kotak® Institutional Equities

INDIA DAILY

March 02, 2009

Contents

Results

Tata Steel: 3QFY09 results on expected lines; maintain BUY

Change in recommendations

GAIL (India): Upgraded to ADD from REDUCE on valuations

Updates

Infosys Technologies: Confidence on margins intact even as volume outlook continues to be foggy. Key takeaways from our discussions with BFS/IHL BU heads

Economy: Indian economy starts cyclical trough with 5.3% growth in 3QFY09

News Roundup

Corporate

- **Sterlite Industries**, part of the London-based **Vedanta Group**, has put in a fresh bid with a long-term staggered payment schedule to acquire Asarco, four months after it appeared to have abandoned its offer to buy the bankrupt US miner in the wake of falling commodity prices. (ET)
- Raheja-owned department al store chain **Shoppers Stop Limited** (SSL) is pulling out of unviable new ventures and shutting loss-making stores to conserve cash for the company in the ongoing economic downturn. The retail firm had announced on Friday that it has closed three of its book stores 'Crossword' – one at Mumbai Airport, and two others in Chennai and New Delhi. The company also closed its airport retail store 'Stop & Go' at Mumbai Airport. (BS)
- European aerospace major **European Aeronautic Defence and Space Company** (EADS), parent company of India's largest aircraft supplier **Airbus**, has directed its European tier-1 outsourcing partners to direct a larger portion of their outsourcing orders from India. This indirect outsourcing will make EADS' total business outsourced to India grow 10 times by 2020. (BS)
- Indian textile and apparel major **Raymond** plans to more than double its current network of 24 stores in West Asia to 50 within three years. This will increase its share from the region to 45 per cent of its international revenues from 37 per cent at present. (BS)
- **Universal Sompo General Insurance** is planning to launch products in the credit and weather insurance segments. While the focus of credit insurance will be big and mid-sized corporates, weather insurance will target the farm sector. The company is developing the products and will soon approach IRDA for approval. (BL)

Economic and political

- India's import of Liquefied Natural Gas (LNG) could more than double this year due to the increase in supply globally, say market players. Last year, India imported between 6.5 and 7 million metric tonnes per annum (mmtpa) of LNG. (BS)

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

EQUITY MARKETS

India	27-Feb	Change, % 1-day	1-mo	3-mo
Sensex	8,892	(0.7)	(1.9)	1.7
Nifty	2,764	(0.8)	(0.1)	4.0
Global/Regional indices				
Dow Jones	7,063	(1.7)	(11.0)	(16.1)
FTSE	3,830	(2.2)	(6.1)	(7.1)
Nikkie	7,326	(3.2)	(7.0)	(6.8)
Hang Seng	12,537	(2.1)	(2.5)	(6.5)
KOSPI	1,025	(3.6)	(10.6)	0.2

Value traded - India	27-Feb		Moving avg, Rs bn 1-mo	3-mo
Cash (NSE+BSE)	118.1		110.8	72.1
Derivatives (NSE)	501.4		368.1	489
Deri. open interest	672.6		569	592

Forex/money market

	27-Feb	Change, basis points 1-day	1-mo	3-mo
Rs/US$	51.1	0	231	99
10yr govt bond, %	6.0	(11)	3	(100)

Commodity market

	27-Feb	Change, % 1-day	1-mo	3-mo
Gold (US$/OZ)	950.2	0.8	4.9	21.5
Silver (US$/OZ)	13.2	0.8	6.4	38.0
Crude (US$/BBL)	45.3	1.0	0.0	0.6

Net investment (US$mn)

	26-Feb		MTD	CYTD
FIIs	(59)		-	(1,155)
MFs	25		-	(433)

Top movers -3mo basis

Best performers	27-Feb	Change, % 1-day	1-mo	3-mo
Grasim Industries Lt	1,372	(6.0)	15.3	50.9
Jindal Steel & Powe	1,043	(1.9)	6.5	40.1
Gmr Infrastructure	79	0.4	10.9	48.3
Mmtc Limited	14,060	(0.8)	(2.6)	49.4
Power Finance Cor	144	2.8	6.4	35.7
Worst performers				
Housing Developme	73	(2.9)	(13.8)	(1.9)
Satyam Computer	41	(8.4)	(28.0)	(82.2)
Glenmark Pharmac	145	1.9	3.4	(56.1)
Aban Offshore Limi	317	(9.0)	(32.5)	(50.5)
Punj Lloyd Limited	79	(4.6)	(11.6)	(41.0)

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Metals

TISC.BO, Rs173	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	290
52W High -Low (Rs)	926 - 138
Market Cap (Rs bn)	142.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,315	1,361	1,177
Net Profit (Rs bn)	62.3	88.0	57.4
EPS (Rs)	75.7	107.1	69.8
EPS gth	*43.8*	*41.4*	*(34.8)*
P/E (x)	2.3	1.6	2.5
EV/EBITDA (x)	3.6	3.1	3.7
Div yield (%)	8.4	7.5	7.5

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
0.2	16.1	(70.7)	(78.4)

Shareholding, December 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	34.0	-	-
FIIs	13.0	0.5	(0.1)
MFs	5.3	0.9	0.3
UTI	-	-	(0.6)
LIC	11.6	1.6	1.0

Tata Steel: 3QFY09 results on expected lines; maintain BUY

Rahul Jain : rahulk.jain@kotak.com, +91-22-6634-1318

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **Reported net income at Rs8.1 bn in line with our expectations—down 42.5% yoy and -82.9% qoq**
- **Valuations attractive at 3.7X EV/EBITDA and 3.1X PE FY2010E bottom cycle earnings**
- **Maintain BUY with TP of Rs290/share (Rs300 earlier)**

Tata Steel reported 3QFY09 consolidated net profit at Rs8.1 bn—down 42.5% yoy which were in-line with our estimates of Rs7.9 bn but significantly higher than street estimates. EBITDA margin (consolidated) at 8.6% declined 713 bps yoy largely led by (1) lower volumes which declined 24% yoy and 22% qoq (2) massive write down of value of raw material and finished goods inventory of Rs17.4 bn (3) sharply lower other income. Average realizations at US$1,127/ton were marginally higher by 1% compared to the average of 1HFY08. While pricing trends continue to remain weak, better volumes in domestic markets which would be higher by 50% in 4QFY09 would offset the price declines partially. Volumes at Corus continue to be under pressure with demand remaining subdued. We have revised our FY2009 and FY2010 EPS to Rs127.7 and Rs55.4 from Rs106.4 and Rs69.2, respectively. We maintain BUY with a TP of Rs290/share (from Rs300 earlier).

Corus realizations remain robust; expect correction

Corus's average realizations during the quarter at US$1,251/ton were actually 5% higher than the average realizations during 1HFY09 and by 25% yoy despite the sharp 25-30% correction in spot markets over the last quarter. Part of the buoyancy in realizations can be explained due to the fact that 30-35% customers are on long-term contracts where prices are revised on an annual basis. However, EBITDA/ton has declined by 44% to US$83.3/ton in 3QFY09 from US$148/ton during 1HFY09 largely driven by volumes which were down by 23% yoy and inventory write-downs.

Production continues to remain weak. We expect 4QFY09 production to remain at 3QFY09 levels. However, the management had earlier stated that the annual contracts with auto and packaging customers had been extended up to March 31, 2009 giving an additional three months of strong pricing. Also, the full impact of the GBP600 mn cost cutting and asset sales would be realized in 4QFY09.

Asian subsidiaries take huge hits

Tata Steel's Asian subsidiaries i.e. NatSteel Asia and Tata Steel Thailand have reported combined net sales of US$470 mn and an EBITDA loss of US$92 mn, largely on account of massive inventory write-downs and a sharp 36% drop in volumes.

Loan covenants comfortable

Tata Steel management has clarified that it does not have any group level loan covenants and as of December 31, 2008 there was no breach of any covenants both in domestic and international operations. Also, Tata Steel has no repayment obligations in Europe till December 2009 and would prepay debt of US$450 mn in FY2010 in its European operations.

Steel market update

Steel pricing remains flat with a transitory uptick in China—attributed to speculative purchases in long products following the announcement of the fiscal stimulus package—already started fizzling out. Price declines in US have moderated following the sharp cutbacks in steel production there and capacity utilization is now at 45% and stock levels have reached critical levels. European steel prices have also remained weak as, despite production cuts, stock levels remain high. Current benchmark spot HRC prices are hovering at US$450-500/ton.

Spot prices reflect massive raw material respite in FY2009

Steel producers including Corus could see a massive respite from falling iron ore and coking coal prices as indicated by current spot prices. Current iron ore spot prices are at US$71/ton down 48% from the average CY2008 prices of US$137/ton. Also, spot coking coal prices price have seen have seen a sharp 60% drop from the CY2008 average of US$353 and are quoting at US$140/ton.

Contract negotiations have commenced but unlikely to see early settlement

- **Iron Ore:** Contract negotiations would be tough in the backdrop of the severe decline in steel output—down 24% yoy in January 2009 as reported by World Steel Association. However, if spot prices are anything to go by, a cut in the range of 30-40% cannot be ruled out.
- **Coking coal:** Given the uncertain steel market conditions, steel producers are not clear about their requirements for FY2009. However, miners have accepted the fact that there would be record drops in contract prices which went up by 210% in FY2008 to US$310/ton from US$98/ton. In fact, Japanese steel mills are reported to have demanded a return prices prevailing in FY2008 i.e. US$98/ton and news reports suggest that Russian coking coal suppliers have accepted these prices. As a result, negotiations are expected to be protracted and long-drawn.

Revision in earnings following changes in assumptions

We have revised our FY2009 net earnings upwards by 20% and FY2010 net earning downwards by 20%. Our FY2010 earnings assumptions now factor volumes of 16.7 mn tons (19 mn tons earlier) for Corus operations following (1) expectations of weaker market conditions persisting well into 1HFY10 in Europe and (2) expected sale of Teesside operations.

Valuations

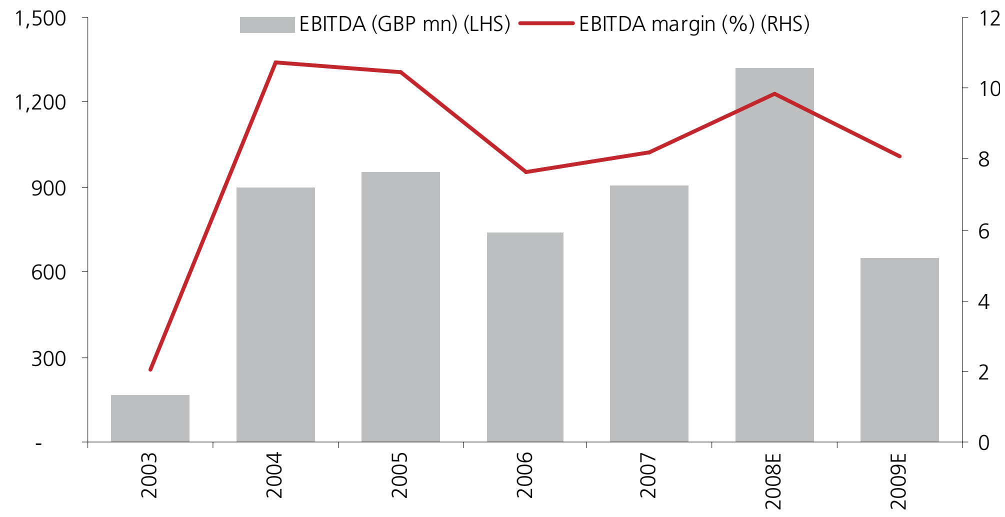
We value Tata Steel at 4.5X its expected FY2010 EBITDA, from which we derive a target price of Rs290/share (Rs300/share earlier). Earnings are likely to continue to remain volatile while predictability is getting increasingly difficult owing to several moving factors such as the raw material price cuts in the next years contracts, sharp currency movements affecting earnings from Corus etc. We maintain our BUY rating on the stock.

Tata Steel (consolidated), Interim results, March fiscal year-ends (Rs mn)

	Quarterly results			% change	
	3Q 2009	2Q 2009	3Q 2008	qoq	yoy
Interim results					
Net sales	**331,910**	**441,990**	**318,985**	(24.9)	4.1
Expenditure	**(303,336)**	**(359,493)**	**(279,558)**	(15.6)	8.5
Raw materials consumed	(183,514)	(212,056)	(144,459)	(13.5)	27.0
Staff cost	(44,579)	(47,545)	(41,667)	(6.2)	7.0
Other expenditure	(75,243)	(99,892)	(93,431)	(24.7)	(19.5)
EBITDA	**28,574**	**82,497**	**39,428**	(65.4)	(27.5)
Other income	316	844	1,975	(62.6)	(84.0)
Depreciation	(10,852)	(11,470)	(10,113)	(5.4)	7.3
EBIT	18,038	71,870	31,290	(74.9)	(42.4)
Interest	(9,114)	(8,208)	(10,809)	11.0	(15.7)
Adjusted pre-tax profits	8,923	63,662	20,481	(86.0)	(56.4)
Unusual or infrequent items	(2,007)	(3,962)	1,248	(49.4)	(260.8)
Reported pre-tax profits	6,917	59,700	21,729	(88.4)	(68.2)
Tax	405	(12,664)	(7,707)	(103.2)	(105.3)
Reported net earnings	**7,322**	**47,036**	**14,023**	(84.4)	(47.8)
Add: Share of associates	-	-	520		
Less: Minority interest	-	-	(387)		
Net profit after minority interest	**8,139**	**47,717**	**14,155**	(82.9)	(42.5)
Adjusted net profit	**9,329**	**50,999**	**12,775**	(81.7)	(27.0)
Segmental results					
Net revenues	**71,067**	**505,027**	**361,553**	**(85.9)**	**(80.3)**
Steel business	33,905	454,266	324,145	(92.5)	(89.5)
Other businesses	37,161	50,761	37,408	(26.8)	(0.7)
EBIT	**17,785**	**63,693**	**41,131**	**(72.1)**	**(56.8)**
Steel business	23,643	53,244	38,406	(55.6)	(38.4)
Other businesses	(5,858)	10,448	2,726	(156.1)	(314.9)
Ratios (%)					
EBITDA margins	8.6	18.7	15.7	(53.9)	(45.3)
Effective tax rate	(5.9)	21.2	16.5	(127.6)	(135.5)
Fully diluted EPS (Rs)	9.9	58.0	23.2	(82.9)	(57.3)

Source: Company data; Kotak Institutional Equities estimates.

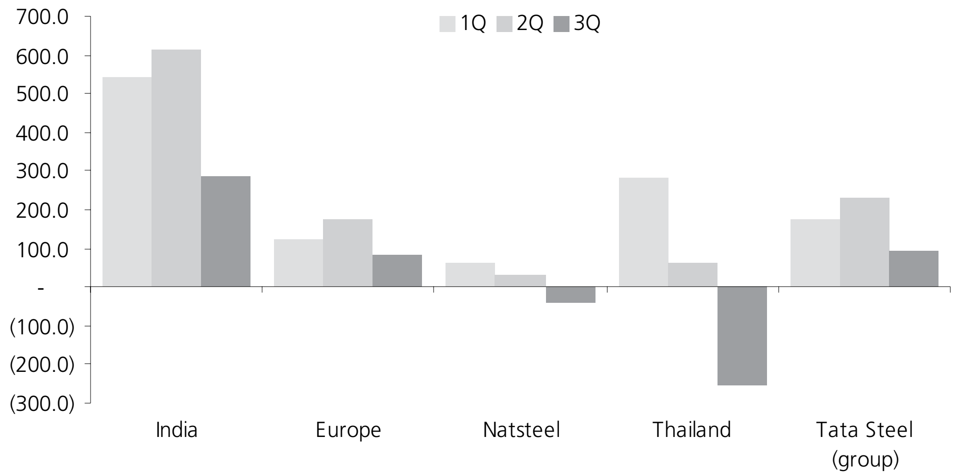
Corus, EBITDA movement, December fiscal year-ends, 2003-2009E (GBP mn)



Source: Company data, Kotak Institutional Equities estimates.

Tata Steel India has been making the highest EBITDA/ton of steel sold on account of its captive raw materials

Tata Steel, EBITDA/ton for various geographical segments, March fiscal year-ends, FY2009E (US$/ton)



Source: Company, Kotak Institutional Equities.

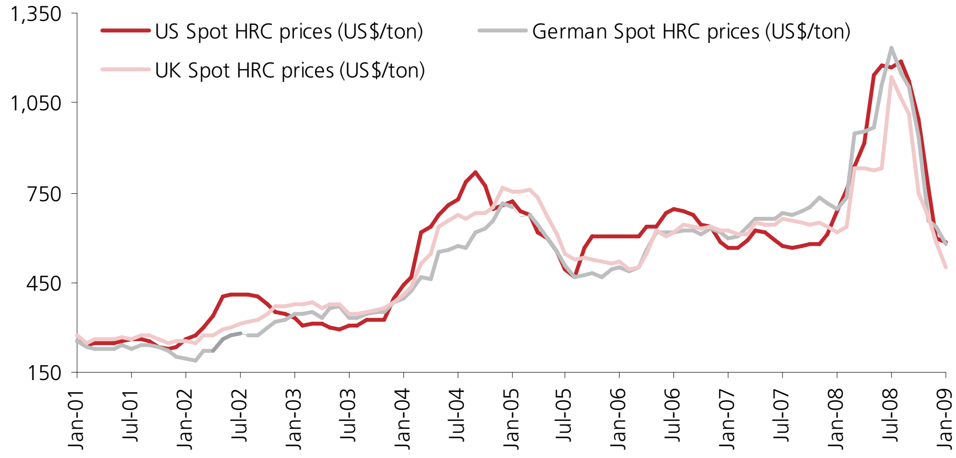
Tata Steel (consolidated), assumption sheet, March fiscal year-ends, 2007-11E

	2007	2008	2009E	2010E	2011E
Tata Steel (India)					
Volume ('000 tons)	4,794	4,780	4,800	6,000	6,500
Price (US$/ton)	636	739	882	590	606
EBITDA margin (%)	39.7	41.8	42.6	33.8	33.9
EBITDA Per ton (US$/ton)	253	308	376	199	205
International operations					
Volume (mn tons)	21	22	20	17	17
Price (US$/ton)	597	670	900	525	475
EBITDA margin (%)	7.6	8.2	9.8	8.1	11.9
EBITDA Per ton (US$/ton)	51	67	103	53	72
Raw material					
Iron ore (US$/ton)	69	75	113	70	66
Coking coal (US$/ton)	120	96	280	120	114

Source: Company, Kotak Institutional Equities estimates

Steel prices have come off sharply from their recent highs; expect them to stabilise around current levels

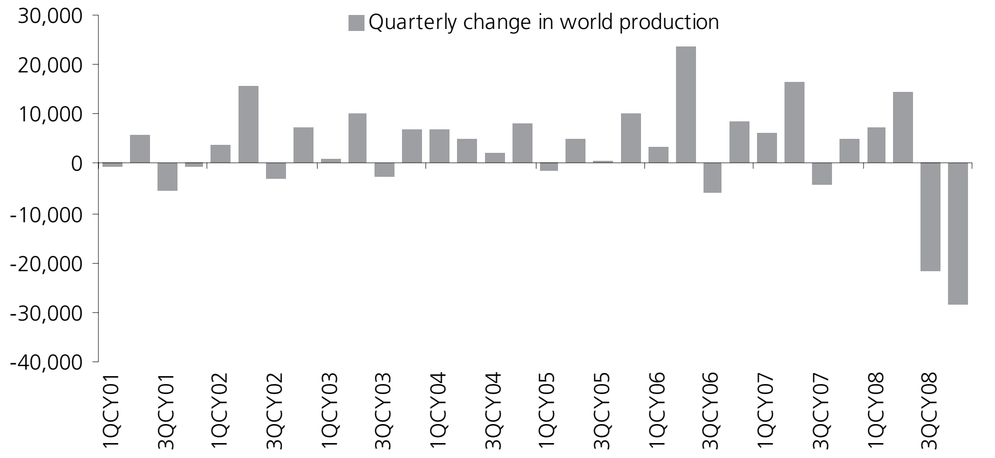
HRC prices from various geographies, December fiscal year-ends (US$/ ton)



Source: CRU, Kotak Institutional Equities

Finished steel production has come off sharply in the last six months

Quarterly change in world finished steel production, December year-ends, 2001-2008 ('000 tons)



Source:CRU, Kotak Institutional Equities

Tata Steel, valuation, March fiscal year-ends, 2010E basis (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Enterprise value (Rs mn)	EV (Rs/share)	Valuation basis
Consolidated group EBITDA	125,335	4.5	564,008	686	Valued on FY2010E EBITDA
Total Enterprise Value			**564,008**	**686**	
Consolidated group net debt			326,854		FY2010E, adjusted for cash and marketable securities
Total borrowings			**326,854**	**398**	
Arrived market capitalization			**237,154**	**289**	Based on fully diluted equity
Target price (Rs)				**290**	

Source: Kotak Institutional Equities estimates

Tata Steel (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-2011E (Rs mn)

	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)					
Net sales	252,124	1,315,359	1,489,286	1,044,166	1,049,784
EBITDA	**70,966**	**174,454**	**208,532**	**125,335**	**152,436**
Other income	4,381	5,742	6,145	8,154	10,598
Interest	(4,112)	(41,838)	(38,817)	(35,161)	(29,682)
Depreciaiton	(10,110)	(41,370)	(42,313)	(43,774)	(44,701)
Extraordinaries	2,006	66,722	(4,522)	3,207	3,207
Profit before tax	**63,130**	**163,711**	**129,025**	**57,760**	**91,858**
Current tax	(21,629)	(33,747)	(26,597)	(11,907)	(18,936)
Deferred tax	155	(6,746)	(5,317)	(2,380)	(3,785)
PAT before minority interest	**41,656**	**123,218**	**97,111**	**43,474**	**69,137**
Minority interest	(675)	(1,399)	(1,539)	(1,693)	(1,863)
Share of profits from associates	792	1,682	1,850	2,035	2,238
Net Profit	**41,773**	**123,500**	**97,422**	**43,815**	**69,513**
Adjusted net profit	**42,782**	**77,404**	**104,948**	**45,524**	**71,222**
Fully diluted EPS (Rs)	**52.0**	**94.2**	**127.7**	**55.4**	**86.6**
Balance sheet (Rs mn)					
Equity	146,222	341,740	427,817	459,366	516,409
Deferred tax liability	7,859	24,544	29,861	32,241	36,026
Total Borrowings	249,255	535,928	635,928	405,928	280,928
Current liabilities	86,595	339,490	365,134	276,312	275,134
Minority interest	5,984	8,327	9,866	11,560	13,422
Total liabilities	**495,916**	**1,250,029**	**1,468,606**	**1,185,406**	**1,121,918**
Net fixed assets	142,205	419,631	470,147	486,373	496,673
Goodwill	2,197	180,500	180,500	180,500	180,500
Investments	164,975	33,674	33,674	33,674	33,674
Cash	108,880	42,316	190,324	67,956	(8,066)
Other current assets	75,562	572,351	592,405	415,346	417,581
Miscellaneous expenditure	2,098	1,556	1,556	1,556	1,556
Total assets	**495,916**	**1,250,029**	**1,468,606**	**1,185,406**	**1,121,918**
Free cash flow (Rs mn)					
Operating cash flow excl. working capital	52,489	153,978	177,413	116,635	136,707
Working capital changes	2,541	(19,777)	5,590	90,508	(1,142)
Capital expenditure	(29,318)	(79,935)	(89,927)	(60,000)	(55,000)
Free cash flow	**25,712**	**54,266**	**93,076**	**147,143**	**80,565**
Ratios					
Debt/equity (X)	1.7	2.9	2.3	1.3	0.8
Net debt/equity (X)	0.9	2.6	1.6	1.1	0.8
RoAE (%)	28.6	46.3	38.1	15.6	20.9
RoACE (%)	**8.0**	**13.2**	**16.3**	**10.3**	**14.1**

Source: Company, Kotak Institutional Equities estimates

Energy

GAIL.BO, Rs204	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	240
52W High -Low (Rs)	310 - 165
Market Cap (Rs bn)	258.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	180.1	231.9	341.7
Net Profit (Rs bn)	25.9	29.5	24.9
EPS (Rs)	20.4	23.3	19.7
EPS gth	*21.0*	*14.2*	*(16)*
P/E (x)	10.0	8.7	10.4
EV/EBITDA (x)	4.9	4.6	5.7
Div yield (%)	3.3	3.6	3.3

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
0.7	3.2	(24.8)	(27.9)

Shareholding, December 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.3	-	-
FIIs	15.9	1.0	(0.0)
MFs	2.8	0.8	(0.2)
UTI	-	-	(1.0)
LIC	8.9	2.0	1.0

GAIL (India): Upgraded to ADD from REDUCE on valuations

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229
Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286

- **Key takeaways from meetings with management, regulator**
- **Gas transportation volumes contingent on completion of new pipelines on time**
- **Revised rating to ADD from REDUCE with revised 12-month TP of Rs240 (Rs230 previously)**

Our meetings with the GAIL management, PNGRB (regulator) and data on consumption pattern of RIL's KG D-6 gas reaffirmed short-term concerns regarding (1) possible slower-than-expected growth in gas transportation volumes due to current capacity constraints (volume will pick up significantly from 2HFY11E) and (2) likely lower tariffs for extant pipelines under the new regulations for gas transportation networks. Nonetheless, we have upgraded GAIL stock to ADD from REDUCE noting the 20% potential upside to our revised 12-month SOTP-based fair valuation of Rs240 (see Exhibit 1). We have made several changes to our model to reflect new information on commissioning schedule of new pipelines and have also reduced tariffs for extant pipelines to reflect new regulations for gas transportation pipelines. Our new FY2009E, FY2010E, FY2011E and FY2012E EPS estimates are Rs23.3, Rs19.7, Rs20.7 and Rs26.6 versus Rs22.9, Rs22.4, Rs26.3 and Rs30, previously. Key downside risks stem from lower-than-expected gas volumes, gas transportation tariffs and commodity prices.

Valuation—Rs240 12-month target price offers 20% potential upside

We have upgraded GAIL stock to ADD from REDUCE noting the fact that the stock offers 20% potential upside to our 12-month fair valuation of Rs240. We attribute the moderately higher target price—despite significantly lower earnings—to the fact that we had previously already assumed low multiples for the pipeline segment to factor in potential risks from downward revision to gas transportation tariffs for extant pipelines.

We have changed our valuation approach for GAIL's pipeline segment to reflect new regulations for gas transportation pipelines. We compute the gas transportation tariff of each of GAIL's major pipelines as per the methodology given in the gas transportation regulations and use the computed tariff to value each pipeline separately. For example, we compute the composite tariff of HVJ and DV pipelines at Rs0.66/cu m versus Rs1.05/cu m currently, which also explains the downward revision to our earnings estimates for the next few years. We were earlier using EBITDA multiples but this had become very subjective in view of a potential steep decline in EBITDA of extant pipelines and increase in EBITDA of new pipelines.

We now see limited downside risks to our earnings estimates for FY2010E and FY2011E and the stock price. GAIL stock is trading at about 10X FY2010E revised EPS of Rs19.7 and FY2011E revised EPS of Rs20.7. We highlight that we have (1) cut transportation tariffs for extant pipelines significantly, (2) delayed commissioning of new pipelines and reduced gas transportation volumes appropriately and (3) factored in low prices for LPG and petrochemicals for FY2010E.

Update on meetings with GAIL management and regulator

1. **Gas transportation volumes.** GAIL management shared details on the progress and schedule of the three major new pipelines under implementation (Dahej–Vijaipur–GREP expansion [DVGREP], Dadri–Bawana–Nangal [DBN] and Chainsa–Gurgaon–Jhajar–Hissar [CGJH]). Exhibit 2 gives details of the same. As seen, a significant portion of the new capacity is back-ended with phase-II of the three pipelines likely to be complete between April and October 2011. GAIL expects spend about Rs12 bn, Rs35 bn and Rs35 bn in FY2009E, FY2010E and FY2011E on the new pipelines.

We model GAIL's gas transportation volumes to increase to 105 mcm/d in FY2010E and 117 mcm/d in FY2011E from 85 mcm/d in FY2009E (84.5 mcm/d in 9MFY09). The moderate increase in gas volumes reflects that the fact that GAIL has limited capacity available in its extant pipelines (see Exhibit 3). GAIL management guided to about 8 mcm/d and 5-7 mcm/d of availability in Vijaipur and Dahej-Vijaipur sections of its HVJ network. The HVJ portion of the network pipeline operates at near-full capacity. We expect a significant jump in FY2012E (to 157 mcm/d) when GAIL commissions new pipelines such as a new Dahej-Vajaipur pipeline, a new Vijaipur-Dadri pipeline and the Bawana-Nangal section of the DBN pipeline by April-October 2011.

GAIL management estimated that it could get additional 12-15 mcm/d of gas for HVJ+DVPL system, 12-13 mcm/d for Dahej-Panvel-Dabhol pipeline and 6-7 for short-distance pipelines in the KG basin out of RIL's KG D-6 gas volumes. However, it cautioned that the availability would depend on the allocation policy of the government of India.

We model the pipeline segment's EBITDA to increase to Rs19.9 bn in FY2010E, Rs23.2 bn in FY2011E and Rs38.9 bn in FY2012E from Rs18.5 bn led by a sharp increase in gas transportation volumes, which makes up for our assumed lower tariffs for extant pipelines (HVJ, DV and Dahej-Uran-Panvel-Dabhol).

2. **Gas transportation tariffs.** The GAIL management or the regulator did not specifically comment on the likely tariffs for the extant pipelines of GAIL under the new regulations. GAIL management stated that it did not expect a steep fall in composite tariffs but said that it is still working on the numbers and is in the process of submitting documents to the regulator. The regulator said that it is awaiting data from the operators. The regulator clarified that it will likely use 25 years as the life of a pipeline and it will use the same depreciation rate for all companies irrespective of the book depreciation rates of the companies. This would suggest 4% (3.8% assuming 5% salvage value) as the likely rate of depreciation for computation of net fixed assets. We had highlighted this issue in our February 06, 2009 note.

Earnings revisions and assumptions behind our earnings model

Exhibit 4 gives the key assumptions behind our earnings model. Our FY2009E, FY2010E and FY2011E EPS estimates are Rs23.3, Rs19.7 and Rs20.7 versus Rs22.9, Rs22.4 and Rs26.3 previously. We discuss key assumptions behind our earnings model and changes to the model below.

1. **Gas transportation volumes.** We model GAIL's total gas transportation volumes for FY2010E, FY2011E and FY2012E at 105 mcm/d (earlier 105 mcm/d), 117 mcm/d (133 mcm/d) and 157 mcm/d (163 mcm/d) led by (1) increasing availability of natural gas and (2) commissioning of new pipelines as discussed above.
2. **Gas transportation tariffs.** We have cut transportation tariffs for GAIL's extant pipelines based on our understanding of the new regulations for gas transportation pipelines and computation of appropriate capital employed. We will adjust the same once the regulator fixes the tariffs. We assume the new tariffs to be applicable from April 1, 2009. We note that the new tariffs are applicable from the date of notification of the regulations (November 20, 2008) but the regulator may consider April 1, 2009 as the date for application of new regulations for administrative and accounting reasons.

   For new pipelines, we use the new regulations to compute the tariffs. We may have to fine-tune our assumptions later but we have more confidence about our computations of the tariffs of new pipelines compared to those of extant ones.
3. **Petrochemical volumes.** We have increased PE volumes to 450,000 tons from FY2010E onwards versus 420,000 tons previously to factor the recent capacity augmentation at GAIL's petrochemical plant.
4. **Crude oil and LPG price assumptions.** We have reduced our crude oil price assumptions to US$55/bbl, US$65/bbl and US$75/bbl for FY2010E, FY2011E and FY2012E versus US$60/bbl, US$70/bbl and US$75/bbl, previously.

5. **Exchange rate.** Our foreign exchange rate assumption are Rs45.9/US (Rs45.6 previously), Rs48/US$ (unchanged) and Rs47/US$ (unchanged) for FY2009E, FY2010E and FY2011E.

We value GAIL stock at Rs240 per share

Sum-of-the-parts valuation of GAIL, FY2010E basis (Rs bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		EV
	Other	EBITDA	Other	EV/EBITDA	Other	EBITDA basis	(Rs/share)
Natural gas transportation							
HVJ pipeline	23				23		18
DV pipeline	30				30		24
DUPD pipeline	35				35		27
DBN pipeline	11				11		9
CGJH pipeline	5				5		4
DV GREP pipeline	46				46		36
Short distance pipelines		4.7		6.0		28	22
Total natural gas transportation							**140**
Other businesses							
LPG transportation		2.6		6.0		16	12
LPG production	25		1.00		25		20
Petrochemicals		3.3		6.0		20	16
Oil and gas upstream	22		0.80		17		14
Subsidy sharing scheme		(1.0)		1.0		(1)	(1)
Total other business segments							**61**
Investments							
ONGC shares	46		0.80		37		29
Others	23		0.80		18		14
Investments	**69**		**0.80**		**55**		**43**
Total						**63**	**244**
Net debt/(cash)					3	3	2
Implied value of share (Rs/share)							**241**

Source: Kotak Institutional Equities estimates

GAIL will invest significantly to expand gas transportation capacity in FY2009-12E

Capital expenditure plan, March fiscal year-ends, 2009-12E (Rs mn)

	Project Cost	Due date	2009E	2010E	2011E	2012E	Comments
Dahej-Vijapur-GREP expansion	83,500	FY2012	5,000	20,000	35,000	20,601	
Chainsa-Gurgaon-Jhajar-Hissar	16,000	FY2012		3,500	7,000	4,500	Chainsa-Gurgaon-Jhajar section to be completed in FY2011
Dadri-Bawana-Nangal pipeline	25,000	FY2012	4,000	7,000	4,000	9,266	Dadri-Bawana section of the DBN pipeline to be completed in FY2010
Jagdishpur-Haldia	66,000		—	—	—	—	
Dabhol-Bangalore	35,680		—	—	2,500	12,500	
Kochi-Kanjirrkod-Bangalore/Mangalore	35,000		—	—	2,500	10,000	
Total	**261,180**		**9,000**	**30,500**	**51,000**	**56,867**	

Source: Kotak Institutional Equities estimates

GAIL has limited capacity available in its extant pipelines

Gas pipeline capacity & operating rate, March fiscal year-ends, FY08

	Capacity	Operating rate
Natural gas pipeline (mcm/d)		
HBJ	33.4	32.0
Dahej-Vijaipur	23.9	15.0
Dahej-Uran	12.0	6.0
Dabhol-Panvel	12.5	4.0

Source: Kotak Institutional Equities estimates

We model strong increase in gas volumes between FY2008 and FY2012E
Key assumptions behind GAIL model, March fiscal year-ends, 2006-2012E

	2006	2007	2008	2009E	2010E	2011E	2012E
Volumes							
Natural gas transportation, gross (mcm/day)							
HBJ pipeline	32	32	32	32	32	32	32
Dahej-Vijaypur-GREP upgradation							30
Dadri-Bawana-Nangal					1	3	16
Chainsa-Jhajjar-Hissar						3	8
Other pipelines	36	39	40	41	48	55	60
Regassified LNG							
Dahej-Vijaipur pipeline (transmitted and sold)	7	6	9	9	15	20	25
Dahej-Vijaipur pipeline (transmitted)	4	4	6	6	10	10	10
Dahej-Uran pipeline			6	9	12	12	12
Panvel-Dabhol pipeline			4	6	8	10	12
Elimination of double-counted volumes (a)	(1)	(3)	(15)	(18)	(21)	(28)	(48)
Total gas transmission	**79**	**77**	**82**	**85**	**105**	**117**	**157**
LPG (000 tons)							
Sold	1,039	1,037	1,039	1,110	1,100	1,100	1,100
Transported	2,228	2,490	2,754	2,800	2,800	2,800	2,800
Petrochemicals (000 tons)							
Polyethylene							
Domestic sales	271	337	381	405	440	450	450
Exports	40	10	10	—	—	—	—
Total petrochemicals	**311**	**347**	**391**	**405**	**440**	**450**	**450**
Prices							
Natural gas (Rs/cubic meter)							
Natural gas ceiling price	3.52	4.21	4.21	4.59	6.50	6.50	6.50
Regassified LNG including transportation	6.47	6.93	6.44	7.02	8.98	8.83	8.68
Transmission plus marketing charges							
HBJ pipeline, Dahej-Vijaipur pipeline (from FY2007)	1.15	0.99	0.96	1.05	0.66	0.66	0.66
Dahej-Vijaypur-GREP upgradation					0.94	0.94	0.94
Dadri-Bawana-Nangal					0.59	0.59	0.59
Chainsa-Jhajjar-Hissar					0.48	0.48	0.48
Dahej-Vijaipur, Dahej-Uran, Panvel-Dabhol pipeline	0.69	0.99	1.03	1.04	0.81	0.81	0.81
Other pipelines	0.42	0.40	0.42	0.44	0.43	0.42	0.41
LPG							
LPG (US$/ton)	510	531	702	685	420	490	560
Transmission charges (Rs/ton)							
Jamnagar-Loni	1,522	1,522	1,522	1,522	1,522	1,522	1,522
Vizag-Secunderabad	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Other assumptions							
Polyethylene, HDPE (US$/ton)	1,055	1,315	1,500	1,360	950	1,000	1,000
Import tariff, Polyethylene	10%	5%	5%	5%	5%	5%	5%
Import tariff, LPG	0%	0%	0%	0%	0%	0%	0%
Exchange rate (Rs/US$)	44.3	45.3	40.3	45.6	48.0	47.0	46.0
Subsidy losses	10,640	14,880	13,137	17,812	1,000	5,000	8,500

Note:
(a) Gas transported through the HVJ or DV pipeline and then to smaller pipelines.

Source: Company, Kotak Institutional Equities estimates

Gas transportation segment to drive growth

Segment breakdown of GAIL India's revenues and profits, March fiscal year-ends, 2006-2012E

	2006	2007	2008	2009E	2010E	2011E	2012E
Revenues							
Gas transportation-extant pipelines	102,951	112,773	128,141	191,904	307,416	345,752	378,221
Gas transportation-new pipelines					2,639	15,714	145,973
RLNG shipping charges	1,110	1,340	2,229	2,241	2,902	2,902	2,902
LPG transportation	3,332	3,440	3,893	4,219	4,219	4,219	4,219
LPG production	32,447	35,024	26,033	26,997	27,785	27,985	28,502
Petrochemicals	16,736	22,918	26,583	28,051	22,659	23,797	23,320
Others	183	252	350	1,366	1,083	1,236	1,384
Subsidy-sharing scheme	(10,640)	(14,880)	(13,137)				
Trading revenues/profits							
Total	**146,118**	**160,867**	**174,092**	**254,777**	**368,702**	**421,605**	**584,522**
EBITDA							
Gas transportation-extant pipelines	17,826	17,701	18,044	19,280	16,852	19,515	23,493
Gas transportation-new pipelines					147	795	12,529
RLNG shipping charges				2,241	2,902	2,902	2,902
LPG transportation	2,054	2,590	2,987	2,614	2,629	2,647	2,555
LPG production	15,895	16,764	23,028	27,832	11,272	15,494	19,355
Petrochemicals	7,674	10,934	14,003	8,661	3,309	3,732	3,241
Others	1,402	(4,547)	(6,610)	(962)	(518)	(365)	(218)
Subsidy-sharing scheme	(10,640)	(14,880)	(13,137)	(17,812)	(1,000)	(5,000)	(8,500)
Trading revenues/profits	610	1,903	2,044				
Total	**34,820**	**30,464**	**40,359**	**41,853**	**35,593**	**39,720**	**55,357**

Source: Company, Kotak Institutional Equities estimates

GAIL (India) Ltd: Profit model, balance sheet, cash model of GAIL, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	163,513	160,472	180,082	231,865	341,726	394,806	558,115
EBITDA	**35,731**	**29,896**	**38,976**	**41,853**	**35,593**	**39,720**	**55,357**
Other income	4,555	5,450	5,564	7,218	7,173	6,727	6,750
Interest	(1,174)	(1,071)	(796)	(756)	(923)	(1,805)	(5,862)
Depreciation	(5,595)	(5,754)	(5,710)	(5,574)	(5,816)	(6,478)	(9,182)
Pretax profits	**33,518**	**28,521**	**38,034**	**42,742**	**36,027**	**38,165**	**47,063**
Tax	(9,221)	(7,941)	(12,525)	(12,955)	(10,940)	(11,188)	(9,374)
Deferred taxation	(445)	(190)	(10)	(247)	(161)	(775)	(3,923)
Net profits	**23,101**	**23,867**	**25,716**	**29,540**	**24,926**	**26,201**	**33,766**
Earnings per share (Rs)	**18.2**	**18.8**	**20.3**	**23.3**	**19.7**	**20.7**	**26.6**
Balance sheet (Rs mn)							
Total equity	99,733	113,929	130,049	148,705	163,738	180,045	201,939
Deferred taxation liability	12,997	13,187	13,197	13,444	13,604	14,380	18,303
Total borrowings	19,166	13,379	12,659	20,159	18,959	67,759	100,559
Current liabilities	37,522	45,512	60,604	50,737	57,477	62,204	76,724
Total liabilities and equity	**169,418**	**186,007**	**216,509**	**233,044**	**253,777**	**324,387**	**397,525**
Cash	44,959	26,604	44,730	45,144	22,988	21,610	18,825
Other current assets	28,309	50,851	59,370	68,718	78,807	88,659	106,120
Total fixed assets	81,716	93,913	97,500	104,273	137,074	199,211	257,671
Investments	14,434	14,638	14,909	14,909	14,909	14,909	14,909
Total assets	**169,418**	**186,007**	**216,509**	**233,044**	**253,777**	**324,387**	**397,525**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	25,165	23,920	33,692	27,805	23,223	24,923	38,656
Working capital changes	5,950	(10,151)	(388)	(19,215)	(3,349)	(5,124)	(2,941)
Capital expenditure	(5,811)	(20,449)	(12,419)	(12,010)	(38,110)	(66,810)	(66,177)
Investments	(6,462)	(205)	(270)	—	—	—	—
Other income	3,995	3,884	4,042	7,218	7,173	6,727	6,750
Free cash flow	**22,837**	**(3,002)**	**24,658**	**3,797**	**(11,062)**	**(40,285)**	**(23,712)**
Ratios (%)							
Debt/equity	17.0	10.5	8.8	12.4	10.7	34.9	45.7
Net debt/equity	(22.9)	(10.4)	(22.4)	(15.4)	(2.3)	23.7	37.1
ROAE (%)	21.8	19.9	19.0	19.3	14.7	14.1	16.3
ROACE (%)	**19.7**	**15.5**	**17.6**	**17.8**	**13.5**	**12.0**	**13.0**

Source: Kotak Institutional Equities estimates

Technology

INFY.BO, Rs1231	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	1,500
52W High -Low (Rs)	2047 - 1040
Market Cap (Rs bn)	706.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	166.9	216.7	238.4
Net Profit (Rs bn)	45.4	58.3	61.8
EPS (Rs)	79.1	101.6	107.7
EPS gth	*18.0*	*28.5*	*6*
P/E (x)	15.6	12	11.4
EV/EBITDA (x)	11.9	8.5	7.6
Div yield (%)	2.7	2.0	2.1

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(3.8)	1.9	(30.6)	(19.6)

Shareholding, December 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	16.5	-	-
FIIs	52.1	7.8	5.4
MFs	4.0	2.8	0.4
UTI	-	-	(2.4)
LIC	4.3	2.4	(0.0)

Infosys Technologies: Confidence on margins intact even as volume outlook continues to be foggy. Key takeaways from our discussions with BFS/IHL BU heads

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243

Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **Discussions with BFS and IHL BU heads reaffirm demand weakness and uncertainty**
- **However, pricing commentary not as weak as expected**
- **Lack of catalysts will cap near-term stock performance; we continue to rate the stock a BUY from a 12-month perspective**

Our recent discussions with the BFS (Banking and Financial Services) and IHL (Insurance, Health Care, and Life Sciences) business unit heads of Infosys reaffirmed the sustained uncertainty and weakness in the demand environment. However, the indicators on pricing environment continue to be better than the Street's (and our) expectations. The month of February has seen some action on the ground in terms of IT budget discussions and a few project renewals after a completely inactive January. We expect uncertainty on demand to linger for some more time and continue to base our FY2010E EPS expectation for various tier-I players on margin resilience and hopes of a demand recovery starting September 2009 quarter. Infosys' greater control on cost-structure (best placed to manage profitability in a tough pricing environment), and conservative hedging should mean a reasonable EPS growth in FY2010E despite the volume/pricing headwinds. We maintain our BUY rating on the stock with a target price of Rs1,500/share. Near-term upside may be limited by a lack of catalysts. Greater protectionism with the recent nationalization of some US and European banks remains the key risk to our call.

Discussions with BFS and IHL BU heads reaffirm demand weakness and uncertainty in the near term. In line with expectations, near-term demand visibility across the spectrum of BFS and IHL clients continues to be low. Highlights of our discussion with the two BU heads on the near-term demand scenario:

- **BFS.** While the recent economic turmoil and subsequent client response has led to a period of inaction on IT spends and project renewals, and deferral in discretionary spend across the spectrum of BFS clients, IT budget discussions with most clients (except some in the capital markets segment) have picked up pace in recent weeks. The company indicated IT budget decline of 5-10% on a portfolio basis among its BFS clients with larger declines for the Capital Market clients and moderate decline to flat IT budgets in other segments. More importantly, the company also indicated increasing instances of vendor rationalization and consolidation (both cost-savings focused and driven by M&A within the sector) and also a change in the nature of deals (more fixed-price and outcome based deals). Infosys has also seen increased participation in systems consolidation and process/application rationalization deals driven by M&A within various verticals, primarily BFS.

  The company also expressed confidence that counter-cyclical trends should aid greater offshoring of IT services (to drive higher cost savings) similar to the trends seen in the previous downturn; the difference this time could be the timing of such counter-cyclical trends resulting in volumes growth for the Indian IT companies. We attribute the lag primarily to a complete freeze on decision making over the past few months (especially post the Lehman incident) and the ongoing revamp in IT strategy among a large set of clients. This is also consistent with our hypothesis of a back-ended volume/revenue growth for the tier-I companies in FY2010E.

- **IHL.** The near-term demand outlook within the IHL segment remains muted on account of significant cut in discretionary spending among Insurance clients (Insurance is the largest sub-segment within IHL contributing ~7.1% to Infosys' revenues in 9MFY09). Rather surprisingly, the company indicated increasing discretionary spending among its healthcare and pharma clients, driven by regulatory and compliance pressures. The pipeline of large deals (mostly in the US$50-100 mn range) continues to be good, though revenue impact of the same continues is likely to remain muted given longer sales cycles. Cost-savings focused vendor consolidation instances are being seen in this segment as well. The company also expressed confidence on robust growth in the pharma vertical and has seen steady new wins in the insurance segment. We do highlight that the European geography continues to be a challenge for the company, within this vertical (primarily on account of its late start in the geography).

However, pricing commentary not as weak as expected. Both the BU heads expressed confidence on maintaining margins within a narrow band despite the pricing pressure being witnessed in the market. The company indicated that it is working on changing its engagement structures with clients (greater offshoring, shift to fixed price and outcome-based deals, etc.) to achieve the twin objective of delivering the clients' targeted cost savings without taking a sharp hit on its own profitability. Our channel checks also indicate that pricing trends could be better than the street's expectations—Infosys has settled for 5% onsite and 0-2% offshore pricing concessions on an average with its financial services clients.

Lack of catalysts will cap near-term stock performance; we continue to rate the stock a BUY from a 12-month perspective. We concede that a lack of near-term catalysts and likely negative news flow will continue to remain an overhang on the stock over the next few months. However, we would view any excess pessimism in the market as an opportunity to buy into the stock. The stock is trading at 11.5X FY2010E earnings and has a normalized FCF yield of 4.3% at CMP. Our March 2010 DCF-based target price of Rs1,500/share implies an upside of 21% from current levels.

Protectionism—key risk to our call. We highlight a couple of recent events with underlying tones of protectionism:

1. US' new president Barack Obama, in his first address to the Congress, proposes to remove tax breaks for companies shipping US jobs overseas. The exact nature of tax breaks and implementation of the same remains to be seen.

2. The US Senate recently approved amendments that would make hiring under H-1B visa by companies receiving funds under Troubled Assets Relief Program (TARP) difficult. Financial services firm and key auto majors are the prime recipients of TARP funds and among the largest clients of Indian IT companies. We would wait for further details on the amendment; on cursory reading, the impact does not appear to be meaningful noting that Indian IT companies have not received any funding and can use H-1B workers for outsourcing contracts of clients.

While both the above events do not appear to have any near-term impact, a growing trend towards protectionism remains an overall concern.

Implied FCF growth to perpetuity for tier-I Indian IT stocks in the 1-4% range

	CMP	Enterprise value	FY2010E FCF (a)	FY2010E FCF yield	Assumed WACC	Implied FCF growth to perpetuity (b)	Risk to FCF estimates
	(Rs)	(Rs mn)	(Rs mn)	(%)	(%)	(%)	
Infosys	1,231	565,150	45,862	8.1	12.5	4.4	Low
TCS	483	429,116	42,266	9.8	12.5	2.7	Medium
Wipro	208	254,203	31,190	12.3	12.5	0.2	Medium

Note:
(a) Defined as operating cash flow post working capital changes less capex (normalized for tax rate increase starting FY2011E)
(b) Assuming FY2010E as the terminal year

Source: Bloomberg, Kotak Institutional Equities estimates

Infosys--operating cash flow as % of revenues, March fiscal year-ends, FY2003-9MFY08 (US$ mn)

	2003	2004	2005	2006	2007	2008	9M2009
Cash generated from operating activities	206	371	344	599	862	1,149	1,092
Growth yoy (%)		80	(7)	74	44	33	27
Revenues	754	1,063	1,592	2,152	3,090	4,176	3,542
Operating cash flow as % of revenues (%)	**27.4**	**34.9**	**21.6**	**27.8**	**27.9**	**27.5**	**30.8**

Note
(a) Cash generated includes other income.

Source: Company, Kotak Institutional Equities.

Condensed consolidated financials for Infosys, 2007-2011E, March fiscal year-ends (Rs mn)

	2007	2008	2009E	2010E	2011E
Profit model					
Revenues	138,930	166,920	216,717	238,434	272,499
EBITDA	**43,910**	**52,380**	**71,233**	**74,266**	**81,713**
Depreciation	(5,140)	(5,980)	(7,238)	(7,908)	(8,915)
Other income	3,750	7,040	4,254	8,925	10,395
Pretax profits	**42,520**	**53,440**	**68,248**	**75,282**	**83,193**
Tax	(5,100)	(8,060)	(9,917)	(13,490)	(17,587)
Profit after tax	**37,420**	**45,380**	**58,331**	**61,793**	**65,606**
Diluted earnings per share (Rs)	**67.0**	**79.1**	**101.6**	**107.7**	**114.3**
Balance sheet					
Total equity	113,485	137,950	180,511	224,753	271,838
Deferred taxation liability	(920)	(1,190)	(1,190)	(1,190)	(1,190)
Total borrowings	—	—	—	—	—
Minority interest	40	—	—	—	—
Current liabilities	21,500	41,910	36,941	39,599	43,611
Total liabilities and equity	**134,105**	**178,670**	**216,262**	**263,162**	**314,260**
Cash	61,800	83,960	102,507	141,588	182,414
Other current assets	34,345	46,220	57,389	64,078	71,836
Goodwill	—	—	—	—	—
Tangible fixed assets	37,710	47,770	55,646	56,776	59,289
Investments	250	720	720	720	720
Total assets	**134,105**	**178,670**	**216,262**	**263,162**	**314,260**
Free cash flow					
Operating cash flow, excl. working capital	39,790	45,080	61,430	60,776	64,125
Working capital changes	(12,390)	(7,990)	(7,478)	(4,032)	(3,745)
Capital expenditure	(15,100)	(14,940)	(15,115)	(9,038)	(11,428)
Investment changes/acquisition	7,300	(470)	—	—	—
Free cash flow	**19,600**	**21,680**	**38,838**	**47,706**	**48,952**
Ratios (%)					
EBITDA margin	31.6	31.4	32.9	31.1	30.0
EBIT margin	27.9	27.8	29.5	27.8	26.7
Debt/equity	—	—	—	—	—
Net debt/equity	(0.5)	(0.6)	(0.6)	(0.6)	(0.7)
RoAE	40.7	36.1	36.6	30.5	26.4
RoACE	**34.2**	**33.6**	**35.5**	**29.5**	**26.8**

Source: Company data, Kotak Institutional Equities estimates

Economy

Sector coverage view	N/A

Indian economy starts cyclical trough with 5.3% growth in 3QFY09

Mridul Saggar : mridul.saggar@kotak.com, +91-22-6634-1245

Amit Kumar : amit.ckumar@kotak.com, +91-22-6749-3392

- **Real GDP growth slows down to 5.3% in 3QFY09 versus our expectation of 5.7%**
- **Private consumption and investment slows down**
- **Government consumption jumps 24.6%; wage hikes prevent growth from plummeting**
- **Growth may fall to 6.5% in FY2009E (official estimate: 7.1%)**

In our assessment, 3QFY09 marks the onset of the cyclical trough in the Indian economy which may last for four quarters. Official estimates of 3QFY09 real GDP growth at 5.3% were marginally below our estimate of 5.7% and below the Street's estimate of 6.1%. Agriculture growth surprised the street negatively with a 2.2% yoy decline (our estimate of 0.7% yoy decline) and reflected contraction in Kharif crop output. Industrial growth at 0.8% yoy was in line with expectations and was led by a 0.2% decline in manufacturing. Service sector activity also decelerated but still recorded an impressive 9.2% growth on the back of robust 9.5% growth in financing, insurance, real estate and business services and a fiscal stimulus led 17.3% yoy growth in community and social services segments, driven by government expenditure on account of the sixth pay commission wage hikes. We expect the cyclical trough to last four quarters starting 3QFY09 with growth averaging about 5.5%. As a result, we expect growth to average 6.5% in FY2009E (versus official estimate of 7.1%) and 6.0% in FY2010E (versus our earlier estimate of 6.3%).

The real GDP growth in India witnessed a marked slowdown in 3QFY09 with growth slowing down to 5.3% from 7.6% in 2QFY09 and 7.9% in 1QFY09 (see Exhibit 1). India's real GDP growth had averaged 9.3% during 13 quarters from 4QFY05 to 4QFY08, before the economy started slowing down. The official growth estimates were marginally below our estimate of 5.7% and below street estimate of 6.1%, largely led by the higher-than-expected decline in agricultural growth. We discuss the segment-wise breakup of 3QFY09 real GDP growth below.

- **Agriculture**: Growth surprised negatively with a 2.2% yoy decline in 3QFY09 versus our estimate of 0.7% decline. We recognized the possibility of a large contraction in agricultural growth given the official Kharif crop numbers, but considering that CSO had only earlier this month placed the agricultural growth at 2.6% in the Advance Estimates, expected the contraction to be small. However, revised crop data reaffirmed contraction in the Kharif crop with large declines in Kharif production of coarse cereals (13.2%), pulses (24.7%), oilseeds (21.2%), cotton (14.4%) and sugarcane (16.6%).
- **Industrial sector**: The industrial sector in India is facing a cyclical downturn since the start of FY2008 and hit a trough of 0.8% growth in 3QFY09. The yoy decline of 0.2% in manufacturing reflects the uncertainty in the Indian economy, which has resulted in weak consumer sentiment and decline in demand for a wide range of goods, including high-ticket items (durables, autos). We believe industrial growth will remain subdued in 4QFY09E as well given (1) a high base in 4QFY08 and (2) likely continued production cuts to match falling demand in several products.
- **Services sector**: This was the only bright spot with robust 9.2% growth in 3QFY09 (including construction under services). Robust 9.5% and strong 17.3% growth in 'finance, real estate and business services' and 'community and social services' segments was driven by strong growth in banking (20.8% yoy growth in deposits, 23.1% yoy growth in credit) and government expenditure (on account on the sixth pay commission wage hikes).

However, considering that the services sector had recorded double-digit growth for 15 quarters in succession till 1QFY09, we infer that while the services sector is also being impacted by the slowdown, it's impact is mitigated by the fiscal stimulus, which, in our view, is at the cost of fiscal prudence. We expect the services sector to slowdown further in 4QFY09E with 'construction' segment remaining impacted and financing, business and real estate services slowing down further. Anecdotal evidence as well as guidance from large real estate sector players suggests that many projects are on hold. Muted growth in the 'construction' (6.7% yoy growth) and 'trade, hotels, transport and communications' (6.8%) segments was due to a decline in real estate activity and the impact of the global economic downturn on the travel and tourism (including hotels and transport) sector.

FY2009E growth to fall well below official estimates

In our assessment, FY2009E growth would drop to 6.5%, clearly lower than the official 7.1% advance estimate which was released by the CSO just three weeks back (see Exhibit 2). The advance estimates are clearly on the higher side, given that agricultural growth could drop significantly. The agricultural output is likely to contract in FY2009E on the back of Kharif crop contraction and the likelihood that Rabi crop may also be adversely impacted by the poor winter monsoon in spite of satisfactory sowing. The growth in mining sector in 3QFY09 at 5.3% was also way above expected growth as the sector had grown by just 1.5% in 3QFY09 in terms of the IIP. The high growth in mining in 3QFY09 has been the result of disproportionately higher weight of over 50% to coal production under quarterly mining GDP projection.

FY2010E growth still likely at 6.0%

We maintain that real GDP growth in FY2010E may surprise street on the upside. Though we have lowered out real GDP growth projection for FY2010E to 6.0% from our earlier estimate of 6.3%, we see upside risks to this projection if recovery sets in faster than is currently anticipated.

Our GDP growth projection of 6.0% for FY2010E (see Exhibit 3) is higher than the street consensus of about 5.0%. The reasons for the same are: (1) our building in of the impact of new capacities—RIL natural gas and Cairns Rajasthan oilfields—that adds 0.3% to India's GDP, (2) impact of the implementation of wage revisions of the government employees on the recommendation of the Sixth Pay Commission.

Investment demand drops in 3QFY09; counter-cyclical government spending

The data on components of real demand (see Exhibit 4) show that investment demand succumbed to the cyclical downturn in the Indian economy in 3QFY09; the yoy growth in 'capital formation' segment of expenditure on GDP declined to 7.0% in 3QFY09 after a robust 11.3% in 2QFY09. Companies are reducing production at existing locations/ capacities to bring supply in line with falling demand. Their large capex plans riding on the expectation of continuous strong growth in consumption demand are now being scaled back.

'Consumption demand' segment of GDP expenditure continued to remain subdued with modest 5.4% yoy growth in 3QFY09 versus 6.9% and 7.7% growth in 2QFY09 and 1QFY09; consumers have pulled back from spending on high-ticket items (durables, autos) in an uncertain environment but spending on low-ticket items such as FMCG and Telecom continues to hold up well. We do not expect much near-term support (in 4QFY09E) from consumption demand given weak consumer sentiment and an uncertain environment.

Government expenditure has provided the counter-cyclical impetus to GDP growth in 3QFY09, with 'government consumption' rising 24.7% yoy in 3QFY09 versus only 7.9% and 7.1% growth in 2QFY09 and 1QFY09. The increased government expenditure reflects the wage hikes given to employees on account of the sixth pay commission and extra government spending on counter-cyclical initiatives (fiscal stimuli) announced previously. We highlight that the Indian States are also implementing wage hikes in line with the sixth pay commission, which is likely a bigger stimulus given the combined wage bill of the States exceeds that of the Centre.

Exhibit 1: India's 4QFY09 growth likely to be similar to 5.3% 3QFY09 growth

Sector-wise quarterly real GDP growth rates, March fiscal year-ends, 1QFY07-4QFY09E

	Sector	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09E
I	**Agriculture and allied activities**	**2.7**	**3.2**	**4.0**	**4.9**	**4.4**	**4.7**	**6.0**	**2.9**	**3.0**	**2.7**	**(2.2)**	**(2.6)**
II	**Industry (2+3+4)**	**10.0**	**10.7**	**10.3**	**11.5**	**9.6**	**8.6**	**8.6**	**5.8**	**5.2**	**4.7**	**0.8**	**1.4**
2	Mining and quarrying	4.1	3.9	6.0	8.2	1.7	5.5	5.7	5.9	4.8	3.9	5.3	2.4
3	Manufacturing	11.7	12.2	11.3	12.8	10.9	9.2	9.6	5.8	5.6	5.0	(0.2)	1.0
4	Electricity, gas and water supply	4.3	6.6	7.6	5.4	7.9	6.9	4.8	5.6	2.6	3.6	3.3	3.0
III	**Services (5+6+7+8)**	**11.7**	**11.6**	**11.1**	**10.5**	**10.6**	**10.7**	**10.0**	**11.4**	**10.2**	**9.6**	**9.2**	**8.6**
5	Construction	13.1	12.0	10.8	12.2	7.7	11.8	7.1	12.6	11.4	9.7	6.7	3.5
6	Trade, hotels, transport, storage and communication	10.9	12.7	12.1	11.6	13.1	11.0	11.5	12.4	11.2	10.7	6.8	8.6
7	Financing, insurance, real estate and business services	13.6	13.9	14.7	13.4	12.6	12.4	11.9	10.5	9.3	9.2	9.5	8.1
8	Community, social and personal services	10.3	7.2	5.6	5.1	5.2	7.7	6.2	9.5	8.5	7.7	17.3	11.9
IV	**Real GDP at factor cost (I+II+III)**	**9.6**	**10.1**	**9.3**	**9.7**	**9.2**	**9.3**	**8.8**	**8.8**	**7.9**	**7.6**	**5.3**	**5.4**

Source: Central Statistical Organization, Kotak Institutional Equities estimates

Exhibit 2: India's FY2009 real GDP growth likely to drop to 6.5% versus 7.1% official estimate

Growth in real GDP at factor cost and components, March fiscal year-ends, 2007-2010E (%)

					existing	previous
Sector	**FY07**	**FY08**	**FY09AE**	**FY09E**	**2010E**	**2010E**
Agriculture and allied activities	**4.0**	**4.8**	**2.6**	**(0.2)**	**4.0**	**3.5**
Industry	**10.7**	**7.3**	**4.2**	**2.9**	**4.8**	**5.2**
Mining and quarrying	8.8	3.7	4.7	4.0	7.5	7.5
Manufacturing	11.8	8.1	4.1	2.8	4.3	4.8
Electricity, gas and water supply	5.3	5.5	4.3	3.1	5.6	6.1
Services	**11.3**	**10.7**	**9.2**	**9.4**	**6.8**	**7.4**
Construction	11.8	11.2	6.5	8.5	3.3	4.0
Trade, hotels, transport, storage and communication	12.8	12.0	10.3	9.1	6.6	7.1
Financing, insurance, real estate and business services	13.8	11.7	8.6	8.9	5.5	6.8
Community, social and personal services	5.7	6.8	9.0	11.2	10.8	10.6
Real GDP at factor cost	**9.7**	**9.0**	**7.1**	**6.5**	**6.0**	**6.3**

Notes:

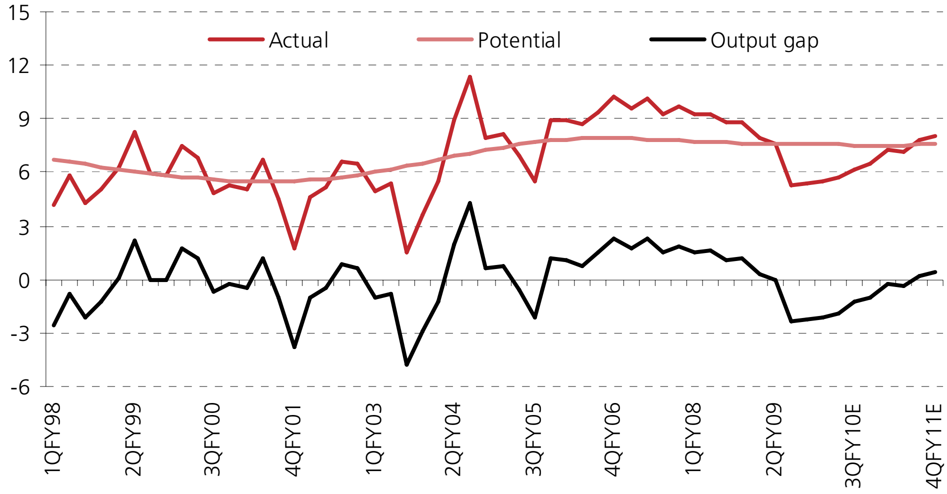
(a) FY2009AE are CSO's Advance Estimates

(b) FY2009E and FY2010E are Kotak Institutional Equities Estimates

Source: Central Statistical Organisation, Government of India, Kotak Institutional Equities estimates

Exhibit 3: Growth likely to fall 2-ppt below potential in 2HFY09E and 1HFY10E

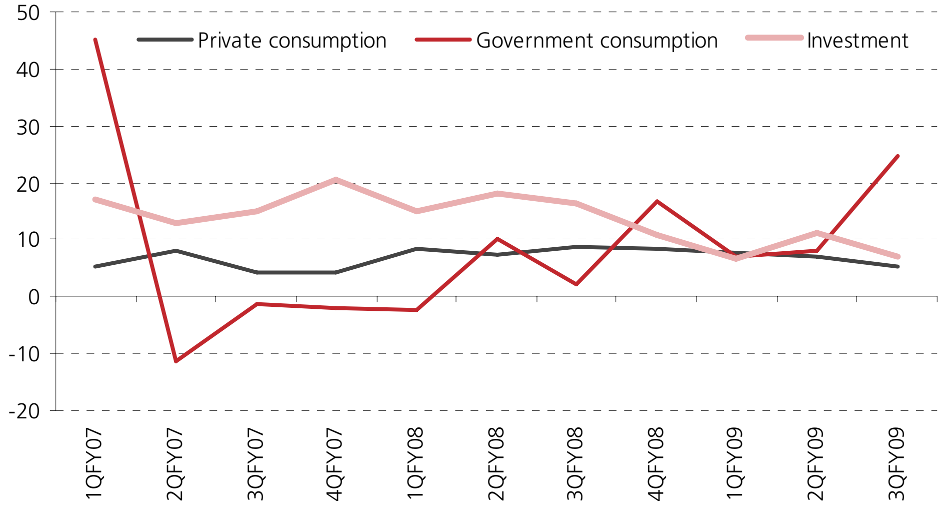
Growth in actual output, potential output and output gap, 1QFY98-4QFY11E (%)



Source: Central Statistical Organization, Kotak Institutional Equities estimates

Exhibit 4: Government spending helps hold aggregate demand in 3QFY09

Growth in components of real aggregate demand, March fiscal year-ends, 1QFY07-3QFY09 (%)



Source: Central Statistical Organisation, compiled by Kotak Institutional Equities

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	27-Feb-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Automobiles																													
Bajaj Auto	535	REDUCE	77,413	1,514	145	59.3	62.1	67.8	(53.4)	4.7	9.1	9.0	8.6	7.9	6.4	6.3	5.5	4.8	4.0	3.2	3.7	3.7	3.7	21.0	40.1	36.3	495	(7.5)	1.3
Hero Honda	930	REDUCE	185,661	3,630	200	48.5	60.2	74.4	12.8	24.3	23.5	19.2	15.4	12.5	12.1	10.2	8.5	6.0	4.8	3.8	2.0	2.2	2.2	34.0	34.8	34.3	890	(4.3)	8.7
Mahindra & Mahindra	312	ADD	80,450	1,573	258	38.1	18.6	31.2	(2.0)	(51.2)	67.9	8.2	16.8	10.0	6.5	11.5	7.7	1.8	1.6	1.3	3.5	3.0	3.1	27.8	10.8	15.1	330	5.9	5.3
Maruti Suzuki	677	ADD	195,740	3,828	289	59.9	45.0	55.0	10.8	(24.8)	22.0	11.3	15.0	12.3	6.4	8.1	6.5	2.3	2.0	1.7	0.7	0.7	0.7	22.2	14.2	15.1	715	5.6	17.4
Tata Motors	149	SELL	83,076	1,624	556	36.5	18.0	18.5	(22.4)	(50.7)	2.8	4.1	8.3	8.1	3.5	8.6	6.5	0.9	0.5	0.6	7.0	—	—	24.7	8.8	7.1	120	(19.6)	8.7
Automobiles		**Cautious**	**622,340**	**12,169**					**(0.8)**	**(25.3)**	**20.6**	**9.5**	**12.7**	**10.6**	6.3	8.7	6.9	**2.3**	**1.8**	**1.6**	**2.7**	**1.7**	**1.7**	**24.6**	**14.4**	**14.9**			
Banks/Financial Institutions																													
Andhra Bank	43	ADD	20,904	409	485	11.9	12.4	10.8	7.0	4.9	(12.9)	3.6	3.5	4.0	—	—	—	0.7	0.6	0.6	9.3	7.2	6.3	18.0	17.4	13.6	75	74.0	0.3
Axis Bank	348	ADD	124,447	2,433	358	32.2	46.8	53.1	37.7	45.3	13.3	10.8	7.4	6.6	—	—	—	1.5	1.3	1.2	1.6	2.6	2.9	17.6	17.8	17.6	750	115.6	31.6
Bank of Baroda	220	ADD	80,453	1,573	366	39.3	52.0	50.5	39.8	32.4	(2.9)	5.6	4.2	4.4	—	—	—	0.9	0.8	0.8	3.6	4.8	4.7	14.6	16.3	14.2	330	49.9	5.5
Bank of India	226	ADD	118,620	2,320	526	40.6	54.1	49.9	76.6	33.1	(7.7)	5.6	4.2	4.5	—	—	—	1.5	1.1	1.0	1.8	2.5	2.3	27.6	28.2	21.1	330	46.3	11.0
Canara Bank	166	REDUCE	67,876	1,327	410	38.2	45.8	38.2	10.1	19.9	(16.6)	4.3	3.6	4.3	—	—	—	0.9	0.8	0.8	4.8	3.6	3.6	15.0	16.7	12.4	220	32.9	4.3
Corporation Bank	167	BUY	23,968	469	143	51.3	62.3	55.8	37.2	21.6	(10.4)	3.3	2.7	3.0	—	—	—	0.6	0.5	0.4	6.3	7.6	6.8	18.4	19.6	15.4	310	85.5	0.5
Federal Bank	124	BUY	21,242	415	171	34.4	31.7	31.6	0.5	(7.7)	(0.3)	3.6	3.9	3.9	—	—	—	0.6	0.5	0.4	3.2	4.7	4.7	13.6	13.1	11.8	280	125.4	1.1
Future Capital Holdings	121	BUY	7,631	149	63	(4.5)	4.5	28.8	(689.8)	(198.6)	546.1	(26.7)	27.1	4.2	—	—	—	1.0	1.0	0.8	—	—	—	(6.7)	3.8	21.4	440	264.5	0.4
HDFC	1,275	REDUCE	365,820	7,153	287	85.8	75.0	85.4	38.2	(12.6)	14.0	14.9	17.0	14.9	—	—	—	3.1	2.7	2.4	1.9	1.8	2.0	27.8	16.7	16.8	1,550	21.6	57.7
HDFC Bank	890	BUY	376,514	7,362	423	46.0	53.5	66.9	28.7	16.4	24.9	19.3	16.6	13.3	—	—	—	3.3	2.6	2.2	0.8	1.1	1.2	17.7	17.3	17.8	1,350	51.8	35.0
ICICI Bank	328	ADD	364,458	7,127	1,113	39.9	34.3	32.8	15.4	(14.0)	(4.5)	8.2	9.5	10.0	—	—	—	0.8	0.7	0.7	3.4	3.1	2.8	11.7	8.0	7.3	465	42.0	99.0
IDFC	53	ADD	68,468	1,339	1,294	5.7	6.0	6.3	3.0	5.3	5.9	9.3	8.8	8.4	—	—	—	1.2	1.1	1.0	2.3	2.0	2.0	17.6	13.2	12.7	75	41.8	12.6
India Infoline	50	ADD	14,283	279	287	5.6	4.9	4.3	85.6	(12.0)	(12.5)	8.9	10.1	11.5	—	—	—	1.2	1.1	1.1	2.4	5.7	5.0	20.7	11.5	9.8	60	20.7	3.6
Indian Bank	86	BUY	37,154	727	430	22.5	27.4	28.0	33.9	21.4	2.4	3.8	3.2	3.1	—	—	—	0.9	0.7	0.6	3.5	4.0	4.1	23.4	22.1	19.1	195	125.6	1.1
Indian Overseas Bank	46	BUY	25,251	494	545	22.1	26.5	21.7	19.2	20.1	(18.1)	2.1	1.7	2.1	—	—	—	0.5	0.4	0.4	8.1	8.9	8.1	27.2	26.4	18.0	120	158.9	1.1
J&K Bank	236	ADD	11,464	224	48	74.2	82.7	72.3	31.2	11.4	(12.6)	3.2	2.9	3.3	—	—	—	0.6	0.5	0.5	6.6	7.3	6.4	16.8	16.5	12.9	480	103.0	0.1
LIC Housing Finance	203	BUY	17,258	337	85	45.5	58.1	58.5	38.7	27.6	0.8	4.5	3.5	3.5	—	—	—	0.9	0.8	0.7	4.9	6.3	6.3	—	—	—	330	62.5	5.2
Mahindra & Mahindra Financial	197	SELL	18,779	367	95	20.8	18.5	22.6	32.6	(11.2)	22.0	9.5	10.6	8.7	—	—	—	1.5	1.3	1.2	2.3	2.3	2.9	16.9	12.8	14.2	190	(3.6)	0.2
Oriental Bank of Commerce	115	ADD	28,850	564	251	23.9	36.5	27.3	(27.6)	52.7	(25.0)	4.8	3.2	4.2	—	—	—	0.6	0.4	0.4	4.1	6.3	4.7	6.2	13.8	8.9	200	73.7	3.0
PFC	144	ADD	165,680	3,240	1,148	11.4	12.2	15.8	2.4	7.3	29.7	12.7	11.8	9.1	—	—	—	1.6	1.5	1.4	2.4	2.6	3.3	13.5	13.6	15.5	145	0.5	1.6
Punjab National Bank	338	BUY	106,446	2,081	315	65.0	91.6	89.9	33.0	40.9	(1.8)	5.2	3.7	3.8	—	—	—	1.1	0.9	0.9	3.9	5.4	5.3	18.0	21.7	18.5	650	92.5	10.7
Shriram Transport	186	REDUCE	37,692	737	203	19.2	28.6	27.0	85.7	49.0	(5.6)	9.7	6.5	6.9	—	—	—	2.2	1.8	1.6	2.7	4.6	4.5	26.9	28.8	23.6	215	15.8	1.4
SREI	30	ADD	3,489	68	116	11.4	7.3	6.9	57.4	(36.2)	(5.7)	2.6	4.1	4.4	—	—	—	0.5	0.3	0.3	4.0	7.7	9.3	23.1	13.1	11.5	50	66.7	0.6
State Bank of India	1,025	BUY	647,447	12,660	631	106.6	135.3	125.5	23.5	27.0	(7.3)	9.6	7.6	8.2	—	—	—	1.5	1.3	1.3	2.1	2.1	2.2	16.8	16.3	13.4	1,600	56.1	92.8
Union Bank	130	BUY	65,463	1,280	505	27.5	34.6	33.3	64.0	25.9	(3.6)	4.7	3.7	3.9	—	—	—	0.9	0.8	0.7	3.1	4.0	3.9	26.8	27.5	21.7	220	69.8	3.7
Banks/Financial Institutions		**Attractive**	**2,819,656**	**55,136**					**37.4**	**22.0**	**(1.2)**	**8.7**	**7.2**	**7.2**	**—**	**—**	**—**	**1.3**	**1.2**	**1.1**	**2.5**	**2.7**	**2.8**	**15.3**	**16.2**	**14.9**			
Cement																													
ACC	540	REDUCE	101,875	1,992	189	64.1	56.0	44.4	13.0	(12.5)	(20.8)	8.4	9.6	12.2	4.3	4.1	5.6	2.3	1.9	1.8	4.3	4.3	4.3	33.3	25.6	17.4	550	1.8	6.5
Ambuja Cements	64	REDUCE	96,747	1,892	1,522	7.6	7.6	5.8	(11.2)	0.2	(23.7)	8.4	8.4	11.0	4.2	4.5	5.3	1.9	1.6	1.5	4.1	4.7	3.0	26.6	20.8	14.1	60	(5.6)	2.8
Grasim Industries	1,373	ADD	125,900	2,462	92	284.6	221.6	171.9	32.6	(22.1)	(22.4)	4.8	6.2	8.0	3.3	3.9	4.2	1.4	1.2	1.0	2.2	2.4	2.4	33.1	20.3	13.8	1,400	2.0	7.8
India Cements	98	ADD	27,482	537	282	24.5	22.7	19.8	n/a	(7.3)	(12.8)	4.0	4.3	4.9	3.6	3.4	3.5	0.8	0.7	0.6	1.9	2.2	2.2	25.8	15.7	14.7	130	33.3	2.5
Shree Cement	563	BUY	19,613	384	35	90.2	129.9	72.5	99.5	44.0	(44.2)	6.2	4.3	7.8	2.6	2.6	3.2	3.0	1.9	1.5	1.4	1.4	1.4	56.9	53.2	21.7	850	51.0	0.2
UltraTech Cement	470	BUY	58,885	1,151	125	81.4	70.9	54.2	28.5	(12.9)	(23.5)	5.8	6.6	8.7	4.0	4.4	5.1	1.8	1.4	1.2	1.6	1.7	1.7	45.2	29.5	17.9	525	11.7	1.1
Cement		**Cautious**	**430,502**	**8,418**					**19.3**	**(9.2)**	**(24.6)**	**6.2**	**6.8**	**9.0**	**3.7**	**4.0**	**4.6**	**1.7**	**1.4**	**1.2**	**3.0**	**3.2**	**2.8**	**26.8**	**20.3**	**13.7**			
Consumer (Discretionary)																													
Radico Khaitan	57	REDUCE	5,794	113	102	2.2	2.6	3.3	(41.4)	15.0	26.3	25.2	21.9	17.4	10.4	10.6	9.1	2.3	2.1	1.9	1.0	—	—	11.7	10.0	11.4	65	14.9	0.4
United Breweries	92	REDUCE	21,976	430	240	2.1	1.9	2.4	(2.2)	(11.4)	31.0	43.5	49.0	37.4	13.5	10.7	8.2	3.6	2.1	2.0	—	—	—	8.0	3.6	5.4	85	(7.2)	0.3
United Spirits	623	BUY	58,644	1,147	94	28.9	32.7	48.0	(52.0)	13.2	46.9	21.6	19.0	13.0	10.3	10.1	8.6	2.6	2.5	1.9	0.3	0.3	0.4	14.0	13.5	16.8	900	44.5	40.8
Consumer (Discretionary)		**Neutral**	**86,415**	**1,690**					**(3.6)**	**15.4**	**40.5**	**25.3**	**21.9**	**15.6**	**10.8**	**10.2**	**8.6**	**2.8**	**2.2**	**1.9**	**0.3**	**0.2**	**0.3**	**10.9**	**9.9**	**12.3**			
Consumer products																													
Asian Paints	786	REDUCE	75,431	1,475	96	39.3	35.7	44.3	40.4	(9.2)	24.3	20.0	22.1	17.7	12.1	13.2	10.2	7.9	6.8	5.7	2.2	2.2	2.5	45.0	34.2	36.2	800	1.7	0.9
Colgate-Palmolive (India)	465	ADD	63,277	1,237	136	17.1	20.4	23.5	16.5	19.4	15.5	27.3	22.8	19.8	22.7	20.0	16.5	34.6	37.5	41.6	2.8	3.9	4.5	100.1	157.8	200.3	490	5.3	0.9
GlaxoSmithkline Consumer (a)	622	ADD	26,146	511	42	38.7	44.8	50.4	26.9	15.8	12.6	16.1	13.9	12.3	8.3	7.5	6.5	3.9	3.4	2.9	1.9	2.4	2.7	27.4	26.7	25.6	700	12.6	0.1
Godrej Consumer Products	128	ADD	32,922	644	258	7.1	6.7	8.7	18.7	(5.5)	31.2	18.1	19.1	14.6	15.7	16.9	11.9	18.5	5.0	4.3	2.8	3.1	3.1	109.6	42.1	43.1	160	25.4	0.2
Hindustan Unilever	254	REDUCE	552,494	10,804	2,179	8.1	9.2	10.7	15.4	12.9	17.0	31.2	27.6	23.6	25.3	22.1	18.1	38.4	35.7	33.0	4.2	3.4	4.0	85.2	134.3	145.7	245	(3.4)	15.8
ITC	183	ADD	689,844	13,489	3,769	8.3	8.7	9.8	15.4	4.6	12.8	22.1	21.1	18.7	14.1	13.0	11.5	5.5	4.8	4.3	1.9	2.0	2.2	27.7	25.4	25.2	200	9.3	16.2
Jyothy Laboratories	59	ADD	4,292	84	73	6.5	7.2	10.6	(8.6)	10.2	47.3	9.0	8.2	5.6	5.3	4.7	3.1	1.3	1.1	1.0	3.9	4.0	4.9	13.5	13.0	16.5	127	114.7	
Nestle India (a)	1,494	ADD	143,997	2,816	96	44.5	56.4	68.1	31.3	26.8	20.7	33.6	26.5	21.9	20.2	16.7	14.1	27.9	21.4	16.7	1.8	2.3	2.8	94.8	91.4	85.4	1,740	16.5	0.7
Tata Tea	580	BUY	35,858	701	62	54.2	60.1	67.7	3.9	10.9	12.7	10.7	9.7	8.6	4.8	5.2	4.1	0.8	0.7	0.7	6.0	3.0	3.4	11.9	10.3	10.8	940	62.1	1.3
Consumer products		**Cautious**	**1,624,261**	**31,761**					**17.1**	**8.7**	**15.9**	**24.5**	**22.5**	**19.4**	**16.1**	**15.0**	**12.7**	**7.6**	**6.7**	**5.9**	**2.8**	**2.7**	**3.0**	**31.0**	**29.6**	**30.5**			
Constructions																													
Consolidated Construction Co.	120	ADD	4,435	87	37	24.0	22.3	27.2	67.6	(7.4)	22.1	5.0	5.4	4.4	3.5	3.7	3.2	1.0	0.8	0.7	2.1	2.7	3.3	27.7	16.8	17.8	190	58.3	0.0
IVRCL	109	BUY	14,740	288	135	15.5	14.9	16.1	27.2	(4.0)	8.0	7.0	7.3	6.8	6.7	6.1	5.1	0.9	0.8	0.7	1.3	0.7	0.7	14.4	11.9	11.5	175	60.7	10.7
Nagarjuna Construction Co.	43	BUY	9,931	194	229	7.2	7.3	8.8	14.5	2.5	19.7	6.0	5.9	4.9	4.6	5.0	4.5	0.6	1.2	0.5	2.6	3.1	3.7	12.6	10.3	11.3	100	130.7	2.4
Punj Lloyd	79	REDUCE	25,601	501	323	10.0	9.6	16.4	323.5	(4.0)	71.5	7.9	8.3	4.8	5.0	6.4	3.9	0.9	0.8	0.7	0.4	0.5	0.9	16.8	10.8	16.3	105	32.7	21.3
Sadbhav Engineering	300	BUY	3,929	77	13	40.5	46.2	57.6	68.2	13.9	24.8	7.4	6.5	5.2	5.5	4.3	3.7	1.3	1.1	0.9	1.3	1.7	2.0	16.5	16.7	18.1	650	116.7	0.1
Construction		**Attractive**	**58,635**	**1,147**					**94.7**	**(1.7)**	**37.3**	**7.0**	**7.1**	**5.2**	**5.2**	**5.7**	**4.2**	**0.9**	**0.8**	**0.7**	**1.2**	**1.3**	**1.6**	**12.5**	**11.1**	**13.4**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	27-Feb-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	383	SELL	125,523	2,454	328	41.3	0.0	42.0	(21.1)	(99.9)	####	9.3	####	9.1	4.3	7.7	4.5	1.0	1.0	0.9	1.2	—	4.9	11.8	0.0	10.2	425	11.0	6.0
Cairn india	167	BUY	312,532	6,111	1,871	(0.1)	4.2	5.0	(105)	(3,619)	20	(1,402)	40	33.3	38.6	22.9	16.3	1.0	0.9	0.9	—	—	—	(0.1)	2.5	2.8	225	34.7	13.5
Castrol India (a)	307	ADD	37,964	742	124	17.6	21.3	25.8	44.4	20.7	21.3	17.4	14.4	11.9	9.5	8.0	6.6	9.2	8.4	7.5	4.6	4.9	5.9	52.2	61.0	66.8	390	27.0	0.3
GAIL (India)	204	ADD	258,262	5,050	1,268	20.4	23.3	19.7	21.0	14.2	(15.6)	10.0	8.7	10.4	4.9	4.6	5.7	1.8	1.6	1.5	3.3	3.6	3.3	18.1	18.3	13.8	240	17.9	9.3
GSPL	33	BUY	18,403	360	563	1.8	1.4	2.4	10.1	(22.4)	68.6	18.1	23.4	13.9	6.5	6.9	4.6	1.5	1.4	1.3	1.5	1.2	2.0	8.8	6.2	9.7	45	37.6	1.5
Hindustan Petroleum	280	SELL	94,855	1,855	339	33.5	(10.5)	30.2	(16.4)	(131.5)	####	8.4	(26.5)	9.3	7.3	7.1	4.8	0.8	0.8	0.7	1.1	—	4.3	9.6	(2.9)	7.6	300	7.2	7.9
Indian Oil Corporation	438	REDUCE	516,188	10,094	1,179	61.3	24.3	46.8	31.0	(60.3)	92.1	7.1	18.0	9.4	4.3	8.4	4.6	1.1	1.1	1.0	1.3	—	4.2	17.4	6.2	10.3	525	19.9	3.8
Oil & Natural Gas Corporation	691	BUY	1,477,971	28,900	2,139	92.7	102.0	107.2	9.1	10.0	5.1	7.5	6.8	6.4	2.6	2.3	2.0	1.5	1.3	1.2	4.6	4.9	5.5	19.6	19.2	17.8	900	30.2	31.3
Petronet LNG	34	ADD	25,425	497	750	6.3	5.5	5.9	—	(12.6)	6.6	5.4	6.1	5.7	3.7	5.6	4.4	1.3	1.1	1.0	4.4	4.4	4.4	26.7	19.2	17.2	52	53.4	1.7
Reliance Industries	1,266	REDUCE	1,738,287	33,991	1,373	105.0	101.1	106.3	25.5	(3.7)	5.2	12.1	12.5	11.9	8.1	7.5	5.4	1.9	1.6	1.3	0.9	1.1	1.3	19.0	14.7	13.4	1,400	10.6	193.1
Reliance Petroleum	76	REDUCE	343,575	6,718	4,500	-	(0.0)	6.5	n/a	n/a	n/a	n/a	n/a	11.7	n/a	n/a	9.0	2.6	2.6	2.2	—	—	2.6	—	(0.0)	20.4	85	11.3	28.9
Energy		**Neutral**	**4,948,984**	**96,773**					**12.9**	**(7.8)**	**25.2**	**10.4**	**11.2**	**9.0**	**5.3**	**5.6**	**4.2**	**1.5**	**1.3**	**1.2**	**2.1**	**2.1**	**3.2**	**14.9**	**11.8**	**13.4**			
Industrials																													
ABB	367	SELL	77,813	1,522	212	23.2	25.5	27.3	44.5	10.0	6.8	15.8	14.4	13.5	8.9	7.9	7.5	4.8	3.7	3.0	0.6	0.8	0.9	34.8	29.2	24.9	425	15.7	4.5
BGR Energy Systems	137	REDUCE	9,886	193	72	12.1	15.3	20.7	(67.4)	26.1	35.4	11.3	9.0	6.6	6.6	5.2	4.6	2.1	1.8	1.4	1.5	1.8	2.5	31.4	21.3	23.9	165	20.2	0.7
Bharat Electronics	861	ADD	68,880	1,347	80	102.0	105.5	111.8	11.2	3.4	6.0	8.4	8.2	7.7	3.5	2.8	2.5	2.1	1.7	1.5	2.4	2.9	2.9	27.7	23.1	20.8	950	10.3	1.1
Bharat Heavy Electricals	1,404	BUY	687,213	13,438	490	58.4	64.9	92.6	22.9	11.2	42.5	24.0	21.6	15.2	12.7	11.3	8.1	6.4	5.2	4.2	1.1	1.0	1.4	29.2	26.6	30.5	1,475	5.1	47.3
Crompton Greaves	124	BUY	45,548	891	367	11.2	13.9	15.6	43.0	24.7	12.1	11.1	8.9	7.9	6.2	5.7	4.8	3.5	2.6	2.0	1.3	1.4	1.5	36.1	33.6	28.9	170	36.8	2.0
Larsen & Toubro	614	REDUCE	363,770	7,113	593	37.9	48.5	55.3	20.8	27.8	14.1	16.2	12.7	11.1	11.4	8.6	7.7	3.1	2.3	2.0	1.4	3.3	3.3	22.7	20.9	19.4	750	22.2	56.4
Maharashtra Seamless	123	BUY	8,647	169	71	29.4	37.4	37.9	(23.5)	27.6	1.2	4.2	3.3	3.2	2.4	2.0	1.9	0.8	0.6	0.5	4.1	4.6	4.6	19.7	21.1	18.0	215	75.4	0.3
Siemens	218	REDUCE	73,450	1,436	337	18.2	14.2	15.7	60.4	(22.2)	10.5	12.0	15.4	13.9	6.4	6.4	7.0	4.0	3.2	2.8	1.1	1.6	2.0	39.9	23.1	21.3	220	1.0	5.1
Suzlon Energy	41	REDUCE	63,697	1,246	1,567	6.6	7.0	4.5	9.5	6.6	(36.4)	6.2	5.8	9.1	4.1	6.6	7.4	0.7	0.6	0.6	2.4	1.2	1.2	16.3	11.3	6.4	60	47.6	43.2
Industrials		**Cautious**	**1,398,903**	**27,354**					**25.3**	**13.1**	**16.4**	**16.0**	**14.1**	**12.1**	**9.2**	**8.2**	**7.1**	**3.4**	**2.7**	**2.3**	**1.3**	**1.7**	**2.0**	**21.1**	**19.3**	**19.0**			
Infrastructure																													
IRB Infrastructure	100	ADD	33,203	649	332	3.4	6.6	13.9	150.9	92.3	111.2	29.1	15.2	7.2	11.2	9.8	5.1	2.0	1.8	1.4	—	—	—	10.7	12.4	21.4	130	30.1	0.6
Media																													
DishTV	25	REDUCE	15,781	309	644	(9.6)	(7.4)	(4.1)	n/a	(23.1)	(44.2)	(2.5)	(3.3)	(5.9)	(9.2)	(12.0)	(57.3)	(3.5)	(2.4)	(7.4)	—	—	—	167.9	86.7	NA	22	(10.2)	2.4
HT Media	50	BUY	11,595	227	234	4.3	3.1	4.8	4.7	(28.5)	53.7	11.4	16.0	10.4	6.1	7.3	4.8	1.3	1.3	1.2	0.8	0.8	1.6	12.2	8.2	11.8	115	132.3	0.1
Jagran Prakashan	48	BUY	14,501	284	301	3.3	2.9	4.1	33.5	(9.7)	38.7	14.8	16.4	11.8	8.0	9.0	6.4	2.7	2.5	2.3	4.2	3.1	4.2	18.7	15.9	20.4	75	55.8	0.0
Sun TV Network	161	BUY	63,545	1,243	394	8.3	9.3	11.4	30.7	12.0	23.0	19.5	17.4	14.1	10.3	9.2	7.6	4.2	3.7	3.4	1.6	2.5	3.7	24.8	23.6	25.8	215	33.3	2.6
Zee Entertainment Enterprises	107	BUY	46,327	906	434	8.9	8.2	9.3	62.6	(7.5)	13.7	12.0	13.0	11.4	9.0	9.4	8.3	1.6	1.4	1.3	1.9	2.2	2.5	14.2	11.8	12.2	145	35.7	5.3
Zee News	29	BUY	7,049	138	240	1.5	1.9	2.1	396.2	24.0	6.9	19.0	15.3	14.3	10.3	8.7	7.7	3.4	2.8	2.5	1.4	1.4	1.7	19.2	20.5	18.9	38	29.3	0.2
Media		**Attractive**	**158,798**	**3,105**					**30.8**	**(17.1)**	**68.2**	**29.6**	**35.7**	**21.3**	**12.1**	**11.9**	**8.5**	**2.8**	**2.6**	**2.2**	**1.7**	**2.0**	**2.8**	**9.5**	**7.3**	**10.5**			
Metals																													
Hindalco Industries	39	ADD	67,651	1,323	1,753	13.8	7.7	2.4	(10.0)	(44.4)	(69.2)	2.8	5.0	16.3	5.4	4.8	6.7	0.3	0.2	0.2	—	—	—	14.4	10.3	5.2	55	42.5	8.2
National Aluminium Co.	208	SELL	134,178	2,624	644	25.3	19.7	10.3	(31.5)	(22.2)	(47.8)	8.2	10.6	20.3	3.6	5.0	6.3	1.4	1.3	1.2	2.9	1.7	1.0	18.3	12.7	6.2	135	(35.2)	2.2
Jindal Steel and Power	1,043	BUY	160,574	3,140	154	101.8	92.4	78.9	123.0	(9.2)	(14.6)	10.2	11.3	13.2	8.5	7.7	8.4	3.8	2.8	2.3	0.5	0.6	0.7	43.8	28.3	18.9	1,250	19.9	18.3
JSW Steel	188	SELL	35,203	688	187	86.1	8.7	21.5	16.1	(89.9)	146.2	2.2	21.5	8.7	4.4	6.9	7.0	0.4	0.3	0.3	7.4	1.1	1.1	20.7	10.2	3.9	185	(1.7)	4.9
Hindustan Zinc	322	BUY	136,203	2,663	423	104.0	66.5	59.0	(1.0)	(36.1)	(11.2)	3.1	4.8	5.5	1.1	1.5	1.6	1.1	0.9	0.8	1.6	2.3	3.1	43.6	20.8	15.7	470	45.8	2.8
Sesa Goa	81	BUY	63,766	1,247	787	19.0	23.2	18.3	146.0	22.6	(21.3)	4.3	3.5	4.4	2.0	1.9	1.6	2.2	1.4	1.1	3.2	4.3	4.3	67.8	50.5	28.9	115	42.0	11.3
Sterlite Industries	245	BUY	173,475	3,392	708	64.3	49.1	40.5	(22.6)	(23.8)	(17.5)	3.8	5.0	6.1	3.3	4.9	6.2	0.7	0.7	0.6	—	—	—	26.1	14.0	10.6	365	49.1	21.3
Tata Steel	173	BUY	142,040	2,777	822	75.7	107.1	69.8	43.8	41.4	(34.8)	2.3	1.6	2.5	3.6	3.1	3.7	0.4	0.3	0.3	8.4	7.5	7.5	46.3	33.7	20.2	290	67.8	43.9
Metals		**Attractive**	**913,089**	**17,855**					**12.7**	**(7.7)**	**(30.4)**	**3.8**	**4.2**	**6.0**	**3.7**	**4.0**	**4.9**	**0.8**	**0.6**	**0.6**	**2.6**	**2.2**	**2.2**	**19.9**	**14.5**	**9.4**			
Pharmaceutical																													
Biocon	102	BUY	20,350	398	200	23.3	5.0	14.5	126.0	(78.4)	186.6	4.4	20.2	7.0	5.5	8.3	4.3	1.4	1.3	1.2	0.1	0.1	0.1	17.6	6.6	17.3	230	126.0	0.4
Cipla	192	REDUCE	148,851	2,911	777	9.0	10.0	12.9	4.9	11.0	29.1	21.2	19.1	14.8	15.6	14.0	10.9	4.0	3.5	3.0	1.0	1.3	1.6	20.1	19.3	21.5	220	14.9	5.2
Dishman Pharma & chemicals	109	BUY	8,837	173	81	14.7	12.6	20.7	30.5	(14.3)	64.4	7.4	8.6	5.2	7.5	7.6	5.0	1.5	1.3	1.1	0.0	0.0	0.0	26.8	16.6	22.9	250	130.1	0.2
Divi's Laboratories	868	BUY	56,055	1,096	65	53.2	65.3	72.2	85.8	22.6	10.5	16.3	13.3	12.0	13.3	10.3	8.6	6.6	4.5	3.4	0.1	0.1	0.1	49.8	40.4	32.2	1,300	49.7	5.4
Dr Reddy's Laboratories	392	BUY	66,297	1,296	169	26.1	28.7	37.8	(57.2)	10.0	31.7	15.0	13.7	10.4	7.5	6.2	5.1	1.5	1.3	1.2	1.0	1.0	1.0	10.3	10.3	12.2	675	72.3	3.9
Glenmark Pharmaceuticals	145	BUY	38,482	752	266	25.8	16.3	17.4	98.4	(37.1)	6.8	5.6	8.9	8.3	5.5	6.5	5.9	2.5	1.7	1.4	0.1	0.0	0.1	57.4	22.4	18.9	390	169.4	8.8
Jubilant Organosys	109	BUY	19,474	381	179	22.4	(3.9)	21.7	72.3	(117.4)	(659)	4.9	(28.0)	5.0	5.9	22.1	6.5	1.5	1.4	1.3	1.1	1.5	1.9	37.0	(5.8)	29.8	300	175.2	0.4
Lupin	649	BUY	57,517	1,125	89	49.8	49.6	59.5	30.2	(0.4)	20.0	13.0	13.1	10.9	15.3	11.6	9.3	4.5	2.8	2.4	1.4	1.5	1.8	37.9	26.9	24.0	950	46.3	1.2
Piramal Healthcare	208	BUY	43,514	851	209	17.7	15.7	20.9	66.8	(11.7)	33.1	11.7	13.3	10.0	9.0	10.0	7.2	4.0	3.3	2.6	2.0	1.9	2.2	30.9	26.1	29.5	340	63.3	1.3
Ranbaxy Laboratories	162	ADD	67,806	1,326	419	23.3	(8.1)	11.6	70.4	NA	NA	6.9	NA	13.9	7.0	(100.4)	4.8	2.3	1.3	0.8	4.7	6.4	7.4	32.3	(8.8)	7.6	340	110.1	9.3
Sun Pharmaceuticals	1,018	BUY	210,741	4,121	207	74.7	86.0	76.7	78.9	15.2	(10.8)	13.6	11.8	13.3	11.3	8.9	9.0	4.1	3.1	2.6	1.0	1.1	1.3	38.3	30.9	22.1	1,675	64.6	17.5
Pharmaceuticals		**Attractive**	**737,924**	**14,429**					**34.1**	**(25.7)**	**45.3**	**12.3**	**16.6**	**11.4**	**9.5**	**10.9**	**7.4**	**3.0**	**2.4**	**1.8**	**1.3**	**1.5**	**1.8**	**24.5**	**14.3**	**16.2**			
Property																													
DLF	152	REDUCE	259,129	5,067	1,705	46.1	30.0	22.7	263.2	(35.0)	(24.4)	3.3	5.1	6.7	3.7	6.4	7.4	1.3	1.1	0.9	2.6	2.6	2.6	66.5	23.1	14.8	190	25.0	89.0
Housing Development & Infrastruc	73	REDUCE	20,207	395	275	51.2	30.6	19.8	118.6	(40.1)	(35.3)	1.4	2.4	3.7	2.8	5.9	6.6	0.6	0.5	0.4	5.3	6.8	8.2	64.5	21.2	12.1	120	63.6	49.2
Indiabulls Real Estate	92	ADD	23,638	462	258	16.4	3.0	3.4	2,383.9	(81.5)	11.6	5.6	30.2	27.0	(547.7)	(1.6)	4.6	0.4	0.4	0.4	0.3	0.1	0.0	10.6	1.3	1.3	180	96.2	28.9
Mahindra Life Space Developer	95	BUY	3,987	78	42	16.8	10.2	10.8	307.7	(39.2)	5.3	5.6	9.3	8.8	10.1	12.8	6.4	0.5	0.4	0.4	2.8	4.1	4.1	8.4	4.8	4.9	410	332.5	0.4
Phoenix Mills	55	BUY	7,959	156	145	12.4	5.4	7.3	89.5	(56.7)	34.7	4.4	10.2	7.6	3.6	10.6	5.9	0.6	0.5	0.5	1.8	1.8	1.8	22.1	5.3	6.8	210	282.2	0.1
Puravankara Projects	38	REDUCE	8,110	159	213	11.2	7.6	7.5	67.3	(32.1)	(2.2)	3.4	5.0	5.1	6.7	10.3	9.8	0.7	0.6	0.6	5.3	—	5.3	34.2	12.9	11.4	55	44.7	0.3
Sobha	80	REDUCE	5,850	114	73	31.7	15.9	11.9	42.9	(50.0)	(24.8)	2.5	5.1	6.7	6.3	7.5	10.7	0.6	0.5	0.5	8.1	5.0	5.0	25.3	11.0	7.8	90	12.1	0.4
Unitech	28	SELL	45,860	897	1,623	10.3	6.9	5.5	28.5	(33.4)	(20.5)	2.7	4.1	5.2	5.3	6.9	8.2	1.3	1.0	0.8	0.9	—	—	59.9	26.8	17.2	24	(15.0)	59.6
Property		**Cautious**	**374,741**	**7,328**					**190.6**	**(37.4)**	**(23.4)**	**3.1**	**5.0**	**6.5**	**4.0**	**6.6**	**7.6**	**1.0**	**0.8**	**0.8**	**2.5**	**2.4**	**2.5**	**32.5**	**16.8**	**11.6**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	27-Feb-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Retail																													
Pantaloon Retail	127	REDUCE	20,191	395	159	7.9	8.3	10.2	90.0	4.4	23.3	16.0	15.3	12.4	9.0	7.3	6.6	1.1	1.1	1.0	0.6	0.6	0.8	8.2	6.7	7.8	165	30.2	1.1
Titan Industries	754	REDUCE	33,447	654	44	35.1	41.4	46.5	55.2	18.2	12.2	21.5	18.2	16.2	14.7	11.1	9.7	7.1	5.4	4.3	1.1	1.3	1.5	37.7	33.8	29.7	930	23.4	3.0
Vishal Retail	36	ADD	806	16	22	18.1	10.6	10.8	37.2	(41.2)	1.9	2.0	3.4	3.3	4.5	4.3	3.4	0.3	0.3	0.3	—	—	—	20.2	8.3	7.8	75	108.3	0.2
Retail			**54,445**	**1,065**					**31.9**	**5.4**	**15.8**	**16.9**	**16.0**	**13.9**	**9.9**	**7.9**	**6.9**	**2.1**	**1.9**	**1.7**	**0.9**	**1.0**	**1.2**	**12.4**	**12.1**	**12.5**			
Technology																													
HCL Technologies	100	REDUCE	69,639	1,362	695	15.3	18.7	17.3	(19.0)	22.4	(7.7)	6.6	5.4	5.8	2.9	3.7	3.4	1.4	1.1	1.0	8.0	12.0	12.0	21.4	21.3	18.1	140	39.7	3.9
Hexaware Technologies	25	SELL	3,596	70	142	7.7	4.1	3.0	(13.7)	(46.4)	(27.8)	3.3	6.2	8.5	0.3	0.7	1.6	0.5	0.5	0.5	3.6	4.0	4.0	15.1	8.6	6.3	25	(1.2)	1.4
Infosys Technologies	1,231	BUY	706,738	13,820	574	79.1	101.6	107.7	18.0	28.5	5.9	15.6	12.1	11.4	11.9	8.5	7.6	5.1	3.9	3.1	2.7	2.0	2.1	36.1	36.6	30.5	1,500	21.8	50.8
Mphasis BFL	169	REDUCE	35,131	687	208	12.2	22.3	23.4	67.6	81.7	5.0	13.8	7.6	7.2	8.2	4.8	3.9	3.0	0.4	1.8	2.1	2.4	2.7	23.6	34.6	28.4	190	12.8	0.8
Mindtree	204	BUY	8,074	158	40	26.7	21.0	37.1	12.3	(21.6)	76.9	7.6	9.8	5.5	6.7	3.1	2.8	1.5	1.3	1.0	1.3	—	—	21.3	11.9	17.8	400	95.7	0.2
Patni Computer Systems	98	SELL	12,540	245	128	33.2	26.8	17.5	29.2	(19.3)	(34.7)	2.9	3.6	5.6	(0.2)	(0.2)	(0.5)	0.5	0.5	0.4	2.2	1.9	3.6	19.2	16.2	7.9	130	33.1	0.3
Polaris Software Lab	41	SELL	4,075	80	98	7.4	14.9	12.7	(27.6)	100.0	(14.9)	5.6	2.8	3.3	1.9	0.7	0.5	0.6	0.5	0.5	4.2	4.2	4.2	11.7	20.4	15.0	50	20.6	1.9
TCS	483	REDUCE	472,766	9,245	979	51.3	53.9	55.7	21.5	5.1	3.3	9.4	9.0	8.7	7.5	6.3	5.9	3.8	3.0	2.6	2.9	3.9	4.6	47.0	37.8	32.1	550	13.8	18.3
Tech Mahindra	249	BUY	30,981	606	125	59.1	67.6	58.7	25.7	14.5	(13.2)	4.2	3.7	4.2	3.7	2.1	2.0	2.5	1.5	1.1	2.2	2.4	2.5	70.7	53.1	31.6	320	28.7	2.4
Wipro	208	ADD	303,365	5,932	1,462	22.2	25.1	26.2	12.6	12.8	4.3	9.3	8.3	7.9	7.4	5.6	4.9	2.3	1.9	1.7	3.0	3.6	3.8	27.9	25.7	22.6	280	34.9	9.6
Technology		**Cautious**	**1,646,904**	**32,204**					**15.7**	**17.0**	**2.2**	**10.6**	**9.0**	**8.8**	**7.8**	**6.0**	**5.5**	**3.2**	**2.6**	**2.2**	**3.0**	**3.3**	**3.6**	**30.3**	**28.4**	**24.4**			
Telecom																													
Bharti Airtel Ltd	639	BUY	1,211,809	23,696	1,898	35.3	44.2	52.1	65.0	25.1	18.0	18.1	14.5	12.3	11.0	8.3	7.0	5.4	3.9	2.9	—	0.6	0.9	39.1	31.4	27.5	725	13.5	58.0
IDEA	47	REDUCE	152,109	2,974	3,236	3.9	2.6	2.8	78.5	(33.2)	6.0	11.9	17.8	16.8	9.2	6.2	5.7	4.3	1.1	1.1	—	—	—	36.4	10.1	6.7	55	17.0	4.9
MTNL	64	SELL	40,509	792	630	7.1	4.0	4.1	(11.0)	(44.3)	2.6	9.0	16.2	15.8	0.9	2.9	2.2	0.3	0.3	0.3	6.2	9.3	9.3	3.5	1.6	1.6	50	(22.2)	1.0
Reliance Communications	155	SELL	320,852	6,274	2,064	26.5	26.7	22.2	86.4	0.7	(16.5)	5.9	5.8	7.0	5.6	6.5	6.0	1.1	0.9	0.8	0.5	0.5	—	16.8	18.4	12.9	200	28.7	54.6
Tata Communications	404	REDUCE	115,240	2,253	285	10.9	13.6	14.0	(36.3)	24.0	3.2	36.9	29.8	28.9	15.4	12.8	11.6	1.7	1.7	1.6	1.1	1.2	1.6	4.4	5.4	5.2	400	(1.1)	2.4
Telecom		**Cautious**	**1,840,518**	**35,990**					**65.7**	**12.7**	**3.2**	**12.7**	**11.3**	**11.0**	**8.8**	**7.6**	**6.6**	**2.5**	**1.9**	**1.6**	**0.5**	**0.8**	**0.9**	**19.6**	**16.7**	**14.8**			
Transportation																													
Container Corporation	635	REDUCE	82,557	1,614	130	57.7	68.3	72.9	7.8	18.3	6.8	11.0	9.3	8.7	7.3	6.0	5.4	2.6	2.2	1.8	2.0	2.4	2.6	25.8	25.3	22.6	800	26.0	0.6
Transportation		**Cautious**	**82,557**	**1,614**					**7.8**	**18.3**	**6.8**	**11.0**	**9.3**	**8.7**	**7.3**	**6.0**	**5.4**	**2.6**	**2.2**	**1.8**	**2.0**	**2.4**	**2.6**	**23.6**	**23.1**	**20.9**			
Utilities																													
CESC	208	BUY	25,924	507	125	27.8	31.9	36.9	(23.3)	14.9	15.8	7.5	6.5	5.6	3.9	3.6	4.8	0.8	0.7	0.6	1.9	2.2	2.6	12.5	11.7	11.9	385	85.5	0.6
Lanco Infratech	126	BUY	28,032	548	222	14.8	15.2	19.9	75.2	2.6	30.9	8.5	8.3	6.3	8.3	16.2	10.9	1.5	1.3	1.1	—	—	—	19.7	16.9	18.5	320	153.8	6.4
NTPC	185	REDUCE	1,525,411	29,828	8,245	9.3	9.3	10.9	7.9	0.1	16.7	19.8	19.8	17.0	13.8	13.8	12.7	2.8	2.6	2.4	1.9	1.9	2.2	14.9	13.6	14.6	180	(2.7)	25.9
Reliance Infrastructure	491	BUY	113,388	2,217	231	37.6	59.9	56.2	13.9	59.4	(6.2)	13.1	8.2	8.7	8.7	8.8	9.0	0.7	0.7	0.6	1.3	1.5	1.7	4.3	6.2	6.7	970	97.5	81.7
Reliance Power	100	REDUCE	239,555	4,684	2,397	0.4	1.3	2.5	—	252.9	82.7	262.8	74.5	40.8	—	—	—	1.8	1.7	1.7	—	—	—	1.3	2.3	4.2	120	20.1	11.2
Tata Power	727	BUY	161,794	3,164	223	31.8	65.8	95.2	19.5	106.7	44.5	22.8	11.0	7.6	11.3	8.7	8.3	1.9	1.6	1.3	1.5	1.5	1.7	9.6	15.4	18.8	1,140	56.8	9.9
Utilities		**Attractive**	**2,094,105**	**40,948**					**12.2**	**15.7**	**19.7**	**20.9**	**18.0**	**15.1**	**13.1**	**13.3**	**12.9**	**2.1**	**2.0**	**1.8**	**1.6**	**1.6**	**1.8**	**10.3**	**11.0**	**12.0**			
Others																													
Aban Offshore	317	REDUCE	12,017	235	38	72.3	140.2	342.5	(1,066)	94.0	144.3	4.4	2.3	0.9	10.7	7.4	4.1	1.4	0.8	0.4	1.1	1.3	1.6	51.7	44.2	52.4	500	57.6	11.2
Educomp Solutions	1,646	BUY	31,301	612	19	35.2	64.2	108.1	114	82.7	68.3	46.8	25.6	15.2	25.0	11.1	6.8	10.2	4.3	3.4	0.1	0.4	0.6	33.5	23.4	24.3	2,550	54.9	81.8
Havells India	106	REDUCE	6,421	126	61	26.6	(1.0)	10.3	40	(103.7)	####	4.0	####	10.3	4.9	6.6	5.7	0.9	0.9	0.9	2.3	3.1	3.9	33.7	(0.9)	8.5	120	13.1	0.1
Jaiprakash Associates	66	BUY	92,628	1,811	1,403	4.9	5.3	7.1	7	8.6	33.4	13.5	12.4	9.3	11.3	9.9	8.5	1.9	1.6	1.4	0.0	0.0	0.0	15.4	13.9	16.3	105	59.1	38.0
Jindal Saw	160	BUY	9,810	192	61	66.6	86.9	82.9	(43)	30.6	(4.7)	2.4	1.8	1.9	2.4	1.1	0.7	0.3	0.2	0.2	4.5	8.2	9.4	12.5	14.4	12.3	500	212.6	0.4
PSL	67	BUY	2,920	57	44	21.1	24.3	43.7	4	15.3	79.6	3.2	2.8	1.5	3.1	3.5	2.6	0.5	0.4	0.4	7.6	7.5	9.0	11.3	10.6	14.2	145	116.4	0.1
Welspun Gujarat Stahl Rohren	62	BUY	11,723	229	189	20.6	20.9	21.0	94	1.5	0.7	3.0	3.0	3.0	5.2	3.6	3.0	0.7	0.5	0.5	2.1	2.9	2.0	27.1	20.0	17.3	100	61.0	3.5
United Phosphorus	88	BUY	40,864	799	462	9.3	11.4	14.8	30	21.7	30.4	9.5	7.8	6.0	6.1	4.6	3.0	1.8	1.3	1.1	1.1	1.7	2.3	20.0	18.7	20.0	190	114.8	1.0
Others			**207,684**	**4,061**					**26.3**	**45.4**	**40.0**	**9.8**	**6.7**	**4.8**	**8.3**	**6.5**	**4.9**	**1.5**	**1.1**	**0.9**	**0.8**	**1.2**	**1.4**	**15.0**	**17.1**	**19.8**			
KS universe (b)			**20,133,666**	**393,697**					**25.9**	**1.1**	**6.1**	**10.3**	**10.2**	**9.6**	**6.7**	**6.9**	**6.2**	**1.8**	**1.6**	**1.4**	**2.0**	**2.1**	**2.5**	**18.0**	**15.3**	**14.5**			
KS universe (b) ex-Energy			**15,184,682**	**296,924**					**30.7**	**4.0**	**0.6**	**10.3**	**9.9**	**9.8**	**7.4**	**7.6**	**7.3**	**2.0**	**1.6**	**1.5**	**2.0**	**2.1**	**2.3**	**19.3**	**16.7**	**15.0**			
KS universe (d) ex-Energy & ex-Commodities			**13,841,091**	**270,651**					**35.9**	**7.1**	**7.3**	**11.8**	**11.0**	**10.3**	**9.3**	**9.0**	**8.0**	**2.2**	**1.9**	**1.7**	**1.9**	**2.1**	**2.3**	**18.9**	**17.0**	**16.1**			

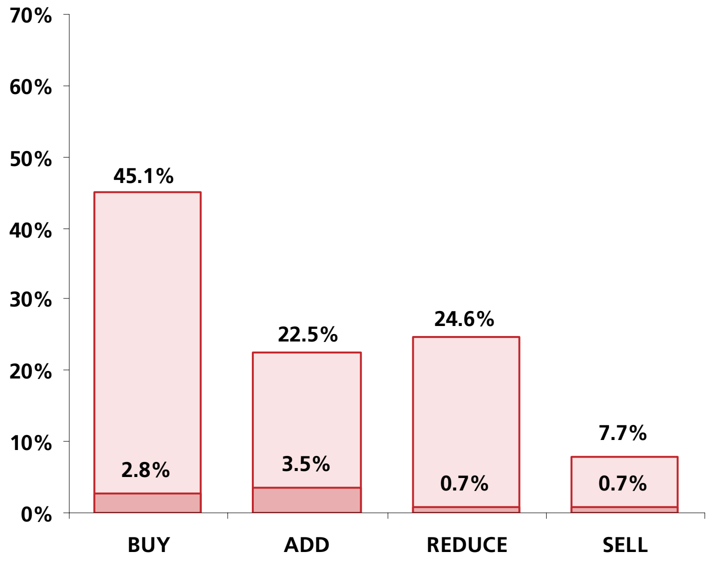
Note:
(1) For banks we have used adjusted book values.
(2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 51.14

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

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

Source: Kotak Institutional Equities

As of December 31, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

Other definitions

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

Other ratings/identifiers

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

Corporate Office
Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices
Kotak Mahindra (UK) Ltd.
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc.
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advise to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund.Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition , investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.