India Strategy

Corporate day - Conference highlights

Event

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Key highlights

We had 15 company presentations on our DSPML Corporate Day on Sept 17-18 at the Taj President Hotel last week

Bharat Forge Ltd.: Domestic autos recovery underway, expect utilization rates to improve to 55% by year-end. Management most excited on non auto business.

Cain India (CIL): A Malaysian Court has ruled in favor of CIL in litigation with Indian government regarding Ravva field profit petroleum. Worst case hit to CIL in litigation was US$95m. CIL may now write back US$34m provided in 1Q.

GlaxoSmithKline Pharma: Domestic formulations growth expected to revert to industry trends, compared to trailing averages until recently

Jain Irrigation Systems: Expects to grow domestic Micro Irrigation business at 40% CAGR & expects upwards of 25% growth in agro-processing & plastic pipes.

Gujarat State Petronet: 15-25% upside risk to FY10E EPS of Rs4.9 as pipeline tariff at Rs800-850/tcm may be 7-13% higher than Rs750/tcm currently assumed.

Lupin Limited: Management target sales of Rs10bn by FY12 (CAGR ~27%), driven by traditional markets in US and India.

McLeod Russel India Ltd.: Company believes, tea prices can rise further 10-15% in FY11. New supply is difficult to come by as land availability for new tea plantations in main tea growing countries.

Motherson Sumi Systems: Company is targeting Rs40bn turnover for the group by 2015 implying four fold jump in revenue in 2010-2015 for Motherson Sumi Ltd.

MphasiS Ltd. Management articulated its vision of achieving US$2bn revenues over next 2-3 years including inorganic initiatives and remain confident of maintaining ~22% EBIT margins during FY10

Patel Engineering: Patel Engg. is expected to be a key beneficiary of infra capex as an E&C company having interest in the area of Hydro power, Irrigation Roads, and Urban Infrastructure which is vertically integrating into independent power production and real estate development.

Rolta India Limited: Management indicated that order booking during the quarter continues to be healthy and reiterated rev. guidance of Rs15.3-15.7bn for FY10.

Sterlite Technology: The company expects 40% revenue CAGR led by volume growth and 60% EBITDA CAGR led by scale economies. At a segment level, optical fiber will likely be the key growth engine.

Suzlon Energy: Looking for demand to turn in 4Q'09 however market still remains challenging & company may miss their guidance of 2400MW by 10-15%.

TVS Motor: TVS expects new launches, both in scooters and bikes to drive sales, and margins to expand on lower cost and higher sales.

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Bharat Forge Ltd (XUUVF, Rs272, C-3-7)

- Domestic autos recovery underway, expect utilisaton rates to improve to 55% by year-end (presently 40%), and further next year
- International operations still challenging, expect restructuring to lower profit break-even to ~50% next year (present utilisation 30%)
- Non-auto contribution expected to increase to 40% of standalone business in FY11, and 60% by FY12 (presently 30%)

Cairn India Ltd (XCANF, Rs263, C-1-9)

- The Rajasthan-Gujarat heated crude pipeline to evacuate crude from the Rajasthan oil fields in likely to be ready by end-2009E while the marine facility to facilitate exports is likely to be ready by 2011E. Thus all production until end-2010/early-2011 will have to be sold in India.
- A Malaysian court has ruled in favor of CIL in its litigation with the Indian government relating to the Ravva producing field. The hit to CIL would have been US$95m in case of an unfavorable court ruling. CIL had already provided for US$34m in 1Q FY10, which we believe it may write back now. CIL had gone in to arbitration in Malaysia in relation to a dispute on calculation of profit petroleum from the Ravva field. The arbitration ruling went in favor of CIL but the Indian government appealed against the ruling in a Malaysian court. The Malaysian court had ruled in the Indian government's favor, which meant a hit of US$95m to CIL. CIL appealed to a higher Malaysian court, which has now set aside the decision of the lower Malaysian court.
- The next reserve upside in the Rajasthan block of CIL may come from the Barmer Hill formation, which has 400mn bbls in-place reserves. CIL plans to drill more wells in the Barmer Hill formation in 2010E, which may help give more clarity on recoverable reserves by early 2011. Currently 2P reserves and resources assumed in the fields other than Mangala, Bhagyam and Aishwarya (MBA) imply a recovery rate of just 5%. The recovery rate from Barmer Hill, which is a low permeability reservoir, could eventually be as high as 27-30% (primary recovery 7-10%; secondary recovery > 20%). Thus recoverable reserves from Barmer Hills could rise by 90-100m bbls (60-70m bbls net to CIL).
- 6 exploration wells are planned in 2009 in CIL's exploration blocks including 3 wells in the KG deepwater block KG-DWN-98/2 (CIL 10% interest, ONGC 65% interest) , 2 in a KG onshore block and one in another Rajasthan block, in which ENI is the operator. Ultra deepwater drilling is planned in KG-DWN-98/2 in 2010E. Another 3 wells are planned in the KG onshore block and 1 well in a Gujarat Suarashtra onshore block in 2010E. Drilling is first planned in CIL's offshore block in Sri Lanka and in its shallow water block in the Palar basin (part of eastern offshore region between the KG and Cauvery basins) in 2011E

GlaxoSmithKline Pharma (GXOLF,Rs1498,C-2-7)

- Domestic formulations growth expected to revert to industry trends, compared to trailing averages until recently

- Focus on speciality therapies such as oncology, diabetes and cardiovascular through fresh induction of fieldforce
- Overall growth to be supported by new launches e.g. cervarix expected to be Rs 500mn brand in 2 years (just Rs80mn presently)

Gujarat State Petronet (GJRSF, Rs79, C-1-7)

- 15-25% upside risk to FY10E EPS of Rs4.9/share as pipeline tariff at Rs800-850/tcm may be 7-13% higher than Rs750/tcm assumed by us. Tariff was Rs915/tcm in 1Q. Average for the year is likely to be higher than Rs750/tcm even after factoring in some cut as volumes ramp up and regulator sets tariff
- GSPL has filed expression of interest (EOI) for 3 new inter-state pipeline projects the latest being the Surat-Paradip pipeline. The 3 projects GSPL has filed EOI for are 1) Rs45bn Mehsana-Bhatinda-Srinagar pipeline 2) Mallavaram-Bhilwara pipeline from East coast of India 3) Surat-Paradip pipeline. Our earnings and PO do not factor upside potential from any of these projects. Whether GSPL does any of these projects will be known after the regulator calls bids and a successful bidder emerges. Progress is first likely in the Mehsana-Bhatinda pipeline with the regulator soon likely to call bids. Clarity on Mallavaram-Bhilwara pipeline is likely after an expert committee set by the regulator submits its report. GAIL has filed EOI for a pipeline with a similar path and hence the expert committee is appointed.
- GSPL may not get tax benefit under Section 35AD as this benefit may be applicable only for gas pipeline companies starting operations from April 2009. Under section 35AD the entire capex on pipelines is allowable as deductible expenditure for tax purposes. Even if GSPL does not get this benefit there is no impact on our profit forecast of GSPL. We were assuming tax/PBT at corporate tax rate of 34% with current tax rate being 17% and deferred tax being 17%. If GSPL does not get benefit under Section 35AD, tax/PBT will still be 34% but current tax will be higher than MAT rate of 17%.
- All new pipeline projects like the 3 for which GSPL has filed EOI are likely to be implemented through special purpose vehicles (SPVs). One reason for doing so is to get the tax benefit under Section 35AD

Jain Irrigation Systems (JNIDF, Rs802, C-1-7)

- Micro Irrigation growth continues to remain strong. Company is seeing strong growth from new states like Himachal Pradesh, Tamilnadu etc.
- Company is increasingly discounting its debtors and is looking at discounting INR5bn rediscounting this year.
- Management reiterated that free cash flow will be positive in FY11.
- The company expects to grow domestic Micro Irrigation business at 40% CAGR and expects upwards of 25% growth in agro-processing and plastic pipes
- Expects capex upwards of INR2bn in FY10 and FY11 to increase capacity in micro irrigation and pipes.

Lupin Limited (LPMCF, Rs1070, C-1-7)

- Management target sales of Rs 10bn by FY12 (CAGR ~27%), driven by traditional markets in US and India, success in South Africa and deeper penetration in Japan
- Would look to buy brands in US (third launch allernaze in Q3 FY10), and distribution companies in Japan
- Bullish on oral contraceptives segment, expect to scale up to $250mn over 3 years; first launch next year
- Caution over stricter FDA norms and slower than expected take off of NCE programme

McLeod Russel India Ltd (XCVFF, Rs210, C-1-7)

- New supply is difficult to come by as land availability for new tea plantations in main tea growing countries i.e. India, Kenya and Sri Lanka is limited. Even if new area comes under plantation, it will take ~5years for sizeable yields.
- Surge in tea price is not only due to lower production in tea growing countries but also is a response to under investment in tea due to static tea price scenario over a decade.
- Company believes, tea prices can rise further 10-15% in FY11. Company has sold 38mn kg tea this year at an average rage of INR140/kg. Our estimates are based on avg. tea prices at INR134.7/kg for FY10 and a 3% rise in FY11.
- Wage contracts for the company will be up for renewal in Dec 2009 but is not a concern. These are four year contracts which decide per year rise in the wages. Company expects INR2 to 2.5/kg increase in wages.
- Company will look at new acquisitions and debt repayment through strong free cash flows generated going ahead.

Motherson Sumi Systems(XMSUF, Rs107, C-1-7)

- Motherson Sumi management shared its ambitious growth plans with investors in BAS-ML investors meet held recently. The company is targeting Rs40bn turnover for the group by 2015 implying four fold jump in revenue in 2010-2015 for Motherson Sumi Ltd. Company's growth plan is backed by its track record of achieving ambitious targets since 2000. Motherson's key strength is its strong relation with Japanese and European car makers. Company's growth is likely to be driven by a combination of (1) increase in number of parts per car (2) geographical expansion and (3) acquisitions.
- Turnaround of automotive mirror unit contributing to 55% of FY10E consolidated revenue likely to be a key earnings growth driver till FY12E. Motherson management expects to achieve 7%-10% EBITDA margin for its automotive mirror business in one year time compared to 1.7% EBITDA margin in Q1FY10 following completion of business restructuring. Key drivers of margin improvement of Euro660mn automotive mirror unit are likely to be (1) reduction in operating cost from shifting of manufacturing from Germany and France to Eastern Europe and middle east (2) around 2% saving in cost of raw material from change in vendor and in-house manufacturing and

(3) increase in revenue through a combination of global demand recovery and increase in market share as indicated by recent order win from BMW and VW.

- Motherson is likely to be a key beneficiary of manufacturing of small car by Toyota and Nissan in India in next one year as Motherson will have far higher content in these vehicles. Motherson is likely to gain share in plastic part, car AC along with entry of Toyota and Nissan small car.

- Motherson is targeting ROCE of 40% in FY10, which is significantly higher compared to ROCE of 21% in FY09 and average ROCE of 28% in FY06-09 period. Expansion of ROCE is likely to be driven by (1) conversion of Rs3bn FCCB (already in the money), contributing to 16% of capital employed is likely to boost ROCE as full cost of FCCB is already charged to P/L account (2) expansion of profit margin of automotive mirror business and (3) end to delay in product launch by key customers.

MphasiS Ltd (MPSSF, Rs658, C-1-7)

Mgt meeting induces confidence

We hosted MphasiS management at our DSP ML Corporate day at Mumbai. Management vision of achieving US$2bn revenues over next 2-3 years including inorganic initiatives and confidence in maintaining ~22% EBIT margins during FY10 which is inline with BAS-MLe reinforces our long term bullish stance on the stock. We also raised earnings estimate by 3% for FY10 and FY11 to factor AIG captive unit acquisition and raised PO to Rs750 at PEG of 1x in line with 2 yr EPS CAGR of 15% vs. 14% earlier. Our revised PO implies target P/E of 15x FY10E (Oct. yr end).

Expect margins to sustain at current levels

Expect EBIT margins to maintain at current levels of ~22% for FY10, in line with BAS-MLe. Increase in seat utilization, consolidation of facilities and increasing share of high margin ITO business to help sustain margins. Besides we see minimal risk to margins from rupee appreciation as ~70% of its 12 months US$ revs are hedged at favorable USD/INR rate of Rs47-48.

Pricing cuts with HP factored in 3Q results

While MphasiS continues to see pricing pressure in sectors such as telecom & manufacturing, pricing pressure in Banking, finl services & insurance (~40% revs) has subsided as per management. Even with HP, management indicated that pricing is market driven and its recent master service agreement with HP factors low single digit pricing cuts, in line with market. We believe 3Q results factors recent pricing agreements and margins unlikely to surprise on the downside

Share of ITO to increase

Expect revenues to cross US$1bn by FY10E (BAS-MLe at US$1.05bn) and highlighted vision of reaching US$2bn revenues over next 2-3 year; including inorganic initiatives. Share of ITO revs to grow from 19% (FY09) to ~ 30% (FY12e).

Patel Engg. (No Rating)

Patel Engg. (PEL) is expected to be a key beneficiary of infra capex as an E&C company having interest in the area of Hydro power, Irrigation Roads, and Urban Infrastructure which is vertically integrating into independent power production and real estate development.

PEL had order backlog of Rs73.5bn +22.5%YoY - Hydro (44%), Irrigation (44%) and Transport & others 12%. Management also highlighted L1 for order in excess of Rs30bn

1QFY10 Highlights (Consolidated)

- Income from operations Rs6.4bn +15.2%YoY
- EBITDA margin 16.4% +236bps YoY
- Net Profit Rs363mn +24.8%YoY

Real Estate: PEL's 100% subsidiary intends to develop its land bank in excess of 1100acres valued at Rs21bn at prime locations - Banglore, Chennai, Hyderabad and Mumbai & Panvel. 99% of the projects are FDI Compliant

Key real estate Projects

- Patel Corporate Park, Jogeshwari, Mumbai (80k sqft built up area) is ready to let,
- Corporate Tower, Jogeshwari, Mumbai (1mn sqft built up area) to go into construction in FY10 and
- NEOTOWN Banglore South (12mn sq ft built up area) is likely launched in FY10.

Assets Ownership

Roads - BOT / Annuity Projects:

- KNT -1 Karnataka of 61kms for 18years concession period expected to start from 2HFY10 with annuity of Rs660mn p.a.
- AP - 7 Andhra Pradesh of 53kms for 18years concession period expected to start from FY11 with annuity of Rs550mn p.a

Power

- 1200MW Nagapatnam TPP of Rs60bn to be funded by 75:25 debt equity, where PEL is likely to own 51%
- 120MW Gongri HEP, Arunanchal Pradesh – Financial closure expected by 1QFY11

Rolta India Limited (RLTAF, Rs181, C-1-8)

- Rolta management presented at our conference. Post meeting with management we reiterate our Buy rating and PO of Rs200. Key highlights as under:
- Reiterated full year revenue guidance of Rs15.3-15.7bn for year ending June 2010. Management indicated that order booking during the quarter continue to be healthy. It currently has near 80% visibility for FY10 and in GIS segment (45% revs) revenue visibility is well over 90%.
- Seeing increasing acceptance in market place for Rolta's strategy to offer solutions as against pure services. Has won multiple contracts for Geo Fusion from India (State Electricity Company), Canada (Private Power producer), Middle East (Road Authority Company).

- Hopeful of order win from India defence in its Thales JV by next year. Believe Rolta is well positioned to exploit potential in this space.

Sterlite Technologies (No Rating)

Co expects robust growth for next 3 years

- Sterlite Technologies pointed to robust growth for next 3 years. The Co expects 40% revenue CAGR led by volume growth and 60% EBITDA CAGR led by scale economies. At a segment level, optical fiber will likely be the key growth engine.

Telecom & power sector dynamics to facilitate growth

- In the optical fiber business (~20% of FY09 revenues), increasing bandwidth demand and consequent focus on fiber connectivity (fiber to home, and fiber between towers) is a key growth driver. Optical (bare) fiber prices are likely to stay range-bound ~US$8/km given that global supply-demand appear to be well matched. In the power conductor business (~63% of FY09 revenues), improvement in the ratio of transmission (T&D) capacity versus generation and a large pipeline of new power projects would drive growth.

Large fiber expansion on anvil

- Sterlite Technologies has firmed up plans to expand optical fiber capacity from 12mn kms by end-FY10 to 20mn kms by FY12 (29% volume CAGR) involving capex of ~Rs2.5bn. The company may also double its cable capacity but no firm timeline has been set for the same yet. In the power conductors business, the company will likely expand capacity from 160,000MT by end-FY10 to 200,000MT by FY12 (12% CAGR). The Co's total capex over next 2-3 years is estimated ~Rs4bn.

Cost competitiveness, and pre-qualification - key entry barriers

- In the optical fiber business, Sterlite Technologies is one of the few players globally that is backward integrated into glass manufacturing (highest value-add process for optical fiber manufacture). This coupled with single-location manufacturing are key competitive strengths. In the power conductors business, meeting pre-qualification criteria of utility companies, the Co's ability to hedge its metals' exposure and its working capital management are key entry barriers for competition.

Key risks: forex fluctuation, weak execution in user industries

- Pricing of optical fiber is driven by global supply-demand dynamics (US$-denominated); hence, realizations for Sterlite Tech can get impacted by sharp forex (Rs/US$) fluctuations. Also, in both the key user segments (telecom & power), Sterlite Technologies' volume growth is contingent on timely execution by telecom and power companies.

Suzlon Energy Limited (SZEYF, Rs101, C-3-7)

Looking For Demand Turn In 4Q'09; Market Still Challenging

At our Mumbai conference, Suzlon sounded cautiously optimistic with likely pick-up in demand starting in 4Q09, led by a better regulatory regime in USA / India and improving funding for USA wind farms, while acknowledging a challenging near term outlook. Investors remained worried about the less than one year order backlog, deteriorating balance-sheet on losses and sticky US debtors. Maintain Underperform rating on weak WTG markets extending order conclusion cycle longer and that leading to dwindling visibility. Upside risk to our rating is de-leveraging by asset sale & pick-up in USA market.

Demand Pick-up Likely from 4Q09 to boost visibility

Suzlon expects revival in demand from 4Q'09 led by A) cash assistance to renewable energy projects in place of tax credits from American Recovery and Reinvestment program with US$502mn in first round of awards; B) Potential scale-up in generation based incentives in India to 3-4GW v/s 50MW currently to develop institutional investor market and C) resumption of funding of wind farms by US investment banks. Suzlon also said that its customers had received grants worth US$141mn (28% of grants) for three wind farms to be equipped with 296MW worth of Suzlon turbines. Suzlon expects new orders of ~400-500MW in 4Q'09.

Clients still push-back deliveries = risk to FY10 Guidance

However, Suzlon did highlight that situation on the ground remains challenging with clients still pushing-back deliveries for 2009 and early 2010. This could present 10-15% risk to Suzlon's 2400-2600MW sales volume guidance for FY10.

Investors worry on dwindling visibility & sticky US debtors

The investors questions were centered around A) dwindling visibility at Suzlon with backlog not enough to cover even FY10E sales guidance, B) deteriorating balance sheet with erosion in net-worth on recent losses and tripling of parent debtors (>180 days) to Rs18.8bn in FY09 on sticky US debtors and C) weak financials could again give rise to debt covenant breach risk by Sept-2009. Suzlon highlighted its efforts to sell stake in its gear-box subsidiary, to potentially de-leverage balance-sheet

TVS Motor Company Ltd.(XFKMF, Rs59, C-1-7)

- Management highlighted multiple reasons why they think their margins can move higher and closer to peers (a) Higher sales, (b) Improving mix mainly mopeds, and (3) Breakeven of three wheelers this year

- New launches in bigger scooter and economy bike by November / December this year - this will address product gaps

- Indonesia business starting to improve, in line with economy; company specifically has launched second product recently, and monthly run rate is 2000units; expect 75K volume in FY11, should achieve cash break even next year.

Price objective basis & risk

Bharat Forge (XUUVF)

Our PO of Rs56 is based on 8x FY10E EPS, in line with trough multiples due to absence of growth and concerns over leverage of forex debt. Downside risks: Sharper than expected slowdown which will have a negative impact on sales and profitability. Upside risks: Economic revival globally which would lend an upside to both domestic and export sales.

Gujarat State (GJRSF)

DCF-based PO of GSPL works out to Rs79. WACC is 10pct based on 11.5pct cost of equity, 9.5pct cost of debt, 17pct tax and debt-equity of 67pct. We have assumed gas transmission volume CAGR of 45pct in FY09-FY12E. Gas transmission tariff is assumed to decline at a CAGR of 7% in FY09-FY12E. In our view P/E is not suitable to value GSPL for two reasons 1) GSPL depreciates its pipeline over 12 years vis-à-vis 30 years by peers like GAIL, thereby making earnings multiple unsuitable. 2) GSPL is in a takeoff stage. So, valuation based on one-year earnings or EBITDA is not suitable. We prefer DCF to value GSPL. Neither depreciation policy nor GSPL being at a take-off stage is an issue while using DCF valuation. Downside risks: 1) Regulatory risk in the form of regulator requiring GSPL to cut tariff. ROCE for GSPL is actually lower than the regulated rate and management expects tariff upside from regulation. 2) Lower than expected gas transmission volumes.

Jain Irrigation Systems Ltd (JNIDF)

Our PO of INR820 is at 17xFY11e EPS and at 0.45x PEG. We expect the stock price performance will be driven by earnings growth. We believe risk to earnings is limited given i) high earnings visibility and ii) improving mix in favor of high margin businesses of MIS and agro-processing will help profitability.
Risks to our PO are demand risk from a bad monsoon and from an adverse change in the government subsidy.

Lupin Limited (LPMCF)

Our PO of Rs1,200 is based on 13.5x FY11E EPS, which is a 10% discount to the sector, due to pending US FDA issues. We expect the multiple to expand, compared to both historical and mid-cap companies, closer to large cap peers, We believe the stock should trade at a higher multiple due to: (1) stronger and sustainable growth rates (22% sales CAGR, 28% EPS CAGR), and (2) scale of operations. At our PO, the stock would trade at 9.8x EV/EBITDA FY11E, in line with the existing FY10E multiple.

Key downside risks: (1) unfavorable impact of USFDA warning letter, (2) slower approval from USFDA affecting US growth and (3) higher-than-expected price erosion.

Mcleod Russel India Ltd. (XCVFF)

Our PO of Rs250 is based on 11x FY11E P/E, in line with McLeod's 4yr median 1yr fwd PE and target PE for global food commodity stocks. After adjusting for the market value of 25pct of the equity shares of the company held in a trust owned by a 100pct subsidiary company, the target PE is 8x FY11e PE. This compares favorably with (1) valuations of global food commodity/plantation peer-group companies which are valued at 10-15x 1-year forward P/E multiples, (2) Indian sugar companies' valuations, and (3) the company's historical 1-year forward P/E band being at its lower end.

Risks: (1) failure of monsoon leading to drastic decline in production, (2) Stronger rupee affecting export realizations.

Motherson Sumi (XMSUF)

Our PO of Rs120 is based on 15.5x FY11E EPS of Rs7.7. We expect the stock to re-rate to average PE of over 15x for the automobile sector driven by turnaround of its core business as well as new assets acquired recently. Our positive outlook on the company is supported by robust track record and high valuation enjoyed by the company in the past. Risks are (1) the possibility of sharp decline in demand for auto parts and (2) possible conflict of interest among joint venture partners given similar lines of businesses.

MphasiS Ltd (MPSSF)

Our PO of Rs750 is at target PEG of 1x higher than implied PEG of 0.8x earlier and implies PE of 15x FY10E in line with 2 year EPS CAGR (09-11e) of15%. We expect the stock to re-rate given a) likely greater potential to tap in to HP/EDS revenues & success in joint go to marketing initiatives and 2) minimal risk to margins from rupee appreciation.

Risks: change in transfer pricing mechanism between HP and MphasiS and slower-than-expected volume growth from HP/EDS clients. Industry risks: a worse-than-expected slowdown in the United States, sharper-than-expected INR appreciation and increasing competition.

Rolta India (RLTAF)

Our PO (local stock) of Rs200 is at a 12x FY11E PE, in line with historical average. Our PO (for the GDR) of USD4 is at par with the local PO. Risks: a) Non-annuity nature of business. b) Risk related to possible acquisitions. c) Risk due to high dependence on partnerships. d) Industry-wide risk of increasing wages, increasing taxes, and rupee appreciation. Upside Risks : significant wins from defense for Thales JV and earlier than anticipated recovery in engineering and enterprise solutions business.

Suzlon Energy (SZEYF)

Our PO of Rs87 is based on our sum-of-the-parts analysis. We valued Suzlon's wind business at 12.5x FY11E earnings, at Rs57 per share, which is set at a 25% discount to its European comparable which has been its historical average. This we believe is fair given Suzlon's long term growth and return profile. We value Suzlon's wind gear business at Rs31 per share at 10% discount to its DCF which assumes a WACC of 9.5%.

Upside risk to our rating is de-leveraging by asset sale & pick-up in USA market leading to new order wins. Downside risks: Headwinds for wind turbine business and execution risk in the wake of component shortages and blade retrofit issues.

Analyst Certification

We, Jyotivardhan Jaipuria, Arvind Bothra, Bharat Parekh, Prasad Deshmukh, Pratish Krishnan, S.Arun, Sanjaya Satapathy and Vidyadhar Ginde, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Important Disclosures

Investment Rating Distribution: Autos Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	33	44.00%	Buy	14	48.28%
Neutral	13	17.33%	Neutral	5	55.56%
Sell	29	38.67%	Sell	15	60.00%

Investment Rating Distribution: Electrical Equipment Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	14	40.00%	Buy	6	42.86%
Neutral	11	31.43%	Neutral	6	66.67%
Sell	10	28.57%	Sell	3	33.33%

Investment Rating Distribution: Energy Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	107	42.29%	Buy	64	65.31%
Neutral	71	28.06%	Neutral	34	58.62%
Sell	75	29.64%	Sell	29	44.62%

Investment Rating Distribution: Food Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	24	38.71%	Buy	6	27.27%
Neutral	25	40.32%	Neutral	9	50.00%
Sell	13	20.97%	Sell	2	18.18%

Investment Rating Distribution: Health Care Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	86	52.12%	Buy	43	53.75%
Neutral	39	23.64%	Neutral	21	61.76%
Sell	40	24.24%	Sell	18	48.65%

Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	17	31.48%	Buy	8	50.00%
Neutral	14	25.93%	Neutral	4	30.77%
Sell	23	42.59%	Sell	6	31.58%

Investment Rating Distribution: Technology Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	85	39.53%	Buy	43	55.84%
Neutral	45	20.93%	Neutral	26	66.67%
Sell	85	39.53%	Sell	30	38.46%

Investment Rating Distribution: Utilities Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	68	40.24%	Buy	38	61.29%
Neutral	44	26.04%	Neutral	23	57.50%
Sell	57	33.73%	Sell	17	34.00%

Investment Rating Distribution: Global Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1303	40.83%	Buy	602	51.10%
Neutral	807	25.29%	Neutral	362	51.49%
Sell	1081	33.88%	Sell	394	39.96%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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