kotak® Institutional Equities

INDIA DAILY

April 02, 2008

EQUITY MARKETS

India	1-Apr	1-day	1-mo	3-mo
		Change, %		
Sensex	15,627	(0.1)	(11.1)	(23.6)
Nifty	4,740	0.1	(9.3)	(23.3)
Global/Regional indices				
Dow Jones	12,654	3.2	3.2	(3.0)
Nasdaq Composite	2,363	3.7	4.0	(9.5)
FTSE	5,853	2.6	(0.5)	(8.8)
Nikkie	13,066	3.2	(4.0)	(14.6)
Hang Seng	23,137	1.3	(4.9)	(16.0)
KOSPI	1,741	2.3	1.7	(6.0)

Value traded - India

	1-Apr		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	156.4		197.3	221.5
Derivatives (NSE)	358.9		490.8	492
Deri. open interest	531.0		637	1,105

Forex/money market

	1-Apr	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	39.9	0	(52)	44
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	2	33	15

Net investment (US$mn)

	28-Mar		MTD	CYTD
FIIs	(28)		-	(3,032)
MFs	95		-	1,617

Top movers -3mo basis

Best performers	1-Apr	1-day	1-mo	3-mo
		Change, %		
Asian Paints	1,193	(0.5)	7.3	5.5
Ranbaxy	443	1.0	(0.6)	3.2
Glaxosmithkline	1,057	1.1	(4.7)	2.7
Sun Pharma	1,200	(2.5)	(2.1)	1.4
Hero Honda	704	2.0	(7.9)	0.7
Worst performers				
Rashtriya Chem	53	1.2	(37.8)	(59.5)
Arvind Mills	39	2.4	(21.4)	(56.5)
Ballarpur Ind	27	(3.0)	(40.6)	(55.9)
Tata Tele	28	1.2	(19.3)	(54.3)
Neyveli Lignite	117	(2.6)	(23.0)	(53.5)

Contents

News Roundup

Corporate

- The Videocon group has expressed interest in buying telecom giant Motorola's struggling mobile handset business, which is being split into a separate company. (BS)
- Emaar MGF, the Delhi-based property company, said it was planning to spend US$400 mn to set up four hotels in the country in the next three years. It has tied up with global hospitality leader Marriott International to manage the hotels. (BS)
- GAIL India, the country's largest transporter and marketer of natural gas, has signed contracts with the operators of the field to market the entire volume of gas from the Panna-Mukta and Tapti (PMT) fields. (BS)

Economic and political

- Underwriting could become mandatory for IPOs. The proposal is part of the initiatives which are under consideration of the market regulator to discipline the primary market and ensure quality paper. (ET)
- A movement of 1,575 points in the Sensex and 470 points in the Nifty would bring trading to a halt through the current quarter ending June, as per the new circuit filter limits set by the Bombay Stock Exchange and National Stock Exchange. This circuit would be applicable on movements on either side of gain or loss, circulars on both the bourses said. (BL)
- The Department of Telecommunications (DoT) has issued guidelines for active infrastructure sharing—a move that will help in lowering telecom operators' infrastructure costs and increasing teledensity in the country. DoT has also categorically stated that sharing of allocated spectrum will not be permitted. (BS)

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

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Strategy

Sector coverage view	N/A

Stress but not distress

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- **Stress-case scenario shows low downside but further risk exists from concurrent de-rating**
- **Risks to earnings in almost all the sectors**
- **Portfolio selection based on reasonable valuations (BV, NAV) or earnings**
- **Global cyclical commodity, telecom stocks most vulnerable to earnings downgrades**

Our stress-case analysis of earnings of BSE-30 Index stocks shows that earnings of certain stocks face moderate-to-high risks. Our stress-case scenario results in an end-2008 BSE-30 Index band of 14,000-16,000 versus our current target band of 16,000-20,000. We see the biggest risks to earnings in the case of cyclical commodities (RIL, TATA) and telecom stocks (BHARTI, RCOM).

Stress-case scenario shows low downside but further risk exists from concurrent de-rating

Our stress-case scenario pegs the end-2008 BSE-30 Index band at about 14,000-16,000 at end-2008 against our current target of 16,000-20,000. The risk is a likely concurrent de-rating of multiples (P/E or P/B) and a more precipitous decline in stock prices and of the market if earnings disappoint versus street and our current estimates. Our current earnings estimates suggest that the market's valuation is reasonable at 14.6X FY2009E earnings and 12.1X FY2009E earnings adjusted for valuations of 'embedded' assets.

Risks to earnings in almost all the sectors

As highlighted in our March 24, 2008 report titled *Nightmare may be over soon; dream could take a while*, we see risks to earnings in almost all the sectors under our coverage. Among the large capitalization sectors and stocks, we would watch for energy (RIL), telecom (BHARTI, RCOM), metals (TATA) and banking (ICICIBC) in particular; these stocks have large absolute market capitalizations, absolute profits and weights in all the major indices.

Portfolio selection based on reasonable valuations (BV, NAV) or earnings

We stress on (1) reasonable valuations and (2) visibility of earnings in our portfolio selection. Accordingly, we assign (1) 28% weight on banks noting attractive valuations on P/ABVPS; even if earnings disappoint in FY2009E, we see limited downside to stock prices and (2) 30% in 'unexciting' sectors/stocks such as consumers, pharma, ONGC and technology, which offer relatively high visibility on earnings (the former two) or stress-case valuations (the latter two).

Global cyclical commodity, telecom stocks most vulnerable to earnings downgrades

We see high risks to earnings of cyclical commodity stocks, which do not have ownership of basic raw materials or resources (RIL, Tata Steel on a consolidated basis). Refining/ conversion margins may get squeezed between (1) high prices of resources (crude oil, coal, ore) and (2) relatively weak product prices based on potential weak global GDP growth/demand and new supply (particularly in refining, petrochemicals). In case of telecom, we see scope for large price reductions based on current very high CROCI and increased competition.

We see BSE-30 Index at 14,000-16,000 at end-CY2008 if assumptions in our stress-case scenario turn out to be true
Base case and stress test of net profit and fair value of BSE-30 stocks

	Mkt cap.		FY2009E net profit (Rs bn)		Fair value (Rs/share)		
Company	**(Rs bn)**	**(US$ bn)**	**Base case**	**Stress case**	**Base case**	**Stress case**	**Comments**
ACC	156	4	13	9	800	584	Rs20/bag decline in cement price and flat operating costs
Ambuja Cements	184	5	14	10	117	92	Rs20/bag decline in cement price and flat operating costs
Bharat Heavy Electricals	1,007	25	40	35	2,500	2,188	2% lower EBITDA margin and 5% lower growth in revenues versus base case
Bharti Airtel Limited	1,568	39	89	80	810	755	10% decline in RPM and flat costs for the wireless segment
Cipla	171	4	7	7	180	180	
DLF	1,102	27	102	88	905	792	20% and 10% yoy decline in residential prices and commerical lease rentals
Grasim Industries	236	6	28	22	3,400	2,842	Rs20/bag decline in cement price and flat operating costs
HDFC	684	17	26	22	2,550	2,285	Details given in section on banking
HDFC Bank	595	15	27	18	1,500	1,470	Details given in section on banking
Hindalco Industries	215	5	17	15	225	190	Aluminum prices up by 5% yoy versus base-case assumption of 10%
Hindustan Unilever	498	12	20	18	230	227	Decline in EBITDA nargins to 12.3% from 14.3% in base case
ICICI Bank	852	21	39	14	900	760	Details given in section on banking
Infosys Technologies	821	20	54	50	1,800	1,400	Details given in section on technology
ITC	772	19	36	32	250	216	Flat cigarette price versus 5% yoy increase in base case and decline in cigarette volume growth to 4% from 8% in base case
Larsen & Toubro	883	22	34	30	3,800	3,339	1% lower EBITDA margin and 10% lower growth in revenues versus base case
Mahindra & Mahindra	180	4	12	9	915	825	(1) 2% lower EBITDA margin and (2) 5% lower growth in sales for FY2009E
Maruti Suzuki	240	6	27	23	1,240	1,069	(1) 2% lower EBITDA margin and (2) 5% lower growth in sales for FY2009E
NTPC	1,624	40	85	85	215	215	
Oil & Natural Gas Corporation	2,099	52	259	232	1,325	1,280	Subsidy loss for upstream companies at 40% versus the extant 33.33%
Ranbaxy Laboratories	164	4	7	7	525	525	
Reliance Communications	1,039	26	64	59	550	500	10% decline in RPM and flat costs for the wireless segment
Reliance Energy	295	7	8	8	1,251	1,251	
Reliance Industries	2,840	70	165	118	2,050	1,737	US$2/bbl lower refining margins and 10% lower petchem prices versus base-case assumptions; we assume Sec. 80 IB benefit remains in the stress-case scenario also
Satyam Computer Services	265	7	20	19	500	390	Details given in section on technology
State Bank of India	855	21	76	33	2,000	1,633	Details given in section on banking
Tata Motors	267	7	24	17	940	757	(1) 2% lower EBITDA margin and (2) 5% lower growth in sales for FY2009E
Tata Steel	596	15	54	22	800	460	Coking coal prices up by 200% versus base-case assumption of 100%
TCS	794	20	59	56	1,050	800	Details given in section on technology
Wipro	617	15	40	37	490	400	Details given in section on technology
BSE-30 Index	**21,616**	**534**	**1,445**	**1,177**	**18,000**	**15,000**	

Note:
(1) Jaiprakash Associates is excluded.

Source: Bloomberg, Kotak Institutional Equities estimates.

Biased towards solid long-term stocks
Kotak Institutional Equities Top 10 List

			Mkt cap.	CMP	Target	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
Companies	**Sector**	**Rating**	**(US$ mn)**	**(Rs)**	**(Rs)**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**
ICICI Bank	Banking	ADD	20,987	757	900	35	35	35	21.9	21.3	21.6	—	—	—
Larsen & Toubro	Industrials	BUY	21,190	2,895	3,800	63	80	115	46.1	36.3	25.2	29.5	20.3	15.3
ITC	Consumer products	BUY	19,815	211	250	7.2	8.3	9.7	29.3	25.3	21.7	18.7	16.1	13.3
DLF	Property	BUY	26,805	627	905	13	45	60	49.4	13.8	10.5	41.5	11.5	8.7
HDFC Bank	Banking	BUY	14,791	1,308	1,500	36	50	60	36.6	25.9	21.9	—	—	—
Maruti Suzuki	Automobiles	BUY	5,909	815	1,100	54	66	82	15.1	12.3	9.9	8.8	7.4	5.8
Satyam Computer Services	Technology	BUY	6,688	397	500	21	25	30	18.5	15.6	13.2	14.8	12.1	9.6
Oil & Natural Gas Corporation	Energy	BUY	54,164	1,010	1,325	84	102	121	12.0	9.9	8.3	4.9	4.1	3.4
Tata Power	Utilities	ADD	6,863	1,175	1,540	27	30	38	44.2	39.6	30.8	25.5	26.4	23.6
Mid-cap. basket														
IVRCL	Construction	BUY	1,306	387	570	12	13	20	31.1	28.7	18.9	24.1	15.0	11.0
Jindal Saw	Pipes	BUY	899	640	1,150	116	77	120	5.5	8.3	5.3	4.9	4.8	2.9
Lanco Infratech	Utilities	BUY	2,241	402	670	8	18	34	47.4	22.9	11.9	25.0	20.7	11.4
Nagarjuna Construction Co.	Construction	BUY	1,207	208	365	6.5	9.2	12.7	31.9	22.7	16.4	21.2	13.2	10.2
Rajesh Exports	Retail	BUY	577	79	200	4.6	7.7	10.5	17.3	10.2	7.5	10.3	3.5	2.6
Mid-cap. basket				**15,627**										

Source: Company, Bloomberg, Kotak Institutional Equities estimates.

Aggressive overweight on the banking sector
Kotak Institutional Equities Model Portfolio

Company	31-Mar Price (Rs)	Rating	Weightage (%) BSE-30	Weightage (%) KS reco.	Diff. (bps)
Mahindra & Mahindra	696	BUY	1.3	1.3	—
Maruti Suzuki	830	BUY	1.1	2.6	150
Tata Motors	623	BUY	1.6	—	(165)
Automobiles			**4.1**	**4.0**	**(15)**
Punjab National Bank	508	BUY	—	1.5	150
State Bank of India	1,599	ADD	3.8	4.8	100
PSU Banking			**3.8**	**6.3**	**250**
HDFC	2,384	ADD	5.6	4.6	(100)
HDFC Bank	1,320	BUY	4.7	6.2	150
ICICI Bank	770	ADD	8.6	10.6	200
Pvt. Banking/Financing			**18.9**	**21.4**	**250**
ACC	826	REDUCE	0.9	0.9	—
Ambuja Cements	121	REDUCE	1.1	—	(109)
Grasim Industries	2,575	ADD	1.7	—	(174)
Jaiprakash Associates	227	NC	1.1	—	(113)
Cement			**4.9**	**0.9**	**(397)**
Hindustan Unilever	229	ADD	2.5	2.5	—
ITC	206	BUY	4.8	6.3	150
Consumers			**7.3**	**8.8**	**150**
Oil & Natural Gas Corporation	981	BUY	4.1	5.6	150
Reliance Industries	2,265	RS	13.4	10.9	(241)
Energy			**17.5**	**16.6**	**(91)**
Bharat Heavy Electricals	2,057	ADD	3.1	—	(310)
Larsen & Toubro	3,025	BUY	7.5	9.5	200
Industrials			**10.6**	**9.5**	**(110)**
Hindalco Industries	165	ADD	1.4	—	(136)
Jindal Steel & Power	2,072	ADD	—	1.5	150
Tata Steel	693	REDUCE	3.5	1.5	(200)
Metals			**4.8**	**3.0**	**(186)**

Company	31-Mar Price (Rs)	Rating	Weightage (%) BSE-30	Weightage (%) KS reco.	Diff. (bps)
Cipla	220	REDUCE	1.0	—	(101)
Dishman Pharma & chemicals	289	BUY	—	1.0	100
Sun Pharmaceuticals	1,231	BUY	—	1.0	100
Ranbaxy Laboratories	439	BUY	1.1	1.1	—
Pharmaceuticals			**2.1**	**3.1**	**99**
DLF	647	BUY	1.5	3.0	150
Housing Development & Infrastructure	659	BUY	—	1.0	100
Real estate			**1.5**	**4.0**	**250**
Infosys Technologies	1,430	BUY	6.4	6.9	50
Satyam Computer Services	395	BUY	2.4	3.9	150
TCS	811	ADD	1.9	—	(195)
Wipro	425	ADD	1.1	1.6	50
Technology			**11.9**	**12.5**	**55**
Bharti Airtel Limited	826	REDUCE	5.1	3.1	(200)
Reliance Communications	508	SELL	3.5	—	(352)
Telecom			**8.7**	**3.1**	**(552)**
NTPC	197	REDUCE	2.3	—	(229)
Reliance Energy	1,251	NR	1.7	2.0	25
Tata Power	1,172	ADD	—	2.0	200
Utilities			**4.0**	**4.0**	**(3)**
IVRCL	401	BUY	—	0.6	60
Jindal Saw	649	BUY	—	0.6	60
Lanco Infratech	389	BUY	—	0.6	60
Nagarjuna Construction Co.	213	BUY	—	0.6	60
Rajesh Exports	78	BUY	—	0.6	60
Mid-cap. basket			**—**	**3.0**	**300**
BSE-30	**15,644**		**100.0**	**100.0**	**—**

Note:
(1) Weights are with respect to March 19, 2008 prices.

Source: Bloomberg, BSE, Kotak Institutional Equities.

Earnings of banking, metals and energy carry maximum downside risk

Base case and stress test of net profit of BSE-30 sectors

	Weight	FY2009E net profit (Rs bn)		Change
Sector	(%)	Base case	Stress case	(%)
Banking	13.8	167	87	(48)
Metals	3.8	71	37	(48)
Cement	2.7	55	42	(24)
Automobiles	3.2	62	50	(20)
Energy	22.9	424	350	(17)
Property	5.1	102	88	(13)
Industrials	8.7	74	65	(12)
Consumers	5.9	56	49	(12)
Telecom	12.1	153	139	(9)
Technology	11.5	173	162	(6)
Pharmaceuticals	1.5	14	14	—
Utilities	8.9	93	93	—
BSE-30 Index	**100.0**	**1,445**	**1,177**	**(18.5)**

Source: Kotak Institutional Equities estimates.

Telecom

MTNL.BO, Rs100	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	120
52W High -Low (Rs)	219 - 93
Market Cap (Rs bn)	62.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	49.1	48.4	52.8
Net Profit (Rs bn)	4.7	4.1	4.4
EPS (Rs)	8.0	6.5	7.0
EPS gth	*21.1*	*(19.6)*	*7.8*
P/E (x)	12.4	15.5	14.3
EV/EBITDA (x)	5.5	5.3	4.6
Div yield (%)	4.0	6.0	6.0

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	56.2	-	-
FIIs	14.1	0.2	(0.1)
MFs	3.6	0.2	(0.0)
UTI	-	-	(0.2)
LIC	18.0	1.1	0.9

MTNL: Upgrade to ADD

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- **Tax refund of Rs14 bn takes the total tax refund received in FY2008 to Rs28.6 bn**
- **Upgrade to ADD; cash and cash equivalents now constitute 70% of market capitalization**

We are upgrading MTNL to ADD post the recent correction in stock price. The stock also will likely get support from net cash balance which will likely go up to Rs68/ share after the company recently received another tax refund of Rs14 bn from the income tax department. We believe these tax refunds may be partially nullified by MTNL's outstanding pension liabilities (see Exhibit 1). We have tweaked our target price to Rs120 (including Rs20/share of option value from company's real estate) from Rs110 earlier, largely to factor in the receipt of income tax refund. Our valuation model builds in a core business value (excluding cash) of Rs30/share (using WACC of 12.5% and a terminal growth of 2%). We stress that our rating change is purely on account of inexpensive valuations; we continue to be concerned about the deterioration of the core business.

Receives income tax refund of Rs14 bn; net cash position will go up substantially. MTNL has received a refund of Rs14 bn from the income tax department. This includes Rs8 bn against penalties paid by the company earlier, Rs4.3 bn from its license fee case, and the remaining Rs1.7 bn as interest payment on the refund. This takes the total income tax refund received by MTNL (before tax on interest) to Rs28.6 bn or Rs45/share in FY2008. From the standpoint of MTNL's balance sheet, we note that MTNL has outstanding pension liabilities of Rs43.4 bn (end-FY2007). It would recover Rs30 bn of the aforementioned amount from DoT, which still leaves a net pension liability of Rs13.4 bn or Rs21.3/share. These liabilities will partially offset the tax refund cash inflow.

Cash will likely be used for capital expenditure; we do not expect any special dividends. Our discussion with the company indicates that it will likely use the Rs28.6 bn cash received in income tax refunds in FY2008 for its planned capital expenditure over the next 2-3 years. The company has a total capex plan of Rs25 bn over the next two years. We highlight some of the key capex areas for the company—(1) Submarine cable (to Singapore and Africa) in a JV with BSNL; total investments on the project will likely be Rs15 bn with 51% of the same to be made by MTNL, (2) Ramping up the broadband capacity in both Mumbai and Delhi circles; MTNL had a BB capacity of 308,000 and 260,000 lines in Mumbai and Delhi, respectively, as of end-December 2007—it plans to ramp it up to 1.5 mn lines in both the metros over the next 9-12 months, (3) Fiber-to-the-Home (FTTH) investments—Rs2 bn each in Mumbai and Delhi, and (4) augmenting the wireless (GSM) capacity in Mumbai and Delhi. We have not factored in the investments in the submarine cable in our model.

Core business fundamentals continue to deteriorate. MTNL continues to face challenges on its core business with consistent decline in fixed-line subscriber base, loss of PCO revenues, and capacity constraints in its wireless and broadband businesses. The company's fixed-line subscriber base has declined 1.5% yoy (an absolute decline of 54,000 subs) and ARPU has declined to Rs691 from Rs721 for FY2007. In the wireless business, MTNL continues to find subscriber acquisition challenging (largely on account of capacity constraints) and its ARPU levels remain among the lowest among wireless operators (postpaid ARPU at Rs256 and prepaid at Rs178 for December 2007 quarter). Broadband (BB) segment is too small to change the fortunes of MTNL even though it has been growing at a fast pace over the past few quarters. Also, we note that the company has been facing capacity (DSLAM) constraints, especially in the Mumbai circle—the company is operating at 90%+ capacity in the two circles combined.

MTNL's outstanding retirement liabilities nullify the upside from the expected tax refund

Estimation of per share equity value based on net potential cash

	Rs mn	Per share
Cash on books (end-FY2007)	**18,688**	**30**
Tax refund (license fee case) - July 16, 2007 (a)	14,617	23
Tax refund (license fee case) - Mar 31, 2008 (b)	4,290	7
Refund of penalties imposed earlier	8,000	13
Interest received (post-tax)	1,096	2
Retirement liabilities	(43,438)	(69)
1. Pension	(28,833)	(46)
2. Gratuity	(5,312)	(8)
3. General Provident Fund (GPF)	(9,293)	(15)
Amount recoverable from employees	1,996	3
Amount recoverable from DOT (c)	29,995	48
License fee payable to DOT (d)	(552)	(1)
Refund of excess interconnect charges (e)	7,540	12
Total net potential cash	**42,232**	**67**

Notes:

(a) No further interest payment from the tax authorities assumed.

(b) Pertaining to the license fee case only.

(c) Amount recoverable from the DOT on account of retirement liabilities.

(d) Underpayment of license fee to DOT for the period August 1999-March 2001.

(e) Recoverable from BSNL.

Source: MTNL, Kotak Institutional Equities estimates.

Media

JAGP.BO, Rs90	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	130
52W High -Low (Rs)	169 - 72
Market Cap (Rs bn)	27.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	6.0	7.6	9.9
Net Profit (Rs bn)	0.7	1.0	1.4
EPS (Rs)	2.4	3.5	4.6
EPS gth	*44.5*	*41.9*	*33.6*
P/E (x)	36.9	26	19.5
EV/EBITDA (x)	21.5	15.0	10.9
Div yield (%)	1.7	1.7	2.3

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	3.9	0.0	0.0
MFs	11.4	0.1	0.1
UTI	-	-	-
LIC	1.0	0.0	0.0

Jagran Prakashan: Moderately higher-than-expected ad rate hike for FY2009E

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- **JAGP ad rate increase for FY2009E moderately higher than our expectation**
- **Robust global newsprint prices negative but mitigating actions are likely**
- **Upgrade to BUY; retain estimates and 12-month DCF-based TP of Rs130**

Jagran Prakashan (JAGP) has increased all-India rack rates for color and black-and-white display advertisements by 33% and 35%, respectively, for its flagship Dainik Jagran (DJ) and I-next brands, moderately ahead of our expectations. The higher rates will come into effect starting FY2009E and likely reflect (1) better-than-expected traction for its youth brand I-Next in Uttar Pradesh (UP) and Uttaranchal, (2) improved competitive position in Haryana and Punjab and (3) partial pass-through of higher expected newsprint costs in FY2009E. The sharp rise in global newsprint prices is likely to sustain in the near term, which is negative for publishers. However, we believe there are multiple levers—(1) higher cover prices, (2) greater efficiency in circulation, (3) volume discounts on bulk orders, (4) change in newsprint mix and (5) lower pagination levels—available with publishers to mitigate the impact of higher newsprint prices. We upgrade JAGP to BUY from ADD previously noting the robust traction in print ad revenue market and likely value addition from JAGP's new media initiatives; we retain our estimates and 12-month target price of Rs130.

FY2009E ad rate increase—robust. Exhibit 1 shows the increase in color and black-and-white display ads for JAGP's flagship brands for FY2009E. We note that the all-India all-edition ad rate increase for FY2009E at 33-35% is higher than 25-29% hike for FY2008. We discuss the likely reasons for the same below.

1. **I-next exceeds expectations.** I-Next, JAGP's youth-oriented compact newspaper, has already achieved average daily circulation of about 0.3 mn copies from seven editions. JAGP cross-sells ad inventory across its flagship DJ and I-Next brands across UP and Uttaranchal; the impressive performance of I-next has likely raised JAGP's profile among advertisers.
2. **Competition in Punjab and Haryana to likely recede.** JAGP's FY2008 profitability was hurt by intense competition in Punjab and Haryana, where JAGP lags Punjab Kesari (PK) and Dainik Bhaskar (DB); DB's launch in Punjab during October 2006 led to an intense cover price war and precluded any significant ad rate hike for FY2008. JAGP's impressive ad rate hike of 50% and 75% for FY2009E in Punjab and Haryana, respectively, points towards more rational competition in these markets.

Rising global newsprint prices—negative for publishers. Newsprint prices continued their upward trend in March with the 30-lb benchmark US East Coast price rising another US$20/ton to US$640/ton (see Exhibit 2), in line with expectations. The sharp increase in global newsprint prices was led by (1) consolidation and capacity rationalization in the North American market, (2) higher raw material and energy prices which are now been passed through to publishers and (3) continued strong newsprint demand from emerging countries like India and China. We expect newsprint prices to remain firm in the near term as the demand supply balance in the global market has swung in favor of newsprint producers.

However, we note that newsprint demand in United States, the largest newsprint market in the world, declined 10.8% in CY2007 over CY2006 (see Exhibit 3); the trend of declining demand is expected to continue with US newsprint ad revenues expected to decline in CY2008 given the strong headwinds facing the economy. Moreover, there has been a sharp jump in domestic demand for newsprint in China with the Olympic Games scheduled in the country for August 2008; the demand is likely transitory and may fall off in the second half of CY2008.

JAGP is well positioned to ride the tide. We note that JAGP is the largest Hindi newspaper publisher in India spanning multiple markets; it has leadership position in UP, the most populous state in the Hindi heartland of India (see Exhibit 4), and a strong second in other large Hindi markets—Uttaranchal, Bihar, Jharkhand, Punjab and Haryana. It is present across multiple media platforms—print, outdoor and digital—to offer diversity to advertisers and drive bundling of ad inventory across platforms.

Also, JAGP has multiple levers, which it can use judiciously to moderate the impact of rising newsprint prices; (1) higher cover prices, (2) improved efficiency in circulation, (3) joining hands with other publishers to force volume discounts from producers on bulk purchases, (4) change in newsprint mix towards more domestic newsprint and (5) lower pagination levels are some of the measures which are likely under consideration. We expect a combination of these measures to be used by JAGP and other Indian publishers in order to protect their margins, depending upon the competitive scenario in the various markets where they operate.

Print market in India—fragmented and ripe for consolidation. The print media market in India is fragmented with over 6,500 daily newspapers registered with the Registrar of Newspapers in India. The top 20 newspapers/publishers account for the bulk of the market (see Exhibit 5) but there are a number of small local and regional publishers which compete with national players for readership and ad revenues. The national players such as JAGP and HT Media enjoy EBITDA margins of 20-30% given their economies of scale, ability to tap national advertisers and cross-sell ad inventory across multiple media brands and platforms.

We note that small publishers usually have lower margins and greater dependence on cover prices to sustain the profitability of their operation. The large publishers can drive home their relative competitive advantage in a high newsprint price scenario to (1) pull readership towards their brands by maintaining pricing and quality (newsprint mix, page levels), even at the cost of near term profitability, and (2) acquiring smaller publishers to enter into new markets or consolidate their leadership position in existing markets. We note that JAGP has an under-leveraged balance sheet with cash position of Rs2 bn by end-FY2008E, which can be used to drive value-accretive acquisitions.

JAGP takes a substantial ad rate increase for FY2009

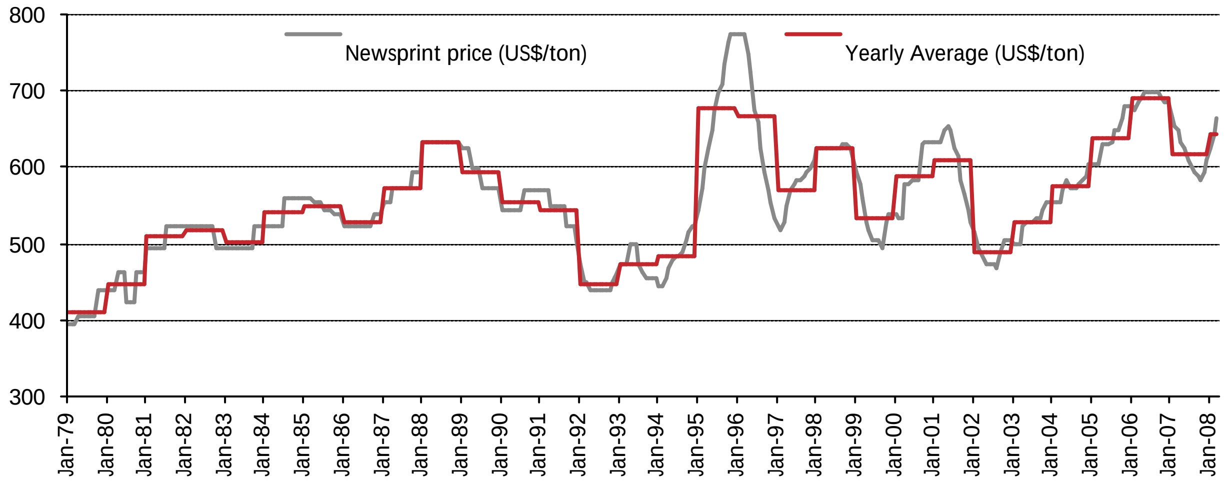
Color and B&W tariffs of Dainik Jagran for display ads (Rs/sq. cm)

	Rack rates			Increase (%)	
	20-Mar-08	09-Mar-07	15-Mar-06	FY2009	FY2008
Color ad rates					
DJ all editions + I-next	5,220	3,915	3,132	33.3	25.0
DJ UP + Uttaranchal + I-next	3,429	2,430	1,818	41.1	33.7
DJ Delhi + NCR	603	567	531	6.3	6.8
DJ Bihar	666	567	531	17.5	6.8
DJ Punjab	666	450	414	48.0	8.7
DJ MP	387	378	360	2.4	5.0
DJ Jharkhand	423	342	324	23.7	5.6
DJ Haryana	549	315	297	74.3	6.1
DJ Kanpur + I-next	666	504	405	32.1	24.4
DJ Lucknow + I-next	666	504	405	32.1	24.4
Black and white rates					
DJ all editions + I-next	3,150	2,340	1,818	34.6	28.7
DJ UP + Uttaranchal + I-next	2,070	1,440	1,053	43.8	36.8
DJ Delhi + NCR	360	333	306	8.1	8.8
DJ Bihar	405	333	306	21.6	8.8
DJ Punjab	405	270	243	50.0	11.1
DJ MP	234	225	207	4.0	8.7
DJ Jharkhand	261	207	189	26.1	9.5
DJ Haryana	333	189	171	76.2	10.5
DJ Kanpur + I-next	405	306	234	32.4	30.8
DJ Lucknow + I-next	405	306	234	32.4	30.8

Source: Company, compiled by Kotak Institutional Equities.

Newsprint prices have risen sharply led by industry consolidation and capacity rationalization in North America

Historical newsprint price, US East Coast, 1979-2008 (US$/ton)



Source: PPPC, Pulp and Paper Weekly, compiled by Kotak Institutional Equities.

Total newsprint demand in North America has fallen substantially in CY2007

North American newsprint market statistics ('000 tons)

North America newsprint	CY2007	Change over CY2006 (%)
Shipments to North America	8,663	(9.8)
Shipments to US	7,634	(10.5)
Shipments to Canada	1,029	(4.2)
Overseas exports	2,406	7.3
Imports	82	(42.3)
Total demand	**8,744**	**(10.3)**
US dailies consumption	**6,266**	**(10.8)**
Operating rate (%) (a)	**93**	**94**

Note:
(a) Actual operating rate, not a percentage change.

Source: PPPC, Pulp and Paper Weekly, compiled by Kotak Institutional Equities.

Dainik Jagran is the leader in the Hindi market but Dainik Bhaskar has a better spread

Readership data of Hindi dailies in key Hindi-speaking states ('000)

	Aj	Amar Ujala	Dainik Bhaskar	Dainik Jagran	Hari Bhoomi	Hindustan	Lokmat Samachar	Navbharat	Navbharat Times	Prabhat Khabar	Punjab Kesari	Rajasthan Patrika	Total
Bihar	501	—	—	2,595	—	**4,547**	—	—	—	323	—	—	**7,966**
Chandigarh	—	59	**216**	—	—	—	—	—	—	—	31	—	**306**
Chhattisgarh	—	—	**1,095**	—	723	—	—	790	—	—	—	—	**1,885**
Haryana	—	296	**1,669**	898	80	18	—	—	—	—	867	—	**3,748**
Himachal Pradesh	—	**435**	36	72	—	—	—	—	—	—	418	—	**961**
Jammu & Kashmir	—	**114**	—	37	—	—	—	—	—	—	65	—	**216**
Jharkhand	70	—	—	801	—	**1,086**	—	—	—	1,014	—	—	**2,971**
Madhya Pradesh	—	—	**3,314**	332	—	—	—	739	—	—	—	—	**4,385**
Maharashtra	—	—	511	—	—	—	**680**	678	542	—	—	—	**2,411**
National Capital Region	2	274	113	973	—	892	—	—	**1,768**	—	1,009	—	**5,031**
Punjab	—	219	265	1,096	—	—	—	—	—	—	**1,132**	—	**2,712**
Rajasthan	—	—	5,745	—	—	—	—	—	—	—	140	**7,353**	**13,238**
Uttar Pradesh	1,024	6,080	186	**9,419**	—	2,037	—	—	—	—	62	—	**18,808**
Uttaranchal	—	**872**	—	547	—	—	—	—	—	—	25	—	**1,444**
Total	**1,597**	**8,349**	**13,150**	**16,770**	**803**	**8,580**	**680**	**2,207**	**2,310**	**1,337**	**3,749**	**7,353**	**66,082**

Note:
(a) Fieldwork period: July 2006 to June 2007.

Source: Indian Readership Survey 2007 Round 2, compiled by Kotak Institutional Equities.

The top 20 players in the print media space continue to maintain high market share

Readership of top print media brands in India (mn)

	IRS 2007-2		IRS 2007-1	
Rank	Name of Daily	Readership (mn)	Name of Daily	Readership (mn)
1	Dainik Jagran	16.5	Dainik Jagran	17.1
2	Dainik Bhaskar	12.8	Dainik Bhaskar	12.5
3	Malayala Manorama	8.7	Hindustan	9.1
4	Hindustan	8.6	Malayala Manorama	8.8
5	Amar Ujala	8.1	Amar Ujala	8.4
6	Daily Thanthi	7.9	Daily Thanthi	8.4
7	Rajasthan Patrika	7.4	Eenadu	7.2
8	Eenadu	6.9	Mathrubhumi	7.0
9	Ananda Bazar Patrika	6.9	Rajasthan Patrika	6.9
10	The Times of India	6.8	Lokmat	6.9
11	Lokmat	6.7	The Times of India	6.8
12	Mathrubhumi	6.7	Ananda Bazar Patrika	6.5
13	Dinakaran	5.0	Dinakaran	5.8
14	Gujarat Samachar	5.0	Gujarat Samachar	5.3
15	Vijay Karnataka	4.5	Vijay Karnataka	4.6
16	Daily Sakal	4.2	Daily Sakal	4.1
17	Dinamalar	3.8	Dinamalar	4.0
18	Punjab Kesari	3.6	Sandesh	3.8
19	Sandesh	3.6	Punjab Kesari	3.6
20	Hindustan Times	3.3	Hindustan Times	3.3
Any publication		**168.0**		**169.9**
Share of top 20 dailies (%)		**81.5**		**82.5**

Source: Indian Readership Survey, compiled by Kotak Institutional Equities.

We model Jagran's revenues to grow strongly led by growth in print and outdoor advertisement revenues

Derivation of revenues of Jagran Prakashan, March fiscal year-ends, 2005-2012E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Advertisement revenues								
Kanpur	479	607	771	967	1,188	1,404	1,663	1,884
NCR	334	427	530	666	817	966	1,144	1,297
Lucknow	263	332	416	523	648	767	909	1,030
Others	1,255	1,705	2,170	2,896	3,763	4,518	5,299	6,031
Total print advertisement revenues	**2,332**	**3,071**	**3,887**	**5,053**	**6,416**	**7,655**	**9,015**	**10,242**
Outdoor revenues	—	14	168	491	998	1,626	2,280	2,877
Total outdoor advertisement revenues	—	**14**	**168**	**491**	**998**	**1,626**	**2,280**	**2,877**
Total advertisement revenues	**2,332**	**3,085**	**4,056**	**5,544**	**7,414**	**9,281**	**11,295**	**13,118**
Other revenues								
Circulation revenues	1,375	1,603	1,681	1,893	2,114	2,295	2,415	2,531
Digital media	11	42	138	100	250	325	390	429
Others	52	71	114	102	107	112	118	124
Total revenues	**3,770**	**4,802**	**5,988**	**7,639**	**9,885**	**12,013**	**14,219**	**16,202**
Growth (%)	—	**27.4**	**24.7**	**27.6**	**29.4**	**21.5**	**18.4**	**14.0**

Source: Company data, Kotak Institutional Equities estimates.

Profit model, balance sheet and cash model of Jagran Prakashan, March fiscal year-ends, 2005-2012E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model								
Net sales	3,764	4,805	5,982	7,639	9,885	12,013	14,219	16,202
EBITDA	**259**	**702**	**1,198**	**1,759**	**2,483**	**3,403**	**4,558**	**5,464**
Other income	10	63	248	225	205	205	214	219
Interest	(68)	(76)	(85)	(69)	(75)	(100)	(96)	(64)
Depreciation	(176)	(201)	(237)	(335)	(503)	(579)	(621)	(680)
Pretax profits	**25**	**488**	**1,124**	**1,579**	**2,110**	**2,929**	**4,056**	**4,939**
Extraordinary items	(5)	(30)	27	—	—	—	—	—
Current tax	(2)	(57)	(372)	(467)	(678)	(982)	(1,365)	(1,654)
Deferred taxation	(6)	(84)	(17)	(70)	(39)	(13)	(14)	(25)
Net income	**13**	**317**	**762**	**1,043**	**1,393**	**1,933**	**2,678**	**3,260**
Adjusted net income	16	338	744	1,043	1,393	1,933	2,678	3,260
Earnings per share (Rs)	**0.1**	**1.6**	**2.5**	**3.5**	**4.6**	**6.4**	**8.9**	**10.8**
Balance sheet								
Total equity	687	4,867	5,111	5,605	6,264	7,180	8,448	9,991
Deferred taxation liability	284	368	384	454	493	507	520	545
Total borrowings	1,304	1,165	1,067	716	1,150	1,250	1,000	500.0
Current liabilities	398	359	652	871	1,051	1,124	1,154	1,231
Total liabilities and equity	**2,672**	**6,759**	**7,215**	**7,645**	**8,958**	**10,060**	**11,122**	**12,268**
Cash	113	1,746	1,013	525	342	516	654	664
Other current assets	1,298	1,654	2,108	2,632	3,180	3,657	4,132	4,580
Total fixed assets	1,255	1,598	2,645	3,485	4,434	4,884	5,334	6,022
Investments	7	1,760	1,446	1,000	1,000	1,000	1,000	1,000
Miscellaneous expenditure	—	2	2	2	2	2	2	2
Total assets	**2,672**	**6,759**	**7,215**	**7,645**	**8,958**	**10,060**	**11,122**	**12,268**
Free cash flow								
Operating cash flow, excl. working capital	194	655	846	1,223	1,730	2,321	3,097	3,746
Working capital changes	(60)	(358)	(230)	(306)	(368)	(404)	(444)	(371)
Capital expenditure	(342)	(550)	(1,243)	(1,175)	(1,452)	(1,029)	(1,071)	(1,367)
Income from investments	5	31	179	225	205	205	214	219
Free cash flow	**(204)**	**(223)**	**(448)**	**(33)**	**115**	**1,093**	**1,797**	**2,227**
Ratios (%)								
Debt/equity	57	18	16	11	15	14	10	4.5
Net debt/equity	55	(12)	1	3	11	9	4	(2)
ROAE (%)	—	11.5	12.5	17.4	20.2	23.9	29.1	31.7
ROACE (%)	**—**	**5.0**	**5.3**	**7.3**	**9.0**	**11.2**	**14.2**	**15.7**

Source: Company, Kotak Institutional Equities estimates.

Industrials

BHEL.BO, Rs1892	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	2,500
52W High -Low (Rs)	2925 - 1073
Market Cap (Rs bn)	926.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	172.4	207.0	251.0
Net Profit (Rs bn)	24.1	31.5	40.2
EPS (Rs)	49.3	64.3	82.1
EPS gth	*44.1*	*30.4*	*27.7*
P/E (x)	38.4	29.4	23.0
EV/EBITDA (x)	20.6	15.9	12.4
Div yield (%)	0.6	0.8	1.0

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.7	-	-
FIIs	19.5	2.3	(0.2)
MFs	4.9	3.4	0.9
UTI	-	-	(2.5)
LIC	1.8	1.1	(1.4)

BHEL: Current spurt in order booking may not be sustainable while slower-than-expected execution may result in missing near-term growth projections

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- **XIth Plan-related ordering activity may be reaching a fag end, order booking may slow down**
- **Slower-than-expected execution may lead to a miss of near-term growth projections for BHEL**
- **Strong private sector investments in power generation may add to challenges**
- **Actual payout for Sixth Pay Commission may be postponed to as far as FY2011E; we project a 30% rise in wage costs in FY2010E**
- **Maintain estimates and target price (at Rs2,500), reiterate ADD rating**

We highlight that ordering activity has been exceptionally strong over the past year with order booking potentially exceeding Rs450 bn for FY2008E for BHEL. Thus ordering activity for XIth Plan-related capacity addition is close to completion and there may be a slowdown in ordering activity for BHEL. We believe in spite of strong order book, slower-than-expected execution may lead to a miss of near-term growth projections for BHEL. Strong activity in terms of private sector power projects construction, with projects of over 13 GW already under construction apart from three UMPPs, also highlights market share and margin challenges for BHEL. We estimate a 30% rise in wage costs for BHEL in FY2010E, related to the Sixth Pay Commission report and build provisions for arrears till then; however, actual payout may be postponed to as far as FY2011E. We retain our estimates, DCF-based target price of Rs2,500/share and ADD rating on the stock. Key risks include (1) possible deterioration in competitive position, (2) competing domestic manufacturer, (3) potential slip-ups in execution, (4) larger role of the private sector in India's power sector. Key catalysts include 1) negotiated order for 800MW supercritical units from NTPC and 2) strong execution resulting in robust near-term earnings growth.

XIth plan-related ordering activity may be reaching a fag end, order booking may slow down

We highlight that ordering activity has been exceptionally strong over the past year with order booking potentially exceeding Rs450 bn for the full year FY2008E (Exhibit 1). We estimate that as a result of strong ordering activity orders for projects for a total of 69 GW have already been placed with projects under various stages of execution for implementation during the XIth Plan (Exhibit 2). Total projects under consideration for implementation during the XIth Plan add up to 87 GW (including private sector projects that were not originally included in the government estimates of 78 GW of capacity addition). Thus ordering activity for the XIth Plan-related capacity addition is close to completion and there may be a slowdown in ordering activity for BHEL (Exhibits3-4). Key projects where orders have not been placed as yet are highlighted in Exhibit 5.

Key orders awaited for BHEL are (1) Barh (1,320 MW) and North Karanpura (1,320 MW) from NTPC, (2) Krishnapatnam (2X800 MW) order from APGENCO, (3) progress on super critical projects where BHEL has offered to take equity stakes, such as Koradi (Maharashtra), OBRA (UP) and Tuticorin (Tamil Nadu) and (4) bulk order for supercritical units from NTPC that may include units for the XIIth Plan requirements such as Lara and Darlipali.

Slower than expected execution may lead to a miss of near-term growth projections for BHEL

There have been reports of long delays in execution of the Xth Plan projects and if the execution is slower than expected for the XIth Plan projects as well, then BHEL would find it difficult to meet near-term growth projections. We highlight our as well as consensus execution estimates for FY2008-10E (Exhibit 6).

Flash results in this week would be keenly watched for execution and margins

BHEL is expected to release its flash results on April 3, 2008 and we believe BHEL results would be keenly watched for execution growth, margins, as well as any clarity on Pay Commission-related provisions. BHEL has reported 17.7% execution growth in 9MFY08 on a yoy basis with a flat EBITDA margin of 16.5%.

Strong private sector investments in generation may mark the shift of investment mix to private sector from states, and add to challenges for BHEL

We highlight that there is strong activity in terms of private sector power projects construction and projects of about 13 GW are already under construction, apart from three UMPPs that have been awarded to private sector players (Exhibit 7). Strong investments by private sector would help alleviate the power deficit situation prevailing in various parts of the country and may also catalyze state governments to withdraw incremental investments from power generation sector towards other social objectives. Stronger private sector investments in power generation adds to challenges for BHEL in terms of market share and margins because (1) most of the capacity addition by the private sector is based on imported equipment from Chinese vendors, giving them an opportunity to build a stronger presence in India and (2) competitive pricing for imported equipment assumes importance in the evolving scenario of competitively determined tariffs.

Actual payout for Sixth Pay Commission may be postponed to as far as FY2011E, we project 30% rise in wage costs in FY2010E

We estimate a 30% rise in wage costs for BHEL in FY2010E relating to implementation of Sixth Pay Commission recommendations and build provisions for arrears till then since the hike is effective January 1, 2007. Apart from a one-time 30% rise in wage costs in FY2010E, we have also assumed wage costs for BHEL to increase at a rate of 12% for FY2008E and FY2009E each. We highlight that the Sixth Pay Commission-related payout may finally become effective as late as FY2011E only (Fifth Pay Commission-related revision was effective from 1.1.1997 and actual payout happened in FY2001, accounting for arrears of 13 quarters, Exhibits 8-9). We believe the total employee cost for BHEL is unlikely to increase by 40% (a number widely quoted in the press in relation to Sixth Pay Commission) as (1) 40% may be the increase across a few scales, however, salary averaged for all employees is unlikely to increase by same ratio and (2) perks and several other employee cost components such as maintenance of residential buildings, education allowance, staff insurance, and medical and welfare do not increase in same proportion. We also observe that per employee wage cost of BHEL has risen at a CAGR of 13.2% during FY2002-07 highlighting (1) some increments passed on to employees to adjust for inflation, (2) promotions, (3) one-off hikes etc, and (4) reduction in number of employees, a major chunk of which may have constituted lower level employees leaving higher proportion of better-paid employees in the system.

Maintain estimates and target price unchanged at Rs2,500 reiterate ADD rating

We retain our estimates, DCF-based target price of Rs2,500/share and ADD rating on the stock.

Key risks include (1) possible deterioration in competitive position with foreign vendors winning significant orders in India particularly from the private sector, (2) clear possibility of competing domestic manufacturer, (3) potential slip-ups in the XIth and XIIth Plan execution that would reduce market opportunity, (4) larger role that private sector is likely to have in power generation capacity addition in future as compared to the past. Key catalysts include 1) negotiated order for 800MW supercritical units from NTPC and 2) strong execution resulting in robust near-term earnings growth.

Exhibit 1: Order inflows have been very strong in FY2008 for BHEL, potentially over Rs450 bn

List of large orders won by BHEL in FY2008

Customer/Project	Project/Location	Capacity (MW)	Configuration	Contract value (Rs bn)	Scope of work
New Caledonia	Australia	270	2X 135 MW	5.5	CCF Boiler supply
Nabinagar Rail Bijlee Company Ltd	Bihar	1,000	4X 250 MW	20.3	Main plant package
Gujarat State Petroleum Corporation GSPC	Gujarat	700	2X 350 MW	18.9	EPC Contract
Gujarat State Energy Generation Limited	Gujarat	350	1X 350 MW	10.8	EPC Contract
General Electricity Company of Libya	Libya	300	1X 300 MW	6.5	EPC Contract
Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Anpara D	Uttar Pradesh	1,000	2X 500 MW	33.9	EPC Contract
TNEB	Chennai, Tamil Nadu	600	1X 600 MW	24.8	EPC Contract
Reliance Industries	Raigad, Maharashtra	345	1X 345 MW	8.7	EPC Contract
Maithon Power Limited	Maithon, Jharkhand	1,050	2X 525 MW	21.1	EPC Contract
NTPC-TNEB joint venture	Ennore Tamil Nadu	1,000	2X 500 MW	19.9	Equipment supply
Damodar Valley Corporation	Durgapur Steels	1,000	2X 500 MW	32.5	Equipment supply
Sudan	Sudan	1,000	2X 500 MW	40.0	EPC Contract
UP Power Corporation Ltd.	OBRA	1,600	2X 800 MW	64.0	EPC Contract
UP Power Corporation Ltd.	Anpara - D	1,000	2X 500 MW	40.0	EPC Contract
Gujarat State Electricity Corporation Ltd.	Sikka	540	540 MW	20.0	EPC Contract
Damodar Valley Corporation	Koderma	1,000	2X 500 MW	32.8	Equipment supply
Maheshwar Hydro Electric Power Project	Madhya Pradesh	400	400 MW	5.7	Electromechanical component
APGENCO	Rayalseema	210	210 MW	6.1	EPC Contract
GVK Power and Infrastructure	Srinagar hydro power project	330	330 MW	4.5	Electromechanical component
National Hydro Power Corporation	Teesta	270	270 MW	2.8	Electromechanical component
Haryana Power Generation Corporation Ltd.	Jhajjar, Haryana	1,500	3 X 500 MW	29.0	Equipment supply
Total		**15,465**		**447.6**	

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Orders for projects of about 69 GW have already been placed

Summary of XIth Plan projects and projects for which power equipment orders have been placed already

Total projects in the XIth Plan (FY2007-08 to FY2011-12), (MW)

	Thermal				Hydro	Nuclear	Total
	Coal						
	Supercritical	Subcritical	Total	Gas			
Centre	6,600	20,700	**27,300**	750	9,955	3,160	**41,165**
NTPC	6,600	12,200	18,800	-	1,920	-	**20,720**
NHPC	-	-	-	-	5,103	-	**5,103**
DVC	-	6,500	6,500	-	-	-	**6,500**
Others	-	2,000	2,000	750	2,932	3,160	**8,842**
State	2,400	21,075	23,475	612	2,637	-	**26,724**
Private	660	14,844	15,504	752	3,263	-	**19,519**
Total	**9,660**	**56,619**	**66,279**	**2,114**	**15,855**	**3,160**	**87,408**

Projects in the XIth plan - Under construction, (MW)

	Thermal				Hydro	Nuclear	Total
	Coal			Gas			
	Supercritical	Subcritical	Total				
Centre	3,960	17,970	**21,930**	-	7,903	3,160	**32,993**
NTPC	3,960	11,220	15,180	-	1,400	-	**16,580**
NHPC	-	-	-	-	4,983	-	**4,983**
DVC	-	6,000	6,000	-	-	-	**6,000**
Others	-	750	750	-	1,520	3,160	**5,430**
State	1,600	15,325	16,925	612	2,107	-	**19,644**
Private	660	12,744	13,404	752	2,191	-	**16,347**
Total	**6,220**	**46,039**	**52,259**	**1,364**	**12,201**	**3,160**	**68,984**

Source: Ministry of Power, Kotak Institutional Equities estimates.

Exhibit 3: BHEL has approximately 57% market share out of the XIth Plan thermal projects already ordered

Summary of XIth plan projects with BHEL having the order

Projects in the XIth plan - Under construction with BHEL having the order, (MW)

	Thermal				Hydro	Nuclear	Total
	Coal			Gas			
	Supercritical	Subcritical	Total				
Centre	-	16,770	**16,770**	-	4,270	-	**21,040**
NTPC	-	11,220	11,220	-	1,400	-	**12,620**
NHPC	-	-	-	-	1,870	-	**1,870**
DVC	-	4,800	4,800	-	-	-	**4,800**
Others	-	750	750	-	1,000	-	**1,750**
State	1,600	13,525	15,125	520	473	-	**16,118**
Private	-	1,250	1,250	-	1,022	-	**2,272**
Total	1,600	31,545	33,145	520	5,765	-	**39,430**

Projects in the XIth plan - BHEL's market share for under construction projects

	Thermal				Hydro	Nuclear	Total
	Coal			Gas			
	Supercritical	Subcritical	Total				
Centre	-	93	**76**	-	54	-	**64**
NTPC	-	100	74	-	100	-	**76**
NHPC	-	-	-	-	38	-	**38**
DVC	-	80	80	-	-	-	**80**
Others	-	100	100	-	66	-	**32**
State	100	88	89	85	22	-	**82**
Private	-	10	9	-	47	-	**14**
Total	-	69	63	38	47	-	**57**

Source: Ministry of Power, Kotak Institutional Equities estimates.

Exhibit 4: Analysis of XIth Plan suggests near term order inflows of about 18,000 MW

Analysis of BHEL's prospects for the remaining projects to be ordered in the XIth plan

Projects in the XIth plan - To be ordered

	Thermal				Hydro	Nuclear	Total
	Coal						
	Supercritical	Subcritical	Total	Gas			
Centre	2,640	2,730	**5,370**	750	2,052	-	**8,172**
NTPC	2,640	980	3,620	-	520	-	**4,140**
NHPC	-	-	-	-	120	-	**120**
DVC	-	500	500	-	-	-	**500**
Others	-	1,250	1,250	750	1,412	-	**3,412**
State	800	5,750	6,550	-	530	-	**7,080**
Private	-	2,100	2,100	-	1,072	-	**3,172**
Total	**3,440**	**10,580**	**14,020**	**750**	**3,654**	**-**	**18,424**

Potential orders for BHEL out of the remaining projects in the XIth plan

	Thermal				Hydro	Nuclear	Total
	Coal			Gas			
	Supercritical	Subcritical	Total				
Centre	1,320	2,730	**4,050**	-	1,494	-	**5,544**
NTPC	1,320	980	2,300	-	520	-	**2,820**
NHPC	-	-	-	-	45	-	**45**
DVC	-	500	500	-	-	-	**500**
Others	-	1,250	1,250	-	929	-	**2,179**
State	800	5,075	5,875	-	119	-	**5,994**
Private	-	206	206	-	500	-	**706**
Total	**2,120**	**8,011**	**10,131**	**-**	**2,113**	**-**	**12,244**

Source: Ministry of Power, Kotak Institutional Equities estimates.

Exhibit 5: Key projects in the XIth Plan on which orders are yet to be placed

Customer/Project	Project/Location	Capacity (MW)
Badarpur-X	Delhi	980
Barh - II	Bihar	1,320
North Karanpura	Jharkhand	1,320
Bokaro Replacement	Jharkhand	500
Barsingsar Ext	Rajasthan	250
Tuticorin JV	Tamil Nadu	1,000
Tripura Gas IL&FS	Tripura	750
Talwandi Sabo	Punjab	500
Kalisindh	Rajasthan	500
Ukai Ext.	Gujarat	500
Koradi Rep & Others	Maharashtra	500
Koradi Ext.	Maharashtra	1,000
Chandrapur	Maharashtra	500
Malwa	Madhya Pradesh	1,000
Satpura	Madhya Pradesh	500
Krishnapatnam	Andhra Pradesh	800
Mettur	Tamil Nadu	500
Sagardighi Ext.	West Bengal	1,000
Santhaldih Ext. (U6)	West Bengal	250
Goindwal	Punjab	600
Bara	Uttar Pradesh	1,000
Rampur	Himachal Pradesh	412
Tehri PSS	Uttarakhand	1,000
Tapovan Vishnugarh	Uttarakhand	520
Lower Jurala	Andhra Pradesh	240
Teesta III	Sikkim	600
Total		**18,042**

Source: Ministry of Power, Kotak Institutional Equities.

Exhibit 6: Our revenue and margin estimates are lower than consensus
Key estimated numbers for BHEL, March fiscal year-ends, 2008E-2010E (Rs bn)

	FY2008E		FY2009E		FY2010E	
	Kotak	Consensus	Kotak	Consensus	Kotak	Consensus
Revenues	**208.9**	**217.3**	**252.9**	**285.4**	**306.7**	**375.2**
EBITDA	44.1	46.9	55.7	63.7	65.8	86.2
PAT	31.5	31.5	40.2	44.0	47.5	62.4
EPS (Rs)	64.3	64.4	82.1	89.7	97.1	127.5

Source: Bloomberg, Kotak Institutional Equities estimates.

Exhibit 7. Private sector has made substantal investments in power generation

Details of private sector power projects under construction

Project Name	State	Promoter	Capacity (MW)
Lanco Amarkantak TPS Ph-I	Chhattisgarh	Lanco Amarkantak	600
O.P. Jindal STPP	Chhattisgarh	Jindal Power	1,000
Mundra SEZ	Gujarat	Adani Power	2,640
Sugen CCPP (Akhakhol)	Gujarat	Torrent Power Ltd	1,128
Nagarjuna Power Project	Karnataka	NPCL	1,015
Torangallu	Karnataka	JSW Energy	600
Trombay - Expansion	Maharashtra	Tata Power	250
Jharsuguda	Orissa	Sterlite Energy	600
Ratnagiri	Maharashtra	JSW Energy	1,200
Jallipa-Kapurdi TPP	Rajasthan	JSW Energy	1,080
Anpara-C	Uttar Pradesh	Lanco	1,000
Rosa	Uttar Pradesh	Reliance Power	600
Budge-Budge III	CESC	West Bengal	250
Surat Lig.	GIPCL	Gujarat	250
Sasan UMPP	Madhya Pradesh	Reliance Power	660
Mundra UMPP	Gujarat	Tata Power	1,600
Mundra	Gujarat	Adani Power	1,320
Total			**15,793**

Source: Kotak Institutional Equities estimates.

Exhibit 8: Last salary revision was efective from 1st January 1997 and was paid out in FY2001 after protracted negotiations

BHEL salary cost details and impact of last pay commission report, March fiscal year-ends, FY1996-2007

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
No of employees	62,000	59,932	58,005	55,436	53,726	**52,225**	47,729	46,855	43,952	43,302	42,601	42,124
Wage cost (Rs mn)	8,151	9,525	12,416	11,330	11,330	**14,624**	14,446	15,046	16,395	16,504	18,785	23,690
Wage cost per employee ('000s)	1.3	1.6	2.1	2.0	2.1	**2.8**	3.0	3.2	3.7	3.8	4.4	5.6
% growth in wage cost		20.9	34.7	(4.5)	3.2	**32.8**	8.1	6.1	16.2	2.2	15.7	27.5
Actual Arrears (Rs mn)						7,078						
Actual arrears as % of base year salary						**62.5**						
Actual provisions accumulated (Rs mn)						5,140						

Source: Company data, Kotak Institutional Equities.

Exhibit 9: Our estimates assume a 30% pay hike effective in FY2010E, with 9 quarters of arrears versus 13 quarters of arrears in the case of last pay commission report

Snapshot of our estimates for wage cost hike from Sixth Pay Commission as well as associated provisions

	2007	2008	2009	2010
No of employees	42,124	42,124	42,124	42,124
Wage cost	(23,690)	(26,532)	(29,716)	(38,631)
Per employee wage cost	562	630	705	917
Growth in per employee wage cost		12	12	30
Provisions		(3,200)	(3,500)	(4,500)
Cumulative provisions				(11,200)

Source: Company data, Kotak Institutional Equities.

Automobiles

MRTI.BO, Rs815	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,100
52W High -Low (Rs)	1252 - 700
Market Cap (Rs bn)	235.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	146.5	180.9	224.6
Net Profit (Rs bn)	15.6	19.2	23.8
EPS (Rs)	54.0	66.3	82.3
EPS gth	*31.4*	*22.6*	*24.2*
P/E (x)	15.1	12.3	9.9
EV/EBITDA (x)	8.8	7.4	5.8
Div yield (%)	0.6	0.6	0.6

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	54.2	-	-
FIIs	15.8	0.4	(0.1)
MFs	7.6	1.2	0.6
UTI	-	-	(0.6)
LIC	12.0	1.7	1.2

Maruti Suzuki: March sales growth lower than expected; maintain BUY, reduce target price to Rs1,100/share

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- **Maruti's March sales not too exciting despite cut in excise on small cars—FY2008 volumes grow 13% yoy**
- **We believe sales growth will be stronger in FY2009E led by reduced excise duty, lower income taxes and implementation of the Pay Commission recommendations**
- **We lower our volumes estimates 9% for FY2009E as well as FY2010E**
- **Lower our target price to Rs1,100/share (Rs1,240/share previously)—maintain BUY on the stock.**

Maruti's March volumes were lower 2% yoy—not too exciting despite the recent excise cut on small cars. We believe the sales will pick up in FY2009 on account of (1) impact of the cut in excise duty (2) higher disposable income due to lower taxes and (3) implementation of the Sixth Pay Commission recommendations. We lower our volumes estimates for FY2009E and FY2010E by 9.1% and 9.3%, respectively. We make adjustments to our model to factor higher raw material costs. We estimate lower EBITDA margins of 17.2% and 16.4% (18.5% and 17.7% previously) for FY2009E and FY2010E. We lower our target price to Rs1,100/share (Rs1,240/share previously)—maintain BUY on the stock.

March volumes decline 2% yoy—FY2008 volumes grow 13% yoy

Maruti's volumes for Mar '08 declined 2% yoy—lower than our expectations despite the recent cut in excise duty. We note that the mid-size car segment grew sharply as Maruti launched its new sedan—"Dzire" as a replacement to the Esteem. Maruti's FY2008 volumes grew 13% yoy led mainly by increased sales of compact cars and mid-size cars. During the year, the company launched two new models (SX4 and Dzire) in the mid-size car segment which resulted in a sharp 66% yoy increase in volumes. The compact car segment grew 13.4% yoy in FY2008 led by increased sales of Swift. Export volumes grew 35% for the year.

Sales growth to be stronger in FY2009

We believe the sales growth will be stronger in FY2009 especially in the compact car segment on account of (1) impact of excise duty cuts resulting in lower prices, (2) higher disposable income in the hands of people on account of lower income tax and (3) implementation of the Sixth Pay Commission recommendations. Besides, the recent launch of Dzire will boost prospects in the mid-size car segment. Maruti is currently facing capacity constraints—we note Swift currently has a waiting period of four-six weeks. The additional capacity will be on-stream by mid-FY2009. We lower our volumes estimates for FY2009E and FY2010E by 9.1% and 9.3%, respectively, to 900,000 and 1.04 mn cars. We now expect FY2009E and FY2010E volumes to grow 17.7% and 16.1%, respectively.

Lower our margin assumptions to factor higher input costs

We lower our margin estimates to 17.2% and 16.4% for FY2009E and FY2010E, respectively, as input costs especially commodity prices have shot up. We believe given the rise in component costs and difficulty in raising prices would put pressure on the margins. We lower our earnings estimates for FY2009E and FY2010E to Rs82.3 and Rs88.7 (Rs93.0 and Rs100.7 previously), respectively. We lower our target price to Rs1,100/share (Rs1,240/share previously). We value Maruti at 8X FY2009E EV/EBITDA. Our revised target price of Rs1,100/share provides an upside of 35% from current levels—maintain BUY on the stock.

Maruti Suzuki India, change in estimates, March fiscal year-ends (Rs mn)

	Revised estimates			Old estimates			% change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net sales	180,917	224,558	269,350	182,148	233,571	276,864	(0.7)	(3.9)	(2.7)
EBITDA	28,704	38,716	44,068	29,156	43,317	49,083	(1.6)	(10.6)	(10.2)
PAT	19,153	23,792	25,625	19,608	26,869	29,094	(2.3)	(11.5)	(11.9)
EPS (Rs/share)	66.3	82.3	88.7	67.8	93.0	100.7	(2.3)	(11.5)	(11.9)
Sales volume (vehicles sold)	764,848	900,000	1,044,500	802,000	990,000	1,152,000	(4.6)	(9.1)	(9.3)

Source: Kotak Institutional Equities estimates.

Maruti, Valuation details, March fiscal year-ends, FY2009E basis

	EBITDA (Rs mn)	EV/EBITDA (X)	EV (Rs mn)	Value (Rs/share)	Comments
FY2009E	38,716	8.0	309,726	1,072	Based on Maruti's historical average EBITDA multiple and FY2009E EBITDA
Less: net debt			(8,195)	(28)	FY2009E net debt
Market capitalisation			**317,921**	**1,100**	
Target price				**1,100**	

Source: Company, Kotak Institutional Equities estimates.

Volume assumptions for Maruti Suzuki, March fiscal year-ends, 2007-10E (# vehicles)

Segment-wise sales (no of vehicles)	2007	2008E	2009E	2010E
Entry (A) segment	79,245	69,553	65,000	60,000
Van-Segment	83,091	89,729	90,000	95,000
Compact (B) segment	440,375	499,280	600,000	699,000
Mid-size (C) segment	29,697	49,335	60,000	85,000
MUV	3,221	3,927	5,000	5,500
Domestic	**635,629**	**711,824**	**820,000**	**944,500**
Exports	39,295	53,024	80,000	100,000
Total	**674,924**	**764,848**	**900,000**	**1,044,500**
Segment-wise sales growth(yoy %)				
Entry (A) segment	(11.0)	(12.2)	(6.5)	(7.7)
Van-Segment	24.0	8.0	0.3	5.6
Compact (B) segment	31.5	13.4	20.2	16.5
Mid-size (C) segment	(7.3)	66.1	21.6	41.7
MUV	(19.5)	21.9	27.3	10.0
Domestic	**20.6**	**12.0**	**15.2**	**15.2**
Exports	13.0	34.9	50.9	25.0
Total	**20.1**	**13.3**	**17.7**	**16.1**

Source: SIAM, Kotak Institutional Equities estimates.

Retail

TITN.BO, Rs1072	
Rating	BUY
Sector coverage view	#N/A
Target Price (Rs)	1,300
52W High -Low (Rs)	1795 - 808
Market Cap (Rs bn)	47.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	21	30	45
Net Profit (Rs bn)	1.0	1.2	1.7
EPS (Rs)	22.6	26.2	38.7
EPS gth	*22.3*	*16.3*	*49.2*
P/E (x)	47.5	41.0	27.7
EV/EBITDA (x)	24.6	22.5	16.6
Div yield (%)	0.5	0.7	0.9

Titan Industries: Revising gold price and exchange rate assumptions for FY2008; reiterate BUY

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- **We revise our average gold price and exchange rate assumptions for the recent fiscal ended Mar 31**
- **Mixed feedback from franchisees on jewelry demand impact due to rise in gold price**
- **We make marginal changes in our estimates, reiterate BUY with a target price of Rs1,300**

We marginally revise our gold price and currency exchange rate assumptions for the full year closure, taking into account the high volatility in gold price post our initiating report. We moderately revise downwards our gold price assumption by 1% for FY2008-10E. We revise our revenue estimates for FY2008-10E downwards by about 0.7% and net income estimates for FY2008E, FY2009E and FY2010E downwards by 0.2%, 0.3% and 1.2%, respectively. Our recent discussions with a few of the 'Tanishq' franchisees provide mixed feedback about the impact on jewelry demand due to the recent steep increase in gold prices recently. We maintain our BUY on the stock and a 12-month DCF-based target price of Rs1,300.

Marginally revising gold price assumptions, revenues and net income estimates

We marginally revise our average gold price and currency exchange rate assumptions for the full year closure, taking into account the high volatility post our initiating report. We revise our revenue estimates for FY2008-10E downwards by about 0.7% and net income estimates for FY2008E, FY2009E and FY2010E downwards by 0.2%, 0.3% and 1.2%, respectively. We highlight that the gold price has fluctuated widely over the past month (see Exhibit 5). We believe the sharp decline in gold price over the past ten days if continued in the next quarter can boost jewelry demand in 1QFY09E. We highlight that a small drop of 4% in gold price in 1QFY08 resulted in 64% growth in jewelry demand in India.

Mixed feedback from ‘Tanishq’ franchisees on demand impact due to gold price fluctuation

Our interaction with few 'Tanishq' franchisees from various regions provided a mixed feedback on the impact on jewelry demand due to high volatility in gold prices. While stores in South India faced a slack in jewelry demand, few of the North Indian stores witnessed similar or even higher demand compared to previous year. However, the franchisees re-affirmed our earlier view that high volatility may impact demand in the short run, however, in the long run as prices stabilize (even at higher levels) demand for jewelry will bounce back.

Studded jewelry continues to be the main focus

Feedback from the franchisees reiterated the strong demand for studded jewelry as compared to plain gold jewelry. We note that in times of rising gold prices, demand for studded jewelry has shown a very high demand increase. The store owners also continue to promote studded jewelry as it generates higher revenues and margins for them. We highlight that industry sources expect the demand for studded jewelry, especially diamond-studded jewelry to grow at 30-40% CAGR over the next 3-5 years. We model Titan's diamond-studded jewelry revenues to grow at a CAGR of 47% over FY2008-11E and account for 33% of total jewelry revenues in FY2011E from 30% in FY2008E.

Maintain DCF-based target price of Rs1,300 and BUY rating

We maintain our 12-month DCF-based target price of Rs1,300 and BUY rating on the stock. At current price the stock offers 22% upside to our target price.

Exhibit 1: Forecasts and valuation (consolidated)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	14,398	1,529	812	18.6	42.2	57.8	31.4
2007	20,906	2,013	1,001	22.6	34.8	47.5	24.5
2008E	29,793	2,169	1,161	26.2	29.4	41.0	22.5
2009E	45,441	2,935	1,716	38.7	34.6	27.7	16.6
2010E	60,259	3,746	2,253	50.7	35.0	21.1	13.0
2011E	76,420	4,885	2,941	66.2	34.6	16.2	9.8
2012E	91,627	6,164	3,754	84.6	33.3	12.7	7.3

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Change in consolidated estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Difference (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Financials									
Revenue	29,793	45,441	60,259	29,980	45,753	60,680	(0.6)	(0.7)	(0.7)
EBITDA	2,169	2,935	3,746	2,172	2,943	3,785	(0.1)	(0.3)	(1.0)
EBITDA margin (%)	7.3	6.5	6.2	7.2	6.4	6.2	—	—	—
Adjusted net profit	1,161	1,716	2,253	1,163	1,722	2,280	(0.2)	(0.3)	(1.2)
Diluted EPS (Rs)	26.2	38.7	50.7	26.2	38.8	51.4	(0.2)	(0.3)	(1.2)
Gold assumptions									
Gold price (US$/oz)	765	1,056	1,162	773	1,067	1,173	(1.0)	(1.0)	(1.0)
Gold price (Rs/gm)	991	1,326	1,419	1,000	1,339	1,433	(0.9)	(0.9)	(0.9)

Source: Kotak Institutional Equities estimates.

Exhibit 3: Profit model, balance sheet, cash model (consolidated) for Titan Industries, 2006-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model							
Total income	14,398	20,906	29,793	45,441	60,259	76,420	91,627
EBITDA	**1,529**	**2,013**	**2,169**	**2,935**	**3,746**	**4,885**	**6,164**
Interest (expense)/income	(248)	(212)	(200)	(176)	(149)	(130)	(103)
Depreciation	(200)	(260)	(294)	(317)	(338)	(358)	(376)
Other income	42	(47)	20	35	40	40	40
Pretax profits	**1,123**	**1,494**	**1,695**	**2,477**	**3,299**	**4,437**	**5,724**
Tax	(182)	(404)	(467)	(723)	(1,013)	(1,417)	(1,877)
Deferred taxation	56	27	8	(7)	(33)	(89)	(114)
Profit after tax	**997**	**1,117**	**1,236**	**1,746**	**2,253**	**2,931**	**3,734**
Associate income / (loss)	(185)	(116)	(75)	(30)	—	10	20
Adjusted net profit	**812**	**1,001**	**1,161**	**1,716**	**2,253**	**2,941**	**3,754**
Diluted earnings per share (Rs)	**18.6**	**22.6**	**26.2**	**38.7**	**50.7**	**66.2**	**84.6**
Balance sheet							
Total equity	1,966	3,371	4,169	5,392	7,073	9,390	12,469
Deferred taxation liability	243	181	172	180	213	301	415
Total borrowings	3,094	2,478	2,224	1,924	1,574	1,474	946
Current liabilities	3,632	5,958	7,155	10,398	13,399	15,567	18,300
Total liabilities and equity	**8,934**	**11,988**	**13,720**	**17,893**	**22,259**	**26,733**	**32,131**
Cash	386	510	924	682	554	1,319	3,603
Other current assets	6,042	8,402	9,632	13,944	18,325	21,984	25,103
Total fixed assets	2,007	2,717	2,923	3,056	3,168	3,209	3,183
Miscl. exp. not written off	219	42	—	—	—	—	—
Investments	280	316	241	211	211	221	241
Total assets	**8,934**	**11,988**	**13,720**	**17,893**	**22,259**	**26,733**	**32,131**
Free cash flow							
Operating cash flow, excl. working capital	1,186	1,544	1,522	2,035	2,584	3,338	4,184
Working capital changes	(195)	(188)	(115)	(1,199)	(1,459)	(1,542)	(438)
Capital expenditure	(431)	(983)	(500)	(450)	(450)	(400)	(350)
Investments	(79)	(265)	—	—	—	—	—
Other income	96	50	20	35	40	40	40
Free cash flow	**561**	**373**	**907**	**387**	**675**	**1,396**	**3,396**
Ratios (%)							
Debt/equity	140.1	69.8	51.2	34.5	21.6	15.2	7.3
Net debt/equity	122.6	55.4	29.9	22.3	14.0	1.6	(20.6)
RoAE	42.2	34.8	29.4	34.6	35.0	34.6	33.3
RoACE	**19.7**	**20.6**	**20.8**	**26.2**	**28.8**	**30.2**	**30.6**

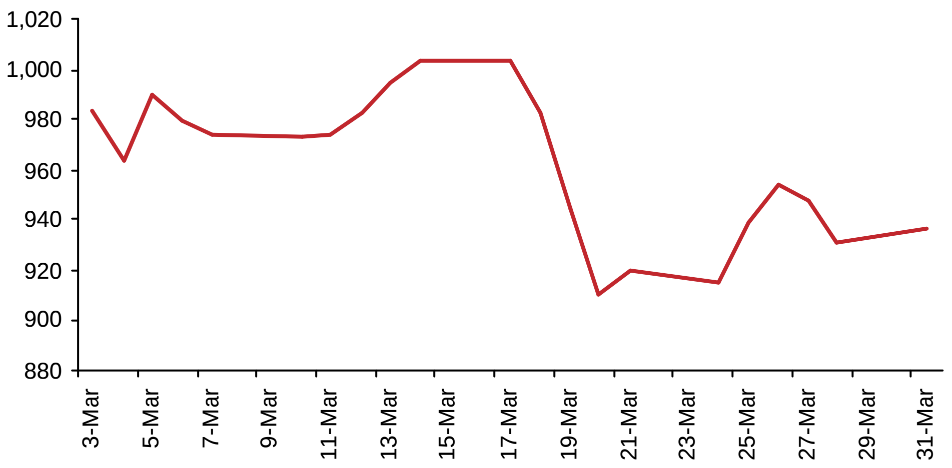
Source: Company data, Kotak Institutional Equities estimates.

Exhibit 4: Financial assumptions, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E
Jewelry							
Revenues (Rs mn)	**7,896**	**12,903**	**20,059**	**33,344**	**44,987**	**57,828**	**69,711**
EBITDA (Rs mn)	491	913	1,103	1,760	2,300	2,998	3,927
EBITDA margin (%)	6.2	7.1	5.5	5.3	5.1	5.2	5.6
Volumes ('000 pcs)							
Jewelry	570	720	972	1,147	1,377	1,652	1,950
Coins	1,427	1,925	2,502	3,003	3,603	4,252	4,932
Average realisation (Rs/pc)							
Jewelry	11,530	14,325	16,703	23,552	26,613	28,742	29,605
Coins	926	1,343	1,526	2,106	2,316	2,432	2,432
Average gold price							
US$/oz	504	674	765	1,056	1,162	1,220	1,220
Rs/gm	723	968	991	1,326	1,419	1,476	1,476
Diamond share							
Share of diamond jewelry (%)	25	33	33	37	40	40	40
Watches							
Revenues (Rs mn)	**6,198**	**7,408**	**8,711**	**10,356**	**12,042**	**13,843**	**15,622**
EBITDA (Rs mn)	1,138	1,191	1,366	1,636	1,939	2,256	2,562
EBITDA margin (%)	18.4	16.1	15.7	15.8	16.1	16.3	16.4
Volumes ('000 pcs)							
Watches	8,336	8,964	10,019	11,364	12,642	14,045	15,301
Table clocks	272	149	178	205	226	242	261
Average realisation (Rs/pc)							
Watches (produced)	716	796	828	861	896	922	950
Table clocks	413	448	462	471	480	485	490
Eyewear							
Revenues (Rs mn)	**129**	**253**	**493**	**1,237**	**2,654**	**4,163**	**5,604**
EBITDA (Rs mn)	40	99	(9)	(47)	(6)	231	327
EBITDA margin (%)	30.7	39.2	(1.7)	(3.8)	(0.2)	5.5	5.8
Sunglasses							
Volume ('000 pcs)	232	380	494	618	772	927	1,066
Average realisation (Rs/pc)	558	665	731	804	885	956	1,003
Titan Eye+							
No. of stores	—	1	12	52	92	122	152
Annual revenue per store (Rs mn)	—	—	22	25	28	31	33

Source: Company, Kotak Institutional Equities estimates.

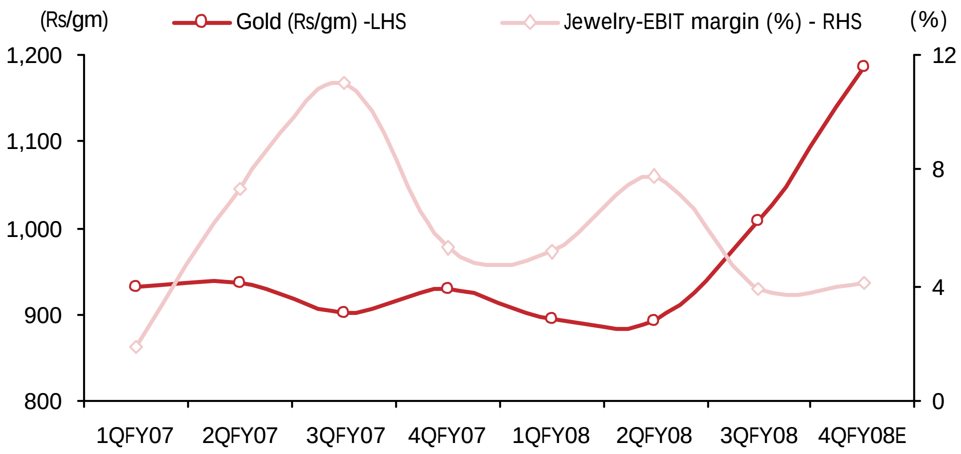
Exhibit 5: Gold price (US$/Oz), March 2008



Source: Bloomberg.

Exhibit 6: Jewlery margins are inversely related to gold prices

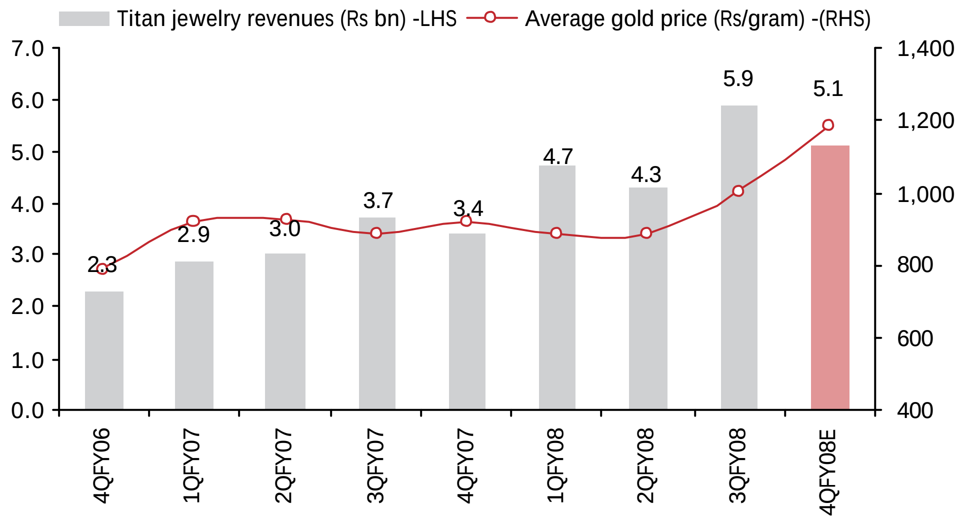
Titan, quarterly gold prices and jewelry EBIT margin



Source: Company, Bloomberg.

Exhibit 7: We expect Titan's 4QFY08E revenues to be marginally impacted due to high gold prices

Average gold price and Titan's revenues



Source: Bloomberg, company.

Automobiles

Sector coverage view	Attractive

		Price, Rs	
Company	**Rating**	**1-Apr**	**Target**
Tata Motors	BUY	627	940
Maruti Suzuki	BUY	815	1,100
Mah & Mah	BUY	650	915

Mar '08 sales: Early signs of revival in CV volumes, 2-wheelers grow led by excise cut

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- **Hero Honda: Mar '08 volumes up 15.4% yoy; volume growth flat for FY2008**
- **TVS Motors: Motorcycle volumes continue to disappoint**
- **Maruti: Domestic volumes flat in Mar '08; FY2008 volumes up 12% led by strong sales in compact and mid-size cars**
- **Tata Motors: Early signs of revival in CV volumes; passenger car sales continue to decline**
- **M&M: UV volumes grow marginally in Mar '08; tractors volumes grow 7.7%**

2-wheeler volumes for Hero Honda were up, led by the recent cut in excise duty while TVS Motors continues to bleed. Passenger car volumes failed to grow as per expectations despite the reduction in excise duty on small cars. However, M&HCV volumes have started showing early signs of a revival in the CV industry. Tata Motors' M&HCV volumes were up 17% yoy while LCV volumes continued to remain strong. We believe that 2-wheeler growth will continue to be sluggish as availability of credit is an issue while passenger car growth will be strong on account of rise in disposable incomes and lower taxes. We continue to believe that the CV cycle to turn positive in FY2009 resulting in improved volume growth for Tata Motors.

Hero Honda: Mar '08 volumes up 15.4% yoy; volume growth flat for FY2008

Hero Honda's 2-wheeler volumes were up 15.4% yoy and 20.8% mom in Mar'08. We believe that volumes were boosted by a reduction in excise duties on 2-wheelers in the recent budget. Hero Honda's 2-wheeler volumes were flat for FY2008 as motorcycle sales were affected by a slowdown in the industry. We expect motorcycle volume growth to be muted as financiers continue to adopt a strict stance and are reluctant to financer 2-wheelers.

TVS Motors: Motorcycle volumes continue to disappoint

TVS Motors continues to disappoint as motorcycle volumes were down 16.8% yoy in Mar'08. Overall 2-wheeler volumes were lower by 8.7% for the month. Scooty sales were down 21.5% yoy for the month. We note that TVS Motors was hit the hardest by the slowdown in the 2-wheeler industry as motorcycle volumes declined 33.2% for FY2008. TVS plans to launch an upgraded version of Apache RTR in April'08 so as to boost volume growth. We believe that TVS will continue to bleed amidst competition from stronger peers Hero Honda and Bajaj Auto.

Maruti: Domestic volumes flat in Mar '08; FY2008 volumes up 12% led by strong sales in compact and mid-size cars

Maruti's domestic volumes remained flat on a yoy basis but grew 8.6% on mom basis in Mar'08. Export volumes declined 18.6% yoy during the month. Overall sales were lower 2% yoy. We note that compact car sales declined 11% yoy in Mar'08 despite the recent cut in excise duty on compact cars. The launch of Dzire resulted in a sharp increase in the mid-size segment volumes. Maruti's volumes grew 13.3% yoy for FY2008—domestic volumes grew 12% while exports grew 35% for the year. The growth in Maruti's volumes was led by increased sales of compact cars and the sharp increase in mid-size car sales. The surge in mid-size car volumes was led by the launch of two new models—SX4 and Dzire—during the year. We believe that the sales growth would be stronger in FY2009 as the reduction of excise duty on small cars, rise in disposable income due to lower taxes and the implementation of the Pay Commission recommendations would likely result in increased demand for cars. We continue to be positive on Maruti.

Tata Motors: Early signs of revival in CV volumes; passenger car sales continue to decline

Tata Motors reported M&HCV volume growth of 16.8% yoy and 22.2% mom in Mar'08. Meanwhile LCV volumes continue to grow strongly at 17.7% yoy. UV volumes grew 6.3% during the month. However, passenger car volumes were down 10.7% yoy as sales of Indica continued to plummet. Tata Motors' M&HCV volumes declined 4% yoy for FY2008 as a whole while LCV volumes grew 17% for the year. While UV volumes grew a marginal 2%, passenger car volumes were lower by 8.3% in FY2008. M&HCV volumes were lower on account of a slowdown in the CV industry while passenger car sales were lower on account of lack of newer models. We believe that these are early signs for the revival of the CV cycles as CV volumes have been rising for the past two months. We expect LCV volume growth to be strong led by the continued success of 'Ace' while the launch of 'Sumo Grande' will likely boost UV volumes.

M&M: UV volumes grow marginally in Mar'08; tractors volumes grow 7.7%

M&M's UV volumes grew marginally at 1% yoy in Mar'08 while it grew 22.3% on a mom basis. Logan volumes grew 11.5% on a mom basis. M&M's tractor sales were up by 7.7% yoy in Mar'08—we note that tractor sales have been sluggish since the last few months. On a full year basis, UV volumes grew 16.7% for FY2008 while tractor volumes were down 3.7%. We believe that the UV growth will continue to remain strong in FY2009 as rising disposable incomes will likely boost demand. Meanwhile, we expect tractor sales to be sluggish in FY2009.

Reported monthly sales of top two-wheeler companies - Mar 2008

	Mar-08	Mar-07	yoy %	Feb-08	mom %	FY2008	FY2007	yoy %
TVS Motor								
Motorcycles	60,908	73,239	-16.8%	46,565	30.8%	617,740	925,123	-33.2%
Scooty	15,942	20,297	-21.5%	14,126	12.9%	207,680	258,967	-19.8%
Moped	40,195	34,671	15.9%	34,544	16.4%	340,717	344,013	-1.0%
Total 2-Wheelers	**117,045**	**128,207**	**-8.7%**	**95,235**	**22.9%**	**1,288,973**	**1,528,103**	**-15.6%**
Hero Honda								
Total 2-Wheelers	320,594	277,915	15.4%	265,431	20.8%	3,337,142	3,336,756	0.0%

Source: Company, Kotak Institutional Equities.

4-wheelers Mar 2008 sales performance

	Mar-08	Mar-07	yoy %	Feb-08	mom %	FY2008	FY2007	yoy %
Tata Motors								
M&HCV	20,639	17,673	16.8%	16,894	22.2%	166,037	172,889	-4.0%
LCV	15,354	13,047	17.7%	14,424	6.4%	147,334	125,792	17.1%
Domestic CV sales	35,993	30,720	17.2%	31,318	14.9%	313,371	298,681	4.9%
CV Exports	4,713	4,358	8.1%	3,122	51.0%	39,463	35,096	12.4%
Total CV	**40,706**	**35,078**	**16.0%**	**34,440**	**18.2%**	**352,834**	**333,777**	**5.7%**
UV	6,617	6,227	6.3%	5,399	22.6%	50,299	49,307	2.0%
Passenger Cars	19,172	21,474	-10.7%	14,342	33.7%	179,268	195,408	-8.3%
Total	**66,495**	**62,779**	**5.9%**	**54,181**	**22.7%**	**582,401**	**578,492**	**0.7%**
Mahindra & Mahindra								
UVs	15,366	15,210	1.0%	12,563	22.3%	148,759	127,857	16.3%
LCVs	1,091	1,011	7.9%	719	51.7%	10,402	8,652	20.2%
Logan	3,068	-		2,751	11.5%	25,901	-	
Tractors	8,403	7,805	7.7%	6,522	28.8%	98,710	102,536	-3.7%
3 Wheelers	3,602	3,620	-0.5%	2,347	53.5%	33,926	33,672	0.8%
Total	**31,530**	**27,646**	**14.0%**	**24,902**	**26.6%**	**317,698**	**272,717**	**16.5%**
Maruti Udyog						-	-	
Entry (A) segment	6,353	6,141	3.5%	5,745	10.6%	69,553	79,245	-12.2%
Van-segment	8,041	8,661	-7.2%	7,268	10.6%	89,729	83,091	8.0%
Compact (B) segment	41,869	47,068	-11.0%	44,059	-5.0%	499,280	440,375	13.4%
Mid-size (C) segment	7,536	2,414	212.2%	1,958	284.9%	49,335	29,697	66.1%
MUV	622	272	128.7%	281	121.4%	3,927	3,221	21.9%
Domestic	**64,421**	**64,556**	**-0.2%**	**59,311**	**8.6%**	**711,824**	**635,629**	**12.0%**
Exports	5,875	7,216	-18.6%	4,511	30.2%	53,024	39,295	34.9%
Total	**70,296**	**71,772**	**-2.1%**	**63,822**	**10.1%**	**764,848**	**674,924**	**13.3%**

Source: Company, Kotak Institutional Equities.

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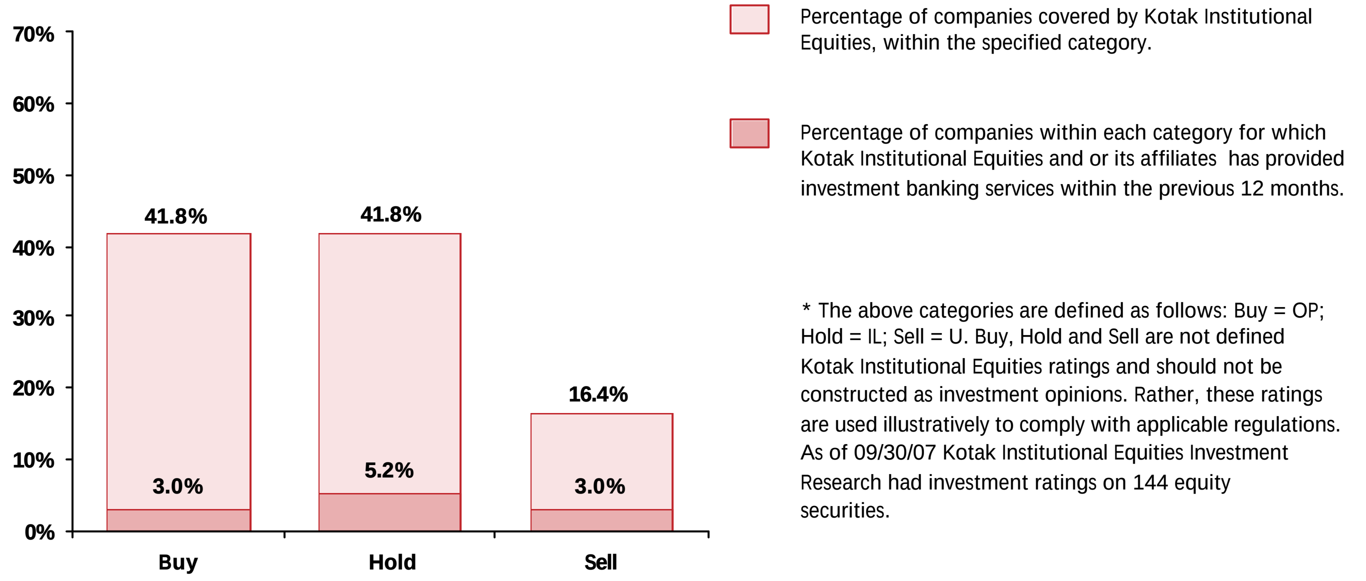
Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* 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 09/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

Source: Kotak Institutional Equities. As of September 30, 2007

Ratings and other definitions/identifiers

New 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.

Old rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.
IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.
U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

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