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New Release

Strategy: Nightmare may be over soon; dream could take a while

Updates

Rajesh Exports: Revise estimates and target price downward upon increasing gold prices

Sadbhav Engineering: Upgrade to BUY from ADD earlier, maintain target price of Rs1,385

News Roundup

Corporate

- Tata Motors and US carmaker Ford Motors are expected to complete the deal of luxury brands Jaguar and Land Rover within a few days. (FE)
- Fiat India Automobiles, an equal joint venture between Tata Motors and Fiat Group, has announced that it would invest Rs2341 crore to expand its facility in Ranjangaon plant in Pune. (FE)
- Reliance Industries, the country's largest private sector company, has decided to shut down all the petroleum retail outlets owned by it directly as surging crude prices and the absence of government subsidies have mde operations unviable. (ET)
- Hyderabad-based Aurobindo Pharma has acquired TAD Italy, a generic company with 70 redy-to-market products. (BS)
- The USFDA has asked Caraco Pharmaceutical Laboratories, the US subsidiary of Mumbai-based Sun Pharmaceuticals Industries, to withdraw many batches of its generic Metformin Hydrochloride tablets used for treating diabetes, citing efficacy and quality issues. (BS)

Economic and political

- The Sixth Pay Commission report submitted to the finance ministry has recommended an across-the-board effective salary hike of about 28%, performance-linked increments, fewer holidays and a new medical insurance scheme. (BS)
- The steel ministry has proposed to the finance ministry the abolition of import duty on all grades of steel (current tariff ~5%). (FE)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change, %			
	24-Mar	1-day	1-mo	3-mo
Sensex	15,289	2.0	(13.2)	(20.2)
Nifty	4,610	0.8	(10.6)	(20.1)
Global/Regional indices				
Dow Jones	12,361	2.2	0.6	(8.1)
Nasdaq Composite	2,258	2.2	(1.8)	(16.1)
FTSE	5,495	(0.9)	(7.4)	(14.6)
Nikkie	12,480	(0.0)	(7.6)	(18.2)
Hang Seng	21,108	(3.5)	(10.6)	(23.6)
KOSPI	1,655	0.6	(1.8)	(13.8)
Value traded - India				
		Moving avg, Rs bn		
	24-Mar	1-mo	3-mo	
Cash (NSE+BSE)	151.0	189.4	189.5	
Derivatives (NSE)	463.7	364.0	791	
Deri. open interest	641.0	753	1,162	

Forex/money market

	Change, basis points			
	24-Mar	1-day	1-mo	3-mo
Rs/US\$	40.3	(19)	32	82
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.7	2	1	(27)

Net investment (US\$m)

	18-Mar	MTD	CYTD
FIs	(171)	317	(4,271)
MFs	16	(409)	1,954

Top movers -3mo basis

Best performers	Change, %			
	24-Mar	1-day	1-mo	3-mo
Asian Paints	1,159	(1.4)	6.4	9.8
Ranbaxy	446	(0.9)	8.8	8.1
NALCO	478	7.3	15.1	7.4
Nestle India	1,423	1.6	6.8	5.6
Sun Pharma	1,279	1.5	16.0	3.5
Worst performers				
Moser Baer	121	(7.9)	(29.2)	(59.0)
Neyveli Lignite	104	(5.5)	(31.6)	(57.6)
Tata Tele	26	(5.4)	(28.3)	(56.5)
Arvind Mills	35	(5.3)	(27.8)	(55.8)
Tvs Motor	32	(11.7)	(19.5)	(55.3)

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Strategy

Sector coverage view

N/A

Nightmare may be over soon; dream could take a while

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We find valuations of the Indian market reasonable although potential risks to earnings have emerged in more sectors. We expect the market (BSE-30 Index) to inch forward over the next few months, eventually reaching our end-2008 target of around 18,000 in case our current earnings forecasts hold out. We would use the current gloom to build positions in fundamentally strong companies that offer exposure to the core India themes of consumption and investment.

Valuations of the Indian market and of most sectors look reasonable

We find valuations of the Indian market more reasonable after the recent steep correction. The market (BSE-30 Index) trades at 14.4X FY2009E earnings and 12.1X FY2009E earnings adjusted for valuations of 'embedded' assets. The latter is at the bottom end of the market's 12-15X valuation band in March 2005-August 2007, when market behavior was reasonably sane.

Potential risks to earnings have emerged in more sectors

We note that earnings risks have emerged in more sectors over the past few weeks given (1) deterioration in global economic and credit conditions, which raise earnings risks in case of technology and global commodities, (2) steep increase in commodity prices, which is a negative for consumer industries such as downstream oil & gas, print media, (3) unfavorable government action in the banking sector and (4) corporate developments in certain industrial stocks (LT, SUEL). These compound our earlier-stated concerns about potential downgrades to earnings in the cement, media, real estate and telecom sectors.

Valuations of 'embedded' assets appear a lot more palatable

We find the valuation of 'embedded' assets a lot more acceptable after the steep erosion in the prices of stocks, which derive a significant portion of their valuation from 'embedded' assets. We had been particularly concerned about the fallout on the market from a more sober approach to 'embedded' valuations; the correction has been even more severe than we expected.

Weak sentiment may not be a bad thing; suggests limited downside and opportunity to buy

We would use the bearish market sentiment to start building positions in fundamentally strong companies with reasonable valuations. We find several good stocks—offering exposure to the core India themes of consumption and investment—available at attractive valuations now. Finally, weak sentiment across all market participants (foreign institutional, domestic institutional, high net worth, retail) may suggest limited downside to the market.

Risks from de-rating of multiples and de-mystification of valuations of 'embedded' assets have decreased

Assessment of risks (de-rating, downgrade and demystification) of various sectors

Assessment of risks (de-rating, downgrade and demystification) of various sectors - March 2008

Sector	Rating	Multiple	Earnings	Demystification
		De-rating or Re-rating	Downgrade or Upgrade	
Automobiles	Attractive			
Banking & Insurance	Attractive			Insurance
Cement	Cautious			
Consumers	Attractive			
Energy (R&M)	Neutral	RIL	RIL, PSU R&M cos	PSU R&M cos
Energy (upstream)		ONGC	ONGC (moderate risk)	RIL, Cairn (moderate risk)
Energy (gas)			Dist. and transportation cos	
Industrials	Neutral			
Media	Neutral		Print and TV	
Metals (convertors)	Cautious	Ferrous, Al, Zinc	Ferrous, Al, Zinc	
Metals (resources)				JSPL
Pharmaceuticals	Neutral			
Property	Attractive			
Technology	Neutral			
Telecom	Cautious			
Utilities	Neutral			

Assessment of risks (de-rating, downgrade and demystification) of various sectors - December 2007

Sector	Rating	Multiple	Earnings	Demystification
		De-rating or Re-rating	Downgrade or Upgrade	
Automobiles	Attractive			
Banking & Insurance	Attractive			Insurance
Cement	Cautious			
Consumers	Neutral			
Energy (R&M)	Neutral	PSU R&M cos	PSU R&M cos	PSU R&M cos
Energy (upstream)		ONGC	ONGC	RIL, Cairn
Energy (gas)		Dist. and transportation cos	GAIL, GSPL	
Industrials	Attractive			
Media	Cautious	TV Broadcasting	TV broadcasting	
Metals (convertors)	Neutral	Ferrous, Al, Zinc	Ferrous, Al, Zinc	
Metals (resources)			Resources	JSPL
Pharmaceuticals	Neutral	DRL		
Property	Neutral			
Technology	Attractive		Moderate risk	
Telecom	Cautious			Tower cos
Utilities	Cautious			

Note:

	implies positive change likely
	implies either change is possible
	implies negative change likely

Source: Kotak Institutional Equities estimates.

Biased towards Automobiles, Banking and Consumers

Kotak Institutional Equities Top 10 List

Companies	Sector	Rating	Mkt cap. (US\$ mn)	CMP (Rs)	Target (Rs)	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
						2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E
ICICI Bank	Banking	ADD	22,094	805	900	35	35	35	23.3	22.7	23.0	—	—	—
Larsen & Toubro	Industrials	BUY	21,284	2,937	3,800	63	80	115	46.8	36.8	25.6	29.9	20.6	15.5
ITC	Consumer products	BUY	17,734	191	250	7.2	8.3	9.7	26.5	22.9	19.7	16.8	14.5	12.0
DLF	Property	BUY	25,313	598	905	13	45	60	47.1	13.2	10.0	39.8	11.0	8.3
HDFC Bank	Banking	BUY	14,970	1,337	1,500	36	50	60	37.4	26.5	22.3	—	—	—
Maruti Suzuki	Automobiles	BUY	5,824	812	1,240	54	68	93	15.0	12.0	8.7	8.8	7.3	5.2
Satyam Computer Services	Technology	BUY	6,516	391	520	21	26	30	18.2	15.3	12.9	14.6	11.6	9.0
Oil & Natural Gas Corporation	Energy	BUY	53,227	1,002	1,325	84	102	121	11.9	9.8	8.3	4.8	4.0	3.4
Tata Power	Utilities	ADD	6,351	1,098	1,540	27	30	38	41.3	37.0	28.8	24.0	25.0	22.4
Mid-cap. basket														
IVRCL	Construction	BUY	1,124	336	570	12.4	13.5	20.4	27.0	25.0	16.5	21.1	13.1	9.7
Jindal Saw	Pipes	BUY	820	590	1,150	116	77	120	5.1	7.7	4.9	4.6	4.4	2.6
Lanco Infratech	Utilities	BUY	1,992	361	670	8.5	17.6	33.8	42.6	20.6	10.7	22.9	19.4	10.9
Nagarjuna Construction Co.	Construction	BUY	1,215	211	365	6.5	9.2	12.7	32.4	23.0	16.6	21.5	13.3	10.3
Rajesh Exports	Retail	BUY	499	69	200	4.6	7.7	10.5	15.1	8.9	6.6	8.9	2.8	2.0
BSE-30 Index			15,289											

Source: Company, Bloomberg, Kotak Institutional Equities estimates.

Over-weighting Banking, Consumers and Real Estate

Kotak Institutional Equities Model Portfolio

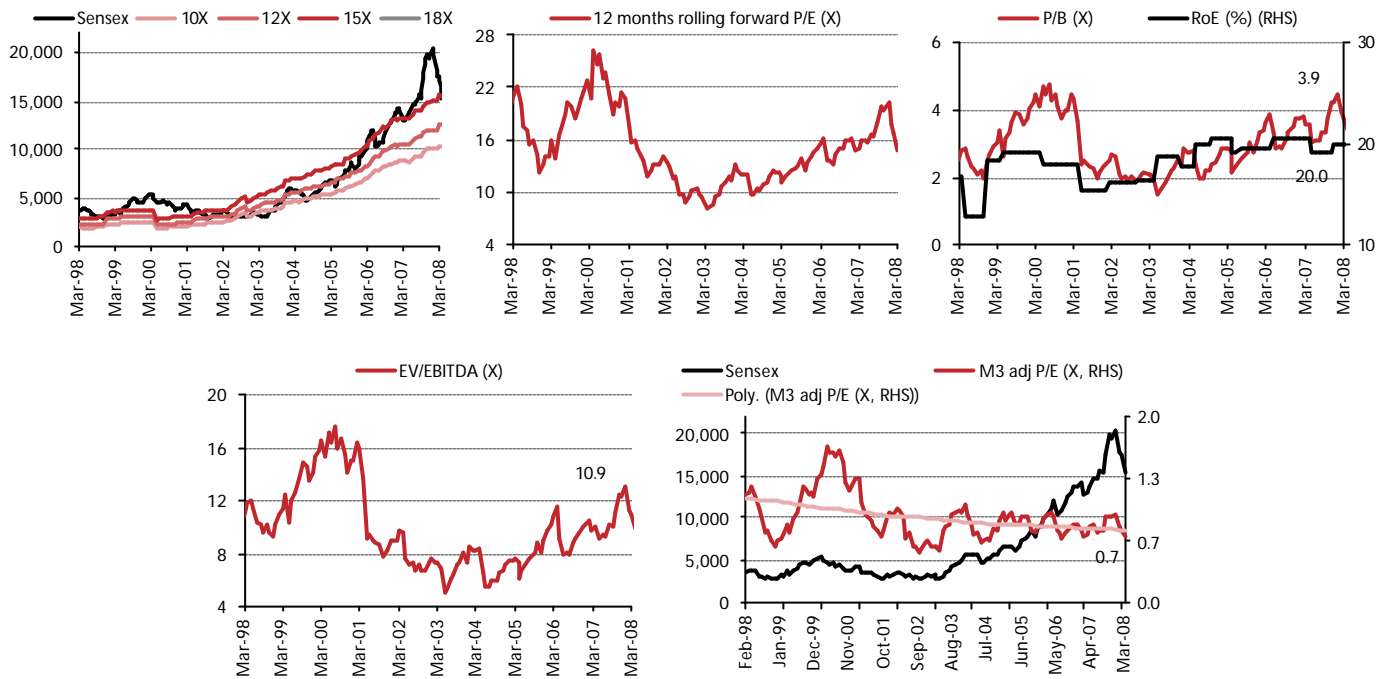
Company	24-Mar		Weightage (%)		Diff. (bps)	Company	24-Mar		Weightage (%)		Diff. (bps)
	Price (Rs)	Rating	BSE-30	KS reco.			Price (Rs)	Rating	BSE-30	KS reco.	
Mahindra & Mahindra	664	BUY	1.3	1.3	—	Cipla	206	REDUCE	1.0	—	(101)
Maruti Suzuki	812	BUY	1.1	2.6	150	Dishman Pharma & chemicals	277	BUY	—	1.0	100
Tata Motors	662	BUY	1.6	—	(165)	Sun Pharmaceuticals	1,279	BUY	—	1.0	100
Automobiles			4.1	4.0	(15)	Ranbaxy Laboratories	446	BUY	1.1	1.1	—
Punjab National Bank	485	BUY	—	1.5	150	Pharmaceuticals			2.1	3.1	99
State Bank of India	1,646	ADD	3.8	4.8	100	DLF	598	BUY	1.5	3.0	150
PSU Banking			3.8	6.3	250	Housing Development & Infrastructure	511	BUY	—	1.0	100
HDFC	2,384	ADD	5.6	4.6	(100)	Real estate			1.5	4.0	250
HDFC Bank	1,337	BUY	4.7	6.2	150	Infosys Technologies	1,361	BUY	6.4	6.9	50
ICICI Bank	805	ADD	8.6	10.6	200	Satyam Computer Services	391	BUY	2.4	3.9	150
Pvt Banking/Financing			18.9	21.4	250	TCS	823	ADD	1.9	—	(195)
ACC	805	REDUCE	0.9	0.9	—	Wipro	399	ADD	1.1	1.6	50
Ambuja Cements	124	REDUCE	1.1	—	(109)	Technology			11.9	12.5	55
Grasim Industries	2,620	ADD	1.7	—	(174)	Bharti Airtel Limited	801	REDUCE	5.1	3.1	(200)
Jaiprakash Associates	200	NC	1.1	—	(113)	Reliance Communications	509	SELL	3.5	—	(352)
Cement			4.9	0.9	(397)	Telecom			8.7	3.1	(552)
Hindustan Unilever	235	ADD	2.5	2.5	—	NTPC	191	REDUCE	2.3	—	(229)
ITC	191	BUY	4.8	6.3	150	Reliance Energy	1,151	NR	1.7	2.0	25
Consumers			7.3	8.8	150	Tata Power	1,098	ADD	—	2.0	200
Oil & Natural Gas Corporation	1,002	BUY	4.1	5.6	150	Utilities			4.0	4.0	(4)
Reliance Industries	2,201	RS	13.4	10.9	(241)	IVRCL	336	BUY	—	0.6	60
Energy			17.5	16.6	(91)	Jindal Saw	590	BUY	—	0.6	60
Bharat Heavy Electricals	1,871	ADD	3.1	—	(310)	Lanco Infratech	361	BUY	—	0.6	60
Larsen & Toubro	2,937	BUY	7.5	9.5	200	Nagarjuna Construction Co.	211	BUY	—	0.6	60
Industrials			10.6	9.5	(110)	Rajesh Exports	69	BUY	—	0.6	60
Hindalco Industries	154	ADD	1.4	—	(136)	Mid-cap. basket			—	3.0	300
Jindal Steel & Power	1,778	ADD	—	1.5	150	BSE-30			15,289	100.0	100.0
Tata Steel	592	REDUCE	3.5	1.5	(200)						
Metals			4.8	3.0	(186)						

Note:

(1) Weights are with respect to March 24, 2008 prices.

Source: Bloomberg, BSE, Kotak Institutional Equities.

1-year rolling forward P/E now trading close to normal range; at low end of recent range adjusted for 'embedded' valuations
 1-year rolling forward P/E, P/B, ROE, EV/EBITDA and M3 growth rate adjusted valuations



Source: BSE, RBI, Kotak Institutional Equities estimates.

Equity risk premium is at a sober level currently

Equity risk premium (%) for BSE Universe, using our proprietary tool, Whizdom

Equity risk premium	Implied BSE-30 Index		
	Rf = 8%	Rf = 7.5%	Rf = 7%
5.5	13,629	14,656	15,853
5.0	14,112	15,235	16,556
4.5	14,971	16,239	17,747
4.0	15,944	17,388	19,128
3.5	17,057	18,718	20,753
3.0	18,341	20,278	22,697
2.5	19,844	22,137	25,074
2.0	21,630	24,398	28,063

Source: Kotak Institutional Equities estimates.

Valuation summary of BSE-30 sectors

24-Mar-08 Company	Mkt cap. (US\$ mn)	EPS growth (%)				PER (X)			EV/EBITDA (X)			Price/BV (X)		Div. yield (%)		RoE (%)		
		2007	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2008E	2009E	2008E	2009E	2010E
Automobiles	17,118	27.6	10.9	20.4	6.7	10.8	9.0	8.4	7.3	6.1	5.7	2.3	1.9	2.0	2.0	21.4	21.2	19.0
Banking	75,542	14.2	33.8	6.6	26.4	21.9	20.6	16.3	—	—	—	3.0	2.6	1.0	1.1	13.7	12.5	14.0
Cement	14,408	89.5	16.5	8.5	(0.0)	11.5	10.6	10.6	6.2	5.5	5.1	2.8	2.2	1.9	2.1	24.0	20.7	17.5
Consumers	30,434	19.8	14.8	15.4	15.3	25.1	21.7	18.9	17.2	13.6	11.6	8.5	7.4	2.9	2.6	34.0	34.1	34.1
Energy	125,048	23.2	17.0	20.0	26.5	14.3	11.9	9.4	7.2	5.9	4.5	2.6	2.1	1.9	2.1	18.3	18.1	20.2
Industrials	44,321	52.0	30.5	35.4	24.2	32.6	24.1	19.4	18.0	13.9	11.0	7.5	5.8	0.6	0.7	23.1	24.2	23.5
Metals	17,641	33.1	(0.6)	26.5	(1.4)	10.3	8.2	8.3	6.1	5.1	5.1	1.4	1.2	1.7	1.7	14.0	15.3	13.4
Pharmaceuticals	8,108	39.6	21.7	(3.0)	26.1	22.8	23.5	18.6	15.7	16.0	13.0	4.8	4.3	1.7	1.9	21.0	18.3	20.3
Property	25,313	913.2	298.1	31.9	6.5	13.2	10.0	9.4	10.8	8.2	6.8	5.1	3.5	0.8	1.2	38.8	35.5	28.8
Technology	60,282	44.4	20.7	18.6	8.9	16.6	14.0	12.8	11.8	9.5	7.6	5.2	4.2	1.9	2.2	31.7	29.9	26.7
Telecom	64,971	(182.9)	67.6	26.1	23.3	21.5	17.1	13.8	13.0	9.7	7.7	5.5	4.2	0.2	0.4	25.7	24.9	24.4
Utilities	45,890	16.1	11.8	9.6	8.7	21.7	19.8	18.2	13.3	14.2	15.1	2.9	2.7	1.8	2.0	13.2	13.4	13.7
BSE-30 Index	529,076	36.5	27.3	19.1	17.2	17.4	14.6	12.5	9.9	8.3	7.0	3.5	2.9	1.4	1.6	19.8	19.5	19.8
BSE-30 ex-Energy	404,027	43.5	32.0	18.7	13.5	18.7	15.8	13.9	11.5	9.6	8.4	3.8	3.2	1.3	1.4	20.5	20.2	19.6
BSE-30 ex-Energy, Com.	371,979	42.2	37.3	18.7	15.7	20.0	16.8	14.5	12.8	10.5	9.1	4.2	3.5	1.2	1.4	21.2	20.8	20.5
BSE-30 ex-Technology	468,793	35.4	28.2	19.2	18.4	17.5	14.7	12.4	9.7	8.2	6.9	3.3	2.7	1.4	1.5	18.9	18.7	19.1

Note:

- (a) EV/EBITDA excludes Banking sector.
(b) Excludes Jaiprakash Associates.

Source: Company reports, Kotak Institutional Equities estimates.

Retail**REXP.BO, Rs69**

Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	200
52W High -Low (Rs)	170 - 58
Market Cap (Rs bn)	20.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	68.9	85.8	109.5
Net Profit (Rs bn)	1.0	2.3	3.1
EPS (Rs)	4.6	7.7	10.5
EPS gth	48.7	71.4	37.1
P/E (x)	15.1	8.9	6.6
EV/EBITDA (x)	8.9	2.8	2.0
Div yield (%)	0.4	3.3	3.6

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters		61.5	-
FIs		6.7	0.0
MFs		1.3	0.0
UTI		-	-
LIC		1.0	0.0

Rajesh Exports: Revise estimates and target price downward upon increasing gold prices

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- **Increasing gold prices to affect retail and export businesses; revise our retail revenue estimates downward by 22% and 26% for FY2008E and FY2009E, respectively**
- **Reduce volume estimates for bulk exports and private label offshoring by 2% and 4%, respectively for FY2009E**
- **Maintain our EPS estimate of Rs10.5 for FY2009E but revise FY2010E EPS estimate marginally downward by 1% to Rs12.3; large float income from bulk exports to keep interest earnings high**
- **Reiterate BUY as valuations remain compelling - 6.6X and 5.6X FY2009E and FY2010E EPS, respectively; revise target price downward to Rs200 from Rs215 earlier**

We revise our revenue and volume estimates for Rajesh Exports given higher gold prices and the resultant drop in demand for gold jewelry. We highlight that despite the industry showing declining trends in jewelry sales, branded players continue to post volume growth albeit at lower rates. We increase our average gold price assumptions for FY2008E and FY2009E by 7% and 38%, respectively, given the recent sharp increase in gold prices. We believe increasing gold prices should adversely impact the expected growth of jewelry retailing and marginally the bulk exports business. We revise our retail revenue estimates downwards by 22% and 26% for FY2008E and FY2009E, respectively. We reduce volume estimates for bulk exports and private label offshoring by 2% and 4%, respectively, for FY2009E and another 3.4% and 8.2%, respectively, for FY2010E. We highlight that despite reducing our volume estimates for bulk and private label and revenue estimates for retailing, absolute EBITDA increases marginally on account of higher float income from the higher gold prices in bulk exports business. EBITDA margins decline sharply on account of constant gross margins on higher gold selling prices. We marginally increase our earnings estimates—by 2.3% for FY2008E to Rs7.7 from Rs7.6 and 0.5% for FY2009E to Rs10.5. We reiterate our BUY rating as valuations remain compelling at 6.6X and 5.6X FY2009E and FY2010E EPS, respectively.

Volatility and increase in the gold prices impacting jewelry demand

Gold prices continue to rise though they have come off sharply in the past few days. We highlight that increasing gold prices impact gold jewelry demand but volatility in prices has a larger impact on jewelry demand. We note that despite increasing gold prices over the past 5-6 years, there have been yearly increases in gold consumption for jewelry as prices stabilize even at higher levels. We expect increasing gold prices to continue to adversely impact the industry but branded jewelry players continue to post growth in volumes but at lower rates. We increase our gold price assumption for FY2008E and FY2009E by 7% and 38%, respectively, given the recent sharp increase in gold prices and expectations of an increasingly weaker dollar. We reduce our retailing revenue estimates for Rajesh Exports as we believe new stores will take time to achieve strong revenue momentum. We model sharp increase same store sales in FY2009E for diamond-studded jewelry sales. Despite low gold consumption, diamond-studded jewelry revenues continue to increase at 20-30%. We maintain our store roll-out assumptions.

Valuations—absolute and relative become compelling; offers 190% upside!

Recent drop in stock price makes valuations compelling—6.6X FY2009 EPS of Rs10.5 and 5.6X FY2010E EPS of Rs12.3. We highlight that the company is quoting at among the most attractive valuations amongst domestic and international peers. Net cash of Rs9.5 bn accounts for nearly 48% of the fully diluted market cap. of Rs20 bn (fully diluted equity shares of 291 mn).

Revise target price to Rs200 from Rs215 earlier and maintain BUY rating

We revise our 12-month SOTP-based target price downwards to Rs200 from Rs215 earlier for the impact of revised estimates on account of slower traction retail revenues. We reduce our DCF-based value of export and retailing businesses by 9% and 10%, respectively. We maintain our BUY rating on the stock.

Exhibit 1: Forecasts and valuation (consolidated)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	54,459	1,119	665	3.1	28.3	22.2	29.9
2007	68,930	2,142	1,013	4.6	32.9	15.1	17.7
2008E	85,796	4,131	2,251	7.7	21.2	8.9	9.6
2009E	109,532	4,864	3,062	10.5	23.8	6.6	8.8
2010E	107,639	5,306	3,589	12.3	23.1	5.6	7.1

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Rajesh Exports, SOTP valuation

	Current valuation		Previous valuation	
	(Rs mn)	(Rs/share)		
Export business	25,074	86	27,380	94
Retail business	19,260	66	21,309	73
Real estate	2,500	9	2,500	9
Total enterprise value	46,833	161	51,188	176
Net debt/(cash) - FY2009E	(10,572)	(36)	(10,954)	(38)
Equity value	57,406	197	62,142	214

Note:

(1) Net cash is adjusted for net operating working capital

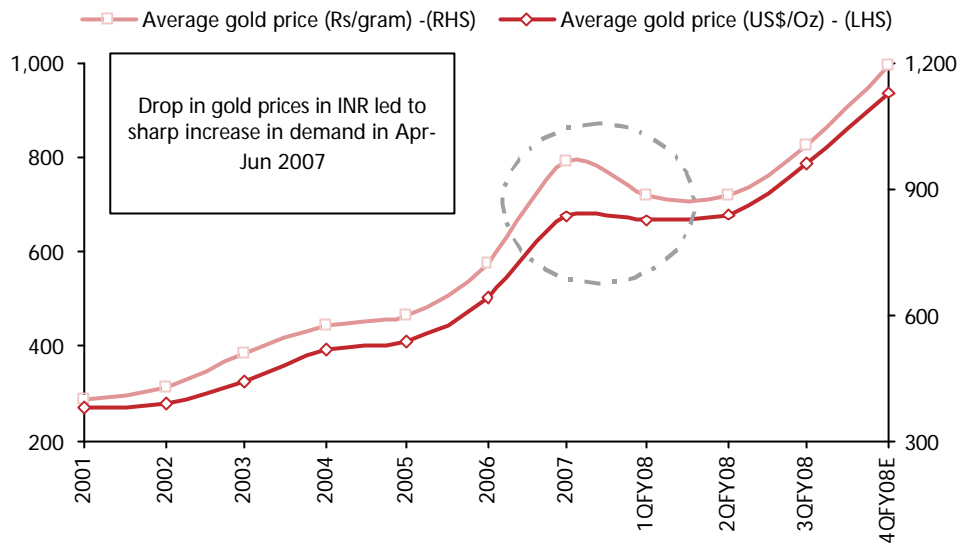
Source: Kotak Institutional Equities estimates.

Exhibit 3: Change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Difference (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Revenue	85,796	109,532	107,639	82,440	85,728	87,849	4.1	27.8	22.5
EBITDA	4,131	4,864	5,306	4,079	4,695	5,098	1.3	3.6	4.1
EBITDA margin (%)	4.8	4.4	4.9	4.9	5.5	5.8	—	—	—
Adjusted net profit	2,251	3,062	3,589	2,201	3,048	3,619	2.3	0.5	(0.8)
Diluted EPS (Rs)	7.7	10.5	12.3	7.6	10.5	12.4	2.3	0.5	(0.8)
Segmental revenue									
Bulk	79,381	95,162	86,507	75,671	70,862	65,031	4.9	34.3	33.0
Retailing	2,104	5,348	10,593	2,711	7,216	13,674	(22.4)	(25.9)	(22.5)
Private label	3,899	5,631	6,625	3,646	4,260	5,230	6.9	32.2	26.7
Diamond	412	3,390	3,915	412	3,390	3,915	—	—	—
Total revenues	85,796	109,532	107,639	82,440	85,728	87,849	4.1	27.8	22.5
Others									
Gold price (US\$/oz)	770	1,063	1,116	720	770	809	6.9	37.9	37.9
Bulk gold qty (kg)	74,635	67,171	59,447	75,992	68,393	61,553	(1.8)	(1.8)	(3.4)
Pvt. Label gold qty (kg)	5,250	6,038	6,943	5,250	6,300	7,560	—	(4.2)	(8.2)

Source: Kotak Institutional Equities estimates.

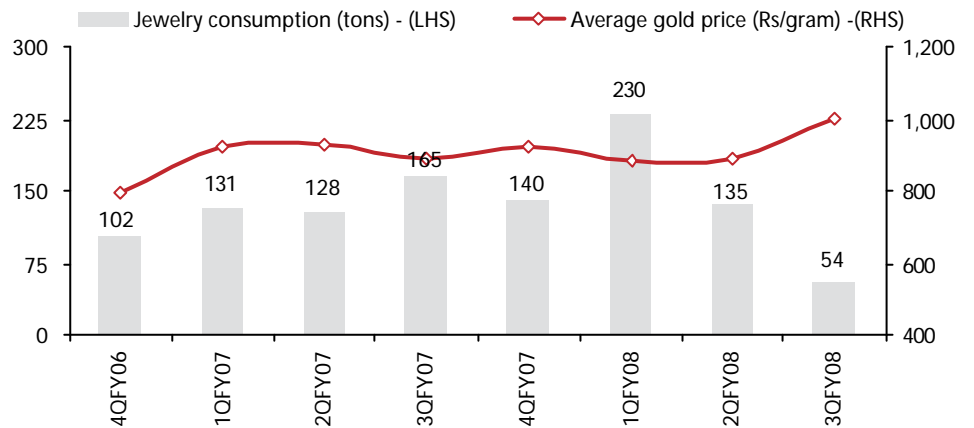
Exhibit 4: INR gold price affected by recent fluctuation in currency rates



Source: Bloomberg, Capitaline, company.

Exhibit 5: Jewelry demand is affected by volatility in gold prices

India--jewelry consumption and average gold prices, March fiscal year-ends, 2001-3QFY08



Source: Bloomberg, Capitaline, company.

Exhibit 6: Financial assumptions, March fiscal year-ends, 2007-10E

	2007	2008E	2009E	2010E
Volumes sold				
Bulk exports (kg)	67,850	74,635	67,171	59,447
Revenues (Rs mn)	68,932	85,796	109,532	107,639
Shubh (a)	—	135	2,519	6,600
Laabh (b)	—	1,095	1,643	2,665
Moothoot (c)	—	624	912	1,026
Diamond-outsourcing (d)	—	250	275	303
Total retailing (a)+(b) +(c)+(d)	—	2,104	5,348	10,593
White label jewelry	—	3,899	5,631	6,625
Diamond jewelry	—	412	3,390	3,915
Bulk exports	68,932	79,381	95,162	86,507
EBITDA (Rs mn)	2,142	4,131	4,864	5,306
Shubh (a)	—	5	113	330
Laabh (b)	—	77	131	240
Moothoot (c)	—	31	46	51
Diamond-outsourcing (d)	—	30	36	42
Total retailing (a)+(b) +(c)+(d)	—	143	326	663
White label jewelry	—	643	929	1,126
Diamond jewelry	—	62	614	824
Bulk exports	2,142	3,283	2,995	2,693
EBITDA margins (%)	3.1	4.8	4.4	4.9
Shubh (a)	—	4.0	4.5	5.0
Laabh (b)	—	7.0	8.0	9.0
Moothoot (c)	—	5.0	5.0	5.0
Diamond-outsourcing (d)	—	12.0	13.0	14.0
Total retailing (a)+(b)	—	6.8	6.1	6.3
White label jewelry	—	16.5	16.5	17.0
Diamond jewelry	—	14.9	18.1	21.0
Bulk exports	3.1	4.1	3.1	3.1
Retailing assumptions				
Stores (numbers)				
Shubh		20	70	120
Laabh		30	30	50
Average sales/store per month (Rs mn)				
Shubh		4.5	4.7	5.8
Laabh		3.0	4.6	5.6

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 7: Profit model, balance sheet, cash model for Rajesh Exports, 2006-2010E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E
Profit model					
Total income	54,459	68,930	85,796	109,532	107,639
EBITDA	1,119	2,142	4,131	4,864	5,306
Interest (expense)/income	(417)	(1,086)	(1,745)	(1,528)	(1,298)
Depreciation	(14)	(15)	(19)	(21)	(23)
Other income	13	—	—	—	—
Pretax profits	702	1,042	2,368	3,315	3,985
Tax	(36)	(30)	(117)	(253)	(397)
Deferred taxation	—	—	—	—	—
Adjusted net income	665	1,013	2,251	3,062	3,589
Diluted earnings per share (Rs)	3.1	4.6	7.7	10.5	12.3
Balance sheet					
Total equity	2,363	3,091	10,650	12,861	15,513
Total borrowings	13,443	33,234	29,375	27,689	24,754
Current liabilities	24,924	33,429	40,689	48,760	46,081
Total liabilities and equity	40,729	69,754	80,714	89,309	86,348
Cash	34,104	57,647	65,911	71,761	68,634
Other current assets	6,069	11,499	14,140	16,835	16,979
Deferred taxation asset	8	8	8	8	8
Total fixed assets	500	537	593	642	664
Investments	49	63	63	63	63
Total assets	40,729	69,754	80,715	89,309	86,349
Free cash flow					
Operating cash flow, excl. working capital	(971)	(2,373)	2,270	3,083	3,612
Working capital changes	1,226	3,531	3,927	5,290	(2,908)
Capital expenditure	(31)	(52)	(75)	(70)	(45)
Free cash flow	224	1,106	6,123	8,303	658
Ratios (%)					
Debt/equity	570.9	1,078.2	276.0	215.4	159.7
Net debt/equity	(41.9)	(29.4)	(79.0)	(82.3)	(85.2)
RoAE	28.3	32.9	21.2	23.8	23.1
RoACE	8.9	7.9	10.2	11.1	11.8

Source: Company data, Kotak Institutional Equities estimates.

Construction**SADE.BO, Rs1060**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,385
52W High -Low (Rs)	1600 - 380
Market Cap (Rs bn)	13.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	4.9	8.5	13.4
Net Profit (Rs bn)	0.3	0.5	0.9
EPS (Rs)	23.7	44.7	73.5
EPS gth	21.1	88.7	64.4
P/E (x)	44.7	23.7	14.4
EV/EBITDA (x)	24.8	14.3	8.5
Div yield (%)	0.3	0.5	0.9

Shareholding, December 2007

	% of		Over/(under) weight
	Pattern	Portfolio	
Promoters	47.6	-	-
FIs	27.6	0.0	0.0
MFs	8.7	0.1	0.1
UTI	-	-	-
LIC	-	-	-

Sadbhav Engineering: Upgrade to BUY from ADD earlier, maintain target price of Rs1,385

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Augustya Somani : augustya.somani@kotak.com, +91-22-6634-1328

- Recent drop in the stock price increases upside to target price to 31%
- We maintain our estimates as order book addition and execution remains in line with estimates
- Adjusted for the BOT valuation, stock trades at 9.5X FY2009E EPS of Rs71 and 5.1X FY2009E EBITDA
- Upgrade to BUY from ADD earlier and maintain SOTP-based target price of Rs1,385

We upgrade our rating to BUY from ADD earlier as we believe the stock looks very attractive at current valuations. We maintain our order book addition and execution assumptions as we believe the infrastructure growth in the country continues to be strong. We maintain our estimates and target price of Rs1,385.

Exhibit 1: Forecasts and valuation (standalone)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	2,906	353	162	19.6	11.9	54.2	25.2
2007	4,886	579	258	23.7	16.6	44.7	20.8
2008E	8,529	1,028	523	39.9	17.6	26.5	14.3
2009E	13,449	1,651	930	71.0	22.9	14.9	8.5
2010E	15,367	1,888	1,079	82.4	21.8	12.9	7.1

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Our SOTP valuation for Sadbhav is Rs1,385

Business	Valuation method	Equity value (Rs mn)		Per share (Rs)	Comments
		Total	SEL share		
Construction business (a)	EV/EBITDA	12,968	12,968	990	Based on 2009E EBITDA - 6.5X for BOT-construction and 9X for non-BOT construction business
BOT projects (b)	DCF	10,051	5,199	397	Based on DCF valuation of projects
Ahmedabad Ring Road		4,564	3,651	279	SEL has 80% stake
Mumbai Nasik		4,034	807	62	SEL has 20% stake
Aurangabad-Jalna		839	428	33	SEL has 51% stake
Nagpur-Seoni		615	314	24	SEL has 51% stake
Total (a) + (b)			18,167	1,387	
Target price				1,385	

Source: Kotak Institutional Equities estimates.

Exhibit 3: Comparison of valuation of large-tier construction companies in India, March fiscal year-ends 2007-2009E (Rs bn)

Company	Revenues			EBITDA			EPS (Rs)			P/E (X)			EV/EBITDA (X)		
	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E
Nagarjuna Construction Company	28.7	36.0	49.0	2.7	4.2	5.6	7.3	9.2	12.7	17.5	13.9	10.0	14.3	8.7	6.9
Punj Lloyd Ltd.	51.3	82.7	111.1	3.7	6.2	10.3	6.1	10.4	17.8	49.4	29.3	17.0	27.8	16.7	10.7
IVRCL Infrastructure	23.1	35.1	49.0	2.3	3.6	5.2	10.5	13.5	20.4	19.6	15.3	10.1	10.9	6.5	4.9
Larsen & Toubro standalone	176.1	242.0	321.4	17.8	28.6	39.2	49.5	71.9	94.8	41.1	28.3	21.5	33.7	21.4	15.8
Consolidated Construction Co.	8.6	15.1	21.4	0.7	1.3	2.1	15.8	27.5	41.6	42.5	24.4	16.1	34.3	17.6	11.2
Average										34.0	22.2	14.9	24.2	14.2	9.9
Sadbhav Engineering	4.9	8.5	13.4	0.6	1.0	1.7	23.7	39.9	71.0	28.5	16.9	9.5	16.7	8.7	5.1

- Note:
- (1) For Nagarjuna - we have adjusted value of land bank (about Rs39/share), other BOT projects (Rs25/share) and investments (Rs20/share) for a total of Rs84/share
 - (2) For Punj Lloyd estimates are based on consolidated estimates as the company does not have any BOT projects
 - (3) For IVRCL we have adjusted value of IVR Prime (Rs70/share corresponding to IVR Prime price of Rs250/share) and other BOT projects for a total adjustment of Rs130/share
 - (4) For L&T we have deducted Rs900 per share as the value of subsidiaries/associates/JVs
 - (5) For Sadbhav Engineering we have deducted Rs385 per share (the value of BOT projects)

Source: Bloomberg, Kotak Institutional Equities estimates.

Exhibit 4: Comparison of valuation of mid-tier construction companies in India, March fiscal year-ends 2007-2009E (Rs bn)

Company	Mkt Cap. (US\$ mn)	Revenues (Rs mn)			EBITDA (Rs mn)			EPS (Rs)			EV/EBITDA (X)			PER (X)		
		2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E
CCCL	616	8,633	15,629	23,399	732	1,512	2,428	35.8	25.5	40.8	35.8	17.4	10.8	18.7	26.3	16.5
JMC Projects	120	5,022	8,535	12,923	424	699	1,134	12.5	15.5	26.9	11.9	7.2	4.5	21.3	17.2	9.9
Madhucon	371	5,100	7,786	12,387	865	1,254	2,058	11.3	15.0	22.7	NM	12.4	7.6	36.0	27.0	17.8
Simplex Infrastructure	587	13,428	26,761	37,790	1,071	2,808	4,276	12.5	19.7	33.3	28.2	10.8	7.1	38.3	24.4	14.4
Subhash Projects	248	8,312	12,878	19,007	816	1,253	1,969	20.5	18.4	28.0	15.4	10.0	6.4	15.6	17.4	11.4
Average											22.8	11.6	7.3	26.0	22.5	14.0
Sadbhav Engineering	345	4,886	8,529	13,449	579	1,028	1,651	23.7	39.9	71.0	20.8	14.3	8.5	44.7	26.5	14.9

Source: Bloomberg.

Exhibit 5: Profit model, balance sheet, cash model for Sadbhav Engineering (stand alone), 2006-2010E, March fiscal year-ends (Rs mn)

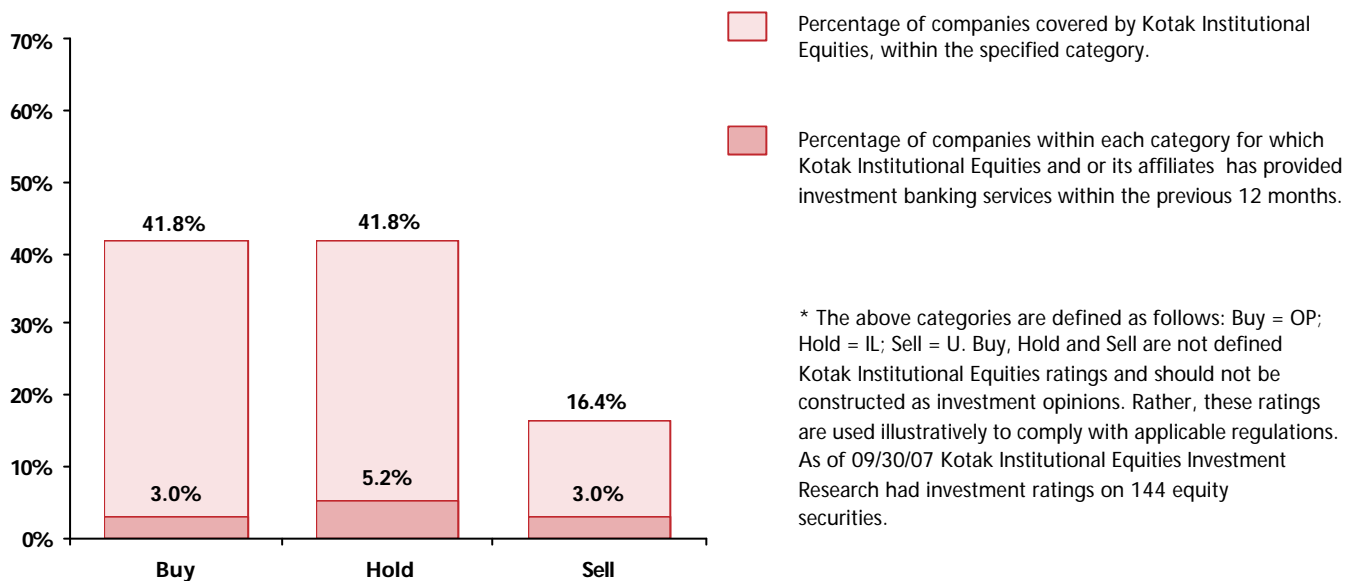
	2006	2007	2008E	2009E	2010E
Profit model					
Total income	2,906	4,886	8,529	13,449	15,367
EBITDA	353	579	1,028	1,651	1,888
Interest (expense)/income	(84)	(54)	(154)	(134)	(63)
Depreciation	(139)	(149)	(151)	(183)	(209)
Other income	(2)	6	6	(1)	1
Pretax profits	129	381	729	1,333	1,617
Tax	(11)	(129)	(192)	(390)	(538)
Deferred taxation	(1)	8	(15)	(13)	-
Adjusted net income	139	264	523	930	1,079
Diluted earnings per share (Rs)	19.6	23.7	39.9	71.0	82.4
Balance sheet					
Total equity	1,254	1,466	2,867	3,944	4,839
Deferred taxation liability	108	93	108	121	121
Total borrowings	522	730	1,340	750	400
Current liabilities	1,751	2,551	3,611	5,679	6,492
Total liabilities and equity	3,634	4,841	7,926	10,494	11,852
Cash	432	251	513	630	887
Other current assets	2,025	2,984	4,397	6,640	7,559
Total fixed assets	1,038	1,119	1,569	1,785	1,976
Miscl. exp. not written off	34	26	17	9	—
Investments	104	461	1,430	1,430	1,430
Total assets	3,634	4,841	7,926	10,493	11,852
Free cash flow					
Operating cash flow, excl. working capital	215	467	672	1,115	1,270
Working capital changes	581	165	(389)	(241)	(136)
Capital expenditure	(398)	(232)	(600)	(400)	(400)
Investments	(440)	(782)	(969)	—	—
Other income	10	17	25	20	27
Free cash flow	399	401	(317)	474	734
Ratios (%)					
Debt/equity	38.3	46.8	45.0	18.5	8.1
Net debt/equity	6.6	30.7	27.8	3.0	(9.8)
RoAE	11.9	16.6	17.6	22.9	21.8
RoACE	5.3	10.6	12.5	18.3	20.4

Source: Company data, Kotak Institutional Equities estimates.

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Source: Kotak Institutional Equities.

As of September 30, 2007

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