kotak® Institutional Equities

# INDIA DAILY

August 9, 2010

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### New releases

**Strategy:** KS-Ownership Navigator June 2010 quarter changes (qoq)

### Updates

**Nestle India:** Maggi bastion challenged: Counter strategy is key

**BGR Energy Systems:** Equipment JV: Positive development, but not without its challenges

## News Round-up

- ONGC (ONGC IN) has re-entered its successful East Coast Block after a gap of almost three years. *(THBL)*
- TCS (TCS IN) is eyeing two contracts for defence strategic communication systems worth USD 608 mn. The company said one of the projects will be finalized this financial year. *(BSTD)*
- REC (RECL IN) plans to issue up to USD 652 mn worth of infrastructure bonds in October as part of its fund-raising effort. It is expecting to get non-banking finance company-infrastructure finance company status by August 14, which would make it eligible to issue such bonds. *(BSTD)*
- The SCI (SCI IN) is planning to raise 10% additional equity through a public offer for part-funding its acquisition plans. The government is also planning to divest 10% of its stake in the domestic shipping company. *(BSTD-Sat)*
- The board of M&M (MM IN) gave the green signal to its management to bid for South Korea's cash-strapped automobile company, SsangYong Motor. *(BSTD-Sun)*
- M&M (MM IN) approached to buy Fiat plant. The price for the plant has been fixed at around USD 45 mn. *(BSTD-Sat)*
- Power Finance Corp. (POWF IN) plans to hit the capital market by the end of the current financial to raise fresh equity & bolster its capital adequacy ratio after securing the status of an infrastructure finance co. from the RBI. *(FNLE)*
- Real Estate firm Indiabulls InfraEstate won the bid for National Textile Corp.'s 8.3 acres of prime mill land in Mumbai for USD 320.21mn, more than double the reserve price, indicating the high demand for residential land in the city. *(ECNT-Sat)*
- SAIL (SAIL IN) will invest USD 319.15mn to develop its domestic coking coal mines as it looks to reduce dependence on the import of key input that has been a prime cause of volatility in steel prices. *(ECNT-Sat)*
- NTPC (NATP IN) on a massive capacity addition programme, says it would need 270-280 mn tones of coal annually by the end of the 12th Plan (2017). *(BSTD)*
- KEC International (KECI IN) bags orders in the substation & transmission space to the tune of USD 53.19mn. *(FNLE-Sat)*
- Tata Comm. (TCOM IN) plans to line up a capex of USD 500mn to fuel its business this fiscal. *(ECNT-Sat)*
- National Aluminum Company Ltd (NACL IN) will commission its second 120 MW power unit in Angul this month. *(THBL)*
- Alstom transport S.A and Alstom Projects India Ltd (ABBAP IN) have bagged USD 313 mn contract for the supply of coaches for the Chennai Metro Rail Project. *(THBL SAT)*

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

## EQUITY MARKETS

| | | Change % | | |
|---|---|---|---|---|
| **India** | **6-Aug** | **1-day** | **1-mo** | **3-mo** |
| Sensex | 18,144 | (0.2) | 1.7 | 8.2 |
| Nifty | 5,439 | (0.1) | 1.6 | 8.4 |
| **Global/Regional indices** | | | | |
| Dow Jones | 10,654 | (0.2) | 4.5 | 2.6 |
| Nasdaq Composite | 2,288 | (0.2) | 4.2 | 1.0 |
| FTSE | 5,332 | (0.6) | 3.9 | 4.1 |
| Nikkie | 9,545 | (1.0) | (0.4) | (7.9) |
| Hang Seng | 21,679 | 0.6 | 6.4 | 8.8 |
| KOSPI | 1,786 | 0.1 | 3.7 | 8.4 |
| **Value traded – India** | | | | |
| Cash (NSE+BSE) | 172 | | 170 | 168 |
| Derivatives (NSE) | 605 | | 597 | 894 |
| Deri. open interest | 1,470 | | 1,319 | 1,208 |

| **Forex/money market** | | | | |
|---|---|---|---|---|
| | | Change, basis points | | |
| | **6-Aug** | **1-day** | **1-mo** | **3-mo** |
| Rs/US$ | 46.2 | (4) | (76) | 84 |
| 10yr govt bond, % | 7.8 | (8) | 23 | 19 |
| **Net investment (US$mn)** | | | | |
| | **5-Aug** | | **MTD** | **CYTD** |
| FIIs | 36 | | 334 | 10,811 |
| MFs | (40) | | 2 | (282) |

| **Top movers -3mo basis** | | | | |
|---|---|---|---|---|
| | | Change, % | | |
| **Best performers** | **6-Aug** | **1-day** | **1-mo** | **3-mo** |
| HPCL IN Equity | 444.1 | 0.4 | (9.1) | 32.5 |
| BJAUT IN Equity | 2711.7 | (0.3) | 12.0 | 31.8 |
| BHFC IN Equity | 336.1 | 0.6 | 1.8 | 30.1 |
| ITC IN Equity | 158.8 | 1.9 | 5.7 | 25.1 |
| BOI IN Equity | 434.7 | (0.5) | 16.2 | 25.0 |
| **Worst performers** | | | | |
| RNR IN Equity | 39.4 | (0.5) | (12.3) | (25.3) |
| PUNJ IN Equity | 120.2 | (0.6) | (13.3) | (20.1) |
| SUEL IN Equity | 56.0 | (0.9) | (4.8) | (17.3) |
| ABAN IN Equity | 906.3 | (0.0) | 4.4 | (10.4) |
| FTECH IN Equity | 1231.9 | 0.1 | (9.8) | (10.1) |

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Strategy

India

INDIA

AUGUST 08, 2010

NEW RELEASE

BSE-30: 18,217

**KS-Ownership Navigator June 2010 quarter changes (qoq).** The June 2010 quarter saw buying to the tune of Rs31 bn by Foreign Institutional Investors (FIIs) and selling of Rs37 bn by Mutual Funds (MFs). FIIs increased their exposure to Banking and Automobiles and reduced their posititons in Metals and Telecom while mutual funds increased their position in Telecom and Technology. Overall, institutions increased their position in Banking and Automobiles. FII holdings (including ADR and GDR) in BSE-200 companies stand at US$196 bn as of June 30, 2010 versus US$201 bn on March 31, 2010.

## FIIs invested Rs31 bn in the june 2010 quarter

- FIIs bought Banking and Automobiles; sold Metals and Telecom
- Mutual Funds (MFs) bought Telecom and Technology; sold Banking
- LIC bought Technology and Metals; sold Banking

## Key stock changes

- FIIs bought Tata Motors, SBI and Axis Bank; sold Tata Steel and Bharti Airtel
- MFs sold ICICI Bank and Tata Power; bought Bharti Airtel and Zee Entertainment
- LIC bought Tech Mahindra and Bajaj Auto; sold PNB, Siemens and HDFC Bank

## Overweight/Underweight companies

- FIIs are overweight Banking, Technology; underweight Energy and Utilities
- MFs are overweight Industrial and Banking; underweight Metals and Energy

## Limitations of our analyses

- Assumption: BSE-200 is the primary investable universe for institutions
- LIC portfolio comprises stocks with more than 1% holdings
- Unless otherwise specified, analysis in this report is with respect to BSE-200

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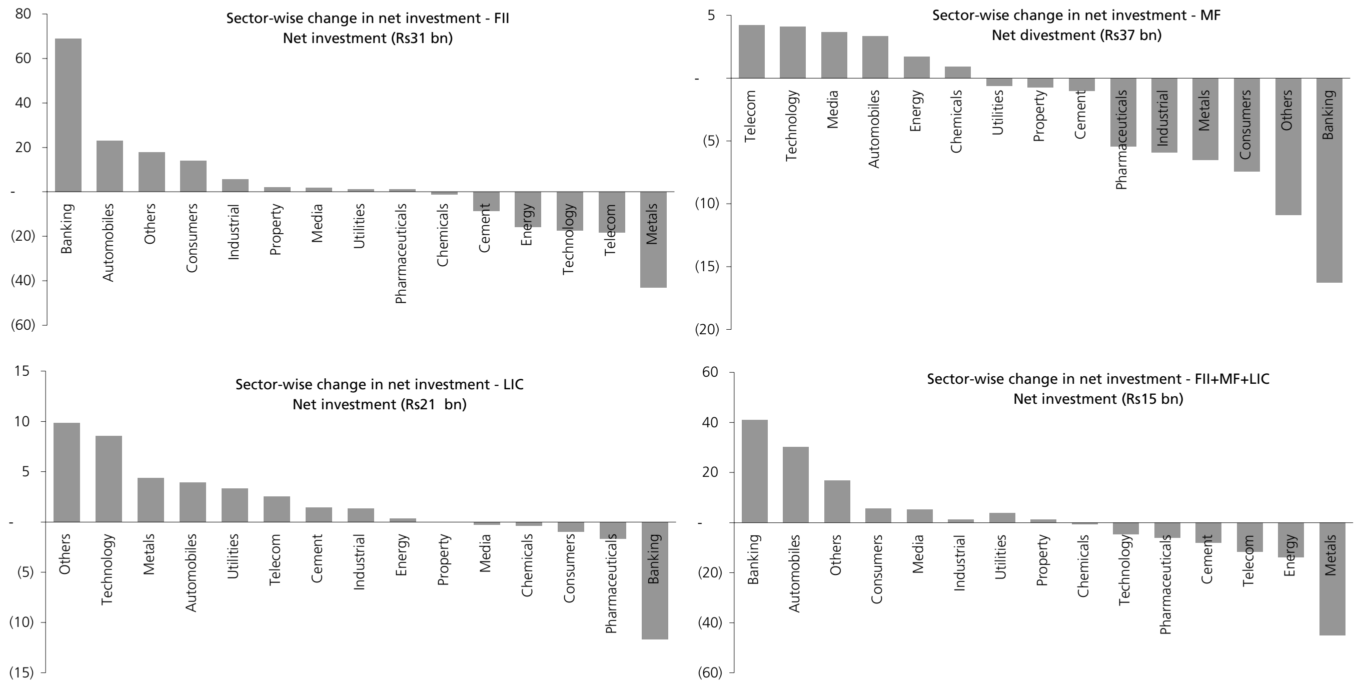
**Sector-wise changes in holdings of FIIs, MFs and LIC during June 2010 quarter**

Sector-wise changes in portfolio in June 2010 over March 2010, at quarter average prices (Rs mn), (1)




Note:

(1) We have used the average of month-end prices of stocks for each of the three months in the latest quarter.

Source: BSE, Kotak Institutional Equities kotak Institutional Equities

# Nestle India (NEST)

Consumer products

**REDUCE**

AUGUST 09, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 2,770

Target price (Rs): 3,000

BSE-30: 18,144

**Maggi bastion challenged: Counter strategy is key.** Nestlé maintains that it expects rational pricing from its competition in the culinary segment but we would watch developments closely as the company faces meaningful competition for the first time. We reiterate that Maggi faces product substitution risk (from Knorr and Foodles). Strong capex plans indicate confident outlook. Despite strong gross margin outlook, our outlook on EBITDA expansion is constrained by inevitably higher adspends.

**Company data and valuation summary**

Nestle India (a)

| Stock data | | | |
|---|---|---|---|
| 52-week range (Rs) (high,low) | | | 3,300-2,082 |
| Market Cap. (Rs bn) | | | 267.1 |
| Shareholding pattern (%) | | | |
| Promoters | | | 61.8 |
| FIIs | | | 10.4 |
| MFs | | | 3.1 |
| Price performance (%) | 1M | 3M | 12M |
| Absolute | (7.2) | 1.4 | 25.3 |
| Rel. to BSE-30 | (8.8) | (6.3) | 4.7 |

| Forecasts/Valuations | 2010 | 2011E | 2012E |
|---|---|---|---|
| EPS (Rs) | 74.4 | 86.6 | 104.8 |
| EPS growth (%) | 27.0 | 16.4 | 20.9 |
| P/E (X) | 37.2 | 32.0 | 26.4 |
| Sales (Rs bn) | 51.3 | 60.9 | 72.5 |
| Net profits (Rs bn) | 7.2 | 8.4 | 10.1 |
| EBITDA (Rs bn) | 10.8 | 12.4 | 14.6 |
| EV/EBITDA (X) | 24.6 | 21.4 | 18.2 |
| ROE (%) | 136.0 | 127.5 | 122.9 |
| Div. Yield (%) | 1.8 | 2.2 | 2.6 |

## Key themes from Nestlé's analyst meet

- **Straddling the pyramid.** Nestle plans to broad-base its product portfolio and straddle the pyramid from the premium to the mass end across all the categories that it is present in. For instance, in the chocolate and confectionary segment, Nestlé's brands are positioned in the mass segment and there are no offerings at the premium end of the market. On the other hand, in the infant food category, the company's offerings are presently restricted to the premium segment. There are no immediate launches planned for the mass segment in this category but the management has accepted that there is latent demand in this segment and is evaluating the option of entering this space.

  We believe that this is a significant positive as new launches across the pricing pyramid will help grow the category.

- **Disengaging from the low-unit-price strategy.** Nestlé's chocolate and confectionary business is heavily dependent on coinage price points—Kit Kat, Munch, Bar One, Polo are available at Rs2, Rs5 and Rs10. The company is evaluating steps to unlock itself from this.

  We view this positively but temper our optimism with a cautious view and recall that in the past Nestle had attempted to increase the retail price of its chocolate portfolio but had to subsequently roll it back due to a slowdown in demand.

- **60/40 principle.** Nestle is focusing on a 60/40 principle to evaluate the success of its products – as per this principle, out of every 100 people, at least 60 should have a preference for Nestlé's product, otherwise the product is relaunched with improved formulation. Nestle India has the highest 60/40 rate in the Nestle universe globally with 9 out of 10 products meeting this requirement. The company recently launched Bar One and the management stated that it took two years for the product to meet this standard.

QUICK NUMBERS

- Capex plans ~8% of sales, in our view
- Price component in the last three quarters' sales is increasing—4QCY09 to 2QCY10—1%, 2% and 5%
- Milk products volume growth at a surprisingly low 7% in 1HCY10

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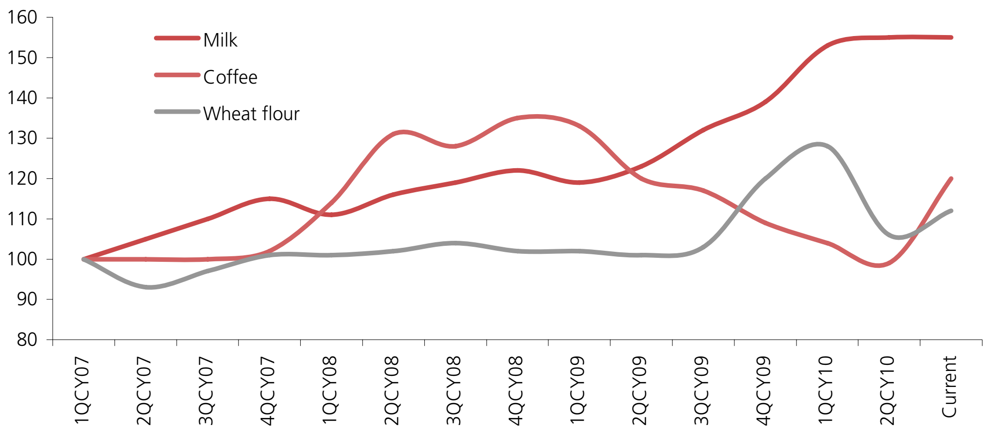
## Other takeaways from the analyst meet

- **Likely strong gross margin expansion in 2HCY10.** Management commentary indicates strong gross margin expansion, (1) liquid milk collection in Moga factory has increased in double digits in 2QCY10 (it declined in 2QCY09). Milk accounts for ~35% of input costs, (2) a good monsoon is likely to result in a flush season for milk production, (3) price increases of ~6% in 1HCY10—management indicated that the price component in the last three quarters (4QCY09 – 2QCY10) were 1%, 2% and 5%, respectively and (4) specific management comment that 'cost pressures are not escalating'.

**Nestle believes that peak milk prices are likely behind us**
Indexed raw material prices (1QCY07 = Index 100)

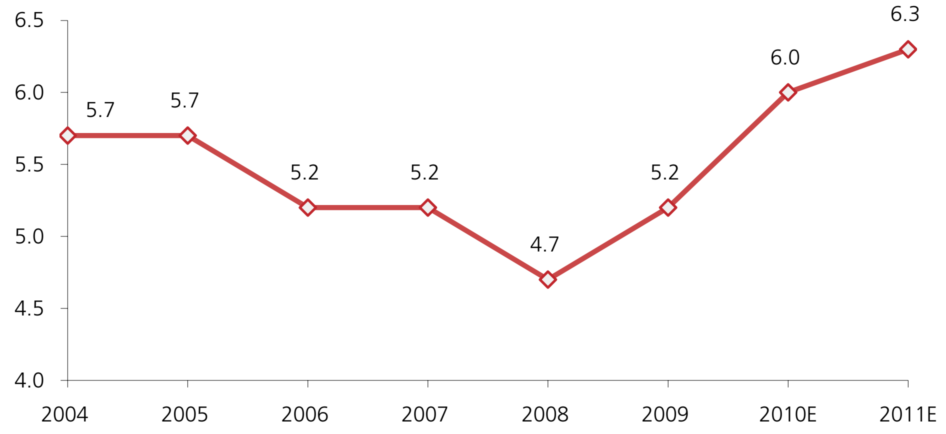



Source: Company, Kotak Institutional Equities estimates

- The management highlighted that part of the growth in Maggi is due to increase in penetration (almost 50% of incremental growth)

- New variants of Maggi doing well. The management highlighted that atta (wheat flour with bran) Maggi and Maggi pasta have received good response from customers and is meeting internal expectations. Recently, it has launched a multi grain variety of Maggi. We highlight that GSK Consumer has also launched an instant noodles brand, Foodles – the maida ('white' or refined wheat flour) variant is at Rs10 and the multi grain variant is at Rs15.

**We model Rs860 mn of incremental adspends in CY2010E and CY2011E**
Adspends as a percentage of sales, December fiscal year-ends (%)

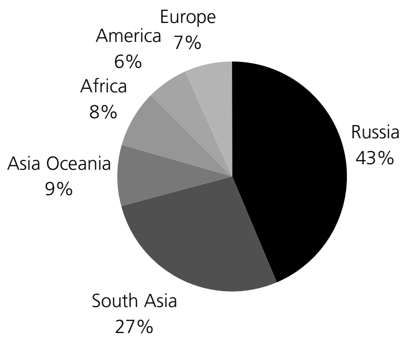



Source: Company, Kotak Institutional Equities estimates

- Focus on Out Of Home (OOH). Nescafe and Sunrise have strong positioning in the OOH market. The company believes that this market presents huge opportunity for growth especially at the bottom of the pyramid and to capture it meaningfully, has set up inexpensive coffee vending machines termed as "Nano vending machines" in small outlets

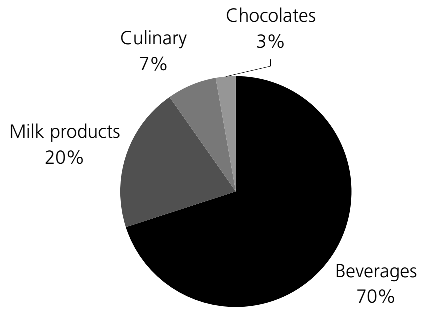
- Recovery in exports. During 1HCY10, exports recovered with 29% growth. We highlight that exports business of the company was severely hit last year due to decline in sales to Russia and South Asia, the two major export markets of the company.

**Russia is key market for beverage exports**
Region-wise export sales breakdown, 1HCY10 (%)




Source: Company, Kotak Institutional Equities

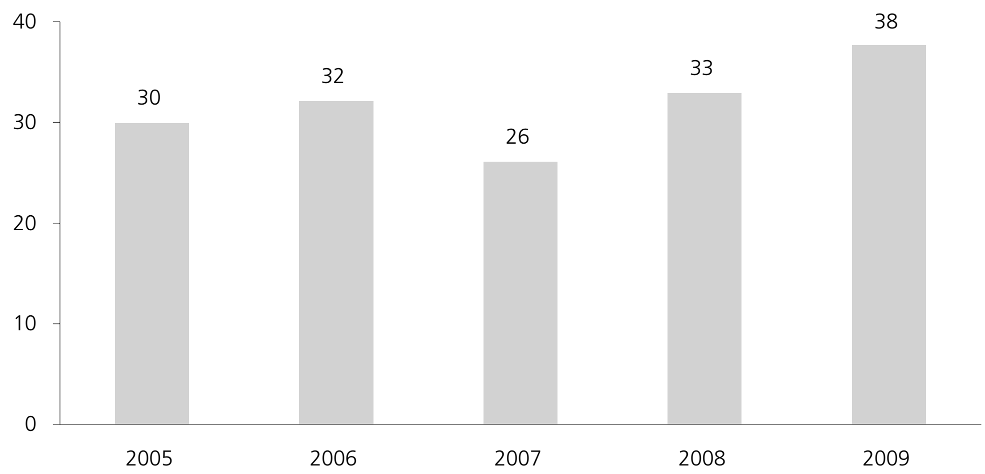
**Beverages exports to Russia is still the key**
Category-wise export sales breakdown, 1HCY10 (%)




Source: Company, Kotak Institutional Equities estimates

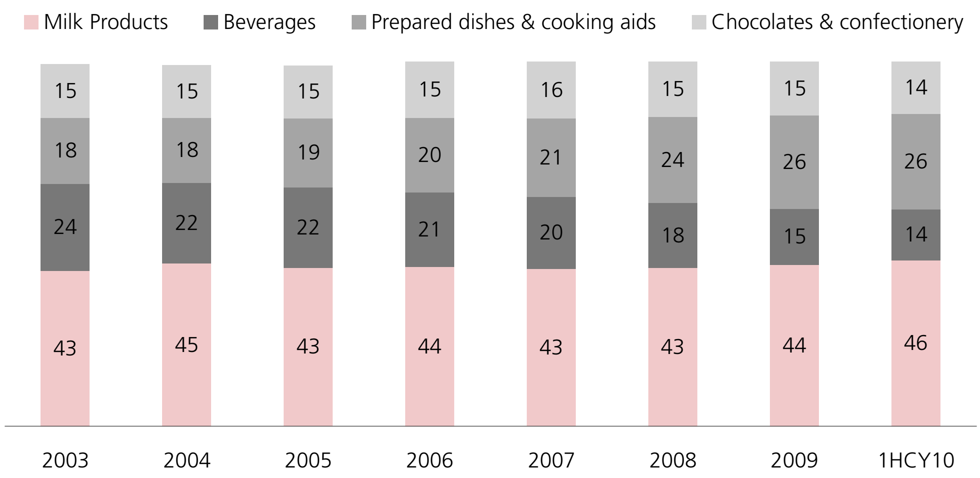
- Spate of relaunches augurs well. Nestle has recently relaunched Bar-one chocolates (with media support after a gap of five years) and plans to relaunch Nescafe in 4QCY10 (just in time for the peak winter season) with celebrity endorsement.

**Processed foods (Maggi) contributed 32% on incremental growth**
Processed foods' contribution to Nestlé's incremental sales growth, December fiscal year-ends (%)




Source: Company, Kotak Institutional Equities

**Prepared dishes category dominates sales mix**
Nestlé's category sales mix, December fiscal year-ends (%)




Source: Company, Kotak Institutional Equities

**All categories perform well, except milk products**
Performance of Nestlé's business segments, 1HCY09 and 1HCY10

| | Sales volume (000 tons) | | Growth | Sales value (Rs bn) | | Growth |
|---|---|---|---|---|---|---|
| **Segment** | **1HCY09** | **1HCY10** | **(%)** | **1HCY09** | **1HCY10** | **(%)** |
| Milk products and nutrition | 68 | 72 | 7 | 12 | 13 | 14 |
| Prepared dishes and cooking aic | 71 | 89 | 26 | 6 | 8 | 28 |
| Beverages | 11 | 14 | 28 | 4 | 4 | 14 |
| Chocolate and confectionary | 21 | 26 | 25 | 3 | 4 | 27 |

Source: Company, Kotak Institutional Equities

## Maintain REDUCE, look for better entry points

We like the structural growth opportunity for most of Nestlé's categories, but look for better entry points into the stock. We tweak our estimates marginally (better gross margins); our EPS estimates are Rs86.6 and Rs104.8 for CY2010E and CY2011E, respectively.

Our REDUCE rating is underpinned by (1) limited opportunity for earnings upgrades, in our view (2) challenging competitive environment for Nestle in culinary—both Knorr (HUL) and Foodles (GSK) are targeting product substitution from Maggi, in our view and (3) expensive valuations (28X CY2011E) for estimated 18% earnings CAGR over CY2009-11E.

Key risks are (1) higher-than-expected sales growth due to distribution gains and (2) better-than-expected margin expansion.

Nestle: Profit model, balance sheet, 2007-2012E, December fiscal year-ends (Rs mn)

| | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|---|
| **Profit model (Rs mn)** | | | | | | |
| Net sales | 35,043 | 43,242 | 51,294 | 60,913 | 72,465 | 86,381 |
| **EBITDA** | **6,962** | **8,638** | **10,542** | **12,324** | **14,473** | **17,669** |
| Other income | 246 | 322 | 364 | 425 | 499 | 578 |
| Depreciation | (747) | (924) | (1,113) | (1,418) | (1,737) | (1,978) |
| Pretax profits | 6,461 | 8,036 | 9,793 | 11,331 | 13,235 | 16,268 |
| Tax | (2,148) | (2,387) | (2,620) | (2,978) | (3,133) | (3,942) |
| **Net profits** | **4,313** | **5,649** | **7,173** | **8,352** | **10,102** | **12,327** |
| **Earnings per share (Rs)** | **44.7** | **58.6** | **74.4** | **86.6** | **104.8** | **127.9** |
| | | | | | | |
| **Balance sheet (Rs mn)** | | | | | | |
| Total equity | 4,184 | 4,733 | 5,813 | 7,284 | 9,151 | 11,430 |
| Total borrowings | 29 | 8 | 6 | 6 | 6 | 6 |
| Currrent liabilities and provsions | 9,865 | 12,208 | 14,538 | 16,314 | 18,644 | 22,072 |
| **Total liabilities and equity** | **14,078** | **16,950** | **20,356** | **23,604** | **27,801** | **33,508** |
| Cash | 1,322 | 2,286 | 3,588 | 2,713 | 3,792 | 6,176 |
| Current assets | 6,001 | 6,043 | 7,010 | 7,551 | 8,906 | 11,270 |
| Total fixed assets | 6,755 | 8,622 | 9,758 | 13,340 | 15,103 | 16,062 |
| **Total assets** | **14,078** | **16,950** | **20,356** | **23,604** | **27,801** | **33,508** |
| | | | | | | |
| **Free cash flow (Rs mn)** | | | | | | |
| Operating cash flow, excl. working ( | 4,363 | 5,568 | 7,065 | 8,771 | 10,642 | 12,846 |
| Working capital | 361 | 1,149 | 1,355 | 872 | 626 | 597 |
| Capital expenditure | (1,702) | (2,790) | (2,249) | (5,000) | (3,500) | (2,937) |
| **Free cash flow** | **3,022** | **3,927** | **6,170** | **4,642** | **7,768** | **10,505** |
| **Key assumptions** | | | | | | |
| Revenue Growth (%) | 24.4 | 23.4 | 18.6 | 18.8 | 19.0 | 19.2 |
| EBITDA Margin(%) | 19.9 | 20.0 | 20.6 | 20.2 | 20.0 | 20.5 |
| EPS Growth (%) | 31.9 | 31.0 | 27.0 | 16.4 | 20.9 | 22.0 |

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

# BGR Energy Systems (BGRL)

Industrials

**BUY**

AUGUST 09, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 798

Target price (Rs): 950

BSE-30: 17,992

**Equipment JV: Positive development, but not without its challenges.** The JV is likely value accretive over the long term and has synergies with the existing business. Even though a full service offering may be an advantage over some competitors; challenges remain, such as high breakeven (12% RoCE requires 2.6 GW sales/p.a.) in an overcrowded market, long cash breakeven (FY2021E likely) and earnings credibility. Interest in NTPC tender (possibly affecting BHEL and L&T) and equity raising likely. BUY.

**Company data and valuation summary**

BGR Energy Systems

| Stock data | | | |
|---|---|---|---|
| 52-week range (Rs) (high,low) | | | 814-345 |
| Market Cap. (Rs bn) | | | 57.5 |
| **Shareholding pattern (%)** | | | |
| Promoters | | | 81.3 |
| FIIs | | | 1.8 |
| MFs | | | 6.8 |
| **Price performance (%)** | 1M | 3M | 12M |
| Absolute | 7.1 | 42.7 | 118.2 |
| Rel. to BSE-30 | 5.3 | 31.9 | 82.3 |

| Forecasts/Valuations | 2010 | 2011E | 2012E |
|---|---|---|---|
| EPS (Rs) | 28.0 | 39.7 | 49.2 |
| EPS growth (%) | 74.6 | 41.9 | 24.0 |
| P/E (X) | 28.5 | 20.1 | 16.2 |
| Sales (Rs bn) | 30.8 | 46.7 | 60.9 |
| Net profits (Rs bn) | 2.0 | 2.9 | 3.5 |
| EBITDA (Rs bn) | 3.5 | 5.2 | 6.6 |
| EV/EBITDA (X) | 16.2 | 11.7 | 9.5 |
| ROE (%) | 31.8 | 35.1 | 33.4 |
| Div. Yield (%) | 0.9 | 1.0 | 1.2 |

## JV long term-value accretive; synergistic business and full offering an advantage vs competition

We believe the JV with Hitachi is value accretive in the long term for BGR Energy. Prima-facie, modeling estimates the value of venture at about Rs200/share. Actual business value of a "go"-"no go" decision may be higher, led by synergies with the existing business (as BoP gets more competitive and Chinese equipment led EPC strategy loses edge on preference for domestic). BGR may have advantages over competitors such as Thermax, JSW-Toshiba and Bharat Forge Alstom—(1) full service offering and (2) existing presence in the large power plant execution space.

## Challenges: Minimum sales of 2.6 GW/p.a and cash flow breakeven by FY2021E

We estimate that generating 12% pre-tax return on capital employed would need a min. sales of 2,600 MW/p.a. and cash flow break even (cumulative cash flow turns +ve) for the JV may happen only by FY2020-21E. This level of break even sales in not easy in a crowded/over capacitated market with five-six domestic manufacturers and as well as imports. Thermal power equip. market may expand to about 18-20 GW p.a. and BGR would need about 15% of that. Other challenges include (1) earnings credibility as an equipment manufacturer, (2) scaling up business with private players - likely drivers of capacity addition and (3) relatively small balance sheet size.

## Eye on NTPC bulk tender; may argue for change in distribution of tender, affecting BHEL

We believe heightened interest in power equipment manufacturing is led by (1) orders on platter in the form of bulk tendering, (2) likely domestic manufacturing requirement in most public tenders (potentially even UMPPs etc.) and (3) possible imposition of imports duty. BGR is keen to bid for 11X660 MW tender and may represent that the original distribution of boiler orders (6 and 5 for L1 and L2 at L1 price) should be modified to allow more participants as in case of turbines.

## Retain estimates and BUY with a revised target price of Rs950/share; equity dilution likely

Retain estimates and revise our TP to Rs950 (from Rs875 earlier) based on 18XMarch-12E + Rs90–half of our estimated JV value). 18X for contracting business is justified in this case based on near-term growth along with strong execution and working capital so far. Rs10 bn investment may imply near-term dilution and Rajasthan EPC tender are key near-term catalysts.

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## Finalizes equipment JVs with Hitachi; potential equity requirement of Rs10 bn

BGR Energy, on August 06, 2010, finalized its joint ventures with Hitachi for supercritical boilers and turbines. The Boiler JV (BGR Boilers Pvt. Ltd) was signed with Hitachi Ltd (Japan) with Hitachi holding 30% stake in the JV while the turbine JV (BGR Turbines Company Ltd) was signed with Hitachi Power Europe GmbH (Germany) - Hitachi having 26% stake in the JV. Both JVs are expected to commence production in 2012 with a manufacturing capacity of about 4,000 MW (capacity to manufacture five units of 660 MW, 800 MW or 1,000 MW per annum).

The completion of this JV positions BGR as one of the only three companies in India (apart from L&T and BHEL) capable of offering the complete boiler and turbine package. We believe equipment ventures were a necessity for BGR Energy to establish long-term growth potential, as the BoP space gets more competitive and a lack of acceptability of Chinese equipment made it tougher to get EPC tenders like Mettur and Kalisindh with Chinese JVs.

Key details of the two boiler and turbine joint ventures of BGR Energy and Hitachi

| | |
|---|---|
| **Turbine JV** | |
| JV Company | BGR Turbines Company Ltd |
| Shareholding | BGR Energy - 74%, Hitachi Ltd - 26% |
| Estimated investment (Rs bn) | 30 |
| Estimated year of commissioning | 2012 |
| Capacity per annum | 5 units of 660 MW, 800 MW and 1,000 MW |
| **BGR's equity requirement (assuming 70:30 Debt:Equity)** | **6.7** |
| | |
| **Boiler JV** | |
| JV Company | BGR Boilers Pvt. Ltd |
| Shareholding | BGR Energy - 70%, Hitachi Ltd - 30% |
| Estimated investment (Rs bn) | 14 |
| Estimated year of commissioning | 2012 |
| Capacity per annum | 5 units of 660 MW, 800 MW and 1,000 MW |
| **BGR's equity requirement (assuming 70:30 Debt:Equity)** | **2.9** |

Source: Company, Kotak Institutional Equities estimates

### Both JVs together would require an equity commitment of about Rs10 bn from BGR

The company plans on setting up the equipment manufacturing facility in Tamil Nadu with an initial capacity of about 4,000 MW. The likely total investment requirement for the JV would be to tune of about Rs44 bn—comprised of Rs30 bn for the turbine JV and Rs14 bn for the boiler JV. Assuming a debt:equity ratio of 70:30, this would imply a total equity requirement of about Rs13-14 bn in both the JVs. Hence, the total equity requirement for BGR’s 74% share in the turbine JV and 70% share in the boiler JV works out to about Rs9.5-10 bn. This equity would be required over the next three years.

### Manufacturing facility likely to be completed in about three years – expect to achieve high level of indigenization in five years

The company expects to complete the equipment manufacturing facility in about 2-3 years for the boiler facility. Turbine facility would also take about three years and an additional two years would be required to achieve high level of indigenization. The boiler facility would be close to 100% indigenized in five years but certain turbine components such as rotors and blades would still have to be imported. Complete indigenization would take about 8-9 years. The management has said that it would take about 5-7 years for breakeven of the capital (expects to achieve by 2017).

### Would continue to bid for tenders based on imports till facility is ready

BGR Energy plans on participating in the bidding for the upcoming tenders (NTPC bulk tenders, Jindal Power etc). For the initial supercritical orders (until the manufacturing facility is ready), the company would import the Boiler and Turbine from Hitachi and supply in the domestic market. Apart from L&T (which commissioned its manufacturing facility in July 2010) all the other new private players (Bharat Forge, JSW, Thermax etc) would also be importing the equipments from their JV partners for the first few orders. BGR Energy's management claims that despite the import of complete equipment in the initial orders, the company would still have a cost structure similar to BHEL as even BHEL has high import content (almost 70%) in its supercritical orders.

### Eyeing NTPC tenders and may argue for more distribution of business

We believe heightened interest in power equipment manufacturing is led by (1) orders on a platter in the form of bulk tendering, (2) mandatory requirement of domestic manufacturing for the NTPC bulk tender and likely to be extended to most public tenders (potentially even UMPPs etc.) and (3) possible imposition of customs duty on imported equipment, reducing its viability. BGR is keen to bid for NTPC's 11x660 MW boiler equipment tender and may represent that original distribution of boiler orders (6 units for L1 bidder and 5 for L2 if it meets the L1 price) should be changed to give chance to more participants as in case of turbines. We believe this may further delay the ordering out of the tender and expect the bulk tender decision to slip into FY2012.

## RoCE of 12% would need sales of 2.6 GW p.a.; not easy in a crowded market

The equipment JVs would require a potential capital investment of about Rs44 bn (Rs30 bn for the turbine and Rs14 bn for the boiler JV). Adding a further Rs10 bn or so (about 15% of likely annual sales) would imply a total capital employment of about Rs54 bn for the equipment JVs. A pre-tax return on capital employed of about 12% would require EBIT of about Rs6 bn - implying annual sales of about Rs64 bn (assuming 12% EBITDA margin and 10% EBIT margin). At a realization of about Rs20-25 mn per MW, Rs64 bn of sales would require MW sales of about 2.5 - 2.6 GW per annum. We believe this may not be an easy task and would require a market share of about 14-15% in a total annual market share of about 18-20 GW.

**At least 2,600 MW annual sales required to generate a pre-tax return on capital employed of 12%**
Calculation of breakeven MW sales for BGR Energy power equipment business model

| | | |
|---|---|---|
| Fixed assets (Rs bn) | 44 | |
| Working capital (Rs bn) | 10 | Assumed at 15% of sales |
| Total capital employed (Rs bn) | 54 | |
| Pre tax EBIT return on capital employed (%) | 12.0 | |
| Required EBIT (Rs bn) | 6 | |
| EBIT margin (% of sales) | 10.0 | EBITDA margin of 12% for this level of EBIT margin |
| Required sales (Rs bn) | 64 | |
| Per MW realisation (Rs mn) | 25 | Per MW realisation for both boiler and turbine combined |
| **Minimum sales for ROCE of 12% (MW)** | **2,576** | |
| Total annual thermal power equipment market | 18,000 | |
| Minimum market share (%) | 14.3 | |

Source: Kotak Institutional Equities estimates

## Opens up a large opportunity space but market seems to be getting crowded

The equipment JV does open up a large market opportunity for BGR Energy. However, with several other private players also setting up equipment manufacturing JVs/ facilities the company is likely to face some stiff competition in the market place. Other private players include (1) L&T-Mitsubishi JV (manufacturing facility already commissioned, (2) JSW-Toshiba: 3,000 MW turbine JV, (3) Bharat Forge-Alstom: 5,000 MW turbine JV, (4) Thermax-Babcock & Wilcox: 3,000 MW boiler JV and (5) GB Engg-Ansaldo: 2,000 MW boiler JV. All these joint ventures are likely to increase the domestic equipment manufacturing capacity by about 13,000 MW for boilers and 16,000 MW for turbines. Additionally, BHEL is also planning on increasing its capacity by 5,000 MW to 20,000 MW by December 2012. The total equipment supply capacity is expected to increase to 33 GW for boilers and 36 GW for turbines over the next 3-4 years.

**Prima-facie, power equipment manufacturing capacity may exceed the likely demand of about 18-20 GW p.a. over the next few years**
Details of capacity addition by various players

| | Structure | Capital investment | Boiler capacity (MW/ annum) | Turbine capacity (MW/ annum) | Likely start of manufacturing |
|---|---|---|---|---|---|
| L&T - Mitsubishi | 51:49 | 30,000 | 4,000 | 4,000 | Jun-10 |
| BGR Energy - Hitachi | 51:49 | 32,000 | 4,000 | 4,000 | Jul-13 |
| JSW - Toshiba | 25:75 | 11,800 | — | 3,000 | Jun-11 |
| Bharat Forge - Alstom | 49:51 | 24,000 | — | 5,000 | Jun-11 |
| Thermax - B&W PCG | 51:49 | 7,000 | 3,000 | — | NA |
| GB Engineering - Ansaldo(Gammon) | 15:85 | | 2,000 | — | |
| **Total capacity of new players** | | | **13,000** | **16,000** | |
| BHEL current capacity | | | 15,000 | 15,000 | |
| BHEL - incremental capacity | | | 5,000 | 5,000 | |
| **Total BHEL capacity** | | | **20,000** | **20,000** | |
| **Total supply capacity** | | | **33,000** | **36,000** | |

Source: News flows, Kotak Institutional Equities

## Potential market of about 20 GW p.a.; longevity of this demand helps but near-term competition likely to be severe

We expect about 110-120 GW of additional capacity to be added in the XIIth plan period, of which about 100 GW may be based on thermal power. This implies an annual opportunity size of about 20 GW/p.a. over next five to seven years. We expect BHEL to have a market share of about 50-60% (10-12 GW p.a.) which leaves only 8-10 GW/p.a. of annual opportunity for the private players. We guess L&T may get 3-4 GW of business and BGR Energy may get 2-3 GW of business out of this. Leaving another 3-4 GW of business for Thermax (only boilers), Bharat Forge-Alstom (only turbines and part of business case may include servicing global markets as manufacturing base for Alstom) and JSW-Toshiba. Another near-term concern would be that equipment orders to the tune of about 60 GW has already been placed for projects which are likely to be commissioned in the XIIth plan period. This leaves remaining orders of another 40 GW thermal power equipment orders likely to be placed over the next three-year period.

**Potential market size of about 20-22 GW per annum**
Projects expected to be commissioned in the XIIth Plan period (MW)

**Total projects in the XIIth Plan - Likely to be taken up for commissioning (MW)**

| | Thermal | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Coal | | | Gas | Total | Hydro | Nuclear | Total |
| | Supercritical | Subcritical | Total | | | | | |
| **Centre** | **16,160** | **7,500** | **23,660** | **3,460** | **27,110** | **9,480** | **6,400** | **42,990** |
| NTPC | 14,840 | 5,140 | 19,980 | 2,730 | 22,710 | 2,270 | — | 24,980 |
| NHPC | — | — | — | — | — | 4,760 | — | 4,760 |
| DVC | 1,320 | 500 | 1,820 | — | 1,820 | — | — | 1,820 |
| Others | — | 1,860 | 1,860 | 730 | 2,580 | 2,440 | 6,400 | 11,430 |
| State | 13,280 | 9,330 | 22,610 | 520 | 23,130 | 2,500 | — | 25,640 |
| Private | 12,090 | 19,490 | 31,580 | 2,930 | 34,520 | 2,510 | — | 37,030 |
| UMPP | 16,000 | — | 16,000 | — | 16,000 | — | — | 16,000 |
| **Total** | **57,530** | **36,320** | **93,850** | **6,910** | **100,760** | **14,490** | **6,400** | **121,650** |

**Awarded so far (MW)**

| | Thermal | | | | |
|---|---|---|---|---|---|
| | Coal | | | Gas | Total |
| | Supercritical | Subcritical | Total | | |
| **Centre** | **3,300** | **6,390** | **9,690** | **726** | **10,416** |
| NTPC | 3,300 | 4,640 | 7,940 | — | **7,940** |
| NHPC | — | — | — | — | **—** |
| DVC | — | 500 | 500 | — | **500** |
| Others | — | 1,250 | 1,250 | 726 | **1,976** |
| State | 6,780 | 8,000 | 14,780 | — | **14,780** |
| Private | 8,580 | 18,520 | 27,100 | — | **27,100** |
| UMPP | 5,700 | — | 5,700 | — | **5,700** |
| **Total** | **24,360** | **32,910** | **57,270** | **726** | **57,996** |

**Potential remaining ordering activity (MW)**

| | Thermal | | | | | | |
|---|---|---|---|---|---|---|---|
| | Coal | | | Gas | Hydro | Nuclear | Total |
| | Supercritical | Subcritical | Total | | | | |
| **Centre** | **12,860** | **1,110** | **13,970** | **2,730** | **9,480** | **6,400** | **32,570** |
| NTPC | 11,540 | 500 | 12,040 | 2,730 | 2,270 | — | 17,040 |
| NHPC | — | — | — | — | 4,760 | — | 4,760 |
| DVC | 1,320 | — | 1,320 | — | — | — | 1,320 |
| Others | — | 610 | 610 | — | 2,440 | 6,400 | 9,450 |
| State | 6,500 | 1,330 | 7,830 | 520 | 2,500 | — | 10,860 |
| Private | 3,510 | 970 | 4,480 | 2,930 | 2,510 | — | 9,930 |
| UMPP | 10,300 | — | 10,300 | — | — | — | 16,000 |
| **Total** | **33,170** | **3,410** | **36,580** | **6,180** | **14,490** | **6,400** | **63,660** |

Source: CEA, News flows, Kotak Institutional Equities estimates

Very large opportunity size in the long term as well. The Planning Commission, in its Draft integrated energy policy report (Jan 2005) projects that India would need 778GW of installed power generating capacity (current capacity at about 150GW) by FY2032.

**Massive power generation capacity addition required to support continued economic growth of 7-8%**
Installed power generation capacity required (MW)

| | Installed capacity required | | Capacity addition in plan period | |
|---|---|---|---|---|
| | GDP growth rate | | GDP growth rate | |
| | 7% | 8% | 7% | 8% |
| **FY2004** | 131,424 | 131,424 | | |
| **FY2007** | 149,806 | 152,610 | 18,382 | 21,186 |
| **FY2012** | 206,757 | 219,992 | 56,951 | 67,382 |
| **FY2017** | 276,143 | 305,623 | 69,386 | 85,631 |
| **FY2022** | 368,592 | 424,744 | 92,449 | 119,121 |
| **FY2027** | 480,694 | 574,748 | 112,102 | 150,004 |
| **FY2032** | **627,088** | **778,095** | 146,394 | 203,347 |

Source: Draft integrated energy policy, Planning Commission

## Value accretive in the long term despite cash flow breakeven only by FY2021E

We expect that the JV would secure a few orders by the time the facility is operational; and would thus start to book revenues by FY2014E. With a typical execution cycle of 2-3 years, we expect that the JV would commission initial orders in FY2016-17E. Our preliminary DCF model suggests a value of about Rs185/share for BGR's stake in the equipment JVs even though the JV is likely to be cash flow break even only in FY2021E. Our main assumptions for the model are:

- Capex of Rs44 bn with 70:30 debt equity and start of revenue booking in FY2014E

- Business would scale up to deliver about 2,800 MW p. a. (75% capacity utilization) by FY2016E. This would imply a market share of 16% in the utility space (total thermal installation at a rate of 18 GW p. a. during XII plan).
- Unit realization of Rs24 mn/MW in the first year of sales, 12-13% EBITDA margin, and working capital at 15% of sales

DCF valuation of BGR Energy's equipment JV with Hitachi, March fiscal year-ends, 2011E-21E (Rs mn)

| | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Capacity | — | — | — | 4000 | 4000 | 4000 | 4000 | 4000 | 4000 | 4000 | 4000 |
| **MW equipment delivered** | **—** | **—** | **—** | **1,400** | **2,000** | **2,800** | **2,800** | **3,000** | **3,000** | **3,000** | **3,000** |
| Realisation per MW (Rs mn) | — | — | — | 23.6 | 24.8 | 26.0 | 27.3 | 28.7 | 30.2 | 31.7 | 33.2 |
| **Revenues (Rs mn)** | **—** | **—** | **—** | **33,075** | **49,613** | **72,930** | **76,577** | **86,149** | **90,456** | **94,979** | **99,728** |
| Revenue growth (%) | | | | | 50.00 | 47.00 | 5.00 | 12.50 | 5.00 | 5.00 | 5.00 |
| EBIT | — | — | — | 843 | 2,758 | 5,454 | 6,550 | 7,674 | 8,139 | 8,627 | 9,140 |
| EBIT margin (%) | | | | 2.5 | 5.6 | 7.5 | 8.6 | 8.9 | 9.0 | 9.1 | 9.2 |
| EBIT*(1 - tax) | — | — | — | 843 | 2,758 | 5,454 | 6,550 | 7,674 | 8,139 | 8,627 | 11,654 |
| Depreciation | — | — | — | 3,126 | 3,196 | 3,298 | 3,405 | 3,526 | 3,621 | 3,720 | 3,825 |
| Capital expenditure | (3,500) | (14,000) | (26,500) | (662) | (992) | (1,459) | (1,532) | (1,723) | (1,357) | (1,425) | (1,496) |
| Change in working capital | — | — | — | (4,961) | (2,481) | (3,498) | (547) | (1,436) | (646) | (678) | (712) |
| **Free cash flow for the firm** | **(3,500)** | **(14,000)** | **(26,500)** | **(1,654)** | **2,481** | **3,795** | **7,876** | **8,041** | **9,756** | **10,244** | **13,271** |
| No of years | — | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Discount factor | 1.0 | 0.9 | 0.8 | 0.7 | 0.7 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 |

| | |
|---|---|
| Sum of cash flows | (12,117) |
| Terminal value | 58,149 |
| **Total value** | **46,032** |
| **Per share valuation (Rs)** | **473** |

| | |
|---|---|
| Discount rate (%) | 12.5 |
| Terminal growth rate (% | 5.0 |

Source: Company, Kotak Institutional Equities estimates

### Synergies with existing presence in power sector may imply higher value for JV

We believe the JV with Hitachi is value accretive in the long-term for BGR Energy. Actual business value of a "go"-"no go" decision may be higher led by synergies with existing business (as BoP gets more competitive and Chinese equipment led EPC strategy loses edge on preference for domestic). BGR may have advantage over competitors such as Thermax, JSW-Toshiba and Bharat Forge Alstom based on (1) full service offering and (2) existing presence in large power plant execution space. The management believes that only BHEL and L&T would be the key competitors as only these companies have the capability to offer full-BTG/ EPC. Most of the other new entrants are setting up product specific facilities; for instance Thermax is entering only in the boiler space while Bharat Forge and JSW are entering only the turbine space. Full service offering and existing presence in large scale EPC may be advantage versus competitors such as Thermax

### Large equity investment in the JV may necessitate equity dilution in the near-term

Even though there may be several ways to fund Rs9.5-10 bn of equity investment in the JV such as (1) internal accruals of standalone company, (2) existing free cash balance of about Rs4-5 bn, (3) potential debt raising in the standalone entity - BGR has a FY2010-end debt:equity of about 1X and net debt:equity of 0.7X. However, we believe that potential dilution/ equity raising in the parent entity is a strong near-term possibility as (1) the company may like to secure funding for growth across both the current EPC/BoP business as well as equipment manufacturing, (2) seeming positive sentiment around the stock makes it easy and (3) internal accruals from contracting business based on large scale concentrated projects may be unreliable.

## Several large orders in the pipeline; expects inflows of Rs150-200 bn in FY11E

The company is aiming at bidding for orders to the tune of about Rs350-400 bn in FY2011E and expects to win orders of about Rs150-200 bn. Opportunities in the near term include (1) EPC order for 2X660 MW Suratgarh project and (2) 2X660 MW Chhabra project for Rajasthan Rajya Vidyut Utpadan Nigam Ltd (Rs65 bn each), and (3) EPC order for 350 MW gas-based project in Gujarat (Dhuvaran). The company has already placed bids for these orders. The competition has been relatively limited for the two Rajasthan state EPC orders with only two bidders (BHEL and BGR Energy) for one project and three bidders (BHEL, BGR Energy and Power Machines, Russia) for the other. We believe the company may win one of the two Rajasthan state orders based on demonstration of strong execution capability in the Kalisindh order - likely to have completed about 50% of the project by the time these orders are placed.

The company also plans on participating in the 9X800 MW bulk tendering of NTPC which is likely to open in Sept-Oct 2010 (would have Hitachi JV in place by end-July), the retendering process for the boiler component of the 11X660 MW NTPC bulk tender and the Jindal Power tender for 10X660 or 8X800 MW BTG order. However, we believe these orders are unlikely to be finalized in FY2011E and may flow into FY2012E.

**BGR has already bid for orders worth Rs10-12 bn; several other large orders in the offing**
List of orders likely to be bid out in the near future

| Project | State | Client | Configuration | Type of contract |
|---|---|---|---|---|
| **Bids placed** | | | | |
| Suratgarh | Rajasthan | RRVUNL | 2X 660 MW | EPC |
| Chhabra | Rajasthan | RRVUNL | 2X 660 MW | EPC |
| Dhuvaran | Gujarat | GSECL | 350 MW | EPC |
| **Upcoming tenders** | | | | |
| Bulk tender | | NTPC | 11X 660 MW | Only boiler component |
| Bulk tender | | NTPC | 9X 800 MW | BTG |
| Bulk tender | | Jindal Power | 10X 660 / 8X 800 MW | BTG |
| Wanakbori | Gujarat | GSECL | 1X 800 MW | EPC |
| Salboni | West Bengal | JSW Energy | 2X 800 MW | BTG |

Source: Company, News flows, Kotak Institutional Equities

## We build order inflows of Rs81 bn in FY2011E and Rs106 bn in FY2012E

We have presently built in order inflows of about Rs81 bn in FY2011E constituting of Rs16 bn of orders from BoP segment (implies 2X500 MW BoP order) and Rs65 bn from EPC segment (expect company to win 2X660 MW supercritical order in 2HFY11E). We have built in order inflows of Rs106 bn in FY2012E led by Rs16 bn from the BoP segment and Rs90 bn in the EPC space (implies 2X800 MW EPC order).

**Key order inflow, execution and backlog estimates for BGR Energy's power division, March fiscal year-ends, 2008-12E (Rs mn)**

| | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|
| **Order inflows** | **24,290** | **80,000** | **32,650** | **81,000** | **106,000** |
| BoP orders | 24,770 | — | 32,650 | 16,000 | 16,000 |
| EPC orders | — | 80,000 | — | 65,000 | 90,000 |
| **Execution** | **9,210** | **18,660** | **28,760** | **44,225** | **58,390** |
| BoP orders | 9,060 | 12,700 | 7,410 | 13,050 | 20,000 |
| EPC orders | — | 5,960 | 21,350 | 31,175 | 38,390 |
| **Closing backlog** | **26,430** | **87,770** | **91,660** | **128,435** | **176,045** |
| BoP orders | 26,870 | 14,170 | 39,410 | 42,360 | 38,360 |
| EPC orders | — | 74,040 | 52,690 | 86,515 | 138,125 |

Source: Company, Kotak Institutional Equities estimates

## Strong execution brings credibility, a strong advantage in large BoP/EPC market

Strong execution of EPC contracts, as demonstrated by BGR in the past two quarters helps the company gain credibility in delivering large-sized EPC projects in the power sector in a timely and cost efficient manner. We view this as a strong advantage as the company expands presence in the large Indian power generation EPC market by (1) developing equipment manufacturing capabilities and (2) targeting more client segments besides just SEBs currently. The company is primarily focused on state government contracts r and does not take interest in orders by central utilities like NTPC, DVC, where the BoP package is split among various vendors. We believe incremental orders in BoP space particularly from increasingly important private utilities (at least those who do not have their own EPC business such as Sterlite, Adani etc.) would be an important catalyst to provide evidence of broader acceptance. Furthermore, the Indian partners of several of new entrants in power equipment manufacturing space do not have track record of delivering large projects, of the kind BGR could achieve.

## Recent award of Koradi BoP order to Lanco indicates heightened competition

Lanco Infratech has recently won the BoP order for the 3X 660 MW Koradi power plant from MAHAGENCO. This is the first major external BoP order won by Lanco Infratech other than the Lanco Group's own power generating companies. We believe this demonstrates heightened competition in the BoP space. Lanco won this order under stiff competition from six other EPC players including BGR Energy and L&T (which is executing the equipment component for the plant).

Even competition from smaller players has been scaling-up in the recent past with several vendors capable of taking up complete BoP contracts versus individual packages. Some players such as Techpro Systems Ltd which were primarily restricted to coal and ash handling have started bidding for complete BoP packages through the consortium route. Several players such as McNally Bharat Engineering, Sunil HiTech Engineers, Punj Lloyd etc. have recently won large BoP contracts to the tune of about Rs4.5-9 bn.

## Existing backlog to drive FY2011E growth; Rajasthan tenders key near-term catalyst

We have currently built in revenue growth of 52% in FY2011E—expect power segment revenues of Rs44.2 bn in FY2011E. We expect the company to execute about 35-40% of the EPC orders (Kalisindh and Mettur) in FY2011E. The Marwa and Chandrapur BoP projects are expected to contribute about Rs10-12 bn to FY2011E revenues. The management expects to maintain EBITDA margins at about 11-11.5% and PAT margin of about 6.5% in FY2011E as well.

We expect the company to report power segment revenues of Rs61.6 bn in FY2012E, led by execution of the remaining of the EPC and large BoP orders in the current backlog and start of execution of some new orders won in FY2011E. We expect the company to win at least one 2X660 MW EPC order in FY011E (likely in the second half) which would lead to the strong revenue growth in FY2012E. Execution of new orders is expected to contribute to about 26% of total power segment revenues in FY2012E. We have built in margins of about 11% over FY2011-12E, led by 12% margins in the BoP segment and 10.5% margins in the EPC segment.

Power segment order inflows, backlog and execution estimates, March fiscal year-ends, 2008-12E (Rs mn)

| | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|
| **Total power segment** | | | | | |
| Execution | 9,210 | 18,660 | 28,760 | 44,225 | 58,390 |
| EBITDA | 891 | 1,687 | 3,238 | 4,839 | 6,239 |
| EBITDA margin (%) | 9.7 | 9.0 | 11.3 | 10.9 | 10.7 |
| Order inflows | 24,290 | 80,000 | 32,650 | 81,000 | 106,000 |
| Order backlog | 26,430 | 87,770 | 91,660 | 128,435 | 176,045 |
| | | | | | |
| **BOP orders** | | | | | |
| **Order booking** | **24,770** | **—** | **32,650** | **16,000** | **16,000** |
| Vijaywada | | | | | |
| Kakatiya | | | | | |
| Kaperkheda | 9,980 | | | | |
| EPS Koanaseema | 6,860 | | | | |
| Kothagudem, AP | 7,930 | | | | |
| Chandrapur MAH | | | 16,320 | | |
| Marwa | | | 16,330 | | |
| New orders | NA | NA | NA | 16,000 | 16,000 |
| **Order backlog** | **26,870** | **14,170** | **39,410** | **42,360** | **38,360** |
| Vijaywada | 1,200 | — | — | — | — |
| Kakatiya | 3,150 | 650 | — | — | — |
| Kaperkheda | 8,480 | 3,480 | 390 | — | — |
| EPS Koanaseema | 6,860 | 6,860 | 6,860 | 6,860 | 5,860 |
| Kothagudem, AP | 7,180 | 3,180 | 1,160 | — | — |
| Chandrapur MAH | — | — | 15,000 | 11,000 | 6,000 |
| Marwa | — | — | 16,000 | 10,000 | 4,000 |
| New orders | NA | NA | NA | 14,500 | 22,500 |
| **Execution details** | **9,060** | **12,700** | **7,410** | **13,050** | **20,000** |
| Vijaywada | 3,410 | 1,200 | — | — | — |
| Kakatiya | 3,400 | 2,500 | 650 | — | — |
| Kaperkheda | 1,500 | 5,000 | 3,090 | 390 | — |
| EPS Koanaseema | — | — | — | — | 1,000 |
| Kothagudem, AP | 750 | 4,000 | 2,020 | 1,160 | — |
| Chandrapur MAH | — | — | 1,320 | 4,000 | 5,000 |
| Marwa | — | — | 330 | 6,000 | 6,000 |
| New orders | NA | NA | NA | 1,500 | 8,000 |
| | | | | | |
| **EPC Projects** | | | | | |
| **Order booking** | | **80,000** | **—** | **65,000** | **90,000** |
| Mettur | | 31,000 | | | |
| Kalisindh | | 49,000 | | | |
| New orders | | NA | NA | 65,000 | 90,000 |
| **Order backlog** | | **74,040** | **52,690** | **86,515** | **138,125** |
| Mettur | | 29,450 | 18,470 | 6,070 | — |
| Kalisindh | | 44,590 | 34,220 | 17,070 | — |
| New orders | | NA | NA | 63,375 | 138,125 |
| **Execution** | | **5,960** | **21,350** | **31,175** | **38,390** |
| Mettur | | 1,550 | 10,980 | 12,400 | 6,070 |
| Kalisindh | | 4,410 | 10,370 | 17,150 | 17,070 |
| New orders | | NA | NA | 1,625 | 15,250 |

FY2012E revenue growth led by expected supercritical EPC order in 2HFY11E

Expect margins of ~11% in FY2011E-12E led by BoP margins of 12% and EPC margins of 10-10.5%

Expect average annual order inflows of about Rs16 bn from BoP segment

Expect the company to win atleast one 2X 660 MW order in FY2011E

26% of power segment revenues in FY2012E from execution of expected new order

Source: Company, Kotak Institutional Equities estimates

## Retain earnings estimates; reiterate BUY with a target price of Rs950/share

We have retained our earnings estimates of Rs39.7 and Rs49.2 for FY2011E and FY2012E respectively. We have revised our target price to Rs950/share from Rs875/share based on (1) 18X FY2012E earnings and (2) Rs90/share for the equipment JV - half of our estimated value. High 18X valuation multiple is based on (1) strong execution, (2) strong balance sheet and ability to manage working capital levels, (3) potential large opportunity in the power sector.

We reiterate our BUY rating on the stock based on (1) strong execution of large EPC orders, (2) high near-term visibility based on large order backlog, (3) potential to ramp up presence power generation earnings on the back of execution credibility, (4) stronger-than-expected balance sheet and working capital position, (5) potential value addition from Hitachi JV and (6) management confidence in near-term growth as well as order booking.

Key risks include (1) large investment requirement in equipment venture pressing earnings, (2) rising competition could adversely impact margins, (3) relatively concentrated customer base and (4) dependence on large projects—any delay/deferral in any of the projects could materially impact the earnings.

Consolidated financials of BGR Energy, March fiscal year-ends, 2005-12E (Rs mn)

| | 2005 | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | |
| **Operating income** | **2,993** | **7,900** | **15,177** | **19,314** | **30,779** | **46,715** | **60,903** |
| Total operating expenses | (2,704) | (7,018) | (13,623) | (17,225) | (27,292) | (41,504) | (54,290) |
| **EBITDA** | **289** | **882** | **1,553** | **2,089** | **3,487** | **5,211** | **6,613** |
| Other income | (1) | 3 | 52 | 317 | 205 | 454 | 430 |
| Interest expense | (61) | (180) | (254) | (579) | (538) | (1,091) | (1,400) |
| Depreciation | (32) | (89) | (55) | (75) | (103) | (266) | (303) |
| **Pre-tax profit** | **190** | **613** | **1,296** | **1,752** | **3,051** | **4,308** | **5,340** |
| Tax | (54) | (213) | (411) | (596) | (1,037) | (1,450) | (1,798) |
| **Net profits** | **135** | **400** | **885** | **1,156** | **2,015** | **2,858** | **3,543** |
| **EPS (Rs)** | **12.6** | **4.0** | **12.1** | **16.0** | **28.0** | **39.7** | **49.2** |
| **Balance sheet** | | | | | | | |
| **Shareholders funds** | **431** | **825** | **4,732** | **5,633** | **7,052** | **9,242** | **11,956** |
| Equity share capital | 108 | 108 | 720 | 720 | 720 | 720 | 720 |
| Reserves and surplus | 323 | 717 | 4,012 | 4,913 | 6,332 | 8,522 | 11,236 |
| **Loan funds** | **562** | **889** | **2,464** | **5,027** | **7,090** | **9,326** | **13,500** |
| Secured | 505 | 831 | 2,405 | 4,992 | 6,360 | 8,826 | 13,000 |
| Unsecured | 57 | 58 | 59 | 35 | 730 | 500 | 500 |
| **Total sources of funds** | **1,323** | **3,304** | **10,141** | **13,498** | **17,957** | **24,341** | **29,101** |
| **Net fixed assets** | **336** | **414** | **538** | **1,031** | **1,605** | **2,488** | **3,285** |
| Investments | 1 | 3 | 1,514 | 5 | 5 | 1,505 | 3,505 |
| **Net current assets (excl. cash)** | **801** | **1,958** | **5,019** | **6,310** | **6,171** | **11,859** | **15,533** |
| Cash | 185 | 929 | 3,070 | 6,152 | 10,175 | 8,489 | 6,777 |
| **Total application of funds** | **1,323** | **3,304** | **10,141** | **13,498** | **17,957** | **24,341** | **29,101** |
| **Free cash flow** | | | | | | | |
| Net profit before tax and extraordinary items | 190 | 613 | 1,296 | 1,752 | 3,051 | 4,308 | 5,340 |
| Add: Depreciation / amortisation / non-cash prov | 30 | 132 | 2,645 | 75 | 103 | 266 | 303 |
| Tax paid | (54) | (213) | (148) | (205) | (1,037) | (1,428) | (1,751) |
| **Operating profit before Wcap. changes** | **165** | **531** | **3,793** | **1,622** | **2,117** | **3,146** | **3,892** |
| Change in working capital / other adjustments | (392) | (1,157) | (3,060) | (1,292) | 140 | (5,689) | (3,674) |
| **Net cashflow from operating activites** | **(226)** | **(626)** | **732** | **330** | **2,257** | **(2,543)** | **218** |
| Fixed Assets | (121) | (167) | (179) | (568) | (677) | (1,148) | (1,100) |
| Investments | — | (2) | (1,511) | 1,509 | (0) | (1,500) | (2,000) |
| **Cash (used) / realised in investing activities** | **(121)** | **(169)** | **(1,691)** | **941** | **(677)** | **(2,648)** | **(3,100)** |
| **Free cash flow** | **(347)** | **(795)** | **(958)** | **1,271** | **1,580** | **(5,191)** | **(2,882)** |
| **Ratios** | | | | | | | |
| EBITDA margin (%) | 9.7 | 11.2 | 10.2 | 10.8 | 11.3 | 11.2 | 10.9 |
| Net debt/equity | 0.9 | (0.0) | (0.1) | (0.2) | (0.4) | 0.1 | 0.6 |
| RoAE (%) | 35.9 | 42.4 | 21.2 | 22.3 | 31.8 | 35.1 | 33.4 |
| RoACE (%) | 16.2 | 14.9 | 10.5 | 13.0 | 15.1 | 16.9 | 16.7 |

Source: Company, Kotak Institutional Equities estimates

### Target price implies WACC of 12.5% and moderate growth assumptions

Our target price of Rs800/share for BGR Energy implies (1) WACC of 12.5%, (2) terminal growth rate of 5%, (3) moderate growth in revenue of about 12.5% from FY2016E-21E and (4) relatively flat EBITDA margins of about 10.5% over FY2013E-21E.

Implied DCF valuation of BGR Energy, March fiscal year-ends, 2010-21E (Rs mn)

| | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | **30,779** | **46,715** | **60,903** | **73,555** | **93,280** | **116,310** | **133,757** | **153,820** | **172,279** | **189,506** | **208,457** | **229,303** |
| Revenue growth (%) | 59.4 | 51.8 | 30.4 | 20.8 | 26.8 | 24.7 | 15.0 | 15.0 | 12.0 | 10.0 | 10.0 | 10.0 |
| **EBITDA** | **3,487** | **5,211** | **6,613** | **7,840** | **9,685** | **12,157** | **14,044** | **16,151** | **18,089** | **19,898** | **21,888** | **24,077** |
| EBITDA margin (%) | 11.3 | 11.2 | 10.9 | 10.7 | 10.4 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 |
| Depreciation | (103) | (266) | (303) | (384) | (468) | (556) | (661) | (760) | (866) | (979) | (1,101) | (1,233) |
| EBIT | 3,384 | 4,945 | 6,310 | 7,456 | 9,217 | 11,600 | 13,384 | 15,391 | 17,224 | 18,919 | 20,787 | 22,844 |
| Tax | (1,150) | (1,645) | (2,081) | (2,459) | (3,045) | (3,840) | (4,431) | (5,095) | (5,702) | (6,263) | (6,881) | (7,562) |
| Change in net WCap. | 140 | (5,689) | (3,674) | (3,439) | (5,174) | (5,784) | (3,824) | (4,397) | (4,046) | (3,776) | (4,154) | (4,569) |
| Capex | (677) | (1,148) | (1,100) | (1,200) | (1,310) | (1,431) | (1,574) | (1,732) | (1,905) | (2,095) | (2,305) | (2,535) |
| **Free cash flow** | **1,800** | **(3,271)** | **(242)** | **742** | **157** | **1,101** | **4,216** | **4,927** | **6,437** | **7,764** | **8,548** | **9,410** |
| PV of free cash flow | 1,800 | (3,271) | (242) | 660 | 124 | 773 | 2,632 | 2,734 | 3,175 | 3,404 | 3,332 | 3,260 |

| | |
|---|---|
| PV of cash flows | 18,381 |
| PV of terminal value | 45,642 |
| EV | 64,024 |
| Debt | 982 |
| Equity value | 63,042 |
| Shares o/s (mn) | 72 |
| **Equity value (Rs)** | **876** |

| | |
|---|---|
| FCF in terminal year (Rs mn) | 9,410 |
| Exit FCF multiple: (1+g)/(WACC-g) | 14.0 |
| Terminal value of FCF (Rs mn) | 131,747 |
| Exit EBITDA multiple | 5.5 |
| **WACC (%)** | **12.5** |

Source: Kotak Institutional Equities estimates

June 2010: Earnings announcement calendar

| Mon | Tue | Wed | Thu | Fri | Sat |
|---|---|---|---|---|---|
| **2-Aug** | **3-Aug** | **4-Aug** | **5-Aug** | **6-Aug** | **7-Aug** |
| | | | | Fortis Healthcare | GMR Infra |
| | | | | Maharashtra Polybutenes | KSK Energy Ventures |
| | | | | Power Grid Corp | Sterling Biotech |
| | | | | | |
| | | | | | |
| | | | | | |
| NMDC | | | | | |
| **9-Aug** | **10-Aug** | **11-Aug** | **12-Aug** | **13-Aug** | **14-Aug** |
| Jain Irrigation | Educomp Solutions | Bharti Airtel | Apollo Hospitals | Ackruti City | Lanco Infratech |
| Opto Circuits | IVRCL Infra | Bosch | Cummins India | Adani Enterprises | National Aluminium |
| Reliance Capital | Jai Corp | Financial Technologies | Divis Laboratories | Koutons Retail | Unitech |
| Tulip Telecom | Nagarjuna Constructions | Videocon Industries | Hindustan Copper | Suzlon Energy | |
| | Piramal Healthcare | | Indiabulls Real Estate | | |
| | Rashtriya Chemicals & Fertilisers | | Moser Baer | | |
| | Rolta India | | MTNL | | |
| | Tata Motors | | Ranbaxy Laboratories | | |
| | | | Shree Renuka Sugar | | |
| | | | State Bank of India | | |
| | | | Tata Power | | |
| | | | Tata Steel | | |

Source: BSE, Kotak Institutional Equities

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

| | 6-Aug-10 | | Mkt cap. | | O/S shares | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target price | Upside | ADVT-3mo |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Price (Rs) | Rating | (Rs mn) | (US$ mn) | (mn) | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | (Rs) | (%) | (US$ mn) |
| **Automobiles** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Ashok Leyland | 71 | ADD | 94,650 | 2,051 | 1,330 | 2.8 | 4.3 | 5.9 | 84.5 | 52.3 | 37.5 | 25.2 | 16.6 | 12.0 | 14.6 | 10.9 | 8.6 | 2.3 | 2.1 | 1.9 | 2.1 | 1.4 | 1.4 | 10.9 | 13.5 | 16.7 | 78 | 9.6 | 10.0 |
| Bajaj Auto | 2,712 | ADD | 392,383 | 8,502 | 145 | 117.7 | 169.0 | 189.5 | 160.1 | 43.6 | 12.2 | 23.0 | 16.0 | 14.3 | 14.9 | 11.4 | 9.9 | 13.4 | 7.8 | 5.3 | 0.7 | 0.7 | 0.7 | 70.9 | 61.4 | 44.0 | 2,650 | (2.3) | 13.8 |
| Bharat Forge | 336 | ADD | 80,359 | 1,741 | 239 | 0.7 | 12.4 | 19.7 | (92.0) | 1,705.4 | 59.1 | 488.9 | 27.1 | 17.0 | 20.2 | 9.0 | 5.6 | 2.1 | 2.0 | 1.8 | — | — | — | 0.9 | 0.4 | 0.1 | 360 | 7.1 | 4.7 |
| Hero Honda | 1,834 | SELL | 366,160 | 7,934 | 200 | 111.8 | 115.3 | 130.1 | 74.1 | 3.1 | 12.8 | 16.4 | 15.9 | 14.1 | 10.5 | 10.4 | 8.8 | 10.2 | 7.1 | 5.3 | 1.6 | 1.7 | 1.9 | 59.1 | 52.5 | 42.8 | 1,800 | (1.8) | 19.9 |
| Mahindra & Mahindra | 649 | BUY | 386,312 | 8,371 | 595 | 33.9 | 44.1 | 51.7 | 125.8 | 30.1 | 17.3 | 19.1 | 14.7 | 12.5 | 12.6 | 10.6 | 8.9 | 4.8 | 3.8 | 3.1 | 1.4 | 1.4 | 1.5 | 30.0 | 29.0 | 27.3 | 760 | 17.1 | 26.1 |
| Maruti Suzuki | 1,221 | REDUCE | 352,985 | 7,649 | 289 | 86.4 | 77.6 | 88.3 | 104.9 | (10.2) | 13.9 | 14.1 | 15.7 | 13.8 | 7.5 | 7.8 | 6.7 | 3.0 | 2.5 | 2.1 | 0.5 | 0.4 | 0.5 | 23.3 | 17.3 | 16.7 | 1,200 | (1.8) | 22.7 |
| Tata Motors | 894 | ADD | 559,632 | 12,126 | 626 | 23.8 | 27.1 | 32.8 | 137.8 | 13.5 | 21.4 | 37.5 | 33.0 | 27.2 | 17.0 | 15.6 | 13.5 | 3.1 | 2.7 | 2.3 | 1.5 | 0.6 | 0.6 | 8.6 | 8.6 | 9.1 | 900 | 0.7 | 81.3 |
| **Automobiles** | | **Cautious** | **2,232,481** | **48,374** | | | | | **109.9** | **19.4** | **17.3** | **21.9** | **18.3** | **15.6** | **12.8** | **11.3** | **9.5** | **4.2** | **3.5** | **2.9** | **1.2** | **0.9** | **1.0** | **19.4** | **19.1** | **18.6** | | | |
| **Banks/Financial Institutions** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Andhra Bank | 142 | BUY | 68,822 | 1,491 | 485 | 21.6 | 22.9 | 26.7 | 60.1 | 6.4 | 16.4 | 6.6 | 6.2 | 5.3 | — | — | — | 1.6 | 1.3 | 1.1 | 3.5 | 3.7 | 4.4 | 26.0 | 23.1 | 22.7 | 180 | 26.8 | 4.6 |
| Axis Bank | 1,314 | ADD | 532,520 | 11,539 | 405 | 62.1 | 78.1 | 98.3 | 22.7 | 25.9 | 25.9 | 21.2 | 16.8 | 13.4 | — | — | — | 3.3 | 2.9 | 2.5 | 0.9 | 1.1 | 1.4 | 19.2 | 18.3 | 19.9 | 1,500 | 14.1 | 47.7 |
| Bank of Baroda | 760 | BUY | 277,655 | 6,016 | 366 | 83.7 | 95.1 | 115.7 | 37.3 | 13.7 | 21.7 | 9.1 | 8.0 | 6.6 | — | — | — | 2.0 | 1.7 | 1.4 | 2.0 | 2.2 | 2.7 | 24.4 | 23.0 | 23.3 | 950 | 25.1 | 9.4 |
| Bank of India | 435 | REDUCE | 228,615 | 4,954 | 526 | 33.1 | 49.9 | 58.1 | (42.1) | 50.9 | 16.4 | 13.1 | 8.7 | 7.5 | — | — | — | 1.8 | 1.5 | 1.3 | 1.6 | 2.4 | 2.8 | 14.2 | 19.0 | 19.2 | 460 | 5.8 | 8.0 |
| Canara Bank | 476 | ADD | 195,242 | 4,231 | 410 | 73.7 | 82.2 | 98.3 | 45.8 | 11.6 | 19.5 | 6.5 | 5.8 | 4.8 | — | — | — | 1.5 | 1.3 | 1.0 | 1.7 | 2.1 | 2.5 | 22.4 | 20.8 | 20.8 | 580 | 21.8 | 6.5 |
| Corporation Bank | 575 | BUY | 82,527 | 1,788 | 143 | 82.0 | 88.0 | 102.6 | 31.8 | 7.3 | 16.6 | 7.0 | 6.5 | 5.6 | — | — | — | 1.4 | 1.2 | 1.0 | 2.9 | 3.1 | 3.6 | 22.0 | 20.2 | 20.2 | 700 | 21.7 | 1.1 |
| Federal Bank | 329 | ADD | 56,193 | 1,218 | 171 | 27.2 | 36.4 | 49.0 | (7.2) | 34.1 | 34.4 | 12.1 | 9.0 | 6.7 | — | — | — | 1.2 | 1.1 | 1.0 | 1.5 | 2.0 | 2.7 | 10.3 | 12.6 | 15.2 | 360 | 9.6 | 6.3 |
| HDFC | 3,069 | ADD | 881,198 | 19,094 | 287 | 98.4 | 116.1 | 138.9 | 22.7 | 17.9 | 19.6 | 31.2 | 26.4 | 22.1 | — | — | — | 5.8 | 5.1 | 4.5 | 1.2 | 1.3 | 1.6 | 20.0 | 20.6 | 21.7 | 3,450 | 12.4 | 38.8 |
| HDFC Bank | 2,091 | BUY | 957,004 | 20,737 | 458 | 64.4 | 87.2 | 113.8 | 22.1 | 35.4 | 30.5 | 32.5 | 24.0 | 18.4 | — | — | — | 4.4 | 3.9 | 3.3 | 0.6 | 0.8 | 1.0 | 16.1 | 17.3 | 19.5 | 2,400 | 14.8 | 32.0 |
| ICICI Bank | 950 | REDUCE | 1,058,922 | 22,945 | 1,115 | 36.1 | 45.2 | 57.3 | 6.9 | 25.3 | 26.6 | 26.3 | 21.0 | 16.6 | — | — | — | 2.1 | 1.9 | 1.8 | 1.3 | 1.6 | 2.0 | 8.0 | 9.5 | 11.3 | 1,000 | 5.3 | 81.9 |
| IDFC | 181 | ADD | 264,180 | 5,724 | 1,458 | 8.4 | 9.4 | 11.2 | 44.9 | 12.4 | 18.7 | 21.6 | 19.2 | 16.2 | — | — | — | 3.8 | 2.5 | 2.0 | 0.7 | 1.0 | 1.2 | 16.6 | 15.5 | 14.3 | 205 | 13.2 | 24.9 |
| India Infoline | 98 | BUY | 30,432 | 659 | 312 | 8.1 | 7.2 | 8.7 | 59.2 | (11.9) | 21.6 | 12.0 | 13.6 | 11.2 | — | — | — | 1.9 | 1.6 | 1.4 | 3.3 | 1.6 | 2.1 | 16.4 | 12.9 | 14.4 | 120 | 23.0 | 4.0 |
| Indian Bank | 231 | ADD | 99,083 | 2,147 | 430 | 35.1 | 32.4 | 44.1 | 25.5 | (7.7) | 36.2 | 6.6 | 7.1 | 5.2 | — | — | — | 1.5 | 1.3 | 1.1 | 2.8 | 2.5 | 3.4 | 24.1 | 18.8 | 21.7 | 280 | 21.4 | 4.2 |
| Indian Overseas Bank | 126 | BUY | 68,481 | 1,484 | 545 | 13.0 | 16.7 | 24.8 | (46.7) | 29.0 | 48.4 | 9.7 | 7.5 | 5.1 | — | — | — | 1.1 | 1.0 | 0.8 | 2.8 | 3.1 | 3.4 | 9.6 | 11.6 | 15.4 | 160 | 27.3 | 3.9 |
| J&K Bank | 802 | BUY | 38,865 | 842 | 48 | 105.7 | 119.3 | 139.9 | 25.1 | 12.8 | 17.3 | 7.6 | 6.7 | 5.7 | — | — | — | 1.3 | 1.2 | 1.0 | 2.7 | 3.1 | 3.6 | 18.2 | 17.9 | 18.3 | 930 | 16.0 | 0.6 |
| LIC Housing Finance | 1,180 | ADD | 112,069 | 2,428 | 95 | 69.7 | 100.7 | 109.9 | 11.5 | 44.5 | 9.1 | 16.9 | 11.7 | 10.7 | — | — | — | 3.5 | 2.9 | 2.4 | 1.3 | 1.8 | 2.0 | 23.6 | 25.5 | 23.2 | 1,250 | 6.0 | 20.1 |
| Mahindra & Mahindra Financial | 609 | BUY | 58,450 | 1,267 | 96 | 35.9 | 46.4 | 56.2 | 60.0 | 29.4 | 21.2 | 17.0 | 13.1 | 10.8 | — | — | — | 3.4 | 2.9 | 2.4 | 1.3 | 1.6 | 2.0 | 21.5 | 23.5 | 23.8 | 590 | (3.1) | 1.4 |
| Oriental Bank of Commerce | 390 | ADD | 97,798 | 2,119 | 251 | 45.3 | 57.8 | 66.8 | 25.3 | 27.6 | 15.5 | 8.6 | 6.8 | 5.8 | — | — | — | 1.3 | 1.2 | 1.0 | 2.3 | 3.0 | 3.4 | 14.5 | 16.5 | 16.9 | 430 | 10.2 | 5.2 |
| PFC | 320 | SELL | 367,573 | 7,965 | 1,148 | 20.5 | 22.9 | 27.6 | 53.5 | 11.9 | 20.3 | 15.6 | 14.0 | 11.6 | — | — | — | 2.9 | 2.5 | 2.2 | 1.6 | 1.8 | 2.2 | 18.8 | 18.3 | 19.2 | 275 | (14.1) | 3.8 |
| Punjab National Bank | 1,100 | BUY | 346,975 | 7,518 | 315 | 123.9 | 133.4 | 163.3 | 26.4 | 7.7 | 22.4 | 8.9 | 8.2 | 6.7 | — | — | — | 2.1 | 1.8 | 1.5 | 2.0 | 2.5 | 3.0 | 26.2 | 23.2 | 23.7 | 1,300 | 18.1 | 9.2 |
| Reliance Capital | 783 | ADD | 192,657 | 4,175 | 246 | 13.8 | 16.1 | 14.1 | (64.9) | 17.0 | (12.4) | 56.7 | 48.5 | 55.3 | — | — | — | 2.8 | 2.7 | 2.6 | 0.8 | 0.8 | 0.7 | 5.0 | 5.7 | 4.8 | 875 | 11.8 | 40.2 |
| Rural Electrification Corp. | 320 | ADD | 315,718 | 6,841 | 987 | 20.3 | 25.3 | 31.2 | 23.2 | 24.5 | 23.4 | 15.8 | 12.7 | 10.3 | — | — | — | 2.9 | 2.5 | 2.1 | 2.0 | 2.4 | 2.9 | 22.0 | 21.0 | 22.5 | 325 | 1.6 | 13.6 |
| Shriram Transport | 709 | ADD | 158,184 | 3,428 | 223 | 39.2 | 53.4 | 64.8 | 30.1 | 36.4 | 21.3 | 18.1 | 13.3 | 10.9 | — | — | — | 4.3 | 3.6 | 3.0 | 1.7 | 2.3 | 2.7 | 28.4 | 28.2 | 28.4 | 700 | (1.3) | 4.6 |
| SREI | 87 | NR | 10,094 | 219 | 116 | 8.3 | 7.9 | 9.9 | 17.8 | (4.8) | 25.8 | 10.5 | 11.0 | 8.7 | — | — | — | 0.8 | 0.8 | 0.7 | 1.4 | 1.4 | 1.4 | 11.1 | 10.5 | 12.3 | — | — | 4.0 |
| State Bank of India | 2,646 | BUY | 1,679,709 | 36,397 | 635 | 144.4 | 170.9 | 210.6 | 0.5 | 18.3 | 23.2 | 18.3 | 15.5 | 12.6 | — | — | — | 2.5 | 2.3 | 2.0 | 1.1 | 1.2 | 1.3 | 14.8 | 15.5 | 16.7 | 2,900 | 9.6 | 94.7 |
| Union Bank | 318 | BUY | 160,754 | 3,483 | 505 | 41.1 | 45.7 | 56.9 | 20.2 | 11.3 | 24.5 | 7.7 | 7.0 | 5.6 | — | — | — | 9.9 | 10.7 | 11.5 | 1.7 | 1.9 | 2.4 | 26.2 | 23.7 | 24.1 | 400 | 25.7 | 4.6 |
| Yes Bank | 296 | BUY | 100,643 | 2,181 | 340 | 15.0 | 17.7 | 22.5 | 46.7 | 18.2 | 26.6 | 19.7 | 16.7 | 13.2 | — | — | — | 3.3 | 2.8 | 2.3 | 0.5 | 0.6 | 0.8 | 20.3 | 18.0 | 19.3 | 350 | 18.1 | 19.7 |
| **Banks/Financial Institutions** | | **Attractive** | **8,440,363** | **182,890** | | | | | **14.9** | **19.5** | **23.0** | **16.8** | **14.0** | **11.4** | **—** | **—** | **—** | **2.7** | **2.3** | **2.0** | **1.3** | **1.5** | **1.9** | **15.8** | **16.5** | **17.7** | | | |
| **Cement** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ACC | 828 | ADD | 155,536 | 3,370 | 188 | 83.2 | 66.0 | 72.4 | 47.9 | (20.7) | 9.8 | 9.9 | 12.5 | 11.4 | 5.2 | 5.8 | 4.7 | 2.4 | 2.1 | 1.9 | 3.2 | 2.8 | 2.8 | 29.3 | 20.0 | 19.2 | 920 | 11.1 | 7.4 |
| Ambuja Cements | 115 | SELL | 174,997 | 3,792 | 1,522 | 8.0 | 8.4 | 8.9 | 11.4 | 5.3 | 5.1 | 14.4 | 13.6 | 13.0 | 7.9 | 7.5 | 6.4 | 2.5 | 2.2 | 2.0 | 1.6 | 1.8 | 1.9 | 19.3 | 17.8 | 16.5 | 108 | (6.0) | 5.2 |
| Grasim Industries | 1,870 | ADD | 171,497 | 3,716 | 92 | 301.0 | 229.0 | 273.3 | 26.1 | (23.9) | 19.4 | 6.2 | 8.2 | 6.8 | 4.0 | 4.3 | 3.3 | 1.4 | 1.2 | 1.0 | 1.8 | 1.8 | 1.8 | 22.9 | 15.7 | 16.3 | 2,200 | 17.6 | 7.9 |
| India Cements | 106 | SELL | 32,530 | 705 | 307 | 10.0 | 8.7 | 10.6 | (43.5) | (13.1) | 21.1 | 10.6 | 12.1 | 10.0 | 5.9 | 7.2 | 4.9 | 0.8 | 0.7 | 0.7 | 2.0 | 3.0 | 3.0 | 8.2 | 6.7 | 7.7 | 95 | (10.3) | 2.3 |
| Shree Cement | 1,824 | BUY | 63,559 | 1,377 | 35 | 208.0 | 221.1 | 242.5 | 19.0 | 6.3 | 9.7 | 8.8 | 8.3 | 7.5 | 4.3 | 4.1 | 3.2 | 3.5 | 2.5 | 1.8 | 0.6 | 0.6 | 0.6 | 48.0 | 35.0 | 28.1 | 2,550 | 39.8 | 1.0 |
| UltraTech Cement | 872 | ADD | 108,499 | 2,351 | 124 | 88.2 | 66.9 | 75.1 | 12.0 | (24.2) | 12.4 | 9.9 | 13.0 | 11.6 | 5.2 | 6.3 | 5.3 | 2.0 | 1.7 | 1.5 | 0.7 | 0.9 | 0.9 | 25.9 | 16.7 | 16.3 | 985 | 13.0 | 2.7 |
| **Cement** | | **Neutral** | **706,618** | **15,311** | | | | | **19.3** | **(15.4)** | **12.7** | **9.2** | **10.9** | **9.7** | **5.0** | **5.4** | **4.3** | **1.9** | **1.7** | **1.4** | **1.8** | **1.8** | **1.9** | **20.6** | **15.2** | **15.0** | | | |

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

| Company | 6-Aug-10 Price (Rs) | Rating | Mkt cap. (Rs mn) | Mkt cap. (US$ mn) | O/S shares (mn) | EPS (Rs) 2010E | EPS (Rs) 2011E | EPS (Rs) 2012E | EPS growth (%) 2010E | EPS growth (%) 2011E | EPS growth (%) 2012E | PER (X) 2010E | PER (X) 2011E | PER (X) 2012E | EV/EBITDA (X) 2010E | EV/EBITDA (X) 2011E | EV/EBITDA (X) 2012E | Price/BV (X) 2010E | Price/BV (X) 2011E | Price/BV (X) 2012E | Dividend yield (%) 2010E | Dividend yield (%) 2011E | Dividend yield (%) 2012E | RoE (%) 2010E | RoE (%) 2011E | RoE (%) 2012E | Target price (Rs) | Upside (%) | ADVT-3mo (US$ mn) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Consumer products** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Asian Paints | 2,607 | BUY | 250,077 | 5,419 | 96 | 71.5 | 89.0 | 107.1 | 85.3 | 24.4 | 20.4 | 36.4 | 29.3 | 24.3 | 22.5 | 18.2 | 15.0 | 15.6 | 12.1 | 9.7 | 1.0 | 1.4 | 1.7 | 51.8 | 47.9 | 45.4 | 3,000 | 15.1 | 4.8 |
| Colgate-Palmolive (India) | 839 | REDUCE | 114,037 | 2,471 | 136 | 31.1 | 34.5 | 39.6 | 44.2 | 10.9 | 14.6 | 26.9 | 24.3 | 21.2 | 22.1 | 18.0 | 15.4 | 35.0 | 29.8 | 25.5 | 2.4 | 3.1 | 3.5 | 156.1 | 132.3 | 129.4 | 830 | (1.0) | 2.3 |
| Dabur India | 203 | REDUCE | 176,204 | 3,818 | 866 | 5.8 | 6.8 | 8.2 | 28.1 | 17.6 | 20.8 | 35.1 | 29.8 | 24.7 | 26.1 | 20.9 | 17.3 | 16.7 | 13.8 | 11.3 | 1.5 | 1.8 | 2.1 | 54.3 | 51.1 | 50.7 | 210 | 3.2 | 4.0 |
| GlaxoSmithkline Consumer (a) | 1,839 | ADD | 77,359 | 1,676 | 42 | 55.4 | 68.6 | 81.3 | 23.6 | 23.9 | 18.6 | 33.2 | 26.8 | 22.6 | 18.4 | 15.9 | 13.0 | 8.7 | 7.2 | 6.0 | 1.0 | 1.2 | 1.4 | 27.9 | 29.0 | 28.7 | 2,000 | 8.7 | 0.7 |
| Godrej Consumer Products | 363 | ADD | 117,366 | 2,543 | 324 | 11.3 | 13.0 | 17.3 | 69.5 | 14.4 | 33.1 | 32.0 | 28.0 | 21.0 | 25.3 | 20.0 | 15.0 | 12.2 | 6.7 | 6.1 | 1.1 | 0.9 | 0.9 | 44.6 | 31.0 | 30.4 | 400— | — | 2.9 |
| Hindustan Unilever | 255 | REDUCE | 556,439 | 12,057 | 2,182 | 9.4 | 10.2 | 11.8 | (0.9) | 8.4 | 15.3 | 27.1 | 25.0 | 21.6 | 18.4 | 17.7 | 14.7 | 21.5 | 18.6 | 16.1 | 3.0 | 3.3 | 3.8 | 71.1 | 80.2 | 80.0 | 250 | (2.0) | 11.1 |
| ITC | 159 | BUY | 1,214,524 | 26,317 | 7,651 | 5.3 | 6.3 | 7.3 | 22.6 | 18.2 | 15.8 | 29.9 | 25.3 | 21.8 | 18.1 | 15.9 | 13.4 | 8.2 | 6.9 | 5.9 | 3.1 | 1.7 | 1.9 | 29.2 | 31.1 | 30.5 | 165 | 3.9 | 24.5 |
| Jubilant Foodworks | 412 | REDUCE | 26,290 | 570 | 64 | 5.5 | 9.7 | 12.1 | 340.6 | 75.7 | 24.6 | 74.3 | 42.3 | 33.9 | 39.5 | 23.9 | 16.7 | 22.4 | 14.6 | 10.2 | — | — | — | 46.6 | 41.8 | 35.4 | 370 | (10.1) | 7.0 |
| Jyothy Laboratories | 276 | NR | 20,044 | 434 | 73 | 11.0 | 12.9 | 15.3 | 99.6 | 17.0 | 18.3 | 25.0 | 21.4 | 18.1 | 19.4 | 14.7 | 12.0 | 4.9 | 4.2 | 3.6 | 1.7 | 1.3 | 1.7 | 18.6 | 20.2 | 20.5 | — | — | 1.3 |
| Nestle India (a) | 2,770 | REDUCE | 267,062 | 5,787 | 96 | 74.4 | 83.9 | 100.9 | 27.0 | 12.8 | 20.1 | 37.2 | 33.0 | 27.5 | 24.6 | 22.1 | 19.0 | 45.9 | 38.0 | 31.4 | 1.8 | 2.2 | 2.6 | 136.0 | 126.1 | 125.1 | 3,000 | 8.3 | 1.9 |
| Tata Global Beverages | 112 | ADD | 69,323 | 1,502 | 618 | 6.6 | 7.4 | 8.4 | 23.4 | 11.1 | 13.8 | 16.9 | 15.2 | 13.4 | 10.9 | 8.9 | 8.0 | 1.4 | 1.3 | 1.2 | 1.9 | 2.1 | 2.4 | 10.9 | 11.4 | 12.0 | 125 | 12 | 4.1 |
| **Consumer products** | | **Attractive** | **2,888,723** | **62,594** | | | | | **24.0** | **16.0** | **17.3** | **30.3** | **26.1** | **22.2** | **19.5** | **17.0** | **14.2** | **10.2** | **8.5** | **7.4** | **2.5** | **2.0** | **2.3** | **33.7** | **32.8** | **33.2** | | | |
| **Constructions** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| IVRCL | 174 | BUY | 46,380 | 1,005 | 267 | 7.8 | 10.3 | 12.4 | (7.7) | 32.4 | 19.7 | 22.2 | 16.8 | 14.0 | 11.8 | 9.7 | 8.3 | 2.3 | 2.0 | 1.8 | 0.2 | 0.2 | 0.2 | 10.9 | 12.8 | 13.5 | 215 | 23.8 | 7.1 |
| Nagarjuna Construction Co. | 165 | BUY | 42,349 | 918 | 257 | 7.1 | 11.5 | 14.3 | 6.1 | 61.1 | 24.1 | 23.1 | 14.4 | 11.6 | 11.5 | 8.7 | 7.1 | 1.9 | 1.7 | 1.5 | 1.0 | 1.2 | 1.2 | 9.3 | 12.5 | 13.9 | 210 | 27.2 | 3.1 |
| Punj Lloyd | 120 | REDUCE | 40,734 | 883 | 339 | (12.9) | 9.8 | 12.0 | 79.2 | (175.4) | 22.4 | (9.3) | 12.3 | 10.1 | 34.9 | 6.8 | 6.3 | 1.3 | 1.2 | 1.1 | (0.1) | 0.4 | 0.9 | (15.8) | 10.3 | 11.4 | 140 | 16.5 | 12.6 |
| Sadbhav Engineering | 1,415 | BUY | 21,221 | 460 | 15 | 43.1 | 62.0 | 84.0 | (15.8) | 43.9 | 35.5 | 32.8 | 22.8 | 16.8 | 18.1 | 11.7 | 9.5 | 5.1 | 3.4 | 2.9 | 0.2 | 0.4 | 0.4 | 13.3 | 14.1 | 17.4 | 1,575 | 11.3 | 0.2 |
| **Construction** | | **Attractive** | **150,683** | **3,265** | | | | | **(96.9)** | **14,481** | **24.4** | **2,225.5** | **15.3** | **12.3** | **16.1** | **8.4** | **7.3** | **2.0** | **1.7** | **1.5** | **0.3** | **0.6** | **0.7** | **0.1** | **11.3** | **12.5** | | | |
| **Energy** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Aban Offshore | 906 | ADD | 39,424 | 854 | 43 | 94.5 | 154.1 | 139.3 | (2.5) | 63.0 | (9.6) | 9.6 | 5.9 | 6.5 | 8.5 | 6.8 | 6.6 | 1.8 | 1.6 | 1.4 | 0.4 | 0.4 | 0.4 | 21.7 | 33.1 | 22.9 | 935 | 3.2 | 55.6 |
| Bharat Petroleum | 650 | ADD | 235,037 | 5,093 | 362 | 62.1 | 57.4 | 65.7 | 201 | (8) | 14.5 | 10 | 11 | 9.9 | 5.8 | 5.6 | 5.1 | 1.6 | 1.5 | 1.3 | 2.2 | 2.9 | 3.3 | 15.6 | 13.0 | 13.5 | 690 | 6.1 | 27.5 |
| Cairn india | 343 | SELL | 650,565 | 14,097 | 1,897 | 5.5 | 20.5 | 36.0 | 29.0 | 270.6 | 75.1 | 61.9 | 16.7 | 9.5 | 48.7 | 10.0 | 6.1 | 1.9 | 1.7 | 1.5 | — | — | 4.4 | 3.1 | 10.7 | 17.0 | 270 | (21.3) | 18.1 |
| Castrol India (a) | 470 | REDUCE | 116,123 | 2,516 | 247 | 15.4 | 20.7 | 21.2 | 45 | 34 | 2.4 | 30 | 23 | 22.2 | 18.1 | 14.1 | 13.6 | 25.2 | 23.7 | 22.4 | 2.7 | 3.5 | 3.6 | 83.8 | 107.4 | 103.7 | 380 | (19.1) | 1.1 |
| GAIL (India) | 438 | BUY | 555,023 | 12,027 | 1,268 | 24.8 | 27.2 | 40.2 | 11.7 | 10.1 | 47.4 | 17.7 | 16.1 | 10.9 | 9.9 | 9.9 | 8.1 | 3.1 | 2.7 | 2.3 | 1.7 | 1.9 | 2.9 | 17.4 | 17.0 | 21.6 | 550 | 25.7 | 17.6 |
| GSPL | 111 | SELL | 62,291 | 1,350 | 562 | 7.4 | 7.2 | 8.0 | 235 | (3) | 12.1 | 15 | 15 | 13.8 | 7.6 | 7.5 | 6.3 | 3.7 | 3.0 | 2.7 | 0.9 | 1.6 | 2.9 | 27.3 | 21.4 | 20.8 | 83 | (25.1) | 4.3 |
| Hindustan Petroleum | 444 | ADD | 150,537 | 3,262 | 339 | 52.6 | 53.5 | 58.6 | 210.1 | 1.8 | 9.5 | 8.4 | 8.3 | 7.6 | 3.0 | 3.1 | 2.8 | 1.1 | 1.0 | 0.9 | 2.7 | 3.8 | 4.1 | 13.3 | 12.2 | 12.1 | 535 | 20.5 | 34.0 |
| Indian Oil Corporation | 367 | ADD | 891,058 | 19,308 | 2,428 | 49.9 | 38.8 | 41.1 | 407 | (22) | 5.9 | 7 | 9 | 8.9 | 5.0 | 5.0 | 4.5 | 1.6 | 1.5 | 1.3 | 3.5 | 3.2 | 3.4 | 22.7 | 15.6 | 15.1 | 415 | 13.1 | 17.5 |
| Oil India | 1,399 | BUY | 336,348 | 7,288 | 240 | 115.1 | 133.6 | 153.4 | 13.8 | 16.1 | 14.8 | 12.2 | 10.5 | 9.1 | 5.2 | 4.1 | 3.4 | 2.3 | 2.0 | 1.8 | 2.4 | 3.1 | 3.6 | 16.7 | 18.1 | 18.3 | 1,550 | 10.8 | 7.8 |
| Oil & Natural Gas Corporation | 1,231 | BUY | 2,632,649 | 57,045 | 2,139 | 91.4 | 116.6 | 136.1 | 1 | 27 | 16.7 | 13 | 11 | 9.0 | 4.9 | 4.2 | 3.3 | 2.0 | 1.8 | 1.6 | 2.7 | 3.4 | 3.9 | 14.6 | 16.8 | 17.6 | 1,480 | 20.2 | 38.4 |
| Petronet LNG | 102 | REDUCE | 76,275 | 1,653 | 750 | 5.4 | 5.8 | 7.9 | (22.0) | 8.1 | 35.3 | 18.9 | 17.4 | 12.9 | 10.9 | 10.1 | 8.3 | 3.0 | 2.6 | 2.3 | 1.7 | 2.0 | 2.7 | 15.9 | 15.1 | 17.8 | 86 | (15.4) | 4.7 |
| Reliance Industries | 1,000 | SELL | 2,976,298 | 64,492 | 2,976 | 49.6 | 59.0 | 74.4 | (2) | 19 | 26.2 | 20 | 17 | 13.4 | 10.2 | 7.9 | 6.6 | 2.0 | 1.8 | 1.6 | 0.7 | 0.8 | 1.0 | 11.4 | 12.3 | 13.9 | 1,060 | 6.0 | 114.8 |
| **Energy** | | **Cautious** | **8,721,627** | **188,984** | | | | | **38.1** | **16.2** | **22.0** | **14.4** | **12.4** | **10.2** | **7.1** | **5.9** | **4.9** | **2.0** | **1.8** | **1.6** | **1.8** | **2.1** | **2.8** | **13.8** | **14.4** | **15.8** | | | |
| **Industrials** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ABB | 801 | REDUCE | 169,781 | 3,679 | 212 | 16.7 | 18.3 | 33.1 | (35.2) | 9.3 | 80.7 | 47.9 | 43.8 | 24.2 | 27.4 | 25.1 | 14.0 | 7.0 | 6.2 | 5.1 | 0.2 | 0.4 | 0.4 | 15.6 | 15.0 | 23.0 | 725 | (9.5) | 7.2 |
| BGR Energy Systems | 798 | BUY | 57,485 | 1,246 | 72 | 16.0 | 28.0 | 39.7 | 32.2 | 74.6 | 41.9 | 49.8 | 28.5 | 20.1 | 28.0 | 16.2 | 11.7 | 10.2 | 8.2 | 6.2 | 0.4 | 0.9 | 1.0 | 22.3 | 31.8 | 35.1 | 875 | 9.6 | 3.8 |
| Bharat Electronics | 1,750 | REDUCE | 139,964 | 3,033 | 80 | 93.9 | 107.3 | 122.4 | (9.6) | 14.3 | 14.1 | 18.6 | 16.3 | 14.3 | 8.9 | 7.5 | 6.3 | 3.1 | 2.8 | 2.4 | 1.4 | 1.4 | 1.4 | 17.9 | 18.0 | 17.9 | 1,835 | 4.9 | 2.1 |
| Bharat Heavy Electricals | 2,508 | REDUCE | 1,227,520 | 26,598 | 490 | 88.1 | 116.3 | 135.4 | 37.9 | 32.1 | 16.4 | 28.5 | 21.6 | 18.5 | 16.0 | 12.2 | 10.3 | 7.7 | 6.1 | 4.9 | 0.8 | 1.0 | 1.2 | 29.9 | 31.5 | 29.2 | 2,600 | 3.7 | 28.5 |
| Crompton Greaves | 281 | BUY | 180,262 | 3,906 | 642 | 12.8 | 14.0 | 16.3 | 46.5 | 9.0 | 16.6 | 21.9 | 20.1 | 17.2 | 12.6 | 11.2 | 9.4 | 7.2 | 5.5 | 4.3 | 0.4 | 0.7 | 0.8 | 37.9 | 31.1 | 28.2 | 320 | 13.9 | 8.6 |
| Larsen & Toubro | 1,802 | ADD | 1,084,863 | 23,507 | 602 | 57.9 | 71.7 | 89.0 | 15.6 | 23.8 | 24.1 | 31.1 | 25.1 | 20.2 | 17.4 | 13.7 | 11.5 | 4.9 | 4.1 | 3.4 | 0.7 | 0.7 | 0.8 | 18.6 | 17.7 | 18.5 | 2,075 | 15.2 | 58.3 |
| Maharashtra Seamless | 404 | BUY | 28,476 | 617 | 71 | 40.2 | 43.6 | 49.8 | 12.1 | 8.5 | 14.2 | 10.0 | 9.3 | 8.1 | 5.4 | 4.7 | 3.7 | 1.8 | 1.5 | 1.3 | 1.5 | 1.9 | 2.5 | 19.3 | 17.9 | 17.7 | 450 | 11.5 | 0.4 |
| Siemens | 704 | REDUCE | 237,512 | 5,147 | 337 | 25.2 | 27.0 | 31.9 | 56.4 | 7.3 | 18.0 | 28.0 | 26.1 | 22.1 | 17.0 | 15.4 | 12.7 | 7.0 | 5.8 | 4.8 | 0.7 | 0.8 | 0.9 | 27.6 | 24.2 | 23.8 | 635 | (9.9) | 6.6 |
| Suzlon Energy | 56 | REDUCE | 89,177 | 1,932 | 1,594 | (5.9) | 0.3 | 5.3 | (182.3) | (104.4) | 1,931.8 | (9.4) | 215.7 | 10.6 | 16.7 | 8.6 | 5.6 | 0.8 | 0.8 | 0.8 | — | — | 0.4 | (8.8) | 0.4 | 7.5 | 70 | 25.1 | 24.3 |
| Thermax | 761 | ADD | 90,697 | 1,965 | 119 | 21.7 | 29.5 | 39.7 | (10.4) | 35.9 | 34.4 | 35.0 | 25.8 | 19.2 | 18.0 | 14.1 | 10.5 | 8.4 | 6.9 | 5.6 | 0.7 | 1.1 | 1.5 | 25.0 | 29.5 | 32.2 | 865 | 13.6 | 1.3 |
| Voltas | 212 | REDUCE | 70,116 | 1,519 | 331 | 10.9 | 11.8 | 13.4 | 57.4 | 8.2 | 14.3 | 19.5 | 18.0 | 15.8 | 11.6 | 10.0 | 8.4 | 6.6 | 5.3 | 4.3 | 1.5 | 1.6 | 1.8 | 38.3 | 32.5 | 30.2 | 225 | 6.1 | 5.1 |
| **Industrials** | | **Attractive** | **3,375,854** | **73,150** | | | | | **1.8** | **35.1** | **26.6** | **31.7** | **23.5** | **18.5** | **16.1** | **12.5** | **10.1** | **5.1** | **4.3** | **3.6** | **0.7** | **0.8** | **1.0** | **16.1** | **18.4** | **19.6** | | | |

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

| Company | 6-Aug-10 Price (Rs) | Rating | Mkt cap. (Rs mn) | Mkt cap. (US$ mn) | O/S shares (mn) | EPS (Rs) 2010E | EPS (Rs) 2011E | EPS (Rs) 2012E | EPS growth (%) 2010E | EPS growth (%) 2011E | EPS growth (%) 2012E | PER (X) 2010E | PER (X) 2011E | PER (X) 2012E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Infrastructure** | | | | | | | | | | | | | | |
| Container Corporation | 1,415 | REDUCE | 183,935 | 3,986 | 130 | 61.1 | 74.3 | 85.9 | 0.3 | 21.7 | 15.6 | 23.2 | 19.0 | 16.5 |
| GMR Infrastructure | 57 | ADD | 209,386 | 4,537 | 3,667 | 0.4 | 0.2 | 0.1 | (43.8) | (48.9) | (40.0) | 132.5 | 259.4 | 431.9 |
| GVK Power & Infrastructure | 44 | BUY | 69,169 | 1,499 | 1,579 | 0.8 | 1.1 | 1.4 | 6.7 | 33.5 | 32.4 | 53.8 | 40.3 | 30.5 |
| IRB Infrastructure | 285 | RS | 94,674 | 2,051 | 332 | 9.7 | 12.6 | 12.1 | 83.8 | 29.2 | (3.7) | 29.3 | 22.7 | 23.5 |
| Mundra Port and SEZ | 785 | REDUCE | 316,719 | 6,863 | 403 | 16.7 | 21.9 | 34.1 | 55.7 | 31.0 | 56.1 | 47.0 | 35.9 | 23.0 |
| **Infrastructure** | | **Attractive** | **873,883** | **18,936** | | | | | **16.3** | **21.2** | **26.0** | **42.1** | **34.7** | **27.5** |
| **Media** | | | | | | | | | | | | | | |
| DB Corp | 259 | BUY | 47,030 | 1,019 | 182 | 10.6 | 13.0 | 15.7 | 286.5 | 22.4 | 21.0 | 24.3 | 19.9 | 16.4 |
| DishTV | 50 | ADD | 52,957 | 1,148 | 1,063 | (2.5) | (1.8) | 0.1 | (62.0) | (28.8) | (107.4) | (19.9) | (28.0) | 380.7 |
| HT Media | 165 | NR | 38,728 | 839 | 235 | 6.1 | 7.7 | 9.2 | 623.3 | 25.9 | 19.8 | 27.0 | 21.4 | 17.9 |
| Jagran Prakashan | 122 | BUY | 36,667 | 795 | 301 | 5.9 | 6.6 | 7.7 | 92.3 | 12.3 | 17.8 | 20.8 | 18.5 | 15.7 |
| Sun TV Network | 464 | REDUCE | 182,794 | 3,961 | 394 | 13.1 | 18.0 | 22.5 | 44.8 | 36.9 | 25.2 | 35.3 | 25.8 | 20.6 |
| Zee Entertainment Enterprises | 307 | REDUCE | 133,517 | 2,893 | 435 | 10.6 | 11.8 | 14.4 | 25.0 | 12.0 | 21.5 | 29.1 | 26.0 | 21.4 |
| **Media** | | **Neutral** | **491,695** | **10,654** | | | | | **185.5** | **35.8** | **37.2** | **40.5** | **29.8** | **21.7** |
| **Metals** | | | | | | | | | | | | | | |
| Hindalco Industries | 164 | ADD | 313,887 | 6,801 | 1,914 | 5.7 | 12.6 | 15.1 | (64.5) | 122.5 | 19.4 | 28.9 | 13.0 | 10.9 |
| Hindustan Zinc | 1,092 | BUY | 461,553 | 10,001 | 423 | 95.6 | 102.5 | 116.0 | 48.2 | 7.2 | 13.1 | 11.4 | 10.7 | 9.4 |
| Jindal Steel and Power | 627 | REDUCE | 583,558 | 12,645 | 931 | 38.4 | 50.9 | 56.0 | 17.3 | 32.7 | 9.9 | 16.3 | 12.3 | 11.2 |
| JSW Steel | 1,113 | REDUCE | 280,755 | 6,084 | 252 | 80.4 | 68.5 | 108.5 | 481.1 | (14.8) | 58.5 | 13.8 | 16.2 | 10.3 |
| National Aluminium Co. | 422 | SELL | 271,770 | 5,889 | 644 | 10.1 | 28.0 | 27.7 | (49.0) | 178.6 | (1.2) | 41.9 | 15.0 | 15.2 |
| Sesa Goa | 364 | REDUCE | 324,163 | 7,024 | 890 | 29.6 | 58.6 | 46.3 | 23.5 | 98.4 | (21.0) | 12.3 | 6.2 | 7.9 |
| Sterlite Industries | 176 | ADD | 592,156 | 12,831 | 3,362 | 12.0 | 14.2 | 19.3 | 2.8 | 18.4 | 35.5 | 14.7 | 12.4 | 9.1 |
| Tata Steel | 532 | BUY | 471,653 | 10,220 | 887 | 3.2 | 78.7 | 93.5 | (97.1) | 2,331.6 | 18.7 | 164.1 | 6.7 | 5.7 |
| **Metals** | | **Cautious** | **3,299,495** | **71,495** | | | | | **(28.9)** | **78.8** | **13.8** | **18.4** | **10.3** | **9.1** |
| **Pharmaceutical** | | | | | | | | | | | | | | |
| Biocon | 317 | BUY | 63,320 | 1,372 | 200 | 14.8 | 17.8 | 22.0 | 216.4 | 19.8 | 23.7 | 21.3 | 17.8 | 14.4 |
| Cipla | 322 | REDUCE | 258,139 | 5,593 | 803 | 13.5 | 12.8 | 15.6 | 35.9 | (4.9) | 21.9 | 23.8 | 25.1 | 20.6 |
| Cadila Healthcare | 642 | REDUCE | 131,387 | 2,847 | 205 | 24.7 | 33.2 | 37.7 | 66.9 | 34.2 | 13.7 | 26.0 | 19.4 | 17.0 |
| Dishman Pharma & chemicals | 210 | BUY | 17,100 | 371 | 81 | 14.4 | 17.2 | 28.8 | (19.7) | 19.4 | 67.0 | 14.6 | 12.2 | 7.3 |
| Divi's Laboratories | 760 | ADD | 100,395 | 2,175 | 132 | 25.8 | 34.3 | 43.9 | (18.3) | 33.3 | 27.9 | 29.5 | 22.1 | 17.3 |
| Dr Reddy's Laboratories | 1,339 | REDUCE | 226,736 | 4,913 | 169 | 48.1 | 66.7 | 70.8 | 48.3 | 38.8 | 6.1 | 27.8 | 20.1 | 18.9 |
| GlaxoSmithkline Pharmaceuticals (a) | 2,018 | REDUCE | 170,935 | 3,704 | 85 | 59.1 | 69.7 | 79.2 | 8.1 | 18.0 | 13.5 | 34.2 | 28.9 | 25.5 |
| Glenmark Pharmaceuticals | 269 | NR | 73,711 | 1,597 | 274 | 12.7 | 19.2 | 20.3 | 14.7 | 50.6 | 5.6 | 21.1 | 14.0 | 13.3 |
| Jubilant Organosys | 352 | BUY | 55,881 | 1,211 | 159 | 26.5 | 31.8 | 38.9 | 49.0 | 19.8 | 22.4 | 13.3 | 11.1 | 9.0 |
| Lupin | 1,891 | ADD | 167,268 | 3,624 | 88 | 77.0 | 99.1 | 127.6 | 27.9 | 28.7 | 28.7 | 24.5 | 19.1 | 14.8 |
| Piramal Healthcare | 494 | REDUCE | 103,215 | 2,237 | 209 | 23.4 | 13.4 | 11.0 | 35.5 | (42.9) | (17.6) | 21.1 | 37.0 | 44.9 |
| Ranbaxy Laboratories | 448 | SELL | 191,966 | 4,160 | 428 | 7.1 | 28.0 | 11.7 | (128.4) | 297.1 | (58.3) | 63.5 | 16.0 | 38.3 |
| Sun Pharmaceuticals | 1,775 | REDUCE | 367,607 | 7,965 | 207 | 65.2 | 80.0 | 85.1 | (25.7) | 22.6 | 6.4 | 27.2 | 22.2 | 20.9 |
| **Pharmaceuticals** | | **Attractive** | **1,927,661** | **41,769** | | | | | **44.7** | **30.9** | **5.5** | **26.8** | **20.5** | **19.4** |
| **Property** | | | | | | | | | | | | | | |
| DLF | 308 | ADD | 525,609 | 11,389 | 1,708 | 9.6 | 16.3 | 25.1 | (64.0) | 69.4 | 53.8 | 31.9 | 18.9 | 12.3 |
| Housing Development & Infrastructure | 265 | ADD | 102,041 | 2,211 | 385 | 12.4 | 14.2 | 16.7 | (41.2) | 14.2 | 17.9 | 21.4 | 18.7 | 15.9 |
| Indiabulls Real Estate | 170 | RS | 68,109 | 1,476 | 401 | 1.6 | 4.0 | 8.0 | 109.7 | 151.7 | 101.7 | 107.0 | 42.5 | 21.1 |
| Mahindra Life Space Developer | 485 | ADD | 20,409 | 442 | 42 | 18.9 | 20.3 | 27.5 | 82.4 | 7.3 | 35.8 | 25.7 | 24.0 | 17.6 |
| Phoenix Mills | 238 | BUY | 34,488 | 747 | 145 | 4.1 | 6.6 | 7.6 | (16.7) | 59.0 | 15.6 | 57.6 | 36.2 | 31.3 |
| Puravankara Projects | 116 | REDUCE | 24,693 | 535 | 213 | 6.4 | 8.2 | 8.1 | (5.2) | 28.4 | (2.0) | 18.0 | 14.0 | 14.3 |
| Sobha | 340 | ADD | 33,352 | 723 | 98 | 14.1 | 17.0 | 26.2 | (7.1) | 20.8 | 54.0 | 24.2 | 20.0 | 13.0 |
| Unitech | 85 | SELL | 222,375 | 4,819 | 2,616 | 3.4 | 4.3 | 5.6 | (54.2) | 26.3 | 30.2 | 25.2 | 19.9 | 15.3 |
| **Property** | | **Cautious** | **929,033** | **20,131** | | | | | **(53.1)** | **58.0** | **47.2** | **32.4** | **20.5** | **13.9** |

| Company | EV/EBITDA (X) 2010E | EV/EBITDA (X) 2011E | EV/EBITDA (X) 2012E | Price/BV (X) 2010E | Price/BV (X) 2011E | Price/BV (X) 2012E | Dividend yield (%) 2010E | Dividend yield (%) 2011E | Dividend yield (%) 2012E | RoE (%) 2010E | RoE (%) 2011E | RoE (%) 2012E | Target price (Rs) | Upside (%) | ADVT-3mo (US$ mn) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Infrastructure** | | | | | | | | | | | | | | | |
| Container Corporation | 16.5 | 13.4 | 11.2 | 4.2 | 3.6 | 3.1 | 1.0 | 1.2 | 1.4 | 19.6 | 20.6 | 20.5 | 1,250 | (11.7) | 1.8 |
| GMR Infrastructure | 23.4 | 15.1 | 14.1 | 2.0 | 1.7 | 1.7 | — | — | — | 2.4 | 1.2 | 0.7 | 65 | 13.8 | 5.3 |
| GVK Power & Infrastructure | 18.4 | 16.8 | 17.3 | 2.2 | 2.1 | 2.0 | — | 0.7 | 0.7 | 4.7 | 5.3 | 6.7 | 54 | 23.3 | 5.1 |
| IRB Infrastructure | 13.7 | 12.1 | 11.3 | 4.1 | 3.1 | 2.5 | — | — | — | 15.6 | 15.7 | 11.9 | — | — | 7.9 |
| Mundra Port and SEZ | 35.1 | 22.9 | 16.5 | 8.9 | 7.6 | 5.9 | -1— | — | — | 20.8 | 22.9 | 28.9 | 750 | (4.5) | 5.7 |
| **Infrastructure** | **22.0** | **16.2** | **14.0** | **3.7** | **3.1** | **2.8** | **—** | **—** | **0.3** | **8.7** | **9.1** | **10.3** | | | |
| **Media** | | | | | | | | | | | | | | | |
| DB Corp | 13.6 | 11.2 | 9.2 | 7.3 | 5.9 | 5.1 | 0.8 | 1.2 | 1.5 | 40.3 | 32.6 | 33.2 | 290 | 12.0 | 0.3 |
| DishTV | 65.6 | 26.4 | 14.0 | 12.9 | 23.8 | 22.4 | — | — | — | 249.3 | (59.7) | 6.1 | 47 | (5.6) | 4.0 |
| HT Media | 13.5 | 11.3 | 9.4 | 4.0 | 3.5 | 3.2 | 0.6 | 1.2 | 2.4 | 15.6 | 17.5 | 18.9 | — | — | 0.4 |
| Jagran Prakashan | 12.5 | 10.8 | 9.2 | 6.0 | 5.5 | 5.0 | 2.9 | 3.3 | 4.1 | 30.1 | 30.8 | 33.3 | 140 | 15.0 | 1.6 |
| Sun TV Network | 20.0 | 14.8 | 12.0 | 9.4 | 7.9 | 6.6 | 1.6 | 1.6 | 1.9 | 28.4 | 33.7 | 35.1 | 420 | (9.5) | 2.1 |
| Zee Entertainment Enterprises | 21.7 | 17.2 | 13.8 | 3.6 | 3.4 | 3.3 | 0.8 | 1.0 | 1.2 | 13.1 | 13.8 | 16.0 | 270 | (12.1) | 8.8 |
| **Media** | **19.5** | **14.9** | **11.7** | **5.9** | **5.5** | **5.0** | **1.2** | **1.3** | **1.7** | **14.7** | **18.4** | **22.8** | | | |
| **Metals** | | | | | | | | | | | | | | | |
| Hindalco Industries | 8.2 | 8.7 | 8.8 | 1.4 | 1.3 | 1.2 | 0.8 | 0.8 | 0.8 | 10.3 | 10.4 | 11.2 | 185 | 12.8 | 41.1 |
| Hindustan Zinc | 7.4 | 5.9 | 4.1 | 2.5 | 2.0 | 1.7 | 0.5 | 0.5 | 0.5 | 24.1 | 20.8 | 19.4 | 1,240 | 13.5 | 4.4 |
| Jindal Steel and Power | 11.4 | 8.2 | 6.8 | 5.2 | 3.6 | 2.7 | 0.2 | 0.4 | 0.4 | 37.8 | 34.9 | 28.0 | 625 | (0.3) | 27.0 |
| JSW Steel | 10.5 | 8.9 | 5.9 | 2.6 | 1.6 | 1.2 | 0.6 | 0.8 | 0.9 | 16.0 | 12.0 | 13.3 | 1,075 | (3.4) | 54.8 |
| National Aluminium Co. | 18.5 | 7.3 | 6.7 | 2.5 | 2.2 | 1.9 | 0.5 | 0.5 | 0.5 | 6.1 | 15.4 | 13.3 | 320 | (24.1) | 0.9 |
| Sesa Goa | 10.2 | 4.4 | 4.3 | 4.0 | 2.5 | 1.9 | 1.0 | 1.0 | 1.0 | 35.8 | 41.5 | 23.7 | 340 | (6.7) | 74.4 |
| Sterlite Industries | 12.4 | 10.9 | 7.0 | 1.6 | 1.4 | 1.2 | 0.5 | 0.5 | 0.5 | 12.9 | 12.2 | 14.6 | 210 | 19.2 | 43.3 |
| Tata Steel | 17.9 | 6.0 | 5.1 | 1.9 | 1.5 | 1.2 | 1.5 | 1.5 | 1.5 | 1.1 | 24.7 | 23.8 | 700 | 31.7 | 104.1 |
| **Metals** | **11.5** | **7.4** | **6.1** | **2.3** | **1.8** | **1.5** | **0.7** | **0.7** | **0.7** | **12.4** | **17.8** | **16.8** | | | |
| **Pharmaceutical** | | | | | | | | | | | | | | | |
| Biocon | 12.3 | 10.3 | 8.5 | 3.5 | 3.1 | 2.6 | — | — | 0.1 | 17.9 | 18.8 | 20.0 | 400 | 26.3 | 3.7 |
| Cipla | 17.7 | 16.6 | 13.9 | 4.4 | 3.8 | 3.3 | 0.8 | 0.8 | 0.8 | 19.9 | 16.3 | 17.4 | 280 | (12.9) | 9.0 |
| Cadila Healthcare | 16.9 | 13.0 | 11.5 | 8.1 | 6.0 | 4.8 | 0.8 | 1.0 | 1.2 | 36.0 | 35.8 | 31.3 | 580 | (9.6) | 1.5 |
| Dishman Pharma & chemicals | 10.6 | 8.8 | 6.2 | 2.1 | 1.9 | 1.5 | — | — | — | 15.5 | 16.3 | 22.7 | 300 | 42.7 | 0.5 |
| Divi's Laboratories | 22.0 | 16.2 | 12.4 | 6.7 | 5.5 | 4.4 | — | — | — | 24.8 | 27.2 | 28.4 | 800 | 5.3 | 2.9 |
| Dr Reddy's Laboratories | 15.4 | 11.6 | 10.8 | 6.0 | 4.8 | 3.9 | 0.5 | 0.6 | 0.7 | 22.2 | 26.3 | 22.6 | 1,150 | (14.1) | 17.1 |
| GlaxoSmithkline Pharmaceuticals (a) | 19.6 | 16.6 | 14.3 | 9.6 | 8.1 | 7.0 | — | — | — | 29.8 | 30.4 | 29.4 | 1,880 | (6.8) | 1.7 |
| Glenmark Pharmaceuticals | 13.6 | 8.9 | 8.5 | 3.1 | 2.6 | 2.2 | — | — | — | 16.7 | 19.9 | 17.6 | — | — | 4.2 |
| Jubilant Organosys | 9.6 | 8.7 | 7.0 | 2.5 | 2.1 | 1.7 | 0.5 | 0.7 | 0.9 | 26.3 | 21.7 | 21.1 | 400 | 13.7 | 2.6 |
| Lupin | 21.0 | 15.2 | 11.6 | 7.2 | 5.5 | 4.1 | 0.7 | 0.8 | 0.8 | 36.6 | 33.0 | 32.2 | 2,000 | 5.8 | 7.7 |
| Piramal Healthcare | 15.6 | 5.9 | 4.1 | 6.1 | 1.1 | 0.9 | 1.1 | 1.2 | 0.7 | 32.1 | 141.2 | 16.6 | 490 | (0.8) | 29.4 |
| Ranbaxy Laboratories | 15.6 | 9.3 | 18.6 | 4.9 | 3.9 | 3.6 | — | 0.9 | 0.9 | 6.9 | 24.6 | 9.1 | 220 | (50.9) | 9.8 |
| Sun Pharmaceuticals | 20.6 | 16.1 | 14.3 | 4.4 | 3.8 | 3.3 | 0.8 | 0.8 | 0.8 | 17.8 | 18.8 | 17.2 | 1,685 | (5.1) | 7.6 |
| **Pharmaceuticals** | **16.7** | **12.6** | **11.8** | **5.1** | **3.6** | **3.1** | **0.5** | **0.6** | **0.6** | **18.9** | **17.7** | **15.9** | | | |
| **Property** | | | | | | | | | | | | | | | |
| DLF | 20.3 | 12.9 | 9.7 | 2.0 | 1.8 | 1.6 | 1.0 | 1.0 | 1.6 | 6.4 | 9.9 | 13.8 | 340 | 10.5 | 46.3 |
| Housing Development & Infrastructure | 10.7 | 12.1 | 8.0 | 1.4 | 1.3 | 1.2 | 1.1 | 1.9 | 1.9 | 10.0 | 9.3 | 9.9 | 318 | 19.9 | 34.6 |
| Indiabulls Real Estate | (78.8) | 38.9 | 10.1 | 0.7 | 0.8 | 0.7 | 0.0 | 0.0 | 0.0 | 0.8 | 1.8 | 3.5 | 285 | 67.9 | 17.7 |
| Mahindra Life Space Developer | 21.7 | 18.1 | 10.0 | 2.2 | 2.0 | 1.9 | 0.8 | 0.8 | 0.8 | 8.4 | 8.5 | 10.7 | 540 | 11.3 | 0.5 |
| Phoenix Mills | 46.1 | 25.4 | 21.2 | 2.2 | 2.1 | 2.0 | 0.4 | 0.6 | 0.8 | 3.9 | 6.0 | 6.7 | 260 | 9.2 | 0.8 |
| Puravankara Projects | 22.2 | 15.0 | 14.7 | 1.7 | 1.6 | 1.5 | 1.7 | 1.7 | 1.7 | 10.0 | 11.9 | 10.7 | 110 | (4.9) | 0.5 |
| Sobha | 17.9 | 13.9 | 9.2 | 1.9 | 1.8 | 1.6 | 0.3 | 0.4 | 0.5 | 9.7 | 9.2 | 12.8 | 372 | 9.4 | 2.0 |
| Unitech | 22.1 | 15.2 | 9.7 | 2.1 | 1.8 | 1.6 | — | — | 1.8 | 9.7 | 9.4 | 11.1 | 72 | (15.3) | 49.4 |
| **Property** | **21.6** | **14.0** | **10.0** | **1.8** | **1.6** | **1.5** | **0.6** | **0.6** | **1.4** | **5.5** | **8.0** | **10.8** | | | |

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

| | 6-Aug-10 | | Mkt cap. | | O/S shares | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target price | Upside | ADVT-3mo |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Price (Rs) | Rating | (Rs mn) | (US$ mn) | (mn) | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | 2010E | 2011E | 2012E | (Rs) | (%) | (US$ mn) |
| **Retail** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Titan Industries | 2,806 | ADD | 124,565 | 2,699 | 44 | 57.3 | 83.4 | 110.2 | 29.3 | 45.6 | 32.2 | 49.0 | 33.6 | 25.5 | 31.1 | 22.7 | 17.3 | 16.9 | 12.0 | 8.6 | 0.5 | 0.4 | 0.5 | 38.7 | 41.8 | 39.4 | 3,000 | 6.9 | 5.0 |
| **Retail** | | **Neutral** | **124,565** | **2,699** | | | | | **29.3** | **45.6** | **32.2** | **49.0** | **33.6** | **25.5** | **31.1** | **22.7** | **17.3** | **16.9** | **12.0** | **8.6** | **0.5** | **0.4** | **0.5** | **34.5** | **35.8** | **33.8** | | | |
| **Sugar** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bajaj Hindustan | 117 | SELL | 22,475 | 487 | 191 | 9.7 | 9.9 | 8.9 | 201.1 | 2.2 | (10.4) | 12.1 | 11.8 | 13.2 | 7.0 | 5.8 | 5.5 | 0.9 | 0.9 | 0.8 | 0.6 | 0.6 | 0.6 | 8.1 | 7.5 | 6.3 | 99 | (15.7) | 5.9 |
| Balrampur Chini Mills | 85 | ADD | 21,799 | 472 | 257 | 4.3 | 10.4 | 7.0 | (43.2) | 140.4 | (32.7) | 19.6 | 8.1 | 12.1 | 9.0 | 5.5 | 6.0 | 1.6 | 1.4 | 1.3 | 0.5 | 0.5 | 0.5 | 8.2 | 17.9 | 10.9 | 93 | 9.5 | 5.4 |
| Shree Renuka Sugars | 68 | BUY | 45,245 | 980 | 670 | 9.9 | 7.6 | 7.8 | 196.4 | (23.2) | 3.1 | 6.8 | 8.9 | 8.6 | 4.7 | 5.3 | 4.5 | 1.8 | 1.5 | 1.2 | 0.6 | 0.5 | 0.5 | 32.0 | 18.1 | 15.7 | 76 | 12.5 | 13.6 |
| **Sugar** | | **Cautious** | **89,518** | **1,940** | | | | | **99.6** | **0.7** | **(9.4)** | **9.3** | **9.3** | **10.2** | **6.1** | **5.5** | **5.2** | **1.4** | **1.2** | **1.1** | **0.6** | **0.5** | **0.5** | **15.1** | **13.2** | **10.7** | | | |
| **Technology** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HCL Technologies | 412 | REDUCE | 284,315 | 6,161 | 690 | 17.5 | 24.5 | 30.1 | 0.2 | 39.7 | 23.0 | 23.5 | 16.8 | 13.7 | 11.4 | 10.0 | 8.2 | 4.0 | 3.4 | 3.0 | 1.0 | 1.0 | 1.5 | 19.3 | 22.0 | 21.2 | 390 | (5.4) | 12.2 |
| Hexaware Technologies | 82 | REDUCE | 11,736 | 254 | 144 | 9.3 | 5.0 | 9.4 | 127.7 | (46.3) | 87.7 | 8.7 | 16.3 | 8.7 | 4.4 | 10.3 | 5.2 | 1.4 | 1.3 | 1.1 | 1.2 | 1.2 | 1.2 | 17.8 | 8.2 | 14.0 | 72 | (11.9) | 2.4 |
| Infosys Technologies | 2,864 | BUY | 1,643,821 | 35,619 | 574 | 108.3 | 124.1 | 150.0 | 5.7 | 14.5 | 20.9 | 26.4 | 23.1 | 19.1 | 19.3 | 15.8 | 12.8 | 7.1 | 5.9 | 4.9 | 0.9 | 1.2 | 1.5 | 30.1 | 28.0 | 28.0 | 3,100 | 8.2 | 57.5 |
| Mphasis BFL | 620 | REDUCE | 129,274 | 2,801 | 208 | 43.6 | 49.0 | 45.6 | 207.5 | 12.5 | (7.0) | 14.2 | 12.6 | 13.6 | 11.3 | 10.1 | 9.2 | 5.5 | 4.0 | 3.1 | 0.6 | 0.6 | 0.7 | 48.1 | 36.4 | 25.8 | 550 | (11.3) | 7.7 |
| Mindtree | 535 | REDUCE | 22,033 | 477 | 41 | 52.2 | 32.6 | 51.6 | 294.3 | (37.5) | 58.1 | 10.3 | 16.4 | 10.4 | 8.8 | 9.4 | 6.1 | 3.3 | 2.7 | 2.2 | 0.4 | 0.6 | 1.0 | 35.2 | 19.2 | 23.7 | 550 | 2.7 | 1.0 |
| Patni Computer Systems | 453 | REDUCE | 60,373 | 1,308 | 133 | 36.6 | 41.3 | 37.5 | 36.4 | 12.8 | (9.1) | 12.4 | 11.0 | 12.1 | 6.1 | 5.2 | 4.3 | 1.7 | 1.6 | 1.4 | 1.6 | 1.8 | 1.7 | 18.2 | 15.1 | 12.4 | 450 | (0.7) | 6.7 |
| Polaris Software Lab | 178 | SELL | 17,781 | 385 | 100 | 15.4 | 19.1 | 18.8 | 16.9 | 24.3 | (1.7) | 11.6 | 9.3 | 9.5 | 5.7 | 7.4 | 6.3 | 2.0 | 1.7 | 1.5 | 2.0 | 2.1 | 2.2 | 18.6 | 20.1 | 17.2 | 180 | 0.9 | 4.6 |
| TCS | 865 | BUY | 1,692,391 | 36,672 | 1,957 | 35.1 | 42.1 | 48.2 | 32.8 | 19.8 | 14.5 | 24.6 | 20.6 | 17.9 | 18.6 | 15.0 | 12.4 | 8.1 | 6.7 | 5.6 | 2.3 | 1.9 | 2.2 | 37.6 | 35.6 | 33.9 | 965 | 11.6 | 29.6 |
| Wipro | 433 | ADD | 1,059,284 | 22,953 | 2,447 | 18.9 | 22.3 | 25.7 | 22.1 | 18.1 | 15.6 | 23.0 | 19.5 | 16.8 | 17.4 | 14.0 | 11.6 | 5.4 | 4.4 | 3.6 | 0.8 | 1.0 | 1.2 | 26.5 | 25.0 | 23.7 | 465 | 7.4 | 13.8 |
| **Technology** | | **Attractive** | **4,921,009** | **106,631** | | | | | **22.7** | **17.4** | **16.0** | **23.6** | **20.1** | **17.3** | **17.0** | **14.1** | **11.6** | **6.2** | **5.2** | **4.3** | **1.4** | **1.4** | **1.7** | **26.4** | **25.7** | **24.9** | | | |
| **Telecom** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bharti Airtel | 323 | REDUCE | 1,228,144 | 26,612 | 3,798 | 24.0 | 21.4 | 24.2 | 7.5 | (10.8) | 13.2 | 13.5 | 15.1 | 13.3 | 7.6 | 7.2 | 6.2 | 2.8 | 2.4 | 2.0 | 0.9 | 1.2 | 1.5 | 24.1 | 17.0 | 16.5 | 290 | (10.3) | 51.2 |
| IDEA | 72 | REDUCE | 236,101 | 5,116 | 3,300 | 2.7 | 2.2 | 1.5 | (5.8) | (19.7) | (30.8) | 26.2 | 32.6 | 47.2 | 8.9 | 9.7 | 8.2 | 2.1 | 2.0 | 1.9 | — | — | — | 7.2 | 6.2 | 4.2 | 55 | (23.1) | 12.6 |
| MTNL | 68 | SELL | 42,557 | 922 | 630 | (15.6) | (10.4) | (9.1) | (750.8) | (33.7) | (11.9) | (4.3) | (6.5) | (7.4) | (0.6) | (0.8) | (1.1) | 0.4 | 0.4 | 0.4 | — | — | — | (8.5) | (6.1) | (5.7) | 50 | (26.0) | 3.2 |
| Reliance Communications | 173 | SELL | 368,499 | 7,985 | 2,133 | 22.1 | 14.1 | 18.2 | (30.2) | (36.2) | 29.1 | 7.8 | 12.3 | 9.5 | 7.2 | 8.0 | 6.0 | 1.0 | 0.9 | 0.8 | 0.4 | — | — | 11.7 | 7.4 | 8.9 | 175 | 1.3 | 43.9 |
| Tata Communications | 276 | REDUCE | 78,589 | 1,703 | 285 | 14.0 | 15.2 | 15.7 | 3.2 | 8.2 | 3.5 | 19.7 | 18.2 | 17.6 | 8.0 | 7.4 | 7.1 | 1.1 | 1.1 | 1.0 | 2.4 | 2.7 | 3.1 | 5.2 | 5.5 | 5.5 | 225 | (18.4) | 1.8 |
| **Telecom** | | **Cautious** | **1,953,889** | **42,338** | | | | | **(15.1)** | **(17.8)** | **15.7** | **13.7** | **16.6** | **14.4** | **7.9** | **8.0** | **6.6** | **1.7** | **1.6** | **1.4** | **0.8** | **0.9** | **1.1** | **12.7** | **9.5** | **10.0** | | | |
| **Utilities** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Adani Power | 135 | ADD | 293,864 | 6,368 | 2,180 | 0.8 | 4.3 | 17.4 | — | 455.1 | 300.9 | 172.0 | 31.0 | 7.7 | 132.6 | 23.0 | 6.7 | 5.3 | 4.6 | 2.9 | — | — | — | 4.4 | 15.9 | 45.5 | 146 | 8.3 | 2.7 |
| CESC | 400 | ADD | 50,012 | 1,084 | 125 | 35.2 | 37.3 | 44.3 | 9.3 | 5.7 | 18.9 | 11.4 | 10.7 | 9.0 | 7.2 | 6.0 | 6.4 | 1.2 | 1.1 | 1.0 | 1.1 | 1.2 | 1.4 | 11.1 | 10.4 | 11.3 | 466 | 16.4 | 2.0 |
| Lanco Infratech | 67 | BUY | 161,736 | 3,505 | 2,405 | 2.0 | 3.7 | 5.0 | 35.1 | 87.6 | 34.9 | 34.2 | 18.3 | 13.5 | 20.3 | 8.6 | 8.1 | 4.7 | 3.8 | 3.0 | — | — | — | 15.8 | 21.2 | 22.7 | 77 | 14.5 | 7.2 |
| NHPC | 31 | REDUCE | 378,863 | 8,209 | 12,301 | 1.9 | 1.3 | 1.6 | 74.9 | (27.5) | 20.6 | 16.6 | 22.9 | 19.0 | 10.7 | 11.5 | 8.9 | 1.5 | 1.4 | 1.4 | 1.8 | 1.1 | 1.4 | 9.7 | 6.4 | 7.4 | 28 | (9.1) | 19.7 |
| NTPC | 197 | REDUCE | 1,626,006 | 35,233 | 8,245 | 10.8 | 12.5 | 14.7 | 9.6 | 16.2 | 17.4 | 18.3 | 15.8 | 13.4 | 14.0 | 12.3 | 10.3 | 2.5 | 2.3 | 2.1 | 2.0 | 2.4 | 2.8 | 14.5 | 15.4 | 16.6 | 210 | 6.5 | 9.8 |
| Reliance Infrastructure | 1,110 | ADD | 273,005 | 5,916 | 246 | 61.8 | 65.0 | 84.5 | (1.5) | 5.3 | 30.0 | 18.0 | 17.1 | 13.1 | 19.2 | 16.9 | 11.9 | 1.4 | 1.3 | 1.2 | 0.7 | 0.8 | 0.9 | 6.3 | 7.3 | 10.1 | 1,160 | 4.5 | 48.5 |
| Reliance Power | 158 | SELL | 378,327 | 8,198 | 2,397 | 2.9 | 3.1 | 5.3 | 179.7 | 9.8 | 70.0 | 55.3 | 50.4 | 29.6 | | 228.3 | 35.6 | 2.6 | 2.5 | 2.3 | — | — | — | 4.8 | 5.1 | 8.1 | 135 | (14.5) | 22.4 |
| Tata Power | 1,323 | ADD | 326,661 | 7,078 | 247 | 60.2 | 69.2 | 88.5 | 20.1 | 15.0 | 27.8 | 22.0 | 19.1 | 15.0 | 13.8 | 12.5 | 10.7 | 2.5 | 2.3 | 2.0 | 0.9 | 1.1 | 1.1 | 12.9 | 12.5 | 14.3 | 1,420 | 7.3 | 10.5 |
| **Utilities** | | **REDUCE** | **3,488,473** | **75,590** | | | | | **23.5** | **15.6** | **37.5** | **22.1** | **19.1** | **13.9** | **17.4** | **14.6** | **10.7** | **2.3** | **2.2** | **1.9** | **1.3** | **1.4** | **1.7** | **10.6** | **11.3** | **13.9** | | | |
| **Others** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Havells India | 705 | SELL | 42,428 | 919 | 60 | 5.3 | 31.6 | 45.0 | 3.7 | 497.9 | 42.6 | 133.5 | 22.3 | 15.7 | 18.1 | 11.2 | 9.1 | 11.7 | 7.7 | 5.2 | 0.4 | 0.4 | 0.4 | 6.6 | 41.6 | 39.7 | 497 | (29.5) | 7.1 |
| Jaiprakash Associates | 118 | BUY | 250,988 | 5,439 | 2,129 | 1.5 | 5.5 | 7.4 | (27.2) | 279.8 | 34.1 | 81.0 | 21.3 | 15.9 | 21.1 | 15.6 | 11.1 | 2.9 | 2.5 | 2.2 | — | — | — | 4.1 | 12.8 | 14.9 | 170 | 44.2 | 29.7 |
| Jindal Saw | 202 | ADD | 59,314 | 1,285 | 294 | 25.0 | 18.6 | 17.9 | 110.8 | (25.4) | (4.0) | 8.1 | 10.8 | 11.3 | 5.3 | 6.0 | 5.8 | 1.5 | 1.3 | 1.2 | 0.5 | 0.4 | 0.4 | 20.5 | 12.9 | 11.1 | 256 | 27.0 | 3.4 |
| PSL | 136 | BUY | 7,257 | 157 | 53 | 22.9 | 25.4 | 28.2 | 3.3 | 10.6 | 11.0 | 5.9 | 5.4 | 4.8 | 3.3 | 2.8 | 2.9 | 0.8 | 0.7 | 0.6 | 4.8 | 4.8 | 5.2 | 12.6 | 11.7 | 12.0 | 182 | 34.1 | 0.6 |
| Sintex | 368 | BUY | 50,162 | 1,087 | 136 | 24.1 | 28.3 | 33.3 | 0.5 | 17.4 | 17.5 | 15.2 | 13.0 | 11.0 | 12.5 | 8.5 | 7.2 | 2.4 | 2.0 | 1.7 | 0.3 | 0.4 | 0.4 | 15.5 | 15.3 | 15.2 | 380 | 3.4 | 4.6 |
| Tata Chemicals | 356 | REDUCE | 86,549 | 1,875 | 243 | 26.4 | 33.2 | 37.5 | (27.1) | 25.8 | 12.7 | 13.5 | 10.7 | 9.5 | 7.0 | 6.0 | 5.1 | 1.8 | 1.6 | 1.4 | 2.5 | 2.5 | 2.5 | 16.0 | 18.7 | 18.3 | 360 | 1.2 | 3.4 |
| Welspun Corp | 249 | ADD | 51,213 | 1,110 | 205 | 32.0 | 27.0 | 25.6 | 85.2 | (15.7) | (5.4) | 7.8 | 9.2 | 9.8 | 4.5 | 4.9 | 4.6 | 1.6 | 1.3 | 1.2 | 0.9 | 0.9 | 0.9 | 24.8 | 15.6 | 12.8 | 286 | 14.7 | 5.3 |
| United Phosphorus | 184 | BUY | 85,065 | 1,843 | 463 | 11.9 | 13.8 | 17.4 | 18.8 | 15.8 | 25.9 | 15.4 | 13.3 | 10.6 | 8.9 | 8.1 | 6.4 | 2.5 | 2.1 | 1.8 | 0.8 | 1.1 | 1.1 | 17.7 | 17.2 | 18.3 | 225 | 22.4 | 8.4 |
| **Others** | | | **632,977** | **13,716** | | | | | **16.3** | **32.3** | **17.6** | **18.9** | **14.2** | **12.1** | **11.0** | **9.8** | **8.1** | **2.3** | **2.0** | **1.7** | **0.7** | **0.7** | **0.7** | **12.4** | **14.0** | **14.3** | | | |
| **KS universe (b)** | | | **45,248,549** | **980,467** | | | | | **14.4** | **21.3** | **21.0** | **19.2** | **15.8** | **13.1** | **11.7** | **9.7** | **8.0** | **2.8** | **2.5** | **2.2** | **1.3** | **1.4** | **1.7** | **14.8** | **15.7** | **16.6** | | | |
| **KS universe (b) ex-Energy** | | | **36,526,921** | **791,483** | | | | | **8.0** | **23.1** | **20.6** | **20.8** | **16.9** | **14.0** | **14.3** | **11.7** | **9.6** | **3.2** | **2.7** | **2.4** | **1.2** | **1.2** | **1.4** | **15.2** | **16.1** | **16.9** | | | |
| **KS universe (d) ex-Energy & ex-Commodities** | | | **32,520,808** | **704,676** | | | | | **14.6** | **18.4** | **22.2** | **21.7** | **18.4** | **15.0** | **15.8** | **13.3** | **10.8** | **3.4** | **2.9** | **2.5** | **1.2** | **1.3** | **1.5** | **15.4** | **15.9** | **17.0** | | | |

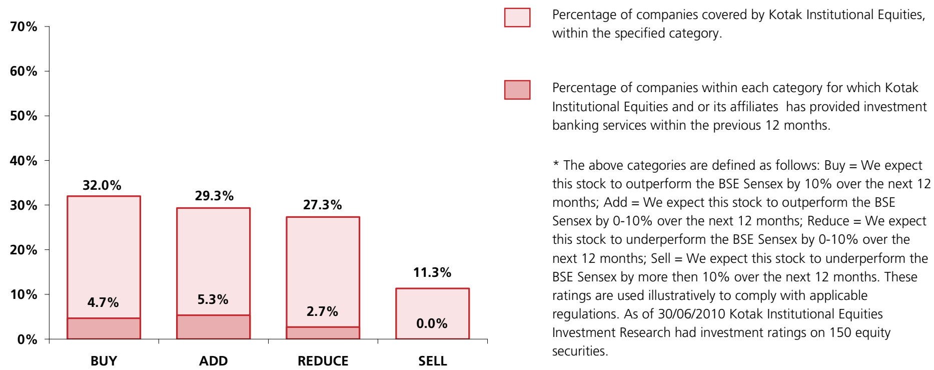
Note:
(1) For banks we have used adjusted book values.
(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 46.15

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

**Kotak Institutional Equities Research coverage universe**

Distribution of ratings/investment banking relationships




* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/06/2010 Kotak Institutional Equities Investment Research had investment ratings on 150 equity securities.

Source: Kotak Institutional Equities

As of June 30, 2010

## Ratings and other definitions/identifiers

### 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.

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

### Other definitions

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

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**NA = Not Available or Not Applicable.** The information is not available for display or is not applicable.

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