kotak® Institutional Equities

INDIA DAILY

August 12, 2008

EQUITY MARKETS

		Change, %		
India	11-Aug	1-day	1-mo	3-mo
Sensex	15,504	2.2	15.1	(8.0)
Nifty	4,620	2.0	14.1	(7.8)
Global/Regional indices				
Dow Jones	11,782	0.4	6.1	(8.5)
FTSE	5,542	1.0	5.3	(10.9)
Nikkie	13,336	(0.7)	2.3	(3.0)
Hang Seng	21,836	(0.1)	(1.6)	(12.9)
KOSPI	1,577	(0.3)	0.6	(13.5)
Value traded - India				
			Moving avg, Rs bn	
	11-Aug		1-mo	3-mo
Cash (NSE+BSE)	177.1		190.8	186.5
Derivatives (NSE)	397.0		501.5	350
Deri. open interest	777.9		722	709

Forex/money market

		Change, basis points		
	11-Aug	1-day	1-mo	3-mo
Rs/US$	42.2	0	(76)	13
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US$mn)

	8-Aug		MTD	CYTD
FIIs	20		(168)	(6,914)
MFs	(31)		28	2,710

Top movers -3mo basis

		Change, %		
Best performers	11-Aug	1-day	1-mo	3-mo
CIPLA LTD	234	(0.5)	11.1	12.5
CROMPTON GREAV	262	2.2	9.0	11.8
RELIANCE CAPITAL	1,442	1.8	40.4	10.6
DIVI'S LABORATORI	1,522	0.7	14.1	9.4
SUN PHARMACEUTI	1,450	0.7	10.1	7.7
Worst performers				
INFRASTRUCTURE D	105	2.9	(3.1)	(36.2)
RELIANCE POWER L	170	0.5	21.0	(33.6)
TATA MOTORS LTD	448	1.6	11.9	(33.1)
UNITECH LIMITED	187	6.2	10.0	(33.0)
ABAN OFFSHORE LI	2,519	1.0	(11.5)	(31.4)

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News Roundup

Corporate

- US private investor **Wilbur Ross** and **Goldman Sachs** will invest US$100 million in India second-biggest budget carrier **Spice Jet** under a definitive agreement signed today. (BS)
- **Austral Coke & Projects**, a Mumbai-based low-ash metallurgical coke producer, has acquired 95% in coking coal mines in Mozambique for US$500 mn. (BS)
- **State Bank of India** has raised its benchmark prime lending rate 100 bps to 13.75% from today. (BS)
- **Biocon** Ltd's oral insulin, which aims to be a needleless alternative to the injection, has advanced to late-stage trials, having shown promising results in the mid-stage studies in India. (Mint)
- **NTPC** Ltd and **Power Finance Corp** will create India's third electricity exchange as utilities boost capacity to help end blackouts and sustain economic growth. (Mint)

Economic and political

- The government is expected to issue guidelines this week for private sector provident funds allowing them to invest up to 10% of their corpus in stock markets and press for similar norms for the Employees Provident Fund. (BS)
- The car industry recorded a dip is sales for the first time in more than two-and-a-half years as sales in the domestic market slipped i1.71% in July as high interest rates, inflation and rising fuel costs dented demand. (BS)

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

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GAIL (India), Oil & Natural Gas Corporation: Chaturvedi committee recommendations; few good thoughts, but may take time to implement

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- **Chaturvedi Committee recommends ceiling price of US$75/bbl for upstream players**
- **Gradual price adjustment for automotive fuels; 'Metro Extra tax' on diesel proposed**
- **Recommendations, if implemented, are positive for ONGC and GAIL**

We view the recent recommendations by the BK Chaturvedi committee concerning under-recoveries and sharing of subsidy burden as providing increased confidence about our earnings estimates for ONGC and GAIL. The committee has recommended (1) a ceiling price of US$75/bbl for upstream companies operating in non-NELP environment and (2) all revenues above US$75/bbl to go to the government as 'special oil tax' for payment of subsidy. It has also assessed a contribution of Rs5 bn from GAIL towards subsidy sharing. We view these recommendations (if implemented) as significantly positive for ONGC and GAIL given that ONGC's net realization has been between US$45-55/bbl in recent years and GAIL's subsidy burden is significantly lower versus historical subsidy loss. The committee has also recommended a fixing of the prices of the four controlled products on export parity basis and suggested a phased adjustment to prices of auto fuels to align them to international prices. We reiterate our BUY rating on ONGC and GAIL with a 12-month fair value of Rs1,225 (based on 9X normalized FCF) and Rs450 (SOTP-based), respectively.

Details of Chaturvedi committee recommendations. The Chaturvedi Committee has recommended a ceiling price of US$75/bbl for upstream companies operating in non-NELP environment. Incremental revenues over US$75/bbl would go to the government as 'special oil tax' for payment of subsidy. We view these recommendations as a very big positive for ONGC given that its net price after providing for subsidy loss has varied between US$45-55/bbl in recent years (see Exhibit 3). The committee has also assessed a contribution of Rs5 bn from GAIL towards subsidy sharing on account of the LPG it produces using natural gas that is made available at controlled prices. We see significant upside to GAIL's earnings if this recommendation is implemented given that GAIL's subsidy burden was Rs14 bn in FY2008. However, we believe that a fairer arrangement would be to link the subsidy burden to be borne by GAIL to the international price of crude rather than freezing it at an absolute amount.

The committee has recommended fixing the prices of the four controlled products on export parity basis and suggested a phased adjustment to prices of auto fuels to align them to international prices. The committee has suggested a package of measures to ensure that the subsidy on kerosene and LPG is utilized by the intended target consumers through restricting the number of subsidized LPG refills and the use of smart cards. However, we are not sure the recommendations concerning the price hikes will be implemented soon given political compulsions and economic constraints (high inflation). We also highlight that the Rangarajan committee had made similar recommendations in February 2006 concerning alignment of prices to international prices and subsidies being targeted towards below poverty line families. However, no significant progress has been made on those recommendations.

Energy

GAIL.BO, Rs420	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	450
52W High -Low (Rs)	556 - 284
Market Cap (Rs bn)	354.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	180.1	267.8	421.3
Net Profit (Rs bn)	26.0	31.0	35.5
EPS (Rs)	30.8	36.6	42.0
EPS gth	*21.7*	*19.0*	*14.8*
P/E (x)	13.6	11.5	10.0
EV/EBITDA (x)	7.8	7.0	7.0
Div yield (%)	2.4	2.6	3.1

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.3	-	-
FIIs	18.5	0.9	(0.1)
MFs	3.9	1.0	0.0
UTI	-	-	(0.9)
LIC	5.9	1.3	0.4

Energy

ONGC.BO, Rs1105	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	1,225
52W High -Low (Rs)	1387 - 768
Market Cap (Rs bn)	2,364

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,113	1,318	1,307
Net Profit (Rs bn)	198.5	276.5	319.1
EPS (Rs)	92.8	129.3	149.2
EPS gth	*9.1*	*39.3*	*15.4*
P/E (x)	11.9	8.6	7.4
EV/EBITDA (x)	4.6	3.5	3.0
Div yield (%)	2.9	3.3	4.1

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.1	-	-
FIIs	7.6	2.1	(3.4)
MFs	1.6	2.4	(3.1)
UTI	-	-	(5.5)
LIC	2.4	3.1	(2.4)

Key recommendations proposed. The key recommendations proposed by the Chaturvedi Committee have been discussed below:

- **Special oil tax on E&P companies.** The committee has recommended a ceiling price of US$75/bbl for upstream companies operating in non-NELP environment and all revenues above US$75/bbl would go to the government as 'special oil tax' for payment of subsidy. The tax is proposed to be a temporary measure, which will be in place till domestic selling prices of petroleum products have been aligned to international prices in a phased manner and there is no further need to provide subsidies on the four controlled products. Also, the proceeds of this tax will be earmarked exclusively for meeting the subsidy needs.

  The committee has also recommended that private players will have to give 40% of the incremental revenues earned beyond US$75 a barrel to the government as part of subsidy-sharing scheme.

- **Fixation of refinery gate prices.** The committee has suggested to fix the refinery gate price of the four controlled products (petrol, diesel, kerosene and LPG) on the fob export prices. The benchmark refinery gate price will enable the refineries to set the price for Bharat Stage (BS) II fuels after adjusting for quality differences. The price of BS III automotive fuels can be derived from BS II prices using a prescribed quality premium. Distribution & marketing expenses and applicable Union taxes and duties will be added to arrive at the retail selling price before State taxes & duties. The final retail selling price will incorporate the applicable state taxes and duties as determined by the respective state government.

- **Price adjustment for auto fuels.** Exhibit 4 gives details of the price adjustments for auto fuels suggested by the committee. The key suggestions have been listed below.

  Petrol. The committee has suggested the adjustment of refinery gate prices before state duties and taxes to Rs53/liter (from Rs42/liter) for BS-II petrol through the following measures.

  — Increase in selling price before state duties and taxes by Rs2.5/liter every month

  — Reduction in excise duty to Rs10/liter from Rs13.75/liter to facilitate rapid adjustment

  — After 3 months, further adjustments to be made to petrol prices so as to fully restore the excise duty to current level (Rs13.75/liter)

  — Adjustment of BS-III premium of Rs0.5/liter in the first month of adjustment

  Diesel. The committee has suggested adjustment of refinery gate prices before state duties and taxes to Rs49/liter (from Rs30.9/liter) for BS-II diesel through implementation of the following measures.

  — Supply to industrial consumers at negotiated market price

  — Increase in selling price before state duties and taxes by Rs0.75/liter every month

  — Adjustment of BS-III premium of Rs0.5/liter in the first month of adjustment

- **Metro Extra tax.** The committee has recommended a separate 'Metro Extra tax' of Rs2/liter on diesel in large cities (applicable to 11 cities at present). The purpose is to capture the use of subsidized diesel by private cars and sports utility vehicles.

- **Demand management and improvement of subsidy targeting.** The committee has suggested a package of measure to ensure that the subsidy on kerosene and LPG is utilized by the intended target consumers. The key suggestions have been listed below

LPG. The key diversion of subsidized LPG is for commercial use and for automotive use. The committee has recommended that the entitlement to subsidized LPG be restricted to six refills in a year and subsequently be phased out over three years with future entitlements of four, two and zero refills. LPG subsidy for BPL (below poverty line) families should be eventually provided directly through Smart Cards or a cash transfer mechanism.

Kerosene. The committee has proposed that BPL families who need kerosene be issued Smart Cards or receive the funds to be transferred through the banking/ postal system for purchase of present ration card entitlement of kerosene. The actual sale of the product should be done at market price and on unrestricted basis. Consequently, the allocations of kerosene made to states should be reduced.

- **Changes in duty.** The committee has recommended a reduction in import duty on diesel and gasoline to zero. In addition, the committee recommends a temporary reduction in the excise duty on petrol to allow faster alignment with international prices and then be restored back by March 2009.

Implications for key players

ONGC. If the recommendations of the Chaturvedi Committee are accepted, then at US$75/bbl Dated Brent crude price and no subsidy burden, ONGC's consolidated FY2010E EPS would jump to Rs188 (from Rs149 presently) and our fair valuation would rise to Rs1,900. Exhibit 5 gives the range of valuation of ONGC at various levels of normalized crude price. At US$50/bbl Dated Brent crude price and no subsidy burden, ONGC's consolidated FY2010E EPS would come to Rs113 (Exhibit 6).

GAIL. The committee has assessed a contribution of Rs5 bn from GAIL towards subsidy sharing on account of the LPG it produces using natural gas that is made available at controlled prices. We see significant upside to GAIL's earnings if this recommendation is implemented; GAIL's FY2010E EPS would jump to Rs59 (from Rs42) assuming crude price of US$110/bbl and subsidy burden of Rs5 bn. We note that GAIL's subsidy burden was Rs14 bn in FY2008.

However, we highlight that GAIL's LPG and petrochemical segments benefit significantly from high crude prices in that the sales price of LPG and petrochemicals (linked to crude price) increase while input (natural gas) prices remain constant. The arbitrage is particularly high at current crude prices. Thus, we believe that a fairer arrangement would be to link the subsidy burden to be borne by GAIL to the international price of crude rather than freezing it at an absolute amount. We note that GAIL's subsidy burden was Rs4.3 bn in FY2004 when average crude price was US$28.7/bbl. Thus, freezing the subsidy burden at Rs5 bn when crude prices are at US$115/bbl, looks unreasonable.

Private upstream players. The committee has also recommended that private players will have to give 40% of the incremental revenues earned beyond $75 a barrel to the government as part of subsidy-sharing scheme. However, we note that this applies only to blocks allocated in the pre-NELP regime. We would be surprised if the government can impose a ceiling of US$75/bbl for private upstream companies even for pre-NELP blocks. Our understanding is that all these blocks operate under specific production sharing contracts (PSC) and thus, any change in government policy may violate the provisions of the PSCs

We value ONGC stock at Rs1,225 on US$50/bbl normalized crude price

Estimation of fair value of ONGC stock based on normalized free cash flow (Rs mn)

	2009E	2010E	2011E
A. Core business valuation			
Normalized crude price assumption (US$/bbl)	50.0	50.0	50.0
Recurring operating cash flow			
Operating cash flow = EBIT X (1-t) + D	(39,027)	75,792	136,244
Add: OCF after normalizing natural gas price	33,209	25,799	22,802
Add: OCF after removing subsidies	341,591	240,644	202,766
Recurring OCF	335,773	342,236	361,812
Recurring capex			
Production per annum (mn bbls)	397	390	392
Replacement or F&D costs (US$/bbl)	9.0	9.0	9.0
Recurring capex	149,943	145,624	144,749
Free cash flow	**185,830**	**196,612**	**217,063**
Free cash flow multiple (X)	9	9	9
Enterprise value	1,672,470	1,769,509	1,953,568
(Net debt)/cash	421,778	591,438	769,418
Investments	89,396	94,339	99,280
Equity value	2,183,644	2,455,285	2,822,266
Equity value of core business (Rs/share)	**1,021**	**1,148**	**1,319**
B. New discoveries valuation			
KG-DWN-98/2 block (Rs/share)	49	55	62
MN-DWN-98/3 block (Rs/share)	15	16	18
Equity value of new discoveries (Rs/share)	**64**	**71**	**80**
Total equity value per share (Rs/share)	**1,085**	**1,219**	**1,399**

Source: Kotak Institutional Equities estimates.

We value GAIL stock at Rs450 per share

Sum-of-the-parts valuation of GAIL, FY2010 basis (Rs bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		EV
	Replacement cost	EBITDA	EV/RC	EV/EBITDA	Replacement cost basis	EBITDA basis	(Rs/share)
Natural gas/LPG transportation		36		6.0		218	258
LPG production		31		4.0		123	146
Petrochemicals		7		6.0		45	53
Oil and gas upstream	17		1.00		17		21
Subsidy sharing scheme		(19)		1.0		(19)	(22)
Investments	86		0.80		69		81
ONGC shares	62		0.80		49		58
Others	24		0.80		19		23
Total		**56**				**367**	**536**
Net debt/(cash)					76	76	90
Implied value of share (Rs/share)							**446**

Source: Kotak Institutional Equities estimates.

ONGC's net realization has varied between US$45-55/bbl in the recent quarters

ONGC's net crude price realization, March fiscal year-ends, 2003-2008 (US$/bbl)

	Net realisation (US$/bbl)
FY2003	28.5
FY2004	27.1
FY2005	39.3
FY2006	43.8
FY2007	46.1
FY2008	52.3
1Q 2009	69.1

Source: Company

Key recommendations prescribed by Chaturvedi committee for auto fuel pricing

	Petrol	Diesel
Bharat Stage II fuel prices	Increase in selling price before state duties and taxes by Rs2.5/liter every month	Increase in selling price before state duties and taxes by Rs0.5/liter every month
	Temporary reduction in excise duty to Rs10/liter (Rs13.75/liter currently); to be restored by March 2009	Supply to industrial consumers at negotiated market price
		'Metro Extra tax' of Rs2/liter on diesel in large cities to be imposed through four Rs0.5/liter every month impost
		OMC to negotiate with Indian Railways and SRTC about a more rapid price adjustment schedule
Bharat Stage III fuel prices	Refinery gate and net retail selling prices to be Rs0.5/liter higher than BS-II petrol prices	Refinery gate and net retail selling prices to be Rs0.5/liter higher than BS-II diesel prices
	Temporary reduction in excise duty to Rs10/liter (Rs13.75/liter currently); to be restored by March 2009	Supply to industrial consumers at negotiated market price
		'Metro Extra tax' of Rs2/liter on diesel in large cities to be imposed through four Rs0.5/liter every month impost
		OMC to negotiate with Indian Railways and SRTC about a more rapid price adjustment schedule

Source: BK Chaturvedi committee report

ONGC's valuation is highly leveraged to normalised crude prices

Valuation sensitivity of ONGC to normalised crude price (Rs/share)

	Equity value (Rs/share)	Change from base case (%)
Normalized crude prices		
US$90/bbl	2,305	89
US$80/bbl	2,037	67
US$75/bbl	1,902	56
US$70/bbl	1,812	49
US$60/bbl	1,562	28
US$50/bbl	**1,219**	
US$45/bbl	1,018	(16)
US$40/bbl	889	(27)

Source: Kotak Institutional Equities estimates.

ONGC's earnings have high leverage to crude prices
Sensitivity of earnings for ONGC at various levels of net crude price

Crude price (US$/bbl)	50	60	70	75
Net profit for ONGC (Rs bn)	243	306	369	401
EPS	**113**	**143**	**173**	**188**

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model (Rs mn)									
Net sales	467,124	707,083	807,603	966,542	1,112,856	1,318,269	1,306,779	1,357,689	1,359,565
EBITDA	**196,494**	**281,195**	**310,054**	**358,001**	**396,431**	**491,757**	**511,291**	**541,720**	**516,836**
Other income	23,752	17,595	27,350	45,378	55,402	54,641	65,954	75,396	90,523
Interest	(5,028)	(2,512)	(537)	394	(8,705)	(6,782)	(4,460)	(4,552)	(5,228)
Depreciation and depletion	(65,525)	(73,465)	(97,726)	(119,550)	(131,142)	(126,468)	(104,045)	(95,812)	(92,818)
Pretax profits	149,693	222,813	239,141	284,222	311,986	413,148	468,740	516,752	509,313
Tax	(46,101)	(74,690)	(71,196)	(88,986)	(103,319)	(128,296)	(144,346)	(149,316)	(148,281)
Deferred tax	(7,779)	(4,744)	(13,612)	(9,264)	(7,799)	(2,597)	(2,110)	(6,127)	(4,762)
Net profits	95,523	143,175	154,596	178,414	203,543	282,255	322,284	361,310	356,270
Net profits after minority interests	**94,219**	**140,670**	**153,542**	**176,922**	**200,230**	**276,471**	**319,149**	**359,026**	**354,163**
Earnings per share (Rs)	**44.1**	**65.8**	**71.8**	**82.7**	**93.6**	**129.3**	**149.2**	**167.9**	**165.6**
Balance sheet (Rs mn)									
Total equity	415,582	488,912	578,830	670,137	791,309	979,588	1,184,768	1,406,230	1,622,596
Deferred tax liability	54,250	57,911	71,557	80,976	88,775	91,371	93,481	99,607	104,370
Liability for abandonment cost	80,292	80,941	128,675	151,857	151,857	151,857	151,857	151,857	151,857
Total borrowings	60,961	39,028	28,767	21,826	33,342	33,765	53,392	80,292	68,692
Currrent liabilities	85,376	128,346	142,435	187,051	126,940	116,134	116,629	118,746	122,448
Total liabilities and equity	**696,461**	**795,138**	**950,264**	**1,111,847**	**1,192,223**	**1,372,714**	**1,600,127**	**1,856,733**	**2,069,964**
Cash	95,721	101,843	90,743	206,262	296,582	455,543	644,830	849,710	1,083,099
Current assets	133,039	178,421	240,210	192,652	200,490	207,427	206,350	233,633	236,360
Total fixed assets	419,213	471,543	565,722	643,219	619,259	633,852	668,115	687,617	664,732
Goodwill	11,661	10,753	14,172	27,686	27,686	27,686	27,686	27,686	27,686
Investments	30,811	26,961	35,753	36,888	43,066	43,066	48,006	52,947	52,948
Deferred expenditure	6,017	5,617	3,663	5,141	5,141	5,141	5,141	5,141	5,141
Total assets	**696,461**	**795,138**	**950,264**	**1,111,848**	**1,192,223**	**1,372,715**	**1,600,127**	**1,856,734**	**2,069,966**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	133,261	187,001	216,736	252,772	236,515	288,103	315,830	350,622	328,993
Working capital changes	25,630	18,787	46,461	(4,990)	(66,300)	(80,989)	32,541	(4,147)	976
Capital expenditure	(56,301)	(103,418)	(113,738)	(135,049)	(53,154)	(74,700)	(94,098)	(81,369)	(38,938)
Investments	(10,608)	(9,887)	(28,912)	53,822	(6,179)	—	(4,940)	—	—
Other income	9,767	13,049	14,537	20,422	54,402	55,016	65,954	75,396	90,523
Free cash flow	**101,749**	**105,532**	**135,083**	**186,976**	**165,284**	**187,430**	**315,286**	**340,503**	**381,553**
Ratios (%)									
Debt/equity	14.7	8.0	5.0	3.3	4.2	3.4	4.5	5.7	4.2
Net debt/equity	(8.4)	(12.8)	(10.7)	(27.5)	(33.3)	(43.1)	(49.9)	(54.7)	(62.5)
RoAE	21.6	28.0	25.9	25.5	24.8	28.7	27.6	26.2	22.2
RoACE	**20.6**	**24.6**	**22.0**	**22.1**	**21.3**	**25.4**	**24.5**	**23.6**	**20.4**
Key assumptions									
Rs/dollar rate	46.0	45.0	44.3	45.3	40.3	42.0	41.5	41.0	40.0
Crude fob price (US$/bbl)	28.7	40.6	57.2	64.8	78.9	110.0	95.0	90.0	90.0
Ceiling/actual natural gas price (Rs/'000 cm)	2,850	2,850	3,515	4,211	4,250	4,250	4,750	5,000	5,250
Subsidy loss (Rs bn)	26.9	41.0	119.6	170.2	220.0	500.0	350.0	290.0	290.0

Source: Kotak Institutional Equities estimates.

GAIL (India) Ltd: Profit model, balance sheet, cash model of GAIL, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	163,513	160,472	180,082	267,787	421,255	538,941	707,028
EBITDA	**35,731**	**29,896**	**39,492**	**45,453**	**55,596**	**62,298**	**73,051**
Other income	4,555	5,450	5,564	6,056	6,159	6,416	6,416
Interest	(1,174)	(1,071)	(795)	(795)	(1,909)	(7,286)	(4,816)
Depreciation	(5,595)	(5,754)	(5,710)	(6,338)	(8,622)	(11,106)	(11,238)
Pretax profits	33,518	28,521	38,551	44,376	51,223	50,322	63,413
Tax	(9,221)	(7,941)	(12,525)	(12,291)	(6,582)	(10,498)	(16,412)
Deferred taxation	(445)	(190)	(10)	(992)	(9,096)	(4,921)	(3,489)
Net profits	**23,101**	**23,867**	**26,015**	**31,094**	**35,546**	**34,902**	**43,512**
Earnings per share (Rs)	**27.3**	**28.2**	**30.8**	**36.8**	**42.0**	**41.3**	**51.5**
Balance sheet (Rs mn)							
Total equity	99,733	113,929	130,051	150,261	172,946	194,986	223,657
Deferred taxation liability	12,997	13,187	13,197	14,189	23,284	28,205	31,695
Total borrowings	19,166	13,379	13,316	20,816	89,616	58,416	41,216
Current liabilities	37,522	45,512	42,174	54,466	76,503	93,417	117,537
Total liabilities and equity	**169,418**	**186,007**	**198,738**	**239,732**	**362,349**	**375,025**	**414,105**
Cash	44,959	26,604	15,189	15,743	14,322	15,470	15,212
Other current assets	28,309	50,851	58,388	68,962	88,698	96,523	110,289
Total fixed assets	81,716	93,913	110,523	140,388	244,689	248,394	273,966
Investments	14,434	14,638	14,638	14,638	14,638	14,638	14,638
Total assets	**169,418**	**186,007**	**198,738**	**239,732**	**362,349**	**375,025**	**414,105**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	25,165	23,920	26,172	31,974	43,758	44,513	51,823
Working capital changes	5,950	(10,151)	(10,875)	1,718	2,300	9,090	10,354
Capital expenditure	(5,811)	(20,449)	(22,320)	(35,810)	(109,576)	(14,810)	(36,810)
Investments	(6,462)	(205)	—	—	—	—	—
Other income	3,995	3,884	5,564	6,056	6,159	6,416	6,416
Free cash flow	**22,837**	**(3,002)**	**(1,459)**	**3,937**	**(57,359)**	**45,209**	**31,782**
Ratios (%)							
Debt/equity	17.0	10.5	9.3	12.7	45.7	26.2	16.1
Net debt/equity	(22.9)	(10.4)	(1.3)	3.1	38.4	19.2	10.2
ROAE (%)	21.8	19.9	19.2	20.2	19.7	16.6	18.2
ROACE (%)	**19.7**	**15.5**	**17.9**	**18.5**	**15.7**	**14.1**	**16.2**

Source: Kotak Institutional Equities estimates.

Construction

PUJL.BO, Rs301	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	350
52W High -Low (Rs)	656 - 183
Market Cap (Rs bn)	97.4

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	77.5	113.6	146.0
Net Profit (Rs bn)	3.2	4.7	6.7
EPS (Rs)	10.0	14.7	20.8
EPS gth	*323.5*	*46.9*	*42.1*
P/E (x)	30.2	20.5	14.4
EV/EBITDA (x)	15.4	10.9	8.3
Div yield (%)	0.1	0.2	0.3

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	44.7	-	-
FIIs	24.4	0.3	0.1
MFs	12.6	0.8	0.6
UTI	-	-	(0.2)
LIC	-	-	(0.2)

Punj Lloyd: Annual report highlights -Disciplined gearing, consolidated working capital; Standalone working capital still high

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- **Net working capital (excluding cash) of 76 days of sales at consolidated level; though improvement at standalone level, still remains high at 152 days**
- **Strong capex of Rs4.5 bn; highlight high level of CWIP at Rs2 bn at end-FY2008**
- **Net debt-equity appears comfortable at 0.3X at end-FY2008, led by shares allotted to QIBs and conversion of FCCBs**
- **Subsidiary investments driven mainly by investment in Gujarat Pipavav Limited; in line with expectations**
- **Upgrade earnings estimates and target price to Rs350 (from Rs320 earlier); reiterate BUY**

Net working capital (excluding cash) for Punj Lloyd (consolidated) was at 76 days of sales at end-FY2008. Punj Lloyd (consolidated) incurred a capex of about Rs4.5 bn during FY2008. Highlight that capital-work-in-progress is significantly high at Rs2 bn at end-FY2008, increasing from Rs700 mn at end-FY2007. FY2008-end net debt-equity appears comfortable at 0.3X, leaving sufficient scope for increasing borrowings to leverage growth opportunities. Cash out flow of Rs13.1 bn is contributed by (1) negative operating cash flow of Rs5.2 bn, (2) fixed assets investment of Rs5 bn and (3) purchase of investments and acquisition of subsidiary of Rs3.4 bn., funded by (a) Rs11.1 bn from QIB money and conversion of FCCBs and (b) borrowings of about Rs2.4 bn. Total investments during the year increased by Rs3.8 bn driven by the acquisition of 28.8% stake in Pipavav Shipyard Limited. We upgrade our earnings estimates to Rs14.7 (from Rs14.3 earlier) and Rs20.8 (from Rs20.3 earlier) for FY2009E and FY2010E respectively. Increase target price to Rs350 (from Rs320 earlier) and reiterate BUY.

Net working capital (excluding cash) of 76 days of sales at consolidated level; though improvement at standalone level, still remains high at 152 days

Net working capital (excluding cash) for Punj Lloyd (consolidated) was at 76 days of sales at end-FY2008. Net working capital has increased from 37 days of sales in the previous year, led by a decrease in payable days from 181 days of sales in FY2007 to 148 days of sales in FY2008 (driven by the standalone entity). Net working capital (excluding cash) for the standalone entity continues to remain high at 152 days of sales at the end of FY2008, though an improvement over 193 days of sales at the end-FY2007. High working capital levels could be due to significant increase in level of activity driven by a strong order backlog, with operating income growing by slightly over 100% yoy in FY2008 for the standalone entity. Highlight that we model net working capital (excluding cash) of about 75 days of sales for the consolidated entity going forward too.

Strong capex of Rs4.5 bn; highlight high level of CWIP at Rs2 bn at end-FY2008

Punj Lloyd (consolidated) incurred a capex of about Rs4.5 bn during FY2008. Highlight that capital-work-in-progress is significantly high at Rs2 bn at end-FY2008, increasing from Rs700 mn at end-FY2007.

Net debt-equity appears comfortable at 0.3X at end-FY2008, led by shares allotted to QIBs and conversion of FCCBs

FY2008-end net debt-equity appears comfortable at 0.3X. The low debt-equity ratio leaves sufficient scope for Punj to leverage its balance sheet further for growth opportunities.

Cash outflows on working capital investments and capex, funded by QIB money and debt

Cash out flow of Rs13.1 bn is contributed by (a) negative operating cash flow of Rs5.2 bn, (b) fixed assets investment of Rs5 bn and (c) purchase of investments and acquisition of subsidiary of Rs3.4 bn. These cash outflows were funded by (a) Rs11.1 bn from QIB money and conversion of FCCBs (highlight that share capital also increased during the year due to ESOPs), and (b) borrowings of about Rs2.4 bn (total borrowings (excluding FCCBs) increased from Rs11.6 bn in FY2007 to Rs14 bn; Also highlight that the average interest rate on loans has increased by 50 bps to 10.1% in FY2008 from 9.6% in FY2007).

Subsidiary investments driven mainly by investment in Gujarat Pipavav Limited; in line with expectations

Total investments during the year increased by Rs3.8 bn to Rs5.5 bn in FY2008 (from Rs1.7 bn in FY2007), driven by the acquisition of 28.8% stake in Pipavav Shipyard Limited (PSL) for Rs3.5 bn. The company's subsidiary, Punj Lloyd Aviation, acquired a 33% stake in Air Works India for Rs322 mn along with Global Technology Investments Group LLC, USA to help further exploit opportunities in the aviation business. All other investments remained at previous-year levels as expected.

Upgrade earnings estimates and target price to Rs350 (from Rs320 earlier); reiterate BUY

We upgrade our earnings estimates to Rs14.7 (from Rs14.3 earlier) and Rs20.8 (from Rs20.3 earlier) for FY2009E and FY2010E earlier led by higher execution estimates. We upgrade our FY2010E-based DCF based target price to Rs350 (from Rs320 earlier). We highlight that we continue to value investments at book value. We reiterate our BUY rating based (1) likely strong execution of its large order backlog of Rs202 bn (2) ability to leverage capex momentum across diverse geographies in India, Middle-East and South-Asia, (3) strong demand environment across both industrial and infrastructural investments over the long-term and (4) build-up of business in upstream oil & gas, bio-ethanol plants etc and (5) upsides from investments in Pipavav Shipyard, Ramprastha JV, Upstream business and civil aviation business that we continue to value at book value.

Exhibit 1. Punj Lloyd standalone and consolidated working capital FY06-08 - Key numbers (Rs mn)

	Consolidated			Standalone		
	FY2006	FY2007	FY2008	FY2006	FY2007	FY2008
Sales	**16,846**	**51,266**	**77,529**	**13,682**	**22,209**	**44,579**
Current Assets, Loans and Advances :						
Interest Accrued Receivable						
Inventories	8,043	15,017	20,592	6,262	9,782	15,051
Sundry debtors	3,944	12,234	20,901	3,705	5,615	9,640
Cash and bank balances	1,122	10,027	6,898	748	3,379	2,144
Other current assets	192	511	814	190	510	812
Loans and advances	2,179	4,462	6,615	1,951	6,164	7,452
Total current assets (excl cash)	**14,357**	**32,223**	**48,922**	**12,108**	**22,072**	**32,956**
Less : Current Liabilities and Provisions :						
Current Liabilities	5,387	25,430	31,479	4,030	10,049	13,635
Provisions	288	1,647	1,391	206	297	727
Current Liabilities & provisions	**5,676**	**27,077**	**32,869**	**4,236**	**10,346**	**14,362**
Net Current Assets (excl Cash)	**8,682**	**5,146**	**16,053**	**7,872**	**11,725**	**18,594**
As days of Sales						
Current Assets, Loans and Advances :						
Interest Accrued Receivable						
Inventories	174.3	106.9	96.9	167.0	160.8	123.2
Sundry debtors	85.5	87.1	98.4	98.8	92.3	78.9
Cash and bank balances	24.3	71.4	32.5	20.0	55.5	17.6
Other current assets	4.2	3.6	3.8	5.1	8.4	6.7
Loans and advances	47.2	31.8	31.1	52.1	101.3	61.0
Total current assets (excl cash)	**311.1**	**229.4**	**230.3**	**323.0**	**362.7**	**269.8**
Less : Current Liabilities and Provisions :						
Current Liabilities	116.7	181.1	148.2	107.5	165.2	111.6
Provisions	6.3	11.7	6.5	5.5	4.9	6.0
Current Liabilities & provisions	**123.0**	**192.8**	**154.7**	**113.0**	**170.0**	**117.6**
Net Current Assets (excl Cash)	**188.1**	**36.6**	**75.6**	**210.0**	**192.7**	**152.2**

Source: Company data, Kotak Institutional Equities.

Exhibit 2. Punj Lloyd investments FY06-08 - Key numbers (Rs mn)

	2007	2008
Rajahmundry Expressway Ltd	41	41
Andhra Expressway Ltd	43	43
North Karnataka Expressway Ltd	76	76
Bistro Hospitality (P) Ltd	-	-
Jacob Ballas Capital India (P) Ltd	-	-
Dimunition in Investments	(4)	(4)
Others	163	430
Investment in Thiruvanthapuram Project	-	-
Pipavav Shipyard Ltd	-	3,493
SembCorp	-	-
Global Health Private Ltd	1,380	1,380
Total investments	**1,698**	**5,458**

Source: Company data, Kotak Institutional Equities.

Exhibit 3. Punj Lloyd Consolidated- DCF model, March fiscal year-ends (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	**145,997**	**192,402**	**241,612**	**297,923**	**361,970**	**435,077**	**500,338**	**575,389**	**632,928**	**696,220**
Revenue growth (%)	28.6	31.8	25.6	23.3	21.5	20.2	15.0	15.0	10.0	10.0
EBITDA	**13,386**	**16,396**	**20,638**	**27,592**	**33,550**	**40,398**	**45,030**	**51,785**	**56,963**	**62,660**
EBITDA (%)	9.2	8.5	8.5	9.3	9.3	9.3	9.0	9.0	9.0	9.0
Depreciation	(1,956)	(2,238)	(2,556)	(2,913)	(3,306)	(3,738)	(3,924)	(4,121)	(4,327)	(4,543)
EBIT	11,430	14,159	18,082	24,679	30,243	36,661	41,106	47,664	52,637	58,117
Tax	(3,225)	(4,119)	(5,273)	(7,041)	(8,639)	(10,493)	(13,565)	(15,729)	(17,370)	(19,179)
Change in net working capital	**(6,961)**	**(7,385)**	**(9,912)**	**(11,421)**	**(12,910)**	**(14,772)**	**(13,410)**	**(15,421)**	**(11,823)**	**(13,005)**
Capex	(3,500)	(4,000)	(4,500)	(5,000)	(5,500)	(6,000)	(7,005)	(8,055)	(8,861)	(9,747)
Free cash flow	**(300)**	**892**	**954**	**4,130**	**6,500**	**9,133**	**11,051**	**12,579**	**18,909**	**20,729**
PV of each cash flow	(300)	786	740	2,825	3,917	4,849	5,169	5,184	6,866	6,632

PV of cash flows	36,668	FCF in terminal year (Rs mn)	20,729
PV of terminal value	81,919	Exit FCF multiple: (1+g)/(WACC-g)	12.4
EV	118,587	Terminal value of FCF (Rs mn)	256,062
Debt	6,410	Exit EBITDA multiple	4.1
Equity value	112,177		
Equity value (Rs/share)	**347**		

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.5
Market risk premium—(Rm-Rf) (%)	6.0
Beta (x)	1.1
Cost of equity-Ke (%)	15.1
Cost of debt-Kd (%)	12.0
Tax rate (%)	33.9
Debt/Capital (%)	42.6
Equity/Capital (%)	57.4
WACC (%)	12.0
Used WACC (%)	**13.5**

Source: Company data, Kotak Institutional Equities estimates

Construction

NGCN.BO, Rs143	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	195
52W High -Low (Rs)	388 - 107
Market Cap (Rs bn)	32.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	34.7	46.3	58.8
Net Profit (Rs bn)	1.7	1.9	2.4
EPS (Rs)	7.4	8.1	10.6
EPS gth	*13.4*	*9.9*	*30.2*
P/E (x)	19.3	17.5	13.5
EV/EBITDA (x)	12.3	10.2	8.7
Div yield (%)	0.8	0.9	1.1

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	22.5	-	-
FIIs	34.8	0.2	0.1
MFs	22.4	0.8	0.6
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Nagarjuna Construction: Nagarjuna Construction (Rs135, BUY, TP: Rs195): Annual report highlights

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- **Net working capital (excluding cash) of 99 days of sale; substantial increase in debtors outstanding, particularly for more than six months**
- **Higher borrowings (led by working capital requirements) and increase in interest rates puts pressure on net earnings; likely to aggravate**
- **Increased loans to subsidiaries further strains balance sheet**
- **Net debt-equity appears comfortable, led by Blackstone placement**
- **Steel and bitumen contributing to most of the commodity price pressure are about 15% of sales in FY2008**
- **Revise earnings estimates and target price downwards to Rs195 (from Rs210 earlier); reiterate BUY rating**

Net working capital levels, excluding cash and adjusted for mobilization advance and loans to subsidiaries, was 99 days of sales at the end-FY2008. Total borrowings increased by about 39%, led by higher working capital requirements. We highlight that average interest rates on term loans increased significantly for the year to 11.2% and we expect it to increase by another 50-100 bps putting further pressure on net income. Investments increased by Rs880 mn to Rs5.65 bn in FY2008 on account of subsidiary investments primarily led by the Tishman Speyer project. Total cash out flow during the year was Rs5.9 bn, contributed by (1) negative operating cash flow of Rs2.1 bn, (2) capex of Rs1.7 bn and (3) subsidiary investments of Rs2.1 bn. Net debt-equity of 0.4X at end-FY2008 appears comfortable, though it may deteriorate going forward due to weak cash flows. Employee costs now form 4% of sales for FY2008 versus 2.9% in the previous year. Steel and bitumen contributing to most of the commodity price pressure are about 15% of sales in FY2008. We revise our earnings estimates to Rs8.1 and Rs10.6 for FY2009E and FY2010E, respectively (from Rs8.7 and Rs11.3 earlier), and our target price to Rs195 (from Rs210 earlier); reiterate BUY rating.

Net working capital (excluding cash) of 99 days of sale; substantial increase in debtors outstanding, particularly for more than six months

Net working capital levels excluding cash and adjusted for mobilization advance and loans to subsidiaries was 99 days of sales at the end-FY2008 (112 days of sales at end-FY2006 and 63 days at end-FY2007). The major factors influencing the working capital were - (1) Loans and advances (adjusted for loans to subsidiaries) - 133 days, (2) mobilization advance - 51 days and (3) sundry debtors - 91 days. We highlight that Nagarjuna's working capital level of 100 days is about mid-way that of CCCL (~75 days) and Punj (150 days, standalone).

There has been a significant increase in debtors outstanding for more than six months to 14 days (Rs1,323 mn) at end-FY2008 versus only 3 days at end-FY2007. Working capital involvement in the business went up by Rs2.5 bn to achieve increased sales of Rs6 bn (thus incremental working capital requirement was > 40% of incremental sales).

The reporting method for mobilization advance has also changed from being in the Unsecured Loans section of the balance sheet to the Current Liabilities section in line with peers.

Higher borrowings (led by working capital requirements) and increase in interest rates puts pressure on net earnings; likely to aggravate going forward

Total loans increased to Rs8.9 bn (from Rs6.4 bn in FY2007) mainly due to the increase in working capital borrowings (terms loan actually declined to Rs3.3 bn from Rs3.9 bn). Average interest rates on term loans increased significantly for the year to about 11.2% from 8.6% in the previous year. The rising interest rate scenario continues to put pressure on net income with average interest rate for 1QFY09 being about 11%. We would expect a further increase of 50-100 bps in interest costs for FY2009E.

Increased loans to subsidiaries further strains balance sheet

Loans to subsidiaries has gone up to Rs23 bn from Rs1.25 bn, contributing to further strain on balance sheet apart from increased working capital requirements.

Subsidiary investments are led by the Tishman Speyer project, need further clarity on low outstanding investments in certain projects and share application money outstanding for Rs1.35 bn

Investments increased by Rs880 mn to Rs5.65 bn in FY2008 on account of investments in subsidiaries and associates. The main increase in investments has been in the Tellapur Techno City Private Limited where the firm has invested Rs730 mn during 2007-2008. Investments in Western UP Tollway Limited, Bangalore Elevated Tollways Limited (BETL) are significantly lower versus our expectation. We highlight that BETL is close to completion and thus should have been almost fully invested by now in terms of equity. Nagarjuna has reported share application money outstanding of Rs1.35 bn (out of which Rs0.4 bn is for NCC Infrastructure holdings while rest of the money is outstanding as share application money for associates).

Cash outflows on working capital investments and capital expenditure got financed by Blackstone investments and borrowings

Total cash out flow during the year was Rs5.9 bn, contributed by (1) negative operating cash flow of Rs2.1 bn, (2) capex of Rs1.7 bn and (3) subsidiary investments (including application money) of Rs2.1 bn. These cash outflows were funded by (1) equity investment of Rs4 bn from Blackstone, and (2) borrowings of about Rs2.6 bn.

Net debt-equity appears comfortable, led by placement to Blackstone

Net debt-equity of 0.4X at end-FY2008 appears comfortable. However cash flow generation characteristics of the business are weak and this may lead to potential increase in debt-equity ratios going forward.

Though margins expanded, employee cost ratio increased

Total cost of construction as a percentage of sales has declined during the year to 83.4% from 85.7% in FY2007. This has helped in expanding margins for the year by 100 bps, to 10.4% from 9.4% in FY2007. Operating expenses for Nagarjuna Construction increased by about 15.7% yoy to Rs28.7 bn from Rs25.2 bn in FY2007 (versus about 21% growth in sales).

Employee costs increased by 66% yoy and now form 4% of FY2008 revenues versus 2.9% in the previous year. The increased employee costs could pressure margins (as seen during 1QFY09 as well). However, management believes that once new divisions in the firm that currently do not contribute to the top-line (and hence only incur costs) start generating revenues, this ratio is likely to decrease.

Steel and bitumen contributing to most of the commodity price pressure are about 15% of sales in FY2008

Steel and cement are 13% and 4% of FY2008 sales, respectively, while bitumen and other construction material are 2.5% and 14.5%, respectively. There was a significant shift in the composition of materials consumed with (1) consumption of steel declining yoy from 51% to 38% of total materials consumed and (2) other construction materials now forming 43% of total materials consumed up from 31% in the previous year. The value of steel consumed has also declined yoy from Rs5.3 bn in FY2007 to Rs4.4 bn in FY2008 (16% yoy decline). The rising commodity prices might have a negative effect on material costs; even though the company may have tried to mitigate these effects by including price escalation clauses in their orders. Currently 70% of their order book has some form of price escalation clause built into it.

Revise earnings estimates and target price downwards; reiterate BUY rating

We revise our earnings estimates downwards to Rs8.1 and Rs10.6 for FY2009E and FY2010E respectively from Rs8.7 and Rs11.3 earlier factoring in (1) FY2008 balance sheet, (2) lower yoy revenue growth of 33% for FY2009 versus 37% earlier and (3) higher interest costs versus earlier assumptions. We also revise our SOTP-based target price to Rs195 (from Rs210 earlier) comprising of (1) Rs144 of core construction business, (2) Rs7 of BOT projects, (3) Rs4 from ICICI Ventures/Tishman project and (4) Rs40 from land bank and other investments.

We reiterate our BUY rating based on (1) strong near-term earnings growth led by strong order backlog, (2) long-term macro outlook for infrastructural investments providing opportunities as construction contractors as well as developers, (3) recent demonstration of ability to form project specific alliances to add on additional segments of business with large potential such as power, oil & gas and metallurgy and (4) potential ramp up of international as well as real-estate business.

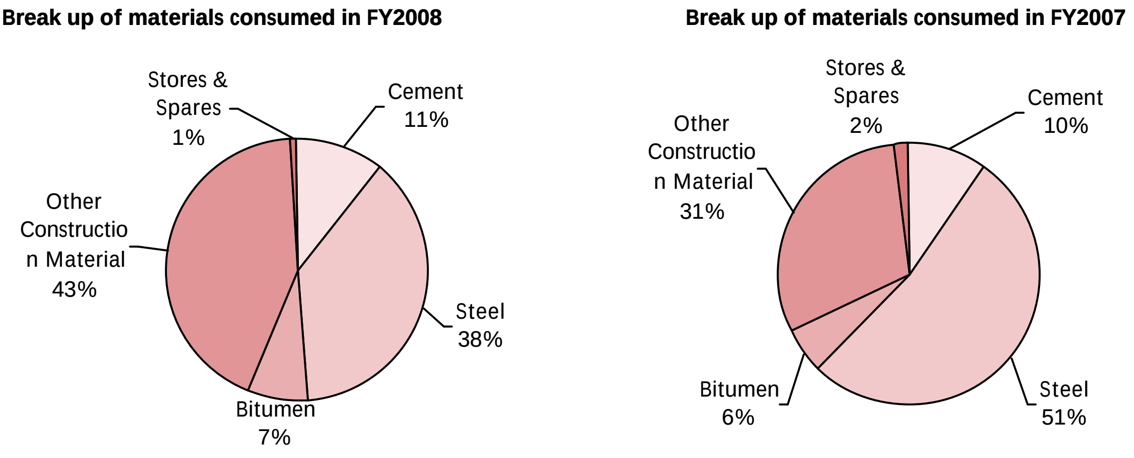
Key risks to the earnings include (1) margin pressures due to rise in commodity prices, and (2) higher-than-expected interest costs led by tightening of money supply in the economy.

Exhibit 1. Nagarjuna working capital FY06-08 - Key numbers (Rs mn)

	FY2006	FY2007	FY2008
Sales	**18,404**	**28,711**	**34,729**
Current Assets, Loans and Advances :			
Inventories	3,893	4,041	5,493
Sundry Debtors	3,017	5,817	8,677
Cash and Bank Balances	2,818	2,434	2,330
Other Current Assets	39	93	61
Loans and Advances	5,942	8,579	14,923
Total Current Assets (excl Cash)	**12,890**	**18,529**	**29,154**
Less : Current Liabilities and Provisions :			
Current Liabilities	3,910	6,817	10,735
Provisions	457	1,244	2,078
Current Liabilities & provisions	**4,368**	**8,061**	**12,814**
Net Current Assets (excl Cash)	**8,522**	**10,468**	**16,340**
Mobilization Advance	2,849	5,034	4,829
Net CA adj. for Mobilization adv.	**5,673**	**5,435**	**11,512**
As days of Sales			
Inventories	77.2	51.4	57.7
Sundry Debtors	59.8	74.0	91.2
Cash and Bank Balances	55.9	30.9	24.5
Other Current Assets	0.8	1.2	0.6
Loans and Advances	117.8	109.1	156.8
Total Current Assets (excl Cash)	**255.6**	**235.6**	**306.4**
Less : Current Liabilities and Provisions :			
Current Liabilities	77.5	86.7	112.8
Provisions	9.1	15.8	21.8
Current Liabilities & provisions	**86.6**	**102.5**	**134.7**
Net Current Assets (excl Cash)	**169.0**	**133.1**	**171.7**
Mobilization Advance	56.5	64.0	50.7
Net CA adj. for Mobilization adv.	**112.5**	**69.1**	**121.0**

Source: Company data, Kotak Institutional Equities.

Exhibit 2. Break up of material cost for FY2008 and FY2007



Source: Company Data.

Exhibit 3. Nagarjuna investments FY06-08 - Key numbers (Rs mn)

	2007	2008
Equity Shares		
Gautami Power	413.3	413.3
Brindavan Infra Company Limited	100.0	100.0
Others	30.5	66.5
Orai Bhognipur Infrastructure Ltd.	467.9	467.9
Western UP Tollway Ltd.	2.3	2.3
Bangalore Elevated Tollways Ltd	0.8	0.8
Himalayan Green	-	-
Pondicherry Tindivanam Section	-	19.8
Preferential Shares		
Brindavan Infra Company Limited	50.0	50.0
Others	4.5	2.2
New BOT Projects	-	-
Sorang Power Project	0.0	0.0
Jubilee Hills Land Mark Projects Ltd.	452.5	513.8
NCC Infrastructure Holdings Limited.	586.7	586.7
NCC Infrastructure Holdings Mauritius Pte Ltd.	853.2	853.2
NCC Urban Infrastructure Limited	1,200.0	1,200.0
NCC Vizag Urban Infrastructure Limited	476.5	498.8
Nagarjuna Construction Company Limited; Partners LLC, Oman; Nagarjuna Contracting company Ltd, Dubai	129.0	132.5
Patnitop Roapway & Resorts Ltd	0.5	10.5
Tellapur Techno City Private Limited	-	729.8
Tellapur Town Centre Private Limited	-	0.0
Tellapur Tech. Park Private Limited	-	0.0
Tishman Speyer project	-	-
Total	**4,767.7**	**5,648.0**

Source: Company data, Kotak Institutional Equities.

Exhibit 4. Derivation of SOTP based target price for NCCL

	Equity Commitment (Rs mn)	Incremental P/B (X)	Valuation (Rs mn)	Rs/share
BOT Projects	**3,148**	**0.4**	**1,555**	**6.8**
Roads				
Brindavan Infrastructure Co. Ltd.	150	0.4	60	0.3
Bangalore elevated Corridor Project	637	1.0	637	2.8
Western UP Tollway Ltd.	239	1.0	239	1.0
Orai - Bhognipur	832	0.4	333	1.5
Pondicherry Tindivanam Tollway Limited	375	0.5	188	0.8
Power				
Gautami Power	420	0	0	0.0
Hydropower project in Himachal Pradesh	495	0.2	99	0.4
ICICI Ventures/Tishman/ Nagarjuna project			**902**	**3.9**
Book value of investments	**5,219**			**22.8**
Value of core construction business			**33,008**	**144.1**
Value of land bank			**3,874**	**16.9**
Total				**194.5**

Source: Kotak Institutional Equities Estimates.

Exhibit 5. Nagarjuna Construction - DCF model, March fiscal year-ends 2010E-2019E (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	**58,845**	**71,803**	**88,187**	**107,486**	**128,819**	**151,662**	**174,412**	**195,341**	**214,875**	**236,363**
Revenue growth rate (%)	27	22	23	22	20	18	15	12	10	10
EBITDA	**5,816**	**7,096**	**8,716**	**10,623**	**12,731**	**14,989**	**17,005**	**19,046**	**20,950**	**23,045**
EBITDA margin (%)	9.9	9.9	9.9	9.9	9.9	9.9	9.8	9.8	9.8	9.8
Depreciation	(715)	(851)	(1,008)	(1,194)	(1,421)	(1,668)	(1,669)	(2,019)	(2,391)	(2,779)
EBIT	**5,100**	**6,245**	**7,707**	**9,429**	**11,311**	**13,321**	**15,336**	**17,027**	**18,559**	**20,267**
Tax	(1,248)	(1,538)	(1,903)	(2,367)	(2,876)	(3,441)	(3,961)	(4,398)	(4,794)	(5,235)
Change in net working capital	(1,861)	(2,736)	(3,601)	(3,984)	(4,824)	(5,111)	(5,609)	(5,161)	(4,817)	(5,298)
Capex	(1,500)	(1,800)	(2,000)	(2,500)	(3,000)	(3,000)	(4,360)	(4,884)	(5,372)	(5,909)
Free cash flow	**1,206**	**1,023**	**1,211**	**1,772**	**2,031**	**3,437**	**3,074**	**4,603**	**5,968**	**6,603**
PV of each cash flow	1,206	901	940	1,212	1,224	1,825	1,438	1,897	2,167	2,112

PV of cash flows	14,923
PV of terminal value	25,406
EV	40,330
Debt	7,321
Equity value	33,008
Fully diluted shares outstanding (mn)	229
Equity value (Rs/share)	**144**

FCF in terminal year (Rs mn)	7,297
Exit FCF multiple: (1+g)/(WACC-g)	12.4
Terminal value of FCF (Rs mn)	90,136
Exit EBITDA multiple	3.6

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.5
Market risk premium—(Rm-Rf) (%)	6.0
Beta (x)	1.1
Cost of equity-Ke (%)	15.1
Cost of debt-Kd (%)	12.0
WACC (%)	12.5
Used WACC (%)	**13.5**

Source: Kotak Institutional Equities estimates.

Construction

Sector coverage view			Attractive

		Price, Rs	
Company	Rating	11-Aug	Target
Punj Lloyd	BUY	301	350
NCCL	BUY	143	195
IVRCL	BUY	330	430
Sadbhav Engin	BUY	778	1,100
Consolidated C	BUY	559	700

Industrials

Sector coverage view			Attractive

		Price, Rs	
Company	Rating	11-Aug	Target
BHEL	ADD	1,831	1,850
BGR	REDUCE	327	325
L&T	BUY	2,893	3,600
BEL	ADD	970	1,200
ABB	REDUCE	876	875
Dredging	REDUCE	519	475
Suzlon	ADD	250	300
AIA Engineerin	BUY	1,554	1,600
Siemens	ADD	561	570

Industrials and construction: 1QFY09 results review

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- **Smart execution growth for bellwether stocks partially alleviates concerns over near-term execution, however others languish based on specific issues**
- **Margins do not reflect commodity price pressures yet, suggesting (1) it is early days yet; (2) resilient cost management, (3) 'regulated' resistance to global price hikes**
- **Margins do reflect pressures from increases in wage and administrative costs - operating leverage would be limited going forward**
- **Order bookings may be showing signs of slowing down**
- **Rising commodity prices and higher interest costs may impact the next few quarters**

Industrials sector reported strong revenue growth of 34%, marginally ahead of expectations led by BHEL and L&T. None of the companies reported margin pressures on account of commodity prices, with most companies reporting flat (ABB) or moderate declines (BEL, BHEL, L&T, Siemens and Suzlon) in raw material costs as a percentage of sales. Several companies reported expansion in employee and administrative costs as a percentage of sales in the quarter, led by ABB and Siemens. Construction sector revenue growth does not inspire confidence. Further, some construction companies have been adversely affected by rising employee and interest costs. Order booking growth for industrial sector companies has been 23% yoy for KIE coverage universe (excluding Suzlon). Order booking for IVRCL declined about 24% yoy while that for CCCL was about flat (down about 2% yoy). Performance over the next few quarters for industrial and construction companies may be impacted by commodity price rises and increasing interest costs.

Smart execution growth for bellwether stocks partially alleviates concerns over near-term execution, others languish for company-specific reasons

Industrials – Industrials sector reported strong revenue growth (up 34% yoy), marginally ahead of expectations, led by sectoral leaders – (1) BHEL - up 34% yoy versus our expectation of 28%, after a sedate growth of only 12% in FY2008 and (2) L&T - exceptionally strong at 53% yoy led by engineering and construction segment. Other companies under our coverage disappointed on execution led by specific issues - (1) Suzlon - very low 6% yoy growth in MW execution due to sales reversals, client credit related delivery issues in China and supply-chain problems in several geographies, (2) ABB – up 15% yoy versus expectation of 26%, likely led by higher percentage of revenues being contributed by longer-execution cycle projects, (3) Siemens – large one-offs again dominate results with revenue reversal leading to lower-than-expected revenue growth. Other companies outside our coverage universe such as Cummins (30% yoy), Crompton (34% yoy) and Areva T&D (45% yoy) reported strong revenue growth.

Construction – From the KIE industrials/construction universe, only Punj delivered strong revenue growth, i.e. 90% yoy versus our expectation of 34%, driven by strong execution at the standalone level. IVRCL's revenue growth (37% yoy) was broadly in line with expectations while Nagarjuna and CCCL disappointed, 27% and 41% yoy versus our expectations of 36% and 54%, respectively. Other sector companies (not under coverage) also delivered relatively lower execution growth – as in the case of HCC and Gammon.

Margins do not reflect commodity price pressures yet, suggesting (1) it is early days yet; (2) resilient cost management, (3) Indian economic resistance to global price hikes

We highlight that margin pressures on account of commodity prices are not visible yet with most companies reporting flat (ABB) or moderate decline (BHEL, Siemens and Suzlon) in raw material costs as % of sales. We highlight that this is possibly led by several factors (1) companies have the ability to manage margin pressure from commodities through back-to-back subcontracting, raw material sourcing arrangements, escalation clauses etc, (2) it is too early to see the effect of commodity prices on margins as commodity prices sharply increased only in the month of March/ April 2008 and affect would be visible with a lag of two-three quarters or so, and (3) domestic prices of key commodities such as steel have been not been allowed to increase to the same extent as global prices by the government.

We highlight that commodity price related margin pressure was not visible even in short execution cycle companies such as ABB (raw material cost ratio maintained at last year levels of 71.4% in 1QFY09) and Crompton (raw material cost ratio of 64.8% in 1QFY09 from 66.7% a year ago). Based on our analysis of last instance of commodity price spike in March/April 04 we highlight that companies such as ABB and Siemens reflected pressure of commodity prices earlier that long execution cycle companies such as L&T and BHEL.

Margins do reflect pressure from increases in wage and administrative costs – operating leverage would be limited going forward

Industrials - We highlight that several companies reported expansion in employee costs as a percentage of sales in the quarter particularly led by (1) ABB (employee cost ratio of 6.3% in 1QFY09 from 5.6% last year) and (2) Siemens (employee cost ratio of 6.6% in 1QFY09 from 5.5% last year). For some companies this pressure was due to specific reasons such as (1) BHEL – sharp increase led by increased provisioning for Sixth Pay Commission related hikes (employee cost ratio to 20.7% from 18.7% last year) and (2) Suzlon – salary hikes as well as ramp up for expanded capacities likely to come online during FY2009. We highlight that this increase in employee costs would moderate in next few quarters with higher proportion of execution happening in later quarters; however this indicates that operating leverage related margin expansion would be limited particularly at a time of relatively slower revenue growth.

Construction – Punj, Nagarjuna and CCCL reported decline in margins led by higher employee and administrative costs as % of sales (likely to get evened out over next few quarters with pick-up in sales). Other expenditure ratio for IVRCL increased by 140 bps during the quarter, though it was able to maintain its margins at last year levels. Among non-coverage companies, Gammon also experienced a decline in margins while HCC had a minor dip of 30 bps yoy (led by increase in staff costs).

Below EBITDA margin costs (interest and depreciation) increased significantly for construction companies, impacting growth of net profitability - 141% yoy growth in interest and depreciation costs for IVRCL, leading to only 13% PBT growth and flat PBT for Nagarjuna despite a 15% operating profit growth.

Order booking may be showing early signs of strain

Order booking growth for industrial sector companies has been 23% yoy for KIE coverage universe (excluding Suzlon) and 31% including other companies as well (excluding Suzlon). Order booking growth for BHEL (26% yoy) and L&T (24% yoy) has not been very strong while the low growth in the case of ABB (11% yoy, slowdown consistently since last five-six quarters) and Siemens (19% yoy) is a concern. Suzlon has shown a decline in order booking – 84% yoy and 81% qoq. Though Indian orders have also not shown any growth momentum, it is the lack of international orders (particularly from the US) that has been disappointing. We highlight that yoy order booking growth has been strong for non-coverage companies like Voltas (up 221%, probably led my Middle-East order booking), Areva (up 146%) and Crompton (up 30%).

In our construction coverage universe, Nagarjuna had a strong order booking growth of 40% yoy. Order booking for IVRCL declined about 24% yoy while that for CCCL was about flat (down about 2% yoy). Low order booking growth likely indicates a slow-down in award of projects by both the government and private sectors – which may become an area of concern if it does not pick up over the next few quarters.

Increased commodity prices and higher interest costs may impact performance over next few quarters

We believe that performance of industrial and construction sector companies over the next few quarters may be impacted by the increased commodity prices (global steel prices have been rising since the last few months and increased by about 77% yoy on an average in 1QFY09). Though Indian steel prices have not risen as much and companies may also be protected through various mechanisms stated above, we highlight that most companies have some proportion of fixed price contracts which may have possibly not factored in the rise even in Indian commodity prices. Similarly, these companies may not benefit from any fall in global commodity prices as a similar price let-up may not happen in India. Interest rates over the next few quarters are likely to be higher than last years levels (and possibly also from last quarter levels due to higher interest rate environment), potentially impacting profitability (especially in the construction sector) and delaying project works (adversely affecting revenue booking and consequently margins of both industrial and construction sectors).

Industrials sector 1QFY09 results - Key numbers (in Rs mn)

	Jun-07	Mar-08	Jun-08E	Jun-08A	Change (%) yoy	Change (%) qoq	Comments
Industrials - Covered companies							
ABB							
Net sales	14,009	15,353	17,610	16,163	15.4	5.3	Revenues growth below expectation probably led by shift of revenue towards longer execution cycle projects
Operating profit	1,638	1,727	2,060	1,902	16.1	10.1	
PAT-reported	1,086	1,177	1,416	1,318	21.4	12.0	Flat margins yoy in line with our estimates - increase in employee costs offset by a decline in other expenses
Operating profit margin	11.7	11.3	11.7	11.8			
BGR Energy Systems							
Net sales	2,324	5,786	4,072	3,068	32.0	(47.0)	Execution growth much below expectations at only 12.5% our FY09 revenue estimates
Operating profit	263	530	438	312	18.5	(41.2)	
PAT-reported	147	319	234	172	17.4	(46.0)	
Operating profit margin	11.3	9.2	10.8	10.2			Margins declined 110 bps yoy, because of material cost pressures
Bharat Electronics							
Net sales	4,044	22,937	5,786	3,839	(5.1)	(83.3)	Significantly lower revenues versus expectations; potentially led by constraints in execution from components supply
Operating profit	(46)	6,986	868	(326)		(104.7)	
PAT-reported	263	5,048	892	25	(90.4)	(99.5)	Higher employee costs and other expenses as percentage of sales resulting in negative operating margins
Operating profit margin	(1.1)	30.5	15.0	(8.5)			
Bharat Heavy Electricals			28.1262				
Net sales	32,339	72,020	41,435	43,292	33.9	(39.9)	Revenues slightly above expectations and management still confident on achieving 25% growth in FY09
Operating profit	3,107	13,634	4,143	3,737	20.3	(72.6)	
PAT-reported	2,889	11,109	3,817	3,844	33.1	(65.4)	Margins decline due to higher-than-expected employee wage hike provisions as well as provisions for contractual obligations
Operating profit margin	9.6	18.9	10.0	8.6			
Dredging Corporation							
Net sales	1,942	1,907	2,052	1,960	0.9	2.8	Low revenue growth of only 1% below our expectations
Operating profit	566	141	513	246	(56.5)	74.3	
PAT-reported	539	502	486	245	(54.7)	(51.2)	Margin decline due to continued high proportion of lower-margin in-chartering business and higher dry docking days
Operating profit margin	29.1	7.4	25.0	12.6			
Larsen & Toubro							
Net sales	45,052	84,669	61,582	69,014	53.2	(18.5)	Higher than expected revenue growth driven by Engineering and Construction segment - order inflow momentum continues to remain strong
Operating profit	4,230	12,897	5,850	6,574	55.4	(49.0)	
PAT-reported	2,894	9,668	4,063	5,024	73.6	(48.0)	Margins exactly inline with expectations and relatively flat yoy with increase in subcontracting charges being offset by decline in employee and other expenses
Operating profit margin	9.4	15.2	9.5	9.5			
Suzlon Energy							
Net sales	19,446	49,238	28,275	27,605	42.0	(43.9)	Lower than expected execution due to delays and reversals of certain orders due to client-level issues
Operating profit	1,398	7,246	2,828	4,240	203.3	(41.5)	
PAT-reported	189	4,648	1,153	13	(92.9)	(99.7)	Margin increase due to pricing and scope improvements - likely to remain strong since 60% order book protected by price escalation clauses
Operating profit margin	7.2	14.7	10.0	15.4			
Siemens							
Net sales	17,823	21,424	19,752	18,097	1.5	(15.5)	Lower than expected revenue growth of 1.5% - order book provides a visibility of 11 months
Operating profit	831	30	1,848	2,546	206.5	8,377.0	
PAT-reported	818	17	1,256	1,694	107.1	10,131.0	Increase in margins indicate potential resolution to contract specific profitability problems faced earlier
Operating profit margin	4.7	0.1	9.4	14.1			

Industrials sector 1QFY09 results - Key numbers (in Rs mn)

	Jun-07	Mar-08	Jun-08E	Jun-08A	Change (%) yoy	Change (%) qoq	Comments
Industrials - Unovered companies							
Crompton							
Net sales	15,226	20,207		20,348	33.6	0.7	Strong Revenue growth on a consolidated and stand alone basis - backed by a strong order backlog of Rs24 bn
Operating profit	1,224	2,755		2,083	70.2	(24.4)	
PAT-reported	892	1,445		1,227	37.5	(15.1)	Margin expansion of 220 bps mainly seen due to decrease in raw material cost as a percentage of total sales
Operating profit margin	8.0	13.6		10.2			
Voltas							
Net sales	8,249	8,421		10,067	22.0	19.5	Strong revenue growth driven by order booking at Rs20.6 bn - significantly higher than Rs6.5 bn in 1QFY08
Operating profit	735	584		776	5.6	32.9	
PAT-reported	522	554		851	63.2	53.6	EBIT margin driven by Electromechanical projects and engineering agency & services business
Operating profit margin	8.9	6.9		7.7			
Thermax							
Net sales	7,136	9,221		7,725	8.2	(16.2)	Low revenue growth led by slowdown in order booking momentum visible for Thermax for last several quarters
Operating profit	765	1,270		864	13.0	(32.0)	
PAT-reported	556	805		584	5.0	(27.5)	Operating margin improvement has driven 20% growth in adjusted operating profit
Operating profit margin	10.7	13.8		11.2			
Areva T&D							
Net sales	4,302	5,029		6,218	44.5	23.6	
Operating profit	748	792		1,101	47.1	39.0	Strong revenue growth and slight margin expansion of 30 bps driven by reduction in raw material cost as a percentage of sales
PAT-reported	465	541		647	39.1	19.5	
Operating profit margin	17.4	15.7		17.7			
Cummins							
Net sales	5,423	6,700		7,070	30.4	5.5	
Operating profit	740	736		938	26.7	27.3	Strong growth in domestic & export markets despite marginal increase in product prices to partially offset the cost of escalating inputs
PAT-reported	640	756		882	37.8	16.7	
Operating profit margin	13.6	11.0		13.3			
EMCO							
Net sales	1,543	3,422		1,833	18.8	(46.4)	
Operating profit	202	487		239	18.5	(50.9)	Moderate revenue growth with margins remaining flat yoy
PAT-reported	90	288		100	11.5	(65.1)	
Operating profit margin	13.1	14.2		13.0			
Tata Robin Fraser							
Net sales	664	1,697		597	(10.1)	(64.8)	
Operating profit	76	228		65	(14.5)	(71.7)	Weak quarterly results - however, management confident of better performance in next quarter due to the order book position
PAT-reported	47	154		39	(17.4)	(74.9)	
Operating profit margin	11.4	13.4		10.8			
Kotak Industrial sector coverage universe							
Net sales	136,979	273,334	180,563	183,038	33.6	(33.0)	Sector exceeded expectations because of much higher execution by L&T and BHEL while all other companies were below expectations
Operating profit	11,987	43,191	18,548	19,231	60.4	(55.5)	
PAT-reported	8,824	32,487	13,316	12,336	39.8	(62.0)	Increase in operating margins mainly driven by significant margin expansion for Siemens and Suzlon energy - margins flat/decline for all other companies
Operating profit margin	8.8	15.8	10.3	10.5			
Industrial sector total (incl. uncovered companies)							
Net sales	179,522	328,032		236,896	32.0	(27.8)	
Operating profit	16,476	50,044		25,296	53.5	(49.5)	
PAT-reported	12,036	37,031		16,667	38.5	(55.0)	
Operating profit margin	9.2	15.3		10.7			

Source: Company Data, Kotak Institutional Equities Estimates.

Construction sector 1QFY09 results - Key numbers (in Rs mn)

	Jun-07	Mar-08	Jun-08E	Jun-08A	Change (%) yoy	Change (%) qoq	Comments
Construction - Covered Companies							
IVRCL							
Net sales	6,773	13,217	9,399	9,285	37.1	(29.8)	Strong revenue growth, broadly in line with expectations
Operating profit	600	1,387	846	820	36.6	(40.9)	
PAT-reported	380	733	408	435	14.6	(40.7)	Relatively flat margins yoy with increase in other expenses being offset by decline in total cost of produciton
Operating profit margin	8.9	10.5	9.0	8.8			
Nagarjuna Construction Co.							
Net sales	7,622	12,541	10,432	9,709	27.4	(22.6)	Revenues below expectations despite a strong order backlog
Operating profit	794	1,094	1,075	924	16.5	(15.5)	
PAT-reported	360	526	494	371	2.9	(29.5)	Decline in margins mainly driven by sharp rise in staff costs as a percentage of sales
Operating profit margin	10.4	8.7	10.3	9.5			
Punj Lloyd							
Net sales	13,950	23,467	18,732	26,488	89.9	12.9	Revenues significantly higher than expectations driven by the standalone entity growing at 120% yoy
Operating profit	1,214	2,486	1,639	2,116	74.3	(14.9)	PAT margins decreased due to a Rs500 mn foreign exchange loss
PAT-reported	594	1,177	800	978	64.5	(17.0)	
Operating profit margin	8.7	10.6	8.8	8.0			Operating margins shrink slightly mainly lead by increasing staff cost and other expenses
Consolidated Construction Consortium Limited							
Net sales	2,685	4,650	4,036	3,795	41.4	(18.4)	Execution has been lower-than-expected probably led by project specific issues such as unavailability of statutory clearances
Operating profit	217	571	343	288	32.6	(49.6)	
PAT-reported	304	358	224	182	(40.0)	(49.1)	Margins declined yoy led by rise in employee costs
Operating profit margin	8.1	12.3	8.5	7.6			
Construction - Non-covered companies							
Hindustan Construction Company							
Net sales	7,290	10,550		8,659	18.8	(17.9)	
Operating profit	788	1,310		911	15.6	(30.5)	130 bps yoy increase in staff cost as a percentage of sales led to the decline in margins
PAT-reported	350	371		308	(11.8)	(16.9)	
Operating profit margin	10.8	12.4		10.5			
Gammon India Limited							
Net sales	5,403	8,216		5,852	8.3	(28.8)	
Operating profit	577	792		492	(14.8)	(37.9)	Decline of 230bps in margins driven by an increase in the cost of construction
PAT-reported	285	213		524	83.8	146.3	
Operating profit margin	10.7	9.6		8.4			
Patel Engineering							
Net sales	4,153	7,268		5,584	34.5	(23.2)	Strong yoy revenue growth of 34.5%
Operating profit	462	1,131		786	69.9	(30.5)	
PAT-reported	289	533		381	31.9	(28.5)	Significant margin expansion driven by decline in construction costs as a percentage of sales
Operating profit margin	11.1	15.6		14.1			
Kotak Construction sector coverage universe							
Net sales	31,030	53,875	42,599	49,277	58.8	(8.5)	Sector exceeded expectations because of much higher execution by Punj Lloyd
Operating profit	2,825	5,538	3,903	4,148	46.8	(25.1)	
PAT-reported	1,638	2,794	1,927	1,966	20.0	(29.7)	Operating margins declined mainly due to higher employee and other expenses
Operating profit margin	9.1	10.3	9.2	8.4			
Construction sector total (incl. non-covered companies)							
Net sales	47,876	79,909		69,372	44.9	(13.2)	
Operating profit	4,652	8,770		6,337	36.2	(27.7)	
PAT-reported	2,562	3,911		3,180	24.1	(18.7)	
Operating profit margin	9.7	11.0		9.1			

Source: Company Data, Kotak Institutional Equities Estimates.

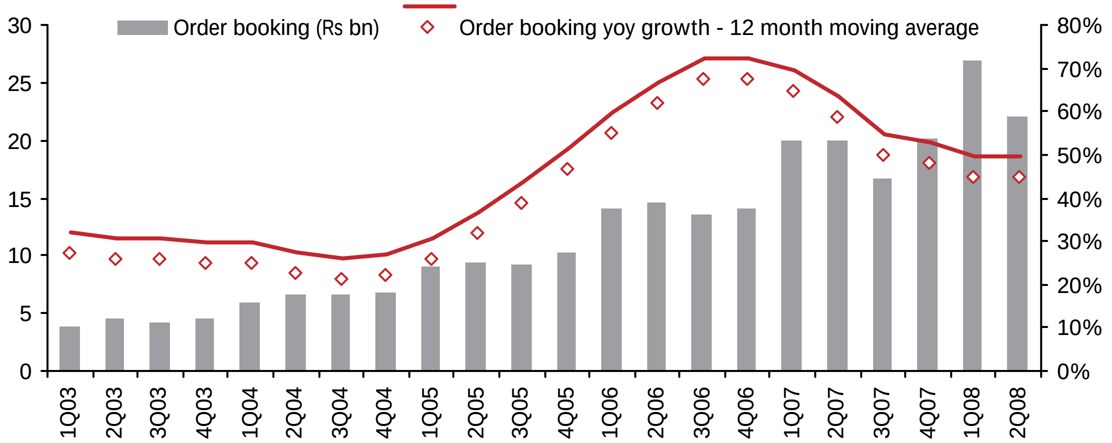
Industrial sector order inflow and backlog for 1QFY09

	Jun-07	Mar-08	Jun-08A	Change (%) yoy	Change (%) qoq	Comments
Industrials - Covered companies (Rs mn)						
ABB						
Order booking	19,963	26,954	22,086	10.6	(18.1)	Low order booking growth a concern area
Order backlog	46,362	61,749	67,769	46.2	9.7	
Bharat Heavy Electricals						
Order booking	106,339	151,016	134,297	26.3	(11.1)	Order inflows in FY2009 to be maintained at last year levels of Rs500 bn
Order backlog	624,000	858,995	950,000	52.2	10.6	
Larsen & Toubro						
Order booking	98,810	115,669	122,000	23.5	5.5	Forward visibility remains unchanged at 1.6 years
Order backlog	422,578	527,000	582,000	37.7	10.4	
Suzlon Energy						
Order booking	59,583	49,238	9,429	(84.2)	(80.9)	Order inflows dry completely; lack of US orders
Order backlog	135,000	183,086	164,910	22.2	(9.9)	
Siemens						
Order booking	17,536	23,422	20,780	18.5	(11.3)	Order backlog of Rs.98.5 bn provides visibility of about 11 months based on forward four quarter revenues
Order backlog	108,164	95,683	98,469	(9.0)	2.9	
Industrials - Unovered companies (Rs mn)						
Crompton Standalone						
Order booking	10,593	11,125	13,789	30.2	23.9	
Order backlog	21,400	21,280	24,240	13.3	13.9	
Voltas						
Order booking	6,419	22,093	20,577	220.6	(6.9)	
Order backlog	20,070	48,720	59,230	195.1	21.6	
Thermax						
Order booking	6,706	6,351	7,845	17.0	23.5	
Order backlog	27,250	26,370	28,030	2.9	6.3	
Areva						
Order booking	6,124	8,430	15,070	146.1	78.8	
Order backlog	20,500	30,000	40,000	95.1	33.3	
Kotak Industrial sector coverage universe excluding Suzlon (Rs bn)						
Order booking	243	317	299	23.3	(5.6)	Order booking led by BHEL
Order backlog	1,201	1,543	1,698	41.4	10.0	
Industrial sector total (Including uncovered companies and excluding Suzlon) (Rs bn)						
Order booking	272	365	356	30.8	(2.4)	Strong order booking for non-coverage companies
Order backlog	1,290	1,670	1,850	43.4	10.8	

Source: Company Data, Kotak Institutional Equities.

The one year moving average of yoy order inflow growth has been slowing down from 1QFY07

Order booking & moving average of order booking growth trend for ABB for last five years



Source: Company data, Kotak Institutional Equities estimates.

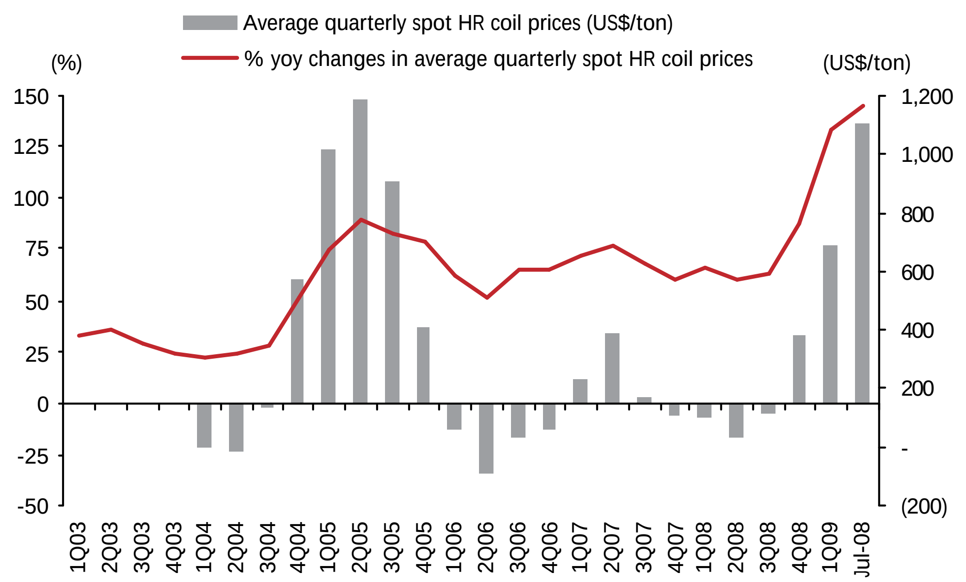
Construction sector order inflow and backlog for 1QFY09

	Jun-07	Mar-08	Jun-08A	Change (%) yoy	Change (%) qoq
Contruction - Covered companies (Rs mn)					
IVRCL					
Order booking	16,773	23,217	12,785	(23.8)	(44.9)
Order backlog	90,000	120,000	123,500	37.2	2.9
Nagarjuna Construction Co.					
Order booking	12,472	28,841	17,449	39.9	(39.5)
Order backlog	77,700	113,800	121,540	56.4	6.8
Consolidated Construction Consortium Ltd					
Order booking	5,213	9,310	5,115	(1.9)	(45.1)
Order backlog	20,496	26,900	28,220	37.7	4.9
Construction sector (Rs mn)					
Order booking	34,458	61,368	35,349	2.6	(42.4)
Order backlog	188,196	260,700	273,260	45.2	4.8

Source: Company Data.

Steel prices have increased on an average by about 77% yoy in 1QFY09

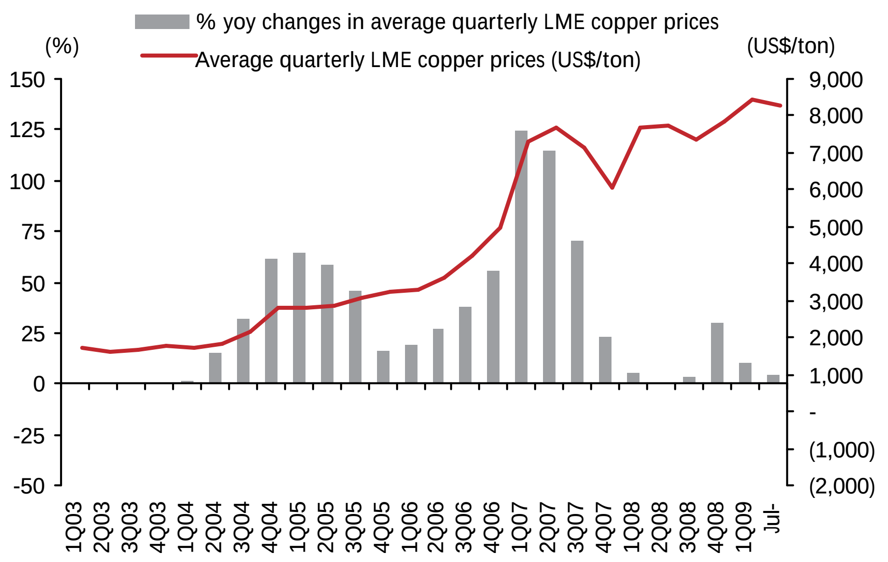
Average quarterly spot HR coil prices on LME and yoy changes



Source: LME, Kotak Institutional Equities.

Copper prices have been increasing since 1QFY04

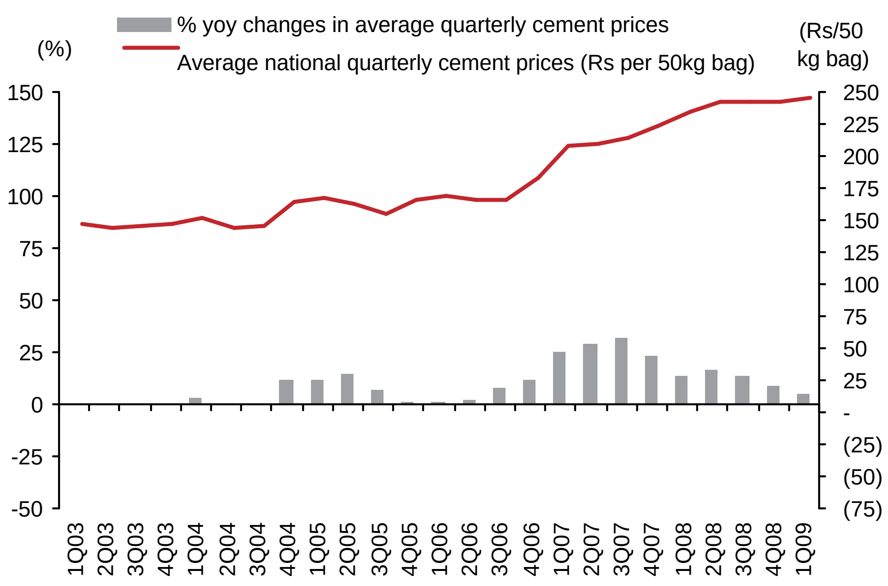
Average quarterly copper prices on LME and yoy changes



Source: LME, Kotak Institutional Equities.

Cement prices have largely been on an uptrend since 1QFY04

Average quarterly cement prices and yoy changes



Source: CMA, Kotak Institutional Equities.

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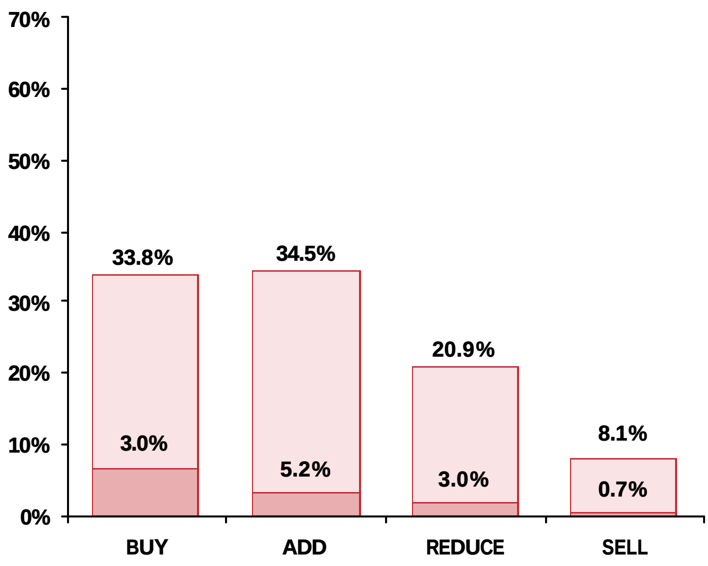
Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 30/06/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities. As of June 30, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

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