kotak® Institutional Equities

INDIA DAILY

October 29, 2008

EQUITY MARKETS

India	28-Oct	1-day	1-mo	3-mo
		Change, %		
Sensex	9,008	5.9	(31.2)	(37.2)
Nifty	2,685	6.4	(32.6)	(38.0)
Global/Regional indices				
Dow Jones	9,065	10.9	(18.6)	(18.6)
FTSE	3,926	1.9	(22.8)	(26.1)
Nikkie	8,191	7.5	(30.3)	(37.8)
Hang Seng	12,596	14.3	(29.6)	(43.4)
KOSPI	1,069	7.0	(26.6)	(31.8)

Value traded - India

	28-Oct	Moving avg, Rs bn 1-mo	3-mo
Cash (NSE+BSE)	129.7	159.9	167.7
Derivatives (NSE)	459.9	443.0	532
Deri. open interest	727.1	588	831

Forex/money market

	28-Oct	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	49.9	0	292	741
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.6	(19)	(86)	(151)

Commodity market

	28-Oct	1-day	1-mo	3-mo
		Change, %		
Gold (US$/OZ)	754.3	1.0	(17.1)	(17.9)
Silver (US$/OZ)	9.4	1.6	(28.8)	(46.1)
Crude (US$/BBL)	62.3	2.0	(31.7)	(48.9)

Net investment (US$mn)

	24-Oct	MTD	CYTD
FIIs	(292)	(2,930)	(12,156)
MFs	(64)	197	3,409

Top movers -3mo basis

Best performers	28-Oct	1-day	1-mo	3-mo
		Change, %		
Financial Techn (Ind	-	-	-	-
Hero Honda Motors	731	4.5	(13.6)	(0.6)
Bajaj Auto Limited	505	7.9	(11.5)	(0.8)
Maruti Suzuki India	547	6.1	(17.5)	(3.4)
Hdfc Bank Limited	967	3.7	(19.5)	(6.1)
Worst performers				
Housing Developme	142	3.7	(14.2)	(58.7)
Suzlon Energy Limit	52	11.1	(66.1)	(75.4)
Ivrcl Infrastructures	83	30.7	(64.2)	(73.1)
Bajaj Finserv Ltd	118	3.2	(68.8)	(72.6)
Aban Offshore Limi	705	8.4	(64.5)	(71.7)

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Utilities

NTPC.BO, Rs133	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	160
52W High -Low (Rs)	291 - 113
Market Cap (Rs bn)	1,093

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	370.9	403.4	438.3
Net Profit (Rs bn)	76.9	74.4	80.3
EPS (Rs)	9.3	9.0	9.7
EPS gth	*9.3*	*(3.8)*	*9.2*
P/E (x)	14.2	14.7	13.6
EV/EBITDA (x)	9.8	10.8	10.4
Div yield (%)	2.6	2.6	2.8

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	89.5	-	-
FIIs	4.1	0.8	(2.9)
MFs	0.8	0.8	(2.9)
UTI	-	-	(3.6)
LIC	-	-	(3.6)

NTPC: 2QFY09 profit boosted by tax refund of Rs5 bn, adjusted PAT grows 12% yoy

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- **Higher fuel costs aid revenue growth, energy sales grow 3.5% yoy**
- **Slippages likely in achieving XIth Plan target of adding 22 GW**
- **Retain REDUCE rating with DCF-based target price of Rs160**

NTPC reported net sales of Rs96.6 bn, EBITDA of Rs25.5 bn and net profit of Rs15.8 bn as against our estimate of Rs91 bn, Rs23 bn and Rs15.4 bn, respectively, for 2QFY09. Reported profit was higher at 21 bn on account of a tax write-back of Rs5.3 bn. Adjusted-PAT (adjusted for forex losses, prior period incomes and additional provisioning) grew by 12% yoy from Rs16.2 bn in 2QFY08 to Rs18.2 bn in 2QFY09. Revenue growth during the quarter was aided by (1) higher fuel costs (30% yoy), and (2) marginal increase in generation (3.5% yoy) aided by commercialization of Kahalgaon (500 MW) during the current quarter and Sipat (500 MW) toward the end of the previous quarter. We have revised our EPS estimates to Rs9 (Rs9.5 previously) for FY2009E and Rs9.7 (Rs10.3 previously) for FY2010E. We retain our REDUCE rating with a DCF-based target price of Rs160/share (Rs179 previously).

Higher fuel costs aid revenue growth, energy sales grow 3.5% yoy. NTPC reported revenue growth of 20% yoy for 2QFY09, aided by 34% yoy growth in fuel costs. Adjusted for prior period income, revenues grew by 27% yoy. Increase in energy sales (3.5% yoy) was aided by commencement of commercial operation of 1,000 MW at Sipat (500 MW) and Kahalgaon (500 MW). Operating performance of the company remains on track with coal-based plants running at 83% PLF and gas-based plants running at 58% PLF during the quarter. NTPC will likely import 8.25 mn tons of coal during the current fiscal in order to meet any exigencies that may arise due to short-supply of coal from Coal India.

Reported profit boosted by tax refund of Rs5 bn, adjusted-PAT grew by 12% yoy. Reported profit for the quarter was boosted by a tax refund of Rs5.3 bn pertaining to previous years (and not to be passed on to the beneficiaries as the same is on account of other income). Reported sales for the quarter include Rs1.1 bn (Rs5.2 bn in Q2FY08) of prior period income. According to the management, adjusted-PAT grew by 12% yoy from Rs16.2 bn in 2QFY08 to Rs18.2 bn in 2QFY09. In our view, earnings growth for the current fiscal will be impacted by higher prior period income during the previous year (Rs11.3 bn), as most tariff orders have been cleared resulting in lower prior period income during the current fiscal (Rs6 bn).

Slippages likely in achieving XIth Plan target of adding 22 GW. The project commissioning has seen slippages during the past few quarters. Our estimates factor in delays in project commissioning for Sipat, Kahalgaon, Barh and Koldam. We build in a capacity of 46.5 GW for NTPC by the end of FY2012 as against the company's target of 50 GW. NTPC added 1,740 MW of power capacities during FY2008—Sipat (500 MW), Kahalgaon (500 MW) and Ratnagiri Gas (740 MW). NTPC plans to undertake a capex of Rs125 bn in FY2009E and Rs186 bn in FY2010E.

Regional peers trading at a discount—1.2X P/B on FY2010. At 1.7X FY2010E P/B, NTPC is trading at a significant premium to regional peers (1.2X P/B on FY2010E). However, we note NTPC does have a superior return profile—13-15% RoE (reported) compared to 11% average for Asian peers. NTPC is also insulated from fluctuations in interest rates, forex rates and commodity prices (steel, coal, gas etc.). Our revised target price of Rs160 for NTPC implies a P/B of 2X on FY2010E.

Retain REDUCE rating with DCF-based target price of Rs160. We have revised our EPS estimates of Rs9 (Rs9.5 previously) for FY2009E and Rs9.7 (Rs10.3 previously) for FY2010E. We retain our REDUCE rating on the stock. Our DCF-equity using 12% cost of equity and 4% terminal growth rate gives a target price of Rs160/share (Rs179/share previously). Key downside risks to our earnings estimates and target price emanate from—(1) further delay in project completion and the company missing our estimate of reaching generation capacity of 46.5 GW by end-FY2012, (2) lower savings due to tightening of efficiency norms and normative parameters by CERC in the draft tariff order to come into effect from FY2010.

Exhibit 1: Financial results for NTPC, March year-ends (Rs bn)

		yoy	
	2QFY09	2QFY08	(% chg)
Net sales	**96.6**	***80.2***	**20.5**
Operating costs			
Cost of fuel	(59.6)	(44.2)	
Personnel costs	(6.0)	(4.1)	
Other expenses	(5.5)	(4.4)	
Total expenses	(71.1)	(52.7)	
EBITDA	**25.5**	***27.5***	**(7.3)**
EBITDA margin (%)	26.4	34.3	
Other income	7.4	7.3	
Interest & finance charges	(5.3)	(5.0)	
Depreciation	(5.3)	(5.1)	
PBT	**22.4**	***24.7***	**(9.4)**
Provision for tax (net)	(6.6)	*(5.5)*	
Net profit	**15.8**	**19.3**	**(18.0)**
Extraordinary	5.3		
Adjusted EBITDA calculations			
Net sales	**95.5**	***74.9***	**27.5**
Cost of fuel	(59.6)	*(44.2)*	
Personnel costs	(6.0)	*(4.1)*	
Other expenses	(6.8)	*(5.6)*	
Total expense	(72.4)	*(53.9)*	
EBITDA (w/o prior period revenues)	**23.1**	***21.0***	**10.2**
Prior period revenue	1.1	5	(79.0)
Key operating parameters			
Units generated (bn units)	47.0	*45.4*	3.5
Energy sent out (bn units)	43.8	*42.3*	3.5
PLF (%) - Coal based	83.1	*83.43*	
PLF (%) - Gas based	58.2	*57.4*	

Source: Company data, Kotak Institutional Equities.

Exhibit 2: NTPC: Profit model, balance sheet, cash model 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)						
Net sales	**261,429**	**326,317**	**370,910**	**403,392**	**438,275**	**495,331**
EBITDA	**63,621**	**93,137**	**108,176**	**102,935**	**117,372**	**138,290**
Other income	23,800	27,449	29,203	28,882	25,874	25,006
Interest	(6,648)	(8,063)	(10,678)	(11,118)	(14,462)	(21,106)
Depreciation	(20,477)	(20,754)	(21,385)	(22,069)	(25,079)	(31,444)
Extraordinary items	(72)	(2,695)	(2,752)	5,319	—	—
Pretax profits	60,224	89,074	102,564	103,949	103,705	110,746
Tax	(2,022)	(20,427)	(28,401)	(24,213)	(23,444)	(19,807)
Net profits	**58,202**	**68,647**	**74,163**	**79,736**	**80,261**	**90,940**
Earnings per share (Rs)	**7.1**	**8.7**	**9.3**	**9.0**	**9.7**	**11.0**
Balance sheet (Rs mn)						
Total equity	449,587	485,968	526,386	572,360	617,409	668,452
Deferred taxation liability	4,409	6,568	13,735	15,597	17,199	20,197
Total borrowings	201,973	244,844	274,460	349,956	452,581	645,264
Currrent liabilities	61,402	70,263	79,299	84,637	90,233	100,665
Total liabilities and equity	**717,371**	**807,643**	**893,880**	**1,022,549**	**1,177,422**	**1,434,579**
Cash	84,714	133,146	149,332	158,858	153,312	104,005
Current assets	72,531	88,681	106,156	114,674	122,472	136,127
Total fixed assets	367,235	424,873	485,720	601,449	762,039	1,069,056
Investments	192,891	160,943	152,672	147,569	139,598	125,391
Total assets	**717,371**	**807,643**	**893,880**	**1,022,550**	**1,177,422**	**1,434,579**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	78,679	89,474	95,555	101,805	105,340	122,383
Working capital	(6,544)	(7,485)	(8,439)	(3,181)	(2,533)	(4,293)
Capital expenditure	(65,279)	(78,392)	(82,232)	(137,798)	(185,670)	(338,460)
Investments	15,086	31,948	8,271	5,104	7,971	14,208
Free cash flow	**21,942**	**35,545**	**13,155**	**(34,070)**	**(74,893)**	**(206,163)**
Key assumptions						
Realization (Rs/unit)	1.6	1.8	2.0	2.0	1.9	2.0
Energy Sales (MU)	159,019	176,530	187,988	194,528	215,159	236,670
PLF (%)	85.7	87.1	88.3	87.6	90.3	90.2

Source: Kotak Institutional Equities estimates.

Summary Valuation of global utility companies
(December year-ends)

	Mkt Cap	Price	EV/EBITDA			P/E			P/BV			RoE			RoCE			Dividend yield		
	US$ bn	24-Oct	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E
Asia																				
CHEUNG KONG INFRASTRUCTURE	7.72	26.6	125.2	95.1	100.8	12.5	11.7	13.2	1.5	1.4	1.4	12.7	12.6	10.5	9.8	11.1	9.3	1.12	4.54	4.26
CHINA POWER INTERNATIONAL	0.66	1.4	13.1	12.2	6.4	8.9	83.6	7.2	0.5	0.4	0.4	5.9	2.6	5.8	3.0	1.4	2.7	4.23	1.90	4.65
CHINA RESOURCES POWER HOLDIN	7.21	13.3	12.7	12.3	8.9	16.2	19.9	13.0	2.1	2.0	1.8	16.1	10.4	14.4	6.3	4.6	5.7	0.37	1.58	2.41
CLP HOLDINGS LTD	15.70	50.6	10.8	8.6	9.8	11.5	12.0	14.2	1.8	1.8	1.8	17.7	16.0	12.2	7.9	8.6	7.6	1.03	5.00	4.98
DATANG INTL POWER GEN CO-H	8.72	2.9	10.6	13.8	10.7	10.0	19.7	10.8	1.1	1.0	0.9	12.7	5.1	8.6	3.2	1.2	2.2	4.14	1.72	3.34
HONG KONG & CHINA GAS	10.35	12.0	13.1	17.1	15.0	8.7	17.9	16.6	2.6	2.6	2.5	37.5	13.3	14.3	23.4	10.0	11.7	1.00	2.83	3.11
HONGKONG ELECTRIC HOLDINGS	11.51	41.8	9.2	8.9	11.5	12.0	11.7	15.0	1.9	1.7	1.7	16.2	14.8	11.4	10.8	10.1	8.1	1.48	4.91	4.64
KOREA GAS CORPORATION	1.99	36600	8.8	9.2	8.7	7.2	7.2	6.5	0.7	0.7	0.6	9.9	9.7	10.2	2.9	3.1	3.3	3.83	3.66	3.85
RATCHABURI ELEC GEN HODG PUB	1.21	29.0	7.3	6.1	5.8	7.2	6.3	6.5	1.1	1.0	1.0	16.2	16.8	15.2	8.2	9.6	9.3	3.79	7.74	7.95
TENAGA NASIONAL BHD	7.75	6.4	5.3	6.3	5.7	10.7	11.7	10.8	1.1	1.0	1.0	10.5	8.6	9.2	3.8	3.6	3.9	1.56	2.72	3.20
XINAO GAS HOLDINGS LTD	0.69	5.3	6.6	5.8	4.8	10.3	7.7	6.4	1.3	1.2	1.0	14.9	14.8	15.5	4.5	4.9	5.1	2.53	3.45	4.43
SHENERGY COMPANY LIMITED-A	2.52	6.0	7.9			9.3	12.4	11.0	1.2	1.0	0.9	14.1	10.0	10.9	7.8	5.7	5.8	5.54	3.61	4.36
GD POWER DEVELOPMENT CO -A	4.07	5.1	9.8			15.2	28.9	17.7	2.1	1.8	1.7	14.2	6.7	9.2	3.2			1.17	0.84	1.37
GUANGDONG INVESTMENT LTD	1.43	1.8	4.9	4.9	4.5	6.5	6.6	6.0	0.7	0.7	0.7	12.7	11.4	11.4	5.6	5.5	5.9	2.22	5.94	6.67
Asia Average			**17.5**	**16.7**	**16.1**	**10.4**	**18.4**	**11.1**	**1.4**	**1.3**	**1.2**	**15.1**	**10.9**	**11.3**	**7.2**	**6.1**	**6.2**	**2.4**	**3.6**	**4.2**

Source: Bloomberg, Kotak Institutional Equities.

DCF based target price of Rs181/share assuming 12% cost of equity and 4.5% terminal growth rate
Sensitivity of our target price to cost of equity and terminal growth rate

	Terminal growth rate (%)				
	0	2	4	5	6
10	149	174	217	250	301
11	134	153	183	206	238
12	121	136	159	175	196
13	110	122	140	151	167
14	101	111	125	133	145

Source: Kotak Institutional Equities estimates.

Banking

SBI.BO, Rs1123	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,600
52W High -Low (Rs)	2429 - 966
Market Cap (Rs bn)	709.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	267.4	311.0	358.3
Net Profit (Rs bn)	67.3	73.6	66.5
EPS (Rs)	106.6	116.5	105.2
EPS gth	*23.5*	*9.4*	*(9.7)*
P/E (x)	10.5	9.6	10.7
P/B (x)	1.7	1.5	1.3
Div yield (%)	1.9	1.9	2.0

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	59.4	-	-
FIIs	19.1	2.0	(0.0)
MFs	3.7	2.1	0.1
UTI	-	-	(2.1)
LIC	4.3	2.1	0.1

State Bank of India: Reports strong PAT growth in 2QFY09; upgrade to BUY on attractive valuations

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- **SBI reported PAT of Rs22.6 bn in 2QFY09, up 40% yoy and 16% above estimates**
- **Strong advances growth, healthy liability profile and buoyant fee income drive earnings**
- **We upgrade recommendation to BUY with a 12-month price target of Rs1,600**

State Bank of India (SBI) reported 2QFY09 PAT of Rs22.6 bn (up 40% yoy) and 16% ahead of estimates. The key highlights for the current quarter were: (1) liability profile continues to remain healthy (CASA ratio of 39.7%), (2) advances growth (adjusted for SBS merger) was strong at 31% yoy (a concern for us), (3) gross NPL addition of Rs12 bn in 2QFY09 (higher than previous quarters). We believe the strong earnings growth delivered in 2QFY09 is influenced by cyclical factors and will likely decelerate over the next two quarters. Revise our earnings estimates upwards by 3% for FY2009 and downwards by 10-15% for FY2010E and FY2011E to factor in the 2QFY09 results. Upgrade our rating on the stock to BUY with a 12-month target price of Rs1,600 (FY2010E estimates) from Rs1,700 earlier.

Valuations appears reasonable, upgrade to BUY. We believe that our current estimates are conservative and likely factor in the impact on earnings due to lower NIM, lower fee income and higher credit provisions on account of likely NPLs. Further, our long-term RoE expectation of the company is 15% and our valuation of its banking subsidiaries at 1X APBR FY2009E, which is undemanding, in our view. We believe post the sharp correction in stock price over the past week by 27%, the stock is attractively valued at 5.5X PER and 0.8X PBR FY2009E (standalone banking business) and upgrade it to BUY from ADD.

Net interest income growth remains high, will likely moderate. SBI's net interest income for 2QFY09 was up 45% yoy to Rs54.5 bn. This revenue stream of the company was aided by (1) equity infusion of Rs167 bn in 4QFY08, (2) one-time impact of SBS merger (effective from August 14, 2008), (3) improvement in credit-to-deposit (CD) ratio to 73.8% as of September 2008, from 72.4% as of March 2008 and 68.9% as of September 2007. We believe the benefit of equity capital infusion will taper off over the next two quarters while the higher CD ratio will increase the reliance on interest-bearing liabilities for funding asset growth. Consequently, we expect the company's net interest margin (NIM) to decline over the next few quarters.

High interest rates on long-tenure deposits could also impact NIM. We note that SBI has launched a special deposit scheme, which pays an interest rate of 10.5% p.a. for deposits of 1,000 days. This is likely to be popular with retail depositors. Given the likely softening of interest rates in the economy over the next few quarters, a significant mobilization of deposits in the long maturity bracket (of around three years) could also impact the NIM of the company. We currently model an NIM for FY2010E of 2.68% against 2.88% assumed earlier and an expected 2.85% in FY2009E. The significant franchise value of SBI might enable it to attract low-cost deposits and improve its current CASA ratio of around 40%. Such a development could be a positive for the company and help exceed our NIM estimates.

Credit growth continues to be high—remains an area of concern. SBI reported a credit growth of around 31% yoy (excluding impact of SBS merger) as of September 2008, which is ahead of the industry growth rate. We believe this robust growth in credit could lead to higher NPLs for the company given the expected deterioration in economic conditions over the next two-three quarters. Hence, we assume sharp increase in NPL provisions in FY2010E (up 97% yoy) to factor in slippages in asset quality.

Fee income continues to be healthy and aids earnings. SBI continues to report strong momentum in its non-interest revenues. The non-interest income (excluding treasury) in 2QFY09 was Rs21.8 bn (up 36% yoy). This is likely driven by higher growth in its advances and better utilization of the core banking solution for cross-selling its services. We have assumed a moderation in the fee income growth in FY2010E to 15% yoy compared to the expected 25% yoy in FY2009E.

Asset quality has been impacted by higher slippages and SBS merger. SBI witnessed Rs12 bn of incremental slippages in gross NPLs in 2QFY09. The management indicated that Rs2.2 bn was on account of the SBS merger and Rs1.5 bn was on account of its international operations. The company also claimed that it has recovered Rs1.9 bn (out of Rs12 bn) of the incremental gross NPLs in October 2008 and this is expected to be reversed in the future. Gross NPL ratio and net NPL ratio of SBI as of 2QFY09 stood at 2.5% and 1.3%, respectively. The company's provision coverage ratio stands at 47% and is amongst the lowest in the industry.

State Bank of India, quarterly results, Rs mn

	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	% chg	2QFY09KS	Actual Vs KS
Income earned	116,163	126,668	135,767	137,992	155,665	34.0		
Income on advances	83,651	92,711	96,035	100,140	114,821	37.3		
Income on investments	32,496	32,711	32,118	35,079	38,287	17.8		
Interest on balance with RBI	16	1,247	7,615	2,773	2,557			
Interest expense	78,534	84,105	87,761	89,815	101,112	28.7		
Interest on deposits	66,874	71,057	74,199	77,694	85,742	28.2		
Interest on borrowings	7,582	6,908	8,065	7,311	9,433	24.4		
Other sundry interest	4,077	6,140	5,497	4,810	5,936	45.6		
NII adjt for invest. amortization	**37,629**	**42,564**	**48,006**	**48,177**	**54,554**	**45.0**	**46,765**	**16.7**
Other income	20,419	26,972	28,172	24,039	23,431	14.8	19,596	19.6
Fees, commission	9,445	10,237	30,602	12,850	13,314	41.0	13,696	(2.8)
Invt. income	4,347	6,436	2,965	2,228	1,616	(62.8)	1,000	61.6
Forex income	2,642	4,314	(1,016)	1,692	2,933	11.0	1,200	144.4
Dividend	9	230	21	3,854	71	659.1	100	(29.4)
Other income excl. treasury	16,073	20,536	25,207	21,810	21,816	35.7	18,596	17.3
Total income	**58,049**	**69,536**	**76,178**	**72,215**	**77,985**	**8.7**	**66,360**	**(4.6)**
Operating expenses	30,916	32,938	32,447	32,592	36,053	16.6	31,780	13.4
Staff expenses	16,177	18,139	20,442	20,352	21,173	30.9	18,500	14.4
Pension contributions	3,776	3,808	(4,746)	958	1,039	(72.5)	1,000	3.9
Other operating expenses	10,964	10,991	16,751	11,282	13,841	26.2	12,280	12.7
Pre-provision operating profit	27,132	36,598	43,732	39,623	41,932	54.5	34,580	21.3
Provisions and extr. Ord.	852	8,044	16,192	15,495	6,106	616.7	4,000	52.7
Loan loss provisions (incl. standard asset prov)	497	6,642	13,159	(2,111)	10,930	2,101.0	4,000	173.3
Standard assets	662	2,200	2,490	363	1,820	-	-	
Investment depreciation	8	575	2,168	16,566	(4,803)	(63,294.7)	-	
Other provisions	348	828	865	1,040	(22)	-	-	
PBT	**26,280**	**28,553**	**27,540**	**24,129**	**35,826**	**36.3**	**30,580**	**17.2**
Less tax	10,166	10,467	8,707	7,721	13,229	30.1	11,009	20.2
Profit after tax	**16,114**	**18,087**	**18,833**	**16,408**	**22,597**	**40.2**	**19,571**	**15.5**
PBT - investment income+ invt dep.	21,941	22,692	26,743	38,467	29,407	34.0	29,580	(0.6)
PBT - invest income+ provisions-extr. Items	**22,438**	**29,333**	**35,902**	**32,355**	**40,338**	**79.8**	**33,580**	**20.1**
Fees to PBT (%)	35.9	35.9	111.1	53.3	37.2			
Treasury income/PBT (%)	16.5	20.5	2.9	(59.4)	17.9			
Cost income ratio (%)	53.3	47.4	42.6	45.1	46.2			
Tax rate (%)	38.7	36.7	31.6	32.0	36.9			
Key balance sheet data (Rs bn)								
Advances gross	3,641	3,956	4,473	4,483	5,001	37.3		
Advances net	3,588	3,903	4,168	4,432	4,934	37.5		
Housing finance	410	425	451	461	506	23.5		
Agriculture	391	414	436	404	489	25.1		
Deposits	4,841	5,101	5,374	5,619	6,197	28.0		
Low cost deposits (%)	39.5	41.1	43.1	41.2	39.7			
Investments	1,750	NA	1,895	2,000	1,950			
HTM	1,230	NA	NA	NA	NA			
AFS	520	NA	NA	660	585			
AFS duration (years)	1.10	NA	NA	3.0	2.50			
Yield management ratios (%)								
Cost of deposits	5.5	5.6	5.6	5.7	5.9			
Yield on advances	9.8	9.9	9.9	9.8	10.2			
Yield on resources	6.6	7.0	6.9	7.4	7.6			
Net interest margin								
Net interest margin (adj. Amortization)	3.0	2.8	3.1	3.0	3.2			
Asset quality details								
Gross NPLs (Rs bn)	106	106	136	114	126	18.1		
Gross NPLs (%)	2.9	2.7	3.0	2.5	2.5			
Net NPLs (Rs bn)	58	56	74	63	66	13.5		
Net NPLs (%)	1.6	1.4	1.8	1.4	1.3			
Capital adequacy details (%)								
CAR	13.0	12.3	13.5	13.0	12.1			
Tier I	7.8	7.5	9.1	9.3	8.7			
Tier II	5.2	4.8	4.3	3.7	3.5			

Source: Company, Kotak Institutional Equities estimates.

State Bank of India (old and new estimates Rs mn)

March fiscal year-ends, 2008-2010E (Rs mn)

	Old estimates			New estimates			% change		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Net interest income	210,503	259,890	308,175	212,385	247,281	302,105	0.9	(4.9)	(2.0)
NII post invt amortization	201,831	251,218	299,503	203,713	238,609	293,433	0.9	(5.0)	(2.0)
Loan growth	26.43	21.13	18.24	30.82	21.13	18.24			
NIM assumed (%)	2.83	2.88	2.88	2.85	2.71	2.79			
Loan loss provisions	33,029	58,258	69,646	33,670	66,313	79,276	1.9	13.8	13.8
Other income	94,117	106,073	120,015	98,574	110,974	125,426	4.7	4.6	4.5
Fee income	70,971	81,617	93,859	73,928	85,017	97,770	4.2	4.2	4.2
Treasury income	2,500	2,500	2,500	4,000	4,000	4,000	60.0	60.0	60.0
Operating expenses	152,767	177,946	192,803	155,399	181,035	196,151	1.7	1.7	1.7
Employee expenses	95,286	110,769	119,631	97,873	113,744	122,843	2.7	2.7	2.7
Investment depreciation	-	-	-	-	-	-			
Investment amortization	8,672	8,672	8,672	8,672	8,672	8,672			
Extraordinary items	-	-	-	-	-	-			
PBT	110,153	121,088	157,069	113,218	102,236	143,432	2.8	(15.6)	(8.7)
Tax	38,553	42,381	54,974	39,626	35,782	50,201	2.8	(15.6)	(8.7)
Net profit	**71,599**	**78,707**	**102,095**	**73,592**	**66,453**	**93,231**	**2.8**	**(15.6)**	**(8.7)**
PBT - treasury+loan loss pro	140,681	176,846	224,215	142,888	164,548	218,708	1.6	(7.0)	(2.5)

Source: Kotak Institutional Equities estimates.

SBI values of key subsidiaries

Subsidiaries	**SBI holding (%)**	**NW FY2009E (Rs mn)**	**Multiple assumed (X)**	**Value FY2010 (Rs mn)**	**Value per share FY2010 (Rs)**	**Methodology adopted**
SBI standalone					**1,178**	**Residual income model**
Non banking subsidiaries						
SBI Life				120,197	170	Based on appraisal value + 16X NBAP (12.4%)
SBI MF	63			24,517	39	5% of AUM of Rs324 bn
NSE	8%			12,480	20	NSE value assumed to be Rs130 bn, which is based on last transaction
UTI MF	25%			18,533	29	Valued at 5% of AUM of Rs528 bn
MCX	5.00%			2,420	4	MCX valued at US$1.1 bn, which is based on last transaction
SBI Caps	86%			6,966	11	20X 2008 PAT. 50% growth in 2HFY08 profits over 1HFY08
SBI Cards	60%			-	-	NA
SBI DFHI	57%			6,835	11	1X FY2008 networth
SBI Factors	54%			603	1	1X FY2008 networth
Value of all non-bank subsidiaries					**273**	
SBI Associate banks						
State Bank of Bikaner and Jaipur	75%	14,355	1.00	14,355		
State Bank of Hyderabad	100%	33,307	1.00	33,307		
State Bank of Mysore	92%	14,987	1.00	14,987		
State Bank of Patiala	100%	27,686	1.00	27,686		
State Bank of Travancore	75%	15,074	1.00	15,074		
State Bank of Indore	98%	15,455	1.00	15,455		
Banking subsidiaries and associates		120,865		120,865		
post discount of 10%		**108,778**		**108,778**	**172**	
Value of all subsidiaries					**445**	
Total value of the bank					**1,623**	
SOTP price per share (pre issue)					**1,630**	

Banking

ICBK.BO, Rs336	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	450
52W High -Low (Rs)	1465 - 282
Market Cap (Rs bn)	373.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	169.5	173.1	207.2
Net Profit (Rs bn)	41.6	40.3	43.6
EPS (Rs)	39.9	36.2	39.2
EPS gth	*15.4*	*(9.3)*	*8.2*
P/E (x)	8.4	9.3	8.6
P/B (x)	0.8	0.8	0.7
Div yield (%)	3.3	2.7	2.9

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	67.7	7.2	5.1
MFs	6.0	3.4	1.4
UTI	-	-	(2.0)
LIC	8.2	4.0	2.0

ICICI Bank: 2QFY09 operating performance satisfactory; retain ADD

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- **ICICI Bank reported 2QFY09 PAT of Rs10.1 bn, up 1% yoy and 20% above estimates**
- **Key positives: improvement in CASA ratio, higher fees and lower operating expenses**
- **Despite inherent value at the current stock price, weak sentiments in international financial markets will likely impact stock performance**
- **We revise estimates, retain ADD with target price of Rs450**

ICICI Bank reported PAT of Rs10.1 bn in 2QFY09, marginally higher than the 2QFY08 PAT and 20% ahead of our estimates. The company continues to focus on improving its liability side (i.e. increasing CASA ratio and retail deposits), reducing exposure to the retail segment on the asset side and increasing cost effectiveness of its operations. We have increased our FY2009E earnings by 10% but reduced the FY2010-2011E earnings by 2-9%. ICICI Bank has one of the best franchise in the India financial sector but given the current situation in the international financial markets, the stock performance is likely to be under pressure. We retain our ADD recommendation on the stock with a target price of Rs450 (10% discount to fair value) from Rs650 earlier.

Key operational highlights of 2QFY09

1. Net interest income increased 20% yoy in 2QFY09 to Rs21.4 bn aided by the equity infusion of Rs200 bn in 2QFY08 and improved CASA ratio (30% as of September 2008).
2. ICICI Bank reported a fee income of Rs19.3 bn in 2QFY09—a robust growth of Rs18.8 bn. These revenues provided significant support to earnings (1.4X PBT). The company's treasury income was impacted by higher MTM losses on its bond portfolio. Treasury income stream made a negative contribution of Rs1.5 bn in 2QFY09.
3. ICICI Bank's overall operational expenses for 2QFY09 were Rs17.4 bn—a decline of 12% yoy and 11% below estimates. A large part of the decline in costs was due to lower employee and direct marketing expenses. The management believes it would be able to maintain the current levels of operational efficiency given the low growth in retail assets, lower increases in employee costs and improved process efficiencies.
4. The incremental slippage in asset quality was around Rs12 bn in 2QFY09, in line with the trend observed over the past few quarters. It is likely that the slippages will come off over the next two quarters given the moderation in loan growth and shift in focus to non-retail assets.
5. ICICI Bank, UK had a total asset base of US$8.7 bn as of September 2008. The company reported net loss of US$35.5 mn in 1HFY09 after factoring in a MTM impact (US$80 mn) on its investments book. Further, an impact of US$41.7 mn on AFS book was taken through the reserves (does not impact capital adequacy ratio). ICICI Bank has infused US$100 mn in this subsidiary and capital adequacy ratio of ICICI UK stood at 18.4% as of 2QFY09.

Near-term earnings growth is likely to be subdued

1. Net interest income growth will likely moderate down from the current levels

   We are reducing our loan growth estimates for FY2010E to 9% yoy from 13% yoy assumed earlier as the bank continues to focus on moderating its loan growth. We also model a spread of 2.3% in FY2010E compared to 2.5% earlier to factor in the challenges for improving the CASA ratio in the near term and shift in focus to less risky advances on the asset side. As a result, our NII growth for FY2010E stands reduced to 12% yoy from 24% yoy earlier.

   ICICI Bank's net interest income (NII) over the past 12 months has been positively impacted by (1) equity infusion of around Rs200 bn in 2QFY08 and (2) improvement in CASA ratio to around 30% as of 2QFY09 from 25% as of 2QFY08. We believe continuing this pace of improvement in CASA ratio is likely to be a challenge in the current scenario. It is to be noted that the savings deposits are virtually flat at Rs432 bn as of September 2008 compared to Rs435 bn reported as of June 2008. However, the current deposits have improved significantly to Rs237 bn from Rs212 bn during the same period.

   On the asset side, the company has been focusing on reducing exposure to riskier assets. This strategy could lead to lower yields on its loan assets and exert a downward pressure on NIM. The issue of lower yield on advances is likely reflected in the company's 'interest income on advances' remaining flat at Rs57.1 bn in 2QFY09 compared to Rs57.5 bn in 1QFY09 despite the average loan assets (based on period-end numbers) remaining around Rs2.2 tn in both the quarters. During this same period most banks have reported a smart increase in their yield on advances.

2. Lower loan loss provisions and control on operational expenses will be key for earnings

   ICICI Bank's decision to lower loan growth and reduce focus on riskier assets is likely to result in lower incremental NPLs and consequently lower NPL provisions for the company over the next 12 months. We expect a 10% yoy decline in NPL provisions in FY2010E in our estimates.

   The ability of ICICI Bank to maintain tight control over its operational costs (as demonstrated in 1HFY09) will be critical for supporting its earnings. We have reduced our operating expenses by 10% in FY2010E to factor in the 1HFY09 performance of the company.

Retain ADD recommendation given the valuations.

We believe the market is assuming rather low levels of normalized profits in perpetuity even if the company (1) writes off most of the investments in international financial markets (US$2.5 bn), (2) writes off 50% of current net NPLs (including restructured assets) and Rs15 bn of likely additional NPLs in remainder of FY2009E, (3) assume no contribution in our SOTP for its overseas banking investments and (4) assume a 14X multiple on NBAP for its insurance business. The financial impact in normal times would have been market-to-market (MTM) and NPL provisions rather than write down these assets.

We also assume a long-term RoE of 13% for the company's core banking operations for arriving at our fair value estimate of Rs500 (FY2010E estimates). However, given the conditions in the international financial markets it is likely that the stock price performance could remain subdued. Retain ADD rating with a target price of Rs450 (10% discount to fair value).

ICICI Bank quarterly results, Rs mn

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	% chg	2QFY09KS	Actual Vs KS
Interest income	75,661	77,268	81,238	82,692	81,107	80,100	3.7		
Interest on advances	54,492	55,734	57,522	58,262	57,542	57,114	2.5		
Interest on investments	19,140	20,289	21,720	22,488	21,072	19,691	(2.9)		
Balance with RBI	2,029	1,245	1,997	1,943	2,494	3,295	164.7		
Interest expenses	58,519	57,305	59,521	59,498	58,021	56,874	(0.8)		
Net interest income	**17,143**	**19,963**	**21,717**	**23,194**	**23,087**	**23,226**	**16.3**	**24,256**	**(4.2)**
NII. aft adjt invt amortiz.	**14,793**	**17,860**	**19,597**	**20,795**	**20,898**	**21,476**	**20.2**	**21,756**	**(1.3)**
Non-interest income	19,503	20,719	24,266	23,617	15,382	18,773	(9.4)	17,575	6.8
Commission and fees	14,280	14,860	17,850	19,280	19,580	18,760	26.2	18,575	1.0
Investment income	1,950	1,750	2,820	1,640	(5,940)	(1,530)	(187.4)	(3,000)	(49.0)
Other income (incld income from sell	3,273	4,109	3,596	2,700	1,742	1,543	(62.4)	2,000	(22.8)
Total income	**36,645**	**40,683**	**45,983**	**46,811**	**38,469**	**42,000**	**3.2**	**41,831**	**0.4**
Total income excluding treasury	34,695	38,933	43,163	45,171	44,409	43,530	11.8	44,831	(2.9)
Operating expenses	19,053	19,708	21,276	21,505	19,139	17,400	(11.7)	19,600	(11.2)
Salary	5,218	5,199	5,705	4,666	5,232	4,881	(6.1)	5,100	(4.3)
Other costs	10,008	10,655	11,408	13,255	11,624	11,075	3.9	11,500	(3.7)
DMA cost	3,827	3,854	4,163	3,584	2,283	1,445	(62.5)	3,000	(51.8)
Preprovision profit	17,592	20,975	24,707	25,306	19,330	24,599	17.3	22,231	10.7
Provisions	7,873	8,548	9,724	11,874	10,114	10,985	28.5	11,000	(0.1)
Loan loss provisions	5,523	5,660	7,600	9,475	7,925	9,235	63.2	8,500	8.7
Provision on standard assets	220	780	640	250	(300)	555	(28.8)		
Investments amortization	2,350	2,103	2,120	2,399	2,189	1,750	(16.8)	2,500	(30.0)
Profit before tax	9,720	12,427	14,983	13,432	9,215	13,614	9.6	11,231	21.2
Tax	3,276	4,177	2,681	1,933	1,935	5,796	38.8	2,808	106.4
Profit after tax	**7,751**	**10,026**	**12,302**	**11,498**	**7,280**	**10,142**	**1.2**	**8,423**	**20.4**
Effective tax rate(%)	20	19	18	14	21	26		25	
PBT-invt inc+dep	6,270	9,177	9,035	11,792	15,155	15,144	65.0	14,231	6.4
PBT-Invt income+NPL provisions	**11,792**	**16,337**	**19,763**	**21,267**	**23,080**	**24,379**	**49.2**	**22,731**	**7.3**
Key balance sheet items (Rs bn)									
Deposits	**2,308**	**2,283**	**2,298**	**2,443**	**2,345**	**2,234**	**(2.1)**		
Savings	321	348	380	391	435	432	24.1		
Current	200	229	240	244	212	237	3.5		
CASA ratio (%)	22.6	25.3	27.2	26.0	27.6	29.9	0.0		
Customer assets	**2,065**	**2,122**	**2,246**	**2,392**	**2,357**	**2,349**	**10.7**		
Retail loans including CV	1,274	1,310	1,323	1,317	1,320	1,210	(7.6)		
Retail loans to Customer assets (%)	61.7	61.7	58.9	55.0	56.0	51.5	0.0		
Housing loans	655	668	668	668	656	617	(7.6)		
Auto loans	190	197	170	178	0	160	(18.6)		
Two wheelers	26	29	35	27	0	25	0.0		
Personal loans	112	131	138	132	120	117	(10.4)		
Credit cards	61	71	79	84	85	85	19.7		
Corporate and project finance	649	712	832	875	907	1,139	60.0		
International lending	325	370	453	477	566	577	56.0		

Source: Company, Kotak Institutional Equities estimates.

ICICI Bank, key quarterly ratios, Rs mn

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	% chg
Yield management measures (%)							
Yield on advances	11.0	11.0	11.0	0.0	10.5	10.8	
Cost of deposit	7.9	7.7	7.4	7.3	7.2	7.0	
Cost of funds	7.8	7.7	7.4	7.3	0.0	6.9	
NIM (incl. amortization expenses)	**2.0**	**2.2**	**2.3**	**2.4**	**2.4**	**2.4**	
Asset quality details							
Gross NPLs to advances	3.0	3.0	3.4	3.7	4.1	4.6	
Gross NPLs to adv. Lagged	3.9	4.1	4.0	4.1	4.5	4.8	
Net NPLs to advances	1.4	1.4	1.5	1.6	1.8	1.9	
Gross NPLs (Rs bn)	60	67	72	84	93	103	54
Provisions and w/off (Rs bn)	33	37	39	48	52	60	61
Net NPLs (Rs bn)	27	30	33	36	41	43	45
Restructured assets (Rsmn)	49	47	46	48	47	47	
Total rest. And NPLs	77	77	79	84	88	90	
Gross NPLs in retail (Rs bn)	39	42	46	55	63	70	64
Non collateral accounts (Rs bn)	21	25	27	37	42	47	
Retail ratio (%) excld non-collateral	1.62	1.54	1.76	1.65	1.86	2.28	
Net NPLs in retail (Rs bn)	19.4	20.0	21.8	24.0	16.1	26.8	
Non collateral accounts (Rs bn)	8.9	0.0	9.8	16.1	10.8	15.3	
Net NPLs in agri	0.0	0.0	0.0	0.0	0.0	0.0	
Capital adequacy details							
CAR (%)	11.0	16.8	15.8	14.0	13.4	14.0	
Tier I (%)	7.1	13.0	12.1	11.8	11.3	11.0	
Tier II (%)	3.9	3.8	3.7	2.2	2.1	3.0	

Source: Company, Kotak Institutional Equities estimates.

ICICI Bank quarterly balance sheet, Rs mn

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	% chg
Balance sheet snapshot (Rs bn)							
Cash, balances with banks, SLR	1,061	1,084	1,074	1,131	1,076	1,006	(7.2)
Cash advances	296	340	310	380	356	356	4.7
SLR Investments	764	744	764	750	720	650	0.0
Advances	1,983	2,071	2,155	2,256	2,241	2,220	7.2
Retail	1,274	1,310	1,323	1,317	1,320	1,210	0.0
Housing loans	655	668	668	668	656	617	0.0
Other investments	331	279	290	364	360	971	248.0
Other assets	195	215	249	247	265	302	40.5
Total assets	**3,569**	**3,649**	**3,767**	**3,998**	**3,942**	**3,850**	**5.5**
Networth	247	448	465	465	474	486	8.7
Equity capital	9	11	11	11	11	11	0.2
Reserves and surplus	238	436	454	454	463	475	8.9
Preference capital	4	4	4	4	4	4	0.0
Deposits	2,308	2,283	2,298	2,444	2,345	2,234	(2.1)
Total borrowings	703	736	816	864	938	948	28.9
ICICI borrowings	0	99	0	0	0	0	0.0
Other liabilities	308	180	184	221	181	177	(1.3)
Total liabilities	**3,569**	**3,649**	**3,767**	**3,998**	**3,942**	**3,850**	**5.5**

Source: Company, Kotak Institutional Equities estimates.

ICICI Bank old and new estimates (Rs mn)

	Old estimates			New estimates			% change in estimates		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Net interest income	**103,903**	**128,395**	**159,212**	**92,734**	**104,273**	**125,619**	**(10.7)**	**(18.8)**	**(21.1)**
Spread	2.2	2.5	2.8	2.0	2.3	2.5			
NIM (%)	2.7	2.9	3.2	2.5	2.7	2.9			
Customer assets (Rs bn)	2,631	2,971	3,504	2,407	2,631	3,030	(8.5)	(11.4)	(13.5)
Loan loss provisions	33,113	37,517	44,153	36,047	33,557	38,438	8.9	(10.6)	(12.9)
Other income	**76,118**	**94,797**	**114,913**	**80,378**	**102,922**	**125,027**	**5.6**	**8.6**	**8.8**
Fee income	65,078	78,547	98,058	69,338	86,672	108,172	6.5	10.3	10.3
Treasury income	60	5,000	5,000	60	5,000	5,000	0.0	0.0	0.0
Profit on sale of loans	280			280					
Operating expenses	**89,549**	**113,249**	**135,575**	**79,234**	**102,736**	**125,470**	**(11.5)**	**(9.3)**	**(7.5)**
Employee expenses	23,952	32,446	38,840	21,241	29,322	36,696	(11.3)	(9.6)	(5.5)
Investment amortization	7,181	7,181	7,181	2,681	7,181	7,181	(62.7)	0.0	0.0
PBT	**48,764**	**63,832**	**85,803**	**53,736**	**62,308**	**78,144**	**10.2**	**(2.4)**	**(8.9)**
Tax	12,191	19,150	25,741	13,434	18,692	23,443	10.2	(2.4)	(8.9)
Net profit	**36,573**	**44,683**	**60,062**	**40,302**	**43,616**	**54,701**	**10.2**	**(2.4)**	**(8.9)**
PBT-treasury+provisions	**81,817**	**96,349**	**124,955**	**89,723**	**90,865**	**111,582**	**9.7**	**(5.7)**	**(10.7)**

Source: Company, Kotak Institutional Equities estimates.

SOTP valuation of ICICI Bank
FY2010 based valuations

	ICICI Share (%)	Per share value (Rs)	Valuation methodoly adopted
Value of ICICI standalone	**100**	**293**	Based on Residual growth model
Subsidiaries			
ICICI Prudential Life	74*	156	14X NBAP, margin assumed is 12.7%
General Insurance	74*	9	1X FY2008 PBR
Mutual Fund	51*	8	3% of AUMs
ICICI Securities Ltd	100	14	PER of 8X FY2008 EPS
ICICI Securities Primary Dealer	100	1	PBR of 1X FY2008 BVPS
ICICI Homes Ltd	100	16	PBR of 1X FY2008 BVPS
ICICI Bank UK	100	0	NA
ICICI Bank Canada	100	0	NA
ICICI Bank Euroasia	100	0	NA
Venture capital/MF	100	9	10% of AUM of US$2 bn
NCDEX	8	1	Valued at US$300 mn based on last transaction
ARCIL	29.7	2	Based on value assigned by IDFC at Rs7.15bn
NSE	5.5	7	Based on value assigned by recent divestment to FT. NSE valued @ Rs125 bn
Value of subsidiaries		**223**	
Value of company		**516**	
Target price (@10% discount)		**464**	

Source: Company, Kotak Instititional Equities estimates.

Pharmaceuticals

SUN.BO, Rs1215	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,870
52W High -Low (Rs)	1558 - 870
Market Cap (Rs bn)	251.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	33.6	44.8	49.4
Net Profit (Rs bn)	14.9	18.8	17.9
EPS (Rs)	74.7	90.9	86.4
EPS gth	*78.9*	*21.7*	*(5.0)*
P/E (x)	16.3	13.4	14.1
EV/EBITDA (x)	13.7	10.2	10.0
Div yield (%)	0.9	0.9	1.1

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	63.7	-	-
FIIs	20.2	0.9	0.0
MFs	3.6	0.8	0.0
UTI	-	-	(0.8)
LIC	-	-	(0.8)

Sun Pharmaceuticals: Another strong quarter led by exclusivity gains

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- **2QFY09 revenues beat KIE but EBITDA margin below KIE**
- **PAT 6% better than KIE**
- **FY2009E-11E estimates marginally raised due to stronger dollar**
- **Management indicates willingness for more M&As**
- **Maintain BUY with SOTP-based target price rolled forward to Rs1,870 (from Rs1,780) despite lower target multiples**

2QFY09 sales were ahead of forecasts due to US sales. This could be due to higher sales of products under exclusivities. Margin for these products seem to be reducing qoq showing price erosion. EBITDA margins, pre R&D, fell to 52.7% versus KIE 57.3% due to higher material and overheads. We fine-tune FY2009-10E PAT estimates to incorporate 1HFY09 performance and exchange rate of Rs45/US$. This leads to FY2009E PAT estimate increasing 5% and FY2010E PAT increasing by 8%. Our forecasts are based on conservative forecasts for Effexor XR and could provide upside in FY2010E. Sun is trading at 15X FY2010E and 12X FY2011E. We maintain BUY rating with SOTP-based price target rolled forward to Rs1,870 though we are using lower PE multiples for India & international finished dosage and Effexor XR business

1QFY09 revenues at Rs12 bn, 12% ahead of KIE. Revenues were driven by

1) US generics led by exclusivity sales of Protonix and Ethyol with sales at around US$70 mn, according to our estimates versus KIE US$50 mn. As a reminder, Sun launched generic Protonix in US on January 30, 2008 after Wyeth, the patent owner, launched its authorized generic version. Teva has not sold its generic version post the launch of authorized generic by Wyeth. Sun also launched generic Ethyol "at risk" on March 31, 2008.
2) RoW finished dosages at Rs892 mn were lower than KIE Rs964 mn
3) Domestic finished dosages at Rs4.4 bn was 4% higher than KIE
4) API sales were strong at Rs1.3 bn, nearly 50% higher than our estimates. We think this was due to higher prices in international market following problems of supply with Chinese producers during the Olympics. Depreciation of Rupee against US$ added to revenues as well.

EBITDA margin, pre-R&D, at 52.7 % versus KIE 57.3%. EBITDA margins, pre R&D, were lower than previous quarter 60.3% despite sales of exclusivity products generic Protonix and Ethyol being higher than estimate for this quarter. This suggests prices may be under pressure. Materials cost was 23% of sales compared to KIE 19% and previous quarter 18%. This is confirming our belief that margins of product under exclusivity declined while base business margin may have remained stable. Other expenses were Rs1.7 bn against KIE Rs1.3 bn and previous quarter actual of Rs1.3 bn. While high energy prices may be one of the reasons for this, we think Sun may have provided for higher commissions/sales rebate for products with exclusivities in the US market. Employee costs and R&D expenses were in line with our estimates.

PAT at Rs5 bn was higher than our estimates due to higher other income. Other income was Rs545 mn against Rs400 mn KIE forecast. We think Sun enjoyed better returns on its cash balances during the quarter due to tight money conditions. Effective tax rate at 5.1% was lower than KIE estimate 5.4% and lower than 5.2% in 1QFY09.

We fine-tune FY2009-10E PAT estimates to incorporate 1HFY09 performance which leads to FY2009E PAT increasing 5% and FY2010E PAT increasing 8%.

1) The biggest reason for this is change in currency assumption. We are increasing US$ forecast to Rs45 from Rs43 for FY2009E and 42.5 for FY2010E.

2) We leave our revenue estimates largely unchanged. We reduce FY2009E Protonix revenues to US$190 mn from US$197 mn. This means qoq decline in sales for the next two quarters. We leave FY2010E revenue estimate for Protonix unchanged at US$100 mn. As a reminder, Protonix faces patent expiry on July 19, 2010 and the only remaining challenger to this patent is Schwarz Pharma. It faces 30 months stay to action that expires in February 2009. Thus, we see a market consisting of Wyeth, Teva, Sun and authorized generic till February 2009, at least. Competitive scenario thereafter depends on FDA granting approval to Schwarz and its decision to launch the product.

3) Secondly, we increase revenues from Sun ANDA's and reduce revenues from Caraco's own ANDA's, in line with the trend seen in 1HFY09. Generic Effexor revenues left unchanged at US$50 mn in FY2010E. The citizen's petition filed against generic Effexor XR in June 2008 may delay the product approval beyond FY2009E. Our forecast does not include any revenues for FY2009E. While US FDA has approved a version of this product from Osmotica, Sun Pharma mentioned that they have not seen this product in the market yet.

4) We believe revenue growth excluding exclusive opportunities in the US would be 26% in FY2010E and 25% in FY2011E.

Taro deal update. Sun Pharma management mentioned that they see a number of attractive M&A opportunities in the US generics market following the recent correction in share prices. They also mentioned that Taro may face difficult times ahead as it is in default of its loan covenants. This may force creditors to ask for repayment or increase interest rates. Sun also indicated they may be willing to walk away from the deal altogether though they already own 36% of Taro. While the acquisition price of Taro stake is lower than current market price, Sun may not realize this price if it were to sell its large stake in the market.

Sun Pharma tender offer which commenced on June 30, 2008 in order to comply with the terms of the Option Agreement has been extended to November. Sun Pharma management maintained that the possibility of an out of court settlement was low.

There are currently two parallel cases running in the US and Israel

1) Sun Pharma filed an action in the Supreme Court of the State of New York in June 2008 against Taro and its Board of Directors. The action asserting fraud claims against Taro and its Directors asks the Court to order the controlling shareholders to honor their promises under the Option Agreement. In addition, Sun Pharma asks for an order declaring that the Merger Agreement was not properly terminated.

2) In an effort to block Sun from exercising the option, Taro's independent directors initiated legal action in Israel to force Sun to make a special offer to purchase before it could acquire Taro's founders' shares.

The Tel Aviv District Court has decided the matter in favor of Sun Pharma but Taro has appealed the decision to Supreme Court of Israel and the hearing is set for December 8, 2008.

Maintain BUY with SOTP-based target price of Rs1, 870. We continue to use SOTP method for valuation. We are reducing the multiples that we have used for valuing Indian and RoW finished dosage business and Effexor XR business in US. We do not assign any multiple to the profit estimates of the two exclusivity products. These get added to the valuation in the form of higher cash balance.

Due to the increase in FY2010E and FY2011E PAT and rolling forward to September 2009, we change our price target to Rs1,870 (from Rs1,780)

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

	2QFY08	1QFY09	2QFY09	2QFY09 KIE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs KIE)
Gross revenues	**6,945**	**10,643**	**12,086**	**10,832**	**74**	**14**	**12**
Excise duty	266	226	308	226	16	36	36
Net Sales	**6,679**	**10,418**	**11,778**	**10,606**	**76**	**13**	**11**
Material cost	1,898	3,345	2,212	2,121	17	(34)	4
Stock changes	(98)	(1,452)	526	(106)	NM	NM	NM
Staff costs	750	962	1,107	1,010	48	15	10
Indirect taxes	214	0	—	180	NM	NM	NM
Others	835	1,284	1,731	1,326	107	35	31
R&D	671	720	823	795	23	14	4
Operating costs	**4,270**	**4,859**	**6,399**	**5,327**	**50**	**32**	**20**
EBITDA	**2,409**	**5,559**	**5,380**	**5,279**	**123**	**(3)**	**2**
Depreciation	230	277	287	290	25	4	(1)
Other income	111	472	545	400	391	16	36
PBT	**2,290**	**5,754**	**5,638**	**5,389**	**146**	**(2)**	**5**
Tax	1	299	288	216	28,650	(4)	33
PAT before minority	**2,289**	**5,454**	**5,351**	**5,099**	**134**	**(2)**	**5**
Minority interests	104	261	223	250	115	(14)	(11)
PAT for shareholders	**2,185**	**5,194**	**5,128**	**4,849**	**135**	**(1)**	**6**
India	**3,933**	**4,545**	**4,816**	**4,515**	**22**	**6**	**7**
API	211	245	341	200	62	39	71
Finished dosage	3,720	4,296	4,473	4,315	20	4	4
Others	2	4	2	—	—	(38)	NM
International	**3,013**	**6,099**	**7,270**	**6,317**	**141**	**19**	**15**
API	529	780	1,008	701	91	29	44
Finished dosage	2,478	5,310	6,245	5,606	152	18	11
Caraco	1,417	1,331	1,415	1,608	(0)	6	(12)
Rest of the world	802	811	892	964	11	10	(8)
Sun ANDAs	259	3,168	3,939	3,035	1,418	24	30
Others	6	9	17	10	213	102	72
Total	**6,945**	**10,643**	**12,086**	**10,832**	**74**	**14**	**12**

Source: Company data, Kotak Institutional Equities.

Forecasts and valuation, March fiscal year-ends, 2007-2011E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2007	21,321	30.3	9,163	42.3	7,843	36.8	41.7	16.1	36.0	30.6
2008	33,565	57.4	18,236	99.0	14,869	89.6	74.7	32.2	38.3	17.1
2009E	44,783	33.4	23,623	29.5	18,823	26.6	90.9	32.1	32.3	14.1
2010E	49,373	10.2	23,171	(1.9)	17,885	(5.0)	86.4	23.9	24.2	14.8
2011E	60,050	21.6	28,289	22.1	22,334	24.9	107.8	24.8	24.5	11.9

Source: Company data, Kotak Institutional Equities estimates.

Change in estimates

	Current estimates		Old estimates		% change	
	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E
Net sales	**44,783**	**49,373**	**42,048**	**46,351**	**7**	**7**
Materials	(10,480)	(13,545)	(8,630)	(12,539)	21	8
Selling and administration	(4,172)	(3,900)	(3,607)	(3,662)	16	7
Employee cost	(4,269)	(5,251)	(4,172)	(5,132)	2	2
R& D	(3,293)	(3,800)	(3,200)	(3,800)	3	—
Others	(2,239)	(3,505)	(2,827)	(3,291)	(21)	7
Total expenditure	**(24,453)**	**(30,002)**	**(22,436)**	**(28,424)**	**9**	**6**
EBITDA	**20,330**	**19,371**	**19,611**	**17,927**	**4**	**8**
Depreciation and amortisation	(1,183)	(1,350)	(1,207)	(1,350)	(2)	0
EBIT	**19,146**	**18,021**	**18,405**	**16,577**	**4**	**9**
Net finance cost	—	—	—	—	NM	NM
Other income	1,717	1,700	1,600	1,700	7	—
Pretax profits before extra-ordinaries	**20,863**	**19,721**	**20,005**	**18,277**	**4**	**8**
Current tax	(1,156)	(733)	(894)	(647)	29	13
Deferred tax	—	(450)	(300)	(450)	(100)	—
Reported net profit	**19,707**	**18,538**	**18,811**	**17,181**	**5**	**8**
Minority Interests	884	653	911	676	(3)	(3)
Reported net profit after minority interests	**18,823**	**17,885**	**17,900**	**16,504**	**5**	**8**

Source: Company data, Kotak Institutional Equities estimates.

SOTP-based price target, FY2010-FY2011E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	FY2010E	FY2011E	(X)	FY2010E	FY2011E
India finished dosage	7,340	8,646	20.0	146,802	172,924
India API	51	61	10.0	510	606
International finished dosage	1,729	2,328	16.0	27,662	37,252
International API	1,187	1,371	13.0	15,431	17,819
Caraco business	1,901	2,527	16.5	31,365	41,702
Sun Pharma ANDAs	3,601	3,914	16.5	59,421	64,585
Hungary	226	298	15.0	3,385	4,466
Cranbury/Bryan facilities	186	390	15.0	2,796	5,856
US -180 days exclusivity	—	—	NM		
Effexor XR equivalent	1,101	2,238	16.5	18,158	36,930
Total (ex interest income)	**17,322**	**21,774**		**305,531**	**382,140**
Value per share (Rs)				**1,475**	**1,845**
Cash per share (Rs)				172	239
Share price target (Rs)					**1,866**

Source: Kotak Institutional Equities estimates.

Utilities

TTPW.BO, Rs591	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,275
52W High -Low (Rs)	1650 - 530
Market Cap (Rs bn)	137.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	73.4	80.4	88.3
Net Profit (Rs bn)	6.9	8.9	9.3
EPS (Rs)	29.7	38.1	39.9
EPS gth	*12.0*	*29.3*	*4.7*
P/E (x)	19.9	15.5	14.8
EV/EBITDA (x)	15.8	14.4	15.5
Div yield (%)	1.5	1.6	1.6

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.4	-	-
FIIs	20.9	0.7	0.1
MFs	7.3	1.4	0.7
UTI	-	-	(0.7)
LIC	9.2	1.5	0.8

Tata Power: Higher other income and extraordinary gains; retain BUY rating

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- **Higher other income and extraordinary gains increase reported profit**
- **Investor concerns for Bumi not on operational performance of coal mines**
- **SOTP-based target price of Rs1,275/share**

Tata Power (TPC) reported standalone revenues of Rs19.2 bn, EBITDA of Rs2.2 bn and net profits of Rs1.8 bn for 2QFY09 compared to our estimate of Rs19.7 bn, Rs2.9 bn and Rs1.8 bn respectively. The reported profits were higher at Rs2.5 bn on account of a forex gain of Rs767 mn, a deferred tax liability charge of Rs82 mn and income from sale of long-term investments of Rs1.7 mn. The results are not comparable year-on year due to the change in accounting policy wherein regulatory adjustments are being made on a quarterly basis compared to the previous policy of annual adjustment. We retain our EPS estimates at Rs38.1 for FY2009E and Rs39.9 for FY2010E. We retain our BUY rating on TPC, with a revised SOTP based target price to Rs1,275/share (Rs1,425 previously).

Higher other income, and extraordinary gains increase reported profit. TPC reported revenue of Rs19.2 bn, EBITDA of Rs2.2 bn and net profit of Rs1.8 bn. Higher other income at Rs1.4 bn and extraordinary gains (net of extraordinary losses) at Rs686 mn boosted profitability. We take the mark-to-market forex gains/losses pertaining to non-regulatory business as extraordinary income/expense as these are not predictable and also do not impact tariffs in license area. TPC has made forex gains of Rs0.77 bn during 2QFY09 as compared to Rs0.38 bn in 1QFY08. TPC generated 3,459 MU in 2QFY09, 6% yoy lower than 3,684 MU in 2QFY08. Decline in generation is on account of lower discharge of water in the Krishna river basin. We note that TPC has made tariff adjustments and statutory adjustments during the quarter in reported financials, which it was earlier doing once at the end of the year.

Investor concerns for Bumi not on operational performance of coal mines. We note that investors' concerns in the recent conference call hosted by Bumi Resources centered around (1) probable sale of stake by the promoters and pledge of Bumi shares as collateral against loans taken and (2) financing of the proposed buyback scheme (in the absence of cash) in the current credit environment. The management remains confident of achieving targeted production of 100 mn tpa ahead of the CY2012 schedule and has guided for realizations of US$90/ton for 1QCY2009.

Tata Power to add about 600 MW capacity in FY2009, increase generation capacity to 14 GW in the next five years. During the quarter, TPC added a 114 MW hydropower project in Bhutan in its development portfolio. TPC will take a 26% stake in the project being promoted by the government of Bhutan. Tata Power Trading Company has signed an agreement for offtake of power from the project for 25 years. During the next one year, TPC will add about 600 MW of generation capacity comprising 250 MW at Trombay (scheduled to commission in November 2008), 120 MW at Haldia (45 MW has already been commissioned), 120 MW at Jojobera, 40 MW DG sets and about 100 MW of wind power assets to its current installed capacity of about 2,400 MW.

The management highlighted satisfactory progress in the large projects—4,000 MW Ultra Mega Power Project at Mundra in Gujarat where erection of the Boiler structure has commenced and the 1,050 MW Maithon Right Bank Thermal Power Project in JV with Damodar Valley Corporation where construction is moving as per schedule (20% work has been completed). TPC also plans to implement 1,600-2,400 MW imported coal-based power project in Maharashtra; captive power plants for Tata Steel and IOC and two IPPs in Jharkhand and Orissa where it has been allocated captive coal blocks.

We do not ascribe any value for projects under development where financial closure has not been completed taking cognizance of the current scenario of the credit markets. However, we note that TPC has completed financial closure for 5,660 MW and Moody's has upgraded TPC's credit rating from negative to stable.

SOTP-based target price of Rs1,275/share. We retain our BUY rating with a revised SOTP-based target price of Rs1,275/share (Rs1,425 previously). Our SOTP valuation comprises 1) valuation of stake in coal mines in Indonesia valued at Rs513/share, (2) valuation of telecom investments and cash in books equivalent to Rs242/share, (3) value of operating power assets and projects nearing completion (Rs361/share) and (4) projects under implementation (Rs159/share).

Exhibit 1: Tata Power, Standalone quarterly performance, March yearends (Rs mn)

			yoy		qoq	
	FY2009E	2QFY09	2QFY08	(% chg)	1QFY09	(% chg)
Net sales	**62,112**	**19,242**	**13,506**	***42.5***	**20,261**	***23***
Cost of electrical energy purchased	(10,222)	(1,301)	(1,277)		(2,649)	
Cost of fuel	(29,473)	(13,740)	(7,808)		(12,894)	
Personnel costs	(2,690)	(749)	(789)		(717)	
Other expenses and provisions	(7,175)	(1,152)	(1,018)		(953)	
Total expenses	(49,561)	(16,942)	(10,892)		(17,212)	
EBITDA	**12,551**	**2,299**	**2,614**	***(12.0)***	**3,049**	***3***
Depreciation	(3,311)	(763)	(709)		(731)	
EBIT	9,241	1,536	1,905		2,318	
Other income	2,765	1,463	463		483	
Net interest	(1,907)	(681)	(414)		(522)	
PBT	**10,099**	**2,318**	**1,954**	***18.7***	**2,280**	***(5)***
Tax	(1,449)	(385)	(320)		(492)	
Deferred tax	—	—	—		—	
Statutory appropriations	—	(90)	—		(280)	
Net profit	**8,650**	**1,844**	**1,633**	***12.9***	**1,508**	***2***
Extraordinary income (expenses)	-	686	941		118	
EBITDA margin (%)	20	12	19		15	
Effective tax rate (%)	14	17	16		22	
Segment revenues						
Power business	60,774	19,296	13,392	*44.1*	19,990	*23*
Others	1,338	293	113	*160.1*	272	*7*
Total	**62,112**	**19,589**	**13,504**		**20,261**	
Less: Inter segment revenues	—	—	(1)		—	
Net revenues	**62,112**	**19,589**	**13,506**		**20,261**	
EBIT						
Power business		1,873	2,057	*(9.0)*	2,271	
Others		36	(44)	*(180.9)*	39	
Total		**1,908**	**2,013**		**2,310**	
EBIT Margin (%)						
Power business		10	15		11	
Others		12	(39)		14	
Key Operating Parameters						
Units Generated (MU)		3,459	3,684	*(6.1)*	3,935	
Units Sold (MU)		3,377	3,811	*(11.4)*	4,115	
Per unit price realization (Rs)		5.7	3.5	*62.6*	4.9	
Fuel cost per unit sold (Rs)		4.1	2.0	*98.6*	3.1	

Source: Company data, Kotak Institutional Equities.

Exhibit 2: Income statement for SPV's valuing 24% economic interest in coal mines

	2007	2008E	2009E	2010E	2011E	2012E
Dividend income	80	263	423	478	515	324
Net interest income	0	14	13	26	40	55
Interest	(67)	(95)	(94)	(89)	(81)	(73)
Pretax profits	14	182	343	415	474	307
Tax	(2)	(27)	(51)	(62)	(71)	(46)
Net profits	**11**	**154**	**291**	**353**	**403**	**261**
Key assumptions for Bumi Resources						
Realization per ton (US$)	44.0	74.8	86.1	86.1	86.1	65.0
Volumes (mn tons)	53.4	57.7	68.1	78.3	86.1	94.7

Source: Kotak Institutional Equities estimates.

Exhibit 3: Valuations TPC's stake in the coal mines is highly sensitive to assumptions of long-term coal realizations

Sensitivity of TPC's stake in coal mines (Rs/share)

		Long-term coal price (US$/ton)		
		60	**65**	**70**
	8	521	664	807
Cost of equity (%)	**10**	410	513	616
	12	338	416	493

Source: Kotak Institutional Equities estimates.

Exhibit 4: Projects worth 5.6 GW have achieved financial closure, another 5.7 GW in pipeline

Status of clearances for Tata Power's projects

Project	Capacity (MW)	Fuel	Land	Environmental clearance	Fuel arrangement	Financial closure	Expected CoD
Trombay TPS	250	Thermal	–	–	–	–	2009
Haldia	120	Thermal	–	–	–	–	2010
JV with Tata Steel	240	Thermal	–	–	–	–	2010
Maithon (JV with DVC)	1,050	Thermal	–	–	–	–	2012
Mundra UMPP	4,000	Thermal	–	–	–	–	2013
Shahapur	2,400	Thermal	WIP	WIP	–	–	
Orissa IPP	1,000	Thermal	–	–	–	–	
Orissa CPP	1,270	Thermal	–	–	WIP	–	
Tubed IPP	500	Thermal	WIP	–	–	–	
Jharkhand CPP (Tata Steel)	500	Thermal	WIP	–	WIP	–	

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 5: Tata Power sum-of-the-parts valuation

	Methodology	Key assumptions/comments	Per share value (Rs)
Mumbai (Generation, transmission & distribution business)	**DCFe** Disc. Rate: 12% Term. Yr. Grth: 2%	The business enjoys very high predictability of cash flows. We have not built in any incremental capacity creation in Mumbai (beyond the 250 MW already under construction).	169
Jojobera generation business	**DCFe** Disc. Rate: 12% Term. Yr. Grth: 0%	P/B of 2X for operational generation capacity at Jojobera (428 MW), Belgaum (81 MW) and Haldia (30 MW). P/B of 1.5X for projects under construction - 240 MW at Jamshedpura/Jojobera and 90 MW at Haldia	86
Powerlinks Transmission Ltd.	**Price/Book (X)**	We value the equity investment at 1.4X book: The project earns a regulated RoE of 14% as per the Central Electricity Regulatory Commission (CERC) tariff guideline for inter-state transmission project.	14
Delhi Distcom (NDPL)	**DCF** Disc. Rate: 12% Term. Yr. Grth: 4%	NDPL earns 16% RoE provided it meets cetain A,T&C loss reduction benchmarks. It is also incentivized by way of higher returns in the event of bettering the benchmarks Equity invested in NDPL Rs bn 1.8 NDPL reserves (attr.) Rs bn 1.9	26
Tata BP Solar	**EV/Sales (X)**	8X EV/Sales on FY07 as compared to 17X for comparable standalone PV manufacturers; an additional 40% group company discount built in	66
Investments	**Various**	Total value (Rs bn) / Per share value (Rs): Telecom 33.4 / 143 TCS/Tata Sons 13.8 / 59 Others 2.0 / 9	186
Investible surplus on books	**Market value**	Marketable securities & cash on books (Rs bn)	56
Bumi Resources	**DCF-equity**	DCF-equity of dividend income accrued from 24% stake in coal mines in Indonesia. We assume the balance 6% stake acts as a hedge for the unhedged coal position in Mundra UMPP.	513
Mundra UMPP	**DCF-equity**	Levelized tariff of Rs2.26/unit for 25 years	128
Maithon	**DCF-equity**	74% stake in 1,050 MW project; 300 MW to be sold to DVC (regulated returns); Balance to be tied up; Coal linkage allocated	31
Total			**1,275**

Investments detail:

	Total value (Rs bn)	Per share value (Rs)
Telecom	33.4	143
TCS/Tata Sons	13.8	59
Others	2.0	9

Source: Kotak Institutional Equities estimates.

Exhibit 6: Tata Power: Profit model, balance sheet, cash model 2006-2010E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)					
Net sales	56,955	64,756	73,389	80,435	88,322
EBITDA	**9,986**	**10,786**	**11,487**	**13,772**	**15,210**
Other income	1,758	2,671	2,578	3,023	2,504
Interest	(1,807)	(2,833)	(2,214)	(2,215)	(2,534)
Depreciation	(3,457)	(4,148)	(3,568)	(4,080)	(4,560)
Extraordinary items	1,571	1,877	—	—	—
Pretax profits	8,052	8,353	8,284	10,500	10,621
Tax	(1,625)	(816)	(1,368)	(1,615)	(1,328)
Minority interest	1,104	6	—	—	—
Net profits	**7,532**	**7,544**	**6,915**	**8,886**	**9,293**
Earnings per share (Rs)	**23**	**27**	**29.7**	**38.1**	**39.9**
Balance sheet (Rs mn)					
Total equity	54,183	59,479	70,516	91,756	104,664
Deferred taxation liability	336	458	1,315	1,858	1,808
Total borrowings	42,285	51,784	79,806	96,959	135,335
Currrent liabilities	17,100	22,238	21,007	22,881	24,893
Capital contribution from consumers	636	758	758	758	758
Minority interest	2,068	2,496	2,496	2,496	2,496
Total liabilities and equity	**116,607**	**137,214**	**175,898**	**216,708**	**269,953**
Cash	10,793	14,024	6,057	6,557	5,195
Current assets	22,105	29,293	30,093	32,781	35,760
Total fixed assets	54,788	63,001	64,664	70,286	73,914
Investments	28,632	30,833	75,022	107,022	155,022
Deferred expenditure	289	62	62	62	62
Total assets	**116,607**	**137,214**	**175,898**	**216,709**	**269,953**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	8,635	10,255	10,378	13,002	13,145
Working capital	(4,683)	(2,849)	(719)	(949)	(905)
Capital expenditure	(9,487)	(11,054)	(4,924)	(9,394)	(7,783)
Investments	1,401	(2,010)	(44,387)	(32,000)	(48,000)
Free cash flow	**(4,135)**	**(5,659)**	**(39,653)**	**(29,342)**	**(43,542)**

Source: Company data, Kotak Institutional Equities estimates.

Telecom

TATA.BO, Rs367	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	370
52W High -Low (Rs)	783 - 320
Market Cap (Rs bn)	104.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	32.8	37.7	42.2
Net Profit (Rs bn)	3.1	3.9	4.0
EPS (Rs)	10.9	13.6	14.0
EPS gth	*(36.3)*	*24.0*	*3.2*
P/E (x)	33.5	27.0	26.2
EV/EBITDA (x)	14.0	11.6	10.6
Div yield (%)	1.2	1.4	1.8

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	76.2	-	-
FIIs	7.8	0.1	(0.2)
MFs	1.0	0.1	(0.2)
UTI	-	-	(0.3)
LIC	9.2	0.7	0.4

Tata Communications: Good overall performance; margins in voice business disappoint

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- **2QFY09 results—good operating performance diluted by sharp dip in wholesale voice margins**
- **We await consolidated results and disclosures on operating metrics**
- **Maintain REDUCE rating with a revised target price of Rs370/share**

Tata Communications (TCOM) reported standalone revenues of Rs9.84 bn (8.5% ahead of expectations, up 14% qoq), EBITDA of Rs2.2 bn (our expectation was Rs1.95 bn), and core net income of Rs942 mn (our expectation was Rs958 mn) for 2QFY09. Revenue growth was driven in part by the sharp depreciation in the Re/US$ exchange rate over the quarter. EBITDA margin expanded 20 bps qoq to 22.5% (our expectation was 21.5%) despite higher growth in the low-margin voice business; margin expansion was driven by rupee depreciation and substantial cost rationalization (SG&A expenses were down 10% qoq). We reduce our FY2009E and FY2010E estimates for the core standalone business moderately leading to an 18% cut in the core business valuation in the SOTP (to Rs128/ share from Rs156/share). In addition, we have also reduced the valuation of TCOM's TTSL stake-we now value TTSL at an equity value of US$43 bn (20% EV/sub discount to Idea) versus US$5 bn earlier. Our SOTP-based target price for TCOM stands reduced to Rs370/ share (Rs430/share earlier). Maintain REDUCE. Key upside risks are higher-than-expected valuation of surplus land and sustained rupee depreciation.

Upside potential post recent fall. TCOM stock has fallen substantially over the past week after outperforming the market for several weeks. The stock had held up well on the back of likely corporate events—(1) auction of surplus land and (2) likely investment in TTSL (in which RCOM holds 14.5% equity stake) by a large Japanese telco. We believe the occurrence of either of these events could provide an upside to our SOTP-based target price of Rs370/share for TCOM. Our valuation builds in a surplus land valuation of Rs61 bn (with a substantial portion attributable to the Delhi land) and an equity valuation of US$4 bn for TTSL.

2QFY09 results—robust but for the sharp dip in wholesale voice margins. TCOM's reported 2QFY09 standalone revenues of Rs9.84 bn were 8.5% ahead of our expectations. EBITDA at Rs2.21 bn came in 13% ahead of our estimate with EBITDA margins expanding 20 bps qoq (versus our expectation of a 100 bps decline). OPM expansion was driven by (1) an absolute decline in SG&A expenses for the quarter and (2) rupee depreciation that may have benefited the company on incoming ILD minutes. Adjusted net income of Rs942 mn (down 4% qoq) was on expected lines. The company took an extraordinary charge of Rs956 mn towards FLAG arbitration settlement with RCOM, which aided low tax provision.

Segmental performance—sharp dip in wholesale voice margins. TCOM's wholesale voice revenues at Rs4.6 bn for 2QFY09 were up 14% qoq. However, voice business EBIT declined 25.5% qoq to Rs541 mn (EBIT margins down 630 bps qoq to 11.7% despite rupee depreciation benefits on incoming ILD minutes). The company's enterprise and carrier data business saw modest sequential growth of 4% to Rs3.7 bn (yoy growth a strong 19.1%). EBIT for the data business increased 16% qoq to Rs2.99 bn. Other businesses had a strong quarter with a 46% and 54% qoq growth in revenues and EBIT, respectively—the others segment (which comprises India retail internet, broadband, etc.) contributed 15.7% to 2QFY09 revenues and 21.5% to 2QFY09 EBIT.

Standalone numbers are losing its meaning; consolidated results are not disclosed consistently. Limited or no disclosures of quarterly consolidated financials makes quarterly financial analysis an onerous task. We await disclosure of consolidated results on a quarterly basis before moving to a consolidated model for the company.

Maintain REDUCE rating; revise target price downwards. We reduce our SOTP-based 12-month target price for TCOM to Rs370/share from Rs430/share earlier (See Exhibit 1). Our valuation is based on DCF-based methodology for core (standalone) business and a combination of market price/fair value for investments. We discuss the major components of valuations for the business (1) **Standalone India business**: We ascribe a 12-month DCF-based valuation of Rs128 (down from Rs156 earlier). We expect this business to report single digit earnings growth over the next few years and generate steady cash flow; (2) **Surplus real estate:** We value the surplus real estate at 55 % of the estimated market value. This translates into a value of Rs119/ share. The company has surplus real estate in Delhi, Pune, Kolkata and Chennai. (3) **Stake in Tata Teleservices:** We value TCOM's 14.5% stake in Tata Teleservices (TTSL) at Rs72/share (from Rs109/share earlier). This translates into an equity valuation of US$3 bn for TTSL. TTSL runs wireless service in 22 circles on the CDMA technology and (4) **Tyco Global Network:** Now a part of TCOM's overall global cable network, we have valued this asset at the acquisition price of Rs5.7 bn (US$142 mn). This acquisition comprised 65,000 kms of undersea cable network.

Our sum-of-the-parts 12-month target price for TCOM is Rs370/share

	Estimated value		Value in SOTP		
	(Rs bn)	(Rs/share)	(Rs bn)	(Rs/share)	Comments
1. Core business					
Equity value	**36**	**128**	**36**	**128**	
2. Investments					
TATA Teleservices (TTSL)	20	72	20	72	Valuation based on US$3 bn equity value for TTSL
Tyco Global Network (TGN)	6	20	5.7	20	Valued at book value (100% taken in SOTP)
Teleglobe (TG)	8	28	8.1	28	Valued at book value (100% taken in SOTP)
SNO (South Africa)	0	0	0	0	No NPV ascribed (i.e. neither capex nor revenues modeled)
India retail business	0	0	0	0	No NPV ascribed (i.e. neither capex nor revenues modeled)
Total	**34**	**120**	**34**	**120**	
3. Others					
Surplus real estate	61	216	34	119	55% of estimated market value of surplus land
Total	**61**	**216**	**34**	**119**	
Grand total [1]+[2]+[3]	**132**	**464**	**105**	**367**	**12-month forward target price is Rs370**

Source: Kotak Institutional Equities estimates

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

	qoq			yoy			yoy		
	2Q 2009	**1Q 2009**	**% chg.**	**2Q 2009**	**2Q 2008**	**% chg.**	**1H 2009**	**1H 2008**	**% chg.**
Revenues	**9,839**	**8,632**	***14.0***	**9,839**	**9,477**	***3.8***	**18,471**	**19,559**	***(5.6)***
Staff cost	(838)	(752)	*11.5*	(838)	(672)	*24.8*	(1,590)	(1,338)	*18.8*
Interconnection, network, license fee costs	(5,104)	(4,088)	*24.9*	(5,104)	(5,747)	*(11.2)*	(9,192)	(11,395)	*(19.3)*
SG&A	(1,685)	(1,869)	*(9.9)*	(1,685)	(1,654)	*1.9*	(3,554)	(3,093)	*14.9*
Total expenditure	(7,627)	(6,708)	*13.7*	(7,627)	(8,072)	*(5.5)*	(14,336)	(15,826)	*(9.4)*
EBITDA	**2,212**	**1,924**	***15.0***	**2,212**	**1,405**	***57.4***	**4,136**	**3,732**	***10.8***
EBITDA margin (%)	**22.5**	**22.3**		**22.5**	**14.8**		**22.4**	**19.1**	
Interest/other income	442	581	*(23.9)*	442	402	*9.9*	1,023	675	*51.5*
Depreciation and amortization	(931)	(797)	*16.9*	(931)	(994)	*(6.4)*	(1,728)	(1,923)	*(10.2)*
Interest expense	(259)	(196)		(259)	88		(456)	68	
Pre-tax profits	**1,463**	**1,512**	***(3.2)***	**1,463**	**901**	***62.5***	**2,975**	**2,553**	***16.5***
Extraordinaries/Prior Year	(956)	—		(956)	—		(956)	—	
Tax (incl. deferred tax)	(181)	(528)	*(65.8)*	(181)	(286)	*(36.9)*	(709)	(897)	*(20.9)*
Reported net income	**326**	**983**	***(66.8)***	**326**	**614**	***(46.9)***	**1,310**	**1,656**	***(20.9)***
Adjusted net income	**942**	**983**	***(4.2)***	**942**	**614**	***53.3***	**1,925**	**1,656**	***16.3***
Recurring EPS	**3.3**	**3.5**		**3.3**	**2.2**		**6.8**	**5.8**	
Effective tax rate (%)	35.6	34.9		35.6	31.8		35.1	35.1	
Segment results									
Revenues									
Wholesale voice	4,614	4,039	*14*	4,614	5,031	*(8)*	8,652	10,337	*(16)*
Enterprise and carrier data	3,682	3,536	*4*	3,682	3,091	*19*	7,218	6,522	*11*
Others	1,544	1,058	*46*	1,544	1,356	*14*	2,601	2,700	*(4)*
EBIT (before unalloc. expenses)									
Wholesale voice	541	727	*(26)*	541	461	*17*	1,268	1,219	*4*
Enterprise and carrier data	2,991	2,578	*16*	2,991	2,563	*17*	5,570	5,478	*2*
Others	968	627	*54*	968	603	*60*	1,595	1,325	*20*

Source: Company, Kotak Intitutional Equities estimates

Consumer products

ASPN.BO, Rs926	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,075
52W High -Low (Rs)	1334 - 826
Market Cap (Rs bn)	88.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	34.1	42.6	49.3
Net Profit (Rs bn)	3.8	4.3	4.9
EPS (Rs)	39.5	45.2	50.9
EPS gth	*40.4*	*14.5*	*12.6*
P/E (x)	23.4	20.5	18.2
EV/EBITDA (x)	14.1	12.4	10.5
Div yield (%)	1.6	1.9	2.2

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	49.5	-	-
FIIs	15.1	0.3	(0.1)
MFs	1.5	0.1	(0.2)
UTI	-	-	(0.3)
LIC	7.9	0.6	0.3

Asian Paints: Moving parts trending in diverse direction and at varied pace

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- **Domestic sales benefit from early Diwali, margins suffer from higher costs**
- **Rupee depreciation against US$ likely negate the benefit of gradual cooling down of crude-linked input costs**
- **Retain ADD, cut target price to Rs1,075 from Rs1,240**

As of November 1, Manoj Menon takes over as the lead analyst for the Consumer sector.

Asian Paints reported strong revenue growth of 31.1% (our estimate 23.4%), EBITDA growth of 19% (our estimate 23.1%) and PAT growth at 12.3% (our estimate 17.9%). Domestic paint revenues grew 31.1% yoy during the quarter aided by an early festive season with 2QFY09 sales capturing the sales during Eid as well as Diwali. Consolidated sales, EBITDA and net profit grew strongly by 30.2%, 15% and 15.5%, respectively. EBITDA growth lagged sales growth as higher input costs resulted in a yoy decline in EBITDA margins in domestic as well as international operations. We have revised our estimates to factor in (1) lower margins as the cooling down of crude oil linked inputs is being negated by depreciation of Rupee against US$ and (2) reduce our growth forecasts for FY2010E as new construction as well as existing home sales have slowed down. We believe the paints category (repaint) being a discretionary spend, it is vulnerable to consumer spending cutbacks in slow growth periods and when consumer confidence is low. We have revised our EPS estimates to Rs45.2 (from Rs46.1 previously) for FY2009E and Rs50.9 (from Rs54.7 previously) for FY2010E. We retain our ADD rating on the stock with a revised target price of Rs1,075/share (Rs1,240/share previously). Our target price comprises Rs1,010/share for domestic business (based on DCF) and Rs65/share for international operations (at 6X EV/EBITDA).

Domestic sales benefit from early Diwali, margins suffer from higher costs. Asian Paints achieved a 31.1% growth in standalone sales and 19% growth in EBITDA in 2QFY09. An early Diwali resulted in a larger chunk of festive-season sales getting captured in 2QFY09 as compared to last year. However, higher raw material costs continued to impact margins and EBITDA margins declined 160 bps yoy against our estimated decline of 50 bps. We note the company has increased prices sharply over the past few months to counter higher raw material costs and as per management prices on an average are now 15% higher as compared to prices of April 1, 2008.

We scale down EBITDA margin and growth estimates. We have reduced our EBITDA margin estimate for FY2009E to 15.3% from 16.6% previously. We note the sharp depreciation of Rupee against the US$ will likely negate the benefit of gradual cooling down of crude oil linked raw material costs. We believe (1) inflationary environment, (2) slowdown in new real estate construction and existing home sales and (3) lower consumer confidence could act as a dampener to paint sales, and thus have reduced our FY2010E sales growth estimate for domestic paints business to 15.7% from 19.1% previously. We believe the farm-loan waiver and the Sixth Pay Commission payouts would likely prevent a sharp deceleration in paint sales in 1HCY09E. However, we temper the optimism on the Pay Commission payout providing support for a significant period of time as we believe (1) government employees typically reside in government-owned quarters and hence may chose not to paint and (2) even though government employees have job security, when blip in consumer confidence is observed across the economy, they may likely choose to save than to spend.

Consolidated sales grow strongly, we fear not all parts are moving at the same pace. 30.2% in consolidated sales during 2QFY09 includes a strong performance of international operations (up 34.5% yoy), while the industrial paints (including automotive paint sales under Asian PPG) grew only 4.6%. Within international operations, growth was largely led by operations in the Middle East and South Asia. However, we expect growth in the Middle East to be tempered as the real estate construction there slows down on the back of falling crude prices. Moreover, the likely impact of tourism (dependent on the US economy) in the Caribbean will be adverse for the paint industry's prospects in the near term. We note that Asian Paints continues to make losses in the Caribbean and South-East Asia.

Retain ADD rating, revise target price to Rs1,075/share (from Rs1,240/share previously). Our target price of Rs1,075/share comprises Rs1,010 (Rs1,150 previously) for domestic business and Rs65 (Rs90 previously) for international operations. We value international business at 6X EV/EBITDA or Rs65/share. Our long-term DCF valuation of Rs1,010/share for domestic business implies an EV/EBITDA of 12X and 19X P/E on FY2010E. We retain our ADD rating on the stock.

Asian Paints (unconsolidated) quarterly summary, March yearends (Rs mn)

		yoy		Our est.	yoy
	2QFY09	2QFY08	% chg	2QFY09	% chg
Net sales	**11,683**	**8,912**	**31.1**	**10,998**	**23.4**
Material cost	(7,048)	(5,143)			
Employee cost	(613)	(490)			
Other overheads	(2,224)	(1,768)			
Total expense	(9,885)	(7,400)			
EBITDA	**1,798**	**1,512**	**19.0**	**1,816**	**20.1**
Depreciation	(144)	(108)		(120)	
EBIT	1,654	1,404		1,696	
Other income	177	257		235	
Net interest	(30)	(26)		(23)	
PBT	**1,801**	**1,636**	**10.1**	**1,908**	**16.7**
Tax	(593)	(555)		(630)	
PAT	**1,208**	**1,080**	**11.8**	**1,278**	**18.3**
Extraordinary income (loss)	10	4			
Net profit	**1,217**	**1,084**	**12.3**	**1,278**	**17.9**
EBITDA margin (%)	15.4	17.0		16.5	
Effective tax rate (%)	32.9	33.9		33.0	
Costs as % of net sales					
Material cost	60.3	57.7			
Employee cost	5.2	5.5			
Other overheads	19.0	19.8			

Source: Company data, Kotak Institutional Equities.

Asian Paints (Consolidated) quarterly summary, March yearends (Rs mn)

	2QFY09	2QFY08	yoy % chg
Net sales	**14,753**	**11,332**	**30.2**
Total operating expenses	(12,665)	(9,516)	
EBITDA	**2,088**	**1,816**	**15.0**
Depreciation	(186)	(146)	
EBIT	1,902	1,670	
Other income	179	265	
Net interest	(68)	(69)	
PBT	**2,013**	**1,866**	**7.9**
Tax	(634)	(597)	
PAT	**1,379**	**1,269**	**8.7**
Extraordinary income (loss)	(9)	(67)	
Minority interest & share of profit in associates	(55)	(63)	
Net profit	**1,315**	**1,139**	**15.5**
EBITDA margin (%)	14.2	16.0	
Effective tax rate (%)	31.5	32.0	

Source: Company data, Kotak Institutional Equities.

Consumer Products

TTTE.BO, Rs554	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,100
52W High -Low (Rs)	1015 - 470
Market Cap (Rs bn)	34.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	45.3	46.7	48.7
Net Profit (Rs bn)	3.3	3.9	4.2
EPS (Rs)	54.1	63.3	67.3
EPS gth	*3.6*	*17.2*	*6.2*
P/E (x)	10.2	8.7	8.2
EV/EBITDA (x)	4.0	3.4	2.9
Div yield (%)	2.7	3.2	3.4

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	35.3	-	-
FIIs	14.5	0.1	(0.0)
MFs	9.2	0.3	0.2
UTI	-	-	(0.1)
LIC	10.9	0.4	0.2

Tata Tea: Tactical choice to gain volume market shares augurs well

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- **Go-to-market strategy focuses on volume share gains**
- **Plans to grow 'Himalayan' to a Rs5bn brand in five years**
- **Group restructuring and inorganic forays are events to watch out for**
- **CMP Rs512/share, net cash Rs100/share, retain BUY**

As of November 1, Manoj Menon takes over as the lead analyst for the Consumer sector.

Tata Tea reported consolidated revenue growth of 14% (standalone growth 14%) and 10% decline in EBITDA (standalone decline 31%) for 2QFY09. The company's go-to-market strategy this year for the domestic business—targeting volume market shares with lower price increases compared to competition—will likely payoff in CY09E as consumers choose low-end and medium-end products over the top-end. We highlight that the black tea market in the UK still faces challenges with category penetration levels among the target audience (youth) at about 25%. Tata Tea plans to increase the focus on 'rooibos' to effectively take on green tea in the UK market. The national rollout of the water business is on track—institutional sales and top-end outlets being targeted in the first phase. The company targets Rs5 bn revenue for 'Himalayan' in five years (current Rs250 mn). It has net cash of Rs100/share as of September 30, 2008. Likely events in the near term are (1) group restructuring (for example, Tata Coffee and Tata Tea can be brought under a single entity focused on 'Beverages' segment) and (2) inorganic forays. We will revisit estimates and stock rating post meeting with the management. Retain BUY and target price of Rs1,100/share (17XFY09E).

Go-to-market strategy focuses on volume share gains

Tata Tea continues to be the leader by volume in the Indian tea market posting about 10% volume growth during the quarter. We estimate that 5% price increase by the company in July-August 2008 neutralizes input cost pressures partially, as evident from the 490 bps erosion in EBITDA margins for the quarter to 7.5%. We estimate that the low-end offering 'Agni' is leading the growth as it benefits from capturing the natural uptrading from the unorganized segment. Tata Tea is likely to outperform the industry as 1) tea (structural down tick in CY09 in line with other commodities), 2) coffee (exit of speculators) commodities likely to trend down in CY09 and 3) urban consumers likely to choose low-end and medium-end products over the top-end in a decelerating economy.

Plans to grow 'Himalayan' into a Rs5 bn brand in five years

We believe growth in Tata Tea would be a function of successful integration of operations—both for domestic (MEMW + Tata Tea) as well as international operations (Good Earth + Eight O Clock + Tetley). The company had launched 'Himalayan' in Mumbai and other metros with the Mount Everest (MEMW) team working together with Tata Tea's sales and marketing team. Company is primarily targeting institutional sales (star hotels and destination dine-in restaurants) for volume ramp up—MEMW will likely be in investment phase (brand investments as well as distribution) for the next 2-3 years.

However, we believe Tata Tea can significantly scale up the water business using its distribution reach. Market sources indicate that the launch of 'Himalayan' in Mumbai has been a modest success with a revisit of marketing mix likely in the offing. At Rs1 bn and an estimated 5% of the overall water market, we believe the mineral water business in India offers huge potential.

Group restructuring and inorganic forays are events to watch out for

We believe the strong volume performance by the company across markets augurs well. While the margin pressure due to high tea commodity prices were a dampener, we believe Tata Tea can increase prices to partially neutralize input-cost inflation. The company has net cash of Rs100/share as of September 30m, 2008. Likely events for the near term are (1) group restructuring (for example, Tata Coffee and Tata Tea can be brought under a single entity focused on 'Beverages' segment) and (2) inorganic forays. We will revisit estimates and stock rating post management meeting. Retain BUY rating and target price of Rs1,100/share (17XFY09E).

Tata Tea (consolidated) quarterly summary, March year-ends (Rs mn)

			yoy
	2QFY9	2QFY08	% chg
Net sales	**12,065**	**10,611**	**13.7**
Total operating expenses	(10,568)	(8,955)	
EBITDA	**1,497**	**1,657**	**(9.7)**
Depreciation	(221)	(217)	
EBIT	1,276	1,440	
Other income	219	204	
Net interest	(154)	(632)	
PBT	**1,341**	**1,013**	**32.4**
Tax	(1,031)	(326)	
PAT	**311**	**715**	**(56.5)**
Extraordinary Income (loss)	1,984	(33)	
Minority interest & share of profit in associates	(117)	132	
Net profit	**2,178**	**813**	**167.7**
EBITDA margin (%)	12.4	15.6	
Effective tax rate (%)	30.4	29.4	

Source: Company data, Kotak Institutional Equities

Tata Tea (unconsolidated) quarterly summary, March yearends (Rs mn)

			yoy
	2QFY9	2QFY08	% chg
Net sales	**3,243**	**2,837**	**14.3**
Total operating expenses	(3,001)	(2,487)	
EBITDA	**242**	**351**	**(31.0)**
Depreciation	(26)	(29)	
EBIT	216	321	
Other income	464	290	
Net interest	(103)	(103)	
PBT	**577**	**508**	**13.5**
Tax	(187)	(123)	
Deferred tax	18	3	
PAT	**408**	**389**	**5.1**
Extraordinary income (loss)	30	(20)	
Net profit	**438**	**369**	**18.7**
EBITDA margin (%)	7.5	12.4	
Effective tax rate (%)	29.2	23.6	

Source: Company data, Kotak Institutional Equities

Infrastructure

IRBI.BO, Rs84	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	145
52W High -Low (Rs)	222 - 75
Market Cap (Rs bn)	28.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	7.3	10.8	23.9
Net Profit (Rs bn)	1.1	2.0	4.4
EPS (Rs)	3.4	5.9	13.2
EPS gth	*150.9*	*73.0*	*122.3*
P/E (x)	24.6	14.2	6.4
EV/EBITDA (x)	10.0	9.9	4.9
Div yield (%)	-	-	-

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.4	-	-
FIIs	6.3	0.0	(0.1)
MFs	3.9	0.2	0.0
UTI	-	-	(0.2)
LIC	-	-	(0.2)

IRB Infrastructure Developers: BOT and construction revenues disappoint. Valuations remain attractive. Reiterate BUY

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- **Traffic growth lower than expectations for second quarter in a row; Mumbai-Pune traffic growth at about 7%**
- **Reduce construction segment estimates based on low execution and delay in financial closure of Surat-Dahisar project**
- **Marginally reduce earnings estimates and reduce TP to Rs145 (from Rs155 earlier); reiterate BUY**

IRB (consolidated) reported 2QFY09 revenues of Rs2.02 bn and PAT of Rs412 mn versus our estimates of Rs2.3 bn and Rs408 mn, respectively. Operating profit margin for the quarter was 48.9% versus our estimate of 46.1%. Higher operating margin along with lower-than-expected interest and tax expense helped meet profit estimates. BOT toll revenues were Rs1.1 bn and construction segment revenues were Rs1.02 bn. The key road asset of Mumbai-Pune has likely experienced traffic growth of about 7% during 2QFY09. Execution in the construction segment during the quarter was lower than expectation and is likely to miss full-year estimate led by delay in financial closure of the Surat-Dahisar project. EBITDA margins for the construction sector for 1HFY09 stands at 18%. We marginally reduce our earnings estimates led by changes in (1) traffic growth rate of 7% versus 8% initially, (2) reduction in construction revenues and (3) slightly better margins in line with reported numbers and (4) higher WPI index for FY2009E. Our earnings estimates change to Rs5.8 and Rs12.5 for FY2009E and FY2010E, respectively. We reduce our target price to Rs145 (from Rs155 earlier) and reiterate our BUY rating.

Traffic growth lower than expectations for second quarter in a row; Mumbai-Pune traffic growth at about 7%

IRB (consolidated) reported 2QFY09 revenues of Rs2 bn (down 12.4% qoq) versus our expectation of Rs2.3 bn. BOT toll revenues were Rs1.1 bn and construction segment revenues were Rs1.02 bn. The key road asset of Mumbai-Pune has likely experienced traffic growth of about 7% during 2QFY09—revenues have grown 24.3% yoy and we believe toll increase during the quarter must have contributed 17.3% to this growth (Mumbai-Pune Expressway has a fixed toll increase of 18% while NH-4 has a toll rate increase of 16% every three years). For the half-year ending September 2008, IRB reported revenues of Rs4.3 bn, operating profit of Rs2.1 bn (50% operating profit margin) and profit after tax of Rs954 mn.

We have reduced our traffic growth estimates by 100 bps across projects throughout their life to 7% for the first block of five years, then 6% for the next block of five years, in line with reported traffic growth across key stretches.

Reduce construction revenue estimates for the year based on lower-than-expected execution so far and delays in financial closure of Surat-Dahisar project

The construction segment has reported revenues of Rs1.02 bn in this quarter and Rs2.2 bn for the half-year ending September 2008. We highlight that financial closure for Surat-Dahisar has been delayed to November-end versus sometime in September/October planned earlier. Based on lower-than-expected execution so far and delays in financial closure of Surat-Dahisar project we have revised our full-year construction revenues estimate down to Rs5.9 bn from Rs6.5 earlier. Hence execution during the year so far has been at about 37% of our full-year estimates. For 1HFY09 reported construction segment margins is 18%. We have increased our margin assumptions for the construction business from 15% to 17.5% based on margins achieved till now and recent decline in commodity prices.

Marginally reduce earnings estimates and reduce target price to Rs145 (from Rs155 earlier); reiterate BUY rating

We marginally reduce our EPS estimates to Rs5.9 (from Rs5.8 earlier) and Rs12.5 from (Rs13.2 earlier) for FY2009E and FY2010E, respectively, based on (1) lower traffic growth assumption of 7% for the year (from 8% earlier), (2) lower construction sector revenue estimate of Rs6 bn from Rs6.5 bn and (3) higher margins of 17.5% for the construction sector versus 15% and (4) using WPI Inflation of 9% for FY2009E for Surat-Dahisar and Surat-Bharuch projects versus 5% earlier. We reduce our SOTP-based target price to Rs145 (from Rs155 earlier). It comprises (1) Rs115 per share for the road BOT portfolio that we value based on free cash flow to equity method (based on March FY2010E, using an expected return on equity of 14%), (2) Rs19 per share for the construction business, applying an EV/EBITDA multiple of 4X FY2010E EBITDA and (3) Rs9 per share of estimated net cash on books as of end-FY2009E.

We reiterate our BUY rating based on 70% upside to our target price. We believe IRB has the ability to create value by leveraging further growth opportunities based on the experience that it has accumulated so far in the toll-road segment.

Key risks to existing projects are (1) lower-than-expected economic growth which affects traffic growth, (2) higher interest rates, affecting interest cost of BOT projects, (3) cost and time escalations in projects under execution, affecting expected returns. We highlight that a 1% lower traffic growth rate and 1% higher interest rate assumption (throughout the life of the project versus our base-case assumption) reduces our target price by about 10% while 1% higher traffic growth rate and 1% lower interest rate assumption increases our target price by 10%. Risks to growth opportunities are posed by (1) government delays in offering projects for development and (2) increasing competition, which would probably reduce equity returns.

IRB (consolidated) - 2QFY09 - Key numbers (Rs mn)

	qoq			versus estimates				yoy		
	2QFY09	1QFY09	% change	2QFY09	2QFY09E	% variation	1HFY09	FY2009E	FY2008	% chng yoy
Net Sales/Income from Operations	**2,016**	**2,301**	**(12.4)**	**2,016**	**2,301**	**(12.4)**	**4,317**	**10,253**	**7,327**	**39.9**
Total Expenses	**(1,031)**	**(1,132)**	**(8.9)**	**(1,031)**	**(1,131)**	**(8.8)**	(2,163)	(5,551)	(3,208)	73.0
Direct expenses	(833)	(901)	(7.6)	(833)			(1,734)			
Employees cost	(97)	(97)	0.2	(97)			(194)			
Other Expenditure	(101)	(134)	(24.4)	(101)			(235)			
Operating Profit	**985**	**1,169**	**(15.7)**	**985**	**1,035**	**(4.8)**	**2,154**	**4,703**	**4,119**	**14.2**
Other Income	82	59	39.5	82	82	(0.9)	140	412	520	(20.8)
EBITDA	**1,067**	**1,227**	**(13.1)**	**1,067**	**1,117**	**(4.6)**	**2,294**	**5,114**	**4,639**	**10.2**
Depreciation	(271)	(255)	6.3	(271)	(255)	6.5	(527)	(1,020)	(1,016)	0.4
EBIT	795	972	(18.2)	795	863	(7.8)	1,767	4,094	3,623	13.0
Interest	(304)	(305)	(0.2)	(304)	(392)	(22.4)	(609)	(1,568)	(1,958)	(19.9)
PBT	**491**	**667**	**(26.4)**	**491**	**470**	**4.3**	**1,158**	**2,526**	**1,666**	**51.7**
Tax Expense	(79)	(126)	(37.3)	(79)	(94)	(16.2)	(204)	(608)	(400)	52.2
Net Profit	**412**	**542**	**(23.9)**	**412**	**376**	**9.5**	**954**	**1,918**	**1,266**	**51.5**
Extraordinary Items/Minority interest	-	-		-	-		-	6	(126)	(104.8)
Reprted PAT	**412**	**542**	**(23.9)**	**412**	**376**	**9.5**	**954**	**1,924**	**1,140**	**68.8**
Key Ratios										
Direct expenses	41.3	39.2		41.3			40.2			
Employees cost	4.8	4.2		4.8			4.5			
Other Expenditure	5.0	5.8		5.0			5.4			
OPM	**48.9**	**50.8**		**48.9**	**45.0**		**49.9**	**45.9**	**56.2**	
EBITDA Margin	52.9	53.4		52.9	48.6		53.1	49.9	63.3	
PBT Margin	24.3	29.0		24.3	20.4		26.8	24.6	22.7	
PAT Margin	20.4	23.5		20.4	16.4		22.1	18.7	17.3	
Effective tax rate	16.1	18.8		16.1	20.0		17.7	24.1	24.0	

Source: Company, Kotak Institutional Equities estimates

IRB - key segmental numbers - 2QFY09 (Rs mn)

	qoq			
	2QFY09	1QFY09	FY2009E	FY2008
Revenues	**2,098**	**2,301**	**10,253**	**7,327**
BOT	1,082	1,097	4,280	3,696
Construction	1,015	1,203	5,974	3,631
EBITDA	**1,067**	**1,169**	**4,716**	**4,110**
BOT	904	923	3,670	3,380
Construction	163	246	1,045	730
Margins (%)	*50.8*	*50.8*	*46.0*	*56.1*
BOT	*83.5*	*84.1*	*85.8*	*91.4*
Construction	*16.0*	*20.5*	*17.5*	*20.1*
PBT	**491**	**667**	**2,526**	**1,666**
BOT	373	427		
Construction	118	240		
PAT	**412**	**542**	**1,924**	**1,139**
BOT	324	378		
Construction	88	164		

Source: Company, Kotak Institutional Equities estimates

IRB - key segmental numbers - 2QFY09 (Rs mn)

	2QFY09	2QFY08	*% chng yoy*	1QFY09	1QFY08	*% chng yoy*	FY2009E	FY2008	*% chng yoy*
Toll collection	**1,068**	**891**	***19.8***	**1,097**	**905**	***21.3***	**4,280**	**3,635**	***17.7***
4 BOT projects	143	117	*22.6*	163	124	*31.0*	507	529	*(4.2)*
Kharpada Bridge	17	17	*-*	20	21	*(3.5)*	80	75	*6.7*
Nagar - Karmala - Tembhurni	29	27	*7.1*	31	28	*13.6*	118	110	*7.2*
Pune - Solapur	31	29	*4.8*	37	34	*8.2*	159	137	*16.4*
Pune - Nashik	42	39	*7.7*	40	40	*(0.7)*	186	160	*16.5*
Mumbai - Pune	726	584	*24.3*	720	579	*24.5*	2,939	2,352	*25.0*
Thane - Ghodbunder	64	63	*1.9*	68	66	*2.4*	291	273	*6.4*
MMK	17	16	*6.4*	18	13	*43.1*			

Note: We do not include MMK, a small project, in our estimates

Source: Company, Kotak Institutional Equities estimates

IRB Infrastructure Developers - SOTP valuation

	Equity value of asset (Rs mn)	IRB's stake (%)	Value of IRB's stake (Rs mn)	Contribution to value of IRB (%)	Per share contribution to IRB (%)	Asset valuation methodology
Roads	**38,590**		**38,100**	**80.4**	**114.6**	**FCFE**
4 BOT projects	3,283	100.0	3,283	6.9	9.9	FCFE based on FY2010E
Kharpada Bridge	404	100.0	404	0.9	1.2	FCFE based on FY2010E
Nagar - Karmala - Tembhurni	687	100.0	687	1.5	2.1	FCFE based on FY2010E
Pune - Solapur	1,433	100.0	1,433	3.0	4.3	FCFE based on FY2010E
Pune - Nashik	1,713	100.0	1,713	3.6	5.2	FCFE based on FY2010E
Mumbai - Pune	13,949	100.0	13,949	29.4	42.0	FCFE based on FY2010E
Thane - Ghodbunder	3,110	100.0	3,110	6.6	9.4	FCFE based on FY2010E
Bharuch - Surat	10,269	100.0	10,269	21.7	30.9	FCFE based on FY2010E
Surat-Dahisar	2,449	80.0	1,959	4.1	5.9	FCFE based on FY2010E
Kolhapur urban road project	1,293	100.0	1,293	2.7	3.9	FCFE based on FY2010E
Construction	**6,358**	**100.0**	**6,358**	**13.4**	**19.1**	**EV/EBITDA multiple of 4X based on FY2010E**
Real Estate	**5,580**	**66.0**	**3,683**	**7.8**	**11.1**	**NAV**
Net cash at parent level and in	**2,932**	**100.0**	**2,932**	**6.2**	**8.8**	**Estimated balance at end-FY2009E**
Grand total	**47,880**		**47,390**	**100**	**142.6**	**SOTP**

Source: Kotak Institutional Equities estimates

IRB - Sensitivity analysis of stock price to initial traffic growth rate and interest rate assumptions

		Initial traffic growth rate (%)				
		5.0	**6.0**	**7.0**	**8.0**	**9.0**
Interest rate (%)	**Assumed rate -2**	106	123	141	159	179
	Assumed rate -1	95	111	127	145	163
	Assumed rate	84	99	**115**	131	148
	Assumed rate +1	74	88	103	118	135
	Assumed rate +2	65	78	92	107	122

Note: Base case interest rate is 11.5% throughout the life of the project with equity return expectation of 14%

Source: Kotak Institutional Equities estimates

Beverages

UBBW.BO, Rs91	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	105
52W High -Low (Rs)	393 - 80
Market Cap (Rs bn)	21.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	15.6	18.6	22.2
Net Profit (Rs bn)	0.5	0.6	0.7
EPS (Rs)	2.1	2.2	2.7
EPS gth	*(2.2)*	*2.5*	*24.4*
P/E (x)	43.0	42.0	33.7
EV/EBITDA (x)	13.4	10.5	8.6
Div yield (%)	-	-	-

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	75.0	-	-
FIIs	16.6	0.1	0.1
MFs	0.3	0.0	0.0
UTI	-	-	-
LIC	-	-	-

United Breweries: 2QFY09 results impacted by volume slippages

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- **2QFY09 sales 11% lower than estimates due to lower volume growth; 1HFY09 volume growth of 8% (KIE 12%); adjusted EBITDA at Rs402 mn versus KIE Rs582 mn**
- **Adjusted EBITDA margins (including other operating income) at 11% versus KIE expectation of 12.25% due to higher fixed costs but gross margins higher**
- **Reduce estimates to factor in lower volumes; introduce FY2011E estimates**
- **Cut target price to Rs105 and maintain REDUCE rating**

United Breweries Ltd (UBL's) 2QFY09 results were below expectations. Net sales grew 29% yoy to Rs3.6 bn, 11% lower than our expectation of 46% growth. Volume growth in 1HFY09 was 8%, lower than our estimate of 12% as UBL lost sales in some key markets. Adjusted EBITDA (including other income adjusted for Rs40 mn income of 1QFY09) at Rs402 mn (22% yoy increase) was lower than our estimate of Rs582 mn, mainly due to higher fixed costs. EBITDA margin of 11% was lower than our estimate of 12.25%, despite higher gross margins. PAT (adjusting for Rs40 mn 1QFY09 income and Rs56.5 mn forex translation losses) is estimated to be 40% lower yoy. We adjust our model for lower sales volume and higher fixed costs. We also make adjustments for interest costs and higher depreciation. We set a new revised price target of Rs105 (Rs160 earlier) and maintain our REDUCE rating.

2QFY09 sales 11% lower than estimates due to lower volume growth; adjusted EBITDA at Rs402 mn versus KIE Rs582 mn

Net sales grew 29% yoy to Rs3.6 bn against our expectation of Rs4.1 bn (46% yoy growth). Volume growth for 1HFY09 came in at 8% (versus 6.5% in 1QFY09 and our expectation of 12%) beating the industry growth rate of 5.5%. As highlighted in our previous note, key states like Punjab and Haryana face institutional issues like cartelization (Haryana) and 30-35% increase in excise (Punjab) which will impact volumes in FY09. We have now reduced our volume estimates to 9% yoy in FY09E from around 12% earlier to incorporate these changes.

UBL's performance in the strong beer segment continues to impress, with the segment having grown 19% in 1HFY09 versus around 17% in 1QFY09. We highlight that we have built in volume growth of 16% yoy in this segment. Overall, UBL claims to have increased its share by 1% yoy in the total beer market in India.

Adjusted EBITDA margins (including other operating income) at 11% versus our expectation of 12.25% due to higher fixed costs; gross margins higher

UBL's EBITDA was impacted by higher fixed costs, which were higher than our estimates on a lower sales base. 2QFY09 results also include Rs40 mn income charge of 1QFY09 quarter. Adjusting for this (and including other income), EBITDA for the quarter was Rs402 mn (22% yoy increase) against our expectation of Rs582 mn. EBITDA margin was 11% versus our expectation of 12.25%, primarily led by higher fixed costs.

2QFY09 gross margin was 53.4%, higher than our estimate of 51.5% and 51.8% in 1QFY09. UBL has currently hedged its barley requirements by advance procurement of almost 80-90% of its total requirements during the year during the crop harvesting season in March-April 2008 and has also some long-term contracts with Pepsi for almost 30% of its requirement. Since almost a large part of barley for UBL has already been contracted in April-May, we expect UBL's malt procurement prices to remain fairly firm during FY09, despite recent barley price corrections. However, UBL is likely to benefit from marginally lower other input costs, especially on packaging costs.

Net profit at Rs108 mn was 3% higher yoy but includes Rs40 mn of 1QFY09 income and Rs57 mn of forex translation losses on ECBs. Adjusting for these, we estimate post-tax profit of Rs63 mn, which is a decline of 40% yoy. We have now included Rs150 mn translation loss on ECB loans to our estimates for FY2009E.

We reduce our FY09 & FY10 estimates 31% and 35%

Exhibit 3 shows key changes to our estimates. We have reduced our volume assumptions for FY09E and FY10E to 9% and 10% from 12% and 13%, respectively. We have also reduced our COGS assumptions 3% and 6% to factor in lower packaging costs, thereby increasing our gross margins assumptions to 51.1% and 50.9% in FY2009E and FY2010E, respectively. We also increase our fixed costs by 3% and 1%, respectively (off lower sales bases), thereby reducing our EBITDA estimates by 6% and 12%, respectively. We also fine-tune our interest and depreciation assumptions.

We also introduce FY2011E estimates with volume growth of 10% in FY2011E and price increase of 8%. We assume EBITDA margins of 13.7% (from around 13% in FY2010E).

We set a new target price of Rs105 and maintain our REDUCE rating, valuations still expensive

We set a new target price of Rs105 (Rs160 earlier) based on a revised FY2009E EV/EBITDA multiple of 12X (same as United Spirits) and maintain our REDUCE rating. UBL's earnings are likely to grow at 28% CAGR over FY2008-11E, with most of the growth being back-ended. We highlight that UBL's valuations have historically been very rich, with investors more focused on growth potential of the beer category in the country and UBL's market share of around 50%. Key upside risk remains potential excise rationalization in the sector and price hikes in critical states like Andhra Pradesh while further downside risks could come from lower volume growth.

UB Ltd interim results, March fiscal year-ends (Rs mn)

	yoy			qoq		
	2Q2009	2Q2008	% chg.	2Q2009	1Q2009	% chg.
Net sales	3633	2807	29	3633	4746	(23)
Expenditure						
COGS	(1695)	(1334)	27	(1695)	(2288)	(26)
Power & fuel	(162)	(116)	40	(162)	(186)	(13)
Staff costs	(260)	(207)	25	(260)	(192)	35
Advertising & sales promotion	(945)	(715)	32	(945)	(1269)	(26)
Other expenditure	(218)	(192)	14	(218)	(172)	27
Total	(3279)	(2564)	28	(3279)	(4107)	(20)
EBITDA	**354**	**242**	**46**	**354**	**639**	**(45)**
EBITDA Margin (% to sales)	9.7	8.6		9.7	13.5	
Interest (net)	(119)	(98)	21	(119)	(129)	(8)
Depreciation	(185)	(133)	39	(185)	(167)	10
Other income	88	88	(0)	88	60	48
Profit before tax	139	100	38	139	402	(65)
Total tax	(31)	5	(742)	(31)	35	(189)
PAT	**108**	**105**	**3**	**108**	**263**	**(59)**
Extraordinaries	(57)			(57)	(37)	53
Net profit (adjusted)	**63**	**105**	**(40)**	**63**	**251**	**(75)**
Tax/PBT (%)	22	(5)		22	38	
% to net sales	**2Q2009**	**2Q2008**		**2Q2009**	**1Q2009**	
COGS	46.6	47.5		46.6	48.2	
- Raw material	13.6	12.0		13.6	11.3	
- Packing	20.0	22.8		20.0	25.3	
- Traded goods	13.1	12.7		13.1	11.6	
Power & Fuel	4.5	4.1		4.5	3.9	
Staff costs	7.1	7.4		7.1	4.1	
SG&A	26.0	25.5		26.0	26.7	
Other expenditure	6.0	6.8		6.0	3.6	

Source: Company, Kotak Instituitonal Equities estimates

Our target price is based on 12X EV/EBITDA

United Breweries Ltd (UBL)			
EBITDA	2,343	12	28,120
Less Net Debt			2,845
Equity value			25,275
Per share price (Rs)			**105**

Source: Kotak Instituitonal Equities estimates

Key changes in estimates for 2009/10E, March fiscal year-ends, (Rs mn)

	New		Old		Change (%)	
	2009E	2010E	2009E	2010E	2009E	2010E
Net Sales	18,562	22,215	18,763	23,202	(1)	(4)
COS	(9,075)	(10,912)	(9,348)	(11,610)	(3)	(6)
Gross Profit	9,488	11,303	9,416	11,592	1	(2)
EBITDA	**2,343**	**2,891**	**2,493**	**3,281**	**(6)**	**(12)**
EBITDA margin	12.6	13.0	13.3	14.1		
Depreciation	(923)	(1,266)	(908)	(1,065)	2	19
Interest and Fin Costs	(527)	(492)	(524)	(457)	0	8
PBT (pre extraordinaries)	**894**	**1,133**	**1,061**	**1,759**	**(16)**	**(36)**
PBT	**744**	**1,133**	**1,061**	**1,759**	**(30)**	**(36)**
PAT	**455**	**732**	**659**	**1,131**	**(31)**	**(35)**

Source: Kotak Instituitonal Equities estimates

Current estimates (including sales in JV)

				% change		
	2009E	2010E	2011E	2009E	2010E	2011E
Sales	18,562	22,215	26,643	18.9	19.7	19.9
EBITDA	2,343	2,891	3,650	10.2	23.4	26.3
EBITDA margin (%)	12.6	13.0	13.7			
PAT	455	732	1,141	(16.0)	60.8	55.9
EPS (diluted)	1.5	2.7	4.4	(27.1)	75.1	63.4

Note:
(1) EPS is adjusted for preference shares

Source: Kotak Instituitonal Equities estimates

Strong beer sales is expected to contribute 89% of total sales growth between FY2008-11E

Total volume assumptions, March fiscal year-ends (mn cases)

Source: Kotak Instituitonal Equities estimates

United Breweries: Profit model, balance sheet, cash model, March fiscal year-ends, 2005-11E, (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Profit Model (Rs mn)							
Total income (inc. other op. income)	**6,067**	**8,194**	**12,257**	**15,878**	**18,831**	**22,483**	**26,911**
EBITDA	**572**	**1,349**	**1,694**	**2,126**	**2,343**	**2,891**	**3,650**
EBITDA margin (%)	*9.4*	*16.5*	*13.8*	*13.4*	*12.4*	*12.9*	*13.6*
Depreciation	(182)	(349)	(474)	(732)	(923)	(1,266)	(1,428)
Other Income (inc. extraordinaries)	(60)	(340)	—	—	(150)	—	—
EBIT	**329**	**660**	**1,220**	**1,394**	**1,271**	**1,625**	**2,222**
Net finance cost	(257)	(342)	(370)	(546)	(527)	(492)	(492)
Profit before tax	**72**	**319**	**850**	**848**	**744**	**1,133**	**1,730**
Tax	**(119)**	**(427)**	**(301)**	**(308)**	**(289)**	**(402)**	**(589)**
Reported net profit	**(45)**	**(108)**	**550**	**542**	**455**	**732**	**1,141**
Diluted EPS (Rs)	**(0.4)**	**(0.9)**	**2.2**	**2.1**	**1.5**	**2.7**	**4.4**
Balance Sheet (Rs mn)							
Total Equity	2,199	4,934	5,337	6,097	10,704	11,349	12,403
Deferred tax liability	131	107	65	88	131	188	272
Total borrowings	3,732	4,033	6,262	6,807	6,287	6,437	6,437
Current liabilites & provisions	1,762	2,013	2,662	3,096	3,974	4,600	5,477
Total Liabilities and equity	**7,824**	**11,088**	**14,325**	**16,087**	**21,096**	**22,574**	**24,589**
Cash	205	1,341	1,471	112	3,442	3,411	4,257
Current assets excl. cash	4,542	5,781	5,760	6,063	7,110	8,234	9,681
Total net fixed assets	1,870	2,775	5,912	8,045	8,749	9,133	8,855
Investments	20	8	0	0	368	368	368
Goodwill on consolidation	1,187	1,182	1,182	1,867	1,428	1,428	1,428
Total assets	**7,824**	**11,088**	**14,325**	**16,087**	**21,097**	**22,574**	**24,589**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	338	(329)	1,016	1,058	1,419	2,055	2,653
Working capital	(562)	(498)	(679)	(652)	(101)	(499)	(511)
Capital expenditure	(131)	(1,828)	(3,600)	(2,821)	(1,650)	(1,650)	(1,150)
Free cash flow	**(356)**	**(2,655)**	**(3,263)**	**(2,415)**	**(333)**	**(94)**	**992**

Note:
(1) Diluted EPS is after adjusting for preference share dividend

Source: Company, Kotak Instituitonal Equities estimates

Banking

MMFS.BO, Rs192	
Rating	SELL
Sector coverage view	Attractive
Target Price (Rs)	190
52W High -Low (Rs)	368 - 175
Market Cap (Rs bn)	18.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	7.7	8.4	9.4
Net Profit (Rs bn)	1.8	1.6	2.1
EPS (Rs)	20.8	16.8	22.3
EPS gth	*32.6*	*(19.5)*	*33.3*
P/E (x)	9.2	11.5	8.6
P/B (x)	1.5	1.3	1.2
Div yield (%)	2.4	2.2	2.9

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.6	-	-
FIIs	23.5	0.1	0.1
MFs	0.4	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Mahindra & Mahindra Finance: Challenging liquidity scenario and high NPLs will likely affect performance, retain SELL

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- **MMFSL reported PAT of Rs352 mn, down 7% yoy and 11% below estimates**
- **Moderate loan growth but lower NIM in 2QFY09; high NPLs remain a cause of concern**
- **Challenging liquidity scenario in the economy is currently affecting business**
- **We reduce estimates, retain SELL with price target of Rs190**

Mahindra and Mahindra Financial Services (MMFSL) reported core profits (PBT excluding gains on securitisation and provisions) of Rs388 mn, down 4% yoy and 25% below estimates. Lower-than-estimated NIM due to likely pressure on borrowings cost and higher operating expenses pulled down earnings. While growth during the current quarter was in line with estimates, the management has highlighted that liquidity tightness in the system, if continues, will pull down growth in the current quarter. We find it challenging to make projections in current uncertain scenario and are now significantly scaling down our earnings estimates (EPS estimates down 27% and 18% for FY2009E and FY2010E, respectively). Despite a rollover to FY2010E, we are reducing our price target to Rs190 from Rs220 earlier. Retain SELL recommendation on the stock. The stock is current trading at 8.5X PER and 1.1X PBR FY2010E.

Key highlights

Liquidity scenario will affect performance. MMFSL has highlighted that the past few weeks have been challenging to mobilize funds from the debt markets given the tight liquidity situation in the system. Its marginal borrowings cost will likely continue to remain volatile till the liquidity scenario improves.

- **Scale down in non-M&M business**. MMFSL has scaled down its lending to non-M&M products. It is now primarily focusing on financing M&M's products due to (1) high yields in financing some of the products (e.g.: tractors), (2) favorable payment terms offered by M&M (MMFSL will seek credit period of 1-2 months in some of these products) and (3) direct subvention received from M&M.
- **M&M's parentage comforts bankers**. On the borrowings side, MMFSL is focusing more on banks and insurance companies than mutual funds. M&M's parentage is a comforting factor to banks and rating agencies.
- **Revision of estimates**. We are reducing our loan growth estimates to 7% and 10% for FY2009E and FY2010E from 9% and 15%, respectively. We are not assuming any yoy growth in disbursements in 2HFY09 and 17% growth in FY2010E on the low base. Note that the current base is anyway low—MMFSL had reported a 15% decline in disbursements during 2HFY08 since it was going slow in certain geographies due to poor collections. Given the volatile borrowings cost, it is difficult to project NIM. We assume sequentially stable margin which could be at risk in the current scenario.

Asset quality remains a concern. MMFSL reported NPL ratio of 9.4% for 2QFY09 versus 9.8% in 1QFY09 and 7.9% in 2QFY08. The high NPLs ratio, despite concerted efforts of the management, remains a cause on concern. The management has highlighted that focus on recoveries will now get a boost as the pace of business will likely be lower in 3QFY09. We are assuming provisions of Rs1.5 in 2HFY09—in line with 1HFY08. We expect the ratio of provisions to average assets to improve to 3.75% in FY2010E from 4.35% in FY2009E. A likely improvement in collection efficiency can significantly reduce provisions and remains a key sensitivity to earnings.

Mahindra Finance
Quarterly results, 1Q08-2Q09 (Rs mn)

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	YoY(%)	2Q09E	Actual vs KS (%)
Total interest income	2,351	2,702	2,899	3,033	2,800	3,118	15	3,189	(2)
Total interest expense	1,032	1,085	1,263	1,180	1,103	1,312	21	1,248	5
Net interest income	**1,320**	**1,617**	**1,636**	**1,853**	**1,697**	**1,806**	**12**	**1,941**	**(7)**
Provisions and write/off	**594**	**574**	**714**	**599**	**880**	**698**	**22**	**800**	**(13)**
Net interest income (after prov.)	725	1,044	922	1,255	818	1,109	6	1,141	(3)
Other income	153	228	338	580	194	191	(16)	140	37
Income from securitization	95	174	288	515	146	158	(9)	100	58
Total income pre loan loss provision	1,473	1,846	1,974	2,433	1,891	1,998	8	2,081	(4)
Operating expenses	**556**	**692**	**606**	**671**	**593**	**754**	**9**	**666**	**13**
Employee expenses	181	263	246	271	260	313	19	280	12
Depreciation	21	22	23	22	21	19	(15)	20	(5)
Other expenses	355	407	337	379	311	421	3	366	15
Pretax income	**323**	**580**	**654**	**1,163**	**419**	**546**	**(6)**	**615**	**(11)**
Tax provisions	108	203	229	409	151	194	(4)	218	(11)
Net Profit	**214**	**377**	**425**	**754**	**268**	**352**	**(7)**	**396**	**(11)**
Tax rate	34	35	35	35	36	36		36	
PBT before securitisation income and	**822**	**980**	**1,080**	**1,246**	**1,153**	**1,086**	**11**	**1,315**	**(17)**
PBT bef sec income post prov	**273**	**407**	**366**	**648**	**273**	**388**	**(4)**	**515**	**(25)**
Other operational details									
Disbursements (Rs bn)	15.9	15.8	13.8	13.0	15.0	19.8	25	17	16.4
Outstanding assets (Rs bn)	66.1	70.5	71.0	70.2	72.1	79.0	12		
Outstanding loans (Rs bn)	62.7	66.7	67.2	66.4	68.3	74.8	12	74	1.0
Total income/ average assets(%)	14.9	15.8	17.0	18.4	16.1	16.4			
Interest / average assets (%)	6.3	6.2	6.6	6.7	6.1	6.3			
Difference (%)	8.6	9.6	10.4	11.7	10.0	10.1			
NIMs (KS estimate) (%)	8.70	10.00	9.77	11.09	10.08	10.10			
Gross NPLs (Rs mn)	5,207	5,829	6,487	5,572	7,501	7,866			
Gross NPL ratio (%)	7.6	7.9	8.7	7.6	9.8	9.4			
NPAs (Rs mn)	2,518	2,835	2,909	2,053	3,084	3,137			
Net NPL ratio (%)	3.8	4.0	4.1	2.9	4.3	4.0			
CAR (%)	14.4	14.4	15	20.7	19.9	17.8			
Tier I (%)	8.7	10.7	11	16.8	16.6	15.8			
Exp/ ave assets (%)	3.5	3.8	3.7	3.8	3.7	3.7			
Balance sheet (Rs mn)									
Sharecapital	841	841	841	953	954	955	14		
Reserves	7,146	7,523	7,948	12,176	12,452	12,805	70		
ESOP	14	15	17	14	12	13	(13)		
Total Borrowings	51,675	56,803	56,931	50,682	52,073	59,212	4		
Current Liabilities	6,392	5,366	5,285	6,393	6,645	6,061	13		
Total liabilities and shareholders funds	**66,068**	**70,548**	**71,022**	**70,218**	**72,136**	**79,046**	**12**		
Loans & Avd	62,689	66,709	67,237	66,435	68,267	74,772	12		
Investments	38	38	31	31	58	58	53		
Deferred tax	808	911	1,048	1,254	1,316	1,418	56		
Current Assets	2,242	2,586	2,400	2,177	2,190	2,444	(5)		
Fixed assets	291	304	306	308	305	354	16		
Total assets	**66,068**	**70,548**	**71,022**	**70,218**	**72,136**	**79,046**	**12**		

Source: Company, Kotak Institutional Equities estimates.

Mahindra & Mahindra Financial Services
Old and new estimates, March fiscal-years 2009-2010E (Rs bn)

	Old estimates		New estimates		% change		yoy growth	
	2009E	2010E	2009E	2010E	2009E	2010E	2009E	2010E
Net interest income	7,519	8,504	7,041	7,807	(6.4)	(8.2)	7.3	10.9
Loan book (Rs bn)	72.3	83.3	70.5	77.3	(2.6)	(7.2)	6.6	9.6
Loan growth (%)	9	15	7	10			9.5	15.1
NIM (%)	10.3	10.4	9.7	10.0				
NPL provisions	2,699	2,879	3,141	2,955	16	3	27.5	(5.9)
Other income	1,300	1,550	1,350	1,550	4	0		
Securitization	1,200	1,400	1,250	1,400	4	0		
Operating expenses	2,796	3,229	2,767	3,121	(1)	(3)	9.6	12.8
Employee	1,093	1,266	1,172	1,302	7	3	22.0	11.0
Others	1,703	1,963	1,594	1,819	(6)	(7)	1.9	14.1
PBT	**3,324**	**3,946**	**2,483**	**3,281**	**(25)**	**(17)**	**(8.7)**	**32.1**
Tax	1,137	1,349	885	1,152	(22)	(15)	(6.8)	30.1
PAT	**2,187**	**2,596**	**1,598**	**2,130**	**(27)**	**(18)**	**(9.7)**	**33.3**
PBT-securitisation income	2,124	2,546	1,233	1,881	(42)	(26)	(25.1)	52.6
PBT-secu income+ provisio	4,823	5,425	4,374	4,836	(9)	(11)	6.5	10.6
EPS(Rs)	**23**	**27**	**17**	**22**	**(27)**	**(18)**		

Source: Kotak Institutional Equities estimates.

Construction

NGCN.BO, Rs52	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	150
52W High -Low (Rs)	388 - 40
Market Cap (Rs bn)	12.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	34.7	46.3	58.8
Net Profit (Rs bn)	1.6	1.9	2.4
EPS (Rs)	7.2	8.1	10.6
EPS gth	*14.5*	*13.4*	*30.2*
P/E (x)	7.3	6.4	4.9
EV/EBITDA (x)	6.5	5.8	5.2
Div yield (%)	2.1	2.6	3.1

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	22.5	-	-
FIIs	33.0	0.2	0.1
MFs	23.9	0.6	0.5
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Nagarjuna Construction: Strong operating performance; Reiterate BUY

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- **Results beat expectations; management maintains revenue guidance of Rs45 bn for FY2009E**
- **Decline in commodity prices would help alleviate margin pressures; however, higher interest rates would put pressure on profitability**
- **Strong order backlog of Rs124 bn to help maintain revenue visibility of 2.4 years**
- **We maintain our earnings estimate and revise target price to Rs150; reiterate BUY**

Nagarjuna construction reported 1QFY09 revenues of Rs10.6 bn (up 56% yoy) versus our estimate of Rs9.3 bn. Operating profit margin for the quarter was 10.3% (down 230 bps yoy), marginally higher than our estimate of 10%. Order backlog for the company stood at Rs124 bn (up 38% yoy) implying strong order inflow of Rs14 bn for 2QFY09. The current order book provides a visibility of 2.4 years based on forward four quarter revenues. Management maintained its guidance of Rs45 bn of standalone revenues for FY2009E and Rs50 bn consolidated revenues for FY2010E. We maintain our earnings estimates of Rs8.1 and Rs10.6 for FY2009E and FY2010E, respectively. We have revised our target price to Rs150/share based on lower multiple for core construction business. We reiterate our BUY rating based on (1) inexpensive valuations, (2) likely strong near-term earnings growth led by strong order backlog, (3) long-term macro outlook for infrastructural investments, (4) diversified business presence and (5) potential ramp up of international as well as real estate business. Key risks include (1) aggravation of margin pressures and (2) higher-than-expected interest costs.

Results beat expectations; management maintains revenue guidance of Rs45 bn for FY2009E

Nagarjuna Construction reported 2QFY09 revenues of Rs10.6 bn (up 56% yoy) about 14% higher than our estimate of Rs9.3 bn. Operating profit margin for the quarter was 10.3% (down 230 bps yoy), marginally higher than our estimate of 10%. The management maintained its guidance of Rs45 bn standalone revenues for FY2009E and Rs50 bn consolidated revenues for FY2010E. Margins are expected to remain in the range of 9.5% to 10% for FY2009.The yoy decline in margins was driven by an increase in material and construction expenses as a percentage of sales. For the half-year ending September 2008, Nagarjuna reported revenues of Rs20.3 bn, up 40.8% yoy. Operating profit was 9.9% (down 150 bps yoy) versus 11.4% last year and profit after tax of Rs794 mn (up 14% yoy).

Decline in commodity prices would help alleviate margin pressures; however higher interest rates would put pressure on bottom line

Contribution margin for the company declined 260 bps yoy to 17.7% in 2QFY09 versus 20.3% last year. The recent decline in commodity prices should help alleviate margin pressures going forward. However, higher interest rates would continue to put pressure on the profitability. The company guided that it currently has an interest rate of around 11.5%-12% and is expected to go up by about 100 bps in the next quarter.

Strong order backlog of Rs124 bn help maintain revenue visibility of 2.4 years

The order backlog of the company stood at Rs124 bn (up 38% yoy) implying strong order inflows of Rs14 bn for 2QFY09. This order backlog provides a visibility of about 2.4 years of revenues based on forward four quarter estimates (see Exhibit 2). Nagarjuna continues to have a well diversified order book and we believe the company will continue to build traction in several of these new and high-growth segments. International orders and those from the oil & gas segment gained momentum increasing their stake to 22% and 10% in 1QFY09 from 8% and 4%, respectively, at the end of 2QFY08 (see Exhibit 3). The company witnessed a reduction in the roads segment during this quarter led by slow progress by NHAI in awarding contracts. However, they believe most of the issues have been resolved related to the award of new BOT road projects. However, a slowdown is expected in the real estate construction segment.

We maintain our earnings estimate and target price of Rs195; reiterate BUY

We maintain our earnings estimates of Rs8.1 and Rs10.8 for FY2009E and FY2010E, respectively. We have revised our SOTP-based target price to Rs150/share (see Exhibit 4) comprising (1) Rs106/share of Nagarjuna's core construction business (implying a FY2010E P/E of about 10X (see Exhibit 5), (2) BOT projects contribution of Rs6.8/share, (3) Rs33.49/share invested as book value of equity invested in infrastructure assets and real estate.

We reiterate our BUY rating based on (1) strong near term earnings visibility led by strong order backlog, (2) long-term macro outlook for infrastructural investments providing opportunities as construction contractors as well as developers, (3) recent demonstration of ability to form project-specific alliances to add on additional segments of business with large potential such as power, oil & gas and metallurgy and (4) potential ramp up of international as well as real estate business.

Key risks to the earnings include (1) margin pressure due to rise in commodity prices and (2) higher-than-expected interest costs led by tightening of money supply in the economy.

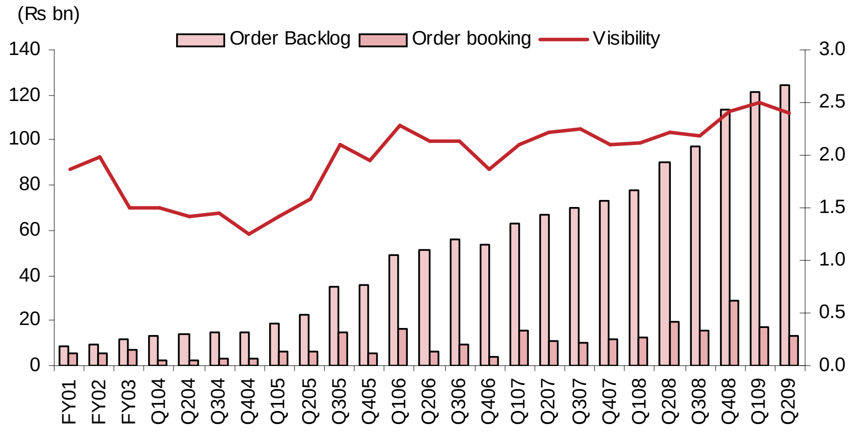
Exhibit 2. Nagarjuna Construction - 2QFY09 - key numbers (Rs mn)

	yoy			qoq					
(in Rs mn)	**2QFY09**	**2QFY08**	[illegible]	**2QFY09**	**1QFY09**	[illegible]	**1HFY09**	**1HFY08**	[illegible]
Net sales	**10,558**	**6,772**	[illegible]	**10,558**	**9,709**	[illegible]	**20,268**	**14,394**	[illegible]
Operating costs	**(9,473)**	**(5,923)**	[illegible]	**(9,473)**	**(8,794)**	[illegible]	**(18,267)**	**(12,752)**	[illegible]
(Increase)/Decrease in Stock in Trade	354	199		354	701		1,055	(182)	
Raw materials	(3,736)	(2,339)	*59.8*	(3,736)	(3,608)	*3.6*	(7,344)	(4,515)	*62.6*
Other construction expenses	(4,373)	(2,600)	*68.2*	(4,373)	(4,197)	*4.2*	(8,570)	(5,744)	*49.2*
Labour	(936)	(659)	*42.0*	(936)	(961)	*(2.6)*	(1,897)	(1,321)	*43.6*
Staff cost	(519)	(343)	*51.3*	(519)	(501)	*3.6*	(1,019)	(646)	*57.8*
Other expenditure	(263)	(182)	*44.8*	(263)	(229)	*15.2*	(492)	(344)	*43.3*
Operating profit	**1,085**	**848**	[illegible]	**1,085**	**916**	[illegible]	**2,000**	**1,642**	[illegible]
Other income	10	4	*161.8*	10	9	*16.6*	18	8	*146.4*
Interest cost	(275)	(233)	*17.7*	(275)	(239)	*15.1*	(513)	(379)	*35.6*
Depreciation	(149)	(117)	*27.5*	(149)	(142)	*5.3*	(291)	(222)	*31.5*
Profit before tax	**671**	**502**	[illegible]	**671**	**544**	[illegible]	**1,215**	**1,049**	[illegible]
Tax	(248)	(165)	*50.1*	(248)	(173)	*43.3*	(421)	(352)	*19.4*
Profit after tax	**423**	**337**	[illegible]	**423**	**371**	[illegible]	**794**	**697**	[illegible]
Key ratios									
Raw material, labour and other const. expenses	82.3	79.7		82.3	83.1		82.7	81.7	
Staff cost	4.9	5.1		4.9	5.2		5.0	4.5	
Other expenditure	2.5	2.7		2.5	2.4		2.4	2.4	
Operating profit margin (%)	**10.3**	**12.5**		**10.3**	**9.4**		**9.9**	**11.4**	
PBT margin (%)	6.4	7.4		6.4	5.6		6.0	7.3	
PAT margin (%)	4.0	5.0		4.0	3.8		3.9	4.8	
Effective tax rate (%)	36.9	32.9		36.9	31.8		34.6	33.6	

Source: Company, Kotak Institutional Equities

Exhibit 2. Nagarjuna Construction has visibility of 3.2 years based on forward four quarter revenues

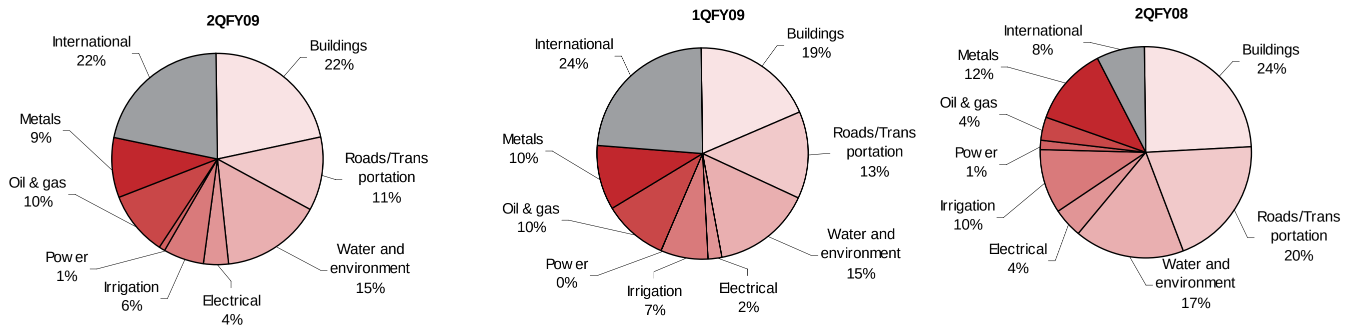
Order backlog, order booking and visibility (X) of Nagarjuna Construction



Source: Company, Kotak Institutional Equities estimates

Exhibit 3. Order book continues to be well diversified

Segment wise order book break up at end of 2QFY09 and 1QFY09



Source: Company

Exhibit 4. Derivation of SOTP based target price for NCCL

	Equity Commitment (Rs mn)	Incremental P/B (X)	Valuation (Rs mn)	Rs/share
BOT Projects	**3,148**	**0.4**	**1,555**	**6.8**
Roads				
Brindavan Infrastructure Co. Ltd.	150	0.4	60	0.3
Bangalore elevated Corridor Project	637	1.0	637	2.8
Western UP Tollway Ltd.	239	1.0	239	1.0
Orai - Bhognipur	832	0.4	333	1.5
Pondicherry Tindivanam Tollway Limited	375	0.5	188	0.8
Power				
Gautami Power	420	0.0	0	0.0
Hydropower project in Himachal Pradesh	495	0.2	99	0.4
ICICI Ventures/Tishman/ Nagarjuna project			**902**	**3.9**
Book value of investments in BOT assets	4,706	1X book		20.5
Value of core construction business			**24,258**	**105.9**
Book value of equity investments in real estate		1X book		12.8
Total				**150.0**

Source: Kotak Institutional Equities estimates

Exhibit 5. Nagarjuna Construction - DCF model, March fiscal year-ends 2009E-2019E (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	**46,346**	**58,845**	**71,803**	**87,018**	**103,072**	**120,587**	**140,097**	**154,107**	**169,517**	**186,469**	**205,116**
Revenue growth rate (%)	33	27	22	21	18	17	16	10	10	10	10
EBITDA	**4,517**	**5,742**	**7,096**	**8,600**	**10,187**	**11,918**	**13,846**	**15,025**	**16,528**	**18,181**	**19,999**
EBITDA margin (%)	9.7	9.8	9.9	9.9	9.9	9.9	9.9	9.8	9.8	9.8	9.8
Depreciation	(600)	(715)	(851)	(1,008)	(1,194)	(1,421)	(1,668)	(1,669)	(1,953)	(2,250)	(2,564)
EBIT	**3,917**	**5,027**	**6,245**	**7,592**	**8,993**	**10,497**	**12,178**	**13,356**	**14,575**	**15,931**	**17,435**
Tax	(953)	(1,271)	(1,639)	(1,973)	(2,344)	(2,716)	(3,189)	(3,497)	(3,817)	(4,172)	(4,566)
Change in net working capital	384	(1,861)	(2,736)	(3,508)	(4,786)	(4,154)	(4,611)	(4,030)	(4,433)	(4,877)	(5,364)
Capex	(1,300)	(1,500)	(1,800)	(2,000)	(2,500)	(3,000)	(3,000)	(3,853)	(4,238)	(4,662)	(5,128)
Free cash flow	**2,648**	**1,110**	**922**	**1,119**	**557**	**2,047**	**3,046**	**3,645**	**4,040**	**4,471**	**4,941**
PV of each cash flow	2,648	1,110	812	868	381	1,234	1,617	1,705	1,665	1,623	1,581

PV of cash flows	12,596
PV of terminal value	18,995
EV	31,591
Debt	7,333
Equity value	24,258
Fully diluted shares outstanding (mn)	229
Equity value (Rs/share)	**106**

FCF in terminal year (Rs mn)	5,455
Exit FCF multiple: (1+g)/(WACC-g)	12.4
Terminal value of FCF (Rs mn)	67,391
Exit EBITDA multiple	3.1

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.5
Market risk premium—(Rm-Rf) (%)	6.0
Beta (x)	1.1
Cost of equity-Ke (%)	15.1
Cost of debt-Kd (%)	12.0
WACC (%)	12.5
Used WACC (%)	**13.5**

Source: Kotak Institutional Equities estimates

Banking

UNBK.BO, Rs127	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	220
52W High -Low (Rs)	250 - 96
Market Cap (Rs bn)	64.1

Financials

May y/e	2008	2009E	2010E
Sales (Rs bn)	43.2	49.5	57.5
Net Profit (Rs bn)	13.9	15.6	15.7
EPS (Rs)	27.5	30.9	31.0
EPS gth	*2.0*	*12.6*	*0.2*
P/E (x)	4.6	4.1	4.1
P/B (x)	0.9	0.8	0.7
Div yield (%)	3.2	3.7	3.7

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	55.4	-	-
FIIs	18.7	0.2	(0.0)
MFs	8.6	0.4	0.2
UTI	-	-	(0.2)
LIC	1.9	0.1	(0.1)

Union Bank of India: Strong core business, at attractive valuations

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- **Union Bank reported PAT of Rs3.6 bn, up 31% yoy and 21% above estimates**
- **We like company's strategy to moderate growth and strong asset quality**
- **We retain BUY recommendation with price target of Rs220 (FY2010E) from Rs200 (FY2009E)**

Union Bank of India reported healthy operational profits (PBT - treasury + provisions) of Rs7.2 bn—a robust growth of 49% yoy. We like the company's strategy of focusing on moderate loan growth and improving operational efficiency. We revise our estimates by 18% for FY2009E and 1-4% for FY2010E-2011E to factor in the results. Given the valuations of 3.9X PER and 0.8X PBR Y2010E, we retain BUY recommendation with a price target of Rs220 (FY2010E estimates). Key risk: Union Bank has low capital adequacy ratio (Tier I ratio of 6.9% as per Basle II norms) and might have to look at raising fresh equity capital over the next 12-18 months.

Moderate asset growth is a key positive for the company. Union Bank of India continues to focus on asset growth—advances increased 26% yoy and deposits 22% yoy as of September 2008. We believe this strategy enables the company to (1) improve its liability profile—CASA ratio was a healthy 33.1%, (2) asset quality remained robust with a net NPL ratio of 0.1% and gross NPL ratio of 1.9% as of September 2008.

Non-interest revenues continue to remain robust. Union Bank of India had non-interest revenues of Rs2.8 bn in 2QFY09, which was impacted by losses on its treasury profits. The company's income from its core banking operations was healthy and helped it report non-interest revenues (ex-treasury) growth of over 42% yoy. We believe the company's fee income benefited from higher processing charges on its loan assets and are likely to come off in the future. The company continues to hold Rs115 bn of investments in the available for sale (AFS) category with duration of 2.2 years and could enable it to book higher treasury income. We currently project Rs1 bn of treasury income for FY2010E and FY2011E compared to the Rs3 bn booked in FY2008, which is likely conservative.

Operational expenses were higher largely on account of one-off items. Union Bank of India had significantly higher operational expenses of Rs5.6 bn (up 35% yoy) and 28% ahead of estimates. This sharp increase in costs on account of (1) ad-hoc wage hike provisions of Rs600 mn for likely liabilities on account of wage negotiations, (2) one-off expense of Rs400 mn on account of advertising expenses and (3) expenses on account of opening new branches.

Capital adequacy is relatively lower. Union Bank of India had a CAR of 11.8% (as per Basle II) as of September 2008, with a Tier I ratio of 6.9%. We believe that given the relatively lower level of CAR, the company might have to approach the equity markets for raising funds over the next 12-18 months. The management has indicated that a rating of its advances portfolio could help increase its Tier I ratio by another 70 bps and help its growth. The company expects to complete the rating of its loan book over the next 3-6 months.

SRTR.BO, Rs206	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	305
52W High -Low (Rs)	472 - 190
Market Cap (Rs bn)	41.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	12.0	17.3	21.3
Net Profit (Rs bn)	3.9	5.8	6.3
EPS (Rs)	19.2	28.4	29.7
EPS gth	*85.7*	*48.2*	*4.5*
P/E (x)	10.7	7.2	6.9
EV/EBITDA (x)	-	-	-
Div yield (%)	2.4	4.1	4.5

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	42.0	-	-
FIIs	14.8	0.1	(0.0)
MFs	2.3	0.1	(0.1)
UTI	-	-	(0.2)
LIC	-	-	(0.2)

Shriram Transport Finance: Upgrade recommendation on attractive valuations amidst concerns on liquidity

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- **Current valuation appears attractive**
- **Tight liquidity situation can impede growth and remains a concern**
- **Revise estimates, upgrade to ADD from REDUCE with price target of Rs305 (Rs320 earlier)**

Post the conference call with the management, we are revising our target price for Shriram Transport Finance (STFC) to Rs305 and upgrade our rating to ADD from REDUCE to factor in (1) 33% correction in stock price over the past month and (2) moderate revision in earnings estimates, (3) increase in cost of equity (14.5% from 14% earlier) to factor in higher risks in the macro environment (liquidity, NPLs) and (4) rollover of target price to 2010E. We believe STFC's business model has significant long-term potential in the absence of large organized players in its business segment. However, given the adverse market scenario, we factor in a significant decline in key operating parameters in our estimates for 2H09E and FY2010E—0.7% decline in NIMs in 2H09E over 1H09E, 20% yoy decline in disbursements in 2H09E and 60% increase in provision expenses in FY2010E. We expect STFC to deliver 25% EPS CAGR over FY2008-10 and ROE of about 25-28%. However, the liquidity scenario and STFC's collection efficiency are difficult to project and remain key sensitivities to our estimates. The stock is current trading at 6.8X PER and 1.7X PBR FY2010E.

Revision of estimates. We are revising our earnings estimates up by 6% for FY2009E and down by 4.5% for FY2010E.

- The increase in FY2009E factors a reduction in our provision cost estimate for 2HFY09E as the current NPL position is better than estimated. However, given the increasing risks of NPLs we have not revised our estimates for FY2010E.
- Considering the tight liquidity scenario, we are factoring in 5% lower monthly disbursements in 2HFY09E as compared to 2QFY09E. Thus, unlike previous years, we are not factoring in an improvement in business traction in 2HFY09.
- We have raised our operating cost estimates 3% for FY2010E to reflect STFC's expansion initiatives in 1HFY09. The company added 12 new branches and 1,893 employees during 2QFY09E. Note that the company is now going slow on recruitments.

Liquidity situation will drive NIMs. STFC's NIMs (based on our calculations) have been stable sequentially at 8.1% in 2QFY09 but higher than 7.9% in 2QFY08. Going forward, we believe NIMs will remain volatile given the tight liquidity scenario. We are factoring in a decline of 0.7% in 2HFY09E and marginal 0.2% increase in FY2010E.

We note that CV loans are classified under priority sector exposure for banks. As such, STFC has been able to sell its loan book to bankers at competitive rates. This is a comforting factor.

NPLs, low for now. STFC reported gross NPLs of 1.7% in 2QFY09, stable qoq and marginally below 1.9% reported in 2QFY08. While the current position appears stable, strong growth could increase delinquencies at later stages of the credit cycle. We are reducing our provision estimates for FY2009E by 6% but retain our provisioning estimates for FY2010E at 1.9% of average assets—in line with the long-term average.

Energy

GSPT.BO, Rs32	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	60
52W High -Low (Rs)	114 - 29
Market Cap (Rs bn)	18.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	4.2	5.4	8.3
Net Profit (Rs bn)	1.0	1.5	2.1
EPS (Rs)	1.8	2.7	3.7
EPS gth	*10.1*	*47.6*	*37.7*
P/E (x)	17.9	12.1	8.8
EV/EBITDA (x)	6.4	6.1	4.4
Div yield (%)	1.548	2.287	3.152

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	37.8	-	-
FIIs	16.3	0.1	(0.0)
MFs	4.8	0.1	0.0
UTI	-	-	(0.1)
LIC	1.0	0.0	(0.1)

GSPL: GSPL's board approves sharing of profits with Gujarat government; stock seems to reflecting that and much more

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- **GSPL's board approves sharing contribution towards charitable funds**
- **Stock price seems to be reflecting the sharing of profits and much more**
- **Maintain estimates pending approval by shareholders; reiterate BUY with 12-month DCF-based target price of Rs60**

We view the approval by GSPL's board of directors of contribution of a sum up to Rs644 mn for FY2009E towards charitable and other funds in line with street's expectation. The stock has plummeted 30% in October 2008 on concerns of likely sharing of profits with the Gujarat government. We believe GSPL's current stock price is already discounting the sharing of 30% of pre-tax profits with the Gujarat government for a socio-economic development purposes in perpetuity and much more. Our DCF value would decline to Rs42 if we assume that GSPL contributes 30% of its PBT to the Gujarat government in perpetuity. We advise investors to make use of the correction to get into the stock; the stock now offers significant potential upside to our current 12-month DCF-based target price of Rs60 (+86%) as well as to the DCF-based fair value if the proposal is approved (+30%). We retain our earnings estimates pending approval of the proposal in the meeting of the shareholders. Key downside risks stem from lower-than-expected gas supply.

DCF valuation of GSPL (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	4,699	7,347	8,507	9,794	10,205	10,119	10,099	10,078	10,056	10,033	10,033	10,033
Adjusted tax expense	(319)	(827)	(1,579)	(2,283)	(2,616)	(2,737)	(2,847)	(2,936)	(2,995)	(3,039)		
Change in working capital	1,087	(2,092)	(3,087)	(79)	(26)	4	—	—	—	—		
Operating cash flow	**5,467**	**4,429**	**3,842**	**7,432**	**7,564**	**7,386**	**7,252**	**7,142**	**7,061**	**6,994**		
Capital expenditure	(9,131)	(5,675)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(1,679)		
Free cash flow	**(3,664)**	**(1,247)**	**3,592**	**7,182**	**7,314**	**7,136**	**7,002**	**6,892**	**6,811**	**5,315**	**5,315**	**5,315**
Discounted cash flow	**(3,485)**	**(1,054)**	**2,699**	**4,796**	**4,342**	**3,766**	**3,284**	**2,872**	**2,523**	**1,750**		
Discounted cash flow-1 year forward		(1,186)	3,037	5,397	4,884	4,236	3,695	3,233	2,839	1,750	1,556	
Discounted cash flow-2 year forward			3,416	6,072	5,497	4,766	4,156	3,637	3,195	2,215	1,969	1,750

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.5	12.5	12.5
Total PV of free cash flow	21,494	29,441	36,673
Terminal value assumption			
Growth to perpetuity (%)	—	—	—
FCF in 2018E	5,315	5,315	5,315
Exit FCF multiple (X)	8.0	8.0	8.0
Exit EV/EBITDA multiple (X)	4.2	4.2	4.2
Terminal value	42,519	42,519	42,519
PV of terminal value	15,753	15,753	15,753
Total company value	**37,247**	**45,194**	**52,426**
Net debt	7,091	11,985	14,957
Equity value	30,155	33,209	37,469
Shares outstanding (mn)	562	562	563
Estimated share price using DCF	**53.7**	**59.0**	**66.6**

Fiscal Year end (March 31, XXXX)	March-09	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20
Today	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08
Days left	155	520	885	1,251	1,616	1,981	2,346	2,712	3,077	3,442	3,807	4,173
Years left	0.42	1.42	2.42	3.43	4.43	5.43	6.43	7.43	8.43	9.43	10.43	11.43
Discount factor at WACC	**0.95**	**0.85**	**0.75**	**0.67**	**0.59**	**0.53**	**0.47**	**0.42**	**0.37**	**0.33**	**0.29**	**0.26**

Source: Kotak Institutional Equities

GSPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2005-2011E (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	2,035	2,635	3,176	4,179	5,402	8,323	9,645
EBITDA	**1,293**	**1,942**	**2,677**	**3,645**	**4,699**	**7,347**	**8,507**
Other income	20	45	175	294	272	153	151
Interest	(363)	(413)	(457)	(815)	(970)	(1,347)	(1,559)
Depreciation	(656)	(791)	(1,026)	(1,632)	(2,157)	(3,029)	(3,407)
Pretax profits	293	783	1,369	1,491	1,844	3,125	3,693
Tax	(15)	(2)	(70)	(389)	(209)	(578)	(1,110)
Deferred taxation	(119)	(315)	(409)	(82)	(138)	(484)	(145)
Net profits	**160**	**467**	**894**	**999**	**1,498**	**2,063**	**2,438**
Earnings per share (Rs)	**0.6**	**1.2**	**1.6**	**1.8**	**2.7**	**3.7**	**4.3**
Balance sheet (Rs mn)							
Total equity	4,037	9,075	9,659	11,410	12,427	13,826	13,412
Deferred tax liability	193	508	917	999	1,137	1,621	1,766
Total borrowings	4,436	5,786	8,638	9,660	14,150	16,650	16,150
Currrent liabilities	571	1,771	1,845	5,106	6,077	4,147	1,134
Total liabilities and equity	**9,237**	**17,140**	**21,059**	**27,175**	**33,791**	**36,245**	**32,462**
Cash	426	2,372	1,811	2,569	2,165	1,693	994
Current assets	408	995	2,126	2,928	2,812	2,974	3,047
Total fixed assets	8,392	13,651	17,029	21,259	28,395	31,159	28,002
Investments	—	—	—	356	356	356	356
Deferred expenditure	11	123	93	63	63	63	63
Total assets	**9,237**	**17,140**	**21,059**	**27,175**	**33,791**	**36,245**	**32,462**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	844	1,562	2,212	2,743	3,359	5,306	5,838
Working capital changes	(193)	471	(1,058)	2,460	1,087	(2,092)	(3,087)
Capital expenditure	(1,799)	(6,049)	(4,404)	(5,863)	(9,131)	(5,675)	(250)
Investments	—	—	—	(356)	—	—	—
Other income	10	40	146	—	272	153	151
Free cash flow	**(1,138)**	**(3,976)**	**(3,103)**	**(659)**	**(4,414)**	**(2,308)**	**2,653**
Ratios (%)							
Debt/equity	104.9	60.4	81.7	77.9	104.3	107.8	106.4
Net debt/equity	51.2	37.6	45.0	43.8	51.1	51.9	51.6
RoAE	4.6	6.8	8.8	8.8	11.5	14.2	15.9
RoACE	**8.0**	**9.9**	**10.0**	**8.2**	**10.0**	**12.2**	**11.6**
CROCI	**13**	**13**	**13**	**13**	**13**	**16**	**16**
Key assumptions							
Volumes-old pipelines (mcm/d)	8.3	10.4	12.6	12.7	15.0	18.0	22.0
Volumes-new pipelines (mcm/d)	—	—	1.7	4.1	6.8	26.1	37.6
Volumes (mcm/d)	**8.3**	**10.5**	**14.3**	**16.8**	**21.8**	**44.1**	**59.6**

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	28-Oct-08		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Automobiles																													
Bajaj Auto	505	ADD	73,116	1,462	145	59.3	65.9	69.8	(53.4)	11.0	5.9	8.5	7.7	7.2	6.1	5.7	5.3	4.6	3.6	3.0	4.0	4.0	4.0	21.0	42.6	36.5	610	20.7	—
Hero Honda	731	REDUCE	145,991	2,920	200	48.5	56.8	63.2	12.8	17.2	11.3	15.1	12.9	11.6	9.5	8.5	7.9	4.7	3.9	3.2	2.6	2.7	2.7	34.0	33.1	30.4	770	5.3	9.1
Mahindra & Mahindra	279	ADD	72,062	1,441	258	38.1	36.9	37.2	(2.0)	(2.9)	0.6	7.3	7.6	7.5	5.9	6.2	5.8	1.6	1.3	1.1	3.9	3.3	3.4	27.8	22.0	17.8	640	129.2	5.7
Maruti Suzuki	547	REDUCE	158,126	3,163	289	59.9	50.3	57.5	10.8	(16.0)	14.4	9.1	10.9	9.5	5.2	5.8	5.0	1.8	1.6	1.4	0.9	0.9	0.9	22.2	15.7	15.6	650	18.8	15.7
Tata Motors	154	SELL	89,750	1,795	581	47.4	25.1	22.3	0.9	(47.1)	(10.9)	3.3	6.2	6.9	4.1	5.2	5.7	1.0	0.4	0.5	6.4	8.2	8.2	24.3	9.8	7.4	425	175.3	9.9
Automobiles		**Cautious**	**539,045**	**10,781**					**(0.8)**	**(8.9)**	**4.0**	**8.3**	**9.1**	**8.7**	5.7	6.1	5.8	**2.0**	**1.4**	**1.2**	**3.1**	**3.4**	**3.4**	**24.4**	**14.9**	**13.8**			
Banks/Financial Institutions																													
Andhra Bank	42	REDUCE	20,249	405	485	11.9	11.6	12.1	7.0	(2.4)	4.7	3.5	3.6	3.4	—	—	—	0.7	0.6	0.5	9.6	6.9	7.3	18.0	16.3	15.3	65	55.7	0.8
Axis Bank	570	REDUCE	203,895	4,078	358	32.2	39.7	51.8	37.7	23.2	30.5	17.7	14.4	11.0	—	—	—	2.5	2.2	1.9	1.0	1.3	1.7	17.6	15.2	17.5	750	31.6	68.5
Bank of Baroda	233	ADD	85,223	1,704	366	39.3	40.9	43.7	39.8	4.1	6.8	5.9	5.7	5.3	—	—	—	1.0	0.9	0.8	3.4	3.6	3.8	14.6	13.0	12.7	330	41.5	8.8
Bank of India	213	BUY	112,230	2,245	526	40.6	48.0	46.3	76.6	18.2	(3.6)	5.3	4.4	4.6	—	—	—	1.4	1.1	0.9	1.9	2.4	2.3	27.6	25.4	20.1	370	73.4	22.1
Canara Bank	152	REDUCE	62,443	1,249	410	38.2	40.0	38.3	10.1	4.8	(4.3)	4.0	3.8	4.0	—	—	—	0.9	0.7	0.6	5.3	3.9	3.9	15.0	14.7	12.6	220	44.5	3.8
Central Bank of India	38	SELL	15,256	305	404	11.6	9.4	17.1	(24.6)	(18.6)	81.0	3.3	4.0	2.2	—	—	—	0.7	0.5	0.4	5.3	—	—	15.3	11.6	16.7	55	45.7	0.4
Corporation Bank	208	ADD	29,785	596	143	51.3	48.7	55.5	37.2	(5.0)	13.9	4.1	4.3	3.7	—	—	—	0.7	0.6	0.6	5.1	4.8	5.5	18.4	15.5	15.7	355	71.0	0.5
Federal Bank	130	BUY	22,243	445	171	34.4	26.6	29.8	0.5	(22.7)	12.2	3.8	4.9	4.4	—	—	—	0.6	0.5	0.5	3.1	3.8	4.3	13.6	11.1	11.4	300	130.7	1.4
Future Capital Holdings	173	BUY	10,954	219	63	(4.5)	4.5	28.8	(689.8)	(198.6)	546.1	(38.4)	38.9	6.0	—	—	—	1.5	1.4	1.2	—	—	—	(6.7)	3.8	21.4	440	154.0	0.9
HDFC	1,542	ADD	442,500	8,850	287	85.8	78.0	97.1	38.2	(9.0)	24.5	18.0	19.8	15.9	—	—	—	3.7	3.2	2.8	1.6	1.5	1.9	27.8	17.4	18.9	2,200	42.7	71.3
HDFC Bank	967	BUY	409,255	8,185	423	46.0	55.6	68.9	28.7	20.9	23.9	21.0	17.4	14.0	—	—	—	3.6	2.8	1.9	0.7	1.0	1.2	17.7	17.9	17.1	1,350	39.6	51.2
ICICI Bank	336	ADD	373,304	7,466	1,113	39.9	36.2	39.2	15.4	(9.3)	8.2	8.4	9.3	8.6	—	—	—	0.8	0.8	0.7	3.3	2.7	2.9	11.7	8.4	8.6	450	34.1	164.5
IDFC	54	ADD	70,475	1,409	1,294	5.7	6.4	7.2	3.0	13.3	11.8	9.6	8.5	7.6	—	—	—	1.3	1.1	1.0	2.2	2.0	2.2	17.6	14.2	14.2	85	56.1	21.2
India Infoline	46	ADD	13,162	263	287	5.6	6.3	6.2	85.6	12.0	(1.2)	8.2	7.3	7.4	1.6	3.4	3.0	1.1	1.0	0.9	2.6	2.9	2.9	20.7	14.1	12.9	70	52.8	3.3
Indian Bank	121	ADD	51,873	1,037	430	22.5	22.8	23.5	33.9	1.0	3.1	5.4	5.3	5.1	—	—	—	1.2	1.0	0.9	2.5	2.4	2.5	23.4	18.8	16.7	160	32.6	2.7
Indian Overseas Bank	76	ADD	41,487	830	545	22.1	22.0	23.6	19.2	(0.1)	7.2	3.5	3.5	3.2	—	—	—	0.9	0.7	0.6	4.9	6.5	7.2	27.2	22.6	20.5	130	70.7	1.1
J&K Bank	385	ADD	18,684	374	48	74.2	76.1	78.4	31.2	2.5	3.1	5.2	5.1	4.9	—	—	—	0.9	0.8	0.7	4.0	4.1	4.2	16.8	15.2	14.1	750	94.7	0.3
LIC Housing Finance	190	ADD	16,149	323	85	45.5	54.6	56.2	38.7	19.8	2.9	4.2	3.5	3.4	—	—	—	0.8	0.7	0.6	5.3	6.3	6.5	—	—	—	325	71.1	3.3
Mahindra & Mahindra Financial	192	SELL	18,321	366	95	20.8	16.8	22.3	32.6	(19.5)	33.3	9.2	11.5	8.6	—	—	—	1.5	1.3	1.2	2.4	2.2	2.9	16.9	11.7	14.2	190	(1.2)	0.1
Oriental Bank of Commerce	132	ADD	33,121	662	251	23.9	44.0	30.0	(27.6)	84.3	(31.8)	5.5	3.0	4.4	—	—	—	0.7	0.5	0.5	3.6	6.7	4.5	6.2	17.8	10.9	200	51.3	2.0
PFC	97	ADD	111,391	2,228	1,148	11.4	12.6	15.7	2.4	10.7	24.9	8.5	7.7	6.2	—	—	—	1.1	1.0	0.9	3.6	1.8	2.2	13.5	13.3	14.8	140	44.3	2.6
Punjab National Bank	412	BUY	130,047	2,601	315	65.0	73.2	82.5	33.0	12.6	12.8	6.3	5.6	5.0	—	—	—	1.4	1.1	0.9	3.2	3.5	4.0	18.0	17.6	17.6	650	57.6	10.8
Shriram Transport	206	ADD	41,834	837	203	19.2	28.4	29.7	85.7	48.2	4.5	10.7	7.2	6.9	—	—	—	2.4	2.0	1.7	2.4	4.1	4.5	26.9	28.6	25.8	305	48.1	0.9
SREI	45	BUY	5,980	120	134	11.4	5.5	8.1	57.4	(51.8)	47.8	3.9	8.1	5.5	—	—	—	0.9	0.5	0.5	2.3	5.2	6.3	23.1	11.6	12.5	160	258.7	0.5
State Bank of India	1,123	BUY	709,141	14,183	631	106.6	116.5	105.2	23.5	9.4	(9.7)	10.5	9.6	10.7	—	—	—	1.7	1.5	1.3	1.9	1.9	2.0	16.8	14.2	11.6	1,600	42.5	97.8
Union Bank	127	BUY	64,125	1,282	505	27.5	30.9	31.0	64.1	12.6	0.2	4.6	4.1	4.1	—	—	—	0.9	0.8	0.7	3.2	3.7	3.7	26.8	24.9	20.7	220	73.3	4.5
Banks/Financial Institutions		**Attractive**	**3,113,127**	**62,263**					**36.9**	**11.3**	**7.1**	**9.5**	**8.5**	**7.9**	**—**	**—**	**—**	**1.5**	**1.3**	**1.1**	**2.3**	**2.3**	**2.5**	**15.4**	**14.8**	**14.0**			
Cement																													
ACC	443	REDUCE	83,520	1,670	189	64.1	56.2	44.5	13.0	(12.3)	(20.8)	6.9	7.9	10.0	3.4	3.6	4.9	1.9	1.6	1.5	5.3	5.3	5.3	33.3	23.5	16.7	550	24.2	5.4
Ambuja Cements	53	REDUCE	81,219	1,624	1,522	7.6	7.8	5.4	(11.2)	2.8	(30.0)	7.1	6.9	9.8	3.5	3.5	4.6	1.6	1.3	1.2	4.9	5.6	4.0	26.6	21.0	12.8	60	12.5	2.6
Grasim Industries	1,026	ADD	94,051	1,881	92	284.6	230.8	197.7	32.6	(18.9)	(14.3)	3.6	4.4	5.2	2.6	3.0	2.9	0.8	0.7	0.6	3.0	3.2	3.2	25.0	16.3	12.1	1,700	65.7	4.3
India Cements	76	ADD	21,535	431	282	24.5	19.1	19.9	n/a	(21.8)	4.1	3.1	4.0	3.8	2.6	2.9	2.3	0.6	0.6	0.5	2.4	2.8	2.8	25.9	15.8	14.4	160	109.4	2.0
Shree Cement	401	BUY	13,970	279	35	90.2	109.1	71.4	99.5	21.0	(34.6)	4.4	3.7	5.6	2.6	3.0	2.8	2.1	1.4	1.2	2.0	2.0	2.0	56.9	46.6	22.9	850	112.0	0.3
UltraTech Cement	348	BUY	43,528	871	125	81.4	71.0	54.7	28.5	(12.8)	(22.9)	4.3	4.9	6.4	3.3	3.6	4.0	1.3	1.1	0.9	2.2	2.4	2.4	45.2	28.8	18.2	550	58.3	1.0
Cement		**Cautious**	**337,822**	**6,756**					**19.3**	**(11.7)**	**(19.3)**	**4.8**	**5.5**	**6.8**	**3.0**	**3.3**	**3.5**	**1.2**	**1.0**	**0.9**	**3.8**	**4.1**	**3.7**	**24.3**	**17.9**	**12.9**			
Consumer (Discretionary)																													
Radico Khaitan	63	REDUCE	7,430	149	118	3.4	3.2	3.8	8.4	(7.0)	21.5	18.6	20.0	16.4	9.1	9.1	8.3	1.5	1.4	1.3	0.7	0.7	0.7	9.4	8.1	9.0	91	44.1	0.4
United Breweries	91	REDUCE	21,760	435	240	2.1	2.2	2.7	(2.2)	2.5	24.4	43.0	42.0	33.7	13.4	10.5	8.6	3.6	2.0	1.9	—	—	—	8.0	4.4	5.8	105	15.8	0.2
United Spirits	737	BUY	69,033	1,381	94	40.0	40.1	52.4	50.8	0.1	30.9	18.4	18.4	14.1	11.2	9.9	8.7	2.9	2.9	2.2	0.0	0.0	0.0	18.8	15.9	17.7	1,050	42.5	7.8
Consumer (Discretionary)		**Attractive**	**98,223**	**1,964**					**35.8**	**0.0**	**28.5**	**20.4**	**20.4**	**15.9**	**11.4**	**9.9**	**8.6**	**2.8**	**2.3**	**2.0**	**0.1**	**0.1**	**0.1**	**13.8**	**11.1**	**12.6**			
Consumer products																													
Asian Paints	926	ADD	88,798	1,776	96	39.5	45.2	50.9	40.4	14.5	12.6	23.4	20.5	18.2	14.1	12.4	10.5	9.1	7.2	5.9	1.6	1.9	2.2	44.6	40.4	36.9	1,075	16.1	0.8
Colgate-Palmolive (India)	394	REDUCE	53,588	1,072	136	17.1	19.1	21.7	16.8	11.7	13.8	23.0	20.6	18.1	19.2	16.9	14.4	29.3	28.9	28.6	3.3	4.1	4.7	100.4	141.4	159.6	400	1.5	1.0
GlaxoSmithkline Consumer (a)	566	BUY	23,793	476	42	38.5	45.5	53.8	27.4	18.4	18.3	14.7	12.4	10.5	7.6	6.2	5.0	3.6	3.1	2.6	2.3	2.7	3.2	27.3	27.3	27.3	800	41.4	0.2
Godrej Consumer Products	102	ADD	26,275	526	258	7.3	8.0	8.5	22.9	9.0	6.9	13.9	12.8	12.0	12.2	9.5	8.5	12.3	3.8	3.3	3.4	3.9	3.9	100.9	46.1	39.3	140	37.5	0.1
Hindustan Unilever	218	REDUCE	475,122	9,502	2,177	8.1	9.1	10.7	15.4	12.1	17.8	26.9	24.0	20.3	21.7	18.5	15.5	33.0	30.7	28.4	4.9	3.9	4.7	85.2	133.3	145.6	245	12.3	22.4
ITC	155	ADD	585,265	11,705	3,769	8.3	8.8	10.0	15.4	6.2	13.9	18.8	17.7	15.5	11.9	10.8	9.5	4.6	4.1	3.6	2.3	2.4	2.6	27.7	25.7	25.6	200	28.8	25.2
Jyothy Laboratories	223	ADD	3,229	65	15	31.0	42.1	68.3	(12.8)	35.8	62.3	7.2	5.3	3.3	4.5	2.9	1.3	0.9	0.7	0.6	4.2	4.7	5.3	11.5	13.1	17.9	740	232.6	
Nestle India (a)	1,439	ADD	138,776	2,776	96	44.5	58.6	70.2	31.3	31.7	19.7	32.3	24.6	20.5	19.5	15.1	12.5	26.9	20.4	15.8	1.9	2.5	3.0	94.8	94.5	86.9	1,900	32.0	1.4
Tata Tea	554	BUY	34,250	685	62	54.1	63.3	67.3	3.6	17.2	6.2	10.2	8.7	8.2	4.0	3.4	2.9	0.7	0.7	0.6	2.7	3.2	3.4	9.7	9.4	9.4	1,100	98.6	1.4
Consumer products		**Attractive**	**1,429,097**	**28,582**					**17.2**	**11.6**	**15.2**	**21.5**	**19.3**	**16.7**	**14.0**	**12.3**	**10.7**	**6.6**	**5.7**	**5.1**	**3.1**	**3.0**	**3.4**	**30.6**	**29.7**	**30.3**			
Constructions																													
Consolidated Construction Co.	252	BUY	9,309	186	37	24.0	34.2	44.9	67.6	42.4	31.1	10.5	7.4	5.6	7.0	4.3	3.3	2.1	1.7	1.3	1.0	2.0	2.6	27.7	25.0	26.4	700	177.9	0.0
IVRCL	83	BUY	11,275	225	135	16.0	17.1	22.8	29.2	6.5	33.2	5.2	4.9	3.7	5.7	4.4	3.7	0.7	0.6	0.5	1.7	0.9	0.9	14.8	13.5	15.6	415	398.2	5.5
Nagarjuna Construction Co.	52	BUY	11,981	240	229	7.2	8.1	10.6	14.5	13.4	30.2	7.3	6.4	4.9	6.5	5.8	5.2	0.8	1.4	0.6	2.1	2.6	3.1	12.6	11.3	13.3	150	186.8	4.1
Punj Lloyd	172	BUY	55,762	1,115	323	10.0	17.9	20.5	323.5	79.6	14.5	17.3	9.6	8.4	9.4	6.0	5.1	2.0	1.6	1.4	0.2	0.5	0.5	16.8	19.3	18.6	260	50.8	32.5
Sadbhav Engineering	451	BUY	5,910	118	13	40.5	62.6	78.1	68.2	54.4	24.8	11.1	7.2	5.8	7.0	4.1	2.9	2.0	1.4	1.2	0.8	1.1	1.3	16.3	19.6	20.5	820	81.7	0.1

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	28-Oct-08		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	286	REDUCE	93,773	1,875	328	39.8	40.7	38.3	(24.0)	2.1	(5.9)	7.2	7.0	7.5	3.0	3.3	2.5	0.7	0.7	0.6	1.5	1.5	1.4	11.4	10.4	8.9	360	25.9	7.0
Cairn india	109	ADD	203,045	4,061	1,868	(0.1)	3.9	20.3	(105)	(3,390)	418	(912)	28	5.4	25.5	11.0	3.7	0.7	0.6	0.5	—	—	—	(0.1)	2.3	10.9	245	125.4	20.1
Castrol India (a)	283	ADD	34,934	699	124	20.1	23.6	24.1	64.6	17.5	2.1	14.1	12.0	11.7	8.0	7.1	6.9	8.5	7.9	7.4	5.0	6.4	6.4	59.5	68.5	65.2	350	23.9	0.5
GAIL (India)	213	REDUCE	270,629	5,413	1,268	20.4	27.5	27.9	21.0	35.1	1.4	10.5	7.7	7.6	5.3	4.6	5.7	1.9	1.6	1.4	3.1	3.7	3.7	18.1	21.4	18.5	240	12.5	14.8
GSPL	32	BUY	18,150	363	563	1.8	2.7	3.7	10.1	47.6	37.7	17.9	12.1	8.8	6.4	6.1	4.4	1.5	1.3	1.2	1.5	2.3	3.2	8.8	11.5	14.2	60	86.0	2.2
Hindustan Petroleum	186	REDUCE	63,146	1,263	339	33.5	26.1	33.4	(16.4)	(21.9)	27.7	5.6	7.1	5.6	5.1	3.4	2.0	0.5	0.5	0.4	1.6	1.3	1.6	9.6	6.8	7.9	260	39.6	5.7
Indian Oil Corporation	329	REDUCE	387,466	7,749	1,179	60.5	40.9	61.8	29.2	(32.5)	51.2	5.4	8.0	5.3	3.9	7.5	7.1	0.9	0.8	0.7	1.7	1.5	2.2	17.2	10.1	13.5	500	52.2	3.8
Oil & Natural Gas Corporation	644	BUY	1,377,978	27,560	2,139	92.0	150.4	159.5	8.2	63.4	6.1	7.0	4.3	4.0	2.4	1.5	1.2	1.4	1.1	0.9	5.0	6.2	7.0	19.4	27.3	24.0	1,300	101.8	47.1
Petronet LNG	38	ADD	28,200	564	750	6.3	6.0	7.1	—	(5.7)	18.7	5.9	6.3	5.3	4.0	5.4	4.3	1.5	1.2	1.0	4.0	4.0	4.0	26.7	20.6	20.3	60	59.6	1.4
Reliance Industries	1,153	ADD	1,515,492	30,310	1,314	101.7	99.7	150.6	23.0	(2.0)	51.0	11.3	11.6	7.7	7.2	6.1	3.4	1.7	1.5	1.2	1.1	1.3	1.8	18.5	14.7	19.1	######	—	228.0
Reliance Petroleum	83	REDUCE	374,850	7,497	4,500	(1.1)	2.4	17.0	n/a	n/a	596.6	n/a	34.1	4.9	n/a	19.4	4.6	2.8	2.6	1.8	—	—	2.4	(3.5)	7.8	42.9	100	20.0	50.3
Energy		**Cautious**	**4,367,663**	**87,353**					**10.7**	**30.5**	**38.0**	**9.4**	**7.2**	**5.2**	**4.8**	**4.1**	**3.2**	**1.4**	**1.1**	**1.0**	**2.4**	**2.9**	**3.6**	**14.5**	**15.7**	**18.7**			
Industrials																													
ABB	530	REDUCE	112,259	2,245	212	23.2	25.9	31.1	44.5	11.5	20.2	22.8	20.5	17.0	13.2	11.7	9.4	6.9	5.4	4.2	0.4	0.5	0.6	34.8	29.5	27.8	550	3.8	8.3
BGR Energy Systems	149	REDUCE	10,739	215	72	12.3	18.3	23.2	(67.1)	49.5	26.7	12.2	8.1	6.4	7.9	5.6	5.3	2.1	1.7	1.4	0.8	1.2	1.5	30.1	23.5	24.1	325	117.9	0.9
Bharat Electronics	625	ADD	49,992	1,000	80	102.0	105.5	111.8	11.2	3.4	6.0	6.1	5.9	5.6	2.0	1.4	1.1	1.5	1.3	1.1	3.3	4.0	4.0	27.7	23.1	20.8	950	52.0	1.4
Bharat Heavy Electricals	1,146	BUY	561,210	11,224	490	58.4	72.2	98.0	22.9	23.7	35.6	19.6	15.9	11.7	10.0	7.8	5.9	5.2	4.2	3.3	1.3	1.3	1.8	29.2	29.2	31.5	1,475	28.7	74.3
Larsen & Toubro	769	BUY	455,727	9,115	593	37.9	54.3	68.9	20.8	43.1	26.9	20.3	14.2	11.2	13.7	8.8	7.2	3.8	2.8	2.3	1.1	2.6	2.6	22.7	22.7	22.5	1,225	59.3	100.1
Maharashtra Seamless	157	BUY	11,056	221	71	29.4	37.4	37.9	(23.5)	27.6	1.2	5.3	4.2	4.1	3.2	2.6	2.5	1.0	0.8	0.7	3.2	3.6	3.6	19.7	21.1	18.0	250	59.5	0.7
Siemens	281	REDUCE	94,860	1,897	337	18.2	18.8	25.9	60.4	3.1	38.0	15.4	15.0	10.9	8.6	8.1	5.5	5.2	4.0	3.1	0.9	1.0	1.1	39.9	30.2	32.0	570	102.6	6.2
Suzlon Energy	52	BUY	81,638	1,633	1,567	6.6	10.9	16.1	9.5	65.9	47.8	7.9	4.8	3.2	4.9	6.0	4.4	0.9	0.7	0.6	1.8	1.9	1.9	16.3	17.0	20.5	225	331.9	36.2
Industrials		**Neutral**	**1,377,480**	**27,550**					**24.6**	**30.4**	**31.3**	**16.5**	**12.7**	**9.6**	**9.5**	**7.5**	**5.9**	**3.4**	**2.7**	**2.2**	**1.3**	**1.8**	**2.0**	**20.8**	**21.2**	**22.5**			
Infrastructure																													
IRB Infrastructure	84	BUY	28,051	561	332	3.4	5.9	13.2	150.9	73.0	122.3	24.6	14.2	6.4	10.0	9.9	4.9	1.7	1.5	1.2	—	—	—	10.7	11.1	20.4	145	71.8	0.5
Media																													
DishTV	14	REDUCE	9,018	180	644	(9.6)	(7.3)	(3.9)	n/a	(23.9)	(47.3)	(1.5)	(1.9)	(3.6)	(6.1)	(3.4)	(15.0)	(2.0)	4.2	(5.9)	—	—	—	167.9	396.7	####	18	28.6	3.9
HT Media	76	BUY	17,709	354	234	4.3	3.1	6.0	4.7	(28.8)	94.1	17.5	24.6	12.6	9.7	10.8	6.2	2.0	1.9	1.7	0.5	0.5	1.1	12.2	8.1	14.4	130	72.0	0.2
Jagran Prakashan	53	BUY	15,872	317	301	3.3	3.2	4.6	33.5	(2.8)	45.2	16.2	16.7	11.5	8.8	9.3	6.5	2.9	2.8	2.5	3.8	3.6	4.4	18.7	17.2	23.2	84	59.4	0.2
Sun TV Network	145	ADD	57,122	1,142	394	8.3	9.5	11.6	30.7	14.2	22.0	17.5	15.3	12.5	8.9	7.5	6.2	3.8	3.3	3.0	1.7	2.1	4.1	24.8	23.7	25.5	245	69.0	0.9
Zee Entertainment Enterprises	133	BUY	57,794	1,156	434	8.9	9.7	12.0	62.6	9.1	24.0	15.0	13.8	11.1	11.1	9.2	7.4	2.0	1.7	1.6	1.5	1.8	2.3	14.2	13.8	15.3	205	53.8	6.2
Media		**Attractive**	**157,515**	**3,150**					**24.0**	**(2.1)**	**82.2**	**31.6**	**32.2**	**17.7**	**12.5**	**10.8**	**7.5**	**2.9**	**2.3**	**2.2**	**1.6**	**1.8**	**2.9**	**9.2**	**7.2**	**12.5**			
Metals																													
Hindalco Industries	45	SELL	78,780	1,576	1,753	13.8	8.9	7.0	(10.0)	(35.7)	(21.2)	3.3	5.1	6.4	5.5	4.9	5.5	0.4	0.2	0.3	—	—	—	14.4	10.0	6.7	65	44.6	11.1
National Aluminium Co.	152	REDUCE	97,613	1,952	644	25.2	30.3	33.5	(31.8)	20.0	10.6	6.0	5.0	4.5	2.6	2.5	1.7	1.0	0.9	0.8	5.0	5.0	5.0	18.4	19.4	18.7	370	144.2	4.6
Jindal Steel and Power	598	BUY	92,138	1,843	154	91.1	126.1	125.9	101.5	38.4	(0.1)	6.6	4.7	4.8	5.5	4.0	3.9	2.2	1.5	1.1	0.8	1.0	1.2	43.8	37.3	27.3	1,800	200.8	21.0
JSW Steel	222	ADD	41,243	825	186	92.0	103.1	146.8	35.7	12.0	42.4	2.4	2.2	1.5	3.0	3.6	2.6	0.4	0.4	0.3	8.3	8.3	8.3	21.2	18.1	21.0	1,040	368.5	11.8
Hindustan Zinc	279	ADD	117,823	2,356	423	104.0	77.2	55.9	(1.0)	(25.8)	(27.6)	2.7	3.6	5.0	1.9	2.3	3.4	1.0	0.8	0.7	1.8	2.7	3.6	43.6	23.5	14.3	400	43.4	2.3
Sesa Goa	77	ADD	60,893	1,218	787	18.9	22.0	13.3	145.9	16.3	(39.8)	4.1	3.5	5.8	2.7	2.2	3.2	2.1	1.5	1.3	4.5	9.0	9.0	67.7	50.5	24.4	100	29.3	29.1
Sterlite Industries	230	BUY	163,131	3,263	708	64.3	45.7	38.1	(22.6)	(28.9)	(16.7)	3.6	5.0	6.0	3.1	4.2	5.2	0.7	0.6	0.6	—	—	—	26.1	13.3	10.3	415	80.2	33.4
Tata Steel	182	ADD	149,972	2,999	822	75.7	89.7	74.6	43.8	18.5	(16.9)	2.4	2.0	2.4	3.6	3.8	4.0	0.4	0.4	0.3	7.9	7.1	7.1	46.3	29.9	22.6	285	56.2	55.3
Metals		**Cautious**	**801,593**	**16,032**					**13.2**	**(3.6)**	**(11.7)**	**3.4**	**3.5**	**3.9**	**3.6**	**3.7**	**3.9**	**0.7**	**0.6**	**0.5**	**3.2**	**3.5**	**3.7**	**19.9**	**16.0**	**12.6**			
Pharmaceutical																													
Biocon	112	BUY	22,310	446	200	23.3	9.5	16.4	126.0	(59.0)	71.7	4.8	11.7	6.8	6.0	5.5	4.3	1.5	1.4	1.3	0.1	0.1	0.1	17.6	15.7	19.6	260	133.1	0.7
Cipla	176	REDUCE	136,609	2,732	777	9.0	10.3	12.7	4.9	13.8	23.3	19.5	17.1	13.9	14.4	12.7	10.6	3.6	3.2	2.7	1.1	1.4	1.7	20.1	19.7	21.0	220	25.2	7.1
Dishman Pharma & chemicals	173	BUY	14,058	281	81	14.7	15.4	28.1	30.5	4.6	82.8	11.7	11.2	6.1	10.1	9.4	5.8	2.5	2.0	1.6	0.0	0.0	0.0	26.8	19.9	29.0	400	131.4	0.4
Divi's Laboratories	1,001	BUY	64,595	1,292	65	53.2	76.5	103.6	85.8	43.7	35.4	18.8	13.1	9.7	15.3	10.4	7.4	7.6	4.9	3.3	0.1	0.1	0.2	49.8	45.7	41.3	2,330	132.8	4.5
Dr Reddy's Laboratories	421	BUY	71,297	1,426	169	26.1	26.4	36.6	(57.2)	1.2	38.7	16.2	16.0	11.5	8.0	7.0	5.8	1.6	1.5	1.3	0.9	0.9	0.9	10.3	9.5	12.0	675	60.2	5.8
Glenmark Pharmaceuticals	235	BUY	62,356	1,247	266	25.8	31.8	41.8	98.4	23.2	31.3	9.1	7.4	5.6	8.3	6.1	4.3	4.1	2.3	1.7	0.0	0.1	0.1	57.4	39.6	35.1	770	228.3	6.4
Jubilant Organosys	157	BUY	28,503	570	181	22.1	11.0	29.6	69.9	(50.4)	170.2	7.1	14.3	5.3	7.4	11.7	5.8	2.2	1.6	1.5	0.8	1.1	1.3	37.0	14.9	32.2	475	202.0	0.3
Lupin	657	BUY	58,190	1,164	89	49.8	48.9	59.7	30.2	(1.9)	22.2	13.2	13.4	11.0	15.5	10.9	8.9	4.5	2.8	2.4	1.4	1.5	1.8	37.9	28.4	24.2	950	44.6	2.8
Piramal Healthcare	214	BUY	44,820	896	209	17.7	18.3	25.9	66.8	3.3	41.1	12.1	11.7	8.3	9.2	8.5	6.3	4.1	3.3	2.5	2.0	1.9	2.1	30.9	30.0	34.1	410	91.2	1.3
Ranbaxy Laboratories	191	REDUCE	80,063	1,601	419	23.3	9.8	15.5	70.4	(58.1)	58.7	8.2	19.6	12.3	7.9	8.2	3.1	2.7	1.2	0.8	4.0	5.5	7.0	29.8	9.1	9.2	420	119.8	34.9
Sun Pharmaceuticals	1,215	BUY	251,626	5,033	207	74.7	90.9	86.4	78.9	21.7	(5.0)	16.3	13.4	14.1	13.7	10.2	10.0	4.8	3.6	2.9	0.9	0.9	1.1	38.3	32.3	24.2	1,870	53.9	21.2
Pharmaceuticals		**Attractive**	**834,427**	**16,689**					**34.1**	**3.9**	**29.8**	**13.9**	**13.4**	**10.3**	**10.6**	**9.3**	**6.9**	**3.4**	**2.5**	**1.9**	**1.1**	**1.4**	**1.7**	**24.5**	**18.5**	**18.4**			
Property																													
DLF	218	BUY	371,325	7,427	1,705	43.8	49.8	55.1	244.6	13.9	10.5	5.0	4.4	4.0	5.1	4.2	3.2	1.9	1.4	1.1	2.3	3.2	4.6	63.2	36.6	30.8	660	203.0	61.6
Housing Development & Infrastruc	142	BUY	39,203	784	275	51.2	56.6	63.6	118.6	10.6	12.3	2.8	2.5	2.2	4.0	3.7	3.1	1.1	0.8	0.6	2.7	5.6	5.6	64.5	36.3	30.7	610	328.7	40.8
Indiabulls Real Estate	120	BUY	32,634	653	273	16.4	6.8	7.5	2,383.9	(58.6)	10.4	7.3	17.6	15.9	(1,003.6)	7.1	7.4	0.6	0.5	0.4	0.2	0.0	0.0	10.6	2.9	2.8	275	129.7	33.9
IVR Prime Urban Developers	43	BUY	2,768	55	64	27.0	15.5	17.1	552.0	(42.6)	10.8	1.6	2.8	2.5	0.6	3.1	4.1	0.3	0.3	0.2	9.3	11.6	16.2	31.9	9.6	10.0	360	734.3	0.1
Mahindra Life Space Developer	212	BUY	8,903	178	42	16.8	13.1	17.1	307.7	(22.2)	30.9	12.6	16.2	12.3	23.1	16.1	8.4	1.0	1.0	0.9	1.3	1.8	1.8	8.4	6.1	7.6	500	136.2	0.4
Phoenix Mills	50	BUY	7,249	145	145	12.4	5.5	12.0	89.5	(55.9)	119.9	4.0	9.1	4.2	5.3	7.6	2.8	0.5	0.5	0.4	—	—	—	22.1	5.4	10.9	280	459.4	0.8
Puravankara Projects	55	REDUCE	11,802	236	213	11.3	14.0	16.7	67.4	24.8	19.1	4.9	3.9	3.3	8.5	8.3	7.0	1.0	0.8	0.7	1.8	7.2	10.8	32.9	22.4	23.1	220	297.8	0.4
Sobha	117	REDUCE	8,508	170	73	31.7	30.2	33.2	42.9	(4.7)	9.8	3.7	3.9	3.5	7.0	6.1	5.9	0.8	0.7	0.6	5.6	3.4	3.4	25.3	20.0	18.6	250	114.2	0.9

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	28-Oct-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Property		**Neutral**	**562,010**	**11,240**					**181.0**	**10.5**	**13.8**	**4.8**	**4.3**	**3.8**	**5.2**	**4.4**	**3.5**	**1.5**	**1.1**	**0.9**	**2.2**	**3.4**	**5.0**	**30.9**	**25.9**	**24.0**			
Retail																													
Pantaloon Retail	211	BUY	36,230	725	172	8.0	12.1	18.4	93.1	50.4	52.2	26.2	17.4	11.5	10.3	7.0	5.8	2.1	1.4	1.2	0.3	0.4	0.5	8.5	9.1	10.8	370	75.6	1.3
Titan Industries	946	BUY	42,001	840	44	35.1	49.8	56.6	55.2	42.1	13.6	27.0	19.0	16.7	18.2	11.9	10.0	8.9	6.4	4.9	0.8	1.0	1.2	37.7	39.3	33.2	1,280	35.3	2.6
Vishal Retail	111	ADD	2,496	50	22	18.1	21.6	35.6	37.2	19.2	65.2	6.2	5.2	3.1	5.9	4.6	3.8	0.9	0.8	0.6	—	—	—	20.2	16.2	22.1	485	335.2	0.1
Retail			**80,727**	**1,615**					**31.8**	**48.2**	**35.6**	**25.1**	**16.9**	**12.5**	**11.9**	**8.0**	**6.4**	**3.3**	**2.2**	**1.9**	**0.6**	**0.7**	**0.8**	**13.2**	**13.1**	**15.3**			
Technology																													
HCL Technologies	146	REDUCE	101,540	2,031	695	15.3	20.6	21.7	(19.0)	35.0	5.4	9.6	7.1	6.7	4.9	3.5	3.2	2.1	1.6	1.4	5.5	5.5	5.5	21.4	23.8	22.7	200	36.9	3.8
Hexaware Technologies	20	SELL	2,907	58	142	7.7	2.9	3.8	(13.7)	(62.4)	32.1	2.7	7.1	5.4	(0.3)	0.9	0.6	0.4	0.4	0.4	4.4	7.8	7.8	15.1	5.8	7.4	25	22.2	0.2
Infosys Technologies	1,279	BUY	734,347	14,687	574	79.1	100.8	108.8	18.0	27.5	7.9	16.2	12.7	11.8	12.4	9.3	8.2	5.3	4.1	3.3	2.6	1.9	2.1	36.1	36.4	30.9	1,600	25.1	67.7
Mphasis BFL	172	REDUCE	35,829	717	208	12.2	22.3	23.4	67.6	81.7	5.0	14.0	7.7	7.4	8.4	4.9	4.0	3.1	0.4	1.9	2.0	2.3	2.6	23.6	34.6	28.4	190	10.6	1.6
Mindtree	248	BUY	6,462	129	26	26.7	30.7	39.6	12.3	14.7	29.0	9.3	8.1	6.3	5.4	3.1	2.7	1.2	1.0	0.8	1.6	—	—	—	17.2	17.8	450	81.4	0.4
Patni Computer Systems	141	SELL	18,102	362	129	33.2	26.3	30.8	29.2	(20.8)	16.9	4.2	5.4	4.6	1.0	1.1	0.1	0.7	0.6	0.5	1.5	1.9	2.2	19.2	14.1	12.0	160	13.7	1.5
Polaris Software Lab	42	SELL	4,168	83	98	7.4	12.8	11.6	(27.6)	71.6	(9.6)	5.7	3.3	3.7	2.0	1.1	0.8	0.6	0.5	0.5	4.1	4.1	4.1	11.7	17.8	14.1	70	65.1	4.7
Satyam Computer Services	299	BUY	204,196	4,084	682	25.2	33.7	35.5	17.7	33.3	5.3	11.9	8.9	8.4	8.8	5.8	4.9	2.8	2.3	1.9	3.3	4.0	4.7	26.0	28.2	24.2	400	33.6	33.0
TCS	540	REDUCE	528,694	10,574	979	51.3	56.4	63.0	21.5	10.0	11.6	10.5	9.6	8.6	8.4	6.9	6.2	4.3	3.4	2.8	2.6	3.7	4.7	47.0	39.3	35.6	650	20.3	22.4
Tech Mahindra	344	BUY	42,899	858	125	59.1	76.4	85.0	25.7	29.4	11.2	5.8	4.5	4.1	5.1	2.8	1.9	3.4	2.0	1.3	1.6	1.7	1.8	70.7	58.0	40.9	700	103.3	3.1
Wipro	239	ADD	346,623	6,932	1,450	22.2	26.0	28.7	12.6	17.0	10.4	10.8	9.2	8.3	8.5	6.1	5.2	2.7	2.2	1.9	2.7	3.2	3.7	27.9	26.3	24.3	360	50.6	11.0
Technology		**Neutral**	**2,025,766**	**40,515**					**16.1**	**21.4**	**9.2**	**11.7**	**9.7**	**8.8**	**8.7**	**6.5**	**5.7**	**3.4**	**2.7**	**2.3**	**2.8**	**3.0**	**3.5**	**29.4**	**28.3**	**25.6**			
Telecom																													
Bharti Airtel Ltd	611	BUY	1,159,048	23,181	1,898	35.3	47.0	57.0	65.0	33.2	21.1	17.3	13.0	10.7	10.6	7.7	5.9	5.1	3.7	2.7	—	0.6	1.0	39.1	32.9	29.1	840	37.5	82.1
IDEA	42	REDUCE	136,089	2,722	3,236	3.9	3.3	3.4	78.5	(17.6)	5.7	10.6	12.9	12.2	8.5	5.2	4.7	3.8	1.0	0.9	—	—	—	36.4	12.0	8.0	70	66.5	10.7
MTNL	62	REDUCE	39,312	786	630	6.0	6.5	7.0	(25.2)	7.7	8.2	10.4	9.6	8.9	(0.9)	(1.0)	(1.0)	0.3	0.3	0.3	9.6	9.6	9.6	2.7	2.9	3.2	100	60.3	2.9
Reliance Communications	217	SELL	447,991	8,960	2,064	25.0	28.6	34.8	76.4	14.1	21.9	8.7	7.6	6.2	6.6	5.9	4.7	1.6	1.3	1.1	0.3	—	—	16.1	19.9	19.8	390	79.7	64.9
Tata Communications	367	REDUCE	104,609	2,092	285	10.9	13.6	14.0	(36.3)	24.0	3.2	33.5	27.0	26.2	14.0	11.6	10.6	1.6	1.5	1.5	1.2	1.4	1.8	4.4	5.4	5.2	370	0.8	3.4
Telecom		**Cautious**	**1,887,049**	**37,741**					**61.9**	**23.3**	**19.8**	**13.4**	**10.9**	**9.1**	**8.7**	**6.8**	**5.4**	**2.6**	**1.9**	**1.6**	**0.5**	**0.8**	**0.9**	**19.4**	**17.6**	**17.6**			
Transportation																													
Container Corporation	632	REDUCE	82,147	1,643	130	57.7	69.4	74.2	7.8	20.3	6.8	10.9	9.1	8.5	7.0	5.6	4.9	2.6	2.1	1.8	2.0	2.3	2.5	25.8	25.6	22.8	800	26.6	1.3
Transportation		**Neutral**	**82,147**	**1,643**					**7.8**	**20.3**	**6.8**	**10.9**	**9.1**	**8.5**	**7.0**	**5.6**	**4.9**	**2.6**	**2.1**	**1.8**	**2.0**	**2.3**	**2.5**	**23.5**	**23.3**	**21.0**			
Utilities																													
CESC	179	BUY	22,376	448	125	27.8	28.2	31.1	(23.3)	1.4	10.4	6.4	6.4	5.8	3.4	4.1	5.3	0.7	0.6	0.6	2.2	2.3	2.8	12.5	10.6	10.5	500	179.2	1.5
Lanco Infratech	99	BUY	22,019	440	222	14.8	17.5	26.0	75.2	18.2	48.3	6.7	5.7	3.8	7.4	11.2	9.7	1.2	1.0	0.8	—	—	—	19.7	19.2	23.0	400	303.8	9.4
NTPC	133	REDUCE	1,092,936	21,859	8,245	9.3	9.0	9.7	7.9	(3.2)	7.9	14.2	14.7	13.6	9.8	10.8	10.4	2.0	1.9	1.7	2.6	2.6	2.8	14.9	13.2	13.1	160	20.7	31.1
Reliance Infrastructure	438	BUY	101,092	2,022	231	37.6	53.6	56.8	13.9	42.6	6.0	11.6	8.2	7.7	18.3	14.9	14.9	0.6	0.6	0.6	1.5	1.7	1.9	4.3	6.2	6.6	1,250	185.5	76.5
Reliance Power	94	REDUCE	224,940	4,499	2,397	0.4	2.1	2.6	—	443.9	25.2	246.8	45.4	36.2	—	—	—	1.6	1.5	1.5	—	—	—	1.2	3.5	4.3	180	91.8	26.6
Tata Power	591	BUY	137,694	2,754	233	29.7	38.1	39.9	11.6	28.5	4.6	19.9	15.5	14.8	15.8	14.4	15.5	1.8	1.4	1.3	1.5	1.6	1.6	10.0	10.3	9.0	1,275	115.7	22.0
Utilities		**Attractive**	**1,601,057**	**32,021**					**12.1**	**7.9**	**9.7**	**16.0**	**14.8**	**13.5**	**11.2**	**13.0**	**14.1**	**1.7**	**1.5**	**1.4**	**2.0**	**2.0**	**2.1**	**10.4**	**10.3**	**10.4**			
Others																													
Aban Offshore	705	BUY	27,273	545	39	72.3	264.8	453.9	(1,066)	266.3	71.5	9.8	2.7	1.6	11.9	5.7	3.7	3.1	1.3	0.7	0.5	1.4	2.1	51.7	59.5	52.1	2,400	240.2	17.8
Aditya Birla Nuvo	496	ADD	46,319	926	93	22.9	26.6	29.2	(5.6)	16.0	9.8	21.7	18.7	17.0	11.9	10.8	10.0	1.4	1.3	1.2	1.2	1.3	1.3	6.4	7.1	7.4	2,000	302.9	2.1
Educomp Solutions	1,922	BUY	36,556	731	19	35.2	63.9	108.1	114	81.7	69.2	54.7	30.1	17.8	29.1	12.4	7.7	11.9	5.0	4.0	0.1	0.3	0.5	33.5	23.3	24.3	2,550	32.7	25.3
Havells India	167	BUY	10,082	202	61	26.6	36.9	46.5	40.0	38.7	26.0	6.3	4.5	3.6	5.9	4.5	3.2	1.5	1.1	0.8	1.4	1.9	2.5	33.7	28.4	25.5	430	158.1	0.4
Jaiprakash Associates	59	BUY	70,624	1,412	1,188	4.9	7.3	11.0	7	49.5	50.9	12.1	8.1	5.4	10.0	7.8	7.5	1.4	1.2	1.0	0.0	0.0	0.0	15.4	16.1	20.5	205	244.8	43.8
Jindal Saw	346	BUY	21,214	424	61	66.6	86.9	82.9	(42.6)	30.6	(4.7)	5.2	4.0	4.2	4.0	2.3	2.1	0.8	0.5	0.5	2.1	3.8	4.3	12.5	14.4	12.3	500	44.6	1.7
PSL	117	BUY	5,081	102	44	21.1	43.6	58.3	4	106.9	33.7	5.5	2.7	2.0	3.9	3.3	2.3	0.9	0.7	0.5	4.4	5.1	6.4	11.3	15.0	17.5	280	140.1	0.2
Sintex	160	BUY	26,001	520	163	19.5	23.4	31.2	58.2	19.6	33.5	8.2	6.8	5.1	7.8	5.6	3.9	1.6	1.0	0.9	0.5	0.8	1.1	14.0	14.8	15.9	460	187.5	1.7
Welspun Gujarat Stahl Rohren	100	REDUCE	18,868	377	189	20.6	29.2	47.4	94	41.9	62.7	4.9	3.4	2.1	6.3	3.4	1.9	1.1	0.8	0.6	2.4	4.9	5.7	27.1	26.0	31.3	360	260.2	4.2
Others			**262,019**	**5,240**					**24.2**	**84.6**	**47.4**	**12.0**	**6.5**	**4.4**	**9.2**	**6.0**	**4.8**	**1.5**	**1.2**	**0.9**	**0.8**	**1.3**	**1.6**	**12.8**	**18.3**	**21.3**			
KS universe (b)			**19,679,056**	**393,581**					**24.9**	**15.7**	**17.6**	**10.0**	**8.7**	**7.4**	**6.5**	**5.7**	**4.9**	**1.8**	**1.5**	**1.3**	**2.1**	**2.4**	**2.8**	**17.8**	**16.9**	**17.2**			
KS universe (b) ex-Energy			**15,311,393**	**306,228**					**30.0**	**11.1**	**10.1**	**10.2**	**9.2**	**8.4**	**7.4**	**6.7**	**6.1**	**2.0**	**1.6**	**1.4**	**2.1**	**2.3**	**2.5**	**19.1**	**17.4**	**16.6**			
KS universe (d) ex-Energy & ex-Commodities			**14,171,978**	**283,440**					**34.8**	**15.4**	**15.1**	**11.9**	**10.3**	**9.0**	**9.2**	**7.8**	**6.7**	**2.2**	**1.8**	**1.6**	**2.0**	**2.2**	**2.5**	**18.8**	**17.7**	**17.4**			

Note:
(a) 2007 means calendar year 2006, similarly for 2008 and 2009 for these particular companies.
(b) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(c) Rupee-US Dollar exchange rate (Rs/US$)= 50.00

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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Kotak Institutional Equities Research coverage universe

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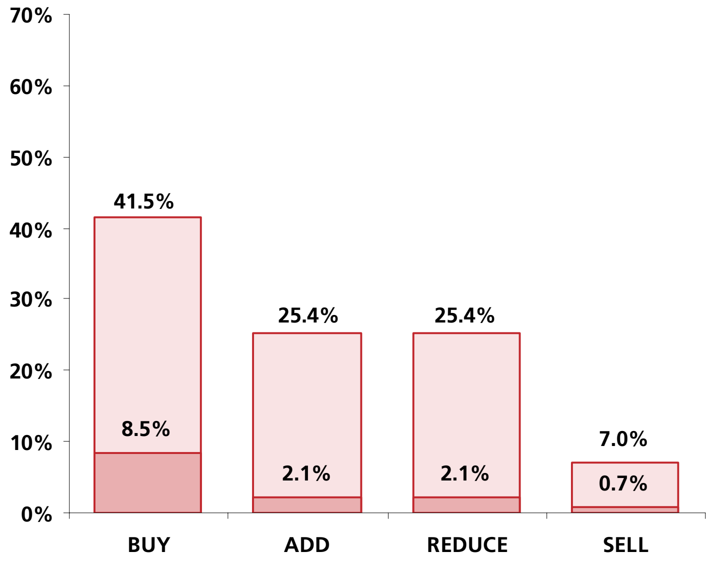

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Source: Kotak Institutional Equities

As of September 30, 2008

Ratings and other definitions/identifiers

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Definitions of ratings

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