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HDFC Bank: Challenges of slower growth

Sintex Industries: Disappointing quarter

Update

GAIL (India): Not much gas for further re-rating

Cement: Cement sector stays resilient

News Round-up

- HDFC Bank Ltd posted a 30.5% growth in net profit to Rs606.1 crore for the quarter ended 30 June, driven largely by interest income from loans and growth in the other income consisting of fees and commissions and gains from trading bonds. *(Mint, see our analysis inside)*
- Plastics major Sintex Industries Ltd has seen its net profit increase 7 per cent in the first quarter of the fiscal 2009-10, ended June 30, compared to the same period last financial year, although its revenues fell 9 per cent due to passing of lower commodity prices. *(BL, see our analysis inside)*
- The government will push through its disinvestment programme, cut the fiscal deficit to 5.5% by next year and create the necessary policy environment including reforms in the financial sector, finance minister Pranab Mukherjee said on Tuesday. *(FE)*
- DLF, the country's largest property developer, said it would raise Rs1,900 crore through the sale of hotel plots and its wind power business by the fiscal-end. *(BS)*
- Reliance Power has achieved full financial closure for its 1,200 MW plant in Shahjahanpur. The Rosa Power Supply Ltd a wholly owned subsidiary of Reliance Power has signed the long-term finance agreement with various banks and institutions led by IDBI Ltd. *(ET)*
- T-Rowe Price Associates and its affiliates have informed the NSE that they have hiked their stake in GVK Power and Infrastructure Ltd from 4.4 per cent to 5.89 per cent, by acquiring additional 1.93 per cent stake through qualified institutional placements. *(BL)*
- With eight of its 12 prospective drug molecules now undergoing clinical trials, Piramal Life Sciences (PLS) Chairman, Mr Ajay Piramal, reiterated that the first drug could be expected to be in the market by 2011. *(BL)*
- The world's largest steel maker, ArcelorMittal, has put on hold its proposed Rs40,000-crore steel plant in Orissa's Keonjhar district for at least two years, as the global demand for steel is stagnating. *(BS)*
- Metal major Sterlite Industries and wind-turbine maker Suzlon plan to raise over US\$1 billion to finance expansion and retire debts, respectively. *(ET)*
- In a definite signal that mobile phone service providers are not going to lose their licences even after the scheduled end of their validity, the Department of Telecommunications (DOT) has asked the Telecom Regulatory Authority of India to recommend terms and conditions for extending the licence periods forever. *(BS)*

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

EQUITY MARKETS

India	Change %		
	14-Jul	1-day	1-mo 3-mo
Sensex	13,854	3.4 (6.9)	22.8
Nifty	4,111	3.5 (8.3)	18.0
Global/Regional indices			
Dow Jones	8,359	0.3 (2.9)	4.1
Nasdaq Composite	1,800	0.4 (0.9)	10.6
FTSE	4,238	0.8 (2.0)	6.8
Nikkie	9,294	0.3 (7.4)	6.3
Hang Seng	18,043	0.9 (2.5)	15.1
KOSPI	1,414	2.0 0.1	6.0
Value traded - India			
Cash (NSE+BSE)	184.2	247.8	255.6
Derivatives (NSE)	543.1	754.5	517
Deri. open interest	770.4	849	809

Forex/money market

	Change, basis points			
	14-Jul	1-day	1-mo	3-mo
Rs/US\$	49.0	(14)	124	(95)
10yr govt bond, %	7.0	7	10	30
Net investment (US\$m)				
	13-Jul	MTD	CYTD	
FIs	39	711	5,681	
MFs	64	(98)	422	

Top movers -3mo basis

	Change, %			
	14-Jul	1-day	1-mo	3-mo
Best performers				
MTNL IN Equity	91	4.5 (14.6)	19.9	
BJAUT IN Equity	1,068	4.8 6.5	68.1	
HPCL IN Equity	323	1.8 2.6	27.7	
GMRI IN Equity	134	5.2 (9.4)	20.0	
INFO IN Equity	1,812	2.4 5.6	32.2	
Worst performers				
NACL IN Equity	264	3.7 (27.3)	5.2	
DIVI IN Equity	981	1.7 (12.5)	3.4	
HDFCB IN Equity	1,363	(0.8) (11.1)	25.8	
WPRO IN Equity	400	2.9 (0.4)	48.9	
ABB IN Equity	685	4.0 (8.5)	34.0	

Challenges of slower growth. HDFC Bank reported subdued NII growth of 8% yoy on the back of 7% growth in loans. Slower balance sheet growth after the Centurion Bank merger is now becoming obvious. Treasury income came in strong at Rs2.5 bn (30% of PBT). NPLs increased 9% qoq at gross level and 5% at the net level. Valuations remain high at 2.9X FY10E PBR and 21X FY10E PER. Maintain REDUCE with a new target price of Rs1,430.

Company data and valuation summary

HDFC Bank

Stock data		Forecasts/Valuations			
52-week range (Rs) (high,low)	1,584-774	EPS (Rs)	2009	2010E	2011E
Market Cap. (Rs bn)	616.0	EPS growth (%)	20.4	14.2	18.8
Shareholding pattern (%)		P/E (X)	24.6	21.5	18.1
Promoters	19.4	NII (Rs bn)	74.2	90.4	107.5
FIs	44.8	Net profits (Rs bn)	22.4	27.8	33.7
MFs	5.8	BV (Rs)	353.7	478.7	527.8
Price performance (%)		P/B (X)	3.9	2.9	2.6
Absolute	(10.8)	ROE (%)	16.9	15.4	15.0
Rel. to BSE-30	(1.6)	Div. Yield (%)	0.7	0.9	1.0
1M	3M	12M			

Maintain REDUCE on back of high valuations and growth concerns

We maintain our REDUCE recommendation on HDFC Bank given the high valuations and likely challenges it could face in growing its loan book at the historic rate of 20%+ (unless it increases the purchase of mortgage loans originated for HDFC). Further the earnings composition is now more driven by treasury segment. An analysis of segmental accounts of HDFC Bank suggests that retail segment's PBT has declined by 53% yoy and contributes only 17% of overall PBT in 1QFY10. The treasury segment on the other hand contributed about 47% of the current quarter's PBT. We increase our earnings by 3% in FY2010E due to higher treasury income, but reduce estimates by 2% in FY2011E as core income has been lower than expected. We reduce our target price to Rs1,430 from Rs1,490 earlier.

Higher loan growth in the current environment could impact NIM

Retail loans account for 58% of the total loans and we believe that in the current environment, the growth in retail segment (especially uncollateralized loan segment) is likely to remain subdued. We note that retail has traditionally been the key growth segment for the bank. During 1QFY10, retail loan growth has been flat for HDFC Bank. We expect HDFC Bank to increase the proportion of mortgages and corporate loans over time to sustain its loan growth at the guided 20% yoy. However, a higher share of mortgages and corporate loans would negatively impact the margins of HDFC Bank. HDFC Bank's loans increased 5% qoq and 7% yoy to Rs1 tn as of June 2009. Deposits grew by 11% yoy to Rs1.5 tn as of June 2009 and proportion of CASA deposits to overall deposits remained at a high 45%.

Margins stable qoq, despite a slow growth

HDFC Bank reported stable margins at 4.1% on a sequential basis, despite a slow growth over the last few quarters and a relatively higher proportion of CASA deposits. This is largely on account of slower growth in high yielding personal and credit card loans. The bank has also started to buy mortgage loans (from HDFC) which are margin dilutive. We expect margins to remain at current levels as CASA ratio has improved marginally and even retail term deposit repricing benefits are likely to accrue from 2QFY10 onwards.

REDUCE

JULY 14, 2009

RESULT

Coverage view: **Attractive**

Price (Rs): **1,363**

Target price (Rs): **1,430**

BSE-30: **13,854**
QUICK NUMBERS

- NII growth at 8% and loan growth at just 7% yoy
- Strong treasury (gain of Rs2.6 bn) and cost leverage resulted in earnings growth of 31%
- Gross NPLs increase 9% qoq. Restructured standard assets are at 0.19% of loans

Treasury income strong; fees (including exchange gains) grew by 18%

Non-interest income grew by 76% yoy to Rs10.4 bn in 1QFY10, aided by high treasury income of Rs2.6 bn against a loss of Rs776 mn booked in 1QFY09. Core fees grew by 27% yoy to Rs6.5 bn in 1QFY10, but including exchange gains fees grew by 18% yoy to Rs7.9 bn.

Cost-Income ratio shows a good improvement

A slower retail banking growth coupled with slower addition of branches has resulted in slower operating expenses growth at just 7% yoy for 1QFY10. Cost-income ratio declined to 47.6% in 1QFY10 from 55.7% in 1QFY09.

Employee expenses just grew by 4% yoy to Rs5.6 bn while other operating expenses grew by 10% yoy to Rs8.2 bn in 1QFY10. It is likely that rationalization of manpower in the sales function and lower increment payouts aided this outcome. We expect this trend to continue for the next few quarters and the cost leverage would be an important factor driving earnings growth for HDFC Bank.

NPLs increase sequentially but may not be a key concern

HDFC Bank reported a rise in gross NPLs by 9% qoq to Rs.21.6 bn as of 1QFY10 from Rs19.8 bn as of 4QFY09. On account of higher provisions (including write-offs) which the company has been making net NPLs increased by 5% qoq to Rs6.6 bn. Net NPL ratio as of 1QFY2010 was 0.6%.

The total restructured assets increased to Rs5.7 bn from Rs1.2 bn as of March 2009. Out of this, Rs2 bn (Rs0.5 bn as of March 2009) are restructured assets which are standard in nature. The standard restructured assets are at 0.19% of the gross loan book.

Segmental analysis shows a sharp decline in retail profitability

The segmental profit analysis of HDFC Bank shows that PBT of the retail segment has declined sharply by 53% yoy to Rs1.4 bn in 1QFY10. The revenues from the retail segment continue to remain robust, growing by 17.5% yoy to Rs38.4 bn in 1QFY10. The sharp drop in profits from this segment is likely due to high provisions / write-offs on the retail book and lower transfer pricing of retail liabilities.

The wholesale segment continues to remain healthy and the PBT of this segment has improved to Rs3.8 bn (up 11% yoy) in 1QFY10. Softer interest rates helped the company boost its revenues from the treasury segment and the PBT of this segment has risen to Rs4 bn (up 8.3X yoy) and was a key driver of its earnings in the current quarter.

HDFC Bank, quarterly performance

March fiscal year-ends, 1QFY09-1QFY10 (Rs mn)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	% chg	1QFY10KS	Actual Vs KS
Interest income	36,217	39,912	44,685	42,508	40,931	13.0	40,550	0.9
Interest on advances	26,364	30,608	33,380	30,972	30,178	14.5	29,000	4.1
Interest on investments	9,512	8,967	10,282	11,264	10,334	8.6	11,250	(8.1)
Other interest	341	338	1,023	273	419	22.8	300	39.7
Interest expense	18,983	21,248	24,893	23,988	22,375	17.9	21,500	4.1
Net interest income	17,235	18,665	19,793	18,520	18,556	7.7	19,050	(2.6)
Non-int.income	5,934	6,431	9,394	11,147	10,437	75.9	8,531	22.3
- fee income	5,112	5,873	6,440	7,148	6,493	27.0	5,800	11.9
- exchange income	1,574	675	628	1,528	1,378	(12.5)	1,731	(20.4)
- sale of invts.	(776)	(156)	2,321	2,436	2,560	(429.9)	1,000	156.0
Non treasury income	6,710	6,587	7,073	8,711	7,877	17.4	7,531	4.6
Total income	23,169	25,096	29,186	29,667	28,992	25.1	27,581	5.1
Op. expenses	12,894	13,867	14,606	13,962	13,806	7.1	14,306	(3.5)
Employee cost	5,406	6,116	5,821	5,039	5,593	3.5	5,406	3.5
Other cost	7,488	7,751	8,784	8,923	8,212	9.7	8,900	(7.7)
Operating profit	10,275	11,229	14,581	15,705	15,187	47.8	13,276	49.9
Provisions and cont.	3,445	3,460	5,318	6,574	6,588	91.3	4,750	38.7
NPLs	3,244	3,373	4,654	6,000	6,300	94.2	4,500	40.0
PBT	6,830	7,768	9,263	9,131	8,598	25.9	8,526	0.9
Tax	2,187	2,488	3,045	2,822	2,537	16.0	2,643	(4.0)
Net profit	4,644	5,280	6,218	6,309	6,061	30.5	5,883	3.0
Tax rate (%)	32.0	32.0	32.9	30.9	29.5		31.0	
Op.profit excl treasury gains	11,051	11,385	12,260	13,269	12,627	14.3	12,276	2.9
Key balance sheet items (Rs bn)								
Total deposits	1309	1338	1449	1428	1457	11.3		
Savings deposits	319	328	331	349	385	20.8		
Current deposits	269	261	249	284	270	0.6		
Term deposits	722	749	875	795	802	11.1		
CASA ratio (%)	44.9	44.0	40.0	44.4	45.0			
Loans	968	1022	988	989	1038	7.2		
Retail credit	532	584	596	612	611	14.8		
Car loans	113	135	151	155	161	42.5		
Loan against sec	11	10	7	7	7	(35.2)		
Personal loans	84	82	89	85	85	1.2		
Two wheeler	25	22	21	19	18	(30.0)		
Credit cards	35	39	41	39	38	8.6		
Commercial vehicles	80	90	83	80	77	(3.8)		
Business Banking	137	128	154	127	122	(10.9)		

Source: Company, Kotak Institutional Equities estimates

HDFC Bank-- key parameters

March fiscal year-ends, 1QFY09-1QFY10

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	% chg
Yield management measures (%)						
NIM	4.1	4.2	4.3	4.2	4.1	
Asset quality details						
Gross NPL(Rs mn)	15,027	16,759	19,114	19,881	21,635	44
Gross NPL (%)	1.5	1.6	1.9	2.0	2.1	
Net NPLs (Rs mn)	4,961	5,841	6,143	6,276	6,585	33
Net NPL (%)	0.5	0.6	0.6	0.6	0.6	
Capital adequacy ratios (%)						
CAR	12.2	11.4	13.7	15.1	15.4	
Tier I	9.3	8.8	9.7	10.6	10.6	
Tier II	2.9	2.6	4.0	4.5	4.8	
Other key details						
Branches	1,229	1,412	1,412	1,412	1,416	15
ATM network	2,526	2,890	3,177	3,295	3,382	34
Cities covered	444	528	527	528	550	24
Balance sheet snapshot (Rs bn)						
CAPITAL AND LIABILITIES						
Capital	4	4	4	4	4	0.4
Reserves and surplus	129	134	141	142	153	18.6
ESOPs outstanding	-	0	-	4	1	
Deposits	1,309	1,338	1,449	1,428	1,457	11.3
Borrowings	67	62	45	27	30	(54.2)
Subordinated debt	35	36	53	65	64	81.0
Other liabilities and provisions	142	144	140	162	152	7.5
Total	1,686	1,718	1,832	1,833	1,862	10.4
ASSETS						
Cash and balances with RBI	158	153	100	135	118	(25.3)
Balances with banks, money at call	27	21	25	40	19	(30.9)
Investments	457	442	633	588	603	32.0
Advances	968	1,022	988	989	1,038	7.2
Fixed assets	15	16	17	17	20	31.2
Other assets	61	64	69	64	64	4.4
Total	1,686	1,718	1,832	1,833	1,861	10.4

Source: Company, Kotak Institutional Equities estimates

Retail segment's profitability has come off sharply

Segment revenues and PBT, March fiscal year-ends, 4QFY08-1QFY10

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	yoy growth (%)
Segment revenues (Rs mn)							
Treasury	4,800	10,517	10,104	13,844	14,706	13,757	30.8
Retail banking	25,045	32,729	39,664	38,160	38,286	38,433	17.4
Wholesale banking	19,939	23,915	26,825	31,594	23,724	21,151	(11.6)
Other banking operations	4,121	3,911	4,905	5,861	6,784	5,425	38.7
Unallocated	-	35	-	-	-	-	
Total	53,904	71,107	81,497	89,459	83,500	78,766	10.8
Less inter-segmental revenue	18,849	28,956	35,123	35,380	29,845	27,398	(5.4)
Income from operations	35,055	42,152	46,374	54,079	53,655	51,368	21.9
Segment PBT							
Treasury	913	435	(1,625)	1,840	4,232	4,042	829.1
Retail banking	2,014	3,060	5,288	2,786	1,555	1,438	(53.0)
Wholesale banking	2,940	3,422	3,346	3,600	2,055	3,797	10.9
Other banking operations	1,011	638	1,409	1,798	2,511	743	16.5
Unallocated	(642)	(725)	(649)	(761)	(1,221)	(1,421)	96.1
Total	6,236	6,830	7,768	9,263	9,131	8,598	25.9

Source: Company, Kotak Institutional Equities estimates

Wholesale banking and treasury segments support overall profits of the company

PBT margin and contribution to overall PBT, March fiscal year-ends, 4QFY08-1QFY10 (%)

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10
PBT margin (%)						
Treasury	19.0	4.1	(16.1)	13.3	28.8	29.4
Retail banking	8.0	9.3	13.3	7.3	4.1	3.7
Wholesale banking	14.7	14.3	12.5	11.4	8.7	18.0
Other banking operations	24.5	16.3	28.7	30.7	37.0	13.7
Break-up of contribution to PBT (%)						
Treasury	14.6	6.4	(20.9)	19.9	46.3	47.0
Retail banking	32.3	44.8	68.1	30.1	17.0	16.7
Wholesale banking	47.1	50.1	43.1	38.9	22.5	44.2
Other banking operations	16.2	9.3	18.1	19.4	27.5	8.6
Unallocated segment	(10.3)	(10.6)	(8.4)	(8.2)	(13.4)	(16.5)

Source: Company, Kotak Institutional Equities estimates

HDFC Bank - estimate changes

March fiscal year-ends, 2010-2011E, Rs mn

Rs bn	Old estimates		New estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net loan growth (%)	22.2	22.5	22.2	22.5		
Retail loan to total loans (%)	57.6	56.6	57.5	56.5		
Total assets	2,129	2,470	2,130	2,470	0.0	0.0
Total income	129.5	152.8	127.9	148.9	-1.2	-2.5
Net interest income	94.3	112.5	90.4	107.5	-4.2	-4.4
NIM (%)	4.97	5.08	4.75	4.84		
Other income	35.1	40.3	37.6	41.4	6.9	2.7
Fee income	26.7	30.8	27.3	31.6	2.4	2.6
Expenses	65.2	77.3	63.1	74.5	-3.3	-3.6
Employee cost	25.4	29.4	25.4	29.4	0.0	0.0
Other cost	39.8	47.9	37.7	45.1	-5.3	-5.8
Loan loss provisions	22.0	25.5	22.5	25.5	2.5	0.0
PBT	40.8	48.5	40.8	47.4	0.1	-2.3
PAT	27.7	33.9	28.6	33.2	3.0	-2.3
% growth yoy	23.5	22.4	27.2	16.1		
PBT-treasury+provisions	62.2	73.3	61.0	71.9	-1.9	-1.9
EPS (Rs)	61.3	75.0	63.2	73.3	3.0	-2.3
BVPS (Rs)	469.3	527.7	470.7	527.8	0.3	0.0

Source: Company, Kotak Institutional Equities

Disappointing quarter. 1QFY10 numbers came in below our estimates largely due to lower sales from the domestic pre-fab segment. PAT of Rs606 mn was below our estimated Rs742 mn. Lower pre-fab sales resulted in lower-than-expected EBITDA margin and PAT. We maintain our BUY rating as valuations remain attractive at 6.7X FY2011E EPS. We do not change our estimates and will review them after the management's post-result call.

Company data and valuation summary

Sintex

Stock data

52-week range (Rs) (high,low) 386-70

Market Cap. (Rs bn) 25.3

Shareholding pattern (%)

Promoters 29.1

FIs 36.7

MFs 18.3

Price performance (%)

Absolute (22.8) 31.3 (34.4)

Rel. to BSE-30 (14.9) 6.9 (40.0)

Forecasts/Valuations

2009 2010E 2011E

EPS (Rs) 23.8 25.2 27.6

EPS growth (%) 21.9 5.6 9.6

P/E (X) 7.8 7.4 6.7

Sales (Rs bn) 31.4 34.2 37.6

Net profits (Rs bn) 3.3 3.4 3.8

EBITDA (Rs bn) 5.2 5.7 6.3

EV/EBITDA (X) 5.7 5.1 4.3

ROE (%) 16.6 15.0 14.2

Div. Yield (%) 0.6 0.6 0.6

1QFY10 results below expectation; lower pre-fab revenues disappoint

- ▶ Sintex reported 1QFY10 results below estimates—PAT of Rs606 mn (up 7.3% yoy) was lower than our estimate of Rs742 mn.
- ▶ Revenues at Rs6.6 bn (down 9.1% yoy) were lower than our estimated Rs7.3 bn mainly due to lower pre-fab sales.
- ▶ EBITDA margin at 13.2% (estimated 17%) was below estimate due to the lower contribution from the pre-fab segment and lower-than-expected textile margin.

New developments—monolithic order book at Rs16 bn; new plant at Bright Auto commenced

The monolithic order book at end-1QFY10 has grown to Rs16 bn from Rs14 bn at end-FY2009, implying new order additions of about Rs3.2 bn during the quarter. Fresh orders of around Rs1.9 bn for rural housing are in the pipeline which may further increase FY2011E revenue visibility for the monolithic segment. Bright AutoPlast commenced operations at its new plant at Chennai to focus on 'under the hood' components for global auto OEMs. We believe these segments will drive revenue growth and improve margins for the plastics segment.

Valuations remain attractive—maintain BUY

We find Sintex attractively valued at 6.7X and 4.3X FY2011E EPS and EBITDA, respectively. We maintain our BUY recommendation with a target price of Rs275 based on 10X FY2011E EPS. Strong growth in the monolithic segment will be the key earnings driver. The risk of a sharp earnings decline at international subsidiaries has receded to some extent with international revenues remaining stable.

BUY

JULY 15, 2009

RESULT

Coverage view:

Price (Rs): 186

Target price (Rs): 275

BSE-30: 13,854

QUICK NUMBERS

- PAT of Rs606 mn below estimated Rs742 mn
- Plastics EBIT margin at 11.3% due to lower pre-fab sales

1QFY10 results analysis

- ▶ **Consolidated revenues of Rs6.6 bn (down 9.1% yoy) below our estimated Rs7.3 bn.** The domestic pre-fabricated revenues at Rs0.6 bn (down 60% yoy) were much below our estimate of Rs1.2 bn resulting in lower-than-estimated consolidated revenues. Consolidated custom-molding revenues at Rs3.2 bn (down 5% yoy) were better than our estimate of Rs3 bn due to higher revenues at Nief (€29 mn versus estimated €27 mn).
- ▶ **Plastics margins disappoint led by lower contribution from pre-fab.** The plastic segment reported EBIT margin at 11.3% versus our estimated 15%. We believe the decline in margins was mainly on account of lower pre-fab revenues (which has very high margins of around 23.5%). We will get further details on margins for the various sub-segments on the management call.
- ▶ **Textile segment disappoints.** Textile segment revenues at Rs759 mn (down 8.5% yoy) were below our estimate of Rs815 mn. EBIT margin at 9% (versus 14.6% in 1QFY09) was significantly lower than our estimate of 14.5%.
- ▶ **Lower interest cost and higher other income and support PAT.** Lower-than-expected interest cost of Rs142 mn (estimated Rs210 mn) and higher other income of Rs359 mn (estimated Rs175 mn) supported net income. However, a higher depreciation cost of Rs359 mn (versus Rs211 mn in 4QFY09 and our estimate of Rs235 mn) was a disappointment.

Maintain estimates and target price

We do not make any changes to our estimates and will review them after the management's conference call with analysts. We maintain our target price of Rs275 based on 10X FY2011E EPS.

Sintex's 1QFY10 results disappoint

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

	1QFY10	1QFY10E	1QFY09	4QFY09	(% chg.)		
					1QFY10E	1QFY09	4QFY09
Net sales	6,624	7,259	7,286	8,530	(8.8)	(9.1)	(22.3)
Total expenditure	(5,750)	(6,024)	(6,363)	(6,847)	(4.6)	(9.6)	(16.0)
Raw material cost	(3,324)	—	(3,980)	(4,461)	—	(16.5)	(25.5)
Stock adjustment	152	—	248	(165)	—	NM	NM
Employee expenses	(1,067)	—	(953)	(1,168)	—	12.0	(8.6)
Other expenses	(1,511)	—	(1,678)	(1,054)	—	(9.9)	43.4
EBITDA	874	1,235	923	1,683	(29.2)	(5.3)	(48.1)
OPM (%)	13.2	17.0	12.7	19.7			
Other income	359	175	242	131	105.1	48.1	173.4
Depreciation	(366)	(235)	(304)	(211)	55.8	20.6	73.9
Interest	(142)	(210)	(175)	(205)	(32.5)	(19.1)	(30.8)
Pretax profits	725	965	686	1,399	(24.9)	5.6	(48.2)
Extraordinaries	—	—	—	—	—	—	—
Reported PBT	725	965	686	1,399	(24.9)	5.6	(48.2)
Tax	(114)	(212)	(119)	(248)	(46.4)	(4.4)	(54.1)
Net income	611	753	567	1,151	(18.8)	7.7	(46.9)
Minority interest	(5)	(11)	(3)	(11)	(53.3)	NM	(52.0)
Reported PAT	606	742	565	1,140	(18.3)	7.3	(46.9)
Segmental							
Revenues (including other income)							
Textiles	759	815	829	1,049	(6.9)	(8.5)	(27.7)
Plastics	5,865	6,444	6,457	7,457	(9.0)	(9.2)	(21.4)
Un allocated	359	175	242	155	105.1	48.1	130.9
Total	6,983	7,434	7,529	8,661	(6.1)	(7.3)	(19.4)
EBIT (including other income)							
Textiles	68	118	121	204	(42.4)	(43.6)	(66.7)
Plastics	662	967	671	1,324	(31.5)	(1.4)	(50.0)
Un allocated	137	90	70	76	52.0	96.5	80.3
Total	867	1,175	862	1,604	(26.2)	0.6	(46.0)
EBIT margin (%)							
Textiles	9.0	14.5	14.6	19.5	—	—	—
Plastics	11.3	15.0	10.4	17.8	—	—	—
Un allocated	38.1	51.4	28.7	48.8	—	—	—
Total	12.4	15.8	11.4	18.5	—	—	—

Source: Company, Kotak Institutional Equities

Monolithic to be the key revenue driver

Sintex, revenue and margin assumptions, March fiscal year-ends, 2008-2012E (Rs mn)

	2008	2009	2010E	2011E	2012E
Revenues					
Plastics					
Building products [A]	10,270	12,780	16,151	18,198	20,163
Monolithic	2,100	4,520	7,232	8,317	9,149
Standalone prefab business	5,497	5,740	6,036	6,799	7,714
Zeppelin (consolidated)	1,273	1,108	1,415	1,556	1,713
Water Tanks	1,400	1,411	1,467	1,526	1,587
Custom molding [B]	9,033	14,174	13,407	14,311	15,740
Standalone	3,828	3,439	3,342	3,768	4,297
Wasaukee	1,016	2,049	1,528	1,642	1,799
Nief Plastics	3,785	7,420	7,145	7,369	7,958
Bright AutoPlast	404	1,266	1,393	1,532	1,685
Others [C]	191	691	701	737	773
Total plastics [A+B+C]	19,494	27,645	30,260	33,245	36,677
Textiles					
Collection	930	991	1,067	1,165	1,212
RMG	2,300	2,447	2,634	2,876	2,992
Others	253	273	287	315	347
Total textiles	3,483	3,711	3,987	4,356	4,551
Total revenues	22,977	31,356	34,247	37,601	41,228
EBITDA margin (%)					
Plastics					
Building products [A]	18.1	19.6	19.1	19.1	19.0
Monolithic	15.5	18.0	18.0	18.0	17.5
Standalone prefab business	23.1	24.4	23.6	23.8	23.9
Zeppelin (consolidated)	14.1	18.0	18.6	17.9	17.0
Water Tanks	6.1	6.0	6.0	6.0	6.0
Custom molding [B]	15.3	14.4	14.1	14.1	14.3
Standalone	23.9	24.7	23.6	23.5	23.8
Wasaukee	6.5	5.0	2.0	2.5	3.0
Nief Plastics	9.3	12.0	12.0	11.8	11.8
Bright AutoPlast	13.0	15.2	15.0	14.5	14.5
Others [C]	2.1	3.0	3.0	3.0	3.0
Total plastics [A+B+C]	16.7	16.5	16.5	16.6	16.7
Textiles					
Collection	32.1	33.6	33.5	33.0	32.5
RMG	26.5	27.7	27.0	27.0	27.0
Others	22.0	23.0	23.0	23.0	22.5
Total textiles	28.4	28.9	28.5	28.3	28.1
Total consolidated	17.7	16.6	16.6	16.7	16.7

Source: Company, Kotak Institutional Equities estimates

Summary financials

Sintex, summary consolidated financials, March fiscal year-ends, 2008-2012E (Rs mn)

	2008	2009E	2010E	2011E	2012E
Profit model					
Revenues	22,977	31,356	34,247	37,601	41,228
EBITDA	4,061	5,217	5,694	6,286	6,873
Depreciation	(765)	(1,144)	(1,345)	(1,474)	(1,572)
Interest expense	(643)	(820)	(744)	(623)	(517)
Finance income	140	637	625	579	629
Other income	226	209	170	120	120
Reported PBT	3,020	4,100	4,401	4,887	5,534
Tax	(442)	(751)	(854)	(1,046)	(1,267)
Deferred taxation	(256)	(75)	(88)	(49)	(83)
Profit after tax	2,322	3,274	3,459	3,792	4,184
Minority interest	(19)	(23)	(25)	(28)	(30)
Adjusted PAT	2,303	3,251	3,434	3,764	4,154
Diluted earnings per share (Rs)	19.5	23.8	25.2	27.6	30.4
Balance sheet					
Total equity	16,449	19,611	22,949	26,570	30,607
Total borrowings	19,466	19,016	17,123	15,611	14,141
Current liabilities	10,046	10,283	10,868	11,353	12,067
Total liabilities and equity	45,961	48,910	50,939	53,534	56,815
Cash	13,713	14,590	13,193	14,046	15,559
Other current assets	12,575	12,886	15,481	16,998	18,637
Goodwill	1,845	1,845	1,845	1,845	1,845
Tangible fixed assets	14,577	16,596	17,428	17,653	17,781
Investments	3,252	2,993	2,993	2,993	2,993
Total assets	45,961	48,910	50,939	53,534	56,815
Free cash flow					
Operating cash flow, excl. working capital	3,047	3,658	4,096	4,616	5,090
Working capital changes	(3,383)	(89)	(2,018)	(1,040)	(933)
Capital expenditure	(9,902)	(3,163)	(2,176)	(1,700)	(1,700)
Investment changes	32	(462)	—	—	—
Other income	159	846	795	699	749
Free cash flow	(10,047)	790	697	2,576	3,205
Ratios (%)					
EBITDA margin	17.7	16.6	16.6	16.7	16.7
Debt/equity	118.3	97.0	74.6	58.8	46.2
Net debt/equity	15.4	9.8	6.2	(3.5)	(12.8)
RoAE	14.0	16.6	15.0	14.2	13.6
RoACE	11.2	10.5	10.2	10.3	10.5
RoACE (excl. cash)	18.8	16.3	15.1	15.1	15.5

Source: Company, Kotak Institutional Equities estimates

JULY 15, 2009
UPDATE

Coverage view: **Cautious**

Price (Rs): **322**

Target price (Rs): **300**

BSE-30: **13,854**

Not much gas for further re-rating. We see GAIL as a good defensive play in the current market environment but highlight potential negatives. (1) Finalization of gas transportation tariffs for extant pipelines is due shortly; we have already cut tariffs. (2) Recent tax-related changes in the FY2010 Union Budget are minor negatives. (3) Crude prices have come off sharply. (4) A recent government proposal to own parts of the National Gas Grid (NGG) may restrict long-term business opportunities for GAIL.

Company data and valuation summary

GAIL (India)

Stock data

52-week range (Rs) (high,low) 344-165

Market Cap. (Rs bn) 408.9

Shareholding pattern (%)

Promoters 57.3

FIs 14.5

MFs 3.4

Price performance (%)

Absolute 12.1 25.1 42.2

Rel. to BSE-30 19.5 (1.0) 36.8

Forecasts/Valuations

2009 2010E 2011E

EPS (Rs) 23.4 20.6 21.8

EPS growth (%) 14.7 (11.8) 5.7

P/E (X) 13.8 15.6 14.8

Sales (Rs bn) 232.3 343.2 398.7

Net profits (Rs bn) 29.7 26.2 27.7

EBITDA (Rs bn) 49.3 44.5 48.5

EV/EBITDA (X) 7.6 8.9 9.2

ROE (%) 18.4 14.5 14.0

Div. Yield (%) 2.3 2.1 2.1

QUICK NUMBERS

- Retain 12-month SOTP-based target price of Rs300
- We already assume 35% cut in tariffs of extant gas pipelines
- Budget-related changes are minor negatives

Maintain ADD rating on defensive characteristics; absolute upside looks muted

We maintain our ADD rating since we find GAIL a good defensive play in the current market environment. However, we do not see meaningful absolute upside to the stock given that it is trading close to our 12-month fair valuation of Rs300. Key downside risks stem from higher-than-expected subsidy losses and weaker-than-expected commodity prices.

Recent developments largely negative; tariffs for extant pipelines key to earnings

We note that the market has largely ignored two negative developments in GAIL stock over the past 10 days. (1) The FY2010 Union Budget is marginally negative as it replaced the earlier tax exemption scheme on new pipelines with an investment-linked deduction incentive. (2) Crude prices have declined 9.5% over the past week and chemical prices will likely follow suit; prices have held up so far. In our view, the level of new tariffs for GAIL's extant pipelines as decided by the regulator under the new regulations for gas transportation pipelines may hold the key to GAIL's medium-term earnings until its new pipelines (due FY2012E) start contributing to earnings growth.

Government proposal for gas highways may restrict opportunities for GAIL

We note that the government's proposed gas highways in remote and under-developed areas may restrict long-term opportunities for GAIL. The government proposes to develop 6,000 km of long-distance natural gas pipelines which, in turn, would connect to the NGG. The government will own the pipelines given their sub-optimal economics but likely nominate GAIL for construction, operation and maintenance of these gas highways, which are to be completed in 5-6 years.

Absolute upside limited but a good defensive nonetheless

We recommend investors stay invested in GAIL for its defensive characteristics but do not see meaningful absolute upside to the stock price from current levels. (1) The stock is already trading above our 12-month fair valuation of Rs300 (see Exhibit 1) and we see limited scope to take a more positive view barring higher-than-expected tariffs for extant gas transportation pipelines. (2) The stock has gone up by 14% in a falling market over the past month and has outperformed the market strongly over the past few months (see Exhibit 2); most of the outperformance has been in the recent month.

We value GAIL stock at Rs300 per share

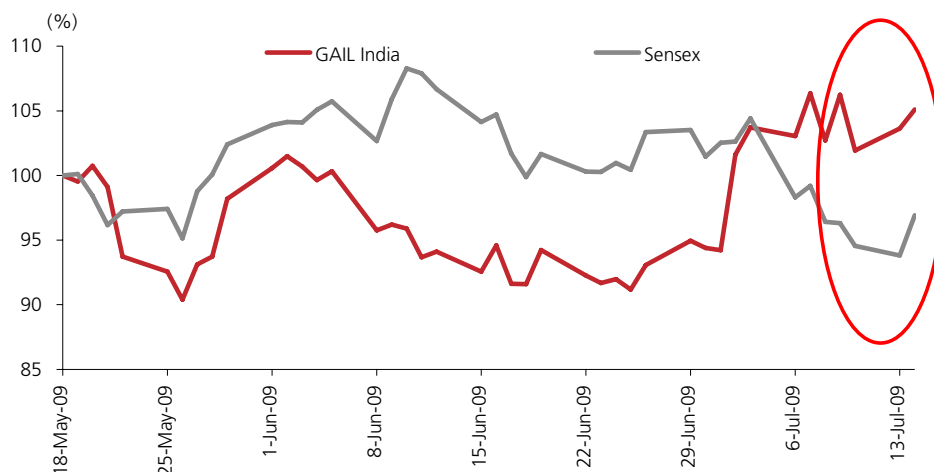
Sum-of-the-parts valuation of GAIL, FY2011E basis (Rs bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		EV (Rs/share)
	Other	EBITDA	Other	EV/EBITDA	Other	EBITDA basis	
Natural gas transportation							
HVJ pipeline	19				19		15
DV pipeline	28				28		22
DUPD pipeline	31				31		24
DBN pipeline	18				18		14
CGJH pipeline	6				6		5
DV GREP pipeline	62				62		49
Short distance pipelines		5.6		6.0		33	26
Total natural gas transportation							155
Other businesses							
LPG transportation		2.7		6.0		16	13
LPG production	25		1.0		25		20
Petrochemicals		5.5		7.0		39	30
Oil and gas upstream	22		1.0		22		17
Subsidy sharing scheme		(5.0)		1.0		(5)	(4)
Total other business segments							76
Investments							
ONGC shares	58		0.9		52		41
Others	26		0.9		24		19
Investments	84		0.9		76		60
Total						83	291
Net debt/(cash)					(4)	(4)	(3)
Implied value of share (Rs/share)							294

Source: Kotak Institutional Equities estimates

GAIL India stock has outperformed the broad market over the last two months

Relative performance of Petronet LNG and BSE-30 Index (%)



Source: Bloomberg, Kotak Institutional Equities

Difficult to take a more positive view

We look at key drivers for GAIL stock over the next few months and conclude that the stock does not have potential catalysts for large absolute performance.

- **Gas transportation volumes unlikely to surprise positively.** We assume a steep increase in gas volumes over the next three years (see Exhibit 3) but note that GAIL's gas transportation volumes are constrained by the low spare capacity in its extant pipelines. GAIL's three new big pipelines are due in FY2012E (see Exhibit 4) and we model a large jump in gas transportation volumes in FY2010-12E.

We model strong increase in gas volumes between FY2008 and FY2012E

Key assumptions behind GAIL model, March fiscal year-ends, 2006-2012E

	2006	2007	2008	2009E	2010E	2011E	2012E
Volumes							
Natural gas transportation, gross (mcm/day)							
HBJ pipeline	32	32	32	32	32	32	32
Dahej-Vijaypur-GREP upgradation							30
Dadri-Bawana-Nangal					1	3	16
Chainsa-Jhajjar-Hissar						3	8
Other pipelines	36	39	40	39	48	55	60
Regassified LNG							
Dahej-Vijaypur pipeline (transmitted and sold)	7	6	9	9	15	20	25
Dahej-Vijaypur pipeline (transmitted)	4	4	6	6	10	10	10
Dahej-Uran pipeline			6	9	12	12	12
Panvel-Dabhol pipeline			4	6	8	10	12
Elimination of double-counted volumes (a)	(1)	(3)	(15)	(18)	(21)	(28)	(48)
Total gas transmission	79	77	82	83	105	117	157
LPG (000 tons)							
Sold	1,039	1,037	1,039	1,092	1,100	1,100	1,100
Transported	2,228	2,490	2,754	2,800	2,800	2,800	2,800
Petrochemicals (000 tons)							
Polyethylene							
Domestic sales	271	337	381	423	440	450	450
Exports	40	10	10	—	—	—	—
Total petrochemicals	311	347	391	423	440	450	450
Prices							
Natural gas (Rs/cubic meter)							
Natural gas ceiling price	3.52	4.21	4.21	4.59	6.50	6.50	6.50
Regassified LNG including transportation	6.47	6.93	6.44	7.05	8.98	8.94	8.91
Transmission plus marketing charges							
HBJ pipeline, Dahej-Vijaypur pipeline (from FY2007)	1.15	0.99	0.96	1.05	0.66	0.66	0.66
Dahej-Vijaypur-GREP upgradation					1.04	1.04	1.04
Dadri-Bawana-Nangal					0.69	0.69	0.69
Chainsa-Jhajjar-Hissar					0.50	0.50	0.50
Dahej-Vijaypur, Dahej-Uran, Panvel-Dabhol pipeline	0.69	0.99	1.03	1.04	0.81	0.81	0.81
Other pipelines	0.42	0.40	0.42	0.44	0.43	0.42	0.41
LPG							
LPG (US\$/ton)	510	531	702	685	455	490	525
Transmission charges (Rs/ton)							
Jamnagar-Loni	1,522	1,522	1,522	1,522	1,522	1,522	1,522
Vizag-Secunderabad	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Other assumptions							
Polyethylene, HDPE (US\$/ton)	1,055	1,315	1,500	1,360	1,060	1,075	1,175
Import tariff, Polyethylene	10%	5%	5%	5%	5%	5%	5%
Import tariff, LPG	0%	0%	0%	0%	0%	0%	0%
Exchange rate (Rs/US\$)	44.3	45.3	40.3	45.8	48.0	47.8	47.5
Subsidy losses	10,640	14,880	13,137	17,812	3,000	5,000	8,500

Note:

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

Source: Kotak Institutional Equities estimates

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

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

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

Source: Kotak Institutional Equities estimates

► **Gas transportation tariffs may surprise negatively versus Street expectations.**

We have modeled a 40% reduction in gas transportation tariffs for GAIL's extant HVJ and DV pipelines in line with the new regulations for gas transportation networks. We note that the regulator will finalize the tariffs over the next few months once it completes its regulatory review of GAIL's capital employed and volumes. According to its guidance, the management expects the impact of the new regulations to be limited and, in our view, the Street has not factored any major change to the tariffs.

Our EPS estimates for FY2010E and FY2011E would increase to Rs25.8 and Rs26.8, respectively, versus Rs21.9 and Rs22.6 if the regulator leaves GAIL's transportation tariffs for HVJ and DV pipelines unchanged—versus our expectation of a 40% cut.

- **Recent sharp correction in crude prices and impact on earnings of LPG production and chemicals segments.** We expect crude prices to remain between US\$50/bbl and US\$70/bbl over the next 2-3 years given low growth in global oil demand (flat between CY2008 and CY2011E) and large spare capacity (around 7 mn b/d in CY2009-11E). Crude prices have fallen over the past 10 days but chemical prices have largely held see Exhibit 5). We expect chemical prices to follow suit and this may depress GAIL's profitability. The profit of GAIL's chemical segment depends on the level of absolute prices rather than on the differential between product and naphtha prices, as is the case for other petrochemical producers in Asia.

Asia chemical prices (US\$/ton)

Calendar year-ending

	Annual average prices					Quarterly average					Monthly average				Recent			
	2005	2006	2007	2008	2009	3Q08	4Q08	1Q09	2Q09	2Q09 vs. 1Q09 (%)	Mar	Apr	May	June	Jun 19	Jun 26	Jul 3	Jul 10
Naphtha	485	583	696	827	481	1,015	373	416	519	24.7	430	451	496	609	622	614	587	543
Benzene	824	861	1,021	980	573	1,198	446	402	659	63.9	449	616	617	743	767	776	832	820
Ethylene chain																		
Ethylene	874	1,132	1,137	1,162	731	1,374	496	619	751	21.3	618	700	711	842	885	900	990	1,025
High-density PE	1,033	1,237	1,325	1,437	1,056	1,647	836	931	1,142	22.7	978	1,125	1,162	1,140	1,145	1,145	1,175	1,175
Linear low-density PE	1,062	1,236	1,339	1,497	1,069	1,747	937	951	1,129	18.7	989	1,099	1,120	1,169	1,195	1,205	1,235	1,245
Low-density PE	1,129	1,243	1,445	1,602	1,075	1,859	1,029	937	1,158	23.7	990	1,101	1,181	1,193	1,205	1,225	1,240	1,245
Propylene chain																		
Propylene	909	1,091	1,069	1,180	783	1,483	517	655	846	29.1	723	865	806	866	910	905	970	993
Polypropylene	1,072	1,228	1,324	1,457	981	1,763	861	838	1,073	28.1	891	1,068	1,067	1,084	1,095	1,115	1,135	1,135
Styrene chain																		
Styrene	1,051	1,165	1,320	1,261	868	1,502	644	717	954	33.1	826	972	880	1,011	1,042	1,019	1,056	1,073
Polystyrene	1,155	1,232	1,426	1,397	977	1,645	906	843	1,045	24.1	926	1,094	957	1,085	1,125	1,105	1,155	1,195
Vinyl chain																		
PVC	811	832	945	1,026	731	1,189	669	656	753	14.8	665	703	737	820	845	865	875	905
EDC	361	351	426	384	310	485	158	208	364	75.3	231	303	375	414	415	420	440	470
Polyester chain																		
PSF	1,226	1,293	1,452	1,433	1,163	1,588	1,083	1,023	1,303	27.4	1,125	1,220	1,355	1,335	1,335	—	—	—
PFY	1,377	1,444	1,669	1,665	1,234	1,777	1,227	1,105	1,363	23.4	1,165	1,235	1,400	1,455	1,455	—	—	—
Pure terephthalic acid	804	898	881	906	796	1,031	623	715	857	19.8	726	869	881	820	830	830	860	855
Monoethylene glycol	869	853	1,115	932	542	931	511	487	556	14.3	448	553	545	570	588	594	653	677
Paraxylene	899	1,155	1,131	1,164	957	1,374	685	847	1,053	24.3	869	1,041	1,122	996	983	983	991	1,005

Source: Platts, Kotak Institutional Equities

- Recent taxation-related changes in the Union Budget are a minor negative. We believe the Street has largely misunderstood the implications of changes regarding taxation incentives for new gas transportation pipelines in the FY2010 Union Budget. The FY2010 Union Budget has replaced Section 80 IA benefits of income tax exemption of 10 years with a new investment-linked Section 35 AD under which GAIL can claim deduction of capital expenditure of a new pipeline, which meets certain conditions. A section of the Street believes that GAIL can deduct the capital expenditure of a new pipeline from the profits of the entire company or of the pipeline segment. Our understanding suggests GAIL can claim the deduction against the profits of the concerned pipeline only and use the spillover in the following years. Exhibit 6 compares the new tax incentive scheme with the previous one for new gas transportation pipelines.

Change in tax regime makes no significant difference to GAIL

Impact of change in tax policy on GAIL (Rs)

	Earlier tax regime	New tax regime
Capex	100	100
Project duration (years)	25	25
NPV of the project	46.2	43.6
Change (%)		(5.8)

Note:

(a) We have assumed new MAT rate of 17% for both scenarios.

Source: Kotak Institutional Equities estimates

- **Proposed gas highways under the government of India.** Exhibit 7 shows 6,000 kms gas highways in remote and undeveloped areas, which have been identified by the ministry to connect to the extant network and form a National Gas Grid. The government has estimated an investment of Rs300 bn over the next 5-6 years for the proposed pipelines in the gas highway network. The government is planning to fund the same by forming a national gas highway fund by imposing a cess of Rs10/mn btu on the natural gas sales. This fund will be maintained by GAIL and operated under the guidance of an Apex Level Committee, which is being set up to exclusively manage the national gas highways and develop gas pipeline infrastructure in remote and under-developed regions.

Proposed gas highways by Government

Details of gas pipelines, length (km)

Pipelines	Length
Vijaiwada-Nagpur-Vijaipur	1,000
Barauni-Guwahati	760
Thane-Nasik-Nagpur	750
Paradip (Mahanadi Basin)-Raipur/Bhilai	710
Kota-Jaisalmer	600
Amritsar-Jammu (J&K Connectivity)	210
Chandigarh-Parwanoo (HP Connectivity)	75
Hissar-Ganganagar-Bhatinda	250
Spurlines to above pipelines	1,500

Source: Kotak Institutional Equities

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

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	163,513	160,472	180,082	239,608	344,484	398,694	566,375
EBITDA	35,731	29,896	38,976	42,392	39,247	42,504	59,750
Other income	4,555	5,450	5,564	6,118	7,573	7,447	7,790
Interest	(1,174)	(1,071)	(796)	(870)	(923)	(1,805)	(5,862)
Depreciation	(5,595)	(5,754)	(5,710)	(5,599)	(5,812)	(6,474)	(9,178)
Pretax profits	33,518	28,521	38,034	42,040	40,085	41,672	52,500
Tax	(9,221)	(7,941)	(12,525)	(13,941)	(12,107)	(12,193)	(10,343)
Deferred taxation	(445)	(190)	(10)	(62)	(159)	(774)	(3,922)
Net profits	23,101	23,867	25,716	28,037	27,819	28,705	38,235
Earnings per share (Rs)	18.2	18.8	20.3	22.1	21.9	22.6	30.1
Balance sheet (Rs mn)							
Total equity	99,733	113,929	130,049	151,160	171,064	191,854	219,206
Deferred taxation liability	12,997	13,187	13,197	13,259	13,418	14,193	18,115
Total borrowings	19,166	13,379	12,659	20,159	18,959	67,759	100,559
Current liabilities	37,522	45,512	60,604	51,454	57,534	62,415	77,207
Total liabilities and equity	169,418	186,007	216,509	236,033	260,975	336,221	415,087
Cash	44,959	26,604	44,730	47,501	29,695	32,927	35,036
Other current assets	28,309	50,851	59,370	69,489	79,434	89,307	107,600
Total fixed assets	81,716	93,913	97,500	104,133	136,937	199,078	257,542
Investments	14,434	14,638	14,909	14,909	14,909	14,909	14,909
Total assets	169,418	186,007	216,509	236,033	260,975	336,221	415,087
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	25,165	23,920	33,692	27,358	25,711	26,702	42,080
Working capital changes	5,950	(10,151)	(388)	(19,269)	(3,865)	(4,992)	(3,502)
Capital expenditure	(5,811)	(20,449)	(12,419)	(12,010)	(38,110)	(66,810)	(66,177)
Investments	(6,462)	(205)	(270)	—	—	—	—
Other income	3,995	3,884	4,042	6,118	7,573	7,447	7,790
Free cash flow	22,837	(3,002)	24,658	2,197	(8,691)	(37,653)	(19,809)
Ratios (%)							
Debt/equity	17.0	10.5	8.8	12.3	10.3	32.9	42.4
Net debt/equity	(22.9)	(10.4)	(22.4)	(16.6)	(5.8)	16.9	27.6
ROAE (%)	21.8	19.9	19.0	18.2	15.9	14.7	17.2
ROACE (%)	19.7	15.5	17.6	16.8	14.7	12.6	13.9

Source: Kotak Institutional Equities estimates

JULY 15, 2009

UPDATE

BSE-30: 13,854

Cement sector stays resilient. Cement stocks yielded 9.2% relative outperformance versus a 8.3% mom decline in the broader markets due to (1) continued resilience in despatch growth (13% yoy in June), (2) firm pricing environment, and (3) expectations of improved profitability for the June 2009 quarter. However, we are wary of impending risks to cement prices as new capacities continue to come on stream and recommend reducing exposure to ACC and Ambuja Cements.

Exhibit 1: Cement companies braved the decline in the broader markets due to continued firmness in pricing and strength in despatch growth

Absolute and relative performance of cement companies under coverage (%)

	Change (%)					Relative change (%)			
	1-mo	3-mo	6-mo	1-year	CYTD	1-mo	3-mo	6-mo	1-year
Ambuja Cements	2.6	28.2	38.8	21.8	42.5	10.7	1.5	(6.1)	17.2
ACC	(6.6)	33.7	53.4	47.6	64.6	2.3	5.8	3.8	42.1
Grasim Industries	8.8	64.9	101.1	49.8	111.7	16.4	30.5	36.0	44.1
UltraTech Cement	(0.9)	35.9	101.8	17.0	88.2	7.5	7.6	36.5	12.6
India Cements	(15.8)	14.5	22.4	3.5	38.8	(6.1)	(9.4)	(17.2)	(0.4)
Shree Cement	4.7	57.2	154.2	137.2	173.6	12.6	24.5	72.0	128.3
Cement	0.9	41.6	70.1	41.1	77.3	9.2	12.1	15.0	35.8

Source: Bloomberg, Kotak Institutional Equities

QUICK NUMBERS

- Despatch growth of 13% yoy in June 2009
- All-India prices at Rs251/bag; +Rs4/bag in June

Despatch growth of 13% yoy in June 2009

Healthy despatch growth of 12.9% yoy in June 2009 helped improve strong despatch growth numbers during FY2010 at 12.2% YTD. Barring India Cements (-0.5% yoy) and ACC (1.4% yoy), cement companies under our coverage continue to report strong despatch growth, aided by ramp-up of production from recently-commissioned capacities. We note that steady improvement in the demand environment has helped the industry record 90% utilization in 1QFY10 despite capacity additions of ~5 mn tpa during the period. We expect lower reported utilization rates in the ensuing months on account of (1)a slowdown in construction activity due to the onset of the monsoons and(2)a scheduled shutdown of facilities.

All-India prices at Rs251/bag, up Rs4/bag in June

The all India average cement prices during June 2009 increased to Rs251/bag (Rs247/bag in May 2009). The price increase was led by East (+Rs15/bag) while the other regions chipped in with modest price increases (+Rs3/bag) as well. The sharp spike in East is similar to the one witnessed in UP and MP in March 2009, and could be attributed to shortage of wagons resulting in short supplies of cement and a corresponding rise in prices. In our view, a ramp-up of production from new capacities coupled with the onset of the monsoons will likely pressure cement prices across regions. We currently assume a 3-5% decline in prices during FY2010E in our financial projections.

Stock performance resilient compared to markets

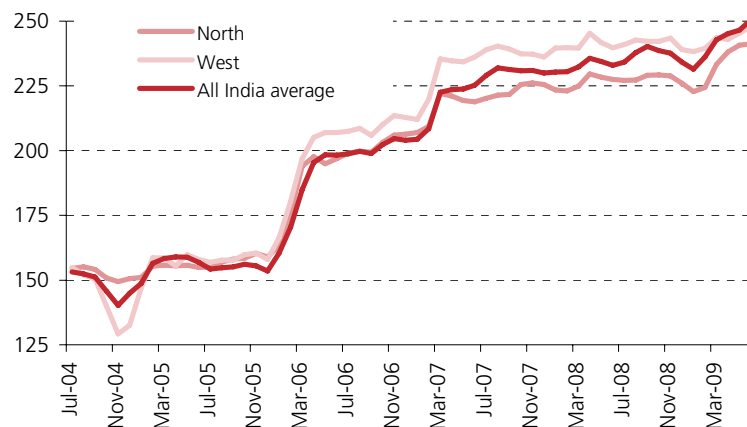
Strong despatch growth and firm cement prices helped cement stocks resist the 8.3% mom decline in the broader market, yielding a 9.2% relative outperformance over the last month. We expect cement companies to report healthy growth in earnings for the quarter ended June 2009 aided by ~Rs10/bag price hike taken during March-April. We recommend investors use any uptick in stock movements on the announcement of results as an exit opportunity due to the impending risk of a price decline towards the second half of the current fiscal. Our top sell ideas remain ACC and Ambuja Cements.

Exhibit 2: Despatch growth remains in double-digits
Cement despatch growth rate for major companies

	Jun-09 (mn tons)	Growth (%)	
		y-o-y	YTD
ACC	1.79	1.4	1.8
Ambuja Cements	1.59	8.1	9.0
Ultratech Cement	1.42	14.8	14.9
Grasim Industries	1.69	27.0	23.6
Shree Cement	0.78	27.9	29.4
India Cements	0.82	(0.5)	1.6
Madras Cements	0.62	20.2	17.4
Jaiprakash	0.78	25.2	26.3
Industry	16.7	12.9	12.2

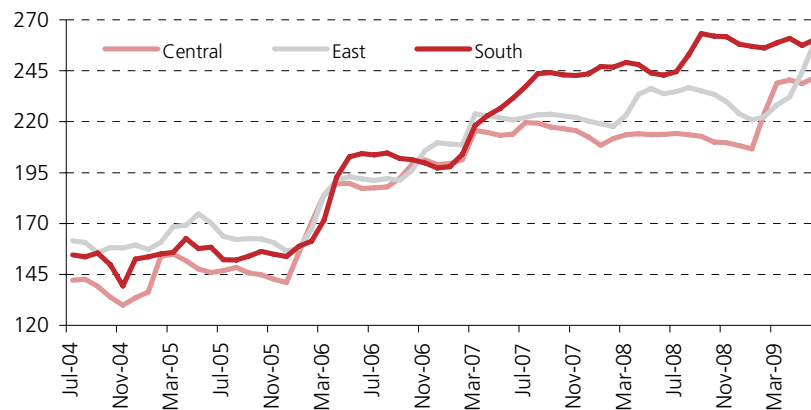
Source: CMA, Kotak Institutional Equities

Exhibit 3: All India average cement prices at Rs251/bag
Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities

Exhibit 4: Sharp spike in prices in East
Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities

Exhibit 7: Cement comparative valuation

Company	Market cap. (US\$ mn)	CMP (Rs) 14-Jul	Target price (Rs)	Rating	EPS (Rs)				P/E (X)			
					2008	2009	2010E	2011E	2008	2009	2010E	2011E
ACC	3,036	790	725	REDUCE	64	56	55	42	12	14	14	19
Ambuja Cements	3,108	100	80	REDUCE	7.6	7.2	7.0	5.8	13	14	14	17
Grasim Industries	4,841	2,582	2,300	REDUCE	285	238	236	239	9	11	11	11
India Cements	782	136	155	ADD	24	18	20	17	6	8	7	8
Jaiprakash Associates	5,499	192	190	ADD	5	3	7	10	39	64	28	19
Shree Cement	897	1,259	1,150	BUY	90	175	92	86	14	7	14	15
UltraTech Cement	1,858	725	725	ADD	81	78	70	56	9	9	10	13

Company	EV/EBITDA (X)				EV/ton of production (US\$)				EV/ton of capacity (US\$)			
	2008	2009	2010E	2011E	2008	2009	2010E	2011E	2008	2009	2010E	2011E
ACC	6.6	7.0	7.1	8.2	140	133	131	123	131	130	127	110
Ambuja Cements	6.3	7.4	7.5	8.7	171	168	161	154	155	152	149	142
Grasim Industries	5.6	6.4	5.8	5.6	NA	NA	NA	NA	NA	NA	NA	NA
India Cements	4.6	5.0	4.4	4.8	116	117	105	97	119	107	83	82
Jaiprakash Associates	17.6	19.8	13.8	13.4	NA	NA	NA	NA	NA	NA	NA	NA
Shree Cement	5.0	4.6	5.1	5.5	144	115	111	97	134	106	95	88
UltraTech Cement	5.9	6.0	5.6	6.4	128	121	104	88	129	115	88	83

Source: Company, Kotak Institutional Equities estimates

India Daily Summary - July 15, 2009

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	14-Jul-09		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target			ADVT-
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	price (Rs)	Upside (%)	(US\$ mn)	
Industrials																														
ABB	685	REDUCE	145,147	2,965	212	25.0	29.6		(3.4)	18.7	(100.0)	27.4	23.1		17.3	14.2		5.7	4.7		0.4	0.4		22.6	22.2		500	(27.0)	8.4	
BGR Energy Systems	300	REDUCE	21,564	441	72	15.6	23.1	26.4	29.0	47.8	14.2	19.1	13.0	11.3	10.7	7.9	6.7	3.8	3.1	2.5	0.9	1.3	1.4	21.6	26.0	24.3	315	5.2	1.6	
Bharat Electronics	1,366	REDUCE	109,288	2,233	80	101.9	111.1	119.0	(0.0)	9.0	7.1	13.4	12.3	11.5	5.8	6.0	5.3	2.8	2.4	2.1	1.8	1.8	1.8	22.4	20.9	19.2	1,025	(25.0)	2.4	
Bharat Heavy Electricals	2,048	REDUCE	1,002,317	20,476	490	64.1	92.0	106.8	9.8	43.5	16.1	31.9	22.2	19.2	23.7	15.1	12.4	7.7	6.1	4.9	0.8	1.0	1.1	26.4	30.7	28.6	1,900	(7.2)	57.0	
Crompton Greaves	277	ADD	101,677	2,077	367	15.3	18.0	21.0	37.3	17.6	16.3	18.1	15.4	13.2	10.2	8.7	7.4	5.6	4.2	3.3	0.7	0.8	0.9	35.9	31.3	28.1	315	13.6	5.1	
Larsen & Toubro	1,368	ADD	816,047	16,671	597	52.6	57.5	68.2	38.6	9.4	18.5	26.0	23.8	20.1	18.8	15.7	13.2	5.1	4.2	3.5	0.7	0.8	0.9	22.5	19.4	19.1	1,375	0.5	108.9	
Maharashtra Seamless	233	BUY	16,462	336	71	35.9	33.0	39.6	22.2	(8.1)	20.3	6.5	7.1	5.9	4.4	4.5	3.5	1.2	1.1	0.9	2.3	2.1	3.1	20.3	16.0	16.8	225	(3.6)	1.3	
Siemens	399	REDUCE	134,611	2,750	337	19.8	21.1		39.7	6.4	(100.0)	20.2	18.9		11.3	10.7		5.1	4.2		1.7	1.0		27.1	24.2		360	(9.8)	8.0	
Suzlon Energy	90	ADD	140,891	2,878	1,571	7.2	7.6	10.5	10.0	5.5	37.2	12.4	11.8	8.6	9.5	9.0	7.4	1.5	1.3	1.1	0.6	0.6	1.1	12.3	11.7	13.7	140	56.1	148.2	
Industrials Infrastructure																														
IRB Infrastructure	167	BUY	55,471	1,133	332	5.8	11.3	12.7	69.2	95.7	11.7	28.8	14.7	13.2	15.5	8.4	7.2	3.0	2.4	2.0				11.0	18.1	16.5	160	(4.1)	10.8	
Infrastructure																														
		Attractive	55,471	1,133					69.2	95.7	11.7	28.8	14.7	13.2	15.5	8.4	7.2	3.0	2.4	2.0	-	-	-	11.0	18.1	16.5				
Media																														
DishTV	34	REDUCE	32,224	658	946	(7.3)	(4.1)	(3.2)	(23.9)	(44.4)	(22.6)	(4.6)	(8.3)	(10.8)	(21.0)	(126.2)	40.7	-5.0	-15.9	-6.4				86.1	91.1	84.8	32	(6.0)	14.2	
HT Media	95	ADD	22,301	456	234	0.8	4.2	6.3	(80.4)	399.4	49.2	112.1	22.4	15.0	23.1	9.6	7.5	2.6	2.4	2.2	0.4	0.8	2.7	2.3	11.3	15.6	120	26.1	0.5	
Jagran Prakashan	79	BUY	23,732	485	301	2.9	4.2	5.5	(12.1)	47.2	29.6	27.5	18.7	14.4	15.4	10.3	8.2	4.3	4.0	3.6	2.5	3.2	3.8	15.8	22.1	26.5	92	16.8	0.9	
Sun TV Network	220	REDUCE	86,717	1,772	394	9.1	11.1	13.0	9.3	22.9	16.5	24.3	19.8	17.0	12.6	10.9	9.2	5.0	4.4	3.9	1.1	1.8	2.7	22.5	23.8	24.4	215	(2.3)	2.1	
Zee Entertainment Enterprises	163	REDUCE	70,704	1,444	435	8.1	9.3	11.2	(9.0)	15.5	20.0	20.1	17.4	14.5	14.1	12.1	10.0	2.1	2.0	1.9	1.4	1.7	2.0	11.6	12.2	13.7	145	(10.9)	7.5	
Zee News	38	ADD	9,195	188	240	1.9	2.1	2.5	20.4	11.1	18.8	20.6	18.5	15.6	10.7	9.1	8.0	3.7	3.2	2.8	1.0	1.0	1.6	20.0	19.0	19.5	40	4.3	1.5	
Media																														
		Neutral	244,872	5,002					(95.8)	451.8	111.6	200.0	88.5	65.8	55.1	(74.3)	83.7	12.7	0.1	8.0	6.5	8.6	12.7	158.3	179.5	184.4				
Metals																														
Hindalco Industries	74	BUY	128,992	2,635	1,753	7.7	2.0	10.0	(44.4)	(73.3)	386.0	9.6	35.9	7.4	6.2	8.6	6.6	0.4	0.3	0.3				10.3	5.2	6.7	135	83.4	24.4	
Hindustan Zinc	574	BUY	242,702	4,958	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	8.9	9.1	7.1	5.1	4.5	2.7	1.6	1.4	1.2	0.7	0.9	0.9	20.1	16.5	17.9	825	43.6	4.5	
Jindal Steel and Power	2,493	REDUCE	383,880	7,842	154	198.0	172.4	196.2	139.3	(12.9)	13.8	12.6	14.5	12.7	8.5	8.7	7.3	5.3	3.9	3.0	0.3	0.3	0.3	53.1	31.0	26.4	2,000	(19.8)	39.3	
JSW Steel	530	SELL	99,173	2,026	187	13.1	24.1	53.5	(84.7)	83.3	121.8	40.3	22.0	9.9	8.9	8.9	6.9	1.0	0.8	0.8	0.2	0.9	0.9	11.0	4.3	8.3	390	(26.4)	49.5	
National Aluminium Co	264	SELL	170,162	3,476	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	13.4	19.3	13.0	8.1	8.2	5.2	1.6	1.5	1.4	1.3	0.8	0.8	12.7	8.1	11.1	290	9.8	3.9	
Sesa Goa	199	BUY	156,267	3,192	787	24.8	25.5	34.2	30.8	3.0	34.0	8.0	7.8	5.8	5.0	4.5	2.7	3.5	2.5	1.8	1.8	1.8	52.8	37.1	36.0	240	20.9	42.9		
Sterilite Industries	604	REDUCE	427,860	8,741	708	49.2	33.2	41.8	(23.6)	(32.5)	26.1	12.3	18.2	14.4	7.1	8.4	6.3	1.7	1.5	1.4				14.3	8.7	9.9	540	(10.6)	49.3	
Tata Steel	358	BUY	294,108	6,008	822	110.0	46.2	84.2	45.3	(58.0)	82.2	3.3	7.7	4.2	4.4	7.2	5.3	0.7	0.7	0.6	4.3	4.5	4.5	36.3	16.1	25.1	505	41.1	131.2	
Metals																														
		Neutral	1,903,144	38,879					2.7	(123.6)	741.4	108.3	134.5	74.6	53.3	59.0	43.0	15.7	12.6	10.4	8.6	9.1	9.1	210.7	127.0	141.5				
Others																														
Aban Offshore	787	SELL	29,813	609	38	87.8	125.3	214.6	21.5	42.7	71.3	9.0	6.3	3.7	8.8	7.5	6.3	2.1	1.6	1.1	0.5	0.6	0.6	33.7	33.3	36.7	365	(53.6)	72.9	
Havells India	262	REDUCE	15,826	323	61	4.5	12.2	19.0	(83.0)	170.4	55.5	57.9	21.4	13.8	9.5	7.7	6.9	2.5	2.9	2.5	1.0	1.0	1.0	4.1	12.5	19.3	175	(33.1)	2.6	
Jai Prakash Associates	192	ADD	268,903	5,493	1,403	3.0	6.8	9.9	(38.7)	126.3	45.5	63.8	28.2	19.4	22.0	14.8	13.9	4.9	4.2	3.6	0.0	0.0	0.0	8.0	16.1	20.0	190	(0.8)	103.6	
Jindal Saw	353	BUY	19,389	396	55	64.3	47.8	41.7	(0.8)	(25.6)	(12.8)	5.5	7.4	8.5	3.7	3.7	3.6	0.6	0.5	0.5	1.4	1.1	1.1	10.8	7.4	6.2	300	(15.1)	3.4	
PSL	104	BUY	4,517	92	44	22.0	36.8	30.0	4.3	67.4	(18.5)	4.7	2.8	3.5	4.5	3.5	2.9	0.7	0.6	0.5	4.8	6.3	6.3	10.2	13.4	11.1	160	54.4	0.9	
Sintex	186	BUY	25,334	518	136	23.8	25.2	27.6	21.9	5.6	9.6	7.8	7.4	6.7	5.7	5.1	4.3	1.3	1.1	1.0	0.6	0.6	0.6	16.6	15.0	14.2	275	48.2	4.5	
Tata Chemicals	195	ADD	45,917	938	235	27.6	23.1	27.2	(30.4)	(16.4)	17.9	7.1	8.5	7.2	5.0	4.0	3.4	1.0	0.9	0.8	4.7	4.6	4.6	17.9	12.9	13.7	200	2.4	5.1	
United Phosphorus	145	BUY	66,805	1,365	462	10.7	13.5	18.0	27.8	25.7	33.9	13.5	10.7	8.0	9.6	6.7	5.1	2.2	1.9	1.6	0.8	1.0	1.4	18.1	18.2	20.5	140	(3.2)	5.8	
Welspun Gujarat Stahl Rohren	185	REDUCE	34,980	715	189	17.3	23.4	17.3	(15.8)	35.0	(25.7)	10.7	7.9	10.7	6.9	4.9	5.7	1.9	1.5	1.3	1.1	0.8	0.8	17.6	20.8	12.9	125	(32.5)	22.6	
Others																														
		-	511,484	10,449					(93.3)	431.1	176.7	180.0	100.6	81.4	75.8	57.8	52.1	17.1	15.3	12.8	14.9	16.0	16.5	137.1	149.4	154.5				
Pharmaceuticals																														
Biocon	210	BUY	41,980	858	200	4.7	13.6	18.3	(80.0)	192.6	34.2	45.1	15.4	11.5	13.7	10.4	7.9	2.7	2.4	2.1	0.0	0.0	0.1	6.2	16.9	19.8	270	28.6	5.2	
Cipla	272	ADD	211,501	4,321	777	9.9	13.9	15.5	9.5	40.6	11.9	27.5	19.6	17.5	20.9	14.7	12.9	4.9	4.1	3.5	0.9	1.1	1.3	19.1	23.0	21.8	250	(8.1)	10.6	
Dishman Pharma & chemicals	181	BUY	14,750	301	81	18.0	21.2	27.3	22.1	17.9	28.7	10.1	8.6	6.6	8.5	6.7	5.2	2.1	1.7	1.4	0.0	0.0	0.0	22.8	21.9	22.9	280	54.4	0.5	
Div's Laboratories	981	BUY	64,041	1,308	65	63.8	74.6	86.5	19.9	16.9	16.0	15.4	13.1	11.3	13.0	10.4	8.2	5.2	3.8	2.9	0.1	0.1	0.1	39.8	33.5	29.3	1,375	40.2	3.7	
Dr Reddy's Laboratories	769	BUY	130,166	2,659	169	32.4	44.8	48.4	24.5	38.2	8.0	23.7	17.2	15.9	11.1	8.7	7.6	3.7	3.2	2.7	0.8	0.9	1.0	13.7	19.8	18.2	770	0.1	7.3	
Glenmark Pharmaceuticals	220	BUY	58,448	1,194	266	11.1	12.1	16.2	(57.0)	8.7	33.6	19.8	18.2	13.6	12.0	10.7	8.9	2.8	2.5	2.1	0.0	0.0	0.0	15.9	14.4	16.6	315	43.3	10.1	
Jubilant Organosys	168	BUY	28,736	587	171	16.5	18.6	21.8	(26.2)	12.6	17.0	10.1	9.0	7.7	11.9	7.5	5.5	2.3	1.9	1.5	0.8	0.8	1.0	18.6	22.6	21.7	250	48.9	0.5	
Lupin	824	BUY	72,997	1,491	89	60.7	66.0	71.3	21.9	8.7	8.0	13.6	12.5	11.6	13.5	11.2	9.6	4.3	3.3	2.7	1.4	1.3	1.6	33.7	30.3	26.1	1,075	30.5	3.1	
Piramal Healthcare	311	BUY	65,083	1,330	209	17.3	22.4	28.2	(2.7)	29.8	26.0	18.0	13.9	11.0	13.3	9.3	7.6	4.9	3.9	3.0	1.3	1.4	1.4	26.3	31.4	30.8	340	9.2	1.8	
Ranbaxy Laboratories	244	REDUCE	104,141	2,127	427	(8.																								

Kotak Institutional Equities: Valuation summary of key Indian companies

	14-Jul-09		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-	
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US\$ mn)	
Technology																														
HCL Technologies	191	REDUCE	132,432	2,705	695	16.2	13.1	17.0	6.0	(19.0)	29.5	11.8	14.5	11.2	6.7	6.5	6.2	2.1	2.0	1.9	6.3	6.3	6.3	18.6	14.4	17.7	135	(29.2)	6.0	
Hexaware Technologies	39	SELL	5,581	114	144	3.6	4.0		(12.7)	11.5	(100.0)	10.8	9.7		2.3	2.1		0.8	0.8		2.6	2.6		7.6	8.0		35	(9.9)	1.4	
Infosys Technologies	1,812	BUY	1,039,973	21,246	574	102.4	102.5	112.8	29.6	0.1	10.1	17.7	17.7	16.1	12.9	12.3	10.3	5.7	4.6	3.9	1.3	1.4	1.8	36.7	28.9	26.3	1,900	4.9	64.3	
Mindtree	488	BUY	20,086	410	41	13.2	46.4	51.7	(50.5)	250.3	11.6	36.9	10.5	9.4	6.3	6.8	5.5	3.6	2.7	2.1	0.4			1.1	5.5	22.1	18.7	575	17.8	4.2
Mphasis BFL	369	REDUCE	76,912	1,571	208	14.2	38.9	33.5	15.7	174.5	(13.9)	26.0	9.5	11.0	19.8	6.8	6.2	5.4	3.6	2.8	1.1	1.2	1.4	22.8	45.4	28.8	335	(9.2)	3.6	
Patni Computer Systems	271	REDUCE	34,881	713	129	24.7	26.8		(7.8)	8.5	(100.0)	11.0	10.1		3.9	3.7		1.2	1.1		1.8	2.0		11.0	11.2		220	(18.9)	1.9	
Polaris Software Lab	91	SELL	9,016	184	99	13.1	12.8	11.6	76.0	(2.5)	(9.5)	7.0	7.1	7.9	2.4	2.9	3.0	1.2	1.0	0.9	3.0	2.2	2.2	18.1	15.3	12.4	80	(12.4)	4.0	
TCS	407	REDUCE	796,483	16,271	1,957	26.4	26.9	29.6	3.1	1.9	10.0	15.4	15.1	13.7	10.8	10.4	9.0	5.1	4.2	3.6	1.7	2.0	2.9	36.9	30.4	28.1	350	(14.0)	31.8	
Wipro	400	ADD	585,312	11,957	1,462	25.7	26.4	29.2	15.8	2.6	10.3	15.6	15.2	13.7	11.4	10.5	8.7	3.9	3.2	2.8	1.0	1.8	2.1	26.9	23.3	21.6	400	(0.1)	15.7	
Technology																														
Attractive																														
2,700,675																														
55,172																														
Telecom																														
Bharti Airtel	773	ADD	1,467,461	29,979	1,898	44.6	52.2	59.8	26.4	17.0	14.6	17.3	14.8	12.9	10.1	8.7	7.4	4.7	3.5	2.7	0.5	0.8	1.0	31.4	27.0	23.8	775	0.2	88.9	
IDEA	68	REDUCE	211,838	4,328	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	23.5	23.5	21.2	8.8	8.1	6.7	1.5	1.5	1.3				10.4	6.4	6.8	65	(4.8)	22.0	
MTNL	91	SELL	57,299	1,171	630	5.1	5.5	6.5	(28.4)	7.6	17.7	17.8	16.5	14.0	4.5	4.2	3.9	0.5	0.5	0.5	6.6	6.6	6.6	2.2	2.4	2.9	50	(45.0)	4.6	
Reliance Communications	249	SELL	530,997	10,848	2,133	27.7	20.3	21.1	4.7	(26.6)	3.9	9.0	12.2	11.8	8.3	7.9	6.2	1.5	1.4	1.2	0.3			18.6	11.7	10.9	180	(27.7)	79.1	
Tata Communications	465	REDUCE	132,611	2,709	285	13.6	14.0	15.2	24.0	3.2	8.2	34.3	33.2	30.7	14.6	13.3	12.3	1.9	1.9	1.8	1.1	1.4	1.6	5.4	5.2	5.5	400	(14.0)	8.7	
Telecom																														
Cautious																														
2,400,206																														
49,034																														
Transportation																														
Container Corporation	927	ADD	120,478	2,461	130	64.4	71.4	83.3	11.6	10.8	16.6	14.4	13.0	11.1	10.2	8.6	7.2	3.2	2.7	2.3	1.5	1.7	2.0	24.0	22.5	22.2	850	(8.3)	1.3	
Transportation																														
Cautious																														
120,478																														
2,461																														
Utilities																														
CESC	268	ADD	33,527	685	125	31.2	38.0	42.1	12.3	21.8	10.8	8.6	7.1	6.4	4.8	5.6	6.1	0.9	0.8	0.7	1.7	2.0	2.3	11.4	12.2	11.9	345	28.6	2.4	
Lanco Infratech	346	ADD	76,949	1,572	222	14.5	20.2	35.1	(2.5)	39.7	73.7	23.9	17.1	9.9	22.5	16.0	7.9	3.6	2.9	2.2				16.1	18.6	25.3	385	11.2	25.9	
NTPC	195	SELL	1,611,576	32,923	8,245	9.4	10.8	12.2	1.1	14.7	12.6	20.7	18.1	16.0	15.8	13.4	12.8	2.7	2.5	2.3	1.8	2.1	2.3	13.7	14.5	15.0	180	(7.9)	41.9	
Reliance Infrastructure	1,054	BUY	238,701	4,876	226	64.1	58.8	62.9	70.5	(8.2)	6.9	16.4	17.9	16.8	17.6	18.1	14.1	1.4	1.3	1.2	0.7	0.8	0.9	6.3	7.0	9.0	1,250	18.6	120.2	
Reliance Power	152	REDUCE	363,468	7,425	2,397	1.0	2.5	3.1	168.2	140.3	25.3	148.7	61.9	49.4	117.8	1,024.5	82.0	2.6	2.5	2.4				1.8	4.2	5.0	160	5.5	37.7	
Tata Power	1,060	ADD	235,919	4,820	223	56.2	76.6	86.5	76.6	36.2	12.9	18.8	13.8	12.3	10.6	11.1	10.5	2.3	2.1	1.8	1.1	1.1	1.3	13.4	15.8	15.7	1,100	3.8	13.7	
Tata Power	1,171	ADD	260,649	5,435	223	56.2	76.6	86.5	76.6	36.2	12.9	20.8	15.3	13.5	11.3	11.7	11.0	2.6	2.3	2.0	1.0	1.0	1.2	13.4	15.8	15.7	1,100	(6.1)	14.2	
Utilities																														
Attractive																														
2,820,788																														
57,736																														
KS universe (b)																														
24,376,367																														
487,771																														
KS universe (b) ex-Energy																														
18,082,077																														
361,822																														
KS universe (d) ex-Energy & ex-Commodities																														
16,258,901																														
325,341																														
36.0																														
6.2																														
6.9																														
13.6																														
12.8																														
12.0																														
10.6																														
10.3																														
9.0																														
2.6																														
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1.9																														
18.7																														
16.8																														
14.9																														

Note:

(1) For banks we have used adjusted book values.

(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.

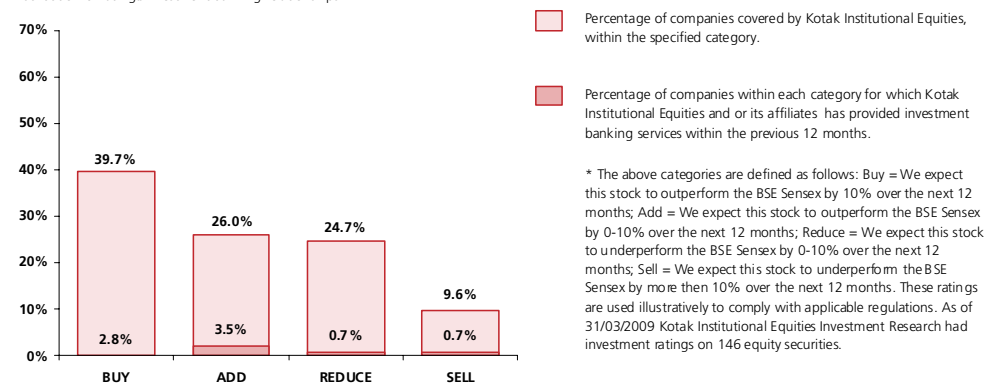
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

(4) Rupee-US Dollar exchange rate (Rs/US\$)= 48.95

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

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

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