,534	132,623	201,178	196,178	196,178	196,178
Unsecured loans	42,237	30,578	—	—	—	—
Total borrowings	**122,771**	**163,201**	**201,178**	**196,178**	**196,178**	**196,178**
Currrent liabilities	72,157	78,244	82,755	99,922	117,380	136,435
Minority Interest	3,895	6,336	6,336	6,336	6,336	6,336
Total capital	**396,065**	**488,906**	**558,260**	**591,221**	**640,498**	**709,002**
Assets						
Cash	21,421	11,956	17,737	25,909	39,419	99,716
Current assets	244,579	304,268	286,626	303,570	326,019	330,855
Gross block	51,626	84,867	120,987	128,687	137,157	146,474
Less: accumulated depreciation	3,435	5,743	9,947	14,129	18,587	23,713
Net fixed assets	48,191	79,124	111,040	114,558	118,570	122,761
Capital work-in-progress	51,840	56,882	105,608	109,935	119,241	118,421
Total fixed assets	**100,031**	**136,006**	**216,648**	**224,492**	**237,811**	**241,181**
Intangible assets	—	—	—	—	—	—
Investments	30,033	36,676	37,250	37,250	37,250	37,250
Misc. expenses	-	-	-	-	-	-
Total assets	**396,065**	**488,906**	**558,260**	**591,221**	**640,498**	**709,002**
		132.07	*149.24*	*168.64*		
Leverage ratios (%)						
Debt/equity	62.2	67.7	75.1	67.9	61.2	53.0
Debt/capitalization	38.4	40.4	42.9	40.5	38.0	34.6
Net debt/equity	51.4	62.7	68.5	59.0	48.9	26.1
Net debt/capitalization	33.9	38.5	40.6	37.1	32.8	20.7
RoAE	**65.9**	**21.1**	**7.1**	**9.9**	**13.9**	**17.4**
RoACE	**35.3**	**13.6**	**6.0**	**7.7**	**10.2**	**12.6**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Mahindra & Mahindra (MM)

Automobiles

BUY

JULY 28, 2010

RESULT

Coverage view: Cautious

Price (Rs): 648

Target price (Rs): 680

BSE-30: 17,957

Devil could be in the details. M&M reported 1QFY11 PAT of Rs5.6 bn, higher than our estimate of Rs4.8 bn. The upside was driven by lower-than-expected other expense, lower tax rate and higher interest income. Raw material as a percentage of sales increased a higher-than-expected 200 bps on a qoq basis. Within segments, auto EBIT margins came in at 12.2% while farm equipment margins were 17.1%.

Company data and valuation summary

Mahindra & Mahindra

Stock data			
52-week range (Rs) (high,low)			658-367
Market Cap. (Rs bn)			374.8
Shareholding pattern (%)			
Promoters			26.3
FIIs			28.6
MFs			4.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	4.2	23.6	57.5
Rel. to BSE-30	3.1	19.6	34.5

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	34.9	40.7	48.7
EPS growth (%)	132.5	16.5	19.7
P/E (X)	18.6	15.9	13.3
Sales (Rs bn)	186.0	226.1	259.1
Net profits (Rs bn)	20.2	23.5	28.1
EBITDA (Rs bn)	29.6	34.0	40.4
EV/EBITDA (X)	13.1	11.2	9.3
ROE (%)	30.0	25.8	24.6
Div. Yield (%)	1.5	1.4	1.5

M&M reported better-than-expected PAT on lower other expense, tax rate and an interest income

M&M reported a PAT of Rs5.6 bn for 1QFY11 compared to our estimate of Rs4.8 bn. The Rs0.7 bn PAT upside was driven by Rs1 bn in lower-than-expected other expenses, an interest income of Rs227 mn and lower tax rate of 22%. EBITDA for the quarter came in at Rs7.8 bn compared to our estimate of Rs7.2 bn. EBITDA margins came in at 15% versus our estimate of 14.2%. Raw material costs as a percentage of sales increased to 69.6%, up 200 bps from 4QFY10 levels. However, EBITDA margins declined only 90 bps qoq as other expenses declined 20% qoq. There could be some forex gains in other expenses that drove the decline. Revenues for the quarter were 1% better than expected, driven by a 0.6% improvement in realizations.

Segment profits: Tractor margins down more than automotive margins on a qoq basis

M&M's automotive division revenues totaled Rs28.8 bn, down 8% qoq. Realizations were up 3% on a qoq basis. Farm equipment division revenues totaled Rs22.7 bn, up 4% qoq while realizations were down 2% qoq. The automotive division EBIT margins came in at 12.2%, down from the 13.1% reported for 4QFY10. Farm equipment margins came in at 17.1% and showed a sharper decline from the 20% margin reported in 4QFY10. This is surprising given the price increase taken in April. The decline might be attributable to change in the product mix within the division.

M&M disclosed some numbers for MVML, the subsidiary that owns the Chakan plant. MVML revenues EBIT totaled Rs120 mn and reported an EBIT loss of Rs3 mn. However, based on margin disclosure made by the company, MVML's EBITDA margin comes to a very high 97%.

M&M is having a conference call at 12:30 pm today, post which we would make revisions to our estimates.

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Interim results of M&M, March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg.) 1QFY11E	1QFY10	4QFY10	12 months 2011E	2010	Change (%)
Net Sales	**51,601**	**51,024**	**42,426**	**53,046**	**1.1**	**21.6**	**(2.7)**	**227,850**	**186,021**	**22.5**
Expenditure	(43,845)	(43,796)	(36,336)	(44,591)	0.1	20.7	(1.7)	(193,374)	(156,469)	23.6
(Increase)/decrease in stocks	(694)	500	490	(1,783)	(238.9)	(241.7)	(61.1)	1,683	237	610.6
Consumption of raw materials	(35,211)	(35,196)	(28,546)	(34,063)	0.0	23.3	3.4	(157,176)	(123,566)	27.2
Staff cost	(3,137)	(3,000)	(3,083)	(2,661)	4.6	1.8	17.9	(13,188)	(11,985)	10.0
Other expenditure	(4,803)	(6,100)	(5,198)	(6,084)	(21.3)	(7.6)	(21.1)	(24,693)	(21,155)	16.7
EBITDA	**7,756**	**7,228**	**6,090**	**8,456**	**7.3**	**27.4**	**(8.3)**	**34,476**	**29,552**	**16.7**
Other income	205	250	236	181	(18.1)	(13.1)	13.0	2,795	1,994	40.2
Interest (net)	227	-	(60)	(9)	—	—	—	(303)	(278)	9.0
Depreciation	(976)	(1,000)	(885)	(947)	(2.4)	10.3	3.0	(3,917)	(3,708)	5.6
Profit before extra-ordinary items	**7,211**	**6,478**	**5,381**	**7,681**	**11.3**	**34.0**	**(6.1)**	**33,051**	**27,560**	**19.9**
Extra-ordinary items	—	—	—	—				-	908	
Profit before tax	**7,211**	**6,478**	**5,381**	**7,681**	**11.3**	**34.0**	**(6.1)**	**33,051**	**28,468**	**16.1**
Tax	(1,588)	(1,684)	(1,373)	(1,978)	(5.7)	15.7	(19.7)	(8,812)	(7,590)	16.1
Profit after tax	**5,624**	**4,793**	**4,009**	**5,703**	**17.3**	**40.3**	**(1.4)**	**24,239**	**20,878**	**16.1**
Volumes	**127,299**	**127,299**	**102,282**	**132,620**	**-**	**24.5**	**(4.0)**	**574,253**	**456,900**	**25.7**
Average realisation	**402,530**	**400,034**	**413,510**	**398,044**	**0.6**	**(2.7)**	**1.1**	**396,777**	**407,137**	**(2.5)**
Key ratios (%)										
EBITDA margin	15.0	14.2	14.4	15.9				15.1	15.9	(0.8)
Net profit margin	10.9	9.4	9.4	10.8				10.6	11.2	(0.6)
RM costs (% of net sales)	69.6	68.0	66.1	67.6				68.2	66.3	
Staff costs (% of net sales)	6.1	5.9	7.3	5.0				5.8	6.4	
Effective tax rate (%)	22.0	26.0	25.5	25.8				26.7	26.7	
EPS (Rs)	11.0	9.4	7.8	11.2				40.7	33.9	

Source: Company, Kotak Institutional Equities

M&M, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2012E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	100,682	115,413	130,937	186,021	227,850	263,945
EBITDA	**13,048**	**13,666**	**10,926**	**29,552**	**34,476**	**41,144**
Other income	1,530	1,304	2,703	1,994	2,795	3,045
Interest	675	(242)	(453)	(278)	(303)	275
Depreciaiton	(2,096)	(2,387)	(2,915)	(3,708)	(3,917)	(4,892)
Profit before tax	**13,157**	**12,340**	**10,262**	**27,560**	**33,051**	**39,571**
Current tax	(3,657)	(2,788)	(585)	(7,493)	(8,700)	(10,416)
Deferred tax	157	(247)	(1,412)	(97)	(112)	(134)
Net profit	**10,684**	**11,034**	**8,368**	**20,878**	**24,239**	**29,021**
Adjusted earnings per share (Rs)	**18.9**	**18.2**	**14.8**	**33.9**	**40.7**	**48.7**
Balance sheet (Rs mn)						
Equity	35,727	44,068	52,621	80,671	98,872	121,554
Total Borrowings	16,360	25,871	40,528	28,802	26,802	26,802
Current liabilities	26,656	32,400	47,978	52,000	60,912	67,534
Total liabilities	**78,743**	**102,339**	**141,126**	**161,473**	**186,586**	**215,890**
Net fixed assets	18,712	23,609	32,143	37,027	49,110	60,218
Investments	22,375	42,151	57,864	63,980	73,980	83,980
Cash	13,261	8,612	15,744	17,432	10,002	9,854
Other current assets	24,221	27,831	35,249	42,992	53,452	61,796
Miscellaneous expenditure	176	135	126	41	41	42
Total assets	**78,743**	**102,339**	**141,126**	**161,473**	**186,586**	**215,890**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	9,712	10,730	10,395	23,409	25,776	30,728
Working capital changes	1,978	(2,472)	5,918	(45)	(1,548)	(1,722)
Capital expenditure	(4,819)	(7,171)	(9,152)	(9,607)	(16,000)	(16,000)
Free cash flow	**6,870**	**1,087**	**7,161**	**13,758**	**8,228**	**13,005**
Ratios						
Operating margin (%)	13.0	11.8	8.3	15.9	15.1	15.6
PAT margin (%)	10.6	9.6	6.4	11.2	10.6	11.0
Debt/equity (X)	0.5	0.6	0.8	0.4	0.3	0.2
Net debt/equity (X)	0.0	0.0	(0.4)	(0.5)	(0.4)	(0.4)
Book Value (Rs/share)	69.6	86.0	89.1	135.4	166.0	204.1
RoAE (%)	29.3	23.4	17.1	30.0	27.0	26.3
RoACE (%)	**20.1**	**15.6**	**10.6**	**19.9**	**20.8**	**21.0**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Sun TV Network (SUNTV)

Media

REDUCE

JULY 28, 2010

RESULT

Coverage view: Neutral

Price (Rs): 460

Target price (Rs): 420

BSE-30: 17,957

Business as usual. Sun TV reported robust 1QFY11 financials with EBIT at Rs1.45 bn (+45% yoy, flat qoq), largely in line with our Rs1.55 bn expectation. Continued strong advertising (+44% yoy, including slot sales) and subscription (+65% qoq) growth led the charge while higher-than-expected employee (uncertainty due to directors' fees) and movie (telecast and production) costs led to negative operating leverage (PAT growth of +43% yoy lagged +53% revenue growth). It seems business as usual; we are not as sanguine with (1) sustainability of advertising as well as (2) DTH subscription revenues, (3) uncertainty on employee cost and (4) rising media inflation.

Company data and valuation summary

Sun TV Network

Stock data			
52-week range (Rs) (high,low)			475-244
Market Cap. (Rs bn)			181.3
Shareholding pattern (%)			
Promoters			77.0
FIIs			8.0
MFs			4.5
Price performance (%)	1M	3M	12M
Absolute	9.3	9.4	81.3
Rel. to BSE-30	8.2	5.9	54.8

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	13.1	18.0	22.5
EPS growth (%)	44.8	36.9	25.2
P/E (X)	35.0	25.6	20.4
Sales (Rs bn)	14.5	19.1	23.1
Net profits (Rs bn)	5.2	7.1	8.9
EBITDA (Rs bn)	9.1	12.1	14.7
EV/EBITDA (X)	19.9	14.7	11.9
ROE (%)	28.4	33.7	35.1
Div. Yield (%)	1.6	1.6	2.0

1QFY11 results analysis—in line with expectations; movie revenues surprise positively

- Sun TV reported robust 1QFY11 financials with EBIT at Rs1.45 bn (+45% yoy, flat qoq), largely in line with our Rs1.55 bn expectation; EBIT is the right operating measure as Sun TV books a significant chunk of its cost (movie telecast and production) as amortization. Continued strong advertising and subscription revenues (+53% yoy revenue growth) were partially negated by higher-than-expected employee and movie costs (negative operating leverage).

- 1QFY11 advertising (including slot sales; proxy for advertising) growth remained strong at +44% yoy but surprising flat qoq and marginally below our expectations (see Exhibit 2); 1QFY10 base was favorable and we expected Sun's 5-33% rate hikes at the beginning of 4QFY10 to have been completely passed through to advertisers in 1QFY11. Sun TV noted continued traction in FMCG, Auto, Telecom, Financials and Retail categories but retained its relatively muted guidance of 18-20% yoy growth for FY2011E.

Seemingly business as usual—we would not assume an unqualified sanguine view

We do not believe the street's sanguine view on the stock can be justified—(1) sustainability of advertising revenues (a) on account of multi-year highs in advertising/sales ratio of FMCG category (see Exhibits 5-6), which may correct, and (a) long-term sustainability of large ratings gap versus competition (see Exhibits 7-12; with the exception of Tamil). Surprisingly, slot sales (advertising proxy) and Sun's content partners have seen limited traction (see Exhibit 13).

(2) The traction in DTH subscription revenues may be impacted by (a) TRAI's cap on content costs for DTH and (b) impact of churn in Sun Direct due to technical disruption for ~15 days. (3) Media inflation is also catching up with recovery in advertising market as well as competitive intensity; uncertainty on Sun's employee cost structure remains. Sun has a unique franchise but valuations at 17X FY2011E (potential peak in earnings growth) and 15X average FY2011E-12E EV/EBIT remain rich. Fine-tuned estimates with unchanged 12-month DCF-based TP of Rs420.

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Interim results of Sun TV Network (SUNTV), March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg) 1QFY11E	1QFY10	4QFY10	FY2010	FY2009	(% chg)
Total revenues	**4,404**	**4,250**	**2,877**	**3,919**	***4***	***53***	***12***	**14,528**	**10,394**	***40***
Ad revenues (incl. slot sales)	2,570	2,750	1,783	2,597	*(7)*	*44*	*(1)*	9,808	7,344	*34*
Subscription revenues	1,190	1,200	719	1,091	*(1)*	*65*	*9*	3,400	2,151	*58*
International revenues	160	150	144	146	*7*	*11*	*9*	560	540	*4*
Others (incl. movies)	484	150	230	85	*223*	*110*	*468*	760	359	*112*
Total expenditure	**(1,953)**	**(1,700)**	**(1,190)**	**(1,459)**	***15***	***64***	***34***	**(6,829)**	**(5,231)**	***31***
Cost of revenues	(268)	(250)	(208)	(221)	*7*	*29*	*21*	(1,227)	(1,114)	*10*
Employee costs	(399)	(350)	(311)	(167)	*14*	*29*	*139*	(1,340)	(1,155)	*16*
SG&A expenses	(139)	(250)	(122)	(222)	*(45)*	*14*	*(38)*	(1,053)	(757)	*39*
D&A expenses	(1,147)	(850)	(550)	(848)	*35*	*109*	*35*	(3,209)	(2,205)	*46*
EBIT	**2,452**	**2,550**	**1,686**	**2,460**	***(4)***	***45***	***(0)***	**7,700**	**5,163**	***49***
OPM (%)	**55.7**	**60.0**	**58.6**	**62.8**				**53.0**	**49.7**	
Other income	113	100	142	85	*13*	*(21)*	*33*	350	505	*(31)*
Interest expense	(1)	—	(6)	(2)				(49)	(138)	*(64)*
Pretax profits	**2,563**	**2,650**	**1,822**	**2,542**	***(3)***	***41***	***1***	**8,000**	**5,531**	***45***
Extraordinaries	—	—	—	—				—	163	
Tax provision	(854)	(900)	(624)	(892)	*(5)*	*37*	*(4)*	(2,991)	(2,293)	*30*
Minority interest	—	—	—	—				190	283	
Reported net income	**1,710**	**1,750**	**1,198**	**1,651**	***(2)***	***43***	***4***	**5,199**	**3,683**	***41***
Adjusted net income	**1,710**	**1,750**	**1,198**	**1,651**	***(2)***	***43***	***4***	**5,199**	**3,521**	***48***
Tax rate (%)	**33.3**	**34.0**	**34.3**	**35.1**				**37.4**	**41.5**	

Notes:
(a) Sun's quarterly financial data is standalone and yearly financial data is consolidated for FM radio subsidiaries.

Source: Company data, Kotak Institutional Equities estimates

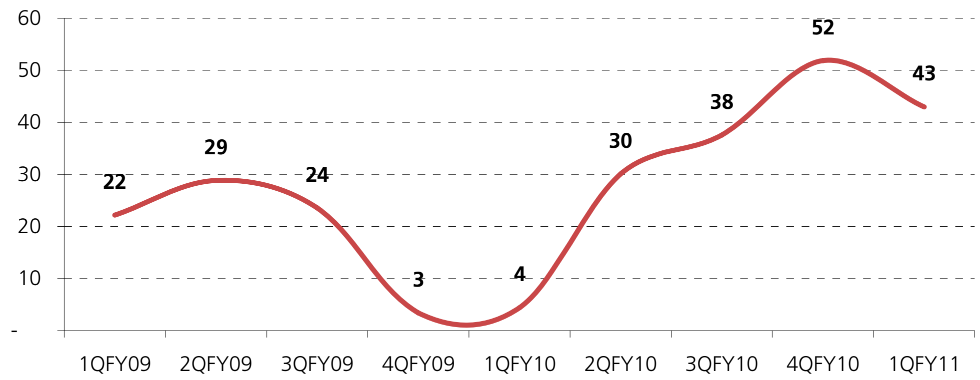
- 1QFY11 subscription revenues at Rs1.19 bn witnessed strong growth (65% yoy; +9% qoq); 1QFY11 DTH revenues at Rs680 mn (+86% yoy; +9% qoq) was marginally below expectations but made up by stronger-than-expected growth in cable revenues at Rs510 mn (+44% yoy; +9% qoq); the positive variance resulted due to contribution of non-South markets as well as Sun's Malayalam channels turning pay (Rs120-150 mn potential in FY2011E, as per Sun TV). Sun's implied 1QFY11 DTH realization at ~Rs37 was lower versus our expected Rs41 (60%*Rs52 + 40%*Rs26).

- Sun TV discussed 3 potential new developments with regards to its subscription revenues. (1) Sun18 distribution is broadly positive, likely to contribute incremental revenues from non-South markets (assuming partner Network18's disputes with MSM Discovery and Star-DEN are resolved). (2) New TRAI regulation on cut in DTH content costs to 35% of cable (50% previously) negative but implementation may be collectively challenged by broadcasters. (3) Technical issues in Sun Direct service (60% share of Sun's DTH subs) have reportedly been resolved with limited impact.

- 1QFY11 employee costs at Rs399 mn were ahead of our Rs350 mn expectation; Sun TV promoters had decided to forgo the typical directors' fee at 10% of Sun TV PBT (see Exhibit 3) in FY2010, restricted it to FY2009 payout levels. However, the policy for FY2011E remains unclear as Sun TV has booked ~10% of adjusted PBT as directors' fee in 1QFY11; we may know for sure only by end-FY2011E.

- 1QFY11 depreciation and amortization charges at Rs1.15 bn (+109% yoy; +35% qoq) were much ahead of our expectation. Sun Pictures released two relatively large movies in 1QFY11 inflating revenues by Rs484 mn and D&A expenses by Rs420 mn (contribution was still positive). However, D&A expenses were still quite elevated excluding contribution due to Sun Pictures, corroborating our expectation of media inflation. 1QFY11 overheads were lower in line with typical seasonal trends in Sun TV (see Exhibit 4).

Trends in Sun's advertising (incl. slot sales) revenue growth, March fiscal year-ends (Rs mn)



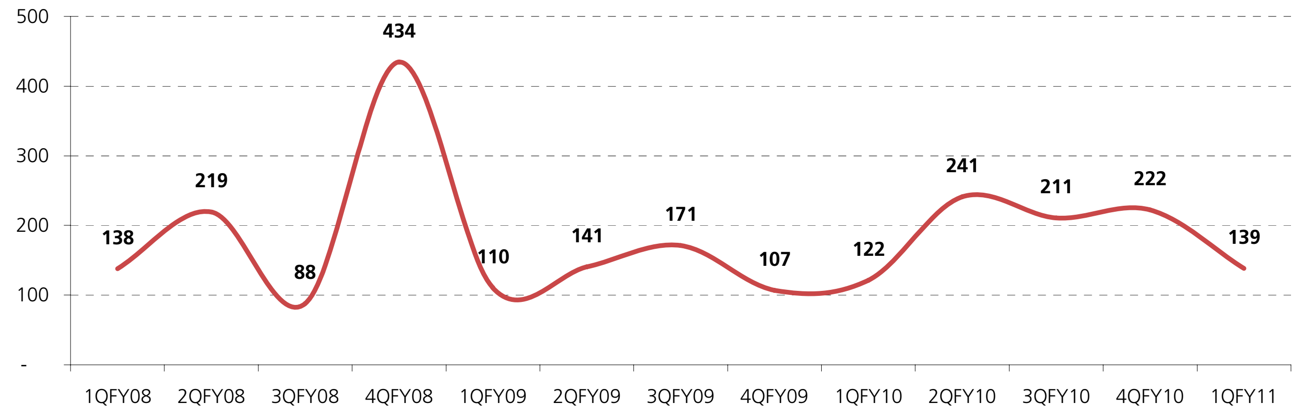
Source: Company data, Kotak Institutional Equities

Employee expenses of Sun TV, March fiscal year-ends, 2008-10 (Rs mn)

	2008	2009	2010	1QFY11E
PBT as per accounts	5,682	6,661	8,664	2,563
Managerial renumeration	648	742	742	280
Other adjustments	181	16	75	-
PBT as per Company Act	6,512	7,419	9,480	2,843
Managerial remuneration	**648**	**742**	**742**	**280**
Managerial renumeration (%)	**10.0**	**10.0**	**7.8**	**9.8**
Employee renumeration	**264**	**279**	**419**	**119**
Number of employees (#)	1,350	1,350	1,500	1,500
Employee renumeration (Rs/month)	**16,290**	**17,204**	**23,250**	**26,511**
Growth (%)		*6*	*35*	*14*

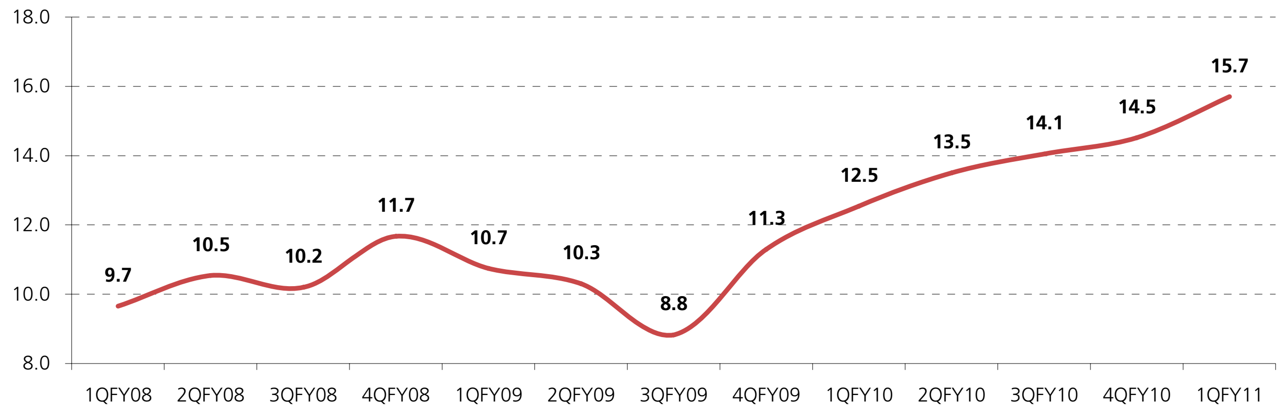
Source: Company data, Kotak Institutional Equities estimates

Trends in Sun's overhead expenses, March fiscal year-ends (Rs mn)



Source: Company data, Kotak Institutional Equities

HUL advertising as %age of sales, March fiscal year-ends (%)



Source: Company data, Kotak Institutional Equities

Trends in advertising spends of listed FMCG players (Rs mn)

										Growth (%)				
	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Advertising and marketing														
HUL	4,462	4,147	3,803	4,572	5,611	5,709	6,329	6,265	7,512	26	38	66	37	34
Dabur India	680	584	750	836	984	801	1,075	881	1,117	45	37	43	5	14
Glaxo India	507	483	394	606	749	808	858	982		48	67	118	62	
Colgate India	693	850	472	702	583	825	753	834	694	(16)	(3)	60	19	19
Marico India	513	431	405	347	548	611	537	520		7	42	33	50	
GCPL	221	107	189	115	287	223	224	282	272	30	108	19	145	(5)
Total	**7,076**	**6,602**	**6,013**	**7,178**	**8,762**	**8,977**	**9,776**	**9,764**	**9,595**	**24**	**36**	**63**	**36**	**29**
Overhead expenditure														
Nestle India	2,470	2,686	2,797	2,706	2,615	3,183	3,639	3,384		6	19	30	25	
Asian Paints	1,973	2,224	2,300	2,132	2,178	2,739	2,437	2,787	2,652	10	23	6	31	22
Tata Tea	708	869	962	1,093	919	1,178	1,265	1,122		30	36	31	3	
Total	**5,151**	**5,779**	**6,059**	**5,931**	**5,712**	**7,100**	**7,341**	**7,293**	**2,652**	**11**	**23**	**21**	**23**	**22**

Notes:
(a) For lack of quarterly data on advertising and marketing, we have provided ovehead expenditure data including A&P spends.

Source: Companies data, Kotak Institutional Equities

Quarterly trends in HSM GRPs for Hindi GE channels

	1QFY05	2QFY05	3QFY05	4QFY05	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08
SAB TV	28	31	25	24	19	18	27	30	33	51	58	67	60
Sahara One	65	64	62	59	55	82	74	94	68	55	99	92	85
Sony TV	**190**	**192**	**186**	**181**	**174**	**168**	**140**	**133**	**120**	**130**	**139**	**113**	**117**
Star One	—	—	16	24	33	65	89	54	64	67	100	65	74
Star Plus	**665**	**574**	**585**	**569**	**558**	**560**	**563**	**521**	**505**	**483**	**489**	**422**	**348**
Zee TV	**134**	**130**	**135**	**147**	**146**	**142**	**137**	**179**	**205**	**239**	**253**	**211**	**234**

Source: TAM Media Research, Kotak Institutional Equities

Quarterly trends in West Bengal GRPs for Bengali channels

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Akash Bangla	108	127	111	106	80	87	72	102	92	89	80	57	49
Sony Aath	—	—	4	42	58	61	51	49	28	37	49	73	64
ETV Bangla	351	371	331	327	306	352	320	292	257	223	220	207	145
Star Jalsha	—	—	—	—	—	27	173	247	326	452	559	486	454
Zee Bangla	**309**	**326**	**363**	**435**	**356**	**335**	**314**	**367**	**275**	**312**	**272**	**217**	**183**

Source: TAM Media Research, Kotak Institutional Equities

Quarterly trends in Andhra Pradesh GRPs for Telugu channels

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Eenadu TV	449	449	460	473	427	353	357	356	364	349	396	392	341
Gemini TV	**892**	**906**	**832**	**776**	**768**	**725**	**769**	**726**	**687**	**696**	**674**	**711**	**729**
Maa Telugu	281	345	385	385	433	366	371	343	379	425	422	411	361
Teja TV	**486**	**450**	**465**	**446**	**437**	**396**	**390**	**376**	**381**	**343**	**386**	**369**	**370**
Zee Telugu	**135**	**181**	**215**	**293**	**275**	**295**	**355**	**350**	**375**	**364**	**390**	**375**	**323**

Source: TAM Media Research, Kotak Institutional Equities

Quarterly trends in Karnataka GRPs for Kannada channels

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
ETV Kannada	358	392	328	309	291	264	265	257	249	252	226	223	188
Kasturi	—	6	110	120	116	186	149	131	100	101	95	106	82
Suvarna	8	81	93	106	90	121	129	145	173	277	235	207	220
Udaya Movies	**325**	**322**	**361**	**329**	**303**	**302**	**349**	**361**	**327**	**295**	**267**	**217**	**250**
Udaya TV	**721**	**814**	**798**	**673**	**640**	**628**	**606**	**594**	**558**	**537**	**490**	**466**	**486**
Zee Kannada	**88**	**90**	**83**	**141**	**219**	**237**	**240**	**205**	**165**	**221**	**187**	**178**	**171**

Source: TAM Media Research, Kotak Institutional Equities

Quarterly trends in Kerala GRPs for Malayalam channels

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Amrita TV	116	116	83	71	66	101	98	86	72	97	94	81	85
Asianet	712	860	904	866	802	699	739	825	957	1,008	955	932	910
Asianet Plus	222	235	223	180	193	177	194	186	289	281	247	243	213
Kairali	133	145	142	160	137	143	116	110	136	135	135	127	142
Kiran TV	**155**	**155**	**155**	**146**	**170**	**163**	**181**	**197**	**200**	**217**	**206**	**234**	**204**
Surya TV	**722**	**700**	**649**	**678**	**750**	**577**	**608**	**569**	**649**	**612**	**606**	**573**	**565**

Source: TAM Media Research, Kotak Institutional Equities

Realizations from sponsored programming (Sun TV) for Balaji, March fiscal year-ends

Sponsored programs	**1QFY09**	**2QFY09**	**3QFY09**	**4QFY09**	**1QFY10**	**2QFY10**	**3QFY10**	**4QFY10**	**1QFY11**
Revenues (Rs mn)	**65.4**	**63.8**	**66.3**	**69.2**	**65.4**	**67.5**	**56.4**	**55.2**	**48.6**
EBITDA (Rs mn)	25.6	26.8	23.1	19.9	21.6	2.4	7.3	14.5	11.7
Operating cost (Rs mn)	39.8	37.0	43.2	49.3	43.8	65.1	49.1	40.7	36.9
OPM (%)	**39.1**	**42.0**	**34.8**	**28.8**	**33.0**	**3.6**	**12.9**	**26.3**	**24.1**
Number of program hours (#)	**130**	**106**	**146**	**186**	**123**	**185**	**177**	**144**	**118**
Revenue/hour (Rs mn)	**0.5**	**0.6**	**0.5**	**0.4**	**0.5**	**0.4**	**0.3**	**0.4**	**0.4**
EBITDA/hour (Rs mn)	0.2	0.3	0.2	0.1	0.2	0.0	0.0	0.1	0.1
Operating cost/hour (Rs mn)	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3

Source: Company data, Kotak Institutional Equities

Consolidated financial summary of Sun TV Network, March fiscal year-ends, 2006-13E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)							
Net sales	6,780	8,699	10,394	14,528	19,089	23,083	27,054
EBIT	**3,524**	**4,736**	**5,166**	**7,696**	**10,456**	**13,015**	**15,538**
Other income	411	556	505	297	364	471	675
Interest (expense)/income	(64)	(159)	(138)	(50)	(13)	—	—
Pretax profits	**3,871**	**5,133**	**5,534**	**7,943**	**10,807**	**13,486**	**16,213**
Tax-cash	(1,509)	(1,947)	(2,045)	(2,769)	(3,730)	(4,583)	(5,502)
Tax-deferred	108	(67)	(250)	(182)	(68)	(30)	(19)
Minority interest	(9)	148	281	190	85	8	(56)
Net profits after minority interests	**2,461**	**3,267**	**3,578**	**5,181**	**7,094**	**8,881**	**10,636**
Earnings per share (Rs)	**6.3**	**8.3**	**9.1**	**13.1**	**18.0**	**22.5**	**27.0**
Balance sheet (Rs mn)							
Total equity	11,932	14,485	17,016	18,739	22,376	27,107	32,210
Deferred Tax	(56)	11	261	443	512	542	561
Total borrowings	867	695	716	—	—	—	—
Currrent liabilities	1,693	2,516	2,343	2,329	2,612	2,863	3,113
Total capital	**14,478**	**18,311**	**20,720**	**21,707**	**25,609**	**30,614**	**36,042**
Cash	6,494	4,297	3,654	1,276	2,828	6,447	10,427
Current assets	3,221	4,542	5,543	8,144	10,754	12,779	14,760
Total fixed assets	3,543	5,048	6,697	8,357	8,290	7,846	7,508
Intangible assets	1,220	2,620	3,021	2,125	1,931	1,737	1,542
Total assets	**14,478**	**18,311**	**20,720**	**21,707**	**25,609**	**30,614**	**36,042**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	3,239	4,091	5,309	7,510	10,062	12,341	14,425
Working capital	(1,992)	(1,235)	413	(2,614)	(2,328)	(1,773)	(1,731)
Capital expenditure	(433)	(1,811)	(4,291)	(1,800)	(1,000)	(600)	(650)
Investments	(849)	(3,837)	(627)	(1,558)	(2,049)	(2,670)	(3,206)
Other income	402	523	484	297	364	471	675
Free cash flow	**814**	**1,046**	**1,431**	**3,096**	**6,734**	**9,968**	**12,044**
Ratios (%)							
Debt/equity	7.3	4.8	4.2	—	—	—	—
Net debt/equity	(47.2)	(24.9)	(17.3)	(6.8)	(12.6)	(23.8)	(32.4)
RoAE	32.9	24.8	22.5	28.4	33.7	35.1	35.2
RoACE	**26.8**	**24.2**	**22.9**	**28.8**	**34.4**	**35.7**	**35.9**

Source: Company data, Kotak Institutional Equities estimates

kotak Institutional Equities

Tata Communications (TCOM)

Telecom

REDUCE

JULY 28, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 285

Target price (Rs): 225

BSE-30: 17,957

Weak quarter driven by revenue decline. Tata Communications (TCOM) reported a 3% sequential decline in revenues both at the standalone as well as at the consolidated level. Even as cost control and non-recurrence of one-off costs in 4QFY10 led to a smart qoq EBITDA margin recovery, 1QFY11 results do little to change our cautious view on the company's core business. We retain our REDUCE rating and SOTP-based target price of Rs225/share on the stock.

Company data and valuation summary

Tata Communications

Stock data			
52-week range (Rs) (high,low)			536-225
Market Cap. (Rs bn)			81.1
Shareholding pattern (%)			
Promoters			76.2
FIIs			8.4
MFs			0.6
Price performance (%)	**1M**	**3M**	**12M**
Absolute	8.9	4.8	(41.7)
Rel. to BSE-30	7.8	1.5	(50.2)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	14.0	15.2	15.7
EPS growth (%)	3.2	8.2	3.5
P/E (X)	20.3	18.8	18.1
Sales (Rs bn)	42.2	45.6	48.8
Net profits (Rs bn)	4.0	4.3	4.5
EBITDA (Rs bn)	10.3	11.1	11.5
EV/EBITDA (X)	8.3	7.6	7.3
ROE (%)	5.2	5.5	5.5
Div. Yield (%)	2.3	2.6	3.0

1QFY11 consolidated results – sharp margin recovery; revenues and Neotel performance weak

TCOM reported a 3% sequential decline in consolidated revenues to Rs28.8 bn (+13% yoy), driven by weak performance in the global voice business (55% of gross revenues, down 7% qoq), even as the data segment saw a robust 5% sequential growth. Focus on cost containment and non-recurrence of one-off provision made in 4QFY10 led to a sharp improvement in EBITDA margins – to 9% for 1QFY11 versus 1.7% for 4QFY10. However, lower other income and increased losses at Neotel (a South Africa-based service provider in which TCOM has a 56% stake) led to net loss sustaining at a high level (net loss of Rs2.8 bn for 1QFY11).

1QFY11 standalone results – same story – revenue miss, margin recovery; weak overall

TCOM's standalone revenues of Rs8.2 bn (down 3% qoq) for 1QFY11 (adjusted for prior period revenues of Rs256 mn), came in 6% below our expectations. EBITDA margins of 23.6% (+30 bps qoq) were 80 bps ahead of our expectations led by aggressive cost rationalization and non-recurrence of certain one-offs in 4QFY10. Adjusted core net income of Rs225 mn was 55% ahead of our estimate, and was aided by forex gains of Rs102 mn.

Recovery in core business some time away; no clarity on land sale; reiterate REDUCE rating

We believe TCOM's core business continues to remain under pressure; the company's stretched balance sheet (and constraints on raising equity on account of Government ownership) also curtails their ability to make requisite investments. We reiterate our REDUCE rating on the stock with a target price of Rs225/share. Our fair value estimate is SOTP-based and comprises

- Core business valued at Rs95/share – based on 6X FY2012E estimated consolidated EBITDA of Rs13 bn less net debt of Rs51 bn.
- 10.7% stake in TTSL valued at Rs67/share. We peg TTSL's EV at 20% discount to our fair value for Idea and deduct net debt to the extent of Rs70 bn.
- Surplus land assets valued at Rs64/share – at 70% discount to estimated market value of surplus land (Rs214 bn).

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TCOM consolidated interim results, March fiscal year-ends (Rs mn)

	Quarterly			% change	
	1QFY10	4QFY10	1QFY11	qoq (%)	yoy (%)
Revenues	**25,617**	**29,725**	**28,845**	**(3)**	**13**
Staff cost	(3,310)	(4,799)	(3,989)		
Network costs	(13,892)	(18,924)	(17,556)		
Operating and other expenses	(4,836)	(5,488)	(4,703)		
Total expenditure	(22,037)	(29,210)	(26,247)	(10)	19
EBITDA	**3,580**	**515**	**2,598**	**404**	**(27)**
Depreciation and amortization	(3,247)	(4,575)	(3,829)		
EBIT	**333**	**(4,060)**	**(1,231)**	**NM**	**(470)**
Other income	633	(220)	159		
Interest expense	(1,060)	(1,360)	(1,333)		
Pre-tax profits	**(94)**	**(5,640)**	**(2,404)**	**NM**	**NM**
Tax (incl. deferred tax)	(330)	(586)	(245)		
Net income before exceptional items	**(424)**	**(6,226)**	**(2,650)**	**NM**	**NM**
Exceptional items	—	2,183	—		
PAT after exceptional items	**(424)**	**(4,043)**	**(2,650)**	**NM**	**NM**
Minority int. share of loss	198	164	250		
Share in loss of associates	**(325)**	**(293)**	**(415)**		
Reported net income	**(551)**	**(4,173)**	**(2,814)**	**NM**	**NM**
Margins (%)					
EBITDA	14.0	1.7	9.0		
EBIT	1.3	(13.7)	(4.3)		
PBT	(0.4)	(19.0)	(8.3)		
PAT (pre exceptionals and MI)	(1.7)	(20.9)	(9.2)		
Tax rate (as % of PBT)	(351.9)	(10.4)	(10.2)		

Source: Company, Kotak Institutional Equities

TCOM standalone interim results, March fiscal year-ends (Rs mn)

	Quarterly			% change	
	1QFY10	4Q FY10	1QFY11	qoq	yoy
Revenues	**8,429**	**7,698**	**8,184**	***6***	***(2.9)***
Staff cost	(913)	(1,085)	(1,162)	*7*	*27.2*
Network costs	(3,791)	(3,298)	(3,711)	*13*	*(2.1)*
Operating and other expenses	(1,541)	(1,759)	(1,377)	*(22)*	*(10.6)*
Total expenditure	(6,245)	(6,141)	(6,251)	*2*	*0.1*
EBITDA	**2,184**	**1,556**	**1,934**	***24***	***(11.4)***
EBITDA margin (%)	**25.9**	**20.2**	**23.6**	**17**	**(8.8)**
Interest/other income	74	537	272	*(49)*	*269.9*
Depreciation and amortization	(1,234)	(1,516)	(1,433)	*(5)*	*16.2*
Interest expense	(525)	(568)	(435)		
Pre-tax profits	**498**	**11**	**338**	***3,115***	***(32.2)***
Extraordinaries/Prior Year	—	2,824	256		
Tax (incl. deferred tax)	(179)	(17)	(197)	*1,081*	*10.5*
Reported net income	**319**	**2,818**	**396**	***(86)***	***24.1***
Adjusted net income	**319**	**10**	**225**	***2,059***	***(29.4)***
Recurring EPS	**1.1**	**0.0**	**0.8**		
Effective tax rate (%)	35.9	0.6	33.2		

Source: Company, Kotak Institutional Equities estimates

Our sum-of-the-parts 12-month target price for TCOM is Rs225/share

	Estimated value		Value in SOTP		
	(Rs bn)	(Rs/share)	(Rs bn)	(Rs/share)	Comments
1. Core business					
Enterprise value (EV)	78	274	78	274	Based on 6X EV/EBITDA multiple
Net cash/(debt)	(51)	(179)	(51)	(179)	
Equity value	**27**	**95**	**27**	**95**	
2. Investments					
TATA Teleservices (TTSL)	19	67	19	67	Valuation based on 20% discount to our target EV for Idea
Total	**19**	**67**	**19**	**67**	
3. Others					
Surplus real estate	61	214	18	64	30% of estimated market value of surplus land
Total	**61**	**214**	**18**	**64**	
Grand total [1]+[2]+[3]	**107**	**376**	**64**	**226**	**12-month forward target price is Rs225/share**

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities

Corporation Bank (CRPBK)

Banks/Financial Institutions

BUY

JULY 28, 2010

RESULT

Coverage view: Attractive

Price (Rs): 566

Target price (Rs): 700

BSE-30: 17,957

Impressive core earnings; slippages higher. Corporation Bank reported a PAT of Rs3.3 bn (up 28% yoy) in 1QFY11. Improved qoq margins, strong loan growth at 37% yoy and continued traction in fee income (up 34% yoy) were the key positives. Gross NPL is comfortable at 1.1% but slippages in 1Q have been higher at 1.5% (annualized), mainly in agriculture (related to debt waiver). We have maintained our earnings, rolling our valuation to FY2012E and increased TP to Rs700 from Rs650. BUY.

Company data and valuation summary

Corporation Bank

Stock data			
52-week range (Rs) (high,low)			590-335
Market Cap. (Rs bn)			81.2
Shareholding pattern (%)			
Promoters			57.2
FIIs			4.2
MFs			6.1
Price performance (%)	1M	3M	12M
Absolute	8.2	10.9	64.0
Rel. to BSE-30	6.3	6.6	39.1

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	81.6	86.7	100.3
EPS growth (%)	31.1	6.3	15.7
P/E (X)	6.9	6.5	5.6
NII (Rs bn)	22.1	26.7	31.6
Net profits (Rs bn)	11.7	12.4	14.4
BVPS	402.6	468.8	545.4
P/B (X)	1.4	1.2	1.0
ROE (%)	21.9	19.9	19.8
Div. Yield (%)	2.9	3.1	3.6

NII shows impressive growth at 49%; NIMs up 12 bps to 2.6%

Corporation Bank's net interest income (NII) increased by 49% yoy in 1QFY11 to Rs7 bn driven by healthy loan growth (up 37% yoy and 2.5% qoq), declining cost of funds (declined 20 bps qoq to 5.4%) and improvement in CD ratio to 71% from 68% in March 2010. Our calculations show that the company's spreads have improved by 25 bps qoq while calculated NIM improved 9 bps to 2.55%. CASA deposits growth was impressive with savings account balances at 33% yoy and current account balances at 26% yoy. CASA ratio improved by 74 bps yoy to 24%.

Core fee income growth impressive; treasury income declines

Corporation Bank continues to maintain the healthy growth momentum in fee income (up 34% yoy) in 1QFY11. The impact of re-pricing its services is clearly visible in the fee income business today. The overall non-interest income declined by 26% yoy to Rs2.7 bn in 1QFY11 as the contribution from treasury income for the quarter. Treasury gains declined by 95% yoy to Rs135 mn. Bad debt recovery has been relatively impressive during the quarter at Rs0.6 bn compared to Rs0.3 bn in 1QFY10. We are factoring fee income growth at 15% in FY2011E.

Asset quality shows pressure mainly from agriculture

Corporation Bank's reported gross NPLs increased to Rs7.3 bn (up 19% yoy) as of June 2010. Gross NPL is at 1.1% of advances while net NPL is at 0.43%. Slippages increased sharply to 1.5% (annualized) of loans during the quarter mainly due to slippages from the agriculture and retail portfolio. The bank recognised about Rs 360 mn of debt waiver-related loans during 1Q. Provision coverage ratio has declined qoq to 76% (81% including technical write-off). Nearly 83% of loans are monitored under CBS with the balance to be completed by the next quarter. The management does not expect any change in NPLs due to 100% migration to CBS.

Restructured book remains unchanged at 4% of loans while the overall slippages from the restructured book are at 6%. While the bank has delivered a strong performance on loans, we continue to remain cautious as the impact of restructured portfolio would be visible in FY2011E. We assume slippages of 1.3% in FY2011E and 1.1% in FY2012E.

QUICK NUMBERS

- NII growth at 49%, NIMs at 2.6%
- Slippages (1.5%) higher, mainly from agriculture
- Maintaining BUY with TP of Rs700 (from Rs650)

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Other operational highlights for the quarter

- Cost-income ratio for the quarter was at 36% compared to 40% in 4QFY10. The bank is yet to ascertain its pension liability accurately and has made a nominal contribution towards gratuity (revised benefit) in 1QFY10. Pension liability has been estimated on a worst case scenario at Rs6bn (9% of FY2011E networth).
- Total CAR was at 15% with tier-1 capital (excluding current quarter profits) at 8.6%.

Risk-reward balance for investing remains favorable

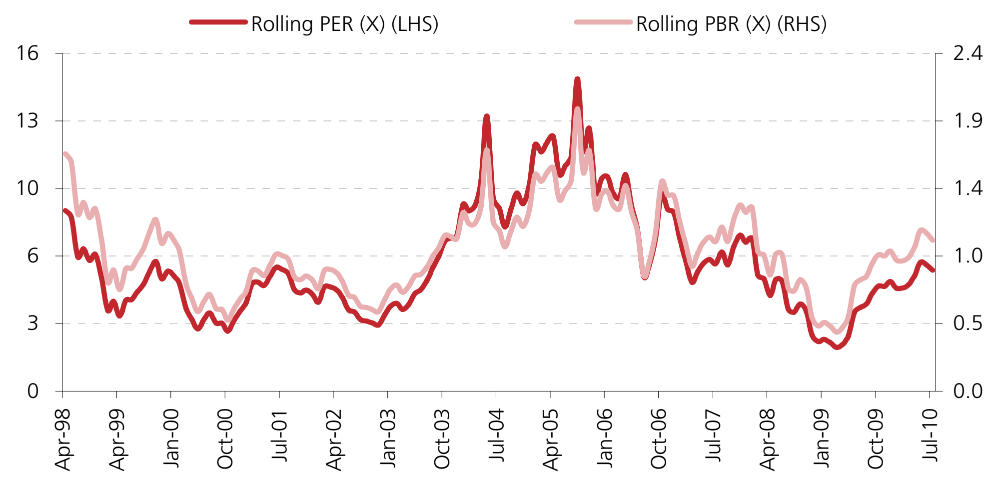
We are broadly maintaining our estimates and believe that we still are somewhat conservative in our provisioning assumptions, and there exists upsides to our earnings estimates. At our current assumptions, our fair value estimate of the stock is Rs700 (implying a 1.3X target PBR FY2012E), reiterating our BUY rating.

We maintain our estimates for factoring the current performance
Old and new estimates, March fiscal year-ends, 2011-12E (Rs mn)

	Old estimates		New estimates		% change	
	2011E	2012E	2011E	2012E	2011E	2012E
Net interest income	26,686	31,627	27,869	32,015	4.4	1.2
NIM (%)	2.3	2.2	2.4	2.3		
Loan growth	21.4	22.5	21.7	22.7		
Loan loss provisions	4,199	5,123	4,904	4,711	16.8	(8.1)
Other income	11,534	12,789	10,646	11,932	(7.7)	(6.7)
Treasury income	1,500	1,500	750	750	(50.0)	(50.0)
Other non-interest income	10,034	11,289	9,896	11,182	(1.4)	(0.9)
Operating expenses	14,341	17,043	14,692	17,148	2.4	0.6
Employee expenses	6,756	8,184	7,181	8,363	6.3	2.2
Investment dep/amortization	1,200	1,000	800	1,000		
PBT	17,671	20,441	17,901	20,871	1.3	2.1
Net profit	**12,440**	**14,390**	**12,621**	**14,715**	**1.5**	**2.3**
PBT - treasury	18,871	21,441	17,951	21,121	(4.9)	(1.5)
PBT - treasury + NPL provisions	23,069	26,564	22,855	25,832	(0.9)	(2.8)

Source: Company, Kotak Institutional Equities estimates

Corporation Bank: Rolling PBR and PER
April 1998-July 2010



Source: Kotak Institutional Equities

Corporation Bank quarterly results
March fiscal year-ends, 1QFY10-1QFY11 (Rs mn)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	% chg	1QFY11E	Actual Vs KS
Interest income	17,422	17,695	18,606	19,222	20,278	16	19,318	5
Advances	12,118	12,121	12,541	13,012	13,920	15	13,437	4
Investments	4,884	5,072	5,446	5,512	5,760	18	5,533	4
Others	420	502	619	698	597	42	349	71
Interest expenses	12,747	12,660	12,612	12,824	13,302	4	12,865	3
NII adjst for invst amort.	**4,676**	**5,035**	**5,994**	**6,398**	**6,976**	**49**	**6,453**	**8**
Non-interest income	3,593	3,028	2,517	2,727	2,661	(26)	2,535	5
Fee and comm.	521	538	636	724	698	34		
Invesment gains	1,854	747	368	119	135	(93)	119	14
Forex income	118	380	200	235	224	89		
Dividend on shares	3	31	3	8	5	35		
Other income	824	1,062	1,084	1,433	1,007	22		
Bad debt recovery	272	270	226	208	593	118		
Other income excluding treasury	1,739	2,281	2,148	2,608	2,526	45	2,416	5
Total income	**8,269**	**8,063**	**8,511**	**9,124**	**9,637**	**17**	**8,988**	**7**
Operating expenses	3,086	2,707	2,995	3,674	3,433	11	3,734	(8)
Employee cost	1,690	1,153	1,310	2,026	1,708	1	2,044	(16)
Other cost	1,397	1,553	1,684	1,648	1,725	24	1,690	2
Pre-tax and pre-provision profit	5,182	5,356	5,516	5,450	6,204	20	5,253	18
Provisions	1,020	940	1,271	1,651	1,266	24	1,466	(14)
NPLs	600	847	1,019	986	1,187	98	1,020	16
Invt. depreciation	288	82	190	59	76	(74)	59	28
PBT	4,163	4,417	4,245	3,799	4,938	19	3,787	30
Tax	1,550	1,500	1,195	676	1,600	3	1,117	43
Net profit	**2,613**	**2,917**	**3,050**	**3,123**	**3,338**	**28**	**2,670**	**25**
Tax rate (%)	37	34	28	18	32			
PBT-treasury profits	**2,597**	**3,751**	**4,066**	**3,739**	**4,879**	**88**	**3,728**	**31**
PBT- treasury profits + NPL provisions	**3,197**	**4,599**	**5,085**	**4,726**	**6,066**	**90**	**4,748**	**28**
Balance sheet (Rs bn)								
Capital	1.4	1.4	1.4	1.4	1.4			
Reserves and surplus	47.5	47.5	47.5	56.3	56.3			
Deposits	721.3	808.9	844.1	927.3	910.3	26		
Share of demand deposit (%)	23.3	22.3	23.3	28.6	24.1			
Borrowings	13.6	21.4	16.3	90.8	110.9			
Other liabilities and provisions	92.0	84.7	101.0	40.8	50.0			
P and L account balance	2.6	5.5	8.6	0.0	3.3			
Total Liabilities	**878.5**	**969.5**	**1,018.9**	**1,116.7**	**1,132.3**			
Cash and balances with RBI	42.0	48.5	53.0	88.4	56.0			
Bal (banks), money at call/short notice	6.0	2.8	10.2	19.6	1.1			
Investments	326.9	361.6	358.2	345.2	394.0	21		
Advances	473.8	525.7	567.1	632.0	648.0	37		
Retail	92.0	99.0	108.7	117.0	0.0			
Fixed assets	2.9	3.0	2.9	2.9	3.0			
Other assets	26.9	27.9	27.4	28.6	30.2			
Total assets	**878.5**	**969.5**	**1,018.9**	**1,116.7**	**1,132.3**			

Source: Company, Kotak Institutional Equities estimates

Corporation Bank-- key operational parameters
March fiscal year-ends, 1QFY10-1QFY11

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Asset quality details					
Gross NPLs (Rs mn)	6,116	6,269	7,523	6,509	7,268
Gross NPLs (%)	1.3	1.2	1.3	1.0	1.1
Net NPLs (Rs mn)	1,506	1,540	2,579	1,972	2,758
Net NPLs (%)	0.3	0.3	0.5	0.3	0.4
Provision coverage (%)	75.4	75.4	65.7	69.7	62.1
Provision coverage (inc w/o) (%)	75.4	75.4	73.3	80.8	76.0
Slippages (Rs mn)	340	858	664	1,989	1,619
Slippages ratio (%)	0.7	0.9	1.5	0.7	1.5
Restructured assets (Rs mn)	24,060	24,421	24,779	27,639	28,114
Restructured assets to loans (%)	5.1	4.6	4.4	4.4	4.3
Slippages of restructured loans (Rs mn)		280	568	1,428	1,733
Slippages to restructured book (%)		1.1	2.3	5.2	6.2
Yield management measures (%)					
Cost of deposits	6.7	6.4	5.7	5.4	5.2
NIM	2.26	2.28	2.54	2.50	2.62
Calulated Figures (Quarterly)					
Yield on Advances	10.11	9.70	9.18	8.68	8.70
Yield on Investments	6.78	5.89	6.05	6.27	6.23
Yield On Funds	8.25	7.92	7.72	7.42	7.43
Cost of Funds	6.82	6.47	5.97	5.46	5.22
Spreads	1.44	1.45	1.76	1.95	2.21
NIM	2.22	2.25	2.49	2.47	2.55
Capital adequacy details (%)					
CAR	16.3	16.3	17.2	15.4	15.0
Tier I	9.6	9.6	10.4	9.3	8.6
Tier II	6.7	6.7	6.9	6.1	6.3

Source: Company, Kotak Institutional Equities estimates

Corporation Bank key ratios and growth rates
March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan	30.8	23.8	30.3	21.7	22.7	22.5
Customer assets	29.2	23.2	29.6	21.3	22.4	22.3
Investments excld. CPs and debentures	16.8	54.4	40.1	28.0	16.4	16.5
Net fixed assets	(3.3)	10.0	(3.2)	14.6	0.7	(0.4)
Cash and bank balance	32.7	18.2	2.4	(25.2)	15.5	16.2
Total Asset	26.3	30.5	28.5	18.3	19.5	19.6
Deposits	30.9	33.5	25.3	20.6	21.7	21.5
Current	55.0	25.4	2.1	16.4	21.7	21.5
Savings	16.3	13.4	29.1	37.4	21.7	21.5
Fixed	29.0	40.8	30.6	18.2	21.7	21.5
Net interest income	10.6	11.0	30.7	26.1	14.9	17.4
Loan loss provisions	(29.5)	(4.6)	114.9	27.5	(3.9)	11.5
Total other income	9.4	58.1	7.2	(10.3)	12.1	12.4
Net fee income	15.3	22.6	14.1	18.0	18.0	18.0
Net capital gains	7.3					
Net exchange gains	(10.3)	90.2	19.0	20.0	20.0	20.0
Operating expenses	11.0	12.3	25.8	16.6	16.7	16.6
Employee expenses	13.1	9.4	35.0	13.7	16.5	16.3
Key ratios (%)						
Yield on average earning assets	8.0	8.2	7.6	8.2	8.4	8.5
Yield on average loans	9.3	10.0	8.9	9.7	9.8	9.9
Yield on average investments	7.6	7.4	7.1	7.1	7.1	7.1
Average cost of funds	5.8	6.3	5.6	6.2	6.4	6.6
Interest on deposits	5.9	6.3	5.5	6.1	6.4	6.6
Difference	**2.2**	**1.8**	**2.0**	**2.0**	**1.9**	**1.9**
Net interest income/earning assets	2.5	2.3	2.3	2.4	2.3	2.2
Spreads on lending business	3.5	3.7	3.3	3.5	3.3	3.2
Spreads on lending business (incl. Fees)	4.1	4.3	3.8	4.0	3.8	3.7
New provisions/average net loans	0.5	0.4	0.7	0.7	0.6	0.5
Total provisions/gross loans	1.1	0.8	0.7	1.2	1.4	1.6
Interest income/total income	68.5	60.4	65.1	72.4	72.8	73.7
Other income / total income	31.5	39.6	34.9	27.6	27.2	26.3
Fee income to total income	9.7	9.5	8.9	9.3	9.6	9.7
Fee income to advances	0.6	0.6	0.5	0.5	0.5	0.5
Fees income to PBT	20.3	19.1	18.1	19.9	20.2	20.2
Net trading income to PBT	6.5	20.7	14.8	(0.3)	(1.2)	(1.0)
Exchange inc./PBT	3.9	5.7	5.6	6.3	6.4	6.6
Operating expenses/total income	40.1	35.8	37.1	38.1	39.0	39.2
Operating expenses/assets	1.5	1.3	1.3	1.2	1.2	1.2
Operating profit /AWF	1.6	1.3	1.4	1.5	1.4	1.4
Tax rate	31.0	35.6	29.5	29.5	29.5	29.5
Dividend payout ratio	20.5	20.1	20.1	20.1	20.1	20.1
Share of deposits						
Current	19.0	17.8	14.5	14.0	14.0	14.0
Fixed	65.0	68.6	71.4	70.0	70.0	70.0
Savings	16.1	13.6	14.0	16.0	16.0	16.0
Loans-to-deposit ratio	70.7	65.6	68.2	68.8	69.4	69.9
Equity/assets (EoY)	6.3	5.6	5.2	5.1	5.0	4.9
Dupont analysis (%)						
Net interest income	2.4	2.2	2.2	2.3	2.2	2.2
Loan loss provisions	0.3	0.2	0.4	0.4	0.3	0.3
Net other income	2.4	2.2	2.2	2.3	2.2	2.2
Operating expenses	1.5	1.4	1.3	1.2	1.2	1.2
(1- tax rate)	69.0	64.4	70.5	70.5	70.5	70.5
ROA	1.2	1.2	1.2	1.0	1.0	1.0
Average assets/average equity	14.9	16.8	18.6	19.5	19.9	20.3
ROE	18.4	19.6	22.0	20.2	20.2	20.3

Source: Company, Kotak Institutional Equities estimates

Corporation Bank P&L and balance sheet
March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total interest income	45,966	60,674	72,946	97,499	118,172	143,495
Total interest expense	30,732	43,764	50,843	69,630	86,157	105,915
Net interest income	15,234	16,910	22,103	27,869	32,015	37,580
Loan loss provisions	1,876	1,790	3,848	4,904	4,711	5,250
Net interest income (after prov.)	13,358	15,120	18,255	22,965	27,304	32,330
Other income	7,001	11,072	11,864	10,646	11,932	13,413
Net fee income	2,160	2,648	3,023	3,567	4,209	4,966
Net capital gains	1,357	4,416	3,088	750	750	750
Net exchange gains	412	784	934	1,121	1,345	1,614
Operating expenses	8,920	10,016	12,600	14,692	17,148	19,988
Employee expenses	4,279	4,680	6,317	7,181	8,363	9,726
Depreciation on investments	668	1,545	619	800	1,000	1,000
Other Provisions	114	769	218	218	218	218
Pretax income	10,654	13,862	16,683	17,901	20,871	24,538
Tax provisions	3,304	4,935	4,921	5,280	6,156	7,237
Net Profit	7,350	8,928	11,762	12,621	14,715	17,301
% growth	37.1	21.5	31.8	7.3	16.6	17.6
PBT+provision-treasury gains	11,158	13,550	18,279	23,073	26,049	30,256
% growth	10.1	21.4	34.9	26.2	12.9	16.1
Balance sheet (Rs mn)						
Cash and bank balance	89,159	105,397	107,919	80,743	93,269	108,348
Net value of investments	165,123	249,378	345,226	439,127	509,345	591,517
Govt. and other securities	141,341	175,524	247,917	352,121	422,339	504,512
Shares	1,361	1,255	3,546	3,546	3,546	3,546
Debentures and bonds	5,248	11,191	12,665	7,660	7,660	7,660
Net loans and advances	391,856	485,122	632,026	769,156	943,764	1,156,309
Fixed assets	2,718	2,989	2,893	3,315	3,337	3,325
Other assets	17,121	26,173	28,609	28,609	28,609	28,609
Total assets	**665,976**	**869,058**	**1,116,673**	**1,320,949**	**1,578,323**	**1,888,109**
Deposits	554,244	739,839	927,337	1,118,464	1,360,739	1,653,063
Borrowings and bills payable	35,156	50,139	96,605	96,605	96,605	96,605
Other liabilities	34,291	30,115	34,983	38,481	42,329	46,562
Total liabilities	**623,692**	**820,093**	**1,058,924**	**1,253,550**	**1,499,673**	**1,796,230**
Paid-up capital	1,434	1,434	1,434	1,434	1,434	1,434
Reserves & surplus	40,851	47,531	56,314	65,965	77,216	90,444
Total shareholders' equity	**42,285**	**48,965**	**57,749**	**67,399**	**78,650**	**91,879**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Patni Computer Systems (PATNI)

Technology

REDUCE

JULY 28, 2010

RESULT

Coverage view: Attractive

Price (Rs): 478

Target price (Rs): 450

BSE-30: 17,957

Revenues disappoint again; reiterate REDUCE. Patni reported another quarter of anemic revenue performance with revenues declining 2.8% qoq, substantially below estimates and management guidance. This continues a multi-quarter trend of weak revenue performance for the company – 2QCY10 revenues were lower than 3QCY07 levels, despite several acquisitions in the interim. We retain our REDUCE recommendation on the stock with a target price of Rs450/share.

Company data and valuation summary

Patni Computer Systems

Stock data			
52-week range (Rs) (high,low)			625-270
Market Cap. (Rs bn)			63.7
Shareholding pattern (%)			
Promoters			46.5
FIIs			41.2
MFs			5.8
Price performance (%)	1M	3M	12M
Absolute	(5.9)	(12.9)	69.3
Rel. to BSE-30	(6.8)	(15.7)	44.6

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	36.6	41.3	37.5
EPS growth (%)	36.4	12.8	(9.1)
P/E (X)	13.1	11.6	12.8
Sales (Rs bn)	31.6	32.1	37.2
Net profits (Rs bn)	4.7	5.5	5.0
EBITDA (Rs bn)	6.4	6.5	7.1
EV/EBITDA (X)	6.6	5.7	4.8
ROE (%)	18.2	15.1	12.4
Div. Yield (%)	1.5	1.7	1.6

2QCY10 revenue performance extends multi-year weak revenue trend

Patni reported disappointing core numbers for 2QCY10 – revenues declined 2.8% sequentially to US$167.6 mn, 3.3% lower than our estimate and 2.6% below the lower-end of the company guidance. Even as the management attributed 2QCY10 qoq revenue decline to delays in expected project starts, we note that Patni's revenue performance reflects a multi-year struggle to grow revenues. 2QCY10 revenues were lower than 3QCY07 levels, despite (1) several acquisitions and IP purchases, (2) a few large deal wins, (3) benefits from client losses at Satyam, and (4) management's guidance of improvement in qoq revenue growth trajectory to 3-5% levels.

Weak margin performance reflective of supply side challenges; higher other income saves the day

Patni beat our net income estimate of US$29.5 mn by 7.5%, reporting a net income of US$31.7 mn, on the back of higher-than-expected forex gains (US$4.3 mn versus our estimate of US$1.5 mn) and treasury income (US$6.9 mn versus expected US$4.8 mn). Sequential core EBIT margin decline of 190 bps was significantly higher than our estimate of 90 bps despite a sharp 130 bps decline in SG&A as % of revenues. Sharp 330 bps decline in gross margins (on account of wage hikes and lower utilization) reflects the cost-of-delivery pressure in the industry, especially mid-sized companies.

Weak organic revenue growth guidance for 3QCY10; client portfolio remains weak

Patni has guided for a revenue growth of 5-5.6% qoq to US$176-177 mn for 3QCY10. We find the guidance muted, given that the company would benefit from consolidation of recent UCHS acquisition and flow-through of delayed project starts in 2QCY10. We continue to see Patni growing slower than the industry in CY2010/11E. Several factors may hurt growth prospects including weak quality client base, non-differentiated positioning and limited strength in high growth new service offerings.

Discloses another IP acquisition from a client in Europe

Patni indicated that it has bought an IP platform from a manufacturing client in Europe for a consideration of US$13 mn in 2QCY10, in addition to the announced purchase of UCHS assets.

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Margin headwinds likely to persist; attrition rates jump

We believe Patni could face more margin pressure in the next few quarters, as a result of (1) another potential wage hike in the near term; this is consistent with our wage pressure expectation for the industry. We believe the supply side remains tight; sharp increase in Patni's attrition rate (to 21.5% on a ttm basis from 17.7% in the previous quarter) indicates the same, (2) little scope to improve utilization (at 75% for the quarter), and (3) impact of upfront transition and platform re-development costs on some of the recent deal wins and IP purchases.

Reduce estimates, maintain target price and REDUCE rating

We cut our EPS estimates for CY2010E and CY2011E by 6.7% and 8.3% to Rs41.3 and Rs37.5, respectively. Significant cut in EPS estimates is despite a change in our Re-US$ exchange rate assumption. Cut in EPS estimates is driven mainly by cut in revenue estimates by 3-5% for CY2010E/CY2011E. A significant miss on revenues in this quarter and weak revenue organic growth guidance for the next quarter has led to cut in our revenue estimates.

Reiterate REDUCE rating; high cash levels a support but the company needs to demonstrate value-accretive use of cash

We retain our REDUCE rating on the stock with an unchanged target price of Rs450/share. Our target price implies a PE multiple of 12X CY2011E EPS, ~40% discount to the Tier-I stocks, fair in our view given (1) weaker growth trajectory, (2) higher risk to margins, (3) acquisition-related risks, and (4) poor return ratios (ROE/ROCE). Our target price implies a multiple of 14X CY2011E core earnings (ex-cash). We note that Patni had US$467 mn of cash on books as at end-Jun 2010.

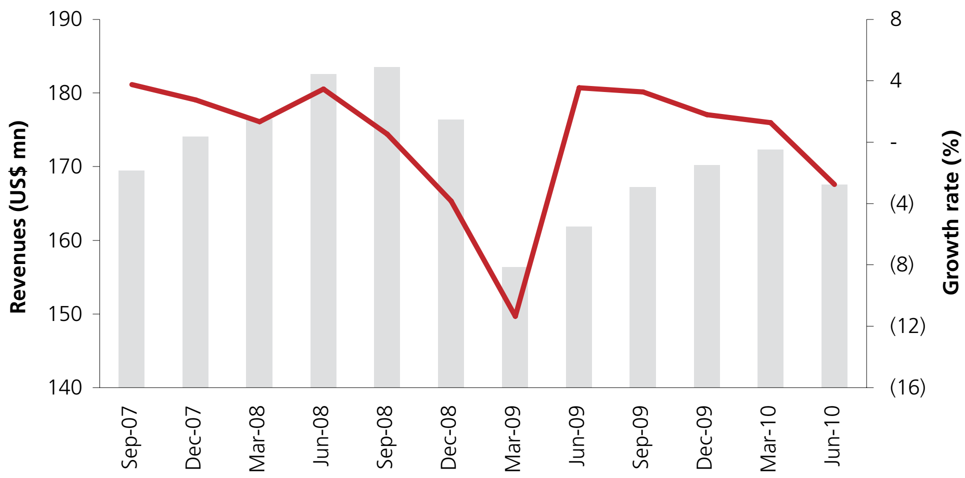
We also note that Patni continues to see inorganic initiatives as a key component of its growth strategy. Even as Patni's struggle to grow revenues in the recent years demands corrective actions (acquisitions being one of them), we find the company's acquisition track record in the past 3-4 years, below par. Patni has made 5 acquisitions or IP purchases since CY2007 and as we highlighted earlier in the note, these have not moved the needle in the form of higher revenue or operating profit growth.

Key changes to our CY2010-11 estimates

	New		Old		Change (%)	
US$ 000's	**CY2010E**	**CY2011E**	**CY2010E**	**CY2011E**	**CY2010E**	**CY2011E**
Revenues	**698,375**	**809,442**	**733,344**	**837,459**	**(4.8)**	**(3.3)**
EBITDA	141,803	155,722	146,174	158,744	(3.0)	(1.9)
Depreciation	(27,501)	(29,154)	(26,218)	(30,579)	4.9	(4.7)
EBIT	114,303	126,568	119,956	128,165	(4.7)	(1.2)
Net Profit	**119,700**	**108,811**	**124,227**	**114,355**	**(3.6)**	**(4.8)**
EPS (Rs/ share)	**41.3**	**37.5**	**44.2**	**40.9**	**(6.7)**	**(8.3)**
Re/US$ rate	**45.9**	**45.9**	**45.8**	**45.9**	**0.3**	**(0.1)**
Margins (%)						
EBITDA	20.3	19.2	19.9	19.0		
EBIT ex-forex gains/losses	16.4	15.6	16.4	15.3		

Source: Kotak Institutional Equities estimates

Quarterly revenues are less than revenues reported in Sep-2007



Source: Company, Kotak Institutional Equities

Acquisitions made by Patni in the past few years

Date	Acquired entity	Consideration (US$ mn)	Comments
CY-2010	CHCS Services, Inc	6.0	Third-Party Administrator (TPA) in Healthcare & Insurance space
CY-2010	Platform from a UK based customer	13.0	Manufacturing vertical
CY-2007	Logan-Orviss International	8.6	Telecommunications consulting services company, At time of acquisition, estimated maximum contingent payout was US$13.1mn, while till date US$0.4 mn has been paid and estimated for CY2010
CY-2007	Taratec Development Corp	27.2	Consulting company in the life sciences industry, At time of acquisition, estimated maximum contingent payout was US$13.2mn, while till date no payment has been made and US$3.5 mn has been estimated for CY2010.
CY-2007	IPR from Carphone Warehouse Inc	20.4	Enabling CSP to offer varied services

Source: Company, Kotak Institutional Equities

Patni's interim results, US GAAP, fiscal year-ends December

				% chg.		Kotak	%	
US$ 000's	**2QCY09**	**1QCY10**	**2QCY10**	**qoq**	**yoy**	**estimates**	**deviation**	**Comments**
Revenues	**161,899**	**172,312**	**167,557**	**(2.8)**	**3.5**	**173,274**	**(3.3)**	Revenues below guidance of US$170-174 mn and below our estimaes of US$173.3 mn
Cost of revenues	(105,668)	(106,274)	(108,854)	2.4	3.0	(109,016)	(0.1)	
Gross profit	**56,231**	**66,038**	**58,703**	**(11.1)**	**4.4**	**64,259**	**(8.6)**	Gross margin decline of 330 bps qoq substantially higher than our expectation. Attrition has also significantly increased to 21.5% LTM
SG&A Expenses	(27,838)	(34,629)	(31,474)	(9.1)	13.1	(34,221)	(8.0)	
Sales & marketing	(11,995)	(15,856)	(14,440)	(8.9)	20.4	(15,955)	(9.5)	S&M expenses cut on an absolute basis
General and Administration	(15,855)	(18,173)	(17,130)	(5.7)	8.0	(16,082)	6.5	
Depreciation SGA	(2,100)	(2,200)	(2,300)	4.5	9.5	(2,184)	5.3	
Provision for Bad & Doubtful Debts	12	(600)	96			—		
Exchange gain/(loss)	(4,130)	4,767	4,259	(11)	(203.1)	1,500		Forex gain of US$4.3 mn was ahead of our estimates of US$1.5 mn (gain of US$4.7 mn in the previous quarter).
Operating Profit	**24,263**	**36,176**	**31,488**	**(13.0)**	**29.8**	**31,538**	**(0.2)**	
Other Income	11,227	4,409	6,940	57.4	(38.2)	4,757	45.9	
Profit Before Tax	35,490	40,585	38,428	(5.3)	8.3	36,294	5.9	
Provision for Tax	(6,825)	(7,299)	(6,689)	(8.4)	(2.0)	(6,766)	(1)	
Net Profit	**28,665**	**33,286**	**31,739**	**(4.6)**	**10.7**	**29,528**	**7.5**	Net income outperformance driven by higher other income and higher than expected forex gains
Extraordinaries	-	-						
Net Profit- Reported	**28,665**	**33,286**	**31,739**	**(4.6)**	**10.7**	**29,528**	**7.5**	
EPS (US$)	0.22	0.25	0.24					
EPS (Rs/ share)	**10.7**	**11.6**	**11.4**					
No of shares outstanding (000's)	128,421	133,201	133,835					
Margins (%)								
Gross Profit margin	34.7	38.3	35.0			37.1		
EBITDA	18.8	24.8	22.7			23.5		
Operating Profit Margin (EBIT)	15.0	21.0	18.8			18.2		
Operating Profit Margin (before currency gains/ losses)	**17.5**	**18.2**	**16.3**			**17.3**		
NPM	17.7	19.3	18.9			17.0		
Client Concentration								
GE (%)	12.3	11.7	11.2					
GE (US$ 000's)	**19,914**	**20,161**	**18,766**	(6.9)	(5.8)			
Non-GE (%)	87.7	88.3	88.8					
Non-GE (US$ 000's)	**141,985**	**152,151**	**148,791**	(2.2)	4.8			
Guidance								
			2QCY10					
			Lower end	Upper end				
Revenues (US$ mn)			176	177				
Growth (%)			5.0	5.6				
Net Income (US$ mn)			22.5	23.0				Guidance ex-forex loss/gains, signifcant decline in net income guided
Growth (%)			(18.2)	(16.4)				

Source: Company, Kotak Institutional Equities estimates

Condensed consolidated financials for Patni Computers, 2008-2012E, December fiscal year-ends (US$ '000)

US$ '000	2008	2009	2010E	2011E	2012E
Profit model					
Total income	718,884	655,638	698,375	809,442	939,054
EBITDA	**117,902**	**133,405**	**141,803**	**155,722**	**169,834**
Depreciation (incl amortization of intangibles)	(25,764)	(24,230)	(27,501)	(29,154)	(34,538)
Other income	3,388	10,600	31,905	20,868	28,641
Pretax profits	**95,526**	**119,775**	**146,207**	**147,437**	**163,938**
Tax	(12,897)	(22,404)	(26,508)	(38,625)	(48,365)
Profit after tax	**82,629**	**97,371**	**119,700**	**108,812**	**115,572**
Diluted earnings per share (Rs)	**26.8**	**36.6**	**41.3**	**37.5**	**38.6**
Balance sheet					
Total equity	570,956	747,033	838,735	922,095	1,019,078
Deferred taxation liability	2,859	1,105	1,105	1,105	1,105
Other non-current liabilities	36,150	42,789	29,190	33,818	39,218
Current liabilities	143,362	110,253	127,576	146,852	169,348
Total liabilities and equity	**753,326**	**901,181**	**996,606**	**1,103,870**	**1,228,749**
Cash and equivalents	305,668	439,317	573,976	641,469	678,785
Other current assets	161,794	163,648	164,163	200,016	230,535
Tangible fixed assets	150,930	147,632	118,923	119,331	172,277
Goodwill and intangibles	92,382	88,733	88,733	88,733	88,733
Other non-current assets	42,551	61,850	50,810	54,321	58,419
Total assets	**753,326**	**901,181**	**996,606**	**1,103,870**	**1,228,749**
Free cash flow					
Operating cash flow, excl. working capital	86,645	106,626	128,321	117,097	121,469
Working capital changes	59,259	(49,219)	14,360	(15,459)	(5,039)
Capital expenditure	(39,521)	(18,711)	1,208	(29,562)	(57,727)
Acquisitions	—	—	—	—	—
Other income	21,748	20,293	18,879	20,868	28,641
Free cash flow	**128,131**	**58,989**	**162,768**	**92,944**	**87,344**
Ratios (%)					
EBITDA margin	16.4	20.3	20.3	19.2	18.1
ROAE	16.2	18.2	15.1	12.4	11.9
ROACE	11.8	15.1	16.1	14.4	13.9

Source: Company, Kotak Institutional Equities estimates

Patni: Quarterly metrics

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Revenues (US$ mn)	**176.4**	**182.6**	**183.5**	**176.4**	**156.4**	**161.9**	**167.2**	**170.2**	**172.3**	**167.6**
qoq growth (%)	1.3	3.5	0.5	(3.9)	(11.4)	3.5	3.3	1.8	1.3	(2.8)
Re/US$ period average rate	40.0	42.9	46.5	48.6	50.9	47.7	48.1	46.4	45.0	46.4
Revenues by geography										
Americas	76.6	76.1	76.7	78.6	79.0	80.0	80.8	80.5	79.7	81.0
EMEA	17.6	18.7	17.5	15.6	15.0	14.2	13.5	14.0	13.4	12.0
APAC	5.8	5.2	5.8	5.8	6.0	5.8	5.7	5.5	6.8	7.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Revenue by industry verticals										
Insurance	23.2	23.3	25.1	27.1	27.4	29.7	31.2	30.5	29.0	30.1
Manufacturing, Retail and Distribution	24.6	24.9	25.5	25.4	29.2	27.7	28.4	30.3	30.8	29.9
Financial services	12.9	12.8	12.5	12.9	13.6	13.8	12.3	12.0	11.7	11.9
Communications, Media & Utilities	13.4	14.2	12.5	10.1	14.4	13.7	13.5	12.3	12.2	11.7
Product engineering services	25.9	24.8	24.4	24.5	15.4	15.1	14.6	14.8	16.3	16.4
Revenue by service offering										
ADM	64.6	61.9	64.2	64.6	65.1	64.9	65.0	65.8	64.6	62.5
Package software implementation	13.1	16.1	15.0	13.5	13.8	13.8	12.9	12.8	13.4	13.2
Product engineering services	11.5	11.4	10.8	11.3	11.4	11.3	11.1	11.2	12.1	12.2
Infrastructure management services	5.1	4.8	4.7	5.0	3.5	4.7	6.0	5.4	5.0	5.4
BPO	5.7	5.8	5.3	5.6	6.3	5.3	5.0	4.8	4.9	6.7
Revenue by project type										
Time and material	65.6	65.2	63.2	62.2	62.5	60.2	57.6	57.6	56.4	54.4
Fixed Price (incl fixed price SLA)	34.4	34.8	36.8	37.8	37.5	39.8	42.4	42.4	43.6	45.6
Client - Revenue metrics										
Top client	11.1	10.4	10.5	11.0	12.3	12.3	11.9	11.1	11.7	11.2
Top 5 clients	32.2	31.5	32.9	34.6	33.7	37.2	38.3	37.0	36.4	35.5
Top 10 clients	44.8	44.5	45.3	48.7	46.9	50.1	51.4	50.9	48.7	48.6
Client data										
No of US$1 mn clients	86	87	91	92	94	90	92	92	92	92
No of US$5 mn clients	30	28	30	30	26	26	27	26	27	26
No of US$10 mn clients	15	18	20	19	20	17	16	15	16	14
No of US$50 mn clients	2	2	2	2	2	2	2	2	3	3
No of new clients	34	21	27	18	22	7	7	20	9	11
No of active clients	331	336	332	331	320	294	283	272	260	280
% of repeat business	92.6	92.0	94.3	93.1	94.2	94.5	93.6	93.7	92.5	94.5
Efforts Mix										
Onsite	29.2	29.2	28.2	28.7	28.3	27.6	26.8	26.9	25.2	27.4
Offshore	70.8	70.8	71.8	71.3	71.7	72.4	73.2	73.1	74.8	72.6
Revenue Mix										
Onsite	60.4	60.2	58.0	58.6	57.9	55.5	55.1	54.9	53.2	54.4
Offshore	39.6	39.8	42.0	41.4	42.1	44.5	44.9	45.1	46.8	45.6
Employee metrics										
Offshore	2,936	3,052	3,039	2,966	2,847	2,758	2,764	2,731	2,841	3,119
Onsite	12,216	11,992	11,662	11,928	11,693	11,022	10,843	11,264	11,118	11,774
Total employees	15,152	15,044	14,701	14,894	14,540	13,780	13,607	13,995	13,959	14,893
Sales & support staff	1,516	1,496	1,511	1,563	1,550	1,495	1,520	1,484	1,415	1,484
Net additions	207	(108)	(343)	193	(354)	(760)	(173)	388	(36)	934
Utilization	70.0	72.9	75.0	73.1	70.3	74.4	77.0	77.4	79.9	75.0
Attrition (LTM) excluding BPO	23.0	21.2	20.2	18.6	15.5	13.2	11.3	13.8	17.7	21.5

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Voltas (VOLT)

Industrials

REDUCE

JULY 29, 2010

RESULT

Coverage view: Attractive

Price (Rs): 207

Target price (Rs): 225

BSE-30: 17,957

Results broadly in line; order inflow and cooling products beat expectations.

1QFY11 revenues of Rs14.1 bn were up 13% yoy led by strong growth in the UCP segment. Margins at 9.1% and PAT of Rs932 mn were in line with estimates. EMP revenues were marginally down yoy but order backlog at Rs50 bn implies strong inflows of about Rs10 bn (led by four international orders). We revise estimates to build higher growth in UCP segment; retain REDUCE with revised target price of Rs225.

Company data and valuation summary

Voltas

Stock data			
52-week range (Rs) (high,low)			213-128
Market Cap. (Rs bn)			68.4
Shareholding pattern (%)			
Promoters			27.7
FIIs			9.0
MFs			16.4
Price performance (%)	1M	3M	12M
Absolute	4.9	16.9	46.9
Rel. to BSE-30	3.8	13.2	25.4

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	10.9	11.8	13.4
EPS growth (%)	57.4	8.2	14.3
P/E (X)	19.0	17.6	15.4
Sales (Rs bn)	48.2	55.2	62.7
Net profits (Rs bn)	3.6	3.9	4.4
EBITDA (Rs bn)	4.8	5.2	6.0
EV/EBITDA (X)	12.7	11.1	9.3
ROE (%)	38.3	32.5	30.2
Div. Yield (%)	1.5	1.6	1.9

1QFY11 results broadly in line with estimates; order inflow of about Rs10 bn led by global orders

- Revenue of Rs14.1 bn, up 13% yoy, slightly above our estimate of Rs13.8 bn
- EBITDA margin of was 9.1%, in line with estimate. Raw material cost up 320 bps yoy; but lower staff cost and other expenses as percentage of sales help maintain margins on a yoy basis
- PAT of Rs932 mn, up 20% yoy, versus our estimate of Rs923 mn
- Robust inflows of about Rs10 bn led by international orders; Rs50 bn backlog at end 1QFY11

Cooling products segment drives growth; EMP marginally down on yoy basis

- **UCP:** Strong 1QFY11 revenue of Rs5.9 bn, up 41% yoy. Margins at 9.3%, flat yoy
- **EMP:** Revenues of Rs6.9 bn, marginally down yoy. Margins at 8.5%, down 20 bps yoy
- **Engineering:** Turnover of Rs1.2 bn, up modest 6% yoy. Margins showed strong yoy improvement

Revise assumptions to build slightly higher UCP revenue growth; retain EMP estimates

We revise segmental assumptions to build higher revenues growth (27% yoy versus 20% earlier) in UCP in FY2011E on back of strong 1QFY11. However, we reduce revenue growth assumption for the engineering segment to 17% yoy in FY2011E (from 20% earlier) as the segment fails to show strong traction so far. We broadly maintain our EMP assumptions as we already build about Rs37 bn of inflows in FY2011E with stable execution which implies modest revenue growth of about 10% in FY2011E. EMP margins are expected to shrink about 100 bps yoy in FY2011E.

Revise estimates on higher UCP growth, and target price to Rs225; retain REDUCE

We revise estimates to Rs11.8 and Rs13.4 (from Rs11.3 and Rs12.6) for FY2011E and FY2012E respectively. We change TP to Rs225 (from Rs200) as we rollover to 17X FY2012E estimates (from Sep-11E). Retain REDUCE based on (1) limited upside to FY2012-based target price, and (2) potential headwind of margins pressure and slow pick-up in execution of new projects. Key upside risks could be stronger-than-expected inflows and execution pick-up in EMP.

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Results broadly in line with expectations

Voltas reported 1QFY11 consolidated revenue of Rs14.1 bn, up 13% yoy, slightly above our estimate of Rs13.6 bn. EBITDA margin was 9.1%, in line with estimates. Voltas reported raw material cost as a percentage of sales at 71.8%, up 320 bps yoy; however, lower employee costs and other expenses as a percentage of sales helped the company maintain margins on yoy basis. Other expense reduced on an absolute basis yoy to Rs1.35 bn in 1QFY11 from Rs1.5 bn in 1QFY10. The company reported PAT of Rs932 mn, up 20% yoy, versus our estimate of Rs923 mn.

Voltas (consolidated) - 1QFY11 results - key numbers (Rs mn)

					% change			rem-	rem-				
	1QFY11	1QFY11E	1QFY10	4QFY10	1QFY11E	1QFY10	4QFY10	9MFY11E	9MFY10	*%chg*	FY2011E	FY2010	*%chg*
Total operating income	**14,083**	**13,634**	**12,510**	**14,802**	**3.3**	**12.6**	**(4.9)**	**40,453**	**35,726**	**13.2**	**54,537**	**48,236**	**13.1**
Expenses	**(12,807)**	**(12,373)**	**(11,393)**	**(13,307)**	**3.5**	**12.4**	**(3.8)**	**(36,490)**	**(32,074)**	**13.8**	**(49,297)**	**(43,467)**	**13.4**
Stock	403		(591)	362				(403)	1,291		—	700	
Raw material	(10,509)		(7,984)	(10,830)				(28,594)	(25,708)	11.2	(39,103)	(33,692)	
Employee costs	(1,347)		(1,308)	(1,308)				(3,851)	(4,049)	(4.9)	(5,198)	(5,357)	
Other expenses	(1,354)		(1,510)	(1,530)				(3,642)	(3,609)	0.9	(4,996)	(5,118)	
EBITDA	**1,276**	**1,261**	**1,117**	**1,495**	**1.2**	**14.2**	**(14.6)**	**3,963**	**3,652**	**8.5**	**5,240**	**4,769**	**9.9**
Other income	200	177	119	196				509	493	3.4	710	612	16.1
Interest	(53)	(5)	(10)	(38)	862.3	427.0	39.8	31	(88)	NA	(22)	(98)	(77.7)
Depreciation	(50)	(52)	(49)	(54)	(3.4)	1.8	(7.6)	(157)	(165)	(4.5)	(208)	(214)	(3.1)
Profit before tax	**1,374**	**1,381**	**1,177**	**1,598**	**(0.5)**	**16.7**	**(14.1)**	**4,346**	**3,891**	**11.7**	**5,720**	**5,068**	**12.9**
Tax	(429)	(459)	(387)	(359)	(6.4)	11.0	19.6	(1,401)	(1,086)	29.1	(1,830)	(1,472)	24.3
Profit after tax	**945**	**923**	**790**	**1,240**	**2.4**	**19.6**	**(23.8)**	**2,945**	**2,805**	**5.0**	**3,890**	**3,595**	**8.2**
Minority int & exceptional	(12)	—	28	121				12	187		—	215	
Reported PAT	**932**	**923**	**818**	**1,360**				**2,957**	**2,992**		**3,890**	**3,810**	
Key ratios (%)													
Raw material cost / sales	71.8		68.5	70.7		3.2	1.0	71.7	68.3		71.7	68.4	3.3
Employee cost / sales	9.6		10.5	8.8		(0.9)	0.7	9.5	11.3		9.5	11.1	(1.6)
Other expense / sales	9.6		12.1	10.3		(2.5)	(0.7)	9.0	10.1		9.2	10.6	(1.5)
EBITDA margin	**9.1**	**9.3**	**8.9**	**10.1**	**(0.2)**	**0.1**	**(1.0)**	**9.8**	**10.2**	**(0.4)**	**9.6**	**9.9**	**(0.3)**
Effective tax rate	31.2	33.2	32.9	22.4				32.2	27.9		32.0	29.1	
PAT margin	6.7	6.8	6.3	8.4				7.3	7.9		7.1	7.5	
EPS (Rs)	**2.9**	**2.8**	**2.4**	**3.7**				**8.9**	**8.5**		**11.8**	**10.9**	

Source: Company, Kotak Institutional Equities estimates

Cooling products segment drives growth; EMP marginally down on yoy basis

- **Unitary cooling products** segment reported strong 1QFY11 revenue of Rs5.9 bn, up 41% yoy. PBIT margin in 1QFY11 was 9.3%, flat on yoy basis.

- **EMP segment** reported 1QFY11 revenues of Rs6.9 bn, marginally down yoy. PBIT margins came at 8.5%, down 20 bps yoy. Margins reduced sharply qoq from 10.1% in 4QFY10 as 4QFY10 margins were boosted by completion of several large projects.

- **Engineering segment** reported modest 1QFY11 turnover of Rs1.2 bn, up 6% yoy. Margins showed significant yoy improvement to 23%, versus 14% in 1QFY10 (20% in 4QFY10), possibly indicating early signs of a pick-up in the segment.

Voltas - segmental numbers on consolidated basis, 1QFY11 (Rs mn)

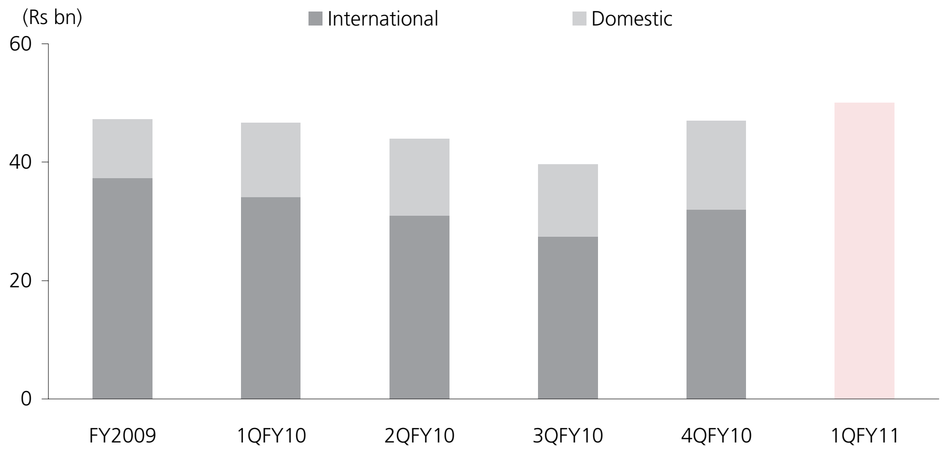
				% change		rem-	rem-				
	1QFY11	1QFY10	4QFY10	1QFY10	4QFY10	9MFY11	9MFY10	*% chg*	FY2011E	FY2010	% chg
Revenues											
Electromechanical Projects	6,926	7,001	9,310	(1.1)	(25.6)	27,210	24,133	12.8	34,136	31,134	9.6
Engineering products and services	1,203	1,139	1,198	5.6	0.4	4,256	3,541	20.2	5,459	4,680	16.6
Unitary cooling products	5,868	4,154	4,211	41.3	39.4	9,216	7,717	19.4	15,083	11,871	27.1
Others	38	127	90			373	264		411	391	
Total	**14,031**	**12,419**	**14,806**	**13.0**	**(5.2)**	**40,506**	**35,640**	**13.7**	**54,537**	**48,059**	**13.5**
PBIT											
Electromechanical Projects	586	612	943	(4.3)	(37.9)	2,487	2,479	0.3	3,072	3,091	(0.6)
Engineering products and services	276	157	238	75.2	16.1	816	611	33.6	1,092	768	42.1
Unitary Cooling Products	547	389	437	40.6	25.2	886	814	8.8	1,433	1,203	19.1
Others	(42)	24	110			165	232		123	256	
Total Profit before tax	**1,366**	**1,183**	**1,727**	**15.5**	**(20.9)**	**4,354**	**4,135**	**5.3**	**5,720**	**5,318**	**7.6**
Revenue mix											
Electromechanical Projects	49.4	56.4	62.9			67.2	67.7		62.6	64.8	
Engineering agency and services	8.6	9.2	8.1			10.5	9.9		10.0	9.7	
Unitary Cooling Products	41.8	33.4	28.4			22.8	21.7		27.7	24.7	
EBIT Margin											
Electromechanical Projects	8.5	8.7	10.1			9.1	10.3		9.0	9.9	
Engineering products and services	22.9	13.8	19.8			19.2	17.3		20.0	16.4	
Unitary Cooling Products	9.3	9.4	10.4			9.6	10.5		9.5	10.1	
Total	**9.7**	**9.5**	**11.7**			**10.7**	**11.6**		**10.5**	**11.1**	

Source: Company, Kotak Institutional Equities estimates

Robust inflows of Rs10 bn led by international orders; backlog of Rs50 bn

Voltas reported order book of Rs50 bn at end-1QFY11 from Rs47 bn at end-4QFY10. The order backlog implies robust inflows of about Rs10 bn in 1QFY11. The company has secured four international orders including a tunnel ventilation project for Metro Rail in Singapore. The exact mix of domestic and international backlog or inflows is not yet known.

Order backlog of EMP segment of Voltas



Source: Company, Kotak Institutional Equities

Revise assumptions to build higher UCP revenue growth; retain EMP estimates

We have revised our segmental assumptions to build higher revenues in UCP segments in FY2011E and FY2012E versus earlier. In the cooling products segment, we have assumed about 27% growth in FY2011E (versus 20% earlier) on the back of robust performance in 1QFY11. However, we have slightly reduced our revenue growth assumption for engineering segment to about 17% yoy in FY2011E (versus about 20% earlier) as the segment fails to show a substantial traction in top line as yet. We broadly maintain our assumptions for the EMP segment as we have already built about Rs37 bn of order inflows in FY2011E (versus about Rs10 bn secured in 1QFY11) with a stable execution assumption. Our inflow and execution assumptions imply a modest EMP revenue growth of about 10% in FY2011E. We believe that margins in the EMP segment could shrink about 100 bps yoy in FY2011E and remain flat yoy in FY2012E.

Segment revenues and EBIT estimates for Voltas (standalone), March fiscal year-ends, 2007-12E (Rs mn)

	2009	2010	2011E	2012E
EMP segment				
Revenue	**27,668**	**31,134**	**34,136**	**37,180**
Revenue growth (%)	67.4	12.5	9.6	8.9
Orderbook	47,180	47,046	50,110	55,710
Order inflow	31,848	31,000	37,200	42,780
Bill to book ratio (X)	0.47	0.50	0.52	0.52
Segment EBIT	2,134	3,091	3,072	3,346
Segment EBIT margin (%)	**7.7**	**9.9**	**9.0**	**9.0**
Engineering products and services				
Revenue	**5,422**	**4,680**	**5,459**	**6,440**
Revenue growth (%)	(5.5)	(13.7)	16.6	18.0
EBIT	626	768	1,092	1,288
EBIT margin (%)	**11.6**	**16.4**	**20.0**	**20.0**
Unitary cooling products				
Revenue	**9,223**	**11,871**	**15,083**	**18,510**
Revenue growth (%)	12.5	28.7	27.1	22.7
Segment EBIT	550	1,203	1,433	1,758
Segment EBIT margin (%)	**6.0**	**10.1**	**9.5**	**9.5**

Expect reasonable growth in EMP segment versus yoy flat revenues in 2HFY10. Mgmt target of 15-20% in FY11E appears aggressive.

Assume reasonably strong inflows in FY2011E-12E versus sedate inflow in FY2010.

Margins may reduce due to material cost, competition, and wearing away of benefit from completion of large projects in FY2010

Continue to expect robust revenue growth in UCP segment on top of strong FY2010 segment results

Source: Company, Kotak Institutional Equities estimates

Revise earning estimates and target price to Rs225/sh; retain REDUCE

We revise our earning estimates to Rs11.8 and Rs13.4 (from Rs11.3 and Rs12.6) for FY2011E and FY2012E, respectively. We have increased our TP to Rs225 (from Rs200 earlier) as we rollover to 17X FY2012E estimates (from 17X Sep-11E earlier). We retain REDUCE based on (1) limited upside to our FY2012-based target price, and (2) potential headwind of margins pressure and slow pick-up in execution of new projects. Key upside risks to our estimates could come from stronger-than-expected order inflows and execution pick-up in the EMP segment, particularly from international markets.

Change in consolidated estimates of Voltas, March fiscal year-ends, 2011E and 2012E (Rs mn)

	New estimates		Old estimates		% revision	
Target price (Rs)	**225**		**200**			
Rating	**REDUCE**		**REDUCE**			
	FY2011E	**FY2012E**	**FY2011E**	**FY2012E**	**FY2011E**	**FY2012E**
Revenues	55,227	62,717	54,143	60,306	2.0	4.0
EBITDA	5,240	5,982	5,106	5,704	2.6	4.9
EBITDA margin (%)	9.5	9.5	9.4	9.5		
Profit before tax	5,720	6,537	5,586	6,259	2.4	4.4
Profit after tax	3,890	4,445	3,731	4,181	4.2	6.3
EPS (Rs)	**11.8**	**13.4**	**11.3**	**12.6**	**4.2**	**6.3**
Growth (%)						
Revenue growth (%)	14.5	13.6	12.2	11.4		
EBITDA growth (%)	9.9	14.2	7.1	11.7		
EPS growth (%)	8.2	14.3	3.8	12.1		
EMP order book						
Order booking	37,200	42,780	35,650	40,998	4.3	4.3
Order booking growth (%)	20.0	15.0	15.0	15.0		

Source: Company, Kotak Institutional Equities estimates

Consolidated balance sheet, profit model and cash flow statement of Voltas, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Balance sheet						
Shareholders funds	**4,237**	**5,772**	**7,897**	**10,535**	**13,105**	**16,043**
Minority Interest	4	5	159	159	159	159
Loan funds	1,116	737	1,814	814	814	814
Total source of funds	**5,358**	**6,515**	**9,871**	**11,508**	**14,079**	**17,016**
Net block	1,473	1,701	2,148	2,354	2,637	2,942
CWIP	128	197	132	132	132	132
Net fixed assets	**1,601**	**1,898**	**2,280**	**2,486**	**2,769**	**3,075**
Investments & Goodwill	1,248	2,585	2,238	2,238	2,238	2,238
Cash balances	1,677	3,002	4,571	6,424	8,997	11,650
Net current assets excluding cash	**553**	**(1,160)**	**558**	**136**	**(149)**	**(170)**
Total application of funds	**5,358**	**6,515**	**9,871**	**11,508**	**14,079**	**17,016**
Profit Model						
Total operating income	**25,267**	**32,029**	**43,617**	**48,236**	**55,227**	**62,717**
Total operating costs	(23,988)	(29,499)	(40,428)	(43,467)	(49,297)	(55,952)
EBITDA	**1,280**	**2,531**	**3,189**	**4,769**	**5,240**	**5,982**
Other income	703	483	604	612	710	811
PBDIT	**1,982**	**3,013**	**3,793**	**5,380**	**5,949**	**6,793**
Financial charges	(99)	(90)	(128)	(98)	(22)	(22)
Depreciation	(156)	(167)	(210)	(214)	(208)	(234)
Pre-tax profit	1,728	2,757	3,456	5,068	5,720	6,537
Taxation	(407)	(997)	(1,172)	(1,472)	(1,830)	(2,092)
Adjusted PAT	**1,321**	**1,760**	**2,284**	**3,595**	**3,890**	**4,445**
Minority interest & Associate Profits	(1)	1	(31)	—	—	—
PAT for equity holders	1,319	1,761	2,253	3,595	3,890	4,445
Extraordinary items, net of tax	696	316	261	250	—	—
Reported PAT	**2,017**	**2,076**	**2,545**	**3,846**	**3,890**	**4,445**
Cash flow statement						
Operating profit before working capital changes	1,593	2,099	2,589	3,908	4,119	4,701
Change in working capital / other adjustments	(586)	1,713	(1,718)	423	285	20
Net cashflow from operating activites	**1,007**	**3,812**	**871**	**4,331**	**4,404**	**4,722**
Fixed Assets	(122)	(464)	(591)	(421)	(490)	(540)
Investments	(786)	(1,337)	347	—	—	—
Cash (used) / realised in investing activities	**(908)**	**(1,802)**	**(244)**	**(421)**	**(490)**	**(540)**
Borrowings	215	(378)	1,077	(1,000)	—	—
Dividend paid	(410)	(523)	(619)	(1,208)	(1,319)	(1,508)
Interest charges	(99)	(90)	(128)	(98)	(22)	(22)
Cash (used) /realised in financing activities	**(375)**	**(1,008)**	**683**	**(2,307)**	**(1,341)**	**(1,530)**
Cash generated /utilised	379	1,325	1,569	1,854	2,573	2,652
Cash at beginning of year	1,298	1,677	3,002	4,571	6,424	8,997
Cash at end of year	**1,677**	**3,002**	**4,571**	**6,424**	**8,997**	**11,650**
Key ratios (%)						
EBITDA margin	5.1	7.9	7.3	9.9	9.5	9.5
PAT margin	5.2	5.5	5.2	7.5	7.0	7.1
RoE	38.0	35.2	33.0	39.0	32.9	30.5
RoCE	31.1	30.6	28.5	34.3	30.5	28.7
EPS (Rs)	**4.0**	**5.3**	**6.9**	**10.9**	**11.8**	**13.4**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Jubilant Organosys (JOL)

Pharmaceuticals

BUY

JULY 28, 2010

RESULT

Coverage view: Attractive

Price (Rs): 356

Target price (Rs): 400

BSE-30: 17,957

PAT miss due to poor operating margin. While sales were in line with our estimate, PAT before forex grew only 9% yoy and was lower than our est. by 30%. The shortfall was because of poor operating margin at 16% vs our est. of 20%. However, with margin pressure abating and higher sales growth in PLSPS business in 2HFY11E, we estimate PAT before forex to grow at 16% in FY2011E. We revise FY2011E PAT downwards by 7% with no change to FY2012E PAT. Maintain BUY with PT of Rs400.

Company data and valuation summary

Jubilant Organosys

Stock data			
52-week range (Rs) (high,low)			413-171
Market Cap. (Rs bn)			56.5
Shareholding pattern (%)			
Promoters			47.3
FIIs			13.4
MFs			3.1
Price performance (%)	**1M**	**3M**	**12M**
Absolute	1.6	7.4	94.6
Rel. to BSE-30	0.5	4.0	66.1

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	26.5	31.8	38.9
EPS growth (%)	49.0	19.8	22.4
P/E (X)	13.4	11.2	9.1
Sales (Rs bn)	37.8	43.9	49.7
Net profits (Rs bn)	4.5	5.3	6.2
EBITDA (Rs bn)	8.3	9.1	10.9
EV/EBITDA (X)	9.7	8.7	7.0
ROE (%)	26.3	21.7	21.1
Div. Yield (%)	0.5	0.7	0.8

1QFY11 revenues up 10% yoy, in line with our estimate

Although overall sales were in line with our estimate, PLSPS sales were 8% lower than our estimate while APP segment sales were far higher than our estimate. PLSPS sales were lower than our estimate by 8% due to lower sales in life science ingredients business of Pyridines and nutritional products which grew in volume terms at 8% during the quarter; however, declined in value terms due to (1) output price decline and (2) lower sales growth in services businesses of CMO and DDDS.

EBITDA margin at 16% was lower than our estimate of 20%

EBITDA margin adjusted for the forex loss reported in SG&A expense of Rs15 mn dipped 150 bps yoy and 400 bps qoq to 16% this quarter, 4% lower than our estimate. Although APP margin revived to 12.4% due to strong sales growth this quarter; PLSPS margin dipped to 19% from 24% last year due to (1) margin pressure seen in Pyridines, nutritional products on account of lag effect in passing on higher input material prices to customers and (2) slow pick-up in CMO business due to delay in high-margin customer orders.

PAT before exceptional at Rs835 mn, up 9% yoy

PAT before exceptional cost was 30% lower than estimate due to lower operating performance. Interest cost savings came through this quarter as JOL has used the funds from recent QIP issue (Rs3.8 bn) and cash on hand (Rs7.2 bn including QIP proceeds as of March 2010) to retire Rs5 bn of high-cost rupee debt in April 2010.

We lower our FY2011E PAT before forex by 3%; maintain FY2012E PAT

We estimate PAT before forex to grow at 16% in FY2011E and 18% in FY2012E. We expect EBITDA to grow 11% in FY2011E. Due to interest cost savings and lower tax rate in FY2011E, PAT before forex is expected to grow at 16% in FY2011E.

Maintain BUY with PT at Rs400

We estimate reported EPS to reach Rs32 and Rs39 in FY2011E and FY2012E. At the current price, JOL trades at 11X FY2011E and 9X FY2012E estimated earnings. We maintain BUY rating with PT at Rs400 (10X FY2012E earnings).

QUICK NUMBERS

- 1QFY11 revenues, up 10% yoy, in line with our estimate.
- PAT before exceptional at Rs835 mn, up 9% yoy
- We lower our FY2011E PAT by 7%; maintain FY2012E PAT

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1QFY11 revenues up 10% yoy, in line with our estimate

Although overall sales were in line with our estimate, PLSPS sales were 8% lower than our estimate while APP segment sales were far higher than our estimate.

- PLSPS sales were lower than our estimate by 8% due to (1) lower sales in life science ingredients business of Pyridines and nutritional products which grew in volume terms at 8% during the quarter; however, declined in value terms due to output price decline and (2) lower sales in services businesses of CMO and DDDS. CMO sales at US$31 mn dipped qoq from US$48 mn due to high base effect of certain customer orders of vaccines from an innovator big pharma which will get renewed and come through in 2HFY11E.

- DDDS revenues were flat yoy and qoq due to dip in revenues of clinical research business (40% of DDDS sales) due to uncertainty in US CRO market. In FY2010, DDDS (Drug Discovery and Development Services) business reported poor growth at 3% in rupee terms. This was on account of sales decline of 10% in drug development business and this trend continued in 1QFY11.

- However, APP revenues increased by 40% yoy due to strong revival in sales of SSP fertilizer (30% of APP sales) on the back of (1) price stabilization, (2) volume pick-up and (3) nutrient-based subsidy, according to which subsidy has been fixed at Rs42,000/tonne to encourage non-urea fertilizers.

EBITDA margin at 16% was lower than our estimate of 20%

EBITDA margin adjusted for the forex loss reported in SG&A expense of Rs15 mn dipped 150 bps yoy and 400 bps qoq to 16% this quarter, 4% lower than our estimate. Although APP margin revived to 12.4% due to strong sales growth this quarter; PLSPS margin dipped to 19% from 24% last year due to

- Margin pressure seen in Pyridines, nutritional products on account of lag effect in passing on higher input material prices to customers. Company expects this to correct in 2HFY11E.

- Margin decline in life science chemicals due to output price decline and utilization of higher cost inventory. Prices of life science chemicals eroded by 20% and half corrected in the last month by 50%.

- Slow pick-up in CMO business due to delay in customer orders.

- Exchange rate volatility which eroded sales in rupee terms.

PAT before exceptional at Rs835 mn, up 9% yoy; was lower than our estimate of Rs1.18 bn

PAT before exceptional cost was 30% lower than estimate due to

- Lower operating performance with margins adjusted for forex, significantly lower at 16% versus our estimate of 20%.

- Interest cost at Rs198 mn was below our estimate of Rs340 mn. As of March 2010, JOL had gross debt of Rs31 bn and net debt of Rs24 bn, with net debt/equity at 1.1X. JOL has used the funds from recent QIP issue (Rs3.8 bn) and cash on hand (Rs7.2 bn including QIP proceeds as of March 2010) to retire Rs4.8 bn of high-cost rupee debt in April 2010. This lead to interest cost savings in 1QFY11. As of June 2010, net debt was Rs2.7 bn, the increase in net debt from May 2010 levels of Rs2.6 bn is due to exchange rate variations as 68% of total debt is forex denominated debt versus 50% as of March 2010.

- However, depreciation was up 50% qoq to Rs496 mn, higher than our estimate of Rs350 mn. Depreciation is not comparable yoy as previous year's numbers are net of reversal of cumulative depreciation amounting to Rs165 mn.

- Tax at 14% was in line with our estimate and management guidance of 14% for FY2011E.

We lower our FY2011E PAT before forex by 3%; maintain FY2012E PAT

We estimate PAT before forex to grow at 16% in FY2011E and 18% in FY2012E. We expect EBITDA to grow 11% in FY2011E. Due to interest cost savings and lower tax rate in FY2011E, PAT before forex is expected to grow at 16% in FY2011E. We expect PAT growth to be driven by

(1) Sales growth of 16% and 13% in FY2011-12E driven by

- 8% sales growth in rupee terms in Pyridines and exclusive synthesis business in FY2011E and 14% in FY2012E due to (1) stabilization in prices and (2) volume growth intact at 8% this quarter versus 15% seen in FY2010 and (3) expected finalization of two new contracts in exclusive synthesis business—one in agrochemicals for a large US chemical company and the second in pharma, which will add to growth from 2HFY11E. JOL is now increasingly focusing on derivatives of Pyridines such as Beta picolines. Beta picolines is also a key material for the production of Niacinamide (Vitamin B-3). JOL plans to debottleneck Pyridines capacity by 20% in FY2011E. This will be largely used in-house in production of Niacinamide.

- 19% yoy growth in CMO business in FY2011E due to increasing capacity utilization driven b y ramp-up in existing contracts, addition of revenues from 5-year contract from J&J of US$120 mn and revenue generation in 2HFY11E from vaccines orders from an innovator company, based on client getting approvals. JOL has a CRAMS order book of about US$245 mn in FY2011E; over US$200 mn in FY2012-13E and over US$175 mn in FY2014-15E.

- 8% growth in API in FY2011E and 20% in FY2012E due to launch of new products in Sartans. Post oxcarbamazepine/carbamazepine category of drugs where JOL was an API supplier to generic companies in exclusivity and non-exclusivity phase; Sartans will be the next big product category which will drive growth in generics API over medium term. JOL has filed DMFs for 4 out of 7 drugs in Sartans category and with two Sartans (Losartan/Valsartan) going off-patent in near future it expects revenue addition to start in 4QFY11E. Valsartan (branded sales of US$5.6 bn) goes off-patent in May 2011E in Europe and September 2012E in US.

- 17% growth in Nutrition products in FY2011E and 25% in FY2012E due to commissioning of capacity of 10,000 tonnes of Niacinamide in 4QFY11E. JOL is putting up a 10,000 tonnes per annum plant for Niacinamide at the cost of Rs1.5 bn in FY2011E. This is a high value-added product with realizations of around US$9,000/tonne.

- Sales decline in rupee terms in DDDS business in FY2011E and 15% sales growth in FY2012E driven by growth in drug discovery business and ramp-up in contracts signed with Eli Lilly, Endo, etc.

(2) Operating margin adjusted for forex improving to 20% in FY2011E from 18% in FY2010. We do not include forex charges in our estimates.

(3) Interest cost savings due to the repayment of high-cost rupee debt of Rs4.8 bn in April 2010. However, we expect interest cost to increase in FY2012E due to increase in interest-bearing-gross debt in FY2012E to repay FCCB tranche of US$200 mn due in May 2011E. The second FCCB is due in May 2011E and we think JOL will have to meet this redemption through additional debt in addition to internal accruals.

(4) Lowering of tax rate to 14% in FY2011E from 17% in FY2009 on account of EOUs and SEZ benefits and reorganization of subsidiary companies in US/Canada into separate lines of business leading to tax efficiency in FY2011E. Tax rate is expected to increase to 18% in FY2012E as per the company as EOU benefits expire.

Capex is expected to remain high at Rs4 bn in FY2011E and Rs3.5 bn in FY2012E. This will be on (1) increasing the capacity of pyridine by 20%, (2) putting up a plant in SEZ for Niacinamide of 10,000 tonnes, (3) API plant for Sartans and (4) de-bottlenecking of capacity for Life Sciences Chemicals business. These initiatives are expected to add to revenues from 4QFY11E.

Interim results- Jubilant, March fiscal year-ends (Rs mn)

					% change		
	1QFY11	1QFY11E	1QFY10	4QFY10	1QFY11E	1QFY10	4QFY10
Net sales	**9,815**	**9,824**	**8,963**	**9,903**	**(0)**	**10**	**(1)**
Change in stock	(128)	-	88	(411)	NM	NM	NM
Cost of trading goods sold	579	-	417	658	NM	39	(12)
RM consumed	3,653	3,782	3,081	3,529	(3)	19	4
Stores, spares	637	639	552	681	(0)	15	(7)
Mfg exp	727	786	614	784	(8)	18	(7)
Staff cost	1,856	1,950	1,832	1,848	(5)	1	0
Selling exp	910	688	814	825	32	12	10
Exchange loss/(gain)	15	0	(43)	(200)	NM	NM	NM
Total Expenditure	**8,249**	**7,844**	**7,355**	**7,713**	**5**	**12**	**7**
EBITDA	**1,567**	**1,980**	**1,608**	**2,190**	**(21)**	**(3)**	**(28)**
Other income	61	100	85	81	(39)	(28)	(25)
Interest	198	340	407	345	(42)	(51)	(43)
Depreciation	496	350	308	318	42	61	56
PBT	**934**	**1,390**	**978**	**1,607**	**(33)**	**(4)**	**(42)**
Tax	109	195	223	268	(44)	(51)	(59)
PAT	**825**	**1,195**	**754**	**1,339**	**(31)**	**9**	**(38)**
Minority interest	(11)	15	(13)	(19)	NM	NM	NM
PAT before exceptional	**835**	**1,180**	**767**	**1,357**	**(29)**	**9**	**(38)**
Exceptional item	(208)	0	490	14	NM	NM	NM
PAT	**627**	**1,180**	**1,258**	**1,371**	**(47)**	**(50)**	**(54)**
PLSPS	**8,100**	**8,801**	**7,770**	**8,953**	**(8)**	**4**	**(10)**
CRAMS	4,940	5,381	4,870	5,723	(8)	1	(14)
Proprietary intermediates	2,250	2,189	2,390	2,153	3	(6)	5
Custom synthesis	0	0	0	0	NM	NM	NM
API	700	775	570	790	(10)	23	(11)
CMO	1,400	1,824	1,310	2,210	(23)	7	(37)
Specialty chemicals	590	593	600	570	(0)	(2)	4
Drugs discovery & development	540	684	610	560	(21)	(11)	(4)
Dosage forms	390	456	330	440	(14)	18	(11)
Lifescience chemicals	1,760	1,733	1,460	1,730	2	21	2
Nutrition products	470	547	500	500	(14)	(6)	(6)
IPP	**1,690**	**1,003**	**1,173**	**930**	**68**	**44**	**82**
Hospitals	30	20	20	20	50	50	50

Source: Kotak Institutional Equities estimates, Company

SOTP-based price target, FY2011-12E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	2011E	**2012E**	**(X)**	**2011E**	**2012E**
Pharmaceutical and life science (PSLPS)					
CRAMS	3,924	4,492	10.0	39,239	44,919
Drugs discovery & development	183	312	12.0	2,196	3,747
Dosage forms	93	103	10.0	929	1,030
APP	149	153	10.0	1,485	1,530
Lifescience chemicals	710	852	10.0	7,099	8,524
Nutrition products	221	288	10.0	2,210	2,884
Total	**5,279**	**6,201**		**53,160**	**62,635**
Value per share (Rs)				**335**	**394**
Share price target					**394**

Source: Kotak Institutional Equities estimates, Company

Profit and loss statement, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2011E
Net sales	**18,097**	**24,889**	**35,175**	**37,812**	**43,860**	**49,658**
Operating expenses						
Materials	(11,274)	(13,834)	(18,461)	(20,024)	(19,936)	(22,088)
Selling and administration	(1,191)	(1,458)	(1,805)	(3,520)	(6,984)	(7,676)
Employee cost	(2,149)	(3,670)	(6,575)	(7,453)	(8,206)	(9,437)
R&D	(131)	(228)	(285)	0	0	0
Others	(916)	(1,420)	(3,629)	1,070	(15)	0
Total expenditure	**(15,530)**	**(20,382)**	**(30,469)**	**(29,926)**	**(35,140)**	**(39,201)**
EBITDA	**2,567**	**4,507**	**4,706**	**7,886**	**8,719**	**10,458**
Depreciation and amortisation	(623)	(1,039)	(1,632)	(1,247)	(1,846)	(2,100)
EBIT	**1,944**	**3,468**	**3,074**	**6,639**	**6,874**	**8,358**
Net finance cost	(195)	(337)	(1,070)	(1,505)	(1,098)	(1,200)
Other income	1,203	1,430	425	373	361	400
Pretax profits before extra-ordinaries	**2,953**	**4,561**	**2,428**	**5,507**	**6,136**	**7,558**
Current tax	(370)	(557)	(623)	(957)	(840)	(1,360)
Deferred tax	(319)	12	127	—	—	—
Fringe benefit tax	(24)	(28)	(28)	—	—	—
Reported net profit	**2,240**	**3,988**	**1,904**	**4,550**	**5,296**	**6,197**
Minority interests	39	16	133	(5)	(40)	(20)
Reported net profit after minority inter	**2,280**	**4,005**	**2,037**	**4,545**	**5,256**	**6,177**
Exceptional items			790	(331)	(208)	—
PAT after minority interests and excep.	**2,280**	**4,005**	**2,827**	**4,214**	**5,048**	**6,177**

Source: Kotak Institutional Equities estimates, Company

Balance sheet statement, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Balance sheet						
Net worth	9,061	12,563	12,675	21,893	26,476	32,096
Debt	16,526	21,085	38,781	31,200	24,962	20,427
Current liabilities	5,248	6,679	11,943	12,728	11,109	13,063
Deferred tax liabilities	1,534	1,516	1,470	2,303	2,344	2,364
Total equity and liabilities	**32,370**	**41,842**	**64,870**	**68,124**	**64,891**	**67,949**
Cash and cash equivalents	8,749	5,238	3,817	5,037	2,000	500
Current assets	8,905	12,160	15,855	17,278	17,491	20,649
Net assets incl CWIP	14,677	23,988	42,484	43,245	45,400	46,800
Investments	39	456	2,714	2,564	—	—
Total uses of funds	**32,370**	**41,842**	**64,870**	**68,124**	**64,891**	**67,949**
Free cash flow						
Operating cash flow, excl. working	2,948	5,247	4,218	7,041	8,089	9,281
Working capital	60	(1,895)	1,553	(752)	(1,926)	(1,298)
Capital expenditure	(3,554)	(7,241)	(7,383)	(2,011)	(4,000)	(3,500)
Investments	(37)	(418)	(2,257)	149	2,564	—
Free cash flow	**(583)**	**(4,306)**	**(3,868)**	**4,427**	**4,727**	**4,484**

Source: Kotak Institutional Equities, Kotak Institutional Equities estimates, Company

Debt and interest cost details (Rs mn)

	FY2009	FY2010	Jun-10	FY2011E	FY2012E
FCCB	9,750	8,610	6,600	6,674	—
Debt in standalone (Rupee)	9,331	6,800	2,010	2,010	2,010
Debt in standalone (FC)	6,190	4,710	9,030	6,608	10,727
Debt in Sub (Rupee)	600	510	510	510	510
Debt in Sub (FC)	12,910	10,570	10,550	9,160	7,180
Gross debt	**38,781**	**31,200**	**28,700**	**24,962**	**20,427**
Cash	6,530	7,601	1,410	2,000	500
Net debt	32,251	23,599	27,290	22,962	19,927
Net debt/Equity	**2.5**	**1.1**		**0.9**	**0.6**
Interest cost calculation					
Interest bearing debt (Rupee)	9,931	7,310	2,520	2,520	2,520
Interest bearing debt (FC)	19,100	15,280	19,580	15,768	17,907
Total interest bearing debt	**29,031**	**22,590**	**22,100**	**18,288**	**20,427**
Average interest rate (Rupee)		10.6%	8.7%	10.0%	12.0%
Average interest rate (FC)		3.8%	4.2%	4.0%	5.0%
Interest cost		**1,558**		**1,112**	**1,144**
Interest cost in P&L		1,505		1,098	1,200
Interest cost (%)		**5.8%**		**5.4%**	**6.2%**

Source: Kotak Institutional Equities estimates, Company

JOL—change in estimates, March fiscal year-ends (Rs mn)

	New estimates		Old estimates		% change	
	2011E	2012E	2011E	2012E	2011E	2012E
Profit model						
Net revenues	**43,860**	**49,658**	**43,439**	**49,336**	**1**	**1**
EBITDA	**8,719**	**10,458**	**8,879**	**10,343**	**(2)**	**1**
EBITDA margin (%)	19.9	21.1	20.4	21.0	(0.6)	0.1
Other income	361	400	400	400	(10)	0
Depreciation	1,846	2,100	1,700	1,900	9	11
Net finance cost	1,098	1,200	1,230	1,200	(11)	—
PBT	**6,136**	**7,558**	**6,349**	**7,643**	**(3)**	**(1)**
Tax	840	1,360	891	1,376	(6)	(1)
Minority interest	(40)	(20)	(20)	(20)	102	0
PAT before exceptional	**5,256**	**6,177**	**5,438**	**6,247**	**(3)**	**(1)**
Extra ordinary exp (inc)	(208)	—	—	—		
Reported net profit	**5,048**	**6,177**	**5,438**	**6,247**	**(7)**	**(1)**

Source: Kotak Institutional Equities estimates, Company

kotak Institutional Equities

Ashok Leyland (AL)

Automobiles

ADD

JULY 28, 2010

RESULT

Coverage view: Cautious

Price (Rs): 73

Target price (Rs): 78

BSE-30: 17,957

Volumes trump margins. We raised our EPS estimates for Ashok Leyland to Rs4.3 and Rs5.9 to reflect higher volume and lower tax rate assumptions. This was partly offset by slightly lower margin estimate. We are now modeling 90,000 units of volume for FY2011E and margins at 10.7%. Volume estimates could have upside if CV demand remains robust through the end of the year. Our target goes to Rs78 and reflects 8.5X our FY2012E EBITDA estimate. Maintain ADD.

Company data and valuation summary

Ashok Leyland

Stock data			
52-week range (Rs) (high,low)			74-32
Market Cap. (Rs bn)			96.4
Shareholding pattern (%)			
Promoters			51.0
FIIs			13.7
MFs			6.4
Price performance (%)	**1M**	**3M**	**12M**
Absolute	13.3	29.9	107.1
Rel. to BSE-30	12.1	25.8	76.9

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	2.8	4.3	5.9
EPS growth (%)	84.5	52.3	37.5
P/E (X)	25.7	16.9	12.3
Sales (Rs bn)	72.4	100.9	114.1
Net profits (Rs bn)	3.8	5.7	7.9
EBITDA (Rs bn)	7.4	10.6	13.7
EV/EBITDA (X)	15.2	11.3	8.9
ROE (%)	10.9	13.5	16.7
Div. Yield (%)	2.1	1.4	1.4

Tweaking up FY2011E and FY2012E EPS estimates on higher volumes, lower tax rate

We are raising our FY2011E and FY2012E EPS estimates to Rs4.3 and Rs5.9 from Rs4.1 and Rs5.5 to reflect higher volume estimates and a lower tax rate. We are now modeling FY2011E volumes of 90,000 units to reflect continued strength in the CV demand environment. We, however, lowered our FY2012E growth estimate to 12% from 15% prior. Our FY2012E volumes numbers comes to 101,000 units, slightly higher than the 98,500 we had estimated prior. We estimate margins for FY2011E would average 10.7%. We expect margins to improve from the 10.1% 1QFY11 levels as volumes improve and excise benefits accrue from the Pantnagar plant ramp-up. For FY2012E, we have assumed another 150 bps of margin increase to 12.2% on even higher proportion of production coming from Pantnagar. Tax rate for the quarter came in at 16.5% compared to our estimate of 22%. Tax rate is expected to be at current rates for all of FY2011E and FY2012E.

Conference call highlights: Volume outlook raised, engine revenues weak on telecom blues

Ashok Leyland upped their volume guidance for FY2011E to 89,000 units as they now expect the domestic industry to grow 20% yoy and the company to maintain 27% market share seen in 1QFY11. Engine volumes for the quarter declined to 4,000 units from 5,400, driven by a significant decline in Leypower engines to the telecom sector. Defense kit volumes also declined to 140 units levels from 400 in 4QFY10. On the margin front, the company indicated that margins would be better than 1Q levels as production from Pantnagar plant increases.

Raising target to Rs78 to reflect FY2012E-based valuation and higher earnings estimates

Our target goes to Rs78 from Rs65. Our target reflects 8.5X (8X prior) our FY2012E EBITDA estimate of Rs13.9 bn. We increased our multiple to reflect higher earnings power driven by the lower tax rate. The Rs13 increase is driven by Rs3 in higher multiple and Rs10 from moving to a FY2012E-based valuation from average FY2011-12E prior. We maintain our ADD rating on the stock. We expect Ashok Leyland to benefit from strong CV demand, higher market share and benefits from production in an excise-free zone.

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Ashok Leyland, Volume details, March fiscal year-ends, 2006-12E (units)

Volumes	2006	2007	2008	2009	2010	2011E	2012E
Buses	13,410	11,718	17,572	16,038	16,405	18,046	19,850
Trucks	42,613	65,063	57,835	31,067	40,728	63,128	71,019
LCV	753	288	615	514	814	977	1,099
Domestic volumes	**56,776**	**77,069**	**76,022**	**47,619**	**57,947**	**82,151**	**91,968**
Buses	2,255	3,778	4,688	3,696	2,076	2,387	2,626
Trucks	2,580	2,233	2,389	2,280	3,617	5,426	5,968
LCV	44	14	208	836	286	380	418
Export volumes	**4,879**	**6,025**	**7,285**	**6,812**	**5,979**	**8,193**	**9,013**
Buses	15,665	15,496	22,260	19,734	18,481	20,433	22,476
Trucks	45,193	67,296	60,224	33,347	44,345	68,554	76,988
LCV	797	302	823	1,350	1,100	1,357	1,517
Total volumes	**61,655**	**83,094**	**83,307**	**54,431**	**63,926**	**90,344**	**100,981**

Growth (% yoy)							
Buses	28.1	(12.6)	50.0	(8.7)	2.3	10.0	10.0
Trucks	14.7	52.7	(11.1)	(46.3)	31.1	55.0	12.5
LCV	133.9	(61.8)	113.5	(16.4)	58.4	20.0	12.5
Domestic volumes	**18.5**	**35.7**	**(1.4)**	**(37.4)**	**21.7**	**41.8**	**12.0**
Buses	9.9	67.5	24.1	(21.2)	(43.8)	15.0	10.0
Trucks	(44.7)	(13.4)	7.0	(4.6)	58.6	50.0	10.0
LCV	(54.6)	(68.2)	1,385.7	301.9	(65.8)	33.0	10.0
Export volumes	**(28.4)**	**23.5**	**20.9**	**(6.5)**	**(12.2)**	**37.0**	**10.0**
Buses	25.1	(1.1)	43.6	(11.3)	(6.3)	10.6	10.0
Trucks	8.1	48.9	(10.5)	(44.6)	33.0	54.6	12.3
LCV	90.2	(62.1)	172.5	64.0	(18.5)	23.4	11.8
Total volumes	**12.6**	**34.8**	**0.3**	**(34.7)**	**17.4**	**41.3**	**11.8**

Source: Company, Kotak Institutional Equities estimates

Ashok Leyland, Valuation details, March fiscal year-ends, FY2012E basis

	EBITDA (Rs mn)	EV/EBITDA (X)	EV (Rs mn)	Value (Rs/share)	Comments
FY2012E EBITDA	13,867	8.5	117,866	89	Based on FY2012E EBITDA
Less: net debt			14,405	11	FY2012E net debt; all JV investment at book value
Valuation			**103,461**	**78**	
Target price				**78**	

Source: Company, Kotak Institutional Equities estimates

Ashok Leyland, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2013E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model							
Net sales	71,682	77,291	59,811	72,447	100,889	114,073	125,845
EBITDA	**7,027**	**8,040**	**4,694**	**7,628**	**10,796**	**13,867**	**15,680**
Other income	708	740	496	189	164	179	179
Interest	(53)	(497)	(1,187)	(811)	(1,325)	(1,491)	(1,811)
Depreciaiton	(1,506)	(1,774)	(1,784)	(2,041)	(2,781)	(3,147)	(3,248)
Profit before tax	**6,045**	**6,382**	**2,087**	**5,448**	**6,854**	**9,406**	**10,799**
Current tax	(1,402)	(1,084)	(60)	(1,299)	(1,349)	(2,134)	(2,809)
Deferred tax	(230)	(604)	(125)	88	184	535	650
Net profit	**4,413**	**4,693**	**1,903**	**4,237**	**5,688**	**7,807**	**8,639**
Earnings per share (Rs)	**3.4**	**3.6**	**1.5**	**2.8**	**4.3**	**5.9**	**6.5**
Balance sheet							
Equity	18,946	21,490	34,777	36,563	40,695	46,946	54,029
Deferred tax liability	1,969	2,538	2,634	3,845	3,661	3,126	2,476
Total Borrowings	6,404	8,875	19,581	22,039	25,807	26,807	27,807
Current liabilities	17,559	22,719	21,369	29,608	36,904	40,370	43,749
Total liabilities	**44,878**	**55,622**	**78,363**	**92,055**	**107,067**	**117,249**	**128,062**
Net fixed assets	15,445	20,548	43,974	48,110	52,829	54,182	51,934
Investments	2,211	6,099	2,636	3,262	8,261	11,261	12,261
Cash	4,349	4,514	881	5,189	1,780	1,055	7,981
Other current assets	22,628	24,239	30,775	36,208	44,145	50,699	55,835
Miscellaneous expenditure	244	223	97	52	52	52	52
Total assets	**44,878**	**55,622**	**78,363**	**92,820**	**107,067**	**117,249**	**128,062**
Free cash flow							
Operating cash flow excl. working capital	4,628	6,908	3,875	6,563	9,446	11,732	12,871
Working capital changes	5,000	10,657	(5,256)	10,902	8,075	8,644	11,115
Capital expenditure	(6,704)	(6,095)	(7,579)	(6,844)	(7,500)	(4,500)	(1,000)
Free cash flow	**(1,705)**	**4,561**	**(12,835)**	**4,058**	**575**	**4,144**	**10,115**
Ratios							
Operating margin (%)	9.8	10.4	7.8	10.5	10.7	12.2	12.5
PAT margin (%)	6.2	6.1	3.2	5.8	5.6	6.8	6.9
Debt/equity (X)	0.3	0.4	0.5	0.5	0.6	0.5	0.5
Net debt/equity (X)	0.0	(0.0)	0.5	0.4	0.4	0.3	0.1
Book Value (Rs/share)	15.5	17.9	28.0	30.3	33.3	37.6	42.4
RoAE (%)	24.2	21.1	6.2	10.9	13.4	16.6	16.2
RoACE (%)	**17.9**	**16.9**	**6.7**	**8.1**	**10.2**	**12.3**	**12.5**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Welspun Corp (WLCO)

Others

ADD

JULY 28, 2010

RESULT, CHANGE IN RECO.

Coverage view:

Price (Rs): 255

Target price (Rs): 286

BSE-30: 17,957

Quarter of outperformance. Welspun's pipe volumes and EBITDA margins surprised positively though the order book continued to remain a bit subdued. 1QFY11 EBITDA at Rs3.4 bn versus our estimate of Rs2.6 bn was led by (1) higher-than-estimated volumes (193,000 tons versus estimate of175,000 tons) and (2) higher-than-estimated EBITDA/ton on account of one-off higher realization orders getting executed during the quarter. With a 10% return to our DCF-based target price of Rs286, we upgrade our rating to ADD.

Company data and valuation summary

Welspun Corp

Stock data			
52-week range (Rs) (high,low)			296-200
Market Cap. (Rs bn)			52.4
Shareholding pattern (%)			
Promoters			40.5
FIIs			17.7
MFs			5.8
Price performance (%)	1M	3M	12M
Absolute	5.9	(4.0)	12.2
Rel. to BSE-30	4.8	(7.0)	(4.2)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	32.0	27.0	25.6
EPS growth (%)	85.2	(15.7)	(5.4)
P/E (X)	8.0	9.4	10.0
Sales (Rs bn)	73.5	67.0	72.2
Net profits (Rs bn)	6.2	5.5	5.2
EBITDA (Rs bn)	13.3	11.8	11.1
EV/EBITDA (X)	4.6	5.0	4.7
ROE (%)	24.8	15.6	12.8
Div. Yield (%)	0.9	0.8	0.9

QUICK NUMBERS

- Revenues +45% qoq, +8.5% yoy
- EBITDA +26.3% yoy, +31.8% qoq

1QFY11- margins and volumes surprise positively

Welspun's 1QFY11 standalone sales came at Rs20,411 mn (+8.5% yoy, +45% qoq) against our estimates of Rs15,279 mn. EBITDA outperformance was even more with 1QFY11 EBITDA coming at Rs3,354 mn (+26.3% yoy, +31.8% qoq) versus our estimate of Rs2,559 mn. The pipe volumes at 192,563 tons (205,232 tons in 4QFY10) came higher than our estimates at 175,000 tons. Also, the EBITDA per ton came higher than our estimates at Rs13,000 per ton.

Macro environment improving, domestic supply side worries emerge

Welspun's order book declined to Rs50 bn from Rs64 bn in 4QFY10. In volume terms, the order book declined by 14.5% qoq to 675,000 T of pipes from 790,000 T in 4QFY10. The management sounded confident of the order book gaining traction on the back of increased global demand on account of rising investments in pipeline infrastructure globally. In the domestic market, the supply seems to be a worry as suggested by the recent bids for the GAIL order.

Upgrade to ADD rating with a DCF-based target price of Rs286

We upgrade our rating to ADD factoring in better-than-expected 1QFY11 and also rolling forward our DCF model to Sept 2011. We do not expect 1QFY11 EBITDA margins to be recurring (even management mentioned that it is a one-off). Possible downside risks include (1) low LSAW orders and resultant low captive utilization of the plate mill and (2) margin risk from higher and more volatile raw material prices, which could impact our estimates negatively.

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1QFY11- Key highlights of the results

- Welspun's 1QFY11 EBITDA at Rs3,354 mn was 31% above our expectations at Rs2,559 mn. The management alluded to execution of a one-off order during the quarter with higher-than-normalized margins. Going forward, the management maintained its earlier guidance of EBITDA per ton in the range of Rs10,500-Rs11,000 per ton on the pipes and Rs5,500 per ton on plates.

- The order accretion in 1QFY11 was 1,50,000 T in the pipes segment. The management sounded confidant on the order book going forward citing the increased investment being done globally to build gas infrastructure.

- The net debt position as of June 30 was Rs12.75 bn with gross debt at Rs26 bn. The company pre-paid high cost debt during the quarter of Rs7.5 bn. The net interest charged came lower due to interest income from the FCCB proceeds of around Rs50 mn.

- The management seemed cautious on the supply situation in the domestic market citing the bids in the reverse bidding process of a pipeline order for GAIL, which according to estimates would barely be accretive at the gross margin level. The company is not participating in the bids where it would have to compromise on the margins preferring to go for global tenders in which the competition is lower.

- The sales guidance was maintained at 0.9-1mn T of pipes and 0.6mn T of coils and plates.

- MSK numbers would start reflecting in the consolidated results from 2QFY11E onwards.

1QFY11 results - higher per ton EBITDA margins drive PAT
Welspun, audited results (standalone), March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	KIE est.	yoy	qoq
Net sales	**20,411**	**15,279**	**18,798**	**14,006**	**33.6**	**8.6**	**45.7**
Total expenditure	**(17,057)**	**(12,720)**	**(16,144)**	**(11,462)**	**34.1**	**5.7**	**48.8**
Stock adjustment	712	—	(27)	(626)	—	NM	NM
Raw material	(14,418)	—	(12,814)	(8,531)	—	12.5	69.0
Employee expenses	(427)	—	(318)	(392)	—	34.3	8.8
Other expenses	(2,924)	—	(2,985)	(1,912)	—	(2.0)	52.9
EBITDA	**3,354**	**2,559**	**2,654**	**2,544**	**31.1**	**26.3**	**31.8**
OPM (%)	**16.4**	**16.7**	**14.1**	**18.2**			
Other income	52	33	40	14	57.6	30.0	285.2
Depreciation	(401)	(380)	(362)	(367)	5.4	10.7	9.1
Interest	(189)	(240)	(617)	(241)	(21.3)	(69.4)	(21.7)
Pretax profits	**2,816**	**1,972**	**1,715**	**1,949**	**42.8**	**64.2**	**44.5**
Extraordinaries	-	—	375	10	—	—	—
Reported PBT	**2,816**	**1,972**	**2,091**	**1,959**	**42.8**	**34.7**	**43.7**
Tax	(921)	(610)	(708)	(619)	51.0	30.0	48.9
Reported PAT	**1,895**	**1,362**	**1,382**	**1,341**	**39.2**	**37.1**	**41.4**
Adjusted PAT	**1,895**	**1,362**	**1,134**	**1,334**	**39.2**	**67.1**	**42.1**

Source: Company, Kotak Institutional Equities

Steady order book focused towards HSAW
Welspun, order book break-up

	Tons ('000)
HSAW	480
LSAW	180
ERW	15
Plate (Inc Internal)	100
Others	
Total	

Source: Company, Kotak Institutional Equities

Welspun 1QFY11 consolidated
Welspun 1QFY11 consolidated results, March fiscal year ends (Rs mn)

	Consol	Standalone	USA
Sales	**24,218**	**20,411**	**3,807**
EBITDA (reported)	**3,781**	**3,354**	**427**
EBITDA (%)	15.6	16.4	11.2
Depreciation	541	401	140
Interest	218	189	29
PAT (reported)	**1,906**	**1,896**	**11**
PAT (%)	7.9	9.3	0.3

Source: Company, Kotak Institutional Equities

We value Welspun at Rs 286/share
Welspun, DCF-based valuation, march fiscal year-ends (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Terminal Value
EBITDA	13,161	11,670	10,975	10,847	11,701	12,192	12,235	12,484	12,772	12,482	
Tax expense	(2,299)	(2,051)	(2,127)	(2,346)	(2,849)	(3,181)	(3,278)	(3,543)	(3,824)	(3,688)	
Changes in working capital	(4,121)	(3,226)	(267)	(735)	(1,319)	(1,027)	(35)	(1,124)	(153)	159	
Cash flow from operations	**6,740**	**6,393**	**8,581**	**7,767**	**7,534**	**7,985**	**8,921**	**7,817**	**8,795**	**8,953**	
Capital expenditure	(2,997)	(2,476)	(934)	(953)	(972)	(991)	(1,011)	(1,547)	(1,593)	(1,641)	
Free cash flow to the firm	**3,743**	**3,917**	**7,647**	**6,814**	**6,562**	**6,994**	**7,910**	**6,270**	**7,202**	**7,312**	**64,540**
Dicounted cash flow-now	3,980	3,685	6,367	5,021	4,279	4,036	4,040	2,834	2,880	2,588	
Discounted cash flow-1 year forward		4,164	7,195	5,674	4,835	4,561	4,565	3,202	3,255	2,924	
Discounted cash flow-2 year forward			8,130	6,411	5,464	5,153	5,158	3,618	3,678	3,305	
Discount rate	13.0%										
Growth from 2017 to perpetuity	1.5%										

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**40,374**	**61%**	**40,918**	**58%**
PV of terminal value (b)	**25,811**	**39%**	**29,167**	**42%**
EV (a) + (b)	**66,186**		**70,085**	
Net debt	7,379		5,338	
Equity value	**58,807**		**64,747**	
No. of shares	205.5		205.5	
Implied share price (Rs)	**286**		**315**	
Exit EV/EBITDA multiple (X)	5.2		5.4	
Exit FCF multiple (X)	**8.8**			

Sensitivity of DCF value to WACC and growth rate (Rs)

		WACC			
		12.5%	**13.0%**	**13.5%**	**14.0%**
Growth Rate	**0.0%**	281	270	260	251
	0.5%	286	275	264	255
	1.0%	292	280	269	259
	1.5%	299	**286**	275	264
	2.0%	306	293	280	269
	2.5%	314	300	286	274
	3.0%	323	307	293	280

Source: Kotak Institutional Equities

Summary Financials

Profit Model, balance sheet, cash model (consolidated) for Welspun Gujarat, March fiscal year-ends, 2007-2012E

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model							
Net revenues	26,785	39,945	57,395	73,503	66,950	72,200	74,186
EBITDA	**3,332**	**6,476**	**7,923**	**13,161**	**11,670**	**10,975**	**10,847**
Other income	19	107	187	150	150	150	150
Interest (expense)/income	(708)	(818)	(1,766)	(2,319)	(1,680)	(1,097)	(537)
Depreciation	(476)	(609)	(1,433)	(1,805)	(2,052)	(2,264)	(2,309)
Adjusted pretax profits	**2,167**	**5,157**	**4,912**	**9,188**	**8,089**	**7,764**	**8,150**
Tax	(672)	(884)	(451)	(1,882)	(1,699)	(1,863)	(2,201)
Deferred taxation	(93)	(944)	(750)	(1,464)	(890)	(699)	(570)
Adjusted consolidated net income	**1,411**	**3,356**	**3,150**	**6,248**	**5,500**	**5,202**	**5,380**
Diluted Earnings per share (Rs)	**8.6**	**18.0**	**16.7**	**30.4**	**26.8**	**25.3**	**26.2**
Balance sheet							
Total equity	6,535	15,672	15,597	29,012	33,801	38,453	43,313
Deferred taxation liability	794	1,738	2,488	3,377	4,267	4,965	5,535
Total borrowings	15,146	25,274	26,538	25,476	26,500	23,982	14,232
Current liabilities	10,558	17,061	39,555	33,527	34,899	37,696	38,120
Total liabilities and equity	**33,103**	**59,745**	**84,178**	**91,392**	**99,467**	**105,096**	**101,200**
Cash	3,574	2,703	9,470	17,028	20,094	23,989	20,291
Other current assets	12,781	23,418	36,733	34,484	39,069	42,133	43,292
Total fixed assets	16,492	26,807	36,835	38,333	38,757	37,427	36,070
Investments	256	6,817	1,140	1,596	1,596	1,596	1,596
Total assets	**33,103**	**59,745**	**84,178**	**91,467**	**99,541**	**105,170**	**101,275**
Free cash flow							
Operating cash flow, excl working capital	2,002	5,061	6,119	10,570	8,305	8,014	8,109
Working capital changes	(2,601)	(2,993)	5,058	(4,121)	(3,226)	(267)	(735)
Capital expenditure	(6,294)	(12,400)	(10,690)	(2,997)	(2,476)	(934)	(953)
Investments	(256)	(6,525)	2,178	(456)	—	—	—
Other income	46	360	1,075	150	150	150	150
Free cash flow	**(7,102)**	**(16,497)**	**3,740**	**3,146**	**2,753**	**6,963**	**6,572**
Ratios (%)							
EBITDA margin (%)	12.4	16.2	13.8	17.9	17.4	15.2	14.6
Debt/equity	2.1	1.5	1.5	0.8	0.7	0.6	0.3
Net debt/equity	1.1	0.9	0.9	0.2	0.1	(0.0)	(0.1)
RoAE	22.0	27.1	17.7	24.8	15.6	12.8	11.7
RoACE	**10.3**	**11.9**	**9.8**	**15.3**	**10.8**	**9.0**	**8.8**

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Havells India (HAVL)

Others

SELL

JULY 28, 2010

RESULT

Coverage view:

Price (Rs): 661

Target price (Rs): 497

BSE-30: 17,957

Operating results in line except for a margin blip in one business unit. Havells' 1QFY11 consolidated EBITDA at Rs1.2 bn came marginally lower than our estimates at Rs1.3 bn mainly led by lower EBITDA margins in the domestic cables and wires segment. Sylvania's restructuring has led to stable revenues and operating margins. We see a 25% downside to our DCF-based target price of Rs497 and retain SELL.

Company data and valuation summary

Havells India

Stock data			
52-week range (Rs) (high,low)			694-260
Market Cap. (Rs bn)			39.8
Shareholding pattern (%)			
Promoters			60.1
FIIs			18.2
MFs			2.1
Price performance (%)	1M	3M	12M
Absolute	4.6	8.6	116.3
Rel. to BSE-30	3.5	5.1	84.7

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	5.3	31.6	45.0
EPS growth (%)	3.7	497.9	42.6
P/E (X)	125.2	20.9	14.7
Sales (Rs bn)	53.8	58.7	62.6
Net profits (Rs bn)	0.3	1.9	2.7
EBITDA (Rs bn)	3.0	4.8	5.6
EV/EBITDA (X)	17.2	10.6	8.7
ROE (%)	6.6	41.6	39.7
Div. Yield (%)	0.4	0.4	0.4

QUICK NUMBERS

- Consol revenues +4.4% yoy, -2.6% qoq
- Sylvania EBITDA margins at 4.5%

1QFY11- consolidated operating numbers in line with estimates except cables and wires

Havells' reported consolidated sales of Rs13.6 bn (+4.4% yoy, -2.6% qoq) for 1QFY11 were marginally above our estimates at Rs13.9 bn. The reported EBITDA at Rs1,161 mn (+53.8% yoy, +17.6% qoq) was lower than our estimates at Rs1,252mn. The miss was mainly on account of lower EBITDA margins at 11.2% in 1QFY11 (-100 bps qoq, -100 bps yoy) in the standalone business on account of higher material cost impacting the cable and wire division.

Sylvania – 1Q performance almost in line

Sylvania restructuring seems to be working with revenues stabilizing in the range of EUR104-108 mn for the past three quarters. Increasing revenue stability lends credence to the management guidance of the business turning around at the PAT level in 2012E. In 1QFY11, the Americas region had strong growth of 12.5% qoq and 31.3% yoy though the European region with 66% revenue share remained stagnant. The management seemed confidant on maintaining EBITDA margin in the business around 4.5% for FY2011E. In rupee terms, Sylvania reported 1QFY11 EBITDA at Rs281 mn (-17% qoq, 485% yoy) with EBITDA margins coming at 4.5% (-40 bps qoq, +380 bps yoy) against our estimates at 5.5%. The revenues for the quarter at Rs6,302 mn (-8% qoq, -9.7% yoy) were due to depreciation of the euro against the rupee. The net revenue increase in euro terms was 6% on yoy basis.

Valuations remain expensive; maintain SELL rating

We retain our SELL recommendation with a DCF-based target price at Rs497 and factor in Sylvania's break even in FY2012E. Key risk to our assumption is Sylvania's 70% revenue proportion from Europe which could impact the revenue growth led operating leverage. At our target price, Havells would trade at 11X and 9.5X FY2012 EPS and EV/EBITDA, respectively.

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Domestic business- commodity prices impact 1QFY11 EBITDA margin

1QFY11 revenues stand at Rs7.2 bn (+21.7% yoy, +1.4% qoq) with all the operating segments reporting revenues as per our estimates. The EBITDA margins at 11.2% cam lower than our expectation of 12.3% due to higher material costs impacting the cable and wires division. We view this as a one-quarter blip as (1) commodity prices are down qoq and (2) Havells' average contract length in cables is two months and hence even higher commodity costs could be passed on to customers. The management has guided to EBIT margin in the cable and wire segment improving back to its historic level of 8-10% in the next two quarters. Tax rate is also expected to come down to around 20% for FY2011E versus 23% in 1QFY11 as production ramps up in the new tax-exempt facilities at Haridwar and Baddi.

1QFY11 – domestic business on track except a margin blip in cables and wires

Havells, interim results (standalone), March fiscal year-ends (Rs mn)

					Change (%)		
	1QFY11	1QFY11E	1QFY10	4QFY10	KIE est	yoy	qoq
Net revenues	**7,177**	**7,073**	**5,899**	**7,081**	**1.4%**	**21.7**	**1.4**
Total expenditure	**(6,375)**	**(6,194)**	**(5,174)**	**(6,214)**	—	**23.2**	**2.6**
EBITDA	**802**	**879**	**724**	**867**	**-7.5%**	**10.7**	**(7.5)**
Margins (%)	11.2	12.4	12.3	12.2	—		
Other income	1	2	4	2	—	(78.0)	(50.0)
Depreciation	(68)	(68)	(54)	(65)	—	26.0	4.3
EBIT	**735**	**813**	**675**	**804**	**-8.6%**	**8.9**	**(8.6)**
Margins (%)	10.2	11.5	11.4	11.3	—		
Net Interest	(38)	-	(16)	(16)	—	133.7	132.3
PBT	**697**	**813**	**658**	**787**	**-11.5%**	**5.8**	**(11.5)**
Extraordinaries	—	—	—	—	—		
Reported PBT	**697**	**813**	**658**	**787**	**-11.5%**	**5.8**	**(11.5)**
Tax	(163)	(166)	(166)	(141)	**16.0%**	(1.4)	16.0
Reported PAT	**533**	**647**	**493**	**646**	**-17.5%**	**8.3**	**(17.5)**
Segmental							
Revenues							
Switchgear	1,941	1,976	1,719	1,883	**3.1%**	13.0	3.1
Cable and Wires	2,910	2,732	2,428	2,770	**5.1%**	19.8	5.1
Lighting and fixtures - India	1,046	1,019	755	1,076	**-2.8%**	38.6	(2.8)
Electrical consumer durables	1,259	1,221	904	1,191	**5.7%**	39.3	5.7
Others	13	125	93	161	**-91.7%**	(85.5)	(91.7)
Total	**7,170**	**7,073**	**5,899**	**7,081**	**1.3%**	**21.6**	**1.3**
EBIT							
Switchgear	723	731	609	708	**2.2%**	18.8	2.2
Cable and Wires	198	191	294	191	**3.9%**	(32.5)	3.9
Lighting and fixtures - India	166	173	119	194	**-14.4%**	39.4	(14.4)
Electrical consumer durables	334	330	217	339	**-1.7%**	53.7	(1.7)
Others	5	13	7	17	**-71.7%**	(25.8)	(71.7)
Unallocable	(691)	(625)	(571)	(646)	**7.0%**	NM	NM
Total	**735**	**813**	**675**	**804**	**-8.6%**	**8.9**	**(8.6)**
EBIT (%)							
Switchgear	37.3	37.0	35.4	37.6			
Cable and Wires	6.8	7.0	12.1	6.9			
Lighting and fixtures - India	15.9	17.0	15.8	18.0			
Electrical consumer durables	26.5	27.0	24.0	28.5			
Others	36.6	10.0	7.1	10.8			
Total	**10.2**	**11.5**	**11.4**	**11.3**			

Source: Company, Kotak Institutional Equities

Sylvania revenues seem to be stabilizing across geographies
Sylvania, Geographical Break-up, March fiscal year-ends (EUR mn)

							(% change)				
	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	yoy	qoq	FY2010	FY2009	Change (%)
Europe	77.7	70.6	67.7	77.3	76.8	67.0	(5.1)	(12.8)	292.5	334.6	(12.6)
Americas	28.8	24.9	27.9	27.5	29.0	32.7	31.3	12.5	105.4	126.3	(16.6)
Asia	3.7	3.6	2.9	2.9	4.0	5.5	51.1	35.4	13.5	22.0	(38.8)
Adjustments	(1.8)	(1.6)	(0.5)	(1.3)	(1.4)	(1.3)			(4.7)	(9.7)	
Total	**108.5**	**97.5**	**98.0**	**106.5**	**108.6**	**103.9**	**0.1**	**(4.3)**	**406.7**	**473.2**	**(14.1)**

Source: Company

Sylvania revenues steady, margins expected to improve

Sylvania restructuring seems to be working with revenues stabilizing in the range of EUR104-108 mn for the past three quarters. Increasing revenue stability lends credence to the management guidance of the business turning around at the PAT level in 2012E. In 1QFY11, the Americas region had strong growth of 12.5% qoq and 31.3% yoy though the European region with 66% revenue share remained stagnant.

The management seemed confidant on maintaining EBITDA margin in the business around 4.5% for the rest of the year. Also, Sylvania brand would be launched in India in the next four-five months.

We retain SELL with a DCF-based target price of Rs497

We retain our SELL recommendation with a DCF-based target price at Rs497 and factor in Sylvania's break even in FY2012E. Key risk to our assumption is Sylvania's 70% revenue proportion from Europe which could impact the revenue growth led operating leverage. At our target price, Havells would trade at 11X and 9.5X FY2012 EPS and EV/EBITDA, respectively.

We value Havells at Rs 497/share

Havells, DCF based valuation, March fiscal year-ends (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Terminal value
EBITDA	2,990	4,778	5,554	6,213	6,111	6,716	7,129	7,603	8,055	8,537	
Tax expense	(854)	(1,144)	(1,055)	(1,246)	(1,238)	(1,498)	(1,793)	(2,128)	(2,360)	(2,502)	
Changes in working capital	1,716	(1,230)	(111)	(97)	(589)	(677)	(128)	(698)	(663)	(709)	
Cash flow from operations	**3,852**	**2,403**	**4,388**	**4,870**	**4,284**	**4,541**	**5,209**	**4,777**	**5,032**	**5,326**	
Capital expenditure	(1,870)	(900)	(900)	(900)	(800)	(800)	(800)	(800)	(800)	(800)	
Free cash flow to the firm	**1,982**	**1,503**	**3,488**	**3,970**	**3,484**	**3,741**	**4,409**	**3,977**	**4,232**	**4,526**	**52,295**
Dicounted cash flow-now	2,062	1,384	2,842	2,863	2,223	2,113	2,204	1,759	1,657	1,568	
Discounted cash flow-1 year forward		1,564	3,212	3,235	2,512	2,387	2,490	1,988	1,872	1,772	
Discounted cash flow-2 year forward			3,629	3,656	2,839	2,698	2,814	2,246	2,116	2,002	

Discount rate	13.0%
Growth from 2019 to perpetuity	4.0%

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**21,033**	**51%**	**21,999**	**49%**
PV of terminal value (b)	20,471	49%	23,132	51%
EV (a) + (b)	**41,504**		**45,132**	
Net debt	11,603		10,935	
Equity value	**29,901**		**34,197**	
No. of shares	60.2		60.2	
Implied share price (Rs)	**497**		**568**	
Exit EV/EBITDA multiple (X)	6.5			
Exit FCF multiple (X)	11.6			

Sensitivity of share price to WACC and growth rate (Rs)

Growth Rate	WACC 12.0%	12.5%	13.0%	13.5%	14.0%
2.5%	**497**	508	474	444	417
3.0%	392	528	492	460	431
3.5%	404	551	512	478	446
4.0%	418	577	535	**497**	463
4.5%	433	607	560	519	482
5.0%	449	640	589	543	503
5.5%	468	679	621	571	527

Source: Kotak Institutional Equities

Segmental assumptions
Havells, revenue and margin assumptions, march fiscal year-ends, 2008-2012

	2008	2009	2010	2011E	2012E
Revenues					
Switchgear	5,426	6,090	7,035	8,010	8,944
Cables and wires	9,241	9,873	10,105	11,492	12,499
Electrical consumer durables	2,399	2,753	3,595	4,134	4,630
Lighting and fixture	2,866	2,784	3,667	4,327	4,847
Others	618	484	333	366	403
Sylvannia	29,472	32,791	28,833	30,377	31,288
Unallocable	—	—	—	—	—
Total revenues	**50,022**	**54,775**	**53,568**	**58,705**	**62,610**
EBITDA					
Switchgear	1,819	2,127	2,478	2,777	3,049
Cables and wires	998	731	909	1,149	1,375
Electrical consumer durables	529	618	809	930	1,042
Lighting and fixture	392	585	660	822	824
Others	101	174	67	73	81
Sylvannia	1,563	860	(204)	1,139	1,643
Unallocable	(1,936)	(2,210)	(1,729)	(2,113)	(2,459)
Total EBITDA	**3,466**	**2,885**	**2,990**	**4,778**	**5,554**
EBITDA margin (%)					
Switchgear	33.5	34.9	35.2	34.7	34.1
Cables and wires	10.8	7.4	9.0	10.0	11.0
Electrical consumer durables	22.0	22.5	22.5	22.5	22.5
Lighting and fixture	13.7	21.0	18.0	19.0	17.0
Others	16.4	35.9	20.0	20.0	20.0
Sylvannia	5.3	2.6	(0.7)	3.8	5.3
Unallocable	—	—	—	—	—
Total	**6.9**	**5.3**	**5.6**	**8.1**	**8.9**

Source: Kotak Institutional Equities

Summary Financials
Profit Model , balance sheet, cash flow (consol) for Havells, march fiscal year-ends, 2007-2012

	2007	2008	2009	2010	2011E	2012E
Profit model						
Total income	15,472	50,022	54,775	53,766	58,705	62,610
EBITDA	**1,458**	**3,466**	**2,885**	**2,990**	**4,778**	**5,554**
Interest (expense)/income	(209)	(1,036)	(1,253)	(868)	(1,034)	(996)
Depreciation	(97)	(694)	(905)	(825)	(924)	(968)
Other income	54	250	86	15	30	30
Pretax profits	**1,205**	**1,986**	**814**	**1,311**	**2,850**	**3,620**
Extra-ordinary items	—	—	(1,986)	(2,756)	—	—
Reported PBT	**1,205**	**1,986**	**(1,172)**	**(1,445)**	**2,850**	**3,620**
Tax	(161)	(321)	(435)	(849)	(800)	(805)
Deferred taxation	(23)	(56)	6	(145)	(150)	(105)
Profit after tax	1,021	1,610	(1,602)	(2,438)	1,900	2,710
Adjusted PAT	**1,021**	**1,610**	**297**	**318**	**1,900**	**2,710**
Diluted earnings per share (Rs)	19.0	26.6	5.1	5.3	31.6	45.0
Balance sheet						
Total equity	2,603	6,901	6,147	3,586	5,311	7,827
Deferred taxation liability	118	(76)	(97)	48	198	303
Total borrowings	561	12,962	12,278	12,725	12,368	12,179
Current liabilities	2,818	15,142	14,501	12,110	12,313	12,664
Total liabilities and equity	**6,100**	**34,929**	**32,829**	**28,469**	**30,190**	**32,973**
Cash	365	2,429	2,473	1,122	1,433	3,840
Other current assets	3,281	20,800	17,935	13,882	15,315	15,759
Goodwill	—	3,346	3,579	3,579	3,579	3,579
Tangible fixed assets	2,423	8,323	8,842	9,886	9,863	9,794
Investments	32	32	—	—	—	—
Total assets	**6,100**	**34,929**	**32,829**	**28,469**	**30,190**	**32,973**
Free cash flow						
Operating cash flow, excl. working capital	1,156	2,320	(1,054)	(1,483)	2,944	3,753
Working capital changes	753	(3,498)	2,168	1,716	(1,230)	(111)
Capital expenditure	(1,001)	(7,725)	(1,676)	(1,870)	(900)	(900)
Investment changes	—	578	33	—	—	—
Other income	13	32	18	15	30	30
Free cash flow	**920**	**(8,294)**	**(512)**	**(1,621)**	**844**	**2,772**
Ratios (%)						
EBITDA margin	9.4	6.9	5.3	5.6	8.1	8.9
Debt/equity	20.6	189.9	203.0	350.1	224.5	149.8
Net debt/equity	7.2	154.3	162.1	319.3	198.5	102.6
RoAE	44.6	33.7	4.6	6.6	41.6	39.7
RoACE	**38.4**	**21.3**	**10.4**	**3.0**	**15.1**	**18.1**

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Cadila Healthcare (CDH)

Pharmaceuticals

REDUCE

JULY 27, 2010

RESULT

Coverage view: Attractive

Price (Rs): 643

Target price (Rs): 580

BSE-30: 18,078

In-line quarter marked by revival in growth in India finished dosage. PAT was 4% higher than our estimate due to better-than-expected sales and operating margin. Sales were 4% higher than our estimate due to (1) a pick-up in sales growth in India finished dosage to 17% (2) higher US revenue, however all other international finished dosage geographies disappointed. We increase our FY2011-12E PAT by 5-8%. We increase our target price to Rs580 (from Rs535) and retain our reduce rating due to rich valuations, at the highest level since 2006.

Company data and valuation summary

Cadila Healthcare

Stock data			
52-week range (Rs) (high,low)			684-250
Market Cap. (Rs bn)			131.6
Shareholding pattern (%)			
Promoters			74.8
FIIs			3.8
MFs			7.7
Price performance (%)	1M	3M	12M
Absolute	0.7	14.2	118.6
Rel. to BSE-30	(1.0)	9.8	85.4

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	24.7	33.2	37.7
EPS growth (%)	66.9	34.2	13.7
P/E (X)	26.0	19.4	17.0
Sales (Rs bn)	35.7	42.7	50.6
Net profits (Rs bn)	5.1	6.8	7.7
EBITDA (Rs bn)	7.0	8.7	10.3
EV/EBITDA (X)	20.1	15.6	12.9
ROE (%)	36.0	35.8	31.3
Div. Yield (%)	0.8	1.0	1.2

Sales at Rs10.5 bn was 4% higher than our estimate due to higher India/US sales

Sales beat our estimate by 4% due to (1) higher finished dosage revenues in India which grew 17% yoy versus our sales growth estimate of 13% (2) 36% sales growth in consumer segment, versus our sales growth estimate of 20% and (3) US sales of US$48 mn, higher than our estimate of US$40 mn. However, all other international finished dosage segments of Europe, Latin America, Emerging markets and Hospira JV fell short of expectations. Sales were lower than our estimate and down yoy except for Latin America which grew 11% yoy, adjusted for the one-time sales in 1QFY10.

PAT was Rs1.9 was 4% higher than our estimate

PAT was 4% higher than our estimate due to better-than-expected sales and operating margin. EBITDA margin adjusted for R&D spending at 26% was 100 bps higher than our estimate due to higher proportion of sales from high-margin businesses of domestic finished dosage. Materials cost as a percentage of sales was at 31% this quarter versus our estimate of 33%.

We increase our FY2011-12E PAT by 5-8%

We forecast net sales growth of 18% in FY2011-12E with margin expanding 170 bps. We increase our FY2011-12E PAT by 6-8% on account of (1) higher sales growth assumption in India finished dosage at 15% in FY2011E and 14%in FY20102E versus earlier estimate of 13% (2) higher sales in US at US$187 mn in FY2011E in line with the trend seen this quarter and (3) additional US$20 mn in sales in FY2012E from commercial supplies to Abbott.

We maintain REDUCE with a PT of Rs580 (from Rs535); valuations are at their highest since 2006

CDH is trading at 17X FY2012E earnings. At our PT, it will trade at 15X FY2012E earnings, higher than the 5-year average multiple of one-year forward PE of 13X.

QUICK NUMBERS

- Sales at Rs10.5 bn, 4% higher than our estimate
- PAT at Rs1.9, 4% higher than our estimate
- We maintain REDUCE with a target price of Rs580

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Sales at Rs10.5 bn, 4% higher than our estimate due to better sales growth in India and US

- India revenues, most important segment accounting for 50% of revenues was 5% higher than our estimate due to
  - 17% sales growth in branded finished dosage versus our estimate of 13% sales growth. Company launched 30 new products, including line extensions, of which 8 were for the first time in India. In FY2010, CDH launched over 30 new products—17 of them for the first time in the country.
  - 36% sales growth in consumer segment, in line with sales growth seen in FY2010 versus our estimate of 20%.
- US revenues, the second most important revenue segment accounting for 20% of overall sales beat our estimates by 22% with revenues growing 50% yoy. In 1QFY11, CDH filed 7 Andes taking the total outstanding to 113 with cumulative approvals at 56. During 1QFY11E, CDH launched three products on Day 1 of patent expiry—Anasterazole, Tamsulosin and Famotidine Suspension. According to the company, it has garnered greater than 20% market share in Tamsluosin in the US.
- All other international revenue segments of Europe, Latin America, emerging markets, Hospira JV disappointed with sales lower than our estimate and down yoy except for Latin America which grew 11% yoy, adjusted for the one-time sales in 1QFY10. Sales in Latin America were also affected by delayed approval by ANVISA and with approval now in place, company is confident about growing Latin American sales at 15% yoy.
- New businesses of Hospira JV reported revenues of Rs139 mn, was down 41% yoy and 37% lower than estimate. However, company expects to report increase in sales from this JV in FY2011E. CDH has commercialized three products in EU so far. In 3QFY11E, it will commercialize the same three products in US from its dedicated facility which has been US FDA approved. It will also launch another product in Europe.
- API sales beat estimate by 15%, up 28% yoy driven by API exports of Clopidogrel API to Europe. The new facility for this segment is fully commercialized running at 80% capacity utilization and CDH has seen a significant volume uptake despite yoy price decline in Clopidogrel supplies.

Adjusted EBITDA margin, at 26%, 100 bps higher than estimate

EBITDA margin adjusted for R&D spending at 26% was 100 bps higher than our estimate due to a higher proportion of sales from high-margin businesses of domestic finished dosage. Materials cost as a percentage of sales was at 31% this quarter versus our estimate of 33%. All other costs were largely in line.

PAT was Rs1.9 was 4% higher than our estimate

PAT was 4% higher then our estimate due to better-than-expected sales and operating margin. All other expenses below EBITDA were largely in line. However, interest cost excluding forex at Rs224 mn was higher than our estimate of Rs180 mn. Bet debt has declined to Rs7.4 bn as of June 2010 from Rs8.4 bn as of March 2010.

Interim results- Cadila , March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	% change 1QFY11E	1QFY10	4QFY10
Net sales	**10,551**	**10,184**	**8,803**	**8,159**	**4**	**20**	**29**
(Increase)/decrease in stock	(169)	—	(262)	(504)	NM	NM	NM
Material consumed	3,429	3,361	3,090	3,410	2	11	1
R&D	585	509	469	370	15	25	58
Personnel costs	1,277	1,150	1,025	1,082	11	25	18
Other expenditure	3,243	3,106	2,677	2,214	4	21	46
Total expenditure	**8,364**	**8,126**	**6,998**	**6,572**	**3**	**20**	**27**
EBITDA	**2,187**	**2,058**	**1,805**	**1,587**	**6**	**21**	**38**
Interest expenses	316	180	244	169	75	30	87
Other Income	816	774	275	358	5	197	128
Depreciation & Amortisation	314	350	296	398	(10)	6	(21)
PBT	**2,373**	**2,302**	**1,540**	**1,379**	**3**	**54**	**72**
Tax	338	334	242	68	1	39	399
Net Profit before MI	**2,036**	**1,968**	**1,298**	**1,311**	**3**	**57**	**55**
Extra ordinary expense	—	—	9	3	NM	NM	NM
Adjustments on consolidation	(43)	(60)	(40)	(123)	NM	NM	NM
Profit for shareholders	**1,992**	**1,908**	**1,248**	**1,185**	**4**	**60**	**68**
India	**5,675**	**5,385**	**4,758**	**4,164**	**5**	**19**	**36**
Finished dosage - Branded	4,142	3,993	3,534	2,969	4	17	40
Finished dosage - Generic	219	185	185	197	18	18	11
API	92	90	82	71	2	12	30
Consumer	873	770	642	633	13	36	38
Animal Health and others	349	347	315	294	1	11	19
International	**5,007**	**4,907**	**4,138**	**4,096**	**2**	**21**	**22**
Finished dosage - Emerging ma	476	616	526	230	(23)	(9)	107
Finished dosage - Europe	632	755	638	537	(16)	(1)	18
Finished dosage - Latin Americ	387	508	366	423	(24)	6	(8)
Finished dosage - USA	2,227	1,824	1,479	1,853	22	51	20
Finished dosage - Hospira JV	139	220	234	216	(37)	(41)	(36)
Finished dosage - Japan	89	80	84	72	12	6	24
API - Others	902	730	516	582	24	75	55
API - Nycomed JV	153	174	295	183	(12)	(48)	(16)
Total gross sales	**10,682**	**10,292**	**8,896**	**8,260**	**4**	**20**	**29**

Source: Kotak Institutional Equities estimates, Company

Key takeaways from conference call

- The company is confident of maintaining India sales growth at 15% in FY2011E. It will launch over 45 products in FY2011E in Indian market.
- CDH aims to maintain or improve margin in the coming quarters. In FY2011E, margin expansion will be driven by revival of finished dosage and consumer segment revenues in India as these are high-margin segments for CDH.
- Sales from H1N1 vaccines was minimal this quarter at Rs9 mn. As this remains a private market till now, we expect revenues from this vaccine to be small until volume offtake picks up due to tenders.
- Sales from Abbott deal will start in FY2012E. Company refrained from giving any sales guidance. We include US$20 mn of sales from Abbott in FY2012E. Additional licensing income is also expected from Abbott based upon reaching pre-defined milestone, however, the company did not indicate the timing or amount.
- Sale of additional API in Nycomed JV may start in 4QFY11E.

We increase our FY2011-12E PAT by 5-8%

We increase our FY2011-12E PAT by 6-8% on account of (1) higher sales growth assumption in India finished dosage at 15% in FY2011E and 14%in FY20102E versus earlier estimate of 13% (2) higher sales in US at US$187 mn in FY2011E in line with a trend seen this quarter and (3) addition of US$20 mn of sales in FY2012E from commercial supplies to Abbott. We forecast net sales growth of 18% in FY2011-12E with margin expanding 170 bps.

We maintain REDUCE with PT at Rs580 (was Rs535). Valuations are at the highest level since April 2006

CDH is trading at 17X FY2012E earnings. At our PT, it will trade at 15X FY2012E earnings, higher than 5-year average multiple of one-year forward PE of 13X.

Cadila—Abridged profit model, balance sheet, cash model, March fiscal year-ends, 2008-2012E (Rs mn)

	2008	2009	2010	2011E	2012E
Profit model					
Net revenues	**22,660**	**28,624**	**35,748**	**42,748**	**50,603**
EBITDA	**4,013**	**5,407**	**6,966**	**8,719**	**10,288**
EBITDA margin (%)	17.7	18.9	19.5	20.4	20.3
Other income	609	778	1,287	1,716	1,200
Depreciation	969	1,118	1,339	1,474	1,650
Net finance cost	350	1,128	821	764	300
PBT	**3,303**	**3,939**	**6,093**	**8,197**	**9,538**
Tax	613	666	741	1,166	1,526
Minority interest	37	83	247	243	290
Extra ordinary expense (income)	69	241	46	—	—
Pre acquisition profits/(loss)	8	(82)	—	—	—
Reported net profit	**2,576**	**3,031**	**5,059**	**6,788**	**7,722**
Balance sheet					
Total equity	10,622	11,914	16,183	21,775	27,631
Total debt	8,377	12,674	10,905	5,365	1,823
Minority interest	194	228	392	635	925
Deferred tax liabilities	1,234	1,316	1,141	1,241	1,341
Total liabiilities and equity	**20,427**	**26,132**	**28,621**	**29,016**	**31,721**
Net fixed assets incl CWIP	14,001	17,187	19,326	19,920	21,270
Investments	254	249	207	187	187
Net current assets	5,246	6,179	6,581	7,959	9,314
Cash	926	2,517	2,507	950	950
Total assets	**20,427**	**26,132**	**28,621**	**29,016**	**31,721**
Ratios					
Diluted EPS (Rs)	13.7	14.8	24.7	33.2	37.7
ROE (%)	26.7	26.9	36.0	35.8	31.3
Debt/equity (X)	79	106	67	25	7

Source: Kotak Institutional Equities estimates, Company

Cadila—change in estimates, March fiscal year-ends (Rs mn)

	New estimates		Old estimates		% change	
	2011E	2012E	2011E	2012E	2011E	2012E
Profit model						
Net revenues	**42,748**	**50,603**	**41,915**	**47,971**	**2**	**5**
EBITDA	**8,719**	**10,288**	**8,435**	**9,594**	**3**	**7**
EBITDA margin (%)	20.4	20.3	20.1	20.0	—	—
Other income	1,716	1,200	1,674	1,200	3	—
Depreciation	1,474	1,650	1,500	1,650	(2)	—
Net finance cost	764	300	720	300	6	—
PBT	**8,197**	**9,538**	**7,888**	**8,844**	**4**	**8**
Tax	1,166	1,526	1,142	1,415	2	8
Minority interest	243	290	260	290	(6)	0
Reported net profit	**6,788**	**7,722**	**6,486**	**7,139**	**5**	**8**

Source: Kotak Institutional Equities estimates, Company

kotak Institutional Equities

Sobha (SOBHA)

Property

ADD

JULY 28, 2010

RESULT

Coverage view: Cautious

Price (Rs): 339

Target price (Rs): 372

BSE-30: 17,957

1QFY11 results reflect continued business momentum. Sobha reported revenues of ₹3.2 bn (+78% yoy, -21% qoq) in line with our estimate though reported EBITDA has been impacted by a one-time charge of ₹150 mn. Sales volume continued to increase qoq, debt remained constant and quarterly operational cash flow is positive. We revise out target price to ₹372 (earlier ₹325) at a 10% discount to our March 2012-based NAV of ₹414 (earlier September 2011-based NAV of ₹361). Retain ADD.

Company data and valuation summary

Sobha

Stock data			
52-week range (Rs) (high,low)			355-195
Market Cap. (Rs bn)			33.2
Shareholding pattern (%)			
Promoters			60.6
FIIs			23.2
MFs			9.8
Price performance (%)	**1M**	**3M**	**12M**
Absolute	18.2	10.0	52.8
Rel. to BSE-30	17.0	6.5	30.4

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	14.1	17.0	26.2
EPS growth (%)	(7.1)	20.8	54.0
P/E (X)	24.1	19.9	12.9
Sales (Rs bn)	11.3	15.6	18.8
Net profits (Rs bn)	1.4	1.7	2.6
EBITDA (Rs bn)	2.6	3.2	4.6
EV/EBITDA (X)	17.9	13.9	9.2
ROE (%)	9.7	9.2	12.8
Div. Yield (%)	0.3	0.4	0.5

QUICK NUMBERS

- Revenues of ₹3.2 bn, +78% yoy
- 1QFY11 volumes of 0.7 mn sq. ft

In-line 1QFY11 post adjusting EBITDA for one-time provision

Sobha reported 1QFY11 revenues of ₹3.2 bn (+78% yoy, -21% qoq), which is marginally above our estimate of ₹3.1 bn and an EBITDA of ₹602 mn (-29% versus KIE estimate, +42% yoy and -37% qoq). 1QFY11 EBITDA is lower than our estimates due to (1) a provision of ₹150 mn as one-time charge for change in the proposed group housing project in Delhi (adjusting for this 1QFY11 EBITDA is only 11% lower versus our estimate) and (2) land sales of only ₹58 mn versus ₹1.25 bn in 4QFY10 at EBITDA margin of 30%. PAT at ₹343 mn (+170% yoy, -38% qoq) is 15% below our estimate of ₹404 mn.

Continuing recovery in Bangalore residential market

Sobha reported sales volumes of 670,883 sq. ft in 1QFY11 vs 635,147 sq. ft in 4QFY10, 2.1 mn sq. ft in FY2010 and 0.8 mn sq. ft in FY2009. Management indicated they are seeing significantly better volumes in the Bangalore market at current prices which are equal to 4QFY10 prices.

We note that Sobha has 9.1 mn sq. ft of ongoing projects out of which Sobha has already sold 5.7 mn sq. ft. Sobha has unsold inventory of ₹12 bn and has to receive ₹8.9 bn for the sold portion while incurring an additional cost of ₹10.2 bn for the ongoing projects, resulting in a surplus of ₹10.7 bn.

Sobha has launched seven projects with a total area of 1.9 mn sq. ft in the past eight months and has an aggressive launch calendar for the rest of FY2011E. We estimate Sobha will sell 3.6 mn sq. ft (management guidance of 3 mn sq. ft) of residential real estate in FY2011E and book residential revenues of ₹9.4 bn in FY2011E. Sobha launched Sobha Turquoise (95 3BHK row houses) in Coimbatore in July 2010.

Contractual business remains steady on IT services led growth

Sobha booked revenues of ₹690 mn from contractual segment in 1QFY11 versus ₹422 mn in 1QFY10. Sobha currently has 4.45 mn sq. ft under contracts from Infosys and other leading companies in India and a strong pipeline of 6.75 mn sq. ft that will progressively start over FY2011E.

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In-line 1QFY11 results post adjusting for one-time charge
Interim results, Sobha Developers, March fiscal year-ends (₹ mn)

					% change		
	1QFY11	1QFY11E	4QFY10	1QFY10	1QFY11E	qoq	yoy
Net sales	**3,156**	**3,120**	**3,995**	**1,771**	**1**	**(21.0)**	**78.2**
Operating costs	**(2,554)**	**(2,277)**	**(3,043)**	**(1,348)**	**12**	**(16.1)**	**89.5**
(Increase)/Decrease in stock in trade and WIP	657		331	233		98.5	182.0
Land cost expenses	(930)		(1,041)	(66)		(10.7)	1309.1
Construction expenses & raw materials	(1,576)		(1,581)	(1,070)		(0.3)	47.3
Staff cost	(250)		(225)	(163)		11.1	53.4
Other administrative expenses	(455)		(527)	(282)		(13.7)	61.3
EBITDA	**602**	**842**	**952**	**423**	**(29)**	**(36.8)**	**42.3**
Other income	34	33	35	19	2	(2.9)	78.9
Interest costs	(134)	(156)	(134)	(233)	(14)	0.0	(42.5)
Depreciation	(67)	(144)	(77)	(82)	(54)	(13.0)	(18.3)
PBT	**435**	**575**	**776**	**127**	**(24)**	**(83.6)**	**242.5**
Taxes	(92)	(173)	(219)	0	(47)	(58.0)	
PAT	**343**	**403**	**557**	**127**	**(15)**	**(38.4)**	**170.1**
Key ratios							
EBITDA margin (%)	19.1	27.0	23.8	23.9			
PAT margin (%)	10.9	12.9	13.9	7.2			
Effective tax rate (%)	21.1	30.0	28.2	0.0			

Source: Company, Kotak Institutional Equities estimates

Marginally reduce FY2012E estimates

We make the following changes to our model –

- We reduce our sales estimate to 3.4 /4.9 mn sq. ft for FY2011E/12E versus 3.6/5.2 mn sq. ft for FY2011/12E though we remain ahead of management guidance of 3 mn sq. ft for FY2011E.

- We keep FY2011E revenue and earnings estimates and revise our FY2012E revenues to ₹18.8 bn (earlier ₹19.6 bn) and PAT to ₹2.6 bn for FY2012E (earlier ₹2.4 bn).

- We have rolled over our target price to March 2012-based NAV from September 2011-based NAV earlier.

Revise target price to ₹372 and maintain ADD rating

We maintain an ADD rating on the stock with a target price of ₹372/share (earlier `₹325). Our target price is based on a 10% discount to March 2012 NAV of ₹414 (earlier Sept 2011-based NAV of 361). Though we observe a recovery in the Bangalore market, we have a discount to NAV of 10% on account of high leverage and lack of diversification in its land bank.

We have a target price of ₹ 372/share
NAV-based valuation, Sobha Developers, March fiscal year-ends (₹ bn)

	March '11 based NAV Growth rate in selling prices			
	0%	3%	5%	10%
Valuation of land reserves	**17.5**	**32.1**	**43.5**	**78.7**
Residential projects	23.0	29.3	33.8	46.3
Commercial projects	(2.7)	0.8	3.7	13.0
Retail projects	(2.8)	2.1	6.0	19.4
Less: Land cost to be paid	(1.5)	(1.5)	(1.5)	(1.5)
Less: Net debt	(9.2)	(9.2)	(9.2)	(9.2)
Add: Land sales / value	2.0	2.0	2.0	2.0
Add: Contractual business	5.7	5.7	5.7	5.7
NAV	**14.5**	**29.2**	**40.6**	**75.8**
Total no. of shares (mn)				**98**
NAV/share				**414**
Target price @10% discount to NAV				**372**

Source: Kotak Institutional Equities estimates

Sobha has 9.1 mn sq. ft of saleable area under construction
List of under-construction projects, Sobha Developers (partial list)

Project	Start date	Location	Area (mn sq. ft) Developable	Saleable	No. of apartments
Sobha Suncrest	7-Jul-06	South west, Bangalore	0.2	0.2	72
Sobha Lavender	4-May-07	South East, Bangalore	0.1	0.1	38
Sobha Althea	6-Jan-07	North, Bangalore	0.6	0.4	176
Sobha Cinnamon	23-Aug-08	South East, Bangalore	0.5	0.4	187
Sobha Saffron	9-Apr-08	South East, Bangalore	0.0	0.0	16
Sobha Moonstone	10-Jan-08	North, Bangalore	0.2	0.2	106
Sobha Petunia	21-May-08	North, Bangalore	0.6	0.5	156
Sobha Chrysanthemum	6-Jan-07	North, Bangalore	1.1	0.9	509
Sobha Beryl (Ph I)	14-May-07	West, Bangalore	0.4	0.3	160
Sobha Basil (Ph I)	30-May-07	West, Bangalore	0.7	0.5	376
Sobha Beryl (Ph II)	14-May-07	West, Bangalore	0.4	0.3	160
Sobha Lifestyle	18-Jan-07	North, Bangalore	2.3	1.2	165
Sobha Malachite	27-Apr-07	Thrissur, kerala	0.2	0.1	25
Sobha Topaz	12-Jan-07	Thrissur, kerala	0.7	0.5	216
Sobha Jade	1-Jan-09	Thrissur, kerala	0.7	0.6	216
Sobha Lifestyle	1-Jan-09	Thrissur, kerala	0.4	0.2	40
Sobha Carnation (Ph I)	2-Jul-08	Pune	0.4	0.3	116
Harishree Gardens (Ph II)	15-Feb-09	Coimbatore, Tamil nadu	0.3	0.3	92
Sobha Garrison	1-Dec-09	Bangalore	0.5	0.5	310
Sobha Dewflower	1-Feb-10	Bangalore		0.7	231
Sobha Turquoise		Coimbatore, Tamil nadu		0.2	95
Total			**10.3**	**8.3**	**3,462**

Source: Company, Kotak Institutional Equities estimates

Sobha has 9.1 mn sq. ft of ongoing projects

Details of ongoing residential projects (mn sq. ft)

	Mar-08	Jun-08	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Completed at beginning of the quarter/year	5.9	7.8	7.8	11.7	11.7	12.4	12.6
Ongoing at the beginning of the quarter/year	11.1	10.3	10.3	8.9	8.9	8.6	9.1
Launched during the quarter /year	1.1	1.1	2.5		0.4	0.7	—
Handed over during the quarter/year	1.9	—	3.9		0.7	0.2	—
Completed at end of the quarter/year	7.8	7.8	11.7	11.7	12.4	12.6	12.6
Ongoing at the end of the quarter	**10.3**	**10.3**	**8.9**	**8.9**	**8.6**	**9.1**	**9.1**

Ongoing projects citywise	Mar-08	Jun-08	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Bangalore	8.0	8.0	6.6	6.6	6.3	6.9	6.9
Trissur	1.8	1.8	1.4	1.4	1.4	1.4	1.4
Pune	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Coimbatore	0.3	0.3	0.5	0.5	0.5	0.5	0.5
Total	**10.3**	**10.3**	**8.9**	**8.9**	**8.6**	**9.1**	9.1

Source: Company, Kotak Institutional Equities estimates

Revenue model of Sobha Developers

March fiscal year-ends, 2008 – 2013E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
Apartments						
Apartment volumes (mn sq. ft)	2.7	1.5	2.0	2.9	4.0	5.6
Revenues	8,387	4,890	6,252	9,402	12,523	17,433
Rate/sq. ft	3,164	3,244	3,141	3,207	3,131	3,104
Commercial						
Commercial volumes (mn sq. ft)	—	—	0.1	0.1	0.1	0.3
Revenues	0.01	114	255	343	186	1,139
Rate/sq. ft	3,000	2,844	2,464	2,388	2,924	3,442
Contractual sales						
Contractual volumes (mn sq. ft)	5.6	3.0	3.2	3.3	3.5	3.6
Revenues	5,353.9	3,665.0	3,481.8	4,352.2	4,787.4	5,266.1
Rate/sq. ft	950	1,222	1,105	1,316	1,379	1,444
Plot sales						
Plot sale volumes (mn sq. ft)	—	—	—	—	2.4	5.4
Revenues	—	—	—	—	1,298.4	3,144.8
Rate/sq. ft					543	579
Retail rental revenues						
Total retail stock	—	—	—	—	—	0.1
Total retail lease rentals	—	—	—	—	—	143
Rate/sq. ft						99
Revenues from real estate	**8,387**	**5,004**	**6,507**	**9,745**	**14,008**	**21,860**
Contractual revenues	**5,354**	**3,665**	**3,482**	**4,352**	**4,787**	**5,266**
Others	53	148	30	—	—	—
Land sale+A/c policy change	—	1,121	1,800	2,000	—	—
Revenues	**13,794**	**9,938**	**11,819**	**16,098**	**18,795**	**27,126**
% growth	21	(28)	19	36	17	44

	2008	2009	2010	2011E	2012E	2013E
Revenues from residential projects			6,252	9,402	12,523	17,433
Revenues from under construction projects			5,675	6,936	4,913	3,422
% of total residential revenues			**90.8**	**73.8**	**39.2**	**19.6**

Source: Company, Kotak Institutional Equities estimates

Profit model of Sobha Developers
March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010E	2011E	2012E	2013E
Total revenues	**14,311**	**9,740**	**11,299**	**15,598**	**18,795**	**27,126**
Land costs	(4,333)	(2,710)	(1,355)	(1,097)	(1,756)	(2,761)
Construction costs	(3,310)	(1,688)	(5,009)	(8,656)	(9,308)	(13,331)
Employee costs	(1,025)	(1,009)	(768)	(940)	(1,128)	(1,184)
SG&A costs	(1,941)	(1,546)	(1,530)	(1,716)	(1,973)	(3,255)
EBITDA	**3,703**	**2,788**	**2,636**	**3,189**	**4,629**	**6,595**
Other income	53	148	39	35	52	78
Interest	(615)	(1,074)	(693)	(751)	(642)	(496)
Depreciation	(350)	(360)	(323)	(287)	(308)	(347)
Pretax profits	**2,791**	**1,501**	**1,658**	**2,186**	**3,731**	**5,829**
Extraordinary items	—	—	—	—	—	—
Current tax	(510)	(422)	(296)	(526)	(1168)	(1843)
Deferred tax	33	20	21	6	3	1
Net income	**2,315**	**1,099**	**1,383**	**1,666**	**2,565**	**3,987**
Adjusted net income	**2,315**	**1,099**	**1,383**	**1,666**	**2,565**	**3,987**
EPS (Rs)						
Primary	31.7	15.1	14.1	17.0	26.2	40.7
Fully diluted	31.7	15.1	14.1	17.0	26.2	40.7
Shares outstanding (mn)						
Year end	73	73	98	98	98	98
Primary	73	73	98	98	98	98
Fully diluted	73	73	98	98	98	98
Cash flow per share (Rs)						
Primary	27.7	35.0	24.9	11.8	22.2	38.3
Fully diluted	27.7	35.0	24.9	11.8	22.2	38.3
Growth (%)						
Net income (adjusted)	43	(53)	26	20	54	55
EPS (adjusted)	29	(53)	(6)	20	54	55
DCF/share	(1)	26	(29)	(52)	88	73
Cash tax rate (%)	18	28	18	24	31	32
Effective tax rate (%)	17	27	17	24	31	32

Source: Company, Kotak Institutional Equities estimates

Balance sheet of Sobha Developers
March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010	Q12011	2011E	2012E	2013E
Equity							
Share capital	729	729	981	981	981	981	981
Reserves/surplus	9,380	10,394	16,348	16,446	17,880	20,266	24,254
Total Equity	**10,109**	**11,123**	**17,329**	**17,427**	**18,861**	**21,247**	**25,234**
Deferred tax liability/(asset)	(11)	(31)	(52)	(54)	(58)	(60)	(61)
Liabilities							
Secured Loans	14,381	18,783	14,466	14,279	12,084	10,084	7,584
Unsecured Loans	3,450	538	275	75	—	—	—
Total Borrowings	**17,831**	**19,322**	**14,740**	**14,354**	**12,084**	**10,084**	**7,584**
Current Liabilities	5,746	6,117	6,529	5,876	7,989	8,737	10,550
Total Capital	**33,675**	**36,531**	**38,547**	**37,603**	**38,876**	**40,007**	**43,306**
Assets							
Cash	287	214	826	237	1,092	913	942
Current assets	31,218	34,042	35,634	34,906	35,536	35,902	37,985
Gross block	2,711	2,930	2,942		3,389	3,865	4,436
Less: Accumulated depreciation	842	1,198	1,513		1,800	2,108	2,455
Net fixed assets	1,870	1,732	1,429	1,376	1,589	1,757	1,981
Capital work-in-progress	272	516	632	630	632	1,408	2,371
Total fixed assets	**2,142**	**2,248**	**2,061**	**2,006**	**2,221**	**3,165**	**4,352**
Intangible assets	—	—	—	—	—	—	—
Investments	27	28	27	453	27	27	27
Misc. expenses	—	—	—	—	—	—	—
Total assets	**33,675**	**36,531**	**38,547**	**37,602**	**38,876**	**40,008**	**43,307**
Key ratios (%)							
Debt/equity	176.6	174.2	85.3		64.3	47.6	30.1
Debt/capitalization	63.8	63.5	46.0		39.1	32.2	23.2
Net debt/equity	173.7	172.3	80.5		58.5	43.3	26.4
Net debt/capitalization	63.5	63.3	44.6		36.9	30.2	20.9
RoAE	**25.3**	**10.4**	**9.8**		**9.2**	**12.8**	**17.2**
RoACE	**13.3**	**6.3**	**6.2**		**7.1**	**9.7**	**13.5**

Source: Company, Kotak Institutional Equities estimates

Phoenix Mills (PHNX)

Property

BUY

JULY 29, 2010

RESULT

Coverage view: Cautious

Price (Rs): 223

Target price (Rs): 260

BSE-30: 17,957

Steady quarter. PHNX reported strong and in-line revenues of ₹404 mn (+63% yoy, +17% qoq) and EBITDA of ₹294 (+56% yoy and +48% yoy). PAT was 24% lower than our estimate due to higher depreciation and interest expenses and lower other income. We believe the launch of Kurla and Pune market cities could be key developments over the next three quarters. We retain our BUY recommendation and target price of ₹260.

Company data and valuation summary

Phoenix Mills

Stock data			
52-week range (Rs) (high,low)			236-83
Market Cap. (Rs bn)			31.9
Shareholding pattern (%)			
Promoters			65.9
FIIs			20.9
MFs			5.6
Price performance (%)	1M	3M	12M
Absolute	9.1	4.1	130.9
Rel. to BSE-30	3.8	3.7	73.8

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	5.1	7.7	8.7
EPS growth (%)	2.5	51.0	13.5
P/E (X)	43.2	28.6	25.2
Sales (Rs bn)	1.3	1.9	2.2
Net profits (Rs bn)	0.7	1.1	1.3
EBITDA (Rs bn)	1.0	1.5	1.7
EV/EBITDA (X)	33.3	21.4	17.8
ROE (%)	4.8	7.0	7.5
Div. Yield (%)	0.5	0.7	0.9

QUICK NUMBERS

- Revenues up 63% yoy and 17% qoq
- EBITDA up 56% yoy and 48% qoq

Operationally in-line 1QFY11

Phoenix reported 1QFY11 standalone revenues of ₹404 mn (+63% yoy, +17% qoq) versus KIE estimate of ₹416 mn. Revenue growth qoq has been led by occupancy of key large clients (Landmark, Hamley, Zara, The Comedy Store) in Palladium. Operating expenses came in line with KIE estimates post two quarters of surpassing estimates. EBITDA at ₹294 mn (+56% yoy and +48% qoq) were in line with KIE estimate of ₹291 mn. PAT at ₹183 mn (+19% yoy, +16% qoq) versus KIE of ₹240 mn due to higher interest costs and depreciation and lower other income.

Launch of Kurla and Pune market cities are key potential triggers over FY2011E

We believe key events that could act as stock triggers are the launch of Kurla and Pune market cities. PHNX already has key anchors in place for Kurla, Pune, Bangalore and Chennai market cities. Management is guiding for Kurla and Pune launch in October 2010 (festival season). The key anchors and vanilla retailers are already in place and it is expected to be handed over for fit-outs by October 2010 for Kurla and earlier for Pune. We are building in a launch of the Kurla market city and Pune market city in Jan 2011 (earlier Oct 2010). Even though a mall may become operational, in our view, it could take 3-6 months to stabilize rental income as all stores will not open simultaneously. We believe execution risk has declined given (1) visible progress on projects and (2) tied-up funding. Management has indicated that approximately 0.15 mn sq. ft of space at HSP is also up for renewal in the next 12 months and expects rentals to move up from Rs64/sq. ft/month to Rs130/sq. ft/month post renewal.

Retain BUY with NAV-based target price of ₹260

We are lowering our FY2011 and FY2012E EBITDA estimates by 9% as we factor in higher operational expenses in 1QFY2011 due to car parking and Palladium becoming fully operational. Our net PAT estimates are down 14/13% for FY2011/12E. We retain BUY with target price of ₹260 at a 20% discount to NAV.

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1QFY11 results of Phoenix Mills

Interim results, Phoenix Mills, March fiscal year-ends (₹ mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(%chg) 1QFY11E	yoy	qoq
Net sales	**404**	**416**	**248**	**345**	**(2.9)**	**63.1**	**17.3**
Operating costs	**(111)**	**(125)**	**(59)**	**(147)**	**(11.4)**	**87.5**	**(24.5)**
EBITDA	**294**	**291**	**189**	**198**	**0.7**	**55.5**	**48.3**
Other income	44	75	53	58	(41.8)	(17.2)	(24.3)
Interest costs	(35)	(17)	(10)	(35)	107.4	262.8	(1.5)
Depreciation	(69)	(37)	(24)	(59)	82.8	185.3	16.0
PBT	**234**	**312**	**208**	**161**	**(25.0)**	**12.6**	**45.0**
Taxes	(52)	(72)	(55)	(4)	(28.2)	(5.7)	1061.4
PAT	**183**	**240**	**153**	**157**	**(24.0)**	**19.2**	**16.3**
Key ratios							
EBITDA margin (%)	72.6	70.0	76.2	57.4			
PAT margin (%)	45.2	57.8	61.8	45.6			
Effective tax rate (%)	22.0	23.0	26.3	2.7			

Source: Company, Kotak Institutional Equities estimates

Our estimate of Phoenix Mills' NAV is ₹324/share

NAV-based valuation, Phoenix Mills, March fiscal year-ends (₹ bn)

	March 2011 based NAV Growth rate in selling prices 0%	3%	5%	10%
Valuation (Rs bn)	**29.1**	**30.0**	**30.6**	**32.2**
Add: (Net debt)/Net cash as on March 31,2010	1.2	1.2	1.2	1.2
Other Investments	15.1	15.1	15.1	15.1
NAV (Rs bn)	**45.4**	**46.3**	**46.9**	**48.4**
Total no. of shares (mn)	144.8	144.8	144.8	144.8
NAV/share (Rs)	**314**	**320**	**325**	**335**
Target price @20% discount to NAV (Rs)			**260**	

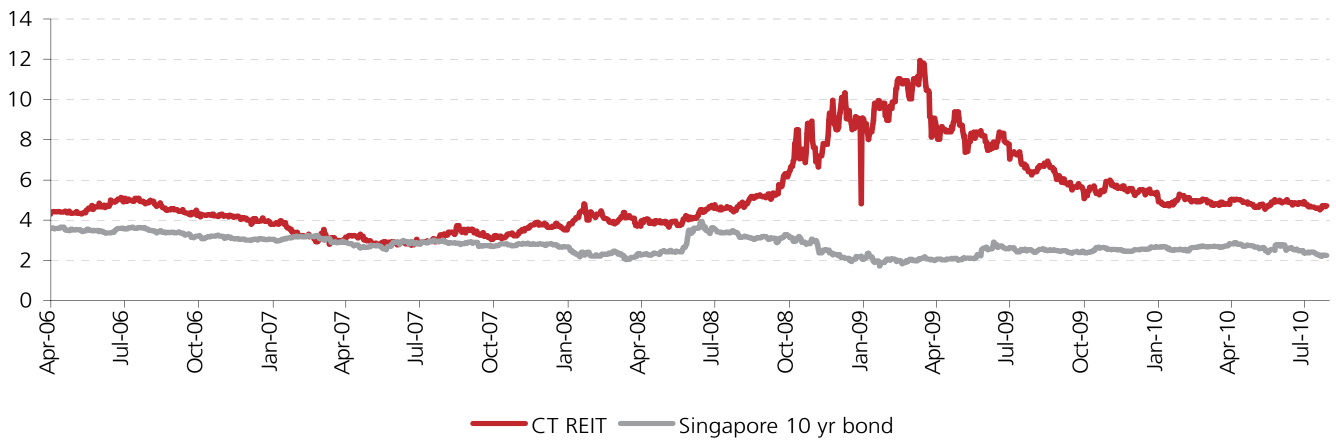
Source: Kotak Institutional Equities estimates

Revenue build up from High Street Phoenix, Lower Parel in Mumbai
Phoenix Mills, March fiscal year ends, 2009-2013E (₹ mn)

	FY2009	FY2010E	FY2011E	FY2012E	FY2013E
HSP I					
Commercial (mn sq. ft)	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Rentals (Rs/sq. ft)	105	118	118	130	136
Time (months)	12	12	12	12	12
Retail I (mn sq. ft)	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Rentals (Rs/sq. ft)	50	108	108	108	125
Time (months)	12	12	12	12	12
Retail II (mn sq. ft)	**0.24**	**0.24**	**0.24**	**0.24**	**0.24**
Rentals (Rs/sq. ft)	160	166	166	183	192
Time (months)	12	12	12	12	12
Total HSP I (Rs mn)	**833**	**1,020**	**1,020**	**1,097**	**1,179**
HSP II					
Commercial (mn sq. ft)	0.11	0.11	0.11	0.11	0.11
Rentals (Rs/sq. ft)	0	180	180	189	198
Time (months)	0	0	0	3	12
Retail I (mn sq. ft)	0.046	0.346	0.346	0.346	0.346
Rentals (Rs/sq. ft)	275	210	210	221	232
Time (months)	3	4	12	12	12
Retail II (mn sq. ft)	0.1	0.1	0.1	0.1	0.1
Rentals (Rs/sq. ft)	0	293	293	308	323
Time (months)	0	0	0	3	12
Total HSP II (Rs mn)	**38**	**291**	**872**	**1,070**	**1,611**
Total HSP (Rs mn)	**871**	**1,311**	**1,892**	**2,167**	**2,790**
Average rentals	**111**	**145**	**160**	**174**	**194**

Source: Company, Kotak Institutional Equities estimates

Capital Mall is trading at a yield of 4.7%
Dividend yield (%) movement of CT REIT vs. Singapore 10 yr bond, April 2006 – July 2010



Source: Bloomberg, Kotak Institutional Equities estimates

Sensitivity of NAV to cap rate compression (%)
Phoenix Mills, March fiscal year-ends (₹ mn)

	March 2011 based NAV (Rs/share)				
	Cap rate (%)				
	8	**9**	**10**	**11**	**12**
NAV (Rs/share)	429	370	329	283	251
Change from base (%)	30.5%	12.5%	0.0%	-13.9%	-23.6%

Note:
Base cap rate is 10%

Source: Kotak Institutional Equities estimates

Profit model of Phoenix Mills
March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
Total revenues	**743**	**885**	**1,158**	**1,892**	**2,167**	**2,790**
Land costs	—	—	—	—	—	—
Operating costs	(25)	(29)	(6)	(37)	(39)	(42)
Employee costs	(34)	(41)	(39)	(80)	(101)	(122)
SG&A costs	(183)	(193)	(366)	(477)	(525)	(578)
EBITDA	**500**	**622**	**746**	**1,299**	**1,502**	**2,049**
Other income	235	410	240	188	214	331
Interest	(48)	(44)	(86)	(73)	(73)	(73)
Depreciation	(73)	(92)	(160)	(209)	(268)	(270)
Pretax profits	**615**	**896**	**740**	**1,204**	**1,374**	**2,036**
Share of profit from associates	5	—	—	—	—	—
Current tax	(197)	(181)	(152)	(274)	(312)	(456)
Deferred tax	7	5	10	22	24	27
Net income	**430**	**719**	**599**	**952**	**1,086**	**1,607**
Adjusted net income	**427**	**719**	**599**	**952**	**1,086**	**1,607**
EPS (Rs)						
Primary	4.6	5.2	4.1	6.6	7	11
Fully diluted	3.1	5.0	4.1	6.6	7	11
Shares outstanding (mn)						
Year end	136	145	145	145	145	145
Primary	93	138	145	145	145	145
Fully diluted	136	145	145	145	145	145
Cash flow per share (Rs)						
Primary	16.4	3.2	3.5	6.6	8	10
Fully diluted	11.2	3.1	3.5	6.6	8	10
Growth (%)						
Net income (adjusted)	8	69	(17)	59	14	48
EPS (adjusted)	(51)	58	(17)	59	14	48
DCF/share	74	(80)	9	87	17	36
Cash tax rate (%)	32	20	20	23	23	22
Effective tax rate (%)	31	20	19	21	21	21

Source: Company, Kotak Institutional Equities estimates

June 2010: Earnings announcement calendar

Mon	Tue	Wed	Thu	Fri	Sat
26-Jul	**27-Jul**	**28-Jul**	**29-Jul**	**30-Jul**	**31-Jul**
			Aban Offshore	ABB	Bank of India
			Alok Industries	Aditya Birla Nuvo	Bhushan Steel
			Bank of Baroda	Ajmera Realty	City Union Bank
			Bank of Maharashtra	Bharat Electronics	EIH
			Central Bank of India	BPCL	Grasim Industries
			Federal Bank	DB Corp	GVK Power & Infra
			GE Shipping	Edelwiess Cap	ICICI Bank
			GHCL	Hindustan Construction	Indian Overseas Bank
			GSPL	India Infoline	J&K Bank
			HCL Technologies	Indian Hotels	Jagran Prakashan
			HDIL	Indian Infoline	JK Cement
			Hero Honda	Kansai Nerolac	Kolte Patil
			Hexaware Technologies	Karnataka Bank	Sadbhav Engineering
			Kalpataru Power	KEC International	Syndicate Bank
			NHPC	Max India	Torrent Power
			Novartis India	NMDC	
			Omaxe	PSL	
			ONGC	REI Agro	
			Oriental Bank of Commerce	Reliance Infra	
			Petronet LNG	Reliance Natural Resources	
			Puravankara Projects	Reliance Power	
			SAIL	Religare Enterprises	
			Siemens	Shipping Corp	
			Tata Tea	Tata Chemicals	
			Tata Teleservices	Torrent Power	
			Ultratech Cement	TV Eighteen	
			Zurari Industries		
2-Aug	**3-Aug**	**4-Aug**	**5-Aug**	**6-Aug**	**7-Aug**
GAIL	Hindalco Industries	Adani Power	Oracle Financial Services	Power Grid Corp	GMR Infra
Glaxosmithkline Consumer	Punj Lloyd	IDFC		Rashtriya Chemicals & Fertilisers	Sterling Biotech
India Cements		Mundra Port & SEZ		Fortus Healthcare	
Madras Cement					
Nestle India					
NMDC					
9-Aug	**10-Aug**	**11-Aug**	**12-Aug**	**13-Aug**	**14-Aug**
	Adani Enterprises	Bharti Airtel	Apollo Hospitals		Lanco Infratech
	IVRCL Infra		Cummins India		
	Nagarjuna Constructions		Hindustan Copper		
			Ranbaxy Laboratories		
			Tata Power		

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

	28-Jul-10		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)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US$ mn)
Automobiles																													
Ashok Leyland	73	ADD	96,446	2,062	1,330	2.8	4.3	5.9	84.5	52.3	37.5	25.7	16.9	12.3	14.8	11.1	8.8	2.4	2.2	1.9	2.1	1.4	1.4	10.9	13.5	16.7	78	7.6	11.1
Bajaj Auto	2,702	ADD	390,929	8,357	145	117.7	169.0	189.5	160.1	43.6	12.2	23.0	16.0	14.3	14.9	11.3	9.9	13.3	7.8	5.3	0.7	0.7	0.7	70.9	61.4	44.0	2,650	(1.9)	13.4
Bharat Forge	322	ADD	77,392	1,654	240	0.7	11.4	18.7	(92.0)	1,553.7	64.6	468.0	28.3	17.2	23.3	11.0	7.6	2.1	1.9	1.8	—	—	—	0.9	13.9	18.2	335	4.1	4.5
Hero Honda	1,855	SELL	370,453	7,919	200	111.8	121.5	135.7	74.1	8.7	11.7	16.6	15.3	13.7	10.6	10.0	8.5	10.3	7.0	5.2	1.6	1.8	2.0	59.1	56.6	43.8	1,800	(3.0)	19.0
Mahindra & Mahindra	648	BUY	374,832	8,013	578	34.9	40.7	48.7	132.5	16.6	19.8	18.6	15.9	13.3	12.2	10.4	8.7	4.6	3.7	2.9	1.5	1.4	1.5	30.0	25.9	24.7	680	4.9	26.4
Maruti Suzuki	1,203	ADD	347,551	7,429	289	86.4	77.6	88.3	104.9	(10.2)	13.9	13.9	15.5	13.6	7.4	7.7	6.6	2.9	2.5	2.1	0.5	0.4	0.5	23.3	17.3	16.7	1,200	(0.2)	22.5
Tata Motors	855	ADD	535,273	11,442	626	23.8	27.1	32.8	137.8	13.5	21.4	35.9	31.6	26.0	16.4	15.1	13.1	2.9	2.6	2.2	1.6	0.6	0.6	8.6	8.6	9.1	900	5.3	83.8
Automobiles		**Cautious**	**2,192,877**	**46,876**					**109.9**	**17.7**	**17.6**	**21.5**	**18.3**	**15.5**	**12.6**	**11.1**	**9.4**	**4.2**	**3.4**	**2.8**	**1.2**	**1.0**	**1.0**	**19.4**	**18.8**	**18.3**			
Banks/Financial Institutions																													
Andhra Bank	137	BUY	66,639	1,425	485	21.0	21.1	25.4	56.1	0.6	20.0	6.5	6.5	5.4	—	—	—	1.4	1.2	1.0	3.1	3.1	3.7	24.4	20.2	20.7	160	16.4	4.9
Axis Bank	1,350	ADD	546,965	11,692	405	62.1	78.1	98.3	22.7	25.9	25.9	21.8	17.3	13.7	—	—	—	3.4	3.0	2.5	0.9	1.1	1.4	19.2	18.3	19.9	1,500	11.1	48.3
Bank of Baroda	716	BUY	261,827	5,597	366	83.7	93.2	114.7	37.3	11.4	23.0	8.6	7.7	6.2	—	—	—	1.9	1.6	1.3	2.1	2.3	2.9	24.4	22.6	23.2	825	15.2	9.6
Bank of India	403	REDUCE	212,049	4,533	526	33.1	42.7	56.7	(42.1)	28.9	32.8	12.2	9.4	7.1	—	—	—	1.7	1.5	1.3	1.7	2.2	3.0	14.2	16.4	19.1	360	(10.7)	6.9
Canara Bank	479	ADD	196,267	4,196	410	73.7	82.2	98.3	45.8	11.6	19.5	6.5	5.8	4.9	—	—	—	1.5	1.3	1.0	1.7	2.1	2.5	22.4	20.8	20.8	580	21.2	7.1
Corporation Bank	566	BUY	81,243	1,737	143	82.0	88.0	102.6	31.8	7.3	16.6	6.9	6.4	5.5	—	—	—	1.4	1.2	1.0	2.9	3.1	3.6	22.0	20.2	20.2	700	23.6	1.2
Federal Bank	343	BUY	58,690	1,255	171	27.2	38.7	48.0	(7.2)	42.3	24.2	12.6	8.9	7.1	—	—	—	1.3	1.1	1.0	1.5	2.1	2.6	10.3	13.4	14.8	360	4.9	6.2
HDFC	2,896	ADD	831,341	17,771	287	98.4	116.1	138.9	22.7	17.9	19.6	29.4	24.9	20.9	—	—	—	5.5	4.8	4.3	1.2	1.4	1.7	20.0	20.6	21.7	3,450	19.1	38.1
HDFC Bank	2,086	BUY	954,898	20,413	458	64.4	87.2	113.8	22.1	35.4	30.5	32.4	23.9	18.3	—	—	—	4.4	3.9	3.3	0.6	0.8	1.0	16.1	17.3	19.5	2,400	15.0	31.0
ICICI Bank	909	REDUCE	1,013,267	21,660	1,115	36.1	47.5	58.4	6.9	31.7	22.9	25.2	19.1	15.6	—	—	—	2.0	1.8	1.7	1.3	1.7	2.1	8.0	10.0	11.5	980	7.8	81.5
IDFC	185	ADD	269,504	5,761	1,459	8.2	9.2	11.3	41.1	13.3	22.8	22.6	20.0	16.3	—	—	—	3.8	2.5	2.1	0.8	0.9	1.2	16.1	15.2	14.5	205	11.0	24.3
India Infoline	94	BUY	29,309	627	312	8.1	8.9	10.0	59.2	9.8	12.5	11.6	10.5	9.4	—	—	—	1.8	1.5	1.3	3.4	2.0	2.5	16.4	15.9	16.1	140	48.9	3.9
Indian Bank	222	ADD	95,473	2,041	430	35.1	32.4	44.1	25.5	(7.7)	36.2	6.3	6.9	5.0	—	—	—	1.4	1.2	1.0	2.9	2.6	3.6	24.1	18.8	21.7	280	26.0	4.6
Indian Overseas Bank	114	BUY	61,944	1,324	545	13.0	15.4	26.4	(46.7)	18.9	71.3	8.8	7.4	4.3	—	—	—	1.0	0.9	0.7	3.6	4.0	4.4	9.6	10.6	16.3	120	5.5	3.9
J&K Bank	771	BUY	37,369	799	48	105.7	112.3	140.6	25.1	6.3	25.2	7.3	6.9	5.5	—	—	—	1.3	1.2	1.0	2.9	3.0	3.8	17.3	16.9	18.5	850	10.3	0.6
LIC Housing Finance	1,129	ADD	107,201	2,292	95	69.7	100.7	109.9	11.5	44.5	9.1	16.2	11.2	10.3	—	—	—	3.3	2.7	2.3	1.3	1.9	2.1	23.6	25.5	23.2	1,250	10.8	20.7
Mahindra & Mahindra Financial	530	BUY	50,899	1,088	96	35.9	46.4	56.2	60.0	29.4	21.2	14.8	11.4	9.4	—	—	—	3.0	2.5	2.1	1.4	1.9	2.3	21.5	23.5	23.8	590	11.3	1.3
Oriental Bank of Commerce	358	ADD	89,681	1,917	251	45.3	52.8	58.6	25.3	16.5	11.0	7.9	6.8	6.1	—	—	—	1.3	1.1	1.0	2.5	3.0	3.3	14.1	15.4	15.3	400	11.7	4.4
PFC	318	SELL	364,991	7,802	1,148	20.5	22.9	27.6	53.5	11.9	20.3	15.5	13.9	11.5	—	—	—	2.8	2.5	2.2	1.6	1.8	2.2	18.8	18.3	19.2	275	(13.5)	3.7
Punjab National Bank	1,064	BUY	335,545	7,173	315	123.9	133.4	163.3	26.4	7.7	22.4	8.6	8.0	6.5	—	—	—	2.0	1.7	1.4	2.1	2.6	3.1	26.2	23.2	23.7	1,300	22.2	8.8
Reliance Capital	790	ADD	194,368	4,155	246	13.8	16.1	14.1	(64.9)	17.0	(12.4)	57.2	48.9	55.8	—	—	—	2.8	2.7	2.7	0.8	0.8	0.7	5.0	5.7	4.8	875	10.8	41.1
Rural Electrification Corp.	304	ADD	300,265	6,419	987	20.3	25.3	31.2	23.2	24.5	23.4	15.0	12.0	9.8	—	—	—	2.7	2.4	2.0	2.1	2.5	3.1	22.0	21.0	22.5	325	6.9	14.2
Shriram Transport	664	ADD	148,087	3,166	223	39.2	53.4	64.8	30.1	36.4	21.3	16.9	12.4	10.2	—	—	—	4.0	3.4	2.8	1.8	2.4	2.9	28.4	28.2	28.4	700	5.5	4.6
SREI	84	NR	9,815	210	116	8.3	7.9	9.9	17.8	(4.8)	25.8	10.2	10.7	8.5	—	—	—	0.8	0.8	0.7	1.4	1.4	1.4	11.1	10.5	12.3	—	—	4.0
State Bank of India	2,471	BUY	1,568,985	33,540	635	144.4	170.9	210.6	0.5	18.3	23.2	17.1	14.5	11.7	—	—	—	2.4	2.1	1.8	1.2	1.3	1.4	14.8	15.5	16.7	2,900	17.3	93.0
Union Bank	320	BUY	161,511	3,453	505	41.1	45.7	56.9	20.2	11.3	24.5	7.8	7.0	5.6	—	—	—	10.0	10.7	11.6	1.7	1.9	2.4	26.2	23.7	24.1	400	25.1	4.2
Yes Bank	292	BUY	99,098	2,118	340	15.0	17.7	22.5	46.7	18.2	26.6	19.4	16.4	13.0	—	—	—	3.2	2.7	2.3	0.5	0.6	0.8	20.3	18.0	19.3	350	20.0	20.6
Banks/Financial Institutions		**Attractive**	**8,147,233**	**174,161**					**14.7**	**18.7**	**23.8**	**16.2**	**13.6**	**11.0**	**—**	**—**	**—**	**2.6**	**2.2**	**2.0**	**1.4**	**1.6**	**1.9**	**15.8**	**16.4**	**17.7**			
Cement																													
ACC	841	ADD	157,941	3,376	188	83.2	66.0	72.4	47.9	(20.7)	9.8	10.1	12.7	11.6	5.3	5.9	4.8	2.5	2.2	1.9	3.2	2.8	2.8	29.3	20.0	19.2	920	9.4	8.0
Ambuja Cements	118	SELL	179,031	3,827	1,522	8.0	8.4	8.9	11.4	5.3	5.1	14.7	14.0	13.3	8.1	7.7	6.6	2.6	2.3	2.0	1.6	1.7	1.8	19.3	17.8	16.5	108	(8.2)	5.6
Grasim Industries	1,830	ADD	167,765	3,586	92	301.0	240.1	282.0	26.1	(20.2)	17.5	6.1	7.6	6.5	3.9	3.9	3.0	1.3	1.2	1.0	1.8	1.9	1.9	22.9	16.4	16.7	2,150	17.5	8.0
India Cements	105	SELL	32,237	689	307	10.0	11.8	12.9	(43.5)	17.7	9.0	10.5	8.9	8.1	5.3	4.9	4.7	0.8	0.7	0.7	2.0	3.0	3.0	8.2	8.7	9.0	110	4.8	2.4
Shree Cement	1,827	BUY	63,660	1,361	35	208.0	221.1	242.5	19.0	6.3	9.7	8.8	8.3	7.5	4.3	4.1	3.2	3.5	2.5	1.9	0.6	0.6	0.6	48.0	35.0	28.1	2,550	39.5	1.0
UltraTech Cement	857	SELL	106,657	2,280	124	88.2	67.1	77.2	12.0	(23.9)	15.0	9.7	12.8	11.1	5.0	5.7	4.6	2.0	1.7	1.5	1.0	1.0	1.0	26.6	16.8	16.7	940	9.7	3.0
Cement		**Neutral**	**707,292**	**15,120**					**19.3**	**(12.8)**	**12.0**	**9.2**	**10.6**	**9.4**	**5.0**	**5.1**	**4.2**	**1.9**	**1.6**	**1.4**	**1.8**	**1.8**	**1.9**	**20.5**	**15.6**	**15.2**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	28-Jul-10		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)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US$ mn)
Consumer products																													
Asian Paints	2,586	BUY	248,063	5,303	96	71.5	89.0	107.1	85.3	24.4	20.4	36.2	29.1	24.1	22.3	18.1	14.8	15.5	12.1	9.6	1.0	1.5	1.8	51.8	47.9	45.4	3,000	16.0	4.5
Colgate-Palmolive (India)	849	REDUCE	115,417	2,467	136	31.1	34.5	39.6	44.2	10.9	14.6	27.3	24.6	21.5	22.3	18.2	15.6	35.4	30.2	25.8	2.4	3.1	3.5	156.1	132.3	129.4	830	(2.2)	2.2
Dabur India	200	REDUCE	173,129	3,701	866	5.8	6.8	8.2	28.1	17.6	20.8	34.5	29.3	24.3	25.6	20.5	17.0	16.4	13.5	11.1	1.5	1.8	2.2	54.3	51.1	50.7	210	5.1	3.8
GlaxoSmithkline Consumer (a)	1,784	ADD	75,017	1,604	42	55.4	70.0	82.9	23.6	26.5	18.4	32.2	25.5	21.5	17.8	15.0	12.3	8.4	6.9	5.8	1.0	1.3	1.5	27.9	29.6	29.2	1,800	0.9	0.6
Godrej Consumer Products	350	ADD	113,208	2,420	324	11.3	13.0	17.3	69.5	14.4	33.1	30.9	27.0	20.3	24.4	19.3	14.5	11.8	6.4	5.9	1.1	0.9	0.9	44.6	31.0	30.4	400	14.3	3.0
Hindustan Unilever	252	REDUCE	550,549	11,769	2,182	9.4	10.2	11.8	(0.9)	8.4	15.3	26.8	24.7	21.4	18.2	17.5	14.5	21.3	18.4	15.9	3.0	3.3	3.8	71.1	80.2	80.0	250	(0.9)	11.4
ITC	307	BUY	1,175,697	25,132	3,825	10.6	12.5	14.5	22.6	17.5	16.0	29.0	24.6	21.2	17.5	15.4	13.0	7.9	6.8	5.9	3.2	1.8	1.9	29.2	31.4	31.1	330	7.4	23.7
Jubilant Foodworks	337	REDUCE	21,851	467	65	5.5	7.7	9.7	340.6	39.3	25.3	60.8	43.7	34.8	32.9	23.0	16.3	18.6	13.0	9.5	—	—	—	46.6	35.1	31.5	290	(14.0)	5.4
Jyothy Laboratories	281	NR	20,370	435	73	11.0	12.9	15.3	99.6	17.0	18.3	25.4	21.8	18.4	19.7	14.9	12.3	5.0	4.3	3.7	1.7	1.3	1.7	18.6	20.2	20.5	—	—	1.3
Nestle India (a)	2,961	REDUCE	285,497	6,103	96	74.4	87.0	105.5	27.0	17.0	21.3	39.8	34.0	28.1	26.3	23.3	20.0	49.1	39.0	30.8	1.6	2.1	2.5	136.0	127.8	122.7	3,000	1.3	1.9
Tata Global Beverages	118	BUY	73,126	1,563	618	6.6	7.4	8.4	23.4	11.1	13.8	17.9	16.1	14.1	11.4	9.3	8.4	1.5	1.4	1.3	1.8	2.0	2.3	10.9	11.4	12.0	125	5.7	3.9
Consumer products		**Attractive**	**2,851,922**	**60,965**					**24.0**	**16.0**	**17.5**	**29.9**	**25.8**	**21.9**	**19.2**	**16.8**	**14.1**	**10.1**	**8.5**	**7.4**	**2.5**	**2.1**	**2.4**	**33.7**	**33.1**	**33.6**			
Constructions																													
IVRCL	174	BUY	46,473	993	267	7.8	10.3	12.4	(7.7)	32.4	19.7	22.3	16.8	14.1	11.8	9.7	8.3	2.3	2.0	1.8	0.2	0.2	0.2	10.9	12.8	13.5	215	23.5	7.0
Nagarjuna Construction Co.	178	BUY	45,723	977	257	7.1	11.5	14.3	6.1	61.1	24.1	25.0	15.5	12.5	12.2	9.2	7.5	2.0	1.8	1.6	0.9	1.1	1.1	9.3	12.5	13.9	210	17.8	3.4
Punj Lloyd	129	REDUCE	43,631	933	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(9.9)	13.2	10.8	36.3	7.1	6.5	1.4	1.3	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	8.7	11.8
Sadbhav Engineering	1,347	BUY	20,203	432	15	43.1	62.0	84.0	(15.8)	43.9	35.5	31.3	21.7	16.0	17.4	11.2	9.2	4.9	3.3	2.8	0.2	0.4	0.4	13.3	14.1	17.4	1,450	7.7	0.3
Construction		**Attractive**	**156,030**	**3,335**					**(96.9)**	**14,481**	**24.4**	**2,304.5**	**15.8**	**12.7**	**16.5**	**8.6**	**7.5**	**2.0**	**1.8**	**1.6**	**0.3**	**0.5**	**0.7**	**0.1**	**11.3**	**12.5**			
Energy																													
Aban Offshore	898	ADD	39,060	835	43	106.6	172.3	103.6	10.0	61.6	(39.8)	8.4	5.2	8.7	8.5	6.3	6.9	1.8	1.0	0.9	0.4	0.4	0.4	24.3	20.8	11.1	900	0.2	52.3
Bharat Petroleum	644	ADD	232,687	4,974	362	62.1	54.3	67.6	201	(12)	24.5	10	12	9.5	5.7	5.8	4.9	1.6	1.5	1.3	2.2	2.8	3.5	15.6	12.3	13.9	660	2.5	26.6
Cairn india	329	SELL	623,154	13,321	1,897	5.5	20.5	36.0	29.0	270.6	75.1	59.3	16.0	9.1	46.7	9.6	5.8	1.8	1.6	1.5	—	—	4.6	3.1	10.7	17.0	270	(17.8)	18.5
Castrol India (a)	463	REDUCE	114,602	2,450	247	15.4	20.7	21.2	45	34	2.4	30	22	21.9	17.9	13.9	13.4	24.9	23.3	22.1	2.7	3.6	3.7	83.8	107.4	103.7	380	(18.0)	1.1
GAIL (India)	445	ADD	564,727	12,072	1,268	24.8	26.2	38.8	11.7	5.8	48.0	18.0	17.0	11.5	10.0	10.5	8.3	3.1	2.8	2.4	1.7	1.9	2.8	17.4	16.3	21.1	495	11.2	16.5
GSPL	102	REDUCE	57,510	1,229	562	7.4	8.9	9.1	235	22	1.3	14	11	11.3	7.1	6.0	5.4	3.4	2.7	2.4	1.0	2.2	3.5	27.3	26.3	22.5	80	(21.8)	4.1
Hindustan Petroleum	440	ADD	149,063	3,186	339	52.6	53.5	58.6	210.1	1.8	9.5	8.4	8.2	7.5	3.0	3.0	2.7	1.1	1.0	0.9	2.7	3.8	4.2	13.3	12.2	12.1	535	21.7	32.9
Indian Oil Corporation	362	ADD	877,825	18,765	2,428	49.9	38.8	41.1	407	(22)	5.9	7	9	8.8	5.0	5.0	4.4	1.6	1.5	1.3	3.6	3.3	3.4	22.7	15.6	15.1	415	14.8	17.6
Oil India	1,367	BUY	328,665	7,026	240	115.1	133.6	153.4	13.8	16.1	14.8	11.9	10.2	8.9	5.0	3.9	3.3	2.2	2.0	1.7	2.5	3.2	3.7	16.7	18.1	18.3	1,550	13.4	7.6
Oil & Natural Gas Corporation	1,260	BUY	2,694,035	57,589	2,139	91.4	124.9	141.1	1	37	12.9	14	10	8.9	5.0	4.2	3.4	2.0	1.8	1.6	2.6	3.3	3.8	14.6	17.9	18.0	1,450	15.1	37.3
Petronet LNG	86	REDUCE	64,125	1,371	750	5.4	5.5	8.2	(22.0)	2.6	47.8	15.9	15.4	10.5	9.5	8.9	7.1	2.5	2.2	1.9	2.0	2.3	3.2	15.9	14.3	18.6	82	(4.1)	3.6
Reliance Industries	1,021	SELL	3,039,240	64,969	2,976	49.6	59.0	74.4	(2)	19	26.2	21	17	13.7	10.4	8.1	6.8	2.1	1.8	1.6	0.7	0.8	1.0	11.4	12.3	13.9	1,060	3.8	114.8
Energy		**Cautious**	**8,784,694**	**187,787**					**38.2**	**18.9**	**20.3**	**14.5**	**12.2**	**10.2**	**7.1**	**5.9**	**4.9**	**2.0**	**1.8**	**1.6**	**1.8**	**2.1**	**2.8**	**13.8**	**14.7**	**15.8**			
Industrials																													
ABB	838	REDUCE	177,590	3,796	212	16.7	23.3	37.2	(35.2)	39.2	59.8	50.1	36.0	22.5	28.7	21.2	13.1	7.3	6.2	5.0	0.2	0.4	0.4	15.6	18.8	24.7	840	0.2	7.2
BGR Energy Systems	715	BUY	51,451	1,100	72	16.0	28.0	39.7	32.2	74.6	41.9	44.6	25.5	18.0	25.1	14.5	10.5	9.1	7.3	5.6	0.4	1.0	1.1	22.3	31.8	35.1	800	12.0	3.3
Bharat Electronics	1,793	REDUCE	143,408	3,066	80	93.9	111.8	127.4	(9.6)	19.1	13.9	19.1	16.0	14.1	9.2	7.4	6.2	3.2	2.8	2.4	1.4	1.4	1.4	17.9	18.7	18.5	1,790	(0.1)	2.1
Bharat Heavy Electricals	2,461	REDUCE	1,204,880	25,756	490	88.1	116.3	135.4	37.9	32.1	16.4	28.0	21.2	18.2	15.6	11.9	10.1	7.6	6.0	4.8	0.8	1.0	1.2	29.9	31.5	29.2	2,600	5.6	28.7
Crompton Greaves	276	BUY	177,246	3,789	642	12.8	14.0	16.3	46.5	9.0	16.6	21.5	19.7	16.9	12.4	11.0	9.2	7.1	5.4	4.3	0.5	0.7	0.8	37.9	31.1	28.2	320	15.8	8.8
Larsen & Toubro	1,824	BUY	1,095,989	23,429	601	58.1	71.4	90.7	16.0	22.8	27.1	31.4	25.5	20.1	16.6	14.0	11.5	4.9	4.1	3.5	0.6	0.7	0.8	18.6	17.6	18.8	2,100	15.2	57.7
Maharashtra Seamless	393	BUY	27,743	593	71	40.2	43.6	49.8	12.1	8.5	14.2	9.8	9.0	7.9	5.2	4.5	3.6	1.7	1.5	1.3	1.5	2.0	2.5	19.3	17.9	17.7	450	14.4	0.4
Siemens	725	REDUCE	244,508	5,227	337	25.0	29.6	34.3	55.2	18.6	16.0	29.0	24.5	21.1	17.1	14.0	11.8	7.2	5.9	4.8	0.7	0.8	0.9	27.3	26.3	25.1	635	(12.4)	7.0
Suzlon Energy	59	REDUCE	93,242	1,993	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(9.8)	225.5	11.1	17.0	8.8	5.7	0.9	0.9	0.8	—	—	0.3	(8.8)	0.4	7.5	70	19.7	25.6
Thermax	756	ADD	90,113	1,926	119	21.7	29.5	39.7	(10.4)	35.9	34.4	34.8	25.6	19.0	17.9	14.0	10.4	8.4	6.9	5.5	0.7	1.1	1.5	25.0	29.5	32.2	865	14.4	1.2
Voltas	207	REDUCE	68,412	1,462	331	10.9	11.8	13.4	57.4	8.2	14.3	19.0	17.6	15.4	11.3	9.7	8.1	6.4	5.2	4.2	1.5	1.6	1.9	38.3	32.5	30.2	225	8.8	4.7
Industrials		**Attractive**	**3,374,583**	**72,137**					**1.8**	**37.0**	**27.0**	**31.7**	**23.1**	**18.2**	**15.8**	**12.3**	**9.9**	**5.1**	**4.3**	**3.6**	**0.7**	**0.9**	**1.0**	**16.0**	**18.6**	**19.8**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	28-Jul-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Infrastructure																													
Container Corporation	1,380	REDUCE	179,353	3,834	130	61.1	74.3	85.9	0.3	21.7	15.6	22.6	18.6	16.1	16.0	13.0	10.9	4.1	3.6	3.1	1.0	1.2	1.4	19.6	20.6	20.5	1,250	(9.4)	1.9
GMR Infrastructure	58	ADD	214,153	4,578	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	135.5	265.3	441.8	23.7	15.3	14.3	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	11.3	5.6
GVK Power & Infrastructure	44	BUY	69,090	1,477	1,579	0.8	1.1	1.4	6.7	33.5	32.4	53.8	40.3	30.4	18.4	16.8	17.3	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	23.4	5.4
IRB Infrastructure	264	RS	87,595	1,872	332	9.7	12.6	12.1	83.8	29.2	(3.7)	27.1	21.0	21.8	12.9	11.5	10.7	3.8	2.9	2.3	—	—	—	15.6	15.7	11.9	—	—	5.9
Mundra Port and SEZ	725	REDUCE	292,349	6,249	403	15.1	24.1	35.7	40.8	59.5	48.4	48.0	30.1	20.3	30.9	19.8	14.1	8.0	6.2	4.6	—	—	—	18.5	23.2	26.1	725	0.1	5.7
Infrastructure		**Attractive**	**842,539**	**18,011**					**12.7**	**29.5**	**24.1**	**41.9**	**32.3**	**26.0**	**21.0**	**15.5**	**13.3**	**3.5**	**3.0**	**2.7**	—	—	**0.4**	**8.4**	**9.2**	**10.2**			
Media																													
DB Corp	236	ADD	42,870	916	182	10.6	12.6	15.5	286.5	18.4	23.2	22.2	18.7	15.2	12.4	10.4	8.4	6.6	5.4	4.7	0.8	1.3	1.7	40.3	31.6	32.9	275	16.6	0.2
DishTV	44	ADD	47,215	1,009	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(17.8)	(25.0)	339.4	59.0	23.9	12.7	11.5	21.3	20.0	—	—	—	249.3	(59.7)	6.1	47	5.9	3.6
HT Media	158	NR	37,224	796	235	6.1	7.7	9.2	623.3	25.9	19.8	25.9	20.6	17.2	13.0	10.9	9.0	3.8	3.4	3.1	0.6	1.3	2.5	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	123	ADD	37,074	793	301	5.8	6.4	7.5	91.9	9.5	16.7	21.1	19.2	16.5	12.7	11.2	9.6	6.1	5.4	4.8	2.8	2.8	3.2	30.0	29.8	31.0	130	5.6	0.6
Sun TV Network	460	REDUCE	181,316	3,876	394	13.1	18.0	22.5	44.8	36.9	25.2	35.0	25.6	20.4	19.9	14.7	11.9	9.4	7.9	6.5	1.6	1.6	2.0	28.4	33.7	35.1	425	(7.6)	1.9
Zee Entertainment Enterprises	294	REDUCE	127,953	2,735	435	10.6	11.8	14.4	25.0	12.0	21.5	27.9	24.9	20.5	20.7	16.4	13.1	3.5	3.3	3.1	0.8	1.0	1.2	13.1	13.8	16.0	270	(8.3)	9.0
Media		**Neutral**	**473,652**	**10,125**					**185.4**	**34.8**	**37.5**	**39.0**	**28.9**	**21.1**	**18.8**	**14.5**	**11.3**	**5.7**	**5.3**	**4.8**	**1.2**	**1.3**	**1.7**	**14.7**	**18.2**	**22.6**			
Metals																													
Hindalco Industries	158	ADD	302,978	6,477	1,914	5.7	12.6	15.1	(64.5)	122.5	19.4	27.9	12.5	10.5	8.1	8.5	8.7	1.4	1.2	1.1	0.9	0.9	0.9	10.3	10.4	11.2	185	16.9	41.7
Hindustan Zinc	1,005	BUY	424,581	9,076	423	95.6	102.5	116.0	48.2	7.2	13.1	10.5	9.8	8.7	6.6	5.2	3.6	2.3	1.8	1.5	0.6	0.6	0.6	24.1	20.8	19.4	1,240	23.4	4.2
Jindal Steel and Power	630	SELL	584,958	12,504	928	38.5	48.7	50.8	17.2	26.5	4.3	16.4	13.0	12.4	10.3	8.3	7.7	5.1	3.7	2.8	0.2	0.2	0.2	37.3	33.0	25.7	575	(8.8)	28.8
JSW Steel	1,157	REDUCE	291,842	6,239	252	80.4	68.5	108.5	481.1	(14.8)	58.5	14.4	16.9	10.7	10.8	9.1	6.1	2.7	1.6	1.3	0.6	0.8	0.8	16.0	12.0	13.3	1,075	(7.1)	57.2
National Aluminium Co.	432	SELL	278,213	5,947	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	42.9	15.4	15.6	19.0	7.5	6.9	2.6	2.2	2.0	0.5	0.5	0.5	6.1	15.4	13.3	320	(25.9)	0.9
Sesa Goa	372	REDUCE	331,370	7,084	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.6	6.4	8.0	10.4	4.5	4.4	4.1	2.6	2.0	1.0	0.9	0.9	35.8	41.5	23.7	340	(8.7)	78.1
Sterlite Industries	176	ADD	592,492	12,665	3,362	12.0	14.2	19.3	2.8	18.4	35.5	14.7	12.4	9.1	12.4	10.9	7.0	1.6	1.4	1.2	0.5	0.5	0.5	12.9	12.2	14.6	210	19.1	47.8
Tata Steel	533	BUY	472,630	10,103	887	3.2	78.7	93.5	(97.1)	2,331.6	18.7	164.5	6.8	5.7	17.9	6.0	5.1	1.9	1.5	1.2	1.5	1.5	1.5	1.1	24.7	23.8	700	31.4	110.1
Metals		**Cautious**	**3,279,064**	**70,095**					**(28.9)**	**77.6**	**13.0**	**18.3**	**10.3**	**9.1**	**11.2**	**7.3**	**6.1**	**2.3**	**1.8**	**1.5**	**0.7**	**0.7**	**0.7**	**12.4**	**17.7**	**16.6**			
Pharmaceutical																													
Biocon	316	BUY	63,250	1,352	200	14.8	17.8	22.0	216.4	19.8	23.7	21.3	17.8	14.4	12.3	10.3	8.5	3.5	3.1	2.6	—	—	0.1	17.9	18.8	20.0	400	26.5	4.0
Cipla	330	REDUCE	265,325	5,672	803	13.5	12.8	15.6	35.9	(4.9)	21.9	24.5	25.8	21.1	18.2	17.1	14.3	4.5	4.0	3.4	0.8	0.8	0.8	19.9	16.3	17.4	280	(15.3)	9.5
Cadila Healthcare	644	REDUCE	131,807	2,818	205	24.7	33.2	37.7	66.9	34.2	13.7	26.1	19.4	17.1	17.0	13.0	11.5	8.1	6.1	4.8	0.8	1.0	1.2	36.0	35.8	31.3	580	(9.9)	1.6
Dishman Pharma & chemicals	217	BUY	17,649	377	81	14.4	17.2	28.8	(19.7)	19.4	67.0	15.0	12.6	7.5	10.8	9.0	6.3	2.2	1.9	1.5	—	—	—	15.5	16.3	22.7	300	38.2	0.5
Divi's Laboratories	769	ADD	101,644	2,173	132	25.8	34.3	43.9	(18.3)	33.3	27.9	29.9	22.4	17.5	22.3	16.5	12.6	6.8	5.5	4.5	—	—	—	24.8	27.2	28.4	800	4.0	3.0
Dr Reddy's Laboratories	1,334	REDUCE	225,932	4,830	169	48.1	66.7	70.8	48.3	38.8	6.1	27.7	20.0	18.8	15.4	11.6	10.7	6.0	4.7	3.9	0.5	0.6	0.7	22.2	26.3	22.6	1,150	(13.8)	17.6
GlaxoSmithkline Pharmaceuticals (a)	2,065	REDUCE	174,874	3,738	85	59.1	69.7	79.2	8.1	18.0	13.5	34.9	29.6	26.1	20.1	17.0	14.7	9.8	8.3	7.1	—	—	—	29.8	30.4	29.4	1,880	(8.9)	1.7
Glenmark Pharmaceuticals	270	NR	74,040	1,583	274	12.7	19.2	20.3	14.7	50.6	5.6	21.2	14.1	13.3	13.7	8.9	8.5	3.1	2.6	2.2	—	—	—	16.7	19.9	17.6	—	—	5.2
Jubilant Organosys	356	BUY	56,476	1,207	159	26.5	31.8	38.9	49.0	19.8	22.4	13.4	11.2	9.1	9.7	8.7	7.0	2.5	2.1	1.7	0.5	0.7	0.8	26.3	21.7	21.1	400	12.5	2.5
Lupin	1,926	ADD	170,602	3,647	89	76.9	104.1	122.5	27.8	35.3	17.6	25.0	18.5	15.7	21.4	15.5	12.2	7.3	5.5	4.2	0.7	0.8	0.8	36.6	34.4	30.7	1,920	(0.3)	7.5
Piramal Healthcare	488	REDUCE	101,992	2,180	209	23.4	13.4	11.0	35.5	(42.9)	(17.6)	20.9	36.5	44.3	15.4	5.7	3.8	6.1	1.1	0.9	1.1	1.2	0.7	32.1	141.2	16.6	490	0.4	30.7
Ranbaxy Laboratories	446	SELL	191,045	4,084	428	7.1	28.0	11.7	(128.4)	297.1	(58.3)	63.2	15.9	38.2	15.5	9.3	18.5	4.9	3.8	3.6	—	0.9	0.9	6.9	24.6	9.1	220	(50.7)	10.1
Sun Pharmaceuticals	1,807	REDUCE	374,349	8,002	207	65.2	67.7	77.6	(25.7)	3.8	14.6	27.7	26.7	23.3	21.0	19.0	16.0	4.5	4.0	3.5	0.7	0.7	0.7	17.8	16.2	16.2	1,560	(13.7)	7.9
Pharmaceuticals		**Attractive**	**1,948,985**	**41,663**					**44.7**	**28.0**	**5.7**	**27.1**	**21.2**	**20.0**	**16.9**	**13.0**	**12.1**	**5.1**	**3.7**	**3.1**	**0.5**	**0.6**	**0.6**	**18.9**	**17.4**	**15.6**			
Property																													
DLF	312	ADD	532,868	11,391	1,708	9.6	16.3	25.1	(64.0)	69.4	53.8	32.4	19.1	12.4	20.5	13.0	9.8	2.0	1.8	1.6	1.0	1.0	1.6	6.4	9.9	13.8	340	9.0	47.2
Indiabulls Real Estate	166	RS	66,644	1,425	401	1.6	4.0	8.0	109.7	151.7	101.7	104.7	41.6	20.6	(74)	36.9	9.5	0.7	0.7	0.7	—	—	—	0.8	1.8	3.5	285	71.6	19.9
Mahindra Life Space Developer	464	ADD	19,505	417	42	18.9	20.3	27.5	82.4	7.3	35.8	24.6	22.9	16.9	20.6	17.1	9.4	2.1	1.9	1.8	0.8	0.8	0.8	8.4	8.5	10.7	540	16.4	0.5
Phoenix Mills	224	BUY	32,387	692	145	4.1	6.6	7.6	(16.7)	59.0	15.6	54.1	34.0	29.4	43.3	23.9	19.9	2.1	2.0	1.9	0.4	0.7	0.9	3.9	6.0	6.7	260	16.3	0.8
Puravankara Projects	111	REDUCE	23,786	508	213	6.4	8.2	8.1	(5.2)	28.4	(2.0)	17.4	13.5	13.8	21.6	14.6	14.3	1.7	1.5	1.4	1.8	1.8	1.8	10.0	11.9	10.7	110	(1.3)	0.4
Sobha	339	ADD	33,204	710	98	14.1	17.0	26.2	(7.1)	20.8	54.0	24.1	19.9	12.9	17.9	13.9	9.2	1.9	1.8	1.6	0.3	0.4	0.5	9.7	9.2	12.8	372	9.9	1.9
Unitech	82	SELL	215,311	4,603	2,616	3.4	4.3	5.6	(54.2)	26.3	30.2	24.4	19.3	14.8	21.5	14.8	9.4	2.0	1.7	1.6	—	—	1.8	9.7	9.4	11.1	72	(12.5)	51.4
Property		**Cautious**	**923,706**	**19,746**					**(53.1)**	**58.0**	**47.2**	**32.2**	**20.4**	**13.8**	**21.5**	**13.9**	**9.9**	**1.8**	**1.6**	**1.5**	**0.6**	**0.6**	**1.5**	**5.5**	**8.0**	**10.8**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	28-Jul-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	2,843	ADD	126,190	2,698	44	57.3	83.4	110.2	29.3	45.6	32.2	49.6	34.1	25.8	31.6	23.0	17.5	17.1	12.2	8.7	0.5	0.4	0.5	38.7	41.8	39.4	3,000	5.5	5.3
Retail		**Neutral**	**126,190**	**2,698**					**29.3**	**45.6**	**32.2**	**49.6**	**34.1**	**25.8**	**31.6**	**23.0**	**17.5**	**17.1**	**12.2**	**8.7**	**0.5**	**0.4**	**0.5**	**34.5**	**35.8**	**33.8**			
Sugar																													
Bajaj Hindustan	114	SELL	21,786	466	191	9.7	9.9	8.9	201.1	2.2	(10.4)	11.7	11.5	12.8	7.0	5.8	5.4	0.9	0.8	0.8	0.6	0.6	0.6	8.1	7.5	6.3	99	(13.0)	6.2
Balrampur Chini Mills	80	ADD	20,463	437	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	18.4	7.6	11.4	8.6	5.2	5.7	1.5	1.3	1.2	0.6	0.6	0.6	8.2	17.9	10.9	93	16.7	5.7
Shree Renuka Sugars	64	BUY	42,901	917	670	9.9	7.6	7.8	196.4	(23.2)	3.1	6.5	8.4	8.2	4.5	5.0	4.3	1.7	1.4	1.2	0.6	0.5	0.5	32.0	18.1	15.7	76	18.7	14.2
Sugar		**Cautious**	**85,150**	**1,820**					**99.6**	**0.7**	**(9.4)**	**8.9**	**8.8**	**9.7**	**5.9**	**5.3**	**5.0**	**1.3**	**1.2**	**1.0**	**0.6**	**0.6**	**0.6**	**15.1**	**13.2**	**10.7**			
Technology																													
HCL Technologies	373	REDUCE	257,060	5,495	690	17.8	25.1	28.5	2.0	40.6	13.6	20.9	14.9	13.1	10.6	9.1	7.5	4.0	3.4	2.8	1.1	1.1	1.6	20.8	24.9	23.3	370	(0.7)	11.5
Hexaware Technologies	85	REDUCE	12,167	260	144	9.3	5.1	9.4	127.7	(45.4)	84.0	9.1	16.6	9.0	4.6	9.5	5.2	1.4	1.3	1.2	1.2	1.2	1.2	17.8	8.4	14.0	72	(15.0)	2.8
Infosys Technologies	2,832	BUY	1,625,625	34,750	574	108.3	124.1	150.0	5.7	14.5	20.9	26.1	22.8	18.9	19.1	15.6	12.7	7.1	5.8	4.8	0.9	1.2	1.5	30.1	28.0	28.0	3,100	9.5	59.4
Mphasis BFL	611	REDUCE	127,294	2,721	208	43.6	49.0	45.6	207.5	12.5	(7.0)	14.0	12.5	13.4	11.1	9.9	9.0	5.4	3.9	3.1	0.6	0.7	0.7	48.1	36.4	25.8	550	(9.9)	7.9
Mindtree	530	REDUCE	21,823	466	41	52.2	32.6	51.6	294.3	(37.5)	58.1	10.2	16.3	10.3	8.7	9.3	6.1	3.3	2.7	2.2	0.4	0.6	1.0	35.2	19.2	23.7	550	3.7	2.2
Patni Computer Systems	478	REDUCE	63,697	1,362	133	36.6	41.3	37.5	36.4	12.8	(9.1)	13.1	11.6	12.8	6.6	5.7	4.8	1.8	1.7	1.5	1.5	1.7	1.6	18.2	15.1	12.4	450	(5.9)	6.9
Polaris Software Lab	180	SELL	17,951	384	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.7	9.4	9.6	5.8	7.5	6.4	2.1	1.8	1.5	1.9	2.1	2.2	18.6	20.1	17.2	180	(0.0)	4.5
TCS	854	BUY	1,672,330	35,749	1,957	35.1	42.1	48.2	32.8	19.8	14.5	24.3	20.3	17.7	18.4	14.8	12.3	8.0	6.6	5.5	2.3	2.0	2.3	37.6	35.6	33.9	965	12.9	29.2
Wipro	415	ADD	1,014,877	21,695	2,447	18.9	22.3	25.7	22.1	18.1	15.6	22.0	18.6	16.1	16.6	13.4	11.0	5.2	4.2	3.5	0.9	1.1	1.3	26.5	25.0	23.7	465	12.1	14.2
Technology		**Attractive**	**4,812,823**	**102,882**					**22.9**	**17.5**	**15.4**	**23.0**	**19.6**	**17.0**	**16.6**	**13.8**	**11.4**	**6.1**	**5.1**	**4.2**	**1.4**	**1.4**	**1.7**	**26.7**	**25.9**	**24.9**			
Telecom																													
Bharti Airtel	322	REDUCE	1,222,827	26,140	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	13.4	15.0	13.3	7.6	7.2	6.2	2.8	2.4	2.0	0.9	1.2	1.5	24.1	17.0	16.5	290	(9.9)	51.4
IDEA	69	REDUCE	229,171	4,899	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	25.4	31.7	45.8	8.7	9.5	8.1	2.0	1.9	1.8	—	—	—	7.2	6.2	4.2	55	(20.8)	12.2
MTNL	69	SELL	43,754	935	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.4)	(6.7)	(7.6)	(0.8)	(1.0)	(1.3)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(28.0)	2.9
Reliance Communications	186	SELL	397,182	8,490	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	8.4	13.2	10.3	7.5	8.4	6.3	1.0	1.0	0.9	0.4	—	—	11.7	7.4	8.9	175	(6.0)	42.8
Tata Communications	285	REDUCE	81,111	1,734	285	14.0	15.2	15.7	3.2	8.2	3.5	20.3	18.8	18.1	8.3	7.6	7.3	1.1	1.1	1.1	2.3	2.6	3.0	5.2	5.5	5.5	225	(20.9)	1.7
Telecom		**Cautious**	**1,974,045**	**42,198**					**(15.1)**	**(17.8)**	**15.7**	**13.8**	**16.8**	**14.5**	**8.0**	**8.1**	**6.7**	**1.8**	**1.6**	**1.5**	**0.8**	**0.9**	**1.1**	**12.7**	**9.5**	**10.0**			
Utilities																													
Adani Power	128	ADD	278,386	5,951	2,180	0.8	4.9	16.4	—	524.1	235.3	163.0	26.1	7.8	126.2	17.3	6.2	5.1	4.2	2.7	—	—	—	4.4	17.7	42.8	130	1.8	3.0
CESC	388	ADD	48,456	1,036	125	35.2	37.3	44.3	9.3	5.7	18.9	11.0	10.4	8.7	7.0	5.9	6.3	1.1	1.0	0.9	1.1	1.2	1.4	11.1	10.4	11.3	466	20.1	2.0
Lanco Infratech	65	BUY	156,205	3,339	2,405	2.0	3.7	5.0	35.1	87.6	34.9	33.1	17.6	13.1	19.9	8.4	8.0	4.6	3.6	2.9	—	—	—	15.8	21.2	22.7	77	18.6	7.9
NHPC	32	REDUCE	389,318	8,322	12,301	1.9	1.3	1.6	74.9	(27.2)	20.1	17.1	23.5	19.5	10.9	11.1	9.1	1.6	1.5	1.4	1.7	1.1	1.4	9.7	6.5	7.4	28	(11.5)	20.6
NTPC	199	REDUCE	1,642,909	35,120	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.5	15.9	13.6	14.1	12.4	10.4	2.6	2.4	2.1	2.0	2.4	2.8	14.5	15.4	16.6	210	5.4	10.4
Reliance Infrastructure	1,144	ADD	281,432	6,016	246	61.8	62.7	80.3	(1.5)	1.6	28.0	18.5	18.2	14.2	19.8	19.0	13.0	1.5	1.4	1.3	0.7	0.8	0.9	6.3	7.3	10.1	1,100	(3.8)	48.5
Reliance Power	172	SELL	412,002	8,807	2,397	2.9	3.1	5.4	179.7	7.4	76.4	60.2	56.1	31.8		98.0	33.7	2.8	2.7	2.5	—	—	—	4.8	5.0	8.2	135	(21.5)	22.8
Tata Power	1,338	ADD	330,252	7,060	247	60.2	69.2	88.5	20.1	15.0	27.8	22.2	19.3	15.1	13.9	12.6	10.8	2.5	2.3	2.1	0.9	1.0	1.1	12.9	12.5	14.3	1,420	6.1	10.5
Utilities		**REDUCE**	**3,538,960**	**75,651**					**23.5**	**15.9**	**35.4**	**22.4**	**19.3**	**14.3**	**17.6**	**14.3**	**10.7**	**2.4**	**2.2**	**2.0**	**1.3**	**1.4**	**1.6**	**10.6**	**11.3**	**13.8**			
Others																													
Havells India	661	SELL	39,789	851	60	5.3	31.6	45.0	3.7	497.9	42.6	125.2	20.9	14.7	17.2	10.6	8.7	10.9	7.2	4.9	—	—	—	6.6	41.6	39.7	497	(24.8)	6.7
Jaiprakash Associates	120	BUY	254,395	5,438	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	82.1	21.6	16.1	21.2	15.6	11.1	3.0	2.6	2.2	—	—	—	4.1	12.8	14.9	170	42.3	31.9
Jindal Saw	202	ADD	59,373	1,269	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.1	10.8	11.3	5.3	6.0	5.8	1.6	1.3	1.2	—	—	—	20.5	12.9	11.1	256	26.8	3.8
PSL	134	BUY	7,153	153	53	22.9	25.4	28.2	3.3	10.6	11.0	5.8	5.3	4.7	3.3	2.7	2.9	0.8	0.7	0.6	4.9	4.9	5.2	12.6	11.7	12.0	175	30.8	0.6
Sintex	373	BUY	50,885	1,088	136	24.1	28.3	33.3	0.5	17.4	17.5	15.5	13.2	11.2	12.6	8.6	7.3	2.4	2.0	1.7	—	—	—	15.5	15.3	15.2	380	1.9	4.5
Tata Chemicals	328	ADD	79,699	1,704	243	26.4	32.4	37.3	(27.1)	22.6	15.1	12.4	10.1	8.8	6.7	5.6	4.8	1.7	1.5	1.3	2.7	2.7	2.7	16.0	18.4	18.3	360	9.9	2.9
Welspun Corp	255	ADD	52,415	1,120	205	32.0	27.0	25.6	85.2	(15.7)	(5.4)	8.0	9.4	10.0	4.6	5.0	4.7	1.6	1.4	1.2	0.9	0.8	0.9	24.8	15.6	12.8	286	12.1	5.7
United Phosphorus	182	BUY	84,140	1,799	463	11.9	13.8	17.4	18.8	15.8	25.9	15.2	13.2	10.4	8.8	8.0	6.4	2.5	2.1	1.8	0.8	1.1	1.1	17.7	17.2	18.3	225	23.7	9.9
Others			**627,850**	**13,421**					**16.3**	**31.7**	**18.0**	**18.7**	**14.2**	**12.0**	**10.9**	**9.7**	**8.0**	**2.3**	**2.0**	**1.7**	**0.7**	**0.7**	**0.7**	**12.4**	**13.9**	**14.3**			
KS universe (b)			**44,847,596**	**958,692**					**14.4**	**21.9**	**20.5**	**19.0**	**15.6**	**13.0**	**11.6**	**9.6**	**7.9**	**2.8**	**2.5**	**2.1**	**1.3**	**1.4**	**1.7**	**14.8**	**15.7**	**16.6**			
KS universe (b) ex-Energy			**36,062,902**	**770,904**					**8.0**	**22.9**	**20.5**	**20.6**	**16.8**	**13.9**	**14.2**	**11.5**	**9.5**	**3.1**	**2.7**	**2.3**	**1.2**	**1.2**	**1.4**	**15.2**	**16.1**	**16.8**			
KS universe (d) ex-Energy & ex-Commodities			**32,076,547**	**685,689**					**14.5**	**18.2**	**22.2**	**21.4**	**18.2**	**14.9**	**15.7**	**13.1**	**10.7**	**3.3**	**2.9**	**2.5**	**1.2**	**1.3**	**1.5**	**15.4**	**15.9**	**16.9**			

Note:
(1) For banks we have used adjusted book values.
(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 46.78

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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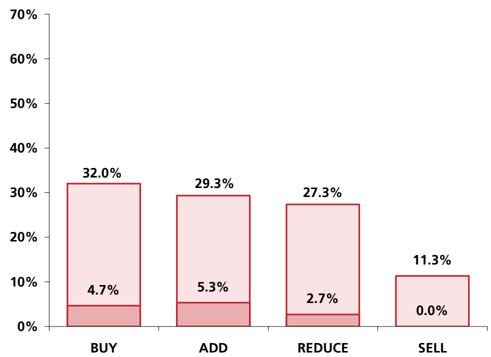
Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/06/2010 Kotak Institutional Equities Investment Research had investment ratings on 150 equity securities.

Source: Kotak Institutional Equities

As of June 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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Other definitions

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