

September 20, 2010

BSE-30: 19,906

**Decalogue: KIE's top 10 mid-cap. recommendations.** Infrastructure and domestic consumption dominate our list of 10 recommendations in the <US\$2 bn market cap. band. Few stocks in this space trade at absolute low valuations—only 10 of our 56 mid-cap. stocks stood our test of (1) BUY/ADD ratings, (2) reasonable valuations and (3) potential triggers over the next 6-9 months. These are: BGR Energy Systems, Biocon, GVK Power and Infrastructure, Indian Overseas Bank, Jagran Prakashan, Mahindra Life Space Developers, Marico, Nagarjuna Construction, Sadbhav Engineering and Shree Cement.

### Dearth of absolute low valuation ideas

Only 13 stocks in our mid-cap. universe meet one of the two criteria (1) FY2011E PE  $\leq$  10 or (2) FY2012E P/BV  $\leq$  1. Among these, we find stocks that have (1) been impacted by a recent negative event (Aban Offshore) or (2) have potential earnings risk or low earnings growth expectations (PSL, Maharashtra Seamless, Balrampur) or (3) are from industries where we do not favor mid-cap. stocks (Polaris).

### Ten of our 56 mid-cap. stocks make the grade

We present 10 stocks based on a combination of (1) valuations, (2) reasonable upside to their respective target prices, (3) presence of potential triggers and (4) absence of key potential negatives. We restrict our selection to stocks under our coverage with market cap. below US\$2 bn.

### Infrastructure and domestic consumption stocks dominate the list

More than half our top-10 mid-cap. stocks are from the industrials/infrastructure-related segments while most of the rest leverage robust domestic consumption. Our screening process has eliminated stocks from (1) cyclical industries, where we find higher earnings risks, (2) technology, where we prefer large-cap. over mid-cap. stocks and (3) telecom, where our sector stance remains cautious based on higher competitive intensity.

### Our top-5 picks have 14-31% potential upside to their respective 12-month target prices

Our top-5 picks are BGR Energy Systems, Jagran Prakashan, Mahindra Life Space Developers, Nagarjuna Construction and Shree Cement which are well-diversified across sectors and offer 14-31% potential upside to their respective target prices.

#### Top-10 KIE mid-cap. stocks

Company	20-Sep-10		Mkt cap.		Target price	Upside
	Price (₹)	Rating	(₹ mn)	(US\$ mn)	(₹)	(%)
BGR Energy Systems	805	BUY	57,985	1,269	950	18
Biocon	355	BUY	70,970	1,553	400	13
GVK Power & Infrastructure	48	BUY	75,802	1,659	54	13
Indian Overseas Bank	141	BUY	76,681	1,678	160	14
Jagran Prakashan	127	BUY	38,261	837	145	14
Mahindra Life Space Developer	462	ADD	19,518	427	540	17
Marico	127	ADD	77,222	1,690	140	10
Nagarjuna Construction Co.	160	BUY	40,964	897	205	28
Sadbhav Engineering	1,573	BUY	23,595	516	1,750	11
Shree Cement	2,029	BUY	70,692	1,547	2,550	26

Source: Bloomberg, Kotak Institutional Equities estimates

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Kotak Institutional Equities  
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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 September 20, 2010.

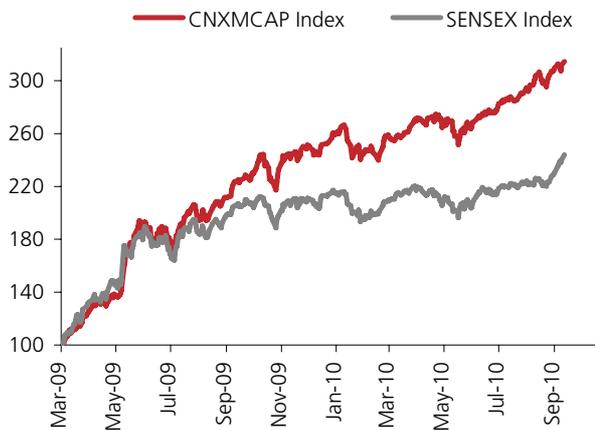
### TEN STOCKS STANDING

The current market rally has narrowed the valuation gap between mid-caps and large-caps and taken FII ownership in mid-caps to almost large-cap. levels. Our top mid-cap. picks appear to be led by infrastructure-creation and domestic consumption. For these, we also derive comfort from (1) relatively less non-India exposure, (2) low event risks, (3) low concentration on heavily consolidated industries and (4) likely triggers over the next 6-9 months.

#### Market rally narrowing valuation gap between CNXMIDCAP Index and BSE-30

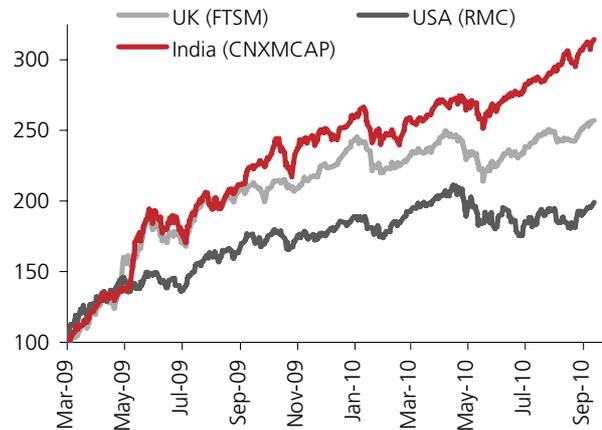
Exhibit 1 shows the CNXMIDCAP Index (100 mid-cap. stocks) up more than 3.1X from its bottom on March 9, 2009, significantly outperforming BSE-30's performance of 2.4X. Indian mid-caps have outperformed global peers too over this period (Exhibit 2). However, the CNXMIDCAP trades at a 21% discount versus the Sensex (historic 12M trailing) compared to an average discount of 17% between the CNXMIDCAP and Sensex (Exhibit 3) over the past 12 months.

**Exhibit 1: CNXMIDCAP index has outperformed SENSEX post 2009 bottom**  
Relative price performance of CNXMIDCAP and SENSEX



Source: Bloomberg

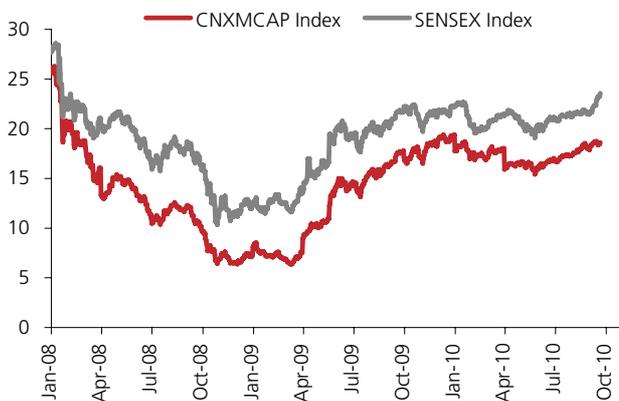
**Exhibit 2: India mid-cap. index has outperformed global mid-cap. indices**  
Comparative performance of Indian mid-cap. index and global peers



Source: Bloomberg

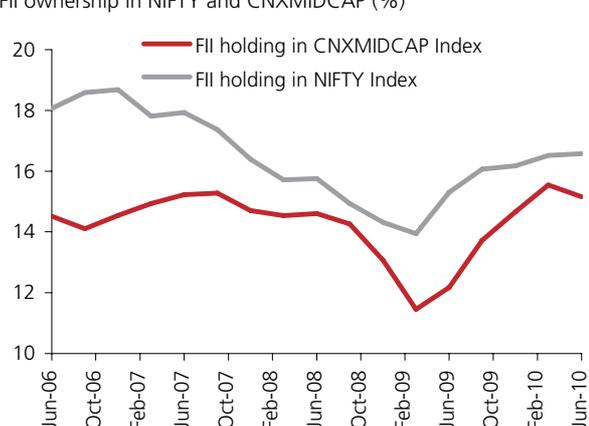
FII ownership proportion of Indian mid-cap. stocks has been increasing post its March 2009 low of 11.5%, and at 15.2% at end-June 2010 is actually only 1.4% points lower than FII holdings in large-caps.

**Exhibit 3: CNX MIDCAP index trading at an 21% discount to BSE-30**  
P/E ratios of CNXMIDCAP Index and SENSEX (X)



Source: Bloomberg

**Exhibit 4: FII ownership trend in mid-caps has been in line with large-caps**  
FII ownership in NIFTY and CNXMIDCAP (%)



Source: Bloomberg

### Infrastructure and domestic consumption dominate our top picks

We sift through the BUY/ADD-rated stocks in our mid-cap. universe to identify a portfolio of stocks that have a balance of (1) valuations, (2) reasonable upside to their respective KIE target prices, (3) presence of potential triggers and (4) absence of key potential negatives. We find infrastructure-creation stocks dominating the list with domestic consumption-oriented stocks making up most of the balance.

### Infrastructure–Industrials/Construction come out on top

More than half of our top-10 mid-cap. picks are leveraged to step up in India's infrastructure spend driven by (1) robust private sector capex with growth visibility, higher capacity utilization and higher risk appetite and (2) higher infrastructure investment by the government—US\$500 bn over FY2008-12E.

Within this theme, we avoid asset-heavy stocks except GVK Power and Infrastructure and see the list dominated by 'asset-creators' (Nagarjuna Construction, Sadbhav, BGR Energy Systems, Shree Cement, Mahindra Life Space).

### Focus on robust domestic consumption

#### Avoid most traditional plays

Our domestic consumption theme throws up only two names – Marico and Jagran Prakashan. We have had to sideline telecom sector stocks (where our sector view is Cautious, driven by increased competition and consequent margin pressure along with stretched valuations) and the FMCG sector (except Marico) where our consumer research team believes industry fundamentals to be still robust, but is cautious on the sector (no BUY recommendations) nevertheless because of limited valuation upside and opportunities for earnings upgrades.

#### Avoiding Cyclical and Technology too

We avoid choosing stocks from cyclical industries (metals, sugar) where we find that the risk to earnings is potentially higher given global uncertainty (metals) and higher supply concerns (sugar). In the technology sector, we find large-cap. companies better positioned to leverage current robust demand and we expect the revenue growth of smaller companies to underperform that of larger peers and also face margin pressures.

#### Exhibit 5: Top-10 KIE mid-cap. picks

Valuation summary of top mid-cap. stocks under coverage

Company	20-Sep-10		Mkt cap.		PER (X)			EV/EBITDA (X)			Price/BV (X)			Target price	Upside (%)
	Price (₹)	Rating	(₹ mn)	(US\$ mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(₹)	
Nagarjuna Construction Co.	160	BUY	40,976	897	22.4	17.3	13.5	11.2	9.7	8.1	1.8	1.7	1.5	210	31
Shree Cement	2,029	BUY	70,692	1,547	9.8	9.2	8.4	4.8	4.6	3.7	3.9	2.7	2.1	2,550	26
BGR Energy Systems	805	BUY	57,985	1,269	50.2	28.8	20.3	28.2	16.4	11.8	10.3	8.2	6.3	950	18
Mahindra Life Space Developer	462	ADD	19,518	427	23.0	19.6	12.9	20.3	14.6	7.2	2.0	1.9	1.7	540	17
Jagran Prakashan	127	BUY	38,261	837	21.8	19.2	16.4	13.1	11.1	9.5	6.2	5.7	5.2	145	14
Indian Overseas Bank	141	BUY	76,681	1,678	10.8	8.4	5.7				1.2	1.1	0.9	160	14
Biocon	355	BUY	70,970	1,553	23.9	20.0	16.1	13.8	11.6	9.6	4.0	3.4	2.9	400	13
GVK Power & Infrastructure	48	BUY	75,802	1,659	59.0	44.2	33.4	19.6	17.8	18.2	2.4	2.3	2.2	54	13
Sadbhav Engineering	1,573	BUY	23,595	516	36.7	25.5	18.0	20.0	13.3	10.2	5.8	3.8	3.2	1,750	11
Marico	127	ADD	77,222	1,690	28.3	23.7	19.7	18.5	15.8	13.0	12.5	8.9	6.7	140	10

Source: Kotak Institutional Equities estimates

### Our mid-cap. universe throws up very few absolute low-valuation opportunities

A screen-based approach hunting for low valuations (P/E or P/BV) along with EPS growth at least in line with market and/or low earnings risk yields Indian Overseas Bank which we have included in our mid-cap. portfolio. Of the 10 stocks that meet our FY2011E P/E < 10X criteria, Aban Offshore and Balrampur Chini Mills have earnings uncertainty or a recent unfavorable event highlighting earnings risk while PSL and Maharashtra Seamless have sub-par earnings growth over FY2010-12E or face potential earnings risks.

Exhibit 6: Very few stocks with attractive valuations (P/E)  
Comparative valuations, set of stocks under 10X FY2011E EPS (X)

Company	20-Sep-10		Mkt cap.		EPS (Rs)			EPS growth (%)		PER (X)		Price/BV (X)		RoE (%)		Target price	Upside
	Price (₹)	Rating	(₹ mn)	(US\$ mn)	2010E	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	(Rs)	(%)
PSL	122	BUY	6,504	142	25.4	28.2	10.6	11.0	4.8	4.3	0.6	0.6	11.7	12.0	182	49.6	
Aban Offshore	840	ADD	36,535	800	154.1	139.3	63.0	(9.6)	5.5	6.0	1.5	1.3	33.1	22.9	935	11.3	
J&K Bank	841	ADD	40,758	892	119.3	139.6	12.9	17.1	7.0	6.0	1.2	1.1	17.9	18.3	850	1.1	
Andhra Bank	167	BUY	81,068	1,774	22.9	26.7	6.4	16.4	7.3	6.3	1.6	1.3	23.1	22.7	180	7.7	
Indian Overseas Bank	141	BUY	76,681	1,678	16.7	24.8	29.0	48.4	8.4	5.7	1.1	0.9	11.6	15.4	160	13.7	
Balrampur Chini Mills	92	ADD	23,647	518	10.4	7.0	140.4	(32.7)	8.8	13.1	1.5	1.4	17.9	10.9	93	1.0	
Maharashtra Seamless	390	BUY	27,482	601	43.6	49.8	8.5	14.2	8.9	7.8	1.5	1.3	17.9	17.7	450	15.5	
Polaris Software Lab	176	SELL	17,547	384	19.1	18.8	24.3	(1.7)	9.2	9.4	1.7	1.5	20.1	17.2	180	2.3	
Shree Cement	2,029	BUY	70,692	1,547	221.1	242.5	6.3	9.7	9.2	8.4	2.7	2.1	35.0	28.1	2,550	25.7	
Welspun Corp	258	ADD	53,011	1,160	27.0	25.6	(15.7)	(5.4)	9.5	10.1	1.4	1.2	15.6	12.8	286	10.9	

Source: Kotak Institutional Equities estimates

### Very few stocks below 1X P/B even on FY2012E book value

Similarly, based on a P/BV screening, our coverage universe yields only five mid-cap. stocks that trade below 1X FY2012E book value. Of these, we have only two stocks (PSL, Indian Overseas Bank) rated BUY or ADD.

Exhibit 7: Again, very few stocks with attractive P/BV  
Comparative valuations, set of stocks with FY2012E P/BV < 1

Company	20-Sep-10		Mkt cap.		EPS (Rs)			EPS growth (%)		PER (X)		Price/BV (X)		RoE (%)		Target price	Upside
	Price (₹)	Rating	(₹ mn)	(US\$ mn)	2010E	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	(Rs)	(%)
MTNL	65	SELL	40,667	890	(15.6)	(10.4)	(9.1)	(33.7)	(11.9)	(6.2)	(7.1)	0.4	0.4	(6.1)	(5.7)	50	(22.5)
PSL	122	BUY	6,504	142	22.9	25.4	28.2	10.6	11.0	4.8	4.3	0.6	0.6	11.7	12.0	182	49.6
India Cements	120	SELL	36,784	805	10.0	7.4	9.4	(26.5)	27.5	16.2	12.7	0.8	0.8	5.7	7.0	100	(16.5)
Bajaj Hindustan	132	SELL	25,307	554	4.9	9.9	8.9	101.0	(9.9)	13.4	14.9	1.0	0.9	7.9	6.5	99	(25.1)
Indian Overseas Bank	141	BUY	76,681	1,678	13.0	16.7	24.8	29.0	48.4	8.4	5.7	1.1	0.9	11.6	15.4	160	13.7

Source: Kotak Institutional Equities

## BGR ENERGY [BUY, TP: ₹950]

We have a BUY rating on BGR based on (1) strong execution of large EPC orders, (2) high near-term visibility based on large order backlog, (3) potential to ramp up power generation earnings on the back of execution credibility, (4) strong balance sheet and working capital position, (5) visibility on Hitachi JV and (6) management confidence in near-term growth as well as order booking. We do not value the equipment foray as there is low visibility on its likely market positioning with an increasing number of vendors jostling for space, compounded by potential dilution in pursuit of resources for the same.

### Finalizes equipment JVs with Hitachi; potential equity requirement of ₹10 bn

BGR Energy, on August 6, 2010, finalized its joint ventures with Hitachi for supercritical boilers and turbines. The Boiler JV (BGR Boilers Pvt. Ltd) was signed with Hitachi Ltd (Japan) with Hitachi holding 30% stake in the JV while the turbine JV (BGR Turbines Company Ltd) was signed with Hitachi Power Europe GmbH (Germany) with Hitachi having 26% stake in the JV. Both JVs are expected to commence production in 2012 with a manufacturing capacity of about 4,000 MW (capacity to manufacture five units of 660 MW, 800 MW or 1,000 MW per annum).

The formation of the JV positions BGR as one of the only three companies in India (apart from L&T and BHEL) capable of offering the complete boiler and turbine package. We believe equipment ventures were a necessity for BGR Energy to establish long-term growth potential, as the BoP space gets more competitive and a lack of acceptability of Chinese equipment made it tougher to get EPC tenders like Mettur and Kalisindh with Chinese JVs.

Exhibit 8: BGR Energy, key details of the two boiler and turbine JVs of BGR Energy and Hitachi

<b>Turbine JV</b>	
JV Company	BGR Turbines Company Ltd
Shareholding	BGR Energy - 74%, Hitachi Ltd - 26%
Estimated investment (₹ bn)	30
Estimated year of commissioning	2012
Capacity per annum	5 units of 660 MW, 800 MW and 1,000 MW
<b>BGR's equity requirement (assuming 70:30 Debt:Equity)</b>	<b>6.7</b>
<b>Boiler JV</b>	
JV Company	BGR Boilers Pvt. Ltd
Shareholding	BGR Energy - 70%, Hitachi Ltd - 30%
Estimated investment (₹ bn)	14
Estimated year of commissioning	2012
Capacity per annum	5 units of 660 MW, 800 MW and 1,000 MW
<b>BGR's equity requirement (assuming 70:30 Debt:Equity)</b>	<b>2.9</b>

Source: Company

### JVs would require a total equity commitment of ~ ₹10 bn from BGR

The company plans to set up the equipment manufacturing facility in Tamil Nadu with an initial capacity of about 4,000 MW. The likely total investment requirement for the JV would be to the tune of about ₹44 bn—comprised of ₹30 bn for the turbine JV and ₹14 bn for the boiler JV. Assuming a debt:equity ratio of 70:30, this would imply a total equity requirement of about ₹13-14 bn in both the JVs. Hence, the total equity requirement for BGR's 74% share in the turbine JV and 70% share in the boiler JV works out to about ₹9.5-10 bn. This equity would be required over the next three years.

**Manufacturing facility likely to be completed in about three years—expect to achieve high level of indigenization in five years**

The company expects to complete the equipment manufacturing facility in about 2-3 years for the boiler facility. The turbine facility would also take about three years with an additional two years required to achieve high level of indigenization. The boiler facility would be close to 100% indigenized in five years but certain turbine components such as rotors and blades would still have to be imported. Complete indigenization would take about 8-9 years. The management has said it would take about 5-7 years for a breakeven of its capital (expected by 2017).

**BGR to continue to bid for tenders based on imports till facility is ready**

BGR Energy plans to participate in bidding for the upcoming tenders (NTPC bulk tenders, Jindal Power etc). For the initial supercritical orders (until the manufacturing facility is ready), the company would import the boiler and turbine from Hitachi and supply in the domestic market. Apart from L&T (which commissioned its manufacturing facility in July 2010), all the other new private players (Bharat Forge, JSW, Thermax etc.) would also be importing the equipment from their JV partners for the first few orders. BGR Energy's management claims that despite the import of complete equipment in the initial orders, the company would still have a cost structure similar to BHEL as even BHEL has high import content in its supercritical orders.

**Eyeing NTPC tenders—may argue for more distribution of business**

We believe heightened interest in power equipment manufacturing is led by (1) orders on a platter in the form of bulk tendering, (2) mandatory requirement of domestic manufacturing for the NTPC bulk tender and likely to be extended to most public tenders (potentially even UMPPs etc.) and (3) possible imposition of customs duty on imported equipment, reducing its viability. BGR is keen to bid for NTPC's 11X660 MW boiler equipment tender and may represent that original distribution of boiler orders (six units for L1 bidder and five for L2 if it meets the L1 price) should be changed to give a chance to more participants as in case of turbines. We believe this may further delay the final decision into FY2012E.

**Synergies with existing presence in power sector may imply higher value for JV**

We believe the JV with Hitachi is value accretive in the long term for BGR Energy. Actual business value of a "go"- "no go" decision may be higher led by synergies with existing businesses (as BoP gets more competitive and Chinese equipment-led EPC strategy loses edge on preference for domestic). BGR may have an advantage over competitors such as Thermax, JSW-Toshiba and Bharat Forge Alstom based on (1) full service offering and (2) presence in large-power-plant-execution space. The management believes that only BHEL and L&T would be the key competitors as only these companies have the capability to offer full BTG/EPC. Most of the other new entrants are setting up product-specific facilities; for instance, Thermax is entering the boiler space only while Bharat Forge and JSW are entering only the turbine space. A full service offering and presence in large-scale EPC may be an advantage versus competitors such as Thermax.

**Several large orders in the pipeline; guides for inflows of ₹150-200 bn in FY11E**

The company is aiming at bidding for orders to the tune of about ₹350-400 bn in FY2011E and expects to win orders of about ₹150-200 bn. Opportunities in the near term include (1) EPC order for 2X660 MW Suratgarh project and 2X660 MW Chhabra project for Rajasthan Rajya Vidyut Utpadan Nigam Ltd (₹65 bn each), (2) EPC order for 350 MW gas-based project in Gujarat (Dhuvaran) and (3) BoP order for 3X660 MW Koradi power plant in Maharashtra. The company has already placed bids for these orders. The competition has been relatively limited for the two Rajasthan state EPC orders with only two bidders (BHEL and BGR Energy) for one project and three bidders (BHEL, BGR Energy and Power Machines, Russia) for the other.

We believe that the company may win one of the two Rajasthan state orders based on demonstration of strong execution capability in the Kalisindh order—likely to have completed about 50% of the project by the time these orders are placed.

The company also plans to participate in the 9X800 MW bulk tendering of NTPC which is likely to open in Sept-Oct 2010 and the Jindal Power tender for 10X660 or 8X800 MW BTG order. However, we believe that these orders are unlikely to be finalized in FY2011E and may flow into FY2012E.

**Exhibit 9: BGR has already bid for orders worth ₹15 bn; several other large orders in the offing**  
List of orders likely to be bid out in the near future

Project	State	Client	Configuration	Type of contract
<b>Bids placed</b>				
Suratgarh	Rajasthan	RRVUNL	2X 660 MW	EPC
Chhabra	Rajasthan	RRVUNL	2X 660 MW	EPC
Dhuvaran	Gujarat	GSECL	350 MW	EPC
<b>Upcoming tenders</b>				
Bulk tender		NTPC	9X 800 MW	BTG
Bulk tender		Jindal Power	10X 660 / 8X 800 MW	BTG
Wanakbori	Gujarat	GSECL	1X 800 MW	EPC
Salboni	West Bengal	JSW Energy	2X 800 MW	BTG

Source: Projects Today, News flows, Kotak Institutional Equities

### Strong execution brings credibility, a strong advantage in large BoP/EPC market

Strong execution of EPC contracts, as demonstrated by BGR in the past two quarters, helps the company gain credibility in delivering large-sized EPC projects in the power sector in a timely and cost-efficient manner. We view this as a strong advantage as the company expands presence in the large Indian power generation EPC market by (1) developing equipment manufacturing capabilities and (2) targeting more client segments besides SEBs currently. The company is primarily focused on state government contracts and does not participate in orders by central utilities like NTPC, DVC, where the BoP package is split among various vendors. We believe incremental orders in BoP space, particularly from increasingly important private utilities (at least those who do not have their own EPC business such as Sterlite, Adani etc.), would be an important catalyst to provide evidence of broader acceptance. Furthermore, the Indian partners of several of new entrants in power equipment manufacturing do not have track records for delivering large projects, of the kind BGR could achieve.

### Backlog to drive FY11E growth; Rajasthan tenders key near-term catalysts

We have currently modeled revenue growth of 52% in FY2011E based on (1) expected power segment revenues of ₹44.2 bn in FY2011E, (2) execution of about 35-40% of the EPC orders (Kalisindh and Mettur) in FY2011E and (3) pick-up in execution of the Marwa and Chandrapur BoP projects, which are expected to contribute about ₹10-12 bn to FY2011E revenues.

We expect the company to report power segment revenues of ₹58.4 bn in FY2012E, led by execution of the remaining of the EPC and large BoP orders in the current backlog and start of execution of some new orders won in FY2011E. We expect the company to win at least one 2X660 MW EPC order in FY2011E (likely in the second half) which would lead to strong revenue growth in FY2012E. Execution of new orders is expected to contribute to about 26% of total power segment revenues in FY2012E.

We have built in EBITDA margin of about 11% over FY2011-12E, led by 12% margin in the BoP segment and 10.5% margin in the EPC segment. The management expects to maintain EBITDA margins at about 11-11.5% and PAT margin of about 6.5% in FY2011E as well.

Exhibit 10: Power segment order inflows, backlog and execution estimates  
BGR Energy, March fiscal year-ends, 2008-12E (₹ mn)

	2008	2009	2010E	2011E	2012E
<b>Total power segment</b>					
Execution	9,210	18,660	28,760	44,225	58,390
EBITDA	891	1,687	3,238	4,839	6,239
EBITDA margin (%)	9.7	9.0	11.3	10.9	10.7
Order inflows	24,290	80,000	32,650	81,000	106,000
Order backlog	26,430	87,770	91,660	128,435	176,045
<b>BOP orders</b>					
<b>Order booking</b>	<b>24,770</b>	<b>—</b>	<b>32,650</b>	<b>16,000</b>	<b>16,000</b>
Vijaywada					
Kakatiya					
Kaperkheda	9,980				
EPS Koanaseema	6,860				
Kothagudem, AP	7,930				
Chandrapur MAH					
Marwa					
New orders	NA	NA	NA	16,000	16,000
<b>Order backlog</b>	<b>26,870</b>	<b>14,170</b>	<b>39,410</b>	<b>42,360</b>	<b>38,360</b>
Vijaywada					
Kakatiya	3,150	650	—	—	—
Kaperkheda	8,480	3,480	390	—	—
EPS Koanaseema	6,860	6,860	6,860	6,860	5,860
Kothagudem, AP	7,180	3,180	1,160	—	—
Chandrapur MAH					
Marwa					
New orders	NA	NA	NA	14,500	22,500
<b>Execution details</b>	<b>9,060</b>	<b>12,700</b>	<b>7,410</b>	<b>13,050</b>	<b>20,000</b>
Vijaywada					
Kakatiya	3,400	2,500	650	—	—
Kaperkheda	1,500	5,000	3,090	390	—
EPS Koanaseema	—	—	—	—	1,000
Kothagudem, AP	750	4,000	2,020	1,160	—
Chandrapur MAH					
Marwa					
New orders	NA	NA	NA	1,500	8,000
<b>EPC projects</b>					
<b>Order booking</b>	<b>80,000</b>	<b>—</b>	<b>65,000</b>	<b>90,000</b>	<b>90,000</b>
Mettur					
Kalisindh					
New orders	NA	NA	65,000	90,000	90,000
<b>Order backlog</b>	<b>74,040</b>	<b>52,690</b>	<b>86,515</b>	<b>138,125</b>	<b>138,125</b>
Mettur					
Kalisindh					
New orders	NA	NA	63,375	138,125	138,125
<b>Execution</b>	<b>5,960</b>	<b>21,350</b>	<b>31,175</b>	<b>38,390</b>	<b>38,390</b>
Mettur					
Kalisindh					
New orders	NA	NA	1,625	15,250	15,250

FY2012E revenue growth led by expected supercritical EPC order in 2HFY11E

Expect margins of ~11% in FY2011E-12E led by BoP margins of 12% and EPC margins of 10-10.5%

Expect average annual order inflows of about Rs16 bn from BoP segment

Expect the company to win atleast one 2X 660 MW order in FY2011E

26% of power segment revenues in FY2012E from execution of expected

Source: Company, Kotak Institutional Equities estimates

## Valuation and Financials

Exhibit 11: BGR Energy, valuation summary, March fiscal year-ends, 2010-12E

Stock data	High	Low	Price performance	1M	3M	12M
52-week range (₹)	950	410	Absolute (%)	(3.1)	4.2	79.6
Yield (%)		0.4	Rel. to BSE-30 (%)	(10.4)	(6.4)	51.0
<b>Capitalization</b>			<b>Forecasts/valuation</b>			
Price (₹)		805	P/E (X)	50.2	28.8	20.3
Market cap (₹ bn)		58	EV/EBITDA (X)	28.2	16.4	11.8
Free float (%)		18.8	P/B (X)	10.3	8.2	6.3
Shares outstanding (mn)		72	RoAE (%)	22.3	31.8	35.1

Source: Kotak Institutional Equities estimates

Exhibit 12: BGR Energy, summary financials, March fiscal year-ends, 2008-13E (₹ mn)

	2005	2007	2008	2009	2010	2011E	2012E	2013E
<b>Income statement</b>								
<b>Operating income</b>	<b>2,993</b>	<b>7,900</b>	<b>15,177</b>	<b>19,314</b>	<b>30,709</b>	<b>46,715</b>	<b>60,903</b>	<b>73,555</b>
Total operating expenses	(2,704)	(7,018)	(13,623)	(17,225)	(27,267)	(41,504)	(54,290)	(65,715)
<b>EBITDA</b>	<b>289</b>	<b>882</b>	<b>1,553</b>	<b>2,089</b>	<b>3,442</b>	<b>5,211</b>	<b>6,613</b>	<b>7,840</b>
Other income	(1)	3	52	317	250	493	473	348
Interest expense	(61)	(180)	(254)	(579)	(538)	(909)	(1,401)	(2,063)
Depreciation	(32)	(89)	(55)	(75)	(103)	(218)	(296)	(376)
<b>Pre-tax profit</b>	<b>190</b>	<b>613</b>	<b>1,296</b>	<b>1,752</b>	<b>3,051</b>	<b>4,577</b>	<b>5,389</b>	<b>5,749</b>
Tax	(54)	(213)	(411)	(596)	(1,037)	(1,541)	(1,814)	(1,935)
<b>Net profits</b>	<b>135</b>	<b>400</b>	<b>885</b>	<b>1,156</b>	<b>2,015</b>	<b>3,037</b>	<b>3,575</b>	<b>3,814</b>
<b>EPS (₹)</b>	<b>12.6</b>	<b>4.0</b>	<b>12.1</b>	<b>16.0</b>	<b>28.0</b>	<b>42.2</b>	<b>49.7</b>	<b>53.0</b>
<b>Balance sheet</b>								
<b>Shareholders funds</b>	<b>431</b>	<b>825</b>	<b>4,732</b>	<b>5,633</b>	<b>7,057</b>	<b>9,378</b>	<b>12,117</b>	<b>15,039</b>
Equity share capital	108	108	720	720	720	720	720	720
Reserves and surplus	323	717	4,012	4,913	6,337	8,658	11,397	14,319
<b>Loan funds</b>	<b>562</b>	<b>889</b>	<b>2,464</b>	<b>5,027</b>	<b>7,090</b>	<b>9,336</b>	<b>13,635</b>	<b>15,635</b>
Secured	505	831	2,405	4,992	6,360	5,314	13,135	15,135
Unsecured	57	58	59	35	730	4,023	500	500
<b>Total sources of funds</b>	<b>1,323</b>	<b>3,304</b>	<b>10,141</b>	<b>13,498</b>	<b>17,973</b>	<b>24,621</b>	<b>29,401</b>	<b>39,873</b>
<b>Net fixed assets</b>	<b>336</b>	<b>414</b>	<b>538</b>	<b>1,031</b>	<b>1,557</b>	<b>2,334</b>	<b>3,138</b>	<b>3,961</b>
Investments	1	3	1,514	5	5	745	3,705	9,605
<b>Net current assets (excl. cash)</b>	<b>801</b>	<b>1,958</b>	<b>5,019</b>	<b>6,310</b>	<b>6,130</b>	<b>11,733</b>	<b>15,510</b>	<b>19,049</b>
Cash	185	929	3,070	6,152	10,280	9,809	7,048	7,257
<b>Total application of funds</b>	<b>1,323</b>	<b>3,304</b>	<b>10,141</b>	<b>13,498</b>	<b>17,973</b>	<b>24,621</b>	<b>29,401</b>	<b>39,873</b>
<b>Free cash flow</b>								
Net profit before tax and extraordinary items	190	613	1,296	1,752	3,051	4,577	5,389	5,749
Add: Depreciation / amortisation / non-cash prov	30	132	2,645	75	103	218	296	376
Tax paid	(54)	(213)	(148)	(205)	(233)	(1,510)	(1,772)	(1,883)
<b>Operating profit before Wcap. changes</b>	<b>165</b>	<b>531</b>	<b>3,793</b>	<b>1,622</b>	<b>2,921</b>	<b>3,285</b>	<b>3,913</b>	<b>4,242</b>
Change in working capital / other adjustments	(392)	(1,157)	(3,060)	(1,292)	180	(5,603)	(3,777)	(3,539)
<b>Net cashflow from operating activities</b>	<b>(226)</b>	<b>(626)</b>	<b>732</b>	<b>330</b>	<b>3,101</b>	<b>(2,318)</b>	<b>136</b>	<b>703</b>
Fixed Assets	(121)	(167)	(179)	(568)	(629)	(994)	(1,100)	(1,200)
Investments	—	(2)	(1,511)	1,509	—	(740)	(2,960)	(5,900)
<b>Cash (used) / realised in investing activities</b>	<b>(121)</b>	<b>(169)</b>	<b>(1,691)</b>	<b>941</b>	<b>(629)</b>	<b>(1,734)</b>	<b>(4,060)</b>	<b>(7,100)</b>
<b>Free cash flow</b>	<b>(347)</b>	<b>(795)</b>	<b>(958)</b>	<b>1,271</b>	<b>2,472</b>	<b>(4,052)</b>	<b>(3,924)</b>	<b>(6,397)</b>
<b>Ratios</b>								
EBITDA margin (%)	9.7	11.2	10.2	10.8	11.2	11.2	10.9	10.7
Net debt/equity	0.9	(0.0)	(0.1)	(0.2)	(0.5)	(0.1)	0.5	0.6
RoAE (%)	35.9	42.4	21.2	22.3	31.8	37.0	33.3	28.1
RoACE (%)	16.2	14.9	10.5	13.0	14.7	17.1	16.7	14.9

Source: Company, Kotak Institutional Equities estimates

**BIOCON [BUY, TP: ₹400]**

BIOS should be a key holding for any long-term investor. BIOS could be the first integrated Indian biopharma company with 2012 as the inflexion point, when BIOS could enter EU with human insulin biosimilar. In the interim, BIOS's near-term earnings are likely to remain on a strong wicket, leading to BIOS reporting strong PAT growth of 33% in 1QFY11, beating consensus estimates. We expect 20% earnings CAGR over FY2011-12E on the back of (1) 15% sales CAGR, (2) modest margin expansion of 50 bps and (3) interest cost savings. BIOS is trading at 16X FY2012E earnings, lower than its five-year average of 18X. At our target price, BIOS will trade at 18X FY2012E earnings. News on out-licensing of oral insulin could lead to re-rating of the stock.

**Valuation—scope for multiple expansions as quality of business improves**

Exhibit 13 gives our SOTP-based valuation for BIOS. The stock offers 13% potential upside to our target price of ₹400 from current levels. At the current price of ₹355, BIOS is trading at 16X FY2012E EPS, which we find attractive in the context of the company's strong growth in earnings for the next several years.

We arrive at a price target based on 14X forward earnings multiple for contract research, 10X for statin segment and 18X for its biopharmaceutical business. At our target price, BIOS will trade at 18X FY2012E EPS. We believe there is a scope for multiple expansions in contract research as the quality of business improves to higher value-added business.

**Exhibit 13: Our target price of ₹400 results in 26% potential upside**  
Biocon, SOTP-based valuation, March fiscal year-ends, 2011-12E

	PAT (₹ mn)		P/E (X)	Valuation (₹ mn)	
	FY2011E	FY2012E		FY2011E	FY2012E
Pharmaceuticals					
Statis	404	463	10.0	4,044	4,630
Others	2,358	3,006	18.0	42,442	54,103
Contract research	751	916	14.0	10,518	12,819
<b>Total (ex interest income)</b>	<b>3,514</b>	<b>4,384</b>		<b>57,004</b>	<b>71,552</b>
<b>Value per share (₹)</b>				<b>293</b>	<b>368</b>
Cash per share				4	20
<b>Share price target</b>					<b>390</b>

Source: Kotak Institutional Equities estimates

**Revenues set to grow strongly driven by multiple drivers**

We estimate BIOS's revenues excluding Axicorp/licensing income to grow at 20% in FY2011E and 17% in FY2012E, driven by

- ▶ 30% growth in domestic branded finished dosage in FY2011E. It will launch two new divisions in 2QFY11 for hospitals and critical-care products. Biocon has also started focusing on rural areas and Tier I-II cities in line with the trend in the industry.
- ▶ Contract research revenues of US\$75 mn and US\$93 mn in FY2011-12E versus US\$60 mn in FY2010. This increase is primarily coming from new contract with BMS which started in April 2009 and is expected to peak to 400 scientists in 3QFY11 and new customer wins.
- ▶ BIOS statin revenues will continue to see yoy revenue growth in addition to the 26% growth seen in FY2010 led by (1) sales of two new products of Atorvastatin and Rovustatin and (2) stable prices for existing products of Simvastatin.
- ▶ On top of the 28% growth seen in Immunosuppressants in FY2010, Biocon expects significant growth in this segment driven by tacrolimus API sales in developed markets upon 6-7 partners securing ANDA approvals. In addition, Biocon also expects to commercialize additional products in this segment in 2HFY11.

## Valuation and financials

Exhibit 14: Biocon, valuation summary, March fiscal year-ends, 2010-12E

Stock data	High	Low	Price performance	1M	3M	12M
52-week range (₹)	359	230	Absolute (%)	0.9	12.9	51.9
Yield (%)		0.0	Rel. to BSE-30 (%)	(6.7)	1.4	27.8
Capitalization			Forecasts/valuation	2010	2011E	2012E
Price (₹)		355	P/E (X)	23.9	20.0	16.1
Market cap (₹ bn)		71	EV/EBITDA (X)	13.8	11.6	9.6
Free float (%)		39.1	P/B (X)	4.0	3.4	2.9
Shares outstanding (mn)		200	RoAE (%)	17.9	18.8	20.0

Source: Kotak Institutional Equities estimates

Exhibit 15: Biocon, summary financials, March fiscal year-ends, 2007-13E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E
<b>Profit model</b>							
<b>Net sales</b>	<b>9,857</b>	<b>10,538</b>	<b>16,086</b>	<b>23,678</b>	<b>28,177</b>	<b>31,368</b>	<b>35,356</b>
<b>Total expenditure</b>	(7,022)	(7,552)	(12,853)	(18,963)	(22,639)	(24,948)	(28,055)
<b>EBITDA</b>	<b>2,834</b>	<b>2,986</b>	<b>3,233</b>	<b>4,715</b>	<b>5,538</b>	<b>6,420</b>	<b>7,301</b>
Depreciation and amortisation	(665)	(939)	(1,103)	(1,401)	(1,580)	(1,750)	(1,950)
<b>EBIT</b>	<b>2,169</b>	<b>2,047</b>	<b>2,131</b>	<b>3,314</b>	<b>3,958</b>	<b>4,670</b>	<b>5,351</b>
Net finance cost	(98)	(102)	(177)	(169)	(160)	—	—
Other income	38	364	646	370	500	500	500
Loss/(gain) on forward covers	—	—	(1,472)	—	—	—	—
<b>Pretax profits before extra-ordinaries</b>	<b>2,109</b>	<b>2,309</b>	<b>1,128</b>	<b>3,515</b>	<b>4,298</b>	<b>5,170</b>	<b>5,851</b>
Current tax	(18)	(97)	(98)	(445)	(663)	(672)	(761)
Deferred tax	(151)	(17)	(1)	(42)	—	—	—
Fringe benefit tax	—	(15)	(19)	—	—	—	—
<b>Reported net profit</b>	<b>1,940</b>	<b>2,180</b>	<b>1,009</b>	<b>3,028</b>	<b>3,635</b>	<b>4,498</b>	<b>5,090</b>
Profit/(loss) in minority interest	(62)	(65)	79	96	80	99	112
<b>Net profit after minority interests</b>	<b>2,002</b>	<b>2,245</b>	<b>930</b>	<b>2,932</b>	<b>3,555</b>	<b>4,399</b>	<b>4,978</b>
Exceptional items	—	2,394	—	—	—	—	—
<b>Net profit after minority interests and excep. Items</b>	<b>2,002</b>	<b>4,639</b>	<b>930</b>	<b>2,932</b>	<b>3,555</b>	<b>4,399</b>	<b>4,978</b>
<b>Balance sheet</b>							
Total equity	10,686	14,841	15,107	17,578	20,436	23,996	28,270
Total debt	1,868	2,551	5,239	5,136	—	—	—
Current liabilities	2,749	3,005	4,375	5,799	7,089	8,200	9,433
Minority interests	(8)	(73)	248	338	423	523	640
Deferred tax liabilities	448	465	466	508	508	508	508
<b>Total equity and liabilities</b>	<b>15,744</b>	<b>20,789</b>	<b>25,436</b>	<b>29,359</b>	<b>28,455</b>	<b>33,227</b>	<b>38,850</b>
Cash and cash equivalents	87	96	118	1,399	150	150	150
Current assets	5,209	5,250	7,806	9,520	11,972	14,101	16,441
Net assets incl intangibles	9,657	10,695	13,836	14,134	15,054	14,754	14,304
Investments	790	4,748	3,676	4,306	1,279	4,222	7,954
<b>Total uses of funds</b>	<b>15,744</b>	<b>20,789</b>	<b>25,436</b>	<b>29,359</b>	<b>28,455</b>	<b>33,227</b>	<b>38,850</b>
<b>Free cash flow</b>							
Operating cash flow, excl. working capital	2,660	2,872	3,009	4,256	5,101	5,935	6,815
Working capital	(1,557)	(20)	(1,302)	(363)	(1,298)	(1,017)	(1,108)
Capital expenditure	(2,040)	(1,836)	(4,243)	(1,547)	(2,500)	(1,500)	(1,500)
Investments	(212)	3,957	(1,071)	630	(3,027)	2,943	3,732
<b>Free cash flow</b>	<b>(1,148)</b>	<b>4,974</b>	<b>(3,607)</b>	<b>2,976</b>	<b>(1,724)</b>	<b>6,361</b>	<b>7,939</b>

Source: Company, Kotak Institutional Equities estimates

## INDIAN OVERSEAS BANK [BUY, TP: 160]

We add IOB to this list for several reasons: (1) Its asset quality is likely to improve sharply, lifted by lower slippages and higher recoveries, (2) we like its strategy to slow down loan growth and strengthen its balance sheet and (3) valuations are attractive at 0.9X PBR and 5.6X PER FY2012 delivering RoEs of 15%.

### Asset quality witnessing turnaround

IOB is seeing an interesting turnaround in asset quality after having one of the highest slippages and restructured loans compared to the industry in FY2009-10. Gross NPLs are currently at 4.3% of loans (with slippages at 400 bps in FY2009-10) but 1QFY11 saw both slippages coming off (1.8% of loans) and recoveries/upgradations improving sharply (1.8% of loans). Incremental restructuring of loans has been low (outstanding restructured book is about 8% of loans) of which, about 20% have already slipped into NPLs. With the provision coverage ratio expected to reach 70% by March 2011, we see a sharp decline in loan loss provisions in FY2012. We are currently factoring about 10 bps decline each year for FY2011-12.

### Expect improvement in RoE/RoA

We see the RoEs of IOB improving to over 15% in FY2012 from the 10% levels reported in FY2010 on the back of healthy balance sheet growth, margins at closer to 3% levels, and decline in credit costs. RoAs will improve to 0.8% levels from 0.6% reported in FY2010.

### SME led business giving strong pricing power

In line with some of its regional peers, IOB has a higher SME portfolio which helps buttress its pricing power and enables higher margins despite its CASA ratio being below the industry average. Margins are currently at 2.9% but IOB was one of the least impacted amongst PSUs in the previous interest rate cycle (NIMs reached a low of 2.6% in 4QFY10). Also, the bank's bid to reverse the slowdown in the growth of its balance resulted in a focus on CASA deposits (CASA ratio at 33% in 1QFY11 compared to 29% in 1QFY10). We are factoring margins to improve by 20 bps in FY2011 and 10 bps in FY2011 driven by deposit repricing, lower slippages (de-recognition of income) and a high yielding loan portfolio.

### Trading at attractive valuations

We find valuations attractive at 0.9X FY2012 PBR and 5.6X PER giving an upside of over 15%. We see limited downside risk to our valuations as we are conservatively valuing the bank at 1X FY2012 PBR. However, earnings can surprise positively as credit costs can be lower than our current estimates.

### Key risks

The bank has been losing market share in CASA deposits and the adverse interest rate movement can (resulting in higher dependence on bulk deposits) increase the volatility of earnings or asset quality. The bank's corporate/SME focus results in lumpy NPL formations.

Exhibit 16: IOB, valuation summary, March fiscal year-ends, 2010-12E

Stock data	High	Low	Price performance	1M	3M	12M
52-week range (₹)	144	81	Absolute (%)	3.4	36.5	26.6
Yield (%)		2.5	Rel. to BSE-30 (%)	(4.4)	22.5	6.5
Capitalization			Forecasts/valuation			
Price (₹)		141	2010	2011E	2012E	
Market cap (₹ bn)		77	P/E (X)	10.8	8.4	5.7
Free float (%)		42.8	EV/EBITDA (X)	—	—	—
Shares outstanding (mn)		545	P/B (X)	1.2	1.1	0.9
			RoAE (%)	9.6	11.6	15.4

Source: Kotak Institutional Equities

Exhibit 17: IOB, key ratios and growth rates, March fiscal year-ends, 2008-13E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
Growth rates(%)						
Net loan	28.4	23.9	5.5	15.0	20.7	20.5
Total Asset	23.8	18.9	8.3	11.8	19.2	19.4
Deposits	22.7	18.7	10.7	15.0	20.7	20.5
Current	32.0	(9.6)	18.2	32.6	20.7	20.5
Savings	12.0	15.3	19.4	15.6	20.7	20.5
Fixed	25.3	24.4	7.0	12.5	20.7	20.5
Net interest income	5.3	17.1	10.4	17.3	19.2	19.2
Loan loss provisions	(11.9)	116.2	124.1	0.9	7.3	8.5
Total other income	20.0	47.5	(25.1)	(3.2)	13.6	13.9
Net fee income	20.7	26.7	(2.7)	12.0	15.0	15.0
Net capital gains	(19.4)	171.6	—	—	—	—
Net exchange gains	28.6	42.8	(19.3)	15.0	18.0	18.0
Operating expenses	7.0	30.7	27.0	2.0	6.2	9.7
Employee expenses	2.0	33.9	36.4	(2.8)	2.0	7.8
Key ratios (%)						
Yield on average earning assets	8.9	9.0	8.4	8.7	9.0	9.1
Yield on average loans	10.3	10.8	10.0	10.1	10.4	10.4
Yield on average investments	8.7	7.3	7.0	7.2	7.4	7.7
Average cost of funds	6.3	6.6	6.1	6.1	6.2	6.4
Interest on deposits	6.2	6.5	5.9	6.0	6.1	6.3
<b>Difference</b>	<b>2.7</b>	<b>2.4</b>	<b>2.3</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>
Net interest income/earning assets	3.0	2.7	2.6	2.8	2.9	2.9
New provisions/average net loans	0.4	0.6	1.2	1.1	1.0	0.9
Interest income/total income	72.1	65.3	73.5	77.1	77.9	78.7
Fee income to total income	12.6	13.5	13.4	13.4	13.1	12.7
Operating expenses/total income	40.0	44.2	57.2	52.2	47.0	43.6
Tax rate	27.3	32.2	27.8	30.0	30.0	30.0
Dividend payout ratio	17.0	21.6	27.0	23.0	17.0	14.0
Share of deposits						
Current	10.7	8.1	8.7	10.0	10.0	10.0
Fixed	66.5	69.7	67.5	66.0	66.0	66.0
Savings	22.8	22.1	23.9	24.0	24.0	24.0
Loans-to-deposit ratio	71.7	74.8	71.3	71.3	71.3	71.3
Equity/assets (EoY)	4.8	5.9	5.7	5.6	5.3	5.2
Dupont analysis (%)						
Net interest income	2.9	2.6	2.5	2.7	2.8	2.8
Loan loss provisions	0.2	0.4	0.7	0.7	0.6	0.6
Net other income	1.1	1.4	0.9	0.8	0.8	0.7
Operating expenses	1.6	1.9	2.0	1.8	1.7	1.6
Invt. depreciation	0.2	0.0	(0.1)	0.0	0.0	0.0
(1- tax rate)	72.7	67.8	72.2	70.0	70.0	70.0
ROA	1.3	1.2	0.6	0.7	0.8	0.9
Average assets/average equity	20.8	18.6	17.2	17.6	18.3	18.9
<b>ROE</b>	<b>27.2</b>	<b>22.1</b>	<b>9.6</b>	<b>11.6</b>	<b>15.4</b>	<b>17.9</b>

Source: Kotak Institutional Equities

Exhibit 18: IOB, summary financials, March fiscal year-ends, 2008-13E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
<b>Income statement</b>						
Total interest income	79,683	96,414	102,458	115,849	138,159	168,042
Loans	55,220	72,896	76,595	85,843	103,902	126,193
Investments	22,357	21,563	23,816	27,575	32,199	39,498
<b>Cash and deposits</b>	<b>2,106</b>	<b>1,955</b>	<b>2,047</b>	<b>2,431</b>	<b>2,058</b>	<b>2,351</b>
Total interest expense	52,888	67,718	70,779	78,686	93,850	115,209
<b>Deposits from customers</b>	<b>47,822</b>	<b>59,558</b>	<b>62,718</b>	<b>71,208</b>	<b>86,158</b>	<b>107,260</b>
Net interest income	26,795	28,696	31,679	37,163	44,308	52,834
<b>Loan loss provisions</b>	<b>1,910</b>	<b>4,129</b>	<b>9,255</b>	<b>9,342</b>	<b>10,028</b>	<b>10,884</b>
Net interest income (after prov.)	24,885	24,567	22,424	27,820	34,281	41,950
Other income	10,355	15,273	11,433	11,064	12,573	14,316
Net fee income	4,687	5,938	5,777	6,470	7,441	8,557
Net capital gains	1,912	5,194	2,919	1,300	1,300	1,300
Net exchange gains	1,102	1,573	1,270	1,461	1,724	2,034
Operating expenses	14,853	19,417	24,665	25,161	26,720	29,306
Employee expenses	9,497	12,718	17,347	16,863	17,202	18,543
Depreciation on investments	2,295	—	—	—	—	—
Other Provisions	60	1,555	602	500	500	500
Pretax income	16,547	19,543	9,790	13,024	19,333	25,959
<b>Tax provisions</b>	<b>4,524</b>	<b>6,285</b>	<b>2,720</b>	<b>3,907</b>	<b>5,800</b>	<b>7,788</b>
<b>Net Profit</b>	<b>12,023</b>	<b>13,258</b>	<b>7,070</b>	<b>9,117</b>	<b>13,533</b>	<b>18,172</b>
% growth	19	10	(47)	29	48	34
PBT+provision-treasury gains	18,090	19,358	15,528	21,766	28,861	36,543
% growth	16	7	-20	40	33	27
<b>Balance sheet</b>						
Cash and bank balance	103,413	109,219	98,246	96,223	109,591	125,521
Cash	5,939	6,800	6,703	6,703	6,703	6,703
Balance with RBI	85,304	52,605	69,961	67,938	81,306	97,235
Balance with banks	7,644	29,909	9,001	9,001	9,001	9,001
Net value of investments	284,747	312,154	376,506	402,004	473,203	560,169
Govt. and other securities	247,691	264,556	320,528	347,084	418,282	505,248
Shares	5,127	3,216	4,074	4,074	4,074	4,074
Debentures and bonds	12,765	16,480	19,732	19,732	19,732	19,732
Net loans and advances	604,238	748,853	790,039	908,545	1,097,016	1,321,586
Fixed assets	5,586	17,099	16,996	22,556	22,359	22,178
Net leased assets	—	—	—	—	—	—
Net Owned assets	5,586	17,099	16,996	22,556	22,359	22,178
Other assets	20,613	23,409	29,177	36,366	45,326	56,494
<b>Total assets</b>	<b>1,018,597</b>	<b>1,210,734</b>	<b>1,310,964</b>	<b>1,465,694</b>	<b>1,747,495</b>	<b>2,085,947</b>
Deposits	843,256	1,001,159	1,107,950	1,274,143	1,538,454	1,853,390
Current	89,983	81,307	96,113	127,414	153,845	185,339
Fixed	561,166	698,288	747,325	840,934	1,015,380	1,223,238
Savings	192,107	221,564	264,509	305,794	369,229	444,814
Borrowings and bills payable	97,273	114,239	96,476	99,013	102,057	105,710
Other liabilities	29,502	23,827	31,292	10,274	13,494	17,722
<b>Total liabilities</b>	<b>970,031</b>	<b>1,139,224</b>	<b>1,235,718</b>	<b>1,383,429</b>	<b>1,654,005</b>	<b>1,976,823</b>
<b>Total shareholders' equity</b>	<b>48,567</b>	<b>71,510</b>	<b>75,246</b>	<b>82,265</b>	<b>93,491</b>	<b>109,124</b>

Source: Kotak Institutional Equities

**GVKPIL [BUY, TP: ₹54]**

We like GVKPIL given its (1) strong progress reported across projects, (2) pick-up in road and airport traffic, (3) relatively attractive valuation of about 2.1X FY2011E BV, and (4) potential realization of better-than-expected value for stake sale in power vertical. We note progress across sectors with (1) expansion plans for power (1,600 MW) and BIAL (acquired 29% recently), (2) new road and hydro project wins and (3) project execution (MIAL, Alaknanda, Goindwal and Tokisud). Key catalysts for the stock include Mumbai real estate monetization, equity raising in power and project progress.

**SOTP-based target price of ₹54/share**

Our target price of ₹54 is based on (1) ₹24 for Mumbai airport, (2) ₹6 from road SPV, (3) ₹15 from the power assets, (4) ₹2 from SEZ project and (5) ₹7/share for Bangalore airport valued at 1X investment value. Further potential upside could arise from (1) progress on Mumbai real estate monetization, (2) potential equity raising in power vertical demonstrating better-than-ascribed value.

Exhibit 19: GVKPIL, SOTP valuation

	Total asset value		GVK's stake (%)	Value of GVK's stake			
	(₹ bn)	(US\$ mn)		(₹ bn)	(US\$ mn)	(₹/share)	(% Contribution)
<b>Mumbai Airport</b>	<b>104</b>	<b>2,328</b>	<b>36</b>	<b>38</b>	<b>844</b>	<b>23.8</b>	<b>43.6</b>
Core	36	818	36	13	297	8.4	15.3
Real estate	67	1,510	36	24	547	15.4	28.3
<b>Roads</b>	<b>11</b>	<b>239</b>	<b>—</b>	<b>11</b>	<b>239</b>	<b>6.7</b>	<b>12.3</b>
GKEL	11	239	100	11	239	6.7	12.3
<b>Power</b>	<b>27</b>	<b>607</b>	<b>—</b>	<b>24</b>	<b>534</b>	<b>15.1</b>	<b>27.6</b>
GVK I	7	165	100	7	165	4.6	8.5
GVK II	0	4	100	0	4	0.1	0.2
Gautami	6.6	148	51	3.4	75	2.1	3.9
O&M business	0	11	100	0	11	0.3	0.6
Alaknanda	6	124	100	6	124	3.5	6.4
Goindwal Sahib	5	118	100	5	118	3.3	6.1
Tokisud coal mine	2	37	100	2	37	1.1	1.9
<b>SEZ</b>	<b>3</b>	<b>58</b>	<b>95</b>	<b>2</b>	<b>56</b>	<b>1.6</b>	<b>2.9</b>
SEZ (Tamil Nadu)	3	58	95	2	56	1.6	2.9
<b>Inv in Bangalore airport</b>	<b>12</b>	<b>263</b>	<b>100</b>	<b>12</b>	<b>263</b>	<b>7.4</b>	<b>13.6</b>
<b>Grand total</b>	<b>153</b>	<b>3,436</b>		<b>86</b>	<b>1,880</b>	<b>54.6</b>	<b>100.0</b>

Source: Company, Kotak Institutional Equities estimates

**Plans to expand Jegurupadu and Gautami by 800 MW each, gas allocation is key**

The management recently stated that it is planning to expand capacity at Jegurupadu and Gautami plants by 800 MW each (1,600 MW total) to take total gas capacity to 2,500 MW. The company expects to sign a Lol in May, and achieve financial closure and gas allocation in 3-6 months. GVK has already started basic construction such as initial piling at the site and would scale up to full construction once it achieves the gas allocation. The PPA outlines a need to expand capacity under the same terms of 220 MW to state government at both Jegurupadu as well as Gautami, while the balance may be through Case 1 bidding and potential sale as merchant power. Equity requirement for expansion is expected to be funded by internal cash accruals.

**BIAL— a growth opportunity with expansion plans worth ₹7 bn**

The company envisages Bangalore airport as a significant growth opportunity as it plans to expand the existing terminal capacity in 15-20 months. The expansion would cost about ₹7 bn, which would require about ₹2-2.5 bn of equity over 1-2 years. The equity is expected to be funded from internal accruals and cash reserves. The company is also evaluating the plan to build an additional terminal and a runway as it expects significant traffic growth in the coming years. BIAL reported net profit of ₹770 mn which implies GVK's share of ₹26 mn as the share transfer took place in Jan 2010.

### Visible progress on project execution except MIAL real estate monetization

GVK has reported visible progress on projects under construction besides securing the Kota-Deoli road project worth ₹8.5 bn. The management mentioned that a majority of the equity requirement for existing and currently planned projects could be funded through internal accruals and cash reserves. The company would require about ₹8 bn of equity for the projects under construction over the next two years. The company is looking at raising funds from private equity investors in the energy vertical. We believe that private equity interest in airports may be far lower than for power.

**Exhibit 20: Assets under development would need about ₹8 bn of equity over the next 2 years**  
GVKPIL, equity requirement for various assets as per company, March fiscal year-ends, 2010-12E (₹ mn)

	2011E	2012E	Total FY2011E-12E
<b>Equity requirement as per company</b>			
MIAL	750	750	1,500
Jegurupadu & Gautami expansion	750	1,250	2,000
Alaknanda	1,250	1,250	2,500
Goindwal Sahib	1,000	1,500	2,500
Kota-Deoli	500	1,500	2,000
Oil & gas development	500	750	1,250
<b>Total equity requirement</b>	<b>4,750</b>	<b>7,000</b>	<b>11,750</b>
<b>Free cash flow to equity from operational assets</b>			
GVKJEL	330	1,114	1,444
Jegurupadu I & II	468	583	1,051
Gautami Power	480	549	1,028
<b>Total of cash flow to equity from assets</b>	<b>1,277</b>	<b>2,246</b>	<b>3,523</b>
<b>Equity requirement/(surplus)</b>	<b>3,473</b>	<b>4,754</b>	<b>8,227</b>
Standalone cash at end-FY2010			230
Standalone debt at end-FY2010			1,000
<b>Equity funding requirement over FY2011E-12E</b>			<b>7,997</b>

Source: Company, Kotak Institutional Equities estimates

Recent progress made in various projects include:

- ▶ **Goindwal achieved financial closure:** The company achieved financial closure for the project in February 2010.
- ▶ **Alaknanda COD expected by October 2011:** The management mentioned about 2-3 months delay in the project so far and expects COD in October 2011.
- ▶ **Mumbai airport achieves Mar-2010 construction milestone:** The project has achieved its March 2010 development milestone for competing mandatory capital projects including upgradation of one of the cross runways and opening up of new domestic Terminal 1C.
- ▶ **Kota-Deoli road project win:** GVK has recently won the ₹8.5 bn Kota-Deoli road project. The project would need about ₹2-2.5 bn equity.
- ▶ **Tokisund mine project** has also achieved financial closure. We have included net equity value of the Tokisud mine of ₹1.1/share in our SOTP valuation.

### Positive view on management's philosophy to own controlling stakes in assets

The management underscored its policy of retaining a controlling influence over assets under development through actual share ownership rather than just contracts. GVK intends to acquire an additional 14% stake in MIAL before the end of the seven-year lock-in period; however, acquisition discussions are potentially stuck at valuation. GVK plans to increase its shareholding in BIAL as well. Although we like the philosophy of controlling ownership, we believe buying out established assets may be suboptimal as the company would capture bigger value creation upside in upcoming projects rather than by buying stakes in established projects.

### Operating in the infrastructure domain with a diversified portfolio

GVKPIL is a leading player in the infrastructure domain with presence across several verticals such as airports, power, roads and urban infrastructure. Its current portfolio includes:

- ▶ **Airport:** GVKPIL presently has two airports viz. Mumbai and Bangalore international airports in its portfolio. GVKPIL is developing the Mumbai International Airport to handle a peak annual capacity of 40 mn passengers (includes rights to develop 198 acres of real estate in the airport's vicinity). The company also recently acquired a 29% stake in Bangalore Airport (BIAL).
- ▶ **Power projects:** The company currently has six power projects either operational or under development totaling to a cumulative capacity of over 2,000 MW. In addition, GVKPIL is also developing two coal mines in the state of Jharkhand.
- ▶ **Roads:** GVKPIL holds 100% equity in the GVK Jaipur Expressway Pvt. Ltd (GVKJEL), formed to execute a 90-km stretch on Delhi-Mumbai highway (NH-8). In addition to this, GVK has also recently won the ₹8.5 bn Kota-Deoli road project.
- ▶ **SEZ development project:** GVKPIL, in collaboration with TIDCO, plans to develop a multi-product SEZ with a total area of 2,604 acres in Perambalur district of Tamil Nadu.

Exhibit 21: GVKPIL, Leading player in infrastructure domain with a diversified portfolio

Energy		Airports		Highways & Urban Infra.	
100%	GVK Industries Ltd - 217 + 220 MW	37%	Mumbai Airport - 40 mn pax cap.	100%	GVK Jaipur Expressway Ltd
64%	Gautami Power Ltd - 464 MW	29%	Bengaluru International Airport Ltd	100%	GVK Deoli Kota Expressway Pvt. Ltd
100%	Alaknanda Hydro Power Co. Ltd - 330 MW			100%	GVK Perambalur SEZ Pvt. Ltd
100%	Goriganga Hydro Power Pvt. Ltd - 370 MW				
100%	GVK Power Goindwal Sahib Ltd - 540 MW				
100%	GVK Coal (Tokisud) Co. Pvt. Ltd - 52 mn tons				
45%	Seregraha Mines Ltd - 67 mn tons				
74%	GVK Oil & Gas Ltd - 7 Deepwater Blocks				

Operational  
 Under construction/development

Source: Company, Kotak Institutional Equities

### Valuation and financials

Exhibit 22: GVKPIL, valuation summary, March fiscal year-ends, 2010-12E

Stock data	High	Low	Price performance	1M	3M	12M
52-week range (₹)	54	40	Absolute (%)	5.4	8.5	3.9
Yield (%)		-	Rel. to BSE-30 (%)	(2.6)	(2.6)	(12.6)
Capitalization			Forecasts/valuation	2010	2011E	2012E
Price (₹)		48	P/E (X)	59.0	44.2	33.4
Market cap (₹ bn)		76	EV/EBITDA (X)	19.6	17.8	18.2
Free float (%)		45.8	P/B (X)	2.4	2.3	2.2
Shares outstanding (mn)		1,579	RoAE (%)	4.7	5.3	6.7

Source: Kotak Institutional Equities estimates

Exhibit 23: GVKPIL, consolidated summary financials, March fiscal year-ends, 2008-13E (₹ mn)

	2007	2008	2009	2010	2011E	2012E
<b>Income statement</b>						
<b>Net revenues</b>	<b>3,986</b>	<b>4,700</b>	<b>5,138</b>	<b>18,605</b>	<b>22,262</b>	<b>22,386</b>
Cost of goods sold	(1,979)	(2,845)	(3,375)	(12,946)	(15,213)	(14,896)
<b>EBITDA</b>	<b>2,007</b>	<b>1,855</b>	<b>1,763</b>	<b>5,659</b>	<b>7,049</b>	<b>7,490</b>
Depreciation & amortization	(806)	(776)	(780)	(2,085)	(2,409)	(2,409)
Interest expense	(627)	(414)	(334)	(2,062)	(2,538)	(2,271)
Other income/(expense)	247	622	202	9	2	5
<b>Pre-tax profit</b>	<b>821</b>	<b>1,287</b>	<b>851</b>	<b>1,521</b>	<b>2,103</b>	<b>2,814</b>
Income tax	(196)	(241)	(101)	(767)	(1,017)	(1,243)
Share of profit from associates	336	407	316	721	842	966
<b>Net profit</b>	<b>596</b>	<b>1,350</b>	<b>1,072</b>	<b>1,285</b>	<b>1,716</b>	<b>2,271</b>
<b>EPS (₹)</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>	<b>2.1</b>	<b>2.6</b>	<b>3.0</b>
Dividend per share (₹)	0.1	—	—	—	0.3	0.3
Shares outstanding (mn)	940	1,406	1,406	1,579	1,579	1,579
<b>Balance sheet</b>						
<b>Shareholders' funds</b>	<b>5,956</b>	<b>21,866</b>	<b>23,229</b>	<b>31,682</b>	<b>32,924</b>	<b>34,722</b>
Share premium	3,120	14,717	14,717	21,712	21,712	21,712
Reserves and surplus	2,599	5,743	7,106	8,391	9,633	11,430
Minority interest	2,729	6	2,644	2,834	3,046	3,312
<b>Total debt</b>	<b>15,446</b>	<b>12,910</b>	<b>29,798</b>	<b>41,347</b>	<b>52,187</b>	<b>60,285</b>
Def. tax liability/revenue	893	891	885	885	885	885
Deferred income	1,876	1,758	1,641	1,641	1,641	1,641
<b>Total Sources of funds</b>	<b>26,899</b>	<b>37,431</b>	<b>58,197</b>	<b>78,389</b>	<b>90,684</b>	<b>100,845</b>
<b>Fixed assets - net</b>	<b>13,016</b>	<b>12,275</b>	<b>13,590</b>	<b>38,075</b>	<b>36,003</b>	<b>33,594</b>
Capital WIP	8,211	13,501	38,502	24,574	39,830	53,143
Investments	2,974	7,068	3,214	4,655	6,217	7,902
<b>Net current assets</b>	<b>2,065</b>	<b>2,939</b>	<b>1,325</b>	<b>(462)</b>	<b>380</b>	<b>311</b>
Cash & bank balances	631	1,643	1,562	11,542	8,248	5,891
<b>Total assets</b>	<b>26,899</b>	<b>37,431</b>	<b>58,197</b>	<b>78,389</b>	<b>90,684</b>	<b>100,845</b>
<b>Free cash flow</b>						
<b>Net cashflow from operating activities</b>		<b>948</b>	<b>3,144</b>	<b>4,625</b>	<b>2,654</b>	<b>4,050</b>
Net PBT		1,287	851	1,521	2,103	2,814
Tax paid		(241)	(101)	(767)	(1,017)	(1,243)
Add: Depreciation		776	780	2,085	2,409	2,409
Change in wcap.		(874)	1,614	1,786	(842)	70
<b>Cash flow from investing activities</b>		<b>(9,538)</b>	<b>(23,372)</b>	<b>(14,083)</b>	<b>(17,156)</b>	<b>(14,998)</b>
<b>Free cash flow</b>		<b>(8,590)</b>	<b>(20,228)</b>	<b>(9,459)</b>	<b>(14,502)</b>	<b>(10,948)</b>
<b>Key ratios</b>						
EBITDA margin (%)	50.3	39.5	34.3	30.4	31.7	33.5
Pat margin (%)	15.0	28.7	20.9	6.9	7.7	10.1
Net debt/ equity (X)	2.5	0.5	1.2	0.9	1.3	1.6
ROCE (%)	3.9	5.2	2.9	3.4	4.0	3.9
Return on equity (%)	20.0	9.7	4.8	4.7	5.3	6.7

Source: Company, Kotak Institutional Equities estimates

**JAGRAN PRAKASHAN [BUY, TP: ₹145]**

We find a favorable risk-reward balance in Jagran Prakashan (JAGP) based on (1) robust recovery in Indian advertising market notably in Tier-II and III towns and cities, (2) JAGP's strong leadership position atop the Hindi print market, (3) vertical expansion strategy with new products in niche print, outdoor and digital media with (4) robust 17% CAGR in advertising revenues and 15% CAGR in net income between FY2010-12E. JAGP stock is reasonably valued at 20X and 17X our relatively conservative FY2011E and FY2012E EPS; we have built in some buffer on account of rising competition in UPU (UP-Uttaranchal) and BJH (Bihar-Jharkhand) markets though JAGP seems well-placed to counter the same.

**Favorable risk-reward balance**

We believe JAGP stock is attractively valued given favorable developments such as (1) sharp recovery in the Indian advertising market (key sectors such as Autos) and (2) benefits of economic growth spreading to Tier-II and III towns and cities as well as rural areas of India (driven by NREGA employment scheme and higher MSPs for agricultural crops). Our 12-month DCF-based target price for JAGP stock is ₹145 resulting in implied valuation of 22X and 19X FY2011E and FY2012E EPS. However, we believe earnings may beat expectations with (1) potentially stronger-than-expected growth in advertising revenues and (2) our aggressive assumptions on higher 'cost of doing business' in competitive JAGP markets; we highlight that JAGP's earnings are understated due to high dividend payout ratio versus peers (see Exhibit 25), which are currently augmenting their balance sheets.

Exhibit 24: JAGP, DCF analysis, March fiscal year-ends, 2011E-22E (₹ mn)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	3,306	3,851	4,618	5,254	6,014	6,647	7,323	8,126	9,024	9,476	9,949	10,447
Tax expense	(1,017)	(1,186)	(1,432)	(1,634)	(1,879)	(2,098)	(2,324)	(2,593)	(2,894)	—	—	—
Changes in working capital	239	30	(212)	(184)	(179)	(136)	(181)	(200)	(225)	—	—	—
<b>Cash flow from operations</b>	<b>2,528</b>	<b>2,695</b>	<b>2,974</b>	<b>3,436</b>	<b>3,956</b>	<b>4,413</b>	<b>4,818</b>	<b>5,333</b>	<b>5,906</b>	—	—	—
Capital expenditure	(1,000)	(1,030)	(1,061)	(1,093)	(1,126)	(918)	(937)	(956)	(975)	—	—	—
<b>Free cash flow to the firm</b>	<b>1,528</b>	<b>1,665</b>	<b>1,913</b>	<b>2,343</b>	<b>2,831</b>	<b>3,495</b>	<b>3,881</b>	<b>4,377</b>	<b>4,931</b>	<b>5,178</b>	<b>5,437</b>	<b>5,708</b>
Discounted cash flow-now	1,428	1,382	1,412	1,537	1,650	1,811	1,787	1,792	1,794	1,674	—	—
Discounted cash flow-1 year forward	—	1,555	1,588	1,729	1,857	2,038	2,011	2,016	2,019	1,884	1,758	—
<b>Discount rate (%)</b>	<b>12.5</b>											
<b>Growth from FY2020 to perpetuity (%)</b>	<b>5.0</b>											

	Now	+ 1-year
<b>Total PV of free cash flow (a)</b>	<b>16,266</b>	<b>41% 18,453</b>
FCF in terminal year	5,437	5,708
Exit FCF multiple (X)	13.3	13.3
Terminal value	72,488	76,112
<b>PV of terminal value (b)</b>	<b>23,437</b>	<b>59% 24,609</b>
EV (a) + (b)	39,703	43,062
EV (US\$ mn)	882	957
Net debt	(981)	(1,304)
<b>Equity value</b>	<b>40,684</b>	<b>44,366</b>
<b>Implied share price (₹)</b>	<b>135</b>	<b>147</b>
Exit EV/EBITDA multiple (X)	7.6	7.6

Sensitivity of share price to different levels of WACC and growth rate

Growth rate (%)	WACC (%)					
	₹					
	11.0	12.0	12.5	13.0	13.5	14.0
1.7	141	125	119	113	107	102
2.0	152	134	126	119	113	108
3.0	167	145	135	127	120	114
4.0	176	151	141	132	124	117
4.5	186	158	147	138	129	122
5.0	199	167	154	144	134	126
6.0	214	177	163	151	140	131
7.0	255	203	184	168	155	143
8.0	324	242	214	193	175	160

Source: Kotak Institutional Equities estimates

Exhibit 25: JAGP, valuation of print media companies, March fiscal year-ends, 2010-12E

	Price (Rs)	EPS (₹)			P/E (X)		
		2010	2011E	2012E	2010	2011E	2012E
JAGP	128	5.8	6.6	7.7	21.9	19.3	16.5
JAGP (adjusted)	128	5.9	6.8	8.1	21.6	18.6	15.7
DBCL	263	10.6	13.0	15.7	24.7	20.2	16.7
HTML	152	6.0	7.6	9.2	25.2	20.1	16.5

	Dividend (₹/share)			Yield (%)		
	2010	2011E	2012E	2010	2011E	2012E
JAGP	3.5	4.0	5.0	2.7	3.1	3.9
JAGP (adjusted)	1.0	1.5	2.0	0.8	1.2	1.6
DBCL	2.0	3.0	4.0	0.8	1.1	1.5
HTML	1.0	2.0	3.0	0.7	1.3	2.0

Source: Company, Kotak Institutional Equities estimates

### Opportunities and risks

- ▶ **Robust advertising revenue market recovery.** JAGP is well-placed to benefit from strong recovery in the advertising revenue market, with media companies seeing strong growth; JAGP management is confident of achieving around 20% growth in FY2011E-12E advertising revenues versus our expectation of around 17% CAGR. We highlight that print advertising revenues are highly cyclical given their dependence on sectors such as Real Estate. Durables (including Autos) and Banking and Finance sectors have led the stronger-than-expected recovery in print advertising, with Real Estate advertising starting to pick up now. Key advertisers such as Telecom and Durables are shifting their incremental advertising spend towards under-penetrated emerging markets versus saturated metro markets.
- ▶ **Rapid growth in Tier-II and III towns as well as rural incomes.** Hindi/regional press is the dominant force in the Tier-II and III towns and cities in India. Income and consumption levels in these markets are exhibiting robust growth with the benefit of strong GDP growth. Rapid urbanization of these Tier-II and III urban centers with the migration of rural population in search of employment opportunities and better standards of living will benefit city-specific media such as print. Rural Hindi markets are also prospering due to rising agricultural income (rising MSPs—Minimum Support Prices—of agriculture produce) or non-agriculture income (NREGS—National Rural Employment Guarantee Scheme).
- ▶ **Jagran's strong position in core market.** Dainik Jagran (DJ), the flagship newspaper of JAGP, is the largest Hindi print media brand in India with leadership position in the Uttar Pradesh-Uttaranchal (UPU) market and leading position in fast-growing Bihar-Jharkhand (BJH) as well Punjab-Haryana (CPH) market. Arguably, the competitive intensity is rising in the UPU and BJH markets with expansion of Hindustan and Dainik Bhakar, two other national players. We believe JAGP's franchise is very strong in the UPU market, further reinforced by I-Next, JAGP's youth-oriented compact/tabloid. The BJH market may potentially be of greater concern but (1) explosive growth in BJH market is likely to benefit JAGP, (2) competitive action may help expand the market and (3) resultant higher 'cost of doing business' for JAGP is already factored into our estimates.

- ▶ **Vertical expansion strategy in niche print, new media.** Jagran has launched niche print brands such as I-Next noting the large readership potential (educated people who do not read a newspaper) in its existing markets. I-Next is an emerging product (launched three years back) but is already finding strong circulation (~10% of JAGP circulation) and advertising (~5% of JAGP advertising revenue) traction. JAGP has recently expanded I-Next to Jamshedpur, Bareilly and Gorakhpur markets, which will also be helpful in competing against emerging competition in these markets. JAGP's emerging outdoor and events business turned EBITDA positive recently (3Q-4QFY10) and will likely contribute significantly to profits in FY2011E-12E.
- ▶ **Mid-Day may beat expectations in the long run.** The street (including us) reacted quite negatively to the Mid-Day acquisition by JAGP given the declining brand strength of Mid-Day in the core Mumbai market; in our view, the value proposition was weakly communicated initially by JAGP. The seemingly declining readership of Mid-Day is on account of closure of its morning edition (rising competition in the morning daily market with entry of HT and DNA) and Mid-Day Mumbai is now clearly positioned as a light-read afternoon/evening tabloid; the clear positioning has helped turn around Mid-Day Mumbai and JAGP proposes to strengthen this position with revamped distribution network. The other brands in Mid-Day portfolio—Mid-Day Gujarati (in Mumbai), Mid-Day Delhi and Inquilab (Urdu daily)—may prove to be valuable assets in the long run, with expansion in core JAGP markets (Inquilab to begin with).

### Valuation and financials

Exhibit 26: JAGP, valuation summary, March fiscal year-ends, 2010-12E

<b>Stock data</b>	<b>High</b>	<b>Low</b>	<b>Price performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
52-week range (₹)	144	101	Absolute (%)	5.9	0.2	24.7
Yield (%)		2.8	Rel. to BSE-30 (%)	(2.1)	(10.0)	4.9
<b>Capitalization</b>			<b>Forecasts/valuation</b>			
Price (₹)		127	P/E (X)	21.8	19.2	16.4
Market cap (₹ bn)		38	EV/EBITDA (X)	13.1	11.1	9.5
Free float (%)		44.7	P/B (X)	6.2	5.7	5.2
Shares outstanding (mn)		301	RoAE (%)	30.0	31.1	33.3

Source: Kotak Institutional Equities estimates

Exhibit 27: JAGP, summary financials, March fiscal year-ends, 2008-13E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
<b>Profit model</b>						
Net sales	7,496	8,234	9,419	10,911	12,569	14,552
<b>EBITDA</b>	<b>1,638</b>	<b>1,567</b>	<b>2,823</b>	<b>3,306</b>	<b>3,851</b>	<b>4,618</b>
Other income	215	227	343	316	336	331
Interest	(60)	(59)	(66)	(85)	(85)	(85)
Depreciation	(336)	(383)	(508)	(515)	(567)	(616)
<b>Pretax profits</b>	<b>1,457</b>	<b>1,352</b>	<b>2,592</b>	<b>3,021</b>	<b>3,535</b>	<b>4,248</b>
Extraordinary items	(1)	—	—	—	—	—
Current tax	(329)	(446)	(774)	(1,016)	(1,193)	(1,437)
Deferred taxation	(147)	10	(59)	(11)	(9)	(7)
<b>Net income</b>	<b>980</b>	<b>916</b>	<b>1,759</b>	<b>1,994</b>	<b>2,334</b>	<b>2,804</b>
Adjusted net income	981	916	1,759	1,994	2,334	2,804
<b>Earnings per share (₹)</b>	<b>3.3</b>	<b>3.0</b>	<b>5.8</b>	<b>6.6</b>	<b>7.7</b>	<b>9.3</b>
<b>Balance sheet</b>						
Total equity	5,388	5,599	6,125	6,716	7,295	7,995
Deferred taxation liability	531	521	580	591	600	607
Total borrowings	791	1,415	1,214	1,214	1,214	1,214
Current liabilities	1,244	1,624	1,861	2,168	2,371	2,528
<b>Total liabilities and equity</b>	<b>7,953</b>	<b>9,158</b>	<b>9,780</b>	<b>10,688</b>	<b>11,480</b>	<b>12,343</b>
Cash	367	828	852	1,208	1,364	1,414
Other current assets	2,706	2,773	3,322	3,389	3,562	3,930
Total fixed assets	3,046	3,990	3,941	4,425	4,888	5,333
Investments	1,833	1,568	1,666	1,666	1,666	1,666
Miscellaneous expenditure	1	—	—	—	—	—
<b>Total assets</b>	<b>7,953</b>	<b>9,158</b>	<b>9,780</b>	<b>10,688</b>	<b>11,480</b>	<b>12,343</b>
<b>Free cash flow</b>						
Operating cash flow, excl. working capital	1,327	1,257	2,319	2,289	2,658	3,182
Working capital changes	(354)	(125)	(259)	239	30	(212)
Capital expenditure	(755)	(1,393)	(497)	(1,000)	(1,030)	(1,061)
Income from investments	159	34	45	316	336	331
<b>Free cash flow</b>	<b>377</b>	<b>(227)</b>	<b>1,609</b>	<b>1,845</b>	<b>1,995</b>	<b>2,240</b>
<b>Ratios (%)</b>						
Debt/equity	12	19	15	14	13	12
Net debt/equity	7	9	5	0	(2)	(2)
ROAE (%)	18	13	24	25	27	30
<b>ROACE (%)</b>	<b>19</b>	<b>15</b>	<b>28</b>	<b>31</b>	<b>35</b>	<b>39</b>

Source: Company, Kotak Institutional Equities estimates

## MAHINDRA LIFESPACE DEVELOPERS [ADD, TP: ₹540]

We see good sales momentum on the standalone residential business in Bhandup and Gurgaon. Most of MLIFE's residential projects are under construction and hence sales momentum will drive revenue booking. Jaipur SEZ continues to see good progress in terms of land acquisition, client additions and infrastructure development. We have an ADD rating on MLIFE with target price based on NAV (Sep-2011) of ₹540/share. We believe the SEZ business offers substantial upside to our target price.

### Target price of ₹540/share but upside potential to our target price

We have an ADD rating with a target price to ₹540 based on our Sept 2011 NAV. We see possible upsides from the Jaipur SEZ as we value Jaipur SEZ at 2X P/B and would assign DCF-based value as and when we see residential launches in the SEZ. We also assign a 20% discount to Chennai SEZ on account of execution uncertainty. Our target price of ₹540 comprises ₹216/share for SEZ business. We note that the following upsides exist to our target price:

- ▶ We value Jaipur SEZ at 2X P/B and would assign DCF-based value as and when we see residential launches in the SEZ. Our NAV-based valuation for Jaipur SEZ is ₹11.4 bn or ₹273/share.
- ▶ We also assign a 20% discount to Chennai SEZ business on account of pricing/execution uncertainty. This would add another ₹1.7 bn or ₹41/share to our NAV.

Exhibit 28: Our Sep 2011 based target price is ₹540/share for MLIFE

	Valuation Methodology	Valuation of business (₹ bn)	Multiple (X)	Value contribution (₹ bn)	Value contribution (₹/share)
<b>SEZs</b>					
Chennai SEZ	DCF	8.6	0.8	6.9	164
Karla SEZ	DCF	16.2	—		
Jaipur SEZ	Book value	1.1	2.0	2.2	52
Thane SEZ	DCF	0.7	—		
<b>Total</b>				<b>9.1</b>	<b>216</b>
<b>Mahindra Lifespace standalone</b>					
Residential property	NAV	8.0	1.0	8.0	191
Commercial property	NAV	1.6	1.0	1.6	38
<b>Total</b>				<b>9.6</b>	<b>229</b>
FY2010 Net Cash		2.8	1.0	2.8	67
FY2010 Investments		1.1	1.0	1.1	26
<b>NAV valuation (bn)</b>					<b>799</b>
<b>Equity valuation (₹/share)</b>					<b>537</b>
<b>Fully diluted no. of shares (mn)</b>				<b>42.0</b>	

Source: Kotak Institutional Equities estimates

### Execution, volume and price pick-up drives growth

Exhibit 29 summarizes current ongoing and forthcoming projects of MLIFE. Ongoing projects have revenue booking potential of ₹13.6 bn, of which ₹7 bn has already been booked till 4QFY10. We believe MLIFE's revenue booking and operating margins will show lower volatility once it has an ongoing portfolio of 8-10 projects. As revenue booking from recently launched projects begin, we expect margins to stabilize around 30%. MLIFE margins have improved following sharp growth in revenues.

MLIFE completed Sylvan County at Mahindra World City, Chennai in FY2010. MLIFE has obtained approvals for construction of Mahindra Aura at Gurgaon, NCR. The project was launched in December 2009 at a basic rate of ₹2,200/sq. ft and was sold out within a week of the launch. We note that construction of phase 1 of Aqaulily, a premium residential development at Mahindra World City, Chennai was launched in November 2009.

Exhibit 29: Revenue booking picked up in projects under construction in 1QFY11  
List of MGDL's residential projects from which revenue was booked in 1QFY11

Name of the project	City	Saleable area ('000 sq. ft)	Prices (₹/sq. ft)		Total revenues (₹ mn)	Revenue booking till 1QFY11 (₹ mn)
			Assumed	Current		
<b>Ongoing</b>						
Mahindra Eminente	Goregaon, Mumbai	270	5,800	Sold	1,566	1,503
Mahindra Royale- IA	Pimpri, Pune	208	2,700	Sold	562	505
Mahindra Royale-IB	Pimpri, Pune	100	3,000	3,200	300	270
Mahindra Royale-II	Pimpri, Pune	300	2,700	3,200	810	697
Mahindra Splendour (GKW)	Bhandup, Mumbai	350	6,500	7,500	2,275	1,888
Mahindra Splendour (GKW II)	Bhandup, Mumbai	350	6,500	7,500	2,275	0
Slyvan County	Chennai	490	1,530	Sold	750	750
Mahindra Chloris	Faridabad	420	3,800	4,500	1,596	990
Mahindra Eminette II	Goregaon, Mumbai	300	8,000	9,500	2,400	1,200
Mahindra Aura	Gurgaon Sector 112	1,400	2,500	2,500	3,500	0
<b>Total</b>		<b>4,188</b>			<b>16,033</b>	<b>7,803</b>
<b>Forthcoming</b>						
Proposed project	Nasik	1,372	1,620	2,000	2,223	
Proposed project	Mumbai - Byculla	400	16,200	20,000	6,480	
Proposed project	Baroda	1,000	1,229	1,500	1,229	
Proposed project	Kandivili	450	4,500	6,000	2,025	
Proposed project	Nagpur	2,000	1,800	2,000+	3,600	
<b>Total</b>		<b>5,222</b>			<b>15,556</b>	

Source: Kotak Institutional Equities estimates

### Chennai and Jaipur SEZ continue to attract investments

Chennai as well as Jaipur SEZs of MLIFE continue to make progress in client additions and construction activity. We summarize progress in these SEZs over FY2010.

**MWC, Chennai.** MLIFE with its subsidiary Mahindra Residential Developers Ltd. in a JV with Ayala group, has started the construction of phase 1 of 'Aqualily', a premium residential project spread over 55 acres in Mahindra World City, Chennai. Employment within the SEZ increased to 20,000 persons in FY2010 from 12,000 in FY2009. It added four new customers including Johnson & Johnson. We note that the SEZ has 50 customers out of which 32 two have started operations and nine have started construction.

**MWC, Jaipur (MWCJL).** The total customer base increased to 36 in 4QFY10 adding nine clients in the year. We note that a total of 115,000 sq. ft has already been leased in the IT Park, Evolve. In 4QFY10, MWCJL added four customers including EXL, one of the largest BPO companies in the world.

Exhibit 30: MLIFE, valuation summary, March fiscal year-ends, 2010-12E

Stock data	High	Low	Price performance	1M	3M	12M
52-week range (₹)	550	312	Absolute (%)	(5.8)	(1.4)	24.1
Yield (%)		0.8	Rel. to BSE-30 (%)	(12.9)	(11.5)	4.3
Capitalization			Forecasts/valuation	2010	2011E	2012E
Price (₹)		462	P/E (X)	23.0	19.6	12.9
Market cap (₹ bn)		20	EV/EBITDA (X)	20.3	14.6	7.2
Free float (%)		48.9	P/B (X)	2.0	1.9	1.7
Shares outstanding (mn)		42	RoAE (%)	8.9	9.7	13.4

Source: Kotak Institutional Equities estimates

Exhibit 31: MLIFE, standalone summary financials, March fiscal year-ends, 2008-13E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
<b>Income Statement (₹ mn)</b>						
Sales (net of excise duty)	1,721	1,654	3,071	3,835	6,060	6,132
<b>Operating PBDIT</b>	<b>380</b>	<b>184</b>	<b>867</b>	<b>1,095</b>	<b>1,925</b>	<b>2,110</b>
EBITDA (excl. non-recurring items)	858	510	1,139	1,367	2,197	2,382
Gross interest expense	1	1	1	1	—	11
EBDT (excl. non-recurring)	857	509	1,138	1,367	2,197	2,371
Depreciation	20	(69)	22	33	35	37
PBT (excl. non-recurring)	838	578	1,116	1,334	2,163	2,335
Tax (on recurring PBT)	151	114	291	365	694	769
<b>Net Profit (recurring)</b>	<b>687</b>	<b>464</b>	<b>824</b>	<b>969</b>	<b>1,468</b>	<b>1,566</b>
<b>EPS (recurring) (₹)</b>	<b>16.8</b>	<b>11.3</b>	<b>20.1</b>	<b>23.6</b>	<b>35.8</b>	<b>38.1</b>
<b>Balance sheet (₹ mn)</b>						
<b>Assets</b>						
Net block	269	348	339	319	318	281
Investments	5,029	3,616	3,616	3,616	3,616	3,616
Total current assets	4,360	5,986	6,691	7,717	9,566	11,367
Receivables	370	371	683	426	673	681
Inventories	2,437	3,011	2,418	2,026	1,528	1,102
Cash and bank balances	137	988	1,945	3,588	5,654	7,835
Total current liabilities and provisions	1,004	967	1,002	1,243	1,849	2,176
Net current assets and liabilities	3,356	5,019	5,689	6,474	7,718	9,191
<b>Total assets</b>	<b>8,654</b>	<b>9,008</b>	<b>9,644</b>	<b>10,409</b>	<b>11,651</b>	<b>13,088</b>
<b>Liabilities</b>						
Shareholders funds or net worth	<b>8,638</b>	<b>8,972</b>	<b>9,592</b>	<b>10,357</b>	<b>11,621</b>	<b>12,983</b>
Debt	—	-	11	11	1	—
<b>Total capital</b>	<b>8,655</b>	<b>9,008</b>	<b>9,644</b>	<b>10,409</b>	<b>11,651</b>	<b>13,088</b>
<b>Free cash flows (₹ mn)</b>						
EBIT (recurring)	360	253	844	1,063	1,891	2,074
Effective tax rate (%)	18	20	26	27	32	33
EBIT (1-T)	296	203	624	772	1,284	1,391
Change in net working capital	312	812	(288)	(858)	(822)	(707)
<b>Free cash flow (recurring)</b>	<b>94</b>	<b>(713)</b>	<b>946</b>	<b>1,650</b>	<b>2,107</b>	<b>2,135</b>
<b>Key ratios (%)</b>						
ROAE	8.4	5.3	8.8	9.7	13.3	13.1
Post-tax RoACE	8.6	5.5	8.9	9.7	13.2	13.8
EBITDA margin	22.1	11.1	28.2	28.6	31.8	34.4

Source: Company, Kotak Institutional Equities estimates

**MARICO [ADD, TP: ₹140]**

Marico is our top mid-cap. pick in the consumer sector with ADD rating and target price of ₹140. We estimate an EPS CAGR of 21% over FY2010-13E led by (1) continuing good growth in Parachute hair oil, (2) likely faster growth in Saffola edible oil and (3) scaling-up of international operations including entry into newer geographies. We believe in the company's ability to (1) grow the core business, (2) realign consumer perception of Kaya clinics from 'cure' to 'care' and (3) stage a potentially successful entry into cooling hair oil.

**Multiple growth opportunities****Coconut oil, sustaining growth by growing the branded market**

Parachute, Nihar and Oil of Malabar enjoy 53% market in the coconut oil market. We estimate sales CAGR of 12% over FY2010-13E on the back of (1) increasing conversion from loose oil to branded coconut oil, (2) introduction of low unit packs to drive rural growth and (3) promoting Nihar in price-sensitive regions to counter low-price competition.

**Edible oil, penetration led growth**

Saffola is favorably placed in the edible oil category, and we model sales CAGR of 12% on the back of rising income levels, growing awareness about cardiac-related health problems and opportunity for penetration-led growth— (1) urban penetration of branded edible oils is 31% and rural penetration is a low 9% and (2) only~16% of households in India consume branded edible oils.

**International business, growing inorganically**

International business is built primarily on the back of inorganic activities and is spread across Bangladesh, MENA, South Africa, Malaysia and Singapore. We estimate sales CAGR of 20% during FY2010-13E, driven by (1) launch of products customized in line with the preferences of the local population, (2) using the existing geographies as a launch pad to enter new neighboring countries and (3) expanding product range to include gels, hair cream, hair dye etc.

**Value-added hair oil, still some ground to capture**

To reduce dependence on Parachute, Marico has forayed into the value-added hair oil category and has gained a market share of about 21%. We estimate sales CAGR of 15% during FY2010-13E driven by (1) changing preference from coconut oil to non-sticky hair oil, (2) introduction of varied hair care range making hair oil relevant at all times and for all age groups and (3) competitive pricing strategy.

**Prototypes, significant growth potential**

Marico has been actively diversifying its product portfolio to include cooling hair oil, functional foods, hair cream, gels etc. Most of the new products have been launched as extensions of Parachute and Saffola, thus leveraging the strength and brand equity of these two flagship brands. These brand extensions form a small part of the sales mix presently. Most of these categories are at nascent stage and Marico's early mover advantage will likely benefit it, as and when the category grows.

**Kaya, steps to correct consumer perception will likely benefit**

Kaya's performance in the Middle East is on track; its performance in the Indian markets has not met management expectations. A weak economic environment leading to a decline in discretionary spends and the imposition of a 10% service tax in September 2009 has put pressure on demand in India. Further, the high cost of services offered and Kaya's positioning as a skin clinic (and not a beauty centre) hindered repeat visits.

The company is taking steps to reposition Kaya from 'cure' to 'care'. We believe that acquisition of Derma Rx in Singapore is positive as it will likely help (1) leverage technology with respect to the services business and (2) cross-pollinate products. We estimate sales CAGR of 34% during FY2010-13E, primarily led by the Middle East operations and the recent Derma Rx acquisition.

### Valuation – ADD rating based on 22XFY2012E EPS

We have an ADD rating with target price of ₹140 based on a P/E of 22X on FY2012E EPS, which is at the last-three-year average P/E. We expect Marico to deliver CAGR of 21% on EPS over FY2010-13E, one of the highest in our coverage universe of 13 consumer stocks. We forecast on the underlying mix improvement in its sales, EBITDA and moderate operating leverage.

We believe there is scope for a higher target multiple (which is a 20% discount to Dabur) if (1) Marico can transform from a single product company to a diversified FMCG play and (2) its growth profile can surprise positively with increased contribution from the fast growing value-added hair oil and international businesses.

### Key worries

Marico dominates both key segments in which it operates (coconut oil and high-end edible oil), regardless, its product pricing is closely linked to underlying commodity prices—implying a likely timing mismatch in input costs and product pricing. Other worries include exposure to currency risk, a lack of meaningful success in new ventures, threat of decline in hair oil usage and increasing competition in core brands.

#### Exhibit 32: Reasonably diversified portfolio with good growth opportunity

Marico, moon chart of businesses

Category	Potential growth	Market share	Comments
Coconut oil			Coconut oil is a highly penetrated category (>80%) with low category growth rate (~12%). To encourage consumers to convert from loose to branded oil, the company has reduced price of converter packs, introduced low unit packs and is promoting its low priced Nihar brand in price sensitive regions. We model 12% sales CAGR between FY2010-13E.
Edible oil			Edible oil industry valued at Rs750 bn is under penetrated with 31% urban penetration and 9% rural penetration. Saffola positioned as a preventive for cardiac problems is synonymous with the category and has a market share of 7% in the edible oil market. Increasing health consciousness among consumers is aiding growth. We model 12% sales CAGR between FY2010-13E.
Hair oil			Hair oil segment is growing at a much faster rate (~20%) than coconut oil. While Marico has made an entry in light hair oil, perfumed non-sticky oil and almond oil, it has not been able to replicate its success in coconut oil to this segment. We estimate sales CAGR of 15% between FY2010-13E.
Functional food			Marico has entered the fast growing functional foods segment under the Saffola brand. This category is presently at a nascent stage and we expect Marico to benefit from early mover advantage as and when the category develops.
Skin care services			Skin care services is a highly unorganised and fragmented market in India. Marico's entry under the Kaya brand has been well received in Middle East but has not met much success in India likely due to the high price point for the services offered and the 'problem solution' positioning that is associated with it. We estimate sales CAGR of 34% between FY2010-13E primarily led by the Middle East operations and the recent Derma Rx acquisition.

Note:

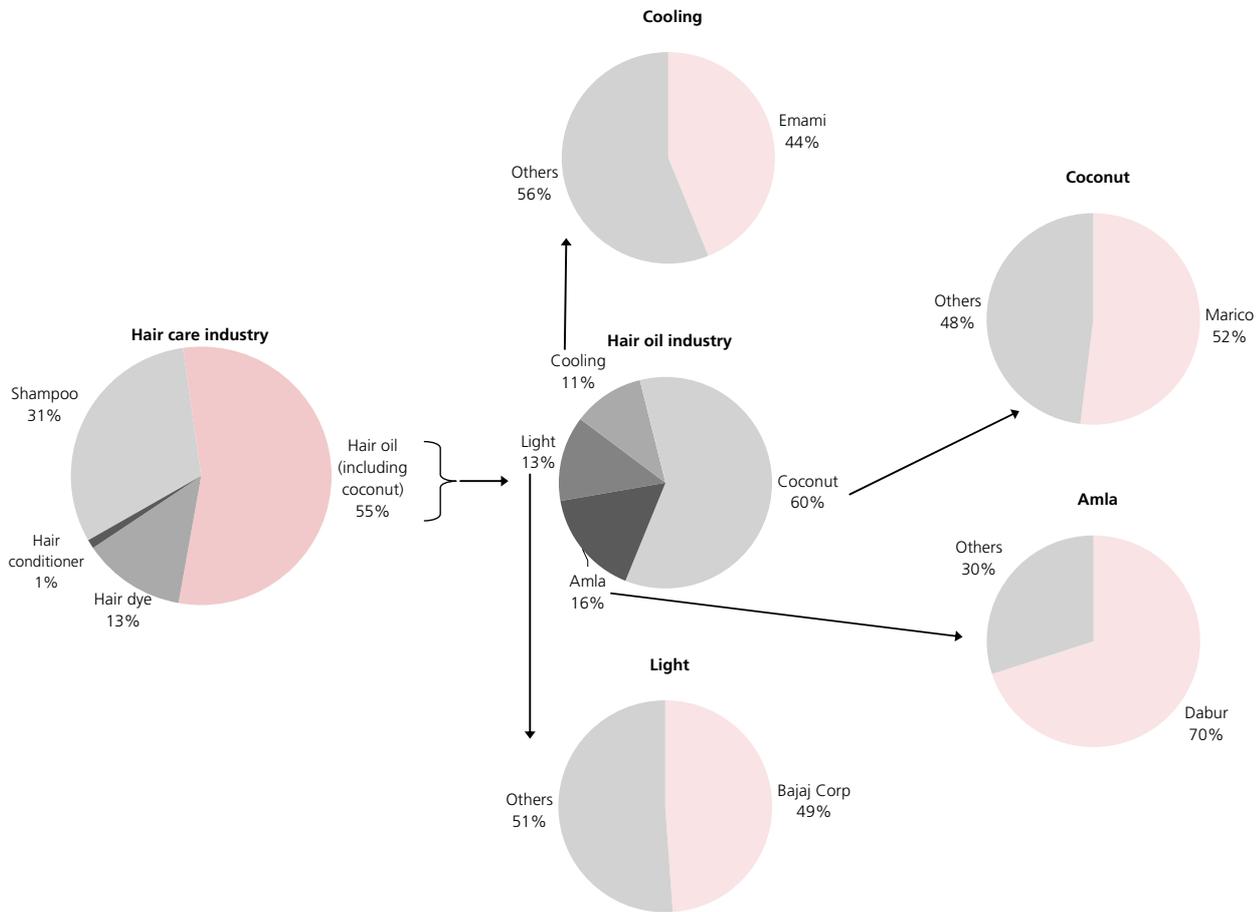
(a) The above moon chart may be assessed on a scale of 0 to 1, where 0 is the lowest score and 1 is the highest score.

Denotes 0

Denotes 1

Source: Company, Kotak Institutional Equities

Exhibit 33: Hair oil market is characterized by high entry barriers  
 Marico, moon chart of market share in various segments of the hair oil industry



Source: Company, Kotak Institutional Equities

Exhibit 34: Marico, valuation summary, March fiscal year-ends, 2010-2012E

Stock data	High	Low	Price performance	1M	3M	12M
52-week range (₹)	145	84	Absolute (%)	(1.2)	8.4	45.9
Yield (%)		0.7	Rel. to BSE-30 (%)	(8.7)	(2.6)	22.7
Capitalization			Forecasts/valuation	2010	2011E	2012E
Price (₹)		127	P/E (X)	28.3	23.7	19.7
Market cap (₹ bn)		77	EV/EBITDA (X)	18.5	15.8	13.0
Free float (%)		36.5	P/B (X)	12.5	8.9	6.7
Shares outstanding (mn)		609	RoAE (%)	50.8	43.9	38.8

Source: Kotak Institutional Equities estimates

Exhibit 35: Marico, profit model, balance sheet and cash model, March fiscal year-ends, 2007-2013E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E
<b>Profit model</b>							
Net revenues	15,569	19,050	23,884	26,608	31,882	36,786	41,947
<b>EBITDA</b>	<b>1,986</b>	<b>2,462</b>	<b>3,040</b>	<b>4,045</b>	<b>4,733</b>	<b>5,502</b>	<b>6,525</b>
Other income	102	67	65	72	137	173	190
Interest (expense)/income	(206)	(276)	(301)	(146)	(183)	(146)	(106)
Depreciation	(521)	(308)	(358)	(601)	(617)	(630)	(709)
<b>Pretax profits</b>	<b>1,361</b>	<b>1,945</b>	<b>2,447</b>	<b>3,370</b>	<b>4,070</b>	<b>4,900</b>	<b>5,901</b>
Tax	(372)	(360)	(409)	(643)	(814)	(980)	(1,180)
<b>Net income</b>	<b>989</b>	<b>1,586</b>	<b>2,037</b>	<b>2,727</b>	<b>3,256</b>	<b>3,920</b>	<b>4,721</b>
Earnings per share (Rs)	1.7	2.6	3.3	4.4	5.3	6.4	7.8
<b>Balance sheet</b>							
Total shareholder's equity	1,923	3,146	4,536	6,540	9,125	12,239	15,988
Total borrowings	2,510	3,579	3,743	4,459	3,867	3,017	2,767
Deferred tax liability	(1,152)	(982)	(641)	(616)	(616)	(616)	(616)
Minority interest	0	1	-	125	125	125	125
<b>Total liabilities and equity</b>	<b>3,281</b>	<b>5,745</b>	<b>7,637</b>	<b>10,507</b>	<b>12,501</b>	<b>14,764</b>	<b>18,264</b>
Net fixed assets	1,654	2,573	3,111	3,997	4,018	4,124	4,255
Goodwill	450	842	850	850	850	850	850
Investments	—	—	121	827	1,217	1,217	1,217
Cash	429	753	902	1,115	3,312	5,020	7,934
Net current assets	747	1,577	2,653	3,719	3,104	3,552	4,007
<b>Total assets</b>	<b>3,281</b>	<b>5,745</b>	<b>7,637</b>	<b>10,507</b>	<b>12,501</b>	<b>14,764</b>	<b>18,264</b>
<b>Free cash flow</b>							
Operating cash flow, excl. working capital	1,788	2,055	2,319	2,977	3,884	4,560	5,442
Working capital changes	(68)	(896)	(1,007)	(1,086)	354	(562)	(592)
Capital expenditure	(3,030)	(1,226)	(916)	(1,486)	(638)	(736)	(840)
<b>Free cash flow</b>	<b>(1,310)</b>	<b>(67)</b>	<b>396</b>	<b>405</b>	<b>3,599</b>	<b>3,261</b>	<b>4,011</b>
<b>Ratios</b>							
Sales growth (%)	36	22	25	11	20	15	14
EBITDA margin (%)	13	13	13	15	15	15	16
EPS growth (%)	12	55	29	33	20	20	20

Source: Company, Kotak Institutional Equities

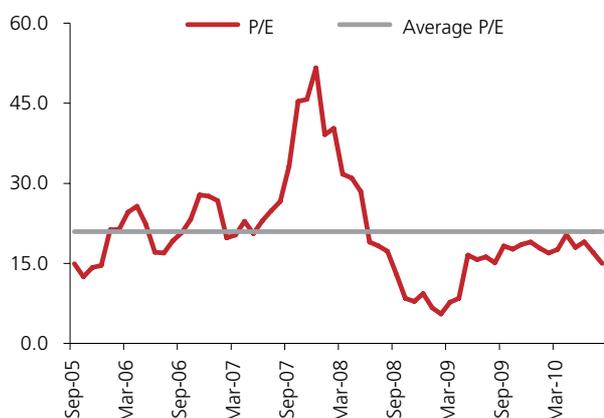
## NAGARJUNA CONSTRUCTION [BUY, TP: ₹210]

We like Nagarjuna based on (1) its attractive valuations, (2) strong growth visibility based on order backlog, (3) ramp-up of business segments in areas like metals, power and international – areas that hold immense potential, (4) strong progress in BOT projects and (5) long-term outlook of strong infrastructural investments. We believe that the current stock price may not fully reflect earning potential of strong order backlog—Nagarjuna is trading at a strong discount to its historical average valuations. We expect execution to pick up in FY2011E and FY2012E and estimate a revenue growth of 23% and 24%, respectively.

### Low valuations provide opportunity

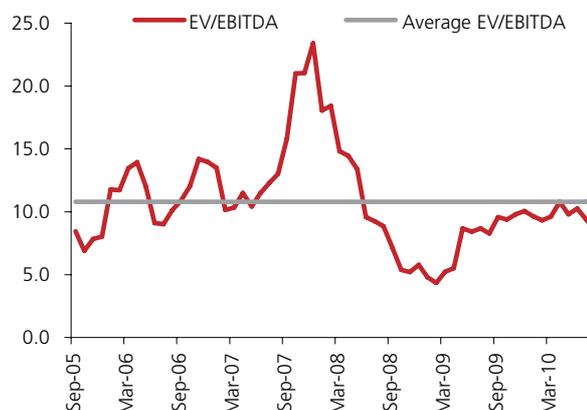
The stock is trading at about a 30-35% discount to five-year historical average multiple (P/E, EV/EBITDA and EV/Backlog). We believe the low valuation may have been led by (1) concerns over recent problems with the 1,200 MW Sompet power project, and (2) high FII holding which could lead to substantial underperformance in case of FII outflows.

Exhibit 36: NJCC is trading at 28% discount to historical P/E  
NJCC P/E on 12-mth rolling forward EPS, Aug-05–Aug-10



Source: Factset, Kotak Institutional Equities

Exhibit 37: NJCC is trading at 21% discount to historical EV/EBITDA  
NJCC EV/EBITDA on 12-mth rolling forward EBITDA, Aug-05–Aug-10



Source: Factset, Kotak Institutional Equities

### SOTP-based target price of ₹210/share

Our SOTP-based target price of ₹210/share comprises (1) standalone construction business valuation of ₹142/share based on target P/E multiple of 13X Sept-11E earnings, (2) ₹27/share from the international construction subsidiaries based on 13X Sept-11E earnings, (3) ₹28/share contribution from book value of BOT projects, (3) ₹16/share from the book value of real estate investments.

Exhibit 38: NJCC, derivation of SOTP based target price

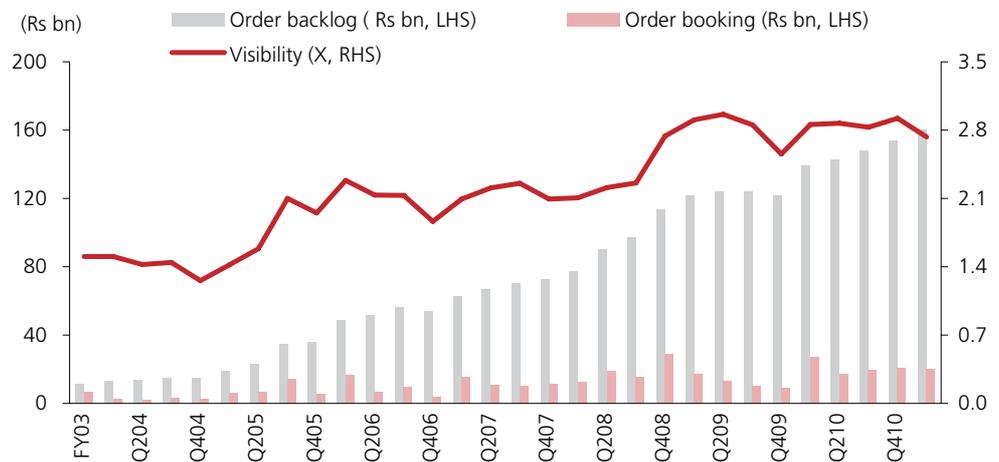
Project/Business	Equity commitment (Rs mn)	Valuation (Rs mn)	Rs/share	Valuation methodology
<b>Value of core construction business</b>		<b>36,370</b>	<b>141.7</b>	<b>P/E of 13.0X Sept-11E earnings</b>
Value of international subsidiary		6,791	26.5	P/E of 13.0X Sept-11E earnings
Book value of equity investments in real estate	4,052	4,052	15.8	1X book
Book value of investments in BOT assets	4,838	7,257	28.3	1X book
<b>Value accretion from roads, power and housing projects</b>	<b>4,356</b>	<b>1,954</b>	<b>7.6</b>	
<b>Total</b>			<b>212</b>	

Source: Kotak Institutional Equities estimates

**Strong, diversified backlog provides revenue visibility; execution remains key**

The company reported strong order inflows of ₹20 bn in 1QFY11, leading to an order backlog of ₹160 bn. The order backlog of ₹160 bn provides a revenue visibility of about 2.8 years based on forward four quarter revenues.

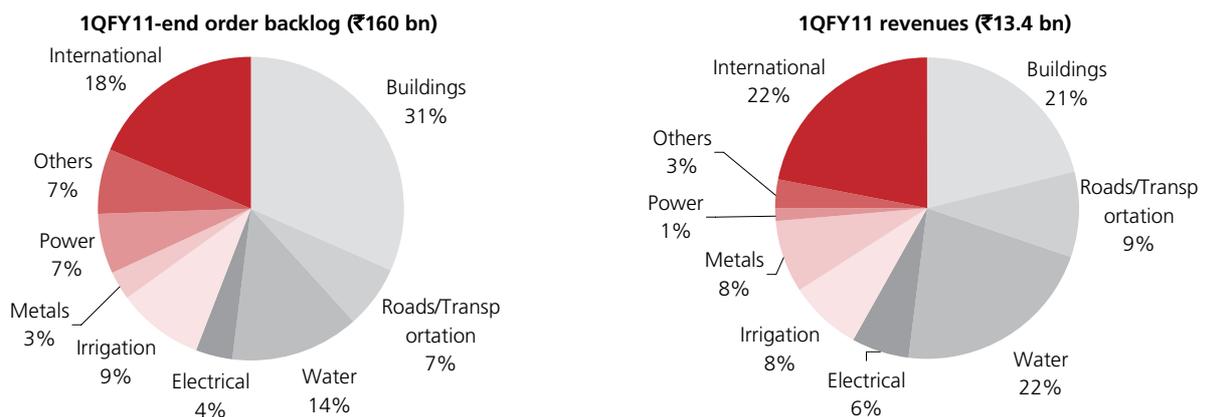
**Exhibit 39: Nagarjuna Construction has visibility of 2.7 years based on forward four quarter revenues**  
NJCC, order backlog, order booking and visibility (X)



Source: Company, Kotak Institutional Equities estimates

The order backlog is well diversified among several sectors with maximum contribution from the buildings segment at 31% of the total backlog. The remaining backlog is well diversified between international, water and environment, irrigation and other segments. Although the order backlog of the company remains strong, we believe that execution of this large backlog would remain critical.

**Exhibit 40: NJCC, segment order book, March fiscal year-ends, 2009-10**



Source: Company, Kotak Institutional Equities

**Aggressive FY2011E revenue guidance– implies strong growth in rem. 9MFY11E**

The management guided for revenues of ₹58 bn at the standalone level and ₹73 bn at the consolidated level for FY2011E. This implies a very strong revenue growth requirement of about 25% yoy in the remaining nine months of FY2011E at the standalone and consolidated level. The management had guided for order inflows of about ₹150 bn in FY2011E including the in-house power project order of ₹50 bn. We believe that the ₹50 bn power project order is likely to get delayed due to several issues being faced by the company. The management is confident of achieving the remaining ₹100 bn of order inflows from other diversified segments in FY2011E – this is versus order inflows of about ₹88 bn in FY2010.

Exhibit 41: Nagarjuna Construction, 9MFY11E implied standalone key numbers, March fiscal year-ends (₹ mn)

	1QFY11	1QFY10	% change	Balance 9MFY11E	Balance 9MFY10	% change	FY2011E	FY2010	% change
<b>Net sales</b>	<b>10,865</b>	<b>10,010</b>	<b>8.5</b>	<b>47,817</b>	<b>37,768</b>	<b>26.6</b>	<b>58,682</b>	<b>47,778</b>	<b>22.8</b>
Operating costs	(9,807)	(8,972)	9.3	(42,983)	(33,971)	26.5	(52,790)	(42,944)	22.9
<b>Operating profit</b>	<b>1,058</b>	<b>1,038</b>	<b>1.9</b>	<b>4,834</b>	<b>3,797</b>	<b>27.3</b>	<b>5,892</b>	<b>4,834</b>	<b>21.9</b>
Other income	13	14	(7.6)	29	34	(15.8)	42	48	(13.5)
Interest cost	(293)	(346)	(15.2)	(808)	(976)	(17.2)	(1,102)	(1,322)	(16.7)
Depreciation	(156)	(127)	23.1	(479)	(398)	20.1	(635)	(525)	20.8
<b>Profit before tax</b>	<b>621</b>	<b>578</b>	<b>7.3</b>	<b>3,576</b>	<b>2,456</b>	<b>45.6</b>	<b>4,197</b>	<b>3,035</b>	<b>38.3</b>
Tax	(207)	(196)	5.3	(1,011)	(921)	9.8	(1,218)	(1,117)	9.0
<b>Profit after tax</b>	<b>414</b>	<b>382</b>	<b>8.3</b>	<b>2,565</b>	<b>1,535</b>	<b>67.1</b>	<b>2,979</b>	<b>1,918</b>	<b>55.4</b>
<b>Key ratios (%)</b>									
<b>EBITDA margin</b>	<b>9.7</b>	<b>10.4</b>		<b>10.1</b>	<b>10.1</b>		<b>10.0</b>	<b>10.1</b>	
PBT margin	5.7	5.8		7.5	6.5		7.2	6.4	
PAT margin	3.8	3.8		5.4	4.1		5.1	4.0	
Effective tax rate	33.3	33.9		28.3	37.5		29.0	36.8	

Source: Company, Kotak Institutional Equities estimates

We note that the company had met its revenue guidance in FY2010 as well, despite a relatively sedate performance in 1HFY10. This provides some confidence in meeting the full-year FY2011E revenue guidance.

**Relatively conservative approach to NHAI projects limits strain on balance sheet**

The company has maintained a relatively conservative approach towards bidding for the NHAI road projects versus several aggressive bids seen in the market. This helps limit the strain on the balance sheet of the company in terms of funding for the projects. The company places its bids based on an internal equity IRR target of about 15-16%.

Exhibit 42: NJCC, details of BOT projects

	Target COD	Shareholding (%)	Project cost (₹ mn)	NCC's equity (₹ mn)	Venture partners	Purpose
<b>Roads</b>						
Brindavan Infrastructure Co. Ltd.	Jun-10E	33.3	2,475	150	Maytas and KMC	Annuity: 16 semiannual annuities of Rs297mn
Bangalore elevated Corridor Project	Jan-10A	33.5	8,800	973	Maytas and Soma	Toll
Western UP Tollway Ltd.	Sep-10E	50.0	6,670	404	Maytas and Gayatri	Toll
Orai-Bhognipur	Aug-10E	50.3	5,848	936	KMC Consortium	Annuity: 30 semiannual annuities of Rs448 mn
Pondicherry Tindivanam Tollway	Dec-10E	50.0	3,150	330	Maytas Infrast Limited	Toll
Himachal Sorang	Nov-11E		5,800	774	Maytas	
NCC Power	Jan-14E		69,550	8,867	—	
<b>Total</b>			<b>102,293</b>	<b>12,434</b>		

Source: Company, Kotak Institutional Equities

Exhibit 43: NJCC, details of key real estate projects

Project	Acres	Stake Partners	Status	Project description
Ranchi	55	100% N.A.	In phase 1, 1200 flats have been completed; 200 sold Phase II of 600 flats to be launched later	National games village related project where company constructs the flats for athletes on free land and post completion of games gets the right to sell 88% of the flats
Vizag	98	95% Local partner	Launch delayed	About Rs1 bn of land acquisition cost has been paid
Jubilee Hill	6	25% ICICI Venture	Construction going to start; was held back because of clearances	Five Star hotel, high end retail & residential, Rs585 mn of equity has already been invested
Tellapur	100	26% Tishman Speyer	Launch delayed, however, land payments have been made; Rs1.3 bn of equity has been invested	7.5 mn sq. ft. development; Rs1.3 bn of equity has been invested
Dubai	4.2	90% Local partner	Rs700 mn of equity invested; Rs1.7 bn has been received as advances	Mix use development of 1.45 mn sq. ft; earlier was planned as two tower project now scope has been reduced to only one tower; is also contemplating withdrawal from the project

Source: Company

### Excluding Sompert power project, not much equity investment requirement for ongoing BOT projects

Most of the road projects as well as the Himachal Sorang project are in advanced stages of development and hence require only a small amount of residual equity investment. The three BOT road projects together would require an equity investment of about ₹450-500 mn and the Himachal Sorang project would require a further equity investment of about ₹250-300 mn. The major equity investment requirement would pertain to the Sompert power plant (₹4.5 bn) but may be delayed.

### Strong subsidiary revenues, CoD of BOT projects to boost consol. revenues

Nagarjuna reported very strong performance of key construction subsidiaries in 1QFY11, which led to a strong consolidated revenue growth of 15.7% yoy. We believe that continued strong performance from these subsidiaries would be one of the key driving factors of the consolidated revenues of the company. The subsidiary revenues were contributed by (1) ₹1.8 bn from Nagarjuna Contracting Co. LLC in Dubai, (2) ₹1.13 bn from NCCL International LLC in Muscat and (3) ₹336 mn revenues from NCC Urban Infrastructure Ltd. Consolidated EBITDA margin declined by about 50 bps yoy to 11.2% leading to a net PAT growth of 12.7% yoy to ₹530 mn from ₹470 mn in 1QFY10.

The company expects to achieve commercial operations of two more road projects by end of 2QFY11 viz. (1) OB Infra annuity based project – the company has already submitted the request for CoD to NHAI and expects to receive the approval for the same by the end of this month and (2) Western UP Tollway – expect to achieve commercial operations by end of September 2010. The third road project (Pondicherry–Tindivanam toll based project) is expected to achieve CoD by Dec-2010. All these projects would help boost the revenues of the consolidated entities. However, we highlight that these projects have faced several delays in the past.

### Issues in several ongoing projects

The company is facing some issues in several of its ongoing projects which include:

- ▶ **Sompet power project:** The National Environmental Appellate Authority (NEAA) has revoked the environmental clearance received by the company for developing the 2X660 MW thermal power plant at Sompet district in Andhra Pradesh. This decision was made about a day after two people protesting against the project were killed in police firing. An ecological study of the area would have to be done and the Ministry of Environment and Forest (MoEF) would then again relook at the decision of the NEAA. All this would likely lead to a delay in the execution of the project. The company has so far invested about ₹830 mn in the project, of which about ₹450 mn was toward land acquisition. The management is, however, hopeful of executing the project without substantial delays and does not expect performance guarantees to be encashed by the client.
- ▶ **Dubai Harmony real estate project:** The company has decided to go ahead and take the construction of tower 1 of the Dubai Harmony project to the sixth floor in order to avoid being deemed the developer default status. This would force the investors to either pay the next installment of the apartments or to default on their initial investment. The company has so far invested about ₹1.6 bn in the project (₹600 mn of equity and ₹1 bn of debt). Note that this project had witnessed delays as well as reduction in scope post the real estate slowdown in Dubai.
- ▶ **Ranchi real estate development project:** Nagarjuna's National Games Housing Project at Ranchi (Jharkhand) has seen several delays so far. The company has constructed about 1,200 apartments for the stay of athletes and officials during the National Games 2007 at Ranchi; however, the event has been postponed several times due to the political instability of the region. Only after the games, NCC can transfer possession of the dwelling units to the buyers. The company has already sold about 300 apartments of the project.

### Valuation and Financials

Exhibit 44: NJCC, valuation summary, March fiscal year-ends, 2010-12E

Stock data	High	Low	Price performance	1M	3M	12M
52-week range (Rs)	198	132	Absolute (%)	(3.5)	(15.2)	4.4
Yield (%)		0.8	Rel. to BSE-30 (%)	(10.8)	(23.9)	(12.2)
Capitalization			Forecasts/valuation	2010	2011E	2012E
Price (Rs)		160	P/E (X)	22.4	18.0	13.7
Market cap (Rs bn)		41.0	EV/EBITDA (X)	11.2	9.8	8.1
Free float (%)		79.9	P/B (X)	1.8	1.7	1.5
Shares outstanding (mn)		256.6	RoAE (%)	9.3	9.8	11.8

Source: Kotak Institutional Equities estimates

Exhibit 45: NJCC, profit model, balance sheet and cash model, March fiscal year-ends, 2005-13E (₹ mn)

	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E
<b>Income statement</b>									
<b>Operating Income</b>	<b>11,885</b>	<b>18,404</b>	<b>28,711</b>	<b>34,729</b>	<b>41,514</b>	<b>47,778</b>	<b>58,682</b>	<b>72,675</b>	<b>87,819</b>
Operating Expenses	(10,978)	(16,764)	(26,036)	(31,132)	(37,777)	(42,944)	(52,967)	(65,700)	(79,171)
<b>EBITDA</b>	<b>907</b>	<b>1,641</b>	<b>2,698</b>	<b>3,599</b>	<b>3,737</b>	<b>4,834</b>	<b>5,716</b>	<b>6,975</b>	<b>8,648</b>
Other Income	49	86	428	56	42	48	42	46	50
Interest & Finance charges	(147)	(283)	(640)	(719)	(964)	(1,322)	(1,581)	(1,745)	(2,024)
Depreciation	(109)	(182)	(299)	(482)	(533)	(525)	(635)	(749)	(883)
<b>Profit Before Tax</b>	<b>700</b>	<b>1,262</b>	<b>1,824</b>	<b>2,431</b>	<b>2,282</b>	<b>3,035</b>	<b>3,541</b>	<b>4,526</b>	<b>5,791</b>
Tax expense	(127)	(214)	(667)	(811)	(743)	(1,204)	(1,169)	(1,494)	(1,911)
<b>PAT</b>	<b>573</b>	<b>1,048</b>	<b>1,519</b>	<b>1,642</b>	<b>1,539</b>	<b>1,831</b>	<b>2,373</b>	<b>3,032</b>	<b>3,880</b>
<b>EPS (₹)</b>	<b>3.6</b>	<b>5.1</b>	<b>7.3</b>	<b>7.2</b>	<b>6.7</b>	<b>7.1</b>	<b>9.2</b>	<b>11.8</b>	<b>15.1</b>
<b>Balance sheet</b>									
<b>Total share holders funds</b>	<b>3,255</b>	<b>9,461</b>	<b>10,391</b>	<b>15,724</b>	<b>16,856</b>	<b>22,457</b>	<b>24,252</b>	<b>26,707</b>	<b>30,009</b>
Share Capital	159	207	418	458	458	513	513	513	513
Reserves & Surplus	3,096	9,254	9,973	15,266	16,398	21,943	23,739	26,194	29,496
<b>Loan Funds</b>	<b>648</b>	<b>1,779</b>	<b>6,370</b>	<b>8,938</b>	<b>12,439</b>	<b>15,302</b>	<b>17,302</b>	<b>19,302</b>	<b>20,802</b>
Working Capital Loan	383	1,203	2,398	5,613	6,739	6,969	6,969	6,969	6,969
Long term	265	576	3,971	3,325	5,699	8,333	10,333	12,333	13,833
<b>Total Sources of Funds</b>	<b>3,970</b>	<b>11,306</b>	<b>16,876</b>	<b>24,829</b>	<b>29,482</b>	<b>38,013</b>	<b>41,809</b>	<b>46,264</b>	<b>51,066</b>
<b>Net fixed assets</b>	<b>1,098</b>	<b>1,916</b>	<b>4,229</b>	<b>5,340</b>	<b>4,873</b>	<b>5,972</b>	<b>6,403</b>	<b>7,154</b>	<b>8,271</b>
Net block	1,089	1,850	4,043	5,197	4,592	5,538	6,403	7,154	8,271
Capital WIP	9	67	186	143	281	434	—	—	—
Investments	462	877	4,768	5,648	7,402	9,412	11,041	11,541	12,041
<b>Net Current Assets (excl Cash)</b>	<b>1,003</b>	<b>5,673</b>	<b>5,435</b>	<b>11,512</b>	<b>15,861</b>	<b>20,633</b>	<b>21,348</b>	<b>23,740</b>	<b>28,062</b>
Cash and Bank Balances	1,372	2,818	2,434	2,330	1,345	1,997	3,015	3,828	2,692
<b>Total</b>	<b>3,970</b>	<b>11,306</b>	<b>16,875</b>	<b>24,829</b>	<b>29,482</b>	<b>38,013</b>	<b>41,809</b>	<b>46,264</b>	<b>51,066</b>
<b>Free cash flow</b>									
<b>Net cashflow from operating activities</b>	<b>393</b>	<b>(2,730)</b>	<b>1,609</b>	<b>(4,098)</b>	<b>(1,294)</b>	<b>(994)</b>	<b>3,873</b>	<b>3,135</b>	<b>2,466</b>
Net PBT	700	1,262	1,824	2,431	2,282	3,035	3,541	4,526	5,791
Add: Depreciation	109	182	299	482	533	525	635	749	883
Add: Financial Charges	126	217	640	719	964	1,322	1,581	1,745	2,024
Tax paid	(278)	(437)	(603)	(759)	(722)	(1,105)	(1,169)	(1,494)	(1,911)
Change in wcap.	(302)	(4,049)	(562)	(6,981)	(4,350)	(4,771)	(716)	(2,392)	(4,322)
<b>Cash flow from investing activities</b>	<b>(502)</b>	<b>(1,936)</b>	<b>(6,447)</b>	<b>(2,451)</b>	<b>(1,505)</b>	<b>(3,490)</b>	<b>(2,695)</b>	<b>(2,000)</b>	<b>(2,500)</b>
<b>Free cash flow</b>	<b>(109)</b>	<b>(4,666)</b>	<b>(4,838)</b>	<b>(6,549)</b>	<b>(2,799)</b>	<b>(4,484)</b>	<b>1,178</b>	<b>1,135</b>	<b>(34)</b>
<b>Key ratios</b>									
EBITDA margin (%)	7.6	8.9	9.4	10.4	9.0	10.1	9.7	9.6	9.8
PAT margin (%)	4.8	5.7	5.3	4.7	3.7	3.8	4.0	4.2	4.4
Debt/ equity (X)	0.2	0.2	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Net debt/ equity (X)	(0.2)	(0.1)	0.4	0.4	0.7	0.6	0.6	0.6	0.6
ROAE (%)	25.9	19.0	23.8	27.0	21.8	24.5	27.3	31.0	31.9
ROACE (%)	20.0	18.2	18.5	15.3	12.2	12.6	13.6	14.8	16.1

Source: Company, Kotak Institutional Equities estimates

## SADBHAV ENGINEERING [BUY, TP: ₹1,750]

Our BUY rating on SADBHAV is based on (1) relatively attractive valuations, (2) strong order book, which provides near-term earnings visibility and (3) positive long-term outlook for infrastructure investments. We estimate that SADBHAV could potentially raise ₹453 mn from the upcoming rights issue and ₹0.8 bn from exercise of warrants. With a stronger balance sheet post-issue, SADBHAV may fund the bulk of equity for BOTs by raising debt at parent level and may not need large divestment in SADBHAV Infrastructure Project Ltd (SIPL).

### Raises ₹4 bn in SIPL from Norwest Venture Partners and Xander Group

SADBHAV Engineering's wholly-owned subsidiary, SADBHAV Infrastructure Project Ltd (SIPL), entered into a binding agreement with Norwest Venture Partners (NVP) and Xander Group Inc. (Xander) to receive ₹4 bn for a 22% stake in SIPL. SIPL is SADBHAV's holding company for all of its infrastructure development projects, including nine projects currently held directly by SADBHAV. These proceeds would be used primarily towards funding of equity requirements of existing roads projects. SADBHAV has already invested ₹2.6 bn in SIPL so far.

### Implied value at ₹14 bn pre-money—significant premium to our valuation of ₹9.6 bn

SADBHAV management has cited that the post-money stake of the private equity investors would be at about 22.2%. This implies a pre-money valuation of ₹14 bn (₹18 bn of post-money value) for SIPL. This is at significant premium to our asset-wise DCF-based value of ₹9.6 bn for SIPL.

SADBHAV Engineering also has the right to put in another ₹2 bn (at the entry valuation of ₹14 bn) within 18 months from the date of closing of this transaction. If SADBHAV exercises this right, it would imply a post-money valuation of ₹20 bn bringing down the new investor's share in SIPL to 20%.

### Higher net worth would help SADBHAV qualify for mega highway projects

Post the equity investment of ₹4 bn from the investors, the net worth of SIPL would go up to ₹6.6 bn (including ₹2.6 bn already put in by SADBHAV Engg so far). This may rise by a further ₹2 bn (to ₹8.6 bn) if the company were to exercise its rights to invest an additional ₹2 bn in SIPL. This would help the company meet the minimum net worth criterion for bidding for the mega highway projects.

### Proceeds to be used to fund equity requirement (~₹8 bn) of BOT projects

The management has cited that the proceeds raised from the PE investors would be primarily used towards the equity requirements of the existing BOT projects in the portfolio of the company. We estimate that the current portfolio of BOT projects would require additional equity investment of about ₹8 bn over the next 2-3 years. ₹4 bn of this requirement would be met from the PE investment. Other possible sources of funds include (1) internal accruals of standalone construction, (2) cash generation from BOT projects itself (border check post projects has provision for partial CODs), and (3) incremental debt raising at the parent level. SIPL also already has a loan sanction of ₹1.8 bn from a bank for a seven-year period which is yet to be exercised and could potentially help fund the BOT projects. The management has cited that the proceeds from the recent rights issue would be used primarily in the mining business.

Exhibit 46: Sadbhav Engineering, details of key orders secured since April 1, 2010

Date	Client	Segment	Size (₹ mn)	Order details
16-Aug-10	Govt. of Jharkhand	Roads	2,299	JV with GKC Govindpur-Sahibganj Road Project
7-Jun-10	Western Coalfields Ltd (Coal India Ltd)	Mining	921	Material removal and coal evacuation
<b>Total order inflows announced in FY2011 so far</b>			<b>3,220</b>	
9-Feb-10	NHAI Bijapur - Hungund project	Road (BOT)	12,250	4-laning of 100 km of NH-13 in Karnataka
8-Feb-10	Northern Coalfields Ltd (Coal India Ltd)	Mining	1,368	Removal of over burden of first dig
30-Nov-09	NHAI Rohtak-Panipat BOT project	Road (BOT)	13,500	4-laning of 80 km of NH-71A in Haryana
24-Nov-09	NHAI Hyderabad-Yadgiri BOT project	Road (BOT)	4,900	4-laning of NH-202 in Andhra Pradesh
29-Sep-09	Jharkhand Road Projects Impl. Co. Ltd	Road (Cash)	2,250	Improvement Works of Ranchi Ring Road - Section V
29-Sep-09	Jharkhand Road Projects Impl. Co. Ltd	Road (Cash)	2,520	Improvement Works of Ranchi Ring Road - Section III
14-Sep-09	Mahanadi Coalfields Ltd	Mining	2,254	Mining project
21-Jul-09	Western Coalfield Ltd (WCL)	Mining	681	Removal of all types of material in all kinds of strata

Source: Company, Kotak Institutional Equities

Sadbhav secured financial closure for Hyderabad-Yadgiri and Maharashtra check post projects in 4QFY10 at a high D/E of about 4X. The financial closure of these two projects allows the company to start execution as well as facilitates bids for further projects. The company is yet to achieve financial closure of two NHAI projects – Rohtak-Panipat and Bijapur-Hungund.

Exhibit 47: Sadbhav Engineering, details of BOT projects, March fiscal year-ends, 2011-2013E (₹ mn)

	Sadbhav Stake	Equity requirement as per company				Total
		FY2010E	FY2011E	FY2012E	FY2013E	
Ahmedabad Ring Road	Sadbhav - 80%, PBA - 20%					—
Mumbai Nasik	Sadbhav - 20%, Gammon -80%					—
Aurangabad-Jalna	Sadbhav - 51%, PBA - 49%					—
Nagpur-Seoni	Sadbhav - 51%, SREI - 49%					—
Maharashtra Border- Dhule	Sadbhav - 20%, HCC Laing - 80%	95	285	570	—	950
Maharashtra border check post	Sadbhav - 90%, SREI - 10%	—	770	770	1,026	2,565
Hyderabad-Yadgiri	Sadbhav - 100%	—	180	180	240	600
Rohtak-Panipat	Sadbhav - 100%	—	825	825	1,100	2,750
Bijapur-Hungund	Sadbhav - 77%, MCL - 23%	—	330	330	440	1,100
<b>Total</b>		<b>95</b>	<b>2,390</b>	<b>2,675</b>	<b>2,806</b>	<b>7,965</b>
<b>Sources of equity</b>						
Free cash flow from construction		(1,291)	1,481	(300)	(345)	(455)
Ahmedabad Ring Road		(49)	(54)	(38)	(8)	(149)
<b>Total of operating sources</b>		<b>(1,340)</b>	<b>1,427</b>	<b>(338)</b>	<b>(353)</b>	<b>(604)</b>
<b>Total equity requirement</b>		<b>1,435</b>	<b>963</b>	<b>3,013</b>	<b>3,159</b>	<b>8,569</b>
Loans and advances already placed in Infra assets in FY2010						1,420
From SIPL divestment to Norwest and Xander						4,000
Potential to raise additional debt post rights issue and warrants (at D/E of 1X)						1,450
<b>Total source of funds</b>						<b>6,870</b>

Source: Company, Kotak Institutional Equities estimates

### Financial closures provides confidence; strong backlog fueled by BOT wins

Sadbhav Engg reported order book of ₹68 bn at end-FY2010 versus ₹44 bn at end-FY2009 which implies visibility of about 3.7X based on FY2011E revenues. The order backlog was primarily boosted by the win of three BOT roads projects viz. (1) ₹4.9 bn Hyderabad-Yadgiri project, (2) Rohtak-Panipat project worth ₹13.5 bn and (3) ₹12.3 bn Bijapur-Hungund project. This is over an existing road-BOT portfolio of six projects at end-FY2009 leading to a total of nine road projects in its portfolio. The company is also diversifying into the mining business with a FY2010-end mining backlog of ₹9.2 bn (announced new mining orders worth ₹5.2 bn in FY2010).

Apart from the Rohtak-Panipat ₹13.5 bn BOT project, Sadbhav Engineering has been able to successfully achieve financial closure for all other projects in its portfolio. The financial closure of its projects allows the company to start execution while facilitating bids for further projects. We have currently built in a revenue CAGR of over 40% over the next two years (FY2011-12E) primarily led by execution of the large BOT projects. Furthermore, the company may have found itself constrained in bidding for additional projects in light of new norms for financial closure requirement. The company would probably exercise caution in extensive bidding, particularly if there is a particular stretch it may have a keen interest in.

Exhibit 48: Details of BOT projects of Sadbhav Engineering

	<b>Sadbhav Stake</b>	<b>Total cost (Rs mn)</b>	<b>Length (km)</b>	<b>Concession (years)</b>	<b>Construction (months)</b>	<b>Status</b>
Ahmedabad Ring Road	Sadbhav - 80%, PBA - 20%	4,571	76	Dec-26		Operational
Mumbai Nasik	Sadbhav - 20%, Gammon - 80%	7,020	100	Oct-26		One year extension till Apr-2010
Aurangabad-Jalna	Sadbhav - 51%, PBA - 49%	2,770	69	Oct-31		Operational
Nagpur-Seoni (Annuity)	Sadbhav - 51%, SREI - 49%	4,890	56	Nov-27	30	Half completed
Mah. Border- Dhule	Sadbhav - 20%, HCC Laing - 80%	14,200	97	Sep-27	30	Financial closure achieved in Dec-09
Mah. border check post	Sadbhav - 90%, SREI - 10%	14,300	NA	Mar-33	Phased	Financial closure achieved in Feb-10
Hyderabad-Yadgiri	Sadbhav - 60%, GKC - 40%	4,800	35	Mar-33	22	Financial closure achieved in Mar-10
Bijapur-Hungund	Sadbhav - 77%, MCL - 23%	12,250	100	Mar-30	30	Financial closure achieved
<b>Rohtak-Panipat</b>	<b>Sadbhav - 100%</b>	<b>13,500</b>	<b>80</b>	<b>Mar-35</b>	<b>30</b>	<b>Financial closure awaited</b>
<b>Total</b>		<b>78,301</b>	<b>613</b>			

Source: Company, Kotak Institutional Equities

### Execution of BOT projects to drive construction revenues going forward

Sadbhav Engg reported FY2010 standalone revenues of ₹12.6 bn, up 18.3% yoy driven by strong growth in the road segment revenues led by start of construction activities of the new BOT projects. FY2010 EBITDA margin expanded to 11%, up about 80 bps yoy from 10.2% in FY2009 led by lower raw material and construction expenses as a percentage of sales. Raw material + construction expenses declined to 83.8% of sales in FY2010 from 84.9% of sales in FY2009. This led to a 27% yoy growth in operating profit to ₹1.4 bn in FY2010. However, lower other income, higher depreciation and tax costs (80-IA adjustment) led to a yoy decline in net profit. Sadbhav reported a net profit after tax of ₹538 mn in FY2010, down about 15% yoy from ₹633 mn in FY2009.

We expect strong revenue growth (>40%) over the next two years, FY2011E-12E, in the construction business based on (1) pick-up of execution of the two large BOT projects (Maharashtra border checkpost, Maharashtra/MP border-Dhule) and (2) start of construction works for the recently won BOT projects (Hyderabad-Yadgiri, Bijapur-Hungund, Rohtak-Panipat). Margins are expected to remain relatively stable at about 11.3%.

Exhibit 49: Sadbhav Engg, standalone income statement, March fiscal year-ends, 2006-12E (₹ mn)

	2006	2007	2008	2009	2010	2011E	2012E
<b>Operational income</b>	<b>2,913</b>	<b>4,901</b>	<b>8,721</b>	<b>10,625</b>	<b>12,569</b>	<b>18,060</b>	<b>25,669</b>
Total expenditure	(2,563)	(4,310)	(7,757)	(9,542)	(11,193)	(16,025)	(22,773)
<b>EBITDA</b>	<b>350</b>	<b>591</b>	<b>964</b>	<b>1,083</b>	<b>1,377</b>	<b>2,035</b>	<b>2,895</b>
Other income	7	14	39	117	45	68	81
Depreciation	(139)	(149)	(139)	(157)	(233)	(292)	(363)
Net Interest	(91)	(69)	(157)	(214)	(209)	(422)	(657)
<b>PBT</b>	<b>128</b>	<b>386</b>	<b>706</b>	<b>829</b>	<b>980</b>	<b>1,391</b>	<b>1,959</b>
Taxes	(12)	(120)	(218)	(196)	(441)	(464)	(651)
<b>Adjusted PAT</b>	<b>116</b>	<b>266</b>	<b>489</b>	<b>633</b>	<b>538</b>	<b>927</b>	<b>1,307</b>
<b>EPS (Rs)</b>	<b>14.1</b>	<b>24.1</b>	<b>40.5</b>	<b>51.1</b>	<b>42.8</b>	<b>61.8</b>	<b>87.2</b>
<b>Key ratios (%)</b>							
<b>EBITDA margin</b>	<b>12.0</b>	<b>12.0</b>	<b>11.0</b>	<b>10.2</b>	<b>11.0</b>	<b>11.3</b>	<b>11.3</b>
PBT margin	4.4	7.9	8.1	7.8	7.8	7.7	7.6
PAT margin	4.0	5.4	5.6	6.0	4.3	5.1	5.1
<b>Yoy growth (%)</b>							
<b>Revenues</b>		<b>68.2</b>	<b>77.9</b>	<b>21.8</b>	<b>18.3</b>	<b>43.7</b>	<b>42.1</b>
EBITDA		68.7	63.2	12.4	27.1	47.8	42.3
PBT		202.8	82.9	17.4	18.1	42.0	40.8
PAT		129.9	83.8	29.5	(14.9)	72.2	41.0

Source: Company, Kotak Institutional Equities estimates

**BUY with a target price of ₹1,750**

We have a BUY recommendation on the stock based on (1) relatively attractive valuations, (2) strong order book, which provides near-term earnings visibility and (3) positive long-term outlook for infrastructural investments. Key risks include (1) sensitivity to base-year traffic and traffic growth assumptions, (2) margin pressures due to volatility in commodity prices, (3) higher-than-expected interest costs, and (4) deterioration in working capital parameters. Our SOTP target price of ₹1,750/share is comprised of (1) ₹920/share from the construction business based on 6XFY2012E EBITDA and (2) ₹823/share from stake in SIPL.

Exhibit 50: Our SOTP valuation for Sadbhav is ₹1,750/share  
Sadbhav Engineering, SOTP valuation, FY2012E basis

Business	Value (Rs mn)	Share holding (%)	Per share (Rs)	Comments
<b>Construction business (a)</b>	<b>13,807</b>	<b>100</b>	<b>920</b>	<b>Based on FY2012E EBITDA - 6X for construction business</b>
<b>Sadbhav Infrastructure Projects Ltd (b)</b>	<b>15,878</b>	<b>78</b>	<b>824</b>	
<b>Cash coming in from pvt. equity</b>	<b>4,000</b>			
<b>BOT projects</b>	<b>9,628</b>			<b>Based on DCF valuation of projects</b>
Ahmedabad Ring Road	2,703			SIPL has 80% stake
Mumbai Nasik	153			SIPL has 20% stake
Aurangabad-Jalna	300			SIPL has 51% stake
Nagpur-Seoni	118			SIPL has 51% stake
Dhule	1,068			SIPL has 27% stake
Maharashtra border checkpost	1,512			SIPL has 90% stake
Rohtak-Panipat	1,534			SIPL has 100% stake
Hyderabad-Yadgiri	771			SIPL has 60% stake
Bijapur-Hungund	1,469			SIPL has 77% stake
<b>Value of incremental projects</b>	<b>2,250</b>			<b>100 km projects at 70:30 debt equity and 0.5X incr. P/B</b>
<b>Total (a) + (b)</b>	<b>31,935</b>		<b>1,744</b>	
<b>Target price</b>			<b>1,750</b>	

Source: Company, Kotak Institutional Equities estimates

## Valuation and financials

Exhibit 51: Sadbhav Engineering, valuation summary, March fiscal year-ends, 2010-12E

Stock data	High	Low	Price performance	1M	3M	12M
52-week range (₹)	1,639	747	Absolute (%)	(1.1)	33.7	95.1
Yield (%)		0.2	Rel. to BSE-30 (%)	(8.5)	20.0	64.1
Capitalization			Forecasts/valuation	2010	2011E	2012E
Price (₹)		1,573	P/E (X)	36.7	25.5	18.0
Market cap (₹ bn)		24	EV/EBITDA (X)	20.0	13.3	10.2
Free float (%)		52.5	P/B (X)	5.8	3.8	3.2
Shares outstanding (mn)		15	RoAE (%)	15.8	15.1	17.8

Source: Kotak Institutional Equities estimates

Exhibit 52: Sadbhav Engineering, standalone summary financials, March fiscal year-ends, 2008-13E (₹ mn)

	2006	2007	2008	2009	2010	2011E	2012E	2013E
Profit model								
<b>Total income</b>	<b>2,906</b>	<b>4,886</b>	<b>8,721</b>	<b>10,625</b>	<b>12,569</b>	<b>18,060</b>	<b>25,669</b>	<b>30,884</b>
Expenses	(2,553)	(4,307)	(7,749)	(9,530)	(11,198)	(16,025)	(22,773)	(27,391)
<b>EBITDA</b>	<b>353</b>	<b>579</b>	<b>972</b>	<b>1,095</b>	<b>1,371</b>	<b>2,035</b>	<b>2,895</b>	<b>3,493</b>
Interest (expense)/income	(84)	(54)	(157)	(214)	(331)	(420)	(655)	(906)
Depreciation	(139)	(149)	(139)	(157)	(233)	(292)	(363)	(441)
Other income	(2)	6	30	108	158	68	81	94
<b>Pretax profits</b>	<b>129</b>	<b>381</b>	<b>706</b>	<b>832</b>	<b>966</b>	<b>1,391</b>	<b>1,959</b>	<b>2,240</b>
Tax	(11)	(129)	(221)	(179)	(297)	(450)	(632)	(722)
<b>Adjusted net income</b>	<b>117</b>	<b>263</b>	<b>489</b>	<b>639</b>	<b>642</b>	<b>927</b>	<b>1,307</b>	<b>1,496</b>
<b>EPS (₹)</b>	<b>14.1</b>	<b>24.1</b>	<b>39.1</b>	<b>51.1</b>	<b>51.4</b>	<b>61.8</b>	<b>87.2</b>	<b>99.7</b>
Balance sheet								
Total equity	1,254	1,466	2,861	3,435	3,915	5,987	7,189	8,579
Deferred taxation liability	108	93	97	110	141	155	174	197
Total borrowings	522	730	1,503	2,111	4,242	4,000	6,500	8,000
<b>Total liabilities and equity</b>	<b>1,884</b>	<b>2,290</b>	<b>4,461</b>	<b>5,656</b>	<b>8,298</b>	<b>10,142</b>	<b>13,863</b>	<b>16,776</b>
Net fixed assets	1,038	1,119	1,430	1,545	2,101	2,609	3,246	3,805
Investments	104	461	1,205	1,246	1,441	3,533	5,033	6,033
Net current assets (excl. cash)	275	433	1,706	2,756	4,308	3,565	5,128	6,200
Cash	432	251	103	100	448	435	456	738
Miscl. exp. not written off	34	26	17	8	—	—	—	—
<b>Total assets</b>	<b>1,884</b>	<b>2,290</b>	<b>4,461</b>	<b>5,656</b>	<b>8,298</b>	<b>10,142</b>	<b>13,863</b>	<b>16,776</b>
Free cash flow								
<b>Cash flow from operations</b>	<b>551</b>	<b>278</b>	<b>(485)</b>	<b>(105)</b>	<b>(521)</b>	<b>2,281</b>	<b>700</b>	<b>1,699</b>
Pre-tax income	129	381	706	832	966	1,391	1,959	2,240
Depreciation & amortization	139	149	139	157	233	292	363	441
Taxes paid	(69)	(62)	(221)	(235)	(393)	(450)	(632)	(722)
Interest expense	80	54	121	128	238	422	657	906
Working capital changes	245	(260)	(1,298)	(999)	(1,569)	696	(1,563)	(1,072)
<b>Cash flow from investing</b>	<b>(502)</b>	<b>(588)</b>	<b>(1,195)</b>	<b>(319)</b>	<b>(965)</b>	<b>(2,892)</b>	<b>(2,500)</b>	<b>(2,000)</b>
Capital investment	(398)	(232)	(451)	(278)	(770)	(800)	(1,000)	(1,000)
Investment changes	(104)	(356)	(744)	(41)	(195)	(2,092)	(1,500)	(1,000)
<b>Free cash flow</b>	<b>49</b>	<b>(310)</b>	<b>(1,680)</b>	<b>(424)</b>	<b>(1,486)</b>	<b>(611)</b>	<b>(1,800)</b>	<b>(301)</b>
Ratios								
EBITDA margin (%)	12.1	11.8	11.1	10.3	10.9	11.3	11.3	11.3
PAT margin (%)	4.0	5.4	5.6	6.0	5.1	5.1	5.1	4.8
Debt/equity (X)	38.3	46.8	50.8	59.6	104.6	65.1	88.3	91.2
Net debt/equity (X)	6.6	30.7	47.4	56.7	93.5	58.0	82.1	82.7
RoAE (%)	8.6	16.8	16.5	18.0	15.8	15.1	17.8	17.0
RoACE (%)	10.4	(349.7)	36.2	17.7	14.2	15.2	13.5	10.9

Source: Company, Kotak Institutional Equities estimates

## SHREE CEMENT [BUY, TP: ₹ 2,550]

Shree Cement is our preferred stock in the cement sector given its (1) high profitability (2) proven track record of strong execution and (3) stable and attractive earnings from portfolio of power projects. We estimate new capacity additions in the cement and power segment to drive revenues at 8% CAGR over FY2010-12E. Our target price of ₹2,550 implies adjusted-EV/ton of US\$112/ton on FY2012E production compared to the current replacement cost of US\$110-120/ton. At the current market price of ₹2,029/share, the stock is trading at an EV/EBITDA of 3.3X on FY2012E EBITDA and adjusted-EV/ton of ~ US\$70/ton on FY2012E production.

### Current valuation much below replacement cost

We highlight that Shree Cement's current stock price values the company at adjusted EV/ton of US\$70/ton based on FY2012E production compared to the current replacement cost of US\$110-120/ton. Our target price of ₹2,550 implies adjusted-EV/ton of US\$112/ton based on FY2012E production. SRCM is trading at an EV/EBITDA of 3.3X on FY2012E EBITDA which is lower than the historical range of 4-6X for the stock. Our target price of ₹2,550 implies an EV/EBITDA multiple of 4.4X.

We like SRCM's strategy of investing in power capacity that not only meets the internal requirement for the cement business, but also provides incremental returns by earning revenue from the sale of power at lucrative short-term tariffs.

Exhibit 53: SRCM is trading at FY2012E adjusted EV of US\$70/ton production

SRCM, valuation comparison sheet, March fiscal year-ends, 2009-12E

Company	EV/EBITDA (X)				EV/ton of production (US\$)				EV/ton of capacity (US\$)			
	2009	2010E	2011E	2012E	2009	2010E	2011E	2012E	2009	2010E	2011E	2012E
ACC	9.0	6.4	7.2	5.8	179	172	164	141	175	162	130	114
Ambuja Cements	10.3	9.2	8.8	7.6	247	224	206	177	223	209	191	162
Grasim Industries	5.7	4.6	4.8	3.7	NA	NA	NA	NA	NA	NA	NA	NA
India Cements	4.9	6.5	8.5	6.1	121	109	95	76	111	91	89	68
Jaiprakash Associates	20.7	19.2	12.4	9.0	NA	NA	NA	NA	NA	NA	NA	NA
Shree Cement (a)	7.0	4.5	4.1	3.3	171	134	95	73	158	138	88	71
UltraTech Cement	7.4	5.9	8.3	5.2	158	130	139	115	150	112	125	112

Note:

(a) Adjusted for value of the power business

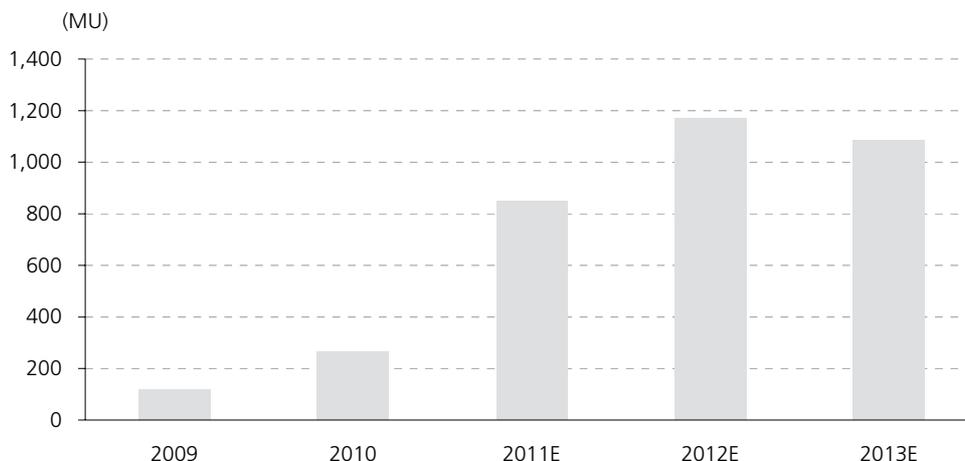
Source: Company, Kotak Institutional Equities

### Capacity additions in cement and power to drive earnings growth

SRCM continues to invest in new power plants, having chalked out plans for another 300 MW of power capacities to be sold entirely on merchant basis. The new capacity is in addition to 211 MW of operational power capacity. We note that two captive power plants of capacities 46 MW and 50 MW were commissioned in 4QFY10. Management has guided for an installed capacity of 560 MW by December 2011.

We note that SRCM sold 264 MU in FY2010 (125% yoy) and will grow at a CAGR of 60% to reach 1,085 MU in FY2013E allowing SRCM to benefit from robust rates in the short-term market.

Exhibit 54: SRCM's sale of power in the merchant market to grow sharply by FY2012E  
External power sale of SRCM, March fiscal year-ends, 2009-13E (MU)



Source: Company, Kotak Institutional Equities estimates

Exhibit 55: Contribution from power revenues will be the primary growth driver  
Financial summary of power revenues of Shree Cement, March fiscal year-ends, 2008-13E (₹ mn)

	2008	2009	2010E	2011E	2012E	2013E
<b>Financial summary</b>						
<b>Segment revenue</b>	<b>3,242</b>	<b>5,369</b>	<b>6,317</b>	<b>7,344</b>	<b>8,128</b>	<b>8,128</b>
Inter-segment	(3,242)	(4,563)	(4,545)	(3,520)	(3,442)	(3,786)
<b>External revenue</b>	<b>—</b>	<b>806</b>	<b>1,772</b>	<b>3,824</b>	<b>4,686</b>	<b>4,342</b>
Tariff (₹/kwh)	6.3	6.7	6.6	4.5	4.0	4.0
Cost of generation (₹/kwh)	4.4	3.0	3.4	2.2	2.2	2.2
<b>Segment EBIT</b>	<b>973</b>	<b>2,976</b>	<b>3,065</b>	<b>3,748</b>	<b>3,651</b>	<b>3,651</b>
Inter-segment	(973)	(2,215)	(2,109)	(1,797)	(1,546)	(1,701)
<b>External EBIT</b>	<b>—</b>	<b>762</b>	<b>955</b>	<b>1,952</b>	<b>2,105</b>	<b>1,950</b>
<b>Computation of available surplus</b>						
Captive power plants (MW)	81	100	119	204	254	254
Self-consumption (MW)	(81)	(74)	(82)	(98)	(108)	(118)
<b>Surplus available (MW)</b>	<b>—</b>	<b>26</b>	<b>37</b>	<b>106</b>	<b>146</b>	<b>136</b>
Surplus available (MU)	—	205	297	850	1,172	1,085

Source: Company, Kotak Institutional Equities estimates

SRCM also commissioned 3 mtpa of clinker capacity during 1QFY11 at Suratgarh (1.2 mtpa) in Rajasthan and Laksar (1.8 mtpa) in Uttarakhand during the quarter. The company is further pursuing growth opportunities at other locations and has signed MoUs with several state governments to facilitate land acquisition for setting up cement plants.

### Lower sensitivity to cement prices

We highlight that SRCM's earnings are less sensitive to cement prices compared to peers as (1) earnings from power business partially insulate the company from likely drop in prices of cement, (2) SRCM is amongst the more efficient manufacturers of cement in terms of overhead cost per ton produced and hence SRCM benefits from a favorable operating leverage, and (3) low financial leverage, allows for higher earnings resilience in the likelihood of weakening cement prices.

Exhibit 56: SRCM, valuation summary, March fiscal year-ends, 2010-12E

Stock data	High	Low	Price performance	1M	3M	12M
52-week range (₹)	2,542	1,372	Absolute (%)	6.5	1.3	19.9
Yield (%)		0.5	Rel. to BSE-30 (%)	(1.6)	(9.0)	0.9
Capitalization			Forecasts/valuation	2010	2011E	2012E
Price (₹)		2,029	P/E (X)	9.8	9.2	8.4
Market cap (₹ bn)		71	EV/EBITDA (X)	4.8	4.6	3.7
Free float (%)		34.5	P/B (X)	3.9	2.7	2.1
Shares outstanding (mn)		35	RoAE (%)	48.0	35.0	28.1

Source: Kotak Institutional Equities estimates

Exhibit 57: SRCM, summary financials, March fiscal year-ends, 2008-13E (₹ mn)

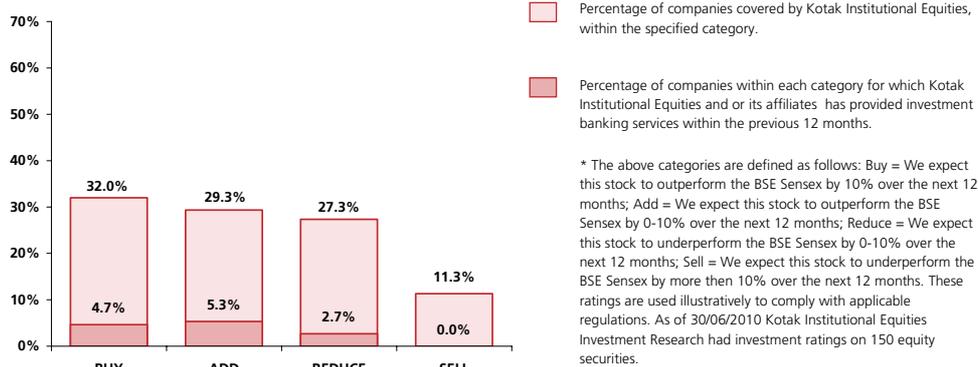
	2008	2009	2010	2011E	2012E	2013E
Profit model (₹ mn)						
Net sales	20,650	27,150	36,321	38,779	42,155	45,713
<b>EBITDA</b>	<b>8,653</b>	<b>9,508</b>	<b>15,025</b>	<b>13,735</b>	<b>14,882</b>	<b>16,225</b>
Other income	733	829	758	1,699	1,699	1,699
Interest	(527)	(744)	(766)	(1,177)	(869)	(614)
Depreciation	(4,788)	(2,054)	(5,704)	(4,366)	(4,821)	(4,861)
Pretax profits	4,072	7,538	9,313	9,891	10,890	12,449
Tax	(930)	(1,449)	(2,066)	(2,190)	(2,444)	(3,482)
<b>Net profits</b>	<b>3,142</b>	<b>6,089</b>	<b>7,248</b>	<b>7,702</b>	<b>8,447</b>	<b>8,967</b>
Extraordinary items	(389)	(309)	(487)	—	—	—
<b>Earnings per share (₹)</b>	<b>90.2</b>	<b>174.8</b>	<b>208.0</b>	<b>221.1</b>	<b>242.5</b>	<b>257.4</b>
Balance sheet (₹ mn)						
Total equity	6,543	11,996	18,208	25,739	34,373	40,820
Total borrowings	13,307	14,962	21,062	15,062	10,805	6,548
Current liabilities	4,799	6,842	9,667	9,666	9,761	15,814
<b>Total liabilities and equity</b>	<b>24,649</b>	<b>33,800</b>	<b>48,938</b>	<b>50,468</b>	<b>54,940</b>	<b>63,182</b>
Cash	4,674	4,723	4,164	6,308	10,550	18,545
Current assets	6,286	9,571	11,545	13,210	14,261	15,369
Total fixed assets	7,779	11,057	17,194	15,028	14,206	13,345
Investments	5,910	8,448	16,035	15,922	15,922	15,922
<b>Total assets</b>	<b>24,649</b>	<b>33,800</b>	<b>48,938</b>	<b>50,468</b>	<b>54,940</b>	<b>63,182</b>
Free cash flow (₹ mn)						
Operating cash flow, excl. working capital	7,631	8,154	12,937	11,890	13,179	12,618
Working capital	(125)	(1,243)	851	(1,666)	(956)	782
Capital expenditure	(4,260)	(5,295)	(11,841)	(2,200)	(4,000)	(4,000)
Investments	500	—	—	—	—	—
<b>Free cash flow</b>	<b>3,746</b>	<b>1,616</b>	<b>1,948</b>	<b>8,024</b>	<b>8,223</b>	<b>9,400</b>

Source: Company, Kotak Institutional Equities estimates

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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.

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