INDIA DAILY

September 10, 2009

Contents

News Round-up

- **Bharti Airtel Ltd**, India's biggest mobile phone company, and South Africa's **MTN Group Ltd** have reached a US$24 bn (Rs1.16 tn) preliminary agreement to buy each other's shares, the first step in a planned merger, three people familiar with the matter said. *(Mint)*
- In the absence of any promising hydrocarbon discovery, a consortium of **Oilex** of Australia, **Videocon Industries**, **Gas Authority of India (GAIL)**, **Bharat PetroResources (BPRL)** and **Hindustan Petroleum (HPCL)** is planning to exit from an exploration block in Oman. *(BS)*
- New launches and the coming festive season have spurred **Ford India** to increase production by over 30% this month onward. *(FE)*
- India has **adequate food stocks** to make up a shortfall in output this year and will step up efforts to mitigate distress of farmers hit by deficient monsoon rains, Prime Minister Manmohan Singh said on Wednesday. *(Mint)*
- The Reserve Bank on Wednesday said bank finance to developers of infrastructure facilities in SEZs would be taken as infrastructure lending, against its 2006 ruling that classified these as commercial real estate (CRE) exposures. *(FE)*
- **Essar Oil**'s coal-bed methane block at Raniganj in West Bengal, slated to begin production by December, has had its gas reserve estimates raised from 42 bn cubic meters to 60.77 bn cubic metre by the Directorate-General of Hydrocarbons.*(BS)*
- State-owned **Indian Overseas Bank** has approached the Government for an infusion of Rs10 bn Tier-I capital to augment its capital-base, its Chairman said. *(FE)*
- India's largest carrier by market value **Jet Airways (India) Ltd** cancelled about half its flights for a second day on Wednesday, as pilots failed to reach a compromise with the management on ending a dispute that sparked an undeclared strike, with aviators going on sick leave en masse. *(Mint)*
- Data storage firm **EMC Corp.** will triple its investment in India to US$1.5 bn (around Rs73 bn) in five years to expand its research, back-office and sales operations. *(Mint)*

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

EQUITY MARKETS

		Change %		
India	**9-Sep**	**1-day**	**1-mo**	**3-mo**
Sensex	16,184	0.4	7.8	4.6
Nifty	4,814	0.2	8.5	3.4
Global/Regional indices				
Dow Jones	9,547	0.5	2.2	9.2
Nasdaq Composite	2,060	1.1	3.4	11.2
FTSE	5,004	1.2	6.0	12.8
Nikkie	10,481	1.6	(0.4)	4.9
Hang Seng	20,851	(1.0)	(0.4)	11.0
KOSPI	1,630	1.4	3.4	15.2
Value traded - India				
Cash (NSE+BSE)	244.4		229.4	241.7
Derivatives (NSE)	539.4		652.3	693
Deri. open interest	946.7		709	807

Forex/money market

		Change, basis points		
	9-Sep	**1-day**	**1-mo**	**3-mo**
Rs/US$	48.5	3	69	101
10yr govt bond, %	7.4	(3)	19	71
Net investment (US$mn)				
	8-Sep		**MTD**	**CYTD**
FIIs	241		37	8,233
MFs	70		44	1,056

Top movers -3mo basis

		Change, %		
Best performers	**9-Sep**	**1-day**	**1-mo**	**3-mo**
SCS IN Equity	122.7	0.8	19.9	66.9
TTMT IN Equity	557.1	(1.5)	37.9	54.2
HCLT IN Equity	308.7	0.3	25.9	51.5
TCS IN Equity	560.5	1.0	4.0	43.4
JSP IN Equity	3455.9	(3.3)	28.0	42.8
Worst performers				
BJFIN IN Equity	266.6	(0.6)	(11.7)	(33.0)
ICEM IN Equity	131.9	0.3	(1.4)	(25.7)
MSEZ IN Equity	540.2	(0.8)	(3.8)	(21.4)
SUEL IN Equity	100.0	(1.3)	23.1	(19.1)
MMTC IN Equity	28633.7	(1.1)	2.5	(19.0)

kotak Institutional Equities

Bharat Heavy Electricals (BHEL)

Industrials

ADD

SEPTEMBER 10, 2009

CHANGE IN RECO.

Coverage view: Neutral

Price (Rs): 2,237

Target price (Rs): 2,425

BSE-30: 16,184

Gains in private sector; government bats for domestic guys. We highlight BHEL's better traction in the private sector and competition in supercritical space. More than 100 GW is under construction implying a pace of capacity addition of about 20 GW/year; having implications for all of the value chain as well as merchant tariffs. The policy thrust for indigenous equipment beyond bulk tendering may have catalyzed private sector orders. Upgrade to ADD with a revised target price of Rs2,425/share.

Company data and valuation summary

Bharat Heavy Electricals

Stock data			
52-week range (Rs) (high,low)			2,405-981
Market Cap. (Rs bn)			1,095.2
Shareholding pattern (%)			
Promoters			67.7
FIIs			17.1
MFs			5.2
Price performance (%)	1M	3M	12M
Absolute	4.1	(4.8)	30.7
Rel. to BSE-30	(3.4)	(9.0)	18.4

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	63.9	93.3	115.2
EPS growth (%)	9.4	46.1	23.4
P/E (X)	35.0	24.0	19.4
Sales (Rs bn)	262.1	335.3	419.4
Net profits (Rs bn)	31.3	45.7	56.4
EBITDA (Rs bn)	37.0	59.5	76.4
EV/EBITDA (X)	26.8	16.8	12.9
ROE (%)	26.4	31.2	30.5
Div. Yield (%)	0.8	0.9	1.1

Building traction in private sector – may have to demonstrate a little more traction in supercritical

We highlight increased traction in order wins from the private sector for BHEL. BHEL has recently announced two large orders, cumulatively worth about Rs52 bn, from the private sector. The management had highlighted that 90% of order inflows in 1QFY10 were from the private sector. BHEL management has also recently highlighted that the company has negotiated new orders worth about Rs120 bn, all from the private sector. However, Larsen has won about 4,900 MW (including Krishnapatnam) of supercritical orders in the last few months, clearly ahead of BHEL.

Over 100 GW capacity under construction—rate of capacity addition should soon be 20 GW p.a.

Based on various news reports and CEA data, we believe that projects to the tune of about 100 GW (including both XI and XIIth plan) projects are under construction. This implies that capacity addition would soon touch about 20 GW p.a. versus about 7 GW in the last two years. We believe this would have be positive for (1) T&D equipment companies such as ABB, Siemens, etc .and (2) companies involved in execution of power plants such as BGR Energy, Elecon, etc.. A higher pace of capacity addition may partly alleviate shortages and put pressure on the prevailing high merchant tariffs.

Annual report highlights: Working capital improvement, capex, strong cash position

Key highlights from BHEL's FY2009 annual report are (1) working capital improvement led by increase in advances from customers, (2) significant envisaged capex towards capacity expansion – highlights aim to reach 20 GW capacity by December 2011, (3) strong cash position of Rs103 bn and (4) acquired 100% stake in Bharat Heavy Plate & Vessels Ltd during FY2009.

Upgrade to ADD with target of Rs2,425/share; on back of increased traction and preferred bidder

We revise earnings estimates and target price to Rs2,425/share from Rs2,100 earlier based on 21X FY2011E earnings. We upgrade to ADD based on (1) about 8% upside to our target price, (2) increased traction of award wins in private sector, (3) clear preference of government policy towards domestic which extends beyond bulk tendering, (4) visibility and (5) potential upside from business build up in new segments such as renewables, transportation and transmission.

Traction continues to improve in private sector orders, particularly sub-critical

We highlight increased traction in order wins from the private sector for BHEL. BHEL has recently announced two large orders, cumulatively worth about Rs52 bn, from Monnet Power Company Ltd and Jindal India Thermal Power Ltd. This follows a large Rs20 bn order from HINDALCO in June. The management had highlighted that 90% of the order inflows in 1QFY10 was from the private sector. We believe BHEL's growing presence in the private space is a crucial positive considering the increasing role of private sector players in the XIIth plan onwards. We highlight that BHEL has reported several large orders form the private players in FY09 as well, such as Rs50 bn (4X 600 MW) order from Jindal Power. The company also added several new clients from the private sector such Jai Prakash Group (Bina power project) and GVKPIL (Goindwal power project). Most of these orders were booked during the second half of FY2009.

List of orders bagged by BHEL from the private sector since 2009

Order, Client	Configuration	Value (Rs mn)	Nature of work	Date
Private sector orders				
Monnet Power Company Limited (MPCL)	2X 525 MW	26,300	Boiler Turbine Generator (BTG) package	21-Aug-09
Jindal India Thermal Power Limited (JITPL)	2X 600 MW	26,000	Main plant package	7-Aug-09
HINDALCO	6X 150 MW	20,075	Main Plant Package	12-Jun-09
Ideal Energy Projects Limited	270 MW	7,030	Main Plant Package	25-May-09
Korba West Power Company Limited	600 MW	14,750	Main Plant Package	14-May-09
Adhunik Power and Natural Resources Limited	270 MW	6,400	Main Plant Package	14-Jul-09
Jindal Power Ltd	4X 600 MW	50,400	Thermal Power Project	26-Dec-09
Bina Power Supply Company Limited (BPSCL)	2X 250 MW	11,750	Installation of 2 thermal sets	22-Dec-08
GVK Power Ltd	2X 270 MW	11,550	Thermal Power Project	29-Aug-08
Total orders received from private sector since FY2009	**10,130**	**174,255**		

Source: Company

Promise of a further deluge of private sector orders

The BHEL management has recently highlighted that the company has negotiated new orders worth about Rs120 bn, all from the private sector. The company would announce the orders only post receiving an advance from the client.

In the supercritical space – need to report better traction as L&T has closed in

We highlight the diminishing threat of competition from Chinese equipment players in the super critical space led by (1) favourable currency movement, (2) likely licensing constraints on supply of supercritical equipment in India by Chinese vendors and (3) mandatory condition of awarding super critical contracts to only those companies/ ventures which have set up manufacturing facilities in India in a majority of public sector constraints. However, we highlight rising competition from private players such as L&T-MHI JV which are gaining traction in the power equipment segment. We highlight L&T has won two of the four recent orders in the super critical segment viz. 1,320 MW JP NIgrie order from JP Group and the 1,980 MW Koradi order from MAHGENCO.

Recent awards of super critical projects

Project	State	Agency	Capacity (MW)	Awarded to
Koradi	Maharashtra	MAHGENCO	1,980	L&T
JP Nigrie	Madhya Pradesh	JP Group	1,320	L&T
Krishnapatnam	Andhra Pradesh	APGENCO	1,600	BHEL
BARH - II	Bihar	NTPC	1,320	BHEL

Source: CEA, news flows, Company

Prior domination of Chinese players in super critical space unlikely to continue

We highlight that, according to CEA data and news flows, of the 48 units of super critical equipment orders placed so far, only 9 units have gone to Indian companies. Highlight that most of the orders from IPPs for supercritical units have been placed primarily on Chinese vendors. However, we believe that this trend is unlikely to continue led by (a) currency movement, (b) likely policy changes which favor domestic manufacturing and (c) domestic capacity ramp up by both BHEL and well as L&T-MHI.

A recent paper published by CEA emphasizes the need for encouraging indigenous manufacturing facility. The paper suggests that the mandatory condition of setting up indigenous manufacturing facilities applicable on the bulk tender to be extended to all supercritical units being set up by public and private players.

List of super critical equipment orders placed so far

Project	State	Agency	Size (MW)	Boiler order	TG order
Units under construction					
SIPAT	Chhattisgarh	NTPC	3X660 MW	Korea	Russia
BARH-I	Bihar	NTPC	3X660 MW	Russia	Russia
BARH - II	Bihar	NTPC	2X660 MW	India	India
Krishnapatnam	Andhra Pradesh	APGENCO	2X800 MW	India	India
Ultra Mega Sasan	Madhya Pradesh	Reliance energy	6X660 MW	China	China
Ultra Mega Mundra	Gujarat	Tata Power	5X800 MW	Korea	Japan
Tiroda Phase 1&2	Maharashtra	Adani Power	3X660 MW	China	China
Mundra Phase 2&3	Gujarat	Adani Power	5X660 MW	China	China
Jhajjar Case II	Haryana	CLP	2X660 MW	China	China
Units for which initial order has been placed					
JP Nigrie	Madhya Pradesh	JP Group	2X660 MW	India	India
Koradi	Maharashtra	MAHGENCO	3X660 MW	India	India
Srikakulam	Andhra Pradesh	East Coast Energy	2X660 MW	China	China
Distt. Nellore	Andhra Pradesh	Thermal Powertech	2X660 MW	Italy	Russia
Srikakulam	Andhra Pradesh	Nagarjuna Construction	2X660 MW	China	China
Distt Amravati	Maharashtra	Sophia Power	2X660 MW	China	China
Bhaiyathan	Chhattisgarh	India Bulls	2X660 MW	China	China
Nagapattinam	Tamil Nadu	NSL Power	2X660 MW	China	China
Total			**48 units, 32,660 MW**		

Source: Company

Over 100 GW under construction; pace of capacity addition to be 20 GW/year

According to CEA data, capacity to the tune of about 81 GW is under construction or has been commissioned for benefits during the XIth plan. Of this, capacity of about 16.4 GW has already been commissioned. Hence, the total capacity under construction in the XIth plan is about 64.5 GW.

Capacity of about 64.4 GW currently under execution for benefits during XIth plan

Capacity under construction/ commissioned for benefits during XIth plan (MW)

Total projects under construction/ commissioned in the XIth Plan (FY2007-08 to FY2011-12), (MW

	Thermal						
	Coal						
	Supercritical	Subcritical	Total	Gas	Hydro	Nuclear	Total
Centre	3,300	16,420	19,720	726	9,955	3,380	**33,781**
NTPC	3,300	10,220	13,520		1,920		**15,440**
NHPC		-	-		5,103		**5,103**
DVC		5,450	5,450		-		**5,450**
Others		750	750	726	2,932	3,380	**7,788**
State	-	20,828	20,828	2,223	2,637	-	**25,688**
Private	5,560	10,609	16,169	2,057	3,263	-	**21,489**
Total	8,860	47,857	56,717	5,006	15,855	3,380	**80,958**

Projects in the XIth plan -Commissioned so far

	Thermal						
	Coal						
	Supercritical	Subcritical	Total	Gas	Hydro	Nuclear	Total
Centre	-	3,490	3,490	-	1,030	220	**4,740**
NTPC		3,240	3,240				**3,240**
NHPC		-	-				**-**
DVC		250	250				**250**
Others		-	-				**-**
State	-	4,870	4,870	312	2,401	-	**7,583**
Private	-	2,924	2,924	1,148	-	-	**4,072**
Total	**-**	**11,284**	**11,284**	**1,460**	**3,431**	**220**	**16,395**

Projects in the XIth plan -Under construction

	Thermal						
	Coal						
	Supercritical	Subcritical	Total	Gas	Hydro	Nuclear	Total
Centre	3,300	12,930	16,230	726	8,925	3,160	**29,041**
NTPC	3,300	6,980	10,280		1,920		**12,200**
NHPC		-	-		5,103		**5,103**
DVC		5,200	5,200		-		**5,200**
Others		750	750	726	2,932	3,380	**7,788**
State	-	15,958	15,958	1,911	236	-	**18,105**
Private	5,560	7,685	13,245	909	3,263	-	**17,417**
Total	**8,860**	**36,573**	**45,433**	**3,546**	**12,424**	**3,160**	**64,563**

Source: CEA, Kotak Institutional Equities

We also highlight that projects to the tune of about 34 GW of XIIth plan projects might already have been awarded and are likely to be under construction. Hence, total capacity currently under construction for benefits during XIth and XIIth plan cumulatively would be about 100 GW. If we include power projects such as Krishnapatnam and Tilaiya that have been handed over to private players but for which equipment order has not yet been placed, the total capacity which has already been awarded for commissioning in the XIIth plan would add up to about 43GW.

Orders to the tune of about 100 GW under construction in the XIth and XIIth plan

Orders currently under construction in the XIth and XIIth plan (MW)

Total projects in the XIIth Plan (FY2012-13 to FY2016-17) - Already awarded (MW)

	Thermal				
	Coal				
	Supercritical	**Subcritical**	**Total**	**Gas**	**Total**
Centre	1,980	5,500	7,480	-	**7,480**
NTPC	1,980	4,250	6,230	-	**6,230**
NHPC	-	-	-	-	**-**
DVC	-	-	-	-	**-**
Others	-	1,250	1,250	-	**1,250**
State	3,580	3,400	6,980	23	**7,003**
Private	12,960	6,290	19,250	-	**19,250**
Total	**18,520**	**15,190**	**33,710**	**23**	**33,733**

Total projects under construction in the Xith and XIIth Plan (MW)

	Thermal						
	Coal						
	Supercritical	**Subcritical**	**Total**	**Gas**	**Hydro**	**Nuclear**	**Total**
Centre	5,280	18,430	23,710	726	8,925	3,160	**36,521**
NTPC	5,280	11,230	16,510	-	1,920		**18,430**
NHPC	-	-	-	-	5,103		**5,103**
DVC	-	5,200	5,200	-	-		**5,200**
Others	-	2,000	2,000	726	2,932	3,380	**9,038**
State	3,580	19,358	22,938	1,934	236	-	**25,108**
Private	18,520	13,975	32,495	909	3,263	-	**36,667**
Total	**27,380**	**51,763**	**79,143**	**3,569**	**12,424**	**3,160**	**98,296**

Source: CEA, Kotak Institutional Equities

Scale up of capacity addition positive for equipment/EPC companies but likely to pressure merchant tariffs

We believe this would have be positive for (1) T&D equipment companies such as ABB, Siemens etc and (2) companies involved in execution of power plants such as BGR Energy, Elecon, etc. A higher pace of capacity addition may partly alleviate shortages and put pressure on the prevailing high merchant tariffs.

List of orders likely to be commissioned in the XIIth plan for which equipment order has already been placed

Project	State	Agency	Sector	Awarded to	Capacity (MW)
Barh-I	Bihar	NTPC	C	RUSSIA	660
Mauda	Maharashtra	NTPC	C	BHEL	1,000
Ennore-JV	Tamil Nadu	NTPC	C	BHEL	1,000
Barh - II	Bihar	NTPC	C	BHEL	1,320
Nabinagar	Bihar	NTPC	C	BHEL	250
Vindhyachal STPP	Madhya Pradesh	NTPC	C	BHEL	1,000
Rihand	Uttar Pradesh	NTPC	C	BHEL	1,000
Barsingsar Ext	Rajasthan	NLC	C	BHEL	250
Tuticorin JV	Tamil Nadu	NLC	C	BHEL	1,000
Dimapur	NAG	Naga-ED	S	BHEL	23
Kalisindh	Rajasthan	RRVUNL	S	BGR	1,200
Malwa	Madhya Pradesh	MPGENCO	S	BHEL	1,200
Krishnapatnam	Andhra Pradesh	APGENCO	S	BHEL	1,600
Kakatiya	Andhra Pradesh	APGENCO	S	BHEL	500
Marwa	Chhattisgarh	CSEB	S	BHEL	500
Koradi	Maharashtra	MAHGENCO	S	L&T	1,980
Mundra UMPP	Gujarat	Adani Power	P	Doosan and Toshiba	2,400
Sassan UMPP	Madhya Pradesh	Reliance Power	P	Reliance infrastructure	2,640
Mundra TPP PH 3	Gujarat	Adani Power	P	SEPCO III, China	1,980
Tirora TPP, Ph 1	Maharashtra	Adani Power	P	SCMEC, China	1,320
Tirora TPP, Ph 2	Maharashtra	Adani Power	P	SCMEC, China	660
Bina	Madhya Pradesh	JPA	P	BHEL	500
Raigarh	Chhattisgarh	Jindal	P	BHEL	2,400
Jhajjar	Haryana	HPGCL	P	China Light and Power	1,320
Malibrahmani	Orissa	Monnet	P	BHEL	1,050
Derang, Arung district	Orissa	Jindal	P	BHEL	1,200
Bela	Maharashtra	Ideal Energy	P	BHEL	270
Korba West	Chhattisgarh	Avantha	P	BHEL	600
Jamshedpur	Jharkhand	Adhunik power	P	BHEL	270
JP Nigrie	Madhya Pradesh	JP Group	P	L&T	1,320
Bhaiyathan	Chhattisgarh	India Bulls	P	Chinese equipment player	1,320
Total projects awarded so far					**33,733**

Source: CEA, Kotak Institutional Equities

We believe this would constitute over a third of the total projects likely to be taken up for commissioning during the XIIth plan. We estimate that about 106 GW of power projects is likely to be commissioned in the next five year plan period. Of the projects for which equipment order has already been placed, about 56% of the orders (i.e. 18 GW) have been placed on BHEL. This provides an advantage to BHEL as it provides the company visibility into the XIIth plan and also lowers risk of the company losing market share to other private sector players.

We believe that orders of about 106 GW are likely to be awarded in the XIIth plan period across segments. We expect BHEL to maintain a similar market share and win projects in the XIIth plan to the tune of about 61 GW.

Total projects likely to be taken up for commissioning in the XIIth plan and BHEL's market share in the same (MW)

Total projects likely to be taken up for commissioning

	Thermal						
	Coal						
	Supercritical	Subcritical	Total	Gas	Hydro	Nuclear	Total
Centre	17,808	7,449	**25,257**	4,550	13,986	7,200	**50,993**
NTPC	16,488	3,375	19,863	4,550	4,546	1,800	**30,759**
NHPC	-	-	-	-	5,950	-	**5,950**
DVC	1,320	450	1,770	-	-	-	**1,770**
Others	-	3,624	3,624	-	3,491	5,400	**12,515**
State	800	19,944	20,744	1,185	4,174	-	**26,103**
Private	3,260	4,203	7,463	2,932	4,189	-	**14,584**
UMPPs	14,826	-	14,826	-	-	-	**14,826**
Total	**36,694**	**31,596**	**68,290**	**8,667**	**22,349**	**7,200**	**106,506**

Projects in the XIIth plan - Assumption of BHEL's market share segment wise (%)

	Thermal						
	Coal						
	Supercritical	Subcritical	Total	Gas	Hydro	Nuclear	Total
Centre	74.1	94.5	**80.1**	100.0	57.3	15.0	**66.4**
NTPC	80.0	100.0	83.4	100.0	80.0	-	**80.5**
NHPC	-	-	-	-	50.0	-	**50.0**
DVC	-	90.0	22.9	-	-	-	**22.9**
Others	-	90.0	90.0	-	40.0	20.0	**45.8**
State	100.0	80.0	80.8	64.9	40.0	-	**73.5**
Private	30.0	30.0	30.0	30.0	30.0	-	**30.0**
UMPPs	25.0	-	25.0	-	-	-	**25.0**
Total	**50.9**	**76.8**	**62.9**	**71.5**	**48.9**	**15.0**	**57.4**

Total projects in the XIIth plan - BHEL's market share (MW)

	Thermal						
	Coal						
	Supercritical	Subcritical	Total	Gas	Hydro	Nuclear	Total
Centre	13,190	7,042	**20,232**	4,550	8,008	1,080	**33,870**
NTPC	13,190	3,375	16,565	4,550	3,637	-	**24,752**
NHPC	-	-	-	-	2,975	-	**2,975**
DVC	-	405	405	-	-	-	**405**
Others	-	3,262	3,262	-	1,396	1,080	**5,738**
State	800	15,955	16,755	769	1,670	-	**19,194**
Private	978	1,261	2,239	879	1,257	-	**4,375**
UMPPs	3,707	-	3,707	-	-	-	**3,707**
Total	**18,675**	**24,258**	**42,933**	**6,198**	**10,934**	**1,080**	**61,145**

Source: CEA, Kotak Institutional Equities estimates

Bulk tendering guidelines leave the field open for competition

The government has approved a bulk order for 11 units of supercritical equipment from NTPC (9 units) and Damodar Valley Corporation (2 units) with an estimated order value of about Rs400 bn. Following this approval NTPC and DVC are expected to place the tenders for bids for the equipment order within 45 days. The bulk order would be open only for companies with domestic manufacturing companies. BHEL would be given preference over other bidders and would have reservation over a minimum portion of the order. Prospective bidders include BHEL-Alstom, L&T-MHI and GB Engineering-Ansaldo for boilers and BHEL-Siemens, L&T-MHI, Bharat Forge-Alstom and Toshiba-JSW for steam turbine generators.

Envisaged manufacturing capacities of likely competitors of BHEL for the bulk tender

Venture	Boiler	Turbine-Generators
L&T/ MHI	4,000 MW/ annum	4,000 MW/ annum
Bharat Forge-Alstom	—	5,000 MW/ annum
JSW-Toshiba	—	3,000 MW/ annum
GB Engineering/ Ansaldo	2,000 MW/ annum	—

Source: CEA

Incremental RoCE and low qualification criteria likely to spurt domestic competition

Based on a rough calculation, we highlight that a company could earn post-tax equity returns in the range of 22-23% in this business. We have assumed a fixed capital investment of only Rs15 bn for setting up the business based on L&T capex plans for setting up their power manufacturing segment. Other assumptions are conservative such as 60% capacity utilization, 20 mn/MW revenue size and 10% EBIT margin.

Rough calculation of possible RoE that could be earned in the power equipment business

Capacity (MW/year)	**4,000**
Capacity utilisation (%)	60.0
Annual production (MW)	2,400
Revenue per MW (Rs mn)	20
Annual revenue (Rs bn)	**48**
EBIT margin (%)	10.0
EBIT (Rs mn)	5
Fixed capital invested (Rs bn)	**15**
Working capital (# of days of sales)	75
Working capital invested (Rs bn)	10
Total capital invested (Rs bn)	25
EBIT /capital employed (%)	19.3
Debt:equity (X)	2:1
Debt (Rs bn)	17
Equity (Rs bn)	8
Interest cost (Rs bn)	2
PBT (Rs bn)	3
Tax (Rs bn)	1
Post-tax equity returns (%)	**22.7**

Source: Kotak Institutional Equities estimates

Furthermore we highlight that, in the first take, the criteria set for companies to qualify for bulk tendering seem to have kept the field open for various domestic as well as international players. Hence, we believe that the attractive returns, combined with low eligibility criteria, is likely to attract more domestic players and increase competition for BHEL.

Prima-facie CEA seems to have kept the field open for various players to bid for bulk tendering opportunity
Key conditions for qualification of vendors for bulk tendering activity of NTPC/DVC

Condition	Description
Equity requirements	Supercritical technology owner required to hold minimum 51% in subsidiary/26% stake in JV
	7 year lock in period from date of incorporation or end of he contract warrantee period
Prerequisites	Capitalisation of minimum Rs500 mn at bid stage and Rs1 bn at award stage
	75% of the land under possession
	Valid technology transfer agreement
BHEL qualified with a special provision	An Indian manufacturer with 500 MW technology and valid technology agreement is qualified
Penalties	Bank guarantee of Rs900 mn for Boiler package and Rs650 mn for turbine package
	Maximum LD of upto 5% of contract value if committed phased manufacturing is not adhered

Source: Source: CEA: Base Paper on accelerating indigenous manufacturing of supercritical units in the country

Preference for domestic manufacturing may extend beyond bulk tendering

We highlight that the recent CEA paper emphasizes preference for domestically manufactured super-critical equipment beyond the bulk tendering activity. Key suggestions of CEA paper are (1) all state and central projects on supercritical equipment should have mandatory condition of setting up indigenous manufacturing facilities, (2) all supercritical projects of private sector be given incentives if the equipment is ordered on Indian companies setting up manufacturing facilities, (3) all future UMPPs should have equipment from indigenous manufacturer's and (4) use of indigenously manufactured equipment in all projects inviting case-II bidding.

Proposed changes in Mega power policy also broadens the scope of preference for domestic equipment

Proposed changes in Mega power policy also aim at (1) incentives including price preference for domestic power equipment players and (2) expands the scope for qualification as a mega power project by removing condition of inter-state sale of power and privatization of distribution of electricity.

The power ministry has submitted a proposal for changes to the mega power policy with an aim to give an impetus to the development of large-size power projects and derive benefit from economies of scale. New mega power policy government is removing the two key conditions on which most projects fail to qualify as mega power projects i.e. interstate sale of power and mandatory privatization of distribution of electricity in cities with more than 1 mn population. Thus most projects would qualify for mega power status and by extension more projects would qualify for customs duty free import in case of imports and a 15% purchase preference for domestic power equipment players. If 15% purchase price preference for domestic players is extended in the new mega power policy that may provide advantage for BHEL versus imported competition (even though advantage would be partly negated by custom duty free import of equipment). Other proposed changes to mega power policy include (1) no further requirement of international competitive bidding for procurement of equipment for the power projects if the quantity of power has been tied up earlier, (2) merchant sale allowed upto a maximum of 40% of saleable energy for hydel projects and 15% for thermal projects.

Strong push by government in favor of domestic players may have catalyzed private sector orders

We highlight that government has made its intention of preventing imports amply clear through various policy initiatives. We believe government preference for domestically manufactured equipment may also have catalyzed private sector utilities to place orders on domestic vendors such as BHEL and L&T. Fact that BHEL has expanded capacities and L&T is commissioning greenfield capacities would have strengthened the case in favor of domestic equipment players. We believe this may be more enduring than currency changes etc which are subject to market variations as well as does not preclude competition based on more aggressive/dynamic pricing strategies.

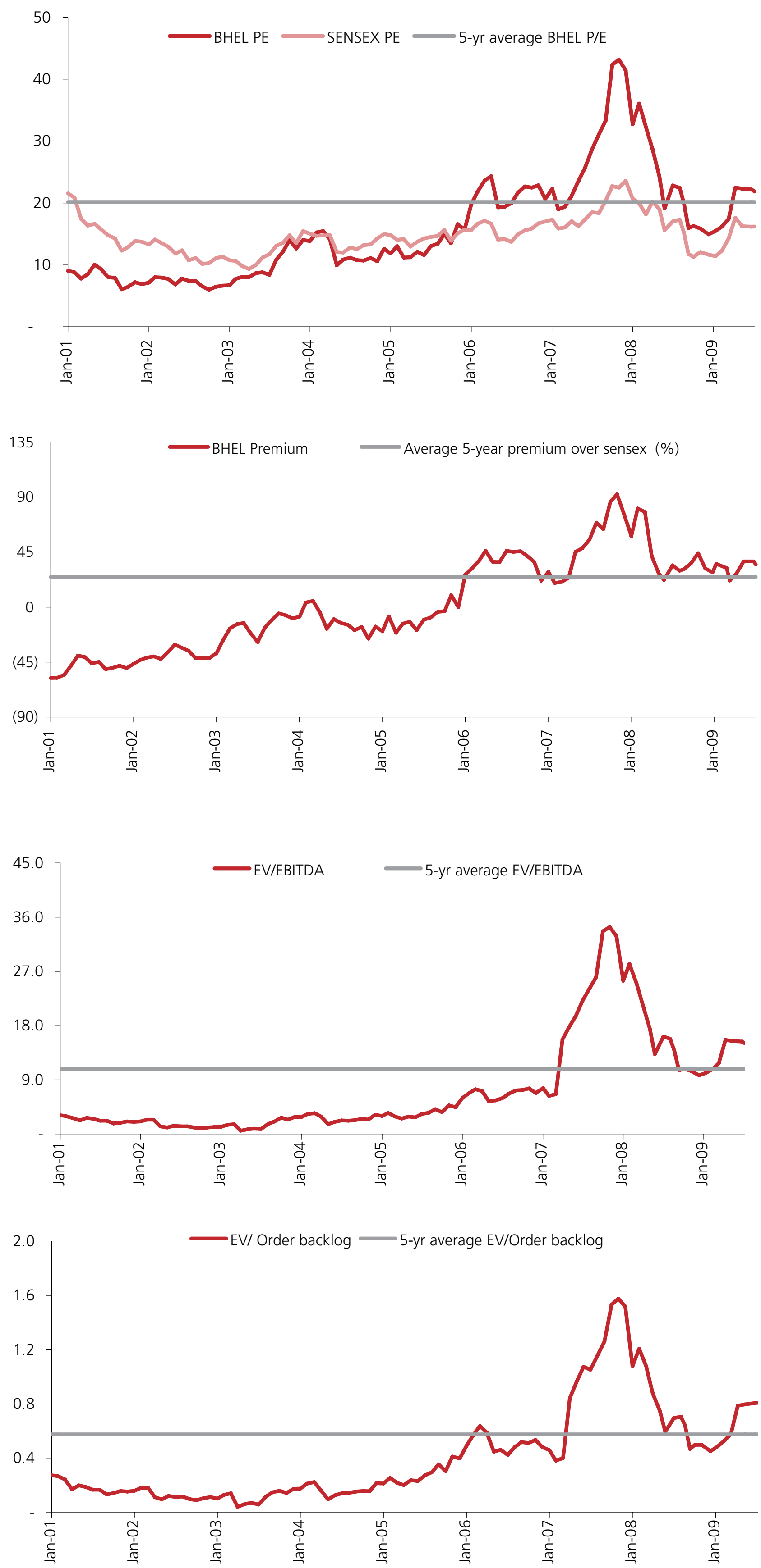
Diversification into renewable energy, transmission and transportation space would add modest value with time

BHEL is looking at diversification into various other business segments such as renewables, transmission and transportation. The company plans to form a Rs20 bn joint venture with Bharat Electronics (BEL) to manufacture 250mw solar photovoltaic (PV) production facility for processing silicon wafers, solar cells and PV modules. The JV, with 50:50 equity holding, is planned to be formed by January 2010. The company has also gained some traction in the transportation segment and has recently won a railways order for 150 locomotives worth about Rs10 bn. BHEL management has also recently highlighted that they are close to finalizing a transmission JV to manufacture transmission equipment in collaboration with a foreign firm and plans to invest about Rs10 bn in the JV.

Current valuations at close to historical averages – increased traction and visibility may determine upside

We highlight that the current valuation of BHEL is close to its historical 5-year average trading multiples. Hence, we believe that increased traction in private sector, clear preference of government policy towards domestic which extends beyond bulk tendering and increased visibility provides potential for upside.

Valuation metrics of BHEL, January 2001 - August 2009 (X)



Source: BSE, Bloomberg, Kotak Institutional Equities estimates

Annual report highlights: working capital improvement, capex, cash position

The key highlights from BHEL's FY2009 annual report are (1) improvement in working capital efficiencies led by increase in advances from customers, (2) significant envisaged capital expenditure towards capacity expansion – highlights aim to reach 20 GW capacity by December 2011, (3) strong cash position of Rs103 bn – at about 80% of capital employed leads to massive returns dilution and (4) acquired 100% stake in Bharat Heavy Plate & Vessels Ltd during FY2009.

Working capital improvement led by increased customer advances

BHEL reported a working capital (current assets excluding cash – current liabilities) of Rs32.3 bn at the end of FY2009 versus FY2008-end working capital of R27.4 bn. As number of days of sales, working capital improved from 52 days at end of FY2008 to 45 days at the end of FY2009. The improvement in working capital levels was primarily led by an increase in advances received from customers, which increased from 215 days of sales at FY2008-end to 229 days at the end of FY2009. Advances from customers were about 14.2% of outstanding order backlog, broadly inline with advances of 13.6% of outstanding order backlog last year.

BHEL also reported a higher provisioning of 69 days of sales (Rs49.8 bn) at the end of FY2009 versus FY2008-end provisioning of 61.3 days (Rs32.4 bn). The higher provisioning during the year was primarily led by additional provision for wage revision (including Rs6.6 bn provision for gratuity due to increased limits).

Improvement in working capital efficiencies in FY2009 led by higher customer advances
BHEL working capital details, March fiscal year-ends, 2007-12E

	2007	2008	2009	2010E	2011E	2012E
In Rs mn						
Current assets	**210,630**	**277,047**	**369,011**	**416,936**	**495,882**	**591,620**
Inventories	42,177	57,364	78,370	91,851	113,175	135,782
Sundry debtors	96,958	119,749	159,755	202,072	237,667	271,565
Cash & bank balances	58,089	83,860	103,147	94,549	109,745	143,325
Loans and advances	11,409	11,863	24,237	22,963	28,294	33,946
Other current assets	1,997	4,211	3,502	5,502	7,002	7,002
Current liabilities and provisions	**144,201**	**198,208**	**283,329**	**305,180**	**347,304**	**397,642**
Sundry creditors	35,944	44,838	59,200	71,082	87,885	105,171
Advance received from customers	77,755	113,946	164,354	192,887	215,032	244,408
Other current liabilities	5,280	6,980	10,019	9,185	11,317	13,578
Provisions	25,222	32,444	49,756	32,026	33,070	34,485
Working capital (WCap.)	**66,429**	**78,839**	**85,682**	**111,756**	**148,578**	**193,978**
WCap. excl. cash	**8,340**	**(5,021)**	**(17,465)**	**17,207**	**38,834**	**50,652**
WCap. excl. cash & provisions	**33,562**	**27,423**	**32,291**	**49,233**	**71,903**	**85,137**
As days of sales						
Current assets	**446.0**	**523.8**	**513.8**	**453.9**	**438.2**	**435.7**
Inventories	89.3	108.5	109.1	100.0	100.0	100.0
Sundry debtors	205.3	226.4	222.5	220.0	210.0	200.0
Cash & bank balances	123.0	158.6	143.6	102.9	97.0	105.6
Loans and advances	24.2	22.4	33.7	25.0	25.0	25.0
Other current assets	4.2	8.0	4.9	6.0	6.2	5.2
Current liabilities and provisions	**305.3**	**374.8**	**394.5**	**332.3**	**306.9**	**292.9**
Sundry creditors	76.1	84.8	82.4	77.4	77.7	77.5
Advance received from customers	164.6	215.4	228.9	210.0	190.0	180.0
Other current liabilities	11.2	13.2	14.0	10.0	10.0	10.0
Provisions	53.4	61.3	69.3	34.9	29.2	25.4
Working capital (WCap.)	**140.7**	**149.1**	**119.3**	**121.7**	**131.3**	**142.9**
WCap. excl. cash	**18**	**(9)**	**(24)**	**19**	**34**	**37**
WCap. excl. cash & provisions	**71**	**52**	**45**	**54**	**64**	**63**

Source: Company, Kotak Institutional Equities estimates

Large capital investment incurred towards capacity addition

BHEL reported an increase of 49% yoy in capital investment to Rs10.8 bn in FY2009 from Rs7.3 bn in FY2008. This investment was primarily towards capacity increase and modernization of existing manufacturing facilities. We highlight that this capital investment is over a net block (including capital work in progress) of Rs16.4 bn at the end of FY2008.

Capital expenditure incurred by BHEL, March fiscal year-ends, 2005-09 (Rs mn)

Source: Company

Snapshot of BHEL balance sheet, March fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Sources of funds						
Share capital	2,448	4,895	4,895	4,895	4,895	4,895
Reserves and surplus	85,435	102,847	124,493	160,027	201,820	252,105
Shareholders' equity	**87,883**	**107,742**	**129,388**	**164,922**	**206,715**	**257,000**
Loan funds	**893**	**952**	**1,494**	**1,494**	**1,494**	**1,494**
Unsecured loans	893	952	1,494	1,494	1,494	1,494
Total sources	**88,776**	**108,694**	**130,882**	**166,416**	**208,209**	**258,494**
Applications of funds						
Net block	9,887	9,813	14,704	23,885	41,480	48,350
WIP	3,025	6,580	11,570	11,570	—	—
Fixed assets	**12,913**	**16,393**	**26,274**	**35,455**	**41,480**	**48,350**
Investments	83	83	523	523	523	523
Cash & bank balances	58,089	83,860	103,147	94,549	109,745	143,325
Net current assets (excl. cash)	**8,340**	**(5,021)**	**(17,465)**	**17,207**	**38,834**	**50,652**
Deferred Tax Assets	9,352	13,379	18,403	18,403	18,403	18,403
Total applications	**88,776**	**108,694**	**130,882**	**166,137**	**208,985**	**261,254**

Source: Company, Kotak Institutional Equities estimates

Significant augmentation in boiler capacity; nameplate capacity is not a hard constraint on production

Highlight significant enhancement in the boiler capacity of BHEL in FY2009. The capacity of the boiler plant in Trichy increased almost four-fold from 108,000 MT at the end of FY2008 to 411,497 MT at end-FY2009. Highlight significant increase in capacity at the boiler auxiliaries plant at Ranipet; increased from 118,000 MT at end-FY2008 to 178,610 MT at the end of FY2009. There has been no nameplate capacity addition on other key products such as castings and forgings unit (at Haridwar) and switchgear etc.

We highlight that nameplate capacity is not necessarily a hard constraint on BHEL's ultimate deliverable capacity because of the presence of ancillary vendors to whom the portion of work can be outsourced. The actual production has been above nameplate capacity across several product items for several years in a row.

Nameplate capacity of BHEL across key product items, March fiscal year-ends, 2006-09

	Installed Capacity				Actual Production			
	2006	2007	2008	2009	2006	2007	2008	2009
Bhopal								
Traction Machines (Nos)	2,850	3,200	3,200	3,200	2,608	2,556	2,920	3,122
Power Transformers (MVA)	12,000	12,000	15,000	15,000	10,672	12,672	11,986	15,483
Hydro Sets								
- Hydro Turbine (MW)	720	720	2,500	2,500	606	649	1,284	835
- Hydro Generator (MW)	720	720	2,500	2,500	546	497	869	658
Jhansi								
Power Transformers 33kv/ 132kv (MVA)	4,000	5,500	5,500	5,500	4,175	6,111	5,974	6,221
Heep, Hardwar								
Turbo Sets (MW)	3,500	3,500	5,750	5,750	1,880	4,830	2,530	4,960
Boiler Plant & SSTP Trichy								
Boilers (MT)	108,000	108,000	108,000	411,497	208,732	255,156	305,423	439,187
Valves (MT)	2,712	2,712	2,712	5,728	4,414	6,705	91,639	
BAP, Ranipet								
Boiler auxiliaries (MT)	57,000	118,000	118,000	178,610	106,792	129,903	152,028	184,550
Hyderabad								
Steam turbines (MW)	955	695	695	1,140	827	840	1,156	1,119
Generators (MW)	835	1,360	1,360	1,947	450	1,348	1,630	1,971
Gas turbines (MW)	-	480	480	992	525	499	396	999

Source: Company

Plans to enhance capacity to 20 GW by December 2011

BHEL, in its annual report, highlighted its plans to enhance its capacity to 15 GW per annum (from 10 GW per annum currently) by the end of December 2009. All the schemes for the capacity increase for power plant equipment have already been approved and are under various stages of implementation. The annual report also highlighted the company's plan to increase its capacity to 20 GW per annum by the end of December 2011. BHEL envisages an investment of Rs15.9 bn (proposal already approved by board) for this capacity addition.

BHEL envisages incurring a capital expenditure of Rs42 bn during the XIth plan period. Capital investment of Rs42 bn in the XIth plan envisage (a) capacity addition to 15 GW, (b) introduction of 765 KV transformers and other associated equipment, (c) capacity augmentation of transformers to 45,000 MVA from 20,500 MVA currently and (d) introduction of higher rating nuclear sets. We highlight that versus total envisaged spending of Rs42 bn in the XIth plan, BHEL has incurred a cumulative capital expenditure of Rs18 bn in FY2008 and FY2009.

4/5th of capital employed in form of cash; leads to massive returns dilution

We highlight that 79% of capital employed (Rs131 bn) for BHEL at the end of FY2009 is in the form of cash (Rs103 bn) in the balance sheet leading to suboptimal return on equity. BHEL's return on equity for FY2009 was 26.3%; however return on equity from core business adjusted for cash (and corresponding other income) would have been 104%. BHEL generated free cash flows of Rs28.8 bn led by working capital improvements leading to a cash balance of Rs103 bn at the end of FY2009, equivalent to Rs210/share.

Acquires 100% stake in Bharat Heavy Plate & Vessels Ltd

BHEL acquired 100% stake of Bharat Heavy Plate & Vessels Ltd in May 2008, engaged in the manufacture, supply and erection of capital equipments/ machinery needed for core industries such as refineries, steel fertilizers etc. We highlight that the company has been several problems in the past such as order inflow and execution slowdown. This has been due to the recent financial crunch, imposition of 'Holiday list' by EIL etc. BHEL has taken over the company with a view to revive its business and has initiated a planned investment towards up-gradation and capex for plant & equipment.

The company achieved a net profit of Rs963 mn in FY2009 versus a net loss of Rs560 mn in FY2008 primarily led by impact of waiver of interest by GOI to the tune of Rs1.9 bn. The company has repaid loans of about Rs4.4 bn from banks/ GOI during FY2009. The key challenges faced by the company include (1) coming out of 'Holiday list' of EIL, (2) requirement of funds for capex plans, (3) need of BHEL's support to meet working capital requirements and (4) progress in execution of existing orders to gain customer confidence which would also lead to additional order wins.

Balance sheet of Bharat Heavy Plates & Vessels Ltd, March fiscal year-ends, 2008-09 (Rs mn)

	2009	2008
Balance sheet		
Shareholders funds	**338**	**338**
Share capital	338	338
Reserves and surplus	0	0
Loan funds	**2,384**	**6,485**
Secured loans	—	2,182
Unsecured loans	2,384	4,303
Total sources of funds	**2,722**	**6,823**
Net fixed assets	**52**	**135**
Cash and bank balances	44	59
Net current assets (excl. cash)	**(12)**	**524**
Miscellaneous expenses	—	256
Profit and loss account balance	2,638	5,849
Total application of funds	**2,722**	**6,823**

Source: Company

Income statement of Bharat Heavy Plates & Vessels Ltd, March fiscal year-ends, 2008-09 (Rs mn)

	2009	2008
Income statement		
Net revenues	**764**	**1,654**
Operating expenses	(1,959)	(2,139)
EBITDA	**(1,195)**	**(485)**
Other income	65	15
Financial charges	(110)	(110)
Depreciation	(85)	(15)
PBT	**(1,325)**	**(594)**
Tax expense	(6)	(2)
Extraordinary/ prior period items	2,294	35
Reported PAT	**964**	**(560)**
Key ratios (%)		
EBITDA margin	(156)	(29)
PAT margin	126	(34)

Source: Company

Upgrade to ADD with target of Rs2,425/share based on traction, visibility and clear government preference for domestic

We have marginally revised our earnings estimates to Rs93.3 and Rs115.2 from Rs93 and 116.3 earlier for FY2010E and FY2011E respectively based on update of FY2009 annual report numbers. We have revised our target price to Rs2,425/ share from Rs2,100/share based on increase in the target multiple to 21X (close to historical 5–year average trading multiple) from 18X FY2011E earnings estimates.

We upgrade to ADD from REDUCE earlier based on (1) about 8% upside to our target price, (2) increased traction of award wins in private sector, (3) clear preference of government policy towards domestic which extends beyond bulk tendering, (4) clear visibility on several years of growth going forward and (5) potential upside from business build up in new segments such as renewables, transportation and transmission.

Kotak Institutional Equities

Reliance Industries (RIL)

Energy

SELL

SEPTEMBER 10, 2009

UPDATE

Coverage view: Attractive

Price (Rs): 2,168

Target price (Rs): 1,600

BSE-30: 16,184

Over-exuberant technicals and sentiment provide opportunity to book profits.

We advise investors to use the recent sharp run-up in RIL stock to book profits as we see no change in RIL's fundamentals regardless of (1) the stock's large underperformance in the past six months or (2) recent spurt in underlying commodity prices due to weakening dollar. We continue to see large downside risks to our below-consensus earnings estimates.

Company data and valuation summary

Reliance Industries

Stock data			
52-week range (Rs) (high,low)			2,535-930
Market Cap. (Rs bn)			2,977.3
Shareholding pattern (%)			
Promoters			42.4
FIIs			19.6
MFs			2.7
Price performance (%)	1M	3M	12M
Absolute	8.5	(4.6)	1.2
Rel. to BSE-30	1.7	(10.8)	(6.8)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	103.4	109.3	158.3
EPS growth (%)	(1.5)	5.7	44.9
P/E (X)	21.0	19.8	13.7
Sales (Rs bn)	1,499.7	1,663.6	1,932.4
Net profits (Rs bn)	157.1	171.9	249.1
EBITDA (Rs bn)	239.8	321.6	422.6
EV/EBITDA (X)	13.2	9.5	6.8
ROE (%)	15.1	13.7	17.6
Div. Yield (%)	0.6	0.6	0.8

QUICK NUMBERS

- 26% downside to our fair value of Rs1,600 from current levels
- Current stock price discounting 68 tcf of additional gas reserves over the next six years
- Trough-case valuation comes to Rs1,275

Recent run-up provides good opportunity to book profits

We advise investors to exit RIL stock given (1) its strong outperformance over the past few days, (2) the stock is trading well above our SOTP-based 12-month target price of Rs1,600. RIL stock has rallied 12.3% in the past week versus the BSE-30 Index's 5.1% increase over the same period (see Exhibit 1) without any real change in fundamentals and versus expectations. We highlight that the current stock price is discounting ~35tcf of additional gas discoveries. We see significant downside risk to our earnings estimates and fair valuation from (1) weaker-than-expected chemical and refining margins and (2) possible unfavorable outcome of ongoing RIL-RNRL and RIL-NTPC legal disputes.

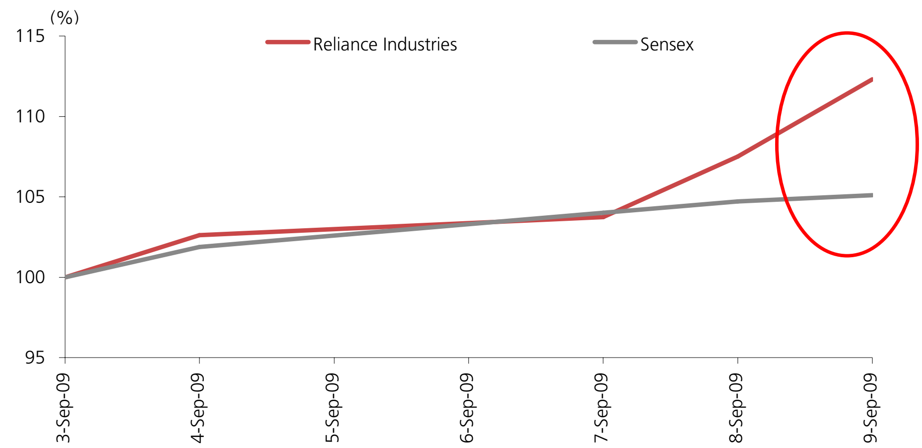
Underperformance of stock not enough reason to buy

We see the street's argument about the stock's likely catch-up on its recent (three and six months) underperformance versus the market as purely of a technical nature. More important, fundamentals remain weak and weaker versus expectations despite modest improvement in refining margins over the past 2-3 weeks. We highlight that RIL stock has underperformed the market (BSE-30 Index) by 26.3% since April 1, 2009 (see Exhibit 2) but this alone cannot be a reason to buy the stock.

RIL is not a commodity play; it does not own basic resources

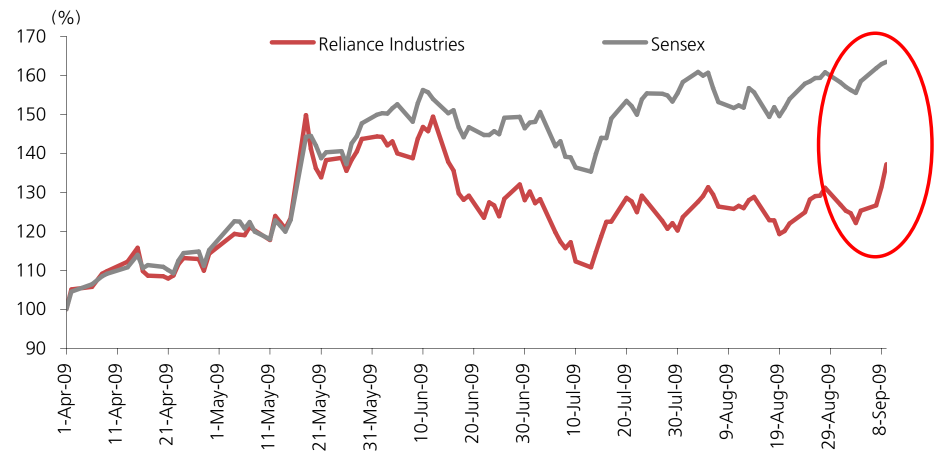
We find the street's willingness to club RIL with other Indian and global resources or commodity plays somewhat simplistic. Global commodity stocks have rallied on spurt in commodity prices led by recent weakness in the US dollar (see Exhibit 3). We highlight that RIL is not a pure resource play but a 'converter'. Thus, RIL's profitability is dependent on margins (chemical and refining) and less so on underlying commodity (crude oil, in case of RIL) prices. Also, its gas selling price is fixed in US Dollar terms. On the contrary, any weakness in dollar versus the Indian rupee is a negative for RIL. A Rs1/US$ increase in rupee-US Dollar exchange rate would reduce Reliance's FY2010E and FY2011E EPS to Rs106.1 and Rs154.5 from our base case EPS estimates of Rs109.3 and Rs158.3 (see Exhibit 4).

Reliance Industries stock has outperformed the broad market in the last week
Relative performance of Reliance Industries and BSE-30 Index (%)



Source: Bloomberg, Kotak Institutional Equities

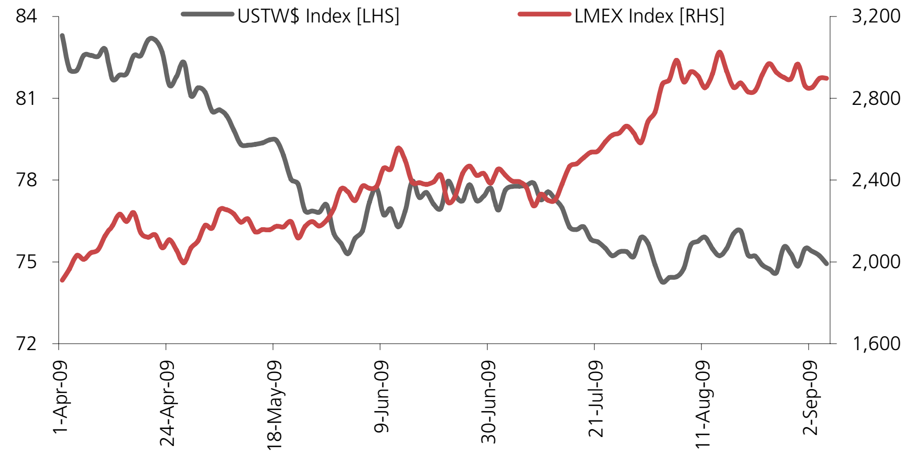
Reliance Industries stock has underperformed the broad market since April 2009
Relative performance of Reliance Industries and BSE-30 Index (%)



Source: Bloomberg, Kotak Institutional Equities

Global commodity prices have increased sharply since April led by weakening of US dollar

Performance of US$ Index and LME Metals Index



Source: Bloomberg, Kotak Institutional Equities

Reliance's earnings have high leverage to refining margins

Sensitivity of RIL's consolidated earnings to key variables

	Fiscal 2010E			Fiscal 2011E			Fiscal 2012E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	47.0	48.0	49.0	46.8	47.8	48.8	46.5	47.5	48.5
Net profits (Rs mn)	166,986	171,911	176,836	243,026	249,071	255,116	303,292	310,129	316,966
EPS (Rs)	106.1	109.3	112.4	154.5	158.3	162.1	192.8	197.1	201.5
% upside/(downside)	**(2.9)**		**2.9**	**(2.4)**		**2.4**	**(2.2)**		**2.2**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	166,969	171,911	176,853	244,903	249,071	253,239	305,679	310,129	314,579
EPS (Rs)	106.1	109.3	112.4	155.7	158.3	161.0	194.3	197.1	199.9
% upside/(downside)	**(2.9)**		**2.9**	**(1.7)**		**1.7**	**(1.4)**		**1.4**
Refining margins (US$/bbl)									
Margins (US$/bbl)	7.5	8.5	9.5	9.6	10.6	11.6	10.2	11.2	12.2
Net profits (Rs mn)	158,791	171,911	185,027	234,569	249,071	263,571	295,718	310,129	324,540
EPS (Rs)	100.9	109.3	117.6	149.1	158.3	167.5	187.9	197.1	206.3
% upside/(downside)	**(7.6)**		**7.6**	**(5.8)**		**5.8**	**(4.6)**		**4.6**

Source: Kotak Institutional Equities estimates

Current stock price implies 7 bn boe of additional crude oil reserves

As highlighted previously, we see a big gap between the stock price (which reflects expectations regarding Reliance's E&P segment) and the fair value of its extant businesses (around Rs927, including value of investments). The gap between the stock price (expectations of future) and the fair value of extant businesses is about US$37 bn (see Exhibit 5) currently. Although, Reliance has made significant discoveries in its prolific KG D-6 block and in other blocks, it is yet to disclose reserves in the new discoveries.

RIL stock price is implying US$21 bn of new discoveries of hydrocarbons in the future
Estimation of implied valuation of new businesses of Reliance Industries (US$ bn)

		Comments
1. Valuation of extant businesses		**Chemicals, RIL refinery, extant oil and gas**
FY2009 EPS of Reliance (standalone) (Rs)	103	FY2009 EPS
FY2009 EPS adjusted for treasury shares (Rs)	112	Adjusted for 199 mn treasury shares and shares issued on merger of RPET
Effective tax rate in FY2009 (%)	16.5	
FY2009 EPS adjusted for tax rate	89	Normalized for 34% tax rate for extant earnings
Appropriate P/E multiple (X)	7	Reasonable given near peak-cycle margins, earnings in FY2009 and cost of equity of 12.5%
Valuation of extant businesses excluding RPET (Rs)	**622**	
Valuation of extant businesses excluding RPET	**19**	**Reasonable in the context of replacement value, returns**
FY2011E earnings of RPET (US$ bn)	1	
FY2011E EPS of RPET (Rs)	31	
Appropriate P/E multiple (X)	9	
Valuation of RPET refinery (Rs)	**282**	
Valuation of extant businesses (including RPET) (Rs)	**904**	
Valuation of extant businesses	**27**	
2. Valuation of investments		**Others (without Reliance Retail)**
Other investments (Rs)	**23**	
Valuation of RIL ex-new E&P, retailing, SEZs (Rs)	**927**	
Current stock price	2,168	
3. Valuation of new businesses		**Emerging E&P business, retailing, SEZs**
Market-ascribed value of new businesses	**1,242**	
Market-ascribed value of new businesses (US$ bn)	**37**	
Estimated valuation of retailing (US$ bn)	1.0	Valued at 0.8X of amount invested (Rs60 bn) at end-FY2009E
Estimated valuation of SEZs (US$ bn)	1.0	Value will take time to emerge
Market-ascribed value of emerging E&P business	**35**	**Seems high based on official reserves, announced discoveries**
Estimated value of Reliance's stake in KG D-6 (gas)	8.0	Based on gas production of 18.2 tcf, US$8.8 bn capex and sale of 40 mcm/d of gas to RNRL and NTPC at US$2.34/mn BTU
Estimated value of Reliance's stake in KG D-6 (oil)	1.8	0.5 bn bbls of OOIP assumed versus current announced reserves of 180 mn bbls
Estimated value of Reliance's stakes in NEC-25	2.6	Based on 5.3 tcf of production, US$1.15 bn capex, US$4.5/mn BTU
Estimated value of Reliance's stakes in CBM	1.5	Based on 2.8 tcf of production
Implied value of new discoveries	**21**	

Source: Kotak Institutional Equities estimates

In Exhibit 6, we show that Reliance's current stock price is implying around 35 tcf of additional gas reserves (recoverable). This compares with about 25 tcf of net recoverable reserves assumed by us in the valuation exercise for Reliance's KG D-6 block. The 35 tcf of additional gas reserves being implied by today's stock price would mean that Reliance would need to bring on stream the equivalent of 68 tcf of recoverable gas reserves assuming a typical discovery-to-production period of six years and cost of capital of 12%.

Reliance's current stock price is implying additional recoverable reserves of ~35 tcf of gas today
Valuation of Reliance's E&P segment and implied valuation for potential discoveries (US$ bn)

		Comments
DCF valuation of KG D-6 block, gas for D1 & D3 fields	9.9	15.4 tcf of net recoverable gas reserves
Valuation of KG D-6 block, oil for MA-1 field	1.8	450 mn bbls of net proved oil reserves at EV/bbl of US$10
Valuation of Reliance's stakes in NEC-25	2.6	4.6 tcf of net recoverable gas reserves
Valuation of Reliance's stakes in CBM blocks	1.5	2.8 tcf of net recoverable gas reserves
Total valuation of extant announced reserves	**16**	
Total recoverable reserves (tcf)	**25**	
Implied valuation of new E&P discoveries	21	
Implied additional recoverable reserves in stock price (tcf)	**35**	**This is what Reliance needs to announce today**
# of years from discovery to production	6	KG D-6 first gas discovered in Oct-02, production in 2HFY09
Cost of capital (%)	12	
Additional gas reserves required to be added in six years (tcf)	**68**	**This is what Reliance needs to bring in production in six years**

Note:
(a) The above exercise assumes that all future gas and oil discovery would have similar PSC terms as the KG D-6 block.

Source: Kotak Institutional Equities estimates

Significant risks exist for RIL's earnings

We see significant downside risks to our earnings assumptions and fair valuation emerging from (1) weaker-than-expected refining and chemical cycles and (2) unfavorable outcome in RIL-RNRL and RIL-NTPC legal disputes. We discuss the same in detail below. We highlight that our trough-case valuation comes to Rs1,275 (see Exhibit 7).

Trough-case SOTP valuation of Reliance is Rs1,275 per share on FY2011E estimates
Sum-of-the-parts valuation of Reliance Industries, FY2011E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV	Value share
	Other	EBITDA	Muliple	EV/EBITDA	(Rs bn)	(Rs)
Chemicals		56		6.5	367	254
Refining & Marketing		141		6.5	919	637
Oil and gas—producing		27		5.0	133	92
Gas—developing (DCF-based) (a)	304	—	100%	—	304	210
Oil—KG-DWN-98/3 (b)	86	—	100%	—	86	60
Investments						
Others	27	—	100%	—	27	19
Loans & advances to affiliates less accounts payables to affiliates	83	—	100%	—	83	58
Retailing	60	—	80%	—	48	33
SEZ development	62	—	80%	—	50	34
Total enterprise value					**2,018**	**1,398**
Net debt					191	133
Implied equity value					**1,826**	**1,265**

Note:
(a) We reduce chemical margins by US$50/ton versus our base-case margins.
(b) We reduce refining margin by US$1/bbl versus our base-case assumption.
(c) We value the KG D-6 gas find on DCF and offshore Orissa (NEC-25) and CBM discoveries based on KG D-6's valuation.
(d) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
(e) Net debt reflects is for consolidated entity.
(f) We use 1.443 bn shares post merger of RPET with RIL (excluding treasury shares) for per share computations.

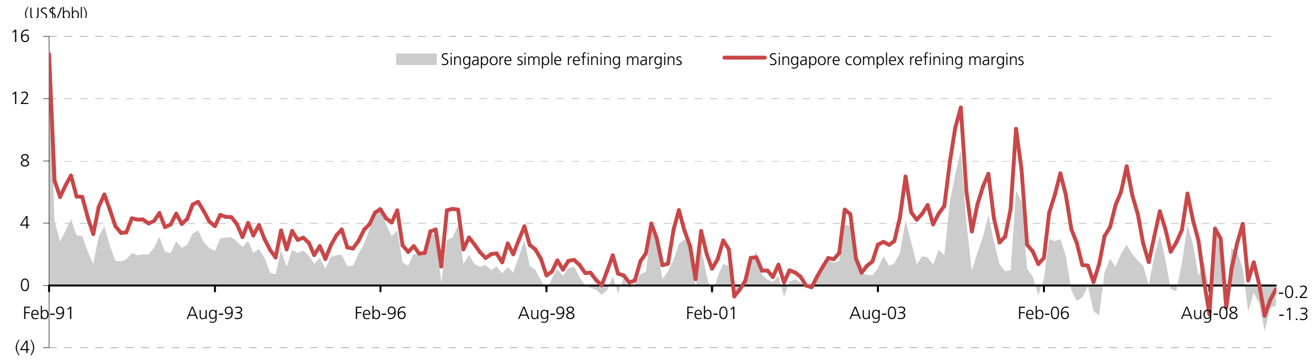
Source: Kotak Institutional Equities estimates

- **Chemical margins likely to tumble in 2HCY09/1HCY10.** We highlight that chemical margins have remained strong in 1HCY09 led by a delay in the commissioning of new capacity in Middle East including (1) Yansab's 1.3 mtpa cracker which was scheduled to start in 4QCY08, (2) Petro Rabigh's 1.3 mtpa cracker which was scheduled to start in CY2008 and (3) SHARQ's 1.2 mtpa cracker which was scheduled to start in 2HCY08. However, we do not rule out a steep decline in chemical margins in 2HCY09 due to start of PetroRabigh (1.3 mtpa) and Yansab (1.3 mtpa); SHARQ is expected to commence operations in December 2009. We see significant supply additions (20.6 mn tons of ethylene) in CY2009-11E, which may keep a lid on chemical margins over this period.

- **Refining margins continue to be weak and still well below our assumed levels.** We highlight that refining margins have been terrible over the last two quarters even though they have recovered modestly in the past 2-3 weeks. Singapore refining margins have plummeted to -US$0.3/bbl in FY2010YTD from US$2.1/bbl in FY2009 (see Exhibit 8). We expect refining margins will likely remain subdued over the next 12-24 months due to (1) global demand weakness and (2) large refining capacity additions in CY2009-10E. We highlight that light-heavy differential has also collapsed to US$0.7/bbl in FY2010YTD versus US$8/bbl in FY2009 (see Exhibit 9). We are increasingly doubtful that RIL's refining margin can reach our assumed blended refining margin of US$7.8/bbl for FY2010E and US$9.8/bbl for FY2011E.

Refining margins remain subdued in the recent weeks

Singapore refining margins (US$/bbl)



Simple refining margins, March fiscal year-ends (US$/bbl)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
1Q	1.3	0.5	0.3	1.0	1.7	3.0	2.5	2.3	2.4	(1.5)
2Q	2.5	0.4	0.1	1.2	3.1	2.8	(0.7)	1.0	1.7	(1.2)
3Q	1.7	1.1	1.4	1.6	6.5	2.2	(1.2)	2.3	1.3	
4Q	0.2	(0.0)	3.0	2.9	2.1	1.1	1.2	0.2	0.7	
Average	**1.4**	**0.5**	**1.2**	**1.7**	**3.3**	**2.3**	**0.5**	**1.5**	**1.5**	**(1.4)**

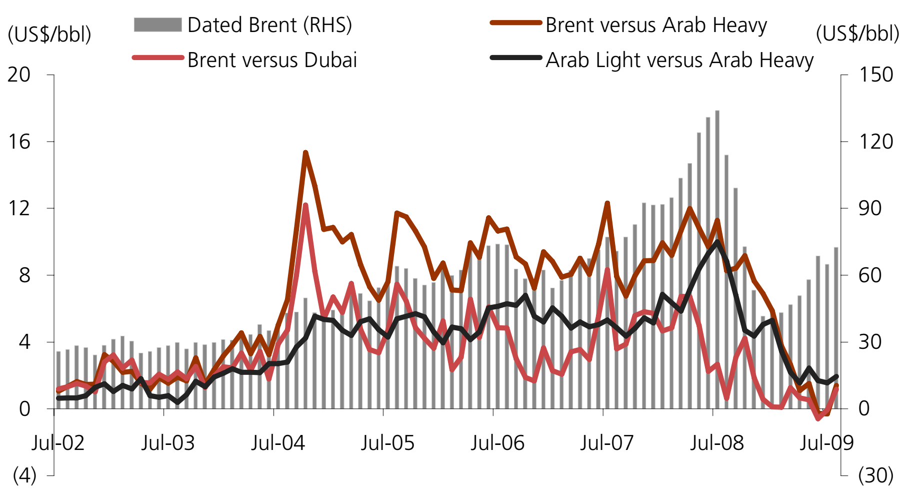
Complex refining margins, March fiscal year-ends (US$/bbl)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
1Q	1.9	1.3	0.8	1.2	4.6	4.9	6.2	6.6	4.3	(0.1)
2Q	4.0	0.6	0.1	2.3	5.8	6.1	2.5	2.9	0.7	(0.5)
3Q	2.3	1.2	1.6	3.2	9.0	3.9	1.0	3.9	1.0	
4Q	1.6	0.6	3.7	5.4	5.0	2.8	4.1	2.8	2.4	
Average	**2.4**	**0.9**	**1.5**	**3.1**	**6.1**	**4.4**	**3.4**	**4.0**	**2.1**	**(0.3)**

Weekly margins (simple)				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
0.0	**(1.1)**	**(1.3)**	**(1.3)**	**(1.5)**

Weekly margins (complex)				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
0.5	**(0.3)**	**(0.5)**	**0.1**	**(0.3)**

Source: Bloomberg, Kotak Institutional Equities

Premium of light, sweet crude oils versus heavy, sour crude oils (US$/bbl)



Source: Bloomberg, Kotak Institutional Equities

- **Unfavorable outcome of RIL-RNRL and RIL-NTPC litigation.** We see Rs68/share upside to our 12-month SOTP-based fair valuation of RIL of Rs1,600 (based on FY2011E estimates) in case the Supreme Court rules in favor of RIL and RIL does not have to supply any amount of gas at the disputed price of US$2.34/mn BTU. However, we see a further downside of Rs112 to our fair valuation in case the Supreme Court rules in favor of RNRL and the government uses US$4.2/mn BTU for valuation of natural gas produced from RIL's KG D-6 block to determine the government's take of profit petroleum, royalty and income tax. In our view, the government will use US$4.2 mn/BTU or a price as per the government-approved pricing formula for computation of its share of profit petroleum, royalty and income tax irrespective of whether the selling price to NTPCL and RNRL is US$2.34/mn BTU or US$4.2/mn BTU.

  Also, we note that our volume assumption for gas production from KG D-6 block at 45 mcm/d for FY2010E may be optimistic; 1QFY10 production was 19 mcm/d and August production rate was 35 mcm/d. We assume gas price at US$4.2/mn BTU for FY2010-12E and do not see any scope for positive surprises from the same since the government has fixed natural gas price for five years (up to FY2014E).

SOTP valuation of Reliance is Rs1,600 per share on FY2011E estimates
Sum-of-the-parts valuation of Reliance Industries, FY2011E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV	Value share
	Other	EBITDA	Muliple	EV/EBITDA	(Rs bn)	(Rs)
Chemicals		74		6.5	483	334
Refining & Marketing		163		6.5	1,058	733
Oil and gas—producing		27		5.0	133	92
Gas—developing (DCF-based) (a)	465	—	100%	—	465	322
Oil—KG-DWN-98/3 (b)	86	—	100%	—	86	60
Investments						
Others	27	—	100%	—	27	19
Loans & advances to affiliates less accounts payables to affiliates	83	—	100%	—	83	58
Retailing	60	—	80%	—	48	33
SEZ development	62	—	80%	—	50	34
Total enterprise value					**2,434**	**1,686**
Net debt					148	103
Implied equity value					**2,286**	**1,583**

Note:
(a) We value the KG D-6 and NEC-25 gas discoveries on DCF and CBM discoveries based on KG D-6's valuation.
(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
(c) Net debt is for 'merged' entity.
(d) We use 1.443 bn shares post merger of RPET with RIL (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

RIL consolidated with RPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	809,113	1,114,927	1,334,430	1,499,690	1,663,627	1,932,427	2,030,470
EBITDA	**139,991**	**198,462**	**233,056**	**236,220**	**318,026**	**418,991**	**493,345**
Other income	6,829	4,783	8,953	20,570	32,070	33,680	40,654
Interest	(8,770)	(11,889)	(10,774)	(17,450)	(44,249)	(30,497)	(16,397)
Depreciation & depletion	(34,009)	(48,152)	(48,471)	(51,720)	(92,029)	(102,219)	(113,344)
Pretax profits	104,041	143,205	182,764	187,620	213,817	319,956	404,258
Extraordinary items	3,000	2,000	47,335	(3,700)	—	—	—
Tax	(9,307)	(16,574)	(26,520)	(21,290)	(30,173)	(62,659)	(87,167)
Deferred taxation	(7,040)	(9,196)	(8,999)	(9,000)	(7,640)	5,153	10,654
Minority interest	—	—	—	(249)	(4,093)	(13,378)	(17,616)
Net profits	90,693	119,434	194,580	153,381	171,911	249,071	310,129
Adjusted net profits	**88,152**	**117,789**	**152,605**	**156,472**	**171,911**	**249,071**	**310,129**
Earnings per share (Rs)	**63**	**81**	**105**	**103**	**109**	**158**	**197**
Balance sheet (Rs mn)							
Total equity	430,543	673,037	847,853	1,130,178	1,269,103	1,480,204	1,738,833
Deferred taxation liability	49,708	69,820	78,725	87,725	95,366	90,213	79,560
Minority interest	—	33,622	33,622	33,832	34,654	43,314	52,964
Total borrowings	218,656	332,927	493,072	710,346	500,979	360,660	218,012
Currrent liabilities	164,545	192,305	251,427	301,513	240,627	256,406	256,586
Total liabilities and equity	**863,452**	**1,301,712**	**1,704,700**	**2,263,594**	**2,140,729**	**2,230,796**	**2,345,954**
Cash	21,461	18,449	42,822	256,703	128,526	212,244	352,431
Current assets	224,283	286,566	402,721	483,779	499,004	533,227	539,697
Total fixed assets	626,745	899,403	1,081,638	1,333,592	1,323,680	1,295,806	1,264,307
Investments	(9,038)	97,294	177,519	189,519	189,519	189,519	189,519
Deferred expenditure	—	—	—	—	—	—	—
Total assets	**863,452**	**1,301,712**	**1,704,700**	**2,263,594**	**2,140,729**	**2,230,796**	**2,345,954**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	119,520	164,285	180,718	168,460	235,949	320,325	383,180
Working capital	(32,188)	(13,075)	(31,071)	(30,973)	(76,111)	(18,444)	(6,290)
Capital expenditure	(94,273)	(247,274)	(239,691)	(238,171)	(74,940)	(73,616)	(82,895)
Investments	(32,364)	(105,760)	(78,953)	(12,000)	—	—	—
Other income	5,159	4,143	6,132	20,570	32,070	33,680	40,654
Free cash flow	**(34,146)**	**(197,681)**	**(162,865)**	**(92,114)**	**116,968**	**261,945**	**334,649**
Ratios (%)							
Debt/equity	45.5	44.8	53.2	58.3	36.7	23.0	12.0
Net debt/equity	41.1	42.3	48.6	37.2	27.3	9.5	(7.4)
RoAE	19.9	20.3	18.9	15.0	13.7	17.4	18.6
RoACE	**13.8**	**13.9**	**12.7**	**9.9**	**10.9**	**14.7**	**16.7**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

GMR Infrastructure (GMRI)

Infrastructure

ADD

SEPTEMBER 10, 2009

UPDATE

Coverage view: Attractive

Price (Rs): 140

Target price (Rs): 135

BSE-30: 16,184

Spotlight on plans to raise Rs75 bn equity. Highlights of GMRI's meeting with analysts were (1) the company proposes to structure itself as four holding companies (for separate verticals) functioning under a parent company, (2) plans to raise a total of Rs75 bn in equity funds over the next 2.5-3 years, (3) the existing projects would require an equity investment of about Rs27-28 bn over FY2010E-11E and (4) most of the skepticism seemed to originate from the Intergen acquisition and associated debt.

Company data and valuation summary

GMR Infrastructure

Stock data				Forecasts/Valuations	2009	2010E	2011E
52-week range (Rs) (high,low)			184-46	EPS (Rs)	1.5	0.9	0.9
Market Cap. (Rs bn)			251.5	EPS growth (%)	33.0	(38.3)	(6.8)
Shareholding pattern (%)				P/E (X)	89.4	144.8	155.3
Promoters			74.4	Sales (Rs bn)	40.2	37.4	43.6
FIIs			8.3	Net profits (Rs bn)	2.8	1.7	1.6
MFs			0.6	EBITDA (Rs bn)	10.7	14.7	20.1
Price performance (%)	1M	3M	12M	EV/EBITDA (X)	31.3	22.7	16.7
Absolute	4.1	(17.7)	33.5	ROE (%)	4.4	2.6	2.4
Rel. to BSE-30	(2.2)	(22.7)	0.0	Div. Yield (%)	0.0	0.0	0.0

Intergen acquisition and associated debt financing dominates discussions

A majority of the questions at the meet were related to the acquisition of Intergen in October 2008. The company would add a debt of about US$3 bn to its balance sheet (US$2.05 bn - GMRI's stake of debt on Intergen's balance sheet + US$1.1 bn of acquisition loan) on consolidation of Intergen. This has been kept apart from GMRI's balance sheet via a structure using compulsorily convertible debentures which shows the current actual equity holding to be lower than actual intended economic interest. However, the company would be required to compulsorily consolidate Intergen into its books post IFRS implementation in FY2011E. GMR management aims to repay the acquisition debt from dividend cash flows of Intergen and expects to receive dividend of about US$90 mn in CY2009E.

Would require Rs27 bn in equity for existing projects; plans to raise Rs75 bn over next 2-3 years

GMRI plans to raise about Rs75 bn of equity funds over the next 2-3 years through equity issue at the parent level and listing of sectoral holding companies. GMRI plans to create holding companies for each of its four business verticals (viz. power, airports, roads & urban infrastructure and international) and eventually list the companies to raise funds. We would prefer growth through internal accruals as several large assets such as Delhi airport are close to completion of capex phase. We believe that since GMRI already has a large balance sheet diversified across several assets, it may not need to accumulate capital even before project opportunities have appeared, unlike smaller companies which may need to do so for qualifications etc..

Financial closure of additional 2,500 MW of power plants likely in the next 4-5 months

The management highlighted that they expect to achieve financial closure of 2,500 MW of power plants in the next 4-5 months. This would include (1) 1,200 MW Chhattisgarh thermal power plant, (2) 600 MW Chandrapur power plant acquired from EMCO and (3) 740 MW Vemagiri expansion project. We highlight this is after achieving recent financial closure for its 1,050 MW Kamalanga power project.

QUICK NUMBERS

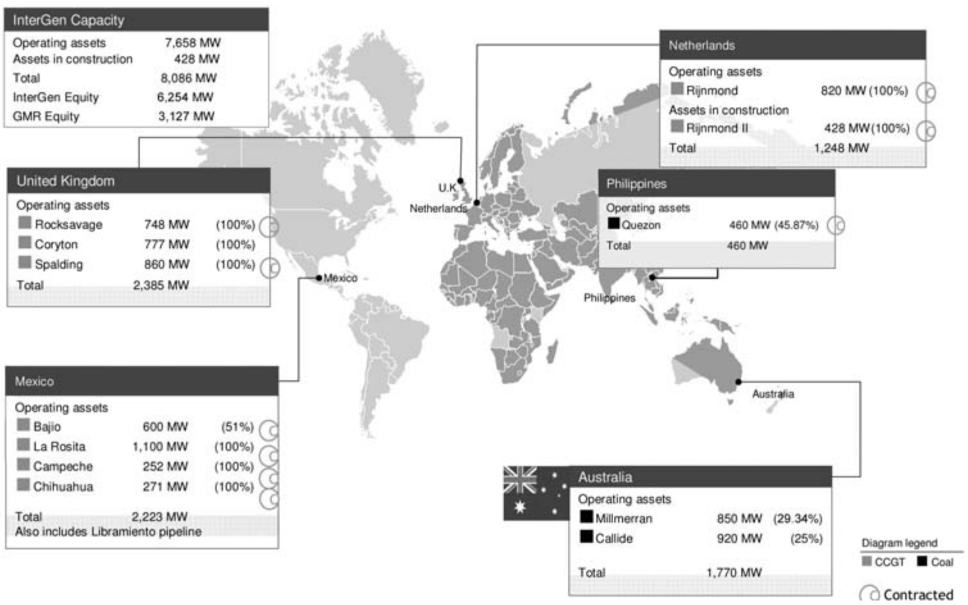
- Equity requirement of Rs27 bn in existing projects over FY2010E-11E
- Plans to raise equity funds of Rs75 bn over next 2-3 years

Intergen acquisition and associated debt financing lead the discussions

We highlight that Intergen has net consolidated debt (including SPV level) of about US$3.6 bn on its balance sheet. Gross debt is about US$4.1 bn out of which US$2.4 bn is at the corporate level and US$1.75 bn is at the SPV level. Furthermore, GMRI has taken a loan of about US$1.1 bn for acquisition of the company. We understand that US$1.1 bn of acquisition debt has corporate guarantee of GMR Infrastructure, but Intergen debt has no recourse to GMR Infrastructure. Hence, the 50% stake in Intergen and the acquisition loan combined would lead to incremental debt of about US$3 bn in GMRI balance sheet. Intergen gives GMRI access to 8,086 MW (Intergen equity of 6,231 MW) of power portfolio spread across four continents and five countries through a mix of fuel types and off-take arrangements and proposes to add another 3,000 MW of power capacities in the next few years.

Intergen has power assets located across continents, exposed to different demand-supply dynamics

Location of Intergen's power capacities



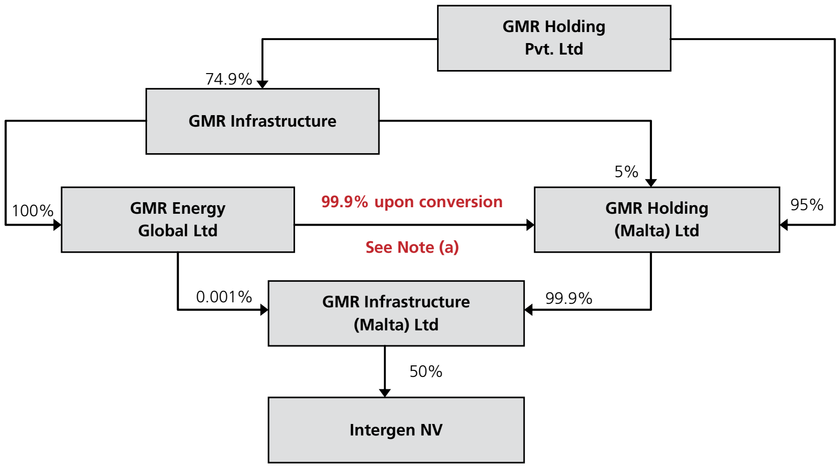
Source: Company

Intergen debt has been kept out of GMR balance sheet so far

Intergen debt has been kept out of GMRI balance sheet via a structure using compulsorily convertible debentures which shows the current actual equity holding to be lower than actual intended economic interest. Currently, debt of US$1.1 bn for the acquisition has been raised by GMR Holding (Malta) Ltd and the funds have been transferred to GMR Infrastructure (Malta) Ltd. The management highlighted that this was done so that the balance sheet of GMR Infrastructure does not seem strained and the company and adversely impact its ability to raise debt for domestic growth.

Upon conversion of debentures, GMR Infrastructure through its subsidiaries will hold 50% equity ownership in Intergen

Structure of GMR's holding in Intergen NV



Note:

(a) GMR Energy Global Ltd, a wholly owned subsidiary of GMR Infrastructure has subscribed to compulsorily convertible debentures of GMR Holding (Malta) Ltd for US$164 mn, upon conversion of which GMR ownership in Intergen would increase to 50%

(b) Debt funds of US$1 bn for funding the acquisition have been raised by GMR Holding (Malta) Ltd and the funds have been transferred to GMR Infrastructure (Malta) Ltd

Source: Company, Kotak Institutional Equities estimates

However the company would be required to compulsorily consolidate Intergen into its books post IFRS implementation in FY2011E. The company plans to either (1) raise equity in GMRI or (2) repay part of debt in Intergen so as to achieve acceptable level of debt:equity ratio post the consolidation.

Expect to pay acquisition debt from dividend cash flows

GMR management believes that acquisition debt of Intergen would be paid from dividend cash flows of Intergen. GMRI has not received any dividend in CY2008 as the acquisition got completed in October 2008 only. However management expects dividend cash flows to improve going forward. Management stated that Intergen is expected to achieve distributable profit of about US$170-180 mn in CY2009 with GMRI’s stake being about US$90 mn. This cash flow has to be compared against potential interest cost of US$50-60 mn. GMRI would also need to refinance the US$837 mn facility October 2010 that was part of total acquisition finance of US$1.1 bn.

Plans to raise Rs75 bn in equity over 2-3 years for various companies defined by verticals

GMRI plans to raise about Rs75 bn of equity funds over the next two to three years through FY2010-12. This would be done through equity issue at the parent level (GMR Infrastructure Ltd) and through listing of sectoral holding companies. GMRI plans to create holding companies for each of its four business verticals and eventually list the companies to raise funds. We highlight that the company plans to raise about Rs15 bn in the airports segment. The management cited that this would be towards future projects as all of the three existing airport projects are close to completion and should be cash generating soon.

Planned issues of equity

Company	Amount to be raised (Rs bn)	Target year
GMR Infrastructure Ltd	25	FY2010
GMR Energy Ltd	15	FY2010
GMR Roads SPVs/ Hold Co.	5	FY2010
GMR Airports Holding Company	15	FY2010
GMR Infrastructure International Ltd	15	FY2012
Total equity to be raised	**75**	

Source: Company

We would prefer growth through internal accruals for the company as several large assets such as Delhi airport are close to completion of capex phase. GMR already has a large balance sheet diversified across several assets and thus it may not need to accumulate capital even before project opportunities have appeared, unlike smaller companies which may need to do so for qualifications etc. Any project opportunity in any case provides ample time during the bidding process, award and financial closure before equity investments have to actually materialize.

Existing projects have equity requirements of Rs27 bn in next two years

Based on the existing projects in its portfolio, the company has estimated an equity requirement of about Rs27 bn in the next two years in its power, roads and urban infrastructure segment. The split across the various projects is as follows:

Likely to require additional equity of about Rs28 bn in next 2 years for identified projects in power, roads and urban infra. sectors
Equity requirement for various projects under development in the power, roads & urban infra. sectors, March fiscal year-ends, 2010E-11E (Rs mn)

	Project cost	Total debt	Total Equity	GMR's Equity	Invested till June-09	FY2010E	FY2011E
GMR Energy Relocation	4,340	3,470	870	870	740	130	-
Kamalanga	45,400	34,050	11,350	9,080	2,840	1,620	2,800
Chhattisgarh	54,000	40,500	13,500	13,500	690	5,370	2,330
VPGL Expansion	22,240	16,680	5,560	5,560	-	1,390	2,940
EMCO Energy	31,010	21,570	9,440	9,440	-	4,050	1,050
Indonesia Coal Mine	10,060	6,740	3,320	3,320	470	1,170	810
Sumatra-Capex	5,390	3,240	2,150	2,150	20	1,020	590
South Africa Coal Mine	1,640	-	1,640	1,640	1,240	400	-
Energy sector total	**174,080**	**126,250**	**47,830**	**45,560**	**6,000**	**15,150**	**10,520**
Hyderabad Vijayawada Highway	22,000	16,500	5,500	5,500	-	1,100	280
Chennai Outer Ring Road	12,000	9,000	3,000	2,700	-	600	80
Krishnagiri SEZ	4,940	1,320	3,620	3,620	2,310	640	360
Highways + Urban Infra. sector total	**38,940**	**26,820**	**12,120**	**11,820**	**2,310**	**2,340**	**720**
Total	**213,020**	**153,070**	**59,950**	**57,380**	**8,310**	**17,490**	**11,240**

Source: Company

We highlight that GMRI had Rs27 bn of cash and liquid investments on the consolidated balance sheet out of which Rs13bn is with the parent company.

Likely to achieve financial closure of 2,500 MW of projects in 4-5 months

The management highlighted that it expects to achieve financial closure of an additional 2,500 MW of power plant in the next 4-5 months i.e. by December 2009. This would include (1) 1,200 MW Chhattisgarh thermal power plant, (2) 600 MW Chandrapur power plant acquired from EMCO and (3) 740 MW Vemagiri expansion project. We highlight this is post achieving recent financial closure for its 1,050 MW Kamalanga power project.

Retain earnings estimates and target price of Rs135/share; reiterate ADD

We retain our earnings estimates of Rs0.9 for FY2010E and FY2011E and our SOTP-based target price of Rs135/share. We reiterate our ADD rating on the stock based on (1) incremental visibility on identified projects, (2) likely pick-up in demand across assets led by broad economic revival and (3) incremental project wins.

Value = Existing projects + identified projects + opportunities

Our SOTP-based target price of Rs135/share comprises of value from existing operational projects as well as partial value (about 50%) of projects identified by GMRI.

We value the existing projects of GMRI at Rs115/share comprised of (1) Rs48/share from the Delhi airport and associated real estate development, (2) Rs21/share from Hyderabad airport and associated real estate and SEZ development, (3) Rs7.4/share from six operational road projects, (4) Rs25/share from power plants under development, (5) Rs1.4/share from investment in coal mines, (6) Rs1.5/share from Krishnagiri SEZ development and (7) Rs7.3/share of net cash.

We arrive at a value of Rs115/share for GMRI based on existing projects only
Sum-of-the-parts valuation of GMR Infrastructure Ltd based on existing projects

	Total asset value		GMR's stake	Value of GMR's stake			Contribution
	(Rs bn)	(US$ mn)	(%)	(Rs bn)	(US$ mn)	(Rs/share)	(%)
Airports	**215.4**	**4,487**		**132.2**	**2,754**	**72.1**	**62.9**
Delhi Airport	**160.8**	**3,349**	**54.0**	**86.8**	**1,809**	**47.3**	**41.3**
Core	36.5	760		19.7	410	10.7	9.4
Real estate	124.3	2,590		67.1	1,398	36.6	31.9
Hyderabad Airport	**54.6**	**1,137**	**63.0**	**39.5**	**822**	**21.5**	**18.8**
Core	32.7	680		20.6	429	11.2	9.8
Commercial real estate	21.9	457		13.8	288	7.5	6.6
Airport SEZs	8.0	168		5.1	106	2.8	2.4
Sabiha Gocken	**14.8**	**309**	**40.0**	**5.9**	**124**	**3.2**	**2.8**
Roads	**14.8**	**308**		**13.6**	**283**	**7.4**	**6.5**
GTTEPL	1.7	36	60.8	1.1	22	0.6	0.5
GTAEPL	1.3	27	60.8	0.8	17	0.4	0.4
GPEPL	1.0	21	100.0	1.0	21	0.6	0.5
GACEPL	0.8	16	100.0	0.8	16	0.4	0.4
GJEPL	3.5	73	100.0	3.5	73	1.9	1.7
GUEPL	6.4	134	100.0	6.4	134	3.5	3.1
Power	**47.6**	**992**		**45.6**	**949**	**24.8**	**21.7**
Vemagiri	16.4	341	100.0	16.4	341	8.9	7.8
Mangalore	7.3	153	100.0	7.3	153	4.0	3.5
Basin Bridge	4.2	87	51.0	2.1	44	1.2	1.0
Kamalanga (Orissa)	15.8	330	100.0	15.8	330	8.6	7.5
Alakananda	3.9	81	100.0	3.9	81	2.1	1.9
SEZ	**2.9**	**60**		**2.8**	**59**	**1.5**	**1.4**
Krishnagiri	2.9	60	98.0	2.8	59	1.5	1.4
Coal mines	**3.4**	**72**		**2.6**	**53**	**1.4**	**1.2**
South Africal coal mines	**1.4**	30	38.5	0.6	12	0.3	0.3
Indonesian coal mines	**2.0**	42	100.0	2.0	42	1.1	1.0
Net cash at parent level	**13.3**	**277**	**100.0**	**13.3**	**277**	**7.3**	**6.3**
Grand total	**291**	**6,064**		**210**	**4,377**	**115**	**100.0**

Source: Company, Kotak Institutional Equities estimates

We believe that the company could have a potential value of Rs150/share if all the identified projects in the power, roads and mining segments are developed as planned. Power projects could potentially contribute Rs28.6/share while the coal mines could add an additional Rs6/share to the value of GMRI.

We value GMRI at Rs150/ share taking into account existing and identified projects
Sum-of-the-parts valuation of GMR Infrastructure Ltd including identified future projects

	Total asset value		GMR's stake	Value of GMR's stake			Contribution
	(Rs bn)	(US$ mn)	(%)	(Rs bn)	(US$ mn)	(Rs/share)	(%)
Airports	**215.4**	**4,487**		**132.2**	**2,754**	**72.6**	**49.3**
Delhi Airport	**160.8**	**3,349**	**54.0**	**86.8**	**1,809**	**47.7**	**32.4**
Core	36.5	760		19.7	410	10.8	7.3
Real estate	124.3	2,590		67.1	1,398	36.9	25.0
Hyderabad Airport	**54.6**	**1,137**	**63.0**	**39.5**	**822**	**21.7**	**14.7**
Core	32.7	680		20.6	429	11.3	7.7
Commercial real estate	21.9	457		13.8	288	7.6	5.1
Airport SEZs	8.0	168		5.1	106	2.8	1.9
Sabiha Gocken	**14.8**	**309**	**40.0**	**5.9**	**124**	**3.3**	**2.2**
Roads	**14.8**	**309.2**		**13.3**	**276.2**	**7.3**	**4.9**
GTTEPL	1.7	36	60.8	1.1	22	0.6	0.4
GTAEPL	1.3	27	60.8	0.8	17	0.4	0.3
GPEPL	1.0	21	100.0	1.0	21	0.6	0.4
GACEPL	0.8	16	100.0	0.8	16	0.4	0.3
GJEPL	3.5	73	100.0	3.5	73	1.9	1.3
GUEPL	6.4	134	100.0	6.4	134	3.5	2.4
GCORRPL	(2.4)	(49)	90.0	(2.1)	(44.4)	(1.2)	(0.8)
GHVEPL	2.4	50	74.0	1.8	37.1	1.0	0.7
Power	**95.9**	**1,997**		**93.7**	**1,952**	**51.5**	**34.9**
Vemagiri	16.4	341	100.0	16.4	341	9.0	6.1
Mangalore	7.3	153	100.0	7.3	153	4.0	2.7
Basin Bridge	4.2	87	51.0	2.1	44	1.2	0.8
Kamalanga (Orissa)	15.8	330	100.0	15.8	330	8.7	5.9
Alakananda	3.9	81	100.0	3.9	81	2.1	1.5
Chattisgarh	10.7	224	100.0	10.7	224	5.9	4.0
Vemagiri expansion	11.2	233	100.0	11.2	233	6.2	4.2
Coastal Power	11.3	235	100.0	11.3	235	6.2	4.2
EMCO project	6.5	135	100.0	6.5	135	3.6	2.4
Talong	1.1	23	88.0	1.0	20	0.5	0.4
Bajoli Holi	0.6	13	100.0	0.6	13	0.3	0.2
Upper Karnali	1.9	41	100.0	1.9	41	1.1	0.7
Marsyangdi	4.9	102	100.0	4.9	102	2.7	1.8
SEZ	**2.9**	**60**		**2.8**	**59**	**1.6**	**1.1**
Krishnagiri	2.9	60	98.0	2.8	59	1.6	1.1
Coal mines	**18.3**	**382**		**13.0**	**272**	**7.2**	**4.9**
South Africal coal mines	**8.6**	179	38.5	3.3	69	1.8	1.2
Indonesian coal mines	**9.7**	203	100.0	9.7	203	5.3	3.6
Net cash at parent level	**13.3**	**277**	**100.0**	**13.3**	**277**	**7.3**	**5.0**
Grand total	**339**	**7,070**		**269**	**5,598**	**147**	**100.0**

Source: Company, Kotak Institutional Equities estimates

We believe the value of an infrastructure development company depends upon existing projects, identified projects making progress towards execution and future development opportunities. We have valued GMRI at Rs135/share based on the value of existing projects plus 50% of the value of identified projects. We have not attributed any value to future development opportunities despite the strong execution track record of the company.

CAUTIOUS

SEPTEMBER 10, 2009

UPDATE

BSE-30: 16,184

Price competition heating up—slowly but surely. We see the recent circle-level aggressive pricing moves by the new entrants as well as incumbents as precursors to a potentially deeper and wider price war. The onset of the festive season provides new entrants with good opportunity to gain mind share and market share of subscribers by launching aggressive tariff plans; we continue to expect the new entrants to price their offerings on a marginal-costing approach. We remain Cautious on the sector.

New entrants getting aggressive on the pricing front

In line with our expectation of a price-based entry strategy of new entrants, we are witnessing increasing signs of aggressive tariff launches by new entrants across various circles. While paradigm-changing pricing moves like Tata-Docomo's per-second billing grab disproportionate street/media attention, we note increasing instances of circle-level aggressive pricing actions by the new entrants (even incumbents in some cases). We highlight some of these on Page 2 of this note.

We expect the new entrants to continue with their 'marginal-cost' approach to pricing

We have long argued that new players entering urban markets will attempt to create churn to fill up their empty network. To do so, tariff structure has to be attractive compared to incumbents. Effective RPM on Tata-Docomo's introductory GSM tariff (and per second billing) is at least 40% lower than incumbents and is one such instance. In our view, new players structure tariffs in the initial 12-18 months based on marginal costing. The marginal cost of a new player, in our view, is the cash cost of running a cell site, which can be anywhere in the range of Rs90-100/sub (including interconnect costs and spectrum/license fees). We believe Rs120-150 would be the ARPU aspiration of new players in the initial phase (depending on the number of subscribers acquired per cell site), implying an effective RPM target of Rs0.3-0.4 (assuming MOU of 400), significantly lower than peers.

Incumbents playing the waiting game—we expect their patience to run out soon

The large GSM incumbents have adopted a wait-and-watch and somewhat measured response to the aggressive introductory pricing plans of the new entrants. However, we would be surprised if this 'waiting' game continues for too long. The new entrants have already started impacting the subs net adds of incumbents in the metro and urban areas. The measured response of the incumbents has likely been driven by the 'poor' quality of churning subscribers. However, we expect the new entrants to start making a dent into the 'meatier' subs base of the incumbents, aided by network effect of the initial mass of subscribers. We are already seeing some signs of incumbent response in Bharti's recently launched 'special 5' offer or the continuous 'special tariff voucher' launches by Vodafone, BSNL and Idea.

Reiterate Cautious coverage view on the sector

We see some of these trends as only the beginning of a rocky ride for the Indian wireless industry as competition intensifies with the entry of new players. A combination of slowing subscriber growth and rapid rise in available industry-wide network capacity will likely lead to survival challenges for several players over the next 24 months. We reiterate our negative investment thesis on all the telecom stocks under our coverage other than Bharti. We reiterate our ADD rating on Bharti and believe that it can tide over the industry wide challenges in the longer-term on account of its superior execution capabilities, lower cost of producing a minute, low leverage and balance sheet strength.

Slew of circle-level aggressive pricing moves by wireless operators

We highlight a few instances of aggressive price actions by the new entrants in the recent weeks; the list is by no means exhaustive and is only indicative of the circle-level pricing actions in the wireless market.

- **Tata-Docomo's per-second billing launch**. In addition, the companies' effective per-minute rate of Rs0.6/min for local and Rs1.2/min (post introductory offer) for NLD calls is also lower than the prevailing headline local tariff of Rs1/min for local and Rs1.5/min for NLD calls. Tata-Docomo's share of subs net adds in the new circles of launch was 34.3%, an indicator of the strong initial response to its innovative 'per-second' billing mechanism in its GSM launch.

- **Aircel has introduced the 'pay per second' plan** to any network across India without any extra cost for its subscribers in Kolkata telecom circle. Customers will be charged 1 paisa per second on local calls to any network and STD calling (up to first 30,000 seconds after that charges would be 2 paisa per second) to any network across India

- **TTSL recently announced the launch of a new 'Pay Per Call'** product for its CDMA subscribers. Under this plan, customers are charge a flat rate per call—Re1 for a local call and Rs3 for a STD call, regardless of the duration of the call.

- **Aircel has launched aggressive 'rate-cutter' plans for its Tamil Nadu subscribers.** Priced between Rs45-Rs151, these take the on-net (local and STD) rates down to as low as Rs0.1/min and off-net call rates to as low as Rs0.5/min.

- **MTS India, the CDMA mobile operator, recently announced its MTalk** plan that offers local calls at just 1 paisa per second, with 1-second billing, plus full talk-time for a lifetime (no administrative or service charges, either upfront or on recharges). STD calls are charged at 2 paisa per second. At nominal Msaver rentals of just Re.1 per day, customers can also choose to get 50% off on local calls, 50% off on STD calls, and 100 SMS every day.

- **Idea Cellular announced the launch of a new STD Pack** for its prepaid mobile subscribers in the Southern region states of Tamil Nadu, Kerala, Karnataka and Andhra Pradesh telecom circle. As per the new offer, existing and new prepaid subscribers of Idea can now make STD calls to all mobile and landline networks in the above states, at just 50 paisa per minute. To avail the special STD tariff benefits, Idea prepaid subscriber needs to purchase tariff vouchers priced at Rs26.

In addition, there have been several 'special tariff voucher' launches by incumbents in various circles

Bottomline—with or without a headline-grabbing pricing action, underlying pressure on pricing appears to be increasing with new network launches. Minutes elasticity in the market, which has turned negative for the past two quarters, assumes even greater significance with increasing tariff pressure and we would watch the MOU trends in the market closely over the coming months. We reiterate our Cautious coverage view on the sector.

Indian telecom companies valuation analysis, March fiscal year-ends, 2008-2012E

	Price (Rs) 09-Sep-09	Target price (Rs)	P/E (X) 2008	2009	2010E	2011E	2012E	EV/EBITDA (X) 2008	2009	2010E	2011E	2012E
Bharti	409	425	23.2	18.3	15.2	13.4	11.9	14.0	10.7	9.0	**7.8**	6.6
Idea	80	65	20.2	27.4	23.7	22.1	20.1	13.6	10.0	8.4	**7.4**	6.5
MTNL	93	50	13.1	30.4	(19.4)	(23.7)	(37.0)	3.4	12.8	10.3	**7.9**	6.1
RCOM	299	240	11.3	10.8	14.1	13.0	10.2	10.5	9.0	8.8	**7.0**	5.1
TCOM	485	400	44.3	35.7	34.6	32.0	30.9	22.9	17.4	15.6	**14.3**	12.5

	KS rating	Market cap. (US$ bn)	Revenues (Rs bn) 2008	2009	2010E	2011E	2012E	EBITDA (Rs bn) 2008	2009	2010E	2011E	2012E
Bharti	ADD	31.1	270	370	425	487	539	113	152	177	197	218
Idea	REDUCE	4.9	67	101	132	168	188	23	28	37	44	50
MTNL	SELL	1.2	47	44	39	42	44	7	2	3	5	6
RCOM	SELL	12.2	191	229	258	316	366	82	93	101	124	150
TCOM	REDUCE	2.8	33	38	42	46	49	6	8	9	10	10

	Net Income (Rs bn) 2008	2009	2010E	2011E	2012E	EPS (Rs) 2008	2009	2010E	2011E	2012E
Bharti	66	84	100	114	128	17.7	22.3	26.9	30.6	34.4
Idea	10	9	10	12	13	3.9	2.9	3.4	3.6	4.0
MTNL	4	1	(3)	(2)	(2)	7.1	3.1	(4.8)	(3.9)	(2.5)
RCOM	56	59	45	49	63	26.5	27.7	21.2	23.0	29.4
TCOM	3	4	4	4	4	10.9	13.6	14.0	15.2	15.7

Source: Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	9-Sep-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	40	ADD	53,679	1,107	1,330	1.5	2.3	2.4	(57.8)	50.3	5.8	26.4	17.6	16.6	15.1	9.8	8.0	1.4	1.4	1.3	2.5	2.5	2.5	6.2	8.1	8.2	37	(8.3)	4.3
Bajaj Auto	1,235	ADD	178,691	3,684	145	45.2	85.0	100.9	(13.4)	87.9	18.7	27.3	14.5	12.2	14.7	8.6	7.6	9.5	6.6	4.7	1.6	1.6	1.6	37.7	53.1	44.0	1,260	2.0	5.8
Hero Honda	1,628	REDUCE	325,082	6,703	200	64.2	87.5	94.9	32.5	36.3	8.5	25.4	18.6	17.2	15.1	11.2	9.9	8.3	6.3	5.0	1.2	1.4	1.4	36.6	38.7	32.6	1,330	(18.3)	20.5
Maruti Suzuki	1,513	SELL	437,271	9,016	289	42.2	73.3	77.3	(29.6)	73.8	5.5	35.9	20.6	19.6	21.7	11.6	10.4	4.6	3.8	3.2	0.2	0.3	0.3	13.5	20.2	17.8	1,160	(23.3)	26.1
Tata Motors	557	SELL	309,890	6,389	556	20.8	28.9	31.3	(58.3)	39.1	8.4	26.8	19.3	17.8	16.8	10.9	10.1	2.4	2.1	1.9	1.0	1.0	1.0	9.1	11.5	11.2	350	(37.2)	64.7
Automobiles		**Cautious**	**1,548,711**	**31,932**					**(24.8)**	**63.9**	**8.4**	**29.9**	**18.2**	**16.8**	**17.4**	**10.8**	**9.7**	**4.1**	**3.4**	**2.9**	**1.0**	**1.0**	**1.0**	**13.9**	**18.8**	**17.4**			
Banks/Financial Institutions																													
Andhra Bank	93	BUY	45,323	935	485	13.5	13.3	15.2	13.5	(1.5)	14.4	6.9	7.0	6.2	—	—	—	1.2	1.1	1.0	4.8	3.5	4.1	18.9	16.6	16.9	105	12.4	1.3
Axis Bank	915	BUY	328,615	6,776	359	50.6	59.1	68.2	56.9	16.8	15.6	18.1	15.5	13.4	—	—	—	3.2	2.8	2.4	1.1	1.3	1.5	19.1	19.2	19.2	850	(7.1)	65.0
Bank of Baroda	452	ADD	165,109	3,404	366	60.9	60.9	62.1	55.1	0.0	1.9	7.4	7.4	7.3	—	—	—	1.5	1.3	1.1	2.0	2.0	2.0	18.7	16.3	14.7	480	6.3	6.6
Bank of India	343	ADD	180,546	3,723	526	57.2	51.5	56.2	40.7	(9.9)	9.1	6.0	6.7	6.1	—	—	—	1.5	1.3	1.1	2.3	2.1	2.3	29.2	21.0	19.3	370	7.8	11.8
Canara Bank	288	ADD	117,916	2,431	410	50.5	46.0	53.6	32.4	(8.9)	16.3	5.7	6.2	5.4	—	—	—	1.2	1.0	0.9	2.8	2.8	3.5	18.3	14.6	15.1	325	13.0	4.4
Corporation Bank	384	BUY	55,059	1,135	143	62.3	58.0	57.1	21.5	(6.8)	(1.6)	6.2	6.6	6.7	—	—	—	1.1	1.0	0.9	3.3	3.0	3.0	19.6	16.0	14.0	420	9.4	0.8
Federal Bank	229	BUY	39,081	806	171	27.8	34.3	39.9	(19.2)	23.6	16.1	8.2	6.7	5.7	—	—	—	0.9	0.8	0.7	2.3	2.8	3.2	11.5	12.9	13.5	320	40.0	2.6
HDFC	2,535	ADD	721,138	14,869	284	80.2	101.4	117.5	(6.4)	26.4	15.9	31.6	25.0	21.6	—	—	—	5.5	5.0	4.4	1.2	1.4	1.6	18.2	20.4	20.9	2,450	(3.4)	51.5
HDFC Bank	1,475	REDUCE	666,990	13,752	452	52.8	63.3	73.5	17.6	20.0	16.0	28.0	23.3	20.1	—	—	—	4.4	3.1	2.8	0.6	0.8	0.9	16.9	15.8	14.7	1,430	(3.1)	37.7
ICICI Bank	793	REDUCE	882,727	18,201	1,113	33.8	34.3	40.4	(15.4)	1.7	17.6	23.5	23.1	19.6	—	—	—	1.8	1.7	1.6	1.4	1.4	1.7	7.8	7.5	8.4	685	(13.6)	148.6
IDFC	144	ADD	186,649	3,848	1,295	5.8	7.7	8.7	1.9	33.9	12.6	24.9	18.6	16.5	—	—	—	3.0	2.7	2.3	0.8	0.9	1.0	12.9	15.4	15.3	120	(16.7)	40.8
India Infoline	140	ADD	43,543	898	312	5.1	7.7	8.2	(8.7)	50.5	7.3	27.3	18.2	16.9	—	—	—	3.5	2.9	2.5	1.8	2.4	2.8	11.9	17.5	17.2	145	3.8	17.7
Indian Bank	141	BUY	60,791	1,253	430	28.0	27.6	30.2	24.1	(1.4)	9.7	5.1	5.1	4.7	—	—	—	1.1	0.9	0.8	3.5	3.4	3.7	22.9	19.2	18.2	185	30.8	2.3
Indian Overseas Bank	89	BUY	48,651	1,003	545	24.3	19.7	25.4	10.3	(18.9)	28.6	3.7	4.5	3.5	—	—	—	0.8	0.7	0.6	5.9	4.2	4.6	22.1	14.2	16.1	140	56.8	2.7
J&K Bank	600	BUY	29,095	600	48	84.5	86.6	96.3	13.8	2.4	11.2	7.1	6.9	6.2	—	—	—	1.2	1.1	1.1	2.8	2.9	3.2	16.7	15.1	14.9	550	(8.3)	1.1
Mahindra & Mahindra Financial	224	ADD	21,399	441	96	22.4	26.7	28.8	7.5	19.0	8.1	10.0	8.4	7.8	—	—	—	1.5	1.3	1.2	2.5	3.0	3.2	15.4	16.4	15.8	270	20.8	0.9
Oriental Bank of Commerce	214	REDUCE	53,553	1,104	251	36.1	29.1	31.5	51.4	(19.4)	8.3	5.9	7.3	6.8	—	—	—	1.1	1.0	1.0	3.4	2.8	3.0	13.7	9.6	9.7	190	(11.1)	3.2
PFC	225	SELL	257,846	5,316	1,148	13.0	18.0	20.0	14.3	38.6	11.1	17.3	12.5	11.2	—	—	—	2.3	2.1	1.9	1.2	2.4	2.7	13.8	17.3	17.2	185	(17.6)	5.0
Punjab National Bank	701	BUY	221,043	4,558	315	98.0	100.7	115.2	50.9	2.7	14.4	7.2	7.0	6.1	—	—	—	1.7	1.4	1.2	2.8	2.9	3.3	23.0	20.3	20.1	800	14.1	13.6
Reliance Capital	916	ADD	225,556	4,651	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	23.3	31.6	31.7	—	—	—	3.4	3.1	2.9	0.6	0.5	0.5	15.3	10.2	9.3	875	(4.5)	132.0
Rural Electrification Corp.	205	BUY	176,228	3,634	859	16.5	19.6	21.3	50.7	19.1	8.8	12.5	10.5	9.6	—	—	—	2.5	2.1	1.8	1.0	1.7	1.9	21.2	21.5	19.9	190	(7.4)	6.6
Shriram Transport	368	ADD	77,900	1,606	212	30.1	32.5	36.9	56.8	7.9	13.7	12.2	11.3	10.0	—	—	—	3.6	3.0	2.5	2.4	2.6	3.0	29.6	27.0	25.8	350	(5.0)	2.4
SREI	76	ADD	8,792	181	116	7.0	7.5	6.8	(38.4)	6.1	(9.5)	10.7	10.1	11.2	—	—	—	0.8	0.7	0.7	1.3	1.6	1.6	12.5	10.3	10.2	90	19.0	3.7
State Bank of India	1,895	BUY	1,202,939	24,803	635	143.7	129.8	149.1	34.8	(9.6)	14.9	13.2	14.6	12.7	—	—	—	2.1	1.9	1.7	1.5	1.6	1.7	17.1	13.5	14.0	1,870	(1.3)	90.5
Union Bank	223	BUY	112,641	2,323	505	34.2	32.4	35.4	24.5	(5.1)	9.2	6.5	6.9	6.3	—	—	—	1.6	1.3	1.1	2.2	2.1	2.3	27.2	21.2	19.5	280	25.6	5.4
Banks/Financial Institutions		**Attractive**	**5,986,098**	**123,425**					**26.7**	**2.2**	**13.1**	**13.8**	**13.5**	**11.9**	**—**	**—**	**—**	**2.2**	**2.0**	**1.7**	**1.5**	**1.6**	**1.8**	**16.1**	**14.5**	**14.6**			
Cement																													
ACC	797	REDUCE	149,656	3,086	188	56.3	74.0	57.1	(12.2)	31.6	(22.8)	14.2	10.8	13.9	7.1	5.4	6.3	2.8	2.4	2.1	2.9	2.9	2.9	24.7	27.1	18.4	875	9.8	13.0
Ambuja Cements	99	REDUCE	151,324	3,120	1,522	7.2	7.9	6.6	(5.0)	10.2	(16.8)	13.8	12.6	15.1	7.5	6.9	7.8	2.5	2.2	2.0	3.0	1.9	2.1	19.7	19.1	14.1	85	(14.5)	8.9
Grasim Industries	2,729	REDUCE	250,181	5,158	92	238.6	251.9	266.5	(16.2)	5.6	5.8	11.4	10.8	10.2	6.5	5.3	5.1	2.2	1.8	1.6	1.2	1.2	1.3	21.1	18.4	16.8	2,560	(6.2)	11.4
India Cements	132	ADD	37,253	768	282	17.8	19.4	15.2	n/a	9.1	(21.8)	7.4	6.8	8.7	5.2	4.1	4.7	1.0	0.9	0.8	1.4	1.6	2.4	14.8	14.6	10.4	155	17.5	8.4
Shree Cement	1,508	BUY	52,548	1,083	35	174.7	209.9	195.6	93.7	20.1	(6.8)	8.6	7.2	7.7	5.9	4.1	3.8	4.4	2.7	2.0	0.7	0.7	0.7	65.7	46.0	29.4	2,000	32.6	0.8
UltraTech Cement	761	BUY	94,675	1,952	124	78.8	90.2	73.8	(3.1)	14.5	(18.2)	9.6	8.4	10.3	5.8	4.5	5.0	2.2	1.8	1.5	0.8	1.1	1.1	31.1	27.3	18.3	900	18.3	6.0
Cement		**Neutral**	**735,636**	**15,168**					**(8.0)**	**13.6**	**(10.4)**	**11.4**	**10.1**	**11.2**	**6.5**	**5.2**	**5.5**	**2.3**	**1.9**	**1.7**	**1.8**	**1.7**	**1.8**	**20.0**	**19.0**	**14.9**			
Consumer products																													
Asian Paints	1,366	ADD	131,050	2,702	96	38.6	60.0	69.8	(1.7)	55.5	16.3	35.4	22.8	19.6	21.1	13.7	11.7	11.5	9.3	7.5	1.3	2.0	2.3	36.6	46.8	43.8	1,600	17.1	1.2
Colgate-Palmolive (India)	615	REDUCE	83,670	1,725	136	21.6	28.0	31.0	26.3	29.7	10.7	28.5	22.0	19.9	23.5	18.5	15.5	38.7	35.0	38.9	2.4	3.7	4.5	155.1	167.1	185.2	620	0.8	2.6
GlaxoSmithkline Consumer (a)	1,104	ADD	46,434	957	42	44.8	60.9	68.5	15.8	36.0	12.4	24.7	18.1	16.1	14.1	10.5	9.4	6.1	5.1	4.5	1.4	2.0	2.8	26.8	30.7	29.6	1,200	8.7	0.8
Godrej Consumer Products	238	ADD	61,455	1,267	258	6.7	9.6	11.0	(5.3)	43.0	14.9	35.6	24.9	21.7	24.6	16.0	13.7	10.8	6.5	5.5	1.7	1.7	1.7	46.9	32.7	27.6	235	(1.3)	0.7
Hindustan Unilever	265	BUY	578,538	11,929	2,179	9.5	10.6	12.2	19.0	11.1	15.0	27.9	25.1	21.8	21.3	18.8	16.2	28.1	25.1	22.5	3.3	3.6	4.1	112.4	105.9	108.9	320	20.6	24.3
ITC	227	BUY	855,474	17,639	3,769	8.7	10.3	11.8	2.8	19.3	14.3	26.2	22.0	19.2	16.0	13.5	11.8	5.9	5.1	4.5	1.6	1.8	2.0	25.3	26.3	26.0	255	12.3	30.2
Jyothy Laboratories	128	ADD	9,263	191	73	5.5	10.0	12.1	(12.9)	80.6	21.7	23.1	12.8	10.5	15.1	8.1	6.1	2.6	2.2	1.9	1.8	2.3	2.7	10.7	16.8	19.0	145	13.6	
Nestle India (a)	2,223	ADD	214,327	4,419	96	58.6	73.0	85.6	31.0	24.6	17.3	37.9	30.5	26.0	24.2	20.3	17.2	45.3	37.0	30.4	1.9	2.4	2.8	126.7	133.6	128.5	2,400	8.0	1.2
Tata Tea	946	BUY	58,497	1,206	62	57.0	62.8	69.2	5.3	10.1	10.2	16.6	15.1	13.7	8.7	7.9	6.6	1.2	1.1	1.1	1.8	2.0	2.2	9.8	10.1	10.4	900	(4.9)	3.5
Consumer products		**Attractive**	**2,038,710**	**42,035**					**9.9**	**20.5**	**14.5**	**27.9**	**23.1**	**20.2**	**18.1**	**15.0**	**13.0**	**8.2**	**7.1**	**6.3**	**2.1**	**2.4**	**2.8**	**29.3**	**30.8**	**31.0**			
Constructions																													
IVRCL	346	BUY	46,887	967	135	16.7	18.8	22.5	7.4	12.7	19.7	20.7	18.4	15.4	14.4	11.2	9.3	2.6	2.3	2.0	0.2	0.2	0.2	13.2	13.2	13.9	360	3.9	31.4
Punj Lloyd	264	BUY	89,516	1,846	339	(7.2)	16.6	19.6	(172.4)	(330.1)	17.8	(36.6)	15.9	13.5	26.6	8.8	7.8	3.6	2.4	2.1	0.1	0.3	0.3	(8.6)	18.3	16.6	315	19.3	42.6
Sadbhav Engineering	787	BUY	9,834	203	13	50.6	55.6	77.9	25.0	9.8	40.2	15.5	14.1	10.1	10.8	8.2	6.7	2.8	2.4	2.0	0.6	0.8	0.9	18.0	16.8	19.4	830	5.5	0.1
Construction		**Attractive**	**178,448**	**3,679**					**(70.7)**	**385.2**	**20.3**	**81.7**	**16.8**	**14.0**	**17.3**	**9.5**	**8.2**	**2.8**	**2.2**	**2.0**	**0.3**	**0.4**	**0.5**	**3.5**	**13.3**	**14.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	9-Sep-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	563	BUY	184,399	3,802	328	20.6	79.8	65.0	(50.1)	287.1	(18.5)	27.3	7.1	8.6	7.5	5.0	5.4	1.4	1.2	1.1	1.4	6.3	5.1	5.3	18.9	13.8	675	20.0	9.6
Cairn india	270	REDUCE	512,480	10,567	1,897	8.8	30.8	34.7	105	250	12.6	31	9	7.8	15.3	6.1	5.6	1.5	1.4	1.4	—	7—	9.3	4.9	16.2	17.7	225	(16.7)	22.6
Castrol India (a)	484	BUY	59,811	1,233	124	21.3	31.1	32.0	20.8	45.9	3.0	22.7	15.6	15.1	13.0	9.3	8.9	13.3	11.7	10.5	3.1	4.5	4.8	61.2	80.2	73.5	480	(0.8)	1.2
GAIL (India)	357	ADD	452,911	9,338	1,268	22.2	20.9	22.9	8.7	(5.8)	9.6	16.1	17.1	15.6	8.6	9.8	9.8	2.8	2.6	2.3	2.0	2.2	2.2	17.5	14.7	14.8	355	(0.6)	18.1
GSPL	79	REDUCE	44,179	911	563	2.2	3.5	6.7	21.7	58.3	92.7	35.8	22.6	11.7	12.3	7.2	4.6	3.3	3.0	3.0	1.0	1.5	8.5	9.6	13.9	25.7	65	(17.2)	8.3
Hindustan Petroleum	405	BUY	137,401	2,833	339	17.0	73.1	58.5	(49.3)	330.9	(19.9)	23.9	5.5	6.9	8.3	5.1	NA	1.1	1.0	NA	1.3	7.4	5.9	4.4	17.7	12.8	525	29.5	12.4
Indian Oil Corporation	631	REDUCE	744,623	15,353	1,179	18.9	63.8	43.5	(69.1)	236.9	(31.8)	33.3	9.9	14.5	11.3	5.3	6.1	1.6	1.4	1.3	1.2	2.9	2.0	4.6	14.6	9.1	550	(12.9)	9.1
Oil & Natural Gas Corporation	1,180	BUY	2,524,101	52,043	2,139	89.6	115.8	136.4	(3.4)	29.2	17.8	13.2	10.2	8.6	4.8	3.7	3.0	2.2	1.9	1.7	2.7	3.6	4.1	16.6	18.9	19.8	1,400	18.6	54.2
Petronet LNG	75	REDUCE	56,363	1,162	750	6.9	7.2	8.6	—	3.6	19.6	10.9	10.5	8.8	7.7	7.0	5.9	2.5	2.1	1.7	2.3	2.7	3.0	23.9	20.6	20.6	64	(14.8)	6.9
Reliance Industries	2,168	SELL	2,977,282	61,387	1,373	103.4	109.3	158.3	(1.5)	5.7	44.9	21.0	19.8	13.7	12.3	8.8	6.4	2.5	2.2	2.0	0.6	0.7	0.9	15.1	13.7	17.6	1,600	(26.2)	211.4
Reliance Petroleum	133	NR	597,375	12,317	4,500	—	3.1	10.0	n/a	n/a	n/a	n/a	n/a	13.2	n/a	n/a	10.0	4.4	4.3	3.4	—	1.5	1.5	0.6	10.1	29.0	—	—	18.1
Energy		**Cautious**	**8,290,922**	**170,947**					**(7.8)**	**50.1**	**20.0**	**18.8**	**12.6**	**10.5**	**9.0**	**6.2**	**5.2**	**2.2**	**2.0**	**1.8**	**1.4**	**2.6**	**2.9**	**11.7**	**15.8**	**17.0**			
Industrials																													
ABB	737	REDUCE	156,219	3,221	212	25.8	23.3	30.0	11.3	(9.8)	28.6	28.5	31.6	24.6	16.9	17.8	13.6	7.4	6.2	5.1	0.3	0.4	0.4	29.2	21.3	22.7	660	(10.5)	7.5
BGR Energy Systems	444	ADD	31,957	659	72	16.0	26.0	35.3	32.2	62.3	35.8	27.7	17.1	12.6	15.7	10.2	8.1	5.7	4.5	3.5	0.7	1.0	1.4	22.3	29.4	31.2	530	19.4	2.9
Bharat Electronics	1,403	ADD	112,240	2,314	80	103.8	115.1	125.7	1.8	10.9	9.1	13.5	12.2	11.2	6.5	5.4	4.6	2.9	2.4	2.1	1.3	1.8	1.8	20.7	21.6	20.1	1,500	6.9	2.8
Bharat Heavy Electricals	2,237	ADD	1,095,179	22,581	490	63.9	93.3	115.2	9.4	46.1	23.4	35.0	24.0	19.4	19.1	13.4	10.7	8.5	6.7	5.3	0.8	0.9	1.1	26.4	31.2	30.5	2,425	8.4	48.8
Crompton Greaves	313	ADD	114,581	2,362	367	15.3	17.7	20.3	37.3	15.3	15.0	20.4	17.7	15.4	10.9	9.4	8.0	6.3	4.8	3.8	0.6	0.7	0.8	35.9	30.8	27.6	315	0.8	4.6
Larsen & Toubro	1,602	ADD	944,729	19,479	590	50.1	62.1	78.4	32.1	24.0	26.1	32.0	25.8	20.4	20.2	14.9	12.2	6.2	4.6	3.8	0.7	0.7	0.8	21.7	20.5	20.4	1,725	7.7	92.7
Maharashtra Seamless	293	BUY	20,658	426	71	35.9	33.0	35.3	22.2	(7.9)	6.9	8.2	8.9	8.3	4.8	4.9	4.3	1.5	1.3	1.2	1.8	1.7	2.2	20.3	16.0	15.0	285	(2.7)	0.8
Siemens	507	ADD	171,041	3,527	337	14.2	22.8	22.7	(22.2)	61.0	(0.5)	35.8	22.2	22.4	17.1	12.8	12.9	7.6	6.2	5.1	0.6	1.4	0.9	23.3	30.8	25.2	515	1.5	6.8
Suzlon Energy	100	ADD	167,707	3,458	1,678	7.4	3.9	6.1	12.8	(47.2)	54.7	13.5	25.5	16.5	11.1	12.5	10.5	1.8	1.4	1.3	—	—	0.2	12.5	6.2	8.3	110	10.1	146.2
Industrials		**Neutral**	**2,814,311**	**58,027**					**13.5**	**22.2**	**23.2**	**28.3**	**23.2**	**18.8**	**16.3**	**13.0**	**10.7**	**5.7**	**4.5**	**3.7**	**0.7**	**0.8**	**0.9**	**20.0**	**19.2**	**19.7**			
Infrastructure																													
GMR Infrastructure	140	ADD	256,073	5,280	1,834	1.5	0.9	0.9	33.0	(38.3)	(6.8)	91.0	147.4	158.1	31.7	23.0	17.0	3.1	2.6	2.4	—	—	—	4.4	2.6	2.4	135	(3.3)	29.6
GVK Power & Infrastructure	48	BUY	76,513	1,578	1,579	0.8	0.8	1.0	(20.6)	3.7	31.1	63.5	61.2	46.7	55.9	18.4	17.0	3.3	2.4	2.3	—	—	0.6	4.8	4.6	5.1	50	3.2	19.8
IRB Infrastructure	210	ADD	69,813	1,439	332	5.3	10.6	13.5	54.3	101.2	27.0	39.7	19.7	15.5	20.4	10.6	9.6	3.8	3.1	2.5	0.6	—	—	10.1	17.3	18.0	200	(4.8)	10.1
Infrastructure		**Attractive**	**402,399**	**8,297**					**22.5**	**16.0**	**18.8**	**71.5**	**61.7**	**51.9**	**31.6**	**18.2**	**14.8**	**3.2**	**2.6**	**2.4**	**0.1**	—	**0.1**	**4.5**	**4.2**	**4.6**			
Media																													
DishTV	46	REDUCE	43,770	902	946	(6.6)	(3.3)	(1.5)	n/a	(49.1)	(53.9)	(7.0)	(13.8)	(30.0)	(39.7)	55.8	16.7	(7.0)	(41.3)	(17.4)	—	—	—	83.9	86.7	NA	35	(24.3)	11.8
HT Media	119	ADD	27,989	577	235	0.8	5.0	6.6	(80.5)	489.0	32.0	141.1	24.0	18.1	31.8	11.8	9.5	3.2	3.0	2.7	0.3	0.8	1.7	2.3	13.0	15.7	125	5.0	0.3
Jagran Prakashan	102	ADD	30,825	636	301	3.0	5.1	6.0	(6.6)	66.7	17.5	33.6	20.2	17.2	19.0	11.7	9.8	5.5	5.1	4.6	2.0	3.0	3.2	16.7	26.2	28.2	105	2.6	1.3
Sun TV Network	289	REDUCE	113,810	2,347	394	9.1	11.3	13.3	9.3	24.4	18.4	31.9	25.6	21.7	16.8	14.3	12.0	6.5	5.7	5.1	0.9	1.4	2.1	22.5	24.0	24.9	235	(18.6)	2.4
Zee Entertainment Enterprises	214	REDUCE	92,702	1,911	434	8.4	10.1	12.3	(4.8)	19.6	21.9	25.3	21.1	17.3	17.6	15.0	12.0	2.7	2.4	2.2	0.9	1.1	1.4	11.8	12.4	13.9	160	(25.1)	7.0
Zee News	46	ADD	11,065	228	240	1.9	2.2	2.7	21.3	14.7	23.4	24.6	21.5	17.4	12.6	10.2	8.7	4.5	3.8	3.3	0.9	0.9	1.3	20.1	19.6	20.7	45	(2.5)	0.8
Media		**Neutral**	**320,160**	**6,601**					**(21.4)**	**110.7**	**47.7**	**76.0**	**36.1**	**24.4**	**23.4**	**15.5**	**11.8**	**5.1**	**4.3**	**3.9**	**0.8**	**1.2**	**1.6**	**6.7**	**11.8**	**16.1**			
Metals																													
Hindalco Industries	120	BUY	210,664	4,344	1,753	2.8	3.5	11.1	(77.9)	25.5	218.4	43.4	34.6	10.9	12.5	9.2	7.2	0.6	0.6	0.5	—	—	—	10.3	5.2	6.5	135	12.3	29.6
National Aluminium Co.	349	SELL	224,542	4,630	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	17.6	25.4	17.1	9.1	9.7	6.6	2.1	2.0	1.8	1.0	0.6	0.6	12.7	8.1	11.1	290	(16.8)	3.4
Jindal Steel and Power	3,456	SELL	532,075	10,971	154	198.0	247.1	236.4	139.3	24.8	(4.3)	17.5	14.0	14.6	11.3	9.1	8.8	7.0	4.7	3.5	—	0.2	0.2	51.9	40.3	27.6	2,150	(37.8)	63.3
JSW Steel	731	SELL	136,742	2,819	187	13.1	36.8	65.9	(84.7)	180.1	79.1	55.6	19.9	11.1	10.1	9.5	7.1	1.5	1.2	1.1	0.1	0.4	0.7	11.7	5.1	10.7	440	(39.8)	50.3
Hindustan Zinc	806	BUY	340,645	7,024	423	64.6	57.3	74.1	(38.0)	(11.2)	29.3	12.5	14.1	10.9	8.5	8.6	5.8	2.3	2.0	1.7	0.5	0.6	0.6	20.1	15.1	16.7	825	2.3	6.5
Sesa Goa	226	BUY	178,152	3,673	787	25.1	25.5	34.2	32.6	1.3	34.3	9.0	8.9	6.6	5.8	5.4	3.3	3.9	2.8	2.0	1.5	1.5	1.5	53.3	36.9	35.9	240	6.1	58.2
Sterlite Industries	747	REDUCE	628,227	12,953	840	49.2	29.8	38.0	(23.6)	(39.3)	27.2	15.2	25.0	19.7	11.1	11.2	8.5	2.4	1.7	1.6	—	—	—	14.3	8.1	8.4	550	(26.4)	65.9
Tata Steel	461	BUY	408,781	8,428	887	110.1	38.7	74.2	45.3	(64.8)	91.9	4.2	11.9	6.2	5.2	7.6	5.7	1.4	1.3	1.1	3.1	1.7	1.7	24.0	11.0	18.8	480	4.2	142.7
Metals		**Cautious**	**2,659,829**	**54,842**					**(0.8)**	**(30.0)**	**46.8**	**11.5**	**16.4**	**11.2**	**8.0**	**8.7**	**6.7**	**1.9**	**1.6**	**1.4**	**0.8**	**0.6**	**0.6**	**16.8**	**9.9**	**12.8**			
Pharmaceutical																													
Biocon	235	BUY	46,960	968	200	4.7	14.4	18.6	(79.9)	206.8	29.3	50.1	16.3	12.6	20.1	9.4	7.5	3.1	2.7	2.3	0.0	0.0	0.1	6.2	17.8	20.0	270	15.0	5.5
Dishman Pharma & chemicals	212	BUY	17,218	355	81	18.0	21.2	27.3	22.1	17.9	28.7	11.8	10.0	7.8	9.4	7.5	5.9	2.4	2.0	1.6	0.0	0.0	0.0	22.8	21.9	22.9	280	32.3	0.8
Divi's Laboratories	516	BUY	33,330	687	65	31.9	36.8	43.3	19.9	15.2	17.7	16.2	14.0	11.9	6.3	4.9	3.7	5.6	4.2	3.3	0.0	0.1	0.1	40.4	34.4	31.1	565	9.4	3.4
Dr Reddy's Laboratories	793	BUY	134,339	2,770	169	32.4	49.3	52.5	24.3	52.2	6.4	24.5	16.1	15.1	10.6	8.4	7.5	3.8	3.2	2.7	0.8	0.9	1.0	13.6	21.4	19.2	860	8.4	6.9
GlaxoSmithkline Pharmaceuticals (a)	1,440	ADD	121,930	2,514	85	54.6	59.7	66.1	13.8	9.3	10.6	26.3	24.1	21.8	14.6	13.3	11.7	7.7	6.6	5.7	-	-	-	31.3	29.5	27.9	1,450	0.7	0.9
Glenmark Pharmaceuticals	225	NR	59,844	1,234	266	11.1	11.6	15.7	(57.0)	4.2	35.1	20.2	19.4	14.4	12.2	11.5	9.2	2.9	2.5	2.2	0.0	0.0	0.0	15.9	13.8	16.2	-	(100.0)	12.8
Jubilant Organosys	238	BUY	40,756	840	171	16.6	24.5	32.9	(26.1)	48.2	34.2	14.4	9.7	7.2	14.2	9.0	7.1	3.1	2.4	2.0	0.5	0.5	0.7	16.2	28.7	30.8	250	4.9	0.7
Lupin	1,043	BUY	92,405	1,905	89	60.2	67.1	72.3	21.0	11.4	7.8	17.3	15.6	14.4	16.0	13.1	11.2	6.4	4.1	3.4	1.1	1.3	1.4	37.1	32.9	26.1	1,180	13.1	3.8
Piramal Healthcare	324	BUY	67,622	1,394	209	17.3	22.1	28.5	(1.9)	28.0	29.0	18.7	14.6	11.4	13.6	9.7	7.8	5.1	4.0	3.1	1.3	1.4	1.4	26.2	30.9	31.1	390	20.5	2.0
Ranbaxy Laboratories	320	REDUCE	136,662	2,818	427	(8.1)	4.7	5.1	(134.7)	(158.6)	6.6	(39.6)	NA	63.3	(183.3)	23.3	25.3	3.2	3.3	3.2	-	1.2	1.3	(9.6)	4.9	5.3	165	(48.4)	13.9
Sun Pharmaceuticals	1,220	ADD	252,765	5,212	207	87.8	47.6	64.2	17.6	(45.8)	34.9	13.9	25.6	19.0	10.5	17.6	12.5	3.7	3.4	2.9	1.1	1.1	1.1	31.6	14.3	17.1	1,250	2.4	16.4
Pharmaceuticals		**Attractive**	**1,211,680**	**24,983**					**(17.6)**	**18.6**	**22.0**	**23.0**	**19.4**	**15.9**	**14.9**	**12.2**	**10.1**	**4.0**	**3.5**	**3.0**	**0.6**	**0.8**	**0.9**	**17.6**	**17.8**	**18.6**			
Property																													
DLF	420	SELL	714,174	14,725	1,699	29.3	14.7	17.5	(36.6)	(49.8)	19.2	14.4	28.6	24.0	14.1	20.3	17.4	2.9	2.7	2.5	0.7	0.7	1.0	22.5	9.8	10.8	320	(23.9)	137.5
Housing Development & Infrastructure	321	ADD	110,903	2,287	345	26.0	12.0	23.3	(49.2)	(53.9)	94.8	12.4	26.8	13.8	14.3	22.5	8.5	2.4	1.6	1.4	—	0.9	1.7	22.4	9.3	14.9	295	NA	106.4
Indiabulls Real Estate	258	ADD	103,517	2,134	401	3.0	3.1	7.5	(81.8)	3.8	141.1	86.0	82.8	34.4	(279)	76.6	18.5	1.6	1.1	1.1	—	—	—	1.3	1.6	3.2	235	(8.9)	61.6
Mahindra Life Space Developer	355	BUY	14,921	308	42	10.4	10.8	15.4	(38.5)	4.1	42.5	34.3	32.9	23.1	52.7	31.9	16.7	1.7	1.6	1.6	1.1	1.1	1.1	4.8	4.9	6.7	410	15.6	1.0
Phoenix Mills	170	BUY	24,616	508	145	5.2	6.0	8.5	63.1	15.8	41.3	32.9	28.4	20.1	37.3	21.0	14.4	1.6	1.6	1.5	0.6	0.6	0.9	5.1	5.7	7.6	210	23.6	0.7
Puravankara Projects	121	REDUCE	25,739	531	213	6.8	7.0	7.4	(39.8)	3.6	6.0	17.8	17.2	16.2	24.6	19.1	15.5	1.9	1.8	1.7	—	1.7	1.7	11.5	10.8	10.7	85	(29.5)	2.2
Sobha	242	ADD	23,741	490	98	15.1	14.3	16.1	(52.3)	(5.6)	12.5	16.0	16.9	15.1	15.4	12.3	11.5	2.1	1.4	1.3	1.2	1.7	1.7	10.4	9.8	8.8	215	(11.2)	2.3
Unitech	112	SELL	267,890	5,524	2,389	7.7	4.4	4.6	(25.7)	(42.8)	3.7	14.6	25.5	24.6	18.7	18.8	17.2	5.5	2.6	2.4	—	—	—	29.5	13.2	10.1	60	(46.5)	168.6
Property		**Neutral**	**1,285,502**	**26,505**					**(36.3)**	**(39.9)**	**31.0**	**16.9**	**28.1**	**21.5**	**16.4**	**20.5**	**15.7**	**2.8**	**2.2**	**2.0**	**0.4**	**0.6**	**0.8**	**16.7**	**7.8**	**9.4**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

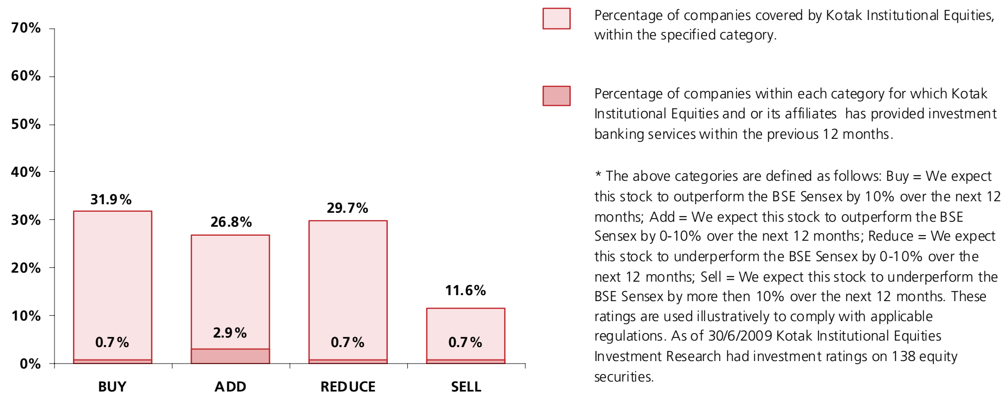
Company	9-Sep-09	Rating	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)		(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Retail																													
Titan Industries	1,278	REDUCE	56,710	1,169	44	44.3	49.4	58.7	26.4	11.6	18.7	28.8	25.8	21.8	17.4	15.9	13.3	9.8	7.6	6.0	0.8	0.8	0.9	37.5	33.1	30.6	1,040	(18.6)	1.6
Retail		**Neutral**	**56,710**	**1,169**					**26.4**	**11.6**	**18.7**	**28.8**	**25.8**	**21.8**	**17.4**	**15.9**	**13.3**	**9.8**	**7.6**	**6.0**	**0.8**	**0.8**	**0.9**	**34.1**	**29.3**	**27.4**			
Technology																													
HCL Technologies	309	REDUCE	214,547	4,424	695	17.5	16.7	22.8	14.5	(4.6)	36.5	17.6	18.5	13.5	9.9	9.2	8.4	3.7	3.3	2.8	3.9	3.9	3.9	20.9	19.0	22.3	275	(10.9)	8.9
Infosys Technologies	2,190	BUY	1,256,888	25,915	574	102.4	106.7	120.0	29.6	4.1	12.5	21.4	20.5	18.3	15.9	14.7	12.1	6.9	5.6	4.6	1.1	1.2	1.6	36.7	30.0	27.6	2,500	14.2	64.8
Mphasis BFL	588	REDUCE	122,488	2,526	208	14.2	41.5	42.2	15.7	192.6	1.8	41.5	14.2	13.9	31.5	10.3	9.2	8.5	5.6	4.2	0.7	0.8	0.9	22.8	47.7	34.2	450	(23.4)	12.5
Mindtree	561	BUY	23,105	476	41	13.2	39.2	50.1	(50.5)	196.0	27.9	42.4	14.3	11.2	7.3	10.0	7.2	4.2	3.2	2.5	0.3	—	0.9	5.5	25.3	25.1	650	15.8	4.3
Patni Computer Systems	406	REDUCE	52,147	1,075	129	26.8	33.8	36.7	(19.3)	26.1	8.6	15.1	12.0	11.0	7.5	5.6	5.4	2.1	1.7	1.5	0.4	1.7	1.8	16.2	14.8	14.6	320	(21.1)	7.1
Polaris Software Lab	140	SELL	13,862	286	99	13.1	13.8	12.9	76.0	5.4	(6.4)	10.7	10.2	10.9	4.5	5.4	5.7	1.8	1.6	1.4	2.0	1.4	1.4	18.1	16.4	13.6	80	(43.0)	4.4
TCS	560	ADD	1,096,913	22,617	1,957	26.4	31.2	35.3	3.1	17.8	13.3	21.2	18.0	15.9	14.8	12.8	11.1	7.0	5.6	4.7	1.2	1.7	2.5	36.9	34.6	32.2	600	7.1	41.8
Wipro	543	ADD	793,208	16,355	1,462	25.7	28.1	33.1	15.8	9.1	17.7	21.1	19.3	16.4	15.5	13.6	11.4	5.3	4.3	3.6	0.7	1.4	1.8	26.9	24.5	23.8	630	16.1	15.6
Technology		**Neutral**	**3,584,506**	**73,907**					**15.3**	**13.4**	**14.4**	**21.1**	**18.6**	**16.2**	**14.7**	**12.7**	**10.9**	**5.9**	**4.8**	**4.0**	**1.2**	**1.5**	**2.0**	**28.1**	**25.7**	**24.7**			
Telecom																													
Bharti Airtel	409	ADD	1,554,302	32,047	3,797	22.3	26.9	30.6	26.4	20.5	13.8	18.3	15.2	13.4	10.7	9.0	7.8	4.9	3.7	2.9	0.5	0.7	1.0	31.4	28.0	24.6	425	3.8	67.6
IDEA	80	REDUCE	247,067	5,094	3,104	2.9	3.4	3.6	(26.5)	15.8	7.3	27.4	23.7	22.1	10.1	8.4	7.5	1.8	1.7	1.5	—	—	—	10.4	7.4	8.0	65	(18.3)	17.2
MTNL	93	SELL	58,779	1,212	630	3.1	(4.8)	(3.9)	(57.1)	(256.5)	(18.1)	30.4	(19.4)	(23.7)	12.1	(15.2)	(52.1)	0.5	0.5	0.5	6.4	—	—	1.1	(2.6)	(2.2)	50	(46.4)	3.5
Reliance Communications	299	SELL	617,348	12,729	2,064	27.7	21.2	23.0	4.7	(23.3)	8.3	10.8	14.1	13.0	9.0	8.8	7.0	1.5	1.4	1.2	0.3	—	—	17.0	10.6	10.3	240	(19.8)	63.0
Tata Communications	485	REDUCE	138,211	2,850	285	13.6	14.0	15.2	24.0	3.2	8.2	35.7	34.6	32.0	15.2	13.8	12.8	2.0	1.9	1.9	1.0	1.3	1.5	5.4	5.2	5.5	400	(17.5)	6.7
Telecom		**Cautious**	**2,615,707**	**53,932**					**11.1**	**1.1**	**12.8**	**16.3**	**16.1**	**14.3**	**10.3**	**9.2**	**7.7**	**2.5**	**2.2**	**1.9**	**0.5**	**0.5**	**0.7**	**15.4**	**13.5**	**13.3**			
Transportation																													
Container Corporation	1,145	ADD	148,840	3,069	130	64.4	67.8	80.3	11.6	5.3	18.5	17.8	16.9	14.3	13.0	11.7	9.7	3.9	3.4	2.9	1.2	1.3	1.6	24.0	21.4	21.7	1,125	(1.8)	1.1
Transportation		**Cautious**	**148,840**	**3,069**					**11.6**	**5.3**	**18.5**	**17.8**	**16.9**	**14.3**	**13.0**	**11.7**	**9.7**	**3.9**	**3.4**	**2.9**	**1.2**	**1.3**	**1.6**	**22.1**	**19.9**	**20.1**			
Utilities																													
CESC	361	ADD	45,158	931	125	32.3	37.9	42.0	16.2	17.4	11.0	11.2	9.5	8.6	6.1	5.6	6.0	1.2	1.1	0.9	1.1	1.3	1.5	11.7	11.9	11.6	365	1.0	3.5
Lanco Infratech	413	ADD	91,765	1,892	222	14.5	20.8	36.6	(2.5)	43.8	76.2	28.5	19.9	11.3	24.1	16.3	7.9	4.3	3.3	2.5	—	—	—	16.1	18.7	25.2	440	6.6	28.8
NTPC	205	SELL	1,691,969	34,886	8,245	9.5	10.8	12.2	1.6	14.1	12.6	21.6	19.0	16.9	17.1	14.0	13.3	2.9	2.6	2.4	1.8	2.0	2.2	13.8	14.5	15.0	180	(12.3)	32.7
Reliance Infrastructure	1,192	BUY	270,008	5,567	226	62.7	63.7	68.6	66.7	1.6	7.8	19.0	18.7	17.4	23.9	21.7	17.3	1.6	1.5	1.4	0.6	0.7	0.8	4.9	6.1	7.8	1,250	4.8	94.1
Reliance Power	164	REDUCE	393,906	8,122	2,397	1.0	2.5	3.1	—	141.5	24.4	161.1	66.7	53.6	—	—	—	2.9	2.7	2.6	—	—	—	1.8	4.2	5.0	160	(2.6)	27.4
Tata Power	1,296	ADD	307,644	6,343	237	50.2	74.4	84.1	57.5	48.3	13.0	25.8	17.4	15.4	11.8	11.7	11.3	3.1	2.4	2.1	0.8	0.9	1.1	12.0	15.3	14.4	1,400	8.0	16.1
Utilities		**Attractive**	**2,800,451**	**57,741**					**12.9**	**20.6**	**14.7**	**24.7**	**20.5**	**17.9**	**18.4**	**16.5**	**14.8**	**2.7**	**2.4**	**2.2**	**1.2**	**1.4**	**1.6**	**10.7**	**11.7**	**12.3**			
Others																													
Havells India	307	REDUCE	18,576	383	61	4.9	12.3	19.1	(82)	NA	56.2	NA	25.0	16.0	10.5	8.5	7.4	2.9	3.4	2.9	0.8	0.8	0.8	4.5	12.4	19.3	175	(43.0)	1.0
Jaiprakash Associates	238	REDUCE	334,655	6,900	1,403	3.0	6.7	11.4	(39)	123.8	70.2	79.4	35.5	20.9	25.6	15.5	13.8	6.0	5.1	4.2	—	—	—	8.0	15.5	21.9	220	(7.7)	93.1
Jindal Saw	634	ADD	36,531	753	58	74.3	61.5	61.1	20	(17.2)	(0.7)	8.5	10.3	10.4	5.6	6.0	5.3	1.0	0.9	0.9	0.8	0.6	0.6	11.6	8.9	8.6	470	(25.9)	4.5
PSL	161	BUY	7,036	145	44	22.2	37.6	30.1	5	69.2	(19.8)	7.3	4.3	5.4	4.6	3.7	3.2	1.0	0.9	0.8	3.0	3.9	3.9	11.9	13.4	11.3	160	(0.9)	1.9
Sintex	240	BUY	32,704	674	136	23.8	25.2	27.6	22	5.6	9.6	10.1	9.5	8.7	7.1	6.4	5.5	1.7	1.4	1.2	0.5	0.5	0.5	16.6	15.0	14.2	275	14.8	4.2
Tata Chemicals	254	ADD	61,781	1,274	243	26.6	17.8	26.8	(33)	(33.0)	50.4	9.5	14.2	9.5	6.3	6.5	5.2	1.3	1.3	1.1	3.4	3.4	3.4	17.9	11.0	14.7	260	2.5	5.3
Welspun Gujarat Stahl Rohren	247	REDUCE	46,646	962	189	17.3	24.0	17.8	(16)	38.7	(25.8)	14.3	10.3	13.9	7.8	5.7	6.7	2.6	2.0	1.8	0.8	0.6	0.7	17.8	21.7	13.4	145	(41.3)	23.6
United Phosphorus	165	BUY	76,045	1,568	462	10.7	13.9	18.0	28	29.7	29.6	15.4	11.9	9.1	10.2	7.4	5.8	2.5	2.1	1.8	0.7	0.9	1.2	18.1	19.1	20.8	160	(2.8)	5.2
Others			**671,876**	**13,853**					**(8.1)**	**28.1**	**30.2**	**21.5**	**16.8**	**12.9**	**11.9**	**9.7**	**8.8**	**2.8**	**2.5**	**2.1**	**0.6**	**0.6**	**0.6**	**13.2**	**14.7**	**16.3**			
KS universe (b)			**37,017,910**	**763,256**					**2.0**	**14.5**	**18.4**	**18**	**16.0**	**13.5**	**11.9**	**9.6**	**8.3**	**2.8**	**2.4**	**2.1**	**1.2**	**1.5**	**1.7**	**15.3**	**15.2**	**15.9**			
KS universe (b) ex-Energy			**28,726,988**	**592,309**					**5.1**	**4.6**	**17.8**	**18.1**	**17.3**	**14.7**	**13.3**	**11.8**	**10.1**	**3.0**	**2.6**	**2.3**	**1.1**	**1.2**	**1.4**	**16.7**	**14.9**	**15.5**			
KS universe (d) ex-Energy & ex-Commodities			**25,331,523**	**522,299**					**7.0**	**10.4**	**16.0**	**19.7**	**17.8**	**15.4**	**15.5**	**13.1**	**11.3**	**3.3**	**2.8**	**2.5**	**1.1**	**1.3**	**1.5**	**16.6**	**15.7**	**16.0**			

Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 48.50

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/6/2009 Kotak Institutional Equities Investment Research had investment ratings on 138 equity securities.

Source: Kotak Institutional Equities As of June 30, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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

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

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

Other definitions

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

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NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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