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### EQUITY MARKETS

India	Change %			
	4-Apr	1-day	1-mo	3-mo
Sensex	18,510	(1.6)	(3.3)	(6.4)
Nifty	5,575	(1.7)	(3.6)	(7.3)
<b>Global/Regional indices</b>				
Dow Jones	14,606	0.4	2.5	8.7
Nasdaq Composite	3,225	0.2	0.0	4.0
FTSE	6,344	(1.2)	(1.4)	4.2
Nikkei	13,080	3.5	12.0	22.4
Hang Seng	22,015	(1.4)	(2.3)	(5.6)
KOSPI	1,933	(1.3)	(4.1)	(3.9)
<b>Value traded – India</b>				
Cash (NSE+BSE)	107		127	138
Derivatives (NSE)	1,484		864	850
Deri. open interest	1,167		1,138	1,326

#### Forex/money market

	Change, basis points			
	4-Apr	1-day	1-mo	3-mo
Rs/US\$	54.8	(1)	(20)	(38)
10yr govt bond, %	8.1	-	8	(3)
<b>Net investment (US\$m)</b>				
	3-Apr		MTD	CYTD
FIs	(63)		163	10,314
MFs	16		(10)	(1,319)

#### Top movers -3mo basis

	Change, %			
	4-Apr	1-day	1-mo	3-mo
<b>Best performers</b>				
INFO IN Equity	2880.1	(3.0)	(1.4)	22.6
HCLT IN Equity	743.3	(4.8)	(0.3)	17.2
SUNP IN Equity	860.0	(0.5)	7.6	17.0
TCS IN Equity	1507.8	(2.3)	(2.1)	16.1
WPRO IN Equity	445.1	(0.8)	2.8	10.3
<b>Worst performers</b>				
MMTC IN Equity	236.7	3.0	(30.0)	(63.2)
HDIL IN Equity	48.3	(5.3)	(20.2)	(59.2)
IVRC IN Equity	19.8	(6.8)	(20.2)	(57.6)
EDSL IN Equity	61.6	(6.0)	(16.8)	(57.6)
WLCO IN Equity	55.5	(3.7)	(4.7)	(47.9)

APRIL 05, 2013

NEW RELEASE

BSE-30: 18,510

**March 2013 quarter earnings preview.** We expect the net income of KIE universe to be flat on a yoy basis, driven by huge profits in oil marketing companies given likely large compensation from the Government. On an ex-energy basis, we expect the net income to decline 3.8% yoy and increase 14.2% qoq. We expect decline in the net income of automobiles, industrials, metals and mining, pharmaceuticals, real estate, telecom and utilities sectors on a yoy basis. We expect net income of the BSE-30 Index to decline 1.8% yoy on an overall basis and 3.1% yoy on an ex-energy basis. We expect ONGC to report a yoy decline in EBITDA and net income, led by lower net crude price realization.

**We expect net income of the KIE universe to decline 3.8% yoy on an ex-energy basis**

Sector-wise earnings of companies in the KIE universe

	Sales growth (%)		EBITDA margin (%)			PAT growth (%)	
	yoy	qoq	Mar-12	Dec-12	Mar-13 (E)	yoy	qoq
Automobiles	2.7	7.9	12.1	11.3	11.3	(30.1)	22.1
Banking	12.4	6.9	—	—	—	1.3	6.4
Cement	10.6	17.1	23.0	18.6	22.1	1.9	44.6
Construction	0.9	30.2	7.8	9.3	9.5	36.9	685.5
Consumers	14.9	0.2	18.6	19.5	19.2	18.1	(5.1)
Energy	22.5	22.0	13.1	9.7	12.6	11.5	82.4
Industrials	(9.4)	28.6	15.0	8.0	14.4	(11.7)	205.8
Infrastructure	13.7	0.6	41.6	45.9	42.5	9.5	(7.2)
Media	13.0	(0.1)	26.9	31.8	28.1	11.6	(16.5)
Metals & Mining	(3.9)	7.0	19.9	17.7	20.0	(10.7)	18.9
Others	(0.3)	(3.9)	10.6	13.3	13.6	229.2	(10.0)
Pharmaceuticals	11.1	5.2	25.3	23.6	24.3	(17.1)	7.8
Real Estate	(3.0)	41.5	44.0	24.6	31.6	(29.3)	(12.5)
Technology	19.6	2.2	24.9	24.9	24.6	15.5	(1.1)
Telecom	9.9	3.0	29.7	28.5	29.1	(11.5)	80.4
Utilities	(1.8)	2.9	31.1	31.5	30.8	(5.9)	(0.7)
<b>KIE coverage</b>	<b>11.5</b>	<b>13.9</b>	<b>15.9</b>	<b>13.7</b>	<b>15.4</b>	<b>1.1</b>	<b>31.7</b>
<b>KIE coverage (ex-energy)</b>	<b>3.6</b>	<b>7.8</b>	<b>17.9</b>	<b>16.7</b>	<b>17.7</b>	<b>(3.8)</b>	<b>14.2</b>

Source: Company, Kotak Institutional Equities estimates

**We expect the net income of companies in the BSE-30 Index to decline 1.8% yoy**

Sector-wise earnings of companies in the BSE-30 Index

	Sales growth (%)		EBITDA margin (%)			PAT growth (%)	
	yoy	qoq	Mar-12	Dec-12	Mar-13 (E)	yoy	qoq
Automobiles	4.1	8.2	12.4	11.8	11.7	(28.3)	20.7
Banking	7.6	7.4	—	—	—	4.9	6.0
Consumers	14.0	1.5	23.1	25.9	23.7	15.4	(10.3)
Energy	24.7	12.8	16.6	17.0	13.7	3.7	(14.1)
Industrials	(1.2)	46.4	19.0	11.5	17.0	(18.7)	85.2
Metals & Mining	(1.1)	6.5	16.1	15.6	17.2	(8.3)	18.7
Pharmaceuticals	24.1	8.9	27.4	30.0	31.7	25.2	13.9
Technology	19.6	2.0	27.5	26.4	26.2	13.8	0.3
Telecom	11.0	2.7	33.3	30.5	31.3	(19.2)	186.3
Utilities	(2.5)	1.2	27.6	24.5	24.4	17.7	0.3
<b>BSE-30 Index</b>	<b>10.3</b>	<b>10.2</b>	<b>17.5</b>	<b>17.0</b>	<b>16.4</b>	<b>(1.8)</b>	<b>6.6</b>
<b>BSE-30 Index (ex-energy)</b>	<b>4.9</b>	<b>9.1</b>	<b>17.9</b>	<b>17.0</b>	<b>17.6</b>	<b>(3.1)</b>	<b>13.6</b>

Source: Company, Kotak Institutional Equities estimates

## WE EXPECT THE NET INCOME OF KIE UNIVERSE TO BE FLAT ON A YOY BASIS

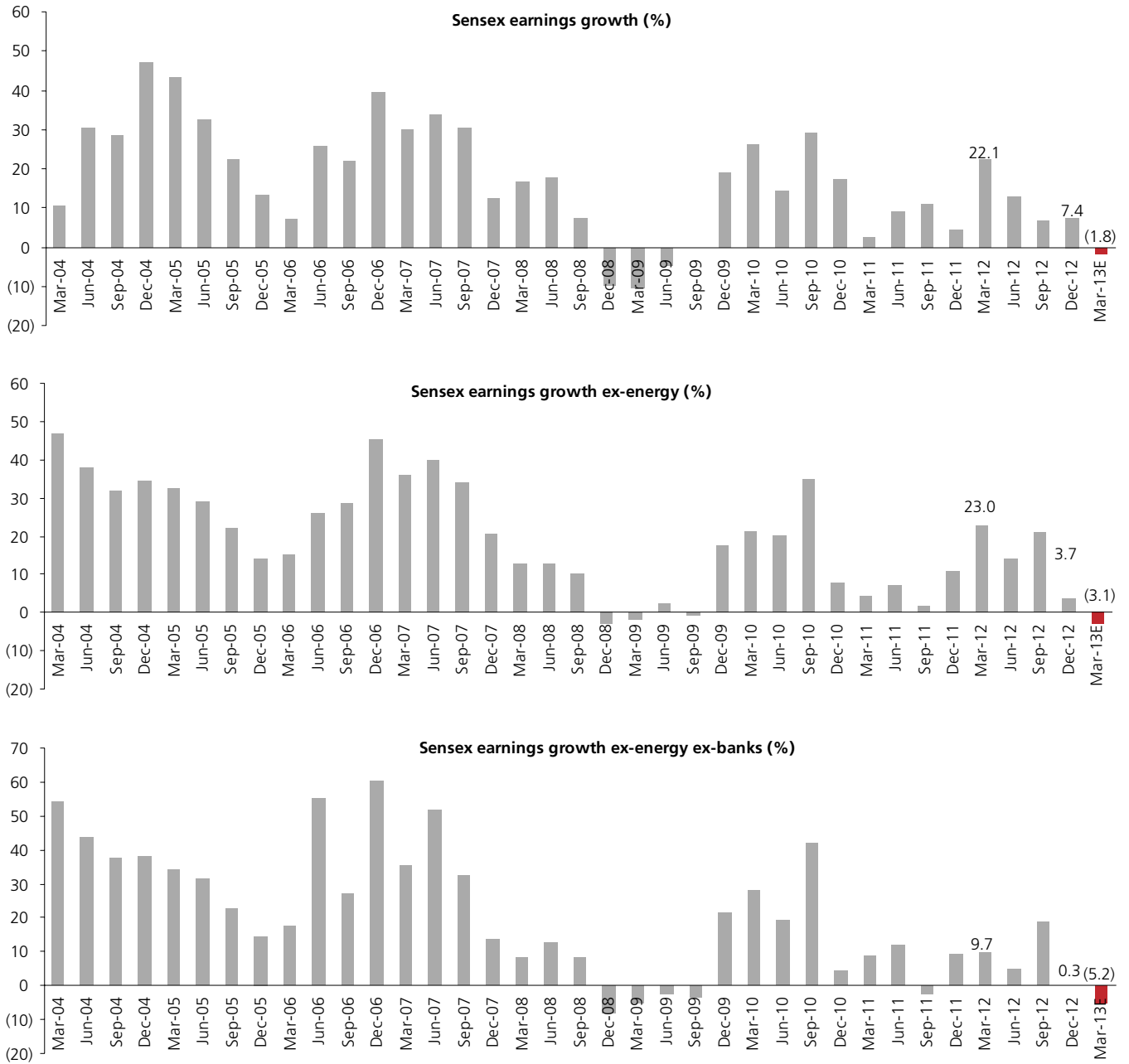
Exhibit 1: We expect a yoy decline in the net incomes of companies in the automobiles, industrials, metals & mining, pharmaceuticals, real estate and telecom sectors

Sector-wise expectations for the March 2013 quarter results

	Key points	Key points
<b>Automobiles</b>	We expect weak operating results for automobile companies, driven by a sharp decline in volumes due to weak consumer sentiment. Inferior product mix and negative operating leverage will also impact EBITDA margin.	Maruti is likely to outperform in the large-cap space due to pick-up in volumes and improvement in product mix. Mahindra & Mahindra is likely to report 110 bps qoq decline in EBITDA margin due to lower share of tractor sales in the mix. Two-wheeler companies are likely to report stable EBITDA margin due to pricing stability. Companies exposed to the commercial vehicle segment will witness maximum pressure on earnings.
<b>Banking</b>	<b>Banks:</b> We expect another quarter of muted performance and overall net profit growth to decline 5% yoy (15% yoy earnings decline for public banks, 16% yoy increase for private banks), driven by weak revenue growth (9% yoy), high operating expenses and elevated credit costs. Nil growth is expected to be at 10% yoy (6% for public banks and 21% for private banks) on the back of 15% yoy loan growth and stable margins. Contribution from non-interest income would be driven by treasury income (11% of PBT). Core fee income is likely to remain subdued on the back of weak loan growth. Credit costs will remain high at 1.7% for public banks and 0.9% for private banks.	<b>NBFCs:</b> NBFCs are likely to deliver stable earnings. Core earnings are expected to increase by 15-40% on the back of 20-30% growth in loan book (down from 20-40% in the past) and stable yoy margins (20-120 bps qoq improvement in NIMs) as collections typically pick up in the last quarter. We expect Shriram Transport Finance to report stable operating performance, making it our favored stock in the auto-finance segment. We prefer IDFC to PFC and REC in the infrastructure finance segment. IDFC offers the best risk-return trade-off at this juncture, while private sector power players will continue to be an overhang on PFC and REC.
<b>Cement</b>	Volume growth is likely to be muted, in line with the trend observed in the past few quarters. We believe this shall also deter cement companies from passing steep price hikes during the quarter; we factor in a 2-3% sequential improvement in realizations.	In our view, cost pressures will likely continue with bottoming out of global coal prices and gradual increase in retail diesel prices. We expect profitability to be under pressure for large cement companies.
<b>Chemicals</b>	A sequential increase in petrochemical margins is positive for the profitability of Reliance Industries' chemical segment.	
<b>Consumers</b>	We expect volume growth deceleration across the sector, with the same being more pronounced in discretionary categories. RM cost environment has been benign for most companies; however, not all companies would retain the benefits. For example, even as paints companies are likely to show solid margin expansion on the back of soft TiO2 prices, soaps majors have given most of the PFAD benefits away in the form of aggressive promotions.	We expect 18% yoy sales growth in ITC's cigarette segment, led by pricing and modest volume growth. We expect HUL to report sales growth of 12% yoy, driven by volume growth of 5% yoy. Asian Paints is likely to report a solid -34% yoy EBITDA growth, led by gross margin expansion. Expect Nestle's revenue growth challenge to continue.
<b>Energy</b>	<b>Upstream oil:</b> We expect ONGC to report a moderate yoy decline in EBITDA, led by lower net crude price realization. We expect OIL to report a yoy increase in EBITDA led by lower subsidy burden. We assume upstream oil companies will bear 40% of the subsidy burden in FY2013E versus 38-39% in FY2011-12. We expect GAIL to report a sequential decline in EBITDA, led by sharp increase in subsidy burden and lower gas transmission volumes.	<b>Downstream oil:</b> We expect oil marketing companies to report huge profits given likely large compensation (Rs415 bn) from the Government. We estimate gross over-recoveries of Rs246 bn for the industry in 4QFY13. We expect refining margins for downstream companies to remain sequentially flat.
<b>Industrials</b>	Revenue growth and margins are likely to be lackluster in 4QFY13. We may see slow-to-moderate execution as some projects slow down due to a weak investment scenario. Industrial capex is weak and will reflect in the performance of companies such as Siemens, Thermax and Voltas. Most companies are likely to report single-digit revenue growth; expect revenue slowdown even in L&T (10% yoy) and BHEL (revenue may in fact decline yoy). We see risks to margins from competition (in a low-demand environment) and changes in the mix. Margin trends, order inflows and commentary on the investment scenario will be the key variables to monitor.	<b>Construction:</b> We expect order backlog to drive revenues for Nagarjuna although execution issues may continue to hinder growth (as seen over the past few quarters). Nagarjuna PAT may benefit from lower interest expenses (post debt repayment from asset sales). SADBHAV Engineering's (standalone) revenues may continue to decline yoy given completion of several projects and delay in start of new projects (delays in clearances; construction likely to start in FY2014). <b>Infrastructure:</b> Higher port volumes will drive revenue growth for APSEZ (coal, container cargo). However, GPPL may see moderate increase in revenues on some revival in container volumes. Revenue growth for Container Corp. would be led by volume growth (both exim and domestic) as well as increased realizations.
<b>Media</b>	<b>Television:</b> We expect robust 4QFY13 results for C&S TV companies given robust advertising and subscription revenue growth. Zee may be impacted by higher sports losses and cost of new channel launches. Sun may be somewhat impacted by continued loss in market share and cost inflation. Dish TV is likely to report modest EBITDA given cumulative impact (since late-1QFY13) of content renegotiation with MediaPro.	<b>Print:</b> We expect mediocre 4QFY13 results for regional print, given moderate advertising environment but supported by deflation in newsprint prices (and stable Rupee). HT Media is likely to report strong financials despite weak advertising, largely due to low base. Jagran financials will include Nai Dunia for the first time, rendering qoq and yoy comparison difficult. Investments/operating losses in new markets continue, reflecting in depressed margins.
<b>Metals</b>	<b>Ferrous:</b> Weak domestic demand has hampered attempts by steel companies to raise prices. We expect flat-to-marginal improvement in blended realizations. Expect sequential decline in coking coal costs as full benefit of price decline is realized in the current quarter. We expect sequential improvement in EBITDA in all the names. Lower forex impact and sequential improvement in EBITDA will turn Tata Steel and JSW Steel net income positive for the quarter. NMDC will report sequential improvement on higher volumes.	<b>Non Ferrous:</b> Zinc and lead prices have increased by -4% while aluminium remained flat sequentially. Higher volumes and prices of zinc and lead will aid EBITDA performance in Hindustan Zinc and Sterlite. Nalco and Hindalco will gain on higher alumina prices besides modest cost improvement in aluminium smelting. Higher depreciation charge from progressive commissioning of projects at Hindalco may impact net income. Profitability at custom copper smelting will continue to be affected by decline in acid prices.
<b>Pharmaceuticals</b>	<b>Generics:</b> We expect front-line generic companies to report strong sales growth of more than 15% yoy, boosted by (1) a favorable currency and (2) limited-competition launches in the US for Dr Reddy's, Lupin, Glenmark, Ranbaxy and Sun Pharma. We expect domestic sales growth to be over 15% for our coverage universe except for Dr Reddy's (14%) and Ranbaxy (11%). The market data for first two months of the quarter has been around 10%; there may be downside risks to our estimate for domestic sales growth. We expect strong growth in the US for Lupin (driven by generic Tricor launch) and Dr Reddy's (market share ramp-up in Toprol-XL, FTF launch of finasteride). Ranbaxy core US sales will benefit from the launch of Absorcia. We expect core earnings growth of over 15% for all companies except Cadila where we expect the muted performance to continue. Decline in Ranbaxy core income is primarily on account of higher other income in the base period.	<b>CRAMS:</b> We expect Divi's' earnings growth (at 13% yoy) to be impacted by a high base. Biocon core EBITDA yoy growth will remain strong (at 60% yoy) due to significantly higher R&D expense in the base period.
<b>Real Estate</b>	<b>Financials:</b> We expect high sales order booking and strong construction focus to translate into higher revenue recognition for Sobha, Godrej Properties and Prestige Estates. For DLF and HDIL, we expect debt to reduce with cash collections from asset sales and FSI sales respectively.	<b>Operations:</b> Project launches were low in 4QFY13 (DLF: 2-Gurgaon, 1-Lucknow; HDIL: 1-Mumbai, Godrej Properties: 1-Mumbai, 2-Ahmedabad), Sobha: 1-Bangalore, Prestige Estates: 2-Bangalore). But increased construction will result in better cash collections for Sobha, Godrej Properties and Prestige Estates. <b>Residential:</b> Prices and volumes in Gurgaon and Mumbai softened in both the primary and secondary markets. More discounts and schemes on offer point to a price correction in the near term.
<b>Technology</b>	We expect moderate sequential USD organic revenue growth of 1.9-3.1% for Tier-1 IT. Depreciation of GBP against USD may lead to cross-currency impact of 30-60 bps on revenues. Financial services and manufacturing will lead, while telecom and high tech may drag revenue growth. We expect Infosys to report organic revenue growth of 2.8%, aided by ramp-up of large deals and overall revenue growth of 4.1%. TCS will likely report revenue growth of 3%. Wipro will likely report a muted quarter. Expect Tier-1 IT companies to outperform Tier-2 names.	We expect sequential OPM decline of 40-80 bps for Tier-1 IT except Wipro. Reasons for margin decline will vary—(1) for Infosys, the decline will be led by full quarter consolidation of Lodestone acquisition, (2) TCS will be impacted by proposal to settle class-action suit with quarterly impact of 1% and (3) HCLT's margin may decline due to lower utilization rates. Net income performance will vary across companies driven by a combination of compensation revision cycle and hedging strategies.
<b>Telecom</b>	We believe deceleration in voice traffic growth for the industry continued; this is to be expected as the market continues to inch closer to saturation. More important than the market growth is market share shifts, in our view; this is where we believe footprint rationalization by challengers is aiding the incumbents. We expect a robust quarter of voice volume growth for Bharti, Vodafone and Idea with Idea (+5.2% qoq versus around 3% for Bharti) once again leading the pack on this metric. We understand that Idea regained MNP leadership during the quarter; the company reported accelerated subs net adds in Jan/Feb 2013 and also reported solid VLR net adds for January.	Even as there is a general push by operators to reduce discounts on the STVs, our checks and discussions with companies suggest that the flow-through of these actions on voice RPMs has been slow and low. We are a tad surprised and can think of three plausible reasons—(1) customers switching between STVs (different STVs yield different effective RPM), (2) competitive intensity remains on the higher side in select circles; these include the six circles where Uninor continues to be operational as well as a couple of circles where the GSM majors do not have a competitive equilibrium in terms of actual versus desired market share, and (3) tactical moves in circles like Mumbai where most operators came up with deep discount plans to attract Uninor's customers.
<b>Utilities</b>	For NTPC, commercial generation is unlikely to improve much though higher interest costs in the corresponding quarter last year will likely lead to ~16% yoy jump in net profits. We believe that for Power Grid, strong capitalization rate (Rs27 bn in 4QFY13) will continue.	Tata Power (consolidated) and Adani Power will likely report sharp yoy jump in generation and revenues with the commissioning of new units. However, key issues like unviable PPA's and fuel linkages will likely prevent them from reporting profits.

Source: Kotak Institutional Equities estimates

**Exhibit 2: We expect the net income of companies in the BSE-30 Index to decline 1.8% yoy in 4QFY13**  
Adjusted earnings growth of the BSE-30 Index (%)



Source: Kotak Institutional Equities estimates

Exhibit 3: Sector-wise net income of companies in the KIE universe (Rs bn)

Company (#)	Net sales (Rs bn)			EBITDA (Rs bn)			PAT (Rs bn)		
	Mar-12	Dec-12	Mar-13 (E)	Mar-12	Dec-12	Mar-13 (E)	Mar-12	Dec-12	Mar-13 (E)
Automobiles (11)	1,001	952	1,028	122	107	116	82	47	57
Banking (25)	470	494	528	—	—	—	208	198	210
Cement (6)	206	195	228	47	36	50	31	22	31
Construction (3)	57	44	58	4	4	5	1	0	1
Consumers (17)	285	327	327	53	64	63	38	48	45
Energy (12)	3,745	3,759	4,587	491	364	580	362	222	404
Industrials (13)	651	459	590	97	37	85	64	18	56
Infrastructure (4)	27	30	30	11	14	13	7	8	8
Media (7)	31	35	35	8	11	10	4	5	4
Metals & Mining (10)	978	879	940	194	155	188	131	98	117
Others (9)	205	212	204	22	28	28	3	10	9
Pharmaceuticals (11)	175	185	194	44	44	47	38	29	31
Real Estate (5)	41	28	39	18	7	12	8	6	6
Technology (10)	431	504	516	107	126	127	82	96	95
Telecom (5)	358	382	393	106	109	114	15	7	14
Utilities (9)	340	324	334	106	102	103	52	49	49
<b>KIE coverage</b>	<b>8,999</b>	<b>8,809</b>	<b>10,032</b>	<b>1,431</b>	<b>1,208</b>	<b>1,542</b>	<b>1,126</b>	<b>864</b>	<b>1,138</b>
<b>KIE coverage (ex-energy)</b>	<b>5,254</b>	<b>5,050</b>	<b>5,445</b>	<b>941</b>	<b>844</b>	<b>962</b>	<b>763</b>	<b>643</b>	<b>734</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Sector-wise net income of companies in the BSE-30 Index (Rs bn)

Company (#)	Net sales (Rs bn)			EBITDA (Rs bn)			PAT (Rs bn)		
	Mar-12	Dec-12	Mar-13 (E)	Mar-12	Dec-12	Mar-13 (E)	Mar-12	Dec-12	Mar-13 (E)
Automobiles (5)	825	794	859	102	94	100	72	43	52
Banking (4)	201	202	217	—	—	—	87	86	92
Consumers (2)	125	141	143	29	36	34	23	29	26
Energy (3)	1,152	1,275	1,438	191	217	197	102	123	106
Industrials (2)	377	255	373	72	29	63	52	23	43
Metals & Mining (5)	774	718	765	124	112	131	79	61	73
Pharmaceuticals (3)	68	77	84	19	23	27	15	16	18
Technology (3)	320	375	383	88	99	100	67	76	77
Telecom (1)	187	203	208	62	62	65	10	3	8
Utilities (2)	189	182	184	52	45	45	24	29	29
<b>BSE-30 Index</b>	<b>4,219</b>	<b>4,222</b>	<b>4,654</b>	<b>740</b>	<b>717</b>	<b>763</b>	<b>532</b>	<b>490</b>	<b>522</b>
<b>BSE-30 Index (ex-energy)</b>	<b>3,067</b>	<b>2,947</b>	<b>3,216</b>	<b>548</b>	<b>500</b>	<b>566</b>	<b>430</b>	<b>366</b>	<b>416</b>

Source: Company, Kotak Institutional Equities estimates

APRIL 05, 2013

CHANGE IN RECO.

Coverage view: **Neutral**

Price (Rs): **330**

Target price (Rs): **420**

BSE-30: **18,510**

**High quality asset at an attractive price.** We upgrade JSP to ADD from REDUCE following 28% correction in stock price in the past three months. We believe that the stock offers reasonable upside even after building moderate impact from standard bid document and delays in procurement of Utkal B1 coal block. We run a few valuation scenarios around areas of concern of the Street and find risk-reward ratio favorable. Extant operations account for 96% of our fair value of Rs420/share. Key risks to our call—any event that calls into question raising contract with Sarda mines.

#### Company data and valuation summary

Jindal Steel and Power

Stock data				Forecasts/Valuations				
				2013	2014E	2015E		
52-week range (Rs) (high,low)				540-320	EPS (Rs)	33.2	40.8	44.3
Market Cap. (Rs bn)				308.2	EPS growth (%)	(21.8)	23.0	8.6
Shareholding pattern (%)					P/E (X)	9.9	8.1	7.4
Promoters				59.0	Sales (Rs bn)	193.1	209.6	253.8
FIs				22.8	Net profits (Rs bn)	36.8	38.1	41.4
MFs				1.9	EBITDA (Rs bn)	69.9	71.9	87.4
Price performance (%)					EV/EBITDA (X)	7.4	7.3	5.9
Absolute				(3.9)	ROE (%)	15.9	16.8	15.6
Rel. to BSE-30				(2.0)	Div. Yield (%)	0.6	0.6	0.6
1M				3M	12M			

#### Upgrade on attractive valuations; maintain cautious stance on valuing growth projects

We upgrade JSPL from REDUCE to ADD following 28% correction in stock price in the past three months. We retain our 12-month forward fair value of Rs420/share; extant operations account for 96% of our target price. We appreciate investor concerns on three key aspects of JSP's business—(1) delays in signing mining lease of Utkal B1 coal block that is critical to power for gas-based DRI plant in Orissa, (2) potential fallout from the proposed standard bid document for the power business and (3) uncertainty on arrangements with Sarda mines. The stock has downside, in the unlikely event of adverse outcome of the all three Street concerns. However, in a realistic scenario, we find the risk-reward favorable.

#### Stock performance interplay of three outcomes over the course of next 6-12 months

We expect stock performance to be driven by outcome of the three events, the fate of which could be decided over the period of next 6-12 months, namely—

- ▶ **Iron ore sourcing.** JSP sources ~5 mn tons of iron ore from Sarda mines. JSP runs the mine on raising contract. Shah Commission is investigating illegal mining in Orissa and may submit its report soon. One of the areas of focus of Shah Commission is assessing contractual structures of raising contracts and potential violations of Rule 37 of MMDR Act (transfer of mines without adequate approval). Out fair value impact from unfavorable action (iron ore purchases at market rates) will be Rs35/share.
- ▶ **Cap on merchant power tariff.** Our fair value can fall by Rs30/share on capping the power tariff at Rs2.5/kwh (or aligning to current levels of competitive bids).
- ▶ **Utkal B1 coal block.** We factor in delay in executing mining lease for Utkal B1 coal block and have incorporated it in our valuation by adjusting CWIP (discounted value) for Angul Steel plant and assigning lower value (Rs10/share) for CPP. In case of faster execution of the coal block, we note an upside potential of Rs50/share to our fair value.

While outcome of these events is uncertain and may not (or may) turn out favorable for JSPL, we believe the CMP already factors in concerns (a, b above), fully on individual basis and partially combined. The upside potential of Utkal B1 is largely ignored and offers favorable risk-reward bet.

### Extant operations—robust cash-churning assets aided by captive mines

We like JSP's low-cost existing operations fed by captive coal and iron ore mines. JSPL's vertical integration is a significant competitive advantage. Captive ownership of resources makes it the lowest-cost producer in the power and steel segments. Besides, a balanced portfolio lends predictability to cash flows when compared to commodity pure-plays. A strong balance sheet, manageable leverage and sustainable cash generation from extant operations are significant positives. We also like JSPL's discipline on cash utilization and impressive RoE profile.

Exhibit 1: Jindal Steel and Power, SOTP-based valuation, 12-month forward basis (Rs mn)

	(Rs mn)	(Rs/share)	Comments
Steel business + Shadeed EBITDA	43,401		
Assigned multiple (X)	6		
<b>Enterprise value</b>	<b>258,233</b>	<b>276</b>	
Less: Debt of steel business	182,153	195	
Add: CWIP for new projects	97,615	104	CWIP of Angul, Orissa and Patratu, Jharkhand Steel plant
<b>Steel business equity value (A)</b>	<b>173,695</b>	<b>186</b>	
<b>Power business</b>			
Jindal Power (100% subsidiary) -1000 MW		115	
Jindal Power - cash		80	
Tamnar II- first phase of 1200 MW		7	70% fuel supply through linkage with Coal India and balance from imports
Sale of surplus power from CPPs at Raigarh and Angul		33	Rs22/ share for Raigarh and Rs10/ share for Angul CPPs
<b>Power business equity value (B)</b>	<b>219,090</b>	<b>235</b>	
<b>Arrived market capitalization (A) + (B)</b>	<b>392,785</b>	<b>421</b>	
<b>Target price (Rs/share)</b>		<b>420</b>	

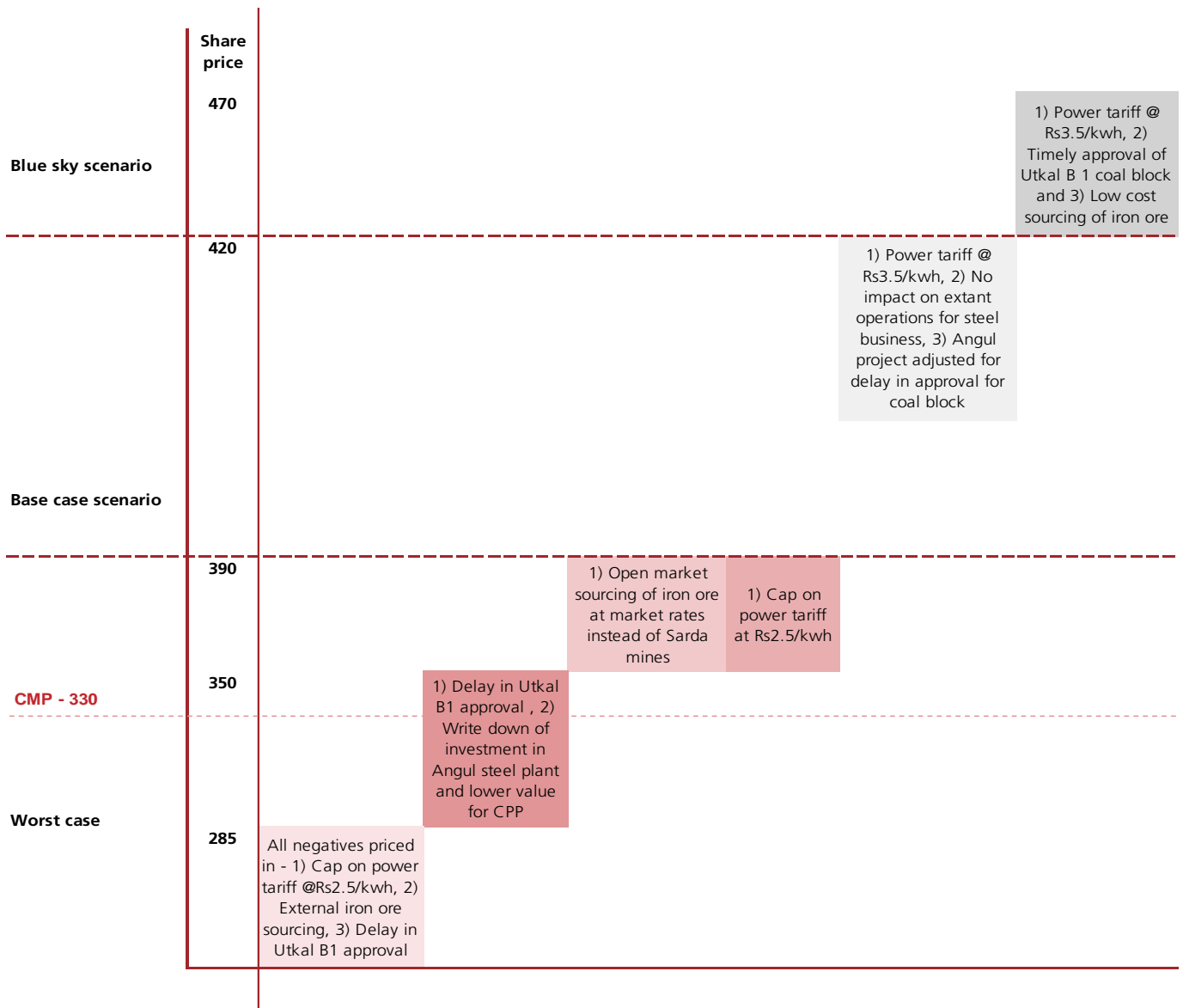
Source: Kotak Institutional Equities estimates

### Fair value based on conservative steel volume and price assumptions

Exhibit 6 details key assumptions that drive valuation of JSP. Our fair value of JSP is based on

- ▶ FY2014 steel sales of 2.8 mn tons from existing facilities and excluding any potential volume gains from commissioning of Angul steel plant (or early grant of Utkal B1 mining lease).
- ▶ We have assumed 4% decline in JSP's blended steel realizations (mainly longs) and ~Rs500/ton drop in pellet prices. Our steel price forecast is based on underlying international iron ore price of US\$110/ton.
- ▶ We have assumed 18% increase in iron ore sourcing costs for JSP from FY2012-14E.
- ▶ Jindal Power valuation is based on realization assumption of Rs3.5/unit. First phase (1200 MW) of Tamnar II accounts for only Rs7/share in our valuation.

Exhibit 2: Stock price fair value sensitivity at alternative scenarios



Source: Kotak Institutional Equities estimates

**Five scenarios; distress case drives value of Rs285/share, best case is Rs470/share**

Exhibit 1 details five scenarios, most of which center around the three-point focus of the Street. In the unlikely event of all risks playing out, our fair value can reduce to Rs285/share.



Exhibit 3: JSPL valuation scenario (FY2014E basis)

	Base case	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Merchant power realization	3.5	2.5	3.5	3.5	2.5	3.5
Steel Realization (blended excluding excise) (Rs/ ton)	37,193	37,193	37,193	37,193	37,193	37,193
Pellets realization (Rs/ ton)	7,490	7,490	7,490	7,490	7,490	7,490
Steel business EBITDA	43,401	43,401	37,940	43,401	37,940	44,695
Standalone EPS (Rs/share)	23	23	18	23	18	26
Steel business EBITDA (Rs mn)	43,401	43,401	37,940	43,401	37,940	44,695
EBITDA multiple (X)	6	6	6	6	6	6
Steel business EV (Rs mn)	258,233	258,233	227,639	260,403	229,915	268,169
Less: Debt of standalone business (Rs mn)	182,153	182,153	185,708	182,153	185,708	180,128
Add: Adjustment of CWIP (Rs mn)	97,615	97,615	97,615	40,490	40,490	128,374
Steel business equity value (Rs mn)	173,695	173,695	139,545	118,740	84,697	216,415
<b>Steel business equity value (Rs/ share)- (A)</b>	<b>186</b>	<b>186</b>	<b>149</b>	<b>127</b>	<b>91</b>	<b>232</b>
<b>Power business</b>						
Jindal Power (100% subsidiary) -1000 MW	115	85	115	115	85	115
Jindal Power - cash reserves	80	80	80	80	80	80
Tamnar II- first phase of 1200 MW	7	7	7	7	7	7
Sale of surplus power from CPPs at Raigarh and Angul	33	33	33	22	22	33
<b>Power business value - (B)</b>	<b>235</b>	<b>205</b>	<b>235</b>	<b>224</b>	<b>194</b>	<b>235</b>
<b>Fair value (A+B)</b>	<b>421</b>	<b>391</b>	<b>385</b>	<b>351</b>	<b>285</b>	<b>467</b>

Scenario 1: Power tariff for Tamnar I is capped at at Rs2.5/kwh

Scenario 2: Open market sourcing of iron ore instead of Sarda mines

Scenario 3: Utkal B 1 approval is not received - write down of investment in Angul steel plant and lower value to CPP at Angul

Scenario 4: All negatives built in i.e. scenarios 1+2+3

Scenario 5: No negative impact on power tariff, iron ore sourcing and early approval of Utkal B 1 coal block

Source: Kotak Institutional Equities estimates

## Key risks

### Low-cost iron ore purchases from Sarda mines hold significant value

JSPL's iron ore requirement for sponge iron, pig iron and pellet plant is met through a mix of captive iron mine and long-term iron ore contract mining agreement in Orissa. JSPL produces ~3 mtpa from captive Tensa mines and ~5 mtpa through contract mining route (from Sarda mines). JSP's blended iron ore cost (from captive mine as well as mining contract arrangement) of Rs2,132/ton in FY2012 is higher than companies with 100% iron ore integration but lower than market prices of iron ore. This suggests favorable raising contract structure (common occurrence in iron ore mining in India), continuation of which is critical for profitability of India steel business

**Shah Commission investigation in Odisha.** Shah Commission's investigation into illegal mining in Odisha is nearing completion and a report is expected soon (~3 months). JSP's iron ore purchase arrangement with Sarda mines has come under the lens of Odisha Government for possible violation of rule 37 of Mineral Concession Rules, 1960 (Clause relates to transfer of lease). Note that the investigation is not restricted to JSP but can include scrutiny of all raising contracts. In the unlikely scenario of negative opinion expressed by Shah Commission and acceptance of the same by the court, JSP's fair value may get impacted.

**Impact in case raising contract is nullified.** Based on our back-of-the-envelope calculation, we believe that JSP sources ~5 mn tons of iron ore from Sarda of which 30% could be lumps. We also believe that blended pricing of ore from this mine could be Rs4,000/ ton (including royalty). Any disruption over the arrangement would increase JSP's cost of procurement for iron ore. We estimate such a step can impact JSP's EBITDA by ~Rs4-5 bn. Impact on fair value could be Rs35/share, in our view.

#### **Proposal to cap tariffs on cost basis—a departure from National Tariff Policy**

As per media reports, the Ministry of Power proposes to cap power tariffs for plants running on captive or domestic linkage coal, implying cost-plus tariffs with limited returns for all such low-cost producers. We currently factor sustainable merchant tariffs of Rs3.5/kwh for Tamnar I—a reduction of Rs0.5/kwh (aligning it to competitive bids) would erode Rs15/share from our fair value estimate. In our view, if implemented, this would be a reversal of the extant policy framework that looks to shift to market-driven pricing (competitively bid and/or merchant) that rewards efficient low-cost producers while penalizing inefficient producers. In our view, the market-driven policy is progressive as it differentiates between power producers based on their cost efficiency, unlike the traditional cost-plus regime that allowed a reasonable return for all power producers—irrespective of their cost of generation.

#### **Execution of Utkal mining lease critical for Angul project**

The Angul project comprises 6X 135 CPP, 2 mtpa DRI plant, 1.6 mtpa SMS and 1.5 mtpa plate mill. Government has allotted Utkal B1 North Coal Block with reserves of 227 mn tons for the project. JSPL has received forest and environment clearances for the coal block but has mining lease and land acquisition (R&R) pending. Failure to complete acquisition of this coal block will bring into question viability of the project which has a planned capex of US\$3.1 bn in the first phase.

JSP is hopeful of grant of lease in time with the commissioning of DRI plant in 2HFY14. Note that an order dated Jan 23, 2013 of Odisha Government directs the state's Steel and Mines Department to process mining leases for eligible/clean mine owners. The approval process was kept in abeyance by the State Government after various controversies surrounding coal block allocation.

Exhibit 4: Proposed revision for competitive bids appears to be moving again to a more regulated regime, although without the benefits

Recommendation	Details	Implication
Sub-categorization of projects based on fuel source	Sub-categorization of linkage, captive and other for Case-1 and linkage, captive, imported, hydro and others for Case-2 bids	Under the current scenario, having access to low-cost fuel was a source of competitive advantage yielding superior returns; that will likely be diminished as competitive bids will be among similar fuel source
Applicability of competitive bids for plants with linkage coal as well as captive coal block allotment	Indicates policy that will mandate allottees of captive coal blocks/linkages to compulsorily enter into competitive bids, if they have not already entered into long-term PPAs	Death-knell for merchant capacities, especially based on captive/linkage coal; though the move could face resistance and FSAs/allotment letters do not mandate sale arrangement
Calling of bids on single variable		
(A) Domestic coal linkage	Projects will be bid only on first year escalable capacity charge with a non-biddable pre-specified SHR and energy charges will be paid on the basis of declared verified SHR	Competitive bid on first-year capacity charge may still leave room for upside, as capacity charge continues to reduce over a period of time (as interest cost comes down), while SBD talks of inflation-linked escalation. Payment of fuel charges based on verified declared SHR possibly takes away savings on operational efficiencies made by generation companies
(B) Captive coal blocks	Cap on common capacity charge as well as individual mining charge as fixed by the Central Commission, which will form the basis of the single variable bid	Putting a common cap on capacity charge as well computation of individual mining charges takes away from the profitability enjoyed by power plants running on captive coal blocks. However, the commission may take a liberal view on the cap fixed on capacity
(C) Imported coal/gas/hydro	No changes have been proposed to SBD for imported coal/gas and hydro-based projects	It was widely anticipated that the SBD will look to revise the bid criteria for imported coal-based projects, given the experience of bids such as Mundra UMPP, Krishnapatnam UMPP, and Adani Power (Mundra III), which now appear commercially unviable given non-escalable fuel cost component
Additional capacity	Procurer will have first right over additional capacities set up based on market-sourced fuels	This further constrains the ability of the generation company to benefit from economies of scale (Tata Power want to set up additional units at Mundra that will help offset losses from extant plant)

Source: Infraline, Kotak Institutional Equities

Exhibit 5: Jindal Steel and Power (consolidated), change in estimates, March fiscal year-ends, 2013-15E (Rs mn)

	Revised estimates			Old estimates			% change		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
<b>Consolidated</b>									
Net sales	193,093	209,582	253,759	208,385	211,973	255,037	(7.3)	(1.1)	(0.5)
EBITDA	69,921	71,868	87,369	70,739	72,775	86,481	(1.2)	(1.2)	1.0
<b>EPS (Rs)</b>	<b>37.8</b>	<b>40.8</b>	<b>44.3</b>	<b>38.8</b>	<b>42.3</b>	<b>44.5</b>	<b>(2.5)</b>	<b>(3.5)</b>	<b>(0.4)</b>
<b>Standalone business</b>									
Net sales	146,720	153,788	179,595	151,044	156,179	180,873	(2.9)	(1.5)	(0.7)
EBITDA	49,142	48,498	54,283	48,823	50,482	54,472	0.7	(3.9)	(0.3)
<b>Pre-exception PAT</b>	<b>20,681</b>	<b>21,271</b>	<b>22,539</b>	<b>21,094</b>	<b>22,739</b>	<b>22,679</b>	(2.0)	(6.5)	(0.6)
<b>Jindal Power</b>									
Net sales	25,749	25,386	44,633	25,749	25,386	44,633	-	-	-
EBITDA	13,930	17,748	27,574	16,313	17,751	27,577	(14.6)	(0.0)	(0.0)
<b>Profit after tax</b>	<b>10,348</b>	<b>14,266</b>	<b>15,855</b>	<b>11,652</b>	<b>14,268</b>	<b>15,858</b>	(11.2)	(0.0)	(0.0)

Source: Kotak Institutional Equities estimates

Exhibit 6: Jindal Steel and Power, key assumptions, March fiscal year-ends, 2010-15E

	2010	2011	2012	2013E	2014E	2015E
<b>Sales (tons)</b>						
<b>Total finished steel sales</b>	<b>1,698,766</b>	<b>1,932,037</b>	<b>2,476,780</b>	<b>2,735,400</b>	<b>2,820,000</b>	<b>3,307,982</b>
Iron ore pellets	11,893	522,603	2,028,330	2,117,257	2,528,317	855,267
Iron ore sales	1,572,941	1,530,684	717,582	—	—	—
<b>Revenues (Rs mn)</b>						
Sponge iron	4,523	1,923	1,815	1,773	289	2,151
Pig iron	4,741	4,779	1,995	160	12	1
Mild and finished steel sales	51,950	70,413	103,534	115,666	114,645	150,489
Iron ore pellets	72	4,677	18,981	17,032	18,937	6,107
Iron ore sales	5,376	8,791	4,681	—	—	—
Power	3,872	3,965	5,879	3,084	2,821	3,362
Others	8,342	9,217	9,297	11,235	12,211	13,285
<b>Total</b>	<b>78,876</b>	<b>103,764</b>	<b>146,181</b>	<b>148,950</b>	<b>148,915</b>	<b>175,395</b>
<b>Realization (Rs/ ton)</b>						
Sponge iron	13,171	16,881	23,106	20,670	18,527	17,982
Pig iron	19,337	23,693	23,348	23,394	21,251	20,706
Mild / finished steel	30,581	36,445	41,802	42,285	40,654	45,493
Mild / finished steel (US\$/ ton)	647	799	873	776	753	851
Iron ore pellets		8,950	9,358	8,044	7,490	7,141
Iron ore sales	3,418	5,743	—	—	—	—
Power	4.0	4.3	4.0	2.6	2.6	2.6
<b>Re/US\$ rate</b>	<b>47.3</b>	<b>45.6</b>	<b>47.9</b>	<b>54.5</b>	<b>54.0</b>	<b>53.5</b>
<b>Raw material costs</b>						
Iron ore (Rs/ ton)	1,375	1,309	2,132	2,473	2,525	2,624
Coking coal (Rs/ ton)	9,797	9,746	12,713	10,898	10,260	9,623
Iron ore (US\$/ ton)	29	29	44	45	47	49
Coking coal (US\$/ ton)	207	214	265	200	190	180
<b>EBITDA standalone (Rs mn)</b>	<b>25,078</b>	<b>36,110</b>	<b>42,806</b>	<b>49,142</b>	<b>48,498</b>	<b>54,283</b>
<b>EBITDA/ ton (Rs)</b>						
Iron ore	1,098	3,066	—	—	—	—
Pellets		6,741	5,358	3,794	3,240	2,891
Steel business	9,162	11,272	10,699	12,768	10,395	11,510
Power (Rs/ unit)	2.45	2.75	1.10	1.02	1.02	1.02

Source: Company, Kotak Institutional Equities

Exhibit 7: Jindal Steel &amp; Power (consolidated), profit model, balance sheet and cash flow model, March fiscal year-ends, 2010-15E (Rs mn)

	2010	2011	2012	2013E	2014E	2015E
<b>Profit model (Rs mn)</b>						
Net sales	110,915	131,122	182,086	193,093	209,582	253,759
<b>EBITDA</b>	<b>58,477</b>	<b>63,162</b>	<b>67,932</b>	<b>69,921</b>	<b>71,868</b>	<b>87,369</b>
Other income	603	815	1,419	1,188	3,291	4,460
Interest	(3,576)	(2,596)	(3,600)	(8,997)	(8,968)	(15,647)
Depreciation	(9,970)	(11,510)	(13,865)	(14,876)	(15,921)	(18,860)
<b>Profit before tax</b>	<b>45,405</b>	<b>49,870</b>	<b>51,886</b>	<b>41,495</b>	<b>50,270</b>	<b>57,321</b>
Taxes	(9,189)	(11,830)	(11,863)	(10,362)	(11,945)	(15,644)
<b>Net profit</b>	<b>36,216</b>	<b>38,040</b>	<b>40,023</b>	<b>31,132</b>	<b>38,325</b>	<b>41,677</b>
Share in profit/(loss) of associates	139	158	200	324	324	324
Minority interest	(755)	(659)	(574)	(439)	(512)	(569)
<b>Profit after tax and minority interest</b>	<b>35,600</b>	<b>37,539</b>	<b>39,649</b>	<b>31,017</b>	<b>38,137</b>	<b>41,432</b>
<b>Earnings per share (Rs)</b>	<b>38.2</b>	<b>40.2</b>	<b>42.4</b>	<b>33.2</b>	<b>40.8</b>	<b>44.3</b>
<b>Earnings per share -adjusted (Rs)</b>	<b>38.2</b>	<b>40.2</b>	<b>42.4</b>	<b>37.8</b>	<b>40.8</b>	<b>44.3</b>
<b>Balance sheet (Rs mn)</b>						
Equity	104,168	141,103	181,111	210,378	246,764	286,447
Deferred tax liability	8,455	10,055	11,920	12,404	12,849	15,637
Total Borrowings	86,043	139,728	170,908	252,106	285,701	295,730
Current liabilities	50,900	67,668	83,066	95,497	95,505	99,724
Minority interest	1,659	2,335	3,071	3,510	4,023	4,592
<b>Total liabilities</b>	<b>251,224</b>	<b>360,889</b>	<b>450,075</b>	<b>573,896</b>	<b>644,843</b>	<b>702,130</b>
Net fixed assets	178,444	242,040	301,460	369,852	415,563	443,465
Goodwill	1,007	1,018	918	918	918	918
Investments	3,185	2,979	3,776	4,100	4,424	4,748
Cash	1,128	4,640	1,492	43,161	71,723	92,125
Other current assets	67,383	110,008	142,430	155,865	152,216	160,874
Miscellaneous expenditure	78	204	—	—	—	—
<b>Total assets</b>	<b>251,224</b>	<b>360,889</b>	<b>450,075</b>	<b>573,896</b>	<b>644,843</b>	<b>702,130</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow excl. working capital	51,737	53,621	59,601	46,493	54,690	63,326
Working capital changes	4,010	(18,799)	(23,398)	(1,004)	3,658	(4,440)
Capital expenditure	(62,419)	(81,069)	(64,332)	(83,269)	(61,631)	(46,762)
<b>Free cash flow</b>	<b>(6,672)</b>	<b>(46,247)</b>	<b>(28,129)</b>	<b>(37,779)</b>	<b>(3,283)</b>	<b>12,124</b>
<b>Ratios</b>						
Debt/equity	0.9	1.0	1.0	1.2	1.2	1.1
Net debt/equity	0.8	0.9	0.9	1.0	0.9	0.7
RoAE (%)	41.1	30.9	24.8	15.9	16.8	15.6
<b>RoACE (%)</b>	<b>22.5</b>	<b>16.7</b>	<b>13.3</b>	<b>9.2</b>	<b>9.0</b>	<b>9.4</b>

Source: Company, Kotak Institutional Equities estimates

APRIL 05, 2013

UPDATE

BSE-30: **18,510**

**BoJ's new phase of monetary easing.** In its attempt to fight deflation, the Bank of Japan aims to double the monetary base over the next two years through aggressive purchase of JGBs. An attempt has been made towards more effective monetary easing by elongating the maturity of purchases and widening the purchase scope. However, any sustainable economic outcome is likely to require acceleration of Government's structural reforms. The immediate consequence of the monetary policy will be weakening of the Yen—an intended path to increase Japan's export competitiveness.

#### BoJ's Kuroda confirms his intent to fight deflation

In a bid to fight deflation, BoJ's new Governor, Haruhiko Kuroda, introduced an aggressive monetary easing program by combining both quantitative and qualitative aspects and reiterated his objective to achieve the 2% inflation target in the shortest possible time (but within a maximum span of two years). The salient features of the policy are as follows:

- ▶ **Operating target** for money market operations changed to a 'monetary base control' from the current uncollateralized overnight call rate. The policy target rate thus stands unchanged at 0-0.1%.
- ▶ **Monetary base** will increase at an annual pace of about JPY60-70 tn (against JPY13.4 tn in 2012 and JPY15.6 tn in 2011).
- ▶ **JGB purchases** will increase by ~JPY50 tn in both CY2013 and CY2014; to reach ~JPY190 tn by end-CY2014 (see Exhibit 1). Monthly purchases are estimated at JPY7 tn (currently ~JPY4.2 tn).
- ▶ BoJ will buy JGBs with all **maturities**, including 40-year bonds; to push up the average residual maturity of purchases from the current less than 3 years to ~7 years.
- ▶ BoJ will increase **risk assets** such as ETFs and Japan real estate investment trusts (J-REIT) to reduce risk premia of asset prices.
- ▶ **'Banknote principle'** is temporarily suspended. Under this, the buying of JGBs was restricted to the amount of Yen in circulation in the economy.

#### 2% inflation target may be difficult to achieve

Despite continuing quantitative easing by the BoJ, the transmission channels to the real sector remain weak, evident in the low and stagnant money multiplier (see Exhibits 2 and 3). With growth in the bank lending remaining weak, the scope for BoJ to achieve inflation bias remains low. Further, such inflation levels were not achieved in sustained fashion even during the 1980s Japanese property boom. However, compared to the earlier rounds of monetary easing, the current measures are likely to have a wider implication for a larger range of financial assets, thereby probably making the monetary easing more effective—in line with the Governor's aim of maintaining lower long-term interest rates.

#### Immediate consequence is a weaker Yen

The immediate consequence of Thursday's policy change is a weaker USD/JPY. Starting mid-2007, Yen was on a steady appreciation path which reversed due to the 2012 pre-election rhetoric of inflation targeting policies. The depreciation bias for Yen is likely to continue and we expect USD/JPY to be in a range of 95-100 for the rest of CY2013. Apart from monetary policy implications, a falling current account surplus is also likely to account for Yen weakness.

#### QUICK NUMBERS

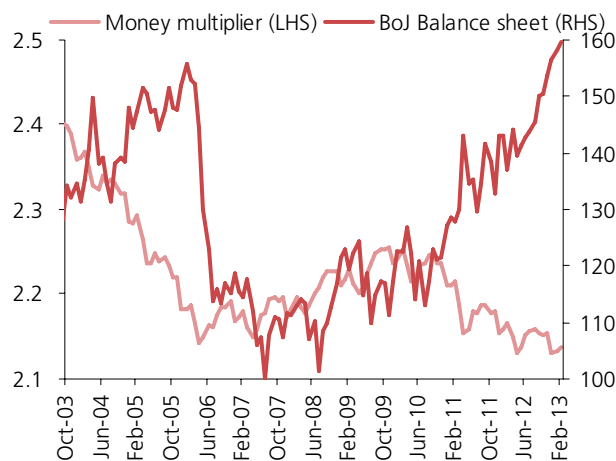
- **BoJ reiterates the 2% inflation target to be achieved in two years**
- **Operating target changed to monetary base from overnight call rate**
- **JGB purchases to increase to JPY50 tn from current JPY20 tn per year**
- **BoJ increases annual purchases of risk assets**

**Exhibit 1: BoJ now targets monetary base to achieve the 2% inflation in the next two years**  
 Monetary base targets and the BoJ's balance sheet projections (JPY tn)

	2012	2013JE	2014JE
Monetary base (JPY tn)	138	200	270
<b>Net increase in monetary base (JPY tn)</b>	<b>13</b>	<b>62</b>	<b>70</b>
<b>BoJ Balance Sheet Breakdown (JPY tn)</b>			
JGBs	89	140	190
CP	2.1	2.2	2.2
Corporate bonds	2.9	3.2	3.2
Exchange traded funds (ETFs)	1.5	2.5	3.5
Japan real estate investment trusts (J-REITs)	0.11	0.14	0.17
Loan support programme	3	13	18
<b>Total assets (including others)</b>	<b>158</b>	<b>220</b>	<b>290</b>
Banknotes	87	88	90
Current deposits	47	107	175
<b>Total liabilities and net assets (including others)</b>	<b>158</b>	<b>220</b>	<b>290</b>

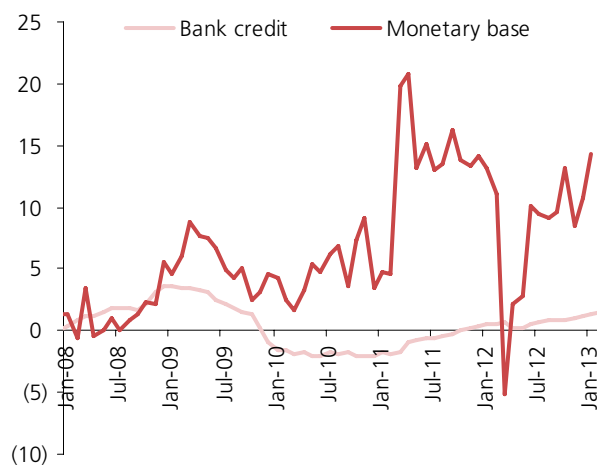
Notes:  
 (a) JE indicates projections of BoJ.  
 Source: BoJ estimates

**Exhibit 2: The economy continues to struggle despite unconventional monetary policies...**  
 Trends in money multiplier (LHS) and BoJ balance sheet (JPY tn, RHS)



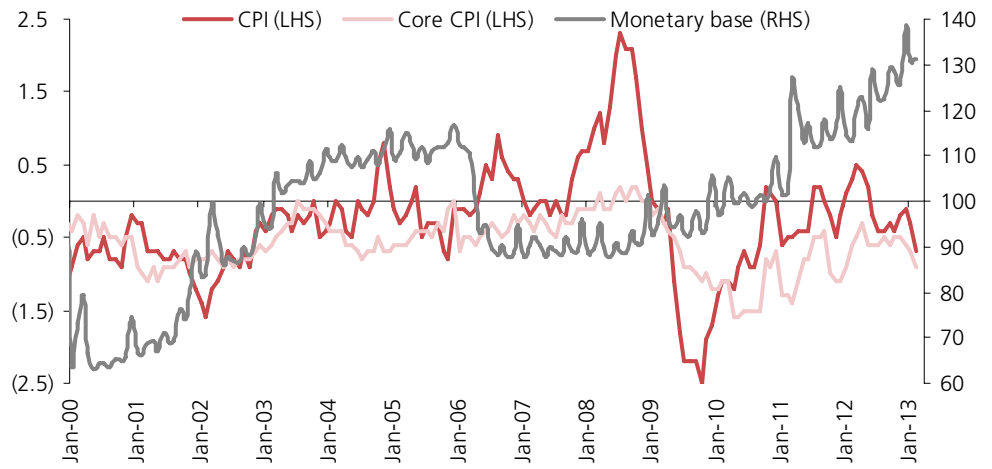
Source: CEIC, Bloomberg, Kotak Economic Research

**Exhibit 3: ...as the monetary transmission to the real sector remains clogged**  
 Trends in bank credit growth and monetary base growth (%)



Source: CEIC, Bloomberg, Kotak Economic Research

**Exhibit 4: Despite consistent increase in base money, underlying inflation has remained subdued**  
Trends in headline CPI and CPI ex food and energy inflation (%), LHS) and monetary base (JPY tn, RHS)



Source: CEIC, Kotak Economic Research



## Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	4-Apr-13		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	(Rs)	(%)	(US\$ mn)
<b>Automobiles</b>																													
Amara Raja Batteries	269	SELL	45,897	838	171	17.5	18.6	20.7	38.8	6.2	11.4	15.4	14.5	13.0	9.7	9.1	7.8	4.4	3.5	2.9	1.3	1.4	1.5	31.8	27.0	24.7	260	(3.2)	1.9
Apollo Tyres	83	BUY	41,915	765	504	12.3	13.9	14.5	51.6	13.1	4.3	6.7	6.0	5.7	4.4	4.0	4.1	1.1	0.9	0.8	0.8	1.0	1.0	19.9	18.8	16.6	110	32.3	3.3
Ashok Leyland	22	ADD	58,402	1,067	2,661	0.8	2.1	2.7	(60.9)	156.0	27.1	26.4	10.3	8.1	10.4	7.3	6.1	1.2	1.1	1.1	1.1	3.9	4.9	11.0	15.3	18.1	26	18.5	3.1
Bajaj Auto	1,674	REDUCE	484,340	8,845	289	107.6	126.6	142.9	3.7	17.6	12.8	15.5	13.2	11.7	12.2	10.3	9.3	6.3	5.0	4.1	2.6	3.0	3.4	45.0	42.0	38.3	1,900	13.5	16.3
Bharat Forge	210	REDUCE	49,797	909	237	10.9	14.0	19.3	(37.4)	28.4	38.1	19.3	15.0	10.9	9.1	7.9	6.2	1.9	1.7	1.5	0.5	0.5	0.5	13.0	10.5	12.5	200	(4.7)	1.7
Exide Industries	125	SELL	106,123	1,938	850	5.9	7.2	8.3	9.6	20.8	16.0	21.0	17.4	15.0	13.5	11.4	10.0	3.1	2.8	2.4	1.2	1.5	1.7	15.6	16.8	17.3	110	(11.9)	4.3
Hero Motocorp	1,454	ADD	290,374	5,303	200	102.8	104.2	143.1	(13.7)	1.3	37.3	14.1	14.0	10.2	10.2	9.3	6.3	4.2	3.5	2.9	2.1	2.1	3.4	39.8	32.0	35.6	1,800	23.8	10.9
Mahindra & Mahindra	848	ADD	520,887	9,512	614	53.4	57.8	67.3	18.4	8.2	16.4	15.9	14.7	12.6	11.6	10.5	8.9	3.5	3.0	2.6	1.9	2.0	2.4	24.7	22.9	22.9	1,000	17.9	23.1
Maruti Suzuki	1,311	SELL	396,057	7,233	302	63.0	87.0	96.8	11.2	38.2	11.2	20.8	15.1	13.5	14.0	9.3	7.8	2.3	2.0	1.8	0.6	0.6	0.6	11.7	14.4	14.0	1,300	(0.8)	23.3
Motherson Sumi Systems	177	BUY	103,988	1,899	588	8.1	16.2	21.5	82.9	100.8	32.4	21.9	10.9	8.2	9.2	5.2	3.9	4.8	3.3	2.4	1.4	2.3	3.0	31.2	33.9	33.6	240	35.7	2.3
Tata Motors	258	BUY	829,239	15,143	3,218	29.5	41.6	49.3	(33.9)	41.2	18.5	8.7	6.2	5.2	4.9	3.9	3.5	2.0	1.5	1.2	1.8	0.9	1.5	25.3	27.8	25.7	335	30.0	58.2
<b>Automobiles</b>		<b>Neutral</b>	<b>2,927,019</b>	<b>53,452</b>					<b>(12.0)</b>	<b>23.5</b>	<b>18.6</b>	<b>12.6</b>	<b>10.2</b>	<b>8.6</b>	<b>7.6</b>	<b>6.1</b>	<b>5.2</b>	<b>2.7</b>	<b>2.2</b>	<b>1.9</b>	<b>1.7</b>	<b>1.7</b>	<b>2.1</b>	<b>21.8</b>	<b>22.1</b>	<b>21.7</b>			
<b>Banks/Financial Institutions</b>																													
Andhra Bank	95	ADD	53,412	975	560	22.2	22.4	24.6	(7.7)	1.1	9.8	4.3	4.3	3.9	—	—	—	0.8	0.7	0.6	5.3	5.4	5.9	15.6	14.2	14.0	125	31.0	2.5
Axis Bank	1,244	ADD	563,516	10,291	453	108.8	114.1	121.1	5.9	4.9	6.1	11.4	10.9	10.3	—	—	—	2.1	1.9	1.6	1.4	1.4	1.5	17.9	15.0	14.1	1,525	22.6	52.5
Bajaj Finserv	757	SELL	120,470	2,200	159	69.2	72.1	79.4	(27.1)	4.2	10.2	10.9	10.5	9.5	—	—	—	1.7	1.4	1.3	1.8	1.8	1.8	18.5	15.0	14.1	810	7.0	1.5
Bank of Baroda	656	REDUCE	270,318	4,936	412	111.4	116.4	111.9	(8.2)	4.4	(3.8)	5.9	5.6	5.9	—	—	—	1.0	0.9	0.8	2.9	3.0	2.9	16.3	15.0	12.9	770	17.5	14.3
Bank of India	306	ADD	175,717	3,209	575	52.1	58.9	58.7	11.8	13.0	(0.3)	5.9	5.2	5.2	—	—	—	1.0	0.8	0.7	2.5	2.9	2.9	14.3	14.3	12.8	365	19.3	7.7
Canara Bank	392	REDUCE	173,590	3,170	443	68.5	70.6	83.1	(7.5)	3.0	17.7	5.7	5.6	4.7	—	—	—	0.9	0.8	0.7	3.1	3.1	3.1	12.7	11.9	12.7	415	5.9	7.3
Corporation Bank	388	BUY	57,997	1,059	150	85.9	110.1	113.7	(15.5)	28.2	3.3	4.5	3.5	3.4	—	—	—	0.7	0.6	0.6	4.5	5.7	5.9	15.1	16.6	15.2	480	23.8	0.6
Federal Bank	475	ADD	81,179	1,482	171	47.7	47.5	58.0	5.0	(0.3)	21.9	10.0	10.0	8.2	—	—	—	1.3	1.2	1.1	2.0	2.0	2.4	13.5	12.2	13.5	540	13.8	4.0
HDFC	792	SELL	1,213,657	22,163	1,532	31.6	37.4	43.5	13.2	18.3	16.3	25.1	21.2	18.2	—	—	—	4.8	4.3	3.8	1.5	1.7	2.0	22.0	21.5	22.1	730	(7.9)	37.1
HDFC Bank	616	REDUCE	1,445,912	26,405	2,347	28.6	36.5	45.7	30.1	27.3	25.3	21.5	16.9	13.5	—	—	—	4.2	3.5	2.9	0.9	1.2	1.4	20.7	22.3	23.4	625	1.4	37.9
KICICI Bank	1,009	BUY	1,162,913	21,237	1,153	72.6	70.1	74.6	29.4	(3.4)	6.5	13.9	14.4	13.5	—	—	—	1.8	1.7	1.6	2.2	2.1	2.2	13.3	11.8	11.6	1,260	24.9	68.4
IDFC	144	BUY	217,553	3,973	1,512	12.3	14.5	17.1	19.8	17.6	17.9	11.7	9.9	8.4	—	—	—	1.6	1.4	1.2	1.6	2.0	2.3	14.4	15.1	15.8	180	25.1	18.6
India Infoline	59	REDUCE	19,100	349	327	8.5	10.9	12.0	86.3	28.2	10.7	6.9	5.4	4.9	—	—	—	0.9	0.8	0.7	5.0	3.2	3.5	14.4	15.9	15.5	75	28.2	0.3
Indian Bank	171	BUY	73,641	1,345	430	35.3	39.6	44.8	(10.7)	12.1	13.1	4.8	4.3	3.8	—	—	—	0.8	0.7	0.6	3.8	4.3	4.8	15.2	15.1	15.2	260	51.7	0.8
Indian Overseas Bank	66	REDUCE	52,482	958	797	12.1	20.2	22.6	(8.1)	67.0	11.6	5.4	3.3	2.9	—	—	—	0.6	0.5	0.4	4.3	7.2	8.0	7.8	12.1	12.3	70	6.3	1.9
IndusInd Bank	405	ADD	210,598	3,846	520	19.9	22.8	26.4	16.0	14.6	15.8	20.4	17.8	15.3	—	—	—	2.9	2.6	2.3	0.8	0.9	1.1	17.6	15.1	15.5	460	13.5	11.1
J&K Bank	1,173	REDUCE	56,891	1,039	48	213.6	185.3	181.4	29.0	(13.2)	(2.1)	5.5	6.3	6.5	—	—	—	1.2	1.1	0.9	3.7	3.2	3.1	23.1	17.2	14.9	1,300	10.8	1.4
LIC Housing Finance	222	NR	122,091	2,230	551	19.9	23.5	29.7	9.8	18.0	26.8	11.1	9.4	7.5	—	—	—	2.0	1.4	1.2	1.6	2.1	2.7	16.5	17.1	17.7	—	—	15.4
L&T Finance Holdings	73	SELL	125,092	2,284	1,715	4.4	4.1	5.0	66.2	(5.9)	19.9	16.5	17.6	14.7	—	—	—	2.3	2.0	1.8	—	—	—	14.7	12.1	12.8	60	(17.8)	2.3
Mahindra & Mahindra Financial	211	REDUCE	119,898	2,190	568	15.5	18.3	22.1	28.0	18.3	20.8	13.6	11.5	9.6	—	—	—	2.8	2.3	2.0	1.7	2.0	2.5	23.4	21.0	21.7	220	4.3	4.7
Muthoot Finance	178	NR	70,519	1,288	397	27.6	29.8	34.8	15.0	8.0	16.7	6.4	6.0	5.1	—	—	—	1.9	1.3	1.1	2.2	2.5	2.9	30.6	26.2	23.7	—	—	—
Oriental Bank of Commerce	247	REDUCE	72,182	1,318	292	46.1	54.3	59.0	17.7	17.9	8.6	5.4	4.6	4.2	—	—	—	0.7	0.6	0.5	3.8	4.4	4.8	10.8	11.8	11.7	325	31.4	4.8
PFC	185	ADD	243,944	4,455	1,319	32.0	35.0	39.8	38.8	9.4	13.8	5.8	5.3	4.6	—	—	—	1.1	1.1	0.9	4.5	4.9	5.6	19.0	18.3	18.3	240	29.8	11.7
Punjab National Bank	717	REDUCE	243,140	4,440	339	139.4	145.3	157.3	(3.2)	4.2	8.3	5.1	4.9	4.6	—	—	—	1.0	0.9	0.7	3.0	3.1	3.4	16.7	15.3	14.6	820	14.4	11.9
Reliance Capital	310	ADD	76,371	1,395	246	30.5	21.3	25.7	44.3	(30.0)	20.5	10.2	14.6	12.1	—	—	—	0.7	0.6	0.6	2.9	2.1	2.5	6.6	4.5	5.2	500	61.2	33.7
Rural Electrification Corp.	208	REDUCE	205,772	3,758	987	38.2	41.6	45.9	33.7	9.0	10.2	5.5	5.0	4.5	—	—	—	1.2	1.2	1.0	4.1	4.5	5.0	23.4	21.6	20.4	255	22.4	9.5
Shriram City Union Finance	1,098	NR	64,001	1,169	58	80.2	98.3	118.7	22.6	22.6	20.7	13.7	11.2	9.3	—	—	—	2.9	2.2	1.9	0.9	1.2	1.4	22.3	22.5	22.0	—	—	0.8
Shriram Transport	678	ADD	151,389	2,765	223	60.5	72.2	85.4	7.3	19.4	18.2	11.2	9.4	7.9	—	—	—	2.3	2.0	1.7	1.8	2.1	2.5	20.7	21.1	21.2	775	14.2	11.6
State Bank of India	2,068	ADD	1,387,444	25,337	671	213.5	215.7	233.4	22.4	1.0	8.2	9.7																	

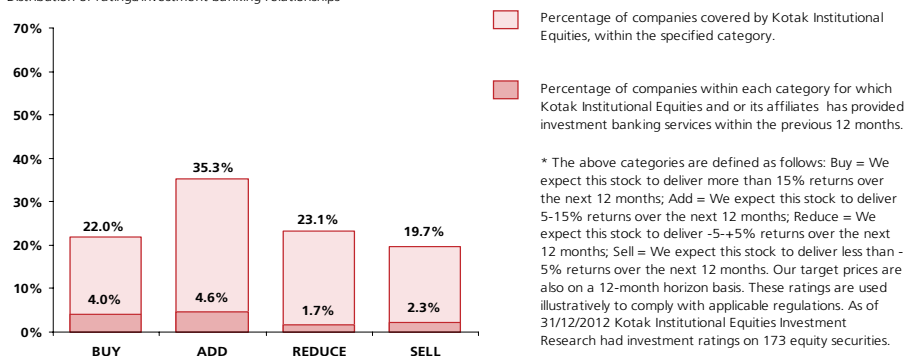






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Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2012

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