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Changes in Recommendation

Castrol India: Time to SELL

Updates

United Phosphorus: Management meeting update and annual report highlights

Chemicals: India Chemical Monthly, September 2010

News Round-up

- ▶ Exports of the M800, once Maruti Suzuki's (MSIL IN) flagship model, jumped by 91.49% to 4,435 units in the April-August period of 2010. (BSTD)
- ▶ Bharti Airtel (BHARTI IN) strengthened its six-year relationship with IBM by assigning the global IT major to manage its computing and mobile network across 16 African countries. The 10 year deal, according to industry sources, is estimated to be worth USD 1-1.5 bn one of the largest outsourcing deals signed by Bharti. (BSTD-Sat)
- ▶ NCDEX to allot 26% equity to Jaypee Capital. Out of the 26% new shares, around 3% shares will go to Shree Renuka Sugars (SHRS IN) increasing its share to nearly 15%. Jaypee and Renuka will together assume the anchor role. (BSTD-Sun)
- ▶ Tata Motors (TTMT IN) is understood to be mulling a rise in the price of its passenger cars, Indica and Indigo, by a "significant" amount with effect from October 1 next month. (BSTD)
- ▶ NTPC Ltd (NATP IN) plans to produce coal from its captive mine in Jharkhand by the next financial year. (THBL SAT)
- ▶ Ashok Leyland (AL IN) has received an order of 2850 buses from the Institute for Road transport the, state Government agency for vehicle procurement in Tamil Nadu. (THBL SAT)
- ▶ Reliance Infrastructure (RELI IN) is set to recover about USD 425.55 mn from its 2.8 mn electricity consumers in Mumbai by way of arrears. (THBL)
- ▶ SAIL (SAIL IN) protests share for locals in mining profits. Cities practical problems as captive mines are not accounted separately in books. (BSTD-Sun)
- ▶ Bajaj Hindusthan (BJHS IN) to invest USD 2.16 bn in thermal power. Will set up 1,980 Mw power capacity in Uttar Pradesh. (BSTD-Sun)
- ▶ SAIL (SAIL IN) is likely to set up an iron nugget plant with Japan's Kobe Steel at its unit in Durgapur, the Alloy Steel Plant. (BSTD-Sun)
- ▶ Indiabulls (IBULL IN) has indicated that it will completely exit the commodities exchange business by selling its 40% stake in ICEX. (BSTD-Sat)
- ▶ Essar Steel has entered into deals with private iron-ore miners from Orissa, including the Ahluwalia group & the Meso group, for supplies over a 10 year period. (ECNT)
- ▶ BHEL (BHEL IN) to invest USD 255.32mn in R& D by 2012. (ECNT-Sat)
- ▶ IRB Infrastructure Developers (IRB IN) is eyeing a 92% jump in revenue in FY'11. (FNLE)
- ▶ Oriental Bank of Commerce (OBC IN) has raised Capital of USD 106 mn to fund business growth and strengthen its capital adequacy. (THBL)

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

EQUITY MARKETS

India	Change %			
	17-Sep	1-day	1-mo	3-mo
Sensex	19,595	0.9	6.5	11.5
Nifty	5,885	1.0	6.4	11.8
Global/Regional indices				
Dow Jones	10,608	0.1	3.9	1.5
Nasdaq Composite	2,316	0.5	6.2	0.3
FTSE	5,508	(0.6)	6.0	4.9
Nikkie	9,626	1.2	4.9	(3.7)
Hang Seng	21,934	(0.2)	4.5	8.1
KOSPI	1,822	(0.3)	2.6	6.4
Value traded – India				
Cash (NSE+BSE)	216		194	180
Derivatives (NSE)	1,478		1,023	932
Deri. open interest	2,048		1,721	1,457

Forex/money market

	Change, basis points			
	17-Sep	1-day	1-mo	3-mo
Rs/US\$	45.8	(31)	(81)	(47)
10yr govt bond, %	8.0	-	4	40
Net investment (US\$m)				
	16-Sep		MTD	CYTD
FIs	247		2,317	15,198
MFs	(106)		(291)	(282)

Top movers -3mo basis

Best performers	Change, %			
	17-Sep	1-day	1-mo	3-mo
HPCL IN Equity	532.3	(0.3)	4.3	56.5
BOI IN Equity	498.5	2.4	8.4	49.6
BPCL IN Equity	765.9	1.4	9.6	46.8
IDEA IN Equity	77.2	2.9	10.4	43.9
BHARTI IN Equity	358.9	3.3	15.6	35.4
Worst performers				
RNR IN Equity	39.9	3.0	4.6	(36.5)
MMTC IN Equity	1367.2	0.1	(2.2)	(14.7)
HH IN Equity	1745.2	0.7	(8.9)	(13.6)
IVRC IN Equity	158.0	(0.3)	(3.7)	(13.1)
RCOM IN Equity	166.8	5.4	2.3	(9.7)

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SEPTEMBER 20, 2010

CHANGE IN RECO.

Coverage view: **Cautious**

Price (Rs): **522**

Target price (Rs): **380**

BSE-30: **19,595**

Time to SELL. We downgrade Castrol India stock to SELL from REDUCE, noting that (1) market is ascribing ~25X to CY2011E EPS, which seems very high in our view, (2) downside of 27% to our fair value from the current levels and (3) potentially weak 3QCY10E results will likely act as a dampener to stock performance in the near term. Key upside risks stem from (1) higher-than-expected volumes and (2) lower-than-expected LOBS prices.

Company data and valuation summary

Castrol India (a)

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	558-233	EPS (Rs)	15.4	20.7	21.2
Market Cap. (Rs bn)	129.1	EPS growth (%)	44.6	34.1	2.4
Shareholding pattern (%)		P/E (X)	33.9	25.3	24.7
Promoters	71.0	Sales (Rs bn)	23.2	27.9	29.3
FIs	5.8	Net profits (Rs bn)	3.8	5.1	5.2
MFs	2.2	EBITDA (Rs bn)	6.1	7.9	8.2
Price performance (%)		EV/EBITDA (X)	20.2	15.7	15.2
Absolute	1M 7.5 3M 23.8 12M 118.8	ROE (%)	83.8	107.4	103.7
Rel. to BSE-30	0.9 11.0 86.9	Div. Yield (%)	2.4	3.2	3.3

Stock is trading at peak multiple on peak margins.

We have downgraded Castrol to SELL from REDUCE given (1) its recent strong outperformance versus BSE-30 Index and (2) significant downside to our 12-month target price of Rs380 based on 18X CY2011E EPS. The stock has jumped 78% since January 1, 2010 outperforming the market by 66% (see Exhibit 1). The stock is currently trading at ~25X CY2011E EPS, which is significantly higher than its historical trading band of 14-18X (see Exhibit 2). We currently assume an EBITDA margin of 26.6% for CY2011E, which is higher than Castrol's EBITDA margin of 24.8% in CY2009 and an average EBITDA margin of 16.4% over CY2001-08 (see Exhibit 3).

Stock is trading at a premium to FMCG companies despite modest earnings growth

Exhibit 5 gives the relative valuation for FMCG companies and compares the same with Castrol. We are perplexed by the fact that the market is ascribing a higher multiple to Castrol versus FMCG players despite much more modest growth in volumes and earnings. We note that most FMCG companies will likely generate ~16% growth in earnings driven by 10-20% volume growth over FY2011E and FY2012E. In comparison, we expect 2-3% growth in earnings for Castrol led by 2-3% volume growth.

3QCY10E results could be a dampener; lower volumes, weaker rupee and higher LOBS prices qoq

We would advise investors to be wary of likely weak 3QCY10E results given unfavorable movement in its key drivers. (1) Volumes: 3Q is typically the weakest quarter for Castrol due to monsoons which curtail the transportation activity (see Exhibit 4). This will be further accentuated by the heavy widespread monsoons in the country this year. (2) LOBS prices: LOBS prices have increased by 6-7% qoq, which will impact margins for Castrol. (3) Weaker rupee: This will increase landed cost of imported raw materials. We highlight that the rupee has weakened from Rs45.7/US\$ in 2QCY10 to Rs46.6/US\$ in 3QCY10 (QTD), which will impact the margins for Castrol.

QUICK NUMBERS

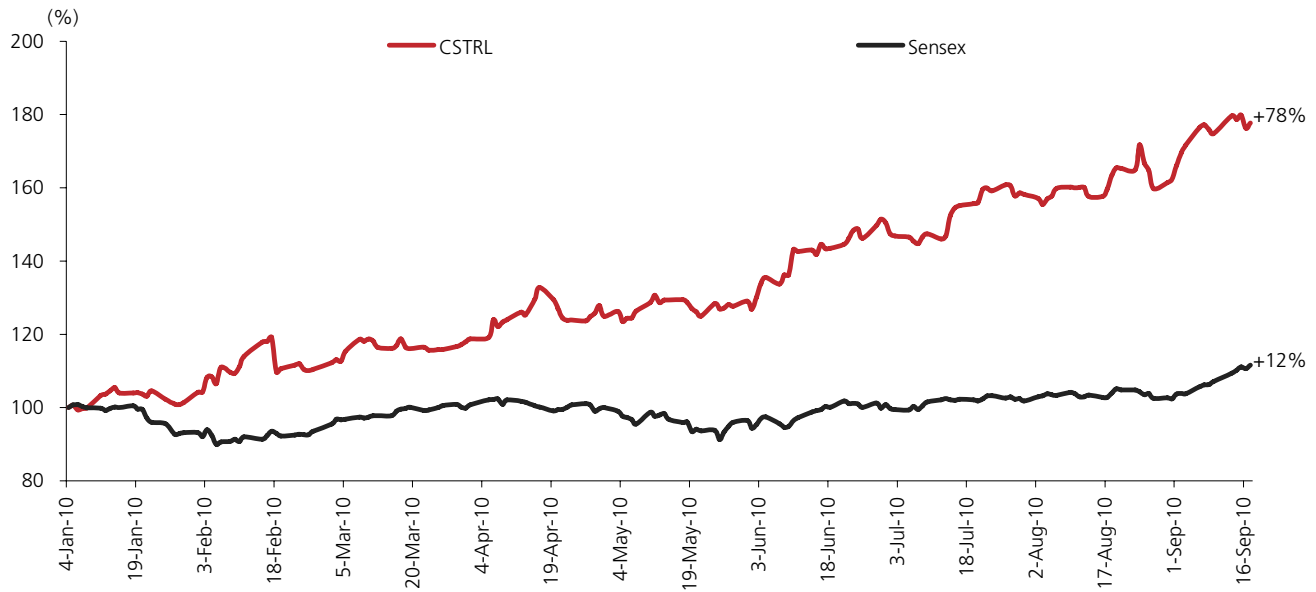
- 27% downside to our fair value of CSTRL
- 25X CY2011E earnings at current stock price
- 2-3% volume growth for lubricants in the long term

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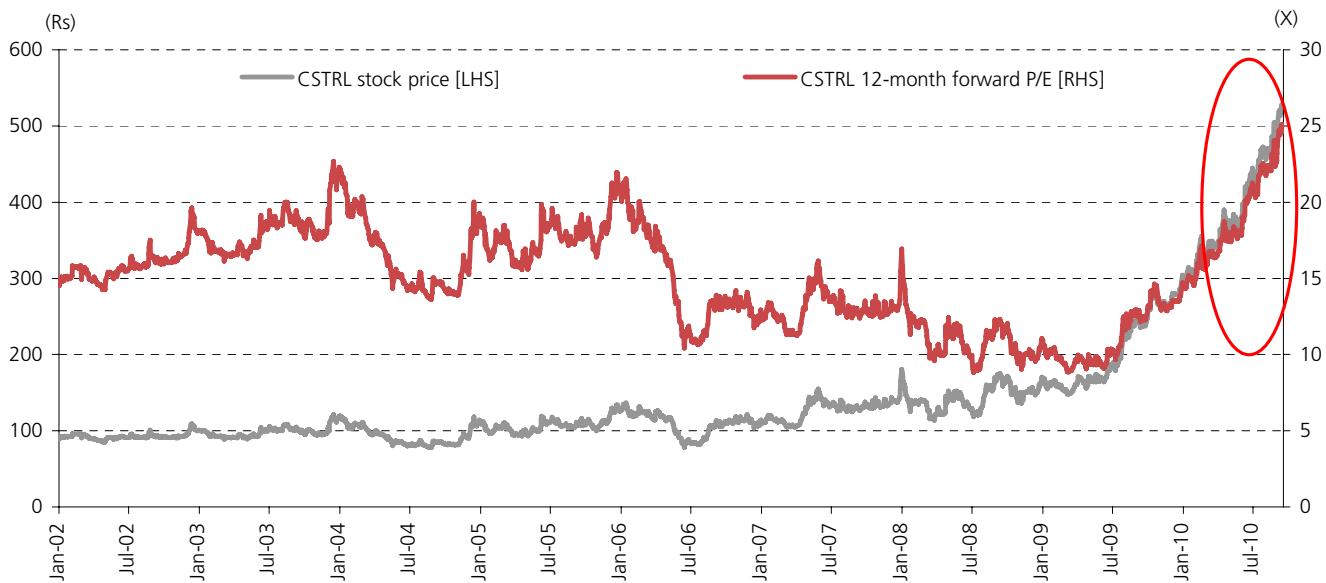
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Castrol India has strongly outperformed the broader markets
 Stock performance, CY10YTD (%)



Source: Bloomberg, Kotak Institutional Equities

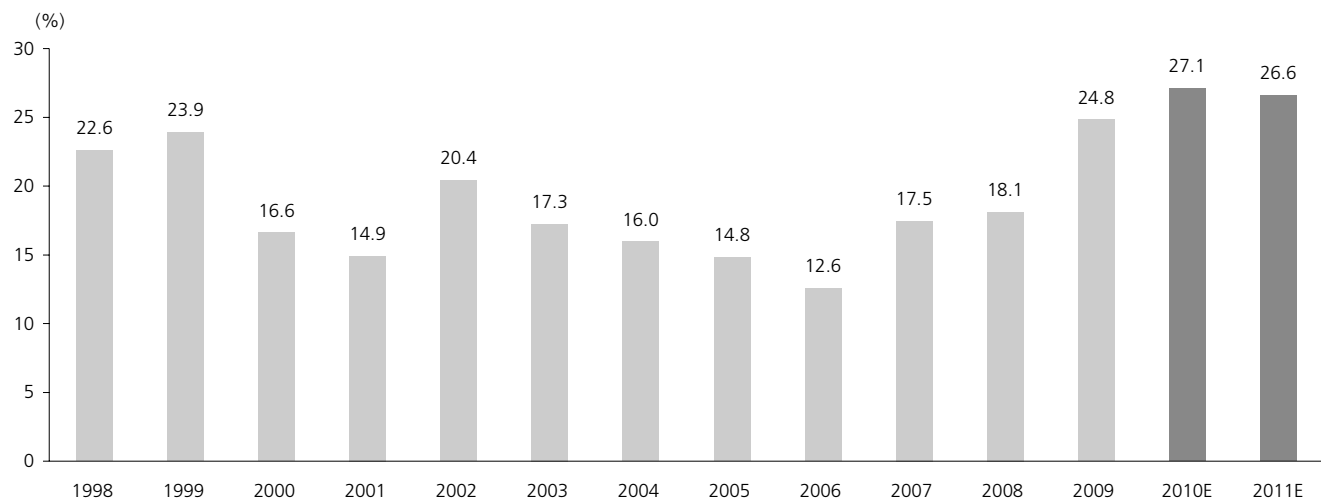
Castrol India is trading at peak multiple
 12-month forward P/E for Castrol India (x)



Source: Bloomberg, Kotak Institutional Equities estimates

We are modeling peak EBITDA margins for CY2010-11E

EBITDA margins for Castrol, March fiscal year-ends, 1998-2011E (%)



Source: Company, Kotak Institutional Equities estimates

3Q is typically the weakest quarter for Castrol due to monsoons

Quarterly volumes, Calendar year-ends, 2007-10 (mn liters)

	1Q	2Q	3Q	4Q	Total
Sales volumes (mn liters)					
2007	51.4	62.2	50.0	55.6	219.2
2008	54.3	63.9	50.6	46.0	214.8
2009	45.2	56.0	50.7	53.7	205.6
2010	54.6	60.2			114.8
Growth (% qoq)					
2007	NA	21%	-20%	11%	
2008	-2%	18%	-21%	-9%	
2009	-2%	24%	-9%	6%	
2010	2%	10%			

Source: Company, Kotak Institutional Equities

Castrol stock valuation is not comparable to FMCG companies
P/E versus EPS growth of FMCG companies, March fiscal year-ends 2010-12E

Company	17-Sep-10	EPS growth (%)			P/E (X)		
	Price (Rs)	2010	2011E	2012E	2010	2011E	2012E
Asian Paints	2,847	85.3	24.4	20.4	39.8	32.0	26.6
Castrol India (a)	522	44.6	34.1	2.4	33.9	25.3	24.7
Colgate-Palmolive (India)	821	44.2	10.9	14.6	26.4	23.8	20.8
Dabur India	110	28.2	17.7	20.8	37.8	32.1	26.6
GlaxoSmithKline Consumer (a)	1,806	23.6	23.9	18.6	32.6	26.3	22.2
Godrej Consumer Products	466	69.5	18.9	33.4	41.1	34.5	25.9
Hindustan Unilever	282	(0.9)	8.4	17.5	29.9	27.6	23.5
ITC	168	22.6	20.5	16.5	31.7	26.3	22.6
Jubilant Foodworks	535	340.6	75.7	24.6	96.6	55.0	44.1
Marico	125	33.8	19.6	20.4	28.0	23.4	19.4
Nestle India (a)	3,300	27.0	16.4	20.9	44.4	38.1	31.5
Tata Global Beverages	123	23.4	11.1	13.8	18.5	16.7	14.7

Note:

(a) Calendar year ending; FY2010 corresponds to CY2009.

Source: Bloomberg, Kotak Institutional Equities estimates

FMCG companies versus Castrol: A comparison

A section of Street believes that Castrol should command a multiple similar to an FMCG company as its business is similar to an FMCG company. We differ with this view as we believe the earnings multiple should depend on earnings profile rather than the sector classification. We believe every company is a consumption story in that sense. We highlight some of the key differentiators between the earnings profile of FMCG companies and Castrol.

- ▶ **Volume growth—solid growth in 1HFY10 could be misleading.** We would advise investors to be cautious regarding the volume growth achieved in 1HCY10. We would highlight that the 13.4% yoy growth in 1HFY10 comes on a very low base of 1HCY09. The sales volume achieved in 1QCY10 is still 3% lower than the volumes achieved in 1HCY08.

We highlight that Castrol has seen a decline in its sales volume over CY2006-09. As opposed to this, most of the FMCG companies have achieved a sales growth of 10-30% CAGR over FY2007-10. Exhibit 6 gives the volumes growth of the key segments for some FMCG companies.

Volume growth of key segments of FMCG companies, March fiscal year-end, 2007-10 (%)

	2007	2008	2009	2010
Asian Paints				
Paints	17.8%	17.5%	13.4%	16.4%
Castrol India (a)				
Lubricants	-0.3%	-2.6%	-2.5%	-4.7%
Colgate				
Soaps, cosmetics and toilet preparations	42.0%	4.6%	12.8%	13.5%
Godrej				
Soaps	17.8%	3.3%	16.4%	8.4%
GSK Consumer (a)				
Malted Milkfood/Malted Food	6.8%	9.9%	16.2%	10.0%
Nestle				
Milk Products & Nutrition	2.9%	5.4%	10.1%	13.1%
Prepared dishes & Cooking aids	20.0%	24.8%	30.1%	21.7%
Chocolates & Confectionery	15.8%	17.6%	12.4%	9.7%

Note:

(a) Calendar year ending; FY2007 corresponds to CY2006.

Source: Company, Kotak Institutional Equities

We find it difficult to justify a comparable earnings multiple for Castrol on projections of volume growth. We estimate Castrol to achieve a volume growth of 2.1% in CY2011E and 2.3% in CY2012E. In comparison, most of the FMCG companies will likely achieve a volume growth of 10-20% over FY2011E and FY2012E (see Exhibit 7).

Volume growth for Castrol is not comparable to FMCG companies
Growth in sales and volumes of FMCG companies, March fiscal year-ends, 2011-12E (%)

	Sales growth (%)		Volume growth (%)	
	2011E	2012E	2011E	2012E
Asian Paints	25.3	22.4	20.0	17.0
Castrol India (a)	20.4	5.1	11.3	2.1
Colgate-Palmolive (India)	14.6	14.4	11.0	10.0
Dabur India	19.2	18.3	13.0	11.0
GlaxoSmithKline Consumer (a)	17.7	18.4	11.0	13.0
Hindustan Unilever	8.6	13.6	12.0	7.0
ITC (gross sales-cigarette)	15.0	13.1	2.0	3.0
Jubilant Foodworks	43.4	36.2	36.4	29.2
Nestle India (a)	18.6	19.0	16.0	15.0
Tata Global Beverages	9.6	10.7	1.0	2.0

Note:

(a) Calendar year ending; FY2011E corresponds to CY2010.

Source: Kotak Institutional Equities estimates

The rationale for a modest volume growth for Castrol despite a likely strong growth in automobile sales reflects several trends in lubricants consumption:

- **Increase in oil-drain intervals.** Most of the commercial vehicle OEMs (original equipment manufacturers) has recommended the doubling in oil-drain intervals from CY2006 levels. This essentially means that the usage of lubricants by commercial vehicles will be half of the consumption in 2006. This trend of technological advancement will continue and will ensure that consumption volumes for trucks will keep declining significantly.

- **Lower lubricants consumption at the time of oil-drain.** The quantity of lubricants at the time of replacement has also reduced due to technological advancements.

We note that diesel automotive consumption constitutes ~40% of the overall market and the sharp decline in this segment will mitigate the impact of increase in volumes from passenger cars and industrial segment.

- ▶ **Earnings growth—margin-driven growth in earnings cannot last in perpetuity.** We note that the growth in earnings for Castrol in CY2006-09 has largely been driven by expansion in margins. The EBITDA margins have steadily increased from 12.6% in CY2006 to 24.8% in CY2009. We are already factoring a very strong EBITDA margin of 27.1% in CY2010E and 26.6% in CY2011E. We see limited upside risk to our margin assumption.

We expect a modest earnings growth for Castrol of 2-3% over CY2011-12E given (1) modest volume growth and (2) likely stable EBITDA margins. In contrast, FMCG companies are expected to report a healthy ~16% growth in earnings in FY2011-12E. We find it difficult to justify the use of a similar multiple for FMCG companies and Castrol given the sharp contrast in their earnings profile.

Key assumptions

Exhibit 8 gives our key assumptions for earnings. We discuss the same in detail below.

- ▶ **Volumes.** We currently model 11.3% yoy increase in sales volumes in CY2010E versus a volume growth of 13.4% yoy in 1HCY10. We model a 2.1% yoy increase in sales volumes in CY2011E.
- ▶ **Lubes prices.** We model lube realizations to increase by 8.2% in CY2010E to reflect the price hikes taken by Castrol in January 2010. However, the company has not taken any price changes post-Budget to pass through the higher import duty of 10.3% on base oils.
- ▶ **LOBS prices.** We model CY2010E LOBS prices at US\$890/ton (+US\$169/ton yoy) to reflect higher crude prices yoy. We model yoy increase of US\$40/ton in LOBS prices in CY2011E.
- ▶ **Exchange rate assumption.** We model exchange rate assumptions for CY2010E and CY2011E at Rs46/US\$.

Castrol: Key assumptions, December year-ends, 2004-2012E

	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Volume (Kilo litres)									
Industrial grades	50,306	50,788	50,585	43,773	31,928	28,003	30,804	31,728	32,362
Automotive grades	173,277	174,936	174,236	175,093	180,927	174,919	195,034	198,935	202,914
Traded items	621	747	1,055	1,114	1,723	1,614	1,808	1,808	1,808
Total	224,204	226,471	225,875	219,980	214,578	204,536	227,646	232,470	237,084
Growth (%)	5.8	1.0	(0.3)	(2.6)	(2.5)	(4.7)	11.3	2.1	2.0
Raw material prices (US\$/ton)									
LOBS prices	423	520	815	786	1,041	721	890	930	950
Macro assumptions									
INR/US\$	45.3	44.1	45.3	41.3	43.6	48.4	46.0	46.0	46.0
Realization (Rs/lt)									
Gross realization	58.2	63.2	77.6	85.8	102.8	113.3	122.6	126.2	128.6
Raw material cost	34.6	39.1	53.3	48.5	62.1	52.2	60.4	63.2	64.6
Net realization	23.6	24.1	24.2	37.3	40.7	61.1	62.2	63.0	64.0

Source: Company, Kotak Institutional Equities estimates

Castrol: Profit model, balance sheet, cash model, calendar year-ends, 2004-2012E (Rs mn)

	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)									
Net sales	13,051	14,304	17,524	18,883	22,057	23,182	27,919	29,338	30,499
EBITDA	2,082	2,117	2,200	3,296	3,997	5,754	7,565	7,795	7,972
Other income	221	201	344	348	418	361	375	400	425
Interest	(29)	(30)	(41)	(38)	(37)	(35)	(20)	(50)	(50)
Depreciation	(249)	(189)	(180)	(208)	(257)	(272)	(268)	(313)	(316)
Pretax profits	2,026	2,098	2,322	3,398	4,122	5,808	7,652	7,833	8,031
Tax	(687)	(694)	(889)	(1,455)	(1,568)	(2,075)	(2,589)	(2,663)	(2,734)
Deferred taxation	9	56	57	236	86	78	47	61	66
Net profits	1,275	1,468	1,545	2,184	2,624	3,811	5,110	5,231	5,363
Earnings per share (Rs)	5.3	5.9	6.1	8.8	10.7	15.4	20.7	21.2	21.7
Balance sheet (Rs mn)									
Total equity	3,601	3,901	4,177	4,302	4,756	4,950	5,303	5,631	5,948
Deferred taxation liability	174	119	61	(182)	(268)	(346)	(393)	(454)	(520)
Total borrowings	37	28	28	28	28	—	—	—	—
Current liabilities	2,830	3,238	3,619	5,116	4,690	6,812	6,587	6,850	7,028
Total liabilities and equity	6,642	7,285	7,885	9,264	9,205	11,416	11,496	12,027	12,456
Cash	297	399	892	3,179	2,556	5,258	4,458	4,858	5,220
Current assets	3,558	4,422	5,271	4,546	5,199	4,778	5,781	6,074	6,307
Total fixed assets	1,498	1,383	1,297	1,333	1,445	1,375	1,257	1,094	928
Investments	1,289	1,081	425	206	5	5	—	—	—
Total assets	6,642	7,285	7,885	9,264	9,205	11,416	11,496	12,027	12,456
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	1,576	1,544	1,403	2,046	2,772	3,834	4,956	5,082	5,189
Working capital	24	(465)	(506)	1,484	(1,193)	1,792	(1,227)	(31)	(55)
Capital expenditure	(57)	(89)	63	(243)	(371)	(344)	(150)	(150)	(150)
Free cash flow	1,542	991	960	3,287	1,208	5,281	3,578	4,902	4,984
Investments	(402)	258	687	224	201	—	5	—	—
Other income	37	25	9	151	210	188	375	400	425
Ratios (%)									
Debt/equity	1.0	0.7	0.7	0.7	0.6	—	—	—	—
Net debt/equity	1.0	0.7	0.7	0.7	0.6	—	—	—	—
RoAE	34.3	37.7	37.4	52.3	61.0	83.8	107.4	103.7	101.1
RoACE	35.7	37.7	37.0	52.4	61.4	84.1	107.7	104.4	101.8
Assumptions									
Volume (mn litres)	224.2	226.5	225.9	220.0	214.6	204.5	227.6	232.5	237.1
Gross realization (Rs/lt)	58.2	63.2	77.6	85.8	102.8	113.3	122.6	126.2	128.6
Net realization (Rs/lt)	23.6	24.1	24.2	37.3	40.7	61.1	62.2	63.0	64.0

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 20, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **187**

Target price (Rs): **225**

BSE-30: **19,595**

Management meeting update and annual report highlights. UPL has reduced net debt yoy by Rs10 bn to Net D/E= 0.17X as of March 2010, partly due to decline in NWC driven by lower input cost. We foresee cash (Rs18 bn as of Mar'10) being used for (1) scheduled debt repayments in FY2011E (Rs7.4 bn), (2) working capital finance with NWC/sales increasing to 75 days from 50 days as of Jun'10 and (3) acquisitions. UPL is comfortable taking its Net D/E=1X to fund acquisitions, implying cash of US\$450 mn is available for acquisitions. (1) Limited quarterly volatility in input prices, (2) operating leverage and (3) savings from Cerexagri restructuring is likely to translate into higher margin in FY2011E. We leave our estimates unchanged; maintain BUY with PT Rs225.

Company data and valuation summary

United Phosphorus

Stock data

52-week range (Rs) (high,low)	200-133
Market Cap. (Rs bn)	85.5

Shareholding pattern (%)

Promoters	27.9
FIs	33.6
MFs	13.7

Price performance (%)

	1M	3M	12M
Absolute	(2.2)	(2.5)	12.0
Rel. to BSE-30	(9.1)	(11.5)	(3.6)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	11.9	13.8	17.4
EPS growth (%)	18.8	15.8	25.9
P/E (X)	15.5	13.4	10.6
Sales (Rs bn)	52.9	56.6	64.0
Net profits (Rs bn)	5.5	6.4	8.1
EBITDA (Rs bn)	10.2	10.9	13.2
EV/EBITDA (X)	8.9	8.5	6.6
ROE (%)	17.7	17.2	18.3
Div. Yield (%)	0.8	1.1	1.1

Net working capital down by Rs5 bn to 52 days as of March 2010 due to lower inventory

UPL has squeezed net working capital in FY2010, bringing it down yoy to 52 days as of March 2010 from 90 days. This was on account of (1) reduction in inventory by almost Rs7 bn and (2) reduction in DSO to 84 days from 87 days. Net working capital as of June 2010 was 50 days. We think the price decline in raw materials was the primary reason behind inventory reduction while DSO was down marginally. We note that DSO for UPL is lower than its peer, Makhateshim (reasons inside). We expect the working capital to deteriorate as we move into 2HFY11E on account of the planting season in US/Europe. According to UPL, the working capital position in steady state is likely to remain around 75 days.

Cash build-up in FY2010 to be used for debt repayments and acquisition

We foresee cash (Rs18 bn as of Mar'10) being used for (1) working capital usage in FY2011E, (2) scheduled debt repayments in FY2011E (around Rs7.4 bn) and (3) acquisitions. UPL is comfortable taking its Net D/E=1X to fund acquisitions, implying cash of US\$450 mn is available for acquisitions and may be interested in (1) small brand acquisitions such as Manzate (acquisition cost >1X sales), (2) smaller companies with registrations in developed markets and (3) larger acquisitions such as Cerexagri. Any acquisition made will have to satisfy two important criteria (1) payback period of 3-4 years and (2) return on investment of 25-30%.

We leave our estimates unchanged, maintain BUY with PT of Rs225

We expect a better 2HFY11E on account of (1) minimal adverse price/currency impact, (2) benefits of margin expansion and (3) seasonality as Jan-March quarter is a stronger quarter for UPL in US/Europe. We maintain BUY with PT at Rs225 (13X FY2012E est.).

QUICK NUMBERS

- UPL is comfortable taking its Net D/E=1X to fund acquisitions
- Increase in NWC/sales to around 75 days from 50 days as of June 2010

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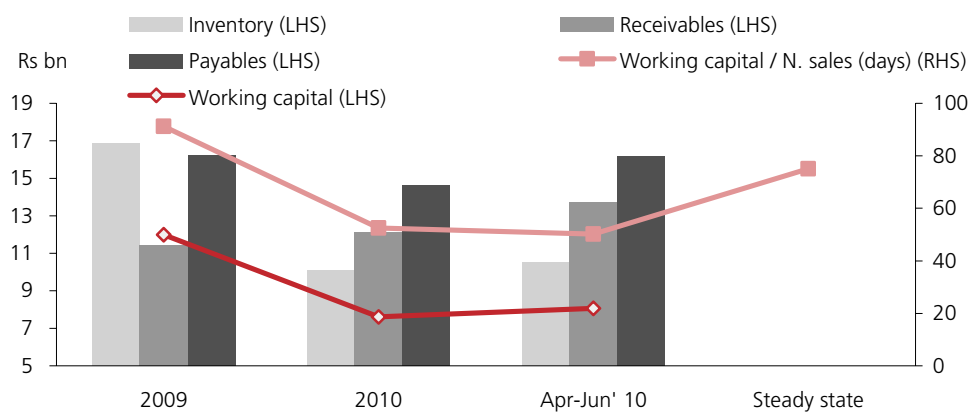
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Net working capital down by Rs5 bn to 52 days as of March 2010 from 90 days

- ▶ We note that the main reason for reduction in net working capital was reduction in inventory by almost Rs7 bn. We think the price decline in raw materials was the primary reason behind inventory reduction.
- ▶ DSO declined to 84 days from 87 days. We note that DSO for UPL is much lower than its peer, Makhateshim. This is on account of low exposure to Brazil which has the highest DSO among all geographies, closer to 300 days. UPL derives only 10% of sales from Latam while the balance ROW sales of 17% are split across markets such as Middle East, Africa, Asia-Pacific including Japan. In contrast, MAI has 25% of sales from Latam.
- ▶ We expect the working capital to deteriorate as we move into 2HFY11E on account of the busy season in US/Europe. We estimate NWC/sales at 83-75 days in FY2011-12E. According to UPL, the working capital position in steady state is likely to remain around 75 days.

Net working capital position, March fiscal year-ends, Rs mn



Source: Kotak Institutional Equities estimates, Company

Sales split, FY2010 (%)

	NA	Europe	LA	Home	ROW
UNTP	22	29	10	22	17
MAI	18	42	25	4	11
Nufarm	24	19	24	33	—

Source: Kotak Institutional Equities estimates, Company

Debt restructuring underway in FY2011E

Debt restructuring is underway with short-term debt having to be repaid by March 2011E and rupee debt being swapped for forex debt. According to the annual report, UPL has to repay unsecured debt of around Rs7.4 bn by March 2011E, including outstanding FCCBs of US\$67 mn in January 2011E.

UPL also expects to swap (1) debt of Rs3.8 bn raised through debentures in FY2010 and (2) debt of Rs8 bn raised in 1QFY11 into foreign currency in order to lower average interest cost and hedge against export receivables.

Average interest cost excluding forex loss on debt ex-FCCB was 10% in FY2010, according to our estimates, down from 12% in FY2009.

Details of loans, Rs mn

	FY2007	FY2008	FY2009	FY2010	Repayable within one year
Secured loans	3,428	2,335	4,574	4,044	
Unsecured loans					
Term loans	2,032	795	750	1,627	427
Commerical paper (short term)	700	0	250	0	
FCCB	3,452	2,756	3,445	3,026	3,026
ECB	3,408	3,375	7,632	7,330	
Syndicated notes	6,572	6,421	3,955	3,064	3,064
Working Capital			60	877	877
Debentures				3,850	
Total	16,164	13,348	16,092	19,774	7,393

Source: Kotak Institutional Equities estimates, Company

Details of loans, cash, Rs mn

	2009	2010	Apr-Jun' 10
Cash	5,539	15,778	17,778
Mutual funds	0	2,900	2,900
Debt	20,665	23,818	31,818
Net debt	15,126	5,140	11,140
Equity	26,730	29,918	31,342
Debt/Equity	0.77	79.61	101.52
Net Debt/Equity	0.57	0.17	0.36

Source: Kotak Institutional Equities estimates, Company

Cash build-up in FY2010 to be used for debt repayments, acquisition

We foresee cash (Rs20 bn as of June 2010) being used for (1) working capital usage in FY2011E, (2) scheduled debt repayments in FY2011E (around Rs7.4 bn) and (3) acquisitions.

UPL is comfortable taking its Net D/E=1X to fund acquisitions, implying that cash of US\$450 mn is available for acquisitions and may be interested in

- ▶ Small brand acquisitions such as Manzate (acquisition cost >1X sales).
- ▶ Smaller companies with registration pipeline in developed markets. We note that (1) registration costs, (2) extensive timelines and (3) burden of data submission, field trials are one of the key entry barriers in this industry. The registrations timeline varies from 2-3 years in US to as high as 5 years in Europe. Therefore, UPL is looking at companies with extensive registration pipeline.
- ▶ Larger companies such as Cerexagri.

Cerexagri restructuring almost complete with acquisition having exceeded ROI of 25-30%

According to UPL, any acquisition will have to satisfy two important criteria (1) payback period of 3-4 years and (2) return on investment of 25-30%.

We believe that UPL's last acquisition and biggest acquisition YTD has met the above criteria. While UPL acquired Cerexagri for US\$137 mn at 0.5X sales, its net investment was roughly half of that due to balance going towards working capital financing.

We note that with erstwhile Cerexagri accounting for 35% of total consolidated sales in FY2008, UPL could not have registered strong sales growth of 35-50% in FY2008-09 with this business not growing at healthy rates.

Other annual report highlights

- ▶ Loans to Advanta are down yoy to Rs114 mn from Rs2.8 bn. In addition, UPL invested Rs100 mn in commercial paper issued by Advanta in FY2010.
- ▶ The above loans were made at market rates and interest income is booked in other income, according to the company. However, we notice that Interest accrued on investments of Rs15 mn is due to UPL from subsidiaries, which was absent in FY2009.
- ▶ UPL has written off Rs1.7 bn of intangibles related to product registrations/acquisitions in FY2010, which has led to net intangibles declining by Rs300 mn in FY2010. This has not been qualified in notes to account.
- ▶ Investments increased to Rs7.6 bn as of March 2010 from Rs4.3 bn on account of (1) mutual fund investments of Rs2.9 bn and (2) Rs287 mn, part of which is invested in debt issued by Advanta.
- ▶ Although registrations costs are capitalized and amortized over five years, UPL incurred Rs200 mn of cost towards maintenance fees of products already registered. This is shown under other operating expenses and the corresponding cost in FY2008 was Rs20 mn increasing to Rs240 mn in FY2009, the increase coming from Cerexagri products addition.

Other key takeaways from management meeting

- ▶ According to UPL, Glyphosate-like situation can build in any other commodity but its end-to-end capabilities will insulate it from sharp impact—(1) cost effective manufacturing. UPL does have its own phosphorus supplies in India; however, largely imports from China which is more cost effective, (2) global reach and (3) breadth of product portfolio with largest product accounting for 10-15% of sales.
- ▶ In FY2010, volume growth in Europe has remained a challenge on account of adverse weather. There were no product withdrawals on environment concerns. UPL expects 4QFY11E to be the key season in Europe and we believe any misses in 4QFY11E may impact sales growth in FY2011E.
- ▶ UPL introduced 3-4 new molecules in US and two new molecules in India in FY2010.

UPL—profit and loss statement, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Net sales	23,112	35,155	48,021	52,900	56,583	63,972
Operating expenses						
Materials	(11,822)	(18,146)	(24,512)	(29,542)	(29,015)	(30,273)
Selling and administration	(3,212)	(4,927)	(6,161)	(6,387)	(7,356)	(8,316)
Employee cost	(1,896)	(4,017)	(4,794)	(5,018)	(5,784)	(6,397)
R&D	(71)	(90)	(306)	(310)	(283)	(320)
Others	(1,826)	(3,071)	(3,806)	(3,356)	(2,716)	(5,438)
Total expenditure	(18,827)	(30,250)	(39,578)	(44,612)	(45,153)	(50,745)
EBITDA	4,285	4,905	8,444	8,288	11,430	13,228
Depreciation and amortisation	(1,656)	(1,522)	(1,927)	(2,147)	(2,347)	(2,600)
EBIT	2,629	3,383	6,517	6,141	9,084	10,628
Net finance cost	(1,046)	(1,688)	(1,761)	(1,825)	(1,554)	(1,300)
Other income	1,598	2,462	265	1,932	(24)	200
Pretax profits before extra-ordinaries	3,181	4,156	5,021	6,249	7,506	9,528
Current tax	(131)	(141)	(263)	(408)	(1,160)	(1,620)
Deferred tax	(372)	(263)	19	(442)	—	—
Fringe benefit tax	(22)	(20)	(31)	—	—	—
Reported net profit	2,656	3,733	4,747	5,399	6,346	7,908
(Profit)/loss in minority interest	—	(10)	(25)	(59)	—	—
Share of profit/(loss) in associate	242	222	200	188	52	150
Prior adjustments (net)	(212)	(226)	(268)	(35)	—	—
Reported net profit after minority interes	2,685	3,719	4,654	5,492	6,398	8,058
Exceptional items	(76)	(1,144)	(95)	(231)	—	—
Reported net profit after minority interes	2,609	2,575	4,559	5,262	6,398	8,058

Source: Kotak Institutional Equities estimates, Company

UPL—balance sheet, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Balance sheet						
Net worth	14,954	22,380	26,730	29,918	35,305	42,352
Debt	19,593	15,683	20,665	23,818	18,776	13,184
Current liabilities	12,504	13,473	16,260	14,616	14,814	17,999
Minority Interests	49	60	95	140	140	140
Deferred payment liabilities	695	862	677	375	375	375
Deferred tax liabilities	50	254	338	780	780	780
Total equity and liabilities	47,843	52,711	64,765	69,648	70,190	74,831
Cash and cash equivalents	4,604	8,446	5,539	15,778	10,000	10,000
Current assets	20,565	23,635	35,635	27,465	34,132	39,372
Net assets incl intangibles	18,736	15,993	18,494	18,128	17,782	17,182
Investments	3,910	4,070	4,332	7,612	7,612	7,612
Deferred tax asset	22	563	765	665	665	665
Misc. expenditure	7	5	—	—	—	—
Total assets	47,843	52,711	64,765	69,648	70,190	74,831

Source: Kotak Institutional Equities estimates, Company

SEPTEMBER 20, 2010

UPDATE

BSE-30: 19,595

India Chemical Monthly, September 2010

Asia ethylene prices increase moderately

Plastics margins expand in August

Margins decline for PSF and stable for PFY

Asia ethylene prices increase moderately

Ethylene prices increased by 9.7% mom in August 2010 led by (1) higher naphtha prices which were, in turn, driven by higher crude prices, (2) healthy demand from end-users for PE and MEG production and (3) tight supplies. The tight supplies were the result of plant-related issues which included (1) delay in restart of Formosa's cracker (0.7 mtpa) to mid-October, (2) shutdown at Tonen Chemical's cracker (0.52 mtpa) and Mitsui Chemical's cracker (0.6 mtpa) and (3) lower operating rates at Shell's Singapore cracker (0.8 mtpa) due to compressor problem.

Plastics margins expand in August

Asia plastics margins increased by US\$40-53/ton mom in August 2010 led by (1) moderate increase in product prices (+US\$75-88/ton mom) and (2) relatively moderate increase in naphtha prices (+US\$35/ton mom). Asia HDPE, LLDPE and PP margins expanded by 12.4%, 11.2% and 10.4% mom in August led by good demand for finished products and packaging material in India ahead of (1) Commonwealth games, (2) Diwali festivities in November and (3) the "marriage season" that follows after that. We expect India HDPE and LLDPE margins to increase by 17% mom in September 2010.

Margins decline for PSF and stable for PFY

Asia PSF margins contracted by 12% mom in August 2010 led by (1) increase in input prices (PTA +3.3% and MEG +9.1% mom) and (2) stable polyester price (PSF -0.7%). Asia PFY margins remained stable (+0.6% mom) as the increase in product price (+US\$50/ton) offset the increase in input prices. We expect India margins for PSF and PFY to remain stable in September 2010.

We have included some key exhibits here. For more details, please refer our India Chemical Monthly, September 2010

QUICK NUMBERS

- Asia polymer margins expand by US\$40-53/ton in the recent month
- Asia PSF margins contracted by 12% mom in August 2010
- India margins for HDPE/LLDPE to increase by 17% mom in September 2010

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Chemical product prices have increased in the recent month

Asia chemical prices, calendar year-ends (US\$/ton)

	Annual average prices				Quarterly average					Monthly average					Recent			
	2007	2008	2009	2010	4Q09	1Q10	2Q10	3Q10	qoq (%)	May	June	July	Aug	mom (%)	Aug 27	Sep 3	Sep 10	Sep 17
Naphtha	696	827	557	698	680	717	707	657	(7.0)	691	673	640	675	5.3	667	681	687	686
Benzene	1,021	980	683	905	854	963	903	820	(9.2)	904	808	791	850	7.5	854	843	844	859
Ethylene chain																		
Ethylene	1,137	1,162	831	1,086	993	1,214	1,102	870	(21.1)	1,173	910	829	910	9.7	971	971	1,031	1,041
High-density PE	1,325	1,437	1,113	1,205	1,185	1,280	1,213	1,081	(10.9)	1,260	1,133	1,039	1,123	8.0	1,130	1,155	1,161	1,161
Linear low-density PE	1,339	1,497	1,150	1,279	1,259	1,400	1,271	1,109	(12.7)	1,306	1,170	1,068	1,150	7.7	1,175	1,175	1,199	1,190
Low-density PE	1,445	1,602	1,174	1,420	1,326	1,519	1,415	1,280	(9.6)	1,458	1,335	1,264	1,295	2.5	1,335	1,365	1,401	1,410
Propylene chain																		
Propylene	1,069	1,180	892	1,178	1,042	1,223	1,180	1,107	(6.1)	1,174	1,079	1,045	1,170	12.0	1,195	1,170	1,135	1,110
Polypropylene	1,324	1,457	1,052	1,265	1,142	1,294	1,280	1,199	(6.3)	1,315	1,198	1,155	1,243	7.6	1,260	1,265	1,260	1,255
Styrene chain																		
Styrene	1,320	1,261	951	1,171	1,064	1,276	1,158	1,034	(10.7)	1,168	1,040	986	1,083	9.9	1,107	1,108	1,121	1,133
Polystyrene	1,426	1,397	1,065	1,301	1,170	1,397	1,292	1,169	(9.5)	1,318	1,183	1,118	1,219	9.1	1,245	1,248	1,229	1,243
Vinyl chain																		
PVC	945	1,026	800	982	883	1,020	988	917	(7.2)	1,006	928	880	955	8.5	965	965	971	975
EDC	426	384	359	489	397	494	512	446	(12.9)	533	468	436	455	4.4	475	475	485	485
Polyester chain																		
PSF	1,452	1,433	1,194	1,449	1,258	1,432	1,483	1,425	(3.9)	1,480	1,460	1,430	1,420	(0.7)	—	—	—	—
PFY	1,669	1,665	1,350	1,734	1,500	1,708	1,770	1,720	(2.8)	1,805	1,725	1,695	1,745	2.9	—	—	—	—
Pure terephthalic acid	881	906	835	918	891	959	910	867	(4.7)	891	848	853	881	3.3	895	900	900	900
Monoethylene glycol	1,115	932	634	849	788	963	808	741	(8.4)	785	717	708	773	9.1	792	809	792	796
Paraxylene	1,131	1,164	979	973	1,003	1,037	968	884	(8.7)	974	899	852	915	7.4	929	956	961	976

Source: Kotak Institutional Equities

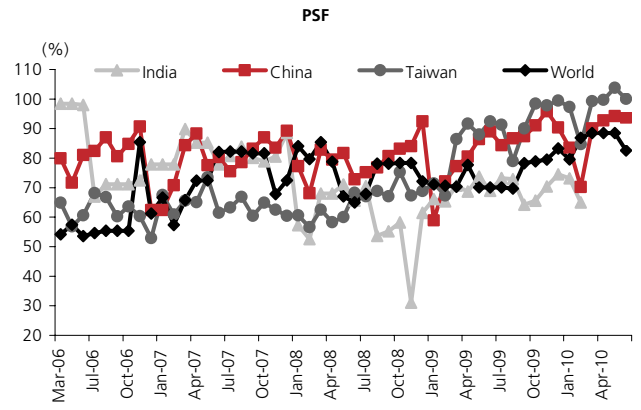
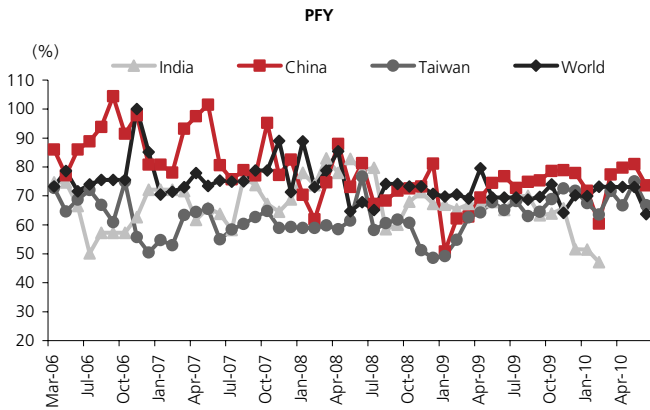
Chemical margins have expanded in the recent month

Asia chemical margins, calendar year-ending (US\$/ton)

	Annual average prices				Quarterly average					Monthly average					Recent			
	2007	2008	2009	2010	4Q09	1Q10	2Q10	3Q10	qoq (%)	May	June	July	Aug	mom (%)	Aug 27	Sep 3	Sep 10	Sep 17
Ethylene chain																		
Ethylene – naphtha	441	336	274	388	312	497	395	212	(46.3)	482	236	189	235	24.6	304	290	344	355
HDPE – 1.015 x ethylene	171	258	270	103	177	48	95	198	108.7	69	209	197	199	0.9	144	169	115	104
LLDPE – 1.015 x ethylene	185	317	307	177	252	168	152	226	48.6	115	247	226	226	0.1	189	189	153	133
LDPE – 1.015 x ethylene	291	422	331	318	319	287	297	397	33.6	267	412	422	371	(12.0)	349	379	355	353
HDPE – naphtha	629	611	556	507	504	564	507	423	(16.4)	569	459	399	448	12.4	463	474	474	475
LLDPE – naphtha	643	670	594	580	579	683	564	452	(19.9)	615	497	428	475	11.2	508	494	512	504
LDPE – naphtha	749	775	618	722	646	802	709	622	(12.2)	767	662	624	620	(0.5)	668	684	714	724
Propylene chain																		
Propylene – naphtha	373	353	336	480	362	506	473	450	(4.9)	483	406	404	495	22.6	528	489	448	424
PP – 1.01 x propylene	244	265	151	75	89	59	88	80	(9.1)	129	107	100	61	(39.2)	53	83	114	134
PP – naphtha	628	630	495	567	461	577	573	541	(5.6)	624	524	515	568	10.4	593	584	573	569
Styrene chain																		
Benzene – naphtha	325	153	126	207	174	247	197	163	(17.1)	213	135	151	175	16.6	187	162	157	173
Styrene – 0.81 x benzene	163	131	157	123	84	143	107	117	10.0	96	122	104	130	24.8	134	143	138	136
– 0.29 x ethylene																		
Polystyrene – 0.98 styrene	132	161	132	153	128	147	157	155	(1.2)	173	164	152	158	4.0	160	162	131	132
PS – naphtha	730	571	508	602	490	681	585	511	(12.6)	627	510	478	545	14.1	578	566	542	557
Vinyl chain																		
EDC – (0.3 x ethylene)	85	35	109	163	99	130	181	185	1.9	181	195	187	182	(2.8)	184	184	176	173
PVC – 1.025 (0.235 x ethylene + 0.864 x EDC)	294	405	283	288	293	290	269	313	16.2	251	295	294	332	13.1	310	310	293	295
PVC – naphtha	249	199	244	284	203	303	281	260	(7.7)	315	255	239	280	16.9	298	284	284	289
Polyester/intermediates																		
PSF – 0.85 x PTA – 0.34 x MEG	324	347	269	381	233	290	435	436	0.3	456	496	464	408	(12.0)	—	—	—	—
PFY – 0.85 x PTA – 0.34 x MEG	541	578	425	666	475	566	721	731	1.3	781	761	729	733	0.6	—	—	—	—
PTA – 0.67 x PX	123	126	179	266	219	264	262	275	5.2	239	245	282	268	(4.9)	272	259	256	246
PX – naphtha	435	337	422	275	322	320	261	226	(13.5)	283	226	212	241	13.6	262	275	274	290
MEG – naphtha	419	105	77	151	107	246	102	83	(18.4)	94	44	68	98	44.3	125	128	105	110
MEG – 0.6 x ethylene	433	235	135	198	192	235	147	219	48.4	81	171	211	227	7.6	209	226	173	171

Source: Kotak Institutional Equities

Operating rates declined in June 2010
Global operating rates for PSF and PFY (%)



Source: Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	17-Sep-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Automobiles																													
Ashok Leyland	76	ADD	101,169	2,207	1,330	2.8	4.3	5.9	84.5	52.3	37.5	26.9	17.7	12.9	15.4	11.5	9.1	2.5	2.3	2.0	2.0	1.3	1.3	10.9	13.5	16.7	78	2.6	7.9
Bajaj Auto	1,446	REDUCE	418,352	9,125	289	117.7	87.8	101.3	160.2	(25.4)	15.4	12.3	16.5	14.3	15.9	11.6	9.9	14.3	8.7	5.9	0.7	1.4	1.4	70.9	65.8	49.5	1,420	(1.8)	19.0
Bharat Forge	365	ADD	87,269	1,904	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	531.0	29.4	18.5	26.9	12.6	8.9	2.3	2.2	2.0	—	—	—	0.9	0.4	0.1	360	(1.4)	5.3
Hero Honda	1,745	SELL	348,506	7,602	200	111.8	115.3	130.1	74.1	3.1	12.8	15.6	15.1	13.4	9.9	9.9	8.3	9.7	6.7	5.0	1.7	1.8	2.0	59.1	52.5	42.8	1,800	3.1	21.1
Mahindra & Mahindra	680	BUY	404,920	8,832	595	33.9	44.1	51.7	125.8	30.1	17.3	20.1	15.4	13.1	13.2	11.1	9.3	5.0	4.0	3.2	1.4	1.4	1.4	30.0	29.0	27.3	760	11.8	24.0
Maruti Suzuki	1,388	REDUCE	401,233	8,752	289	86.4	77.6	88.3	104.9	(10.2)	13.9	16.1	17.9	15.7	8.7	9.1	7.9	3.4	2.9	2.4	0.4	0.4	0.4	23.3	17.3	16.7	1,200	(13.6)	21.7
Tata Motors	1,036	ADD	648,441	14,144	626	27.4	94.8	109.2	(182.5)	246.1	15.2	37.8	10.9	9.5	13.3	7.0	6.1	4.2	2.9	2.2	1.3	0.5	0.5	8.7	11.9	11.1	1,150	11.1	89.5
Automobiles		Cautious	2,409,890	52,566					276.0	58.1	16.6	23.1	14.6	12.5	12.6	9.0	7.7	4.8	3.7	3.0	1.1	1.0	1.0	20.9	25.6	23.6			
Banks/Financial Institutions																													
Andhra Bank	168	BUY	81,359	1,775	485	21.6	22.9	26.7	60.1	6.4	16.4	7.8	7.3	6.3	—	—	—	1.8	1.6	1.3	3.0	3.2	3.7	26.0	23.1	22.7	180	7.3	5.8
Axis Bank	1,507	ADD	610,395	13,314	405	62.1	78.1	98.3	22.7	25.9	25.9	24.3	19.3	15.3	—	—	—	3.8	3.3	2.8	0.8	1.0	1.3	19.2	18.3	19.9	1,500	(0.4)	40.6
Bank of Baroda	873	BUY	319,106	6,961	366	83.7	95.1	115.7	37.3	13.7	21.7	10.4	9.2	7.5	—	—	—	2.3	1.9	1.6	1.7	2.0	2.4	24.4	23.0	23.3	950	8.8	8.4
Bank of India	498	REDUCE	262,142	5,718	526	33.1	49.9	58.1	(42.1)	50.9	16.4	15.1	10.0	8.6	—	—	—	2.0	1.8	1.5	1.4	2.1	2.5	14.2	19.0	19.2	460	(7.7)	11.1
Canara Bank	574	ADD	235,340	5,133	410	73.7	82.2	98.3	45.8	11.6	19.5	7.8	7.0	5.8	—	—	—	1.9	1.5	1.2	1.4	1.7	2.1	22.4	20.8	20.8	580	1.0	7.9
Corporation Bank	708	BUY	101,611	2,216	143	82.0	88.0	102.6	31.8	7.3	16.6	8.6	8.1	6.9	—	—	—	1.8	1.5	1.3	2.3	2.5	2.9	22.0	20.2	20.2	700	(1.2)	1.7
Federal Bank	375	ADD	64,206	1,400	171	27.2	36.4	49.0	(7.2)	34.1	34.4	13.8	10.3	7.7	—	—	—	1.4	1.2	1.1	1.3	1.8	2.4	10.3	12.6	15.2	360	(4.1)	5.9
HDFC	684	ADD	981,414	21,407	1,436	19.7	23.2	27.8	22.7	17.9	19.6	34.7	29.4	24.6	—	—	—	6.5	5.7	5.0	1.1	1.2	1.4	20.0	20.6	21.7	690	0.9	41.2
HDFC Bank	2,401	BUY	1,098,858	23,969	458	64.4	84.9	111.1	22.1	31.7	30.9	37.3	28.3	21.6	—	—	—	5.1	4.5	3.9	0.5	0.7	0.9	16.1	16.9	19.2	2,400	(0.0)	35.8
ICICI Bank	1,114	REDUCE	1,242,210	27,096	1,115	36.1	45.2	57.3	6.9	25.3	26.6	30.9	24.6	19.5	—	—	—	2.4	2.3	2.1	1.1	1.3	1.7	8.0	9.5	11.3	1,000	(10.2)	84.0
IDFC	193	ADD	282,118	6,154	1,458	8.4	9.4	11.2	44.9	12.4	18.7	23.1	20.5	17.3	—	—	—	4.0	2.6	2.2	0.7	0.9	1.1	16.6	15.5	14.3	205	6.0	26.1
India Infoline	105	BUY	32,599	711	312	8.1	7.2	8.7	59.2	(11.9)	21.6	12.9	14.6	12.0	—	—	—	2.1	1.7	1.5	3.0	1.5	1.9	16.4	12.9	14.4	130	24.3	4.9
Indian Bank	266	ADD	114,512	2,498	430	35.1	32.4	44.1	25.5	(7.7)	36.2	7.6	8.2	6.0	—	—	—	1.7	1.5	1.2	2.4	2.2	3.0	24.1	18.8	21.7	280	5.1	4.8
Indian Overseas Bank	141	BUY	76,653	1,672	545	13.0	16.7	24.8	(46.7)	29.0	48.4	10.8	8.4	5.7	—	—	—	1.2	1.1	0.9	2.5	2.7	3.0	9.6	11.6	15.4	160	13.7	5.0
J&K Bank	831	ADD	40,275	879	48	105.7	119.3	139.6	25.0	12.9	17.1	7.9	7.0	5.9	—	—	—	1.4	1.2	1.1	2.6	3.0	3.5	18.2	17.9	18.3	850	2.3	2.6
LIC Housing Finance	1,317	REDUCE	125,121	2,729	95	69.7	100.7	109.9	11.5	44.5	9.1	18.9	13.1	12.0	—	—	—	3.9	3.2	2.7	1.1	1.6	1.8	23.6	25.5	23.2	1,250	(5.1)	26.2
Mahindra & Mahindra Financial	673	REDUCE	64,594	1,409	96	35.9	46.4	56.2	60.0	29.4	21.2	18.8	14.5	12.0	—	—	—	3.8	3.2	2.7	1.1	1.5	1.8	21.5	23.5	23.8	635	(5.6)	2.5
Oriental Bank of Commerce	458	ADD	114,785	2,504	251	45.3	57.8	66.8	25.3	27.6	15.5	10.1	7.9	6.9	—	—	—	1.6	1.4	1.2	2.0	2.5	2.9	14.5	16.5	16.9	430	(6.1)	7.4
PFC	356	SELL	408,090	8,902	1,148	20.5	22.9	27.6	53.5	11.9	20.3	17.4	15.5	12.9	—	—	—	3.2	2.8	2.4	1.4	1.6	1.9	18.8	18.3	19.2	275	(22.7)	4.5
Punjab National Bank	1,286	BUY	405,432	8,844	315	123.9	133.4	163.3	26.4	7.7	22.4	10.4	9.6	7.9	—	—	—	2.5	2.1	1.7	1.7	2.1	2.6	26.2	23.2	23.7	1,300	1.1	9.3
Reliance Capital	810	NR	199,365	4,349	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	63.0	59.2	82.9	—	—	—	2.9	2.8	2.8	0.7	0.7	0.5	4.7	4.8	3.4	—	—	36.9
Rural Electrification Corp.	351	ADD	346,673	7,562	987	20.3	25.3	31.2	23.2	24.5	23.4	17.3	13.9	11.3	—	—	—	3.1	2.7	2.4	1.9	2.2	2.7	22.0	21.0	22.5	325	(7.4)	8.9
Shriram Transport	775	ADD	172,844	3,770	223	39.2	53.4	64.8	30.1	36.4	21.3	19.8	14.5	12.0	—	—	—	4.7	4.0	3.3	1.5	2.1	2.5	28.4	28.2	28.4	700	(9.6)	6.9
SREI	96	NR	11,175	244	116	8.3	7.9	9.9	17.8	(4.8)	25.8	11.6	12.2	9.7	—	—	—	0.9	0.9	0.8	1.2	1.2	1.2	11.1	10.5	12.3	—	—	4.8
State Bank of India	3,093	BUY	1,963,533	42,830	635	144.4	177.7	211.2	0.5	23.1	18.8	21.4	17.4	14.6	—	—	—	3.0	2.6	2.3	1.0	1.0	1.1	14.8	16.0	16.7	3,100	0.2	112.8
Union Bank	377	BUY	190,202	4,149	505	41.1	48.8	60.2	20.2	18.8	23.5	9.2	7.7	6.3	—	—	—	2.2	1.7	1.4	1.5	1.7	2.1	26.2	25.1	25.1	450	19.5	5.3
Yes Bank	329	BUY	111,903	2,441	340	15.0	17.7	22.5	46.7	18.2	26.6	22.0	18.6	14.7	—	—	—	3.6	3.1	2.6	0.4	0.5	0.7	20.3	18.0	19.3	350	6.2	19.7
Banks/Financial Institutions		Attractive	9,656,514	210,634					14.8	20.4	22.1	19.2	15.9	13.1	—	—	—	3.0	2.6	2.2	1.2	1.4	1.6	15.5	16.2	17.2			
Cement																													
ACC	998	REDUCE	187,476	4,089	188	83.2	66.0	72.9	47.9	(20.7)	10.4	12.0	15.1	13.7	6.4	7.2	5.8	2.9	2.6	2.2	2.7	2.3	2.3	29.3	20.0	19.3	980	(1.8)	9.3
Ambuja Cements	143	SELL	217,015	4,734	1,522	8.0	8.4	8.9	11.4	5.3	5.1	17.8	16.9	16.1	9.9	9.4	8.1	3.1	2.7	2.4	1.3	1.4	1.5	19.3	17.8	16.5	108	(24.2)	5.9
Grasim Industries	2,230	ADD	204,501	4,461	92	301.0	242.3	292.5	26.1	(19.5)	20.7	7.4	9.2	7.6	4.5	4.7	3.6	1.6	1.4	1.2	1.5	1.5	1.5	22.9	16.5	17.2	2,500	12.1	6.8
India Cements	114	SELL	35,049	765	307	10.0	7.4	9.4	(43.5)	(26.5)	27.5	11.4	15.5	12.1	6.1	8.1	5.7	0.8	0.8	0.8	1.9	2.8	2.8	8.2	5.7	7.0	100	(12.4	

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	17-Sep-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)
Consumer products																													
Asian Paints	2,847	ADD	273,088	5,957	96	71.5	89.0	107.1	85.3	24.4	20.4	39.8	32.0	26.6	24.6	20.0	16.4	17.0	13.3	10.6	0.9	1.3	1.6	51.8	47.9	45.4	3,000	5.4	8.2
Colgate-Palmolive (India)	821	REDUCE	111,711	2,437	136	31.1	34.5	39.6	44.2	10.9	14.6	26.4	23.8	20.8	21.6	17.6	15.1	34.3	29.2	25.0	2.4	3.2	3.6	156.1	132.3	129.4	830	1.0	2.1
Dabur India	110	REDUCE	189,653	4,137	1,731	2.9	3.4	4.1	28.2	17.7	20.8	37.8	32.1	26.6	28.1	22.4	18.6	18.0	13.9	11.5	1.4	1.6	2.0	54.3	49.3	47.8	105	(4.2)	5.4
GlaxoSmithkline Consumer (a)	1,808	ADD	76,028	1,658	42	55.4	68.6	81.3	23.6	23.9	18.6	32.7	26.4	22.2	18.1	15.6	12.8	8.5	7.1	5.9	1.0	1.2	1.5	27.9	29.0	28.7	2,000	10.6	0.6
Godrej Consumer Products	466	ADD	150,631	3,286	324	11.3	13.5	18.0	69.5	18.9	33.4	41.1	34.5	25.9	32.7	24.3	18.3	15.7	8.4	7.6	0.8	0.7	0.7	44.6	31.9	31.1	420	(9.8)	1.8
Hindustan Unilever	282	REDUCE	614,799	13,410	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	29.9	27.6	23.5	20.5	19.7	16.1	23.8	20.6	17.8	2.7	3.0	3.5	71.1	80.2	81.3	250	(11.3)	11.4
ITC	168	ADD	1,287,969	28,094	7,651	5.3	6.4	7.5	22.6	20.5	16.5	31.7	26.3	22.6	19.3	16.6	13.9	8.7	7.3	6.2	3.0	1.6	1.8	29.2	31.6	31.0	175	4.0	22.6
Jubilant Foodworks	535	REDUCE	34,179	746	64	5.5	9.7	12.1	340.6	75.7	24.6	96.6	55.0	44.1	51.4	31.2	21.9	29.1	19.0	13.3	—	—	—	46.6	41.8	35.4	370	(30.9)	16.4
Jyothy Laboratories	294	NR	21,324	465	73	11.0	12.9	15.3	99.6	17.0	18.3	26.6	22.8	19.3	20.7	15.7	12.9	5.3	4.5	3.8	1.6	1.2	1.6	18.6	20.2	20.5	—	—	0.9
Marico	125	ADD	76,308	1,664	609	4.5	5.4	6.4	33.8	19.6	20.4	28.0	23.4	19.4	18.3	15.6	12.9	12.3	8.8	6.6	0.8	0.9	1.1	50.8	43.9	38.8	140	11.7	2.1
Nestle India (a)	3,263	REDUCE	314,633	6,863	96	74.4	86.6	104.8	27.0	16.4	20.9	43.9	37.7	31.1	29.0	25.2	21.4	54.1	43.2	34.4	1.5	1.9	2.2	136.0	127.5	122.9	3,000	(8.1)	3.3
Tata Global Beverages	123	ADD	75,847	1,654	618	6.6	7.4	8.4	23.4	11.1	13.8	18.5	16.7	14.7	11.8	9.6	8.6	1.5	1.4	1.3	1.8	2.0	2.2	10.9	11.4	12.0	125	1.9	4.5
Consumer products		Attractive	3,226,172	70,371					24.2	17.5	18.2	32.9	28.0	23.7	21.2	18.3	15.2	11.1	9.2	7.9	2.2	1.9	2.1	33.9	33.0	33.5			
Constructions																													
IVRCL	158	BUY	42,188	920	267	7.9	9.1	11.6	(6.7)	15.0	27.9	20.0	17.4	13.6	10.2	9.7	7.7	2.1	1.9	1.7	0.3	0.3	0.3	11.0	11.3	12.9	205	29.7	6.8
Nagarjuna Construction Co.	158	BUY	40,502	883	257	7.1	9.2	11.8	6.1	29.6	27.8	22.1	17.1	13.4	11.1	9.6	8.0	1.8	1.7	1.5	0.9	1.3	1.3	9.3	10.2	11.9	210	33.0	3.4
Punj Lloyd	118	REDUCE	39,920	871	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(9.1)	12.1	9.9	34.6	6.8	6.2	1.3	1.2	1.1	(0.1)	0.4	0.9	(15.8)	10.3	11.4	140	18.8	9.9
Sadbhav Engineering	1,555	BUY	23,325	509	15	42.8	61.8	87.2	(16.3)	44.3	41.0	36.3	25.2	17.8	19.8	13.2	10.1	5.8	3.8	3.2	0.2	0.4	0.4	15.8	15.1	17.8	1,750	12.5	0.4
Construction		Attractive	145,935	3,183					(91.1)	4,528	27.2	747.7	16.2	12.7	15.4	8.7	7.4	1.9	1.7	1.5	0.3	0.6	0.7	0.3	10.4	11.9			
Energy																													
Aban Offshore	834	ADD	36,272	791	43	94.5	154.1	139.3	(2.5)	63.0	(9.6)	8.8	5.4	6.0	8.4	6.7	6.5	1.6	1.5	1.3	0.4	0.4	0.5	21.7	33.1	22.9	935	12.1	43.8
Bharat Petroleum	766	ADD	276,903	6,040	362	58.6	57.0	65.4	230	(3)	14.8	13	13	11.7	7.2	6.9	6.4	2.0	1.8	1.6	1.8	2.5	2.8	14.9	13.3	13.8	855	11.6	37.7
Cairn india	342	RS	648,955	14,155	1,897	5.5	20.5	36.6	29.0	270.1	78.3	61.7	16.7	9.4	48.5	10.0	6.1	1.9	1.7	1.5	—	—	4.4	3.1	10.7	17.2	—	—	28.6
Castrol India (a)	522	SELL	129,055	2,815	247	15.4	20.7	21.2	45	34	2.4	34	25	24.7	20.2	15.7	15.2	28.0	26.3	24.9	2.4	3.2	3.3	83.8	107.4	103.7	380	(27.2)	2.0
GAIL (India)	480	BUY	609,314	13,291	1,268	24.8	27.2	40.2	11.7	10.1	47.4	19.4	17.6	12.0	10.9	10.9	8.8	3.3	3.0	2.5	1.6	1.8	2.6	17.4	17.0	21.6	550	14.5	17.1
GSPL	109	SELL	61,363	1,338	562	7.3	7.1	8.0	233	(3)	12.6	15	15	13.7	7.6	7.5	6.3	3.6	3.0	2.7	0.9	1.6	2.9	27.1	21.2	20.6	83	(23.9)	5.3
Hindustan Petroleum	532	BUY	180,455	3,936	339	51.6	52.1	58.5	204.2	1.0	12.4	10.3	10.2	9.1	3.7	3.4	3.1	1.4	1.2	1.1	2.3	3.1	3.4	13.1	11.9	12.1	625	17.4	46.2
Indian Oil Corporation	429	ADD	1,040,377	22,693	2,428	49.1	37.9	41.9	399	(23)	10.7	9	11	10.2	6.2	6.4	5.6	1.9	1.7	1.6	3.0	2.7	2.9	22.4	15.3	15.4	480	12.0	20.9
Oil India	1,568	REDUCE	377,105	8,226	240	115.2	131.9	149.0	13.9	14.6	12.9	13.6	11.9	10.5	6.5	4.9	4.2	2.6	2.3	2.0	2.2	2.8	3.3	16.8	17.9	17.9	1,550	(1.2)	7.3
Oil & Natural Gas Corporation	1,397	BUY	2,988,560	65,188	2,139	90.3	116.4	136.7	(1)	29	17.5	15	12	10.2	5.4	4.8	4.1	2.3	2.0	1.8	2.4	3.0	3.4	14.4	16.8	17.7	1,500	7.4	35.3
Petronet LNG	112	SELL	83,663	1,825	750	5.4	6.5	7.9	(22.0)	20.5	21.8	20.7	17.2	14.1	11.8	10.1	8.8	3.3	2.8	2.5	1.6	1.8	2.5	15.9	16.7	17.6	88	(21.1)	8.2
Reliance Industries	1,027	REDUCE	3,057,394	66,690	2,976	49.6	57.7	74.4	(2)	16	28.9	21	18	13.8	10.5	8.3	6.8	2.1	1.9	1.7	0.7	0.8	1.0	11.4	12.1	13.9	1,015	(1.2)	116.3
Energy		Cautious	9,489,415	206,989					36.6	16.0	23.8	15.9	13.7	11.0	7.7	6.6	5.5	2.2	2.0	1.7	1.6	1.9	2.5	13.7	14.3	15.8			
Industrials																													
ABB	846	REDUCE	179,169	3,908	212	16.7	18.3	33.1	(35.2)	9.3	80.7	50.5	46.2	25.6	29.0	26.6	14.8	7.4	6.6	5.3	0.2	0.4	0.4	15.6	15.0	23.0	725	(14.3)	4.9
BGR Energy Systems	811	BUY	58,424	1,274	72	16.0	28.0	39.7	32.2	74.6	41.9	50.6	29.0	20.4	28.4	16.5	11.9	10.4	8.3	6.3	0.4	0.9	1.0	22.3	31.8	35.1	950	17.1	4.2
Bharat Electronics	1,839	REDUCE	147,092	3,208	80	96.1	105.9	120.3	(7.4)	10.2	13.6	19.1	17.4	15.3	9.1	7.9	6.7	3.3	2.9	2.5	1.0	1.4	1.4	17.5	17.7	17.6	1,800	(2.1)	2.6
Bharat Heavy Electricals	2,444	REDUCE	1,196,191	26,092	490	87.9	114.3	135.5	37.7	30.0	18.5	27.8	21.4	18.0	15.5	12.0	10.0	7.5	5.9	4.8	0.8	1.0	1.2	29.8	31.1	29.3	2,600	6.4	24.9
Crompton Greaves	313	BUY	200,597	4,376	642	12.8	14.0	16.3	46.5	9.0	16.6	24.3	22.3	19.2	14.1	12.5	10.6	8.0	6.1	4.8	0.4	0.6	0.7	37.9	31.1	28.2	320	2.3	7.8
Larsen & Toubro	1,963	ADD	1,182,209	25,787	602	57.9	71.7	89.0	15.6	23.8	24.1	33.9	27.4	22.0	18.8	14.8	12.4	5.3	4.4	3.8	0.6	0.6	0.7	18.6	17.7	18.5	2,075	5.7	49.6
Maharashtra Seamless	379	BUY	26,703	582	71	40.2	43.6	49.8	12.1	8.5	14.2	9.4	8.7	7.6	5.0	4.3	3.4	1.7	1.4	1.3	1.6	2.1	2.6	19.3	17.9	17.7	450	18.9	0.4
Siemens	753	REDUCE	253,949	5,539	337	25.2	27.0	31.9	56.4	7.3	18.0	29.9	27.9	23.6	18.3	16.6	13.8	7.5	6.2	5.1	0.7	0.7	0.8	27.6					

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	17-Sep-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
Infrastructure																													
Container Corporation	1,316	REDUCE	171,015	3,730	130	61.1	74.3	85.9	0.3	21.7	15.6	21.5	17.7	15.3	15.2	12.3	10.3	3.9	3.4	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(5.0)	2.1
GMR Infrastructure	59	ADD	214,886	4,687	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	136.0	266.2	443.3	23.8	15.4	14.4	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	10.9	6.8
GVK Power & Infrastructure	48	BUY	76,513	1,669	1,579	0.8	1.1	1.4	6.7	33.5	32.4	59.6	44.6	33.7	19.7	17.9	18.2	2.4	2.3	2.2	—	0.6	0.6	4.7	5.3	6.7	54	11.5	6.5
IRB Infrastructure	280	RS	92,896	2,026	332	9.7	12.6	12.1	83.8	29.2	(3.7)	28.7	22.2	23.1	13.5	12.0	11.1	4.0	3.1	2.5	—	—	—	15.6	15.7	11.9	—	—	12.6
Mundra Port and SEZ	825	REDUCE	332,940	7,262	403	16.7	21.9	34.1	55.7	31.0	56.1	49.4	37.7	24.2	36.7	24.0	17.3	9.4	8.0	6.2	(0.5)	—	—	20.8	22.9	28.9	750	(9.1)	6.1
Infrastructure		Attractive	888,249	19,375					16.3	21.2	26.0	42.8	35.3	28.0	22.3	16.4	14.2	3.7	3.2	2.9	—	—	0.3	8.7	9.1	10.3			
Media																													
DB Corp	266	BUY	48,384	1,055	182	10.6	13.0	15.7	286.5	22.4	21.0	25.0	20.5	16.9	14.0	11.5	9.5	7.5	6.0	5.3	0.8	1.1	1.5	40.3	32.6	33.2	290	8.9	0.4
DishTV	56	ADD	59,444	1,297	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(22.4)	(31.5)	427.4	73.2	29.3	15.4	14.5	26.8	25.2	—	—	—	249.3	(59.7)	6.1	47	(15.9)	4.0
HT Media	152	NR	35,720	779	235	6.1	7.7	9.2	623.3	25.9	19.8	24.9	19.8	16.5	12.5	10.4	8.6	3.7	3.3	3.0	0.7	1.3	2.6	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	127	BUY	38,095	831	301	5.8	6.6	7.7	92.0	13.4	17.0	21.7	19.1	16.3	13.0	11.0	9.4	6.2	5.7	5.2	2.8	3.2	4.0	30.0	31.1	33.3	145	14.6	1.7
Sun TV Network	507	REDUCE	199,661	4,355	394	13.1	18.0	22.5	44.8	36.9	25.2	38.5	28.1	22.5	21.9	16.2	13.1	10.3	8.7	7.2	1.5	1.5	1.8	28.4	33.7	35.1	420	(17.1)	3.0
Zee Entertainment Enterprises	286	REDUCE	124,454	2,715	435	10.6	11.8	14.4	25.0	12.0	21.5	27.1	24.2	19.9	20.1	16.0	12.7	3.4	3.2	3.1	0.9	1.0	1.3	13.1	13.8	16.0	270	(5.7)	8.4
Media		Neutral	505,758	11,032					185.4	36.0	37.0	41.7	30.6	22.4	20.0	15.4	12.1	6.1	5.6	5.1	1.1	1.3	1.6	14.7	18.4	22.8			
Metals																													
Hindalco Industries	189	ADD	361,832	7,893	1,914	5.7	13.6	15.5	(64.5)	139.5	14.2	33.3	13.9	12.2	8.2	8.2	8.5	1.6	1.5	1.3	0.7	0.7	0.7	10.3	11.1	11.5	200	5.8	31.8
Hindustan Zinc	1,073	BUY	453,334	9,888	423	95.6	102.5	116.0	48.2	7.2	13.1	11.2	10.5	9.3	7.2	5.7	4.0	2.4	2.0	1.6	0.6	0.6	0.6	24.1	20.8	19.4	1,240	15.6	4.0
Jindal Steel and Power	708	REDUCE	659,686	14,389	931	38.4	50.9	56.0	17.3	32.7	9.9	18.5	13.9	12.7	12.7	9.2	7.7	5.9	4.1	3.1	0.2	0.3	0.3	37.8	34.9	28.0	625	(11.8)	23.1
JSW Steel	1,257	REDUCE	317,095	6,917	252	80.4	68.5	108.5	481.1	(14.8)	58.5	15.6	18.3	11.6	11.4	9.6	6.5	2.9	1.8	1.4	0.6	0.7	0.8	16.0	12.0	13.3	1,075	(14.5)	38.5
National Aluminium Co.	413	SELL	266,068	5,804	644	12.6	14.3	17.3	(34.9)	13.3	20.5	32.7	28.8	23.9	15.7	12.9	10.6	2.6	2.4	2.3	0.6	1.2	1.2	8.1	8.6	9.8	260	(37.0)	1.6
Sesa Goa	325	REDUCE	289,198	6,308	890	29.6	58.6	46.3	23.5	98.4	(21.0)	11.0	5.5	7.0	9.1	3.8	3.7	3.6	2.2	1.7	1.1	1.1	1.1	35.8	41.5	23.7	340	4.6	51.8
Sterile Industries	174	ADD	583,583	12,729	3,362	12.0	14.2	19.3	2.8	18.4	35.5	14.4	12.2	9.0	9.3	8.1	5.0	1.6	1.4	1.2	0.5	0.5	0.5	12.9	12.2	14.6	200	15.2	33.9
Tata Steel	605	REDUCE	553,035	12,063	914	(3.6)	63.4	65.5	(103.6)	(1,880.2)	3.4	(169.9)	9.5	9.2	11.1	6.1	5.9	2.4	1.9	1.6	1.3	1.3	—	(1.5)	22.0	18.7	550	(9.1)	94.7
Metals		Cautious	3,483,831	75,992					(30.6)	72.5	11.3	20.0	11.6	10.4	10.2	7.3	6.1	2.5	2.0	1.7	0.7	0.8	0.6	12.3	17.1	15.9			
Pharmaceutical																													
Biocon	354	BUY	70,760	1,543	200	14.8	17.8	22.0	216.4	19.8	23.7	23.8	19.9	16.1	13.8	11.5	9.6	3.9	3.4	2.9	—	—	—	17.9	18.8	20.0	400	13.1	5.1
Cipla	309	REDUCE	248,022	5,410	803	13.7	14.0	16.6	38.1	1.9	19.2	22.5	22.1	18.6	16.2	14.8	12.6	4.2	3.6	3.1	0.6	0.8	0.8	21.1	17.6	18.2	295	(4.5)	9.2
Cadila Healthcare	639	REDUCE	130,834	2,854	205	24.7	33.2	37.7	66.9	34.2	13.7	25.9	19.3	16.9	16.8	12.9	11.4	8.0	6.0	4.7	0.8	1.0	1.2	36.0	35.8	31.3	580	(9.2)	1.6
Dishman Pharma & chemicals	184	ADD	14,945	326	81	14.4	17.8	22.8	(19.7)	23.7	28.0	12.7	10.3	8.0	9.6	7.8	6.1	1.9	1.6	1.4	—	—	—	15.5	16.8	18.3	230	25.2	0.8
Divi's Laboratories	721	REDUCE	94,165	2,054	131	26.1	34.0	44.9	(18.2)	30.4	32.1	27.7	21.2	16.1	20.5	15.6	11.2	6.2	5.1	4.1	—	—	—	24.7	26.4	28.5	800	11.0	2.8
Dr Reddy's Laboratories	1,477	REDUCE	250,164	5,457	169	48.1	66.7	70.8	48.3	38.8	6.1	30.7	22.1	20.9	17.0	12.8	11.9	6.6	5.2	4.3	0.5	0.5	0.6	22.2	26.3	22.6	1,150	(22.1)	15.0
GlaxoSmithkline Pharmaceuticals (a)	1,956	REDUCE	165,705	3,614	85	59.1	69.7	79.2	8.1	18.0	13.5	33.1	28.1	24.7	18.9	16.0	13.8	9.3	7.9	6.7	—	—	—	29.8	30.4	29.4	1,880	(3.9)	1.6
Glenmark Pharmaceuticals	285	NR	78,125	1,704	274	12.7	19.2	20.3	14.7	50.6	5.6	22.4	14.9	14.1	14.3	9.3	8.9	3.3	2.7	2.3	—	—	—	16.7	19.9	17.6	—	—	4.6
Jubilant Organosys	345	BUY	54,761	1,194	159	26.5	31.8	38.9	49.0	19.8	22.4	13.0	10.8	8.9	9.5	8.6	6.9	2.5	2.0	1.7	0.6	0.7	0.9	26.3	21.7	21.1	400	16.0	2.4
Lupin	388	ADD	171,497	3,741	442	15.4	19.8	25.5	27.9	28.7	28.7	25.2	19.6	15.2	21.5	15.5	12.3	7.4	7.0	6.1	3.4	3.7	4.0	36.6	37.2	43.6	400	3.2	7.8
Piramal Healthcare	508	REDUCE	106,231	2,317	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	22.7	38.1	53.6	16.4	7.1	5.4	6.3	1.2	1.0	1.1	1.2	0.7	30.7	140.7	16.5	490	(3.6)	27.1
Ranbaxy Laboratories	534	SELL	228,766	4,990	428	7.1	27.0	11.6	(128.4)	282.7	(57.0)	75.6	19.8	45.9	18.3	11.3	21.6	5.8	4.2	3.9	—	0.7	0.7	6.9	22.6	8.3	255	(52.2)	10.9
Sun Pharmaceuticals	1,874	REDUCE	388,164	8,467	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	28.7	20.7	21.4	21.9	15.3	14.8	4.7	3.9	3.4	0.7	0.7	0.7	17.8	21.0	17.3	1,835	(2.1)	7.3
Pharmaceuticals		Attractive	2,002,138	43,672					45.5	33.7	3.2	27.7	20.7	20.1	17.3	12.9	12.2	5.3	3.8	3.2	0.7	0.9	0.9	19.0	18.2	16.1			
Property																													
DLF	353	ADD	602,135	13,134	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	33.1	21.6	14.0	22.4	14.3	10.8	2.2	2.1	1.9	0.8	0.8	1.4	7.1	9.9	13.8	340	(3.5)	43.3
Housing Development & Infrastructure	277	ADD	106,621	2,326	385	12.4	14.2	16.7	(41.2)	14.2	17.9	22.3	19.6	16.6	11.0	12.5	8.3	1.5	1.3	1.2	1.0	1.8	1.8	10.0	9.3	9.9	318	14.8	32.7
Indiabulls Real Estate	179	RS	72,001	1,571	401	0.3	2.5	7.4	(62.7)	777.3	195.3	71.8	24.3	(27.6)	(295.5)	12.6	0.8	0.8	0.8	—	—	—	0.1	1.1	3.2	285	58.8	17.4	

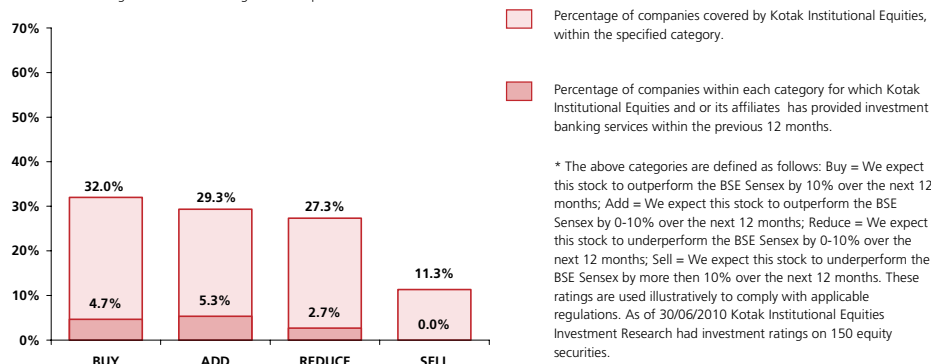
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	17-Sep-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)					
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E								
Retail																																		
Titan Industries	3,203	ADD	142,166	3,101	44	57.3	83.4	110.2	29.3	45.6	32.2	55.9	38.4	29.1	35.6	25.9	19.8	19.3	13.7	9.8	0.5	0.4	0.4	38.7	41.8	39.4	3,000	(6.3)	10.3					
Retail		Neutral	142,166	3,101					29.3	45.6	32.2	55.9	38.4	29.1	35.6	25.9	19.8	19.3	13.7	9.8	0.5	0.4	0.4	34.5	35.8	33.8								
Sugar																																		
Bajaj Hindustan	126	SELL	24,121	526	191	4.9	9.9	8.9	52.3	101.0	(9.9)	25.6	12.8	14.2	8.5	6.2	5.9	1.0	1.0	0.9	0.6	0.6	0.6	4.2	7.9	6.5	99	(21.5)	4.6					
Balrampur Chini Mills	90	ADD	22,980	501	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	20.6	8.6	12.8	9.4	5.7	6.3	1.7	1.4	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	3.9	4.5					
Shree Renuka Sugars	81	BUY	54,120	1,180	670	9.9	7.7	8.1	195.3	(21.9)	4.7	8.2	10.5	10.0	5.1	5.9	5.1	1.9	1.6	1.3	0.5	0.4	0.4	22.4	17.0	14.8	76	(5.9)	11.5					
Sugar		Cautious	101,220	2,208					80.0	12.4	(8.4)	11.7	10.4	11.4	6.8	5.9	5.6	1.5	1.3	1.2	0.5	0.5	0.5	13.1	12.8	10.5								
Technology																																		
HCL Technologies	419	REDUCE	289,283	6,310	690	17.5	24.5	30.1	0.2	39.7	23.0	23.9	17.1	13.9	11.6	10.2	8.3	4.1	3.5	3.0	1.0	1.0	1.4	19.3	22.0	21.2	390	(7.0)	13.3					
Hexaware Technologies	72	REDUCE	10,328	225	144	9.3	5.0	9.4	127.7	(46.3)	87.7	7.7	14.3	7.6	3.7	8.7	4.3	1.2	1.1	1.0	1.4	1.4	1.4	17.8	8.2	14.0	72	0.1	1.6					
Infosys Technologies	2,970	BUY	1,704,866	37,188	574	108.3	124.1	150.0	5.7	14.5	20.9	27.4	23.9	19.8	20.1	16.5	13.4	7.4	6.1	5.1	0.8	1.2	1.4	30.1	28.0	28.0	3,100	4.4	57.3					
Mphasis BFL	640	SELL	134,778	2,940	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.7	12.7	14.0	11.8	10.1	9.6	5.7	4.1	3.2	0.5	0.6	0.7	48.1	37.5	25.8	550	(14.0)	7.1					
Mindtree	509	REDUCE	20,932	457	41	52.2	32.6	51.6	294.3	(37.5)	58.1	9.7	15.6	9.9	8.4	8.9	5.8	3.1	2.6	2.1	0.4	0.6	1.0	35.2	19.2	23.7	550	8.1	0.9					
Patni Computer Systems	447	REDUCE	59,581	1,300	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.2	10.8	11.9	6.0	5.1	4.2	1.7	1.5	1.4	1.6	1.8	1.7	18.2	15.1	12.4	450	0.6	13.9					
Polaris Software Lab	173	SELL	17,283	377	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.3	9.1	9.2	5.5	7.2	6.1	2.0	1.7	1.5	2.0	2.1	2.2	18.6	20.1	17.2	180	3.8	4.7					
TCS	914	BUY	1,788,489	39,012	1,957	35.1	42.1	48.2	32.8	19.8	14.5	26.0	21.7	19.0	19.7	15.9	13.2	8.5	7.1	5.9	2.2	1.8	2.1	37.6	35.6	33.9	965	5.6	31.3					
Wipro	420	ADD	1,028,212	22,428	2,447	18.9	22.3	25.7	22.1	18.1	15.6	22.3	18.9	16.3	16.9	13.6	11.2	5.2	4.3	3.5	0.8	1.1	1.3	26.5	25.0	23.7	465	10.6	12.2					
Technology		Attractive	5,142,879	112,180					20.4	16.7	15.4	23.8	20.4	17.7	17.2	14.4	11.9	6.3	5.2	4.3	1.3	1.3	1.6	26.4	25.5	24.6								
Telecom																																		
Bharti Airtel	359	REDUCE	1,362,769	29,726	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	15.2	18.0	17.3	8.6	9.1	7.5	3.2	2.7	2.4	—	—	—	24.4	16.5	14.7	305	(15.0)	46.8					
IDEA	77	REDUCE	254,580	5,553	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	28.2	35.2	50.8	9.4	10.2	8.6	2.2	2.1	2.0	—	—	—	7.2	6.2	4.2	55	(28.7)	11.6					
MTNL	64	SELL	40,320	879	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.1)	(6.2)	(7.0)	(0.4)	(0.5)	(0.7)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(21.9)	2.8					
Reliance Communications	167	SELL	355,598	7,757	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	7.6	27.8	17.8	7.0	9.6	7.9	0.9	0.9	0.8	0.5	—	—	11.7	3.2	4.9	125	(25.0)	29.9					
Tata Communications	334	REDUCE	95,219	2,077	285	14.0	15.2	15.7	3.2	8.2	3.5	23.8	22.0	21.3	9.7	8.9	8.5	1.3	1.3	1.3	1.9	2.2	2.5	5.2	5.5	5.5	225	(32.7)	3.1					
Telecom		Cautious	2,108,485	45,992					(15.9)	(33.1)	9.5	14.9	22.2	20.3	8.6	9.6	7.9	1.9	1.8	1.6	0.2	0.1	0.1	12.8	7.9	8.0								
Utilities																																		
Adani Power	138	ADD	301,712	6,581	2,180	0.8	4.8	19.1	NM	510.9	298.8	176.6	28.9	7.3	143.5	24.0	6.6	5.2	4.4	2.7	—	—	—	4.2	16.6	46.7	143	3.3	4.7					
CESC	413	ADD	51,567	1,125	125	35.2	37.3	44.3	9.3	5.7	18.9	11.7	11.1	9.3	7.4	6.1	6.6	1.2	1.1	1.0	1.1	1.1	1.3	11.1	10.4	11.3	466	12.9	2.5					
Lanco Infratech	69	BUY	166,306	3,628	2,405	2.0	3.7	5.0	35.1	87.6	34.9	35.2	18.8	13.9	20.6	8.7	8.2	4.8	3.9	3.1	—	—	—	15.8	21.2	22.7	77	11.4	6.0					
NHPC	33	REDUCE	400,389	8,734	12,301	1.9	1.3	1.6	74.9	(27.5)	20.6	17.6	24.2	20.1	11.2	11.9	9.2	1.6	1.5	1.4	1.7	1.1	1.3	9.7	6.4	7.4	28	(14.0)	7.3					
NTPC	206	REDUCE	1,701,452	37,113	8,245	10.8	12.5	14.7	9.6	16.2	17.4	19.2	16.5	14.1	14.6	12.8	10.7	2.7	2.4	2.2	2.0	2.3	2.7	14.5	15.4	16.6	210	1.8	8.7					
Reliance Infrastructure	1,062	ADD	261,194	5,697	246	61.8	65.0	84.5	(1.5)	5.3	30.0	17.2	16.3	12.6	18.5	16.3	11.4	1.4	1.3	1.2	0.8	0.9	1.0	6.3	7.3	10.1	1,160	9.3	37.0					
Reliance Power	161	SELL	385,638	8,412	2,397	2.9	3.1	5.3	179.7	9.8	70.0	56.4	51.4	30.2	(524.0)	230.5	35.9	2.7	2.5	2.3	—	—	—	4.8	5.1	8.1	135	(16.1)	15.9					
Tata Power	1,265	ADD	312,147	6,809	247	60.2	69.2	88.5	20.1	15.0	27.8	21.0	18.3	14.3	13.4	12.2	10.5	2.4	2.2	1.9	0.9	1.1	1.2	12.9	12.5	14.3	1,420	12.3	11.3					
Utilities		REDUCE	3,580,404	78,098					23.5	16.2	38.7	22.7	19.5	14.1	17.9	14.9	10.8	2.4	2.2	2.0	1.3	1.4	1.6	10.6	11.3	14.1								
Others																																		
Havells India	796	SELL	47,870	1,044	60	5.3	31.6	45.0	3.7	497.9	42.6	150.6	25.2	17.7	19.9	12.3	10.1	13.2	8.7	5.9	0.3	0.3	0.3	6.6	41.6	39.7	497	(37.5)	8.8					
Jaiprakash Associates	122	BUY	260,355	5,679	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	84.0	22.1	16.5	21.5	15.8	11.2	3.0	2.6	2.3	—	—	—	4.1	12.8	14.9	170	39.0	23.8					
Jindal Saw	208	ADD	61,064	1,332	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.3	11.1	11.6	5.4	6.2	5.9	1.6	1.3	1.2	0.5	0.4	0.4	20.5	12.9	11.1	256	23.3	3.2					
PSL	122	BUY	6,504	142	53	22.9	25.4	28.2	3.3	10.6	11.0	5.3	4.8	4.3	3.1	2.6	2.7	0.7	0.6	0.6	5.3	5.3	5.8	12.6	11.7	12.0	182	49.6	0.9					
Sintex	364	BUY	49,664	1,083	136	24.1	28.3	33.3	0.5	17																								

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