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Daily Alerts

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Zee Entertainment Enterprises: Strong 2QFY12 also raises questions on long-term strategy

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- Retain BUY; not lacking positive drivers but robust ratings key for them to play out

Mindtree: Excellent quarter

- Broad-based revenue growth powers 2QFY12 performance; revenues exceed US\$100 mn/quarter
- Margin increase is completely operational; little benefit from Rupee depreciation
- Buy into a sustainable growth story even though it would be volatile on quarterly basis

Mahindra Life Space Developer: 2QFY12 with puts and takes

- EBITDA margin bounces back though revenue booking disappoints
- No launches in 2QFY12 which likely drove weak sales in the quarter
- Mahindra World Cities await clarity
- Retain BUY rating with a target price of Rs450/share

Results, Change in Reco

TCS: High expectations mar a decent quarter, downgrade to REDUCE on valuations

- A slip after several quarters of outperformance
- Pricing decline a surprise, volume growth encouraging
- Business strength to remain solid and strong
- Valuations not supportive; cut rating to REDUCE

EQUITY MARKETS

India	Change %			
	17-Oct	1-day	1-mo	3-mo
Sensex	17,025	(0.3)	0.5	(8.3)
Nifty	5,118	(0.3)	0.7	(8.3)
Global/Regional indices				
Dow Jones	11,397	(2.1)	(1.0)	(8.7)
Nasdaq Composite	2,615	(2.0)	(0.3)	(6.3)
FTSE	5,437	(0.5)	1.3	(7.0)
Nikkei	8,755	(1.4)	(1.2)	(12.2)
Hang Seng	18,874	2.0	(3.0)	(13.4)
KOSPI	1,836	(1.6)	(0.2)	(13.8)
Value traded – India				
Cash (NSE+BSE)	116		133	137
Derivatives (NSE)	1,124		1,310	1,524
Deri. open interest	1,257		1,357	1,319

Forex/money market

	Change, basis points			
	17-Oct	1-day	1-mo	3-mo
Rs/US\$	49.0	0	114	438
10yr govt bond, %	8.8	3	46	54

Net investment (US\$m)

	13-Oct	MTD	CYTD
FIs	136	(357)	(507)
MFs	(17)	103	(282)

Top movers -3mo basis

Best performers	Change, %			
	17-Oct	1-day	1-mo	3-mo
ACEM IN Equity	152.9	2.5	6.4	20.9
IDEA IN Equity	96.9	1.6	1.2	20.1
BJAUT IN Equity	1654.4	1.3	1.7	16.8
MM IN Equity	812.8	0.9	2.0	15.0
ACC IN Equity	1111.5	(0.7)	7.1	13.2
Worst performers				
IVRC IN Equity	36.9	(3.9)	(14.6)	(46.4)
RCAPT IN Equity	336.4	(3.7)	(17.2)	(43.4)
IBREL IN Equity	72.2	(1.8)	(13.6)	(40.8)
HDIL IN Equity	98.6	(0.7)	(10.1)	(39.5)
ADE IN Equity	466.2	(1.0)	(22.2)	(34.7)

OCTOBER 17, 2011
RESULT

Coverage view: **Attractive**

Price (Rs): **673**

Target price (Rs): **725**

BSE-30: **17,025**

Performance in line; slowdown and competition pose risks. HDFC reported 20% earnings growth (in line with estimates). Its loan growth declined to 19% yoy (from 22% in 1QFY12) on the back of 18% growth in approvals; NIMs (as per our calculations) improved qoq. We believe that increase in competition and slowdown in the housing sector pose contingent risks at the current juncture. At 4X PBR FY2013E, we believe that the risk-return trade-off may not be in favor of investors. We tweak estimates, retain REDUCE with price target of Rs725.

Company data and valuation summary

HDFC

Stock data

52-week range (Rs) (high,low)	764-582
Market Cap. (Rs bn)	987.9

Shareholding pattern (%)

Promoters	0.0
FII's	58.1
MFs	3.0

Price performance (%)	1M	3M	12M
Absolute	1.7	(2.9)	(7.4)
Rel. to BSE-30	1.1	5.8	9.5

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	24.1	27.8	31.6
EPS growth (%)	22.4	15.4	13.7
P/E (X)	27.9	24.2	21.3
NII (Rs bn)	44.6	52.4	62.0
Net profits (Rs bn)	35.4	40.8	48.1
BVPS	113.8	128.9	168.3
P/B (X)	5.9	5.2	4.0
ROE (%)	21.7	22.1	21.3
Div. Yield (%)	1.3	1.5	1.8

QUICK NUMBERS

- **PAT up 20% yoy**
- **Disbursements up 18%, approvals up 15% yoy**

Earnings in line

HDFC reported PAT of Rs9.7 bn, up 20% yoy and 1% above estimates. Capital gains and dividend income were higher than estimates and core earnings were 4% below estimates.

Loan growth moderates, approvals grow by 15% yoy

HDFC reported 19% growth in balance sheet loans. Loans under management were up 20% yoy; growth in non-retail loans was marginally higher, while individual loans under management were up 19% yoy. A likely slowdown in large towns and cities affected HDFC's incremental business. HDFC's loan approvals were up 15% yoy and disbursements were up 18% yoy.

Reported spreads stable, calculated NIM up

HDFC reported spreads of 2.3% – stable qoq. NIM (as per our calculations) increased to 3.7% in 2QFY12 from 3.2% in 1QFY12 (3.8% in 2QFY11) likely due to higher asset yields. While the qoq improvement in NIM is positive, borrowing cost has clearly not yet peaked out.

Last week, HDFC launched a festive offer with 25 bps discounts on home loans – we believe that this discount offer will increase pressure on incremental margins. We expect NIM to remain under pressure over the next 1-2 quarters before interest rates in the system peak out.

Competition – a risk to growth and margins

We find early signals of increasing competition in the housing finance sector. ICICI Bank seems to be back in the mode of setting market trends: ICICI Bank launched a fix-floating product last month; HDFC followed up with a similar product after a fortnight.

For about three years, ICICI Bank followed HDFC in home-loan pricing. However, ICICI Bank's home-loan rates are marginally (25 bps) below HDFC's for the past two months. At the MHCI exhibition, ICICI Bank offered a further discount of 25 bps on home loans; processing fees were also reduced by 50%. Thus, ICICI Bank's effective home-loan rates were 50 bps lower than HDFC home loans. Last week (post the MHCI exhibition), HDFC introduced a festive discount of 25 bps to its card rates. Thus, the difference between ICICI Bank and HDFC rates has now again narrowed down to 25 bps.

Standard asset provisions adjusted from reserves

HDFC utilized Rs2.5 bn from its additional reserves to meet standard asset provisions notified by NHB in August 2011. Housing finance companies now need to maintain standard asset provisions of 40 bps – in line with banks. As of September 2011, HDFC had excess provisions of Rs3.3 bn on its balance sheet. HDFC made provisions of Rs4.4 bn on dual rate home loans (@2%) and Rs7.5 bn as provision on other standard assets.

SOTP-based target price of Rs725; retain REDUCE

Our SOTP-based target price works out to Rs725/share (no change). In our fair value estimate, we value HDFC's mortgage business at Rs438/share – 3.9X core PBR and 15 core PER FY2013E for normalized RoEs of about 26-30% (2% core RoA and leverage of 13-15X).

Recapitulating our views from our sector note dated October 10, 2011

High real estate prices disappoints consumers, keep sales low

- ▶ Our recent real estate conference visits (REIFBS and MCHI) and channel checks indicate that the slowdown/moderation in real estate sales is clearly visible. This is largely a metro city and/or high-ticket phenomenon with customers probably deferring purchases due to media reports of an imminent price correction. Demand in Tier-2 and Tier-3 cities has held up better primarily because prices are perceived to be within an affordable range.
- ▶ Developers, however, are keeping 'stated' prices constant while select discounts are available on a 'one-on-one basis' to potential buyers. We have not seen any meaningful (>10%) price correction.
- ▶ Regulatory risks remain high leading to delays in launches in Mumbai and Chennai, but also help restrict supply which is providing a support to residential prices.

Removal of home-loan prepayment rate poses risks to NIM

RBI has indicated a move to remove pre-payment penalty on home loans. We believe this will further increase competitive intensity in the housing loan market, thereby exerting pressure on NIMs. Home loans are currently offered at 10.5-11% while existing home loan customers pay up to 12.5%. While housing finance companies reports spread of 2-2.2%, we estimate that interest spreads on new home loans is close to 0.5-0.75%; existing home loan portfolio earns 1.25-1.5% higher while developer loans earn spread of 4-4.5%. The removal of pre-payment charges (typically at 2% of loan amount) will likely encourage existing home loan customers to switch between housing finance companies for better home loan rates.

HDFC—P&L statement
 1QFY11-2QFY12 (Rs mn)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	YoY (%)	2Q12E	Actual vs KS (%)
Operating income	27,963	29,664	33,162	37,741	38,169	41,639	40	35,684	17
Interest on loans	26,160	27,379	30,205	34,327	35,131	38,540	41	33,102	16
Fees and other charges	234	681	503	786	573	790	16	550	44
Dividend	1,181	229	269	575	1,322	629	175	600	5
Sale of investment	0	590	1,672	1,336	163	869	47	500	74
Other op income	388	786	513	719	980	811	3	932	(13)
Interest expense	17,196	17,176	19,928	21,300	25,149	26,905	57	21,040	28
Net operating income	10,767	12,488	13,234	16,442	13,019	14,734	18	14,644	1
Op. inc. excl. gains, capital gains and lease income	9,586	11,661	11,293	14,531	11,535	13,236	14	13,544	(2)
Net Fund based income	10,533	11,807	12,731	15,656	12,446	13,945	18	14,094	(1)
Net Fund based income (int income less int exp)	8,964	10,203	10,277	13,027	9,982	11,635	14	12,062	(4)
Other exp.	1,117	1,146	1,098	957	1,267	1,361	19	1,275	7
Other exp.	666	677	647	384	739	835	23	750	11
Staff expenses	451	470	451	574	528	526	12	525	0
PBDT	9,650	11,342	12,136	15,485	11,753	13,373	18	13,369	0
Depreciation	40	44	56	52	45	48	10	50	(3)
Other income	48	47	49	107	47	52	10	50	4
PBT	9,658	11,345	12,129	15,540	11,755	13,377	18	13,369	0
Tax	2,720	3,260	3,220	4,120	3,310	3,670	13	3,744	(2)
PAT	6,938	8,085	8,909	11,420	8,445	9,707	20	9,625	1
Tax rate	28	29	27	27	28	27	0	28	0
PBT excl. capital gains, other income and lease income	7,129	9,171	8,840	12,222	8,773	10,377	13	10,769	(4)

Source: Company, Kotak Institutional Equities estimates

HDFC—balance sheet and other details
 1QFY11-2QFY12 (Rs mn)

Other details - Rs bn	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	YoY (%)	2Q12E	Actual vs KS (%)
Disbursement for the quarter	109	175	135	184	130	207	18		
Outstanding (Rs bn)	1,016	1,063	1,091	1,171	1,242	1,270	19	1,297	(2)
Annualised NII (Rs mn)	35,856	40,812	41,108	52,108	39,928	46,542		48,248	
NIMs (%)	3.5	3.8	3.8	4.4	3.2	3.7		3.7	
Gross NPAs (Rs mn)	9,042	9,140	9,540	9,038	10,382	10,630			
Gross NPL ratio (%)	0.9	0.9	0.9	0.8	0.8	0.8			
CAR (%)	14.8	14.1	14.3	14.0	14.0	14.0			
Tier I (%)	13.6	13.0	12.5	12.2	12.2	12.2			
Avg spread(%)	2.34	2.34	2.33	2.33	2.33	2.33			
ROA	2.4	2.7	2.8	3.5	2.5	2.7			
ROE	18	19	20	26	19	21			
Balance sheet (Rs mn)									
Sharecapital	2,909	2,920	2,929	2,934	2,939	2,944	1		
Reserves	160,685	168,887	175,164	170,231	177,760	183,970	9		
Term loans	327,860	350,004	375,191	424,898	414,279	323,242	(8)		
Bonds/debentures/CPS	430,600	472,897	443,906	482,955	515,904	600,505	27		
Deposits	239,056	268,810	259,087	246,251	305,003	327,280	22		
Total liabilities and shareholders funds	1,161,110	1,263,557	1,256,277	1,327,272	1,415,885	1,437,942	14		
Loans	1,016,245	1,062,875	1,090,512	1,171,268	1,241,675	1,269,924	19		
Individuals	641,375	682,635	701,494	736,492	778,859	802,680	18		
Corporate bodies	359,667	365,226	373,318	421,407	448,232	451,440	24		
Others	15,203	15,014	15,701	13,366	14,584	15,802	5		
Investments	146,582	175,590	145,671	118,324	173,281	149,803	(15)		
Deferred tax	2,956	3,110	4,369	4,481	4,651	5,805	87		
Current assets	45,168	66,425	63,398	98,610	66,302	78,208	18		
Current liabilities	52,056	46,671	50,003	67,751	72,373	68,143	46		
Fixed assets	2,215	2,228	2,329	2,340	2,349	2,346	5		
Total assets	1,161,110	1,263,557	1,256,277	1,327,272	1,415,885	1,437,942	14		
Loan book calculations									
Loan on balance sheet	1,016,245	1,062,875	1,090,512	1,171,268	1,241,675	1,269,924	19		
Loans outside balance sheet	110,809	102,939	116,313	121,470	118,028	131,690	28		
Individual loans pre sell down	752,184	785,574	817,807	857,962	896,887	934,370	19		
Loans under management	1,127,054	1,165,814	1,206,825	1,292,738	1,359,703	1,401,614	20		
YoY loan growth (%)									
Total loan book	19	20	23	19	21	20			
Individual loans under management	21	22	25	20	19	19			
Non-retail loans	16	17	18	19	23	23			
Composition of loan book									
Total loan under management	1,127,054	1,165,814	1,206,825	1,292,738	1,359,703	1,401,614			
Individual loans under	752,184	785,574	817,807	857,962	896,887	934,370			
Other loans	374,870	380,240	389,019	434,776	462,816	467,244			
Share of retail (%)	33	33	32	34	34	33			
Repayment rate- rolling 4 qtrs (%)									
Loan book pre securitisation	1,127,054	1,165,814	1,206,825	1,292,738	1,359,703	1,401,614			
Disbursements (rolling 4 quarters)	525,850	564,423	587,912	603,140	624,866	656,386			
Gross loan book	1,469,569	1,534,655	1,569,162	1,685,819	1,751,920	1,822,201			
Repayments	342,515	368,841	362,337	393,081	392,217	420,587			
Repayments (%)	36	38	37	36	35	36			

Source: Company

HDFC—old and new estimates

March fiscal year-ends, 2012-2013E (Rs mn)

	New estimates		Old estimates		% change	
	2012E	2013E	2012E	2013E	2012E	2013E
NIM (post provisions - %)	3.8	3.8	3.8	3.9		
Loan book	1,389,728	1,656,540	1,389,728	1,656,540		
Operating income	158,526	184,936	159,196	186,233	(0.4)	(0.7)
Interest income	140,855	166,022	140,855	166,783	0.0	(0.5)
Capital gains	2,500	3,000	3,500	3,750	(28.6)	(20.0)
Interest expense	100,557	116,755	100,555	116,742	0.0	0.0
Net operating income	57,969	68,181	58,640	69,491	(1.1)	(1.9)
Net operating inc. excl. gains	55,469	65,181	55,140	65,741	0.6	(0.9)
Loan loss provisions	784	878	784	878	0.0	0.0
Fee income	3,041	3,613	2,462	2,918	23.5	23.8
Operating expenses	4,126	4,706	4,126	4,706	0.0	0.0
Employee expenses	2,005	2,291	2,005	2,291	0.0	0.0
PBT	56,149	66,250	56,242	66,865	(0.2)	(0.9)
Net profit	40,783	48,119	40,850	48,566	(0.2)	(0.9)
PBT bef cap gains	53,649	63,250	52,742	63,115	1.7	0.2

Source: Kotak Institutional Equities estimates

HDFC: Key ratios

March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011	2012E	2013E
Spread calc						
Average yield on assets (incl fees)	11.8	11.9	10.4	10.1	10.8	10.8
- interest on housing loans	11.1	12.6	10.9	10.3	11.0	10.9
Average cost of funds	8.1	9.7	8.0	7.3	8.1	8.0
Overall spread	3.7	2.2	2.4	2.8	2.7	2.8
Spread on housing loans	3.0	2.8	2.9	3.0	2.9	2.9
NIMs (post-provision)	4.8	3.7	3.7	3.9	3.8	3.8
NIM (pre provisions)	4.8	3.7	3.7	4.0	3.9	3.9
DU PONT Analysis						
Net total income	4.8	3.7	3.7	4.0	3.8	3.9
Net interest income	3.7	3.5	3.3	3.5	3.5	3.5
Capital gains	1.0	0.0	0.2	0.3	0.2	0.2
Dividend income	0.1	0.2	0.2	0.2	0.2	0.2
Net other income	0.1	0.1	0.2	0.2	0.2	0.2
Operating expenses	0.4	0.3	0.3	0.3	0.3	0.3
(1- tax rate)	72.2	70.9	72.2	72.6	72.6	72.6
ROA	3.2	2.5	2.6	2.8	2.7	2.7
Average assets/average equity	8.6	7.4	7.7	7.9	8.2	7.8
ROE	27.8	18.2	20.0	21.7	22.1	21.3
Growth(%)						
Net loans	29	17	15	20	19	19
Total assets	29	20	15	20	16	17
Total income	51	24	2	14	25	17
Interest on Housing Loans	49	38	0	11	27	18
Net income before provision	69	(4)	17	25	14	18
Total expenses	22	12	2	18	14	14
PBT	71	(5)	22	24	15	18
PAT	55	(6)	24	25	15	18

Source: Company, Kotak Institutional Equities estimates

HDFC: Standalone P&L and Balance Sheet
 March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011	2012E	2013E
Income statement						
Total income excluding fee income	87,494	108,798	111,066	126,325	158,526	184,936
Interest on Housing Loans	72,164	99,310	99,790	110,683	140,855	166,022
Dividends	686	1,957	2,327	2,252	2,868	3,036
Lease rentals	155	147	241	231	207	187
Other operating income	14,489	7,384	8,708	13,159	14,596	15,691
Income from investments	6,794	7,132	6,614	7,799	9,691	9,946
Capital gains	7,695	252	2,094	3,597	2,500	3,000
Income/ gains on securitisation	—	—	—	1,762	2,404	2,746
Interest payable	51,429	74,324	70,631	75,597	100,557	116,755
Net Income before provision	36,065	34,474	40,435	50,728	57,969	68,181
Provision	320	500	580	700	784	878
Fee income	632	1,149	2,317	2,204	3,041	3,613
Total income	88,126	109,948	113,383	128,528	161,567	188,548
Staff expenses	1,178	1,386	1,467	1,755	2,005	2,291
Total expenses	2,673	2,987	3,056	3,619	4,126	4,706
Depreciation	166	175	182	192	202	212
Other income	197	229	226	251	251	251
Profit before tax	33,735	32,190	39,160	48,671	56,149	66,250
Tax	9,373	9,365	10,895	13,320	15,367	18,131
Profit after tax	24,362	22,825	28,265	35,351	40,783	48,119
- .EPS	17	16	20	24	28	32
EPS (core)	11	14	17	20	24	28
Book value	84	92	106	118	134	168
Book value (core)	57	59	47	58	72	107
Balance sheet						
Net loans	729,980	851,981	979,670	1,171,268	1,389,728	1,656,540
Total Investments	69,150	104,688	107,275	118,324	123,511	128,975
In equity	38,616	47,525	85,185	88,446	90,946	93,446
Fixed securities	30,534	57,162	22,089	29,871	32,565	35,529
Diminution in value of invt	(548)	(853)	(364)	(569)	(569)	(569)
Cash & deposits	8,586	17,185	52,241	76,460	76,460	76,460
Loans and advances and other assets	32,938	38,523	22,150	22,150	22,150	22,150
Deferred tax assets	1,466	2,158	2,857	4,481	4,481	4,481
Fixed assets owned	2,085	2,034	2,221	2,340	2,527	2,729
Total assets	844,205	1,016,569	1,166,415	1,395,023	1,618,857	1,891,335
Total borrowings and CL	724,732	885,195	1,014,438	1,221,856	1,422,714	1,635,219
Share capital	2,840	2,845	2,871	2,934	2,934	3,043
Reserves	116,633	128,529	149,106	170,231	193,210	253,073
Shareholders fund	119,473	131,374	151,977	173,165	196,143	256,116

Source: Company, Kotak Institutional Equities estimates

HDFC: Valuation
 March fiscal year-ends, 2008-2013E

March y/e	Profit after tax (Rs mn)	EPS (Rs)	EPS core (Rs)	P/E (X)	PE on core operations (X)	BVPS (Rs)	BVPS Core (Rs)	P/B (X)	P/B on core operations (X)	RoA (%)	RoE (%)	Core RoE (%)
2008	24,362	17	11	39	35.2	84	57	8	6.9	3.2	27.8	27.2
2009	22,825	16	14	42	27.3	92	59	7	6.7	2.5	18.2	25.0
2010	28,265	20	17	34	23.8	106	47	6	8.5	2.6	20.0	30.3
2011E	35,351	24	20	28	19.7	118	58	6	6.9	2.8	21.7	38.9
2012E	40,783	28	24	24	16.4	134	72	5	5.5	2.7	22.1	37.3
2013E	48,119	32	28	21	14.3	168	107	4	3.7	2.7	21.3	31.4
Share price (Rs)				672								
Market Capitalisation (Rs mn)				985,757								
Less :value of subsidiaries and investments (Rs mn)				405,388								
Price adjusted for subsidiaries and investments (Rs)				580,368								
Price per share adjt for subsidiaries and investments (Rs)				396								

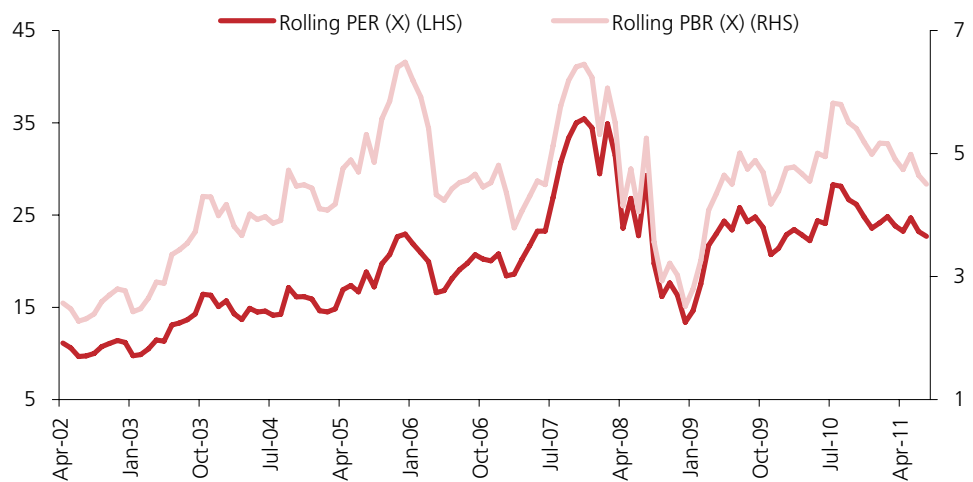
Source: Kotak Institutional Equities

HDFC: Sum-of-the-parts-based valuation (based on FY2013E)

Business/ subsidiaries	HDFC's holding (%)	Value of companies (Rs mn)	Value per share (Rs)	Valuation methodology
HDFC			438	Based on residual growth model; exit multiple of 3.9X PBR FY2013E
Value of subsidiaries and associates			255	
HDFC Bank	23	1,265,600	174	Based on target price
HDFC Standard Life MF	60	54,720	22	4% of March 2013E AUMs- 20% growth assumed
-PMS business	60	2,488	1	10% of AUMs (March 2013E - 20% yoy growth)
Life Insurance	72	104,650	45	11% margins and 16X NBV multiple
General insurance	74	11,374	5	Based on deal with ERGO
Gruh Finance	62.0	14,180	5	Based on market price
IDFC	1.9	182,404	2	Based on market price
HDFC Venture capital				
HDFC Property Fund	81	1,500	1	Rs10bn of fund assuming value of 15%
HDFC IT Corridor Fund	81	697	0	Rs4.64bn of fund assuming value of 15%
Real estate fund	60	2,520	1	US\$800 mn assuming value of 7.5%
Equity investments			21	
BVPS of non-strategic investments			6	
Unrealised gains on above			15	
Total value per share			714	

Source: Kotak Institutional Equities estimates

HDFC—one-year forward rolling PER and PBR
Monthly data, April 2002–October 2011 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

SBI and LICHF have grown rapidly

O/s mortgage loan book of key players, quarterly data (Rs bn)

	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
SBI (Rs bn)	521	541	575	624	673	712	747	794	824	868	899	NA
QoQ growth (Rs bn)	15	20	35	49	49	39	35	47	30	44	31	
YoY (%)	22	21	25	23	29	32	30	27	22	22	20	
HDFC (Rs bn)	829	852	870	895	908	979	1,016	1,063	1,091	1,171	1,242	1,269
QoQ growth (Rs bn)	17	23	18	25	13	71	37	47	28	80	71	27
YoY (%)	24	23	20	18	10	15	17	19	20	20	22	19
ICICI Bank (Rs bn)	607	573	535	490	484	474	473	503	517	539	546	NA
QoQ growth (Rs bn)	(10)	(33)	(39)	(45)	(6)	(10)	(1)	30	14	22	7	
YoY (%)	(9)	(14)	(18)	(21)	(20)	(17)	(12)	3	7	14	15	
LIC Housing Fin (Rs bn)	253	277	292	319	342	381	400	434	464	510	529	NA
QoQ growth (Rs bn)	12	23	15	27	23	39	19	34	30	46	19	
YoY (%)	26	26	28	32	35	38	37	36	36	34	32	

Source: Company

Housing finance rates are very competitive

Home loan rates (for floating rate loans) as of October 2011 (%)

	Upto Rs2.5 mn (%)	Rs2.5 mn to Rs7.5 mn (%)	Above Rs7.5 mn (%)
Axis Bank	10.75	10.5	11
Bank of India (1)	10.75	11	11.5
Central Bank	11.25	12.25	12.25
Citibank	11	11	11
HDFC (2)	10.75	11.25	11.75
HSBC	11	11	11
ICICI Bank (1)	10.5	11	11.5
Indiabulls	10.75	10.75	10.75
LIC HF	10.5	10.75	11
SBI	10.75	11	11.25
Union Bank	11.75	11.75	11.75

Note

(1) Lower rate of interest of 0.25% at the MHCI exhibition

(2) HDFC is offering 25 discount under its festive scheme

Source: Company

HDFC, ICICI Bank and LICHF offer partial fixed rate loans

Interest rates on fixed rate loans as of October 2011 (%)

	Upto Rs2.5 mn (%)	Rs2.5 mn to Rs7.5 mn (%)	Above Rs7.5 mn (%)
HDFC- 3 year fixed	10.75	11.25	11.75
HDFC- 5 year fixed	11.25	11.5	11.75
ICICI Bank - 1 year fixed	10.5	11	11.5
ICICI Bank - 2 year fixed	10.75	11.25	11.75
LICHF - 5 year fixed	11.15	11.4	11.65
GICHF (for first 3 months)	10.5	10.5	10.5
GICHF (after 3 months)	11.95	11.95	11.95
GICHF - 5 year fixed	12.5	12.5	12.5

Source: Company

Home loan rates by banks are 50-75 bps over base rates

Home loan rates and base rates, October 2011

	Base rate (%)	Home loan rate (minimum) (%)
SBI	10	10.75
Bank of India	10.75	10.75
Union Bank	10.75	11.75

Source: Company

Mixed trends in refinancing charges

Refinancing charges to outstanding loan (%), September 2011

	Self sources (%)	Refinance (%)
HDFC	Yr 1-3: 2% over 25% loan prepayment	2
	Yr 4 onwards : 0	2
ICICI Bank	2	2
Axis Bank	0	0
SBI	2% over 25% loan prepayment	
LIC HF	0	2

Source: Company

OCTOBER 17, 2011

RESULT

 Coverage view: **Neutral**

 Price (Rs): **113**

 Target price (Rs): **160**

 BSE-30: **17,025**

Strong 2QFY12 also raises questions on long-term strategy. Zee reported strong 2QFY12 EBITDA of Rs2.08 bn (+10% yoy), ahead of estimates, led by (1) reduced sports losses and (2) robust entertainment business margins. However, the strong performance also raises questions on long-term strategy; weak ratings (~Rs150 GRPs) in flagship Zee TV channel should not be underestimated. Zee has multiple drivers (1) favorable Indian market advertising growth, (2) DTH growth, (3) digitization ordinance, (4) Media Pro (Zee-Star distribution JV), (5) robust cash position and (6) diversification (25 channels). Nonetheless, Zee has been quite conservative with its content and expansion strategy. Retain BUY; upcoming content revamp in Zee TV takes center stage now.

Company data and valuation summary

Zee Entertainment Enterprises

Stock data		Forecasts/Valuations			
		2011	2012E	2013E	
52-week range (Rs) (high,low)	155-106	EPS (Rs)	5.8	6.2	7.7
Market Cap. (Rs bn)	110.7	EPS growth (%)	10.0	6.4	23.3
Shareholding pattern (%)		P/E (X)	19.4	18.2	14.8
Promoters	42.8	Sales (Rs bn)	29.5	29.4	34.4
FIs	35.1	Net profits (Rs bn)	5.7	6.1	7.5
MFs	8.0	EBITDA (Rs bn)	7.6	8.2	10.3
Price performance (%)		EV/EBITDA (X)	12.9	11.8	9.4
Absolute	1M (1.3) 3M (8.5) 12M (16.3)	ROE (%)	14.2	14.3	16.9
Rel. to BSE-30	(1.8) (0.2) (1.0)	Div. Yield (%)	1.2	1.2	1.4

Strong 2QFY12 results: gains across sports and core entertainment businesses

- ▶ Zee reported strong 2QFY12 EBITDA of Rs2.08 bn (+10% yoy), ahead of our expectations, led by a combination of (1) reduced sports operating losses of Rs226 mn (-58% yoy; the company seems to have a better handle on sports business now) and (2) robust entertainment business operating profit of Rs2.22 bn (-6% yoy) in a challenging environment.
- ▶ However, we also note that 2QFY12 financials are not strictly comparable to prior quarters because of the change in accounting treatment of domestic subscription revenues, which are now being reported net of expenses, due to the formation Media Pro (Zee-Star JV). We highlight the potential changes to financials from above, wherever possible.

However, weak ratings in flagship Zee TV channel should not be underestimated

Zee TV is the flagship channel of the Zee network contributing 30-35% share in advertising (though down from 50-55% prior to acquisition of R-GEC channels). Therefore, the impact of Zee TV's weak ratings cannot be underestimated (on the network as well); Exhibits 4-6 present the performance of Zee TV across various viewership metrics; Zee TV viewership has declined 25-30% from year-ago levels. The upcoming content slate revamp takes center stage, in this light. However, the surprise has been Zee's conservative content and expansion strategy (lower hours of original content on flagship) versus Sony and upstart Colors.

Retain BUY; not lacking positive drivers but robust ratings key for them to play out

We leave our rating (BUY), FY2013E TP (Rs160) and earnings estimates unchanged given structural drivers: (1) favorable Indian market advertising growth dynamics (based on our discussions with media buyers), (2) strong growth in DTH, (3) digitization ordinance (subscription revenues and placement costs), (4) Media Pro (Zee-Star distribution JV), (5) robust financial position (Rs11.1 bn cash post Rs2.3 bn dividend payout and Rs1.6 bn share buyback) and (6) strong performance of regional channels (Bengali/Kannada negate weakness in Marathi). However, they demand a robust Tier-I GEC (Zee TV is flirting with levels of Tier-II SAB TV channel) to play out; bargaining power for subscription revenues is function of the flagship channel as well as network.

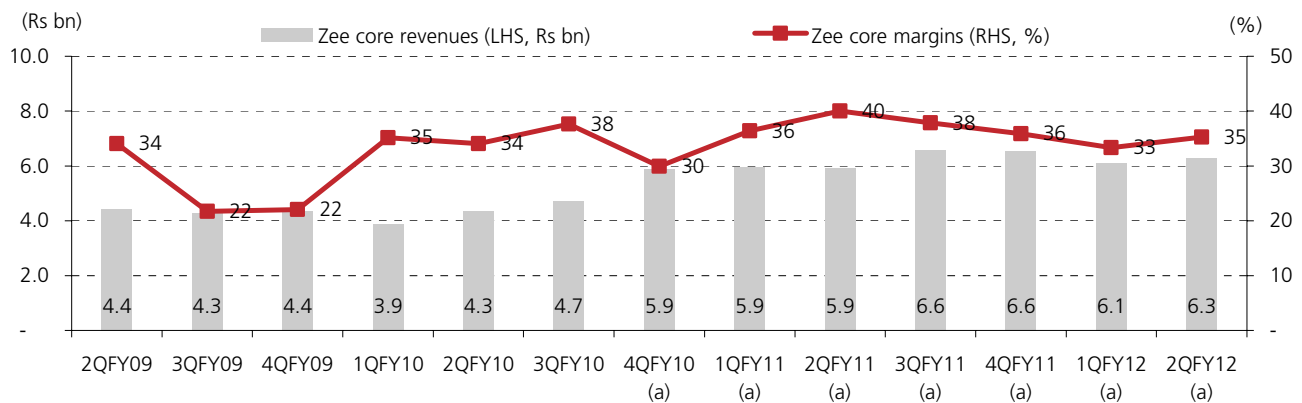
Interim results of Zee Entertainment (ZEEL), March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	(% chg)			1HFY12	1HFY11	(% chg)
					2QFY12E	2QFY11	1QFY12			
Total revenues	7,184	7,000	7,116	6,983	3	1	3	14,167	13,886	2
Advertising revenues	3,949	3,700	4,122	3,787	7	(4)	4	7,737	7,891	(2)
Subscription revenues	2,910	3,150	2,737	3,051	(8)	6	(5)	5,961	5,351	11
--Domestic subscription	1,951	2,150	1,748	2,075	(9)	12	(6)	4,026	3,352	20
--International subscription	959	1,000	989	976	(4)	(3)	(2)	1,935	1,999	(3)
Others (incl. syndication)	324	150	257	145	116	26	124	469	644	(27)
Total expenditure	(5,108)	(5,100)	(5,230)	(5,423)	0	(2)	(6)	(10,531)	(10,130)	4
Cost of revenues	(3,224)	(3,050)	(3,458)	(3,423)	6	(7)	(6)	(6,647)	(6,508)	2
Employee costs	(688)	(750)	(643)	(747)	(8)	7	(8)	(1,435)	(1,240)	16
SG&A expenses	(1,197)	(1,300)	(1,130)	(1,253)	(8)	6	(4)	(2,449)	(2,382)	3
EBITDA	2,076	1,900	1,885	1,560	9	10	33	3,636	3,756	(3)
OPM (%)	28.9	27.1	26.5	22.3				25.7	27.0	
Other income	279	250	240	255	12	17	10	534	366	46
Interest expense	(56)	(25)	(5)	(30)	123	1,085	83	(86)	(55)	55
D&A expenses	(78)	(75)	(56)	(89)	4	39	(12)	(167)	(118)	41
Pretax profits	2,221	2,050	2,064	1,696	8	8	31	3,917	3,948	(1)
Extraordinaries	-	-	-	-				-	1,637	
Tax provision	(621)	(650)	(801)	(394)	(4)	(22)	58	(1,015)	(2,210)	(54)
Minority interest	(40)	-	(1)	35		6,517	(213)	(5)	38	(112)
Reported PAT	1,560	1,400	1,262	1,337	11	24	17	2,897	3,412	(15)
Adjusted PAT	1,560	1,400	1,262	1,337	11	24	17	2,897	1,775	63
Tax rate (%)	28.0	31.7	38.8	23.2				25.9	56.0	
EPS (Rs/share)	1.6	1.4	1.3	1.4	13	25	18	3.0	2.0	47
Additional data										
Zee consolidation										
Total revenues	7,184		7,116	6,983		1	3	14,167	13,886	2
Operating income	1,997		1,829	1,472		9	36	3,469	3,637	(5)
Sports business										
Total revenues	881		1,190	873		(26)	1	1,754	2,022	(13)
Operating income	(226)		(542)	(566)		(58)	(60)	(792)	(896)	(12)
Entertainment business										
Total revenues	6,303		5,926	6,110		6	3	12,413	11,864	5
Operating income	2,223		2,371	2,038		(6)	9	4,261	4,533	(6)
Core margin (%)	35		40	33				34	38	

Source: Company data, Kotak Institutional Equities estimates

- ▶ Zee reported 2QFY12 sports business revenues of Rs881 mn. Operating losses of Rs226 mn, a significant improvement yoy (-58%) as well qoq (-60%), were lower versus our expectations. Zee telecast matches of India-WI series as well as SL-Australia series during the quarter. Zee maintained its guidance of ~Rs1 bn of sports losses in FY2012E; the company finally seems to be getting a handle on the business, giving credence to guidance of business breakeven by FY2014E. 1QFY12 other income was largely syndication income from sports properties (non-India cricket).
- ▶ Zee reported 2QFY12 core entertainment business revenues of Rs6.3 bn (+6% yoy) and operating income of Rs2.22 bn (-6% yoy) resulting in 35% EBIT margin (Exhibit 2). This is credible performance in a challenging environment (weak advertising, 15% yoy inflation led by movies telecast rights costs). Zee's conservative content/expansion strategy is supportive of margins in a benign scenario; however, the impact of weak ratings on advertising may also pressure margins going forward.

ZEEL's quarterly revenues and core (excluding sports) operating margins



Note:

(a) 4QFY10-2QFY12 include ZEEN regional channels and thus, revenues are not comparable with previous quarters.

Source: Company data, Kotak Institutional Equities

- ▶ Zee reported 2QFY12 advertising revenues of Rs7.18 bn (+1% yoy), ahead of our Rs7 bn estimates. Core entertainment business advertising reported moderately positive growth (3-5%, in our view) but sports advertising reported negative growth given lack of large India cricket property (versus 2QFY11).
- ▶ Zee reported weak 2QFY12 international subscription revenues of Rs959 mn (-3% yoy). Though Rs/US\$ depreciated in September 2011, 2QFY12 average exchange rate of Rs45.8/US\$ was ~2% appreciation versus 2QFY11 average exchange rate of Rs46.5/US\$. The Rupee depreciation impact will be visible from 3QFY12E.
- ▶ Zee reported 2QFY12 domestic subscription revenues of Rs1.95 bn (+12% yoy, -6% qoq); as noted previously, the revenues are understated on account of changes in accounting treatment due to the formation of Media Pro. The company noted expenses at 7-10% of revenue when in control of its own distribution; thus, gross (comparable) revenues were between Rs2.1 bn and Rs2.17 bn (+20-24% yoy growth). However, Media Pro would also have some cost savings from combined distribution.
- ▶ Zee reported 2QFY12 content costs of Rs3.22 bn (-7% yoy); there is likely to be no impact of the formation of Media Pro on content costs. The decline is largely on account of reduction in sports rights costs (sports operating costs, largely constituting rights costs, declined to Rs1.1 bn from Rs1.7 bn in 2QFY11).
- ▶ Zee reported modest 6-7% inflation in employee and overhead costs. The formation of Media Pro resulted in under-reporting of employee and overhead costs (between Rs150 mn and Rs220 mn, as discussed above). Thus, effective 15-20% inflation was on account of new digital business and spillover costs of Zee 1QFY12 re-launch.
- ▶ Zee reported end-2QFY12 cash levels of Rs11.1 bn versus 1QFY12 levels of Rs14 bn. Zee generated cash of ~Rs1 bn during 2QFY12 adjusted for (1) dividend payout (including tax) of Rs2.3 bn and (2) share buyback of Rs1.6 bn in 2QFY12.
- ▶ Zee reported 2QFY12 PAT of Rs1.56 bn (+24% yoy), ahead of +10% yoy growth in EBITDA. Zee reported 2QFY12 tax rate of ~28% versus ~38% in 2QFY11; the difference is launch of Ten Cricket channel in standalone Zee (reported ~35% tax rate) and telecast of loss-making India cricket properties on the channel. Nonetheless, Zee 'rest' reported tax rate remains quite low at ~8% and requires clarification.

Key financials of ZEEL, consolidated and standalone (Rs mn)

	ZEEL consolidated			ZEEL standalone			ZEEL "rest"		
	2QFY12	1QFY12	2QFY11	2QFY12	1QFY12	2QFY11	2QFY12	1QFY12	2QFY11
Revenues	7,184	6,983	7,116	5,211	5,318	5,010	1,973	1,665	2,106
Op. expenses	5,108	5,423	5,230	3,681	4,408	2,744	1,428	1,015	2,486
EBITDA	2,076	1,560	1,885	1,530	910	2,265	545	651	(380)
EBITDA margin (%)	28.9	22.3	26.5	29.4	17.1	45.2	27.6	39.1	(18.0)
Pre-tax profits	2,221	1,696	2,064	1,657	1,060	2,348	564	636	(284)
Tax provision	(621)	(394)	(801)	(577)	(356)	(772)	(44)	(38)	(29)
Adjusted net income	1,600	1,302	1,263	1,080	704	1,576	520	598	(313)
Tax rate (%)	28.0	23.2	38.8	34.8	33.6	32.9	7.8	6.0	(10.2)

Notes:

(a) ZEEL "rest" primarily comprises of sports and overseas operations.

Source: Company data, Kotak Institutional Equities

Weak ratings in flagship Zee TV channel

24-hour GRPs of key Hindi GE channels (%)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	chg (%)
Colors	286	274	257	240	245	230	(14)
Imagine TV	83	94	80	71	77	70	(7)
SAB	111	127	140	136	125	123	13
Sony TV	182	196	160	151	218	248	20
Star Plus	358	370	322	299	305	305	(15)
Zee TV	240	200	220	198	193	150	(20)
Total	1,260	1,261	1,181	1,095	1,163	1,127	(8)
Share (%)	19	16	19	18	17	13	

Source: TAM Media Research, Kotak Institutional Equities

Primetime GRPs of key Hindi GE channels (%)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	chg (%)
Colors	167	169	163	132	143	135	(14)
Imagine TV	42	51	45	36	42	40	1
SAB	59	64	72	61	60	56	1
Sony TV	89	114	86	63	121	143	36
Star Plus	182	211	176	150	162	160	(11)
Zee TV	154	131	150	123	118	91	(23)
Total	694	740	691	565	647	625	(7)
Share (%)	22	18	22	22	18	15	

Source: TAM Media Research, Kotak Institutional Equities

Share of top-100 programs of key Hindi GE channels (%)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	chg (%)
Colors	27	26	29	31	29	25	7
Imagine TV	-	0	0	1	0	-	
SAB	4	5	5	6	5	5	19
Sony TV	5	7	5	6	14	18	205
Star Plus	36	44	36	34	34	40	(5)
Zee TV	29	18	24	23	18	13	(37)
Total	100	100	100	100	100	100	

Source: TAM Media Research, Kotak Institutional Equities

Other positive structural drivers remain intact

Estimated benefit of JV for Zee, March fiscal year-ends (Rs mn)

	2011	2012E	2013E	2013E		Sensitivity (%)		
				Subs (mn)	ARPU (Rs)	+5%	+10%	+15%
Subscription revenues								
Domestic DTH	3.3	4.6	6.0	26.0	19.2	4.6	4.6	4.6
Domestic cable	3.9	4.0	4.4	40.0	8.3	4.6	4.8	5.1
Overseas	4.1	4.1	4.1			4.1	4.1	4.1
Total subscription	11.3	12.7	14.5			13.3	13.5	13.8
Carriage costs								
Business promotion	(1.5)	(1.5)	(1.5)			(1.5)	(1.5)	(1.5)
Financials								
EBITDA	7.6	8.2	10.3			10.5	10.7	11.0
Upside (%)						2	4	6

Source: Company data, Kotak Institutional Equities estimates

Breakdown of Zee's subscription revenues, FY2011-15E (Rs bn)

	2011	2015E	
		Base	Potential
Analog cable			
Subscription revenues (Rs bn)	3.8	5.2	-
Subscriber base (mn)	40	45	-
Revenue per sub (Rs)	8	10	NA
Addressable digital - cable or DTH			
Subscription revenues (Rs bn)	3.4	7.0	17.6
Subscriber base (mn)	15	30	75
Revenue per sub (Rs)	19	20	20
Domestic subscription revenues			
Domestic subscription (Rs bn)	7.2	12.2	17.6
Digital/analog (X)	2.4	2.0	2.0
Potential upside (%)			44

Notes:

(a) Assuming 50% of subscribers take Zee bouquet of channels.

Source: Kotak Institutional Equities estimates

24-hour GRPs of key Bengali GE channels (%)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	chg (%)
Akash Bangla	61	52	41	35	35	30	(42)
ETV Bangla	174	181	173	143	158	156	(9)
Rupashi Bangla	88	75	60	57	55	48	(38)
Sony Aath	56	63	55	48	63	66	12
Star Jalsha	436	430	452	427	430	414	(1)
Zee Bangla	263	381	372	314	374	378	42
Total	1,078	1,182	1,153	1,025	1,115	1,092	4
Share (%)	24	32	32	31	34	35	

Source: TAM Media Research, Kotak Institutional Equities

24-hour GRPs of key Kannada GE channels (%)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	chg (%)
ETV Kannada	214	205	209	212	214	207	(0)
Kasturi	93	111	100	91	99	85	7
Suvarna	291	314	266	250	311	303	7
Udaya Movies	239	228	230	215	201	181	(16)
Udaya TV	535	534	537	582	609	548	14
Zee Kannada	157	174	222	221	258	221	64
Total	1,529	1,566	1,564	1,571	1,691	1,545	11
Share (%)	10	11	14	14	15	14	

Source: TAM Media Research, Kotak Institutional Equities

24-hour GRPs of key Marathi GE channels (%)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	chg (%)
DD Marathi	31	26	25	21	27	24	(14)
ETV Marathi	161	161	167	179	210	217	31
Mi Marathi	39	35	40	32	46	32	19
Star Pravah	103	112	129	160	216	193	110
Zee Marathi	228	210	221	192	185	156	(19)
Zee Talkies	61	70	77	76	74	49	22
Total	622	614	659	659	759	671	22
Share (%)	46	46	45	41	34	31	

Source: TAM Media Research, Kotak Institutional Equities

Summary financials and valuations of Zee and Sun TV, March fiscal year-ends

	Financials (Rs bn)				Valuations (X)			
	2010	2011	2012E	2013E	2010	2011	2012E	2013E
Zee consolidated								
Revenues	22.0	29.5	29.4	34.4				
EBITDA	6.1	7.6	8.2	10.3	16.0	12.9	12.0	9.5
EPS (Rs/share)	5.9	5.8	6.2	7.7	19.3	19.5	18.2	14.8
Sports business								
Revenues	3.2	4.4	2.6	3.2				
EBITDA	(0.6)	(2.1)	(1.1)	(0.8)				
R-GECs business								
Revenues	1.1	5.3	5.8	6.8				
EBITDA	0.3	1.8	1.8	2.3				
Hindi-rest business								
Revenues	17.8	19.8	21.0	24.3				
EBITDA	6.4	7.9	7.5	8.8				
Zee core business								
Revenues	18.8	25.1	26.8	31.2				
EBITDA	6.7	9.7	9.3	11.1	14.7	10.1	10.5	8.9
EPS (Rs/share)	6.4	7.4	7.1	8.2	17.7	15.3	16.0	13.8
Sun TV consolidated								
Revenues	14.5	20.1	21.5	25.0				
EBIT	7.7	11.0	12.0	14.0	13.4	9.4	8.6	7.3
EPS (Rs/share)	13.2	19.5	21.0	25.1	21.1	14.3	13.3	11.1
Sun TV stress-case								
Revenues	14.5	20.1	21.0	22.0				
EBIT	7.7	11.0	10.6	10.2	13.4	9.4	9.7	10.1
EPS (Rs/share)	13.2	19.5	18.9	18.3	21.1	14.3	14.7	15.2

Notes:

(a) Zee's FY2010 financials include only one quarter (4QFY10) of R-GEC financials.

Source: Company data, Kotak Institutional Equities estimates

Estimated consolidated financials of ZEEL + ZEEN R-GECs, March fiscal year-ends, 2009-20E (Rs mn)

	Actuals			KIE estimates								
	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
ZEEL + ZEEN R-GECs												
Total revenues	21,773	21,998	29,510	29,416	34,405	39,660	44,664	49,481	54,896	60,364	66,405	73,102
--Advertising revenues	10,593	10,670	17,081	15,959	19,007	22,337	25,609	29,005	32,900	37,253	42,190	47,794
--Subscription revenues	9,038	9,869	11,361	12,737	14,530	16,392	18,058	19,428	20,895	21,956	23,003	24,036
Operating income	5,480	6,135	7,604	8,203	10,342	12,956	14,828	16,661	19,003	21,196	23,666	26,150
Margin (%)	25.2	27.9	25.8	27.9	30.1	32.7	33.2	33.7	34.6	35.1	35.6	35.8
--Other income	1,572	1,220	836	1,092	1,129	1,077	1,119	1,183	1,218	1,186	1,089	921
--Interest expense	(889)	(331)	(102)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)
--Depreciation	(310)	(285)	(264)	(284)	(324)	(333)	(351)	(347)	(341)	(328)	(357)	(387)
Profit before tax	5,853	6,738	8,074	8,964	11,100	13,653	15,549	17,450	19,832	22,006	24,350	26,638
--Tax expense	(1,633)	(2,210)	(2,825)	(2,878)	(3,569)	(4,393)	(5,007)	(5,606)	(6,365)	(7,042)	(7,802)	(8,531)
--Minority interest	(98)	195	116	(3)	(28)	(53)	(70)	(72)	(87)	(85)	(92)	(87)
--Extraordinary items	949	1,637	1,004	—	—	—	—	—	—	—	—	—
Net income	5,072	6,361	6,369	6,083	7,503	9,207	10,471	11,772	13,381	14,880	16,456	18,020
Adj. net income	4,351	5,249	5,677	6,083	7,503	9,207	10,471	11,772	13,381	14,880	16,456	18,020
Adj. EPS (Rs)	5.0	5.9	5.8	6.2	7.7	9.4	10.7	12.0	13.7	15.2	16.8	18.4

Source: Company data, Kotak Institutional Equities estimates

OCTOBER 17, 2011

RESULT

Coverage view: **Attractive**

Price (Rs): **385**

Target price (Rs): **460**

BSE-30: **17,025**

Excellent quarter. 2QFY12 performance was impressive on several parameters: broad-based revenue growth of 9.5% qoq, EBITDA margin expansion of 180 bps qoq despite limited benefit from Rupee depreciation and net income of Rs543 mn (our expectation of Rs382 mn). Performance is all the more creditable as it comes on the back of a strong 1QFY12. We attribute the turnaround at MindTree to focus on basics and completion of ramp-down from drag accounts in R&D. Growth in our view will be backed by margin expansion. Upgrade our 2013E EPS estimates by 22% and TP to Rs460 (Rs375 earlier). ADD.

Company data and valuation summary

Mindtree

Stock data

52-week range (Rs) (high,low) 571-288

Market Cap. (Rs bn) 15.8

Shareholding pattern (%)

Promoters 26.4

FIs 19.9

MFs 4.6

Price performance (%)

Absolute 1M 3M 12M

8.1 7.3 (25.8)

Rel. to BSE-30 7.6 16.9 (12.3)

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	24.7	42.0	45.4
EPS growth (%)	(52.7)	70.2	8.1
P/E (X)	15.6	9.2	8.5
Sales (Rs bn)	15.1	18.8	21.7
Net profits (Rs bn)	1.0	1.7	1.9
EBITDA (Rs bn)	1.8	2.4	3.0
EV/EBITDA (X)	8.7	6.1	4.7
ROE (%)	14.4	20.3	18.9
Div. Yield (%)	0.6	1.1	3.5

Broad-based revenue growth powers 2QFY12 performance; revenues exceed US\$100 mn/quarter

MindTree reported 9.5% qoq growth to US\$101.3 mn, 2.9% ahead of our estimate. Revenue growth was broad-based; product engineering services grew at a healthy 8.3% qoq contributed by incremental IP revenues of US\$0.6 mn. IT services revenue growth was strong at 10.2% qoq; growth was broad-based across verticals and service offerings. Volume growth was 6.1% qoq, while pricing gain was 3.5%—part of the pricing gain can be attributed to higher IP revenues. MTCL added 1,000 employees during the quarter, strong in our view and indicates confidence on volume pipeline. MTCL reported net income of Rs543 mn, 42% ahead of our estimate.

Margin increase is completely operational; little benefit from Rupee depreciation

MTCL's average Re/US\$ rate in 2QFY12 was 45.1, a marginal depreciation of 1%. MTCL converts foreign currency revenues into Rupees each month at the beginning-of-the-month Re/US\$ rate. Margin performance is all the more creditable noting (1) limited benefits of Rupee depreciation and (2) company absorbed onsite and offshore wage increase equivalent to 40% of wage bill. Margin expansion includes one-off benefit from incremental IP revenues of US\$0.6 mn in the quarter. We believe that margin has further scope for expansion led by (1) SG&A leverage, (2) further operational efficiencies from step-up in fresher hiring and utilization rates, and (3) Rupee depreciation. We forecast EBITDA margin of 13% in FY2012E and 13.7% in FY2013E.

Buy into a sustainable growth story even though it would be volatile on quarterly basis

MindTree has all the building blocks for growth and scale though it lost its way through unnecessary diversification. The company is reaping the benefits of ramp-up in deal wins at the beginning of the year and improved account mining (number of US\$5 mn clients increases by 3). We forecast revenue growth of 24% yoy for FY2012E and 16.5% for FY2013E.

We raise our EPS estimate by 19.5/22% for FY2012E/13E to Rs42/45.4. We maintain our ADD rating with a TP of Rs460 (Rs375 earlier) valuing the company at 10X FY2013E earnings. We also note that our EPS estimate for FY2013E is based on a Re/US\$ rate of Rs45.6. A 1% change in Rupee impacts MindTree's EPS by 5.3% and EBITDA margin by 40 bps.

Little benefit from Re depreciation at the EBITDA level

MindTree reported an average Re/US\$ realization of 45.01 versus simple average of 45.75 for the quarter and 46.3 reported by Infosys. The difference is on account of the rate used for conversion of US\$ revenues into INR. MindTree uses beginning-of-the-month Re/US\$ rate to translate US\$ revenues into INR for that particular month. For example, the company would use September 1 Re/US\$ rate for conversion of all September revenues into INR—this is unlike many other companies that use end-of-the-month rates. The company, hence, did not benefit from Rupee movement towards the second half of September at the operating level. Receivables translation at a higher rate did provide substantial forex gains though. Essentially, part of the operating gains on account of Re depreciation showed up as other income.

2QFY12 results review

- ▶ Consolidated revenue growth was 9.5% qoq and 23% yoy, higher than our estimate of 6.4% qoq growth.
- ▶ Revenue growth was broad-based across business segments—IT services reported another strong quarter with 10.2% qoq growth (on the back of a 8.6% CQGR over the past 6 quarters). More importantly, R&D segment too grew a strong 8.3% qoq after several quarters of tepid performance.
- ▶ Volume growth was 6.1% qoq, while pricing improved 3.5% qoq on a blended basis. Pricing improvement was a combination of onsite shift in revenues, some incremental contribution from IP revenues, and some like-on-like price increases (spillover of increases negotiated in the previous quarter).
- ▶ Net headcount addition of 1,003 for the quarter demonstrates confidence in volume pipeline. Also, quarterly annualized attrition dropped substantially to 21.7% from 25.6% in 1QFY12.
- ▶ The amount of outstanding hedges was US\$147mn, of which US\$72 mn was for FY2012E at an average rate of Rs45.95/US\$. The US\$75 mn for FY2013 is at an average exchange rate of Rs45.3/US\$.
- ▶ OCI losses were Rs244 mn.

Exhibit 1: MindTree Consulting: Indian GAAP consolidated quarterly earnings statement

Rs mn	Sep-10	Jun-11	Sep-11	qoq (%)	yoy (%)	Sep-11E	Deviation
Revenues (US\$ mn)	82.4	92.5	101.3	9.5	23.0	98.4	2.9
Revenues	3,844	4,131	4,567	10.6	18.8	4,527	0.9
Software devpt expenses	(2,559)	(2,793)	(3,047)	9.1	19.1	(3,020)	0.9
Gross profit	1,285	1,338	1,520	13.6	18.3	1,507	0.8
SG&A expenses	(837)	(878)	(932)	6.2	11.3	(955)	(2.4)
EBITDA	447	460	588	27.8	31.4	552	6.5
Depreciation	(177)	(180)	(174)	(3.3)	(1.8)	(185)	(5.9)
EBIT	270	280	414	47.9	53.2	367	12.8
Interest	(0)	-	-	-	-	-	-
Other income	43	122	238	95.1	457.4	99	140.5
Profit before tax	313	402	652	62.2	108.6	466	39.9
Tax	(80)	(57)	(109)	91	35.9	(84)	29.8
Net profit	232	345	543	57.4	133.6	382	42.2
Minority interest	-	-	-	-	-	-	-
Share of profit/(loss) in asso	-	-	-	-	-	-	-
Net income	232	345	543	57.4	133.6	382	42.2
Extraordinaries	-	-	-	-	-	-	-
Net profit- reported	232	345	543	57.4	133.6	382	42.2
EBITDA margin	11.6	11.1	12.9			12.2	
EPS (Rs/ share)	5.6	8.4	13.2	57.4	133.6	9.3	41.8
Shares outstanding (mn)	41.2	41.2	41.2			41.2	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Key changes to estimates, March fiscal year-ends, 2012E-2013E

	New		Old		Change (%)	
	2012E	2013E	2012E	2013E	2012E	2013E
Revenues (Rs mn)	18,807	21,676	17,655	20,664	6.5	4.9
Revenues (US\$ mn)	407	475	395	453	3.0	4.9
EBITDA (Rs mn)	2,449	2,980	2,182	2,626	12.2	13.5
Net Profit (Rs mn)	1,729	1,868	1,447	1,532	19.5	22.0
Fully diluted EPS (Rs/share)	42.0	45.4	35.2	37.2	19.5	22.0
Re/ \$ rate	46.2	45.6	44.7	45.6	3.4	(0.0)
EBITDA margin (%)	13.0	13.7	12.4	12.7		

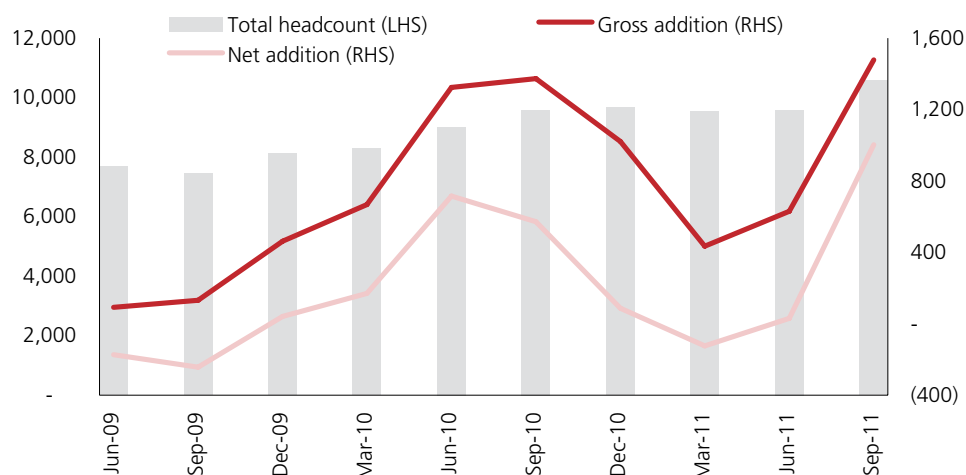
Source: Kotak Institutional Equities estimates

Exhibit 3: Healthy revenue growth across IT services and PES

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Revenues (US\$ mn)										
IT services	35.1	35.8	36.0	39.7	41.7	47.0	50.6	53.4	59.0	65.1
PES	26.9	29.5	34.4	34.8	35.3	35.4	34.7	32.9	33.5	36.3
Total	62.1	65.3	70.4	74.5	77.0	82.4	85.3	86.3	92.5	101.3
Revenue growth (qoq)										
IT services		1.8	0.6	10.2	5.0	12.8	7.6	5.6	10.6	10.2
PES		9.5	16.7	0.9	1.6	0.3	(2.1)	(5.3)	1.9	8.3
Total		5.1	7.9	5.7	3.4	7.0	3.5	1.2	7.3	9.5

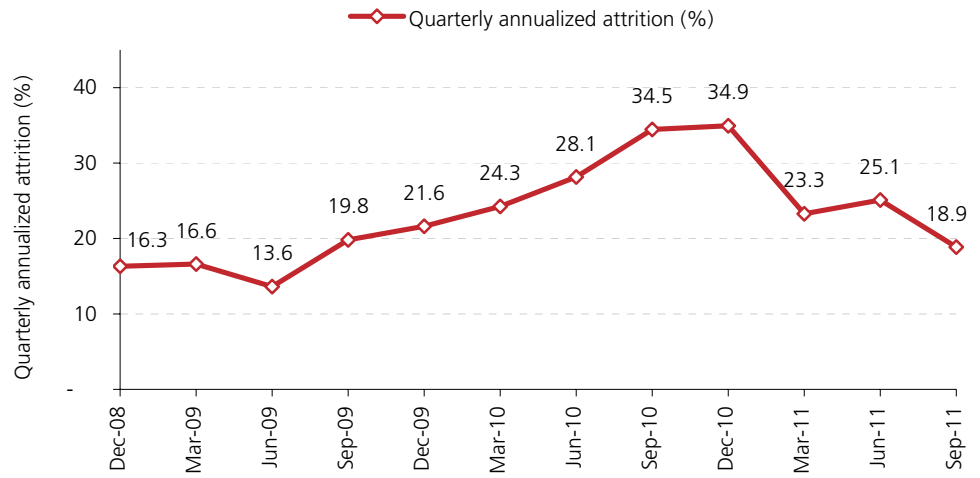
Source: Company, Kotak Institutional Equities

Exhibit 4: Strong hiring indicates confidence on volume pipeline



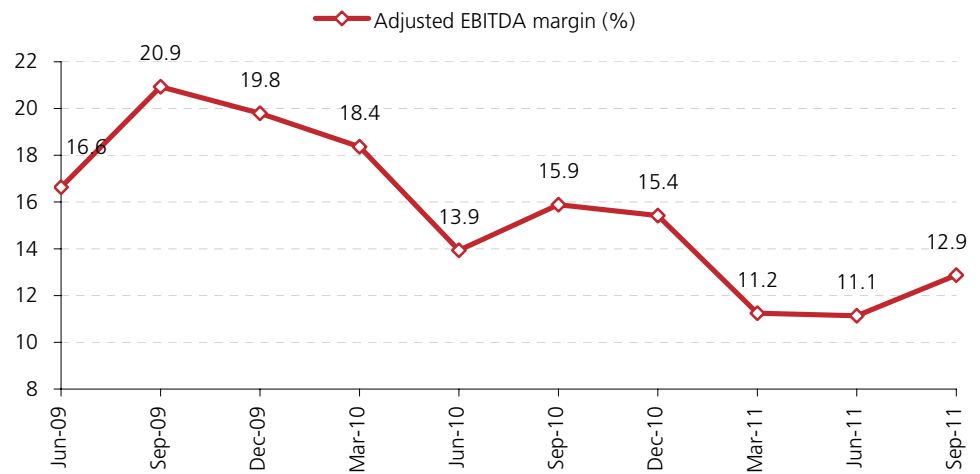
Source: Company, Kotak Institutional Equities

Exhibit 5: Quarterly annualized attrition has come down significantly



Source: Company, Kotak Institutional Equities

Exhibit 6: EBITDA margin expansion has been impressive



Source: Company, Kotak Institutional Equities

Exhibit 7: Condensed consolidated financials for MindTree Limited, March fiscal year-ends, 2009-2013E (Rs mn)

	2009	2010	2011	2012E	2013E
Profit model					
Revenues	12,375	12,960	15,090	18,807	21,676
EBITDA	3,309	2,456	1,777	2,449	2,980
Interest (expense)/income	(162)	(27)	(4)	—	—
Depreciation	(570)	(652)	(712)	(755)	(870)
Other income	(1,974)	770	242	394	154
Pretax profits	604	2,547	1,304	2,088	2,264
Tax	(67)	(398)	(288)	(359)	(396)
Profit after tax	537	2,148	1,016	1,729	1,868
Diluted earnings per share (Rs)	13.2	52.2	24.7	42.0	45.4
Balance sheet					
Total equity	5,513	6,706	7,762	9,289	10,502
Deferred taxation liability	(190)	(214)	(216)	(216)	(216)
Total borrowings	1,394	31	46	—	—
Current liabilities	3,082	2,604	2,344	2,969	3,809
Total liabilities and equity	10,126	9,127	9,936	12,043	14,096
Cash	488	403	459	1,013	1,903
Other current assets	4,203	4,438	5,331	6,778	7,868
Goodwill	1,460	154	—	—	—
Tangible fixed assets	2,962	2,859	3,034	3,139	3,211
Total assets	10,126	9,127	9,936	12,043	14,096
Free cash flow					
Operating cash flow, excl. WC	4,837	2,637	1,746	2,449	2,980
Tax paid	(287)	(685)	(533)	(359)	(396)
Working capital changes	251	(713)	(1,153)	(822)	(250)
Capital expenditure	(369)	(473)	(836)	(860)	(942)
Free cash flow	4,432	767	(776)	408	1,392
Ratios (%)					
EBITDA margin	26.7	18.9	11.8	13.0	13.7
EBIT margin	22.1	13.9	7.1	9.0	9.7
Net debt/equity	(0.0)	(0.2)	(0.2)	(0.2)	(0.3)
RoAE	5.5	35.2	14.4	20.3	18.9
RoACE	32.2	25.8	14.9	19.8	21.3

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: MindTree: Key operational metrics

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Revenues (US\$ mn)	65.3	70.4	74.5	77.0	82.4	85.3	86.3	92.5	101.3
Revenue by geographical segment (%)									
USA	66.2	64.4	62.8	64.6	63.1	60.4	60.0	60.3	58.4
Europe	21.0	18.4	18.7	16.9	18.0	19.4	21.9	22.8	25.7
India	5.3	6.4	6.3	8.0	8.5	8.4	9.0	8.6	7.9
Rest of the world	7.5	10.8	12.2	10.5	10.4	11.8	9.1	8.3	8.0
Revenue by business (%)									
ITS	54.7	51.1	53.3	54.1	57.0	59.3	61.9	63.8	64.2
Product engineering services (a)	45.3	48.9	46.7	45.9	43.0	40.7	38.1	36.2	35.8
Revenue by service offering (%)									
Development	48.6	51.8	52.7	51.2	50.3	45.6	42.9	40.0	39.7
Maintenance	22.0	20.8	18.9	19.6	20.3	21.6	23.9	25.3	24.7
Consulting & IP licensing	2.9	2.5	2.5	3.1	3.1	4.0	4.0	4.0	4.6
Package implementation	4.3	4.2	4.8	4.1	2.8	2.9	3.2	2.9	3.1
Independent testing	18.2	17.0	17.0	17.0	17.6	17.8	17.8	18.3	18.2
Infrastructure management & Tech support	4.0	3.7	4.1	5.0	5.9	8.1	8.2	9.5	9.7
Revenue by industry (%)									
Manufacturing	13.3	12.1	12.5	13.6	14.0	15.1	16.0	15.1	15.4
BFSI	17.4	16.0	17.5	17.3	18.1	20.2	20.3	21.5	21.4
T&T	13.8	12.6	14.3	13.3	12.6	11.8	11.7	11.4	10.8
PES	45.2	48.9	46.7	45.9	43.0	40.7	38.1	36.2	35.8
Others	10.3	10.4	9.0	9.9	12.3	12.2	13.9	15.8	16.6
Revenue by project type (%)									
Fixed price	23.8	24.7	31.2	33.7	33.9	35.7	33.8	33.2	33.7
Time & materials	76.2	75.3	68.8	66.3	66.1	64.3	66.2	66.8	66.3
Effort mix (%)									
Onsite	12.3	10.8	11.4	11.3	11.3	11.1	11.7	12.4	13.0
Offshore	87.7	89.2	88.6	88.7	88.7	88.9	88.3	87.6	87.0
Revenue mix (%)									
Onsite (%)	28.9	27.5	28.1	29.8	30.6	29.4	30.9	32.5	33.3
Offshore (%)	71.1	72.5	71.9	70.2	69.4	70.6	69.1	67.5	66.7
Effort and Utilization									
Onsite - Billed hours	295,083	293,906	305,207	326,103	352,197	344,840	372,718	417,828	463,438
Offshore - Billed hours	2,095,674	2,415,428	2,380,025	2,549,975	2,761,225	2,766,826	2,801,923	2,952,513	3,104,902
Total	2,390,757	2,709,334	2,685,232	2,876,078	3,113,422	3,111,666	3,174,641	3,370,341	3,568,340
Fee revenues (US\$ mn)									
Onsite	18.3	19.0	20.5	22.4	24.7	24.6	26.3	29.6	33.3
Offshore	45.2	49.9	52.3	52.8	56.0	59.1	58.8	61.6	66.7
Utilization (%)									
Including trainees	64.7	71.4	71.4	70.5	70.0	69.3	70.9	72.5	71.3
Excluding trainees	65.6	72.9	72.6	71.9	73.0	71.2	72.5	72.9	77.7
Client metrics									
Number of active clients	243	253	258	261	261	269	277	283	270
New clients added	24	35	27	31	21	30	39	25	15
US\$1 mn clients	59	58	60	62	64	63	67	67	72
US\$5 mn clients	11	13	13	13	14	14	14	14	17
US\$10 mn clients	4	5	5	5	5	5	6	7	7
Client contribution to revenue (%)									
Top customer	7.8	7.2	7.2	7.0	6.8	6.9	7.0	7.0	7.0
Top 5 customers	26.9	28.4	27.9	26.9	26.2	25.6	24.7	24.9	28.0
Top 10 customers	39.7	40.5	40.0	40.2	39.9	40.2	38.5	39.4	42.0
Fortune 500 accounts	37	40	40	39	45	48	48	42	43
Revenue from repeat business	98.8	98.2	99.1	98.9	99.4	98.3	98.4	98.5	99.0
D50	70	65	68	68	76	68	70	74	70
Employee metrics									
Software professionals	6,832	7,460	7,651	8,353	8,893	8,968	8,862	8,887	9,903
Sales and support	618	667	646	659	691	703	685	690	677
Total	7,450	8,127	8,297	9,012	9,584	9,671	9,547	9,577	10,580
Gross addition	132	462	668	1,324	1,373	1,021	435	630	1,478
Net addition	(243)	41	170	715	572	87	(124)	30	1,003
Attrition (LTM)	9.7	10.7	14.1	17.8	21.9	24.2	25.1	25.6	21.7

Note:

(a) R&D, Software product engineering and Mindtree wireless form part of PES

(b) Metrics from Dec-2009 are for Mindtree + Mindtree wireless

(c) Metrics from Jun-2009 include Aztecsoft

Source: Company, Kotak Institutional Equities

OCTOBER 17, 2011

RESULT

Coverage view: **Cautious**

Price (Rs): **295**

Target price (Rs): **450**

BSE-30: **17,025**

2QFY12 with puts and takes. MLIFE reported revenues 10% lower than expectation (+5% yoy, +15% qoq) though sales seem to have declined 64% qoq to Rs620 mn from Rs1.7 bn in 1QFY12 due to absence of new launches. PAT jumped (+28% yoy, +84% qoq) due to a sharp rise other income (+59% yoy, +99% qoq). We retain our BUY rating, noting 52% upside to our target price of Rs450/share, at par with our March 2013E NAV.

Company data and valuation summary

Mahindra Life Space Developer

Stock data		Forecasts/Valuations			
		2011	2012E	2013E	
52-week range (Rs) (high,low)	561-278	EPS (Rs)	24.9	30.8	37.5
Market Cap. (Rs bn)	12.0	EPS growth (%)	30.2	23.7	21.6
Shareholding pattern (%)		P/E (X)	11.8	9.6	7.9
Promoters	51.0	Sales (Rs bn)	4.8	6.2	7.1
FIs	25.6	Net profits (Rs bn)	1.0	1.3	1.5
MFs	5.1	EBITDA (Rs bn)	1.2	1.7	2.0
Price performance (%)		EV/EBITDA (X)	9.0	6.4	4.7
Absolute	1M (0.6) 3M (21.4) 12M (38.8)	ROE (%)	10.4	11.6	12.7
Rel. to BSE-30	(1.1) (14.3) (27.7)	Div. Yield (%)	1.7	1.5	1.7

QUICK NUMBERS

- Revenues of Rs938 mn (+5% yoy, +15% qoq)
- EBITDA of Rs258 mn (+11% yoy, +50% qoq)
- Sales volume at 0.1 mn sq. ft versus 0.3 mn sq. ft in 1QFY12

EBITDA margin bounces back though revenue booking disappoints

EBITDA margin came in at 27.5% versus 21.2% in 1QFY12 and 26.2% in 2QFY11 as construction cost dropped by 581 bps qoq and 411 bps yoy. This is close to a 14-quarter high and while we do not factor it as sustainable, we find it as support for our FY2012E margin estimate of 26.6%. MLIFE reported revenues of Rs938 mn (+5% yoy, +15% qoq, 10% below KIE estimate) and PAT at Rs314 mn (+28% yoy, +84% qoq) due to a higher-than-expected other income of Rs182 mn.

No launches in 2QFY12 which likely drove weak sales in the quarter

MLIFE has not launched any project in 2QFY12 which means it has had only one launch in 1HFY12 out of the planned four. While this is attributed to approval delays and is something that we see across the sector, this is a bigger issue for MLIFE as sales in 2HFY12E and FY2013E will likely be driven by new launches given that it has completed sales in Eminente Aspen, Mahindra Splendor Phase 2, Aura Phase 3, and Iris Court Phase 1. 2QFY12 sales declined to Rs620 mn versus Rs1.7 bn in 1QFY12 and area sold declined to 0.1 mn sq. ft (0.3 mn sq. ft in 1QFY12) which gets reflected in the 64% qoq drop in sales value to Rs620 mn. Average realization climbed up to Rs5,167/sq. ft versus Rs5,059/sq. ft in 1QFY12.

Mahindra World Cities await clarity

At Mahindra World City Chennai, the total number of customers at end-2QFY12 stood at 60 of which 37 campuses/facilities are operational (58 at end-1QFY12 of which 37 were operational). Total number of customers at Mahindra World City Jaipur increased to 35 (6 operational, 9 under development) versus 34 customers at end-1QFY12 (5 operational, 8 under development).

Retain BUY rating with a target price of Rs450/share

Our March 2013E NAV estimate of Rs449 is based on (1) WACC of 16% for the standalone development business, (2) DCF-based value for the almost fully leased out Chennai World City and (3) Jaipur MWC at 1X P/BV. We see possible upsides from Jaipur MWC as we value it at 1X P/B and would assign full DCF-based value when we see (1) clarity on DTC and subsequent absorption and (2) at least a couple of residential launches in the MWC. Key risks to our recommendation are (1) macro risks to demand and pricing in Mumbai and (2) uncertainty caused by DTC impacting progress at World Cities.

Revenues up 15% qoq

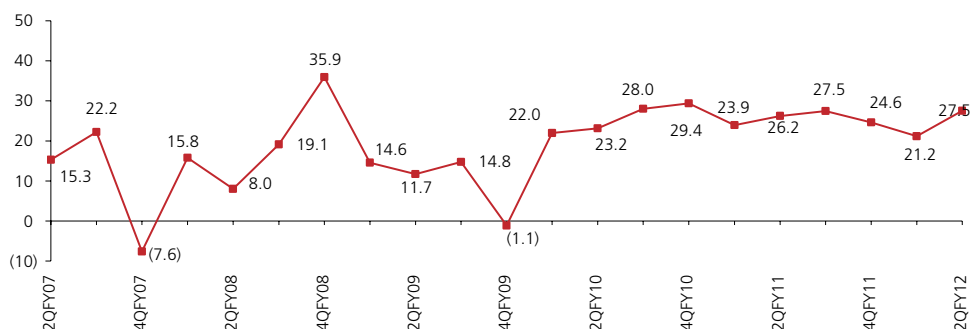
Interim results (standalone), MLIFE, March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	(% chg.)			1HFY12	1HFY11	(% chg.)
					2QFY12E	yoy	qoq			
Net sales	938	1,043	890	815	(10.1)	5.4	15.1	1,752	1,569	11.7
Total expenditure	(679)	(822)	(656)	(642)	(17.4)	3.5	5.8	(1,322)	(1,173)	12.7
Cost of construction	(544)		(552)	(519)		(1.6)	4.6	(1,063)	(963)	10.4
Operating expenses	(24)		(26)	(12)		(5.1)	112.2	(36)	(49)	(26.6)
Staff cost	(48)		(34)	(54)		42.4	(11.4)	(102)	(75)	36.3
Other expenditure	(64)		(45)	(57)		42.4	11.4	(121)	(87)	39.3
EBITDA	258	221	234	172	17.0	10.6	49.8	431	396	8.8
OPM (%)	27.5	21.2	26.2	21.2				25	25	
Other income	182	75	114	91	142.4	59.2	99.1	273	163	67.5
Interest	(5)	(3)	-	(2)	66.7		117.4	(7)	-	
Depreciation	(7)	(8)	(6)	(7)	(16.3)	17.5	-	(13)	(11)	18.6
Pretax profits	428	285	342	255	50.4	25.3	68.2	683	548	24.7
Exceptional items										
Tax	(124)	(94)	(97)	(81)	32.2	27.7	52.2	(205)	(159)	29.0
Deferred taxation	10		2	(2)		518.8	(512.5)	8	3	158.6
Net income	314	191	247	171	64.5	27.5	84.0	485	391	24.0
Adjusted profits	314	191	247	171	64.5	27.5	84.0	485	391	24.0
Income tax rate (%)	31.2	32.9	28.8	31.0				31.2	29.6	

Source: Company, Kotak Institutional Equities estimates

EBITDA margin rises to 27.5% after nine-quarter low of 21.2% in 1QFY12

EBITDA margin, MLIFE, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Residential volumes decline to 0.1 mn sq. ft versus 0.3 mn sq. ft in 1QFY12

Sales performance, MLIFE

	FY2007	FY2008	FY2009	FY2010	FY2011	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Area sold (mn sq. ft)	0.3	0.3	0.4	1.2	1.4	0.2	0.5	0.5	0.3	0.3	0.1
Sales value (Rs mn)	1,480	1,560	1,580	5,900	7,000	920	2,560	2,330	1,190	1,720	620
Sales realisation (Rs/sq. ft)	4,933	5,200	3,950	4,917	5,000	6,133	4,979	4,450	4,760	5,059	5,167

Source: Company, Kotak Institutional Equities

MLIFE has 3.4 mn sq. ft of ongoing projects

Projects status at end-1QFY12 along with area sold at end-1QFY12, MLIFE, March fiscal year-ends

Name of the project	City	Launch	Saleable area (mn sq. ft)	Total Units Nos.	Area sold (mn sq. ft)				Last BSP (Rs/sq. ft)		
					3QFY11	4QFY11	1QFY12	2QFY12	3QFY11	4QFY11	1QFY12
Ongoing projects											
Royale - Phase 4	Pune	2QFY10	0.22	168	100%	100%	100%	100%	3,000	3,000	3,000
Aura - Phase 3	NCR	1QFY12	0.21	110	0%	0%	85%	100%	NA	NA	4,100
Aura - Phase 2	NCR	2QFY11	0.24	166	100%	100%	100%	100%	3,175	3,175	3,175
Aura - Phase 1	NCR	3QFY10	0.27	231	100%	100%	100%	100%	2,450	2,450	2,450
Eminente Angelica	Mumbai	1QFY10	0.15	67	68%	89%	100%	100%	9,600	9,650	9,650
Royal Ivy (GE Garden)	Mumbai	1QFY12	0.12	60	0%	0%	0%	ND	NA	NA	10,500
Eminente Aspen	Mumbai	2QFY11	0.15	68	97%	97%	97%	100%	9,500	9,500	9,500
Splendour Phase 1	Mumbai	4QFY08	0.42	264	99%	100%	100%	100%	7,300	7,600	7,600
Splendour Phase 2	Mumbai	4QFY10	0.36	246	60%	83%	92%	100%	7,600	7,700	7,700
Aqualily Apartments A	Chennai	2QFY11	0.14	80	89%	95%	96%	ND	2,950	3,100	3,100
Iris Court - Phase 1	Chennai	3QFY11	0.27	244	99%	100%	100%	100%	2,575	2,700	2,700
Aqualily Villas A	Chennai	4QFY10	0.12	41	72%	97%	97%	ND	4,200	4,600	4,600
Aqualily Villas B	Chennai	4QFY10	0.11	33	72%	66%	84%	ND	4,200	4,600	4,600
Aqualily Apartments B	Chennai	4QFY11	0.32	178	0%	13%	23%	ND	NA	3,100	3,100
Iris Court - Phase 2	Chennai	4QFY11	0.30	229	0%	20%	36%	ND	NA	2,700	2,700
Total			3.40	2,185							

Note:

(a) ND means not disclosed

Source: Company, Kotak Institutional Equities

Key balance sheet highlights (end-2QFY12 versus end-FY2011)

- ▶ Loans have increased to Rs1.3 bn from Rs1 bn at end-FY2011 while cash and bank balances have declined 58% to Rs0.9 mn though the company would also have liquid investments (Rs0.6 bn at end-FY2011), details of which have not been disclosed for the past quarter. Investments went up by 21% to Rs4.4 bn.
- ▶ Inventories declined by 9% to Rs1.5 bn along with debtors which declined 31% to Rs1.3 bn.
- ▶ Loans and advances have increased to Rs4.9 bn (up 77% yoy and +46% from end-FY2011) which could be led by land advances and likely a sign of further land bank accretion.

Standalone balance sheet

MLIFE, March fiscal year-ends (Rs mn)

	30-Sep-09	31-Mar-10	30-Sep-10	31-Mar-11	30-Sep-11
Shareholder's funds					
Capital	508	508	508	408	408
ESOPs outstanding	3	4	5	6	7
Reserves and Surplus	8,739	9,076	9,478	9,868	10,354
Deferred tax liability (net)	30	18	15	9	1
Loan funds				1,000	1,300
TOTAL	9,280	9,606	10,007	11,292	12,070
Use of funds					
Fixed assets & CWIP (net)	350	324	324	319	309
Investments	3,961	4,096	3,776	3,621	4,386
Current assets, loans and advances					
Inventories	2,959	2,880	2,809	1,687	1,528
Sundry debtors	422	989	1,118	1,820	1,251
Cash and bank balances	652	1,051	900	2,049	852
Other current assets	285	323	312	348	377
Loans and advances	1,462	1,601	2,741	3,331	4,857
Less: current liabilities and provisions					
Liabilities	698	1,366	1,857	1,529	1,374
Provisions	112	291	116	353	117
Net current assets	4,970	5,187	5,907	7,351	7,375
TOTAL	9,280	9,606	10,007	11,292	12,070

Source: Company, Kotak Institutional Equities

Our target price is Rs450/share

Valuation model, MLIFE, March fiscal year-ends (Rs)

	Valuation Methodology	Valuation of business (Rs bn)	Multiple (%)	Value contribution (Rs bn) (Rs/share)	
SEZs					
MWC Chennai	DCF	5.5	100	5.5	135
MWC Jaipur	Book value	1.3	100	1.3	32
Total				6.8	167
Mahindra Lifespace standalone					
Residential property	NAV	6.9	100	6.9	168
Commercial property	NAV	1.6	100	1.6	38
Total				8.4	206
FY2013E Net Cash		2.4	100	2.4	60
FY2013E Investments		0.6	100	0.6	16
NAV valuation (Rs bn)				18.3	
Equity valuation (Rs/share)					449

Source: Company, Kotak Institutional Equities estimates

Expect revenue contribution from Jaipur SEZ to increase to 22% by FY2014E

Consolidated revenue model, MLIFE, March fiscal year-ends, 2009-14E (Rs mn)

	2009	2010	2011E	2012E	2013E	2014E
Mahindra Lifespaces standalone						
Income from Projects	1,461	3,012	4,617	6,091	6,929	8,598
Income from Operation of commercial complex	116	123	123	156	164	172
Chennai SEZ revenues						
Land sales (in acres)	163	100	20	0	0	0
Land revenues (Rs mn)	980	600	120	0	0	0
Residential sale volumes (mn sq. ft)	-	0.0	0.2	0.3	0.5	0.8
Residential sales (Rs mn)	0	24	154	435	877	1,486
Total sales (Rs mn)	980	624	274	435	877	1,486
Contribution to MLIFE (Rs mn)	814	521	247	417	842	1,427
Jaipur SEZ revenues						
Land sales (in acres)	100	150	150	250	350.0	400.0
Land revenues (Rs mn)	346	750	900	1,750	2,625.0	3,200.0
Residential sale volumes (mn sq. ft)	-	-	-	-	-	0.9
Residential sales (Rs mn)	-	-	-	0	0	695
IT park (mn sq. ft)	-	0.3	0.3	0.3	0.3	0.3
Rentals from IT park (Rs mn)	21.0	75.0	75.0	75.0	75.0	75.0
Total sales (Rs mn)	367	825	975	1,825	2,700	3,970
Contribution to MLIFE (Rs mn)	272	611	722	1,351	1,998	2,937
Revenues						
Mahindra Lifespaces standalone	1,577	3,135	4,739	6,247	7,093	8,770
Chennai SEZ	814	521	247	417	842	1,427
Jaipur SEZ	271.9	610.5	721.5	1,350.5	1,998.0	2,937.4
Total consolidated revenues	2,662	4,267	5,708	8,015	9,933	13,134
Revenue Mix (%)						
Mahindra Gesco standalone	59.2	73.5	83.0	77.9	71.4	66.8
Chennai SEZ	30.6	12.2	4.3	5.2	8.5	10.9
Jaipur SEZ	10.2	14.3	12.6	16.9	20.1	22.4

Source: Company, Kotak Institutional Equities estimates

Standalone profit and loss for MLIFE

Profit and Loss model, MLIFE, March fiscal year-ends, 2009-14E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
Profit and Loss model						
Total revenues	1,654	3,207	4,766	6,247	7,093	8,770
Land and construction costs	(1,243)	(2,127)	(3,137)	(4,134)	(4,541)	(6,043)
Employee costs	(76)	(120)	(159)	(172)	(208)	(251)
SG&A costs	(151)	(152)	(242)	(281)	(319)	(351)
EBITDA	184	808	1,227	1,660	2,025	2,125
Other income	325	290	303	280	300	320
Interest	(0)	-	(12)	(63)	(11)	-
Depreciation	69	(23)	(25)	(29)	(30)	(30)
Pretax profits	578	1,075	1,494	1,848	2,284	2,414
Extraordinary items	-	-	-	-	-	-
Current tax	(95)	(299)	(473)	(598)	(690)	(819)
Deferred tax	(19)	18	10	10	(62)	6
Net income	464	794	1,030	1,260	1,532	1,602
Adjusted net income	464	794	1,030	1,260	1,532	1,602

Source: Company, Kotak Institutional Equities estimates

Standalone balance sheet for MLIFE

Profit and Loss model, MLIFE, March fiscal year-ends, 2009-14E (Rs mn)

	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
Balance sheet						
Equity						
Share capital	411	408	408	408	408	408
Preference capital	100	100	—	—	—	—
Reserves/surplus	8,461	9,080	9,874	10,976	12,280	13,619
Total equity	8,972	9,588	10,283	11,384	12,688	14,027
Deferred tax liability/(asset)	36	18	9	(1)	61	55
Liabilities						
Secured loans	—	—	1,000	200	—	—
Total borrowings	—	—	1,000	200	—	—
Current liabilities	967	1,657	1,883	1,770	2,351	3,147
Total capital	9,975	11,263	13,174	13,353	15,101	17,230
Assets						
Cash	988	1,051	2,048	1,563	2,444	3,051
Current assets	4,998	5,793	7,185	7,853	8,750	9,850
Gross block	490	464	483	508	508	961
Less: accumulated depreciation	142	140	164	192	223	253
Net fixed assets	348	324	319	316	285	708
Capital work-in-progress	25	—	—	—	—	—
Total fixed assets	373	324	319	316	285	708
Intangible assets	—	—	—	—	—	—
Investments	3,616	4,096	3,621	3,621	3,621	3,621
Misc. expenses	—	—	—	—	—	—
Total assets	9,975	11,263	13,174	13,353	15,101	17,230

Source: Company, Kotak Institutional Equities estimates

OCTOBER 18, 2011

RESULT, CHANGE IN RECO.

Coverage view: **Attractive**

Price (Rs): **1,120**

Target price (Rs): **1,150**

BSE-30: **17,025**

High expectations mar a decent quarter, downgrade to REDUCE on valuations.

TCS reported a sub-par quarter with revenue growth of 4.7% qoq to US\$2.53 bn, 1.3% lower than our estimate. Volume growth was strong though pricing decline impacted revenue growth. Quarterly volatility in performance is understandable but does play a role in setting and resetting of expectations. We expect a reset down in case of TCS. We are comfortable with our growth forecasts but uncomfortable on valuations, rich at 19X FY2013E earnings. REDUCE from ADD; TP cut marginally (0.5% to Rs1,150).

Company data and valuation summary

TCS					
Stock data		Forecasts/Valuations			
		2011	2012E	2013E	
52-week range (Rs) (high,low)	1,247-902	EPS (Rs)	44.5	53.0	60.6
Market Cap. (Rs bn)	2,192.6	EPS growth (%)	26.8	18.9	14.3
Shareholding pattern (%)		P/E (X)	25.2	21.1	18.5
Promoters	74.1	Sales (Rs bn)	373.2	479.2	549.9
FIs	12.8	Net profits (Rs bn)	87.2	103.7	118.5
MFs	2.4	EBITDA (Rs bn)	112.0	139.9	158.9
Price performance (%)		EV/EBITDA (X)	19.0	15.0	13.0
Absolute	1M 3M 12M	ROE (%)	37.8	37.0	35.0
Rel. to BSE-30	9.0 (2.3) 17.9	Div. Yield (%)	1.6	1.9	2.2
	8.4 6.6 39.3				

A slip after several quarters of outperformance

TCS' 2QFY12 revenues of US\$2.53 bn (+4.7% qoq) were 1.3% lower than our estimate. Revenue growth was impacted by (1) 6.6% decline in India revenues and (2) muted performance from GDCs—revenue from LatAm market was also flat qoq. Some sheen from strong volume growth of 6.1% qoq was taken off by a surprising decline of 0.9% in pricing. Operating margin increased 90 bps to 27.1%, aided by 166 bps benefit from Rupee depreciation and offset by 73 bps pressure from pricing decline. Net income of Rs24.4 bn was in line with our estimate.

Pricing decline a surprise, volume growth encouraging

We are encouraged by (1) strong volume growth, (2) broad-based vertical-wise revenue growth except telecom, (3) good hiring numbers and 35K offers for new campus joiners next year. However, we are surprised by second consecutive quarter of pricing decline. Management explanation of adverse business mix shift does not explain the decline since growth was led by high pricing areas of developed markets and discretionary spend areas. The only plausible reason for the pricing dip could be decline in revenues from high-yield fixed-price projects.

Business strength to remain solid and strong

While India business-induced miss in growth is a concern, there are several positive indicators on demand including (1) broad-based revenue growth, (2) large deal wins across verticals and service offerings—TCS announced 10 such wins, (3) high campus offers of 35K. Pace of decision making remains unchanged, per TCS. We broadly retain our revenue growth estimates for FY2012/13E.

Valuations not supportive; cut rating to REDUCE

Even as we are positive on growth prospects, expectations do play an important role in stock returns. TCS suffers from high expectations, driven partly by the company's strong performance over the last two years. Valuations at 18.5X FY2013E earnings have little upside. We cut TCS rating to REDUCE from ADD. Maintain EPS estimates of Rs53/61 for FY2012/13E. Our target price of Rs1,150/share is based on 19X FY2013E earnings (mid-cycle multiple).

Upside from these levels (both earnings as well as multiple led) hinges on sustenance of growth momentum, which is of course possible but not in our numbers

We recently moderated our FY2013E base-case revenue growth assumption for Tier-I names to 13-17% from the earlier 16-20% to factor in a potential slowdown on account of macro challenges. Our base case assumes flat to marginally down IT budgets across clients in developed markets and a dip in discretionary spending in CY2012E. In a macro environment as fluid as we are currently in, we find our assumptions apt—building in a fair degree of caution without being overly bearish. There is of course a good upside potential; however, we would remain on the sidelines for the time being and wait for more clarity on CY2012E budgets unless valuations start building in more conservatism than required (a no market-share gain scenario, essentially). TCS' current valuations do not pass this filter and hence the downgrade.

Other highlights

- ▶ Gross headcount addition for the quarter was 20,349. Net headcount addition was 12,580. Close to 45% of gross recruitment in India for the quarter were laterals. The company absorbed around 10,200 freshers.
- ▶ TCS retained its 60,000 gross hiring target for FY2012E and has made 35,000 campus offers for next year.
- ▶ Attrition on an LTM basis declined to 12.5%.
- ▶ End-September 2011 hedging reserve was Rs4.7 bn; this would flow through the P&L over the next few quarters, if Re/US\$ were to remain at end-September 2011 levels. We note that we do not build in any forex loss in FY2013E, consistent with our Re/US\$ assumption of 45.6.

Exhibit 1: TCS 2QFY12 results (consolidated, IFRS)

Rs mn	2QFY11	1QFY12	2QFY12	% chg.		2QFY12E	% dev.	Comments
				qoq	yoy			
Revenues (US\$ mn)	2,004	2,412	2,525	4.7	26.0	2,558	(1.3)	Revenue growth of 4.7% qoq, 1.3% lower than our estimates
Revenues	92,864	107,970	116,335	7.7	25.3	118,502	(1.8)	Revenue growth driven by 6.25% qoq growth in volumes; constant currency pricing was down 90 bps sequentially
Cost of revenues	(51,107)	(60,175)	(63,716)	5.9	24.7	(64,876)	(1.8)	
Gross profit	41,757	47,795	52,619	10.1	26.0	53,626	(1.9)	
SG&A expenses	(15,642)	(19,535)	(21,076)	7.9	34.7	(21,370)	(1.4)	
EBIT	26,115	28,260	31,543	11.6	20.8	32,256	(2.2)	EBITDA margin increased 100 bps qoq, in line with our estimates
Other Income	443	2,886	997	(65.5)	125.1	(173)	(677.7)	
Profit Before Tax	26,558	31,146	32,540	4.5	22.5	32,084	1.4	
Provision for Tax	(5,001)	(7,063)	(7,913)	12.0	58.2	(7,007)	12.9	ETR increased 160 bps qoq; was 250 bps higher than our estimate
Net income before minority in	21,557	24,083	24,627	2.3	14.2	25,077	(1.8)	
Income from affiliates	-	-	-	-	-	-	-	
Minority Interest	(295)	(281)	(237)	(15.7)	(19.7)	(312)	(24.1)	
Net income	21,262	23,802	24,390	2.5	14.7	24,765	(1.5)	
Extraordinary items	-	-	-	-	-	-	-	
Net income	21,262	23,802	24,390	2.5	14.7	24,765	(1.5)	
EPS (Rs/ share)	10.9	12.2	12.5	2.5	14.7	12.7	(1.5)	
No of shares outstanding (mn)	1,957.2	1,957.2	1,957.2			1,957.2		
As % of revenues								
Gross Profit Margin (%)	45.0	44.3	45.2			45.3		
Operating Margin (EBIT)	28.1	26.2	27.1			27.2		
EBITDA (%)	29.9	28.1	29.1			29.0		
SG&A Expenses (%)	16.8	18.1	18.1			18.0		
Tax Rate	18.8	22.7	24.3			21.8		
Revenue Mix (%)								
Onsite	43.9	44.8	45.2					
Offshore	56.1	55.2	54.8					

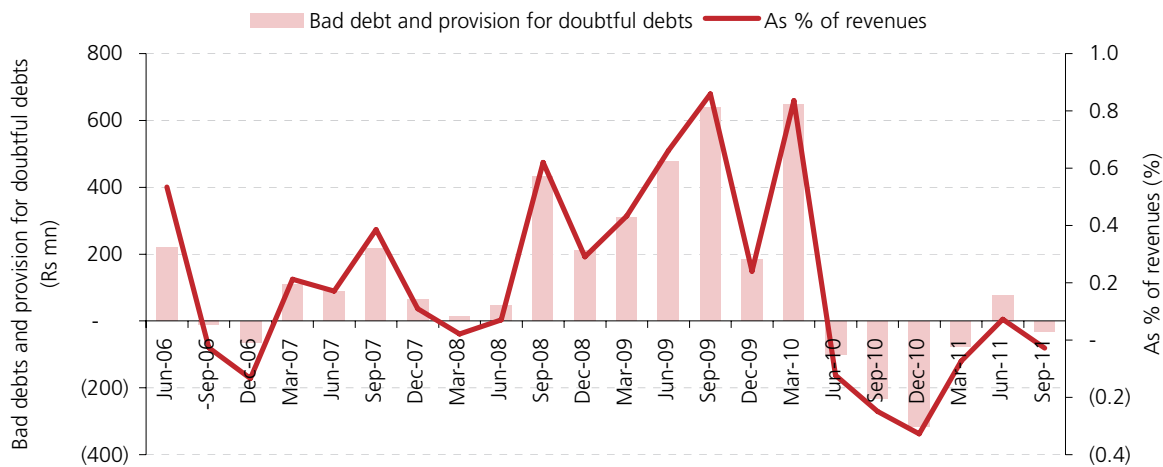
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: TCS: key changes to FY2012E-13E estimates

Rs mn	New		Old		Change (%)	
	FY2012E	FY2013E	FY2012E	FY2013E	FY2012E	FY2013E
Revenues	479,160	549,937	464,928	553,214	3.1	(0.6)
EBIT	130,842	149,043	126,296	148,086	3.6	0.6
Net Profit	103,668	118,517	103,366	119,511	0.3	(0.8)
EPS (Rs/ share)	53.0	60.6	52.8	61.1	0.3	(0.8)
Revenues (US\$ mn)	10,301	12,058	10,386	12,140	(0.8)	(0.7)
Revenue growth (%)	25.8	17.1	26.9	16.9		
Re/\$ rate	46.5	45.6	45.5	45.6	2.2	0.1
EBIT margin	27.3	27.1	27.2	26.8		

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Sixth quarter of reversal or very low provisions for bad debt



Source: Company, Kotak Institutional Equities

Exhibit 4: India, LatAm and Telecom vertical disappoint

	Revenues (US\$ mn)	Growth (qoq)	Growth (yoy)	% of total
Total revenues	2,525	4.7	26.0	100.0
Revenue by geography (%)				
North America	1,348	5.7	25.3	53.4
Latin America	76	1.3	(3.1)	3.0
UK	391	6.1	27.6	15.5
Continental Europe	255	6.8	39.8	10.1
India	210	(6.6)	5.6	8.3
Asia Pacific	189	7.6	52.4	7.5
MEA	56	4.7	45.9	2.2
Revenue by verticals (%)				
BFSI	1,098	5.2	24.6	43.5
Telecom	270	(4.3)	5.3	10.7
Retail & Distribution	306	9.2	39.9	12.1
Manufacturing	197	7.4	32.8	7.8
Hi-Tech	149	6.5	61.6	5.9
Life sciences & healthcare	134	6.7	30.9	5.3
Transportation	96	7.5	49.6	3.8
Energy & Utilities	109	18.5	26.0	4.3
Media & Entertainment	53	(0.1)	32.3	2.1
Others	114	(7.6)	(0.5)	4.5
Revenue by service offerings (%)				
IT solutions and services				
- ADM	1,129	1.3	20.3	44.7
- Business intelligence	119	0.4	5.7	4.7
- Enterprise solutions	280	7.6	35.8	11.1
- Assurance business	192	9.0	45.1	7.6
Engineering & Industrial services	121	9.2	23.4	4.8
Infrastructure services	242	5.8	28.7	9.6
Global consulting	66	23.7	56.0	2.6
Asset leverage solutions	101	16.3	48.2	4.0
BPO	275	4.7	26.0	10.9

Source: Company, Kotak Institutional Equities

Exhibit 5: Key assumptions driving TCS earnings model, March fiscal year-ends, 2010-2013E

	2010	2011	2012E	2013E
Key assumptions				
Revenue growth (US\$ terms) (%)	5.4	29.1	25.9	17.0
Volume growth yoy (%)	22.1	30.4	26.2	19.7
Pricing change yoy (%)				
Onsite	(7.8)	(0.1)	4.4	(1.0)
Offshore	(7.6)	(3.1)	(1.6)	(1.0)
Blended	(14.4)	(1.8)	0.4	(1.7)
Total employees (#) - excl subsidiaries	156,329	193,914	229,951	264,444
Employee additions	16,318	37,585	36,037	34,493
Utilization rate (%)	74.2	76.2	76.6	76.0
SG&A expense as % of revenues	18.7	16.6	17.6	17.8
Re/US\$ rate	47.4	45.6	46.5	45.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: TCS: Quarterly operating metrics

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Revenues (US\$ mn)	1,538	1,635	1,686	1,794	2,004	2,144	2,244	2,412	2,525
Revenues (Rs mn)	74,351	76,503	77,365	82,173	92,864	96,634	101,575	107,970	116,335
Exchange rate (Re/US\$)	48.3	46.8	45.9	45.8	46.3	45.1	45.3	44.8	46.1
Revenue by geography (%)									
North America	52.5	52.5	54.0	55.0	53.7	53.5	53.4	52.9	53.4
Latin America	5.0	4.9	4.4	4.3	3.9	3.1	3.2	3.1	3.0
UK	16.5	16.0	15.2	15.1	15.3	16.0	15.5	15.3	15.5
Continental Europe	10.6	10.4	10.0	8.9	9.1	9.3	9.9	9.9	10.1
India	8.1	8.5	8.9	8.8	9.9	9.2	8.8	9.3	8.3
Asia Pacific	5.4	5.6	5.6	5.9	6.2	6.9	7.2	7.3	7.5
MEA	1.9	2.1	1.9	2.0	1.9	2.0	2.0	2.2	2.2
Vertical split of revenues (%)									
BFSI	45.0	45.0	44.4	44.7	44.0	44.6	44.0	43.3	43.5
Telecom	12.0	12.1	12.1	12.7	12.8	11.9	11.0	11.7	10.7
Retail & Distribution	12.0	12.0	12.3	11.0	10.9	10.9	11.2	11.6	12.1
Manufacturing	8.7	8.3	8.3	7.4	7.4	7.2	7.5	7.6	7.8
Hi-Tech	4.8	5.0	5.1	4.6	4.6	5.0	5.4	5.8	5.9
Life sciences & healthcare	6.0	5.9	6.1	5.2	5.1	5.2	5.3	5.2	5.3
Transportation	3.5	3.4	3.5	3.1	3.2	3.4	3.9	3.7	3.8
Energy & Utilities	2.8	3.4	3.3	3.3	4.3	4.4	4.6	3.8	4.3
Media & Entertainment	2.2	2.1	2.1	1.9	2.0	2.3	2.3	2.2	2.1
Others	3.0	2.8	2.8	6.1	5.7	5.1	4.8	5.1	4.5
Revenues by project type (%)									
Time and material basis	52.8	52.0	51.3	50.9	51.0	50.3	50.5	50.3	53.2
Fixed price, fixed time basis	47.2	48.0	48.7	49.1	49.0	49.7	49.5	49.7	46.8
Client concentration (%)									
Top client	6.8	8.1	8.2	8.1	8.0	7.7	7.4	7.1	6.9
Top 5 clients	20.5	21.5	21.8	22.0	22.1	21.9	21.4	20.7	20.0
Top 10 clients	28.9	29.9	30.2	30.5	30.1	30.1	29.6	28.9	28.3
US\$1 mn clients	409	419	409	409	420	434	458	473	495
US\$5 mn clients	171	178	183	191	192	200	208	219	230
US\$10 mn clients	111	112	118	122	131	139	143	148	155
US\$20 mn clients	62	61	63	65	66	76	81	91	94
US\$50 mn clients	23	23	23	24	25	25	27	33	36
US\$100 mn clients	6	6	7	7	8	9	8	10	12
Number of active clients	896	917	917	930	936	959	969	959	1,010
New clients added in the period	30	32	39	36	30	35	39	24	35
Revenue from repeat business (%)	98.2	96.5	95.7	98.4	98.3	97.6	97.1	99.8	99.3
Onsite-offshore split (%)									
Onsite	42.7	42.5	43.6	43.6	43.9	43.7	44.7	44.8	45.2
Offshore	51.1	51.3	51.0	51.2	51.1	51.4	50.3	50.6	50.9
GDC / RDC	6.2	6.2	5.4	5.2	5.0	4.9	5.0	4.6	3.9
Revenue by service offerings (%)									
IT solutions and services									
- ADM	49.6	49.1	47.6	47.9	46.8	45.0	46.1	46.2	44.7
- Business intelligence	5.7	5.7	5.4	5.4	5.6	5.3	4.9	4.9	4.7
- Enterprise solutions	10.3	10.5	10.1	9.8	10.3	9.6	10.8	10.8	11.1
- Assurance business	4.8	5.1	5.8	6.4	6.6	7.1	7.0	7.3	7.6
Engineering & Industrial services	5.0	4.9	4.8	4.8	4.9	4.8	4.8	4.6	4.8
Infrastructure services	8.0	7.9	8.3	8.7	9.4	10.5	9.1	9.5	9.6
Global consulting	1.6	2.1	2.5	2.1	2.1	2.3	2.1	2.2	2.6
Asset leverage solutions	3.2	3.2	4.0	3.7	3.4	4.0	3.6	3.6	4.0
BPO	11.8	11.5	11.5	11.2	10.9	11.4	11.6	10.9	10.9
Utilization rates (%)									
- Including trainees	73.6	77.2	74.3	74.8	77.7	77.1	75.1	76.2	76.4
- Excluding trainees	79.5	81.1	81.8	82.6	83.8	83.8	82.4	83.2	83.1
Employee metrics									
Total employees - incl Indian subsidiaries	141,962	149,654	160,429	163,700	174,417	186,914	198,614	202,190	214,770
Gross addition	5,530	12,854	16,851	10,849	19,293	20,219	19,324	11,988	20,349
Net addition	320	7,692	10,775	3,271	10,717	12,497	11,700	3,576	12,580
Attrition rate (%)	10.8	11.5	11.8	13.1	14.1	14.4	14.4	14.8	12.5
Attrition rate - qtrly annualized, incl Indian su	14.7	14.2	15.7	18.7	20.3	17.1	15.8	16.8	14.9

Source: Company, Kotak Institutional Equities

Exhibit 7: Profit model, balance sheet, cash model of TCS, March fiscal year-ends, 2009-2013E (Rs mn)

	2009	2010	2011	2012E	2013E
Profit model					
Revenues	278,129	300,289	373,246	479,160	549,937
Cost of sales	(154,420)	(161,668)	(204,296)	(261,038)	(299,791)
SG&A expenses	(57,694)	(59,030)	(64,179)	(87,279)	(101,103)
EBIT	66,015	79,591	104,771	130,842	149,043
Other income	(4,673)	2,255	5,324	6,571	8,773
Pre-tax profits	61,342	81,846	110,095	137,413	157,815
Provision for tax	(9,012)	(12,089)	(21,739)	(32,383)	(38,024)
Recurring net income	52,330	69,757	88,356	105,031	119,791
Minority Interest	(569)	(1,018)	(1,191)	(1,363)	(1,275)
Reported net income	51,761	68,739	87,165	103,668	118,516
EPS (Rs)	26.4	35.1	44.5	53.0	60.6
Balance Sheet					
Shareholders funds	156,545	209,404	252,389	307,543	370,596
Borrowings	2,762	111	40	—	—
Minority interest	3,098	3,768	4,663	6,026	7,301
Other non-current liabilities	2,744	6,732	10,678	10,742	12,329
Total liabilities	165,149	220,015	267,771	324,311	390,226
Net fixed assets	37,494	41,706	52,340	77,798	91,431
Goodwill	25,913	25,333	25,472	25,472	25,472
Intangibles	8,232	7,082	6,982	6,982	6,982
Investments	17,271	37,822	18,390	18,390	18,390
Other non-current assets	17,370	26,120	57,474	57,474	57,475
Cash and bank balances	24,742	46,773	47,401	72,846	116,229
Net current assets excluding cash	34,127	35,178	59,710	65,347	74,247
Total assets	165,149	220,015	267,771	324,311	390,226
Cash flow					
Operating cash flow, excl. working capital	62,769	74,709	90,246	107,500	120,868
Working capital changes	(3,986)	(3,154)	(18,631)	(13,612)	(7,312)
Capital expenditure	(13,046)	(14,990)	(17,015)	(23,000)	(23,482)
Acquisitions	(21,083)	—	—	—	—
Free cash flow	24,655	56,565	54,600	70,889	90,073

Source: Company, Kotak Institutional Equities estimates

September 2011: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
17-Oct	18-Oct	19-Oct	20-Oct	21-Oct	22-Oct
HDFC	Chambal Fertilisers	Bajaj Finance	Bajaj Auto	3I Infotech	Axis Bank
ING Vysya Bank	Chennai Petroleum	Bajaj Finserv	Bajaj Holding & Investments	Asian Paints	Binani Industries
Magma Fincorp	Coromandel International	Crompton Greaves	Biocon	Federal Bank	Grasim Industries
Mahindra Life Space Developers	CRISIL	Dish TV	Cairn India	GCPL	Jagran Prakashan
Mindtree	Edelweiss Financial Services	Eclerx Services	DB Corp	Godrej Properties	Polaris
Motilal Oswal Financial Services	HCL Technologies	HDFC Bank	Deepak Fertilisers	HCC	Syndicate Bank
Persistent Systems	Hero Motocorp	Hindustan Zinc	Dewan Housing Finance	HT Media	Kalpataru Power Transmission
South Indian Bank	IFCI	Indraprastha Gas	Dhanlaxmi Bank	Idea	
TCS	Indusind Bank	Mastek	Exide Industries	Indiabulls Financial Services	
Zee Entertainment Enterprises	Jet Airways	Rallis India	Hexaware Technologies	JSW Steel	
	Jindal Steel & Power	Torrent Power	HMVL	Kansai Nerolac	
	Kirloskar Brothers	Zee News	IDBI Bank	L&T	
	NIIT Technologies		Indiabulls Power	NIIT	
	Patri Computer Systems		Indiabulls Real Estate	PVR	
	Petronet LNG		Indiabulls Securities	Shoppers Stop	
	Torrent Pharmaceuticals		MRF	Texmaco	
			Piramal Healthcare	United Phosphorus	
			SREI		
			Thermax		
			Ultratech Cement		
			Yes Bank		
24-Oct	25-Oct	26-Oct	27-Oct	28-Oct	29-Oct
Container Corp	Dr Reddy's Laboratories			NHPC	Mahindra Holidays & Resorts
ITC	Engineers India				Maruti Suzuki
JM Financial	Kotak Mahindra Bank				Tata Global Beverages
MMFSL	NTPC				Maharashtra Seamless
Pfizer	Sesa Goa				
Sterlite Industries					
Tata Coffee					
Titan Industries					
Union Bank of India					
31-Oct	1-Nov	2-Nov	3-Nov	4-Nov	5-Nov
Bata India	ACC			Gloxosmithkline Consumers	
BPCL	Aditya Birla Nuvo			Marico	
Castrol India	Ambuja Cements				
Central Bank of India					
Century Textiles					
Colgate Palmolive					
Dabur India					
EIH					
Gujarat Pipavav Port					
Hindustan Unilever					
ICICI Bank					
Karnataka Bank					
Wipro					
7-Nov	8-Nov	9-Nov	10-Nov	11-Nov	12-Nov
Madras Cement	ABB	Ranbaxy Laboratories	VA Tech Wabag	Dishman Pharma	
	Godrej Industries				
14-Nov	15-Nov	16-Nov	17-Nov	18-Nov	19-Nov
India Cements					
Mahindra & Mahindra					

Source: BSE, NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	17-Oct-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)
Consumer products																													
Asian Paints	3,137	SELL	300,872	6,146	96	80.8	94.6	111.4	13.0	17.1	17.7	38.8	33.1	28.2	25.9	21.1	17.3	14.7	11.3	9.1	1.0	0.9	1.1	43.9	40.0	36.8	2,900	(7.5)	4.4
Colgate-Palmolive (India)	1,000	SELL	136,000	2,778	136	29.6	34.1	38.8	(4.9)	15.0	14.1	33.8	29.4	25.7	29.4	25.7	21.5	35.4	36.0	28.8	2.2	3.0	2.7	113.4	121.6	124.2	900	(10.0)	1.7
Dabur India	99	SELL	173,080	3,535	1,740	3.3	3.7	4.4	12.8	14.1	18.8	30.4	26.7	22.5	24.6	20.2	17.0	13.2	10.2	8.1	1.2	1.3	1.6	51.2	43.8	40.6	110	10.6	2.7
GlaxoSmithkline Consumer (a)	2,338	ADD	98,345	2,009	42	71.3	83.2	104.0	28.8	16.7	25.0	32.8	28.1	22.5	23.5	20.3	17.0	10.5	9.0	7.5	2.1	1.6	2.0	32.2	33.5	35.5	2,900	24.0	1.1
Godrej Consumer Products	391	ADD	126,653	2,587	324	14.9	18.4	22.7	31.3	23.4	23.8	26.3	21.3	17.2	22.6	15.7	11.9	7.3	5.2	4.2	1.3	0.8	0.8	35.9	28.7	27.0	510	30.3	2.5
Hindustan Unilever	334	ADD	721,036	14,729	2,159	9.9	11.3	13.3	4.8	14.1	17.7	33.8	29.6	25.2	28.7	25.1	20.5	27.4	23.7	20.5	2.3	2.8	3.3	66.3	85.9	87.5	370	10.8	19.5
ITC	206	ADD	1,580,299	32,281	7,681	6.4	8.0	9.1	20.7	24.9	13.1	32.1	25.7	22.7	21.3	17.4	15.1	9.4	8.1	7.0	2.2	1.8	2.2	33.2	35.5	34.4	230	11.8	35.3
Jubilant Foodworks	898	SELL	58,759	1,200	65	11.2	16.6	24.1	99.6	48.6	45.1	80.2	54.0	37.2	48.9	29.9	20.9	30.7	19.5	12.8	—	—	—	46.6	44.2	41.6	750	(16.5)	30.0
Jyothy Laboratories	140	ADD	11,309	231	81	10.5	9.4	11.8	(5.0)	(10.1)	25.2	13.4	14.9	11.9	10.5	9.2	7.6	1.7	1.6	1.5	4.2	3.3	4.2	12.3	11.1	12.9	220	56.9	0.4
Manco	154	ADD	95,018	1,941	615	3.9	5.1	6.7	(12.8)	31.2	32.0	39.8	30.3	23.0	24.5	21.2	16.0	10.1	7.9	6.2	0.4	0.5	0.6	30.3	29.8	30.5	175	13.3	1.2
Nestle India (a)	4,155	SELL	400,578	8,183	96	86.8	103.6	123.2	16.7	19.3	18.9	47.9	40.1	33.7	31.8	26.1	21.5	46.8	34.0	25.7	1.2	1.4	1.7	116.5	98.3	86.8	3,500	(15.8)	2.0
Tata Global Beverages	90	ADD	55,841	1,141	618	4.0	6.0	7.1	(34.6)	52.6	17.6	22.8	15.0	12.7	8.9	7.5	6.3	1.1	1.1	1.0	2.2	3.4	4.0	6.5	9.6	10.8	120	32.9	4.0
Titan Industries	226	ADD	200,285	4,091	888	4.9	7.4	8.8	71.7	51.5	17.8	45.9	30.3	25.7	33.5	21.1	17.3	18.4	13.1	9.9	0.6	1.0	1.3	47.8	50.5	44.0	240	6.4	17.8
United Spirits	875	ADD	109,907	2,245	126	29.5	39.2	50.6	8.3	32.8	29.0	29.6	22.3	17.3	15.5	11.9	10.2	2.5	2.3	2.0	0.4	0.3	0.4	9.1	10.7	12.5	1,100	25.7	5.2
Consumer products		Neutral	4,067,982	83,096					15.6	21.9	17.1	34.0	27.9	23.8	23.7	19.3	16.2	10.5	8.9	7.6	1.7	1.8	2.1	30.7	31.9	32.0			
Constructions																													
IVRCL	37	BUY	9,853	201	267	5.9	5.7	6.6	(25.2)	(4.1)	15.6	6.2	6.5	5.6	5.7	5.5	5.3	0.5	0.5	0.4	1.1	1.1	1.1	8.2	7.3	7.9	75	103.3	5.1
Nagarjuna Construction Co.	56	BUY	14,433	295	257	6.4	5.9	7.7	(29.7)	(7.8)	30.8	8.8	9.6	7.3	7.8	7.3	6.8	0.6	0.6	0.6	3.6	3.6	3.6	7.1	6.3	7.8	100	77.8	1.3
Punj Lloyd	55	REDUCE	18,609	380	340	(1.5)	5.5	7.4	(56.6)	(467.8)	34.9	(36.9)	10.0	7.4	12.6	5.6	5.0	0.6	0.6	0.6	(0.1)	0.9	1.2	(1.7)	6.1	7.7	65	18.6	5.3
Sadbhav Engineering	132	BUY	19,746	403	150	7.8	10.8	11.9	51.0	38.9	10.6	17.0	12.2	11.1	10.1	8.1	7.4	3.1	2.5	2.1	0.5	0.5	0.5	18.1	20.4	18.6	180	36.6	0.3
Construction		Attractive	62,641	1,280					(1.1)	67.6	23.4	16.2	9.6	7.8	8.7	6.3	5.8	0.8	0.7	0.7	1.1	1.4	1.5	4.8	7.6	8.7			
Energy																													
Aban Offshore	406	BUY	17,659	361	44	134.2	99.1	102.6	25.9	(26.1)	3.5	3.0	4.1	4.0	6.5	6.9	6.5	0.8	0.8	0.7	0.9	1.0	1.1	33.3	21.9	17.9	670	65.1	7.3
Bharat Petroleum	632	ADD	228,656	4,671	362	38.9	54.0	55.1	(32.5)	38.9	1.9	16.3	11.7	11.5	10.5	7.4	7.0	1.5	1.4	1.3	2.2	2.8	2.8	9.2	11.8	11.2	780	23.3	5.8
Cairn India	299	BUY	567,912	11,601	1,902	33.3	40.4	49.3	501.1	21.2	22.2	9.0	7.4	6.1	6.5	4.7	3.9	1.4	1.2	1.1	—	1.7	5.0	16.9	17.7	19.5	295	(1.2)	12.0
Castrol India (a)	474	SELL	117,124	2,392	247	19.8	21.9	22.3	28.5	10.8	1.6	23.9	21.6	21.2	15.3	14.4	14.0	22.7	20.7	19.6	3.2	3.6	3.8	100.2	100.2	94.7	425	(10.3)	1.0
GAIL (India)	410	BUY	519,569	10,613	1,268	28.2	34.3	36.0	13.8	21.8	4.9	14.5	11.9	11.4	9.2	8.8	7.8	2.5	2.1	1.8	1.8	2.2	2.4	17.5	18.4	16.5	560	36.7	9.6
GSPCL	100	SELL	56,118	1,146	563	8.9	8.5	8.4	21.7	(4.0)	(1.2)	11.2	11.7	11.8	7.1	6.9	6.7	2.5	2.1	1.8	1.0	1.7	2.5	25.2	19.3	16.4	92	(7.8)	4.8
Hindustan Petroleum	337	ADD	114,382	2,336	339	40.8	20.3	33.9	(20.8)	(50.4)	67.3	8.3	16.7	10.0	3.7	4.5	3.2	0.7	0.7	0.7	4.1	1.9	3.1	9.0	4.1	6.5	430	27.4	6.7
Indian Oil Corporation	293	BUY	711,025	14,524	2,428	32.4	28.4	32.1	(34.0)	(12.5)	12.9	9.0	10.3	9.1	8.6	7.5	6.5	1.2	1.1	1.0	3.2	3.0	3.3	13.3	10.8	11.3	385	31.5	3.8
Oil India	1,289	BUY	309,832	6,329	240	120.0	171.7	190.1	4.2	43.1	10.7	10.7	7.5	6.8	5.4	3.0	2.4	1.8	1.6	1.4	2.9	4.3	4.7	16.2	20.1	19.4	1,750	35.8	2.0
Oil & Natural Gas Corporation	269	BUY	2,305,284	47,090	8,556	24.7	37.2	40.8	7.4	50.8	9.7	10.9	7.2	6.6	4.1	3.1	2.5	1.6	1.4	1.2	3.2	4.5	5.2	14.3	19.1	18.3	380	41.0	25.4
Petronet LNG	164	SELL	122,925	2,511	750	8.1	11.5	11.4	50.3	41.3	(0.7)	20.2	14.3	14.4	11.7	9.4	9.6	4.1	3.4	2.8	1.2	1.8	1.8	20.9	24.6	20.2	125	(23.7)	12.4
Reliance Industries	834	ADD	2,485,558	50,772	2,981	62.0	70.3	71.1	24.8	13.5	1.1	13.5	11.9	11.7	7.3	6.1	5.8	1.5	1.4	1.2	1.0	1.1	1.2	13.0	13.3	12.0	1,000	19.9	91.6
Energy		Attractive	7,556,045	154,347					11.6	25.5	6.8	11.3	9.0	8.4	6.3	5.0	4.3	1.6	1.4	1.2	2.1	2.7	3.3	13.8	15.4	14.8			
Industrials																													
ABB	678	SELL	143,759	2,937	212	3.0	21.1	27.3	(82.2)	606.1	29.6	227.3	32.2	24.8	164.4	21.7	16.1	5.9	5.2	4.4	0.3	0.5	0.5	2.6	17.1	19.1	700	3.2	1.7
BGR Energy Systems	331	Reduce	23,876	488	72	44.8	40.4	39.0	60.0	(9.7)	(3.5)	7.4	8.2	8.5	5.0	4.5	4.2	2.5	2.0	1.7	3.0	2.4	2.4	39.0	27.4	21.9	400	20.9	5.2
Bharat Electronics	1,530	ADD	122,396	2,500	80	107.3	121.7	135.5	11.6	13.5	11.3	14.3	12.6	11.3	6.3	5.2	3.8	2.4	2.1	1.8	1.4	1.6	1.6	18.2	17.6	17.1	1,875	22.6	1.2
Bharat Heavy Electricals	326	REDUCE	796,939	16,279	2,448	24.6	25.3	27.5	39.7	3.0	8.5	13.3	12.9	11.9	8.8	8.1	7.4	4.0	3.2	2.7	1.9	1.7	1.8	33.3	27.6	24.6	360	10.6	29.8
Crompton Greaves	168	BUY	107,900	2,204	642	14.3	10.3	12.7	11.5	(28.0)	23.2	11.7	16.3	13.2	7.7	9.4	7.5	3.3	2.8	2.4	1.4	0.9	1.0	31.7	18.6	19.5	200	18.9	17.5
Larsen & Toubro	1,380	REDUCE	840,304	17,165	609	67.7	79.2	91.7	18.1	16.9	15.9	20.4	17.4	15.0	14.7	11.2	10.1	3.2	2.6	2.3	1.1	1.0	1.0	17.0	16.5	16.2	1,625	17.7	65.3
Mah																													

Kotak Institutional Equities: Valuation summary of key Indian companies

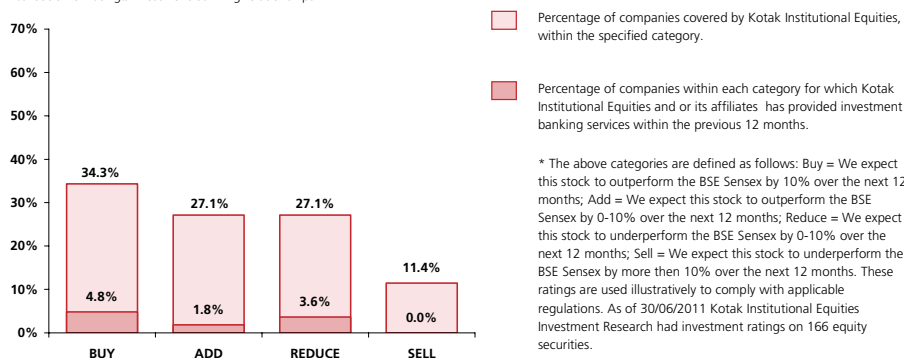
Company	17-Oct-11		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E			
Media																													
DB Corp	212	BUY	38,865	794	183	14.1	13.0	15.5	32.7	(8.1)	19.9	15.0	16.4	13.6	9.8	9.6	8.0	4.7	4.1	3.7	1.9	2.8	3.8	35.0	26.9	28.6	330	55.6	0.9
DishTV	78	ADD	82,950	1,694	1,062	(1.8)	0.0	1.3	(27.5)	(101.9)	3,944.0	(43.6)	2,358.0	58.3	38.6	17.8	12.0	39.5	38.8	23.3	—	—	—	(62.3)	1.7	49.9	100	28.0	7.2
Eros International	272	ADD	26,373	539	97	11.8	15.8	19.9	19.0	34.0	25.9	23.1	17.2	13.7	16.2	12.2	8.9	3.9	3.2	2.5	—	—	—	24.9	20.2	20.5	270	(0.8)	2.6
Hindustan Media Ventures	131	BUY	9,599	196	73	7.3	9.1	10.9	198.0	24.0	20.1	17.9	14.4	12.0	8.5	7.5	5.8	2.5	2.2	1.9	0.8	0.8	1.5	23.3	16.1	16.9	210	60.6	0.1
HT Media	144	ADD	33,828	691	235	7.6	8.5	10.4	24.8	11.7	22.2	18.9	16.9	13.8	8.8	7.6	5.9	2.4	2.3	2.1	1.4	2.8	4.2	14.9	13.8	15.9	190	32.0	0.5
Jagran Prakashan	103	BUY	32,479	663	316	6.8	6.7	8.0	16.7	(1.4)	18.7	15.1	15.3	12.9	9.0	8.8	7.4	4.6	4.1	3.8	3.4	3.4	4.9	32.8	28.5	30.8	160	55.8	0.3
Sun TV Network	279	BUY	109,948	2,246	394	19.5	21.0	25.1	48.1	7.7	19.2	14.3	13.3	11.1	8.6	7.6	6.4	4.5	3.9	3.5	3.1	3.6	5.0	36.5	33.4	34.8	440	57.7	7.0
Zee Entertainment Enterprises	113	BUY	110,702	2,261	978	5.8	6.2	7.7	10.0	6.4	23.3	19.4	18.2	14.8	12.9	11.8	9.4	2.6	2.5	2.4	1.2	1.2	1.4	14.2	14.3	16.9	160	41.4	5.2
Media		Neutral	444,744	9,085					50.8	17.2	27.0	22.5	19.2	15.2	12.1	10.3	8.2	4.1	3.7	3.4	1.6	1.9	2.6	18.2	19.4	22.4			
Metals & Mining																													
Coal India	321	ADD	2,028,500	41,436	6,316	17.3	24.1	29.3	13.6	39.1	21.9	18.6	13.3	10.9	10.7	7.7	6.3	5.8	4.5	3.6	1.2	2.2	2.7	35.1	38.2	36.7	454	41.4	35.3
Hindalco Industries	130	ADD	249,320	5,093	1,915	12.8	18.3	17.6	(36.0)	43.3	(4.0)	10.2	7.1	7.4	5.8	5.6	6.0	0.9	0.8	0.7	1.2	1.2	1.2	9.7	11.4	10.0	175	34.4	27.5
Hindustan Zinc	122	BUY	516,084	10,542	4,225	11.6	13.1	14.7	21.8	12.7	11.8	10.5	9.3	8.3	6.7	5.1	3.7	2.3	1.9	1.5	0.8	0.8	0.8	24.3	22.2	20.4	160	31.0	2.9
Jindal Steel and Power	523	REDUCE	488,312	9,975	934	40.2	43.5	52.9	5.1	8.2	21.6	13.0	12.0	9.9	9.7	9.0	7.7	3.5	2.7	2.1	0.3	0.3	0.3	30.9	25.5	24.4	595	13.8	24.2
JSW Steel	580	SELL	131,035	2,677	226	78.6	70.2	107.5	(2.2)	(10.7)	53.1	7.4	8.3	5.4	6.0	6.3	5.4	0.8	0.7	0.7	2.1	2.1	2.1	13.6	9.3	12.9	660	13.8	40.1
National Aluminium Co.	62	SELL	160,562	3,280	2,577	4.1	5.0	4.8	36.3	20.5	(4.1)	15.0	12.5	13.0	6.9	5.4	5.2	1.4	1.3	1.3	2.4	2.4	2.4	9.9	11.1	10.0	65	4.3	0.5
Sesa Goa	220	SELL	196,834	4,021	895	47.0	40.1	41.6	59.8	(14.6)	3.7	4.7	5.5	5.3	3.8	4.1	3.2	1.5	1.2	1.0	1.8	1.8	1.9	36.8	22.1	17.9	230	4.5	17.4
Sterlite Industries	121	BUY	406,369	8,301	3,361	15.2	17.0	19.0	26.2	12.0	11.5	8.0	7.1	6.4	5.0	3.8	3.1	1.0	0.9	0.8	0.9	0.9	0.9	13.0	13.0	12.8	185	53.0	18.3
Tata Steel	440	BUY	427,469	8,732	971	75.3	68.7	76.9	(2,258.1)	(8.8)	12.0	5.8	6.4	5.7	5.7	6.0	5.1	1.2	1.0	0.8	2.7	1.8	1.8	24.7	15.5	15.7	625	42.0	50.2
Metals & Mining		Attractive	4,604,484	94,055					39.1	13.9	12.0	11.1	9.8	8.5	7.0	6.2	5.2	2.1	1.8	1.5	1.3	1.7	1.9	19.0	18.2	17.8			
Pharmaceutical																													
Apollo Hospitals	504	ADD	70,016	1,430	139	13.2	17.8	21.4	21.0	34.5	19.9	38.1	28.3	23.6	17.4	13.2	10.9	3.6	2.8	2.4	—	—	—	9.8	10.7	10.5	650	29.0	1.2
Biocon	350	BUY	69,990	1,430	200	18.4	19.4	21.4	23.9	5.6	10.3	19.0	18.0	16.3	11.0	10.5	9.5	3.4	3.0	2.7	—	—	—	19.4	17.9	17.4	445	27.2	2.6
Cipla	290	REDUCE	232,687	4,753	803	12.3	14.5	16.5	(10.0)	17.5	13.7	23.5	20.0	17.6	20.3	14.5	12.0	3.5	3.1	2.7	1.0	1.0	1.2	15.4	16.0	16.5	310	7.0	8.2
Cadila Healthcare	765	REDUCE	156,725	3,201	205	34.7	38.2	45.1	40.6	10.0	18.1	22.0	20.0	17.0	19.1	16.3	12.8	7.2	5.7	4.5	0.8	1.0	1.2	37.5	31.7	29.6	900	17.6	2.3
Dishman Pharma & chemicals	57	REDUCE	4,669	95	81	9.8	8.0	8.7	(31.8)	(18.3)	8.0	5.8	7.1	6.6	8.0	6.0	5.5	0.5	0.5	0.5	—	—	—	9.6	7.2	7.3	70	22.0	0.2
Divi's Laboratories	729	ADD	96,728	1,976	133	32.4	36.7	45.0	25.7	13.5	22.4	22.5	19.8	16.2	18.6	14.2	11.7	5.4	4.6	3.9	—	—	—	25.9	25.0	26.2	830	13.8	2.1
Dr Reddy's Laboratories	1,509	REDUCE	256,478	5,239	170	64.9	80.0	98.5	932.5	23.2	23.2	23.2	18.9	15.3	16.4	12.4	10.0	5.6	4.5	3.6	0.7	0.9	0.9	24.8	26.3	25.9	1,650	9.3	11.1
GlaxoSmithkline Pharmaceuticals (a)	2,075	REDUCE	175,763	3,590	85	68.3	78.2	88.6	15.5	14.6	13.3	30.4	26.5	23.4	20.2	17.9	15.4	9.0	8.3	7.6	1.9	2.4	2.7	30.9	32.6	33.9	2,220	7.0	1.5
Glenmark Pharmaceuticals	293	ADD	79,190	1,618	270	17.0	26.2	23.5	33.6	54.5	(10.3)	17.3	11.2	12.5	19.5	13.0	11.1	3.9	2.9	2.4	—	—	—	20.6	29.8	21.2	395	34.9	4.4
Jubilant Life Sciences	196	REDUCE	31,279	639	159	14.4	16.5	22.7	(45.6)	14.5	37.6	13.6	11.9	8.6	11.0	8.8	7.4	1.4	1.3	1.1	1.0	1.0	1.5	12.3	11.7	14.2	205	4.4	0.8
Lupin	464	ADD	207,984	4,248	448	19.2	20.6	26.3	25.6	7.2	27.5	24.1	22.5	17.6	20.2	17.5	12.9	6.2	5.1	4.1	0.6	0.8	1.0	29.5	25.3	26.2	530	14.2	9.7
Ranbaxy Laboratories	497	SELL	210,456	4,299	423	40.6	16.9	20.8	475.0	(58.3)	22.7	12.2	29.4	23.9	15.0	25.4	19.8	3.7	3.2	2.9	—	—	—	34.5	11.9	12.8	435	(12.5)	7.2
Sun Pharmaceuticals	472	ADD	488,855	9,986	1,036	17.5	20.4	24.3	34.4	16.3	19.2	26.9	23.1	19.4	22.8	18.3	14.8	4.7	4.0	3.4	0.7	0.8	1.1	21.0	20.2	20.7	560	18.6	11.5
Pharmaceuticals		Cautious	2,155,494	44,030					43.1	5.3	18.6	22.6	21.4	18.1	17.5	14.5	11.7	3.6	3.1	2.7	0.7	0.8	1.0	16.0	14.4	14.7			
Property																													
DLF	236	BUY	404,382	8,260	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	26.0	19.8	15.0	16.8	13.3	10.1	1.5	1.5	1.3	0.8	1.0	1.3	5.4	7.5	9.2	270	14.5	36.1
Housing Development & Infrastructure	99	BUY	43,877	896	445	19.8	28.7	34.3	24.0	44.8	19.7	5.0	3.4	2.9	5.2	3.6	3.1	0.5	0.4	0.3	—	1.0	1.5	10.0	12.3	12.7	150	52.1	20.4
Indiabulls Real Estate	72	RS	29,042	593	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	18.2	8.5	4.7	13.0	10.4	4.5	0.2	0.2	0.2	—	0.7	1.0	1.4	2.9	5.0	—	—	8.7
Mahindra Life Space Developer	295	BUY	12,043	246	41	24.9	30.8	37.5	30.2	23.7	21.6	11.8	9.6	7.9	9.0	6.4	4.7	1.2	1.1	0.9	1.7	1.5	1.7	10.4	11.6	12.7	450	52.5	0.2
Oberoi Realty	235	BUY	77,424	1,582	330	15.7	17.2	27.4	14.8	9.7	59.3	15.0	13.6	8.6	11.0	9.5	5.1	2.3	2.0	1.7	0.4	0.6	1.1	19.9	15.8	21.4	310	32.0	0.3
Phoenix Mills	199	BUY	28,810	588	145	6.3	7.4	10.7	53.0	17.2	44.1	31.4	26.8	18.6	23.2	19.4	14.5	1.8	1.7	1.6	0.9	1.0	1.0	5.8	6.6	8.9	300	50.8	0.1
Puravankara Projects	73	ADD	15,559	318	213	5.5	9.0	10.9	(18.9)	62.8	21.5	13.2	8.1																

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	17-Oct-11		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)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)	
Sugar																														
Bajaj Hindustan	38	REDUCE	8,748	179	228	1.9	3.7	1.6	(28.7)	90.5	(57.3)	19.9	10.4	24.4	16.8	5.6	5.4	0.3	0.3	0.3	1.5	1.5	1.5	1.7	2.7	1.1	60	56.7	1.8	
Balrampur Chini Mills	51	BUY	12,656	259	247	6.7	4.0	7.7	111.0	(40.5)	94.0	7.7	12.9	6.6	10.9	8.7	5.8	0.8	0.8	0.7	1.5	1.5	1.5	11.6	6.5	11.9	80	56.1	1.5	
Shree Renuka Sugars	58	BUY	38,983	796	670	10.5	6.4	5.0	214.7	(39.4)	(21.0)	5.5	9.1	11.6	8.4	6.5	5.4	1.6	1.4	1.3	1.7	1.7	1.7	34.4	16.1	11.4	75	29.0	8.3	
Sugar		Cautious	60,386	1,233					122.4	(24.7)	(7.4)	7.5	9.9	10.7	10.6	6.5	5.4	0.9	0.8	0.8	1.7	1.6	1.6	11.6	8.1	7.0				
Technology																														
HCL Technologies	440	SELL	310,271	6,338	705	22.9	29.5	32.8	30.4	28.9	11.3	19.3	14.9	13.4	11.7	9.1	8.1	3.7	3.1	2.7	1.7	1.8	1.8	21.0	22.6	21.7	375	(14.8)	11.5	
Hexaware Technologies	90	ADD	26,121	534	290	3.0	7.5	7.3	(36.8)	154.4	(3.4)	30.5	12.0	12.4	23.3	10.6	9.0	2.7	2.4	2.2	1.6	3.3	3.6	9.3	21.3	18.6	80	(11.1)	3.7	
Infosys Technologies	2,747	BUY	1,576,520	32,203	574	119.7	141.1	161.9	10.5	17.8	14.8	22.9	19.5	17.0	15.7	13.1	11.3	6.1	5.1	4.3	2.2	1.6	1.8	28.0	28.4	27.3	3,000	9.2	87.8	
Mahindra Satyam	73	SELL	86,083	1,758	1,176	4.2	6.7	7.0	68.9	58.4	4.7	17.4	11.0	10.5	12.9	6.6	5.2	5.0	3.4	2.6	—	—	—	27.6	37.1	28.2	70	(4.4)	9.2	
Mindtree	385	ADD	15,845	324	41	24.7	42.0	45.4	(52.7)	70.2	8.1	15.6	9.2	8.5	8.7	6.1	4.7	2.0	1.7	1.5	0.6	1.1	3.5	14.4	20.3	18.9	460	19.5	1.7	
Mphasis BFL	340	SELL	71,719	1,465	211	51.8	38.6	30.0	18.8	(25.5)	(22.2)	6.6	8.8	11.4	5.6	6.6	7.1	2.2	1.8	1.6	1.2	1.3	1.5	38.6	22.3	14.8	300	(11.9)	3.6	
Patri Computer Systems	292	ADD	38,868	794	133	42.6	25.9	27.2	16.5	(39.3)	5.2	6.8	11.3	10.7	3.6	4.0	2.7	1.2	1.1	1.1	22.6	1.8	1.9	18.4	8.2	10.2	300	2.8	1.2	
Polaris Software Lab	143	REDUCE	14,262	291	100	19.3	18.8	19.0	25.7	(2.6)	0.7	7.4	7.6	7.5	4.3	3.3	2.9	1.4	1.2	1.1	2.6	2.7	2.9	20.2	16.8	14.8	130	(9.1)	2.2	
TCS	1,120	REDUCE	2,192,553	44,787	1,957	44.5	53.0	60.6	26.8	18.9	14.3	25.2	21.1	18.5	19.0	15.0	13.0	8.7	7.1	5.9	1.6	1.9	2.2	37.8	37.0	35.0	1,150	2.7	48.1	
Tech Mahindra	584	SELL	73,628	1,504	126	48.8	72.1	75.5	(25.2)	47.8	4.7	12.0	8.1	7.7	8.3	8.3	7.3	2.2	1.9	1.7	0.7	0.7	1.7	20.5	26.0	23.8	600	2.7	3.5	
Wipro	357	ADD	875,587	17,886	2,454	21.6	22.4	24.5	14.5	3.9	9.1	16.5	15.9	14.6	12.1	10.8	9.5	3.7	3.1	2.7	1.2	1.3	1.5	24.3	21.1	19.7	370	3.7	12.2	
Technology		Attractive	5,281,458	107,884					17.1	14.8	11.4	20.6	17.9	16.1	14.8	12.4	10.8	5.4	4.5	3.8	1.8	1.7	1.9	26.2	25.2	23.8				
Telecom																														
Bharti Airtel	380	ADD	1,443,278	29,482	3,798	15.9	18.2	28.0	(32.6)	14.5	53.7	23.9	20.9	13.6	10.3	8.0	6.0	3.0	2.6	2.2	—	—	—	13.3	13.3	17.4	460	21.0	47.8	
IDEA	97	ADD	320,090	6,538	3,303	2.7	2.7	5.1	(0.5)	(1.4)	89.2	35.6	36.1	19.1	11.3	8.6	6.5	2.6	2.4	2.2	—	—	—	7.6	7.0	12.0	115	18.7	19.4	
MTNL	31	SELL	19,278	394	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(2.9)	(3.3)	(3.6)	1.0	1.3	1.6	0.2	0.2	0.2	—	—	—	(6.1)	(5.7)	(5.5)	35	14.4	0.8	
Reliance Communications	77	SELL	163,671	3,343	2,133	6.3	2.6	5.2	(71.1)	(59.4)	103.2	12.2	30.0	14.8	5.9	6.4	5.5	0.4	0.4	0.4	—	—	—	3.2	1.3	2.7	80	4.2	19.5	
Tata Communications	191	REDUCE	54,392	1,111	285	(24.9)	(28.8)	(34.0)	(13.0)	15.6	18.1	(7.7)	(6.6)	(5.6)	10.7	9.3	9.3	1.5	2.2	4.0	—	—	—	(17.5)	(27.0)	(50.2)	180	(5.7)	1.2	
Telecom		Neutral	2,000,709	40,868					(45.8)	0.6	71.4	28.9	28.8	16.8	9.5	7.9	6.1	1.7	1.6	1.5	—	—	—	6.0	5.7	8.9				
Utilities																														
Adani Power	82	REDUCE	197,080	4,026	2,393	2.4	11.0	15.0	200.7	368.5	35.8	35.0	7.5	5.5	35.7	7.4	4.8	3.1	2.1	1.5	—	—	—	8.5	33.5	31.8	100	21.4	3.3	
CESC	273	BUY	34,120	697	125	37.7	42.5	51.3	9.1	12.7	20.8	7.2	6.4	5.3	5.7	5.4	0.7	0.7	0.6	1.8	2.0	2.2	10.5	10.7	11.5	440	61.1	1.4		
JSW Energy	51	REDUCE	83,968	1,715	1,640	5.1	4.8	4.7	12.9	(6.2)	(1.8)	10.0	10.6	10.8	11.4	7.6	5.9	1.5	1.3	1.2	(2.0)	—	—	16.1	13.0	11.3	60	17.2	1.7	
Lanco Infratech	15	BUY	34,123	697	2,223	2.0	3.0	3.4	(5.8)	47.2	16.6	7.6	5.2	4.5	8.3	7.7	7.3	0.9	0.7	0.6	—	—	—	12.2	15.0	14.6	45	193.2	6.0	
NHPC	23	ADD	285,377	5,829	12,301	1.3	1.8	2.1	(27.2)	36.0	16.3	17.2	12.6	10.9	12.8	9.7	7.8	1.0	1.0	0.9	1.8	2.1	2.5	6.3	8.0	8.8	30	29.3	2.0	
NTPC	168	REDUCE	1,387,299	28,338	8,245	11.0	11.2	12.0	5.3	1.4	6.8	15.2	15.0	14.1	12.6	12.2	11.5	2.0	1.9	1.7	2.3	2.0	2.1	13.7	12.8	12.6	180	7.0	9.7	
Reliance Infrastructure	418	BUY	110,809	2,263	265	58.0	64.1	76.3	(6.5)	10.5	19.0	7.2	6.5	5.5	7.0	3.7	2.7	0.5	0.4	0.4	2.2	2.5	2.7	6.4	11.2	12.2	920	120.2	14.1	
Reliance Power	87	SELL	244,462	4,994	2,805	2.7	2.9	2.9	(5.0)	7.6	(0.5)	32.1	29.9	30.0	168.5	71.8	15.0	1.5	1.4	1.4	—	—	—	4.9	4.9	4.7	88	1.0	6.6	
Tata Power	100	BUY	246,834	5,042	2,468	7.6	8.5	9.2	21.5	10.7	8.8	13.1	11.8	10.9	10.5	8.2	7.9	1.7	1.5	1.4	1.4	1.5	1.7	13.8	13.6	13.3	135	35.0	9.4	
Utilities		Cautious	2,624,073	53,602					5.1	20.2	12.8	15.2	12.7	11.2	13.9	10.3	8.6	1.5	1.4	1.3	1.6	1.6	1.7	10.1	11.0	11.3				
Others																														
Carborundum Universal	156	SELL	14,614	299	93	18.3	18.9	21.0	67.7	3.7	10.6	8.6	8.3	7.5	6.8	5.8	5.1	1.7	1.5	1.3	2.5	2.5	2.8	20.7	18.4	17.8	290	85.5	0.1	
Havells India	352	REDUCE	43,883	896	125	24.5	25.8	28.8	334.1	5.1	11.5	14.3	13.6	12.2	9.6	8.8	7.7	6.2	4.4	3.3	0.7	0.8	0.9	53.9	37.6	30.9	370	5.2	2.2	
Jaiprakash Associates	72	BUY	153,530	3,136	2,126	6.0	6.3	7.2	230.2	3.9	15.6	12.0	11.5	10.0	11.8	10.2	9.7	1.4	1.3	1.2	—	—	—	13.3	11.7	12.3	115	59.3	27.0	
Jet Airways	236	BUY	20,352	416	86	(10.1)	(69.1)	7.0	(91.0)	588	(110.1)	(23.4)	(3.4)	33.8	9.6	11.6	7.4	1.3	2.0	1.9	—	—	—	(5.0)	—	—	500	112.1	9.9	
SpiceJet	22	BUY	9,908	202	441	2.5	(3.0)	3.3	(1.8)	(220.2)	(210.4)	9.0	(7.5)	6.8	13.2	(17.6)	9.3	3.1	3.1	2.2	—	—	—	(96.1)	(41.6)	37.7	50	122.7	1.9	
Tata Chemicals	319	REDUCE	81,140	1,657	255																									

Kotak Institutional Equities Research coverage universe (IMP: Our ratings definitions have changed as of September 6, 2011)

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2011

Ratings and other definitions/identifiers

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BUY. We expect this stock to deliver more than 17.5% returns over the next 12 months.

ADD. We expect this stock to deliver 7.5-17.5% returns over the next 12 months.

REDUCE. We expect this stock to deliver 0-7.5% returns over the next 12 months.

SELL. We expect this stock to deliver less than 0% returns over the next 12 months.

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