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News Round-up

- ▶ The RBI will release its mid-quarter review of monetary policy, amid expectations of a 25 basis points rise in key policy rates. *(BSTD)*
- ▶ Oil companies increased petrol prices by INR 3.14 to 3.32 a litre with effect from midnight, the second biggest in more than a year. *(BSTD)*
- ▶ After months of tardy decision-making & policy inaction, the govt. has stepped on the accelerator to clear a raft of decisions that made overseas borrowings by Indian cos. cheaper & easier & refocused attention on infrastructure. *(ECNT)*
- ▶ The advance tax for the September quarter paid by top 100 Mumbai-based companies has recorded a moderate growth of 5 per cent at about USD 3.61 bn (USD 3.43 bn) as most banks and oil companies reported a flat growth in their tax payout. *(THBL)*
- ▶ The Union shipping ministry has put on hold a plan to divest stake in three public sector units under it Dredging Corporation of India, Cochin Shipyard and Ennore Port Ltd. *(BSTD)*
- ▶ Strike cuts parts supply, Maruti (MSIL IN) stops production. *(BSTD)*
- ▶ The government has postponed the proposed USD 2.52 bn share sale in ONGC's (ONGC IN) by 15 days to early October. *(BSTD)*
- ▶ IOC (IOCL IN) plans to invest USD 1.87 bn to raise Koyali refinery capacity. *(BSTD)*
- ▶ Oil India (OINL IN) is likely to invest in HPCL (HPCL IN) refinery expansion project. *(FNLE)*
- ▶ Tata Motors (TTMT IN) announced a 2.75% increase in its global August sales at 87,459 units as compared to 85,114 units sold in the same month last year. *(BSTD)*
- ▶ M&M (MM IN) to sell 8% stake in hospitality arm, Mahindra Holidays & Resorts India. *(BSTD)*

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

EQUITY MARKETS

India	Change %			
	15-Sep	1-day	1-mo	3-mo
Sensex	16,877	1.0	0.9	(6.2)
Nifty	5,076	1.3	0.8	(5.9)
Global/Regional indices				
Dow Jones	11,433	1.7	0.2	(4.4)
Nasdaq Composite	2,607	1.3	3.3	(0.6)
FTSE	5,338	2.1	(0.4)	(6.3)
Nikkei	8,824	1.8	(3.1)	(6.2)
Hang Seng	19,556	2.0	(3.2)	(10.9)
KOSPI	1,825	2.9	(2.9)	(10.8)
Value traded – India				
Cash (NSE+BSE)	131		134	138
Derivatives (NSE)	1,316		1,238	839
Deri. open interest	1,373		1,388	1,317

Forex/money market

	Change, basis points			
	15-Sep	1-day	1-mo	3-mo
Rs/US\$	47.6	0	217	265
10yr govt bond, %	8.3	1	7	(6)

Net investment (US\$m)

	14-Sep	MTD	CYTD
FIs	(2)	220	274
MFs	(33)	(230)	(282)

Top movers -3mo basis

		Change, %			
		15-Sep	1-day	1-mo	3-mo
Best performers					
IDEA	IN Equity	97.3	(1.0)	5.2	29.4
MM	IN Equity	805.4	1.5	10.0	22.7
BJAUT	IN Equity	1628.6	(0.0)	11.8	21.1
ACEM	IN Equity	150.3	3.0	13.0	20.0
UTCEM	IN Equity	1146.6	4.0	12.1	13.9
Worst performers					
EDSL	IN Equity	233.1	2.0	(14.8)	(44.4)
HDIL	IN Equity	104.1	3.0	0.5	(40.4)
IVRC	IN Equity	42.7	0.5	8.2	(39.4)
CRG	IN Equity	159.6	1.7	11.2	(38.3)
RPWR	IN Equity	80.0	1.8	(6.9)	(30.8)

The Next Big Things. The companies profiled in this report take forward several of the themes we have explored in our GameChanger series: demographics, water, agriculture, mobile banking, manufacturing, education and skill-building. As we noted in our reports, we have anticipated policy and entrepreneurial action on these fronts. The Next Big Things takes this road forward – identifying trailblazers who are building sustainable business models in these niches.

Theme 1: The insatiable Indian: demographics-driven demand

Increasing incomes are allowing Indians to consider using products and services that either did not exist in the consumption basket earlier or were simply unaffordable. Companies like **Lemon Tree Hotels** and **Tirumala Milk Products** have grown over the past few years by offering Indian consumers products and services that are locally suited, aspirational and yet, affordable. As incomes increase, the ability and willingness to spend on newer product categories rises, driven partly by choosing an improved version of earlier consumption baskets (for instance, moving up from 1 or 2 star hotels to 3 and 4 star rooms) or higher value products (choosing cheese over milk).

Theme 2: E-exchange: change for good

Driven by 100 mn internet users in India, buying of services, say a travel ticket (whether airline or bus) or products like books, entertainment and consumer durables, is now moving online. As the channel convergence takes place online, payment convergence is taking place on the financial side. Companies like **redBus** offers customer convenience and ease of e-shopping (and enable offline shopping) while **ItzCash** and **Prizm Payments** reach out to consumers to ease their payment processes.

Theme 3: Agriculture & manufacturing: new furrows

Indian agriculture is getting more technologically intensive as farmers reinvest their increased profits back in agriculture clearly favoring companies like **Nuziveedu Seeds** which provide 'high technology' seeds. Manufacturing companies have found interesting niches in which to create a mark for themselves. For example, **Tega Industries** now has a market share of around 10% in rubber mill-linings in the world while **Parksons Packaging** specializes in creating paper-based packaging for FMCG, food and pharma companies in India, and is a derivative of the booming consumption demand in India. Similarly, as cities begin to measure their water consumption, the trend is opening up large opportunities in water meters for **Chetas Control Systems**.

Theme 4: Education and bridge services: do or die

Companies like **TeamLease Staffing Solutions** and **Manipal Universal Learning** are catering to the insatiable appetite of Indians to educate and train themselves for better career prospects. India's demographic surge is kicking in even as the employability of its young educated people is in doubt. India's education system has long focused on rote-learning and has not kept pace with the rapidly changing economic structure of the country, even as the government has increased its emphasis and focus on school enrolment. A parallel schooling system is now emerging which is equipping students with employable skills.

Theme 5: Opportunity creation: spunk and entrepreneurship

Companies like **NetAmbit** and **Nova Medical Centers** demonstrate the innovative business models that Indian entrepreneurs can create. Indian entrepreneurship is the cornerstone of India's growth story. For example, compared with the Chinese economy which is far more investment driven and directed by the state, the Indian story has been driven by the bottom-up start-ups that have understood the needs of their customers.

GameChangers

The future for these companies, and indeed the economy in general, critically depends on (1) ensuring continued economic growth – leading to increased incomes, (2) deeper penetration of internet and broadband, (3) effective and well spelt-out policy making and (4) regulatory certainty.

INDIA

SEPTEMBER 15, 2011

NEW RELEASE

BSE-30: 16,877

QUICK NUMBERS

- 14 profiled companies across five themes
- Private equity funding for these firms in the range of US\$5-150 mn each

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Maruti Suzuki (MSIL)

Automobiles

Fuel price hike likely to dampen consumer sentiment. We believe the petrol price hike of Rs3.14 km/ltr will dampen consumer sentiment in 2HFY2012E and recovery in volume growth is likely to be delayed till 1QFY13E. We expect domestic passenger car industry volumes to decline by 3% yoy (for the first time in 10 years) due to weak consumer sentiment. We downgrade Maruti Suzuki to ADD (from BUY) as we expect a sharp slowdown in volume growth in 2HFY12E before improving in FY2013E.

Company data and valuation summary

Maruti Suzuki

Stock data		Forecasts/Valuations			
52-week range (Rs) (high,low)	1,600-1,041	EPS (Rs)	2011	2012E	2013E
Market Cap. (Rs bn)	312.7	EPS growth (%)	(8.4)	(16.7)	36.8
Shareholding pattern (%)		P/E (X)	13.7	16.4	12.0
Promoters	54.2	Sales (Rs bn)	363.0	351.2	411.6
FIs	18.7	Net profits (Rs bn)	22.9	19.1	26.1
MFs	3.4	EBITDA (Rs bn)	28.2	26.4	36.6
Price performance (%)		EV/EBITDA (X)	8.6	8.9	6.2
Absolute	(13.2)	ROE (%)	17.6	12.9	15.5
Rel. to BSE-30	(13.4)	Div. Yield (%)	0.7	0.7	0.7
1M	3M	12M			

Festive season could disappoint due to a sharp increase in petrol prices in a short span of time

We expect passenger car volume growth to decline by as much as 4% yoy during Sep-March 2012E impacted by the further rise in cost of ownership of vehicles and weak economic sentiment. Maruti Suzuki has also lost production of ~15,000 units in the first fortnight of September 2011, in our view. Moreover, if the strike issue is not resolved immediately, Maruti Suzuki may not be able to capitalize on the festive season in October-November 2011. We forecast Maruti Suzuki's volumes to decline by 8% yoy in FY2012E as we expect demand to get deferred till 1QFY13E versus earlier expectations of pick-up in the festive season.

EBITDA margins to remain under pressure in 2HFY12E

We expect EBITDA margins to decline by 150 bps in 2HFY2012E versus 1QFY12E as we factor in – (1) 250 bps impact due to yen appreciation versus INR, (2) 100 bps impact due to the increase in discounts, partly offset by an increase in localization of components (100 bps positive impact) and decline in raw material expenses (100 bps positive impact).

Volume growth likely to pick up in FY2013E

We believe passenger car volume growth will pick up in FY2013E as affordability of car increases due to increases in salaries and a decline in inflation and interest rates while we expect car prices to increase marginally. We forecast a 17% yoy increase in domestic passenger car volumes for FY2013E and expect Maruti to lose 100 bps market share in FY2013E. We forecast a 15% yoy increase in Maruti Suzuki's domestic volumes in FY2013E.

We downgrade the stock to ADD (from BUY)

We have downgraded the stock to ADD (from BUY) as we have cut our consolidated earnings from Rs84.9 and Rs105.3 to Rs71.0 and Rs95.3 for FY2012 and 2013E, respectively, driven by 11% downward revision in our volume estimates and a 50 bps cut in our EBITDA margin assumptions in FY2012E. We have revised our target price to Rs1,240 (from Rs1,475 earlier) based on a revision in our earnings estimates.

ADD
SEPTEMBER 16, 2011
CHANGE IN RECO.

Coverage view: **Cautious**

Price (Rs): **1,082**

Target price (Rs): **1,240**

BSE-30: **16,877**

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Rising cost of ownership + weak economic sentiment to further impact volumes

Oil marketing companies have increased petrol prices by Rs3.14/litre due to rising global oil prices and a sharp depreciation of INR versus the USD. We believe this will impact consumer sentiment further and dampen the upcoming festive season. We believe the strike at Maruti's Manesar plant has worsened the situation as they may not be able to dispatch the required vehicles to benefit from festivals coming up in October 2011. Hence, we see risks to Maruti Suzuki's volumes for 2HFY12E as consumer sentiment will take some time to improve as two consecutive petrol price hikes in the past 2.5 months coupled with rising interest rates and no abatement in inflation are likely to further dampen the consumer sentiment.

We expect the domestic passenger industry to decline by 3% yoy in FY2012E for the first time in 10 years. Maruti Suzuki has lost 4.3% market share during April-August 2011, partly due to a strike at its plants and a sharp decline in demand for its Alto, Swift and Dzire models. We expect the company to recover 100 bps market share in 2HFY12E as we expect production issues to be sorted out and company to be in a position to meet demand for the Swift/Dzire models.

We forecast a 8% yoy decline in Maruti's volumes in FY2012E and expect the volumes to grow by 14% yoy in FY2013E. We believe passenger car volumes are likely to recover in FY2013E driven by – (1) a low base effect, (2) likely decline in interest rates, (3) increase in affordability of the vehicle as we expect car prices to increase by 2% next year while salaries are expected to increase by 10-12% and (4) a likely decline in fuel prices.

We believe EBITDA margins could be under pressure in 2HFY12E due to an increase in discounts, slowdown in volume growth and sharp appreciation of Yen versus INR. Maruti has hedged its exports exposure denominated in Euro and USD for FY2012E while yen exposure is kept unhedged for 2HFY12E. Maruti Suzuki imports + royalty forms 27% of net sales (8% of net sales is direct imports, 5% of net sales is royalty expense and rest 12% of net sales is indirect imports). Maruti has hedged 13% of its direct exposure (including royalty) till October 2011 at very favorable rates and hence we do not expect any major impact of yen appreciation in 2QFY12. However, we now assume 250 bps hit due to yen appreciation versus INR in 2HFY12E as we expect a ~10% appreciation of Yen versus INR in 2HFY12E versus 1QFY12 average levels. We expect another 100 bps impact on margins due to an increase in discounts in 2QFY12E. We expect 200 bps benefit in EBITDA margins from increase in localization of imported components and decline in raw material expenses in 2HFY2012E. Hence, we expect EBITDA margins to decline by 150 bps in 2HFY12E versus 1QFY12E levels.

We forecast a 200 bps improvement in EBITDA margins in FY2013E versus 2HFY12E levels driven by – (1) 150 bps improvement in margins due to further increase in localization and (2) 50 bps improvement in margins due to a decline in discounts as demand improves. We have assumed static raw material expenses and currency movements for FY2013E versus 2HFY12E as we expect Maruti to hedge currency exposures in FY2013E.

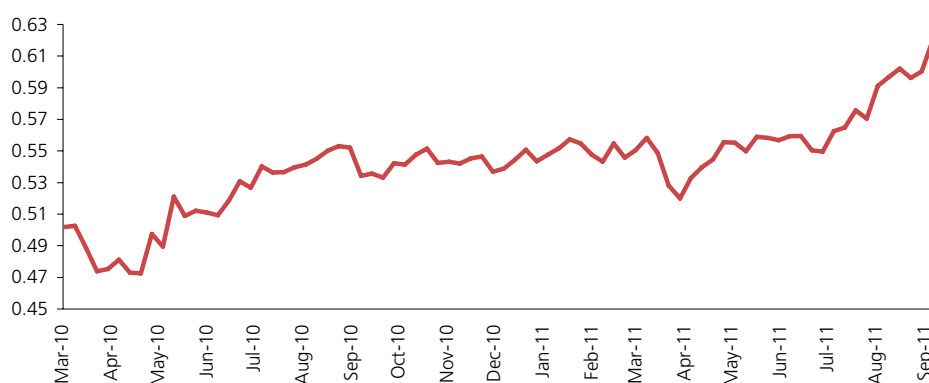
Cost of ownership of a Maruti Alto LXi has increased by 14% since May 2010

Cost of ownership of Maruti Alto LXi (Rs)

	May-10	Nov-10	Jan-11	May-11	Sep-11
Price (ex showroom, Delhi), Rs	316,436	321,182	326,000	326,000	316,000
Financed amount (%)	80%	80%	80%	80%	80%
Interest rate (%)	9.5%	10.5%	11.0%	11.5%	12.0%
Total interest cost (Rs)	49,224	56,451	61,219	65,141	69,641
Total loan tenure (years)	3	3	3	3	3
Total cost of vehicle (price + interest amount paid), Rs	365,660	377,633	387,219	391,141	385,641
Petrol price (Rs/litre)	47.9	52.9	58.0	63.0	66.1
Average fuel efficiency (km/ltr)	14	14	14	14	14
Annual Kms run	12,000	12,000	12,000	12,000	12,000
Average replacement (years)	5	5	5	5	5
Total Kms run	60,000	60,000	60,000	60,000	60,000
Total Fuel cost (Rs)	205,286	226,714	248,571	270,000	283,457
Annual maintenance cost (Rs)	10,000	10,000	10,000	10,000	10,000
Total maintenance cost (Rs)	50,000	50,000	50,000	50,000	50,000
Total insurance cost (Rs)	34,129	34,640	35,160	35,160	34,082
Registration and road taxes (one time), Rs	31,644	32,118	32,600	32,600	31,600
Total cost of ownership (Rs)	686,718	721,106	753,551	778,901	784,780
% increase in cost of ownership since May 2010		5.0	9.7	13.4	14.3
Annual cost of running a car	653,331	717,570	781,492	843,122	880,016
% increase in cost of ownership since May 2010		9.8	19.6	29.0	34.7

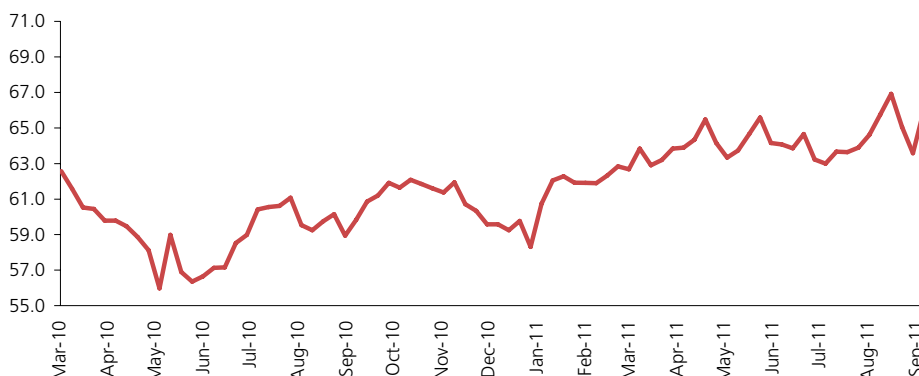
Source: Kotak Institutional Equities estimates.

Note: Prices also include discounts offered by dealers.

INR has depreciated by 14% versus JPY since April 2011

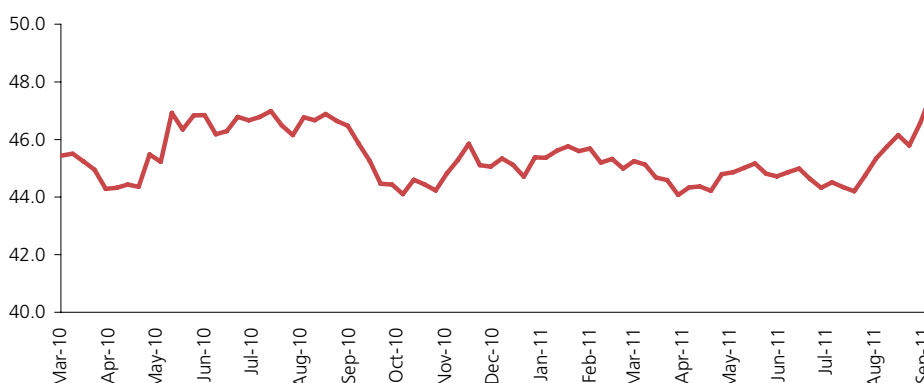
Source: Bloomberg

INR has depreciated by 1% versus Euro since April 2011



Source: Bloomberg

INR has depreciated by 8% versus USD since April 2011



Source: Bloomberg

We have revised our earnings estimates by 9-16% over FY2012-2013E

We have revised our earnings estimates downwards by 9-16% over FY2012-2013E driven by – (1) 11% cut in our volume estimates, (2) 50 bps cut in our EBITDA margin estimates due to further appreciation of Yen versus INR and slowdown in volume growth. We have also cut our capex estimates by Rs10 bn each in FY2012 and FY2013E due to a slowdown in volume growth and we believe Maruti may reconsider committing further capex in Manesar plant to increase capacities from 1.55 mn currently to 1.9 mn by March 2013E.

We downgrade the stock to ADD (from BUY) rating and revise our target price downwards to Rs1,240 (from Rs1,475 earlier). Our target price is based on 13X FY2013E consolidated earnings estimates. We have cut our target multiple from 14X to 13X due to a slowdown in earnings growth over the next two years.

We cut our earnings estimates by 9-16% over FY2012-2013E

Earnings revision table, March fiscal year-ends (Rs mn)

	Old		New		change (%)	
	2012E	2013E	2012E	2013E	2012E	2013E
Volumes (units)	1,311,062	1,500,480	1,173,461	1,342,838	(10.5)	(10.5)
Net ASPs	301,976	309,058	304,506	311,703	0.8	0.9
Net sales	395,910	463,735	357,326	418,567	(9.7)	(9.7)
EBITDA	36,927	46,723	31,437	42,221	(14.9)	(9.6)
Margin (%)	9.3	10.1	8.8	10.1		
EBITDA/vehicle	28,165	31,139	26,790	31,442		
Net Profit	23,087	28,969	19,072	26,096	(17.4)	(9.9)
Standalone EPS	79.9	100.3	66.0	90.3	(17.4)	(9.9)
Subs EPS	5.0	5.0	5.0	5.0		
Consol EPS	84.9	105.3	71.0	95.3	(16.4)	(9.4)

Source: Kotak Institutional Equities estimates

We expect Maruti's volumes to decline by 8% yoy in FY2012E

Maruti Suzuki volume assumptions, 2009-2014E (units)

	2009	2010	2011	2012E	2013E	2014E
Segment-wise sales (units)						
Maruti 800	49,383	33,028	26,485	22,512	20,261	18,235
Omni/Eco	77,948	101,325	160,626	179,569	211,479	237,839
Compact (B) segment	511,396	633,190	808,552	718,978	826,982	951,478
Dezire/SX4	75,928	99,315	131,282	122,819	141,242	162,428
Kizashi	—	—	128	300	900	1,200
Gypsy/Vitara	7,489	3,932	5,666	4,843	5,091	5,351
Domestic	722,144	870,790	1,132,739	1,049,021	1,205,955	1,376,532
Exports	70,023	147,575	138,266	124,439	136,883	150,572
Total	792,167	1,018,365	1,271,005	1,173,461	1,342,838	1,527,103
Segment-wise sales growth (yoy %)						
Maruti 800	(29.0)	(33.1)	(19.8)	(15.0)	(10.0)	(10.0)
Omni/Eco	(13.1)	30.0	58.5	11.8	17.8	12.5
Compact (B) segment	2.4	23.8	27.7	(11.1)	15.0	15.1
Dezire/SX4	53.9	30.8	32.2	(6.4)	15.0	15.0
Kizashi					200.0	33.3
Gypsy/Vitara	88.6	(47.5)	44.1	(14.5)	5.1	5.1
Domestic	1.5	20.6	30.1	(7.4)	15.0	14.1
Exports	32.1	110.8	(6.3)	(10.0)	10.0	10.0
Total	3.6	28.6	24.8	(7.7)	14.4	13.7
Volume Mix (%)						
Maruti 800	6.2	3.2	2.1	1.9	1.5	1.2
Omni/Eco	9.8	9.9	12.6	15.3	15.7	15.6
Compact (B) segment	64.6	62.2	63.6	61.3	61.6	62.3
Dezire/SX4	9.6	9.8	10.3	10.5	10.5	10.6
Kizashi	-	-	0.0	0.0	0.1	0.1
Gypsy/Vitara	0.9	0.4	0.4	0.4	0.4	0.4
Domestic	91.2	85.5	89.1	89.4	89.8	90.1
Exports	8.8	14.5	10.9	10.6	10.2	9.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Kotak Institutional Equities estimates

We expect Maruti Suzuki's earnings to grow at a 7% CAGR over FY2011-2013E

Maruti Suzuki profit and loss, balance sheet and cash flow statement, March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)						
Net sales	204,553	290,989	362,997	351,163	411,594	477,698
EBITDA	18,321	39,543	35,442	31,437	42,221	51,045
Other income	6,013	4,967	4,824	4,996	5,633	6,834
Interest	(510)	(335)	(244)	(186)	(201)	(217)
Depreciation	(7,065)	(8,250)	(10,135)	(10,818)	(12,859)	(14,949)
Profit before tax	16,758	35,925	29,887	25,430	34,795	42,714
Current tax	4,689	11,230	8,101	6,357	8,699	10,678
Deferred tax	(118)	(281)	101	-	-	-
Adj Net profit	12,187	24,976	22,886	19,072	26,096	32,035
Earnings per share (Rs)	42.2	86.4	79.2	66.0	90.3	110.9
Balance sheet (Rs mn)						
Equity	93,449	118,351	138,481	155,018	178,579	208,079
Deferred tax liability	1,551	1,370	1,644	1,644	1,644	1,644
Total Borrowings	6,989	8,214	3,093	3,093	3,093	3,093
Current liabilities	33,976	35,678	40,760	40,890	45,244	50,665
Total liabilities	135,965	163,613	183,978	200,645	228,560	263,481
Net fixed assets	49,321	54,123	69,580	78,276	90,417	90,468
Investments	31,733	71,766	51,067	46,067	61,067	81,067
Cash	19,390	982	25,085	37,407	32,742	40,377
Other current assets	35,521	36,742	38,246	38,894	44,334	51,570
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	135,965	163,613	183,978	200,645	228,560	263,481
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	12,933	28,991	26,332	25,080	33,523	40,367
Working capital changes	(1,000)	1,327	4,171	(519)	(1,085)	(1,815)
Capital expenditure	(16,136)	(14,593)	(24,114)	(19,514)	(25,000)	(15,000)
Free cash flow	(4,203)	15,725	6,389	5,047	7,437	23,552
Ratios						
EBITDA margin (%)	8.8	13.3	9.6	8.8	10.1	10.5
PAT margin (%)	6.0	8.6	6.3	5.4	6.3	6.7
Net debt/equity (X)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)
Book value (Rs/share)	328.7	414.4	485.0	542.3	623.8	725.9
RoAE (%)	13.5	23.3	17.6	12.9	15.5	16.4
RoACE (%)	14.4	34.4	26.4	15.0	18.7	21.3

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 15, 2011
UPDATE

Coverage view:

Price (Rs): **173**

Target price (Rs): **230**

BSE-30: **16,877**

Business in sweet spot, BUY. We retain our positive stance on Muthoot Finance in the light of attractive valuations, significantly higher-than-industry business traction and high RoE. Muthoot has reported strong loan growth largely on the back of new client acquisitions; the recent rally in gold will further buoy its business. We raise estimates by 5-14% to factor higher growth and somewhat better-than-expected NIM; raise price target to Rs230 (from Rs220). BUY.

Company data and valuation summary

Muthoot Finance

Stock data

52-week range (Rs) (high,low) 199-150

Market Cap. (Rs bn) 64.4

Shareholding pattern (%)

Promoters 80.1

FIs 4.8

MFs 1.1

Price performance (%)

Absolute (8.0) 7.5 0.0

Rel. to BSE-30 (8.2) 15.5 0.0

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	15.7	21.6	26.7
EPS growth (%)	108.4	37.1	23.7
P/E (X)	11.0	8.0	6.5
Sales (Rs bn)	12.8	20.3	25.7
Net profits (Rs bn)	4.9	8.0	9.9
EBITDA (Rs bn)	0.0	0.0	0.0
EV/EBITDA (X)	0.0	0.0	0.0
ROE (%)	51.5	36.7	28.1
Div. Yield (%)	0.0	0.0	0.0

Gold loan business in sweet spot; growth will likely remain strong

We believe that rising gold prices will support business growth for Muthoot. Higher gold prices raise Muthoot's ability to increase the loan ticket size. Gold prices have increased by 25% since April (20% since June). On a yoy basis, gold prices are up about 45%.

Muthoot's growth driven by more customers. In 1QFY12, Muthoot reported 96% yoy growth in loan book – of this 72% was driven by increase in customers and the balance (24%) in average loan size (representing rise in gold prices). On a qoq basis, the average ticket size was up only 3% qoq even as gold prices increased by 6% qoq.

Raising loan growth estimates. We believe that the average ticket size will eventually catch up with the average rise in gold prices. Thus, the company is well-placed for higher growth. We are raising our loan growth estimates by 10% in FY2012E. We now model 58%, 25% and 13% loan growth in FY2012E, FY2013E and FY2014E, respectively as compared to over 100% growth in the past two years.

Limited exposure to short-term gold price movements. Muthoot's loans are not linked to daily gold prices but to a 'benchmark gold price'. The management has highlighted that during periods of sharp rises in gold prices (like the current scenario), they would wait for prices to stabilize before revising the 'benchmark gold price'. Thus, a sharp rise or fall does not affect the company in the near term; the price-rise needs to sustain in order to drive loan growth.

RBI NBFC guidelines: Limited risk to earnings, leverage levels high

Despite fears of adverse regulations for gold loan NBFCs, RBI's committee on NBFCs regulations did not have any specific proposals for the gold loan business.

We find limited risk to earnings of Muthoot Finance if RBI's proposed NBFC report is implemented. The committee proposes to reduce regulatory arbitrage between banks and NBFCs; it proposes to implement the 90-day NPL recognition norm for NBFCs as compared to 180 days currently. Muthoot's gross NPLs are currently low at 0.3%, which will likely rise to about 0.8% if NBFCs move to the 90-day NPL recognition norm. This poses about 4% risk to base-case estimates.

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The RBI committee proposes to raise Tier-I CAR ratio to 12%. We believe that Muthoot will need to raise capital if its growth is stronger than expected. Gold loans (from NBFCs) cannot be classified as priority sector loans for banks; we hence expect the share of loans outside balance sheet to decline to 10% by March 2012E from 26% in March 2011. According to the management, banks have appetite for buying out gold loans despite the removal of the priority sector classification. We, however, believe that the demand will be considerably lower. Slowdown in credit from the industrial sector will likely prompt banks to resume focus on retail segments—as such, banks' demand for gold loans will likely rise in 2QFY12E. We believe that Muthoot's Tier-I CAR will decline to 11.5-12% levels in the next few quarters if the company cannot sell down loans to banks.

About 4% downside to earnings due to higher NPLs

Key finances in base and stress case, March fiscal year-ends, 2012-13E

	Base Case		Stress case	
	2012E	2013E	2012E	2013E
EPS (Rs)	22	27	21	25
Change from base case (%)			(3.9)	(4.8)
BVPS (Rs)	82	108	81	106
Change from base case (%)			(1.0)	(1.9)
ABVPS (X)	82	108	81	106
PER (X)	7.9	6.4	8.2	6.7
PBR(X)	2.1	1.6	2.1	1.6
NIM (%)	9.8	9.0	9.8	9.0
Gross NPL (%)	0.5	0.5	0.8	0.8
RoA(%)	3.5	3.1	3.3	3.0
RoE (%)	37	28	36	27

Source: Kotak Institutional Equities

Will the regulator impose restrictions on expansion?

Banks currently require licenses from RBI to open new branches while NBFCs have no such restrictions. The NBFC committee report is also silent on this issue.

As per the current regulations for banks, about 25% of incremental branches need to be in Tier 3-6 cities. Most NBFCs are focused in smaller towns or lesser-banked/un-banked areas and hence, such a regulation may not pose a challenge.

Muthoot had a massive expansion drive over the past few years—branches increased to 2,733 in March 2011 from 985 in March 2009. Typically, a branch requires about three years to achieve optimum scale; hence, even if RBI imposes restrictions on new branches, Muthoot's existing branches can drive healthy growth in the medium term.

Government's drive to unearth black money can affect gold-backed lending

As per the recent income tax notification, purchase of gold above Rs0.5 mn requires the buyer to quote his PAN. We believe this is aimed to restrict the use of black money invested in the sector. In this backdrop, high-value gold loans disbursed in cash may be restricted. Notably, the average ticket size of gold loans is low at Rs34,000.

Competition can put pressures on margins and profitability

We believe that increase in competition and pressure on NIM is the biggest risk to gold loan companies. We expect Muthoot's spread to decline to 8.9% by FY2014E from 10.9% in FY2011 and 13.1% in FY2007. However, better operating leverage ratio (on the back of optimum utilization from recently set up branches) will support RoA.

We believe that better service proposition (lesser documentation, faster turnaround time, neighborhood branches, longer working hours) will enable NBFCs focused on the gold loan business to earn somewhat higher yields. We expect the gold loan business to remain a small-ticket business thereby requiring high operating leverage.

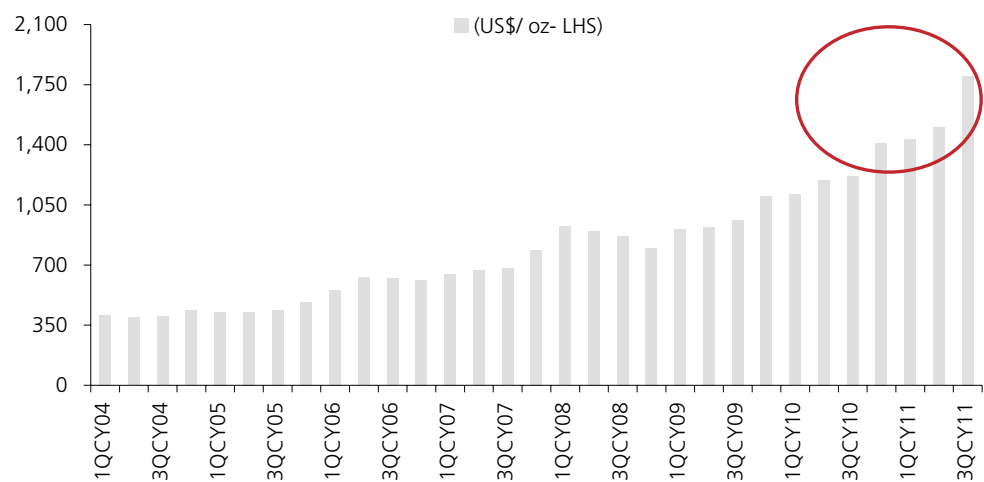
Muthoot Finance -old and new estimates

March fiscal year-ends, 2012-14E (Rs mn)

	New estimates			Old estimates			New vs old (%)		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Loans under management	251,221	313,178	352,860	227,672	290,921	338,183	10	8	4
NIM (%)	9.8	9.0	8.9	9.3	9.1	8.8	—	—	—
Interest income	43,040	56,440	65,771	39,601	51,859	61,652	9	9	7
Interest expenses	22,931	30,965	36,030	21,582	28,390	34,069	6	9	6
Net Interest income	20,109	25,475	29,742	18,019	23,469	27,583	12	9	8
Provisions	496	343	402	267	212	211	86	62	91
Operating expenses	7,186	9,741	11,550	6,853	9,158	10,674	5	6	8
Extraordinary items	—	—	—	—	—	—	—	—	—
Profit before tax	12,240	15,138	17,498	10,759	13,884	16,440	14	9	6
Tax	4,223	5,222	6,037	3,712	4,790	5,672	14	9	6
Profit after tax	8,017	9,915	11,461	7,047	9,094	10,768	14	9	6
EPS (Rs)	22	27	31	19	24	29	14	9	6
BVPS (Rs)	82	108	139	79	104	132	3	5	5

Source: Kotak Institutional Equities estimates

Gold price - at all-time highs
1QCY04- 3QCY12 (US\$/oz)



Source: Bloomberg

Muthoot Finance: Key ratios
March fiscal year-ends, 2010-14E (%)

	2010	2011	2012E	2013E	2014E
Growth in key parameters (%)					
Profit and loss statement - yoy (%)					
Interest income	78	113	87	31	17
Interest costs	53	118	122	35	16
Net interest income	104	110	59	27	17
Net total income	98	108	58	27	17
Provisioning expenses	297	1,089	54	(31)	17
Net income (post provisions)	98	104	58	28	17
Operating expenses	65	83	47	36	19
Staff expenses	78	89	47	41	30
Other operating expenses	58	85	46	32	8
Depreciation expenses	49	21	48	17	13
PBT post extraordinary	133	120	61	24	16
Tax	134	126	58	24	16
PAT	133	117	62	24	16
Balance sheet - yoy (%)					
Gold loans	112	115	94	25	13
Gold loans (incl sell down)	121	113	58	25	13
Fixed assets	19	53	28	17	13
Other current assets	(22)	141	47	27	11
Total assets	71	117	85	25	13
Borrowings	67	126	84	24	10
Current liabilities	151	(14)	114	20	20
Total liabilities	72	116	80	24	10
Share capital	514	6	16	0	0
Reserves and surplus	(10)	258	162	37	31
Shareholders funds	61	128	127	33	28
Key ratios (%)					
Interest yield (incl loans sold down)	19.9	19.7	21.0	20.0	19.8
Interest cost (incl loan sold down)	8.4	8.8	11.3	11.3	11.3
Spreads	11.5	10.9	9.7	8.7	8.5
NII/ loans under management	11.2	10.9	9.8	9.0	8.9
Operating costs/ net income (post provisions)	43.6	39.1	36.3	38.4	39.0
Cash/ total assets + loan sold down	6.8	7.6	5.8	6.0	5.9
Tax rate	34.1	35.1	34.5	34.5	34.5
Debt/ equity (X)	9.0	8.9	7.2	6.8	5.8
Du Pont analysis					
(% of average assets including loans sold down)					
Net interest income	9.3	9.5	8.7	8.0	7.9
Other income	0.2	0.1	0.1	0.1	0.1
Credit costs	0.0	0.2	0.2	0.1	0.1
Operating expenses	4.1	3.7	3.1	3.1	3.1
PBT post extraordinary	5.3	5.7	5.3	4.8	4.7
1-tax rate	0.7	0.6	0.7	0.7	0.7
RoA	3.5	3.7	3.5	3.1	3.1
Average assets / average equity (X)	13.8	13.9	10.6	9.0	8.2
RoE	48.1	51.5	36.7	28.1	24.9

Source: Company, Kotak Institutional Equities estimates

Muthoot Finance : Profit and loss and Balance sheet
March fiscal year-ends, 2010-14E (Rs mn)

	2010	2011	2012E	2013E	2014E
Income statement (Rs mn)					
Interest income	10,774	22,983	43,040	56,440	65,771
Interest costs	4,737	10,326	22,931	30,965	36,030
Net interest income	6,037	12,657	20,109	25,475	29,742
Other income	119	175	192	214	250
Net total income	6,156	12,832	20,301	25,690	29,992
Provisioning expenses	27	323	496	343	402
Net income (post provisions)	6,129	12,509	19,805	25,346	29,589
Operating expenses	2,674	4,896	7,186	9,741	11,550
Staff expenses	1,169	2,209	3,253	4,576	5,940
Other operating expenses	1,355	2,508	3,666	4,854	5,260
Depreciation expenses	149	180	267	311	351
PBT post extraordinary	3,455	7,612	12,240	15,138	17,498
Tax	1,180	2,670	4,223	5,222	6,037
PAT	2,275	4,942	8,017	9,915	11,461
No of shares (mn)	301	314	371	371	371
EPS - adjusted for bonus (Rs)	7.6	15.7	21.6	26.7	30.9
BVPS - adjusted for bonus (Rs)	19.4	42.5	81.6	108.3	139.2
Balance sheet (Rs mn)					
Assets					
Gold loans	54,298	116,821	226,099	281,860	317,574
Other loans	319	697	—	—	—
Investments	75	75	75	75	75
Fixed assets	1,533	2,341	3,000	3,495	3,945
Current assets	8,202	19,729	28,930	36,869	41,017
Cash and bank balances	5,760	13,755	16,368	21,210	23,374
Cash for securitised transactions	1,037	2,162	1,297	1,617	1,822
Other cash balance	4,723	11,593	15,071	19,593	21,552
Other current assets	2,442	5,974	12,561	15,659	17,643
Total assets	64,427	139,662	258,103	322,298	362,611
Liabilities					
Borrowings	52,805	119,385	219,493	272,114	298,976
Retail NCDs	27,193	39,832	—	—	—
Bank borrowings	20,828	60,529	—	—	—
Loans from directors/ inter corporate loan	587	821	821	821	821
Subordinated debt	3,247	7,106	14,747	23,247	23,247
Current liabilities	4,524	3,878	8,291	9,950	11,939
Provisions	1,230	3,031	—	—	—
Deferred tax liability	25	25	—	—	—
Total liabilities	58,584	126,319	227,784	282,064	310,916
Share capital	3,010	3,202	3,714	3,714	3,714
Reserves and surplus	2,832	10,140	26,605	36,520	47,981
Shareholders funds	5,842	13,342	30,319	40,234	51,695
Aggregate loan book (incl sell down)					
Loan on books	54,298	116,821	226,099	281,860	317,574
Loans outside books	20,083	41,863	25,122	31,318	35,286
Loans under management	74,381	158,684	251,221	313,178	352,860
Loans outside books./ total loans (%)	27	26	10	10	10
Total assets under management	84,509	181,525	283,225	353,616	397,897

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 16, 2011

UPDATE

BSE-30: 16,877

Insights into NLEM 2011 and Code of Marketing. In the past three months, two important documents have been framed by the government—(1) National List of Essential Medicines (NLEM) 2011, the primary purpose of which is to ensure cost-effective and quality delivery of the 348 medicines in the list. According to industry, this expanded list of medicines contains the most likely drugs which may come under price control, and (2) the Code of Marketing Practice, the primary purpose of which is to curb marketing malpractices. This code is currently voluntary, although it could be made mandatory. Our channel checks across certain distributors suggest that this code has started to make a small difference at ground level, although it is premature to draw any firm conclusion about its effectiveness and its implementation by all marketing participants (prescribing community and companies).

What is NLEM 2011?

The concept of essential medicines was first introduced by WHO in 1977 which has now been adopted by several countries. The list is considered to include the most cost-effective treatment for a particular indication, serves as a reference document for correct prescribing and guides procurement and supply of medicines by the government. Instead of relying on the WHO list, Ministry of Health and Family Welfare (MOH&FW) felt that NLEM should be country-specific and hence, the first list was released in 1996, which was subsequently revised in 2003 with 2011 being the latest revised version. Contrary to popular belief, the NLEM does not anywhere state that the essential medicines will automatically come under price-control. Instead, it mentions that the DOP (Department of Pharmaceuticals), which is responsible for drugs under price control, may rely on this list for price fixation. According to our analysis, only 27 drugs in the current price-controlled list of 74 molecules are in the NLEM 2011, which contains 348 drugs.

Salient features of NLEM 2011—contains 348 drugs across 27 therapeutic categories

In NLEM 2011, medicines have been categorized according to (1) therapeutic area—27 categories have been defined, and (2) essentiality is denoted at three levels—primary, secondary and tertiary. Therefore, a medicine with more than one indication appears in more than one category. A total of 348 medicines (excluding repetitions) are present in NLEM 2011 versus 352 in NLEM 2003. 47 medicines have been deleted and 43 added in comparison to NLEM 2003. NLEM 2011 now contains 40 anticancer/immunosuppressants versus 64 anti-infective drugs.

Implications for pharma companies

Given that the Indian pharma market is a doctor-driven prescription market entailing branded drugs, we view the code of marketing practice as an essential step required to curb the incentives given to doctors. Our discussions with few distributors suggest that this has started to make a difference at the ground level, however, it is too early to draw any conclusion. Companies such as DRL view price control as a key risk to the Indian market. While it is not certain that drugs in the revised NLEM will come under DPCO coverage, the list provides the most probable candidates. However, we note that the expansion of price control coverage has been talked about since 2006 without any conclusive outcome till date.

QUICK FACTS

- **NLEM 2011 lists 348 drugs from 27 therapeutic categories—industry expects these drugs to come under price control**
- **The new Code of Marketing Practice is intended to curb marketing malpractice**

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Industry is lobbying for price monitoring which is the best-case scenario

According to our recent meeting with DRL, expansion of drugs under price control is the key risk to watch out for. The pharmaceutical industry is lobbying for (1) price monitoring—imposing a ceiling price, or (2) limited control in drugs which have lesser competition. In case of the worst-case scenario of the entire NLEM 2011 coming under price control, MNCs with premium pricing stand to lose the most. For other companies, those with pricing above the price fixed will lose while those with rock-bottom pricing may gain. What mechanism is used to fix the price is unknown.

Code of marketing for Indian Pharma—voluntary code but could be made mandatory

In order to curb malpractices in pharmaceutical marketing to the prescribing community, a voluntary code has been formulated which will be reviewed after 6 months (code was formulated in June 2011); if found that it has not been implemented by companies, the government would consider making it a statutory code. The code contains 12 sections. Salient features include –

- (1) Restriction on samples provided to doctors
- (2) Strict ban on gifts of any kind
- (3) Conferences and meetings to be conducted in India only, not to be extended to families and should be such as to not influence independence of judgment of doctors
- (4) Promotional material cannot contain names or photographs of doctors
- (5) Detailed mechanism of complaint handling and redressal

List of Price-Controlled Drugs (DPCO 1995), drugs in NLEM 2011 highlighted in pink

Name	Category
1. Sulphamethoxazole	Anti infective
2. Penicillins	Anti dote
3. Tetracycline	Anti infective
4. Rifampicin	Anti infective
5. Streptomycin	Anti infective
6. Ranitidine	Gastrointestinal
7. Vitamin C	Vitamin
8. Betamethasone	Dermatology
9. Metronidazole	Anti infective
10. Chloroquine	Anti infective
11. Insulin	Diabetes
12. Erythromycin	Anti infective
13. Vitamin A	Vitamin
14. Oxytetracycline	Anti infective
15. Prednisolone	Antiallergics
16. Cephazolin	Anti infective
17. Methyl dopa	Cardiovascular
18. Aspirin	Analgesic
19. Trimethoprim	Anti infective
20. Cloxacillin	Anti infective
21. Sulphadimidine	
22. Salbutamol	Respiratory agent
23. Famotidine	Gastrointestinal
24. Ibuprofen	Analgesic
25. Metamizol (Analgin)	Analgesic
26. Doxycycline	Anti infective
27. Ciprofloxacin	Anti infective
28. Cefotaxime	Anti infective
29. Dexamethasone	Hormone
30. Ephedrine	
31. Vitamin B1 (Thiamine)	Vitamin
32. Carbamazepine	Anticonvulsant
33. Vitamin B2 (Riboflavin)	Vitamin
34. Theophylline	Respiratory agent
35. Levodopa	CNS
36. Tolnaftate	Anti infective
37. Vitamin E	Vitamin
38. Nalidixic Acid	Anti infective
39. Griseofulvin	Anti infective
40. Gentamicin	Ophthalmological
41. Dextropropoxyphene	Analgesic
42. Halogenated Hydroxyquinoline	Chelating agent
43. Pentazocine	Analgesic
44. Captopril	Cardiovascular
45. Naproxen	NSAID
46. Pyrental	Gastrointestinal
47. Sulphadoxine	Anti infective
48. Norfloxacin	Anti infective
49. Cefadroxyl	Anti infective
50. Panthones & Panthenols	Vitamin
51. Furazolidone	Anti infective
52. Pyrimethamine	CNS
53. Sulphadiazine	Anti infective
54. Framycetin	Dermatology
55. Verapamil	Cardiovascular
56. Glipizide	Antidiabetes
57. Spironolactone	Diuretics
58. Pentoxifylline	NSAID
59. Amodiaquin	Anti infective
60. Sulphamoxole	Anti infective
61. Frusemide	Diuretics
62. Pheniramine Maleate	Anti infective
63. Chloroxylenols	Anti infective
64. Becampicillin	Anti infective
65. Lincomycin	Anti infective
66. Chlorpropamide	Antidiabetes
67. Mebhydroline	Antihistamine
68. Chlorpromazine	CNS
69. Methendione	NSAID
70. Phenyl Butazone	NSAID
71. Lynestranol	Hormone
72. Salazosulphapyrine	Gastrointestinal
73. Diosmine	Bloodagent
74. Trimipramine	CNS

Source: Kotak Institutional Equities, Kotak Institutional Equities estimates, Company

Takeaways from KIE's Hyderabad Pharma Day. We took a group of investors for meetings with three companies—DRL, Aurobindo and Divis. Key takeaways are —DRL seemed (1) confident of returning to 13-15% growth rates in India over the medium term though exact timelines were not given, (2) US OTC business could surprise positively and (3) FY2013E US\$2.6-2.7 bn sales guidance is intact. Divis does not intend to utilize cash for any inorganic acquisition, except to acquire technologies; it does not foresee recent macro trends affecting its business; FY2012E sales guidance maintained at 25%.

Dr Reddys—Satish Reddy (COO) Umang Vohra (CFO)

- ▶ The DRL management discussed the recent setback in India in detail, the key reasons for which are—(1) high MR attrition, (2) execution issues in its rural foray, (3) key brands declining in urban areas which has led to the acute segment (70% of sales) growing at poor rates of 4-5%. It does not see any issue with growth in any of its chronic segments. The only caveat to India growth is price control which could either take the form of price monitoring (best-case scenario and which industry is lobbying for) or price control of all 348 drugs in NLEM list (worst-case scenario).
- ▶ DRL did not seem perturbed by a slow pick-up in key US launches as—(1) In Arixtra, it faces scale-up issues due to complexity of processes; it is confident of reaching 35% market share in 12 months from launch, (2) Allegra D24 is behind-the-counter product, hence, the dynamics are different from other OTC products. Overall, DRL seemed confident of its US OTC business reaching US\$200 mn by FY2014E (US\$60 mn in FY2011) with overall gross margin in this business being, 15% lower than the generic gross margin.
- ▶ DRL guided for the margin in Russia business sustaining at similar levels, unless price regulation is adverse.
- ▶ DRL believes its settlement terms with Pfizer regarding Atovastatin are along similar lines as Teva and Mylan, indicating a May 2012 launch, in our view. DRL expects a 4-5-player market in the first year and a 7-8-player market in the second year and does not expect it to impact its simvastatin sales.

Divis—Kiran Divi (Director, son of Murali Divi), Kishore Babu (CFO)

- ▶ Divis does not foresee any slowdown in business due to recent macro trends, It maintains that there cannot be 'destocking of destocking' post the last round of inventory rationalization which hit them in FY2010, and with just in time deliveries, there is no need for destocking.
- ▶ (1) Long-term relationships with customers and (2) excellent chemical synthesis capabilities will drive its chemical synthesis business while (3) DMF lock-in with partners, and (4) patent expiries of key products for which Divis has tied up with multiple partners (for example, Sartans—Divis foresees reaching market share of 40% when its partners launch) will drive its API business.
- ▶ In Nutraceuticals, Divis maintains there is no global player besides DSM, BASF and itself and due to time taken to gain entry into major customer segments, sales ramp-up has been slow. It envisages sales in this segment growing at a minimum of 25% sales per annum without any major capex.
- ▶ There are few products which are in Phase III with custom synthesis customers, for which Divis has signed up as exclusive API supplier—timelines depend upon approval of the product.

No entry into biosimilars unless guidelines are firmed up

All large contracts are protected for crude + exchange fluctuations up to a certain band. For other contracts, they are exposed and would gain favorably.

SEPTEMBER 15, 2011

UPDATE

BSE-30: 16,877

QUICK NUMBERS

- Price control in India – a risk to watch out for, according to DRL
- US OTC revenues to touch US\$200 mn by FY2014E, maybe even earlier
- Divis does not foresee any slowdown in business due to recent macro trends

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Aurobindo—N Govindrajan, (CEO - API, CRAMS), Sudhir Singhi (CFO)

- ▶ Rs4.5 bn capex incurred in FY2012E, this marks end of the major capex cycle. Capex is dedicated towards building an OC block in SEZ and dedicated block for the Japanese market at its SEZ and warehouse in US and capex across its existing units.
- ▶ US\$ 2 bn in FY2014E sales guidance maintained. Overall, Aurobindo sees FY2012E sales growth at 18% with operating margin at similar levels as 1QFY12 with probably some improvement in 2HFY12E. In FY2013E, it expects formulations to report solid growth of at least 30% boosted by Pfizer commercialization in emerging and regulated markets.
- ▶ No plans to tie up with another partner as all focus remains on delivering through the Pfizer deal.
- ▶ Strengthening of dollar versus the Rupee could hit them adversely as though they gain in revenues, they lose (1) in debt (ECB) and (2) imports (mainly from China).

What's ailing Infosys? Our analysis of relative revenue, EBITDA, net income, and market cap market shares of the top-5 Indian offshore names reveals a rather sobering story for Infosys – it has lost leadership on all these counts. More importantly, (1) its relative market share across all these parameters is at multi-year lows, and (2) bulk of the decline has happened in the past two years. The jury is still out on whether this is a temporary dislocation or a structural damage. We believe it is temporary and expect a trend reversal in the coming quarters. Infosys and TCS are our top picks.

Our analysis methodology

We have looked at relative market shares of the top-5 companies (TCS, Infosys, Cognizant, Wipro, and HCLT) within the top-5 composite across four parameters – (1) revenues, (2) EBITDA, (3) net income, and (4) market cap. We used quarterly numbers for operational parameters while market cap figures used for the analysis were period-end. We used September 2004 to June 2011 as the period of the analysis – starting date was driven by TCS' listing date. We also note that we have not made any adjustments for various acquisitions across companies (Wipro, TCS, and HCLT have been the most active on this front; Infosys the least). In addition to the relative market shares, we also present three derived metrics

- ▶ EBITDA market share/revenue market share – this metric essentially captures the relative profitability at the EBITDA level.
- ▶ Net income market share/revenue market share – same as above, but at the PAT level.
- ▶ Market cap market share/net income market share – this metric captures the relative PE premium or discount versus the peer group.

Infosys' recent fall from the perch stands out

Infosys' relative market share across all the parameters considered for our analysis is at multi-year lows. Even as the company's relative revenue share has been declining consistently (peaked in the March 2005 quarter at 25.3% of composite), the decline on other parameters has been more recent and sharper. Its relative EBITDA market share has fallen to 24.4% in June 2011 after hitting a peak of 30.7% in December 2008. Net income share has fallen to 24.8% in June 2011 from a peak of 33.6% in March 2009 while market cap relative share has declined to 25.2% from 37.5% in March 2009. Relative PE (defined as market cap share/net income share) is down to 1.02 versus a peak of 1.26 hit in June 2010. Even as part of the answer lies in superior revenue (TCS/CTSH/HCLT) and margin (TCS) performance of peers and movement in tax rates (Infosys has seen the sharpest rise in the past two years across the peer group), certain Infosys-specific factors are also to blame –

- ▶ Poor response to demand recovery post downturn. The problem was at multiple levels – (1) relatively lower aggression on the front-end; meaningful deal losses, especially in Europe, (2) poor bench management (composition of bench was the issue, not utilization levels), and (3) relatively lower flexibility on pricing and deal structures.
- ▶ Troubles at the erstwhile top account, BT. Even as Infosys has done a commendable job of mitigating the impact of sharp revenue loss at BT, it has impacted relative performance.
- ▶ Stretched reorganization phase, which led to a loss of focus at times.
- ▶ Excessive focus on certain type of deals (high value-add, consistent with Infosys 3.0 imperative).

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Key question – is Infosys' underperformance temporary or structural?

Relative underperformance on operational parameters has also led to a fall in Infosys' relative positioning on the Street – it has lost its bellwether positioning to TCS. Even as a modest PE premium to the peer group composite still exists (and is justified, despite operational underperformance, given superior balance sheet quality, cash flow generation and fiscal discipline), outperformance going forward would certainly demand a reversal in relative operational performance trends. Failure to deliver, and the window is short in our view, could lead to further relative de-rating.

Having said that, we note that some of the issues that plagued Infosys' relative operational performance over the past two years are either history (BT's contribution to revenues has fallen to <2% from 10.3% at its peak, for example), or are being actively addressed (front-end, bench management, etc.). The key really is (1) the revamped organization structure needs to deliver, and (2) the company needs to manage the change in stance – some leeway on pricing/profitability for volumes – well.

We believe the company is making the right moves, as also discussed in our recent (September 7, 2011) note. We reproduce from the earlier note some of the company's moves that underline our confidence of a trend reversal –

- ▶ Reduced number of P&Ls in the organization – Infosys has reorganized internally into four large P&Ls along industry verticals. Decision-making authority now lies completely with these vertical heads. This is different from the earlier unit-level P&Ls across verticals, geographies, and service lines, with each of these having revenue as well as profitability targets. The earlier structure led to loss of certain strategic deals (from an overall perspective) which did not meet the profitability targets of some of the individual units.
- ▶ Greater focus on volumes – especially increased level of aggression in gaining volume market share in strategic relationships, even if the same comes with modest hit on account profitability. The company has had some success in marquee deal wins recently; however, flow-through impact on financials could take a while.
- ▶ Multiple changes in roles across the organization and in the front-end, especially in Europe. In addition to the reorganization-led role changes, Infosys has inducted new front-end faces in areas where the company has seen a decline in deal participation in recent quarters.
- ▶ Better bench management – the company's assessment of broad-based growth (across verticals) at the beginning of FY2011 backfired in a way – growth turned out to be concentrated in select verticals (especially BFSI) and the company ended up with a thin BFSI bench and very low utilization in some other verticals, especially Telecom. Infosys has increased focus on this aspect.

Observations on other companies

We will let the charts tell much of the story (see Exhibits 1 to 11). Some key observations –

TCS – flying high

TCS has delivered a remarkable turnaround in its relative operational performance over the past 2+ years – its relative market shares on EBITDA and net income market share have jumped to all-time highs from all-time lows hit in March 2009 quarter, even as its relative revenue market share has been consistent (which is remarkable in itself, given its size). Operational turnaround has not gone unnoticed on the Street – the company has wrested back its market cap market share leadership from Infosys and also the industry bellwether status. We will leave a detailed discussion on what the company has done right for a later note. Measured aggression in the market place, stable senior management team, revamped organization structure, supply-side leadership, well-timed acquisitions, and right investments have all contributed to the recent surge, in our view.

Wipro – consistent underperformer

Wipro has also hit all-time lows on relative market share metrics across parameters. However, in case of Wipro, relative underperformance is not a recent phenomenon – recent dips only follow a long-term trend of relative market share loss. FY2010 marked a brief period of resurgence but the pace of relative underperformance has only accelerated since. We have written a lot in the past on what we see as the reasons for Wipro's struggles – the key ones, in our view, are – (1) poor account management – Wipro has the worst large account metrics across the peer group, (2) mixed, at best, track record of acquisitions, (3) instability at the top – in terms of structure, roles, and people, (4) relatively inferior positioning at campuses as well as laterals market, (5) legacy factors – sub-optimal portfolio mix, especially on vertical lines, and (6) inability to protect its areas of leadership.

Cognizant – consistent outperformer

The revenue growth leader in the industry, Cognizant has nearly doubled its relative revenue market share versus peers since 2004. Its EBITDA and net income market shares have also seen a 50% jump since. The company recently overtook Wipro on revenues and has now overtaken Wipro on market cap share as well. Cognizant's surplus (over its stated target range) margin reinvestment philosophy into chasing revenue growth has clearly yielded handsome results. We also believe Cognizant's large account management, aggressive sales approach, and relentless focus on top campus slots have been key drivers for outperformance.

HCLT – holding on well despite business model challenges

Credit where it's due – HCLT has, to our surprise, managed to hold on to its relative EBITDA and net income market share despite having what we believe is a business model inferior to larger peers (weak applications positioning, no vertical story). The company has leveraged its balance sheet to achieve this, to some extent. It has of course also used its horizontal (IMS) strengths extremely well. In addition, it has chosen an aggressive revenue growth strategy (through organic as well as inorganic means) at the expense of margins. Its 'growth at the expense of margins' strategy is well-reflected in the revenue and EBITDA market share divergence over the past 3 years.

Limitations of our analysis

- ▶ Intermediate qoq movements in EBITDA and net income market shares may reflect difference in wage hike cycles and forex fluctuations across companies. Nonetheless, trends over a longer timeframe do carry meaningful insights, in our view.
- ▶ The 'relative PE' derived metric (defined as market cap share/net income share) is a historical measure – as we divide market cap by last quarter's net income. Relative PE at any given point would reflect forward expectations differential. Nonetheless, expansion or contraction of this metric over time suggests outperformance or underperformance versus expectations, in a way.

Exhibit 1: Relative market share analysis - summary

	Range (%)	Peak (%)	Low (%)	Latest - Jun 2011 quarter (%) (a)	Median	Average
Infosys						
Relative market share						
Revenues	21.1-25.3	25.3 (Mar 2005)	21.1 (Jun 2011)	21.1	23.7	23.4
EBITDA	24.4-30.7	30.7 (Dec 2008)	24.4 (Jun 2011)	24.4	28.2	28.2
Net income	24.8-33.6	33.6 (Mar 2009)	24.8 (Jun 2011)	24.8	28.5	28.6
Market cap (a)	25.2-37.5	37.5 (Mar 2009)	25.2 (Sep 2011)	25.2	29.9	30.3
EBITDA MS/Revenue MS	1.1-1.31	1.31 (Dec 2008)	1.10 (Sep 2004)	1.16	1.21	1.21
Net income MS/Revenue MS	1.06-1.47	1.47 (Mar 2009)	1.06 (Jun 2004)	1.18	1.20	1.22
Mkt cap MS/Net income MS	0.91-1.26	1.26 (Jun 2010)	0.91 (Sep 2004)	1.02	1.06	1.06
TCS						
Relative market share						
Revenues	28.9-35	35.0 (Mar 2004)	28.9 (Jun 2010)	30.4	31.8	31.4
EBITDA	29.1-34.9	34.9 (Mar 2004)	29.1 (Mar 2009)	34.0	32.7	32.4
Net income	24.9-37.4	37.4 (Dec 2004)	24.9 (Sep 2004)	34.4	32.0	31.5
Market cap (a)	26.1-37.2	37.2 (Sep 2011)	26.1 (Mar 2009)	37.2	29.9	30.0
EBITDA MS/Revenue MS	0.95-1.15	1.15 (Mar 2011)	0.95 (Jun 2006)	1.12	1.01	1.03
Net income MS/Revenue MS	0.74-1.16	1.16 (Dec 2010)	0.74 (Sep 2004)	1.13	1.00	1.01
Mkt cap MS/Net income MS	0.83-1.2	1.20 (Sep 2004)	0.83 (Dec 2004)	1.08	0.94	0.96
Cognizant						
Relative market share						
Revenues	9.2-18.7	18.7 (Jun 2011)	9.2 (Mar 2004)	18.7	13.3	14.0
EBITDA	7.5-15.3	15.3 (Jun 2011)	7.5 (Mar 2004)	15.3	10.7	11.1
Net income	6.6-15.5	15.5 (Sep 2010)	6.6 (Mar 2004)	14.7	10.8	11.3
Market cap (a)	11.2-16.8	16.8 (Sep 2011)	11.2 (Sep 2004)	16.8	13.2	13.2
EBITDA MS/Revenue MS	0.75-0.84	0.84 (Sep 2008)	0.75 (Dec 2006)	0.82	0.79	0.79
Net income MS/Revenue MS	0.71-0.92	0.92 (Jun 2009)	0.71 (Jun 2004)	0.79	0.81	0.81
Mkt cap MS/Net income MS	0.92-1.64	1.64 (Dec 2004)	0.92 (Jun 2009)	1.14	1.18	1.20
Wipro						
Relative market share						
Revenues	17.7-21.9	21.9 (Dec 2008)	17.7 (Jun 2011)	17.7	20.6	20.4
EBITDA	17.6-22.8	22.8 (Jun 2004)	17.6 (Sep 2010)	17.7	19.9	20.0
Net income	18.6-26.1	26.1 (Sep 2004)	18.6 (Jun 2007)	19.0	21.6	21.7
Market cap (a)	15.7-25.4	25.4 (Mar 2006)	15.7 (Sep 2011)	15.7	20.9	21.1
EBITDA MS/Revenue MS	0.87-1.1	1.10 (Jun 2006)	0.87 (Dec 2008)	1.00	0.98	0.98
Net income MS/Revenue MS	0.92-1.24	1.24 (Mar 2005)	0.92 (Jun 2007)	1.07	1.06	1.07
Mkt cap MS/Net income MS	0.83-1.13	1.13 (Dec 2004)	0.83 (Mar 2009)	0.83	0.96	0.97
HCL Tech						
Relative market share						
Revenues	9.8-12.1	12.1 (Mar 2011)	9.8 (Sep 2008)	12.1	10.7	10.9
EBITDA	7-9.7	9.7 (Jun 2009)	7.0 (Sep 2010)	8.7	8.3	8.3
Net income	2.9-13.4	13.4 (Jun 2004)	2.9 (Jun 2008)	7.1	7.2	6.9
Market cap (a)	3.4-6.7	6.7 (Mar 2006)	3.4 (Mar 2009)	5.1	5.4	5.4
EBITDA MS/Revenue MS	0.59-0.9	0.90 (Jun 2008)	0.59 (Dec 2010)	0.72	0.79	0.77
Net income MS/Revenue MS	0.29-1.24	1.24 (Jun 2007)	0.29 (Jun 2008)	0.59	0.72	0.65
Mkt cap MS/Net income MS	0.5-1.87	1.87 (Jun 2008)	0.50 (Jun 2007)	0.72	0.78	0.84

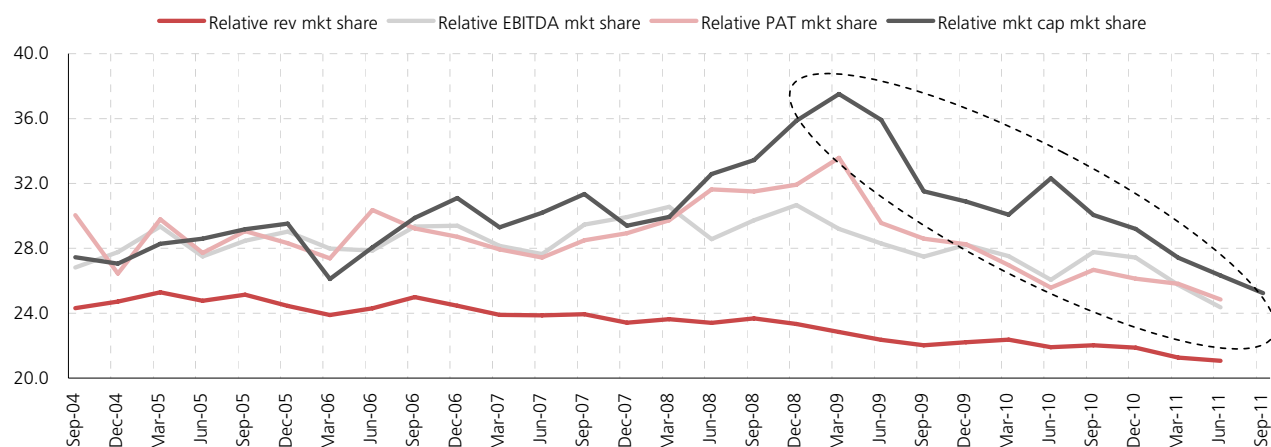
Notes:

(a) Market cap shares computed based on end-period market cap for various quarters. Latest market cap share is as on Sep 14, 2011.

(b) For Wipro, revenue and EBITDA used for the analysis are for the IT services business; net income is consolidated.

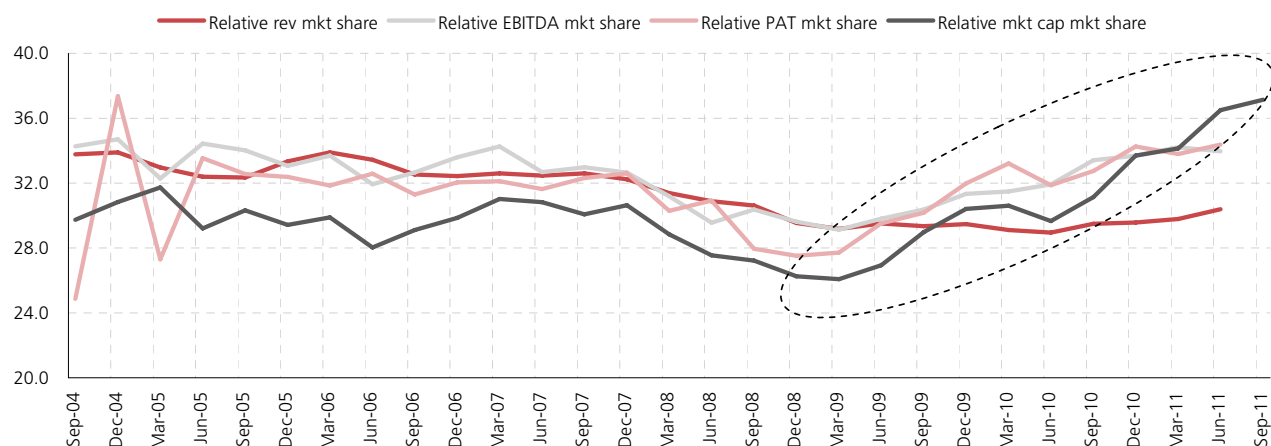
Source: Companies, Kotak Institutional Equities estimates

Exhibit 2: Infosys - relative market share over quarters



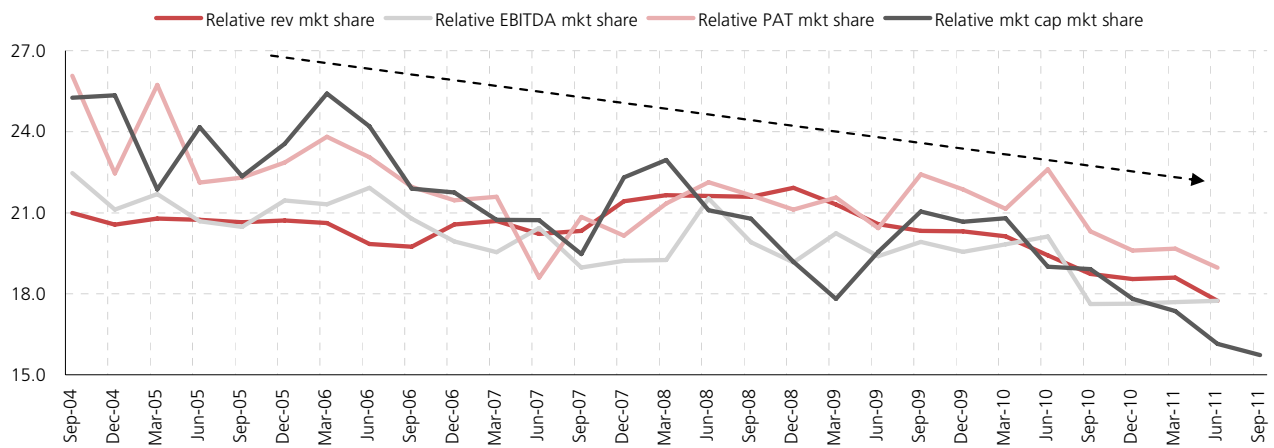
Source: Companies, Kotak Institutional Equities estimates

Exhibit 3: TCS - relative market share over quarters



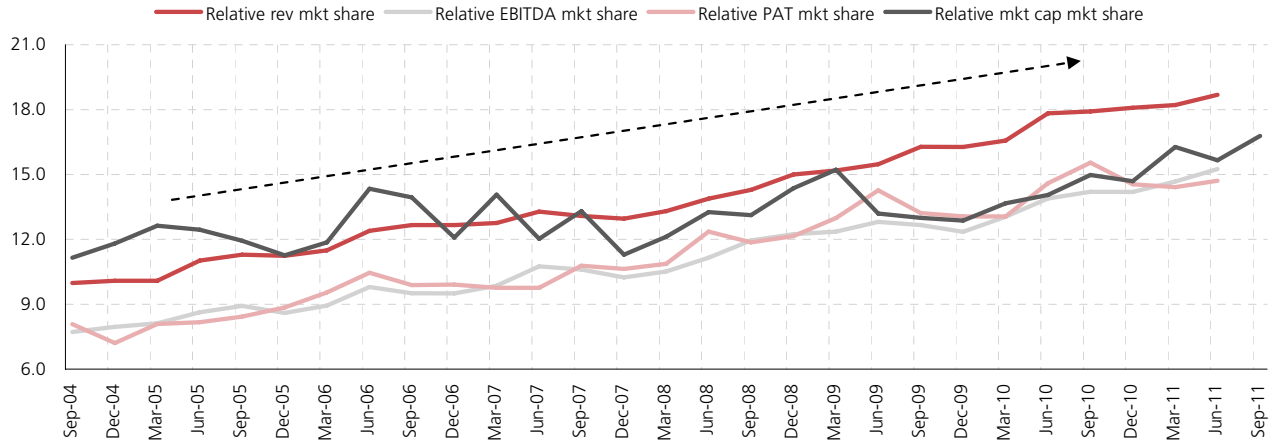
Source: Companies, Kotak Institutional Equities estimates

Exhibit 4: Wipro - relative market share over quarters



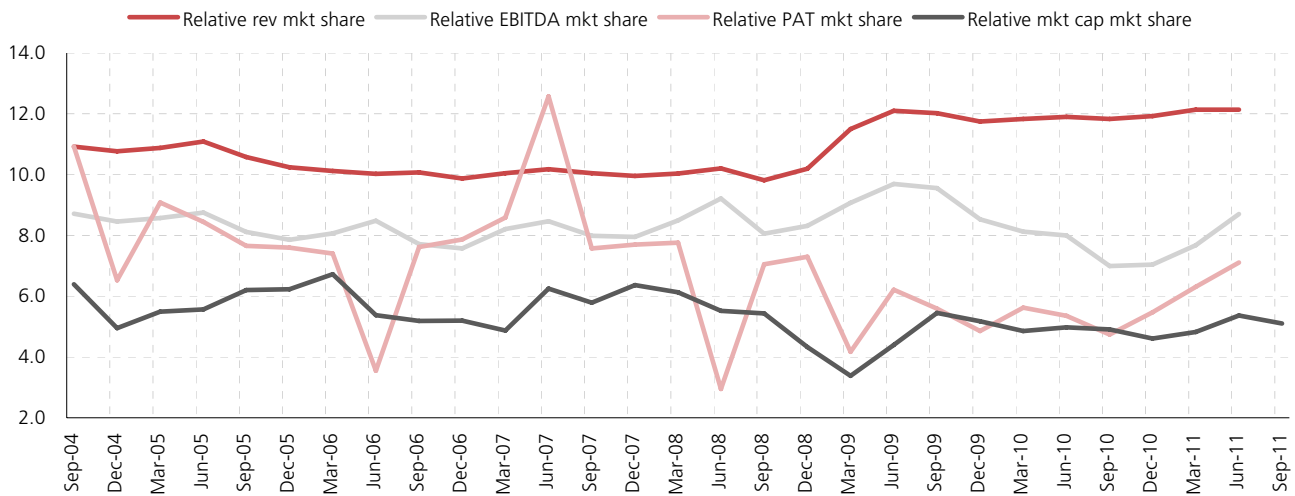
Source: Companies, Kotak Institutional Equities estimates

Exhibit 5: Cognizant - relative market share over quarters



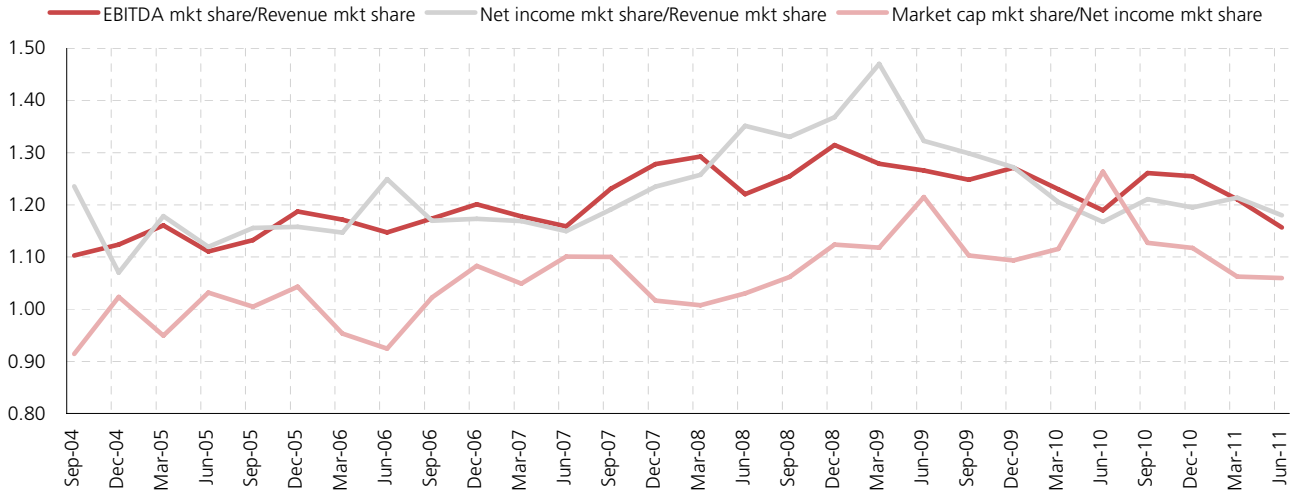
Source: Companies, Kotak Institutional Equities estimates

Exhibit 6: HCLT - relative market share over quarters



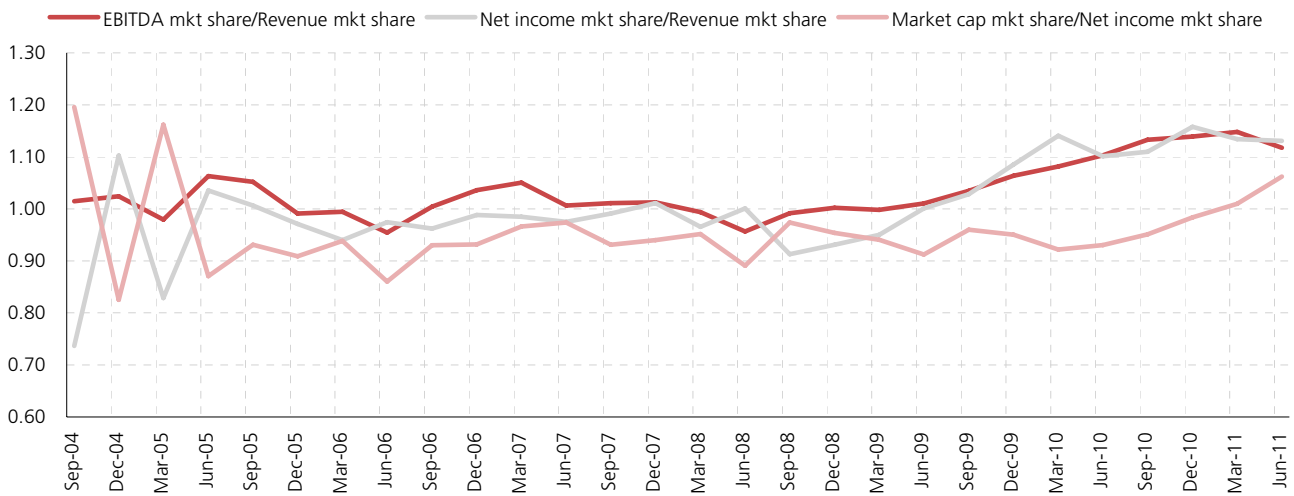
Source: Companies, Kotak Institutional Equities estimates

Exhibit 7: Infosys - derived metrics



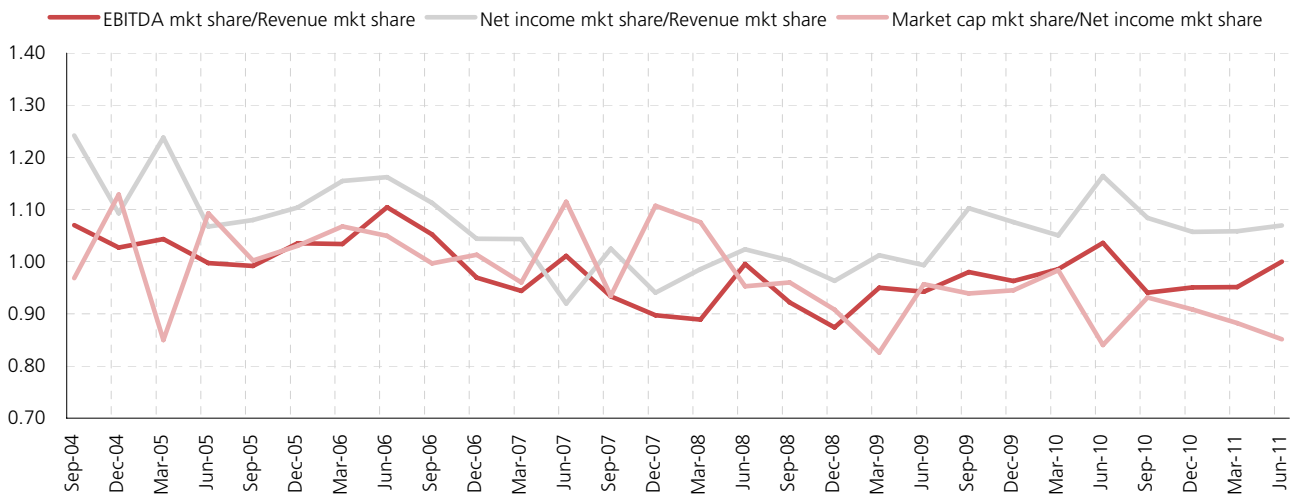
Source: Companies, Kotak Institutional Equities estimates

Exhibit 8: TCS - derived metrics



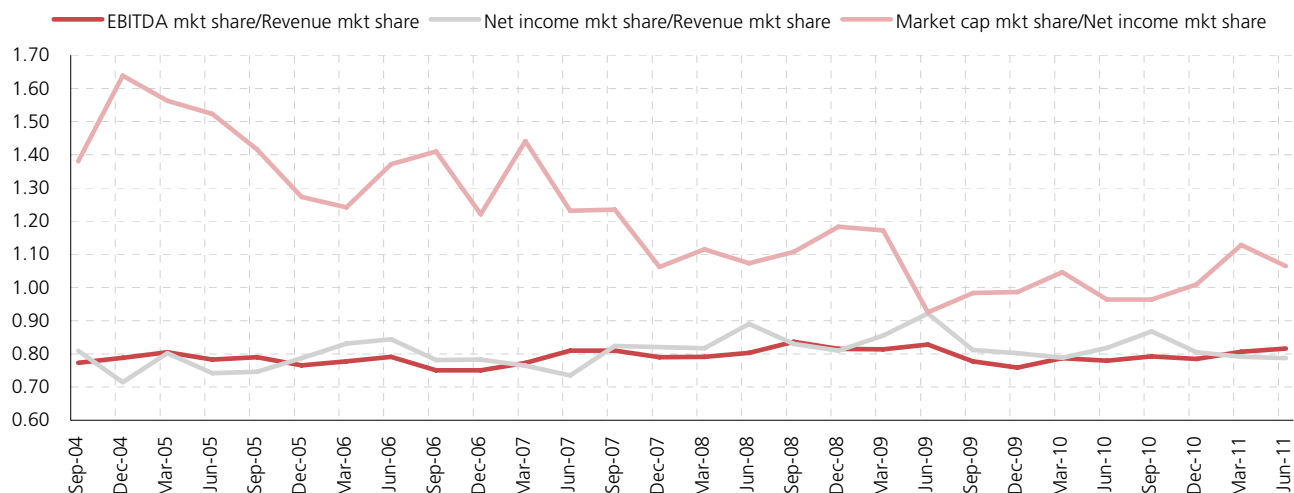
Source: Companies, Kotak Institutional Equities estimates

Exhibit 9: Wipro - derived metrics



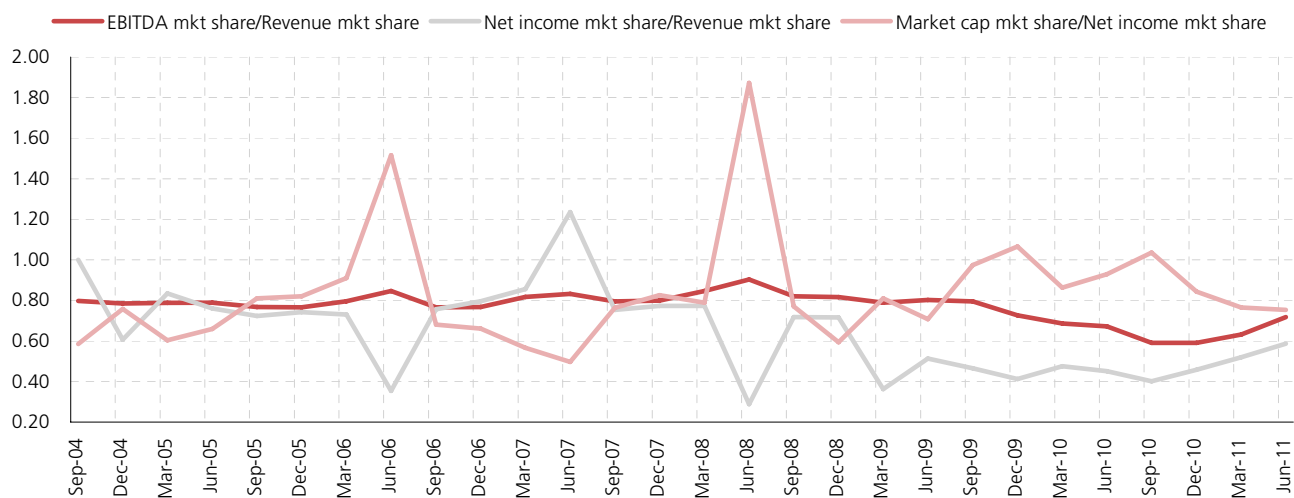
Source: Companies, Kotak Institutional Equities estimates

Exhibit 10: Cognizant - derived metrics



Source: Companies, Kotak Institutional Equities estimates

Exhibit 11: HCLT - derived metrics



Source: Companies, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian technology companies

Company	15-Sep-11		Mkt cap.		EPS (Rs)			PER (X)			EV/EBITDA (X)			EV/Sales (X)		
	Price (Rs)	Rating	(Rs m)	(US\$ m)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E
HCL Technologies	403	SELL	284,221	5,970	22.9	29.5	32.8	17.6	13.7	12.3	10.7	8.3	7.3	1.8	1.4	1.1
Hexaware Technologies	76	ADD	22,201	466	3.0	7.5	7.3	25.9	10.2	10.5	19.1	8.7	7.4	1.7	1.3	1.1
Infosys Technologies	2,410	BUY	1,383,283	29,054	119.7	134.3	160.3	20.1	17.9	15.0	13.5	11.9	9.8	4.4	3.7	3.0
Mindtree	351	ADD	14,433	303	24.7	35.2	37.2	14.2	10.0	9.4	7.9	6.1	4.9	0.9	0.8	0.6
Mphasis BFL	343	SELL	72,278	1,518	51.8	38.6	30.0	6.6	8.9	11.4	5.6	6.7	7.2	1.4	1.3	1.1
Patni Computer Systems	295	ADD	39,328	826	42.6	25.9	27.2	6.9	11.4	10.9	3.7	4.1	2.8	0.7	0.6	0.4
Polaris Software Lab	136	REDUCE	13,559	285	19.3	18.8	19.0	7.0	7.2	7.2	4.0	3.1	2.7	0.5	0.4	0.3
Mahindra Satyam	68	SELL	80,262	1,686	4.2	6.7	7.0	16.3	10.3	9.8	11.7	5.9	4.6	1.0	0.8	0.6
TCS	1,042	ADD	2,038,913	42,825	44.5	52.8	61.1	23.4	19.7	17.1	17.7	14.4	12.1	5.3	4.2	3.4
Tech Mahindra	636	SELL	80,161	1,684	48.8	72.1	75.5	13.0	8.8	8.4	8.9	9.0	7.9	1.7	1.5	1.3
Wipro	348	ADD	854,483	17,948	21.6	22.4	24.5	16.1	15.5	14.2	11.8	10.5	9.3	2.6	2.1	1.8
Technology	Attractive		4,883,121	102,565				19.0	16.8	14.9	13.6	11.7	9.9	3.4	2.8	2.3
KS universe (b)			44,797,086	940,918				15.2	12.9	11.1	9.9	8.2	7.0	1.5	1.2	1.1

Company	Target Price	O/S shares (mn)	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)		
			2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E
HCL Technologies	375	705	30.4	28.9	11.3	16,214	20,824	23,305	26,270	32,473	34,813	158,551	196,644	225,154
Hexaware Technologies	80	290	(36.8)	154.4	(3.4)	1,073	2,182	2,107	938	2,045	2,357	10,546	13,662	16,013
Infosys Technologies	2,900	574	10.5	12.1	19.4	68,720	77,065	92,029	89,640	98,468	115,081	275,010	322,047	376,496
Mindtree	375	41	(52.7)	42.4	5.8	1,017	1,447	1,532	1,777	2,182	2,626	15,091	17,655	20,664
Mphasis BFL	300	211	18.8	(25.5)	(22.2)	10,908	8,124	6,319	12,649	9,713	8,595	50,365	51,026	56,854
Patni Computer Systems	300	133	16.5	(39.3)	5.2	5,675	3,445	3,623	6,165	4,894	6,023	31,696	34,092	37,821
Polaris Software Lab	130	100	25.7	(2.6)	0.7	1,926	1,876	1,890	2,139	2,454	2,530	15,863	19,258	21,598
Mahindra Satyam	70	1,176	68.9	58.4	4.7	4,938	7,824	8,195	4,551	8,448	9,750	51,450	61,285	71,362
TCS	1,160	1,957	26.8	18.6	15.6	87,165	103,366	119,511	111,985	134,741	157,719	373,246	464,928	553,214
Tech Mahindra	600	126	(25.2)	47.8	4.7	6,388	9,450	9,888	10,033	9,383	10,228	51,402	54,348	60,889
Wipro	370	2,454	14.5	3.9	9.1	52,974	55,053	60,073	67,434	72,635	78,989	310,986	356,271	405,688
Technology			17.1	13.1	13.0	256,996	290,657	328,472	333,580	377,436	428,711	1,344,207	1,591,216	1,845,754
KS universe (b)			18.2	17.8	16.3									

Notes

(a) HCL Technologies is June fiscal year-ending

(b) Patni Computers Systems and Hexaware Technologies are December year-ending.

Source: Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	15-Sep-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)
Automobiles																													
Ashok Leyland	27	SELL	71,572	1,505	2,661	2.4	2.1	2.4	68.1	(11.9)	12.8	11.3	12.9	11.4	7.8	8.2	7.4	1.6	1.5	1.4	3.7	3.7	3.7	21.8	17.4	18.2	26	(3.3)	4.4
Bajaj Auto	1,629	SELL	471,317	9,911	289	90.4	102.5	113.5	43.9	13.5	10.7	18.0	15.9	14.3	13.7	12.4	11.5	9.5	7.2	5.6	2.5	2.5	2.5	84.9	51.6	43.7	1,590	(2.4)	13.9
Bharat Forge	278	ADD	66,029	1,388	237	12.5	16.4	20.3	1,402.1	30.8	23.5	22.2	17.0	13.7	10.4	8.4	7.1	2.9	2.5	2.1	1.2	—	—	8.2	14.1	15.2	320	15.0	3.0
Exide Industries	136	SELL	115,940	2,438	850	7.5	6.8	7.9	18.0	(8.9)	17.0	18.3	20.1	17.2	13.2	14.3	12.5	4.2	3.6	3.1	1.1	0.9	0.9	25.5	19.4	19.5	120	(12.0)	6.2
Hero Honda	2,202	SELL	439,809	9,248	200	99.3	111.3	128.2	(11.1)	12.1	15.1	22.2	19.8	17.2	15.9	14.8	12.1	9.4	9.7	9.2	4.8	3.2	3.2	56.5	63.6	60.2	1,795	(18.5)	21.0
Mahindra & Mahindra	805	ADD	494,516	10,399	614	41.7	46.9	52.2	22.7	12.5	11.2	19.3	17.2	15.4	14.8	12.5	11.0	4.6	3.8	3.2	1.4	1.2	1.2	27.3	24.5	22.6	900	11.7	31.5
Maruti Suzuki	1,082	BUY	312,662	6,575	289	79.2	79.9	100.3	(8.4)	0.9	25.5	13.7	13.5	10.8	8.3	8.0	5.9	2.2	1.9	1.7	0.7	0.7	0.7	17.6	15.4	16.7	1,475	36.3	11.7
Tata Motors	151	ADD	502,740	10,572	3,325	27.2	23.1	23.9	737.9	(15.0)	3.6	5.6	6.5	6.3	4.3	4.9	4.6	2.6	1.9	1.5	2.5	1.9	1.9	66.1	34.2	27.3	180	19.0	54.3
Automobiles		Cautious	2,474,585	52,036					88.4	(2.3)	10.7	12.3	12.6	11.4	8.2	8.3	7.5	3.9	3.2	2.7	2.4	1.9	1.9	31.7	25.6	23.6			
Banks/Financial Institutions																													
Andhra Bank	122	BUY	68,409	1,439	560	22.6	24.2	27.5	5.0	6.9	13.5	5.4	5.1	4.4	—	—	—	1.1	0.9	0.8	4.5	4.8	5.5	23.2	19.4	19.2	190	55.4	2.0
Axis Bank	1,116	BUY	458,046	9,632	411	82.5	98.9	119.7	33.0	19.8	21.1	13.5	11.3	9.3	—	—	—	2.4	2.1	1.7	1.3	1.5	1.8	19.3	19.7	20.3	1,700	52.4	48.9
Bank of Baroda	771	BUY	302,933	6,370	393	108.0	109.5	129.1	29.1	1.4	17.9	7.1	7.0	6.0	—	—	—	1.6	1.3	1.1	2.5	2.5	3.0	25.9	20.4	20.5	1,250	62.1	7.4
Bank of India	327	BUY	178,695	3,758	547	45.5	54.0	70.7	37.4	18.7	30.9	7.2	6.0	4.6	—	—	—	1.1	1.0	0.8	2.5	3.0	3.9	17.3	17.2	19.5	470	43.9	6.3
Canara Bank	437	BUY	193,724	4,074	443	90.9	86.3	108.7	23.3	(5.0)	25.9	4.8	5.1	4.0	—	—	—	1.1	0.9	0.8	2.5	2.7	2.7	23.2	17.7	19.0	600	37.2	8.0
Corporation Bank	446	BUY	65,992	1,388	148	95.4	93.4	114.1	16.3	(2.1)	22.2	4.7	4.8	3.9	—	—	—	0.9	0.8	0.7	4.5	4.4	5.4	21.9	18.1	19.2	630	41.4	0.8
Federal Bank	373	BUY	63,818	1,342	171	34.3	44.5	56.2	26.3	29.8	26.1	10.9	8.4	6.6	—	—	—	1.3	1.2	1.0	2.3	3.0	3.7	12.0	14.2	16.0	500	34.0	4.5
HDFC	655	REDUCE	960,526	20,198	1,467	24.1	27.8	31.9	22.4	15.6	14.6	27.2	23.5	20.5	—	—	—	5.5	4.9	3.7	1.4	1.6	1.9	21.7	22.1	21.5	730	11.5	35.7
HDFC Bank	485	ADD	1,127,358	23,706	2,326	16.9	21.9	27.6	31.0	29.5	26.5	28.7	22.2	17.5	—	—	—	4.4	3.8	3.3	0.7	0.9	1.1	16.7	18.6	20.2	560	15.5	34.5
ICICI Bank	876	BUY	1,009,225	21,222	1,152	44.7	58.0	63.1	23.9	29.7	8.8	19.6	15.1	13.9	—	—	—	1.8	1.7	1.6	1.6	2.0	2.2	9.7	11.7	11.8	1,100	25.5	81.6
IDFC	112	BUY	169,500	3,564	1,509	8.8	9.9	12.0	4.6	12.8	21.6	12.8	11.4	9.3	—	—	—	1.6	1.4	1.2	1.9	1.8	2.1	14.7	13.1	13.9	150	33.5	25.8
India Infoline	74	SELL	24,207	509	327	7.4	4.8	6.5	(9.3)	(34.5)	33.8	10.0	15.3	11.5	—	—	—	1.5	1.2	1.1	4.2	1.4	1.9	12.9	8.7	10.3	70	(5.5)	1.3
Indian Bank	209	BUY	89,822	1,889	430	38.8	42.0	50.9	10.5	8.2	21.2	5.4	5.0	4.1	—	—	—	1.1	1.0	0.8	3.6	3.8	4.6	22.3	20.4	21.0	300	43.5	1.7
Indian Overseas Bank	102	BUY	63,205	1,329	619	17.3	21.1	30.8	33.6	22.0	45.4	5.9	4.8	3.3	—	—	—	0.8	0.7	0.6	4.9	4.1	4.6	12.7	13.3	17.0	190	86.0	1.6
IndusInd Bank	264	BUY	123,178	2,590	466	12.4	15.2	18.2	45.2	22.6	19.9	21.3	17.4	14.5	—	—	—	3.4	3.0	2.6	0.8	0.9	1.1	20.8	17.7	17.9	325	22.9	3.7
J&K Bank	811	ADD	39,313	827	48	126.9	141.8	152.8	20.1	11.8	7.7	6.4	5.7	5.3	—	—	—	1.1	1.0	0.9	3.2	3.6	3.9	19.0	18.4	17.3	950	17.2	0.7
LIC Housing Finance	208	ADD	98,908	2,080	475	20.5	22.9	27.5	47.2	11.4	20.4	10.1	9.1	7.6	—	—	—	2.5	2.1	1.7	2.1	2.4	2.8	25.8	23.7	23.9	260	24.8	22.5
Mahindra & Mahindra Financial	632	BUY	64,709	1,361	102	45.2	56.4	69.2	26.1	24.8	22.7	14.0	11.2	9.1	—	—	—	2.6	2.3	1.9	1.6	2.0	2.4	22.0	21.4	22.3	825	30.6	1.3
Muthoot Finance	173	ADD	64,403	1,354	371	15.7	19.0	24.5	108.4	20.5	29.0	11.0	9.1	7.1	—	—	—	4.8	2.2	1.7	—	—	—	51.5	33.0	26.8	220	26.9	—
Oriental Bank of Commerce	299	BUY	87,310	1,836	292	51.5	55.6	65.4	13.7	8.0	17.6	5.8	5.4	4.6	—	—	—	0.9	0.8	0.7	3.5	3.8	4.4	15.5	13.9	14.7	430	43.7	3.8
PFC	156	BUY	205,910	4,330	1,320	22.8	23.4	28.3	11.1	2.4	21.3	6.8	6.7	5.5	—	—	—	1.4	1.0	0.9	2.5	3.0	3.6	18.4	17.0	16.7	225	44.2	16.6
Punjab National Bank	971	BUY	307,625	6,469	317	140.0	163.0	201.5	13.0	16.5	23.6	6.9	6.0	4.8	—	—	—	1.5	1.3	1.1	2.3	3.4	4.2	24.4	23.5	24.2	1,500	54.5	7.1
Reliance Capital	415	REDUCE	102,193	2,149	246	9.3	16.5	24.8	(25.3)	77.0	50.4	44.6	25.2	16.8	—	—	—	1.5	1.4	1.4	0.9	1.6	2.4	3.3	5.7	8.3	470	13.2	20.3
Rural Electrification Corp.	177	BUY	174,817	3,676	987	26.0	29.0	32.5	28.1	11.5	12.3	6.8	6.1	5.4	—	—	—	1.4	1.2	1.0	4.2	4.7	5.3	21.5	20.8	20.4	240	35.6	12.4
Shriram Transport	656	REDUCE	146,380	3,078	223	55.1	65.6	75.3	40.8	19.0	14.8	11.9	10.0	8.7	—	—	—	3.0	2.5	2.1	1.0	2.0	2.3	28.1	26.8	25.2	700	6.7	8.6
SKS Microfinance	298	RS	21,961	462	74	15.7	(39.1)	3.9	(41.8)	(349.4)	(109.9)	19.0	(7.6)	76.9	—	—	—	1.2	1.4	1.4	—	—	—	8.3	(17.4)	1.9	—	—	9.4
State Bank of India	1,898	BUY	1,205,260	25,345	635	130.2	195.6	256.1	(9.9)	50.3	30.9	14.6	9.7	7.4	—	—	—	1.9	1.6	1.4	1.8	1.9	2.0	12.6	17.8	20.0	2,750	44.9	113.3
Union Bank	235	BUY	122,982	2,586	524	39.5	50.2	60.4	(3.9)	27.1	20.5	5.9	4.7	3.9	—	—	—	1.1	0.9	0.8	4.0	5.0	6.0	20.9	21.9	22.5	425	81.2	4.9
Yes Bank	279	BUY	96,715	2,034	347	21.5	26.2	32.3	43.2	22.1	23.3	13.0	10.6	8.6	—	—	—	2.5	2.1	1.7	0.9	1.1	1.3	21.7	21.7	22.2	420	50.8	16.8
Banks/Financial Institutions		Attractive	7,637,122	160,596					20.1	19.8	23.0	12.5	10.4	8.5	—	—	—	2.0	1.7	1.5	1.8	2.1	2.4	16.0	16.6	17.5			
Cement																													
ACC	1,065	SELL	200,064	4,207	188	55.6	60.1	72.7	(33.2)	8.2	20.9	19.2	17.7	14.6	11.7	9.9	7.7	2.9	2.6	2.4	3.3	2.2	2.2	17.5	17.3	18.1	980	(8.0)	6.1
Ambuja Cements	150	SELL	228,737	4,810	1,522	7.9	7.8	9.8	(1.5)	(0.5)	25.5	19.1	19.2	15.3	11.6	10.6	8.2	2.9	2.7	2.4	1.4	1.5	1.6	16.6	14.8	16.9	135	(10.1)	6.3
Grasim Industries	2,272	BUY	208,306	4,380	92	233.3	259.5	289.3	(22.5)	11.2	11.5	9.7	8.8	7.9	6.2	5.3	4.4	1.4	1.3	1.1	1.5	1.5	1.5	15.8	15.3	15.0	2,900	27.7	3.7
India Cements	73	ADD	22,516	473	307	1.9	8.3	9.2	(81.2)	339.0	10.4	38.8	8.8	8.0	14.3	5.7	5.2	0.5	0.5	0.5	2.2	4.4	4.4	1.4	6.2	6.5	82	11.9	1.6
Shree Cement	1,707	REDUCE	59,472	1,251	3																								

Kotak Institutional Equities: Valuation summary of key Indian companies

	15-Sep-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo	
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)	
Consumer products																														
Asian Paints	3,126	SELL	299,879	6,306	96	80.8	94.6	111.4	13.0	17.1	17.7	38.7	33.0	28.1	25.8	21.0	17.2	14.6	11.3	9.1	1.0	0.9	1.1	43.9	40.0	36.8	2,900	(7.2)	5.3	
Colgate-Palmolive (India)	1,000	SELL	135,986	2,860	136	29.6	34.1	38.8	(4.9)	15.0	14.1	33.8	29.4	25.7	29.4	25.7	21.5	35.4	36.0	28.8	2.2	3.0	2.7	113.4	121.6	124.2	900	(10.0)	2.3	
Dabur India	107	SELL	185,437	3,899	1,740	3.3	3.7	4.4	12.8	14.1	18.8	32.6	28.6	24.1	26.3	21.6	18.2	14.1	10.9	8.6	1.1	1.2	1.5	51.2	43.8	40.6	110	3.2	3.1	
GlaxoSmithkline Consumer (a)	2,378	ADD	99,991	2,103	42	71.3	83.2	104.0	28.8	16.7	25.0	33.3	28.6	22.9	24.0	20.6	17.3	10.7	9.1	7.7	2.1	1.6	1.9	32.2	33.5	35.5	2,900	22.0	1.0	
Godrej Consumer Products	424	ADD	137,105	2,883	324	14.9	18.4	22.7	31.3	23.4	23.8	28.5	23.1	18.6	24.2	16.9	13.0	7.9	5.6	4.5	1.2	0.8	0.8	35.9	28.7	27.0	510	20.4	2.5	
Hindustan Unilever	349	ADD	754,183	15,859	2,159	9.9	11.3	13.3	4.8	14.1	17.7	35.4	31.0	26.3	30.1	26.3	21.5	28.6	24.8	21.4	2.2	2.7	3.2	66.3	85.9	87.5	370	5.9	19.5	
ITC	199	ADD	1,531,526	32,205	7,681	6.4	8.0	9.1	20.7	24.9	13.1	31.1	24.9	22.0	20.6	16.8	14.6	9.1	7.8	6.8	2.2	1.9	2.3	33.2	35.5	34.4	230	15.3	34.2	
Jubilant Foodworks	923	SELL	60,395	1,270	65	11.2	16.6	24.1	99.6	48.6	45.1	82.4	55.5	38.2	50.3	30.7	21.5	31.5	20.1	13.2	—	—	—	46.6	44.2	41.6	750	(18.8)	32.7	
Jyothy Laboratories	171	ADD	13,816	291	81	10.5	9.4	11.8	(5.0)	(10.1)	25.2	16.4	18.2	14.5	13.7	12.4	10.2	2.1	1.9	1.8	3.4	2.7	3.4	12.3	11.1	12.9	220	28.4	0.4	
Marico	143	ADD	87,514	1,840	612	4.2	5.4	7.1	10.9	27.3	32.6	33.9	26.6	20.1	22.6	18.2	13.8	9.3	7.3	5.7	0.5	0.7	0.9	32.8	31.3	32.2	185	29.3	1.5	
Nestle India (a)	4,258	SELL	410,562	8,633	96	86.8	103.6	123.2	16.7	19.3	18.9	49.0	41.1	34.6	32.6	26.8	22.1	48.0	34.9	26.3	1.1	1.4	1.7	116.5	98.3	86.8	3,500	(17.8)	2.1	
Tata Global Beverages	93	ADD	57,264	1,204	618	4.0	6.0	7.1	(34.6)	52.6	17.6	23.4	15.3	13.0	9.1	7.7	6.4	1.1	1.1	1.1	2.2	3.3	3.9	6.5	9.6	10.8	120	29.6	4.6	
Titan Industries	219	ADD	194,558	4,091	888	4.9	7.4	8.8	71.7	51.5	17.8	44.6	29.4	25.0	32.6	20.5	16.8	17.9	12.7	9.7	0.6	1.0	1.4	47.8	50.5	44.0	240	9.5	26.6	
United Spirits	884	ADD	110,962	2,333	126	29.5	39.2	50.6	8.3	32.8	29.0	29.9	22.5	17.5	15.6	12.0	10.3	2.5	2.3	2.1	0.4	0.3	0.4	9.1	10.7	12.5	1,100	24.5	5.3	
Consumer products		Cautious	4,079,180	85,778					16.3	21.8	17.2	34.1	28.0	23.9	23.8	19.3	16.2	10.5	8.9	7.6	1.7	1.8	2.1	30.8	31.9	32.0				
Constructions																														
IVRCL	43	BUY	11,401	240	267	5.9	5.7	6.6	(25.2)	(4.1)	15.6	7.2	7.5	6.5	6.0	5.8	5.6	0.6	0.5	0.5	0.9	0.9	0.9	8.2	7.3	7.9	75	75.6	5.4	
Nagarjuna Construction Co.	66	BUY	17,050	359	257	6.4	5.9	7.7	(29.7)	(7.8)	30.8	10.4	11.3	8.6	8.3	7.8	7.3	0.7	0.7	0.7	3.0	3.0	3.0	7.1	6.3	7.8	100	50.5	1.4	
Punj Lloyd	61	REDUCE	20,630	434	340	(1.5)	5.5	7.4	(56.6)	(467.8)	34.9	(40.9)	11.1	8.2	13.1	5.9	5.1	0.7	0.7	0.6	(0.1)	0.8	1.1	(1.7)	6.1	7.7	65	7.0	8.7	
Sadbhav Engineering	136	BUY	20,391	429	150	7.8	10.8	11.9	51.0	38.9	10.6	17.5	12.6	11.4	10.4	8.3	7.6	3.2	2.6	2.1	0.4	0.4	0.4	18.1	20.4	18.6	180	32.3	0.2	
Construction		Attractive	69,472	1,461					(1.1)	67.6	23.4	17.9	10.7	8.7	9.1	6.6	6.1	0.9	0.8	0.8	1.0	1.3	1.3	4.8	7.6	8.7				
Energy																														
Aban Offshore	401	BUY	17,428	366	44	116.2	95.3	107.2	9.0	(18.0)	12.4	3.4	4.2	3.7	6.7	6.7	6.4	0.8	0.8	0.7	0.9	1.0	1.1	29.2	19.4	18.0	700	74.8	9.2	
Bharat Petroleum	673	ADD	243,461	5,120	362	45.7	58.9	58.9	(20.7)	28.9	0.1	14.7	11.4	11.4	10.2	6.9	6.8	1.6	1.5	1.4	2.1	2.9	2.9	10.8	12.8	11.8	800	18.8	7.9	
Cairn India	294	REDUCE	558,878	11,752	1,902	33.3	45.8	49.7	501.1	37.4	8.6	8.8	6.4	5.9	6.4	4.6	3.7	1.4	1.2	1.1	—	1.7	5.1	16.9	19.8	19.2	295	0.4	14.0	
Castrol India (a)	509	SELL	125,977	2,649	247	19.8	21.9	22.3	28.5	10.8	1.6	25.7	23.2	22.8	16.5	15.5	15.1	24.4	22.2	21.1	2.9	3.3	3.5	100.2	100.2	94.7	425	(16.6)	1.9	
GAIL (India)	434	BUY	550,774	11,582	1,268	28.2	34.3	36.0	13.8	21.8	4.9	15.4	12.7	12.1	9.7	9.2	8.2	2.6	2.3	1.9	1.7	2.1	2.3	17.5	18.4	16.5	560	29.0	9.9	
GSPL	107	SELL	60,281	1,268	563	9.0	8.5	8.4	23.1	(6.1)	(0.1)	11.9	12.7	12.7	7.5	7.3	7.1	2.7	2.2	2.0	0.9	1.6	2.4	25.5	19.1	16.4	92	(14.1)	5.5	
Hindustan Petroleum	378	ADD	128,061	2,693	339	45.7	26.3	39.3	(11.4)	(42.4)	49.5	8.3	14.4	9.6	3.3	4.0	3.2	0.8	0.8	0.7	3.7	2.1	3.2	10.1	5.3	7.4	460	21.8	8.7	
Indian Oil Corporation	317	BUY	768,689	16,164	2,428	31.8	33.1	35.7	(35.4)	4.4	7.6	10.0	9.6	8.9	7.9	7.0	5.8	1.3	1.2	1.1	3.0	3.2	3.4	12.9	12.5	12.4	420	32.7	4.4	
Oil India	1,309	BUY	314,665	6,617	240	120.0	171.7	190.1	4.2	43.1	10.7	10.9	7.6	6.9	5.5	3.1	2.5	1.9	1.6	1.4	2.9	4.2	4.6	16.2	20.1	19.4	1,750	33.7	1.7	
Oil & Natural Gas Corporation	261	BUY	2,229,568	46,884	8,556	24.7	37.2	40.8	7.4	50.8	9.7	10.6	7.0	6.4	4.0	3.0	2.4	1.5	1.3	1.2	3.4	4.6	5.4	14.3	19.1	18.3	380	45.8	27.2	
Petronet LNG	179	SELL	133,913	2,816	750	8.1	11.5	11.4	50.3	41.3	(0.7)	22.0	15.6	15.7	12.6	10.1	10.2	4.4	3.7	3.0	1.1	1.7	1.7	20.9	24.6	20.2	125	(30.0)	11.0	
Reliance Industries	836	BUY	2,493,010	52,424	2,981	62.0	67.4	74.9	24.8	8.8	11.0	13.5	12.4	11.2	7.4	6.6	5.7	1.5	1.4	1.2	1.0	1.1	1.2	13.0	12.7	12.6	1,045	25.0	91.1	
Energy		Neutral	7,624,704	160,334					11.8	25.6	9.5	11.3	9.0	8.2	6.2	5.0	4.2	1.6	1.4	1.2	2.0	2.7	3.3	13.8	15.4	15.1				
Industrials																														
ABB	866	SELL	183,502	3,859	212	3.0	21.1	27.3	(82.2)	606.1	29.6	290.2	41.1	31.7	211.9	27.8	20.8	7.6	6.6	5.6	0.2	0.4	0.4	2.6	17.1	19.1	700	(19.2)	1.6	
BGR Energy Systems	367	SELL	26,514	558	72	44.8	40.4	39.0	60.0	(9.7)	(3.5)	8.2	9.1	9.4	5.5	5.0	4.7	2.8	2.3	1.9	2.7	2.2	2.1	39.0	27.4	21.9	315	(14.3)	4.6	
Bharat Electronics	1,595	ADD	127,580	2,683	80	107.3	121.7	135.5	11.6	13.5	11.3	14.9	13.1	11.8	6.9	5.8	4.3	2.5	2.2	1.9	1.4	1.6	1.6	18.2	17.6	17.1	1,875	17.6	1.3	
Bharat Heavy Electricals	1,714	REDUCE	838,817	17,639	490	122.8	126.6	137.4	39.7	3.0	8.5	14.0	13.5	12.5	9.4	8.6	7.8	4.2	3.4	2.8	1.8	1.6	1.7	33.3	27.6	24.6	1,800	5.0	31.6	
Crompton Greaves	160	BUY	102,383	2,153	642	14.3	10.6	13.5	11.5	(25.8)	26.7	11.1	15.0	11.9	7.2	8.4	6.3	3.1	2.7	2.2	1.5	1.0	1.1	31.7	19.1	20.5	210	31.6	17.7	
Larsen & Toubro	1,591	REDUCE	968,467	20,365	609	67.7	79.6	98.2	18.1	17.5	23.4	23.5	20.	16.2	16.4	12.4	10.6	3.7	3.0	2.6	0.9	0.9	0.9	17.0	16.6	17.2	1,800	13.2	59.7	
Maharashtra Seamless	370	BUY	26,100	549	71	46.1	41.6	46.7	19.3	(9.7)	12.3	8.0	8.9	7.9	4.4	3.6	1.0	0.9	0.9	2.2	2.2	2.5	13.3	11.1	11.5	460	24.3	0.1		
Siemens	853	SELL	287,682	6,049	337	22.4	28.9	32.5	39.5	28.8	12.3	38.0	29.5	26.3	22.5	18.9	16.4	8.9	7.2	6.0	0.6	0.7	0.8	25.2	26.9	24.8	830	(2.7)	3.1	
Suzlon Energy	40	SELL	70,520	1,483	1,746	(6.0)	1.8	3.2	(4.6)	(129.2)	80.6	(6.7)	23.0	12.7	20.4	7.6	6.6	1.0	1.0	0.9	-	0.5	0.5	(15.8)	4.4	7.7	40	(1.0)	19.9	
Tecpro Systems	242	ADD	12,200	257	50	27.0	29.4	32.7	24.2	8.9	11.4	9.0	8.2	7.4	5.6	5.7	5.0	1.8	1.6	1.3	—									

Kotak Institutional Equities: Valuation summary of key Indian companies

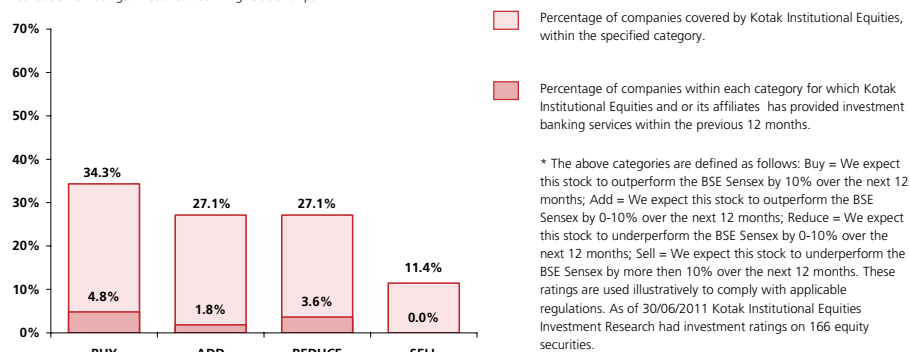
	15-Sep-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo	
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)	
Media																														
DB Corp	222	BUY	40,642	855	183	14.1	13.0	16.1	32.7	(8.1)	24.2	15.7	17.1	13.8	10.2	10.0	8.1	4.9	4.3	3.8	1.8	2.7	3.6	35.0	26.9	29.5	330	48.8	0.9	
DishTV	76	ADD	80,985	1,703	1,062	(1.8)	0.0	1.3	(27.5)	(101.9)	3,944.0	(42.6)	2,302.1	56.9	37.8	17.4	11.7	38.5	37.9	22.8	—	—	—	(62.3)	1.7	49.9	100	31.1	8.0	
Eros International	235	ADD	22,810	480	97	11.8	15.8	19.9	19.0	34.0	25.9	20.0	14.9	11.8	13.9	10.6	7.6	3.4	2.7	2.2	—	—	—	24.9	20.2	20.5	250	6.2	2.3	
Hindustan Media Ventures	142	BUY	10,449	220	73	7.3	9.0	12.1	198.7	22.8	35.0	19.5	15.8	11.7	9.5	8.2	6.0	2.6	2.2	1.9	—	—	—	2.1	22.3	15.1	17.7	220	54.5	0.2
HT Media	137	ADD	32,207	677	235	7.7	8.9	11.0	26.3	15.3	23.6	17.8	15.4	12.5	8.2	6.9	5.3	2.3	2.1	2.0	1.5	2.9	4.4	15.0	14.4	16.6	190	38.6	0.5	
Jagran Prakashan	106	BUY	33,528	705	316	6.8	7.0	8.4	17.2	1.7	20.5	15.5	15.2	12.6	9.3	8.6	7.1	4.8	4.3	3.9	3.1	3.8	4.7	31.5	30.0	32.7	160	50.9	0.5	
Sun TV Network	281	BUY	110,697	2,328	394	19.6	21.6	25.4	48.6	10.0	17.9	14.3	13.0	11.1	8.5	7.6	6.4	4.6	4.1	3.7	3.1	4.3	5.7	36.6	34.7	36.6	440	56.6	14.2	
Zee Entertainment Enterprises	114	BUY	111,631	2,347	978	5.8	6.2	7.7	10.0	6.4	23.3	19.5	18.4	14.9	13.0	11.9	9.5	2.6	2.5	2.4	1.2	1.2	1.4	14.2	14.3	16.9	160	40.2	6.0	
Media		Neutral	442,950	9,314					50.5	19.3	27.6	22.5	18.9	14.8	12.0	10.2	8.0	4.1	3.7	3.4	1.6	2.1	2.8	18.1	19.8	23.0				
Metals & Mining																														
Coal India	379	ADD	2,390,744	50,273	6,316	17.3	25.5	29.4	13.6	47.6	15.1	21.9	14.8	12.9	13.1	9.3	7.8	6.8	5.3	4.2	1.4	2.0	2.3	35.1	40.3	36.4	470	24.2	31.9	
Hindalco Industries	144	ADD	276,224	5,809	1,915	12.8	18.3	17.6	(36.0)	43.3	(4.0)	11.3	7.9	8.2	6.1	5.9	6.3	1.0	0.9	0.8	1.0	1.0	1.0	9.7	11.4	10.0	175	21.3	27.8	
Hindustan Zinc	133	BUY	561,291	11,803	4,225	11.6	13.1	14.7	21.8	12.7	11.8	11.4	10.1	9.0	7.5	5.8	4.3	2.5	2.0	1.7	0.8	0.8	0.8	24.3	22.2	20.4	160	20.4	2.9	
Jindal Steel and Power	550	REDUCE	514,192	10,813	934	40.2	43.5	52.9	5.1	8.2	21.6	13.7	12.7	10.4	10.1	9.4	8.0	3.6	2.9	2.3	0.3	0.3	0.3	30.9	25.5	24.4	595	8.1	19.9	
JSW Steel	679	SELL	153,544	3,229	226	78.6	70.2	107.5	(2.2)	(10.7)	53.1	8.6	9.7	6.3	6.4	6.8	5.8	0.9	0.9	0.8	1.8	1.8	1.8	13.6	9.3	12.9	660	(2.9)	33.7	
National Aluminium Co.	66	SELL	169,067	3,555	2,577	4.1	5.0	4.8	36.3	20.5	(4.1)	15.8	13.1	13.7	7.4	5.9	5.6	1.5	1.4	1.3	2.3	2.3	2.3	9.9	11.1	10.0	65	(0.9)	0.6	
Sesa Goa	224	SELL	200,591	4,218	895	47.0	40.1	41.6	59.8	(14.6)	3.7	4.8	5.6	5.4	3.9	4.2	3.3	1.6	1.3	1.0	1.8	1.8	1.8	36.8	22.1	17.9	230	2.6	16.3	
Sterlite Industries	130	BUY	436,452	9,178	3,361	15.2	17.0	19.0	26.2	12.0	11.5	8.6	7.6	6.9	5.3	4.0	3.4	1.1	0.9	0.8	0.9	0.9	0.9	13.0	13.0	12.8	185	42.5	17.6	
Tata Steel	466	BUY	452,337	9,512	971	75.3	68.7	76.9	(2,258.1)	(8.8)	12.0	6.2	6.8	6.1	5.9	6.1	5.2	1.3	1.0	0.9	2.5	1.7	1.7	24.7	15.5	15.7	625	34.2	49.9	
Metals & Mining		Attractive	5,154,443	108,389					39.1	16.1	12.9	12.4	10.7	9.5	7.8	6.8	5.8	2.4	2.0	1.7	1.3	1.5	1.7	19.0	18.5	17.8				
Pharmaceutical																														
Apollo Hospitals	520	ADD	72,239	1,519	139	13.2	17.8	21.4	21.0	34.5	19.9	39.3	29.2	24.3	17.9	13.6	11.2	3.8	2.8	2.5	—	—	—	9.8	10.7	10.5	650	25.0	1.0	
Biocon	336	BUY	67,120	1,411	200	18.4	19.4	21.4	23.9	5.6	10.3	18.3	17.3	15.7	10.5	10.0	9.0	3.2	2.9	2.6	—	—	—	19.4	17.9	17.4	445	32.6	3.1	
Cipla	284	REDUCE	228,070	4,796	803	12.3	14.5	16.5	(10.0)	17.5	13.7	23.0	19.6	17.2	19.9	14.2	11.7	3.4	3.0	2.7	1.0	1.1	1.2	15.4	16.0	16—	310	9.1	8.4	
Cadila Healthcare	819	ADD	167,699	3,526	205	34.7	39.4	47.7	40.6	13.4	21.0	23.6	20.8	17.2	20.4	17.0	13.1	7.7	6.0	4.8	0.8	1.0	1.2	37.5	32.5	30.9	1,045	27.6	2.5	
Dishman Pharma & chemicals	64	REDUCE	5,185	109	81	9.8	8.0	8.7	(31.8)	(18.3)	8.0	6.5	7.9	7.3	8.3	6.3	5.7	0.6	0.6	0.5	—	—	—	9.6	7.2	7.3	70	9.8	0.2	
Divi's Laboratories	729	ADD	96,715	2,034	133	32.4	36.7	45.0	25.7	13.5	22.4	22.5	19.8	16.2	18.6	14.2	11.6	5.4	4.6	3.9	—	—	—	25.9	25.0	26.2	830	13.9	2.8	
GlaxoSmithkline Pharmaceuticals (a)	2,060	REDUCE	174,450	3,668	85	68.3	78.2	88.6	15.5	14.6	13.3	30.2	26.3	23.2	20.0	17.7	15.2	8.9	8.2	7.6	1.9	2.4	2.8	30.9	32.6	33.9	2,220	7.8	1.4	
Glenmark Pharmaceuticals	324	ADD	87,696	1,844	270	17.0	26.2	23.5	33.6	54.5	(10.3)	19.1	12.4	13.8	21.2	14.1	12.1	4.3	3.2	2.7	—	—	—	20.6	29.8	21.2	395	21.8	4.6	
Jubilant Life Sciences	216	REDUCE	34,425	724	159	14.4	16.5	22.7	(45.6)	14.5	37.6	15.0	13.1	9.5	11.5	9.2	7.8	1.6	1.4	1.3	0.9	0.9	1.4	12.3	11.7	14.2	205	(5.1)	1.3	
Lupin	476	ADD	213,474	4,489	448	19.2	20.6	26.3	25.6	7.2	27.5	24.7	23.1	18.1	20.7	17.9	13.3	6.4	5.2	4.2	0.6	0.7	0.9	29.5	25.3	26.2	530	11.3	10.1	
Ranbaxy Laboratories	482	SELL	203,919	4,288	423	40.6	16.9	20.8	475.0	(58.3)	22.7	11.9	28.4	23.2	14.6	24.6	19.2	3.6	3.1	2.8	—	—	—	34.5	11.9	12.8	435	(9.7)	7.8	
Sun Pharmaceuticals	487	ADD	504,441	10,608	1,036	17.5	20.4	24.3	34.4	16.3	19.2	27.8	23.9	20.0	23.6	18.9	15.4	4.9	4.1	3.5	0.7	0.8	1.0	21.0	20.2	20.7	560	15.0	10.7	
Pharmaceuticals		Cautious	2,183,320	45,911					30.2	3.5	3.6	22.7	22.0	21.2	17.2	14.7	14.0	3.6	3.1	3.0	0.7	0.8	0.8	16.0	14.2	14.0				
Property																														
DLF	208	BUY	356,974	7,507	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	22.9	17.5	13.3	15.5	12.3	9.3	1.4	1.3	1.2	1.0	1.2	1.4	5.4	7.5	9.2	270	29.7	37.6	
Housing Development & Infrastructure	104	BUY	46,303	974	445	19.8	28.7	34.3	24.0	44.8	19.7	5.3	3.6	3.0	5.3	3.7	3.2	0.5	0.4	0.4	—	1.0	1.4	10.0	12.3	12.7	150	44.2	20.0	
Indiabulls Real Estate	82	RS	32,843	691	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	20.6	9.6	5.3	14.2	11.4	5.0	0.3	0.3	0.3	—	0.6	0.9	1.4	2.9	5.0	—	—	9.0	
Mahindra Life Space Developer	296	BUY	12,071	254	41	24.9	30.8	37.5	30.2	23.7	21.6	11.9	9.6	7.9	9.0	6.5	4.8	1.2	1.1	1.0	1.7	1.5	1.7	10.4	11.6	12.7	450	52.1	0.2	
Oberoi Realty	218	BUY	71,853	1,511	330	15.7	20.0	28.0	14.8	27.6	39.7	13.9	10.9	7.8	10.0	6.9	4.3	2.1	1.8	1.5	0.5	0.7	1.1	19.9	18.2	21.3	315	44.5	0.3	
Phoenix Mills	214	BUY	30,968	651	145	6.3	7.4	10.7	53.0	17.2	44.1	33.8	28.8	20.0	25.0	20.9	15.6	1.9	1.8	1.7	0.8	0.9	0.9	5.8	6.6	8.9	300	40.3	0.3	
Puravankara Projects	68	ADD	14,609	307	213	5.5	9.0	10.9	(18.9)	62.8	21.5	12.4	7.6	6.3	17.4	9.5	8.0	1.0	0.9	0.8	1.5	2.2	2.9	8.0	12.0	13.1	80	16.9	0.0	
Sobha Developers	227	BUY	22,265	468	98	18.8	20.6	27.2	33.8	9.2	32.2	12.1	11.0	8.4	10.9	9.8	6.9	1.2	1.1	1.0	1.3	1.5	1.8	10.2	10.3	12.4	370	63.0	0.9	
Unitech	28	RS	72,995	1,535	2,616	2.3	2.6	2.7	(23.4)	12.8	4.9	12.0	10.7	10.2	13.7	11.2	9.1	0.6	0.6	0.5	—	0.7	1.1	5.4	5.7	5.4	—	—	18.2	
Property		Cautious	692,803	14,568					5.3	44.3	29.6	16.2	11.2	8.6	13.0	9.3	7.0	1.0	0.9	0.8	0.8	1.1	1.4	6.1	8.1	9.5				

Kotak Institutional Equities: Valuation summary of key Indian companies

	15-Sep-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target			
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
Sugar																														
Bajaj Hindustan	51	REDUCE	11,683	246	228	1.9	3.7	1.6	(28.7)	90.5	(57.3)	26.5	13.9	32.6	17.6	5.9	5.7	0.4	0.4	0.4	1.1	1.1	1.1	1.7	2.7	1.1	60	17.3	1.6	
Balrampur Chini Mills	51	BUY	12,569	264	247	6.7	4.0	7.7	111.0	(40.5)	94.0	7.6	12.8	6.6	10.9	8.6	5.8	0.8	0.8	0.7	1.5	1.5	1.5	11.6	6.5	11.9	80	57.2	1.6	
Shree Renuka Sugars	60	BUY	40,055	842	670	10.5	6.4	5.0	214.7	(39.4)	(21.0)	5.7	9.4	11.9	8.4	6.6	5.5	1.6	1.4	1.3	1.7	1.7	1.7	34.4	16.1	11.4	75	25.5	9.6	
Sugar		Cautious	64,307	1,352					122.4	(24.7)	(7.4)	8.0	10.6	11.4	10.8	6.6	5.6	0.9	0.9	0.8	1.5	1.5	1.5	11.6	8.1	7.0				
Technology																														
HCL Technologies	403	SELL	284,221	5,977	705	22.9	29.5	32.8	30.4	28.9	11.3	17.6	13.7	12.3	10.7	8.3	7.3	3.4	2.9	2.5	1.8	2.0	2.0	21.0	22.6	21.7	375	(7.0)	10.3	
Hexaware Technologies	76	ADD	22,201	467	290	3.0	7.5	7.3	(36.8)	154.4	(3.4)	25.9	10.2	10.5	19.1	8.7	7.4	2.3	2.1	1.9	1.9	3.9	4.3	9.3	21.3	18.6	80	4.6	3.0	
Infosys Technologies	2,410	BUY	1,383,283	29,088	574	119.7	134.3	160.3	10.5	12.1	19.4	20.1	17.9	15.0	13.5	11.9	9.8	5.3	4.5	3.8	2.5	1.7	2.1	28.0	27.1	27.2	2,900	20.3	78.0	
Mahindra Satyam	68	SELL	80,262	1,688	1,176	4.2	6.7	7.0	68.9	58.4	4.7	16.3	10.3	9.8	11.7	5.9	4.6	4.7	3.2	2.4	—	—	—	27.6	37.1	28.2	70	2.6	10.8	
Mindtree	351	ADD	14,433	304	41	24.7	35.2	37.2	(52.7)	42.4	5.8	14.2	10.0	9.4	7.9	6.1	4.9	1.9	1.6	1.4	0.7	1.0	3.2	14.4	17.2	16.1	375	6.9	2.2	
Mphasis BFL	343	SELL	72,278	1,520	211	51.8	38.6	30.0	18.8	(25.5)	(22.2)	6.6	8.9	11.4	5.6	6.7	7.2	2.2	1.8	1.6	1.2	1.3	1.5	38.6	22.3	14.8	300	(12.5)	3.6	
Patni Computer Systems	295	ADD	39,328	827	133	42.6	25.9	27.2	16.5	(39.3)	5.2	6.9	11.4	10.9	3.7	4.1	2.8	1.2	1.2	1.1	22.4	1.8	1.8	18.4	8.2	10.2	300	1.6	1.5	
Polaris Software Lab	136	REDUCE	13,559	285	100	19.3	18.8	19.0	25.7	(2.6)	0.7	7.0	7.2	7.2	4.0	3.1	2.7	1.3	1.1	1.0	2.7	2.9	3.0	20.2	16.8	14.8	130	(4.4)	2.3	
TCS	1,042	ADD	2,038,913	42,875	1,957	44.5	52.8	61.1	26.8	18.6	15.6	23.4	19.7	17.1	17.7	14.4	12.1	8.1	6.6	5.5	1.7	2.0	2.3	37.8	36.9	35.2	1,160	11.4	46.9	
Tech Mahindra	636	SELL	80,161	1,686	126	48.8	72.1	75.5	(25.2)	47.8	4.7	13.0	8.8	8.4	8.9	9.0	7.9	2.4	2.1	1.8	0.6	0.6	1.6	20.5	26.0	23.8	600	(5.7)	3.7	
Wipro	348	ADD	854,483	17,968	2,454	21.6	22.4	24.5	14.5	3.9	9.1	16.1	15.5	14.2	11.8	10.5	9.3	3.6	3.0	2.6	1.2	1.4	1.5	24.3	21.1	19.7	370	6.3	12.1	
Technology		Attractive	4,883,121	102,684					17.1	13.1	13.0	19.0	16.8	14.9	13.6	11.7	9.9	5.0	4.2	3.5	2.0	1.8	2.0	26.2	24.9	23.8				
Telecom																														
Bharti Airtel	387	ADD	1,470,051	30,913	3,798	15.9	18.2	28.0	(32.6)	14.5	53.7	24.3	21.2	13.8	10.4	8.1	6.1	3.0	2.6	2.2	—	—	—	13.3	13.3	17.4	460	18.8	50.9	
IDEA	97	ADD	321,411	6,759	3,303	2.7	2.7	5.1	(0.5)	(1.4)	89.2	35.8	36.3	19.2	11.3	8.6	6.6	2.6	2.4	2.2	—	—	—	7.6	7.0	12.0	115	18.2	19.3	
MTNL	35	SELL	22,113	465	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(3.4)	(3.8)	(4.2)	0.6	0.8	1.0	0.2	0.2	0.2	—	—	—	(6.1)	(5.7)	(5.5)	35	(0.3)	0.8	
Reliance Communications	85	SELL	180,198	3,789	2,133	6.3	2.6	5.2	(71.1)	(59.4)	103.2	13.4	33.0	16.2	6.1	6.7	5.7	0.4	0.4	0.4	—	—	—	3.2	1.3	2.7	80	(5.3)	18.0	
Tata Communications	205	REDUCE	58,454	1,229	285	15.2	15.7	15.9	8.2	3.5	1.5	13.5	13.1	12.9	6.3	5.9	5.6	0.8	0.8	0.8	3.7	4.1	4.4	5.5	5.5	5.4	205	(0.0)	1.4	
Telecom		Cautious	2,052,226	43,155					(42.4)	2.1	62.3	25.5	25.0	15.4	9.5	7.9	6.1	1.7	1.6	1.5	0.1	0.1	0.1	6.8	6.5	9.5				
Utilities																														
Adani Power	86	REDUCE	205,097	4,313	2,393	2.4	11.0	15.0	200.7	368.5	35.8	36.4	7.8	5.7	36.3	7.6	4.9	3.3	2.2	1.6	—	—	—	8.5	33.5	31.8	100	16.7	3.7	
CESC	278	BUY	34,751	731	125	37.7	42.5	51.3	9.1	12.7	20.8	7.4	6.5	5.4	5.4	5.8	5.5	0.7	0.7	0.6	1.8	1.9	2.2	10.5	10.7	11.5	440	58.2	2.0	
JSW Energy	60	REDUCE	97,826	2,057	1,640	5.1	4.8	4.7	12.9	(6.2)	(1.8)	11.6	12.4	12.6	12.3	8.2	6.4	1.7	1.5	1.4	(1.7)	—	—	16.1	13.0	11.3	60	0.6	1.7	
Lanco Infratech	17	BUY	38,791	816	2,223	2.0	3.0	3.4	(5.8)	47.2	16.6	8.7	5.9	5.1	8.5	7.9	7.5	1.0	0.8	0.7	—	—	—	12.2	15.0	14.6	45	157.9	9.1	
NHPC	24	ADD	300,138	6,311	12,301	1.3	1.8	2.1	(27.2)	36.0	16.3	18.1	13.3	11.4	13.3	10.1	8.1	1.1	1.0	1.0	1.7	2.0	2.4	6.3	8.0	8.8	30	23.0	2.4	
NTPC	165	REDUCE	1,356,791	28,531	8,245	11.0	11.2	12.0	5.3	1.4	6.8	14.9	14.7	13.8	12.4	12.0	11.3	2.0	1.8	1.7	2.3	2.0	2.2	13.7	12.8	12.6	180	9.4	10.0	
Reliance Infrastructure	456	BUY	120,914	2,543	265	58.0	64.1	76.3	(6.5)	10.5	19.0	7.9	7.1	6.0	7.7	4.1	3.0	0.5	0.5	0.5	2.1	2.3	2.5	6.4	11.2	12.2	920	101.8	15.7	
Reliance Power	80	SELL	224,406	4,719	2,805	2.7	2.9	2.9	(5.0)	7.6	(0.5)	29.5	27.4	27.6	160.6	68.7	14.4	1.4	1.3	1.3	—	—	—	4.9	4.9	4.7	88	10.0	6.2	
Tata Power	958	BUY	236,467	4,973	247	76.5	75.9	87.6	21.5	(0.7)	15.4	12.5	12.6	10.9	10.3	8.6	7.9	1.6	1.5	1.3	1.5	1.6	1.8	13.8	12.3	12.9	1,350	40.9	8.2	
Utilities		Cautious	2,615,182	54,993					5.1	18.9	13.4	15.2	12.8	11.2	13.8	10.4	8.6	1.5	1.4	1.3	1.6	1.6	1.7	10.1	10.9	11.3				
Others																														
Carborundum Universal	310	SELL	28,976	609	93	18.3	18.9	21.0	67.7	3.7	10.6	17.0	16.4	14.8	12.2	10.4	9.1	3.4	2.9	2.5	1.2	1.3	1.4	20.7	18.4	17.8	290	(6.5)	0.2	
Havells India	362	REDUCE	45,175	950	125	24.5	25.8	28.8	334.1	5.1	11.5	14.8	14.0	12.6	9.8	9.0	7.9	6.4	4.5	3.4	0.7	0.8	0.8	53.9	37.6	30.9	370	2.2	3.6	
Jaiprakash Associates	70	BUY	148,426	3,121	2,126	6.0	6.3	7.2	230.2	3.9	15.6	11.6	11.2	9.7	11.7	10.1	9.7	1.4	1.3	1.1	—	—	—	13.3	11.7	12.3	115	64.8	21.4	
Jet Airways	274	BUY	23,629	497	86	(10.1)	(43.4)	16.9	(91.0)	331	(139.0)	(27.2)	(6.3)	16.2	9.5	10.0	7.0	1.4	1.9	1.7	—	—	—	(5.0)	(11.7)	10.9	650	137.5	12.0	
SpiceJet	25	BUY	9,874	208	403	2.2	2.1	4.3	(12.4)	(4.3)	101.0	11.0	11.5	5.7	9.5	13.4	7.6	3.3	2.5	1.8	—	—	—	(466)	24.8	36.2	65	165.3	2.7	
Tata Chemicals	329	REDUCE	83,929	1,765	255	26.2	32.9	38.8	(0.7)	25.4	17.9	12.6	10.0	8.5	7.6	5.3	4.5	1.5	1.4	1.2	3.0	3.6	4.6	16.9	18.6	19.5	365	10.8	2.8	
United Phosphorus	149	BUY	68,624	1,443	462	12.3	15.9	19.8	3.9	28.8	24.3	12.0	9.3	7.5	7.3	5.1	4.3	1.8	1.6	1.4	1.3	2.0	2.4	18.0	18.5	19.8	220	48.0	3.9	
Others			408,633	8,593					232.5	10.1	38.5	14.5	13.1	9.5	10.1	8.6	7.6	1.7	1.6	1.4	1.0	1.3	1.5	12.0	12.0	14.5				
KS universe (b)			44,794,787	941,957					18.2	17.8	16.3	15.2	12.9	11.1	9.9	8.2	7.0	2.3	2.1	1.8	1.6	1.7	2.0	15.4	15.9	16.3				
KS universe (d) ex-Energy			37,170,083	781,623					20.3	15.5	18.5	16.4	14.2	12.0	11.5	9.7	8.2	2.6	2.3	2.0	1.5	1.5	1.7	16.0	16.1	16.7				
KS universe (d) ex-Energy & ex-Commodities			30,982,345	651,506					18.8	15.1	19.8	17.3	15.0	12.5	12.9	10.8	9.1	2.7	2.4	2.1	1.5	1.5	1.8	15.5	15.7	16.5				

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