kotak® Institutional Equities

INDIA DAILY

July 31, 2008

EQUITY MARKETS

	Change, %			
India	**30-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	14,287	3.6	6.1	(17.4)
Nifty	4,314	3.0	6.8	(16.5)
Global/Regional indices				
Dow Jones	11,584	1.6	2.1	(9.6)
FTSE	5,421	1.9	(3.6)	(11.0)
Nikkie	13,289	(0.6)	(1.4)	(4.1)
Hang Seng	22,724	0.1	2.8	(11.8)
KOSPI	1,585	0.5	(5.4)	(13.2)

Value traded - India

	Moving avg, Rs bn			
	30-Jul		**1-mo**	**3-mo**
Cash (NSE+BSE)	179.2		180.0	185.8
Derivatives (NSE)	585.4		405.9	340
Deri. open interest	855.6		627	640

Forex/money market

	Change, basis points			
	30-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	42.4	0	(68)	186
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US$mn)

	29-Jul		MTD	CYTD
FIIs	(82)		(68)	(6,563)
MFs	48		107	2,438

Top movers -3mo basis

	Change, %			
Best performers	**30-Jul**	**1-day**	**1-mo**	**3-mo**
Ingersoll Rand	414	5.2	36.4	33.9
Ballarpur Ind	33	(1.1)	(2.1)	8.4
Chambal Fert	74	4.4	9.9	8.3
Cipla	220	0.5	4.3	3.3
Ranbaxy	492	3.5	(5.9)	2.6
Worst performers				
Moser Baer	96	0.8	(22.3)	(44.5)
Century Tex	492	3.1	(3.4)	(43.7)
Tata Motors	416	4.9	(2.4)	(37.4)
Wockhardt	192	1.1	4.1	(35.7)
Andhra Bank	54	1.0	(1.2)	(34.0)

Contents

Kotak Institutional Equities Research
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Consumer products

ITC.BO, Rs188	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	230
52W High -Low (Rs)	239 - 152
Market Cap (Rs bn)	704.5

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	140.1	159.8	185.9
Net Profit (Rs bn)	30.1	34.1	38.9
EPS (Rs)	8.0	9.1	10.4
EPS gth	*11.3*	*13.3*	*14.3*
P/E (x)	23.4	20.7	18.1
EV/EBITDA (x)	15.5	13.5	11.6
Div yield (%)	1.9	2.0	2.1

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	14.7	1.5	(0.5)
MFs	2.9	1.6	(0.4)
UTI	11.9	51.3	49.3
LIC	13.7	6.7	4.6

ITC: 1QFY09—Cigarettes uptrading over 80%, higher investments in personal care impact profits

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- **Estimated cigarette volumes decline of only 3% during the quarter, we now model flat volumes for FY09E (3% decline previously)**
- **We estimate non-filter to filter cigarette uptrading at 80%**
- **Slowdown in 'Other FMCG' except 'Bingo' and personal care is a worry**
- **We model higher investments in 'Other FMCG'**
- **Retain BUY with a revised target price of Rs230/share**
- **Key triggers—likely further price increases in cigarettes and news flow on market share gains in personal care**

ITC reported 18.4% growth in net sales, flat EBITDA and 4.4% decline in PAT during 1QFY09. Cigarette sales growth at 5.7% were in line with our estimates (4.4%) and significantly ahead of street expectations. Uptrading of over 80% for the quarter is in line with our forecast. The impact of price increases in June (about 5% net realization increase) will flow in to profits from the September quarter onwards. Higher launch expenses in HPC, deferment of profitability in extant FMCG have impacted PAT. As the company expands its reach in personal care and likely extension of 'Fiama Di Wills' into skin category, we believe significant market development expenses will be incurred—we forecast EBIT loss of Rs4 bn (earlier forecast of Rs2.5 bn) for FMCG business for FY2009E. We expect ITC to post 14% earnings growth during FY2008-10. Adjusting for higher FMCG investments, our FY09E and FY10E EPS estimates are Rs9.1 (Rs9.5 earlier) and Rs10.4 (Rs11.0 earlier). The stock has delivered a relative return (vis-a-vis the Sensex) of 3%, 12% and 18% over the last 3, 6 and 12 months, respectively. We retain our BUY rating with a revised target price of Rs230/share (Rs250/share earlier). Key triggers to watch out are likely further price increases in cigarettes (about 8% during the year) and news flow on market share gains in personal care.

Cigarette uptrading of 80% is a positive—volume decline of only 3% in 1QFY09. We now model flat volumes (3% decline previously) for full year FY2009E with value growth coming in from price increases as well as the change in mix to the higher-realization filter category. With an estimated 3% increase in prices and 5% increase in net realization, we now model an 11% growth (8.6% previously) in sales and profits of cigarettes business for FY2009E. Cigarette revenues increased by 5.7% yoy during the quarter, in line with our estimate of 4.4% growth. Overall cigarette volumes declined by about 3%—street expectations of a decline ranged between 6% and 13%. The management indicated an estimated underlying volume growth of 7% in filter cigarettes during the quarter, which is in line with our long-term growth forecast of 7-8% per year. Our channel checks over the past three months indicated significant uptrading to filters from non-filters, we had reiterated our positive stance and had differed from street consensus—the estimated uptrading is about 80%. We highlight that the street has consistently underestimated the resilience of the cigarette business, whether it is the VAT-led uncertainty of last year or the structural shift in excise regime in the FY2009 budget. Our sources indicate the likelihood of further upsides from more price hikes during the course of the year.

Cigarette margins likely to be maintained in FY2009E. The consensus expectation is that in the event of uptrading, cigarette margins are likely to expand. We differ. Structurally, the key markets for ITC's erstwhile plain cigarettes were North and South India, predominantly South. ITC had over 90% market share in the South Indian plains market and had better pricing power as well. Hence, the margins of ITC's plains portfolio was relatively higher compared with other players. Certainly, the margins in filter cigarettes are higher as the realizations are higher, however we believe the difference is not significant. Moreover, we believe that there is a necessity to continue with marginally higher trade spends for a few quarters to maintain uptrading by providing trade incentives. For example in the current quarter, the cigarette PBIT declined 90 bps due to (1) one-off costs (~Rs200 mn) due to writing off left over packing material of discontinued non-filter brands (2) higher margins in base due to favorable mismatch in timing of price increase and implementation of VAT and (3) higher distribution marketing / trade spends for strengthening the channel to facilitate migration from non-filters to filters and prevent loss of sale to counterfeits.

We are enthused by excellent activation in personal care. Increasingly, we see evidence of excellent activation at point-of-purchase as well as aggressive media spends on the personal care launches. We reiterate that while the task of ITC in gaining market shares from well entrenched players like HUL will not be easy, the company's strategy of building three brands with differentiated identity for three positions—premium, masstige and popular—will likely bear fruit in the medium term. ITC is building 'Fiama Di Wills' for premium, 'Vivel' for masstige and 'Superia' for popular segments. We believe ITC is on the right path in building brand equities and developing an emotional connect with consumers as it takes on well-entrenched brands in the market place with solid legacies behind them. We like ITC's strategy of offering a functionally superior product to the consumer and then back it up with brand spends for market activation. Sources indicate that ITC has already achieved a 2.1% market share in soaps and a 1.6% share in shampoo. While it is too early to make meaningful conclusions from this, we believe that it is a commendable achievement within one year of launch. Our channel checks indicate that 'in-store' activation and product displays of 'Vivel' is far superior to competition and repeat purchases are visible in the 'Fiama' shampoo range.

The 'Superia' soaps and shampoo is currently available in 8 states, 'Vivel' range of soaps and 'Fiama Di Wills' soaps and shampoo range in the top-30 cities (1 mn+ population) and as per management there are plans to extend it to cities/towns with 5 mn+ population as well in the near-term. The company is rightly adopting a differentiated launch strategy for each of its FMCG launches—while the focus is on distribution width in the low-end soaps category with below-the-line advertising focus, the strategy in middle-segment of soaps and shampoo seems to be urban focused and supported by heavy media investments. While we believe that the company is on the right path to build a sustainable personal care business, we note that market share gains in soaps category will fructify over a period of time (only) as the typical inventory carried by a household is about 2-3 months. We also note that ITC's task of gaining meaningful market shares in shampoo category will be a more difficult task as the company is up against well entrenched competitive positions—HUL (47% market share), P&G (24% market share) and Cavinkare (12% market share).

Slowdown in 'Other FMCG' except 'Bingo' and personal care is worrying. The 'Other FMCG' business grew 28% yoy and declined 6% qoq (due to higher stationery sales for April/May school sales season). We highlight a noticeable slowdown in historical growth rates in most of the extant businesses in 'Other FMCG'—packaged foods +23%, biscuits +16%, confectionary +10%, lifestyle retailing +15%, stationery +25% and staples +31%. While we agree that these growth rates are still high; we are disappointed as most of these are still nascent in ITC's portfolio and have scaled down our estimates for growth in these categories. 'Bingo' potato chips continued to grow at a healthy 72% driven primarily by distribution-led gains. We estimate that 'Bingo' currently reaches less than 30% of the relevant distribution channels in ITC—implying 3X distribution-led growth potential (which can be placement-driven in an impulse category like potato chips).

Hotels, paper and packaging grow well. Revenues from hotels business increased by 17% and EBIT margins expanded by 390 bps yoy to 32.9%. The tie-up with BCCI for Indian Premier League aided better occupancy-driven growth. We model a 12% growth in sales and 10% in EBIT for the hotels business for FY09E. Management had earlier indicated that the construction of the super deluxe luxury hotels at Bangalore and Chennai is progressing as per schedule. The paper and packaging business recorded 27% sales growth and yoy margin expansion of 240 bps to 18.9%. The commissioning of the 1.22 lakh ton pulp mill (backward integration) likely helped margin expansion.

Retain BUY with a revised target price of Rs230/share. We estimate ITC to post 14% earnings growth during FY2008-10E. Adjusting for higher FMCG investments, our FY09E and FY10E EPS estimates are Rs9.1 (Rs9.5 previously) and Rs10.4 (Rs11.0 previously). In the last three years, the stock has delivered a relative return (vis-à-vis Sensex) of 3%, 12% and 18% over the last 3, 6 and 12 months respectively. Reiterate BUY rating on the stock with a revised target price of Rs230/share (Rs250/share previously). Key triggers to watch for are likely further price increases in cigarettes and news flows on market share gains in personal care.

ITC Limited, Quarterly summary, March yearends (Rs mn)

	yoy			Kotak est.	
	1QFY09	1QFY08	% change	1QFY09	% change
Net sales	**38,997**	**32,938**	**18.4**	**35,473**	**7.7**
EBITDA	**11,271**	**11,276**	**(0.0)**	**12,222**	**8.4**
Depreciation	1,261	1,010		1,129	
EBIT	**10,010**	**10,265**		**11,092**	
Other income	1,144	1,016		1,233	
Net interest	14	(8)		(7)	
Pre-tax profit	11,140	11,289	(1.3)	12,333	9.2
Tax	3,653	3,461		3,816	
Net profit	**7,487**	**7,829**	**(4.4)**	**8,517**	**8.8**
Margins (%)					
EBITDA margin	28.9	34.2		34.5	
PAT margin	19.2	23.8		24.0	
Tax rate	32.8	30.7		30.9	
Costs as % of net sales					
Material costs	46.2	42.6		52.0	
Staff costs	5.6	5.4		5.4	
Other expenditure	19.3	17.8		24.1	
Segment revenue					
Cigarette	36,361	34,415	5.7	35,918	4.4
Other FMCG	6,936	5,422	27.9	8,340	53.8
Hotels	2,594	2,212	17.3	2,477	12.0
Agri Business	18,345	14,181	29.4	15,714	10.8
Paper & Packaging	6,517	5,262	23.9	6,227	18.3
TOTAL	**70,753**	**61,492**		**68,676**	
Less: Inter segment revenue	12,308	9,711		11,854	
Gross sales	58,446	51,781		56,823	
Segment EBIT					
Cigarette	9,614	9,391		9,981	
Other FMCG	(1,226)	(446)		(500)	
Hotels	853	643		781	
Agri Business	765	545		500	
Paper & Packaging	1,234	866		1,113	
TOTAL	**11,240**	**10,998**		**11,875**	
EBIT contribution of other businesses (%)	**14.5**	**14.6**		**16.0**	
EBIT Margin (%)					
Cigarette	26.4	27.3		27.8	
Other FMCG	(17.7)	(8.2)		(6.0)	
Hotels	32.9	29.0		31.5	
Agri Business	4.2	3.8		3.2	
Paper & Packaging	18.9	16.5		17.9	

Source: Company data, Kotak Institutional Equities

ITC, change in estimates, March fiscal year-ends (Rs mn)

	FY2009E			FY2010E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	159,799	161,382	(1.0)	185,947	188,329	(1.3)
Operating profit	47,713	49,765	(4.1)	54,761	57,946	(5.5)
PBT	49,194	51,246	(4.0)	56,308	59,492	(5.4)
Net profit	34,059	35,412	(3.8)	38,927	41,026	(5.1)
EPS (Rs)	9.1	9.5	(3.8)	10.4	11.0	(5.1)
Sales growth (%)	14.1	14.5		16.4	16.7	
Operating profit growth (%)	12.8	12.7		14.8	16.4	
PAT growth (%)	13.3	14.5		14.3	15.9	
EPS growth (%)	13.3	14.5		14.3	15.9	

Source: Kotak Institutional Equities estimates.

ITC: Profit model, balance sheet, cash flow model 2005-2009E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	97,905	123,693	140,111	159,799	185,947
EBITDA	**33,274**	**39,700**	**42,286**	**47,713**	**54,761**
Other income	2,899	3,365	6,223	6,634	7,372
Interest	(158)	(169)	(146)	(137)	(137)
Depreciation	(3,323)	(3,629)	(4,487)	(5,016)	(5,688)
Extraordinary items	(63)	0	0	0	0
Pretax profits	32,629	39,267	43,876	49,194	56,308
Tax	(10,276)	(12,267)	(13,817)	(15,135)	(17,381)
Net profits	**22,353**	**27,000**	**30,059**	**34,059**	**38,927**
Earnings per share (Rs)	**6.0**	**7.2**	**8.0**	**9.1**	**10.4**
Balance sheet (Rs mn)					
Total equity	90,615	104,371	119,109	136,753	158,171
Deferred taxation liability	3,248	4,729	4,729	4,729	4,729
Total borrowings	1,197	2,009	2,009	2,009	2,009
Currrent liabilities	35,781	38,576	40,894	42,756	47,128
Total liabilities and equity	**130,840**	**149,684**	**166,740**	**186,247**	**212,036**
Cash	8,558	9,002	15,009	23,362	34,912
Current assets	43,061	53,896	59,296	66,077	75,079
Total fixed assets	44,051	56,109	61,757	66,129	71,368
Investments	35,170	30,678	30,678	30,678	30,678
Total assets	**130,840**	**149,684**	**166,740**	**186,247**	**212,036**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	25,638	31,040	34,811	39,303	44,993
Working capital	(5,469)	(8,667)	(961)	(2,903)	(3,274)
Capital expenditure	(6,013)	(15,702)	(10,150)	(9,403)	(10,942)
Investments	3,577	4,492	0	0	0
Free cash flow	**17,734**	**11,164**	**23,700**	**26,997**	**30,777**
Ratios (%)					
Net debt/equity	-34%	-24%	-26%	-29%	-32%
Return on equity	26%	28%	27%	27%	26%
RoCE	77%	57%	41%	41%	42%
Key assumptions					
Sales growth	28.2%	26.3%	13.3%	14.1%	16.4%
EBITDA margins	34.0%	32.1%	30.2%	29.9%	29.4%

Source: Kotak Institutional Equities estimates.

Energy

IOC.BO, Rs414	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	500
52W High -Low (Rs)	810 - 300
Market Cap (Rs bn)	488.5

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	2,733	3,306	3,356
Net Profit (Rs bn)	72.1	48.7	73.7
EPS (Rs)	60.5	40.9	61.8
EPS gth	*29.2*	*(32.5)*	*51.2*
P/E (x)	7	10.1	6.7
EV/EBITDA (x)	4.5	8.1	7.6
Div yield (%)	1.3	1.2	1.7

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	80.4	-	-
FIIs	1.7	0.1	(1.3)
MFs	1.2	0.5	(0.9)
UTI	-	-	(1.4)
LIC	2.6	0.9	(0.5)

IOCL: Weak 1QFY09 results; future earnings will depend on government's subsidy-sharing policy

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- **Weaker-than-expected results due to lower oil bonds, lower receipts from upstream companies**
- **FY2009E earnings will depend on government's decision on subsidy-sharing scheme**
- **Fine-tuned estimates; maintain REDUCE with revised 12-month TP of Rs500**

IOCL reported 1QFY09 standalone net income of Rs4.2 bn compared to net loss of Rs4.1 bn in 4QFY08 and our estimated net income of Rs17 bn. The variance versus our estimate was primarily due to (1) Rs135 bn oil bonds versus Rs150 bn oil bonds assumed by us, (2) lower-than-expected receipts from upstream companies at Rs62 bn versus our estimated Rs87 bn. We see limited merit in analysis of quarterly results for downstream companies as earnings largely depend on the timing and quantum of oil bonds. We have revised our FY2009E and FY2010E consolidated EPS estimates to Rs42.3 and Rs64.1, respectively, versus Rs42.7 and Rs61.9, respectively. However, we note that the earnings forecast and valuations remain somewhat academic in light of the current difficult operating environment. We retain our REDUCE rating with revised 12-month fair valuation of Rs500 (Rs460 previously) based on 8X FY2010E EPS. Key downside risk stems from higher-than-expected subsidy losses.

1QFY09 results details

IOCL reported weak 1QFY09 results with standalone net income of Rs4.2 bn compared to net loss of Rs4.1 bn in 4QFY08 and Rs14.7bn in 1QFY08. IOCL booked oil bonds of Rs135 bn for 1QFY09 versus our expected Rs150 bn. We note that the amount of oil bonds booked by IOCL on provisional basis corresponds to Rs946 bn of total bonds for FY2009E as was 'decided' by the government in its June 4, 2008 meeting. However, we expect this figure to be revised up as the downstream oil companies will report significant losses otherwise.

1. **Under-recoveries have ballooned.** IOCL's gross under-recovery for 1QFY09 was higher at Rs271 bn (+67% qoq and +270% yoy) reflecting steep increase in crude oil prices and lagging retail selling prices for regulated products (diesel, gasoline, kerosene, LPG); the increase in prices of diesel (Rs3/liter), gasoline (Rs5/liter) and LPG (Rs50/cylinder) in June 2008 has been negated by further rise in crude oil prices.

2. **Strong refining margins.** IOCL's 1QFY09 refining margin was US$16.8/bbl versus US$8.8/bbl in 4QFY08 and US$10.7/bbl in 1QFY08. The improvement is in line with large inventory gains and improvement in global refining margins.

3. **High inventory gains.** Inventory gains for 1QFY08 were Rs14.1 bn driven by a sharp increase of +US$27/bbl in crude prices during the period of end-February 2008 to end-May 2008.

4. **Higher employee costs due to provision for pay revision.** IOCL's employee costs rose 99% qoq and 125% yoy to Rs15.6 bn. However, the rise can be explained by provision of Rs9.2 bn for pay revision of employees effective January 1, 2007 in the current quarter.

5. **Other expenditure rose 30% qoq.** Other expenditure was higher at Rs53 bn versus Rs41 bn in 4QFY08 and Rs23 bn in 1QFY08 due to foreign exchange loss of Rs15.9 bn in 1QFY09 versus foreign exchange gain of Rs11.3 bn in 1QFY08 (booked under 'other income'). IOCL reported other income of Rs7.4 bn versus Rs16.9 bn in 1QFY08.

6. **Other operating details.** IOCL processed 12.6 mn tons of crude in 1QFY09 versus 12.3 mn tons in 4QFY08 and 12 mn tons in 1QFY08. IOCL sold 17 mn tons (including exports) of refined products versus 16.6 mn tons in 4QFY08 and 15.6 mn tons in 1QFY08. 1QFY09 pipeline throughput increased 3% yoy and 2% qoq to 15.1 mn tons

Not much to look into quarterly results; future earnings will depend on what the government will allow. We do not attach much significance to quarterly results given quarterly earnings for downstream companies depend significantly on the timing and quantum of compensation from the government and discount received on crude oil/LPG from upstream oil companies. However, we assume the government will ensure profits of the downstream oil companies at a certain 'minimum' level over the next few years (until the situation improves); there is no other basis to forecast earnings of the downstream oil companies in the current environment.

Earnings revisions. We have made minor changes to our standalone earnings model. Exhibit 3 gives the key financials for IOCL.

FY2009. We have revised our FY2009E consolidated EPS to Rs42.3 from Rs42.7. We model standalone refining margin at US$6.7/bbl in FY2009E against US$9/bbl in FY2008; we expect refining margins to decline in 2HCY08 due to (1) global demand weakness and (2) significant refining capacity additions from 2HCY08. We assume IOCL will receive oil bonds of Rs624 bn in FY2009E based on issue of oil bonds of Rs1.16 tn to downstream companies by the government.

FY2010. We have revised our FY2010E consolidated EPS to Rs63.1 from Rs61.9 previously. We assume that IOCL will receive oil bonds of Rs527 bn in FY2010E based on issue of Rs980 bn oil bonds to downstream companies by the government and IOCL's share at 53.8%.

Performance of subsidiaries

CPCL. Chennai Petroleum (CPCL) reported 1QFY09 net income at Rs7 bn versus Rs3.4 bn in 4QFY08 and Rs3.2 bn in 1QFY08 led by higher refining margins at US$15.9/bbl (+US$6.3/bbl qoq and +US$7.1/bbl yoy). The significant jump in refining margins reflects (1) higher benchmark margins and (2) high inventory gains.

Our EPS estimates for CPCL for FY2009E and FY2010E are Rs82.8 and Rs41.9, respectively. The yoy decline in earnings in FY2010E reflects lower underlying refining margins and moderately stronger rupee. We model refining margin at US$7.8/bbl in FY2009E and US$5.5/bbl in FY2010E against US$8.5/bbl in FY2008. We assume that standalone refining companies such as CPCL will not bear any portion of subsidy losses.

BRPL. Bongaigaon Refineries and Petrochemicals (BRPL) reported 1QFY09 net income at Rs907 mn versus Rs304 mn in 4QFY08 and Rs658 mn in 1QFY08. As usual, BRPL's results include excise concessions (Rs1.4 bn in 1QFY09), without which BRPL would have had a marginal EBITDA of Rs10 mn. We model BRPL's FY2009E and FY2010E EPS (without excise concessions) at Rs1.2 and –Rs10.2, respectively. The decline in earnings in FY20101E reflects lower underlying global margins and thus, weaker refining margins.

Interim results of Indian Oil Corp., March fiscal year-ends (Rs mn)

		qoq			yoy		
	2009E	1Q 2009	4Q 2008	% chg	1Q 2009	1Q 2008	% chg
Net sales (a)	3,306,021	883,996	718,998	*23*	883,996	528,620	*67*
Total expenditure	(3,213,210)	(874,394)	(712,778)	*23*	(874,394)	(514,433)	*70*
Increase/(Decrease) in stocks		31,838	11,156		31,838	7,107	
Purchase of products/crude for resale	(1,596,074)	(466,350)	(379,189)	*23*	(466,350)	(260,353)	*79*
Consumption of raw materials	(1,534,100)	(371,092)	(295,832)	*25*	(371,092)	(230,738)	*61*
Staff cost	(40,414)	(15,604)	(7,847)	*99*	(15,604)	(6,838)	*128*
Other expenditure (a)	(42,621)	(53,186)	(41,065)	*30*	(53,186)	(23,611)	*125*
EBITDA	**92,811**	**9,603**	**6,220**	***54***	**9,603**	**14,186**	***(32)***
Other income	38,375	7,490	(1,070)	*(800)*	7,490	16,911	*(56)*
Interest	(38,320)	(6,142)	(4,923)	*25*	(6,142)	(3,374)	*82*
Depreciation	(29,512)	(6,726)	(6,922)	*(3)*	(6,726)	(6,748)	*(0)*
Pretax profits	**63,355**	**4,224**	**(6,696)**	***(163)***	**4,224**	**20,975**	***(80)***
Previous years arrears/extraordinary income	—	—	—		—	33	
Tax	(17,905)	(72)	1,314		(72)	(6,068)	
Deferred tax	(570)	0	1,239		0	(256)	
Net income	**44,879**	**4,151**	**(4,143)**	***(200)***	**4,151**	**14,684**	***(72)***
Tax rate (%)	29.2	1.7	38.1		1.7	30.1	
Volume data							
Crude throughput (mn tons)		12.6	12.3	*2*	12.6	12.0	*4*
Domestic sales (mn tons)		15.9	15.9	*0*	15.9	14.7	*9*
Export sales (mn tons)		1.1	0.7	*43*	1.1	0.9	*14*
Pipelines throughput (mn tons)		15.1	14.9	*2*	15.1	14.6	*3*
Refining margin (US$/bbl)		16.8	8.8		16.8	10.7	
Inventory gain/(loss)-products (Rs mn)		14,120	1,890		14,120	6,140	
Receipt from upstream companies (Rs mn)		62,348	53,762		62,348	24,400	
Oil bonds from government (Rs mn)		135,270	75,362		135,270	—	
Subsidy gain/(loss) (Rs mn)		(270,824)	(161,713)	*67*	(270,824)	(73,195)	*270*

(a) Reported sales and other expenditure include freight costs and local taxes. Our estimates are without the same.

Source: Kotak Institutional Equities estimates.

Earnings sensitivity of IOC (standalone) to refining margins, import duties and marketing margins (Rs mn)

	Fiscal 2009E			Fiscal 2010E		
	Downside	Base case	Upside	Downside	Base case	Upside
Refining margins						
Refining margins (US$/bbl)	5.7	6.7	7.7	4.1	5.1	6.1
Net profits (Rs mn)	34,953	44,879	54,806	63,917	73,871	83,825
EPS (Rs)	29.3	37.6	46.0	53.6	62.0	70.3
% upside/(downside)	**(22.1)**		**22.1**	**(13.5)**		**13.5**
Import tariffs						
Tariff differential	2.0	2.5	3.0	2.2	2.7	3.2
Net profits (Rs mn)	41,652	44,879	48,107	70,586	73,871	77,156
EPS (Rs)	34.9	37.6	40.3	59.2	62.0	64.7
% upside/(downside)	**(7.2)**		**7.2**	**(4.4)**		**4.4**
Marketing margins						
Transportation fuels margins (Rs/ton)	(18600)	(18450)	(18300)	(13382)	(13232)	(13082)
Net profits (Rs mn)	42,807	44,879	46,952	71,689	73,871	76,053
EPS (Rs)	35.9	37.6	39.4	60.1	62.0	63.8
% upside/(downside)	**(4.6)**		**4.6**	**(3.0)**		**3.0**

Source: Kotak Institutional Equities estimates.

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

	2004	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	1,173,450	1,379,018	1,729,474	2,149,428	2,732,553	3,306,021	3,355,774
EBITDA	**114,303**	**86,765**	**82,044**	**110,451**	**121,076**	**115,967**	**137,053**
Other income	17,565	16,138	21,310	27,451	43,025	38,465	86,866
Interest	(5,043)	(7,433)	(12,101)	(17,058)	(18,110)	(40,491)	(75,580)
Depreciation	(20,626)	(23,140)	(24,711)	(28,686)	(29,918)	(32,469)	(34,533)
Pretax profits	106,199	72,330	66,542	92,157	116,073	81,472	113,805
Extraordinary items	3,553	4,283	5,590	24,757	5,374	5,276	5,045
Tax	(25,966)	(13,658)	(19,975)	(25,834)	(38,236)	(26,129)	(34,920)
Deferred taxation	(5,157)	(2,335)	(1,282)	(8,040)	(473)	(613)	(2,733)
Net profits	79,052	59,475	51,125	82,729	82,858	60,007	81,197
Net profits after minority interests	**73,298**	**52,666**	**45,362**	**62,469**	**74,016**	**50,411**	**75,226**
Earnings per share (Rs)	**62.8**	**45.1**	**38.8**	**52.4**	**62.1**	**42.3**	**63.1**
Balance sheet (Rs mn)							
Total equity	233,386	271,302	317,977	378,117	449,555	498,782	569,491
Deferred tax liability	47,934	50,367	50,602	59,859	60,331	60,944	63,677
Total borrowings	146,147	197,809	292,395	290,215	418,813	953,792	1,395,186
Currrent liabilities	219,522	266,430	286,716	330,791	390,802	459,068	468,073
Total liabilities and equity	**646,988**	**785,907**	**947,691**	**1,058,981**	**1,319,502**	**1,972,587**	**2,496,427**
Cash	13,777	13,356	8,080	9,385	4,603	19,646	20,151
Current assets	278,550	368,158	413,904	437,178	605,766	724,443	731,522
Total fixed assets	320,647	370,003	383,717	415,014	428,025	447,390	463,646
Investments	34,013	34,391	141,990	197,403	281,108	781,108	1,281,108
Total assets	**646,988**	**785,907**	**947,691**	**1,058,981**	**1,319,502**	**1,972,586**	**2,496,427**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	93,713	71,765	(10,334)	(44,660)	56,212	40,237	30,465
Working capital changes	1,710	(33,421)	(8,136)	2,237	(84,561)	(49,675)	1,049
Capital expenditure	(47,179)	(73,626)	(49,042)	(50,969)	(41,972)	(51,148)	(44,373)
Investments	(509)	(1,172)	(17,778)	99,768	(83,705)	(499,885)	(500,000)
Other Income	5,826	7,814	10,317	13,582	13,451	68,575	64,042
Free cash flow	**53,560**	**(28,641)**	**(74,973)**	**19,958**	**(140,574)**	**(491,896)**	**(448,817)**
Ratios (%)							
Debt/equity	52.0	61.5	79.3	66.3	82.1	170.4	220.4
Net debt/equity	47.1	57.3	77.1	64.1	81.2	166.9	217.2
RoAE	30.0	18.3	13.7	16.1	16.2	9.8	13.2
RoACE	**20.4**	**13.7**	**9.3**	**11.3**	**10.9**	**6.8**	**7.4**
Key assumptions (IOC standalone)							
Crude throughput (mn tons)	37.7	36.6	38.5	44.0	47.4	48.4	49.9
Effective tariff protection (%)	7.9	5.8	3.3	1.9	1.7	2.5	2.7
Net refining margin (US$/bbl)	5.4	6.2	4.8	4.9	8.9	6.7	5.1
Sales volume (mn tons)	47.1	48.2	50.4	53.4	57.4	59.6	61.5
Marketing margin (Rs/ton)	2,092	1,982	26	(633)	(1,690)	(11,470)	(8,326)
Subsidy under-recoveries (Rs mn)	(28,078)	(64,309)	(95,361)	(34,041)	(40,937)	(49,981)	4,339

Source: Kotak Institutional Equities estimates.

Property

UNTE.BO, Rs162	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	190
52W High -Low (Rs)	547 - 135
Market Cap (Rs bn)	263.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	43.7	55.1	72.1
Net Profit (Rs bn)	15.7	19.5	24.4
EPS (Rs)	9.7	12.0	15.0
EPS gth	*20.3*	*24.5*	*24.7*
P/E (x)	16.8	13	10.8
EV/EBITDA (x)	12.8	10.6	8.8
Div yield (%)	0.6	1.2	2.5

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.6	-	-
FIIs	6.6	0.4	(0.8)
MFs	0.5	0.2	(1.0)
UTI	-	-	(1.2)
LIC	1.3	0.4	(0.8)

Unitech: PAT above estimates on account of higher-than-expected EBITDA margins; Retain REDUCE

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- **1QFY09 revenues 11% below estimates at Rs10.3 bn; PAT 8% above estimates**
- **EBITDA margins higher-than-expected due to likely change in revenue mix**
- **Some new launches; we would like to see more of it qoq**
- **Balance sheet position remains same; high D/E of 2.3X**
- **We retain REDUCE rating with a target price of Rs190/share**

Unitech reported operating revenues of Rs10.3 bn (versus our expectation of Rs11.6 bn) and PAT of Rs4.2 bn (versus our expectation of Rs3.9 bn) for 1QFY09. Unitech reported EBITDA margins of 59% much higher than our estimates of 48%. Management indicated that the increase in EBITDA margins qoq (42% in 4QFY08) can be attributed to a change in revenue mix. We note that Unitech has launched 2 new commercial projects in 1QFY09, along with a few residential properties in Gurgaon and Kolkata. We will track this closely as 25% of volume estimates result from new launches in Chennai, Kochi and Hyderabad. We are still concerned about Unitech's high leverage of 1.9X with a net debt position of Rs73 bn. We also expect Unitech to raise more funds for launching its telecom operations by the end of FY2009 and for its further expansion into Mumbai. We retain our REDUCE rating on Unitech with a target price of Rs190/share. We see downside risks to our valuations posed by (1) lower-than expected launches, and (2) lower valuation of telecom business. Our target price includes an option value of Rs25/share for the telecom business apart from the Mar '09-based NAV of Rs166/share.

Higher margins on account of revenue mix

Unitech reported 1QFY09 revenues of Rs10.3 bn (increase of 19% yoy, decline of 11% qoq) below our expectation of Rs11.6 bn and PAT of Rs4.2 bn (increase of 16% yoy, increase of 17% qoq) above our expectation of Rs3.9 bn. We would like to note that EBITDA margins at 59% showed a steep increase qoq (42% in 4QFY08) on account of change in revenue mix. Likely reasons for the sharp jump in margins include (1) lower booking from projects in Kolkata, (2) higher revenue booking from commercial/retail projects, and (3) stake sale/land sale. Exhibit 3 highlights that EBITDA margins have been volatile in the past. The management has indicated that EBITDA margins for FY2009E will be 55-60%. We would also like to highlight that interest cost of Rs1.1 bn reported by Unitech was higher than our expected Rs0.8 bn. Unitech also had a lower tax rate of 18% compared to our estimate of 24%.

New launches begin; would like to see better momentum

Unitech has launched 2 commercial properties in 1QFY09— (1) Gurgaon (600,000 sq. ft) and (2) Lucknow (125,000 sq. ft). We also note that a few more residential projects were also launched which include—(1) Launched Aqua & Terra in Grande, (2) Woodstock Floors in Nirvana Country, Gurgaon, (3) exclusive floors at Uniworld City, Mohali and (4) villas at Kolkata West International City project. We would see it in a positive light as we have seen project launches getting delayed for Unitech. Exhibit 3 highlights Unitech's initial plan for project launches according to which 14 projects were to be launched in FY2008. We observe that most of the launches have been delayed. Most of the projects that had to become operational in the last 18 months are yet to start like Faridabad (earlier expected start Apr 2007), Chennai (November 2006 and June 2007), Kochi (February 2007, September 2007 and December 2007), and Hyderabad (December 2006, February 2007 and October 2007).

Though we have already built-in delay into our model but project launches have been even lower than our reduced expectations. We need to closely monitor the launch schedules of the projects as we are still building in significant ramp-up in execution for Unitech over the next 3-4 years and there exists downward risks to our estimates.

Balance sheet issues will remain in prominence in the near future

We would like to highlight that Unitech has a highly leveraged balance sheet with a D/E of 2.3X and it has increasingly become more levered over the past four quarters (D/E as of Mar'08, Dec31'07 and Mar'07 was 2.6X, 1.9X and 2X, respectively). We note that debt level of Unitech in 1QFY09 increased by Rs2 bn to Rs88 bn with net debt being Rs73 bn. Customer advances have decreased to Rs68 bn compared to Rs71 bn at the end of 4QFY08 but have increased from Rs34 bn at the end of FY2007. We highlight that high customer advances provide greater revenue visibility to revenues in the near term. The management has indicated that land payments outstanding have decreased to Rs19 bn.

Unitech plans to raise funds for its telecom business and Mumbai real estate projects

Unitech Wireless, which has secured a pan-India GSM licence, has already got the spectrum for five circles. It is planning to launch telecom operations by the last quarter of the current financial year. There have been a few media reports which state that Unitech Wireless, a wholly owned subsidiary of Unitech, is expected to dilute 26% stake to a foreign partner. Any fund raising (equity/debt) in the telecom subsidiary will reduce burden on Unitech and we would keenly watch developments on this front.

Lehman Brothers Real Estate Partners (Lehman) had recently agreed to invest US$175 mn to acquire a 50% stake in the initial phase of a 127 acre SRA project on the Western Expressway of Mumbai. The project is being jointly developed by Unitech and their local Mumbai partners (Western Expressway JV). The initial phase entails development of 1 mn sq. ft of commercial estate. Unitech plans to raise more funds for the expansion of projects in Mumbai. This amount has already been paid by Lehman to the SPV.

We retain our REDUCE rating and Mar '09-based target price of Rs190/share

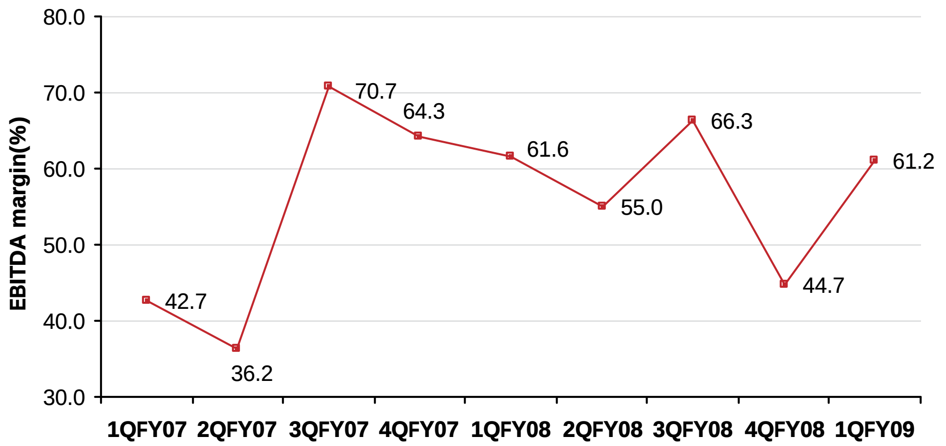
We retain our REDUCE rating on Unitech with a target price of Rs190/share based on a Mar '09 NAV of Rs166/share and an option value of Rs25/share on account of value accretion on investments being made in telecom sector, which would include Rs16 bn loan given to the telecom subsidiary for acquiring licenses. We see downside risks to our valuations posed by (1) lower-than expected launches, and (2) lower valuation of telecom business.

1QFY09 results of Unitech (Rs mn)

		qoq		yoy		Kotak estimates				FY09E/FY08
	1QFY09	4QFY08	*% chg*	1QFY08	*% chg*	1QFY09	*% chg*	FY2008	FY2009E	(%)
Net sales	**10,317**	**11,601**	***(11)***	**8,656**	***19***	**11,568**	***(11)***	**41,404**	**55,086**	***33***
(Increase) / Decrease in stock in trade	26	(222)	*(112)*	67				(133)		
Real estate, construction and other expenditure	(3,961)	(6,288)	*(37)*	(3,499)				(18,021)		
Staff Cost	(298)	(272)	*9*	(219)				(960)		
EBITDA	**6,084**	**4,818**	***26***	**5,005**	***22***	**5,553**	***10***	**22,290**	**30,165**	***35***
Other income	227	371	*(39)*	341	*(33)*	455	*(50)*	1,397		
Interest costs	(1,079)	(434)	*149*	(601)	*80*	(803)	*34*	(2,804)		
Depreciation	(68)	(89)	*(23)*	(32)	*116*	(42)	*62*	(205)		
Pretax profits	**5,164**	**4,666**	***11***	**4,714**	***10***	**5,163**	***0***	**20,678**	**25,216**	***22***
Extraordinaries	—	—	—	—	—	—	—	—		
Tax	(927)	(973)	(5)	(1,046)	*(11)*	(1,239)	*(25)*	(3,986)		
Deferred tax	—	—	—	—	—	—	—	—		
Net income	**4,237**	**3,694**	***15***	**3,667**	***16***	**3,924**	***8***	**16,692**	**19,540**	***17***
Adjusted net income	**4,233**	**3,603**	***17***	**3,657**	***16***	**3,924**	***8***	**16,619**		
Key ratios										
EBITDA margin (%)	59.0	41.5	*42.0*	57.8	*2.0*	48.0	*22.9*	53.8	54.8	
PAT margin (%)	41.1	31.8	*29.0*	42.4	*(3.1)*	33.9	*21.1*	40.3	35.5	
Effective tax rate (%)	17.9	20.8	*(13.9)*	22.2	*(19.1)*	24.0	*(25.2)*	19.3		

Source: Company, Kotak Institutional Equities estimates.

EBITDA margins have been volatile



Source: Company, Kotak Institutional Equities.

Launch schedule for Unitech projects post October 2006

	Area			Original schedule		
	(acres)	(mn sq. ft)	Stake (%)	Start date	End date	Current status
Gurgaon						
G1	258	3.8	50	Oct-07	Oct-10	Not launched
G5	21	1.8	62	Nov-06	May-09	Launched
G8	4	0.4	65	Apr-07	Apr-10	Not launched
G9	4	0.3	42.5	Aug-07	Aug-10	Not launched
G10	7	0.7	67	Apr-07	Apr-10	Not launched
G12	410	14.2	50	Jun-07	Jun-13	Not launched
Faridabad						
F1	10	0.9	75	Apr-07	Apr-10	Not launched
Noida						
N2	340	16.6	51	Jan-07	Jan-12	Launched a small portion
Greater noida						
GN1	183	15.8	100	Mar-07	Nov-11	Launched a small portion
Kolkata						
K2	100	6.7	45	Mar-07	Mar-13	Launched
K3	4,840	142.2	40	Jan-08	Jan-20	Not launched
Chennai						
C1	2,040	101.1	100	Jun-07	Jun-13	Not launched
C2	45	4.1	50	Nov-06	Nov-09	Not launched
Kochi						
K1	353	21.3	100	Sep-07	Apr-12	Not launched
K2	70	7.6	90	Dec-07	Dec-11	Not launched
K3	250	9.5	75	Feb-07	Feb-11	Not launched
Bangalore						
B1	36	4.0	100	Sep-07	Mar-11	Not launched
B3	53	5.8	67	Jan-07	Apr-10	Launched
Hyderabad						
H1	119	9.4	100	Feb-07	Oct-11	Not launched
H2	36	3.8	65	Feb-07	Feb-10	Not launched
H3	120	5.5	75	Dec-06	Dec-10	Not launched
H4	84		50	Oct-07	Oct-11	Not launched
Mohali						
M1	350	12.0	100	Jun-07	Jun-12	Launched
Agra						
A1	1,500	31.3	100	Aug-07	Aug-15	
Varanasi						
V1	1,500	34.0	100	Aug-07	Aug-15	

Source: Unitech corporate presentation, September 2006.

Sales volume growth of 80% in FY2009E

Citywise sales volumes, FY2008-10E

	2008	2009E	2010E	2011E
Agra	0.0	1.8	1.8	3.7
Bangalore	0.0	0.4	0.4	0.9
Chennai	0.0	1.7	3.0	4.0
Faridabad	0.0	0.2	0.2	0.1
Greater Noida	3.7	1.3	3.0	2.7
Gurgaon	2.0	4.3	3.7	3.5
Hyderabad	0.0	1.9	1.3	1.7
Kochi	0.0	0.8	1.5	1.7
Kolkata	1.4	2.1	2.2	4.4
Mohali	2.3	2.3	0.7	0.7
Varanasi	0.0	0.0	1.5	2.3
Total	**9.4**	**16.8**	**19.3**	**25.6**
Growth (%)		*79.7*	*14.4*	*33.2*

Source: Kotak Institutional Equities estimates.

Segment-wise results for the quarter and full year ended June 30, 2008, March fiscal year ends

		qoq			yoy			yoy				
	1QFY09	4QFY08	*% chg*	1QFY09	1QFY08	*% chg*	FY2008	FY2007	*% chg*	3QFY08	2QFY08	1QFY08
Segment revenue												
Real estate	9,140	9,940	*(8)*	9,140	7,587	*20*	36,026	28,772	*25*	10,173	8,303	7,587
Construction	316	642	*(51)*	316	375	*(16)*	2,130	2,554	*(17)*	595	518	375
Consultancy	251	334	*(25)*	251	305	*(18)*	1,233	169	*629*	308	772	305
Hospitality	31	35	*(13)*	31	25	*23*	119	91	*31*	33	26	25
Electrical	206	302	*(32)*	206	154	*33*	670	844	*(21)*	75	140	154
Others	373	348	*7*	373	209	*78*	1,226	453	*170*	236	377	209
Segment EBIT												
Real estate	6,049	2,709	*123*	6,049	5,048	*20*	20,384	19,557	*4*	7,661	4,978	5,048
Construction	42	30	*40*	42	13	*219*	99	221	*(55)*	48	15	13
Consultancy	251	429	*(42)*	251	305	*(18)*	1,233	169	*629*	126	374	305
Hospitality	2	(14)	*(114)*	2	0		0	10	*(98)*	8	3	0
Electrical	8	59	*(87)*	8	0	*(3,800)*	43	37	*16*	(15)	8	0
Others	24	(21)	*(214)*	24	27	*11*	177	39	*359*	130	53	27
Interest	1,079	716	*51*	1,079	601	*80*	2,804	1,287	*118*	915	677	601
Unallocable overheads net of unallocable expenses	133	(2,191)	*(106)*	133	79	*70*	(1,547)	828	*(287)*	503	(5)	79
PBT	**5,164**	**4,666**	***11***	**5,164**	**4,714**	***10***	**20,678**	**17,919**	***15***	**6,539**	**4,759**	**4,714**
Segment EBIT margins (%)												
Real estate	66	27	*39*	66	67	*(1)*	57	68	*(17)*	75	60	67
Construction	13	5	*9*	13	3	*279*	5	9	*(46)*	8	3	3
Consultancy	100	129	*(29)*	100	100	*0*	100	100	*(0)*	41	48	100
Hospitality	6	(39)	*45*	6	0		0	11	*(99)*	24	13	0
Electrical	4	19	*(16)*	4	0	*(2,827)*	6	4	*46*	(20)	6	0
Others	7	*-6*	*13*	7	13	*50*	14	8	*70*	55	14	13

Source: Company, Kotak Institutional Equities.

Difference between consolidated and standalone numbers

	1QFY09	4QFY08	3QFY08	2QFY08	1QFY08
Standalone (A)					
Net sales	7,398	6,906	8,185	5,295	7,637
EBITDA	4,892	3,030	5,325	2,384	4,912
Pretax profits	3,892	2,629	4,631	1,934	4,461
Net income	3,013	1,758	3,689	1,381	3,478
Consolidated (B)					
Net sales	10,317	11,601	11,421	10,135	8,656
EBITDA	6,084	4,818	7,344	5,071	5,005
Pretax profits	5,164	4,666	6,539	4,559	4,714
Net income	4,233	3,603	5,258	4,101	3,657
Difference:(B)-(A)					
Net sales	2,919	4,695	3,236	4,839	1,019
EBITDA	1,192	1,788	2,019	2,687	94
Pretax profits	1,272	2,037	1,908	2,625	253
Net income	1,220	1,845	1,569	2,720	178
Standalone as % of consolidated					
Net sales	71.7	59.5	71.7	52.2	88.2
EBITDA	80.4	62.9	72.5	47.0	98.1
Pretax profits	75.4	56.3	70.8	42.4	94.6
Net income	71.2	48.8	70.2	33.7	95.1

Source:Company, Kotak Institutional Equities.

We observe large delays in expected completion of commercial projects
Current status of various projects as part of Unitech Corporate Parks

	Saleable area (mn sq. ft)			Expected completion date		Delay		
	Commercial	Retail	Start Date	Initial	Current	(months)	Leasing status	Others
G1 – ITC (Gurgaon)	3.2	0.05	Feb' 07	Jul'09	Nov'11	30	Not entered into committed leases	1st phase of 1.1 mn sq. ft likely to be completed by May 2010
G2 –IST (Gurgaon)	3.7	0.05	Oct'05	Mar'09	July'10	16	Lease signed for 0.74 mn sq. ft	As at December 2007, completed area amounts to 0.5 mn sq. ft
N1 (Noida)	2.0	0.06	Jul'06	Dec'08	Oct'09	10	Not entered into committed leases	1st phase of 0.3 mn sq. ft likely to be completed by July 2008
N2 (Noida)	3.1	0.06	Jan'07	Jun'09	Feb'11	20	Not entered into committed leases	1st phase of 0.3 mn sq. ft likely to be completed by August 2009
N3 (Greater Noida)	4.9	0.10	Jan'07	Jun'09	Mar'12	33	Not entered into committed leases	1st phase of 1.7 mn sq. ft likely to be completed by March
K1 (Kolkata)	4.3	0.10	Dec'05	Apr'10	Oct'10	6	Lease signed for 0.96 mn sq. ft	
	21.1	**0.42**						

Source: Unitech Corporate Parks Interim Report 2007.

Fewer project launches because of delays

Project launches during the first nine months of FY2008 and first quarter of FY2009

	Area		
	acres	(mn sq. ft)	No of apartments
Noida/Greater Noida			
The Grande	40	0.6	150
Capella (Phase 1, Uniworld city)	100	1.0	
Worlds of Wonder, Entertainment City		1.0	
Gurgaon			
Woodstock Floors, Nirvana County		1.0	
Commercial project, Sector-71		0.6	
Kolkata			
The Gateway	35	2.7	
Harmony (Phase 8, Uniworld city)		1.0	
Kolkata West International City		1.0	
Mohali			
Plotted development		5.0	
Uniworld City		2.0	
Lucknow			
Commercial project		0.1	
Total		**16.0**	

Source: Company data, Kotak Institutional equities.

Unitech's Mar' 09 based NAV is Rs190/ share

	March '09 based NAV			
	Growth rate in selling prices per annum			
	0%	3%	5%	10%
Valuation of land reserves	**234**	**287**	**326**	**440**
Residential projects	117	153	180	261
Commercial projects	61	68	73	86
Retail projects	55	65	73	93
Add: Hotel business	15	15	15	15
Add: Construction business	10	10	10	10
Add: Investments as on March 31, 2008	15	15	15	15
Add: Consultancy fees received from Unitech Corporate Parks, JVs	10	10	10	10
Less: Customer advances	(20)	(20)	(20)	(20)
Less: Net debt as on March 31, 2008	(56)	(56)	(56)	(56)
Less: Land cost to be paid as on March 31, 2008	(30)	(30)	(30)	(30)
NAV (Rs bn)	177	230	270	384
NAV/share (Rs)	**109**	**142**	**166**	**236**
Option value for telecom business of Rs25/share	41	41	41	41
Total no. of shares (mn)				1,624
Valuation/share (Rs)	**134**	**167**	**191**	**261**

Source: Kotak Instutuional Equities estimates.

Profit model of Unitech Ltd, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Total revenues	**6,573**	**9,412**	**32,883**	**41,404**	**55,086**	**72,143**	**109,147**
Land costs	(1,626)	(1,971)	—	—	(3,387)	(5,503)	(8,792)
Construction costs	(3,116)	(4,165)	(11,167)	(18,154)	(17,725)	(24,984)	(41,449)
Employee costs	(249)	(366)	(568)	(960)	(1,468)	(1,909)	(2,481)
SG&A costs	(734)	(1,077)	(1,129)	-	(2,341)	(3,066)	(4,639)
EBITDA	**848**	**1,834**	**20,018**	**22,290**	**30,165**	**36,681**	**51,786**
Other income	76	133	1,000	1,397	1,680	1,812	1,957
Interest	(246)	(465)	(3,020)	(2,804)	(6,104)	(6,060)	(5,816)
Depreciation	(113)	(112)	(80)	(205)	(524)	(723)	(1,371)
Pretax profits	**564**	**1,390**	**17,919**	**20,678**	**25,216**	**31,709**	**46,556**
Extraordinary items	—	—	—	—	—	—	-
Current tax	(220)	(521)	(4,864)	(3,967)	(5,663)	(7,310)	(10,335)
Deferred tax	4	8	—	(19)	(14)	(39)	(435)
Net income	**348**	**874**	**13,055**	**16,692**	**19,540**	**24,360**	**35,786**
Adjusted net income	**348**	**874**	**13,055**	**16,619**	**19,540**	**24,360**	**35,786**
							-
EPS (Rs)							
Primary	0.2	0.5	8.0	10.2	12	15	22
Fully diluted	0.2	0.5	8.0	10.2	12	15	22
							-
Shares outstanding (mn)							
Year end	1,623	1,623	1,623	1,623	1,623	1,623	1,623
Primary	1,623	1,623	1,623	1,623	1,623	1,623	1,623
Fully diluted	1,623	1,623	1,623	1,623	1,623	1,623	1,623
							-
Cash flow per share (Rs)							**-**
Primary	0	1	11	9	11	14	22
Fully diluted	0	1	11	9	11	14	22
Growth (%)							**-**
Net income (adjusted)		151	1,394	27	18	25	47
EPS (adjusted)		151	1,394	27	18	25	47
DCF/share		151	1,217	(17)	27	27	53
Cash tax rate (%)	39	38	27	19	22	23	22
Effective tax rate (%)	38	37	27	19	23	23	23

Source: Kotak Institutional Equities estimates.

Standalone results for Unitech

	1QFY09	4QFY08	3QFY08	2QFY08	1QFY08
Net sales	**7,398**	**6,906**	**8,185**	**5,295**	**7,637**
(Increase) / Decrease in stock in trade	3	(100)	(26)	(79)	13
Real estate, construction and other expenditure	(2,241)	(3,515)	(2,602)	(2,641)	(2,548)
Staff Cost	(269)	(260)	(233)	(192)	(190)
EBITDA	**4,892**	**3,030**	**5,325**	**2,384**	**4,912**
Other income	348	691	302	431	251
Interest costs	(1,316)	(1,047)	(982)	(868)	(689)
Depreciation	(32)	(46)	(14)	(13)	(13)
Pretax profits	**3,892**	**2,629**	**4,631**	**1,934**	**4,461**
Extraordinaries	—	—	—	—	—
Tax	(879)	(871)	(942)	(553)	(982)
Deferred tax	—	—	—	—	—
Net income	**3,013**	**1,758**	**3,689**	**1,381**	**3,478**
Adjusted net income	**3,013**	**1,758**	**3,689**	**1,381**	**3,478**
Key ratios					
EBITDA margin (%)	66.1	43.9	65.1	45.0	64.3
PAT margin (%)	40.7	25.5	45.1	26.1	45.5
Effective tax rate (%)	22.6	33.1	20.3	28.6	22.0

Source: Company, Kotak Institutional Equities estimates.

Unitech's leverage is very high

D/E based on debt (in Rs bn) and equity (in Rs bn) as of June 2008, Mar 2008, Dec 2007 and Mar 2007

	As of June 30, 2008					As of Mar 31, 2008					As of Mar 31, 2007				
	Cash (bn)	Debt (bn)	Net debt (bn)	Equity (bn)	D/E (X)	Cash (bn)	Debt (bn)	Net debt (bn)	Equity (bn)	D/E (X)	Cash (bn)	Debt (bn)	Net debt (bn)	Equity (bn)	D/E (X)
Unitech	14.8	87.8	73.0	37.5	2.3	14.0	85.0	71.0	33.2	2.6	10.2	39.8	29.6	19.9	2.0

Source: Kotak Institutional Equities.

Automobiles

TAMO.BO, Rs416	
Rating	SELL
Sector coverage view	Attractive
Target Price (Rs)	425
52W High -Low (Rs)	842 - 374
Market Cap (Rs bn)	241.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	287.3	340.1	412.9
Net Profit (Rs bn)	20.3	14.6	13.0
EPS (Rs)	47.4	25.1	22.3
EPS gth	*0.9*	*(47.1)*	*(10.9)*
P/E (x)	8.8	16.6	18.6
EV/EBITDA (x)	8.4	9.7	9.7
Div yield (%)	2.4	3.1	3.1

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.4	-	-
FIIs	29.6	0.9	0.3
MFs	2.6	0.4	(0.2)
UTI	-	-	(0.6)
LIC	9.8	1.5	0.9

Tata Motors: 1QFY09 results - Operating performance disappoints; margin below our expectations, lower target price to Rs425, retain SELL rating

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- **1QFY09 operating margin at 7.5% lower than we expected on account of the sharp jump in raw material costs**
- **Higher other income on account of sale of stake in TACO and higher dividend income boosts net profit**
- **We expect pressure on margin to continue—lower our margin estimate to 7.9% and 7.4% for FY2009E and FY2010E respectively (versus 9.8% and 9.3% previously)**
- **We believe that equity dilution to fund the JLR acquisition and JLR's operating performance will remain an overhang on the stock**
- **Lower target price to Rs425/share (Rs525 previously) to factor lower EV/EBITDA multiple; maintain SELL rating on the stock**

Tata Motors reported disappointing operating performance. EBITDA at Rs5.2 bn was down 29% yoy. EBITDA margin for the quarter at 7.5% (versus our expectation of 9.5%) declined 450 bps yoy as raw material costs jumped sharply. Tata Motors management indicated that it was not able to fully pass on raw material price hikes and hinted at further price hikes. We believe that margin pressures would continue going forward as commodity prices continue to remain high. Net profit at Rs3.3 bn declined 30% yoy despite higher other income, boosted by profits from sale of stake in subsidiary and lower provisioning for vehicle financing business. We lower our earnings estimates for Tata Motors by 32% and 31% for FY2009E and FY2010E, respectively, to factor in lower margins. We roll forward valuations to FY2010E basis and value Tata Motors standalone at 7X FY2010E EV/EBITDA. We lower our target price to Rs425/ share (Rs525 previously) and retain our SELL rating on the stock.

1QFY09 operating performance disappoints; margins decline sharply

Tata Motors reported 1QFY09 EBITDA at Rs5.2 bn—down 29% yoy. EBITDA margin for the quarter at 7.5% was lower than our expectation of 9.5% as input costs rose sharply. The management indicated that the company hiked prices across all its products but this was not sufficient to offset the sharp rise in raw material costs. We expect the pressure on operating margins to continue as commodity prices, especially steel, aluminum and rubber continue to be high. We have lowered our margin estimates by 200 bps to 7.9% and 7.4% for FY2009E and FY2010E (versus our earlier estimate of 9.8% and 9.3%), respectively. Net sales at Rs69.2 bn grew 14% yoy as Tata Motors sold more M&HCVs and LCVs—1QFY09 M&HCV sales grew 7% while LCV sales grew 15% yoy. However, passenger car volumes continued to disappoint as product fatigue for the Indica continued to hurt Tata Motors.

Net profit at Rs3.2 bn down 30% yoy; higher other income on account of stake sale and lower provisioning

Tata Motors reported net profit at Rs3.2 bn—down 30% yoy. Tata Motors reported higher other income on account of sale of stake in subsidiary company and lower provision on its vehicle financing business. During the quarter, the company sold 24% stake in TACO (Tata Auto Comp Systems) resulting in a gain of Rs1.1 bn. This, along with lower provisioning with respect to its vehicle financing business to the extent of Rs507 mn, resulted in a sharp rise in other income. Tata Motors also reported mark-to-market losses to the extent of Rs2 bn with respect to its Foreign Currency Convertible instruments. We note that the tax rate for 1QFY09 was low on account of (a) higher dividend income and (b) increase in product development expenditure on which company gets higher deduction. The company has guided for a lower tax rate of about 20-25% for FY2009.

We lower our earnings estimates to factor in lower margins, higher interest costs

We have lowered our margin estimates for Tata Motors to factor in higher raw material costs. Besides, earnings will likely be impacted by rise in interest costs as a result of higher debt to be taken for funding JLR acquisition and on going capex plan. Tata Motors has an aggressive capex plan of Rs120 bn over the next three-four years to increase capacity as well as launch new products. We have reduced our EPS estimates for Tata Motors by 32% and 31% for FY2009E and FY2010E, respectively. We now estimate EPS at Rs23.6 and Rs24.4 for FY2009E and FY2010E (versus our earlier estimate of Rs34.6 and Rs35.4), respectively.

Impending dilution on account of JLR acquisition to be an overhang on the stock

We believe that the equity dilution announced by Tata Motors earlier to the extent of 36-40% will continue to be an overhang on the stock. Tata Motors had earlier announced its intention to raise Rs92-96 bn by way of equity to refinance the bridge loan taken for the JLR acquisition. Of this, the company would be raising Rs72 bn through three simultaneous rights issues comprising (a) rights issue of equity shares for Rs22 bn, (b) rights issue of 'A' equity shares carrying differential voting rights upto Rs20 bn and (c) rights issue of 5-year 0.5% Convertible Preference Shares (CCPs) upto Rs30 bn—convertible optionally into 'A' equity shares after three years but before five years. Besides, Tata Motors would also be raising US$500-600 mn through issue of securities in the foreign markets. We believe the impending dilution along with uncertainty over JLR's earnings would continue to be an overhang on the stock. We also believe that the profitability of JLR would be under severe pressure in the coming years in the light of declining sales volumes—this would continue to negatively impact Tata Motors' stock

Host of new launches planned for FY2009

The management has indicated it would go ahead with 14 new launches in the M&HCV segment in order to boost M&HCV sales. These launches include the 'World truck', 'Marco Polo' range of buses, and variants of existing models. Besides, the company would be expanding its 'Ace' range of products and would be launching the 'Xenon'—launched by it earlier in Thailand. In the car segment, Tata Motors plans to launch the new Indica, the new Indigo and the much awaited small car Nano. However, the company did not disclose any time line and other details of these new products.

Lower target price to Rs425/share (Rs525 previously) to factor lower EV/EBITDA multiple; maintain SELL rating on the stock

We have rolled forward our valuations to FY2010E basis. We now value standalone business of Tata Motors at 7X FY2010E EV/EBITDA (versus 8X FY2009E previously). Based on this, we value Tata Motors at Rs188/share after adjusting for the debt. We value the stake in its various subsidiaries and Tata Steel at Rs237/share of Tata Motors. We lower our SOTP based target price to Rs425/share (Rs525/share previously). We believe that the stock will continue to underperform on account of uncertainty over acquisition funding for JLR, uncertainty over JLR's operating performance and poor performance of its Indian operations. We maintain our SELL rating on the stock.

Tata Motors, quarterly results, March fiscal year-ends (Rs mn)

	qoq			yoy		
	1Q 2009	4Q 2008	Change (%)	1Q 2009	1Q 2008	Change (%)
Net Sales	**69,284**	**87,495**	**(20.8)**	**69,284**	**60,568**	**14.4**
Expenditure	(64,059)	(82,314)	(22.2)	(64,059)	(53,240)	20.3
(Increase)/decrease in stocks	5,738	(2,458)		5,738	1,374	
Consumption of Raw materials	(55,627)	(64,954)		(55,627)	(43,579)	
Staff cost	(4,009)	(4,155)		(4,009)	(3,519)	
Other expenditure	(10,160)	(10,746)		(10,160)	(7,515)	
EBITDA	**5,225**	**5,182**	**0.8**	**5,225**	**7,329**	**(28.7)**
Other income	1,512	2,344	(35.5)	1,512	863	75.2
Interest (net)	(1,123)	(126)		(1,123)	(816)	
Depreciation	(1,808)	(1,776)		(1,808)	(1,475)	
Profit before extra-ordinary items	**3,806**	**5,624**		**3,806**	**5,902**	
Extra-ordinary items	(355)	1,356		(355)	20	
Profit before tax	**3,451**	**6,981**	**(50.6)**	**3,451**	**5,921**	**(41.7)**
Tax	(190)	(1,618)		(190)	(1,254)	
Profit after tax	**3,261**	**5,363**	**(39.2)**	**3,261**	**4,668**	**(30.1)**
Volumes	**131,733**	**175,472**	**(24.9)**	**131,733**	**127,361**	**3.4**
Average realisation	**594,967**	**573,786**	**3.7**	**594,967**	**549,071**	**8.4**
Margins (%)						
EBITDA margin	7.5	5.9		7.5	12.1	
Net profit margin	4.7	6.1		4.7	7.7	
Key ratios						
RM costs (% of net sales)	80.3	74.2		80.3	72.0	
Staff costs (% of net sales)	5.8	4.7		5.8	5.8	
Effective tax rate (%)	5.5	23.2		5.5	21.2	
EPS (Rs/share)	7.6	12.5		7.6	10.9	

Source: Company data, Kotak Institutional Equities estimates.

Tata Motors, change in estimates, March fiscal year-ends, 2009E-2010E (Rs mn)

	Revised estimates		Old estimates		% change	
	2009E	2010E	2009E	2010E	2009E	2010E
Net sales	340,103	412,926	333,518	397,120	2.0	4.0
EBITDA	26,994	30,656	32,573	36,827	(17.1)	(16.8)
PAT	13,708	14,181	20,135	20,549	(31.9)	(31.0)
EPS (Rs/share)	23.6	24.4	34.6	35.4	(31.9)	(31.0)
Sales volume (vehicles sold)	686,693	907,263	687,491	898,133	(0.1)	1.0

Source: Kotak Institutional Equities estimates.

Tata Motors, SOTP-based valuation, FY2010E basis (Rs mn)

	EBITDA Rs mn	Multiple (X)	Value Rs mn	Value per share Rs	Comments
Tata Motors standalone	30,656	7.0	214,592	369	Based on 7X FY2010E EBITDA
Less: Net debt			105,193	181	
Total				**188**	
Value of subsidiaries				208	
Embedded value of investments				28	Value of investments in Tata Steel at KIE target price of Rs800/share
SOTP-based value				**425**	
Target price				**425**	

Notes:
(1) We have valued the subsidiaries and the investments in Tata Steel after considering 20% holding company discount.

Source: Company, Kotak Institutional Equities estimates.

Tata Motors, volume assumptions, March fiscal year ends

Volumes (no of vehicles)	2006	2007	2008E	2009E	2010E
M&HCVs	**136,871**	**184,997**	**179,400**	**195,356**	**211,210**
M&HCVs-domestic	128,610	172,842	166,037	179,320	192,769
M&HCVs-exports	8,261	12,155	13,363	16,036	18,441
LCVs	**108,151**	**149,241**	**173,434**	**198,144**	**227,866**
LCVs-domestic	86,226	125,744	147,334	169,434	194,849
LCVs-exports	21,925	23,497	26,100	28,710	33,017
UVs	**39,791**	**49,306**	**50,299**	**54,656**	**60,798**
UVs-domestic	37,910	47,892	47,700	51,278	56,405
UVs-exports	1,881	1,414	2,599	3,379	4,392
Passenger vehicles	**169,280**	**196,736**	**179,268**	**238,537**	**407,390**
Passenger vehicles-domestic	151,160	180,328	167,058	175,411	192,952
Passenger vehicles-exports	18,120	16,408	12,210	13,126	14,438
Small car	-	-	-	50,000	200,000
Total domestic sales	403,906	526,806	528,129	625,442	836,975
Total export sales	50,187	53,474	54,272	61,250	70,288
Total vehicle sales	**454,093**	**580,280**	**582,401**	**686,693**	**907,263**
Volume growth (yoy %)					
M&HCVs	**1.2**	**35.2**	**(3.0)**	**8.9**	**8.1**
M&HCVs-domestic	(0.5)	34.4	(3.9)	8.0	7.5
M&HCVs-exports	39.3	47.1	9.9	20.0	15.0
LCVs	**45.7**	**38.0**	**16.2**	**14.2**	**15.0**
LCVs-domestic	41.9	45.8	17.2	15.0	15.0
LCVs-exports	62.7	7.2	11.1	10.0	15.0
UVs	**7.5**	**23.9**	**2.0**	**8.7**	**11.2**
UVs-domestic	10.7	26.3	(0.4)	7.5	10.0
UVs-exports	(32.4)	(24.8)	83.8	30.0	30.0
Passenger vehicles	**10.9**	**16.2**	**(8.9)**	**33.1**	**70.8**
Passenger vehicles-domestic	4.4	19.3	(7.4)	5.0	10.0
Passenger vehicles-exports	132.0	(9.4)	(25.6)	7.5	10.0
Small car					300
Total domestic sales	9.4	30.4	0.3	18.4	33.8
Total export sales	67.3	6.5	1.5	12.9	14.8
Total vehicle sales	**13.8**	**27.8**	**0.4**	**17.9**	**32.1**

Source: Company data, Kotak Institutional Equities estimates.

Tata Motors, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2010E (Rs mn)

	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)					
Net sales	205,241	271,965	287,309	340,103	412,926
EBITDA	**23,822**	**28,886**	**28,900**	**26,994**	**30,656**
Other income	4,184	5,839	6,212	7,129	7,140
Interest	(2,264)	(3,131)	(2,812)	(7,184)	(10,046)
Depreciaiton	(5,209)	(5,863)	(6,527)	(8,040)	(10,290)
Profit before tax	**20,534**	**25,732**	**25,773**	**18,899**	**17,460**
Current tax	(3,824)	(4,825)	(4,639)	(3,427)	(3,545)
Deferred tax	(1,422)	(1,772)	(845)	(902)	(933)
Net profit	**15,289**	**19,135**	**20,288**	**13,708**	**14,181**
Earnings per share (Rs)	**39.2**	**47.0**	**47.4**	**23.6**	**24.4**
Balance sheet (Rs mn)					
Equity	55,371	68,698	82,222	179,772	185,296
Deferred tax liability	6,225	7,868	8,714	9,615	10,548
Total Borrowings	29,368	40,091	59,987	90,282	125,282
Current liabilities	69,419	73,578	75,135	86,333	97,820
Total liabilities	**160,383**	**190,235**	**226,057**	**366,002**	**418,947**
Net fixed assets	45,212	63,946	84,919	114,378	141,588
Investments	20,152	24,770	33,270	129,570	128,570
Cash	11,194	8,268	6,377	901	1,072
Other current assets	83,684	93,151	101,390	121,051	147,616
Miscellaneous expenditure	141	101	101	101	101
Total assets	**160,383**	**190,235**	**226,057**	**366,002**	**418,947**
Free cash flow (Rs mn)					
Operating cash flow excl. working capital	20,981	26,621	24,261	22,705	28,311
Working capital changes	(23,191)	(4,520)	(6,682)	(8,464)	(15,077)
Capital expenditure	(11,095)	(23,660)	(27,500)	(37,500)	(37,500)
Free cash flow	**(13,305)**	**(1,559)**	**(9,922)**	**(23,259)**	**(24,266)**
Ratios					
Debt/equity (X)	0.5	0.5	0.7	0.5	0.6
Net debt/equity (X)	0.2	0.3	0.4	0.4	0.5
RoAE (%)	28.3	27.7	24.3	9.8	7.4
RoACE (%)	**20.9**	**20.7**	**16.8**	**8.9**	**7.2**

Source: Company, Kotak Institutional Equities estimates.

Banking

PNBK.BO, Rs465	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	650
52W High -Low (Rs)	721 - 330
Market Cap (Rs bn)	146.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	78.3	84.9	100.3
Net Profit (Rs bn)	20.5	21.6	25.1
EPS (Rs)	65.0	68.5	79.7
EPS gth	*33.0*	*5.4*	*16.4*
P/E (x)	7.2	6.8	5.8
P/B (x)	1.5	1.2	1.1
Div yield (%)	2.8	2.9	3.4

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.8	-	-
FIIs	20.0	0.4	0.0
MFs	6.4	0.7	0.3
UTI	-	-	(0.4)
LIC	5.1	0.5	0.1

Punjab National Bank: Operational performance in line; valuation attractive, retain buy

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- **PAT of Rs5.1 bn (21% growth) aided by stable operational performance**
- **PLR hike of 100 bps likely to stem margin pressure**
- **Retain BUY with price target of Rs650**

PNB reported a yoy increase of 21% in PAT in 1QFY09 to Rs5.1 bn, in line with our estimates. The key drivers of earnings of the company were a net interest income growth (adjusted for investment amortization) of 16% yoy and non-interest income (ex-treasury) of 18% yoy in the current quarter. The company has made Rs250 mn of ad-hoc provisions for meeting its likely liabilities post the wage hike negotiations that are currently underway between IBA and bank unions. We have revised our earnings estimates for the company upwards by 11% for FY2009 to factor in the new results. The revision in estimates is largely on account of lower credit provisions rather than an improvement in operational income. We retain our BUY rating on the stock and target price of Rs650 given attractive valuations of 6.8X PER and 1.1X PBR FY2009.

NII growth remains on track. PNB reported a net interest income (NII) adjusted for investment amortization of Rs15.2 bn in 1QFY09, which was a growth of 16% yoy. While the margin was under pressure with the NIM (adjusted for investment amortization) declining to 3.3% in 1QFY09 from 3.6% in 1QFY08, asset growth of around 21% yoy helped the NII growth.

We believe apart from a pressure on funding costs, faster growth in deposits in comparison to advances growth was also a prime reason for the pressure on margin. The incremental growth in deposits was Rs66 bn in the current quarter while the advances declined by Rs51 bn on a sequential basis. This implied that the company deployed Rs65 bn of funds in low yielding investments, which impacted the overall yields on the earnings assets.

The company has announced a 100 bps hike in its PLR effective August 1, 2008, which is over and above the 50 bps hike in PLR announced in July 2008. The hikes in lending rates apart from a relatively lower C/D ratio of 66% should help the company stem the decline in its margins for the rest of the year.

Non-interest income largely driven by fees

- PNB's non-interest income declined by 10% yoy to Rs4.6 bn in 1QFY09 impacted by the lower treasury income. The treasury income in the current quarter was Rs120 mn vis-à-vis Rs1.3 bn booked in 1QFY08.
- The company's fee income increased 16% yoy, likely reflecting the improved pricing of some of its services and increased usage of IT based solutions. This income stream contributed 70% of overall non-interest income.
- The other driver of non-interest income was the recoveries of written-off accounts, which was up 90% yoy to Rs450 mn.

Operating expenses remained under control despite higher employee provisions.

- PNB had an employee expense of Rs6.4 bn which included a provision of Rs1.5 bn (not the transitional liabilities) under the revised AS-15 accounting guidelines. The management indicated that the company would have to make a provision of Rs4 bn in the current fiscal towards this end.

- PNB also made additional provision of Rs250 mn to meet the likely liabilities on account of the wage hike negotiations that are currently under way between IBA and the employee unions.

Higher MTM losses due to spike in yields increased provision expenses

- PNB made a total provision of Rs2.9 bn in 1QFY09 for NPLs, investment amortization and investment deprecation. This was 26% lower than the provisions made in 1QFY08 and our estimates of Rs3.4 bn.
- Investment depreciation losses were Rs1.5 bn in the current quarter due to the spike in Gsec yields. The company is relatively better placed than most other banks as the proportion of SLR investments in the HTM category remains high at 88%.
- We believe the bank also had to make lower specific provisions for NPLs as asset quality improved. The management indicated that there was decline of Rs3.2 bn in gross NPLs due to the implementation of the loan waiver scheme. The company had made a provision of Rs700 mn on these assets over a period of time, which was consequently written back this quarter. Despite this reversal of provisions, the credit provisions (including standard asset provisions) was Rs571 mn in 1QFY09.

Punjab National Bank, quarterly results, Rs mn

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	% chg	1QFY09KS	Actual Vs KS
Interest income	33,633	35,381	36,361	39,548	42,135	626.6		
Loans	24,109	25,126	26,687	28,469	30,154	25.1		
Investments	8,943	8,983	9,201	10,508	10,760	20.3		
Balance with RBI & banks	529	1,070	322	332	903	70.8		
Others	52	201	151	239	318	510.4		
Interest expense	19,850	21,716	22,117	23,625	26,937	35.7		
Net interest income	**13,782**	**13,665**	**14,244**	**15,923**	**15,198**	**10.3**	**15,161**	**0.2**
NII post amortization cost	**13,012**	**12,915**	**14,244**	**15,173**	**15,198**	**16.8**	**14,391**	**5.6**
Non-int.income	5,089	4,678	4,834	5,372	4,561	(10.4)	4,200	8.6
Other income excl treasury	3,769	3,598	3,494	4,662	4,441	17.8	4,070	9.1
fee income	2,750	2,600	2,450	3,255	3,190	16.0	—	—
Sale of invts.	1,320	1,080	1,340	710	120	(90.9)	—	—
Total income	**18,871**	**18,343**	**19,078**	**21,295**	**19,759**	**4.7**	**19,361**	**2.1**
Total income exld treasury	**17,551**	**17,263**	**17,738**	**20,585**	**19,639**	**95.6**	**19,361**	**2.1**
Op. expenses	8,770	9,043	9,165	8,277	9,185	4.7	8,900	3.2
Employee cost	6,411	6,418	6,575	5,212	6,442	0.5	6,200	3.9
Other cost	2,359	2,625	2,590	3,066	2,742	16.2	2,700	1.6
Operating profit	**10,101**	**9,300**	**9,913**	**13,018**	**10,574**	**4.7**	**10,461**	**1.1**
Provisions and cont.	3,842	1,529	1,576	2,427	2,855	(25.7)	3,447	(17.2)
Investment Depreciation	1,541	(510)	(400)	—	1,511	(2.0)	1,477	2.3
Investment Amortization	770	750	—	750	750	(2.6)	770	(2.6)
NPLs	1,379	1,306	1,600	1,000	571	(58.6)	1,200	(52.4)
PBT	6,259	7,771	8,338	10,591	7,719	23.3	7,013	10.1
Tax	2,009	2,386	2,923	5,154	2,595	29.2	2,104	23.3
Net profit	**4,251**	**5,385**	**5,414**	**5,438**	**5,124**	**20.5**	**4,909**	**4.4**
Tax rate (%)	32	31	35	49	34		30	
PBT - treasury + provisions	**7,859**	**7,488**	**8,198**	**10,881**	**9,681**	**53.7**	**9,691**	**(40.0)**
Key balance sheet details (Rs bn)								
Total Deposit	1,426	1,500	1,526	1,665	1,731	21.4		
CASA (%)	44%	43%	43%	43%	41%			
Advances	956	1,014	1,015	1,195	1,144	19.6		
Investments	—	—	518	540	605			
Yield management measures (%)								
Yield on investments	7.61	6.88	6.91	-	6.49			
Yield on advances	10.23	10.20	10.33	10.36	10.74			
Average cost of deposits	5.46	5.55	5.57	5.59	-			
NIM (adjst. amortization)	3.59	—	3.66	3.66	3.29			
Asset quality details								
Gross NPLs (Rs bn)	36.3	47.2	42.5	33.2	32.6	(10.2)		
Gross NPL ratio (%)	3.8	4.6	4.1	2.7	2.8			
Net NPLs (Rs bn)	9.4	18.7	13.4	7.5	7.1	(23.7)		
Net NPL ratio (%)	1.0	1.9	1.2	0.6	0.6			
Asset quality details (%)								
CAR	12.4	12.6	14.0	13.0	13.0			
Tier I	—	—	—	8.5	8.9			
Tier II	—	—	—	4.4	4.1			

Source: Company, Kotak Institutional Equities estimates.

Automobiles

MAHM.BO, Rs513	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	720
52W High -Low (Rs)	874 - 420
Market Cap (Rs bn)	132.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	115.0	132.3	149.7
Net Profit (Rs bn)	9.4	11.2	11.6
EPS (Rs)	37.8	43.5	44.9
EPS gth	*(2.8)*	*15.1*	*3.2*
P/E (x)	13.6	11.8	11.4
EV/EBITDA (x)	10.4	9.3	8.5
Div yield (%)	2.1	1.8	1.9

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	22.6	-	-
FIIs	33.3	0.7	0.3
MFs	5.2	0.6	0.2
UTI	-	-	(0.4)
LIC	15.1	1.6	1.2

Mahindra & Mahindra: 1QFY09 results—Operating results largely in line with expectations; forex loss leads to decline in net earnings

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- **1QFY09 reported net profit at Rs1.6 bn was down 17% yoy mainly on account of foreign exchange loss of Rs779 mn; adjusted for forex loss net profit in line with our estimates**
- **1Q EBITDA margin at 10% is marginally lower than our estimate of 10.5% on account of the sharp increase in input costs**
- **M&M to merge Punjab Tractors(PTL)'share swap ratio fixed at 1:3 (M&M currently holds 65% of PTL); announces acquisition of Kinetic Motors (KMC) for a consideration of Rs1.1 bn in cash and 20% stake to KM in the new company**
- **We will revisit our assumptions post the conference call with the management**

M&M reported 1QFY2009 net profit at Rs1.6 bn. The net profit was down 17% yoy mainly on account of foreign exchange loss of Rs779 mn. Adjusted for the forex loss, 1Q FY2009 EBITDA margin at 10% was marginally lower than our estimate of 10.5%. The fall in operating profit was mainly on account of higher input costs and higher employee costs. M&M has also announced the acquisition of Kinetic Motors for a consideration of Rs1.1 bn in cash and 20% stake to KM in the new company to be formed for the acquisition. M&M will merge Punjab Tractors (M&M currently holds 65% of PTL) —the share swap ratio has been fixed at 1 share of M&M for every 3 shares of PTL. We retain our earnings estimate as of now but will be revisiting our assumptions post the conference call with the management. We maintain our SOTP-based target price of Rs720/share and ADD rating on the stock.

1QFY09 net profit at Rs1.6 bn was down 17% yoy mainly on account of foreign exchange loss

M&M reported 1Q net profit at Rs1.6 bn—down 17% yoy and lower than our expectation of Rs2.4 bn mainly due to forex losses of Rs779 mn—adjusted for this loss, net profit would have been in line with our estimates.1QFY08 operating margin at 9.9% (adjusted for forex loss) was marginally lower than our expectation of 10.5% mainly on account of higher input costs. We expect margins to remain under pressure on account of continued high commodity prices and the inability to pass on rise in raw material prices by way of price hikes. M&M has reported zero current tax for the quarter as it expects to be covered under the provisions of MAT in FY2009—we would need clarity on this issue in the conference call.

M&M announces merger of PTL and acquisition of Kinetic Motors

M&M has announced the merger of Punjab Tractors (PTL). The share swap ratio has been fixed at 1 share of M&M for 3 shares of PTL. M&M currently has 65% ownership of PTL. Besides, M&M also announced its intention to enter the 2-wheeler industry with the acquisition of the assets of Kinetic Motors for a cash consideration of Rs1.1 bn and a 20% stake to the shareholders of PTL in the newly formed company which would acquire the assets of KMC. We believe that this acquisition would be a big challenge for M&M as the 2-wheeler industry is currently facing a slowdown amidst falling volumes and lack of demand for 2-wheelers. Kinetic Motors is a loss-making company and is essentially in the business of manufacturing scooters.

We currently maintain our estimates and SOTP based target price of Rs720/share for M&M—we shall be revisiting our assumptions and estimates post the management conference call.

M&M, quarterly results, March fiscal year-ends (Rs mn)

	qoq			yoy		
	1Q 2009	4Q 2008	Change (%)	1Q 2009	1Q 2008	Change (%)
Net Sales	**32,934**	**31,482**	**4.6**	**32,934**	**26,128**	**26.1**
Expenditure	(29,686)	(28,058)	5.8	(29,686)	(23,357)	27.1
(Increase)/decrease in stocks	207	(1,433)	(114.5)	207	102	102.9
Consumption of Raw materials	(23,175)	(20,329)	14.0	(23,175)	(17,976)	28.9
Staff cost	(2,221)	(2,170)	2.4	(2,221)	(1,891)	17.5
Other expenditure	(4,497)	(4,126)	9.0	(4,497)	(3,591)	25.2
EBITDA	**3,248**	**3,424**	**(5.1)**	**3,248**	**2,771**	**17.2**
Other income	384	273	40.5	384	316	21.3
Interest (net)	(97)	(139)	(29.9)	(97)	51	(290.2)
Depreciation	(621)	(649)	(4.2)	(621)	(571)	8.8
Profit before extra-ordinary it	**2,913**	**2,909**	**0.1**	**2,913**	**2,567**	**13.5**
Extra-ordinary items	-	139		-	(16)	
Profit before tax	**2,913**	**3,048**	**(4.4)**	**2,913**	**2,551**	**14.2**
Tax	(541)	(837)	(35.4)	(541)	(640)	(15.4)
Profit after tax	**2,372**	**2,211**	**7.3**	**2,372**	**1,912**	**24.1**
Adjusted PAT	**2,372**	**2,121**	**11.8**	**2,372**	**1,922**	**23.4**
Volumes	**79,542**	**78,828**	**0.9**	**79,542**	**68,479**	**16.2**
Average realisation	**471,651**	**460,147**	**2.5**	**471,651**	**429,507**	**9.8**
Margins (%)						
EBITDA margin	9.9	10.9	(1.01)	9.9	10.6	(0.74)
Net profit margin	7.2	7.0	0.18	7.2	7.3	(0.11)
Key ratios						
RM costs (% of net sales)	70.4	64.6		70.4	68.8	
Staff costs (% of net sales)	6.7	6.9		6.7	7.2	
Effective tax rate (%)	18.6	27.5		18.6	25.1	
EPS (Rs)	9.6	8.9		9.6	7.7	

Source: Company data, Kotak Institutional Equities estimates.

M&M, SOTP-based valuation, FY2009E basis

	EBITDA (Rs mn)	Multiple (X)	Value (Rs mn)	Value per share (Rs)	Comment
M&M standalone business	14,955	6.5	97,210	378	Based on 6.5X EV/EBITDA FY2009E earnings
Less: Net debt			14,267	55	
Total				**322**	
Subsidiaries				**289**	
Tech Mahindra				150	Based on KIE target price of Rs900/per share
Mahindra Lifespace Developers Ltd				43	Based on KIE target price of Rs 890/share
Punjab Tractors				44	Valued at open-offer price of Rs360/share of Punjab Tractors
Mahindra & Mahindra Financial Services Ltd				52	Based on KIE target price of Rs 290/share
Other investments				110	
SOTP-based value				**721**	
Target price				**720**	

Note
(1) The subsidiaries have been valued at a holding company discount of 20%.

Source: Company data, Kotak Institutional Equities estimates

M&M, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2010E (Rs mn)

	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)					
Net sales	82,513	100,922	115,034	132,252	149,731
EBITDA	**9,958**	**13,048**	**13,379**	**14,955**	**16,779**
Other income	753	1,530	1,681	3,558	3,671
Interest	184	675	(243)	(1,644)	(1,856)
Depreciaiton	(2,000)	(2,096)	(2,387)	(2,568)	(3,828)
Profit before tax	**8,895**	**13,157**	**12,430**	**14,302**	**14,766**
Current tax	(2,854)	(3,657)	(3,380)	(3,432)	(3,544)
Deferred tax	430	157	332	338	348
Net profit	**8,571**	**10,684**	**11,035**	**11,207**	**11,571**
Earnings per share (Rs)	**34.8**	**43.1**	**44.5**	**43.5**	**44.9**
Balance sheet (Rs mn)					
Equity	30,556	35,727	43,342	51,422	66,745
Total Borrowings	8,834	16,360	25,870	40,320	43,320
Current liabilities	20,516	26,656	32,287	35,182	38,718
Total liabilities	**59,906**	**78,743**	**101,499**	**126,924**	**148,783**
Net fixed assets	15,544	18,712	26,325	44,757	61,929
Investments	16,691	22,375	42,375	44,875	44,875
Cash	7,303	13,261	1,086	906	750
Other current assets	20,188	24,221	31,538	36,211	41,054
Miscellaneous expenditure	181	176	176	176	176
Total assets	**59,906**	**78,743**	**101,499**	**126,924**	**148,783**
Free cash flow (Rs mn)					
Operating cash flow excl. working capital	6,919	9,712	11,651	11,523	13,236
Working capital changes	(50)	1,978	(1,687)	(1,778)	(1,307)
Capital expenditure	(2,747)	(4,819)	(10,000)	(21,000)	(21,000)
Free cash flow	**4,122**	**6,871**	**(35)**	**(11,255)**	**(9,072)**
Ratios					
Operating margin (%)	12.1	12.9	11.6	11.3	11.2
PAT margin (%)	10.4	10.6	9.6	8.5	7.7
Debt/equity (X)	0.3	0.5	0.6	0.8	0.6
Net debt/equity (X)	0.1	0.0	0.0	0.3	0.3
Book Value (Rs/share)	123.3	143.3	174.0	199.1	258.6
RoAE (%)	32.9	32.4	28.0	23.7	19.6
RoACE (%)	**23.6**	**22.4**	**18.6**	**15.6**	**12.9**

Source: Company, Kotak Institutional Equities estimates.

Telecom

TATA.BO, Rs443	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	430
52W High -Low (Rs)	783 - 332
Market Cap (Rs bn)	126.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	32.8	35.6	39.6
Net Profit (Rs bn)	3.1	3.4	3.8
EPS (Rs)	10.9	12.0	13.3
EPS gth	*(36.3)*	*9.2*	*11.2*
P/E (x)	40.4	37.0	33.3
EV/EBITDA (x)	16.9	15.7	13.6
Div yield (%)	1.0	1.1	1.5

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	76.2	-	-
FIIs	7.4	0.1	(0.2)
MFs	2.3	0.2	(0.1)
UTI	-	-	(0.4)
LIC	8.2	0.8	0.4

Tata Communications: Operational performance ahead of expectations

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- **1QFY09 results—impressive margin expansion likely driven by rupee depreciation and higher data revenues**
- **We await consolidated results and disclosures on operating metrics**
- **Maintain REDUCE rating**

TCOM reported standalone revenues of Rs8.6 bn (0.5% ahead of expectations, up 1.5% qoq), EBITDA of Rs1.9 bn (our expectation was Rs1.5 bn) and net income of Rs983 mn (our expectation was Rs770 mn) for 1QFY09. EBITDA margin expansion of 500 bps qoq (to 22.3% from 17.3%, our expectation was 17.5%) was driven by a 12% qoq decline in network costs, higher contribution from the company's high-margin data business, rupee depreciation and some retention of reduction in ADC charges. We highlight that the company has still not started disclosing its consolidated performance on a quarterly basis. We continue to value the company on a SOTP basis, with the various moving parts being (1) value of standalone India business (DCF-based), (2) TCOM's 14.5% stake in TTSL, (3) investments in international subsidiaries Tyco and Teleglobe and (4) surplus real estate. We do not ascribe any value to the company's South Africa business as well as its India retail internet business (which was demerged from the India entity recently). We tweak our FY2009E and FY2010E estimates moderately. We maintain our REDUCE rating on the stock with an SOTP-based target price of Rs430/share.

1QFY09 results—in-line revenues with positive surprise on OPM. TCOM's reported 1QFY09 standalone revenues of Rs8.6 bn were in line with our expectations. EBITDA at Rs1.9 bn came in 28% ahead of our estimate of Rs1.5 bn with EBITDA margins expanding 500 bps qoq (versus our expectation of a 20 bps expansion). OPM expansion was driven by (1) an absolute decline in operating costs for the quarter, led by a 12% sequential decline in network operating costs, a little surprising in our view, (2) shift in business mix with higher contribution from data business (41% versus 37% in the previous quarter), (3) possibly retention of part of the benefits of reduction in ADC charges and (4) rupee depreciation that may have benefited the company on incoming ILD minutes. Net income of Rs983 mn (up 64% qoq) was 27.8% ahead of our estimates, and driven by (1) EBITDA outperformance and (2) higher-than-expected other income of Rs581 mn (our expectation was Rs355 mn).

Voice business revenues; sharp jump in data revenues drive higher OPM. TCOM's wholesale voice revenues at Rs4 bn for 1QFY09 were down 9% qoq and 24% yoy. Voice revenues may have been impacted by reduction in ADC on incoming ILD minutes and termination of ADC on domestic long distance voice business. The company's enterprise and carrier data business saw strong sequential growth of 12% to Rs3.5 bn (yoy growth was a modest 3%), likely indicative of some initial success in the company's new data center hosting and managed services business. We highlight that the increased contribution of data business (41% of revenues in 1Q versus 37% in the previous quarter) also reflected in the sharp margin expansion qoq.

Standalone numbers are losing its meaning; consolidated results are not disclosed consistently. Limited or no disclosures of quarterly consolidated financials makes quarterly financial analysis an onerous task. We await disclosure of consolidated results on a quarterly basis before moving to a consolidated model for the company.

Maintain rating and target price. We maintain a SOTP-based 12-month target price of Rs430 for TCOM (see Exhibit 1). Our valuation is based on DCF-based methodology for core (standalone) business and a combination of market price/fair value for investments. We discuss the major components of valuations for the business: (1) **Standalone India business**: We ascribe a 12-month DCF-based valuation of Rs155. We expect this business to report single digit earnings growth over the next few years and generate steady cash flow, (2) **Surplus real estate:** We value the surplus real estate at 50% of the estimated market value. This translates into a value of Rs112/ share. The company has surplus real estate in Delhi, Pune, Kolkata and Chennai, (3) **Stake in Tata Teleservices:** We value TCOM's 14.5% stake in Tata Teleservices (TTSL) at Rs109/share. This translates into an equity valuation of US$5 bn for TTSL. TTSL runs wireless service in 22 circles on the CDMA technology and (4) **Tyco Global Network:** Now a part of TCOM's overall global cable network, we have valued this asset at the acquisition price of Rs5.7 bn (US$142 mn). This acquisition comprised 65,000 km of undersea cable network.

Our sum-of-the-parts 12-month target price for TCOM is Rs430/share

	Estimated value		Value in SOTP		
	(Rs bn)	(Rs/share)	(Rs bn)	(Rs/share)	Comments
1. Core business					
Equity value	**44**	**155**	**44**	**155**	
2. Investments					
TATA Teleservices (TTSL)	31	109	31	109	Valuation based on US$5 bn equity value for TTSL
Tyco Global Network (TGN)	6	20	5.7	20	Valued at book value (100% taken in SOTP)
Teleglobe (TG)	8	28	8.1	28	Valued at book value (100% taken in SOTP)
SNO (South Africa)	0	0	0	0	No NPV ascribed (i.e. neither capex nor revenues modeled)
India retail business	0	0	0	0	No NPV ascribed (i.e. neither capex nor revenues modeled)
Total	**45**	**158**	**45**	**158**	
3. Others					
Surplus real estate	64	225	32	112	50% of estimated market value of surplus land
Total	**64**	**225**	**32**	**112**	
Grand total [1]+[2]+[3]	**153**	**538**	**121**	**426**	**12-month forward target price is Rs430**

Source: Kotak Institutional Equities estimates

TCOM standalone interim results, March fiscal year-ends (Rs mn)

	qoq			yoy		
	1Q 2009	4Q 2008	% chg.	1Q 2009	1Q 2008	% chg.
Revenues	**8,632**	**8,502**	***1.5***	**8,632**	**10,081**	***(14.4)***
Staff cost	(752)	(639)	*17.7*	(752)	(666)	*12.8*
Interconnection, network, license fee costs	(4,088)	(4,634)	*(11.8)*	(4,088)	(5,649)	*(27.6)*
SG&A	(1,869)	(1,756)	*6.5*	(1,869)	(1,439)	*29.9*
Total expenditure	(6,708)	(7,028)	*(4.5)*	(6,708)	(7,754)	*(13.5)*
EBITDA	**1,924**	**1,475**	***30.5***	**1,924**	**2,327**	***(17.3)***
EBITDA margin (%)	**22.3**	**17.3**		**22.3**	**23.1**	
Interest/other income	581	352	*64.9*	581	273	*112.6*
Depreciation and amortization	(797)	(858)	*(7.2)*	(797)	(929)	*(14.2)*
Interest expense	(196)	(105)		(196)	(19)	
Pre-tax profits	**1,512**	**863**	***75.2***	**1,512**	**1,652**	***(8.5)***
Extraordinaries/Prior Year	—	(11)		—	—	
Tax (incl. deferred tax)	(528)	(264)	*100.2*	(528)	(610)	*(13.5)*
Reported net income	**983**	**589**	***67.1***	**983**	**1,042**	***(5.6)***
Adjusted net income	**983**	**599**	***64.1***	**983**	**1,042**	***(5.6)***
Recurring EPS	**3.5**	**2.1**		**3.5**	**3.7**	
Effective tax rate (%)	34.9	30.9		34.9	36.9	
Segment results						
Revenues						
Wholesale voice	4,039	4,438	*(9)*	4,039	5,306	*(24)*
Enterprise and carrier data	3,536	3,144	*12*	3,536	3,431	*3*
Others	1,058	921	*15*	1,058	1,345	*(21)*
EBIT (before unalloc. expenses)						
Wholesale voice	727	666	*9*	727	758	*(4)*
Enterprise and carrier data	2,578	2,668	*(3)*	2,578	2,915	*(12)*
Others	627	417	*50*	627	722	*(13)*

Source: Company, Kotak Intitutional Equities estimates

Energy

HPCL.BO, Rs222	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	260
52W High -Low (Rs)	406 - 164
Market Cap (Rs bn)	75.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,068	1,333	1,330
Net Profit (Rs bn)	7.9	8.9	11.3
EPS (Rs)	33.5	26.1	33.4
EPS gth	*(16.4)*	*(21.9)*	*27.7*
P/E (x)	6.6	8.5	6.7
EV/EBITDA (x)	5.6	3.6	2.2
Div yield (%)	1.4	1.1	1.3

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.1	-	-
FIIs	13.2	0.2	(0.1)
MFs	5.6	0.3	0.1
UTI	-	-	(0.2)
LIC	15.8	0.9	0.6

HPCL: Lower-than-expected oil bonds impacts 1QFY09 results

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- **Lower-than-expected provision for oil bonds and lower receipts from upstream companies dampen 1QFY09 results**
- **Estimating earnings remains difficult pending government's decision on subsidy sharing**
- **Fine-tuned estimates; maintain REDUCE and 12-month TP of Rs260**

HPCL reported 1QFY09 net loss at Rs8.9 bn versus our expected net income of Rs4.8 bn; the variance was due to (1) provision for oil bonds at Rs51.2 bn versus Rs63 bn assumed by us and (2) lower-than-expected receipts from upstream companies at Rs23.6 bn versus our estimated Rs35 bn. We have made modest earnings revisions and our revised FY2009E, FY2010E and FY2011E EPS estimates are Rs26.1, Rs33.4 and Rs31.7 versus Rs30.9, Rs33.4 and Rs33.8. However, estimating earnings for downstream companies remains an academic exercise given lack of clarity on the subsidy sharing scheme. However, we assume that the government will ensure a certain level of profits for the downstream companies as it appears from the proposed plan restricting the share of downstream companies to Rs200 bn. We retain our REDUCE rating with 12-month fair valuation of Rs260 based on 8X FY2010E EPS. Key downside risk stems from higher-than-expected subsidy losses.

Lower-than-expected oil bonds dampen results. HPCL reported 1QFY08 EBITDA at –Rs7.7 bn versus our expected Rs15.8 bn. The weaker-than-expected performance was due to (1) oil bonds accounted on a provisional basis at Rs51.2 bn versus our assumptions of Rs63 bn and (2) lower-than expected receipts from upstream companies based on their share at Rs450 bn for FY2009E versus our assumed share of 33.3% of the total under-recoveries. We note that the amount of oil bonds booked by HPCL on provisional basis corresponds to Rs946 bn of total bonds for FY2009E as was 'decided' by the government in its June 4, 2008 meeting. However, we expect this figure to be revised up as the downstream oil companies will report significant losses otherwise.

Nonetheless, the operating performance was healthy led by (1) strong refining margins and (2) inventory gain of Rs9.1 bn. The inventory gains look reasonable and in line with inventory gains reported by standalone refining companies (CPCL and MRPL). HPCL's overall 1QFY09 refining margin was US$16.5/bbl versus US$7.4/bbl in 4QFY08 and US$8.4/bbl in 1QFY08; the improvement is in line with improvement in global refining margins. HPCL sold 5.9 mn tons of products in 1QFY09 (+9% yoy and -4% qoq) led by strong demand for diesel, gasoline, jet fuel and LPG.

Earnings uncertainty remains pending clarity on subsidy sharing scheme. We work on the philosophy that the government will ensure profits of the downstream oil companies at a certain 'minimum' level over the next few years (until the situation improves); there is no other basis to forecast earnings of the downstream oil companies in the current environment. We base our view on the government's decision to restrict the subsidy burden on downstream companies at Rs200 bn.

Other financial and operating details of 1QFY09 results

1. **Good refining margins in 1QFY09.** HPCL's 1QFY08 refining margin was US$16.5/bbl versus US$7.4/bbl in 4QFY08 and US$8.4/bbl in 1QFY08. The improvement in margins is in line with improvement in global refining margins. However, we expect refining margins to decline in FY2009E and FY2010E due to decline in global benchmark margins led by (1) demand weakness and (2) significant refining capacity additions from 2HCY08 (4.8 mn b/d plus 1.7 mn b/d of additional NGL supply in CY2008-10E). We model refining margin for HPCL at US$3.8/bbl in FY2009E, US$2.7/bbl in FY2010E and US$1.8/bbl in FY2011E.

2. **Compensation (oil bonds) from the government.** HPCL booked oil bonds for Rs51.2 bn in 1QFY09 on a provisional basis. Based on the share of oil bonds for HPCL in FY2008 (21.8%), we model HPCL will receive Rs253 bn, Rs214 bn and Rs130 bn of oil bonds in FY2009E, FY2010E and FY2011E, respectively, based on total issue of Rs1.16 tn, Rs980 bn and Rs595 bn of bonds to the industry in FY2009E, FY2010E and FY2011E, respectively.

3. **Low refining throughput in 1QFY09.** HPCL's two refineries processed 3.4 mn tons of crude in 1QFY09 compared to 4.3 mn tons in 4QFY08 and 3.9 mn tons in 1QFY08. The decline in throughput was due to planned turnaround of HPCL's Mumbai refinery in April-May 2008. HPCL will expand its refining capacity by 3.2 mtpa in FY2009E, which will boost its throughput significantly in FY2010E and beyond. We have revised our crude throughput for FY2009E to 17.5 mn tons versus 18.5 mn tons previously due to delay in modernization and expansion projects at Mumbai and Vizakh refineries. We model crude throughput at 19.3 mn tons in FY2010E and FY2011E.

Interim results of Hindustan Petroleum (Rs mn)

		qoq			yoy		
	2009E	**1Q 2009**	**4Q 2008**	***% chg***	**1Q 2009**	**1Q 2008**	***% chg***
Net sales	1,333,307	347,493	314,706	*10*	347,493	218,817	*59*
Increase/(decrease) in stock	—	13,379	7,981	—	13,379	(3,757)	—
Raw materials	(549,413)	(101,017)	(111,475)	*(9)*	(101,017)	(78,157)	*29*
Staff cost	(9,978)	(3,819)	(2,631)	*45*	(3,819)	(1,805)	*112*
Product purchase	(725,803)	(247,202)	(191,977)	*29*	(247,202)	(128,882)	*92*
Others	(17,004)	(12,945)	(14,436)	*(10)*	(12,945)	(7,502)	*73*
Total expenditure	(1,302,199)	(351,604)	(312,538)	*12*	(351,604)	(220,102)	*60*
EBITDA	**31,108**	**(4,111)**	**2,168**	***(290)***	**(4,111)**	**(1,285)**	***220***
Other income	14,797	1,679	3,177	*(47)*	1,679	3,351	*(50)*
Interest	(21,348)	(4,064)	(3,009)	*35*	(4,064)	(1,334)	*205*
Depreciation	(9,687)	(2,367)	(2,532)	*(7)*	(2,367)	(1,798)	*32*
Pretax profits	**14,870**	**(8,862)**	**(196)**	***4,417***	**(8,862)**	**(1,066)**	***731***
Extraordinaries	—	—	4,086	—	—	—	—
Tax	(1,685)	(20)	(1,724)	*(99)*	(20)	(15)	*33*
Deferred tax	(4,326)	—	1,679	*(100)*	—	212	*(100)*
Net income	**8,860**	**(8,882)**	**3,845**	***(331)***	**(8,882)**	**(869)**	***922***
Adjusted net income	**8,860**	**(8,882)**	**(241)**	***3,585***	**(8,882)**	**(869)**	***922***
Tax rate (%)	40.4	(0.2)	1.2		(0.2)	18.5	
Volume data							
Crude throughput (mn tons)		3.4	4.3	*(21.5)*	3.4	3.9	*(13.8)*
Domestic sales volume (mn tons)		5.9	6.1	*(4.4)*	5.9	5.4	*8.9*
Pipeline throughput (mn tons)		2.5	2.3	*6.9*	2.5	1.8	*42.3*
Refining margin (US$/bbl)		16.5	7.4		16.5	8.4	
Inventory gain/(loss)		9,110	(940)	*(1,069.1)*	9,110	1,300	*601*
Receipt from upstream companies		23,574	20,890	*12.8*	23,574	9,010	*161.6*
Receipt from refining companies		—	—		—	—	
Reciept of oil bonds from government		51,150	34,480		51,150	—	
Subsidy gain/(loss)		(102,290)	(62,300)	*64.2*	(102,290)	(27,050)	*278.2*

Source: Company, Kotak Institutional Equities estimates

Earnings sensitivity of HPCL to refining margins, import duties and marketing margins (Rs mn)

	Fiscal 2009E			Fiscal 2010E			Fiscal 2011E		
	Downside	Base Case	Upside	Downside	Base Case	Upside	Downside	Base Case	Upside
Refining margins									
Refining margins (US$/bbl)	2.8	3.8	4.8	1.7	2.7	3.7	0.8	1.8	2.8
Net profits (Rs mn)	4,054	8,860	13,393	7,510	11,315	15,120	7,041	10,753	14,466
EPS (Rs)	12.0	26.1	39.5	22.2	33.4	44.6	20.8	31.7	42.7
% upside/(downside)	**(54.2)**		**51.2**	**(33.6)**		**33.6**	**(34.5)**		**34.5**
Import tariffs									
Tariff protection	1.8	2.3	2.8	2.1	2.6	3.1	2.1	2.6	3.1
Net profits (Rs mn)	7,278	8,860	10,442	10,009	11,315	12,621	9,469	10,753	12,038
EPS (Rs)	21.5	26.1	30.8	29.5	33.4	37.2	27.9	31.7	35.5
% upside/(downside)	**(17.9)**		**17.9**	**(11.5)**		**11.5**	**(11.9)**		**11.9**
Marketing margins									
Transportation fuels margins (Rs/ton)	(19,145)	(18,995)	(18,845)	(14,188)	(14,038)	(13,888)	(5,436)	(5,286)	(5,136)
Net profits (Rs mn)	7,718	8,860	10,001	10,415	11,315	12,216	9,799	10,753	11,708
EPS (Rs)	22.8	26.1	29.5	30.7	33.4	36.0	28.9	31.7	34.5
% upside/(downside)	**(12.9)**		**12.9**	**(8.0)**		**8.0**	**(8.9)**		**8.9**

Note:
(a) The asymmetric nature of sensitivities is due to tax impact.

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2005-2011E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	597,020	708,609	889,959	1,067,743	1,333,307	1,330,050	1,337,302
EBITDA	**20,511**	**8,056**	**24,036**	**15,540**	**31,108**	**37,894**	**43,893**
Other income	3,295	3,285	6,845	11,980	14,797	35,881	46,917
Interest	(816)	(1,587)	(4,230)	(7,925)	(21,348)	(46,535)	(63,669)
Depreciation	(6,584)	(6,902)	(7,040)	(8,508)	(9,687)	(10,099)	(10,850)
Pretax profits	16,406	2,851	19,611	11,087	14,870	17,141	16,291
Extraordinary items	1,471	2,201	3,030	—	—	—	—
Tax	(5,897)	(898)	(6,625)	(1,799)	(1,685)	(4,259)	(3,842)
Deferred taxation	793	(97)	(365)	(2,025)	(4,326)	(1,567)	(1,695)
Prior period adjustment	—	—	61	4,086	—	—	—
Net profits	**12,773**	**4,056**	**15,712**	**11,349**	**8,860**	**11,315**	**10,753**
Earnings per share (Rs)	**34.8**	**6.6**	**40.0**	**33.5**	**26.1**	**33.4**	**31.7**
Balance sheet (Rs mn)							
Total equity	84,409	87,357	95,987	106,145	114,076	124,205	133,831
Deferred tax liability	13,748	13,844	14,209	16,234	20,560	22,127	23,822
Total borrowings	21,854	66,638	105,175	170,706	384,206	612,706	632,955
Currrent liabilities	69,887	79,549	101,195	92,812	107,968	113,305	112,827
Total liabilities and equity	**189,896**	**247,389**	**316,566**	**385,898**	**626,810**	**872,344**	**903,435**
Cash	2,016	426	868	1,255	2,132	814	1,655
Current assets	93,007	109,674	113,779	134,210	164,862	168,369	168,424
Total fixed assets	77,305	97,013	130,644	148,636	159,519	167,863	173,059
Investments	17,568	40,276	71,275	101,798	300,298	535,298	560,298
Total assets	**189,896**	**247,389**	**316,566**	**385,899**	**626,811**	**872,344**	**903,435**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	15,977	10,126	23,966	6,334	6,296	(13,528)	(23,619)
Working capital changes	(3,614)	(5,351)	8,936	(26,222)	(17,015)	2,985	622
Capital expenditure	(12,849)	(25,298)	(38,510)	(22,932)	(18,790)	(17,815)	(16,046)
Investments	2,995	(22,884)	(31,704)	(30,523)	(198,500)	(235,000)	(25,000)
Other income	800	941	2,067	9,389	16,315	34,726	45,762
Free cash flow	**3,310**	**(42,466)**	**(35,246)**	**(63,954)**	**(211,694)**	**(228,632)**	**(18,281)**
Ratios (%)							
Debt/equity	22.3	65.8	95.4	139.5	285.4	418.7	401.5
Net debt/equity	20.2	65.4	94.7	138.5	283.8	418.2	400.4
RoAE	13.4	4.1	14.9	9.8	6.9	8.1	7.1
RoACE	**10.1**	**2.5**	**8.8**	**6.3**	**7.9**	**7.5**	**7.9**
Key assumptions							
Crude throughput (mn tons)	13.9	14.0	16.7	16.8	17.5	19.3	19.3
Effective tariff protection (%)	5.6	3.1	1.4	1.2	2.3	2.6	2.6
Net refining margin (US$/bbl)	4.5	3.9	4.3	6.2	3.8	2.7	1.8
Sales volume (mn tons)	20.6	20.1	23.4	24.8	26.0	27.0	28.0
Marketing margin (Rs/ton)	1,688	(463)	(710)	(2,476)	(12,121)	(9,168)	(3,322)
Subsidy under-recoveries (Rs mn)	(26,708)	(29,671)	(18,899)	(25,359)	(17,978)	(5,834)	(1,468)

Source: Kotak Institutional Equities estimates

Utilities

LAIN.BO, Rs324	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	545
52W High -Low (Rs)	888 - 221
Market Cap (Rs bn)	72.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	32.5	61.3	86.4
Net Profit (Rs bn)	3.5	4.8	7.9
EPS (Rs)	15.9	21.4	35.4
EPS gth	*103.0*	*40.2*	*76.6*
P/E (x)	20.3	15.1	9.1
EV/EBITDA (x)	15.2	15.4	12.3
Div yield (%)	(1.8)	(0.0)	-

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	73.7	-	-
FIIs	13.2	0.2	(0.1)
MFs	1.2	0.1	(0.2)
UTI	-	-	(0.2)
LIC	1.5	0.1	(0.1)

Lanco Infratech: Earnings in line; slippages in real estate revenue compensated by higher execution in construction business

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- **Power—lower revenue from trading business; forex loss impairs reported profits**
- **Lower revenue booking from real estate disappointing**
- **Retain BUY rating with target price of Rs545**

Lanco Infratech (LITL) reported consolidated sales of Rs9.1 bn (our estimate Rs10.3 bn), EBITDA of Rs1.8 bn (our estimate Rs1.7 bn) and net profit of Rs0.8 bn (our estimate Rs0.8 bn) during 1QFY09. Reported profits were lower due LITL's Rs136 mn share of forex losses in power SPV's against outstanding foreign currency debt. Slippages in earnings from the real estate business have been compensated by higher execution from the construction business. We retain our EPS estimates of Rs21.4 for FY2009E and Rs35.4 for FY20010E with a BUY rating and target price of Rs545. Key risks to our estimates stem from (1) delay in commissioning of power projects, (2) lower margins in construction business and (3) demand slowdown in property business on account of lower affordability. We will revisit our estimates and target price post the conference call with the management.

Power—lower revenue from trading business; forex loss impairs reported profits. LITL reported consolidated net sales of Rs4.2 bn and EBIT of Rs0.7 bn from the power business for 1QFY09. Higher revenues from Lanco Kondapalli (+41% yoy) were offset by lower revenues from the power trading business (-41% yoy). The increase in revenues can be attributed to use of high cost naphtha fuel at Kondapalli power plant. Reported profits from the power business were lower by Rs270 mn due to provisioning of forex loss for outstanding debt. Operational performance of the plant at Kondapalli declined marginally (66% PLF for 1QFY09 versus 67% PLF in 1QFY08). Aban power plant reported lower generation (-13% yoy) due to planned maintenance shutdown. We expect a step improvement in revenues from the power business as the 300 MW first unit at Amarkantak is expected to commission by August/September 2008.

Construction division order book at Rs126 bn. Income from construction grew 2.5X to Rs5 bn. The higher revenues for the quarter can be attributed to near completion of the first phase (300 MW) power project at Amarkantak and pick-up of work at Nagarjuna Power. EBIT margins from the construction business have declined 300 bps to 13% in the current quarter. The order book now stands at Rs126 bn (Rs130 bn at end-4QFY08)—comprising Rs108 bn for power projects.

Lower revenue booking from real estate disappointing. LITL reported real estate revenues of Rs474 mn for 1QFY09 compared to our estimates of Rs1.1 bn. We would like to note that in this quarter LITL would have booked approximately 4% of revenue accruing from 3.2 mn sq. ft of real estate which has been already sold. Though the real estate business should not be looked on a qoq basis, the low booking is disappointing as it indicates slower execution of projects. We would highlight that LITL has also increased prices in an environment where demand is slowing down which would hurt future sales. We will revisit our assumptions on execution volumes and construction phasing of projects to factor in our concerns, post the conference call.

Retain BUY rating and target price of Rs545. Our SOTP-based value of Rs545 includes—(1) power project portfolio (Rs279/share), (2) value of construction business (Rs182/share), (3) value of real estate business (Rs77/share), (4) BOT road projects (Rs5/share) and (5) value from sale of carbon credits (Rs9/share).

Lanco Infratech (consolidated), quarterly performance, March fiscal year-ends (Rs mn)

	FY2009E	1QFY09	1QFY08	yoy (% chg)
Net sales	**61,327**	**9,139**	**5,914**	***55***
Construction Generation and Operating Expenses	-	(6,401)	(4,525)	*41*
Personnel costs	-	(457)	(148)	*208*
Other expenses and provisions	-	(498)	(94)	*429*
Total expenses	(49,180)	(7,356)	(4,768)	*54*
EBITDA	**12,147**	**1,784**	**1,147**	***56***
Depreciation	(2,581)	(208)	(166)	
EBIT	9,566	1,575	980	
Other income	852	128	118	
Net interest	(1,903)	(293)	(200)	
PBT	**8,515**	**1,411**	**899**	***57***
Tax	(2,346)	(288)	(153)	
Profit before Minority Interest	**6,168**	**1,123**	**745**	***51***
Minority Interest	(1,409)	(396)	(233)	
Net Profit	**4,759**	**727**	**513**	***42***
Extraordinary		(136)		
EBITDA margin (%)	19.8	19.5	19.4	
Effective tax rate (%)	27.6	20.4	17.0	
Segment Revenues				
Construction	29,697	5,182	1,479	*250*
Power	25,287	4,201	4,415	*(5)*
Property development	6,344	474	-	
Infrastructure development	-	-	-	
Others	-	126	20	
Total	**61,327**	**9,982**	**5,914**	
less inter -segment revenues	-	(842)	-	
Net revenues	**61,327**	**9,140**	**5,914**	
EBIT				
Construction	3,809	688	236	
Power	3,310	763	757	
Property Development	2,376	108	(13)	
Others	1,058	23	0	
less interest expenses	(1,903)	(293)	(82)	
less unallocable expenses	(1,171)	(1,695)	-	
Total	**7,479**	**(406)**	**899**	
EBIT Margin (%)				
Construction	12.8	13.3	15.9	
Power	13.1	18.2	17.2	
Property Development	37.5	22.7		

Source: Company data, Kotak Institutional Equities.

Lanco Infratech (standalone) quarterly performance, March fiscal year-ends (Rs mn)

	FY2009E	1QFY09	1QFY08	yoy (% chg)
Net sales	**15,745**	**5,339**	**1,520**	***251***
Construction Generation and Operating Expenses	(11,470)	(4,093)	(1,086)	*277*
Personnel costs	(594)	(155)	(99)	*56*
Other expenses and provisions	(541)	(230)	(53)	*332*
Total expenses	(12,605)	(4,477)	(1,238)	*262*
EBITDA	**3,141**	**861**	**282**	***206***
Depreciation	(116)	(52)	(19)	
EBIT	3,025	809	262	
Other income	291	33	48	
Net interest	(345)	(172)	(48)	
PBT	**2,971**	**671**	**263**	***155***
Tax	(969)	(197)	(93)	
Deferred tax				
Net Profit	**2,002**	**474**	**170**	***179***
EBITDA margin (%)	19.9	16.1	18.5	
Effective tax rate (%)	32.6	29.4	35.3	

Source: Company data, Kotak Institutional Equities.

Lanco: Profit model, balance sheet, cash model 2006-2010E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	1,471	16,058	32,468	61,327	86,349
EBITDA	**167**	**4,198**	**6,910**	***12,147***	**20,359**
Other income	13	416	953	852	792
Interest	(36)	(829)	(835)	(1,903)	(4,006)
Depreciation	(19)	(656)	(775)	(2,581)	(3,698)
Extraordinary items	(0)	(1)	—	—	—
Pretax profits	125	3,128	6,253	8,515	13,448
Tax	(33)	(468)	(1,406)	(2,346)	(3,540)
Minority Interest	79	(778)	(1,305)	(1,409)	(2,029)
Net profits	**171**	**1,883**	**3,543**	***4,759***	**7,878**
Earnings per share (Rs)	**5.6**	**8.5**	**15.9**	***21.4***	**35.4**
Balance sheet (Rs mn)					
Total equity	954	15,105	19,976	24,737	32,615
Deferred taxation liability	31	92	5	27	53
Total borrowings	1,495	20,821	47,379	130,423	188,157
Currrent liabilities	1,581	11,424	10,924	19,738	26,616
Minority Interest	41	41	41	41	41
Total liabilities and equity	**4,101**	**47,482**	**78,325**	***174,965***	**247,482**
Cash	414	5,050	9,261	8,260	5,640
Current assets (excl cash)	2,264	12,013	14,661	24,602	33,694
Total fixed assets	409	24,390	54,264	141,963	208,007
Investments	1,015	6,029	135	135	135
Deferred Expenditure	0	0	5	5	5
Total assets	**4,101**	**47,482**	**78,325**	***174,965***	**247,482**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	128	3,669	5,796	9,820	16,152
Working capital	(230)	95	(3,148)	(1,127)	(2,215)
Capital expenditure	(211)	(24,637)	(30,649)	(90,281)	(69,742)
Investments	(419)	(5,014)	5,894	—	—
Free cash flow	**(732)**	**(25,888)**	**(22,107)**	***(81,587)***	**(55,805)**

Source: Kotak Institutional Equities estimates.

SOTP value of Rs550/share

	Equity value	Equity Inv.		Capacity		Attributable value		
	(Rs mn)	(Rs mn)	P/BV (X)	Gross	Attributable	(%)	(Rs mn)	(Rs/share)
Operating power plants								
Lanco Kondapalli	8,044	3,400	2.4	368	217	59	6,413	
Aban Power	2,352	1,318	1.8	120	61	51	1,817	
Clarion Power	697	224	3.1	12	12	97	753	
Rithwik Power	383	90	4.3	6	5	89	391	
Lanco Electric Utility (Power trading)	534	212	2.5			100	533	
Power plants under construction								
Lanco Amarkantak	9,198	5,135	1.8	600	456	76	6,991	
Lanco Green	1,145	838	1.4	70	63	90	1,031	
Vamshi Hydro	386	139	2.8	10	9	91	352	
Vamshi Industrial	355	145	2.5	10	9	91	324	
Nagarjuna Power	11,908	8,708	1.4	1,015	751	74	8,812	
Lanco Energy - Teesta VI	11,671	5,900	2.0	500	370	74	8,637	
Anpara 'C'	12,542	8,230	1.5	1,200	1,200	100	12,542	
Power plants yet to achieve financial closure								
Lanco Hydro (Uttaranchal)	3,208	1,900	1.7	150	137	91	2,922	
Lanco Amarkantak extn.	6,144	3,840	1.6	600	456	76	4,670	
Orissa power project	29,055	16,632	1.7	1,980	1,980	100	29,055	
Sub total	**97,624**	**56,712**	**1.7**	**6,641**	**5,726**		**85,241**	**383**
Net equity funding requirement							(23,162)	(104)
Power (A)							**62,079**	**279**
Construction (B)							**40,389**	**182**
Property development (C)							**17,158**	**77**
Road projects (D)							**1,006**	**5**
Carbon credits (E)							**1,915**	**9**
Grand total (A+B+C+D+E)							**122,546**	**551**

Source: Kotak Institutional Equities estimates.

Infrastructure

IRBI.BO, Rs141	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	195
52W High -Low (Rs)	222 - 132
Market Cap (Rs bn)	47.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	7.3	12.3	26.3
Net Profit (Rs bn)	1.1	2.4	5.2
EPS (Rs)	3.4	7.3	15.7
EPS gth	*150.9*	*111.5*	*116.3*
P/E (x)	41.2	19.5	9.0
EV/EBITDA (x)	14.6	13.3	6.3
Div yield (%)	-	-	-

IRB Infrastructure Developers: Mumbai-Pune traffic growth in 1QFY09 at about 6%; construction segment margins surprise

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- **Traffic growth lower than expected; Mumbai-Pune traffic growth at about 6-6.5%**
- **Low execution in the construction segment during the quarter, though margins surprise**
- **Maintain earnings estimates and target price of Rs195; reiterate BUY rating**

IRB (consolidated) reported 1QFY09 revenues of Rs2.3 bn and PAT of Rs542 mn. BOT toll revenues were Rs1.1 bn and construction segment revenues were Rs1.2 bn. Overall traffic growth across road assets is likely lower than our full-year estimation of 8%. The key road asset of Mumbai-Pune has likely experienced traffic growth of about 6-6.5% during 1QFY09. The construction segment has reported revenues of Rs1.2 bn versus our full-year expectation of Rs7.9 bn, achieving only about 15% of our full year estimates. EBITDA margins have however been maintained at FY2008 levels of about 20% (versus our FY2009E expectation of about 15%). We maintain our earnings estimates, target price of Rs195 and reiterate our BUY rating.

Traffic growth lower than expected; Mumbai-Pune traffic growth at about 6-6.5%

IRB (consolidated) reported 1QFY09 revenues of Rs2.3 bn and PAT of Rs542 mn. BOT toll revenues were Rs1.1 bn and construction segment revenues were Rs1.2 bn. Overall traffic growth across road assets is likely lower than our full year estimation of 8%. The key road asset of Mumbai-Pune has likely experienced traffic growth of about 6-6.5% during 1QFY09 – revenues have grown 24.5% yoy and toll increase during the quarter is about 18% (Mumbai-Pune Expressway has a fixed toll increase of 18% every three years while NH-4 toll rates increase by about 15% every three years). Among other major assets – (1) the four BOT assets have shown healthy traffic growth rates as revenues have increased by about 31% yoy while toll rates have likely increased by about 5-7% on the Thane-Bhiwandi stretch during the quarter, (2) Thane-Ghodbunder asset has shown a traffic growth rate of about 2.4% during 1QFY09 (as there is likely no increase in toll rates during the quarter) and (3) Pune-Nashik has shown a fall in traffic by about 0.7%. We highlight that our valuation assumptions for IRB assume traffic growth rates of about 8% across all road assets in FY2009.

Low execution in the construction segment during the quarter, though margins surprise

Construction segment has reported revenues of Rs1.2 bn versus our full-year expectation of Rs7.9 bn. Hence execution during the quarter has been low at about 15% of our full-year estimates. EBITDA margins have however been maintained at about 20% (versus our FY2009E expectation of about 15%) despite the low execution. We highlight that management has consistently maintained that it would be able to maintain its FY2008 construction margins (of 20%) inspite of commodity price pressures. More conservatively, our estimates factor in a decline of 500 bps on a yoy basis to factor in the same (it is likely that the impact of commodity price increases will be more visible over the remaining quarters of the year).

Maintain earnings estimates and target price of Rs195; reiterate BUY rating

We maintain our EPS estimates of Rs7.3 and Rs15.7 for FY2009E and FY2010E, respectively. We expect both traffic growth and execution in the construction segment to pick-up over the remaining nine months of the year. We maintain our SOTP-based target price of Rs195 comprising (1) Rs134 per share for the road BOT portfolio that we value, based on free-cash-flow-to-equity method (based on March FY2010E, using an expected return on equity of 13.5%), (2) Rs40 per share for the construction business, applying an EV/EBITDA multiple of 6X on FY2010E EBITDA, (3) Rs11 per share for the real estate business based on NAV (based on March FY2010E) and (4) Rs9 per share of estimated net cash on books as of end-FY2009E. We reiterate our BUY rating based on 38% upside to our target price. We believe IRB has the ability to create value by leveraging further growth opportunities based on the experience that it has accumulated so far in the toll-road segment.

Key risks to existing projects are (1) lower-than-expected economic growth which affects traffic growth as well as real estate demand, (2) higher interest rates, affecting interest cost of BOT projects and real estate demand and (3) cost and time escalations in projects under execution, affecting expected returns. We highlight that a 1% lower traffic growth rate and 1% higher interest rate assumption (throughout the life of the project versus our base case assumption) reduces our target price by about 10% while 1% higher traffic growth rate and 1% lower interest rate assumption increases our target price by 10%. Risks to growth opportunities are posed by (1) government delays in offering projects for development and (2) increasing competition, which would probably reduce equity returns.

IRB (consolidated) - 1QFY09 - Key numbers (Rs mn)

	1QFY09	FY2009E	FY2008	% chng yoy
Net Sales/Income from Operations	**2,301**	**12,257**	**7,327**	***67.3***
Total Expenses	**(1,132)**	(7,354)	(3,208)	*129.2*
Direct expenses	(901)			
Employees cost	(97)			
Other Expenditure	(134)			
Operating Profit	**1,169**	**4,903**	**4,119**	***19.0***
Other Income	59	412	520	*(20.8)*
EBITDA	**1,227**	**5,315**	**4,639**	***14.6***
Depreciation	(255)	(965)	(1,016)	*(5.1)*
EBIT	972	4,350	3,623	*20.1*
Interest	(305)	(1,236)	(1,958)	*(36.9)*
PBT	**667**	**3,115**	**1,666**	***87.0***
Tax Expense	(126)	(711)	(400)	*77.9*
Net Profit	**542**	**2,404**	**1,266**	***89.9***
Extraordinary Items/Minority interest	-	6	(126)	*(104.8)*
Reprted PAT	**542**	**2,410**	**1,140**	***111.5***
Key Ratios				
Direct expenses	39.2			
Employees cost	4.2			
Other Expenditure	5.8			
OPM	**50.8**	**40.0**	**56.2**	
EBITDA Margin	53.4	43.4	63.3	
PBT Margin	29.0	25.4	22.7	
PAT Margin	23.5	19.6	17.3	
Effective tax rate	18.8	22.8	24.0	

Source: Company data, Kotak Institutional Equities Estimates.

IRB - key segmental numbers - 1QFY09 (Rs mn)

	1QFY09	FY2009E	FY2008
Revenues	**2,301**	**12,257**	**7,327**
BOT	1,097	4,339	3,696
Construction	1,203	7,918	3,631
EBITDA	**1,169**	**4,916**	**4,110**
BOT	923	3,729	3,380
Construction	246	1,188	730
Margins (%)	*50.8*	*40.1*	*56.1*
BOT	*84.1*	*85.9*	*91.4*
Construction	*20.5*	*15.0*	*20.1*
PBT	**667**	**3,115**	**1,666**
BOT	427		
Construction	240		
PAT	**542**	**2,410**	**1,139**
BOT	378		
Construction	164		

Source: Company data, Kotak Institutional Equities.

IRB - key segmental numbers - 1QFY09 (Rs mn)

	1QFY09	1QFY08	*% chng yoy*	FY2009E	FY2008	*% chng yoy*
Toll collection	**1,097**	**905**	***21.3***	**4,339**	**3,635**	***19.3***
4 BOT projects	163	124	*31.0*	512	529	*(3.3)*
Kharpada Bridge	20	21	*(3.5)*	81	75	*7.7*
Nagar - Karmala - Tembhurni	31	28	*13.6*	119	110	*8.2*
Pune - Solapur	37	34	*8.2*	160	137	*17.5*
Pune - Nashik	40	40	*(0.7)*	188	160	*17.6*
Mumbai - Pune	720	579	*24.5*	2,986	2,352	*26.9*
Thane - Ghodbunder	68	66	*2.4*	293	273	*7.4*
MMK	18	13	*43.1*			

Note: We do not include MMK, a small project, in our estimates

Source: Company data, Kotak Institutional Equities.

IRB Infrastructure Developers - SOTP valuation

	Equity value of asset (Rs mn)	IRB's stake (%)	Value of IRB's stake (Rs mn)	Contribution to value of IRB (%)	Per share contribution to IRB (%)	Asset valuation methodology
Roads	**44,905**		**44,468**	**69.1**	**133.8**	**FCFE**
4 BOT projects	3,434	100.0	3,434	5.3	10.3	FCFE based on FY2010E
Kharpada Bridge	426	100.0	426	0.7	1.3	FCFE based on FY2010E
Nagar - Karmala - Tembhurni	750	100.0	750	1.2	2.3	FCFE based on FY2010E
Pune - Solapur	1,537	100.0	1,537	2.4	4.6	FCFE based on FY2010E
Pune - Nashik	1,878	100.0	1,878	2.9	5.7	FCFE based on FY2010E
Mumbai - Pune	17,139	100.0	17,139	26.6	51.6	FCFE based on FY2010E
Thane - Ghodbunder	3,408	100.0	3,408	5.3	10.3	FCFE based on FY2010E
Bharuch - Surat	12,150	100.0	12,150	18.9	36.6	FCFE based on FY2010E
Surat-Dahisar	2,183	80.0	1,746	2.7	5.3	FCFE based on FY2010E
Kolhapur urban road project	2,000	100.0	2,000	3.1	6.0	FCFE based on FY2010E
Construction	**13,287**	**100.0**	**13,287**	**20.6**	**40.0**	**EV/EBITDA multiple of 6X based on FY2010E**
Real estate	**5,580**	**66.0**	**3,683**	**5.7**	**11.1**	**NAV**
Net cash/debt at parent level	**2,932**	**100.0**	**2,932**	**4.6**	**8.8**	**Estimated balance at end-FY2009E**
Grand Total	**66,704**		**64,371**	**100**	**193.7**	**SOTP**

Source: Kotak Institutional Equities estimates

IRB - Sensitivity analysis of stock price to initial traffic growth rate and interest rate assumptions

		Initial traffic growth rate (%)				
		6.0	**7.0**	**8.0**	**9.0**	**10.0**
Interest rate (%)	**Assumed rate -2**	172	187	202	219	236
	Assumed rate -1	168	183	198	214	232
	Assumed rate	163	178	**194**	210	227
	Assumed rate +1	159	174	189	206	223
	Assumed rate +2	155	170	185	201	219

Source: Kotak Institutional Equities estimates

Utilities

CESC.BO, Rs348	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	500
52W High -Low (Rs)	715 - 305
Market Cap (Rs bn)	43.5

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	27.7	29.1	32.3
Net Profit (Rs bn)	3.3	3.5	3.9
EPS (Rs)	27.8	28.2	31.1
EPS gth	*(24.0)*	*1.5*	*10.8*
P/E (x)	12.5	12.4	11.2
EV/EBITDA (x)	6.4	7.2	8.1
Div yield (%)	1.1	1.2	1.4

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.5	-	-
FIIs	23.9	0.2	0.0
MFs	8.4	0.3	0.2
UTI	-	-	(0.1)
LIC	3.8	0.1	(0.0)

CESC: 1QFY09—Gains from higher other income, reiterate BUY

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- **Marginal positives from operating performance of extant business**
- **Retail business reports slower growth than anticipated**
- **Reiterate BUY rating with SOTP-based target price of Rs500/share**

CESC reported sales of Rs7.8 bn (our estimate Rs7.6 bn), EBITDA of Rs1.22 bn (our estimate Rs1.36 bn) and PAT at Rs0.83 bn (our estimate Rs0.75 bn) for 1QFY2009. CESC's reported profits at Rs0.94 bn include Rs0.11 bn of income on sale of Certified Emission Reductions (CERs). The CERs sold pertain to carbon credits earned for the last four years. The operating performance was in line with expectations. We note that the tariff order for FY2009 has not been approved by WBERC; however, CESC was provisionally allowed additional Rs0.1/unit wef February 2008 to recover higher fuel costs. We have marginally revised our estimates to Rs28.2 (Rs29.1 previously) for FY2009E and Rs31.1 (Rs33.4 previously) for FY2010E. We have reduced the valuation of retail business to Rs58/share (from Rs113/share, previously). We now value retail business a 1X EV/sales on FY2008 (compared to 1.5X for other large retail companies). We continue to like CESC's regulated power business with high degree of visibility in growth; retain our BUY rating with SOTP-based target price of Rs500/share (Rs560/ share previously).

Marginal positives from operating performance of extant business. The operating and financial performance of CESC during the quarter was largely in line with expectation. Reported PAT was higher-than-estimates due to higher other income and sale of CERs (Rs115 mn). During 1QFY09 CESC achieved 1.1% lower generation from its power plants as compared to 1QFY08. Higher sales of 1,993 (5.25% yoy growth) were contributed by increased purchase of power (28% yoy growth) and lower A,T&C losses of 14.2% (15.2% in 1QFY08). The gains from improvement in operating performance are currently passed on to the consumers and the company benefits through partial retention of profits from exports sales.

Retail business reports slower growth than anticipated. We now use 1X EV/ Sales on FY2008 revenues for valuing CESC's 95% stake in the Spencer retail business. We value the Spencer Retail at a significant discount to other large retail companies which are trading at 1.5X EV/Sales. The new store rollout for Spencer Retail has been slower-than-anticipated. We now project the retail business to reach 2 mn sq. ft (2.6 mn sq. ft previously) of retail space by end-FY2009 from the current 1.3 mn sq.ft. During FY2008, Spencer Retail incurred an EBIT loss of Rs1.49 bn on sales of Rs7.68 bn (our est. of Rs10.4 bn). We do not expect the retail business to report positive EBITDA for another two years.

Reiterate BUY rating with SOTP-based target price of Rs500/share. We continue to like CESC's regulated power business with high degree of visibility in growth and retain our BUY rating. Our SOTP-based target price of Rs500/share offers 43% upside from the current market price. We have reduced our valuation from Rs560/share to reflect the lower value now being ascribed to the retail business. We note CESC has accounted for a book value investment of only Rs408 mn for the retail business in its balance sheet as against the 31 mn shares issued for acquiring the same.

- **We value the core power generation, transmission and distribution business in Kolkata at Rs252/share** using DCF-equity implying ~2.1X P/B FY2008. We use a cost of equity of 12% and terminal year growth of 2%. We factor in additional savings beyond regulated returns in the form of exports sales (or incentives when introduced). We estimate a steady increase in regulated equity base that will drive steady earnings growth apart from step-improvement due to generation capacity addition. CESC has planned a capex of Rs3.5 bn on a transmission capacity of 700 MW that will give an additional interface to the national grid to meet the peak demand of power in Kolkata. CESC plans to spend Rs2 bn per annum for maintenance capex on upgradation and upkeep of its distribution network.
- **New projects to provide upside.** We note good visibility in new generation projects for CESC. These include two projects under regulated returns—the under-construction 250 MW at Budge-Budge and 600 MW thermal power project at Haldia. CESC has also been allocated a coal block in Jharkhand for setting up a 800-1,000 MW power project. DCF-equity value for these projects contributes Rs149/share to our target price. We note the Budge-Budge expansion and Haldia phase 1 projects have been funded with the equity raised by the company.
- **Stake in Spencer Retail valued at Rs56/share**. We value the retail business at 1X FY2008 revenues (1.5X previously) or Rs7.7 bn. For CESC's 95% holding, this translates to Rs56/share. As the business is currently in a rapid-expansion mode, we do not expect it to break-even at firm-wide EBITDA level before FY2011E. We expect strong news flow from the venture—rollout into new cities, announcement of new formats with global leaders and possible fund raising to drive growth.
- **We value the accretion (net of investments) from real estate projects at Rs2.0 bn (Rs16/share).** The company has firmed up plans for developing a 0.5 mn sq. ft mall near Park Street, which will be given out on lease. CESC has additional real estate of ~2.5 mn sq. ft at Mulajore (site of its now defunct power plant). We note that CESC has to share 33% gains from real estate with the consumers as a reduction in its Annual Revenue Requirement (ARR).

Exhibit 1: Quarterly results for CESC, March year-ends (Rs mn)

		yoy		Our est.			yoy	
	Jun-08	**Jun-07**	***(% chg)***	**Jun-08**	***(% chg)***	**FY2009E**	**FY2008**	***(% chg)***
Net sales	**7,830**	**7,170**	***9.2***	**7,622**	***6.3***	**29,129**	**27,750**	***5.0***
Operating costs								
Cost of electrical energy purchased	(1,250)	(1,150)	*8.7*	(1,497)		(5,287)	(3,783)	*39.8*
Cost of fuel	(2,440)	(2,240)	*8.9*	(2,460)		(9,144)	(8,658)	*5.6*
Personnel costs	(780)	(710)	*9.9*	(800)		(3,705)	(3,378)	*9.7*
Other expenses and provisions	(2,140)	(1,770)	*20.9*	(1,500)		(5,432)	(6,409)	*(15.2)*
Total operating expense	(6,610)	(5,870)	*12.6*	(6,258)		(23,569)	(22,227)	*6.0*
EBITDA	**1,220**	**1,300**	***(6.2)***	**1,365**	***5.0***	**5,560**	**5,523**	***0.7***
EBITDA margin (%)	15.6	18.1		17.9		19.1	19.9	
Depreciation	(420)	(410)		(430)		(1,773)	(1,685)	
EBIT	**800**	**890**	***(10.1)***	**935**	***5.0***	**3,787**	**3,839**	***(1.3)***
Other income	475	310		320		1,516	1,285	
Interest	(320)	(390)		(400)		(1,276)	(1,363)	
PBT	**955**	**810**	***17.9***	**855**	***5.5***	**4,027**	**3,760**	***7.1***
Tax	(130)	(110)		(102)		(506)	(476)	
Net profit	**825**	**700**	***17.9***	**752**	***7.4***	**3,521**	**3,285**	***7.2***
Extraordinary income/ (expenses)	115	120		—		115	269	
Key operating parameters								
Units generated - gross (MU)	2,057	2,079	*(1.1)*	2,059	*(1.0)*	7,772	7,980	*(2.6)*
Units purchased (MU)	445	421	*5.7*	527	*25.2*	1,739	1,229	*41.5*
Units sold-domestic (MU)	1,993	1,895	*5.2*	1,971	*4.0*	7,226	6,948	*4.0*
Units exported (MU) -est.	30	78	*(61.3)*	78	—	441	441	—
Fuel cost per unit generated (net)	1.3	1.2	*10.1*	1.3	11.0	1.3	1.2	*8.4*
Per unit cost of power purchased	2.8	2.7	*2.8*	2.8	4.0	3.0	3.1	*(1.2)*

Source: Company data, Kotak Institutional Equities.

Exhibit 2: CESC Sum-of-parts valuation

	Methodology	Key assumptions				Per share value (Rs)
Kolkata generation, transmission & distribution	**DCF to equity** Disc. rate: 12% Terminal year growth: 2%	The business enjoys very high predictability of cash flows. The value enhancement on account of 250 MW expansion at Budge Budge captured separately				252
Real-estate	**DCF** Disc. rate: 15% Terminal year growth: 5%	**Mall**		**35 acre land at Mulajore**		16
		Area for lease (sq. ft)	400,000	Area for sale (sq. ft)	2,500,000	
		Rental (Rs/sq. ft)	100	Rate (Rs/sq. ft)	600	
		Inflation in rental (%)	5			
		CESC's share (%) (A)	100	CESC's share (%) (A)	100	
		CESC's retainable share of A (%)	67	CESC's retainable share of A (%)	67	
Investments	**Book value**	1% Cumulative optionally convertible preference shares of Integrated Coal Mining Ltd. (Rs mn)	300			2
Cash and investible surplus on books	**Market value**	Marketable securities & cash on books (Rs bn):	14.9			18
		Regulatory liability/unallocable debt (Rs bn)	-3.6			
		Cash required for Budge Budge 3, Haldia 1	-9.0			
			2.2			
Retail	**EV/Sales (X)**	1X on FY2008 sales, as the company is still in the rollout phase				58
Budge Budge 3rd unit 250 MW	DCF to equity Disc. rate: 12%	Regulated returns-P/B of 1.4X based on our DCF-to-equity				27
Haldia - 1st unit 600 MW	DCF to equity Disc. rate: 12.5%	Regulated returns-P/B of 1.37X based on our DCF-to-equity				73
Merchant power-Jharkhand 900 MW	DCF to equity Disc. rate: 15%	Levelized tariff of Rs2.26/unit; We take only the value enhancement for valuation as the project needs to be funded				49
SOTP value						**496**

Source: Kotak Institutional Equities estimates.

Exhibit 3: CESC: Profit model, balance sheet, cash model 2007-2011E, March fiscal year-ends (Rs mn)

	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)					
Net sales	24,843	27,750	29,129	32,295	36,059
EBITDA	**6,364**	**6,045**	**5,983**	**6,612**	**7,965**
Other income	927	1,285	1,516	1,873	2,185
Interest	(2,305)	(1,885)	(1,699)	(1,818)	(2,720)
Depreciation	(1,579)	(1,685)	(1,773)	(2,156)	(2,540)
Pretax profits	3,407	3,760	4,027	4,511	4,889
Tax	(400)	(476)	(506)	(623)	(821)
Deferred taxation	0	0	0	0	0
Net profits	**3,007**	**3,285**	**3,521**	**3,888**	**4,068**
Extraordinary items	0	269	115	0	0
Earnings per share (Rs)	**36.2**	**27.8**	**28.2**	**31.1**	**32.6**
Balance sheet (Rs mn)					
Total equity	16,526	25,713	28,756	31,923	35,149
Capital contribution from consumers	3,408	4,008	3,408	3,408	3,408
AAD	1,005	1,980	2,759	3,494	3,767
Deferred taxation liability	0	0	0	0	0
Total borrowings	17,983	16,288	21,064	32,533	46,095
Currrent liabilities	16,350	19,559	18,842	20,114	21,542
Total liabilities and equity	**55,271**	**67,548**	**74,830**	**91,472**	**109,961**
Cash	7,314	9,864	11,009	9,659	7,974
Current assets	8,110	9,752	7,759	8,448	9,237
Total fixed assets	37,340	42,148	50,285	67,596	86,989
Investments	2,414	5,697	5,697	5,697	5,697
Deferred expenditure	93	86	79	72	65
Total assets	**55,271**	**67,548**	**74,830**	**91,472**	**109,961**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	4,529	5,296	6,189	6,779	6,882
Working capital	4,297	1,509	1,276	583	639
Capital expenditure	(3,645)	(6,493)	(9,910)	(19,467)	(21,934)
Investments	(2,093)	(2,301)	7	7	7
Free cash flow	**3,089**	**(1,989)**	**(2,438)**	**(12,097)**	**(14,406)**

Source: Company data, Kotak Institutional Equities estimates.

Property

PPRO.BO , Rs202	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	220
52W High -Low (Rs)	535 - 156
Market Cap (Rs bn)	43.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	5.6	8.4	12.5
Net Profit (Rs bn)	2.4	3.0	3.6
EPS (Rs)	11.3	14.0	16.7
EPS gth	*67.4*	*24.8*	*19.1*
P/E (x)	17.9	14.4	12.1
EV/EBITDA (x)	23.2	19.3	14.3
Div yield (%)	0.5	2.0	3.0

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	90.0	-	-
FIIs	7.7	0.1	0.1
MFs	0.1	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Puravankara Project: 1QFY09 results in line; Downgrade to REDUCE as the stock appears fully valued

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- **1QFY09 revenues at Rs1.6 bn (up 30% yoy, 3% over our estimates); EBIDTA at Rs589 mn (up 47% yoy);**
- **PAT higher on account of higher interest capitalization, lower tax rates**
- **Revise rating to REDUCE (ADD earlier); maintain target price**

On a consolidated basis, PVKP (PPL) reported revenues of Rs1.6 bn (up 30% yoy, 3.5% above our expectation of Rs1.5 bn) and net profit of Rs619 mn (up 41% yoy, 16% above estimates of Rs535 mn) for 1QFY09. PAT was higher than our estimates on account of (1) higher proportion of interest capitalization, (2) lower tax rate of 3% versus our estimate of MAT (12%). We fine-tune our model along with capitalizing higher proportion of interest as well lowering tax rates for FY2009 to 6%. As a result, our revenues are revised to Rs8.4 bn for FY2009E (Rs8.9 bn earlier) and Rs12.5 bn for FY2010E (Rs12.8 bn earlier). Our PAT estimates are revised to Rs3.0 bn in FY2009E (Rs2.7 bn earlier) and Rs3.6 bn in FY2010E (Rs3.4 bn earlier). Based on new estimates, our NAV gets revised to Rs272/share (Rs275 earlier). Our target price of Rs220 results in limited upside from current levels and we downgrade our rating to REDUCE (ADD earlier). We highlight that there is downward risk to our estimates on account of lower-than-expected volumes. PVKP and other real estate companies have raised prices in Bangalore and this is likely to dampen demand.

Our PAT estimates are significantly below consensus

Our EPS estimate of Rs14 for FY2009E and Rs16.6 for FY2010E is significantly below consensus estimates of Rs17 and Rs25 respectively. We believe that consensus is not building in slowdown in Bangalore market and we expect earnings downgrades going ahead. We believe that post the recent increases in selling prices in Bangalore, demand has been affected. Puravankara had increased prices in Bangalore by 7-10% for its projects as decided by Karnataka chapter of the Confederation of Real Estate Developers' Associations of India (Credai). We note that increase in selling prices along with 150 bps increase in interest rates will put severe strain on affordability.

Slowdown in Bangalore is reflected by the fact that Puravankara hasn't launched a residential project in Bangalore in the last 18 months. Area under execution has increased on account of project launches outside Bangalore in Chennai, Kochi and Mysore. In fact ongoing projects in Bangalore have decreased from 10.8 mn sq. ft in FY2007 to 9.2 mn sq. ft in June 2008 (Exhibit 2). Exhibit 3 highlights our volume estimates for FY2009E for Bangalore are at 0.9 mn sq. ft, which incorporates a large decline yoy. However, the decline could be higher as we believe affordability has been significantly affected in Bangalore.

We adjust our lower PAT estimates for lower tax, interest expenses

As indicated by the management, we adjust tax as well as interest expensed for FY2009-10E. We describe the changes below:

Tax expensed. PVKP has large number of projects which are income tax exempted under Section 80-IB (10). This was resulting in effective tax rates of PVKP below MAT and therefore we were using MAT tax rates while calculating tax expensed. However, management has said that PVKP will book taxes on income which does not qualify for Section 80-IB (10) even though this may result in effective tax rates lower than the MAT. As a result, we adjust tax expensed in P&L to 6% compared to MAT earlier. However, we highlight that PVKP will pay to income tax authorities as per MAT and the difference will show in loans and advances.

Interest expensed. We now capitalize interest at 90% in FY2009E and 80% in FY2010E vis-à-vis 70% and 50% earlier.

We also fine-tune our estimates and as a result our revenues are revised to Rs8.4 bn for FY2009E (Rs8.9 bn earlier) and Rs12.5 bn for FY2010E (Rs12.8 bn earlier). Our PAT estimates are revised to Rs3.0 bn in FY2009E (Rs2.7 bn earlier) and Rs3.6 bn in FY2009E (Rs3.4 bn earlier).

Healthy balance sheet, geographical diversification are key positives

We highlight that PVKP has amongst healthiest balance sheet in our real estate coverage with D/E of 0.5 as of end-1QFY09. Exhibit 4 gives balance sheet data over the past four quarters. This will help PVKP to make use of any good land buying opportunities as and when they emerge in the current environment where raising resources had become more difficult. Also as discussed earlier PVKP has diversified its volume mix and this should reduce volume and revenue risks for PVKP going forward.

The management has indicated that PPL plans to launch another 15 mn sq. ft of projects in FY2009-10E in Chennai, Kochi, Hyderabad, Coimbatore, Bangalore and Colombo. Most of the new launches will be outside Bangalore, which would further reduce the dependency of PVKP on Bangalore.

We retain our target price of Rs220/share; REDUCE rating

Our target price of Rs220 results in limited upside from current levels and we downgrade our rating to REDUCE (ADD earlier). Our target price of Rs220/share is based on 20% discount to March 2009 based NAV of Rs272/share (earlier Rs275/share). Our assumptions factor in stable property prices in FY2010E and 5% growth thereafter.

Puravankara :1QFY2009 results

				% chg.		Kotak estimates				FY09/FY08
(in Rs mn)	1QFY08	4QFY08	1QFY09	qoq	yoy	4QFY08	% deviation	FY08A	FY09E	(%)
Net sales	**1,204**	**1,539**	**1,576**	**2.4**	**30.9**	**1,522**	**3.5**	**5,658**	**8,404**	**48.5**
Operating costs	**(803)**	**(1,011)**	**(987)**	**(2.4)**		**(989)**	**(0.3)**	**(3,535)**	**(5,552)**	**57.1**
Cost of revenues	(689)	(880)	(856)	(2.8)				(3,071)	(4,922)	
G&A	(50)	(67)	(68)	1.4				(225)	(378)	68.0
Selling expense	(65)	(65)	(64)	(1.8)				(239)	(252)	5.4
EBITDA	**401**	**527**	**589**	**11.7**	**46.9**	**533**	**10.5**	**2,123**	**2,851**	**34.3**
Other income	—	—	—					—	133	
Interest costs	(1)	2	(2)	—		(38)	(96.1)	98	(108)	(210.1)
Depreciation	—	—	—			—		(48)	(100)	110.4
PBT	**400**	**530**	**587**	**10.9**	**47.0**	**495**	**18.7**	**2,173**	**2,776**	**27.7**
Taxes	(43)	117	(10)	(108.3)		(59)	(83.7)	(67)	(162)	142.5
PAT	**356**	**646**	**578**	**(10.6)**	**62.1**	**435**	**32.7**	**2,106**	**2,614**	**24.1**
Share of profit in associates	**84**	**81**	**41**		(50.8)	**100**	(58.8)	**295**	**386**	**31.0**
Consolidated PAT	**440**	**727**	**619**	**(14.9)**	**40.6**	**535**	**15.6**	**2,401**	**3,000**	**24.9**
Key ratios										
EBITDA margin (%)	33.3	34.3	37.4			35		37.5	33.9	
PAT margin (%)	29.6	42.0	36.7			29		37.2	31.1	
Effective tax rate (%)	10.8	(22.0)	1.7			12		3.1	5.9	

Source: Company data, Kotak Institutional Equities.

New launches have been limited in the recent past

Details of ongoing residential projects (mn sq. ft)

	FY2007	FY2008	Jun-08
Completed at the beginning of the period	3.0	3.0	4.6
Ongoing at the beginning of the period		12.3	17.4
Launched during the period		6.7	0.8
Handed over during the period		1.6	
Completed at end of the period	3.0	4.6	4.6
Ongoing at the end of the quarter	**12.3**	**17.4**	**18.2**

Ongoing projects citywise

	FY2007	FY2008	Jun-08
Bangalore	10.8	9.2	9.2
Kochi	1.5	2.1	2.1
Chennai	0.0	3.8	4.4
Kolkata		2.3	2.3
Mysore			0.2
Total	**12.3**	**17.4**	**18.2**

Source: Company data, Kotak Institutional Equities.

Residential volumes (area sold in mn sq. ft)

	2008	2009E	2010E	2011E
Bangalore	1.5	0.9	2.0	3.1
Chennai	0.6	0.6	0.2	0.9
Coimbatore	0.0	0.2	0.2	0.7
Kochi	0.8	0.5	1.3	1.4
Hyderabad	0.0	0.0	0.0	0.0
Mysore	0.0	0.1	0.2	0.3
Total	**2.8**	**2.3**	**3.9**	**6.3**

Source: Kotak Institutional Equities estimates.

Consolidated summary statement of assets and liablities (in Rs mn)

PPL's balance model at end of Mar-07, Jun-07, Sep-07, Dec-07, Mar-08, Jun-08

Particulars	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Net fixed assets	389	421	469	488	497	493
Investments	371	676	740	806	887	928
Current assets, loans and advances	6,305	6,613	12,353	11,242	9,090	9,707
Cash and cash equivalents	374	418	5,509	1,292	350	396
Inventories	159	226	177	151	171	169
Trade debtors	459	251	360	635	824	863
Properties under development	2,471	3,230	3,543	3,513	3,958	4,354
Properies held for sale	515	520	520	908	910	865
Loans and advances	2,327	1,969	2,245	4,742	2,878	3,060
Properties held for development	7,008	7,518	7,709	8,277	12,919	13,016
Total application of funds	**14,073**	**15,228**	**21,271**	**20,813**	**23,393**	**24,144**
Total loans	6,761	7,474	4,956	4,362	6,524	6,524
Current liabilities and provisions	5,084	5,087	5,063	4,571	4,732	4,858
Deferred tax liability (net)	11	9	15	11	10	17
Shareholders funds	2,218	2,658	11,238	11,869	12,127	12,746
Total sources of fund	**14,073**	**15,228**	**21,271**	**20,813**	**23,394**	**24,145**

Source: Company data, Kotak Institutional Equities.

Large portion of existing flats have been pre-sold

Name of the project	Year of launch	City	SBA ('000 sq. ft)	No. of apartments
Purva Fountainsquare	Mar-05	Bangalore	1.7	1,150
Purva Vantage	Jun-05	Bangalore	0.1	76
Purva Grand Bay	Dec-05	Kochi	0.5	265
Purva Atria	Jan-06	Bangalore	0.3	131
Purva Venezia	Jan-06	Bangalore	2.1	1,332
Purva Eternity	Apr-06	Kochi	1.0	600
Elita Promenade	Jun-06	Bangalore	2.6	1,573
Purva Highlands	Oct-06	Bangalore	2.5	1,589
Purva Swanlake	Apr-07	Chennai	0.8	522
Jade	Jun-07	Chennai	0.1	55
Moon Reach	Jun-07	Kochi	0.4	198
Spring Time	Jun-07	Mysore	0.2	94
Oceana	Sep-07	Kochi	0.3	95
Windermere	Dec-07	Chennai	2.9	1,608
Windmere Phase II	Jun-08	Chennai	0.6	336
Hallmark	Dec-07	Bangalore	0.0	10
Elita Garden Vista	Dec-07	Kolkata	2.3	1,376
Total			**18.3**	**11,010**

Source: Company data, Kotak Institutional Equities.

We estimate Mar' 09 based NAV at Rs272/share

NAV sensitivity to growth rate in selling prices

	March '09 based NAV Growth rate in selling prices			
	0%	3%	5%	10%
Valuation (Rs bn)	**48.1**	**59.3**	**66.8**	**88.8**
Residential	28.2	34.3	38.7	50.7
Retail	2.4	2.5	2.6	2.8
Commercial	18.9	23.4	26.6	35.2
Less: Net debt	(6.4)	(6.4)	(6.4)	(6.4)
Less: Land cost to be paid	(2.0)	(2.0)	(2.0)	(2.0)
NAV	**41.7**	**52.9**	**58.4**	**82.4**
NAV/share	194	246	**272**	384
Total no of shares				214.5

Source: Kotak Institutional Equities estimates.

Profit model of Puravankara Projects, March fiscal year-ends, 2005-20011E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Total revenues	**1,510**	**2,797**	**4,169**	**5,658**	**8,404**	**12,471**	**19,770**
Land costs	(184)	(733)	(182)	(316)	(437)	(504)	(620)
Construction costs	(695)	(909)	(2,213)	(2,755)	(4,485)	(6,828)	
Selling expenses	(50)	(102)	(204)	(240)	(378)	(499)	(791)
G&A expenses	(98)	(165)	(217)	(225)	(252)	(374)	(395)
EBITDA	**484**	**889**	**1,353**	**2,123**	**2,851**	**4,267**	**7,252**
Other income	49	57	33	135	133	133	133
Interest	(110)	(122)	(46)	(36)	(108)	(360)	(1,062)
Depreciation	(9)	(18)	(18)	(48)	(100)	(181)	(352)
Pretax profits	**414**	**806**	**1,323**	**2,174**	**2,776**	**3,859**	**5,971**
Profit/(loss) share of associates	-	11	140	295	386	468	612
Current tax	(32)	(70)	(150)	(68)	(162)	(749)	(2,002)
Deferred tax	(1)	(0)	(9)	1	(2)	(10)	(28)
Net income	**380**	**735**	**1,304**	**2,401**	**2,997**	**3,569**	**4,552**
EPS (Rs)							
Primary	2.0	3.8	6.8	11.5	14	17	21
Fully diluted	2.0	3.8	6.8	11.5	14	17	21
Shares outstanding (mn)							
Year end	192	192	192	213	213	213	213
Primary	192	192	192	208	213	213	213
Fully diluted	192	192	192	208	213	213	213
Cash flow per share (Rs)							
Primary	2	3	9	9	9	10	15
Fully diluted	2	3	9	9	9	10	15
Growth (%)							
Net income (adjusted)	36	93	77	84	25	19	28
EPS (adjusted)	36	93	77	70	22	19	28
DCF/share	116	94	158	(1)	5	10	47
Cash tax rate (%)	8	9	11	3	6	19	34
Effective tax rate (%)	8	9	12	3	6	20	34

Source: Kotak Institutional Equities estimates.

Balance sheet of Puravankara Projects, March fiscal year-ends, 2005-2011E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Equity							
Share capital	80	80	960	1,067	1,067	1,067	1,067
Reserves/surplus	436	1,034	1,258	11,316	13,340	15,447	18,052
Total equity	**516**	**1,114**	**2,218**	**12,383**	**14,407**	**16,514**	**19,119**
Deferred tax liability/(asset)	1	1	11	9	11	21	49
Liabilities							
Secured loans	1,007	1,622	6,761	6,822	12,822	19,872	28,372
Unsecured loans	—	—	—	11	11	11	11
Total borrowings	**1,007**	**1,622**	**6,761**	**6,833**	**12,833**	**19,883**	**28,383**
Currrent liabilities	1,987	4,782	5,053	4,860	5,552	8,251	11,312
Total capital	**3,511**	**7,520**	**14,043**	**24,086**	**32,804**	**44,669**	**58,863**
Assets							
Cash	420	444	374	441	915	1,820	3,156
Current assets	3,012	6,669	12,908	22,140	26,863	28,778	29,631
Gross block	109	211	443	554	1,866	4,466	14,061
Less: accumulated depreciation	30	36	61	124	224	406	758
Net fixed assets	79	175	382	430	1,641	4,060	13,302
Capital work-in-progress	—	—	7	604	2,913	9,540	12,302
Total fixed assets	**79**	**175**	**389**	**1,034**	**4,555**	**13,600**	**25,605**
Intangible assets	—	—	—	—	—	—	—
Investments	—	231	371	471	471	471	471
Misc. expenses	—	—	—	—	—	—	—
Total assets	**3,511**	**7,520**	**14,043**	**24,086**	**32,804**	**44,669**	**58,863**
Leverage ratios (%)							
Debt/equity	194.7	145.4	303.4	55.1	89.0	120.3	148.1
Debt/capitalization	66.1	59.2	75.2	35.5	47.1	54.6	59.7
Net debt/equity	113.5	105.6	286.6	51.6	82.7	109.2	131.6
Net debt/capitalization	53.2	51.4	74.1	34.0	45.3	52.2	56.8
RoAE	**96.4**	**90.1**	**78.0**	**32.8**	**22.4**	**23.1**	**25.5**
RoACE	**38.7**	**39.7**	**20.7**	**15.2**	**11.7**	**10.7**	**11.1**

Source: Kotak Institutional Equities estimates.

Construction

IVRC.BO, Rs316	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	430
52W High -Low (Rs)	627 - 250
Market Cap (Rs bn)	42.5

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	36.6	50.1	68.5
Net Profit (Rs bn)	2.1	2.4	3.4
EPS (Rs)	15.6	17.7	25.2
EPS gth	*26*	*13.4*	*42.0*
P/E (x)	20.2	17.8	12.5
EV/EBITDA (x)	14.0	10.5	8.0
Div yield (%)	0.3	0.3	0.3

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	9.6	-	-
FIIs	57.0	0.4	0.3
MFs	18.1	0.7	0.5
UTI	-	-	(0.1)
LIC	-	-	(0.1)

IVRCL Infrastructures: Revenue, EBITDA in line; PBT misses expectations

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- **Revenue and operating profit in line with expectations**
- **PBT below expectations driven by higher interest and depreciation costs**
- **Maintain earnings estimates and target price of Rs430; reiterate BUY**

IVRCL reported 1QFY09 revenues of Rs9.3 bn (up 37% yoy) and profit before tax of Rs550 mn (up 13% yoy) versus our expectation of Rs9.4 bn and Rs609 mn, respectively. Operating profit was Rs820 mn implying an operating margin of 8.8% (down 10 bps from 8.9% in 1QFY08) versus our expectation of Rs846 mn and margin of 9%. Profit before tax was below our expectation mainly due to higher-than-expected interest and depreciation cost and lower other income. We maintain our earnings estimates of Rs17.7 and Rs25.2 for FY2009E and FY2010E, respectively, and SOTP-based target price of Rs430/share. Reiterate BUY rating based on (1) strong likely near-term earnings growth and (2) long-term outlook for infrastructural investments.

Revenue and operating performance in line, however, miss PBT estimates driven by higher interest and depreciation costs and lower other income

IVRCL reported 1QFY09 revenues of Rs9.3 bn (up 37% yoy) and profit after tax of Rs435 mn (up 15%) versus our expectation of Rs9.4 bn and Rs408 mn, respectively. Operating profit was Rs820 mn implying an operating margin of 8.8% (down 10 bps from 8.9% in 1QFY08) versus our expectation of Rs846 mn and margin of 9%. Profit before tax reported was Rs550 mn (up 12.8% yoy) below our expectation of Rs609 mn mainly due to higher-than-expected interest (Rs194 mn versus expectation of Rs189 mn) and depreciation cost (Rs102 mn versus expectation of Rs94 mn) and lower other income (Rs26 mn versus expectation of Rs46 mn). In spite of the lower PBT versus our expectations, the company outperformed our expectations at PAT level due to a lower tax rate adopted by the company versus our estimates (21% versus our estimate of 33%).

Maintain earnings estimates and target price of Rs430; reiterate BUY

We maintain our earnings estimates of Rs17.7 and Rs25.2 for FY2009 and FY2010 respectively. We maintain our SOTP-based target price of Rs430/share. It comprises (1) core business valuation of Rs292.5/share, (2) Rs23.5/share contribution from road and water projects, (3) incremental value from infrastructure projects worth Rs15.8/share, (4) IVR Prime's contribution of Rs92.6/share and (5) Rs9/share contribution from Hindustan Dorr Oliver. We rate IVRCL Infrastructure as BUY based on (a) strong likely near-term earnings growth led by execution and (b) strong long-term outlook for infrastructure and industrial investments.

Exhibit 1. IVRCL 1QFY09 key numbers (Rs mn)

	yoy			qoq			yoy		
	1QFY09	1QFY08	% chg	1QFY09	4QFY08	% chg	FY2009E	FY2008	% chg
Net Sales	**9,285**	**6,773**	***37.1***	**9,285**	**13,217**	***(29.8)***	**68,513**	**36,606**	***87.2***
Construction, stores & spares	(3,721)	(2,958)	*25.8*	(3,721)	(3,927)	*(5.2)*	(58,065)	(12,473)	*365.5*
Subcontracting expenditure	(2,283)	(1,310)	*74.3*	(2,283)	(4,455)	*(48.7)*	-	(10,923)	*(100.0)*
Masonry and other labour	(1,493)	(1,284)	*16.3*	(1,493)	(2,449)	*(39.1)*	-	(6,506)	*(100.0)*
Staff cost	(423)	(318)	*33.1*	(423)	(480)	*(11.9)*	(2,569)	(1,442)	*78.2*
Other expenditure	(545)	(303)	*79.7*	(545)	(520)	*4.9*	(1,028)	(1,647)	*(37.6)*
Expenditure	(8,465)	(6,173)	*37.1*	(8,465)	(11,830)	*(28.4)*	(61,662)	(32,992)	*86.9*
Operating Profit	**820**	**600**	***36.6***	**820**	**1,387**	***(40.9)***	**6,851**	**3,614**	***89.6***
Other Income	26	10	*151.0*	26	11	*130.2*	202	45	*347.0*
PBIDT	**846**	**611**	***38.5***	**846**	**1,399**	***(39.5)***	**7,054**	**3,660**	***92.7***
Interest	(194)	(57)	*241.1*	(194)	(208)	*(6.7)*	(1,308)	(478)	*173.6*
Gross Profit	652	554	*17.8*	652	1,191	*(45.2)*	5,745	3,181	*80.6*
Depreciation	(102)	(66)	*54.3*	(102)	(99)	*3.0*	(638)	(328)	*94.5*
Profit before Tax	**550**	**488**	***12.8***	**550**	**1,092**	***(49.6)***	**5,107**	**2,853**	***79.0***
Tax	(115)	(108)	*6.5*	(115)	(359)	*(67.9)*	(1,716)	(749)	*129.2*
Profit after Tax	**435**	**380**	***14.6***	**435**	**733**	***(40.7)***	**3,391**	**2,105**	***61.1***
Key ratios									
Construction, stores & spares	40.1	43.7		40.1	29.7		84.3	34.1	
Subcontracting expenditure	24.6	19.3		24.6	33.7		-	29.8	
Masonry and other labour	16.1	19.0		16.1	18.5		-	17.8	
Staff cost	4.6	4.7		4.6	3.6		4.0	3.9	
Other expenditure	5.9	4.5		5.9	3.9		1.7	4.5	
Operating margin (%)	**8.8**	**8.9**		**8.8**	**10.5**		**10.0**	**9.9**	
PBT Margin	5.9	7.2		5.9	8.3		7.2	7.8	
Net Profit margin (%)	4.7	5.6		4.7	5.5		4.8	5.7	
Effective tax rate (%)	(20.9)	(22.2)		(20.9)	(32.9)		(33.6)	(26.2)	

Source: Company data, Kotak Institutional Equities.

Exhibit 2. Derivation of SOTP-based target price for IVRCL

	Equity commitment	P/B Multiple	Contribution per share
	(Rs mn)	(X)	(Rs)
Value of core construction business			292.5
Roads			
Jallandhar- Amristar Tollways	400	1.0	3.0
Salem - Kumarapalayam	760	1.0	5.6
Sumarapalayam Chenagmpalli	1,290	1.0	9.6
Water			
Chennai Water	713	1	5.3
Infrastructure holdings	2132	Book value	15.8
Value of Hindustan Dorr Oliver		Market Price	8.9
Value of IVRCL Prime Developers limited		NAV	92.6
Total			**433.4**

Source: Kotak Institutional Equities estimates.

Exhibit 3. DCF valuation gives a value of Rs292.5/share for IVRCL's core business

IVRCl core business- DCF model, March fiscal year-ends 2009E-2019E (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	**50,127**	**68,513**	**89,538**	**115,966**	**136,382**	**161,690**	**192,442**	**221,309**	**247,866**	**277,610**	**305,371**
Revenue growth (%)	36.9	36.7	30.7	29.5	17.6	18.6	19.0	15.0	12.0	12.0	10.0
EBITDA	**5,013**	**6,851**	**8,954**	**11,597**	**13,638**	**16,169**	**19,244**	**22,131**	**24,787**	**27,761**	**30,537**
EBITDA margin (%)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Depreciation	(470)	(638)	(818)	(1,021)	(1,246)	(1,493)	(1,763)	(1,645)	(1,862)	(2,104)	(2,371)
EBIT	**4,553**	**6,223**	**8,145**	**10,586**	**12,402**	**14,686**	**17,491**	**20,496**	**22,934**	**25,667**	**28,176**
Tax	(1,440)	(1,976)	(2,598)	(3,377)	(3,955)	(4,684)	(5,590)	(6,550)	(7,329)	(8,203)	(9,004)
Change in net working capital	(2,085)	(4,111)	(6,566)	(8,725)	(6,740)	(8,355)	(10,152)	(5,931)	(5,457)	(6,112)	(5,704)
Capex	(1,750)	(2,000)	(2,000)	(2,500)	(2,500)	(3,000)	(3,000)	(3,320)	(3,718)	(4,164)	(4,581)
Free cash flow	**(262)**	**(1,235)**	**(2,210)**	**(3,005)**	**443**	**130**	**502**	**6,330**	**8,283**	**9,283**	**11,248**
PV of each cash flow	**(262)**	**(1,088)**	**(1,716)**	**(2,055)**	**267**	**69**	**235**	**2,609**	**3,007**	**2,970**	**3,170**

PV of cash flows	7,206
PV of terminal value	39,164
EV	46,371
Debt	6,968
Equity value	39,403
Shares outstanding (mn)	135
Equity value (Rs/share)	**292.5**
Equity value (US$ mn)	858
Exit FCF multiple (X)	12.4
Exit EBITDA multiple (X)	4.6

FCF in terminal year (Rs mn)	11,248
Exit FCF multiple: (1+g)/(WACC-g)	12.4
Terminal value of FCF (Rs mn)	138,948
Exit EBITDA multiple	4.6

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.5
Market risk premium—(Rm-Rf) (%)	6.0
Beta (x)	1.1
Cost of equity-Ke (%)	15.1
Cost of debt-Kd (%)	12.0
Tax rate (%)	33.6
Debt/Capital (%)	41.7
Equity/Capital (%)	58.3
WACC (%)	12.1
Used WACC (%)	**13.5**

Source: Kotak Institutional Equities estimates.

ICMN.BO, Rs150	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	160
52W High -Low (Rs)	715 - 305
Market Cap (Rs bn)	42.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	30.2	34.4	38.8
Net Profit (Rs bn)	6.9	5.4	5.6
EPS (Rs)	24.5	19.1	19.9
EPS gth	*(6.3)*	*(21.8)*	*4.1*
P/E (x)	12.5	12.4	11.2
EV/EBITDA (x)	6.4	7.2	8.1
Div yield (%)	1.1	1.2	1.4

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	28.1	-	-
FIIs	33.8	0.2	0.1
MFs	7.8	0.3	0.2
UTI	-	-	(0.1)
LIC	6.5	0.2	0.1

India Cements: Higher cement realization helps improve profitability, benefits offset by higher tax expense

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- **Higher realizations and increased blending help counter cost-side pressures**
- **Benefits from sequential improvement in realizations offset by higher tax expense**
- **Retain ADD rating with a target price of Rs160/share**

India Cements (ICEM) reported a 19% yoy increase in sales at Rs8.4 bn (our estimate Rs7.7 bn), 13% yoy increase in EBITDA at Rs2.9 bn (our estimate Rs2.3 bn) and a 6% yoy decline in net income at Rs1.6 bn (our estimate Rs1.6 bn) for 1QFY09. Higher-than-estimated EBITDA was due to a sequential improvement in realizations. Benefits of higher realization did not accrue to the net profits due to higher effective tax rate of 34% against 25% in FY2008. We have revised our EPS estimates for FY2009E to Rs19.1 (Rs22.2 previously) and Rs19.9 (Rs21.9 previously) for FY2010E to factor in (1) marginal tax rate for the company, (2) higher depreciation on account of ship purchased and (3) marginal increase in cement realizations. We note that ICEMs about Rs440 mn (partly in other income and partly netted against in-stadia expenses) were offset by expenses of about Rs450 mn. According to the management, the capacity expansion program is on track and the company will reach a capacity of 14 mn tpa by end-FY2009. Our estimates now factor in volumes of 10.5 mn tons for FY2009E and 12.6 mn tons for FY2010E. We retain our ADD rating with target price of Rs160/share. Our target price implies EV/ton of US$120 on FY2009E production and EV/EBITDA of 5X on FY2009E.

Higher realizations and increased blending help counter cost-side pressures. ICEM reported revenue growth of 19% yoy due to marginal improvement in volumes (+3% yoy) and higher realizations (+16% yoy). We note that net sales have an element of Rs190 mn on account of freight earnings, from leasing of ships (when not used for transporting coal) during the quarter. ICEM resisted cost-side pressures on power and fuel through increased blending—71% production of fly-ash based cement (65% in 1QFY2008). Firm price trend of imported coal could put downward pressure on EBITDA margins—ICEM meets majority (75%) of its coal requirements through imports from Indonesia.

Benefits from sequential improvement in realizations offset by higher tax expense. Higher tax expense during the quarter resulted in a 6% yoy decline in net profit (PBT improved 16% yoy). Effective tax rate for the 1QFY2009 was 34% against 24.5% for FY2008. We note that ICEM has exhausted tax credits/losses carried-forward and is now liable to pay taxes at the marginal rate of tax. We have revised our estimates to factor in the higher tax expense going forward. Reported profit for the quarter was lower on account of a forex loss of Rs217 mn on account of outstanding FCCBs. We have assumed the FCCB as outstanding debt to be repaid in FY2011E (conversion price of Rs305/share).

Targeting capacity of 14 mn tpa by end-FY2009. India Cements plans to increase its capacity to 14 mn tpa from the current 9 mn tpa. The grinding unit at Chennai (1 mn tpa) is nearing completion and will likely be commissioned by August 2008. The company also plans to set up an integrated plant at Malkapur (1.2 mn tpa) and grinding unit at Parli (1 mn tpa) will likely be commissioned by 3QFY09. ICEM has also announced setting up of a 4 mn tpa cement plant in North India. Higher depreciation during the quarter was on account of purchase of two ships that will likely help counter high costs for transportation of coal. We note that ICEM will likely spend Rs9 bn towards capex in FY2009E and Rs10 bn in FY2010E.

Retain ADD rating with a target price of Rs160/share. We have revised our EPS estimates for FY2009E to Rs19.1 (Rs22.2 previously) and Rs19.9 (Rs21.9 previously) for FY2010E to factor in (1) marginal tax rate for the company, (2) higher depreciation on account of ships purchased, and (3) marginal increase in cement realizations. We retain our ADD rating and target price of Rs160/share as gains from upward revision in EBITDA have been offset by higher tax rate.

Interim results for India Cements (standalone), March fiscal year-ends (Rs mn)

	FY2009E	1QFY2009	1QFY2008	yoy (% chg)
Net sales	**34,694**	**8,375**	**7,012**	*19*
Raw materials	(3,546)	(842)	(768)	
Employee costs	(1,932)	(449)	(319)	
Power & fuel costs	(9,218)	(1,975)	(1,506)	
Freight costs	(5,508)	(1,228)	(1,069)	
Other costs	(4,003)	(901)	(707)	
Expenditure	(24,207)	(5,393)	(4,369)	
EBITDA	**10,486**	**2,981**	**2,643**	*13*
EBITDA (%)	**30.2**	**35.6**	**37.7**	
Other income	362	132	10	
Interest	(804)	(230)	(314)	
Depreciation	(1,999)	(490)	(275)	
Pre-tax profits	**8,045**	**2,392**	**2,064**	
Tax	(2,684)	(754)	(317)	
Net income	**5,361**	**1,639**	**1,746**	**(6)**
Extraordinaries	(218)	(218)	88	
Reported net income	**5,144**	**1,421**	**1,834**	
Tax rate (%)	*34.3*	*34.6*	*14.8*	
Despatch ('000 tons)	**10,589**	**2,367**	**2,306**	**3**
Realization (Rs/ton)	**3,276**	**3,538**	**3,041**	**16**
Cost (Rs/ton)	2,286	2,279	1,895	
Raw materials	335	356	333	
Employee costs	182	189	138	
Power & fuel costs	871	834	653	
Freight costs	520	519	463	
Other costs	378	380	307	
Profitability (Rs/ton)	**990**	**1,259**	**1,146**	**10**

Source: Company data, Kotak Institutional Equities.

Change in estimates for India Cements (consolidated), March fiscal year-ends (Rs mn)

	Revenues			EBITDA			Net profit		
	New	**Old**	**% Chg.**	**New**	**Old**	**% Chg.**	**New**	**Old**	**% Chg.**
2009E	34,399	33,760	1.9	10,879	10,228	6.4	5,393	6,258	(13.8)
2010E	38,827	38,444	1.0	11,244	11,087	1.4	5,613	6,163	(8.9)

Source: Kotak Institutional Equities estimates.

Pharmaceuticals

DISH.BO, Rs297	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	515
52W High -Low (Rs)	455 - 229
Market Cap (Rs bn)	24.2

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	8.0	11.4	14.3
Net Profit (Rs bn)	1.2	1.6	2.4
EPS (Rs)	14.7	20.1	29.3
EPS gth	*30.5*	*36.4*	*45.9*
P/E (x)	20.2	14.8	10.1
EV/EBITDA (x)	15.1	11.2	8.3
Div yield (%)	0.0	0.0	0.0

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.4	-	-
FIIs	8.9	0.0	0.0
MFs	20.5	0.3	0.3
UTI	-	-	-
LIC	-	-	-

Dishman Pharmaceuticals: Strong 1QFY09 raises confidence in PAT guidance of Rs1.5 bn

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- **1QFY09 revenues 10% below our estimates of Rs2.4 bn due to lower revenues from Carbogen Amcis and Marketable molecules**
- **EBITDA margins before forex at 28%—4% above our estimates due to lower materials cost**
- **Adjusted PBT 8% above KIE; PAT at Rs277 mn, below KIE due to Rs165 mn forex loss**
- **Company maintains FY2009E PAT guidance of Rs1.5 bn**
- **FY2009E, FY2010E earnings estimates unchanged**
- **Maintain BUY rating with an SOTP-based target price of Rs515**

Dishman reported revenues of Rs2.4 bn, 10% below our estimates due to lower sales from Carbogen Amcis and Marketable Molecules (MM). However, EBITDA was 4% above our estimates due to significantly lower materials cost. Adjusted PBT (excluding forex) was 8% higher than our estimates. PAT at Rs277 was lower than our estimates due to forex loss of Rs165 mn. FY2009E and FY2010E earnings estimates unchanged. The stock trades at 15X FY2009E and 10X FY2010E earnings. Maintain BUY rating with an SOTP-based target price of Rs515.

1QFY09 revenue 10% below our estimates at Rs2.4 bn due to lower revenue from Carbogen Amcis and Marketable molecules. Revenue grew 40% yoy in rupee terms to touch Rs2.4 bn, however, they were 10% below our estimates as (1) revenues at Carbogen Amcis at Rs936 mn were 18% lower than our estimates and (2) the MM segment at Rs534 mn was 20% lower than our estimates due to slower growth from India revenue.

This quarter saw significant revenue expansion in CRAMS business from India. Revenue from India in CRAMS grew above 50% yoy to touch Rs834 mn (around Rs600 mn from Solvay). However, marketable molecules business from India declined 40% yoy to Rs255 mn.

EBITDA margins before forex at 28%—4% above our estimates due to significantly lower materials cost. Margins at 28% were the highest ever seen in the past five quarters. This was due to

1) Better product mix with higher proportion of sales from CRAMS India (46% of CRAMS revenue from India) which enjoys higher margins.

2) Turnaround in profitability of MM business. Margins in MM business dipped last quarter due to increase in raw material prices from China and rupee appreciation. The company has taken 10-12% price hike in this segment and this quarter saw sales at those higher prices and also saw the benefit of rupee depreciation.

3) The subsidiaries which reported losses of Rs100-150 mn in FY2008 have turned around and are expected to report lower loses at Rs15 mn in FY2009E.

4) Material cost at 25% of sales dipped this quarter and was lower than our estimates of 36%. However, personnel costs at 28% of sales was higher than our estimates of 25%.

Adjusted PBT 8% above our estimates; PAT at Rs277 mn, below our estimates due to forex loss of Rs 165 mn. Dishman reported forex loss of Rs165 mn this quarter vs gains of Rs60 mn last year. These were largely translational losses on forex loans and current assets, liabilities. Tax rate was at 2.7% this quarter.

Update on new businesses

1) **Dishman's plant in China** will get commissioned by November 2008. The company had changed its earlier strategy and will now offer its Chinese facility to global CMO customers as they look to diversify across manufacturing locations in order to mitigate risks. We maintain our earlier forecasts of US$5 mn sales for FY2009E increasing to US$10 mn in FY2010E and expect the company to enjoy similar margins as in its India business.

2) **Dishman's facility for high-potency products** (Unit 9 at Bavla) is expected to be commissioned in 4QFY09E. This facility is being developed at an investment of Rs450 mn as a high potency unit for catering to Carbogen Amcis orders and for manufacturing generic anti-cancer products for other clients. The management highlighted that while there are manufacturing sites for class1-2 of high potency drugs in India, this facility will be capable of handling production of class 3-4 drug drugs. We do not factor in any revenues from this facility in our estimates and wait for update on progress of this site.

Company maintains FY2009E PAT guidance of Rs 1.5 bn. For FY2009E, Dishman expects PAT of Rs1.5 bn (including forex). Management expects EBITDA margins to increase to 25%. (FY2008 reported margins at 19% and adjusted margin excluding one-time costs at 21%). Increase in margins will be driven by

1) Increase in margins of MM business. The MM business was severely hit in FY2008 with EBITDA margins declining in the quats business and in Dishman Netherlands. (EBITDA margin at 8% for FY2008). While this quarter saw margins in Dishman Netherlands recovering to 10%, the management expects to improve on them going forward. We estimate margins at 16% for Dishman Netherlands for FY2009E.

2) Improvement in margins of CRAMS segment. We expect improvement in margins in CRAMS to be driven through higher sales from India as revenues ramp up from new contracts and from the Japanese clients. We forecast US$10 mn sales from Japan in FY2009E rising to US$20 mn in FY2010E.

Maintain BUY rating with an SOTP-based target price of Rs515. There is no material change to our forecasts from our previous forecasts. (1) We maintain our margin assumption (excluding forex) of 25% for FY2009E. (2) We estimate sales of Rs11.4 bn vs company guidance of Rs10.5 bn for FY2009E. (3) We believe company's PAT guidance of Rs1.5 bn (including forex) is conservative and estimate PAT for FY2009E at Rs1.6 bn, 9% higher than guidance.

Interim results- Dishman , March fiscal year-ends (Rs mn)

	1QFY08	4QFY08	1QFY09	1QFY09 KIE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs. KIE)
Net sales	**1,680**	**2,419**	**2,359**	**2,635**	**40**	**(3)**	**(10)**
Change in stock	(34)	(44)	(107)	—	NM	NM	NM
Consumption of raw ma	621	954	697	962	12	(27)	(28)
Personnel cost	497	648	671	650	35	4	3
Other expenses	322	410	435	380	35	6	14
Total Expenditure	**1,406**	**1,968**	**1,696**	**1,992**	**21**	**(14)**	**(15)**
EBITDA	**274**	**451**	**663**	**643**	**142**	**47**	**3**
Other income	107	154	(141)	25	NM	NM	NM
Interest	61	96	93	90	51	(3)	3
Depreciation	89	167	144	160	62	(14)	(10)
PBT	**230**	**342**	**285**	**418**	**24**	**(17)**	(32)
Tax	16	(57)	8	46	(53)	NM	(84)
PAT	**214**	**399**	**277**	**372**	**30**	**(31)**	**(26)**
CRAMS	1,264	1,799	1,825	1,970	**44**	**1**	**(7)**
Marketable molecules	416	518	534	665	28	3	(20)
Others	—	102	—	—	NM	NM	NM
Total	**1,680**	**2,419**	**2,359**	**2,635**	**40**	**(3)**	**(10)**

Source: Company data, Kotak Institutional Equities.

Forecasts and valuation, March fiscal year-ends, 2006-2010E

	Net Revenue		EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2006	2,774	47.1	648	25.5	508	58.1	6.3	13.5	30.3	47.5
2007	5,786	108.5	1,151	77.6	917	80.4	11.3	12.7	36.2	26.3
2008	8,031	38.8	1,529	32.8	1,197	30.5	14.7	10.0	26.8	20.2
2009E	11,410	42.1	2,851	86.5	1,632	36.4	20.1	17.1	25.4	14.8
2010E	14,278	25.1	3,697	29.7	2,383	45.9	29.3	20.0	29.1	10.1

Source: Company data, Kotak Institutional Equities.

Banking

JKBK.BO, Rs488	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	750
52W High -Low (Rs)	1005 - 440
Market Cap (Rs bn)	23.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	10.8	11.4	13.6
Net Profit (Rs bn)	3.6	3.3	3.6
EPS (Rs)	74.2	69.0	75.1
EPS gth	*31.2*	*(7.1)*	*8.9*
P/E (x)	6.6	7.1	6.5
P/B (x)	1.1	1.0	0.9
Div yield (%)	3.1	2.9	3.1

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.2	-	-
FIIs	33.6	0.1	0.1
MFs	1.8	0.0	(0.0)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

J&K Bank: Reports moderate PAT growth aided by good operational performance, retain ADD

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- **J&K Bank's PAT increased 14% yoy to Rs946 mn**
- **Good operational performance with NII increasing 19% yoy and non-interest income (ex-treasury) 9% yoy**
- **Maintain ADD rating on the stock**

J&K Bank reported a PAT of Rs946 mn in 1QFY09—a growth of 14% yoy and was 10% higher than our expectations. The company's NII in 1QFY09 was Rs2.3 bn (up 19% yoy) while the growth in non-interest (ex-treasury) was up 9% yoy, overall a good operational performance for the quarter in our view. The company's asset quality also reported steady asset quality with a gross NPL ratio of 2.3% and net NPL ratio of 1% as of June 2008—continuing the trend of steady reduction in gross NPL since March 2007. We have revised our estimates by 9% upwards as we had assumed much higher provisions than reported by the company. Retain ADD rating on the company given its valuation of 6.5X PER and 0.9X PBR FY2009.

Net interest income was strong, aided by lower cost of funds.

- J&K Bank's management indicated that it was able to increase its deposit share in J&K region to around 65%, which enabled it to maintain its cost of deposits at the same level as 1QFY08 as 5.7%.
- The focus on the J&K region also helped the company improve its CASA ratio to 39% as of June 2008 compared to 36% as of June 2007.
- The management also reiterated its intention to grow its loan book in the J&K region and improve its yield. The indicative yields on loans in the J&K region are closer to 14% compared to around 9% in the rest of India.
- The loan and deposit growth were moderate at 15-16% yoy, which was another factor that aided margins. The NIM in the current quarter was 3.1% compared to 2.9% in 1QFY08.

Non-interest income remained strong aided by treasury income.

- J&K Bank booked Rs260 mn of treasury income in 1QFY09 compared to the Rs20 mn booked in 1QY08 and was a key contributor of non-interest income (37% of non-interest income).
- The fee income for 1QFY09 was lower by 7% yoy at Rs233 mn and the management indicated that it had written back Rs30 mn of government fee income that they had booked in 4QFY08.
- Growth in income from distribution of insurance products continues to remain strong at 47% yoy, maintaining the trend of strong growth in the past few quarters.

Provisions higher due to MTM losses

- J&K Bank reported MTM losses of Rs280 mn, out of which Rs180 mn was on account of the depreciation of investments in the equity book
- The company's asset quality at net NPL ratio of 1% with a coverage ratio of 60% is reasonably healthy and allowed it to make credit provisions of just Rs1.9 bn in 1QFY09.

J&K Bank quarterly performance, Rs mn

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	% chg	1QFY09KS	Actual Vs KS
Interest income	5,751	5,967	6,183	6,442	6,514	13.3		
Loans	4,402	4,600	4,810	4,963	5,048	14.7		
Investments	1,266	1,325	1,364	1,458	1,453	14.7		
Balance with RBI & banks	82	42	8	21	14	(83.3)		
Interest expense	3,854	4,016	4,169	4,198	4,252	10.3		
Net interest income	**1,896**	**1,951**	**2,013**	**2,244**	**2,263**	**19.3**	**2,029**	**11.5**
Non-int.income	**418**	**641**	**765**	**866**	**694**	**65.9**	**425**	**63.2**
Other income exld treasury	398	466	475	514	434	9.1		
Treasury income	21	175	290	352	260	1,156.5		
Total income	**2,314**	**2,592**	**2,778**	**3,110**	**2,956**	**27.7**	**2,454**	**20.5**
Operating expenses	943	1,034	1,039	1,021	1,096	16.3	974	12.6
Employee cost	610	599	613	436	685	12.2	575	19.0
Other cost	333	436	426	585	412	23.8	399	3.2
Operating profit pre provisions	**1,372**	**1,558**	**1,739**	**2,089**	**1,860**	**35.6**	**1,480**	**25.7**
Provisions and cont.	250	100	148	501	459	83.8	260	76.7
Investment Depreciation	-	-	-	192	288	-	-	-
Credit provisions	190	40	86	229	126	(33.7)	200	(37.0)
Standard asset provisions	90	40	80	36	66	(26.6)	-	-
PBT	1,122	1,458	1,592	1,589	1,401	24.9	1,220	14.8
Tax	289	380	500	990	455	57.2	366	24.3
Net profit	**832**	**1,078**	**1,092**	**598**	**946**	**13.6**	**854**	**10.7**
Tax rate (%)	25.8	26.1	31.4	62.3	32.5	-	30.0	-
PBT-invt gains+ Prov	**1,291**	**1,323**	**1,390**	**1,677**	**1,555**	**20.4**	**1,420**	**10.0**
Key balance sheet items (Rs bn)								
Total Deposits	247	260	265	286	285	15.2		
Savings deposits	59	60	61	69	71	21.3		
Current deposits	30	32	34	43	40	32.3		
Term deposits	159	168	170	174	174	9.7		
CASA ratio (%)	35.8	35.2	36.0	39.2	38.9	-		
Advances	174	181	183	189	201	15.7		
Investments	77	80	82	88	92	20.0		
AFS	22	21	19	24	21	(3.8)		
HTM	56	58	62	64	72	29.1		
Assets	282	293	301	328	327	-		
Asset quality details								
Gross NPLs (Rs mn)	4,872	4,778	4,686	4,852	4,762	(2.3)		
Gross NPL ratio (%)	2.8	2.6	2.5	2.5	2.3			
Net NPLs (Rs mn)	1,693	1,652	1,502	2,036	1,927	13.8		
Net NPL ratio (%)	1.0	0.9	0.8	1.1	1.0			
					0.60			
Yield management measures (%)								
Cost of Deposits (Annualised)	5.93	6.14	6.19	5.91	5.71			
Yield on Advances (Annualised)	10.23	10.38	10.58	10.68	10.37			
Yield on Investments (Annualised)	6.71	6.75	6.75	6.70	6.46			
Net Interest Margins (Annualised)	2.90	2.97	2.98	3.18	3.09			
Capital adequacy details (%)								
CAR	13.01	12.86	13.82	12.80	12.20			
Tier I	12.37	12.19	13.12	12.14	11.59			
Tier II	0.64	0.67	0.70	0.66	0.61			
Balance sheet snapshot (Rs mn)								
Capital	485	485	485	485	485	-		
Reserves and surplus	19,602	19,602	22,604	22,604	23,269	18.7		
Deposits	247,437	259,539	265,270	285,933	285,044	15.2		
Borrowings	6,902	4,131	4,187	7,518	8,169	18.4		
Other liabilities and provisions	7,484	9,379	7,961	11,020	10,328	38.0		
Total	**281,910**	**293,136**	**300,507**	**327,560**	**327,295**	**16.1**		
Cash and balance with RBI	15,377	21,785	17,128	32,200	23,306	51.6		
Balance with banks etc	10,121	3,856	11,706	12,173	3,129	(69.1)		
Investments	77,042	79,895	81,770	87,577	92,473	20.0		
Advances	173,512	181,019	182,867	188,826	200,752	15.7		
Fixed assets	1,844	1,897	1,950	1,920	1,973	7.0		
Other assets	4,014	4,685	5,086	4,865	5,661	41.0		
Total	**281,910**	**293,136**	**300,507**	**327,560**	**327,295**	**16.1**		

Source:Company.

Industrials

BGRE.BO, Rs324	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	325
52W High -Low (Rs)	989 - 205
Market Cap (Rs bn)	23.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	15.2	24.7	39.3
Net Profit (Rs bn)	0.9	1.3	1.7
EPS (Rs)	12.3	18.3	23.2
EPS gth	*(67.1)*	*49.5*	*26.7*
P/E (x)	26	17.7	13.9
EV/EBITDA (x)	16.0	10.7	9.1
Div yield (%)	0.4	0.6	0.7

BGR Energy Systems: Miss expectations with lower-than-expected execution and margins; change rating to REDUCE from BUY

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- **Execution growth and operating margins below expectations**
- **Highlight risk to our full year estimates based on low execution in 1QFY09**
- **Margins fall yoy mainly driven by increase in raw material costs as a percentage of the revenues**
- **Maintain earnings estimates and target price of Rs325/share; change rating from BUY to REDUCE**

BGR Energy reported 1QFY09 revenues of Rs3.07 bn (up 32% yoy) versus our expectation of Rs4.07 bn. Profit after tax was at Rs172 mn (up 17.4% yoy) against our expectation of Rs234 mn. Operating margins declined 110 bps yoy from 11.3% in 1QFY08 to 10.2% (lower than our expectation of 10.8% operating margin) in 1QFY09. We maintain our earning estimates of Rs18.3 and Rs23.2 for FY2009E and FY2010E, respectively, and our FY2009E DCF-based target price of Rs325/share. We highlight that stock has significantly outperformed by about 36.7%, since our rating change (to BUY from ADD earlier) on June 2, 2008. The stock is currently trading at Rs326 leaving little upside to our target price of Rs325; hence change rating from BUY to REDUCE. Further upside could be limited due to (1) margin pressures, (2) dependence on further order wins, (3) delays, litigation, (4) execution management and (5) dependence on technological partners. Key upside risks include: (1) investment momentum in power generation sector, (2) limited competition in the turnkey BOP services, (3) BGR Energy's design and engineering skills and (5) BGR Energy's presence across several diverse businesses such as process equipment for the oil & gas industry and for water and environmental solutions that provide several sources of consistent long-term growth.

Execution growth and operating margins below expectations; fall in margins mainly driven by increase in raw material cost

BGR Energy reported 1QFY09 revenue of Rs3.07 bn (up 32% yoy) versus our expectation of Rs4.07 bn. Profit after tax was Rs172 mn (up 17.4% yoy) against our expectation of Rs234 mn. Operating margins declined 110 bps yoy (versus our expectation of 50 bps decline) to 10.2% in 1QFY09 from 11.3% in 1QFY08. The yoy decline in margins was mainly driven by increase in material costs as a percentage of revenues which increased 170 bps from 81% in 1QFY08 to 82.7% in this quarter.

Highlight risk to our full-year estimates based on low execution in 1QFY09

BGR Energy has executed only about 12.5% of our full-year projections versus 15% of full-year revenue executed in 1QFY08. Thus we highlight the risks to our full-year revenue estimates of Rs24.7 bn.

Maintain earnings estimates and target price of Rs325; change rating to REDUCE

We maintain our earning estimates of Rs18.3 and Rs23.2 for FY2009E and FY2010E, respectively, and our March 2010 DCF-based target price of Rs325/share. The stock is trading at Rs326 leaving little upside to our target price of Rs325; hence change rating from BUY to REDUCE. We highlight that in spite of a strong outperformance by the stock further upside could be limited due to (1) margin pressures due to commodity price increase and foreign exchange fluctuations,
(2) dependence on further order wins to meet strong growth in earnings (as estimated by us), (3) delays, litigation in large-sized projects that contribute bulk of revenue,
(4) execution management given the strong growth across multiple divisions and
(5) dependence on technological partners.

Key upside risks include: (1) Visible investment momentum in power generation sector with several projects coming up for bidding (likely to be commissioned during FY2010E-12E), (2) limited competition in the provision of turnkey BOP services for large power plants (up to 500 MW) that may potentially ensure strong order inflows, (3) BGR Energy's strong design and engineering skills that differentiate it from its competitors, (4) BGR Energy's ability to scale up its business quickly and (5) BGR Energy's presence across several diverse businesses such as process equipment for the oil & gas industry and for water and environmental solutions that provide several sources of consistent long-term growth.

We highlight that the stock has significantly outperformed by about 36.7% since our rating change (to BUY from ADD earlier) on June 2, 2008.

Exhibit 1. BGR Energy Systems: 1QFY09 results—Key numbers (Rs mn)

	yoy			qoq			yoy		
	1QFY09	**1QFY08**	**% change**	**1QFY09**	**4QFY08**	**% change**	**FY2009E**	**FY2008**	**% change**
Sales	**3,068**	**2,324**	**32.0**	**3,068**	**5,786**	**(47.0)**	**24,679**	**15,205**	**62.3**
Expenses	(2,757)	(2,061)	33.7	(2,757)	(5,256)	(47.6)	(22,205)	(13,652)	62.6
Stock	(2)	55	(103.0)	(2)	7	(124.1)	-	(29)	(100.0)
RM	(2,536)	(1,937)	30.9	(2,536)	(4,882)	(48.1)	(20,848)	(12,682)	64.4
Employee exp	(133)	(103)	29.6	(133)	(132)	1.0	(621)	(450)	37.8
Other exp	(86)	(76)	11.9	(86)	(249)	(65.6)	(736)	(491)	49.9
Operating profit	**312**	**263**	**18.5**	**312**	**530**	**(41.2)**	**2,474**	**1,553**	**59.3**
Other income	41	8	409.4	41	29	40.6	84	52	62.7
EBIDT	**352**	**271**	**30.0**	**352**	**559**	**(37.0)**	**2,559**	**1,605**	**59.4**
Interest	(76)	(35)	118.9	(76)	(89)	(15.1)	(397)	(254)	56.1
Depreciation	(14)	(12)	14.7	(14)	(13)	2.2	(168)	(55)	202.5
PBT	**263**	**225**	**17.1**	**263**	**457**	**(42.4)**	**1,994**	**1,296**	**53.9**
Tax	(91)	(78)	16.7	(91)	(138)	(34.0)	(671)	(411)	63.3
Net profit	**172**	**147**	**17.4**	**172**	**319**	**(46.0)**	**1,323**	**885**	**49.5**
Extraordinary items	-	-		-	-		-	-	
RPAT	**172**	**147**	**17.4**	**172**	**319**	**(46.0)**	**1,323**	**885**	**49.5**
Key Ratios									
RM/Sales	82.7	81.0		82.7	84.3		84.5	83.6	
Employee exp/Sales	4.3	4.4		4.3	2.3		2.5	3.0	
Other Exp/Sales	2.8	3.3		2.8	4.3		3.0	3.2	
OPM	**10.2**	**11.3**		**10.2**	**9.2**		**10.0**	**10.2**	
PBT margin	8.6	9.7		8.6	7.9		8.1	8.5	
Tax rate	34.5	34.6		34.5	30.1		33.7	31.7	
PAT Margin	5.6	6.3		5.6	5.5		5.4	5.8	

Source: Company data, Kotak Institutional Equities Estimates.

Exhibit 2. BGR—DCF model, March fiscal year-ends (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	**24,679**	**39,300**	**47,281**	**50,025**	**58,779**	**69,065**	**79,425**	**91,339**	**105,040**	**120,796**	**132,875**
Revenue growth (%)	62.3	59.2	20.3	5.8	17.5	17.5	15.0	15.0	15.0	15.0	10.0
EBITDA	**2,474**	**3,312**	**4,018**	**4,517**	**5,437**	**6,389**	**7,347**	**8,449**	**9,716**	**11,174**	**12,291**
EBITDA margin (%)	10.0	8.4	8.5	9.0	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Depreciation	(168)	(212)	(235)	(255)	(272)	(294)	(316)	(339)	(363)	(386)	(410)
EBIT	**2,307**	**3,100**	**3,783**	**4,262**	**5,166**	**6,095**	**7,030**	**8,109**	**9,354**	**10,788**	**11,881**
Tax	(770)	(1,043)	(1,272)	(1,432)	(1,736)	(2,048)	(2,362)	(2,725)	(3,143)	(3,625)	(3,992)
Change in net working capital	(2,308)	(4,912)	(664)	(607)	(2,159)	(2,536)	(2,554)	(2,938)	(3,378)	(3,885)	(2,979)
Capex	(650)	(400)	(400)	(400)	(450)	(450)	(500)	(500)	(550)	(550)	(600)
Free cash flow	**(1,254)**	**(3,042)**	**1,682**	**2,078**	**1,093**	**1,354**	**1,930**	**2,286**	**2,645**	**3,114**	**4,720**
PV of each cash flow	**(1,254)**	**(3,042)**	**1,482**	**1,613**	**747**	**816**	**1,025**	**1,069**	**1,090**	**1,131**	**1,510**

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.5
Market risk premium—(Rm-Rf) (%)	5.5
Beta (x)	1.1
Cost of equity-Ke (%)	14.6
Cost of debt-Kd (%)	12.0
Tax rate (%)	34.0
Debt/Capital (%)	60.7
Equity/Capital (%)	39.3
WACC (%)	10.5
Used WACC (%)	**13.5**

FCF in terminal year (Rs mn)	4,720
Exit FCF multiple: (1+g)/(WACC-g)	12.4
Terminal value of FCF (Rs mn)	58,306
Exit EBITDA multiple	4.7

PV of cash flows	6,188
PV of terminal value	18,653
EV	24,841
Debt	1,490
Equity value	23,350
Equity value (US$ mn)	591
Shares outstanding (mn)	72
Equity value (Rs/share)	**324.3**

Source: Company data, Kotak Institutional Equities Estimates.

Property

IVR.BO, Rs181	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	360
52W High -Low (Rs)	550 - 152
Market Cap (Rs bn)	11.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	5.9	3.4	7.9
Net Profit (Rs bn)	1.7	1.0	1.1
EPS (Rs)	27.0	15.5	17.1
EPS gth	*552.0*	*(42.6)*	*10.8*
P/E (x)	6.7	11.7	10.6
EV/EBITDA (x)	4.5	9.2	8.9
Div yield (%)	2.2	2.8	3.9

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	77.9	-	-
FIIs	7.5	0.0	0.0
MFs	1.2	0.0	0.0
UTI	-	-	-
LIC	-	-	-

IVR Prime Urban Developers: Lower launches push 1QFY09 revenues below estimates; retain BUY rating on attractive valuations

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- **PUDL reported 1QFY09 revenues of Rs287 mn (up 38% yoy) and PAT of Rs54 mn**
- **We revise our model to account for (1) launch of Nagpur project, (2) converting IT park in Hyderabad to lease model, (3) changes in project launch assumptions**
- **We maintain our BUY rating with a target price of Rs360/share**

IVR Prime Urban Developers Limited (PUDL) reported 1QFY09 revenues of Rs287 mn (versus our expectation of Rs415 mn) and a PAT of Rs54 mn (versus our expectation of Rs141 mn). The results were below our estimates on account of lower-than-expected launches and the absence of land sales in this quarter against our expectation of Rs1.5 bn as stake sale in FY2009E. We make a few adjustments to our model to account for—(1) launch of Nagpur project, (2) conversion of IT park in Gachibowli, Hyderabad to lease model from sale model and (3) delay in Pune projects. As a result, our revenue estimates have been revised to Rs3.4 bn (versus Rs5.9 bn earlier) for FY2009E and Rs7.9 bn (versus Rs12.1 bn earlier) for FY2010E. Our PAT estimates have been revised to Rs1 bn (versus Rs1.8 bn earlier) for FY2009E and Rs1.1 bn (versus Rs2.4 bn earlier) for FY2010E. As a result of new assumptions, our NAV is revised to Rs360/share (Rs395 earlier). Our revised target price of Rs360/share (Rs390 earlier) is based on parity with Mar '09-based NAV.

PUDL starts booking revenues from North Chennai, Nagpur and Vishakapatnam

PUDL reported 1QFY09 revenues of Rs287 mn (versus our expectation of Rs415 mn) and a PAT of Rs54 mn (versus our expectation of Rs141 mn). EBITDA margins were lower-than-expected because of lower revenues, which resulted in higher operating costs as proportion of revenues. We would like to note that there were no land sales in this quarter against our expectation of Rs1.5 bn as stake sale in FY2009E. Revenues were also down qoq mainly because PUDL booked revenues from the Kotak Realty deal in 4QFY08, which involved a stake sale for the development rights of Sriperumbudur land. We note that PUDL booked revenues from residential projects in Nagpur, Vishakapatnam and Minjur (Chennai), which were launched in 1QFY09 (see Exhibit 2).

We revise our launch estimates; convert Hyderabad project to lease model

We make a few adjustments to our model to account for—(1) launch of Nagpur project, (2) conversion of IT park in Gachibowli, Hyderabad to lease model from sale model and (3) delay in Pune projects. Exhibit 3 summarizes revenues estimate changes to our model. Taking into account all these adjustments, our revenue estimates have been revised to Rs3.4 bn (versus Rs5.9 bn earlier) for FY2009E and Rs7.9 bn (versus Rs12.1 bn earlier) for FY2010E. The large drop in revenues is mainly because of conversion of Hyderabad IT park project into a lease model. This project contributed 20% and 15% to revenue estimates for FY2009E and FY2010E. Our PAT estimates have been revised to Rs1 bn (versus Rs1.8 bn earlier) for FY2009E and Rs1.1 bn (versus Rs2.4 bn earlier) for FY2010E.

PUDL enters Nagpur and Vishakapatnam and will likely to expand to five cities soon

Exhibit 3 highlights likely launch schedule of PUDL over the next six months. We highlight the fact that PUDL launched three residential projects in 1QFY09—one each in Nagpur (0.2 mn sq. ft), Minjur (Chennai) and Vishakhapatnam. PUDL has also started the construction of the IT park project in Gachibowli, Hyderabad.

Launches as mentioned above will likely be followed by launch of a large township in Sriperumbudur. We highlight that Sriperumbudur is emerging as an industrial location and will likely result in employment potential of 200,000 people over the next five years. We believe that PUDL will be amongst the early entrants in this region. We expect the launch in Sriperumbudur to take place on 3QFY09 and any delay in launches will affect revenue booking from this project.

We retain our BUY rating with a revised target price of Rs360/share

We retain our BUY rating on the stock with a revised target price of Rs360/share (earlier Rs390/share). The key risks to the rating would be huge delays in execution and regulatory approvals. Key regions that contribute significantly to PUDL's NAV are as below.

Chennai. Almost 85% of the total 42.3 mn sq. ft of land bank in Chennai is located in Sriperumbudur. Exhibit 5 shows that Sriperumbudur contributes 39% to PUDL's NAV or Rs9.3 bn. Our NAV implies a valuation of Rs10 mn/acre, which is very reasonable considering current land prices (Rs12-14 mn/acre) in the region. We have assumed selling price assumptions for FY2009E of Rs1,800/sq. ft for the residential development and Rs2,625/sq. ft for commercial development in the Sriperumbudur region. In our view these assumptions have limited downside risks considering that the nearest residential project (around 8-10 kms from Sriperumbudur) 'Palace Gardens' launched by Hirco is quoting at Rs3,100/sq. ft.

Hyderabad. PUDL is setting up an integrated complex comprising of retail mall, luxury hotel and commercial area with total saleable area of 2.1 mn sq. ft. We have taken commercial rate of Rs45/sq. ft/month for commercial space and Rs63/sq. ft/month for retail space in FY2009E and assume flat prices in FY2009E and FY2010E .This project contributes 20% to our NAV estimate or Rs4.6 bn.

Noida. PUDL has land reserves for three residential projects and one commercial SEZ in this region. We have assumed FY2009E selling price assumptions of Rs3,375/sq. ft for residential and Rs4,200/sq. ft for the Noida SEZ. We estimate Noida to contribute Rs6.4 bn to our base assumptions.

1QFY09 results of IVR Prime (Rs mn)

		qoq		yoy		Kotak estimates				% change
	1QFY09	4QFY08	% chg	1QFY08	% chg	1QFY09	% deviation	FY08A	FY09E	FY09/FY08
Net sales	**287**	**2,334**	***(88)***	**208**	***38***	**415**	***(30.9)***	**5,958**	**3,396**	***(43.0)***
Construction cost	(196)	(1,591)	*(88)*					(3,436)	(1,626)	
Staff cost	(15)	(74)	*(80)*					(124)	(186)	
Other expenditure	(14)	(41)	*(67)*					(74)	(146)	
EBITDA	**62**	**628**	***(90)***	**41**	***53***	**166**	***(62.4)***	**2,324**	**1,438**	***(38.1)***
Other income	35	71	*(50)*	0		85		185	208	
Interest costs	(13)	(52)	*(76)*	(14)		(33)		(83)	(118)	
Depreciation	(2)	(2)	*5*	(1)		(7)		(8)	(24)	
Pretax profits	**83**	**645**	***(87)***	**25**	***235***	**211**	***(60.6)***	**2,419**	**1,504**	***(37.8)***
Extraordinaries	—	—	—	—	—			—	—	
Tax	(29)	(225)	*(87)*	(10)		(71)		(661)	(509)	
Deferred tax									(2)	
Net income	**54**	**420**	***(87)***	**15**	***262***	**141**	***(61.3)***	**1,758**	**993**	***(43.5)***
Adjusted net income	**54**	**420**	***(87)***	**15**	***262***	**141**		**1,758**	**993**	***(43.5)***
Key ratios										
EBITDA margin (%)	21.8	26.9		19.5		40.0		39.0	42.4	
PAT margin (%)	18.9	18.0		7.2		33.9		29.5	29.2	
Effective tax rate (%)	34.6	34.8		39.4		33.4		27.3	33.9	

Source: Company, Kotak Institutional Equities estimates.

IVR has lined up launch of 13 mn sq. ft over the next six months

Details of residential projects, area

		Area		Selling price	Current status
Location	**Residential**	**(mn sq. ft)**	**(acres)**	**(Rs/sq. ft)**	
Bangalore	Jigni (JDA)	0.4	6	2,200	Launched
Noida	Noida	0.8	9	3,150	Launched
Nagpur	Hazirapahad	0.2	4	2,000	Launched in 1QFY09
Chennai	Minjur	3.8	278	1,800	Launched in 1QFY09
Vishakapatnam	Veduravada	4.7	74	1,800	Launched in 1QFY09
Bangalore	Hosur	1.8	21	3,060	Launch in 1HFY09
Hyderabad	Hitech City (JDA)	0.3	2	3,600	Launch in 1HFY09
Noida	Noida	1.1	13	3,150	Launch in 1HFY09
		13.0	**407**		

Source: Kotak Institutional Equities.

Change in our revenue estimates

	FY2009E			FY2010E		
	Old	**New**	**Change (%)**	**Old**	**New**	**Change (%)**
Residential	2,674	1,896	*(29.1)*	7,949	6,740	*(15.2)*
Bangalore	303	303	—	1,409	852	*(39.5)*
Chennai	816	816	—	2,599	2,514	*(3.3)*
Hyderabad	723	232	*(67.9)*	669	669	—
Noida	438	438	—	2,066	2,103	*1.8*
Pune	327	—	*(100.0)*	898	225	*(75.0)*
Vishakapatnam	67	67	—	307	307	
Nagpur	—	39		—	70	
Commercial	1,761	—	*(100.0)*	4,000	1,007	*(74.8)*
Retail/commercial (lease rentals)	—	—		164	164	—
Land sale	1,500	1,500	—	—	—	
Total	**8,609**	**5,292**	**(38.5)**	**20,062**	**14,651**	**(27.0)**

Source: Kotak Institutional Equities estimates.

We estimate March '09 based NAV for IVR at Rs360/share

NAV sensitivity for different growth rate in selling prices

	March '09 based NAV Growth rate in selling prices			
	0%	3%	5%	10%
Valuation (Rs bn)	**17.1**	**22.5**	**23.7**	**36.7**
Residential projects	9.9	12.6	14.6	19.8
Commercial projects	4.3	6.0	7.2	10.6
Retail projects	2.7	3.5	4.1	5.6
Less: land payments outstanding for NOIDA	(2.0)	(2.0)	(2.0)	(2.0)
Add: Net Cash	1.5	1.5	1.5	1.5
NAV (Rs bn)	**16.6**	**22.0**	**23.1**	**36.2**
Number of shares				
Total no of shares				64
Price/share (Rs/share)				**360**

Source: Kotak Institutional Equities estimates.

Three regions contribute 75% to PUDL's NAV

PUDL's NAV from key projects

	NAV		Area	
	(Rs mn)	(%)	(mn sq. ft)	(acres)
Chennai-Sriperumbudur	9,249	39.1	36.0	903
Hyderabad-Mall cum IT Park and Hotel	4,693	19.8	2.1	12
NOIDA	6,350	26.8	6.7	80
Others	3,380	14.3	25.2	1,312
Total	**23,672**	**100.0**	**70.0**	**2,307**

Source: Kotak Institutional Equities.

Profit model of IVR Prime, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Total revenues	**218**	**1,364**	**1,478**	**5,958**	**3,396**	**7,911**	**16,871**
Land costs	—	—	—	—	(418)	(617)	(1,177)
Construction costs	(198)	(1,205)	(1,025)	(3,436)	(1,208)	(4,898)	
Employee costs	(1)	(9)	(39)	(124)	(186)	(257)	(324)
SG&A costs	(7)	(15)	(39)	(74)	(146)	(300)	(639)
EBITDA	**12**	**135**	**375**	**2,324**	**1,438**	**1,839**	**4,691**
Other income	0	1	1	185	208	295	295
Interest	—	—	(57)	(83)	(118)	(318)	(468)
Depreciation	(0)	(0)	(4)	(8)	(24)	(149)	(275)
Pretax profits	**12**	**136**	**315**	**2,419**	**1,504**	**1,666**	**4,243**
Profit/(loss) share of associates	—	—	—	—	—	—	—
Current tax	(1)	(14)	(109)	(661)	(509)	(449)	(1,383)
Deferred tax	(4)	(4)	1	-	(2)	(117)	(59)
Net income	**7**	**118**	**207**	**1,758**	**993**	**1,100**	**2,801**
EPS (Rs)							
Primary	0.3	3.9	4.6	30.8	15	17	44
Fully diluted	0.3	3.9	4.6	30.8	15	17	44
Shares outstanding (mn)							
Year end	30	40	50	64	64	64	64
Primary	24	30	45	57	64	64	64
Fully diluted	24	30	45	57	64	64	64
Cash flow per share (Rs)							
Primary	0	4	7	28	13	17	44
Fully diluted	0	4	7	28	13	17	44
Growth (%)							
Net income (adjusted)	57	1,614	76	748	(44)	11	155
EPS (adjusted)	(50)	1,296	17	569	(50)	11	155
DCF/share		777	70	310	(55)	32	165
Cash tax rate (%)	8	11	34	27	34	27	33
Effective tax rate (%)	43	13	34	27	34	34	34

Source: Kotak Institutional Equities estimates.

Balance sheet of IVR Prime, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Equity							
Share capital	300	400	500	642	642	642	642
Reserves/surplus	(10)	117	314	9,392	10,019	10,605	12,674
Total equity	**290**	**517**	**814**	**10,034**	**10,661**	**11,246**	**13,316**
Deferred tax liability/(asset)	(4)	—	(1)	6	8	125	184
Liabilities							
Secured loans	858	675	628	675	1,675	4,675	4,675
Unsecured loans	238	—	2,528	11	11	11	11
Total borrowings	**1,096**	**675**	**3,156**	**686**	**1,686**	**4,686**	**4,686**
Currrent liabilities	360	430	6,735	4,740	4,429	5,911	9,936
Total capital	**1,743**	**1,623**	**10,704**	**15,467**	**16,784**	**21,969**	**28,122**
Assets							
Cash	3	12	21	2,137	25	(1)	3,765
Current assets	1,738	1,608	10,585	12,115	13,811	17,030	19,031
Gross block	2	3	87	122	157	4,818	4,853
Less: accumulated depreciation	—	1	5	19	43	192	467
Net fixed assets	1	2	82	103	114	4,626	4,386
Capital work-in-progress	—	—	—	1,096	2,818	298	924
Total fixed assets	**1**	**2**	**82**	**1,199**	**2,932**	**4,924**	**5,310**
Intangible assets	—	—	—	—	—	—	—
Investments	—	1	1	1	1	1	1
Misc. expenses	1	—	15	15	15	15	15
Total assets	**1,743**	**1,623**	**10,705**	**15,467**	**16,784**	**21,969**	**28,123**
Leverage ratios (%)							
Debt/equity	382.5	130.5	388.0	6.8	15.8	41.2	34.7
Debt/capitalization	79.3	56.6	79.5	6.4	13.6	29.2	25.8
Net debt/equity	381.6	128.2	385.4	(14.4)	15.6	41.2	6.8
Net debt/capitalization	79.2	56.2	79.4	(16.9)	13.5	29.2	6.4
RoAE	**3.3**	**29.3**	**31.1**	**32.4**	**9.6**	**10.0**	**22.5**
RoACE	**0.9**	**9.4**	**9.4**	**24.7**	**9.3**	**10.2**	**18.5**

Source: Kotak Institutional Equities estimates.

Media

ZEE.BO, Rs205	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	260
52W High -Low (Rs)	410 - 169
Market Cap (Rs bn)	88.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	18.4	21.9	25.5
Net Profit (Rs bn)	3.9	4.5	6.0
EPS (Rs)	8.9	10.5	13.9
EPS gth	*62.6*	*17.8*	*32.7*
P/E (x)	23.0	19.6	14.7
EV/EBITDA (x)	16.8	12.7	9.6
Div yield (%)	1.0	1.3	1.7

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	41.5	-	-
FIIs	27.4	0.4	0.1
MFs	13.6	1.0	0.7
UTI	-	-	(0.3)
LIC	7.5	0.5	0.2

Zee Entertainment Enterprises: Buy-back plan dropped (negative) and Zee Next restructured (positive)

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- **Cancellation of proposed buy-back plan negative for sentiment**
- **Proposed restructuring of Zee Next, if implemented, positive**
- **Retain ADD and 12-month DCF-based target price of Rs260**

ZEEL management has decided to cancel a proposed buy-back offer; the management cited modest benefits to shareholders as the reason for dropping the buy-back. ZEEL has also proposed a restructuring plan for Zee Next—it will restrict its investment at Rs2 bn and is looking for a strategic partner to fund the rest. We do not see these events as impacting the fundamentals significantly although the cancellation of the proposed buy-back may be modestly negative for sentiment. Our 12-month DCF-based target price is Rs260. Key risks stem from lower-than-expected ad revenues and higher-than-expected increase in content costs.

Proposed buy-back cancelled on lack of large benefits; probably not very material in the first place. ZEEL management has decided to cancel a proposed buy-back plan. The management has cited limited benefits from the buy-back as the reason for the cancellation. Exhibit 1 shows that ZEEL would have been able to do a buy-back of about Rs2.1 bn (10% of equity plus free reserves), which would have led to a buy-back of around 10.4 mn shares (2.4% of outstanding shares) at the current price.

Restructuring of Zee Next—decision to cap investment may be seen as a positive. ZEEL's decision to cap investment in Zee Next at Rs1 bn over the next three years and overall at Rs2 bn (including past investment) is a positive in that it sets out a maximum cash burn for ZEEL. ZEEL will divest Zee Next channel to a 100% subsidiary, Asia Today Limited (ATL), which will offer around 45% equity stake in Zee Next to financial and strategic investors. ATL will invest 20% of total funds required for the channel in the form of convertible debentures over three years (Rs500 mn in the first year, Rs300 mn in the second year and Rs200 mn in the third year). The balance 80% of the funds will come from strategic/financial investors.

We note that our earnings model currently incorporates Zee Next channel financials in perpetuity. We model losses in perpetuity and note that our 12-month DCF-based fair valuation would increase to Rs285 from Rs260 if we were to exclude Zee Next channel completely. Our FY2009E, FY2010E and FY2011E EPS would similarly rise to Rs10.9, Rs14.6 and Rs18.4 from Rs10.5, Rs13.9 and Rs17.4, respectively.

The maximum possible shares ZEEL could have bought back are only 2.4% of its outstanding shares
Probable scheme of arrangement of ZEEL buy-back

		Comments
Total networth (equity capital and free reserves) of ZEEL (Rs bn)	21.3	As per ZEEL FY2008 annual report
Maximum networth of a company allowed for the purpose of buy-back (%)	10	As per Company Act
Maximum amount of stock ZEEL could have bought back (Rs mn)	2.1	
Current share price of ZEEL (Rs)	205	
Maximum outstanding shares ZEEL could buy back (mn)	10.4	Assuming buy-back happens at CMP
Total outstanding shares of ZEEL (mn)	434	
Maximum possible reduction in outstanding shares of ZEEL (%)	**2.4**	

Source: Kotak Institutional Equities estimates

Detailed description of Zee Next demerger from ZEEL
Scheme of arrangement of Zee Next demerger

		Comments
Initial shareholding of ATL in Zee Next (%)	100	ZEEL will transfer the Zee Next channel to ATL
Proposed investment required in Zee Next (Rs bn)	5.0	Rs5 bn, up from Rs3 bn expected a few month ago
Proposed shareholding of outside investor post initial dilution (%)	55	As per scheme of arrangement/management
Proposed shareholding of ATL in Zee Next post initial dilution (%)	45	
Proposed investment funded by outside investor (Rs bn)	4.0	80% of total investment proposed to be funded
Proposed pre-money valuation of Zee Next for investor (Rs bn)	**3.3**	
Proposed post-money valuation of Zee Next (Rs bn)	**7.3**	
Proposed investment funded by ATL (Rs bn)	1.0	Investment in the form of five-year convertibles debentures (CD)
Proposed shareholding of ATL post CD investment (%)	55	ZEEL has guided for 55-60% ATL shareholding
Proposed dilution of Zee Next equity as per CD scheme (%)	11	When convertibles are converted into equity
Proposed pre-money valuation of Zee Next for ATL (Rs bn)	**8.0**	
Proposed post-money valuation of Zee Next for ATL (Rs bn)	**9.0**	

Source: Company, Kotak Institutional Equities estimates

Our DCF-based valuation of ZEEL is Rs260
DCF analysis for ZEEL (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2019E
EBITDA	**7,023**	**8,987**	**11,015**	**13,051**	**15,170**	**16,688**	**18,225**	**19,899**	**21,269**			
Tax expense	(2,365)	(3,292)	(3,996)	(4,872)	(5,877)	(6,685)	(7,535)	(8,390)	(9,245)			
Changes in working capital	(1,944)	(1,671)	(1,472)	(1,515)	(1,509)	(1,316)	(1,310)	(1,357)	(1,392)			
Cash flow from operations	**2,714**	**4,024**	**5,547**	**6,665**	**7,783**	**8,686**	**9,381**	**10,152**	**10,632**			
Capital expenditure	(200)	(200)	(225)	(225)	(250)	(250)	(275)	(275)	(300)			
Free cash flow	**2,470**	**3,756**	**5,231**	**6,327**	**7,402**	**8,295**	**8,952**	**9,750**	**10,173**	**10,835**	**11,539**	**12,289**
Discounted cash flow- now	2,279	3,080	3,813	4,098	4,261	4,245	4,072	3,941	3,655	3,460		
Discounted cash flow-1 year forward		3,465	4,289	4,612	4,794	4,775	4,581	4,435	4,112	3,893	3,685	
Discounted cash flow-2 year forward			4,826	5,188	5,395	5,372	5,154	4,989	4,628	4,380	4,146	3,925

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	36,904	42,642	48,002
PV of terminal value (b)	61,422	65,414	69,666
Total company value (a) + (b)	98,326	108,056	117,668
Net debt/(cash)	(2,345)	(5,109)	(9,135)
Value to equity holders	100,672	113,165	126,803
Value to equity holders (Rs/share)	**232**	**260**	**292**

Assumptions for WACC and growth in perpetuity	
Growth from 2017 to perpetuity (%)	6.5
FCF multiple (X)	**16.7**
Exit EV/EBITDA multiple (X)	**9.7**
WACC (%)	**12.5**

Source: Kotak Institutional Equities estimates.

Consolidated profit and loss statement for Zee Telefilms, March fiscal year-ends, 2004-2006, ZEEL, 2007-2012E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Revenues									
National Hindi (Zee TV)	2,539	1,826	2,119	3,303	5,081	6,047	6,847	7,760	8,772
National Hindi (Zee Cinema)	756	914	996	1,574	1,814	2,195	2,507	2,867	3,241
Niche channels (English, Music, Zee Next)	965	956	1,081	400	504	681	971	1,222	1,443
Regional channels	1,365	1,324	1,486	—	—	—	—	—	—
Zee Sports + Taj TV	—	—	72	1,279	1,033	1,430	1,646	1,858	2,088
Cable TV (Siti)	220	266	261	—	—	—	—	—	—
Overseas - ZMWL	460	505	557	526	468	518	527	533	532
Others	50	(92)	(6)	(47)	406	447	491	516	542
Advertisement	**6,355**	**5,698**	**6,566**	**7,035**	**9,307**	**11,317**	**12,990**	**14,755**	**16,617**
Domestic pay-TV	2,173	2,696	2,801	3,113	3,446	4,484	5,978	7,358	8,748
Overseas	2,569	2,909	3,030	3,933	3,949	4,440	4,737	4,905	5,014
Domestic subscription	1,168	1,002	978	—	—	—	—	—	—
Others	115	(74)	364	(399)	41	—	—	—	—
Subscription revenues	**6,026**	**6,533**	**7,174**	**6,648**	**7,436**	**8,924**	**10,715**	**12,263**	**13,762**
Education	131	106	162	205	235	386	418	460	506
Others	1,190	742	2,641	1,271	1,376	1,279	1,405	1,475	1,548
Total revenues	**13,702**	**13,079**	**16,544**	**15,159**	**18,354**	**21,907**	**25,528**	**28,952**	**32,433**
Programming/Content	(2,520)	(2,611)	(4,247)	(4,783)	(5,173)	(6,286)	(7,235)	(8,259)	(9,172)
Broadcasting	(618)	(675)	(515)	(564)	(605)	(608)	(631)	(627)	(622)
Distribution	(1,837)	(1,534)	(2,565)	(1,967)	(1,953)	(2,051)	(2,170)	(2,226)	(2,256)
Other direct operating	—	—	(262)	(766)	(88)	(126)	(142)	(156)	(172)
Employees	(727)	(858)	(1,089)	(1,017)	(1,438)	(1,898)	(2,068)	(2,243)	(2,411)
SG&A	(3,691)	(3,051)	(3,431)	(2,858)	(3,675)	(3,914)	(4,294)	(4,426)	(4,748)
Total expenses	**(9,393)**	**(8,728)**	**(13,848)**	**(11,955)**	**(12,931)**	**(14,884)**	**(16,541)**	**(17,937)**	**(19,381)**
EBITDA	**4,309**	**4,351**	**2,695**	**3,204**	**5,423**	**7,023**	**8,987**	**11,015**	**13,051**
Other income	776	521	639	747	1,138	976	1,009	1,222	1,538
Interest expense	(583)	(207)	(188)	(334)	(516)	(698)	(75)	—	—
Depreciation	(320)	(329)	(360)	(185)	(232)	(286)	(327)	(334)	(346)
Amortization	—	—	—	—	—	—	—	—	—
Pretax profits	**4,183**	**4,336**	**2,787**	**3,432**	**5,813**	**7,016**	**9,594**	**11,903**	**14,243**
Extraordinary items	26	(140)	19	—	(26)	574	—	—	—
Tax	(1,103)	(1,123)	(528)	(926)	(1,794)	(2,166)	(3,266)	(3,996)	(4,872)
Deferred tax	54	99	(9)	(76)	168	1	7	9	11
Minority interest	(192)	(50)	(117)	(58)	(328)	(304)	(299)	(390)	(447)
Net income	**2,969**	**3,123**	**2,153**	**2,373**	**3,833**	**5,121**	**6,035**	**7,526**	**8,936**
Recurring net income	**2,942**	**3,263**	**2,134**	**2,373**	**3,859**	**4,547**	**6,035**	**7,526**	**8,936**
Fully diluted EPS	**7.1**	**7.5**	**4.9**	**5.5**	**8.9**	**10.5**	**13.9**	**17.4**	**20.6**
Key ratios									
EBITDA growth (%)	**14.7**	**1.0**	**(38.1)**	**18.9**	**69.3**	**29.5**	**28.0**	**22.6**	**18.5**
EPS growth (%)	**18.2**	**5.2**	**(34.6)**	**11.2**	**62.6**	**17.8**	**32.7**	**25.0**	**18.7**
EBITDA margin (%)	31.5	33.3	16.3	21.1	29.5	32.1	35.2	38.0	40.2
Tax rate (%)	24.9	24.4	19.1	29.2	28.1	28.5	34.0	33.5	34.1
Shares o/s year end (mn)	412	412	413	434	434	434	434	434	434
Shares o/s fully diluted (mn)	412	435	435	435	435	435	435	434	434

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of Zee Telefilms 2006 and of ZEEL 2007-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Total revenues	**16,544**	**15,159**	**18,354**	**21,907**	**25,528**	**28,952**	**32,433**
EBITDA	**2,695**	**3,204**	**5,423**	**7,023**	**8,987**	**11,015**	**13,051**
Other income	639	747	1,138	976	1,009	1,222	1,538
Interest	(188)	(334)	(516)	(698)	(75)	—	—
Depreciation	(360)	(185)	(232)	(286)	(327)	(334)	(346)
Amortization	—	—	—	—	—	—	—
Pretax profits	**2,787**	**3,432**	**5,813**	**7,016**	**9,594**	**11,903**	**14,243**
Extraordinary items	19	—	(26)	574	—	—	—
Tax	(528)	(926)	(1,794)	(2,166)	(3,266)	(3,996)	(4,872)
Deferred tax	(9)	(76)	168	1	7	9	11
Minority interest	(117)	(58)	(328)	(304)	(299)	(390)	(447)
Net income	**2,153**	**2,373**	**3,833**	**5,121**	**6,035**	**7,526**	**8,936**
Recurring net income	**2,134**	**2,373**	**3,859**	**4,547**	**6,035**	**7,526**	**8,936**
Earnings per share (Rs)	**4.9**	**5.5**	**8.9**	**10.5**	**13.9**	**17.4**	**20.6**
Balance sheet (Rs mn)							
Total equity	21,286	26,181	28,611	32,210	36,225	41,232	47,178
Deferred tax balance	(148)	(75)	(243)	(244)	(251)	(260)	(271)
Minority interest	458	819	1,117	1,421	1,721	2,111	2,557
Total borrowings	4,901	3,226	3,866	2,111	0	—	—
Currrent liabilities	4,346	5,106	6,279	6,903	7,380	7,850	8,253
Total capital	**30,844**	**35,256**	**39,629**	**42,401**	**45,075**	**50,933**	**57,717**
Cash	1,286	955	1,652	1,941	2,594	6,619	11,606
Current assets	13,574	17,133	19,856	22,425	24,574	26,515	28,433
Net fixed assets	12,948	14,841	15,605	15,520	15,392	15,283	15,162
Investments	3,024	2,326	2,515	2,515	2,515	2,515	2,515
Deferred expenditure	12	2	—	—	—	—	—
Total assets	**30,844**	**35,256**	**39,629**	**42,401**	**45,075**	**50,933**	**57,717**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,931	1,812	3,898	4,734	5,646	7,019	8,179
Working capital	(3,950)	(486)	(1,622)	(1,944)	(1,671)	(1,472)	(1,515)
Capital expenditure	(383)	(460)	(1,019)	(200)	(200)	(225)	(225)
Investments	418	(4,289)	(1,511)	—	—	—	—
Other income	488	469	876	976	1,009	1,222	1,538
Free cash flow	**(1,496)**	**(2,954)**	**622**	**3,565**	**4,783**	**6,544**	**7,977**
Revenue model (Rs mn)							
Advertising revenues	6,566	7,035	9,307	11,317	12,990	14,755	16,617
Subscription-domestic	2,801	3,113	3,446	4,484	5,978	7,358	8,748
Subscription-overseas	3,030	3,933	3,949	4,440	4,737	4,905	5,014
Subscription-cable	978	—	—	—	—	—	—
Others	3,168	1,078	1,652	1,665	1,823	1,935	2,053
Total revenues	**16,544**	**15,159**	**18,354**	**21,907**	**25,528**	**28,952**	**32,433**

Source: Kotak Institutional Equities estimates.

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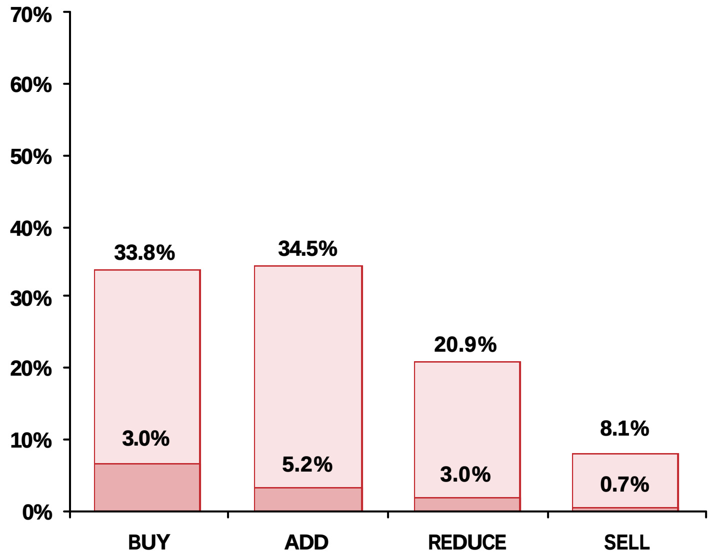

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Source: Kotak Institutional Equities. As of June 30, 2008

Ratings and other definitions/identifiers

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