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Banks/Financial Institutions: Core earnings strong; lower treasury gains to impact reported net profits

Automobiles: 2Ws and CV sales remain strong in March while Maruti disappointed marginally

News Round-up

- ▶ Reliance Infrastructure's (RELI IN) engineering, procurement and construction division has completed construction of the first 600-Mw unit of Haryana government's Rajiv Gandhi Khedar Thermal Power Plant (RGK-TPP) in Hisar. *(BSTD)*
- ▶ Mahindra & Mahindra (MM IN) has gained 9% market share to stand close to 60% in the utility vehicle (UV) segment during the financial year ended March 31, 2010 on the back of strong demand. *(FNLE)*
- ▶ Indian Oil Corp (IOCL IN) plans to set up a 120,00 tonne styrene butadiene rubber (SBR) manufacturing facility at Panipat in partnership with Taiwan's TSRC Corp and Japan's Marubeni Corporation. *(FNLE)*
- ▶ Patni Computers (PATNI IN) promoters in talks to sell out, Japanese strategic investors, clutch of US tech firms & L&T Infotech among cos. in race. *(ECNT)*
- ▶ ICICI Bank (ICICIB IN) & HDFC Bank (HDFCB IN) in which overseas investors own more than 51% equity, will now be treated as foreign banks, with the govt. having decided finally not to carry out further changes to its new policy on overseas investment. *(ECNT)*
- ▶ Reliance Capital (RCFT IN) is in talks with Swiss Re for a proposed foray into health insurance. *(ECNT)*
- ▶ DLF (DLFU IN) has appointed Goldman Sachs as an advisor as it attempts to find buyers for Aman Resorts, a luxury hotel chain it had acquired for USD 400mn. *(ECNT)*
- ▶ Punj Lloyd (PUNJ IN) will start work on its USD 100mn project to manufacture defence equipment in Madhya Pradesh this fiscal. *(ECNT)*
- ▶ L&T (LT IN) plans to set up a 1,600 Mw power plant in Karnataka. *(BSTD-Sat)*
- ▶ ONGC (ONGC IN) will sell gas from its C-Series field at USD 5.5 per million British thermal unit (mbtu), a 30 % premium over the rate at which Reliance Industries Ltd (RIL IN) sells gas produced from its KG-D6 gas block. *(BSTD-Sat)*
- ▶ ITC Ltd has entered the cigar manufacturing business marking its entry into the most sophisticated form of tobacco consumption. *(BSTD)*

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

EQUITY MARKETS

India	Change %			
	1-Apr	1-day	1-mo	3-mo
Sensex	17,693	0.4	7.8	2.1
Nifty	5,303	0.4	7.7	2.6
Global/Regional indices				
Dow Jones	10,896	0.4	5.5	3.3
Nasdaq Composite	2,404	0.4	7.4	4.9
FTSE	5,711	0.1	6.7	5.8
Nikkie	11,046	0.5	9.1	4.7
Hang Seng	21,231	(0.0)	3.0	(1.2)
KOSPI	1,700	0.5	6.6	1.0
Value traded - India				
Cash (NSE+BSE)	169.7	181.6	178.3	
Derivatives (NSE)	570.5	1,169.8	743	
Deri. open interest	917.2	884	1,260	

Forex/money market

	Change, basis points			
	29-Mar	1-day	1-mo	3-mo
Rs/US\$	44.8	(12)	(127)	(198)
10yr govt bond, %	7.8	(5)	(7)	20
Net investment (US\$m)				
	26-Mar	MTD	CYTD	
FIs	238	3,481	(230)	
MFs	(16)	(688)	(282)	

Top movers -3mo basis

Best performers	Change, %			
	29-Mar	1-day	1-mo	3-mo
MSEZ IN Equity	774.7	4.5	15.0	40.9
SIEM IN Equity	749.2	0.8	9.5	29.3
JSTL IN Equity	1258.9	(2.0)	17.6	24.2
BOB IN Equity	636.8	(0.5)	9.1	23.3
AXSB IN Equity	1199.0	0.5	6.6	22.2
Worst performers				
NMDC IN Equity	285.2	(4.6)	(34.2)	(33.2)
IBREL IN Equity	152.4	(0.4)	(4.9)	(30.8)
HDIL IN Equity	286.2	0.7	(5.3)	(21.7)
SUEL IN Equity	72.7	(0.2)	1.1	(19.0)
DLFU IN Equity	299.0	1.5	0.2	(18.3)

APRIL 05, 2010

UPDATE

BSE-30: 17,693

One more issue to deal with—crude oil. The recent sharp surge in crude oil prices and their possible sustenance at higher levels (despite weak fundamentals) provides one more issue for investors to grapple with. We highlight four unpalatable scenarios— (1) India's unfunded fiscal liability will shoot up 1 ppt (at US\$85/bbl crude price) leading to higher interest rates, (2) CAD will deteriorate significantly, (3) domestic product prices and inflation will be higher or (4) India could let its oil companies close down.

India's fiscal deficit—the best laid plans of men, mice and finance ministry may come to naught

The market's recent euphoria about a 'low' government borrowing program in 1HFY11E at Rs2.87 tn (gross) and Rs2.03 tn (net) may quickly come to naught given the large unfunded subsidy on fuels. We compute gross under-recoveries on selling fuels below market prices at Rs1.06 tn, which is similar to FY2009's Rs1.06 tn. Even assuming that government-owned upstream companies bear one-third of the subsidy losses, the Indian government may have to deal with Rs670 bn of under-recoveries. It has provided Rs32 bn in the budget so far. Without a price increase, we are potentially staring at an additional government borrowing of ~Rs640 bn (about 1% of GDP).

India's CAD—could deteriorate significantly, leading to a twin-deficit problem

We compute India's CAD to shoot up to 3.4% of GDP compared to our current assumption of 2.5% (based on US\$70/bbl crude price). This will likely put significant downward pressure on the rupee and stall its current appreciation. India's BOP position has hitherto been supported by large capital inflows but these are unreliable. India's lack of competitiveness in trade and external vulnerability may be exposed if crude stays above US\$85-90/bbl.

Inflation—could be higher than projected if fuel prices are partially freed

India's inflation could stay above 7.0% even at end-FY2011E if the government eventually raises the product prices of auto fuels. This is in contrast to the consensus view of headline inflation dropping to around 5.0% by end-FY2011E; we expect end-FY2011E inflation at slightly below 6.0% currently. India may have no option but to tackle this new menace with further a tightening of the monetary policy, leading to a higher-than-expected increase in interest rates in FY2011E. We already expect policy rates to move up 200 bps in FY2011E.

Oil companies—they can't save us this time; they have been pillaged enough

India's government-owned oil companies have unfortunately borne the brunt of higher global crude prices with a high share of under-recoveries. However, we note that they are not in a position to insulate the rest of the economy from higher global prices given their relatively small profits compared to under-recoveries at crude prices above US\$80/bbl. India's government-owned E&P companies produce only 28 mn tons of crude oil annually compared to 95 mn tons of likely consumption of auto and cooking fuels in FY2011E.

QUICK NUMBERS

- **Additional deficit and government borrowing = ~1 ppt of GDP**
- **CAD to slip to 3.4% of GDP at SU\$85/bbl crude price from 2.5% at US\$70/bbl**
- **End-FY2011E inflation at above 7% if auto fuel prices deregulated**

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Whichever way you look at it, high crude prices are bad for India

We discuss key implications of higher crude prices on India's economy with an emphasis on (1) fiscal deficit and government borrowing program. (2) CAD and BOP and (3) inflation.

- ▶ **Higher fiscal deficit of 1 ppt likely if crude sustains at US\$85/bbl through FY2011E.** We compute India's fiscal deficit increasing by 1 ppt of GDP or around Rs700 bn if global crude prices average US\$85/bbl through FY2011E and the government does not allow the government-owned companies to increase fuel prices. We compute gross under-recoveries on selling cooking and auto fuels below market prices at Rs1.06 tn (see Exhibit 1). We believe government-owned upstream companies can, at best, bear 30-33% of gross under-recoveries. OIL and ONGC sell about 28 mn tons of crude oil compared to FY2011E consumption of auto and cooking fuels of around 95 mn tons.

Exhibit 1: Under-recoveries can spurt sharply if crude oil price continues above US\$80/bbl
Share of under-recoveries across various stakeholders, March fiscal year-ends, 2007-11E (Rs bn)

	2007	2008	2009	2010E	2011E		
Dated Brent crude oil price (US\$/bbl)	65	79	89	67	70	80	85
Gross under-recoveries	521	798	1,061	491	426	870	1,055
Direct budgetary support	27	27	29	30	32	32	32
Payment by government (oil bonds/cash)	241	353	713	120	—	—	—
Share of BPCL	53	86	162	24	—	—	—
Share of HPCL	49	77	147	25	—	—	—
Share of IOCL	138	190	404	71	—	—	—
Net under-recovery of oil companies	253	418	319	341	394	838	1,023
Share of refining companies	—	—	—	—	—	—	—
Share of upstream companies	205	257	329	136	142	290	352
Share of ONGC	170	220	282	104	112	230	278
Share of GAIL	15	14	18	14	15	31	37
Share of Oil India	20	23	29	15	15	30	36
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	48	161	(10)	206	252	548	672

Source: Kotak Institutional Equities estimates

The government may either let the companies set prices for auto fuels or may allow the oil companies to bear a large chunk of the under-recoveries. We note that the first option will result in higher fuel prices and inflation. The second is no longer an option—oil companies cannot simply bear such large under-recoveries without some sort of compensation from the government, whether cash or oil bonds. Both will add to the fiscal deficit, directly or indirectly. Even if the government was to deregulate pricing of auto fuels, it would still have to contend with high under-recoveries on cooking fuels (see Exhibit 2, which gives breakdown of subsidies on auto and cooking fuels at various levels of crude prices).

Exhibit 2: Large under-recoveries to persist even if the government was to deregulate auto fuel prices

Subsidy loss breakdown at various levels of crude oil price, March fiscal year-ends, 2011E (Rs bn)

Dated Brent crude oil price (US\$/bbl)	70	80	85
LPG	203	275	310
Gasoline	80	136	163
Kerosene	187	221	238
Diesel	-	44	239
Auto fuels	36	374	506
Cooking fuels	390	496	548
Total subsidy loss	426	870	1,055

Source: Kotak Institutional Equities estimates

We note that the government has provided for Rs32 bn only in the budget for a subsidy payment on fuels. More important, it had stated that it will compensate the downstream oil companies in the form of cash only from the budget. It had previously given oil bonds as compensation for selling products below market prices. We note that the government may have to borrow significantly higher amounts of funds compared to its current borrowing program to make up for the losses of the oil companies.

- ▶ CAD could rise to 3.4% of GDP under a scenario of US\$85/bbl crude price for FY2011E. We compute India's trade deficit at 10.2% of GDP and CAD at 3.4% of GDP in FY2011E under a scenario of US\$85/bbl crude price for FY2011E (see Exhibit 3). We would still be comfortable with India's BOP position given the likely high capital inflows in FY2011E but the latter would depend on positive global sentiment. Any reversal in capital flows will compound India's weak current account position.

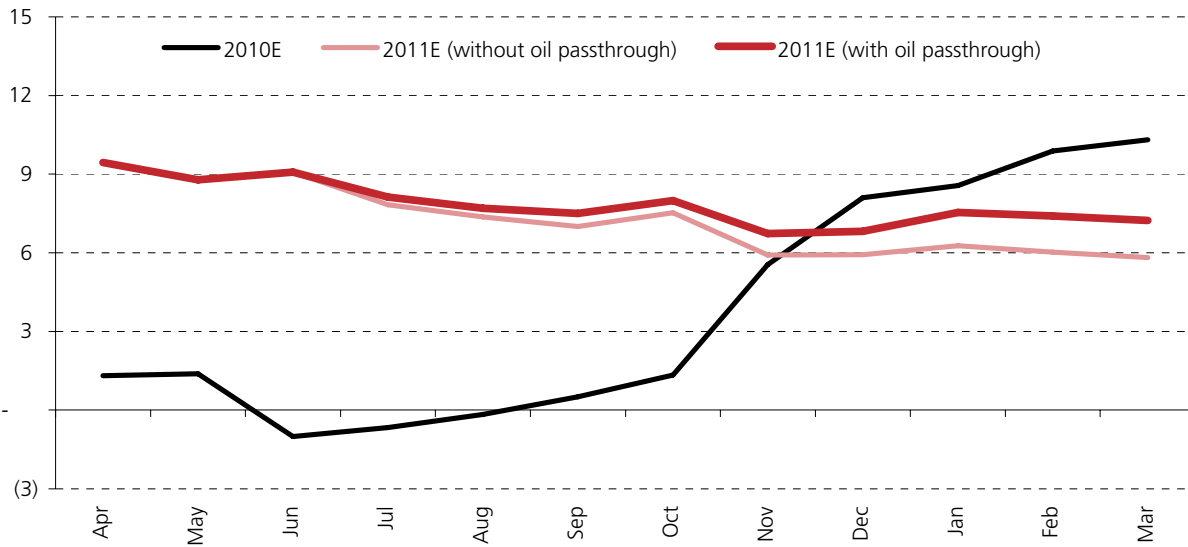
Exhibit 3: CAD/GDP ratio likely to stay wide at over 3.0% in FY2011E if oil averages US\$80/b or more
India's balance of payments, March fiscal year-ends, 2008-2011E (US\$ bn)

	2008	2009	2010E	2011E		
				Crude@70	Crude@80	Crude@85
Current account	(16)	(29)	(41)	(40)	(51)	(52)
GDP	1,229	1,212	1,299	1,607	1,571	1,537
CAD/GDP (% of GDP)	(1.3)	(2.4)	(3.1)	(2.5)	(3.2)	(3.4)
Trade balance	(91)	(119)	(122)	(143)	(155)	(157)
Trade balance (% of GDP)	(7.4)	(9.8)	(9.4)	(8.9)	(9.8)	(10.2)
- Exports	166	189	171	206	205	204
- Imports	258	308	293	349	360	361
o/w Oil imports	80	91	79	92	105	109
o/w Non-oil imports	178	216	214	257	254	252
Invisibles (net)	76	90	81	103	104	105
- Services	39	50	34	50	50	50
o/w Software	37	43	47	50	50	50
- Transfers	42	45	53	58	59	60
- Other invisibles	(5.1)	(4.5)	(6.0)	(5.1)	(5.1)	(5.1)
Capital account	107	7	65	68	63	59
Foreign investment	43	3	55	43	38	34
- FDI	15.9	17.5	22.1	23.5	22.0	21.0
- FII	20.8	(15.2)	28.9	15.0	12.0	9.0
- ADRs/GDRs	6.6	1.2	3.8	4.4	4.2	4.0
Banking capital	11.8	(3.2)	4.3	6.0	6.0	6.0
- NRI deposits	0.2	4.3	3.3	3.8	3.8	3.8
Short-term credit	15.9	(1.9)	5.2	6.5	6.2	6.0
ECBs	22.6	7.9	4.7	8.0	7.9	7.8
External assistance	2.1	2.6	2.1	2.0	2.0	2.4
Other capital account items	10.8	(1.6)	(6.2)	2.5	2.5	2.5
E&O	1.3	1.4	(1.6)	0.0	0.0	0.0
Overall balance	92	(20)	23	28	12	6
Memo items:						
Average exchange rate (Rs/US\$)	40.3	46.0	47.4	44.0	45.0	46.0
Average Indian crude basket price (US\$/bbl)	78.2	84.0	69.9	70.0	80.0	85.0

Source: Reserve Bank of India, Kotak Institutional Equities estimates

- ▶ Inflation could be higher by 1.5 ppts versus expectations if the government allows full deregulation of auto fuel prices; this may be a part of the solution. Exhibit 4 shows that headline inflation could stay above 7.0% in FY2011E (average of 7.9% in FY2011E) if the government was to raise prices of auto fuels to free market prices corresponding to crude price of US\$85/bbl. Street consensus appears to be that inflation may soften to about 5% in FY2011E; we expect slightly below 6.0%.

Exhibit 4: Inflation persistence risks may exacerbate if domestic oil prices are raised to cover under-recoveries
Headline WPI inflation rate (yoy), March fiscal year-ends, 2010-2011E (%)



Source: Government of India, Kotak Institutional Equities estimates

Higher-than-expected inflation would suggest that policy rates may rise by at least 250 bps through FY2011E compared to current street expectations of 100-150 bps. A 250 bps increase in policy rate would peg end-FY2011E reverse repo rate at 6% (versus 3.5% currently).

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RESULT

Coverage view: **Attractive**

Price (Rs): **2,391**

Target price (Rs): **2,500**

BSE-30: **17,693**

Strong execution and inflows, profitability falls slightly short of estimates. BHEL reported strong gross revenues of Rs341 bn and inflows of Rs590 bn in FY2010 flash results, alongside lower-than-expected profitability. However, the audited numbers may be higher—BHEL has made significant positive revisions to flash results in the past. We note the increased traction in private orders which comprise about 90% of announced coal-based orders. Maintain estimates (TP Rs2,500) and our ADD rating.

Company data and valuation summary

Bharat Heavy Electricals

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	2,550-1,447	EPS (Rs)	92.0	115.8	136.2
Market Cap. (Rs bn)	1,170.3	EPS growth (%)	44.1	25.8	17.7
Shareholding pattern (%)		P/E (X)	26.0	20.7	17.6
Promoters	67.7	Sales (Rs bn)	322.8	403.2	485.6
FIs	15.5	Net profits (Rs bn)	45.0	56.7	66.7
MFs	6.1	EBITDA (Rs bn)	61.3	78.9	93.0
Price performance (%)		EV/EBITDA (X)	17.5	13.4	10.9
Absolute	1M 3M 12M	ROE (%)	30.8	30.7	28.9
Rel. to BSE-30	(4.6) (0.9) (8.1)	Div. Yield (%)	0.8	1.0	1.2

Better-than-expected revenues but profitability misses estimates on lower-than-expected margins

- ▶ Gross sales of Rs341 bn marginally better than our estimate of Rs336 bn for FY2010E. PAT of Rs43 bn marginally below estimate of Rs45 bn
- ▶ Order inflow of Rs590 bn for FY2010 and backlog of Rs1,438 bn (about 3.5 years of visibility)
- ▶ 4QFY10 implied net revenues of Rs134 bn versus our estimate of Rs130 bn. 4QFY10 PAT of Rs19 bn versus estimate of Rs21 bn.

Flash results have conservative bias; upgraded significantly in FY2009

BHEL has made significant positive revisions to flash results in the past. For instance, FY2009 flash results suggested gross sales of Rs275 bn, PBT of Rs45.3 bn and PAT of Rs30.4 bn. Final audited numbers for FY2009 were gross sales of Rs281 bn, PBT of Rs48.4 and PAT of Rs31.3 bn.

Increasing traction of orders from private sector, exceeds inflows from central and state utilities

Private sector orders constituted about 90% of the orders announced by BHEL for coal-based plants in FY2010. BHEL announced no major orders from state utilities in FY2010; state utilities formed one-half of the coal-based orders received in FY2009. Orders from central utilities, as a percentage of coal-based orders, decreased to 11% in FY2010 from about 28% in FY2009.

Maintain estimates and target price of Rs2,500/ share; reiterate ADD

We maintain earnings estimates of Rs92.0 and Rs115.8 for FY2010E and FY2011E, respectively, and our target price of Rs2,500 based on the target multiple of 21.5X FY2011E earnings estimates. We reiterate our ADD rating on the stock based on (1) increased traction of award wins in private sector, (2) preference of government policy towards domestic which extends beyond bulk tendering, (3) visibility on several years of growth and (4) potential upside from business build up in new segments. Key risks to our estimate are—(1) increasing competition could lead to pressure on market share and margins, and (2) slower-than-expected execution of the order book on account of a slow pace of further capacity addition.

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Better-than-expected revenues but missed profit estimates on lower margins

BHEL has declared gross sales of Rs341 bn, marginally better than our estimate of Rs336 bn for FY2010E. However, the company reported PBT of Rs64 bn versus our estimate of Rs70 bn and PAT of Rs43 bn marginally below our estimate of Rs45 bn. In terms of 4QFY10 results, flash results imply net revenues of about Rs134 bn versus our estimate of Rs130 bn. Flash results imply 4QFY10 PBT of Rs27 bn versus our estimate of Rs33 bn and PAT of Rs19 bn versus our estimate of Rs21 bn.

BHEL 4QFY10 flash results - key numbers (Rs mn)

	4QFY10Flash	4QFY10E	4QFY09	3QFY10	%change			FY2010 flash	FY2010E	FY2009	% change	
					4QFY10E	4QFY09	3QFY10				FY2010E	FY2009
Gross Sales	139,479	134,727	111,344	73,860	4	25	89	340,500	335,667	280,895	1.4	21.2
Less: Excise duty	(5,579)	(5,182)	(5,943)	(2,857)	8	(6)	95		(12,910)	(18,553)		
Net Sales	133,900	129,545	105,401	71,003	3	27	89		322,757	262,342		
PBT	26,607	32,905	20,945	16,443	(19)	27	62	63,530	69,828	48,489	(9.0)	31.0
Tax	(7,747)	(11,876)	(7,471)	(5,717)	(35)	4	36	(20,660)	(24,789)	(17,103)	(16.7)	20.8
PAT	18,860	21,029	13,475	10,726	(10)	40	76	42,870	45,039	31,385	(4.8)	36.6
Key ratios (%)												
PBT margin	19.9	25.4	19.9	23.2					21.6	18.5		
Effective tax rate	29.1	36.1	35.7	34.8				32.5	35.5	35.3		
PAT margin	14.1	16.2	12.8	15.1					14.0	12.0		
Order details (Rs bn)												
Order backlog	1,438	1,348	1,207	1,340	7	19	7	1,438	1,308	1,207	10.0	19.1
Order inflow	226	138	164	153	64	38	48	590	502	597	17.6	(1.1)

Source: Company, Kotak Institutional Equities

Profits may be lower on higher-than-expected wage costs and one-off provisions

We believe profitability may have been lower than our estimates due to higher-than-expected wage costs. Our estimate of Rs12.8 bn in wage costs in 4QFY10 based on full year wage costs of Rs47 bn (versus management guidance of Rs45bn) may have been exceeded. There may have been other provisions which are yet unknown.

Flash results have conservative bias; upgraded significantly in FY2009

BHEL has made significant positive revisions to flash results in the past. For instance, FY2009 flash results suggested gross sales of Rs275 bn, PBT of Rs45.3 bn and PAT of Rs30.4 bn. Final audited numbers for FY2009 were gross sales of Rs281 bn, PBT of Rs48.4 and PAT of Rs31.3 bn. In FY2008, the extent of upward revision was smaller. FY2008 flash results suggested gross sales of Rs214 bn, PBT of Rs43.9 bn and PAT of Rs28.2 bn. Final audited numbers for FY2008 were gross sales of Rs215 bn, PBT of Rs44.3 and PAT of Rs28.6 bn.

BHEL has made significant positive revisions to flash results in the past

BHEL flash results expectations, March fiscal year-ends, 2007-10E (Rs bn)

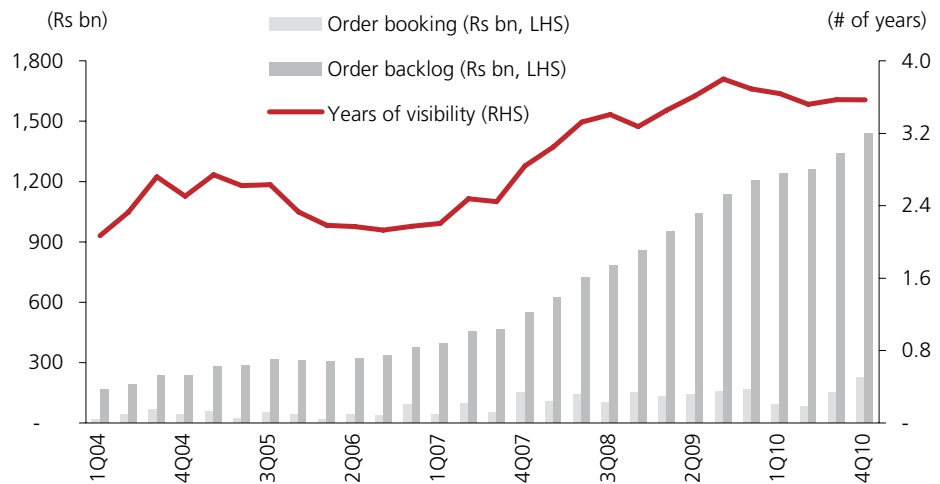
	FY2010		FY2009		FY2008	
	FY2010E	FY2010 flash	FY2009A	FY2009 flash	FY2008A	FY2008 flash
Turnover	335.7	340.5	280.9	275.1	215.0	214.0
Profit Before Tax (PBT)	69.8	63.5	48.4	45.3	44.3	43.9
Net Profit (PAT)	45.0	42.9	31.3	30.4	28.6	28.2
Order inflow	502.1	590.3	606.9	596.9	512.4	502.7
Earnings per share	92.0	87.6	63.9	62.1	58.4	57.6

Source: Company, Kotak Institutional Equities estimates

Rs590 bn order inflow versus guidance of Rs550 bn; implies Rs226 bn inflow in 4Q

BHEL has reported order inflow of Rs590 bn for the full year, which is the biggest positive surprise considering that the company’s press releases during the quarter did not indicate this amount of ordering activity. BHEL had reported order inflows of Rs364 bn (as per analyst conference call) at the end of 9MFY10 which implies order inflow of Rs226 bn in the 4QFY10. The company reported an order backlog of Rs1,438 bn at end-FY2010, which provides about 3.5 years of visibility based on forward four-quarter revenues.

Order backlog provides visibility of 3.5 years based on forward four quarter revenues
Order booking, Order backlog & visibility trend for BHEL

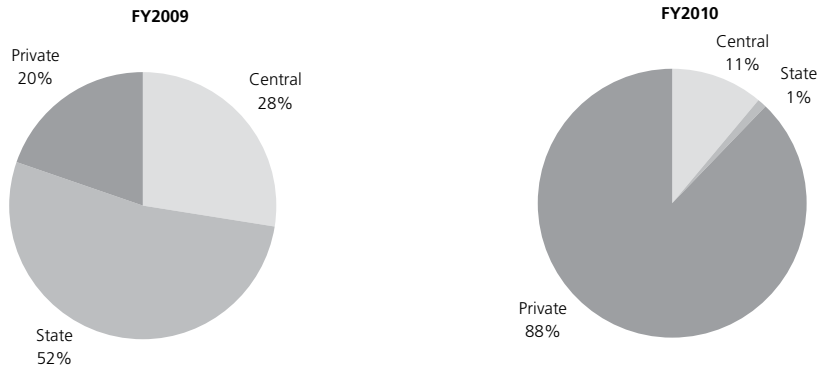


Source: Company, Kotak Institutional Equities

Private orders overtake inflows from both central and state utilities

Private sector orders constituted about 90% of the orders announced by BHEL for coal-based utility power plants in FY2010. The company announced no major orders from state utilities in FY2010; state utilities formed about one-half of the coal-based utility plant orders received in FY2009. Furthermore, orders from central utilities as a percentage of announced coal-based utility plant orders have decreased to 11% in FY2010 from about 28% in FY2009.

Private sector inflows have overtaken orders from central and state in FY2010
 Mix of coal-based utility plant orders (by MW) announced by BHEL in FY2010



Source: Company, Kotak Institutional Equities

List of orders announced by BHEL in FY2010

Order, Client	Region	Order Type	Fuel	Capacity (MW)	Configuration	Value (Rs mn)	Date
Captive plant at Paradip refinery of IOCL, Orissa	India	Captive	Gas	376	NA	33,480	Mar-10
India Bulls Amravati	India	Power	Coal	1,350	5X 270	28,890	Mar-10
India Bulls Nasik	India	Power	Coal	1,350	5X 270	28,890	Mar-10
Krishanganga hydro-electric plant in Jammu & Kashmir, HCC	India	Power	Hydro	330	3X 110	4,950	Feb-10
Punatsangchhu-I hydro-electric project in Bhutan	Export	Power	Hydro	1,200	6X 200	10,000	Feb-10
Pipavav, Videocon group	India	Power	Coal	1,200	2X 600	24,860	Jan-10
Power Grid Corporation of India Ltd (PGCIL)	India	T&D	NA	NA	NA	2,000	Jan-10
Karnataka Power Corporation Limited (KPCL), Raichur district	India	Power	Solar	3	NA	420	Jan-10
Adhunik Power and Natural Resources Limited	India	Power	Coal	270	1X 270	6,400	Dec-09
APGENCO Kothagudem thermal power station	India	T&D	NA	NA	NA	270	Dec-09
Bara project, Prayagraj, UP, Jaiprakash Associates Limited (JAL)	India	Power	Coal	1,980	3X 660	56,000	Nov-09
Power Engineers Contracting Company, UK	Export	Power	Gas	42	1X 42	910	Nov-09
Raigarh Extn, Jindal Power Limited, Chattisgarh TPP	India	Power	Coal	2,400	4X 600	50,400	Oct-09
Petroleum Development Oman (PDO)	Export	Captive	Gas	126	1X 126	2,050	Oct-09
Grodnoenergo, Republic of Belarus	Export	Captive	Gas	120	1X 120	2,700	Sep-09
Ramgarh III, CCGP RVVUNL	India	Power	Coal	160	1X 160	NA	Sep-09
Nuclear Power Corporation of India limited (NPCIL)	India	Power	Nuclear	700	1X 700	NA	Sep-09
Sterlite, Tutitcorn	India	NA	NA	160	2X 80	NA	Sep-09
Vallur TPP, NTPC-Tamil Nadu Energy Company Limited (NTECL)	India	Power	Coal	500	1X 500	13,000	Sep-09
Indian Railways	India	Transportation	NA	NA	NA	9,900	Sep-09
Oil India Limited (OIL)	India	Captive	Gas	20	1X 20	1,900	Aug-09
Angul TPP in Orissa, Monnet Power Company Limited (MPCL)	India	Power	Coal	1,050	2X 525	26,300	Aug-09
Angul TPP in Orissa, Jindal India Thermal Power Limited (JITPL)	India	Power	Coal	1,200	2X 600	26,000	Aug-09
TPP in Jharkhand, Adhunik Power and Natural Resources Limited	India	Power	Coal	270	1X 270	6,400	Jul-09
OPG Power Gujarat Power Ltd	India	Captive	Coal	300	2X 150	7,000	Jun-09
Chennai Petroleum Corporation Limited (CPCL)	India	Captive	Gas	20	1X 20	1,700	Jun-09
Barauni refinery of Indian Oil Corporation (IOC)	India	Captive	Gas	20	1X 20	1,050	Jun-09
Sambalpur TPP in Orissa, HINDALCO	India	Captive	Coal	900	6X 150	20,075	Jun-09
Sultanate of Oman	Export	Power	Gas	252	2X 126	3,750	Jun-09
Bela TPP, Ideal Energy Projects Limited	India	Power	Coal	270	1X 270	7,030	May-09
Avantha Bhandar TPP, Chattisgarh, Korba West Power Company Limited	India	Power	Coal	600	1X 600	14,750	May-09
Pranhita lift irrigation system, AP	India	Power	Hydro	NA	NA	NA	FY2010
NTPC	India	Power	Coal	1,000	2 X 500	26,000	FY2010
Total for FY2010				18,169		417,075	

Source: Company, Kotak Institutional Equities

Our estimates were higher than consensus and thus disappointment versus street estimates may be significantly lower

Our full-year EPS estimate at Rs92 was higher than consensus estimate around Rs88-89. BHEL has reported EPS of Rs87.6. To that extent, disappointment versus consensus estimates may be significantly lower. We believe results have positive takeaways in terms of execution progress and order inflows despite profitability marginally missing estimates in 4QFY10, which may actually be revised upwards on audit.

Maintain estimates and target price of Rs2,500/ share; reiterate ADD

We maintain our earnings estimates of Rs92.0 and Rs115.8 for FY2010E and FY2011E respectively, and our target price of Rs2,500/share based on the target multiple of 21.5X (close to historical five-year average trading multiple) FY2011E earnings estimates.

We reiterate our ADD rating on the stock based on (1) increased traction of award wins in private sector, (2) clear preference of government policy towards domestic which extends beyond bulk tendering, (3) clear visibility on several years of growth going forward and (4) potential upside from business build up in new segments such as renewables, transportation and transmission. Key risks to our estimate are (1) increasing competition could lead to pressure on market share and margins, and (2) slower-than-expected execution of the order book on account of slow pace of further capacity addition.

APRIL 05, 2010

UPDATE

Coverage view: **Cautious**

Price (Rs): **1,418**

Target price (Rs): **1,400**

BSE-30: **17,693**

Margin risks could outweigh robust volume trends. We are raising our EPS estimate for FY2011E to Rs94 from Rs90 as we raised our volume growth estimate to 15% from 12% prior and now assume 17% domestic volume growth. We have modeled 100 bps of margin decline for FY2011E, which could have downside risks. The recent increases in iron ore contract prices could drive steel prices higher. Our REDUCE rating reflects new hatchback competition, margin downside risk and limited (if any) volume upside.

Company data and valuation summary

Maruti Suzuki

Stock data				Forecasts/Valuations			
				2010	2011E	2012E	
52-week range (Rs) (high,low)	1,740-741			88.2	94.3	103.0	
Market Cap. (Rs bn)	402.6			109.2	6.9	9.2	
Shareholding pattern (%)				P/E (X)	15.8	14.8	13.5
Promoters	54.2			Sales (Rs bn)	290.9	338.7	376.9
FIs	22.8			Net profits (Rs bn)	25.5	27.3	29.8
MFs	2.7			EBITDA (Rs bn)	34.8	37.0	41.4
Price performance (%)				EV/EBITDA (X)	10.1	9.5	8.0
	1M	3M	12M	ROE (%)	23.7	20.5	18.5
Absolute	(4.4)	(8.1)	75.3	Div. Yield (%)	0.4	0.4	0.4
Rel. to BSE-30	(9.4)	(9.3)	2.6				

Upping our FY2011E EPS estimates to Rs94 from Rs90 on higher volume estimates

Our Rs94 EPS estimate for FY2011E is based on a 15% volume growth (12% prior) and a 100 bps decline in margins to 12.7%. Our 15% volume growth estimate is driven by 17% domestic sales growth and flat exports. We are now modeling 1.17 mn units for FY2011E compared to 1.12 mn units prior. We are now close to the stretch capacity at the company. The increase in our growth estimate is on the back of new products such as Eeco. We are also fine-tuning our FY2010E EPS estimate to Rs88 from Rs85 to reflect slightly higher volume and margin estimates for 4QFY10E

Headwinds remain in the form of margins and competition

We expect EBITDA margin of 14% in 4QFY10E, down 140bps from 3QFY10 levels. Margins for the whole of FY2010E would amount to 13.7%. For FY2011E we have modeled a 100 bps decline in EBITDA margin to 12.7% as we believe Maruti would not be able to fully pass on all of the commodity, emission regulation and excise duty increases in the face of increasing competition. The company has already taken three price increases related to input costs in January, excise hike in March and emission changeover last week. Further price increases may be limited. GM and Ford launched their respective BS4 compliant hatchbacks Beat and Figo at a very competitive price of under Rs3.5 lakhs. Exhibit 1 compares newer competition to Maruti and Hyundai vehicles. We consider GM and Ford more serious competition because of their existing dealer bases.

Valuations seem more reasonable but FY2011E EPS growth could disappoint

Exhibit 2 shows the 10-1 year interest rate spread versus P/E multiples. We first showed this chart in August, indicating risk of multiple contraction as shorter term interest rates go up. Being a cyclical, interest rate sensitive sector, auto P/E's contract as the spread between long term and short term rates decline. Maruti's P/E has declined closer to the mid-cycle average and currently seems to be adequately discounting the spread contraction. We are raising our target to Rs1,400, implying 15X FY2011E EPS. Given that earnings are 3X as sensitive to margins compared to volumes, a 200 bps decline in margins (versus our 100 bps assumption) could result in no EPS growth for FY2011E. We don't foresee any significant upside to our 17% domestic volume growth assumption for FY2011E.

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Competition getting price-competitive at a faster than expected pace

Exhibit 1 compares key metrics for new competition in the hatchback space against incumbents. We did see a lot of new entrants over the last decade, but most of them concentrated on the sedan segment. Over the past year, we have seen the competition spreading to the hatchback segment. The first entry – Fiat's Grande Punto came close on price but could not break the Rs4 lakh barrier. But recently we have seen GM and Ford break that barrier with the Beat and Figo starting at under Rs3.5 lakhs. Volkswagen's Polo, while more expensive, is still much cheaper than sister company Skoda's Fabia. Globally, Skoda is positioned as a discount brand.

We believe the Rs350,000 price point of GM and Ford vehicles would also force other new entrants such as Nissan, Toyota and Honda to introduce their entries at a competitive price. During the 2010 Auto Show, Toyota and Honda indicated that their hatchbacks would come at a price point below Rs5 lakhs. We now expect they might need to come at a price point closer to Rs4 lakhs to be competitive.

Exhibit 1: GM and Ford pricing their new hatchbacks more competitively

Price and features of entry level hatchbacks

	Ford	Fiat	GM/Chevy	Volkswagen	Maruti			Hyundai	
	Figo	Grande Punto	Beat	Polo	WagonR	A Star	Ritz	Swift	i10
Ex-showroom Delhi (Rs)	349,900	426,284	341,989	434,000	330,000	351,880	397,612	399,987	404,044
Engine	1.2 ltr	1.2 ltr	1.2 ltr	1.2 ltr	1.1 ltr	1 ltr	1.2 ltr	1.2 ltr	1.2 ltr
Power (bhp)	71	68	81	75	64	67	85	84	80
Dimensions									
Width (mm)	1,680	1,687	1,595	1682	1,475	1,600	1,680	1,690	1,595
Length (mm)	3,795	3,987	3,640	3970	3,520	3,500	3,715	3,760	3,565
Height (mm)	1,427	1,495	1,520	1453	1,660	1490	1,620	1,530	1,550
Boot volume (litres)	284	275	170	280	228	129	236	232	225
Dealers	164	103	250	40	769	769	769	769	285

Source: Company, Kotak Institutional Equities estimates

Ability to increase prices limited

Maruti last week announced price increases on most products to pass on the incremental costs of emission regulations and other input cost pressures. However, significant increases were taken in select popular models such as Swift and Dzire. WagonR and Alto did not see any increase and the hike on already BS4 compliant vehicles such as A Star and Ritz was limited to 0.3%. One reason for the limited increase could be because the competing vehicles such as Beat, Figo and Polo were introduced as BS4 compliant vehicles.

April steel price contracts would be key for margin progression in FY2011E

We have recently seen iron ore manufacturers demanding an 80% price increase in iron-ore prices. Iron-ore is a crucial material for producing steel. Iron ore majors Rio Tinto, BHP and Vale are asking for 80-100% increases in contract prices for the April-June'2010 period. Last week, ACEA, the European automobiles association, issued a statement regarding the sharp rise in iron-ore prices.

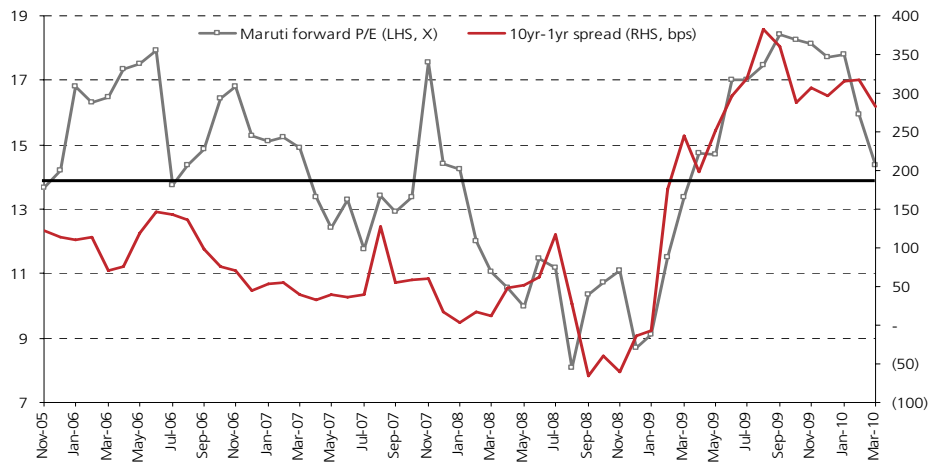
Maruti imports close to 20% of their steel requirement from Japanese steelmakers. Higher iron-ore prices could drive steel prices higher for the April-September contract period. Domestic steel makers have also increased steel prices by 5-7% in April.

Higher interest rate environment could pressure multiples

Exhibit 2 below compares interest rate spread (10 yr less 1 yr yield) to P/E multiples. Interest rate spreads expand in an easy interest rate environment, driven by lower short-term rates and higher long-term rates. The low short-term rates are driven by the easy monetary policy of the central banks while the higher longer-term rates reflect the level of economic activity and inflation risk. As the central banks move to a tighter interest rate environment, short-term rates rise and longer-term rates stay at similar levels.

Autos being an interest-rate sensitive and cyclical sector, multiples have behaved in line with the interest rate spread. Multiples expand in an easy money environment, denoted by steep interest rate spreads. With short-term rates going up as central banks start raising rates, the spread starts to contract, putting pressure on multiples for auto companies. This relationship has worked very well since September 2008. It currently seems the decline in multiple has adequately accounted for the spread contraction and multiples have reached a mid-cycle average.

Exhibit 2: Removal of easy interest rate environment might continue to pressure multiples
10-1 year spread versus P/E multiples



Source: Datastream, Kotak Institutional Equities estimates

Exhibit 3: Volume assumptions for Maruti Suzuki, March fiscal year-ends, 2007-12E (# vehicles)

Segment-wise sales (units)	2007	2008	2009	2010	2011E	2012E
Entry (A) segment	79,245	69,553	49,383	33,028	30,000	30,000
Van-Segment	83,091	89,729	77,948	101,325	151,250	166,375
Compact (B) segment	440,375	499,280	511,396	633,190	721,909	794,100
Mid-size (C) segment	29,697	49,335	75,928	99,315	111,328	122,460
D segment	-	-	-	-	500	2,000
MUV	3,221	3,921	7,489	3,932	4,315	4,747
Domestic	635,629	711,818	722,144	870,790	1,019,302	1,119,682
Exports	39,295	53,024	70,023	147,575	150,000	165,000
Total	674,924	764,842	792,167	1,018,365	1,169,302	1,284,682

Segment-wise sales growth(yoy %)						
Entry (A) segment	(11.0)	(12.2)	(29.0)	(33.1)	(9.2)	-
Van-Segment	24.0	8.0	(13.1)	30.0	49.3	10.0
Compact (B) segment	31.5	13.4	2.4	23.8	14.0	10.0
Mid-size (C) segment	(7.3)	66.1	53.9	30.8	12.1	10.0
MUV	(19.5)	21.7	91.0	(47.5)	9.7	10.0
Domestic	20.6	12.0	1.5	20.6	17.1	9.8
Exports	13.0	34.9	32.1	110.8	1.6	10.0
Total	20.1	13.3	3.6	28.6	14.8	9.9

Source: Kotak Institutional Equities

Exhibit 4: Maruti Suzuki, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	146,539	179,362	204,553	290,931	338,722	376,942
EBITDA	22,862	26,524	18,321	39,988	42,915	48,175
Other income	3,026	4,784	6,013	5,237	5,943	6,762
Interest	(376)	(596)	(510)	(274)	(239)	(259)
Depreciation	(2,714)	(5,682)	(7,065)	(8,260)	(10,218)	(12,733)
Profit before tax	22,798	25,030	16,758	36,691	38,400	41,944
Current tax	6,281	7,696	4,689	9,907	10,368	11,325
Deferred tax	897	26	(118)	1,284	768	839
Net profit	15,620	17,308	12,187	25,500	27,264	29,781
Earnings per share (Rs)	54.0	59.9	42.2	88.2	94.3	103.0
Balance sheet (Rs mn)						
Equity	68,539	84,154	93,449	117,259	142,832	170,922
Deferred tax liability	1,675	1,701	1,551	2,835	3,603	4,442
Total Borrowings	6,308	9,002	6,989	3,989	3,989	3,989
Current liabilities	25,015	28,257	33,976	45,064	51,801	56,514
Total liabilities	101,537	123,114	135,965	169,147	202,225	235,866
Net fixed assets	29,104	40,328	49,321	58,061	82,843	90,110
Investments	34,092	51,807	31,733	33,733	35,733	37,733
Cash	14,228	3,305	19,390	26,531	23,355	40,568
Other current assets	24,113	27,674	35,521	50,822	60,294	67,455
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	101,537	123,114	135,965	169,147	202,225	235,866
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	15,988	18,387	12,933	30,081	32,547	36,850
Working capital changes	4,410	(83)	(1,000)	(4,212)	(2,736)	(2,449)
Capital expenditure	(13,950)	(16,930)	(16,136)	(17,000)	(35,000)	(20,000)
Free cash flow	6,448	1,374	(4,203)	8,869	(5,189)	14,401
Ratios						
EBITDA margin (%)	15.6	14.8	9.0	13.7	12.7	12.8
PAT margin (%)	10.7	9.6	6.0	8.8	8.0	7.9
Debt/equity (X)	0.1	0.1	0.1	0.0	0.0	0.0
Net debt/equity (X)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)
Book value (Rs/share)	243.0	297.1	328.7	415.5	506.7	606.8
RoAE (%)	24.9	22.2	13.5	23.7	20.5	18.5
RoACE (%)	35.4	33.7	14.4	27.5	22.6	19.6

Source: Company, Kotak Institutional Equities estimates

APRIL 05, 2010
UPDATE

Coverage view: **Cautious**

Price (Rs): **79**

Target price (Rs): **85**

BSE-30: **17,693**

Surfeit of domestic gas could spoil the game for imported LNG. We highlight the potential risks from increase in domestic gas supply to imported LNG. Gas from KG D-6 has already precluded the need for spot LNG imports over the last few months. We have revised our earnings estimates to reflect (1) lower volumes, (2) stronger rupee and (3) other minor changes. We maintain an ADD rating on the stock despite concerns on long-term sustainability of the business model given (1) low risk to short-term earnings and (2) likely sustenance of high re-gasification tariffs in the near term. We will monitor domestic supply-demand balance to take a call in the medium term.

Company data and valuation summary

Petronet LNG

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	85-38	EPS (Rs)	5.2	7.8	9.0
Market Cap. (Rs bn)	59.3	EPS growth (%)	(24.5)	50.2	15.2
Shareholding pattern (%)		P/E (X)	15.1	10.1	8.8
Promoters	50.0	Sales (Rs bn)	113.6	146.6	166.2
FIs	11.0	Net profits (Rs bn)	3.9	5.9	6.8
MFs	1.6	EBITDA (Rs bn)	8.6	12.8	14.5
Price performance (%)		EV/EBITDA (X)	9.2	6.5	6.0
Absolute	1M 3M 12M	ROE (%)	15.5	19.9	19.5
Rel. to BSE-30	7.0 10.9 92.8	Div. Yield (%)	1.9	3.2	3.8
	(0.7) 9.4 7.9				

KG D-6 gas dries up demand for imported LNG

We see a likely steep increase in domestic gas supply as posing threat to offtake of high-priced imported LNG. Spot volumes of imported LNG have dried up in the recent quarter as gas supply from RIL's KG D-6 block has increased to ~60 mcm/d. PLNG did not import any spot cargoes in 4QFY10. We also note that the second berth at Dahej will be commissioned by 1QCY13E, which would curtail the maximum volumes to 10.5-11 mn tons from Dahej terminal till FY2013E.

Maintain ADD; concerns on long-term sustainability of business model persist

We maintain an ADD rating on PLNG noting (1) the stock offers moderate 8% potential upside to our revised 12-month target price of Rs85, (2) it is trading at 10.1X FY2011E EPS, (3) high re-gasification tariffs will likely sustain in the near term in the absence of any regulatory oversight and (4) low risks to our revised volume assumptions for PLNG's imported gas over the next 2-3 years. However, we continue to remain cautious on the long-term sustainability of the business model beyond CY2013E due to likely sharp increase in supply of domestic gas. We expect the price of domestic gas to be significantly lower versus that of imported LNG in the medium-to-long term; this will likely create issues about acceptance of high-priced LNG in the domestic market.

Earnings revision

We have revised FY2010E, FY2011E and FY2012E EPS to Rs5.2, Rs7.8 and Rs9 versus Rs5.3, Rs8.1 and Rs9.7 previously to reflect (1) lower spot volumes for FY2010E, (2) slower ramp-up of the expanded capacity at Dahej and new facility at Kochi and (3) stronger rupee.

QUICK NUMBERS

- Stock trading at **10.1X FY2011E EPS**
- **8% upside to our fair value**
- **Total FY2011E and FY2012E volumes at 9.8 mn tons and 10.7 mn tons**

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Key assumptions

We discuss our key assumptions underlying our earnings assumptions below (see Exhibit 1).

We model Petronet's volumes scaling up to 11 mtpa by FY2012E

Key volume/price assumptions for Petronet LNG, March fiscal year-ends, 2006-12E

	2006	2007	2008	2009	2010E	2011E	2012E
Volume assumptions							
Contract LNG volume (mn tons)	4.8	5.1	4.8	4.8	7.2	8.8	9.7
Spot LNG volume (mn tons)	—	0.6	1.5	1.5	0.8	1.0	1.0
Price assumptions							
LNG purchase price (FOB) (US\$/mn BTU)	2.5	3.3	3.7	4.2	4.7	5.1	5.3
Landed cost (incl. import tariff) (US\$/mn BTU)	2.9	3.8	4.2	4.7	5.3	5.8	6.0
Base re-gasification charges (US\$/mn BTU)	0.57	0.58	0.69	0.64	0.65	0.71	0.74
Base re-gasification charges (Rs/mn BTU)	25.2	26.5	27.8	29.2	30.6	32.2	33.4
Escalation in re-gasification charges (%)		5.0	5.0	5.0	5.0	5.0	3.7
Sales price (US\$/mn BTU)	3.5	4.4	4.9	5.4	5.9	6.5	6.7
Other assumptions							
Rupee/US dollar exchange rate	44.3	45.3	40.1	45.8	47.3	45.0	45.3

Source: Company, Kotak Institutional Equities estimates

- ▶ **Volumes.** We model contract LNG volume at 7.2 mn tons, 8.8 mn tons and 9.7 mn tons in FY2010E, FY2011E and FY2012E. In addition, we model spot LNG imports of 0.8 mn tons in FY2010E, 1 mn tons in FY2011E and 1 mn tons in FY2012E.
- ▶ **Re-gasification tariffs.** We model PLNG's re-gasification tariff to increase by 5% and 3.7% in FY2011E and FY2012E, and remain flat thereafter until FY2019E, the terminal year of our DCF model (see Exhibit 2).

Our DCF-based fair value for PLL is Rs85

Calculation of equity value of PLL using discounted cash flow analysis (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	8,611	12,764	14,516	15,026	17,861	19,545	21,220	21,101	20,974	20,838
Adjusted tax expense	(2,171)	(2,278)	(3,291)	(2,072)	(2,027)	(3,683)	(4,958)	(5,411)	(5,721)	(5,872)
Change in working capital	(1,080)	(1,878)	(1,150)	(456)	(1,813)	(1,179)	(1,217)	(255)	(306)	(369)
Operating cash flow	5,360	8,608	10,076	12,498	14,022	14,683	15,045	15,435	14,946	14,596
Capital expenditure	(9,803)	(9,000)	(9,000)	(8,727)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(2,500)
Free cash flow	(4,443)	(392)	1,076	3,771	13,022	13,683	14,045	14,435	13,946	12,096
Discounted cash flow-now	(4,445)	(349)	850	2,648	8,130	7,593	6,926	6,327	5,434	4,189
Discounted cash flow-1 year forward		(393)	956	2,979	9,146	8,542	7,794	7,118	6,113	4,713
Discounted cash flow-2 year forward			1,076	3,353	10,289	9,610	8,768	8,010	6,877	5,302

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.5%	12.5%	12.5%
Total PV of free cash flow	37,303	51,159	62,188

Terminal value assumption

Growth in perpetuity	0.0%	0.0%	0.0%
FCF in 2020E	12,096	12,096	12,096
Exit FCF multiple (X)	8.0	8.0	8.0
Exit EV/EBITDA multiple (X)	4.6	4.6	4.6
Terminal value	96,771	96,771	96,771
PV of terminal value	33,514	33,514	33,514
Total company value	70,818	84,673	95,702

Net debt	13,196	19,784	23,951
Equity value	57,621	64,889	71,751
Shares outstanding (mn)	750	750	750
Estimated share price using DCF	76.8	86.5	95.7

Sensitivity of 12-month fair value to WACC and perpetual growth

WACC (%)	Perpetual growth (%)				
	-1.0%	-0.5%	0.0%	0.5%	1.0%
11.0%	98.3	101.1	104.1	107.5	111.2
11.5%	92.5	95.0	97.8	100.7	104.0
12.0%	87.2	89.5	91.9	94.5	97.4
12.5%	82.3	84.3	86.5	88.9	91.4
13.0%	77.8	79.6	81.6	83.7	85.9

Fiscal Year end (March 31, XXXX)	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19
Today	1-Apr-10	1-Apr-10	1-Apr-10	1-Apr-10	1-Apr-10	1-Apr-10	1-Apr-10	1-Apr-10	1-Apr-10	1-Apr-10
Years left	0.00	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00
Discount factor at WACC	1.00	0.89	0.79	0.70	0.62	0.55	0.49	0.44	0.39	0.35

Source: Kotak Institutional Equities estimates

- **Exchange rate.** We have revised exchange rate assumption for FY2011E, FY2012E and FY2013E at Rs45/US\$, Rs45.3/US\$ and Rs45.3/US\$ versus Rs46/US\$, Rs46/US\$ and Rs46/US\$.

Petronet LNG: Profit model, balance sheet, cash model March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	38,197	55,090	65,553	84,287	113,569	146,577	166,154
EBITDA	4,707	6,481	8,661	9,013	8,611	12,764	14,516
Other income	194	366	536	765	882	455	356
Interest	(1,116)	(1,070)	(1,024)	(1,012)	(1,904)	(2,309)	(2,565)
Depreciation	(1,010)	(1,020)	(1,022)	(1,025)	(1,660)	(2,107)	(2,171)
Extraordinary items	175	—	—	—	—	—	—
Pretax profits	2,950	4,756	7,152	7,740	5,929	8,803	10,137
Tax	(256)	(6)	(2,185)	(2,526)	(1,643)	(1,805)	(2,626)
Deferred taxation	(745)	(1,617)	(220)	(30)	(372)	(1,119)	(741)
Net profits	1,949	3,133	4,747	5,184	3,914	5,879	6,770
Earnings per share (Rs)	2.4	4.2	6.3	6.9	5.2	7.8	9.0
Balance sheet (Rs mn)							
Total equity	10,719	12,755	16,185	19,834	22,432	26,117	30,254
Deferred taxation liability	605	2,472	2,692	2,722	3,094	4,213	4,954
Total borrowings	12,599	13,832	15,776	22,817	24,317	28,517	31,917
Current liabilities	1,725	5,877	8,588	8,922	9,465	11,179	12,251
Total liabilities and equity	25,648	34,936	43,242	54,295	59,308	70,027	79,377
Cash	2,506	3,405	3,586	6,578	1,490	1,523	1,517
Current assets	2,946	7,478	7,890	11,519	13,143	16,734	18,956
Total fixed assets	18,627	21,273	26,293	33,156	41,633	48,726	55,861
Investments	1,569	2,780	5,473	3,043	3,043	3,043	3,043
Total assets	25,648	34,936	43,242	54,295	59,309	70,027	79,377
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	3,524	4,927	6,982	5,378	4,729	8,449	9,019
Working capital	(2,057)	(710)	1,589	(3,384)	(1,080)	(1,878)	(1,150)
Capital expenditure	(335)	(36)	(263)	(27)	(9,803)	(9,000)	(9,000)
Investments	(1,390)	(1,211)	(2,780)	2,462	—	—	—
Free cash flow	(258)	2,970	5,528	4,429	(6,154)	(2,429)	(1,130)
Other income	184	326	(414)	695	882	455	356
Ratios (%)							
Debt/equity	111	91	84	101	95	94	91
Net debt/equity	89	68	65	72	89	89	86
RoAE	19.5	23.6	27.8	25.0	16.3	21.0	20.7
RoACE	11.9	14.5	17.0	14.7	10.9	13.7	13.5
Adjusted CROCI	21.3	28.7	27.4	27.3	16.7	23.3	23.5
Key assumptions							
Contract LNG volume (mn tons)	4.8	5.1	4.8	4.8	7.2	8.8	9.7
LNG purchase price (FOB) (US\$/mn BTU)	2.5	3.3	3.7	4.2	4.7	5.1	5.3
Base re-gasification charges (US\$/mn BTU)	0.57	0.58	0.69	0.64	0.65	0.71	0.74
Sales price (US\$/mn BTU)	3.5	4.4	4.9	5.4	5.9	6.5	6.7
Rupee/US dollar exchange rate	44.3	45.3	40.1	45.8	47.3	45.0	45.3

Source: Company, Kotak Institutional Equities estimates

APRIL 01, 2010

UPDATE

BSE-30: 17,693

Core earnings strong; lower treasury gains to impact reported net profits. We believe that a declining funding cost and improving loan growth (up 16% yoy for the system) will support margins for most banks during 4QFY10E. A strong traction in fee income will boost core earnings though negligible treasury gains (MTM losses in some cases) will pull down reported profits. Asset quality performance will likely remain stable. Our top picks are HDFC Bank, Axis Bank, Bank of Baroda, PNB, Union Bank and LIC Housing Finance.

Loan growth has picked up sharply to 16% yoy

Loan growth of the system has picked up considerably over the last three months—16.1% yoy as of March 12, 2010 from 13.6% yoy as of January 1, 2010. Over the past three months, the loans of the banking system have increased by Rs1,040 bn (3.4%) and YTD growth has been 12.8% with a fortnight left in FY2010. A strong macro and rising inflation is resulting in higher credit requirement from corporate houses and this should result in over 20% credit growth in FY2011E. Deposit growth has continued to remain strong at 17.8% yoy (about 15% since March 2009).

Margins to improve sequentially

We expect margins to remain strong for the sector during 4QFY10E as the full impact of deposit re-pricing plays out. Further, a rise in interest rates will start impacting deposit costs only with a lag and we expect deposit costs for most banks to still decline in 4QFY10E. A pick-up in credit is also likely to aid margins—(1) deposit rates are still lower by 100-300 bps over last year, even as 4Q saw first signs of rising deposit rates and (2) incremental share of CASA deposits have also been increasing. The banks benefitting out of the deposit re-pricing are SBI and Union Bank, while most other banks are likely to see stable margins as compared to 3QFY10.

Strong base to distort yoy comparison

We expect NII growth of 26% yoy for banks under coverage (overall NII growth to be at 29% for public banks and 20% for new private banks). Sequential trend is likely to remain strong for most banks; few banks also have a reasonable subdued 4QFY09 base. HDFC Bank and Axis Bank are likely to report strong NII growth, while ICICI Bank will likely report flattish NII growth, mainly on the back of margin improvement even as the loan book declined yoy. SBI and Union Bank are in the midst of cyclical margin improvement and likely to witness sequential improvement in margins. PNB and Bank of Baroda are likely to witness stable margins sequentially.

Tweak earnings to adjust for likely strong loan growth and interest rate movements

We have adjusted our earnings somewhat to adjust for year-end interest rate movements—mainly for treasury income and MTM losses. In case of NBFCs, slower-than-expected rise in interest rates in the system implies somewhat higher margins for 4QFY10. As per our latest channel checks and management discussions, loan growth has been somewhat higher in select cases coupled with better asset quality traction for few banks.

QUICK NUMBERS

- Loan growth for the system has picked up to 16%;
- Core earnings of banks to improve on back of better yoy margins; sequentially margins likely to be stable for most banks
- Treasury gains are likely to be negligible
- PAT growth to be strong for private banks; net earnings for public banks to be impacted due to lower treasury gains

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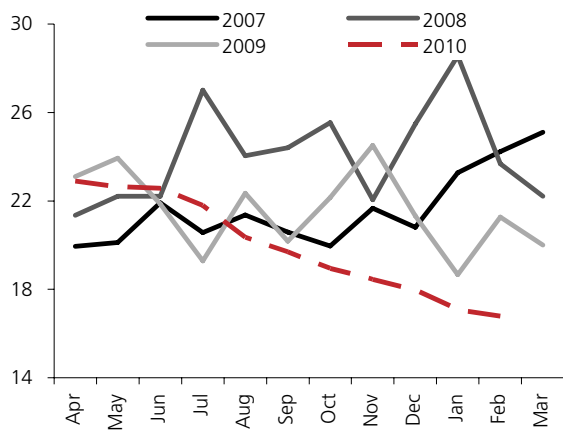
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Deposit growth has trended downwards but remains healthy at 15%

yoy growth in deposits (%)

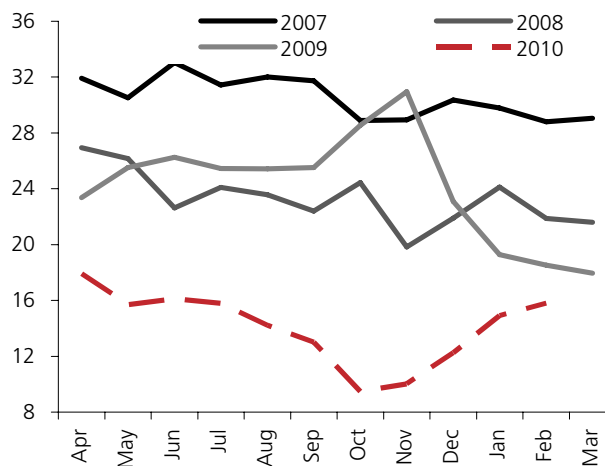


Note:
Deposit growth in January 2008 impact by IPO flows.

Source: RBI

Incremental loan demand has improved in recent months

yoy growth in advances (%)



Source: RBI

NII growth to show improvement for most public banks in 4QFY10E

yoy growth in NII, March fiscal year-ends, 4QFY09 -4QFY10E (%)

	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10E
Public banks					
Andhra Bank	15.3	20.4	13.5	23.5	52.5
Bank of Baroda	43.0	7.9	22.5	9.5	10.9
Bank of India	17.8	10.1	3.4	(1.8)	7.5
Canara Bank	41.7	26.7	14.3	18.8	17.1
Corporation Bank	6.4	23.7	23.8	25.4	46.0
Indian Bank	30.1	36.7	11.3	21.3	35.1
IOB	13.1	16.4	8.2	3.6	18.5
OBC	5.3	8.4	7.6	53.7	89.9
PNB	25.7	28.9	22.4	18.4	24.0
State Bank of India	0.9	4.3	2.8	9.7	38.3
Union Bank	20.1	(1.0)	(11.5)	(5.6)	23.0
Old private banks					
Federal Bank	15.9	2.8	(0.6)	(0.9)	23.7
J&K Bank	11.7	17.6	(3.6)	12.0	22.6
New private banks					
Axis Bank	24.6	29.0	25.9	45.1	41.2
HDFC Bank	12.8	7.7	4.8	12.4	28.2
ICICI Bank	2.9	(5.0)	(5.2)	3.4	0.8

Source: Companies, Kotak Institutional Equities estimates

Subdued treasury gains; select banks may report MTM losses

Given the rising trend in bond yields, treasury gains are likely to be negligible. Few banks are also likely to report MTM losses, as the 2-year yield has increased by 44 bps (generally AFS duration is close to 2 years for most banks).

- ▶ During the quarter, the upward movement in the longer end of the yield curve has been lower than the shorter end of the yield curve with 10-year yield increasing by 23 bps compared to 44 bps increase in the 2-year yield.
- ▶ We believe most banks have sufficient cushion up to 7.8% and thus, there is likelihood of some marginal losses for public banks. However, gains on the equity portfolio could partly compensate for losses on the debt portfolio.

Fee income growth likely to remain steady for public banks (loan-based fees should also pick up on back of traction in lending business).

Treasury income likely to come off significantly in 4QFY10E

Treasury income of banks, March fiscal year-ends, 3QFY09 - 4QFY10E (Rs mn)

	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10E
Public banks						
Andhra Bank	670	1,624	1,280	950	520	50
Bank of Baroda	4,180	3,009	2,554	1,205	1,367	1,373
Bank of India	4,350	2,240	2,400	1,511	1,365	524
Canara Bank	3,440	3,490	282	4,358	2,950	910
Corporation Bank	1,234	2,909	1,854	747	368	30
Indian Bank	1,095	578	1,029	299	773	99
IOB	3,626	3,170	340	1,500	173	487
OBC	1,851	1,569	2,363	1,047	510	280
PNB	3,410	2,384	3,585	1,504	1,570	(159)
State Bank of India	6,740	15,089	7,088	5,454	4,370	1,088
Union Bank	1,010	2,270	2,090	2,180	1,310	620
Old private banks						
Federal Bank	640	348	579	293	166	62
J&K Bank	58	406	668	507	408	117
New private banks						
Axis Bank	1,140	1,660	3,260	2,240	1,700	800
HDFC Bank	2,321	2,436	2,560	1,629	(265)	76
ICICI Bank	9,760	2,140	7,140	2,970	(260)	150

Source: Companies, Kotak Institutional Equities estimates

Yields have seen a sharper rise at the shorter end in 4QFY10
Yield of 1-year Gsec (%)



Source: Bloomberg

Yield at the longer end has seen comparatively smaller rise
Yield of 10-year Gsec (%)



Source: Bloomberg

Non-interest income (ex-treasury) likely to show a moderate growth
 yoy growth in non-interest income (ex-treasury), March fiscal year-ends, 3QFY09 -4QFY10E (%)

	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10E
Public banks						
Andhra Bank	35.0	(7.6)	(8.0)	(3.6)	15.2	11.2
Bank of Baroda	17.3	16.8	5.7	23.8	5.1	18.9
Bank of India	40.4	(5.2)	(18.5)	(16.9)	(29.3)	(4.0)
Canara Bank	(12.9)	(18.9)	14.1	36.4	17.6	6.4
Corporation Bank	28.8	4.5	13.6	51.4	35.4	(2.0)
Indian Bank	(26.1)	(13.6)	12.7	(1.2)	21.6	(4.4)
IOB	36.9	40.2	36.8	(1.4)	28.2	5.3
OBC	20.0	41.0	7.7	52.7	43.3	(5.9)
PNB	72.9	32.2	37.7	(12.3)	(5.0)	19.7
State Bank of India	24.3	27.3	31.1	36.6	14.8	11.5
Union Bank	28.0	8.5	49.6	5.7	14.7	14.3
Old private banks						
Federal Bank	50.5	10.4	(14.4)	(4.1)	(0.9)	4.4
J&K Bank	(29.4)	30.4	25.9	41.4	63.8	3.2
New private banks						
Axis Bank	53.1	32.9	23.1	27.9	32.3	32.8
HDFC Bank	29.2	61.9	17.4	28.2	24.3	12.1
ICICI Bank	(28.3)	(33.6)	(35.5)	(24.8)	10.4	14.0

Source: Companies, Kotak Institutional Equities estimates

Asset quality appears to be comfortable

Retail NPLs have already peaked and incremental addition to NPLs is much lower currently. Even on the corporate segment, new NPL formation is unlikely to be significant and may largely emanate from the pool of restructured loans.

Incremental restructuring has been low and we understand from bankers that most restructured loans have been 'performing' well and are servicing their liabilities. Our channel checks also seem to indicate that a large part of the restructuring undertaken by banks is in the form of changes in durations of the loans rather than reductions in interest rates and/or any cuts in the principal amount. Thus, we do not expect large provisioning on account of the restructured loans.

Banks like SBI, BoI, ICICI Bank and Canara Bank may make higher credit provisions to comply with the RBI guideline of minimum provision coverage of 70% by September 2010, which could impact their bottom lines in the current quarter.

Overall NPL provisions will continue to rise in 4QFY10E

Loan loss provisions of banks, March fiscal year-ends, 3QFY09-4QFY10E (Rs mn)

	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10E
Public banks						
Andhra Bank	320	921	380	478	554	774
Bank of Baroda	1,040	2,030	3,171	1,737	2,447	1,396
Bank of India	2,066	1,920	1,780	4,698	4,465	4,462
Canara Bank	3,570	2,500	2,160	2,430	3,710	2,952
Corporation Bank	540	400	600	847	1,019	1,249
Indian Bank	330	243	1,400	350	320	731
IOB	1,100	1,900	820	1,320	2,325	3,009
OBC	685	708	1,000	378	457	1,545
PNB	4,253	2,337	2,730	565	3,290	4,411
State Bank of India	5,151	11,787	12,342	9,974	4,437	13,408
Union Bank	1,660	2,700	2,860	1,020	500	1,200
Old private banks						
Federal Bank	1,344	516	932	1,588	839	971
J&K Bank	132	626	800	97	200	555
New private banks						
Axis Bank	2,750	2,730	3,700	4,989	3,580	2,992
HDFC Bank	4,654	6,000	6,300	5,941	4,379	3,699
ICICI Bank	10,080	10,845	13,237	10,000	10,000	9,812

Source: Companies, Kotak Institutional Equities estimates

Reported profitability to be subdued due to lower treasury and higher base

Reported profitability is likely to remain subdued (and even decline) for most banks (except for the private banks. The corresponding quarter had seen strong treasury earnings and lower provisions, which is unlikely to be the case now. For most other banks, reported profitability is likely to remain subdued on back of lower treasury gains (4QFY09 treasury gains were fairly strong) and higher provisions (both on the credit and marginally on the investment book).

PAT likely to decline for most banks. Axis Bank and HDFC Bank are likely to buck this trend

yoy growth in PAT, March fiscal year-ends, 3QFY09-4QFY10E (%)

	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10E
Public banks						
Andhra Bank	33.7	61.9	230.1	69.6	29.5	10.3
Bank of Baroda	41.4	172.3	84.8	60.4	17.5	(2.0)
Bank of India	70.1	7.2	4.0	(57.6)	(53.5)	(26.8)
Canara Bank	52.9	55.2	353.0	72.0	50.1	6.5
Corporation Bank	34.4	26.7	41.8	52.3	18.9	(8.2)
Indian Bank	14.1	63.1	52.4	31.4	25.9	(12.4)
IOB	26.0	5.4	17.9	(51.0)	(73.8)	(47.9)
OBC	82.1	NA	16.8	14.3	14.8	52.8
PNB	85.8	59.2	62.4	31.1	0.5	10.5
State Bank of India	56.0	45.6	42.0	10.2	0.0	(3.5)
Union Bank	84.0	(10.8)	93.7	39.7	(20.5)	7.9
Old private banks						
Federal Bank	98.1	11.0	100.1	(11.6)	(45.9)	34.1
J&K Bank	10.5	31.5	(11.0)	15.9	16.0	46.6
New private banks						
Axis Bank	63.2	60.9	70.3	32.0	31.0	22.6
HDFC Bank	44.8	33.9	30.5	30.2	31.6	30.5
ICICI Bank	3.4	(35.3)	20.6	2.6	(13.4)	39.7

Source: Companies, Kotak Institutional Equities estimates

NBFCs: Better-than-expected margins, loan growth may remain moderate

We expect most large NBFCs to report about 20-30% yoy growth in earnings during 4QFY10E while traction in select stocks will likely be higher due to low base/extraordinary items.

- ▶ We expect margins to remain almost stable or rise marginally qoq for most NBFCs. Thus, margins will be better than our previous expectations as bulk borrowings rates have not trended upwards due to excess liquidity in the system for most part of the quarter. Reduction in NPL during the quarter (a seasonal phenomenon for most companies) will boost margins. Incremental margins will likely trend down as interest rates in the bulk borrowing margins have been inching up.
- ▶ Loan growth will likely be moderate. Fast-growing sectors (mortgages, power finance) will continue to report good traction though lower than previous quarters.
- ▶ The buoyancy in capital markets (higher market volumes, investment banking deals, etc.) will also drive higher growth for brokerages. The low base of 4QFY09 will play out although volumes in cash equities market have been lower than initially anticipated.

Cash market volumes have been lower in February and March 2010

Average daily volume in equity markets, (Rs bn)

Period	Volumes in cash market			YoY (%)	F&O- NSE (Rs bn)	YoY (%)	Total vol. (Rs bn)	YoY (%)
	BSE (Rs bn)	NSE (Rs bn)	Total (Rs bn)					
Apr-09	52	157	209	8	673	76	882	53
May-09	62	191	253	27	614	54	867	45
Jun-09	69	219	288	60	696	35	984	41
Total	62	192	253	33	661	52	915	46
Jul-09	60	185	245	34	684	36	929	35
Aug-09	56	174	230	38	702	46	932	44
Sep-09	62	183	245	39	694	22	939	26
Total	59	181	240	37	693	34	933	35
Oct-09	59	182	240	64	755	60	996	61
Nov-09	48	146	193	47	749	81	942	73
Dec-09	47	139	186	33	727	84	913	71
Total	51	155	206	48	743	74	950	68
Jan-10	62	178	240	83	784	102	1,024	97
Feb-10	43	123	166	53	785	109	951	97
Mar-10	48	137	185	36	790	52	975	49
Total	51	145	196	57	786	83	983	77
Total (FY2010)	56	169	224	42	720	59	945	55

Source: NSE and BSE

Quarterly result expectations of companies under coverage

	Mar-09	Dec-09	Mar-10E	Change (%)		Comments
				yoy	qoq	
Banking						
Andhra Bank						
Net interest income	3,953	5,825	6,027	52.5	3.5	Strong NII growth at 52% yoy due to : (1) subdued 4QFY09 base, as margins had fallen during that quarter and (2) faster loan growth and deposit repricing to result in healthy NIM in 4QFY10E
Operating profit	2,769	3,888	4,289	54.9	10.3	
Treasury income (net)	614	520	(360)	(158.6)	(169.2)	
Loan loss provision	921	554	774	(16.0)	39.6	Lower contribution from treasury, relatively muted non-interest income (ex-treasury) and increase in provisioning costs on account of credit losses, depreciation of investment book could however impact PAT growth
PAT	2,012	2,754	2,219	10.3	(19.4)	
PAT-reported	2,012	2,754	2,219	10.3	(19.4)	
Axis Bank						
Net interest income	10,326	13,491	14,584	41.2	8.1	
Operating profit	9,725	12,046	13,981	43.8	16.1	NIM's to remain stable sequentially at near 4%. Growth in loan book to remain healthy
Treasury income (net)	1,660	1,700	800	(51.8)	(52.9)	
Loan provision	2,730	3,580	2,992	9.6	(16.4)	Asset quality likely to remain comfortable with lower delinquencies - to result in lower loan loss provisions
PAT	5,815	6,560	7,131	22.6	8.7	
PAT-reported	5,815	6,560	7,131	22.6	8.7	
Bank of Baroda						
Net interest income	14,708	16,012	16,314	10.9	1.9	
Operating profit	9,629	11,089	12,366	28.4	11.5	Expect stable margins sequentially at near 3%; Treasury likely to be lower sharply
Treasury income (net)	3,349	1,583	449	(86.6)	(71.6)	
Loan loss provision	2,030	2,447	1,396	(31.3)	(43.0)	
PAT	7,527	8,325	7,379	(2.0)	(11.4)	Earnings to decline by 2% yoy due to a strong base of last year
PAT-reported	7,527	8,325	7,379	(2.0)	(11.4)	
Bank of India						
Net interest income	14,334	14,947	15,413	7.5	3.1	
Operating profit	12,741	11,239	12,559	(1.4)	11.8	Bol's NII likely to be under pressure as higher NPLs are resulting in margin pressure.
Treasury income (net)	7,854	5,716	5,911	(24.7)	3.4	
Loan loss provision	1,340	59	(307)	(122.9)	(620.3)	
PAT	8,104	4,057	5,935	(26.8)	46.3	We expect continued higher delinquencies in 4Q, resulting in higher credit costs. PAT to decline by 27% yoy
Extraordinaries	-	-	-	-	-	
PAT-reported	8,104	4,057	5,935	(26.8)	46.3	
Canara Bank						
Net interest income	13,053	14,777	15,282	17.1	3.4	Canara Bank's NII likely to be in excess of 15% yoy, aided by the (1) lower base of the last year, (2) growth in loan book
Operating profit	8,398	10,759	13,306	58.4	23.7	
Treasury income (net)	3,290	5,976	561	(83.0)	(90.6)	
Loan provision	2,500	3,710	2,952	18.1	(20.4)	Company's reported PAT growth may however be lower at <10% yoy on account of lower investment gains.
PAT	7,188	10,525	7,652	6.5	(27.3)	
PAT-reported	7,188	10,525	7,652	6.5	(27.3)	
Corporation Bank						
Net interest income	4,283	5,994	6,253	46.0	4.3	NII growth likely to be healthy at 46% yoy (4% qoq), on a low base of last year and better margins currently
Operating profit	3,669	5,085	5,010	36.5	(1.5)	
Treasury income (net)	1,371	179	(210)	(115.3)	(217.4)	
Loan provision	400	1,019	1,249	212.3	22.6	PAT may be lower by 8% yoy on account of likely higher credit costs and lower treasury gains.
PAT	2,605	3,050	2,392	(8.2)	(21.6)	
PAT-reported	2,605	3,050	2,392	(8.2)	(21.6)	
Federal Bank						
Net interest income	3,209	3,811	3,969	23.7	4.1	
PBT	2,658	2,986	3,354	26.2	12.3	Margins to remain at previous quarter levels. Loan growth to remain healthy
Treasury income (net)	172	115	(361)	(309.9)	(415.0)	
Loan provision	516	839	971	88.1	15.8	
PAT	1,142	1,103	1,531	34.1	38.9	Asset quality pressure to remain while PAT growth would be higher due to base impact
PAT-reported	1,142	1,103	1,531	34.1	38.9	
HDFC						
Net operational income	10,843	10,527	13,248	22.2	25.8	
PBT	10,276	9,573	12,292	19.6	28.4	Margins wil likely remain stable
Treasury income (net)	27	514	260	874.5	(49.4)	
PAT	7,333	6,713	8,930	21.8	33.0	Retail business will likely gain traction
PAT-reported	7,333	6,713	8,930	21.8	33.0	

Source: Companies, Kotak Institutional Equities estimates

Quarterly result expectations of companies under coverage

	Mar-09	Dec-09	Mar-10E	Change (%)		Comments
				yoy	qoq	
HDFC Bank						
Net interest income	18,520	22,239	23,738	28.2	6.7	Loan growth to be modest on the back of balance sheet management. NII growth to remain strong at 28% yoy
PBT	12,695	16,404	16,768	32.1	2.2	
Treasury income (net)	2,436	(265)	76	(96.9)	(128.7)	Margins to be stable at near 4%; Treasury income to be lower and provisions to continue declining in the current quarter
Loan provision	6,000	4,379	3,699	(38.3)	(15.5)	
PAT	6,309	8,185	8,236	30.5	0.6	
PAT-reported	6,309	8,185	8,236	30.5	0.6	
ICICI Bank						
Net interest income	21,388	20,581	21,555	0.8	4.7	Expect margins to improve by 10 bps, but loan growth pick up likely to be driven by only priority sector loans
Operating profit	19,415	23,927	24,410	25.7	2.0	
Treasury income (net)	2,140	(260)	150	(93.0)	(157.7)	Provisioning costs to start declining, but treasury income also to be lower. Earnings to be higher by 40% yoy due to a subdued base
Loan provision	10,845	10,000	9,812	(9.5)	(1.9)	
PAT	7,438	11,011	10,389	39.7	(5.6)	
PAT-reported	7,438	11,011	10,389	39.7	(5.6)	
IDFC						
Net operational income	4,125	5,194	4,573	10.9	(12.0)	Margins will likely remain strong
Operating profit	1,669	3,679	3,276	96.3	(10.9)	
Treasury income (net)	-	-	-	-	-	Loan growth will pick up on a low base
Loan provision	3,825	4,125	4,480	17.1	8.6	
PAT	1,162	2,699	2,454	111.1	(9.1)	
PAT-reported	1,162	2,699	2,454	111.1	(9.1)	
Indian Bank						
Net interest income	6,675	8,730	9,020	35.1	3.3	NII growth to remain healthy with margins broadly maintained at previous quarters levels
Operating profit	5,779	6,134	5,541	(4.1)	(9.7)	
Treasury income (net)	578	773	(451)	(178.1)	(158.4)	PAT growth likely to decline by 12% yoy on account of lower treasury income and higher provisioning burden
Loan provision	243	320	731	200.7	128.2	
PAT	3,941	4,414	3,451	(12.4)	(21.8)	
PAT-reported	3,941	4,414	3,451	(12.4)	(21.8)	
India Infoline						
Net sales	1,870	3,195	3,289	75.9	3.0	Market volumes were marginally up qoq, improvement in market share will likely provide an upside
Operating profit	-	-	-	-	-	
EBIT	436	1,129	1,211	177.6	7.2	Insurance business will likely gain traction during the quarter
PBT	291	969	1,070	268.0	10.5	
PAT	253	596	656	159.7	10.2	
PAT-reported	253	596	656	159.7	10.2	
Indian Overseas Bank						
Net interest income	7,041	7,944	8,344	18.5	5.0	NII growth likely to improve qoq off a low base, YoY growth to be at 19% yoy
Operating profit	4,876	4,026	5,130	5.2	27.4	
Treasury income (net)	2,380	173	(453)	(119.0)	(361.8)	Trend on asset quality and loan loss provisions would be key factors driving earnings for the quarter.
Loan provision	1,900	2,325	3,009	58.4	29.4	
PAT	3,224	1,017	1,680	(47.9)	65.2	
PAT-reported	3,224	1,017	1,680	(47.9)	65.2	
J&K Bank						
Net interest income	2,506	2,935	3,071	22.6	4.6	J&K Bank's NII likely to grow by 20% yoy in 4QFY10 aided by lower funding costs
Operating profit	1,780	1,930	2,304	29.5	19.4	
Treasury income (net)	384	408	117	(69.4)	(71.3)	PAT to grow by 46% off a low base, despite lower treasury gains, as loan loss provisions are likely to be modest
Loan provision	626	200	555	(11.2)	177.6	
PAT	787	1,400	1,153	46.6	(17.6)	
PAT-reported	787	1,400	1,153	46.6	(17.6)	
LIC Housing Finance						
Net interest income	2,631	2,648	2,908	10.5	9.8	Margins will continue to improve QoQ
Operating profit	2,170	2,165	2,496	15.0	15.3	
PAT	1,576	1,536	1,910	21.2	24.4	Loan growth will likely remain strong
PAT-reported	1,576	1,536	1,910	21.2	24.4	

Source: Companies, Kotak Institutional Equities estimates

Quarterly result expectations of companies under coverage

	Mar-09	Dec-09	Mar-10E	Change (%)		Comments
				yoy	qoq	
Mahindra & Mahindra Financial						
Net interest income	2,161	2,229	2,446	13.2	9.7	
PBT	1,605	1,402	1,758	9.5	25.4	We factor steady growth in loan book, moderate credit cost
Treasury income (net)	2,161	2,229	2,446	13.2	9.7	
Loan provision	460	349	450	(2.3)	29.0	
PAT	1,081	933	1,177	8.9	26.2	Margins will likely remain strong
PAT-reported	1,081	933	1,177	8.9	26.2	
Oriental Bank of Commerce						
Net interest income	4,603	8,729	8,740	89.9	0.1	NII growth likely to remain impressive on the back of better repricing. Non interest income to be lower due to lower treasury income
PBT	3,901	4,270	5,639	44.5	32.0	
PAT	1,958	2,894	2,993	52.8	3.4	PAT growth to remain healthy on the back of strong NII performance. Asset quality and performance of restructured portfolio would be key things to watch out for.
PAT-reported	1,958	2,894	2,993	52.8	3.4	
PFC						
Net interest income	6,370	7,484	8,330	30.8	11.3	Core earnings up by 27% on the back of about 25% loan growth and stable spreads
Operating profit	5,925	7,627	9,415	58.9	23.4	
Treasury income (net)	-	-	-	-	-	
PAT	3,911	5,636	7,067	80.7	25.4	High forex gains and lower tax rates will boost PAT growth
PAT-reported	3,911	5,636	7,067	80.7	25.4	
Punjab National Bank						
Net interest income	19,065	23,291	23,645	24.0	1.5	Margins to remain stable. NII to grow by >20%
Operating profit	12,900	17,503	18,695	44.9	6.8	
Treasury income (net)	2,640	1,150	(601)	(122.8)	(152.2)	
Loan loss provision	2,337	3,290	4,411	88.8	34.1	Expect earnings to improve by 10% as we are building higher provisions factoring marginal deterioration of asset book
PAT	8,656	10,113	9,566	10.5	(5.4)	
PAT-reported	8,656	10,113	9,566	10.5	(5.4)	
Shriram Transport						
Net interest income	4,776	5,725	6,512	36.3	13.7	Loan growth will likely remain strong
Operating profit	2,350	3,589	3,661	55.8	2.0	
PAT	1,538	2,369	2,412	56.8	1.8	Recent capital issuance will boost margins
PAT-reported	1,538	2,369	2,412	56.8	1.8	
State Bank of India						
Net interest income	48,419	63,163	66,949	38.3	6.0	Margins likely to show further improvement driven by loan book and repricing. Expect NII to grow by 6% qoq
Operating profit	34,413	40,140	54,225	57.6	35.1	
Treasury income (net)	16,364	1,913	(954)	(105.8)	(149.9)	
Loan provision	11,787	4,437	13,408	13.7	202.2	Earnings likely to driven by the quantum of loan loss provisions - SBI will have to make higher provisions to enhance its provision coverage
PAT	27,419	24,791	26,453	(3.5)	6.7	
PAT-reported	27,419	24,791	26,453	(3.5)	6.7	
Union Bank						
Net interest income	9,264	10,646	11,393	23.0	7.0	Margins to increase on back of deposit repricing. However treasury income to be sharply lower
Operating profit	6,381	7,121	8,162	27.9	14.6	
Treasury income (net)	2,600	910	330	(87.3)	(63.7)	
Loan provision	2,700	500	1,200	(55.5)	140.0	Asset quality performance is the key aspect - we expect somewhat higher NPLs in 4Q, but relatively lower than most other banks
PAT	4,651	5,341	5,019	7.9	(6.0)	
PAT-reported	4,651	5,341	5,019	7.9	(6.0)	

Source: Companies, Kotak Institutional Equities estimates

APRIL 05, 2010

UPDATE

BSE-30: 17,693

2Ws and CV sales remain strong in March while Maruti disappointed marginally.

Tata Motors' CV sales were up 13% sequentially while Hero Honda and Bajaj 2-wheelers showed 9% and 4% growth from February. Maruti's domestic volumes were down 6% sequentially as the company chose to reduce dealer inventory of BS3 vehicles. M&M showed 15% sequential growth on its UVs and tractors. We expect strong 4QFY10E for Tata Motors (CVs up 40% qoq) and M&M (sales up 15% qoq).

Maruti reported slightly disappointing domestic sales; exports stronger than anticipated

Maruti reported total sales of 95,123 units, 2% lower than our estimate of 96,650 units. Domestic sales of 79,530 units were 5% lower than anticipated. Domestic sales were up 8% yoy and down 6% from February. However, retail sales were flat from February at close to 85,000 units. Dealer dispatches were consciously reduced to two weeks to bring down dealer inventory of BS 3 vehicles. The weakness in domestic sales was offset by a strong showing on the export front, which were up 32% yoy at 15,593 units. Within segments, the A2 hatchback segment was down 1.2% yoy and 9% sequentially. A3 sedan segment sales were up 22% yoy. Van segment sales were up 81% yoy, driven by strong reception to the newly introduced Eeco. Volumes for FY2010 totaled 1.02 mn units, up 29% yoy.

M&M's UV sales were in line while tractors were better than expected

M&M reported UV sales of 20,914 units, 3% better than our estimate. UV sales were up 5% yoy and up 14% from February. UV sales for the fiscal year ended up 39% yoy. Tractor sales for March came in 12% better than expected at 16,164 units. Tractors sales were up 54% against easy comparisons and up 23% sequentially. Tractor sales for the fiscal year were up 46% yoy. Excluding Punjab Tractors, volumes of which were not included in all of FY2009, growth was 33%. 3-wheeler sales totaled 4,295 units and LCV (GIO and Maxximo) sales totaled 3,400 units.

Tata Motors total sales were in line with expectations; LCV and UV sales showed slight upside

Tata Motors reported total sales of 75,151, 1% better than our expectation of 74,541 units. March sales were up 39% yoy and 9% from February. M&HCV sales came in at 22,333 units, up 68% yoy and 23% from February. LCV sales beat our estimates by 3% at 24,687, up 42% yoy and 6% sequentially. UV sales of 3,937 were 7% higher than our estimates but were down 23% yoy and 3% from February. Passenger car sales were up 32% yoy and 2% from February. For FY2010, total sales were up 29% yoy.

Two-wheeler sales showed slight upside

Hero Honda reported 2-wheeler sales of 414,638 units, up 17% yoy and 9% from February. Sales were 4% better than expectations of 400,000 units. For FY2010, sales were up 24% yoy and totaled 4.6 mn units.

Bajaj Auto also reported strong sales for March with 2-wheeler sales of 244,889 units, up 85% yoy and 4% from February. 2-wheeler sales for FY2010 totaled 2.5 mn units, up 31% yoy. 3-wheeler sales for March came in worse than expected and were down 14% from February. Three-wheeler sales for FY2010 came in at 340,936 units, up 24% yoy. Exports totaled 65,134 units of the above. Export sales for the March quarter are down 22% from the December quarter.

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Monthly sales for Mar'10

Two-wheeler companies - Mar'10

	Mar'10	Mar'10E	Mar-09	yoy %	Feb'10	mom %	Growth FY2010 %
Bajaj Auto	244,889	234,740	132,640	85	234,710	4	31
Hero Honda	414,638	400,243	353,342	17	382,096	9	24

Four-wheeler companies - Mar'10

	Mar'10	Mar'10E	Mar-09	yoy %	Feb'10	mom %	FY2010 %
Tata Motors							
M&HCV	22,333	22,282	13,265	68	18,183	23	36
LCV	24,687	23,950	17,334	42	23,314	6	39
UV	3,937	3,695	5,094	(23)	4,048	(3)	(15)
Passenger Cars	24,194	24,614	18,383	32	23,604	2	24
Total	75,151	74,541	54,076	39	69,149	9	29

Mahindra & Mahindra

UVs	20,914	20,366	19,973	5	18,280	14	39
Tractors	16,164	14,455	10,466	54	13,920	16	46
3 Wheelers, LCVs	7,695	7,197	4,043	90	6,907	11	3
Total	44,773	42,018	34,482	30	39,107	14	44

Maruti Udyog

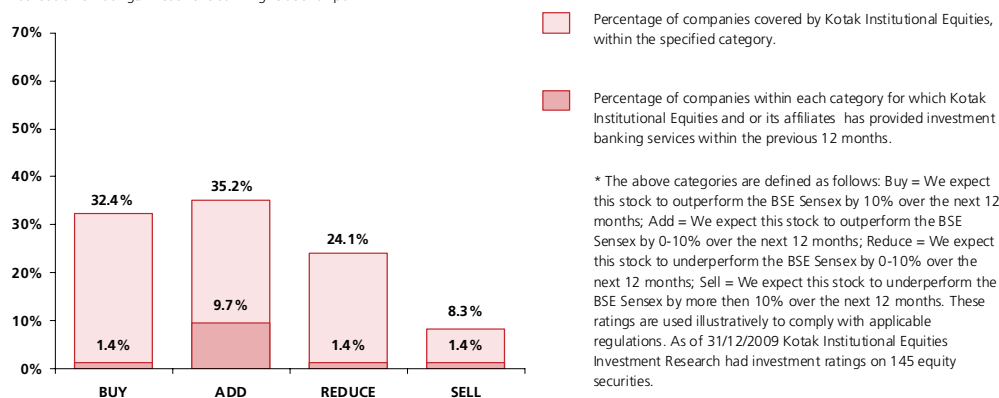
Domestic	79,530	83,917	73,855	8	84,765	(6)	21
Exports	15,593	13,000	11,814	32	11,885	31	111
Total	95,123	96,917	85,669	11	96,650	(2)	29

Source: Kotak Institutional Equities estimates

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Source: Kotak Institutional Equities

As of December 31, 2009

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

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

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