kotak® Institutional Equities

INDIA DAILY

September 16, 2009

EQUITY MARKETS

India	15-Sep	Change % 1-day	1-mo	3-mo
Sensex	16,454	1.5	6.8	10.0
Nifty	4,892	1.7	6.8	8.3
Global/Regional indices				
Dow Jones	9,683	0.6	3.9	13.9
Nasdaq Composite	2,103	0.5	5.9	17.1
FTSE	5,042	0.5	7.0	16.5
Nikkie	10,339	1.2	(2.4)	6.0
Hang Seng	20,866	(0.3)	(0.1)	14.9
KOSPI	1,680	1.6	5.5	20.0
Value traded - India				
Cash (NSE+BSE)	217.6		231.0	241.1
Derivatives (NSE)	683.9		638.9	691
Deri. open interest	1,065.1		783	856

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Cairn India: Cess creates a mess

- Cess payment will depress earnings; best to assume so despite likely arbitration
- Stock price is discounting US$83/bbl in perpetuity with several downside risks
- Reduced earnings to reflect cess payment; no major change in other assumptions

Sun Pharmaceuticals: Generic Eloxatin launch held back, possibly spooked by federal court ruling

- Generic Eloxatin patent challenge continues, SUNP has not launched although the opportunity is large
- TARO holds one shareholders' meeting but postpones another
- Maintain rating at ADD and price target at Rs1,250

Technology: Stick to quality

- Stay with tier-I names to play the demand recovery cycle
- Doing more of the same may not suffice; expect Tier-II players to lag larger peers on growth
- Tier-II margins—fewer operating levers, and higher sensitivity to exchange rate movements

Forex/money market

	15-Sep	Change, basis points 1-day	1-mo	3-mo
Rs/US$	48.6	(9)	(32)	93
10yr govt bond, %	7.3	-	12	37

Net investment (US$mn)

	14-Sep		MTD	CYTD
FIIs	54		278	8,474
MFs	(41)		54	1,066

Top movers -3mo basis

Best performers	15-Sep	Change, % 1-day	1-mo	3-mo
TTMT IN Equity	569.1	0.8	21.7	62.6
ABAN IN Equity	1572.9	1.0	34.0	56.5
HCLT IN Equity	314.3	0.4	16.3	50.4
SCS IN Equity	119.2	0.6	15.2	47.9
TCS IN Equity	571.9	2.3	9.7	47.0
Worst performers				
BJFIN IN Equity	254.9	0.7	(12.7)	(37.8)
ICEM IN Equity	125.5	(0.5)	(6.3)	(21.8)
SUEL IN Equity	97.8	3.2	10.7	(18.5)
RPWR IN Equity	163.6	0.5	0.4	(16.6)
MTNL IN Equity	92.7	0.8	(5.3)	(15.0)

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ITC (ITC)

Consumer Products

BUY

SEPTEMBER 16, 2009

UPDATE

Sector view: Attractive

Price (Rs): 229

Target price (Rs): 255

BSE-30: 16,454

Robust cigarette volume growth, BUY. Industry sources suggest sustaining good volume growth for cigarette industry, >5% in the past three months. Strong reasons to buy ITC stock are (1) a return of volume growth, (2) coinage prices providing additional pricing power and (3) 10% stock underperformance (versus Sensex) in the past month. The street is focused on potential FMCG losses, but we are more anxious about the personal care marketing mix, which is overdue for a review, in our view.

Company data and valuation summary

ITC

Stock data			
52-week range (Rs) (high,low)			253-132
Market Cap. (Rs bn)			863.2
Shareholding pattern (%)			
Promoters			0.0
FIIs			14.2
MFs			3.0
Price performance (%)	1M	3M	12M
Absolute	(2.5)	15.3	17.8
Rel. to BSE-30	(8.7)	4.8	(3.2)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	8.7	10.3	11.8
EPS growth (%)	2.8	19.3	14.3
P/E (X)	26.4	22.2	19.4
Sales (Rs bn)	153.9	166.6	193.1
Net profits (Rs bn)	32.6	38.9	44.5
EBITDA (Rs bn)	51.8	60.9	68.4
EV/EBITDA (X)	16.2	13.6	12.0
ROE (%)	25.3	26.3	26.0
Div. Yield (%)	1.6	1.7	2.0

Upside risk to cigarette volume growth estimates; the street upgrade cycle may continue

Our discussions with industry sources suggest continuing good volume growth in cigarettes. We recall that ITC had >5% volume growth in 1QFY10—which was in line with our expectations and which surpassed the street's expectations. We maintain our cigarette volume growth estimate of 6% for FY2010E and 4% growth in FY2011E.

Our optimism regarding ITC's cigarette segment is based on (1) our assumption of a further price increase of about 2% in FY2010E (company has already effected about 4%) to maintain price-parity among brands (premium/discount between various brands), (2) potential upside risks to our volume growth assumptions exist incase VAT remains at 12.5% in most states, (3) ability to implement price increases in brands which have not seen price increases for over two years now (Wills Navy cut, price-sensitive packs like Scissors, Berkeley etc).

We reiterate the resilience demonstrated by the business when faced with adversities over the past few years, notably, (1) imposition of VAT, (2) penal taxation in FY2009 and (3) public smoking ban in October 2008.

Favorable coinage provides additional pricing power in cigarettes

Post the increase in VAT to 20% (from 12.5%) is three key States—Maharashtra, Rajasthan and Delhi—we find that the coinage price (per stick price charged by the kiosk) has already moved up by ~10% in these markets. According to channel sources, trade channels are taking advantage of the differential tax rates, which incidentally limits the impact on the industry regarding the net realizations for the companies (for example, goods moving to high tax state from low tax states).

Coinage prices settling at a higher level provide additional pricing power to the cigarette industry, (for example, a per stick price of Gold Flake Kings is Rs5 whereas MRP is Rs44/pack of 10 provides the company with opportunity to increase MRP by 13% without impacting the consumer purchase price).

QUICK NUMBERS

- Upside risk to our FY2010E volume growth estimates of 6%
- Likely revisit of personal care marketing mix, in our view
- Favorable coinage factor provides additional pricing power
- Reiterate BUY after the 10% underperformance in past month

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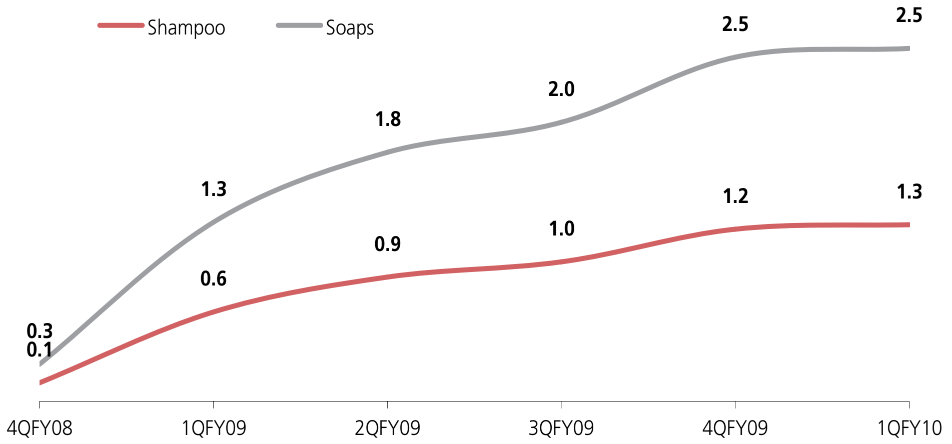
Revisit of personal care marketing mix imperative

While the street debates on the likely quarterly estimate of FMCG losses (short-term issues), we try to highlight the big picture and discuss the likely way forward for the current personal care portfolio.

- ITC entered the soaps and shampoo businesses at end-CY2007 with a full bouquet of brands straddling price points and product propositions
- Initial ramp up of market shares were impressive, but the company is a facing longer-than-expected investment phase in premium-end—in both soaps and shampoo, in our view
- We reckon that the current portfolio of personal care launches will likely go through a period of sustained brand investments
- Relatively low brand loyalty, particularly in soaps will be the key challenge for ITC—given the low (~Rs15) outlay for a soap, and the fact that there is no meaningful differentiation between most products, consumer are typically willing to try out new brands). On the one hand, low consumer loyalty may help the company achieve trial purchases in new markets quite easily but on the other, consumer retention is difficult.
- Our trade channels indicate that 'Vivel' is successfully competing with entrenched brands like Santoor and Lux in Andhra Pradesh, Kerala whereas 'Superia' is recruiting new consumers in Central and East India

Modest share gains post national roll-out
Value market shares (%)



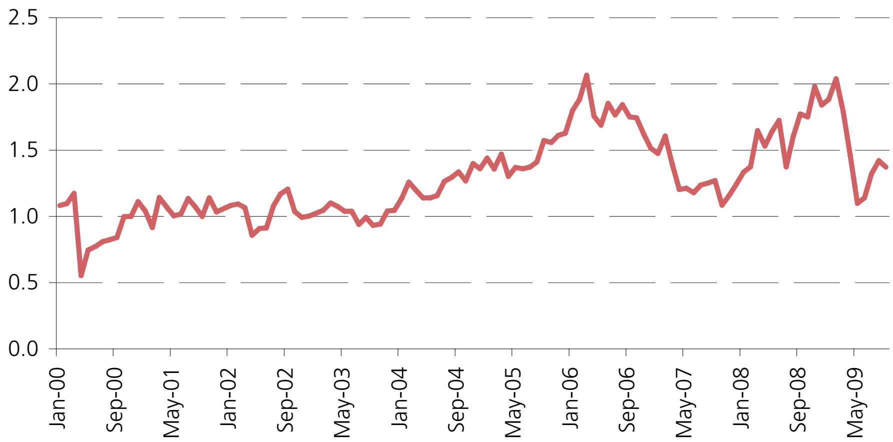
Source: Trade sources, Kotak Institutional Equities

Maintain estimates; reiterate BUY and TP Rs255. Key risks to our BUY rating are (1) higher losses in Other FMCG and (2) severe increase in VAT across states.

Reiterate BUY on likely upsides from cigarette segment

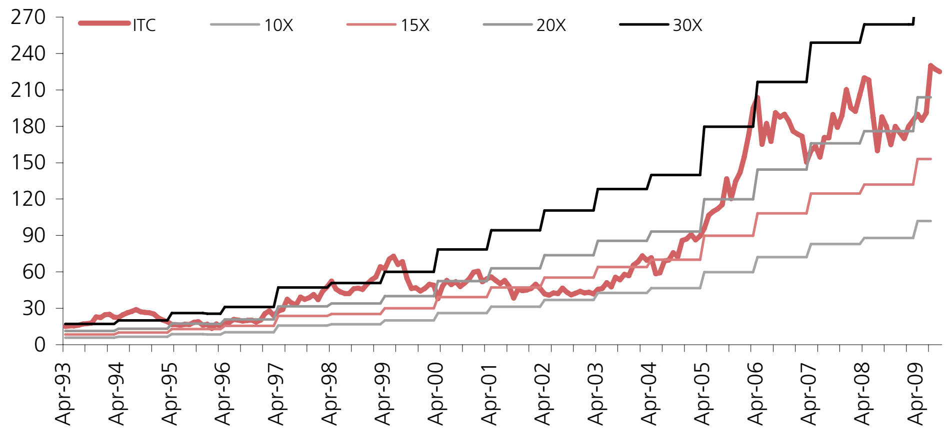
We see upside risks to our cigarette volume assumptions and margins if the company implements further price increases during the rest of FY2010E. We continue to build higher investments in FMCG and model Rs4.2 bn and Rs3 bn EBIT losses for FY2010E and FY2011E. Our loss estimates are higher than street expectations as our channel feedback suggests a relatively low success of ITC's personal products range compared to its earlier launches in Foods. We believe the company's efforts to contain losses in extant FMCG while continuing to invest in focus areas are yielding results. Factors helping ITC are (1) lower commodity costs positively impacting profitability of staples business, (2) portfolio rationalization and focus on mix improvement in biscuits and (3) renegotiation of rentals, closing of unviable stores in lifestyle retailing.

Valuations offer upside opportunity
ITC relative PE versus Sensex (x)



Source: Kotak Institutional Equities

ITC, P/E bands (one-year forward)



Source: Kotak Institutional Equities

We value ITC stock at last three year average PE
One-year forward PE of ITC (x)

	Average	Maximum	Minimum
1-year	19.9	22.1	18.1
3-years	22.0	26.6	18.1
5-years	21.6	32.5	15.0

Source: Kotak Institutional Equities

ITC, Profit model, balance sheet, cash flow model 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Profit model (Rs mn)						
Net sales	97,905	123,693	140,012	153,881	166,603	193,107
EBITDA	**33,274**	**39,700**	**44,703**	**48,686**	**57,639**	**64,894**
Other income	2,899	3,365	6,109	5,349	6,611	7,684
Interest	(158)	(169)	(173)	(284)	(111)	(111)
Depreciation	(3,323)	(3,629)	(4,385)	(5,494)	(6,484)	(7,405)
Extraordinary items	(63)	0	0	0	0	0
Pretax profits	32,629	39,267	46,255	48,258	57,655	65,062
Tax	(10,276)	(12,267)	(14,517)	(15,622)	(18,707)	(20,562)
Net profits	**22,353**	**27,000**	**31,738**	**32,636**	**38,948**	**44,501**
Earnings per share (Rs)	**6.0**	**7.2**	**8.4**	**8.7**	**10.3**	**11.8**
Balance sheet (Rs mn)						
Total equity	90,615	104,371	120,577	137,351	158,677	183,354
Deferred taxation liability	3,248	4,729	5,451	8,672	8,672	8,672
Total borrowings	1,197	2,009	2,144	1,776	1,776	1,776
Currrent liabilities	35,781	38,576	44,323	47,050	45,548	49,497
Total liabilities and equity	**130,840**	**149,684**	**172,495**	**194,848**	**214,673**	**243,299**
Cash	8,558	9,002	5,703	10,324	18,193	29,312
Current assets	43,061	53,896	64,490	71,287	70,617	82,021
Total fixed assets	44,051	56,109	72,956	84,860	97,485	103,588
Investments	35,170	30,678	29,346	28,378	28,378	28,378
Total assets	**130,840**	**149,684**	**172,495**	**194,848**	**214,673**	**243,299**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	25,638	31,040	37,112	41,493	45,911	52,197
Working capital	(5,469)	(8,667)	(6,634)	(4,977)	1,953	(5,574)
Capital expenditure	(6,013)	(15,702)	(21,239)	(17,407)	(19,120)	(13,517)
Investments	3,577	4,492	1,332	968	0	0
Free cash flow	**17,734**	**11,164**	**10,570**	**20,077**	**28,744**	**33,105**
Key ratios (%)						
Sales growth	28.2	26.3	13.2	9.9	8.3	15.9
EBITDA margins	34.0	32.1	31.9	31.6	34.6	33.6
EPS growth	28.3	20.1	17.1	2.8	19.3	14.3

Source: Kotak Institutional Equities estimates

ITC, Segment revenue, 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Segment revenue, gross (Rs mn)						
Cigarettes	113,297	128,337	138,256	151,151	172,337	195,881
Other FMCG	10,135	17,044	25,231	30,140	33,369	38,965
Hotels	7,834	9,857	11,002	10,203	9,701	11,040
Agri Business	26,784	36,914	38,998	38,460	27,830	31,113
Paperboards, Paper & Packaging	18,957	21,001	23,643	28,220	32,702	37,529
TOTAL	177,007	213,152	237,131	258,173	275,939	314,527
Less: Inter segment revenue	14,763	18,101	23,137	26,738	23,656	26,834
Gross sales	**162,244**	**195,051**	**213,994**	**231,435**	**252,283**	**287,693**
Net sales	97,905	123,693	140,012	153,881	166,603	193,107
Segment revenue growth, (%)						
Cigarettes		13.3	7.7	9.3	14.0	13.7
Other FMCG		68.2	48.0	19.5	10.7	16.8
Hotels		25.8	11.6	(7.3)	(4.9)	13.8
Agri Business		37.8	5.6	(1.4)	(27.6)	11.8
Paperboards, Paper & Packaging		10.8	12.6	19.4	15.9	14.8
TOTAL		20.4	11.2	8.9	6.9	14.0
Less: Inter segment revenue		22.6	27.8	15.6	(11.5)	13.4
Gross sales		20.2	9.7	8.2	9.0	14.0
Net sales		26.3	13.2	9.9	8.3	15.9

Source: Kotak Institutional Equities estimates

ITC, Segment revenue and PBIT, 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Segment revenue, gross (Rs mn)						
Cigarettes	113,297	128,337	138,256	151,151	172,337	195,881
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Net sales	97,905	123,693	140,012	153,881	166,603	193,107
Segment revenue break up, (%)						
Cigarettes	**69.8**	**65.8**	**64.6**	**65.3**	**68.3**	**68.1**
Other FMCG	6.2	8.7	11.8	13.0	13.2	13.5
Hotels	4.8	5.1	5.1	4.4	3.8	3.8
Agri Business	16.5	18.9	18.2	16.6	11.0	10.8
Paperboards, Paper & Packaging	11.7	10.8	11.0	12.2	13.0	13.0
TOTAL	109.1	109.3	110.8	111.6	109.4	109.3
Less: Inter segment revenue	9.1	9.3	10.8	11.6	9.4	9.3
Gross sales	100.0	100.0	100.0	100.0	100.0	100.0
Segment PBIT margins (Rs mn)						
Cigarettes	27,088	31,722	36,340	41,838	49,597	57,260
Other FMCG	(1,718)	(2,020)	(2,635)	(4,835)	(4,238)	(3,079)
Hotels	2,581	3,508	4,108	3,162	2,543	3,671
Agri Business	909	1,236	1,292	2,562	2,630	3,030
Paperboards, Paper & Packaging	3,514	4,168	4,531	5,086	6,468	7,495
TOTAL	32,373	38,613	43,636	47,813	57,000	68,378
Segment PBIT margins (%)						
Cigarettes	23.9	24.7	26.3	27.7	28.8	29.2
Other FMCG	(17.0)	(11.9)	(10.4)	(16.0)	(12.7)	(7.9)
Hotels	32.9	35.6	37.3	31.0	26.2	33.2
Agri Business	3.4	3.3	3.3	6.7	9.5	9.7
Paperboards, Paper & Packaging	18.5	19.8	19.2	18.0	19.8	20.0
TOTAL	18.3	18.1	18.4	18.5	20.7	21.7

Source: Kotak Institutional Equities estimates

Both ITC and HUL has provided similar returns over the past year

Company	Price (Rs)	Mkt Cap (Rs bn)	Rating	TP (Rs)	Absolute Change, % 1-mo	6-mo	1-Year	Relative Change, % 1-mo	6-mo	1-Year	52 Week High	Low
Hindustan Unilever	277	603	BUY	320	4	7	20	0	(36)	12	307	185
ITC	230	866	BUY	255	23	37	26	18	(17)	18	245	132
Nestle India	2,004	193	ADD	2,400	17	46	37	12	(12)	28	2,220	1,220
Colgate-Palmolive	654	89	REDUCE	620	16	61	80	12	(3)	69	687	341
Godrej Consumer Products	196	51	ADD	235	26	67	79	21	1	67	235	90
GlaxoSmithkline Consumer	1,021	43	ADD	1,200	13	77	66	9	7	55	1,075	452
Asian Paints	1,288	131	ADD	1,600	20	77	22	15	7	14	1,400	681
Jyothy Laboratories	101	7	ADD	145	4	96	16	(0)	18	11	122	42
Tata Tea	910	56	BUY	900	(3)	67	32	(8)	(10)	10	1,018	430
Consumer Products		**2,013**	**Attractive**		**(1)**	**35**	**20**	**(6)**	**(27)**	**(0)**		
Sensex	**16,214**				**5**	**85**	**20**					

Note : Closing prices as of September 14, 2009

Source: Kotak Institutional Equities

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Cairn India (CAIR)

Energy

REDUCE

SEPTEMBER 16, 2009

UPDATE

Sector view: Attractive

Price (Rs): 259

Target price (Rs): 225

BSE-30: 16,454

Cess creates a mess. We have reduced our earnings estimates for Cairn India to reflect the payment of cess on crude oil from its Rajasthan block. Cairn will pay the cess under protest and we believe it is best to factor the payment in financial estimates. Meanwhile, we retain our fair valuation of Rs225 until the cess issue is resolved. We retain our REDUCE rating on the stock noting that the stock is (1) discounting US$83/bbl in perpetuity and (2) trading significantly above our 12-month target price.

Company data and valuation summary

Cairn India

Stock data			
52-week range (Rs) (high,low)			275-88
Market Cap. (Rs bn)			492.0
Shareholding pattern (%)			
Promoters			64.7
FIIs			10.8
MFs			2.5
Price performance (%)	**1M**	**3M**	**12M**
Absolute	3.9	9.2	26.0
Rel. to BSE-30	(2.7)	(1.3)	3.6

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	4.3	8.3	25.4
EPS growth (%)	(3,703.1)	92.8	207.1
P/E (X)	60.4	31.3	10.2
Sales (Rs bn)	22.0	48.6	101.6
Net profits (Rs bn)	1.7	17.3	48.2
EBITDA (Rs bn)	12.2	33.1	74.9
EV/EBITDA (X)	42.4	15.2	6.9
ROE (%)	2.5	4.6	13.6
Div. Yield (%)	0.0	0.0	7.7

Cess payment will depress earnings; best to assume so despite likely arbitration

We believe it would be best to factor in cess payment on crude oil from RJ-ON-90/1 block for making financial estimates, if not for valuation. Cairn will pay cess on its portion of crude oil and will go for arbitration proceedings. We do not expect a resolution of the issue through arbitration before12-24 months and in the meantime, Cairn will report earnings after factoring in the cess payment. The petroleum secretary recently confirmed that Cairn will pay cess of Rs2,575/ton on its portion of crude oil. We had previously highlighted the risks to earnings and valuation from the cess issue but not factored the same given the lack of clarity on Cairn's liability as also the amount of cess (prevailing rate of Rs927/ton when Cairn signed the PSC or the current Rs2,575/ton).

Stock price is discounting US$83/bbl in perpetuity with several downside risks

We maintain our 12-month DCF-based fair valuation of Rs225 pending a final decision on the cess issue. Our fair valuation of the stock drops by Rs9 if we assume that Cairn will have to bear the cess at Rs927/ton and it drops by Rs29 if we assume cess at Rs2,575/ton (Exhibit 1). We have a negative view on the stock anyway given that Cairn's stock price is currently discounting US$83/bbl in perpetuity even assuming no cess on crude oil. We see value in the stock at Rs180-190, which discount a more reasonable crude price of US$60-65/bbl in perpetuity (Exhibit 2). Key upside risks stem from (1) higher-than-expected crude prices and (2) announcement of new discoveries.

Reduced earnings to reflect cess payment; no major change in other assumptions

We have cut our earnings estimates for FY2010E, FY2011E and FY2012E to Rs8.3, Rs25.4 and Rs30.2 from Rs8.8, Rs30.8 and Rs34.7 to reflect (1) payment of cess of Rs2,575/ton and (2) higher crude price assumption of US$65/bbl for FY2010E versus US$60/bbl previously. We model our crude oil price at US$65/bbl and US$70/bbl for FY2011E and FY2012E and crude production in line with management guidance of a ramp-up of production from Cairn's Rajasthan block.

QUICK NUMBERS

- Revised FY2010-12E EPS to Rs8.3, Rs25.4 and Rs30.2
- Fair valuation remains unchanged at Rs225/share
- Potential downside of Rs29 if we assume cess at Rs2,575/ton

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Cairn's fair valuation has moderate leverage to crude prices
Enterprise value sensitivity of Cairn to key variables (US$ bn)

	Sensitivity of current valuation			Sensitivity of +1-year valuation		
	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)
Average crude prices (2013 and beyond)						
Dated Brent price (US$100/bbl)	11.1	241	28	11.9	284	26
Dated Brent price (US$90/bbl)	10.3	222	18	11.1	263	17
Dated Brent price (US$80/bbl)	9.1	197	5	9.9	235	4
Dated Brent price (US$75/bbl)	**8.8**	**188**		**9.5**	**225**	
Dated Brent price (US$70/bbl)	8.2	175	(7)	8.9	211	(6)
Dated Brent price (US$60/bbl)	7.0	150	(20)	7.7	183	(19)
Dated Brent price (US$50/bbl)	6.2	131	(30)	6.8	161	(28)
Dated Brent price (US$40/bbl)	5.0	105	(44)	5.6	133	(41)
Dated Brent price (US$30/bbl)	3.8	78	(59)	4.3	102	(55)
Cess, royalty						
Royalty (Rs0/ton), Cess (Rs0/ton)	**8.8**	**188**		**9.5**	**225**	
Royalty (Rs0/ton), Cess (Rs927/ton)	8.3	178	(5)	9.0	216	(4)
Royalty (Rs0/ton), Cess (Rs2,575/ton)	7.5	160	(15)	8.2	196	(13)

Source: Kotak Institutional Equities estimates

Crude price discounted at various levels of stock price of Cairn

Stock price (Rs/share)	Crude price discounted (US$/bbl)
275	86
260	83
245	79
230	74
215	70
200	66
185	63
170	57

Note:
(1) Crude price discounted from FY2010E in perpetuity.
(2) Long-term exchange rate assumption (FY2013E onwards) is Rs47/US$.
(3) Exchange-rate assumtions for FY2010-12E are Rs48/US$, Rs47.8/US$ and Rs47.5/US$.
(4) No cess on crude oil assumed in our fair valuation.

Source: Kotak Institutional Equities estimates

We value Cairn India stock at Rs225
EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	8,750	9,479	9,459
CB-OS-2	69	47	30
Ravva	301	250	207
Upside potential (KG-DWN-98/2)	100	112	125
Total	**9,220**	**9,888**	**9,821**
Net debt	595	297	575
Equity value	**8,625**	**9,591**	**9,246**
Equity shares (mn)	1,897	1,897	1,897
Equity value per share (Rs/share)	**188**	**225**	**234**

Source: Kotak Institutional Equities estimates

Cairn's earnings are highly leveraged to crude prices
Earnings sensitivity of Cairn to key variables

	2010E			2011E			2012E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Average crude prices									
Crude price (US$/bbl)	63.0	65.0	67.0	63.0	65.0	67.0	68.0	70.0	72.0
Net profits (Rs mn)	14,613	15,708	16,803	45,561	48,236	50,911	55,564	57,357	59,150
Earnings per share (Rs)	7.7	8.3	8.9	24.0	25.4	26.8	29.3	30.2	31.2
% upside/(downside)	**(7.0)**		**7.0**	**(5.5)**		**5.5**	**(3.1)**		**3.1**
Exchange rate									
Rs/US$	47.0	48.0	49.0	46.8	47.8	48.8	46.5	47.5	48.5
Net profits (Rs mn)	15,070	15,708	16,345	46,706	48,236	49,766	55,960	57,357	58,755
Earnings per share (Rs)	7.9	8.3	8.6	24.6	25.4	26.2	29.5	30.2	31.0
% upside/(downside)	**(4.1)**		**4.1**	**(3.2)**		**3.2**	**(2.4)**		**2.4**

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Cairn, calendar year-ends 2006-07, March fiscal year-ends 2009-14E (Rs mn)

	2006	2007	2009 (a)	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	18,417	16,561	25,156	48,559	101,560	125,936	168,337	164,340
EBITDA	**7,435**	**6,705**	**8,663**	**30,770**	**74,803**	**88,728**	**101,954**	**87,483**
Other income	1,100	1,324	5,945	2,362	64	64	67	71
Interest	(201)	(27)	(64)	(917)	(2,225)	(4,000)	(4,500)	(3,300)
Depreciation	(497)	(4,589)	(4,382)	(7,207)	(9,729)	(11,483)	(13,285)	(13,164)
Pretax profits	7,837	3,413	10,162	25,009	62,914	73,309	84,237	71,090
Extraordinary items	—	(2,120)	(283)	(1,637)	—	—	—	—
Tax	(2,273)	(740)	(1,221)	(6,136)	(13,323)	(15,276)	(17,267)	(14,762)
Deferred taxation	(22)	(764)	(623)	(1,528)	(1,354)	(675)	(146)	191
Net profits	**5,543**	**(212)**	**8,035**	**15,708**	**48,236**	**57,357**	**66,824**	**56,519**
Earnings per share (Rs)	**3.1**	**(0.1)**	**4.3**	**8.3**	**25.4**	**30.2**	**35.2**	**29.8**
Balance sheet (Rs mn)								
Total equity	292,804	294,358	328,023	343,731	347,587	349,469	351,662	353,516
Deferred tax liability	4,258	4,916	5,540	7,068	8,422	9,097	9,243	9,052
Total borrowings	5,122	3,124	43,564	15,000	29,500	50,500	39,500	26,500—
Currrent liabilities	39,716	8,372	16,132	1,758	2,069	3,330	7,138	8,764
Total liabilities and equity	**341,900**	**310,771**	**393,259**	**367,557**	**387,577**	**412,396**	**407,542**	**397,832**
Cash	61,348	1,504	18,968	1,781	1,906	1,751	2,106	1,934
Current assets	6,470	19,029	53,712	4,656	9,739	12,076	16,142	15,759
Total fixed assets	17,609	25,157	62,660	76,851	28,982	25,985	22,884	19,846
Net producing properties	2,354	4,390	3,014	29,363	92,045	117,679	111,504	105,388
Investments	4	7,129	1,713	1,713	1,713	1,713	1,713	1,713
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	—	—	—	—	—	—
Total assets	**341,900**	**310,771**	**393,259**	**367,557**	**387,577**	**412,396**	**407,542**	**397,832**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	4,598	6,387	8,213	19,013	57,105	68,002	78,737	67,971
Working capital changes	34,256	(908)	1,213	34,682	(4,772)	(1,076)	(259)	2,010
Capital expenditure	(5,619)	(11,739)	(31,613)	(44,680)	(22,392)	(32,670)	(2,560)	(2,560)
Investments/Goodwill	(252,717)	(53,863)	(25,062)	—	—	—	—	—
Other income	1,100	1,298	1,518	2,362	64	64	67	71
Free cash flow	**(218,382)**	**(58,824)**	**(45,730)**	**11,377**	**30,005**	**34,320**	**75,986**	**67,492**
Key assumptions								
Gross production ('000 boe/d)	91.0	75.4	68.1	107.8	179.9	197.8	236.7	228.4
Net production ('000 boe/d)	25.1	19.4	17.8	49.3	102.5	117.4	146.6	143.0
Dated Brent (US$/bbl)	65.3	70.3	87.4	65.0	65.0	70.0	75.0	75.0
Discount of Rajasthan crude to Dated Brent (US$/bbl)	2.1	5.3	8.1	8.0	8.0	8.0	8.0	8.0

Note:
(a) 15 months period starting from January 1, 2008 to March 31, 2009

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Sun Pharmaceuticals (SUNP)

Pharmaceuticals

ADD

SEPTEMBER 16, 2009

UPDATE

Sector view: Attractive

Price (Rs): 1,219

Target price (Rs): 1,250

BSE-30: 16,454

Generic Eloxatin launch held back, possibly spooked by federal court ruling.

Despite being granted shared exclusivity and licensed approval for generic Eloxatin, SUNP has held back its launch of the product. We attribute this reticence to the recent federal court ruling regarding generic Eloxatin, which we believe could put the launch at risk. If SUNP successfully launches the product, it could add Rs12 to FY2010E EPS. We make no changes to our estimates, rating and price target at this point.

Company data and valuation summary

Sun Pharmaceuticals

Stock data			
52-week range (Rs) (high,low)			1,600-953
Market Cap. (Rs bn)			249.2
Shareholding pattern (%)			
Promoters			63.7
FIIs			18.1
MFs			3.5
Price performance (%)	1M	3M	12M
Absolute	(1.6)	(5.9)	(18.2)
Rel. to BSE-30	(6.5)	(13.7)	(31.7)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	87.8	47.6	64.2
EPS growth (%)	17.6	(45.8)	34.9
P/E (X)	13.7	25.3	18.7
Sales (Rs bn)	42.7	35.3	44.2
Net profits (Rs bn)	18.2	9.9	13.3
EBITDA (Rs bn)	19.5	10.5	14.8
EV/EBITDA (X)	10.9	19.3	13.3
ROE (%)	31.6	14.3	17.1
Div. Yield (%)	1.1	1.1	1.1

Generic Eloxatin patent challenge continues

Two court cases are underway—(1) the case between SNY and generic companies who have challenged the Eloxatin patent at the US Court of Appeals for the Federal Circuit and (2) the suit against FDA at the DC Circuit Court of Appeals. In the latest ruling on September 10, the US Court of Appeals for the Federal Circuit reversed a lower court ruling that generic manufacturers did not infringe the patent on Sanofi's drug. The Court of Appeals for the Federal Circuit has remanded the case back to the district court.

Generic Eloxatin opportunity is large, but SUNP holds back launch

We think the recent ruling of September 10 increases the risks that could be associated with launching generic Eloxatin. We therefore think SUNP has chosen to stay out of the market despite the fact that the six month exclusivity started on August 11, the day of the commercial launch of this product. It is worth noting that SUNP made two at risk-launches in 2008—generic Protonix and generic Ethyol.

Implication of generic Eloxatin opportunity

If SUNP was to launch the product, and assuming price erosion of 40% and SUNP market share of 20%, we estimate revenues of US$80 mn during the exclusivity period and PAT of US$52 mn. If this entire opportunity is exploited in FY2010E, it can add Rs12 to FY2010E EPS of Rs48.

TARO holds one shareholders' meeting but postpones another

EGM held on September 14th provides an update on the status of TARO's financial statements for 2006-2008, but audited accounts were not presented. The second meeting was to be held on 13th September in order to ratify, confirm and approve TARO providing indemnification with respect to the certain actions to directors of the company. However SUNP won a temporary injunction preventing TARO from holding this meeting until 21 days from the date on which TARO provides the documents demanded by SUNP. We think this resolution, if passed, will limit SUNP's ability to take legal action against external directors in future.

QUICK NUMBERS

- Generic Eloxatin patent challenge continues
- Generic Eloxatin, if launched can add Rs12 to FY2010E EPS

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Generic Eloxatin patent challenge continues

There are currently two court cases underway—(1) case between SNY and generic companies who have challenged the Eloxatin patent at the U.S. Court of Appeals for the Federal Circuit and (2) suit against FDA at the DC Circuit Court of Appeals.

In the latest ruling on September 10th, The U.S. Court of Appeals for the Federal Circuit reversed a lower court ruling that generic manufacturers did not infringe the patent on Sanofi's drug. The Court of Appeals for the Federal Circuit has remanded the case back to the district court. The appeals court disagreed with the lower court by agreeing with Sanofi that the patent covered the end product regardless of the method used to make it. The generic companies had contended that the patent covered the product only when a specific method was used to make it. SNY said during oral arguments at the Circuit court that it may seek a permanent injunction against further sales of the generics.

The dispute over Eloxatin has taken several twists and turns. We list below the events chronologically

- In June, the U.S. District Court for the District of New Jersey granted a summary judgment of non-infringement of SNY patent in favor of a number of generic companies which had challenged the patents on Eloxatin. SNY promptly appealed the decision to the U.S. Court of Appeals for the Federal Circuit and on July 1, 2009, the Federal Circuit temporarily stayed the district court judgment. Despite the stay, FDA approved ANDAs for oxaliplatin for three companies- TEVA, HSP and SUNP. These companies, being the first patent challengers, were granted 180 days of exclusivity. On August 11, HSP and TEVA launched their products.

- Sanofi then filed a suit against FDA in the U.S. District Court for the District of Columbia seeking a temporary restraining order and preliminary injunction to rescind the approvals. The district court denied SNY's motion and SNY appealed to the D.C. Circuit Court of Appeals, which on August 13 issued an order suspending all final approvals of oxaliplatin ANDAs pending further review of the case. On August 14, FDA suspended the approvals given to HSP and TEVA leading these companies to discontinue further shipment of the product. However, on August 18, the D.C. Circuit ruled denied SNY's motion for an injunction and ordered the dissolution of the court's August 13th administrative injunction. FDA promptly reinstated the approvals and TEVA and HSP resumed shipments.

Generic Eloxatin opportunity is large, SUNP has not launched

We think the recent ruling of September 10, where the US Court of Appeals for the Federal Circuit reversed a lower court ruling that generic manufacturers did not infringe the patent on Sanofi's drug increases the risk of a launch. We therefore think SUNP has chosen to stay out of the market despite the fact that the six month exclusivity started on August 11.

It is worth noting that SUNP made two at risk-launches in 2008—generic Protonix and generic Ethyol. SUNP recently settled the Ethyol patent challenge with Medimmune. Under the settlement, MedImmune grants Sun Pharma a license to certain patents, permitting Sun Pharma to continue marketing the generic version of Ethyol in the US. The terms of the settlement are confidential.

If SUNP was to launch the product, and assuming price erosion of 40% (according to www.rxusa.com, generic version of HSP was available at nearly 25% discount compared to branded version) and SUNP market share of 20%, we estimate revenues of US$80 mn during the exclusivity period and PAT of US$52 mn. If this entire opportunity is exploited in FY2010E, it can add Rs12 to FY2010E EPS of Rs48. Since this is a limited period opportunity, we will not be giving a PE multiple for these revenues but cash generated by this opportunity will be added to share price target. Currently, we are not including any revenues in our forecasts.

TARO holds one shareholders' meeting but postpones another

- **September 14th EGM provides update on TARO's financial statements**

EGM held on September 14 provides an update on the status of TARO's financial statements for 2006-2008. TARO mentioned that the meeting was being held following a request by Franklin Templeton Investments.

TARO has put up the presentation made at this meeting on SEC website. This presentation talks about the historical performance of the company. There are limited comments relating to presentation of audited accounts to shareholders. Taro concludes its presentation by saying that over the last two years the board and management have an impressive turnaround in sales, profits and EPS.

Taro says record levels of cash are being generated and company is funded from its operating cash. Taro also says that net debt has been reduced to US$70 mn as of August 2009 from US$216 mn as of March 2007. It adds that no effort has been spared to complete the audit of its accounts pending from 2006. However, there is no clarity as to when the audited statements will be made available to shareholders.

Taro says that the restatement of accounts is expected to have a minimal impact on reported results of 2007-08 and no material impact on cash balances. However, these are TARO estimates and not audited numbers.

Impact of restatement on TARO reported results (US$ mn)

	As Reported	Latest Estimate
2008		
Net sales	342	339
Net income	51	50
2007		
Net sales	313	315
Net income	21	29
2006		
Net sales	184	252
Net income (loss)	(141)	(86)

Source: TARO presentation

- September 13 EGM postponed

The second meeting was to be held on September 13 in order to ratify, confirm and approve TARO providing indemnification to directors who are not controlling persons and who served, are serving and may in the future serve, the company. SUNP had asked TARO to provide them the documents that led to proposal of this resolution. We think this resolution, if passed, will limit SUNP ability to take legal action against external directors in future.

The district court issued a temporary injunction to block Taro's shareholders from considering resolutions until 21 days from the date on which Taro provides the documents demanded by Sun. We await TARO response on SUNP request which will determine the future course of action.

Sun Pharmaceuticals, Profit and loss, March fiscal year-ends, 2007-2011E (Rs mn)

	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Net sales	**21,321**	**33,565**	**42,723**	**35,301**	**44,159**
Materials	(5,767)	(7,222)	(8,556)	(10,153)	(13,248)
Selling and administration	(2,616)	(3,759)	(5,543)	(5,680)	(5,792)
Employee cost	(1,989)	(2,331)	(3,401)	(4,642)	(5,368)
R& D	(2,440)	(2,725)	(3,099)	(3,343)	(3,974)
Others	(1,785)	(2,017)	(3,484)	(2,174)	(2,208)
Total expenditure	**(14,597)**	**(18,054)**	**(24,084)**	**(25,991)**	**(30,590)**
EBITDA	**6,724**	**15,511**	**18,640**	**9,309**	**13,569**
Depreciation and amortisation	(813)	(969)	(1,233)	(1,591)	(1,950)
EBIT	**5,910**	**14,543**	**17,407**	**7,719**	**11,619**
Net finance cost	(127)	(88)	—	—	—
Other income	2,551	1,539	2,085	2,403	2,400
Pretax profits before extra-ordinaries	**8,335**	**15,994**	**19,492**	**10,122**	**14,019**
Current tax	(91)	(1,288)	(1,192)	(99)	(391)
Deferred tax	158	804	481	(450)	(450)
Reported net profit	**8,402**	**15,509**	**18,780**	**9,573**	**13,178**
Minority Interests	559	640	603	(284)	(120)
Reported net profit after minority interes	**7,843**	**14,869**	**18,177**	**9,857**	**13,298**

Source: Kotak Institutional Equities

Sun Pharmaceuticals, Normalized EPS

	FY2008	FY2009E	FY2010E	FY2011E
EPS (Rs)				
Base adding back one-time costs	39.8	60.7	42.2	58.5
Generic Trileptal+Protonix+Ethyol	28.4	23.4	0.7	0.0
Interest income	6.9	5.7	5.5	5.4
One-time expenses	0.0	(2.4)	0.0	0.0
Total	**75.1**	**87.4**	**48.4**	**63.9**
P/E (X)				
Base			28.8	20.8
Total			**25.2**	**19.0**

Source: Kotak Institutional Equities

Technology

India

ATTRACTIVE

SEPTEMBER 16, 2009

UPDATE

BSE-30: 16,454

Stick to quality. We reiterate our preference for the Tier-I Indian IT services stocks over the Tier-II pack. Despite the favorable base effect, we expect the Tier-II companies to underperform their larger peers on revenue growth in the demand recovery cycle given (1) substantial under-investment in sales and marketing and capability enhancement during the downturn, (2) fallout of indiscriminate personnel decisions and (3) weak positioning in vendor consolidation instances. Infosys and Wipro remain top picks.

Stay with Tier-I names to play the demand recovery cycle

We remain optimistic about an upturn in demand for the Indian IT services industry. We see demand tailwinds building up in the form of improving pace of decision making, greater conversion of IT budgets into spends, release of pent-up discretionary spend, gains for the offshore players in vendor consolidation instances, and improved deal flow across most verticals. We expect the earnings upgrade cycle for Indian tech companies to sustain over the next few months. However, we would prefer to play the earnings upgrade cycle (driven by greater confidence in IT demand uptick) through the Tier-I names (Infosys, Wipro and TCS). We see several structural flaws in the business model of the Tier-II companies (barring MindTree); also, and some of the business decisions taken by the Tier-II pack in the recent downturn will not serve them well in the medium to long term, in our view. We elaborate on these issues below.

More of the same may not suffice; expect Tier-II players to lag larger peers on growth

We expect the Tier-II Indian IT services companies to lag Tier-I companies on volumes and revenue growth in the upcoming growth phase for the Indian IT services industry. Mid-sized companies had underperformed their larger peers on revenue growth during the last high-growth phase for the industry (FY2004-08, post the dot-com bubble burst). We expect the trend to continue (even exacerbate) in what we expect to be another 3-5 years of high-growth period (FY2011E onwards).

The Indian IT companies need to make substantial investments (in sales and marketing, development of consultative skills, IP creation/ marketing, and in under-penetrated geographies) to capture the next wave of demand. We find mid-size companies lacking on strategy and effort both on most of these dimensions. A cut-back in investments has indeed helped the mid-size companies report historically high margins and free cash generation during the downturn, but may just have robbed them of the opportunity to gain market share from the larger players in the next phase of growth. Tough personnel decisions taken by some of the mid-sized companies may hinder their ability to attract and retain quality talent, impacting their sales/ delivery engines.

Tier-II margins—fewer operating levers, and higher sensitivity to exchange rate movements

We see greater risk to the operating margins of the Tier-II companies as compared to the Tier-I companies for the following reasons—(1) you cannot have your cake and eat it too; the Tier-II companies will have to make up for the under-investment in the sales and delivery organizations (to protect margins during the downturn), if they wish to participate in the revenue growth phase, in our view, (2) utilization lever does not exist—mid-size companies (with the exception of MindTree) have all cut headcount aggressively during the downturn and are running at near-peak utilization levels, (3) pricing is their only differentiation—under-investment in creating differentiated offerings and weak positioning in multi-vendor situations leaves 'pricing' as the only meaningful volume growth 'tool' for the mid-sized companies, (4) greater sensitivity to Re/US$ movement make the mid-sized companies more vulnerable to the possibility of sharp Re appreciation, and (5) Tier-II companies may have to contend with higher wage inflation.

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Weak positioning, unsustainable margins—unfavorable risk-reward in case of Tier-II Indian IT companies

We do not see the Tier-II Indian IT names (barring MindTree) as good candidates to play the demand recovery story for Indian IT services. Our thesis is predicated upon two broad factors –

1. Weak positioning to capture demand

History is against mid-sized Indian IT companies and we have no reason to believe the future will be any different. Exhibit 1 depicts the yoy US$ revenue growth rates of the Indian IT companies (under our coverage) during the last high-growth phase for the industry (FY2004-08). The Tier-II pack (as a composite) underperformed the Tier-I pack on revenue growth in four out of these five years. We highlight that this was a phase of a supply crunch in the industry and provided what probably may turn out to be the best opportunity for some of the mid-size companies to grow faster than their larger peers.

Exhibit 1: Tier-II companies underperformed the larger peers in the last high-growth phase

	FY2004	FY2005	FY2006	FY2007	FY2008
Revenue growth yoy (%)					
Infosys	41	50	35	43	35
TCS	36	39	38	39	37
Wipro	50	44	34	34	40
HCL Tech	46	34	28	42	35
Tier-I composite	**42**	**42**	**35**	**39**	**37**
Patni	33	30	38	29	15
Mphasis (a)	43	34	24	26	78
Polaris	52	24	6	21	21
Hexaware	41	66	27	22	35
MindTree	68	92	84	29	41
Tier-II composite	**42**	**37**	**30**	**26**	**33**

Note:
(a) Excluding US$130 mn revenue contribution from EDS India merger with Mphasis
(b) Patn and Hexaware are December year ending; HCLT is June year ending

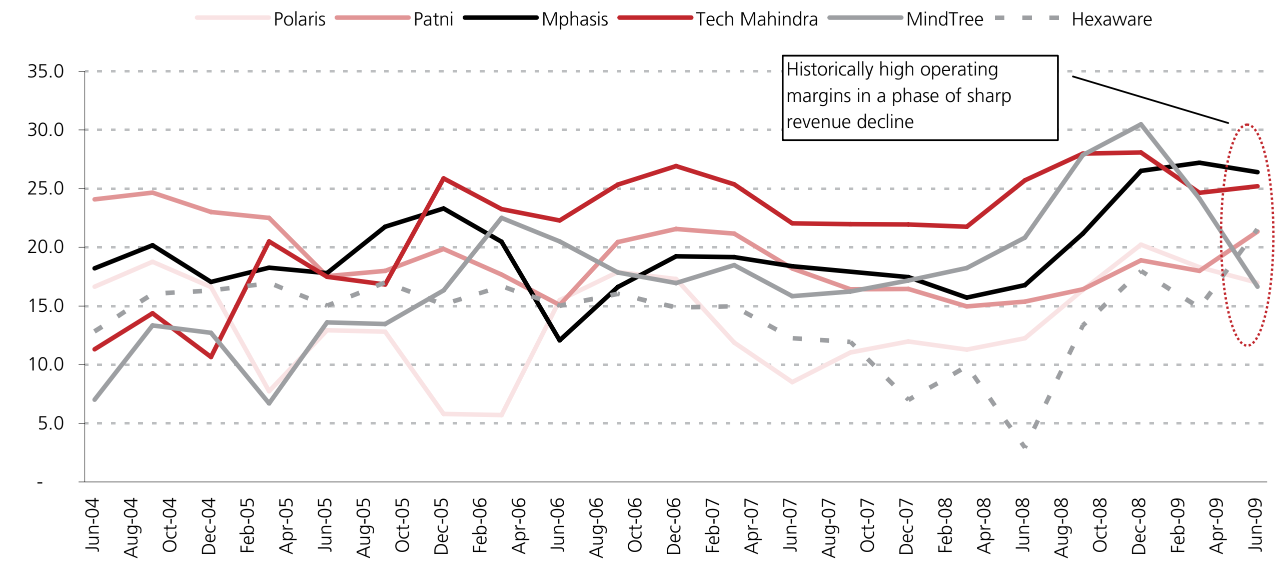
Source: Companies, Kotak Institutional Equities

In our view, mid-size companies have missed the bus by not using the downturn to improve their relative positioning (vis-à-vis the Tier-I players) on both demand-generation (sales and marketing) and demand-fulfillment (delivery capabilities). Business models of the mid-sized players remain shaky with weak positioning in scalable verticals (little beyond being a cheaper alternative to the larger names). In addition, they remain vulnerable in vendor consolidation situations, in our view. Unbalanced client portfolio (greater degree of dependence on a few clients) increases their inability to manage ramp-down from any of their large accounts.

2. Unsustainable margins

Exhibit 2 depicts the operating margin performance of select mid-sized IT companies over the past several quarters. Historically-high operating margins reported by some of these companies in the June 2009 quarter has surprised on the upside for sure, but we would be reluctant to call the same a 'positive' surprise. We discuss the key operating margin drivers for the industry and our discomfort with the actions taken by mid-sized companies to leverage these in recent times below:

Exhibit 2: Tier-II companies have reported historically high operating margins amid the current revenue slowdown
EBITDA margins (%) of select mid-sized Indian IT companies over the past 21 quarters

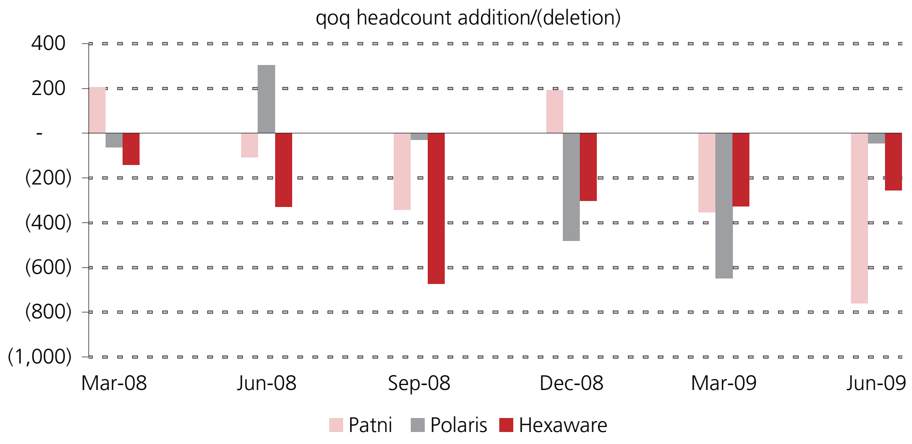


Source: Companies, Kotak Institutional Equities

- Headcount/ utilization/ wage cuts. Exhibit 3 depicts the quarterly headcount addition for select mid-sized companies while Exhibit 4 shows the utilization rates of these companies over the past several quarters. Most Tier-II companies resorted to the quickest measures to restore margin parity in the recent revenue decline phase—cut headcount (shore up utilization) and cut wages. This has indeed helped them shore up their gross margins (aided in part by a concurrent Re depreciation); digest this—Hexaware's gross margin in the June 2009 quarter was higher Infosys' at the time!

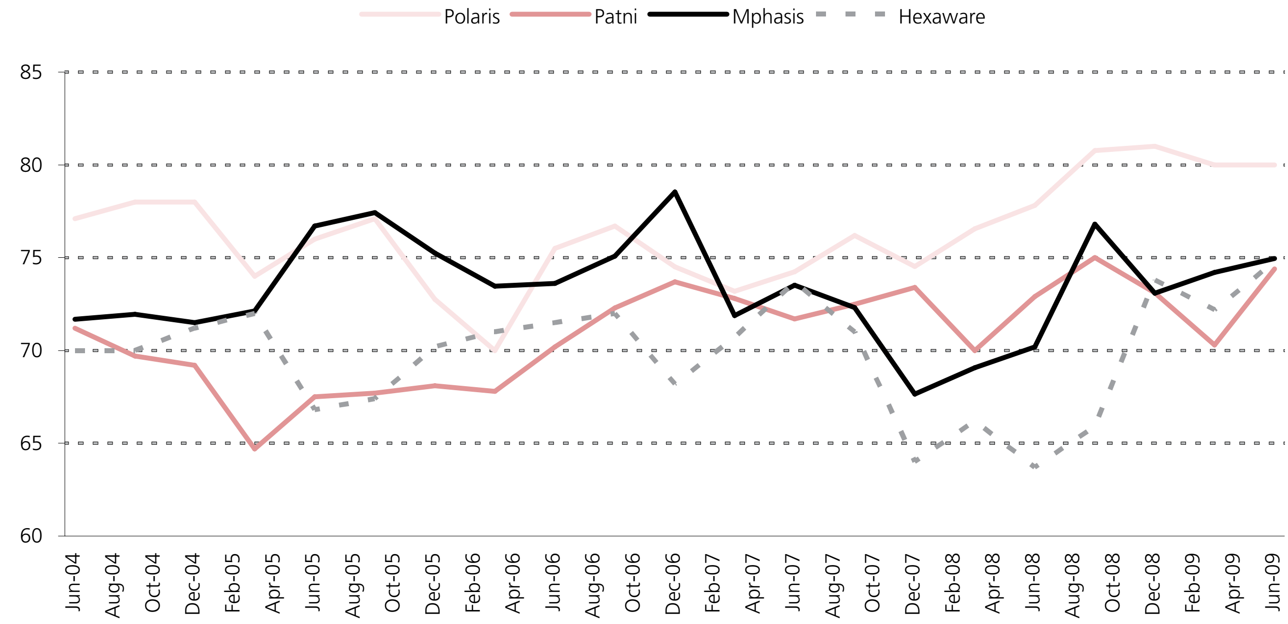
  However, we see several negative medium-to-long term consequences of these actions—(1) severe impact on their brand equity as an 'employer'; mid-size companies have historically found it difficult to attract quality talent and these aggressive 'unpopular' actions dent their relative attractiveness vis-à-vis Tier-I companies even further. This would likely hurt them in campuses as well as the lateral recruitment market, (2) ability to pitch for large deals—ready availability of 'excess' manpower (better known as 'bench') is a critical factor in an IT services' firm's eligibility to bid for certain large deals. The problem is amplified by the need to have a ready 'bench' across skills, verticals, and geographies, (3) the Tier-II companies may have impacted their ability to competitively fulfill the expected surge in demand; a 'just-in-time' hiring approach could hurt them in the form of sharp wage inflation if they wish to grab their fair share of incremental demand for the industry, and (4) the potential rise of employee activism—we could see the formation of employee unions in the Indian IT services/ ITeS industry.

Exhibit 3: Several Tier-II companies have cut headcount aggressively over the past few quarters
Quarterly headcount addition of select mid-sized IT companies



Source: Companies

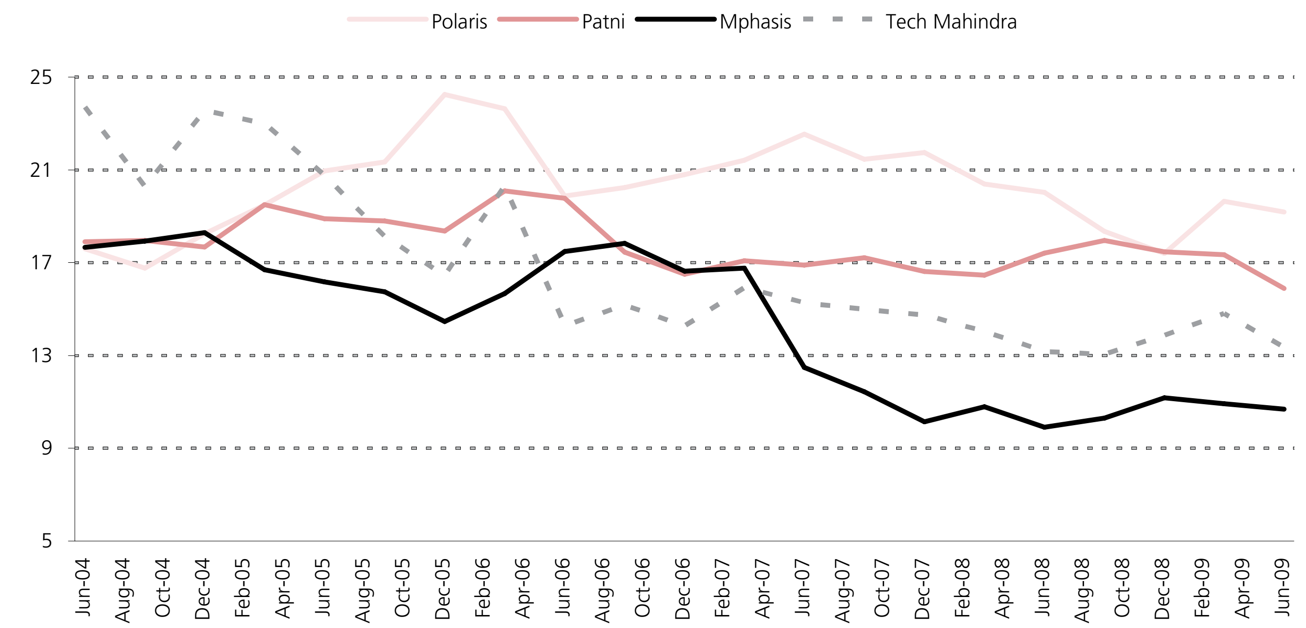
Exhibit 4: Tier-II companies running at near-peak utilization levels
Utilization rates (%) of select mid-sized Indian IT companies over the past 21 quarters



Source: Companies, Kotak Institutional Equities

- Cutback in SG&A expenses. Exhibit 5 depicts the quarterly trend in SG&A expenses (as % of revenues) of the Indian IT companies. Past few quarters have seen an aggressive (and indiscriminate, in our view) cut back in SG&A spend of these companies. While we agree that a slowdown phase is an ideal opportunity to drive G&A efficiency, we find the cutback in sales and marketing spend a tad disappointing. Our channel checks indicate that several large clients of the Indian offshore players have been disappointed with the continued passive behavior of the S&M organizations of the Indian IT companies. We would have expected the Indian IT companies to have been more aggressive (which entails higher spending) in changing the inherent 'order-taking' nature of their S&M field force to a 'demand-generating' one. We concede that the Tier-I companies are as much at fault here as the Tier-II companies; however, the Tier-II pack has definitely missed an opportunity to differentiate itself and grab higher mind-share of the clients, in our view.

Exhibit 5: Sharp cutback in SG&A expenses by mid-sized companies for margin protection
SG&A expenses (% of revenues) of select mid-sized Indian IT companies over the past 21 quarters



Source: Companies, Kotak Institutional Equities

- Converting T&M projects to fixed-price engagements. Amid the widespread perception of the potential margin upside in fixed-price engagements, what often gets missed is the higher execution risks associated with such engagements. We have seen several examples of fixed-price engagements gone wrong; MindTree provided an example of the same recently—the company had to take a ~US$2 mn hit on account of execution issues on a FP engagement in the June 2009 quarter.

  The Indian IT companies responded to the clients' cost-reduction demands post the economic slowdown by converting several of their T&M engagements to FP (see Exhibit 6 for quarterly trends in FP revenues of the Indian IT companies). This did aid their reported pricing metrics but we highlight the associated execution risks with the FP transition. Risks on FP projects typically arise from poor structuring of these deals (in terms of pricing, service level agreements, contractual obligations, etc.) and here again, we would back the deal-structuring ability of Tier-I companies over the Tier-II pack. We do not rule out a few 'fixed-price-engagement' shocks for some of the mid-sized companies over the next few quarters.

Exhibit 6: Fixed price contracts as percentage of revenues for select Indian IT companies (%)

Quarter ended	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Tata Consultancy Services	44.2	42.8	43.4	45.5	47.1	47.4
Infosys Technologies	33.2	32.8	34.1	36.3	38.3	38.1
Wipro	29.1	30.6	31.6	36.0	38.1	38.4
Cognizant Technology Solutions	26.8	25.7	26.3	27.8	29.1	30.0
Patni Computer Systems	34.4	34.8	36.8	37.8	37.5	39.8

Source: Companies, Kotak Institutional Equities

We believe that the aggressive margin-protection (enhancement infact, as it turned out) moves taken by the Tier-II companies has a negative fallout in both the possible scenarios—(1) high-growth phase for the industry returns—mid-sized companies **either** miss out on grabbing their fair share of the incremental demand given lack of S&M investments, and weaker positioning in large deals, **or** face severe margin pressure on account of sharp wage inflation and need for quick, large incremental investments, and (2) industry growth rates remain low—margins face a structural downward pressure as most non-volume margin levers have essentially been maximized, in our view.

In addition, we highlight two non-operational factors, which pose greater risk to Tier-II pack earnings than Tier-I—(1) Rupee, the perennial joker in the pack—earnings of mid-sized companies more sensitive to Re/US$ movement, and (2) STPI tax exemption sunset—sharper jump (at the margin) in effective tax rates of the Tier-II companies, given slower SEZ expansion vis-à-vis larger names.

MindTree an exception to our Tier-I bias

MindTree figures in our preferred picks list alongside Infosys, Wipro and TCS

We remain positive on the Indian IT services space with a preference for the Tier-I companies for reasons discussed in detail in the note. We reiterate our positive stance on Infosys, Wipro, and TCS. MindTree is our only pick among the mid-caps. We approach our midcap IT picks through the tenets of scalability and sustainable shareholders returns. Scalability of business model demands management track record, process and systems, relationship management model, execution and ability to attract the best talent. Mindtree passes muster on most of these factors. Please see our recent note on MindTree dated September 08, 2009 for a detailed investment thesis on MindTree.

Kotak Institutional Equities: Valuation summary of key Indian technology companies

	15-Sep-09		Mkt cap.		EPS (Rs)			PER (X)			EV/EBITDA (X)			EV/Sales (X)		
Company	Price (Rs)	Rating	(Rs m)	(US$ m)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
HCL Technologies	314	REDUCE	218,404	4,490	17.5	16.7	22.8	18.0	18.8	13.8	10.1	9.3	8.6	2.2	2.0	1.7
Hexaware Technologies	80	REDUCE	11,557	238	4.1	8.1	8.7	19.6	9.9	9.3	6.9	4.2	4.1	0.8	0.8	0.6
Infosys Technologies	2,271	BUY	1,303,296	26,795	102.4	106.7	120.0	22.2	21.3	18.9	16.6	15.3	12.7	5.5	5.0	4.1
Mindtree	602	BUY	24,772	509	13.2	39.2	50.1	45.5	15.4	12.0	7.8	10.7	7.8	2.1	2.0	1.6
Mphasis BFL	600	REDUCE	125,125	2,572	14.2	41.5	42.2	42.4	14.5	14.2	32.2	10.6	9.4	6.5	2.8	2.3
Patni Computer Systems	416	REDUCE	53,445	1,099	26.8	33.8	36.7	15.5	12.3	11.3	7.7	5.8	5.6	1.3	1.2	1.0
Polaris Software Lab	148	SELL	14,647	301	13.1	13.8	12.9	11.3	10.7	11.5	4.8	5.8	6.1	0.8	0.8	0.8
TCS	572	ADD	1,119,323	23,012	26.4	31.2	35.3	21.6	18.4	16.2	15.1	13.1	11.3	3.9	3.6	3.0
Wipro	559	ADD	817,916	16,816	25.7	28.1	33.1	21.7	19.9	16.9	16.0	14.1	11.8	3.2	2.9	2.4
Technology		**Neutral**	***3,688,484***	***75,832***				***21.7***	***19.1***	***16.7***	***15.1***	***13.1***	***11.3***	***3.7***	***3.4***	***2.8***
KS universe (b)			***37,231,624***	***765,453***				***18.4***	***15.8***	***13.4***	***11.8***	***9.5***	***8.1***	***1.7***	***1.8***	***1.6***

	Target	O/S shares	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)		
Company	Price	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
HCL Technologies	275	695	14.5	(4.6)	36.5	12,993	12,514	16,381	22,774	25,331	26,287	106,301	119,711	132,121
Hexaware Technologies	60	144	(46.4)	97.1	7.4	590	1,162	1,248	1,289	1,895	1,706	11,520	10,369	10,818
Infosys Technologies	2,500	574	29.6	4.1	12.5	58,800	61,228	68,870	71,950	75,371	87,670	216,930	228,030	267,767
Mindtree	650	41	(50.5)	196.0	27.9	496	1,613	2,064	3,309	2,354	3,043	12,375	12,647	14,515
Mphasis BFL	450	208	15.7	192.6	1.8	2,954	8,644	8,802	3,868	11,407	12,095	19,065	42,525	49,370
Patni Computer Systems	320	129	(19.3)	26.1	8.6	3,636	4,347	4,722	5,188	6,381	6,229	31,633	31,826	33,184
Polaris Software Lab	80	99	76.0	5.4	(6.4)	1,294	1,364	1,278	2,335	1,878	1,778	13,779	13,228	13,890
TCS	600	1,957	3.1	17.8	13.3	51,753	60,989	69,115	71,781	79,949	89,949	278,129	293,309	334,205
Wipro	630	1,462	15.8	9.1	17.7	37,635	41,074	48,332	50,559	55,285	63,705	254,564	265,123	309,032
Technology			***15.3***	***13.4***	***14.4***	***170,151***	***192,935***	***220,812***	***233,053***	***259,851***	***292,462***	***944,296***	***1,016,770***	***1,164,901***
KS universe (b)			***2.0***	***16.4***	***18.1***									

Note
(a) HCL Technologies is June fiscal year-ending
(b) Patni Computers Systems and Hexaware Technologies are December year-ending.

Source: Source: Company reports, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	15-Sep-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	39	ADD	52,415	1,078	1,330	1.5	2.3	2.4	(57.8)	50.3	5.8	25.8	17.1	16.2	14.9	9.6	7.9	1.4	1.4	1.3	2.5	2.5	2.5	6.2	8.1	8.2	37	(6.1)	4.2
Bajaj Auto	1,367	ADD	197,724	4,065	145	45.2	85.0	100.9	(13.4)	87.9	18.7	30.2	16.1	13.5	16.1	9.5	8.4	10.6	7.3	5.2	1.5	1.5	1.5	37.7	53.1	44.0	1,260	(7.8)	6.0
Hero Honda	1,616	REDUCE	322,645	6,633	200	64.2	87.5	94.9	32.5	36.3	8.5	25.2	18.5	17.0	14.9	11.1	9.8	8.2	6.3	5.0	1.2	1.4	1.4	36.6	38.7	32.6	1,330	(17.7)	19.9
Maruti Suzuki	1,500	SELL	433,500	8,912	289	42.2	73.3	77.3	(29.6)	73.8	5.5	35.6	20.5	19.4	21.5	11.5	10.3	4.6	3.8	3.2	0.2	0.3	0.3	13.5	20.2	17.8	1,160	(22.7)	26.3
Tata Motors	569	SELL	316,566	6,508	556	20.8	28.9	31.3	(58.3)	39.1	8.4	27.4	19.7	18.2	17.0	11.1	10.3	2.4	2.2	1.9	1.0	1.0	1.0	9.1	11.5	11.2	350	(38.5)	66.3
Automobiles		**Cautious**	**1,568,319**	**32,243**					**(24.8)**	**63.9**	**8.4**	**30.2**	**18.5**	**17.0**	**17.6**	**10.9**	**9.8**	**4.2**	**3.5**	**3.0**	**1.0**	**1.0**	**1.0**	**13.9**	**18.8**	**17.4**			
Banks/Financial Institutions																													
Andhra Bank	103	BUY	49,810	1,024	485	13.5	13.3	15.2	13.5	(1.5)	14.4	7.6	7.7	6.8	—	—	—	1.4	1.2	1.1	4.4	3.2	3.7	18.9	16.6	16.9	105	2.2	1.4
Axis Bank	910	BUY	326,569	6,714	359	50.6	59.1	68.2	56.9	16.8	15.6	18.0	15.4	13.3	—	—	—	3.2	2.8	2.4	1.1	1.3	1.5	19.1	19.2	19.2	850	(6.6)	63.7
Bank of Baroda	486	ADD	177,665	3,653	366	60.9	60.9	62.1	55.1	0.0	1.9	8.0	8.0	7.8	—	—	—	1.6	1.4	1.2	1.9	1.9	1.9	18.7	16.3	14.7	480	(1.2)	6.3
Bank of India	394	ADD	207,000	4,256	526	57.2	51.5	56.2	40.7	(9.9)	9.1	6.9	7.6	7.0	—	—	—	1.8	1.5	1.3	2.0	1.8	2.0	29.2	21.0	19.3	370	(6.0)	14.3
Canara Bank	315	ADD	129,273	2,658	410	50.5	46.0	53.6	32.4	(8.9)	16.3	6.2	6.8	5.9	—	—	—	1.3	1.1	1.0	2.5	2.5	3.2	18.3	14.6	15.1	325	3.1	4.4
Corporation Bank	403	BUY	57,770	1,188	143	62.3	58.0	57.1	21.5	(6.8)	(1.6)	6.5	6.9	7.1	—	—	—	1.2	1.0	0.9	3.1	2.9	2.8	19.6	16.0	14.0	420	4.3	0.7
Federal Bank	245	BUY	41,843	860	171	27.8	34.3	39.9	(19.2)	23.6	16.1	8.8	7.1	6.1	—	—	—	1.0	0.9	0.8	2.1	2.6	3.0	11.5	12.9	13.5	320	30.8	2.8
HDFC	2,556	ADD	727,012	14,947	284	80.2	101.4	117.5	(6.4)	26.4	15.9	31.9	25.2	21.7	—	—	—	5.5	5.0	4.4	1.2	1.4	1.6	18.2	20.4	20.9	2,450	(4.1)	50.8
HDFC Bank	1,514	REDUCE	684,530	14,073	452	52.8	63.3	73.5	17.6	20.0	16.0	28.7	23.9	20.6	—	—	—	4.5	3.2	2.9	0.6	0.8	0.9	16.9	15.8	14.7	1,430	(5.6)	36.6
ICICI Bank	844	REDUCE	940,062	19,327	1,113	33.8	34.3	40.4	(15.4)	1.7	17.6	25.0	24.6	20.9	—	—	—	1.9	1.8	1.7	1.3	1.3	1.6	7.8	7.5	8.4	685	(18.9)	144.7
IDFC	145	ADD	188,074	3,867	1,295	5.8	7.7	8.7	1.9	33.9	12.6	25.1	18.7	16.6	—	—	—	3.0	2.7	2.4	0.8	0.9	1.0	12.9	15.4	15.3	120	(17.4)	38.3
India Infoline	137	ADD	42,639	877	312	5.1	7.7	8.2	(8.7)	50.5	7.3	26.8	17.8	16.6	—	—	—	3.5	2.8	2.4	1.9	2.4	2.8	11.9	17.5	17.2	145	6.0	17.6
Indian Bank	163	BUY	70,095	1,441	430	28.0	27.6	30.2	24.1	(1.4)	9.7	5.8	5.9	5.4	—	—	—	1.3	1.1	0.9	3.1	2.9	3.2	22.9	19.2	18.2	185	13.4	2.4
Indian Overseas Bank	106	BUY	57,613	1,184	545	24.3	19.7	25.4	10.3	(18.9)	28.6	4.3	5.4	4.2	—	—	—	1.0	0.8	0.7	5.0	3.5	3.9	22.1	14.2	16.1	140	32.4	3.1
J&K Bank	616	BUY	29,857	614	48	84.5	86.6	96.3	13.8	2.4	11.2	7.3	7.1	6.4	—	—	—	1.3	1.2	1.1	2.7	2.8	3.1	16.7	15.1	14.9	550	(10.7)	1.1
Mahindra & Mahindra Financial	225	ADD	21,576	444	96	22.4	26.7	28.8	7.5	19.0	8.1	10.1	8.5	7.8	—	—	—	1.5	1.3	1.2	2.4	3.0	3.2	15.4	16.4	15.8	270	19.8	0.3
Oriental Bank of Commerce	232	REDUCE	58,063	1,194	251	36.1	29.1	31.5	51.4	(19.4)	8.3	6.4	8.0	7.3	—	—	—	1.1	1.1	1.1	3.1	2.5	2.7	13.7	9.6	9.7	190	(18.0)	3.6
PFC	225	SELL	258,018	5,305	1,148	13.0	18.0	20.0	14.3	38.6	11.1	17.3	12.5	11.2	—	—	—	2.3	2.1	1.9	1.2	2.4	2.7	13.8	17.3	17.2	185	(17.7)	5.1
Punjab National Bank	746	BUY	235,216	4,836	315	98.0	100.7	115.2	50.9	2.7	14.4	7.6	7.4	6.5	—	—	—	1.8	1.5	1.3	2.6	2.7	3.1	23.0	20.3	20.1	800	7.2	13.8
Reliance Capital	916	ADD	225,519	4,637	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	23.3	31.6	31.7	—	—	—	3.4	3.1	2.9	0.6	0.5	0.5	15.3	10.2	9.3	875	(4.5)	126.8
Rural Electrification Corp.	203	ADD	174,553	3,589	859	16.5	19.6	21.3	50.7	19.1	8.8	12.4	10.4	9.5	—	—	—	2.4	2.1	1.8	1.0	1.8	1.9	21.2	21.5	19.9	190	(6.5)	6.7
Shriram Transport	374	ADD	79,084	1,626	212	30.1	32.5	36.9	56.8	7.9	13.7	12.4	11.5	10.1	—	—	—	3.6	3.1	2.6	2.3	2.6	3.0	29.6	27.0	25.8	350	(6.4)	3.0
SREI	76	ADD	8,838	182	116	7.0	7.5	6.8	(38.4)	6.1	(9.5)	10.8	10.2	11.2	—	—	—	0.9	0.7	0.7	1.3	1.6	1.6	12.5	10.3	10.2	90	18.4	3.5
State Bank of India	2,008	BUY	1,274,871	26,210	635	143.7	129.8	149.1	34.8	(9.6)	14.9	14.0	15.5	13.5	—	—	—	2.2	2.0	1.8	1.4	1.5	1.6	17.1	13.5	14.0	1,870	(6.9)	89.0
Union Bank	238	BUY	120,067	2,468	505	34.2	32.4	35.4	24.5	(5.1)	9.2	7.0	7.3	6.7	—	—	—	1.7	1.4	1.2	2.1	2.0	2.2	27.2	21.2	19.5	280	17.8	5.3
Banks/Financial Institutions		**Attractive**	**6,242,847**	**128,348**					**26.7**	**2.2**	**13.1**	**14.4**	**14.1**	**12.4**	**—**	**—**	**—**	**2.3**	**2.0**	**1.8**	**1.5**	**1.6**	**1.8**	**16.1**	**14.5**	**14.6**			
Cement																													
ACC	774	REDUCE	145,466	2,991	188	56.3	74.0	57.1	(12.2)	31.6	(22.8)	13.8	10.5	13.6	6.9	5.3	6.1	2.8	2.3	2.0	3.0	3.0	3.0	24.7	27.1	18.4	875	13.0	12.9
Ambuja Cements	99	REDUCE	150,563	3,095	1,522	7.2	7.9	6.6	(5.0)	10.2	(16.8)	13.8	12.5	15.0	7.4	6.9	7.7	2.5	2.2	2.0	3.0	1.9	2.2	19.7	19.1	14.1	85	(14.1)	8.7
Grasim Industries	2,611	REDUCE	239,435	4,923	92	238.6	251.9	266.5	(16.2)	5.6	5.8	10.9	10.4	9.8	6.3	5.1	4.9	2.1	1.8	1.5	1.3	1.3	1.3	21.1	18.4	16.8	2,560	(2.0)	11.3
India Cements	126	ADD	35,445	729	282	17.8	19.4	15.2	n/a	9.1	(21.8)	7.1	6.5	8.3	5.1	4.0	4.5	0.9	0.8	0.8	1.4	1.7	2.5	14.8	14.6	10.4	155	23.5	7.9
Shree Cement	1,495	BUY	52,076	1,071	35	174.7	209.9	195.6	93.7	20.1	(6.8)	8.6	7.1	7.6	5.8	4.1	3.7	4.3	2.6	2.0	0.7	0.7	0.7	65.7	46.0	29.4	2,000	33.8	0.7
UltraTech Cement	730	BUY	90,921	1,869	124	78.8	90.2	73.8	(3.1)	14.5	(18.2)	9.3	8.1	9.9	5.6	4.3	4.8	2.1	1.7	1.5	0.8	1.1	1.1	31.1	27.3	18.3	900	23.2	2.5
Cement		**Neutral**	**713,906**	**14,677**					**(8.0)**	**13.6**	**(10.4)**	**11.1**	**9.8**	**10.9**	**6.3**	**5.1**	**5.3**	**2.2**	**1.9**	**1.6**	**1.9**	**1.7**	**1.8**	**20.0**	**19.0**	**14.9**			
Consumer products																													
Asian Paints	1,374	ADD	131,808	2,710	96	38.6	60.0	69.8	(1.7)	55.5	16.3	35.6	22.9	19.7	21.2	13.8	11.8	11.5	9.3	7.6	1.3	2.0	2.3	36.6	46.8	43.8	1,600	16.4	1.1
Colgate-Palmolive (India)	616	REDUCE	83,819	1,723	136	21.6	28.0	31.0	26.3	29.7	10.7	28.6	22.0	19.9	23.5	18.5	15.5	38.8	35.1	39.0	2.4	3.6	4.5	155.1	167.1	185.2	620	0.6	2.5
GlaxoSmithkline Consumer (a)	1,110	ADD	46,682	960	42	44.8	60.9	68.5	15.8	36.0	12.4	24.8	18.2	16.2	14.1	10.6	9.4	6.1	5.1	4.5	1.4	2.0	2.8	26.8	30.7	29.6	1,200	8.1	0.5
Godrej Consumer Products	247	ADD	63,778	1,311	258	6.7	9.6	11.0	(5.3)	43.0	14.9	36.9	25.8	22.5	25.5	16.6	14.3	11.2	6.7	5.7	1.6	1.6	1.6	46.9	32.7	27.6	235	(4.9)	0.8
Hindustan Unilever	260	BUY	565,789	11,632	2,179	9.5	10.6	12.2	19.0	11.1	15.0	27.3	24.5	21.3	20.8	18.3	15.8	27.4	24.6	22.0	3.4	3.7	4.2	112.4	105.9	108.9	320	23.3	23.8
ITC	229	BUY	863,200	17,747	3,769	8.7	10.3	11.8	2.8	19.3	14.3	26.4	22.2	19.4	16.2	13.6	12.0	5.9	5.2	4.5	1.6	1.7	2.0	25.3	26.3	26.0	255	11.3	28.9
Jyothy Laboratories	134	ADD	9,735	200	73	5.5	10.0	12.1	(12.9)	80.6	21.7	24.3	13.4	11.0	16.0	8.5	6.5	2.7	2.3	2.0	1.7	2.2	2.6	10.7	16.8	19.0	145	8.1	
Nestle India (a)	2,234	ADD	215,373	4,428	96	58.6	73.0	85.6	31.0	24.6	17.3	38.1	30.6	26.1	24.3	20.4	17.3	45.5	37.1	30.6	1.9	2.4	2.8	126.7	133.6	128.5	2,400	7.4	1.3
Tata Tea	924	BUY	57,140	1,175	62	57.0	62.8	69.2	5.3	10.1	10.2	16.2	14.7	13.3	8.5	7.7	6.4	1.2	1.1	1.0	1.8	2.0	2.2	9.8	10.1	10.4	900	(2.6)	3.6
Consumer products		**Attractive**	**2,037,325**	**41,886**					**9.9**	**20.5**	**14.5**	**27.8**	**23.1**	**20.2**	**18.1**	**15.0**	**13.0**	**8.1**	**7.1**	**6.3**	**2.1**	**2.4**	**2.8**	**29.3**	**30.8**	**31.0**			
Constructions																													
IVRCL	349	BUY	47,286	972	135	16.7	18.8	22.5	7.4	12.7	19.7	20.9	18.6	15.5	14.5	11.3	9.3	2.6	2.3	2.0	0.2	0.2	0.2	13.2	13.2	13.9	360	3.0	30.3
Punj Lloyd	266	BUY	90,024	1,851	339	(7.2)	16.6	19.6	(172.4)	(330.1)	17.8	(36.8)	16.0	13.6	26.7	8.9	7.8	3.6	2.4	2.1	0.1	0.3	0.3	(8.6)	18.3	16.6	315	18.6	41.9
Sadbhav Engineering	768	BUY	9,604	197	13	50.6	55.6	77.9	25.0	9.8	40.2	15.2	13.8	9.9	10.6	8.0	6.6	2.7	2.3	1.9	0.7	0.8	0.9	18.0	16.8	19.4	830	8.0	0.1
Construction		**Attractive**	**179,834**	**3,697**					**(70.7)**	**385.2**	**20.3**	**82.3**	**17.0**	**14.1**	**17.4**	**9.6**	**8.3**	**2.8**	**2.3**	**2.0**	**0.3**	**0.4**	**0.5**	**3.5**	**13.3**	**14.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	15-Sep-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Energy																													
Bharat Petroleum	570	BUY	186,923	3,843	328	20.6	79.8	65.0	(50.1)	287.1	(18.5)	27.7	7.1	8.8	7.5	5.0	5.4	1.4	1.2	1.1	1.4	6.2	5.0	5.3	18.9	13.8	675	18.4	9.3
Cairn india	259	REDUCE	491,996	10,115	1,897	8.3	25.4	30.2	93	207	18.9	31	10	8.6	15.2	6.9	6.1	1.4	1.4	1.4	—	8—	9.6	4.6	13.6	16.1	225	(13.3)	20.6
Castrol India (a)	474	ADD	58,661	1,206	124	21.3	31.1	32.0	20.8	45.9	3.0	22.3	15.3	14.8	12.7	9.1	8.7	13.1	11.5	10.3	3.2	4.6	4.8	61.2	80.2	73.5	480	1.2	1.1
GAIL (India)	362	ADD	459,507	9,447	1,268	22.2	20.9	22.9	8.7	(5.8)	9.6	16.3	17.4	15.8	8.8	10.0	9.9	2.9	2.6	2.4	1.9	2.2	2.2	17.5	14.7	14.8	355	(2.0)	18.0
GSPL	79	REDUCE	44,601	917	563	2.2	3.5	6.7	21.7	58.3	92.7	36.1	22.8	11.8	12.4	7.3	4.6	3.4	3.0	3.1	0.9	1.5	8.4	9.6	13.9	25.7	65	(18.0)	8.1
Hindustan Petroleum	405	BUY	137,231	2,821	339	17.0	73.1	58.5	(49.3)	330.9	(19.9)	23.9	5.5	6.9	8.3	5.1	NA	1.1	1.0	NA	1.3	7.4	5.9	4.4	17.7	12.8	525	29.7	12.1
Indian Oil Corporation	647	BUY	762,607	15,679	1,179	19.7	101.8	79.3	(67.9)	416.7	(22.1)	32.8	6.4	8.2	8.7	4.4	4.4	1.6	1.4	1.3	1.2	6.2	4.9	4.8	22.6	15.6	800	23.7	9.0
Oil & Natural Gas Corporation	1,145	BUY	2,449,988	50,370	2,139	89.6	115.8	136.4	(3.4)	29.2	17.8	12.8	9.9	8.4	4.6	3.6	2.9	2.1	1.9	1.7	2.8	3.7	4.2	16.6	18.9	19.8	1,400	22.2	53.4
Petronet LNG	75	REDUCE	56,175	1,155	750	6.9	7.2	8.6	—	3.6	19.6	10.8	10.5	8.7	7.7	6.9	5.9	2.5	2.1	1.7	2.3	2.7	3.0	23.9	20.6	20.6	64	(14.6)	6.2
Reliance Industries	2,181	SELL	3,147,039	64,701	1,443	103.4	109.3	158.3	(1.5)	5.7	44.9	21.1	20.0	13.8	13.0	9.3	6.7	2.7	2.4	2.1	0.6	0.7	0.9	15.1	13.7	17.6	1,600	(26.6)	207.1
Reliance Petroleum	135	NR	605,475	12,448	4,500	—	3.1	10.0	n/a	n/a	n/a	n/a	n/a	13.4	n/a	n/a	10.1	4.5	4.4	3.5	—	1.5	1.5	0.6	10.1	29.0	—	—	17.3
Energy		**Attractive**	**8,400,203**	**172,702**					**(7.8)**	**58.6**	**18.8**	**19.1**	**12.0**	**10.1**	**8.8**	**6.1**	**5.1**	**2.2**	**2.0**	**1.8**	**1.4**	**2.9**	**3.1**	**11.7**	**16.7**	**17.7**			
Industrials																													
ABB	765	REDUCE	162,089	3,332	212	25.8	23.3	30.0	11.3	(9.8)	28.6	29.6	32.8	25.5	17.6	18.5	14.2	7.6	6.4	5.3	0.3	0.4	0.4	29.2	21.3	22.7	660	(13.7)	7.2
BGR Energy Systems	462	ADD	33,296	685	72	16.0	26.0	35.3	32.2	62.3	35.8	28.8	17.8	13.1	16.4	10.5	8.4	5.9	4.7	3.6	0.6	1.0	1.3	22.3	29.4	31.2	530	14.6	2.9
Bharat Electronics	1,380	ADD	110,368	2,269	80	103.8	115.1	125.7	1.8	10.9	9.1	13.3	12.0	11.0	6.4	5.2	4.5	2.8	2.4	2.0	1.4	1.8	1.8	20.7	21.6	20.1	1,500	8.7	2.8
Bharat Heavy Electricals	2,269	ADD	1,110,550	22,832	490	63.9	93.3	115.2	9.4	46.1	23.4	35.5	24.3	19.7	19.4	13.6	10.8	8.6	6.8	5.4	0.7	0.9	1.1	26.4	31.2	30.5	2,425	6.9	47.1
Crompton Greaves	318	ADD	116,450	2,394	367	15.3	17.7	20.3	37.3	15.3	15.0	20.7	17.9	15.6	11.0	9.6	8.2	6.4	4.9	3.9	0.6	0.7	0.8	35.9	30.8	27.6	315	(0.8)	4.5
Larsen & Toubro	1,630	ADD	960,916	19,756	590	50.1	62.1	78.4	32.1	24.0	26.1	32.5	26.2	20.8	20.5	15.1	12.4	6.3	4.7	3.8	0.6	0.7	0.7	21.7	20.5	20.4	1,725	5.9	85.8
Maharashtra Seamless	313	BUY	22,097	454	71	35.9	33.0	35.3	22.2	(7.9)	6.9	8.7	9.5	8.9	5.2	5.4	4.7	1.6	1.4	1.3	1.7	1.6	2.0	20.3	16.0	15.0	285	(9.0)	0.9
Siemens	533	ADD	179,824	3,697	337	14.2	22.8	22.7	(22.2)	61.0	(0.5)	37.6	23.4	23.5	18.0	13.5	13.7	8.0	6.6	5.4	0.6	1.4	0.8	23.3	30.8	25.2	515	(3.4)	6.5
Suzlon Energy	98	ADD	164,100	3,374	1,678	7.4	3.9	6.1	12.8	(47.2)	54.7	13.2	25.0	16.2	10.9	12.3	10.3	1.7	1.4	1.3	—	—	0.2	12.5	6.2	8.3	110	12.5	138.7
Industrials		**Neutral**	**2,859,691**	**58,793**					**13.5**	**22.2**	**23.2**	**28.8**	**23.6**	**19.1**	**16.6**	**13.2**	**10.9**	**5.8**	**4.5**	**3.8**	**0.7**	**0.8**	**0.9**	**20.0**	**19.2**	**19.7**			
Infrastructure																													
GMR Infrastructure	137	ADD	251,947	5,180	1,834	1.5	0.9	0.9	33.0	(38.3)	(6.8)	89.5	145.0	155.5	31.3	22.7	16.8	3.0	2.5	2.3	—	—	—	4.4	2.6	2.4	135	(1.7)	25.6
GVK Power & Infrastructure	48	BUY	75,723	1,557	1,579	0.8	0.8	1.0	(20.6)	3.7	31.1	62.9	60.6	46.2	55.5	18.3	16.9	3.3	2.4	2.3	—	—	0.6	4.8	4.6	5.1	50	4.3	19.4
IRB Infrastructure	208	ADD	69,115	1,421	332	5.3	10.6	13.5	54.3	101.2	27.0	39.3	19.5	15.4	20.3	10.5	9.6	3.8	3.1	2.5	0.6	—	—	10.1	17.3	18.0	200	(3.8)	9.9
Infrastructure		**Attractive**	**396,786**	**8,158**					**22.5**	**16.0**	**18.8**	**70.5**	**60.8**	**51.2**	**31.3**	**18.0**	**14.6**	**3.2**	**2.6**	**2.4**	**0.1**	**—**	**0.1**	**4.5**	**4.2**	**4.6**			
Media																													
DishTV	44	REDUCE	42,019	864	946	(6.6)	(3.3)	(1.5)	n/a	(49.1)	(53.9)	(6.8)	(13.3)	(28.8)	(38.4)	53.9	16.1	(6.7)	(39.7)	(16.7)	—	—	—	83.9	86.7	NA	35	(21.2)	11.0
HT Media	132	ADD	31,079	639	235	0.8	5.0	6.6	(80.5)	489.0	32.0	156.6	26.6	20.1	35.3	13.1	10.5	3.6	3.3	3.0	0.2	0.8	1.5	2.3	13.0	15.7	125	(5.5)	0.3
Jagran Prakashan	104	ADD	31,277	643	301	3.0	5.1	6.0	(6.6)	66.7	17.5	34.1	20.5	17.4	19.3	11.9	9.9	5.6	5.2	4.7	1.9	2.9	3.2	16.7	26.2	28.2	110	5.9	1.3
Sun TV Network	293	REDUCE	115,308	2,371	394	9.1	11.3	13.3	9.3	24.4	18.4	32.3	26.0	22.0	17.0	14.5	12.1	6.6	5.8	5.2	0.9	1.4	2.1	22.5	24.0	24.9	235	(19.7)	2.3
Zee Entertainment Enterprises	211	REDUCE	91,661	1,884	434	8.4	10.1	12.3	(4.8)	19.6	21.9	25.0	20.9	17.1	17.4	14.8	11.9	2.6	2.4	2.2	0.9	1.1	1.4	11.8	12.4	13.9	175	(17.1)	7.1
Zee News	46	ADD	11,005	226	240	1.9	2.2	2.7	21.3	14.7	23.4	24.5	21.3	17.3	12.5	10.2	8.6	4.5	3.8	3.3	0.9	0.9	1.3	20.1	19.6	20.7	45	(2.0)	0.8
Media		**Neutral**	**322,348**	**6,627**					**(21.4)**	**110.7**	**47.7**	**76.5**	**36.3**	**24.6**	**23.6**	**15.6**	**11.9**	**5.1**	**4.3**	**4.0**	**0.8**	**1.2**	**1.6**	**6.7**	**11.8**	**16.1**			
Metals																													
Hindalco Industries	125	BUY	219,427	4,511	1,753	2.8	3.5	11.1	(77.9)	25.5	218.4	45.2	36.0	11.3	12.8	9.4	7.3	0.6	0.6	0.6	—	—	—	10.3	5.2	6.5	135	7.8	29.2
National Aluminium Co.	339	SELL	218,550	4,493	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	17.2	24.8	16.6	8.8	9.4	6.4	2.1	1.9	1.8	1.0	0.6	0.6	12.7	8.1	11.1	290	(14.5)	3.0
Jindal Steel and Power	617	SELL	94,963	1,952	154	198.0	247.1	236.4	139.3	24.8	(4.3)	3.1	2.5	2.6	2.9	2.1	1.6	1.3	0.8	0.6	1—	1.0	1.0	51.9	40.3	27.6	2,150	248.6	66.7
JSW Steel	767	SELL	143,550	2,951	187	13.1	36.8	65.9	(84.7)	180.1	79.1	58.4	20.8	11.6	10.3	9.7	7.3	1.6	1.3	1.2	0.1	0.4	0.7	11.7	5.1	10.7	440	(42.7)	46.7
Hindustan Zinc	838	BUY	353,892	7,276	423	64.6	57.3	74.1	(38.0)	(11.2)	29.3	13.0	14.6	11.3	9.0	9.1	6.2	2.4	2.0	1.7	0.5	0.6	0.6	20.1	15.1	16.7	825	(1.5)	6.5
Sesa Goa	262	BUY	206,414	4,244	787	25.1	25.5	34.2	32.6	1.3	34.3	10.4	10.3	7.7	7.0	6.5	4.2	4.5	3.3	2.4	1.3	1.3	1.3	53.3	36.9	35.9	240	(8.5)	52.6
Sterlite Industries	745	REDUCE	626,294	12,876	840	49.2	29.8	38.0	(23.6)	(39.3)	27.2	15.2	25.0	19.6	11.1	11.2	8.4	2.4	1.7	1.6	—	—	—	14.3	8.1	8.4	550	(26.2)	67.3
Tata Steel	492	BUY	437,000	8,984	887	110.1	38.7	74.2	45.3	(64.8)	91.9	4.5	12.7	6.6	5.3	7.9	5.9	1.5	1.4	1.2	2.9	1.6	1.6	24.0	11.0	18.8	480	(2.5)	139.9
Metals		**Cautious**	**2,300,091**	**47,288**					**(0.8)**	**(30.0)**	**46.8**	**10.0**	**14.2**	**9.7**	**7.2**	**7.7**	**5.9**	**1.7**	**1.4**	**1.2**	**0.9**	**0.6**	**0.7**	**16.8**	**9.9**	**12.8**			
Pharmaceutical																													
Biocon	239	BUY	47,840	984	200	4.7	14.4	18.6	(79.9)	206.8	29.3	51.0	16.6	12.9	20.5	9.6	7.6	3.1	2.7	2.3	0.0	0.0	0.1	6.2	17.8	20.0	270	12.9	5.1
Dishman Pharma & chemicals	208	BUY	16,954	349	81	18.0	21.2	27.3	22.1	17.9	28.7	11.6	9.8	7.6	9.3	7.4	5.8	2.4	2.0	1.6	0.0	0.0	0.0	22.8	21.9	22.9	280	34.3	0.8
Divi's Laboratories	514	BUY	33,198	683	65	31.9	36.8	43.3	19.9	15.2	17.7	16.1	14.0	11.9	6.3	4.9	3.7	5.6	4.2	3.3	0.0	0.1	0.1	40.4	34.4	31.1	565	9.9	3.4
Dr Reddy's Laboratories	829	BUY	140,345	2,885	169	32.4	49.3	52.5	24.3	52.2	6.4	25.6	16.8	15.8	11.0	8.8	7.9	4.0	3.3	2.8	0.8	0.8	1.0	13.6	21.4	19.2	860	3.8	7.1
GlaxoSmithkline Pharmaceuticals (a)	1,464	ADD	124,026	2,550	85	54.6	59.7	66.1	13.8	9.3	10.6	26.8	24.5	22.2	14.9	13.5	11.9	7.9	6.7	5.8	-	-	-	31.3	29.5	27.9	1,450	(1.0)	0.9
Glenmark Pharmaceuticals	217	NR	57,650	1,185	266	11.1	11.6	15.7	(57.0)	4.2	35.1	19.5	18.7	13.9	11.8	11.2	8.9	2.8	2.4	2.1	0.0	0.0	0.0	15.9	13.8	16.2	-	(100.0)	12.0
Jubilant Organosys	242	BUY	41,303	849	171	16.6	24.5	32.9	(26.1)	48.2	34.2	14.6	9.8	7.3	14.3	9.0	7.2	3.2	2.5	2.0	0.5	0.5	0.7	16.2	28.7	30.8	250	3.5	0.7
Lupin	1,080	BUY	95,709	1,968	89	60.2	67.1	72.3	21.0	11.4	7.8	17.9	16.1	14.9	16.5	13.5	11.6	6.7	4.3	3.5	1.1	1.2	1.3	37.1	32.9	26.1	1,180	9.2	3.8
Piramal Healthcare	334	BUY	69,764	1,434	209	17.3	22.1	28.5	(1.9)	28.0	29.0	19.3	15.1	11.7	13.9	10.0	8.1	5.3	4.1	3.2	1.3	1.3	1.3	26.2	30.9	31.1	390	16.8	2.0
Ranbaxy Laboratories	344	REDUCE	146,741	3,017	427	(8.1)	4.7	5.1	(134.7)	(158.6)	6.6	(42.5)	NA	68.0	(195.6)	24.8	27.0	3.5	3.5	3.5	-	1.2	1.2	(9.6)	4.9	5.3	165	(52.0)	13.0
Sun Pharmaceuticals	1,219	ADD	252,485	5,191	207	87.8	47.6	64.2	17.6	(45.8)	34.9	13.9	25.6	19.0	10.4	17.6	12.5	3.7	3.4	2.9	1.1	1.1	1.1	31.6	14.3	17.1	1,250	2.5	15.4
Pharmaceuticals		**Attractive**	**1,232,037**	**25,330**					**(17.6)**	**18.6**	**22.0**	**23.4**	**19.7**	**16.1**	**15.1**	**12.4**	**10.3**	**4.1**	**3.5**	**3.0**	**0.6**	**0.8**	**0.8**	**17.6**	**17.8**	**18.6**			
Property																													
DLF	413	SELL	701,179	14,416	1,699	29.3	14.7	17.5	(36.6)	(49.8)	19.2	14.1	28.1	23.6	13.9	20.0	17.1	2.9	2.6	2.4	0.7	0.7	1.0	22.5	9.8	10.8	320	(22.5)	136.3
Housing Development & Infrastructure	310	ADD	107,241	2,205	345	26.0	12.0	23.3	(49.2)	(53.9)	94.8	12.0	25.9	13.3	13.9	21.9	8.2	2.4	1.6	1.3	—	1.0	1.7	22.4	9.3	14.9	295	NA	106.5
Indiabulls Real Estate	266	ADD	106,546	2,191	401	3.0	3.1	7.5	(81.8)	3.8	141.1	88.5	85.3	35.4	(290)	80.7	19.5	1.6	1.2	1.1	—	—	—	1.3	1.6	3.2	235	(11.5)	57.9
Mahindra Life Space Developer	363	BUY	15,272	314	42	10.4	10.8	15.4	(38.5)	4.1	42.5	35.1	33.7	23.7	54.0	32.7	17.1	1.7	1.7	1.6	1.1	1.1	1.1	4.8	4.9	6.7	410	12.9	1.0
Phoenix Mills	182	BUY	26,289	540	145	5.2	6.0	8.5	63.1	15.8	41.3	35.1	30.3	21.5	40.0	22.5	15.4	1.8	1.7	1.6	0.6	0.6	0.8	5.1	5.7	7.6	210	15.7	0.8
Puravankara Projects	118	REDUCE	25,195	518	213	6.8	7.0	7.4	(39.8)	3.6	6.0	17.4	16.8	15.9	24.2	18.7	15.3	1.9	1.8	1.6	—	1.7	1.7	11.5	10.8	10.7	85	(28.0)	2.3
Sobha	248	ADD	24,290	499	98	15.1	14.3	16.1	(52.3)	(5.6)	12.5	16.4	17.3	15.4	15.6	12.5	11.6	2.2	1.4	1.3	1.2	1.6	1.6	10.4	9.8	8.8	215	(13.2)	2.3
Unitech	111	SELL	265,262	5,454	2,389	7.7	4.4	4.6	(25.7)	(42.8)	3.7	14.5	25.3	24.4	18.5	18.6	17.1	5.5	2.6	2.3	—	—	—	29.5	13.2	10.1	60	(46.0)	162.3
Property		**Neutral**	**1,271,275**	**26,136**					**(36.3)**	**(39.9)**	**31.0**	**16.7**	**27.8**	**21.3**	**16.2**	**20.3**	**15.5**	**2.8**	**2.2**	**2.0**	**0.5**	**0.6**	**0.8**	**16.7**	**7.8**	**9.4**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

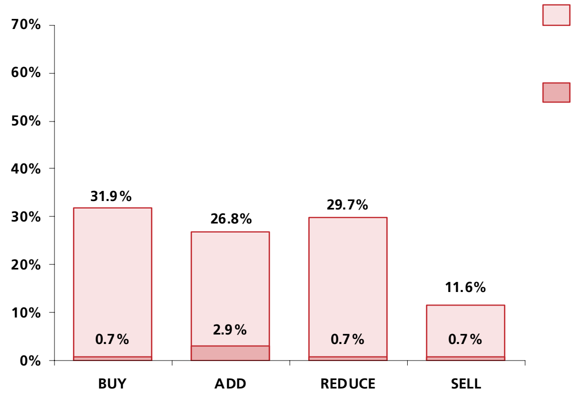
Company	15-Sep-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	1,255	REDUCE	55,713	1,145	44	44.3	49.4	58.7	26.4	11.6	18.7	28.3	25.4	21.4	17.1	15.6	13.0	9.7	7.4	5.9	0.8	0.8	1.0	37.5	33.1	30.6	1,040	(17.1)	1.8
Retail		**Neutral**	**55,713**	**1,145**					**26.4**	**11.6**	**18.7**	**28.3**	**25.4**	**21.4**	**17.1**	**15.6**	**13.0**	**9.7**	**7.4**	**5.9**	**0.8**	**0.8**	**1.0**	**34.1**	**29.3**	**27.4**			
Technology																													
HCL Technologies	314	REDUCE	218,404	4,490	695	17.5	16.7	22.8	14.5	(4.6)	36.5	18.0	18.8	13.8	10.1	9.3	8.6	3.8	3.3	2.8	3.8	3.8	3.8	20.9	19.0	22.3	275	(12.5)	8.7
Infosys Technologies	2,271	BUY	1,303,296	26,795	574	102.4	106.7	120.0	29.6	4.1	12.5	22.2	21.3	18.9	16.6	15.3	12.7	7.1	5.8	4.8	1.0	1.1	1.5	36.7	30.0	27.6	2,500	10.1	63.2
Mphasis BFL	600	REDUCE	125,125	2,572	208	14.2	41.5	42.2	15.7	192.6	1.8	42.4	14.5	14.2	32.2	10.6	9.4	8.7	5.7	4.2	0.7	0.7	0.8	22.8	47.7	34.2	450	(25.0)	12.7
Mindtree	602	BUY	24,772	509	41	13.2	39.2	50.1	(50.5)	196.0	27.9	45.5	15.4	12.0	7.8	10.7	7.8	4.5	3.4	2.7	0.3	—	0.8	5.5	25.3	25.1	650	8.0	4.5
Patni Computer Systems	416	REDUCE	53,445	1,099	129	26.8	33.8	36.7	(19.3)	26.1	8.6	15.5	12.3	11.3	7.7	5.8	5.6	2.1	1.7	1.6	0.4	1.6	1.8	16.2	14.8	14.6	320	(23.0)	7.6
Polaris Software Lab	148	SELL	14,647	301	99	13.1	13.8	12.9	76.0	5.4	(6.4)	11.3	10.7	11.5	4.8	5.8	6.1	1.9	1.7	1.5	1.9	1.3	1.3	18.1	16.4	13.6	80	(46.1)	4.1
TCS	572	ADD	1,119,323	23,012	1,957	26.4	31.2	35.3	3.1	17.8	13.3	21.6	18.4	16.2	15.1	13.1	11.3	7.2	5.7	4.8	1.2	1.6	2.5	36.9	34.6	32.2	600	4.9	41.8
Wipro	559	ADD	817,916	16,816	1,462	25.7	28.1	33.1	15.8	9.1	17.7	21.7	19.9	16.9	16.0	14.1	11.8	5.4	4.4	3.7	0.7	1.4	1.7	26.9	24.5	23.8	630	12.6	15.2
Technology		**Neutral**	**3,688,484**	**75,832**					**15.3**	**13.4**	**14.4**	**21.7**	**19.1**	**16.7**	**15.1**	**13.1**	**11.3**	**6.1**	**4.9**	**4.1**	**1.2**	**1.5**	**2.0**	**28.1**	**25.7**	**24.7**			
Telecom																													
Bharti Airtel	416	ADD	1,578,033	32,443	3,797	22.3	26.9	30.6	26.4	20.5	13.8	18.6	15.4	13.6	10.9	9.2	7.9	5.0	3.8	3.0	0.5	0.7	1.0	31.4	28.0	24.6	425	2.3	64.9
IDEA	75	REDUCE	233,720	4,805	3,104	2.9	3.4	3.6	(26.5)	15.8	7.3	25.9	22.4	20.9	9.6	8.0	7.2	1.7	1.6	1.5	—	—	—	10.4	7.4	8.0	65	(13.7)	15.3
MTNL	93	SELL	58,401	1,201	630	3.1	(4.8)	(3.9)	(57.1)	(256.5)	(18.1)	30.2	(19.3)	(23.6)	11.9	(15.0)	(51.5)	0.5	0.5	0.5	6.5	—	—	1.1	(2.6)	(2.2)	50	(46.1)	3.1
Reliance Communications	300	SELL	619,825	12,743	2,064	27.7	21.2	23.0	4.7	(23.3)	8.3	10.8	14.1	13.1	9.1	8.9	7.0	1.5	1.4	1.2	0.3	—	—	17.0	10.6	10.3	240	(20.1)	58.7
Tata Communications	482	REDUCE	137,413	2,825	285	13.6	14.0	15.2	24.0	3.2	8.2	35.5	34.4	31.8	15.1	13.7	12.7	2.0	1.9	1.9	1.0	1.3	1.6	5.4	5.2	5.5	400	(17.0)	5.6
Telecom		**Cautious**	**2,627,392**	**54,017**					**11.1**	**1.1**	**12.8**	**16.4**	**16.2**	**14.4**	**10.3**	**9.2**	**7.8**	**2.5**	**2.2**	**1.9**	**0.5**	**0.5**	**0.7**	**15.4**	**13.5**	**13.3**			
Transportation																													
Container Corporation	1,103	ADD	143,355	2,947	130	64.4	67.8	80.3	11.6	5.3	18.5	17.1	16.3	13.7	12.4	11.2	9.3	3.8	3.2	2.8	1.3	1.4	1.6	24.0	21.4	21.7	1,125	2.0	1.3
Transportation		**Cautious**	**143,355**	**2,947**					**11.6**	**5.3**	**18.5**	**17.1**	**16.3**	**13.7**	**12.4**	**11.2**	**9.3**	**3.8**	**3.2**	**2.8**	**1.3**	**1.4**	**1.6**	**22.1**	**19.9**	**20.1**			
Utilities																													
CESC	365	ADD	45,608	938	125	32.3	37.9	42.0	16.2	17.4	11.0	11.3	9.6	8.7	6.2	5.7	6.0	1.2	1.1	1.0	1.1	1.3	1.4	11.7	11.9	11.6	365	(0.0)	3.4
Lanco Infratech	426	ADD	94,778	1,949	222	14.5	20.8	36.6	(2.5)	43.8	76.2	29.5	20.5	11.6	24.5	16.5	8.0	4.4	3.4	2.6	—	—	—	16.1	18.7	25.2	440	3.2	27.0
NTPC	210	SELL	1,727,425	35,514	8,245	9.5	10.8	12.2	1.6	14.1	12.6	22.1	19.4	17.2	17.4	14.3	13.6	2.9	2.7	2.5	1.7	1.9	2.2	13.8	14.5	15.0	180	(14.1)	28.9
Reliance Infrastructure	1,204	BUY	272,691	5,606	226	62.7	63.7	68.6	66.7	1.6	7.8	19.2	18.9	17.6	24.1	21.9	17.4	1.6	1.5	1.4	0.6	0.7	0.8	4.9	6.1	7.8	1,250	3.8	90.6
Reliance Power	164	REDUCE	391,989	8,059	2,397	1.0	2.5	3.1	—	141.5	24.4	160.3	66.4	53.4	—	—	—	2.8	2.7	2.6	—	—	—	1.8	4.2	5.0	160	(2.2)	24.2
Tata Power	1,284	ADD	304,937	6,269	237	50.2	74.4	84.1	57.5	48.3	13.0	25.6	17.3	15.3	11.7	11.7	11.2	3.1	2.3	2.1	0.8	0.9	1.1	12.0	15.3	14.4	1,400	9.0	15.4
Utilities		**Attractive**	**2,837,427**	**58,335**					**12.9**	**20.6**	**14.7**	**25.1**	**20.8**	**18.1**	**18.6**	**16.7**	**14.9**	**2.7**	**2.4**	**2.2**	**1.2**	**1.4**	**1.5**	**10.7**	**11.7**	**12.3**			
Others																													
Havells India	322	REDUCE	19,472	400	61	4.9	12.3	19.1	(82)	NA	56.2	NA	26.3	16.8	10.8	8.8	7.7	3.0	3.5	3.0	0.8	0.8	0.8	4.5	12.4	19.3	175	(45.6)	1.2
Jaiprakash Associates	238	REDUCE	333,462	6,856	1,403	3.0	6.7	11.4	(39)	123.8	70.2	79.2	35.4	20.8	25.6	15.5	13.8	6.0	5.1	4.1	—	—	—	8.0	15.5	21.9	220	(7.4)	90.1
Jindal Saw	696	ADD	40,063	824	58	74.3	61.5	61.1	20	(17.2)	(0.7)	9.4	11.3	11.4	6.0	6.4	5.7	1.1	1.0	1.0	0.7	0.6	0.6	11.6	8.9	8.6	470	(32.4)	6.5
PSL	172	BUY	7,476	154	44	22.2	37.6	30.1	5	69.2	(19.8)	7.7	4.6	5.7	4.7	3.8	3.3	1.1	0.9	0.8	2.8	3.7	3.7	11.9	13.4	11.3	160	(6.7)	2.0
Sintex	236	BUY	32,151	661	136	23.8	25.2	27.6	22	5.6	9.6	9.9	9.4	8.5	7.0	6.3	5.4	1.6	1.4	1.2	0.5	0.5	0.5	16.6	15.0	14.2	275	16.7	3.9
Tata Chemicals	265	ADD	64,496	1,326	243	26.6	17.8	26.8	(33)	(33.0)	50.4	10.0	14.8	9.9	6.4	6.6	5.3	1.4	1.3	1.2	3.3	3.3	3.3	17.9	11.0	14.7	260	(1.8)	4.9
Welspun Gujarat Stahl Rohren	256	REDUCE	48,336	994	189	17.3	24.0	17.8	(16)	38.7	(25.8)	14.8	10.6	14.4	8.1	5.9	6.9	2.7	2.1	1.8	0.8	0.6	0.7	17.8	21.7	13.4	145	(43.4)	22.7
United Phosphorus	167	BUY	77,223	1,588	462	10.7	13.9	18.0	28	29.7	29.6	15.6	12.0	9.3	10.3	7.5	5.9	2.6	2.2	1.8	0.7	0.9	1.2	18.1	19.1	20.8	160	(4.3)	5.0
Others			**682,261**	**14,027**					**(8.1)**	**28.1**	**30.2**	**21.8**	**17.1**	**13.1**	**12.1**	**9.8**	**8.9**	**2.9**	**2.5**	**2.1**	**0.6**	**0.6**	**0.6**	**13.2**	**14.7**	**16.3**			
KS universe (b)			**37,231,624**	**765,453**					**2.0**	**16.4**	**18.1**	**18**	**15.8**	**13.4**	**11.8**	**9.5**	**8.1**	**2.8**	**2.4**	**2.2**	**1.2**	**1.6**	**1.8**	**15.3**	**15.4**	**16.1**			
KS universe (b) ex-Energy			**28,831,421**	**592,751**					**5.1**	**4.6**	**17.8**	**18.2**	**17.4**	**14.8**	**13.3**	**11.7**	**10.1**	**3.0**	**2.6**	**2.3**	**1.1**	**1.2**	**1.4**	**16.7**	**14.9**	**15.5**			
KS universe (d) ex-Energy & ex-Commodities			**25,817,423**	**530,786**					**7.0**	**10.4**	**16.0**	**20.0**	**18.1**	**15.7**	**15.7**	**13.2**	**11.4**	**3.3**	**2.8**	**2.5**	**1.1**	**1.3**	**1.5**	**16.6**	**15.7**	**16.0**			

Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 48.64

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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

Kotak Institutional Equities Research coverage universe
Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/6/2009 Kotak Institutional Equities Investment Research had investment ratings on 138 equity securities.

Source: Kotak Institutional Equities   As of June 30, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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

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

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Other definitions

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

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

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

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