kotak® Institutional Equities

INDIA DAILY

December 02, 2008

EQUITY MARKETS

India	1-Dec	1-day	1-mo	3-mo
		Change, %		
Sensex	8,840	(2.8)	(9.7)	(39.0)
Nifty	2,683	(2.6)	(7.0)	(38.3)
Global/Regional indices				
Dow Jones	8,149	(7.7)	(12.6)	(29.4)
FTSE	4,065	(5.2)	(7.1)	(27.4)
Nikkie	8,002	(4.7)	(6.7)	(36.5)
Hang Seng	14,109	1.6	1.0	(33.0)
KOSPI	1,028	(2.9)	(7.6)	(26.9)

Value traded - India

	1-Dec		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	112.9		127.9	152.4
Derivatives (NSE)	321.6		369.6	379
Deri. open interest	416.3		431	666

Forex/money market

	1-Dec	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	50.4	0	170	601
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.0	-	(46)	(170)

Commodity market

	1-Dec	1-day	1-mo	3-mo
		Change, %		
Gold (US$/OZ)	775.0	0.8	7.0	(3.8)
Silver (US$/OZ)	9.4	1.2	(4.7)	(28.2)
Crude (US$/BBL)	46.6	(0.2)	(27.6)	(56.3)

Net investment (US$mn)

	28-Nov		MTD	CYTD
FIIs	104		-	(13,591)
MFs	120		-	3,348

Top movers -3mo basis

Best performers	1-Dec	1-day	1-mo	3-mo
		Change, %		
Indian Oil Corporati	405	(1.5)	19.7	(5.7)
Hindustan Unilever	233	(1.7)	4.8	(5.9)
Union Bank Of India	144	(3.5)	15.2	(6.7)
Tata Communicatio	395	0.2	(18.5)	(7.7)
Ntpc Limited	156	(1.9)	10.9	(11.7)
Worst performers				
Housing Developme	74	(3.6)	(48.8)	(77.3)
Unitech Limited	24	3.7	(50.4)	(85.8)
Suzlon Energy Limit	39	(5.3)	(11.1)	(82.8)
Bajaj Finserv Ltd	93	(2.6)	(20.2)	(82.6)
Welspun-Gujarat St	79	(1.4)	(31.7)	(76.7)

Contents

News Roundup

Corporate

- **Life Insurance Corporation** of India has bought heavily into banking stocks when markets plunged sharply in October and November, data submitted to stock exchanges indicate. LIC's stake has crossed five per cent in three public sector banks — State Bank of India, Bank of India and Allahabad Bank according to the insider trading data on the BSE. *(BL)*
- **Hazira Port** Private Ltd (HPPL), a joint venture between **Shell Gas** B.V. and **Total Gaz Electricite Holdings** France, is looking for developers to build a $500-million multi-cargo terminal at Hazira. The cargo terminal is to be built adjacent to the company's existing LNG facility at Hazira, Gujarat. *(BL)*
- **Nagarjuna Construction Company** Ltd today announced it has secured six new orders aggregating Rs 484 crore, including construction of a five-star hotel in Hyderabad. *(BL)*
- **United Spirits** Ltd (USL) has consolidated its presence in Tamil Nadu with the acquisition of its contract manufacturing unit, **Balaji Distilleries** in an all stock deal.
- **Essar Steel** Ltd (ESL) announced an umbrella agreement with Kobe Steel Ltd of Japan, gaining operational technology to manufacture higher quality steel products. *(BL)*

Economic and political

- The airline industry may suffer a combined loss of Rs 200 crore in December and January with the passenger load feared to dip below 40% during the peak season. *(ET)*
- Of the next 250 million Indian wireless users, approximately 100 million (40%) are likely to be from rural areas, and by 2012, rural users will account for over 60% of the total telecom subscriber base, according to a report jointly released by Confederation of Indian Industries (CII) and Ernst & Young. *(ET)*

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

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Economy

Sector coverage view	N/A

Exports decline in October but do not derail external balance

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- **Export growth (yoy) of (-)12.1% in October does not indicate worsening trade deficit**
- **FY2009E exports likely at US$179 bn—official target of US$200 bn to be missed**
- **Trade balance does not worsen as non-oil imports increase a meager 5.5% in October**
- **We expect CAD/GDP to widen to 4.0% in FY2009E, but shrink to 1.5% in FY2010E despite export slowdown**

We believe markets have overreacted to the October 2008 export growth slump. (1) the actual contraction has been 12.1%, less than 15% earlier indicated by official sources; (2) exports contraction in October on a yoy basis has been magnified by base effects; the decline is less at 6.7% on a mom basis; (3) the contraction in export growth at (-)12.1% (from 10.4% in September) has been accompanied by an equally sharp deceleration in import growth which has fallen to 10.6% (from 43.3% in September). As a result, trade deficit in October at US$10.5 bn remained more or less unchanged from US$10.6 bn in September (see Exhibits 1 and 2); (4) India's trade balance and balance of payments (BOP) is likely to see a marked improvement in FY2010E on back of soft oil prices, import substitution in energy needs and better capital account (see Exhibit 3). By themselves, the October trade numbers should not raise undue alarm yet.

Exports likely to fall short by about US$20 bn

It is clear that the official export target of US$200 bn of exports in FY2009 would be missed. Exports have increased 23.7% YTD (April-October 2008 over corresponding period last year). Yoy growth of 26% is necessary to achieve the US$200 bn target, but with the severe impact of the global slowdown on the world trade, it is improbable that exports could grow at that rate in the remaining months. Export performance is also likely to be impacted in FY2010E as large parts of the global economy go deeper into recession. As such, we expect that:

- Exports at US$179 bn in FY2009E growing by 13% yoy
- Exports at US$190 bn in FY2010E, decelerating further to by 6% growth

Export decline worrying but J-curve may help ahead

India’s exports (all trade data in US$ terms in this note) declined for the third consecutive month to US$12.8 bn in October, down 24% from all time high of US$16.9 bn in July 2008. Clearly, this is worrying as it means that despite a 20% depreciation of Indian rupee exchange rate with US dollar, export performance has been lackluster. However, we highlight that October was an extraordinarily dismal month. The Baltic dry index in October had fallen 92% from its peak in May. It remains to be see, whether the rupee depreciation helps India’s exports in coming months in accordance with the empirically observed J-curve phenomenon where devaluation helps improve exports and trade balance with a lag.

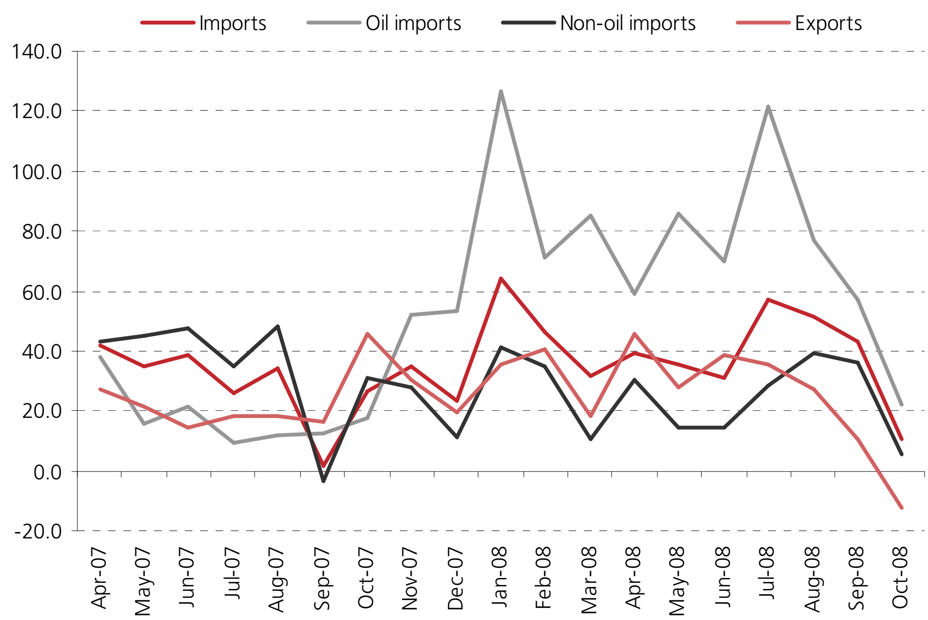
Export slump should not ring alarm bells for external balance

Though the October trade data is worrying, it should not raise undue alarm. While the short-run impact of export deceleration would diminish some the gains from the sharp fall in global crude prices, it is unlikely to widen the external balance as imports are also decelerating. Import growth has been 36.2% on a YTD basis, but has fallen to 10.6% in October. We expect non-oil imports growth to decelerate to 10% yoy in FY2010E from 16% in FY2009E, preventing the trade gap from widening. We also anticipate significant overall gains in BOP in FY2010 as follows:

- Trade deficit likely to fall to US$111 bn in FY2010E from US$120 bn in FY2009E
- CAD/GDP ratio likely to shrink to 1.5% in FY2010E from nearly 4.0% in FY209E
- Total capital account inflows (net of outflows) could improve to nearly US$40 bn in FY2010E from moderate net outflows in FY2009E. Large capital outflows this year were on account of sudden stop of capital inflows and large external debt redemptions
- We may see modest FX reserves accretion of about US$20 bn in FY2010E in contrast to large reserve loss in FY2009E
- Stress testing BOP to the assumption of no export growth in FY2010E still leaves CAD/GDP at a sustainable 2.3%. If, however, export growth is 11% in FY2010E, CAD/GDP shrinks to only 0.6%

Exhibit 1: Foreign trade slows down in recent months

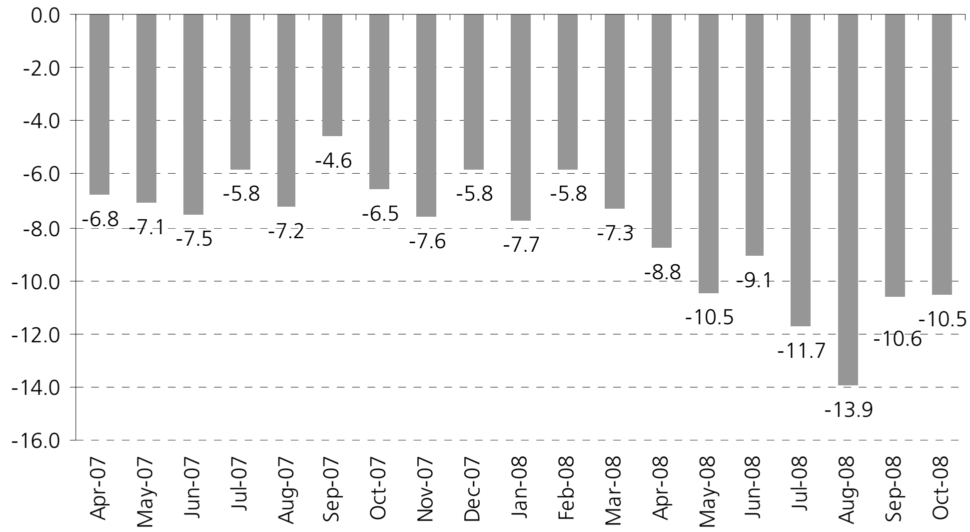
yoy growth for exports, total imports, oil imports and non-oil imports, Apr-07 - Oct 08 (%)



Source: DGCIS

Exhibit 2: Falling exports growth accompanied by trade deficit contraction in recent months

Trade balance (exports-imports), Apr-07 - Oct-08, (US$ bn)



Source: DGCIS

Exhibit 3: CAD likley to shrink in FY2010 in spite of stagnating exports

India's quarterly balance of payments, March fiscal year-ends, 2007-10E (US$bn)

				2009E			2010E		
	2007	**2008**	**1QFY09E**	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 1**	**Scenario 2**	**Scenario 3**
Current account	**(10)**	**(16)**	**(11)**	**(42)**	**(47)**	**(50)**	**(7)**	**(19)**	**(28)**
GDP	918	1,173	296	1,163	1,163	1,163	1,240	1,240	1,240
% of GDP	(1.1)	(1.4)	(3.6)	(3.7)	(4.0)	(4.3)	(0.6)	(1.5)	(2.3)
Trade balance	(63)	(90)	(32)	(116)	(120)	(124)	(99)	(111)	(121)
% of GDP	(6.9)	(7.7)	(10.7)	(10.0)	(10.3)	(10.6)	(8.0)	(9.0)	(9.7)
- Exports	128	158	44	190	179	168	214	190	168
- Imports	191	249	75	306	299	292	313	301	288
o/w Oil imports	58	72	28	96	94	93	76	74	72
0/w: non-oil	133	176	47	210	204	199	237	227	216
Invisibles (net)	53	74	21	73	73	73	92	92	92
- Services	32	38	10	41	41	41	44	44	44
of which: Software	29	37	10	40	40	40	42	42	42
- transfers	28	41	12	39	39	39	54	54	54
- other invisibles	(7)	(5)	(1)	(6)	(6)	(6)	(6)	(6)	(6)
Capital account	**46**	**108**	**12**	**(8)**	**(8)**	**(8)**	**39**	**39**	**39**
Foreign investment	16	45	5	14	14	14	20	20	20
- FDI	8	16	10	27	27	27	15	15	15
- FII	3	21	(5)	(15)	(15)	(15)	3	3	3
- ADRs/GDRs	4	9	0	1	1	1	3	3	3
Banking capital	2	12	3	(9)	(9)	(9)	4	4	4
- NRI deposits	4	0	1	3	3	3	5	5	5
Short-term credit	7	18	2	(13)	(13)	(13)	3	3	3
ECBs	16	22	2	6	6	6	9	9	9
Other capital account items	6	12	1	(6)	(6)	(6)	4	4	4
E&O	1	2	(0)	(1)	(1)	(1)	0	0	0
Overall balance	**37**	**93**	**1**	**(52)**	**(56)**	**(60)**	**32**	**20**	**11**
Assumptions									
Average exchange rate (Rs/US$)	45.3	40.3	41.7	46.5	46.5	46.5	48.0	48.0	48.0
Average Indian crude price (US$/bbl)	63	78	42	90	90	90	75	75	75

Source: RBI, Kotak Institutional Equities estimates

Economy

Sector coverage view	N/A

Indian economy likely to duck G-3 recession and terrorism to post 7% growth

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- **Real GDP growth slows to 7.6% in 2QFY09 but stands out globally**
- **We retain our projection of about 7% growth in FY2009E and FY2010E in a two-year cyclical slowdown**
- **Investment grows 13.1% yoy in 2QFY09—no evidence of slowdown till 1HFY09**
- **Growth may hit 6% trough in 3QFY09, output gap may close by 2HFY10**

Neither the global recession nor the recent terrorist attacks are likely to derail the economy from its growth path of 7% trough in a cyclical slowdown in FY2009 and FY2010E. Real GDP growth in 2QFY09 at 7.6% confirms that the economy is slowing down, but it can easily record a growth of 7% in FY2009. We expect growth to be maintained in FY2010E supported also by fresh capacities going onstream and demand holding up with the support of fiscal and monetary policy. Activities which may be directly hit by a terrorist strike on Mumbai comprise a miniscule portion of GDP and are unlikely to pull down overall growth.

India likely to grow despite global slowdown

2QFY09 real GDP growth at 7.6% is a slowdown from 7.9% growth in 1QFY09 and 9.3% growth in 2QFY08. However, we see this as a positive considering the state of the global economy. Japan, Germany, Italy and Australia had negative growth for two successive quarters. The US, UK and many other OECD countries are headed for recession. In Asia, Hong Kong, Singapore and Taiwan are also heading towards recession. By the end of CY2008, G-3 global economic powerhouse would have slumped into recession. 7.6% growth, which came above the street expectation of 7.3%, is encouraging. It reaffirms that the Indian economy can post 7% growth in FY2009E (see Exhibits 1 and 2).

Mumbai terrorist strike unlikely to dampen growth

The direct impact of the terrorist strike at the heart of the Indian financial centre in Mumbai is unlikely to dampen overall growth. Consider the following:

1) Of the 1.2 bn population of India, only 4.5% or 54 mn people reside in the five major cities—Mumbai (17.7 mn), Delhi (14 mn), Bangalore (9.2 mn), Kolkata (9 mn) and Chennai (4.6 mn).

2) Hotels and restaurants constitute only 1.6% of the GDP and a bulk of this activity comprises small hotels and restaurants spread across the country. Five-star hotels contribute a negligible proportion of this.

3) Transport comprises 6.3% of India's GDP, but air traffic constitutes a tiny segment with only about 1 mn people travelling by air annually. Railways accounts for 1% of GDP.

4) Travel (US$11.3 bn), transportation (US$9.5 bn) comprises 14.5% of total gross invisible receipts and some of this could be impacted. However, these are completely offset by payments under these heads and it is unlikely that a significant deficit can emerge under these heads.

5) However, terrorist activities can have an adverse impact on foreign investments in the country.

6) India has budgeted Rs7.5 bn as plan expenditure (contributing mainly to equipment) for police intelligence and Rs214 bn as non-plan expenditures (contributing mainly to wages and salaries) in FY2009E. A revamp of internal security following the terrorist strike could see plan expenditure being doubled and some increment in non-plan expenditure as well. This could have a small favorable impact on overall GDP.

Deceleration visible across sectors and growth may fall to 6% in 3QFY09

Deceleration was visible across sectors in the official 2QFY09 GDP estimates and growth is likely to drop more sharply in 3QFY09E.

- Agriculture recorded +2.7% growth in 2QFY09, but contraction could follow in the next quarter as Kharif crop which has shrunk is likely to impact 3QFY09 estimates a lot more than 2QFY09 given its harvesting pattern
- Industry facing a cyclical slowdown since the start of FY2008 is likely to hit a trough of below 3% growth in 3QFY09. Leading indicators suggest that October and November are likely to be particularly bad months for the industry.
- Services sector (including construction) growth fell to single digits after recording double-digit growth for 15 quarters in succession. We expect the services sector growth to decelerate further over the next two quarters.

Investment demand holding

Data on components of real aggregate demand shows investment demand was holding well in 1HFY09 in face of cyclical slowdown. It jumped 13.1% yoy and 10.9% qoq in 2QFY09 after having decelerated to 8.9% yoy in 1QFY09 from an average of 14.8% in the preceding eight quarters (see Exhibit 3).

Private consumption demand, however, decelerated perceptibly to 5% in 2QFY09 from an average of 7.7% in the preceding eight quarters.

Net imports increased to 4.4X of 1QFY09 and was a record 11% of GDP and was a major factor in pulling overall growth down. With exports contracting 12% yoy in October, the drag on growth from external demand side could continue for most of FY2009. However, net external demand has typically constituted not more than 4% of GDP in any year.

Output gap likely to close by 2HFY10E

In our assessment, the Indian economy is likely to hit a cyclical trough in 3QFY09 with growth falling to 1.6 ppt below potential output, but recover thereafter. The output gap could close by 2HFY10E, making the cyclical slowdown short and small. India could stand out as an emerging economy which could continue to grow at impressive rate amidst global slowdown.

Exhibit 1: 2QFY09 growth of 7.6% shows deceleration across sectors
Sector-wise quarterly real GDP growth rates, March fiscal year-ends, 1QFY07-4QFY09E

	Sector	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09E	4QFY09E
I	**1 Agriculture and allied activities**	**2.7**	**3.2**	**4.0**	**4.9**	**4.4**	**4.7**	**6.0**	**2.9**	**3.0**	**2.7**	**(0.5)**	**4.3**
II	**Industry (2+3+4)**	**10.0**	**10.7**	**10.3**	**11.5**	**9.6**	**8.6**	**8.6**	**5.8**	**5.2**	**4.7**	**2.8**	**3.5**
	2 Mining and quarrying	4.1	3.9	6.0	8.2	1.7	5.5	5.7	5.9	4.8	3.9	2.6	2.4
	3 Manufacturing	11.7	12.2	11.3	12.8	10.9	9.2	9.6	5.8	5.6	5.0	2.6	3.4
	4 Electricity, gas and water supply	4.3	6.6	7.6	5.4	7.9	6.9	4.8	5.6	2.6	3.6	5.2	5.9
III	**Services (5+6+7+8)**	**11.7**	**11.6**	**11.1**	**10.5**	**10.6**	**10.7**	**10.0**	**11.4**	**10.2**	**9.6**	**9.2**	**8.3**
	5 Construction	13.1	12.0	10.8	12.2	7.7	11.8	7.1	12.6	11.4	9.7	8.2	8.0
	6 Trade, hotels, transport, storage and communication	10.9	12.7	12.1	11.6	13.1	11.0	11.5	12.4	11.2	10.8	7.7	8.1
	7 Financing, insurance, real estate and business services	13.6	13.9	14.7	13.4	12.6	12.4	11.9	10.5	9.3	9.2	7.7	7.6
	8 Community, social and personal services	10.3	7.2	5.6	5.1	5.2	7.7	6.2	9.5	8.4	7.6	15.1	9.8
IV	**Real GDP at factor cost (I+II+III)**	**9.6**	**10.1**	**9.3**	**9.7**	**9.2**	**9.3**	**8.8**	**8.8**	**7.9**	**7.6**	**6.0**	**6.7**

Source: Central Statistical Organization

Exhibit 2: India's real GDP growth to slow to about 7% in a two-year cyclical slowdown

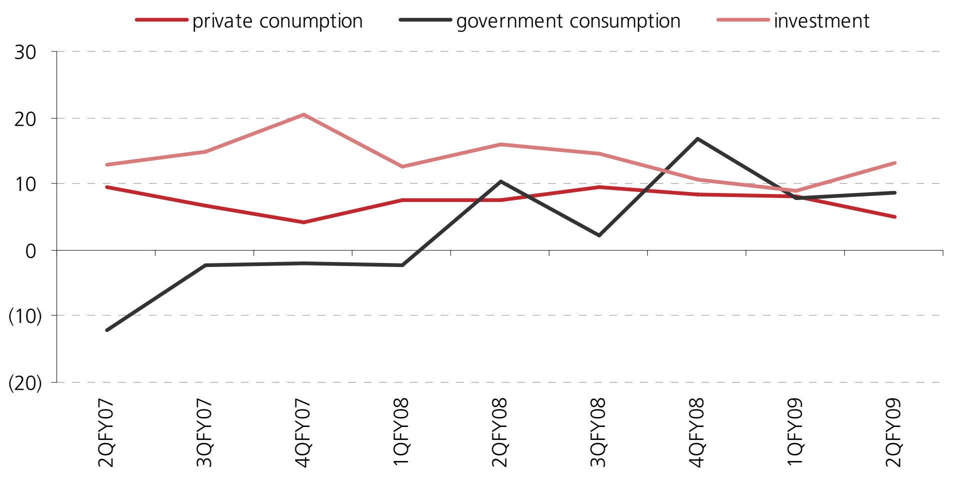
Growth in real GDP at factor cost and components, March fiscal year-ends, 2007-2010 E (%)

Sector	2007	2008	2009E	2010E
Agriculture and allied activities	**3.8**	**4.5**	**2.1**	**3.5**
Industry	**10.6**	**8.1**	**4.0**	**7.2**
Mining and quarrying	5.7	4.7	3.3	15.6
Manufacturing	12.0	8.8	4.1	6.1
Electricity, gas and water supply	6.0	6.3	4.3	7.8
Services	**11.2**	**10.7**	**9.3**	**8.0**
Construction	12.0	9.8	9.2	7.4
Trade, hotels, transport, storage and communication	11.8	12.0	9.3	7.3
Financing, insurance, real estate and business services	13.9	11.8	8.4	7.1
Community, social and personal services	6.9	7.3	10.2	10.8
Real GDP at factor cost	**9.6**	**9.0**	**7.0**	**7.1**

Source: Central Statistical Organisation, Government of India, Kotak Institutional Equities estimates

Exhibit 3: Investment demand holding till 1HFY09

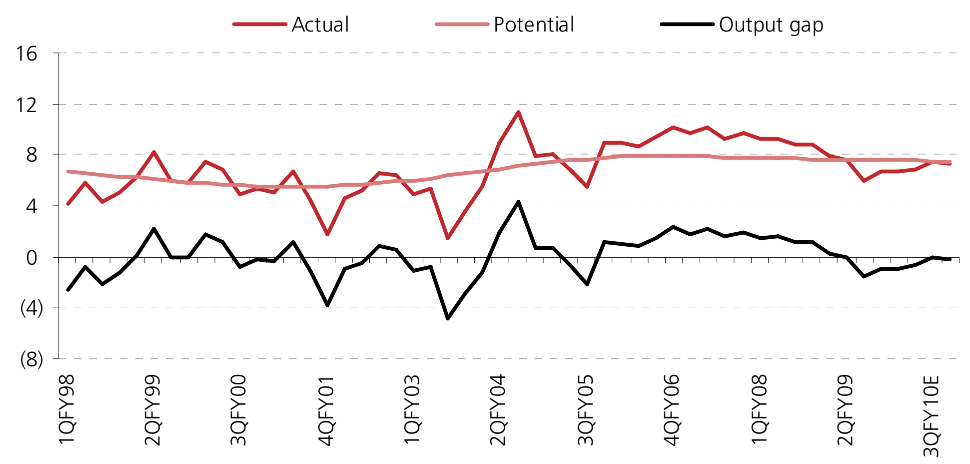
Growth in components of real aggregate demand, March fiscal year-ends, 2QFY07-2QFY09,(%)



Source: Central Statistical Organisation, Government of India, Kotak Institutional Equities estimates

Exhibit 4: Growth likely to fall below potential but output gap to close by 2HFY10E

Growth in actual output, potential output and output gap, 1QFY98-4QFY10E (%)



Source: Kotak Institutional Equities estimates

Telecom

BRTI.BO, Rs651	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	800
52W High -Low (Rs)	1070 - 483
Market Cap (Rs bn)	1,235

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	270.3	372.6	483.5
Net Profit (Rs bn)	69.3	89.1	109.3
EPS (Rs)	35.3	45.3	55.1
EPS gth	*65.0*	*28.3*	*21.7*
P/E (x)	18.4	14.4	11.8
EV/EBITDA (x)	11.2	8.5	6.5
Div yield (%)	0.3	0.6	0.9

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.0	-	-
FIIs	22.6	5.7	1.2
MFs	2.9	3.8	(0.7)
UTI	-	-	(4.5)
LIC	3.1	3.2	(1.3)

Bharti Airtel: Reiterate BUY—remains well-positioned to sustain growth momentum despite increasing competition

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- **Well-positioned to tide over increasing competitive challenges**
- **Loss in market share and near-term pressure on wireless profitability built into street estimates and priced in, in our view**
- **Balance sheet strength will enable further widening in network expansion gap**
- **Likely reduction in termination charges the key risk; TRAI indicates review of IUC regime to take some time**

We continue to see Bharti as the best play on the Indian telecom sector and reiterate our BUY call on the stock. Bharti's superior execution, best-in-class cost management and capital productivity (reflected in industry-leading return ratios) will keep the company in good stead even as we expect the industry dynamics to remain under stress over the near-to-medium term. A likely loss in market share (of net adds and subscribers) for Bharti, and pressure on tariffs and profitability in the near-term appear completely priced in. We see Bharti's strong balance sheet as a key source of competitive advantage as it would enable the company to maintain its 2G network coverage leadership and also sprint ahead of the competition on 3G foray as and when the 3G auctions happen. A likely reduction in termination charges (from the current Rs0.3/min) remains the key risk to our estimates/call; we discuss the potential implications for Bharti later in the note. Our 12-month DCF-based target price of Rs800/share implies an upside of 23% from current levels. Maintain BUY.

All potential operational risks appear priced in; we find Bharti best positioned to tide over the competitive challenges. Completion of pan-India rollout of GSM operations by RCOM, Idea, Aircel and Vodafone along with entry of new players will raise the competitive intensity further with the pressure on tariffs likely to sustain. Exhibit 1 gives the EPM, return ratios and DCF value for Bharti at various RPM levels. We expect Bharti to be aggressive on pricing in a bid to protect its subs market share and make it economically unviable for the new operators. Even at an RPM of Rs0.45 (the worst-case scenario, in our view), our DCF-based fair value for Bharti works out to Rs713. We highlight that we do not assume any volume elasticity (keep MOUs at our current assumptions) in this distressed-RPM scenario. An elasticity of 0.5 takes our DCF-based fair value (at an RPM of Rs0.45 in perpetuity) to Rs740, implying a fair (14%) upside from current levels. Assuming a market share decline of 1% from our base case (which already factors in a market share decline) and RPM of Rs0.4 (and no volume elasticity, an extremely unlikely situation), our distressed valuation for Bharti stands at Rs650.

We also believe Bharti is well-positioned to protect its overall profitability in the near term despite pressure on wireless profitability. We expect the tower business (improved profitability as tenancy increases) to make up for the decline in wireless profitability.

Balance sheet strength—a key source of competitive advantage. Bharti's strong balance sheet as compared to most of its competitors will likely remain a source of competitive advantage for the company over the next few years, especially given the likely tight credit environment. Exhibit 2 summarizes the key financial estimates for Bharti; we highlight that our estimates do not factor in any potential 3G capex (and revenues). We believe Bharti's balance sheet strength would help the company maintain its leadership position on 2G coverage as well as mitigate any strain on 3G expansion. Coverage leadership will likely aid Bharti in limiting the loss in GSM market share on account of new network rollouts by existing as well as new players.

New competition unlikely to gain disproportionate market share; more likely to expand the market in the near term. Exhibit 3 depicts the performance of Idea, Vodafone, and Aircel in some of their new circles. We highlight, rather surprisingly, that we have not seen disruptive pricing from any of the new entrants in various circles. Base tariffs seem to have hit a plateau for the time being, with pricing innovation limited to special recharge vouchers (free local minutes or reduced STD tariffs for a specified time period for a zero talk time recharge coupon). We believe new competition is more likely to expand the market than create a disruption in net adds market share in the near term. Nevertheless, as highlighted earlier, we build in a 60 bps decline in Bharti's overall subscriber market share in FY2010E (560 bps decline in net adds market share in FY2010E to 23% from 28% in FY2009E).

Likely reduction in termination charges the key risk to our call. The Department of Telecommunications has been considering a reduction in mobile termination charges and had asked the TRAI to review the same. We see a potential reduction in termination charges as a negative for the industry as a whole, and some of the large incumbents in particular. Exhibit 4 gives the likely impact of a Rs0.1/min reduction in termination charges (to Rs0.2/min from the current Rs0.3/min) on Bharti's EBITDA and EPS estimates for FY2010E and FY2011E; impact on EBITDA works out to 7-8% while EPS impact could be as high as 14-15% of current estimates. We continue to keep a close watch on developments on this front.

Exhibit 5 gives the valuation summary of the listed telecom stocks in India.

Bharti would earn an average RoACE of 27%, even if the RPM was to fall to Rs0.45/min

Sensitivity analysis of EPS, EPM, RoAE and RoACE to RPM for Bharti, March fiscal year-ends, 2010E-17E

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Current assumptions								
EPS (Rs)	55.1	65.6	69.4	77.3	85.7	92.3	94.6	101.5
RPM (Rs)	0.57	0.53	0.52	0.52	0.52	0.53	0.53	0.53
EPM (Rs)	0.17	0.17	0.16	0.17	0.17	0.18	0.18	0.18
RoACE (%) (a)	28.1	26.8	26.4	28.4	31.2	33.6	34.9	38.0
RoAE (%) (a)	35.9	30.5	27.0	28.4	31.5	34.3	36.1	39.9
12-month forward DCF value	**802**							
At RPM of 0.5 (FY2010E onwards)								
EPS (Rs)	51.3	63.3	67.1	74.8	83.1	89.5	91.9	98.8
EPM (Rs)	0.16	0.16	0.16	0.16	0.17	0.17	0.17	0.17
RoACE (%)	26.2	25.8	25.4	27.4	30.0	32.4	33.7	36.7
RoAE (%)	33.1	29.2	25.9	27.3	30.3	33.0	34.8	38.4
12-month forward DCF value	**758**							
At RPM of 0.45 (FY2010E onwards)								
EPS (Rs)	47.1	59.0	62.4	69.8	77.7	83.8	86.6	93.2
EPM (Rs)	0.15	0.15	0.15	0.15	0.15	0.16	0.16	0.16
RoACE (%)	24.1	23.8	23.4	25.2	27.7	29.9	31.3	34.1
RoAE (%)	30.2	26.8	23.8	25.1	27.8	30.4	32.2	35.6
12-month forward DCF value	**713**							

Source: Kotak Institutional Equities estimates

Bharti Airtel's condensed financial statements, March year-ends, 2007-2012E

	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)						
Revenue	184,202	270,250	372,559	483,493	559,777	618,685
EBITDA	74,344	113,225	151,587	193,914	225,662	253,637
EBIT	48,153	76,454	106,145	134,002	156,324	177,483
Net interest income / (expense)	(1,370)	82	(11,107)	(7,990)	1,377	4,727
Tax	(5,680)	(8,378)	(7,512)	(19,026)	(29,851)	(46,110)
Net profit	40,621	67,007	85,949	104,629	124,416	131,778
Fully diluted EPS	**21.4**	**35.3**	**45.3**	**55.1**	**65.6**	**69.4**
Balance sheet (Rs mn)						
Cash	8,521	55,006	73,634	78,696	70,426	116,762
Other current assets	36,882	58,776	60,915	64,105	67,025	70,149
Fixed assets	161,342	159,513	158,365	157,217	156,069	154,921
Other long term assets	1,498	16,596	16,596	16,596	16,596	16,596
Short tem debt	46,364	—	—	—	—	—
Other current liabilities	104,575	154,135	179,418	173,866	174,244	178,365
Long term debt	6,495	90,969	122,127	105,509	35,194	280
Other long term liabilities	4,335	4,953	3,026	9,004	15,376	23,527
Shareholders funds (incl. minorities)	114,884	222,585	308,534	413,163	515,375	602,744
Net (debt)/ cash	(44,338)	(35,964)	(48,493)	(26,813)	35,232	116,482
Free cash flow (Rs mn)						
EBITDA	**74,344**	**113,225**	**151,587**	**193,914**	**225,662**	**253,637**
Change in working capital	10,387	24,987	23,144	(8,741)	(2,543)	997
Cash tax (paid)	(4,845)	(8,414)	(11,016)	(15,406)	(26,913)	(42,280)
Cash interest (paid)	(2,561)	(4,716)	(7,566)	(7,074)	(4,202)	(1,017)
Capex on PP&E and intangibles	(83,693)	(160,896)	(169,775)	(143,794)	(113,334)	(91,421)
Free cash flow	**(6,790)**	**(20,717)**	**(13,625)**	**18,900**	**78,670**	**119,916**
Ratios (%)						
Sales growth	57.9	46.7	37.9	29.8	15.8	10.5
EBITDA growth	79.1	52.3	33.9	27.9	16.4	12.4
EPS growth	100.3	65.0	28.3	21.7	18.9	5.9
FCF growth	NM	NM	NM	(238.7)	316.2	52.4
EBITDA margin	**40.4**	**41.9**	**40.7**	**40.1**	**40.3**	**41.0**
Net margin	22.1	24.8	23.1	21.6	22.2	21.3
FCF margin	(3.7)	(7.7)	(3.7)	3.9	14.1	19.4
RoAE	43.1	39.7	32.4	29.0	26.8	23.6
ROAE (excl. cash and int. income)	**43.5**	**45.5**	**42.2**	**35.9**	**30.5**	**27.0**
RoACE	29.7	29.2	25.2	25.0	24.6	23.6
ROACE (excl. cash and int. income)	**29.7**	**31.9**	**31.4**	**28.1**	**26.8**	**26.4**
Net debt/EBITDA (X)	**0.6**	**0.3**	**0.3**	**0.1**	**(0.2)**	**(0.5)**
Net debt/equity (X)	**0.4**	**0.2**	**0.2**	**0.1**	**(0.1)**	**(0.2)**
Total debt/capital (X)	0.5	0.4	0.4	0.3	0.1	0.0
Tax rate (%)	11.2	11.0	11.6	12.2	17.1	23.2

Source: Kotak Institutional Equities estimates

Analyzing new rollout performances over the past few months

Company	Circle	Launch month	Subs base end-Oct 2008 ('000)	end-Oct 2008 market share (%)	Incremental market share since launch (%)
Idea					
	U.P. (East)	Feb-06	1,458	6.9	8.7
	H.P.	Feb-06	117	4.4	5.8
	Rajasthan	Mar-06	1,063	6.0	7.5
	Mumbai	Aug-08	178	1.1	0.1
	Bihar	Oct-08	74	0.5	12.6
Vodafone					
	Assam	Sep-08	30	0.6	8.4
	Orissa	Aug-08	96	1.4	10.7
	North-east	Sep-08	16	0.6	6.0
	M.P.	Oct-08	5	0.0	1.1
	Bihar	Oct-08	26	0.2	4.5
Aircel					
	Kolkata	May-08	311	3.3	18.3

Source: TRAI, Kotak Institutional Equities estimates

Rs0.1 reduction in termination charges could have a 7-8% negative impact on Bharti's EBITDA

	FY2010E	FY2011E
Total wireless minutes (mn)	676,794	807,572
% incoming	52	52
% off-net within incoming	48	48
Reduction in termination charges (Rs/min)	0.1	0.1
Loss of off-net termination revenues (Rs mn)	(16,893)	(20,157)
Savings on lower spectrum and license fees	1,739	2,075
EBITDA impact (Rs mn)	**(15,154)**	**(18,082)**
Current EBITDA estimate (Rs mn)	193,914	225,662
EBITDA impact (%)	**(7.8)**	**(8.0)**
Termination ARPU per sub (old) (Rs/sub/month)	**40.9**	**41.5**
Termination ARPU per sub (likely) (Rs/sub/month)	**27.3**	**27.6**
Effective tax rate	15.1	18.9
Net income impact	**(12,866)**	**(14,659)**
As % of current net income estimate	**(15.0)**	**(14.0)**

Note:
(a) Assuming termination charges are reduced effective April 1, 2009.

Source: TRAI performance indicators report Jun '08 quarter, Kotak Institutional Equities estimates

Indian telecom companies valuation analysis, March fiscal year-ends, 2006-2010E

	Price (Rs)	Target price	P/E (X)					EV/EBITDA (X)				
	1-Dec-08	(Rs)	2006	2007	2008	2009E	2010E	2006	2007	2008	2009E	2010E
Bharti	651	800	60.9	30.4	18.4	14.4	11.8	30.8	17.2	11.2	8.5	**6.5**
Idea	45	70	50.3	20.1	11.3	13.7	12.9	13.7	9.5	7.8	5.0	**4.9**
MTNL	73	80	11.1	9.2	10.3	14.4	13.3	3.6	3.4	1.7	2.5	**2.5**
RCOM	197	265	90.7	13.9	7.5	7.5	5.9	20.0	8.8	7.9	6.7	**5.4**
TCOM	395	400	21.2	23.0	36.1	29.1	28.2	11.6	11.2	18.7	14.3	**12.8**

	KS	Market cap.	Revenues (Rs bn)					EBITDA (Rs bn)				
	rating	(US$ bn)	2006	2007	2008	2009E	2010E	2006	2007	2008	2009E	2010E
Bharti	BUY	25.6	117	184	270	373	483	42	74	113	152	194
Idea	REDUCE	2.4	30	44	67	106	161	11	15	23	33	40
MTNL	REDUCE	1.0	55	49	47	45	47	7	8	7	5	6
RCOM	SELL	8.3	106	145	191	231	299	23	57	82	95	124
TCOM	REDUCE	2.3	38	40	33	38	42	9	9	6	8	9

	Net income (Rs bn)					EPS (Rs)				
	2006	2007	2008	2009E	2010E	2006	2007	2008	2009E	2010E
Bharti	20	41	66	85	103	10.7	21.4	35.3	45.3	55.1
Idea	2	5	10	11	11	0.9	2.2	3.9	3.3	3.4
MTNL	4	5	4	3	3	6.6	8.0	7.1	5.1	5.5
RCOM	5	31	56	58	71	2.2	14.2	26.1	26.3	33.1
TCOM	5	5	3	4	4	18.6	17.2	10.9	13.6	14.0

Source: Bloomberg, Kotak Institutional Equities estimates

Pharmaceuticals

SUN.BO, Rs1072	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,765
52W High -Low (Rs)	1558 - 870
Market Cap (Rs bn)	221.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	33.6	44.8	48.2
Net Profit (Rs bn)	14.9	18.8	16.7
EPS (Rs)	74.7	90.9	80.8
EPS gth	*78.9*	*21.7*	*(11.1)*
P/E (x)	14.4	11.8	13.3
EV/EBITDA (x)	11.9	8.9	9.3
Div yield (%)	1.0	1.0	1.3

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	63.7	-	-
FIIs	20.5	1.1	0.1
MFs	3.6	1.0	0.0
UTI	-	-	(0.9)
LIC	-	-	(0.9)

Sun Pharmaceuticals: Effexor XR update and acquisition in controlled substance segment

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- **FDA rules against Sun in the Citizen Petition filed by Osmotica**
- **Sun must submit ANDA proving bioequivalence to Osmotica product. This could delay the product beyond mid 2011**
- **We exclude Effexor XR from forecasts. FY2010-11E KIE PAT decline by 6% and 11%**
- **Maintain BUY with SOTP-based target price reduced to 1,765 (from Rs1,870)**

US FDA issued its decision relating to a Citizen Petition filed by Osmotica Pharmaceuticals against Sun Pharma. This Citizen Petition asked the FDA that any pending application seeking approval for venlafaxine HCL extended release tablets should cite Osmotica's product approved under NDA 22-104. FDA has ruled that Sun must submit a new ANDA demonstrating bioequivalence to Osmotica product. With Osmotica patents covering the product till March 2017, Sun will have to file paragraph IV certification if it wants an earlier approval. This would trigger the mandatory 30 months stay under US FDA procedure. This would make mid-2011 as the earliest starting date. However, Sun would also have to consider the fact that the generic version of Effexor XR will be in market in July 2010 from Teva, and Mylan could follow some time later. We were modeling in revenues of US$50 mn in FY2010E rising to US$100 mn in FY2011E and estimated EBITDA margin of 60% for this product. We exclude this opportunity from our estimates leading to FY2010-11E KIE declining by 6% and 11%. We include sales estimates from the recent acquisition made by Sun. Maintain BUY rating with a SOTP-based target price reduced to 1,765 (from Rs1,870).

US FDA accepts Osmotica's views relating to approval of venlafaxine ER tablets. On November 25, US FDA issued its decision relating to Citizen Petition filed by Osmotica Pharmaceuticals. This Citizen Petition asked the FDA that any pending application seeking approval for venlafaxine HCL extended release tablets should cite Osmotica's product approved under NDA 22-104. Sun was arguing that their product was bioequivalent to Wyeth's product but not bioequivalent to Osmotica. FDA ruled against Sun Pharma and said that it must submit a new ANDA containing, amongst other things, demonstration of bioequivalence with Osmotica product.

What this does do to Sun Pharma's application? Sun will not be able to get approval for its product unless it files a new ANDA as FDA has decided. With Osmotica patents covering the product till March 2017, Sun will have to file paragraph IV certification if it wants an earlier approval. This would trigger the mandatory 30 months stay under US FDA procedure. This would make mid-2011 as the earliest starting date unless Sun decides to launch the product at risk. However, Sun would also have to consider the fact that generic version of Effexor XR will be in market in July 2010 from Teva and Mylan could follow some time later. This would reduce prices that Sun can charge thus disturbing its profit calculations. It would become more crowded market with at least four players while we were looking for it to become a three-player market after Wyeth and Osmotica in FY2010E.

We were modeling in revenues of US$50 mn in FY2010E rising to US$100 mn in FY2011E and estimated EBITDA margin of 60%. While Sun Pharma's reaction to this development is not fully disclosed, we have decided to exclude this opportunity from our estimates for the time being. This has led us to lower sales and PAT. With no changes to valuation method, we lower price target to Rs1,765.

Background information on Osmotica's Citizen Petition On October 20, 1997, Wyeth obtained approval for Effexor XR (venlafaxine HCl) 37.5mg, 75-mg, 100-mg, and 150-mg extended-release capsules for the treatment of major depressive disorder. Effexor XR subsequently was approved for the treatment of generalized anxiety disorder in 1999, treatment of social anxiety disorder in 2003, and treatment of panic disorder in 2005.

On April 16, 2003, Lachman Consultant Services, Inc. submitted a suitability petition requesting permission to file an ANDA for a drug product, venlafaxine HCl extended-release tablets, 37.5 mg, 75 mg, and 150 mg that differed from Effexor XR in dosage form. FDA determined that Lachman's request for a change in dosage form from extended-release capsules to extended-release tablets was a type of change authorized by the Act, and granted Lachman's suitability petition on March 30, 2005. The approval of the suitability petition would permit an ANDA to be submitted for venlafaxine HCl extended-release tablets, 37.5 mg, 75 mg, and 150 mg that referred to the corresponding strengths of Effexor XR extended-release capsules as the basis for ANDA submission.

On May 20, 2008, Osmotica's 505(b)(2) application for 37.5-mg, 75-mg, 150-mg, and 225-mg venlafaxine HCl extended-release tablets (NDA 22-104) was approved for treatment of major depressive disorder and social anxiety disorder. The approval of Osmotica's NDA 22-104 was based on the agency's finding of safety and effectiveness for Effexor XR extended-release capsules and supported by comparative bioavailability data.

On May 30, 2008 Osmotica filed a Citizen Petition regarding venlafaxine hydrochloride (HCI) extended-release tablets. This petition requested that the FDA refrain from approving any pending ANDA for venlafaxine HCI extended-release tablets that cites Effexor XR. It requested that FDA require any pending applicant seeking approval for venlafaxine HCI extended-release tablets to cite Osmotica's product approved (under NDA 22-104) and submit a new ANDA for the product. It asked that FDA require any such ANDA applicant to conduct new bioequivalence studies comparing its proposed drug product to Osmotica's product. It was this Citizen Petition that was decided on by the FDA.

Another addition in controlled substance segment Sun has acquired 100% ownership of Chattem Chemicals from Elcat, Inc. The terms of the transaction were not disclosed. Chattem is registered with the US Drug Enforcement Administration (DEA) as a narcotic raw material importer. It is approved for import of four controlled substances—methamphetamine, phenylacetone, raw opium and concentrate poppy straw. It is also licensed by the DEA to manufacture Schedule 1 to 5 controlled substances. At its facility spread over 6.5 acres in Chattanooga, Tennessee, Chattem employees 60 people and manufactures a variety of active pharmaceutical ingredients (APIs) with a focus on controlled substances. For the year ending June 2008, Chattem is estimated to have sales of $26m.

This is Sun Pharma's third acquisition of a controlled substance business. In 2005, Sun Pharma acquired a facility in Hungary authorized to make controlled substance APIs, starting from the initial stage, i.e. poppy farming. It also acquired in 2005 a manufacturing site in New Jersey, equipped with special suites for the manufacture of controlled substances finished dosages. With Chattem acquisition, Sun can potentially import products from Hungary site for distribution into the US. We have included revenues of US$25 mn in FY2010-11E with EBITDA margin estimated to be 10% and 15%. This may be conservative since no details about profitability have been shared.

Maintain BUY rating with a SOTP-based target price of Rs1,765. We have made changes to estimates for both the recent developments discussed in this note. We think market was factoring in revenues and profits from Efferxor XR and expect a negative reaction from the market. Now our attention shifts to further developments in Taro acquisition where hearing in Supreme Court of Israel will take place on December 8. Despite this negative development, we continue to rate Sun Pharma as BUY.

Forecasts and valuation, March fiscal year-ends, 2007-2011E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2007	21,321	30.3	9,163	42.3	7,843	36.8	41.7	16.1	36.0	25.7
2008	33,565	57.4	18,236	99.0	14,869	89.6	74.7	32.2	38.3	14.4
2009E	44,783	33.4	23,623	29.5	18,823	26.6	90.9	32.1	32.3	11.8
2010E	48,248	7.7	21,933	(7.2)	16,725	(11.1)	80.8	22.4	22.8	13.3
2011E	56,675	17.5	25,758	17.4	19,967	19.4	96.4	22.6	22.4	11.1

Source: Company data, Kotak Institutional Equities estimates.

SOTP-based price target, FY2010-FY2011E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	FY2010E	FY2011E	(X)	FY2010E	FY2011E
India finished dosage	7,306	8,562	20.0	146,124	171,231
India API	50	57	10.0	495	572
International finished dosage	1,719	2,301	16.0	27,510	36,824
International API	1,183	1,360	13.0	15,375	17,684
Caraco business	1,891	2,493	16.5	31,208	41,130
Sun Pharma ANDAs	3,585	3,876	16.5	59,146	63,953
Hungary	224	292	15.0	3,353	4,379
Cranbury/Bryan facilities	185	384	15.0	2,773	5,756
US -180 days exclusivity	—	—	NM		
Chattem Chemicals in US	20	82	15.0	294	1,231
Total (ex interest income)	**16,162**	**19,407**		**286,278**	**342,760**
Value per share (Rs)				**1,382**	**1,655**
Cash per share (Rs)				158	221
Share price target (Rs)					**1,764**

Source: Kotak Institutional Equities estimates.

Change in estimates

	Current estimates		Old estimates		% change	
	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Net sales	**48,248**	**56,675**	**49,373**	**60,050**	**(2)**	**(6)**
EBITDA	**18,133**	**21,958**	**19,371**	**24,489**	**(6)**	**(10)**
Depreciation and amortisation	(1,350)	(1,500)	(1,350)	(1,500)	—	—
EBIT	**16,783**	**20,458**	**18,021**	**22,989**	**(7)**	**(11)**
Net finance cost	—	—	—	—	NM	NM
Other income	1,700	1,700	1,700	1,700	—	—
Pretax profits before extra-ordinaries	**18,483**	**22,158**	**19,721**	**24,689**	**(6)**	**(10)**
Current tax	(659)	(990)	(733)	(1,155)	(10)	(14)
Deferred tax	(450)	(450)	(450)	(450)	—	—
Reported net profit	**17,374**	**20,717**	**18,538**	**23,084**	**(6)**	**(10)**
Minority Interests	649	750	653	750	(1)	—
Reported net profit after minority interests	**16,725**	**19,967**	**17,885**	**22,334**	**(6)**	**(11)**

Source: Company data, Kotak Institutional Equities estimates.

Automobiles

Sector coverage view			Cautious

		Price, Rs	
Company	**Rating**	**1-Dec**	**Target**
Hero Honda	REDUCE	759	770
Bajaj Auto	REDUCE	308	460
Tata Motors	SELL	133	180
Maruti Suzuki	REDUCE	487	650
Mah & Mah	ADD	272	410
Bharat Forge	REDUCE	87	390

Nov '08 automotive volumes: On track for de-growth in passenger car sales; pricing could crack next

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- **Domestic sales could be down yoy on an FYTD basis—close to 70% of domestic market have reported numbers**
- **Maruti Suzuki: Domestic volumes down 27% yoy as retail demand comes in weaker than expected**
- **M&M: Across the board decline in sales; tractor sales down 32% yoy**
- **Tata Motors: October and November MHCV sales decline 33% from the 1HFY09 rate**
- **Bajaj Auto: Inventory correction to continue in December; offers low interest financing**
- **Hero Honda: Volumes trump the industry weakness, up 0.5% yoy**

We saw a significant acceleration in inventory correction on the 4-wheelers in November. Two-wheelers continued to show a dichotomy—Bajaj Auto and TVS show 37% and 13% declines, respectively, while Hero Honda continue to buck the trend with a 0.5% yoy increase in November. While year-ago comparisons were tough due to the festival season being in November last year (October this year), this explains only a part of the weakness. Four-wheeler manufacturers seem to have cut production schedules significantly with Maruti selling 24% less vehicles to dealers. M&M saw a 40% decline in UV sales to dealers. The commercial vehicles segment continued to be weak with Tata Motors cutting dealer sales by 38% yoy.

Maruti Suzuki: Domestic volumes down 26% yoy as retail demand comes in much weaker than expected

Maruti reported 24% yoy decline in overall volumes for Nov '08—domestic volumes declined 27% yoy whereas exports grew 11% yoy. Entry-level M-800 volumes were down 26% while the compact car segment volumes declined 22% yoy. However, the mid-size car segment saw a strong growth of 40% led by a strong demand for Dzire and SX4.

Maruti indicated that the sales decline was worse than they expected for November. However, the company is sticking with its +4.5% production target for FY2009 for now. We believe there is further risk to the production numbers as at current year-to-date numbers (-0.2% yoy), the company would need to see a 13.3% increase in production for the balance of the year to get to the +4.5% yoy growth target. We believe Maruti distributed close to 4,000 units of the A-Star and could be a driver for higher sales as the company starts exporting in January 2009. However, the company will face stiff challenges (1) from cannibalization of the WagonR domestically and (2) weak European markets for overseas sales.

M&M: Across the board decline in sales; tractor sales down 32% yoy

M&M reported a sharp 39% yoy decline in total sales for Nov'08. UV sales also declined 40% in Nov '08. M&M's Logan volumes declined a sharp 81%—we note that the demand for Logan continues to be weak and its volumes have been showing a declining trend for quite a while. Tractor volumes decline 32% yoy for the month. M&M's tractor sales were down 32% yoy in November and up 2% year-to-date. Apart from the tough year-ago comparison, tractor sales are seasonally weak in November and December. Sales are expected to recover in 4QFY2009 and annual sales could be up in the 4-5% range.

Tata Motors: Combined October and November MHCV sales decline 33% from the 1HFY09 rate

Tata Motors reported another 60% yoy decline in domestic M&HCV volumes while LCV volumes were down 16% yoy. M&HCV sales continue to get hurt by (a) lack of demand for goods movement, (b) drop in road-freight rates and (c) high financing costs. Passenger car sales were down 6% during the month, as the company blamed restricted availability of finance for the orders of Indica Vista not being fulfilled. UV volumes were down 54% yoy during the month.

Bajaj Auto: Inventory correction to continue in December; offers low interest financing (7.99%)

Bajaj reported a 37% yoy decline in motorcycle volumes for the month of Nov'08. Overall 2-wheeler sales were down 37% (including scooters) while 3-wheeler sales were up13% yoy. Bajaj continues to lose share as illustrated by the 0.5% increase in sales at Hero Honda. As discussed a couple of weeks ago, the trends working against Bajaj Auto seem to have accelerated. The weaker sales environment in urban areas, shift towards less expensive (100cc) bikes and retail financing seems to be playing against Bajaj's strategy to concentrate on the 125cc segment and their strength in the urban areas. In another sign of prices cracking, Bajaj offered 7.99% financing nationwide through Bajaj Auto Finance.

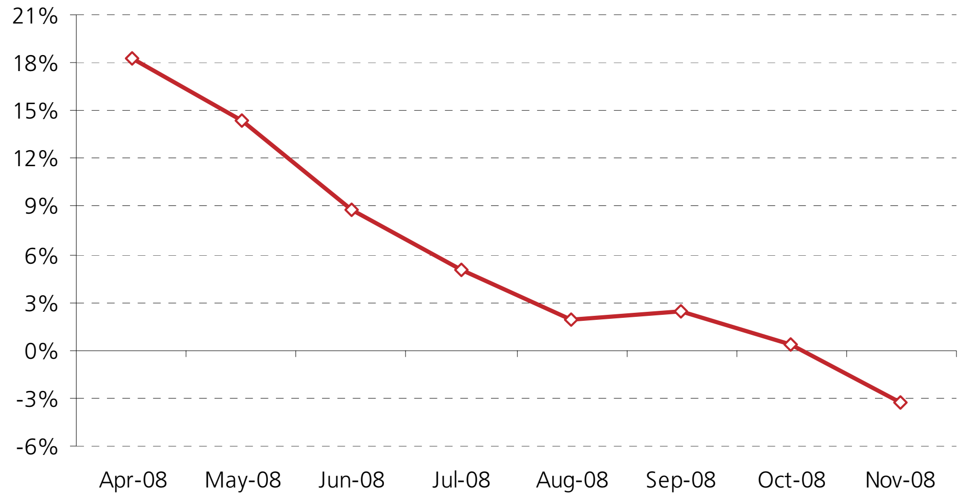
Hero Honda: New products buck industry weakness, volumes up 0.5% yoy

Hero Honda's 2-wheeler volumes were up 0.5% yoy in Nov '08 while volumes are up 13% on YTD basis. Hero Honda seems to be benefitting from the launch of 5 new models, a strong retail presence and a shift towards less expensive 100cc bikes. Contrary to our expectations, November sales don't seem to have impacted by a pull-forward of sales in October. Sales declined 17% sequentially from October, which is in line with the 20% declines seen historically, We might end up being conservative with our estimates as we expect only a 7.5% increase in volumes yoy. Year-to-date, volumes were up 13% and would need to be down 3.5% for the rest of the year to hit our up 7.5% assumption. If we assume a flat sales environment for the rest of the year, annual volumes would be up 9% yoy.

TVS Motors: Motorcycle volumes decline 20.7% yoy

TVS Motors reported a 20.7% yoy decline in motorcycle volumes for the month of Nov '08. On a year-to-date basis, sales to dealers are still up 6%. As a result we expect to see further production cuts if demand remains weak. TVS' overall 2-wheeler volumes declined 12.7% yoy. The company noted high interest rates and limited availability of retail financing for the yoy decline. The company indicated that they have entered into an agreement with IndusInd Bank for dealers towards inventory funding. This could be towards reducing the working capital costs for the dealers.

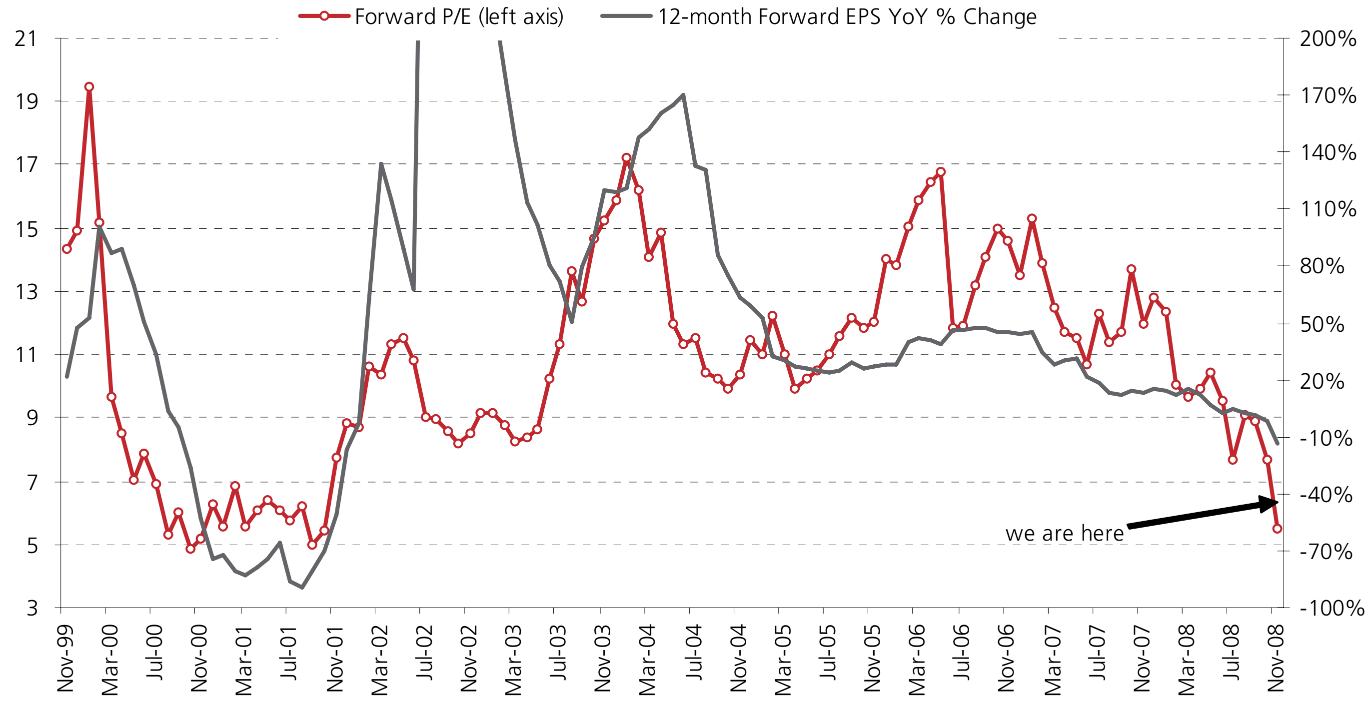
Cumulative passenger car and UV sales yoy, % change, FY2009



Source: company data, KIE estimates

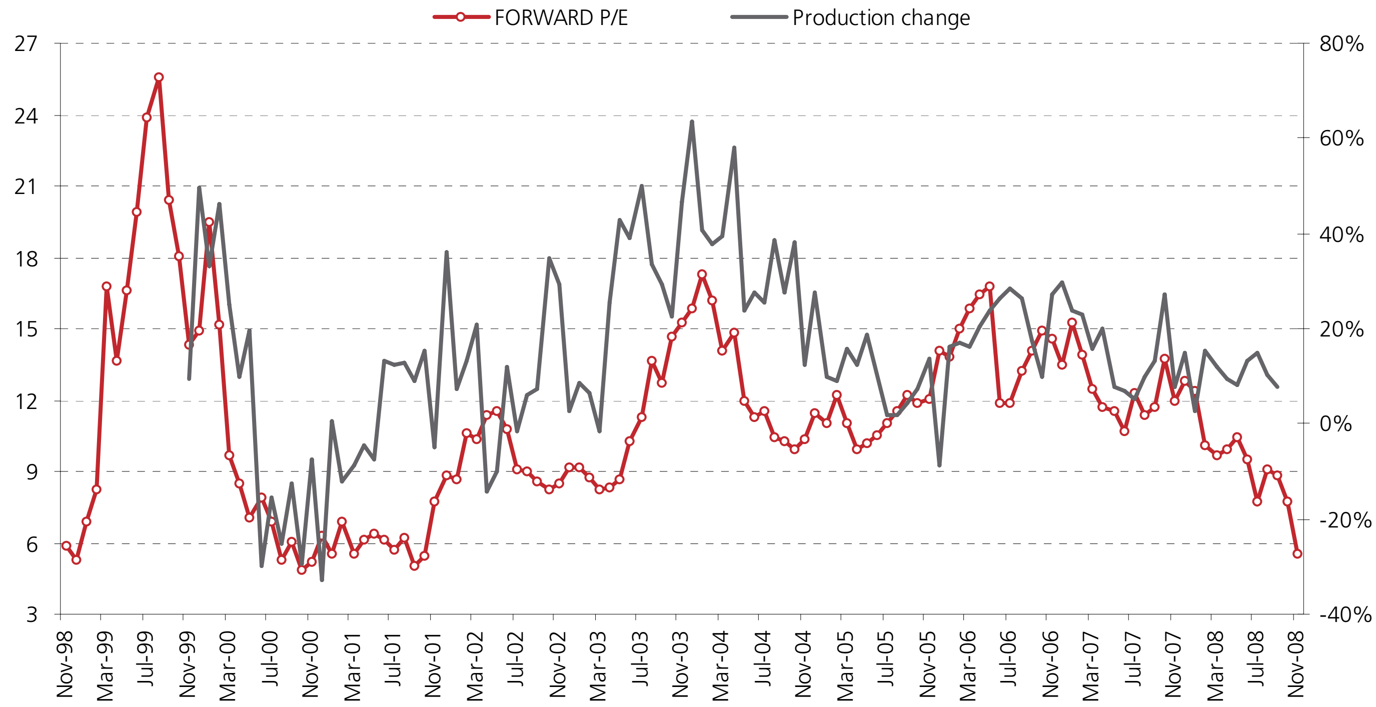
No hurry to buy auto stocks

4-Wheeler forward P/E v/s % change in forward EPS estimate



Source: Datastream, KIE estimates

4-wheeler forward P/E v/s production change



Source: Datastream, KIE estimates

Reported monthly sales of top two-wheeler companies - Nov 2008

	Nov-08	Nov-07	yoy %	Oct-08	mom %	YTD, FY2009	YTD, FY2008	yoy %
Bajaj Auto								
Ungeared Scooters	740	1,724	-57.1%	1,627	-54.5%	9,332	17,500	-46.7%
Motorcycles	131,681	209,876	-37.3%	163,850	-19.6%	1,415,639	1,483,741	-4.6%
Total 2-Wheelers	**132,421**	**211,600**	**-37.4%**	**165,477**	**-20.0%**	**1,424,971**	**1,506,495**	**-5.4%**
3 Wheelers	27,326	24,197	12.9%	26,363	3.7%	186,751	198,415	-5.9%
TVS Motor								
Motorcycles	45,276	57,113	-20.7%	59,217	-23.5%	446,445	420,013	6.3%
Scooty	23,487	28,119	-16.5%	23,487	0.0%	139,974	178,122	-21.4%
Moped	34,397	33,743	1.9%	34,397	0.0%	213,187	232,832	-8.4%
Total 2-Wheelers	**98,402**	**112,766**	**-12.7%**	**117,101**	**-16.0%**	**800,303**	**756,118**	**5.8%**
Hero Honda								
Total 2-Wheelers	289,426	288,027	0.5%	352,449	-17.9%	2,508,214	2,212,535	13.4%

Source: Company, Kotak Institutional Equities.

4-wheelers Nov 2008 sales performance

	Nov-08	Nov-07	yoy %	Oct-08	mom %	YTD, FY2009	YTD, FY2008	yoy %
Tata Motors								
M&HCV	5,792	14,426	-59.9%	7,321	-20.9%	81,909	97,170	-15.7%
LCV	10,437	12,469	-16.3%	11,833	-11.8%	99,214	89,687	10.6%
Domestic CV sales	16,229	26,895	-39.7%	19,154	-15.3%	181,123	186,857	-3.1%
CV Exports	2,140	2,813	-23.9%	2,767	-22.7%	22,527	24,990	-9.9%
Total CV	**18,369**	**29,708**	**-38.2%**	**21,921**	**-16.2%**	**203,650**	**211,847**	**-3.9%**
UV	1,811	3,903	-53.6%	2,989	-39.4%	26,932	29,468	-8.6%
Passenger Cars	12,516	13,336	-6.1%	14,819	-15.5%	107,528	117,924	-8.8%
Total	**32,696**	**46,947**	**-30.4%**	**39,729**	**-17.7%**	**338,110**	**359,239**	**-5.9%**
Mahindra & Mahindra								
UVs	7,523	12,662	-40.6%	13,935	-46.0%	97,839	95,851	2.1%
LCVs	302	812	-62.8%	615	-50.9%	6,559	7,102	-7.6%
Logan	300	1,561	-80.8%	1,076	-72.1%	10,593	16,277	-34.9%
Tractors	5,487	8,062	-31.9%	11,539	-52.4%	70,286	68,766	2.2%
3 Wheelers	2,305	2,809	-17.9%	4,282	-46.2%	32,318	23,098	39.9%
Total	**15,917**	**25,906**	**-38.6%**	**31,447**	**-49.4%**	**217,595**	**211,094**	**3.1%**
						-	-	
Maruti Udyog								
Entry (A) segment	2,307	5,653	-59.2%	3,307	-30.2%	34,400	44,795	-23.2%
Van-segment	3,845	7,331	-47.6%	6,362	-39.6%	51,177	57,525	-11.0%
Compact (B) segment	34,976	47,641	-26.6%	43,433	-19.5%	321,920	327,820	-1.8%
Mid-size (C) segment	5,975	4,260	40.3%	5,412	10.4%	46,176	33,611	37.4%
MUV	601	331	81.6%	612	-1.8%	4,957	2,481	99.8%
Domestic	**47,704**	**65,216**	**-26.9%**	**59,126**	**-19.3%**	**458,630**	**466,232**	**-1.6%**
Exports	5,007	4,483	11.7%	5,363	-6.6%	40,606	33,876	19.9%
Total	**52,711**	**69,699**	**-24.4%**	**64,489**	**-18.3%**	**499,236**	**500,108**	**-0.2%**

Source: Company, Kotak Institutional Equities.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	1-Dec-08		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Automobiles																													
Bajaj Auto	308	REDUCE	44,570	887	145	59.3	57.5	58.5	(53.4)	(3.0)	1.6	5.2	5.4	5.3	4.0	4.4	4.3	2.8	2.4	2.0	6.5	6.5	6.5	21.0	37.1	32.2	460	49.3	—
Hero Honda	759	REDUCE	151,572	3,016	200	48.5	56.8	63.2	12.8	17.2	11.3	15.7	13.4	12.0	9.9	8.9	8.2	4.9	4.0	3.3	2.5	2.6	2.6	34.0	33.1	30.4	770	1.4	10.7
Maruti Suzuki	487	REDUCE	140,772	2,801	289	59.9	50.3	57.5	10.8	(16.0)	14.4	8.1	9.7	8.5	4.7	5.2	4.5	1.6	1.4	1.2	1.0	1.0	1.0	22.2	15.7	15.6	650	33.4	14.4
Tata Motors	133	SELL	83,760	1,667	631	32.1	27.2	20.0	(31.6)	(15.3)	(26.4)	4.1	4.9	6.6	3.5	5.2	5.8	1.0	0.4	0.5	6.9	10.6	10.6	24.7	13.8	7.8	180	35.7	11.0
Automobiles		**Cautious**	**420,674**	**8,371**					**(0.6)**	**(8.0)**	**(2.0)**	**7.5**	**8.2**	**8.4**	5.0	5.8	5.6	**1.9**	**1.3**	**1.2**	**3.3**	**4.1**	**4.1**	**25.3**	**16.3**	**14.5**			
Banks/Financial Institutions																													
Andhra Bank	56	REDUCE	26,966	537	485	11.9	11.6	12.1	7.0	(2.4)	4.7	4.7	4.8	4.6	—	—	—	0.9	0.8	0.7	7.2	5.2	5.5	18.0	16.3	15.3	65	16.9	0.8
Axis Bank	413	REDUCE	147,752	2,940	358	32.2	39.7	51.8	37.7	23.2	30.5	12.8	10.4	8.0	—	—	—	1.8	1.6	1.4	1.4	1.8	2.4	17.6	15.2	17.5	750	81.6	65.8
Bank of Baroda	246	ADD	89,993	1,791	366	39.3	40.9	43.7	39.8	4.1	6.8	6.3	6.0	5.6	—	—	—	1.0	0.9	0.8	3.2	3.4	3.6	14.6	13.0	12.7	330	34.0	9.3
Bank of India	241	BUY	126,877	2,525	526	40.6	48.0	46.3	76.6	18.2	(3.6)	5.9	5.0	5.2	—	—	—	1.6	1.2	1.0	1.7	2.1	2.0	27.6	25.4	20.1	370	53.4	21.1
Canara Bank	162	REDUCE	66,338	1,320	410	38.2	40.0	38.3	10.1	4.8	(4.3)	4.2	4.0	4.2	—	—	—	0.9	0.7	0.6	4.9	3.7	3.7	15.0	14.7	12.6	220	36.0	4.2
Central Bank of India	34	SELL	13,579	270	404	11.6	9.4	17.1	(24.6)	(18.6)	81.0	2.9	3.6	2.0	—	—	—	0.7	0.4	0.4	6.0	—	—	15.3	11.6	16.7	55	63.7	0.4
Corporation Bank	175	BUY	25,073	499	143	51.3	51.3	51.5	37.2	0.2	0.3	3.4	3.4	3.4	—	—	—	0.6	0.5	0.5	6.0	6.0	6.0	18.4	16.3	14.6	310	77.3	0.5
Federal Bank	134	BUY	22,841	455	171	34.4	26.6	29.8	0.5	(22.7)	12.2	3.9	5.0	4.5	—	—	—	0.6	0.5	0.5	3.0	3.7	4.2	13.6	11.1	11.4	300	124.6	1.5
Future Capital Holdings	131	BUY	8,273	165	63	(4.5)	4.5	28.8	(689.8)	(198.6)	546.1	(29.0)	29.4	4.6	—	—	—	1.1	1.1	0.9	—	—	—	(6.7)	3.8	21.4	440	236.3	0.7
HDFC	1,444	ADD	414,400	8,247	287	85.8	75.6	94.8	38.2	(11.8)	25.3	16.8	19.1	15.2	—	—	—	3.5	3.0	2.7	1.7	1.6	2.0	27.8	16.9	18.6	2,100	45.5	83.3
HDFC Bank	899	BUY	380,472	7,571	423	46.0	55.6	68.9	28.7	20.9	23.9	19.5	16.2	13.0	—	—	—	3.3	2.6	1.8	0.8	1.1	1.3	17.7	17.9	17.1	1,350	50.2	54.1
ICICI Bank	326	ADD	362,233	7,208	1,113	39.9	36.2	39.2	15.4	(9.3)	8.2	8.2	9.0	8.3	—	—	—	0.8	0.7	0.7	3.4	2.8	3.0	11.7	8.4	8.6	450	38.2	166.8
IDFC	51	ADD	66,074	1,315	1,294	5.7	6.4	7.2	3.0	13.3	11.8	9.0	7.9	7.1	—	—	—	1.2	1.1	0.9	2.4	2.2	2.4	17.6	14.2	14.2	85	66.5	17.5
India Infoline	37	ADD	10,662	212	287	5.6	6.3	6.2	85.6	12.0	(1.2)	6.6	5.9	6.0	0.9	2.8	2.4	0.9	0.8	0.7	3.2	3.6	3.6	20.7	14.1	12.9	70	88.7	2.6
Indian Bank	119	ADD	51,100	1,017	430	22.5	22.8	23.5	33.9	1.0	3.1	5.3	5.2	5.1	—	—	—	1.2	1.0	0.8	2.5	2.4	2.5	23.4	18.8	16.7	160	34.6	1.9
Indian Overseas Bank	65	BUY	35,358	704	545	22.1	21.9	20.1	19.2	(0.6)	(8.5)	2.9	3.0	3.2	—	—	—	0.7	0.6	0.5	5.8	7.7	8.4	27.2	22.5	17.7	130	100.3	1.1
J&K Bank	300	ADD	14,555	290	48	74.2	76.3	72.8	31.2	2.8	(4.7)	4.0	3.9	4.1	—	—	—	0.7	0.6	0.5	5.2	5.3	5.1	16.8	15.3	13.1	500	66.6	0.1
LIC Housing Finance	158	ADD	13,429	267	85	45.5	54.6	56.2	38.7	19.8	2.9	3.5	2.9	2.8	—	—	—	0.7	0.6	0.5	6.3	7.6	7.8	—	—	—	325	105.7	2.7
Mahindra & Mahindra Financial	190	SELL	18,102	360	95	20.8	16.8	22.3	32.6	(19.5)	33.3	9.1	11.3	8.5	—	—	—	1.5	1.3	1.1	2.4	2.2	2.9	16.9	11.7	14.2	190	0.0	0.1
Oriental Bank of Commerce	145	ADD	36,303	722	251	23.9	44.0	30.0	(27.6)	84.3	(31.8)	6.1	3.3	4.8	—	—	—	0.7	0.6	0.5	3.2	6.1	4.1	6.2	17.8	10.9	200	38.0	1.9
PFC	110	ADD	125,967	2,507	1,148	11.4	12.6	15.7	2.4	10.7	24.9	9.7	8.7	7.0	—	—	—	1.2	1.1	1.0	3.2	1.6	2.0	13.5	13.3	14.8	140	27.6	1.9
Punjab National Bank	415	BUY	130,740	2,602	315	65.0	81.5	86.0	33.0	25.4	5.5	6.4	5.1	4.8	—	—	—	1.4	1.1	0.9	3.1	3.9	4.2	18.0	19.5	18.0	650	56.8	11.2
Shriram Transport	217	ADD	44,038	876	203	19.2	28.4	29.7	85.7	48.2	4.5	11.3	7.6	7.3	—	—	—	2.5	2.1	1.8	2.3	3.9	4.3	26.9	28.6	25.8	305	40.7	0.7
SREI	38	BUY	4,373	87	116	11.4	7.6	7.6	57.4	(33.5)	(0.2)	3.3	4.9	5.0	—	—	—	0.7	0.4	0.4	3.2	6.1	7.4	23.1	13.9	12.8	100	166.0	0.4
State Bank of India	1,056	BUY	666,864	13,271	631	106.6	116.5	105.2	23.5	9.4	(9.7)	9.9	9.1	10.0	—	—	—	1.6	1.4	1.3	2.0	2.0	2.1	16.8	14.2	11.6	1,600	51.5	115.5
Union Bank	144	BUY	72,611	1,445	505	27.5	30.9	31.0	64.1	12.6	0.2	5.2	4.6	4.6	—	—	—	1.0	0.9	0.7	2.8	3.2	3.2	26.8	24.9	20.7	220	53.0	5.1
Banks/Financial Institutions		**Attractive**	**2,974,972**	**59,202**					**36.9**	**12.1**	**5.7**	**9.1**	**8.1**	**7.6**	**—**	**—**	**—**	**1.4**	**1.2**	**1.1**	**2.4**	**2.4**	**2.6**	**15.4**	**15.0**	**13.9**			
Cement																													
ACC	401	REDUCE	75,682	1,506	189	64.1	56.2	44.5	13.0	(12.3)	(20.8)	6.3	7.1	9.0	3.1	3.2	4.4	1.7	1.5	1.4	5.8	5.8	5.8	33.3	23.5	16.7	550	37.1	4.9
Ambuja Cements	52	REDUCE	79,849	1,589	1,522	7.6	7.8	5.4	(11.2)	2.8	(30.0)	6.9	6.7	9.6	3.5	3.5	4.5	1.6	1.3	1.2	4.9	5.7	4.1	26.6	21.0	12.8	60	14.4	2.9
Grasim Industries	905	ADD	82,938	1,650	92	284.6	221.1	180.9	32.6	(22.3)	(18.2)	3.2	4.1	5.0	2.7	3.4	3.5	0.9	0.8	0.7	3.4	3.7	3.7	33.1	20.3	14.4	1,400	54.8	4.2
India Cements	87	BUY	24,537	488	282	24.5	22.7	20.2	n/a	(7.3)	(10.8)	3.6	3.8	4.3	3.4	2.9	3.1	0.7	0.6	0.6	2.1	2.4	2.4	25.8	18.6	14.6	145	66.6	1.7
Shree Cement	348	BUY	12,136	241	35	90.2	109.1	71.3	99.5	21.0	(34.6)	3.9	3.2	4.9	2.4	2.8	2.5	1.9	1.2	1.0	2.3	2.3	2.3	56.9	46.6	22.9	850	144.0	0.1
UltraTech Cement	270	BUY	33,877	674	125	81.4	71.0	54.7	28.5	(12.8)	(22.9)	3.3	3.8	4.9	2.8	3.0	3.2	1.0	0.8	0.7	2.8	3.0	3.0	45.2	28.8	18.2	550	103.4	1.0
Cement		**Cautious**	**309,018**	**6,149**					**19.3**	**(11.6)**	**(21.8)**	**4.4**	**5.0**	**6.4**	**2.9**	**3.2**	**3.6**	**1.2**	**1.0**	**0.9**	**4.2**	**4.5**	**4.1**	**26.8**	**19.8**	**13.9**			
Consumer (Discretionary)																													
Radico Khaitan	56	REDUCE	5,702	113	102	2.2	1.7	3.3	(41.4)	(24.7)	93.1	24.8	33.0	17.1	10.3	11.2	9.1	2.3	2.1	1.9	1.1	-	-	11.7	6.7	11.7	65	16.8	0.4
United Breweries	86	REDUCE	20,644	411	240	2.1	2.2	2.7	(2.2)	2.5	24.4	40.8	39.8	32.0	12.9	10.0	8.2	3.4	1.9	1.8	—	—	—	8.0	4.4	5.8	105	22.1	0.2
United Spirits	821	BUY	76,882	1,530	94	40.0	40.1	52.4	50.8	0.1	30.9	20.5	20.5	15.7	11.9	10.5	9.2	3.2	3.2	2.4	0.0	0.0	0.0	18.8	15.9	17.7	1,050	27.9	9.5
Consumer (Discretionary)		**Neutral**	**103,228**	**2,054**					**31.3**	**(1.9)**	**31.9**	**22.2**	**22.7**	**17.2**	**12.0**	**10.5**	**9.1**	**3.2**	**2.5**	**2.2**	**0.1**	**0.0**	**0.0**	**14.4**	**11.2**	**13.0**			
Consumer products																													
Asian Paints	875	ADD	83,963	1,671	96	39.5	45.2	50.9	40.4	14.5	12.6	22.2	19.4	17.2	13.3	11.7	10.0	8.6	6.8	5.6	1.7	2.0	2.3	44.6	40.4	36.9	1,075	22.8	1.1
Colgate-Palmolive (India)	386	REDUCE	52,439	1,044	136	17.1	19.1	21.7	16.8	11.7	13.8	22.5	20.2	17.7	18.8	16.5	14.1	28.6	28.3	28.0	3.4	4.2	4.8	100.4	141.4	159.6	400	3.7	1.1
GlaxoSmithkline Consumer (a)	496	ADD	20,839	415	42	38.7	44.4	49.3	26.9	14.7	11.2	12.8	11.2	10.0	6.3	5.7	4.7	3.1	2.7	2.3	2.4	2.9	3.3	27.4	26.5	25.1	700	41.3	0.2
Godrej Consumer Products	121	ADD	31,296	623	258	7.1	7.3	8.7	18.7	3.0	20.3	17.2	16.7	13.9	15.0	14.9	11.2	17.6	4.6	4.0	3.0	3.3	3.3	109.6	45.0	42.2	140	15.5	0.2
Hindustan Unilever	233	REDUCE	506,260	10,075	2,177	8.1	9.1	10.7	15.4	12.1	17.8	28.6	25.5	21.7	23.1	19.7	16.6	35.2	32.7	30.3	4.6	3.7	4.4	85.2	133.3	145.6	245	5.4	26.9
ITC	165	ADD	622,763	12,393	3,769	8.3	8.8	10.0	15.4	6.2	13.9	20.0	18.8	16.5	12.7	11.5	10.1	4.9	4.4	3.8	2.1	2.3	2.4	27.7	25.7	25.6	200	21.0	27.4
Jyothy Laboratories	284	ADD	4,123	82	15	31.0	42.1	68.3	(12.8)	35.8	62.3	9.2	6.7	4.2	6.0	4.1	2.1	1.1	0.9	0.8	3.3	3.7	4.1	11.5	13.1	17.9	740	160.5	
Nestle India (a)	1,431	ADD	137,928	2,745	96	44.5	56.4	68.1	31.3	26.8	20.7	32.1	25.4	21.0	19.3	16.0	13.5	26.7	20.5	16.0	1.9	2.4	2.9	94.8	91.4	85.4	1,740	21.6	2.0
Tata Tea	513	BUY	31,715	631	62	54.1	63.3	67.3	3.6	17.2	6.2	9.5	8.1	7.6	3.7	3.1	2.6	0.7	0.6	0.6	2.9	3.4	3.6	9.7	9.4	9.4	1,100	114.5	1.0
Consumer products		**Cautious**	**1,491,324**	**29,677**					**17.1**	**11.0**	**15.5**	**22.5**	**20.3**	**17.5**	**14.7**	**13.1**	**11.3**	**6.9**	**6.0**	**5.3**	**3.0**	**2.9**	**3.3**	**30.6**	**29.6**	**30.2**			
Constructions																													
Consolidated Construction Co.	247	BUY	9,110	181	37	24.0	28.1	36.9	67.6	16.8	31.4	10.3	8.8	6.7	6.8	5.0	3.9	2.0	1.7	1.4	1.0	1.7	2.2	27.7	20.9	22.9	425	72.4	0.1
IVRCL	127	BUY	17,231	343	135	15.5	16.7	21.8	27.2	7.4	30.3	8.2	7.6	5.9	7.4	6.3	5.0	1.1	0.9	0.8	1.1	0.6	0.6	14.4	13.2	15.0	270	112.1	9.9
Nagarjuna Construction Co.	58	BUY	13,184	262	229	7.2	8.1	10.6	14.5	13.4	30.2	8.0	7.1	5.4	6.8	6.0	5.4	0.8	1.5	0.7	1.9	2.3	2.8	12.6	11.3	13.3	150	160.6	3.1
Punj Lloyd	137	BUY	44,167	879	323	10.0	17.9	20.5	323.5	79.6	14.5	13.7	7.6	6.7	7.7	5.0	4.2	1.6	1.3	1.1	0.2	0.6	0.7	16.8	19.3	18.6	260	90.4	32.8
Sadbhav Engineering	248	BUY	3,249	65	13	40.5	62.6	78.1	68.2	54.4	24.8	6.1	4.0	3.2	4.2	2.3	1.4	1.1	0.8	0.7	1.5	2.0	2.4	16.3	19.6	20.5	820	230.6	0.1

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	1-Dec-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Energy																													
Bharat Petroleum	366	REDUCE	120,032	2,389	328	41.3	30.4	42.8	(21.2)	(26.4)	41.0	8.9	12.1	8.5	4.1	4.7	3.5	0.9	0.9	0.8	1.2	0.8	1.2	11.8	7.9	10.1	370	1.1	7.4
Cairn india	140	BUY	262,071	5,215	1,868	(0.1)	3.9	16.7	(105)	(3,332)	334	(1,177)	36	8.4	32.8	17.9	5.8	0.9	0.8	0.7	—	—	—	(0.1)	2.3	9.1	240	71.1	16.7
Castrol India (a)	300	ADD	37,123	739	124	20.1	23.1	25.2	64.6	15.1	8.8	14.9	13.0	11.9	8.6	7.4	6.8	9.0	8.6	8.3	4.7	6.0	6.7	59.5	67.8	70.7	380	26.6	0.4
GAIL (India)	201	REDUCE	255,281	5,080	1,268	20.4	27.5	27.9	21.0	35.1	1.4	9.9	7.3	7.2	5.0	4.3	5.4	1.8	1.5	1.3	3.3	4.0	4.0	18.1	21.4	18.5	240	19.3	14.5
GSPL	29	BUY	16,096	320	563	1.8	2.7	3.7	10.1	47.6	37.7	15.9	10.7	7.8	5.9	5.6	4.1	1.3	1.2	1.0	1.7	2.6	3.6	8.8	11.5	14.2	60	109.8	1.8
Hindustan Petroleum	233	REDUCE	78,871	1,570	339	33.5	26.0	33.6	(16.4)	(22.3)	29.0	6.9	8.9	6.9	6.7	5.3	3.6	0.6	0.6	0.5	1.3	1.0	1.3	9.6	6.8	8.0	270	16.1	6.1
Indian Oil Corporation	405	REDUCE	477,684	9,506	1,179	61.3	32.4	53.8	31.0	(47.2)	66.0	6.6	12.5	7.5	4.1	8.2	6.4	1.1	1.0	0.9	1.4	0.8	1.4	17.4	8.1	12.1	450	11.1	3.5
Oil & Natural Gas Corporation	681	BUY	1,456,582	28,986	2,139	92.7	129.8	141.7	9.1	40.0	9.2	7.3	5.2	4.8	2.6	1.9	1.6	1.5	1.2	1.1	4.7	5.9	6.6	19.6	24.0	22.3	1,125	65.2	49.6
Petronet LNG	31	ADD	23,175	461	750	6.3	6.0	7.1	—	(5.7)	18.7	4.9	5.2	4.4	3.5	4.8	3.8	1.2	1.0	0.8	4.9	4.9	4.9	26.7	20.6	20.3	60	94.2	1.0
Reliance Industries	1,109	REDUCE	1,523,206	30,312	1,373	101.7	99.7	150.6	23.0	(2.0)	51.0	10.9	11.1	7.4	7.2	6.1	3.4	1.7	1.4	1.2	1.1	1.3	1.8	18.5	14.7	19.1	1,325	19.4	261.7
Reliance Petroleum	72	REDUCE	323,100	6,430	4,500	(1.1)	2.4	17.0	n/a	n/a	596.6	n/a	29.4	4.2	n/a	17.4	4.1	2.4	2.2	1.5	—	—	2.8	(3.5)	7.8	42.9	100	39.3	41.2
Energy		**Neutral**	**4,573,220**	**91,007**					**11.5**	**17.2**	**43.1**	**9.8**	**8.3**	**5.8**	**4.9**	**4.6**	**3.4**	**1.4**	**1.2**	**1.0**	**2.3**	**2.7**	**3.4**	**14.6**	**14.4**	**17.9**			
Industrials																													
ABB	421	REDUCE	89,108	1,773	212	23.2	25.5	29.8	44.5	10.0	16.6	18.1	16.5	14.1	10.3	9.2	7.6	5.5	4.3	3.4	0.5	0.7	0.8	34.8	29.2	26.9	500	18.9	6.3
BGR Energy Systems	123	ADD	8,845	176	72	12.1	17.6	23.2	(67.4)	45.3	31.9	10.1	7.0	5.3	7.0	5.0	4.6	1.9	1.5	1.2	1.6	2.3	3.1	31.4	24.2	26.0	275	123.9	0.5
Bharat Electronics	574	ADD	45,904	913	80	102.0	105.5	111.8	11.2	3.4	6.0	5.6	5.4	5.1	1.7	1.1	0.9	1.4	1.2	1.0	3.6	4.4	4.4	27.7	23.1	20.8	950	65.6	0.7
Bharat Heavy Electricals	1,270	BUY	621,739	12,373	490	58.4	72.2	98.0	22.9	23.7	35.6	21.7	17.6	13.0	11.3	8.8	6.6	5.8	4.6	3.7	1.2	1.2	1.6	29.2	29.2	31.5	1,475	16.1	79.9
Larsen & Toubro	703	ADD	416,638	8,291	593	37.9	52.4	63.4	20.8	38.1	21.1	18.5	13.4	11.1	12.7	9.0	7.6	3.5	2.6	2.2	1.2	2.8	2.9	22.7	22.4	21.6	900	28.0	88.0
Maharashtra Seamless	129	BUY	9,120	181	71	29.4	37.4	37.9	(23.5)	27.6	1.2	4.4	3.5	3.4	2.6	2.1	2.0	0.8	0.7	0.6	3.9	4.3	4.4	19.7	21.1	18.0	250	93.3	0.7
Siemens	224	REDUCE	75,507	1,503	337	18.2	14.2	18.7	60.4	(22.2)	32.2	12.3	15.8	11.9	6.6	6.6	5.6	4.1	3.3	2.7	1.1	1.6	1.5	39.9	23.1	24.8	275	22.8	6.6
Suzlon Energy	39	BUY	61,816	1,230	1,567	6.6	7.1	10.2	9.5	8.4	42.9	6.0	5.5	3.9	4.1	6.5	5.1	0.7	0.6	0.5	2.4	2.5	2.5	16.3	11.8	14.9	125	216.9	50.1
Industrials		**Neutral**	**1,328,677**	**26,441**					**24.6**	**20.0**	**27.5**	**15.9**	**13.3**	**10.4**	**9.2**	**7.7**	**6.3**	**3.3**	**2.7**	**2.2**	**1.3**	**1.9**	**2.1**	**20.8**	**20.3**	**21.2**			
Infrastructure																													
IRB Infrastructure	68	BUY	22,501	448	332	3.4	5.8	12.5	150.9	68.9	116.3	19.7	11.7	5.4	8.6	8.7	4.2	1.4	1.2	1.0	—	—	—	10.7	10.9	19.6	145	114.2	0.4
Media																													
DishTV	15	REDUCE	9,823	195	644	(9.6)	(7.8)	(4.2)	n/a	(19.1)	(45.7)	(1.6)	(2.0)	(3.6)	(6.5)	(3.4)	(14.2)	(2.2)	5.3	(4.5)	—	—	—	167.9	375.0	NA	20	31.1	1.8
HT Media	65	BUY	15,320	305	234	4.3	3.1	6.0	4.7	(28.8)	94.1	15.1	21.2	10.9	8.3	9.3	5.3	1.8	1.7	1.5	0.6	0.6	1.2	12.2	8.1	14.4	130	98.8	0.2
Jagran Prakashan	48	BUY	14,486	288	301	3.3	3.2	4.6	33.5	(2.7)	45.1	14.8	15.2	10.5	8.0	8.4	5.9	2.7	2.6	2.3	4.2	4.0	4.8	18.7	17.3	23.2	84	74.6	0.1
Sun TV Network	126	BUY	49,693	989	394	8.3	9.2	11.1	30.7	10.7	20.8	15.2	13.7	11.4	7.6	6.8	5.7	3.3	2.9	2.7	2.0	3.2	4.4	24.8	23.3	25.0	210	66.5	0.6
Zee Entertainment Enterprises	109	BUY	47,411	943	434	8.9	9.7	12.0	62.6	9.1	24.0	12.3	11.3	9.1	9.2	7.5	6.0	1.6	1.4	1.3	1.8	2.2	2.9	14.2	13.8	15.3	205	87.5	6.0
Media		**Attractive**	**136,733**	**2,721**					**24.0**	**(11.7)**	**90.0**	**27.4**	**31.1**	**16.3**	**10.9**	**9.6**	**6.7**	**2.5**	**2.0**	**2.0**	**1.9**	**2.4**	**3.2**	**9.2**	**6.5**	**12.0**			
Metals																													
Hindalco Industries	51	SELL	90,084	1,793	1,753	13.8	9.5	7.3	(10.0)	(30.9)	(23.8)	3.7	5.4	7.1	5.7	5.0	5.5	0.4	0.3	0.3	—	—	—	14.4	10.6	7.1	40	(22.2)	14.8
National Aluminium Co.	170	BUY	109,307	2,175	644	25.3	20.4	21.2	(31.5)	(19.4)	3.9	6.7	8.3	8.0	2.7	3.5	2.8	1.2	1.1	1.0	3.5	3.5	3.5	18.3	13.3	12.7	230	35.6	4.3
Jindal Steel and Power	727	BUY	111,876	2,226	154	101.8	87.5	77.7	123.0	(14.1)	(11.2)	7.1	8.3	9.4	6.4	5.8	6.2	2.6	2.0	1.6	0.6	0.8	1.0	43.8	27.2	19.1	1,250	72.0	19.6
JSW Steel	181	ADD	33,635	669	186	92.0	103.1	146.8	35.7	12.0	42.4	2.0	1.8	1.2	2.8	3.4	2.4	0.3	0.3	0.2	10.2	10.2	10.2	21.2	18.1	21.0	1,040	474.4	9.8
Hindustan Zinc	313	ADD	132,295	2,633	423	104.0	77.2	55.9	(1.0)	(25.8)	(27.6)	3.0	4.1	5.6	2.2	2.7	3.9	1.1	0.9	0.8	1.6	2.4	3.2	43.6	23.5	14.3	400	27.8	2.4
Sesa Goa	73	ADD	57,075	1,136	787	18.9	22.0	13.3	145.9	16.3	(39.8)	3.8	3.3	5.5	2.6	2.0	2.9	2.0	1.4	1.3	4.8	9.7	9.7	67.7	50.5	24.4	100	37.9	22.8
Sterlite Industries	239	BUY	169,118	3,365	708	64.3	45.7	38.1	(22.6)	(28.9)	(16.7)	3.7	5.2	6.3	3.2	4.3	5.4	0.7	0.7	0.6	—	—	—	26.1	13.3	10.3	415	73.9	31.9
Tata Steel	153	ADD	126,093	2,509	822	75.7	89.7	74.6	43.8	18.5	(16.9)	2.0	1.7	2.1	3.5	3.7	3.9	0.3	0.3	0.3	9.4	8.4	8.5	46.3	29.9	22.6	285	85.8	48.7
Metals		**Cautious**	**829,483**	**16,507**					**13.2**	**(8.3)**	**(14.0)**	**3.5**	**3.8**	**4.4**	**3.6**	**3.9**	**4.1**	**0.7**	**0.6**	**0.5**	**3.0**	**3.3**	**3.5**	**19.9**	**15.3**	**11.9**			
Pharmaceutical																													
Biocon	91	BUY	18,140	361	200	23.3	9.5	16.4	126.0	(59.0)	71.7	3.9	9.5	5.5	4.7	4.4	3.4	1.2	1.1	1.0	0.1	0.1	0.1	17.6	15.7	19.6	260	186.7	0.6
Cipla	190	REDUCE	147,685	2,939	777	9.0	10.3	12.7	4.9	13.8	23.3	21.1	18.5	15.0	15.5	13.7	11.4	3.9	3.4	2.9	1.1	1.3	1.6	20.1	19.7	21.0	220	15.8	7.2
Dishman Pharma & chemicals	126	BUY	10,260	204	81	14.7	15.4	28.1	30.5	4.6	82.8	8.6	8.2	4.5	8.2	7.8	4.8	1.8	1.5	1.1	0.0	0.0	0.0	26.8	19.9	29.0	400	217.1	0.3
Divi's Laboratories	1,186	BUY	76,524	1,523	65	53.2	80.1	101.4	85.8	50.5	26.7	22.3	14.8	11.7	18.1	11.8	8.9	9.0	5.7	3.9	0.1	0.1	0.1	49.8	47.4	40.0	1,980	67.0	4.2
Dr Reddy's Laboratories	448	BUY	75,772	1,508	169	26.1	26.4	36.6	(57.2)	1.2	38.7	17.2	17.0	12.2	8.4	7.4	6.1	1.7	1.5	1.4	0.8	0.9	0.9	10.3	9.5	12.0	675	50.7	4.8
Glenmark Pharmaceuticals	330	BUY	87,599	1,743	266	25.8	36.5	44.3	98.4	41.3	21.2	12.8	9.0	7.4	11.3	6.9	5.7	5.8	3.1	2.3	0.0	0.0	0.1	57.4	44.1	35.5	725	120.0	6.0
Jubilant Organosys	119	BUY	21,499	428	181	22.1	11.0	29.6	69.9	(50.4)	170.2	5.4	10.8	4.0	6.2	10.2	5.0	1.7	1.2	1.1	1.0	1.4	1.8	37.0	14.9	32.2	475	300.3	0.3
Lupin	558	BUY	49,403	983	89	49.8	48.9	59.7	30.2	(1.9)	22.2	11.2	11.4	9.3	13.5	9.5	7.7	3.8	2.4	2.1	1.7	1.7	2.1	37.9	28.4	24.2	950	70.3	2.9
Piramal Healthcare	220	BUY	46,064	917	209	17.7	17.4	24.7	66.8	(2.1)	42.0	12.4	12.7	8.9	9.4	9.1	6.7	4.2	3.4	2.6	1.9	1.8	2.0	30.9	28.7	33.2	410	86.0	1.1
Ranbaxy Laboratories	198	ADD	83,143	1,655	419	23.3	(0.9)	12.2	70.4	NA	NA	8.5	NA	16.2	8.1	22.2	4.9	2.8	1.4	0.9	3.8	5.3	6.7	29.8	(0.9)	8.0	340	71.4	21.9
Sun Pharmaceuticals	1,072	BUY	221,936	4,417	207	74.7	90.9	80.8	78.9	21.7	(11.1)	14.4	11.8	13.3	11.9	8.9	9.3	4.3	3.2	2.6	1.0	1.0	1.3	38.3	32.3	22.8	1,765	64.7	23.9
Pharmaceuticals		**Attractive**	**838,025**	**16,677**					**34.1**	**(1.5)**	**32.7**	**14.0**	**14.2**	**10.7**	**10.7**	**9.7**	**7.2**	**3.4**	**2.5**	**1.9**	**1.1**	**1.4**	**1.7**	**24.5**	**17.9**	**18.1**			
Property																													
DLF	179	BUY	304,647	6,062	1,705	46.1	44.6	47.4	263.2	(3.2)	6.2	3.9	4.0	3.8	4.2	4.3	3.5	1.5	1.2	0.9	2.8	3.9	3.9	66.5	33.4	27.6	440	146.2	63.1
Housing Development & Infrastruc	74	BUY	20,345	405	275	51.2	44.8	42.1	118.6	(12.5)	(5.9)	1.4	1.6	1.8	2.8	3.3	3.0	0.6	0.4	0.4	5.2	6.8	8.1	64.5	29.5	22.3	380	414.6	40.1
Indiabulls Real Estate	90	BUY	24,646	490	273	16.4	6.8	7.5	2,383.9	(58.6)	10.4	5.5	13.3	12.0	(598.8)	(27.2)	2.7	0.4	0.3	0.3	0.3	0.1	0.0	10.6	2.9	2.8	275	204.2	37.5
IVR Prime Urban Developers	31	BUY	1,976	39	64	27.0	2.9	9.7	552.8	(89.4)	238.9	1.1	10.7	3.2	(0.0)	15.7	6.7	0.2	0.2	0.2	13.0	16.2	22.7	31.9	1.8	6.3	170	451.9	0.1
Mahindra Life Space Developer	160	BUY	6,735	134	42	16.8	13.1	17.1	307.7	(22.2)	30.9	9.5	12.2	9.3	17.4	11.8	5.7	0.8	0.7	0.7	1.7	2.4	2.4	8.4	6.1	7.6	500	212.2	0.4
Phoenix Mills	63	BUY	9,183	183	145	12.4	5.5	12.0	89.5	(55.9)	119.9	5.1	11.6	5.3	6.4	9.9	3.6	0.6	0.6	0.5	—	—	—	22.1	5.4	10.9	280	341.6	0.6
Puravankara Projects	30	ADD	6,339	126	213	11.2	10.1	10.8	67.3	(10.6)	7.6	2.6	3.0	2.7	5.9	8.4	8.2	0.5	0.5	0.4	6.7	6.7	10.1	34.2	17.0	16.2	120	304.0	0.3
Sobha	89	REDUCE	6,496	129	73	31.7	30.2	33.2	42.9	(4.7)	9.8	2.8	2.9	2.7	6.5	5.6	5.5	0.6	0.5	0.5	7.3	4.5	4.5	25.3	20.0	18.6	250	180.6	0.6

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	1-Dec-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Property		Cautious	419,328	8,345					193.3	(7.7)	5.0	3.4	3.7	3.5	4.3	4.3	3.6	1.1	0.9	0.7	3.0	4.2	5.2	32.1	23.2	20.4			
Retail																													
Pantaloon Retail	202	BUY	34,674	690	172	8.0	12.1	18.4	93.1	50.4	52.2	25.1	16.7	11.0	10.0	6.8	5.6	2.0	1.3	1.2	0.3	0.4	0.5	8.5	9.1	10.8	370	83.5	1.6
Titan Industries	862	BUY	38,275	762	44	35.1	48.5	54.7	55.2	38.4	12.8	24.6	17.8	15.8	16.7	11.3	9.6	8.1	5.9	4.5	0.9	1.1	1.3	37.7	38.5	32.6	1,280	48.4	2.7
Vishal Retail	71	ADD	1,598	32	22	18.1	14.9	20.6	37.2	(17.6)	38.4	3.9	4.8	3.5	5.1	4.5	3.3	0.6	0.5	0.5	—	—	—	20.2	11.5	14.0	125	75.2	0.1
Retail			**74,547**	**1,483**					**31.8**	**41.8**	**32.6**	**23.2**	**16.3**	**12.3**	**11.2**	**7.7**	**6.3**	**3.0**	**2.1**	**1.8**	**0.6**	**0.8**	**0.9**	**13.2**	**12.6**	**14.6**			
Technology																													
HCL Technologies	135	REDUCE	93,686	1,864	695	15.3	20.6	21.7	(19.0)	35.0	5.4	8.8	6.5	6.2	4.4	3.1	2.8	1.9	1.5	1.3	5.9	5.9	5.9	21.4	23.8	22.7	200	48.4	3.7
Hexaware Technologies	20	SELL	2,828	56	142	7.7	2.9	3.8	(13.7)	(62.4)	32.1	2.6	6.9	5.2	(0.3)	0.8	0.5	0.4	0.4	0.4	4.6	8.0	8.0	15.1	5.8	7.4	25	25.6	0.1
Infosys Technologies	1,231	BUY	706,709	14,064	574	79.1	100.8	108.8	18.0	27.5	7.9	15.6	12.2	11.3	11.9	8.9	7.8	5.1	3.9	3.1	2.7	2.0	2.1	36.1	36.4	30.9	1,600	30.0	69.5
Mphasis BFL	164	REDUCE	34,172	680	208	12.2	22.3	23.4	67.6	81.7	5.0	13.4	7.4	7.0	8.0	4.7	3.8	3.0	0.4	1.8	2.1	2.4	2.7	23.6	34.6	28.4	190	15.9	1.5
Mindtree	236	BUY	9,302	185	40	26.7	30.7	39.6	12.3	14.7	29.0	8.8	7.7	6.0	7.7	4.0	3.7	1.7	1.4	1.1	1.1	—	—	—	17.2	17.8	450	91.1	0.3
Patni Computer Systems	138	SELL	17,755	353	129	33.2	26.3	30.8	29.2	(20.8)	16.9	4.2	5.2	4.5	0.9	1.0	0.0	0.6	0.6	0.5	1.6	1.9	2.2	19.2	14.1	12.0	160	15.9	0.9
Polaris Software Lab	37	SELL	3,647	73	98	7.4	12.8	11.6	(27.6)	71.6	(9.6)	5.0	2.9	3.2	1.5	0.8	0.5	0.6	0.5	0.4	4.7	4.7	4.7	11.7	17.8	14.1	70	88.7	1.0
Satyam Computer Services	236	BUY	160,751	3,199	682	25.2	33.7	35.5	17.7	33.3	5.3	9.3	7.0	6.6	6.4	4.1	3.3	2.2	1.8	1.5	4.2	5.1	5.9	26.0	28.2	24.2	400	69.7	33.7
TCS	564	REDUCE	552,083	10,986	979	51.3	56.4	63.0	21.5	10.0	11.6	11.0	10.0	9.0	8.8	7.2	6.6	4.5	3.5	2.9	2.5	3.5	4.5	47.0	39.3	35.6	650	15.2	26.5
Tech Mahindra	229	BUY	28,539	568	125	59.1	76.4	85.0	25.7	29.4	11.2	3.9	3.0	2.7	3.4	1.6	0.9	2.3	1.3	0.9	2.3	2.6	2.7	70.7	58.0	40.9	700	205.6	2.7
Wipro	234	ADD	338,865	6,743	1,450	22.2	26.0	28.7	12.6	17.0	10.4	10.5	9.0	8.1	8.3	6.0	5.1	2.6	2.2	1.8	2.7	3.3	3.7	27.9	26.3	24.3	360	54.0	12.5
Technology		**Cautious**	**1,948,337**	**38,772**					**16.1**	**21.4**	**9.2**	**11.3**	**9.3**	**8.5**	**8.4**	**6.2**	**5.4**	**3.3**	**2.6**	**2.2**	**2.9**	**3.1**	**3.6**	**29.4**	**28.3**	**25.6**			
Telecom																													
Bharti Airtel Ltd	651	BUY	1,234,964	24,576	1,898	35.3	45.3	55.1	65.0	28.3	21.7	18.4	14.4	11.8	11.2	8.5	6.5	5.5	3.9	2.9	—	0.6	0.9	39.1	31.9	28.5	800	22.9	92.7
IDEA	45	REDUCE	144,018	2,866	3,236	3.9	3.3	3.4	78.5	(17.6)	5.7	11.3	13.7	12.9	8.9	5.4	4.9	4.1	1.0	0.9	—	—	—	36.4	12.0	8.0	70	57.3	9.1
MTNL	73	REDUCE	46,274	921	630	7.1	5.1	5.5	(11.0)	(28.4)	7.6	10.3	14.4	13.3	1.7	2.5	2.3	0.4	0.4	0.4	5.4	8.2	8.2	3.5	2.2	2.4	80	8.9	1.5
Reliance Communications	197	SELL	405,683	8,073	2,064	26.1	26.3	33.1	84.3	0.5	25.8	7.5	7.5	5.9	6.6	6.6	5.3	1.4	1.2	1.0	0.4	—	—	16.8	18.3	18.7	265	34.8	56.6
Tata Communications	395	REDUCE	112,632	2,241	285	10.9	13.6	14.0	(36.3)	24.0	3.2	36.1	29.1	28.2	15.1	12.5	11.3	1.7	1.6	1.6	1.1	1.3	1.6	4.4	5.4	5.2	400	1.2	4.6
Telecom		**Cautious**	**1,943,570**	**38,677**					**65.7**	**16.3**	**21.0**	**13.5**	**11.6**	**9.6**	**9.2**	**7.6**	**6.0**	**2.6**	**2.0**	**1.6**	**0.5**	**0.7**	**0.9**	**19.6**	**17.0**	**17.3**			
Transportation																													
Container Corporation	573	REDUCE	74,479	1,482	130	57.7	69.4	74.2	7.8	20.3	6.8	9.9	8.3	7.7	6.2	4.9	4.3	2.3	1.9	1.6	2.2	2.6	2.8	25.8	25.6	22.8	800	39.6	1.3
Transportation		**Cautious**	**74,479**	**1,482**					**7.8**	**20.3**	**6.8**	**9.9**	**8.3**	**7.7**	**6.2**	**4.9**	**4.3**	**2.3**	**1.9**	**1.6**	**2.2**	**2.6**	**2.8**	**23.5**	**23.3**	**21.0**			
Utilities																													
CESC	212	BUY	26,449	526	125	27.8	31.9	36.9	(23.3)	14.9	15.8	7.6	6.6	5.7	4.0	3.7	4.8	0.8	0.7	0.6	1.9	2.2	2.5	12.5	11.7	11.9	450	112.6	1.5
Lanco Infratech	113	BUY	25,098	499	222	14.8	17.5	26.0	75.2	18.2	48.3	7.6	6.4	4.3	7.9	11.5	9.9	1.4	1.1	0.9	—	—	—	19.7	19.2	23.0	370	227.7	8.5
NTPC	156	REDUCE	1,290,003	25,671	8,245	9.3	9.0	9.7	7.9	(3.2)	7.9	16.8	17.3	16.1	11.6	12.6	12.0	2.4	2.2	2.0	2.2	2.2	2.3	14.9	13.2	13.1	160	2.3	33.3
Reliance Infrastructure	467	BUY	107,870	2,147	231	37.6	53.6	56.8	13.9	42.6	6.0	12.4	8.7	8.2	19.1	15.5	15.4	0.7	0.6	0.6	1.4	1.6	1.8	4.3	6.2	6.6	1,250	167.6	74.3
Reliance Power	107	REDUCE	256,937	5,113	2,397	0.4	2.1	2.6	—	443.9	25.2	281.9	51.8	41.4	—	—	—	1.9	1.8	1.7	—	—	—	1.2	3.5	4.3	180	67.9	21.5
Tata Power	646	BUY	150,450	2,994	233	29.7	38.1	39.9	11.6	28.5	4.6	21.8	16.9	16.2	16.8	15.3	16.3	2.0	1.6	1.4	1.4	1.5	1.5	10.0	10.3	9.0	1,230	90.5	17.4
Utilities		**Attractive**	**1,856,806**	**36,950**					**12.1**	**8.4**	**9.9**	**18.5**	**17.1**	**15.6**	**12.9**	**14.6**	**15.4**	**1.9**	**1.8**	**1.6**	**1.7**	**1.8**	**1.8**	**10.4**	**10.3**	**10.4**			
Others																													
Aban Offshore	638	BUY	24,679	491	39	72.3	211.1	456.6	(1,066)	192.1	116.3	8.8	3.0	1.4	11.7	6.3	3.6	2.8	1.2	0.7	0.6	1.6	2.3	51.7	49.3	53.1	1,700	166.3	18.1
Educomp Solutions	2,184	BUY	41,535	827	19	35.2	63.9	108.1	114	81.7	69.2	62.1	34.2	20.2	33.0	14.1	8.8	13.5	5.7	4.6	0.1	0.3	0.4	33.5	23.3	24.3	2,550	16.8	40.4
Havells India	113	BUY	6,820	136	61	26.6	19.7	34.5	40	(25.9)	75.1	4.2	5.7	3.3	5.0	5.0	3.4	1.0	0.9	0.6	2.1	2.8	3.7	33.7	16.5	22.2	365	223.9	0.4
Jaiprakash Associates	56	BUY	66,882	1,331	1,188	4.9	7.3	11.0	7	49.5	50.9	11.5	7.7	5.1	9.8	7.7	7.4	1.3	1.1	1.0	0.0	0.0	0.0	15.4	16.1	20.5	205	264.1	41.5
Jindal Saw	250	BUY	15,317	305	61	66.6	86.9	82.9	(43)	30.6	(4.7)	3.8	2.9	3.0	3.2	1.7	1.4	0.5	0.4	0.4	2.9	5.2	6.0	12.5	14.4	12.3	500	100.2	1.7
PSL	87	BUY	3,802	76	44	21.1	43.6	58.3	4	106.9	33.7	4.1	2.0	1.5	3.5	3.0	2.1	0.7	0.5	0.4	5.9	6.9	8.6	11.3	15.0	17.5	280	220.9	0.2
Sintex	176	BUY	28,560	568	163	19.5	23.4	31.2	58	19.6	33.5	9.0	7.5	5.6	8.4	6.0	4.2	1.7	1.1	1.0	0.5	0.7	1.0	14.0	14.8	15.9	460	161.7	1.9
Welspun Gujarat Stahl Rohren	79	BUY	14,998	298	189	20.6	25.9	36.6	94	25.9	41.6	3.9	3.1	2.2	5.7	3.5	2.2	0.9	0.7	0.5	2.3	4.7	5.0	27.1	23.9	26.6	220	176.9	3.6
Others			**202,594**	**4,032**					**28.6**	**81.0**	**51.6**	**10.3**	**5.7**	**3.8**	**8.7**	**5.9**	**4.6**	**1.5**	**1.1**	**0.9**	**0.7**	**1.3**	**1.6**	**14.4**	**19.7**	**23.1**			
KS universe (b)			**19,634,454**	**390,726**					**25.8**	**9.8**	**17.3**	**10.0**	**9.1**	**7.8**	**6.6**	**6.1**	**5.2**	**1.8**	**1.5**	**1.3**	**2.1**	**2.4**	**2.7**	**17.9**	**16.4**	**16.7**			
KS universe (b) ex-Energy			**15,061,234**	**299,719**					**31.1**	**7.5**	**8.5**	**10.1**	**9.4**	**8.7**	**7.4**	**7.0**	**6.4**	**2.0**	**1.6**	**1.4**	**2.1**	**2.3**	**2.5**	**19.3**	**17.2**	**16.2**			
KS universe (d) ex-Energy & ex-Commodities			**13,922,733**	**277,062**					**36.2**	**11.8**	**13.6**	**11.8**	**10.5**	**9.3**	**9.3**	**8.3**	**7.2**	**2.2**	**1.8**	**1.6**	**2.0**	**2.2**	**2.4**	**18.9**	**17.5**	**17.1**			

Note:
(a) 2007 means calendar year 2006, similarly for 2008 and 2009 for these particular companies.
(b) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(c) Rupee-US Dollar exchange rate (Rs/US$)= 50.25

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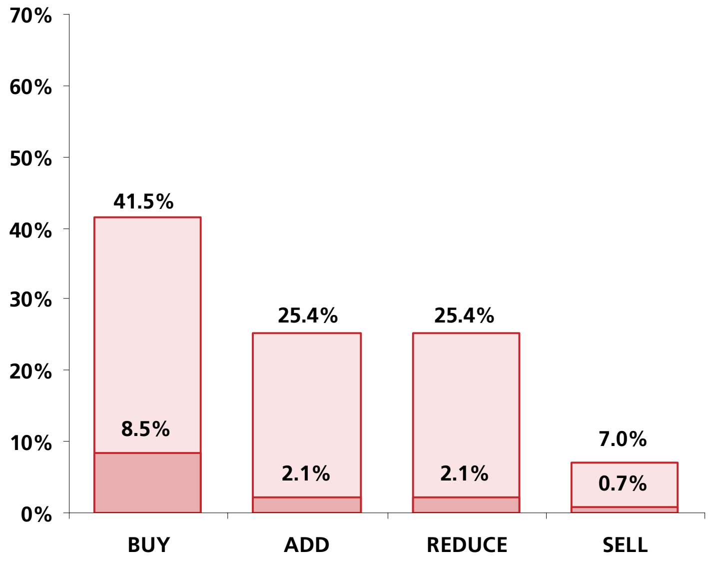
Source: Company, Bloomberg, Kotak Institutional Equities estimates

"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: Mridul Saggar, Kawaljeet Saluja, Prashant Vaishampayan, Jairam Nathan."

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 = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 30/09/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities

As of September 30, 2008

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.

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
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RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
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