kotak® Institutional Equities

INDIA DAILY

April 28, 2008

EQUITY MARKETS

		Change, %		
India	**25-Apr**	**1-day**	**1-mo**	**3-mo**
Sensex	17,126	2.4	4.6	(5.7)
Nifty	5,112	2.2	3.4	(3.1)
Global/Regional indices				
Dow Jones	12,892	0.3	5.5	4.1
Nasdaq Composite	2,423	(0.2)	7.2	3.1
FTSE	6,091	0.7	7.0	5.2
Nikkie	13,968	0.8	9.0	6.7
Hang Seng	25,679	0.6	10.3	6.8
KOSPI	1,826	0.1	7.3	12.2

Value traded - India

			Moving avg, Rs bn	
	25-Apr		**1-mo**	**3-mo**
Cash (NSE+BSE)	200.6		187.3	191.4
Derivatives (NSE)	338.3		666.3	390
Deri. open interest	548.6		671	894

Forex/money market

		Change, basis points		
	25-Apr	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.1	0	24	76
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	(1)	49	77

Net investment (US$mn)

	24-Apr		**MTD**	**CYTD**
FIIs	(130)		339	(2,690)
MFs	8		18	1,635

Top movers -3mo basis

		Change, %		
Best performers	**25-Apr**	**1-day**	**1-mo**	**3-mo**
Thomas Cook	100	(0.1)	3.7	43.6
Chambal Fert	72	8.3	37.8	41.6
Sun Pharma	1,391	3.1	11.1	40.1
Ranbaxy	479	0.9	9.2	36.5
i-Flex	1,332	(0.4)	35.3	23.7
Worst performers				
Reliance Energy	1,361	4.3	2.1	(35.1)
Reliance Cap	1,463	6.8	4.7	(29.5)
Crompton Greaves	260	(0.9)	(9.8)	(29.1)
BEL	1,205	0.2	9.0	(29.0)
ICICI Bank	916	4.2	9.6	(28.1)

Contents

Results

Bharti Airtel: EBITDA margin below expectations; increase in MOU the highlight

ICICI Bank: Significantly higher profits aided by other income and lower expenses; retain ADD

Sterlite Industries: 4QFY08 results - Zinc-delivered surprise; retain ADD

ABB: harp margin expansion may not be sustained given commodity price pressures; change rating to REDUCE from ADD

Siemens: Besieged by several problems

Ambuja Cements: Volumes growth aided by purchased clinker; retain REDUCE rating

Titan Industries: 4QFY08 margins and PAT better than expected; revise target price to Rs1,350 maintain BUY

Corporation Bank: Higher-than-expected profits aided by extraordinary entries; retain BUY on reasonable valuations

Andhra Bank: Unexciting operational performance; retain BUY on valuations

Central Bank of India: Sharp deterioration in financials; downgrade to SELL

Mahindra Lifespace Developer: 4QFY08 revenues, PAT above estimates; indicates good progress in residential projects

Updates

Jindal Steel and Power: El Mutun receives exploration license - a step closer to commissioning of mines

Jaiprakash Associates: Cabinet clears greenfield airport policy - airport at Jevar will likely result in higher NAV

Real Estate: SEBI issues guidelines for REMFs; will likely propel more institutional investments

Economy: Against finely balanced odds, RBI?s policy rate move to set the path of interest rates

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Telecom

BRTI.BO, Rs922	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	840
52W High -Low (Rs)	1184 - 700
Market Cap (Rs bn)	1,749

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	270.3	405.9	518.3
Net Profit (Rs bn)	69.3	91.8	112.5
EPS (Rs)	35.3	46.0	55.7
EPS gth	*65.0*	*30.2*	*21.2*
P/E (x)	26.1	20.1	16.6
EV/EBITDA (x)	15.8	11.1	8.5
Div yield (%)	0.2	0.4	0.7

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	25.3	-	-
FIIs	2.2	2.2	(1.5)
MFs	-	-	(3.7)
UTI	2.1	2.0	(1.7)
LIC	4.4	3.7	-

Bharti Airtel: EBITDA margin below expectations; increase in MOU the highlight

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243

Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **9.4% qoq EBITDA growth versus our expected 10.7%; net income marginally higher due to lower taxation, depreciation costs**
- **Fine-tuned estimates and DCF valuation to Rs840 (Rs810 previously)**
- **Use the increase in stock price to sell**

Bharti reported 4QFY08 net income of Rs18.5 bn (+7.6% qoq; our estimate Rs18 bn) and EBITDA of Rs32.4 bn (+9.4% qoq; our estimate Rs32.8 bn). EBITDA margin declined by 90 bps to 41.5% but lower depreciation and continued low taxation drove net income performance (see Exhibit 1). The key positive highlight was 7% qoq increase in MOU, though a steep 210 bps qoq decline in mobile EBITDA margin (adjusted for tower rentals) and 6.7% decline in RPM raises concerns that growth may accrue at the cost of profitability. We incorporate earnings of passive infrastructure division in our model. Accordingly, we have fine tuned our FY2009E, FY2010E and FY2011E EPS estimates to Rs46, Rs55.7 and Rs67.5, respectively, from Rs45.5, Rs54.9 and Rs64.5, respectively, previously (see Exhibit 2). Our revised 12-month DCF-based target price of Rs840/share is based on consolidated cash flow of the core and passive infrastructure business (see Exhibit 3). Key upside/downside risk is nature of competition and regulations. Maintain REDUCE.

Back to the core argument of volume versus price

We believe that the street would be undoubtedly excited about the sharp increase in MOU after three quarters of a flattish trend. We concede that this would provide breathing space to the stock in the near-term. However, pricing trends are deteriorating faster than our expectations; Bharti's RPM declined 6.7% qoq to Rs0.70. The company also announced outgoing plan for 50p/min in the Delhi circle with a small upfront commitment. Lowering of tariffs can lead to further increase in usage, but increased MOUs have capex implications.

We expect price competition to deteriorate meaningfully once new operators start services armed with new licenses, spectrum and ambition to take away market share from the incumbents. We expect Bharti and other incumbents to resort to preemptive price cuts, which has already started. However, we do not rule out further price cuts since the CROCI of incumbent operators is very high (see Exhibit 4). Exhibit 5 shows the sensitivity of Bharti's valuation and earnings to various levels of pricing in the future.

We believe that likely steep increase in competition may compel the street to revisit its longer-term assumptions on profitability and returns. We have long argued against street assumptions that translate into unsustainably high profitability and returns. We stress that a revalidation of long-term assumptions may be useful since longer-term earnings and cash flows account for the bulk of Bharti's valuations (terminal value 60% of total DCF valuation). We highlight that we model average RPM of Rs0.63/min for FY2008-17E (4QFY08 RPM = Rs0.70/min) and average EPM of Rs0.23/min for FY2008-17E (4QFY08 EPM = Rs0.26/min). Not surprisingly, our assumptions translate into average ROACE of 33% and average CROCI of 26% for FY2009-17E. See Exhibit 6 for the incremental RPM/EPM trend over the past few quarters. Exhibit 7 gives the quarterly MOU/RPM/EPM trends.

Key changes to our FY2009 estimates and consolidation of tower business

Longer term EPS estimates increase by 5 to 20%. Our long term EPS estimates increase by 5 to 20% on the back of inclusion of inclusion of tower business earnings. The earnings also reflect the savings likely to be derived by Bharti from sharing of passive infrastructure (though we believe that a large part of the savings would be passed on to the customer in the form of reduces tariffs). After this consolidation, the valuation gets incorporated in our 12-month DCF based target price of Rs840/share. Consequently, we remove the option value attached to the tower business form our target price.

Methodology of consolidation of tower business. We introduce passive infrastructure (Bharti Infratel) as a separate segment in our earnings models. We model the tower and tenancy assumptions of Bharti Infratel and Indus separately. We consolidate Indus towers using JV consolidation i.e. 42% in Indus. Our model assumes

1. Revenues from Bharti Infratel and 42% of revenues (built through separate tenancy assumption) of Indus towers. We assume that the rental structure and pass through elements are similar for both these companies i.e. a blended rental number of Rs30,500/ month and pass through costs (only power and fuel) at Rs16,000/ month. As a result our, consolidated passive infrastructure revenues works to Rs53 bn for FY2009E, Rs81 bn for FY2010E and Rs104 bn for FY2011E.
2. To present a consolidated financial picture, we eliminate the revenues derived from Bharti's mobile division. We eliminate 100% of Bharti's rental payment to Infratel and 42% of Bharti's rental payment to Indus Towers.
3. We model the rest of the P&.L items on similar line as revenues. Our EBITDA assumption for stands at Rs20 bn for FY2009E, Rs33 bn for FY2010E and Rs43 bn for FY2011E.
4. We have assumed 12.5% minority share holding of PE investors.
5. We consolidate the capex of the tower business on a similar principle as revenues. Effectively, we capture cash flow from external tenants in our DCF model. Savings on sharing of passive infrastructure gets captured in the earnings of mobile division.

We would consider ascribing an explicit valuation for the tower business once further details on the balance sheet and cash flow items are available.

Wireless subscribers—higher growth assumed. We have taken a more aggressive stance on the subscriber growth given the aggressive capex of incumbents and accelerated decline in tariffs. We model Bharti's end-FY2009 and end-FY2010 wireless subscriber base at 88 mn and 108 mn, respectively, compared to 62 mn at end-FY2008. Bharti's last three months average net adds run rate has been 2.3 mn. We are looking at 2.2 mn monthly net additions in FY2009 and 1.7 mn in FY2010. We model the Indian wireless market to hit 355 mn and 440 mn respectively, by end-FY2009 and end-FY2010, respectively as compared to 340 mn and 409 mn earlier. We have assumed Bharti's market share at 24.8% by end-FY2009 and 24.4% by end-FY2010 as compared to Mar '08 number of 24.6%. Note that we have not assumed start of telecom services by new players to whom LOIs have been issued recently (in Jan 2008).

Wireless segment—aggressive MOU growth but at the expense of RPM. We have increased our long-term MOU assumptions but highlight that this would come at the cost of accelerated decline in RPM. The Indian wireless operators have been very aggressive on driving MOU growth by rapidly reducing tariffs. We expect intense tariff competition continue and now build in moderate volume elasticity to reduction in tariffs. We have increased our FY2009E and FY2010E MOU assumptions by 13% and 12% to 527 and 529 respectively. At the same time, we have also reduced our RPM assumptions for FY2009E and FY2010E by 9% and 8.5% to Rs0.66 and Rs0.64, respectively.

4QFY08 and FY2008 results analysis—reasonable though decline in EBITDA margin surprised us

Moderately weaker-than-expected operating performance. Bharti's 4QFY08 EBITDA increased 9.4% qoq to Rs32.4 bn (+Rs2.8 bn) below our Rs32.8 bn estimate. EBITDA growth was aided by Rs600 mn reversal of provision in the enterprise business segment. Bharti's overall EBITDA margin declined 110 bps bps qoq to 41.5% on account of step up in sales and marketing expenses (+Rs2.2 bn qoq) and decline in RPM in the mobile business. Wireless segment EBITDA margin has declined by a steep 210 bps to 38.7% (adjusted for tower rentals); decline is for second consecutive quarter and led by continued pressure on RPM.

Revenues increased 12% qoq to Rs78.2 bn, ahead of our estimate of Rs76.2 bn. Revenue growth was aided by monetization of erstwhile barter system of tower sharing with effect from Feb 2008. This amount was recorded in the revenue line.

Lower depreciation charge and continued low taxation rate. Bharti's net income increased 8% qoq to Rs18.5 bn versus our expected Rs18 bn led by the 9% growth in EBITDA. Depreciation cost declined by Rs775 mn to Rs9.6 bn. The company indicates that previous quarter numbers were inflated by change in estimate of useful life of asset though it did not quantify the amount. Depreciation as % of revenues, though not the best metric, was the lowest in the last several quarters. Net finance cost increased to Rs2.2 bn from Rs0.8 bn in 3QFY08 with derivatives and exchange fluctuation loss of Rs1.26 bn in 4QFY08 compared to gain of Rs24 mn in 3QFY08. The taxation amount increased qoq to Rs2.09 bn from Rs1.56 bn in 3QFY08 but effective tax rate continued to be low at 9.9%. Bharti's tax rate has declined meaningfully to 10.9% in FY2008 from 12% in FY2007 through creation of large deferred tax assets in 2QFY08 and 3QFY08. The company has guided for 16-20% effective tax rate for FY2009.

Minority interest increased to Rs518 mn from Rs244 mn in the previous quarter. The increase can be attributed to dilution in equity stake in the tower subsidiary, Bharti Infratel, to private equity and financial investors. Note that the company raised US$1.35 bn through placement of convertible instruments (dilution would vary from 10% to 12.5% depending on FY2009 performance).

Wireless segment—surprise on revenues, shock on EBITDA. Bharti's wireless segment's revenues increased 14% qoq to Rs56.1 bn driven by a 21% increase in total number of minutes. MOU increased 7% qoq to 507 (surprised us), after being stagnant for three quarters led by elasticity to tariff reduction for the lifetime prepaid plans. On a yoy basis, MOU increased 7%, while RPM decline was a steep 18% to 70 paisa. Incremental RPM was just 53 paisa. We believe RPM has lot more scope to decline especially with entry of new players in the next six to nine months. ARPU at Rs357 was flat sequentially, but declined 12% on yoy basis.

EBITDA margin declined 190 bps to 38.7%; margins declined for the second consecutive quarter. We believe that the decline is likely an early evidence of sacrifice of profitability for growth. The decline can be attributed to increase in sales and marketing spend and decline in RPM. EBITDA/min as a result declined by a steep 9.3% qoq and 16.7% yoy to Rs0.28; incremental EBITDA/min was a marginal Rs0.13.

EBITDA after considering the impact of rental payout to Bharti Infratel and other operators, was flat at Rs22.8 bn. The rental payment was effective Jan 31, 2008. Bharti attributed an impact of 3.2% on account of movement to passive infrastructure sharing model; impact assuming that rental payment was effective Jan '08 would have been 4.8%. Bharti paid rental of Rs30,329/ month (excluding power and fuel costs) on an blended basis to the passive infrastructure division; the rental amount in our view is competitive. EBIT margin declined 100 bps qoq to 26.4%.

Bharti management has guided for a capex of US$2.5 bn for FY2009 (ex-passive infrastructure). This represents a decline over the total capex of US$3.5 bn in FY2008. The company did not share separate numbers for capex of passive infrastructure for FY2009. We believe that adjusted active infrastructure capex would be higher than FY2008 and perhaps reflects (1) aggressive growth plans to capture subscribers ahead of the likely entry of new players, (2) increase in MOU (ongoing trend in line with declining RPM) and (3) expansion in rural areas with probably higher coverage capex.

Bharti's management plans to expand its coverage of the Indian population to over 80% from 71% at end FY2008. Bharti's wireless coverage has increased to 5,023 census towns and 342,623 villages and its wireless coverage to 71% of the total Indian population at end-4QFY08 versus 68% at end-3QFY08 and 65% at end-2QFY08. 4QFY08 capex was Rs18 bn and FY2008 capex Rs138 bn. Bharti had 69,141 sites at end-4QFY08 as against 60,299 at end-3QFY08.

Telemedia segment—emphasis on profitability. Bharti's Telemedia segment's revenues increased 5% qoq to Rs7.6 bn led by a similar increase in subscriber base to 2.28 mn subs. EBIT grew 20% qoq to Rs1.91 bn led by absolute decline in depreciation cost. Bharti continues to operate in 94 cities. It spent Rs4.2 bn as capex on the Telemedia segment in 4QFY08 taking FY2008 capex to Rs9.5 bn; FY2008 capex is lower versus FY2007 Rs12.5 bn since Bharti is not expanding to new cities. For FY2008, Bharti's Telemedia segment revenues grew 27% to Rs28.5 bn, EBITDA by 104% to Rs11.4 bn and EBIT by 252% to Rs6.12 bn. EBITDA margin increased to 40% in FY2008 from 25% in FY2007 led by impressive cost management; operating costs were virtually unchanged

Long distance segment—no surprises. Bharti's LD segment's revenues increased 11% qoq to Rs12.6 bn reflecting strong increase in volumes. Volumes increased 19% qoq for DLD minutes and 16% qoq for ILD minutes. Revenue growth was also aided by full quarter consolidation of i2i cable network. EBITDA margin declined 20 bps to 32.2%; on a yoy basis, margin is down 3.8%, which highlights the unsustainably high margins in the LD segment in the previous years.

We expect margins to decline further in this largely commodity business and do not rule out further decline in this segment's EBTIDA margin given (1) entry of several new players in both the NLD and ILD segments and (2) still very high profitability and return on investment. Bharti's 4QFY08 CROCI of 26% is still very high, in our view, although CROCI has come down sharply from peak level of 41% in 3QFY07.

Enterprise services (corporate) segment—write back aids EBITDA growth. Bharti's 4QFY08 EBITDA grew 56% to Rs2.2 bn and margin of 57%. EBITDA numbers were aided by reversal of provisions (Rs600 mn). Bharti management indicated 45-46% as the sustainable margin range. Revenues grew 15% qoq and 50% yoy to Rs13.2 bn.

Passive infrastructure division; rental payment appears reasonable. Bharti has created a new division courtesy carve-out of the tower assets to Bharti Infratel effective Jan 31, 2008. The division had revenues of Rs6.02 bn, of which we believe that Rs1.1 bn is from external tenants. The division had tenancy of 1.22 on 52,865 towers (33,590 GBT and 19,275 RTT). The implied rental payment is Rs30,329 that includes capital recovery charge and all operating expenses other than power and fuel. Pass through expenses (power and fuel) per tenant was approx Rs16,300. We find the blended rental payment of Rs30,300 to be competitive and perhaps 10% lower than the competition. We attribute lower rental partly to "old" and depreciated tower base. Bharti Infratel will transfer approx 30,000 towers to the Indus JV by 1HFY2009. Also, we note that Bharti is yet to transfer approx 3,000 towers of the Rajasthan circle to Infratel.

Capex guidance for FY2009E, update on new initiatives, highlights of conference call and other highlights of results

1. **Capex guidance at US$2.5 bn.** Bharti management has given a capex guidance of US$2.5 bn for FY2009 for wireless active infrastructure. The company did not provide guidance for passive infrastructure capex.

2. **DTH operation, IPTV.** Bharti expects to start DTH operations by June 2008. We will include this in our model closer to start of operations. We note that Bharti will own 40% in the DTH entity. Bharti had about 790,000 broadband subscribers at end-4QFY08 (750,000 at end-3QFY08), some of whom could be potential IPTV users.

3. **Indian GAAP versus US GAAP numbers.** Indian GAAP net income for FY2008 is Rs63.9 bn compared to Rs67 bn under US GAAP. The bulk of the change reflects to differences in accounting for finance changes at Rs2.92 bn (see Exhibit 8).

Interim results for Bharti Airtel (Rs mn)

		qoq			yoy			yoy	
	4Q 2008	3Q 2008	% chg	4Q 2008	4Q 2007	% chg	2,008	2007	% chg
Sales	**78,191**	**69,639**	***12***	**78,191**	**53,932**	***45***	**270,250**	**185,195**	***46***
Operating costs									
Interconnection costs	(12,298)	(10,424)	*18*	(12,298)	(9,335)	*32*	(41,110)	(31,378)	*31*
License fee and spectrum charges	(7,801)	(6,991)	*12*	(7,801)	(5,098)	*53*	(26,900)	(16,953)	*59*
Network operating costs	(9,807)	(8,851)	*11*	(9,807)	(5,790)	*69*	(33,002)	(21,100)	*56*
Sales and marketing expenses	(12,145)	(9,950)	*22*	(12,145)	(7,982)	*52*	(40,855)	(29,162)	*40*
Employee costs	(3,722)	(3,789)	*(2)*	(3,722)	(3,446)	*8*	(14,768)	(12,448)	*19*
Operating costs	(45,773)	(40,005)	*14*	(45,773)	(31,651)	*45*	(156,635)	(111,041)	*41*
EBITDA	**32,418**	**29,634**	***9***	**32,418**	**22,281**	***45***	**113,615**	**74,154**	***53***
EBITDA margin (%)	**41.5**	**42.6**		**41.5**	**41.3**		**42.0**	**40.0**	
Other income	473	585		473	374		2,422	1,008	
Net finance cost	(2,157)	(810)	*166*	(2,157)	(477)	*352*	(2,341)	(1,438)	*63*
Depreciation	(9,414)	(10,219)	*(8)*	(9,414)	(6,958)	*35*	(36,504)	(24,557)	*49*
Amortization	(188)	(158)		(188)	(151)		(656)	(651)	
PBT	**21,132**	**19,032**	***11***	**21,132**	**15,069**	***40***	**76,536**	**48,516**	***58***
Current tax (expense)/income	(2,298)	(1,748)		(2,298)	(1,768)		(9,760)	(5,330)	
Deferred tax (liability)/asset	213	184		213	415		1,382	(492)	
Minority loss/(income)	(518)	(244)		(518)	(184)		(1,150)	(467)	
Reported net income	**18,529**	**17,224**	***8***	**18,529**	**13,532**	***37***	**67,008**	**42,227**	***59***
Taxation rate (%)	9.9	8.2		9.9	9.0		10.9	12.0	
Diluted EPS (reported basis)	**9.8**	**9.1**		**9.8**	**7.1**		**35.3**	**22.3**	
Cellular segment									
Revenues	64,201	56,105	*14*	64,201	42,431	*51*	217,861	141,442	*54*
EBITDA	22,779	22,887	*(0)*	22,779	16,604	*37*	85,481	53,253	*61*
EBIT	16,934	15,345	*10*	16,934	11,424	*48*	59,658	35,654	*67*
EBITDA margin (%)	35.5	40.8		35.5	39.1		39.2	37.7	
Cellular subscribers ('000) (b)									
Prepaid	56,762	50,198	*13*	56,762	32,870	*73*	56,762	32,870	*73*
Postpaid	5,222	4,965	*5*	5,222	4,271	*22*	5,222	4,271	*22*
Total	61,985	55,163	*12*	61,985	37,141	*67*	61,985	37,141	*67*
Cellular subscribers (%)									
Prepaid	92	91		92	89		92	89	
Postpaid	8	9		8	12		8	12	
ARPU (Rs/mth)									
Blended	357	358	*(0)*	357	406	*(12)*	366	416	*(12)*
MOU (min/mth)									
Blended	507	474	*7*	507	475	*7*	478	448	*7*
Churn (%)									
Prepaid	4.4	3.9		4.4	3.2				
Postpaid	2.7	2.7		2.7	3.6				
Blended revenue/min (incl. in-roaming)	**0.70**	**0.76**	***(7)***	**0.70**	**0.85**	***(18)***	**0.77**	**0.93**	***(17)***
Total volume (mn mins)	89,058	73,840	*21*	89,058	49,240	*81*	284,398	152,583	*86*
Capex (Rs mn)	17,995	27,538		17,995	10,706		107,000	71,801	
EBITDA per min - blended (Rs)	**0.26**	**0.31**	***(17)***	**0.26**	**0.34**	***(24)***	**0.30**	**0.35**	***(14)***
Capex/incremental min (Rs)	0.30	0.73	*(59)*	0.3	0.3	*(12)*			
Capex/incremental sub (US$)	**7**	**12**	***(42)***	**7**	**47**	***(85)***			
SMS as % of wireless revenues	4.4	4.4		4.4	6.0				
Non-voice as % of wireless revenues	**9.4**	**9.3**		**9.4**	**10.1**				
Broadband and telephone segment									
Revenues	7,641	7,307	*5*	7,641	6,044	*26*	28,484	22,453	*27*
ARPU (Rs)	1,137	1,140	*(0)*	1,137	1,112	*2*	1,142	1,163	*(2)*
EBITDA	3,344	3,173	*5*	3,344	1,727	*94*	11,407	5,602	*104*
EBIT	1,910	1,592	*20*	1,910	833	*129*	6,125	1,740	*252*
EBITDA margin (%)	43.8	43.4		43.8	28.6		40.0	24.9	
Subscribers ('000)	2,283	2,178	*5*	2,283	1,871	*22*	2,283	1,871	*22*
Capex	4,185	2,157		4,185	1,644		9,464	12,494	
Capex/incremental sub (Rs)	39,733	20,942	*90*	39,733	12,361	*221*	22,953	23,844	*(4)*
Long distance segment									
Revenues	12,566	11,346	*11*	12,566	10,156	*24*	43,170	34,889	*24*
EBITDA	4,027	3,652	*10*	4,027	3,640	*11*	14,310	13,758	*4*
EBIT	3,170	2,837	*12*	3,170	2,966	*7*	11,503	11,495	*0*
EBITDA margin (%)	32.0	32.2		32.0	35.8		33.1	39.4	
Capex	5,059	3,012		5,059	2,317		19,171	8,340	
Enterprise services									
Revenues	3,774	3,290	*15*	3,774	2,511	*50*	13,217	9,049	*46*
EBITDA	2,152	1,377	*56*	2,152	1,257	*71*	6,123	4,192	*46*
EBIT	1,798	1,215	*48*	1,798	1,067	*69*	5,133	3,485	*47*
EBITDA margin (%)	57.0	41.9		57.0	50.1		46.3	46.3	
Capex	411	91		411	1,983		1,547	5,222	

Source: Company, Kotak Institutional Equities.

Summary of key changes to the Bharti model, March fiscal year-ends

	Unit	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Mobile market subs old	mn	340	409	460	500	535	567	595	623	649
Mobile market subs new	mn	355	440	504	553	592	623	648	668	684
Revision	*(%)*	*4%*	*8%*	*10%*	*11%*	*11%*	*10%*	*9%*	*7%*	*5%*
Bharti mobile subs old	mn	84.9	100.7	111.9	120.6	128.1	134.9	141.0	146.9	152.4
Bharti mobile subs new	mn	87.9	107.7	121.9	132.4	140.7	147.4	152.6	156.9	160.3
Revision	***(%)***	***4%***	***7%***	***9%***	***10%***	***10%***	***9%***	***8%***	***7%***	***5%***
Blended ARPU (incl. inroaming) est. old	Rs	343	333	329	328	331	333	336	339	342
Blended ARPU (incl. inroaming) est. new	Rs	347	336	331	328	332	337	339	342	344
Revision	*(%)*	*1%*	*1%*	*1%*	*0%*	*0%*	*1%*	*1%*	*1%*	*1%*
Postpaid ARPU estimate old	Rs	844	836	829	832	841	853	865	876	888
Postpaid ARPU estimate new	Rs	835	825	816	819	827	839	852	864	874
Revision	*(%)*	*-1%*	*-1%*	*-2%*	*-2%*	*-2%*	*-2%*	*-1%*	*-1%*	*-2%*
Prepaid ARPU estimate old	Rs	282	278	277	277	279	281	283	286	288
Prepaid ARPU estimate new	Rs	288	282	281	279	283	287	288	290	292
Revision	*(%)*	*2%*	*2%*	*1%*	*1%*	*1%*	*2%*	*2%*	*2%*	*1%*
Consolidated revenues old	(Rs bn)	365	445	502	549	591	631	669	705	745
Consolidated revenues new	(Rs bn)	406	518	606	673	735	789	833	873	912
Revision	*(%)*	*11%*	*17%*	*21%*	*23%*	*24%*	*25%*	*25%*	*24%*	*22%*
Consolidated EBITDA old	**(Rs bn)**	**157.0**	**196.3**	**222.6**	**244.6**	**263.4**	**281.4**	**298.9**	**314.1**	**330.8**
Consolidated EBITDA new	**(Rs bn)**	**4.0**	**4.3**	**5.9**	**8.7**	**13.3**	**18.7**	**23.9**	**28.6**	**32.5**
Revision	***(%)***	***-97%***	***-98%***	***-97%***	***-96%***	***-95%***	***-93%***	***-92%***	***-91%***	***-90%***
Mobile EBITDA margin old	(%)	41.8	43.2	43.6	43.9	43.9	44.0	44.1	44.0	44.0
Mobile EBITDA margin new	(%)	34.7	34.8	35.0	35.1	35.5	36.0	36.2	36.4	36.5
Revision	*(bps)*	*-704*	*-836*	*-864*	*-886*	*-836*	*-799*	*-794*	*-763*	*-748*
Adjusted PAT old	**(Rs bn)**	**86.4**	**104.2**	**122.4**	**123.5**	**134.4**	**141.3**	**151.3**	**154.1**	**169.1**
Adjusted PAT new	**(Rs bn)**	**87.2**	**105.7**	**128.0**	**136.1**	**156.6**	**169.4**	**182.5**	**188.2**	**204.2**
Revision	***(%)***	***1%***	***1%***	***5%***	***10%***	***17%***	***20%***	***21%***	***22%***	***21%***
Diluted EPS estimate old	**(Rs)**	**45.5**	**54.9**	**64.5**	**65.1**	**70.9**	**74.5**	**79.8**	**81.3**	**89.2**
Diluted EPS estimate new	**(Rs)**	**46.0**	**55.7**	**67.5**	**71.8**	**82.6**	**89.4**	**96.3**	**99.3**	**107.7**
Revision	***(%)***	***1%***	***1%***	***5%***	***10%***	***17%***	***20%***	***21%***	***22%***	***21%***
Capex old	**(Rs bn)**	**139.6**	**121.4**	**102.2**	**86.5**	**81.8**	**80.9**	**85.1**	**86.0**	**88.5**
Capex new	**(Rs bn)**	**179.7**	**142.7**	**117.4**	**96.8**	**93.5**	**91.8**	**92.3**	**92.7**	**94.4**
Revision	***(%)***	***29%***	***18%***	***15%***	***12%***	***14%***	***13%***	***8%***	***8%***	***7%***
Mobile capex/sales old	*(%)*	41	29	21	16	14	13	13	12	12
Mobile capex/sales new	*(%)*	30	19	15	12	10	9	8	8	8
Revision	*(pps)*	*-11.1*	*-10.3*	*-6.9*	*-4.3*	*-3.9*	*-3.8*	*-4.3*	*-4.2*	*-4.2*

Source: Kotak Institutional Equities estimates

Our 12-month DCF based price target for Bharti Airtel is Rs840/share

Discounted cash flow value for Bharti Airtel (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	163,448	210,082	246,750	274,906	302,659	327,349	346,879	364,259	381,017
Tax	(13,475)	(25,520)	(31,418)	(49,819)	(61,231)	(69,234)	(77,075)	(92,233)	(98,285)
Change in working capital	(6,574)	4,244	5,297	2,611	6,813	6,084	4,864	4,426	4,450
Post-tax operating cash flow	**143,399**	**188,806**	**220,629**	**227,699**	**248,240**	**264,199**	**274,668**	**276,451**	**287,182**
Capex	(179,655)	(142,688)	(117,364)	(96,832)	(93,508)	(91,849)	(92,251)	(92,653)	(94,446)
Free cash flow	**(36,257)**	**46,118**	**103,265**	**130,867**	**154,732**	**172,350**	**182,417**	**183,798**	**192,736**

	Now		+ 1-year		WACC and growth in perpetuity assumptions	
PV of cash flows	492,776	34%	666,016	40%	**Terminal growth - g (%)**	**4.8**
PV of terminal value	958,062	66%	1,003,569	60%	**WACC (%)**	**12.0**
EV	1,450,838		1,669,585			
Net debt	35,964		73,489			
Equity value (Rs mn)	1,414,874		1,596,096			
Equity value (Rs/share)	**746**		**842**			
Equity value (US$ mn)	32,156		36,275			
Exit FCF multiple (X)	**13.8**					
Exit EBITDA multiple (X)	**7.0**					

Key assumptions (%)	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenue growth	27.0	24.7	15.1	9.9	9.6	7.9	5.9	5.0	4.5
EBITDA growth	30.2	21.2	21.1	6.4	15.1	8.1	7.7	3.1	8.5
EBITDA margin	**21.5**	**20.4**	**21.1**	**20.2**	**21.3**	**21.5**	**21.9**	**21.6**	**22.4**
Capex/sales	44.3	27.5	19.4	14.4	12.7	11.6	11.1	10.6	10.4
Cash tax rate	16.1	19.7	18.4	24.6	26.2	25.9	26.6	30.0	30.1
Effective tax rate	-	-	-	-	-	-	-	-	-
Return on avg. capital employed	**27.2**	**25.5**	**27.6**	**28.0**	**31.9**	**35.0**	**39.1**	**42.2**	**48.0**

Source: Kotak Institutional Equities estimates.

Bharti's return on investment as measured by CROCI is remarkable

Quarterly segment-wise CROCI of Bharti (%)

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08
Mobile								
EBIT (Rs mn)	6,961	8,085	9,184	11,424	13,321	14,058	15,345	17,920
Tax rate (%)	11.1	12.8	14.8	9.0	19.0	6.5	8.2	9.9
EBIT*(1-t) (Rs mn)	6,190	7,052	7,821	10,398	10,788	13,145	14,084	16,152
Add: Depreciation	3,380	4,094	4,945	5,180	5,766	6,670	7,542	7,095
Cash return (Rs mn)	9,570	11,146	12,766	15,578	16,554	19,815	21,626	23,247
Annualized cash return (Rs mn)	38,281	44,582	51,063	62,313	66,216	79,259	86,504	92,988
Gross cash invested (Rs mn)	177,633	205,084	220,672	231,414	264,494	292,954	320,472	339,814
CROCI (%)	**21.6**	**21.7**	**23.1**	**26.9**	**25.0**	**27.1**	**27.0**	**27.4**
B&T								
EBIT (Rs mn)	384	195	328	833	943	1,680	1,592	1,910
Tax rate (%)	11.1	12.8	14.8	9.0	19.0	6.5	8.2	9.9
EBIT*(1-t) (Rs mn)	341	170	279	758	764	1,571	1,461	1,722
Add: Depreciation	809	874	1,284	894	1,157	1,110	1,581	1,434
Cash return (Rs mn)	1,150	1,044	1,563	1,652	1,921	2,681	3,042	3,156
Annualized cash return (Rs mn)	4,602	4,176	6,253	6,609	7,683	10,723	12,169	12,622
Gross cash invested (Rs mn)	40,036	41,607	43,216	44,987	46,514	49,137	51,590	54,774
CROCI (%)	**11.5**	**10.0**	**14.5**	**14.7**	**16.5**	**21.8**	**23.6**	**23.0**
Long distance								
EBIT (Rs mn)	2,278	2,864	3,388	2,966	2,753	2,740	2,837	3,170
Tax rate (%)	11.1	12.8	14.8	9.0	19.0	6.5	8.2	9.9
EBIT*(1-t) (Rs mn)	2,026	2,498	2,885	2,700	2,229	2,562	2,604	2,857
Add: Depreciation	472	503	614	674	413	722	815	857
Cash return (Rs mn)	2,498	3,001	3,499	3,374	2,642	3,284	3,419	3,714
Annualized cash return (Rs mn)	9,991	12,004	13,996	13,495	10,570	13,136	13,675	14,857
Gross cash invested (Rs mn)	29,033	32,563	34,214	36,547	39,701	49,555	52,566	57,976
CROCI (%)	**34.4**	**36.9**	**40.9**	**36.9**	**26.6**	**26.5**	**26.0**	**25.6**
Enterprise								
EBIT (Rs mn)	845	717	855	1,067	883	1,237	1,215	1,198
Tax rate (%)	11.1	12.8	14.8	9.0	19.0	6.5	8.2	9.9
EBIT*(1-t) (Rs mn)	751	625	728	971	715	1,157	1,115	1,080
Add: Depreciation	91	190	237	190	276	198	162	354
Cash return (Rs mn)	842	815	965	1,161	991	1,355	1,277	1,434
Annualized cash return (Rs mn)	3,370	3,261	3,860	4,645	3,964	5,419	5,109	5,735
Gross cash invested (Rs mn)	4,044	4,656	5,028	5,501	6,267	6,239	6,281	6,743
CROCI (%)	**83.3**	**70.0**	**76.8**	**84.4**	**63.3**	**86.9**	**81.3**	**85.1**

Source: Kotak Institutional Equities estimates.

A moderate change in pricing results in significant impact on valuation

Sensitivity of valuation, EPS, and terminal year ROACE to change in pricing

	Change in pricing from base case						
	-15%	-10%	-5%	Base case	5%	10%	15%
12-month forward DCF valuation (Rs)	754	784	813	842	871	900	930
FY2009E EPS	41.1	42.7	44.3	46.0	47.6	49.2	50.8
FY2010E EPS	50.5	52.2	54.0	55.7	57.5	59.2	61.0
RoACE in terminal year, FY2017E (%)	43.2	44.8	46.4	48.0	49.6	51.2	52.8

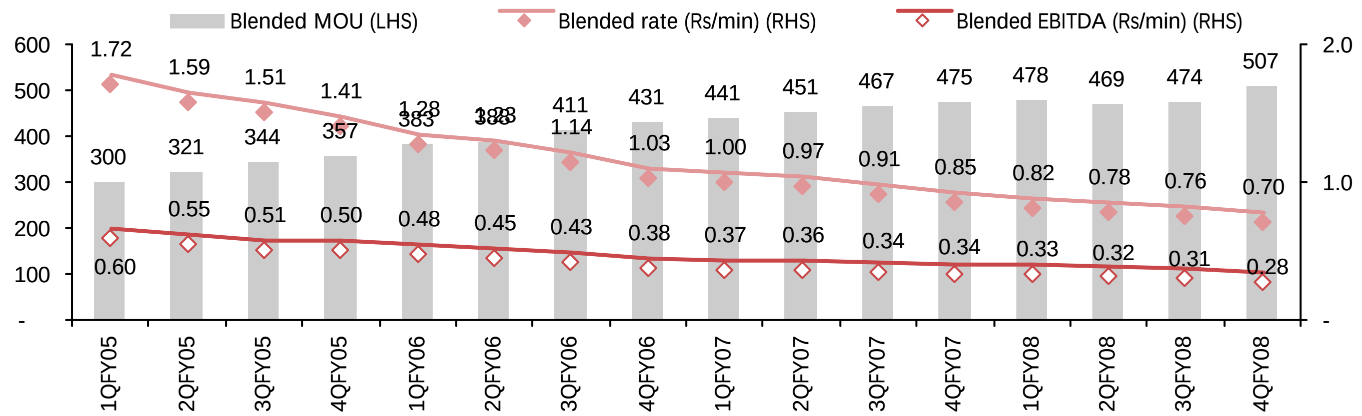
Source: Kotak Institutional Equities estimates.

EBITDA per minute continued to remain under pressure in the March 2008 quarter
Bharti's revenue and EBITDA per incremental minute, 2QFY07-4QFY08

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08
Revenues (Rs mn)	28,411	33,022	37,579	42,431	46,976	50,579	56,105	64,201
Total minutes of use (mn min)	28,194	33,844	41,305	49,240	57,125	64,375	73,840	89,058
Revenue per minute or RPM (Rs/min)	1.01	0.98	0.91	0.86	0.82	0.79	0.76	0.72
Incremental RPM (Rs/min)		**0.82**	**0.61**	**0.61**	**0.58**	**0.50**	**0.58**	**0.53**
EBITDA (Rs mn)	10,341	12,179	14,129	16,604	19,087	20,728	22,887	24,819
EBITDA per min or EPM (Rs/min)	0.37	0.36	0.34	0.34	0.33	0.32	0.31	0.28
Incremental EPM (Rs/min)		**0.33**	**0.26**	**0.31**	**0.31**	**0.23**	**0.23**	**0.13**

Source: Company data, Kotak Institutional Equities estimates.

Bharti's profitability/min continued to decline (down 9.7% qoq); 7% MOU growth surprised positively
Bharti's blended revenue and blended EBITDA on a per minute basis (Rs/min)



Note:
(a) Blended rate = RPM = ARPU/MOU.

Source: Kotak Institutional Equities estimates.

Reconciliation of Indian GAAP and US GAAP net income (Rs mn)

	FY2007	FY2008
Net profit/(loss) as per US GAAP	**42,572**	**67,008**
Add: Difference on account of:		
Minority interest and loss of JV	(5)	59
Deferred tax expense	**420**	**1,749**
Total	**416**	**1,808**
Less: Difference on account of:		
Amortization of goodwill/intangibles	268	569
Being difference in revenue recognition	368	70
License fee amortization	589	632
Difference in accounting for finance charges	**1,037**	**2,932**
Remeasurement of financial instruments not applicable in IGAAP	(4)	5
Differential depreciation provided IGAAP due to forex fluctuations	108	(472)
Provision for current tax		1,126
Total	**2,367**	**4,862**
Net profit/(loss) as per Indian GAAP	**40,620**	**63,954**

Source: Company reports.

Consolidated profit and loss for Bharti Airtel, March fiscal year-ends, 2007-2017E (Rs mn)

Consolidated Profit and loss for Bharti Airtel and group companies, March fiscal year-ends, 2004-2010E (Rs mn)

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues											
Wireless	141,189	217,861	312,584	394,453	455,911	501,287	544,950	582,505	610,931	634,875	654,880
Fixed line	22,492	28,484	33,756	38,678	42,748	46,281	49,562	52,781	55,964	59,150	62,338
DLD	14,077	21,592	24,928	28,274	31,129	33,457	35,800	38,028	40,150	42,211	44,242
ILD	20,873	21,578	28,466	31,502	33,563	36,490	38,531	40,691	42,982	45,415	51,916
Enterprise services	9,304	13,217	17,843	21,412	24,623	27,701	30,471	33,214	36,203	39,461	43,013
Passive Infrastructure services		6,023	52,619	80,844	103,899	119,889	132,677	143,410	152,749	161,324	168,071
Others	(266)	2,431	—	—	—	—	—	—	—	—	—
Less: Intersegment eliminations	*(23,468)*	*(40,936)*	*(64,330)*	*(76,899)*	*(85,746)*	*(92,226)*	*(97,292)*	*(101,691)*	*(105,569)*	*(109,066)*	*(112,675)*
Consolidated revenues	**184,202**	**270,250**	**405,865**	**518,263**	**606,127**	**672,878**	**734,699**	**788,937**	**833,411**	**873,371**	**911,785**
Interconnection costs	(31,378)	(41,110)	(52,198)	(65,094)	(74,955)	(82,340)	(90,253)	(97,350)	(103,110)	(108,304)	(113,206)
License fees and spectrum charges	(16,953)	(26,900)	(40,110)	(49,929)	(57,438)	(63,175)	(68,410)	(72,978)	(76,592)	(79,751)	(82,775)
Network operating costs	(20,342)	(33,002)	(65,697)	(88,649)	(106,622)	(119,724)	(130,295)	(139,217)	(147,053)	(154,206)	(160,469)
Sales and marketing expenses	(11,387)	(19,058)	(34,040)	(41,051)	(45,958)	(49,612)	(52,245)	(54,236)	(55,422)	(56,189)	(57,467)
Employee costs	(12,012)	(14,768)	(23,449)	(31,096)	(37,751)	(43,381)	(48,521)	(53,341)	(58,055)	(62,761)	(67,460)
G&A costs	(17,785)	(22,187)	(26,924)	(32,361)	(36,653)	(39,740)	(42,316)	(44,464)	(46,300)	(47,902)	(49,391)
Consolidated EBITDA	**74,344**	**113,225**	**163,448**	**210,082**	**246,750**	**274,906**	**302,659**	**327,349**	**346,879**	**364,259**	**381,017**
Other income incl. Interest income	1,441	4,136	3,981	4,284	5,878	8,719	13,297	18,699	23,943	28,578	32,540
Interest expense	(2,811)	(4,054)	(3,988)	(3,940)	(3,631)	(731)	(26)	(14)	3—	—	—
Amortization of entry fee	(1,704)	(1,829)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)
Depreciation	(24,487)	(34,942)	(55,605)	(73,444)	(85,430)	(93,995)	(93,995)	(106,625)	(110,736)	(111,516)	(108,340)
Pretax profits	**46,784**	**76,536**	**106,689**	**135,833**	**162,419**	**187,751**	**220,787**	**238,261**	**258,935**	**280,173**	**304,070**
Extraordinary income/(charges)	—	—	—	—	—	—	—	—	—	—	—
Prior period adjustments	—	—	—	—	—	—	—	—	—	—	—
Current tax expense	(5,242)	(8,414)	(12,990)	(24,801)	(30,731)	(49,625)	(61,224)	(69,230)	(77,074)	(92,233)	(98,285)
Deferred tax (liability)/asset	(439)	36	(4,208)	(1,937)	799	3,460	3,460	7,435	8,305	8,298	6,886
Minority interest expense	(482)	(1,151)	(2,280)	(3,363)	(4,493)	(5,442)	(6,377)	(7,055)	(7,629)	(8,021)	(8,430)
Reported net profits	**40,621**	**67,007**	**87,210**	**105,733**	**127,994**	**136,144**	**156,647**	**169,411**	**182,538**	**188,217**	**204,240**
Adjusted net profits	**40,621**	**67,007**	**87,210**	**105,733**	**127,994**	**136,144**	**156,647**	**169,411**	**182,538**	**188,217**	**204,240**
Adjusted EPS (Rs)	21.4	35.3	46.0	55.7	67.5	71.8	82.6	89.4	96.3	99.3	107.7
Shares outstanding (mn)	1,896	1,896	1,896	1,896	1,896	1,896	1,896	1,896	1,896	1,896	1,896
Current tax rate (%)	11.2	11.0	12.2	18.3	18.9	26.4	27.7	29.1	29.8	32.9	32.3
Effective tax rate (%)	12.1	10.9	16.1	19.7	18.4	24.6	26.2	25.9	26.6	30.0	30.1
Growth (%)											
EBITDA	79.1	52.3	44.4	28.5	17.5	11.4	10.1	8.2	6.0	5.0	4.6
Net profits	100.3	65.0	30.2	21.2	21.1	6.4	15.1	8.1	7.7	3.1	8.5
EPS	100.3	65.0	30.2	21.2	21.2	6.4	15.1	8.1	7.7	3.1	8.5
Margin (%)											
EBITDA	40.4	41.9	40.3	40.5	40.7	40.9	41.2	41.5	41.6	41.7	41.8
Net profits	22.1	24.8	21.5	20.4	21.1	20.2	21.3	21.5	21.9	21.6	22.4
EBIT	26.1	28.3	26.3	26.1	26.4	26.7	28.2	27.8	28.2	28.8	29.8

Note: Historical financials are as per Indian GAAP; forecasts as per IFRS (International Financial Reporting System).

Source: Company, Kotak Institutional Equities estimates.

Financial projections for Bharti Infratel, March fiscal year-ends, 2009E-2017E, (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues (net of service tax)	**52,619**	**80,844**	**103,899**	**119,889**	**132,677**	**143,410**	**152,749**	**161,324**	**168,071**
Passthrough power and fuel costs	18,293	28,292	36,601	42,512	47,355	51,521	55,233	58,713	61,564
Employee costs	3,433	5,124	6,393	7,157	7,679	8,040	8,289	8,465	8,521
Site rentals	5,474	7,412	8,775	9,648	10,325	11,035	11,777	12,554	13,367
Other AMC costs	1,564	2,118	2,507	2,757	2,950	3,153	3,365	3,587	3,819
SG&A costs	3,433	5,124	6,393	7,157	7,679	8,040	8,289	8,465	8,521
Total costs	**32,196**	**48,069**	**60,669**	**69,232**	**75,989**	**81,789**	**86,952**	**91,784**	**95,790**
EBITDA	**20,423**	**32,775**	**43,230**	**50,657**	**56,688**	**61,621**	**65,797**	**69,540**	**72,281**
EBITDA margin (%)	**38.8**	**40.5**	**41.6**	**42.3**	**42.7**	**43.0**	**43.1**	**43.1**	**43.0**
Ex - passthrough EBITDA margin (%)	**59.5**	**62.4**	**64.2**	**65.5**	**66.4**	**67.1**	**67.5**	**67.8**	**67.9**

Source: Kotak Institutial Equities estimates

Key macro assumptions behind Bharti Airtel model, March fiscal year-ends, 2007-2017E

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Wireless											
Wireless market (Rs bn)	534	770	1,027	1,274	1,444	1,577	1,701	1,817	1,926	2,031	2,132
Bharti's wireless revenues (Rs bn)	141	218	313	394	456	501	545	583	611	635	655
Bharti's revenue share (%)	26.5	28.3	30.4	31.0	31.6	31.8	32.0	32.1	31.7	31.3	30.7
All India subscribers (mn)	158	252	355	440	504	553	592	623	648	668	684
All India mobile penetration (%)	13.9	21.9	30.5	37.3	42.2	45.7	48.3	50.3	51.7	52.8	53.5
All India GSM subs (mn)	124	189	256	306	342	369	392	413	432	452	470
Bharti subscribers (mn)	37.1	61.9	87.9	107.7	122	132	141	147	153	157	160
Bharti's share of overall subs (%)	**23.6**	**24.6**	**24.8**	**24.5**	**24.2**	**24.0**	**23.8**	**23.7**	**23.6**	**23.5**	**23.4**
Bharti's share of subs in service areas (%)	23.6	24.6	24.8	24.5	24.2	24.0	23.8	23.7	23.6	23.5	23.4
Bharti's share of GSM subs (%)	30	33	34	35	36	36	36	36	35.4	34.7	34.1
Bharti prepaid subscribers (mn)	33	56	81	100	113	123	131	137	142	146	149
Bharti postpaid subscribers (mn)	4.4	5.4	6.7	7.9	8.8	9.4	9.9	10.3	10.6	10.9	11.1
Bharti blended ARPU incl. inroaming	**412**	**365**	**347**	**336**	**331**	**328**	**332**	**337**	**339**	**342**	**344**
Bharti blended ARPU (Rs/month)	391	349	333	323	320	317	321	325	328	330	332
Bharti prepaid ARPU (Rs/month)	305	294	288	282	281	279	283	287	288	290	292
Bharti postpaid ARPU (Rs/month)	926	844	835	825	816	819	827	839	852	864	874
Data ARPU/Blended ARPU (%)	6.2	6.2	6.1	6.1	6.2	6.3	6.3	6.3	6.3	6.3	6.4
Bharti blended MOU (mins/month)	447	469	527	529	534	538	543	548	548	548	548
Bharti prepaid MOU (mins/month)	379	416	481	487	492	497	503	508	508	508	508
Bharti postpaid MOU (mins/month)	873	949	1,049	1,054	1,061	1,068	1,073	1,079	1,084	1,089	1,089
Bharti blended RPM (Rs) (ARPU/MOU)	0.88	0.74	0.63	0.61	0.60	0.59	0.59	0.59	0.60	0.60	0.61
Bharti prepaid RPM (Rs/min) (ARPU/MOU)	0.81	0.71	0.60	0.58	0.57	0.56	0.56	0.56	0.57	0.57	0.57
Bharti postpaid RPM (Rs/min) (ARPU/MOU)	1.06	0.89	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Bharti overall blended yield (Rs/min)	**0.93**	**0.78**	**0.66**	**0.64**	**0.62**	**0.61**	**0.61**	**0.62**	**0.62**	**0.62**	**0.63**
Blended EBITDA per min (Rs)	**0.35**	**0.31**	**0.23**	**0.22**	**0.22**	**0.21**	**0.22**	**0.22**	**0.22**	**0.23**	**0.23**
Blended EBITDA per sub (US$)	41	43	38	37	38	37	38	39	40	40	41
Capex/incremental min (Rs)	0.75	0.75	0.37	0.36	0.35	0.33	0.32	0.31	0.29	0.28	0.26
All capex/incremental min (Rs)	0.92	0.92	0.48	0.51	0.58	0.69	0.80	0.93	1.31	1.60	2.01
Fresh capex/new sub (US$)	86	113	85	83	88	86	84	84	70	66	61
Total wireless capex/new sub (US$)	90	118	94	101	127	152	178	215	265	324	400
Capex/sales (%)	50.9	53.6	29.9	19.0	14.6	11.8	10.0	9.1	8.5	8.0	7.7
Fixed-line											
Fixed-line access market revenues (Rs bn)	395	413	441	469	499	530	562	595	628	664	700
Bharti's fixed-line revenues (Rs bn)	22.3	28.4	33.8	38.7	42.7	46.3	49.6	52.8	56.0	59.2	62.3
Bharti's share of revenues (%)	5.7	6.9	7.7	8.2	8.6	8.7	8.8	8.9	8.9	8.9	8.9
All India fixedline subscribers (mn)	50	52	55	57	60	63	66	68	71	74	77
Bharti fixedline subscribers (mn)	1.87	2.3	2.6	3.0	3.2	3.5	3.8	4.0	4.2	4.5	4.7
Bharti's share of subs (%)	3.7	4.4	4.8	5.2	5.4	5.6	5.7	5.9	6.0	6.1	6.2
Bharti recurring ARPU (Rs/month)	1,130	1,124	1,129	1,138	1,140	1,138	1,133	1,130	1,126	1,123	1,121
International Long Distance (ILD)											
ILD voice											
Market revenues (Rs bn)	66	68	79	91	102	115	124	134	144	156	168
Revenues to ILD operator (total less originating	54	60	70	82	93	104	112	121	130	140	150
Bharti's ILD revenues (Rs bn)	15.8	10.8	11.2	12.5	13.4	15.1	16.3	17.5	18.9	20.4	25.9
Bharti's market share (%)	29.5	18.0	16.0	15.2	14.4	14.6	14.5	14.5	14.5	14.5	17.3
Market minutes (mn mins)	15,181	19,060	22,666	26,932	30,380	34,274	36,973	39,865	42,976	46,324	58,767
Bharti's share of mins (%)	28.4	28.4	26.0	25.5	25.0	25.0	25.0	25.0	25.0	25.0	25.0
ILD Data											
Bharti's revenues (Rs bn)	5.0	10.8	17.3	19.0	20.2	21.4	22.3	23.1	24.1	25.0	26.0
Domestic Long Distance (DLD)											
Market revenues (Rs bn)	108	128	149	170	188	202	217	231	245	258	304
Revenues to DLD operator (net of orig.)	67	72	83	95	105	113	122	129	137	144	170
Bharti's DLD revenues (Rs bn)	12.8	20.3	23.6	27.0	29.8	32.2	34.5	36.7	38.9	40.9	43.0
Bharti's market share (%)	19.0	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	25.3

Source: Company, Kotak Institutional Equities estimates.

Banking

ICBK.BO, Rs916	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,000
52W High -Low (Rs)	1465 - 720
Market Cap (Rs bn)	1,019

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	170.1	202.3	250.9
Net Profit (Rs bn)	41.6	39.4	51.4
EPS (Rs)	39.9	35.4	46.2
EPS gth	*15.4*	*(11.3)*	*30.5*
P/E (x)	22.9	26	19.8
P/B (x)	2.1	2.0	1.9
Div yield (%)	1.2	1.0	1.3

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	70.3	-	-
FIIs	6.0	4.5	1.9
MFs	-	-	(2.7)
UTI	7.4	5.1	2.4
LIC	8.9	2.7	-

ICICI Bank: Significantly higher profits aided by other income and lower expenses; retain ADD

Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

- **ICICI Bank reported almost twice our profit estimate at Rs11.5 bn, a growth of 39% yoy**
- **NII growth was in line, however higher non-interest income and lower expenses aided PAT growth**
- **Retain ADD rating with a target price of Rs1,000 from Rs900 earlier**

ICICI Bank reported nearly double our profit estimate at Rs11.5 bn, a growth of 39% yoy. While NII growth was in line with our estimate, higher fees and treasury income and significantly lower employee costs resulted in the company surpassing our estimates. The company remained on track in restructuring its domestic operations, showing slower loan growth and increasing CASA ratio. Asset quality remains a concern, as it deteriorated further rising 15% qoq, and the company made higher provisions for NPLs. ICICI Bank did not make any disclosures on either the likely MTM hit of forex derivatives for its corporates or the provisions made by it the current quarter. We are increasing our earnings estimate by 7% for FY2009 to factor in lower operating expenses. Our target price stands revised upward by 11% to Rs1,000 reflecting earnings change and change in value of subsidiaries in line with the FY2008 disclosures and roll-over.

NII growth in line with our estimates in 4QFY08

- ICICI Bank NII growth at 24% was driven by small increase in NIM on a sequential basis, and 16% growth in earnings assets.
- The bank reduced focus on advances (15% growth), and increased focus on improving the liability profile (CASA ratio up to 26% from 22% in 4QFY07)
- Margin improved 12 bps yoy to 2.4% in 4QFY08. We are expecting margin to improve further by 14 bps in FY2009 as the bank restructures its balance sheet
- Within advances, growth was driven by international lending (96% yoy), corporate loans (52% yoy) while retail loans remained stagnant at 3% yoy growth. Retail disbursements likely declined by 40% in FY2008 compared to FY2007

Fee income increase was much higher than estimates

- ICICI Bank reported 13% growth in its non-interest income to Rs23.6 bn in 4QFY08, with healthy contribution from fee, treasury and other non-fund based income streams
- Fee income grew 35% yoy exceeding our estimate by 16%. We had assumed lower fees to factor in slowdown in international operations and third-party product distribution due to volatility in capital markets
- The bank booked treasury income of Rs1.6 bn in 4QFY08 despite adverse market conditions. It is to be noted that the treasury income reported by ICICI Bank is net of US$100 mn of mark-to-market losses on its CDS/CDO book. We are assuming nil contribution from treasury income for banks for FY2009
- ICICI Bank's other income also includes income from its venture capital subsidiary, which the company does not disclose

Operating expense come off due to lower pay

- ICICI Bank has cut down on variable pay to its employees and gone slow on promotions and increments. This likely accounts for the slow growth and falling short of our estimate. Employee cost increased just 6% yoy and fell short of our estimate by 27%
- We believe the slow growth in employee cost increase is, however, not sustainable in a highly competitive scenario and in a growing market like India. This could impact ICICI Bank's ability to attract and retain employees
- Even direct marketing cost declined by 15% yoy and was 20% below our estimate, as the bank went slow on its retail loan growth

Asset quality deteriorates, may slip further

- ICICI Bank reported an increase of 15% in gross NPLs sequentially to Rs84 bn. A large part of the contribution to gross NPLs was from non-collateral retail portfolio of the company
- Provisions in 4QFY08 at Rs11.9 bn included Rs2.4 bn for investment amortization, and Rs9.5 bn for NPL provisions. The bank has likely made some provision for forex derivative losses under this segment, but has not disclosed this number

International operations continues to gain size

- ICICI Bank's international asset (both on domestic book and international subsidiaries) now stand at US$28bn, up from US$17bn in FY2007
- The international subsidiary has raised retail deposits of US$7.5 bn, against which the company holds US$5.5 bn of bonds. Nearly US$2 bn is in cash and money market instruments, US$600 mn of mortgage backed securities and the balance in banks and investment bank bonds
- The company has taken a total hit of US$170 mn on its CDO/CDS exposure and international investment book in 4QFY08. While the parent's book had a MTM loss of US$100 mn in 4QFY08, the international subsidiaries took a US$70 mn MTM hit in the current quarter
- The international subsidiaries also had US$80 mn of MTM losses, which was routed through the balance sheet. However, we note that this accounting entry is not considered by the regulators in the respective jurisdictions for calculation of the capital adequacy ratios
- The UK subsidiary has posted a loss of US$12 mn and Canada subsidiary a loss of US$15 mn in 4QFY08
- Despite the MTM losses, these subsidiaries are well capitalized and had a CAR of 18.6% in UK and 22.9% in Canada

Subsidiary performance

- ICICI Prudential Life reported 68% increase in retail new business premium and margin of 19.2% for FY2008. The total capital invested in insurance business stands at Rs37 bn up from Rs21 bn in FY2007. The loss in 4QFY08 reduced 8% yoy to Rs3.6 bn, while the NBV increased 48% yoy to Rs5 bn. The assets held by ICICI Life increased to Rs 286 bn in March 2008 from Rs 158 bn. The company increased its branch network to over 1,900 from around 539 last year
- ICICI Lombard General Insurance premium increased 11.4% to Rs33 bn in FY2008, but its PAT increased by 51% to Rs1 bn in FY2008 from Rs680 mn in FY2007. The combined ratio stood at 102.5%
- ICICI Securities' PAT increased to Rs1.5 bn in FY2008 from Rs621 mn and that of

ICICI Securities Primary Dealership's PAT for FY2008 was Rs 1.4 bn. ICICI Securities has set up 300 branches in the recent past in order to grow its online business

- Asset management business— ICICI Prudential Asset Management Company's and ICICI Ventures had AUM of Rs96 bn and Rs556 bn, respectively, as of March 2008

ICICI Bank quarterly profit & loss statement, Rs mn

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	% chg	4QFY08KS	Actual Vs KS
Interest income	50,386	54,694	58,247	66,616	75,661	77,268	81,238	82,692	24.1	87,531	(5.5)
Interest on advances	34,372	37,902	41,655	47,034	54,492	55,734	57,522	58,262	23.9	63,221	(7.8)
Interest on investments	13,425	14,848	15,426	16,187	19,140	20,289	21,720	22,488	38.9	21,078	6.7
Balance with RBI	2,590	1,945	1,165	3,395	2,029	1,245	1,997	1,943	(42.8)	3,232	(39.9)
Interest expenses	35,634	38,924	41,159	47,869	58,519	57,305	59,521	59,498	24.3	63,855	(6.8)
Net interest income	**14,753**	**15,770**	**17,088**	**18,747**	**17,143**	**19,963**	**21,717**	**23,194**	**23.7**	**23,675**	**(2.0)**
NII. aft adjt invt amortiz.	**12,083**	**13,340**	**14,848**	**16,317**	**14,793**	**17,860**	**19,597**	**20,795**	**27.4**	**21,475**	**(3.2)**
Non-interest income	12,776	15,701	19,806	20,999	19,503	20,719	24,266	23,617	12.5	18,109	30.4
Commission and fees	10,550	11,850	13,451	14,270	14,280	14,860	17,850	19,280	35.1	16,673	15.6
Retail fee income	6,119	6,636	7,533	7,991	7,854	8,322	9,461	10,026	25.5		
Investment income	876	2,400	3,100	4,450	1,950	1,750	2,820	1,640	(63.1)	221	641.9
Other income (incld income from sel	1,350	1,451	3,255	2,279	3,273	4,109	3,596	2,700	18.5	1,214	122.4
Total income	**27,528**	**31,471**	**36,894**	**39,747**	**36,645**	**40,683**	**45,983**	**46,811**	**17.8**	**41,784**	**12.0**
Total income excluding treasury	26,653	29,071	33,794	35,297	34,695	38,933	43,163	45,171	28.0	41,563	8.7
Operating expenses	15,215	15,352	17,133	19,206	19,053	19,708	21,276	21,505	12.0	24,920	(13.7)
Salary	3,568	3,930	4,262	4,408	5,218	5,199	5,705	4,666	5.9	6,387	(26.9)
Other costs	7,739	8,152	9,039	10,569	10,008	10,655	11,408	13,255	25.4	14,027	(5.5)
DMA cost	3,908	3,271	3,831	4,229	3,827	3,854	4,163	3,584	(15.3)	4,506	(20.5)
Preprovision profit	12,314	16,119	19,761	20,541	17,592	20,975	24,707	25,306	23.2	16,864	50.1
Provisions	4,828	7,093	8,910	11,423	7,873	8,548	9,724	11,874	3.9	8,572	38.5
Loan loss provisions	2,158	4,663	6,710	4,190	5,523	5,660	7,600	9,475	126.1	7,160	32.3
Provision on standard assets	470	870	1,400	4,570	220	780	640	250	(94.5)		
Investments amortization	2,670	2,430	2,240	2,430	2,350	2,103	2,120	2,399	(1.3)	2,200	9.1
Profit before tax	7,486	9,025	10,852	9,117	9,720	12,427	14,983	13,432	47.3	8,292	62.0
Tax	1,671	1,800	1,751	866	1,969	2,401	2,681	1,933	(28.8)	1,557	24.2
Profit after tax	**6,200**	**7,550**	**9,101**	**8,251**	**7,751**	**10,026**	**12,302**	**11,498**	**39.4**	**6,736**	**70.7**
Effective tax rate(%)	17	16	16	9	20	19	18	14		19	

Source: Company, Kotak Institutional Equities estimates.

ICICI Bank quarterly balance sheet, Rs bn

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	% chg
Key balance sheet items									
Deposits	**1,830**	**1,895**	**1,969**	**2,305**	**2,308**	**2,283**	**2,298**	**2,443**	**6.0**
Savings	240	271	289	288	321	350	380	391	35.5
Current	160	155	181	210	200	230	240	244	16.4
CASA ratio (%)	21.9	22.5	23.9	21.6	22.6	25.4	27.2	26.0	0.0
Customer assets	**1,548**	**1,638**	**1,810**	**2,054**	**2,065**	**2,122**	**2,246**	**2,392**	**16.5**
Retail loans including CV	987	1,077	1,179	1,277	1,274	1,310	1,323	1,317	3.1
Retail loans to Customer assets (%)	63.0	65.7	65.2	62.2	61.7	61.7	58.9	55.0	(11.5)
Housing loans	495	545	597	670	655	668	668	668	(0.3)
Auto loans	192	190	197	192	190	197	170	178	(7.1)
Two wheelers	21	16	27	22	26	29	35	27	22.7
Personal loans	70	92	108	120	112	131	138	132	10.0
Credit cards	35	40	46	54	61	71	79	84	55.6
Commercial vehicles	115	120	138	185	NA	170	180	190	2.6
Corporate and project finance	447	456	515	576	649	712	832	875	52.0
Agri	114	105	115	201	141	100	90	200	(0.5)
International lending	132	150	208	244	325	370	453	477	95.7
Loan sell down	40	35	35	NA	39	NA	40	55	
Balance sheet snapshot									
Cash, balances with banks, SLR	811	845	824	1,045	1,061	1,084	1,074	1,131	8.2
Cash advances	206	238	248	371	296	340	310	380	2.5
SLR Investments	605	607	576	674	764	744	764	750	11.4
Advances	1,472	1,554	1,728	1,959	1,983	2,071	2,155	2,256	15.2
Retail	991	1,077	1,179	1,277	1,274	1,310	1,323	1,317	3.1
Other investments	208	223	219	239	331	279	290	364	52.5
Other assets	172	202	187	204	195	215	249	247	20.9
Total assets	**2,663**	**2,824**	**2,958**	**3,447**	**3,569**	**3,649**	**3,767**	**3,998**	**16.0**
Networth	228	236	244	243	247	448	465	465	91.1
Equity capital	9	9	9	9	9	11	11	11	23.8
Reserves and surplus	219	227	236	234	238	436	454	454	93.7
Preference capital	4	4	4	4	4	4	4	4	0.0
Deposits	1,830	1,895	1,969	2,305	2,308	2,283	2,298	2,444	6.0
Total borrowings	468	516	588	707	703	736	816	864	22.3
ICICI borrowings	127	114	119	108	0	99	0	0	0.0
Other liabilities	133	174	153	188	308	180	184	221	17.6
Total liabilities	**2,663**	**2,824**	**2,958**	**3,447**	**3,569**	**3,649**	**3,767**	**3,998**	**16.0**

Source: Company, Kotak Institutional Equities estimates.

Yield measures, asset quality ratios and capital adequacy details of ICICI Bank

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	% chg
Yield management measures (%)									
Yield on advances	9.3	9.9	10.0	10.5	11.0	11.0	11.0	NA	
Cost of deposit	5.6	6.1	6.3	6.7	7.9	7.7	7.4	7.3	
Cost of funds	0.0	0.0	0.0	0.0	7.8	7.7	7.4	7.3	
NIM (incl. amortization expenses)	**0.0**	**2.1**	**2.5**	**2.3**	**2.0**	**2.2**	**2.3**	**2.4**	
Asset quality details									
Gross NPLs to advances	2.2	2.4	2.5	2.5	3.0	3.0	3.4	3.7	
Gross NPLs to adv. Lagged	3.2	3.3	3.4	3.2	3.9	4.1	4.0	4.1	
Net NPLs to advances	0.9	0.9	1.1	1.0	1.4	1.4	1.5	1.6	
Gross NPLs (Rs bn)	33	37	44	49	60	67	72	84	72.2
Provisions and w/off (Rs bn)	20	22	25	28	33	37	39	48	69.1
Net NPLs (Rs bn)	13	15	19	20	27	30	33	36	76.5
Gross NPLs in retail (Rs bn)	17	21	25	31	39	42	46	55	78.0
Non collateral accounts (Rs bn)	NA	11	13	17	21	25	27	37	120.8
Retail ratio (%) excld non-collateral	NA	1	1.16	1.29	1.62	1.54	1.76	1.65	
Net NPLs in retail (Rs bn)	8.9	10.5	12.6	15.1	19.4	20.0	21.8	24.0	58.7
Non collateral accounts (Rs bn)	NA	NA	5.5	7.1	8.9	0.0	9.8	16.1	126.3
Capital adequacy details									
CAR (%)	12.5	14.3	13.4	11.7	11.0	16.8	15.8	14.0	
Tier I (%)	8.6	9.4	8.6	7.4	7.1	13.0	12.1	11.8	
Tier I (Rs bn)	193	219	223	215	209	398	393	385	
Tier II (%)	3.9	4.9	4.7	4.3	3.9	3.8	3.7	2.2	
Tier II (Rs bn)	87	116	123	124	117	114	121	72	

Source: Company, Kotak Institutional Equities estimates.

Key details of the investment book and provisions made by ICICI Bank

In US$ mn

	ICICI Bank standalone	International bank subsidiaries	Total
Total investments as on March 2008			
	1,500	**6,200**	**7,700**
Credit derivative products	1,500	700	**2,200**
Investments in bonds	-	5,500	5,500
Provisions made during 4QFY08			
	100	**150**	**250**
Adjusted against networth		80	80
MTM hit in the P&L account	100	70	170
Total provisions made during FY2008			
	170	**265**	**435**
Adjusted against networth		140	140
MTM hit in the P&L account	170	125	295

Source: Company, Kotak Institutional Equities estimates.

ICICI Bank value based on SOTP

	ICICI Share (%)	Vaiue per share	Valuation methodoly adopted
Value of ICICI standalone	**100**	587	Based on residual income model
Less: MTM hits			
Subsidiaries			
ICICI Financial Services	**100**	**236**	
ICICI Prudential Life	74	184	18X NBAP+EV
General Insurance	74	38	5X FY2008 PBR
Mutual Fund	51	14	5% of FY2009 AUMs of Rs600 bn
Other subsidiaries/associates			
ICICI Securities Ltd	100	41 (17)	PER of 30X FY2008 EPS . Multiple remains the same, rollover of earnings to FY2008
ICICI Securities Primary Dealer	100	1	PBR of 1X FY2007 BVPS
ICICI Homes Ltd	100	13	PBR of 4X FY2008 BVPS
ICICI Bank UK	100	50 (20)	PBR of 3X FY2008 BVPS. Multiple remains the same, rollover of networth to FY2008
ICICI Bank Canada	100	30 (0)	PBR of 2X FY2008 BVPS. Multiple remains the same, rollover of networth to FY2008
ICICI Bank Euroasia	100	4	PBR of 2X FY2007 BVPS
3i	11.18	2	Market value
Venture capital/MF	100	12	12% of AUM current AUM estimated at US$2.6bn
ICICI One Source	25	11	20% premium over market value
ARCIL	29.7	2	Based on value assigned by IDFC at Rs7.15bn
NSE	5.5	6	Based on value assigned by recent divestment to FT. NSE valued @ Rs125 bn
Value of subsidiaries		**406**	
Value of company		**993**	

Note:

(1) Figures in parenthesis indicate the contribution to SOTP in previously.

(2) Equity investments in UK and Canadian subsidiary by ICICI Bank were at Rs18.5 bn and Rs16.5 bn as of March 2008.

Source: Company, Kotak Instititional Equities estimates.

Metals

STRL.BO, Rs836	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	1,000
52W High -Low (Rs)	1150 - 477
Market Cap (Rs bn)	592.5

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	252.2	261.5	265.4
Net Profit (Rs bn)	42.3	40.5	41.8
EPS (Rs)	59.7	57.2	59.0
EPS gth	*(28.1)*	*(4.3)*	*3.1*
P/E (x)	14.0	15	14.2
EV/EBITDA (x)	7.2	6.5	5.8
Div yield (%)	-	-	-

Sterlite Industries: 4QFY08 results—Zinc-delivered surprise; retain ADD

Jigar Mistry : jigar.mistry@kotak.com, +91-22-6749-3571

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **Reported 4QFY08 net earnings increase 54% qoq, led by higher EBITDA, higher other income and non-recurring forex gains. Adjusted for non-recurring/change in accounting policy, net earnings grew 20% qoq.**
- **All three businesses delivered better EBIT for 4QFY08; highest rise in aluminium business following higher prices and stable costs**
- **Volumes across businesses rise; highest being zinc production following capacity ramp-up at Chanderiya smelter**
- **Retain target price of Rs1,000/share and earnings (as lower expectations on zinc earnings compensated for higher expectation of aluminium prices). Retain ADD rating**

Sterlite Industries reported 4QFY08 net profit at Rs13.1, up 54% qoq and 15% yoy, better than our estimates for the quarter. However, adjusting earnings for non-recurring items and for changes in accounting policies, net earnings improved 20% qoq (inline with estimates). EBIT for all three businesses increased, with the highest rise being in aluminium business (following better volumes and realizations, but also for change in accounting policy). Volumes improved across businesses, with highest rise being in zinc business with capacity ramp-up at Chanderiya smelter. We retain our ADD rating on the stock with target price of Rs1, 000, albeit changed composition of earnings and SOTP-based TP following change our expectation of zinc prices (lower than estimated earlier) and aluminium prices (higher than anticipated by us earlier).

Three-pronged thrust to net earnings. Reported net earnings for 4QFY08 increased 54% on qoq basis (but just 15% on yoy) following (a) higher EBITDA, (b) higher other income and (c) non-recurring forex gains.

EBITDA was higher on a qoq basis following (a) strong production growth across businesses (aluminium volumes grew 15% yoy/qoq whereas zinc volumes were up 30% qoq), (b) better realizations in aluminium business (realizations increased 12% for aluminium business (although down 7% qoq for zinc) and (c) unlike last few quarters, stable rupee.

Depreciation accounting for aluminium business was altered (and brought in line with rest of businesses), which led to a positive depreciation for the current quarter. Adjusted for such change in accounting policy, net earnings have increased 20% yoy.

EBIT across businesses improved drastically, with highest growth in aluminium EBIT. Reported EBIT (includes other income) increased 68% on qoq basis. Aluminium business reported increase in EBIT by 2.7X, which was driven by (a) higher realizations and (b) change in accounting policy that led to depreciation creating a positive charge on profitability.

EBIT from zinc business grew 33% qoq, which grew largely following (a) increase in volumes and (b) change in sales mix of concentrate sales.

Expansion projects appear on-track. The management informed that expansion at Zinc (88KT de-bottlenecking and associated captive power), Aluminium (VAL's 500KT smelter at Langigarh) and that at Sterlite Energy (2,400 MWs) are running on schedule. In addition, production at Vedanta Alumina's refinery has started to ramp-up and the unit produced 267KT of alumina in FY2008.

We fine tune our consolidated model to reflect our assumption of higher aluminium price expectation for FY2009 and FY2010 as well as lower zinc prices for the same years. This leaves our net earnings for FY2009 unchanged and that for FY2010 lower by ~5%.

Retain ADD rating and target price of Rs1,000. We continue to rate Sterlite as an ADD following (a) a 25% upside in TP versus current market prices, (b) our expectation of strong execution of new project by the current management group leading to growth in capacities at attractive capital costs, (c) lower revenue operating costs in zinc and aluminium businesses and (d) ability of management to effectively use cash flows to create strong affiliated businesses (like Sterlite Energy).

The composition of our SOTP-based target price has changed now, since we expect lower earnings from zinc business and higher from aluminium. Stake in Hindustan Zinc now forms 48% of EV (versus 54% earlier), which is made up by increase in valuations of aluminium business (both Balco and Vedanta alumina).

Sterlite Industries (Consolidated), Interim results, March fiscal year-ends (Rs mn)

				% change		Full year			
	4Q 2008	3Q 2008	4Q 2007	qoq	yoy	2008	2007	% change	Comments on interim results
Quantitative details ('000 tons)									
Copper mined metal content	6	7	6	(14.3)	-	27	28	(3.6)	
Copper cathode	90	77	89	16.9	1.1	339	312	8.7	
Aluminium ingots	102	89	89	14.6	14.6	378	314	20.4	Aluminium production increased 15% yoy as well as qoq
Zinc mined metal content	138	136	121	1.5	14.0	551	504	9.3	
Zinc cathode	135	104	95	29.8	42.1	426	348	22.4	Chanderiya expansion starting yielding production
Earnings drivers									
Average INR:USD	39.79	39.47	44.16	0.8	(9.9)	40.26	45.25	(11.0)	INR stood flat on qoq basis
Average Zinc prices	2,459	2,646	3,441	(7.1)	(28.5)	3,001	3,545	(15.3)	Zinc prices down 7% on qoq basis
Average Aluminium prices	2,790	2,502	2,748	11.5	1.5	2,676	2,672	0.1	Aluminium prices in increase 12% qoq
Spot Copper TC/RC (US cents/pounds)	9.0	8.1	11.3	11.1	(20.3)	-	-		TC/RC increased on qoq basis; expect contracted TC/RC to reduce though
Interim results									
Net revenues	**67,659**	**52,332**	**62,516**	29.3	8.2	**247,054**	**243,868**	1.3	
Expenditure	**(45,913)**	**(36,616)**	**(39,799)**			**(168,372)**	**(149,280)**		
Stock adjustment	622	707	(883)			989	3,834		
Raw materials	(32,462)	(25,173)	(28,014)			(118,702)	(108,812)		
Employee cost	(1,843)	(1,784)	(1,587)			(6,592)	(5,495)		
Other costs	(12,229)	(10,366)	(9,315)			(44,067)	(38,807)		
EBITDA	**21,746**	**15,717**	**22,716**	38.4	(4.3)	**78,682**	**94,589**	(16.8)	Zinc delivered surprise in EBITDA
Other income	3,798	3,009	2,485	26.2	52.8	15,661	6,817		Higher cash deliveres higher other income
Depreciation	269	(2,142)	(2,446)			(5,950)	(8,039)		Change in accounting policy leads to negative depreciation
EBIT	25,813	16,584	22,755			88,393	93,367		
Interest	(908)	(681)	(874)			(3,186)	(3,791)		
Pre-tax profits - as reported	24,905	15,904	21,881			85,207	89,576		
Unusual or infrequent items	(1,592)	-	(63)			(528)	(1,572)		Forex gains reclassified by us as unusal items
Pre-tax profits - as adjusted	**26,497**	**15,904**	**21,818**	66.6	21.4	**84,679**	**88,004**	(3.8)	Higher EBITDA, other income increases pre-tax profits
Taxes	(7,177)	(4,138)	(4,702)			(21,027)	(24,118)		
Reported profits - as reported	19,320	11,766	17,117			63,652	63,887		
Less: Minority earnings	(6,135)	(3,213)	(5,685)			(19,658)	(20,024)		
Reported profits - as adjusted	**13,184**	**8,553**	**11,432**	54.1	15.3	**43,994**	**43,862**	0.3	
Recurring net earnings	**12,023**	**8,553**	**11,481**	40.6	4.7	**43,597**	**45,004**	(3.1)	
Adjusted for change in accounting policy	**10,266**	**8,553**	**11,481**	20.0	(10.6)				Assuming stable depreciation; on recurring net earnings basis
Ratios									
Costs as % of revenue (%)	67.9	70.0	63.7			68.2	61.2		
EBITDA margin (%)	32.1	30.0	36.3			31.8	38.8		
ETR (%)	27.1	26.0	21.5			24.8	27.4		
EPS (Rs/share)	17.0	12.1	16.2			61.5	63.5		
Segmental information									
Segmental revenue	**74,008**	**58,101**	**67,674**	**27.4**	**9.4**	**197,435**	**194,917**	**1.3**	
Copper	35,347	27,878	30,431	26.8	16.2	95,935	88,565	8.3	
Aluminium	12,669	10,711	14,173	18.3	(10.6)	34,308	33,584	2.2	
Zinc and lead	24,626	18,540	22,260	32.8	10.6	63,421	69,944	(9.3)	
Others	1,366	973	810	40.4	68.6	3,771	2,825	33.5	
EBIT	**27,933**	**16,584**	**22,755**	**68.4**	**22.8**	**60,460**	**70,612**	**(14.4)**	
Copper	3,670	1,858	2,867	97.5	28.0	6,547	11,919	(45.1)	Better quarterly TC/RC, higher by-prod realization delivers better EBIT
Aluminium	5,473	1,452	4,552	276.8	20.2	6,321	7,431	(14.9)	Higher LME prices and change in accounting policy delivers better EBIT
Zinc and lead	13,777	10,320	13,799	33.5	(0.2)	40,131	49,281	(18.6)	Higher production, concentrate sale increases EBIT
Others	(901)	638	(46)	(241.1)	1,858.3	1,553	119	1,207.2	
Unallocated	5,914	2,316	1,583	155.4	273.5	5,909	1,863	217.2	

Source: Company data, Kotak Institutional Equities estimates

SOTP-based target price of Sterlite Industries is Rs1,000/ share

SOTP-based target price of Sterlite, March fiscal year-ends, 2009E basis (Rs mn)

	EBITDA (Rs bn)	Multiple (X)	EV (Rs bn)	Sterlite's stake (%)	Attributable EV (Rs bn)	EV (Rs/ share)
Hindustan Zinc	54	7	376	65	244	345
Bharat Aluminium	21	8	169	51	86	122
Sterlite (copper business)	9	6	47	100	47	66
Vedanta Alumina (b)	18	8	146	30	43	61
Copper Mines of Tasmania (a)						36
Sterlite energy (c)					65	92
Total Enterprise Value					**485**	**721**
Net debt / (cash)					(189)	(267)
Attibutable market capitalization					**674**	**988**
Target price (Rs/ share)						**1,000**

Notes:

(a) Copper Mines of Tasmania has been valued on DCF basis, as the mine-life is only 6 years

(b) EBITDA of Vedanta Alumina enhanced to reflect income tax exemptions

(c) We have valued investments in Sterlite energy 3X book

Source: Kotak Institutional Equities

Sterlite Industries (consolidated), Summary financials, March fiscal year-ends, 2007-10E (Rs mn)

Income statement	2007	2008E	2009E	2010E
Net revenues	**243,868**	**250,386**	**261,100**	**258,775**
Expenditure	**(149,280)**	**(169,419)**	**(175,215)**	**(175,507)**
Raw materials	(137,152)	(141,665)	(144,192)	(141,287)
Employee expenses	(5,495)	(9,857)	(11,031)	(12,012)
Other expenditure	(6,632)	(17,897)	(19,992)	(22,207)
EBITDA	**94,589**	**79,423**	**85,885**	**83,268**
Non-operating income	6,817	11,917	6,126	7,050
Depreciation	(8,039)	(8,740)	(9,273)	(9,701)
EBIT	93,367	82,600	82,738	80,617
Interest expenses	(3,791)	(3,117)	(2,363)	(1,849)
Adjusted pre-tax profits	89,576	79,482	80,374	78,769
Unusual or infrequent items	(1,572)	2,218	-	-
Reported pre-tax profits	88,004	81,700	80,374	78,769
Taxes	(24,118)	(19,954)	(23,364)	(22,583)
Less: minority stake	(19,042)	(18,433)	(18,042)	(17,580)
Add: share in associates	-	1,483	1,889	1,174
Reported net income	**44,845**	**44,797**	**40,857**	**39,779**
Adjusted net income	**45,986**	**43,121**	**40,857**	**39,779**
EPS (Rs), based on wtd avg shares	**82.3**	**68.1**	**57.7**	**56.1**
EPS (Rs), based on fully diluted shares	**82.3**	**60.9**	**57.7**	**56.1**
Year-end shares outstanding (mn)	558.5	708.5	708.5	708.5
Weighted average shares outstanding (mn)	558.5	633.5	708.5	708.5
Fully diluted shares outstanding (mn)	558.5	708.5	708.5	708.5

Balance sheet	2007	2008E	2009E	2010E
Equity capital	1,117	1,417	1,417	1,417
Reserves and surplus	98,698	216,207	250,564	284,454
Deferred tax liability	9,174	12,809	18,552	24,398
Total Equity	**108,989**	**230,433**	**270,533**	**310,269**
Secured loans	15,258	10,258	5,258	258
Unsecured loans	30,848	25,601	24,101	22,601
Minority interest	36,259	56,902	79,683	101,741
Total borrowings	**82,365**	**92,761**	**109,042**	**124,600**
Current liabilities	48,636	31,514	30,775	30,620
Total capital	**239,990**	**354,708**	**410,350**	**465,489**
Cash	11,134	95,387	139,891	194,436
Inventory	28,092	38,229	42,546	42,320
Debtors	16,521	27,343	32,529	32,556
Other current assets	34,846	28,463	28,463	28,463
Total current assets	**90,594**	**189,421**	**243,429**	**297,774**
Gross block	126,414	155,224	166,481	177,481
Less: Depreciation	(43,235)	(46,634)	(56,256)	(66,463)
Net block	83,179	108,590	110,225	111,019
Add: Capital work-in-process	13,997	7,580	7,580	7,580
Total fixed assets	**97,176**	**116,170**	**117,805**	**118,599**
Investments	52,219	49,116	49,116	49,116
Miscellaneous expenditure	0	-	-	-
Total assets	**239,990**	**354,708**	**410,350**	**465,489**

Cash flow statement	2007	2008E	2009E	2010E
Cash flow from operating activities				
PBT	88,198	82,810	91,567	91,077
Add: Depreciation	7,995	8,779	9,622	10,207
Add: Non cash expenses	(714)	-	-	-
Less: net interest	(1,489)	-	-	-
Less: Taxes paid	(22,174)	(22,275)	(23,745)	(23,286)
Less: Dividend income	(631)	-	-	-
Add: Working capital changes	(18,647)	(6,814)	(10,242)	44
Total operating cash flow	**52,537**	**62,500**	**67,202**	**78,040**
Operating Cash flow w/o working capital	71,185	69,314	77,444	77,997
Cash flow from investing activities				
Capital expenditure	(20,871)	(21,356)	(11,257)	(11,000)
Investments	(24,606)	(21,648)	-	-
Interest and dividend received	1,967	-	-	-
Movement of loans	438	-	-	-
Misc expenditure not written off	-	-	-	-
Total investing cash flow	**(43,072)**	**(43,004)**	**(11,257)**	**(11,000)**
Cash flow from financing activities				
Share issuances	(1,936)	82,968	-	-
Loans	(3,540)	(6,500)	(6,500)	(6,500)
Less: Dividends paid (including dividend tax)	(4,441)	(4,940)	(4,940)	(5,996)
Effect of exchange rate change	431	-	-	-
Total financing cash flow	**(9,486)**	**71,528**	**(11,440)**	**(12,496)**
Net change in cash	**(20)**	**91,024**	**44,505**	**54,544**
Opening cash	11,153	4,362	95,387	139,891
Closing cash	**11,133**	**95,387**	**139,891**	**194,436**

Ratios (%)	2007	2008E	2009E	2010E
Effective tax rate	27.4	24.4	29.1	28.7
EBITDA margins	38.8	31.7	32.9	32.2
EBIT margins	38.3	33.0	31.7	31.2
Net debt/equity	(0.2)	(0.5)	(0.6)	(0.7)
Net debt/capitalization	(0.2)	(0.5)	(0.6)	(0.7)
ROACE	29.0	18.3	12.1	10.1
ROAE	50.7	26.4	16.3	13.7

Key assumptions	2007	2008E	2009E	2010E
Aluminium production (tons)	313,189	332,500	343,000	346,500
Zinc ingot production (tons)	348,567	394,665	568,650	635,550
Zinc LME prices (US/ton)	3,580	3,324	3,179	2,800
Aluminium LME prices (US/ton)	2,548	2,536	2,825	2,690

Valuations (X)	2007	2008E	2009E	2010E
Price to Diluted earnings	12.0	16.3	17.2	17.6
EV/EBITDA	7.2	7.5	6.3	5.8
EV/Sales	2.8	2.4	2.1	1.9
M.cap/Sales	2.9	2.8	2.7	2.7
Price to book	5.1	3.0	2.6	2.3

Per share numbers (Rs)	2007	2008E	2009E	2010E
Reported Earnings	82.3	68.1	57.7	56.1
Diluted Earnings	82.3	60.9	57.7	56.1
Cash earnings	96.7	73.2	70.8	69.8
Free cash	90.1	67.7	93.4	94.6
Book	195.1	325.2	381.8	437.9

Source: Company data, Kotak Institutional Equities estimates

Industrials

ABB.BO, Rs1170	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	1,250
52W High -Low (Rs)	1744 - 789
Market Cap (Rs bn)	248.0

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	59.3	76.2	100.0
Net Profit (Rs bn)	4.9	6.5	8.8
EPS (Rs)	23.2	30.5	41.6
EPS gth	*44.5*	*31.4*	*36.4*
P/E (x)	50.4	38.4	28.1
EV/EBITDA (x)	30.1	22.5	16.2
Div yield (%)	0.2	0.3	0.3

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	17.3	-	-
FIIs	3.7	0.7	0.0
MFs	-	-	(0.6)
UTI	8.1	1.3	0.7
LIC	0.5	0.6	-

ABB: Sharp margin expansion may not be sustained given commodity price pressures; change rating to REDUCE from ADD

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496

Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **Sharp margin expansion helps meet expectations despite lower-than-expected execution**
- **Margin expansion likely led by change in revenue mix**
- **Strong order booking highlight strength of capital expenditure momentum visibility**
- **Downgrade earnings estimates based on lower execution; cut DCF-based target price to Rs1,250 (from Rs1,575 earlier)**
- **Revise rating to REDUCE (from ADD earlier); highlight risks from commodity price pressure as well as high valuations**

ABB reported revenues of Rs15.4 bn (up 17% yoy) and PAT of Rs1.2 bn (up 36% yoy) in 1QCY08, versus our expectation of Rs17.5 bn and Rs1.2 bn respectively. Though revenues missed expectations, higher-than-expected EBITDA margins (11.3% versus our expectation of 10%) helped meet our PAT estimates. Revenues have likely missed expectations due to phasing of revenue-recognition on projects over different quarters led by higher proportion of project execution. Order backlog at the end of 1QCY08 was Rs62 bn, providing a visibility of 9 months based on forward four quarter revenues. We downgrade our CY2008E and CY2009E EPS estimates to Rs 30.5 (from Rs34.6 earlier) and Rs41.6 (from Rs45.6 earlier) respectively based on lower execution assumptions. We cut our target price to Rs1,250 (from Rs1,575 earlier). We revise our rating to REDUCE (from ADD earlier) due to high valuations (28X CY2009 EPS estimates) and pressure from commodity prices that may make it difficult for ABB to sustain expansion in EBITDA margins delivered in 1Q.

Sharp margin expansion helps meet expectations despite lower-than-expected execution

ABB reported revenues of Rs15.4 bn (up 17% yoy) and PAT of Rs1.2 bn (up 36% yoy) in 1QCY08, versus our expectation of Rs17.5 bn and Rs1.2 bn respectively. Though revenues missed our expectations, higher-than-expected margins helped meet our PAT estimates. EBITDA margins in 1QCY08 expanded by about 150bps yoy to 11.3% (versus our expectation of 10%, Exhibit 1). Revenues have likely missed our expectations as revenue-recognition on projects is phased over different quarters and actual execution may not have met revenue recognition milestones during 1QCY08 (and hence revenue growth may pick up over the next few quarters). Revenue growth has been led by the Automation Products segment, up 37% yoy. Low growth in Power System segment revenues may be attributable to the low ordering activity by Power Grid in last few quarters.

Margin expansion likely led by changes in revenue mix

1QCY08 EBITDA margins are the highest first-quarter margins achieved by ABB over the last few years (Exhibit 2). The margin expansion is potentially led by change in business mix as raw material expenses as a percentage of sales have declined by 250 bps yoy. The margin expansion is led by the Process Automation (EBIT margins of 14.3% versus 7.5% a year ago) and Power Products segments (EBIT margins of 12.9% versus 9% a year ago). Power Systems and Automation Products have witnessed yoy EBIT margin declines of 60 bps and 130 bps respectively. Decline in Automation Product segment's EBIT margins, despite a sharp revenue growth, likely indicates a change in revenue-mix. The overall margin expansion was limited by the hike in employee expenses though, which increased by 39% yoy (employee expenses to sales ratio has increased by 100 bps yoy).

Margin expansion may not sustain in subsequent quarters in the face of commodity price pressure

While ABB has delivered strongest EBITDA margin over the last six years or so however we believe that ABB may possibly face margin pressures led by (1) likely higher-than-expected input costs (commodity prices have spiked in recent times and may impact margins in next few quarters) and (2) limited scope for further operating leverage gains (as employee expenses have increased sharply in this quarter; also lower base of other expenses and employee expenses as a percentage of sales leaves little further room for reduction (other expenses and employee expenses to sales ratio has declined from about 17% in CY2004-05 to about 15% in CY2006-07)). Our estimates are building in 40 bps yoy expansion in CY2008E and a further 50 bps margin expansion yoy in CY2009E.

Strong order booking reflects strength of industrial capex momentum across the country

Order booking in 1QCY08 was Rs27 bn, up 35% yoy, the highest-ever in any quarter for the last few years. Order backlog at the end of 1QCY08 was Rs62 bn, providing a visibility of 9 months based on our estimated forward four quarter revenues (Exhibit 3). This visibility exceeds the visibility achieved at the end of last few quarters, in-spite of growing base (underscoring the sectoral growth momentum). We believe that order booking may have been predominantly concentrated in the industrial segment versus power utilities segment underscoring strength of industrial capital expenditure momentum.

Downgrade earnings estimates based on lower execution also resulting in slightly lower EBITDA margin; cut DCF-based target price to Rs1,250 (from Rs1,575 earlier)

We downgrade our CY2008 and CY2009 EPS estimates to Rs 30.5 (from Rs34.6 earlier) and Rs41.6 (from Rs45.6 earlier) respectively based on lower execution that also result in slightly lower EBITDA margin versus earlier expectation. We now estimate a CAGR revenue growth of 30% over CY2007-09E versus 35% earlier (ABB has reported 18% growth in 1QCY08, though it may possibly be due to potential phasing of revenue booking for projects, as highlighted earlier). We cut our CY2008 DCF-based target price to Rs1,250 (from Rs1,575 earlier) based on our revised lower execution assumptions resulting in lower earnings.

Revise rating to REDUCE (from ADD earlier); highlight potential inability to sustain margin expansion in subsequent quarters as well as high valuations

We revise our rating to REDUCE (from ADD earlier). We believe that sharp margin expansion achieved in this quarter (that has helped ABB meet our PAT estimates), may not be sustainable due to commodity price increases and limited scope for operating leverage-related gains (due to increase in employee costs etc). ABB may also face execution-related challenges (we expect a revenue growth of about 28-30% for the next two years (against the 17% achieved during 1QCY08). We highlight that valuations remain steep at about 28X our CY2009E EPS estimates and 22X our CY2010E EPS estimates, perhaps not factoring in potential risks from commodity price pressure and any slowdown in execution.

We remain positive on sectoral outlook as well as execution capabilities, would look to review rating at lower levels

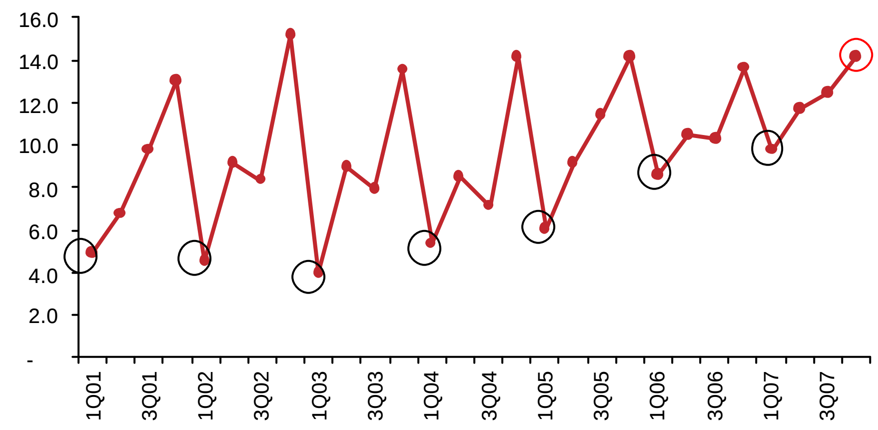
We remain positive on sectoral outlook in terms of likely resumption of ordering activity by Power Grid as well as companies capabilities in terms of delivering strong profitable execution. Thus we would look to review our rating at potentially lower levels. We highlight that upside risks arise from (1) sustenance of EBITDA margin expansion of 150 bps achieved in 1QCY08 (we are assuming about 40 bps margin expansion for CY2008 and another 50 bps for CY2009), (2) higher execution than the 30% growth over the next two years that our estimates build in, (3) resumption of ordering activity by Power Grid, resulting in strong order inflows and (4) robust ordering activity from the industrial (automation solutions etc) and private sectors (both on the power generation and T&D sides).

Exhibit 1. ABB - 1QCY08 - key numbers (Rs mn)

					yoy			qoq	
	CY2007	**CY2008E**	***% change***	**1QCY08**	**1QCY07**	***% change***	**1QCY08**	**4QCY07**	***% change***
Sales	**59,303**	**76,186**	***28.5***	**15,353**	**13,124**	***17.0***	**15,353**	**18,394**	***(16.5)***
Expenses	(52,057)	(66,602)	*27.9*	(13,626)	(11,843)	*15.1*	(13,626)	(15,792)	*(13.7)*
Stock	521	0		118	97		118	266	
RM	(43,441)	(55,485)	*27.7*	(11,147)	(9,848)	*13.2*	(11,147)	(13,509)	*(17.5)*
Employee	(3,061)	(4,144)	*35.4*	(969)	(698)	*38.9*	(969)	(785)	*23.5*
Other expenses	(6,076)	(6,973)	*14.8*	(1,627)	(1,394)	*16.7*	(1,627)	(1,764)	*(7.8)*
Operating profit	**7,246**	**9,584**	***32.3***	**1,727**	**1,282**	***34.8***	**1,727**	**2,602**	***(33.6)***
Other income	710	896	*26.1*	185	152	*22.0*	185	254	*(27.0)*
EBIDT	7,957	10,480	*31.7*	1,912	1,433	*33.4*	1,912	2,856	*(33.0)*
Interest	(68)	0	*(100.0)*	(28)	(10)	*182.1*	(28)	(20)	*43.0*
Depreciation	(324)	(460)	*41.9*	(83)	(86)	*(3.3)*	(83)	(82)	*2.1*
PBT	**7,565**	**10,020**	***32.5***	**1,801**	**1,337**	***34.7***	**1,801**	**2,755**	***(34.6)***
Tax	(2,648)	(3,557)	*34.3*	(624)	(471)	*32.5*	(624)	(947)	*(34.1)*
Net profit	**4,917**	**6,463**	***31.4***	**1,177**	**866**	***35.9***	**1,177**	**1,808**	***(34.9)***
Key ratios (%)									
RM/Sales	*72.4*	*72.8*		*71.8*	*74.3*		*71.8*	*72.0*	
Empl/Sales	*5.2*	*5.4*		*6.3*	*5.3*		*6.3*	*4.3*	
Other exp/Sales	*10.2*	*9.2*		*10.6*	*10.6*		*10.6*	*9.6*	
OPM	*12.2*	*12.6*		*11.3*	*9.8*		*11.3*	*14.1*	
PBT Margin	*12.8*	*13.2*		*11.7*	*10.2*		*11.7*	*15.0*	
Tax rate	*35.0*	*35.5*		*34.6*	*35.2*		*34.6*	*34.4*	
Order inflow & backlog									
Order booking	76,682			26,954	20,003	*34.7*	26,954	20,033	*34.5*
Order backlog	50,260			61,749	42,596	*45.0*	61,749	50,260	*22.9*
Segment results									
Revenues									
Power Products	16,326			4,263	3,803	*12.1*	4,263	4,874	*(12.6)*
Power Systems	22,514			5,122	4,480	*14.3*	5,122	7,402	*(30.8)*
Automation Products	13,332			3,951	2,880	*37.2*	3,951	4,159	*(5.0)*
Process Automation	10,666			2,953	2,671	*10.5*	2,953	3,126	*(5.5)*
Others	344			111	54	*104.9*	111	158	*(29.9)*
Revenue mix (%)									
Power Products	*25.8*			*26.0*	*27.4*		*26.0*	*24.7*	
Power Systems	*35.6*			*31.2*	*32.3*		*31.2*	*37.5*	
Automation Products	*21.1*			*24.1*	*20.7*		*24.1*	*21.1*	
Process Automation	*16.9*			*18.0*	*19.2*		*18.0*	*15.9*	
Others	*0.5*			*0.7*	*0.4*		*0.7*	*0.8*	
EBIT Margin (%)									
Power Products	*13.0*			*12.9*	*9.0*		*12.9*	*17.0*	
Power Systems	*10.3*			*8.9*	*9.5*		*8.9*	*13.0*	
Automation Products	*13.4*			*10.0*	*11.3*		*10.0*	*14.9*	
Process Automation	*12.5*			*14.3*	*7.5*		*14.3*	*14.4*	
Others	*3.6*			*8.2*	*(2.4)*		*8.2*	*6.3*	

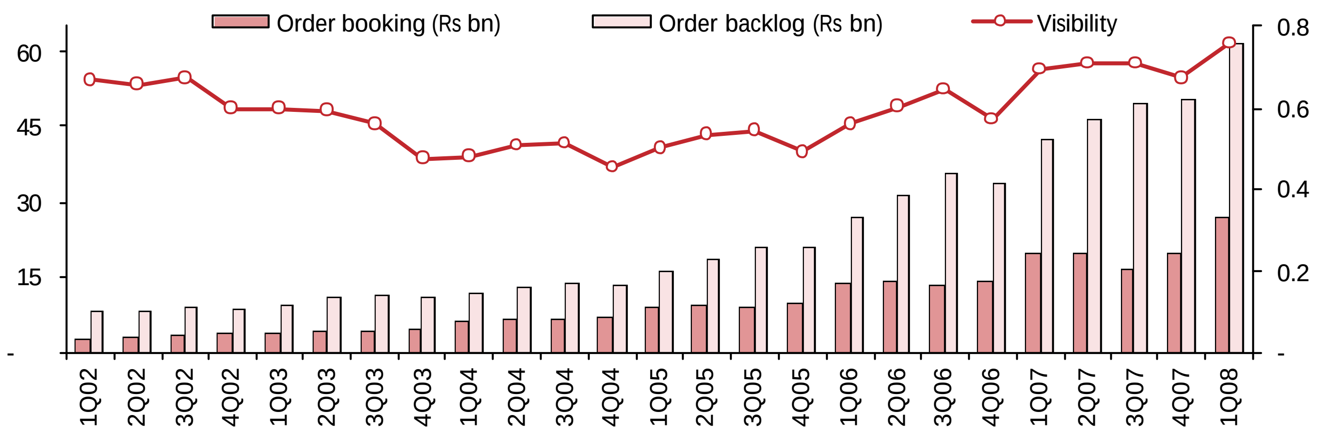
Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2. 1QCY08 margins are highest first-quarter margins achieved in recent years
Quarterly margin pattern for ABB for last six years



Source: Company data, Kotak Institutional equities estimates.

Exhibit 3: Visibility, based on forward four quarter revenues, at the end of 1QCY08, is highest over past few years
Order booking, Order backlog & visibility trend for ABB for last five years



Source: Company data, Kotak Institutional Equities estimates.

Exhibit 4: Our DCF-based target price is Rs1,250/share

DCF valuation for ABB, December calendar year-ends, 2008E-2019E, (Rs mn)

Year to Dec	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	**76,186**	**99,965**	**127,258**	**157,000**	**188,400**	**226,080**	**271,296**	**318,772**	**374,557**	**430,741**	**495,352**	**557,271**
Growth (%)	28.5	31.2	27.3	23.4	20.0	20.0	20.0	17.5	17.5	15.0	15.0	12.5
EBIT margin	12.0	12.5	12.5	12.6	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
EBIT*(1-tax rate)	**5,885**	**8,081**	**10,222**	**12,756**	**15,494**	**18,592**	**22,311**	**26,215**	**30,803**	**35,423**	**40,737**	**45,829**
Growth (%)	32	37	26	25	21	20	20	18	18	15	15	13
Depreciation	460	551	660	756	842	918	985	1,101	1,205	1,296	1,377	1,449
Change in working capital	(1,106)	(1,498)	(1,391)	(1,860)	(1,721)	(2,065)	(2,478)	(2,601)	(3,057)	(3,079)	(3,540)	(3,393)
Capital expenditure	(1,250)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Free Cash Flows	**3,989**	**5,634**	**7,990**	**10,153**	**13,115**	**15,945**	**18,818**	**22,715**	**26,951**	**31,641**	**36,573**	**41,885**
Growth (%)	44	41	42	27	29	22	18	21	19	17	16	15
Years discounted	-	1	2	3	4	5	6	7	8	9	10	11
Discount factor	1.00	0.89	0.79	0.70	0.62	0.55	0.49	0.44	0.39	0.35	0.31	0.27
Discounted cash flow	**3,989**	**5,008**	**6,313**	**7,131**	**8,188**	**8,848**	**9,282**	**9,960**	**10,504**	**10,962**	**11,263**	**11,465**

Target price calculation	**Rs Mn**
Sum of free cash flow	91,447
Discounted terminal value	160,511
Enterprise value	251,957
Add Investments	774
Net debt	(11,879)
Net present value-equity	264,610
Shares o/s	212
Target price /share(Rs)	**1,249**

WACC calculation	
Risk-free rate (Rf)	8.0%
Beta (B)	1.00
Equity risk premium	5.0%
Expected market Return (Rm	13.0%
Cost of Equity (Ke)	13.0%
Cost of Debt (Kd) (Post-tax)	8.0%
WACC (Beta implied)	**13.0%**
WACC (for price target)	**12.5%**

Terminal value Calculation	
Cash flow in terminal year	41,885
Growth to perpetuity (g)	**5.0%**
Capitalisation rate (WACC-g)	7.5%
Terminal value	586,383
Discount period (years)	11.0
Discount factor	0.27
Discounted terminal value	**160,511**

Terminal multiples	
EV/EBIDTA	9.1
P/FCF	14.0

Equity value per share assuming perpetual growth rates and WACC of

		Perpetual growth rate				
		4.0%	4.5%	**5.0%**	5.5%	6.0%
WACC	11.5%	1,342	1,406	1,479	1,564	1,665
	12.0%	1,241	1,294	1,355	1,425	1,507
	12.5%	1,153	1,198	**1,249**	1,307	1,374
	13.0%	1,076	1,114	1,157	1,205	1,261
	13.5%	1,007	1,040	1,076	1,117	1,163

Source: Company data, Kotak Institutional Equities Estimates.

Industrials

SIEM.BO, Rs644	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	650
52W High -Low (Rs)	1143 - 513
Market Cap (Rs bn)	217.2

Financials

September y/e	2007	2007	2009E
Sales (Rs bn)	94.2	102.3	124.8
Net Profit (Rs bn)	6.1	5.7	8.9
EPS (Rs)	18.2	16.8	26.5
EPS gth	*60.4*	*(7.8)*	*57.7*
P/E (x)	35.4	38.4	24.3
EV/EBITDA (x)	21.0	22.2	14.3
Div yield (%)	0.4	0.4	0.5

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	7.5	-	-
FIIs	8.1	1.4	0.8
MFs	-	-	(0.6)
UTI	7.7	1.2	0.6
LIC	0.2	0.6	-

Siemens: Besieged by several problems

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496

Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **Lower than expected execution, low profitability, reversal of turnover and provision for expected losses**
- **Revise estimates and target price to account for lower-than-expected execution and margins**
- **Maintain REDUCE rating based on outlook that margins pressures could persist and potential slackening of growth visibility**

Siemens has reported revenues of Rs21.4 bn (flat on a yoy basis) versus our expectations of revenues of Rs25.1 bn and virtually nil profitability with operating profit of Rs30 mn and net profit of Rs17 mn. Siemens results have been affected by (a) reversal of turnover of Rs1,166 mn led by revision of cost estimates on certain projects and (b) provision for estimated losses aggregating Rs1,098 mn. Write-offs seem to have happened in power segment, particularly the large Qatar order with power segment reporting an EBIT margin of -7.5%. We have revised our consolidated EPS for the year ended September 2008E and 2009E to Rs16.8 and Rs26.5 from Rs23 and Rs30.7 earlier. We have revised our DCF-based target price to Rs650/share from Rs850 earlier. We retain our REDUCE rating on the stock based on (a) likely continuation of margin pressures (b) preponderance of very large orders in the order book that potentially yield lower margins and are less likely to be repeatable. Upside risk arise from better than expected margins as well as order inflow announcements.

Lower-than-expected execution, low profitability, reversal of turnover and provision for expected losses

Siemens has reported revenues of Rs21.4 bn (flat on a yoy basis) versus our expectations of revenues of Rs25.1 bn and virtually nil profitability with operating profit of Rs30 mn and net profit of Rs17 mn. Siemens results have been affected by (a) reversal of turnover of Rs1,166 mn led by revision of cost estimates on certain projects and (b) provision for estimated losses aggregating Rs1,098 mn. If we adjust for reversal of turnover as well as provision for losses then Siemens would have reported revenue growth of 5.8% and operating profit of 5%. If we adjust for discontinued business then Siemens would have reported a revenue growth of 10.5% in 2Q, however we are not inclined to consider that measure as the consideration realized by the listed parent for most of the businesses was not substantial. For instance Siemens Ltd transferred the Information and communication segment business to the parent Siemens AG for a total consideration of Rs609 mn. We highlight that Information and communication segment had revenues of Rs1.42 bn and EBIT of Rs146 mn in year ended September 2006. Thus this segment has been divested in favor of Siemens AG at an implied valuation of 4.2X historical EBIT.

Qatar order probably remains beset with problems, transport delivers growth with negative profitability

Write-offs seem to have happened in power segment, particularly the large Qatar order with power segment reporting an EBIT margin of -7.5%. Transport segment continues the trend of 1Q with strong revenue growth with negative profitability (EBIT margin of -5.6%, 1H EBIT margin of -7.5% with revenue growth of 126%).

Order inflow momentum reflect strength of industrial capex momentum across the country

Siemens has booked new orders worth Rs23.4 bn (20% yoy growth). Order booking has been strong in the industrial segment reflecting the strength of industrial capital expenditure across the country. Order backlog provides a revenue visibility of 1.0 years based on forward four quarters, same level as at the end of 1QFY08 and a decline from visibility level of 1.4 years at the end of 2Q last year (Exhibit 3).

Revise estimates and target price to account for lower-than-expected execution and margins

We have revised our execution estimates for the standalone entity to Rs87.8 bn and Rs107.5 bn for year ending September 2008E and 2009E, from Rs94 bn and Rs117 bn earlier. We have revised our standalone EBITDA margin expectation to 7.3% and 10.1% for year ended September 2008E and 2009E from 10.6% and 11.2% earlier led by changes in outlook on segmental profitability as well as recent provision for losses etc. We have revised our consolidated EPS for the year ended September 2008E and 2009E to Rs16.8 and Rs26.5 from Rs23 and Rs30.7 earlier. We have revised our DCF-based target price to Rs660/share from Rs850 earlier. Our target price implies P/E of 25X and EV/EBITDA of Rs13.7X based on consolidated earnings for the year ended September 2009E.

Maintain REDUCE rating based on outlook that margins pressures could persist and slackening of growth visibility

We retain our REDUCE rating on the stock based on (a) likely continuation of margin pressures, (b) About 30% of consolidated earnings and value come from the IT subsidiary SISL, which may be facing the pressure because of Rupee appreciation, (c) preponderance of very large orders in the order book that potentially yield lower margins and are less likely to be repeatable. Upside risk arise from better than expected margins as well as order inflow announcements.

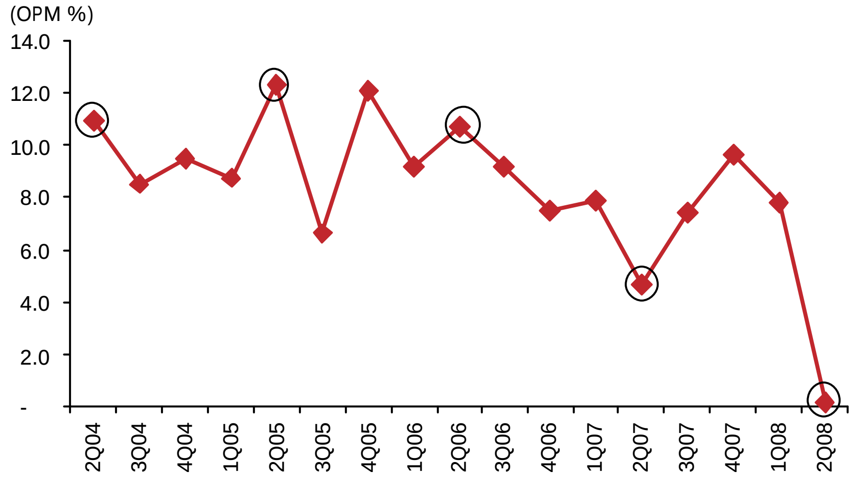
Siemens is holding an analyst meeting at 10:00 AM on April 28, 2008 where we may receive more clarity from management on (a) specific causes of reversal in turnover and provisions for losses, (b) outlook on margins, (c) growth outlook in light of declining visibility, (d) performance of individual subsidiaries etc. We would review our estimates and target price again after the conference call.

Exhibit 1. Siemens (standalone) - 2Q08 - key numbers, year ending September 30, 2008 (Rs mn)

	yoy			qoq			yoy		
	2Q08	**1Q07**	***% change***	**2Q08**	**1Q08**	***% change***	**1H08**	**1H07**	***% change***
Sales	**21,424**	**21,352**	***0.3***	**21,424**	**19,144**	***11.9***	**40,568**	**37,683**	***7.7***
Expenses	(21,394)	(19,675)	*8.7*	(21,394)	(17,647)	*21.2*	(39,041)	(34,774)	*12.3*
Stock	41	(800)	*(105.1)*	41	78	*(47.6)*	118	632	*(81.3)*
Raw material	(18,276)	(16,352)	*11.8*	(18,276)	(15,587)	*17.2*	(33,864)	(31,048)	*9.1*
Employee	(1,015)	(987)	*2.8*	(1,015)	(968)	*4.9*	(1,982)	(1,837)	*7.9*
Other expenses	(2,144)	(1,536)	*39.6*	(2,144)	(1,170)	*83.3*	(3,313)	(2,521)	*31.5*
Operating profit	**30**	**1,677**	***(98.2)***	**30**	**1,497**	***(98.0)***	**1,527**	**2,909**	***(47.5)***
Other income	137	57	*138.9*	137	66	*106.9*	203	209	*(3.0)*
EBIDT	167	1,734	*(90.4)*	167	1,563	*(89.3)*	1,730	3,117	*(44.5)*
Interest	54	105	*(48.7)*	54	131	*(59.0)*	184	231	*(20.1)*
Depreciation	(149)	(109)	*37.1*	(149)	(151)	*(1.0)*	(300)	(212)	*41.6*
PBT	**71**	**1,730**	***(95.9)***	**71**	**1,543**	***(95.4)***	**1,615**	**3,137**	***(48.5)***
Tax	(55)	(650)	*(91.6)*	(55)	(819)	*(93.3)*	(873)	(1,075)	*(18.8)*
Net profit	**17**	**1,081**	***(98.5)***	**17**	**725**	***(97.7)***	**741**	**2,061**	***(64.0)***
Extraordinary items	0	0		0	1,246		0	24	
RPAT	17	1,081	*(98.5)*	17	1,971	*(99.2)*	1,987	2,061	*(99.2)*
Key ratios (%)									
Raw material / Sales	85.1	80.3		85.1	81.0		83.2	80.7	
Employee expenses / Sales	4.7	4.6		4.7	5.1		4.9	4.9	
Other expenses / Sales	10.0	7.2		10.0	6.1		8.2	6.7	
Operating profit margin	**0.1**	**7.9**		**0.1**	**7.8**		**3.8**	**7.7**	
PBT Margin	0.3	8.1		0.3	8.1		4.0	8.3	
Tax rate	76.7	37.5		76.7	53.0		54.1	34.3	
PAT margin	0.1	5.1		0.1	3.8		1.8	5.5	
Order booking and order backlog									
Order booking	23,422	19,477	*20.3*	23,422	19,120	*22.5*	42,542	70,752	*(39.9)*
Order backlog	95,683	108,839	*(12.1)*	95,683	93,686	*2.1*	95,683	108,839	*(12.1)*
Segment results									
Revenues									
Information & Communication	0	469	*(100.0)*	0	0	*N.A.*	0	820	*(100.0)*
Automation & Drives	5,572	4,385	*27.1*	5,572	4,417	*26.2*	9,989	7,548	*32.3*
Industrial Solution and Services	3,053	2,713	*12.5*	3,053	2,271	*34.4*	5,324	4,351	*22.4*
Power	11,375	11,867	*(4.1)*	11,375	10,825	*5.1*	22,200	21,754	*2.0*
Transport	1,662	796	*108.9*	1,662	1,452	*14.4*	3,114	1,380	*125.6*
Healthcare & other services	1,355	1,586	*(14.6)*	1,355	1,102	*23.0*	2,457	2,353	*4.4*
Building Technologies	0	252	*(100.0)*	0	0	*N.A.*	0	500	*(100.0)*
Automotive	0	282	*(100.0)*	0	232	*(100.0)*	232	571	*(59.4)*
Real estate	180	125	*44.0*	180	133	*35.0*	313	237	*31.8*
Revenue mix (%)									
Information & Communication	0.0	2.1		0.0	0.0		0.0	2.1	
Automation & Drives	24.0	19.5		24.0	21.6		22.9	19.1	
Industrial Solution and Services	13.2	12.1		13.2	11.1		12.2	11.0	
Power	**49.0**	**52.8**		**49.0**	**53.0**		**50.9**	**55.1**	
Transport	7.2	3.5		7.2	7.1		7.1	3.5	
Healthcare & other services	5.8	7.1		5.8	5.4		5.6	6.0	
Building Technologies	0.0	1.1		0.0	0.0		0.0	1.3	
Automotive	0.0	1.3		0.0	1.1		0.5	1.4	
Real estate	0.8	0.6		0.8	0.7		0.7	0.6	
EBIT Margin (%)									
Information & Communication	N.A.	9.3		N.A.	N.A.		N.A.	8.4	
Automation & Drives	8.5	8.3		8.5	6.1		7.4	6.7	
Industrial Solution and Services	11.7	10.7		11.7	11.4		11.5	10.9	
Power	**(7.6)**	**5.9**		**(7.6)**	**8.5**		**0.2**	**6.5**	
Transport	(5.6)	3.4		(5.6)	(9.6)		(7.5)	6.0	
Healthcare & other services	4.2	2.9		4.2	(0.6)		2.1	(0.8)	
Building Technologies	N.A.	8.2		N.A.	N.A.		N.A.	6.5	
Automotive	N.A.	0.3		N.A.	3.6		3.6	(0.1)	
Real estate	45.0	68.1		45.0	65.8		53.9	66.2	

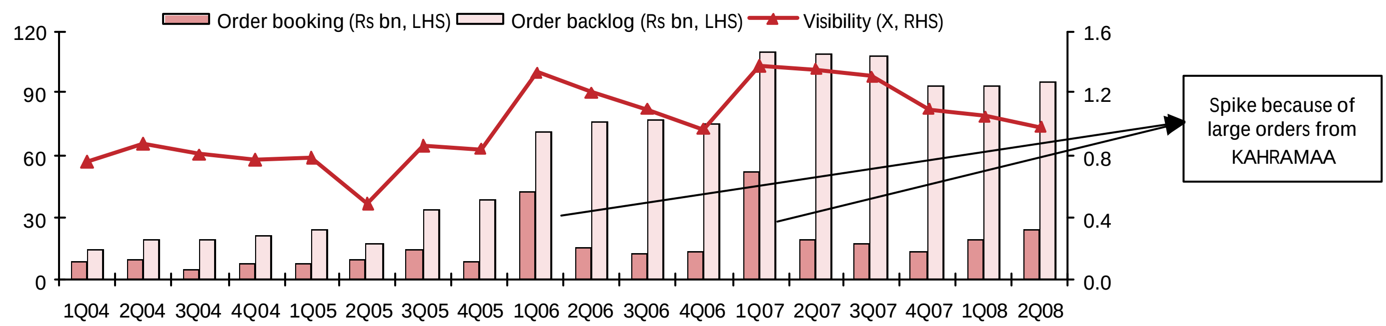
Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: 2Q08 margins are close to nilled by provisions towards potential losses
Quarterly margin trend for Siemens, year-ending September 30



Source: Company data, Kotak Institutional equities estimates.

Exhibit 3. Visibility sustains at 1 year at the end of March 2008
Order booking, order backlog & visibility trend for Siemens, September fiscal year-ends



Source: Company data, Kotak Institutional Equities estimates.

Cement

ABUJ.BO, Rs115	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	117
52W High -Low (Rs)	161 - 96
Market Cap (Rs bn)	175.1

Financials

December y/e	2008	2009E	2010E
Sales (Rs bn)	55.3	62.3	68.6
Net Profit (Rs bn)	13.3	13.3	12.6
EPS (Rs)	8.7	8.8	8.3
EPS gth	*2.3*	*0.4*	*(5.4)*
P/E (x)	13.2	13.2	13.9
EV/EBITDA (x)	7.4	7.2	7.3
Div yield (%)	2.3	2.6	1.9

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	26.9	-	-
FIIs	0.6	0.1	(0.4)
MFs	-	-	(0.4)
UTI	10.0	1.1	0.7
LIC	0.6	0.4	-

Ambuja Cements: Volumes growth aided by purchased clinker; retain REDUCE rating

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

Murtuza Arsiwalla : murtuza.arsiwalla@kotak.com, +91-22-66341-125

- **Volume growth compromises EBITDA margins due to higher purchases of clinker**
- **Ban on cement exports—higher domestic realizations cap downside**
- **Retain REDUCE rating with a target price of Rs117/share**

Ambuja Cements Limited (ACL) reported 16% yoy increase in net revenues at Rs16.5 bn (our est. Rs16.6 bn), 9% yoy decline in EBITDA at Rs5.1 bn (our est. of Rs5.7 bn) and net profits at Rs3.3 bn (our est. of Rs3.9 bn) during 1QCY08. Reported profits of Rs3.2 bn include an extraordinary provision (Rs58 mn) for diminution in the value of investments in the subsidiary in Sri Lanka, which continues to make operating losses. Volumes growth (11%) for the quarter compromised profitability on account of higher dependence on purchased clinker. We have revised our CY2008 EPS estimates to Rs8.8 (Rs9.1 previously) and estimate CY2009 EPS at Rs8.3 (Rs8.6 previously) to factor in (1) higher dependence on clinker purchases for grinding units at Farakka and Surat, and (2) impact of ban on cement exports. We retain our REDUCE rating on the stock with a target price of Rs117/share.

Volume growth compromises EBITDA margins. ACL reported 16% yoy growth in revenues during 1QCY08, which is attributed to a 5% improvement in realizations and 11% increase in volumes. EBITDA margins corrected sharply due to the increase in raw material costs. Higher raw material costs can be attributed to the higher proportion of clinker purchased to meet the requirements of grinding units at Farakka (1 mn tpa) and Roorkee (1 mn tpa) which were commissioned during the latter half of CY2007. We expect dependence on purchased clinker to weigh on EBITDA margins upto 2HCY2009 when fresh clinker capacity at Bhatapara (2.2 mn tpa) will likely get commissioned.

Ban on cement exports – higher domestic realizations cap downside. Absorption of incremental cement capacity in higher realization domestic markets caps the downside of ban on cement exports. We factor in absorption of 50% incremental cement capacity due to ban on cement exports in the regional markets of Gujarat and Maharashtra. ACL exported 1.3 mn tons of cement in CY2007 (8% of sales). ACL had reduced cement exports by 48% yoy in CY2007 due to favorable domestic realizations. ACL's inability to absorb incremental capacities in the domestic markets and/or higher-than-expected decline in realizations in the regional market due to glut of export capacities remain the key risks to our estimates.

Targeting capacity addition of 6.5 mn tpa by CY2010. ACL is targeting capacity addition of 6.5 mn tpa (extant capacity of 18.5 mn tpa) by CY2010 at a capital cost of Rs31 bn (EV/ton of US$119/ton) inclusive of captive power plants. In CY2008, ACL will likely commission a 1 mn tpa grinding unit at Surat. Exhibit 2 gives details of capacity additions planned by ACL over the next three years.

Retain REDUCE rating with a target price of Rs117/share. We have revised our CY2008 EPS estimates to Rs8.8 (Rs9.1 previously) and estimate CY2009 EPS at Rs8.3 (Rs8.6 previously) to factor in (1) higher dependence on clinker purchases for grinding units at Farakka and Surat, and (2) impact of ban on cement exports. ACL's inability to absorb incremental cement capacity due to ban of cement exports and higher-than-estimates raw material costs remain a key risk to our estimates. Our target price implies EV/ton of US$209/ton and EV/EBITDA of 7.3X on CY2008E.

Exhibit 1: Quarterly results for Ambuja Cements, December year-ends (Rs mn)

		yoy		qoq	
	Mar 2008	Mar 2007	(% chg)	Dec 2007	(% chg)
Sales	**16,549**	**14,195**	***16.6***	**15,067**	***10***
Operating costs					
Raw materials	(2,104)	(1,055)	*99*	(1,134)	*86*
Employee costs	(660)	(502)	*32*	(532)	*24*
Freight costs	(3,194)	(2,777)	*15*	(2,672)	*20*
Power & fuel costs	(2,817)	(2,319)	*21*	(2,935)	*(4)*
Other costs	(2,614)	(1,883)	*39*	(2,781)	*(6)*
Total operating costs	(11,389)	(8,536)		(10,053)	
EBITDA	**5,160**	**5,659**	***(9)***	**5,014**	***3***
EBITDA margin (%)	31.2	39.9		33.3	
Other income	406	330		673	
Interest	(57)	(119)		(940)	
Depreciation	(618)	(598)		(598)	
PBT	**4,890**	**5,272**	***(7)***	**4,148**	***18***
Current tax (expense)/income	(1,572)	(2,004)		(1,456)	
Deferred tax (liability)/asset	2	(13)		(99)	
Net income	**3,321**	**3,255**	***2***	**2,593**	***28***
Extraordinaries	(59)	2,408		(2,534)	
Reported net income	**3,262**	**5,663**		**59**	
Per tonne analysis					
Despatches, '000 tons	**4,800**	**4,340**	***11***	**4,302**	***12***
Realization (Rs/ton)	**3,448**	**3,271**	***5***	**3,502**	***(2)***
Operating cost (Rs/ton)	2,373	1,967	*21*	2,337	*2*
Raw materials	438	243	*80*	264	*66*
Employee costs	138	116	*19*	124	*11*
Freight costs	665	640	*4*	621	*7*
Power & fuel costs	587	534	*10*	682	*(14)*
Other costs	544	434	*25*	646	*(16)*
Profitability (Rs/ton)	**1,075**	**1,304**	***(18)***	**1,165**	***(8)***

Source: Company data, Kotak Institutional Equities.

Exhibit 2: ACL will likely add 6.5 mn tpa of cement capacity by CY2010
Details of capacity additions by ACL (mn tpa)

	mn tpa		
Location	**Grinding**	**Clinker**	**Commissioning**
Surat	1		1HCY2008
Bhatapara		2.2	1HCY2009
Ahmedabad	1.5		2HCY2009
Rauri		2.2	2HCY2009
Dadri	1.5		2HCY2009
Nalagarh	1.5		1HCY2010
Barh	1		2HCY2010
Total	**6.5**	**4.4**	

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 3: Change in estimates for Ambuja Cements, March fiscal year-ends, 2009-10E (Rs mn)

	Revenues			EBITDA			Net profit		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
2009E	61,478	62,334	1.4	22,324	21,714	(2.7)	13,835	13,314	(3.8)
2010E	68,008	68,614	0.9	22,517	21,890	(2.8)	13,006	12,590	(3.2)

Source: Kotak Institutional Equities estimates.

Exhibit 4: Profit model, balance sheet, cash model of Ambuja Cement, December fiscal year-ends, 2006-9E (Rs mn)

	2006	2007	2008E	2009E
Profit model (Rs mn)				
Net sales	48,479	55,303	62,334	68,614
EBITDA	**17,608**	**18,684**	**17,804**	**18,361**
Other income	766	3,345	3,910	3,528
Interest	(377)	(591)	93	224
Depreciation	(2,269)	(2,363)	(2,676)	(3,667)
Pretax profits	15,727	19,075	19,131	18,446
Tax	(2,760)	(5,813)	(5,816)	(5,856)
Net profits	**12,968**	**13,262**	**13,314**	**12,590**
Earnings per share (Rs)	**8.5**	**8.7**	**8.8**	**8.3**
Balance sheet (Rs mn)				
Total equity	38,756	50,204	64,287	74,004
Total borrowings	8,654	5,220	3,220	3,027
Currrent liabilities	7,016	10,879	14,057	14,193
Total liabilities and equity	**54,426**	**66,304**	**81,564**	**91,224**
Cash	3,781	16,873	21,376	18,236
Current assets	7,995	10,164	11,688	12,565
Total fixed assets	31,241	33,572	46,953	58,875
Investments	11,331	5,617	1,470	1,470
Deferred Expenditure	77	77	77	77
Total assets	**54,426**	**66,304**	**81,564**	**91,224**
Free cash flow (Rs mn)				
Operating cash flow, excl. working capital	15,504	16,027	16,417	17,650
Working capital	76	1,694	1,654	(742)
Capital expenditure	(7,954)	(4,651)	(15,020)	(15,000)
Investments		5,714	4,147	—
Free cash flow	**7,626**	**18,785**	**7,198**	**1,907**

Source: Kotak Institutional Equities estimates.

Retail

TITN.BO, Rs1119	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	1,300
52W High -Low (Rs)	1795 - 692
Market Cap (Rs bn)	49.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	30.5	45.4	60.2
Net Profit (Rs bn)	1.6	1.9	2.4
EPS (Rs)	35.1	43.8	54.6
EPS gth	*56.9*	*25.8*	*25.4*
P/E (x)	31.9	25.5	20.5
EV/EBITDA (x)	21.2	16.9	13.3
Div yield (%)	0.7	0.8	1.0

Titan Industries: 4QFY08 margins and PAT better than expected; revise target price to Rs1,350 maintain BUY

Nitin Bhasin : nitin.bhasin@kotak.com, +91-22-6634-1395

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

- **Stronger-than-expected margins on account of lower-than-estimated advertisement expenses beat estimates**
- **4QFY08 revenues and adjusted PAT up 38% and 21% respectively, yoy**
- **Revise estimates marginally for lower advertisement expenses and higher associate income**
- **Revise 12-month DCF-based target price to Rs1,350 (from Rs1,300) and maintain BUY**

Titan reported strong 4QFY08 results much ahead of our estimates—revenues increased to Rs8.2 bn (up 38% yoy) and adjusted net income of Rs0.6 bn (up 21% yoy). FY2008 consolidated revenues were at Rs29.9 bn (up 43.3% yoy) and net income was at Rs1.5 bn (up 47.8% yoy) led by higher profits from associates (profit of Rs110 mn in FY2008 versus loss of Rs116 mn in FY2007). 4QFY08 revenues were ahead of our estimates at Rs8.2 bn against estimated Rs7.7 bn and PAT at Rs605 mn versus estimated Rs258 mn. EBITDA margin for the quarter was 10.2% versus estimated 6.5% supported by lower material cost and advertising expenses netted off for higher other expenses. Higher-than-expected EBIT margins from jewelry segment (5.1% versus 4.1%) and watches segment (21.6% versus 18.5%) contributed for higher than expected margins. We marginally revise our EBITDA margin assumptions for FY2009E and FY2010E upwards by 10 bps for lower advertisement expense and net income estimate for FY2009E, FY2010E and FY2011E upwards by 13.4%, 7.7% and 8% respectively, for higher profits from associates.

4QFY08 results—revenues and EBITDA margin higher than expected

Titan's 4QFY08 results were better than our estimates with revenues of Rs8.2 bn (up 38% yoy and 2.5% qoq) and EBITDA margin at 10.2% versus 12% in 4QFY07 and 6.2% in 3QFY08. Higher revenues and strong margins increased adjusted PAT to Rs605 mn (up 21% yoy and 96.1% qoq).For FY2008, consolidated revenues were Rs29.9 bn (up 43% yoy) and net income was Rs1.5 bn (up 47.8% yoy). We note that strong EBIT margin of 21.6% (10.4% in 3QFY08) in watches and 5.1% (3.9% in 3QFY08) in jewelry resulted in the strong margin improvement during the quarter (up 380 bps qoq) (see Exhibit 3). 4QFY08 revenues were ahead of our estimates at Rs8.2 bn against estimated Rs7.7 bn and PAT at Rs605 mn versus estimated Rs258 mn. EBITDA margin for the quarter was 10.2% versus estimated 6.5%. Higher-than-expected EBIT margins from jewelry segment (5.1% versus 4.1%) and watches segment (21.6% versus 18.5%) contributed for higher than expected margins.

FY2008 consolidated results—higher-than-estimated associate income drives PAT

Titan's FY2008 consolidated revenues were in line with estimate at Rs29.9 bn against estimated Rs29.8 bn, however PAT at Rs1.5 bn was much higher than estimated Rs1.2 bn (higher by 27.2%). We highlight higher PAT was supported by higher margins of 8% versus estimated 7.3% (led by lower-than-estimated advertisement expense) and higher income from associates (profit of Rs110 mn in FY2008 versus expected loss of Rs116 mn in FY2007). Exhibit 6 illustrates the break of associate income available as per the previous annual reports. We await greater clarity on associate incomes from the management.

Marginally revise estimates—increase EBITDA margin estimate for lower advertisement cost and higher PAT led by income from associates

We marginally revise our EBITDA margin assumptions for FY2009E and FY2010E upwards by 10 bps for lower advertisement expense and net income estimate for FY2009E, FY2010E and FY2011E upwards by 13.4%, 7.7% and 8% respectively, for higher profits from associates (see Exhibit 2).

Valuations—revise 12-month DCF-based target price to Rs1,350 (Rs1,300 earlier) and maintain BUY rating

We revise our 12-month DCF-based target price to Rs1,350 (from Rs1,300) led by higher EBITDA margin and income from associates (see Exhibit 9). We maintain our BUY rating on the stock.

Exhibit 1: Forecasts and valuation (consolidated)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	14,398	1,529	812	18.6	42.2	60.3	32.7
2007	20,906	2,013	1,001	22.6	34.8	49.6	25.5
2008	29,969	2,399	1,556	35.1	37.8	32.0	21.2
2009E	45,392	2,985	1,946	43.8	35.6	25.5	16.9
2010E	60,203	3,784	2,426	54.6	33.7	20.5	13.3

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Titan Industries, change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Revenue	45,392	60,203	76,371	45,441	60,259	76,420	(0.1)	(0.1)	(0.1)
EBITDA	2,985	3,784	4,895	2,935	3,746	4,885	1.7	1.0	0.2
EBITDA margin (%)	6.6	6.3	6.4	6.5	6.2	6.4	—	—	—
Associate income	121	133	144	(30)	-	10	NM	NM	NM
Adjusted net profit	1,946	2,426	3,176	1,716	2,253	2,941	13.4	7.7	8.0
Diluted EPS (Rs)	43.8	54.6	71.5	38.7	50.7	66.2	13.4	7.7	8.0

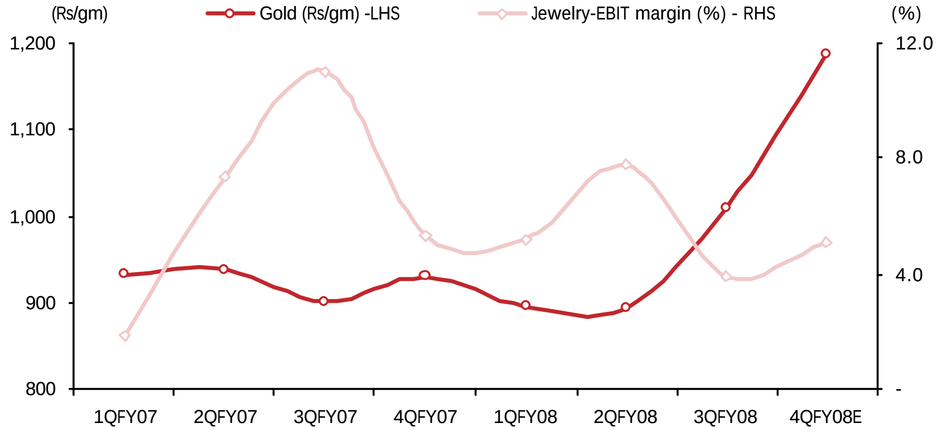
Source: Kotak Institutional Equities estimates.

Exhibit 3: Titan Industries, Interim results, March fiscal year-ends, (Rs mn)

		qoq		yoy		Standalone	yoy		Consolidated	yoy	
	4QFY2008	3QFY2008	(% chg)	4QFY2007	(% chg)	FY2008	FY2007	(% chg)	FY2008	FY2007	(% chg)
Net sales	**8,225**	**8,024**	**2.5**	**5,966**	**37.9**	**29,937**	**20,902**	**43.2**	**29,969**	**20,907**	**43.3**
Total expenditure	**(7,387)**	**(7,523)**	**(1.8)**	**(5,248)**	**40.8**	**(27,433)**	**(18,918)**	**45.0**	**(27,570)**	**(19,000)**	**45.1**
Inc/(Dec) in stock	500	(154)	NM	1,203	(58.4)	2,979	2,462	21.0	2,973	2,458	21.0
Raw materials consumed	(5,436)	(5,063)	7.4	(4,451)	22.2	(21,811)	(14,901)	46.4	(21,759)	(14,855)	46.5
Purchase of finished goods	(642)	(771)	(16.8)	(631)	1.6	(2,507)	(1,305)	92.0	(2,507)	(1,305)	92.0
Staff cost	(482)	(448)	7.6	(469)	2.7	(1,934)	(1,671)	15.7	(1,971)	(1,697)	16.1
Advertising	(318)	(481)	(33.9)	(276)	15.3	(1,516)	(1,338)	13.2	(1,516)	(1,338)	13.2
Other expenditure	(1,010)	(605)	66.9	(624)	61.9	(2,645)	(2,164)	22.2	(2,791)	(2,262)	23.4
EBITDA	**838**	**501**	**67.4**	**718**	**16.8**	**2,504**	**1,984**	**26.2**	**2,399**	**1,906**	**25.9**
EBITDA (%)	**10.2**	**6.2**		**12.0**		**8.4**	**9.5**		**8.0**	**9.1**	
Other income	4	5	(15.6)	4	(7.3)	18	32	(45.0)	34	60	(43.4)
Depreciation	(79)	(74)	7.9	(71)	11.1	(297)	(256)	16.2	(333)	(260)	28.1
EBIT	**763**	**432**	**76.6**	**651**	**17.2**	**2,224**	**1,761**	**26.3**	**2,100**	**1,706**	**23.1**
EBIT%	**9.3**	**5.4**		**10.9**		**7.4**	**8.4**		**7.0**	**8.2**	
Interest	(63)	(51)	22.7	(66)	(4.4)	(201)	(204)	(1.4)	(208)	(212)	(2.0)
Pretax profits	**700**	**381**	**83.9**	**585**	**19.7**	**2,023**	**1,557**	**30.0**	**1,892**	**1,494**	**26.6**
Tax	(95)	(72)	31.6	(85)	12.3	(440)	(373)	17.9	(446)	(377)	18.3
Adjusted PAT	**605**	**308**	**96.1**	**500**	**20.9**	**1,583**	**1,183**	**33.8**	**1,446**	**1,117**	**29.5**
EO	—	—	—	(176)	—	(80)	(242)	(66.9)	(80)	(2)	NM
Reported PAT	**605**	**308**	**96.1**	**324**	**86.4**	**1,503**	**941**	**59.6**	**1,366**	**1,115**	**22.5**
Associate profit / loss	—	—	—	—	—	—	—	—	110	(116)	NM
Consolidated PAT	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,476**	**999**	**47.8**
Adjusted EPS	13.6	7.0	96.0	10.6	28.8	35.7	26.7	33.7	35.0	22.6	55.3
Reported EPS	13.6	7.0	96.0	6.9	98.5	33.9	21.2	59.5	33.2	22.5	47.6
Segmental results											
Segmental revenue											
Watches	2,778	1,952	42.4	2,478	12.1	9,187	7,838	17.2	9,314	7,882	18.2
Jewelry	5,313	5,914	(10.2)	3,403	56.1	20,280	12,920	57.0	20,268	12,909	57.0
Others	268	269	(0.3)	189	41.4	943	607	55.2	882	578	52.7
Total gross revenues	**8,359**	**8,134**	**2.8**	**6,070**	**37.7**	**30,410**	**21,365**	**42.3**	**30,464**	**21,369**	**42.6**
Segmental EBIT											
Watches	600	203	196.2	464	29.2	1,350	1,074	25.8	1,366	906	50.7
Jewelry	271	232	17.2	180	50.8	1,087	857	26.9	1,087	870	24.9
Others	(81)	(3)	NM	(37)	121.9	(143)	(112)	27.6	(143)	(113)	27.4
Unallocable	(27)	1	NM	43	NM	(70)	(57)	22.0	(210)	42	NM
Total EBIT	**763**	**432**	**76.6**	**651**	**17.2**	**2,224**	**1,761**	**26.3**	**2,100**	**1,706**	**23.1**
EBIT margin (%)											
Watches	21.6	10.4		18.7		14.7	13.7		14.7	11.5	
Jewelry	5.1	3.9		5.3		5.4	6.6		5.4	6.7	
Others	(30.3)	(1.2)		(19.3)		(15.2)	(18.5)		(16.2)	(19.5)	
Total	**9.1**	**5.3**		**10.7**		**7.3**	**8.2**		**6.9**	**8.0**	

Source: Company data, Kotak Institutional Equities.

Exhibit 4: Jewlery margins have been traditionally inversely related to gold prices
Titan, quarterly gold prices and jewelry EBIT margin



Source: Company, Bloomberg.

Exhibit 5: Sharp drop in advertisement expense in FY2008
Titan, revenue and advertisement expense growth, March fiscal year-ends, 2005-2008 (%)

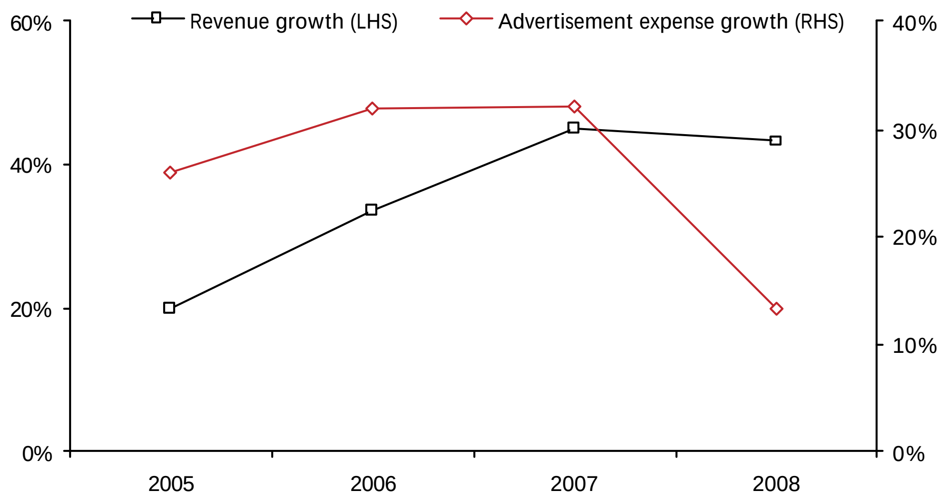


Exhibit 5: Titan, Income from associates, March fiscal year-ends, (Rs mn)

Share of post acquisition reserves	2005	2006	2007	2008
Tanishq (India) Ltd.	0	0	0	
Titan Properties Ltd.	0	(0)	(0)	
Titan Mechatronics Ltd.	0	0	0	
Titan Holdings Ltd.	7	6	5	
Questar Investments Ltd.	8	8	11	
Samrat Holdings Ltd.	-	25	59	
Titan International Investments B.V.	(304)	(384)	(555)	
Total	**(289)**	**(345)**	**(480)**	
Share of profit / loss for the year				
Tanishq (India) Ltd.		0	0	
Titan Properties Ltd.		(0)	(0)	
Titan Mechatronics Ltd.		0	0	
Titan Holdings Ltd.		(1)	(1)	
Questar Investments Ltd.		(0)	3	
Samrat Holdings Ltd.		25	33	
Titan International Investments B.V.		(79)	(171)	
Total		**(55)**	**(135)**	
Reported associate loss		**(185)**	**(116)**	**110**

Note: Share of profit for the year is calculated as difference in share of post acquisition reserves.

Source: Company.

Exhibit 6: Titan, 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**	**20,268**	**33,344**	**44,987**	**57,828**	**69,711**
EBITDA (Rs mn)	491	913	1,167	1,671	2,134	2,763	3,537
EBITDA margin (%)	6.2	7.1	5.8	5.0	4.7	4.8	5.1
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**	**9,314**	**10,356**	**12,042**	**13,843**	**15,622**
EBITDA (Rs mn)	1,138	1,191	1,449	1,636	1,927	2,243	2,546
EBITDA margin (%)	18.4	16.1	15.6	15.8	16.0	16.2	16.3
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**	**471**	**1,187**	**2,597**	**4,101**	**5,537**
EBITDA (Rs mn)	40	99	6	32	116	334	520
EBITDA margin (%)	30.7	39.2	1.2	2.7	4.5	8.1	9.4
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	10	50	90	120	150
Annual revenue per store (Rs mn)	—	—	22	25	28	31	33

Source: Company, Kotak Institutional Equities estimates.

Exhibit 7: 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	30,466	45,392	60,203	76,371	91,575
EBITDA	**1,529**	**2,013**	**2,399**	**2,985**	**3,784**	**4,895**	**6,128**
Interest (expense)/income	(248)	(212)	(208)	(176)	(149)	(130)	(103)
Depreciation	(200)	(260)	(333)	(359)	(384)	(408)	(429)
Other income	42	(47)	34	34	34	34	34
Pretax profits	**1,123**	**1,494**	**1,892**	**2,483**	**3,285**	**4,392**	**5,630**
Tax	(182)	(404)	(373)	(558)	(927)	(1,316)	(1,959)
Deferred taxation	56	27	(73)	(99)	(66)	(44)	-
Profit after tax	**997**	**1,117**	**1,446**	**1,825**	**2,292**	**3,032**	**3,671**
Associate income / (loss)	(185)	(116)	110	121	133	144	155
Adjusted net profit	**812**	**1,001**	**1,556**	**1,946**	**2,426**	**3,176**	**3,827**
Diluted earnings per share (Rs)	**18.6**	**22.6**	**35.1**	**43.8**	**54.6**	**71.5**	**86.2**
Balance sheet							
Total equity	1,966	3,371	4,431	5,884	7,739	10,188	13,183
Deferred taxation liability	243	181	254	353	419	463	463
Total borrowings	3,094	2,478	2,224	1,924	1,574	1,474	946
Current liabilities	3,632	5,958	7,297	10,377	13,379	15,660	18,453
Total liabilities and equity	**8,934**	**11,988**	**14,207**	**18,539**	**23,111**	**27,784**	**33,045**
Cash	386	510	1,047	1,088	1,082	1,958	4,022
Other current assets	6,042	8,402	9,849	13,928	18,308	21,970	25,089
Total fixed assets	2,007	2,717	2,884	2,975	3,040	3,033	2,954
Miscl. exp. not written off	219	42	—	—	—	—	—
Investments	280	316	426	547	680	824	979
Total assets	**8,934**	**11,988**	**14,207**	**18,539**	**23,111**	**27,784**	**33,045**
Free cash flow							
Operating cash flow, excl. working capital	1,186	1,544	1,758	2,250	2,708	3,450	4,066
Working capital changes	(195)	(188)	(241)	(1,078)	(1,456)	(1,537)	(430)
Capital expenditure	(431)	(983)	(500)	(450)	(450)	(400)	(350)
Investments	(79)	(265)	—	—	—	—	—
Other income	96	50	34	34	34	34	34
Free cash flow	**561**	**373**	**1,016**	**722**	**803**	**1,513**	**3,286**
Ratios (%)							
Debt/equity	140.1	69.8	47.5	30.9	19.3	13.8	6.9
Net debt/equity	122.6	55.4	25.1	13.4	6.0	(4.5)	(22.5)
RoAE	42.2	34.8	37.8	35.6	33.7	33.8	31.5
RoACE	**19.7**	**20.6**	**26.6**	**27.6**	**28.3**	**29.9**	**29.2**

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 8: DCF valuation for Titan, March fiscal year-ends (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal value
EBITDA	2,985	3,784	4,895	6,128	7,597	8,859	10,275	11,567	12,936	14,452	
Tax expense	(484)	(847)	(1,236)	(1,879)	(2,458)	(2,893)	(3,432)	(3,831)	(4,221)	(4,712)	
Changes in working capital	(1,078)	(1,456)	(1,537)	(430)	(1,528)	(1,348)	(724)	(1,270)	(1,340)	(1,462)	
Cash flow from operations	**1,423**	**1,481**	**2,123**	**3,819**	**3,611**	**4,618**	**6,120**	**6,467**	**7,375**	**8,277**	
Capital expenditure	(450)	(450)	(400)	(350)	(350)	(300)	(250)	(250)	(250)	(250)	
Free cash flow to the firm	**973**	**1,031**	**1,723**	**3,469**	**3,261**	**4,318**	**5,870**	**6,217**	**7,125**	**8,027**	**121,559**
Dicounted cash flow-now	869	815	1,205	2,148	1,786	2,094	2,518	2,360	2,394	2,387	
Discounted cash flow-1 year forward	-	921	1,362	2,427	2,019	2,366	2,846	2,667	2,705	2,697	
Discounted cash flow-2 year forward		-	1,539	2,742	2,281	2,673	3,216	3,014	3,057	3,048	
Discount rate	13.0%										
Growth from 2018 to perpetuity	6.0%										
Discount factor at WACC	**0.89**	**0.79**	**0.70**	**0.62**	**0.55**	**0.48**	**0.43**	**0.38**	**0.34**	**0.30**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**20,010**	**33%**	**21,570**	**32%**
PV of terminal value (b)	40,846	67%	46,156	68%
EV (a) + (b)	60,857		67,727	
EV (US$ mn)	**1,521**		**1,693**	
Net debt	836		493	
Equity value	**60,020**		**67,234**	
No. of shares	44.4		44.4	
Implied share price (Rs)	**1,352**		**1,515**	
Exit EV/EBITDA multiple (X)	8.4			
Exit FCF multiple (X)	15.1			

Sensitivity of share price to WACC and growth rate (Rs)

Growth Rate	WACC 12.0%	12.5%	13.0%	13.5%	14.0%
4.5%	1,371	1,269	1,179	1,099	1,028
5.0%	1,442	1,328	1,230	1,143	1,066
5.5%	1,523	1,396	1,287	1,191	1,108
6.0%	1,617	1,474	**1,352**	1,247	1,155
6.5%	1,729	1,565	1,428	1,310	1,208
7.0%	1,863	1,673	1,516	1,383	1,269
7.5%	2,026	1,802	1,620	1,468	1,340

Source: Kotak Institutional Equities estimates.

Banking

CRBK.BO, Rs326	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	470
52W High -Low (Rs)	490 - 230
Market Cap (Rs bn)	46.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	22.2	23.2	28.6
Net Profit (Rs bn)	7.3	6.4	8.0
EPS (Rs)	51.2	44.6	55.6
EPS gth	*37.1*	*(13.0)*	*24.8*
P/E (x)	6.4	7.3	5.9
P/B (x)	1.1	1.0	0.9
Div yield (%)	3.2	2.8	3.5

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	10.0	-	-
FIIs	2.5	0.1	(0.0)
MFs	-	-	(0.1)
UTI	26.3	0.8	0.7
LIC	0.1	0.1	-

Corporation Bank: Higher-than-expected profits aided by extraordinary entries; retain BUY on reasonable valuations

Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

- **Corporation Bank reported a PAT of Rs2 bn, strong growth of 74% yoy aided by extraordinary entries**
- **Higher treasury income, higher recoveries and lower employee expenses were the key drivers of PAT**
- **Retain BUY on reasonable valuations**

Corporation Bank reported a PAT of Rs2 bn in 4QFY08—a growth of 74% yoy primarily aided by (1) significantly lower employee expenses (25% yoy decline) as the company adjusted the employee provisions under revised AS-15 guidelines against its networth, (2) higher treasure income and (3) recoveries from written-off assets. Adjusted for these extraordinary items, growth in core operational income was a moderate 8% yoy. Consequent to updating our financial model for the financial results, we maintain a BUY rating on the stock with a target price of Rs470.

NII growth was subdued in the current quarter

- Net interest income of Corporation Bank in 4QFY08 was Rs4.2 bn, a growth of 4% yoy in line with our estimates. Adjusted for the one-time CRR income received by the company in 4QFY07, growth in this income stream was 8% yoy.
- The growth in advances and deposits has improved sharply in 4QFY08 (31% yoy growth), compared to the previous quarters in FY2008. Most of the incremental growth in deposits and advances for FY2008 of Rs130 bn and Rs92 bn happened in 4QFY08. Incremental growth in deposits and advances in 4QFY08 were Rs62 bn and Rs47 bn respectively.
- Company has been able to maintain its NIM likely aided by the improvement in CASA ratio, which has improved to 35% as of March 2008 compared to 30% as of December 2007. We remain optimistic that Corporation Bank may be able to manage its NIM in FY2009E.

Non-interest income contribution remains healthy

- Non-interest income earnings in 4QFY08 were Rs2.1 bn – growth of 17% yoy.
- The company's revenues in 4QFY08 benefited from higher treasury income of Rs180 mn (44% yoy growth) and higher recoveries from written-off accounts of Rs550 mn (38% yoy growth).
- Adjusted for the aforesaid revenues, growth in non-interest income was a more moderate 8% yoy.

Lower operating expenses and provision burden aid PAT

- Corporation Bank had an operational expense of Rs2.1 bn, which was down by 5% yoy. This was decline was largely due to the sharp 25% decline in employee expenses. The company in its communiqué to the exchanges has informed that it has decided to adjust the employee expenses under the revised AS-15 guidelines against its networth. Consequently, there was a write-back of employee expenses provided in 9mFY08.

- Corporation Bank's gross and net NPLs declined to Rs5.8 bn and Rs1.3 bn as on March 2008 from Rs6.2 bn and Rs1.4 bn as of March 2007. The gross NPL ratio now stands at 1.5% and net NPL ratio of 0.3% and is amongst the best in the industry.
- The healthy asset quality along with lower investment provision burden (compared to 4QFY07) implied that the overall provision expenses in the current quarter were Rs1.2 bn vis-à-vis Rs1.7 bn in 4QFY07.

Corporation Bank, Quarterly results (Rs mn)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	yoy growth	4QFY08KS	Actual Vs Kotak
Interest income	7,301	8,325	8,868	9,851	11,201	10,835	11,187	12,733	29.3	11,476	11.0
Advances	5,063	5,736	6,221	6,678	7,478	7,636	8,213	8,886	33.1	9,026	(1.6)
Investments	1,987	2,301	2,275	2,475	2,676	2,678	2,750	3,468	40.1	3,527	(1.7)
Others	251	288	372	698	1,047	521	223	379	(45.7)		
Interest expenses	4,053	5,158	5,536	5,777	7,479	7,092	7,652	8,510	47.3	7,340	15.9
Net interest income	**3,248**	**3,167**	**3,333**	**4,073**	**3,722**	**3,743**	**3,535**	**4,224**	**3.7**	**4,136**	**2.1**
Less: Depreciation/amortization on investments and extr. Income	187	149	38	181	197	197	198	198	9.2	202	(2.0)
NII adjst for invst amort.	**3,061**	**3,018**	**3,295**	**3,892**	**3,525**	**3,546**	**3,337**	**4,026**	**3.4**	**3,712**	**8.4**
Non-interest income	1,875	1,131	1,593	1,800	1,384	1,832	1,670	2,112	17.3	1,494	41.3
Fee and comm.	330	356	417	338	411	381	423	477	41.1	-	-
Invts gains	796	(54)	400	122	196	547	438	176	44.1	0	-
Forex income	118	38	41	262	85	102	83	143	(45.5)	236	(39.5)
Dividend on shares	51	39	22	29	14	25	13	59	103.1	1,388	1,281.1
Other income	367	470	453	652	439	483	494	710	8.9	3,892	0.0
Bad debt recovery	214	282	259	397	240	294	219	548	37.9	4,026	-
Other income excluding treasury	1,080	1,184	1,192	1,678	1,188	1,285	1,232	1,936	15.4	1,494	29.6
Total income	**5,123**	**4,297**	**4,926**	**5,874**	**5,106**	**5,574**	**5,205**	**6,336**	**7.9**	**5,630**	**12.5**
Operating expenses	1,883	1,941	1,995	2,217	2,154	2,432	2,231	2,103	(5.2)	2,731	(23.0)
Employee cost	898	912	936	1,037	1,080	1,270	1,152	778	(25.0)	1,240	(37.3)
Other cost	985	1,028	1,059	1,180	1,074	1,162	1,080	1,325	12.3	1,491	(11.1)
Pre-tax and pre-provision profit	3,240	2,357	2,931	3,656	2,953	3,142	2,973	4,233	15.8	2,900	46.0
Provisions	1,063	387	832	1,738	397	739	295	1,217	(30.0)	1,061	14.7
NPLs	570	452	668	570	345	624	110	750	31.6	882	(14.9)
Invt. Depreciation	257	(64)	9	987	(182)	(81)	(15)	146	(85.2)	15	877.9
Invt amortization	187	149	38	181	197	197	198	198	9.2	202	(2.0)
PBT	2,177	1,970	2,099	1,918	2,556	2,404	2,678	3,016	57.2	1,838	64.1
Tax	735	700	635	735	785	790	769	960	30.7	688	39.5
Net profit	**1,442**	**1,270**	**1,464**	**1,184**	**1,771**	**1,614**	**1,909**	**2,056**	**73.7**	**1,150**	**78.8**
Tax rate (%)	34	36	30	38	31	33	29	32		37	
Balance sheet (Rs bn)											
Capital	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4			
Reserves and surplus	32.3	32.3	36.7	36.2	36.2	36.2	36.2	40.9	12.8		
Deposits	339.4	380.2	396.5	423.6	432.3	457.4	491.8	554.2	30.9		
Share of demand deposit (%)	32.5	29.8	31.0	34.1	28.7	28.7	30.0	35.0			
Borrowings	21.7	20.9	23.8	30.2	19.0	20.1	18.4	21.4	-29.2		
Other liabilities and provisions	24.1	25.4	27.8	35.8	30.1	27.1	31.3	48.1	34.4		
Total Liabilities	**420.4**	**462.9**	**486.1**	**527.2**	**520.8**	**545.7**	**584.4**	**666.0**	**26.3**		
Cash and balances with RBI	23.5	22.6	34.7	29.8	35.1	36.3	38.1	71.0	138.1		
Bal with banks, money at call and short notice	11.3	8.0	30.0	37.4	30.3	25.0	25.2	18.1	-51.5		
Investments	114.5	136.6	118.0	144.2	136.0	141.1	159.8	165.1	14.5		
Advances	258.2	280.0	288.6	299.5	303.5	326.7	344.6	391.9	30.8		
Retail	67.1	70.0	68.5	76.6	74.7	81.6	81.1	88.1	15.0		
Fixed assets	2.5	2.6	2.7	2.8	2.8	2.7	2.7	2.7	-3.3		
Other assets	10.3	13.0	12.2	13.5	13.1	13.9	14.0	17.1	26.5		
Total assets	**420.4**	**462.9**	**486.1**	**527.2**	**520.8**	**545.7**	**584.4**	**666.0**	**26.3**		
Asset quality details											
Gross NPLs (Rs mn)	6,200	6,163	6,249	6,246	6,369	6,172	5,985	5,844	(6)		
Gross NPLs (%)	2.4	2.2	2.1	2.1	2.1	1.9	1.7	1.5			
Net NPLs (Rs mn)	1,415	1,344	1,364	1,408	1,396	1,131	1,123	1,269	(10)		
Net NPLs (%)	0.6	0.5	0.5	0.5	0.5	0.4	0.3	0.3			
Yield management measures (%)											
Yield on funds	7.7	7.8	7.9	NA	9.1	8.7	8.6	NA			
Yield on advances	8.6	8.7	8.9	9.1	10.1	10.2	10.3	10.2			
Yield on investments	7.7	7.6	7.7	7.7	8.2	7.5	7.4	NA			
Cost of deposits	4.7	5.0	5.2	5.3	6.6	6.4	6.4	6.5			
Cost of funds	4.3	4.6	4.8	4.8	6.0	5.7	5.8	NA			
Spreads	3.4	3.2	3.2	NA	NA	3.1	2.7	NA			
NIM	3.4	3.2	3.2	3.2	3.0	3.0	2.9				
NIM adj for investment amtz	NA	NA	NA	NA	NA	2.85	2.74	2.71			
Capital adequacy details (%)											
CAR	13.9	13.3	13.7	12.8	13.3	13.3	12.1	12.1			
Tier I	12.4	NA	12.3	11.3	11.8	12.1	10.8	9.6			
Tier II	1.5	NA	1.4	1.5	1.5	1.3	1.3	2.5			
Return ratios (%)											
RoA	1.5	1.4	1.4	1.3	NA	1.4	NA	1.4			
RoE	16.4	14.9	14.6	14.2	NA	16.5	NA	17.4			
Network											
Branches	NA	861	878	901	918	943	949	981			
ATMs	NA	917	924	929	932	943	941	957			

Source: Company, Kotak Institutional Equities estimates.

Banking

ADBK.BO, Rs81	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	105
52W High -Low (Rs)	130 - 67
Market Cap (Rs bn)	39.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	20.9	22.0	26.0
Net Profit (Rs bn)	5.8	5.7	6.0
EPS (Rs)	12.0	11.8	12.4
EPS gth	*8.0*	*(1.7)*	*6.0*
P/E (x)	6.7	6.9	6.5
P/B (x)	1.3	1.1	1.0
Div yield (%)	4.9	4.4	4.6

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	19.4	-	-
FIIs	4.7	0.1	0.0
MFs	-	-	(0.1)
UTI	-	-	(0.1)
LIC	0.1	0.1	-

Andhra Bank: Unexciting operational performance; retain BUY on valuations

Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

- **Andhra Bank reported a PAT of Rs1.2 bn in 4QFY08, which was 10% lower than 4QFY07**
- **Core operating profits were flat in the current quarter**
- **Retain BUY rating on reasonable valuations of 1.1X APBR FY009**

Andhra Bank reported a PAT of Rs1.2 bn in 4QFY08—down by 11% yoy and 16% lower than our estimates. The core operating profit growth adjusted for the extraordinary entries was flat on a year-on-year basis. The other key features for the current quarter are: (1) entire transitional liability of Rs3.5 bn on account of employee benefits under the revised AS-15 guidelines have been adjusted against networth; (2) company continues to maintain moderate advances growth of 22% yoy and deposits growth of 19%; (3) asset quality remains amongst the best in industry at 0.2% of net NPL ratio. We have updated our estimates for the company for the 4QFY08 financial results and retain our BUY recommendation given reasonable valuations at 1.1XAPBR FY2009.

NII impacted by issuance of Tier II bonds. Andhra Bank reported a net interest income of Rs3.4 bn in 4QFY08 against Rs3.9 bn reported in 4QFY07—a decline of 12% yoy. However, this year-on-year comparison is distorted by the following: (1) Company issued Rs7 bn of Tier II bonds at a coupon of 9.15% in 4QFY08, which led to higher interest costs of Rs160 mn in the current quarter, (2) Exceptional income of interest on CRR balances of Rs164 mn in 4QFY07. Adjusted for these items, the NII declined by 3% in 4QFY08 compared to 4QFY07.

Andhra Bank's asset growth continues to be moderate with the overall deposits increasing by 19% yoy and advances increasing by 22% yoy in FY2008. A positive development in the current year has been the decline 14% yoy decline in bulk deposits to Rs114 bn as of March 2008 from Rs133 bn as of March 2007. The proportion of low cost deposits to overall deposits was 34% as of March 2008 compared to 35% as of March 2007.

Non-interest income continues to be healthy. Andhra Bank's non-interest revenues increased by 28% yoy to Rs2 bn in 4QFY08. Adjusted for the recoveries of principal from written-off assets and treasury income the growth was a more moderate 12% yoy.

Company has adjusted the transitional liability on employee benefits against networth. Andhra Bank had employee expenses of Rs1 bn in 4QFY08 compared to Rs1.2 bn in 4QFY07. The company has informed the exchanges in its communiqué that it has provided for these liabilities against this networth rather than route it through its profit and loss statement. It is likely that the company has written back some of the provisions routed through the P&L in 1HFY08 in the current quarter.

Higher investment depreciation and higher effective tax rate impact PAT in 4QFY08

The hardening of Gsec yields and sharp fall in equity markets led to the company making Rs480 mn of depreciation expenses in 4QFY08. Further, the effective tax rate of Andhra Bank in the current quarter was high at 44%. We remain unclear for the higher effective tax rate of the company in the current quarter.

Andhra Bank, quarterly results (Rs mn)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	% chg	4QFY08KS	Actual Vs KS
Interest Earned	7,599	7,721	8,128	9,699	9,895	10,455	10,857	11,692	21	11,363	3
Interest on advances	5,137	5,425	5,776	6,697	7,296	7,632	8,165	8,676	30	8,752	(1)
Interest on investments	2,117	2,054	2,231	2,563	2,504	2,636	2,626	2,717	6	2,597	5
Interest on bal. with RBI & other inter bank funds	346	242	121	333	95	110	64	98	(71)	93	6
Interest expense	4,247	4,412	4,493	5,820	6,273	7,008	7,156	8,263	42	7,499	10
Net interest income	**3,352**	**3,309**	**3,635**	**3,879**	**3,621**	**3,447**	**3,701**	**3,429**	**(12)**	**3,864**	**(11)**
Other income	1,018	1,287	1,329	1,594	1,315	1,582	1,683	2,033	28	1,813	12
Treasury	8	223	165	141	149	352	575	323	129	(6)	(5,483)
Commission & exchange	459	477	425	454	455	419	616	640	41		
Dividend income	2	30	-	16	1	14	20	20	29		
Forex profit	102	41	-	109	80	87	83	80	(26)		
Others	399	515	739	875	617	711	389	970	11	1,366	(29)
Total income	**4,371**	**4,595**	**4,964**	**5,473**	**4,936**	**5,029**	**5,384**	**5,462**	**(0)**	**5,676**	**(4)**
Operating expenses	**2,306**	**2,365**	**2,356**	**2,305**	**2,512**	**2,505**	**2,295**	**2,131**	**(8)**	**2,630**	**(19)**
Payments to / Provisions for employees	1,375	1,459	1,419	1,235	1,449	1,505	1,167	974	(21)	1,410	(31)
Other operating expenses	931	905	937	1,071	1,064	1,000	1,128	1,157	8	1,220	(5)
Operating profit before prov. & cont.	2,065	2,231	2,607	3,168	2,424	2,525	3,089	3,331	5	3,046	9
Provisions & Contingencies	466	92	645	1,020	283	313	484	1,114	9	653	70
Investment amortization	175	186	175	210	190	203	206	200	(5)	201	(0)
Loan loss provisions	247	(51)	535	925	197	188	420	430	(54)	442	(3)
Investment depreciation	44	(50)	-	425	(100)	(104)	(406)	480	13	10	4,700
Profit before tax	**1,599**	**2,139**	**1,963**	**2,148**	**2,141**	**2,212**	**2,605**	**2,218**	**3**	**2,393**	**(7)**
Provision for taxes	435	675	600	760	730	700	1,015	975	28	921	6
Net profit	**1,164**	**1,464**	**1,363**	**1,388**	**1,411**	**1,512**	**1,590**	**1,243**	**(10)**	**1,472**	**(16)**
Tax rate	27	32	31	35	34	32	39	44		39	
PBT - treasury + investment dep.	1,635	1,866	1,798	2,268	1,892	1,756	1,625	2,375	5	2,409	(1)
PBT - treasury + investment dep. + loan loss	1,881	1,815	2,333	3,029	2,089	1,944	2,044	2,965	(2)	2,851	4
Key balance sheet items (Rs bn)											
Deposits	331	325	361	415	408	444	439	494	19		
CASA	125	129	134	143	136	142	150	166	16		
CASA (%)	37.7	39.8	37.0	34.5	33.4	32.0	34.1	33.6			
Advances	218	236	256	282	277	305	313	346	22		
Priority sector	86	96	103	114	113	128	125	133	16		
Agriculture	38	44	44	52	48	55	57	62	20		
Retail	49	53	58	66	NA	71	74	78	17		
SME	27	28	28	33	36	37	39	40	23		
Investments	NA	114.3	124.5	143.0	138.4	149.6	140.4	149.0	4.2		
AFS	24	NA	35	40.0	NA	42.5	33.7	39.0	(2.5)		
Duration (years)	1	1	2	2.3	NA	2.3	2.0	2.6			
Asset quality details											
Gross Non Performing Assets (Rs mn)	4,170	4,161	4,396	3,970	4,207	4,124	4,219	3,724	(6)		
Gross Non Performing Assets (%)	1.2	1.8	1.7	1.4	1.5	1.4	1.4	1.1			
Net Non Performing Assets (Rs mn)	159	226	1,073	473	512	586	499	537	14		
Net Non Performing Assets (%)	0.1	0.1	0.4	0.2	0.2	0.2	0.2	0.2			
Yield management measures (%)											
Yield on advances	9.6	9.7	9.8	10.3	10.8	10.9	10.9	10.7			
Cost of deposits	5.0	5.1	5.1	5.9	6.2	6.6	6.5	7.1			
Yield on investments	7.2	7.1	7.3	7.3	8.0	8.2	8.5	8.3			
Cost of funds	4.4	4.5	4.4	5.1	5.4	5.7	5.7	6.2			
Yield from funds	7.9	8.0	8.0	NA	8.6	8.5	8.6	8.7			
Spread	3.5	3.5	3.6	NA	3.1	2.8	3.0	2.6			
NIM	3.8	3.8	3.6	3.5	3.5	3.0	3.2	2.9			
Return ratios (%)											
RoA	1.2	1.4	1.2	1.4	1.2	1.2	1.3	0.9			
RoE	15.5	16.7	NA	NA	17.5	17.7	17.8	17.9			
Capital adeuqacy details											
CAR (%)	14.4	13.7	12.8	11.3	12.5	11.6	12.0	11.6			
Tier I (%)	12.5	12.1	11.4	10.0	11.1	10.3	10.8	8.5			
Tier I (Rs bn)	NA	31	33	NA	NA	34.3	35.9	31.1			
Tier II (%)	1.9	1.6	1.4	1.4	1.4	1.3	1.2	3.1			
Tier II (Rs bn)	NA	4.3	4.1	NA	NA	4.3	4.1	11.2			

Source: Company, Kotak Institutional Equities estimates.

Banking

CBI.BO, Rs95	
Rating	SELL
Sector coverage view	Attractive
Target Price (Rs)	85
52W High -Low (Rs)	155 - 70
Market Cap (Rs bn)	38.2

Financials

June y/e	2008	2009E	2010E
Sales (Rs bn)	30.1	32.2	38.5
Net Profit (Rs bn)	5.5	4.4	6.3
EPS (Rs)	13.6	10.8	15.5
EPS gth	*3.0*	*(20.6)*	*43.9*
P/E (x)	6.9	8.8	6.1
P/B (x)	1.9	1.5	1.2
Div yield (%)	2.1	-	-

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	8.0	-	-
FIIs	1.0	0.0	0.0
MFs	-	-	-
UTI	1.2	0.0	0.0
LIC	0.0	-	-

Central Bank of India: Sharp deterioration in financials; downgrade to SELL

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588

- **Central Bank of India reported a 15% yoy decline in 4QFY08 PAT to Rs1.3 bn**
- **Sharp deterioration in capital adequacy with Tier I at 5.4% and NIM at 2.2% impact future growth prospects**
- **Downgrade rating to SELL with a target price of Rs85**

Central Bank of India's financial performance sharply in 4QFY08, with the PAT declining by 15% to Rs1.3 bn. The key takeaways from the financial results are the following: (1) sharp decline in Tier I ratio to 5.4%, (2) low profitability of operations at 0.5%, (3) high asset growth (loan growth of around 40% yoy and 26% on a sequential basis) despite the lower capital adequacy. We have revised our earnings model to factor in these developments and reduce earnings by 23% in FY2009E and 12% in FY2010E. We are also revising our recommendation on the stock to SELL from ADD and reducing our target price to Rs85 from Rs130 earlier.

Revision in target price to factor in deterioration of financials. We are significantly reducing our estimates and target price by 35% on the stock for the following reasons:

1. Company has adjusted its transitional liability of Rs8.8 bn (post-tax) on employee benefits under the revised AS-15 guidelines against its networth instead of amortizing it over a five year period like most public banks. Our prior estimates for this liability was Rs6 bn (pre-tax) and adjusted networth for FY2008E was Rs27 bn. Subsequent to this upward revision in transitional liability under the revised AS-15 guidelines, the adjusted networth as of FY2008 is lowered by 24% compared to our earlier estimate.

2. We have significantly lowered the loan growth assumptions for the future years to factor in the significant reduction in Tier I ratio to 5.4% as of March 2008 (7.9% as of December 2007). It is to be noted that the company's Tier I includes the preference capital of Rs8 bn issued to the government of India. Further, the company's Tier II capital is 5.0%, which considerably lowers the ability of the company to issue Tier II capital to fund asset growth (as Tier II capital cannot exceed Tier I capital). Hence, we have reduced the loan growth assumption to 8% for FY2009E (earlier estimate of 22%) and 12% for FY2010E (earlier estimate of 21%).

3. The company's margin continues to decline sharply with the NIM declining to 2.2% in 4QFY08 compared to 2.5% in 3QFY08 and 3.6% in 4QFY07. The management has indicated that it had renewed Rs10 bn of bulk deposits in 4QFY08 at 10-10.25% and continues to hold Rs260 bn of bulk deposits (24% of deposits) — margin pressure likely to persist in FY2009E. We now assume a spread of 1.9% in FY2009 compared to 2.2% earlier.

4. We are currently assuming that the company will not be able to pay dividends (prior estimate of dividend pay-out ratio was 20%), as it would be constrained to retain earnings to support its loan growth.

Key highlights of 4QFY08

1. Gross advances increased sharply to Rs743 bn as of March 2008 (39% yoy growth) and 26% growth on a sequential basis. This growth was achieved despite a sharp decline in NIM to 2.2% compared to 3.6% in 4QFY07.

2. Deposit growth continued to remain high at 33% yoy, while the CASA ratio declining to 36% as of March 2008 from 42% as of March 2007.

3. Employee expenses declined by 13% on a sequential basis to Rs2.8 bn in 4QFY08 as the company like wrote back the defined employee provisions made in prior quarters.

4. Other operational expenses declined by 12% yoy and the company has indicated that this was driven by certain management initiatives undertaken by it to manage costs.

Central Bank of India, Quarterly results, Rs mn

	4QFY07	1H08	3QFY08	4QFY08	% chg	4QFY08KS	Actual Vs KS
Interest Earned	17,749	37,311	20,225	22,693	27.9	21,268	6.7
Interest/Discount on Advances/Bills	10,625	24,296	12,921	15,737	48.1	15,308	2.8
Interest on Investment	5,689	11,960	6,318	6,629	16.5	6,020	10.1
Interest on bal. with RBI & other inte	493	782	730	327	(33.8)	470	(30.5)
Interest expense	10,551	25,928	14,776	17,020	61.3	14,930	14.0
Net interest income	**7,198**	**11,383**	**5,449**	**5,673**	**(21.2)**	**6,338**	(10.5)
Other Income	1,055	3,074	2,120	3,586	239.8	1,843	94.6
Total Income	**8,254**	**14,458**	**7,568**	**9,259**	12.2	8,192	13.0
Operating Expenses	**4,392**	8,763	**4,477**	**4,202**	(4.3)	4,731	(11.2)
Payments to / Provisions for employe	2,816	6,091	3,238	2,815	(0.1)	3,045	(7.5)
Other operating expenses	1,575	2,673	1,239	1,387	(12.0)	1,670	(17.0)
Operating Profit Before Prov. & Cont.	3,862	**5,694**	3,092	5,057	30.9	3,461	46.1
Provisions & Contingencies	**2,253**	580	**174**	**2,129**	(5.5)	**973**	118.9
Investment amortization		1,620	290	290	(0.13)	290	(100.0)
Investment depreciation		**880**	(420)			(60)	(100.0)
Profit before tax	**1,609**	**2,673**	**2,918**	**2,929**	82.0	**2,476**	18.3
Provision for Taxes	118	454	908	1,657	1,308.6	820	102.0
Net Profit	**1,491**	**2,220**	**2,010**	**1,272**	(14.7)	**1,656**	(23.2)
Tax rate	7.3	17.0	31.1	56.6		33.1	
Key balance sheet items (Rs bn)							
Deposits	828	908	971	1,103	33.3		
CASA	347	358	368	399	15.0		
CASA (%)	41.9	39.4	37.9	36.1			
Advances	535	540	589	743	38.9		
Priority sector	225	228	240	253	12.6		
Agriculture	93	92	101	113	21.9		
Retail	62	59	72	77	24.3		
NIM (%)	**3.6**	**2.7**	**2.5**	**2.2**			
Capital adequacy details (%)							
CAR	10.4	12.4	11.6	10.4			
Tier I	6.3	8.3	7.9	5.4			
Tier II	4.1	4.1	3.7	5.0			
Asset quality details							
Gross non performing loans (Rs mn)	25,720	25,962	25,722	23,498			
Gross non performing loans (%)	4.8	4.8	4.4	3.2			
Net non performing loans (Rs mn)	8,785	7,345	6,965	10,600			
Net non performing loans (%)	1.6	1.41	1.2	1.5			

Source; Company, Kotak Institutional Equities estimates.

Property

MGDL.BO, Rs455	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	890
52W High -Low (Rs)	907 - 336
Market Cap (Rs bn)	19.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1.7	3.5	6.5
Net Profit (Rs bn)	0.6	0.8	1.6
EPS (Rs)	14.4	20.1	39.5
EPS gth	*249.5*	*39.1*	*97.1*
P/E (x)	31.6	22.7	11.5
EV/EBITDA (x)	54.4	13.7	5.4
Div yield (%)	0.6	0.9	0.9

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	n/a	-	-
FIIs	n/a	-	-
MFs	n/a	-	-
UTI	n/a	-	-
LIC	-	-	-

Mahindra Lifespace Developer: 4QFY08 revenues, PAT above estimates; indicates good progress in residential projects

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

- **4QFY2008 revenues ahead of our expectations at Rs596 mn (v/s our expectation of Rs518 mn)**
- **Faridabad and Bhandup projects launched in 4QFY08; SEZ business on track**
- **Maintain BUY rating and target price of Rs890/share based on March 2009 based NAV**

Mahindra Lifespaces on a standalone basis (MLIFE) reported revenues of Rs596 mn (v/s our expectation of Rs518 mn) and operating profit of Rs214 mn (v/s our expectation of Rs143 mn) for 4QFY2008. MLIFE's PAT at Rs222 mn was ahead of our estimates of Rs141 mn on account of higher operating margins and better revenue mix. We believe that better-than-expected revenues indicate that residential business is making progress after witnessing delays over the past four quarters. We also highlight that as scheduled, MLIFE launched couple of properties in Faridabad and Bhandup in 4QFY08. We retain our BUY rating and target price of Rs890/share. Key risk to our rating is any unfavorable government action on SEZs. We would review our estimates and target price post analyst meet.

Improvement in operating margins on account of operating leverage, revenue mix

The EBITDA margins for 4QFY08 stood at 36% compared to our estimates of 28%. We believe that this is on account of (1) higher-than-expected revenues resulting in operating leverage, and (2) greater proportion of revenue booking from high margin projects in Mumbai. Exhibit 2 shows the projects from which revenue was booked in 4QFY08. We believe that MLIFE would continue to benefit from operating leverage as recently launched projects at Mumbai and Faridabad start contributing to revenues.

Residential business expands on account of new launches

Exhibit 3 provides details about standalone residential business of MLIFE. We highlight that as expected MLIFE launched two projects in 4QFY08 at better-than-expected prices, 1) Rs4,000/sq. ft in Faridabad v/s our expectation of Rs3,000, and 2) Rs7,000/sq. ft at Bhandup v/s our expectation of Rs6,500.

The management has indicated that it would likely launch approx. 3+ mn sq. ft in the next 1-1.5 years comprising Faridabad, Nashik, Mumbai and Gurgaon. We would visit our pricing/phasing assumptions for standalone residential projects post analyst meet.

SEZ business continues to make good progress

Chennai as well as Jaipur SEZs of MLIFE continue to make progress. We summarize progress in these SEZs over the past three months.

Mahindra World City, Chennai (MWC). MLIFE has formed a joint venture with Ayala Land to undertake the development of a gated community in 55 acres within MWC. MLIFE's 74% owned subsidiary Mahindra Residential Development Ltd will have 51% stake in the joint venture, while Ayala Land (affiliate of ARCH Capital Asian Partners) will have 49 per cent. This gated community project is likely to be launched in 2QFY2009. Our recent visit to Chennai property exhibition highlights that residential prices in the vicinity of the SEZ have moved above Rs2,600/ sq. ft compared to our assumptions of Rs2,224/ sq. ft (refer our note dated 24th Jan, 2008). Thus, we believe that downside risks to our selling price assumptions for this project are limited.

Mahindra World City, Jaipur (MWCJL). MWCJL has completed acquisition of 2,500 acres of land for the project. Since there have been delays in balance land acquisition, MWCJL has taken formal approvals for three sector specific SEZs—IT/ITES, handicrafts and light engineering. MWCJL has signed up large number of clients, which include Infosys, and Wipro as anchor tenants and others like Tech Mahindra, Nagarro Software and Instancesys. The first client is expected to start operating in the SEZ in 2QFY2009.

We maintain our BUY rating and target price of Rs890/share

Exhibit 4 gives breakup of our March 2009 based target price of Rs890/share. On the SEZ front, we will be closely watching policy developments as well as any land acquisitions delays faced by its subsidiaries. Our target price of Rs890 provides large upside based on the current market price and we retain our BUY rating.

Mahindra Gesco :4QFY2008 results

				% chg.		Kotak estimates					FY08/FY07	FY09/FY08
(in Rs mn)	4QFY07	3QFY08	4QFY08	qoq	yoy	3QFY08	% deviation	FY07	FY08	FY09E	(%)	(%)
Net sales	**340**	**434**	**596**	**37.4**	**75.1**	**518**	**15.1**	**1,555**	**1,721**	**3,475**	**10.7**	**101.9**
Operating costs	**(366)**	**(351)**	**(382)**	**8.7**	**4.3**	**(375)**	**1.8**	**(1,352)**	**(1,341)**	**(2,309)**	**(0.8)**	**72.1**
Cost of construction	(254)	(251)	(262)	4.5	3.3			(1,051)	(939)	(2,077)		
Operating expenses	(32)	(33)	(54)	61.9	66.9			(148)	(142)	(104)	(3.9)	(26.5)
Staff cost	(21)	(20)	(22)	9.0	6.8			(70)	(81)	(128)	16.8	56.9
Other expenditure	(60)	(47)	(44)	(6.6)	(26.6)			(85)	(179)			
EBITDA	**(26)**	**83**	**214**	**159.1**	**(930.6)**	**143**	**49.9**	**203**	**380**	**1,166**	**87.4**	**207.0**
Other income	31	52	94	82.4	203.2	58	62.6	66	478	102	621	(79)
Interest costs	6	—	(1)	—	(108.8)	(1)		(36)	(1)	(1)	(96.9)	—
Depreciation	(6)	(5)	(5)	10.2	(11.5)	(13)	(58.8)	(22)	(20)	(31)	(12.1)	57.3
PBT	**5**	**130**	**303**	**133.7**	**6,077.6**	**187**	**62.0**	**211**	**837**	**1,237**	**297.6**	**47.7**
Taxes	(20)	(18)	(81)	356.2	304.0	(45)	78.5	(69)	(184)	(416)	167.4	126.2
PAT	**(15)**	**112**	**222**	**98.3**	**(1,557.2)**	**141**	**56.6**	**142**	**653**	**820**	**360.7**	**25.6**
Key ratios												
EBITDA margin (%)	(7.6)	19.1	36.0			27.6			22.1	33.6		
PAT margin (%)	(4.5)	25.7	37.2			27.3			38.0	23.6		
Effective tax rate (%)	410.2	13.7	26.8			24.3			22.0	33.7		

Source: Company data, Kotak Institutional Equities.

Revenue booking for 4QFY08

List of MGDL's residential projects from which revenue was booked in 3QFY08

Name of the project	City	Saleable area ('000 sq. ft)	Prices (Rs)
Mahindra Eminente	Goregaon, Mumbai	270	5,800
Mahindra Royale- I	Pimpri, Pune	208	2,700
Mahindra Royale- II	Pimpri, Pune	100	3,000
Slyvan County	Chennai	490	1,700

Source: Company, Kotak Institutional Equities estimates.

MGDL's ongoing and forthcoming residential projects

List of MGDL's residential projects

Name of the project	City	Status	Saleable area ('000 sq. ft)	Prices (Rs)
Mahindra Eminente	Goregaon, Mumbai	Ongoing	270	5,800
The Woods	Wakad, Pune	Ongoing	510	3,000
Sylvan County	Chennai	Ongoing	490	2,600
Mahindra Park	Ghatkopar, Mumbai	Ongoing	40	3,500
Mahindra Splendour (GKW)	Bhandup, Mumbai	Ongoing	320	6,500
Mahindra Royale	Pimpri, Pune	Ongoing	580	3,000
Proposed project	Faridabad	Forthcoming	420	3,000
Proposed project	Nasik	Forthcoming	1,372	1,500
Proposed project	Gurgaon Sector 112	Forthcoming	1,000	4,500
Proposed project	Mumbai - Byculla	Forthcoming	400	18,000
Proposed project	Baroda	Forthcoming	1,000	1,365
Proposed project	Kandivili	Forthcoming	450	5,000
			6,072	

Source: Company, Kotak Institutional Equities estimates.

MGDL - Our March 2009 based NAV is Rs890/share

	Valuation Methodology	Valuation of business (Rs bn)	Probability (%)	Value contribution (Rs bn)	Value contribution (Rs/share)
SEZs					
Chennai SEZ	DCF	9.4	100.0	9.4	224
Karla SEZ	DCF	16.2	10.0	1.6	39
Jaipur SEZ	DCF	15.6	70.0	10.9	260
Thane SEZ	DCF	0.7	100.0	0.7	17
Total			100.0	22.6	539
Mahindra Gesco standalone					
Residential properties	NAV	7.0	100.0	7.0	167
Commercial property	NAV	1.6	100.0	1.6	38
Total				8.6	205
FY2008 Net Debt		2.6	100.0	2.6	62
FY2008 Investments		3.8	100.0	3.8	90
Equity valuation (Rs/share)					895
Fully diluted no of shares (mn)				42.0	

Source: Kotak Institutional Equities.

Metals

JNSP.BO, Rs2326	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	2,900
52W High -Low (Rs)	3357 - 547
Market Cap (Rs bn)	358.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	47.6	63.0	71.7
Net Profit (Rs bn)	11.9	16.5	15.6
EPS (Rs)	77.3	106.9	101.5
EPS gth	*37.6*	*38.3*	*(5.0)*
P/E (x)	30.1	21.8	22.9
EV/EBITDA (x)	18.6	14.1	13.8
Div yield (%)	0.2	0.2	0.2

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	23.6	-	-
FIIs	3.7	0.2	0.0
MFs	-	-	(0.2)
UTI	-	-	(0.2)
LIC	0.2	0.2	-

Jindal Steel and Power: El Mutun receives exploration license—a step closer to commissioning of mines

Jigar Mistry : jigar.mistry@kotak.com, +91-22-6749-3571

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **El Mutun mines received exploration license; now required to submit work chronogram by end of June-08**
- **Consensus target price does not account for value accretion from El Mutun mines; expect consensus to start ascribing value soon (considering mine will likely be commissioned between Apr-Sept 09)**
- **Our latest plant visit convinces us of satisfactory ramp-up on Steel and power businesses' performance**
- **Retain target price of Rs2,900 and ADD rating on the stock; continues to be our best pick in the sector**

JSP's wholly-owned subsidiary JSP Bolivia reportedly received exploration license for its El Mutun mines in Bolivia. The company will have to submit a work chronogram by June of current fiscal. We expect the consensus target prices to start factoring the value accretion from development of El Mutun mines in Boliva, which it does not at this point in time. Our recent plant visit convinced us that expansions at steel and power plant are performing satisfactorily. We reiterate JSP as our top pick in the sector and retain our target price of Rs2,900 per share with ADD rating.

El Mutun mines receives exploration license on 25th April, 2008, earlier than our understanding of receipt by June. The company will now be required to submit a work chronogram by June-08 describing their work program. The track of the sequence of events in Exhibit 1.

Our communication with management indicates that the commercial mining of ore at El Mutun mine in Bolivia will likely start between Apr-Sept 09, and actual contract for mining will likely be contracted out (requiring only a small investment by JSP Bolivia to start with).

To recapitulate, JSP's Bolivian mining concession spreads over 40 years with a right to mine over 20 bn tons of iron ore reserves. The agreement with the Bolivian government includes contract to buy natural gas at US$3.5/mmbtu. The average grade of ore ranges between 55-60% Fe, which will be beneficiated to 63-65% Fe at site. JSP Bolivia (the concessionaire) shall have the right to sell iron ore to third parties till the expiry of five years, after which the ore will have to be converted into pellets/DRI/ Steel and then sold. Our communications with the management suggests that the DRI/ Steel making facilities will likely come up earlier than five years to take advantage of natural gas contract (which is contracted at US$3.5/mmbtu). The committed investments are to the tune of US$2.3 bn over eight years, and will be funded in the ratio of 60:40 debt-to-equity. We have valued the facilities at US$3.3 bn, but believe that eventual value can be much higher considering the market capitalization of listed peers.

We expect consensus to start valuing the accretion from development of El Mutun mines soon, considering that mining activities will likely commence within one year. The consensus estimates do not ascribe any value from probable accretion from development of Bolivian concessions. We have valued the opportunity at US$3.3 bn, which we believe is a fair estimate considering the political uncertainties at this juncture. However, we also believe that the valuation from accretion will likely be much higher after the company exhibits profitable operations out of the mine.

Our recent plant visit convinced us of steel and power expansions being on track and timely. We noted that the plate mill has started producing over 50K tons per month, which is in line with our estimates of production of 600,000 tons of plates in FY2009). The plate mill has also successfully taken trial-runs of X-60 and X-70 API grades of plates, and expects API approval soon (although our earnings estimates will have upside if company sells API grade plates). We also noted that JPL's 1000MWs will likely commission fully by August 2008 and all major equipments for balance 500MWs (yet to be commissioned) were delivered on site.

We learn that JPL is signing on for some part of its power capacity (close to 150MWs) at over Rs7/unit, which is higher than that modeled by our utilities analyst: Aman Batra. This is in addition to 150MW contract done with MSEB at Rs5/unit for one year.

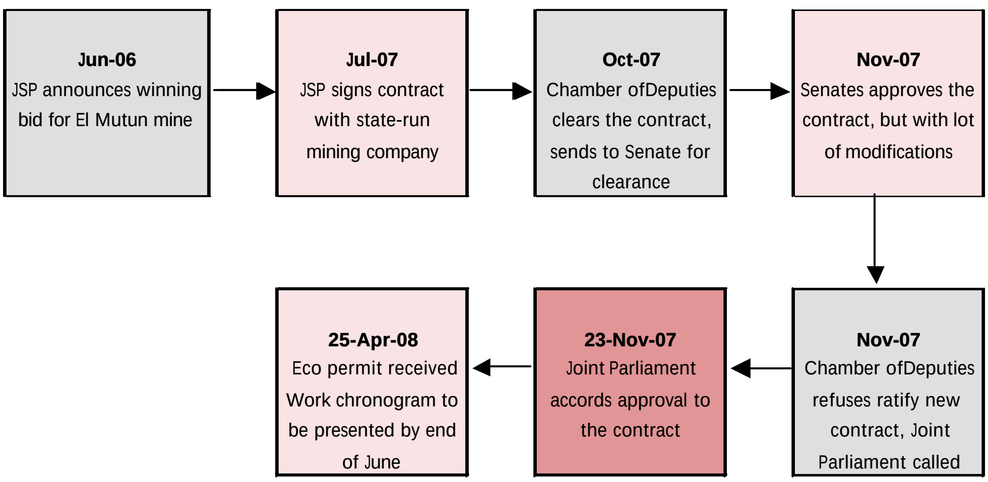
Mixed bag in domestic steel business for JSP. We note that the rising coking coal and iron ore prices will have the least impact on JSP's steel operations since the company is fully integrated on iron ore front and follows DRI-EAF route for 40% of steel production (which uses captive non-coking coal versus expensive coking coal used in BOF). Versus ~US$180 per ton increase in per ton cost for JSW/Tata Steel, JSP's costs will likely increase by just US$135 per ton (see Exhibit 3).

However, JSP is impacted the most in domestic sale of material since a large part of its revenues are derived from sale of long products in the domestic markets (which are more-or-less government price controlled now) (see Exhibit 4). Our earnings are at risk should the prices not increase at end of 2-3 months (Indian Steel companies have promised to hold prices for next 2-3 months to help government ease out inflation). Our channel checks however reveal that prices of steel in the Indian markets have not reduced despite attempts of many steel manufacturers.

We retain our price target of Rs2,900 and ADD rating; JSP continues to be our best pick in the sector. Our target price includes Rs1,081 per share from its extant steel business, which we continue to value at 7.2X EV/EBITDA, Rs965/share from its power business which we value on DCF-to-firm basis and Rs869 per share from the probable value accretion from development of El Mutun mines in Bolivia (see Exhibit 5). JSP continues to be our top pick in the sector.

hibit 1: El Mutun mines receive environment clearance; to submit work chronogram by June-08

quence of events leading to the final approval



urce: Press reports, Kotak Institutional Equities

Exhibit 2: Numerous catalysts makes JSP our top pick

Merchant power and Bolivian operations details, (Rs mn)

Merchant power	
Total coal allocation (mn tons)	1,205
Total power capacity planned (GWs)	8.0
Total power in operation (GWs)	1.0
Tenders issued for projects (GWs)	2.6
Valuation by KIE (US$ bn)	**3.7**
Bolivian ore concessions	
Ore reserves (bn tons)	20
Concession agreement (in years)	40
Average grade of ore (%)	55-60%
Natural gas contract at (US$/mmbtu)	3.5
First ore mined	Mar-Sept 09
Pellet production	Mar-Sept 10
Iron ore sell agreement	For first 5 years
Pending approvals	Environmental clearance (now received)
Facilities to be created	
Pellets	10 mn tons pa
DRI	6 mn tons pa
Steel	1.7 mn tons pa
Power	450 MW
Investments	US$ 2.3 bn
Debt: Equity	60:40
Valuation by KIE (US$ bn)	**3.3**

Source: Kotak Institutional Equities estimates

Exhibit 3: Illustrative increase in price required for FY2009E operating margins to be maintained

Cost push and price increase required to maintain margins for Indian steel companies, March fiscal year-ends

	Tata Steel (C)	JSW Steel	JSPL	Remarks
Total increase in costs ($ mn)	**4,567**	**739**	**286**	
FY09E coking coal purchase (mn tons)	14	2	1	
Increase in coking coal prices ($/ton)	202	190	202	
Pre-tax profit impact of coking coal ($ mn)	**2,788**	**420**	**186**	
FY09E iron ore purchase (mn tons)	28	6	-	
Increase in iron ore prices ($/ton)	34	27	-	
Pre-tax profit impact of iron ore ($ mn)	**930**	**169**	**-**	
Increase in other costs ($ mn)	850	150	100	Purchased coke, freight and other expenses
Combined tonnage sold (mn tons)	25	4	2	
Price increase required to offset cost push ($/ton)	**183**	**187**	**136**	

Note:

1. Tata Steel (C) stands for Consolidated numbers of Tata Steel
2. Break-up of usage of hard, soft and semi-soft coal not available for Corus Group
3. Lower increase in avg. per ton ore price following supplies from NMDC at lower rates

JSP's steel valuation forms just 37% of SOTP-based valuation, and requires lowest price increase to improve margins.

	Tata Steel (C)	JSW Steel	JSPL
SOTP-valuation (%)	**100**	**100**	**100**
Valuation of extant steel business	100	86	37
Valuation of other businesses	-	14	63

Note:

1. Valuation of other businesses in JSW Steel is conversion business in US and SISCOL value accretion
2. Valuation of other businesses in JSP is for its power business (33%) and value accretion in El-Mutun mine

Source: Company data, Kotak Institutional Equities estimates

Exhibit 4: JSPL and JSW steel hit harder by the proposed cut in steel prices

Details of price trends and product portfolios of companies under coverage

Details (Rs/ton)	
Average increase in steel prices	5,000
Roll-back announced	
for Longs	2,000
for GP/GC	500
Average increase after roll back	
for Longs	3,000
for GP/GC	4,500
Avg. FY09 price increase assump.	**6,000**

FY2009 revenues	Tata Steel	JSW Steel	JSPL
Longs as % of total revenues	4.6	11.0	48.0
GP/GC as % of total revenues	2.2	17.8	-

Source: Kotak Institutional Equities

Jindal Steel and Power, SOTP-based valuation, March 2009E (Rs mn)

	EBITDA	Multiple	Enterprise value			Comments
	(Rs mn)	(X)	(Rs mn)	(US$ mn)	(Rs/share)	
Existing steel business			**166,424**	**4,161**	**1,081**	
Steel business (extant business)	27,788	7.2	200,075		1,300	
Less: Net debt of steel business			(33,651)		(219)	FY2009E net debt, adjusted for cash
Stake in Jindal Power (100% holding)			**148,542**	**3,714**	**965**	
First 1000 MWs (250 MWs already commissioned)					694	1-yr forward DCF-to-firm basis, including 800 MWs sale on spot basis for 7 years
Incremental 1320 MWs on existing mine					154	1-yr forward DCF-to-firm basis. Levelized tariff of Rs2.25/unit assumed on commissioning
Additional 1500 MWs on coal mine allocated in Jharkhand					117	Assuming JSP can set-up incremental 1500 MWs new mines allocated in Jharkkhand
Value accretion from development of El Mutun, Bolivia (note 1, 2)			**133,801**	**3,345**	**869**	DCF-to-firm basis, assuming 50% probability of investments fructifying
Arrived market capitalization			**448,766**	**11,219**	**2,915**	
Target price (Rs/share)					**2,900**	Maintain target price

Notes:

1. Based on our assumption of extraction of 15 bn tons of iron ore extraction over FY2026 and based on long term iron ore prices of US$35/ton.
2. We apply a factor of 20% to discount cash flows and assume just 50% probability of completion of commissioning of the project.

Source: Kotak Institutional Equities estimates

Jindal Steel and Power, Summary financials, March fiscal year-ends, 2007-10E (Rs mn)

Income statement	2007	2008E	2009E	2010E
Net revenues	**36,815**	**47,574**	**63,035**	**71,652**
Expenditure	**(21,174)**	**(26,773)**	**(35,247)**	**(42,890)**
Raw materials	(5,605)	(6,381)	(7,865)	(8,462)
Employee expenses	(910)	(1,229)	(1,597)	(1,997)
Other expenditure	(14,659)	(19,164)	(25,785)	(32,432)
EBITDA	**15,641**	**20,800**	**27,788**	**28,761**
Non-operating income	290	290	290	290
Depreciation	(3,365)	(4,231)	(5,426)	(7,231)
EBIT	12,567	16,859	22,652	21,821
Interest expenses	(1,501)	(1,631)	(1,597)	(1,825)
Adjusted pre-tax profits	11,066	15,228	21,055	19,996
Unusual or infrequent items	-	-	-	-
Reported pre-tax profits	**11,066**	**15,228**	**21,055**	**19,996**
Current taxes	(1,071)	(2,284)	(3,158)	(2,999)
Deferred taxes	(1,348)	(1,044)	(1,443)	(1,371)
Reported net income	**8,648**	**11,900**	**16,453**	**15,626**
Adjusted net income	**8,648**	**11,900**	**16,453**	**15,626**
EPS (Rs), based on wtd avg shares	**56.2**	**77.3**	**106.9**	**101.5**
EPS (Rs), based on fully diluted shares	**56.2**	**77.3**	**106.9**	**101.5**
Year-end shares outstanding (mn)	154.0	154.0	154.0	154.0
Weighted average shares outstanding (mn)	154.0	154.0	154.0	154.0
Fully diluted shares outstanding (mn)	154.0	154.0	154.0	154.0

Balance sheet	2007	2008E	2009E	2010E
Equity capital	154	154	154	154
Reserves and surplus	26,336	37,620	53,381	68,237
Deferred tax liability	4,201	5,245	6,688	8,059
Total Equity	**30,691**	**43,019**	**60,223**	**76,450**
Secured loans	26,235	19,747	24,875	28,840
Unsecured loans	9,646	9,646	9,646	9,646
Total borrowings	**35,881**	**29,393**	**34,521**	**38,486**
Current liabilities	11,196	13,378	16,515	18,263
Total capital	**77,767**	**85,790**	**111,258**	**133,199**
Cash	425	468	514	566
Inventory	8,082	10,444	13,839	15,730
Debtors	4,257	5,502	7,290	8,286
Other current assets	5,910	5,910	5,910	5,910
Total current assets	**18,675**	**22,323**	**27,552**	**30,492**
Gross block	45,482	52,487	73,152	94,284
Less: Depreciation	(8,788)	(13,019)	(18,445)	(25,676)
Net block	36,694	39,468	54,708	68,609
Add: Capital work-in-process	14,588	16,188	21,188	26,288
Total fixed assets	**51,282**	**55,656**	**75,896**	**94,897**
Investments	7,803	7,803	7,803	7,803
Miscellaneous expenditure	7	7	7	7
Total assets	**77,767**	**85,790**	**111,258**	**133,199**

Cash flow statement	2007	2008E	2009E	2010E
Cash flow from operating activities				
PBT	11,066	15,228	21,055	19,996
Add: Depreciation	3,365	4,231	5,426	7,231
Add: Non cash expenses	-	-	-	-
Less: net interest	-	-	-	-
Less: Taxes paid	(1,071)	(2,284)	(3,158)	(2,999)
Add: Working capital changes	(1,444)	(1,423)	(2,046)	(1,140)
Total operating cash flow	**11,916**	**15,751**	**21,277**	**23,088**
Operating Cash flow w/o working capital	13,360	17,175	23,323	24,227
Cash flow from investing activities				
Capital expenditure	(16,177)	(8,605)	(25,666)	(26,232)
Investments	(3,500)	-	-	-
Interest and dividend received	-	-	-	-
Total investing cash flow	**(19,677)**	**(8,605)**	**(25,666)**	**(26,232)**
Cash flow from financing activities				
Share issuances	-			
Loans	8,427	(6,488)	5,128	3,966
Less: Dividends paid (including dividend tax)	(554)	(616)	(693)	(770)
Total financing cash flow	**7,873**	**(7,104)**	**4,435**	**3,196**
Net change in cash	**112**	**42**	**47**	**51**
Opening cash	313	425	468	514
Closing cash	425	468	514	566

Ratios (%)	2007	2008E	2009E	2010E
Effective tax rate	21.9	21.9	21.9	21.9
EBITDA margins	42.5	43.7	44.1	40.1
EBIT margins	34.1	35.4	35.9	30.5
Net debt/equity	114.4	66.4	55.9	49.1
Net debt/capitalization	53.4	39.9	35.8	32.9
ROACE	14.9	18.4	18.9	15.0
ROAE	28.2	27.7	27.3	20.5

Key assumptions	2007	2008E	2009E	2010E
Sponge iron production ('000t)	1,196	1,219	1,260	1,370
Pig iron production ('000t)	397	595	1,071	1,489
Steel production ('000t)	775	1,100	2,000	2,300
Finished steel average realization (Rs/t	33,489	35,108	32,332	32,276

Valuations (X)	2007	2008E	2009E	2010E
Price to Diluted earnings	46.0	33.4	24.2	25.4
EV/EBITDA	27.6	20.5	15.5	15.1
EV/Sales	11.7	9.0	6.8	6.1
M.cap/Sales	10.8	8.4	6.3	5.5
Price to book	13.0	9.2	6.6	5.2

Per share numbers (Rs)	2007	2008E	2009E	2010E
Reported Earnings	56.2	77.3	106.9	101.5
Diluted Earnings	56.2	77.3	106.9	101.5
Cash earnings	78.0	104.8	142.1	148.5
Free cash	(27.7)	46.4	(28.5)	(20.4)
Book	199.0	279.0	390.8	496.2

Source: Company data, Kotak Institutional Equities estimates

JAIA.BO, Rs246	
Rating	BUY
Sector coverage view	-
Target Price (Rs)	280
52W High -Low (Rs)	510 - 113
Market Cap (Rs bn)	305.5

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	49.6	73.5	97.1
Net Profit (Rs bn)	6.5	11.3	18.2
EPS (Rs)	5.3	9.1	14.7
EPS gth	*15*	*72.7*	*61.1*
P/E (x)	47	27.0	16.8
EV/EBITDA (x)	19.5	14.2	11.9
Div yield (%)	0.0	0.0	0.0

Jaiprakash Associates: Cabinet clears greenfield airport policy—airport at Jevar will likely result in higher NAV

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

- **Government has approved the new greenfield airport policy—new airports within 150 km of an existing airport would be approved on a case-by-case basis**
- **New airport at Jevar, near Greater Noida in Uttar Pradesh could be approved soon—JPA with large land parcels (Tappal and Mirzapur) would likely benefit**
- **Upside risk of Rs10-20 to our NAV estimates if airport comes as planned**
- **Maintain BUY rating with a target price of Rs280/share and we see limited downside risk to our real estate valuation (Rs158 bn or Rs127/share)**

The Union Cabinet has cleared the new greenfield airport policy, under which proposals for new airports within 150 km of an existing airport would be examined on a case-by-case basis. According to the new policy, a steering committee, headed by the civil aviation secretary, would be set up to coordinate and monitor clearances required from various agencies for setting up the airport. We expect the new policy to expedite the setting up of the Taj International airport at Jevar in Uttar Pradesh, which is some 70 km from the Indira Gandhi International airport in Delhi. We believe this is a positive development for JPA which has large land parcels (Tappal-1,250 acres, Mirzapur-1,250 acres) near the upcoming airport. NAV from these land parcels will likely have an upside of Rs10-20/share if the airport comes up at Jevar. We maintain a BUY rating on JPA with a target price of Rs280/share. Key risk to our NAV is delay is land allotment. We highlight that land parcels that will benefit on account of Jevar airport have not been handed over to JPA.

Cabinet approves the new greenfield airport policy

The cabinet has cleared the greenfield airport policy under which proposals to set up greenfield airports within 150 km of an existing airport would be examined on a on a case-by-case basis. Under the new policy, a greenfield airport that is in compliance of different rules and guidelines and is beyond 150 km of an existing airport would not require prior approval of the Central government. However a greenfield airport within 150 km of an existing civilian airport would be considered by a steering committee headed by the civil aviation secretary. The Committee would then submit its recommendations to the Ministry of Civil Aviation, which would decide whether to grant approval or not. The Directorate General of Civil Aviation (DGCA) would consider a proposal for grant of a license only after the Ministry's approval.

New airport at Jevar could be approved in the near future—a likely positive for JPA

We expect the new policy to expedite the setting up of the Taj International airport at Jevar in Uttar Pradesh, which is some 70 km from the Indira Gandhi International airport in Delhi. Uttar Pradesh Chief Minister has already requested for an early clearance for an airport hub at Jevar and has already identified a 1,500 hectare site. The government is also planning an aviation hub near the new airport which would lead to economic development of the region.

JPA has large land parcels of 1,250 acres in Tappal and another 1,250 acres in Mirzapur, both areas near the airport. We expect early exploitation of these land parcels once the airport project gets underway with increased commercial activity and hence more demand from real estate. We have seen in case of Bangalore (north Bangalore) and Hyderabad (Shamshabad airport) that the development profile of the city moves towards the airport with more offices and hotels being set up in the region, which is followed by residential development.

Upside risk of Rs10-20 to our NAV estimates if airport comes up quite fast

The land bank near the airport, Tappal and Mirzapur together contribute 17% or Rs35 bn to the real estate valuation, which works out to Rs28/share (Exhibit 2). We carry out sensitivity for these projects to consider three scenarios—(1) better realizations, (2) higher FSI usage, and (3) faster execution.

1. Better realizations. If realizations improve by 10% across all segments, our NAV for each location will likely increase by Rs5-6 bn or Rs4-5 share (Exhibit 3).
2. Higher FSI usage. If FSI utilization were to increase by 10%, NAV for each project would increase by around Rs2 bn or Rs1.5 share. If full FSI could be used up, NAV could increase by 50% of close to Rs7-8/share of each of the land parcel (Exhibit 4).
3. Faster execution. For every year of compression of execution timeframe, NAV increases by 2-3%.

We maintain our BUY rating on JPA with a target price of Rs280/share and see limited downside risk to our real estate valuation with the higher likelihood of new airport at Jevar under the new airport policy.

SOTP-based valuation of Jaiprakash Associates Ltd

Business	Methodology	Comments	Value (Rs bn)	Value (Rs/share)
Cement	EV/EBITDA (X)	7X FY2009E EBITDA (implying 5.1X FY2010E EBITDA); JAL proposes to increase capacity to 23 mn tpa by FY2010 from the current 7 mn tpa	72	58
Construction	EV/EBITDA (X)	10X FY2009E EBITDA on an order book of US$2.8 bn	46	37
Real estate	NAV	Base case assumption of flat prices till FY2010 and 5% growth in realisation beyond that for 25 mn sq. ft of ribbon development along Taj Expressway and 8 mn sq. ft at Jaypee Greens	158	127
Power	DCF-to-equity	4,721 MW of attributable power portfolio, of which 501 MW is already under operation	114	92
Hotels	Market value	20% holding company discount on JAL's 72% stake in Jaypee Hotels	5	4
Net debt	Book value	Net debt for cement, construction and real estate business	(48)	(39)
Total			**347**	**279**

Source: Kotak Institutional Equities estimates.

Noida contributes 63% of the total land bank NAV

Key details of land bank (mn sq. ft) and NAV (Rs bn)

Location	Land area (mn sq. ft)	Land area (acres)	NAV (Rs bn) 0%	NAV (Rs bn) 3%	NAV (Rs bn) 5%	NAV (Rs bn) 10%
Greater Noida	7.9	450	10.9	11.5	11.9	13.0
Noida	79.6	1,250	96.1	116.5	132.0	178.3
Agra	52.4	1,250	1.9	9.5	15.5	35.2
Mirzapur	52.4	1,250	5.1	12.6	18.5	37.1
Dhankaur	52.4	1,250	0.5	8.5	14.9	35.7
Tappal	52.4	1,250	2.1	10.0	16.4	37.4
Total	**296.9**	**6,700**	**116.5**	**168.6**	**209.2**	**336.7**
Noida (%)					63.1	
Mirzapur (%)					8.8	
Tappal (%)					7.9	

Source: Kotak Institutional Equities estimates.

Sensitivity to selling price assumptions

	Base case [a]	Growth in base prices (%)			
	FY2008E prices	5%	10%	20%	30%
Residential prices (Rs/sq. ft)	2,000	2,100	2,200	2,400	2,600
Commercial prices (Rs/sq. ft)	32	34	35	38	42
Retail prices (Rs sq. ft)	53	56	58	64	69
Plot prices (Rs/sq. ft)	800	840	880	960	1040

Mirzapur (NAV in Rs bn)

		Growth in selling prices (%)			
		0%	3%	5%	10%
Change in base prices	0%	5.1	12.6	18.5	37.1
	5%	8.8	16.0	21.6	39.2
	10%	10.7	18.3	24.2	42.6
	20%	14.8	23.0	29.5	49.5
	30%	18.8	27.8	34.7	56.5

Tappal (NAV in Rs bn)

		Growth in selling prices (%)			
		0%	3%	5%	10%
Change in base prices	0%	2.1	10.0	16.4	37.4
	5%	5.1	13.0	19.3	39.5
	10%	6.7	15.0	21.6	42.8
	20%	10.2	19.2	26.4	49.4
	30%	13.6	23.4	31.1	56.1

Note:
(a) Our base case assumes- 10% reduction in residential property prices in FY2009E, stable property prices in FY2010E and 5% growth thereafter.

Source: Kotak Institutional Equities estimates.

Sensitivity to FSI assumptions

Base case	
Saleable area	67%
Residential	75%
Retail	5%
Commercial	20%
Villas	20%
Plots	20%
Apartments	60%
FSI (villas/ plots) [a]	0.7
FSI (others)	1.75

Mirzapur (NAV in Rs bn)

		Saleable area	Growth in selling prices (%)			
		(mn sq. ft)	0%	3%	5%	10%
Extra area (%)	0	52.4	5.1	12.6	18.5	37.1
	10	57.6	5.6	13.9	20.3	40.8
	20	62.9	6.1	15.1	22.2	44.5
	30	68.1	6.6	16.4	24.0	48.2
	40	73.4	7.1	17.6	25.9	51.9

Tappal (NAV in Rs bn)

		Saleable area	Growth in selling prices (%)			
		(mn sq. ft)	0%	3%	5%	10%
Extra area (%)	0	52.4	2.1	10.0	16.4	37.4
	10	57.6	2.3	11.0	18.1	41.1
	20	62.9	2.5	12.0	19.7	44.9
	30	68.1	2.7	13.0	21.4	48.6
	40	73.4	2.9	14.0	23.0	52.3

Note:
(a) FSI for villas and plots kept constant at 0.7 for sensitivity analysis

Source: Kotak Institutional Equities estimates.

Property

Sector coverage view	Neutral

		Price, Rs	
Company	**Rating**	**25-Apr**	**Target**
MLife	BUY	455	890
Sobha	REDUCE	605	710
DLF	BUY	668	905
Unitech	REDUCE	289	250
HDIL	BUY	732	925
Puravankara	BUY	281	375
IVR Prime	BUY	222	470

SEBI issues guidelines for REMFs; will likely propel more institutional investments

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

- **Mutual funds will be close-ended; NAV declaration on daily basis**
- **Will likely provide additional liquidity to smaller companies; project specific exit options**
- **REITs and REMFs to bring in additional liquidity into the real estate sector**

Securities and Exchange Board of India (SEBI) has amended the mutual fund regulations to allow mutual funds to launch real estate mutual funds (REMFs). REMFs can be launched by existing fund houses as well as by sponsors who have been in the real estate for at least five years. REMFs will have to invest minimum 75% of funds in income producing real estate assets, equity shares or debentures of listed/unlisted real estate corporates and mortgage-backed securities. Real asset assets will have to be valued every 90 days and daily NAVs will have to be published. We expect REMFs to provide liquidity in various forms like, 1) helping firms free up capital by buying their finished assets, 2) subscribing to debentures, and 3) subscribing to primary/secondary issuances. We view the recent developments—draft guidelines for REITs and setting up of REMFs as positive for the sector as it brings in favorable legal, regulatory, accounting and tax environment along with additional capital. REMFs could lead to better valuations for small/mid real estate companies as they are currently quoting at large discount to NAVs. Our preferred picks are IVR Prime and Mahindra Lifespaces.

SEBI Mutual funds Amendment Regulations, 2008

We address key questions regarding the draft regulations proposed by SEBI.

1. Who can start the REMFs?

The existing mutual funds are eligible to launch real estate mutual funds provided they have an adequate number of specialized key personnel on the board of directors. For new players, the sponsors seeking to set up such new mutual funds will have to be in the real estate business for at least five years. The asset management company (AMC) would be providing investment management services for a fee. The regulations state that every real estate mutual fund scheme shall be close-ended and would have its units listed on a recognized stock exchange where net asset value (NAV) will be declared daily.

2. What is going to be the investment philosophy of the REMFs?

REMFs will have to invest minimum 75% of funds in income producing real estate assets, equity shares or debentures of listed/unlisted real estate corporates and mortgage-backed securities. We summarize key conditions stipulated by SEBI with respect to investments below.

- Minimum 35% of these net assets will be invested directly in real estate assets, but investments cannot be made in under construction properties and vacant lands.
- REMFs will not be allowed to invest, (a) more than 30% of its net assets in a single city, (b) more than 15% of its net assets in a single real estate project, (c) more than 15% of its net assets in the equity shares or debentures of any unlisted company, (d) more than 25% of the total issued capital of any unlisted company.
- REMFs cannot invest in any real estate asset, which was owned by the sponsor, or the AMC, or any of its associates during the last five years.

3. What is going to be the valuation methodology of the schemes?

Each asset shall be valued by two valuers, who are accredited by a credit rating agency and the lower of the two values shall be taken for the computation of NAV. The AMC shall ensure that no real estate valuer continues with valuation of particular real estate for more than 2 years. SEBI has issued detailed accounting policies for, (1) investment in securities and (2) investment in real estate assets. For investment in securities, all investments will have to be marked to market and investments shall be carried out in the balance sheet at market value.

However, there is not much clarity on taxation of REMFs since it's not clear on their classification into equity schemes or debt schemes. At present, mutual funds schemes that invest at least 65% in domestic equity markets are known as equity-oriented schemes and are exempt from long-term capital gains tax, while the rest are treated as debt schemes and attract a long-term capital gain tax.

REITs and REMFs—both will provide liquidity albeit differently

Both Real Estate Investment Trusts (REITs) and REMFs will likely provide additional liquidity to real estate corporates. They will also provide retail investors an opportunity to take professional help in real estate investments without the hassles involved in investing in a project in terms of large capital requirement, title rights, development and other issues. Though, REITs and REMFs will likely have same purpose, nature of these instruments is very different and we highlight key differences between these entities below.

1. **Timing of investment identification.** REITs are going to be floated for identified assets while REMFs will make investments after funds have been raised.
2. **Sponsors.** In case of REMFs, quality of sponsor is very important while in case of REITs quality of assets being part of that will be of more importance.
3. **Investment philosophy.** REITs will invest primarily in income yielding assets while REMFs will invest in different asset classes as discussed above.
4. **Risk-reward.** In case of REITs, risk will be lower as investors will know about the details of assets that are going to be part of it. REMFs could also churn their portfolio and hence returns will likely be more volatile in their case.

REMFs will likely provide additional liquidity to smaller companies; project specific exit options

We believe the introduction of REMFs and REITs will provide liquidity to medium-size real estate companies and encourage them to construct more income yielding assets like commercial, retail and service apartments. These assets are capital intensive and there are limited avenues available for selling of these assets at present. REMFs and REITs will also lead to more project specific investments by private equity investors as they get a clear exit option. Private equity investors will invest in projects in the early stages and, once the project is fully constructed and leased, would sell the asset through REITs or to REMFs.

We believe that REMFs will likely lead to better valuations for small/mid real estate companies as they are currently quoting at large discount to NAVs. In case these companies have few projects with established benchmarks, REMFs will likely prefer to invest in these companies as compared to projects. Companies in our coverage universe that are quoting at steep discount to NAV include Mahindra Lifespaces and IVR Prime.

We expect some challenges for the success of REMFs/REITs

We believe that success of REMFs will be a gradual process as various mutual funds will find it difficult to raise large quantum of funds initially. Furthermore, there are constraints with respect to availability of experienced teams, valuers and data. The lack of organized data in terms of real estate price indices, property transaction, demand and supply will likely bring in subjective element into NAV calculation. Furthermore, norms will have to evolve to analyze performance of these REMFs. However, as investors get more educated about REMFs, these are likely to provide investors a good diversification tool and will help in more institutional interest in Indian real estate.

Economy

Sector coverage view	N/A

Against finely balanced odds, RBI's policy rate move to set the path of interest rates

Mridul Saggar : mridul.saggar@kotak.com, +91-22-6634-1245

- **Chances of a rate hike finely balanced and keeping rates on hold could be positive for markets**
- **Inflation remains a supply-side phenomenon though substantial revisions in inflation data show more persistent rise in inflation in 2HFY08**
- **Hobson's choice on policy rates with prospects of inflation staying elevated, interest rates firm but growth and investment decelerating**

RBI's Annual policy due at noon on Apr. 29, 08 might spring a positive surprise for the markets if the decision is finally to keep policy rates on hold. The chances to raise RBI's policy rates - repo/reverse repo rates - are very finely balanced. RBI faces a hobson's choice with rising inflation amidst prospects of growth and investment slowing down. As such, having raised CRR on April 17th, RBI might just settle to keep rates on hold till the First Quarter Review. If it does so, it could be a positive surprise for the markets, which are now factoring in a higher chances of a policy rate hike. Whether or not rates are immediately hiked, RBI is most likely to signal that it would give greater weight to inflation than growth through its statement on the stance on monetary policy.

In our comment dated April 15, 2008: "Weight to inflation over growth likely in monetary policy reaction to IIP and WPI data," we had said that with fiscal policy measures having being taken, the RBI is likely to get to the centre stage and hike CRR by 50 bps. RBI raised CRR 50 bps on April 17, twelve days before its scheduled policy date. In our comment we had also said that, "whether or not the central bank would also raise its policy rates could be a close call" and added that "on balance of considerations odds are slightly tilted in favor of no change in repo/reverse repo rates". We maintain this assessment even today. There are strong arguments for and against hiking policy rates. We list them out in Exhibit 1.

Large similarities with mid-term of 2004 when both CRR and policy rates were hiked

The closest analogy to current surge in inflation lies in the experience of a similar rise in the run up to the mid-term Review of Monetary Policy in October 2004. At that time headline inflation surged to 8.7% by end-August 2004 from 4.3% at end-April 2004. At that time also the inflation was essentially a supply-side phenomenon.

At that time, on Sep.11, 2004 RBI announced the crunch monetary measure of a hike in CRR by 50 bps to 5.0% over two fortnights starting Sep. 18, 2004. This measure reduced the liquidity in the banking system by about Rs90 bn. It followed the CRR hike by raising the reverse repo rate to 4.75% from 4.5%, leaving repo rate at 6.0% in its mid-term Review on October 26, 2004.

Still situation is slightly different now from the mid-term of 2004

Considering large similarities between then and now a possibility that both repo and reverse repo rates may be hiked appear logical. However, why the situation is slightly different now for the following four key reasons:

- Global central banks had begun to hike interest rates in 2004 and there was a need to prepare markets for interest rate cycle reversal. Global factors currently are working in favor of monetary policy easing
- Though inflation has been supply driven both in current and the 2004 episode, manufacturing inflation was relatively more general in 2004. Chemical and chemical prices had firmed up across the board on that occasion

- Growth and investment were at much less risk than currently
- There were stronger central bank communications indicating monetary policy tightening ahead in 2004 which have been more muted this time because of reasons spelled out above

Expectation on forthcoming monetary policy announcement

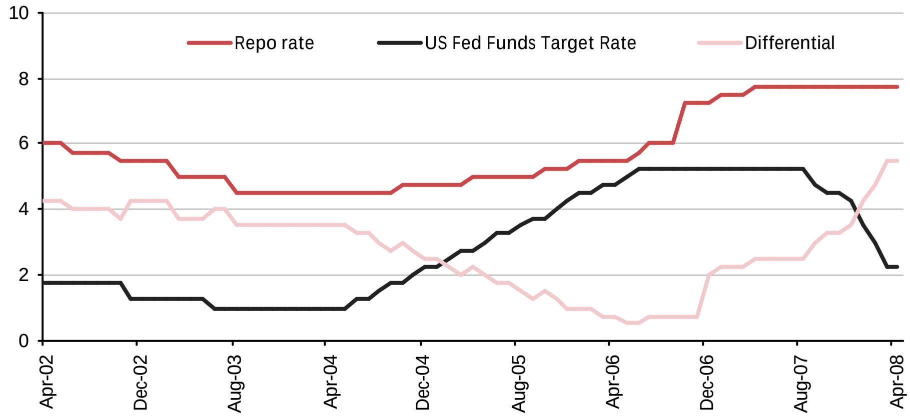
Considering the above we believe that the central bank might just settle in favor of keeping rates on hold till the First Quarter Review as more action may be necessary ahead with likelihood of inflation staying firm for larger part of FY2009. Also, RBI may continue to stay ahead of the curve factoring in slowing growth and investment cycle even while talking a tough posture on greater weight to inflation than growth in framing its text on the stance of the monetary policy. If there is a status quo on interest rates it could be a significant positive for the stock markets in the short-run and stock indices already on the up could get further boost. If policy rates are hiked, it is possible that the RBI may also hike the defunct bank rate to signal its tightening stance ahead.

It also remains to be seen how RBI approaches the challenge of growth and inflation unconventionally through its developmental and regulatory measures. These measures could consider crucial issues such as introduction of repo in corporate bonds, interest rate futures, currency futures, regulation of forex and credit derivatives, SLR status, payment system regulation following the empowerment of RBI, as also FDI and ECB policy in wake of moderating capital flows. Our view is that RBI may not yet be ready to accord SLR status to oil bonds but may positively move ahead in other key areas such as repo in corporate bonds, interest rate and currency futures and may try giving a rough time line of about 6-months for developing these markets. .

Exhibit 1: Arguments for and against rate hike finely balanced

Arguments for the rate hike	Arguments against the rate hike
Headline inflation has increase to 7.3% for the week-ended April 12, 2008 from 3.1% at end-November 2007. Inflationary expectations have also surfaced in a big way since February 2008	Current rise in inflation still remains a supply-side phenomenon. Three-fourths of the rise in WPI since mid-Oct 2007 is on account of primary articles, energy items, sugar, edible oils and iron and steel. These have risen due to supply-side factors of bad winter monsoon which affected Rabi crop and cost-push which came from the side of minerals and metals, such as coking coal and iron ore. Increase in iron and steel prices explain 37% of the increase in WPI since end-Feb. 2008. Iron ore prices have increased by over 50% since end-Feb. while coking coal prices were increased 10% in mid-Dec. 2007. We have not seen a general price rise as yet
Inflationary expectations have also surfaced in a big way since February 2008 and it would be apt to quickly and firmly bring them under control by raising interest rates further	Interest rates are already high and have been kept so by tight monetary policy through FY2008 in spite of headline inflation rate having dropped to 3.1% mid-year. As such, there is no need for further hardening of interest rates and the RBI could continue to smooth the interest rates by now not raising them too much just as it did not allow them to fall much
We could soon see the current increase in prices of food, energy and metal price to see a more general price rise unless preemptive action is taken	CRR hike has already led to firming up of gilt yields and further monetary action is not necessary at this juncture when the 50 bps CRR hike would just begin to kick in over two fortnights starting April 26, 2008
It is necessary to follow-up on the CRR hike by raising policy rates to show central bank's commitment to fight inflation and to prevent interest rates from slipping back and eroding the gain following the CRR hike	RBI in its CRR hike communication has clearly stressed on the fact that it was primarily hiking CRR due to liquidity conditions. It would also help as inflationary expectations have risen. It did not use any words that it is looking to address inflation in itself knowing that it is from supply side and not demand side. As such it did not use any words to indicate that further monetary tightening is in offing or indicate that monetary factors were behind its CRR move.
A rate hike would establish monetary as well as political credibility on fight against inflation at a time when inflation is fast becoming as No.1 economic as well as political issue	Global uncertainties are still high and the worst in the ongoing financial market crisis in US and several other globalized economies is yet to be witnessed. As global headwinds are likely to impact India a rate hike could have a severe impact on real economy and financial markets in India
A policy rate hike would give a correct direction to the financial markets as we expect headline inflation rate to stay firm in FY2008 and average around 8.0%	Interest rate differential between the RBI repo rate (7.75%) and the Fed funds target rate (2.25%) is already 550 bps (see Exhibit 2). With expectations of another 50 bps cut by Fed on April 30, if RBI hikes repo rate by another 25 bps the differential would become 625 bps and increase the risks of arbitrage flows even further
A policy rate hike would also give a correct direction to the financial markets in terms of interest rates as they are expected to harden further in FY2009. Irrespective of whether or not RBI hikes policy rates, interest rates could firm up by 30-100 bps in FY2009 taking into account factors such as large likely issuance of oil bonds, fertilizer bonds, etc., as also possible additional market borrowing by the government over the budgeted amount to meet inadequate provisions in the budget for expenses relating to implementation of the Sixth Central Pay Commission recommendations and farm loan write offs	Growth is clearly slowing down in India. Real GDP growth in FY2009 is expected to be close to 8.0%, down from 8.7% in FY2008 and 9.6% in FY2009. IIP growth averaged 9.8% during April-Oct.2008, but has distinctly decelerated since November has averaged only 5.2% since then. Construction activity has also begun to be impacted
With the prospects of yield curve becoming quite steep, a rate hike could also lift the short-end of the curve	The three key components of capital flows - FDI, FII and ECB inflows - are already reducing and any rate hike could further impact these flows
Indian economy is still poised to grow by 8.0% or more in FY2009 and some further tightening of monetary policy trading off growth against inflation is necessary as well as feasible. It would not lead to recession and can in fact help sustainability of growth	There are signs that saving and investment rates may fall over next 2-3 years with expected deterioration in revenue account of the governments and fall in corporate profitability and retained earnings. Cost of funds has risen and prevailing interest rates have begun hurting corporate performance, including that of large firms. Housing credit growth has already slowed down and has begun impacting housing demand. In these conditions a rate hike could be a further dampener for investment and sustainability of growth in India

Exhibit 2: The interest rate differntial between RBI repo rate and Federal Funds Target Rate
RBI Repo rate, Intended US Federal Funds Rate (%)



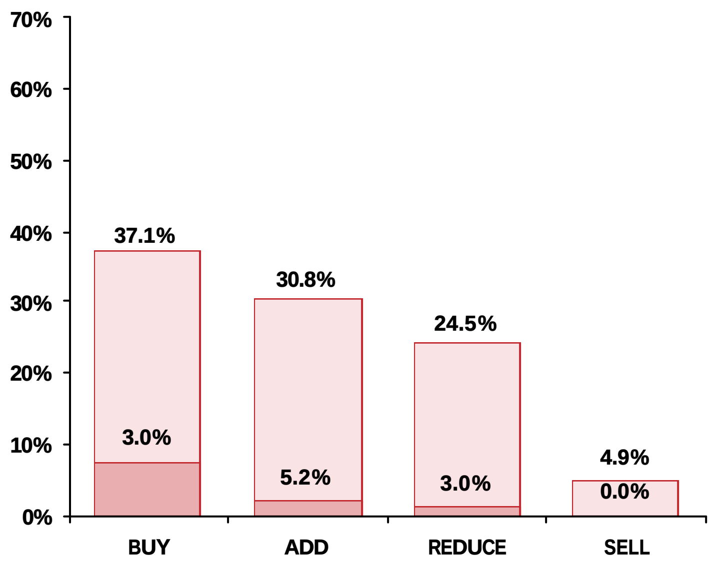
Note:
(1) LAF Reverse repo rate till September 2006, repo rate thereafter.

Source: RBI, US Federal Reserve.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Kawaljeet Saluja, Tabassum Inamdar, Jigar Mistry, Lokesh Garg, Aman Batra, Nitin Bhasin, Puneet Jain."

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 31/03/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities. As of March 31, 2008

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.

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

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.
NC = Not Covered. Kotak Securities does not cover this company.
RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA = Not Available or Not Applicable. The information is not available for display or is not applicable.
NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office
Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices
Kotak Mahindra (UK) Ltd.
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc.
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advise to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund.Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition , investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.