kotak® Institutional Equities

INDIA DAILY

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EQUITY MARKETS

	Change, %			
India	**31-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	14,356	0.5	10.8	(17.0)
Nifty	4,333	0.5	11.2	(16.1)
Global/Regional indices				
Dow Jones	11,378	(1.8)	(0.0)	(12.5)
FTSE	5,412	(0.2)	(1.2)	(11.1)
Nikkie	13,081	(2.2)	(2.8)	(5.0)
Hang Seng	22,324	(1.8)	1.0	(13.3)
KOSPI	1,572	(1.4)	(5.7)	(13.9)

Value traded - India

	Moving avg, Rs bn			
	31-Jul		1-mo	3-mo
Cash (NSE+BSE)	203.7		180.0	185.8
Derivatives (NSE)	646.4		405.9	340
Deri. open interest	893.3		627	640

Forex/money market

	Change, basis points			
	31-Jul	1-day	1-mo	3-mo
Rs/US$	#N/A	#N/A	#N/A	#N/A
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US$mn)

	30-Jul		MTD	CYTD
FIIs	(97)		-	(6,563)
MFs	#N/A		#N/A	#N/A

Top movers -3mo basis

	Change, %			
Best performers	**31-Jul**	**1-day**	**1-mo**	**3-mo**
Ingersoll Rand	410	(1.1)	36.0	32.5
Chambal Fert	76	2.4	31.3	10.9
Ballarpur Ind	33	0.8	3.0	9.2
United Phos	340	4.5	18.3	5.4
Ranbaxy	498	1.2	(1.7)	3.8
Worst performers				
Moser Baer	93	(2.7)	(18.7)	(46.0)
Century Tex	479	(2.5)	2.8	(45.1)
Tata Motors	404	(3.0)	(1.2)	(39.3)
Wockhardt	187	(2.3)	6.8	(37.2)
Andhra Bank	53	(1.4)	2.4	(34.9)

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Telecom

RLCM.BO, Rs501	
Rating	SELL
Sector coverage view	Cautious
Target Price (Rs)	390
52W High -Low (Rs)	845 - 380
Market Cap (Rs bn)	1,033

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	190.7	243.0	311.5
Net Profit (Rs bn)	55.1	62.9	75.1
EPS (Rs)	25.0	28.6	34.8
EPS gth	*76.4*	*14.1*	*21.9*
P/E (x)	20.0	17.5	14.4
EV/EBITDA (x)	13.8	11.6	9.1
Div yield (%)	0.1	0.2	0.0

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	66.1	-	-
FIIs	12.5	1.7	(1.0)
MFs	3.1	2.3	(0.4)
UTI	-	-	(2.8)
LIC	5.0	3.3	0.6

Reliance Communications: 1QFY09 results miss estimates by a yard; significant execution risks ahead. Maintain SELL

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- **Operating performance substantially below ours and street expectations**
- **Wireless operations lag-revenues decline sequentially; MOU and ARPU declines sharply**
- **Aggressive capex plans maintained; capital productivity the key**
- **Retain SELL rating with a target price of Rs390/share**

Reliance Communications' (RCOM) reported 1QFY09 net income of Rs15.12 bn (+0.6% qoq and +24% yoy) was aided by change in accounting policy, negligible tax provisioning and lower minority interest charge. EBITDA of Rs22.5 bn (-2.9% qoq, +24% yoy) declined sequentially and missed our expectation by 12%. More important, overall revenues were flat and wireless revenues declined sequentially. Key metrics such as ARPU, MOU and RPM declined significantly and are on a markedly different (compared to peers) and deteriorating trend. We reduce our FY2009E, FY2010E and FY2011E EPS to Rs28.6, Rs34.8 and Rs38from Rs29.7, Rs36.8 and Rs41 earlier. We believe that significant execution risks exist to the consensus subs share expectations, pricing and profitability. Maintain SELL rating. Our target price stands revised down to Rs390 (Rs420 earlier) and is based on a 20% discount to fair value (for core business). We continue to add Rs40/share of option value for the company's tower assets in our target price; we highlight the downside risk to this estimate as well in the absence of any external tenancy.

Significant revenue and earnings miss. RCOM's 1QFY09 revenues of Rs53.2 bn (+0.2% qoq, +23.7% yoy) were significantly lower than our estimate of Rs58 bn. Wireless revenues declined sequentially; global business had flat revenues despite (a) consolidation of an acquisition and (b) benefits of rupee depreciation. EBITDA of Rs22.5 bn, declined 2.9% qoq, impacted partially by one-time costs (of Vanco acquisition integration) and deterioration in profitability of the long distance business. Net income of Rs15.1 bn was in line with our estimates but aided by (1) change in accounting policy related to foreign currency borrowings which aided net income by Rs10.6 bn; the company reported net interest income of Rs2.34 bn despite having net debt of Rs130 bn and (2) tax write back as against our expectation of an increase.

Interconnection costs and license fees once again declined by 8.1% sequentially and 5.5% yoy to Rs9.2 bn (see Exhibit 6). We attribute part of the decline to reduction in ADC charges. Network operating costs jumped 24% qoq to Rs8.1 bn, led, in our view, by the increase in the number of operational sites in rural areas and increase in fuel costs, especially for rural sites which are run more on diesel gensets rather than grid power.

Change in accounting policy related to foreign currency borrowings. RCOM has changed accounting policy relating to foreign currency borrowings again. For the June' 2008 quarter, the company has changed its accounting policy to accommodate the change in quarterly fluctuation in foreign exchange rates on overseas borrowings, related to acquisition of fixed assets against the carrying cost of fixed assets. *These changes were earlier routed through P&L (under AS 11). The earnings of RCOM would have been lower by Rs10.6 bn for 1QFY09 had it continued to follow the earlier accounting policy.*

Recurring minority charge surprising. RCOM had a minority interest charge of Rs635 mn in the Jun '08 quarter. This charge pertains to the transfer of 20% of economic interest, without a fair-value consideration, in RTIL and FLAG to a trust formed in Mauritius. The company indicates that this is an efficient tax planning mechanism. While the stake by this trust is held in beneficial interest of RCOM shareholders, the company indicates that AS-23 mandates this charge to be taken in the P&L. On a separate note, the implied profits of RTIL and FLAG combined works out to a meaningful Rs3.2 bn for the quarter. RCOM had a minority interest charge of Rs1.25 bn in the previous quarter, which included a one-time provision of Rs610 mn.

Wireless segment—significant deterioration in metrics, PCO the biggest culprit. RCOM's 1QFY09 wireless segment's revenues declined 1% qoq to Rs41.2 bn. YoY growth in revenues was a modest 22%. Revenue decline was accompanied by a steep decline in ARPU, RPM and MOU. EBITDA declined 0.8% qoq and increased 24% yoy to Rs16.6 bn, EBITDA margin increased by a marginal 10 bps. The total minutes carried by RCOM's network grew by just 9.7% qoq and 35% yoy to 62 bn minutes.

RCOM reported a qoq and yoy decline in MOUs (down 1.4% qoq and 17% yoy to 424 minutes), against the industry trend of increasing minutes usage. We note that this is the fifth consecutive quarter of MOU decline for the company. We believe that a part of the decline in minutes could be the impact of local, STD, and roaming tariff reduction to the company's PCO MOUs. We note that PCOs make approx. 5% of RCOM's reported wireless subs base of 50 mn and approx. 20% of wireless revenues. We also note that the profitable STD minutes through the PCO platform may have been impacted reflecting in steep 10% qoq decline in RPM accompanied with little change in minutes. We have long highlighted this risk in our notes earlier, which in our view is finally coming to bear.

Long distance segment—organic revenues decline sequentially, margin decline inexplicable. RCOM's LD segment's revenues were flat qoq at Rs15.3 bn. We highlight that RCOM acquired Vanco, a managed network services provider during the quarter (yearly revenue run rate of US$325 mn) and consolidated the same for a part of the quarter. The company indicates that Vanco contributed around Rs1 bn to the LD segment revenues for the quarter. Excluding the same, the organic LD segment revenues declined 6.5% qoq, despite the international revenues benefitting from rupee depreciation. ILD voice volumes declined qoq and increased a marginal 8% yoy, reflecting significant market share losses to peers. Domestic LD minutes increased 11.4% qoq, reflecting the usage elasticity on account of a cut in LD tariffs during the quarter. The segment was also impacted by lowering of ADC charges on international incoming minutes; we believe that the company was not able to retain large part of the ADC reduction benefit.

Decline in EBITDA and EBITDA margin of the long distance business was inexplicable. EBITDA for the LD segment declined 22.2% qoq and 1% yoy to Rs3.2 bn; EBITDA margin declined 570 bps qoq and 380 bps yoy to 21.1%. We were expecting an increase in margin given positive factors such as (1) reduction in ADC charges and (2) rupee depreciation which would have aided the profitability in incoming ILD minutes. The management attributes part of the decline to one time integration costs of Vanco and e-Wave acquisitions.

Broadband segment—another strong quarter, but too small to change the fortunes at the consolidated level. RCOM's broadband segment's revenues increased 10%% qoq to Rs5.6 bn in 1QFY09 led by a 11.3% increase in subscriber base to 1.15 mn (+116,000 subs in 1QFY09) and a moderate decline in ARPU (-2.6% qoq to Rs1,715). EBITDA margin declined a marginal 50 bps to 48.4%.

Reducing EPS estimates further. We reduce our MOU, RPM, and EPM assumptions for RCOM's wireless business further, noting the pressure on company's PCO business. We have moderately increased our LD segment revenues estimates (with lower EBITDA margins) to factor in the recent Vanco acquisition and related integration costs. This leads to a 3-4% reduction in our FY2009-11E revenue estimates for the company. EBITDA and EPS estimates stand reduced by 5-7% and 4-7% for FY2009-11E, respectively. See Exhibit 2 for a summary of changes in our estimates.

Highlight capital productivity and execution challenges once again. RCOM has been aggressive on capex (cumulative capex of US$7 bn over the past two years) and intends to incur another US$6 bn of capex in FY2009E (the company spent around US$1.6 bn in 1QFY09). Majority of this capex would likely be spent on the company's wireless business (nation-wide GSM rollout primarily). We highlight that RCOM's cumulative investment in the wireless business is US$10 bn, higher than Bharti's US$9.3 bn. Against that RCOM's wireless revenues and EBITDA for FY2008 were 30% and 29% lower than Bharti, respectively. This reflects in the company's substantially lower CROCI (cash return on cash invested, see Exhibit 3) in the wireless business as compared to Bharti (and Idea as well). We believe that the street's focus would now be on capital productivity of the company and acceleration in subscriber net adds. We note that the company has lost 4 %pts subscriber market share over the past two years. Exhibit 4 compares the long-distance segment CROCI for RCOM and Bharti; even in this segment RCOM's CROCI is substantially lower than that of Bharti.

We are also worried about the profitability of the business once the GSM network expansion is completed. Presently, the company is capitalizing expenses and interest costs pertaining to the GSM network. The CWIP stands at a massive US$4.2 bn and net debt at US$3 bn. We believe that profitability will likely come under pressure, once these expenses start hitting the P&L.

We are also worried about the moderate delay in GSM network roll out. RCOM now indicates a phased roll out of GSM network starting end-2008 and completing by mid-2009.

Value accretion from GSM expansion challenging, in our view. We believe that intensifying competition, pressure on pricing, high capex, and lower quality of incremental subscribers will make value accretion from GSM expansion extremely challenging. We believe that any new entrant (a new player or an existing player entering a new circle) will likely face significant challenges in the form of (1) reduced addressable market, (2) deteriorating quality of incremental subscribers, with urban markets already highly penetrated and (3) higher capex as the spectrum allocation would be in the 1,800 Mhz band. We also note that a large portion of incremental subscribers (close to one-third now, and increasing) is coming in as 'lifetime' subscribers, which do not lead to substantial value accretion, in our view.

We concede that RCOM may be in a better position than other new players coming into the market given that it can leverage its existing backhaul networks, tower portfolio, and distribution network to drive faster time-to-market and larger reach. However, we do not see any meaningful cost advantages of running a dual-network. Even if that were the case, we believe that RCOM will likely utilize the same to be more aggressive on pricing and pass on a substantial portion of the benefits to the consumers. Also, while one can argue that MNP introduction will likely provide the new operators a means to target high-end subscribers of existing players, we believe increased competition to lead to increase in subscriber acquisition and retention costs for the industry as a whole, a situation negative for all industry players.

Consolidated interim results for Reliance Communications (Rs mn)

	qoq			yoy		
	1Q 2009	4Q 2008	% chg	1Q 2009	1Q 2008	% chg
Gross sales	**53,222**	**53,114**	***0.2***	**53,222**	**43,037**	***23.7***
Operating costs						
Interconnection costs	(9,159)	(9,962)	*(8.1)*	(9,159)	(9,687)	*(5.5)*
Network operating costs	(8,128)	(6,562)	*23.9*	(8,128)	(4,338)	*87.4*
Employee costs	(3,517)	(3,430)	*2.5*	(3,517)	(2,464)	*42.7*
G&A expenses	(9,916)	(9,996)	*(0.8)*	(9,916)	(8,406)	*18.0*
Operating costs	(30,720)	(29,950)	*2.6*	(30,720)	(24,895)	*23.4*
EBITDA	**22,502**	**23,164**	***(2.9)***	**22,502**	**18,142**	***24.0***
EBITDA margin (%)	42.3	43.6	—	42.3	42.2	—
Net finance cost	2,340	81	*2,788.9*	2,340	1,274	*83.7*
Depreciation and amortization	(8,638)	(7,856)	*10.0*	(8,638)	(6,192)	*39.5*
Extraordinary item	(640)	611	—	(640)	15	—
PBT	**15,564**	**16,000**	***(2.7)***	**15,564**	**13,239**	***17.6***
Provision for tax	194	272	—	194	(1,031)	—
Deferred tax (liability)/asset	—	—		—	—	
Minority loss/(income)	(635)	(1,240)		(635)	—	
Reported net income	**15,123**	**15,032**	***0.6***	**15,123**	**12,208**	***23.9***
Wireless segment (a)						
Revenues	41,187	41,608	*(1.0)*	41,187	33,730	*22.1*
Net revenues	31,280	31,757	*(1.5)*	31,280	24,244	*29.0*
EBITDA	16,623	16,763	*(0.8)*	16,623	13,392	*24.1*
EBIT	10,486	10,995	*(4.6)*	10,486	9,284	*12.9*
EBITDA margin (%)	**40.4**	**40.3**		**40.4**	**39.7**	
Subscribers ('000)	50,773	45,793	*10.9*	50,773	31,879	*59.3*
Prepaid	46,153	41,214	*12.0*	46,153	27,730	*66.4*
Postpaid	4,620	4,579	*0.9*	4,620	4,149	*11.4*
Total (a)	50,773	45,793	*10.9*	50,773	31,879	*59.3*
Cellular subscribers (%)						
Prepaid	91	90		91	87	
Postpaid	9	10		9	13	
ARPU (Rs/mth)	282	317	*(11.0)*	282	375	*(24.8)*
MOU (min/mth)	424	430	*(1.4)*	424	510	*(16.9)*
Blended	424	430	*(1.4)*	424	510	*(16.9)*
Revenue/min: RPM = ARPU/MOU	**0.66**	**0.74**	***(9.9)***	**0.66**	**0.74**	***(9.7)***
Total estimated volume (mn mins)	62,000	56,500	*9.7*	62,000	45,800	*35.4*
Capex (Rs mn)	56,926	46,442	*22.6*	56,926	14,973	*280.2*
EBITDA per min - blended (Rs)	**0.27**	**0.30**		**0.27**	**0.29**	
SMS as % of wireless revenues	1.2	1.2		1.2	1.4	
Non-voice as % of wireless ARPU revenues	7.6	6.9		7.6	5.7	
Long distance segment (b)						
Revenues	15,260	15,257	*0.0*	15,260	13,033	*17.1*
Net revenues	10,038	9,374	*7.1*	10,038	7,364	*36.3*
EBITDA	3,222	4,089	*(21.2)*	3,222	3,239	*(0.5)*
EBIT	1,585	2,634	*(39.8)*	1,585	1,898	*(16.5)*
EBITDA margin (%)	21.1	26.8		21.1	24.9	
Total ILD minutes (mn)	1,726	1,769	*(2.4)*	1,726	1,590	*8.6*
Total DLD minutes	6,641	5,964	*11.4*	6,641	5,639	*17.8*
Capex (Rs mn)	9,643	1,682	*473.3*	9,643	744	*1,196.1*
Broadband						
Revenues	5,603	5,100	*9.9*	5,603	3,833	*46.2*
Net revenues	4,815	4,424	*8.8*	4,815	3,275	*47.0*
EBITDA	2,714	2,492	*8.9*	2,714	1,836	*47.8*
EBIT	1,974	1,862	*6.0*	1,974	1,272	*55.2*
EBITDA margin (%)	48.4	48.9		48.4	47.9	
Capex (Rs mn)	3,030	4,605	*(34.2)*	3,030	2,176	*39.2*

Note:
(a) Wireless includes CDMA, GSM and Fixed Wireless services; also includes mobile handset sales.
(b) Long distance includes NLD, ILD services and revenues from FLAG.

Source: Company

Summary of key changes to the RCOM model, March fiscal year-ends, 2008-2017E

	Unit	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Mobile market subs old	mn	355	440	504	553	592	623	648	668	684
Mobile market subs new	mn	355	440	504	553	592	623	648	668	684
Revision	*(%)*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
RCOM mobile subs old	mn	66.7	84.6	98.2	108.5	116.8	123.4	128.8	133.0	136.4
RCOM mobile subs new	mn	66.7	84.6	98.2	108.5	116.8	123.4	128.8	133.0	136.4
Revision	***(%)***	***0%***	***0%***	***0%***	***0%***	***0%***	***0%***	***0%***	***0%***	***0%***
Blended ARPU (incl. inroaming) est. old	Rs	290	279	272	273	275	277	279	280	282
Blended ARPU (incl. inroaming) est. new	Rs	276	261	257	259	261	264	265	266	269
Revision	*(%)*	*-5%*	*-6%*	*-6%*	*-5%*	*-5%*	*-5%*	*-5%*	*-5%*	*-5%*
Blended RPM est. old	Rs	0.63	0.60	0.58	0.59	0.59	0.60	0.60	0.60	0.61
Blended RPM est. new	Rs	0.63	0.59	0.58	0.58	0.59	0.59	0.60	0.60	0.60
Revision	*(%)*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*-1%*	*0%*	*0%*	*0%*
Blended MOU est. old	Rs	460	464	465	465	464	464	464	465	465
Blended MOU est. new	Rs	440	439	443	443	443	444	444	445	445
Revision	*(%)*	*-4%*	*-5%*	*-5%*	*-5%*	*-4%*	*-4%*	*-4%*	*-4%*	*-4%*
Consolidated revenues old	(Rs bn)	251	326	386	438	481	519	549	575	600
Consolidated revenues new	(Rs bn)	243	311	371	423	465	502	532	557	582
Revision	*(%)*	*-3%*	*-4%*	*-4%*	*-3%*	*-3%*	*-3%*	*-3%*	*-3%*	*-3%*
Consolidated EBITDA old	**(Rs bn)**	**110**	**142**	**169**	**190**	**209**	**225**	**239**	**251**	**263**
Consolidated EBITDA new	**(Rs bn)**	**102**	**133**	**160**	**180**	**198**	**213**	**227**	**239**	**251**
Revision	***(%)***	***-7%***	***-6%***	***-5%***	***-5%***	***-5%***	***-5%***	***-5%***	***-5%***	***-5%***
Mobile EBITDA margin old	(%)	40.2	41.5	41.4	41.1	41.3	41.2	41.4	41.6	41.8
Mobile EBITDA margin new	(%)	39.9	40.6	40.8	40.4	40.4	40.2	40.4	40.7	40.9
Revision	*(bps)*	*-24*	*-88*	*-60*	*-72*	*-85*	*-100*	*-96*	*-94*	*-90*
Adjusted PAT old	**(Rs bn)**	**64.2**	**79.3**	**88.4**	**106.3**	**124.2**	**136.2**	**146.2**	**128.5**	**131.8**
Adjusted PAT new	**(Rs bn)**	**62.2**	**75.1**	**82.0**	**99.2**	**116.3**	**127.5**	**133.5**	**119.3**	**124.1**
Revision	***(%)***	***-3%***	***-5%***	***-7%***	***-7%***	***-6%***	***-6%***	***-9%***	***-7%***	***-6%***
Diluted EPS estimate old	**(Rs)**	**29.7**	**36.8**	**41.0**	**49.3**	**57.6**	**63.1**	**67.8**	**59.5**	**61.1**
Diluted EPS estimate new	**(Rs)**	**28.6**	**34.8**	**38.0**	**46.0**	**53.9**	**59.1**	**61.9**	**55.3**	**57.5**
Revision	***(%)***	***-4%***	***-5%***	***-7%***	***-7%***	***-6%***	***-6%***	***-9%***	***-7%***	***-6%***
Capex old	**(Rs bn)**	**169.1**	**88.2**	**79.4**	**71.2**	**71.9**	**75.9**	**76.9**	**78.6**	**78.5**
Capex new	**(Rs bn)**	**168.2**	**90.2**	**78.0**	**70.0**	**70.9**	**75.1**	**76.3**	**78.0**	**77.9**
Revision	***(%)***	***-1%***	***2%***	***-2%***	***-2%***	***-1%***	***-1%***	***-1%***	***-1%***	***-1%***
Mobile capex /sales old	(%)	87	29	20	16	15	14	14	13	12
Mobile capex /sales new	(%)	91	32	21	16	15	15	14	14	13
Revision	*(pps)*	*4.0*	*2.8*	*0.7*	*0.5*	*0.5*	*0.6*	*0.5*	*0.5*	*0.5*

Source: Kotak Institutional Equities estimates

RCOM's wireless CROCI has been significantly below both Bharti and Idea

CROCI of wireless segment of Bharti/RCOM and of Idea (%)

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Bharti Airtel									
EBIT (Rs mn)	6,961	8,085	9,184	11,424	13,321	14,058	15,345	17,920	15,720
Tax rate (%)	11.1	12.8	14.8	9.0	19.0	6.5	8.2	9.9	13.8
EBIT*(1-t) (Rs mn)	6,190	7,052	7,821	10,398	10,788	13,145	14,084	16,152	13,553
Add: Depreciation	3,380	4,094	4,945	5,180	5,766	6,670	7,542	7,095	5,498
Cash return (Rs mn)	9,570	11,146	12,766	15,578	16,554	19,815	21,626	23,247	19,051
Annualized cash return (Rs mn)	38,281	44,582	51,063	62,313	66,216	79,259	86,504	92,988	76,206
Gross cash invested (Rs mn)	177,633	205,084	220,672	231,414	264,494	292,954	320,472	339,814	250,514
CROCI (%)	**21.6**	**21.7**	**23.1**	**26.9**	**25.0**	**27.1**	**27.0**	**27.4**	**30.4**
Reliance Communications									
EBIT (Rs mn)	3,998	5,131	5,542	6,991	9,284	10,236	10,738	10,995	10,486
Tax rate (%)	5.0	0.8	1.4	1.4	7.8	5.1	9.0	(1.7)	(1.2)
EBIT*(1-t) (Rs mn)	3,797	5,088	5,465	6,891	8,561	9,716	9,772	11,182	10,617
Add: Depreciation	3,573	4,163	4,751	4,520	4,108	4,634	5,081	5,768	6,137
Cash return (Rs mn)	7,370	9,251	10,216	11,411	12,669	14,350	14,853	16,950	16,754
Annualized cash return (Rs mn)	29,478	37,004	40,864	45,642	50,676	57,401	59,410	67,800	67,015
Gross cash invested (Rs mn)	155,117	170,100	182,190	192,050	207,023	256,708	317,313	363,755	420,681
CROCI (%)	**19.0**	**21.8**	**22.4**	**23.8**	**24.5**	**22.4**	**18.7**	**18.6**	**15.9**
Idea Cellular									
EBIT (Rs mn)			1,905	2,599	3,241	3,121	3,417	4,024	4,409
Tax rate (%)			3.2	1.0	0.5	0.7	0.7	0.8	10.1
EBIT*(1-t) (Rs mn)			1,845	2,573	3,224	3,100	3,394	3,992	3,962
Add: Depreciation			1,801	1,761	1,887	2,007	2,277	2,597	2,749
Cash return (Rs mn)			3,646	4,334	5,111	5,107	5,671	6,589	6,711
Annualized cash return (Rs mn)			14,584	17,336	20,446	20,430	22,686	26,354	26,844
Gross cash invested (Rs mn)			66,187	75,661	86,670	98,972	108,606	120,513	147,187
CROCI (%)			**22.0**	**22.9**	**23.6**	**20.6**	**20.9**	**21.9**	**18.2**

Source: Companies, Kotak Institutional Equities estimates

RCOM's capital productivity significantly below Bharti's in the LD segment as well

Quarterly LD segment CROCI of Bharti and RCOM (%)

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Bharti - Long Distance									
EBIT (Rs mn)	2,278	2,864	3,388	2,966	2,753	2,740	2,837	3,170	5,987
Tax rate (%)	11.1	12.8	14.8	9.0	19.0	6.5	8.2	9.9	13.8
EBIT*(1-t) (Rs mn)	2,026	2,498	2,885	2,700	2,229	2,562	2,604	2,857	5,162
Add: Depreciation	472	503	614	674	413	722	815	857	897
Cash return (Rs mn)	2,498	3,001	3,499	3,374	2,642	3,284	3,419	3,714	6,059
Annualized cash return (Rs mn)	9,991	12,004	13,996	13,495	10,570	13,136	13,675	14,857	24,236
Gross cash invested (Rs mn)	29,033	32,563	34,214	36,547	39,701	49,555	52,566	57,976	63,473
CROCI (%)	**34.4**	**36.9**	**40.9**	**36.9**	**26.6**	**26.5**	**26.0**	**25.6**	**38.2**
RCOM - Long Distance									
EBIT (Rs mn)	1,554	1,785	2,491	1,893	1,898	1,903	1,935	2,634	1,585
Tax rate (%)	5.0	0.8	1.4	1.4	7.8	5.1	9.0	(1.7)	(1.2)
EBIT*(1-t) (Rs mn)	1,476	1,770	2,456	1,866	1,750	1,806	1,761	2,679	1,605
Add: Depreciation	1,288	1,414	1,059	1,228	1,341	1,373	1,493	1,455	1,637
Cash return (Rs mn)	2,764	3,184	3,515	3,094	3,091	3,179	3,254	4,134	3,242
Annualized cash return (Rs mn)	11,055	12,736	14,062	12,375	12,365	12,717	13,015	16,535	12,967
Gross cash invested (Rs mn)	80,155	83,820	84,310	87,640	84,714	89,279	111,672	113,354	122,997
CROCI (%)	**13.8**	**15.2**	**16.7**	**14.1**	**14.6**	**14.2**	**11.7**	**14.6**	**10.5**

Source: Kotak Institutional Equities estimates

RCOM's wireless revenues now trail Bharti's by 40%

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Gross wireless revenues									
Bharti	28,411	33,022	37,579	42,431	46,976	50,579	56,105	64,201	69,150
RCOM	24,320	25,744	27,520	29,692	33,730	37,230	39,567	41,608	41,187
RCOM revenues as % of Bharti's	**86**	**78**	**73**	**70**	**72**	**74**	**71**	**65**	**60**
Wireless EBITDA									
Bharti	10,341	12,179	14,129	16,604	19,087	20,728	22,887	22,779	21,218
RCOM	8,746	9,294	10,290	11,511	13,392	14,870	15,819	16,763	16,623
RCOM EBITDA as % of Bharti's	**85**	**76**	**73**	**69**	**70**	**72**	**69**	**74**	**78**

Note:

(a) Bharti's wireless EBITDA for Mar 2008 and Jun 2008 quarters impacted by payment of rentals to the passive infra division.

Source: Companies, Kotak Institutional Equities estimates

Consistent decline in interconnection costs baffling

Rs mn	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Gross revenues	32,501	35,260	37,553	39,369	43,037	45,785	48,742	53,114	53,222
Interconnection costs	(9,286)	(9,068)	(9,491)	(9,978)	(9,687)	(9,746)	(11,188)	(9,962)	(9,159)
Network operating costs	(3,816)	(4,332)	(4,165)	(4,423)	(4,338)	(5,662)	(5,446)	(6,562)	(8,128)
Employee costs	(2,157)	(2,271)	(2,200)	(2,451)	(2,464)	(3,056)	(3,087)	(3,430)	(3,517)
G&A expenses	(5,180)	(6,063)	(6,426)	(6,166)	(8,406)	(7,703)	(7,956)	(9,996)	(9,916)
Total operating costs	**(20,439)**	**(21,734)**	**(22,281)**	**(23,017)**	**(24,895)**	**(26,166)**	**(27,677)**	**(29,950)**	**(30,720)**
Depreciation & amortization	**(5,514)**	**(6,237)**	**(6,524)**	**(6,378)**	**(6,192)**	**(6,754)**	**(7,252)**	**(7,856)**	**(8,638)**
Capex	**15,783**	**18,930**	**15,810**	**15,430**	**17,893**	**53,176**	**88,032**	**52,729**	**69,599**
As % of revenues									
Interconnection costs	**28.6**	**25.7**	**25.3**	**25.3**	**22.5**	**21.3**	**23.0**	**18.8**	**17.2**
Network operating costs	11.7	12.3	11.1	11.2	10.1	12.4	11.2	12.4	15.3
Employee costs	6.6	6.4	5.9	6.2	5.7	6.7	6.3	6.5	6.6
G&A expenses	15.9	17.2	17.1	15.7	19.5	16.8	16.3	18.8	18.6
Total operating costs	**62.9**	**61.6**	**59.3**	**58.5**	**57.8**	**57.2**	**56.8**	**56.4**	**57.7**
Depreciation & amortization	17.0	17.7	17.4	16.2	14.4	14.8	14.9	14.8	16.2

Source: Company, Kotak Institutional Equities estimates

RCOM's balance sheet shows certain odd movements over the past few quarters

RCOM's balance sheet for the most recent quarters (Rs mn)

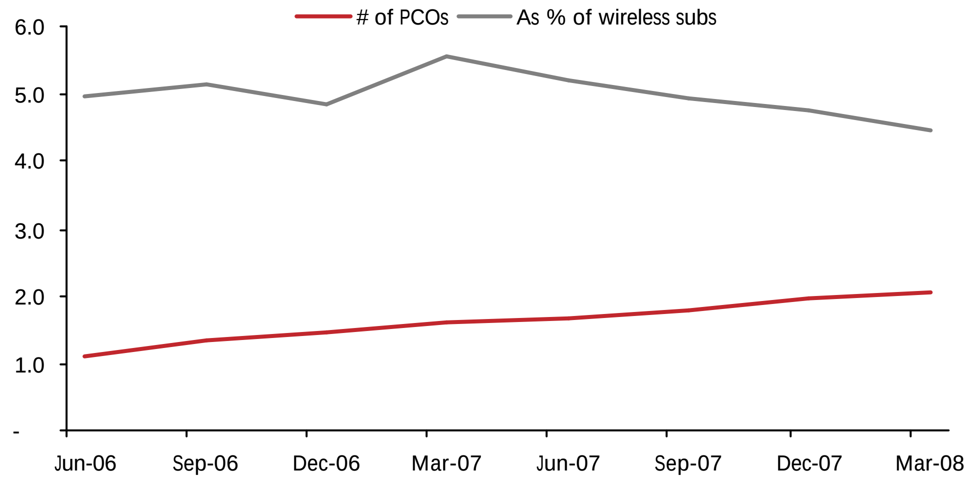
	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Equity										
Share capital	10,223	10,223	10,223	10,223	10,220	10,223	10,223	10,314	10,320	10,320
Reserves and surprlus	107,212	112,032	170,063	191,392	193,708	204,940	206,456	229,822	246,107	253,877
Equity	**117,435**	**122,255**	**180,286**	**201,615**	**203,928**	**215,163**	**216,679**	**240,136**	**256,427**	**264,197**
Minority interest	96	99	99	96	59	63	23,419	23,223	24,311	18,707
Debt	103,332	119,075	123,660	114,283	155,438	171,514	158,029	179,664	215,681	207,542
Current liabilities	80,170	102,320	117,885	125,770	136,016	134,619	168,401	220,988	199,267	238,240
Provisions	18,705	19,776	46,236	44,891	43,173	46,207	44,109	43,793	42,420	44,011
Total capital	**319,738**	**363,525**	**468,166**	**486,655**	**538,614**	**567,566**	**610,637**	**707,804**	**738,106**	**772,697**
Assets										
Cash	37,995	94,665	103,082	99,477	137,200	148,669	124,306	112,494	115,981	77,654
Inventories	4,076	3,982	3,970	2,788	4,821	4,182	3,122	3,768	4,059	4,330
Debtors	16,808	17,271	19,509	20,132	18,316	18,683	22,988	29,708	27,224	26,617
Other current assets	765	1,547	1,434	4,453	3,264	15,967	14,849	20,750	23,058	26,121
Loans and advances	23,668	21,459	24,551	23,773	32,662	26,478	49,226	72,466	42,834	56,118
Gross block	**228,295**	**234,730**	**327,706**	**351,683**	**349,456**	**356,144**	**374,339**	**408,870**	**463,640**	**503,993**
Less: Depreciation	47,573	53,299	60,569	69,296	55,940	60,717	70,000	80,825	89,814	102,050
Depreciation for the quarter	**5,457**	**5,514**	**6,237**	**6,524**	**6,378**	**6,192**	**6,754**	**7,252**	**7,856**	**8,638**
Net block	180,722	181,431	267,137	282,387	293,516	295,427	304,339	328,045	373,826	401,943
Capital work in progress	31,305	40,733	**46,121**	**51,161**	**36,907**	**46,214**	**79,505**	**139,228**	**148,327**	**178,381**
Goodwill	2,237	2,308	2,237	2,237						
Investments	22,163	129	125	247	11,925	11,946	11,942	1,345	2,797	1,533
Total assets	**319,739**	**363,525**	**468,166**	**486,655**	**538,611**	**567,566**	**610,277**	**707,804**	**738,106**	**772,697**

Note:

(a) Mar-06 and Jun-06 quarters balance sheets are on pro forma basis; we assume these are comparable with Sep-06 and Dec-06 quarter balance sheet of RCOM.

Source: Company's quarterly financial reports.

Payphones form ~5% of RCOM's total wireless subs



Source: TRAI reports

Our one-year forward value for RCOM is Rs390 (including Rs40/share of option value of tower business)

Discounted cash flow valuation of Reliance Communications (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**102,331**	**133,110**	**159,805**	**180,398**	**198,457**	**213,383**	**227,072**	**238,791**	**250,898**
Tax	(3,059)	(5,175)	(12,214)	(13,835)	(15,206)	(16,336)	(21,148)	(42,954)	(45,775)
Change in working capital	11,053	(58,143)	(34,142)	(13,514)	(8,887)	(7,244)	(8,316)	(7,805)	(9,269)
Post-tax operating cash flow	**110,326**	**69,792**	**113,449**	**153,049**	**174,363**	**189,802**	**197,609**	**188,033**	**195,854**
Capex	(168,231)	(90,193)	(77,994)	(69,991)	(70,936)	(75,144)	(76,251)	(78,019)	(77,895)
Free cash flow	**(57,905)**	**(20,402)**	**35,455**	**83,058**	**103,428**	**114,658**	**121,357**	**110,014**	**117,959**

	Now	+ 1-year	WACC and terminal year assumptions	
PV of cash flows	270,382	409,049	**Terminal growth (%)**	**5.0**
PV of terminal value	594,710	624,446	**WACC (%)**	**12.5**
EV	865,092	1,033,494		
Net debt	96,903	156,721		
Equity value (Rs mn)	**768,189**	**876,773**		
Equity value (US$ mn)	**19,205**	**21,919**		
RCL shares (mn)	2,045	2,045		
Equity value (Rs/RCOM share)	**376**	**429**		
Exit FCF multiple (X)	13.3	13.3		
Exit EBITDA multiple (X)	**6.6**	**6.6**		

Key assumptions (%)	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenue growth	27.4	28.2	19.2	13.8	9.9	8.0	5.9	4.7	4.5
EBITDA growth	24.8	30.1	20.1	12.9	10.0	7.5	6.4	5.2	5.1
EBITDA margin	**43.0**	**42.1**	**42.7**	**43.0**	**42.7**	**42.7**	**42.5**	**42.7**	**42.9**
Capex/sales	69.2	29.0	21.0	16.6	15.3	15.0	14.3	14.0	13.4
Cash tax rate	4.0	5.7	11.3	11.3	11.3	11.3	13.8	27.0	27.8
Effective tax rate	4.0	5.7	13.3	12.8	12.3	11.6	12.9	25.0	24.7
Return on avg. capital employed	**13.3**	**13.3**	**13.8**	**15.0**	**16.3**	**17.3**	**17.7**	**15.6**	**16.1**

Source: Kotak Institutional Equities estimates.

Key macro assumptions for Reliance Communications, March fiscal year-ends, 2007-2017E

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Wireless											
Market subscribers (mn)	158	252	355	440	504	553	592	623	648	668	684
Market penetration (%)	14	22	30	37	42	46	48	50	52	53	53
RCL subs including fixed wireless (mn)	28	46	67	85	98	109	117	123	129	133	136
RCL market share (%)	17.8	18.2	18.8	19.2	19.5	19.6	19.7	19.8	19.9	19.9	20.0
RCL subs (mn)	28	46	67	85	98	109	117	123	129	133	136
RCL prepaid subs (mn)	23	39	62	78	90	99	107	113	117	114	116
RCL postpaid subs (mn)	4	6	5	6	8	9	10	10	11	11	11
RCL FWP & PCO subs (mn)	4	5	6	6	7	7	7	8	8	8	9
RCL blended ARPU (Rs/month)	350	344	276	261	257	259	261	264	265	266	269
RCL prepaid ARPU (Rs/month)	328	301	247	238	234	234	235	238	239	239	241
RCL postpaid ARPU (Rs/month)	551	555	489	486	477	485	493	502	508	512	519
RCL blended MOU (mins/month)	504	463	440	439	443	443	443	444	444	445	445
RCL prepaid MOU (mins/month)	465	427	415	419	421	421	420	420	419	419	419
RCL postpaid MOU (mins/month)	680	670	662	681	685	689	694	699	704	710	715
RCL blended RPM (Rs) (ARPU/MOU)	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
RCL prepaid RPM (Rs/min) (ARPU/MOU)	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
RCL postpaid RPM (Rs/min) (ARPU/MOU)	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
RCL overall RPM (Rs/min)	**0.74**	**0.74**	**0.63**	**0.59**	**0.58**	**0.58**	**0.59**	**0.59**	**0.60**	**0.60**	**0.60**
Blended EBIDTA per min (Rs)	0.27	0.30	0.25	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.25
EBITDA margin (%)	**37**	**40**	**40**	**41**	**41**	**40**	**40**	**40**	**40**	**41**	**41**
Capex/incremental min (Rs)	1.1	1.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Capex incl. maintenance capex/incremental min (Rs)	1.1	1.6	0.7	0.6	0.6	0.7	0.8	1.1	1.3	1.7	2.1
Capex/incremental sub (US$)	140	125	67	83	91	92	87	91	92	93	95
Domestic long distance											
Market revenues (Rs bn)	108	128	149	170	188	202	217	231	245	258	270
Revenues to DLD operator (net of orig.)	67	85	107	123	136	148	159	170	180	189	199
RCL's revenues (Rs bn)	12	15	20	23	27	30	32	34	36	37	38
RCL's market share (%)	18	18	19	19	20	20	20	20	20	20	19
International long distance											
Market revenues (Rs bn)	66	68	79	91	102	112	121	131	142	153	165
RCL's IDD revenue (Rs bn)	20	16	15	13	14	14	15	16	17	18	20
RCL's market share (%)	31	24	19	15	14	13	12	12	12	12	12
Market minutes (bn mins)	15	22	26	31	36	39	42	45	49	53	57
RCL's share of mins (%)	36	31	30	28	26	24	23	22	22	22	22

Source: Kotak Institutional Equities estimates

RCOM's condensed financial statements, March year ends, 2007-2017E

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Profit model (Rs mn)											
Revenue	144,683	190,678	242,983	311,482	371,285	422,679	464,709	502,019	531,811	557,058	582,131
EBITDA	57,218	81,989	102,331	133,110	159,805	180,398	198,457	213,383	227,072	238,791	250,898
EBIT	32,565	53,935	64,674	81,084	100,894	116,049	129,014	138,772	146,992	153,106	159,538
Net interest income / (expense)	(1,039)	3,998	785	(1,477)	(6,296)	(2,319)	3,581	5,415	6,180	5,945	5,302
Tax	(611)	(2,836)	(2,570)	(4,510)	(12,607)	(14,573)	(16,266)	(16,702)	(19,712)	(39,744)	(40,771)
Net profit	30,909	54,015	62,229	75,098	81,991	99,157	116,329	127,486	133,460	119,308	124,069
Fully diluted EPS	**14.2**	**25.0**	**28.6**	**34.8**	**38.0**	**46.0**	**53.9**	**59.1**	**61.9**	**55.3**	**57.5**
Balance sheet (Rs mn)											
Cash	72,006	115,981	109,429	76,152	69,915	69,674	105,130	150,627	200,093	246,260	296,944
Other current assets	59,124	97,175	88,630	100,616	114,603	127,947	140,095	151,904	162,717	173,019	183,871
Fixed assets	330,422	522,153	652,727	690,894	709,977	715,619	717,112	717,646	713,817	706,151	692,686
Other long term assets	—	—	—	—	—	—	—	—	—	—	4,451
Short tem debt	(61,630)	12,688	12,688	(2,797)	(2,797)	(2,797)	(2,797)	(2,797)	(2,797)	(2,797)	(2,797)
Other current liabilities	161,482	241,687	244,179	198,022	177,868	177,697	180,958	185,523	188,019	190,517	192,100
Long term debt	158,899	200,196	253,463	256,883	219,991	71,735	—	—	—	—	—
Other long term liabilities	26	0	16	16	1,905	3,592	4,835	5,200	3,764	554	—
Shareholders funds (incl. minorities)	229,363	307,326	367,028	442,125	524,116	689,600	805,929	858,839	914,228	963,744	1,015,235
Net (debt)/ cash	(102,377)	(99,700)	(159,518)	(180,731)	(150,076)	(2,061)	105,130	150,627	200,093	246,260	296,944
Free cash flow (Rs mn)											
EBITDA	57,218	81,989	102,331	133,110	159,805	180,398	198,457	213,383	227,072	238,791	250,898
Change in working capital	29,812	42,154	11,053	(58,143)	(34,142)	(13,514)	(8,887)	(7,244)	(8,316)	(7,805)	(9,269)
Cash tax (paid)	(611)	(2,836)	(2,570)	(4,510)	(10,718)	(12,886)	(15,023)	(16,336)	(21,148)	(42,954)	(45,775)
Cash interest (paid)	(7,111)	(9,540)	(12,315)	(11,744)	(13,205)	(8,378)	(1,614)	—	—	—	—
Capex on PP&E and intangibles	(65,953)	(212,261)	(168,231)	(90,193)	(77,994)	(69,991)	(70,936)	(75,144)	(76,251)	(78,019)	(77,895)
Miscallenous	(309)	20,373	522	(2,833)	(3,358)	(850)	(864)	220	765	(235)	(644)
Free cash flow	**13,046**	**(80,121)**	**(69,209)**	**(34,313)**	**20,388**	**74,779**	**101,132**	**114,878**	**122,122**	**109,779**	**117,316**
Ratios (%)											
Sales growth	36.1	31.8	27.4	28.2	19.2	13.8	9.9	8.0	5.9	4.7	4.5
EBITDA growth	145.1	43.3	24.8	30.1	20.1	12.9	10.0	7.5	6.4	5.2	5.1
EPS growth	554.4	76.4	14.1	21.9	9.2	20.9	17.3	9.6	4.7	(10.6)	4.0
FCF growth	7,321.6	NM	NM	NM	(159.4)	266.8	35.2	13.6	6.3	(10.1)	6.9
EBITDA margin	**39.5**	**43.0**	**42.1**	**42.7**	**43.0**	**42.7**	**42.7**	**42.5**	**42.7**	**42.9**	**43.1**
Net margin	21.4	28.3	25.6	24.1	22.1	23.5	25.0	25.4	25.1	21.4	21.3
FCF margin	9.0	(42.0)	(28.5)	(11.0)	5.5	17.7	21.8	22.9	23.0	19.7	20.2
RoAE	17.8	21.1	19.9	19.8	17.9	17.0	16.1	15.8	15.5	13.1	12.9
ROAE (excl. cash and int. income)	**19.6**	**25.3**	**24.5**	**22.8**	**19.7**	**18.2**	**17.5**	**17.9**	**18.5**	**16.6**	**17.3**
RoACE	12.6	14.0	12.9	12.9	13.2	14.3	15.1	15.3	14.8	12.3	12.1
ROACE (excl. cash and int. income)	**12.4**	**14.0**	**13.3**	**13.3**	**13.8**	**15.0**	**16.3**	**17.3**	**17.7**	**15.6**	**16.1**
Net debt/EBITDA (X)	1.8	1.2	1.6	1.4	0.9	0.0	(0.5)	(0.7)	(0.9)	(1.0)	(1.2)
Net debt/equity (X)	0.4	0.3	0.4	0.4	0.3	0.0	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
Total debt/capital (X)	0.4	0.7	0.7	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate (%)	2.0	4.0	4.0	5.7	13.3	12.8	12.3	11.6	12.9	25.0	24.7

Source: Kotak Institutional Equities estimates

Property

DLF.BO, Rs512	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	660
52W High -Low (Rs)	1225 - 350
Market Cap (Rs bn)	871.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	137.1	171.6	209.9
Net Profit (Rs bn)	75.8	87.3	94.2
EPS (Rs)	44.5	51.2	55.3
EPS gth	*250.0*	*15.2*	*7.9*
P/E (x)	12	10.0	9.3
EV/EBITDA (x)	10.4	8.8	7.2
Div yield (%)	1.0	1.4	2.0

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	88.2	-	-
FIIs	7.6	1.1	(1.8)
MFs	0.4	0.3	(2.6)
UTI	-	-	(2.9)
LIC	-	-	(2.9)

DLF: Decrease of third party debtors a key positive; retain BUY rating

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- **1QFY09 revenues of Rs38.1 bn (grows 24% yoy); DAL contributes Rs15.6 bn to revenues**
- **EBITDA margins of 62% were below estimates; however, we already built in margins of 62% for FY2009E as mid-income housing revenues gets booked**
- **Receivables constant even though from DAL increase by Rs14.5 bn**
- **Maintain our BUY rating and target price of Rs660/share; will revisit assumptions post conference call**

DLF reported consolidated operating revenues of Rs38.1 bn (up 24% yoy, 3% below estimates) and PAT of Rs18.9 bn (in line with our estimates, however, 7% below consensus) for 1QFY09. We note that DLF reported EBITDA margins of 61.5% which were down 3% qoq and 10% yoy. We would attribute the drop in margins to the change in product mix resulting in revenues getting booked from lower margin middle income housing projects. We would like to highlight that the net receivables position remained unchanged qoq, however, the DAL receivables increased by Rs14.5 bn. Though PAT was slightly below street expectations, we believe the decrease in non-DAL receivables is a key positive. DLF continues to show solid execution capability with 63 mn sq. ft of real estate under execution, apart from the delivery of 3 mn sq. ft in 1QFY09. We maintain our BUY rating with a target price of Rs660/share. We will revisit our financial estimates after the conference call.

1QFY09 revenues: PAT in line with our estimates; EBITDA margins lower-than-expected

DLF reported consolidated revenues of Rs38.1 bn (up 24% yoy) v/s our expectation of Rs39.5 bn and PAT of Rs18.6 bn (up 23% yoy) v/s our expectation of 18.9 bn. DLF Assets (DAL) contributed Rs15.6 bn to revenue in 1QFY09 compared to Rs16.5 bn in 1QFY08. We would like to highlight that DLF reported lower-than-expected EBITDA margins of 62% which was 400 bp lower than our expectations. We would attribute lower-than-expected margins due to higher contribution from mid-income housing projects and lower-than-expected rental income. However we would like to note that EBITDA margins have been declining qoq (see Exhibit 2) and we are already building a decline of EBITDA margins to 62% in FY2009E on account of higher revenue booking from lower margin middle income housing projects.

DLF reported tax rates to 17% which were lower-than-expected and would await more clarity from the management.

Non-DAL receivables decline by 20%; a key positive

Total receivables of DLF remained constant in 1QFY09 though the composition changed significantly. While receivables on account of sales to DLF Assets increased by Rs14 bn to Rs33 bn at the end of the quarter, receivables on account of third party sales declined by Rs14 bn. Currently debtors outstanding on account of third party sales are Rs45 bn (or 178 days of sales) as compared to Rs59 bn (235 days of sales) at the end of 4QFY08. Decrease in sundry debtors by third party indicates that customer payments linked to construction are flowing in as per payment schedules. We would also highlight that against these debtors of Rs45 bn, DLF also has customer advances of Rs17 bn. Though receivables on account of sales made to DAL have increased, we would await more clarity from the management about attracting investments in DLF Assets Limited.

Tracking key balance sheet items

Exhibit 10 gives movement of key balance sheet items over the past few quarters. In 1QFY09, key highlights in the balance sheet are, (1) D/E maintained at 0.6:1, (2) increase in debt by Rs19 bn, and (3) increase in loans and advances by Rs24 bn, and (4) investments increased by Rs5 bn. We would seek more clarity on the increase in loans and advances from the management.

Residential volumes go up sharply in 1QFY09

We would like to highlight that DLF has 63 mn sq. ft under execution in 1QFY09 compared to 62 mn sq. ft in 4QFY08. DLF also delivered 3 mn sq. ft of real estate in 1QFY09 which clearly demonstrates DLF's superior execution capabilities in the industry.

Residential: DLF continues to witness solid demand for its mid-income housing projects in 1QFY2009 (Exhibit 6). DLF sold 1,000 flats (1.8 mn sq. ft) in 1QFY08 in its projects in Chennai (462 units), Gurgaon (484 units), Indore (59 units). DLF has sold a total of 11 mn sq. ft of affordable housing projects in the last two quarters and has started construction for 7.3 mn sq. ft (Exhibit 4). However we would note that margins for the business have come down to Rs1,129/sq. ft from Rs2,962/sq. ft in 3QFY08.

Commercial: DLF delivered 3.1 mn sq. ft of commercial space in 1QFY09 and has 36.4 mn sq. ft under execution compared to 38.2 mn sq. ft in 4QFY08 (see Exhibit 7). During this quarter DLF handed over the following projects— portions of Noida IT park, Chennai IT park, Cybercity Gurgaon and DLF Akruti IT SEZ in Pune.

Retail: As of end June 2008, DLF had 12.4 mn sq. ft of retail projects under development compared to 11.3 mn sq. ft in 4QFY08. DLF launched a new retail project in New Gurgaon, which has led to drop of 38% in weighted average gross margins for the segment.

Hotels: This business vertical continues to make extremely strong progress. DLF is already working or plans to commence construction in FY2009E for 7 hotel projects mainly in New Delhi and Gurgaon.

Low outstanding payments for land

DLF has a total developable land bank of 755 mn sq. ft (751 mn sq. ft in 4QFY08) which would be utilized over a 10 year time frame. We highlight the fact that close to 80% of the land bank is located in metros indicating immediate potential of this land bank. In the near future, land acquisitions will primarily for large townships. DLF has made progress on large township projects in Manesar and Ambala, where it has signed an agreement with Haryana government for SEZ's.

Out of total land cost of Rs243 bn, land balance payable stands at Rs58 bn of which Rs50 bn has to be paid to the government over a period of time.

We retain our BUY rating a target price of Rs660/share

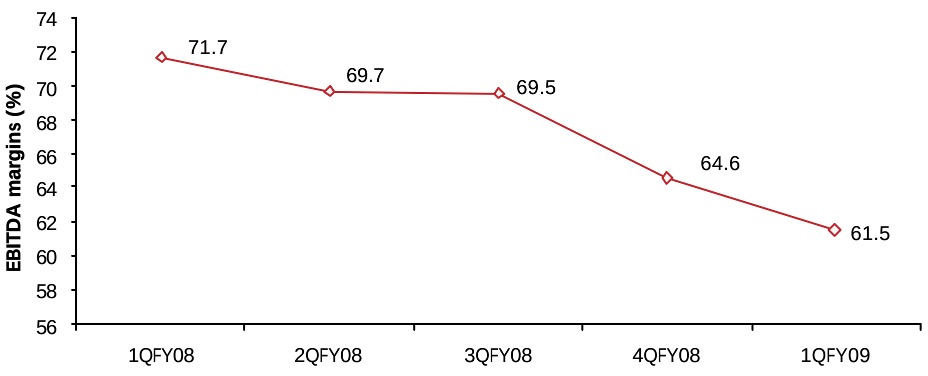
We maintain our BUY rating with a target price of Rs660/share which is based on our Mar '09 NAV of Rs586/ share. Our target price assigns a terminal value of Rs77/share based on 0.5X FY2011E P/B and discounting it back to March 2009. We would like to highlight that we are not assigning any value to Bidadi project and are assuming 10% correction in residential prices for FY2009E. We would revisit our assumption post the conference call today.

1QFY09 results of DLF (Rs mn)

	qoq			yoy			Kotak estimates				FY09/FY08
	1QFY09	4QFY08	% chg	1QFY09	1QFY08	% chg	1QFY09	% deviation	FY08	FY09E	(%)
Net sales	**38,106**	**43,065**	**(12)**	**38,106**	**30,738**	**24**	**39,458**	**(3.4)**	**142,287**	**171,556**	**20.6**
Construction cost	(12,060)	(12,002)	0	(12,060)					(37,313)	(55,740)	
Staff cost	(1,025)	(1,412)	(27)	(1,025)					(3,153)	(3,214)	
Other expenditure	(1,577)	(1,823)	(13)	(1,577)					(4,302)	(5,122)	
EBITDA	**23,445**	**27,829**	**(16)**	**23,445**	**22,039**	**6**	**26,042**	**(10.0)**	**97,518**	**107,481**	**10.2**
Other income	357	658	(46)	357	472	(24)	606		2,652	2,549	
Interest costs	(541)	(1,079)	(50)	(541)	(1,077)	(50)	(1,184)		(2,980)	(4,578)	
Depreciation	(546)	(362)	51	(546)	(166)	230	(212)		(785)	(2,179)	
Pretax profits	**22,715**	**27,047**	**(16)**	**22,715**	**21,269**	**7**	**25,252**	**(10.0)**	**96,405**	**103,273**	**7.1**
Extraordinaries	—	—	—	—	—						
Tax	(3,766)	(5,058)	(26)	(3,766)	(6,037)	(38)	(6,313)		(17,350)	(16,245)	
Deferred tax		80		0			—		(184)	274	
Net income	**18,948**	**22,069**	**(14)**	**18,948**	**15,231**	**24**	**18,939**	**0.0**	**78,871**	**87,302**	**10.7**
Adjusted net income	**18,640**	**21,768**	**(14)**	**18,640**	**15,155**	**23**	**18,939**	**(1.6)**	**78,558**	**87,302**	**11.1**
Key ratios											
EBITDA margin (%)	61.5	64.6	(4.8)	61.5	71.7	(14.2)	66.0		68.5	62.7	
PAT margin (%)	49.7	51.2	(3.0)	49.7	49.6	0.3	48.0		55.4	50.9	
Effective tax rate (%)	16.6	18.7	(11.3)	16.6	28.4	(41.6)	25.0		18.0	15.7	

Source: Company, Kotak Institutional Equities estimates.

EBITDA margins have been coming down qoq



Source: Kotak Imstitutional Equities estimates.

DLF has 180 days of receivables at end 1QFY09

	FY2008	FY2009 Q1
Sales to DAL		
Revenues (Rs mn)	53,450	15,570
Receivables	19,400	33,860
Receivables (No of days)	**131**	**196**
Non DAL Sales		
Revenues (Rs mn)	91,540	22,890
Receivables	59,675	45,175
Receivables (No of days)	**235**	**178**

Source: Company, Kotak Institutional Equities.

Residential segment sales booked during 1QFY09

	1QFY09				4QFY08			
	Super Luxury	Luxury	Mid income	**Total**	Super Luxury	Luxury	Mid income	**Total**
Sales booked (mn sq. ft)								
Opening balance	0.4	5.3	8.9	**14.6**	0.4	5.3	1.1	**6.8**
Add: Booked during qtr	—	0.0	2.1	**2.1**	—	0.2	7.7	**8.0**
Handed over	—	0.0	—	**0.0**	—	0.2	—	**0.2**
Closing balance	0.4	5.4	10.9	**16.7**	0.4	5.3	8.9	**14.6**
Under Construction (mn sq. ft)								
Opening balance	—	6.7	5.4	**12.1**	—	6.9	0.6	**7.5**
New launches	0.2	0.0	1.9	**2.1**	—	0.0	4.9	**4.9**
Handed over	—	0.0	—	**0.0**	—	0.2	—	**0.2**
Closing balance	0.2	6.7	7.3	**14.2**	—	6.7	5.4	**12.1**
Wt. average rate (Sale price Apts)	—	8,751	2,891	**3,028**	—	10,384	3,036	**3,281**
Plots	—	—	804	**804**	—	—	798	**798**
Town House	—	—	1,730	**1,730**	—	—	—	**—**
Independent floor	—	—	3,609	**3,609**	—	—	—	**—**
Wt. Avg Land + Const Cost	—	1,678	1,788	**1,755**	—	1,744	1,956	**1,887**
Plots	—	—	360	**360**	—	0	393	**393**
Town House	—	—	1,220	**1,220**	—	—	—	**—**
Independent floor	—	—	1,808	**1,808**	—	—	—	**—**
Margin (Rs/sq. ft)	—	**7,073**	**1,006**	**1,129**	—	**8,641**	**919**	**1,240**

Source: Company data, Kotak Institutional equities.

Retail lease/sales booked during 1QFY09

	1QFY09				Change (%)	4QFY08				Change (%)
	Super Metro	Metros	Others	Total	qoq	Super Metrc	Metros	Others	Total	qoq
Sales Booked (mn sq. ft)										
Opening Balance	5.2	0.5	0.7	6.4	*25.3*	4.6	0.2	0.3	5.1	*3.0*
Sales booked during qtr	0.9	0.0	0.0	0.9	*(49.2)*	1.0	0.3	0.4	1.8	*2112.5*
Lease booked during qtr	0.0	—	—	0.0	*(100.0)*	0.1	—	—	0.1	*42.9*
Handing over	0.0	—	—	0.0	*(100.0)*	0.6	—	—	0.6	
Closing Balance	6.1	0.5	0.7	7.3	*14.0*	5.2	0.5	0.7	6.4	*25.3*
Under Construction (mn sq. ft)										
Opening Balance	7.9	2.5	0.9	11.3	*(2.7)*	8.9	2.5	0.2	11.6	*-13.5*
New launch/ adjustments *	0.0	0.7	0.4	1.1	*307.7*	(0.5)	—	0.8	0.3	*(125.5)*
Handed Over	0.0	—	—	0.0	*(100.0)*	0.6	—	—	0.6	
Closing Balance	7.9	3.2	1.3	12.4	*9.4*	7.9	2.5	0.9	11.3	*-2.7*
For sale business										
Wt. Average Rate (Sale Price in Rs)	7,660	7,840	14,994	8,773	***(35.4)***	16,435	7,656	11,298	13,570	*(8.5)*
Wt. Avg Land + Const Cost	2,565	1,944	3,921	2,544	***(27.7)***	4,931	2,379	5,125	3,521	*(21.8)*
Margins	5,095	5,896	11,073	6,229	***(38.0)***	11,504	5,277	6,173	10,049	*(2.7)*
For lease business										
Wt. Average Rate (Sale Price in Rs)	289	—	—	289	*31.4*	220	—	—	220	*(31.5)*
Wt. Avg Land + Const Cost	8,735	—	—	8,735	*1.1*	8,642	—	—	8,642	*(4.9)*

* Note:
Adustments done due to change in the business preposition

Source: Company data, Kotak Institutional equities.

Mid income housing segment showing strong progress

Recent launches in residential segment

		Bookings in 1Q09		Gross sales price realised		Bookings in Q4 [a]		Gross sales price realised	
				At launch	Current			At launch	Current
Project	Location	(mn sq. ft)	No.	(Rs/ sq. ft)	(Rs/ sq. ft)	(mn sq. ft)	No.	(Rs/ sq. ft)	(Rs/ sq. ft)
Apartments									
New town heights	Kolkata					0.3	156	3,137	3,718
DLF Riverside	Kochi					0.1	27	4,052	4,168
Garden city OMR	Chennai	0.8	462	3,180	3,650	3.6	2,304	3,180	3,475
New town heights	Gurgaon	1.0	484	2,934	3,275	4.7	2,363	2,934	2,951
	Indore	0.1	59	1,730	1,730				
Total		**1.8**	**1,005**			**8.8**	**4,850**		
Plots									
Garden city	Indore					1.1	0	736	870

Note:
(a) Bookings from Jan 1, 2008 to April 29, 2008

Source: Company, Kotak Institutional Equities.

Commercial office lease/sales booked during 4Q08

	1QFY09				Change (%)	4QFY08				Change (%)
	Super Metros	Metros	Others	Total	qoq	Super Metro	Metros	Others	Total	qoq
Sales Booked (mn sq. ft)										
Opening Balance	10.3	3.1	2.6	16.0	*19.6*	8.6	1.8	3.0	13.4	*16.9*
Add: Lease booked during qtr	0.7	0.0	0.0	0.7	*(54.1)*	0.9	0.5	0.1	1.5	*57.4*
Add: Sales booked during qtr	0.7	0.7	0.3	1.8	*(5.4)*	1.5	0.8	(0.5)	1.9	*(20.5)*
Less: Handed over	1.4	0.8	0.9	3.1	*329.6*	0.7	—	0.0	0.7	*(47.4)*
Closing Balance	10.3	3.1	2.0	15.4	*(3.8)*	10.3	3.1	2.6	16.0	*19.7*
Under Construction (mn sq. ft)										
Opening Balance	17.9	8.5	11.8	38.2	*-4.1*	19.8	9.1	11.0	39.8	*15.7*
New launch/ adjustments *	1.2	0.0	0.0	1.2	*(229.0)*	(1.1)	(0.6)	0.8	(0.9)	*(113.8)*
Handed Over	1.4	0.8	0.9	3.1		0.7	—	—	0.7	
Closing Balance	17.7	7.7	10.9	36.4	*(4.8)*	17.9	8.5	11.8	38.2	*(4.1)*
For sale business										
Wt. Average Rate (Sale Price in Rs)	9,271	6,947	6,278	8,884	*(9.6)*	11,642	6,430	—	9,830	*12.1*
Wt. Avg Land + Const Cost	1,998	1,719	2,089	1,902	*10.6*	1,790	1,586	—	1,719	*1.8*
Margins	7,273	5,228	4,189	6,982	*(13.9)*	9,852	4,844	—	8,111	*14.6*
For lease business										
Wt. Average Rate (Sale Price in Rs)	69	0	37	69	*13.1*	76	37	35	61	*41.9*
Wt. Avg Land + Const Cost	2,210	0	1,391	2,189	*9.5*	2,066	1,972	1,391	2,000	*17.5*

* Note:
Adjustments done due to change in the business preposition (i.e. some part of NTC Mumbai retail mall is now converted to IT office).

Source: Company data, Kotak Institutional equities.

New commercial complex launches

Projects	Units booked	Total area (mn sq. ft)	Area booked (mn sq. ft)	Launch price (Rs/sq. ft)	Current sale (Rs/sq. ft)	Launch
Delhi	707	1.01	1.0	16,387	All sold	4QFY08
Hyderabad	221	0.31	0.3	12,311	All sold	4QFY08
Ludhiana	100	0.39	0.1	8,974	12,000	4QFY08
Kolkata	216	0.41	0.3	7,600	9,500	4QFY08
New Gurgaon	632		0.9	7,552	7,552	1QFY09

Source: Company data, Kotak Institutional Equities.

DLF's land reserves have increased marginally in 3QFY08

DLF's land reserves as of March, 2008 (in mn sq. ft)

	1QFY09					4QFY08					qoq change				
Segment	Total	Super Metros	Metros	Tier- I	Tier- II	Total	Super Metros	Metros	Tier- I	Tier- II	Total	Super Metros	Metros	Tier- I	Tier- II
Office	161	63	70	23	5	164	64	70	26	5	-3	-1	0	-3	0
Retail	92	33	36	13	10	92	33	36	14	9	0	0	0	-1	1
Super Luxury	4	4	—	—	—	4	4	—	—	—	—	—	—	—	—
Luxury	41	33	6	1	—	41	33	6	1	—	—	0	0	0	—
Mid-income/Villas/Plots	438	113	231	76	19	432	113	231	73	16	6	0	0	3	3
Hotel/Convention center/Service Apt	19	4	3	10	2	18	4	2	10	2	1	0	1	0	0
Total	**755**	**250**	**346**	**123**	**36**	**751**	**251**	**345**	**124**	**32**	**10**	**8**	**13**	**1**	**-11**
% of total		34	47	17	5		34	47	17	4					

Note:
Super Metros: Delhi, Metropolitan region & Mumbai.
Metros: Chennai, Bangalore, Kolkata.
Tier-I: Chandigarh, Pune, Goa, Cochin, Nagpur, Hyderabad, Coimbatore & Bhubneshwar.
Tier-II: Vadodara, Gandhi nagar, Ludhiana, Amritsar, Jalandhar, Sonepat, Panipat, Lucknow, Indore & Shimla.

Source: Company, Kotak Institutional Equities.

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

DLF's balance sheet at end of Mar-07, Jun-07, Sep-07, Dec-07, Mar-08 and Jun-08

Particulars	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Change qoq
Net fixed assets	41,851	41,461	49,125	53,935	100,031	110,156	10,125
Investments	2,107	2,196	32,834	13,489	9,102	14,211	5,109
Current assets, loans and advances	128,344	245,549	198,625	243,415	266,001	287,072	21,071
Stocks	56,800	62,085	74,177	94,272	94,544	102,832	8,288
Sundry debtors	15,057	37,478	38,936	64,790	76,106	76,052	(54)
Cash and bank balances	4,155	94,692	17,932	7,760	21,422	10,015	(11,407)
Other current assets	74	110	256	215	243	280	37
Loans and advances	52,258	51,184	67,324	76,378	73,686	97,893	24,207
Goodwill	8,935	8,935	16,298	16,223	20,931	21,916	985
Total use of funds	**181,237**	**298,141**	**296,882**	**327,062**	**396,065**	**433,355**	**37,290**
Total loans	99,327	103,466	77,854	92,403	122,771	142,209	19,438
Secured loans	92,053	94,946	68,657	66,286	80,533	90,932	10,399
Unsecured loans	7,274	8,520	9,197	26,117	42,238	51,277	9,039
Current liabilities and provisions	46,072	56,119	58,567	53,495	72,158	69,490	(2,668)
Deferred tax liability (net)	197	210	357	463	359	356	(3)
Shareholders funds	35,641	138,346	160,104	180,701	200,777	221,300	20,523
Total sources of fund	**181,237**	**298,141**	**296,882**	**327,062**	**396,065**	**433,355**	**37,290**
Debt/Equity (x)	**2.8**	**0.7**	**0.5**	**0.5**	**0.6**	**0.6**	

Source: Company data, Kotak Institutional Equities.

Commercial segment continues to be the major driver, residential segment ramping up

Segment-wise area under development (mn sq. ft)

	Area under development (mn sq. ft)				
	Q108	Q208	Q308	Q408	Q109
	(mn sq. ft)	(mn sq. ft)	(mn sq. ft)	(mn sq. ft)	(mn sq. ft)
Residential	6.7	6.7	7.0	12.1	12.1
Commercial	29.5	34.4	39.8	38.2	36.4
Retail	13.0	13.4	11.6	11.2	14.2
Total	**49.2**	**54.6**	**59.0**	**61.5**	**62.6**

Source: Company, Kotak Institutional Equities.

	1Q09			4Q08			3Q08			2Q08			1Q08		
	DAL	non DAL	Total	DAL	non DAL	Total	DAL	non DAL	Total	DAL	non DAL	Total	DAL	non DAL	Total
Sales	15,570	22,890	38,460	18,450	25,270	43,720	20,570	15,940	36,510	13,870	19,630	33,500	16,540	14,680	31,220
Less: Cost	4,820	10,930	15,750	5,460	11,220	16,680	6,220	5,680	11,900	4,030	4,560	8,590	6,700	3,240	9,940
PBT	10,750	11,960	22,710	12,990	14,050	27,040	14,350	10,260	24,610	9,840	13,640	23,480	9,840	11,440	21,280
PBT % of total PBT	47.3	52.7		48.0	52.0		58.3	41.7		41.9	58.1		46.2	53.8	

Our estimate for DLF's NAV is Rs586/ share

NAV sensitivity to growth rate in selling prices

		March '09 based NAV			
		Growth rate in selling prices			
	Valuation Methodology	0%	3%	5%	10%
Valuation of land reserves		**880**	**973**	**1,059**	**1,234**
Residential		267	306	336	421
Retail		272	304	327	392
Commercial		341	363	378	421
Add: 22 Hotel sites	2X land acquisition cost	50	50	50	50
Add: Construction JV	15X FY2009E P/E	30	30	30	30
Add: Other properties (plots in Gurgaon - 7.2 mn sq. ft, hotel site in Gurgaon)	Current market value	22	22	22	22
Add: Present value of project management fees		8	8	8	8
Add: Investments as on March 31, 2008		20	20	20	20
Add: Bidadi township		58	58	58	58
Less: Net debt as on March 31, 2008		(83)	(83)	(83)	(83)
Less: Net debt as on March 31, 2008		(103)	(103)	(103)	(103)
Less: Land cost to be paid as on March 31, 2008		(30)	(30)	(30)	(30)
NAV (Rs bn)		1,000	1,092	1,179	1,354
NAV/share (Rs)		**581**	**634**	**685**	**786**
Terminal value (Rs bn)	0.5X FY2011E P/B	**496**	**548**	**586**	**695**
Total no. of shares including ESOPs of 17 mn shares (mn)		133	133	133	1,722
Valuation/share (Rs)		1,722	1,722	1,722	906
Valuation/share (Rs)		**573**	**625**	**663**	**772**

Source: Kotak Institutional Equities estimates.

Metals

TISC.BO, Rs655	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	800
52W High -Low (Rs)	970 - 466
Market Cap (Rs bn)	563.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	196.9	242.7	268.3
Net Profit (Rs bn)	44.7	63.3	64.8
EPS (Rs)	51.9	73.7	75.4
EPS gth	*2.1*	*41.8*	*2.4*
P/E (x)	12.6	9	8.7
EV/EBITDA (x)	7.1	5.6	5.7
Div yield (%)	1.8	1.8	2.0

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.9	-	-
FIIs	19.5	1.3	(0.0)
MFs	5.1	1.8	0.5
UTI	-	-	(1.3)
LIC	10.2	3.2	1.9

Tata Steel: Net profit at Rs14.9 bn grows 22% on account of higher volumes and increased steel prices; retain ADD rating

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- **Tata Steel 1Q FY2009 net profit at Rs14.9 bn grew 22% yoy**
- **Net sales at Rs61.6 bn grew 47% yoy led by (a) 11.4% yoy growth in steel volumes and (b) 25% increase in average realizations**
- **1Q FY2009 EBITDA at Rs30.2 bn grew by a sharp 84% yoy; EBITDA margin grew 10 percentage points**
- **Maintain earnings estimates; retain ADD rating with an SOTP-based target price of Rs800/share - we will revisit our estimates post the management conference call**

Tata Steel reported 1Q FY2009 net profit at Rs14.9 bn - up 22% yoy mainly on account of higher steel prices and increase in steel volumes. Besides, lower interest costs on a qoq basis have also contributed to higher profits. Net sales at Rs61.6 bn grew 47% yoy led mainly by (a) 11.4% yoy growth in steel volumes and (b) 25% increase in average realizations. Average steel EBIT/ton at Rs20,367/ton was higher by 50% yoy on account of higher steel prices during 1QFY09 on a yoy basis.

EBITDA at Rs30.2 bn grew 84% yoy as average realization grew 25% yoy while implied costs grew by around 10% yoy. Consequently, 1Q FY2009 EBITDA margin at 49.1% increased 10 percentage points on a yoy basis (versus 39.2% in the corresponding quarter of the previous year).

Acquisition financing completed—to likely result in lower interest costs

Tata Steel reported interest cost of Rs2.4 for 1Q FY2009—down 11% on a qoq basis. Interest costs were lower as Tata Steel replaced all bridge loans at the Netherlands and Singapore subsidiary. We believe that going forward interest costs will reduce. We note that the acquisition financing is now complete and the management has indicated that all bridge loans have been taken out and refinanced by long term debt and equity contribution from Tata Steel (India).

We retain our SOTP-based target price at Rs800/share

We are currently maintaining our earnings estimates for FY2009E and FY2010E. We retain our SOTP-based target price of Rs800/share and our ADD rating on the stock. We shall be revisiting our estimates post the conference call to be held by the Tata Steel management.

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

	Quarterly results			% change	
	1Q 2009	**4Q 2008**	**1Q 2008**	**qoq**	**yoy**
Volumes (tons)					
Production	1,186,873	1,267,971	1,064,832	(6.4)	11.5
Sales volumes	1,159,495	1,279,058	1,040,963	(9.3)	11.4
Earnings drivers					
Average realization (Rs/ton) (a)	45,737	39,157	36,665	16.8	24.7
Average steel EBIT (Rs/ton) (b)	20,367	15,055	13,618	35.3	49.6
Implied steel costs (Rs/ton) (a-b)	25,370	24,103	23,047	5.3	10.1
Average US HRC prices (US$/ton)	1,077	762	610	41.3	76.6
Average UK HRC prices (US$/ton)	827	692	645	19.5	28.2
Average INR:USD	41.65	39.79	41.26	4.7	1.0
Interim results					
Net sales	**61,650**	**57,367**	**41,976**	7.5	46.9
Expenditure	**(31,405)**	**(32,798)**	**(25,530)**	(4.2)	23.0
Stock adjustment	2,018	(1,157)	771		
Raw materials	(11,548)	(11,008)	(8,295)	4.9	39.2
Employee costs	(4,719)	(4,220)	(4,312)	11.8	9.4
Power and fuel	(2,619)	(2,218)	(2,328)	18.1	12.5
Freight and handling	(2,938)	(2,844)	(2,461)	3.3	19.3
Other expenditure	(11,599)	(11,351)	(8,905)	2.2	30.2
EBITDA	**30,246**	**24,569**	**16,446**	23.1	83.9
Other income	122	659	1,078	(81.5)	(88.7)
Depreciation	(2,168)	(2,092)	(2,112)	3.7	2.6
EBIT	28,200	23,137	15,411	21.9	83.0
Interest	(2,417)	(2,723)	(416)	(11.2)	480.8
Adjusted pre-tax profits	25,783	20,414	14,995	26.3	71.9
Unusual or infrequent items	(3,034)	(1,982)	4,030	53.1	(175.3)
Reported pre-tax profits	22,749	18,432	19,025	23.4	19.6
Tax	(7,865)	(6,371)	(6,804)	23.4	15.6
Reported net earnings	**14,884**	**12,061**	**12,221**	23.4	21.8
Segmental results					
Net revenues	**65,565**	**60,885**	**44,481**	**7.7**	**47.4**
Steel business	53,032	50,085	38,167	5.9	38.9
Other businesses	12,533	10,800	6,314	16.0	98.5
EBIT	**28,753**	**23,788**	**15,389**	**20.9**	**86.8**
Steel business	23,615	19,256	14,176	22.6	66.6
Other businesses	5,138	4,532	1,213	13.4	323.7
Ratios (%)					
Total costs as % of revenue	50.9	57.2	60.8		
Raw material costs	15.5	21.2	17.9		
EBITDA margins	49.1	42.8	39.2		
Effective tax rate	34.6	34.6	35.8		

Source: Company data; Kotak Institutional Equities estimates.

Industrials

SUZL.BO, Rs223	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	300
52W High -Low (Rs)	460 - 175
Market Cap (Rs bn)	349.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	136.8	195.8	266.5
Net Profit (Rs bn)	10.3	17.9	27.7
EPS (Rs)	6.6	11.4	17.7
EPS gth	*9.5*	*73.5*	*55.1*
P/E (x)	33.9	19.6	12.6
EV/EBITDA (x)	16.8	12.8	9.7
Div yield (%)	0.4	0.4	0.4

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	65.9	-	-
FIIs	21.4	1.1	0.1
MFs	3.2	0.9	(0.1)
UTI	-	-	(1.0)
LIC	-	-	(1.0)

Suzlon Energy: Low execution; margins surprise positively; listless listless global order booking is worrying; retain ADD

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- **Execution affected by client-level issues; higher realizations and volume growth at Hansen drive revenues**
- **Margin increase due to pricing and scope improvements; margins may be resilient in face of input price pressures as 60% of order book provides escalations**
- **Order inflows dry completely; lack of US orders cause concern as utilities likely wait for successful resolution of blade-cracking issue**
- **Revise our estimates upwards moderately to reflect higher realization and margins as well as lower execution versus earlier assumption; reiterate ADD rating**
- **Several risks on execution, commodity, currency, technology, competition have to be confronted leading to potentially volatile operating performance in the near term**

Suzlon reported 1QFY09 consolidated revenues of Rs27.6 bn (up 42% yoy), operating profit of Rs4.2 bn (up 203% yoy) and PAT (before exceptional items) of Rs1.7 bn (up 775% yoy). Execution during the quarter could have been higher but for delays and reversals of certain orders due to client-level issues. Higher realizations per MW and volume growth at Hansen have driven the growth in revenues. Consolidated EBITDA margins in 1QFY09 were 15.4%, up 70 bps qoq. Order inflows have remained weak during the quarter both in the domestic and international markets. The lack of order booking in the international markets is especially surprising given the strong growth momentum in wind energy demand. Root-cause analysis of the blade cracking issue is not yet completed and is now expected to be finished by August. We revise our estimates upwards moderately to reflect higher realization and margins as well as lower execution versus earlier assumption. We retain our ADD rating with a reduced target price to Rs300 (from Rs325 earlier). Key downside risks arise from (1) glitches in execution, (2) commodity price increases, (3) unfavorable currency movement, (4) delays in capacity expansion plans. Key upside arise from stronger-than-expected execution in FY2010E.

Execution seemingly affected by several client-level issues; higher realizations led by project revenues and volume growth at Hansen drive revenues

Suzlon reported 1QFY09 consolidated revenues of Rs27.6 bn (up 42% yoy), operating profit of Rs4.2 bn (up 203% yoy) and PAT (before exceptional items) of Rs1.7 bn (up 775% yoy). 338 MW was executed during the quarter - 146 MW for the domestic market and 192 MW for the international markets. Execution during the quarter could have been higher but for delays and reversals of certain orders due to client-level issues – (1) 71.4 MW is currently stock-in-transit due to delays in tower supplies at client-sites in Australia, Brazil and Europe, (2) 124 MW was produced but not delivered in China as the customer was encountering cash-flow problems and (3) 14.7 MW of Korean orders were reversed (this affected revenues by Rs650 mn and profits by Rs110 mn; a significant percentage of the order was booked in FY2008 and payment towards the same was also received. But the machines could not be commissioned as the customer was facing site-level issues from locals in the area). The management expects the first two orders to be delivered in 2QFY09 and is also bringing back the turbines from Korea. Higher realizations per MW (realization per MW has increased to Rs61 mn from Rs47 mn) led by project revenues and volume growth at Hansen (revenues increased 88% yoy) have driven the growth in revenues for Suzlon.

Consolidated EBITDA margins in 1QFY09 were 15.4%, up 70 bps qoq. EBITDA per MW during the quarter was Rs9.8 mn versus Rs3.7 mn last year. Employee costs increased by 70% yoy and 29% qoq as bonuses and incentives were paid during 1QFY09. Exceptional items during the quarter largely pertain to translation losses on restatement of foreign currency debt and FCCBs (led by rupee depreciation) amounting to Rs1.5 bn.

Margin increase due to pricing and scope improvements; margins may be resilient in face of input price pressures as 60% of order book provides escalations

Increase in realization per MW to Rs61 mn from Rs47 mn last year was led by (1) 3-4% improvement in pricing, (2) scope enhancement as part of revenues realized were from projects business (about Rs 6 mn per MW; Rs4 bn coming from international and domestic projects during the quarter), (3) favorable product-market mix during the quarter and (4) rupee depreciation. Pricing improvements were likely also achieved in Hansen as EBITDA margins doubled on a yoy basis during 1QFY09 to 14%. Our per MW realization assumption is Rs54 mn for FY2009E and Rs55.4 mn for FY2010E, led by per MW realization apparent from order book of the company.

We believe that Suzlon's margins may remain resilient in the face of commodity price increases due to (1) protection to about 60% of the order book through price escalation clauses (about 40% of the order book, pertaining to Indian and Chinese geographies, is comprised of fixed price contracts) (2) efficient sourcing plans and long-term arrangements with suppliers and (3) operating leverage from the likely strong revenue growth. Management highlighted that all new contracts now have indexation clauses related to commodity price escalations.

Order inflows dry completely; lack of US orders cause concern as utilities likely wait for successful resolution of blade-cracking issue

Suzlon's order book stands at Rs165 bn and 3,040 MW as of 28 July 08 (implying a realization of about Rs54.3 mn per MW). Order inflows have remained weak during the quarter particularly in the international market. Suzlon booked orders for 253 MW since the last announcement in the domestic market. The lack of order booking in the international markets is especially surprising given the storing global growth momentum in wind energy demand. It seems that Suzlon is facing difficulties to build its order book in the US markets – likely till it successfully demonstrates the resolution of the blade-cracking issue (though one large order has been won post the emergence of the problem). Management reiterated its vision of geographically de-risking its business model by achieving about 20% of its revenues from each of the key geographical segments of US, Europe, China, India and Australia/Rest of the World. Hence it is looking at building its order book in the European geography. Suzlon has been reiterating that it is at an advanced stage of negotiations with some European and Latin American utilities regarding potentially large orders, however closure has not been achieved as yet.

Capacity expansion benefits to flow from FY2010E onwards; Suzlon to supply components to other suppliers from 2009 onwards

Capacity expansion benefits would start flowing in from end-2QFY09E onwards, though full benefits will be visible from end-FY2009E onwards only. Hansen's capacity in Belgium has already been expanded to 7,300 MW. Its Indian operations are expected to commence from September 2008 onwards while Chinese facilities are expected to be readied by March 2009.

Repower will likely benefit from component supplies from Suzlon's various entities - Suzlon's China unit will manufacture rotor blades for it and Hansen will supply gearbox to it from 2009E onwards. Suzlon expects to increasingly supply components to other WTG suppliers/component manufacturers also from 2009E onwards, leveraging its low-cost manufacturing facilities in India and China. The forging and foundry units are likely to start production from 3QFY09 onwards. Suzlon expects to supply (a) forgings to bearing manufacturers, (b) castings from foundry unit to to gearbox manufacturers and (c) other components such as generators and rotor blades to other WTG suppliers from 2009E onwards.

Root-cause analysis of blade cracking issue not complete yet; only 6% of blade population has cracks likely indicating that the problem is not as wide-spread as feared

Root-cause analysis of the blade cracking issue is not yet completed and is expected to be finished by August now. We highlight that about six months have elapsed since the emergence of this problem and it is surprising that Suzlon has not been able to identify the cause of such a major problem that may impact its global reputation. Progress on replacement of cracked blades has been slow with only 50% of the blades replaced so far and retrofit and strengthening of rest of the blades has not even started (likely to start post replacement of all the cracked blades).

The total number of blades with identified cracks have increased to 80 in 1QFY09 from 65 in last quarter (though no further provisions are anticipated). These blades comprise about 6% of the total blade population, likely indicating that the blade-cracking problem may relate more to site-specific issues than to generic blade-related issues.

Revise our estimates upwards moderately to reflect higher realization and margins as well as lower execution versus earlier assumption

We have revised our earnings estimates for FY2009E and FY2010E to Rs11.4 and Rs17.7 respectively versus Rs10.7 and Rs16.5 earlier. Revision in earnings estimates is composed of (1) higher realization per MW of Rs54 mn/MW in FY2009E and Rs55.4 mn/MW in FY2010E versus Rs50 mn/MW and Rs52mn/MW earlier, (2) lower execution of 2,963 MW and 3,9788 MW in FY2009E and FY2010E respectively versus 3,198 MW and 4,165 MW earlier (led by lower-than-expected execution in 1QFY2009 as well as lower order book visibility with no incremental international order booking in 1QFY2009 as well as tightening of credit in Indian market leading to potential yoy decline in total execution during FY2009E, (3) upgrade in revenue as well as margins estimates for Hansen Transmission, (4) higher margin expectations of 14.5% and 15% versus earlier assumption of 13.9% and 14.4% for FY2009E and FY2010E respectively. We highlight that our estimates assume an increase in Suzlon's global market share over the years in a rapidly growing wind power equipment market (Exhibit 7).

Reduce target price to Rs300 (from Rs325 earlier) and retain ADD rating; valuations cheaper versus peers partly reflecting lack of conviction

We have revised our target price to Rs300/share (from Rs325/share earlier) implying a P/E multiple of 26X and 17X our FY2009E and FY2010E EPS estimates respectively. There has been sharp expansion in P/E multiple for wind power equipment stocks probably led by higher prices of conventional fuels which makes wind energy more competitive apart from addressing energy security and environmental concerns. On a consolidated basis Suzlon is currently trading lower than its global comparables, that are trading at an average of 29X and 21X based on FY2009E and FY2010E EPS respectively (consensus bloomberg estimates, Exhibit 9).

We highlight that Suzlon's wind business (adjusted for contribution of Hansen and Repower) is currently trading at an EV/EBITDA multiple for 7.7X and 5.5X FY2009E and FY2010E base case estimates. Even if we assume lower execution and margins Suzlon is trading at an EV/EBITDA of 8.7X for FY2009E (2,750 MW and 14% margins) and at an EV/EBITDA of 6.7X for FY2010E (3,500 MW and 14% margins) respectively. This is still significantly cheaper than EV/EBITDA multiple of 14.5X for FY2010E for global wind power companies.

Key upside risks arise from stronger-than-expected execution in FY2010E by Suzlon arising from (1) global momentum in wind power equipment demand, (2) strong platform of Suzlon in terms of breadth and depth of manufacturing, marketing and R&D capabilities and (3) significant expansion in vertically integrated capacity that creates opportunities for Suzlon to gain market share in a strong growth market. We are expecting Suzlon to execute about 3,978 MW in FY2010E, however considering that it would effective capacity to deliver about 5,700 MW of wind power equipment in that year, Suzlon may surpass our execution estimates considerably.

Several risks would have to be confronted leading to potentially volatile operating performance in the near-term

Key downside risks for Suzlon arise from (1) hiccups in execution, (2) commodity price increases, (3) unfavorable currency movement, (4) delays in implementation of large capacity expansion plans, across Suzlon, Hansen and Repower, (5) emergence of competitors (attracted by the high equity returns), especially from low-cost manufacturing countries like China and (6) new technologies, like gearless wind-turbines, becoming more competitive.

Suzlon Energy - 1QFY09 consolidated results (Rs mn)

		yoy			qoq			yoy			
	1QFY09	1QFY08	*% change*	1QFY09	4QFY08	*% change*	FY2009E	FY2008	*% change*	1QFY09E	*% change*
Income from operations	**27,605**	**19,446**	***42.0***	**27,605**	**49,238**	***(43.9)***	**195,813**	**136,794**	***43.1***	**28,275**	***(2.4)***
Expenditure	(23,365)	(18,048)	*29.5*	(23,365)	(41,991)	*(44.4)*	(167,494)	(117,550)	*42.5*	(25,421)	*(8.1)*
(Increase) / Decrease in stock in trade	9,217	2,323	*296.8*	9,217	6,385	*44.4*	-	6,680	*(100.0)*	-	
Raw material consumption	(24,843)	(14,501)	*71.3*	(24,843)	(37,867)	*(34.4)*	(126,299)	(95,381)	*32.4*	(18,379)	*35.2*
Staff cost	(3,796)	(2,228)	*70.4*	(3,796)	(2,942)	*29.0*	(18,251)	(10,430)	*75.0*	(2,942)	*29.0*
Other expenditure	(3,944)	(3,642)	*8.3*	(3,944)	(7,567)	*(47.9)*	(22,944)	(18,418)	*24.6*	(4,100)	*(3.8)*
Operating profit	**4,240**	**1,398**	***203.3***	**4,240**	**7,246**	***(41.5)***	**28,319**	**19,245**	***47.2***	**2,828**	***49.9***
Other income	742	426	*73.9*	742	959	*(22.7)*	2,920	2,646	*10.4*	730	*1.6*
EBIDTA	**4,981**	**1,824**	***173.0***	**4,981**	**8,205**	***(39.3)***	**31,239**	**21,890**	***42.7***	**3,557**	***40.0***
Interest & finance charges	(1,386)	(1,079)	*28.4*	(1,386)	(1,290)	*7.4*	(5,550)	(5,320)	*4.3*	(1,290)	*7.4*
Depreciation	(929)	(585)	*58.8*	(929)	(978)	*(5.0)*	(4,432)	(2,894)	*53.2*	(886)	*4.8*
PBT	**2,667**	**161**	***1,561.6***	**2,667**	**5,938**	***(55.1)***	**21,257**	**13,676**	***55.4***	**1,381**	***93.1***
Tax	(634)	40		(634)	(543)	*16.7*	(4,158)	(1,993)	*108.7*	(228)	*178.0*
PAT	**2,033**	**200**	***915.1***	**2,033**	**5,395**	***(62.3)***	**17,098**	**11,683**	***46.3***	**1,153**	***76.3***
One-time items included in PAT	(1,640)	(11)	*14,281.6*	(1,640)	(830)	*97.6*	-	(1,512)	*(100.0)*	-	
Associates/Minority interest	(380)	-		(380)	83	*(557.6)*	776	130	*499.2*	-	
Adjusted PAT	**13**	**189**	***(92.9)***	**13**	**4,648**	***(99.7)***	**17,874**	**10,301**	***73.5***	**1,153**	***(98.8)***
Key ratios											
Material cost	56.6	62.6		56.6	63.9		64.5	64.8		65.0	
Staff cost	13.8	11.5		13.8	6.0		9.3	7.6		10.4	
Other expenditure	14.3	18.7		14.3	15.4		11.7	13.5		14.5	
OPM	**15.4**	**7.2**		**15.4**	**14.7**		**14.5**	**14.1**		**10.0**	
EBIDTA margin	18.0	9.4		18.0	16.7		16.0	16.0		12.6	
Pre-tax margin	9.7	0.8		9.7	12.1		10.9	10.0		4.9	
Tax rate	23.8	(24.8)		23.8	9.1		19.6	14.6		16.5	
PAT margin	7.4	1.0		7.4	11.0		8.7	8.5		4.1	

Source: Company data, Kotak institutional equities estimates.

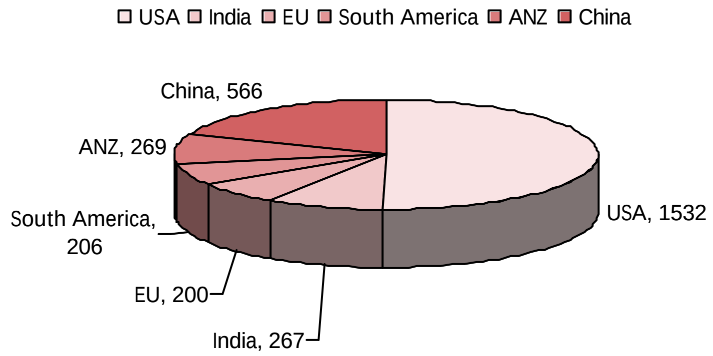
Suzlon sales and order book data in MW and Rs mn

			1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09
Order book	Physical MW	Domestic	207	206	372	267	315	369	441	160	83
		Export	610	1,237	1,271	1,692	2,567	2,882	2,916	3,294	107
		Total	**817**	**1,443**	**1,643**	**1,958**	**2,882**	**3,251**	**3,357**	**3,454**	**189**
	Rs mn	Domestic	8,000	8,242	15,443	14,083	17,100	19,889	24,040	8,865	14,490
		Export	29,590	58,137	61,719	80,780	117,900	143,392	147,030	174,221	150,420
		Total	**37,590**	**66,379**	**77,162**	**94,863**	**135,000**	**163,280**	**171,070**	**183,086**	**164,910**
Sales	Physical MW	Domestic	171	216	190	379	125	238	270	341	146
		Export	25	172	149	154	192	445	275	424	192
		Total	**196**	**388**	**339**	**533**	**317**	**683**	**545**	**765**	**338**

Source: Company data, Kotak Institutional Equities.

Order book is dominated by the US geography

Geographical break-up of order book



Source: Company data.

Segmental numbers for Suzlon Energy Ltd. (Rs mn)

	1QFY09	1QFY08	*% change yoy*	FY2007	FY2008	FY2009E	FY2010E
Wind business							
MW sales	**338**	**317**	***6.7***	**1,456**	**2,311**	**2,963**	**3,978**
Domestic	146	125	*16.9*	955	976	882	1,007
Export	192	192	*0.1*	501	1,335	2,081	2,971
Sales	20,697	14,880	*39.1*	61,300	112,639	152,852	210,921
EBITDA	3,313	1,180	*180.9*	10,210	15,563	21,875	31,369
EBITDA margin	***16.0***	***7.9***		***16.7***	***13.8***	***14.3***	***14.9***
Realisation per MW	*61.2*	*46.9*	*30.3*	*42.1*	*48.7*	*51.6*	*53.0*
EBITDA per MW	*9.8*	*3.7*	*163.2*	*7.0*	*6.7*	*7.4*	*7.9*
Hansen Transmission							
Sales	8,314	4,429	*87.7*	18,560	24,048	42,961	55,614
EBITDA	1,167	310	*276.5*	2,770	3,511	6,444	8,620
EBITDA margin (%)	***14.0***	***7.0***		***14.9***	***14.6***	***15.0***	***15.5***
Consolidated							
Sales	27,605	19,446	*42.0*	79,860	136,794	195,813	266,535
EBITDA	4,485	1,526	*193.9*	12,980	19,245	28,319	39,989
EBITDA margin (%)	***16.2***	***7.8***		***16.3***	***14.1***	***14.5***	***15.0***

Source: Company data, Kotak Insttutional Equities estimates.

Suzlon has won a large order from the US geography post emergence of the blade-cracking issue
Major orders booked by the Suzlon group from FY2007 to FY2009 so far

Announcement date	Customer	Country	Product Configuration	Capacity	Delivery schedule (MW)			
			MW	MW	CY07	CY08	CY09	CY10
18-Apr-08	Beifang Longyuan (North Union)	China	1.25	50.0				50.0
18-Apr-08	Ao Lu Jia New Energy Development Ltd.	China	1.5	148.5			148.5	
2-Apr-08	**Horizon Wind of Houston, Texas, USA**	**USA**	**2.1**	**200.0**			**200.0**	
	Total large order booking from FY2009 so far			**398.5**	**NA**	**-**	**348.5**	**50.0**
7-Feb-08	Spanish Saving Bank Unicaja, Spain	Spain	2.1	102.9		52.9	50.0	
5-Feb-08	Pacific Hydro Ltd, Australia	Australia	2.1	56.7				56.7
9-Jan-08	Jingneng Group, China	China	1.25	100.0		100.0		
7-Jan-08	Eolia Renovables SRC S.A, Spain	Spain	1.25	42.5		42.5		
24-Dec-07	ONGC, Gujarat	India	1.5	51.0				
19-Nov-07	AGL Energy, Australia	Australia	1.5	34.0			34.0	
19-Nov-07	Sydney's Renewable Power Ventures, Australia	Australia	1.5	132.0			132.0	
8-Oct-07	Horizon Wind of Houston, Texas, USA	USA	2.1	400.0	-	200.0	200.0	
5-Oct-07	Servtec Instalacoses E Sistemas Integrados Ltda, Brazil	Brazil	1.25	155.0	-	155.0	-	
3-Oct-07	DLF Limited, India	India	1.5	150.0	-	150.0	-	
27-Sep-07	Ayen Enerji Co. Inc, Turkey	Turkey	2.1	31.5	-	31.5	-	
29-Jun-07	PPM Energy of Portland, Oregon, USA	USA	2.1	300.0	-	-	300.0	
6-Jun-07	Edison Mission Group of Irvine, California, USA	USA	2.1	630.0	-	315.0		
3-May-07	PPM Energy of Portland, Oregon, USA	USA	2.1	400.0	-	300.0	100.0	
10-Apr-07	Tierra Energy of Austin, Texas, USA	USA	2.1	88.2	-	88.2	-	-
	Total large order booking from FY2008			**2,673.8**	**-**	**1,435.1**	**816.0**	**56.7**
6-Mar-07	Reliance Energy Limited, India	India	1.5	150.0	112.5	37.5	-	-
29-Jan-07	British Petroleum	India	1.25	40.0	40.0	-	-	-
29-Jan-07	Snowtown Wind Farm Pty Ltd, Australia	Australia	2.1	88.2	88.2	-	-	-
27-Oct-06	China	China	1.25	50.0	50.0	-	-	-
13-Oct-06	SIIF Energies do Brasil Ltda, Brazil	Brazil	1.5	225.0	150.0	75.0	-	-
18-Sep-06	John Deere Wind Energy, USA	USA	2.1	247.0	247.0	-	-	-
4-Sep-06	Edison Mission Group of Irvine, California, USA	USA	2.1	105.0	52.5	52.5	-	-
23-Aug-06	Maestrale Green Energy, Italy	Italy	2.1	21.0	21.0	-	-	-
23-Aug-06	Tecneira - Technologias Energeticas SA, Portugal	Portugal	2.1	39.9	39.9	-	-	-
18-Jul-06	Edison Mission Group of Irvine, California, USA	USA	2.1	105.0	52.5	52.5	-	-
18-Jul-06	Datang International	China	2.1	40.0	40.0	-	-	-
	Total large order booking from FY2007			**1,111.1**	**893.6**	**217.5**	**-**	**-**

Source: Company, Kotak Institutional equities estimates.

Comparison of wind power companies (Euro)

Company	Price (Euro)	Mcap (Mn Euro)	Sales (Mn Euro)	EPS (Euro)			PER (X)			EV/EBIDTA (X)		
			2008	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Vestas	84.4	15,629	3,854	1.6	2.5	3.3	53.8	33.1	25.3	52.3	28.5	18.0
Gamesa	30.7	6,241	2,390	0.9	1.2	1.4	34.1	26.3	21.3	15.8	19.4	11.4
Nordex	22.2	1,838	514	0.2	1.0	1.4	105.7	21.9	16.4	56.5	30.3	17.2
RePower	207.1	1,863	459	2.4	6.1	9.2	85.2	34.1	22.5	105.5	50.6	12.7
Suzlon	**223.0**	**4,997**	**1,195**	**6.6**	**11.4**	**17.7**	**33.9**	**19.5**	**12.6**	**18.3**	**13.5**	**9.8**

Note: Suzlon's market price and EPS are in INR, while mkt cap and sales are converted into Euros

Source: Bloomberg, Kotak Insttutional Equities estimates.

Estimation of residual MCap of Suzlon excluding Repower and Hansen Transmissions

Hansen Transmissions Market Cap	
Share Price in London market (GBP)	3.2
No of shares (mn)	670
Market Capitalisation (mn GBP)	2,111
Post-issue Hansen valuation (in US$ mn)	4,193
Market cap of Hansen (Rs mn)	**178,386**
Suzlon's stake in Hansen's post IPO (%)	72
Contribution of Hansen market cap to Suzlon (Rs mn)	**128,081**

Repower Market Cap	
Share Price in German market (Eur)	207
No of shares (mn)	9
Market Capitalisation (mn Eur)	1,866
Post-issue Repower valuation (in US$ mn)	2,918
Market cap of Repower (Rs mn)	**124,129**
Suzlon's stake in Repower's post IPO (%)	65
Contribution of Repower market cap to Suzlon (Rs mn)	**80,684**

Enterprise value of Suzlon	**(Rs mn)**
Suzlon's share price in India (Rs)	223
Suzlon's no of shares (mn)	1,497
Suzlon's market capitalisation	333,970
Suzlons beneficial interest in Repower	80,684
Suzlons beneficial interest in Hansen Transmissions	128,081
Residual MCap of Suzlon	**125,205**
Net debt	56,404
EV	**181,608**

Source: Bloomberg, Company Data, Kotak institutional equities estimates.

Suzlon is trading at an EV/EBITDA of 7.7X FY2009E and 5.5X FY2010E basis adjusted for contributed market capitalisation of Repower and Hansen Transmission

Scenario analysis for implied valuation of Suzlon under various scenarios of wind business margins and execution

EV/EBITDA for various MW and margin assumptions for FY09E

MW Sales		**2,750**				**3,000**				**3,250**				**3,500**		
Realization (Rs mn)	148,500	148,500	148,500	148,500	162,000	162,000	162,000	162,000	175,500	175,500	175,500	175,500	189,000	189,000	189,000	189,000
Margin (%)	14.0	15.0	16.0	16.5	14.0	14.5	16.0	16.5	14.0	15.0	16.0	16.5	14.0	15.0	16.0	16.5
EBITDA (Rs mn)	20,790	22,275	23,760	24,503	22,680	23,490	25,920	26,730	24,570	26,325	28,080	28,958	26,460	28,350	30,240	31,185
EV/EBITDA	**8.74**	**8.15**	**7.64**	**7.41**	**8.01**	**7.73**	**7.01**	**6.79**	**7.39**	**6.90**	**6.47**	**6.27**	**6.86**	**6.41**	**6.01**	**5.82**
Realization (Rs mn/MW)	54															

EV/EBITDA for various MW and margin assumptions for FY10E

MW Sales		**3,500**				**3,750**				**4,000**				**4,250**		
Realization (Rs mn)	193,900	193,900	193,900	193,900	207,750	207,750	207,750	207,750	221,600	221,600	221,600	221,600	235,450	235,450	235,450	235,450
Margin (%)	14.0	15.0	16.0	16.5	14.0	15.0	16.0	16.5	14.0	15.0	16.0	16.5	14.0	15.0	16.0	16.5
EBITDA (Rs mn)	27,146	29,085	31,024	31,994	29,085	31,163	33,240	34,279	31,024	33,240	35,456	36,564	32,963	35,318	37,672	38,849
EV/EBITDA	**6.69**	**6.24**	**5.85**	**5.68**	**6.24**	**5.83**	**5.46**	**5.30**	**5.85**	**5.46**	**5.12**	**4.97**	**5.51**	**5.14**	**4.82**	**4.67**
Realization (Rs mn/MW):assuming 5% yoy increase				55												

Note: Base case is highlighted with a dark border

Source: Kotak institutional equities estimates.

Metals

NALU.BO, Rs425	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	370
52W High -Low (Rs)	566 - 214
Market Cap (Rs bn)	273.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	46.5	59.5	68.1
Net Profit (Rs bn)	16.3	19.5	21.6
EPS (Rs)	25.2	30.3	33.5
EPS gth	*(31.8)*	*20.0*	*10.6*
P/E (x)	16.8	14.0	12.7
EV/EBITDA (x)	8.9	7.6	6.1
Div yield (%)	1.8	1.8	1.8

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	87.1	-	-
FIIs	4.1	0.2	(0.6)
MFs	0.3	0.1	(0.7)
UTI	-	-	(0.8)
LIC	3.1	0.6	(0.2)

Nalco: Net profit at Rs5.3 bn grows 18% yoy on account of higher alumina prices; retain REDUCE

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- **Nalco's 1Q net profit at Rs5.3 bn grew 18% yoy on account of higher contribution from chemicals (alumina) business**
- **EBITDA margin at 50.2% declined 270 bps yoy; aluminum margins declined sharply despite increase in aluminum prices on account of higher power costs**
- **1Q chemicals EBIT increased 80% yoy; aluminum earnings remain flat**
- **Roll forward our valuation to FY2010E basis; retain REDUCE rating, lower target price to Rs370/share**

Nalco reported 1Q net profit at Rs5.3 bn - up 18% yoy on account of higher alumina sales and better alumina realizations. EBITDA margin at 50.2% for the quarter declined 270 bps yoy. While chemicals EBIT increased 80% yoy on account of higher alumina sales and higher alumina realizations, aluminum segment EBIT remained flat. We roll forward our valuation to FY2010E basis, lower our target price to Rs370/share and retain our REDUCE rating on the stock.

1QFY09 net earnings grew 18% yoy mainly on account of higher alumina realizations. Average alumina prices were up 23% yoy while average aluminum LME during the quarter were higher 8% yoy. Higher alumina realizations along with increased volumes resulted in greater contribution from the alumina segment—alumina segment EBIT at 53.5% was up 900 bps yoy.

On the other hand, EBIT for the aluminum business remained flat on a yoy basis despite higher aluminum realizations on account of reduced volumes and higher conversion costs. Higher power costs and employee costs also impacted 1Q FY2009 operating margins. 1QFY09 EBITDA margin at 50.2% declined 270 bps yoy.

Roll forward our valuation to FY2010E basis; retain REDUCE rating, lower target price to Rs370/share

We roll forward our valuation to FY2010E basis. We now value Nalco's aluminum business at 5.5X FY2010E (versus 8X FY2009E basis previously). We have lowered our target price to Rs370/share (Rs400 previously). We retain our REDUCE earnings as we expect coal shortage to hamper production of alumina resulting in some pressure on the stock in the near term.

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

	1Q 2009	4Q 2008	1Q 2008	% change qoq	% change yoy
Earnings drivers					
Average LME aluminium prices (US$/ton)	3,004	2,790	2,788	7.7	7.7
Average alumina spot prices (US$/ton)	423	394	343	7.5	23.3
Average INR:USD	41.6	39.8	41.3	4.7	1.0
Interim results					
Net revenues	**14,675**	**14,057**	**11,652**	**4.4**	**25.9**
Expenditure	**(7,307)**	**(8,386)**	**(5,488)**		
Stock adjustment	364	(43)	542	(957.2)	(32.8)
Raw materials	(1,554)	(1,658)	(1,320)	(6.3)	17.8
Employee cost	(1,530)	(1,921)	(1,068)	(20.3)	43.3
Other costs	(4,586)	(4,764)	(3,643)	(3.7)	25.9
EBITDA	**7,368**	**5,671**	**6,164**	**29.9**	**19.5**
Other income	1,262	1,350	1,310	(6.5)	(3.7)
Depreciation	(679)	(758)	(692)	(10.4)	(1.9)
EBIT	**7,952**	**6,263**	**6,783**	**27.0**	**17.2**
Interest	(4)	-	(1)		
Profit before tax	**7,948**	**6,263**	**6,782**	**26.9**	**17.2**
Taxes	(2,694)	(2,173)	(2,315)	24.0	16.4
Reported profits - as reported	**5,253**	**4,091**	**4,467**	**28.4**	**17.6**
Ratios					
Costs as % of revenue (%)	49.8	59.7	47.1		
EBITDA margin (%)	50.2	40.3	52.9		
ETR (%)	33.9	34.7	34.1		
EPS (Rs/share)	8.2	6.3	6.9		
Segmental results					
Chemicals	6,379	6,594	4,273	(3.3)	49.3
Aluminium	10,823	10,155	9,073	6.6	19.3
Electricity	2,176	1,740	2,100	25.1	3.6
Total	**19,377**	**18,488**	**15,446**	4.8	25.5
Less: Inter segment revenue	4,702	4,431	3,794		
Net sales from operations	**14,675**	**14,057**	**11,652**		
Segmental PBIT					
Chemicals	3,413	3,321	1,900	2.8	79.6
Aluminium	3,524	2,427	3,553	45.2	(0.8)
Electricity	383	(188)	661	(303.3)	(42.1)
Less: Interest & financing charges	4	-	1		
Less: Other unallocated expenditure	(633)	(727)	(669)		
Total Profit before tax	**7,948**	**6,287**	**6,782**	26.4	17.2
Segmental PBIT (%)					
Chemicals	53.5	50.4	44.5		
Aluminium	32.6	23.9	39.2		
Capital employed					
Chemicals	21,368	19,677	17,323		
Aluminium	30,320	27,183	23,660		
Electricity	11,815	11,646	9,104		
Unallocated common assets	37,282	36,061	37,344		
Total	**100,784**	**94,567**	**87,430**		

Source: Company data, Kotak Institutional Equities estimates.

Consumer products

NEST.BO, Rs1633	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,900
52W High -Low (Rs)	1880 - 1140
Market Cap (Rs bn)	157.4

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	34.7	42.1	49.3
Net Profit (Rs bn)	4.3	5.7	6.8
EPS (Rs)	44.5	58.6	70.2
EPS gth	*31.3*	*31.7*	*19.7*
P/E (x)	36.7	27.9	23.3
EV/EBITDA (x)	22.1	17.2	14.2
Div yield (%)	1.7	2.2	2.6

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.8	-	-
FIIs	8.1	0.2	(0.2)
MFs	5.5	0.6	0.2
UTI	-	-	(0.4)
LIC	3.4	0.3	(0.1)

Nestle India: 2QCY08—Another good quarter; retain ADD

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- **Strong domestic sales growth continue**
- **Grow the core, fix underperformers**
- **Retain ADD rating and target price of Rs1,900**

Nestle India reported yoy sales growth of 23.5% (our estimate 21.3%), EBITDA growth of 18.5% (our estimate 26.5%) and PAT growth of 25.6% (our estimate 42.7%) for 2QCY08. Domestic sales growth rate at 24.8% yoy was the highest reported by any FMCG company in our coverage. Likely higher adspends in new launches in culinary products as well as increased competition resulted in EBITDA margin decline of 80 bps yoy to 18.8%. Current quarter results reinforce the pricing power which Nestle's brands wield. PAT growth was higher as fiscal benefits from Pantnagar unit have started kicking in since 1QCY08. We believe price increases ahead of cost inflation will help maintain margins in CY2008. We retain our ADD rating and target price of Rs1,900/ share. Our target price implies a P/E of 32X on CY08E and 27X on CY09E. We will revisit our assumptions after the annual analyst meet next week.

Strong domestic sales growth continue

Strong domestic sales growth of 24% during 2QCY08 is impressive on the back of 25% growth in CY07 and 1QCY08. This clearly indicates the growth trajectory for the near term has shifted to ~20% from the average sales growth of 10% yoy in the past five years. Export sales likely had an underlying growth of 10% adjusting for currency fluctuations. We continue to like the innovation capabilities of the company (eg, Maggi 'Pichkoo'—easy to use flexi pack sauces, Maggi 'Cuppa mania'—ready to eat noodles, launch of probiotic yoghurts etc.) and the multiple growth drivers which it possesses.

We note that propensity to consume for the categories which Nestle operates in favorable for having the pricing power. We believe Nestle has the right product portfolio to capture the high growth rates in the foods category. The increasing salience of modern trade in the Indian distribution channel also favors Nestle's product portfolio the most.

Grow the core, fix underperformers

We like the aggression displayed by the company in getting back growth for underperforming brands—the recent relaunch of 'Milo' 500gm SKU at an aggressive price point of Rs88 is an example. We believe the health food drink (HFD) category in India is predominantly urban focused with over 75% of sales accruing from urban markets. While there is a latent demand for a branded nutritional drink in the low end of the economic strata; lack of scale, ability and willingness to invest has hampered product innovations and launches to address this market need. Market sources indicate that the largest selling SKU in the health food drink category is the 500g SKU which is priced at about Rs120. There is no viable offering at a lower price-point to induce trial purchases. Companies in HFD industry does have smaller SKUs, however, the quality of distribution (availability at point of purchase) is poor.

Nestle had launched 'Milo' in Indian markets in mid-1990s. The brand was initially promoted with consumer promotions. The inability to gain significant market share resulted in the brand falling into the trap of getting consumer pull only when promos were offered. 'Milo' brand is Nestle's (global) vehicle for offerings under the 'energy' platform. Hence it is imperative for Nestle India to make the brand a success for possible future forays into energy drinks in various formats as the salience of modern retail increases. However, 'Milo' with the new pricing is yet to be launched nationally as well as supported by activation programs. We keenly await market feedback on launch plans and consumer response. Further, the company needs to plug the market share losses to HUL in coffee business as well.

20-year explicit forecast based DCF model derived target price of Rs1,900

The model builds in a WACC of 14% and a terminal year growth rate of 6%. We retain our ADD rating and target price of Rs1,900/share and a potential upside of 16% to current market price. The stock has demonstrated excellent defensive characteristics and has delivered a relative return of 9%, 29% and 42% over the past 3, 6 and 12 months, respectively. Our target price implies a P/E of 32X on CY08E and 27X on CY09E. We will revisit our assumptions after the annual analyst meet next week.

Interim results of Nestle, December fiscal year-ends (Rs mn)

	yoy			Our est.	
Rs mn	**2QCY08**	**2QCY07**	**% chg**	**2QCY08**	**% chg**
Net sales	**10,356**	**8,389**	**23.5**	**10,174**	**21.3**
Material cost	(5,134)	(4,127)			
Employee cost	(802)	(697)			
Other overheads	(2,470)	(1,919)			
Total expense	(8,406)	(6,743)			
EBITDA	**1,950**	**1,646**	**18.5**	**2,083**	**26.5**
Depreciation	(224)	(178)		(211)	
EBIT	1,727	1,468		1,872	
Other income	67	32		70	
Net interest	(14)	(4)		(1)	
PBT	**1,780**	**1,496**	**19.0**	**1,941**	**29.8**
Tax	(538)	(507)		(531)	
PAT	**1,242**	**989**	**25.6**	**1,410**	**42.7**
Extraordinary Income (loss)	(31)	(32)		-	
Net profit	**1,211**	**957**	**26.5**	**1,410**	**47.4**
EBITDA margin (%)	18.8	19.6		20.5	
Effective tax rate (%)	30.2	33.9		27.3	

Source: Company data, Kotak Institutional Equities.

Metals

JSTL.BO, Rs737	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,040
52W High -Low (Rs)	1390 - 501
Market Cap (Rs bn)	136.9

Financials

December y/e	2008	2009E	2010E
Sales (Rs bn)	102.0	148.5	176.9
Net Profit (Rs bn)	17.4	19.5	27.6
EPS (Rs)	92.0	103.1	146.8
EPS gth	*35.7*	*12.0*	*42.4*
P/E (x)	8.0	7.1	5.0
EV/EBITDA (x)	5.9	6.1	4.4
Div yield (%)	2.5	2.5	2.5

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	47.0	-	-
FIIs	26.4	0.5	0.1
MFs	2.0	0.2	(0.2)
UTI	-	-	(0.4)
LIC	2.1	0.2	(0.2)

JSW Steel: Higher raw material costs hurt operating margins; adjusted net profit grows 20% yoy—retain ADD rating with TP of Rs1,040

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- **1QFY09 net profit at Rs2.2 bn declines 53% yoy mainly on account of forex losses of Rs3.6 bn; adjusted for forex losses, net profit grew 20% yoy**
- **EBTIDA margin at 27.1% declined sharply even as higher volumes and average realization were offset by sharp increase in iron ore and coking coal costs**
- **Expansion of capacity to boost volumes in 2HFY09; Chilean iron ore mines to start production by end-FY09**
- **Retain ADD rating with a target price of Rs1,040**

JSW reported 1QFY09 net profit at Rs2.2 bn—down 53% yoy led mainly by forex losses of Rs3.6 bn. Adjusted for these mark-to-market losses, net profit would have grown 20% yoy. 1Q EBITDA margin at 27.1% declined sharply on account of a sharp rise in iron ore prices as well as rise in coking coal prices. Saleable steel volume grew 13% yoy while average realization/ton increased 36%. However, this was offset by increase in input costs. Expansion of capacity at Vijaynagar is on track which will likely result in strong volume growth in 2HFY09. The management has indicated that Chilean mines should start production by end-FY2009 and production would be ramped up to 6 mn tons by FY2010. We retain our ADD rating on the stock with a target price of Rs1,040.

Net profit declines mainly on account of forex losses of Rs3.6 bn

JSW Steel reported net profit at Rs2.2 bn—down 53% yoy. The company reported mark-to-market forex losses of Rs3.6 bn on its outstanding loan portfolio. Adjusted for the forex loss, net profit would have been higher 20% yoy. Interest costs were higher 50% yoy on account of increased draw down in debt to meet accelerated capex programs. The management indicated that its cost of borrowings increased marginally while debt-to-equity increased to 1.1 from 0.9 earlier.

Operating performance hit by rise in input costs despite increase in volume

1Q EBITDA margin at 27.1% declined sharply (down 550 bps yoy) on account of a sharp rise in contract prices of iron ore and coking coal. Higher freight costs also hurt margins as the company imports most of its coal. Operating performance was hit despite an increase in saleable steel volume by 13% yoy and increase in average realization by 36%. Saleable steel volumes were lower on a qoq basis on account of (1) shutdown at its Hot Strip mill resulting in lower production, (2) captive consumption of 50,000 tons of plates/sheets/TMT bars for internal projects and (3) accretion to stock to the extent of 107,000 tons. We expect pressure on margins to continue as (a) the full impact of raw material price hikes especially coal will be felt in 2Q and (b) uncertainty over ability to increase steel prices due to government's intervention.

Expansion of capacity to boost volumes in 2HFY09

The management has indicated that the capacity expansion at Vijaynagar to 6.8 mn tons from 3.8 mn tons will be likely completed by Sep '08. We expect volumes to increase in 2HFY09 as (1) the newly-commissioned capacity at Vijaynagar exhibits strong growth in volumes, (2) probable inflation control in domestic markets may allow free-market pricing to return for steel products and (3) JSW US starts delivering higher production and better profitability.

Iron ore mines in Chile on track to start production by end-FY2009

The management has indicated it should be able to start production at the Chile iron ore mines by end-FY2009. JSW aims to ramp up production to 6 mn tons by end-FY2010. JSW recently carried out exploration in about 130 hectares out of the total area of 26,000 hectares. According to the certification received by JSW, the explored area contains about 1.5 bn tons of iron ore (12% Fe content) equivalent to 150 mn tons post beneficiation to 63% Fe content. We view this as a positive development for JSW Steel. Besides, the company has obtained one more concession for exploration at the coal mines in Mozambique.

Retain ADD with target price of Rs1,040

We retain our SOTP-based target price of Rs1,040/share. Our valuation comprises Rs835 in standalone entity (ex-SISCOL), Rs78 for value accretion from the US acquisition and Rs148 from value accretion from SISCOL. We have valued the steel business (standalone, US acquisition and SISCOL) at 5X FY2010E EV/EBTIDA in line with global steel companies which are currently trading in a similar range. We still do not value (1) the probable value accretion from listing of JSW Bengal and (2) probable value accretion from development of mining assets, either in Mozambique (coking coal mines) or Chile (iron ore mines). We maintain our ADD rating.

JSW Steel interim results, March fiscal year-ends (Rs mn)

				% change	
	1Q 2009	**4Q 2008**	**1Q 2008**	**qoq**	**yoy**
Quantitative details ('000 tons)					
Crude steel	975	1,295	802	(24.7)	21.6
Saleable steel	817	1,107	722	(26.2)	13.2
Earnings drivers					
Average realization (Rs/ton) (b)	44,939	37,846	33,039	18.7	36.0
Average EBITDA (Rs/ton) (b)	12,186	10,516	10,720	15.9	13.7
Average US HRC prices (US$/ton)	1,077	762	610	41.3	76.6
Average UK HRC prices (US$/ton)	827	692	645	19.5	28.2
Average INR:USD	41.65	39.79	41.26	4.7	1.0
Interim results					
Net revenues	**36,715**	**41,898**	**23,854**	**(12.4)**	**53.9**
Expenditure	**(26,759)**	**(32,424)**	**(16,115)**	**(17.5)**	**66.1**
Stock adjustment	4,910	(224)	900	(2,291.9)	445.8
Raw materials	(24,231)	(23,029)	(11,833)	5.2	104.8
Employee cost	(774)	(979)	(664)	(20.9)	16.6
Other costs	(6,664)	(8,192)	(4,518)	(18.7)	47.5
EBITDA	**9,956**	**9,474**	**7,740**	**5.1**	**28.6**
Other income	273	362	349	(24.5)	(21.9)
Depreciation	(1,852)	(2,333)	(1,467)	(20.6)	26.3
EBIT	8,377	7,502	6,622	11.7	26.5
Interest	(1,531)	(1,911)	(1,027)	(19.9)	49.1
Pre-tax profits - as reported	6,845	5,591	5,595	22.4	22.3
Unusual or infrequent items	(3,628)	-	1,139		
Pre-tax profits - as adjusted	**3,217**	**5,591**	**6,734**	**(42.5)**	**(52.2)**
Taxes	(1,024)	(2,372)	(2,049)	(56.8)	(50.0)
Reported profits - as adjusted	**2,194**	**3,219**	**4,685**	**(31.9)**	**(53.2)**
Recurring net earnings	**4,667**	**3,219**	**3,892**	**45.0**	**19.9**
Ratios					
Costs as % of revenue (%)	72.9	77.4	67.6		
EBITDA margin (%)	27.1	22.6	32.4		
ETR (%)	31.8	42.4	30.4		
EPS (Rs/share)	11.8	17.3	25.2		

Source: Company data, Kotak Institutional Equities estimates.

JSW Steel, SOTP-based valuation, March fiscal-year ends 2010E basis (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Enterprise value (Rs mn)	Enterprise value (US$ mn)	Enterprise value (Rs/share)	Comment
FY2010E standalone EBITDA	53,057	5.0	265,283	6,392	1,320	
Less: standalone net debt of JSW Steel			(97,547)	(2,351)	(485)	FY2010E net debt, adjusted for cash and marketable securities
1. Standalone equity valuation			**167,737**	**4,042**	**835**	
Add: US subsidiary FY2010E EBITDA	8,036	5.0	40,182	968	200	
Less: cost of acquisition of US subsidiary			(24,564)	(592)	(122)	
2. Value accretion on acquisition			**15,618**	**376**	**78**	
FY2010E SISCOL EBITDA	6,610	5.0	33,048	796	164	Non-integrated plant; similar multiple of JSW assumed
Less: SISCOL net debt			(3,379)	(81)	(17)	FY2010E net debt, adjusted for cash and marketable securities
3. Value accretion on SISCOL acquisition			**29,669**	**715**	**148**	
4. Value accretion from listing of JSW Bengal			—	—	—	No value accorded; previously valued at nil-see note 1
5. Value accretion from operations in mines			—	—	—	No value accorded; previously valued at nil-see note 2
Arrived market capitalization (1+2+3+4+5)			**213,024**	**5,133**	**1,060**	
Target price (Rs/share)					**1,040**	

Notes:

1. We have not valued probable value accretion to JSW Steel from listing of JSW Bengal. This is in-line with our valuation methodology of other steel companies where we do not value Present Value of future capex.

2. We have not valued probable accretion to value from listing of JSW Netherlands or accorded any value accruing to JSW Steel from operation of iron ore mines in Chile or coking coal mines in Mozambique for want of more information.

Source: Kotak Institutional Equities estimates.

Telecom

MTNL.BO, Rs104	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	100
52W High -Low (Rs)	219 - 83
Market Cap (Rs bn)	65.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	47	47	49
Net Profit (Rs bn)	3.1	4.1	4.4
EPS (Rs)	6.0	6.5	7.0
EPS gth	*(25.2)*	*7.7*	*8.2*
P/E (x)	17.3	16.0	14.8
EV/EBITDA (x)	2.3	2.5	2.4
Div yield (%)	5.8	5.8	5.8

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	56.2	-	-
FIIs	12.1	0.1	(0.1)
MFs	3.4	0.1	(0.0)
UTI	-	-	(0.2)
LIC	17.4	0.7	0.5

MTNL: Struggles on operating performance continue; downgrade to REDUCE

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- **Weak 1QFY09 results marked by a 6% and 36% yoy decline in revenues and EBITDA, respectively**
- **Higher other income drives net income outperformance versus expectations**
- **Downgrade to REDUCE from ADD; cut target price to Rs100 (Rs120 earlier)**

MTNL reported weak 1QFY09 results with revenues declining 3% qoq and 6% yoy to Rs11.2 bn. EBITDA performance was even more disappointing with a qoq decline of 28% and yoy decline of 36% to Rs1.68 bn (our expectation was Rs2.1 bn); however, this was impacted by a one-time adhoc staff expense provision of Rs250 mn. EBITDA margins declined 500 bps qoq and 690 bps yoy to 15%; adjusted for the one-time provision, margin decline was lower by 200 bps. Net income at Rs1.15 bn was higher than our expectation of Rs905 mn, driven by higher-than-expected other income and lower tax expenses (effective tax rate was 27% versus our expected 34%). Deterioration in core business fundamentals despite the company's new initiatives (broadband, IPTV) remains an area of concern. We have revised FY2009E and FY2010E EPS to Rs6.5 and Rs7, from Rs6.4 and Rs7.2, respectively. We downgrade the stock to REDUCE from ADD. We note that the stock has outperformed the BSE Sensex by 11.9% since our rating upgrade on April 1, 2008. Reduce our 12-month forward target price to Rs100 from Rs120 on account of decline in core business value and removal of option value (Rs10/share) we had attached to the likely reduction in fixed-line license fee. Recent developments suggest that the license fee reduction will be limited to rural lines, thereby not benefiting MTNL.

1QFY09 results—disappointment on core business performance continues
MTNL's 1QFY09 revenues of Rs11.2 bn (down 3% qoq and 6% yoy) were 4% below our expectations. More importantly, EBITDA declined 28% qoq and 36% yoy to Rs1.68 bn. Operating expenses increased 3.2% qoq, led by a sharp increase in staff costs (38.8% qoq or an absolute increase of Rs1.26 bn qoq). The company took an ad-hoc provision of Rs250 mn within the staff costs pertaining to dearness allowance. Net income of Rs1.15 bn was 28% ahead of our expectations; net income outperformance was driven by higher-than-expected other income and lower taxes.

Fixed-line business continues to deteriorate. MTNL continues to face challenges on its core business with consistent decline in fixed-line subscriber base, loss of PCO revenues and capacity constraints in its wireless and broadband businesses. The company's fixed-line subscriber base declined 60,000 qoq while fixed-line ARPU declined 2% qoq to Rs653. We believe MTNL's PCO (payphone) revenues also continued to remain under pressure; the payphone business in India is under tremendous pressure given increasing wireless penetration, and lowering wireless tariffs (local as well as long-distance and roaming).

Wireless business—ARPU continues to trend down sharply. MTNL reported a sharp decline in both its prepaid and postpaid ARPU—qoq decline of 3.6% and 13% qoq, respectively, was substantially higher than the ARPU decline reported by some of the larger peers. We believe a large portion of MTNL's net adds have been lifetime subscribers (upfront payments for these subs has been reduced drastically in recent months), further impacting ARPU.

Increase in broadband capacity a positive; expect robust broadband sub additions in the coming months. MTNL increased its broadband capacity by 155,000 during the quarter. We note that MTNL had been grappling with severe capacity constraints in this business (95%+ capacity utilization at end-4QFY08), which also reflected in poor broadband net adds over the past four quarters. While broadband net adds of 13,000 qoq in 1QFY09 was disappointing, we expect the net adds to improve in the coming months as MTNL gets aggressive given the increased capacity.

Reducing estimates and target price. We have revised FY2009E and FY2010E EPS to Rs6.5 and Rs7, from Rs6.4 and Rs7.2, respectively. We downgrade the stock to REDUCE from ADD earlier. Reduce our 12-month forward target price to Rs100 from Rs120 earlier on account of decline in core business value and removal of option value (Rs10/share) we had attached to the likely reduction in fixed-line license fee. Recent developments suggest that the license fee reduction will be limited to rural lines, thereby not benefiting MTNL. We continue to include Rs15/share of option value for the company's surplus real estate assets in our target price.

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

		qoq			yoy	
	1Q 2009	4Q 2008	% chg	1Q 2009	1Q 2008	% chg
Revenues	**11,216**	**11,566**	***(3.0)***	**11,216**	**11,957**	***(6.2)***
Interconnection charges	(1,935)	(1,902)	*1.8*	(1,935)	(2,014)	*(3.9)*
License fee	(1,012)	(1,183)	*(14.5)*	(1,012)	(1,075)	*(5.9)*
Staff cost	(4,500)	(3,242)	*38.8*	(4,500)	(4,226)	*6.5*
Admin/operative	(2,093)	(2,920)	*(28.3)*	(2,093)	(2,026)	*3.3*
Total operating expenditure	**(9,539)**	**(9,247)**	***3.2***	**(9,539)**	**(9,340)**	***2.1***
EBITDA	**1,677**	**2,319**	***(27.7)***	**1,677**	**2,617**	***(35.9)***
EBITDA margin	*15.0%*	*20.0%*	*(25.4)*	*15.0%*	*21.9%*	*(31.7)*
Interest and other income	1,663	1,050	*58.4*	1,663	843	*97.2*
Interest expense	(10)	(5)	*88.4*	(10)	(7)	*31.3*
Depreciation	(1,770)	(1,840)	*(3.8)*	(1,770)	(1,765)	*0.3*
PBT	**1,561**	**1,523**	***2.5***	**1,561**	**1,688**	***(7.5)***
Provision for taxes	(409)	(1,344)	*(69.6)*	(409)	(579)	*(29.4)*
Extraordinaries/prior period	—	2,020		—	—	
Reported net profit	**1,152**	**2,199**	***(47.6)***	**1,152**	**1,109**	***3.9***
Adjusted net profit	**1,152**	**945**	***21.9***	**1,152**	**1,109**	***3.9***
Adjusted EPS (Rs)	1.8	1.5		1.8	1.8	
Effective Tax rate (%)	26.2	37.9		26.2	34.3	
Fixed-lines ('000)	3,747	3,807	*(1.6)*	3,747	3,750	*(0.1)*
Fixedline net-addition ('000)	**(60)**	**97**		**(60)**	**(11)**	
GSM wireless subs ('000)	3,438	3,242	*6.0*	3,438	2,609	*31.8*
CDMA wireless subs ('000)	164	161	*1.7*	164	122	*34.3*
Broadband subs ('000)	584	571	*2.3*	584	500	*16.8*

Source: Company, Kotak Institutional Equities.

Key changes to MTNL earnings model, FY2009E-10E (Rs mn)

	Revised		Earlier		Change (%)	
	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E
Revenues (Rs mn)	46,526	49,110	49,496	52,600	(6.0)	(6.6)
EBITDA (Rs mn)	7,460	7,687	9,082	10,074	(17.9)	(23.7)
EBITDA margin (%)	16.0	15.7	18.3	19.2		
Net profit (Rs mn)	4,074	4,409	4,017	4,556	1.4	(3.2)
EPS (Rs)	6.5	7.0	6.4	7.2	1.4	(3.2)

Source: Kotak Institutional Equities estimates.

Our target price for MTNL based on 12-month DCF is 100/share (a)

DCF analysis for MTNL, March fiscal year-ends, 2008E-2017E (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	7,460	7,687	8,290	8,621	8,655	8,530	8,635	8,570	8,242
Tax	(96)	(166)	(372)	(491)	(483)	(436)	(457)	(360)	(205)
Change in working capital	499	92	36	55	93	135	41	121	195
Operating cash flow	**7,863**	**7,612**	**7,954**	**8,185**	**8,265**	**8,229**	**8,219**	**8,331**	**8,233**
Capex	(7,828)	(8,142)	(7,848)	(7,700)	(7,739)	(7,694)	(7,912)	(7,806)	(7,615)
Free cash flow	**34**	**(530)**	**106**	**485**	**526**	**534**	**307**	**525**	**617**

	+1 year
PV of cash flows	1,476
PV of terminal value	2,203
EV	3,679
Net debt	(49,349)
Equity value (Rs mn)	53,028
Equity value (Rs/share)	**84**
Exit FCF multiple (X)	9.5
Exit EBITDA multiple (X)	0.7

WACC and growth in perpetuity assumptions	
WACC (%)	**12.5**
Terminal growth - g (%)	**2.0**

Note:

(a) Includes Rs15/share option value for the company's surplus real estate assets

Source: Kotak Institutional Equities estimates.

Profit model, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Revenues	**55,487**	**49,109**	**47,497**	**46,526**	**49,110**	**51,659**
Operating costs						
Interconnection charges	(12,263)	(8,807)	(8,199)	(8,378)	(8,710)	(9,141)
License fees	(4,590)	(4,647)	(4,464)	(4,042)	(4,270)	(4,484)
Network operating expenses	(3,316)	(3,482)	(3,766)	(3,777)	(4,116)	(4,398)
Staff expenses	(19,053)	(18,132)	(16,117)	(17,559)	(18,860)	(19,697)
SG&A	(8,263)	(5,981)	(6,484)	(5,311)	(5,467)	(5,649)
Total operating costs	**(47,485)**	**(41,050)**	**(39,030)**	**(39,066)**	**(41,423)**	**(43,369)**
EBITDA	**7,080**	**8,043**	**8,257**	**7,460**	**7,687**	**8,290**
Interest/other income	4,723	5,917	4,801	5,905	6,216	6,421
Depreciation	(6,467)	(6,832)	(7,072)	(7,193)	(7,224)	(7,217)
Pretax profits	**4,847**	**7,088**	**5,927**	**6,172**	**6,679**	**7,494**
Taxation	(561)	(3,178)	(4,110)	(2,226)	(2,402)	(2,598)
Deferred tax	(376)	(89)	1,237	129	132	50
Extraordinary gain/(charge)	1,892	2,996	2,020	—	—	—
Net profits	5,803	6,817	5,073	4,074	4,409	4,947
Adjusted net profits	**4,175**	**5,056**	**3,784**	**4,074**	**4,409**	**4,947**
EPS (Rs)	**6.6**	**8.0**	**6.0**	**6.5**	**7.0**	**7.9**
Shares outstanding (mn)	630	630	630	630	630	630
Effective tax rate (%)	14.0	41.2	36.2	34.0	34.0	34.0
Dividend payout ratio (%)	60.4	49.8	99.9	92.8	85.7	76.4
DPS (Rs)	6.0	6.0	6.0	6.0	6.0	6.0
Growth (%)						
Revenues	1.9	(10.0)	(3.7)	(1.6)	5.6	5.2
EBITDA	(36.3)	13.6	2.7	(9.7)	3.0	7.8
EPS	(32.1)	21.1	(25.2)	7.7	8.2	12.2
Margin (%)						
EBITDA	13.0	16.4	17.5	16.0	15.7	16.0
Net profits	7.7	10.3	8.0	8.8	9.0	9.6

Source: Kotak Institutional Equities estimates.

Retail

TITN.BO, Rs1127	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	1,350
52W High -Low (Rs)	1795 - 692
Market Cap (Rs bn)	50.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	30.0	39.6	50.2
Net Profit (Rs bn)	1.6	1.8	2.2
EPS (Rs)	35.1	41.1	49.8
EPS gth	*56.8*	*17.8*	*21.7*
P/E (x)	32.1	27.4	22.6
EV/EBITDA (x)	21.6	16.8	13.5
Div yield (%)	0.7	0.8	1.0

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.1	-	-
FIIs	12.8	0.1	(0.0)
MFs	2.2	0.1	(0.0)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Titan Industries: PAT exceeds expectations due to higher margins on lower revenues

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- **1QFY09 jewelry 76% of revenues, PAT up 79% to Rs322 mn, EBITDA margins of 6.9%**
- **Jewelry volumes possibly decline, 35% yoy increase in gold price pushes revenues higher by 32%**
- **Update for latest annual report and tweak estimates for associate income; reduce EPS estimate to Rs41 and Rs50 from Rs44 and Rs55 for FY2009E and FY2010E, respectively**
- **Maintain BUY and target price of Rs1,350**

Titan reported better-than-expected EBITDA margins (reported 6.9% versus expected 5.6%) and PAT (reported Rs322 mn versus expected Rs245 mn) on lower-than-expected revenues. Higher-than-expected PBIT margins for both watches and jewelry segments pushed EBITDA margins higher than expected. However, higher gold prices possibly pushed jewelry volumes lower on a yoy basis. Jewelry revenues increased 32% to Rs6.2 bn led by a 35% increase in gold prices yoy; jewelry segment accounted for 76% of total revenues and 70% of total EBIT. Watch segment revenues rose 2% to Rs1.7 bn and posted PBIT margins of 10%. We expect the watch and jewelry segment to post EBIT margins of 14.2% and 5.6% in FY2009E and overall EBITDA of 7.5%. We model jewelry volumes and revenues to grow at 20% and 42%, respectively, for FY2009E. We update our model for FY2008 annual report and tweak our estimates mainly for the associate income; reduce our EPS estimates to Rs41 and Rs50 from Rs44 and Rs55 for FY2009E and FY2010E, respectively, as we do not include any associate income. We maintain BUY and TP of Rs1,350 and highlight that gold prices and jewelry demand will be the key drivers of valuations in the near term. Higher volatility in gold prices poses risk to jewelry demand assumptions.

1QFY09 results—stronger margins drive PAT; revenues below estimates

Titan reported stronger-than-expected results—PAT of Rs322 mn (our estimate of Rs245mn) and EBITDA margin of 6.9% (our estimate of 5.6%). Revenues of Rs8.1 bn were lower than our estimate of Rs9 bn mainly on account of lower sales in the jewelry segment. Revenues at Rs8.1 bn were up 23.2% yoy and adjusted PAT of Rs322 mn was up 79% yoy. EBITDA margin was up 130 bps led by stronger margins in both jewelry and watches segments. Jewelry revenues increased 32% to Rs6.2 bn led by a 35% increase in gold prices yoy; jewelry segment accounted for 76% of total revenues and 70% of total EBIT. Watch segment revenues rose 2% to Rs1.7 bn and posted PBIT margins of 10%.

Jewelry—better-than-expected margins; but possibly volumes declined

Titan reported EBIT margins of 5.8% in 1QFY09 versus our estimate of 4.7%; however, revenues were lower at Rs6.2 bn versus our estimate of Rs6.7 bn. Jewelry revenues were up 32% yoy led by 35% increase in average gold price. We believe Titan would have witnessed volume decline in 1QFY09 since the revenue growth was lower than the growth in gold price. We model total number of Tanishq and GoldPlus stores to increase to 155 by end-FY2009E from 126 stores as at end-FY2008 (up 23%). We currently model a 20% increase in jewelry volumes in FY2009E implying a possible decline in same store volumes in FY2009E since the volume growth estimate is lower than the growth in number of stores. We model jewelry segment to deliver revenues and EBIT margin of Rs21.5 bn and 5.6% over the remaining nine months in FY2009E.

Watches—strong margins on flat revenues

Watch segment reported revenues of Rs1.7 bn (up 1.8% yoy); however EBIT increased 55% to Rs170 mn due to 340 bps increase in margins. We believe EBIT margins at 10% were better than our estimate of 7% mainly on account of better mix of higher price watches and the larger share of the licensed brands—Tommy Hilfiger, Hugo Boss and Xylys. We estimate revenues and EBIT margin of Rs8.7 bn and 15%, respectively from the watch segment over the next nine months. We estimate manufactured watches to grow at 9% to 10.3 mn pieces and purchased watches to grow at 60% to 1.4 mn pieces in FY2009E. We believe increasing share of the purchased watches will support margins despite increasing material costs.

Others—revenues remain flat but losses marginally lower

Titan's other businesses—eyewear, precision engineering and machine building—reported flat revenues yoy with marginal reduction in losses. Revenues were at Rs227 mn in 1QFY09 versus Rs222 mn in 1QFY08 and segmental loss was at Rs20 mn versus Rs27 mn in 1QFY08. We believe roll-out of Titan Eye+ stores will drive revenues in the segment. We expect both the eyewear and precision engineering business to report positive operating earnings in FY2009E.

Revise estimates—update model for FY2008 annual report; exclude associate income

We update our model for the detailed information as per FY2008 annual report and exclude associate income post the divestment/ conversion to subsidiary of the associates. We revise our revenue estimates for FY2009E and FY2010E downwards by 13% and 17% respectively mainly on account of lower average per piece weight of designs in the jewelry segment. We increase our EBITDA margins up by 90 and 100 bps for FY2009E and FY2010E, respectively on account of higher margins in the jewelry segment as advertisement and marketing costs are apportioned over a larger revenue base. We increase our jewelry segment EBITDA margin for FY2009E and FY2010E to 5.9% and 5.6% from 5.6% and 5.3% earlier, respectively. We reduce our PAT estimate for FY2009E and FY2010E by 6.2% and 8.9%, respectively mainly on account of exclusion of the associate income. As per the FY2008 annual report, Titan has divested its indirect stake in its overseas associates and converted the domestic associates into subsidiaries hence going forward there would not be any associate income being accounted for.

Valuations—maintain BUY with target price of Rs1,350

We maintain our BUY rating and 12-month DCF-based target price of Rs1,350. The stock is currently trading at 22.6X FY2010E EPS. We believe with earnings growing at a CAGR of 22.6% over FY2008-11E, stock provides fair upside at current prices. We highlight that gold prices and jewelry demand will be the key drivers of valuations in the near term. Higher volatility in gold prices poses risk to jewelry demand assumptions.

Exhibit 1: Forecasts and valuation (consolidated)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	14,398	1,529	812	18.6	42.2	60.7	32.9
2007	20,906	2,013	1,001	22.6	34.8	49.9	25.7
2008	29,969	2,388	1,556	35.1	37.7	32.1	21.6
2009E	39,629	2,990	1,825	41.1	33.6	27.4	16.8
2010E	50,216	3,683	2,209	49.8	31.6	22.6	13.5

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Titan, Interim results (standalone), March fiscal year-ends, (Rs mn)

		qoq		yoy	
	1Q FY09	4Q FY08	(% chg)	1Q FY08	(% chg)
Net sales	**8,103**	**8,225**	**(1.5)**	**6,575**	**23.2**
Total expenditure	**(7,543)**	**(7,387)**	**2.1**	**(6,206)**	**21.5**
Inc/(Dec) in stock	375	500	(25.1)	(1)	
Raw materials	(6,290)	(6,078)	3.5	(4,849)	29.7
Staff cost	(519)	(482)	7.8	(480)	8.3
Advertising	(407)	(318)	27.9	(341)	19.2
Other expenditure	(701)	(1,010)	(30.6)	(535)	30.9
EBITDA	**561**	**838**	**(33.1)**	**369**	**52.1**
OPM (%)	**6.9**	**10.2**		**5.6**	
Other income	8	4	118.4	5	56.6
Interest	(52)	(63)	(17.0)	(48)	8.3
Depreciation	(77)	(79)	(2.5)	(72)	7.2
Pretax profits	**440**	**700**	**(37.2)**	**254**	**73.3**
EBIT%	**6.1**	**9.3**		**4.6**	
Tax	(117)	(95)	23.5	(74)	59.2
Net income	**322**	**605**	**(46.7)**	**180**	**79.1**
EO	—	-		(54)	
Reported net profit	**322**	**605**	**(46.7)**	**126**	**154.9**
Income tax rate (%)	26.7	13.6		29.1	
Segmental revenues					
Watches	1,719	2,799	(38.6)	1,688	1.8
Jewelry	6,157	5,378	14.5	4,664	32.0
Others	227	273	(16.7)	222	2.1
Total revenues	**8,103**	**8,450**	**(4.1)**	**6,575**	**23.2**
Segmental EBIT					
Watches	170	600	(71.7)	110	54.6
Jewelry	355	271	30.9	247	44.1
Others	(20)	(81)	(75.5)	(27)	(27.1)
Total EBIT	**505**	**790**	**(36.1)**	**329**	**53.5**
Segmental capital employed					
Watches	2,919	3,271	(10.8)	3,531	(17.4)
Jewelry	2,535	2,995	(15.4)	1,488	70.4
Others	852	706	20.8	713	19.6
Total capital employed	**6,306**	**6,972**	**(9.6)**	**5,732**	**10.0**
Segmental EBIT margin (%)					
Watches	9.9	21.4		6.5	
Jewelry	5.8	5.0		5.3	

Exhibit 3: Titan Industries, change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Revenue	39,629	50,216	61,937	45,392	60,203	76,371	(12.7)	(16.6)	(18.9)
EBITDA	2,990	3,683	4,660	2,985	3,784	4,895	0.2	(2.7)	(4.8)
EBITDA margin (%)	7.5	7.3	7.5	6.6	6.3	6.4	—	—	—
Associate income	—	—	—	121	133	144	NM	NM	NM
Adjusted net profit	1,825	2,209	2,866	1,946	2,426	3,176	(6.2)	(8.9)	(9.8)
Diluted EPS (Rs)	41.1	49.8	64.6	43.8	54.6	71.5	(6.2)	(8.9)	(9.8)

Source: Kotak Institutional Equities estimates.

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

	2006	2007	2008	2009E	2010E	2011E	2012E
Jewelry							
Revenues (Rs mn)	**7,896**	**12,903**	**20,252**	**27,700**	**35,363**	**44,028**	**53,347**
EBITDA (Rs mn)	491	913	1,152	1,635	1,996	2,513	3,215
EBITDA margin (%)	6.2	7.1	5.7	5.9	5.6	5.7	6.0
Volumes ('000 pcs)							
Jewelry	570	720	1,139	1,367	1,640	1,968	2,322
Coins	1,427	1,925	1,017	1,169	1,345	1,546	1,794
Average realisation (Rs/pc)							
Jewelry	11,530	14,325	15,032	18,711	20,012	20,866	21,492
Coins	926	1,343	3,080	1,820	1,891	1,915	1,915
Average gold price							
US$/oz	504	675	835	949	997	1,022	1,022
Rs/gm	723	969	1,081	1,280	1,331	1,348	1,348
Diamond share							
Share of diamond jewelry (%)	25	33	33	37	40	40	40
Watches							
Revenues (Rs mn)	**6,198**	**7,408**	**8,828**	**10,409**	**12,080**	**13,835**	**15,712**
EBITDA (Rs mn)	1,138	1,191	1,418	1,665	1,933	2,214	2,514
EBITDA margin (%)	18.4	16.1	16.1	16.0	16.0	16.0	16.0
Volumes ('000 pcs)							
Watches	8,336	8,964	10,286	11,653	13,028	14,496	16,023
Table clocks	272	149	125	143	158	170	182
Average realisation (Rs/pc)							
Watches (produced)	716	796	814	847	880	907	934
Table clocks	413	448	1,053	1,074	1,095	1,106	1,117
Eyewear							
Revenues (Rs mn)	**129**	**253**	**406**	**999**	**2,129**	**3,368**	**4,552**
EBITDA (Rs mn)	40	99	50	(5)	66	264	415
EBITDA margin (%)	30.7	39.2	12.2	(0.5)	3.1	7.8	9.1
Sunglasses							
Volume ('000 pcs)	232	380	437	525	630	755	869
Average realisation (Rs/pc)	558	665	711	782	861	930	976
Titan Eye+							
No. of stores	—	1	10	50	90	120	150
Annual revenue per store (Rs mn)	—	—	19	21	23	26	28

Source: Company, Kotak Institutional Equities estimates.

Exhibit 5: Profit model, balance sheet, cash model (consolidated) for Titan Industries, 2006-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model							
Total income	14,398	20,906	29,969	39,629	50,216	61,937	74,430
EBITDA	**1,529**	**2,013**	**2,388**	**2,990**	**3,683**	**4,660**	**5,793**
Interest (expense)/income	(248)	(212)	(208)	(191)	(174)	(140)	(77)
Depreciation	(200)	(260)	(333)	(349)	(375)	(399)	(421)
Other income	42	(47)	45	34	34	34	34
Pretax profits	**1,123**	**1,494**	**1,892**	**2,483**	**3,168**	**4,155**	**5,328**
Tax	(182)	(404)	(373)	(558)	(895)	(1,247)	(1,856)
Deferred taxation	56	27	(73)	(99)	(63)	(42)	-
Profit after tax	**997**	**1,117**	**1,446**	**1,825**	**2,209**	**2,866**	**3,472**
Associate income / (loss)	(185)	(116)	110	—	—	—	—
Adjusted net profit	**812**	**1,001**	**1,556**	**1,825**	**2,209**	**2,866**	**3,472**
Diluted earnings per share (Rs)	**18.6**	**22.6**	**35.1**	**41.1**	**49.8**	**64.6**	**78.2**
Balance sheet							
Total equity	1,966	3,371	4,458	5,790	7,428	9,567	12,208
Deferred taxation liability	243	181	252	351	415	456	456
Total borrowings	3,094	2,478	2,103	1,927	1,727	1,227	400
Current liabilities	3,632	5,958	9,123	9,771	11,452	13,306	15,608
Total liabilities and equity	**8,934**	**11,988**	**15,936**	**17,839**	**21,021**	**24,556**	**28,673**
Cash	386	510	554	1,592	1,986	2,813	4,256
Other current assets	6,042	8,402	12,481	13,246	15,959	18,666	21,412
Total fixed assets	2,007	2,717	2,877	2,978	3,053	3,053	2,982
Miscl. exp. not written off	219	42	—	—	—	—	—
Investments	280	316	23	23	23	23	23
Total assets	**8,934**	**11,988**	**15,936**	**17,839**	**21,021**	**24,556**	**28,673**
Free cash flow							
Operating cash flow, excl. working capital	1,186	1,544	1,742	2,240	2,614	3,273	3,859
Working capital changes	(195)	(188)	(905)	(194)	(1,110)	(1,009)	(547)
Capital expenditure	(431)	(983)	(509)	(450)	(450)	(400)	(350)
Investments	(79)	(265)	(213)	—	—	—	—
Other income	96	50	50	34	34	34	34
Free cash flow	**577**	**159**	**165**	**1,630**	**1,088**	**1,898**	**2,997**
Ratios (%)							
Debt/equity	140.1	69.8	44.6	31.4	22.0	12.2	3.2
Net debt/equity	122.6	55.4	32.9	5.5	(3.3)	(15.8)	(30.4)
RoAE	42.2	34.8	37.7	33.6	31.6	32.1	30.6
RoACE	**19.7**	**20.6**	**26.8**	**26.5**	**26.5**	**28.5**	**29.0**

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 6: DCF valuation for Titan, March fiscal year-ends (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal value
EBITDA	2,990	3,683	4,660	5,793	7,075	8,243	9,553	10,723	11,944	13,297	
Tax expense	(481)	(809)	(1,164)	(1,785)	(2,308)	(2,711)	(3,209)	(3,568)	(3,914)	(4,352)	
Changes in working capital	(194)	(1,110)	(1,009)	(547)	(260)	(1,133)	(1,239)	(1,116)	(1,164)	(1,271)	
Cash flow from operations	**2,314**	**1,764**	**2,487**	**3,461**	**4,507**	**4,399**	**5,105**	**6,039**	**6,866**	**7,675**	
Capital expenditure	(450)	(450)	(400)	(350)	(350)	(300)	(250)	(250)	(250)	(250)	
Free cash flow to the firm	**1,864**	**1,314**	**2,087**	**3,111**	**4,157**	**4,099**	**4,855**	**5,789**	**6,616**	**7,425**	**112,429**
Dicounted cash flow-now	1,719	1,072	1,507	1,988	2,351	2,052	2,150	2,269	2,295	2,279	
Discounted cash flow-1 year forward	-	1,212	1,703	2,247	2,657	2,318	2,430	2,564	2,593	2,575	
Discounted cash flow-2 year forward		-	1,925	2,539	3,002	2,620	2,746	2,897	2,930	2,910	
Discount rate	13.0%										
Growth from 2018 to perpetuity	6.0%										
Discount factor at WACC	**0.92**	**0.82**	**0.72**	**0.64**	**0.57**	**0.50**	**0.44**	**0.39**	**0.35**	**0.31**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**20,300**	**34%**	**21,569**	**33%**
PV of terminal value (b)	39,000	66%	44,069	67%
EV (a) + (b)	59,299		65,639	
EV (US$ mn)	**1,482**		**1,641**	
Net debt	335		(260)	
Equity value	**58,965**		**65,898**	
No. of shares	44.4		44.4	
Implied share price (Rs)	**1,328**		**1,485**	
Exit EV/EBITDA multiple (X)	8.5			
Exit FCF multiple (X)	15.1			

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

Growth Rate \ WACC	12.0%	12.5%	13.0%	13.5%	14.0%
4.5%	1,344	1,248	1,163	1,088	1,021
5.0%	1,411	1,304	1,211	1,129	1,057
5.5%	1,488	1,369	1,266	1,176	1,097
6.0%	1,578	1,443	**1,328**	1,229	1,142
6.5%	1,684	1,530	1,400	1,289	1,193
7.0%	1,812	1,633	1,484	1,359	1,252
7.5%	1,968	1,756	1,584	1,440	1,319

Source: Kotak Institutional Equities estimates.

Banking

IOBK.BO, Rs84	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	130
52W High -Low (Rs)	229 - 70
Market Cap (Rs bn)	45.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	37.1	37.5	45.8
Net Profit (Rs bn)	12.0	10.3	12.2
EPS (Rs)	22.1	18.9	22.5
EPS gth	*19.8*	*(14.6)*	*19.3*
P/E (x)	3.8	4.4	3.7
P/B (x)	0.9	0.8	0.7
Div yield (%)	4.5	5.9	6.5

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.2	-	-
FIIs	18.3	0.2	(0.0)
MFs	3.2	0.2	(0.0)
UTI	-	-	(0.2)
LIC	2.7	0.1	(0.1)

Indian Overseas Bank: Profit ahead of our estimate due to lower provisions and tax rate

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- **IOB reported PAT of Rs3.2 bn in 1QFY09, 50% ahead of our estimates**
- **Lower provisions and effective tax rate rather than NII growth aided profits**
- **Retain ADD rating with a price target of Rs130**

Indian Overseas Bank (IOB) reported a PAT of Rs2.6 bn in 1QFY09—a decline of 5% yoy and 20% ahead of our estimates. The reasons for the divergence between the reported performance and our expectations are: (1) company had a write-back of provisions as the company booked losses on its investments book which enabled it to release provisions and provisioning policy for NPLs was less conservative than the past; (2) effective tax rate declined to 12% as compared to our estimate of 30%. On the operational front, the net interest income growth remained sluggish at 2% yoy while the growth in non-interest income (ex-treasury) was 16% yoy. On the positive front, the company made ad-hoc provisions of Rs510 mn to meet part of its likely liabilities given the wage hike negotiations that are currently underway between IBA and the employee unions. We have revised our estimates upwards by 10% in FY2009 to factor in the current results. We retain our ADD rating and target price of Rs130.

NIM remained under pressure in 1QFY08

- IOB reported a sluggish 2% yoy growth in NII to Rs7.2 bn in 1QFY08, 7% higher than our estimates as margins declined yoy
- IOB's net interest margin (NIM) declined by close to 60 bps to 3.12% in 1QFY09 compared to 3.71% in 1QFY08. The company is likely to increase its prime lending rate (PLR) like some of its peers, which could stem the decline in NIM
- For the purpose of our projections, we have assumed a 35 bps decline in margin yoy to 2.6% in FY2008 compared to FY2009 and 9% yoy growth in NII for the remainder of the year

Non-interest income contribution impacted as company sold down investments

- IOB had negative contribution from non-interest revenues of Rs358 mn compared to the Rs1.6 bn income booked in 1QFY09
- The company sold down investments in the 'available for sale' (AFS) category and booked losses. This enabled the company to limit losses and write back provisions in the remainder of the quarter
- Fee income grew a robust 29% yoy. IOB continues to report good traction on sale of third-party products reporting Rs563 mn income from these services

Other key details:

- IOB employee expense increased 29% yoy to Rs3.1 bn in 1QFY09 as it made Rs510 mn ad-hoc provisions for meeting the likely provisions on account of the wage hike negotiations that are currently under way between the IBA and bank unions
- The company had a write-back of investment depreciation provisions of Rs1 bn as the company booked losses on account on the investments in the AFS category
- The company had an investment book of Rs294 bn of which 22% were in the AFS category with a duration of two years

- The company has been making lower provisions on its gross NPLs. This is reflected in the increase in net NPLs to Rs4.7 bn as of June 2008, a jump of 100% yoy while gross NPLs declined 3% yoy during the same period. We note that asset quality continues to remain healthy with the company reporting a net NPL ratio of 0.75% and provision coverage ratio of 57% as of June 2008

Indian Overseas Bank quarterly results (Rs mn)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	% chg	1QFY09KS	Actual Vs Kotak
Interest income	18,462	19,303	20,759	21,159	22,171	20		
Interest on advances	12,890	13,059	14,279	14,992	16,186	26		
Income from invts	4,944	5,675	5,938	5,800	5,723	16		
Bal with RBI	628	570	542	367	262	(58)		
Interest expenses	11,372	12,982	14,199	14,335	14,909	31		
Net interest income	**7,090**	**6,321**	**6,560**	**6,823**	**7,262**	**2**	**6,806**	**7**
Non-interest income	1,616	2,405	2,795	4,121	358	(78)	1,700	-79
Treasury income	130	1,205	1,420	1,340	-1,366	0	0	
Other income (excluding treasury)	1,486	1,200	1,375	2,781	1,723	16	1,700	1
Total income	8,706	8,726	9,355	10,944	7,619	(12)	8,506	-10
Operating expenses	3,614	3,486	3,824	3,929	4,547	26	3,600	26
Employee	2,431	2,239	2,598	2,229	3,105	28	2,300	35
Others	1,183	1,247	1,226	1,701	1,442	22	1,300	11
Operating profit	5,092	5,240	5,531	7,015	3,072	(40)	4,906	-37
Provisions	1,620	743	967	2,998	55	(97)	1,851	-97
Loan loss	776	208	590	330	450	(42)	500	-10
Invt. Depreciation	-70	17	-300	2,240	-1,000	1,329	751	-233
PBT	3,472	4,497	4,564	4,017	3,017	(13)	3,055	-1
Taxation	787	1,300	1,482	957	457	(42)	916	-50
Net profit	**2,685**	**3,197**	**3,082**	**3,060**	**2,560**	**(5)**	**2,138**	**20**
Tax rate	23	29	32	24	15		30	
Key balance sheet items (Rs bn)								
Deposits	702	783	788	843	850	21		
CASA ratio	32.8	31.8	30.9	33.5	30.5			
Advances	486	513	546	611	634	30		
Asset quality details								
Gross NPA (Rs bn)	11.4	10.8	10.2	10.0	11.0	(3.3)		
Gross NPLs (%)	2.3	2.1	1.9	1.6	1.7			
Net NPA (Rs bn)	2.4	1.8	1.9	3.6	4.7	100.2		
Net NPLs (%)	0.5	0.4	0.4	0.6	0.8			
Yield management measures (%)								
Yield on advances	10.49	10.50	10.83	10.61	10.34			
Yield on investments	8.00	7.95	NA	8.10	8.00			
Yield on funds	9.66	NA	9.86	NA	0.00			
NIM	3.71	3.39	3.30	3.26	3.12			
Cost of deposits	5.39	6.43	6.68	NA	6.36			
Cost of funds	6.11	6.47	6.75	6.66	6.49			
Capital adequacy details (%)								
CAR (%)	13.31	13.31	12.95	11.96	11.41			
Tier I	NA	NA	8.49	7.86	7.83			

Source: Company, Kotak Institutional Equities estimates.

Banking

CRBK.BO, Rs258	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	355
52W High -Low (Rs)	490 - 230
Market Cap (Rs bn)	36.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	22.2	23.3	27.5
Net Profit (Rs bn)	7.4	6.1	7.7
EPS (Rs)	51.3	42.6	53.5
EPS gth	*37.2*	*(17.0)*	*25.8*
P/E (x)	5.0	6.1	4.8
P/B (x)	0.9	0.8	0.7
Div yield (%)	4.1	3.4	4.3

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.2	-	-
FIIs	10.2	0.1	(0.1)
MFs	1.8	0.1	(0.1)
UTI	-	-	(0.1)
LIC	26.3	0.7	0.6

Corporation Bank: Healthy performance, retain ADD

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- **Corporation Bank reported a PAT of Rs1.8 bn in 1QFY09 (up 4% yoy)**
- **Operational performance remained healthy**
- **Retain ADD on reasonable valuations**

Corporation Bank reported a PAT of Rs1.8 bn in 1QFY09—a growth of 4% yoy and ahead of our estimates by 67% primarily aided by (1) higher non-interest income of Rs1.6 bn largely due to higher fees and bad loan recoveries, (2) lower-than-expected depreciation expenses and (3) lower effective tax rate of 16% against our estimate of 30%. The company's operational performance was healthy with NII (excluding extraordinary items) was up 14% yoy, while the non-interest income (excluding treasury) was up 29% yoy. We have revised our estimates upwards 7% and 4% over the next two years to factor in higher fees and lower provision burden than previously estimates. We retain our ADD rating with a target price of Rs355, given the current valuations of 0.9XAPBR and 6.1X PER FY2009.

NII growth continues to be healthy aided by asset growth

- Net interest income of Corporation Bank in 1QFY09 was Rs3.8 bn, a growth of 7% yoy and marginally ahead of estimates. The company had an extraordinary income of Rs222 mn on account of the one-time payment of dues on agricultural loans in 1QFY08 (previous year), adjusted for this entry the growth in this income stream was up 14% yoy.
- The growth in banking aggregates was ahead of the industry with advances increasing 28% yoy, while deposits were up 27% yoy. The CASA ratio was 27% as of June 2008 compared to 29% as of June 2007. This, along with its decision to reduce PLR by 25 bps in March 2008, had an adverse impact on the NIM of the company which was 2.4% for 1QFY09, whilst the NIM was 2.85% in 1QFY08 (adjusted for extraordinary income of Rs222 mn).

Non-interest income contribution robust

- Non-interest income earnings in 1QFY09 were Rs1.6 bn—growth of 14% yoy, while the non-interest income (ex-treasury) increased by 29%.
- The company's revenues were aided by fee and commission exchange income of Rs485 mn (18% yoy), net foreign exchange income of Rs166 mn (up 96% yoy) and recoveries from written-off assets of Rs296 mn (23% yoy).
- Adjusted for the recoveries from written-off assets, treasury income and forex income, growth in non-interest income was 24% yoy.

Provision expenses were higher due to MTM losses

- The investment depreciation losses in 1QFY09 were Rs638 mn and were the largest contributor to the provision burden for the company in the current quarter. The company had a write-back of Rs182 mn in 1QFY08 under the investment depreciation line in 1QFY08.
- The company's asset quality was healthy with a net NPL ratio of 0.4% and gross NPL ratio of 1.5% as of June 2008, which in turn helped maintain the credit provisions at Rs320 mn in 1QFY09.

Tax burden was lower due to the spike in Gsec yields

- Corporation Bank has a policy of even valuing the investments in the held-to-maturity (HTM) category for calculation of income in its income tax books.

Since, there was a sharp spike in interest rates in the Gsec markets, there was a considerable mark to market on securities even held under the HTM category. Consequently, the effective tax rate in the current quarter was rather low at 16% and aided the overall PAT growth.

Corporation Bank, quarterly results (Rs mn)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	yoy growth	1QFY09KS	Actual Vs Kotak
Interest income	11,201	10,835	11,187	12,733	13,085	17		
Advances	7,478	7,636	8,213	8,886	9,317	25		
Investments	2,676	2,678	2,750	3,468	3,483	30		
Others	1,047	521	223	379	285	(73)		
Interest expenses	7,479	7,092	7,652	8,510	9,107	22		
Net interest income	**3,722**	**3,743**	**3,535**	**4,224**	**3,978**	**7**	**3,908**	**2**
NII adjst for invst amort.	**3,525**	**3,546**	**3,337**	**4,026**	**3,780**	**7**	**3,708**	**2**
Non-interest income	1,384	1,832	1,670	2,112	1,576	14	1,370	15
Fee and comm.	411	381	423	477	485	18	450	8
Invts gains	196	547	438	176	45	(77)	-	-
Forex income	85	102	83	143	166	96	100	66
Dividend on shares	14	25	13	59	53	284	20	167
Other income	439	483	494	710	530	21	600	(12)
Bad debt recovery	240	294	219	548	296	23	200	48
Other income excluding treasury	1,188	1,285	1,232	1,936	1,531	29	1,370	12
Total income	**5,106**	**5,574**	**5,205**	**6,336**	**5,554**	**9**	**5,278**	**5**
Operating expenses	2,154	2,432	2,231	2,103	2,146	(0)	2,300	(7)
Employee cost	1,080	1,270	1,152	778	940	(13)	1,100	(15)
Other cost	1,074	1,162	1,080	1,325	1,207	12	1,200	1
Pre-tax and pre-provision profit	2,953	3,142	2,973	4,233	3,408	15	2,978	14
Provisions	397	739	295	1,217	1,206	204	1,405	(14)
NPLs	385	624	110	750	320	(17)	400	(20)
Invt. Depreciation	(182)	(81)	(15)	146	638	(451)	805	(21)
Invt amortization	197	197	198	198	198	0	200	(1)
PBT	2,556	2,404	2,678	3,016	2,201	(14)	1,573	40
Tax	785	790	769	960	358	(54)	472	(24)
Net profit	**1,771**	**1,614**	**1,909**	**2,056**	**1,843**	**4**	**1,101**	**67**
Tax rate (%)	31	33	29	32	16		30	
Balance sheet (Rs bn)								
Capital	1.4	1.4	1.4	1.4	1.4	0.0	1000.0	
Reserves and surplus	36.2	36.2	36.2	40.9	40.9	12.8		
Deposits	432.3	457.4	491.8	554.2	547.4	26.6		
Share of demand deposit (%)	28.7	28.7	30.0	35.0	27.4	0.0		
Borrowings	19.0	20.1	18.4	21.4	32.9	73.6		
Other liabilities and provisions	30.1	27.1	31.3	48.1	42.3	40.8		
P and L account balance	1.8	3.4	5.3	0.0	1.8	4.1		
Total Liabilities	**520.8**	**545.7**	**584.4**	**666.0**	**666.8**	28.0		
						0.0		
Cash and balances with RBI	35.1	36.3	38.1	71.0	64.5	83.7		
Bal with banks, money at call and short notice	30.3	25.0	25.2	18.1	8.0	-73.7		
Investments	136.0	141.1	159.8	165.1	184.6	35.8		
Advances	303.5	326.7	344.6	391.9	389.5	28.3		
Retail	74.7	81.6	81.1	88.1	91.4	22.3		
Fixed assets	2.8	2.7	2.7	2.7	2.8	-0.1		
Other assets	13.1	13.9	14.0	17.1	17.4	32.8		
Total assets	**520.8**	**545.7**	**584.4**	**666.0**	**666.8**	28.0		
Asset quality details								
Gross NPLs (Rs mn)	6,369	6,172	5,985	5,844	5,753	(10)		
Gross NPLs (%)	2.1	1.9	1.7	1.5	1.5			
Net NPLs (Rs mn)	1,396	1,131	1,123	1,269	1,395	(0)		
Net NPLs (%)	0.5	0.4	0.3	0.3	0.4			
Yield management measures (%)								
Yield on advances	10.1	10.2	10.3	10.2	10.0			
Cost of deposits	6.6	6.4	6.4	6.5	6.4			
NIM adj for investment amtz	NA	2.85	2.74	2.71	2.43			
Capital adequacy details (%)								
CAR	13.3	13.3	12.1	12.1	12.4			
Tier I	11.8	12.1	10.8	9.6	10.1			
Tier II	1.5	1.3	1.3	2.5	2.3			
Return ratios (%)								
RoA	NA	1.4	NA	1.4	1.2			
RoE	18.0	16.5	NA	17.4	16.7			
Network								
Branches	918	943	949	981	999			
ATMs	932	943	941	957	985			

Source: Company, Kotak Institutional Equities estimates.

Energy

CAST.BO, Rs286	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	350
52W High -Low (Rs)	376 - 190
Market Cap (Rs bn)	35.4

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	18.9	21.8	22.2
Net Profit (Rs bn)	2.5	2.9	3.0
EPS (Rs)	20.1	23.6	24.1
EPS gth	*64.6*	*17.5*	*2.1*
P/E (x)	14.2	12.1	11.9
EV/EBITDA (x)	8.2	7.2	7.0
Div yield (%)	4.9	6.3	6.3

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	71.0	-	-
FIIs	2.3	0.0	(0.1)
MFs	2.2	0.0	(0.0)
UTI	-	-	(0.1)
LIC	5.7	0.1	0.0

Castrol India: Stronger-than-expected 2QCY08 results; upgraded to ADD

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- **Strong EBITDA margins; higher realization compensated for increase in LOBS prices**
- **Ability to maintain strong margins in difficult operating environment augurs well for earnings and stock performance**
- **Upgraded to ADD with revised 12-month target price of Rs 350 (Rs305 previously) based on 15X CY2009E EPS**

Castrol reported 2QCY08 net income at Rs828 mn (+12% qoq, +28% yoy) versus our estimate of Rs717 mn. The stronger-than-expected performance was due to higher-than-expected price hikes (~12%) effected during the quarter to compensate for increase in raw material costs. We have raised our CY2008E and CY2009E EPS estimates to Rs23.6 and Rs24.1 from Rs19.5 and Rs20.9 based on strong performance in 1HCY08. We have upgraded the stock to ADD noting (1) greater confidence in the ability to pass on increased raw material costs through price hikes and (2) significant potential upside from current levels to our revised 12-month target price of Rs350 (Rs305 previously) based on 15X CY2009E EPS; the large upward revision reflects rollover to CY2009E EPS and higher CY2009E EPS estimates. Key downside risk stems from higher-than-expected LOBS prices.

Upgraded to ADD on ability to maintain strong margins in difficult operating environment. We have upgraded the stock to ADD (REDUCE previously) based on (1) strong performance in 1HCY08 where the company was able to maintain strong margins despite sharp rise in raw material (LOBS) cost and (2) significant potential upside (22%) from current levels to our revised 12-month target price of Rs350. We see limited downside risk to margins and earnings due to steep increase in LOBS prices led by higher crude prices. The company has been able to expand its EBITDA margin yoy despite an increase of US$150/ton in LOBS prices through hike in prices of lubes. We currently model an increase of US$120/ton in LOBS prices for CY2008E. However, we believe that the company will be able to maintain strong EBITDA margins by passing on the higher raw material costs through price hikes (as has been the case in 1HCY08).

We currently model a moderate decline of US$25/ton in CY2009E led by (1) likely softening of crude prices, (2) significant LOBS capacity coming on-stream in CY2008E (in Taiwan and Middle East) and CY2009E (in Korea) and (3) likely weakening of demand in China after Olympics.

We see potential upside to Castrol's earnings from lower-than-expected LOBS prices. We highlight that Castrol's earnings are highly leveraged to raw material costs; a US$25/ton decline in raw material costs will impact Castrol's EPS by 5-6% (see Exhibit 2). Thus, any lower-than-expected raw material costs could have material impact on Castrol's margins and earnings in the near term. Also, in the eventuality of a sharp decline in LOBS prices, we do not expect a commensurate reduction in lubes prices, which should lead to expansion of margins.

Castrol stock also offers a decent dividend yield of 6.3% at current levels. We model dividend of Rs18 for CY2008E and CY2009E compared to Rs14 in CY2007. Castrol announced an interim dividend of Rs6 (Rs4.5 interim dividend in CY2007).

Stronger-than-expected 2QCY08 results due to sharp improvement in margins. Castrol reported 2QCY08 net income at Rs828 mn (+12% qoq, +28% yoy). Revenues for 2QCY08 increased to Rs6.2 bn (+15% yoy); we highlight that qoq results comparison is not valid due to seasonality. The sharp improvement in revenues was due to (1) strong growth in volumes (+2.7% yoy) and (2) higher realization due to price hike of ~12% effected in 2QCY08.

Strong growth in automotive division revenues; margins remain strong. Castrol's 2QCY08 automotive lubes segment's revenues improved by 15.5% yoy to Rs5.4 bn led by (1) price hike effected in the quarter and (2) improvement in sales volumes. EBIT grew 26% yoy to Rs1.1 bn. We do not look at qoq comparison since automobile lubes sale is seasonal—2Q and 4Q in a calendar year are the best quarters. The automotive segment's EBIT margin improved to 20% in 2QCY08 compared to 18.3% in 2QCY07.

Industrial segment maintains its strong performance. Castrol's industrial lubes segment reported an impressive 12.3% yoy growth in revenues to Rs864 mn and 13.3% yoy increase in EBIT to Rs169 mn. Industrial segment's EBIT margin remained strong at 19.6% in 2QCY08 compared to 19.4% in 2QCY07 on account of reasons highlighted above.

Earnings revisions

CY2008. We have revised Castrol's CY2008E EPS to Rs23.6 from Rs19.5 previously to reflect (1) price hike implemented in the 2QCY08 and (2) higher LOBS prices (US$925/ton from US$890/ton previously) to reflect likely higher crude. The earnings are higher yoy despite higher LOBS prices due to (1) higher volumes and (2) higher lubes prices.

CY2009. We have revised Castrol's CY2009E EPS to Rs24.1 from Rs20.9 previously on account of higher price realization versus assumed previously. We also assume higher LOBS prices at YS$900/ton versus US$875 assumed previously. The yoy growth in earnings reflects a decline of US$25/ton in assumed LOBS prices and stronger rupee.

Interim results of Castrol, calendar year-ends (Rs mn)

			qoq			yoy			yoy	
	2008E	2Q 2008	1Q 2008	% chg	2Q 2008	2Q 2007	% chg	1H 2008	1H 2007	% chg
Net sales	**21,752**	**6,214**	**4,929**	***26.1***	**6,214**	**5,401**	***15.1***	**11,143**	**10,801**	***3.2***
Raw materials	12,468	3,476	2,630	*32.2*	3,476	3,158	*10.1*	6,106	6,317	*(3.3)*
Employees	994	282	219	*28.8*	282	214	*31.7*	501	428	*16.9*
Others	3,882	1,191	946	*25.9*	1,191	1,022	*16.5*	2,137	2,044	*4.5*
Advertisement	—	353	199	*77.4*	353	280	*26.3*	552	559	*(1.3)*
CIF costs	—	201	183	*9.8*	201	203	*(1.0)*	384	406	*(5.4)*
Other exp	—	637	564	*12.9*	637	540	*18.1*	1,201	1,079	*11.3*
Total expenditure	17,344	4,949	3,795	*30.4*	4,949	4,395	*12.6*	8,744	8,789	*(0.5)*
EBITDA	**4,408**	**1,265**	**1,134**	***11.6***	**1,265**	**1,006**	***25.8***	**2,399**	**2,012**	***19.3***
EBITDA margin (%)	**20.3**	**20.4**	**23.0**		**20.4**	**18.6**		**21.5**	**18.6**	
Other income	380	92	119	*(22.7)*	92	79	*17.0*	211	157	*34.2*
Interest	62	7	13	*(46.2)*	7	21	*(66.8)*	20	42	*(52.6)*
Depreciation	187	68	62	*9.7*	68	50	*36.8*	130	99	*30.8*
Pre-tax profits	**4,539**	**1,282**	**1,178**	***8.8***	**1,282**	**1,014**	***26.5***	**2,460**	**2,027**	***21.3***
Extraordinaries	—	—	(17)	—	—	15	—	(17)	31	—
Tax	1,650	454	433	*4.8*	454	370	*22.8*	887	739	*20.0*
Deferred tax	(32)	—	—	—	—	—	—	—	—	—
Net income	**2,921**	**828**	**728**	***13.7***	**828**	**659**	***25.6***	**1,556**	**1,319**	***18.0***
Adjusted net income	**2,921**	**828**	**739**	***12.1***	**828**	**650**	***27.5***	**1,567**	**1,299**	***20.6***
Effective tax rate (%)	35.6	35.4	36.8		35.4	36.5		36.1	36.5	
Other details										
Sales volumes ('000 tons)	-	63.9	54.3	*17.7*	63.9	62.2	*2.7*			
Segment details										
Revenues										
Automotive		5,350	4,120	*29.9*	5,350	4,631	*15.5*	9,470	8,277	*14.4*
Non-automotive		864	809	*6.8*	864	769	*12.3*	1,673	1,545	*8.3*
Total		**6,214**	**4,929**	***26.1***	**6,214**	**5,401**	***15.1***	**11,143**	**9,822**	***13.5***
EBIT										
Automotive		1,069	933	*14.6*	1,069	850	*25.8*	2,002	1,339	*49.5*
Non-automotive		169	187	*(9.6)*	169	149	*13.3*	356	297	*19.9*
Total		**1,238**	**1,120**	***10.5***	**1,238**	**999**	***24.0***	**2,358**	**1,636**	***44.1***
EBIT margin (%)										
Automotive		20.0	22.6		20.0	18.3		21.1	16.2	
Non-automotive		19.6	23.1		19.6	19.4		21.3	19.2	
Total		**19.9**	**22.7**		**19.9**	**18.5**		**21.2**	**16.7**	
Capital employed										
Automotive		2,170	2,304	*(5.8)*	2,170	2,054	*5.7*	2,170	2,054	*5.7*
Non-automotive		988	1,010	*(2.2)*	988	867	*14.0*	988	867	*14.0*
Unallocable assets less liabilities		1,833	1,716	*6.8*	1,833	1,662	*10.3*	1,833	1,662	*10.3*
Total		**4,991**	**5,030**	***(0.8)***	**4,991**	**4,582**	***8.9***	**4,991**	**4,582**	***8.9***

Source: Company, Kotak Institutional Equities estimates.

Castrol has high leverage to exchange rate and raw material prices

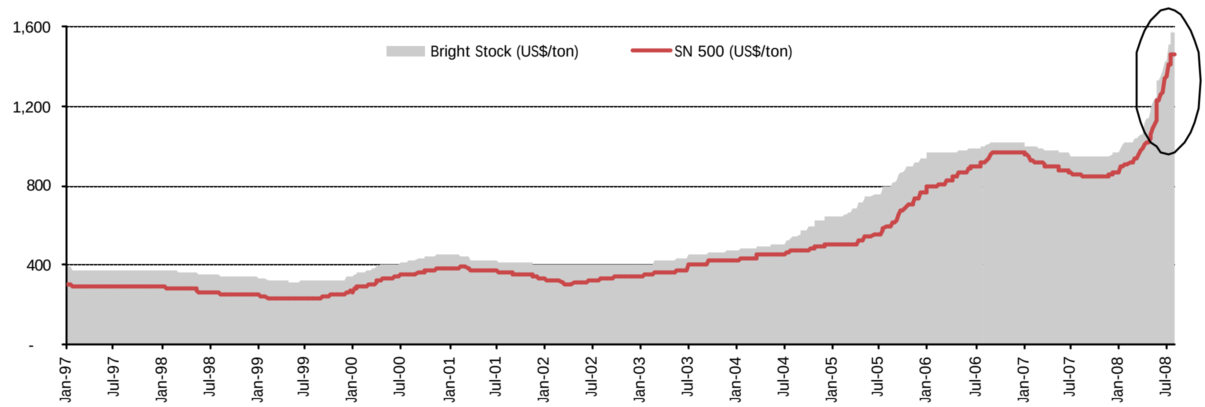
Sensitivity of Castrol's earnings to key variables

	CY2008E			CY2009E			CY2010E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Rupee dollar	43.0	42.0	41.0	42.3	41.3	40.3	41.3	40.3	39.3
Net profits (Rs mn)	2,789	2,921	3,053	2,851	2,982	3,113	3,054	3,186	3,319
EPS (Rs)	22.6	23.6	24.7	23.1	24.1	25.2	24.7	25.8	26.8
% upside/(downside)	**(4.5)**		**4.5**	**(4.4)**		**4.4**	**(4.2)**		**4.2**
Raw material price									
Raw material price (US$/ton)	950	925	900	925	900	875	900	875	850
Net profits (Rs mn)	2,772	2,921	3,070	2,832	2,982	3,132	3,034	3,186	3,339
EPS (Rs)	22.4	23.6	24.8	22.9	24.1	25.3	24.5	25.8	27.0
% upside/(downside)	**(5.1)**		**5.1**	**(5.0)**		**5.0**	**(4.8)**		**4.8**

Source: Kotak Institutional Equities estimates.

LOBS prices have increased sharply led by surge in crude prices

Base oil price, US$/ton, Singapore FOB



Bright Stock, December calendar year-ends (US$/ton)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
1Q	372	328	371	444	400	414	484	660	965	996	1,022
2Q	359	319	405	423	398	427	501	737	980	976	1,237
3Q	347	322	424	415	406	456	552	812	1,005	945	1,516
4Q	341	334	448	413	410	470	623	913	1,013	952	
Average	**355**	**326**	**412**	**424**	**403**	**442**	**540**	**780**	**991**	**967**	**1,192**

Weekly prices (US$/ton)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
1,570	1,505	1,505	1,430	1,420

SN500, December calendar year-ends (US$/ton)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
1Q	283	239	296	386	320	358	436	502	805	930	919
2Q	271	230	335	375	316	373	452	540	867	889	1,128
3Q	262	237	359	362	333	405	473	613	935	853	1,420
4Q	256	257	383	345	345	423	491	728	967	856	
Average	**268**	**241**	**343**	**367**	**329**	**390**	**463**	**596**	**894**	**882**	**1,088**

Weekly prices (US$/ton)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
1,465	1,410	1,410	1,350	1,340

Source: ICIS, Kotak Institutional Equities.

Castrol: Profit model, balance sheet, cash model, December year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	13,051	14,304	17,524	18,883	21,752	22,196	22,878
EBITDA	**2,082**	**2,117**	**2,200**	**3,600**	**4,408**	**4,510**	**4,803**
Other income	221	201	344	348	380	380	400
Interest	(29)	(30)	(41)	(38)	(62)	(62)	(61)
Depreciation	(249)	(189)	(180)	(208)	(187)	(197)	(201)
Pretax profits	2,026	2,098	2,322	3,703	4,539	4,631	4,941
Tax	(687)	(694)	(889)	(1,455)	(1,650)	(1,689)	(1,797)
Deferred taxation	9	56	57	236	32	39	42
Net profits	**1,275**	**1,468**	**1,545**	**2,489**	**2,921**	**2,982**	**3,186**
Earnings per share (Rs)	**10.7**	**11.8**	**12.2**	**20.1**	**23.6**	**24.1**	**25.8**
Balance sheet (Rs mn)							
Total equity	3,601	3,901	4,177	4,302	4,619	4,997	5,291
Deferred taxation liability	174	119	61	(182)	(214)	(253)	(296)
Total borrowings	37	28	28	28	23	19	16
Currrent liabilities	2,830	3,238	3,619	5,116	3,682	3,672	3,694
Total liabilities and equity	**6,642**	**7,285**	**7,885**	**9,264**	**8,110**	**8,435**	**8,705**
Cash	297	399	892	3,179	1,088	1,367	1,555
Current assets	3,558	4,422	5,271	4,546	5,520	5,614	5,747
Total fixed assets	1,498	1,383	1,297	1,333	1,296	1,249	1,198
Investments	1,289	1,081	425	206	206	206	206
Total assets	**6,642**	**7,285**	**7,885**	**9,264**	**8,110**	**8,435**	**8,705**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,576	1,544	1,403	2,046	2,696	2,759	2,945
Working capital	24	(465)	(506)	1,484	(2,409)	(103)	(111)
Capital expenditure	(57)	(89)	63	(243)	(150)	(150)	(150)
Free cash flow	**1,542**	**991**	**960**	**3,287**	**137**	**2,506**	**2,684**
Investments	(402)	258	687	224	—	—	—
Other income	37	25	9	151	380	380	400
Ratios (%)							
Debt/equity	0.99	0.69	0.66	0.68	0.53	0.41	0.32
Net debt/equity	0.98	0.69	0.65	0.67	0.53	0.41	0.32
RoAE	34.3	37.7	37.4	59.6	68.5	65.2	65.4
RoACE	**35.7**	**37.7**	**37.0**	**59.7**	**69.1**	**65.7**	**66.0**

Source: Kotak Institutional Equities estimates.

Construction

NGCN.BO, Rs130	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	210
52W High -Low (Rs)	388 - 107
Market Cap (Rs bn)	30.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	34.7	47.4	60.2
Net Profit (Rs bn)	1.6	2.0	2.6
EPS (Rs)	7.0	8.7	11.3
EPS gth	*7*	*23.8*	*30.6*
P/E (x)	18.6	15.1	11.5
EV/EBITDA (x)	11.8	9.4	7.9
Div yield (%)	0.9	1.2	1.2

Shareholding, March 2008

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

Nagarjuna Construction: Lower-than-expected execution, operating margin; full-year margin and revenue guidance on track; reiterate BUY

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- **Results below expectations both at revenue and margin levels; gross operating margins intact is a silver lining**
- **Strong order inflows; defies any impact of likely capital expenditure slowdown so far**
- **Maintains execution and margin guidance for fiscal 2009E; interest cost on working capital loans could still surprise negatively**
- **Revise earnings estimates and target price downwards; reiterate BUY rating**

Nagarjuna Construction reported revenues of Rs9.7 bn (yoy growth of 27.4%) in 1QFY09, about 7% below our expectation of Rs10.4 bn. Operating margins declined by 100 bps yoy (from 10.4% in 1QFY08 to 9.4%) in the this quarter versus our expectation of flat margins yoy. Order backlog for Nagarjuna Construction stood at Rs121.5 bn implying strong order inflows of Rs17.5 bn (up 40% yoy) for the quarter. The order backlog of Rs121.5 bn provides a visibility of 2.4 years for the firm based on forward four quarter revenue forecasts. Nagarjuna has continues to have a well diversified order book and we believe that the company will continue to build traction in several of these new and high-growth segments. We revise our earnings estimates downwards to Rs8.7 and Rs11.3 for FY2009E and FY2010E, respectively, from Rs9.3 and Rs12.2 earlier led by lower margin expectations as well as higher interest costs versus earlier. We have also revised our SOTP-based based target price to Rs210/share (from Rs230/share earlier). We reiterate our BUY rating on the stock led by (1) inexpensive valuations, (2) likely strong near-term earnings growth led by strong order backlog, (3) long-term macro outlook for infrastructural investments, (4) diversified business presence and (5) potential ramp up of international as well as real-estate business. Key risks include (1) aggravation of margin pressures and (2) higher-than-expected interest costs.

Results below expectations both at revenue and margin levels; gross operating margins intact is a silver lining

Nagarjuna Construction reported revenues of Rs9.7 bn (yoy growth of 27.4%) in 1QFY09 about 7% below our expectation of Rs10.4 bn. Operating margins declined by 100 bps yoy (from 10.4% in 1QFY08 to 9.4%) in the this quarter versus our expectation of flat margins yoy (Exhibit 1). The decline in operating margins was mainly driven by rise in staff costs as a percentage of total revenues, which increased by 140 bps yoy. The employee cost increased mainly due to (1) effort to increase employee retention in the firm (attrition rate down at 4% in 1QFY09 and expected to be about 15%for FY2009E as compared to 31% in FY2008), (2) replacement of ESOP linked to a cash based employee incentive plan and (3) lower contribution of employees to total turnover in the newer divisions. The rise in commodity prices did not reduce the gross margins with cost of sales actually declining by 40 bps yoy. The profit before tax has declined on a yoy basis to Rs544 mn led by strong increase in interest and depreciation cost. Average cost of borrowings increased by about 100 to 150 bps to 11% in 1QFY09 and the management felt that this would further increase by 50 to 75 bps in the coming quarters. Even though we had anticipated increase in these expenses the profit before tax reported by the firm was significantly below our expectations due to lower-than-expected execution, margins as well as other income.

Strong order inflows; defies any impact of likely capital expenditure slowdown so far

The order backlog for the company stood at Rs121.5 bn (up 56.4% yoy) implying strong order inflows of Rs17.5 bn (up 40% yoy) at the end of 1QFY09. This order backlog provides a visibility of about 2.4 years of revenues based on forward four quarter revenue estimates (Exhibit 2). Nagarjuna continues to have a well diversified order book and we believe that the company will continue to build traction in several of these new and high-growth segments. Orders from the international and oil & gas segment gain momentum increasing their stake to 24% and 10% in 1QFY09 from 8% and 4% respectively at the end of 2QFY08 (Exhibit 3). The management is confident of strong growth in most of these segments except roads where a slow down has been witnessed, led by slow progress by NHAI in awarding contracts.

Maintains execution and margin guidance for fiscal 2009E; interest cost on working capital loans could still surprise negatively

Nagarjuna Construction maintained its revenue and margin guidance for FY2009E. The firm expects Rs50 bn in revenues on a consolidated basis and Rs45 bn from the standalone entity. Margins are expected to remain in the range of 9.5% to 10% for the fiscal year 2009. This confidence was based on the fact that large proportion of orders (70% of total orders) now contain some form of price escalation clause which helps pass on the rise in commodity prices on to the clients. Management hopes that operating leverage along with growth in top-line would help arrest increase in the employee cost as a percentage to sales. However the rising interest costs remains to be a threat to the bottom line of the firm with anticipated interest costs of greater than Rs1 bn for the fiscal year 2009E (our full year expectation is Rs1.4 bn).

Revise earnings estimates and target price downwards; reiterate BUY rating

We revise our earnings estimates downwards to Rs8.7 and Rs11.3 for FY2009E and FY2010E respectively from Rs9.3 and Rs12.2 earlier led by lower margin expectations as well as higher interest costs versus earlier. We have also revised our SOTP-based based target price to Rs210/share (from Rs230/share earlier) (Exhibit 4) comprising of (1) Rs154/share of Nagarjuna's core construction business (Exhibit 5), (2) BOT projects contribution of Rs6.7/share, (3) Rs5.1/share coming from ICICI Ventures/Tishman/Nagarjuna project and (4) Rs42/share from land bank and other investments.

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

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

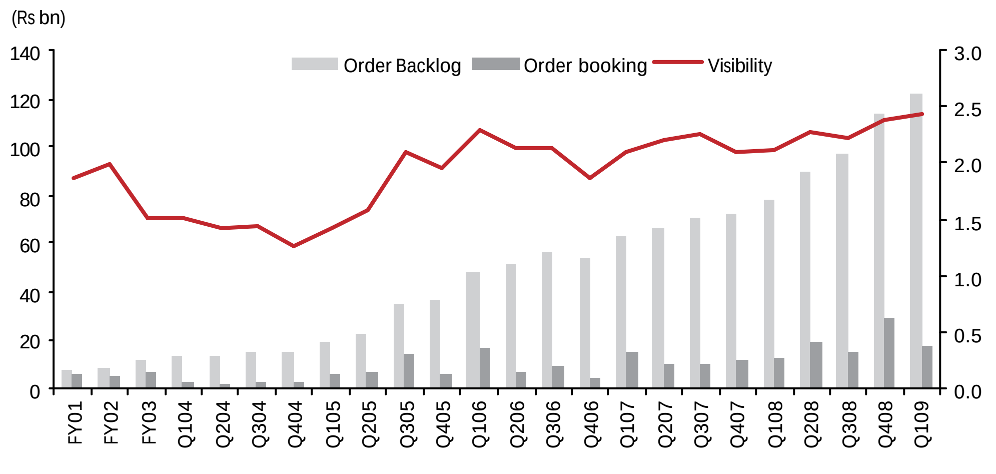
Exhibit 1. Nagarjuna Construction - 1QFY09 - key numbers (Rs mn)

	yoy			qoq					
(in Rs mn)	1QFY09	1QFY08	*% chg*	1QFY09	4QFY08	*% chg*	FY2009E	FY2008	*% chg*
Net sales	**9,709**	**7,622**	***27.4***	**9,709**	**12,541**	***(22.6)***	**47,420**	**34,729**	***36.5***
Operating costs	**(8,794)**	**(6,829)**	***28.8***	**(8,794)**	**(11,447)**	***(23.2)***	**(42,692)**	**(31,131)**	***37.1***
(Increase)/Decrease in Stock in Trade	701	(381)		701	269		-	774	
Raw materials	(3,608)	(2,177)	*65.7*	(3,608)	(4,564)	*(20.9)*	(39,406)	(11,718)	*236.3*
Other construction expenses	(4,197)	(3,144)	*33.5*	(4,197)	(5,390)	*(22.1)*	-	(14,780)	*(100.0)*
Labour	(961)	(662)	*45.1*	(961)	(1,140)	*(15.7)*	-	(3,228)	*(100.0)*
Staff cost	(501)	(303)	*65.1*	(501)	(387)	*29.6*	(2,338)	(1,402)	*66.8*
Other expenditure	(229)	(162)	*41.5*	(229)	(235)	*(2.8)*	(948)	(777)	*22.0*
Operating profit	**916**	**794**	***15.4***	**916**	**1,094**	***(16.3)***	**4,728**	**3,598**	***31.4***
Other income	9	4	*130.5*	9	37	*(77.1)*	266	56	*380.1*
Interest cost	(239)	(145)	*64.3*	(239)	(174)	*37.1*	(1,429)	(719)	*98.7*
Depreciation	(142)	(104)	*35.9*	(142)	(138)	*3.0*	(573)	(482)	*18.9*
Profit before tax	**544**	**548**	***(0.7)***	**544**	**819**	***(33.6)***	**2,991**	**2,452**	***22.0***
Tax	(173)	(187)	*(7.7)*	(173)	(293)	*(41.0)*	(987)	(833)	*18.6*
Profit after tax	**371**	**360**	***2.9***	**371**	**526**	***(29.5)***	**2,004**	**1,620**	***23.8***
Key ratios									
Raw material, labour and other const. expenses	83.1	83.5		83.1	86.3		83.1	85.6	
Staff cost	5.2	4.0		5.2	3.1		4.9	4.0	
Other expenditure	2.4	2.1		2.4	1.9		2.0	2.2	
Operating profit margin (%)	**9.4**	**10.4**		**9.4**	**8.7**		**10.0**	**10.4**	
PAT margin (%)	3.8	4.7		3.8	4.2		4.2	4.7	
Effective tax rate (%)	31.8	34.2		31.8	35.8		33.0	34.0	

Source: Company data, Kotak Institutional Equities.

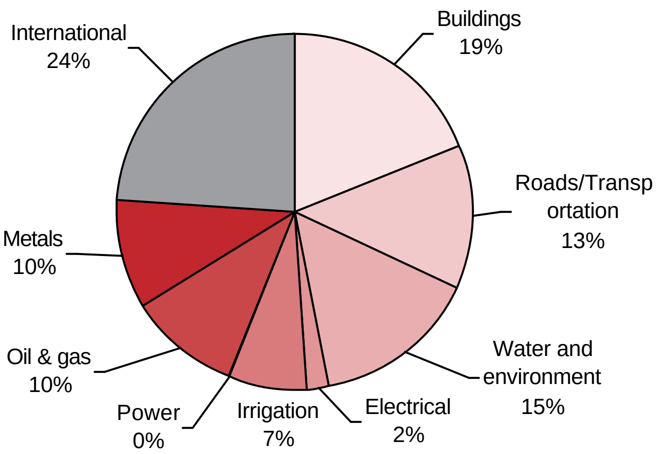
Exhibit 2. Nagarjuna Construction has visibility of 2.4 years based on forward four quarter revenues

Order backlog, order booking and visibility (X) of Nagarjuna Construction



Source: Kotak Institutional Equities.

Exhibit 3. Order book continues to be well diversified
Segment wise order book break up at end of 1QFY09



Source: Company data

Exhibit 4. Derivation of SOTP based target price for NCCL

	Equity Commitment (Rs mn)	Incremental P/B (X)	Valuation (Rs mn)	Rs/share
BOT Projects	**3,148**	**0.4**	**1,555**	**6.7**
Roads				
Brindavan Infrastructure Co. Ltd.	150	0.4	60	0.3
Bangalore elevated Corridor Project	637	1.0	637	2.8
Western UP Tollway Ltd.	239	1.0	239	1.0
Orai - Bhognipur	832	0.4	333	1.4
Pondicherry Tindivanam Tollway Limited	375	0.5	188	0.8
Power				
Gautami Power	420	0.0	0	0.0
Hydropower project in Himachal Pradesh	495	0.2	99	0.4
ICICI Ventures/Tishman/ Nagarjuna project			**1,184**	**5.1**
Book value of investments	5,907		0	25.5
Value of core construction business			**35,543**	**153.5**
Value of land bank			3,827	16.5
Total				**207.4**

Source: Kotak Institutional Equities estimates.

Exhibit 5. Nagarjuna Construction - DCF model, March fiscal year-ends 2009E-2019E (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	**47,420**	**60,193**	**73,986**	**90,057**	**109,210**	**130,435**	**153,171**	**176,146**	**197,284**	**217,012**	**238,713**
Revenue growth rate (%)	37	27	23	22	21	19	17	15	12	10	10
EBITDA	**4,728**	**5,932**	**7,476**	**9,100**	**10,490**	**12,528**	**14,712**	**16,910**	**18,939**	**20,833**	**22,916**
EBITDA margin (%)	10.0	9.9	10.1	10.1	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Depreciation	(573)	(684)	(814)	(964)	(1,142)	(1,359)	(1,596)	(1,707)	(2,057)	(2,431)	(2,820)
EBIT	**4,154**	**5,248**	**6,662**	**8,136**	**9,348**	**11,169**	**13,116**	**15,203**	**16,882**	**18,402**	**20,096**
Tax	(987)	(1,289)	(1,714)	(2,090)	(2,391)	(2,868)	(3,423)	(3,968)	(4,406)	(4,802)	(5,244)
Change in net working capital	(51)	(2,062)	(3,243)	(3,676)	(4,426)	(5,057)	(5,365)	(4,721)	(4,343)	(4,054)	(4,459)
Capex	(1,300)	(1,500)	(1,800)	(2,000)	(2,500)	(3,000)	(3,000)	(4,404)	(4,932)	(5,425)	(5,968)
Free cash flow	**2,389**	**1,080**	**720**	**1,335**	**1,173**	**1,603**	**2,924**	**3,818**	**5,258**	**6,552**	**7,245**
PV of each cash flow	2,389	1,080	634	1,036	802	966	1,552	1,786	2,167	2,379	2,318

PV of cash flows	14,721
PV of terminal value	27,865
EV	42,586
Debt	7,043
Equity value	35,543
Fully diluted shares outstanding (mn)	232
Equity value (Rs/share)	**154**

FCF in terminal year (Rs mn)	8,003
Exit FCF multiple: (1+g)/(WACC-g)	12.4
Terminal value of FCF (Rs mn)	98,858
Exit EBITDA multiple	3.9

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.5
Market risk premium—(Rm-Rf) (%)	6.0
Beta (x)	1.1
Cost of equity-Ke (%)	15.1
Cost of debt-Kd (%)	12.0
WACC (%)	12.4
Used WACC (%)	**13.5**

Source: Kotak Institutional Equities estimates.

HTML.BO, Rs111	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	175
52W High -Low (Rs)	266 - 92
Market Cap (Rs bn)	26.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	12.0	14.7	17.1
Net Profit (Rs bn)	1.0	1.0	1.8
EPS (Rs)	4.3	4.2	7.5
EPS gth	*4.7*	*(2.0)*	*77.1*
P/E (x)	25.7	26.2	14.8
EV/EBITDA (x)	14.6	14.5	8.1
Div yield (%)	0.4	0.4	0.7

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	68.7	-	-
FIIs	17.8	0.1	0.1
MFs	8.8	0.3	0.3
UTI	-	-	-
LIC	-	-	-

HT Media: Strong 1QFY08 results driven by Hindi business

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- **Strong 1QFY08 results driven by over 40% growth in Hindi newspaper, Hindustan**
- **Newsprint inventory management, cost control strategy supported EBITDA growth**
- **Revised estimates; retain BUY with 12-month DCF-based TP of Rs175**

HT Media (HTML) reported strong 1QFY09 results with standalone EBITDA at Rs663 mn (+19% yoy and +10% qoq), much above our Rs600 mn estimate; (1) strong 40% yoy growth in the Hindi business negated lower-than-expected growth in the core English business and (2) control of RM and other expenses supported EBITDA. HT Media reported net income at Rs377 mn (+10% yoy and -9% qoq), in line with our Rs373 mn estimate, which resulted from higher-than-expected tax outgo due to seasonality associated with tax planning measures adopted by the company. We retain our BUY rating on the stock with a revised DCF-based 12-month target price of Rs175 (Rs185 previously), which reflects (1) depreciating rupee, (2) lower circulation revenues and (3) higher taxation partially negated by (4) cost control measures implemented by the company to mitigate higher newsprint prices and an unfavorable trend in exchange rate.

1QFY09 results analysis

Strong revenue growth in Hindi business drives 1QFY09 results. HTML's 1QFY09 ad revenues increased 19% yoy to Rs2.8 bn, moderately ahead of our Rs2.75 bn estimate, driven by over 40% yoy ad revenue growth in the Hindi newspaper, Hindustan. We note that HTML has expanded Hindustan aggressively into new markets with new edition launched in Uttar Pradesh (UP), Uttaranchal and Chandigarh, which are the key Hindi heartland markets. Moreover, HTML has also adopted some smart marketing tactics (combo packs) to expand the distribution of its English and Hindi newspapers in these markets.

The English business ad revenue growth was moderate with disappointing realizations from the banking and finance sectors in the Mumbai market. However, we expect contributions from this segment to bounce back as insurance and fund businesses continue to grow steadily with the entry of many new players planned in the coming months. Mint business newspaper maintained its ad revenue run-rate of Rs35 mn in 1QFY09 versus Rs30-35 mn in 4QFY08 and 3QFY08; we note 4QFY08 is seasonally the best quarter for business news but Mint's focus on luxury segment helped negate the negative impact of capital market volatility in 1QFY09.

Robust EBITDA growth driven by lower-than-expected RM, employee costs. HTML's EBITDA increased 19% yoy to Rs663 mn despite sharply rising newsprint prices; HTML had established a large inventory of committed newsprint supply in 3QFY08 in anticipation of rising newsprint prices, which helped control RM costs. The company is already in the process of adopting cost control measures such as (1) lower weight newsprint, (2) rationalization in pagination levels and (3) cutting newsprint waste and free circulation, which should help keep its RM costs under check going forward, as the benefit of inventory will not be available.

HTML reported 12% yoy growth and 9% qoq decline in employee expenses to Rs451 mn in 1QFY09 versus our estimated Rs500 mn; we note that 4QFY08 employee costs included a one-time expense related to employee bonus. HT continues to expand its employee base but the growth will likely be moderated with its expansion plan for Mint business newspaper on hold. The company will also be able to control its SG&A expenses in FY2009E since the launch and expansion of Mint in FY2008 resulted in higher sales and marketing costs.

Higher-than-expected tax charge as tax planning will be seasonal in nature. HTML reported a tax rate of 33% in 1QFY09 versus standalone tax rate of 28% for the whole of FY2008; HTML had acquired an entity with accumulated losses last year to reduce its tax outgo and the company will continue to implement such tax planning measures in the future.

Earnings revisions

We have revised earnings estimates to factor in 1QFY09 results and reduced our FY2009E and FY2010E EPS to Rs4.2 (Rs4.5 previously) and Rs7.5 (Rs7.8), respectively (see Exhibit 2).

1. **Exchange rate and RM costs.** We have revised our FY2009E and FY2010E exchange rate assumptions to Rs42/US$ (Rs40/US$ previously) and Rs41.5/US$ (Rs39.5/US$) which negatively impacts the price of imported newsprint. As previously discussed, HT Media has initiated some mitigating actions to moderate the impact of rising newsprint prices and depreciating rupee. Overall, we increase HTML's FY2009E and FY2010E RM cost to Rs7.65 bn (Rs7.55 bn previously) and Rs8.05 bn (Rs8 bn), respectively.
2. **Lower circulation revenues.** We anticipated increase in cover prices of newspapers in metro markets of Delhi and Mumbai, given rising newsprint prices and the losses incurred on the sale of newspapers in these markets. However, the extant players have maintained cover prices and circulation in the hope of benefitting from the more lucrative ad revenue stream. We have marginally reduced our circulation revenue estimates for HT Media for FY2009E and FY2010E to Rs1.8 bn (Rs1.9 bn previously) and Rs2.2bn (Rs2.3 bn), respectively.
3. **Higher taxation.** We have increased our assumed tax rate for HT Media for FY2009E and FY2010E to 31% (28% previously) and 32% (29%), respectively.

HT Media Ltd. standalone interim results, March fiscal year-ends (Rs mn)

			qoq			yoy			yoy	
	2009E	1Q 2009	4Q 2008	% chg	1Q 2009	1Q 2008	% chg	2008	2007	% chg
Revenues	**14,671**	**3,247**	**3,134**	***3.6***	**3,247**	**2,733**	***18.8***	**12,033**	**10,397**	***16***
Advertisement revenues	12,031	2,805	2,686	*4.4*	2,805	2,350	*19.4*	10,137	8,734	*16*
Circulation revenues	1,801	370	370	—	370	329	*12.5*	1,449	1,362	*6*
Others	839	72	78	*(6.8)*	72	54	*33.7*	447	301	*49*
Total expenditure	**(12,887)**	**(2,584)**	**(2,532)**	***2.0***	**(2,584)**	**(2,178)**	***18.7***	**(10,334)**	**(8,716)**	***19***
Inc/(Dec) in inventories	—	6	(2)		6	1		(4)	3	
Raw material costs	(6,350)	(1,197)	(1,118)	*7.0*	(1,197)	(1,087)	*10.1*	(4,640)	(4,352)	*7*
Employee costs	(2,256)	(451)	(497)	*(9.4)*	(451)	(402)	*12.1*	(1,983)	(1,596)	*24*
Sales and marketing	(1,174)	(265)	(260)	*2.0*	(265)	(145)	*83.3*	(1,152)	(716)	*61*
Manufacturing and G&A costs	(3,108)	(677)	(654)	*3.5*	(677)	(545)	*24.2*	(2,555)	(2,055)	*24*
EBITDA	**1,783**	**663**	**601**	***10.3***	**663**	**556**	***19.3***	**1,699**	**1,680**	***1***
Other income	493	82	123	*(33.6)*	82	103	*(20.8)*	439	367	*20*
Interest & finance charges	(231)	(51)	(43)	*17.8*	(51)	(42)	*21.8*	(178)	(143)	*24*
Depreciation and amortization	(606)	(129)	(117)	*9.8*	(129)	(106)	*20.9*	(570)	(436)	*31*
Pretax profits	**1,439**	**565**	**564**	***0.2***	**565**	**511**	***10.7***	**1,390**	**1,468**	***(5)***
Extraordinary items	—	—	—		—	—		—	2	
Provision for tax	(498)	(178)	(139)	*28.6*	(178)	(161)	*10.4*	(337)	(461)	*(27)*
Deferred tax	52	—	—		—	—		—	(45)	
Fringe benefit tax	—	(10)	(10)	*4.2*	(10)	(8)	*28.2*	(39)	(40)	*(2.2)*
Net income	**993**	**377**	**416**	***(9.3)***	**377**	**342**	***10.4***	**1,013**	**970**	***4***
Tax rate (%)	*31*	*33*	*26*		*33*	*33*		*27*	*37*	
EBITDA margin (%)	**12.2**	**20.4**	**19.2**		**20.4**	**20.3**		**14.1**	**16.2**	

Note:
(a) Annual figures represent consolidated numbers with radio, internet and metro now business while quarterly figures represent standalone numbers.

Source: Company, Kotak Institutional Equities estimates.

Revised and previous consolidated earnings estimates for HT Media, March fiscal year-ends, 2009E-2011E (Rs mn)

	Revised estimates			Previous estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Advertisement revenues	12,031	13,705	15,367	12,009	13,684	15,319	0.2	0.2	0.3
Circulation revenues	1,801	2,190	2,548	1,890	2,285	2,636	(4.7)	(4.2)	(3.3)
Subsidiary and other revenues	839	1,189	1,578	815	1,165	1,554	3.0	2.1	1.6
Total sales	**14,671**	**17,084**	**19,494**	**14,713**	**17,134**	**19,509**	**(0.3)**	**(0.3)**	**(0.1)**
Production cost	7,635	8,063	8,318	7,558	8,027	8,239	1.0	0.4	0.9
Employee cost	2,256	2,565	2,840	2,255	2,565	2,839	—	—	—
SG&A expenses	2,996	3,309	3,578	3,027	3,326	3,598	(1.0)	(0.5)	(0.5)
Total expenditure	**12,887**	**13,937**	**14,736**	**12,840**	**13,918**	**14,677**	**0.4**	**0.1**	**0.4**
EBITDA	**1,783**	**3,147**	**4,758**	**1,873**	**3,216**	**4,832**	**(4.8)**	**(2.1)**	**(1.5)**
EPS (Rs)	**4.2**	**7.5**	**12.5**	**4.5**	**7.8**	**12.6**	**(6.8)**	**(4.4)**	**(1.2)**

Source: Kotak Institutional Equities estimates.

Our DCF-based target price for HTML is Rs175
Discounted cash flow analysis of HT Media (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBITDA	**1,783**	**3,147**	**4,758**	**5,756**	**6,594**	**7,265**	**7,979**	**8,796**	**9,528**	**9,734**	**10,269**	**10,834**	**11,430**
Tax expense	(584)	(1,045)	(1,621)	(2,006)	(2,348)	(2,628)	(2,909)	(3,244)	(3,594)	(3,788)			
Changes in working capital	(653)	(387)	(393)	(325)	(294)	(308)	(332)	(361)	(370)	(247)			
Cash flow from operations	**546**	**1,715**	**2,743**	**3,425**	**3,952**	**4,329**	**4,737**	**5,190**	**5,564**	**5,699**			
Capital expenditure	(1,790)	(1,550)	(816)	(561)	(572)	(583)	(594)	(606)	(618)	(629)			
Cash flows for minority interest	—	—	—	—	—	—	(54)	(64)	(67)	—			
Free cash flow to the firm	**(1,244)**	**165**	**1,927**	**2,864**	**3,380**	**3,746**	**4,089**	**4,521**	**4,880**	**5,069**	**5,348**	**5,642**	**5,953**
Dicounted cash flow-now	(1,017)	120	1,245	1,644	1,725	1,699	1,648	1,620	1,554	1,435			
Discounted cash flow-1 year forward		135	1,401	1,850	1,940	1,912	1,855	1,822	1,748	1,614	1,514		
Discounted cash flow-2 year forward			1,576	2,081	2,183	2,151	2,086	2,050	1,967	1,816	1,703	1,597	

Discount rate (%)	12.5
Growth from 2017 to perpetuity (%)	5.5

Fiscal year-end (March 31, XXXX)	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20
Today	15-Jul-08	15-Jul-08	15-Jul-08	15-Jul-08	15-Jul-08	15-Jul-08	15-Jul-08	15-Jul-08	15-Jul-08	15-Jul-08	15-Jul-08	15-Jul-08
Years left	1	2	3	4	5	6	7	8	9	10	11	12
Discount factor at WACC	**0.9**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**15,790**	**38%**	**19,211**	**41%**
FCF in terminal year	5,642		5,953	
Exit FCF multiple (X)	14.3		14.3	
Terminal value	80,606		85,039	
PV of terminal value (b)	**25,669**	**62%**	**27,081**	**59%**
EV (a) + (b)	**41,460**		**46,292**	
EV (US$ mn)	**901**		**1,006**	
Net debt	(195)		(426)	
Equity value	**41,654**		**46,718**	
Implied share price (Rs)	**178**		**199**	
Exit EV/EBITDA multiple (X)	7.8		7.8	

Sensitivty of share price to different levels of WACC and growth rate (Rs)

	WACC (%)						
Growth rate (%)	**11.0**	**11.5**	**12.0**	**12.5**	**13.0**	**13.5**	**14.0**
1.0	154	145	137	129	122	116	110
2.0	165	154	145	136	129	121	115
3.0	178	166	155	145	136	128	121
4.0	196	181	167	156	146	136	128
5.0	219	200	184	170	157	146	137
5.5	233	212	193	178	164	152	142
6.0	251	226	205	**187**	172	159	148
7.0	299	264	235	212	192	176	162
8.0	380	323	280	247	220	199	181

Source: Kotak Institutional Equities estimates.

Derivation of revenues of HT Media, March fiscal year-ends, 2005-2011E (Rs mn)

	Revenues (Rs mn)							Breakdown of revenues (%)						
	2006	2007	2008	2009E	2010E	2011E	2012E	2006	2007	2008	2009E	2010E	2011E	2012E
Advertisement revenues														
HT Delhi	4,612	6,102	6,645	7,363	7,971	8,630	9,344	56	59	55	50	47	44	43
HT Mumbai	449	711	984	1,307	1,598	1,842	2,045	5	7	8	9	9	9	9
HT Others	571	720	988	1,334	1,631	1,901	2,151	7	7	8	9	10	10	10
HH	926	1,215	1,519	2,027	2,505	2,994	3,325	11	12	13	14	15	15	15
Advertisement revenues	**6,557**	**8,748**	**10,137**	**12,031**	**13,705**	**15,367**	**16,865**	**80**	**84**	**84**	**82**	**80**	**79**	**78**
Circulation revenues														
HT Delhi	524	572	620	651	687	726	762	6	6	5	4	4	4	4
HT Mumbai	(10)	(91)	(86)	(4)	84	169	276	—	(1)	(1)	—	0	1	1
HT Others	181	184	196	252	305	362	382	2	2	2	2	2	2	2
HH	647	704	720	901	1,112	1,292	1,368	8	7	6	6	7	7	6
Circulation revenues	**1,342**	**1,369**	**1,449**	**1,801**	**2,190**	**2,548**	**2,787**	**16**	**13**	**12**	**12**	**13**	**13**	**13**
Subsidiary and other revenues														
Other revenues	295	233	276	304	332	360	362	4	2	2	2	2	2	2
Radio revenues	—	20	170	425	564	687	816	—	—	1	3	3	4	4
Internet revenues	—	—	—	60	180	350	490	—	—	—	—	1	2	2
Metro Now revenues	—	—	—	50	113	181	216	—	—	—	—	1	1	1
Total revenues	**8,195**	**10,370**	**12,033**	**14,671**	**17,084**	**19,494**	**21,536**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Kotak Institutional Equities estimates.

Profit model, balance sheet, cash model of HT Media, March fiscal year-ends, 2005-2012E (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model								
Net sales	6,247	8,210	10,397	12,033	14,671	17,084	19,494	21,536
EBITDA	**753**	**1,184**	**1,680**	**1,699**	**1,783**	**3,147**	**4,758**	**5,756**
Other income	91	177	367	439	493	471	513	589
Interest	(72)	(135)	(143)	(178)	(231)	(283)	(273)	(230)
Depreciation	(227)	(385)	(436)	(570)	(606)	(737)	(636)	(679)
Pretax profits	**546**	**841**	**1,468**	**1,390**	**1,439**	**2,598**	**4,362**	**5,436**
Extraordinary items	(106)	(229)	2	—	—	—	—	—
Tax	(22)	(65)	(573)	(520)	(498)	(947)	(1,522)	(1,926)
Deferred taxation	(142)	(174)	27	143	52	107	85	112
Net income	**274**	**373**	**924**	**1,013**	**993**	**1,758**	**2,926**	**3,622**
Minority interest	—	—	(46)	—	—	—	—	—
Adjusted net income	**349**	**537**	**969**	**1,013**	**993**	**1,758**	**2,926**	**3,622**
Earnings per share (Rs)	**1.8**	**2.4**	**4.1**	**4.3**	**4.2**	**7.5**	**12.5**	**15.5**
Balance sheet								
Total equity	4,114	6,932	7,642	8,529	9,412	10,951	12,679	14,817
Minority interest	—	—	—	1	1	1	1	1
Deferred taxation liability	132	296	273	122	70	(37)	(122)	(234)
Total borrowings	1,716	1,696	1,658	2,231	3,208	3,458	2,958	2,458
Current liabilities	1,406	1,809	2,113	2,804	3,225	3,359	3,439	3,560
Total liabilities and equity	**7,367**	**10,733**	**11,685**	**13,685**	**15,915**	**17,731**	**18,954**	**20,601**
Cash	489	2,678	1,104	774	746	1,228	1,797	3,117
Other current assets	1,889	3,276	2,863	4,425	5,499	6,020	6,493	6,939
Total fixed assets	3,823	3,736	4,109	4,752	6,010	6,899	7,154	7,112
Intangible assets	158	182	1,098	1,078	1,003	927	852	777
Investments	1,009	861	2,510	2,656	2,656	2,656	2,656	2,656
Total assets	**7,367**	**10,733**	**11,685**	**13,685**	**15,915**	**17,731**	**18,954**	**20,601**
Free cash flow								
Operating cash flow, excl. working capital	540	757	1,194	1,064	1,055	1,917	2,963	3,600
Working capital changes	78	(232)	(226)	(131)	(653)	(387)	(393)	(325)
Capital expenditure	(1,085)	(327)	(867)	(1,196)	(1,790)	(1,550)	(816)	(561)
Investments	(566)	388	(319)	(325)	—	—	—	—
Other income	27	130	197	298	493	471	513	589
Free cash flow	**(1,006)**	**716**	**(21)**	**(290)**	**(895)**	**451**	**2,267**	**3,303**
Ratios (%)								
Debt/equity	40.4	23.5	20.9	25.8	33.8	31.7	23.6	16.9
Net debt/equity	28.9	(13.6)	7.0	16.8	26.0	20.4	9.2	(4.5)
ROAE (%)	9.8	9.4	12.8	12.2	11.0	17.2	24.9	26.7
ROACE (%)	**11.1**	**12.1**	**10.6**	**9.6**	**9.3**	**13.5**	**20.2**	**22.5**

Source: Kotak Institutional Equities estimates.

Banking

ADBK.BO, Rs53	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	65
52W High -Low (Rs)	130 - 49
Market Cap (Rs bn)	25.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	20.8	21.3	25.8
Net Profit (Rs bn)	5.8	4.5	5.6
EPS (Rs)	11.9	9.3	11.6
EPS gth	*7.2*	*(21.9)*	*24.4*
P/E (x)	4.5	5.7	4.6
P/B (x)	0.8	0.8	0.7
Div yield (%)	7.5	4.4	5.4

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.5	-	-
FIIs	19.3	0.1	(0.0)
MFs	3.8	0.1	0.0
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Andhra Bank: PAT declined sharply due to lackluster operational performance and MTM losses, retain REDUCE

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- **Andhra Bank's 1QFY09 PAT was Rs780 mn, a drop of 45% yoy**
- **Lackluster operational performance and higher provisions impacted PAT**
- **Retain REDUCE with a target price of Rs65**

Andhra Bank's 1QFY09 PAT dropped 45% yoy to Rs780 mn impacted by higher provision expenses (4X) of the 1QFY08 levels. At the operational level, margin continued to be under pressure and NII was down 4% yoy while the other income (excluding treasury) was marginally up 3% yoy. The company is in the process of implementing a core banking solution, which has increased the operating expenses (excluding employee expenses). We have reduced our earnings estimates 11% and 6% for the next two years. Retain REDUCE and cut target price to Rs65 (Rs75 earlier).

Net interest income remains muted

- Net interest margin for Andhra Bank continues to remain under pressure at 2.9% in 1QFY09 compared to the 3.5% reported in 1QFY08
- Apart from the general increase in deposit costs, funding costs were also higher as the company had gone in for Rs7 bn of Tier II bonds at 9.15% in 4QFY08, which had a negative impact on margin
- The company continues to maintain moderate growth with advances increasing 23% yoy to Rs341 bn (sequential decline of Rs5 bn) and deposits 21% yoy to Rs492 bn (sequential decline of Rs3 bn)
- CASA ratio was 33% as of June 2008, similar to the level achieved as of June 2007. While the high bulk cost deposits declined to Rs108 bn (22% of deposits) as of 1QFY09, bulk deposits as of June 2008 were Rs106 bn (25% of deposits) as of June 2007

Non-interest income declined due to loss on treasury operations and moderate fee income growth

- Andhra Bank had a loss on account of treasury operations of Rs10 mn compared to an income of Rs150 mn in 1QFY08, which had an adverse impact on non-interest revenue streams
- While the growth in fee income was modest at 9% yoy and could not compensate adequately for this loss in income

Implementation of core banking solution led to higher operating expenses

- Andhra Bank had entered into an agreement with Hewlett Packard (India) for implementing the core banking solution over a five-year period last year
- The implementation of this program started in the current year which led to an increase in operating expenses for the company.
- Since the company had adjusted its transitional liabilities under the revised AS-15 guidelines against its net worth in FY2008, the employee expense costs were muted and helped contain costs in 1QFY09

Spike in Gsec yields led to higher provisions and lower effective tax rate

- Like all banks in the system, Andhra Bank had an investment depreciation expense of Rs862 mn in 1QFY09 against a write-back of Rs100 mn in 1QFY08, which was the key driver of provision expense burden for the company
- The overall provision expenses (including investment amortization) were higher at Rs1.4 bn, which was 4X the provision expenses reported in 1QFY08
- Asset quality continued to remain healthy with a net NPL ratio of 0.1% and provision coverage ratio of 90% as of June 2008, which helped moderate NPL provision expenses
- The company follows a policy of even valuing the investments in the held-to-maturity category for calculation of income in its income tax books. The spikes in Gsec yields helped the company report lower income in the income tax books and have a lower tax burden (effective tax rate of 6%) in 1QFY09

Andhra Bank, quarterly results (Rs mn)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	% chg	1QFY09KS	Actual Vs KS
Interest Earned	9,895	10,455	10,857	11,692	11,777	19		
Interest on advances	7,296	7,632	8,165	8,676	8,801	21		
Interest on investments	2,504	2,636	2,626	2,717	2,912	16		
Interest on bal. with RBI & other inter bank funds	95	110	64	98	64	(33)		
Other interest	-	77	2	201	-	-		
Interest expense	6,273	7,008	7,156	8,263	8,111	29		
Net interest income	**3,621**	**3,447**	**3,701**	**3,429**	**3,666**	**1**	**3,440**	**7**
Other income	1,315	1,582	1,683	2,033	1,187	(10)	1,282	(7)
Treasury	149	352	575	323	(10)	(107)		
Commission & exchange	455	419	616	640	496	9		
Dividend income	1	14	20	20	10	692		
Forex profit	80	87	83	80	92	15		
Others	617	711	389	970	599	(3)		
Total income	**4,936**	**5,029**	**5,384**	**5,462**	**4,853**	**(2)**	**4,722**	**3**
Operating expenses	**2,512**	**2,505**	**2,295**	**2,131**	**2,597**	**3**	**2,350**	**10**
Payments to / Provisions for employees	1,449	1,505	1,167	974	1,406	(3)	1,250	13
Other operating expenses	1,064	1,000	1,128	1,157	1,190	12	1,100	8
Operating profit before prov. & cont.	2,424	2,525	3,089	3,331	2,256	(7)	2,372	(5)
Provisions & Contingencies	283	313	484	1,114	1,430	406	1,180	21
Investment amortization	190	203	206	200	203	7	200	2
Loan loss provisions	197	188	420	430	362	84	200	81
Investment depreciation	(100)	(104)	(406)	480	864	(964)	780	11
Profit before tax	**2,141**	**2,212**	**2,605**	**2,218**	**826**	**(61)**	**1,193**	**(31)**
Provision for taxes	730	700	1,015	975	50	(93)	358	(51)
Net profit	**1,411**	**1,512**	**1,590**	**1,243**	**776**	**(45)**	**835**	**(7)**
Tax rate	34	32	39	44	6		30	
Key balance sheet items (Rs bn)								
Deposits	408	444	439	494	492	21		
CASA	136	142	150	166	162	19		
CASA (%)	33.4	32.0	34.1	33.6	33.0	-		
Advances	277	305	313	346	341	23		
Priority sector	113	128	125	133	135	19		
Agriculture	48	55	57	62	61	27		
Retail	67	71	74	78	77	15		
Housing	40	45	45	-	47	18		
SME	33	37	39	40	42	28		
Investments	138.4	149.6	140.4	149.0	161.1	16.4		
AFS	NA	42.5	33.7	39.0	-			
Duration (years)	NA	2.3	2.0	2.6	-	-		
Asset quality details								
Gross Non Performing Assets (Rs mn)	4,207	4,124	4,219	3,724	3,928	(7)		
Gross Non Performing Assets (%)	1.5	1.4	1.4	1.1	1.2			
Net Non Performing Assets (Rs mn)	512	586	499	537	351	(31)		
Net Non Performing Assets (%)	0.2	0.2	0.2	0.2	0.1			
Yield management measures (%)								
Yield on advances	10.8	10.9	10.9	10.7	10.4			
Cost of deposits	6.2	6.6	6.5	7.1	6.5			
Yield on investments	8.0	8.2	8.5	8.3	7.4			
Cost of funds	5.4	5.7	5.7	6.2	5.8			
Yield from funds	8.6	8.5	8.6	8.7	8.3			
Spread	3.1	2.8	3.0	2.6	2.5			
NIM	3.5	3.0	3.2	2.9	2.9			
Capital adeuqacy details								
CAR (%)	12.5	11.6	12.0	11.6	12.1			
Tier I (%)	11.1	10.3	10.8	8.5	9.0			
Tier II (%)	1.4	1.3	1.2	3.1	3.1			

Source: Company, Kotak Institutional Equities estimates.

Industrials

AIAE.BO, Rs1274	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,600
52W High -Low (Rs)	2049 - 1044
Market Cap (Rs bn)	25.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	6.9	9.8	12.8
Net Profit (Rs bn)	1.3	1.7	2.1
EPS (Rs)	70.9	89.4	114.2
EPS gth	*38.1*	*26.1*	*27.7*
P/E (x)	4.5	5.7	4.6
EV/EBITDA (x)	-	-	-
Div yield (%)	7.5	4.4	5.4

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	69.6	-	-
FIIs	2.9	0.0	0.0
MFs	22.4	0.4	0.4
UTI	-	-	-
LIC	-	-	-

AIA Engineering: Better-than-expected margins, lower volumes and earnings; reduce TP to Rs1,600

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- **1QFY09 PAT up 84%, EBITDA margins of 26.8% versus 19.8% last year**
- **Volumes miss estimates due to higher inventory; realisations jump to Rs94.3/kg (up 29% yoy and 5% qoq)**
- **Revise estimates for higher realisations and lower volumes; reduce FY2009E and FY2010E eps by 3% each to Rs89 and Rs114, respectively**
- **Maintain BUY but reduce TP to Rs1,600 from Rs1,750 earlier**

AIA reported strong EBITDA margins of 26.8% (adjusted for other income at 28.7%) versus expected 24% on account of higher realisations and favorable exchange rate fluctuations. Revenues and net earnings were lower than expected on account of lower volumes and increase in inventory. Despite lower volumes, EBITDA was ahead of estimates on account of better realisations; we expect volumes to increase in next quarter as company increased inventory for some export orders. PAT increased 84% to Rs398 mn versus expected Rs432 mn. Realisations during the quarter jumped 29% yoy and 5% qoq to Rs94.3/kg as company was able to improve product mix which was also the reason for lower volumes. Exports accounted for 51% revenues and cement contributed to 86% of total revenues. Given the strong order book of Rs4 bn and increasing realisations, we reduce our volume assumptions but increase our realisation and EBITDA margin assumptions for FY2009E and FY2010E. We reduce our eps estimates lower by 3% each for FY2009E and FY2010E to Rs89 and Rs114, respectively. We maintain BUY rating but reduce DCF-based target price to Rs1,600 from Rs1,750 earlier. Higher raw material prices and further delay in optimal utilisation of capacities can adversely impact our estimates.

1QFY09—EBITDA margins better than expected, revenues and PAT miss estimates

AIA reported revenues and PAT below expectations as production and sales volumes were below expectations. However, average realisation at Rs94.3/kg was higher than expectations thus pushing EBITDA margins higher than expected at 26.8%. Adjusted for forex gains on account of receivable hedging and sale of DEPB licenses, EBITDA margins would be 28.7% versus 20.8% last year. Volumes increased 13% yoy to 21,200 tons with revenues growing at 46% to Rs2 bn. EBITDA increased 97% yoy to Rs535 mn; PAT rose 84% to Rs398 mn but was lower than expected Rs432 mn. Increase in inventory by about 2,800 tons kept sales volumes, revenues and PAT lower than expectations. Sales outside India increased by 62% and accounted for 51% of total revenues during the quarter.

Strong order book and increasing visibility from mining customers

Management indicated that the company currently has an Rs4 bn worth of order book with roughly equal split between domestic and export orders. However, it expects order book to increase gradually as orders from mining companies start over the next 2-3 months. Management expects 10,000-15,000 tons of sales to mining companies during FY2009 but we model about 8,000 tons of sales to mining companies in the same period. Management indicates that the company currently has approvals from nine major mining groups and will start sales from geographies such as Australia and Brazil over next two months. We highlight that large requirement of grinding by a single mining site has constrained company's ability to service mining customers in the past. Now, with the second phase of 50,000 tons getting operational we should see gradual increase in sales to mining customers over next 12-15 months.

Revise volume assumptions lower but realisations higher

We revise our FY2009E and FY2010E volume estimates downward by 15% and 18%, respectively on account of improving realisations due to better product mix. We revise our average realisation higher to Rs87 and Rs85 for FY2009E and FY2010E, respectively. We reduce our revenue estimates by 4% and 8% for FY2009E and FY2010E, respectively to Rs9.8 bn and Rs12.8 bn. However, higher realisations push EBITDA margins higher to 24.5% and 24.8% in FY2009E and FY2010E, respectively. We model capacity increase by another 100,000 tons over next two phases with first 50,000 tons coming from de-bottlenecking for which we model company to invest Rs450 over next three years. Another phase of 50,000 tons will be a Greenfield for which we model company to invest Rs1.1 bn over next two years. We model export mining volumes to grow to 28,560 tons in FY2010E from 7,452 tons in FY2009E.

Maintain BUY but reduce TP to Rs1,600

We revise our assumptions and resultantly revise our DCF-based valuation to Rs1,600 from Rs1,750 earlier; however, maintain BUY. The stock currently trades at 11X FY2010E EPS of Rs114 and 6.7X FY2010E EBITDA of Rs3.2 bn. Higher-than-expected raw material prices and further delay in optimal utilisation of capacities can adversely impact our estimates.

Exhibit 1: Forecasts and valuation (consolidated)

	Sales (Rs mn)	EBITDA (Rs mn)	PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
FY2007	5,230	1,274	965	51.4	25.1	24.9	17.5
FY2008	6,912	1,638	1,333	70.9	24.0	18.0	13.3
FY2009E	9,842	2,411	1,681	89.4	24.2	14.3	8.8
FY2010E	12,812	3,177	2,156	114.2	24.6	11.2	6.7

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Consolidated interim results of AIA Engineering, March fiscal year-ends (Rs mn)

		yoy			qoq	
	1Q 2009	1Q 2008	(% chg)	4Q 2008	(% chg)	2008
Net sales	**1,999**	**1,371**	***45.8***	**2,036**	***(1.8)***	**6,912**
Total expenditure	(1,464)	(1,099)	*33.2*	(1,556)	*(5.9)*	(5,273)
Inc/(Dec) in stock	331	(24)	*(1,492.5)*	(19)	*(1,861.8)*	96
Raw materials	(1,178)	(695)	*69.5*	(863)	*36.6*	(3,276)
Purchase of traded goods	(52)		-	(64)	-	(71)
Staff cost	(103)	(72)	*43.3*	(72)	*44.1*	(312)
Other expenditure	(462)	(308)	*50.0*	(539)	*(14.3)*	(1,711)
EBITDA	**535**	**272**	***96.6***	**480**	***11.4***	**1,638**
OPM (%)	**26.8**	**19.8**		**23.6**		**23.7**
Depreciation	(44)	(22)	*104.6*	(45)	*(1.4)*	(136)
EBIT	**491**	**251**		**436**	***12.7***	**1,503**
EBIT%	**24.6**	**18.3**		**21.4**		**21.7**
Other income	74	49	*50.5*	137	*(46.2)*	317
Interest	(5)	(5)	*1.6*	(4)	*3.8*	(17)
Pretax profits (before EO)	**560**	**295**	***89.9***	**568**	***(1.4)***	**1,802**
EO						
Pretax profits	**560**	**295**	***89.9***	**568**	***(1.4)***	**1,802**
Tax	(157)	(67)	*133.2*	(108)	*44.7*	(413)
Deferred taxation	(4)	(8)	*(44.5)*	(15)	*(71.6)*	(43)
FBT	(0)	(1)	*(63.5)*	(1)	*(68.3)*	(4)
Net income	**399**	**219**	***82.2***	**443**	***(10.1)***	**1,342**
Adjusted profits	**399**	**219**	***82.2***	**443**	***(10.1)***	**1,342**
Income tax rate (%)	*28.7*	*25.4*		*21.7*		*25.3*
Minority interest	(1)	(2)		(2)	*(74.5)*	(9)
Consolidated net income	**398**	**216**	***83.9***	**441**	***(9.7)***	**1,333**
Adjusted consolidated net income	**398**	**216**		**441**	***(9.7)***	**1,333**
Consolidated production	23,987	17,716	*35.4*	24,343	*(1.5)*	88,094
Consolidated sales volumes	21,200	18,735	*13.2*	22,714	*(6.7)*	85,527
Avg realisation on sales	**94.3**	**73.2**	*28.9*	**89.6**	*5.2*	**80.8**
Sales outside india	1,020	630	*61.9*	957	*6.6*	
%age of sales outside India	*51*	*46*		*47*		
Domestic sales	979	741	*32.1*	1,079	*(9.3)*	
Total Composition of sales						
Cement	85.8%	79.5%		79.3%		
Utilities	10.8%	15.7%		15.9%		
Mining	3.4%	4.9%		4.8%		

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

	Revised estimates		Old estimates			
	2009E	2010E	2009E	2010E	2009E	2010E
Sale volumes (tons)	113,313	150,333	132,832	184,379	(14.7)	(18.5)
Revenue	9,842	12,812	10,239	13,961	(3.9)	(8.2)
EBITDA	2,411	3,177	2,478	3,379	(2.7)	(6.0)
EBITDA margin (%)	24.5	24.8	24.2	24.2	—	—
Net profit	1,681	2,147	1,742	2,213	(3.5)	(3.0)
Diluted EPS	89.4	114.2	92.2	117.3	(3.0)	(2.6)

Source: Kotak Institutional Equities estimates.

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

	2006	2007	2008	2009E	2010E	2011E	2012E
Income model assumptions							
Production volumes (tons)	59,329	69,398	88,166	115,824	153,775	192,733	230,442
Sales volumes (tons)	59,408	66,615	85,527	113,313	150,333	189,851	228,915
Average realisations (Rs/kg)	68.5	75.5	80.8	86.9	85.2	83.7	82.6
Profit model							
Total income	4,070	5,230	6,912	9,842	12,812	15,886	18,909
EBITDA	**815**	**1,274**	**1,638**	**2,411**	**3,177**	**3,972**	**4,765**
Interest (expense)/income	(53)	(24)	(17)	(15)	(15)	(15)	(15)
Depreciation	(71)	(82)	(136)	(204)	(281)	(346)	(364)
Other income	104	164	317	160	160	180	240
Pretax profits	**795**	**1,331**	**1,802**	**2,353**	**3,042**	**3,791**	**4,627**
Tax	(257)	(346)	(417)	(616)	(734)	(1,217)	(1,531)
Deferred taxation	5	1	(43)	(47)	(152)	76	139
Profit after tax	**543**	**986**	**1,342**	**1,690**	**2,156**	**2,650**	**3,235**
Minority interest	(20)	(12)	(9)	(9)	(9)	(9)	(9)
Adjusted net profit	**524**	**973**	**1,333**	**1,681**	**2,147**	**2,641**	**3,226**
Diluted earnings per share (Rs)	**29.5**	**51.4**	**70.9**	**89.4**	**114.2**	**140.5**	**171.6**
Balance sheet							
Total equity	2,811	4,999	6,208	7,700	9,596	11,902	14,685
Deferred taxation liability	20	19	62	109	261	185	46
Total borrowings	485	165	165	165	165	165	165
Current liabilities	1,112	1,780	1,929	2,278	2,580	2,976	3,390
Total liabilities and equity	**4,428**	**6,963**	**8,364**	**10,252**	**12,602**	**15,229**	**18,287**
Cash	185	449	997	1,514	1,408	2,836	4,788
Other current assets	2,705	3,587	3,696	4,871	6,358	7,651	8,921
Total fixed assets	571	1,462	2,206	2,402	3,372	3,276	3,112
Investments	967	1,465	1,465	1,465	1,465	1,465	1,465
Total assets	**4,428**	**6,963**	**8,364**	**10,252**	**12,602**	**15,229**	**18,287**
Free cash flow							
Operating cash flow, excl. working capital	258	717	1,190	890	1,183	1,758	2,255
Working capital changes	268	1,049	1,204	1,781	2,429	2,740	3,219
Capital expenditure	(414)	(890)	(880)	(400)	(1,250)	(250)	(200)
Investments	(1,083)	(498)	—	—	—	—	—
Other income	19	83	317	160	160	180	240
Free cash flow	**(952)**	**460**	**1,830**	**2,431**	**2,521**	**4,428**	**5,515**
Ratios (%)							
EBITDA	20.0	24.3	23.7	24.5	24.8	25.0	25.2
Debt/equity	28.8	8.5	3.0	2.4	1.9	1.6	1.3
Net debt/equity	(6.9)	(31.5)	(36.7)	(37.3)	(32.3)	(32.2)	(38.8)
RoAE	29.0	25.1	24.0	24.2	24.6	24.3	24.3
RoACE	**35.3**	**23.5**	**24.1**	**24.3**	**25.8**	**23.2**	**22.9**

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 5: Our DCF-based target price for AIA Engineering is Rs1,600

Discounted cash flow analysis of AIA Engineering (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	2,411	3,177	3,972	4,765	4,985	4,910	4,984	5,062	5,126	5,331	5,544	5,766
Tax expense	(616)	(734)	(1,218)	(1,532)	(1,520)	(1,494)	(1,417)	(1,438)	(1,455)			
Changes in working capital	(891)	(1,246)	(981)	(964)	(101)	(90)	(67)	(85)	(68)			
Cash flow from operations	**905**	**1,198**	**1,772**	**2,269**	**3,363**	**3,327**	**3,500**	**3,539**	**3,603**			
Capital expenditure	**(400)**	**(1,250)**	**(250)**	**(200)**	**(214)**	**(60)**	**(49)**	**(62)**	**(70)**			
Free cash flow to the firm	**505**	**(52)**	**1,522**	**2,069**	**3,149**	**3,267**	**3,451**	**3,477**	**3,534**	**3,675**	**3,822**	**3,975**
Dicounted cash flow-now	467	(43)	1,112	1,344	1,818	1,676	1,574	1,409	1,273			
Discounted cash flow-1 year forward	-	(48)	1,251	1,512	2,045	1,886	1,770	1,586	1,432	1,324		
Discounted cash flow-2 year forward		-	1,408	1,701	2,301	2,122	1,992	1,784	1,612	1,489	1,377	
Discount rate	12.5%											
Growth from 2018 to perpetuity	4.0%											
Discount factor at WACC	**0.92**	**0.82**	**0.73**	**0.65**	**0.58**	**0.51**	**0.46**	**0.41**	**0.36**	**0.32**	**0.28**	**0.25**

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**12,758**	**47%**	**15,785**	**54%**
FCF in terminal year	3,822		3,975	
Exit FCF multiple (X)	11.8		11.8	
Terminal value	44,964		46,762	
PV of terminal value (b)	**14,398**	**53%**	**13,310**	**46%**
EV (a) + (b)	**27,156**		**29,095**	
EV (US$ mn)	**647**		**693**	
Net debt	(2,814)		(2,708)	
Equity value	**29,969**		**31,803**	
Implied share price (Rs)	**1,594**		**1,692**	
Exit EV/EBITDA multiple (X)	8.4		8.4	

Sensitivty of share price to different levels of WACC and growth rate (Rs)

Growth rate	WACC 11.0%	12.0%	12.5%	13.0%	13.5%	14.0%
0.0%	1,497	1,365	1,307	1,254	1,205	1,160
1.0%	1,574	1,425	1,360	1,301	1,247	1,198
2.0%	1,668	1,497	1,424	1,357	1,297	1,242
3.0%	1,785	1,584	1,500	1,424	1,356	1,294
4.0%	1,936	1,694	**1,594**	1,506	1,428	1,357
5.0%	2,137	1,835	1,714	1,609	1,516	1,433
6.0%	2,419	2,022	1,870	1,740	1,628	1,529
7.0%	2,841	2,285	2,083	1,916	1,774	1,652
8.0%	3,545	2,679	2,391	2,161	1,973	1,816

Source: Kotak Institutional Equities estimates.

Industrials

MHSM.BO, Rs289	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	390
52W High -Low (Rs)	672 - 233
Market Cap (Rs bn)	20.4

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	14.9	21.9	25.6
Net Profit (Rs bn)	2.2	2.6	3.2
EPS (Rs)	31.4	37.5	44.7
EPS gth	*(18.3)*	*19.6*	*19.1*
P/E (x)	9	7.7	6.4
EV/EBITDA (x)	5.5	4.9	4.1
Div yield (%)	1.6	2.0	2.3

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	46.2	-	-
FIIs	10.1	0.0	(0.0)
MFs	14.4	0.2	0.2
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Maharashtra Seamless: Margins on recovery track, volume increase to provide further push to earnings and valuations

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- **1QFY09 EBITDA margins improve 400 bps qoq; revenues and margins flat yoy despite lower volumes**
- **Order book and concurrent inventory booking provides near-term EBITDA visibility; model EBITDA/ton of Rs13,650 and Rs13,500 for FY2009E and FY2010E, respectively**
- **Revise valuation methodology to 5.5X FY2010E EBITDA from DCF-based; reduce TP to Rs390 and upgrade to BUY**

Maharashtra Seamless (MHS) reported strong improvement in EBITDA/ton in seamless and ERW pipes during 1QFY09 after posting poor margins in the last three quarters. Though seamless sales volumes declined to 52,057 tons from 56,935 tons last year, revenues and EBITDA were flat. Noticeable improvement was on a qoq basis in the seamless and ERW EBITDA/ton to Rs13,445 and Rs5,687 from Rs11,501 and Rs1,721 in 4QFY08. We believe order book of Rs5.5 bn provides visibility for improving realisations in line with the rising raw material prices; order book indicates net realisation of Rs65,000/ton for seamless pipes. Moreover, concurrent order bookings of billets and coils for fresh order bookings provide near-term EBITDA visibility. We model seamless pipe EBITDA/ton of Rs13,650 and Rs13,500 for FY2009E and FY2010E, respectively and ERW pipe EBITDA/ton of Rs3,328 and Rs3,300 for FY2009E and FY2010E, respectively. We model increasing volumes and EBITDA/ton and higher share of exports at 35% for seamless. We revise our earnings model—seamless volumes of 258,057 tons in FY2009E and EPS of Rs37.5 and Rs44.7 in FY2009E and FY2010E, respectively. We revise our valuation methodology—use 5.5X FY2010E EBITDA (in line with Vallourec valuations) from DCF-based valuation; upgrade to BUY from ADD and reduce TP to Rs390 (from Rs585 earlier). Inability to maintain current EBITDA/ton and lower demand from global oil & gas industry pose downside risk to our estimates.

1QFY09—EBITDA margins rise 400 bps qoq; revenues decline due to lower volumes

MHS reported strong operating performance with EBITDA margin of 23.6% (up 400 bps qoq) led by improvement in ERW margins. Revenues at Rs3.5 bn were down 8.5% qoq and flat yoy due to lower volumes. Seamless pipe dispatches were at 52,057 ton (down 15% qoq and 9% yoy) and ERW pipe volumes were at 20,838 tons (down 18% qoq and 8% yoy). Lower volumes were on account of—(1) postponement of dispatches due to the temporary imposition of export duty on pipes and tubes and (2) loss of seven production and dispatch days due to monsoon. Net income for the quarter was at Rs603 mn (up 11.6% qoq and 3.8% yoy) led by higher realizations and better margins. Noticeable improvement was on a qoq basis in the seamless and ERW EBITDA/ton to Rs13,445 and Rs5,687 from Rs11,501 and Rs1,721 in 4QFY08, respectively. EBITDA margin improvement was mainly on account of large raw material inventory built up in 4QFY08 at lower prices and ability to increase realizations in the current quarter.

Confusing volume details—seamless gross margin per ton less than EBITDA/ ton!

We highlight that the volume and EBITDA numbers for 1QFY09 do not reconcile—for the seamless segment the gross margins (realization less material cost) is actually lower than the EBITDA per ton. Exhibit 2 shows are calculation to arrive at the conversion cost/ton for seamless and ERW pipes. In 1QFY09 the conversion cost/ton for seamless pipes is negative Rs2,850/ton versus Rs8,029/ton and Rs4,924/ton in FY2007 and FY2008, respectively. Similarly in case of ERW pipes, the conversion cost/ton in 1QFY09 is very low at Rs880/ton versus Rs612/ton and Rs2,110/ton in FY2007 and FY2008, respectively. We continue to seek clarification/explanation from the management on this issue.

Order book and inventory holding indicate improvement in EBITDA in near-term

MHS has a strong order book of Rs5.5 bn at high realizations and it also has concurrently booked raw material inventory of around Rs3.6 bn at lower-than-current prices. We believe current order book provides visibility of higher realizations (approximately Rs65,000/ton for seamless and Rs46,000/ton for ERW) in the near-term whereas, inventory build up indicates improvement in EBITDA/ton due to higher spread in material costs and gross realizations. Management guides for near-term EBITDA of around Rs3,000/ton for the ERW pipes and Rs13,500-Rs14,000/ton for the seamless pipes. Exhibit 3 gives a break up of the current order book and the raw material inventory.

Revise valuation methodology to 5.5X FY2010E EBITDA from DCF-based; upgrade to BUY with TP of Rs390

We revise our valuation methodology to relative valuation using a 5.5X FY2010E EV/ EBITDA multiple from a DCF-based valuation. We revise our target price to Rs390 (from Rs585 earlier) and upgrade to BUY (from ADD earlier) as the recent correction in stock price provides substantial upside opportunity. We believe near-term factors—(1) volatile steel prices and (2) capacity expansion plans of MHS will impact earnings over the next 1-2 years hence a relative valuation to global peers is more suited. We value MHS at 5.5X two-year forward EV/EBITDA multiple similar to Vallourec which is currently trading at 5.8X CY09E EV/EBITDA. Inability to maintain current EBITDA/ton and lower demand from global oil & gas industry pose downside risk to our estimates.

Exhibit 1: Maharashtra Seamless, Interim results, March fiscal year-ends (Rs mn)

	1Q 2009	4Q 2008	1Q 2008	% change qoq	% change yoy	Comments
Quantitative data (tons)						
Seamless tube despatch	52,057	61,149	56,935	(14.9)	(8.6)	Volumes lower due to delay in despatch due to temporary imposition of export duty and monsoons
ERW tube despatch	20,838	25,512	22,706	(18.3)	(8.2)	
Operating matrix (Rs/ton)						
Seamless net realizations	47,625	46,171	46,828	3.1	1.7	Seamless realization improve following change in mix; Chinese competiton stays
ERW net realizations	42,101	35,297	33,225	19.3	26.7	
Billet costs	31,423	28,589	23,264	9.9	35.1	Sharp increase in global steel prices
Coil costs	34,713	30,710	29,278	13.0	18.6	Sharp increase in global steel prices
Quarterly results						
Net revenues	**3,517**	**3,843**	**3,519**	(8.5)	(0.1)	Revenues flat as volumes are lower; however realisation improved
Expenditure	**(2,687)**	**(3,092)**	**(2,699)**			
Stock adjustment	636	461	107	37.9	496.9	Yoy rawmat increase impact margins; Chinese competition limits availability to pass on higher costs
Raw materials	(2,691)	(2,913)	(2,252)	(7.6)	19.5	
Employee cost	(50)	(85)	(44)			
Other costs	(582)	(556)	(511)			
EBITDA	**830**	**751**	**820**	10.5	1.2	EBITDA largely flat on yoy basis; qoq EBITDA higher for better margins in ERW
Other income	122	119	109			
Depreciation	(45)	(44)	(44)			
EBIT	**907**	**825**	**885**			
Interest	(12)	(13)	(7)			
PBT	**896**	**812**	**878**	10.3	2.1	
Taxes	(293)	(271)	(297)			
PAT	**603**	**541**	**581**	11.6	3.8	qoq PAT growth due to better margins in ERW
Ratios						
Costs as % of revenue (%)	76.4	80.5	76.7			
EBITDA margin (%)	23.6	19.5	23.3			
ETR (%)	32.7	33.4	33.8			
EPS (Rs/share)	8.5	7.7	8.2			

Source:, Company, Kotak Institutional Equities.

Exhibit 2: 1QFY09 EBITDA margins do not reconcile to the operating numbers

Calculation of per ton other expense and EBITDA margins, March fiscal year-ends

Seamless		FY2007	1QFY08	2QFY08	3QFY08	4QFY08	FY2008	1QFY09
A)	Production (ton)	228,616	57,549	62,163	56,790	67,788	237,955	51,226
B)	Sales (ton)	230,972	56,935	61,272	58,599	61,149	244,300	52,057
C)	Billets consumed (ton)	246,288	66,312	61,907	64,315	71,378	263,912	60,294
D)	Input/Output (X)	1.08	1.15	1.00	1.13	1.05	1.11	1.18
E)	**Net revenues (Rs mn)**	**10,725**	**2,663**	**2,815**	**2,715**	**2,823**	**11,016**	**2,479**
F)	**EBITDA (Rs mn)**	**3,090**	**783**	**740**	**668**	**703**	**2,895**	**700**
G)	Billets consumed (Rs mn)	5,721	1,543	1,478	1,678	2,041	6,739	1,895
Per ton costing (Rs/ton)								
H=E/B)	Avg. realisation	46,434	46,778	45,938	46,328	46,171	45,093	47,625
I=G/C*D)	Material cost	25,026	26,807	23,775	29,544	30,103	28,320	36,985
J=H-I)	Gross margin	21,408	19,971	22,163	16,785	16,068	16,772	10,640
Bal. fig	**Other expense**	**8,029**	**6,220**	**10,083**	**5,383**	**4,567**	**4,924**	**(2,805)**
K=F/B)	EBITDA	13,379	13,751	12,081	11,401	11,501	11,848	13,445
	EBITDA margin (%)	28.8	29.4	26.3	24.6	24.9	26.3	28.2

ERW		FY2007	1QFY08	2QFY08	3QFY08	4QFY08	FY2008	1QFY09
A)	Production (ton)	85,533	23,488	27,096	28,375	28,635	107,594	22,415
B)	Sales (ton)	87,389	22,706	28,058	28,681	25,512	104,957	20,838
C)	HR Coil consumed (ton)	90,614	24,209	27,728	29,880	28,395	110,212	22,945
D)	Input/Output (X)	1.06	1.03	1.02	1.05	0.99	1.02	1.02
E)	**Net revenues (Rs mn)**	**2,866**	**754**	**919**	**927**	**901**	**3,500**	**877**
F)	**EBITDA (Rs mn)**	**289**	**30**	**71**	**12**	**44**	**157**	**119**
G)	HR Coil consumed (Rs mn)	2,470	709	750	870	872	3,201	797
Per ton costing (Rs/ton)								
H=E/B)	Avg. realisation	32,792	33,225	32,750	32,304	35,297	33,350	42,101
I=G/C*D)	Material cost	28,875	30,177	27,676	30,657	30,452	29,747	35,534
J=H-I)	Gross margin	3,917	3,048	5,074	1,646	4,845	3,603	6,567
Bal. fig	**Other expense**	**612**	**1,748**	**2,540**	**1,221**	**3,124**	**2,110**	**880**
K=F/B)	EBITDA	3,305	1,299	2,534	425	1,721	1,493	5,687
	EBITDA margin (%)	10.1	3.9	7.7	1.3	4.9	4.5	13.5

Source: Company, Kotak Institutional Equities.

Exhibit 3: Order book and raw material inventory break up

Order book			
	Rs mn	**tons**	**Avg. realisation (Rs/ton)**
Seamless	3,900	60,000	65,000
ERW	1,600	35,000	45,714
Total	**5,500**		

Raw material inventory			
	Rs mn	**tons**	**Avg. cost (Rs/ton)**
Billets	2,880	72,000	40,000
HR Coil	720	20,000	36,000
Total	**3,600**		

Source: Company, Kotak Institutional Equities.

Exhibit 4: We value Maharashtra Seamless at Rs390/share.

FY2010E EBITDA	**4,727**
EV/EBITDA (X)	5.5
EV	**26,000**
Net debt	(1,259)
Equity value	**27,259**
No. of shares (mn)	71
Value per share (Rs)	386
Target price (Rs/share)	**390**

Source: Kotak Institutional Equities estimates.

Exhibit 5: Comparative valuation of seamless tubes companies

	31-Jul-08			Mkt Cap.	EV/EBITDA (X)			PER (X)			CAGR (2 yr) (%)			RoE
Company	Price (local)	Currency	Year-end	(US$ mn)	LFY	FY1	FY2	LFY	FY1	FY2	EPS	Revenue	EBITDA	(%)
Tenaris	19.6	EUR	Dec	14,824	11.3	10.1	9.6	19.1	15.7	14.2	16.1	9.5	8.6	28.7
Vallourec	192.2	EUR	Dec	6,532	5.7	6.5	5.8	10.2	11.5	10.1	0.4	4.8	(0.4)	30.5
Maharashtra Seamless	288.6	INR	Mar	478	5.4	4.8	4.0	9.2	7.7	6.4	19.4	30.8	23.7	20.8

Source: Bloomberg, Kotak Institutional Equities estimates for Maharashtra Seamless.

Exhibit 6: Operating assumptions for Maharashtra Seamless, March fiscal year-ends, 2008-2011E

	2008	2009E	2010E	2011E
Capacity (tons)				
Seamless	350,000	350,000	400,000	750,000
ERW	200,000	200,000	200,000	200,000
Despatch (tons)				
Seamless	237,955	258,057	320,000	397,500
ERW	104,957	113,838	135,000	140,000
Average realisation (Rs/ton)				
Seamless	50,209	68,701	65,610	64,954
ERW	37,942	51,563	50,790	50,282
Raw materials (tons)				
Billets	263,912	284,694	356,947	443,395
HR Coil	110,212	120,595	141,059	146,283
Raw material cost (Rs/ton)				
Billets	25,535	40,079	37,273	36,900
HR Coil	29,044	36,632	36,083	35,722

Source: Company, Kotak Institutional Equities estimates.

Exhibit 7: Profit model, balance sheet, cash model for Maharashtra Seamless 2006-2011E, March fiscal year-ends (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Profit model							
Net revenues	7,694	9,662	13,900	14,943	21,932	25,567	30,073
EBITDA	**1,286**	**2,082**	**3,416**	**3,090**	**3,849**	**4,727**	**5,529**
Other income	120	182	314	401	326	222	267
Interest (expense)/income	(38)	(48)	(35)	(32)	(29)	(29)	(29)
Depreciation	(105)	(146)	(163)	(177)	(194)	(211)	(303)
Adjusted pretax profits	**1,263**	**2,070**	**3,532**	**3,283**	**3,953**	**4,710**	**5,464**
Tax	(328)	(627)	(1,166)	(1,058)	(1,265)	(1,413)	(1,421)
Deferred taxation	(86)	(46)	(23)	(10)	(40)	(141)	(382)
Adjusted consolidated net income	**849**	**1,398**	**2,344**	**2,215**	**2,648**	**3,155**	**3,661**
Diluted Earnings per share (Rs)	**14.8**	**24.1**	**38.3**	**31.4**	**37.5**	**44.7**	**51.9**
Balance sheet							
Total equity	3,128	4,139	9,241	11,137	13,388	16,070	19,182
Deferred taxation liability	342	388	411	421	460	601	984
Total borrowings	1,106	4,930	1,082	1,082	1,082	1,082	1,082
Current liabilities	821	1,211	797	965	1,486	1,697	1,960
Total liabilities and equity	**5,397**	**10,668**	**11,531**	**13,605**	**16,417**	**19,451**	**23,208**
Cash	43	3,192	3,232	4,374	2,585	1,936	3,968
Other current assets	2,462	4,464	4,903	5,512	8,806	10,200	11,929
Total fixed assets	2,699	2,807	2,858	3,181	4,487	6,776	6,772
Investments	193	205	538	539	539	539	539
Total assets	**5,397**	**10,668**	**11,531**	**13,605**	**16,417**	**19,451**	**23,208**
Free cash flow							
Operating cash flow, excl working capital	998	1,403	2,374	2,000	2,556	3,286	4,080
Working capital changes	(165)	(1,583)	(859)	(441)	(2,773)	(1,183)	(1,466)
Capital expenditure	(607)	(254)	(213)	(500)	(1,500)	(2,500)	(300)
Investments	71	4	(325)	0	-	-	-
Other income	22	54	249	401	326	222	267
Free cash flow	**319**	**(375)**	**1,226**	**1,461**	**(1,391)**	**(175)**	**2,581**
Ratios (%)							
Debt/equity	35.3	119.1	11.7	9.7	8.1	6.7	5.6
Net debt/equity	34.0	42.0	(23.3)	(29.6)	(11.2)	(5.3)	(15.0)
RoAE	27.6	34.8	33.0	20.9	20.8	20.7	19.9
RoACE	**20.5**	**20.3**	**23.4**	**19.1**	**19.4**	**19.4**	**18.9**

Source: Company, Kotak Institutional Equities estimates.

Retail

REXP.BO, Rs51	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	120
52W High -Low (Rs)	170 - 47
Market Cap (Rs bn)	14.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	86.7	95.7	94.5
Net Profit (Rs bn)	2.1	1.6	2.0
EPS (Rs)	8.2	5.9	6.9
EPS gth	*82.8*	*(29.1)*	*17.1*
P/E (x)	6.1	8.6	7.3
EV/EBITDA (x)	2.4	1.4	0.7
Div yield (%)	0.6	0.8	0.9

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	54.4	-	-
FIIs	17.0	0.0	0.0
MFs	6.0	0.1	0.1
UTI	-	-	-
LIC	1.8	0.0	0.0

Rajesh Exports: Disappointment and earnings downgrade continue; cash forces BUY and target price of Rs120

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- **1QFY09 EBITDA margins at 2%, PAT declines 18% yoy**
- **Bulk margin fall to about 1.4% due to increasing credit spreads and higher hedging premiums**
- **Reduce revenue and EBITDA estimates; cut FY2009E and FY2010E EPS estimates by 41% and 35% to Rs5.5 and Rs6.9, respectively**
- **Change valuation methodology to EV/EBITDA from DCF for the retailing business; reduce TP to Rs120 (from Rs170 earlier) and maintain BUY**

Rajesh Exports once again reported a disappointing set of numbers with EBITDA margins dropping to one of the lowest in last seven quarters at 2%; as a result, PAT declined by 18% yoy to Rs344 mn. We believe the bulk segment took a hit in margins as credit costs for gold purchase rose and hedging premiums for payables increased. We expect these business pressures to impact margins and earnings for another two quarters to the minimum. Other businesses continue to face business pressures too but due to relatively smaller sizes did not have any meaningful impact on the margins or earnings. Given the near-term business pressures we reduce our EBITDA margin estimates significantly for FY2009E and FY2010E to 2.9% and 3.2% from 4.4% and 4.7%, respectively. Significant reduction in estimates is on account of weaker bulk business fundamentals. Though the long-term potential of the various businesses remains promising on account of large and low-cost manufacturing base, the near-term performance will be marred by factors such as'(a) volatile gold prices (b) volatile exchange rates and (c) rising credit spreads. We change our valuation methodology to EBITDA based multiple from DCF-based for the retailing business; reduce target price to Rs120 from Rs170 earlier. Though near-term uncertainties and disappointing performance will impact stock price, we believe large cash on the books will support the stock price at current levels; cash forms 36% of our current target price. We maintain our BUY rating on the stock.

1QFY09—dismal performance, bulk business margins drop

Rajesh reported dismal performance for 1QFY09 with EBITDA margin dropping to 2% from 4.8% in 1QFY08 and 3.3% in 4QFY08. Though revenues came in line with expectations, EBITDA margins dropped as margins dropped in the bulk business. Given the lack of details we estimate that the margins in bulk dropped to 1.4% from 4.4% last year. Though bulk is a low margin business, the size of revenues of this business support the overall EBITDA and earnings of the company. We believe margins dropped in bulk business mainly on account of increasing hedging costs for the payables and sourcing cost of gold. The company hedges its dollar payables while it holds the money in rupee denominated fixed deposits. Sourcing cost of gold includes spreads over the Libor for the credit period; we believe such spreads increased for the company. Moreover, we believe other businesses also had a lackluster quarter with global consumption slowdown impacting private label exports. Domestic retail business including sales of coins and outsourcing for ORRA continued to post marginal margins. Net earnings during the quarter fell 18.3% yoy to Rs344 mn.

Weak performance over the next 9-12 months

Increasing credit spreads, volatile forex markets and volatile gold prices will continue to impact near-term prospects and earnings of the company. We expect rising gold sourcing cost and volatile exchange rates to be the key reasons impacting bulk business and keeping margins under pressure. Though exports of private label and diamonds may also take a hit, their impact will not be significant. Retail store roll-outs continue to be slow as written in the last note.

Cut EBITDA and earnings estimates by 35% and 40% for FY2009E

Given the near-term concerns and expected reduction in EBITDA margins in bulk we reduce our EBITDA and earnings estimates by 35% and 40% for FY2009E. We further reduce EBITDA and net earnings by 35% each for FY2010E. We cut bulk exports business FY2009E and FY2010E EBITDA margins to 2.1% each from 3.1% and 3%, respectively. We cut overall margins for FY2009E to 2.9% from 4.4% and FY2010E EBITDA margins to 3.2% from 4.7%. We also reduce our diamond exports and private label business margins as company reduces its credit period for these sales and offers cash discounts.

Cut TP to Rs120 from Rs170; Rs43 of cash keeps the stock still a BUY

We revise our valuations methodology and use DCF for the exports business but use an EBITDA multiple for the retail business. We do not value the real estate holdings anymore given the lack of any plans for the same. We use a EV/EBITDA multiple for jewelry retailing business as growth in the near-term will be slow as the management awaits more stable gold prices before investing larger sums of money in this business. We use 6X FY2010E EBITDA multiple (half of Titan's) to value the retail business. We value retailing business at Rs1.8 bn EV accounting for Rs6/share of value. Our SOTP-based valuation for the stock is Rs120, wherein cash accounts of Rs43 (36% of the total value). Near-term concerns will continue to impact valuations but large cash holding supports our BUY recommendation.

Exhibit 1: Forecasts and valuation (consolidated)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	54,459	1,119	665	3.1	28.3	17.0	9.2
2007	68,930	2,142	1,013	4.6	32.9	11.5	5.0
2008	86,670	3,817	2,066	7.1	26.8	7.4	2.6
2009E	95,716	2,819	1,600	5.5	12.3	9.6	1.6
2010E	94,481	2,984	2,004	6.9	13.5	7.6	0.9

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Rajesh Exports, Interim results, March fiscal year-ends, (Rs mn)

		qoq	
	1QFY09	1QFY08	(% chg)
Net sales	**23,322**	**20,302**	**14.9**
Total expenditure	**(22,851)**	**(19,335)**	**18.2**
Inc/(Dec) in stock	32	80	(59.7)
Raw materials	(22,191)	(18,677)	18.8
Staff cost	(20)	(18)	7.4
Other expenditure	(673)	(720)	(6.6)
EBITDA	**471**	**967**	**(51.4)**
OPM (%)	**2.0**	**4.8**	
Other income	—	—	—
Interest	(121)	(542)	(77.6)
Depreciation	(5)	(4)	32.1
Pretax profits	**344**	**421**	**(18.3)**
EBIT%	**2.0**	**4.7**	
Tax	—	—	
Net income	**344**	**421**	**(18.3)**
Expenses as % to sales			**chg (bps)**
Material cost	95.0	91.6	342
Staff cost	0.1	0.1	(1)
other expenses	2.9	3.5	(66)

Source: Company data, Kotak Institutional Equities.

Exhibit 3: Rajesh Exports, change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Revenue	95,716	94,481	92,614	98,544	98,394	96,834	(2.9)	(4.0)	(4.4)
EBITDA	2,819	2,984	3,199	4,331	4,641	4,852	(34.9)	(35.7)	(34.1)
EBITDA margin (%)	2.9	3.2	3.5	4.4	4.7	5.0	—	—	—
Tax expense	206	282	581	318	400	1,329	(35.1)	(29.4)	(56.3)
Adjusted net profit	1,600	2,004	1,980	2,699	3,102	2,580	(40.7)	(35.4)	(23.3)
Diluted EPS (Rs)	5.5	6.9	6.8	9.3	10.7	8.9	(40.7)	(35.4)	(23.3)

Source: Kotak Institutional Equities estimates.

Exhibit 4: Our SOTP-based valuation for Rajesh is Rs120

				Per share		
	Method	EV/EBITDA (X)	EV (Rs mn)	Current (Rs)	Previous (Rs)	Comments
Export	DCF		19,988	69	88	Using WACC of 13.5% and growth rate of 1%
Retail	EV/EBITDA	6.0	1,801	6	29	Rs300 mn EBITDA in FY2010E
Real estate	-	-	-	-	9	We exclude this from our valuation as no progress is being made
Total			**21,789**	**75**	**126**	
Net debt/(cash)			(12,559)	(43)	(41)	
Equity value			**34,348**	**118**	**167**	

Source: Kotak Institutional Equities estimates.

Exhibit 5: Financial assumptions for Rajesh , March fiscal year-ends, 2009-11E

	2009E	2010E	2011E
Volumes sold			
Bulk exports (kg)	64,831	59,644	54,574
Revenues (Rs mn)	**95,716**	**94,481**	**92,614**
Shubh (a)	823	2,466	5,023
Laabh (b)	1,139	1,480	1,997
Moothoot (c)	865	986	1,078
Diamond-outsourcing (d)	275	303	318
Total retailing (a)+(b) +(c)+(d)	3,102	5,235	8,415
White label jewelry	4,402	4,796	5,439
Diamond jewelry	1,914	2,247	2,635
Bulk exports	86,299	82,203	76,125
EBITDA (Rs mn)	**2,819**	**2,984**	**3,199**
Shubh (a)	33	111	239
Laabh (b)	68	104	160
Moothoot (c)	39	49	54
Diamond-outsourcing (d)	33	36	38
Total retailing (a)+(b) +(c)+(d)	173	300	490
White label jewelry	528	623	761
Diamond jewelry	297	375	447
Bulk exports	1,820	1,685	1,501
EBITDA margins (%)	**2.9**	**3.2**	**3.5**
Shubh (a)	4.0	4.5	4.8
Laabh (b)	6.0	7.0	8.0
Moothoot (c)	4.5	5.0	5.0
Diamond-outsourcing (d)	12.0	12.0	12.0
Total retailing (a)+(b)	5.6	5.7	5.8
White label jewelry	12.0	13.0	14.0
Diamond jewelry	15.5	16.7	16.9
Bulk exports	2.1	2.1	2.0
Retailing assumptions			
Stores (numbers)			
Shubh	25	50	75
Laabh	30	30	40
Average sales/store per month (Rs mn)			
Shubh	4.4	5.5	6.7
Laabh	3.2	4.1	4.8

Source: Kotak Institutional Equities estimates.

Exhibit 6: Profit model, balance sheet, cash model for Rajesh Exports, 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E
Profit model						
Total income	54,459	68,930	86,670	95,716	94,481	92,575
EBITDA	**1,119**	**2,142**	**3,817**	**2,819**	**2,828**	**3,160**
Interest (expense)/income	(417)	(1,086)	(1,480)	(994)	(678)	(608)
Depreciation	(14)	(15)	(16)	(18)	(20)	(21)
Other income	13	—	1	—	—	—
Pretax profits	**702**	**1,042**	**2,321**	**1,807**	**2,131**	**2,532**
Tax	(36)	(30)	(256)	(206)	(270)	(575)
Deferred taxation	—	—	—	—	—	—
Adjusted net income	**665**	**1,013**	**2,066**	**1,600**	**1,861**	**1,957**
Diluted earnings per share (Rs)	**3.1**	**4.6**	**7.1**	**5.5**	**6.4**	**6.7**
Balance sheet						
Total equity	2,363	3,091	7,727	13,030	14,735	16,522
Total borrowings	13,443	33,234	28,260	16,360	15,313	13,574
Current liabilities	24,924	33,429	33,233	36,676	39,190	37,048
Total liabilities and equity	**40,729**	**69,754**	**69,221**	**66,066**	**69,238**	**67,143**
Cash	34,104	57,647	55,906	50,247	53,352	51,131
Other current assets	6,069	11,499	12,648	15,100	15,142	15,249
Deferred taxation asset	8	8	8	8	8	8
Total fixed assets	500	537	596	647	673	692
Investments	49	63	63	63	63	63
Total assets	**40,729**	**69,754**	**69,221**	**66,066**	**69,238**	**67,144**
Free cash flow						
Operating cash flow, excl. working capital	(971)	(2,373)	2,081	1,618	1,881	1,978
Working capital changes	1,226	3,531	(1,374)	951	2,458	(2,264)
Capital expenditure	(31)	(52)	(75)	(70)	(45)	(40)
Investments	7	(14)	—	—	—	—
Other income	1,462	2,945	1	—	—	—
Free cash flow	**224**	**1,106**	**633**	**2,500**	**4,294**	**(326)**
Ratios (%)						
Debt/equity	570.9	1,078.2	366.1	125.6	104.0	82.2
Net debt/equity	(41.9)	(29.4)	(71.1)	(82.4)	(84.3)	(85.9)
RoAE	28.3	32.9	26.8	12.3	12.6	11.8
RoACE	**8.9**	**7.9**	**9.4**	**7.6**	**8.3**	**8.1**

Source: Company data, Kotak Institutional Equities estimates.

Beverages

RADC.BO, Rs77	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	91
52W High -Low (Rs)	220 - 71
Market Cap (Rs bn)	9.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	8.3	7.3	8.4
Net Profit (Rs bn)	0.5	0.4	0.5
EPS (Rs)	3.4	3.2	3.8
EPS gth	*8.4*	*(7.0)*	*21.5*
P/E (x)	22.6	24.3	20.0
EV/EBITDA (x)	10.5	10.5	9.6
Div yield (%)	0.6	0.6	0.6

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.6	-	-
FIIs	9.6	0.0	0.0
MFs	16.2	0.1	0.1
UTI	-	-	-
LIC	-	-	-

Radico Khaitan: Lower sales impact profits, better visibility on pricing

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- **Adjusted 1QFY09 total revenue 6% lower than estimates, EBITDA 11% lower than estimates**
- **EBITDA margins at 13.2% versus our expectation of 7.8% due to lower marketing spends**
- **IMFL volume growth of 8% yoy, price increase of 3%; Magic Moments grew 57%, 8PM sales decline 4% yoy**
- **Maintain REDUCE rating and target price of Rs91**

Radico Khaitan (RDCK) 1QFY09 results were mixed. Total revenue grew 5% yoy to Rs1.68 bn. Adjusting for UP 'double counted' sales (which we had estimated at Rs600 mn) net revenue growth was 6% lower than estimates. IMFL volume growth was 8% yoy at 3.2 mn cases, with Magic Moments growing 57% and 8PM sales declining 4% yoy. EBITDA (including other income) at Rs234 mn (18% yoy decline) was 11% lower than expectation of Rs263 mn (9% yoy decline) due to forex loss of Rs30 mn and one-time operating loss of Rs25 mn. EBITDA margins were 13.2% versus our estimate of 7.8%, led by 23% lower than expected marketing spend which came in at Rs304 mn versus our estimate of Rs400 mn. Net profit declined 44% yoy to Rs68 mn versus our expectation of Rs51 mn. We maintain our IMFL volume assumptions of 12% and price increase of 6% as 8PM is expected to grow due to its recent repositioning while price hikes in critical segments provide visibility. We maintain our REDUCE rating and target price of Rs91.

Adjusted 1QFY09 revenues 6% lower than expectation

Total revenue (including royalty income) grew 5% yoy to Rs1.67 bn against our expectation of Rs2.4 bn. However, we highlight that our estimates included Rs600 mn of 'double-counted' UP sales, which the company has indicated that it is no longer required to book, due to changes in UP government procurement policy. Adjusting for this amount, total revenue growth was around 6% lower than our estimates. Net sales, including CBU sales, grew 5.4% yoy to Rs2.24 bn.

Volume growth in IMFL came in at 8% yoy which is lower than our annual estimate of 12% volume growth in FY2009E. While Magic Moments continues its strong growth (57% yoy growth), 8PM has reversed its declining sales trend (yoy sales declined 4% yoy against a 20% decline in FY2008). Post the recent repositioning of 8PM brand, RDCK expects 8 PM sales to grow 5-7% only during FY2009E, which we view as marginally negative given that the brand has now been repositioned against the Country Liquor (CL) segment where volumes should typically be higher. CL sales have been flat.

Average IMFL pricing has increased 3% yoy despite downtrading due to 8PM repositioning. RDCK has got 5-6% price increase in four states, viz. Punjab, Haryana, Uttaranchal and Madhya Pradesh, with effect from first week of May. These states constitute around 17-18% of total IMFL sales for company. More importantly, RDCK has managed a 15% price increase in defence supplies (CSD) with effect from June 15, 2008. Annual CSD sales are around 2.5 mn cases (around 20% of FY2008 sales) and hence this is a significantly positive development for the company.

EBITDA margins at 13.2% versus KIE expectation of 7.8%, impacted by higher input prices offset and lower marketing spend

RDCK's EBITDA (including other income) was Rs234 mn (18% yoy decline), 11% lower than our estimate of Rs263 mn. EBITDA margins (including other income adjusted for UP double counted sales) came in at 14% versus our expectation of 14.8%.

Excluding other income, EBITDA declined 23% to Rs220 mn. Adjusting for UP ‘double counted’ sales, EBITDA margins was 540 bps higher than estimates, primarily led by 23% lower marketing spend, which came in at Rs304 mn versus our estimate of Rs400 mn. We believe this to be a temporary seasonal issue and expect selling expenses to normalize to over the course of the year.

COGS increased 170 bps to 45% as RDCK got impacted by higher molasses prices. We note that RDCK’s average cost increase on account of molasses prices is only around 20% yoy (against average molasses price increase of 35-40%), as RDCK took advantage of cheaper inventory during the quarter. However, average holding period of molasses is typically around four-five months and hence RDCK should see some negative impact on COGS due to higher molasses prices from subsequent quarters.

Maintain estimates, target price of Rs91 and REDUCE rating

We maintain our estimate of 12% volume growth for RDCK, under the assumption that 8PM sales will rebound this year, due to its recent repositioning and MM will continue to show incrementally strong growth. CL sales growth is marginally disappointing but we would prefer to wait for more clarity before taking a definite call on growth in these segments. We hence continue with our assumptions of 14% and 8% value growth in spirits and CL, respectively, for FY2009E.

We also maintain our estimate of pricing growth of around 6% for the year in IMFL. While the pricing increase in CSD of 15% is unanticipated and hence could provide some upsides, we believe the recent repositioning of brands like 8PM will have a negative impact on average realizations, thereby exerting downward pressure on pricing.

We maintain our target price of Rs91, based on 12X FY2009 EV/EBITDA and maintain our REDUCE rating. Key upside risk is potential launches from JV and higher IMFL sales, while further downsides could come from lower margins due to higher molasses prices.

Radico Khaitan Ltd interim results, March fiscal year-ends (Rs mn)

	yoy			qoq		
	1Q2009	**1Q2008**	**% chg.**	**1Q2009**	**4Q2008**	**% chg.**
Gross Sales	2796	2578	8	2796	2892	(3)
Less: Excise Duty	(1321)	(1182)	12	(1321)	(843)	57
Net sales	1475	1395	6	1475	2049	(28)
Royalty of CBUs	197	197	(0)	197	193	2
Expenditure						
COGS	(752)	(688)	9	(752)	(1231)	(39)
Staff costs	(129)	(113)	13	(129)	(140)	(8)
Advertising & sales promotion	(304)	(282)	8	(304)	(333)	(9)
Other expenditure	(267)	(221)	21	(267)	(355)	(25)
Total	(1452)	(1305)	11	(1452)	(2060)	(30)
EBITDA	**220**	**287**	**(23)**	**220**	**182**	**21**
EBITDA Margin (% to sales)	13.2	18.0		13.2	8.1	
Interest (net)	(93)	(88)	5	(93)	(72)	28
Depreciation	(55)	(43)	29	(55)	(57)	(3)
Other income	14	1	1209	14	(82)	(117)
Profit before tax	87	158	(45)	87	(29)	(397)
Extraordinaries						
Total tax	(19)	(37)	(49)	(19)	31	(162)
PAT	**68**	**121**	**(44)**	**68**	**2**	**4,205**
Net profit	68	121	(44)	68	2	4,205
Tax/PBT (%)	22	23		22	105	
(% to net sales+royalty)	**1Q2009**	**1Q2008**		**1Q2009**	**4Q2008**	
Excise (% to gross sales)	47.2	45.9		47.2	29.1	
COGS	44.9	43.2		44.9	54.9	
Staff costs	7.7	7.1		7.7	6.2	
SG&A	18.2	17.7		18.2	14.9	
Other expenditure	16.0	13.9		16.0	15.9	

Note: 4QFY2008 figures include Rs550 mn double-counted UP sales and hence qoq results are strictly not comparable.

Source: Company, Kotak Instituitonal Equities estimates

Our target price is based on 12X FY2009 EV/EBITDA

	FY2009E EBITDA	Multiple	
EBITDA (Rs mn)	1,124	12	13,490
Less Net Debt (Rs mn)			2,753
Equity value (Rs mn)			10,737
Per share price (Rs)			**91**

Source: Kotak Instituitonal Equities estimates

Contribution of leading brands to total sales, March fiscal year-ends (mn cases)

	2006	2007	2008	1Q09	% yoy growth in 1QFY09
8PM Whisky	4.1	4.4	3.5	0.9	(4)
Contessa Rum	2.3	2.1	2.4	0.6	24
Old Admiral Brandy	1.3	1.5	1.5	0.4	34
Total millionaire brand sales	**7.7**	**8.0**	**7.3**	**1.9**	**11**
% to total sales	**64**	**59**	**54**	**59**	

Source: Company, Kotak Instituitonal Equities estimates

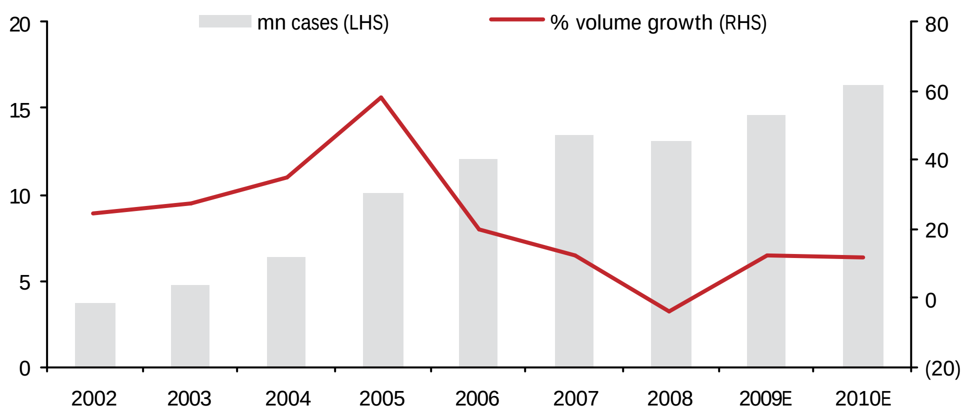
Key estimates, March fiscal year-ends, (Rs mn)

			% change	
	2009E	2010E	2009E	2010E
Sales	12,159	13,837	14.0	13.8
EBITDA	1,124	1,247	1.1	10.9
EBITDA margin (%)	9.2	9.0		
PAT	422	502	(6.2)	19.0
EPS (diluted)	3.6	4.3	(5.6)	19.0

Source: Kotak Instituitonal Equities estimates

RDCK's IMFL sales have declined after a sharp run in the past five years

Volume growth in IMFL, March fiscal year-ends, 2002-10E



Source: Kotak Instituitonal Equities estimates

We expect sales to grow at 11% CAGR over FY2007-10E

Sales breakup, March fiscal year-ends, (Rs mn)

	2007	2008E	2009E	2010E	% CAGR
Total alcohol	8,337	9,489	10,365	11,827	**12.4**
- Sale of spirits	1,319	2,197	2,505	2,755	**27.8**
- IMFL	4,488	4,362	5,147	6,124	**10.9**
-Country Liqour	2,502	2,420	2,613	2,822	**4.1**
Sale under tieup	851	812	959	1,122	**9.7**
Total gross sales	10,024	10,664	12,159	13,837	**11.3**
yoy growth (%)	20.9	6.4	14.0	13.8	
Excise	3,887	4,139	4,816	5,467	
% to gross sales (ex Royalty)	42.4	42.0	43.0	43.0	
Net sales	6,137	6,525	7,343	8,370	**10.9**
yoy growth (%)	24.1	6.3	12.5	14.0	

Source: Company, Kotak Instituitonal Equities estimates

Radico Khaitan Ltd: Profit model, balance sheet, cash model, March fiscal year-ends, 2004-10E, (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)							
Total income (inc. other op. income)	**3,148**	**4,605**	**4,975**	**6,270**	**6,666**	**7,493**	**8,520**
EBITDA	**463**	**628**	**850**	**1,018**	**1,112**	**1,124**	**1,247**
EBITDA margin (%)	*14.7*	*13.6*	*17.1*	*16.2*	*16.7*	*15.0*	*14.6*
Depreciation	(51)	(85)	(113)	(155)	(190)	(196)	(214)
Other Income (inc. extraordinaries)	(74)	(63)	(49)	(78)	—	—	—
EBIT	**338**	**480**	**688**	**785**	**922**	**928**	**1,033**
Net finance cost	(93)	(158)	(216)	(295)	(372)	(376)	(376)
Profit before tax	**245**	**322**	**473**	**490**	**550**	**552**	**656**
Tax	**(63)**	**(27)**	**(72)**	**(115)**	**(61)**	**(129)**	**(154)**
Adjusted net profit	**183**	**296**	**401**	**375**	**489**	**422**	**502**
Diluted EPS (Rs)	**1.9**	**3.1**	**4.2**	**3.0**	**3.8**	**3.6**	**4.3**
Balance Sheet (Rs mn)							
Total Equity	871	1,083	1,428	4,619	5,019	5,391	5,843
Deferred tax liability	169	205	219	264	315	366	427
Total borrowings	1,356	2,147	3,420	4,142	4,142	4,142	4,142
Current liabilites & provisions	528	627	630	1,050	1,400	1,132	1,283
Total Liabilities and equity	**2,924**	**4,062**	**5,697**	**10,075**	**10,877**	**11,031**	**11,695**
Cash	24	68	43	2,101	1,496	1,389	1,277
Current assets excl. cash	1,665	2,236	2,989	4,584	5,680	5,638	6,328
Total net fixed assets	1,009	1,680	2,612	3,288	3,598	3,902	3,988
Investments	86	0	24	102	102	102	102
Misc Expenditure	141	78	28	—	—	—	—
Total assets	**2,924**	**4,062**	**5,697**	**10,075**	**10,877**	**11,031**	**11,695**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	233	382	543	596	730	669	777
Working capital	(399)	(472)	(750)	(1,175)	(746)	(226)	(539)
Capital expenditure	(233)	(746)	(1,004)	(830)	(500)	(500)	(300)
Free cash flow	**(398)**	**(837)**	**(1,212)**	**(1,409)**	**(515)**	**(57)**	**(62)**

Source: Company, Kotak Instituitonal Equities estimates

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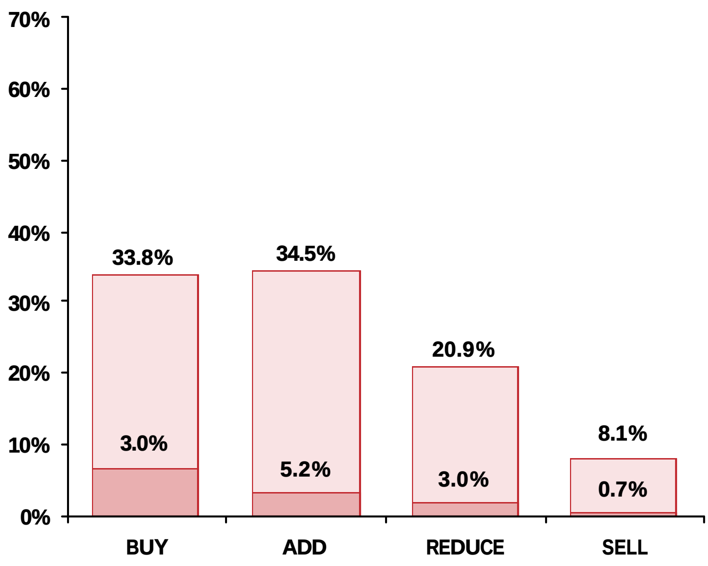

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