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EQUITY MARKETS

India	Change %			
	3-Sep	1-day	1-mo	3-mo
Sensex	18,235	(3.4)	(4.8)	(6.7)
Nifty	5,341	(3.8)	(5.9)	(9.8)
Global/Regional indices				
Dow Jones	14,834	0.2	(5.3)	(2.3)
Nasdaq Composite	3,613	0.6	(2.1)	4.9
FTSE	6,468	(0.6)	(2.7)	(1.4)
Nikkei	13,879	(0.7)	(4.1)	2.6
Hang Seng	22,159	(1.1)	(0.1)	(0.6)
KOSPI	1,928	(0.3)	0.2	(3.1)
Value traded – India				
Cash (NSE+BSE)	135	144	130	
Derivatives (NSE)	1,552	1,126	1,067	
Deri. open interest	1,207	1,258	1,149	

Forex/money market

	Change, basis points			
	3-Sep	1-day	1-mo	3-mo
Rs/US\$	67.6	(101)	675	1,107
10yr govt bond, %	8.8	(18)	34	137

Net investment (US\$m)

	2-Sep	MTD	CYTD
FIs	76	76	11,485
MFs	(30)	(32)	(2,409)

Top movers

	Change, %			
	3-Sep	1-day	1-mo	3-mo
Best performers				
WPRO IN Equity	479.4	(1.1)	9.3	44.9
HCLT IN Equity	1023.9	(1.4)	9.4	39.2
TCS IN Equity	2001.1	(2.7)	8.4	36.6
INFO IN Equity	3033.7	(1.7)	0.8	21.5
SESA IN Equity	184.5	(2.3)	48.9	17.0
Worst performers				
FTECH IN Equity	111.7	(2.7)	(24.3)	(86.3)
MMTC IN Equity	45.5	(1.5)	17.6	(79.2)
EDSL IN Equity	17.9	(1.4)	(20.7)	(62.1)
UNBK IN Equity	101.5	(5.5)	(13.1)	(53.7)
BOI IN Equity	134.7	(6.8)	(20.6)	(53.5)

SEPTEMBER 04, 2013

UPDATE

BSE-30: 18,235

Fickle debt versus loyal equity. FII debt investors seem to have rebuffed India's overtures with continued FII debt outflows. India saw FII debt outflows of US\$9 bn over June-August 2013 despite several steps to retain and attract foreign debt. On the other hand, equity outflows (cash + F&O) were 'only' US\$3.4 bn. We think Indian policy makers may want to take cognizance of this 'duality' and design policies that will work better for India in financing its CAD.

First, some data—FIIs' equity exposure to India is far bigger than their debt exposure

We estimate the total value of FII equity investment in India at US\$185 bn versus the total value (nominal) of FII debt investment of US\$22 bn. FII equity inflows of US\$72 bn were 3X US\$22 bn of debt inflows between January 1, 2009 and August 31, 2013. More important, FII equity outflows have been 'only' US\$3.4 bn between June 2013 and August 2013 (a tough time for Indian investors) against US\$9 bn of debt outflows (see Exhibits 1 and 2).

FII debt—so much pampering but nothing in return; India has no control over global yields

We estimate total outstanding FII ownership of G-Secs at about US\$10 bn only. The outflows may continue if global yields continue to move up (see Exhibit 3), as is likely. We note that most of the recent speculation in the media on capital flows has centered on initiatives to attract more debt capital flows into India to finance the CAD. Presumably the Government is serious about some of the measures—(1) sovereign Dollar-denominated bond floatation, (2) bond floatation by banks with Government guarantee and (3) PSUs raising overseas debt.

FII equity—how to lose a guy in a few months

We note that many of the policy measures to retain and/or attract FII debt investment are negative for equities. In particular, the RBI's steps to increase interest rates (tighter liquidity through bank-specific limits on LAF and higher MSF rates) are large negatives for the banking sector specifically and for equity markets in general (through higher cost of capital). It is not surprising that selling by FIIs accelerated after the RBI actions. We note that the banking sector accounted for 34% of FII equity investment in India as of June 30, 2013 (see Exhibit 4) and was the largest overweight sector for FIIs (see Exhibit 5).

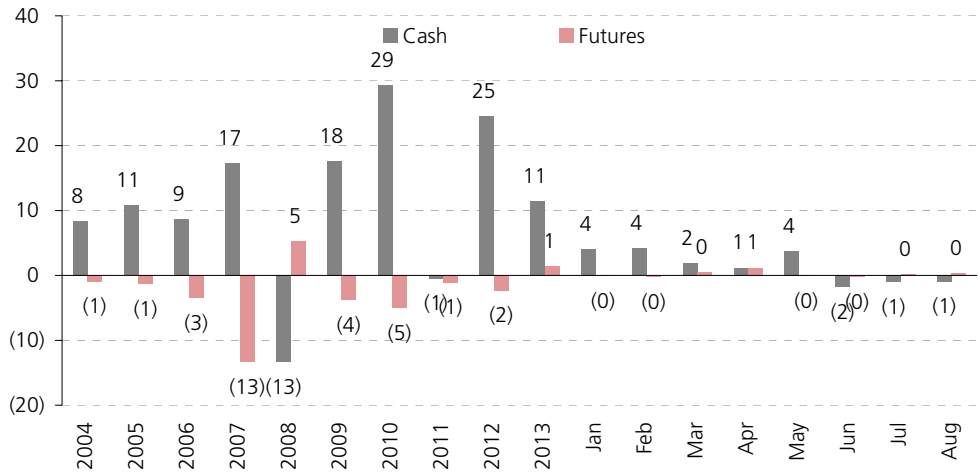
FII equity—the way to an FII's heart is to allow it to make some money

There seems to be very little discussion on increasing the attractiveness of Indian equities; the Government has implemented a few reform measures over the past 12 months but those have been nullified by global developments (a sharp increase in global oil prices) and populist legislations. The benefits of some of the reform measures (higher FDI limits in several sectors) will percolate in the long term. However, India can galvanize FII equity inflows in the short term through a pragmatic approach—(1) better policy framework for several Government-controlled (coal, energy) or regulated sectors (telecom, utilities), (2) divestment in Coal India and Government-owned energy companies after formulating a proper policy on pricing and subsidies, (3) transparent policy framework for allocation of resources (mining, telecom) and (4) sale of the Government's minority stakes in private companies (see Exhibit 6). Finally, a move towards lower interest rates will result in significant equity inflows, in our view.

QUICK NUMBERS

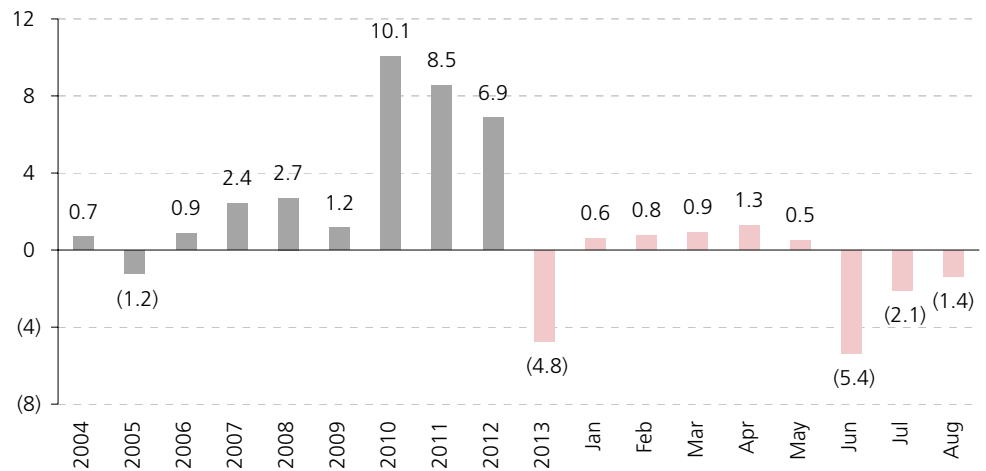
- **FYTD net FII debt and equity outflows are US\$4.4 bn**
- **US 10-year bond yield rises beyond 2.5%**
- **~US\$185 bn of FII equity investment and ~US\$22 bn of FII debt investment in India**

Exhibit 1: FIIs have invested US\$2.6 bn so far in FYTD14
 FII flows in the equity market, calendar year-ends, 2004-13 (US\$ bn)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 2: FIIs have pulled out US\$7.1 bn so far in FYTD14
 FII flows in the debt market, calendar year-ends, 2004-13 (US\$ bn)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 3: A sharp rise in US 10-year bond yields in the past few months
10-year US bond yields, calendar year-end, 2013 (%)



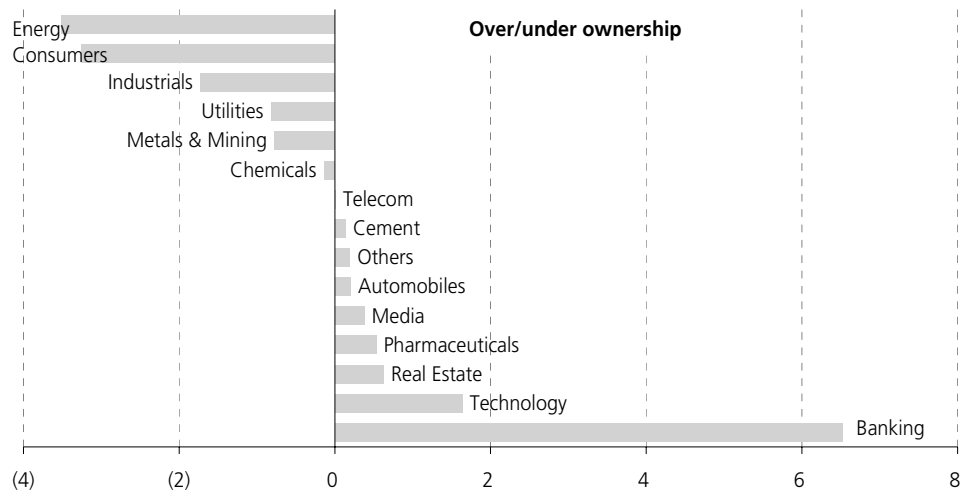
Source: Bloomberg, Kotak Institutional Equities

Exhibit 4: Banks, IT, consumer, energy and pharmaceuticals dominate the FI portfolio in India
Sector-wise percentage of FI portfolio (%)

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Automobiles	5.9	5.7	7.1	6.7	6.5	7.3	7.8	8.4	8.0	7.8	8.3	7.5	7.9
Banking	29.6	33.5	31.0	31.8	31.5	30.8	29.1	31.2	31.6	33.1	34.5	33.1	33.9
Cement	2.3	2.4	2.4	2.5	2.2	2.9	3.2	3.4	3.5	3.8	3.6	3.2	3.2
Chemicals	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Consumers	5.5	5.8	5.8	5.8	7.2	8.0	9.2	9.1	10.6	10.9	11.1	11.4	11.9
Energy	11.6	9.3	9.7	9.8	8.9	9.5	9.1	8.3	8.2	8.6	7.8	7.8	8.2
Industrials	5.3	5.1	4.8	4.1	4.5	3.9	2.8	3.1	3.0	3.1	2.9	2.5	1.9
Media	0.8	0.8	0.8	0.8	0.9	0.9	1.0	0.9	0.9	1.0	1.1	1.1	1.2
Metals & Mining	7.3	7.0	7.3	8.4	8.4	6.7	5.8	5.9	5.6	5.0	5.1	4.0	3.5
Pharmaceuticals	4.5	3.9	4.4	4.0	4.4	4.9	5.3	5.2	5.6	5.5	5.8	6.2	7.2
Real Estate	2.5	2.7	2.0	1.9	1.6	1.5	1.3	1.3	1.3	1.3	1.3	1.2	1.1
Technology	13.6	12.8	14.2	14.2	13.3	13.0	15.8	14.2	13.4	12.5	11.0	14.3	12.3
Telecom	2.5	2.8	2.6	2.7	3.0	3.3	3.4	2.8	2.5	2.0	2.3	2.4	2.6
Utilities	3.3	2.9	3.1	2.9	2.9	2.6	2.5	2.5	2.6	2.4	2.3	2.4	2.5
Others	4.8	5.0	4.1	4.0	4.3	4.2	3.1	3.1	2.7	2.4	2.3	2.1	2.2

Source: Kotak Institutional Equities

Exhibit 5: FIIs are overweight banking and technology sectors
Over/under-ownership structure for FIIs across different sectors, June 2013



Notes:

(a) We measure overweight or underweight versus benchmark weights in the BSE-200 Index.

Source: Kotak Institutional Equities

Exhibit 6: The Government can raise ~₹600 bn by selling minority stakes in non-Government companies

Key minority holdings of the Government in certain companies

Company	Mcap. (Rs bn)	SUUTI shares (mn)	Holding (%)	Holding (Rs bn)
Axis Bank	366	97	20.7	76
Hindustan Zinc	495	1,248	29.5	146
ITC	2,394	897	11.4	272
Larsen & Toubro	641	51	8.2	53
Total				547

Source: Capitaline, Kotak Institutional Equities

Will land prices spike and can it spike projects? No. Expenditure on land in the capex of various sectors (power, steel, autos and refinery) shows that land forms <5% of the cost of a project. We reiterate that the recent land acquisition legislation does not apply to private-to-private transactions; the 2-4X price and R&R provisions apply only if the land is acquired by the Government for itself, PSUs or infrastructure projects. We highlight that even if land prices increase meaningfully, they will hardly impact project IRRs.

When and where does the new Land Acquisition Act apply? Not for private transactions

The recent legislation, The Right to Fair Compensation and Transparency in Land Acquisition, Relief and Rehabilitation Bill, 2012 (RFCTLARR), clearly states that the Government will no longer be a party to buying land on behalf of private industry. The Government is authorized to help facilitate purchase of land (and that too only for a narrowly defined infrastructure sector) only if 80% of the project-affected families have already agreed before the Government steps in. Only when the Government steps in to help the private industry do the enhanced (2-4X) price and R&R terms apply. In case of transactions between a private industry and a private individual, there is no requirement for a price higher than current market price; however, states are free to define the land acquisition limit above which R&R may be required.

A 3-mtpa steel plant needs ~1,500 acres; a UMPP ~3,000 acres; a 750K/yr auto plant 1,200 acres

Across various sectors, we tabulate the land requirements:

- ▶ **Steel.** The steel plants in India are typically in the 2-3 mtpa range requiring between 1,050 and 1,675 acres, after taking into account a third of the area as 'green belt' (see Exhibits 1 and 2). Capex for a 3-mtpa plant is ~₹180 bn; even at ₹1 mn an acre, land will be ~1% of capex.
- ▶ **Power.** A typical 6X660 MW ultra-mega power project (UMPP) based on indigenous coal and half the area allocated to ash dyke and green belt requires 3,280 acres (see Exhibit 3). Capex for a 4,000 MW UMPP is ~₹250 bn; even at ₹1 mn an acre, land will be ~1.2% of capex.
- ▶ **Refinery.** The 20-mtpa refinery of Essar Oil records a land cost of ₹1.5 bn on a total capex of ₹255 bn, or ~0.7% of the cost.
- ▶ **Auto.** The up to 750K cars a year capacity being set up by Maruti in Gujarat will require 1,200 acres (including 640-acre vendor park); the 800K cars a year Manesar capacity is on 600 acres. Maruti has acquired 700 acres of land at Gujarat at ₹1 mn an acre and expects to acquire the rest 500 acres at ₹3 mn an acre. Of its ₹40 bn capex plan, land will still be ~5% of capex.

Agriculture productivity is so poor and land holding so fragmented that land prices are depressed

A typical agricultural land (even in multi-crop irrigated cases) does a top-line of around ₹0.03 mn an acre, as we note in Exhibit 4, the average yield of both wheat and rice being very low in India compared to global averages. Typical 'profits' for a farmer are hence significantly lower. Given the fragmented nature of land holdings in India (see Exhibits 5 and 6), the liquidity for the farmer is even lower. However, as land moves from agriculture to industry/urbanization, the land value meaningfully appreciates: it is only fair that a meaningful part of it is shared with the land owner.

BSE200 companies' land cost as a proportion of gross block is <3%

Exhibit 7 shows that for BSE200 companies, land as a proportion of gross block is <3%. Enhanced 2-4X prices are not applicable to private companies if they acquire land on their own. However, even if prices were to go up 2-4X overnight, project IRRs will hardly budge. A 30-year project with 16% equity IRR would see its IRR dip to 14.5% even if the total capex goes up by 10% (see Exhibit 8): that would imply tripling of land prices even for projects where land is 5% of the project costs. Our note dated Sep 2, 2013, '*Land acquisition bill – clarity in process; industry to fend for itself*' detailed that the process of land acquisition has now become clearer and time-bound.

QUICK FACTS

- Land comprises a small proportion of costs for major projects
- Increase in land prices not applicable to private transactions
- Even large increases in land prices hardly move the project IRRs

Exhibit 1: India typically has 2-3 mtpa steel plants; they require 1-1.5K acres of land
Land required in steel plants (acres)

Description of units	Case-I	Case-II	Case-III	Case-IV	Case-V	Case-VI	Case-VII	Case-VIII
A Process units								
Sinter plant	9-10	25-26	15-16	25-27	35-36	45-46	63-65	—
Blast furnace	44-46	138-140	85-87	140-145	168-170	205-210	224-230	—
DR plant (coal based)	25-27	—	50-52	50-52	—	—	—	—
Coke plant	13-14	40-42	20-22	30-35	56-58	100-105	120-125	—
Steel melting shop	14-15	40-42	23-24	27-29	64-66	94-100	114-120	134-140
Rolling mills	14-15	28-30	28-30	90-95	90-95	188-200	200-215	215-230
Pellet plant	—	—	—	—	—	—	—	140-150
DR plant (coal gasification)	—	—	—	—	—	—	—	225-240
B Auxiliary units								
Stores and repair shops	4-6	5-6	5-6	7-8	7-8	12-15	13-15	14-15
Electrical sub-station	5-7	10-11	10-11	15-18	15-18	23-25	30-35	40-45
Oxygen plant	9-10	10-11	10-11	15-18	30-32	44-45	59-65	71-75
Water treatment, effluent treatment and waste recycling plants	6-7	15-16	15-16	16-18	16-18	31-32	38-40	30-35
Captive power plant	30-35	40-45	80-85	120-125	80-85	120-125	200-205	365-375
C Ancillary units								
Administrative block, shop offices, laboratories, canteen, first-aid, etc.	13-15	20-26	20-22	35-40	35-40	40-45	45-50	45-50
D Other facilities								
Raw materials complex	40-45	70-72	70-72	100-105	100-105	125-130	200-210	300-325
Granulated slag storage & dispatch yard	3-5	10-11	5-6	10-12	15-17	25-28	30-35	—
Finished products dispatch yard	4-5	9-10	9-10	10-12	10-12	17-20	20-25	20-25
Plants roads and railway tracks	25-30	50-55	50-55	70-75	75-80	100-105	110-115	150-175
Water reservoir	35-40	65-70	65-70	95-100	100-105	145-150	165-170	210-220
Ash pond	50-55	30-35	100-110	130-135	45-50	75-80	90-95	200-210
Slag dump	25-30	50-55	50-55	75-80	75-80	125-130	150-155	140-150
Green belt	182-208	320-347	340-365	515-546	484-525	736-784	929-980	1126-1215
Grand total	550-625	975-1050	1050-1125	1575-1675	1500-1600	2250-2375	2800-2950	3425-3675

Notes:

- Case-I - 1 MTPA (long products) through BF-DRI (coal based) - EAF process route
- Case-II - 2 MTPA (long products) through BF-BOF process route
- Case-III - 2 MTPA (long products) through BF-DRI (coal based) - EAF process route
- Case-IV - 3 MTPA (flat products) through BF-DRI (coal based) - EAF process route
- Case-V - 3 MTPA (flat products) through BF-BOF process route
- Case-VI - 5 MTPA (flat products) through BF-BOF process route
- Case-VII - 6 MTPA (flat products) through BF-BOF process route
- Case-VIII - 6 MTPA (long/flat products) through BF-DRI (coal based) - EAF process route

Source: MN Dastur & Co Pvt Ltd report on 'Assessment of requirement of land for steel plants', Kotak Institutional Equities

Exhibit 2: Crude steel capacity and steel consumption projections for India (2011-20)

(mn tons)	Capacity	Capacity additions planned										Total
	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	
Tata Steel	6.8			2.9			3.0		3.0			15.7
SAIL	12.5				5.4	2.0			4.0			23.9
JSW Steel	7.8		3.2				2.0	2.5	2.0		3.0	20.5
Essar	6.1	2.5	1.4									10.0
Ispat	3.3											3.3
Bhushan Steel	1.2	0.9			2.5							4.7
RINL	3.0				3.3							6.3
JSPL	3.0	—	—	—	2.0			3.0	3.0			11.0
Posco	—								3.0	3.0	3.0	9.0
NMDC								3.0				3.0
Others	29.0	2.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	40.1
Total capacity additions		5.5	5.6	3.9	14.2	3.0	6.0	9.5	16.0	4.0	7.0	

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: UMPP projects require around 3,280 acres of land, including half for ash dyke and green area
Summary of total land requirement for indigenous coal-based stations (acres)

Sl. No	Land required for	2x500 MW (40% ash)	3x660 MW (40% ash)	5x660 MW (40% ash)	6x660 MW (40% ash)	4x800 MW (34% ash)	5x800 MW (34% ash)
A. Main power plant							
i)	Power Plant	450	640	820	940	790	880
ii)	Green belt for power plant	150	210	270	310	260	290
Total for main plant (A)		600	850	1,090	1,250	1,070	1,170
B. Ash dyke including green belt		500	855	1,370	1,630	1,000	1,200
C. Other facilities outside the plant area		220	245	250	250	250	250
D. Township		100	100	150	150	150	150
Grand total		1,420	2,050	2,860	3,280	2,450	2,770

Source: Report on the Land Requirement of Thermal Power Stations, Government of India; Kotak Institutional Equities

Exhibit 4: A multi-crop irrigated land will, on an average, have a top-line of ~Rs0.3 mn
Yield and prices of various crops, March fiscal year-end, 2013

	Yield (qtl/acre)		Price/MSP (Rs/qtl)	Value (Rs)
	China	India		
Wheat	19.2	11.5	1,350	15,510
Rice	26.5	13.2	1,310	17,304
Total				32,814

Notes:

(1) The yield is the 2010 yield across both countries

Source: Agricultural Statistics 2012, Government of India; Kotak Institutional Equities

Exhibit 5: Land fragmentation continues apace

Holdings of land by number and area, March fiscal year-ends, 1971-2011

		1971	1976	1981	1986	1991	1996	2001	2006	2011
'000 holdings										
Marginal	<1.0 ha	36,200	44,523	50,122	56,147	63,389	71,179	75,408	83,694	92,356
Small	1.0-2.0 ha	13,432	14,728	16,072	17,922	20,092	21,643	22,695	23,930	24,705
Semi-Medium	2.0-4.0 ha	10,681	11,666	12,455	13,252	13,923	14,261	14,021	14,127	13,840
Medium	4.0-10.0 ha	7,932	8,212	8,068	7,916	7,580	7,092	6,577	6,375	5,856
Large	>10.0 ha	2,766	2,440	2,166	1,918	1,654	1,404	1,230	1,096	1,000
Total		71,011	81,569	88,883	97,155	106,637	115,580	119,931	129,222	137,757
'000 ha										
Marginal	<1.0 ha	14,599	17,509	19,735	22,042	24,894	28,121	29,814	32,026	35,410
Small	1.0-2.0 ha	19,282	20,905	23,169	25,708	28,827	30,722	32,139	33,101	35,136
Semi-Medium	2.0-4.0 ha	29,999	32,428	34,645	36,666	38,375	38,953	38,193	37,898	37,547
Medium	4.0-10.0 ha	48,234	49,628	48,543	47,144	44,752	41,398	38,217	36,583	33,709
Large	>10.0 ha	50,064	42,873	37,705	33,002	28,659	24,160	21,072	18,715	17,379
Total		162,318	163,343	163,797	164,562	165,507	163,355	159,436	158,323	159,180
ha/holding										
Marginal	<1.0 ha	0.40	0.39	0.39	0.39	0.39	0.40	0.40	0.38	0.38
Small	1.0-2.0 ha	1.44	1.42	1.44	1.43	1.43	1.42	1.42	1.38	1.42
Semi-Medium	2.0-4.0 ha	2.81	2.78	2.78	2.77	2.76	2.73	2.72	2.68	2.71
Medium	4.0-10.0 ha	6.08	6.04	6.02	5.96	5.90	5.84	5.81	5.74	5.76
Large	>10.0 ha	18.10	17.57	17.41	17.21	17.33	17.21	17.13	17.08	17.38
Total		2.29	2.00	1.84	1.69	1.55	1.41	1.33	1.23	1.16

Source: Agri census 2011

Exhibit 6: Large land parcels are available in some states

Holdings and area across states as a proportion of states' farmers and land area, March fiscal year-end, 2011

	Marginal		Small		Semi-medium		Medium		Large	
	Number	Area	Number	Area	Number	Area	Number	Area	Number	Area
Andhra Pradesh	64	26	22	29	11	26	3	15	0	4
Assam	67	26	18	23	11	27	3	15	0	9
Bihar	91	57	6	19	3	17	1	6	0	1
Gujarat	37	9	29	20	22	29	10	28	2	14
Jharkhand	68	24	16	19	10	24	5	23	1	10
Karnataka	49	15	27	25	16	28	7	24	1	8
Kerala	96	59	3	19	1	11	0	4	0	8
Madhya Pradesh	44	12	28	22	19	28	9	29	1	9
Maharashtra	49	16	30	29	16	29	5	20	1	6
Odisha	72	40	20	31	7	19	1	8	0	3
Punjab	16	3	19	7	31	22	28	43	7	26
Rajasthan	36	6	22	10	19	18	16	33	6	33
Tamil Nadu	77	35	15	25	6	21	2	13	0	5
Uttar Pradesh	79	39	13	25	6	21	2	13	0	2
Uttarakhand	74	36	17	28	7	21	2	12	0	3
West Bengal	82	52	14	28	4	13	0	2	0	4
All-India	67	22	18	22	10	24	4	21	1	11

Source: Agri census 2011

Exhibit 7: Land is less than 3% of the gross block for BSE200 companies

Composition of gross block of BSE200 companies, March fiscal year-end, 2012

	Rs mn	Proportion
Plant and Machinery	17,649,359	60.1
Buildings	3,017,736	10.3
Other Fixed Assets	2,956,653	10.1
Goodwill	2,091,729	7.1
Patent	1,284,049	4.4
Freehold Land	523,156	1.8
Leasehold Land	290,444	1.0
Furniture and Fixtures	244,765	0.8
Office Equipments	240,865	0.8
Ships / Vessels	158,028	0.5
Computers	156,454	0.5
Aircraft and Helicopters	155,335	0.5
Transmission and Distribution Equipment	128,433	0.4
Vehicles	114,610	0.4
Electrical Installations / Fittings	106,530	0.4
Technical Know-how	85,065	0.3
Railway Sidings	72,951	0.2
Factory Equipments	32,605	0.1
Lab / R&D Equipment	17,847	0.1
Water supply / tubewells	10,584	0.0
Estates and Development	9,910	0.0
Computer Software	9,893	0.0
Medical Equipment and Surgical Instrument	9,485	0.0
Wind Turbines	3,902	0.0
Ponds & Reservoirs	2,152	0.0
Total	29,372,540	100.0

Source: Capitaline

Exhibit 8: IRRs of projects hardly budge even if initial land costs go up meaningfully
Calculating the IRR

	Current	Revised
Initial project cost	100	110
- of which land	5	15
30 year annual returns	16	16
30th year final return	116	116
IRR	16.0%	14.5%

Source: Kotak Institutional Equities

SEPTEMBER 04, 2013

UPDATE

Coverage view: **Attractive**

Price (₹): **479**

Target price (₹): **470**

BSE-30: **18,235**

Trying to correct recent underperformance in IMS. Wipro has lost its long-held leadership in infrastructure management to due to a combination of factors – weak growth in Indian markets, it misread market demand from certain geographies and reorganization along verticals could have impacted its go-to-market strategy. Wipro is taking corrective measures to improve its deal pipeline, through participation in rebid deals, new senior-level recruitments and a more aggressive go-to-market approach. We would wait for more definitive signs of turnaround before taking a constructive view on the stock; retain our REDUCE rating.

Company data and valuation summary

Wipro

Stock data		Forecasts/Valuations			
		2013	2014E	2015E	
52-week range (Rs) (high,low)	501-263	EPS (Rs)	24.9	30.1	33.8
Market Cap. (Rs bn)	1,181.5	EPS growth (%)	9.9	20.8	12.3
Shareholding pattern (%)		P/E (X)	19.2	15.9	14.2
Promoters	78.3	Sales (Rs bn)	374.3	438.8	500.2
FIs	9.0	Net profits (Rs bn)	61.3	74.1	83.3
MFs	1.5	EBITDA (Rs bn)	81.1	96.4	109.3
Price performance (%)		EV/EBITDA (X)	13.4	10.8	9.1
Absolute	1M 3M 12M	ROE (%)	21.6	23.8	22.6
Rel. to BSE-30	9.3 47.5 47.6	Div. Yield (%)	1.5	1.7	1.9
	14.8 58.6 40.7				

IMS – understanding where the company missed out

Wipro lost revenue leadership in infra management services to HCL Tech in the most recent quarter. Multiple factors contributed to the loss –

- ▶ **High proportion of revenues from the India business that is not growing as fast.**
- ▶ **Late in entering new markets.** Wipro had weak presence in the Nordic markets that was a growth driver for peers. We can only presume that this is a misreading of the market and the company is not investing enough in newer geographies.
- ▶ **Reorganization could have impacted IMS momentum.** Reorganization of the company along verticals could have potentially impacted the go-to-market strategy of IMS. Note that before the reorganization, service lines had a separate P&L with an independent go-to-market strategy. After the reorganization, responsibility of selling and P&L rests entirely with the vertical heads. Further, Wipro’s focus moved to mega, gamma and priority accounts; while good at the organization level, this transition could have disrupted momentum and constrained IMS growth as a large proportion of the rebid deals were in new markets (Nordics, for example).

The corrective plan – stronger practice, strengthening sales and investments in automation

Wipro hopes to regain leadership in IMS. The company believes that it has the most comprehensive range of offerings and is significantly ahead of peers in automation. Steps to regain leadership include

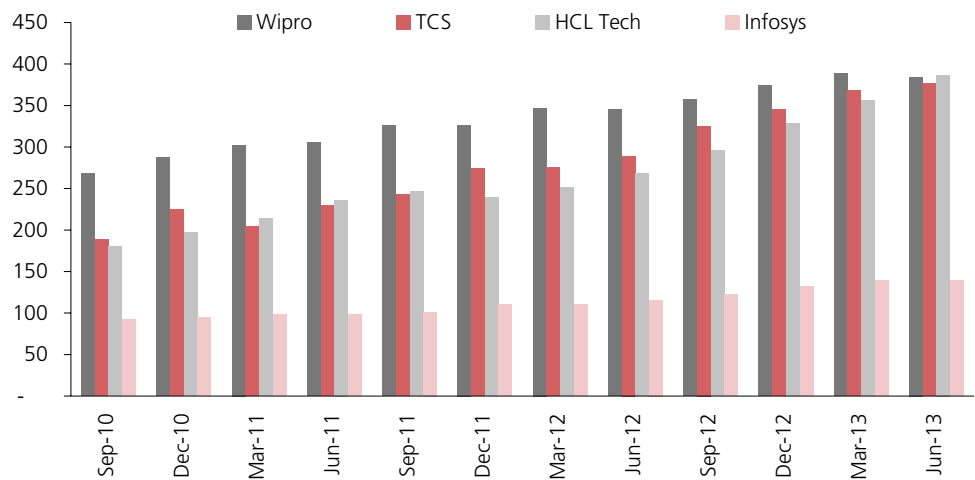
- ▶ **Improving sales and large deal wins.** Wipro’s key focus area will be to strengthen sales. It will now sell directly based on its IMS capabilities in the rebid deals and not just as a part of an integrated service offering. It has put in place teams tasked with – (1) building up a pipeline of large IMS deals in the rebid market with a lot of deals coming up for renewal in about 12-18 months and (2) improving deal wins in Europe which has been the growth driver for rest of the industry.

- ▶ **Mining top accounts for IMS growth.** Wipro has seeded solution architects in 30 of its large accounts and expects to generate about US\$100 mn of incremental IMS revenues from these accounts.
- ▶ **Automation to improve productivity.** Wipro is investing in building default stacks and is automating large parts of low complexity processes. It believes its expertise in the space will help it automate up to 60-70% of L2 level tasks, well ahead of what competition has achieved. This can drive productivity improvements ahead of peers and in turn help Wipro’s competitive positioning in the market.
- ▶ **Strengthening the IMS practice.** Wipro has made significant investments in hiring experienced solution architects who can drive differentiation of services versus peers and offer more value to clients.

Wait to see if corrective measures stem loss of market share

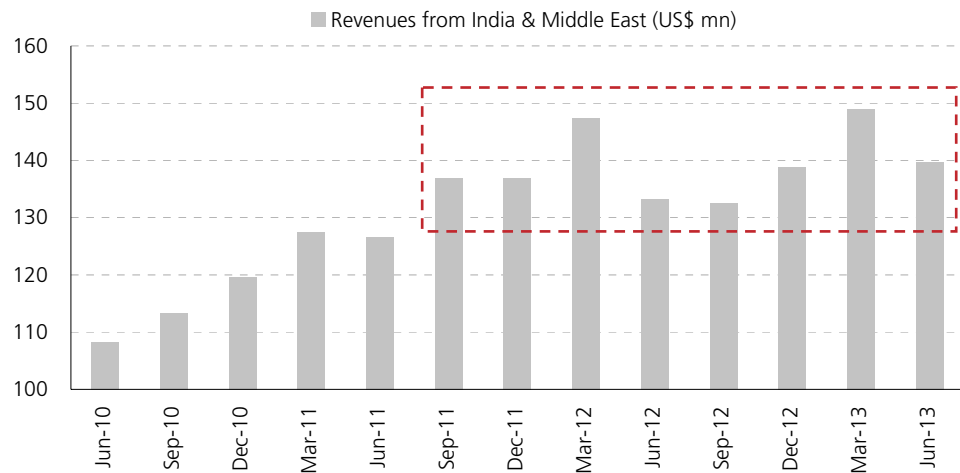
Improved deal wins in the recent quarters and corrective measures can help Wipro retain its strong positioning in IMS. However, we would wait to see if these efforts translate into protection of relative market share within the horizontal. Our relatively cautious stance on Wipro despite upbeat commentary is based on (1) long period of underperformance, (2) company has ceded leadership consistently in core areas of strength such as BPO and now IMS and (3) recent quarter metrics indicated that hopes of turnaround should be kept in check. Retain REDUCE.

Exhibit 1: Wipro has lost leadership in IMS to HCL Tech



Source: Companies, Kotak Institutional Equities

Exhibit 2: Wipro's India and Middle East business has not grown in the past 8 quarters
 Infrastructure services account for a large part of business in this region



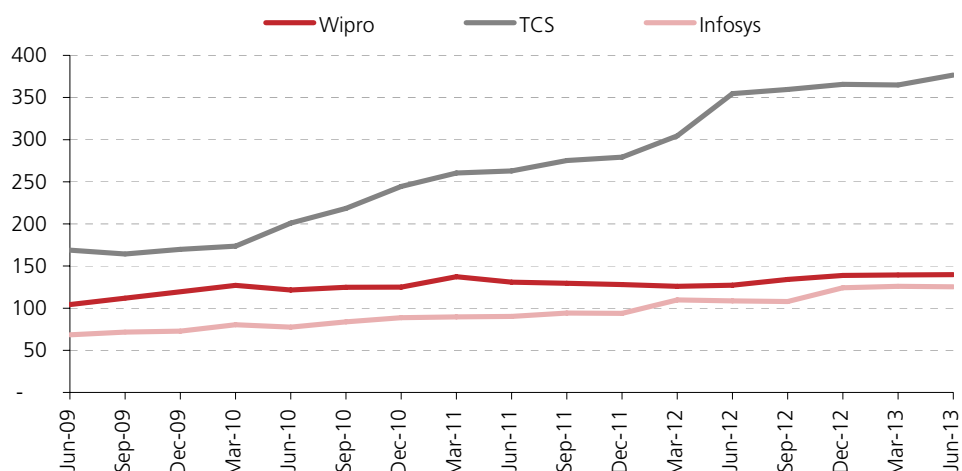
Source: Company, Kotak Institutional Equities

Exhibit 3: Growth concentrated in a few segments, not broad-based

	Jun-12	Mar-13	Jun-13	Growth (%)	
				QoQ	YoY
Revenues (US\$ mn)	1,515	1,585	1,588	0.2	4.9
Service line split of revenues					
Technology Infrastructure practices	345	388	384	(1.0)	11.3
Analytics and Information management	108	113	119	5.8	10.8
Business Application Services	465	498	497	(0.1)	6.9
BPO	127	139	140	0.2	9.8
Product engineering and mobility	129	119	119	0.2	(7.5)
ADM	341	328	329	0.2	(3.5)
R&D	182	165	162	(1.7)	(10.9)
Consulting	38	38	40	4.4	4.9
Vertical split of revenues					
Global Media and Telecom	226	219	216	(1.3)	(4.3)
Finance Solutions	400	417	421	1.0	5.2
Manufacturing and hi-tech	294	306	303	(0.8)	3.2
Healthcare, life sciences and services	153	160	156	(2.8)	1.7
Retail & transportation	227	239	240	0.2	5.6
Energy & Utilities	215	244	253	3.5	17.4
Geographical split of revenues					
US	782	794	789	(0.6)	1.0
Europe	426	452	461	2.0	8.2
India and Middle east business	133	149	140	(6.2)	4.9
Other emerging markets	174	190	199	4.4	14.0
Customer concentration					
Top customer	53	57	59	3.0	10.8
Top 5 customers	185	208	218	4.8	17.7
Top 10 customers	317	347	357	2.9	12.9
Non top 10	1,198	1,238	1,231	(0.6)	2.7

Source: Company, Kotak Institutional Equities

Exhibit 4: Wipro's BPO revenue growth has trailed peers



Source: Companies, Kotak Institutional Equities

Exhibit 5: Profit model, balance sheet, cash model of Wipro Limited, March fiscal year-ends, 2012-16E (Rs mn)

	2012	2013	2014E	2015E	2016E
Profit model					
Revenues	375,248	374,256	438,776	500,213	547,859
Cost of revenues (including depreciation)	(263,174)	(260,665)	(301,364)	(342,907)	(378,277)
Revenues	112,074	113,591	137,412	157,306	169,582
SG&A expenses (including depreciation)	(48,063)	(46,245)	(53,090)	(62,112)	(67,194)
EBIT	64,011	69,972	84,321	95,194	102,388
Other income	5,404	8,624	11,017	12,742	16,630
Pre-tax profits	69,415	78,596	95,338	107,936	119,018
Provision for tax	(13,762)	(16,912)	(20,861)	(24,276)	(27,448)
PAT	55,653	61,684	74,477	83,660	91,570
Equity in earnings of affiliates, minority interest (net)	77	(337)	(371)	(408)	(449)
PAT from continuing operations	55,730	61,347	74,107	83,253	91,122
EPS (Rs)	22.7	24.9	30.1	33.8	37.0
Balance Sheet					
Shareholders funds	285,314	283,812	337,833	398,130	463,428
Borrowings	58,958	63,816	—	—	—
Minority interest	849	1,171	1,542	1,949	2,398
Other liabilities	9,643	9,153	9,153	9,153	9,153
Total liabilities	354,764	357,952	348,527	409,233	474,979
Net fixed assets	58,988	50,525	52,232	55,049	57,405
Cash and bank balances	77,666	84,838	136,822	181,733	234,021
Net current assets excluding cash	114,585	140,787	74,392	83,956	92,410
Other assets	103,525	81,802	85,081	88,495	91,142
Total assets	354,764	357,952	348,527	409,233	474,979
Cashflow statement					
Operating profit before working capital changes	75,601	83,776	96,358	109,341	117,287
Tax paid	(12,691)	(16,493)	(18,451)	(21,410)	(23,612)
Change in working capital/other adjustments	(16,623)	(3,303)	(15,515)	(12,977)	(11,101)
Capital expenditure	(12,977)	(10,145)	(13,744)	(16,964)	(17,255)
Free cash flow	33,310	53,835	48,648	57,990	65,318

Notes:

(a) Financials from FY2013 are for Wipro IT business post the demerger

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 04, 2013
UPDATE

Coverage view: **Attractive**

Price (₹): **429**

Target price (₹): **650**

BSE-30: **18,235**

Buy, when the tide is low. We have updated our earnings model for OIL's FY2013 annual report. The recent sharp correction in OIL stock provides enough margin of safety against potentially higher subsidy burden and lower gas price realization. OIL trades at an attractive valuation (6.8X FY2015E EPS of ₹63), which reflects current low expectations even on our conservative assumptions. We see this as an opportunity to accumulate positions in OIL stock and retain our BUY rating with TP of ₹650.

Company data and valuation summary

Oil India

Stock data

52-week range (Rs) (high,low)	630-415
Market Cap. (Rs bn)	257.9

Shareholding pattern (%)

Promoters	68.4
FIs	7.6
MFs	6.5

Price performance (%)

	1M	3M	12M
Absolute	(11.6)	(24.8)	(11.8)
Rel. to BSE-30	(7.1)	(19.1)	(15.9)

Forecasts/Valuations

	2013	2014E	2015E
EPS (Rs)	59.7	53.9	63.1
EPS growth (%)	4.1	(9.6)	17.0
P/E (X)	7.2	8.0	6.8
Sales (Rs bn)	99.5	103.2	119.9
Net profits (Rs bn)	35.9	32.4	37.9
EBITDA (Rs bn)	61.2	61.0	71.2
EV/EBITDA (X)	2.1	2.1	1.7
ROE (%)	15.9	13.5	14.7
Div. Yield (%)	7.0	6.4	7.5

Stock price factoring lower oil and gas realizations in perpetuity

We believe OIL's inexpensive valuations, post 24% correction over the past three months, reflect (1) exacerbated concerns on rising fuel subsidies and (2) skepticism on imminent hike in domestic gas prices. Our reverse-valuation exercise, assuming a mid-range P/E multiple of 10X, shows that the current stock price of OIL is factoring (1) net crude realization of US\$40/bbl for crude oil and (2) US\$4.2/mn BTU for natural gas, in perpetuity.

Declining oil production is a worry; our assumptions are conservative, though

We note the 5% decline in crude oil production in FY2013, which is attributable to (1) loss of production due to strikes and blockades in the operational areas and (2) natural decline in production from OIL's mature fields. OIL's management, in the FY2013 annual report, has stated that the production potential of existing wells has declined by 16.4% versus 11.5% in FY2012 due to rise in water cut and sand ingress issues. However, the company reaffirmed its optimistic targets in the recent analyst meeting and guided to ~7% recovery in oil production to 3.95 mn tons in FY2014. We see downside risks to production targets and have accordingly built conservative assumptions of flat oil sales volume in FY2014 and 1-1.5% growth in FY2015-16E.

Reiterate BUY given compelling valuations

We reiterate our BUY rating on OIL stock with a target price of ₹650, which is based on 10X FY2015E EPS plus the value of investments. OIL stock is trading at the lower end of its historical range of P/E and P/B multiples (see Exhibits 1 and 2). An out-of-turn increase in diesel retail price by ₹3-5/liter seems inevitable in the near term given current large under-recoveries, which will be difficult for the Government to manage with its fiscal constraints. However, investor confidence on oil stocks will be restored only if the Government allows OMCs to undertake more frequent revisions (fortnightly) in diesel retail price by a higher quantum to sustainably reduce the under-recovery to manageable levels.

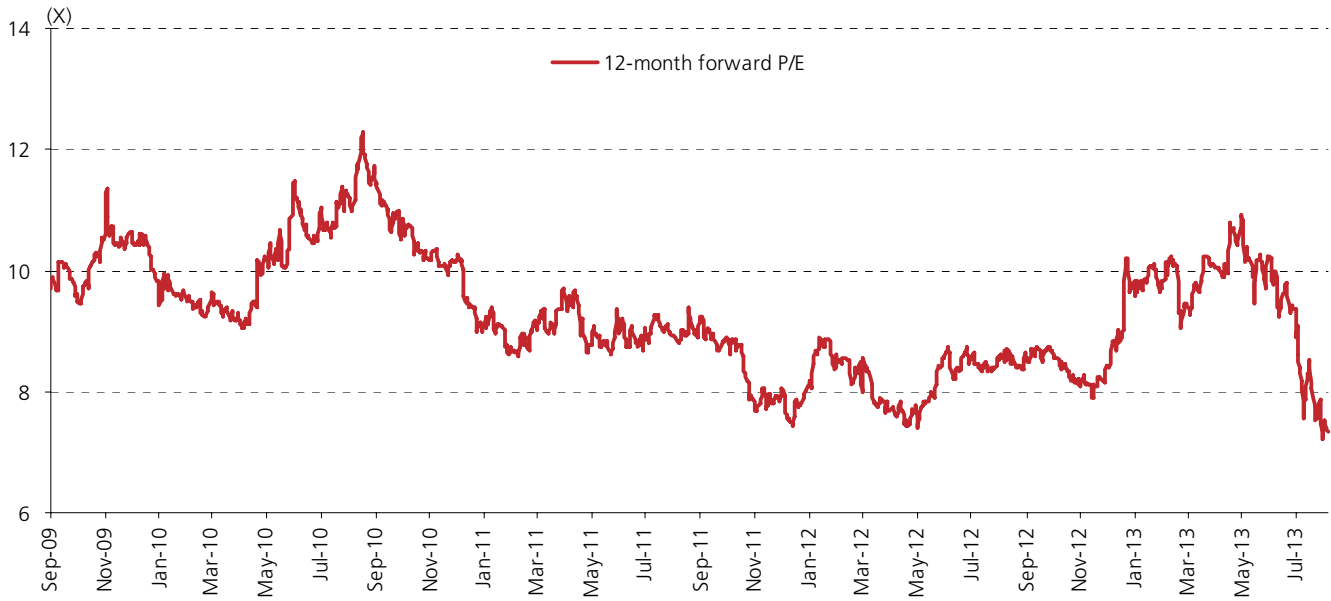
Fine-tune estimates

We have revised our FY2014-16E EPS to ₹53.9 (-1.8%), ₹63.1 (-1.6%) and ₹59.3 (-1.1%) to reflect (1) details of FY2013 annual report and (2) other minor changes.

QUICK NUMBERS

- Reserve replacement ratio of 1.64X for FY2013
- 2P reserves >20 years of current production levels
- 6-7% dividend yields at current levels

Exhibit 1: OIL stock is trading at the lower end of its historical range of P/E multiple
 12-month forward P/E for OIL (X)



Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 2: OIL stock is trading at the lower end of its historical range of P/B multiple
 12-month trailing P/B for OIL (X)

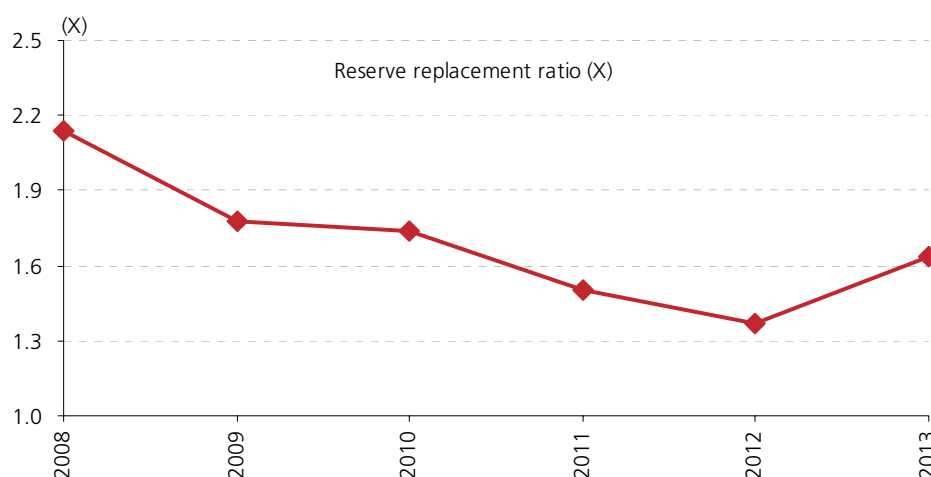


Source: Bloomberg, Kotak Institutional Equities estimates

Key takeaways from the analyst meeting

- ▶ Expectations of a consistent subsidy-sharing mechanism by end-CY2013. OIL management is hopeful that the Government will implement a transparent and consistent subsidy-sharing mechanism by end-CY2013. The company, along with ONGC, has sought a minimum net crude price realization of US\$65/bbl in its representations to the Government and an expert committee, headed by Dr. Kirit Parikh.
- ▶ Retained production targets for FY2014. The company remained optimistic of achieving its FY2014 production targets of 3.95 mn tons (+7% yoy) of crude oil and 2.74 bcm (+4% yoy) of natural gas, despite concerns from potential disruptions in the North-East region and declining production from mature fields.
- ▶ **Healthy reserve replacement ratio of 1.64X.** OIL's reserves replacement ratio (RRR) for FY2013 was at 1.64X (see Exhibit 3). OIL has achieved an RRR of about 1.7X over the past six years, which reflects (1) success of EOR/IOR techniques implemented in its mature fields and (2) addition of new fields.

Exhibit 3: Reserve replacement ratio for OIL, March fiscal year-ends, 2008-13 (X)



Source: Company, Kotak Institutional Equities

- ▶ **High 2P reserves to drive medium-term growth in volumes.** OIL's 2P reserves of 916 mn boe are twice its 1P reserves of 442 mn boe (see Exhibit 4). The management indicated that high 2P reserves (>20 years of current production levels) should provide more comfort on medium-term growth in domestic volumes.

Exhibit 4: OIL's 2P reserves are twice its 1P reserves
Reserves of Oil India, March fiscal year-ends, 2007-13 (mn boe)

	2007	2008	2009	2010	2011	2012	2013
1P reserves							
Crude oil	283	296	285	282	280	274	261
Natural gas	169	233	247	239	225	199	181
Overall	452	529	532	521	505	473	442
2P reserves							
Crude oil	540	588	575	580	584	600	598
Natural gas	289	345	399	377	360	341	318
Overall	829	933	974	957	944	941	916
3P reserves							
Crude oil	1,000	1,039	999	915	867	878	850
Natural gas	471	472	543	522	505	486	463
Overall	1,471	1,511	1,542	1,437	1,372	1,364	1,313
2P/3P reserves (56	62	63	67	69	69	70

Source: Company, Kotak Institutional Equities

- **Optimism on Mozambique acquisition.** OIL management was exuberant on its proposed acquisition of 5% stake in the prospective Area 1 block in Mozambique for US\$1.24 bn. The company expects to spend an additional US\$1 bn for its share of capex required to commission two LNG trains by 2018, after which the internal cashflows will be sufficient to fund any further expansion. OIL is planning to raise overseas debt to fund the acquisition.

Key assumptions behind our earnings model

We discuss the key assumptions behind our earnings model below. Exhibit 5 gives the major assumptions behind our earnings model.

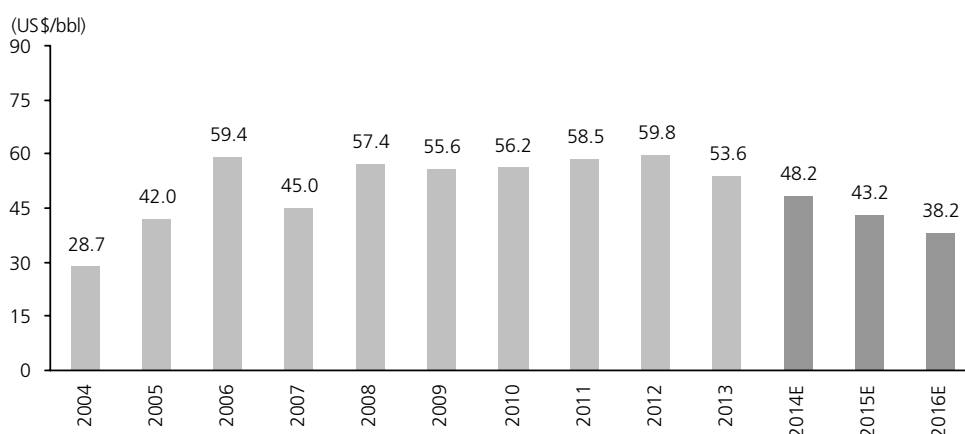
Exhibit 5: We model sharp decline in net crude price realizations over the next few years
Key assumptions, March fiscal year-ends, 2008-16E

	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Macro assumptions									
Exchange rate (Rs/US\$)	40.3	45.8	47.4	45.6	47.9	54.4	60.2	62.8	62.0
Subsidy loss (Rs bn)	23.1	30.2	15.5	32.9	73.5	78.9	87.4	92.0	92.2
Import tariff on crude oil (%)	5.2	0.9	0.4	5.2	1.2	—	—	—	—
Crude/natural gas prices									
Crude price									
Crude price, Dated Brent (US\$/bbl)	82.4	84.5	69.8	86.7	114.4	110.5	105.0	100.0	95.0
Gross realized crude price, OIL-India (US\$/bbl)	83.2	81.7	68.5	86.1	114.7	109.6	104.2	99.2	94.2
Net realized crude price, OIL-India (US\$/bbl)	57.4	55.6	56.2	58.5	59.8	53.6	48.2	43.2	38.2
Natural gas price									
Natural gas price, India (Rs/cu m)	3.2	3.2	3.2	6.8	8.0	9.1	10.0	19.9	22.1
Natural gas price, India (US\$/mn BTU)	2.0	1.8	1.7	3.7	4.2	4.2	4.2	8.0	9.0
Sales volumes—Domestic fields									
Crude oil (mn tons)	3.0	3.4	3.5	3.6	3.9	3.7	3.7	3.7	3.8
Natural gas (bcm)	1.8	1.7	1.9	1.8	2.1	2.1	2.2	2.4	2.6
Total sales (mn toe)	4.7	4.9	5.2	5.2	5.7	5.6	5.6	5.9	6.1
Total sales (mn boe)	34	36	38	38	42	41	41	43	44
Crude oil (%)	65	68	68	69	67	66	65	64	62
Natural gas (%)	35	32	32	31	33	34	35	36	38

Source: Company, Kotak Institutional Equities estimates

- ▶ **Oil and gas sales volume.** We model crude oil sales volume at 3.68 mn tons in FY2014, 3.72 mn tons in FY2015 and 3.77 mn tons in FY2016 versus 3.68 mn tons in FY2013 and 3.85 mn tons in FY2012. We model gas volumes at 5.9 mcm/d for FY2014, 6.5 mcm/d in FY2015 and 7 mcm/d in FY2016 versus 5.7 mcm/d in FY2012-13. Our conservative assumptions of volume growth in the near term reflect concerns arising from (1) recent disruptions in the North-East region and (2) declining production from mature fields. However, in the medium term, we expect OIL to benefit from potential growth (albeit modest) in production volumes supported by (1) high 2P reserves and (2) implementation of EOR/IOR techniques in OIL's extant producing fields.
- ▶ **Subsidy amount.** We model subsidy burden on OIL for FY2014, FY2015 and FY2016 at ₹87 bn, ₹92 bn and ₹92 bn versus ₹79 bn in FY2013. We have assumed a recurring subsidy discount of US\$56/bbl for upstream oil companies based on the current subsidy-sharing formula.
- ▶ **Crude price realizations.** We assume crude oil prices for FY2014, FY2015 and FY2016 at US\$105/bbl, US\$100/bbl and US\$95/bbl. However, we would focus more on OIL's net realized crude price and our long-term crude price assumption. Exhibit 6 gives OIL's historical net realized price and our subdued expectations for FY2014-16E.

Exhibit 6: We expect net crude price realizations to decline sharply from FY2014E onwards
OIL's net crude price realization, March fiscal year-ends, 2004-16E (US\$/bbl)



Source: Company, Kotak Institutional Equities estimates

- ▶ **Natural gas price.** We have assumed FY2014 natural gas price at US\$4.2/mn BTU and FY2015-16 gas price at US\$8-9/mn BTU. We see a significant improvement in profitability of OIL from the recent decision of CCEA to raise domestic gas prices by linking it to a market-based formula. However, we do not rule out a potential increase in royalty on natural gas produced from nominated fields (10% currently) or higher subsidy burden, which may curtail the benefit to the upstream companies (see Exhibit 7).

Exhibit 7: OIL's EPS will increase at higher gas prices despite a potential increase in royalty on gas
OIL's EPS at various levels of gas prices and royalty rates, March fiscal year-end, 2015E (₹)

		FY2015E EPS for OIL (Rs)			
		Natural gas price (US\$/mn BTU)			
Royalty on natural gas (%)		8.0	9.0	10.0	11.0
	10	66.3	71.1	75.9	80.8
	20	63.1	67.5	71.9	76.3
	30	60.4	64.4	68.5	72.6
	40	58.0	61.8	65.6	69.4

Source: Kotak Institutional Equities estimates

- **Exchange rate.** We have assumed Rupee-Dollar exchange rate for FY2014E, FY2015E and FY2016E at ₹60.24/US\$, ₹62.75/US\$ and ₹62/US\$.

Exhibit 8 gives sensitivity of OIL's EPS to key variables (Rupee-Dollar rate, crude oil price, natural gas price). Exhibits 9 and 10 give our fair valuation and financial summary of OIL.

Exhibit 8: OIL's earnings are highly sensitive to crude price and gas price assumptions

Earnings sensitivity of OIL to key variables

	2014E			2015E			2016E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Rs/US\$	59.2	60.2	61.2	61.8	62.8	63.8	61.0	62.0	63.0
Net profits (Rs mn)	31,494	32,423	33,352	36,900	37,923	38,947	34,640	35,668	36,696
Earnings per share (Rs)	52.4	53.9	55.5	61.4	63.1	64.8	57.6	59.3	61.0
% upside/(downside)	(2.9)		2.9	(2.7)		2.7	(2.9)		2.9
Average crude prices									
Crude price (US\$/bbl)	103.0	105.0	107.0	98.0	100.0	102.0	93.0	95.0	97.0
Net profits (Rs mn)	30,623	32,423	34,224	36,030	37,923	39,817	33,770	35,668	37,566
Earnings per share (Rs)	50.9	53.9	56.9	59.9	63.1	66.2	56.2	59.3	62.5
% upside/(downside)	(5.6)		5.6	(5.0)		5.0	(5.3)		5.3
Cess									
Cess on domestic crude (Rs/ton)	5,150	4,635	4,120	5,150	4,635	4,120	5,150	4,635	4,120
Net profits (Rs mn)	31,191	32,423	33,655	36,679	37,923	39,167	34,405	35,668	36,931
Earnings per share (Rs)	51.9	53.9	56.0	61.0	63.1	65.2	57.2	59.3	61.4
% upside/(downside)	(3.8)		3.8	(3.3)		3.3	(3.5)		3.5
Natural gas prices									
Natural gas price (US\$/mn BTU)		4.2	5.2	7.0	8.0	9.0	7.0	8.0	9.0
Net profits (Rs mn)		32,423	34,949	35,266	37,923	40,580	32,841	35,668	38,495
Earnings per share (Rs)		53.9	58.1	58.7	63.1	67.5	54.6	59.3	64.0
% upside/(downside)			7.8	(7.0)		7.0	(7.9)		7.9

Source: Kotak Institutional Equities estimates

Exhibit 9: We compute fair value of OIL India at ₹650/share

Fair value of OIL (₹/share)

FY2015E EPS	63
Less: income from investments valued separately	0
FY2015E EPS (adjusted)	63
P/E (X)	10
Valuation of core business	628
Value of investments	16
Numaligarh Refinery Limited	10
Other equity investments	6
Fair value	643

Source: Kotak Institutional Equities estimates

Exhibit 10: Profit model, balance sheet, cash model of OIL, March fiscal year-ends, 2008-16E (₹ mn)

	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Profit model (Rs mn)									
Net sales	60,819	72,414	79,056	83,034	98,632	99,476	103,184	119,901	119,186
EBITDA	24,947	30,397	36,980	39,567	46,747	46,147	46,520	57,008	54,411
Other income	6,770	9,372	9,371	11,851	14,454	15,088	14,450	14,225	14,470
Interest	(344)	(87)	(37)	(139)	(94)	(37)	(36)	(25)	(25)
Depreciation and depletion	(4,228)	(5,765)	(7,306)	(8,188)	(10,088)	(8,376)	(11,815)	(13,757)	(14,821)
Pretax profits	27,145	33,916	39,010	43,091	51,019	52,822	49,118	57,451	54,035
Tax	(8,538)	(11,910)	(11,598)	(12,973)	(17,273)	(15,520)	(16,605)	(19,338)	(18,208)
Deferred tax	(707)	(343)	(1,211)	(1,282)	723	(1,419)	(90)	(189)	(158)
Adjusted net profits	17,897	21,646	26,169	28,850	34,469	35,883	32,423	37,923	35,668
Earnings per share (Rs)	33.5	40.5	46.1	48.0	57.3	59.7	53.9	63.1	59.3
Balance sheet (Rs mn)									
Total equity	79,330	93,310	137,638	156,019	177,213	192,115	205,197	220,614	235,184
Deferred tax liability	8,655	8,998	10,209	11,491	10,767	12,186	12,276	12,466	12,624
Liability for abandonment cost	11	15	19	1,645	2,031	2,127	2,127	2,127	2,127
Total borrowings	1,749	565	375	10,268	189	10,578	—	—	—
Current liabilities	17,541	30,914	32,693	33,216	36,612	34,802	34,755	35,706	35,691
Total liabilities and equity	107,286	133,801	180,934	212,638	226,813	251,809	254,355	270,913	285,626
Cash	42,808	60,700	85,429	117,693	109,355	121,329	113,519	116,733	119,379
Current assets	18,957	22,853	37,266	30,318	34,831	44,163	44,586	47,186	47,075
Total fixed assets	40,633	45,361	49,460	55,723	56,485	67,745	77,680	88,422	100,601
Investments	4,887	4,887	8,594	8,904	26,142	18,571	18,571	18,571	18,571
Deferred expenditure	—	—	184	—	—	—	—	—	—
Total assets	107,286	133,801	180,934	212,638	226,813	251,809	254,355	270,913	285,626
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	20,104	27,246	23,621	26,353	27,779	20,044	24,629	31,895	29,928
Working capital changes	7,435	2,368	(9,113)	4,034	3,125	(8,808)	(470)	(1,650)	97
Capital expenditure	(9,492)	(8,496)	(11,485)	(9,518)	(8,599)	(12,515)	(16,500)	(18,750)	(20,750)
Investments	(811)	—	(3,201)	4,692	(16,688)	9,521	—	—	—
Other income	4,214	5,470	7,268	6,343	11,335	12,818	14,450	14,225	14,470
Free cash flow	21,450	26,587	7,091	31,904	16,953	21,060	22,109	25,720	23,745
Ratios (%)									
Debt/equity	2.2	0.6	0.3	6.6	0.1	5.5	—	—	—
Net debt/equity	(31.9)	(31.9)	(38.3)	(54.1)	(41.0)	(45.0)	(38.4)	(36.7)	(35.6)
RoAE	21.8	22.8	20.9	18.3	19.4	18.3	15.4	16.8	14.8
RoACE	21.5	22.7	20.9	18.1	19.2	18.1	15.2	16.7	14.7
Key assumptions									
Exchange rate (Rs/US\$)	40.3	45.8	47.4	45.6	47.9	54.4	60.2	62.8	62.0
Crude fob price (US\$/bbl)	82.4	84.5	69.8	86.7	114.4	110.5	105.0	100.0	95.0
Natural gas price (Rs/cu m)	3.2	3.2	3.2	6.8	8.0	9.1	10.0	19.9	22.1
Subsidy loss (Rs bn)	23.1	30.2	15.5	32.9	73.5	78.9	87.4	92.0	92.2

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 04, 2013

UPDATE

 Coverage view: **Cautious**

Price (₹): 230

Target price (₹): 400

BSE-30: 18,235

An impressive liability franchise worth a re-look. We maintain our positive view on the bank noting that the recent correction ignores a few key positive strengths— (1) direct beneficiary of NRI deposit flows, (2) strong presence in Kerala with 10-12% share in business and ~20% in NRI deposits, (3) healthy tier-1 ratio at 14% and (4) recent improvement in domestic price of gold that addresses the possible impairment risks that emerged a quarter back. Maintain BUY with TP at ₹400 (from ₹450 earlier).

Company data and valuation summary

Federal Bank

Stock data

52-week range (Rs) (high,low) 571-227

Market Cap. (Rs bn) 39.3

Shareholding pattern (%)

Promoters 0.0

FIs 47.9

MFs 16.0

Price performance (%) 1M 3M 12M

Absolute (34.2) (49.8) (43.3)

Rel. to BSE-30 (30.8) (46.0) (46.0)

Forecasts/Valuations

	2013	2014E	2015E
EPS (Rs)	49.0	37.7	54.9
EPS growth (%)	7.9	(23.0)	45.6
P/E (X)	4.7	6.1	4.2
NII (Rs bn)	19.7	21.1	26.2
Net profits (Rs bn)	8.4	6.5	9.4
BVPS	355.7	390.5	432.2
P/B (X)	0.6	0.6	0.5
ROE (%)	13.9	9.7	13.0
Div. Yield (%)	3.9	3.0	4.4

Reiterate BUY on the strengths of the business

We reiterate our BUY rating with TP of ₹400 (from ₹450 earlier) but believe that the bank is trading at an attractive multiple that ignores a few key strengths. We value the bank at 1X PBR and 9X PER FY2014 for RoEs of 13-15% over FY2015-16E. We have revised our estimates to factor lower treasury income, but expect the rise in funding costs for the industry to have limited impact as the bank has a strong business presence in Kerala that is likely to be a direct beneficiary of the sharp depreciation of the currency. High costs resulting from rapid branch expansion over the past few quarters and possible impairment from the large corporate portfolio remains an overhang.

An overhang clears with rise in gold prices; risks on corporate loans remain

Asset quality risks appear to be lower, particularly those emerging from the gold portfolio (10% of loans) with recent rally in gold prices, 15% rise since June 2013 (see Exhibit 3). As of 1QFY13, 10-15% of the gold loan portfolio was above 90% LTV, which would now be below 80%. We expect the bank to start focusing on growth as compared to stabilizing the portfolio. The extension of deadline in Saudi Arabia to November 4, 2013 on employment restrictions (10% of employees from local population and registration of migrant workers) gives a further breather for the bank. However, we maintain our cautious outlook on loan impairment emerging from the corporate portfolio as it is yet to stabilize, despite recent discussions with the management giving more comfort. We factor slippages at 2.8% for FY2014-15E and credit costs higher at 1.1%.

Less dependent on wholesale deposits with declining Rupee resulting in strong flow of NRI deposits

Federal Bank is best-placed to gain from the strong NRI remittances in the country from the Rupee depreciation (>20% in one year), which would reduce the dependence on wholesale deposits. Federal Bank has built a strong franchise in Kerala (18% share of deposits in Kerala, Exhibits 4 and 5), which has helped the bank capitalize on the high NRI remittances in the state. As of FY2013, Federal Bank had a market share of 7-8% in overall remittances and 4% in NRI deposits in the country despite a negligible market share in business. CASA ratio stands at 29% as of 1QFY14 with 40% of the saving account balances from NRE/NRO deposits (see Exhibit 6) and the share is likely to improve further.

Exhibit 1: Slippages in retail and SME portfolio have come off in recent quarters

Sectoral break-up of slippages, March fiscal year-ends, 1QFY10-1QFY13 (%)

	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14
Retail	1,420	640	460	430	568	420	640	360	520
SME	1,420	1,220	900	950	972	1,050	720	1,190	710
Corporate	410	1,110	190	1,320	1,351	-	2,860	2,020	1,810
Total	3,230	2,650	3,300	2,690	2,890	1,470	4,220	3,570	3,040

Source: Company, Kotak Institutional Equities

Exhibit 2: Gold loans have been steadily rising in recent quarters

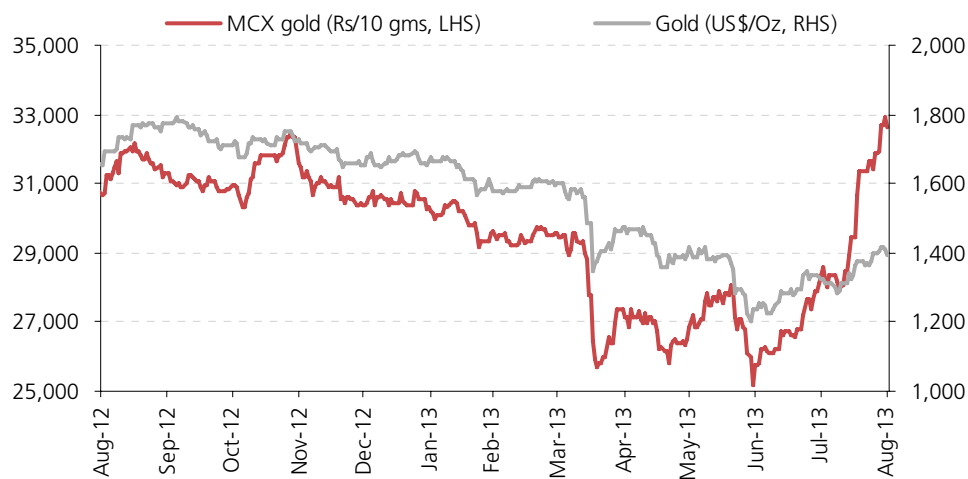
Break-up of loans, March fiscal year-ends, 2008-1QFY14 (%)

	2008	2009	2010	2011	2012	2013	1QFY14
Retail	29.7	32.0	32.0	29.5	28.1	30.2	32.0
Housing	16.0	18.9	17.9	17.4	14.9	11.6	12.6
Gold loans			3.2	3.2	6.9	9.7	9.7
Others	13.6	13.1	10.9	8.9	6.3	9.0	9.7
SME	36.8	32.9	31.5	29.9	27.0	29.1	31.7
Others	33.6	35.2	36.5	40.5	44.9	40.7	36.3

Source: Company, Kotak Institutional Equities

Exhibit 3: Gold prices have increased 15% in August in INR term

Gold prices, August 2012-August 2013



Source: Company, Kotak Institutional Equities

Kerala—a key market for Federal Bank

Despite strong growth in the number of branches outside Kerala, the state dominates the bank's overall portfolio—about 55% of its deposits and ~40% of its loans come from Kerala. Compared with other banks, Federal Bank has ~12% share in deposits and ~10% share of loans in Kerala (see Exhibit 4). As most of the deposits are not located in urban markets, we believe competition is likely to be much less, at least in the medium term. Importantly, the bank has a good opportunity to gain share from State Bank of Travancore and other public banks, in our view.

Exhibit 4: Federal Bank has a strong market share in loans and deposits within Kerala
Share of loans and deposits within Kerala, March fiscal year-end, 2013 (%)

	Deposits				Loans			
	Rural	Semi-urban	Urban	Total	Rural	Semi-urban	Urban	Total
State Bank group	1.0	17.7	11.5	30.2	2.1	16.1	13.4	31.6
State Bank of India	0.3	4.6	4.6	9.6	0.5	4.8	6.2	11.6
State Bank of Travancore	0.7	13.1	6.7	20.5	1.6	11.2	6.8	19.6
Others	—	0.0	0.1	0.2	—	0.0	0.4	0.4
Nationalized banks	0.7	13.0	10.9	24.6	1.0	14.8	18.3	34.1
Canara Bank	0.2	4.0	2.4	6.6	0.3	4.8	2.9	8.0
Others	0.5	9.0	8.5	18.1	0.7	10.0	15.4	26.1
Private-sector banks	3.2	17.2	10.3	30.7	2.4	12.0	15.5	30.0
Federal Bank	2.0	7.5	2.3	11.8	1.5	4.7	3.6	9.8
South Indian Bank	0.7	4.9	1.9	7.4	0.5	3.7	1.7	5.9
Axis Bank	0.0	0.4	0.9	1.3	0.0	0.2	1.9	2.1
HDFC Bank	0.2	0.8	1.1	2.0	0.2	0.9	2.5	3.6
ICICI Bank	0.0	0.6	0.8	1.4	0.0	0.1	1.8	1.9
Others	0.3	3.0	3.4	6.7	0.3	2.4	4.1	6.7
Others (RRB, foreign banks)	0.4	1.7	12.3	14.4	0.8	3.2	0.3	4.3
Total	5.3	49.7	45.0		6.4	46.1	47.5	

Source: Public documents, Kotak Institutional Equities

Strong franchise in NRI deposits; marginal advantage lost with deregulation

We note the bank's strong portfolio of NRI deposits adds significantly to its overall low-cost book. Our discussion with the management indicates that ~45% of the savings account balances (Exhibit 6) are due to NRI deposits (NRE/NRO savings). The bank has a strong share in the remittance business in Kerala, given its presence in rural and semi-urban markets, and our estimates indicate Federal Bank has ~18% of the overall NRI deposits in Kerala (Exhibit 5), an impressive share, in our view.

However, the deregulation of interest rates on NRI deposits has been a setback for the bank in the acquisition of low-cost deposits as the differential used to be meaningful before the deregulation. Now, non-resident customers are looking to park a higher share of their deposits in term deposits.

The bank is looking to reduce its high dependence on non-resident deposits through domestic branches, resulting in strong branch expansion, but the results are muted.

Exhibit 5: Federal Bank has a strong market share in NRI deposits in Kerala
Market share of NRI deposits in Kerala, March fiscal year-end, 2013 (%)

	Rural	Semi-urban	Urban	Total
State Bank group	1.1	25.9	12.2	39.2
State Bank of India	0.2	6.2	6.0	12.4
State Bank of Travancore	0.8	19.7	6.2	26.7
Others	—	0.0	0.0	0.0
Nationalized banks	0.6	14.6	7.6	22.9
Canara Bank	0.1	5.5	1.0	6.6
Others	0.5	9.2	6.7	16.3
Private-sector banks	4.1	23.2	10.3	37.6
Federal Bank	2.8	12.1	3.1	18.1
South Indian Bank	0.7	5.9	1.8	8.4
Axis Bank	0.0	0.8	1.4	2.2
HDFC Bank	0.2	1.0	1.4	2.6
ICICI Bank	0.0	1.0	1.1	2.1
Others	0.3	2.4	1.5	4.2
Others (RRB and foreign banks)	0.1	0.2	0.0	0.3
Total	5.8	64.0	30.2	

Source: Public documents, Kotak Institutional Equities

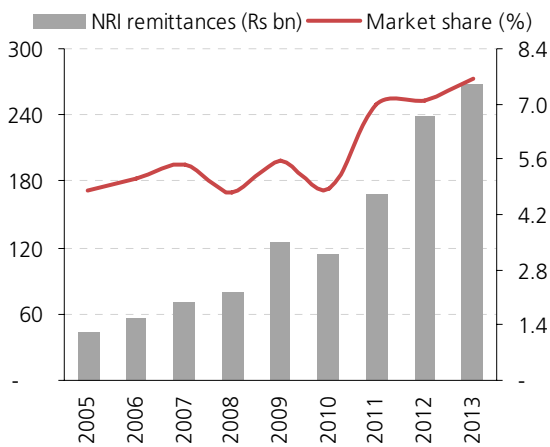
Exhibit 6: NRI deposits led growth in total deposits
March fiscal year-ends, 2012-1QFY14

	2012	2013	1QFY14
Total deposits	489	576	570
NRI deposits	112	153	170
(% of total deposits)	22.9	26.5	29.9
NRE deposits	80	132	151
(% of total deposits)	16.3	22.8	26.5
Savings deposits		127	138
NRI		55	65
(% of saving deposits)		43.3	46.7
NRE savings		48	58
(% of saving deposits)		38.0	42.3
NRO savings		7	6
(% of saving deposits)		5.3	4.5

Source: Company, Kotak Institutional Equities

Exhibit 7: Federal Bank has been steadily increasing its market share in remittances...

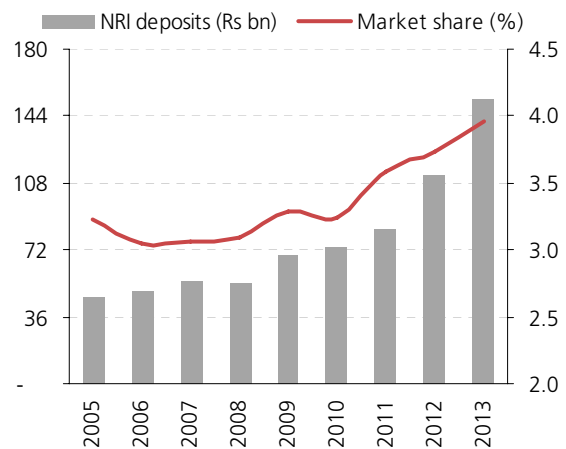
NRI remittances, March fiscal year-ends, 2005-13



Source: Company, Kotak Institutional Equities

Exhibit 8: ...and in NRI deposits in the country

NRI deposits, March fiscal year-ends, 2005-13



Source: Company, Kotak Institutional Equities

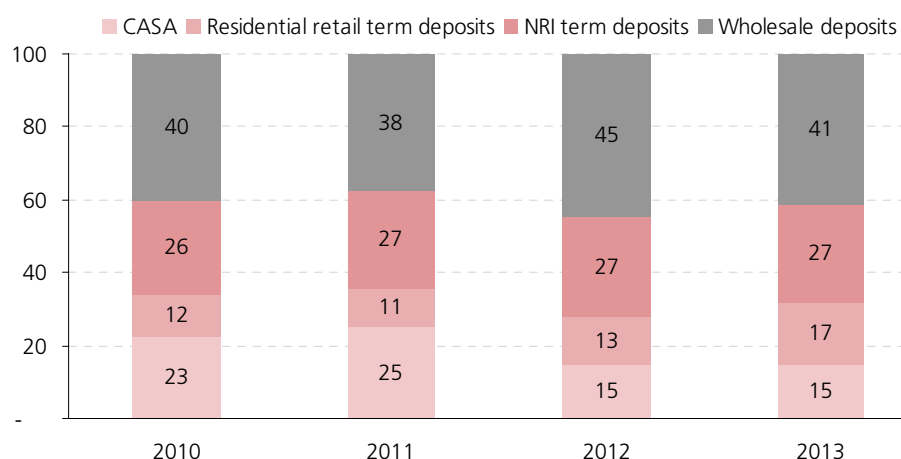
Margins to remain stable; higher share of low-cost deposits

We believe Federal Bank is one of the better-placed players among private banks to weather the prevalent high interest rate regime. CASA, retail term and NRI term deposits contribute ~60% of total deposits (refer Exhibit 6), and the share is likely to improve further with Rupee depreciation (high NRI remittances) and rapid branch expansion. The bank has significantly increased new account mobilization with branch expansion over the past two years, which is yet to translate into faster-than-balance-sheet growth in deposits. We note that of the 40% wholesale deposits as of FY2013, 15% were bulk deposits.

Federal Banks' margins seem to have bottomed out as the margin compression cycle that took place over past two years (~50 bps) from structural change in loan mix and NRI rate de-regulation is now complete and any improvement in liability franchise from here should result in margin expansion. However, we build in stable margins over FY2014-16E as high competition in retail loans and low bargaining power on corporate and SME side is likely to keep lending yields under pressure.

Exhibit 9: Wholesale deposits form 40% of total deposits

Deposit mix for Federal Bank, March fiscal year-ends, 2010-13 (%)

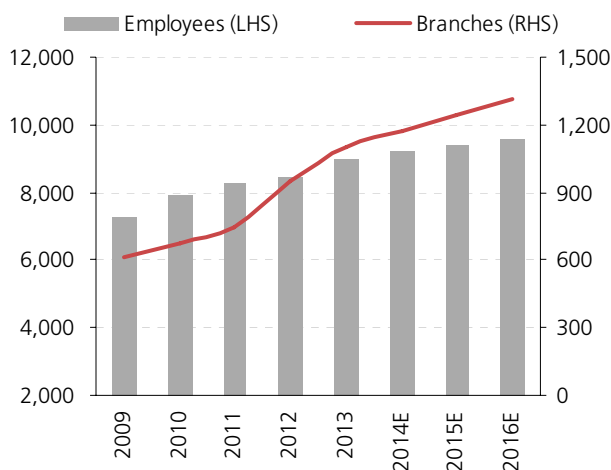


Source: Company, Kotak Institutional Equities

High cost structure remains an overhang

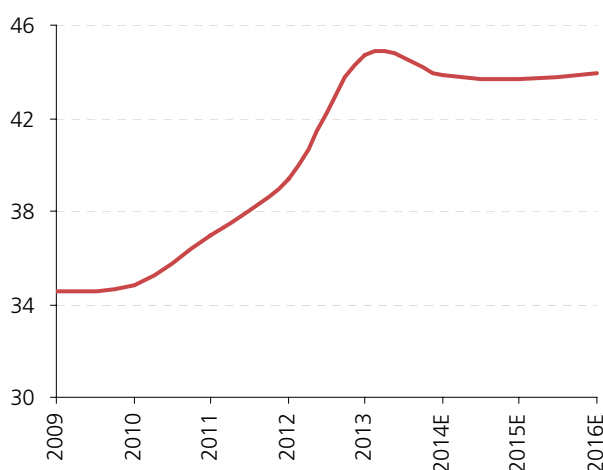
Federal Bank has built a high-cost model post the rapid branch expansion over past two years, which remains our biggest concern for the bank. The bank undertook one of the fastest branch expansions among regional banks (>20% CAGR growth in number of branches in FY2011-13), which resulted in an increase in cost-income ratio to 45% from 35% in FY2009-11. The benefits of these investments are yet to be seen through better traction in retail loans and fee income growth.

Exhibit 10: Aggressive expansion undertaken by the bank...
Total employees and branches, March fiscal year-ends, 2009-16E (#)



Source: Company, Kotak Institutional Equities estimates

Exhibit 11: ...resulted in sharp expansion in cost-income ratio
Cost-income ratio, March fiscal year-ends, 2009-16E (%)



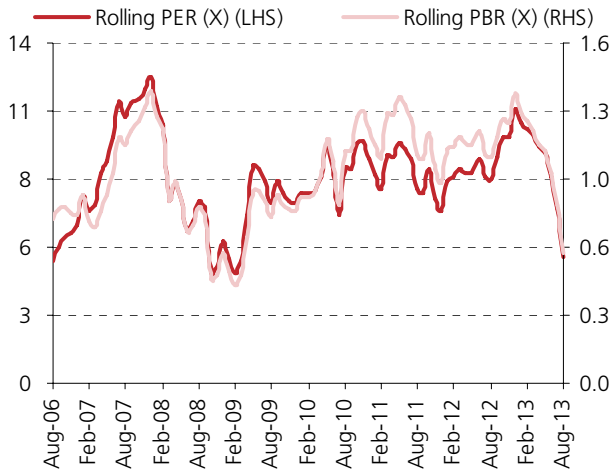
Source: Company, Kotak Institutional Equities estimates

Exhibit 12: We marginally change our near-term earnings estimates
Old and new estimates, March fiscal year-ends, 2014-16E (₹ mn)

	New estimates			Old estimates			% change		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
Net interest income	21,137	26,165	31,465	22,017	26,122	31,412	(4.0)	0.2	0.2
NIM (%)	2.9	3.0	3.1	3.0	3.0	3.1			
Loan growth (%)	15.9	15.5	15.1	15.9	15.5	15.1			
Loan loss provisions	5,237	6,059	5,716	5,237	5,508	5,716	-	10.0	-
Other income	7,807	9,712	10,823	8,007	9,612	10,523	(2.5)	1.0	2.9
Treasury income	2,200	2,800	3,000	2,400	2,700	2,700	(8.3)	3.7	11.1
Operating expenses	13,650	15,993	18,667	13,650	15,993	18,667	-	-	-
Employee expenses	7,284	8,502	9,878	7,284	8,502	9,878	-	-	-
Net profit	6,454	9,395	12,238	7,520	9,679	11,992	(14.2)	(2.9)	2.1
PBT-treasury+provisions	13,094	17,085	20,621	13,974	17,042	20,568	(6.3)	0.3	0.3

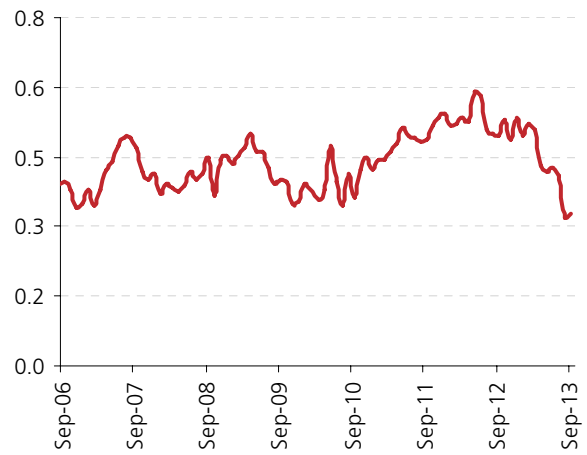
Source: Company, Kotak Institutional Equities

Exhibit 13: Federal Bank: Rolling PER and PBR (X)
September 2006-September 2013 (X)



Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 14: Federal Bank's trading premium to private banks has come off significantly
September 2006-September 2013 (X)



Source: Company, Bloomberg, Kotak Institutional Equities

Exhibit 15: Federal Bank growth rates and key ratios
March fiscal year-ends, 2011-16E (%)

	2011	2012	2013	2014E	2015E	2016E
Growth rates (%)						
Net loan	18.6	18.2	16.8	15.9	15.5	15.1
Customer assets	18.0	18.9	16.0	15.5	15.1	14.9
Investments excld. CPs and debentures	8.0	17.1	25.7	22.9	30.8	29.1
Net fixed and leased assets	0.0	12.5	21.9	9.4	9.1	7.8
Cash and bank balance	37.6	(5.8)	5.3	14.9	12.7	13.0
Total Asset	17.8	17.8	17.2	15.5	17.3	17.3
Deposits	19.3	13.8	17.7	17.0	18.7	18.3
Current	31.4	5.8	14.3	17.0	18.7	18.3
Savings	20.2	19.5	16.6	20.7	19.7	19.3
Fixed	18.2	12.7	18.3	15.9	18.4	18.0
Net interest income	23.8	11.8	1.1	7.0	23.8	20.3
Loan loss provisions	24.5	(41.3)	0.2	73.0	15.7	(5.7)
Total other income	(2.7)	3.0	24.8	17.5	24.4	11.4
Net fee income	137.7	0.5	21.1	18.0	24.0	30.0
Net capital gains	(57.5)	79.4	150.7	6.9	27.3	7.1
Net exchange gains	28.3	47.1	(5.7)	30.0	25.0	25.0
Operating expenses	23.5	17.1	20.5	15.7	17.2	16.7
Employee expenses	31.2	13.2	15.2	16.3	16.7	16.2
Key ratios (%)						
Yield on average earning assets	8.8	10.3	9.8	9.2	9.0	8.8
Yield on average loans	10.8	12.0	11.3	10.6	10.3	10.1
Yield on average investments	6.5	8.5	7.8	7.6	7.4	7.1
Average cost of funds	5.6	7.3	7.2	6.9	6.4	6.1
Interest on deposits	5.5	7.2	7.2	7.0	6.5	6.3
Difference	3.2	2.9	2.5	2.3	2.6	2.7
Net interest income/earning assets	3.8	3.6	3.1	2.9	3.0	3.1
New provisions/average net loans	1.7	0.9	0.7	1.1	1.1	0.9
Interest income/total income	77.2	78.6	74.8	73.0	72.9	74.4
Fee income to total income	11.1	10.1	11.5	12.4	12.4	13.7
Fees income to PBT	27.7	21.5	25.5	38.8	33.1	33.0
Net trading income to PBT	3.8	4.0	20.7	18.4	20.4	16.8
Exchange income to PBT	6.3	7.2	6.7	11.1	9.6	9.2
Operating expenses/total income	36.9	39.4	44.7	47.2	44.6	44.1
Operating expenses/assets	1.8	1.7	1.8	1.8	1.8	1.8
Operating profit /AWF	1.9	2.0	1.6	1.0	1.2	1.4
Tax rate	34.9	33.6	29.8	30.3	30.3	30.3
Dividend payout ratio	24.8	19.8	18.4	18.4	18.4	18.4
Share of deposits						
Current	5.6	5.2	5.0	5.0	5.0	5.0
Fixed	73.1	72.5	72.8	72.1	71.9	71.7
Savings	21.3	22.3	22.1	22.8	23.0	23.2
Loans-to-deposit ratio	74.3	77.2	76.5	75.8	73.8	71.8
Equity/assets (EoY)	9.9	9.4	9.0	8.4	7.9	7.6
Asset quality trends (%)						
Gross NPL	3.5	3.3	3.4	3.2	3.0	2.6
Net NPL	0.6	0.5	1.0	0.6	0.6	0.7
Slippages	3.2	2.1	2.1	2.2	2.1	2.0
Provision coverage	83.4	84.7	72.2	82.4	80.5	73.9
Dupont analysis (%)						
Net interest income	3.7	3.5	3.0	2.8	2.9	3.0
Loan loss provisions	1.1	0.5	0.5	0.7	0.7	0.5
Net other income	1.1	0.9	1.0	1.0	1.1	1.0
Operating expenses	1.8	1.7	1.8	1.8	1.8	1.8
Inv. depreciation	0.0	0.1	(0.1)	0.1	0.0	0.0
(1- tax rate)	65.1	66.4	70.2	69.7	69.7	69.7
ROA	1.2	1.4	1.3	0.8	1.1	1.2
Average assets/average equity	9.7	10.4	10.9	11.6	12.3	12.9
ROE	12.0	14.4	13.9	9.7	13.0	15.1

Source: Kotak Institutional Equities, Company

Exhibit 16: Federal Bank income statement and balance sheet
March fiscal year-ends, 2011-16E (₹ mn)

	2011	2012	2013	2014E	2015E	2016E
Income statement						
Total interest income	40,520	55,584	61,676	67,916	77,561	89,617
Loans	31,688	41,898	46,357	50,318	56,596	64,238
Investments	8,680	13,157	14,646	16,914	19,732	23,474
Cash and deposits	152	529	673	684	1,233	1,905
Total interest expense	23,054	36,050	41,929	46,779	51,396	58,152
Deposits from customers	21,620	33,313	38,375	43,713	48,212	54,860
Net interest income	17,466	19,534	19,747	21,137	26,165	31,465
Loan loss provisions	5,143	3,021	3,026	5,237	6,059	5,716
Net interest income (after prov.)	12,323	16,513	16,720	15,900	20,107	25,749
Other income	5,168	5,323	6,644	7,807	9,712	10,823
Net fee income	2,502	2,516	3,047	3,595	4,458	5,796
Net capital gains	458	821	2,058	2,200	2,800	3,000
Net exchange gains	572	842	794	1,032	1,290	1,613
Operating expenses	8,361	9,793	11,795	13,650	15,993	18,667
Employee expenses	4,804	5,439	6,265	7,284	8,502	9,878
Depreciation on investments	111	349	(415)	500	50	50
Other Provisions	-	-	47	300	300	300
Pretax income	9,018	11,695	11,938	9,257	13,476	17,555
Tax provisions	3,147	3,927	3,556	2,804	4,082	5,317
Net Profit	5,871	7,768	8,382	6,454	9,395	12,238
% growth	26.3	32.3	7.9	(23.0)	45.6	30.3
PBT - Treasury + Provisions	13,815	14,244	12,538	13,094	17,085	20,621
% growth	19.4	3.1	(12.0)	4.4	30.5	20.7
Balance sheet						
Cash and bank balance	37,483	35,326	37,200	42,750	48,180	54,464
Cash	3,327	3,958	5,289	5,341	5,608	5,889
Balance with RBI	26,024	20,283	22,136	27,633	32,796	38,800
Balance with banks	3,138	4,633	6,890	6,890	6,890	6,890
Net value of investments	145,377	174,025	211,546	245,585	302,519	372,998
Govt. and other securities	99,645	115,312	145,751	180,591	238,247	309,375
Shares	1,681	1,907	2,564	2,564	2,564	2,564
Debentures and bonds	6,053	9,604	8,017	7,216	6,494	5,845
Net loans and advances	319,532	377,560	440,967	511,158	590,411	679,790
Fixed assets	2,898	3,261	3,975	4,347	4,745	5,116
Other assets	9,273	16,096	16,808	16,808	16,808	16,808
Total assets	514,564	606,268	710,496	820,648	962,663	1,129,177
Deposits	430,148	489,371	576,149	673,984	799,910	946,352
Borrowings and bills payable	19,127	42,616	52,172	59,369	68,005	78,368
Other liabilities	14,203	17,218	18,528	18,528	18,528	18,528
Total liabilities	463,477	549,204	646,849	751,881	886,443	1,043,248
Paid-up capital	1,710	1,710	1,711	1,711	1,711	1,711
Reserves & surplus	49,376	55,353	61,936	67,056	74,509	84,219
Total shareholders' equity	51,087	57,063	63,647	68,767	76,220	85,929

Source: Kotak Institutional Equities, Company

SEPTEMBER 04, 2013

UPDATE

BSE-30: 18,235

RBI stance on upfront disbursements can result in price cuts. The RBI has notified banks about disbursing home loans linked to construction progress rather than upfront disbursement to developers. If (and when) implemented by banks, this will lead to further liquidity issues for developers (most of who have stretched balance sheets) and low sales, resulting in them reducing prices. Among the three important metropolitan regions, prices in Mumbai and Gurgaon will be affected more than in Bangalore. We note that most listed developers have limited exposure to such schemes.

RBI moves in to put a break on subvention schemes

The RBI has notified banks that disbursement of housing loans sanctioned to individuals should be linked to construction progress of a project and banks should refrain from upfront disbursements to developers in incomplete/under-construction/green-field projects. The RBI's stance comes from its view of such schemes exposing banks and home loan borrowers to additional development-related risks and delay in payment of interest by developers, affecting the credit ratings of home buyers. Although upfront loans are disbursed to developers, they are based on credit ratings of home buyers and on the books of buyers (and not developers). Among home finance companies, HDFC is the largest player to offer such schemes. Among banks, ICICI and Axis Bank offer more 20:80 schemes than others.

What is a subvention/20:80 scheme?

In a subvention scheme, a buyer of a residential unit pays 20% of the total unit cost (sometimes including Government charges) to the developer and the EMI of the remaining amount starts after possession of the unit or a pre-defined time (irrespective of the project being delivered). The 80% is disbursed upfront or in 3-4 tranches (of 20-30% each) to the developer by a bank after the developer has achieved pre-defined construction thresholds. The developer services the interest (on behalf of the buyer) for the committed time. Such schemes are usually introduced by developers to boost sales. Developers could either pass on interest costs to buyers (by increasing prices before such scheme offers are made) or absorb the interest.

The Mumbai Metropolitan Region (MMR) has more than 100 projects with such offers

Among the three important metropolitan regions, the MMR has more than 100 projects offering such schemes, followed by over 25 projects in Gurgaon. Bangalore has the least number of projects offering such schemes. In the event of such schemes being discontinued, MMR developers (especially those in Mumbai) will be affected most due to (1) low sales, (2) increased approval costs and (3) limited access to debt. Select large and numerous tier-B developers can cut prices of projects to improve sales. Bangalore, which is seeing more end-user demand, high supply and hence low price escalation, has seen fewer than 15 projects (applications are increasing with increasing supply) that offer such schemes.

Does it affect listed developers? Not much!

Most listed developers do not offer such schemes and those that do, offer them for select projects—Hubtown (two projects in Mumbai), IBREL (a few projects in Gurgaon and Mumbai) and DLF (for its Crest project in Gurgaon). However, Parsvnath and Puravankara have such schemes running for most projects (including some completed projects). In addition to small developers, such schemes have been adopted by large unlisted players to boost sales.

QUICK NUMBERS

- Out of 16 listed developers sampled, only two offer such schemes in multiple projects

Listed developers' dependence on such schemes is minimal

As seen in Exhibit 1, out of 16 listed developers and over 300 projects, only Puravankara and Parsvnath run 20:80/25:75 schemes on most projects. Puravankara offered such a scheme on certain completed projects, in which the buyer gets possession of a unit and also enjoys an EMI-free period of 18 months.

Exhibit 1: 20:80/25:75/30:70 schemes offered are minimal for listed developers
The number of ongoing residential projects of select listed developers, as on March-June 2013

Developer	Ongoing projects (a)	20:80 scheme offered (a)
APIL	46	—
Brigade	14	—
DLF	30	2
Godrej Properties	17	—
HDIL	11	—
Hubtown	7	2
IBREL	14	4
Kolte-Patil	14	—
Mahindra Lifespaces	8	—
Oberoi	3	—
Parsvnath	24	20
Prestige	33	—
Puravankara	22	12
Sobha	23	—
Sunteck	4	—
Unitech	39	—

Notes:

(a) Estimates in select cases.

Source: Company, Kotak Institutional Equities estimates

How does a developer benefit from such schemes?

- (1) **Lower cost of debt.** Such schemes run on the cost of home loans (unlike higher construction/corporate loans to developers). This cost is usually 300-500 bps lower than traditional borrowing.
- (2) **Upfront disbursement.** In some cases, developers get upfront payment (80%) from a bank for the area sold (usually 10-20% of the total project area). Developers take certain cash out—to repay loans, for business development or other corporate commitments, depending on the amount raised through such schemes, and use the remaining for construction. In other cases, disbursement is not 80% upfront, but staggered in 2-3 tranches and linked to certain construction thresholds being achieved.
- (3) **Loans remain on buyers' books.** The bank, developer and the client usually enter into a tripartite agreement, and the bank offers credit to the developer, based on the buyer's balance sheet. Although advanced upfront to the developer, such loans remain on the unit buyer's books and not the developer's.

Banks usually undertake/approve such schemes on under-construction projects with all construction approvals in place and in which construction has commenced. Banks also disburse the money net of interest charges to developers, thus mitigating the risk of delayed interest payments. Developers usually take a (3-4 months prior) price increase in the projects in which they offer such schemes to pass on the cost to buyers. In markets with very low sales, developers take the interest hit, as well.

How does a unit buyer benefit?

For an end-user/investor buying a residential unit and taking a home loan, after the initial contribution (20-25%), the EMI on the loan starts after 2-3 years or after possession. This gives the buyer time to build up equity.

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	3-Sep-13		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	ADVT-	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	Price (Rs)	Upside (%)	3mo (US\$ mn)
Automobiles																													
Amara Raja Batteries	257	ADD	43,839	648	171	16.8	19.5	21.4	33.3	16.4	9.3	15.3	13.1	12.0	9.0	7.9	6.8	4.1	3.3	2.7	1.0	1.5	1.7	30.4	28.1	25.1	310	20.8	1.1
Apollo Tyres	62	REDUCE	31,380	464	504	12.2	16.6	16.0	49.5	36.5	(3.5)	5.1	3.8	3.9	3.7	2.9	2.3	0.8	0.7	0.6	0.8	1.1	1.1	19.7	22.0	17.6	64	2.8	8.2
Ashok Leyland	12	ADD	32,194	476	2,661	0.5	(0.9)	1.1	(74.5)	(265.0)	224.5	22.3	(13.5)	10.9	8.6	14.0	6.6	0.6	0.7	0.6	5.0	(3.7)	4.1	12.6	(6.7)	8.2	18	48.8	1.6
Bajaj Auto	1,838	BUY	531,874	7,864	289	105.2	117.9	137.8	1.3	12.1	16.9	17.5	15.6	13.3	12.9	12.0	10.4	6.6	5.4	4.4	2.4	2.6	3.0	43.2	38.2	36.6	2,100	14.3	12.6
Bharat Forge	240	SELL	56,952	842	237	9.6	14.9	18.0	(44.7)	55.7	20.6	25.0	16.1	13.3	10.3	8.5	7.4	2.2	2.0	1.8	1.0	1.1	1.4	12.7	10.8	13.1	220	(8.3)	1.2
Exide Industries	123	ADD	104,550	1,546	850	6.2	7.6	8.6	13.4	23.0	14.1	20.0	16.3	14.3	13.2	11.1	9.9	3.1	2.7	2.4	1.3	1.6	1.8	16.1	17.6	17.8	135	9.8	2.2
Hero Motocorp	1,896	ADD	378,691	5,599	200	106.1	115.8	145.6	(10.9)	9.2	25.7	17.9	16.4	13.0	14.2	11.5	8.7	7.0	5.5	4.4	3.2	1.8	2.7	44.0	39.3	38.8	2,000	5.5	12.1
Mahindra & Mahindra	768	BUY	431,721	6,383	562	58.0	56.8	65.1	17.7	(2.1)	14.5	13.2	13.5	11.8	9.6	9.7	8.3	2.8	2.5	2.2	1.8	2.2	2.5	24.4	20.3	20.4	1,000	30.2	20.5
Maruti Suzuki	1,276	SELL	385,469	5,699	302	79.2	91.7	102.8	39.9	15.8	12.2	16.1	13.9	12.4	9.3	7.6	6.1	2.0	1.8	1.6	0.6	0.8	0.9	13.9	13.7	13.7	1,360	6.6	14.6
Motherhood Sumi Systems	194	BUY	113,954	1,685	588	7.6	12.7	17.6	71.2	67.9	38.5	25.6	15.3	11.0	8.8	6.6	4.8	5.0	3.8	2.8	1.0	2.0	2.7	26.8	33.5	29.4	250	29.0	1.2
Tata Motors	297	BUY	956,827	14,147	3,218	30.7	43.0	49.2	(31.1)	39.8	14.4	9.7	6.9	6.0	5.2	4.0	3.5	2.4	1.8	1.4	0.7	—	—	27.5	29.8	25.5	355	19.4	40.4
Automobiles	Neutral		3,067,451	45,353					(11.2)	25.6	12.1	13.0	10.4	9.3	7.6	6.2	5.2	2.9	2.3	1.9	1.5	1.2	1.6	22.4	22.6	20.9			
Banks/Financial Institutions																													
Andhra Bank	48	ADD	26,832	397	560	23.0	16.9	20.9	(4.1)	(26.7)	24.1	2.1	2.8	2.3	—	—	—	0.4	0.4	0.4	10.4	7.6	9.5	16.2	10.7	12.2	60	25.1	1.6
Axis Bank	783	ADD	366,338	5,416	468	110.7	113.0	130.2	7.8	2.1	15.2	7.1	6.9	6.0	—	—	—	1.1	1.0	0.9	2.3	2.3	2.7	18.5	15.0	15.3	1,200	53.3	50.7
Bajaj Finserv	582	BUY	92,576	1,369	159	103.4	76.4	90.6	9.1	(26.1)	18.5	5.6	7.6	6.4	—	—	—	1.2	1.0	0.9	2.3	2.3	2.3	25.7	14.6	15.2	825	41.8	0.7
Bank of Baroda	461	REDUCE	194,886	2,881	423	106.0	84.8	104.9	(12.7)	(20.0)	23.7	4.3	5.4	4.4	—	—	—	0.7	0.7	0.6	4.6	3.7	4.6	15.6	11.1	12.5	600	30.1	12.7
Bank of India	135	ADD	80,338	1,188	597	46.1	47.1	57.0	(1.1)	2.2	21.1	2.9	2.9	2.4	—	—	—	0.4	0.4	0.4	7.4	7.6	9.2	12.9	11.8	13.0	180	33.7	4.9
Canara Bank	194	REDUCE	86,097	1,273	443	64.8	38.5	68.9	(12.5)	(40.6)	78.9	3.0	5.0	2.8	—	—	—	0.4	0.4	0.4	6.7	6.2	6.2	12.1	6.7	11.3	250	28.6	6.2
City Union Bank	39	BUY	21,019	311	539	6.0	6.4	7.1	(13.0)	7.4	10.7	6.5	6.1	5.5	—	—	—	1.3	1.0	0.9	2.3	2.4	2.7	22.3	18.7	17.3	60	53.8	0.2
Corporation Bank	242	BUY	36,935	546	153	93.8	81.4	104.7	(7.7)	(13.2)	28.5	2.6	3.0	2.3	—	—	—	0.4	0.4	0.4	8.3	7.2	9.2	16.1	12.4	14.4	300	24.2	0.3
Development Credit Bank	41	BUY	10,255	152	250	4.1	5.5	6.2	78.3	33.7	13.6	10.0	7.5	6.6	—	—	—	1.1	1.0	0.9	—	—	—	11.6	13.4	13.3	55	34.1	1.0
Federal Bank	230	BUY	39,361	582	171	49.0	37.7	54.9	7.9	(23.0)	45.6	4.7	6.1	4.2	—	—	—	0.6	0.6	0.5	3.9	3.0	4.4	13.9	9.7	13.0	400	73.8	3.1
HDFC	702	ADD	1,086,079	16,058	1,546	31.4	36.4	41.4	12.3	16.1	13.8	22.4	19.3	17.0	—	—	—	4.3	3.9	3.5	1.8	2.1	2.4	22.0	21.2	21.5	800	13.9	49.6
HDFC Bank	563	REDUCE	1,338,542	19,791	2,379	28.3	35.4	44.7	28.4	25.4	26.2	19.9	15.9	12.6	—	—	—	3.7	3.2	2.7	1.0	1.2	1.5	20.3	21.4	22.7	625	11.1	39.8
ICICI Bank	784	BUY	903,932	13,365	1,154	72.2	74.3	79.4	28.7	3.0	6.9	10.9	10.5	9.9	—	—	—	1.4	1.3	1.2	2.6	2.8	3.0	13.1	12.3	12.2	1,110	41.7	70.3
IDFC	79	BUY	119,930	1,773	1,512	12.1	13.5	15.0	18.1	10.9	11.6	6.5	5.9	5.3	—	—	—	0.9	0.8	0.7	3.3	3.3	3.7	14.2	14.1	14.1	150	89.2	19.2
India Infoline	49	ADD	14,982	222	304	9.2	9.8	11.2	102.9	5.7	14.9	5.3	5.1	4.4	—	—	—	0.8	0.7	0.6	6.2	3.4	3.9	15.1	14.8	14.8	60	21.8	0.3
IndusInd Bank	348	BUY	182,168	2,693	523	20.3	23.0	28.4	18.3	13.3	23.4	17.2	15.1	12.3	—	—	—	2.5	2.2	1.9	0.9	1.0	1.2	18.3	15.4	16.4	430	23.4	16.3
ING Vysya Bank	410	ADD	75,836	1,121	185	39.6	33.6	44.0	30.2	(15.0)	30.9	10.4	12.2	9.3	—	—	—	1.7	1.1	1.0	1.1	1.1	1.5	14.6	10.9	11.3	600	46.3	1.2
J&K Bank	1,055	REDUCE	51,171	757	48	217.6	216.9	194.7	31.4	(0.3)	(10.2)	4.8	4.9	5.4	—	—	—	1.1	0.9	0.8	4.7	4.7	4.2	23.6	20.0	15.8	1,180	11.8	1.3
Karur Vysya Bank	300	ADD	32,202	476	107	51.3	48.1	62.6	9.7	(6.4)	30.2	5.9	6.3	4.8	—	—	—	1.1	1.0	0.9	4.7	4.0	5.2	19.0	15.8	18.2	380	26.5	0.5
LIC Housing Finance	157	BUY	79,126	1,170	505	20.3	23.9	28.3	11.9	17.9	18.5	7.7	6.6	5.5	—	—	—	1.3	1.1	1.0	2.6	3.0	3.6	16.8	17.4	18.0	240	53.2	12.8
L&T Finance Holdings	56	SELL	95,341	1,410	1,715	4.3	4.5	5.1	60.3	5.3	14.9	13.1	12.4	10.8	—	—	—	1.7	1.5	1.3	—	—	—	14.1	12.8	13.0	60	7.9	1.7
Magma Fincorp	69	BUY	13,044	193	190	6.5	10.2	12.3	100.6	55.6	21.0	10.5	6.8	5.6	—	—	—	0.9	0.8	0.7	1.6	2.4	2.8	10.1	12.7	14.0	125	82.1	0.2
Mahindra & Mahindra Financial	268	REDUCE	152,231	2,251	568	15.5	19.1	21.6	28.6	22.9	13.0	17.2	14.0	12.4	—	—	—	3.5	3.0	2.6	1.4	1.7	1.9	23.8	22.4	21.6	230	(14.1)	8.6
Muthoot Finance	113	NR	44,769	662	397	28.2	29.9	34.9	17.3	6.1	16.7	4.0	3.8	3.2	—	—	—	1.2	0.8	0.7	3.5	4.0	4.6	31.2	26.2	23.7	—	—	—
Oriental Bank of Commerce	126	ADD	44,079	652	350	45.5	26.7	43.2	16.3	(41.3)	61.8	2.8	4.7	2.9	—	—	—	0.4	0.4	0.4	6.1	4.3	6.9	10.7	6.9	10.2	170	35.0	3.4
PFC	107	BUY	140,707	2,080	1,319	33.5	33.6	38.2	45.6	0.3	13.7	3.2	3.2	2.8	—	—	—	0.6	0.6	0.6	6.6	6.6	7.5	19.8	17.2	17.2	185	73.5	9.1
Punjab National Bank	409	REDUCE	144,730	2,140	353	134.3	114.1	140.0	(6.7)	(15.0)	22.6	3.0	3.6	2.9	—	—	—	0.5	0.5	0.4	6.6	5.6	6.9	16.5	12.3	13.7	600	46.5	10.6
Reliance Capital	303	ADD	74,463	1,101	246	26.9	23.4	28.5	27.5	(13.0)	21.7	11.2	12.9	10.6	—	—	—	0.6	0.6	0.6	2.7	2.3	2.8	5.9	4.9	5.8	505	66.9	28.1
Rural Electrification Corp.	165	ADD	162,623	2,404	987	38.7	44.3	47.6	35.3	14.6	7.5	4.3	3.7	3.5															

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	3-Sep-13		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target Price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E			
Consumer products																													
Asian Paints	398	SELL	381,905	5,647	959	11.6	12.1	14.0	12.7	4.1	16.1	34.3	32.9	28.4	21.7	19.3	16.6	10.8	9.1	7.8	1.2	1.3	1.6	36.3	31.5	31.4	380	(4.6)	7.7
Bajaj Corp.	243	BUY	35,894	531	148	11.3	13.7	16.3	39.4	20.4	19.1	21.4	17.8	15.0	19.8	15.8	12.6	7.4	6.6	5.9	2.7	3.4	4.1	26.4	32.7	34.9	320	31.5	0.5
Colgate-Palmolive (India)	1,202	SELL	163,457	2,417	136	36.5	39.4	45.7	11.3	7.9	16.0	32.9	30.5	26.3	24.2	21.9	18.7	35.0	28.0	25.5	2.3	2.5	3.0	107.4	97.8	97.9	1,275	6.1	2.4
Dabur India	164	ADD	285,574	4,222	1,743	4.4	5.4	6.4	19.0	21.8	18.4	37.2	30.5	25.8	29.2	23.9	20.1	13.4	10.8	8.7	0.9	1.2	1.5	40.0	39.2	37.4	180	9.9	4.4
GlaxoSmithKline Consumer	4,092	SELL	172,086	2,544	42	103.8	122.7	145.3	20.7	18.1	18.4	39.4	33.4	28.2	33.8	29.4	24.7	12.6	10.8	9.3	1.1	1.4	1.8	34.9	34.9	35.4	3,900	(4.7)	2.4
Godrej Consumer Products	809	REDUCE	275,201	4,069	340	20.3	23.6	29.5	20.4	16.2	25.1	39.9	34.3	27.4	30.1	24.6	19.2	7.8	6.6	5.5	0.6	0.7	0.9	22.6	22.3	23.7	760	(6.0)	4.2
Hindustan Unilever	613	SELL	1,326,369	19,611	2,163	15.4	15.9	17.4	28.1	3.3	9.6	39.8	38.6	35.2	32.7	29.4	25.3	53.7	39.6	32.2	3.0	1.7	1.9	103.1	110.4	95.7	530	(13.6)	34.2
ITC	301	ADD	2,394,113	35,398	7,962	9.3	10.9	12.9	19.0	16.9	18.0	32.2	27.6	23.4	22.8	19.2	16.2	10.2	9.1	8.2	1.7	2.1	2.6	36.1	36.7	38.5	375	24.7	40.8
Jubilant Foodworks	1,043	SELL	69,116	1,022	66	19.9	24.1	33.0	21.7	21.1	36.8	52.3	43.2	31.6	28.4	22.2	16.4	16.1	12.3	9.4	—	—	—	—	—	—	925	(11.3)	5.5
Jyothy Laboratories	152	ADD	25,227	373	166	1.2	5.0	8.3	(55.9)	307.9	67.5	124.7	30.6	18.3	24.3	15.1	11.7	3.9	3.6	3.2	1.6	0.8	1.5	—	—	—	200	31.6	0.5
Marico	210	REDUCE	135,156	1,998	645	5.6	7.4	8.6	8.0	31.1	16.2	37.3	28.4	24.5	23.1	19.1	16.1	6.7	5.7	4.8	0.2	0.7	1.0	18.3	20.3	20.2	215	2.5	1.3
Nestle India	4,923	SELL	474,642	7,018	96	110.8	124.1	145.6	11.1	12.0	17.3	44.4	39.7	33.8	26.2	22.1	19.1	24.2	18.9	15.2	1.0	1.2	1.4	71.6	60.2	54.9	4,200	(14.7)	1.5
Speciality Restaurants	129	BUY	6,070	90	47	5.0	5.5	6.8	1.8	10.2	24.3	25.9	23.5	18.9	16.3	14.7	11.4	2.1	2.0	1.8	—	—	—	11.6	8.5	9.7	160	23.7	0.0
Tata Global Beverages	142	ADD	87,534	1,294	618	6.3	7.6	8.6	14.8	20.1	13.4	22.4	18.6	16.4	13.2	10.8	9.3	1.5	1.4	1.5	1.9	2.3	8.4	9.5	10.2	165	16.6	5.9	
Titan Industries	214	REDUCE	189,764	2,806	888	8.2	9.0	10.2	20.9	10.1	13.5	26.2	23.8	20.9	17.6	16.5	13.5	9.6	7.6	6.2	1.0	1.2	1.5	42.3	35.7	32.5	250	17.0	15.7
United Breweries	757	SELL	200,274	2,961	264	6.5	9.3	14.0	36.2	42.3	51.1	116.0	81.5	53.9	44.3	31.8	24.0	14.1	12.4	10.6	0.2	0.2	0.4	12.0	15.7	20.5	700	(7.6)	5.7
United Spirits	2,278	BUY	330,998	4,894	145	9.4	53.3	75.5	(30.8)	465.3	41.7	241.5	42.7	30.1	29.1	22.3	17.2	5.4	3.7	3.4	0.3	0.2	0.3	8.3	10.4	11.8	2,800	22.9	52.0
Consumer products																													
Constructions																													
NCC	17	ADD	4,311	64	257	2.4	2.2	2.4	74.2	(11.0)	12.2	6.9	7.7	6.9	5.5	6.2	5.8	0.2	0.2	0.2	3.6	6.0	6.0	2.6	2.2	2.5	45	167.9	0.5
Sadbhav Engineering	54	BUY	9,284	137	171	4.9	5.4	9.2	(47.3)	9.4	71.0	11.0	10.1	5.9	10.1	5.3	4.0	1.1	0.8	0.7	1.0	1.1	1.1	8.6	7.9	12.0	160	195.5	0.4
Construction																													
Energy																													
Aban Offshore	210	RS	9,137	135	44	38.6	81.1	97.4	(43.5)	110.2	20.0	5.4	2.6	2.2	7.3	6.7	6.0	0.3	0.3	0.3	1.7	2.4	2.4	6.4	15.1	14.8	—	—	0.9
Bharat Petroleum	267	BUY	193,026	2,854	723	36.6	30.1	36.5	99.2	(17.7)	21.2	7.3	8.9	7.3	6.0	5.8	4.8	1.1	1.0	0.9	4.1	3.4	4.1	14.5	10.8	12.1	445	66.7	6.9
Cairn India	324	ADD	618,822	9,149	1,910	63.1	61.9	60.1	51.7	(1.9)	(2.9)	5.1	5.2	5.4	4.2	3.9	3.7	1.3	1.1	0.9	3.5	3.7	3.7	24.8	22.4	18.6	370	14.2	9.2
Castrol India	323	SELL	159,570	2,359	495	9.0	10.0	10.9	(4.4)	10.9	8.3	35.7	32.1	29.7	24.7	22.2	19.8	27.3	42.0	37.9	2.2	2.5	2.6	79.0	103.0	134.3	240	(25.6)	0.6
GAIL (India)	301	ADD	381,369	5,639	1,268	35.5	30.0	31.9	16.5	(15.6)	6.4	8.5	10.0	9.4	5.7	6.3	5.7	1.4	1.3	1.2	3.2	3.0	3.3	17.2	12.9	12.4	380	26.4	5.8
GSPL	49	ADD	27,601	408	563	9.6	9.5	8.1	2.6	(0.8)	(14.9)	5.1	5.2	6.1	3.3	3.3	3.4	0.8	0.7	0.6	2.0	2.0	3.3	17.6	14.9	11.2	75	52.9	0.4
Hindustan Petroleum	165	ADD	56,055	829	339	24.8	12.2	21.6	(7.6)	(50.8)	77.4	6.7	13.6	7.7	7.8	9.8	7.6	0.3	0.3	0.3	5.1	2.3	4.2	4.7	2.2	3.9	240	45.1	3.5
Indian Oil Corporation	207	ADD	502,221	7,425	2,428	16.8	12.8	27.8	(48.8)	(23.8)	116.7	12.3	16.1	7.4	9.5	8.7	5.1	0.8	0.8	0.8	3.0	3.6	7.2	6.2	4.4	9.5	250	20.9	1.9
Oil India	429	BUY	257,919	3,813	601	59.7	53.9	63.1	4.1	(9.6)	17.0	7.2	8.0	6.8	2.8	2.7	2.2	1.2	1.2	1.1	7.0	6.4	7.5	15.9	13.5	14.7	650	51.5	3.5
Oil & Natural Gas Corporation	251	BUY	2,148,291	31,763	8,556	29.9	29.5	37.4	(8.9)	(1.3)	26.8	8.4	8.5	6.7	3.4	3.0	2.2	1.1	1.0	0.9	3.8	3.8	4.8	13.5	12.2	14.0	380	51.3	20.1
Petronet LNG	121	BUY	90,750	1,342	750	15.3	12.1	13.6	8.7	(21.0)	12.0	7.9	10.0	8.9	5.8	7.0	5.4	1.9	1.6	1.4	2.1	2.1	2.5	25.6	16.6	15.8	170	40.5	1.8
Reliance Industries	831	BUY	2,439,816	36,073	2,936	65.0	70.8	77.9	6.2	8.9	9.9	12.8	11.7	10.7	8.4	8.0	6.7	1.3	1.2	1.0	1.1	1.1	1.2	11.3	11.3	11.3	980	17.9	50.9
Energy																													
Industrials																													
ABB	453	SELL	95,889	1,418	212	6.7	14.1	19.6	(23.6)	111.6	39.3	68.0	32.2	23.1	40.1	18.9	14.0	3.7	3.4	3.0	0.7	0.7	0.8	5.5	11.0	13.9	400	(11.6)	0.5
Bharat Electronics	1,177	REDUCE	94,124	1,392	80	113.6	103.6	114.6	6.8	(8.8)	10.6	10.4	11.4	10.3	7.6	6.5	5.9	1.4	1.3	1.2	2.5	2.5	2.5	14.5	12.0	12.2	1,200	2.0	0.5
Bharat Heavy Electricals	119	SELL	291,754	4,314	2,448	27.1	15.0	11.7	(6.0)	(44.6)	(22.0)	4.4	8.0	10.2	2.6	5.1	6.1	1.0	0.9	0.8	4.8	2.7	2.1	23.7	11.5	8.3	100	(16.1)	13.7
Crompton Greaves	81	ADD	52,218	772	642	1.3	5.6	8.0	(77.2)	328.1	42.2	62.3	14.5	10.2	15.3	7.6	6.1	1.5	1.4	1.2	1.5	1.5	1.8	2.3	9.7	12.6	105	29.0	3.7
Cummins India	382	REDUCE	105,932	1,566	277	28.3	22.3	24.9	28.3	(21.2)	11.8	13.5	17.1	15.3	13.1	15.2	13.2	4.4	4.0	3.6	3.4	2.6	2.9	34.5	23.5	23.1	400	4.7	1.9
Kalpataru Power Transmission	57	BUY	8,763	130	153	8.8	13.2	15.6	(34.1)	51.1	17.9	6.5	4.3	3.7	5.3	4.6	4.3	0.4	0.4	0.4	2.6	2.6	2.6	6.4	8.8	9.5	120	110.2	0.1
KEC International	24	BUY	6,157	91	257	2.5	6.0	9.2	(63.1)	136.3	54.2	9.4	4.0	2.6	5.6	4.4	3.5	0.5	0.5	0.4	2.1	3.8	5.8	5.5	12.1	16.6	70	192.3	0.1
Larsen & Toubro	694	ADD	641,001	9,477	923	52.4	46.4	56.3	4.4	(11.4)	21.3	13.3	15.0	12.3	12.5	12.8	11.8	1.9	1.7	1.5	1.8	1.7	1.8	15.2	11.9	12.9	910	31.0	38.0
Siemens	420	REDUCE	147,664	2,183	352	4.9	17.6	22.3	(64.4)	260.6	27.0	86.0	23.8	18.8	26.9	10.5	8.5	3.											

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

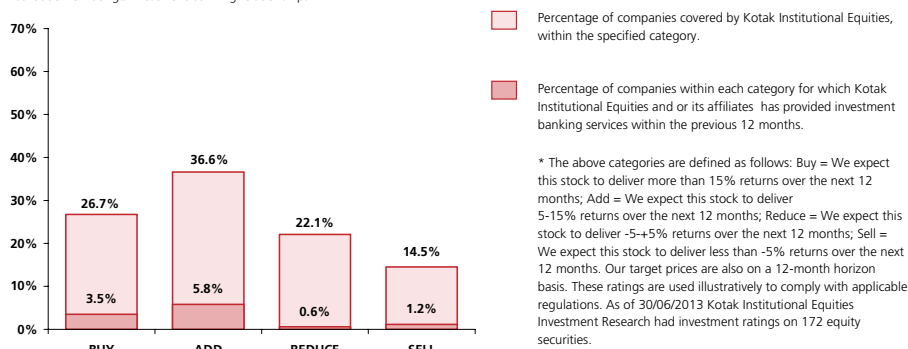
Company	3-Sep-13		Mkt cap.		O/S shares		EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	(Rs)	(%)	(US\$ mn)	
Infrastructure																														
Adani Port and SEZ	122	BUY	246,028	3,638	2,017	8.0	9.7	12.7	47.3	20.9	30.1	15.2	12.5	9.6	15.2	9.4	7.3	3.8	2.8	2.3	1.0	1.4	1.7	28.2	25.7	26.0	180	47.6	5.4	
Container Corporation	1,037	ADD	134,763	1,993	130	72.5	79.6	90.5	7.4	9.7	13.8	14.3	13.0	11.5	10.1	9.1	7.6	2.1	1.9	1.7	1.6	1.8	2.0	15.9	15.5	15.8	1,175	13.3	0.7	
GMR Infrastructure	14	RS	54,104	800	3,892	(1.8)	(0.6)	(0.7)	(56.2)	67.2	(19.6)	(7.9)	(23.9)	(20.0)	17.0	8.9	5.7	0.6	0.6	0.7	—	—	—	(9.3)	(3.2)	(3.9)	—	—	2.0	
Gujarat Pipavav Port	44	BUY	21,247	314	483	1.5	3.0	3.1	29.7	96.3	2.6	28.7	14.6	14.3	12.1	10.3	9.1	1.8	1.6	1.4	—	—	—	7.6	13.5	11.0	60	36.5	0.1	
IRB Infrastructure	61	BUY	20,125	298	332	16.7	16.7	16.4	11.1	(0.4)	(1.8)	3.6	3.6	3.7	5.7	6.1	5.9	0.6	0.5	0.4	6.6	6.6	6.6	17.4	14.2	11.9	140	131.2	3.9	
Infrastructure		Cautious	476,267	7,042					19.6	38.4	19.7	19.0	13.7	11.5	13.0	8.6	6.5	1.8	1.6	1.4	1.2	1.5	1.7	9.5	11.5	12.5				
Media																														
DB Corp	237	BUY	43,459	643	183	11.9	14.8	17.7	7.9	24.6	19.3	19.9	16.0	13.4	11.2	9.1	7.5	4.2	3.8	3.4	2.3	3.0	3.8	22.3	24.9	26.6	300	26.6	0.3	
DishTV	41	ADD	43,076	637	1,064	(1.4)	(0.2)	0.9	(33.9)	82.1	457.2	(29.8)	(166.3)	46.6	9.1	8.2	6.7	(26.6)	(22.9)	(27)	—	—	—	1.2	113.0	14.8	(54)	65	60.5	3.4
Eros International	119	ADD	10,871	161	92	16.7	20.4	23.8	1.5	22.0	16.5	7.1	5.8	5.0	4.9	4.1	3.5	1.1	0.9	0.8	—	—	—	16.7	17.2	16.7	150	26.6	0.4	
Jagran Prakashan	82	BUY	26,027	385	316	4.5	5.9	7.7	(20.2)	31.0	30.8	18.3	14.0	10.7	9.3	7.7	6.2	3.1	3.0	2.7	4.3	4.9	5.5	18.0	21.9	26.7	130	58.0	0.2	
Sun TV Network	394	REDUCE	155,445	2,298	394	18.0	21.1	24.7	2.6	16.8	17.1	21.9	18.7	16.0	13.7	11.5	9.8	5.3	4.8	4.5	2.5	3.0	4.1	26.5	28.1	30.2	440	11.5	6.4	
Zee Entertainment Enterprises	222	REDUCE	211,233	3,123	950	7.6	8.9	10.7	25.6	17.3	21.0	29.4	25.0	20.7	20.5	16.7	13.6	4.3	4.0	3.8	0.8	1.0	1.1	15.3	16.8	19.2	230	3.4	9.0	
Media		Neutral	519,875	7,686					6.6	26.5	25.1	25.4	20.1	16.0	12.7	10.6	8.8	4.1	3.8	3.5	1.6	2.0	2.8	16.1	18.7	21.7				
Metals & Mining																														
Coal India	261	BUY	1,649,203	24,384	6,316	27.5	28.6	32.0	18.1	4.3	11.6	9.5	9.1	8.2	5.2	4.2	3.2	3.2	2.8	2.5	5.4	5.6	6.2	37.2	33.2	32.3	370	41.7	11.6	
Hindalco Industries	104	REDUCE	199,936	2,956	1,915	15.8	12.0	14.0	(10.9)	(24.0)	16.6	6.6	8.7	7.5	8.6	8.4	6.8	0.6	0.5	0.5	1.3	1.3	1.3	9.0	6.3	7.0	105	0.6	12.9	
Hindustan Zinc	117	ADD	495,593	7,327	4,225	16.4	15.5	16.6	24.2	(5.0)	6.5	7.2	7.5	7.1	4.3	3.6	2.7	1.5	1.3	1.2	2.6	2.6	2.6	23.5	18.9	17.5	160	36.4	1.7	
Jindal Steel and Power	220	ADD	205,282	3,035	935	31.1	26.7	28.1	(26.6)	(14.1)	5.2	7.1	8.2	7.8	6.7	8.0	6.5	1.0	0.9	0.8	0.9	0.9	14.9	11.2	10.7	275	25.2	16.4		
JSW Steel	524	SELL	126,612	1,872	242	32.9	74.3	76.6	(46.2)	126.1	3.0	15.9	7.0	6.8	5.4	5.3	4.9	0.6	0.6	0.5	1.8	1.8	1.8	4.2	8.3	8.1	550	5.0	12.0	
National Aluminium Co.	33	REDUCE	85,178	1,259	2,577	2.3	2.1	3.0	(31.2)	(9.9)	43.2	14.4	15.9	11.1	4.1	5.4	4.7	0.7	0.7	0.7	3.8	3.8	3.8	5.0	4.4	6.2	31	(6.2)	0.2	
NMDC	118	BUY	467,240	6,908	3,965	16.0	14.2	14.9	(13.3)	(10.9)	4.9	7.4	8.3	7.9	3.5	3.9	3.6	1.7	1.6	1.4	5.9	5.9	5.9	24.4	19.7	18.9	150	27.3	5.0	
Sesa Goa	184	ADD	160,306	2,370	869	26.2	25.8	22.4	(15.4)	(1.8)	(13.2)	7.0	7.2	8.2	44.1	36.5	40.6	0.9	0.8	0.7	0.1	0.1	0.1	3.3	(0.7)	(0.8)	165	(10.5)	9.7	
Tata Steel	281	ADD	273,258	4,040	971	3.4	23.1	27.7	(86.9)	574.5	20.2	82.2	12.2	10.1	7.0	6.1	6.3	0.8	0.8	0.7	2.8	2.8	2.8	0.9	6.4	7.4	290	3.1	28.5	
Metals & Mining		Neutral	3,662,606	54,153					(3.1)	1.9	9.0	8.9	8.7	8.0	6.1	5.7	5.0	1.5	1.3	1.2	4.0	4.1	4.4	16.3	15.2	15.1				
Pharmaceutical																														
Apollo Hospitals	850	SELL	118,274	1,749	139	21.4	27.6	33.4	35.7	28.7	21.2	39.7	30.8	25.5	20.4	16.5	13.5	4.3	3.9	3.5	0.6	0.8	1.0	11.3	13.3	14.6	850	(0.0)	3.7	
Biocon	340	ADD	67,227	994	198	15.5	19.6	24.2	(9.2)	26.5	23.1	21.9	17.3	14.1	12.0	9.6	8.2	2.5	2.3	2.1	2.2	2.2	2.2	20.5	13.9	15.6	335	(1.5)	2.8	
Cipla	406	ADD	326,107	4,822	803	17.8	18.4	21.9	27.1	3.4	19.3	22.8	22.1	18.5	15.1	14.1	11.3	3.6	3.1	2.7	0.5	0.5	0.5	15.6	15.5	15.7	450	10.8	8.9	
Cadila Healthcare	643	ADD	131,675	1,947	205	32.0	34.1	45.7	0.4	6.5	34.0	20.1	18.9	14.1	16.3	14.5	11.0	4.3	3.7	3.1	1.2	1.2	1.7	23.3	21.2	24.1	800	24.4	1.7	
Divi's Laboratories	954	ADD	126,544	1,871	133	45.4	51.9	59.9	12.9	14.5	15.4	21.0	18.4	15.9	15.3	13.2	10.8	5.1	4.3	3.7	1.6	1.7	2.0	26.0	25.4	25.0	1,040	9.0	2.7	
Dr Reddy's Laboratories	2,207	BUY	374,760	5,541	170	96.3	111.3	133.1	14.6	15.6	19.6	22.9	19.8	16.6	15.5	13.0	11.0	5.1	4.2	3.5	0.7	0.8	0.9	24.0	23.5	23.3	2,450	11.0	12.1	
GlaxoSmithkline Pharmaceuticals	2,290	SELL	194,126	2,870	85	81.4	84.5	97.5	9.7	3.8	15.5	28.1	27.1	23.5	21.4	20.5	17.1	9.7	8.9	8.0	2.2	2.4	2.6	28.5	34.2	36.0	1,820	(20.5)	1.1	
Glenmark Pharmaceuticals	514	ADD	139,151	2,057	271	22.7	27.5	33.7	3.7	21.1	22.7	22.6	18.7	15.2	16.4	13.0	11.0	5.0	4.4	3.5	0.4	0.4	0.4	23.8	25.1	25.9	570	11.0	4.0	
Lupin	840	ADD	375,659	5,554	447	29.5	35.3	41.8	52.3	19.4	18.7	28.5	23.8	20.1	17.8	14.9	12.2	7.1	5.8	4.7	0.5	0.7	0.9	28.6	27.0	25.9	850	1.1	15.2	
Ranbaxy Laboratories	408	BUY	172,739	2,554	423	21.8	(2.5)	18.3	217.7	(111.5)	824.9	18.7	(162.1)	22.4	10.1	22.0	13.4	4.2	4.3	2.4	—	—	—	26.5	(2.6)	13.8	350	(14.3)	17.2	
Sun Pharmaceuticals	513	SELL	1,062,083	15,703	2,071	14.5	23.3	22.5	16.3	60.7	(3.4)	35.3	22.0	22.7	19.5	14.8	14.6	6.4	5.9	4.9	1.0	1.2	1.4	20.1	27.8	23.5	450	(12.2)	18.2	
Pharmaceuticals		Attractive	3,088,344	45,662					40.4	15.6	18.6	26.9	23.2	19.6	16.7	14.7	12.6	5.3	4.7	3.9	0.9	1.0	1.2	19.8	20.2	19.7				
Real Estate																														
DLF	127	ADD	226,561	3,350	1,780	4.3	4.2	9.7	(40.5)	(2.9)	132.7	29.6	30.5	13.1	17.4	12.6	9.9	0.8	0.8	0.7	1.5	0.8	0.8	2.7	2.6	5.7	255	100.3	24.0	
HDIL	35	NR	14,560	215	419	1.7	11.0	14.3	(91.0)	528.0	30.4	19.9	3.2	2.4	7.9	6.9	5.9	0.1	0.1	0.1	—	—	—	0.7	4.3	5.4	—	—	9.5	
Oberoi Realty	163	BUY	53,371	789	328	14.5	20.0	25.8	9.2	37.5	29.2	11.2	8.1	6.3	7.3	5.1	3.2	1.3	1.1	1.0	1.2	1.2	1.2	12.1	14.7	16.3	290	78.4	0.4	
Prestige Estates Projects	116	BUY	40,425	598	350	8.2	13.1	17.1	224.5	60.9	30.1	14.1	8.8	6.8	10.2	6.6	5.4	1.5	1.3	1.1	—	—	—	11.7	15.6	17.4	200	73.2	0.6	
Sobha Developers	234	BUY	22,952	339																										

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	3-Sep-13		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E			
Technology																													
HCL Technologies	1,024	REDUCE	726,934	10,748	710	56.9	75.7	81.0	64.7	33.0	7.0	18.0	13.5	12.6	11.9	8.9	7.9	5.5	3.8	3.1	1.2	1.4	1.6	33.7	31.6	26.8	960	(6.2)	16.6
Hexaware Technologies	131	REDUCE	38,489	569	293	11.2	12.9	12.9	22.8	15.4	0.3	11.7	10.2	10.1	9.0	6.7	6.2	3.2	2.8	2.5	4.6	4.9	4.9	29.5	29.5	26.4	125	(4.7)	5.3
Infosys	3,034	ADD	1,733,456	25,630	571	164.9	178.7	212.0	13.3	8.4	18.6	18.4	17.0	14.3	13.1	11.5	9.2	4.6	3.9	3.3	1.5	2.1	2.5	27.2	24.6	24.8	3,400	12.1	49.8
Mindtree	1,052	ADD	44,188	653	42	81.7	103.5	116.8	53.2	26.8	12.8	12.9	10.2	9.0	8.9	7.5	6.1	3.4	2.6	2.1	1.1	1.5	1.7	29.8	29.1	26.2	1,150	9.3	0.8
Mphasis	445	SELL	93,698	1,385	211	37.6	36.2	40.1	(3.7)	(3.6)	10.6	11.8	12.3	11.1	8.8	8.9	7.8	2.1	2.0	1.8	3.8	4.1	4.5	19.1	16.7	17.2	400	(10.0)	0.7
Polaris Financial Technology	117	REDUCE	11,680	173	100	20.1	18.8	19.4	(3.0)	(6.6)	3.3	5.8	6.2	6.0	3.0	2.8	2.4	0.9	0.8	0.7	3.5	3.7	3.8	15.5	13.3	12.5	115	(1.8)	1.9
TCS	2,001	ADD	3,916,553	57,907	1,957	71.2	91.7	105.5	31.1	28.7	15.1	28.1	21.8	19.0	21.0	15.6	13.4	9.6	7.7	6.4	1.1	1.8	2.1	37.9	39.2	36.8	1,950	(2.6)	37.7
Tech Mahindra	1,400	ADD	327,133	4,837	234	101.9	125.0	136.3	16.7	22.6	9.0	13.7	11.2	10.3	9.9	7.7	6.9	4.8	3.5	2.7	0.4	0.4	0.4	36.3	32.4	26.7	1,430	2.1	20.2
Wipro	479	REDUCE	1,180,639	17,456	2,463	24.9	30.1	33.8	9.9	20.8	12.3	19.2	15.9	14.2	13.4	10.8	9.1	4.2	3.5	3.0	1.5	1.7	1.9	21.6	23.8	22.6	470	(2.0)	13.7
Technology	Attractive		8,072,770	119,358					23.2	21.6	13.9	21.7	17.8	15.6	15.5	12.3	10.5	6.0	4.8	4.0	1.3	1.8	2.1	27.5	27.2	25.8			
Telecom																													
Bharti Airtel	285	ADD	1,139,279	16,845	3,997	6.0	10.5	18.2	(46.6)	75.4	73.2	47.6	27.1	15.6	7.4	6.1	5.0	2.3	1.9	1.7	0.3	0.4	1.3	4.5	7.6	11.6	375	31.6	23.3
Bharti Infratel	137	ADD	259,701	3,840	1,889	5.3	7.9	8.9	23.3	48.8	12.4	25.9	17.4	15.5	6.6	5.3	4.7	1.5	1.4	1.4	2.8	2.5	3.0	6.3	8.5	9.2	170	23.7	—
IDEA	150	BUY	495,825	7,331	3,303	3.1	6.8	9.9	39.8	121.0	46.7	49.1	22.2	15.1	10.5	7.0	5.6	3.5	3.0	2.6	—	—	0.5	7.4	14.6	18.4	195	29.9	14.9
Reliance Communications	126	SELL	260,374	3,850	2,064	3.3	7.9	7.3	(27.5)	143.5	(8.2)	38.7	15.9	17.3	9.8	7.5	7.3	0.9	0.9	0.8	—	—	—	0.4	5.5	4.8	80	(36.6)	44.3
Tata Communications	163	BUY	46,427	686	285	(29.4)	(7.0)	5.0	(5.5)	76.3	171.5	(5.5)	(23.3)	32.7	7.5	5.6	4.9	3.2	3.2	2.9	—	—	—	(45.0)	(13.8)	9.3	220	35.1	1.8
Telecom	Attractive		2,201,605	32,551					(39.1)	162.1	48.2	61.6	23.5	15.9	8.1	6.4	5.4	2.0	1.7	1.6	0.6	0.6	1.1	3.2	7.4	10.1			
Utilities																													
Adani Power	33	SELL	93,768	1,386	2,872	(9.0)	(9.4)	(1.3)	(2,023.1)	(4.0)	86.6	(3.6)	(3.5)	(26.1)	44.8	19.6	10.0	2.2	2.3	2.5	—	—	—	(41.7)	(63.7)	(9.1)	30	(8.1)	2.6
CESC	304	REDUCE	37,937	561	125	34.3	34.5	38.1	57.6	0.7	10.5	8.9	8.8	8.0	10.5	9.3	7.7	0.6	0.5	0.5	2.3	2.3	2.5	6.7	6.3	6.6	340	12.0	1.3
JSW Energy	38	ADD	61,582	911	1,640	6.7	7.6	6.6	232.1	13.6	(12.8)	5.6	4.9	5.7	5.8	4.2	4.1	1.0	0.8	0.7	—	—	—	18.5	18.3	13.6	50	33.2	1.6
Lanco Infratech	5	RS	11,115	164	2,223	(4.7)	(6.0)	4.5	(790.4)	(28.6)	174.6	(1.1)	(0.8)	1.1	14.6	13.3	5.9	0.3	0.4	0.3	—	—	—	(24.2)	(41.9)	33.3	—	—	0.6
NHPC	16	ADD	196,812	2,910	12,301	1.9	2.0	2.2	(22.4)	2.7	12.1	8.3	8.1	7.2	9.0	8.1	6.1	0.6	0.6	0.6	4.3	3.3	3.8	7.9	7.5	8.0	23	43.8	1.3
NTPC	128	BUY	1,055,832	15,611	8,245	13.0	13.5	14.2	8,245	3.6	5.4	9.8	9.5	9.0	9.3	8.2	7.6	1.3	1.2	1.1	5.3	3.2	3.3	14.0	13.3	12.8	160	25.0	8.7
Power Grid	96	BUY	442,834	6,547	4,630	9.1	10.7	12.8	28.7	18.0	19.3	10.5	8.9	7.5	10.5	8.2	7.0	1.7	1.5	1.3	2.9	3.4	4.1	16.9	17.8	18.9	135	41.1	6.7
Reliance Infrastructure	329	BUY	86,563	1,280	263	70.9	62.1	65.3	17.5	(12.4)	5.2	4.6	5.3	5.0	8.8	6.6	6.7	0.3	0.3	0.3	2.2	3.4	3.4	11.0	9.8	8.7	710	115.7	20.2
Reliance Power	66	SELL	184,297	2,725	2,805	3.6	3.9	3.8	16.7	8.8	(3.4)	18.2	16.7	17.3	23.6	32.1	22.0	1.0	0.9	0.9	—	—	—	5.6	5.8	5.3	75	14.2	12.1
Tata Power	72	BUY	177,597	2,626	2,468	4.0	5.3	5.8	(12.9)	33.1	8.6	17.9	13.5	12.4	8.9	6.6	6.2	1.3	1.2	1.2	1.6	1.7	1.7	7.4	9.5	9.6	92	27.9	4.0
Utilities	Attractive		2,348,337	34,721					1.7	3.7	32.4	12.0	11.6	8.8	10.8	9.1	7.5	1.1	1.0	0.9	3.5	2.6	2.9	9.0	8.7	10.6			
Others																													
Carborundum Universal	101	BUY	18,852	279	187	5.7	8.8	13.7	(50.7)	53.7	56.3	17.6	11.4	7.3	8.9	6.2	4.2	1.6	1.4	1.2	1.0	1.5	2.3	10.3	14.4	19.2	180	78.9	0.0
Coromandel International	188	SELL	53,158	786	283	15.3	14.9	17.6	(32.5)	(2.1)	17.4	12.3	12.6	10.7	11.5	8.1	7.3	2.4	2.1	1.9	2.4	2.5	2.5	17.8	17.1	17.8	150	(20.1)	0.3
Havells India	599	REDUCE	74,790	1,106	125	33.4	36.8	41.0	6.0	10.4	11.5	18.0	16.3	14.6	11.8	10.0	8.9	5.0	4.1	3.4	1.3	1.3	1.4	33.3	27.6	25.2	625	4.3	3.9
Jaiprakash Associates	34	BUY	76,004	1,124	2,219	2.0	3.9	10.3	(32.9)	97.8	164.7	17.5	8.8	3.3	10.9	8.4	6.0	0.6	0.6	0.5	—	—	—	3.6	6.7	16.1	57	66.4	25.6
MCX India	412	ADD	20,927	309	51	58.6	33.9	34.8	(1.5)	(42)	2.6	7.0	12.2	11.8	2.0	4.9	4.7	1.8	1.8	1.7	5.8	5.8	5.8	27.7	14.7	14.7	400	(3.0)	2.9
Rallis India	142	BUY	27,615	408	194	6.1	8.5	10.2	20.0	38	20.6	23.2	16.8	13.9	13.5	9.9	8.5	4.4	3.8	3.1	1.6	1.5	1.5	18.9	24.0	24.6	165	16.2	0.6
Tata Chemicals	239	BUY	60,991	902	255	15.7	29.0	34.6	(52.2)	84.3	19.3	15.2	8.3	6.9	5.6	4.9	4.4	0.8	0.8	0.7	4.2	4.2	4.2	5.1	9.1	10.0	300	25.3	1.3
United Phosphorus	132	REDUCE	58,490	865	443	17.5	18.3	19.1	39.4	4.4	4.8	7.6	7.2	6.9	4.5	4.5	4.1	1.3	1.1	1.0	1.9	1.9	1.9	18.0	16.6	15.2	135	2.2	5.6
Others			390,828	5,778					(18.6)	27.1	49.0	13.1	10.3	6.9	9.0	7.3	5.7	1.3	1.1	1.0	2.0	2.0	2.1	9.6	11.1	14.6			
KIE universe			47,415,111	701,044					5.6	6.7	18.3	13.6	12.8	10.8	9.5	8.3	7.0	2.1	1.8	1.7	2.1	2.1	2.5	15.1	14.5	15.3			
KIE universe ex-energy			40,530,534	599,254					7.1	9.1	18.2	14.9	13.7	11.6	11.0	9.3	7.9	2.4	2.1	1.9	2.0	2.0	2.3	15.8	15.4	16.2			
KIE universe ex-energy & ex-commodities			35,701,693	527,858					8.9	11.1	19.9	16.1	14.5	12.1	12.3	10.3	8.7	2.5	2.3	2.0	1.8	1.8	2.1	15.7	15.5	16.5			

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2013

Ratings and other definitions/identifiers**Definitions of ratings**

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

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