INDIA

July 06, 2009

BSE-30:14,043

More of the same. The government's FY2010E Union Budget continued with fiscal-related stimulus to consumption and thrust on investment. However, FY2010 Budget did not address several key issues facing the economy—(1) high fiscal deficit and requisite fiscal consolidation, (2) continued high government influence in certain sectors and (3) reforms in key areas. We maintain our defensive stance, our bias towards defensive stocks and our BSE-30 Index 12-month fair valuation of 14,000.

Budget theme—Continued stimulus to consumption; investment will hopefully follow

We believe the government has largely followed a balancing act of (1) stimulating consumption by leaving indirect taxes largely unchanged and reducing personal income tax and (2) addressing investment through higher allocations to various projects from the FY2010 Budget and greater thrust on public-private partnerships.

Fiscal situation m ay deteriorate further if revenues do not materialize as expected

We see GFD/GDP at around 7% for FY2010E versus the government's planned 6.8% and 6.1% in FY2009E. We believe India runs the risk of continued high fiscal deficits without it addressing key issues such as (1) growing subsidies on food and fertilizer, (2) continued government control on pricing in energy and fertilizer sectors and (3) inability to increase taxation base and/or remove expendable tax exemptions.

No new direction for certain sectors and lack of reforms disappointing but there is hope

We find the government's reluctance to implement reforms in certain key areas disappointing. In our view, the government may have missed a good opportunity to showcase India as an attractive investment destination in the current weak global environment. Nonetheless, we remain hopeful that the government can encourage investments in the crucial infrastructure area through a mix of pragmatic policies and efficient execution.

No change to market view; retain defensive stance

We find the market's valuation full at current levels at 15.7X FY2010E earnings and 13.3X FY2011E earnings. We continue to maintain our defensive stance with focus on safe stocks. We continue to be overweight consumers, PSU banks, pharmaceuticals, technology and utilities. We see maximum downside risk to earnings in the case of energy sector (refining stocks), metals (aluminum and steel stocks) and real estate.

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Total deficit may be10.6% of GDP…pg13

Net market borrowing of Rs4 tn manageable…pg13

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Important disclosures appear at the back

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The prices in this report are based on the market close of July 6, 2009.

BUDGET IMPACT: SECTORS AT A GLANCE

Exhibit 1: Budget impact on sectors at a glance

Sector	Net impact	Key positives	Key negatives
Automobiles	↑	Excise duty on motor vehicles with engine capacity exceeding 1,999 cc has been reduced by Rs5,000	
		Excise duty on petrol-driven good carriers reduced to 8% from 20%.	
		Allocation under the JNNURM scheme of Rs129 bn, an 87% increase from FY2009	
Banking & Finance	↓		Higher fiscal deficit to lead to higher yields; banks could witness MTM losses in 2HFY10E, cost of borrowings for bulk borrowers and NBFCs will likely rise
Cement	↔	Higher allocation to NHAI and infrastructure boost bodes well for cement demand	Service tax on railway freight will increase the cost of transportation of cement
Chemicals	↔	No change in tariff protection for chemicals	
Consumers	↑	Abolishment of FBT	
		No change in excise duty rates augurs well for cigarette volume growth	
		Higher spending on NREGA provides opportunity to drive penetration-driven growth, particularly in personal care	
Energy	↓	Introduction of GST from April 1, 2010 could entail removal of octroi on crude oil which will be positive for BPCL and HPCL	Non-availability of tax exemption for production of natural gas from extant NELP blocks
		Extension of Section 80 IB benefits to new refineries starting before March 31, 2012	No roadmap for deregulation of pricing of petroleum products or a pragmatic subsidy-sharing mechanism
			Increase in MAT rate to 17% from 11.33% will have negative impact
Industrials	↑	Infrastructure spend to be over 9% of GDP by 2014	MAT increased to 15% (from 10%) of book profit; however, period of MAT offset raised to 10 years from from 7 years
		IIFCL to evolve a new takeout financing scheme, to refinance 60% of commercial bank loans in PPP projects	
		Increased allocation to NHAI, railways, APDRP and Accelerated Irrigation Program	
Media	↔	Continuation of indirect tax cuts to be positive for consumption of goods and services	Re-introduction of basic customs duty on STBs negative for TV distribution companies
		Continuation of stimulus through higher DAVP allocationpositive	
Metals	↔	Thrust on infrastructure through additional allocation to various government schemes and road building to help boost demand	MAT increase to impact profitability of new projects
		No change in existing duty structure on iron ore exports	
Pharmaceuticals	↔	Lowering of tax rate due to abolishment of FBT	Increase in effective tax rate due to increase in MAT tax rate
			Companies will not end up paying 15% effective tax rate due to EOU benefits; most companies believe tax provided in FY2010E may not be materially impacted
Real estate	↔	Budgetary allocation of Rs39 bn for housing for urban poor may increase opportunities for slum rehabilitation	Any uptick in interest rate rates will affect affordability for residential real estate and put pressure on demand
Technology	↑	Extension of STPI tax benefits by one year to end-FY2011	Correction in anomaly of computing SEZ tax exemption done prospectively as against companies' expectations of retrospective correction; IT cos with operational SEZs may possibly have to shell out taxes for earlier years
Telecom	↔		Increase in MAT rate to 15% from 10% will lead to cash flow impact for RCOM and Idea. No earnings impact as companies are likely to create MAT credit entitlement asset against MAT payment
Utilities	↔	(1) Increased allocation for APDRP and rural electrification increases investment opportunity for the sector, and (2) Exemption u/s 80-IA extended for projects commissioning up to March 2011 from March 2010 previously	Increase in MAT rate to 15% from 10% could reduce profitability for power capacities operating on merchant-basis; higher MAT rate does not impact sale of power under regulated basis

Source: Kotak Institutional Equities estimates

STRATEGY: STAY NEUTRAL AND DEFENSIVE

We find the broad market (BSE-30 Index) reasonably valued, trading at 15.7X FY2010E earnings and 13.3X FY2011E earnings. We do not see any near-term catalysts for strong performance barring liquidity. We do not see concrete evidence of earnings upgrades as yet and government action has been muted so far. We retain our defensive stance and a 12-month fair valuation of 14,000 for the BSE-30 Index.

No change in defensive stance or in portfolio

Exhibit 2 shows our Model Portfolio and Exhibit 3 presents our Top-10 List. We have made a few minor changes to our Model Portfolio but our Top-10 list is unchanged versus the last changes on June 16, 2009. There is no change to our view and we retain a defensive stance. We have made a few minor adjustments but continue to be overweight consumers, PSU banks, pharmaceuticals, technology and utilities. We are underweight automobiles, energy (largely due to a large underweight on RIL) and real estate.

Exhibit 2: Overweight banking, consumers, pharmaceuticals and technology
Kotak Institutional Equities Model Portfolio

	6-Jul		Weightage (%)		Diff.
Company	Price (Rs)	Rating	BSE-30	KS reco.	(bps)
Hero Honda	1,359	REDUCE	1.3	—	(134)
Mahindra & Mahindra	712	ADD	1.4	1.4	—
Maruti Suzuki	1,038	SELL	1.5	—	(148)
Tata Motors	283	SELL	0.9	—	(85)
Automobiles			**5.1**	**1.4**	**(368)**
Punjab National Bank	641	BUY	—	2.0	200
State Bank of India	1,654	BUY	4.7	6.7	200
Union Bank	233	BUY	—	1.5	150
PSU Banking			**4.7**	**10.2**	**550**
Axis Bank	794	BUY	—	2.0	200
HDFC	2,356	REDUCE	6.0	2.5	(350)
HDFC Bank	1,424	REDUCE	5.3	3.3	(200)
ICICI Bank	680	REDUCE	7.5	6.0	(150)
Rural Electrification Corp.	159	BUY	—	1.0	100
Pvt. Banking/Financing			**18.7**	**14.7**	**(400)**
ACC	724	REDUCE	0.7	—	(74)
Grasim Industries	2,298	REDUCE	1.6	1.6	—
Jaiprakash Associates	193	ADD	1.3	2.3	100
Cement			**3.6**	**3.9**	**26**
Hindustan Unilever	275	BUY	3.0	5.0	200
ITC	198	BUY	5.1	6.6	150
Consumers			**8.1**	**11.6**	**350**
GAIL (India)	315	ADD	—	1.0	100
Oil & Natural Gas Corporation	1,070	BUY	4.5	6.0	150
Reliance Industries	1,893	SELL	12.8	6.2	(667)
Energy			**17.4**	**13.2**	**(417)**
Bharat Heavy Electricals	2,101	REDUCE	3.6	1.6	(200)
IVRCL	330	BUY	—	0.5	50
Larsen & Toubro	1,464	ADD	7.8	7.8	—

	6-Jul		Weightage (%)		Diff.
Company	Price (Rs)	Rating	BSE-30	KS reco.	(bps)
Nagarjuna Construction	130	BUY	—	0.5	50
Punj Lloyd	199	BUY	—	1.0	100
Industrials/Construction			**11.3**	**11.3**	**—**
Hindalco Industries	78	BUY	0.9	0.9	—
Hindustan Zinc	563	BUY	—	1.5	150
Sterlite Industries	589	REDUCE	1.6	1.6	—
Tata Steel	397	BUY	2.3	0.8	(150)
Metals			**4.8**	**4.8**	**—**
Cipla	258	ADD	—	0.5	50
Divi's Laboratories	1,088	BUY	—	0.5	50
Sun Pharmaceuticals	1,127	ADD	0.9	2.4	150
Pharmaceuticals			**0.9**	**3.4**	**250**
DLF	310	REDUCE	1.3	—	(130)
Real estate			**1.3**	**—**	**(130)**
Infosys Technologies	1,761	BUY	8.5	10.0	150
TCS	381	REDUCE	1.8	—	(184)
Wipro	372	ADD	1.1	2.6	150
Technology			**11.4**	**12.6**	**116**
Bharti Airtel	783	ADD	5.1	6.1	100
Reliance Communications	269	SELL	1.9	—	(192)
Telecom			**7.1**	**6.1**	**(92)**
Lanco Infratech	353	ADD	—	1.0	100
NTPC	193	SELL	2.4	—	(236)
Reliance Infrastructure	1,131	BUY	1.6	2.6	100
Tata Power	1,104	ADD	1.7	3.2	150
Utilities			**5.7**	**6.8**	**114**
BSE-30	**14,043**		**100.0**	**100.0**	**—**

Note:
1. Weights are with respect to July 6, 2009 prices.

Source: Bloomberg, BSE, Kotak Institutional Equities estimates

Exhibit 3: We recommend a defensive strategy
Kotak Institutional Equities Top-10 List

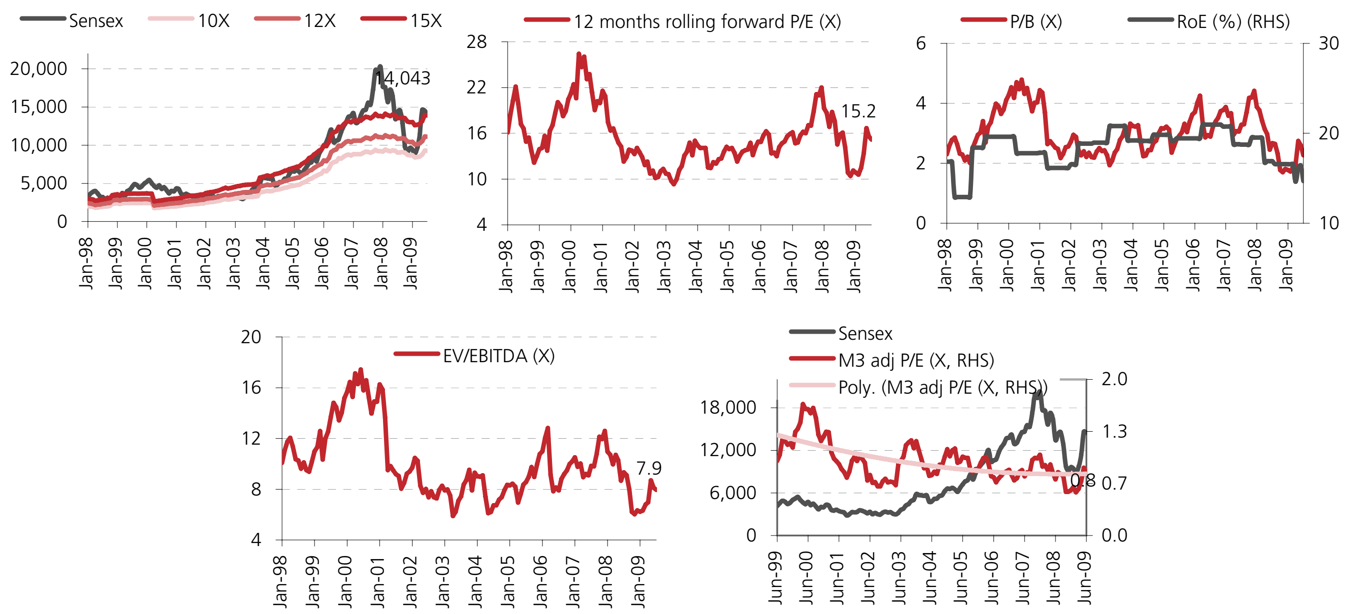
			Mkt cap.	CMP	Target	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
Companies	**Sector**	**Rating**	**(US$ mn)**	**(Rs)**	**(Rs)**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009E**	**2010E**	**2011E**
State Bank of India	Banking	BUY	21,657	1,654	1,870	143.7	121.3	139.2	11.5	13.6	11.9	—	—	—
Infosys Technologies	Technology	BUY	20,856	1,761	1,800	102.4	99.3	111.9	17.2	17.7	15.7	12.5	12.7	10.5
Axis Bank	Banking	BUY	5,884	794	850	50.6	56.1	66.6	15.7	14.2	11.9	—	—	—
Hindustan Unilever	Consumer products	BUY	12,360	275	320	9.5	10.6	12.2	28.9	26.0	22.6	22.1	19.5	16.8
Oil & Natural Gas Corporation	Energy	BUY	47,204	1,070	1,100	91.4	100.3	119.9	11.7	10.7	8.9	4.2	3.8	3.2
ITC	Consumer products	BUY	15,371	198	235	8.7	10.2	11.6	22.8	19.4	17.0	13.9	11.9	10.5
Tata Power	Utilities	ADD	5,069	1,104	1,100	56.2	76.6	86.5	19.6	14.4	12.8	10.9	11.3	10.7
Jaiprakash Associates	Diversified	ADD	5,594	193	190	3.0	6.8	9.9	64.4	28.4	19.6	22.1	14.8	14.0
Bharti Airtel	Telecom	ADD	30,665	783	775	44.6	52.2	59.8	17.5	15.0	13.1	10.3	8.8	7.5
Sun Pharmaceuticals	Pharmaceuticals	ADD	4,816	1,127	1,665	87.8	78.5	82.5	12.8	14.4	13.7	9.5	9.6	8.5
BSE-30				**14,043**										

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Valuations look full without earnings upgrades

Exhibit 4 shows the valuation of BSE-30 Index on various parameters. The market is now trading at 15.7X FY2010E earnings and at 13.3X FY2011E earnings. The market looks reasonably valued on FY2011E earnings but we note that a significant portion of our earnings growth comes from commodity sectors on the back of our expected rebound in commodity margins and prices (see Exhibit 5). Exhibit 6 shows the breakdown of sectors by valuation and earnings growth.

Exhibit 4: 1-year rolling forward P/E of BSE-30 Index is trading at full valuations
1-year rolling forward P/E, P/B, ROE, EV/EBITDA and M3 growth rate adjusted valuations for BSE-30 Index



Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 5: Significant portion of earnings growth in FY2011E is contributed by energy sector
Break-up of earnings of BSE-30 Index across sectors, March fiscal year-ends, 2008-11E

	Net profit (Rs bn)				Contribution (%)				Incremental profits			
									FY2010E		FY2011E	
	2008	2009	2010E	2011E	2008	2009	2010E	2011E	(Rs bn)	(%)	(Rs bn)	(%)
Automobiles	57	41	54	60	4	3	4	4	13	(359)	6	3
Banking	149	174	167	194	12	13	13	12	(7)	200	28	11
Cement	38	32	32	30	3	2	2	2	(0)	12	(2)	(1)
Consumers	49	53	62	70	4	4	5	4	8	(218)	9	4
Diversified	6	4	10	14	0	0	1	1	5	(143)	4	2
Energy	346	352	392	484	27	27	30	31	39	(1,048)	93	37
Reliance Industries	147	157	177	228	12	12	13	14	20	(533)	51	20
Industrials	51	63	79	93	4	5	6	6	17	(451)	14	6
Metals	132	141	74	120	10	11	6	8	(67)	1,804	46	19
Pharmaceuticals	15	18	16	17	1	1	1	1	(2)	52	1	0
Property	79	50	28	30	6	4	2	2	(22)	596	2	1
Technology	128	148	148	165	10	11	11	10	0	(5)	16	7
Telecom	127	146	145	161	10	11	11	10	(2)	45	16	7
Utilities	93	105	120	134	7	8	9	9	14	(385)	14	6
BSE-30	**1,268**	**1,328**	**1,325**	**1,572**	**100**	**100**	**100**	**100**	**(4)**	**100**	**248**	**100**
BSE-30 change (%)		**4.7**	**(0.3)**	**18.7**								
BSE-30 ex-energy change (%)		**5.8**	**(4.4)**	**16.6**								

Source: Kotak Institutional Equities estimates

Exhibit 6: Valuation summary of BSE-30 sectors, March fiscal year-ends, 2009-11E

	Mkt cap.	Adj mkt cap.	EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)		RoE (%)		
	(US$ mn)	(US$ mn)	2009	2010E	2011E	2009	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2009E	2010E	2011E
Automobiles	18,928	10,600	(28.6)	33.0	12.0	22.6	17.0	15.2	13.5	9.7	8.5	2.9	2.5	2.2	1.2	1.2	12.7	14.6	14.4
Banking	64,031	48,796	16.7	(4.3)	16.7	17.8	18.6	16.0	—	—	—	2.4	2.3	2.0	1.4	1.5	13.7	12.1	12.8
Cement	7,153	4,803	(15.0)	(1.4)	(6.7)	10.7	10.8	11.6	5.8	5.4	5.5	2.1	1.8	1.6	2.1	2.1	20.0	17.0	14.1
Consumers	27,731	16,940	8.6	15.2	14.3	25.2	21.9	19.1	16.6	13.6	11.9	8.1	7.1	6.2	2.5	2.7	32.0	32.4	32.5
Diversified	5,594	2,797	(30.8)	126.3	45.5	64.4	28.4	19.6	19.9	13.9	13.4	4.9	4.3	3.6	0.0	0.0	7.6	15.1	18.3
Energy	100,828	36,253	2.0	11.1	23.6	13.9	12.5	10.1	6.6	5.3	4.3	2.1	1.9	1.7	1.8	2.0	15.3	15.2	16.8
Industrials	39,237	23,646	23.2	26.9	17.4	30.4	24.0	20.4	17.3	13.7	11.7	6.6	5.3	4.4	0.7	0.9	21.7	22.2	21.4
Metals	18,158	9,986	7.1	(47.7)	62.3	6.2	11.9	7.3	4.9	6.7	5.2	0.9	0.8	0.7	1.5	1.5	13.8	6.8	10.0
Pharmaceuticals	4,816	1,927	22.2	(10.6)	5.2	12.8	14.4	13.7	9.5	9.6	8.5	3.4	2.8	2.4	1.2	1.2	26.8	19.8	17.6
Property	10,873	2,718	(36.6)	(44.5)	7.2	10.6	19.1	17.8	10.5	14.4	12.5	2.1	2.0	1.8	1.0	1.0	20.3	10.3	10.2
Technology	47,454	23,816	15.9	0.1	11.1	15.5	15.5	14.0	11.1	10.1	8.4	4.7	3.9	3.3	1.4	1.8	30.3	24.9	23.5
Telecom	42,121	14,742	15.3	(1.1)	11.4	14.0	14.1	12.7	8.9	8.0	6.8	3.1	2.5	2.1	0.4	0.6	22.1	17.9	16.6
Utilities	43,216	11,912	13.3	13.6	12.0	19.9	17.5	15.6	12.3	11.5	11.1	2.4	2.2	2.1	1.6	1.8	12.3	12.8	13.2
BSE-30	**430,139**	**208,935**	**4.7**	**(0.3)**	**18.7**	**15.7**	**15.7**	**13.3**	**8.9**	**8.2**	**7.0**	**2.6**	**2.3**	**2.1**	**1.4**	**1.6**	**16.8**	**14.9**	**15.7**
BSE-30 ex-Energy	**329,311**	**172,682**	**5.8**	**(4.4)**	**16.6**	**16.4**	**17.1**	**14.7**	**10.2**	**9.9**	**8.6**	**2.8**	**2.5**	**2.2**	**1.3**	**1.4**	**17.4**	**14.8**	**15.2**
BSE-30 ex-Energy, Com.	**304,000**	**157,893**	**6.6**	**3.1**	**13.5**	**18.4**	**17.8**	**15.7**	**12.1**	**10.8**	**9.5**	**3.3**	**2.9**	**2.6**	**1.3**	**1.4**	**18.1**	**16.4**	**16.3**

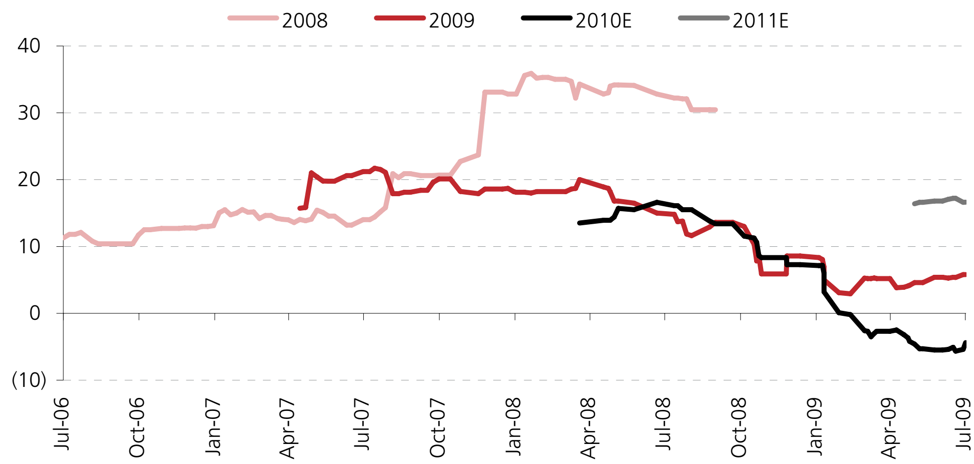
Note:
(a) EV/EBITDA excludes Banking sector.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

No concrete evidence of earnings upgrades as yet

Exhibit 7 shows that our earnings estimate for the BSE-30 Index (ex-energy basis) has largely remained unchanged over the past three months after severe cuts in the previous months. Also, we do not see much scope for earnings upgrades in light of (1) continued low visibility in certain sectors (pharmaceuticals and technology) due to global factors and (2) continued high risks to earnings in others (chemicals, refining, metals and real estate) due to large global supply-demand imbalance or weak domestic demand.

Exhibit 7: Earnings estimate for BSE-30 Index has largely remained unchanged over the past three months
Expected growth in BSE-30 Index ex-energy earnings for FY2008-11E (%)



Source: Kotak Institutional Equities estimates

Exhibit 8 traces changes in our earnings expectations for various sectors in the BSE-30 Index with the last data representing post-FY2010 Union Budget changes. We discuss the changes below.

Exhibit 8: We have increased earnings of ITC and reduced earnings of Reliance Industries
Earnings growth of BSE-30 Index sectors, March fiscal year-end, 2010E (%)

	Earnings growth (%)							
	Dec-08	**Jan-09**	**Feb-09**	**Mar-09**	**Apr-09**	**May-09**	**Jun-09**	**Jul-09**
Automobiles	(5.3)	18.5	21.0	20.1	25.0	30.9	29.9	33.0
Banking	5.4	2.9	0.4	0.1	(1.3)	(4.1)	(4.3)	(4.3)
Cement	(21.1)	(21.9)	(21.9)	(21.2)	(21.2)	(11.5)	(1.4)	(1.4)
Consumers	14.7	14.4	14.4	14.4	14.4	12.3	13.0	15.2
Diversified	30.8	33.4	33.4	33.4	33.4	20.0	126.3	126.3
Energy	21.2	12.4	6.9	17.7	17.7	7.1	18.0	11.1
Industrials	26.4	29.4	29.4	26.0	28.5	30.7	26.9	26.9
Metals	(19.1)	(33.8)	(49.3)	(46.3)	(44.5)	(47.5)	(47.7)	(47.7)
Pharmaceuticals	NA	48.6	44.5	47.6	47.6	4.7	7.7	(10.6)
Property	6.2	(26.3)	(24.4)	(24.4)	(24.4)	(45.2)	(44.5)	(44.5)
Technology	5.9	4.6	4.6	9.0	5.7	0.8	0.1	0.1
Telecom	22.5	2.9	2.9	(4.4)	(4.4)	(1.1)	(1.1)	(1.1)
Utilities	13.7	11.2	17.6	18.5	19.6	19.2	14.1	13.6
BSE-30 Index	**10.8**	**3.5**	**—**	**3.0**	**3.2**	**(1.7)**	**1.4**	**(0.3)**
BSE-30 ex-Energy	**6.7**	**0.1**	**(2.6)**	**(2.6)**	**(2.5)**	**(5.1)**	**(4.7)**	**(4.4)**

Source: Kotak Institutional Equities estimates

- We have increased earnings of ITC by 3% each for FY2010E and FY2011E on the back of stable excise duties in FY2010E and resultant higher volume growth (5.5% versus 4% earlier for FY2010E and 4% unchanged for FY2011E). We do not rule out higher state-related VAT rates but note that most of the state governments have already finalized their FY2010E budgets.

- We have cut earnings of RIL by 12% for FY2010E and 14% for FY2011E on the back of (1) higher MAT rate of 17% versus 11.33% earlier, (2) clarification on non-availability of income tax exemption on gas production for NELP I-VII blocks and (3) lower refining margins (unrelated to the Union Budget). We have reduced RIL's refining margins by US$0.5-1/bbl for FY2010-12E.

BUDGET: DETAILED IMPACT ON SECTORS AND COMPANIES

We do not see any major impact of the FY2010 Budget on sectors and companies as the FY2010 Budget has left tariffs (import and excise) and income tax largely untouched. We see the maximum positive impact versus expectations on the consumer sector and the maximum negative impact on the energy sector. Consequent to changes to companies' earnings post the budget-related developments, we now model FY2010E earnings of the BSE-30 Index to decline by 0.3% versus a modest growth of 1.4% previously.

Impact on various sectors and companies

Exhibits 9 and 10 give the impact on key sectors and companies under our coverage.

Exhibit 9: Impact on key sectors and companies

Proposals	Implications
Automobiles	**Impact: Positive**
Excise duty on motor vehicles with engine capacity exceeding 1,999 cc has been reduced by Rs5,000	Marginally positive for SUV segment. Key companies to benefit include M&M and Tata Motors
Banking and Finance	**Impact: Negative**
Fiscal deficit is likely to be higher than expected resulting in higher government borrowings	G-Sec yields to rise faster than expected, which will likely be negative for credit growth and treasury income of banks, cost of borrowings for bulk borrowers and NBFCs will rise
Extension of farm loan waiver installment falling due in June 2009 to December 2009	No material impact; but is akin to loan restructuring
Additional subvention of 1% for timely payment of short term crop loan—Budgetary allocation of Rs4.4 bn	Positive for NPLs on the agriculture loans, as it would incentivize timely payment of loans
Higher flexibility to IIFCL for funding infrastructure projects—IIFCL will likely design a mechanism for 'take-out financing'; however, we need more clarity on IIFCL's ability to scale-up	An 'un-conditional take-out financing plan' will boost long-term lending; large PSU Banks and Axis Bank could be key beneficiaries
Higher outlay for infrastructure and power—increase in the outlay for NHAI, APDRP, rural electrification scheme	Positive for IDFC, PFC and REC
Consumer	**Impact: Positive**
No change in excise duty rates for cigarettes	Significant positive for ITC, Godfrey Philips and VST versus expectations
Abolishment of FBT	Positive earnings impact of ~1% for all FMCG companies
Increase in MAT to 15% from 10%	Negative for Godrej Consumer. Earnings impact of ~3%
Increased allocation for NREGA	Thrust on the rural economy by focusing on employment generating programs to drive income growth. Opportunity to drive penetration driven growth, particularly in personal care
Energy	**Impact: Negative**
Tax exemption on production of natural gas available for blocks awarded under NELP VIII and beyond	Negative for RIL
Larger issues of deregulation, subsidy-sharing mechanism untouched	Negative for downstream oil companies versus expectations
Availability of deduction u/s 35AD for whole of capital expenditure incurred on natural gas or petroleum oil pipelines; however tax holiday is no longer available u/s 80IA	Moderately negative for GAIL as capital recovery will likely happen in less than 10 years
Extension of Section 80 IB benefits to new refineries starting before March 31, 2012	Positive for BORL (subsidiary of BPCL) and Essar Oil
Introduction of GST from April 1, 2010 could entail removal of octroi	Positive for BPCL and HPCL if octroi on crude oil (3%) is removed
Industrials	**Impact: Positive**
Increased allocation to APDRP	Would boost ordering activity and thereby increasing demand for T&D equipment manufacturers. Positive for T&D players such as Crompton, ABB, Siemens
More flexibility to be given to IIFCL. IIFCL to evolve a new 'take-out financing' scheme—would refinance 60% of bank loans in PPP projects	Would partially help alleviate the financing difficulties faced by infrastructure projects in the recent past. Likely to increase the number of projects achieving financial closures
Reduce customs duty for wind power equipment from 7.5% to 5%	Would be positive for wind equipment manufacturers such as Suzlon Energy

Source: Kotak Institutional Equities estimates

Impact on key sectors and companies

Proposals	Implications
Media	**Impact: Neutral**
Growth-oriented budget as the reduction in indirect taxes (excise and service) has not been rolled back	Positive for advertisement revenues given leverage to consumption of goods and services in domestic economy
Re-introduction of basic customs duty rate of 5% on digital STBs to promote domestic production	Negative for TV distribution companies given (1) cost pass-through to consumers to impact volume growth or (2) absorption of increased cost to negatively impact weak balance sheets
Metals	**Impact: Neutral**
Increase in Minimum Alternate Tax (MAT) from 10% to 15% and increase in period for MAT entitlement credit from 7 years to 10 years	Negative for JSW Steel, Jindal Steel & Power and Sterlite Industries
Reduction in import duties on rock phosphate from 5% to 2%	Marginally positive for Hindalco
Technology	**Impact: Positive**
Extension of STPI tax holiday up to March 2011 (March 2010 earlier)	FY2011E earnings revision of 4% for TCS and 11% for HCLT
	Mid-sized companies companies to gain. Potential earnings revision of 4-15%
	FY2012E earnings estimates remain unchanged
Correction in anomaly of computing SEZ tax exemption done prospectively as against expectations of retrospective correction	Companies (other than Infosys) likely to shell out taxes on SEZ profits of earlier years. Accounting impact unclear, cash flow impact to the extent of 3-4% of FY2009 earnings
Telecom	**Impact: Neutral**
Custom duty on STBs increased to 5% from zero	May impact profitability of DTH ventures of Bharti and Reliance Communications
Utilities	**Impact: Neutral**
Increase in MAT rate to 15% from 10%	Higher tax expense a pass through for regulated power business; no impact for NTPC as it does not pay taxes under MAT
	Tariff of UMPP and competitively bid projects, will likely be adjusted for higher tax expense as most PPAs have a 'change in law' clause gets triggered
	Lower profitability for sale of power under merchant route as tax expense is bourne by the generation company
Increased allocation for APDRP and rural electrification	Increases investment opportunity within the sector
Extension of benefit u/s 80-IA	Tax holiday available for power capacities commissioned up to March 2011 (compared to March 2010 previously)

Source: Kotak Institutional Equities estimates

Exhibit 10: Budget impact on key companies from our coverage universe

Companies	Industry	Net impact	Key positives	Key negatives
M&M, Tata Motors	Automobiles	Positive	Lower excise duty on UV s with engine capacity exceeding 1,999 cc to have marginal impact on UV sales	None
ITC	Consumers	Positive	No change in excise duty rates augurs well for cigarette volume growth	
Reliance Industries	Energy	Negative		Non-availability of income tax exemption on gas production; increase in MAT rate to 17% from 11.33% earlier
Suzlon Energy	Industrials	Positive	Reduction in basic customs duty on wind power equipment to 5% from 7.5%	
BEML, Titagarh wagons	Industrials/Infrastructure	Positive	Allocation to Railways increased to Rs158 bn from Rs108 bn	
ABB, Crompton, IVRCL, Siemens	Industrials/Infrastructure	Positive	Increased allocation to Accelerated Power Development and Reform Program and Accelerated Irrigation Benefit Program	
GMRI, IRB, IVRCL, L&T, NCC,	Industrials/Infrastructure	Positive	Allocation to NHAI increased by 23%	
Dish TV	Media	Negative		Re-introduction of basic customs duty on imported STBs (Set-top boxes) to impact profitability. Increase in MAT rate to 15% from 10% to impact cash tax outgo and profitability starting FY2012E (PAT breakeven) given large accumulated tax losses
Biocon, Dishman, Divis, Jubilant, Piramal Healthcare, Sun	Pharmaceuticals	Neutral	Lowering of tax rate through abolishment of FBT	Increase in effective tax rate through increase in MAT tax rate. Companies stated that our estimates for FY2010E effective tax provision may not be significantly impacted due to EOU benefits and FBT savings
HCLT, TCS	Technology	Positive	Potential FY2011E EPS upside of 4% for TCS and 15% for HCLT on extension of STPI tax benefit by one year	Correction in anomaly of computing SEZ tax exemption done prospectively as against expectations of retrospective correction. TCS and HCLT may have to shell out taxes on operational SEZs for earlier years

Source: Kotak Institutional Equities estimates

ECONOMY: FISCAL STIMULUS PREVAILS OVER FISCAL PRUDENCE

The FY2010 Budget has chosen to run wider fiscal gaps to stimulate growth at the cost of higher interest rates. The increase in GFD/GDP ratio to 6.8% in FY2010 Budget from 5.5% in the Interim Budget will likely harden 10-year benchmark gilt yields to 7.5% by end-FY2010. In our view, FY2010 Budget has fallen short of market expectations of pro-market reforms. However, we see greater transparency in FY2010 Budget with more reasonable assumptions on growth, revenues and expenditure. This should also help contain fiscal slippages and positive surprise may come from larger-than-budgeted disinvestment proceeds.

Fiscal consolidation hopes belied; combined fiscal deficit likely at 11.0% of GDP

The FY2010 Budget belied our expectation that the government would implement fiscal correction at the earliest. We note that the FY2010 Budget estimates gross fiscal deficit (GFD) at Rs4.0 tn, 20% more than Rs3.3 tn in the Interim Budget. This is likely to put pressure on interest rates. The FY2010 Union Budget has budgeted the GFD/GDP at 6.8% (see Exhibit 11) versus our expected 5.8%. This means that India would be running the highest on-budget GFD/GDP ratio since 7.0% in FY1994; the fiscal gap had ranged between 7.0%-8.4% of GDP during FY1985-1991.

Exhibit 11: Major budgetary items of the central government, March fiscal year-ends, 2008-2010BE (Rs bn)

						Change (%)			
	FY2008A	FY2009BE	FY2009RE	FY2010BE (I)	FY2010BE (F)	FY2009BE/ FY2008A	FY2009RE/ FY2009BE	FY2010BE(I)/ FY2009RE	FY2010BE(F)/ FY2010BE(I)
Receipts									
1. Revenue receipts (2 + 3)	**5,420**	**6,029**	**5,622**	**6,096**	**6,145**	***11***	***(7)***	***8***	***1***
2. Gross tax revenue (a + b)	5,927	6,877	6,279	6,713	6,411	*16*	*(9)*	*7*	*(5)*
2.a. Direct taxes	3,125	3,650	3,450	3,800	3,716	*17*	*(5)*	*10*	*(2)*
2.a.1. Corporation tax	1,929	2,264	2,220	2,442	2,567	*17*	*(2)*	*10*	*5*
2.a.2. Income tax	1,193	1,383	1,226	1,354	1,129	*16*	*(11)*	*10*	*(17)*
2.a.3. Other taxes	3	3	4	4	20	*8*	*23*	*6*	*377*
2.b. Indirect taxes	2,790	3,213	2,814	2,897	2,695	*15*	*(12)*	*3*	*(7)*
2.b.1. Customs duty	1,041	1,189	1,080	1,102	980	*14*	*(9)*	*2*	*(11)*
2.b.2. Excise duty	1,236	1,379	1,084	1,106	1,065	*12*	*(21)*	*2*	*(4)*
2.b.3. Service tax	513	645	650	689	650	*26*	*1*	*6*	*(6)*
(2.c) Transfers to States and UTs	1,531	1,806	1,636	1,753	1,669	*18*	*(9)*	*7*	*(5)*
2.d Net tax revenue	4,396	5,072	4,660	4,976	4,742	*15*	*(8)*	*7*	*(5)*
3. Non-tax revenue	1,024	958	962	1,120	1,403	*(6)*	*0*	*16*	*25*
4. Capital receipts (4a + 4b + 4c)	**1,708**	**1,479**	**3,388**	**3,437**	**4,063**	***(13)***	***129***	***1***	***18***
4.a Recovery of loans	51	45	97	97	42	*(12)*	*116*	*0*	*(57)*
4.b Other receipts (Disinvestments)	388	102	26	11	11	*(74)*	*(75)*	*(56)*	-
4.c Borrowings and other liabilities	1,269	1,333	3,265	3,328	4,010	*5*	*145*	*2*	*20*
4.c.1 Net market borrowing	1,318	1,006	2,620	3,087	3,980	*(24)*	*160*	*18*	*29*
5. Total receipts (1 + 4)	**7,128**	**7,509**	**9,010**	**9,532**	**10,208**	***5***	***20***	***6***	***7***
Expenditures									
11. Non-plan expenditure (12 + 13)	**5,077**	**5,075**	**6,180**	**6,681**	**6,957**	***(0)***	***22***	***8***	***4***
12. Non-plan revenue expenditure	4,209	4,484	5,618	5,997	6,188	*7*	*25*	*7*	*3*
12.a. Interest payments	1,710	1,908	1,927	2,255	2,255	*12*	*1*	*17*	*0*
12.b. Subsidies	709	714	1,292	1,009	1,113	*1*	*81*	*(22)*	*10*
12.b.1. Food	313	327	436	425	525	*4*	*34*	*(3)*	*24*
12.b.2. Fertilizer	196	201	759	500	500	*3*	*277*	*(34)*	-
12.b.3. Others	200	186	98	85	88	*(7)*	*(48)*	*(13)*	*4*
12.c. Grants to States and UTs	384	433	384	466	486	*13*	*(11)*	*21*	*4*
12.d. Others	1,405	1,428	2,014	2,267	2,335	*2*	*41*	*13*	*3*
13. Non-plan capital exp.	867	591	562	684	769	*(32)*	*(5)*	*22*	*12*
14. Plan expenditure (15 + 16)	**2,051**	**2,434**	**2,830**	**2,852**	**3,251**	***19***	***16***	***1***	***14***
15. Plan revenue expenditure	1,736	2,098	2,417	2,484	2,784	*21*	*15*	*3*	*12*
16. Plan capital expenditure	315	336	413	368	468	*7*	*23*	*(11)*	*27*
17. Total expenditure (11 + 14)	**7,127**	**7,509**	**9,010**	**9,532**	**10,208**	***5***	***20***	***6***	***7***
18. Revenue expenditure	5,945	6,581	8,035	8,481	8,972	*11*	*22*	*6*	*6*
19. Capital expenditure	1,182	928	975	1,052	1,236	*(22)*	*5*	*8*	*18*
Deficit									
Primary Deficit (PD)	(441)	(575)	1,338	1,073	1,755	*30*	*(333)*	*(20)*	*64*
Revenue Deficit (RD)	526	552	2,413	2,385	2,827	*5*	*337*	*(1)*	*19*
Gross fiscal deficit (GFD)	1,269	1,333	3,265	3,328	4,010	*5*	*145*	*2*	*20*
Gross domestic product (GDP)	47,234	53,038	53,218	60,214	58,566	*12*	*0*	*13*	*(3)*
PD/GDP (%)	**(0.9)**	**(1.1)**	**2.5**	**1.8**	**3.0**	***16***	***(332)***	***(29)***	***68***
RD/GDP (%)	**1.1**	**1.0**	**4.5**	**4.0**	**4.8**	***(7)***	***336***	***(13)***	***22***
GFD/GDP (%)	**2.7**	**2.5**	**6.1**	**5.5**	**6.8**	***(6)***	***144***	***(10)***	***24***

Notes:
(1) 2008A represents actual government financials for FY2008.
(2) 2009BE represents FY2009 Budget estimates.
(3) 2009RE represents FY2009 revised estimates.
(4) 2010BE (I) represents FY2010 Interim Budget estimates.
(5) 2010BE (F) represents FY2010 Budget estimates.

Source: Ministry of Finance, Kotak Institutional Equities estimates

In our view, the government has not made full use of the opportunity to restore credibility on fiscal consolidation. The government's Economic Survey had highlighted the need to return to FRBM at the earliest with a GFD/GDP target of 3%. However, this is unlikely to be achieved in the near term.

We estimate that the total fiscal deficit (including off-budget subsidies) may touch near 10.6% of GDP in FY2010 (see Exhibit 12) considering the center government's budgeted on-budget deficit of 6.8% of GDP. For FY2010BE, the Interim Budget had not made any provision for subsidies through bonds but it has made a provision of Rs103 bn for oil marketing companies and nil for fertilizers. The government has provided for on-budget fertilizer subsidies at Rs450 bn in FY2010BE versus Rs758 bn in FY2009RE.

Exhibit 12: Fiscal deficit to remain wide in FY2010E
GFD/GDP ratios in India, March fiscal year-ends, 2007-10E (%)

	2007A	2008A	2009RE	2010BE (I)	2010BE (F)
Center	3.4	2.7	7.9	5.5	7.3
On-budget	3.4	2.7	6.1	5.5	6.8
Off-budget	NA	NA	1.8	NA	0.5
State	1.9	2.3	2.7	NA	3.3
Total	**5.3**	**5.0**	**10.6**	**5.5**	**10.6**

Note:
(1) 2008A represents actual government financials for FY2008.
(2) 2009BE represents FY2009 Budget estimates.
(3) 2009RE represents FY2009 revised estimates.
(4) 2010BE (I) represents FY2010 Interim Budget estimates.
(5) 2010BE (F) represents FY2010 Budget estimates.

Source: Ministry of Finance, Kotak Institutional Equities estimates

Additional market borrowing of Rs893 bn likely to put pressure on yields

The FY2010 Budget has raised the net market borrowing in FY2010 to Rs4.0 tn (US$83 bn) from Rs3.1 tn in the Interim Budget. This means that the government now needs to borrow Rs893 bn (US$19 bn) more than what it had planned at the time of the Interim Budget. In this respect, we note the following.

- Net market borrowing planned is 3X of the actual net market borrowing in FY2008 and will likely put pressure on gilt yields
- FY2010 Budget has provided Rs330 bn from de-sequestering of Market Stabilization Scheme (MSS) bonds. We note that the government has already completed additional market borrowing of about Rs180 bn out of the abovementioned Rs893 bn.
- Adjusted for the above, additional market borrowing left to be undertaken is only Rs383 bn (US$8 bn) or Rs893 bn less Rs330 bn of MSS bonds and Rs180 bn of additional market borrowing already complete.

We retain our end-FY2010 estimate of 10-year benchmark yield at 7.5%

We retain our view that the 10-year benchmark gilt yield may reach 7.5% by end-FY2010, the off-consensus call that we took in end-December 2008 versus the Street's then expectations of yield falling below 5%. However, our call of a short-term rally post-budget has not materialized given the weaker-than-expected fiscal numbers.

Nonetheless, we do not expect yields to harden further in the short term from current levels after the sell-off on 'bad' fiscal numbers. We do not rule out yields rising another 10 bps but note that additional market borrowing can be absorbed through monetary policy accommodation by the RBI. Benchmark 10-year gilt yields (6.05% G-Sec 2019) have hardened 20 bps to 7.02% from 6.82% on the day of the FY2010 Budget presentation.

RBI likely to soften the blow and delay turning of interest rate cycle

We retain our view that the interest rate cycle may turn only in 4QFY10 despite the large size of the government's market borrowing program. We expect RBI to soften any steep increase in rates through the following actions.

- Absorb most of the additional market borrowing through open market operations. RBI had announced OMO purchases of Rs800 bn in 1HFY10. We expect RBI to announce OMOs of another Rs450-500 bn for 2HFY10.

- RBI and the central government may also front-load the additional market borrowing by revising the auction calendar for 1HFY10 and completing about three-fourths of the required remaining additional market borrowing in 1HFY10 itself.
- This would give RBI and the central government cushion for the likely large market borrowing by States in FY2010 that could cross Rs1.3 tn of which over Rs1.0 tn is still left to be borrowed.

Expenditure outstrips revenue incrementally

The main driver of the wider FY2010 fiscal gap lies in expenditure outstripping revenues incrementally. The government has stepped up spending on the social programs to promote its inclusive growth agenda in line with our expectations. In comparison, its additional revenue mobilization has been more limited. Thus, our expectation that government may be able to restrict GFD based on additional revenues of about Rs600 bn (1% of GDP) has not materialized.

- Total expenditure for FY2010BE is Rs676 bn (over 1% of GDP) higher than in the Interim Budget. The key areas of slippage include (1) increase in food subsidies by Rs100 bn from the Interim Budget level, (2) increase in National Rural Employment Guarantee Scheme (NREGS) spending to Rs391 bn from Rs300 bn in FY2009, (3) increased provision for other social programs and (4) increase of Rs83 bn in other non-plan capital outlay, mainly for investments in international financial institutions, Indo-Bangladesh Border works and purchase of helicopters for BSF.
- Total revenues are higher by just Rs49 bn (less than 0.1% of GDP). Revenues have not increased in spite of considerable effort to increase non-tax revenues, which is higher by Rs283 bn (nearly 0.5% of GDP) versus the Interim Budget (see Exhibit 13). The increase reflects (1) higher revenues from 3G license auction of Rs350 bn instead of Rs200 bn in the Interim Budget; we find the revised figure achievable and (2) increase of Rs105 bn to Rs286 bn in dividend/surplus of RBI, nationalized banks and financial institutions.

Exhibit 13: Trends in non-tax revenues of the government, 2009-10E (Rs bn)

	2009BE	2009RE	2010BE (I)	2010BE (F)
1. Interest receipts	191	190	190	192
1.a. States and UTs	118	119	116	116
1.b. Railways	46	47	53	55
1.c. Other receipts	27	24	21	21
2. Dividends and profits	432	397	370	497
2.a. PSEs and others	248	216	193	211
2.b. RBI and banks	**184**	**181**	**176**	**286**
3. Other non-tax revenues	326	367	552	706
o/w Communications	140	132	333	483
o/w 3G licenses	**—**	**—**	**200**	**350**
4. UT non-tax revenues	8	7	8	8
Non-tax revenues (1 + 2 + 3 + 4)	**958**	**962**	**1,120**	**1,403**

Source: Ministry of Finance, Kotak Institutional Equities estimates

A few mitigating factors can help surprise positively

- **Disinvestment story missing in FY2010 Budget, but likely upside exists.** The FY2010 Budget has kept the disinvestment target at Rs 11 bn, same as in the Interim Budget. This is in stark contrast to market expectations of Rs200-250 bn. However, we continue to believe that the government will likely pursue an aggressive disinvestment program and might be able to achieve Rs150-200 bn of disinvestment during FY2010.

- **Tax revenue estimates reasonable on the whole.** The FY2010 Budget has assumed a 2.1% growth in gross tax revenues against 6.9% in the Interim Budget. We find the growth assumptions reasonable after taking into consideration that the government has retained CENVAT and services tax rates. We do not rule out some slippage in tax revenues from lower corporate income and excise collections but these can be compensated by higher disinvestment proceeds. Our understanding of tax revenue assumptions in the FY2010 Budget is as follows.

  - Customs duty collection estimates have been revised downwards by Rs108 bn versus the Interim Budget's figure reflecting the sharp contractions in imports so far in FY2010.

  - Corporate income tax estimates have increased by Rs125 bn over the Interim Budget level, reflecting the government's confidence in recovery. The impact of the Minimum Alternate Tax (MAT) on the overall corporate tax revenues is also likely to be positive. However, the assumption of a nearly 16% growth in corporate tax in the Budget is somewhat aggressive and may not be supported by earnings growth. Exhibit 14 gives the proposed changes in direct taxes.

Exhibit 14: Reduction in personal income taxes
Existing and proposed income tax rates for individuals and corporates

	Existing	Proposed
Personal income tax		
Tax exemption limit (Rs '000)		
General	150	160
Women	180	190
Senior citizens	225	240
Surcharge on direct taxes (%)	10	Nil
Corporate income tax		
Minimum Alternate Tax (%)	10	15

Source: Union Budget FY2010, Kotak Institutional Equities

  - Some slippage cannot be ruled out in case of CENVAT as well given that tax stimulus has been retained in full, but the slippage is likely to be small.

- **Nominal GDP growth assumption in FY2010 Budget also reasonable, in our view.** Our confidence in the tax revenues and deficit assumptions in FY2010 Budget also stems from the conservative assumption on nominal GDP. The FY2010 Budget projects a nominal GDP growth of 10% over FY2009, lower than the 11% assumption in the Interim Budget. Considering the Economic Survey's projection of a 7.0% real GDP growth, it appears that the government is projecting about 3% average inflation. Our base-case real GDP growth projection for FY2010E is 6.0%, but we expect a higher GDP deflator of about 4%.

Exhibit 15: Kotak Institutional Equities: Valuation summary of key Indian companies

Company	6-Jul-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009E	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009E	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009E	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009E	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	29	ADD	38,845	801	1,330	1.4	1.8	2.4	(60.1)	23.3	33.3	20.2	16.4	12.3	10.4	7.7	6.5	1.6	1.6	1.5	3.4	3.4	3.4	8.0	9.7	12.5	32	9.6	3.2
Bajaj Auto	961	SELL	139,099	2,870	145	48.7	65.3	73.1	(6.7)	34.0	12.0	19.7	14.7	13.2	11.0	8.4	8.3	7.3	5.6	4.4	2.1	2.1	2.1	40.2	42.8	36.8	780	(18.9)	4.7
Hero Honda	1,359	REDUCE	271,442	5,600	200	64.2	83.8	91.2	32.4	30.5	8.8	21.2	16.2	14.9	12.3	9.5	8.2	6.9	5.4	4.3	1.5	1.6	1.6	36.6	37.4	31.9	1,000	(26.4)	17.8
Mahindra & Mahindra	712	ADD	188,780	3,895	265	21.7	40.4	43.6	(42.9)	86.0	8.0	32.8	17.6	16.3	21.4	11.9	10.8	4.0	3.0	2.6	1.3	1.3	1.3	12.3	19.3	17.0	670	(5.9)	19.5
Maruti Suzuki	1,038	SELL	299,866	6,186	289	42.2	62.4	67.3	(29.6)	47.9	7.9	24.6	16.6	15.4	14.0	8.7	7.5	3.1	2.6	2.3	0.5	0.3	0.5	13.4	17.2	15.9	900	(13.3)	21.9
Tata Motors	283	SELL	157,379	3,247	556	20.8	15.2	20.0	(58.3)	(27.0)	32.2	13.6	18.7	14.1	11.0	9.6	8.4	1.2	1.1	1.0	2.0	2.0	2.0	9.0	6.1	—	235	(16.9)	41.6
Automobiles		**Cautious**	**1,095,412**	**22,599**					**(28.4)**	**32.8**	**12.8**	**22.1**	**16.7**	**14.8**	**13.0**	**9.4**	**8.4**	**3.0**	**2.6**	**2.3**	**1.4**	**1.4**	**1.4**	**13.7**	**15.7**	**15.5**			
Banks/Financial Institutions																													
Andhra Bank	78	REDUCE	37,733	778	485	13.5	11.1	12.6	14.0	(17.9)	13.6	5.8	7.0	6.2	—	—	—	1.1	1.0	0.9	5.8	3.6	4.1	19.0	14.0	14.4	90	15.7	1.8
Axis Bank	794	BUY	285,194	5,884	359	50.6	56.1	66.6	56.9	11.0	18.7	15.7	14.2	11.9	—	—	—	3.1	2.8	2.4	1.3	1.4	1.7	19.1	18.3	18.9	850	7.0	74.3
Bank of Baroda	406	REDUCE	148,532	3,064	366	60.9	56.2	60.7	55.1	(7.8)	7.9	6.7	7.2	6.7	—	—	—	1.4	1.4	1.2	2.2	2.0	2.2	18.7	15.2	14.6	440	8.3	11.9
Bank of India	327	ADD	172,079	3,550	526	57.2	46.3	53.2	40.7	(19.1)	14.9	5.7	7.1	6.2	—	—	—	1.7	1.5	1.4	2.4	2.0	2.3	29.2	19.0	18.7	360	10.0	15.9
Canara Bank	263	REDUCE	107,933	2,227	410	50.5	38.6	44.5	32.4	(23.6)	15.3	5.2	6.8	5.9	—	—	—	1.3	1.2	1.1	3.0	3.0	3.8	18.3	12.4	13.1	260	(1.2)	6.0
Corporation Bank	310	BUY	44,430	917	143	62.2	51.5	55.3	21.4	(17.3)	7.4	5.0	6.0	5.6	—	—	—	0.9	0.8	0.7	4.1	3.4	3.7	19.6	14.3	13.8	395	27.5	1.0
Federal Bank	235	BUY	40,133	828	171	27.8	31.4	38.2	(19.2)	13.1	21.5	8.4	7.5	6.1	—	—	—	1.0	0.9	0.8	2.2	2.5	3.0	11.5	11.8	13.0	320	36.4	3.5
Future Capital Holdings	277	BUY	17,535	362	63	4.5	28.8	NA	(198.6)	546.1	(100.0)	62.3	9.6	NA	—	—	—	2.3	1.9	NA	—	—	—	3.8	21.4	NA	440	58.6	1.4
HDFC	2,356	REDUCE	670,136	13,825	284	80.2	91.5	103.6	(6.5)	14.0	13.3	29.4	25.8	22.7	—	—	—	5.1	4.6	4.1	1.3	1.4	1.5	18.2	18.3	18.3	2,025	(14.0)	63.3
HDFC Bank	1,424	REDUCE	627,114	12,938	440	55.4	63.2	75.4	20.4	14.1	19.3	25.7	22.5	18.9	—	—	—	4.2	3.0	2.6	0.7	0.8	1.0	16.9	15.3	15.0	1,490	4.6	51.9
ICICI Bank	680	REDUCE	756,703	15,611	1,113	33.8	32.1	38.3	(15.4)	(4.9)	19.4	20.1	21.2	17.7	—	—	—	1.5	1.5	1.4	1.6	1.6	1.9	7.8	7.1	8.0	685	0.8	192.8
IDFC	134	ADD	173,307	3,575	1,294	5.8	7.0	8.0	2.3	21.0	13.3	23.0	19.1	16.8	—	—	—	2.8	2.5	2.2	0.8	0.9	1.0	12.9	14.1	14.2	85	(36.5)	43.2
India Infoline	119	ADD	36,949	762	311	5.0	5.8	6.5	(10.0)	15.5	12.3	23.5	20.4	18.1	—	—	—	2.9	2.6	2.3	2.2	2.8	3.4	11.7	13.5	14.6	90	(24.1)	13.0
Indian Bank	131	BUY	56,429	1,164	430	28.0	25.2	28.5	24.1	(9.9)	13.0	4.7	5.2	4.6	—	—	—	1.2	1.0	0.9	3.8	3.3	3.7	22.9	17.7	17.4	185	40.9	3.5
Indian Overseas Bank	85	BUY	46,117	951	545	24.3	17.4	23.9	10.3	(28.5)	37.2	3.5	4.9	3.5	—	—	—	0.6	0.6	0.5	6.2	4.4	4.9	22.1	12.6	15.4	130	53.6	4.8
J&K Bank	466	ADD	22,575	466	48	84.5	80.8	95.4	13.8	(4.3)	18.0	5.5	5.8	4.9	—	—	—	1.0	0.9	0.8	3.6	3.5	4.1	16.7	14.1	14.9	550	18.1	0.4
LIC Housing Finance	595	NR	50,611	1,044	85	62.5	68.8	80.3	37.3	10.0	16.8	9.5	8.7	7.4	—	—	—	2.1	1.8	1.5	2.3	2.5	3.0	26.2	23.9	23.4	-	(100.0)	17.7
Mahindra & Mahindra Financial	258	ADD	24,686	509	96	22.4	27.5	30.0	7.5	22.9	8.7	11.5	9.4	8.6	—	—	—	1.8	1.5	1.3	2.1	2.7	2.9	15.4	16.9	16.3	240	(7.0)	1.1
Oriental Bank of Commerce	170	REDUCE	42,654	880	251	36.1	27.3	34.6	51.4	(24.5)	26.7	4.7	6.2	4.9	—	—	—	0.7	0.8	0.8	4.2	3.2	4.1	14.8	10.2	11.8	190	11.6	3.4
PFC	195	SELL	223,470	4,610	1,148	13.0	16.5	19.3	14.3	26.7	17.6	15.0	11.8	10.1	—	—	—	2.0	1.8	1.6	1.4	2.5	2.3	13.8	15.8	16.7	160	(17.8)	7.0
Punjab National Bank	641	BUY	202,219	4,172	315	98.0	98.5	115.1	50.9	0.5	16.8	6.5	6.5	5.6	—	—	—	1.7	1.5	1.4	3.1	3.1	3.6	23.0	19.9	20.1	800	24.7	19.2
Reliance Capital	834	REDUCE	205,384	4,237	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	21.2	28.7	28.9	—	—	—	3.1	2.8	2.6	0.7	0.5	0.5	15.3	10.2	9.3	875	4.9	167.1
Rural Electrification Corp.	159	BUY	136,861	2,823	859	16.5	17.6	20.9	50.7	6.7	19.3	9.7	9.1	7.6	—	—	—	1.9	1.6	1.4	1.3	2.0	2.4	21.2	19.5	19.9	155	(2.8)	4.4
Shriram Transport	298	ADD	62,954	1,299	212	30.1	32.5	36.9	56.8	7.9	13.7	9.9	9.2	8.1	—	—	—	2.9	2.5	2.0	2.9	3.3	3.7	29.6	27.0	25.8	300	0.8	3.2
SREI	73	ADD	8,460	175	116	7.0	5.9	7.9	(38.4)	(16.7)	35.3	10.3	12.4	9.2	—	—	—	0.8	0.7	0.7	1.4	1.6	1.6	12.5	10.2	12.5	95	30.6	4.0
State Bank of India	1,654	BUY	1,049,774	21,657	635	143.7	121.3	139.2	34.8	(15.6)	14.8	11.5	13.6	11.9	—	—	—	2.1	2.1	1.8	1.8	1.8	1.9	17.1	12.7	13.3	1,870	13.1	117.6
Union Bank	233	BUY	117,490	2,424	505	34.2	30.1	36.1	24.5	(12.0)	20.1	6.8	7.7	6.4	—	—	—	1.3	1.2	1.0	2.1	1.9	2.3	27.2	19.8	20.1	280	20.4	7.4
Banks/Financial Institutions		**Attractive**	**5,367,463**	**110,732**					**26.9**	**(5.0)**	**15.9**	**12.3**	**13.0**	**11.2**	**—**	**—**	**—**	**2.1**	**1.9**	**1.7**	**1.7**	**1.7**	**2.0**	**16.8**	**14.7**	**15.4**			
Cement																													
ACC	724	REDUCE	135,997	2,806	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	12.9	13.1	17.2	6.4	6.5	7.5	2.6	2.3	2.1	3.2	3.2	3.2	24.7	21.3	15.1	725	0.2	12.6
Ambuja Cements	87	REDUCE	132,599	2,736	1,522	7.2	7.0	5.8	(5.0)	(3.1)	(16.2)	12.1	12.5	14.9	6.5	6.6	7.6	2.2	1.9	1.8	3.4	2.2	2.5	19.7	16.9	12.8	80	(8.2)	5.9
Grasim Industries	2,298	REDUCE	210,713	4,347	92	238.5	235.7	239.1	(16.2)	(1.2)	1.4	9.6	9.7	9.6	5.6	5.0	4.7	1.9	1.6	1.4	1.4	1.4	1.5	21.7	18.2	16.0	2,300	0.1	10.5
India Cements	132	ADD	37,108	766	282	17.8	19.7	16.6	n/a	10.8	(15.8)	7.4	6.7	7.9	4.8	4.2	4.6	1.0	0.9	0.8	1.6	1.6	2.4	14.9	14.8	11.2	155	17.7	8.9
Shree Cement	1,194	BUY	41,592	858	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	6.8	13.0	13.9	4.7	5.1	5.4	3.5	2.8	2.4	0.9	0.9	0.9	65.7	24.0	18.9	1,150	(3.7)	0.6
UltraTech Cement	689	ADD	86,354	1,782	125	78.0	70.5	55.6	(4.1)	(9.7)	(21.0)	8.8	9.8	12.4	5.7	5.4	6.1	2.0	1.7	1.5	1.2	1.2	1.2	31.2	22.3	15.0	725	5.2	5.6
Cement		**Neutral**	**644,363**	**13,293**					**(8.0)**	**(6.4)**	**(11.3)**	**10.0**	**10.7**	**12.1**	**5.7**	**5.5**	**5.8**	**2.0**	**1.8**	**1.6**	**2.2**	**1.9**	**2.0**	**20.4**	**16.5**	**13.1**			
Consumer products																													
Asian Paints	1,194	ADD	114,495	2,362	96	38.4	49.1	57.5	(2.2)	27.9	17.1	31.1	24.3	20.8	18.1	14.2	12.0	10.1	8.3	6.8	1.5	1.7	1.9	36.3	38.5	36.8	1,200	0.5	0.8
Colgate-Palmolive (India)	610	ADD	82,901	1,710	136	21.6	25.5	27.3	26.3	18.2	7.0	28.2	23.9	22.3	23.3	20.2	17.4	38.3	33.9	29.4	2.5	3.3	3.4	155.1	150.4	140.9	550	(9.8)	2.5
GlaxoSmithkline Consumer (a)	922	ADD	38,782	800	42	44.8	56.1	63.6	15.8	25.2	13.5	20.6	16.4	14.5	11.5	9.3	8.1	5.1	4.3	3.8	1.6	2.3	3.2	26.8	28.5	28.0	1,050	13.9	0.9
Godrej Consumer Products	166	ADD	42,730	882	258	6.8	8.7	9.8	(3.9)	27.8	12.8	24.4	19.1	16.9	21.3	15.6	12.9	6.5	5.6	4.8	2.4	2.4	2.4	42.7	42.7	33.1	180	8.7	0.7
Hindustan Unilever	275	BUY	599,134	12,360	2,179	9.5	10.6	12.2	19.0	11.1	15.0	28.9	26.0	22.6	22.1	19.5	16.8	29.1	26.0	23.3	3.2	3.4	4.0	112.4	105.9	108.9	320	16.4	24.9
ITC	198	BUY	745,054	15,371	3,769	8.7	10.2	11.6	2.8	17.9	13.9	22.8	19.4	17.0	13.9	11.9	10.5	5.1	4.5	3.9	1.9	2.0	2.3	25.3	26.0	25.7	235	18.9	33.2
Jyothy Laboratories	90	ADD	6,524	135	73	5.6	10.1	12.6	(11.2)	78.5	25.0	16.0	8.9	7.2	10.0	6.0	4.6	1.8	1.6	1.3	2.6	3.3	3.9	10.7	16.7	19.4	145	61.3	
Nestle India (a)	1,933	ADD	186,357	3,845	96	58.6	70.5	82.4	31.0	20.4	16.8	33.0	27.4	23.5	21.0	17.9	15.5	39.4	32.3	26.8	2.2	2.6	3.1	126.7	129.6	124.8	2,100	8.6	1.7
Tata Tea	708	BUY	43,773	903	62	57.0	62.8	69.2	5.3	10.1	10.2	12.4	11.3	10.2	6.6	5.8	4.8	0.9	0.9	0.8	2.4	2.6	2.9	9.8	10.1	10.4	900	27.1	3.1
Consumer products		**Attractive**	**1,859,750**	**38,367**					**9.9**	**17.1**	**14.2**	**25.4**	**21.7**	**19.0**	**16.6**	**14.2**	**12.3**	**7.4**	**6.5**	**5.8**	**2.4**	**2.6**	**3.0**	**29.2**	**30.2**	**30.4**			
Constructions																													
Consolidated Construction Co.	268	ADD	9,900	204	37	19.7	27.2	31.9	(18.1)	38.0	17.5	13.6	9.9	8.4	8.9	6.3	5.3	1.9	1.7	1.4	1.0	1.5	1.7	15.0	18.1	18.3	190	(29.1)	0.2
IVRCL	330	BUY	44,633	921	135	16.7	17.9	22.1	7.4	7.4	23.1	19.7	18.4	14.9	13.3	10.1	8.0	2.5	2.2	1.9	0.2	0.2	0.2	13.2	12.6	13.6	350	6.1	25.5
Nagarjuna Construction Co.	130	BUY	29,747	614	229	6.7	7.5	8.5	(6.4)	11.9	13.3	19.4	17.3	15.3	12.1	9.2	7.9	1.8	1.6	1.5	1.0	1.2	1.5	9.4	9.8	10.3	145	11.7	8.2
Punj Lloyd	199	BUY	61,785	1,275	311	(7.4)	15.9	17.2	(174.4)	(314.8)	7.7	(26.8)	12.5	11.6	28.1	7.2	6.9	2.5	2.1	1.8	(0.2)	0.4	0.4	(9.2)	18.9	17.1	200	0.7	39.5
Sadbhav Engineering	673	BUY	8,407	173	13	50.6	55.6	77.9	25.0	9.8	40.2	13.3	12.1	8.6	9.5	7.2	6.0	2.4	2.0	1.7	0.7	0.9	1.0	18.0	16.8	19.4	830	23.4	0.2
Construction		**Attractive**	**154,472**	**3,187**					**(67.0)**	**299.2**	**14.9**	**56.0**	**14.0**	**12.2**	**15.8**	**8.1**	**7.2**	**2.3**	**2.0**	**1.7**	**0.3**	**0.6**	**0.7**	**4.0**	**14.0**	**14.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	6-Jul-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009E	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009E	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009E	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009E	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Energy																													
Bharat Petroleum	445	SELL	145,914	3,010	328	20.4	32.1	41.8	(50.7)	58	NA	22	NA	10.7	5.0	5.1	4.6	1.1	1.0	0.9	1.7	3.0	3.9	5.2	7.7	9.4	475	6.7	10.8
Cairn india	219	REDUCE	414,897	8,559	1,897	4.3	9.2	31.2	(3,703)	115	238.0	51	24	7.0	33.3	12.3	5.0	1.2	1.2	1.1	—	—	11.4	2.5	5.1	16.5	225	2.9	36.2
Castrol India (a)	368	BUY	45,555	940	124	21.3	25.5	26.6	20.8	19.5	4.3	17.3	14.5	13.9	9.7	8.4	7.9	10.2	9.1	8.6	4.1	4.9	5.4	61.2	66.5	63.7	390	5.8	0.8
GAIL (India)	315	ADD	399,316	8,238	1,268	22.1	21.9	22.6	8.4	(0.8)	3.2	14.2	14.4	13.9	7.5	8.1	8.5	2.4	2.2	1.9	1.5	1.7	1.7	17.6	15.3	14.1	300	(4.7)	15.0
GSPL	50	REDUCE	28,336	585	563	2.2	2.4	3.3	21.7	8.1	38.0	23.0	21.2	15.4	8.8	6.2	4.8	2.1	2.0	2.0	1.5	1.6	6.5	9.6	9.6	12.7	45	(10.6)	6.1
Hindustan Petroleum	318	SELL	107,703	2,222	339	17.0	16.7	34.9	(49.3)	(1.6)	109.2	18.7	19.0	9.1	6.0	6.0	NA	0.9	0.8	NA	1.7	3.8	7.9	4.4	3.9	7.8	350	10.2	14.2
Indian Oil Corporation	539	REDUCE	636,066	13,122	1,179	18.9	44.3	43.1	(69.1)	133.8	(2.6)	28.5	12.2	12.5	10.3	5.5	5.4	1.4	1.3	1.2	1.4	3.4	3.3	4.6	10.2	9.3	550	2.0	8.3
Oil & Natural Gas Corporation	1,070	BUY	2,288,074	47,204	2,139	91.4	100.3	119.9	(1.5)	9.8	19.5	11.7	10.7	8.9	4.2	3.8	3.2	2.0	1.8	1.6	3.0	3.4	3.9	17.3	16.9	18.2	1,100	2.8	59.4
Petronet LNG	66	REDUCE	49,238	1,016	750	6.9	7.3	8.5	—	5.9	16.8	9.5	9.0	7.7	6.9	6.0	5.4	2.2	1.8	1.5	2.7	3.0	3.4	23.9	21.1	20.5	57	(13.2)	8.4
Reliance Industries	1,893	SELL	2,599,295	53,624	1,373	103.4	112.5	144.7	(1.5)	8.8	28.6	18.3	16.8	13.1	10.9	7.1	5.6	2.2	2.0	1.8	0.7	0.8	1.1	15.1	14.1	16.2	1,600	(15.5)	241.8
Reliance Petroleum	119	NR	535,275	11,043	4,500	—	8.3	13.8	n/a	n/a	n/a	n/a	n/a	8.6	n/a	n/a	7.2	4.0	3.3	2.5	—	1.7	1.7	0.6	25.1	33.0	—	—	25.9
Energy		**Cautious**	**7,249,669**	**149,563**					**(9.8)**	**28.8**	**30.6**	**16.8**	**13.1**	**10.0**	**7.9**	**5.9**	**4.8**	**2.0**	**1.8**	**1.6**	**1.5**	**2.1**	**3.1**	**11.6**	**13.5**	**16.0**			
Industrials																													
ABB	745	REDUCE	157,798	3,255	212	25.8	24.9	29.6	11.3	(3.6)	18.7	28.8	29.9	25.2	17.1	16.9	13.8	7.4	6.2	5.1	0.3	0.4	0.4	29.2	22.6	22.1	500	(32.9)	8.7
BGR Energy Systems	309	REDUCE	22,244	459	72	15.6	23.1	26.4	29.0	47.8	14.2	19.7	13.4	11.7	11.0	8.1	6.9	3.9	3.1	2.6	0.9	1.2	1.4	21.6	26.0	24.3	315	2.0	1.6
Bharat Electronics	1,336	REDUCE	106,896	2,205	80	101.9	111.1	119.0	(0.0)	9.0	7.1	13.1	12.0	11.2	5.6	5.0	4.4	2.7	2.3	2.0	1.9	1.9	1.9	22.4	20.9	19.2	1,025	(23.3)	2.4
Bharat Heavy Electricals	2,101	REDUCE	1,028,237	21,213	490	64.1	92.0	106.8	9.8	43.5	16.1	32.8	22.8	19.7	17.8	12.7	10.7	7.9	6.3	5.1	0.8	0.9	1.1	26.4	30.7	28.6	1,900	(9.5)	60.8
Crompton Greaves	286	ADD	104,848	2,163	367	15.3	18.0	21.0	37.3	17.6	16.3	18.6	15.8	13.6	9.9	8.6	7.4	5.7	4.4	3.4	0.7	0.8	0.9	35.9	31.3	28.1	315	10.1	5.2
Larsen & Toubro	1,464	ADD	873,658	18,024	597	52.6	57.5	68.2	38.6	9.4	18.5	27.8	25.4	21.5	16.8	14.8	12.7	5.5	4.5	3.7	0.7	0.8	0.8	22.5	19.4	19.1	1,375	(6.1)	110.8
Maharashtra Seamless	255	BUY	18,003	371	71	35.9	33.0	39.6	22.2	(8.1)	20.3	7.1	7.7	6.4	4.8	4.9	3.8	1.3	1.2	1.0	2.1	1.9	2.8	20.3	16.0	16.8	225	(11.9)	1.4
Siemens	458	REDUCE	154,520	3,188	337	14.2	19.8	21.1	(22.2)	39.7	6.4	32.3	23.1	21.7	15.3	13.2	12.5	6.8	5.8	4.8	0.7	1.4	0.9	23.3	27.1	24.2	360	(21.4)	8.1
Suzlon Energy	99	ADD	155,185	3,202	1,571	7.2	7.6	10.5	10.0	5.5	37.2	13.7	13.0	9.4	10.0	9.5	7.8	1.7	1.4	1.2	0.5	0.5	1.0	12.3	11.7	13.7	140	41.7	146.4
Industrials		**Neutral**	**2,621,389**	**54,080**					**16.0**	**20.9**	**18.0**	**25.8**	**21.3**	**18.1**	**14.5**	**12.2**	**10.5**	**5.2**	**4.3**	**3.6**	**0.7**	**0.9**	**1.0**	**20.2**	**20.0**	**19.7**			
Infrastructure																													
IRB Infrastructure	161	BUY	53,576	1,105	332	5.8	11.3	12.7	69.2	95.7	11.7	27.8	14.2	12.7	15.1	8.2	7.1	2.9	2.3	1.9	—	—	—	11.0	18.1	16.5	160	(0.7)	10.8
Media																													
DishTV	36	REDUCE	34,495	712	946	(8.8)	(3.5)	(2.1)	n/a	(60.1)	(39.1)	(4.2)	(10.4)	(17.1)	(25.6)	86.6	17.4	(5.6)	(6.4)	(10.7)	—	—	—	84.4	57.5	NA	32	(12.2)	14.8
HT Media	88	ADD	20,602	425	234	0.8	4.2	6.3	(80.4)	399.4	49.2	103.5	20.7	13.9	21.4	8.8	7.0	2.4	2.3	2.1	0.5	0.9	2.9	2.3	11.3	15.6	120	36.4	0.5
Jagran Prakashan	72	BUY	21,729	448	301	3.0	4.3	5.5	(6.6)	42.1	26.8	23.7	16.7	13.2	13.4	9.3	7.5	3.9	3.6	3.3	2.8	3.6	4.2	16.7	22.5	26.3	92	27.5	0.8
Sun TV Network	225	REDUCE	88,747	1,831	394	9.1	11.1	13.0	9.3	22.9	16.5	24.9	20.2	17.4	12.9	11.1	9.4	5.1	4.5	4.0	1.1	1.8	2.7	22.5	23.8	24.4	215	(4.5)	2.0
Zee Entertainment Enterprises	171	REDUCE	74,032	1,527	434	8.1	9.3	11.2	(9.0)	15.5	20.0	21.1	18.3	15.3	14.8	12.7	10.5	2.2	2.1	1.9	1.3	1.6	1.9	11.6	12.2	13.7	145	(15.1)	8.0
Zee News	39	ADD	9,327	192	240	1.9	2.1	2.5	20.4	11.1	18.8	20.9	18.8	15.8	10.9	9.2	8.1	3.8	3.3	2.8	1.0	1.0	1.5	20.0	19.0	19.5	40	2.8	1.6
Media		**Neutral**	**248,932**	**5,136**					**(24.5)**	**95.6**	**47.4**	**61.5**	**31.4**	**21.3**	**18.8**	**12.8**	**9.9**	**4.1**	**3.7**	**3.2**	**1.1**	**1.5**	**2.2**	**6.6**	**11.6**	**15.2**			
Metals																													
Hindalco Industries	78	BUY	136,704	2,820	1,753	9.0	3.5	11.4	(33.9)	(61.4)	227.6	8.7	22.5	6.9	5.8	7.7	6.1	0.4	0.4	0.3	—	—	—	10.3	5.2	6.7	135	73.1	25.8
National Aluminium Co.	285	SELL	183,661	3,789	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	14.4	20.8	14.0	7.2	7.6	5.1	1.8	1.6	1.5	1.2	0.7	0.7	12.7	8.1	11.1	290	1.7	4.1
Jindal Steel and Power	2,498	REDUCE	384,580	7,934	154	198.0	172.4	196.2	139.3	(12.9)	13.8	12.6	14.5	12.7	8.5	8.8	7.4	5.3	3.9	3.0	—	0.3	0.3	53.1	31.0	26.4	2,000	(19.9)	38.6
JSW Steel	575	SELL	107,609	2,220	187	13.1	24.6	51.2	(84.7)	86.9	108.3	43.8	23.4	11.2	9.1	9.6	6.8	1.2	1.0	0.9	0.2	0.5	0.9	11.7	5.0	8.8	390	(32.2)	52.2
Hindustan Zinc	563	BUY	238,033	4,911	423	64.6	57.3	74.1	(38.0)	(11.2)	29.3	8.7	9.8	7.6	4.9	4.9	3.0	1.6	1.4	1.2	0.7	0.9	0.9	20.1	15.1	16.7	825	46.4	4.7
Sesa Goa	180	BUY	141,310	2,915	787	24.8	25.5	34.2	30.8	3.0	34.0	7.2	7.0	5.2	4.5	3.9	2.2	3.1	2.3	1.6	1.9	1.9	1.9	52.8	37.1	36.0	240	33.7	43.1
Sterlite Industries	589	REDUCE	417,516	8,613	708	49.2	33.2	41.8	(23.6)	(32.5)	26.1	12.0	17.8	14.1	6.9	8.1	6.1	1.6	1.5	1.3	—	—	—	14.3	8.7	9.9	540	(8.4)	49.6
Tata Steel	397	BUY	325,960	6,725	822	110.0	53.8	85.4	45.3	(51.1)	58.8	3.6	7.4	4.6	4.5	6.6	5.2	0.8	0.8	0.7	3.9	4.0	4.0	36.3	18.5	24.8	505	27.3	133.6
Metals		**Cautious**	**1,935,372**	**39,927**					**2.9**	**(34.5)**	**46.0**	**8.0**	**12.2**	**8.4**	**5.9**	**7.2**	**5.4**	**1.3**	**1.2**	**1.0**	**1.1**	**1.1**	**1.1**	**16.3**	**9.6**	**12.4**			
Pharmaceutical																													
Biocon	210	BUY	41,970	866	200	4.7	13.6	18.3	(80.0)	192.6	34.2	45.1	15.4	11.5	18.5	9.1	7.0	2.7	2.4	2.1	0.0	0.0	0.1	6.2	16.9	19.8	270	28.7	5.1
Cipla	258	ADD	200,230	4,131	777	9.9	13.8	15.0	9.5	39.5	8.6	26.1	18.7	17.2	18.6	13.4	12.2	4.7	3.9	3.4	1.0	1.2	1.4	19.1	22.8	21.1	250	(3.0)	10.5
Dishman Pharma & chemicals	174	BUY	14,180	293	81	18.0	21.2	27.3	22.1	17.9	28.7	9.7	8.2	6.4	8.2	6.5	5.1	2.0	1.6	1.3	—	—	—	22.8	21.9	22.9	280	60.6	0.6
Divi's Laboratories	1,088	BUY	70,234	1,449	65	63.8	74.6	86.5	19.9	16.9	16.0	17.1	14.6	12.6	13.7	11.1	8.8	5.8	4.2	3.2	0.1	0.1	0.1	39.8	33.5	29.3	1,375	26.4	4.0
Dr Reddy's Laboratories	767	BUY	129,710	2,676	169	32.4	44.8	49.3	24.5	38.2	9.9	23.6	17.1	15.6	10.3	8.4	7.3	3.7	3.1	2.7	0.8	0.9	1.0	13.7	19.8	18.5	770	0.4	7.3
Glenmark Pharmaceuticals	230	BUY	61,080	1,260	266	11.1	12.1	16.2	(57.0)	8.7	33.6	20.7	19.0	14.2	12.5	11.1	9.2	2.9	2.6	2.2	—	—	—	15.9	14.4	16.6	315	37.1	10.5
Jubilant Organosys	161	BUY	27,478	567	171	16.6	21.3	20.2	(26.1)	28.7	(5)	9.7	7.5	8.0	11.6	6.7	5.5	2.1	1.6	1.3	0.8	0.8	1.1	18.2	24.7	17.9	250	55.6	0.5
Lupin	830	BUY	73,559	1,518	89	60.7	66.0	71.3	21.9	8.7	8.0	13.7	12.6	11.7	13.6	11.3	9.6	4.3	3.4	2.8	1.4	1.3	1.6	33.7	30.3	26.1	1,075	29.5	3.3
Piramal Healthcare	308	BUY	64,299	1,327	209	17.3	22.4	28.2	(2.7)	29.8	26.0	17.8	13.7	10.9	13.0	9.1	7.5	4.9	3.8	3.0	1.4	1.5	1.5	26.3	31.4	30.8	340	10.5	1.9
Ranbaxy Laboratories	262	REDUCE	111,722	2,305	427	(8.1)	(5.7)	5.1	(134.7)	NA	NA	(32.3)	NA	51.1	(153.9)	796.1	20.4	2.2	1.9	2.0	3.9	4.4	4.8	(8.8)	(4.7)	4.1	150	(42.7)	17.0
Sun Pharmaceuticals	1,127	ADD	233,462	4,816	207	87.8	78.5	82.5	17.6	(10.6)	5.2	12.8	14.4	13.7	9.5	9.6	8.5	3.4	2.8	2.4	1.2	1.2	1.2	31.6	22.6	19.9	1,665	47.7	26.1
Pharmaceuticals		**Attractive**	**1,027,923**	**21,206**					**(19.4)**	**21.7**	**20.2**	**21.3**	**17.5**	**14.5**	**14.1**	**11.1**	**9.1**	**3.5**	**2.9**	**2.5**	**1.2**	**1.3**	**1.4**	**16.4**	**16.6**	**17.2**			
Property																													
DLF	310	REDUCE	527,052	10,873	1,699	29.3	16.3	17.5	(36.6)	(44.4)	7.2	10.6	19.1	17.8	11.0	15.8	13.4	2.1	2.0	1.8	1.0	1.0	1.3	22.5	10.8	10.6	320	3.1	165.5
Housing Development & Infrastructure	227	NR	62,509	1,290	275	30.6	19.8	24.8	(40.1)	(35.3)	25.1	7.4	11.4	9.2	10.3	11.8	9.7	1.4	1.3	1.2	2.2	2.6	3.5	21.2	12.1	13.9	—	NA	122.4
Indiabulls Real Estate	203	ADD	81,470	1,681	401	3.0	3.1	7.5	(81.8)	3.8	141.1	67.7	65.2	27.0	(203)	46.7	11.1	1.2	0.9	0.9	—	—	—	1.3	1.6	3.2	235	15.7	72.7
Mahindra Life Space Developer	262	BUY	11,001	227	42	10.2	10.8	15.4	(39.2)	5.3	42.5	25.6	24.3	17.0	39.4	22.8	11.6	1.2	1.2	1.2	1.5	1.5	1.5	4.8	4.9	6.7	410	56.7	1.1
Phoenix Mills	105	BUY	15,209	314	145	5.2	7.1	8.7	63.1	38.3	21.4	20.3	14.7	12.1	23.0	10.5	9.1	1.0	1.0	0.9	1.0	1.0	1.4	5.1	6.7	7.7	210	100.0	0.3
Puravankara Projects	87	REDUCE	18,611	384	213	6.8	7.0	7.4	(39.8)	2.8	6.9	12.9	12.5	11.7	19.4	15.8	12.8	1.4	1.3	1.2	—	2.3	2.3	11.5	10.8	10.7	55	(36.9)	0.3
Sobha	224	REDUCE	16,308	336	73	17.4	11.9	14.7	(45.2)	(31.4)	23.5	12.9	18.8	15.2	10.5	14.7	13.0	1.5	1.4	1.3	1.8	1.8	1.8	12.0	7.7	9.0	90	(59.8)	1.6
Unitech	76	SELL	181,300	3,740	2,389	7.7	4.5	4.6	(25.8)	(41.0)	0.9	9.9	16.8	16.6	14.4	12.2	11.9	3.7	1.8	1.6	—	—	—	29.4	13.5	10.1	60	(20.9)	158.1
Property		**Neutral**	**913,460**	**18,845**					**(36.8)**	**(35.8)**	**13.5**	**12.1**	**18.9**	**16.6**	**12.6**	**14.7**	**12.4**	**2.0**	**1.6**	**1.5**	**0.8**	**0.9**	**1.1**	**16.7**	**8.6**	**9.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	6-Jul-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009E	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009E	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009E	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009E	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	1,233	REDUCE	54,750	1,130	44	45.9	50.1	56.9	30.8	9.2	13.7	26.9	24.6	21.7	17.2	15.0	12.9	9.5	7.3	5.8	0.8	0.9	1.0	38.9	33.6	29.9	850	(31.1)	3.0
Retail		**Neutral**	**54,750**	**1,130**					**30.8**	**9.2**	**13.7**	**26.9**	**24.6**	**21.7**	**17.2**	**15.0**	**12.9**	**9.5**	**7.3**	**5.8**	**0.8**	**0.9**	**1.0**	**35.3**	**29.7**	**26.8**			
Technology																													
HCL Technologies	187	REDUCE	130,278	2,688	695	16.2	13.1	17.0	6.0	(19.0)	29.5	11.6	14.3	11.0	6.6	6.4	6.1	2.1	2.0	1.9	6.4	6.4	6.4	18.6	14.4	17.7	135	(28.0)	6.4
Infosys Technologies	1,761	BUY	1,010,929	20,856	574	102.4	99.3	111.9	29.6	(3.1)	12.7	17.2	17.7	15.7	12.5	12.7	10.5	5.5	4.5	3.8	1.3	1.4	1.6	36.7	28.1	26.1	1,800	2.2	64.8
Mphasis BFL	351	REDUCE	73,201	1,510	208	14.2	38.9	33.5	15.7	174.5	(13.9)	24.8	9.0	10.5	18.8	6.4	5.9	5.1	3.4	2.7	1.1	1.3	1.4	22.8	45.4	28.8	335	(4.6)	3.4
Mindtree	480	BUY	19,753	408	41	13.2	46.4	51.7	(50.5)	250.3	11.6	36.2	10.3	9.3	6.2	6.7	5.4	3.6	2.6	2.1	0.4	—	1.1	5.5	22.1	18.7	575	19.8	4.0
Patni Computer Systems	247	REDUCE	31,803	656	129	26.8	24.7	26.8	(19.3)	(7.8)	8.5	9.2	10.0	9.2	3.6	3.3	3.1	1.3	1.1	1.0	0.7	2.0	2.2	16.2	11.0	11.2	220	(11.1)	1.9
Polaris Software Lab	98	SELL	9,717	200	99	13.1	12.8	11.6	76.0	(2.5)	(9.5)	7.5	7.7	8.5	2.7	3.3	3.4	1.3	1.1	1.0	2.8	2.0	2.0	18.1	15.3	12.4	80	(18.7)	4.3
TCS	381	REDUCE	745,106	15,372	1,957	26.4	26.9	29.6	3.1	1.9	10.0	14.4	14.1	12.8	10.1	9.7	8.4	4.8	3.9	3.4	1.8	2.1	3.1	36.9	30.4	28.1	350	(8.1)	32.5
Wipro	372	ADD	544,156	11,226	1,462	25.7	26.4	29.2	15.8	2.6	10.3	14.5	14.1	12.8	10.6	9.7	8.0	3.6	3.0	2.6	1.1	2.0	2.3	26.9	23.3	21.6	400	7.5	16.3
Technology		**Neutral**	**2,571,313**	**53,047**					**14.7**	**2.5**	**10.4**	**15.2**	**14.8**	**13.4**	**10.4**	**9.8**	**8.4**	**4.2**	**3.5**	**3.0**	**1.7**	**2.0**	**2.4**	**27.7**	**23.6**	**22.3**			
Telecom																													
Bharti Airtel	783	ADD	1,486,431	30,665	1,899	44.6	52.2	59.8	26.4	17.0	14.6	17.5	15.0	13.1	10.3	8.8	7.5	4.7	3.6	2.8	0.5	0.8	1.0	31.4	27.0	23.8	775	(1.0)	93.6
IDEA	69	REDUCE	215,563	4,447	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	23.9	23.9	21.6	9.0	8.2	6.8	1.6	1.5	1.4	—	—	—	10.4	6.4	6.8	65	(6.4)	22.6
MTNL	96	SELL	60,606	1,250	630	4.0	4.1	4.6	(44.3)	2.6	11.8	24.2	23.6	21.1	12.7	9.4	6.4	0.5	0.5	0.5	6.2	6.2	6.2	1.6	1.6	1.9	50	(48.0)	4.7
Reliance Communications	269	SELL	555,944	11,469	2,064	27.7	20.3	21.1	4.7	(26.6)	3.9	9.7	13.2	12.7	8.6	8.2	6.4	1.6	1.4	1.3	0.3	—	—	18.6	11.7	10.9	180	(33.2)	83.7
Tata Communications	468	REDUCE	133,394	2,752	285	13.6	14.0	15.2	24.0	3.2	8.2	34.5	33.4	30.9	14.7	13.4	12.4	1.9	1.9	1.8	1.1	1.4	1.6	5.4	5.2	5.5	400	(14.5)	9.1
Telecom		**Cautious**	**2,451,937**	**50,584**					**11.5**	**(0.5)**	**11.3**	**15.2**	**15.3**	**13.7**	**9.8**	**8.7**	**7.2**	**2.5**	**2.1**	**1.9**	**0.6**	**0.7**	**0.9**	**16.3**	**14.0**	**13.6**			
Transportation																													
Container Corporation	996	ADD	129,421	2,670	130	64.4	71.4	83.3	11.6	10.8	16.6	15.5	13.9	12.0	11.1	9.4	7.8	3.4	2.9	2.5	1.4	1.6	1.9	24.0	22.5	22.2	850	(14.6)	1.3
Transportation		**Cautious**	**129,421**	**2,670**					**11.6**	**10.8**	**16.6**	**15.5**	**13.9**	**12.0**	**11.1**	**9.4**	**7.8**	**3.4**	**2.9**	**2.5**	**1.4**	**1.6**	**1.9**	**22.1**	**20.8**	**20.5**			
Utilities																													
CESC	276	ADD	34,464	711	125	31.9	38.0	42.1	14.8	19.1	10.8	8.6	7.3	6.6	5.0	5.3	5.4	0.9	0.8	0.7	1.5	1.7	1.9	11.7	12.1	11.8	345	25.1	2.3
Lanco Infratech	353	ADD	78,372	1,617	222	14.5	20.2	35.1	(2.5)	39.7	73.7	24.4	17.4	10.0	22.6	16.1	7.9	3.6	2.9	2.2	—	—	—	16.1	18.6	25.3	385	9.2	24.8
NTPC	193	SELL	1,593,024	32,864	8,245	9.5	10.8	12.2	1.6	14.1	12.6	20.4	17.9	15.9	16.1	13.3	12.7	2.7	2.5	2.3	1.9	2.1	2.4	13.8	14.5	15.0	180	(6.8)	44.5
Reliance Infrastructure	1,131	BUY	256,058	5,283	226	64.1	58.8	62.9	70.5	(8.2)	6.9	17.6	19.2	18.0	18.9	19.4	15.0	1.5	1.4	1.3	0.6	0.7	0.8	6.3	7.0	9.0	1,250	10.5	122.9
Reliance Power	164	REDUCE	393,307	8,114	2,397	1.0	2.5	3.1	—	141.5	24.4	160.9	66.6	53.5	—	—	—	2.9	2.7	2.6	—	—	—	1.8	4.2	5.0	160	(2.5)	39.1
Tata Power	1,104	ADD	245,713	5,069	223	56.2	76.6	86.5	76.6	36.2	12.9	19.6	14.4	12.8	10.9	11.3	10.7	2.4	2.1	1.9	1.0	1.1	1.3	13.4	15.8	15.7	1,100	(0.3)	14.0
Utilities		**Attractive**	**2,600,938**	**53,658**					**14.5**	**17.3**	**14.6**	**22.6**	**19.3**	**16.9**	**16.8**	**15.8**	**14.2**	**2.5**	**2.3**	**2.1**	**1.3**	**1.5**	**1.6**	**10.9**	**11.8**	**12.3**			
Others																													
Aban Offshore	809	SELL	30,628	632	38	87.8	125.3	214.6	21	42.7	71.3	9.2	6.5	3.8	8.8	7.5	6.3	2.2	1.7	1.2	0.5	0.6	0.6	33.7	33.3	36.7	365	(54.9)	72.5
Havells India	276	REDUCE	16,694	344	61	4.5	12.2	19.0	(83)	NA	55.5	NA	22.6	14.5	9.8	8.0	7.2	2.6	3.0	2.6	0.9	0.9	0.9	4.1	12.5	19.3	175	(36.6)	2.7
Jaiprakash Associates	193	ADD	271,148	5,594	1,403	3.0	6.8	9.9	(39)	126.3	45.5	64.4	28.4	19.6	22.1	14.8	14.0	4.9	4.3	3.6	—	—	—	8.0	16.1	20.0	190	(1.7)	106.4
Jindal Saw	378	BUY	20,734	428	55	64.3	47.8	41.7	(1)	(25.6)	(12.8)	5.9	7.9	9.1	3.9	4.0	3.8	0.6	0.6	0.6	1.3	1.1	1.1	10.8	7.4	6.2	300	(20.6)	3.7
PSL	115	BUY	5,027	104	44	22.0	36.8	30.0	4	67.4	(18.5)	5.2	3.1	3.8	5.3	4.2	3.6	0.6	0.5	0.5	7.9	7.8	7.8	10.2	13.4	11.1	160	38.7	1.0
Sintex	220	BUY	30,090	621	136	23.8	25.2	27.6	22	5.6	9.6	9.3	8.8	8.0	6.6	6.0	5.0	1.5	1.3	1.1	0.5	0.5	0.5	16.6	15.0	14.2	275	24.7	4.5
Tata Chemicals	213	ADD	50,126	1,034	235	27.6	23.1	27.2	(30)	(16.4)	17.9	7.7	9.2	7.8	5.3	4.2	3.6	1.1	1.0	0.9	4.3	4.2	4.2	17.9	12.9	13.7	200	(6.2)	5.2
Welspun Gujarat Stahl Rohren	185	REDUCE	34,923	720	189	17.3	23.4	17.3	(16)	35.0	(25.7)	10.7	7.9	10.7	6.9	4.9	5.7	1.9	1.5	1.3	1.1	0.8	0.8	17.6	20.8	12.9	125	(32.4)	23.1
United Phosphorus	147	BUY	67,775	1,398	462	10.7	13.5	18.0	28	25.7	33.9	13.7	10.9	8.1	9.2	6.7	5.1	2.3	1.9	1.6	0.8	1.0	1.4	18.1	18.2	20.5	140	(4.6)	5.9
Others			**527,146**	**10,875**					**(11.1)**	**28.4**	**25.0**	**17.4**	**13.5**	**10.8**	**10.0**	**8.2**	**7.8**	**2.3**	**2.0**	**1.7**	**0.8**	**0.8**	**0.8**	**13.1**	**14.8**	**15.9**			
KS universe (b)			**31,507,286**	**650,003**					**2.0**	**4.9**	**20.7**	**16**	**14.9**	**12.3**	**10.1**	**8.8**	**7.5**	**2.4**	**2.1**	**1.9**	**1.4**	**1.6**	**2.0**	**15.4**	**14.4**	**15.5**			
KS universe (b) ex-Energy			**24,257,617**	**500,441**					**5.7**	**(1.6)**	**17.2**	**15.2**	**15.5**	**13.2**	**11.1**	**10.5**	**9.0**	**2.6**	**2.3**	**2.0**	**1.3**	**1.5**	**1.7**	**16.9**	**14.7**	**15.3**			
KS universe (d) ex-Energy & ex-Commodities			**21,677,882**	**447,220**					**7.0**	**4.8**	**15.1**	**16.9**	**16.1**	**14.0**	**13.3**	**11.7**	**10.1**	**2.9**	**2.5**	**2.2**	**1.3**	**1.5**	**1.7**	**16.9**	**15.6**	**15.9**			

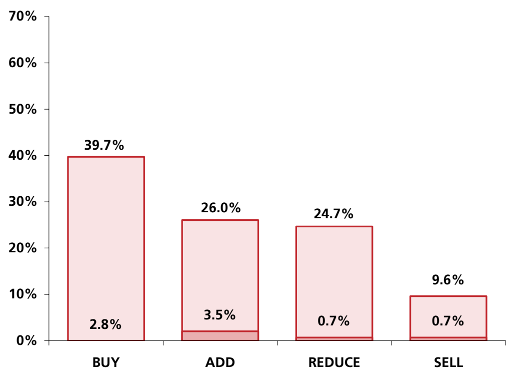
Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 48.47

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Mridul Saggar.

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/03/2009 Kotak Institutional Equities Investment Research had investment ratings on 146 equity securities.

Source: Kotak Institutional Equities

As of March 31, 2009

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

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

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

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