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**Oil & Natural Gas Corporation:** Increased risk to earnings may result in muted near-term stock performance

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### News Roundup

- Swedish equipment major **Ericsson** and Chinese manufacturer of telecom gear Huawei have been shortlisted by Bharat Sanchar Nigam Ltd for its mega 93-million-line cellular project. (BL)
- Religare**, owned by the erstwhile Ranbaxy family, is leading the race among eight others to buy out AIG Investments that manages nearly \$100 billion from over 45 locations globally. (ET)
- Anil Ambani group company **Reliance Infrastructure** is likely to invest about Rs 1,650 crore in various projects by the end of 2009-10, a global investment banking major has said. (ET)
- They may not be as big as their global peers in terms of revenue and profits, but Indian companies are top of the lot in terms of their reputation, as per a study that has ranked **Tatas** as more reputed than the likes of Google, Microsoft, Coca-Cola, GE and Walt Disney. (ET)
- Luxury car maker **Porsche** and Europe's biggest auto producer **Volkswagen** agreed on Wednesday to forge a merged German car giant, stepping up the momentous changes shaking the industry worldwide. (Live Mint)
- Shares of **Bharati Shipyard Ltd** and **Great Offshore** rose on Friday after **Bharati** acquired the 14.9% stake of Great Offshore that was pledged with the company. (Live Mint)
- FMCG major, **Godrej Consumer Products Ltd** (GCPL), is eyeing acquisitions in emerging markets and has earmarked up to \$1 billion for the purpose in the current fiscal. (Live Mint)
- Midas Touch Investors' Association** (MTIA) has approached the **National Consumer Redressal Commission** seeking compensation of Rs 4,987.50 crore (about \$1 billion) for three lakh Satyam shareholders. (ET)

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

### EQUITY MARKETS

India	Change, %			
	8-May	1-day	1-mo	3-mo
Sensex	11,876	(2.0)	9.9	23.5
Nifty	3,621	(1.7)	8.3	23.8

#### Global/Regional indices

	8-May	1-day	1-mo	3-mo
Dow Jones	8,575	2.0	6.1	8.0
FTSE	4,462	1.4	12.0	5.4
Nikkie	9,367	(0.7)	4.5	17.9
Hang Seng	17,381	(0.1)	16.6	28.4
KOSPI	1,409	(0.2)	5.5	18.4

#### Value traded - India

	Moving avg, Rs bn		
	8-May	1-mo	3-mo
Cash (NSE+BSE)	222.4	209.4	151.8
Derivatives (NSE)	562.4	634.7	301
Deri. open interest	715.5	757	507

#### Forex/money market

	Change, basis points			
	8-May	1-day	1-mo	3-mo
Rs/US\$	49.3	0	(91)	73
10yr govt bond, %	6.3	4	(63)	51

#### Commodity market

	Change, %			
	8-May	1-day	1-mo	3-mo
Gold (US\$/OZ)	913.7	(0.3)	3.6	(2.7)
Silver (US\$/OZ)	14.0	(0.1)	13.1	3.4
Crude (US\$/BBL)	57.4	(0.6)	6.5	30.7

#### Net investment (US\$m)

	7-May	MTD	CYTD
FIs	80	436	457
MFs	6	69	(53)

#### Top movers -3mo basis

Best performers	Change, %			
	8-May	1-day	1-mo	3-mo
Jsw Steel Limited	409	(4.6)	17.8	86.3
Jaiprakash Associati	142	2.6	24.8	85.8
Sterilite Industries In	490	(5.1)	23.9	78.9
Mahindra & Mahinc	493	(4.5)	13.1	76.0
Bharat Forge Limite	141	(0.9)	16.4	73.1

#### Worst performers

	8-May	1-day	1-mo	3-mo
Housing Developme	174	1.7	45.9	102.1
Ranbaxy Laboratori	179	(0.6)	(5.7)	(19.3)
Hindustan Petroleu	246	(2.8)	(6.3)	(18.2)
Bharat Petroleum C	358	(0.3)	(6.8)	(12.7)
Hindustan Unilever	233	1.0	0.0	(10.1)

#### Kotak Institutional Equities Research

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**Banking****SBI.BO, Rs1325**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,600
52W High -Low (Rs)	1714 - 892
Market Cap (Rs bn)	841.1

**Financials**

March y/e	2009	2010E	2011E
Sales (Rs bn)	335.6	363.1	434.9
Net Profit (Rs bn)	91.2	76.9	88.4
EPS (Rs)	143.6	121.1	139.2
EPS gth	34.8	(15.7)	14.9
P/E (x)	9.2	10.9	9.5
P/B (x)	1.7	1.8	1.5
Div yield (%)	2.2	2.3	2.4

**Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
16.2	14.3	8.4	(21.3)

**Shareholding, March 2009**

	% of Pattern Portfolio	Over/(under) weight
Promoters	59.4	-
FIs	12.2	2.0 (0.5)
MFs	5.4	4.1 1.6
UTI	-	- (2.5)
LIC	9.6	5.3 2.7

**State Bank of India: Growth ambitions lead to lower margins; Asset quality trend seems manageable; Maintain BUY**

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- **Significant deposits in 3QFY09 and subsequent PLR cuts see sharp decline in margins. We estimate NIM in 4QFY09 at about 2.4%**
- **PAT was Rs27.4 bn (up 46% yoy) led by strong treasury gains and lower provisions**
- **NPLs rose on accounting for Ratnagiri Power. Restructured assets (1.6%) comfortable; Retain BUY**

State Bank of India (SBI) reported PAT of Rs27.4 bn (up 46% yoy) and 26% ahead of estimates. Key highlights for the current quarter were (1) sharp decline in margins to 2.4% post huge accretion of deposits in 3QFY09 at high rates—anticipated by us in our previous two quarterly updates; (2) strong treasury gains of Rs15.2 bn; (3) increase its gross NPLs, but largely due to recognition of Dabhol and (4) restructured assets at 1.6% of loan book. While margin trend is a disappointment, we expect a gradual improvement in margins as deposit costs moderate. Even as asset quality has worsened, restructured asset numbers are a positive surprise. We largely maintain our net earnings for FY2010E and FY2011E. The stock trades at 0.9X FY2010E PBR and 7X 2010E PER, adjusting for non-bank subsidiaries. We retain our BUY rating on the stock with a target price of Rs1,600 (unchanged).

**Huge deposit accumulation takes a toll on margins.** SBI's continued focus on building its balance sheet has now started to impact margins, as lending avenues have slowed down over the past few quarters. For FY2009, deposits grew by 38% yoy, a large part of this during the August-December 2008, at higher rates. SBI has done a commendable job in growing its CASA deposit base by 23% yoy in FY2009, despite a very challenging environment for growing its CASA deposits. However, due to a sharp accretion of term deposits, CASA ratio declined to 39% as of March 2009 from 43% as of March 2008. The strong growth in CASA deposits could be on account of the company's proactive strategy of the past few years of leveraging its corporate relationships to strengthen its liability franchise like providing services like bulk salary accounts, etc..

Net loans grew by 30% in FY2009. However, it has to be noted that SBI chose to grow at a very slow pace in the high stress environment of 3QFY09. Loan growth was well diversified with large corporates growing by 47%, mid corporates growing by 23%, SMEs up by 23%, agriculture loans increasing by 19% and international loans growing by 54% in FY2009.

Investments grew by 43% and largely during 2HFY09, as lending avenues slowed down and incremental deposit accumulation was deployed in investments. The management stated that its SLR / NDTL has increased to 29%. The current liquidity situation allows SBI to cut deposit rates sharply, which should allow the company to improve its NIM faster. However, we note that despite reducing rates, SBI is still offering rates comparable to other banks. We believe that SBI is in an ideal position to offer lower than industry rates as it could support higher loan growth with much lower deposit growth in FY2010E.

**Margins decline sharply in 4QFY09 to 2.4%.** On back of a strong deposit accumulation in deposits, costs increased sharply, resulting in a margin decline. While for FY2009, margins declined to 2.93% from 3.07% in FY2008, we estimate that the margins in 4QFY09 have declined to 2.4% (about 3.2% in 3QFY09). While a decline in margins was largely expected, the steep decline has come in lower than our expectations. NII in 4QFY09 was much below our expectations and grew by just 1%.

**Expect margins to improve, but improvement likely to be a gradual process.** We believe that the 4QFY09 NIM is the lowest for SBI and is likely to improve going forward as (1) SBI has not reduced its lending rate (PLR) aggressively as compared to some other public banks (about 70-75% of loans are linked to PLR) (2) deposits costs have started to come down and expect gradual repricing of deposits, (3) asset side rebalancing of shifting short-term investments to loans as the economy picks up could improve the yield on resources. SBI management stated that they have raised Rs400 bn in the 1,000-day deposit scheme paying an average rate of around 10%. We note that these deposits are just 5.5% of the deposit base and might not influence the overall cost of funds. Overall, SBI has raised Rs2 tn of term deposits in FY2009. A large part of the other term deposits accumulated in FY2009 had a maturity of 12 to 18 months and help the funding costs starting 2QFY09 onwards. SBI has already reduced deposit rates by 150-250 bps from peak rates across most maturities. However, we believe that this margin improvement process is likely to be gradual and the positive impact shall only be visible from 3QFY10 onwards, when a large part of the deposits start maturing. We model a 33 bps decline in NIM in FY2010E compared to FY2009. However, NIM in FY2011E is likely to improve by 20 bps compared to FY2010E.

**Fee income continues to be healthy and aids earnings.** SBI continues to report strong momentum in its non-interest revenues. The non-interest income (excluding treasury) in 4QFY09 was Rs32 bn (up 27% yoy). The core fee income was up by 34% yoy at Rs29.6 bn likely reflecting better utilization of the core banking solution for cross-selling and improved pricing power in the current environment. We have assumed a moderation in the fee income growth in FY2010E to 18% yoy. Note that SBI is a significant player in the payments business (apart from receipts business like tax collection) of government of India, hence, in an environment of high government spending, the company could be expected to make healthy fee income.

Treasury income of SBI was Rs15.2 bn, which was 4X of income booked in 4QFY08 and more than twice the income reported in 3QFY09. The positive fallout of a huge deposit accretion has given SBI a lot of liquidity to make gains on its treasury portfolio. We believe that SBI continues to have huge unrealized gains on its book (at current yield levels), which it shall be able to book in future quarters. We estimate SBI to report treasury gains of Rs16 bn in FY2010E versus gains of Rs25 bn in FY2009.

### **Operating expenses increased due to higher pension provisions**

In 4QFY09, operating expenses increased 32% yoy to Rs43 bn. While core employee expenses declined by 9% yoy, pension provisions were Rs4.9 bn, against a reversal of Rs4.8 bn in 4QFY08. Even other operating expenses increased by 32% yoy due to aggressive branch/ATM expansion and marketing expenses. During the year, SBI has recruited more than 33000 employees and added 800 branches. This significant addition to employee base is likely to lead to higher costs and impact the cost-to-income ratio as income growth tapers off in FY2010E. Cost to Income ratio has fallen to 47% in FY2009, we expect it to increase back to 50%, as income growth is likely to be slower in FY2010.

**Reported asset quality deteriorates as exposure to Ratnagiri Gas & Power is accounted as NPL.** Gross NPL ratio and net NPL ratio of SBI as of 4QFY09 stood at 2.8% and 1.8%. Gross NPLs increased by 17% qoq in absolute terms and net NPL increased by 39% qoq. However, a large part of this increase in reported NPLs was on account of recognizing exposure to Ratnagiri Gas & Power as NPL. This is as per the RBI directive which required all banks with exposure to this entity to be classified as non-standard loans. SBI had an exposure of Rs16.4 bn to this entity. Thus, out of Rs23 bn of addition to NPLs, slippage on account of this single exposure was Rs16 bn. The management also stated that this loan might get upgraded to performing category in 1QFY10E as all the relevant linkages for the functioning of this project are in place. International NPLs at Rs10 bn also accounted for a large part of the increase in NPLs in FY2009. The management mentioned they are comfortable with the domestic asset quality as of now.

SBI's provision coverage ratio stands at 39% as it follows the RBI's provisioning policy, unlike some of the other banks that have a more conservative policy. Consequently, the provision coverage ratio of the company is amongst the lowest in the industry. During the quarter, SBI made loan loss provisions of Rs11.8 bn. Nevertheless, overall provisions held for NPLs declined qoq, indicating SBI has fully written off Rs16 bn of loans 4QFY09, which also resulted in lower provision coverage and also had a positive impact on tax rates (tax rates were 29% in 4Q, lower than historic rates).

Slippages increased to 2.6% (including Dabhol) of opening loan book in FY2009 as against 2.3% in FY2008. We are building in slippage levels to increase to 4% in FY2010, as we expect some restructured assets to become NPLs over the next four quarters

**Restructured assets at 1.6% provide comfort.** SBI reported its restructured loans at Rs83 bn, which is just 1.6% of total loans. This is much lower than our expectations and lower than many other public banks which have declared earnings thus far. However, SBI has reported these restructuring numbers as facility wise and not borrower wise. Many other banks are reported their restructured assets on the borrower basis, thus this is strictly not comparable. Nevertheless, we view a 1.6% restructured loans as a positive. The total slippage including restructured assets is over 4% in FY2009. We currently model a 4% slippage ratio in FY2010E leading to a gross NPL ratio of 4.9% compared to 2.8% as of March 2009.

#### **Current valuations are comfortable**

We believe that our current estimates are conservative and likely factor in the impact on earnings due to lower NIM, lower fee income growth, higher credit provisions on account of likely NPLs apart from assuming lower treasury gains over the next 3-4 quarters. Our expectations on treasury profits are modest at around Rs16 bn and Rs14 bn in FY2010E and FY2011E compared to Rs25 bn of income in FY2009. Further, our long-term RoE expectation of the company is 15% and our valuation of its banking subsidiaries at 1X APBR FY2009E, which is undemanding, in our view. The stock is attractively valued at 7X PER and 0.9X PBR FY2010E (banking business). The stock has also already underperformed the broad markets by 7% over the past three months and 11% over the past six months. We retain our BUY rating with a target price of Rs1,600.

## State Bank of India, Quarterly results, Rs mn

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	% chg	4QFY09KS	Actual Vs KS
Income earned	135,767	137,992	155,665	180,303	173,424	28	176,414	(2)
Income on advances	96,035	100,140	114,821	128,366	120,836	26	127,605	(5)
Income on investments	32,118	35,079	38,287	41,804	42,309	32	51,309	(18)
Interest on balance with RBI	7,615	2,773	2,557	10,134	10,279	35	(2,500)	(511)
Interest expense	87,761	89,815	101,112	122,722	125,005	42	120,821	3
<b>Nil adjt for invest. amortization</b>	<b>48,006</b>	<b>48,177</b>	<b>54,554</b>	<b>57,582</b>	<b>48,419</b>	<b>1</b>	<b>55,593</b>	<b>(13)</b>
Other income	28,171	24,039	23,431	32,256	47,182	67	32,344	46
Invnt. income	2,965	2,228	1,616	6,740	15,190	412	4,416	244
Other income excl. treasury	25,207	21,810	21,816	25,516	31,992	27	27,928	15
<b>Total income</b>	<b>76,177</b>	<b>72,215</b>	<b>77,985</b>	<b>89,838</b>	<b>95,602</b>	<b>5</b>	<b>87,937</b>	<b>9</b>
Operating expenses	32,447	32,592	36,053	45,011	42,835	32	39,188	9
Staff expenses	20,442	20,352	21,173	21,990	18,620	(9)	22,194	(16)
Pension contributions	(4,746)	958	1,039	8,466	4,880	(203)	-	-
Other operating expenses	16,751	11,282	13,841	14,556	19,335	15	16,995	14
Pre-provision operating profit	43,731	39,623	41,932	44,826	52,767	21	48,748	8
Provisions and extr. Ord.	16,192	15,495	6,106	1,968	13,777	(15)	19,893	(31)
Loan loss provisions (incl. standard asset prov)	13,159	(2,111)	10,930	5,151	11,787	(10)	18,492	(36)
Standard assets	2,490	363	1,820	-	NA			
Investment depreciation	2,168	16,566	(4,803)	(3,416)	NA	(100)	2,653	(100)
Other provisions	865	1,040	(22)	239	NA			
<b>PBT</b>	<b>27,539</b>	<b>24,129</b>	<b>35,826</b>	<b>42,858</b>	<b>38,990</b>	<b>42</b>	<b>28,856</b>	<b>35</b>
Less tax	8,707	7,721	13,229	18,074	11,571	33	7,061	64
<b>Profit after tax</b>	<b>18,832</b>	<b>16,408</b>	<b>22,597</b>	<b>24,784</b>	<b>27,419</b>	<b>46</b>	<b>21,795</b>	<b>26</b>
Fees to PBT (%)	111.1	53.3	37.2	37.5	87.0		109.8	
Treasury income/PBT (%)	2.9	(59.4)	17.9	23.7	39.0		6.1	
Cost income ratio (%)	42.6	45.1	46.2	50.1	44.8		44.6	
Tax rate (%)	31.6	32.0	36.9	42.2	29.7		24.5	
<b>Key balance sheet data (Rs bn)</b>								
Advances gross	4,473	4,483	5,001	5,103	5,736	28		
Advances net	4,168	4,432	4,934	5,038	5,425	30		
Housing finance	446	461	506	521	541	21		
Agriculture	458.0	404	489	NA	547.0	19		
Deposits	5,374.1	5,619	6,197	6,929	7,420.7	38		
Low cost deposits (%)	43	41.2	39.7	36.6	39			
Investments	1,895	2,000	1,950	2,450	2,709	43		
HTM	-	1,340	1,365	1,622	1,953			
AFS	NA	660	585	828	756.3			
AFS duration (years)	NA	3.0	2.5	1.8	2.13			
<b>Yield management ratios (%)</b>								
Cost of deposits	5.6	5.7	5.9	6.0	6.3			
Yield on advances	9.9	9.8	10.2	10.4	10.2			
Net interest margin	3.07	3.0	3.2	3.2	2.93			
<b>Asset quality details</b>								
Gross NPLs (Rs bn)	136	114	126	133	156	15		
Gross NPLs (%)	3.0	2.5	2.5	2.6	2.8			
Net NPLs (Rs bn)	74	63	66	69	96	29		
Net NPLs (%)	1.8	1.4	1.3	1.4	1.8			
Provisions (Rs bn)	62	51.1	59.3	64.5	60			
Provision Coverage (%)	45.4	44.8	47.3	48.4	38.7			
<b>Capital adequacy details (%)</b>								
CAR	13.5	13.0	12.1	13.4	14.3			
Tier I	9.1	9.3	8.7	9.2	9.4			
Tier II	4.3	3.7	3.5	4.2	4.9			

Source: Company, Kotak Institutional Equities estimates.

## State Bank of India, Quarterly results-- key analytical ratios

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	% chg
<b>Yield management ratios (%)</b>						
Cost of deposits	5.6	5.7	5.9	6.0	6.3	
Yield on advances	9.9	9.8	10.2	10.4	10.2	
Net interest margin	3.07	3.0	3.2	3.2	2.93	
<b>Asset quality details</b>						
Gross NPLs (Rs bn)	136	114	126	133	156	14.6
Gross NPLs (%)	3	2.5	2.5	2.6	3	
Net NPLs (Rs bn)	74	63	66	69	96	28.7
Net NPLs (%)	1.78	1.4	1.3	1.4	1.76	
<b>Capital adequacy details (%)</b>						
CAR	13.5	13.0	12.1	13.4	14.3	
Tier I	9.1	9.3	8.7	9.2	9.4	
Tier II	4.3	3.7	3.5	4.2	4.9	

Source: Company, Kotak Institutional Equities estimates.

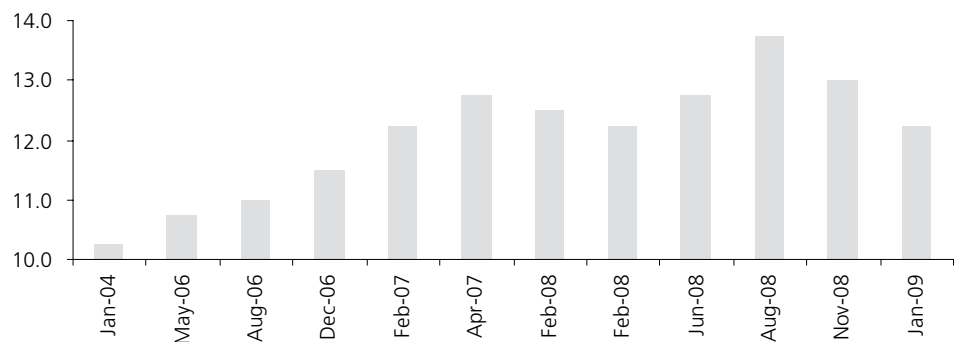
## SBI has reduced rates by around 175-250 bps in the 1-3 year buckets (key maturities) on its deposits since October 2008

Deposit rate movement since October 2008

	01-Oct-08	01-Dec-08	01-Jan-09	09-Mar-09	13-Apr-09	04-May-09	Change from peak levels
7-14 days	3.75	3.75	3.75	3.75	3.75	3.75	0.00
15-30days	4.75	4.75	4.25	4.25	4.00	3.75	1.00
31-45days	4.75	4.75	4.25	4.25	4.00	3.75	1.00
46-60 days	5.25	5.25	5.25	5.25	5.00	4.75	0.50
61-90	5.25	5.25	5.25	5.25	5.00	4.75	0.50
91-120days	7.50	7.00	6.50	6.50	6.25	6.00	1.50
120-180 days	7.50	7.00	6.50	6.50	6.25	6.00	1.50
181-270	8.50	8.00	7.25	7.25	7.00	6.75	1.75
271-1yr	8.50	8.00	7.25	7.25	7.00	6.75	1.75
1 year - 2year	10.00	9.50	8.50	8.10	7.75	7.50	2.50
<b>1000 days</b>	<b>10.50</b>	<b>10.00</b>	<b>9.00</b>	<b>8.50</b>	<b>8.25</b>	<b>8.00</b>	<b>2.50</b>
2 year - 3year	9.50	9.00	8.75	8.25	8.00	7.75	1.75
3 years and above upto 5 years	9.75	9.25	8.50	8.50	8.00	7.75	2.00
5 years and above upto 8 years	9.25	9.00	8.50	8.50	8.25	8.00	1.25
8years and above upto 10 years	9.25	9.00	8.50	8.50	8.50	8.25	1.00

Source: Company.

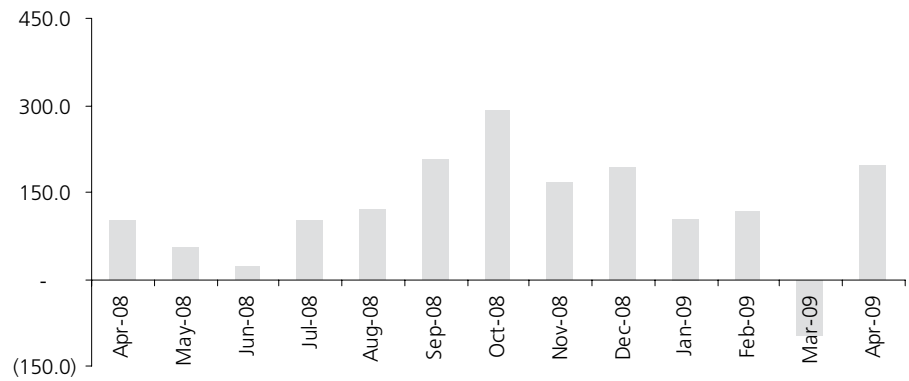
## PLR reduction and higher deposit costs resulting in margin pressure



Source: Company.

**Term deposit mobilization during 3QFY09 was rather strong**

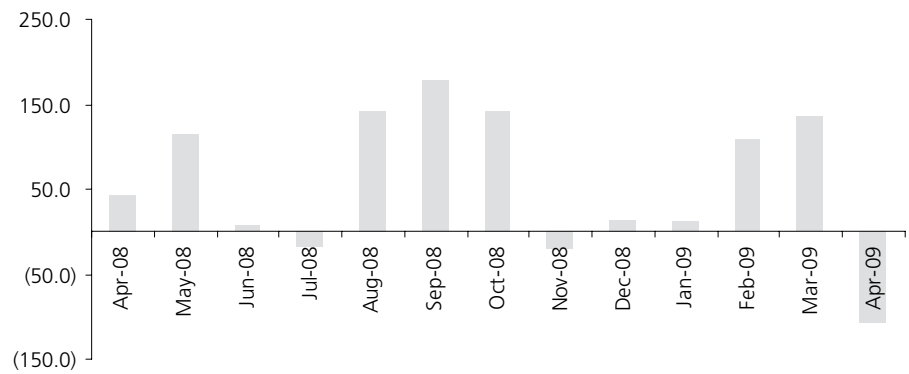
Incremental term deposit of SBI, (Rs bn)



Source: Company.

**Incremental loan growth was down sharply during November 2008-January 2009**

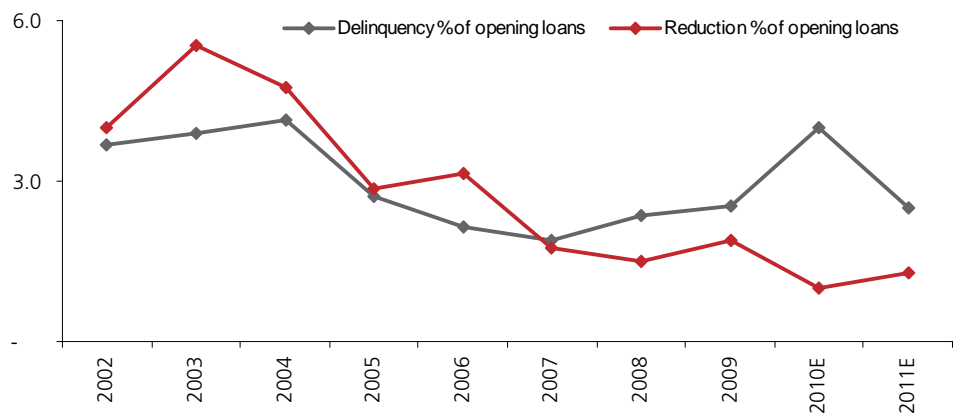
Incremental loans of SBI, (Rs bn)



Source: Company.

**We factor in a fairly sharp increase in delinquencies over the next two years**

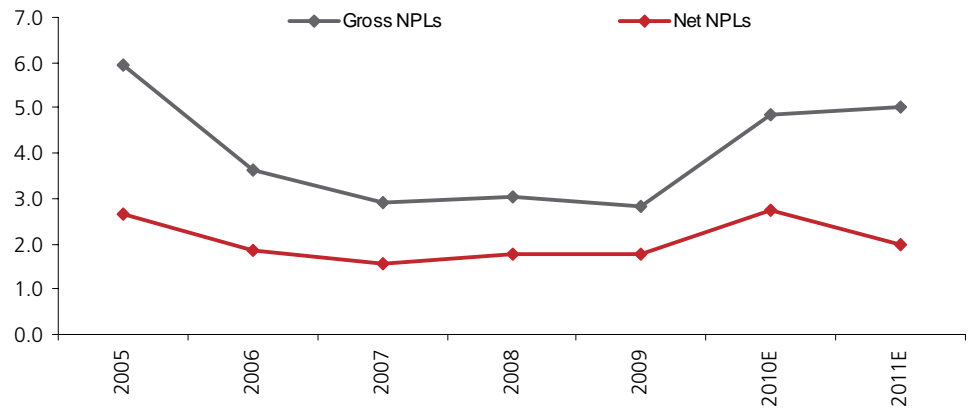
March fiscal year-ends, 2002-2011E



Source: Company, Kotak Institutional Equities estimates.

**Leading to a rise in reported NPLs**

March fiscal year-ends, 2002-2011E, gross and net NPLs (%)



Source: Company, Kotak Institutional Equities estimates.

**SOTP valuation of SBI**

Subsidiaries	SBI holding (%)	NW FY2009E (Rs mn)	Multiple assumed (X)	Value FY2010 (Rs mn)	Value per share FY2010 (Rs)	Methodology adopted
<b>SBI standalone</b>					<b>1,186</b>	<b>Residual income model</b>
<b>Non banking subsidiaries</b>						
SBI Life				120,197	170	Based on appraisal value
SBI MF	63%			9,580	15	4% of AUM of Rs317 bn (20% growth in FY2009 AUM)
NSE	8%			12,480	20	NSE value assumed to be Rs130 bn, which is based on last transaction
UTI MF	25%			5,832	9	Valued at 4% of AUM of Rs583 bn (20% growth over FY2009 AUM)
SBI Caps	86%			10,449	16	10X 2008 PAT
SBI DFHI	57%			6,835	11	1X FY2010 networth
SBI Factors	54%			603	1	1X FY2010 networth
<b>Value of all non-bank subsidiaries</b>					<b>246</b>	
<b>SBI Associate banks</b>						
State Bank of Bikaner and Jaipur	75%	14,355	1.00	14,355		BV multiple based on RoE
State Bank of Hyderabad	100%	33,307	1.00	33,307		BV multiple based on RoE
State Bank of Mysore	92%	14,987	1.00	14,987		BV multiple based on RoE
State Bank of Patiala	100%	27,686	1.00	27,686		BV multiple based on RoE
State Bank of Travancore	75%	15,074	1.00	15,074		BV multiple based on RoE
State Bank of Indore	98%	15,455	1.00	15,455		BV multiple based on RoE
Banking subsidiaries and associates		120,865		120,865		
<b>post discount of 10%</b>		<b>108,778</b>		<b>108,778</b>	<b>171</b>	
<b>Value of all subsidiaries</b>					<b>417</b>	
<b>Total value of the bank</b>					<b>1,603</b>	

Source: Company, Kotak Institutional Equities estimates.



**State Bank of India-- (Old and new estimates)**

March fiscal year-ends, 2009-2011E (Rs mn)

	Old estimates			New estimates			% change		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
NII post invt amortization	215,172	243,377	295,736	208,731	230,695	289,304	(3.0)	(5.2)	(2.2)
Loan growth	27.4	18.0	18.8	30.2	17.7	18.8			
NIM assumed (%)	3.0	2.8	2.9	2.6	2.3	2.5			
Loan loss provisions	42,656	69,482	102,893	24,750	64,966	97,809	(42.0)	(6.5)	(4.9)
Other income	103,574	120,974	133,426	126,908	132,434	145,569	22.5	9.5	9.1
Fee income	73,928	85,017	97,770	73,928	87,235	100,320	-	2.6	2.6
Treasury income	9,000	14,000	12,000	25,660	16,000	14,000	185.1	14.3	16.7
Operating expenses	152,799	175,966	190,537	156,487	180,041	201,229	2.4	2.3	5.6
Employee expenses	96,171	109,822	118,607	97,473	110,882	124,846	1.4	1.0	5.3
Investment depreciation	-	-	-	11,000	-	-			
PBT	123,292	118,904	135,731	141,807	116,526	133,920	15.0	(2.0)	(1.3)
Tax	43,152	41,616	47,506	50,594	39,619	45,533	17.2	(4.8)	(4.2)
<b>Net profit</b>	<b>80,139</b>	<b>77,287</b>	<b>88,225</b>	<b>91,212</b>	<b>76,907</b>	<b>88,387</b>	<b>13.8</b>	<b>(0.5)</b>	<b>0.2</b>
PBT - treasury+loan loss pro	156,947	174,386	226,625	151,896	165,492	217,728	(3.2)	(5.1)	(3.9)

Source: Kotak Institutional Equities estimates.

**State Bank of India growth rates and key ratios, March year-ends 2007-2011E**

	2007	2008	2009E	2010E	2011E
<b>Growth rates (%)</b>					
Net loan	28.9	23.5	30.2	17.7	18.8
Total Asset	14.7	27.4	33.7	15.8	14.4
Deposits	14.6	23.4	38.1	18.8	16.7
Current	20.6	19.7	6.5	18.8	16.7
Savings	14.6	19.4	9.5	30.5	16.7
Fixed	12.6	27.0	64.4	14.6	16.7
Net interest income	8.1	13.0	22.6	10.5	25.4
Loan loss provisions	265.1	27.2	(3.6)	162.5	50.6
Total other income	3.3	28.6	46.1	4.4	9.9
Net fee income	20.2	23.1	25.0	18.0	15.0
Net capital gains	(112.4)	(1,397.4)	171.2	(37.6)	(12.5)
Net exchange gains	(29.4)	109.0	10.0	10.0	10.0
Operating expenses	0.8	6.6	24.1	15.1	11.8
Employee expenses	(2.3)	(1.8)	25.2	13.8	12.6
<b>Key ratios (%)</b>					
Yield on average earning assets	7.5	8.2	8.1	7.7	7.6
Yield on average loans	8.3	9.3	9.7	9.1	8.9
Yield on average investments	6.9	7.4	7.0	7.0	6.7
Average cost of funds	4.7	5.6	5.9	5.9	5.6
Interest on deposits	4.6	5.6	6.2	5.9	5.6
<b>Difference</b>	<b>2.8</b>	<b>2.6</b>	<b>2.2</b>	<b>1.8</b>	<b>2.1</b>
<b>Net interest income/earning assets</b>	<b>3.0</b>	<b>2.8</b>	<b>2.6</b>	<b>2.3</b>	<b>2.5</b>
New provisions/average net loans	0.7	0.7	0.5	1.1	1.4
Interest income/total income	69.0	66.2	62.2	63.5	66.5
Fee income to total income	22.0	23.0	22.0	24.0	23.1
Operating expenses/total income	54.2	49.1	46.6	49.6	46.3
Tax rate	40.2	35.5	35.7	34.0	34.0
Dividend payout ratio	16.2	20.2	20.2	24.8	23.0
Share of deposits					
Current	18.8	18.3	14.1	14.1	14.1
Fixed	51.5	53.0	63.2	60.9	60.9
Savings	29.7	28.7	22.8	25.0	25.0
Loans-to-deposit ratio	77.5	77.6	73.1	72.4	73.7
Equity/assets (EoY)	5.5	6.8	6.0	5.7	5.5
<b>Dupont analysis (%)</b>					
Net interest income	2.8	2.6	2.5	2.2	2.4
Loan loss provisions	0.4	0.4	0.3	0.6	0.8
Net other income	1.3	1.3	1.5	1.3	1.2
Operating expenses	2.2	2.0	1.9	1.7	1.7
Invt. depreciation	0.1	(0.0)	0.1	—	—
(1- tax rate)	59.8	64.5	64.3	66.0	66.0
ROA	0.9	1.0	1.1	0.7	0.7
Average assets/average equity	18.0	16.0	15.8	17.1	18.0
ROE	15.4	16.8	17.1	12.7	13.3

Source: Company, Kotak Institutional Equities estimates.

**SBI income statement and balance sheet, March year-ends 2007-2011E**

	2007	2008	2009E	2010E	2011E
<b>Income statement</b>					
Total interest income	372,423	489,503	637,884	761,164	875,386
Loans	248,392	352,281	464,047	535,346	621,332
Investments	104,562	119,442	155,741	216,918	246,327
Total interest expense	221,841	319,291	429,153	530,469	586,082
Net interest income	150,582	170,212	208,731	230,695	289,304
Loan loss provisions	20,187	25,679	24,750	64,966	97,809
Net interest income (after prov.)	130,395	144,533	183,982	165,729	191,495
Other income	67,531	86,839	126,908	132,434	145,569
Net fee income	48,045	59,143	73,928	87,235	100,320
Net capital gains	(729)	9,463	25,660	16,000	14,000
Net exchange gains	3,315	6,927	7,620	8,382	9,220
Operating expenses	118,235	126,086	156,487	180,041	201,229
Employee expenses	79,326	77,859	97,473	110,882	124,846
Depreciation on investments	3,877	(887)	11,000	—	—
Other Provisions	32	1,894	1,596	1,596	1,915
Pretax income	75,903	104,389	141,807	116,526	133,920
Tax provisions	30,490	37,098	50,594	39,619	45,533
<b>Net Profit</b>	<b>45,413</b>	<b>67,291</b>	<b>91,212</b>	<b>76,907</b>	<b>88,387</b>
% growth	3.1	48.2	35.5	(15.7)	14.9
PBT - Treasury + Provisions	100,729	121,612	153,492	167,088	219,644
% growth	(8.15)	20.73	26.21	8.86	31.45
<b>Balance sheet</b>					
Cash and bank balance	519,687	674,663	1,044,040	735,966	809,540
Cash	25,301	32,203	32,203	32,203	32,203
Balance with RBI	265,463	483,143	523,257	440,906	514,480
Balance with banks	9,967	37,135	37,135	37,135	37,135
Net value of investments	1,491,489	1,895,013	2,759,540	3,620,392	3,958,887
Govt. and other securities	1,177,031	1,407,340	2,282,150	3,143,002	3,481,497
Shares	23,047	45,025	45,025	45,025	45,025
Debentures and bonds	86,907	176,288	176,288	176,288	176,288
Net loans and advances	3,373,365	4,167,682	5,425,030	6,386,917	7,585,785
Fixed assets	28,189	33,735	38,380	45,979	48,408
Other assets	252,923	444,170	377,330	377,330	377,330
<b>Total assets</b>	<b>5,665,652</b>	<b>7,215,263</b>	<b>9,644,320</b>	<b>11,166,585</b>	<b>12,779,950</b>
Deposits	4,355,211	5,374,060	7,420,730	8,818,115	10,289,592
Current	819,980	981,335	1,044,670	1,241,390	1,448,540
Fixed	2,243,866	2,850,411	4,686,770	5,372,196	6,268,654
Savings	1,291,365	1,542,293	1,689,290	2,204,529	2,572,398
Borrowings and bills payable	761,496	921,767	941,632	941,632	941,632
Other liabilities	235,960	429,131	702,488	772,736	850,010
<b>Total liabilities</b>	<b>5,352,667</b>	<b>6,724,957</b>	<b>9,064,850</b>	<b>10,532,484</b>	<b>12,081,234</b>
<b>Total shareholders' equity</b>	<b>312,985</b>	<b>490,327</b>	<b>579,480</b>	<b>634,101</b>	<b>698,715</b>

Source: Company, Kotak Institutional Equities estimates.

**Consumer products****HLL.BO, Rs233**

Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	235
52W High -Low (Rs)	272 - 185
Market Cap (Rs bn)	507.9

**Financials**

December y/e	2008	2009E	2010E
Sales (Rs bn)	163.5	179.5	201.3
Net Profit (Rs bn)	20.0	22.3	25.3
EPS (Rs)	9.2	10.2	11.6
EPS <i>gth</i>	12.9	11.5	13.6
P/E (x)	25.4	22.8	20.1
EV/EBITDA (x)	20.3	17.4	15.3
Div yield (%)	3.7	4.1	4.7

**Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
0.0	(10.1)	(5.6)	(7.5)

**Shareholding, March 2009**

	% of Pattern Portfolio	Over/(under) weight
Promoters	52.1	-
FIs	14.3	(0.1)
MFs	4.6	0.7
UTI	-	(1.9)
LIC	5.9	0.5

**Hindustan Unilever: Searching for silver bullets**

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- **Volume decline of 4.5% in line with our expectations**
- **Management is guiding for (1) muted margins, (2) down-trading effects visible and (3) price-based competition**
- **Sustainable margin expansion unlikely, in our view. Reiterate REDUCE**

HUL reported net sales of Rs39.9 bn (overall +6%; FMCG +12%, Exports -45%) compared with our estimates of Rs44.4 bn (18% growth) due to a strategic defocus on non-core exports. However, margins were ahead of our expectations—EBITDA came in at Rs5.5 bn (35% growth) versus our estimate of Rs5.1 bn (24% growth). Adjusted PAT of Rs4.6 bn (22% growth) was in line with our estimates. Volumes declined 4.5%, in line with our estimates due to (1) challenging environment, (2) trade de-stocking and (3) outlet consolidation in organized retail. We are worried about the implication that consumer has likely deferred purchases or switched from HUL brands due to unavailability of stores/stocks. We are also surprised that difficult market conditions have impacted HUL more than its FMCG peers, who made no mention about difficult market conditions in commenting on their results. We temper expectations of continued significant margin expansion for HUL due to (1) its need to significantly step-up advertising and promotion to stabilize and regain market shares; (2) anniversary effects of price increases and (3) specific management guidance for muted margin expansion. Stability of market shares is key for stock performance. Retain TP Rs235/share, reiterate REDUCE.

The company is hosting a conference call today (Monday, May 11, 1630 IST, Dial in number +91 22 4444 4003, conference code 319383).

HUL reported net sales of Rs39.9 bn (overall +6%; FMCG +12%, Exports -45%) compared with our estimates of Rs44.4 bn (18% growth) due to planned defocus on non-core exports. However, margins were ahead of our expectations—EBITDA of Rs5.5 bn (35% growth), our estimate of Rs5.1 bn (24% growth). Adjusted PAT of Rs4.6 bn (22% growth) was in line with our estimates. Segment revenue growth of Soaps and detergents (+16%) were in line, whereas Personal products (+2%), Beverages (+14%) and Foods (+8%) disappointed.

**Volumes declined 4.5% for the quarter, in line with our estimates**

Management attributed the 4.5% volume decline to (1) challenging environment, (2) trade de-stocking and (3) outlet consolidation in organized retail. While we agree that HUL faced multiple head winds at the same time (including a higher base last year due to extended winter), we are surprised that the impact of difficult market conditions hit HUL more than peers—there was no mention about difficult market conditions in the results communication of Dabur, Marico, GSK Consumer, Nestle and Godrej Consumer.

We continue to be worried about volume decline in detergents as consumers are opting to rationalize on quantum of usage in detergents (resulting in longer-than-expected consumer purchase cycles) and soaps (market share losses to Wipro, Reckitt, Godrej and ITC). We highlight that CY2009 is possibly the first time HUL is faced with volume decline due to market conditions, primarily market share losses. The company's volume declined in CY2002 and CY2003 due to consumer sector decline during that period.

### Significant impact of modern retail on HUL is a surprise

In a media briefing, management explained that the contribution of modern retail (MR) to HUL sales is about 8-9% and the contribution of MR to certain categories like Personal products are higher at about 20%. While we understand that the closure/relocation of stores by Subhiksha, Indiabulls Retail, Vishal Retail and More, we are surprised at that the slowdown impacted HUL so significantly as, (1) about 50% of sales of skin care is in smaller packs of Fair & Lovely—less likely to be sold in a MR outlet, (2) Subhiksha was positioned as a neighborhood kirana store in the organized retail format—and not a mall-based destination outlet and (3) more importantly, the implication that consumer has likely postponed purchases or switched out of HUL brands due to the unavailability of stores/stocks.

### Sustainable margin expansion unlikely

For the quarter, EBITDA margins expanded 300 bps, driven by 210 bps improvement in gross margins and savings in brand spends as well as other expenses. We temper the optimism of continued significant margin expansion for HUL due to (1) the necessity to step-up investment in advertising and promotion significantly in FY2010 to stabilize and regain market shares; (2) anniversary effects of price increases (the company had taken two rounds of major price increases in CY2008—Jan/Feb and October) and (3) specific management guidance for muted margin expansion (we assign a high probability for this event as HUL has historically abstained from providing guidance).

HUL highlighted that downtrading in select categories is visible (brand downtrading likely in soaps, detergents and pack-size downtrading is likely in personal products, particularly skin and shampoo) which will likely lead to a deterioration of the mix and, in turn, hurt margins, in our view.

### Stability of market shares key for stock performance

We continue to rate HUL as REDUCE even after the stock's huge underperformance (-50%) vis-à-vis Nifty over the past two months. The reasons are still relevant, in our view, (1) market share losses, (2) volumes are under severe pressure (3) market optimism over HUL's premium brand launches was not supported by business fundamentals and (4) market expectation of sustained margin expansion is over the top. We believe that it will take at least 2-3 quarters for HUL's business conditions to improve if the company manages to arrest the continued loss of market share in all key categories.

At CMP of Rs233/share the stock trades at 23XCY09E. Considering the significant street disappointment over volume decline, we believe that the stock will correct meaningfully in near term. We advise buying at ~Rs200/share levels. Maintain EPS of Rs10.2/share (11.5% growth) and Rs11.6/share (13.6% growth) for CY09E and CY10E, respectively. We reiterate that the quality of earnings growth in CY09E and business fundamentals do not support a case for absolute stock performance. We continue to believe that at 23XCY09E, the stock is richly valued for estimated 12% EPS growth, 4% dividend yield and 4% FCF yield. We value the stock at PE of 23X—at the lower-end of the trading band over the last 1 and 3 years. Retain TP Rs235/share, reiterate REDUCE.

## Interim results of Hindustan Unilever, March fiscal year-ends (Rs mn)

	1QCY09	1QCY09E	1QCY08	4QCY08	(% chg.)		
					1QCY09E	1QCY08	4QCY08
<b>Net sales</b>	<b>39,883</b>	<b>44,389</b>	<b>37,626</b>	<b>43,077</b>	<b>(10.2)</b>	<b>6.0</b>	<b>(7.4)</b>
Total expenditure	(34,391)	(39,333)	(33,548)	(36,147)	(12.6)	2.5	(4.9)
Material cost	(20,856)	(23,880)	(20,452)	(23,201)	(12.7)	2.0	(10.1)
Employee cost	(2,344)	(2,520)	(2,135)	(2,209)	(7.0)	9.8	6.1
Advertising and promotion	(4,506)	(5,190)	(4,391)	(3,710)	(13.2)	2.6	21.4
Other expenditure	(6,685)	(7,743)	(6,569)	(7,027)	(13.7)	1.8	(4.9)
<b>EBITDA</b>	<b>5,493</b>	<b>5,056</b>	<b>4,078</b>	<b>6,931</b>	<b>8.6</b>	<b>34.7</b>	<b>(20.7)</b>
<b>OPM (%)</b>	<b>13.8</b>	<b>11.4</b>	<b>10.8</b>	<b>16.1</b>			
Other income	673	966	1,009	1,001	(30.3)	(33.3)	(32.8)
Interest	(22)	-	(35)	-			
Depreciation	(413)	(430)	(363)	(406)	(4.1)	13.6	1.7
<b>Pretax profits</b>	<b>5,731</b>	<b>5,592</b>	<b>4,689</b>	<b>7,526</b>	<b>2.5</b>	<b>22.2</b>	<b>(23.8)</b>
Tax	(710)	(1,006)	(905)	(901)	(29.4)	(21.5)	(21.1)
PAT	5,021	4,585	3,784	6,625	9.5	32.7	(24.2)
<b>Adjusted PAT</b>	<b>4,625</b>	<b>4,585</b>	<b>3,784</b>	<b>6,625</b>	<b>0.9</b>	<b>22.2</b>	<b>(30.2)</b>
Extraordinary items	(1,071)	0	25	(468)			
<b>Net profit (reported)</b>	<b>3,950</b>	<b>4,585</b>	<b>3,810</b>	<b>6,157</b>			
Income tax rate (%)	12.4	18.0	19.3	12.0			
<b>Volume growth/(decline), %</b>	<b>(4.5)</b>	<b>(4.0)</b>	<b>10.4</b>	<b>2.3</b>			
<b>Costs as a % of sales</b>							
Material cost	52.3	53.8	54.4	53.9			
Employee cost	5.9	5.7	5.7	5.1			
Advertising and promotion	11.3	11.7	11.7	8.6			
Other expenditure	16.8	17.4	17.5	16.3			

## Segment results of Hindustan Unilever

<b>Revenues</b>							
Soaps and detergents	20,122	20,723	17,382	21,234	(2.9)	15.8	(5.2)
Personal products	10,386	11,375	10,189	11,923	(8.7)	1.9	(12.9)
Beverages	4,893	5,290	4,310	5,106	(7.5)	13.5	(4.2)
Foods	1,634	2,104	1,520	1,715	(22.3)	7.5	(4.7)
Iccreams	453	474	370	343	(4.5)	22.4	32.1
Exports	2,205	4,204	3,989	2,668	(47.6)	(44.7)	(17.4)
Others	675	894	441	739	(24.5)	53.0	(8.6)

## Segment PBIT margins

Soaps and detergents	3,335	2,985	2,325	3,501	11.7	43.4	(4.7)
Personal products	2,389	2,733	2,517	3,914	(12.6)	(5.1)	(39.0)
Beverages	655	671	498	651	(2.4)	31.5	0.6
Foods	(45)	(40)	17	(39)	11.8	(358.4)	14.6
Iccreams	(19)	(30)	(29)	(28)	(38.0)	(35.9)	(34.5)
Exports	144	195	177	156	(26.4)	(18.8)	(7.7)
Others	(242)	(350)	(305)	(255)	(30.8)	(20.7)	(4.9)

## Segment PBIT margins, %

Soaps and detergents	16.6	14.4	13.4	16.5			
Personal products	23.0	24.0	24.7	32.8			
Beverages	13.4	12.7	11.6	12.8			
Foods	(2.7)	(1.9)	1.1	(2.3)			
Iccreams	(4.1)	(6.3)	(7.8)	(8.3)			
Exports	6.5	4.6	4.4	5.8			
Others	(35.9)	(39.1)	(69.2)	(34.5)			

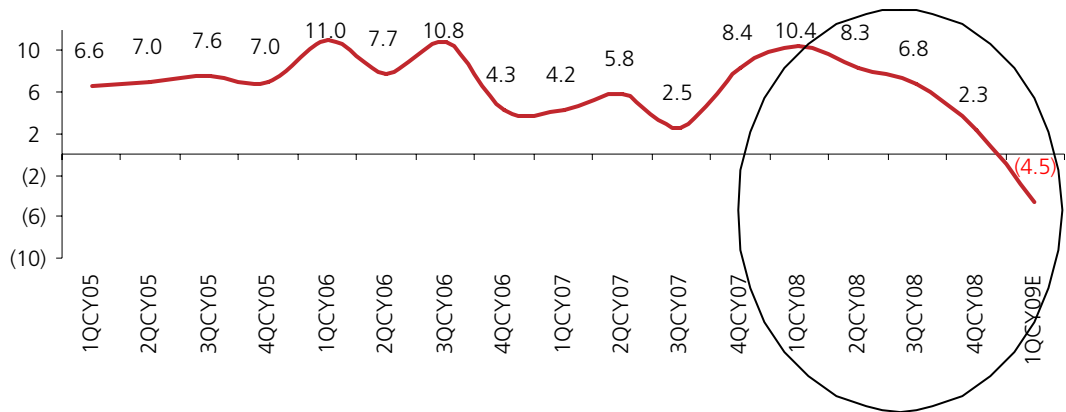
## Capital employed

Soaps and detergents	5,935		3,142	4,890		88.9	21.4
Personal products	229		1,153	800		(80.1)	(71.3)
Beverages	3,266		1,371	1,209		138.3	170.1
Foods	440		151	370		192.0	18.9
Iccreams	461		397	509		16.2	(9.5)
Exports	3,210		3,656	2,893		(12.2)	11.0
Others	(506)		(342)	(815)		47.9	(37.9)
Unallocated corporate	7,580		8,759	16,942		(13.5)	(55.3)
<b>Total</b>	<b>20,615</b>		<b>18,285</b>	<b>26,799</b>		<b>12.7</b>	<b>(23.1)</b>

Source: Company data, Kotak Institutional Equities

**Market share losses leading to declining volumes, in our view**

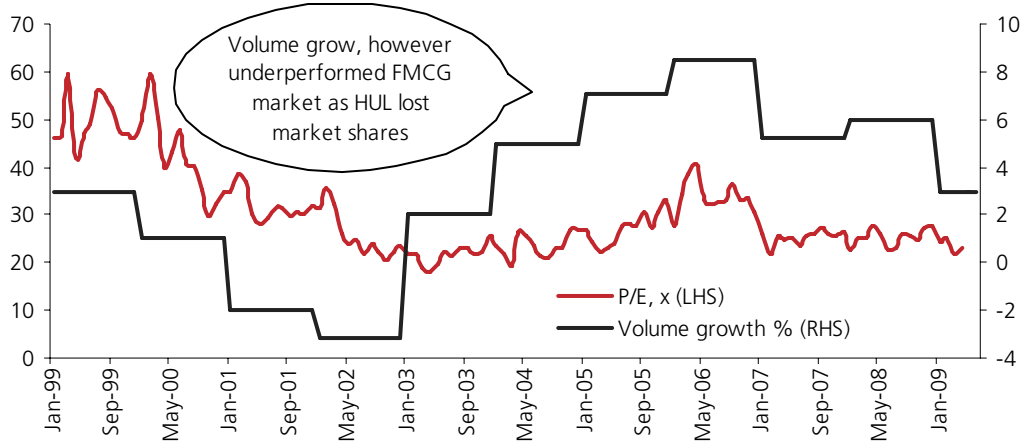
HUL FMCG volume growth (%)



Source: Kotak Institutional Equities estimates

**Sustainable volume growth is key**

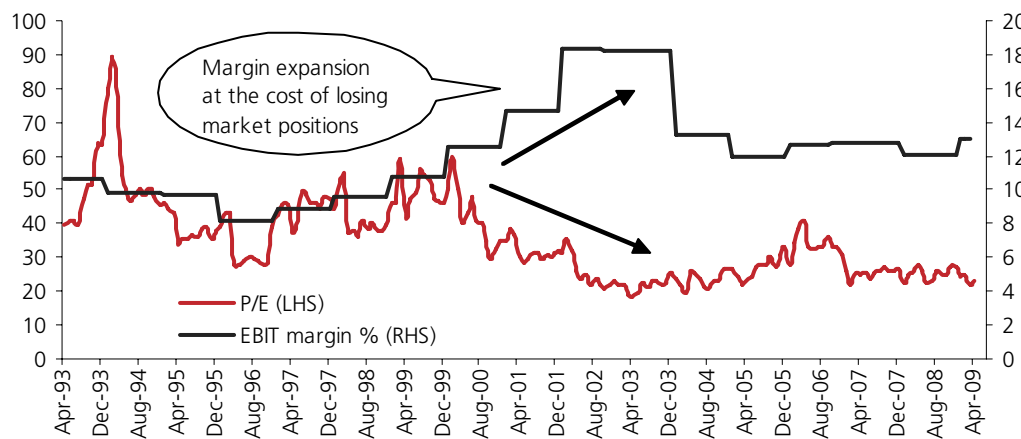
HUL P/E (x) and volume growth (%)



Source : Kotak Institutional Equities

**HUL P/E has inverse correlation with margin expansion**

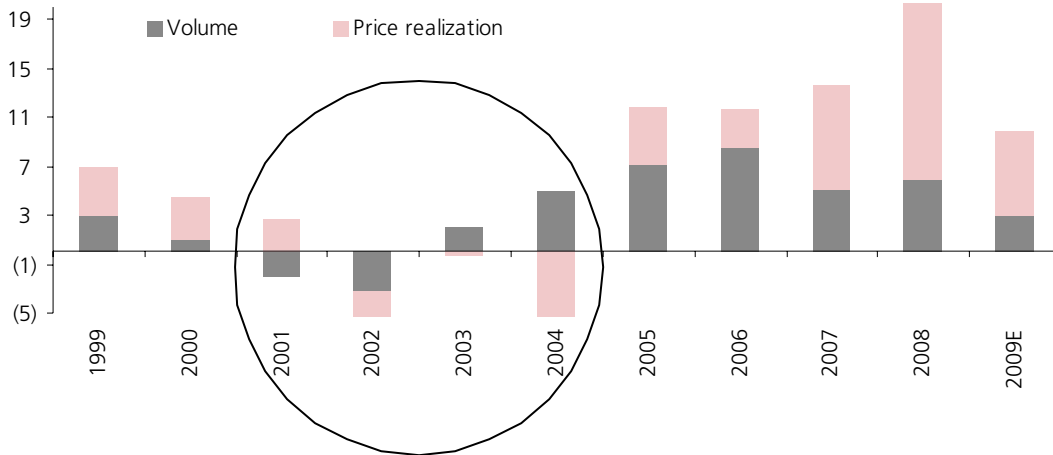
HUL P/E (x) and margins (%)



Source : Kotak Institutional Equities

**HUL faced volume decline when markets contracted in 2001 and 2002**

Volume and price realization growth for HUL FMCG sales (%)



Source: Company data, Kotak Institutional Equities estimates.

**HUL is either losing out to nearest competition..**

Category	Company	2001 (%)	2004 (%)	2007 (%)	2009 (%)	Change (bps)		
						8-years	4-years	1-year
Soaps	HUL	58.4	57.1	54.3	48.3	(1010)	(880)	(600)
	Godrej	2.1	6.0	9.7	9.9	780	390	20
	Reckitt Benckiser (Dettol)	3.2	3.9	5.2	5.6	240	170	40
	Wipro (Santoor)	3.7	4.5	8.3	9.3	560	480	100
	ITC	-	-	-	2.4	240	240	240
	Others	32.6	28.5	22.5	24.5	(810)	(400)	200
Detergents	HUL	38.9	37.8	37.3	37.0	(190)	(80)	(30)
	P&G	3.8	4.9	7.4	8.2	440	330	80
	Kanpur Detergents (Ghadi)	6.8	10.3	11.8	12.2	540	190	40
	Nirma	19.4	17.3	13.4	11.0	(840)	(630)	(240)
	Others	31.1	29.7	30.1	31.6	50	190	150
Tea	HUL	34.7	29.5	22.7	23.7	(1100)	(580)	100
	Tata Tea	19.0	19.5	20.8	21.8	280	230	100
	Wagh Bakri	3.0	4.4	4.2	4.2	120	(20)	0
	Others	43.3	46.6	52.3	50.3	700	370	(200)

Source: Trade sources, Kotak Institutional Equities



**..or the market is getting increasingly fragmented, particularly in personal products**

Category	Company	2001	2004	2007	2009	Change (bps)		
		(%)	(%)	(%)	(%)	8-years	4-years	1-year
Shampoo	HUL	63.4	49.3	47.8	44.9	(1850)	(440)	(290)
	P&G	13.1	19.6	23.7	24.1	1100	450	40
	CavinKare	11.0	13.2	12.0	11.7	70	(150)	(30)
	Dabur	4.1	6.2	5.3	5.9	180	(30)	60
	Others	8.4	11.7	11.2	13.4	500	170	220
Skincare	HUL	53.6	60.2	54.5	50.9	(270)	(930)	(360)
	CavinKare (Fairever)	5.3	3.8	2.3	2.5	(280)	(130)	20
	Vicco	4.5	3.7	2.0	1.9	(260)	(180)	(10)
	Others	36.6	32.3	41.2	44.7	810	1240	350
Toothpaste	HUL	35.7	32.8	29.5	28.1	(760)	(470)	(140)
	Colgate	47.8	46.6	48.8	50.2	240	360	140
	Anchor	4.1	4.2	3.7	4.0	(10)	(20)	30
	Dabur	2.8	5.1	9.5	9.9	710	480	40
	Others	9.6	11.3	8.5	7.8	(180)	(350)	(70)

Source: Trade sources, Kotak Institutional Equities

**HUL: Profit model, balance sheet, cash model 2006-2010E, March year-ends (Rs mn)**

	2006	2007	2008	2009E	2010E
			Jan-Dec		
<b>Profit model (Rs mn)</b>					
Net sales	121,034	137,178	163,452	179,464	201,318
<b>EBITDA</b>	<b>16621</b>	<b>18874</b>	<b>21288</b>	<b>24464</b>	<b>27837</b>
Other income	3,545	4,627	4,800	5,255	6,163
Depreciation	(1,302)	(1,384)	(1,541)	(1,807)	(2,096)
Pretax profits	18,757	21,862	24,546	27,837	31,830
Tax	(2,950)	(3,782)	(3,530)	(4,446)	(5,510)
Deferred taxation	(268)	(389)	(803)	(1,111)	(1,019)
<b>Net profit</b>	<b>15539</b>	<b>17690</b>	<b>20213</b>	<b>22280</b>	<b>25301</b>
<b>Earnings per share (Rs)</b>	<b>7.0</b>	<b>8.0</b>	<b>9.2</b>	<b>10.2</b>	<b>11.6</b>
<b>Balance sheet (Rs mn)</b>					
Total equity	27,235	14,392	15,473	16,679	18,048
Total borrowings	726	885	885	885	885
Current liabilities	45,231	51,110	57,408	62,717	70,290
<b>Total liabilities and equity</b>	<b>73191</b>	<b>66387</b>	<b>73766</b>	<b>80281</b>	<b>89223</b>
Cash	4,169	2,009	1,183	2,150	4,788
Current assets	27,527	30,765	33,497	36,571	40,949
Total fixed assets	15,110	17,081	20,134	23,718	26,663
Investments	24,139	14,408	17,632	17,632	17,632
Deferred tax asset	2,245	2,124	1,321	210	(810)
<b>Total assets</b>	<b>73191</b>	<b>66387</b>	<b>73766</b>	<b>80281</b>	<b>89223</b>
<b>Free cash flow (Rs mn)</b>					
Operating cash flow, excl. working capital	20,209	20,860	22,346	25,297	28,495
Working capital	(471)	3,092	4,788	1,528	2,316
Capital expenditure	(1,576)	(3,355)	(4,593)	(5,391)	(5,041)
Investments	(4,309)	9,294	(3,224)	0	0
<b>Free cash flow</b>	<b>13852</b>	<b>29890</b>	<b>19317</b>	<b>21434</b>	<b>25769</b>
<b>Key assumptions</b>					
Revenue Growth (%)	9.4	13.3	19.2	9.8	12.2
EBITDA Margin(%)	13.9	13.7	13.0	13.6	13.8
EPS Growth (%)	18.3	13.8	14.5	11.5	13.6

Note: The company has extended the financial year ending 31 December 2008 to 31 March 2009. The above mentioned estimates are for 12 month periods to facilitate meaningful comparison. We will roll-over to March fiscal year-end estimates after the management meet.

Source: Kotak Institutional Equities estimates.

**Banking****ADBK.BO, Rs62**

Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	75
52W High -Low (Rs)	85 - 35
Market Cap (Rs bn)	30.2

**Financials**

March y/e	2009	2010E	2011E
Sales (Rs bn)	24.0	24.7	28.8
Net Profit (Rs bn)	6.6	5.4	6.1
EPS (Rs)	13.5	11.1	12.6
EPS gth	14.4	(18.4)	14.0
P/E (x)	4.6	5.6	4.9
P/B (x)	0.9	0.9	0.9
Div yield (%)	7.2	4.5	5.1

**Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
8.0	21.8	20.6	(17.3)

**Shareholding, March 2009**

	% of	Over/(under)
	Pattern Portfolio	weight
Promoters	51.5	-
FIs	14.6	(0.0)
MFs	4.4	0.0
UTI	-	(0.1)
LIC	-	(0.1)

**Andhra Bank: Reasonable quarterly performance; retain ADD rating**

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- **Reports PAT of Rs2 bn (up 62% yoy) and 40% ahead of estimates**
- **NII growth was healthy but fee income disappoints**
- **Reported asset quality remains steady while restructured assets stood at 3.6% of March 2009 loan book**
- **Retain ADD rating with a target price of Rs75 (unchanged)**

Andhra Bank's PAT in 4QFY09 was Rs2 bn, which was a growth of 62% yoy and much ahead of expectations (by 39%). While the company's NII growth was healthy at 15% yoy, the fee income growth was sluggish. The asset quality of the company continues to remain healthy with a gross NPL ratio of 0.8% and 0.2% of net NPL ratio as of March 2009. Andhra Bank has restructured Rs19.6 bn of loans as of March 2009, which are about 3.6% of its loan book and has a further Rs1.6 bn of loan proposals that are being considered for restructuring. We have marginally reduced earnings by 3% for FY2010-2011E. Retain ADD rating with a target price of Rs75.

**Net interest income growth was healthy**

- Net interest income (NII) of Andhra Bank increased by 15% yoy to Rs3.9 bn in 4QFY09. This growth was driven by more by higher loan growth rather than an improvement in margin. In line with the trend observed with other banks, NIM declined to 2.6% in 4QFY09 from 3.4% in 3QFY09 as assets repriced faster than liabilities. Cost of deposits in fact went up in 4QFY09 by 50 bps as the impact of high cost mobilization in 3QFY09 played out in the current quarter.
- Outstanding loans as of March 2009 were Rs444 bn—growth of 29% yoy and higher than the trend observed in the past. However, the company's incremental loan growth was Rs24 bn lower than the Rs54 bn observed in 3QFY09.
- CASA ratio of the company was 31.4% as of March 2009, marginally down from the 31.8% reported as of December 2008. On a more positive note, the company's high cost bulk deposits were at around Rs48 bn, down from the Rs90 bn as of December 2008. The management indicated that most of these high-cost liabilities were shed towards the last week of March 2009 and the positive impact of this is likely to be felt over the next few quarters.

**Reported asset quality is healthy**

Andhra Bank's asset quality with a net NPL ratio of 0.2% as of March 2009 with a provision coverage ratio of 78% is amongst the best in the industry. The high provision cover and a low net NPL ratio could provide the company with cushion to manage a likely rise in NPLs in the future. The company has restructured around Rs19.6 bn (3.6% of March 2009 loan book) of loan assets as of March 2009 under the special regulatory forbearance provided by RBI. A further Rs1.6 bn of loans are under consideration for restructuring as of March 2009.

**Other key highlights of the quarter**

- Non-interest revenues were Rs3.2 bn in 4QFY09 (up 58% yoy) and 40% higher than estimates. These revenues were driven by higher treasury gains rather an improvement in core fee income. The treasury gains were Rs1.6 bn in 4QFY09 and were up 4X yoy.
- Andhra Bank made Rs200 mn of adhoc provisions in 4QFY09 for the expected employee wage hike given the ongoing negotiations between IBA and employee unions. The company has made Rs600 mn of such provisions in FY2009 for this contingency expecting a wage hike of 15%.

- Andhra Bank has implemented a core banking solution across all its branches in FY2009, which might prove beneficial over a period of time and help its profitability. The company has decided to amortize the expenses incurred under this head over a 5-year period rather than provide the expenses in a single year. The quantum of benefit to the company's PAT on account of this accounting policy has not been provided in the notes to the exchanges.
- The company had an effective tax rate of 18% in 4QFY09 and 27% for the entire year. The effective tax rates have typically been in excess of 31% over the past two years and the reasons for the lower tax rate in the current year are unclear to us.

## Andhra Bank, quarterly results (Rs mn)

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	% chg	4QFY09KS	Actual Vs KS
Interest Earned	11,692	11,777	13,481	14,024	15,067	29	14,249	6
Interest on advances	8,676	8,801	10,253	11,108	11,988	38	10,938	10
Interest on investments	2,717	2,912	3,006	2,823	2,852	5	3,118	(9)
Interest on bal. with RBI & other inter bank funds	98	64	162	93	58	(40)	253	(77)
Other interest	201	-	60	-	169	(16)	(60)	(382)
Interest expense	8,263	8,111	8,946	9,305	11,114	35	10,043	11
<b>Net interest income</b>	<b>3,429</b>	<b>3,666</b>	<b>4,535</b>	<b>4,719</b>	<b>3,953</b>	<b>15</b>	<b>4,206</b>	<b>(6)</b>
Other income	2,033	1,187	1,354	2,165	3,204	58	2,281	40
Treasury	323	(10)	(80)	670	1,624	403	420	287
Commission & exchange	640	496	520	600	508	(21)	-	-
Dividend income	20	10	17	20	5	(75)	-	-
Forex profit	80	92	145	30	106	33	-	-
Others	970	599	752	845	957	(1)	-	-
<b>Total income</b>	<b>5,462</b>	<b>4,853</b>	<b>5,889</b>	<b>6,884</b>	<b>7,157</b>	<b>31</b>	<b>6,486</b>	<b>10</b>
<b>Operating expenses</b>	<b>2,131</b>	<b>2,597</b>	<b>2,905</b>	<b>2,958</b>	<b>2,839</b>	<b>33</b>	<b>2,855</b>	<b>(1)</b>
Payments to / Provisions for employees	974	1,406	1,669	1,644	1,522	56	1,541	(1)
Other operating expenses	1,157	1,190	1,236	1,315	1,317	14	1,315	0
<b>Operating profit before prov. &amp; cont.</b>	<b>3,331</b>	<b>2,256</b>	<b>2,984</b>	<b>3,925</b>	<b>4,318</b>	<b>30</b>	<b>3,631</b>	<b>19</b>
Provisions & Contingencies	1,114	1,430	769	449	1,856	67	1,381	34
Loan loss provisions	430	362	457	320	921	114	858	7
Investment depreciation	480	864	126	(200)	1,010	110	300	237
<b>Profit before tax</b>	<b>2,218</b>	<b>826</b>	<b>2,215</b>	<b>3,477</b>	<b>2,462</b>	<b>11</b>	<b>2,249</b>	<b>9</b>
Provision for taxes	975	50	600	1,350	450	(54)	806	(44)
<b>Net profit</b>	<b>1,243</b>	<b>776</b>	<b>1,615</b>	<b>2,127</b>	<b>2,012</b>	<b>62</b>	<b>1,444</b>	<b>39</b>
Tax rate	44	6	27	39	18		36	
PBT - treasury + investment dep.	2,375	1,700	2,421	2,607	1,848	(22)	2,130	(13)
PBT - treasury + investment dep. + loan loss	2,965	2,223	3,038	2,927	2,769	(7)	2,988	(7)
<b>Key balance sheet items (Rs bn)</b>								
Deposits	494	492	505	538	594	20		
CASA	166	162	172	171	186	12		
CASA (%)	33.6	33.0	34.1	31.8	31.4			
Advances	346	341	364	420	444	29		
Agriculture	62	61	59	65	68	11		
SME	40	42	45	50	54	34		
Investments	149.0	161.1	142.4	163.7	169.1	13.5		
AFS	39.0	NA	25.5	43.5	46.9	20.3		
Duration (years)	2.6	NA	1.4	1.8	3.4			
<b>Asset quality details</b>								
Gross Non Performing Assets (Rs mn)	3,724	3,928	3,741	3,734	3,681	(1)		
Gross Non Performing Assets (%)	1.1	1.2	1.0	0.9	0.8			
Net Non Performing Assets (Rs mn)	537	351	873	862	792	48		
Net Non Performing Assets (%)	0.2	0.1	0.2	0.2	0.2			
<b>Yield management measures (%)</b>								
Yield on advances	10.7	10.4	11.2	11.9	11.5			
Cost of deposits	7.1	6.5	6.7	7.0	7.5			
Yield on investments	8.3	7.4	7.6	-	10.7			
Cost of funds	6.2	5.8	6.0	6.2	6.8			
Yield from funds	8.7	8.3	8.8	9.2	9.2			
Spread	2.6	2.5	2.8	3.0	2.4			
NIM	2.9	2.9	3.4	3.4	2.6			
<b>Capital adequacy details</b>								
CAR (%)	11.6	12.1	13.4	12.7	13.2			
Tier I (%)	8.5	9.0	NA	8.7	NA			
Tier II (%)	3.1	3.1	NA	4.0	NA			

Source: Company, Kotak Institutional Equities estimates.

**Andhra Bank -- old and new estimates**

Key financial parameters, March fiscal year-ends, 2009-2011E (Rs mn)

	Old estimates			New estimates			% difference		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Net interest income	17,125	18,601	22,021	16,279	17,831	21,526	(4.9)	(4.1)	(2.2)
Loan growth (%)	24	15	15	28	16	15			
Spread (%)	2.55	2.37	2.45	2.40	2.24	2.37			
Loan loss provisions	1,998	4,120	5,790	2,060	4,267	6,020	3.1	3.6	4.0
Other income	6,987	7,580	8,002	7,676	6,908	7,288	9.9	(8.9)	(8.9)
Fee income	2,337	2,570	2,776	2,124	2,230	2,408	(9.1)	(13.2)	(13.2)
Treasury income	1,000	1,000	1,000	2,205	1,000	1,000			
Operating expenses	11,315	12,961	14,250	11,044	12,310	13,521	(2.4)	(5.0)	(5.1)
Employee expenses	6,260	7,249	8,029	6,241	7,039	7,797	(0.3)	(2.9)	(2.9)
<b>Net profit</b>	<b>5,962</b>	<b>5,577</b>	<b>6,245</b>	<b>6,561</b>	<b>5,387</b>	<b>6,120</b>	<b>10.0</b>	<b>(3.4)</b>	<b>(2.0)</b>
<b>PBT-treasury+provisions</b>	<b>10,984</b>	<b>11,570</b>	<b>14,253</b>	<b>10,706</b>	<b>11,429</b>	<b>14,292</b>	<b>(2.5)</b>	<b>(1.2)</b>	<b>0.3</b>

Source: Company, Kotak Institutional Equities estimates.

**Andhra Bank growth rates and key ratios, March year-ends 2007-2011E**

	2007	2008	2009	2010E	2011E
<b>Growth rates (%)</b>					
Net loan	26.2	22.8	28.2	16.0	14.9
Total Asset	16.9	19.0	18.2	15.8	13.1
Deposits	22.2	19.3	20.1	17.0	13.9
Current	18.7	20.4	18.3	17.0	13.9
Savings	15.4	14.4	10.3	24.1	13.9
Fixed	25.6	21.0	24.1	14.7	13.9
Net interest income	21.3	0.2	14.6	9.5	20.7
Loan loss provisions	5.9	46.2	66.6	107.1	41.1
Total other income	13.5	27.2	16.1	(10.0)	5.5
Net fee income	7.0	17.0	(0.0)	5.0	8.0
Net capital gains	(24.2)	—	—	—	—
Net exchange gains	16.5	3.5	11.7	10.0	10.0
Operating expenses	8.8	1.2	17.0	11.5	9.8
Employee expenses	11.3	(7.2)	22.5	12.8	10.8
<b>Key ratios (%)</b>					
Yield on average earning assets	7.8	8.5	9.0	8.3	8.4
Yield on average loans	9.2	10.2	10.8	9.8	9.8
Yield on average investments	7.1	7.3	7.3	6.7	6.7
Average cost of funds	4.8	6.0	6.6	6.1	6.0
Interest on deposits	4.8	6.1	6.3	6.0	6.0
<b>Difference</b>	<b>3.1</b>	<b>2.5</b>	<b>2.4</b>	<b>2.2</b>	<b>2.4</b>
Net interest income/earning assets	3.2	2.7	2.7	2.5	2.7
New provisions/average net loans	0.3	0.4	0.5	0.9	1.1
Interest income/total income	73.2	68.2	68.0	72.1	74.7
Fee income to total income	9.4	10.2	8.9	9.0	8.4
Operating expenses/total income	48.2	45.4	46.1	49.8	46.9
Tax rate	31.5	37.3	27.2	34.0	34.0
Dividend payout ratio	34.3	33.7	33.3	25.0	25.0
Share of deposits					
Current	25.7	24.6	22.6	24.0	24.0
Fixed	65.5	66.4	68.6	67.2	67.2
Savings	25.7	24.6	22.6	24.0	24.0
Loans-to-deposit ratio	67.3	69.3	73.9	73.3	73.9
<b>Dupont analysis (%)</b>					
Net interest income	3.2	2.7	2.6	2.5	2.6
Loan loss provisions	0.2	0.2	0.3	0.6	0.7
Net other income	1.2	1.3	1.2	1.0	0.9
Operating expenses	2.1	1.8	1.8	1.7	1.6
Invnt. depreciation	0.1	0.0	—	—	—
(1- tax rate)	68.5	62.7	72.8	66.0	66.0
ROA	1.2	1.1	1.1	0.7	0.7
Average assets/average equity	14.6	16.3	17.9	18.8	19.4
ROE	17.8	18.0	19.0	14.0	14.4

Source: Company, Kotak Institutional Equities estimates.

**Andhra Bank Income statement and balance sheet, March year-ends 2007-2011E**

	2007	2008	2009	2010E	2011E
<b>Income statement</b>					
Total interest income	33,153	42,899	53,746	58,610	68,005
Loans	23,034	31,769	42,151	46,563	53,762
Investments	8,964	10,482	10,990	11,915	14,119
Cash and deposits	1,155	647	606	131	124
Total interest expense	18,978	28,700	37,467	40,779	46,479
Deposits from customers	18,108	27,778	34,381	38,625	44,325
Net interest income	14,175	14,199	16,279	17,831	21,526
Loan loss provisions	846	1,237	2,060	4,267	6,020
Net interest income (after prov.)	13,330	12,962	14,219	13,564	15,506
Other income	5,201	6,614	7,676	6,908	7,288
Net fee income	1,816	2,124	2,124	2,230	2,408
Net capital gains	537	1,192	2,205	1,000	1,000
Net exchange gains	323	334	373	410	451
Operating expenses	9,332	9,443	11,044	12,310	13,521
Employee expenses	5,488	5,094	6,241	7,039	7,797
Depreciation on investments	1,364	925	1,800	—	—
Other Provisions	(11)	35	41	—	—
Pretax income	7,849	9,176	9,011	8,162	9,272
Tax provisions	2,470	3,420	2,450	2,775	3,153
Net Profit	5,379	5,756	6,561	5,387	6,120
% growth	10.8	7.0	14.0	(17.9)	13.6
PBT - Treasury + Provisions	9,511	10,181	10,706	11,429	14,292
% growth	38.8	6.9	14.2	6.7	25.1
<b>Balance sheet</b>					
Cash and bank balance	40,242	56,943	57,693	47,301	52,139
Cash	3,918	4,407	4,627	4,627	4,627
Balance with RBI	25,572	44,610	45,139	34,748	39,585
Balance with banks	5,196	2,443	2,443	2,443	2,443
Net value of investments	143,007	148,982	157,614	203,460	224,376
Govt. and other securities	113,570	130,869	141,682	187,528	208,443
Shares	2,163	2,078	2,078	2,078	2,078
Debentures and bonds	9,475	8,896	8,007	8,007	8,007
Net loans and advances	278,891	342,384	439,033	509,235	585,309
Fixed assets	1,923	2,195	2,122	1,863	1,716
Net leased assets	—	—	—	—	—
Net Owned assets	1,923	2,195	2,122	1,863	1,716
Other assets	11,347	15,420	12,336	12,336	12,336
<b>Total assets</b>	<b>475,410</b>	<b>565,924</b>	<b>668,798</b>	<b>774,196</b>	<b>875,875</b>
Deposits	414,540	494,365	593,935	694,950	791,699
Borrowings and bills payable	19,443	24,761	26,918	26,918	26,918
Other liabilities	9,864	14,305	11,444	12,016	12,617
<b>Total liabilities</b>	<b>443,847</b>	<b>533,431</b>	<b>632,297</b>	<b>733,884</b>	<b>831,234</b>
Paid-up capital	4,850	4,850	4,850	4,850	4,850
Reserves & surplus	26,713	27,643	31,650	35,461	39,791
<b>Total shareholders' equity</b>	<b>31,563</b>	<b>32,493</b>	<b>36,500</b>	<b>40,311</b>	<b>44,641</b>

Source: Company, Kotak Institutional Equities estimates.



**Energy****ONGC.BO, Rs883**

Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	900
52W High -Low (Rs)	1140 - 538
Market Cap (Rs bn)	1,889

**Financials**

March y/e	2009	2010E	2011E
Sales (Rs bn)	1,249	1,088	1,202
Net Profit (Rs bn)	219.5	202.4	268.4
EPS (Rs)	102.6	94.6	125.5
EPS gth	10.7	(7.8)	32.7
P/E (x)	8.6	9.3	7.0
EV/EBITDA (x)	3.2	3.1	2.4
Div yield (%)	3.8	4.1	5.4

**Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(0.2)	25.0	20.0	(14.4)

**Shareholding, March 2009**

	% of Pattern Portfolio	Over/(under) weight
Promoters	74.1	-
FII's	5.4	2.2 (4.0)
MFs	1.7	3.2 (3.0)
UTI	-	- (6.3)
LIC	2.6	3.5 (2.7)

**Oil & Natural Gas Corporation: Increased risk to earnings may result in muted near-term stock performance**

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- **Increased risk to earnings from (1) likely higher subsidy burden and (2) strengthening rupee**
- **Encouraging reserve accretion for FY2009 with reserve replacement ratio of 1.44X**
- **Revised earnings for stronger rupee; revised 12-month target price to Rs900 (Rs950 previously)**

We see increased risk to earnings of ONGC in the near term from (1) likely sharing of higher subsidy burden for 4QFY09, (2) strengthening of rupee and (3) likely weakness in crude prices from current levels. We do not model any subsidy burden for ONGC in 4QFY09. Thus, we see risk of some subsidy burden on ONGC in case the government decides to cap the amount of oil bonds to a lower figure versus Rs150 bn assumed by us and allocates the balance amount to the upstream companies. We revise our FY2010E, FY2011E and FY2012E EPS estimates to Rs95 (-9%), Rs126 (-9%) and Rs134 (-10%) on the back of (1) stronger rupee and (2) higher discount on crude produced from Cairn-operated Rajasthan block. Our revised 12-month fair valuation based on 8X normalized FCF is Rs900 (Rs950 previously). Key downside risk stems from lower-than-expected net realized price due to higher-than-expected subsidy burden.

**Key risks to earnings**

- 1. Likely higher subsidy burden on upstream companies.** We do not rule out higher subsidy burden for the upstream companies for FY2009E and some burden in 4QFY09 versus nil assumed by us. As per press reports, the government will issue Rs100 bn of oil bonds to the downstream companies in 4QFY09, which is lower than our expected Rs150 bn. We had assumed Rs150 bn for 4QFY09 based on Rs759 figure in Interim Budget 2009 and Rs610 bn of oil bonds issued in 9MFY09. We currently assume nil subsidy burden for upstream companies for 4QFY09. We note that our FY2009E EPS estimate for ONGC will decline to Rs95 from Rs104 if the upstream companies are required to share additional burden of Rs50 bn (ONGC's share at Rs34 bn) for FY2009E.
- 2. Strengthening rupee.** We see a stronger rupee versus our revised assumptions (Rs50.8/US\$ for FY2010E and Rs50.5/US\$ for FY2011E) as a negative for earnings for ONGC. The rupee has appreciated 3.7% since March 1, 2009. We highlight that ONGC's earnings have high sensitivity to changes in exchange rate assumptions; a Rs/1 US\$ change will impact ONGC's earnings by about 4% and would reduce its FY2010E and FY2011E EPS to Rs91 and Rs121 from our base-case EPS estimates of Rs95 and Rs126 (see Exhibit 2). However, the negative impact of strengthening rupees on ONGC will be partly mitigated through lower subsidy losses for downstream oil companies and likely higher global crude oil prices.
- 3. Likely weakness in crude prices.** We do not see the recent flare-up in crude oil prices as sustainable in light of (1) demand weakness in OECD countries despite encouraging signs of recovery in developing economies and (2) very high and rising global inventories (see Exhibits 3 and 4). We have been positively surprised by the recent strength in crude oil prices and the recovery probably reflects the market's optimism about global economic recovery. We remain positive on crude prices in the medium term and expect a recovery in 4QCY09 after weakness in 2QCY09 and 3QCY09 due to likely weak demand in the US and other developed countries.

### Reserves addition for FY2009 is encouraging

We are encouraged by the addition of 69 mn tons of ultimate recoverable reserves in ONGC alone (without overseas and domestic joint ventures) versus 63.8 mn tons in FY2008, which result in reserves replacement ratio of 1.44X. ONGC added 186 mn tons of ultimate reserves (1.4 bn bbls of oil and oil equivalent of gas) in FY2009 broken down between 68.9 mn tons in ONGC-operated fields in India, 2.8 mn tons in overseas joint ventures and 114.2 mn tons in domestic joint venture fields. Exhibit 5 gives the breakdown of reserve accretion for ONGC, OVL and joint venture fields.

The Street had concerns about ONGC not having had any major exploration success over the past few years (reserve replacement ratio of 0.6X between FY2002 and FY2006) but the performance in FY2009 and the past two years will likely allay concerns about ONGC's ability to find hydrocarbons. Exhibit 6 gives details of reserves addition by ONGC over the past few years.

### Earnings revisions

We discuss our earnings changes and key assumptions behind our earnings model (see Exhibit 7) below.

1. **FY2010E.** We have reduced FY2010E EPS to Rs95 from Rs104 to reflect primarily stronger rupee at Rs50.8/US\$ versus Rs53.3/US\$ previously. We model net realized crude price of US\$43.4/bbl based on gross crude price of US\$55/bbl (Dated Brent basis) and subsidy burden of Rs100 bn. Our volume assumptions are unchanged.
2. **FY2011E.** We have reduced FY2011E EPS to Rs126 from Rs138 to reflect stronger rupee at Rs50.5/US\$ versus Rs53/US\$ previously and higher discount of US\$8/bbl versus US\$6/bbl for crude oil produced from Cairn-operated Rajasthan fields (RJ-ON-90/1 block). We model net realized crude price of US\$45.4/bbl based on gross crude price of US\$66/bbl (Dated Brent basis) and subsidy burden of Rs175 bn. There is no change to our volume assumptions.
3. **FY2012E.** We have reduced FY2012E EPS to Rs134 from Rs149 to reflect stronger rupee at Rs48.5 versus Rs51.3 previously and higher discount of US\$8/bbl versus US\$6/bbl for crude oil produced from Cairn-operated Rajasthan fields (RJ-OSN-90/1 block). We model net realized crude price of US\$44.2/bbl based on gross crude price of US\$70/bbl (Dated Brent basis) and subsidy burden of Rs220 bn.

**We value ONGC stock at Rs900 on US\$50/bbl normalized crude price**

Estimation of fair value of ONGC stock based on normalized free cash flow (Rs mn)

	2009E	2010E	2011E
Normalized crude price assumption (US\$/bbl)	50.0	50.0	50.0
<b>Recurring operating cash flow</b>			
Operating cash flow = EBIT X (1-t) + D	138,178	262,679	233,246
Add: OCF after normalizing natural gas price	38,065	36,388	30,346
Add: OCF after removing subsidies	178,630	66,120	118,429
Recurring OCF	354,873	365,188	382,020
<b>Recurring capex</b>			
Production per annum (mn bbls)	374	377	392
Replacement or F&D costs (US\$/bbl)	10.0	10.0	10.0
Recurring capex	171,316	191,474	197,911
<b>Free cash flow</b>	<b>183,557</b>	<b>173,713</b>	<b>184,110</b>
Free cash flow multiple (X)	8	8	8
Enterprise value	1,468,453	1,389,708	1,472,877
(Net debt)/cash	315,908	422,717	529,439
Investments	91,787	96,727	101,668
Equity value	1,876,148	1,909,152	2,103,984
<b>Total equity value per share (Rs/share)</b>	<b>877</b>	<b>893</b>	<b>984</b>

	Equity value (Rs/share)	Change from base case (%)
<b>Normalized crude prices</b>		
US\$90/bbl	1,962	120
US\$80/bbl	1,695	90
US\$70/bbl	1,427	60
US\$60/bbl	1,160	30
<b>US\$50/bbl</b>	<b>893</b>	
US\$45/bbl	782	(12)
US\$40/bbl	694	(22)
US\$35/bbl	539	(40)

Source: Kotak Institutional Equities estimates

**ONGC's earnings are highly sensitive to crude price and exchange rate assumptions**

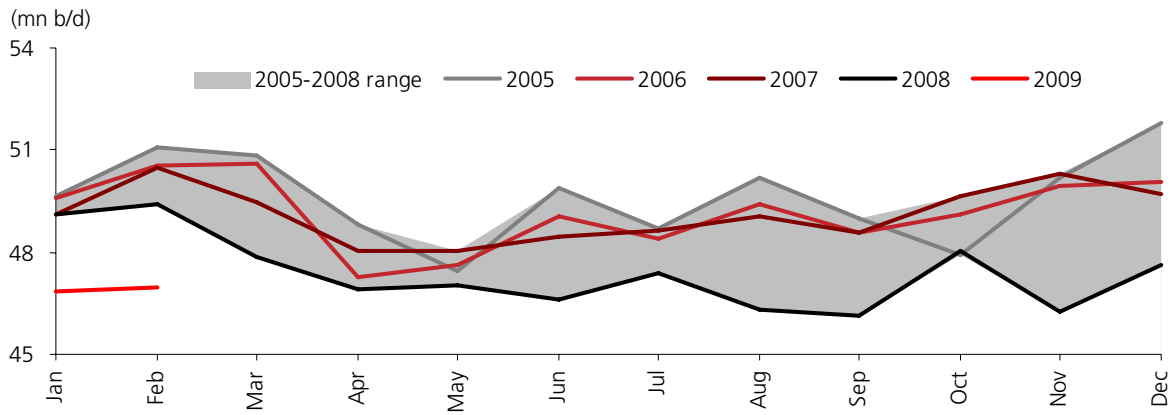
Earnings sensitivity of ONGC to key variables

	2010E			2011E			2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
<b>Exchange rate</b>									
Rs/US\$	49.8	50.8	51.8	49.5	50.5	51.5	47.5	48.5	49.5
Net profits (Rs mn)	194,243	202,359	210,475	258,112	268,444	278,775	274,848	286,300	297,751
Earnings per share (Rs)	90.8	94.6	98.4	120.7	125.5	130.3	128.5	133.9	139.2
<b>% upside/(downside)</b>	<b>(4.0)</b>		<b>4.0</b>	<b>(3.8)</b>		<b>3.8</b>	<b>(4.0)</b>		<b>4.0</b>
<b>Average crude prices</b>									
Crude price (US\$/bbl)	53.0	55.0	57.0	63.0	65.0	67.0	68.0	70.0	72.0
Net profits (Rs mn)	188,071	202,359	216,649	252,847	268,444	284,038	270,730	286,300	301,865
Earnings per share (Rs)	87.9	94.6	101.3	118.2	125.5	132.8	126.6	133.9	141.1
<b>% upside/(downside)</b>	<b>(7.1)</b>		<b>7.1</b>	<b>(5.8)</b>		<b>5.8</b>	<b>(5.4)</b>		<b>5.4</b>
<b>Cess</b>									
Cess on domestic crude (Rs/ton)	3,090	2,575	2,060	3,090	2,575	2,060	3,090	2,575	2,060
Net profits (Rs mn)	194,934	202,359	209,784	260,627	268,444	276,261	278,359	286,300	294,241
Earnings per share (Rs)	91.1	94.6	98.1	121.9	125.5	129.2	130.1	133.9	137.6
<b>% upside/(downside)</b>	<b>(3.7)</b>		<b>3.7</b>	<b>(2.9)</b>		<b>2.9</b>	<b>(2.8)</b>		<b>2.8</b>
<b>Natural gas prices</b>									
Natural gas price ceiling (Rs/'000 cum)	2,700	3,200	3,700	3,250	3,750	4,250	4,000	4,500	5,000
Net profits (Rs mn)	197,229	202,359	209,784	263,387	268,444	273,500	281,615	286,300	290,983
Earnings per share (Rs)	92.2	94.6	98.1	123.1	125.5	127.9	131.7	133.9	136.0
<b>% upside/(downside)</b>	<b>(2.5)</b>		<b>3.7</b>	<b>(1.9)</b>		<b>1.9</b>	<b>(1.6)</b>		<b>1.6</b>

Source: Kotak Institutional Equities estimates

**OECD demand has fallen in the recent month due to the impact of high gasoline and other product prices**

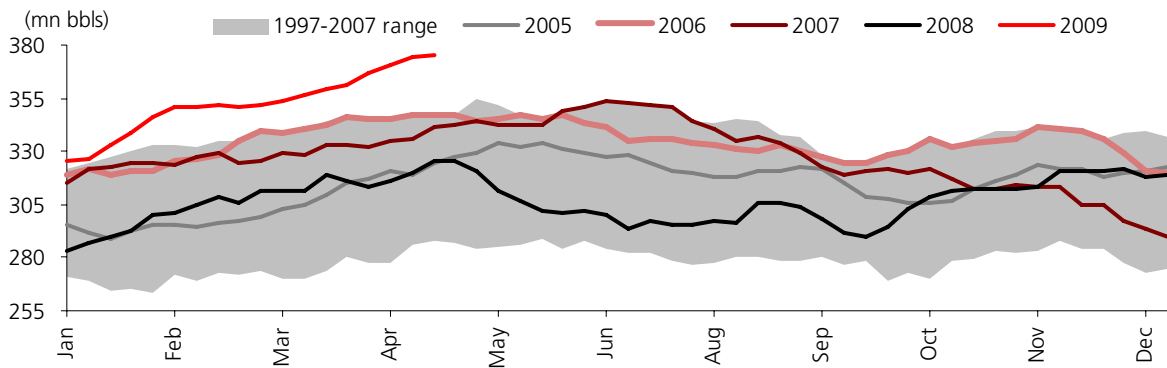
OECD demand (mn b/d)



Source: IEA, Kotak Institutional Equities

**US crude oil inventory are at 19-year high**

US crude oil inventory (mn bbls)



Source: DOE, Kotak Institutional Equities

**ONGC reserves data, March fiscal year-ends, 2008-09 (mn tons)**

	In-place reserves accretion (O+OEG)		Ultimate reserves (O+OEG)	
	2008	2009	2008	2009
<b>Domestic</b>				
ONGC	182.2	284.8	63.8	68.9
JV fields	30.9	12.2	(0.3)	2.8
<b>Overseas</b>				
OVL			46.7	114.2
<b>Total</b>	<b>213</b>	<b>297</b>	<b>110</b>	<b>186</b>

Source: Company, Kotak Institutional Equities

**ONGC's reserve replacement ratio has been encouraging**

Reserve accretion and production data, March fiscal year-ends, 2004-09 (mn tons)

	2004	2005	2006	2007	2008	2009
Reserve accretion	33.7	49.4	51.5	65.6	63.8	68.9
Production	49.6	49.4	47.0	48.5	48.3	47.9
<b>Reserve replacement ratio (X)</b>	<b>0.68</b>	<b>1.00</b>	<b>1.10</b>	<b>1.35</b>	<b>1.32</b>	<b>1.44</b>

Source: Company, Kotak Institutional Equities

**Moderate growth in volumes over the next few years**

Key assumptions, March fiscal year-ends, 2005-2012E

	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Rs/US\$ rate	45.0	44.3	45.3	40.3	45.8	50.8	50.5	48.5
Subsidy share scheme loss (Rs bn)	41.0	119.6	170.2	220.0	273.7	100.0	175.0	220.0
Import tariff on crude oil (%)	9.7	5.1	5.1	5.2	0.9	—	—	—
<b>Crude/natural gas prices</b>								
<b>Crude price</b>								
Crude price, Bonny Light (US\$/bbl)	40.6	57.2	64.8	78.9	83.0	55.0	65.0	70.0
Net crude price, ONGC-India (US\$/bbl)	39.4	43.8	46.1	54.2	48.4	43.4	45.4	44.2
<b>Natural gas price</b>								
Ceiling natural gas price, India (Rs/cu m)	2.85	3.52	3.20	3.20	3.20	3.20	3.75	4.50
Ceiling natural gas price, India (US\$/mn BTU)	1.69	2.12	1.89	2.12	1.87	1.69	1.98	2.48
Net natural gas price, ONGC-India (Rs/cu m)	2.18	3.11	2.82	2.82	2.82	2.81	3.32	4.00
Net natural gas price, ONGC-India (US\$/mn BTU)	1.29	1.88	1.67	1.87	1.64	1.48	1.75	2.20
<b>International operations</b>								
Net natural gas price, OVL-Vietnam (Rs/cu m)	3.2	3.1	3.2	2.8	3.2	3.6	3.6	3.4
Net crude price, OVL-Sudan (Rs/ton)	5,893	8,118	9,384	10,142	12,136	8,951	10,503	10,854
Net crude price, OVL-Russia (Rs/ton)	—	8,320	9,633	10,434	12,493	9,169	10,783	11,153
<b>Sales volumes—Domestic fields (a)</b>								
Crude oil (mn tons)	24.1	22.5	24.4	24.1	23.1	24.3	26.2	27.0
Natural gas (bcm)	20.6	20.5	20.3	20.4	20.6	19.6	19.2	17.9
<b>Sales volumes—Overseas fields</b>								
Crude oil (mn tons)	3.7	4.6	5.8	6.8	7.6	7.4	7.3	7.2
Natural gas (bcm)	1.3	1.8	2.1	2.0	2.4	2.6	2.8	2.8
<b>Total sales</b>								
Crude oil (mn tons)	27.8	27.0	30.2	30.9	30.7	31.7	33.5	34.2
Natural gas (bcm)	22.0	22.3	22.5	22.4	23.0	22.2	22.0	20.7
<b>Total sales (mn toe)</b>	<b>47.4</b>	<b>46.9</b>	<b>50.3</b>	<b>50.9</b>	<b>51.2</b>	<b>51.5</b>	<b>53.1</b>	<b>52.7</b>
<b>Total sales (mn boe)</b>	<b>346</b>	<b>342</b>	<b>367</b>	<b>372</b>	<b>374</b>	<b>376</b>	<b>388</b>	<b>384</b>
Crude oil (%)	59	58	60	61	60	62	63	65
Natural gas (%)	41	42	40	39	40	38	37	35

(a) Includes ONGC's share of production from joint venture fields.

Source: Company data, Kotak Institutional Equities estimates

## Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2004-2012E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>									
Net sales	467,124	707,083	807,603	966,542	1,091,644	1,248,747	1,088,182	1,202,343	1,228,354
<b>EBITDA</b>	<b>196,494</b>	<b>281,195</b>	<b>310,054</b>	<b>358,001</b>	<b>407,790</b>	<b>431,650</b>	<b>401,493</b>	<b>478,349</b>	<b>483,516</b>
Other income	23,752	17,595	27,350	45,378	53,565	50,829	57,534	67,250	80,570
Interest	(5,028)	(2,512)	(537)	394	(12,027)	(7,754)	(4,315)	(2,372)	(4,236)
Depreciation and depletion	(65,525)	(73,465)	(97,726)	(119,550)	(138,624)	(136,578)	(145,517)	(143,696)	(140,094)
Pretax profits	149,693	222,813	239,141	284,222	310,705	338,146	309,194	399,532	419,757
Tax	(46,101)	(74,690)	(71,196)	(88,986)	(102,908)	(111,685)	(101,618)	(129,011)	(126,472)
Deferred tax	(7,779)	(4,744)	(13,612)	(9,264)	(6,471)	(5,795)	(3,137)	(144)	(4,558)
Net profits	95,523	143,175	154,596	178,414	203,076	223,948	204,439	270,377	288,727
<b>Net profits after minority interests</b>	<b>94,219</b>	<b>140,670</b>	<b>153,542</b>	<b>176,922</b>	<b>199,466</b>	<b>221,620</b>	<b>202,359</b>	<b>268,444</b>	<b>286,300</b>
<b>Earnings per share (Rs)</b>	<b>44.1</b>	<b>65.8</b>	<b>71.8</b>	<b>82.7</b>	<b>93.3</b>	<b>103.6</b>	<b>94.6</b>	<b>125.5</b>	<b>133.9</b>
<b>Balance sheet (Rs mn)</b>									
Total equity	415,582	488,912	578,830	670,137	786,657	921,695	1,033,033	1,180,600	1,341,908
Deferred tax liability	54,250	57,911	71,557	80,976	87,227	93,022	96,159	96,303	100,861
Liability for abandonment cost	80,292	80,941	128,675	151,857	129,325	129,325	129,325	129,325	129,325
Total borrowings	60,961	39,028	28,767	21,826	22,039	33,712	42,339	72,739	124,639
Current liabilities	85,376	128,346	142,435	187,051	251,797	158,795	150,124	150,763	152,649
<b>Total liabilities and equity</b>	<b>696,461</b>	<b>795,138</b>	<b>950,264</b>	<b>1,111,847</b>	<b>1,277,045</b>	<b>1,336,549</b>	<b>1,450,981</b>	<b>1,629,732</b>	<b>1,849,385</b>
Cash	95,721	101,843	90,743	206,262	249,807	349,619	465,056	602,178	787,203
Current assets	133,039	178,421	240,210	192,652	257,384	219,411	202,654	237,607	242,798
Total fixed assets	419,213	471,543	565,722	643,219	695,227	692,893	703,704	705,439	734,875
Goodwill	11,661	10,753	14,172	27,686	22,847	22,847	22,847	22,847	22,847
Investments	30,811	26,961	35,753	36,888	45,041	45,041	49,981	54,922	54,923
Deferred expenditure	6,017	5,617	3,663	5,141	6,739	6,739	6,739	6,739	6,739
<b>Total assets</b>	<b>696,461</b>	<b>795,138</b>	<b>950,264</b>	<b>1,111,848</b>	<b>1,277,045</b>	<b>1,336,549</b>	<b>1,450,981</b>	<b>1,629,732</b>	<b>1,849,385</b>
<b>Free cash flow (Rs mn)</b>									
Operating cash flow, excl. working capital	133,261	187,001	216,736	252,772	284,517	257,322	238,511	297,628	302,201
Working capital changes	25,630	18,787	46,461	(4,990)	(24,929)	(119,904)	39,006	(11,665)	(3,305)
Capital expenditure	(56,301)	(103,418)	(113,738)	(135,049)	(166,427)	(77,200)	(100,757)	(98,275)	(121,222)
Investments	(10,608)	(9,887)	(28,912)	53,822	(7,348)	—	(4,940)	—	—
Other income	9,767	13,049	14,537	20,422	22,822	51,203	57,534	67,250	80,570
<b>Free cash flow</b>	<b>101,749</b>	<b>105,532</b>	<b>135,083</b>	<b>186,976</b>	<b>108,636</b>	<b>111,421</b>	<b>229,353</b>	<b>254,937</b>	<b>258,245</b>
<b>Ratios (%)</b>									
Debt/equity	14.7	8.0	5.0	3.3	2.8	3.7	4.1	6.2	9.3
Net debt/equity	(8.4)	(12.8)	(10.7)	(27.5)	(29.0)	(34.3)	(40.9)	(44.8)	(49.4)
RoAE	21.6	28.0	25.9	25.5	24.8	23.8	19.1	22.6	21.3
<b>RoACE</b>	<b>20.6</b>	<b>24.6</b>	<b>22.0</b>	<b>22.1</b>	<b>21.9</b>	<b>21.0</b>	<b>17.3</b>	<b>20.4</b>	<b>19.6</b>
<b>Key assumptions</b>									
Rs/dollar rate	46.0	45.0	44.3	45.3	40.3	45.8	50.8	50.5	48.5
Crude fob price (US\$/bbl)	28.7	40.6	57.2	64.8	78.9	83.0	55.0	65.0	70.0
Ceiling/actual natural gas price (Rs/'000 cm)	2,850	2,850	3,515	3,200	3,200	3,200	3,200	3,750	4,500
Subsidy loss (Rs bn)	26.9	41.0	119.6	170.2	220.0	273.7	100.0	175.0	220.0

Source: Kotak Institutional Equities estimates

**Media****JAGP.BO, Rs56**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	80
52W High -Low (Rs)	88 - 40
Market Cap (Rs bn)	16.7

**Financials**

March y/e	2009	2010E	2011E
Sales (Rs bn)	8.3	9.4	10.9
Net Profit (Rs bn)	0.9	1.2	1.8
EPS (Rs)	2.9	4.1	6.0
EPS gth	(11.9)	41.4	49.2
P/E (x)	19.4	13.7	9.2
EV/EBITDA (x)	10.7	7.5	5.2
Div yield (%)	2.6	3.6	4.9

**Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(4.5)	1.8	6.9	(34.7)

**Media****HTML.BO, Rs68**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	100
52W High -Low (Rs)	147 - 36
Market Cap (Rs bn)	15.9

**Financials**

March y/e	2009	2010E	2011E
Sales (Rs bn)	13.8	15.4	17.5
Net Profit (Rs bn)	0.7	1.0	1.6
EPS (Rs)	2.9	4.1	7.0
EPS gth	(32.4)	39.3	72.8
P/E (x)	23.3	16.7	9.7
EV/EBITDA (x)	10.4	7.3	5.0
Div yield (%)	0.6	1.2	3.6

**Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
15.5	6.5	2.7	(51.5)

**HT Media, Jagran Prakashan: IRS 2009 Round 1 analysis—stable readership numbers for HTML and JAGP**

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- **HT's (HTML's English newspaper) readership stable in Delhi, Mumbai**
- **JAGP reports stable readership of DJ (JAGP's Hindi newspaper) and robust gains by I-Next (light-read/tabloid Hindi newspaper) in UP market**
- **HH (HTML's Hindi newspaper) gains readership across markets (UP and Delhi)**
- **Retain positive bias on JAGP (BUY, TP: Rs80) over HTML (ADD, TP: Rs100)**

Our analysis of IRS 2009 Round 1 readership data reveals that (1) readership of English as well as Hindi dailies has increased marginally (+3.5% and +1.0% over 2008 Round 2), (2) HTML's English newspaper's (HT) readership remained largely stable (3) HTML's Hindi newspaper's (Hindustan, HH) readership increased substantially, (4) JAGP's flagship Hindi newspaper Dainik Jagran's (DJ) largely maintained its readership in the key UP market (marginal decline in other markets) but (5) JAGP's new light-read/tabloid newspaper I-Next (IN) reported robust gains with in the key UP market. However, we are reluctant to use readership data to make investment decisions and tend to rely on circulation data as a better measure; we highlight the disparity between HTML's business newspaper's (Mint) readership across Delhi and Mumbai (the latter being the financial capital of India) as a surprise revelation in IRS 2009 R1. We note the marginal changes in readership and no changes in leadership of top newspapers reinforce our view of strong entry barriers in the print media segment. We retain our positive view and 12-month DCF-based target prices of Rs80 and Rs100 for JAGP (BUY) and HTML (ADD). Key downside risks stem from lower-than-expected ad revenues.

**Stock view—prefer JAGP over HTML**

**FY2010E—cost rationalization would be critical.** Exhibit 1 presents the trends in newsprint prices; newsprint prices in the domestic and global markets had shot through the FY2009, which along with weak ad revenue market in 2HFY09 resulted in sharp decline in profitability in FY2009. However, the positive impact of the former occurred at two levels—(1) sharp decline in competitive intensity as many print players put their expansion plans on hold and (2) robust cost rationalization programs (conservation in RM consumption and reduction in overheads) to mitigate the impact of rising newsprint prices. Going forward, the print media industry is expected to benefit in FY2010E as newsprint prices have declined 20-25% from peak levels and print players have cut a lot of flab along the way.

**FY2011E—return of the 'advertiser' and operating leverage.** Exhibit 2 presents GroupM's ad revenue estimates for the Indian media industry. An interesting observation above is the higher-than-industry growth by print media during CY2005-2007. We believe the dependence of print media on strongly cyclical sectors such as autos, BFSI and real estate is the key reason behind this anomaly (see Exhibit 3). Therefore, while print will lose market share to radio and Internet during the troughs of economic cycles but, it will come back strongly during cyclical upturns. We believe FY2010E will remain the trough of the economic cycle but recovery will start in FY2011E, supported initially by autos and BSFI (2HFY10E) followed by real estate and retail segments (FY2011E; between 12-18 months from current lows). Also, the leading print players will likely outpace smaller rivals and print industry.



**JAGP versus HTML—we prefer JAGP.** Exhibit 4 compares the performance of key print players in the top 6 markets in the largest Hindi-belt state, UP; we believe concerns that aggressive expansion by HTML will hurt JAGP are valid but grossly overestimated. Hindustan (HH) has had a legacy presence in Lucknow and Varanasi; we are currently seeing the impact of its expansion in Kanpur, Meerut and Agra in CY2007. However, the incremental impact of HH in 5 of the top six markets may be minimal, where JAGP is the leader. The only market that may be incrementally impacted by HH will be Allahabad, where HH expanded in CY2008 and the effects may be visible in IRS R2 2009 and IRS R1 2009. However, JAGP has been able to withstand the challenge quite well, losing marginally even as other players such as Amar Ujala and Aj have been hurt badly. Including IN into the picture, JAGP has actually gained market share.

**JAGP—superior strategy of vertical expansion.** JAGP has been a lot more focused on vertical expansion in its existing key markets. We believe this is a smart move as most of the large Hindi markets (see Exhibit 5) already have strong top two players, except maybe MP. However, there are segments of population in all markets (e.g. young readers), which were not being served by existing publications. JAGP has launched a tabloid/light-read newspaper I-Next in its existing markets and tied-up with TV18 to launch a financial daily in its key markets to ring-fence its already strong presence with DJ. The JV combines the strength of TV18 in content and JAGP in production and distribution. HTML, on the other hand, has gone for geographic expansion across its portfolio (HT Mumbai, Mint and Hindustan); the leverage in its balance sheet has gone up as a result but the benefits are yet to flow through. Nonetheless, our positive view on HTML stems from (1) core earnings depressed by new investments and (2) likelihood of some of these new investments contributing positively in future (see Exhibit 6).

#### IRS 2009 Round 1 analysis

We give below the key findings of IRS 2009 Round 1 for various newspaper publishers in India. However, we clarify that surveys typically have sampling and extrapolation limitations. We rely on ABC circulation data for our modeling purposes; ABC data is certified, the process of measurement more rigorous and reliable, in our view.

**1. English and Hindi readership.** Average Issue Readership (AIR) of English newspapers increased 3.5% in 2009 R1 to 16.8 mn from 16.2 mn in 2008 R2. Exhibit 7 gives a list of top English dailies and their readership. The Times of India (TOI, Bennett, Coleman & Co.) continues to be the leader with AIR of 6.9 mn. HT, the flagship HTML daily, reported an AIR of 3.5 mn. AIR of Hindi newspapers was largely flat at 57.5 mn in 2009 R1 from 57 mn in 2008 R2. Exhibit 8 gives a list of top Hindi dailies and their readership. Dainik Jagran (DJ), the flagship daily of JAGP, continues to be the market leader with a daily readership of 16.4 mn. Hindustan, the Hindi daily from HTML, was in third position with an AIR of 9.5 mn in 2009 R1. Dainik Bhaskar, the leader in MP, Chhattisgarh and Rajasthan markets, was in second position with an AIR of 13 mn.

**IRS R2 2009—we expect a decline.** We highlight the increase in total AIR of English and Hindi newspapers as positive but expect numbers to decline in IRS R2 2009. The market growth was led by new product launches and expansion, which has been on hold starting 2HFY09 and will likely remain on hold for FY2010E. The increase in newsprint prices and weak ad revenue market has had a negative impact, notably on small players, and we expect consolidation in the market. Also, (1) several newspapers have chosen to withdraw from uneconomic regions, (2) lower readership may reflect marginal readers that may be discouraged in future (complementary copies) and (3) the quality of readership is improving with the growth in the economy, which will make up for the modest decline in AIR. Therefore, we believe that core readership will likely remain intact and the decline as measured by IRS may reflect factors that may not be negative for ad revenues.

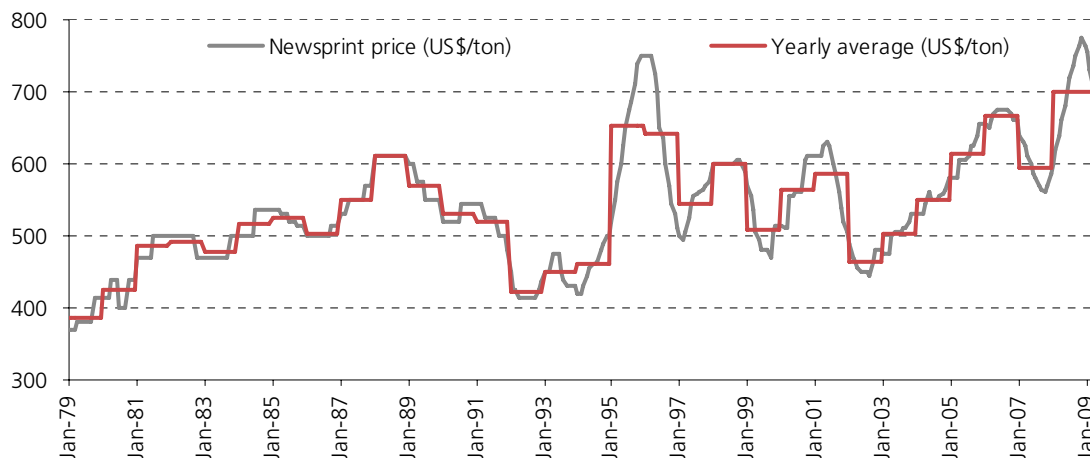


**2. Hindi market—modest decline in AIR of DJ but gains for HH.** DJ's overall AIR dropped to 16.4 mn in 2009 R1 from 16.65 mn in 2008 R2; however, DJ was able to maintain its leadership position and AIR in the critical market of UP (see Exhibit 9) and increase its AIR in Uttaranchal. The loss to DJ came largely from the relatively smaller markets of Punjab, Haryana, Bihar and Jharkhand from Hindustan (HH) and Dainik Bhaskar (DB). JAGP's ability to hold on to its readership base given expansion by competition would be critical. Exhibit 6 presents readership data of major Hindi dailies across key states. HH's AIR increased 1% to 9.5 mn from 9.4 mn in IRS 2008 R2; HH gained readership across markets of Delhi/NCR, Jharkhand and UP with its geographic expansion and increasing focus on the Hindi market but lost marginally in the key Bihar market.

**3. HTML—HT retains leadership position in Delhi.** HTML's flagship English newspaper (HT) retained its leadership position (see Exhibit 10) in the core Delhi market. However, the surprise in IRS R2 2009 was muted growth in the Mumbai market; HT's AIR increased a marginal 2% to 0.57 mn in 2009 R1 versus 0.56 mn in 2008 R2. In comparison, DNA increased its AIR by a robust 5% to 0.75 mn versus 0.71 mn in 2008 R2 and further closed the gap with TOI (Mumbai readership of 1.52 mn). Our discussion with HTML management reveals the starting of new printing equipment in Mumbai, a vast improvement over the previous version (better quality, higher capacity). The new equipment is currently undergoing trial runs and will soon become operational in 2QFY10E, when HT will again start expanding its circulation and readership (impact likely visible in IRS R1 2010). Exhibit 11 compares the readership of major English dailies across key states.

**Mint business newspaper—readership gains but surprising strange distribution.** The entry of Mint has shaken up the business newspaper segment and competition for second position has intensified. As per R1 2009, Mint has already cemented its second position (see Exhibit 12) with a readership of 0.18 mn, a 26% increase over R2 2008. However, the ABC circulation data paints a different picture with Business Standard (BS) ahead of Mint; we highlight that Mint is currently present in only 5 cities versus 10-12 editions each for BS and Hindu Business Line (HBL). However, the distribution of Mint readership in Delhi and Mumbai is the surprise revelation of IRS R1 2009; it highlights Mint readership of 0.14 mn in Delhi but only 0.03 mn in Mumbai, the financial capital of India. Economic Times (ET) and BS report roughly similar readership and circulation numbers in each of these cities; we find it hard to imagine what, if any, could be the rationale behind such wide disparity since both editions were launched in their respective markets at the same time.

**Historical newsprint price, US East Coast, 1979-2009 (US\$/ton)**



Source: PPPC, Pulp and Paper Weekly, compiled by Kotak Institutional Equities

**Indian ad revenue growth estimates by GroupM, 2004-2009E**

	2004	2005	2006	2007	2008	2009E (a)
<b>Ad revenues (Rs bn)</b>						
Print	55.5	66.5	78.6	92.9	100.3	98.3
C&S TV	45.3	51.9	60.5	71.1	84.0	89.9
Outdoor	8.8	10.0	11.7	14.0	14.5	15.1
Radio	2.4	3.0	4.0	5.9	8.8	10.1
Digital	0.8	1.2	2.0	3.9	6.8	8.5
<b>Total ad revenues</b>	<b>112.8</b>	<b>132.6</b>	<b>156.8</b>	<b>187.8</b>	<b>214.4</b>	<b>221.9</b>
<b>Market growth (%)</b>						
<b>Print</b>		<b>20</b>	<b>18</b>	<b>18</b>	<b>8</b>	<b>(2)</b>
C&S TV		15	17	18	18	7
Outdoor		14	17	20	4	4
Radio		25	33	48	49	15
Digital		50	67	95	74	25
<b>Average growth</b>		<b>18</b>	<b>18</b>	<b>20</b>	<b>14</b>	<b>3</b>
<b>Market share (%)</b>						
Print	49	50	50	49	47	44
C&S TV	40	39	39	38	39	41
Outdoor	8	8	7	7	7	7
Radio	2	2	3	3	4	5
Digital	1	1	1	2	3	4
<b>Total share</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Notes:

(a) Excludes Rs3.5 bn ad spend of account Indian General Elections in CY2009E.

Source: GroupM India 2009 report, compiled by Kotak Institutional Equities

**Top 10 advertisers on C&S TV and print media by volume, 2008 (%)**

C&S TV		Print	
Category	Market share (%)	Category	Market share (%)
Food & beverages	13.0	Education	15.0
Personal care & hygiene	9.0	Services	12.0
Services	6.0	<b>Banking &amp; finance</b>	<b>10.0</b>
Telecom & ISPs	6.0	<b>Autos</b>	<b>7.0</b>
Hair care	5.0	<b>Retail</b>	<b>5.0</b>
<b>Banking &amp; finance</b>	<b>4.0</b>	<b>Durables</b>	<b>4.0</b>
<b>Autos</b>	<b>4.0</b>	Personal accessories	3.0
Personal accessories	4.0	Corporate	3.0
Personal healthcare	3.0	Personal healthcare	3.0
Household products	3.0	Media & entertainment	2.0

Source: FICCI-KPMG Frames 2009 report, compiled by Kotak Institutional Equities

## Trends in newspaper readership in key markets of Uttar Pradesh ('000)

	R1 2006	R2 2006	R1 2007	R2 2007	R1 2008	R2 2008	R1 2009	Change (%)
<b>Kanpur</b>								
<b>Aj</b>	<b>204</b>	<b>183</b>	<b>153</b>	<b>136</b>	<b>132</b>	<b>99</b>	<b>86</b>	<b>(58)</b>
Amar Ujala	412	400	364	331	327	315	296	(28)
Dainik Jagran	828	778	716	668	666	645	678	(18)
<b>Hindustan</b>	<b>19</b>	<b>20</b>	<b>52</b>	<b>94</b>	<b>203</b>	<b>246</b>	<b>221</b>	<b>1,063</b>
<b>Lucknow</b>								
<b>Aj</b>	<b>42</b>	<b>51</b>	<b>47</b>	<b>51</b>	<b>44</b>	<b>34</b>	<b>35</b>	<b>(17)</b>
Dainik Jagran	438	458	491	496	455	418	383	(13)
Hindustan	317	292	278	259	275	277	264	(17)
<b>Rashtriya Sahara</b>	<b>107</b>	<b>93</b>	<b>86</b>	<b>73</b>	<b>56</b>	<b>54</b>	<b>45</b>	<b>(58)</b>
<b>Meerut</b>								
<b>Amar Ujala</b>	<b>253</b>	<b>259</b>	<b>243</b>	<b>217</b>	<b>202</b>	<b>179</b>	<b>196</b>	<b>(23)</b>
Dainik Jagran	228	231	230	205	183	214	228	-
<b>Hindustan</b>	<b>1</b>	<b>26</b>	<b>66</b>	<b>66</b>	<b>67</b>	<b>72</b>	<b>60</b>	<b>5,900</b>
<b>Agra</b>								
<b>Aj</b>	<b>17</b>	<b>8</b>	<b>14</b>	<b>7</b>	<b>3</b>	<b>2</b>	<b>7</b>	<b>(59)</b>
Amar Ujala	268	243	208	188	194	177	188	(30)
Dainik Jagran	150	146	135	134	124	117	134	(11)
<b>Hindustan</b>	<b>2</b>	<b>1</b>	<b>6</b>	<b>18</b>	<b>29</b>	<b>39</b>	<b>53</b>	<b>2,550</b>
<b>Allahabad</b>								
<b>Aj</b>	<b>24</b>	<b>16</b>	<b>13</b>	<b>10</b>	<b>13</b>	<b>6</b>	<b>3</b>	<b>(88)</b>
Amar Ujala	240	206	178	190	190	187	175	(27)
Dainik Jagran	210	197	195	218	222	193	179	(15)
Hindustan	23	14	16	16	15	11	7	(70)
<b>Varanasi</b>								
<b>Aj</b>	<b>69</b>	<b>61</b>	<b>44</b>	<b>34</b>	<b>31</b>	<b>27</b>	<b>22</b>	<b>(68)</b>
Amar Ujala	136	129	95	93	127	122	108	(21)
Dainik Jagran	198	189	170	168	184	169	155	(22)
<b>Hindustan</b>	<b>111</b>	<b>104</b>	<b>96</b>	<b>91</b>	<b>87</b>	<b>77</b>	<b>81</b>	<b>(27)</b>
<b>Total</b>								
Aj	356	319	271	238	223	168	153	(57)
Amar Ujala	1,309	1,237	1,088	1,019	1,040	980	963	(26)
Hindustan	473	457	514	544	676	722	686	45
<b>Dainik Jagran</b>	<b>2,052</b>	<b>1,999</b>	<b>1,937</b>	<b>1,889</b>	<b>1,834</b>	<b>1,756</b>	<b>1,757</b>	<b>(14)</b>
<b>I-Next (a)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>445</b>	
<b>JAGP</b>	<b>2,052</b>	<b>1,999</b>	<b>1,937</b>	<b>1,889</b>	<b>1,834</b>	<b>1,756</b>	<b>2,202</b>	<b>7</b>

Note:

(a) Total IRS R1 2009 readership of I-Next is 0.63 mn across the UP market.

Source: Indian Readership Survey, compiled by Kotak Institutional Equities

## Average Issue Readership (AIR) data of Hindi dailies in key Hindi-speaking states ('000)

	Amar Ujala	Dainik Bhaskar	Dainik Jagran	Hari Bhoomi	Hindustan	Navbharat	Navbharat Times	Prabhat Khabar	Punjab Kesari	Rajasthan Patrika	Total
Bihar	—	—	2,410	—	4,336	—	—	—	—	—	6,746
Chhattisgarh	—	1,021	—	771	—	687	—	—	—	—	2,479
Delhi/NCR	277	—	953	—	1,416	—	1,659	—	855	—	5,160
Haryana	—	1,335	920	246	—	—	—	—	858	—	3,359
Jharkhand	—	—	794	—	1,253	—	—	981	—	—	3,028
Madhya Pradesh	—	3,059	458	222	—	517	—	—	—	—	4,256
Maharashtra	—	447	—	—	—	555	571	—	—	—	1,573
Punjab	220	834	868	—	—	—	—	—	1,035	—	2,957
Rajasthan	—	5,736	—	—	—	—	—	—	—	6,538	12,274
Uttar Pradesh	6,275	—	9,143	—	2,314	—	—	—	—	—	17,732
Uttaranchal	821	—	541	—	—	—	—	—	—	—	1,362
<b>Total</b>	<b>7,593</b>	<b>12,432</b>	<b>16,087</b>	<b>1,239</b>	<b>9,319</b>	<b>1,759</b>	<b>2,230</b>	<b>981</b>	<b>2,748</b>	<b>6,538</b>	<b>60,926</b>

Note:

(a) Fieldwork period for R1 2009: January 2008 to December 2008.

Source: Indian Readership Survey, compiled by Kotak Institutional Equities

## Estimate of implied valuation of emerging businesses of HT Media (Rs mn)

		Comments
<b>1. Valuation of mature businesses</b>		<b>English (HT) and Hindi (Hindustan)</b>
FY2010E EBITDA of HT Delhi edition	2,352	Flagship print brand, growing at 4-6% normalized over time
Appropriate EV/EBITDA multiple (X)	6.0	New printing facilities for HT Delhi in FY2008
FY2010E EBITDA of HT (other) and Hindustan editions	927	Robust 15-20% growth, EBITDA depressed due to new editions
Appropriate EV/EBITDA multiple (X)	8.0	New printing facilities for Hindustan in FY2009E-2010E
<b>Valuation of mature businesses</b>	<b>21,526</b>	
<b>2. Valuation of investments</b>		
Net cash position at end-FY2009E	(1,712)	
<b>Total value of investments</b>	<b>(1,712)</b>	
<b>Valuation of HTML ex-emerging businesses</b>	<b>19,814</b>	
Enterprise value of HTML	19,780	
<b>3. Valuation of emerging businesses</b>		<b>Emerging media businesses</b>
<b>Implied value of new media businesses</b>	<b>(34)</b>	
FY2010E revenues of HT Mumbai edition	1,335	Circulation of 0.43 mn copies, complements presence in metro market of Delhi
FY2010E revenues of HT Mint business newspaper	500	Circulation of 0.13 mn copies, Number two in metro markets of Delhi and Mumbai
FY2010E revenues of Radio business	478	Stations in metro markets of Delhi, Mumbai, Bangalore and Kolkata

Source: Kotak Institutional Equities estimates

**Average Issue Readership (AIR) ranking of English dailies ('000)**

Rank	Newspaper	yoy			ror		
		R1 2009	R1 2008	chg (%)	R1 2009	R2 2008	chg (%)
1	The Times Of India	6,864	6,790	1	6,864	6,710	2
2	Hindustan Times	3,492	3,276	7	3,492	3,522	(1)
3	Hindu	2,237	2,244	(0)	2,237	2,121	5
4	Deccan Chronicle	1,093	1,225	(11)	1,093	1,152	(5)
5	Telegraph	1,083	1,009	7	1,083	1,018	6
6	Mumbai Mirror	880	775	14	880	895	(2)
7	The Economic Times	781	743	5	781	752	4
8	DNA	749	676	11	749	710	5
9	Mid-day	539	571	(6)	539	535	1
10	The Tribune	515	429	20	515	458	12
<b>Top 10 players</b>		<b>18,233</b>	<b>17,738</b>	<b>3</b>	<b>18,233</b>	<b>17,873</b>	<b>2</b>
<b>Total English</b>		<b>16,750</b>	<b>16,601</b>	<b>1</b>	<b>16,750</b>	<b>16,186</b>	<b>3</b>

Note:

- (a) Fieldwork period for R1 2009: January 2008 to December 2008.  
 (b) Fieldwork period for R2 2008: July 2007 to June 2008.  
 (c) Fieldwork period for R1 2008: January 2007 to December 2007.

Source: Indian Readership Survey, compiled by Kotak Institutional Equities

**Average Issue Readership (AIR) ranking of Hindi dailies ('000)**

Rank	Newspaper	yoy			ror		
		R1 2009	R1 2008	chg (%)	R1 2009	R2 2008	chg (%)
1	Dainik Jagran	16,410	16,738	(2)	16,410	16,647	(1)
2	Dainik Bhaskar	12,967	12,934	0	12,967	13,091	(1)
3	Hindustan	9,457	8,878	7	9,457	9,390	1
4	Amar Ujala	8,356	8,302	1	8,356	8,257	1
5	Rajasthan Patrika	6,668	7,331	(9)	6,668	6,670	(0)
6	Punjab Kesari	3,406	3,622	(6)	3,406	3,395	0
7	Navbharat Times	2,360	2,283	3	2,360	2,196	7
8	Navabharat (Mah/Cha)	1,276	1,560	(18)	1,276	1,353	(6)
9	Hari Bhoomi	1,250	1,111	13	1,250	1,183	6
10	Prabhat Khabar	1,232	1,303	(5)	1,232	1,238	(0)
<b>Top 5 players</b>		<b>53,858</b>	<b>54,183</b>	<b>(1)</b>	<b>53,858</b>	<b>54,055</b>	<b>(0)</b>
<b>Next 5 players</b>		<b>9,524</b>	<b>9,879</b>	<b>(4)</b>	<b>9,524</b>	<b>9,365</b>	<b>2</b>

Note:

- (a) Fieldwork period for R1 2009: January 2008 to December 2008.  
 (b) Fieldwork period for R2 2008: July 2007 to June 2008.  
 (c) Fieldwork period for R1 2008: January 2007 to December 2007.

Source: Indian Readership Survey, compiled by Kotak Institutional Equities

**Trends in AIR of Jagran Prakashan publications and competitors in key markets ('000)**

	JAGP			Competition		
	R1 2009	R2 2008	chg (%)	R1 2009	R2 2008	chg (%)
<b>Dainik Jagran</b>						
Bihar	2,410	2,505	(4)	4,336	4,564	(5) Hindustan
Delhi/NCR	953	933	2	855	805	6 Punjab Kesari
Haryana	920	965	(5)	858	854	0 Punjab Kesari
Jharkhand	794	869	(9)	981	923	6 Prabhat Khabar
Madhya Pradesh	458	433	6	517	522	(1) Navbharat
Punjab	868	930	(7)	1,035	1,075	(4) Punjab Kesari
Uttar Pradesh	9,143	9,193	(1)	6,275	6,166	2 Amar Ujala
Uttaranchal	541	555	(3)	821	826	(1) Amar Ujala

Note:

(a) Fieldwork period for R1 2009: January 2008 to December 2008.

(b) Fieldwork period for R2 2008: July 2007 to June 2008.

Source: Indian Readership Survey, compiled by Kotak Institutional Equities

**Trends in AIR of HT Media publications and competitors in key markets ('000)**

	HTML			Competition		
	R1 2009	R2 2008	chg (%)	R1 2009	R2 2008	chg (%)
<b>Hindustan Times</b>						
Delhi/NCR	2,208	2,236	(1)	2,198	2,155	2 The Times of India
Maharashtra	574	563	2	749	710	5 DNA
Punjab	151	120	26	300	283	6 The Tribune
Uttar Pradesh	246	254	(3)	502	476	5 The Times of India
<b>Hindustan</b>						
Bihar	4,336	4,564	(5)	2,410	2,505	(4) Dainik Jagran
Delhi/NCR	1,416	1,281	11	953	933	2 Dainik Jagran
Jharkhand	1,253	1,216	3	981	923	6 Prabhat Khabar
Uttar Pradesh	2,314	2,193	6	6,275	6,166	2 Amar Ujala

Note:

(a) Fieldwork period for R1 2009: January 2008 to December 2008.

(b) Fieldwork period for R2 2008: July 2007 to June 2008.

Source: Indian Readership Survey, compiled by Kotak Institutional Equities

**Average Issue Readership (AIR) of English dailies in key English-speaking states ('000)**

	Deccan Chronicle	Deccan Herald	Economic Times	Hindustan Times	Hindu	Mid-day	Mumbai Mirror	Telegraph	Times of India	Total
Andhra Pradesh	808	—	—	—	384	—	—	—	192	1,384
Delhi/NCR	—	—	210	—	2,208	—	—	—	2,198	4,616
Karnataka	—	330	—	—	—	—	—	—	481	811
Kerala	—	—	—	—	397	—	—	—	—	397
Maharashtra	—	—	749	225	—	574	539	880	1,893	4,860
Tamil Nadu	282	—	—	—	1,165	—	—	—	—	1,447
Uttar Pradesh	—	—	—	—	—	246	—	—	502	748
West Bengal	—	—	—	—	—	—	—	875	551	1,426
<b>Total</b>	<b>1,090</b>	<b>330</b>	<b>749</b>	<b>435</b>	<b>1,946</b>	<b>3,028</b>	<b>539</b>	<b>880</b>	<b>875</b>	<b>15,689</b>

Note:

(a) Fieldwork period for R1 2009: January 2008 to December 2008.

Source: Indian Readership Survey, compiled by Kotak Institutional Equities

**Trends in AIR of HT Mint and other business publications ('000)**

	yoy			ror		
	R1 2009	R1 2008	chg (%)	R1 2009	R2 2008	chg (%)
<b>Mint</b>						
Economic Times	781	743	5	781	752	4
Business Standard (c)	185	144	28	185	170	9
HT Mint	175	100	75	175	139	26
Hindu Business Line	111	86	29	111	67	66

Note:

- (a) Fieldwork period for IRS R1 2009: January 2008 to December 2008.
- (b) Fieldwork period for IRS R2 2008: July 2007 to June 2008.
- (c) Fieldwork period for IRS R1 2008: January 2007 to December 2007.
- (d) Circulation data for Business Standard as per Audit Bureau of Circulation.

Source: Indian Readership Survey, compiled by Kotak Institutional Equities





Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	8-May-09 82.4	BUY	Mkt cap.		EPS (Rs)		EPS growth (%)		PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend Yield (%)		RoE (%)		Target Price	Upside (%)	ADVF- 3mo (US\$ mn)					
			(Rs mn)	(US\$ mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E				2011E				
<b>Energy</b>																										
Bharat Petroleum	358	SELL	117,426	2,383	0.0	42.0	51.5	(99.9)	###	NA	6.9	4.4	3.9	0.9	0.8	0.8	5.2	6.4	0.0	10.2	11.6	425	18.6	5.1		
Cairn India	217	BUY	411,862	8,358	4.2	44.4	28.5	(3,628)	52	49	7.6	30.8	22.2	1.2	1.2	1.2	1.38	2.5	2.5	15.9	22.5	36	18.0			
Castrol India (a)	337	BUY	41,623	845	12.4	21.3	25.5	26.6	(20.8)	19.5	4.3	15.8	13.2	12.7	8.9	7.8	4.5	5.3	5.9	61.2	66.5	63.7	390	15.8	0.3	
GAIL (India)	262	SELL	331,896	6,735	12.68	23.3	19.7	20.7	14.2	(15.6)	5.1	11.2	13.3	12.7	6.1	7.5	8.0	2.0	1.9	1.7	2.8	2.5	18.3	13.8	13.3	
GSPCL	48	REDUCE	26,986	548	1.9	2.5	3.7	4.4	30.5	52.6	25.5	19.5	12.8	8.9	5.8	4.9	1.1	1.4	7.8	8.2	9.8	14.4	45	(6.2)	2.4	
Hindustan Petroleum	246	SELL	83,346	1,691	33.9	(10.5)	30.2	3.0	(31.5)	(386.8)	90.0	(23.3)	8.1	81.6	6.8	5.4	NA	4.9	(2.9)	7.6	(2.9)	7.6	(30)	22.0	5.8	
Indian Oil Corporation	414	REDUCE	488,356	9,910	1,179	24.3	46.8	49.6	(60.3)	9.1	6.1	17.0	8.9	8.3	8.1	4.4	3.9	1.0	0.9	0.9	4.4	5.4	6.2	10.3	10.2	
Oil & Natural Gas Corporation	883	ADD	1,888,958	38,331	2,139	102.6	94.6	125.5	(10.7)	32.7	8.6	9.3	7.0	3.2	1.4	1.7	1.5	1.3	3.8	4.1	5.4	19.3	15.8	188	900	19
Petroleum LNG	53	ADD	39,675	805	6.9	7.7	9.0	—	10.8	17.7	7.7	6.9	5.9	6.6	5.2	4.6	1.7	1.4	1.2	2.8	2.8	3.8	24.0	21.8	20.9	
Reliance Industries	1,900	REDUCE	2,609,112	52,945	1,973	103.4	127.7	175.7	(1.5)	23.5	37.7	18.4	14.9	10.8	6.8	5.1	2.2	1.9	1.7	0.7	0.8	1.1	15.1	15.9	19.2	
Reliance Petroleum	117	NK	527,625	10,707	4,500	—	8.3	13.8	n/a	n/a	8.5	n/a	n/a	7.1	3.9	3.3	2.5	1.7	1.7	0.6	2.5	35.0	—	—	22.0	
		<b>Neutral</b>	<b>6,566,885</b>																							
<b>Industrials</b>																										
ABB	472	REDUCE	99,989	2,029	212	25.8	24.9	29.6	11.3	(3.6)	18.3	18.9	16.0	10.7	10.5	8.4	4.7	3.9	3.2	0.5	0.6	0.7	29.2	22.6	23.1	
BGR Energy Systems	188	REDUCE	13,540	275	72	15.3	20.7	24.3	26.1	35.4	17.5	12.3	9.1	7.7	7.0	5.9	2.4	2.0	1.6	1.3	1.8	2.1	21.3	23.9	23.2	
Bharat Electronics	997	REDUCE	1,619	80	101.9	111.1	119.0	(0.0)	9.0	7.1	9.8	9.0	8.4	3.6	3.1	2.7	2.0	1.5	2.5	2.5	2.5	2.5	22.4	20.9	19.2	
Bharat Heavy Electricals	1,646	REDUCE	805,970	16,355	490	59.8	89.0	105.5	2.3	48.9	18.5	27.6	18.5	15.6	14.4	10.0	8.4	6.2	5.0	4.0	1.0	1.2	24.7	30.0	28.5	
Crompton Greaves	166	ADD	60,670	1,231	367	14.2	15.7	17.9	27.0	10.8	13.9	11.7	10.5	9.2	6.8	6.0	5.3	3.5	2.7	2.2	1.1	1.2	34.1	28.9	26.0	
Larsen & Toubro	991	SELL	591,568	12,004	597	48.2	51.6	54.6	27.1	7.0	5.9	20.6	19.2	18.1	12.6	11.4	10.9	3.7	3.1	2.7	1.1	1.2	20.6	17.6	15.8	
Maharashtra Seamless	182	BUY	12,854	261	71	35.9	33.0	39.6	22.2	(8.1)	20.3	5.1	5.5	4.6	3.4	2.6	1.0	0.8	0.7	3.0	2.7	3.9	20.3	16.0	16.8	
Siemens	335	REDUCE	113,067	2,294	337	14.2	19.8	21.1	(22.2)	39.7	6.4	23.7	16.9	15.9	10.7	9.2	8.6	5.0	4.2	3.5	0.9	2.0	1.2	23.3	27.1	
Suzlon Energy	76	ADD	119,402	2,423	1,567	7.0	7.1	11.4	6.0	2.3	59.7	10.9	10.7	6.7	8.5	7.7	6.2	1.2	1.1	0.9	0.7	1.3	11.3	10.4		
		<b>Cautious</b>	<b>1,896,855</b>																							
<b>Infrastructure</b>																										
IRB Infrastructure	103	ADD	34,117	692	332	5.6	10.4	10.8	63.5	85.5	3.9	18.3	9.9	9.5	11.0	6.2	5.7	1.8	1.5	1.3	—	—	10.6	16.8	14.5	
<b>Media</b>																										
DISHTV	35	REDUCE	32,886	667	946	(7.3)	(4.1)	(3.2)	n/a	(44.4)	(22.6)	(4.7)	(8.5)	(11.0)	(21.3)	(128.6)	41.4	(5.1)	(16.2)	(6.5)	—	—	86.1	91.1	NA	
HT Media	68	BUY	15,941	323	234	2.9	4.1	7.0	(32.4)	39.3	72.8	23.3	16.7	9.7	10.4	7.3	5.0	1.8	1.6	1.5	0.6	1.2	3.6	7.7	10.2	
Jagran Prakashan	56	BUY	16,745	340	301	2.9	4.1	6.0	(11.9)	41.4	49.2	19.4	13.7	9.2	10.7	7.5	5.2	2.9	2.7	2.4	2.6	3.6	4.9	15.5	20.4	
Sun TV Network	217	REDUCE	85,614	1,737	394	13.1	24.1	53.5	(84.7)	83.3	121.8	31.1	17.0	7.7	8.1	6.4	0.7	0.6	0.6	0.2	1.2	1.0	4.3	8.3	340	
Zee Entertainment Enterprises	124	ADD	53,784	1,091	434	8.1	9.0	10.7	(8.7)	11.5	18.4	15.3	13.7	11.6	11.0	9.7	8.1	1.6	1.5	1.4	1.8	2.1	2.5	11.6	11.9	
Zee News	33	ADD	7,876	160	240	1.9	2.1	2.5	20.4	11.1	18.8	17.6	15.9	13.4	9.4	8.0	7.1	3.2	2.7	2.4	1.2	1.2	1.8	20.0	19.0	
		<b>Neutral</b>	<b>212,846</b>																							
<b>Metals</b>																										
Hindalco Industries	68	ADD	119,704	2,429	1,753	7.7	2.4	8.2	(44.4)	(69.2)	248.7	8.9	28.9	8.3	5.6	7.8	6.6	0.3	0.4	0.4	—	—	10.3	5.2	6.7	
National Aluminium Co.	245	SELL	157,630	3,199	644	19.7	10.3	16.3	(22.2)	(47.8)	58.3	12.4	23.8	15.0	6.1	7.7	5.1	1.5	1.4	1.3	1.4	0.8	0.8	12.7	6.2	
Jindal Steel and Power	1,598	BUY	245,976	4,991	154	17.9	17.1	195.4	117.2	(45.1)	39.9	8.9	9.3	8.2	6.1	6.0	4.9	3.4	2.5	1.9	—	—	0.5	0.6	48.4	
JSW Steel	409	SELL	76,587	1,554	187	13.1	24.1	53.5	(84.7)	83.3	121.8	31.1	17.0	7.7	8.1	6.4	0.7	0.6	0.6	0.2	1.2	1.0	4.3	8.3	340	
Hindustan Zinc	583	BUY	246,357	4,999	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	9.0	9.3	7.2	5.2	4.6	2.8	1.6	1.4	1.2	0.7	0.9	0.9	20.1	16.5	
Sesa Goa	131	BUY	102,853	2,087	787	24.8	20.8	24.6	30.8	(16.1)	18.6	5.3	6.3	5.3	2.9	3.0	1.9	2.3	1.7	1.4	2.7	2.7	52.8	31.3		
Steelite Industries	490	ADD	347,375	7,049	708	49.2	41.0	50.5	(23.6)	(16.7)	23.4	10.0	12.0	9.7	5.7	6.2	4.6	1.3	1.2	1.1	—	—	14.3	10.7		
Tata Steel	282	BUY	232,130	4,710	822	123.9	55.5	87.0	(63.6)	(55.2)	56.7	2.3	5.1	3.2	3.3	3.4	3.3	0.5	0.4	0.4	4.6	4.6	36.8	15.7		
		<b>Attractive</b>	<b>1,528,612</b>																							
<b>Pharmaceutical</b>																										
Biocon	152	BUY	30,380	616	200	4.7	13.6	19.4	(80.0)	192.2	42.8	32.6	11.2	7.8	13.6	6.2	4.4	2.0	1.7	1.5	0.0	0.1	6.2	16.9		
Cipla	226	ADD	175,590	3,563	777	9.9	13.9	15.5	9.5	40.6	11.9	22.9	16.3	14.5	16.4	11.8	10.4	4.1	3.4	2.9	1.1	1.3	1.5	19.1		
Dibdin Pharma & Chemicals	123	BUY	10,036	204	81	11.4	24.8	28.0	(22.7)	118.0	13.0	10.9	5.0	4.4	8.7	4.9	4.3	1.5	1.2	1.0	0.0	0.0	1.3	15.9		
Din's Laboratories	942	BUY	60,787	1,233	65	65.2	75.1	91.1	22.5	15.2	21.3	14.4	12.5	10.3	11.2	9.1	7.0	4.9	3.6	2.7	0.1	0.1	40.3	33.3		
Dr Reddy's Laboratories	551	BUY	93,224	1,892	169	26.2	39.9	45.8	6.6	52.1	14.8	21.0	13.8	12.0	8.9	6.5	5.5	1.9	1.7	1.5	0.7	0.7	9.4	13.0		
Glenmark Pharmaceuticals	180	BUY	47,907	972	266	15.8	18.2	22.5	(38.7)	14.7	23.6	11.4	9.9	8.0	7.8	6.7	5.6	2.2	1.8	1.5	0.0	0.0	21.9	19.8		
Jubilant Organosys	143	BUY	24,550	498	171	16.5	18.6	21.8	(26.2)	12.6	17</															

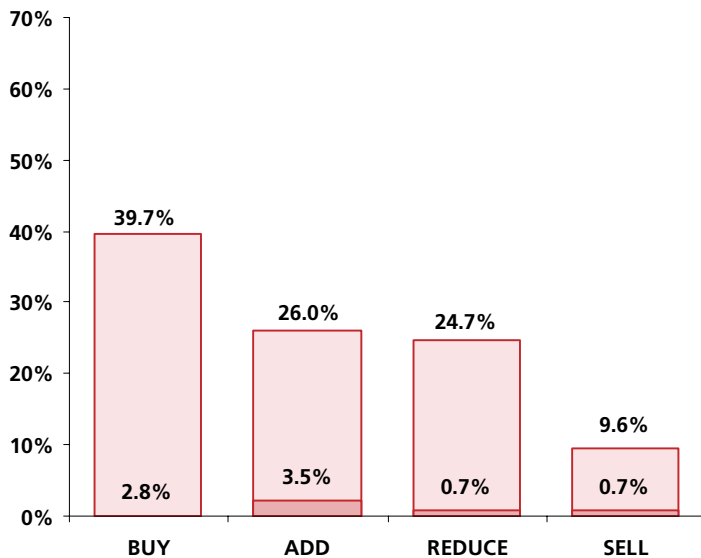
**Kotak Institutional Equities: Valuation Summary of Key Indian Companies**

Company	8-May-09 34.8	REDUCE	O/S shares (mm)	Mkt cap. (US\$ mn)	EPS (Rs)		EPS growth (%)		PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend Yield (%)		RoE (%)		Target price (Rs)	Upside (%)	ADVF- 3mo (US\$ mn)									
					2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E				2011E	2009E	2010E	2011E					
<b>Retail</b>	832	REDUCE	749	36,914	44	45.9	50.1	56.9	30.8	9.2	13.7	18.1	16.6	14.6	11.7	10.2	8.7	6.4	4.9	3.9	1.2	1.3	1.4	38.9	33.6	29.9	850	2.2	3.7	
<b>IT/Technology</b>	149	REDUCE	2,096	103,312	695	16.2	12.5	16.7	5.8	(22.6)	33.4	9.2	11.9	8.9	5.3	5.0	4.8	1.6	1.5	1.4	8.1	8.1	8.1	18.3	13.0	16.8	110	(26.0)	4.5	
Infosys Technologies	1,521	BUY	872,882	17,713	574	102.4	104.1	116.1	29.6	1.6	11.5	14.8	14.6	13.1	10.6	10.2	8.4	4.8	3.9	3.2	1.5	1.7	1.9	36.7	29.3	26.8	1,500	(1.4)	53.2	
Mphasis BFL	237	REDUCE	49,360	1,002	208	14.2	32.6	27.9	15.7	129.8	(14.4)	16.7	7.3	8.5	12.6	5.0	4.5	3.4	2.5	2.0	1.7	1.9	2.1	22.8	39.5	26.0	190	(19.7)	2.2	
Mindtree	346	BUY	14,238	47	41	13.2	44.0	50.7	(50.5)	232.5	11.1	26.1	7.9	6.8	4.6	4.6	3.8	2.6	1.9	1.5	0.5	—	1.5	5.5	20.4	18.4	400	15.6	3.9	
Patri Computer Systems	164	REDUCE	21,065	427	129	26.8	23.5	26.1	(19.3)	(12.4)	11.1	6.1	7.0	6.3	1.5	1.0	0.7	0.8	0.7	0.6	1.1	2.9	3.2	16.2	10.0	10.3	150	(8.5)	1.1	
Polaris Software Lab	75	SELL	7,432	151	99	13.1	13.9	12.1	76.0	1.7	(8.9)	5.7	5.6	6.2	1.7	2.0	2.1	1.0	0.8	0.8	3.7	2.7	2.7	18.1	15.9	12.9	50	(63.6)	2.4	
TCS	631	REDUCE	617,454	12,530	979	52.9	51.3	55.9	3.1	(2.9)	8.8	11.9	12.3	11.3	8.3	7.2	3.9	3.3	2.8	2.2	2.4	3.5	3.6	36.9	29.1	26.8	510	(19.2)	23.8	
Tech Mahindra	353	ADD	45,598	925	129	70.4	38.0	37.2	19.3	(46.0)	(2.1)	5.0	9.3	9.5	3.2	6.5	6.1	2.0	1.7	1.5	1.1	1.7	2.0	52.8	20.3	17.0	360	2.0	13.3	
Wipro	355	ADD	519,156	10,535	1,462	25.7	27.0	29.4	15.8	4.7	9.1	13.8	13.2	12.1	10.1	9.0	7.6	3.5	2.8	2.4	1.1	2.1	2.4	26.9	23.7	21.7	325	(8.5)	10.8	
<b>Technology</b>			<b>2,255,423</b>		<b>45,768</b>				<b>15.0</b>	<b>(0.5)</b>	<b>9.1</b>	<b>12.6</b>	<b>12.7</b>	<b>11.6</b>	<b>8.6</b>	<b>8.2</b>	<b>7.1</b>	<b>3.6</b>	<b>2.9</b>	<b>2.6</b>	<b>1.9</b>	<b>2.3</b>	<b>2.7</b>	<b>28.1</b>	<b>23.2</b>	<b>21.9</b>				
<b>Telecom</b>																														
Bharti Airtel	768	ADD	1,458,712	29,600	1,899	44.6	52.2	59.8	26.4	17.0	14.6	17.2	14.7	12.8	10.1	8.6	7.4	4.6	3.5	2.7	0.5	0.8	1.0	31.4	27.0	23.8	775	0.9	68.7	
IDEA	59	REDUCE	183,748	3,729	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	20.4	20.4	18.4	7.8	7.3	6.1	1.3	1.3	1.2	—	—	—	10.4	6.4	6.8	55	(7.1)	8.0	
MTNL	72	SELL	45,392	921	630	4.0	4.1	4.6	(44.3)	2.6	11.8	18.1	17.7	15.8	6.2	4.6	3.1	0.4	0.4	0.4	8.3	8.3	8.3	1.6	1.6	1.9	50	(30.6)	1.3	
Reliance Communications	230	SELL	474,828	9,635	2,064	27.7	20.3	21.1	4.7	(26.6)	3.9	8.3	11.3	10.9	7.7	7.4	5.8	1.4	1.2	1.1	0.3	—	—	18.6	11.7	10.9	180	(21.8)	50.0	
Tata Communications	556	REDUCE	158,360	3,213	285	13.6	14.0	15.2	24.0	3.2	8.2	40.9	39.7	36.7	17.3	15.8	14.6	2.3	2.2	2.2	0.9	1.2	1.3	5.4	5.2	5.5	400	(28.0)	2.9	
<b>Telecom</b>			<b>2,321,040</b>		<b>47,099</b>				<b>11.5</b>	<b>(0.5)</b>	<b>11.3</b>	<b>14.4</b>	<b>14.5</b>	<b>13.0</b>	<b>9.3</b>	<b>8.3</b>	<b>6.9</b>	<b>2.4</b>	<b>2.0</b>	<b>1.8</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>	<b>16.3</b>	<b>14.0</b>	<b>13.6</b>				
<b>Transportation</b>																														
Container Corporation	805	ADD	104,686	2,124	130	64.4	71.4	83.3	11.6	10.8	16.6	12.5	11.3	9.7	8.6	7.3	6.0	2.8	2.3	2.0	1.8	2.0	2.3	24.0	22.5	22.2	850	5.5	0.9	
<b>Transportation</b>			<b>104,686</b>		<b>2,124</b>				<b>11.6</b>	<b>10.8</b>	<b>16.6</b>	<b>12.5</b>	<b>11.3</b>	<b>9.7</b>	<b>8.6</b>	<b>7.3</b>	<b>6.0</b>	<b>2.8</b>	<b>2.3</b>	<b>2.0</b>	<b>1.8</b>	<b>2.0</b>	<b>2.3</b>	<b>24.0</b>	<b>22.5</b>	<b>22.2</b>	<b>850</b>	<b>5.5</b>	<b>0.9</b>	
<b>Utilities</b>																														
CEEC	260	BUY	32,433	658	125	31.2	38.0	42.1	12.3	21.8	10.8	8.3	6.8	6.2	4.6	5.5	6.0	0.9	0.8	0.7	1.8	2.1	2.3	11.4	12.2	11.9	385	48.3	0.9	
Lanco InfraTech	225	BUY	50,118	1,077	222	14.6	17.1	24.9	(1.3)	26.6	45.7	15.4	13.2	9.1	22.4	17.0	9.4	2.3	1.9	1.6	—	—	—	16.2	15.8	19.0	265	17.5	9.0	
NTPC	190	REDUCE	1,565,814	31,774	8,245	8.8	10.7	12.0	(5.2)	20.8	12.7	21.5	17.8	15.8	14.6	13.2	12.6	2.7	2.5	2.3	1.8	2.1	2.4	12.9	14.4	15.0	180	(5.2)	27.7	
Reliance Infrastructure	769	BUY	174,061	3,532	226	64.1	58.8	62.9	70.5	(8.2)	6.9	12.0	13.1	12.2	12.7	13.5	10.6	1.0	1.0	0.9	0.9	1.1	1.2	6.3	7.0	9.0	970	26.2	106.0	
Reliance Power	133	REDUCE	319,487	6,483	2,397	1.0	2.5	3.1	—	140.3	25.3	130.7	54.4	43.4	—	—	—	2.3	2.2	2.1	—	—	—	1.8	4.2	5.0	120	(10.0)	15.9	
Tata Power	901	BUY	200,459	4,068	223	65.2	90.2	101.5	104.6	38.4	12.5	13.8	10.0	8.9	9.8	9.3	8.7	1.9	1.6	1.4	1.2	1.3	1.6	15.0	17.5	17.0	1,000	11.0	11.6	
<b>Utilities</b>			<b>2,342,372</b>		<b>47,532</b>				<b>11.2</b>	<b>21.8</b>	<b>13.5</b>	<b>21.0</b>	<b>17.2</b>	<b>15.2</b>	<b>14.6</b>	<b>14.5</b>	<b>13.4</b>	<b>2.2</b>	<b>2.0</b>	<b>1.9</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>	<b>10.6</b>	<b>11.8</b>	<b>12.3</b>				
<b>Others</b>																														
Aban Offshore	455	REDUCE	17,233	350	38	87.8	148.2	277.7	21	68.8	87.4	5.2	3.1	1.6	8.1	6.3	4.9	1.2	0.9	0.6	0.9	1.1	1.1	33.7	36.9	41.2	300	(34.1)	30.5	
Havells India	224	REDUCE	13,565	275	61	(1.0)	10.3	10.3	(104)	NA	21.8	21.8	21.8	18.4	9.4	8.1	8.0	1.9	1.8	1.8	1.5	1.8	2.2	(0.9)	8.5	8.5	120	(46.5)	1.6	
Jayprakash Associates	142	ADD	199,432	4,047	1,403	6.6	7.9	11.8	34	20.0	49.6	21.7	18.1	12.1	13.8	11.4	10.6	3.3	2.9	2.4	0.0	0.0	0.0	16.8	17.1	21.8	140	(1.5)	99.8	
Jindal Saw	262	BUY	14,374	292	55	64.3	47.8	41.7	(1)	(25.6)	(12.8)	4.1	5.5	6.3	3.1	2.9	2.7	0.4	0.4	0.4	1.9	1.5	1.5	10.8	7.4	6.2	300	14.5	1.3	
PSL	104	BUY	4,526	92	44	24.3	43.7	37.8	15	79.6	(13.4)	4.3	2.4	2.7	4.9	4.2	3.6	0.5	0.5	0.4	7.7	7.7	7.7	10.6	14.2	12.4	145	39.6	0.2	
Sintex	156	BUY	21,334	433	136	21.3	22.5	25.4	9	57	12.9	7.3	7.0	6.2	5.6	5.0	4.0	1.1	1.0	0.8	1.0	1.1	1.0	15.0	13.8	13.5	125	(20.0)	3.8	
Tata Chemicals	186	ADD	43,647	886	235	25.5	23.4	27.5	(36)	(8.3)	17.6	7.3	7.9	6.8	4.9	4.2	3.6	0.9	0.9	0.8	4.3	4.3	4.3	17.2	13.3	14.0	190	2.4	2.3	
Welspun Gujarat Stahl Rohren	114	REDUCE	21,596	438	189	20.8	21.6	16.6	1	4.1	(23.5)	5.5	5.3	6.9	4.8	4.1	4.3	1.0	0.9	0.8	1.6	1.2	1.3	19.9	17.8	11.7	100	(12.6)	10.3	
United Phosphorus	118	BUY	54,585	1,108	462	10.7	13.5	18.0	28	25.7	33.9	11.0	8.8	6.6	7.7	5.6	4.2	1.8	1.5	1.3	1.0	1.3	1.7	18.1	18.2	20.5	140	18.5	1.8	
<b>Others</b>			<b>390,293</b>		<b>7,920</b>				<b>13.8</b>	<b>11.1</b>	<b>29.9</b>	<b>10.6</b>	<b>9.5</b>	<b>7.3</b>	<b>7.9</b>	<b>6.8</b>	<b>6.3</b>	<b>1.6</b>	<b>1.4</b>	<b>1.2</b>	<b>1.0</b>	<b>1.0</b>	<b>1.1</b>	<b>15.5</b>	<b>15.0</b>	<b>16.7</b>				
<b>KS universe (b)</b>			<b>26,344,943</b>		<b>534,597</b>				<b>3.3</b>	<b>3.1</b>	<b>22.0</b>	<b>13</b>	<b>12.5</b>	<b>10.3</b>	<b>8.5</b>	<b>7.6</b>	<b>6.4</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>	<b>1.6</b>	<b>1.9</b>	<b>2.4</b>	<b>15.5</b>	<b>14.4</b>	<b>15.8</b>				
<b>KS universe (c) ex-Energy</b>			<b>19,778,078</b>		<b>401,341</b>																									

" 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: Manish Karwa, Manoj Menon, Sanjeev Prasad, Amit Kumar. "

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\* 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 than 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/03/2009 Kotak Institutional Equities Investment Research had investment ratings on 146 equity securities.

Source: Kotak Institutional Equities

As of March 31, 2009

**Ratings and other definitions/identifiers**

**Rating system**

Definitions of ratings

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

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