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News Roundup

- **Tata Group** hopes to close a \$1 billion infrastructure fund by the end of the year and plans to invest it through its realty and infrastructure unit, a senior official said. *(ET)*
- A bankruptcy filing by **General Motors Corp.** would not only send one of America's most storied automakers into further upheaval, it would also force a shake-up in the **Dow Jones** industrial average. *(ET)*
- In a move to consolidate its operations, the board of consumer products major **Godrej Consumer Products** has approved the merger of two group entities Godrej ConsumerBiz and Godrej Hygiene Care with itself. *(ET)*
- **Tata Realty and Infrastructure (TRIL)**, a unit of Tata Sons, expects to earn Rs 10,000 crore in revenues from its housing and commercial projects in the next four years, a top company official said. *(BS)*
- The integration of **Tech Mahindra Ltd** and **Satyam Computer Services Ltd** has started, with the sales and finance teams of their business process outsourcing, or BPO, divisions beginning to work together. *(Live Mint)*
- Pharma major **Dr Reddy's Laboratories Ltd** plans to drive more revenue from near-time research and development (R&D) projects. *(Live Mint)*
- **Australia and New Zealand Banking Group** is raising US\$1.95 billion in a share sale to fund a likely bid for some of **Royal Bank of Scotland's** Asian assets and to strengthen its balance sheet. *(Live Mint)*
- Public sector lender **Corporation Bank** is planning to raise around Rs1,000 crore in the current financial year and is also aiming for a credit and deposit growth of 22 to 25 per cent over this period. *(ET)*

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

EQUITY MARKETS

India	Change, %			
	27-May	1-day	1-mo	3-mo
Sensex	14,110	3.8	28.2	58.7
Nifty	4,276	3.9	27.2	54.7

Global/Regional indices

Dow Jones	8,300	(2.0)	3.5	17.5
FTSE	4,416	0.1	7.8	15.3
Nikkei	9,420	(0.2)	10.9	24.5
Hang Seng	17,885	5.3	22.9	39.6
KOSPI	1,371	0.6	5.4	28.9

Value traded - India

	Moving avg, Rs bn		
	27-May	1-mo	3-mo
Cash (NSE+BSE)	273.8	222.3	173.9
Derivatives (NSE)	835.7	757.8	392
Deri. open interest	1,011.1	949	474

Forex/money market

	Change, basis points			
	27-May	1-day	1-mo	3-mo
Rs/US\$	47.7	(21)	(256)	(345)
10yr govt bond, %	6.6	8	52	60

Commodity market

	Change, %			
	27-May	1-day	1-mo	3-mo
Gold (US\$/OZ)	948.1	(0.2)	6.1	0.6
Silver (US\$/OZ)	14.7	(0.5)	17.5	11.8
Crude (US\$/BBL)	60.9	0.2	27.0	35.5

Net investment (US\$m)

	26-May	MTD	CYTD
FIs	(17)	3,028	3,050
MFs	(13)	(77)	(201)

Top movers -3mo basis

Best performers	Change, %			
	27-May	1-day	1-mo	3-mo
Aban Offshore Limi	877	2.7	122.0	176.6
Jsw Steel Limited	517	3.4	63.8	174.6
Unitech Limited	77	5.9	79.1	172.9
Essar Oil Ltd	178	4.5	26.2	165.9
Ivrc Infrastructure	289	7.0	79.7	165.7

Worst performers

	27-May	1-day	1-mo	3-mo
Housing Developme	282	6.6	102.4	283.9
Hindustan Unilever	230	(0.4)	2.2	(9.2)
Itc Ltd	184	0.0	(1.8)	0.6
Ntpc Limited	202	0.2	9.0	9.2
Power Grid Corp O	110	1.8	19.2	13.2

Industrials**BHEL.BO, Rs2083**

Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	1,900
52W High -Low (Rs)	2400 - 981
Market Cap (Rs bn)	1,020

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	262.3	315.4	381.8
Net Profit (Rs bn)	31.4	45.1	52.3
EPS (Rs)	64.1	92.0	106.8
EPS gth	9.8	43.5	16.1
P/E (x)	32.5	22.6	19.5
EV/EBITDA (x)	17.6	12.5	10.6
Div yield (%)	0.8	0.9	1.1

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
30.4	48.4	53.2	29.2

Shareholding, March 2009

	% of Pattern Portfolio	Over/(under) weight
Promoters	67.7	-
FIs	17.0	3.1
MFs	5.1	4.3
UTI	-	(2.8)
LIC	2.9	1.7

BHEL: Audited results reveal higher revenues and lower excise duty than preliminary numbers

- Audited results reveal higher revenues and lower excise duty than in flash numbers
- May underperform peers on the positive delta; just as it was a bulwark against crisis of confidence
- Reiterate REDUCE based on valuation, competition, execution risk and potential underperformance as economic outlook improves

BHEL's FY2009 audited numbers beat our expectations, which were based on preliminary numbers. Audited numbers indicate (a) an upward revision in gross sales and (b) sharply lower excise duty leading to higher net revenues. We have revised our P/E-multiple-based target price to Rs1,900 from Rs1,475 based on (a) roll over to FY2011E and (b) revision in target P/E multiple to 18X from 15X earlier. We reiterate our REDUCE rating on the stock based on (a) likely underperformance versus peers in an improving economic environment, (b) emerging domestic competition, (c) execution risk based on constrained capacity, (d) sharp margin expansion from employee costs and raw material are already priced in, (e) sedate growth in the medium term—95 GW in the XIth plan over 80 GW in the Xlth plan—unless exports and industry ramp up, (f) ordering activity appears to have seen its best FY2009E, unlikely to better this for several years and (g) High valuations - P/E of 22.5X and 19.5X based on FY2010E and FY2011E, respectively.

Results surpass flash numbers with higher revenues and lower excise duty

BHEL reported FY2008 revenues of Rs262 bn (up 35% yoy), EBITDA of Rs38 bn (up 13% yoy and PAT of Rs31.4 bn (up 10% yoy). Based on earlier announced flash results, we expected revenues of Rs249 bn, EBITDA of Rs35 bn and PAT of Rs30.4 bn (Exhibit 1). The EBITDA margin of 14.5% in FY2009 is higher than our estimate of 14.1% even though it reflects a yoy decline of 290 bps. Several enhanced numbers explain the gap between our expectations and audited results (a) gross sales totalled Rs281 bn versus Rs275 bn in the flash results and (b) excise duty was sharply lower, leading to higher net revenues (excise duty came in at 6.6% of gross revenues versus 9.9% of gross revenues in FY2008). We did not expect the recent excise duty cut by the government—part of the stimulus package for the economy—to have such a significant impact.

For 4QFY09, BHEL has reported revenues of Rs105 bn (up 46% yoy), EBITDA of Rs17 bn (up 24% yoy and PAT of Rs13.5 bn (up 21% yoy). Based on flash results, we had expected revenues of Rs92 bn, EBITDA of Rs14 bn and PAT of Rs12.5 bn (Exhibit 1). The EBITDA margin of 16.1% in FY2009 is higher than our estimate of 15.2%, based on the provisional results, even though it still reflects a yoy decline of 280 bps.

BHEL could benefit less than peers from positive macro developments

We believe that economic and political stability may present more upside for peers versus BHEL. BHEL works in the public-sector-dominated power sector and was a strong defensive against crisis of confidence in private enterprise and tough financing environment. However, we believe the power sector has already seen strong activity (with completion of award process of 80 GW of XIth plan and award of about 25 GW of XIIth plan orders as well equivalent to more than 40% of the total XIIth plan capacity). Thus, the positive impact of relatively more stable economic and political environment in terms of delta from this point onwards may be limited for public-sector-dominated company such as BHEL.

Bulk tendering of power equipment would catalyze competition for BHEL

Bulk tendering for supercritical power equipment would certainly catalyze competition for BHEL. The new government appears keen on more players in power equipment manufacturing. This idea was conceived in the previous term of the government to remove one of the long-standing constraints on the pace of generation capacity addition. BHEL would be given preference over other bidders and would have reservation over a minimum portion of the order, it would still be required to match the L-1 (lowest) bid in case its bid does not turn out to be L1. The players that may qualify for bidding apart from BHEL include L&T in a joint venture with MHI, JSW in a venture with Toshiba, Bharat Forge with Alstom and Ansaldo with GB Engineering. Additional concerns may arise from (a) increase in number of private players allowed to qualify and (b) aggressive bids leading to eventual profitability concerns. We believe that L&T has a better-than-average chance of winning the bulk tendering order from NTPC and DVC based on (a) the lead L&T-MHI has in terms of setting up capacity and learning curve (already executing Krishnapatnam tender) and (b) government would also not like such large tenders of national importance to be awarded to companies with relatively thin track records in execution. The award process for these projects has been facing delays considering related to (a) confusion around criterion to be used for qualification of players, (b) tying up inputs and clearances for a large number of plants simultaneously. We highlight that the recent order of four 700 MW boilers to L&T from Nuclear Power Corporation (NPCIL) highlights that domestic competition has arrived for BHEL.

Sedate growth in the medium term unless exports and industry ramp-up

We highlight that the company expects about 95 GW of execution in the XIIth plan (Exhibit 1) versus about 80 GW in the XIth plan. We highlight that this implies sedate yoy growth of below 5% in the domestic power segment over the medium term unless exports and the industry segment ramps up significantly. Near-term growth (i.e. over next three years), however, would be strong, led by a ramp-up of the pace of execution to meet XIth plan targets. We highlight that both exports as well as industry are relatively smaller segments as (a) BHEL achieved physical exports order worth Rs32.7 bn (about 5.5% of total order booking in the year) and (b) BHEL achieved industry segment order inflows of Rs102.5 bn (about 17% of total order inflows for the year). A substantial ramp up in exports may also be limited by technology alliances which may limit export opportunity to relatively smaller countries.

We highlight that based on plant-wise order tracking we believe that a total coal-based capacity of 25.8 GW for XIIth plan has already been ordered versus likely total coal-based capacity of about 58 GW. Thus only about 31 GW or so of coal-based thermal power capacity may need to be ordered incrementally.

Order inflows of Rs500 bn each year possible but no new peaks in the next few years

We believe that FY2009E may have seen the peak of ordering activity for next several years unless exports ramp-up significantly. We highlight that in spite of substantial progress made in XIth plan ordering activity, we believe that BHEL's guidance of Rs500 bn of ordering over next 2-3 years may be achievable based on the following sector-wise contributions:

- a) **Balance order for coal-based capacity.** Assuming (a) high 70% market share from balance 31 GW of ordering remaining for XIIth plan, (b) rate of about Rs27 mn/MW and (c) likely to be split over three years, we believe that BHEL would have annual order booking of Rs195 bn.
- b) **Spares business.** We estimate spares orders worth Rs31 bn in FY2010E, ramping to about Rs42 bn in FY2012E
- c) **Exports.** Export orders may be worth about Rs50 bn each year (versus about Rs32.7 bn in FY2009E)

- d) **Industry segment.** Industry orders of about Rs120 bn versus 102 bn in FY2009E (assuming 15% growth)
- e) **Other segments of capacity addition.** Order booking from gas-based, hydro and nuclear power plants – About Rs65 bn of order booking each year for next three years. These estimates are based on (a) contribution from gas-based - 60% market share in a gas-based capacity of 8.7 GW at a rate of Rs15 mn/MW, (b) contribution from hydro-based - 60% market share in hydro power capacity of 22 GW at a rate of Rs10 mn/MW (40% may already have been ordered) and (c) contribution from nuclear-based - 70% market share in nuclear power capacity of 7.2 GW at a rate of Rs10 mn/MW (30% may already have been ordered).

Key risks: Execution delays—expanded capacities would come into play by FY2010E-end only

We believe BHEL may face execution-related challenges due to capacity constraints in FY2010E based on the slow pace of capacity addition. BHEL would commission expanded capacities in December 2009 and thus its effective capacity in FY2010E remains at about 10 GW. This is borne out by almost flat yoy depreciation figures - BHEL has had an increase of only Rs0.2 bn in quarterly depreciation between 3QFY09 and 3QFY07, implying an increase of only Rs0.8 bn in annual depreciation. Considering BHEL has resources at its hand and has commitments to deliver to its customers (and Indian power sector in a larger picture) we would have liked faster pace of capacity addition by BHEL.

BHEL has signed a relatively sedate MOU target revenue of Rs320 bn (gross revenues under stretch target), equivalent to about Rs295 bn of net revenues in FY2010E. This implies a growth of 18.3% in net revenues (including adjustment for lower excise duty in FY2010E versus FY2009E from government stimulus program). We highlight that BHEL achieved gross revenues of Rs281 bn close to its FY2009E stretch target of Rs270 bn.

We reiterate our REDUCE rating based on valuation, competition, execution risk and potential for underperformance as economic outlook improves

We have changed our earnings estimates for FY2010E and FY2011E to Rs92 (from Rs88.3) and Rs107 (from Rs104.5) respectively based on slightly higher execution expectations versus earlier expectations (Exhibit 8). We have revised our P/E multiple based target price to Rs1,900 from Rs1,475 earlier based on (a) roll over to FY2011E earnings estimates and (b) increase in target P/E multiple to 18X from 15X earlier in line with expansion in market multiples.

We reiterate our REDUCE rating on the stock based on:

- a) **High valuations.** BHEL trades at high P/E valuations of 22.5X and 19.5X based on FY2010E and FY2011E, respectively, and at EV/EBITDA of 15X and 12.5X FY2010E and FY2011E, respectively. Such high valuation limit upside from current levels.
- b) **Emerging domestic competition.** We believe that apart from imports-based competition, domestic competition is ramping-up for BHEL and will pressure margins and market share in the medium term.
- c) **Execution risk based on constrained capacity.** While BHEL has a very strong backlog, the focus is on ability to execute that backlog. BHEL faces risk of missing on execution expectations based on slow pace of capacity addition.
- d) **Potential for underperformance as economic outlook improves.** We highlight that BHEL has outperformed quite significantly in the recent past in a crisis environment because of its public sector ecosystem. However as the economic outlook improves, BHEL may underperform versus peers for whom the improvement in environment imply uptick in business fundamentals itself. Thus BHEL may lag in terms of stock performance.

- e) **Margin expansion from employee expenses and raw material are priced in.** We highlight that our estimates build in a very sharp margin expansion of about 450 bps in FY2010E over FY2009 on account of lower employee-wage-provision-related expenses as well as benefit of lower commodity prices. Negative surprise on this relatively aggressive base case could originate from delay in realization of benefit from lower commodity prices.

Exhibit 1. BHEL audited numbers are ahead of flash numbers

BHEL 4QFY09 audited results, March fiscal year-ends 2008-2009, (Rs mn)

	FY2009	FY2009 Flash	FY2008	% change	
				vs flash	yoy
Gross revenues	280,895	275,050	214,977	2	31
Excise duty	(18,553)	(26,130)	(21,322)	(29)	(13)
Net revenues	262,342	248,920	193,655	5	35
(Inc)/Dec in WIP	11,515		8,273		39
Raw material consumption	(159,689)		(106,622)		50
Staff cost	(41,128)		(31,459)		31
Other items	(23,511)		(21,905)		7
Total Expenditure	(224,328)	(214,094)	(159,987)	5	40
Operating profit	38,014	34,826	33,668	9	13
Other income	14,124	14,124	13,962	0	1
EBIDTA	52,138	48,950	47,630	7	9
Interest	(307)	(307)	(354)	0	(13)
Depreciation	(3,343)	(3,343)	(2,972)	(0)	12
VRS write-off	-	-	-	#DIV/0!	#DIV/0!
PBT	48,489	45,300	44,304	7	9
Tax	(17,103)	(14,910)	(15,711)	15	9
PAT	31,385	30,390	28,593	3	10
Key ratios (%)					
Raw Material to Sales	60.9	-	55.1		
Excise duty to sales	6.6	9.5	9.9		
Staff Cost to sales	15.7	-	16.2		
Other exp to sales	9.0	-	11.3		
Operating profit margin	14.5	14.0	17.4		
EBIDTA margin	19.9	19.7	24.6		
Effective tax rate	35.3	32.9	35.5		
PBT margin	18.5	18.2	22.9		
PAT margin	12.0	12.2	14.8		
Order backlog (Rs bn)					
	597.0		502.7		
Order inflow (Rs bn)					
	1,207.1		859.0		
Segmental revenues					
Power	213,444		159,188		
Industry	72,495		60,106		
Revenue mix (%)					
Power	74.6		72.6		
Industry	25.4		27.4		
EBIT margin (%)					
Power	18.1		24.7		
Industry	16.8		18.1		

Source: Company, Kotak Institutional Equities estimates

Exhibit 2. BHEL has significantly outperformed versus our expectation based on flash results

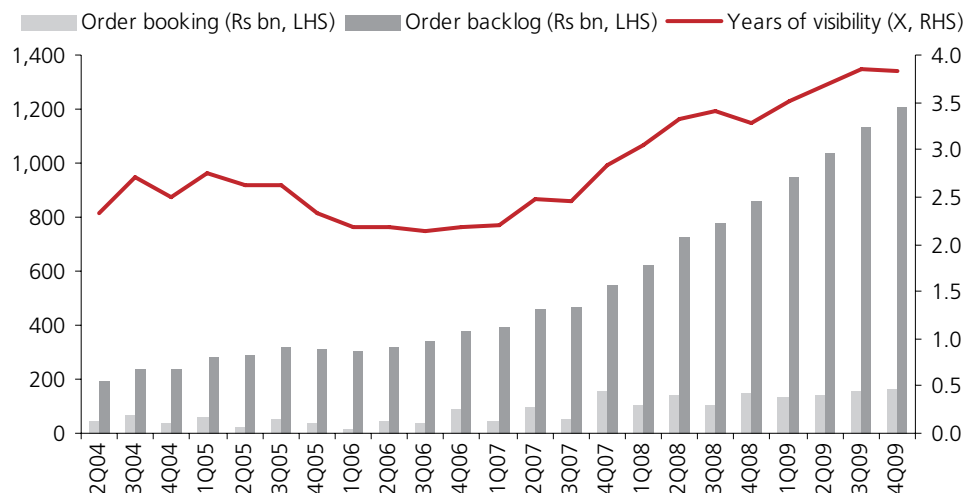
BHEL 4QFY09 audited results, March fiscal year-ends 2008-2009, (Rs mn)

	4QFY09	4QFY09Flash	4QFY08	3QFY09	% change		
	4QFY09Flash	4QFY08	3QFY09	4QFY09Flash	4QFY08	3QFY09	
Net revenues	105,401	91,979	72,020	60,223	15	46	75
(Inc)/Dec in WIP	1,722	0	3,931	5,537		(56)	(69)
Raw material consumption	(67,505)	(52,083)	(38,012)	(35,050)	30	78	93
Staff cost	(14,075)	(17,780)	(11,661)	(9,202)	(21)	21	53
Other items	(6,858)	(8,508)	(8,714)	(5,764)	(19)	(21)	19
Total Expenditure	(88,438)	(78,371)	(58,387)	(50,016)	13	51	77
Operating profit	16,963	13,608	13,634	10,207	25	24	66
Other income	5,072	5,072	4,242	3,063	0	20	66
EBIDTA	22,035	18,680	17,875	13,270	18	23	66
Interest	(81)	(12)	(42)	(179)	589	91	(55)
Depreciation	(1,008)	(911)	(827)	(865)	11	22	17
PBT	20,945	17,757	17,006	12,226	18	23	71
Tax	(7,471)	(5,274)	(5,897)	(4,321)	42	27	73
PAT	13,475	12,483	11,109	7,906	8	21	70
Key ratios (%)							
Raw Material to Sales	64.0	56.6	52.8	58.2	7.4	11.3	5.8
Staff Cost to sales	13.4	19.3	16.2	15.3	(6.0)	(2.8)	(1.9)
Other exp to sales	6.5	9.3	12.1	9.6	(2.7)	(5.6)	(3.1)
Operating profit margin	16.1	14.8	18.9	16.9	1.3	(2.8)	(0.9)
EBIDTA margin	20.9	20.3	24.8	22.0	0.6	(3.9)	(1.1)
Effective tax rate	35.7	29.7	34.7	35.3	6.0	1.0	0.3
PBT margin	19.9	19.3	23.6	20.3	0.6	(3.7)	(0.4)
PAT margin	12.8	13.6	15.4	13.1	(0.8)	(2.6)	(0.3)
Order backlog (Rs bn)							
Order backlog (Rs bn)	164.1	164.1	151.0	155.2			
Order inflow (Rs bn)							
Order inflow (Rs bn)	1,207.1	1,207.1	859.0	1,135.0			
Segmental revenues							
Power	86,079		56,740	48,188			
Industry	27,161		24,133	17,522			
Revenue mix (%)							
Power	76.0		70.2	73.3			
Industry	24.0		29.8	26.7			
EBIT margin (%)							
Power	20.1		31.3	14.8			
Industry	21.5		26.1	12.7			

Source: Company, Kotak Institutional Equities estimates

Exhibit 3. Order backlog provides visibility of 3.9 years based on forward four quarter revenues

Order booking, Order backlog & visibility trend for BHEL, March fiscal year-ends



Source: Company data, Kotak Institutional Equities.

Exhibit 4: Snapshot of financial model of BHEL, March year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Income statement						
Net revenues	172,375	193,046	262,342	315,352	381,848	453,253
EBDITA	32,219	33,178	38,014	60,346	72,372	84,847
Other income	8,236	14,448	14,124	13,642	13,977	15,323
Depreciation	(2,730)	(2,972)	(3,343)	(4,026)	(5,020)	(6,013)
Pre tax profits	37,291	44,299	48,488	69,847	81,215	94,042
Tax (incl deferred tax provision)	(13,214)	(15,711)	(17,092)	(24,796)	(28,911)	(33,515)
Profit after tax	24,078	28,589	31,396	45,051	52,304	60,526
Balance sheet						
Share capital	2,448	4,895	4,895	4,895	4,895	4,895
Reserves & surplus	85,435	102,847	124,824	158,613	197,840	243,235
Total shareholders funds	87,883	107,742	129,719	163,508	202,736	248,130
Total liabilities	88,776	108,694	130,671	164,460	203,687	249,082
Gross block	41,351	44,435	55,435	68,435	86,015	99,015
Net block	9,887	9,813	17,567	26,541	39,102	46,088
Net current assets	66,429	78,839	93,062	117,876	151,123	189,532
Total assets	88,776	108,694	130,671	164,460	203,687	249,082
Cash flow statement						
Operating profit before w. cap. changes	24,193	27,533	34,739	49,077	57,323	66,540
Net cashflow from operating activities	34,621	40,894	38,202	15,870	35,851	48,330
Fixed assets	(4,310)	(6,639)	(11,000)	(13,000)	(11,000)	(13,000)
Free cash flow	30,312	34,255	27,202	2,870	24,851	35,330
Cash (used) / realised in financing activities	(11,614)	(8,675)	(9,419)	(11,263)	(13,076)	(15,132)
Cash generated / utilised	18,698	25,581	17,783	(8,393)	11,775	20,199
Net cash at end of year	58,089	83,860	101,546	93,154	104,928	125,127
Earnings per share						
Raw material & erection expenses (% of sales)	56.0	55.2	56.8	56.4	57.9	58.6
EBIDTA margin (% of sales)	18.7	17.2	14.5	19.1	19.0	18.7
Book value per share (Rs)	359.1	220.1	265.0	334.0	414.2	506.9
Return on average equity (%)	29.9	29.2	26.4	30.7	28.6	26.8

Source: Company data, Kotak Institutional Equities Estimates

Exhibit 5. Change in earnings estimates BHEL (Rs bn)

	BHEL			
	New estimates		Old estimates	
Target Price	1,900		1,475	
Rating	REDUCE		REDUCE	
	FY10E	FY11E	FY10E	FY11E
Revenues	315.4	381.8	305.2	374.8
EBITDA	60.3	72.4	57.7	70.4
EBITDA margin (%)	19.1	19.0	18.9	18.8
PAT	45.1	52.3	43.4	51.1
EPS (Rs)	92.0	106.8	88.7	104.5

Source: Kotak Institutional Equities estimates

Energy**CAIR.BO, Rs220**

Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	225
52W High -Low (Rs)	305 - 88
Market Cap (Rs bn)	416.3

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	22.4	46.2	101.6
Net Profit (Rs bn)	5.7	17.5	59.2
EPS (Rs)	4.3	9.2	31.2
EPS gth	-	118.5	245.1
P/E (x)	51.1	23.8	7.0
EV/EBITDA (x)	33.4	12.3	5.1
Div yield (%)	-	-	11.4

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
19.2	31.4	55.0	(23.7)

Shareholding, March 2009

	% of Pattern Portfolio	Over/(under) weight
Promoters	64.7	-
FIs	8.8	(0.6)
MFs	1.7	(0.6)
UTI	-	(1.3)
LIC	2.0	(0.7)

Cairn India: All set for 'first oil'

- **Steady progress on Rajasthan development; train one ready for commencement of production**
- **Weak 5QFY09 results due to (1) lower realizations and (2) lower production volumes**
- **Maintain BUY with 12-month DCF-based target price of Rs225**

Cairn India reported 5QFY09 consolidated net revenues at Rs1.8bn (-14% qoq and -43%yoy) and EBITDA at Rs794 mn (-16% qoq and -64% yoy) versus our estimate of Rs835 mn. The qoq decline in EBITDA was due to (1) significantly lower crude price realization at US\$47/bbl (US\$56.4/bbl in 4QFY09), (2) lower production at 15,811 boe/d (-5% qoq) and (3) higher exploration costs at Rs627 mn (+67% qoq). We note that the current results are not material and we would focus more on issues pertaining to production of crude from Cairn's Rajasthan block where the bulk of Cairn's valuation resides. The development in Rajasthan is on track with the first train (30,000 b/d) complete and ready to start production. We have changed our earnings model to reflect change in the financial year end to March 31 from December 31. Our earnings estimates for FY2010-12E are Rs9.2, Rs31.2 and Rs35.6. We retain our BUY rating with a 12-month DCF-based target price of Rs225. Key downside potential stems from lower-than-expected crude price.

Update on pertinent issues

Commencement of production. The management maintained that it is on track for commencement of production with the completion of first train with a production capacity of 30,000 b/d with the initial dispatch of oil by trucks. The subsequent second, third and fourth trains with capacities of 50,000 b/d, 50,000 b/d and 75,000 b/d will start in 4QCY09, 1HCY10 and CY2011 with crude transportation by pipeline. The company is drilling 18 wells out of which 4 are ready for commencement of production. However, the management did not give details about the actual start of production from the field in view of the pending issues (uptake and pricing).

Pricing of crude. The management maintained that the pricing negotiations are expected to be concluded soon. The management had previously indicated that the crude from Rajasthan block will be benchmarked to Bonny Light and the pricing is expected to be at 10-15% discount to Dated Brent. This is in line with our current assumption of US\$8/bbl discount to dated Brent.

Uptake of crude. MRPL, HPCL and IOCL have been nominated for uptake of initial quantity of crude from Cairn's Rajasthan block. The management did not share details of the quantity agreed to be taken by the government-appointed nominees; however, it reiterated that there is no risk related to uptake of initial quantity of crude. The management highlighted that it is negotiating for uptake of additional volumes from existing nominees; the government is also evaluating the option of appointing other nominees for uptake of crude.

Cess. The management maintained that there had been no further development on the cess issue. We currently assume that Cairn will not bear any cess on the portion of crude oil (70%) produced by it from the Rajasthan block. Our 12-month fair value of the stock comes to Rs209 if we assume that Cairn will have to bear cess at Rs927/ton and it drops to Rs189 if we assume cess at Rs2,575/ton (Exhibit 3)

As per media reports, the petroleum secretary has stated that Cairn India is liable to pay cess on its share of crude oil production from the RJ-ON-90/1 oilfield, reiterating the government's stance that all the contractors are bound to pay cess in the ratio of their participating interests as per the Oil Industry Development Act, 1974. This stance of the ministry has also been vetted by the ministry of law and justice.

Development of Kameshwari discoveries. The management stated that it is in the process of finalizing the FDP for the discoveries and will be submitting it to its consortium partner, ONGC, for its approval within a month. We note that the DGH had already given the 'declaration of commerciality' to Cairn's three Kameshwari (2, 3 and 6) discoveries in January 2009. These discoveries made in May 2007 in the Northern Appraisal Area along with another oil and gas discovery near Raageshwari field in December 2008 in the southern part of the current development area highlight the upside potential to reserves in Cairn's prolific RJ-ON-90/1 block.

Resource potential in Barmer hill formation. The management maintained its estimate of potential oil in place of ~400 mn bbls the Barmer hill formation. The management also stated that analogous fields have been developed with an ultimate recovery of 7-20% under primary and secondary recovery schemes. We have been highlighting scope for inclusion of resources in Barmer Hill in reserves once Cairn is in a position to extract crude oil from this zone.

Details of 5QFY09 results

In-line EBITDA; decline in revenues qoq due to lower production and crude realization. Cairn India reported consolidated net revenues for the quarter ended March 31, 2009 at Rs1.8 bn (-14% qoq and -43% yoy) and EBITDA at Rs794 mn (-16% qoq and -64% yoy). The qoq decline in EBITDA reflects (1) lower crude price realization at US\$47/bbl (US\$56.4/bbl in 4QFY09), (2) lower production at 15,811 boe/d (-5% qoq) and (3) higher exploration costs at Rs627 mn (+67% qoq).

Cairn's 5QFY09 production was at 15,811 boe/d (working interest-basis) versus 16,591 boe/d in 4QFY09. At CB-OS-2, gas production declined 10% qoq and oil production increased 3% qoq. Gas production has declined significantly due to the declining phase of the fields past plateau production. At Ravva, oil production declined by 1% qoq and gas production declined by 13% qoq.

The exploration expenses were higher at Rs627 mn (+67% qoq) due to drilling of two wells in the quarter—(1) one well in GV-ONN-2002/1, which turned out to be dry and (2) one well in RJ-ONN-2003/1.

Interim results of Cairn India (Rs mn)

	5QFY09	5QFY09E	1QFY09	4QFY09	(% chg)		
					5QFY09E	1QFY09	4QFY09
Income from operations	1,818	1,715	3,158	2,108	6.0	(42.5)	(13.8)
Total expenditure	(1,024)	(880)	(965)	(1,158)	16	6	(12)
Inc/(Dec) in stock	(40)		33	(91)			
Operating expenses	(356)	(300)	(466)	(359)	19	(24)	(1)
Staff cost	(170)	(280)	(320)	(271)	(39)	(47)	(37)
Government taxes/share of profit	—	—	—	—	—	—	—
Other expenditure	(458)	(300)	(212)	(438)	53	116	5
EBITDA	794	835	2,193	950	(5)	(64)	(16)
Other income	862	998	218	1,451	(14)	296	(41)
Interest	(21)	(3)	(3)	(6)	610	547	249
Exploration costs written off	(627)	(375)	(175)	(375)	67	258	67
DD&A	(443)	(350)	(632)	(326)	27	(30)	36
Pretax profits	565	1,106	1,600	1,694	(49)	(65)	(67)
Extraordinaries/sales tax benefit	—	—	186	1,236	—	—	—
Tax	(638)	(376)	(105)	(40)	70	505	1,514
Deferred taxation	259	—	(554)	(526)	—	(147)	(149)
Net income	187	730	1,126	2,364	(74)	(83)	(92)
Minority interest	—	—	—	—	—	—	—
Net income after minority interest	187	730	1,126	2,364	(74)	(83)	(92)
Income tax rate (%)	66.9	34.0	36.9	19.3			
Production, selling price data							
Production volume, gross ('000 boepd)	60.2	—	70.8	63.0	—	(15)	(4)
Production volume, net ('000 boepd)	15.8	16.6	18.0	16.6	(5)	(12)	(5)
CB-OS-2	5.2	5.5	4.8	5.5	(6)	8	(6)
Oil	3.2	3.3	2.4	3.3	(3)	32	(3)
Gas (mn cf/d)	12.0	13.3	14.4	13.3	(10)	(17)	(10)
Ravva	10.6	11.1	13.2	11.1	(4)	(19)	(4)
Oil	8.6	8.6	10.5	8.6	(1)	(18)	(1)
Gas (mn cf/d)	12.7	14.7	16.4	14.7	(13)	(23)	(13)
Selling price, oil (US\$/bbl)	47.0	44.9	100.0	56.4	5	(53)	(17)
Selling price, gas (US\$/mcf)	4.0	4.0	4.1	4.0	1	(1)	1
Exchange rate (Rs/US\$)	49.1	49.8	39.8	48.7	(1)	23	1

Source: Company data, Kotak Institutional Equities estimates

We value Cairn India stock at Rs225

EV and equity value of Cairn (US\$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	8,438	9,126	8,980
CB-OS-2	66	45	29
Ravva	287	242	200
Upside potential (KG-DWN-98/2)	100	112	125
Total	8,891	9,525	9,334
Net debt	(569)	316	504
Equity value	9,459	9,209	8,831
Equity shares (mn)	1,897	1,897	1,897
Equity value per share (Rs/share)	206	216	223

Source: Kotak Institutional Equities estimates

Cairn's fair valuation has moderate leverage to crude prices

Enterprise value sensitivity of Cairn to key variables (US\$ bn)

	Sensitivity of current valuation			Sensitivity of +1-year valuation		
	Enterprise value	Equity value	Change from base case	Enterprise value	Equity value	Change from base case
	(US\$ bn)	(Rs/share)	(%)	(US\$ bn)	(Rs/share)	(%)
Average crude prices (2013 and beyond)						
Dated Brent price (US\$100/bbl)	10.9	261	27	11.7	278	28
Dated Brent price (US\$90/bbl)	9.8	238	15	10.6	251	16
Dated Brent price (US\$80/bbl)	9.0	218	6	9.7	230	6
Dated Brent price (US\$75/bbl)	8.4	206		9.1	216	
Dated Brent price (US\$60/bbl)	6.9	173	(16)	7.5	179	(17)
Dated Brent price (US\$50/bbl)	6.0	151	(27)	6.6	155	(28)
Dated Brent price (US\$40/bbl)	4.9	128	(38)	5.5	129	(41)
Dated Brent price (US\$30/bbl)	3.8	104	(50)	4.3	102	(53)
Cess, royalty						
Royalty (Rs0/ton), Cess (Rs0/ton)	8.4	206		9.1	216	
Royalty (Rs0/ton), Cess (Rs927/ton)	8.1	200	(3)	8.9	209	(3)
Royalty (Rs0/ton), Cess (Rs2,575/ton)	7.3	182	(12)	8.1	189	(13)

Source: Kotak Institutional Equities estimates

Cairn's earnings are highly leveraged to crude prices

Earnings sensitivity of Cairn to key variables

	2010E			2011E			2012E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Average crude prices									
Crude price (US\$/bbl)	58.0	60.0	62.0	63.0	65.0	67.0	68.0	70.0	72.0
Net profits (Rs mn)	16,290	17,518	18,746	56,326	59,205	62,084	65,384	67,529	69,674
Earnings per share (Rs)	8.6	9.2	9.9	29.7	31.2	32.7	34.5	35.6	36.7
% upside/(downside)	(7.0)		7.0	(4.9)		4.9	(3.2)		3.2
Exchange rate									
Rs/US\$	47.0	48.0	49.0	46.8	47.8	48.8	46.5	47.5	48.5
Net profits (Rs mn)	16,869	17,518	18,166	57,560	59,205	60,850	66,067	67,529	68,991
Earnings per share (Rs)	8.9	9.2	9.6	30.3	31.2	32.1	34.8	35.6	36.4
% upside/(downside)	(3.7)		3.7	(2.8)		2.8	(2.2)		2.2

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Cairn, calendar year-ends 2006-07, March fiscal year-ends 2009-14E (Rs mn)

	15 months							
	2006	2007	2009E	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	18,417	16,561	25,578	46,177	101,560	125,936	168,337	164,340
EBITDA	7,435	6,705	9,097	33,500	86,539	96,966	116,231	99,803
Other income	1,100	1,324	5,072	1,512	638	499	312	287
Interest	(201)	(27)	(64)	(978)	(2,396)	(3,396)	(3,146)	(2,146)
Depreciation	(497)	(4,589)	(4,382)	(9,793)	(12,945)	(14,396)	(15,601)	(15,555)
Pretax profits	7,837	3,413	9,723	24,242	71,836	79,672	97,795	82,388
Extraordinary items	—	(2,120)	1,392	—	—	—	—	—
Tax	(2,273)	(740)	(1,221)	(4,509)	(9,936)	(11,022)	(12,938)	(11,128)
Deferred taxation	(22)	(764)	(1,859)	(2,215)	(2,695)	(1,121)	81	922
Net profits	5,543	(212)	8,034	17,518	59,205	67,529	84,937	72,182
Earnings per share (Rs)	3.1	(0.1)	4.3	9.2	31.2	35.6	44.8	38.1
Balance sheet (Rs mn)								
Total equity	292,804	294,358	328,586	346,104	349,834	350,793	351,999	353,024
Deferred tax liability	4,258	4,916	6,776	8,991	11,686	12,807	12,726	11,805
Total borrowings	5,122	3,124	44,766	32,411	42,411	52,411	37,411	24,911
Current liabilities	39,716	8,372	19,015	1,688	2,069	4,177	7,667	9,545
Total liabilities and equity	341,900	310,771	399,144	389,194	406,000	420,187	409,803	399,284
Cash	61,348	1,504	68,281	18,340	18,239	10,366	7,508	8,917
Current assets	6,470	19,029	2,453	4,428	9,739	12,076	16,142	15,759
Total fixed assets	17,609	25,157	63,108	74,725	61,384	53,079	44,668	36,321
Net producing properties	2,354	4,390	4,611	31,008	55,946	83,975	80,794	77,596
Investments	4	7,129	7,129	7,129	7,129	7,129	7,129	7,129
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	370	370	370	370	370	370
Total assets	341,900	310,771	399,144	389,194	406,000	420,187	409,803	399,284
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	4,598	6,387	6,877	24,886	72,057	81,097	98,696	85,078
Working capital changes	34,256	(908)	27,220	(19,303)	(4,930)	(230)	(575)	2,261
Capital expenditure	(5,619)	(11,739)	(40,227)	(44,680)	(22,392)	(32,670)	(2,560)	(2,560)
Investments/Goodwill	(252,717)	(53,863)	—	—	—	—	—	—
Other income	1,100	1,298	5,072	1,512	638	499	312	287
Free cash flow	(218,382)	(58,824)	(1,059)	(37,585)	45,374	48,697	95,873	85,066
Key assumptions								
Gross production ('000 boe/d)	91.0	75.4	68.1	110.3	179.9	197.8	236.7	228.4
Net production ('000 boe/d)	25.1	19.4	17.8	51.1	102.5	117.4	146.6	143.0
Dated Brent (US\$/bbl)	65.3	70.3	87.4	60.0	65.0	70.0	75.0	75.0
Discount of Rajasthan crude to Dated Brent (US\$/bbl)	2.1	5.3	8.1	8.0	8.0	8.0	8.0	8.0

Source: Kotak Institutional Equities estimates

Metals**JNISP.BO, Rs2078**

Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,820
52W High -Low (Rs)	2396 - 517
Market Cap (Rs bn)	319.9

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	108.5	106.2	116.2
Net Profit (Rs bn)	30.5	26.5	30.2
EPS (Rs)	198.0	172.4	196.2
EPS gth	139.3	(12.9)	13.8
P/E (x)	10.5	12.0	10.6
EV/EBITDA (x)	7.3	7.5	6.2
Div yield (%)	0.3	0.3	0.3

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
32.0	99.2	189.0	(3.7)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	58.8	-	-
FIs	18.6	0.9	0.2
MFs	5.2	1.1	0.4
UTI	-	-	(0.7)
LIC	-	-	(0.7)

Jindal Steel and Power: Steel business reports weak earnings; power continues to deliver. Downgrade to ADD with target of Rs1,820

- 4QFY09 steel business margins fall sharply due to possible inventory write-downs
- Power business continues to deliver with PAT of Rs6.51 bn (up 13% qoq)
- Maintain earnings forecasts, raise target to Rs1,820. Downgrade to ADD from BUY

4QFY09 standalone net profit at Rs3.6 bn—ahead of our estimate of Rs2.4 bn mainly on account of higher other income due to reversal of foreign exchange losses, lower interest costs and tax rates. 4QFY09 steel business results were negatively impacted by a possible write-down of inventory valuation for raw materials, which was offset by increased contribution from the power business. The merchant power business reported net earnings of Rs6.51 bn, which was higher by 13% qoq. Average power tariff realizations were at Rs6.5 per unit and are stable. We have marginally revised our earnings estimates for the steel business while we maintain our estimates for the power business. We raise our TP to Rs1,820/share on account of higher multiple for the steel business. We lower our rating to ADD from BUY earlier as we see limited catalysts for near-term upsides. The second phase of power expansion of 2400 MW is underway but would take 2-3 years to deliver and incremental valuation upside would only be gradual.

4QFY09 net profit ahead of expectations due to non-operation factors

JSP reported 4QFY09 net profit at Rs3.6 bn, ahead of our expectation of Rs2.4 bn. Net earnings were ahead of our expectations mainly on account of significantly higher other income which may have been due to possible write-back of foreign exchange losses, lower interest cost and lower tax rates. On a segmental basis, the steel business reported lowest ever PBIT in recent years of Rs0.26 bn (down 96% yoy and 95% qoq). The sharp drop in profitability could be on account of a write down of raw material inventory of coking coal. We would have more details post the management conference call today.

Sharply lower results from the steel business were compensated by a sharp increase in profitability in the power segment, which reported a PBIT of Rs2.4 bn (up 111% yoy and 89% qoq). Power segment PBIT margins also improved to 83.3% (66.7% yoy and 61.8% qoq).

Power business contributes strongly to FY2009 earnings

FY2009 net profit at 15.3 bn was up 24% yoy mainly on account of (1) increase in steel sales and (2) improved realizations on a yoy basis. We note that increased contribution from the power business also led to increase in earnings. Power segment EBIT grew 65% yoy while steel EBIT grew 12% yoy.

Annual steel business results

4QFY09 steel revenue at Rs17.8 bn grew 17% yoy on account of increase in sales volumes. However, EBIT margin dropped sharply to 1.4% for the quarter mainly on account of (1) a large 15% drop in average realizations and (2) large inventory write downs.

Power business result—Average realizations stable at ~Rs6.5/unit

JSP's wholly owned subsidiary Jindal Power (JPL) reported 4QFY09 net sales at Rs11.5 bn (Rs11.6 bn in 3QFY09) and PAT at Rs6.51 bn (13% qoq growth over Rs5.75 bn in 3QFY09). We estimate the power plant to have sold about 1.76 bn units during 4QFY09 (1.75 bn units in 3QFY09) realizing an average tariff of Rs6.5/unit. We expect merchant tariffs to soften over the next few quarters with increased generation from gas-based power plants and state utilities reducing the purchase of high-cost power after the elections.

Marginal revision in earnings

We have marginally revised our estimates for the steel business. We estimate consolidated EPS at Rs172.4 and Rs196.2 for FY2010E and FY2011E respectively (versus our earlier estimate of Rs171.6 and Rs195.4). Our earnings estimates for the power business remains unchanged.

Increased steel business valuation on higher target multiple We have increased our target EV/EBITDA multiple to 6X from 5X previously to factor in bottom-cycle earnings. Besides, we have rolled over our valuation to FY2011 basis. We now value the steel business of JSP at Rs812/share (versus our earlier estimate of Rs394/share). The increase in our valuation of the steel business is mainly due to the increase in target multiple and roll-over to FY2011E earnings.

Power business valued at Rs1,009/share

We value the power business using DCF-equity at Rs1,009/share. Our valuation includes Rs775/share for the operational 1,000 MW power plant and Rs234/share as the value enhancement likely from the 2,400 MW power project being developed. We assume average merchant tariff of Rs5/unit for sale of 800 MW till FY2013E and reduce it to sustainable tariff of Rs3/unit after FY2013. We assume JPL will continue to sell 200 MW to CSEB and industrial estate at Rs2.80/unit. Our valuation of the power business (including the 2,400 MW project under development) implies a P/E of 9.8X on FY2010E. We note the reported earnings of JPL are depressed in the near-term due to high depreciation rate (~14%) being charged by the company. We will fine-tune our estimates for the power business after management shares the exact cost structure of the operating power plant.

Raise target price to Rs1,820. Lower rating to ADD from BUY earlier We raise our target price to Rs1,820 from Rs1,400 earlier factoring in higher valuation multiples for the steel business. We value the power business at Rs1,009 based on DCF-equity method which has remained unchanged. We lower our rating to ADD from BUY earlier as we believe there are few positive catalyst which could for near-term upsides. The second phase of power expansion of 2400 MW is underway but would take 2-3 years to deliver and incremental valuation upside would only be gradual.

Interim results of Jindal Steel & Power (standalone), March fiscal year-ends (Rs mn)

	4QFY09	4QFY09E	4QFY08	3QFY09	(% chg.)			2009	2008	(%chg)
					4QFY09E	4QFY08	3QFY09			
Net sales	17,607	16,388	15,230	17,811	7.4	15.6	(1.1)	76,532	54,108	41.4
Total expenditure	(13,300)		(9,437)	(11,691)		40.9	13.8	(51,605)	(32,794)	57.4
Inc/(Dec) in stock	129		1,472	456		(91.2)	(71.7)	978	1,603	(39.0)
Raw materials	(9,021)		(3,659)	(6,295)		146.5	43.3	(26,766)	(13,635)	96.3
Stores and spares consumed	(2,224)		(1,386)	(1,693)		60.4	31.4	(8,205)	(5,705)	43.8
Power & Fuel	(1,224)		(1,305)	(978)		(6.2)	25.2	(4,749)	(4,518)	5.1
Staff cost	(462)		(504)	(464)		(8.4)	(0.4)	(1,775)	(1,450)	22.4
Other expenditure	(499)		(4,054)	(2,718)		(87.7)	(81.7)	(11,088)	(9,089)	22.0
EBITDA	4,307	4,782	5,793	6,120	(9.9)	(25.6)	(29.6)	24,927	21,314	17.0
OPM (%)	24.5	29.2	38.0	34.4				32.6	39.4	
Other income	1,135	124	248	104	815.0	357.1	992.0	1,462	491	197.7
Interest	(259)	(534)	(603)	(743)	(51.5)	(57.1)	(65.2)	(2,040)	(2,265)	(9.9)
Depreciation	(1,087)	(1,154)	(1,035)	(1,109)	(5.8)	5.0	(2.0)	(4,330)	(4,515)	(4.1)
Pretax profits	4,095	3,218	4,402	4,371	27.3	(7.0)	(6.3)	20,019	15,025	33.2
Extraordinaries	-	-	-	-				-	-	
Tax	(505)	(795)	(499)	(1,120)	(36.5)	1.2	(54.9)	(4,654)	(2,656)	75.3
Net income	3,590	2,423	3,903	3,252	48.2	(8.0)	10.4	15,365	12,370	24.2
Income tax rate (%)	12.3	24.7	11.3	25.6				23.2	17.7	
Ratios										
EBITDA margin (%)	24.5	29.2	38.0	34.4				32.6	39.4	
ETR (%)	12.3	24.7	11.3	25.6				23.2	17.7	
EPS (Rs)	23.3	15.7	25.4	21.1				99.8	80.3	
Segmental revenue										
Iron & Steel	17,803	15,719	15,185	17,142	13.3	17.2	3.9	74,822	52,721	41.9
Power	2,895	2,066	1,711	2,066	40.1	69.2	40.1	8,686	5,840	48.7
Others	159	194	(82)	194	(18.4)	(292.5)	(18.4)	602	218	176.0
Segmental PBIT	1.89									
Iron & Steel	257	3,687	6,335	5,050	(93.0)	(95.9)	(94.9)	19,378	17,357	11.6
Power	2,412	1,277	1,142	1,277	88.9	111.3	88.9	5,492	3,336	64.6
Others	24	29	8	29	(17.4)	189.0	(17.4)	87	49	79.6
Segmental PBIT (%)										
Iron & Steel	1.4	23.5	41.7	29.5				25.9	32.9	
Power	83.3	61.8	66.7	61.8				63.2	57.1	
Others	14.9	14.8	(10.0)	14.8				14.5	22.3	

Source: Company data, Kotak Institutional Equities

Jindal Steel and Power, SOTP-based valuation, March 2011E (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Enterprise value		Comments
			(Rs mn)	(Rs/share)	
Steel business			124,943	812	
Steel business (extant business)	29,108	6.0	174,648	1,134	
Less: Net debt of steel business			49,705	323	FY2011E net debt, adjusted for cash
Power business			155,386	1,009	
Jindal Power (100% subsidiary) - 1000 MW				775	1-yr forward DCF-to-equity basis, including 800 MW sale on merchant basis
Incremental 2,400 MW				234	Valued at P/B of 2X (value enhancement of 1X)
Arrived market capitalization			324,333	1,821	
Target price (Rs/share)				1,820	

Source: Kotak Institutional Equities estimates

Jindal Steel and Power, key assumptions, March fiscal year-ends, 2007-11E

	2007	2008	2009E	2010E	2011E
Sales volume (tons)					
Sponge iron	698,907	405,446	170,000	470,000	260,000
Mild Steel	753,725	1,126,527	1,900,000	1,900,000	2,200,000
Hot metal/pig iron	128,982	347,261	27,781	2,222	178
Plate	-	178,816	600,000	800,000	900,000
Sales realization (Rs/ton)					
Sponge iron	11,368	14,237	15,237	13,237	13,987
Mild Steel	26,205	30,326	30,826	26,326	26,826
Hot metal/pig iron	16,976	19,427	19,927	15,427	16,427
Plate	-	31,814	32,314	27,314	29,814
Average realisation (Rs/ton)	24,783	29,793	32,435	26,478	28,348
Average realisation (US\$/ton)	550	701	705	552	594

Source: Company, Kotak Institutional Equities estimates

Jindal Steel & Power, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-2011E (Rs mn)

	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)					
Net sales	35,198	54,108	76,532	74,755	84,777
EBITDA	13,955	22,788	24,927	22,826	29,108
Other income	290	491	1,462	400	400
Interest	(1,503)	(2,086)	(2,040)	(2,843)	(3,757)
Depreciation	(3,365)	(4,515)	(4,330)	(6,553)	(8,021)
Profit before tax	9,448	18,332	20,020	13,829	17,730
Current tax	(1,071)	(1,859)	(3,003)	(2,074)	(2,659)
Deferred tax	(1,348)	(796)	(1,651)	(1,521)	(1,950)
Net profit	7,030	15,677	15,366	10,234	13,120
Earnings per share (Rs)	46.0	71.5	99.8	66.5	85.2
Balance sheet (Rs mn)					
Equity	24,784	37,253	51,627	60,871	73,000
Deferred tax liability	4,150	4,947	6,598	8,119	10,069
Total Borrowings	35,077	38,634	48,634	58,634	60,634
Current liabilities	11,804	16,208	25,609	25,247	27,289
Total liabilities	75,998	97,352	132,779	153,181	171,303
Net fixed assets	50,851	53,963	75,298	102,977	112,761
Investments	7,098	10,362	10,362	10,362	10,362
Cash	530	5,779	11,617	4,826	10,423
Other current assets	17,487	27,217	35,470	34,984	37,726
Miscellaneous expenditure	32	31	31	31	31
Total assets	75,998	97,352	132,779	153,181	171,303
Free cash flow (Rs mn)					
Operating cash flow excl. working capital	12,067	18,118	21,347	18,309	23,092
Working capital changes	(497)	(4,000)	1,147	124	(699)
Capital expenditure	(15,208)	(9,298)	(25,666)	(34,232)	(17,805)
Free cash flow	(3,638)	4,820	(3,172)	(15,800)	4,588
Ratios					
Debt/equity	1.2	0.9	0.8	0.8	0.7
Net debt/equity	1.2	0.8	0.6	0.8	0.6
RoAE (%)	27.9	43.8	30.4	16.0	17.2
RoACE (%)	14.4	24.0	18.0	10.5	11.7

Source: Company, Kotak Institutional Equities estimates

Jindal Power Limited , Income statement

March fiscal-year ends, Rs mn

	2009E	2010E	2011E	2012E	2013E
Net revenues	32,575	31,407	31,407	31,407	31,407
Variable costs		(3,296)	(3,394)	(3,496)	(3,601)
O&M expenses		(1,248)	(1,298)	(1,350)	(1,404)
Operating profit	26,864	26,715	26,561	26,561	26,402
Operating margin %		86%	85%	85%	84%
Interest		(3,577)	(3,289)	(3,001)	(2,713)
Depreciation		(5,619)	(4,832)	(4,156)	(3,574)
Profit before tax	17,668	18,594	19,404	19,404	20,115
Tax		(2,002)	(2,107)	(2,199)	(2,279)
Deferred tax		244	193	151	118
Profit after tax	15,891	15,910	16,680	17,357	17,954
Net margin	49%	51%	53%	55%	57%

Source: Company data, Kotak Institutional Equities estimates

Jindal Steel & Power (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-2011E (Rs mn)

	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)					
Net sales	35,198	54,890	108,510	106,162	116,184
EBITDA	13,989	22,032	51,695	49,689	55,823
Other income	290	498	624	400	400
Interest	(1,504)	(2,545)	(4,567)	(6,419)	(7,046)
Depreciation	(3,366)	(4,793)	(9,641)	(12,172)	(12,853)
Profit before tax	9,409	15,193	38,111	31,498	36,324
Taxes	(2,419)	(2,681)	(8,040)	(5,354)	(6,523)
Net profit	6,991	12,512	30,072	26,144	29,800
Share in profit/(loss) of associates	62	225	396	396	396
Minority interest	7	4	10	10	10
Profit after tax and minority interest	7,060	12,740	30,478	26,550	30,206
Earnings per share (Rs)	45.8	82.7	198.0	172.4	196.2
Balance sheet (Rs mn)					
Equity	25,591	38,558	65,331	90,474	119,273
Deferred tax liability	4,150	4,947	7,463	8,740	10,498
Total Borrowings	54,360	69,961	81,634	88,884	88,134
Current liabilities	16,009	19,584	25,609	25,247	27,289
Minority interest	54	62	66	76	87
Total liabilities	100,164	133,112	180,103	213,421	245,280
Net fixed assets	79,058	94,637	115,433	137,492	142,444
Goodwill	57	247	247	247	247
Investments	1,087	2,709	1,362	1,362	1,362
Cash	986	6,207	25,274	36,975	61,134
Other current assets	18,942	28,344	37,756	37,313	40,062
Miscellaneous expenditure	32	969	31	31	31
Total assets	100,164	133,112	180,103	213,421	245,280
Free cash flow (Rs mn)					
Operating cash flow excl. working capital	11,995	18,604	43,085	39,594	44,411
Working capital changes	2,876	(5,137)	(3,388)	81	(707)
Capital expenditure	(35,885)	(20,371)	(29,663)	(34,232)	(17,805)
Free cash flow	(21,014)	(6,904)	10,034	5,443	25,899
Ratios					
Debt/equity	1.8	1.7	1.1	0.9	0.7
Net debt/equity	1.8	1.4	0.8	0.5	0.2
RoAE (%)	23.8	35.4	53.1	31.0	26.4
RoACE (%)	9.7	15.1	25.6	18.6	17.7

Source: Company, Kotak Institutional Equities estimates

Banking**FED.BO, Rs250**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	280
52W High-Low (Rs)	262 - 110
Market Cap (Rs bn)	42.8

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	18.3	20.2	23.5
Net Profit (Rs bn)	4.8	5.4	6.5
EPS (Rs)	27.8	31.4	38.2
EPS gth	(19.2)	13.1	21.5
P/E (x)	9.0	8.0	6.5
P/B (x)	1.0	0.9	0.9
Div yield (%)	2.1	2.3	2.8

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
41.4	101.3	86.3	16.3

Shareholding, March 2009

	% of Pattern Portfolio	Over/(under) weight
Promoters	-	-
FIs	41.6	0.2
MFs	14.4	0.4
UTI	-	(0.1)
LIC	2.4	0.0

Federal Bank: Reports steady performance, retain BUY rating

- **4QFY09 PAT impacted by sharp decline in loan-deposit ratio and higher effective tax rate**
- **Uncertainty on plans to acquire Catholic Syrian Bank and low near-term RoE could impact near-term stock performance**
- **Retain BUY rating with a target price of Rs280**

Federal Bank's profitability in 4QFY09 was impacted by two factors (1) higher deposit growth compared to loans and (2) higher effective tax rate on account of certain adverse court rulings on past IT cases. We believe that the NIM of the company should likely improve during the course of the year as the loan demand improves and high cost liabilities reprice at lower interest rates. We have revised our estimates downwards post the results—8% in FY2010E and 3% in FY2011E. The stock has appreciated 101% over the past three months on the back of the improved risk appetite and the reasonably strong financial performance of the company. It currently trades at 0.9XPBR FY2010E. We highlight two concerns that could impact the near-term stock performance: (1) near-term RoE of the company could be around 12-13% given the equity raising of Rs21.4 bn (49% of FY2010E net worth) made in 4QFY08, (2) uncertainty regarding the company's plans to acquire Catholic Syrian Bank. We retain our BUY rating and FY2010E -based target price of Rs280.

Net interest income growth was lower than expected. NII of Federal Bank in 4QFY09 was Rs3.2 bn—a growth of 16% yoy and 10% lower than estimates. The lower-than-expected growth in NII was on account of the incremental loan growth (of Rs8 bn) being much lower than the incremental deposit growth (of Rs49 bn) in 4QFY09. Consequently, the loan-deposit ratio of the company has come off to 69.5% as of March 2009 from 79% in December 2008.

The management indicated that this slower growth in loans was a conscious strategy given the uncertain macro environment. The lower loan-deposit ratio provides the company with leeway to fund its loan growth by reducing its investment portfolio and might be positive for NIM in the event of a pick-up in loan demand. The company has undertaken measures to reduce its funding costs by lowering deposit rates across maturities and hopes to maintain a NIM of 4% in FY2010E compared to the 4.28% reported in FY2009.

Asset quality remains healthy. The gross NPL ratio of the company stood at 2.6% with a provision coverage ratio of 88% at the end of FY2009, which is healthy and provides significant cushion in the event of an economic downturn. Federal Bank's reported gross NPLs as of March 2009 were Rs5.9 bn down from the Rs6.3 bn as of December 2008. Similarly, the reported net NPLs also declined to Rs681 mn as of March 2009 from Rs706 mn in December 2008.

Federal Bank has restructured Rs6.3 bn of loans (as of March 2009) and these accounted for 2.8% of its net loans. Out of the Rs6.3 bn of loan assets restructured, Rs380 mn were sub-standard assets. The company has Rs3.5 bn of loan assets (as of March 2009) that are being considered for restructuring. The management hopes to maintain gross NPL ratio in the range of 2-3% as of March 2010E. We factor a gross NPL ratio of 4.5% for March 2010E in our estimates assuming a slippage ratio of 3.8%.

Adverse court rulings on past IT disputes led to higher effective tax rate. The effective tax rate of Federal Bank was a high 51% in 4QFY09 and 36.9% for FY2009—another reason for the lower-than-expected PAT. The company has been paying a lower tax rate of 22-28% over the past five years benefiting from the exemptions under section 36 (1) (viii) of IT Act and having an aggressive NPL write-off policy. The reason for this higher tax rate was the adverse court rulings on two past income tax disputes. Consequently, the company had to make the additional tax payments in the current quarter and led to a higher effective tax rate in the quarter.

Uncertainty on merger with Catholic Syrian Bank. Newspaper reports suggest that Federal Bank is looking to acquire Catholic Syrian Bank—the Kerala-based bank with 363 branches and a deposit base of around Rs53 bn (FY2008) (about 20% of Federal Bank deposits) and PAT of Rs367 mn (FY2008) (10% of Federal Bank's PAT). Financial details on the proposed deal are not yet known and the implementation of the merger plan may be a challenge for Federal Bank given the different systems/processes of Catholic Syrian Bank.

Federal Bank, Quarterly results

In Rs mn

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	% chg	4QFY09KS	Actual Vs KS
Interest earned	7,212	7,491	8,281	8,764	8,657	20.0	8,665	(0.1)
Interest/discount on advances/bills	5,194	5,500	6,490	7,003	6,649	28.0	6,887	(3.5)
Income on Investments	1,841	1,848	1,702	1,665	1,828	(0.7)	1,651	10.7
Interest on balances with RBI and other inter bank funds	33	67	68	68	163	395.2	127	29.0
Others	144	77	21	28	17	(88.3)	-	
Interest expended	4,442	4,669	4,963	4,918	5,448	22.7	5,111	6.6
Net interest income	2,770	2,822	3,318	3,846	3,209	15.9	3,554	(9.7)
Other Income	1,249	962	1,042	1,648	1,505	20.6	1,138	32.3
Sale of investments	200	(80)	(70)	640	340	70.0	210	61.9
Other income excl treasury	1,049	1,042	1,112	1,008	1,165	11.1	928	25.6
Total income	4,019	3,784	4,360	5,494	4,714	17.3	4,691	0.5
Operating Expenses	1,365	1,209	1,331	1,650	1,525	11.8	1,701	(10.3)
Payments to and provisions for employees	737	661	715	1,030	769	4.4	900	(14.6)
Other operating expenses	628	548	615	620	757	20.5	801	(5.5)
Operating profit	2,654	2,575	3,029	3,844	3,189	20.2	2,990	6.6
Other Provisions and Contingencies	1,417	1,764	1,569	500	875	(38.2)	981	(10.7)
NPL	700	320	1,510	1,340	516	(26.2)	843	(38.7)
PBT	1,238	811	1,461	3,344	2,314	87.0	2,010	15.1
Provision for Taxes	209	130	318	1,306	1,172	460.3	375	213.0
Net Profit	1,028	681	1,143	2,039	1,142	11.0	1,635	(30.2)
Tax rate (%)	17	16	22	39	51	199.7	19	171.8
PBT before provisions	2,654	2,575	3,029	3,844	3,189	20.2	2,990	6.6
Key balance sheet items (Rs bn)								
Deposits	259	269	264	273	322	24.3		
CASA ratio (%)	25.0	25.0	25.0	26.7	24.5			
Advances	189	203	213	216	224	18.4		
Retail	56.1	59.4	67.5	70.0	71.7	27.8		
Retail advances to total advances (%)	29.7	29.3	31.6	32.5	32.0			
Investments	100	95	81	97	121	20.9		
Asset management details								
Gross Non-performing assets (Rs mn)	4,686	5,484	5,719	6,257	5,895	26.5		
Gross NPL ratio (%)	2.4	2.6	2.6	2.8	2.6			
Net Non-performing assets (Rs mn)	432	938	853	706	681	37.4		
Net NPL ratio (%)	0.2	0.5	0.4	0.3	0.3			
Yield management measures (%)								
Yield on advances	11.46	11.37	12.49	12.32	12.3			
Cost of deposits	6.72	6.72	6.82	6.85	6.98			
NIM	3.49	3.85	4.38	4.41	4.28			
Capital Adequacy details (%)								
Capital Adequacy ratio	22.5	20.7	20.8	19.9	20.2			
Tier I	19.09	17.84	17.99	17.23	17.52			

Source: Company.

Federal Bank -- old and new estimates

March fiscal year-ends, 2009-2011E (Rs mn)

	Old estimates			New estimates			% change		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Net interest income	13,512	15,257	18,012	13,161	14,598	17,577	(2.6)	(4.3)	(2.4)
NIM (%)	4.00	3.85	3.86	3.81	3.54	3.59			
Loan growth (%)	23.5	18.4	18.9	18.45	18.99	19.17			
Loan loss provisions	4,013	4,843	5,747	3,686	4,658	5,547	(8.1)	(3.8)	(3.5)
Other income	4,790	5,198	5,383	5,160	5,560	5,902	7.7	7.0	9.6
Fee income	1,358	1,562	1,718	1,010	1,162	1,278	(25.6)	(25.6)	(25.6)
Treasury income	700	700	500	830	700	500	18.6	-	-
Operating expenses	5,890	7,030	7,806	6,302	7,533	8,356	7.0	7.2	7.1
Employee expenses	3,371	4,027	4,349	3,817	4,570	4,935	13.2	13.5	13.5
Depreciation on investments	200	-	-	235	-	-			
Net profit	5,471	5,820	6,727	4,752	5,376	6,534	(13.1)	(7.6)	(2.9)
PBT-treasury+provisions	11,711	12,725	15,089	11,190	11,925	14,623	(4.5)	(6.3)	(3.1)

Source: Company, Kotak Institutional Equities estimates.

Federal Bank, growth rates, key ratios and Du Pont analysis, March fiscal year-ends, 2007-2011E

	2007	2008	2009E	2010E	2011E
Growth rates (%)					
Net loan	26.9	26.9	18.4	19.0	19.2
Total Asset	21.5	29.6	19.5	18.6	17.3
Deposits	20.7	20.1	24.3	21.2	19.2
Current	29.7	20.4	(1.1)	61.6	19.2
Savings	19.7	19.1	28.0	27.1	19.2
Fixed	20.4	20.3	25.2	17.2	19.2
Net interest income	22.1	20.7	48.9	10.9	20.4
Loan loss provisions	(21.4)	75.1	72.1	26.4	19.1
Total other income	40.7	30.8	30.6	7.7	6.2
Net fee income	18.4	9.4	11.6	15.0	10.0
Net capital gains	191.2	52.3	10.6	(15.7)	0.0
Net exchange gains	50.9	11.0	50.9	20.0	20.0
Operating expenses	11.4	27.3	21.9	19.5	10.9
Employee expenses	14.1	22.6	19.5	19.7	8.0
Key ratios (%)					
Yield on average earning assets	8.3	9.1	9.6	8.9	8.9
Yield on average loans	9.6	10.8	12.4	11.4	11.4
Yield on average investments	7.4	7.7	6.5	5.9	5.9
Average cost of funds	5.2	6.6	6.6	6.0	5.9
Interest on deposits	5.2	6.4	6.6	5.8	5.7
Difference	3.1	2.6	3.0	2.9	3.0
Net interest income/earning assets	3.3	3.2	3.8	3.5	3.6
New provisions/average net loans	0.9	1.3	1.8	1.9	1.9
Interest income/total income	70.8	69.1	71.8	72.4	74.9
Fee income to total income	8.0	7.1	5.5	5.8	5.4
Operating expenses/total income	39.3	40.4	34.4	37.4	35.6
Tax rate	26.5	26.4	38.1	28.0	28.0
Dividend payout ratio	11.7	18.6	18.6	18.6	18.6
Share of deposits					
Current	5.6	5.7	4.5	6.0	6.0
Fixed	74.8	74.9	75.5	73.0	73.0
Savings	19.6	19.4	20.0	21.0	21.0
Loans-to-deposit ratio	69.0	73.0	69.5	68.3	68.3
Equity/assets (EoY)	6.0	12.1	11.1	10.3	9.7
Dupont analysis (% of average assets)					
Net interest income	3.2	3.1	3.7	3.4	3.5
Loan loss provisions	0.5	0.7	1.0	1.1	1.1
Net other income	1.3	1.4	1.4	1.3	1.2
Operating expenses	1.9	1.8	1.9	1.9	1.8
Invnt. depreciation	0.3	0.1	0.1	0.0	0.0
(1- tax rate)	73.5	73.6	61.9	72.0	72.0
ROA	1.3	1.3	1.3	1.3	1.3
Average assets/average equity	16.6	10.6	8.6	9.4	10.0
ROE	21.2	13.6	11.5	11.8	13.0

Source: Company, Kotak Institutional equities estimates

Federal Bank, income statement and balance sheet, March fiscal years, 2007-2011E

	2007	2008	2009E	2010E	2011E
Income statement (Rs mn)					
Loans	12,814	18,273	25,643	27,957	33,291
Investments	4,825	6,375	7,003	8,135	9,961
Cash and deposits	534	663	509	455	141
Total interest expense	10,850	16,474	19,992	21,948	25,816
Deposits from customers	10,301	15,259	19,209	20,669	24,536
Net interest income	7,324	8,837	13,161	14,598	17,577
Loan loss provisions	1,224	2,143	3,686	4,658	5,547
Net interest income (after prov.)	6,100	6,694	9,475	9,940	12,030
Other income	3,019	3,950	5,160	5,560	5,902
Net fee income	828	905	1,010	1,162	1,278
Net capital gains	493	750	830	700	500
Net exchange gains	304	338	510	612	734
Operating expenses	4,061	5,171	6,302	7,533	8,356
Employee expenses	2,605	3,194	3,817	4,570	4,935
Depreciation on investments	769	472	235	0	0
Other Provisions	314	0	421	500	500
Pretax income	3,982	5,002	7,677	7,467	9,075
Tax provisions	1,055	1,321	2,925	2,091	2,541
Net Profit	2,927	3,681	4,752	5,376	6,534
% growth	40	26	29	13	22
PBT - Treasury + Provisions	5,796	6,866	11,190	11,925	14,623
% growth	35	19	67	7	23
Balance sheet (Rs mn)					
Cash and bank balance	23,131	27,455	34,371	26,335	30,206
Cash	2,013	2,405	2,525	2,651	2,784
Balance with RBI	10,303	21,152	19,619	19,504	23,242
Balance with banks	9,670	2,168	2,168	2,168	2,168
Net value of investments	70,327	100,266	121,190	159,315	184,163
Govt. and other securities	60,374	77,988	85,000	123,647	148,853
Shares	1,650	2,330	2,330	2,330	2,330
Debentures and bonds	3,318	3,107	2,796	2,377	2,020
Net loans and advances	148,991	189,047	223,919	266,434	317,499
Fixed assets	1,861	2,328	2,820	2,553	2,700
Net leased assets	4	4	4	4	4
Net Owned assets	1,857	2,324	2,815	2,549	2,696
Other assets	6,589	5,969	6,221	6,221	6,221
Total assets	250,899	325,064	388,520	460,858	540,790
Deposits	215,844	259,134	321,980	390,080	464,843
Borrowings and bills payable	12,875	13,226	12,796	12,796	12,796
Other liabilities	7,158	13,448	10,472	10,472	10,472
Total liabilities	235,877	285,808	345,248	413,348	488,111
Paid-up capital	856	1,710	1,710	1,710	1,710
Reserves & surplus	14,166	37,547	41,548	45,800	50,968
Total shareholders' equity	15,022	39,257	43,259	47,511	52,678

Source: Company, Kotak Institutional equities estimates

Diversified**JAIA.BO, Rs190**

Rating	ADD
Sector coverage view	-
Target Price (Rs)	190
52W High-Low (Rs)	237 - 47
Market Cap (Rs bn)	267.1

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	61.2	84.8	107.1
Net Profit (Rs bn)	8.7	10.9	16.4
EPS (Rs)	6.2	7.8	11.7
EPS gth	26.8	25.0	50.2
P/E (x)	30.7	24.5	16.3
EV/EBITDA (x)	17.3	13.6	12.4
Div yield (%)	0.0	0.0	0.0

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
46.9	188.4	241.1	(17.1)

Shareholding, March 2009

	% of Pattern Portfolio	Over/(under) weight
Promoters	45.2	-
FII's	23.8	0.6
MFs	7.5	0.9
UTI	-	(0.4)
LIC	3.8	0.3

Jaiprakash Associates: Securitization of receivables improves funding ability for power business

- JPVL has securitized future receivables resulting in net cash inflow of Rs7 bn
- Execution of projects across business segments continues to remain strong
- Retain ADD rating with revised target price of Rs190/share

Jaiprakash Power Ventures (JPVL), 81% subsidiary of Jaiprakash Associates (JPA) has securitized future receivables resulting in a net cash inflow of Rs7 bn that increases the funding abilities for future projects. JPA continues to explore value-accretive opportunities and has received Lol for two power projects (3,300 MW) to be developed in Uttar Pradesh. We retain our ADD rating on the stock with a revised target price of Rs190/share (Rs140 previously). Our revised target price incorporates the benefit of rolling-over the valuations to FY2011E. We expect strong growth in construction and cement business to drive earnings during FY2009-11E. We estimate EPS of Rs7.8 for FY2010E and Rs11.7 for FY2011E. Upside to our earnings and valuations could arise across business segments—(1) higher-than-projected volumes growth in cement with installed capacity currently at 13.5 mn tpa, (2) faster execution in construction and (3) faster launches in real estate.

Securitization of receivables for Vishnuprayag likely to help augment cash flow for future projects

JPA has securitized the future receivables of the Vishnuprayag project recently which has resulted in (1) increased equity-funding capabilities of the company and (2) reduced the debt repayment obligations in the near-term. JPVL (holding company for Vishnuprayag project) realized net Rs7 bn after refinancing the existing debt. The debt is now rescheduled for payment over a 14-year period.

JPVL reported revenues of Rs3.7 bn, operating profit of Rs3.3 bn and net income of Rs1.8 bn for FY2009. Profits for the year were boosted by income from sale of VERs for Rs567 mn. However, loss on foreign exchange to the tune of Rs288 mn and higher operating and maintenance expenses resulted in a marginal yoy decline in net profits.

Power—thermal projects achieve key milestones, Karcham Wangtoo ahead of schedule

Our DCF-equity valuation of JPA's power project portfolio at Rs76/share (Rs66/share previously) implies a P/B of 1.8X and is net of the equity investment still to be made in the projects. Our valuation includes projects which are (1) currently under operation (700 MW), (2) have achieved critical milestones and progress in development/construction (4,845 MW). As per management, the construction work on Karcham-Wangtoo project is running ahead of schedule and the project is likely to commission six months ahead of schedule (in FY2012). JPA has also made significant progress in thermal power projects—(1) Jaypee Nigries (1,320 MW pithead-based power project), has achieved financial closure and (2) equipment order has been placed for Bina (500 MW). Both these projects plan to sell about 50% power on merchant basis. JPA has also received Lols for developing 2X660 MW Karchana and 3X660 MW Bara thermal power projects in Uttar Pradesh.

Cement—capacity addition in sync with long-term plan, upside risk to volume estimates

We use a 6X EV/EBITDA multiple on FY2011E to value JPA's cement business at Rs75/share (Rs52/share previously based on 5X EV/EBITDA). We have increased the multiple to be in line with the current peer valuations. Large cap cement stocks are currently trading at 6.8X EBITDA while our target prices for large cap cement companies imply an average 6.3X EBITDA on FY2011E. Our valuation of the cement business implies EV/ton of US\$143 on FY2011E production and US\$95 on FY2011E capacity.

We note there could be upside to our cement valuation as we have assumed a significantly slower volumes growth compared to management guidance. We factor in volumes of 10 mn tons (+31% yoy) in FY2010E and 12.8 mn tons (+28% yoy) in FY2011E compared to management's guidance of 13 mn tons of cement in FY2010. During FY2009, JPA commissioned cement capacities at Dalla (2.5 mn tpa) and Sidhi (2 mn tpa) taking the overall installed capacity to 13.5 mn tpa.

Construction—benefiting from project execution across business segments

We value the construction business at 6X FY2011E EBITDA (5X EBITDA previously) in line with the current valuation of construction stocks under coverage (IVRCL, Nagarjuna Construction trading at 6-7X EBITDA on FY2011E). We expect JPA's construction division to report strong revenue growth over the next two years as the execution of Yamuna Expressway and Karcham-Wangtoo gain momentum. We expect the construction division to also undertake the civil works at the thermal power plants -project—Bina (500 MW) where the BTG order has been placed to BHEL and Jaypee Nigries (1,320 MW) where financial closure has been achieved and equipment orders are being finalized.

Real estate—taking the lead in moderating prices, project launches continue for mid-income housing

We roll forward our model to FY2011E, which results in an increase in NAV to Rs55/share from Rs46/share. We also note that JPA has recently launched 'AMAN', a new township project on the Yamuna expressway over an area of 70 acres at a basic pricing of Rs2,100/sq. ft.

Management indicated that JPA has—(1) sold 2.9 mn sq. ft in Jaypee Greens at an average price of Rs5,500/sq. ft and has customer advances of Rs9.5 bn; (2) sold 5.3 mn sq. ft in Wish Town at an average price of Rs5,100/sq. ft and has customer advances of Rs10 bn. We estimate consolidated revenues of Rs10.4 bn in FY2010E and Rs15.9 bn in FY2011E. We estimate sales volumes of 2.6 mn sq. ft in FY2010E and 2.3 mn sq. ft in FY2011E, largely coming from the Noida project.

Retain ADD rating with revised target price of Rs190/share (Rs140/share previously). Our SOTP-based target price includes: (1) cement business valued at 6X EV/EBITDA on FY2011E— Rs90 bn (Rs63 bn previously); (2) construction business valued at 6X EV/EBITDA on FY2011E—Rs73 bn (Rs48 bn previously); (3) one-year forward NAV of the real estate business at Rs66 bn (Rs55 bn previously) and (4) DCF-equity of power projects at Rs91 bn (Rs79 bn previously). JPA also has a net debt of Rs98 bn for financing its cement, construction and roads businesses. Upside to our earnings and valuations could arise across business segments—(1) higher-than-projected volume growth in cement with installed capacity currently at 13.5 mn tpa, (2) faster execution in construction and (3) faster launches in real estate.

Profit model, balance sheet, cash model of Jaiprakash Associates Ltd, March fiscal year ends, 2007-2011E (Rs mn)

	2007	2008	2009E	2010E	2011E
Profit model					
Net revenues	39,328	41,872	61,211	84,799	107,129
EBITDA	14,592	16,819	22,404	30,684	38,872
Other income	987	2,195	2,651	1,954	1,536
Interest (expense)/income	(4,587)	(5,579)	(5,882)	(9,805)	(9,925)
Depreciation	(2,596)	(3,188)	(3,679)	(3,811)	(3,896)
Pretax profits	8,395	10,247	15,495	19,022	26,586
Tax	(2,408)	(2,200)	(4,360)	(5,866)	(7,865)
Deferred taxation	(65)	(762)	(1,533)	(1,155)	(1,181)
Minority interest	(882)	(1,202)	(891)	(1,115)	(1,185)
Net income	5,040	6,084	8,711	10,886	16,355
Extraordinary items	492	684	—	—	—
Reported profit	5,532	6,768	8,711	10,886	16,355
Earnings per share (Rs)	4.6	4.9	6.2	7.8	11.7
Balance sheet					
Paid-up common stock	2,192	2,343	2,794	2,794	2,794
Total shareholders' equity	29,286	49,772	59,563	68,242	82,076
Deferred taxation liability	5,824	7,101	8,634	9,788	10,969
Minority interest	4,591	7,025	8,360	10,362	14,846
Total borrowings	81,062	114,872	154,199	176,367	212,754
Total liabilities and equity	120,762	178,770	230,756	264,760	320,646
Net fixed assets	61,172	69,388	93,344	106,243	146,985
Capital work-in progress	27,390	62,250	72,616	89,796	122,095
Investments	77	1,203	1,604	1,604	1,604
Cash	18,230	24,622	41,681	35,083	11,538
Net current assets (excl. cash)	13,514	20,788	20,991	31,515	37,904
Net current assets (incl. cash)	32,122	45,929	63,192	67,117	49,962
Total assets	120,762	178,770	230,756	264,760	320,646
Free cash flow					
Operating cash flow, excl. working capital	5,532	9,905	12,162	15,013	21,082
Working capital changes	688	(7,274)	(203)	(10,524)	(6,390)
Capital expenditure	(24,654)	(45,993)	(38,002)	(33,889)	(76,938)
Free cash flow	(18,435)	(43,362)	(26,043)	(29,400)	(62,245)
Ratios					
Net debt/equity (%)	181	161	167	183	219
Return on equity (%)	15	13	14	15	19
Book value per share (Rs)	32	48	48	55	66
ROCE (%)	9	8	7	8	9

Source: Company data, Kotak Institutional Equities estimates

Division-wise breakup of Jaiprakash's (consolidated) revenues and EBITDA, 2006-2011E
 (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Sales						
Cement	12,206	18,314	19,504	23,055	31,895	38,397
Construction	16,754	14,329	11,486	24,883	34,188	44,532
Real estate	—	—	2,694	5,259	10,352	15,870
Power	2,732	5,497	6,845	6,621	7,072	7,062
Hotel	1,109	1,367	1,593	1,593	1,593	1,593
Total	32,801	39,507	42,122	61,411	85,099	107,454
less inter-div transfer	(91)	(180)	(250)	(200)	(300)	(325)
Reported total	32,711	39,328	41,872	61,211	84,799	107,129
EBITDA						
Cement	2,751	6,625	7,974	8,286	12,615	15,029
Construction	5,379	4,166	4,407	8,425	9,679	12,234
Real estate	—	—	858	2,013	5,144	8,394
Power	2,700	5,157	6,327	5,988	6,554	6,522
Hotel	513	592	691	691	691	691
Total	11,343	16,539	20,258	25,404	34,684	42,872
Others	(2,758)	(1,948)	(3,439)	(3,000)	(4,000)	(4,000)
Reported total	8,585	14,592	16,819	22,404	30,684	38,872

Source: Company data, Kotak Institutional Equities estimates

SOTP-based valuation of Jaiprakash Associates Ltd

Business	Methodology	Comments	Value	
			(Rs bn)	(Rs/share)
Cement	EV/EBITDA (X)	6X FY2011E EBITDA	90	75
Construction	EV/EBITDA (X)	6X FY2011E EBITDA	73	61
Real estate	NAV	Base case assumption of flat prices till FY2010 and 5% growth in realisation beyond that for 1,250 acre township at Noida and 8 mn sq. ft at Jaypee Greens	66	55
Power	DCF-to-equity	3,377 MW of attributable power portfolio, of which 511 MW is already under operation	91	76
Hotels	Market value	7X FY2011E EBITDA	1	1
Net debt	Book value	Net debt for cement, construction and real estate business	(98)	(82)
Total			224	186

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	22-May-09 Price (Rs)	Rating	O/S		Mkt cap. (US\$ mn)	EPS (Rs)		EPS growth (%)		PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend yield (%)		RoE (%)		Target price (Rs)	ADVT- Upside 3mo (US\$ mn)								
			shares (mn)	shs		2009E	2010E	2010E	2011E	2009E	2010E	2009E	2010E	2009E	2010E	2009E	2010E	2009E	2010E			2009E	2010E						
Automobiles																													
913	SELL	132,132	2,770	145	48.7	65.3	73.1	(6.7)	34.0	12.0	18.7	14.0	12.5	10.5	8.0	7.9	6.9	5.3	4.2	2.2	2.2	40.2	42.8	36.8	780	(14.6)	3.3		
Bajaj Auto																													
1,359	REDUCE	271,402	5,690	200	64.2	83.8	91.2	32.4	30.5	8.8	21.2	16.2	14.9	12.3	9.5	8.2	6.9	5.4	4.3	1.5	1.6	1.6	36.6	37.4	31.9	1,000	(28.4)	17.0	
626	ADD	166,075	3,482	265	21.6	34.7	39.1	(43.2)	60.6	12.8	29.0	18.1	16.0	19.2	11.3	9.8	3.5	2.7	2.4	1.4	1.5	1.5	12.2	16.7	15.8	480	(26.1)	14.6	
Mahindra & Mahindra																													
975	SELL	281,631	5,905	289	42.2	58.3	63.4	(29.5)	38.1	8.6	23.1	16.7	15.4	13.0	8.4	7.1	2.9	2.5	2.2	0.4	0.5	0.5	13.1	16.1	15.1	780	(20.0)	27.0	
Maruti Suzuki																													
344	SELL	191,330	4,012	556	18.5	19.0	24.0	(62.8)	2.6	26.3	18.6	18.1	14.3	13.1	9.4	8.0	1.4	1.3	1.2	—	—	—	9.1	7.3	—	195	(43.3)	34.9	
Tata Motors																													
Automobiles																													
1,042,570	Cautious		21,859					(25.6)	31.2	12.8	21.8	16.6	14.7	13.2	9.2	8.1	3.1	2.6	2.3	1.0	1.1	1.1	14.0	15.7	15.4				
Banks/Financial Institutions																													
89	ADD	43,335	909	485	13.5	11.1	12.6	14.0	(17.9)	13.6	6.6	8.0	7.1	—	—	—	1.3	1.3	1.3	5.0	3.1	3.5	19.0	14.0	14.4	75	(16.1)	1.2	
Bank of Baroda																													
798	BUY	286,396	6,005	359	50.6	56.1	66.6	56.9	11.0	18.7	15.8	14.2	12.0	—	—	—	3.1	2.7	2.3	1.3	1.4	1.7	19.1	18.3	18.9	700	(12.3)	66.6	
Axix Bank																													
435	ADD	159,151	3,337	366	60.9	54.9	58.5	55.1	(9.8)	6.5	7.1	7.9	7.4	—	—	—	1.5	1.5	1.3	2.1	1.9	2.0	18.7	14.9	14.2	370	(15.0)	11.0	
Bank of India																													
332	ADD	174,840	3,666	526	57.2	46.3	53.2	40.7	(19.1)	14.9	5.8	7.2	6.3	—	—	—	1.8	1.6	1.5	2.4	2.9	2.2	29.2	19.0	18.7	310	(6.8)	15.9	
Canara Bank																													
284	REDUCE	116,379	2,440	410	50.5	38.6	41.4	32.4	(23.6)	7.1	5.6	7.4	6.9	—	—	—	1.5	1.3	1.2	2.8	2.8	3.5	18.3	12.4	12.2	220	(22.5)	5.2	
ICICI Bank																													
116,379	ADD	163,988	3,438	1,294	5.8	7.0	8.0	2.3	21.0	13.3	21.8	18.0	15.9	—	—	—	2.7	2.4	2.1	0.8	0.9	1.0	12.9	14.1	14.2	85	(32.9)	28.8	
India Infoline																													
45,217	ADD	45,217	948	311	5.0	5.8	6.5	(10.0)	15.5	12.3	28.8	24.9	22.2	—	—	—	3.6	3.2	2.9	1.8	2.3	2.8	11.7	13.5	14.6	90	(38.0)	8.0	
Indian Bank																													
55,720	BUY	55,720	1,168	430	28.1	26.6	30.6	24.7	(5.3)	15.0	4.6	4.9	4.2	—	—	—	1.0	1.0	0.9	3.3	3.1	3.5	22.7	18.3	18.1	165	27.3	2.8	
Indian Overseas Bank																													
47,425	BUY	47,425	994	545	24.3	16.6	22.2	10.3	(31.9)	33.8	3.6	5.3	3.9	—	—	—	0.8	0.7	0.6	6.0	4.3	4.7	24.7	14.5	17.0	110	26.4	3.8	
J&K Bank																													
22,723	ADD	22,723	476	48	82.8	72.2	92.8	11.5	(12.7)	28.4	5.7	6.5	5.1	—	—	—	1.0	1.0	0.9	3.7	3.2	4.1	16.5	12.9	14.9	480	2.4	0.3	
LCI Housing Finance																													
855	BUY	40,781	855	85	62.5	68.8	80.3	37.3	10.0	16.8	7.7	7.0	6.0	—	—	—	1.7	1.4	1.2	2.9	3.2	3.7	26.2	23.9	23.4	390	(18.7)	7.8	
Mahindra & Mahindra Financial																													
22,944	ADD	22,944	481	96	22.4	24.7	30.0	7.5	22.9	8.7	10.7	8.7	8.0	—	—	—	1.6	1.4	1.2	2.3	2.9	3.1	15.4	16.9	16.3	240	0.1	0.2	
Oriental Bank of Commerce																													
46,688	ADD	46,688	979	251	36.1	27.3	34.6	51.4	(24.5)	26.7	5.2	6.8	5.4	—	—	—	0.8	0.9	0.9	3.9	2.9	3.7	14.8	10.2	11.8	150	(19.5)	3.3	
PFC																													
221,060	SELL	221,060	4,635	1,148	13.0	16.5	19.3	14.3	26.7	17.6	14.8	11.7	10.0	—	—	—	2.0	1.8	1.6	1.4	2.6	2.3	13.8	15.8	16.7	160	(16.9)	5.1	
Punjab National Bank																													
207,690	BUY	207,690	4,355	315	98.0	98.5	115.1	50.9	0.5	16.8	6.7	6.7	5.7	—	—	—	1.7	1.5	1.3	3.0	3.0	3.5	23.0	19.9	20.1	760	15.4	24.4	
Rural Electrification Corp.																													
145	BUY	124,669	2,614	859	15.2	17.7	20.0	38.8	16.8	13.0	9.6	8.2	7.3	—	—	—	1.8	1.5	1.3	3.3	3.3	3.9	4.4	19.6	19.9	19.6	125	(13.9)	2.8
Shriram Transport																													
63,272	BUY	63,272	1,327	212	30.1	32.5	36.9	56.8	7.9	13.7	9.9	9.2	8.1	—	—	—	2.9	2.5	2.0	2.9	3.3	3.7	29.6	27.0	25.8	300	0.3	2.4	
SREI																													
8,309	11	ADD	8,309	174	116	7.7	6.9	8.2	(32.8)	(10.1)	18.6	9.3	10.3	8.7	—	—	0.8	0.7	0.7	3.2	3.9	4.5	14.0	11.5	13.0	50	(30.0)	2.4	
State Bank of India																													
1,138,492	BUY	1,138,492	23,870	635	143.6	121.1	139.2	34.8	(15.7)	14.9	12.5	14.8	12.9	—	—	—	2.3	2.3	2.0	1.6	1.7	1.8	17.1	12.7	13.3	1,600	(10.8)	117.3	
Union Bank																													
100,443	BUY	100,443	2,106	505	34.2	29.6	35.5	24.5	(13.5)	19.9	5.8	6.7	5.6	—	—	—	1.2	1.0	0.9	2.6	2.2	2.7	27.2	19.5	19.9	220	10.6	5.9	
Banks/Financial Institutions																													
5,195,547	Attractive		108,933					27.6	(4.5)	15.6	12.2	12.8	11.1	—	—	—	2.1	1.9	1.7	1.8	2.0	1.8	2.0	16.9	15.0	15.7			
Cement																													
711	REDUCE	133,601	2,801	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	12.6	12.9	16.9	6.3	6.4	7.4	2.5	2.2	2.0	3.3	3.3	3.3	24.7	21.3	15.1	625	(12.1)	11.6	
ACC																													
2,860	90	REDUCE	136,405	2,860	1,522	7.2	6.8	5.4	(5.0)	(4.7)	(20.5)	12.5	13.1	16.5	6.7	6.9	8.2	2.3	2.0	1.9	3.3	2.1	2.4	19.7	16.6	12.0	70	(21.9)	4.8
Ambuja Cements																													
2,247	REDUCE	205,991	4,319	92	238.5	235.7	239.1	(16.2)	(1.2)	1.4	9.4	9.5	9.4	5.5	4.9	4.6	1.9	1.6	1.4	1.5	1.5	1.5	21.7	18.2	16.0	1,900	(15.4)	9.6	
Grasim Industries																													
40,913	145	ADD	40,913	858	282	22.7	19.8	17.5	n6	(12.8)	(11.2)	6.4	7.3	8.3	4.4	4.6	4.8	1.1	0.9	0.9	1.5	2.2	15.7	14.7	11.7	130	(10.4)	5.7	
India Cements																													
35,614	1,022	BUY	35,614	747	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	5.9	11.2	11.9	4														

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

27-May-09 129.8	Company	O/S shares (mn)	Mkt cap. (US\$ mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	ADVT- Upside (%)	ADVT- 3mo (US\$ mn)		
				2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E					
Energy																													
459	SELL	150,323	3,152	328	16—	30.3	39.5	(62.2)	94	NA	29	NA	11.6	6.7	5.8	5.2	1.1	1.0	1.0	—	3.8	5.0	4.2	7.0	8.8	450	(1.9)	7.1	
220	BUY	416,319	8,729	1,897	41.3	9.2	31.2	(3,708)	115	238.0	51	24	7.0	33.4	12.3	5.1	9.1	1.2	1.2	1.2	—	11.4	2.5	5.1	16.5	225	2.5	27.7	
329	BUY	40,690	853	124	21.3	25.5	26.6	20.8	19.5	4.3	15.4	12.9	12.4	8.6	7.4	7.1	9.1	8.2	7.6	4.6	5.5	6.1	61.2	66.5	63.7	390	18.5	0.5	
285	REDUCE	360,881	7,566	1,268	23.4	20.6	21.8	14.7	(11.8)	5.7	12.2	13.8	13.0	6.6	7.8	8.2	2.2	2.0	1.8	2.6	2.3	2.3	18.4	14.5	14.0	270	(5.1)	12.4	
58	REDUCE	32,501	681	1.9	2.5	3.7	4.4	30.5	52.6	30.7	33.5	15.4	10.2	6.5	5.5	2.4	2.2	2.2	0.9	2.2	2.2	6.5	8.2	9.8	14.4	45	(22.1)	3.5	
337	SELL	114,348	2,397	339	7.4	17.9	34.0	(122.0)	(343.0)	90.1	(45.8)	18.9	9.9	7.2	6.2	NA	0.9	0.9	NA	—	3.6	6.8	(2.0)	4.3	8.0	325	(3.6)	7.8	
575	REDUCE	678,522	14,226	1,179	19.1	41.5	40.3	(68.8)	116.8	(30.0)	30.0	13.9	14.3	10.5	6.2	6.0	1.4	1.3	1.3	NA	—	3.2	3.2	4.9	9.3	8.5	500	(13.1)	3.7
1,106	BUY	2,364,647	49,578	2,139	100.3	95.3	119.2	8.1	(50.2)	25.1	11.0	11.6	9.3	4.2	4.1	3.4	2.1	1.9	1.7	3.1	3.6	3.8	18.9	15.9	18.2	1,100	(0.5)	46.1	
2,186	REDUCE	3,001,859	62,939	1,273	103.4	126.5	169.4	(1.5)	22.4	33.9	21.1	17.3	12.9	12.4	7.9	6.1	2.5	2.2	2.0	0.6	0.7	0.9	15.1	15.8	18.6	1,750	(20.0)	229.1	
137	NR	615,600	12,907	4,500	—	8.3	13.8	na	na	na	na	na	na	na	na	na	8.1	4.5	3.8	2.9	1.5	1.5	0.6	25.1	33.0	—	—	24.8	
Industrials																													
608	REDUCE	128,809	2,701	212	25.8	24.9	29.6	11.3	(3.6)	18.7	23.5	24.4	20.6	13.9	13.7	11.1	6.1	5.0	4.2	0.4	0.5	0.5	29.2	22.6	22.1	500	(17.7)	7.1	
337	REDUCE	24,275	509	72	15.3	20.7	24.3	26.1	35.4	17.5	22.0	16.3	13.8	12.1	9.7	8.3	4.3	3.6	2.9	0.7	1.0	1.2	21.3	23.9	23.2	165	(51.1)	1.4	
1,318	REDUCE	105,460	2,211	80	101.9	111.1	119.0	(9.0)	9.0	7.1	12.9	11.9	11.1	5.5	4.9	4.4	2.7	2.3	2.0	1.9	1.9	1.9	22.4	20.9	19.2	1,025	(22.2)	1.6	
2,083	REDUCE	1,019,597	21,377	490	64.1	92.0	106.8	9.8	43.5	16.1	32.5	22.6	19.5	17.6	12.5	10.6	7.9	6.2	5.0	0.8	0.9	1.1	26.4	30.7	28.6	1,900	(8.6)	62.4	
2,605	ADD	95,605	2,005	367	15.3	17.0	20.0	37.3	11.0	17.5	17.0	15.3	13.0	9.6	8.6	7.4	5.4	4.1	3.2	0.7	0.8	0.9	36.5	30.5	27.9	300	(23.0)	6.5	
1,312	ADD	782,990	16,417	597	49.0	54.7	63.5	29.2	11.5	16.1	26.8	24.0	20.7	15.6	13.7	12.2	4.9	4.0	3.4	0.8	0.8	0.9	20.9	18.5	18.0	1,000	(15.8)	82.0	
239	BUY	16,853	353	71	35.9	33.0	39.6	22.2	(8.1)	20.3	6.7	7.2	6.0	4.5	4.6	3.6	1.2	1.1	0.9	2.3	2.1	3.0	20.3	16.0	16.8	225	(5.8)	1.0	
464	REDUCE	156,324	3,278	337	14.2	19.8	21.1	(22.2)	39.7	6.4	32.7	23.4	22.0	15.5	13.4	12.7	6.9	5.9	4.9	1.4	0.9	2.3	27.1	24.2	360	(22.4)	7.2		
90	ADD	140,970	2,956	1,571	7.0	7.1	11.4	6.0	2.1	59.7	12.9	12.6	7.9	9.4	8.3	6.6	1.4	1.2	1.0	0.6	0.6	1.1	11.3	10.1	13.9	90	0.3	71.0	
Infrastructure																													
140	ADD	46,447	974	332	5.6	10.4	10.8	63.5	85.5	3.9	24.9	13.4	12.9	13.6	7.5	6.8	2.5	2.1	1.7	—	—	—	10.6	16.8	14.5	135	(3.4)	6.1	
Media																													
48	REDUCE	45,094	945	946	(7.3)	(4.1)	(3.2)	na	(44.4)	(22.6)	(6.5)	(11.7)	(15.1)	(27.7)	(171.5)	53.9	(7.0)	(22.2)	(9.0)	—	—	—	86.1	91.1	NA	22	(53.8)	6.4	
110	BUY	25,686	539	234	0.8	3.5	6.0	(80.4)	311.0	70.9	129.1	31.4	18.4	26.5	12.4	9.1	3.0	2.9	2.6	0.4	0.7	1.9	2.3	9.4	14.9	100	(8.8)	0.5	
2,078	BUY	319,878	6,707	154	198.0	172.4	196.2	139.3	(12.9)	13.8	10.5	12.0	10.6	7.3	7.5	6.2	4.4	3.2	2.5	—	0.3	0.6	53.1	31.0	26.4	1,820	(12.4)	28.3	
517	SELL	96,657	2,027	187	13.1	24.1	53.5	(84.7)	83.3	121.8	39.3	21.4	9.7	8.8	8.8	6.9	0.9	0.8	0.7	0.2	1.0	1.0	11.0	4.3	8.3	340	(34.2)	31.3	
586	BUY	247,456	5,188	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	9.1	9.3	7.2	5.3	4.7	2.8	1.7	1.4	1.2	0.7	0.9	0.9	20.1	16.5	17.9	610	4.2	3.3	
166	BUY	130,564	2,737	787	24.8	25.5	34.2	30.8	3.0	34.0	6.7	6.5	4.8	4.0	3.4	1.9	2.9	2.1	1.5	2.1	2.1	52.8	37.1	36.0	200	20.6	21.8		
591	ADD	418,862	8,782	708	49.2	41.0	50.5	(23.6)	(16.7)	23.4	12.0	14.4	11.7	7.1	7.8	5.8	1.6	1.5	1.3	—	—	14.3	10.7	11.3	280	(17.1)	42.4		
374	BUY	307,013	6,437	822	123.9	55.5	87.0	63.6	(55.2)	56.7	3.0	6.7	4.3	3.7	5.0	3.8	0.7	0.6	0.6	3.5	3.5	3.5	36.8	15.7	21.8	480	(20.0)	95.0	
Metals																													
Pharmaceutical																													
194	BUY	38,710	812	200	4.7	13.6	19.4	(80.0)	192.2	42.8	41.6	14.2	10.0	17.1	8.0	5.8	2.5	2.2	1.9	0.0	0.1	6.2	16.9	20.9	235	21.4	1.8	18.4	
222	ADD	172,520	3,617	777	9.9	13.9	15.5	9.5	40.6	11.9	22.5	16.0	14.3	16.2	11.6	10.2	4.0	3.4	2.9	1.1	1.4	1.6	19.0	23.0	21.8	260	17.1	8.4	
186	BUY	15,099	317	81	18.0	21.2	27.3	22.1	17.9	28.7	10.3	8.8	6.8	8.6	6.8	5.3	2.1	1.7	1.4	0.0	0.0	22.8	21.9	22.9	280	50.8	0.5	40.3	
1,148	BUY	74,116	1,554	65	64.9	75.1	89.1	21.8	15.8	18.7	17.7	15.3	12.9	13.8	11.2	9.0	6.0	4.4	3.4	0.1	0.1	40.2	33.4	29.7	1,450	26.3	4.3	4.8	
674	BUY	114,093	2,392	169	32.4	45.5	47.0	24.5	40.2	3.3	20.8	14.8	14.4	9.9	8.2	7.3	3.2	2.7	2.3	0.6	0.6	0.6	13.6	19.8	17.3	740	9.7	4.8	
246	BUY	65,467	1,373	266	15.8	18.2	22.5	(38.7)	14.7	23.6	15.5	13.5	11.0	10.2	8.6	7.3	3.0	2.5	2.0	0.0	0.0	21.9	19.8	20.2	390	58.4	7.0	7.0	
179	BUY	30,611	642	171	6.5	18.6	21.8	(26.2)	12.6	17.7	10.8	9.6	8.2	12.3	7.7	5.7	2.4	2.0	1.6	0.7	0.7	1.0	18.6	22.6	21.7	250	39.8	0.5	
855	BUY	75,716	1,588	89	60.7	66.0	71.3	21.9	8.7	8.0	14.1	13.0	12.0	13.9	11.6	9.8	4.4	3.5	2.8	1.4	1.3	1.6	33.7	30.3	26.1	1,075	25.8	3.3	
269	BUY	56,273	1,180	209	17.3	22.4	28.2	(2.7)	29.8	26.0	15.6	12.0	9.5	11.6	8.1	6.6	4.3	3.3	2.6	1.6	1.7	1.7	26.3	31.4	30.8	340	26.3	1.9	
262	REDUCE	111,850	2,345	427	(8.1)	(5.7)	5.1	(134.7)	NA	NA	(32.4)	NA	51.2	(154.1)	797.0	20.5	2.2	1.9	2.0	3.9	4.3	4.8	(6.8)	(4.7)	4.1	150	(42.7)	16.4	
1,322	BUY	273,860	5,742	207	86.8	85.7	94.0	16.3	(13.9)	9.7	15.2	15.4	14.1	11.9	11.1	9.6	4.0	3.3	2.7	0.8	1.0	3.1	24.3	21.9	1.800	36.1	18.4	18.4	
Pharmaceuticals																													
Property																													
366	REDUCE	623,956	13,082	1,705	29.3	16.0	17.4	(36.6)	(45.2)	8.4	12.5	22.8	21.1	12.6	18.0	15.5	2.5	2.3	2.2	0.8	0.8	1.1	22.5	10.6	10.6	190	(48.1)	128.0	
282	NR	77,579	1,627	275	30.6	19.8	24.8	(40.1)	(35.3)	25.1	9.2	14.2	11.4	11.9	13.7	11.2	1.8	1.7	1.5	1.8	2.1	2.8	21.2	12.1	13.9	—	(100.0)	82.4	
204	ADD	81,770	1,714	401	3.0	3.1	7.5	(8.18)	3.8	141.1	68.0	65.4	27.1	(204)	47.1	11.2	1.2	0.9	0.9	1.6	2.5	2.5	1.3	1.6	3.2	210	3.0	47.4	
272	BUY	11,449	2,140	42	10.2	10.8	15.4	(39.2)	5.3	42.5	26.6	25.3	17.7	41.1	23.8	12.1	1.3	1.3	1.2	1.4	1.4	1.4	4.8	4.9	6.7	410	50.6	0.6	
120	BUY	17,425	365	145	5.4	7.3	8.9	70.0	34.7	23.4	22.3	16.6	13.4	24.7	12.5	10.0	1.2	1.1	1.0	0.8	0.8	1.2	5.3	6.8	7.9	210	74.6	0.3	
100	REDUCE	212,36	445	213	6.8	7.0	7.4	(39.8)	2.8	6.9	14.7	14.3	13.4	21.3	17.4	14.0	1.6	1.5	1.4	—	2.0	2.0	11.0	7.8	9.7	55	(44.7)	0.3	
193	REDUCE	14,045	294	73	15.9	11.9	14.7	(30.0)	(24.8)	23.5	12.1	16.1	13.1	10.3	13.9	12.3	1.3	1.2	1.2	2.1	2.1	2.1	11.5	10.8	10.1	90	(33.3)	0.9	
77	SELL	157,621	3,305	2,044	6.4	3.9	3.4	(38.4)	(39.0)	(12.9)	13.1	99.9	22.8	13.0	14.8	15.2	3.4	2.2	2.0										

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

27-May-09 47.7	Company	O/S shares (mn)	Mkt cap. (US\$ mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT- 3mo (US\$ mn)		
				2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E					
1,007	REDUCE	44,682	937	44	45.9	50.1	56.9	30.8	9.2	13.7	22.0	20.1	17.7	14.1	12.3	10.5	7.8	6.0	4.7	1.0	1.1	1.2	38.9	33.6	29.9	850	(15.6)	3.7	
	Neutral	44,682	937					30.8	9.2	13.7	22.0	20.1	17.7	14.1	12.3	10.5	7.8	6.0	4.7	1.0	1.1	1.2	35.3	29.7	26.8				
175	REDUCE	121,590	2,549	695	16.2	12.5	16.7	5.8	(22.6)	33.4	10.8	14.0	10.5	6.1	5.8	5.6	1.9	1.8	1.7	6.9	6.9	6.9	18.3	13.0	16.8	110	(37.1)	5.4	
1,588	BUY	911,598	19,113	574	102.4	104.1	116.1	29.6	1.6	11.5	15.5	15.3	13.7	11.1	10.7	8.9	5.0	4.0	3.3	1.5	1.6	1.8	36.7	29.3	26.8	1,500	(5.6)	60.2	
327	REDUCE	68,197	1,430	208	14.2	38.8	30.3	15.7	173.5	(21.9)	23.1	8.4	10.8	17.5	6.0	5.8	4.7	3.2	2.6	1.2	1.4	1.5	22.8	45.3	26.4	240	(26.6)	3.0	
378	BUY	15,544	326	41	13.2	44.0	50.7	(50.5)	232.5	15.1	28.5	8.6	7.5	5.0	5.0	4.2	2.8	2.1	1.7	0.5	—	1.3	5.5	20.4	18.4	400	5.9	4.5	
216	REDUCE	277,709	581	129	26.8	23.5	26.1	(19.3)	(12.4)	11.1	8.0	9.2	8.3	2.8	2.2	2.0	1.1	0.9	0.8	0.8	2.2	2.2	16.2	10.0	10.3	150	(30.4)	1.9	
92	SELL	9,125	191	99	13.1	13.3	12.1	76.0	1.7	(8.9)	7.1	6.9	7.6	2.4	2.9	3.0	1.2	1.0	0.9	3.0	2.2	2.2	18.1	15.9	12.9	50	(45.9)	2.9	
649	REDUCE	634,678	13,307	979	52.9	51.3	55.9	3.1	(2.9)	8.8	12.3	12.6	11.6	8.5	8.6	7.4	4.1	3.4	2.9	2.2	2.4	3.4	36.9	29.1	26.8	510	(21.4)	28.1	
481	ADD	62,101	1,302	129	70.4	38.0	37.2	19.3	(46.0)	(2.1)	6.8	12.6	12.9	4.6	8.2	7.7	2.8	2.3	2.0	0.8	1.2	1.5	52.8	20.3	17.0	360	(25.1)	18.7	
379	ADD	554,464	11,625	1,462	25.7	27.0	29.4	15.8	4.7	9.1	14.7	14.1	12.9	10.8	9.7	8.1	3.7	3.0	2.6	1.1	2.0	2.2	26.9	23.7	21.7	325	(14.3)	13.4	
	Carious	2,411,527	50,561					15.0	0.3	8.9	13.5	13.5	12.4	9.2	8.8	7.6	3.8	3.1	2.7	1.8	2.1	2.6	28.1	23.3	21.8				
769	ADD	1,459,567	30,602	1,899	44.6	52.2	59.8	26.4	17.0	14.6	17.2	14.7	12.9	10.1	8.6	7.4	4.6	3.5	2.7	0.5	0.8	1.0	31.4	27.0	23.8	775	0.8	92.1	
105	REDUCE	244,894	5,135	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	27.2	27.2	24.5	10.0	9.0	7.5	1.8	1.7	1.6	—	—	—	10.4	6.4	6.8	55	(30.3)	11.9	
709	SELL	66,150	1,387	630	4.0	4.1	4.6	(44.3)	2.6	11.8	26.4	25.7	23.0	15.1	11.1	7.6	0.6	0.6	0.6	5.7	5.7	5.7	1.6	1.6	1.9	50	(52.4)	2.5	
304	SELL	627,875	13,164	2,064	27.7	20.3	21.1	4.7	(26.6)	3.9	11.0	15.0	14.4	9.4	8.9	6.9	1.8	1.6	1.4	0.3	—	—	18.6	11.7	10.9	180	(40.8)	64.8	
522	REDUCE	148,742	3,119	285	13.6	14.0	15.2	24.0	3.2	8.2	38.4	37.2	34.4	16.3	14.8	13.7	2.2	2.1	2.0	1.0	1.2	1.4	5.4	5.2	5.5	400	(23.4)	3.6	
	Carious	2,547,227	53,407					11.5	(0.5)	11.3	15.8	15.9	14.3	10.1	9.0	7.4	2.6	2.2	1.9	0.6	0.7	0.8	16.3	14.0	13.6				
931	ADD	121,005	2,537	130	64.4	71.4	83.3	11.6	10.8	16.6	14.4	13.0	11.2	10.3	8.6	7.2	3.2	2.7	2.3	1.5	1.7	2.0	24.0	22.5	22.2	850	(8.7)	0.8	
	Carious	121,005	2,537					11.6	10.8	16.6	14.4	13.0	11.2	10.3	8.6	7.2	3.2	2.7	2.3	1.5	1.7	2.0	22.1	20.8	20.5				
350	BUY	43,665	916	125	31.2	38.0	42.1	12.3	21.8	10.8	11.2	9.2	8.3	6.0	6.7	7.0	1.2	1.1	0.9	1.3	1.6	1.7	11.4	12.2	11.9	385	10.2	1.3	
347	BUY	77,060	1,616	222	14.6	17.1	24.9	(1.3)	16.6	45.7	23.7	20.3	13.9	26.1	19.3	10.6	3.5	2.9	2.4	—	—	—	16.2	15.8	19.0	270	(22.1)	13.8	
202	SELL	1,665,996	34,930	8,245	9.4	10.8	12.2	1.1	14.7	12.6	21.4	18.7	16.6	16.3	13.8	13.1	2.8	2.6	2.4	1.7	2.0	2.3	13.7	14.5	15.0	180	(10.9)	32.3	
1,288	BUY	291,747	6,117	226	64.1	58.8	62.9	70.5	(8.2)	6.9	20.1	21.9	20.5	21.6	21.9	17.0	1.7	1.6	1.5	0.5	0.6	0.7	6.3	7.0	9.0	970	(24.7)	116.7	
179	REDUCE	428,539	8,985	2,397	1.0	2.5	3.1	—	140.3	25.3	175.3	72.9	58.2	—	—	—	—	3.1	3.0	2.8	—	—	—	1.8	4.2	5.0	120	(32.9)	22.7
1,091	BUY	242,953	5,094	223	65.2	90.2	101.5	104.6	38.4	12.5	16.8	12.1	10.8	11.0	10.2	9.6	2.3	2.0	1.7	1.0	1.1	1.3	15.0	17.5	17.0	1,000	(8.4)	12.9	
	Attractive	274,960	57,657					16.0	17.7	13.4	23.6	20.1	17.7	11.5	16.3	14.8	2.6	2.4	2.2	1.2	1.4	1.6	11.0	11.9	12.3				
877	SELL	33,236	697	38	87.8	148.2	277.7	21	68.8	87.4	10.0	5.9	3.2	9.0	7.1	5.6	2.4	1.7	1.1	0.5	0.6	0.6	33.7	36.9	41.2	300	(65.8)	50.0	
273	REDUCE	16,546	347	61	(1.0)	10.3	14.7	(10.4)	NA	43.0	NA	26.6	18.6	10.6	9.1	8.2	2.3	2.2	2.0	1.2	1.5	1.8	(0.9)	8.5	11.4	120	(56.1)	2.4	
190	ADD	267,149	5,601	1,403	6.2	7.8	11.7	27	25.0	50.2	30.7	24.5	16.3	17.3	13.6	12.4	4.5	3.9	3.3	0.0	0.0	0.0	15.9	17.0	21.8	190	(0.2)	76.1	
368	BUY	20,182	423	55	64.3	47.8	41.7	(1)	(25.6)	(12.8)	5.7	7.7	8.8	3.8	3.9	3.7	0.6	0.6	0.5	1.4	1.1	1.1	10.8	7.4	6.2	300	(18.4)	2.9	
135	BUY	5,868	123	44	24.3	43.7	37.8	15	79.6	(13.4)	5.5	3.1	3.6	5.4	4.7	4.1	0.7	0.6	0.6	5.9	5.9	5.9	10.6	14.2	12.4	145	7.7	0.4	
225	BUY	30,766	645	136	23.8	24.8	27.3	22	4.1	10.2	9.5	9.1	8.3	6.7	6.2	5.2	1.6	1.3	1.2	0.5	0.5	0.5	16.6	14.8	14.1	175	(22.4)	4.0	
222	ADD	52,161	1,094	235	25.5	23.4	27.5	(36)	(8.3)	17.6	8.7	9.5	8.1	5.4	4.7	4.1	1.1	1.0	0.9	3.6	3.6	3.6	17.2	13.3	14.0	190	(14.3)	3.0	
164	REDUCE	31,044	651	189	20.8	21.6	16.6	1	4.1	(23.5)	7.9	7.6	9.9	5.8	5.0	5.4	1.5	1.2	1.1	1.1	0.9	0.9	19.9	17.8	11.7	100	(39.2)	14.0	
162	BUY	74,844	1,569	462	10.7	13.5	18.0	28	25.7	33.9	15.1	12.0	9.0	10.0	7.4	5.7	2.5	2.1	1.7	0.8	0.9	1.2	18.1	18.2	20.5	140	(13.6)	2.9	
	Others	531,795	11,150					13.3	11.9	30.3	14.5	12.9	9.9	9.4	8.0	7.4	2.2	1.9	1.7	0.7	0.8	0.5	15.5	14.5	16.8				
	KS universe (b)	663,338						3.6	3.9	21.6	15	14.9	12.2	10.0	8.8	7.5	2.4	2.2	1.9	1.3	1.6	2.0	15.6	14.5	15.7				
	KS universe (b) ex-Energy	23,810,072						7.1	(2.4)	16.8	14.9	15.2	13.0	10.7	10.1	8.8	2.5	2.3	2.0	1.3	1.5	1.7	17.1	14.8	15.3				
	KS universe (d) ex-Energy & ex-Commodities	21,277,650						7.9	4.3	15.0	16.6	15.9	13.8	12.9	11.3	9.9	2.8	2.5	2.2	1.3	1.5	1.7	17.0	15.7	16.0				

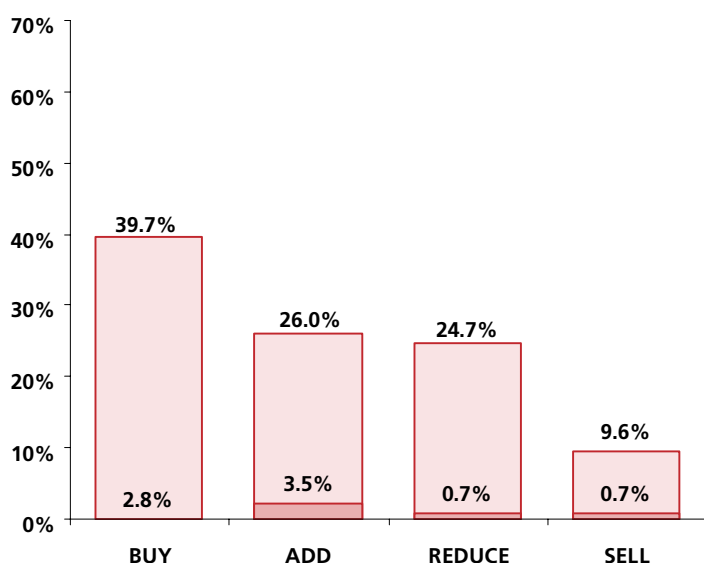
Note:

- (1) For banks we have used adjusted book values.
(2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

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

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

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/03/2009 Kotak Institutional Equities Investment Research had investment ratings on 146 equity securities.

Source: Kotak Institutional Equities

As of March 31, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL: We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

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