

### Contents

#### Results

**IDFC:** Core earnings strong, loan growth accelerates

#### Updates

**Technology:** Q&A with Cognizant

**Energy:** India Energy Monthly, August 2010

### News Round-up

- ▶ Universal Music has got into an exclusive partnership with RCom (RCOM IN) to provide its catalogue of music on the operator's platform and develop other music-related properties. (BSTD)
- ▶ With the Central Electricity Regulatory Commission (CERC) approving changes in configuration of the Krishnapatnam ultra mega power project (UMPP), Reliance Power (RPWR IN) will be able to commission the 4,000 Mw project eight months ahead of schedule. (BSTD)
- ▶ Maruti Suzuki India (MSIL IN) plans to start producing vehicles at its upcoming plant at Manesar from Oct. 2011, six months ahead of schedule as it is facing severe capacity constraints. (ECNT)
- ▶ M&M (MM IN) may get board nod for Korean SUV maker Ssangyong bid today. (ECNT)
- ▶ ONGC (ONGC IN) and GAIL India (GAIL IN) have locked horns over marketing rights of natural gas produced from the former's C-Series field the latest one to go on production in the country. Both ONGC and GAIL have sought rights to market the 3 mn cubic metres a day of gas to be produced from western offshore C-Series fields to customers. (FNLE)
- ▶ GAIL (GAIL IN) to step up imports by 25% to meet domestic demand. The move comes when 200 new power plants and scores of urea units are queuing up before the government for natural gas allocation. (FNLE)
- ▶ TCS (TCS IN) is eyeing two contracts for strategic defence communications systems worth USD 608 mn. (BSTD)
- ▶ L&T (LT IN) said it had secured contracts for projects worth USD 223 mn, including construction of hospitals and residential projects in Mumbai and a cement plant. (BSTD)
- ▶ L&T's (LT IN) financial bid for the USD 2.58 bn Hyderabad metro rail project secured Andhra Pradesh Cabinet approval, with the Government agreeing to invest USD 421 mn for land acquisition as the state's contribution towards the project. (THBL)
- ▶ Asian Paints (APNT IN) has announced a price hike in its decorative paint segment by 1.2%. (FNLE)
- ▶ IDBI (IDBI IN) ups BPLR by 0.5%; SBI to follow suit. (FNLE)
- ▶ NMDC Ltd (NMDC IN) has finalised a capital expenditure of USD 212 mn for the current financial year for a new mine and steel plant at Chhattisgarh. (THBL)

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

### EQUITY MARKETS

India	Change %			
	4-Aug	1-day	1-mo	3-mo
Sensex	18,217	0.6	4.4	6.6
Nifty	5,468	0.5	4.4	6.7
<b>Global/Regional indices</b>				
Dow Jones	10,680	0.4	10.3	(1.7)
Nasdaq Composite	2,304	0.9	10.1	(4.1)
FTSE	5,386	(0.2)	11.7	0.8
Nikkie	9,606	1.2	3.7	(13.1)
Hang Seng	21,550	0.4	8.6	6.0
KOSPI	1,787	(0.1)	6.7	4.0
<b>Value traded – India</b>				
Cash (NSE+BSE)	166		168	168
Derivatives (NSE)	669		646	765
Deri. open interest	1,405		1,268	1,118

### Forex/money market

	Change, basis points			
	4-Aug	1-day	1-mo	3-mo
Rs/US\$	46.1	3	(70)	114
10yr govt bond, %	7.8	(3)	28	14
<b>Net investment (US\$m)</b>				
	3-Aug		MTD	CYTD
Flls	147		187	10,664
MFs	(6)		29	(282)

### Top movers -3mo basis

	Change, %			
	4-Aug	1-day	1-mo	3-mo
<b>Best performers</b>				
HPCL IN Equity	437.9	(0.9)	(6.1)	33.1
BJAUT IN Equity	2719.7	0.2	11.2	31.2
MM IN Equity	656.9	0.8	7.8	26.9
APNT IN Equity	2592.0	(0.2)	11.3	25.8
BPCL IN Equity	650.2	(0.6)	(1.3)	23.5
<b>Worst performers</b>				
RNR IN Equity	40.3	2.0	(13.1)	(41.2)
PUNJ IN Equity	121.0	(5.5)	(9.3)	(22.6)
ABAN IN Equity	897.0	0.2	10.4	(18.4)
FTECH IN Equity	1226.4	0.4	(9.9)	(16.7)
SUEL IN Equity	56.7	0.4	(2.4)	(16.4)

**AUGUST 04, 2010**
**RESULT**

Coverage view: **Attractive**

Price (Rs): **186**

Target price (Rs): **205**

BSE-30: **18,217**

**Core earnings strong, loan growth accelerates.** IDFC reported PAT of Rs3.4 bn, up 22% yoy and 6% above estimates. Strong loan growth (37% yoy) and margins have driven core earnings (PBT before extraordinary items, capital gains and provisions) by 15% yoy; fee income grew just 6% yoy due to a large base. We will revisit estimates after tomorrow's conference call.

**Company data and valuation summary**

IDFC

**Stock data**

52-week range (Rs) (high,low)	196-127
Market Cap. (Rs bn)	271.8

**Shareholding pattern (%)**

Promoters	0.0
FIs	44.4
MFs	5.5

**Price performance (%)**

	1M	3M	12M
Absolute	3.6	12.4	34.0
Rel. to BSE-30	(0.7)	5.8	16.4

**Forecasts/Valuations**

	2010	2011E	2012E
EPS (Rs)	8.2	9.2	11.3
EPS growth (%)	41.1	13.3	22.8
P/E (X)	22.8	20.1	16.4
NII (Rs bn)	11.2	15.1	19.9
Net profits (Rs bn)	10.6	13.5	17.1
BVPS	46.5	71.2	85.7
P/B (X)	4.0	2.6	2.2
ROE (%)	16.1	15.2	14.5
Div. Yield (%)	0.7	0.9	1.1

**Strong growth in lending business, margins up yoy**

IDFC's loan book was up 15% qoq and 37% yoy to Rs289 bn on the back of large lending to energy and telecom sectors. The underlying traction in business was strong - approvals were up 200% yoy and disbursements were up 302% yoy (notably, infrastructure finance business tends to be lumpy and these trends cannot not be extrapolated).

Top-20 client groups of IDFC have likely driven most of the business during the quarter- the share of outstanding disbursements to top-20 groups increased to 64% in June 2010 from 58% in March 2010.

Margins were up yoy on the back of declining borrowings cost during 2Q-4QFY10 and higher share of short-term borrowings - 17% in 1QFY11 vis-à-vis 12% in 1QFY10. Margins appear to have declined marginally qoq, likely due to rise in incremental borrowings cost and increase in debt investments (Rs61 bn as of June 2010, up from Rs50 bn in March 2010).

**Fee income growth was lower**

IDFC's fee income was up 6% yoy

- ▶ Asset management fees were down 10% yoy due to the high base of 1QFY10.
- ▶ Income for IDFC SSKI was down 3% yoy largely supported by investment banking fees. The broking income was down 33% yoy in line with the decline in market volumes – average cash market volumes on BSE and NSE were down 30% yoy.
- ▶ Loan-related fees were almost flat despite the sharp rise in disbursements.

**Higher-than-expected capital gains and provisions tempered reported earnings**

IDFC reported capital gains of Rs1.2 bn, up 76% yoy. However, higher-than-estimated earnings from this segment were somewhat offset by higher provisions - Rs445 mn (as compared to a provision write-back of Rs66 mn in 1QFY10). IDFC's provisions are linked to its disbursements; large provisions during the quarter have likely pushed its provisioning expenses.

**QUICK NUMBERS**

- **PAT up 22% yoy and 6% above estimates**
- **Loan growth up 37% yoy and 15% above estimates**

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## IDFC - Quarterly results

Rs mn

	1Q10	2Q10	3Q10	4Q10	1Q11	YoY (%)	1Q11E il vs KS (%)
<b>Consolidated financials</b>							
<b>Total Income</b>	9,946	10,344	9,979	10,333	10,972	10	—
<b>Operating Income</b>	9,946	10,344	9,974	10,238	10,913	—	—
Interest and other charges	5,267	5,121	4,785	4,362	4,852	(8)	—
<b>Net operating income</b>	4,679	5,223	5,194	5,971	6,120	31	5,432
<b>Net operating inc excl cap gains</b>	3,999	4,555	4,125	4,981	4,920	23	4,682
Net interest income on infr	2,190	2,520	2,600	2,900	3,040	39	2,957
Treasury (incl secu and others)	250	250	190	270	330	32	325
Fees and advisory	1,500	1,640	1,330	1,700	1,590	6	1,400
Asset management	720	690	680	810	650	(10)	700
IDFC SSKI / Investment banking	350	630	340	510	360	3	300
Institutional brokerage	210	—	—	—	140	(33)	—
Advisory and other fees	430	320	310	380	440	2	400
<b>Profit on sale of equity</b>	680	610	1,050	990	1,200	76	750
Miscellaneous income	—	—	—	—	—	—	—
<b>Total expenditure</b>	865	1,241	1,409	2,859	1,580	83	1,142
Staff expenses	494	576	557	1,445	590	20	592
Other expenses	437	423	427	717	544	25	450
Provisions and contingencies	(66)	242	424	697	445	(779)	100
PBDT	3,814	3,982	3,785	3,112	4,540	19	4,289
Depreciation	95	98	107	104	97	2	100
<b>Profit before Tax</b>	3,718	3,884	3,679	3,008	4,443	19	4,189
Provision for Tax	973	975	979	738	1,098	13	1,047
<b>Profit after tax</b>	2,745	2,908	2,700	2,270	3,346	22	3,142
Share of profit in associates / minority interest	(20)	10	1	5	(0)	—	—
<b>PAT (incl minorities share/ after minority share)</b>	2,724	2,918	2,699	2,265	3,346	23	3,142
PBT bef treasury provisions and misc income	2,973	3,516	3,053	2,439	3,412	15	3,262
<b>Balance sheet (Rs mn)</b>							
<b>Shareholders funds</b>	64,500	67,440	70,100	70,100	73,210	14	
Subordinated debt	6,500	6,500	6,500	—	—	—	
<b>Loan funds</b>	236,520	245,880	235,410	265,440	312,840	32	
Minority interest	10	10	60	70	70	600	
<b>Total</b>	<b>307,530</b>	<b>319,820</b>	<b>312,010</b>	<b>335,610</b>	<b>386,120</b>	<b>26</b>	
Goodwill	11,600	11,600	11,600	11,690	11,600	—	
<b>Fixed assets</b>	4,520	4,450	4,390	4,330	4,450	(2)	
<b>Investments</b>	79,870	83,180	60,940	70,430	78,000	(2)	
Equity	12,680	12,880	13,180	20,000	17,410	37	
Strategic, subs, JV							
Treasury	67,190	70,300	47,760	50,430	60,590	(10)	
<b>Infrastructure loans</b>	211,140	220,450	234,500	250,310	289,010	37	
Deferred Tax	1,390	1,490	1,620	1,770	1,990	43	
Net current assets	(990)	(1,350)	(960)	(2,920)	1,070	(208)	
<b>Total</b>	<b>307,530</b>	<b>319,820</b>	<b>312,090</b>	<b>335,610</b>	<b>386,120</b>	<b>26</b>	

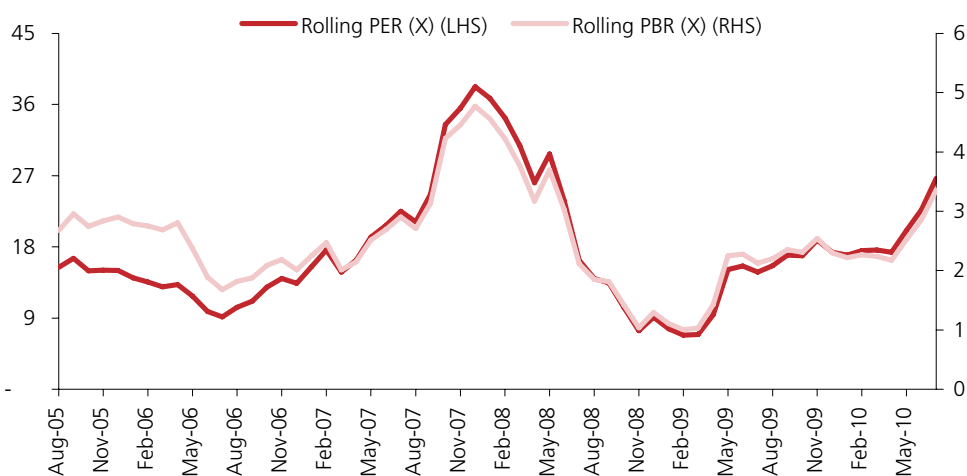
Source: Company, Kotak Institutional Equities estimates

## IDFC - Quarterly results

	1Q10	2Q10	3Q10	4Q10	1Q11	YoY (%)
<b>Key ratios (%)</b>						
NIMs (KS calc- %)	3.6	3.9	3.9	4.3	4.1	—
<b>Other details</b>						
Gross approvals (Rs bn)	44	55	67	139	130	199
Gross disbursements (Rs bn)	15	34	31	49	62	302
Loan book (Rs bn)	211	220	235	250	289	37
<b>Outstanding disbursements (Rs bn)</b>						
Loans	211	219	233	252	291	40
Project loans	111	115	125	138	146	35
Corporate loans	84	86	93	99	129	60
Loans against shares	15	17	15	15	15	(15)
Mezzanine products	5	6	6	4	3	(39)
Non-funded	4	3	3	3	9	137
<b>Sectorwise break ups</b>						
<b>Total exposure (Rs bn)</b>	<b>328</b>	<b>324</b>	<b>348</b>	<b>438</b>	<b>510</b>	<b>55</b>
Energy	127	124	139	168	222	75
Transportation	71	72	65	87	106	50
Telecom	50	52	64	107	113	124
Commercial/Industrial	32	29	30	36	—	—
Tourism	17	17	17	10	—	—
Others	31	31	32	31	69	125
<b>O/s disbursements</b>	<b>232</b>	<b>227</b>	<b>256</b>	<b>279</b>	<b>321</b>	<b>287</b>
Energy	85	91	95	103	127	48
Telecom	32	40	46	55	82	158
Transportation	55	50	55	57	57	5
Commercial/Industrial	28	26	24	33	-	-
Others	32	21	36	30	55	75
<b>Tax rate</b>						
<b>Breakup of outstanding borrowings (% of total)</b>						
Short term	12	18	15	15	17	
LT Rupee loans	24	21	16	15	14	
LT bonds	52	49	56	59	61	
Foreign currency loans	9	9	10	8	7	
<b>ROA analysis (%)</b>						
<b>Net interest income</b>	<b>3.2</b>	<b>3.5</b>	<b>3.5</b>	<b>3.6</b>	<b>3.7</b>	
Infrastructure	2.7	2.9	3.1	3.3	3.3	
Treasury	0.5	0.5	0.4	0.3	0.3	
Non Interest income	2.2	2.3	2.8	3.1	3.0	
Fees, syndication and advisory	0.6	0.4	0.4	2.0	1.6	
Capital gains & dividend	0.9	0.5	0.9	1.1	0.9	
Mis. Fees	0.3	0.4	0.4	0.1	0.5	
Operating income	5.5	5.8	6.4	6.7	6.8	
Operating expenses	1.3	1.4	1.5	1.8	1.7	
Pre- provisioning profits	4.2	4.5	4.9	5.0	5.1	
Provisions and losses	0.4	0.5	0.6	0.4	0.5	
<b>PBT</b>	<b>3.5</b>	<b>4.0</b>	<b>4.3</b>	<b>4.6</b>	<b>4.5</b>	
Tax	1.1	1.1	1.1	1.2	1.1	
<b>Net Income (PAT)</b>	<b>2.7</b>	<b>2.9</b>	<b>3.2</b>	<b>3.4</b>	<b>3.4</b>	

Source: Company

IDFC- 1 year fwd rolling PER and PBR (X)



Source: Bloomberg, Kotak Institutional Equities estimates

IDFC : Sum-of-the parts based valuation

	Valuation (Rs mn)	Value per share (Rs)	Comments
IDFC (core)	170,557	132	Based on residual growth model- implies 2.1X core PBR for medium term RoE of 17%
IDFC (India Development fund)	2,250	1	25% of AUMs - US\$200 mn
IDFC (Private equity)	10,878	7	15% of FY2012E AUM - US\$2 bn
IDFC (Project equity)	8,400	6	10% of FY2012E AUM - US\$1.4 bn
IDFC investment advisors (PMS)	646	0.4	10% of FY2012E AUMs - US\$100 mn
IDFC MF	19,500	12	4% of FY2012E AUMs
IDFC SSKI	16,440	11	18X FY2012E PAT
IDFC's investment in NSE	17,595	12	18X FY2012E PER
Value of market investments	27,026	21	2X book value (including unrealised value)
<b>Total</b>	<b>246,265</b>	<b>202</b>	

Source: Kotak Institutional Equities estimates

IDFC (consolidated) key ratios, March fiscal year-ends, 2007-2013E

	2007	2008	2009	2010	2011E	2012E	2013E
<b>Income Statement</b>							
Operating income	64	70	38	2	29	37	37
<b>Net fund based income</b>	<b>51</b>	<b>63</b>	<b>35</b>	<b>21</b>	<b>35</b>	<b>31</b>	<b>38</b>
<b>Fee income</b>	<b>160</b>	<b>64</b>	<b>8</b>	<b>48</b>	<b>25</b>	<b>23</b>	<b>26</b>
On AUM	84	5	287	40	24	19	23
<b>Other operating income</b>	<b>7</b>	<b>29</b>	<b>(15)</b>	<b>81</b>	<b>(25)</b>	<b>12</b>	<b>32</b>
<b>Operating expenses</b>	<b>43</b>	<b>228</b>	<b>55</b>	<b>42</b>	<b>22</b>	<b>21</b>	<b>19</b>
<b>Net profit</b>	<b>60</b>	<b>21</b>	<b>1</b>	<b>41</b>	<b>27</b>	<b>27</b>	<b>38</b>
<b>Core operating profit (PBT-treasury+provisions)</b>	<b>84</b>	<b>42</b>	<b>16</b>	<b>25</b>	<b>35</b>	<b>32</b>	<b>39</b>
<b>Balance Sheet</b>							
<b>Assets</b>							
Investments	52	174	40	(7)	14	11	11
Infrastructure loans	37	43	3	22	41	41	40
<b>Total assets</b>	<b>44</b>	<b>61</b>	<b>7</b>	<b>12</b>	<b>34</b>	<b>34</b>	<b>35</b>
<b>Liabilities</b>							
Loan funds	57	57	7	13	31	39	41
<b>Total liabilities</b>	<b>52</b>	<b>55</b>	<b>6</b>	<b>12</b>	<b>30</b>	<b>38</b>	<b>40</b>
<b>Shareholders equity</b>	<b>14</b>	<b>90</b>	<b>10</b>	<b>14</b>	<b>53</b>	<b>20</b>	<b>14</b>
<b>Key ratios (%)</b>							
<b>Yield on</b>							
<b>Earning assets exld treasury assets</b>	<b>9.1</b>	<b>10.2</b>	<b>11.3</b>	<b>10.4</b>	<b>10.6</b>	<b>10.7</b>	<b>10.9</b>
Earning assets incl treasury income and assets	9.7	10.5	11.0	10.8	10.7	10.7	10.9
Infrastructure loans	9.3	10.2	11.8	11.3	11.4	11.4	11.4
Interest on bank deposits	8.4	16.0	9.9	15.7	15.4	13.1	13.6
<b>Average cost of funds</b>	<b>7.2</b>	<b>8.1</b>	<b>9.1</b>	<b>7.8</b>	<b>8.0</b>	<b>8.3</b>	<b>8.2</b>
Capital gains to eqty investments	21.3	20.6	10.1	15.6	11.2	10.6	12.3
<b>NIM (excl capital gains)</b>	<b>2.8</b>	<b>3.0</b>	<b>3.2</b>	<b>3.5</b>	<b>3.8</b>	<b>3.7</b>	<b>3.8</b>
Employee .exp to income	0.5	1.1	1.3	1.7	1.6	14.1	12.8
Operating expnses/ income	9.0	18.9	24.8	25.9	25.9	24.6	21.9
<b>Du Pont (%age of average assets)</b>							
Net interest income	2.8	3.0	3.1	3.4	3.7	3.7	3.8
Loan loss provisions	0.1	0.3	0.5	0.4	0.3	0.3	0.3
Other operating income	2.7	2.7	2.1	3.0	2.7	2.4	2.2
Operating expenses	0.5	1.1	1.3	1.7	1.6	1.5	1.3
Invnt. depreciation	—	—	—	—	—	—	—
<b>ROA</b>	<b>4.1</b>	<b>3.2</b>	<b>2.5</b>	<b>3.3</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>
Average assets/average equity	5.5	5.5	5.0	4.9	4.6	4.6	5.3
<b>ROE</b>	<b>22.6</b>	<b>17.6</b>	<b>12.9</b>	<b>16.1</b>	<b>15.2</b>	<b>14.5</b>	<b>17.1</b>

Source: Company, Kotak Institutional Equities estimates

IDFC (consolidated): Income statement and balance sheet, March fiscal year-ends, 2007-2013E

	2007	2008	2009	2010	2011E	2012E	2013E
<b>(Rsmn)</b>							
Total income	16,917	27,928	36,339	40,513	50,522	67,264	90,967
Operating income	12,778	21,700	30,032	30,755	39,649	54,284	74,629
Dividend	91	62	542	141	137	161	185
Interest on deposits	100	—	—	—	—	—	—
Other charges	136	101	—	15	15	15	15
<b>Net fund based income</b>	<b>4,223</b>	<b>6,866</b>	<b>9,237</b>	<b>11,220</b>	<b>15,137</b>	<b>19,884</b>	<b>27,425</b>
Less: provisions for NPLs	174	688	1,495	1,304	1,058	1,703	2,391
<b>Net fund based income post provisions</b>	<b>4,049</b>	<b>6,178</b>	<b>7,742</b>	<b>9,916</b>	<b>14,079</b>	<b>18,180</b>	<b>25,034</b>
Fee income	2,406	3,944	4,253	6,293	7,847	9,646	12,111
SSKI	—	1,873	1,071	1,832	2,278	2,619	3,012
Fees - upfront fees, prepayments	—	—	—	—	—	—	—
On guarantees/commissions- standalone	656	1,515	1,032	1,440	1,813	2,555	3,587
Fees on AMC	528	556	2,150	3,021	3,757	4,471	5,512
<b>Net operating income</b>	<b>8,137</b>	<b>12,288</b>	<b>13,835</b>	<b>19,539</b>	<b>24,425</b>	<b>30,632</b>	<b>40,844</b>
<b>Operating expenses</b>	<b>745</b>	<b>2,447</b>	<b>3,795</b>	<b>5,390</b>	<b>6,589</b>	<b>7,943</b>	<b>9,480</b>
Profit before tax	7,444	9,959	10,254	14,286	18,364	23,217	31,891
Tax	1,235	2,463	2,697	3,666	4,876	6,119	8,304
<b>Net profit</b>	<b>6,209</b>	<b>7,496</b>	<b>7,558</b>	<b>10,619</b>	<b>13,487</b>	<b>17,098</b>	<b>23,587</b>
% growth	60	21	1	41	27	27	38
Minority interest	—	143	62	—	—	—	—
<b>Net profit post minority interest</b>	<b>6,209</b>	<b>7,353</b>	<b>7,495</b>	<b>10,619</b>	<b>13,487</b>	<b>17,098</b>	<b>23,587</b>
PBT - treasury	5,710	7,675	8,201	10,820	15,337	19,883	27,665
% chg	112	34	7	32	42	30	39
PBT - treasury + provisions	5,884	8,363	9,695	12,123	16,395	21,586	30,057
No. of shares	1,126	1,294	1,295	1,301	1,459	1,506	1,506
<b>Balance Sheet</b>							
<b>Assets</b>							
Investments	19,724	54,136	75,784	70,430	80,289	89,441	99,597
Equity Shares	6,147	12,606	19,652	15,614	18,737	21,548	24,780
Venture Capital Units	954	1,273	2,983	4,386	5,935	6,523	7,062
Infrastructure loans	139,155	199,024	205,918	250,310	354,000	497,696	698,004
Current assets	18,287	28,674	18,987	18,223	22,996	25,526	28,648
Fixed assets	486	3,812	4,449	4,330	4,766	4,963	5,231
Other assets	854	953	1,393	1,463	1,536	1,613	1,693
<b>Total assets</b>	<b>178,506</b>	<b>286,600</b>	<b>306,530</b>	<b>344,755</b>	<b>463,588</b>	<b>619,238</b>	<b>833,173</b>
<b>Liabilities</b>							
Subordinated debt (unsecured)	6,500	6,500	6,500	6,500	6,500	6,500	6,500
Loan funds	137,136	214,784	229,259	258,940	340,109	473,343	668,128
Current liabilities and provisions	5,561	9,484	9,101	9,215	9,764	10,353	10,986
<b>Total liabilities</b>	<b>149,197</b>	<b>230,767</b>	<b>244,860</b>	<b>274,655</b>	<b>356,373</b>	<b>490,196</b>	<b>685,614</b>
Paid-up capital	11,259	12,943	12,953	13,010	14,588	15,065	15,065
Reserves and surplus	18,049	42,889	48,717	57,090	92,628	113,977	132,494
<b>Shareholders equity</b>	<b>29,308</b>	<b>55,832</b>	<b>61,670</b>	<b>70,100</b>	<b>107,216</b>	<b>129,042</b>	<b>147,559</b>

Source: Company, Kotak Institutional Equities estimates

AUGUST 04, 2010

UPDATE

BSE-30: 18,217

**Q&A with Cognizant.** In our post-earnings discussion with Cognizant, the company highlighted the return of discretionary projects as the key positive in its stellar 2QCY10 performance. Cognizant is optimistic about sustaining strong revenue growth momentum for the offshore players. High attrition in the industry is a worry, but the company expects the situation to improve in the next few quarters. We remain positive on the sector with a preference for Tier-I stocks.

#### Secular offshore shift trend is back

Cognizant highlighted that the secular trend of market share gains for the offshore pure-plays is back, after a brief downturn-driven pause. The company indicated that new projects from a large existing customer base drove a bulk of its 15% sequential US\$ revenue growth as these clients, now comfortable with their offshore IT vendors, are looking at leveraging the global delivery model in hitherto untouched areas of their IT spends. In addition, the company sees ample growth opportunities in new verticals and geographies from first-time outsourcers.

#### Return of discretionary spends reinforces our optimism on industry revenue growth

Even as the commentary from other players in the industry was mixed in this aspect, Cognizant was unequivocal on the return of discretionary projects within its client base. The company attributed its strong performance (and more importantly, the massive 9.6% pts outperformance versus its guidance) to the sudden surge in new development (discretionary) project starts. Also, while a good proportion of new development projects were driven by clients seeking cost-reduction, the company also saw a number of 'change the business' project kick-offs. We believe this addresses a key piece of the demand puzzle and validates our conviction that demand momentum will sustain through FY2011/12E.

#### Attributes relative outperformance versus peers to a confluence of factors

Cognizant attributed its substantially-better-than-peers revenue performance to a combination of factors ("the stars aligned", in the company's words) – (1) a good match of new opportunity areas and Cognizant's strengths, (2) client mix, (3) return of discretionary spends and increasing client inclination towards a global delivery model for new project starts, and (4) delivery engine preparedness – we note that Cognizant had hired a total of 17,500 net employees in 4QCY09/1QCY10, increasing its end-3QCY09 headcount by 26% over these two quarters. The company also re-emphasized on its stated target of delivering industry-leading revenue growth by investing excess margins (over the guided 19-20% range) in strengthening its front-end engine, which is driving a meaningful competitive differentiation.

#### Attrition a worry, but manageable

Cognizant highlighted the high attrition rate in the industry as its key area of concern but believes that it has taken the necessary steps to rein in attrition in its employee base – the company indicated that it has offered promotions to the highest proportion of employees in its peer group. In addition, the company has raised its hiring plans for the year and indicated that it is prepared to take any other steps necessary to keep the delivery engine prepared. As highlighted in our recent notes, we continue to see a good possibility of another round of wage hikes (likely selective) in the industry, however, the company mentioned that it does not expect nor it has planned for another wage hike.

We reiterate our attractive coverage view on the sector with a bias towards Tier-I stocks.

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AUGUST 5, 2010

UPDATE

BSE-30: 18,217

**Crude oil prices: Remain stable in July**

**Global refining margins: Improve mom but remain subdued**

**India marketing margins: Decline in global prices results in lower marketing losses**

**Crude oil prices: Remain stable in July**

Crude oil prices remained stable (–0.1% mom) in July as positive drivers led by (1) unexpected increase in growth rate for European manufacturing and services sector in June 2010 and (2) forecast of a severe Atlantic hurricane season which could bring disruptions to oil and gas operations in the US Gulf of Mexico, were more than offset by (1) higher-than-expected increase in crude oil inventory and (2) growing concerns on economic recovery in US. We expect crude oil prices to remain in the US\$70-80/bbl range in the near term as (1) large OPEC spare capacity of ~6 mn b/d despite slippages in new projects and (2) high level of inventories will likely offset the increase in global crude oil demand. Natural gas price (Henry Hub) declined to US\$4.6/mn BTU in the recent month versus US\$4.8/mn BTU in June 2010.

**Global refining margins: Improve mom but remain subdued**

We compute Singapore complex gross refining margins at US\$0.8/bbl in July 2010 versus US\$0.3/bbl in June 2010. The improvement in refining margins was led by an expansion in the product cracks—(1) gasoline cracks to US\$9.8/bbl (versus US\$9.3/bbl in June 2010), (2) diesel cracks to US\$12/bbl (versus US\$11.6/bbl in June 2010), (3) fuel oil cracks to –US\$3.3/bbl (versus –US\$5.1/bbl in June 2010) and (4) kerosene cracks to US\$12.6/bbl (versus US\$12.5/bbl in June 2010). However, the increase in refining margins was mitigated by a sharp contraction in naphtha cracks to –US\$3.2/bbl (versus –US\$1.4/bbl in June 2010). We expect refining margins to remain subdued given large supply-demand imbalance. We estimate India refining margins to decline modestly mom to US\$3.1/bbl in August 2010 versus US\$3.3/bbl in July 2010.

**India marketing margins: Decline in global prices results in lower marketing losses**

We estimate moderately lower marketing losses on auto fuels in August 2010 due to decline in global product prices. We compute marketing margins assuming unchanged domestic prices for diesel at –Rs0.1/liter (versus –Rs0.4/liter in July 2010 and +Rs0.9/liter in FY2010) and for gasoline at –Rs1/liter (versus –Rs1.4/liter in July 2010 and –Rs2.9/liter in FY2010). We compute subsidy losses on LPG and kerosene to be Rs187/cylinder and Rs16/liter for August 2010 versus Rs227/cylinder and Rs16.3/liter in July 2010.

We have included some key exhibits here. For more details, please refer our India Energy Monthly, August 2010.

### QUICK NUMBERS

- **Singapore complex gross refining margins at US\$0.8/bbl**
- **India marketing margins improved for diesel at –Rs0.1/liter and gasoline at –Rs1/liter**

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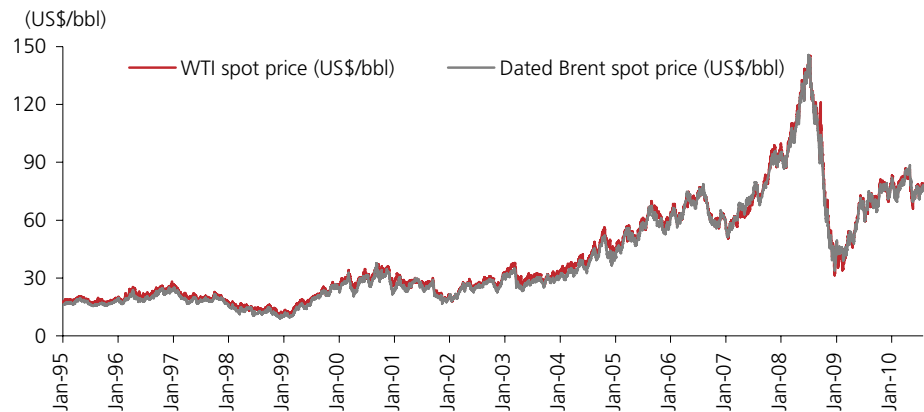
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### Crude prices remain stable in the recent month

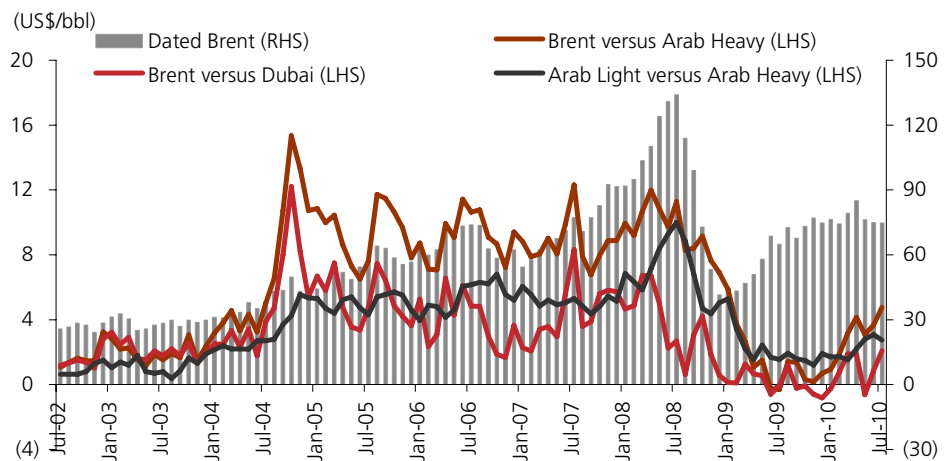
WTI and Dated Brent spot prices (US\$/bbl)



Source: Kotak Institutional Equities

### Light-heavy differential has improved from recent lows

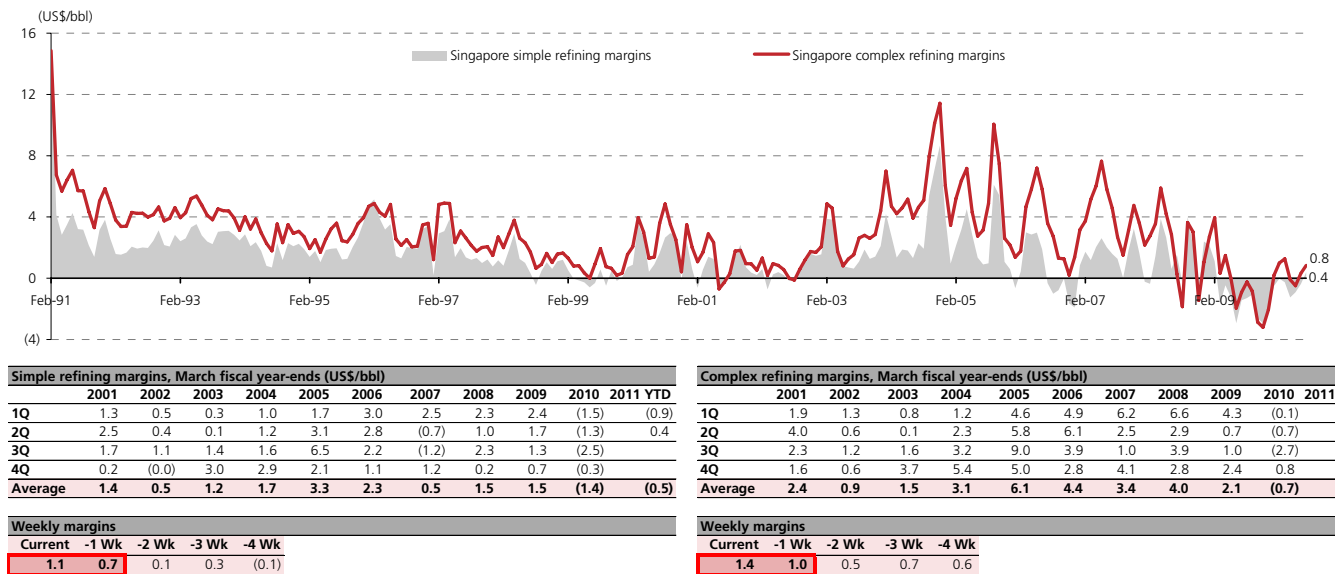
Light-heavy differential (US\$/bbl)



Source: Kotak Institutional Equities

### Refining margins improved in the recent month

Singapore refining margins (US\$/bbl)



Source: Bloomberg, Kotak Institutional Equities

### Gross refining margins for a typical Indian refinery based on Arab Gulf fob prices (US\$/bbl), Prices (US\$/ton)

	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Quarterly averages, fiscal year-end			
														3QFY10	4QFY10	1QFY11	2QFY11
<b>Product prices</b>																	
LPG	545	565	611	688	720	732	652	676	691	689	624	564		621	701	685	594
Naphtha	618	584	605	664	673	688	657	703	727	674	636	607		618	673	701	621
Gasoline	684	630	650	682	672	724	713	753	784	708	696	686		654	703	748	691
Jet fuel	609	573	613	656	637	651	632	675	734	675	666	659		614	640	695	663
Kerosene	609	573	613	656	637	651	632	675	734	675	666	659		614	640	695	663
Diesel	577	543	575	610	589	611	600	643	695	642	627	620		576	600	660	624
Fuel oil	426	416	433	458	452	466	446	451	475	444	426	429		436	454	457	427
Bitumen	436	426	443	468	462	476	456	461	485	454	436	439		446	464	467	437
<b>Crude oil prices</b>																	
Crude oil-Brent	529	494	534	562	545	558	542	579	620	557	546	546		530	548	585	546
Crude oil-Dubai	521	496	535	567	551	559	537	565	607	561	540	530		532	549	578	535
<b>Refining margins on fob basis</b>																	
Weighted average product price	562	533	561	599	587	607	589	623	664	615	596	587		564	594	634	591
Crude oil-Brent & Dubai 33:67 mix	524	495	535	565	549	559	539	569	611	560	542	535		532	549	580	539
Gross refining margin (US\$/ton)	38	37	26	33	38	49	50	54	53	55	54	52		32	46	54	53
<b>Gross refining margin (US\$/bbl)</b>	<b>5.3</b>	<b>5.1</b>	<b>3.6</b>	<b>4.6</b>	<b>5.2</b>	<b>6.7</b>	<b>6.8</b>	<b>7.4</b>	<b>7.3</b>	<b>7.5</b>	<b>7.4</b>	<b>7.1</b>		<b>4.4</b>	<b>6.2</b>	<b>7.4</b>	<b>7.2</b>
<b>Net refining margin</b>	<b>0.3</b>	<b>0.4</b>	<b>(1.5)</b>	<b>(0.8)</b>	<b>(0.1)</b>	<b>1.3</b>	<b>1.7</b>	<b>1.9</b>	<b>1.4</b>	<b>2.2</b>	<b>2.2</b>	<b>1.9</b>		<b>(0.7)</b>	<b>1.0</b>	<b>1.8</b>	<b>2.0</b>
<b>Tariff protected refining margins in India plus freight</b>																	
Weighted average product price	533	589	559	588	626	614	635	637	673	717	664	644	635	591	629	685	640
Crude oil-Brent & Dubai 50:50 Mix	483	533	504	544	575	559	568	576	609	653	598	580	573	541	568	620	576
Gross refining margin (US\$/ton)	50	56	54	44	51	56	67	60	64	64	66	64	62	50	61	65	63
<b>Gross refining margin (US\$/bbl)</b>	<b>6.8</b>	<b>7.7</b>	<b>7.4</b>	<b>6.0</b>	<b>7.0</b>	<b>7.6</b>	<b>9.2</b>	<b>8.3</b>	<b>8.8</b>	<b>8.7</b>	<b>9.0</b>	<b>8.8</b>	<b>8.6</b>	<b>6.8</b>	<b>8.4</b>	<b>8.9</b>	<b>8.7</b>
<b>Net refining margin (7% internal consumption)</b>	<b>2.2</b>	<b>2.5</b>	<b>2.6</b>	<b>0.8</b>	<b>1.5</b>	<b>2.3</b>	<b>3.7</b>	<b>2.8</b>	<b>3.0</b>	<b>2.5</b>	<b>3.3</b>	<b>3.3</b>	<b>3.1</b>	<b>1.6</b>	<b>2.9</b>	<b>2.9</b>	<b>3.2</b>

Source: Kotak Institutional Equities estimates

Marketing margins have improved post the hike in retail prices in June  
Calculation of marketing margins/subsidy of key products

	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Average (Fiscal years)			
														2008	2009	2010	2011
International price (US\$/ton)																	
LPG	473	545	565	611	688	720	732	652	676	691	689	624	564	667	666	551	649
Gasoline	606	684	630	650	682	672	724	713	753	784	708	696	686	753	795	625	725
Kerosene	563	609	573	613	656	637	651	632	675	734	675	666	659	710	858	573	682
Diesel	519	577	543	575	610	589	611	600	643	695	642	627	620	668	801	538	645
India IPP price (incl. transport) (a)																	
LPG (Rs/cylinder)	428	478	477	507	558	572	584	523	528	552	558	518	478	480	529	472	527
Gasoline (Rs/liter)	23.8	26.7	23.9	24.5	25.7	25.0	27.0	27.1	28.0	29.9	27.6	27.5	27.1	25.7	28.9	24.1	28.0
Kerosene (Rs/liter)	23.9	25.8	23.5	25.0	26.6	25.6	26.3	25.1	26.2	29.1	27.3	27.1	26.8	24.9	33.1	23.8	27.3
Diesel (Rs/liter)	22.8	25.2	23.0	24.2	25.6	24.4	25.5	25.5	26.7	29.6	27.9	27.7	27.4	25.3	32.2	23.1	27.8
India retail price without taxes																	
LPG (Rs/cylinder)	256	256	256	256	256	256	256	256	256	256	261	291	291	232	267	256	271
Gasoline (Rs/liter)	21.9	21.9	21.9	21.9	21.9	21.9	22.0	23.2	23.2	23.2	23.6	26.1	26.1	20.4	23.9	21.2	24.4
Kerosene (Rs/liter)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.4	10.8	10.8	8.0	8.0	8.0	9.2
Diesel (Rs/liter)	24.4	24.4	24.4	24.4	24.4	24.4	24.5	25.6	25.6	25.6	25.9	27.3	27.3	21.7	24.6	24.0	26.3
Marketing margin or (subsidy) (b)																	
LPG (Rs/cylinder)	(172)	(223)	(221)	(251)	(302)	(316)	(328)	(267)	(272)	(296)	(297)	(227)	(187)	(248)	(262)	(216)	(256)
Gasoline (Rs/liter)	(1.9)	(4.8)	(2.0)	(2.6)	(3.8)	(3.1)	(5.0)	(4.0)	(4.8)	(6.7)	(4.0)	(1.4)	(1.0)	(5.3)	(5.0)	(2.9)	(3.6)
Kerosene (Rs/liter)	(15.9)	(17.8)	(15.5)	(17.0)	(18.6)	(17.6)	(18.3)	(17.1)	(18.2)	(21.1)	(18.9)	(16.3)	(16.0)	(16.9)	(25.1)	(15.9)	(18.1)
Diesel (Rs/liter)	1.6	(0.8)	1.4	0.2	(1.2)	(0.0)	(1.0)	0.1	(1.0)	(3.9)	(2.0)	(0.4)	(0.1)	(3.6)	(7.6)	0.9	(1.5)

Note:

(a) Selling prices include transport costs estimated at Rs1.2/l for diesel and Rs1.3/l for gasoline.

(b) Portion of subsidy on kerosene and LPG reimbursed by the government.

Source: Kotak Institutional Equities estimates

## June 2010: Earnings announcement calendar

Mon	Tue	Wed	Thu	Fri	Sat
2-Aug	3-Aug	4-Aug	5-Aug	6-Aug	7-Aug
GAIL	Hindalco Industries	Adani Power	Anant Raj Industries	Fortus Healthcare	GMR Infra
Glaxosmithkline Consumer	Punj Lloyd	Gujarat Industries	Dredging Corp	Maharashtra Polybutenes	KSK Energy Ventures
India Cements	NDTV	IDFC	Garware Polyester	Power Grid Corp	Sterling Biotech
Madras Cement		IL&FS Trans	Oracle Financial Services		
Nestle India		Mundra Port & SEZ			
NMDC					
9-Aug	10-Aug	11-Aug	12-Aug	13-Aug	14-Aug
Jain Irrigation	Educomp Solutions	Bharti Airtel	Apollo Hospitals	Adani Enterprises	Lanco Infratech
Opto Circuits	IVRCL Infra	Financial Technologies	Cummins India	Suzlon Energy	Unitech
Reliance Capital	Jai Corp	MTNL	Divis Laboratories		
Tulip Telecom	Nagarjuna Constructions		Hindustan Copper		
	Piramal Healthcare		Ranbaxy Laboratories		
	Rashtriya Chemicals & Fertilisers		Tata Power		
	Rolta India		Tata Steel		
	Tata Motors		Shree Renuka Sugar		
			State Bank of India		

Source: BSE, Kotak Institutional Equities

## Kotak Institutional Equities: Valuation summary of key Indian companies

Company	4-Aug-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	Price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
Automobiles																													
Ashok Leyland	73	ADD	96,446	2,093	1,330	2.8	4.3	5.9	84.5	52.3	37.5	25.7	16.9	12.3	14.8	11.1	8.8	2.4	2.2	1.9	2.1	1.4	1.4	10.9	13.5	16.7	78	7.6	10.3
Bajaj Auto	2,720	ADD	393,541	8,541	145	117.7	169.0	189.5	160.1	43.6	12.2	23.1	16.1	14.3	15.0	11.4	9.9	13.4	7.8	5.3	0.7	0.7	0.7	70.9	61.4	44.0	2,650	(2.6)	13.8
Bharat Forge	328	ADD	78,303	1,699	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	476.4	26.4	16.6	19.7	8.8	5.5	2.1	2.0	1.8	—	—	—	0.9	0.4	0.1	360	9.9	4.6
Hero Honda	1,887	SELL	376,814	8,178	200	111.8	115.3	130.1	74.1	3.1	12.8	16.9	16.4	14.5	10.9	10.8	9.1	10.5	7.3	5.4	1.6	1.6	1.9	59.1	52.5	42.8	1,800	(4.6)	20.3
Mahindra & Mahindra	657	BUY	391,135	8,489	595	33.9	44.1	51.7	125.8	30.1	17.3	19.4	14.9	12.7	12.8	10.7	9.0	4.8	3.9	3.1	1.4	1.4	1.5	30.0	29.0	27.3	760	15.7	26.5
Maruti Suzuki	1,214	REDUCE	350,730	7,612	289	86.4	77.6	88.3	104.9	(10.2)	13.9	14.0	15.6	13.7	7.4	7.8	6.7	2.9	2.5	2.1	0.5	0.4	0.5	23.3	17.3	16.7	1,200	(1.1)	22.6
Tata Motors	844	ADD	528,792	11,477	626	23.8	27.1	32.8	137.8	13.5	21.4	35.4	31.2	25.7	16.3	15.0	12.9	2.9	2.5	2.2	1.6	0.6	0.6	8.6	8.6	9.1	900	6.6	80.5
Automobiles		Cautious	2,215,761	48,090					109.9	19.4	17.3	21.7	18.2	15.5	12.7	11.2	9.4	4.2	3.5	2.9	1.2	0.9	1.0	19.4	19.1	18.6			
Banks/Financial Institutions																													
Andhra Bank	146	BUY	70,713	1,535	485	21.6	22.9	26.7	60.1	6.4	16.4	6.8	6.4	5.5	—	—	—	1.6	1.4	1.1	3.4	3.6	4.2	26.0	23.1	22.7	180	23.5	4.8
Axis Bank	1,331	ADD	539,449	11,708	405	62.1	78.1	98.3	22.7	25.9	25.9	21.5	17.0	13.5	—	—	—	3.4	2.9	2.5	0.9	1.1	1.4	19.2	18.3	19.9	1,500	12.7	48.2
Bank of Baroda	770	BUY	281,584	6,111	366	83.7	95.1	115.7	37.3	13.7	21.7	9.2	8.1	6.7	—	—	—	2.0	1.7	1.4	1.9	2.2	2.7	24.4	23.0	23.3	950	23.3	9.6
Bank of India	437	REDUCE	229,746	4,986	526	33.1	49.9	58.1	(42.1)	50.9	16.4	13.2	8.7	7.5	—	—	—	1.8	1.6	1.3	1.6	2.4	2.8	14.2	19.0	19.2	460	5.3	7.9
Canara Bank	482	ADD	197,641	4,290	410	73.7	82.2	98.3	45.8	11.6	19.5	6.5	5.9	4.9	—	—	—	1.6	1.3	1.0	1.7	2.1	2.5	22.4	20.8	20.8	580	20.3	6.7
Corporation Bank	576	BUY	82,556	1,792	143	82.0	88.0	102.6	31.8	7.3	16.6	7.0	6.5	5.6	—	—	—	1.4	1.2	1.0	2.9	3.1	3.6	22.0	20.2	20.2	700	21.6	1.1
Federal Bank	340	ADD	58,203	1,263	171	27.2	36.4	49.0	(7.2)	34.1	34.4	12.5	9.3	7.0	—	—	—	1.2	1.1	1.0	1.5	2.0	2.6	10.3	12.6	15.2	360	5.8	6.4
HDFC	3,060	ADD	878,557	19,068	287	98.4	116.1	138.9	22.7	17.9	19.6	31.1	26.4	22.0	—	—	—	5.8	5.1	4.5	1.2	1.3	1.6	20.0	20.6	21.7	3,450	12.7	39.4
HDFC Bank	2,115	BUY	968,035	21,010	458	64.4	87.2	113.8	22.1	35.4	30.5	32.8	24.2	18.6	—	—	—	4.5	3.9	3.4	0.6	0.8	1.0	16.1	17.3	19.5	2,400	13.5	32.5
ICICI Bank	969	REDUCE	1,080,606	23,453	1,115	36.1	45.2	57.3	6.9	25.3	26.6	26.8	21.4	16.9	—	—	—	2.1	2.0	1.8	1.2	1.5	1.9	8.0	9.5	11.3	1,000	3.2	82.9
IDFC	186	ADD	271,765	5,898	1,459	8.2	9.2	11.3	41.1	13.3	22.8	22.8	20.1	16.4	—	—	—	3.9	2.5	2.1	0.7	0.9	1.2	16.1	15.2	14.5	205	10.0	24.8
India Infoline	95	BUY	29,527	641	312	8.1	7.2	8.7	59.2	(11.9)	21.6	11.6	13.2	10.9	—	—	—	1.9	1.6	1.3	3.4	1.6	2.1	16.4	12.9	14.4	120	26.7	4.0
Indian Bank	234	ADD	100,459	2,180	430	35.1	32.4	44.1	25.5	(7.7)	36.2	6.7	7.2	5.3	—	—	—	1.5	1.3	1.1	2.8	2.5	3.4	24.1	18.8	21.7	280	19.8	4.4
Indian Overseas Bank	123	BUY	67,038	1,455	545	13.0	16.7	24.8	(46.7)	29.0	48.4	9.5	7.4	5.0	—	—	—	1.1	0.9	0.8	2.8	3.1	3.4	9.6	11.6	15.4	160	30.0	3.9
J&K Bank	810	BUY	39,274	852	48	105.7	119.3	139.9	25.1	12.8	17.3	7.7	6.8	5.8	—	—	—	1.3	1.2	1.0	2.7	3.1	3.6	18.2	17.9	18.3	930	14.8	0.6
UC Housing Finance	1,129	ADD	107,201	2,327	95	69.7	100.7	109.9	11.5	44.5	9.1	16.2	11.2	10.3	—	—	—	3.3	2.7	2.3	1.3	1.9	2.1	23.6	25.5	23.2	1,250	10.8	19.6
Mahindra & Mahindra Financial	591	BUY	56,702	1,231	96	35.9	46.4	56.2	60.0	29.4	21.2	16.5	12.7	10.5	—	—	—	3.3	2.8	2.4	1.3	1.7	2.0	21.5	23.5	23.8	590	(0.1)	1.4
Oriental Bank of Commerce	402	ADD	100,629	2,184	251	45.3	57.8	66.8	25.3	27.6	15.5	8.9	7.0	6.0	—	—	—	1.4	1.2	1.0	2.3	2.9	3.3	14.5	16.5	16.9	430	7.1	5.1
PFC	325	SELL	372,738	8,090	1,148	20.5	22.9	27.6	53.5	11.9	20.3	15.9	14.2	11.8	—	—	—	2.9	2.5	2.2	1.6	1.8	2.1	18.8	18.3	19.2	275	(15.3)	3.8
Punjab National Bank	1,097	BUY	345,903	7,507	315	123.9	133.4	163.3	26.4	7.7	22.4	8.9	8.2	6.7	—	—	—	2.1	1.8	1.5	2.0	2.5	3.0	26.2	23.2	23.7	1,300	18.5	9.3
Reliance Capital	792	ADD	194,971	4,232	246	13.8	16.1	14.1	(64.9)	17.0	(12.4)	57.4	49.0	56.0	—	—	—	2.8	2.7	2.7	0.8	0.8	0.7	5.0	5.7	4.8	875	10.5	40.9
Rural Electrification Corp.	313	ADD	309,053	6,708	987	20.3	25.3	31.2	23.2	24.5	23.4	15.4	12.4	10.0	—	—	—	2.8	2.4	2.1	2.1	2.4	3.0	22.0	21.0	22.5	325	3.8	13.9
Shriram Transport	697	ADD	155,607	3,377	223	39.2	53.4	64.8	30.1	36.4	21.3	17.8	13.1	10.8	—	—	—	4.2	3.6	2.9	1.7	2.3	2.8	28.4	28.2	28.4	700	0.4	4.5
SREI	86	NR	9,960	216	116	8.3	7.9	9.9	17.8	(4.8)	25.8	10.3	10.9	8.6	—	—	—	0.8	0.8	0.7	1.4	1.4	1.4	11.1	10.5	12.3	—	—	4.0
State Bank of India	2,595	BUY	1,647,616	35,759	635	144.4	170.9	210.6	0.5	18.3	23.2	18.0	15.2	12.3	—	—	—	2.5	2.2	1.9	1.2	1.2	1.3	14.8	15.5	16.7	2,900	11.7	94.1
Union Bank	321	BUY	162,118	3,519	505	41.1	45.7	56.9	20.2	11.3	24.5	7.8	7.0	5.6	—	—	—	10.0	10.8	11.6	1.7	1.9	2.4	26.2	23.7	24.1	400	24.6	4.5
Yes Bank	304	BUY	103,123	2,238	340	15.0	17.7	22.5	46.7	18.2	26.6	20.2	17.1	13.5	—	—	—	3.3	2.8	2.4	0.5	0.6	0.7	20.3	18.0	19.3	350	15.3	20.0
Banks/Financial Institutions		Attractive	8,460,773	183,630					14.8	19.5	23.1	16.8	14.1	11.4	—	—	—	2.7	2.3	2.0	1.3	1.5	1.8	15.8	16.5	17.7			
Cement																													
ACC	821	ADD	154,165	3,346	188	83.2	66.0	72.4	47.9	(20.7)	9.8	9.9	12.4	11.3	5.2	5.8	4.6	2.4	2.1	1.9	3.3	2.9	2.9	29.3	20.0	19.2	920	12.1	7.6
Ambuja Cements	117	SELL	178,499	3,874	1,522	8.0	8.4	8.9	11.4	5.3	5.1	14.7	13.9	13.2	8.1	7.6	6.6	2.6	2.3	2.0	1.6	1.8	1.8	19.3	17.8	16.5	108	(7.9)	5.5
Grasim Industries	1,878	ADD	172,189	3,737	92	301.0	229.0	273.3	26.1	(23.9)	19.4	6.2	8.2	6.9	4.0	4.3	3.3	1.4	1.2	1.0	1.8	1.8	1.8	22.9	15.7	16.3	2,200	17.1	8.2
India Cements	105	SELL	32,253	700	307	10.0	8.7	10.6	(43.5)	(13.1)	21.1	10.5	12.0	9.9	5.8	7.2	4.9	0.8	0.7	0.7	2.0	3.0	3.0	8.2	6.7	7.7	95	(9.5)	2.4
Shree Cement	1,806	BUY	62,914	1,365	35	208.0	221.1	242.5	19.0	6.3	9.7	8.7	8.2	7.4	4.3	4.1	3.2	3.5	2.4	1.8	0.6	0.6	0.6	48.0	35.0	28.1	2,550	41.2	1.0
UltraTech Cement	859	ADD	106,956	2,321	124	88.2	66.9	75.1	12.0	(24.2)	12.4	9.7	12.8	11.4	5.1	6.2	5.2	2.0	1.7	1.5	0.7	1.0	1.0	25.9	16.7	16.3	985	14.6	2.9
Cement		Neutral	706,976	15,344					19.3	(15.4)	12.7	9.2	10.9	9.7	5.0	5.4	4.3	1.9	1.7	1.4	1.8	1.8	1.9</						

## Kotak Institutional Equities: Valuation summary of key Indian companies

	4-Aug-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	Upside (%)	ADVT-3mo (US\$ mn)
Consumer products																													
Asian Paints	2,592	BUY	248,619	5,396	96	71.5	89.0	107.1	85.3	24.4	20.4	36.2	29.1	24.2	22.4	18.1	14.9	15.5	12.1	9.6	1.0	1.5	1.8	51.8	47.9	45.4	3,000	15.7	4.7
Colgate-Palmolive (India)	848	REDUCE	115,322	2,503	136	31.1	34.5	39.6	44.2	10.9	14.6	27.2	24.6	21.4	22.3	18.2	15.6	35.4	30.1	25.8	2.4	3.1	3.5	156.1	132.3	129.4	830	(2.1)	2.3
Dabur India	199	REDUCE	172,132	3,736	866	5.8	6.8	8.2	28.1	17.6	20.8	34.3	29.2	24.1	25.5	20.4	16.9	16.3	13.4	11.1	1.5	1.8	2.2	54.3	51.1	50.7	210	5.7	4.0
GlaxoSmithkline Consumer (a)	1,819	ADD	76,486	1,660	42	55.4	68.6	81.3	23.6	23.9	18.6	32.9	26.5	22.4	18.2	15.7	12.9	8.6	7.1	5.9	1.0	1.2	1.5	27.9	29.0	28.7	2,000	10.0	0.7
Godrej Consumer Products	346	ADD	111,881	2,428	324	11.3	13.0	17.3	69.5	14.4	33.1	30.5	26.7	20.0	24.1	19.1	14.3	11.6	6.4	5.8	1.1	0.9	0.9	44.6	31.0	30.4	400	15.7	3.1
Hindustan Unilever	257	REDUCE	559,930	12,153	2,182	9.4	10.2	11.8	(0.9)	8.4	15.3	27.2	25.1	21.8	18.5	17.8	14.8	21.7	18.7	16.2	3.0	3.3	3.8	71.1	80.2	80.0	250	(2.6)	11.2
ITC	155	BUY	1,188,129	25,787	7,651	5.3	6.1	6.9	22.6	15.8	12.9	29.3	25.3	22.4	17.7	15.7	13.7	8.0	8.1	8.1	3.2	3.5	3.9	29.2	33.7	38.4	165	6.2	24.5
Jubilant Foodworks	405	REDUCE	25,843	561	64	5.5	9.7	12.1	340.6	75.7	24.6	73.0	41.6	33.4	38.9	23.5	16.4	22.0	14.4	10.0	—	—	—	46.6	41.8	35.4	370	(8.6)	6.4
Jyothy Laboratories	292	NR	21,201	460	73	11.0	12.9	15.3	99.6	17.0	18.3	26.5	22.6	19.1	20.5	15.6	12.8	5.2	4.4	3.8	1.6	1.2	1.6	18.6	20.2	20.5	—	—	1.3
Nestle India (a)	2,907	REDUCE	280,290	6,083	96	74.4	83.9	100.9	27.0	12.8	20.1	39.1	34.6	28.8	25.8	23.2	20.0	48.2	39.9	32.9	1.7	2.1	2.5	136.0	126.1	125.1	3,000	3.2	1.8
Tata Global Beverages	117	ADD	72,043	1,564	618	6.6	7.4	8.4	23.4	11.1	13.8	17.6	15.8	13.9	11.3	9.2	8.2	1.4	1.4	1.3	1.9	2.1	2.3	10.9	11.4	12.0	125	7.3	4.1
Consumer products			Attractive	2,871,877	62,330				24.0	15.0	16.1	30.1	26.2	22.5	19.4	17.0	14.4	10.1	9.3	8.6	2.5	2.8	3.1	33.7	35.6	38.4			
Constructions																													
IVRCL	176	BUY	46,914	1,018	267	7.8	10.3	12.4	(7.7)	32.4	19.7	22.5	17.0	14.2	11.9	9.8	8.3	2.3	2.1	1.8	0.2	0.2	0.2	10.9	12.8	13.5	215	22.4	7.2
Nagarjuna Construction Co.	175	BUY	44,825	973	257	7.1	11.5	14.3	6.1	61.1	24.1	24.5	15.2	12.2	12.0	9.0	7.4	2.0	1.8	1.6	0.9	1.1	1.1	9.3	12.5	13.9	210	20.2	3.2
Punj Lloyd	121	REDUCE	41,005	890	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(9.3)	12.4	10.1	35.1	6.9	6.3	1.3	1.2	1.1	(0.1)	0.4	0.9	(15.8)	10.3	11.4	140	15.7	12.5
Sadbhav Engineering	1,404	BUY	21,065	457	15	43.1	62.0	84.0	(15.8)	43.9	35.5	32.6	22.7	16.7	18.0	11.7	9.5	5.1	3.4	2.9	0.2	0.4	0.4	13.3	14.1	17.4	1,575	12.2	0.3
Construction			Attractive	153,808	3,338				(96.9)	14,481	24.4	2,271.7	15.6	12.5	16.3	8.5	7.4	2.0	1.8	1.6	0.3	0.6	0.7	0.1	11.3	12.5			
Energy																													
Aban Offshore	897	ADD	39,017	847	43	94.5	154.1	139.3	(2.5)	63.0	(9.6)	9.5	5.8	6.4	8.5	6.8	6.6	1.8	1.6	1.4	0.4	0.4	0.4	21.7	33.1	22.9	935	4.2	55.2
Bharat Petroleum	650	ADD	235,073	5,102	362	62.1	57.4	65.7	201	(8)	14.5	10	11	9.9	5.8	5.6	5.1	1.6	1.5	1.4	2.2	2.9	3.3	15.6	13.0	13.5	690	6.1	27.4
Cairn India	344	SELL	652,557	14,163	1,897	5.5	20.5	36.0	29.0	270.6	75.1	62.1	16.8	9.6	48.8	10.0	6.1	1.9	1.7	1.6	—	—	4.4	3.1	10.7	17.0	270	(21.5)	18.6
Castrol India (a)	461	REDUCE	114,033	2,475	247	15.4	20.7	21.2	45	34	2.4	30	22	21.8	17.8	13.8	13.3	24.8	23.2	22.0	2.7	3.6	3.7	83.8	107.4	103.7	380	(17.6)	1.1
GAIL (India)	441	BUY	559,400	12,141	1,268	24.8	27.2	40.2	11.7	10.1	47.4	17.8	16.2	11.0	9.9	10.0	8.1	3.1	2.7	2.3	1.7	1.9	2.8	17.4	17.0	21.6	550	24.7	17.0
GSPL	108	SELL	60,660	1,317	562	7.4	7.2	8.0	235	(3)	12.1	15	15	13.4	7.5	7.3	6.1	3.6	3.0	2.6	0.9	1.7	3.0	27.3	21.4	20.8	83	(23.0)	4.3
Hindustan Petroleum	438	ADD	148,436	3,222	339	52.6	53.5	58.6	210.1	1.8	9.5	8.3	8.2	7.5	3.0	3.0	2.7	1.1	1.0	0.9	2.7	3.8	4.2	13.3	12.2	12.1	535	22.2	33.8
Indian Oil Corporation	359	ADD	872,241	18,931	2,428	49.9	38.8	41.1	407	(22)	5.9	7	9	8.7	4.9	5.0	4.4	1.6	1.5	1.3	3.6	3.3	3.5	22.7	15.6	15.1	415	15.5	17.6
Oil India	1,396	BUY	335,566	7,283	240	115.1	133.6	153.4	13.8	16.1	14.8	12.1	10.4	9.1	5.2	4.0	3.4	2.3	2.0	1.8	2.4	3.2	3.7	16.7	18.1	18.3	1,550	11.1	7.7
Oil & Natural Gas Corporation	1,263	BUY	2,701,521	58,633	2,139	91.4	116.6	136.1	1	27	16.7	14	11	9.3	5.0	4.3	3.4	2.0	1.8	1.6	2.6	3.3	3.8	14.6	16.8	17.6	1,480	17.2	38.4
Petronet LNG	99	REDUCE	74,325	1,613	750	5.4	5.8	7.9	(22.0)	8.1	35.3	18.4	17.0	12.6	10.7	9.9	8.1	2.9	2.6	2.2	1.8	2.0	2.8	15.9	15.1	17.8	86	(13.2)	4.4
Reliance Industries	1,016	SELL	3,023,765	65,627	2,976	49.6	59.0	74.4	(2)	19	26.2	20	17	13.6	10.4	8.1	6.7	2.0	1.8	1.6	0.7	0.8	1.0	11.4	12.3	13.9	1,060	4.3	114.8
Energy			Cautious	8,816,594	191,353				38.1	16.2	22.0	14.6	12.6	10.3	7.1	6.0	4.9	2.0	1.8	1.6	1.8	2.1	2.7	13.8	14.4	15.8			
Industrials																													
ABB	788	REDUCE	167,005	3,625	212	16.7	18.3	33.1	(35.2)	9.3	80.7	47.1	43.1	23.8	26.9	24.7	13.7	6.9	6.1	5.0	0.3	0.4	0.4	15.6	15.0	23.0	725	(8.0)	7.3
BGR Energy Systems	770	BUY	55,422	1,203	72	16.0	28.0	39.7	32.2	74.6	41.9	48.0	27.5	19.4	27.0	15.6	11.3	9.8	7.9	6.0	0.4	0.9	1.0	22.3	31.8	35.1	875	13.7	3.5
Bharat Electronics	1,796	REDUCE	143,660	3,118	80	93.9	107.3	122.4	(9.6)	14.3	14.1	19.1	16.7	14.7	9.3	7.7	6.5	3.2	2.8	2.5	1.4	1.4	1.4	17.9	18.0	17.9	1,835	2.2	2.0
Bharat Heavy Electricals	2,519	REDUCE	1,232,905	26,759	490	88.1	116.3	135.4	37.9	32.1	16.4	28.6	21.7	18.6	16.0	12.2	10.3	7.7	6.1	4.9	0.7	1.0	1.1	29.9	31.5	29.2	2,600	3.2	28.9
Crompton Greaves	281	BUY	180,518	3,918	642	12.8	14.0	16.3	46.5	9.0	16.6	21.9	20.1	17.2	12.6	11.2	9.4	7.2	5.5	4.3	0.4	0.7	0.8	37.9	31.1	28.2	320	13.7	8.7
Larsen & Toubro	1,806	ADD	1,087,573	23,604	602	57.9	71.7	89.0	15.6	23.8	24.1	31.2	25.2	20.3	17.5	13.7	11.5	4.9	4.1	3.5	0.7	0.7	0.8	18.6	17.7	18.5	2,075	14.9	59.0
Maharashtra Seamless	405	BUY	28,589	620	71	40.2	43.6	49.8	12.1	8.5	14.2	10.1	9.3	8.1	5.4	4.7	3.7	1.8	1.5	1.3	1.5	1.9	2.5	19.3	17.9	17.7	450	11.0	0.4
Siemens	713	REDUCE	240,345	5,216	337	25.2	27.0	31.9	56.4	7.3	18.0	28.3	26.4	22.4	17.2	15.6	12.9	7.1	5.9	4.9	0.7	0.7	0.9	27.6	24.2	23.8	635	(10.9)	6.8
Suzlon Energy	57	REDUCE	90,293	1,960	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(9.5)	218.4	10.7	16.8	8.6	5.6	0.8	0.8	0.8	—	—	0.4	(8.8)	0.4	7.5	70	23.6	24.8
Thermax	770	ADD	91,728	1,991	119	21.7	29.5	39.7	(10.4)	35.9	34.4	35.4	26.1	19.4	18.3	14.3	10.6	8.5	7.0	5.6	0.6	1.1	1.5	25.0	29.5	32.2	865	12.4	1.3
Voltas	209	REDUCE	69,057	1,499	331	10.9	11.8	13.4	57.4	8.2	14.3	19.2	17.8	15.5	11.4	9.9	8.2	6.5	5.2	4.3	1.5	1.6	1.9	38.3	32.5	30.2	225	7.8	5.1
Industrials			Attractive	3,387,095	73,513				1.8	35.1	26.6	13.8	23.6	18.6	16.2	12.5	10.1	5.1	4.3	3.7	0.7	0.8	1.0	16.1	18.4	19.6			

## Kotak Institutional Equities: Valuation summary of key Indian companies

	4-Aug-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	price	Upside	ADVT-3mo
																											(Rs)	(%)	(US\$ mn)
Infrastructure																													
Container Corporation	1,416	REDUCE	184,104	3,996	130	61.1	74.3	85.9	0.3	21.7	15.6	23.2	19.1	16.5	16.5	13.4	11.2	4.2	3.6	3.1	1.0	1.2	1.4	19.6	20.6	20.5	1,250	(11.7)	1.9
GMR Infrastructure	58	ADD	211,586	4,592	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	133.9	262.1	436.5	23.5	15.2	14.2	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	12.7	5.4
GVK Power & Infrastructure	44	BUY	68,775	1,493	1,579	0.8	1.1	1.4	6.7	33.5	32.4	53.5	40.1	30.3	18.3	16.8	17.2	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	24.0	5.1
IRB Infrastructure	285	RS	94,823	2,058	332	9.7	12.6	12.1	83.8	29.2	(3.7)	29.3	22.7	23.6	13.7	12.1	11.3	4.1	3.1	2.5	—	—	—	15.6	15.7	11.9	—	—	8.0
Mundra Port and SEZ	754	REDUCE	304,373	6,606	403	15.1	24.1	35.7	40.8	59.5	48.4	50.0	31.3	21.1	32.0	20.6	14.7	8.4	6.5	4.8	—	—	—	18.5	23.2	26.1	725	(3.9)	5.5
Infrastructure																													
		Attractive	863,660	18,745					12.7	29.5	24.1	42.9	33.1	26.7	21.5	15.8	13.6	3.6	3.0	2.7	—	—	0.4	8.4	9.2	10.2			
Media																													
DB Corp	248	BUY	44,968	976	182	10.6	13.0	15.7	286.5	22.4	21.0	23.3	19.0	15.7	13.0	10.7	8.8	6.9	5.6	4.9	0.8	1.2	1.6	40.3	32.6	33.2	290	17.2	0.3
DishTV	47	ADD	49,661	1,078	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(18.7)	(26.3)	357.0	61.8	24.9	13.2	12.1	22.4	21.0	—	—	—	249.3	(59.7)	6.1	47	0.6	3.5
HT Media	163	NR	38,340	832	235	6.1	7.7	9.2	623.3	25.9	19.8	26.7	21.2	17.7	13.4	11.2	9.3	3.9	3.5	3.2	0.6	1.2	2.5	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	120	BUY	36,171	785	301	5.9	6.6	7.7	92.3	12.3	17.8	20.5	18.3	15.5	12.4	10.6	9.1	5.9	5.4	5.0	2.9	3.3	4.2	30.1	30.8	33.3	140	16.6	1.6
Sun TV Network	470	REDUCE	185,356	4,023	394	13.1	18.0	22.5	44.8	36.9	25.2	35.8	26.1	20.9	20.3	15.1	12.1	9.6	8.1	6.7	1.6	1.6	1.9	28.4	33.7	35.1	420	(10.7)	2.0
Zee Entertainment Enterprises	300	REDUCE	130,366	2,829	435	10.6	11.8	14.4	25.0	12.0	21.5	28.4	25.4	20.9	21.1	16.8	13.4	3.5	3.4	3.2	0.8	1.0	1.2	13.1	13.8	16.0	270	(10.0)	8.6
Media																													
		Neutral	484,861	10,523					185.5	35.8	37.2	39.9	29.4	21.4	19.2	14.7	11.6	5.9	5.4	4.9	1.2	1.3	1.7	14.7	18.4	22.8			
Metals																													
Hindalco Industries	166	ADD	316,758	6,875	1,914	5.7	12.6	15.1	(64.5)	122.5	19.4	29.2	13.1	11.0	8.3	8.7	8.9	1.4	1.3	1.2	0.8	0.8	0.8	10.3	10.4	11.2	185	11.8	42.1
Hindustan Zinc	1,072	BUY	452,806	9,828	423	95.6	102.5	116.0	48.2	7.2	13.1	11.2	10.5	9.2	7.2	5.7	4.0	2.4	2.0	1.6	0.6	0.6	0.6	24.1	20.8	19.4	1,240	15.7	4.4
Jindal Steel and Power	622	REDUCE	578,902	12,564	931	38.4	50.9	56.0	17.3	32.7	9.9	16.2	12.2	11.1	11.3	8.1	6.7	5.1	3.6	2.7	0.2	0.4	0.4	37.8	34.9	28.0	625	0.5	28.5
JSW Steel	1,113	REDUCE	280,679	6,092	252	80.4	68.5	108.5	481.1	(14.8)	58.5	13.8	16.2	10.3	10.5	8.9	5.9	2.6	1.6	1.2	0.6	0.8	0.9	16.0	12.0	13.3	1,075	(3.4)	56.5
National Aluminium Co.	425	SELL	274,057	5,948	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	42.3	15.2	15.4	18.7	7.4	6.8	2.5	2.2	1.9	0.5	0.5	0.5	6.1	15.4	13.3	320	(24.8)	1.0
Sesa Goa	372	REDUCE	331,103	7,186	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.6	6.3	8.0	10.4	4.5	4.4	4.1	2.6	2.0	1.0	1.0	1.0	35.8	41.5	23.7	340	(8.6)	77.2
Sterlite Industries	178	ADD	599,047	13,002	3,362	12.0	14.2	19.3	2.8	18.4	35.5	14.8	12.5	9.2	12.5	11.0	7.1	1.6	1.4	1.3	0.5	0.5	0.5	12.9	12.2	14.6	210	17.8	45.7
Tata Steel	541	BUY	479,684	10,411	887	3.2	78.7	93.5	(97.1)	2,331.6	18.7	166.9	6.9	5.8	18.0	6.1	5.1	1.9	1.5	1.2	1.5	1.5	1.5	1.1	24.7	23.8	700	29.5	107.9
Metals																													
		Cautious	3,313,037	71,905					(28.9)	78.8	13.8	18.5	10.3	9.1	11.5	7.4	6.1	2.3	1.8	1.5	0.7	0.7	0.7	12.4	17.8	16.8			
Pharmaceutical																													
Biocon	318	BUY	63,610	1,381	200	14.8	17.8	22.0	216.4	19.8	23.7	21.4	17.9	14.5	12.4	10.3	8.6	3.6	3.1	2.6	—	—	0.1	17.9	18.8	20.0	400	25.8	3.8
Cipla	324	REDUCE	259,865	5,640	803	13.5	12.8	15.6	35.9	(4.9)	21.9	24.0	25.2	20.7	17.8	16.7	14.0	4.4	3.9	3.4	0.8	0.8	0.8	19.9	16.3	17.4	280	(13.5)	9.2
Cadila Healthcare	644	REDUCE	131,940	2,864	205	24.7	33.2	37.7	66.9	34.2	13.7	26.1	19.4	17.1	17.0	13.0	11.5	8.1	6.1	4.8	0.8	1.0	1.2	36.0	35.8	31.3	580	(10.0)	1.6
Dishman Pharma & chemicals	216	BUY	17,552	381	81	14.4	17.2	28.8	(19.7)	19.4	67.0	15.0	12.5	7.5	10.8	9.0	6.3	2.2	1.9	1.5	—	—	—	15.5	16.3	22.7	300	39.0	0.5
Divi's Laboratories	755	ADD	99,741	2,165	132	25.8	34.3	43.9	(18.3)	33.3	27.9	29.3	22.0	17.2	21.9	16.1	12.3	6.6	5.4	4.4	—	—	—	24.8	27.2	28.4	800	6.0	3.1
Dr Reddy's Laboratories	1,376	REDUCE	233,148	5,060	169	48.1	66.7	70.8	48.3	38.8	6.1	28.6	20.6	19.4	15.8	12.0	11.1	6.2	4.9	4.0	0.5	0.6	0.7	22.2	26.3	22.6	1,150	(16.4)	17.5
GlaxoSmithkline Pharmaceuticals (a)	1,998	REDUCE	169,249	3,673	85	59.1	69.7	79.2	8.1	18.0	13.5	33.8	28.7	25.2	19.3	16.4	14.1	9.5	8.1	6.9	—	—	—	29.8	30.4	29.4	1,880	(5.9)	1.8
Glenmark Pharmaceuticals	265	NR	72,697	1,578	274	12.7	19.2	20.3	14.7	50.6	5.6	20.8	13.8	13.1	13.5	8.8	8.4	3.1	2.6	2.2	—	—	—	16.7	19.9	17.6	—	—	4.9
Jubilant Organosys	362	BUY	57,493	1,248	159	26.5	31.8	38.9	49.0	19.8	22.4	13.6	11.4	9.3	9.8	8.9	7.1	2.6	2.1	1.8	0.5	0.7	0.8	26.3	21.7	21.1	400	10.5	2.6
Lupin	1,918	ADD	169,710	3,683	88	77.0	99.1	127.6	27.9	28.7	28.7	24.9	19.4	15.0	21.2	15.4	11.8	7.3	5.5	4.2	0.7	0.8	0.8	36.6	33.0	32.2	2,000	4.3	8.0
Piramal Healthcare	472	REDUCE	98,648	2,141	209	23.4	13.4	11.0	35.5	(42.9)	(17.6)	20.2	35.3	42.9	14.9	5.1	3.1	5.9	1.1	0.9	1.2	1.3	0.7	32.1	141.2	16.6	490	3.8	29.9
Ranbaxy Laboratories	448	SELL	191,987	4,167	428	7.1	28.0	11.7	(128.4)	297.1	(58.3)	63.5	16.0	38.3	15.6	9.3	18.6	4.9	3.9	3.6	—	0.9	0.9	6.9	24.6	9.1	220	(50.9)	10.0
Sun Pharmaceuticals	1,778	REDUCE	368,321	7,994	207	65.2	80.0	85.1	(25.7)	22.6	6.4	27.3	22.2	20.9	20.7	16.1	14.3	4.4	3.8	3.3	0.8	0.8	0.8	17.8	18.8	17.2	1,685	(5.2)	7.7
Pharmaceuticals																													
		Attractive	1,933,962	41,974					44.7	30.9	5.5	26.9	20.5	19.5	16.8	12.6	11.9	5.1	3.6	3.1	0.5	0.6	0.6	18.9	17.7	15.9			
Property																													
DLF	310	ADD	529,367	11,489	1,708	9.6	16.3	25.1	(64.0)	69.4	53.8	32.2	19.0	12.4	20.4	12.9	9.7	2.0	1.8	1.6	1.0	1.0	1.6	6.4	9.9	13.8	340	9.7	47.1
Housing Development & Infrastructure	270	ADD	104,004	2,257	385	12.4	14.2	16.7	(41.2)	14.2	17.9	21.8	19.1	16.2	10.8	12.3	8.1	1.5	1.3	1.2	1.0	1.9	1.9	10.0	9.3	9.9	318	17.7	35.3
Indiabulls Real Estate	169	RS	67,727	1,470	401	1.6	4.0	8.0	109.7	151.7	101.7	106.4	42.3	21.0	(77.6)	38.4	10.0	0.7	0.7	0.7	0.0	0.0	0.0	0.8	1.8	3.5	285	68.8	18.6
Mahindra Life Space Developer	492	ADD	20,695	449	42	18.9	20.3	27.5	82.4	7.3	35.8	26.1	24.3	19.9	22.1	18.4	10.2	2.2	2.1	1.9	0.8	0.8	0.8	8.4	8.5	10.7	540	9.7	0.5
Phoenix Mills	222	BUY	32,083	696	145	4.1	6.6	7.6	(16.7)	59.0	15.6	53.6	33.7	29.1	42.9	23.6	19.7	2.1	2.0	1.9	0.5	0.7	0.9	3.9	6.0	6.7	260	17.4	0.8
Puravankara Projects	118	REDUCE	25,259	548	213	6.4	8.2	8.1	(5.2)	28.4	(2.0)	18.4	14.4	14.6	22.6	15.3	14.9	1.8	1.6	1.5	1.7	1.7	1.7	10.0	11.9	10.7	110	(7.1)	0.5
Sobha	334	ADD	32,704	710	98	14.1	17.0	26.2	(7.1)	20.8	54.0	23.7	19.6	12.7	17.7	13.7	9.0	1.9	1.7	1.5	0.3	0.4	0.5	9.7	9.2	12.8	372	11.5	1.9
Unitech	82	SELL	214,9																										



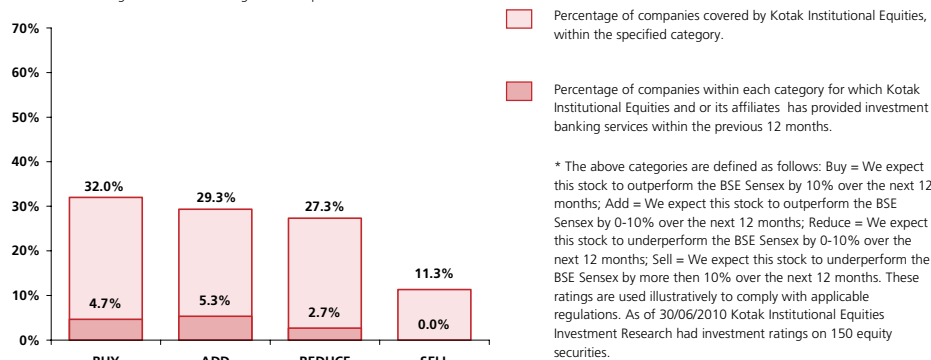
## Kotak Institutional Equities: Valuation summary of key Indian companies

	4-Aug-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price		
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	Upside (%)	ADVT-3mo (US\$ mn)
Retail																													
Titan Industries	2,809	ADD	124,683	2,706	44	57.3	83.4	110.2	29.3	45.6	32.2	49.0	33.7	25.5	31.2	22.7	17.3	16.9	12.0	8.6	0.5	0.4	0.5	38.7	41.8	39.4	3,000	6.8	5.0
Retail		Neutral	124,683	2,706					29.3	45.6	32.2	49.0	33.7	25.5	31.2	22.7	17.3	16.9	12.0	8.6	0.5	0.4	0.5	34.5	35.8	33.8			
Sugar																													
Bajaj Hindustan	119	SELL	22,762	494	191	9.7	9.9	8.9	201.1	2.2	(10.4)	12.2	12.0	13.4	7.1	5.9	5.5	0.9	0.9	0.8	0.6	0.6	0.6	8.1	7.5	6.3	99	(16.8)	6.1
Balrampur Chini Mills	85	ADD	21,927	476	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	19.7	8.2	12.2	9.1	5.5	6.0	1.6	1.4	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	8.9	5.8
Shree Renuka Sugars	67	BUY	44,877	974	670	9.9	7.6	7.8	196.4	(23.2)	3.1	6.8	8.8	8.5	4.6	5.2	4.5	1.8	1.5	1.2	0.6	0.5	0.5	32.0	18.1	15.7	76	13.4	13.8
Sugar		Cautious	89,565	1,944					99.6	0.7	(9.4)	9.3	9.3	10.2	6.1	5.5	5.2	1.4	1.2	1.1	0.6	0.5	0.5	15.1	13.2	10.7			
Technology																													
HCL Technologies	404	REDUCE	278,588	6,046	690	17.5	24.5	30.1	0.2	39.7	23.0	23.0	16.5	13.4	11.2	9.8	8.0	4.0	3.3	2.9	1.0	1.0	1.5	19.3	22.0	21.2	390	(3.4)	12.3
Hexaware Technologies	83	REDUCE	11,865	258	144	9.3	5.0	9.4	127.7	(46.3)	87.7	8.8	16.4	8.8	4.5	10.5	5.3	1.4	1.3	1.2	1.2	1.2	1.2	17.8	8.2	14.0	72	(12.8)	2.8
Infosys Technologies	2,875	BUY	1,649,963	35,810	574	108.3	124.1	150.0	5.7	14.5	20.9	26.5	23.2	19.2	19.4	15.9	12.9	7.2	5.9	4.9	0.9	1.2	1.5	30.1	28.0	28.0	3,100	7.8	58.7
Mphasis BFL	609	REDUCE	126,929	2,755	208	43.6	49.0	45.6	207.5	12.5	(7.0)	14.0	12.4	13.3	11.1	9.9	9.0	5.4	3.9	3.1	0.6	0.7	0.7	48.1	36.4	25.8	550	(9.7)	7.6
Mindtree	533	REDUCE	21,936	476	41	52.2	32.6	51.6	294.3	(37.5)	58.1	10.2	16.3	10.3	8.8	9.3	6.1	3.3	2.7	2.2	0.4	0.6	1.0	35.2	19.2	23.7	550	3.2	1.1
Patni Computer Systems	469	REDUCE	62,405	1,354	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.8	11.4	12.5	6.4	5.5	4.6	1.7	1.6	1.5	1.5	1.8	1.6	18.2	15.1	12.4	450	(3.9)	7.2
Polaris Software Lab	181	SELL	18,021	391	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.8	9.5	9.6	5.9	7.5	6.4	2.1	1.8	1.6	1.9	2.0	2.2	18.6	20.1	17.2	180	(0.4)	4.6
TCS	869	BUY	1,700,415	36,905	1,957	35.1	42.1	48.2	32.8	19.8	14.5	24.7	20.7	18.0	18.7	15.0	12.5	8.1	6.7	5.6	2.3	1.9	2.2	37.6	35.6	33.9	965	11.1	29.9
Wipro	429	ADD	1,049,131	22,770	2,447	18.9	22.3	25.7	22.1	18.1	15.6	22.7	19.3	16.7	17.2	13.9	11.5	5.3	4.4	3.6	0.8	1.0	1.3	26.5	25.0	23.7	465	8.4	13.6
Technology		Attractive	4,919,252	106,766					22.7	17.4	16.0	23.6	20.1	17.3	17.0	14.1	11.6	6.2	5.2	4.3	1.4	1.4	1.7	26.4	25.7	24.9			
Telecom																													
Bharti Airtel	323	REDUCE	1,227,194	26,635	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	13.5	15.1	13.3	7.6	7.2	6.2	2.8	2.4	2.0	0.9	1.2	1.5	24.1	17.0	16.5	290	(10.3)	51.8
IDEA	75	REDUCE	247,485	5,371	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	27.4	34.2	49.4	9.2	10.0	8.5	2.2	2.0	2.0	—	—	—	7.2	6.2	4.2	55	(26.7)	12.5
MTNL	69	SELL	43,218	938	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.4)	(6.6)	(7.5)	(0.7)	(0.9)	(1.2)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(27.1)	3.1
Reliance Communications	177	SELL	376,710	8,176	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	8.0	12.6	9.7	7.3	8.1	6.1	1.0	0.9	0.8	0.4	—	—	11.7	7.4	8.9	175	(0.9)	43.9
Tata Communications	277	REDUCE	78,931	1,713	285	14.0	15.2	15.7	3.2	8.2	3.5	19.8	18.3	17.7	8.1	7.4	7.1	1.1	1.1	1.0	2.3	2.7	3.1	5.2	5.5	5.5	225	(18.8)	1.8
Telecom		Cautious	1,973,538	42,833					(15.1)	(17.8)	15.7	13.8	16.8	14.5	8.0	8.1	6.7	1.8	1.6	1.5	0.8	0.9	1.1	12.7	9.5	10.0			
Utilities																													
Adani Power	136	ADD	296,262	6,430	2,180	0.8	4.9	16.4	—	524.1	235.3	173.4	27.8	8.3	132.7	18.0	6.5	5.4	4.5	2.9	—	—	—	4.4	17.7	42.8	130	(4.3)	2.7
CESC	396	ADD	49,468	1,074	125	35.2	37.3	44.3	9.3	5.7	18.9	11.2	10.6	8.9	7.1	5.9	6.4	1.2	1.1	1.0	1.1	1.2	1.4	11.1	10.4	11.3	466	17.7	2.0
Lanco Infratech	68	BUY	164,141	3,562	2,405	2.0	3.7	5.0	35.1	87.6	34.9	34.7	18.5	13.7	20.4	8.6	8.2	4.8	3.8	3.0	—	—	—	15.8	21.2	22.7	77	12.8	7.5
NHPC	31	REDUCE	381,323	8,276	12,301	1.9	1.3	1.6	74.9	(27.5)	20.6	16.7	23.1	19.1	10.8	11.5	8.9	1.5	1.5	1.4	1.8	1.1	1.4	9.7	6.4	7.4	28	(9.7)	20.0
NTPC	200	REDUCE	1,647,032	35,747	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.6	16.0	13.6	14.2	12.4	10.4	2.6	2.4	2.2	2.0	2.3	2.8	14.5	15.4	16.6	210	5.1	10.1
Reliance Infrastructure	1,140	ADD	280,534	6,089	246	61.8	65.0	84.5	(1.5)	5.3	30.0	18.5	17.5	13.5	19.7	17.4	12.2	1.5	1.4	1.2	0.7	0.8	0.9	6.3	7.3	10.1	1,160	1.7	49.0
Reliance Power	160	SELL	384,439	8,344	2,397	2.9	3.1	5.3	179.7	9.8	70.0	56.2	51.2	30.1	230.1	35.9	2.7	2.5	2.3	—	—	—	4.8	5.1	8.1	135	(15.8)	22.6	
Tata Power	1,334	ADD	329,191	7,145	247	60.2	69.2	88.5	20.1	15.0	27.8	22.1	19.3	15.1	13.9	12.5	10.8	2.5	2.3	2.0	0.9	1.0	1.1	12.9	12.5	14.3	1,420	6.5	10.5
Utilities		REDUCE	3,532,390	76,666					23.5	16.4	35.4	22.4	19.2	14.2	17.6	14.5	10.7	2.4	2.2	2.0	1.3	1.4	1.6	10.6	11.4	13.8			
Others																													
Havells India	706	SELL	42,491	922	60	5.3	31.6	45.0	3.7	497.9	42.6	133.7	22.4	15.7	18.1	11.2	9.2	11.7	7.7	5.2	—	—	—	6.6	41.6	39.7	497	(29.6)	7.1
Jaiprakash Associates	118	BUY	251,201	5,452	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	81.0	21.3	15.9	21.1	15.6	11.1	2.9	2.5	2.2	—	—	—	4.1	12.8	14.9	170	44.1	31.1
Jindal Saw	202	ADD	59,476	1,291	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.1	10.8	11.3	5.3	6.0	5.8	1.6	1.3	1.2	—	—	—	20.5	12.9	11.1	256	26.6	3.6
PSL	133	BUY	7,121	155	53	22.9	25.4	28.2	3.3	10.6	11.0	5.8	5.2	4.7	3.3	2.7	2.9	0.8	0.7	0.6	4.9	4.9	5.3	12.6	11.7	12.0	175	31.4	0.6
Sintex	360	BUY	49,186	1,068	136	24.1	28.3	33.3	0.5	17.4	17.5	15.0	12.7	10.8	12.3	8.3	7.1	2.3	2.0	1.6	—	—	—	15.5	15.3	15.2	380	5.5	4.6
Tata Chemicals	348	REDUCE	84,554	1,835	243	26.4	33.2	37.5	(27.1)	25.8	12.7	13.1	10.5	9.3	6.9	5.9	5.0	1.8	1.6	1.4	2.5	2.6	2.6	16.0	18.7	18.3	360	3.6	3.2
Welspun Corp	247	ADD	50,803	1,103	205	32.0	27.0	25.6	85.2	(15.7)	(5.4)	7.7	9.2	9.7	4.5	4.8	4.6	1.6	1.3	1.2	0.9	0.9	0.9	24.8	15.6	12.8	286	15.7	5.7
United Phosphorus	185	BUY	85,713	1,860	463	11.9	13.8	17.4	18.8	15.8	25.9	15.5	13.4	10.6	8.9	8.1	6.5	2.5	2.2	1.8	0.8	1.1	1.1	17.7	17.2	18.3	225	21.5	8.7
Others																													
13,685																													
KS universe (b)			45,401,132	985,375					14.4	21.4	20.8	19.3	15.9	13.1	11.7	9.7	8.0	2.9	2.5	2.2	1.3	1.4	1.7	14.8	15.7	16.6			
KS universe (b) ex-Energy			36,584,538	794,021					8.0	23.2	20.4	20.9	17.0	14.1	14.3	11.7	9.6	3.2	2.7	2.4	1.2	1.3	1.5	15.2	16.2	16.9			
KS universe (d) ex-Energy & ex-Commodities			32,564,525	706,772					14.5	18.5	21.9	21.8	18.4	15.1	15.8	13.3	10.8	3.4	2.9	2.6	1.2	1.3	1.6	15.4	15.9	17.0			

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As of June 30, 2010

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