kotak® Institutional Equities

INDIA DAILY

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Contents

Results

Updates

News Roundup

- The Finance Ministry has asked all **banks and insurance companies to bring down their operational cost by 10%** by reducing expenditure. (ET)
- A committee of secretaries is considering a **Rs4,000 crore market intervention fund** to provide states interest-free loans to augment foodgrain and edible oil availability, among other items. (BS)
- The slowdown is beginning to hit the biggest players in the auto industry, as car plants start working below capacity. Last week, **Maruti Suzuki** closed its plant for two days while other volume players like **Tata Motors** and **Mahindra & Mahindra** are talking about adjusting production to demand. (ET)
- **ITC** is putting up a large super deluxe hotel in Chennai at a cost of Rs1,200 crore. The hotel would have a built up area of 1.6 mn sq. m. (BL)
- **PepsiCo India** is selling its seaweed cultivation business to a group of entrepreneurs led by former top PepsiCo India executive Abhiram Seth. (ET)
- **Reliance Communications** is in talks to take over the **Premier League club** from UK billionaire Mike Ashley for an estimated US$514 mn. (ET)
- **Essar Realty Holdings** has won the bid for building a Rs500 crore five star hotel, utility centre and a multiplex at the **Multimodal International Hub Airport** in Nagpur. (ET) Meanwhile, **HDFC Property Ventures** is investing US$20-25 mn into South India's largest central business district mall developed by **Nitesh Estates** in Bangalore. (ET)

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

EQUITY MARKETS

		Change, %		
India	**1-Aug**	**1-day**	**1-mo**	**3-mo**
Sensex	14,657	2.1	8.9	(16.7)
Nifty	4,414	1.9	9.9	(15.6)
Global/Regional indices				
Dow Jones	11,326	(0.5)	0.3	(13.3)
FTSE	5,355	(1.1)	(1.1)	(13.8)
Nikkie	12,961	(1.0)	(2.1)	(7.7)
Hang Seng	22,624	(1.0)	5.6	(13.8)
KOSPI	1,536	(2.4)	(2.6)	(16.9)

Value traded - India

			Moving avg, Rs bn	
	1-Aug		**1-mo**	**3-mo**
Cash (NSE+BSE)	223.7		180.0	185.8
Derivatives (NSE)	487.8		479.7	340
Deri. open interest	598.1		633	640

Forex/money market

		Change, basis points		
	1-Aug	**1-day**	**1-mo**	**3-mo**
Rs/US$	42.4	0	(80)	174
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US$mn)

	31-Jul		**MTD**	**CYTD**
FIIs	148		-	(6,563)
MFs	45		-	2,438

Top movers -3mo basis

		Change, %		
Best performers	**1-Aug**	**1-day**	**1-mo**	**3-mo**
Ingersoll Rand	417	1.7	18.6	32.5
Chambal Fert	82	7.8	27.5	16.0
Ballarpur Ind	33	(0.2)	2.6	5.3
United Phos	350	2.9	32.8	10.7
Ranbaxy	510	2.4	(5.2)	5.8
Worst performers				
Moser Baer	90	(3.1)	(25.6)	(48.0)
Century Tex	491	2.5	(2.1)	(43.7)
Tata Motors	395	(2.0)	(1.2)	(42.8)
Wockhardt	187	0.2	3.0	(37.5)
Apollo Tyres	30	(2.3)	(0.2)	(37.1)

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Technology

HCLT.BO, Rs207	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	250
52W High -Low (Rs)	336 - 180
Market Cap (Rs bn)	144.0

Financials

June y/e	2008	2009E	2010E
Sales (Rs bn)	76.4	95.7	113.8
Net Profit (Rs bn)	10.6	15.5	17.6
EPS (Rs)	15.3	22.3	25.4
EPS gth	*(19.0)*	*46.0*	*13.8*
P/E (x)	13.6	9.3	8.2
EV/EBITDA (x)	7.5	6.0	5.0
Div yield (%)	3.9	3.9	3.9

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.4	-	-
FIIs	16.9	0.4	(0.1)
MFs	2.5	0.3	(0.1)
UTI	-	-	(0.4)
LIC	2.7	0.3	(0.2)

HCL Technologies: 4QFY08 results ahead of expectations; inexpensive valuations and high dividend yield should lead to some upside in the near term

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- **June 2008 quarter—in-line revenues, strong margin performance**
- **Forex losses of US$69.7 mn impact net income**
- **Mixed signals on revenue growth outlook**
- **Maintain REDUCE rating**

HCL Technologies' (HCLT) Jun '08 revenues of US$504 mn were in line with our expectations of US$505 mn. However, EBITDA at US$113.6 mn and net income at US$28.2 mn came in 7.6% and 14.2% ahead of our estimates. Outperformance at the EBITDA and net income levels were driven by higher-than-expected OPM; HCLT's Jun '08 OPM of 22.5% (up 123 bps qoq) was 160 bps ahead of our estimates. Unlike last year, HCLT has not provided a revenue outlook for the next fiscal; this likely reflects the uncertainty in the macro environment and continuing ramp-down from a large BFS client. While the management commentary was positive on the revenue growth outlook of the company, we once again highlight the risks in the business model (focusing on clients outside F-500/G-500) being pursued by the company in the medium-to-long term. FY2009E revenue growth will likely get a boost from (1) consolidation of recent acquisitions and (2) ramp-up in the company's recently won application optimization deal with BT. We remain concerned about the company's ability to sustain margins (per management guidance) in a weakening external environment. We now factor in the Liberata acquisition in our revenue estimates and have tweaked our EPS estimates moderately. We maintain our REDUCE rating with a revised June-2009 DCF-based target price of Rs250/share (Rs300 earlier). Valuations at 9.3X FY2009E and 8.2X FY2010E EPS appear inexpensive; a high dividend yield (6% at the CMP) should lead to some near-term upside, in our view.

June 2008 quarter—in-line revenues, strong margin performance. HCLT's reported net income of US$28.2 mn (factoring in RSU expenses of US4.6 mn), was 14.2% ahead of our estimates. We note that the sharp 65% qoq decline in net income was driven by forex losses of US$69.7 mn; the company cancelled forward contracts of US$540 mn during the quarter (we discuss this in detail later). EBITDA at US$113.6 mn (up an impressive 10% qoq, and 39% yoy) was 7.6% ahead of our estimates despite in-line revenues of US$504 mn. Impressive margin expansion (123 bps qoq) was driven primarily by (1) rupee depreciation benefit of 191 bps, (2) higher utilization (impact of +85 bps) and (3) modest improvement in realizations. Higher SG&A expenses (-108 bps qoq) and hedging losses of US$5.1 mn in the revenue line impacted the margins negatively. We discuss the company's segment-wise performance below

- **IT services.** HCLT's IT services business grew 4% qoq, and 31% yoy to US$371 mn, led by volume growth of 4% qoq, and moderate decline in onsite and offshore realizations. EBITDA margins expanded 120 bps qoq primarily on the back of Re depreciation and higher offshore utilization. Headcount was flat qoq as a result of focus on driving higher utilization.
- **Infrastructure services.** HCLT continued its strong performance in the IMS business, registering a 6.4% qoq and 29% yoy growth in revenues. We highlight that the company has been focused on reducing its material (hardware resale) revenues within the IMS business; the same declined by US$3.7 mn during the quarter. This also led to a sharp 100 bps improvement in EBITDA margins of the segment.

- **BPO.** HCLT's BPO revenues continued to remain under pressure. BPO revenues at US$56.5 mn were flat qoq, and have increased by only a marginal US$2.5 mn in absolute terms in the past four quarter. We understand that the BPO revenues have been impacted by the loss of a large client.

Forex losses of US$69.7 mn impact net income. HCLT has reported a forex loss of US$69.7 mn (excluding the forex loss of US$5.1 mn included in the revenue line), in line with the company's pre-earnings release on July 11, 2008. The loss results from (1) unwinding of US$540 mn of forex covers—this led to US$9 mn of cash loss and US$31 mn reversal of MTM gains booked on these contracts in previous quarters, and (2) US$29.7 mn accruing as a result of mark-to-market impact on the unassigned outstanding foreign exchange covers. The company has reduced its forex hedges outstanding to US$2 bn at end-June 2008 from US$2.7 bn as at end-March 2008. The hedge effectively covers HCLT's USD net inflows for seven quarters, and GBP and EUR net exposure for two quarters each.

Mixed signals on revenue growth outlook: Unlike last year, HCLT management did not provide a revenue growth outlook for the next fiscal. While the management expressed optimism on the company's ability to deliver robust revenue growth in FY2009E, we remain cautious given the weak external environment and the client-specific challenges facing HCLT. The company had highlighted IT budget freeze from two of its large BFS clients; it indicated that while one of them continues to remain flat, it is seeing substantial ramp-down from the other (to the tune of US$10 mn per quarter for next two quarters at least). The company identified life sciences/healthcare, telecom (on the back of recently won BT contract, in our view), and rather surprisingly, BFSI verticals as the key drivers of growth in FY2009E.

Declares dividend of Rs3/share. HCLT increased its dividend payout ratio to 150% from 100%, declaring a dividend of Rs3/share for the quarter (the company pays a quarterly dividend). Quarterly annualized dividend yield works out to ~6% at the current market price.

Revision in estimates. We have revised our revenue estimates for FY2009E and FY2010E down by 1.8% and 3.6% respectively to US$2.3 bn and US$2.8 bn. The reduction in revenue estimates is driven primarily by a 4.2% and 6.9% decline in FY2009E and FY2010E IT services revenues; we have increased our revenue estimates for the BPO business to factor in the recent acquisition. We have increased our FY2009E and FY2010E margin estimates by 90 bps and 10 bps, respectively. Out EPS estimate for FY2009E now stands up 1% at 22.3, while we reduce our FY2010E EPS estimate by 3.9% to Rs25.4.

Inexpensive valuations and high dividend yield should lead to some near-term outperformance: we maintain our REDUCE rating. HCLT is trading at 9.3X FY2009E and 8.2X FY2010E EPS. Inexpensive valuations, coupled with high dividend yield should lead to some near-term outperformance, in our view. However, we maintain our REDUCE rating on the stock given our concerns on the ability of the company to sustain a robust revenue growth trajectory and margin performance beyond the near-term. Revise June-2008 DCF-based target price down to Rs250/share (Rs300 earlier).

Significant weakening in revenue growth trajectory across business lines

	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Revenues - US$mn												
IT services	169	178	187	202	222	243	262	282	309	335	357	371
Infrastructure services	22	27	29	34	40	46	50	59	65	71	72	76
BPO	30	30	35	36	38	42	50	54	55	55	56	57
Total	**221**	**234**	**252**	**272**	**301**	**331**	**362**	**396**	**429**	**461**	**485**	**504**
Growth qoq (%)												
IT services	3.9	5.2	5.3	8.0	10.0	9.2	8.1	7.6	9.5	8.3	6.5	4.0
Infrastructure services	0.8	21.3	9.7	16.0	17.0	16.6	8.2	18.1	9.1	9.1	1.6	6.4
BPO	0.1	0.1	18.0	3.5	5.8	9.4	18.3	8.7	2.0	0.5	1.8	0.2
Total	**3.1**	**6.1**	**7.4**	**8.3**	**10.3**	**10.2**	**9.4**	**9.2**	**8.4**	**7.5**	**5.2**	**3.9**

Source: Company

Key Changes to our FY2009 and FY2010 estimates

	Revised		Old		Change (%)	
US$ mn	**FY2009E**	**FY2010E**	**FY2009E**	**FY2010E**	**FY2009E**	**FY2010E**
Revenues	**2,285**	**2,750**	**2,328**	**2,854**	**(1.8)**	**(3.6)**
- Software Services	*1,639*	*1,950*	*1,711*	*2,095*	*(4.2)*	*(6.9)*
- BPO	*288*	*352*	*260*	*312*	*10.8*	*12.6*
- Infrastructure Services	*358*	*448*	*357*	*447*	*0.4*	*0.4*
Revenue growth yoy (%)	**21.6**	**20.4**	**23.8**	**22.6**		
EBITDA	474	553	461	568	2.8	(2.7)
EBIT	387	452	372	465	3.9	(2.9)
Net Income	**371**	**427**	**368**	**448**	**0.7**	**(4.8)**
EBITDA margin (%)	20.7	20.1	19.8	19.9		
EBIT	16.9	16.4	16.0	16.3		
Re/ US$ rate	41.9	41.4	41.7	41.0	**0.3**	**0.9**
EPS Rs/ share	**22.3**	**25.4**	**22.1**	**26.4**	**1.0**	**(3.9)**

Source: Kotak Institutional Equities estimates

HCL Technologies (year-ending June) - Comments on 4QFY08 financial performance

Rs mn	4QFY07	3QFY08	4QFY08	QoQ % chg.	YoY % chg.	Kotak Estimates	% Deviation	Comments on QoQ performance
CONSOLIDATED								
Revenues	16,120	19,448	21,688	11.5	34.5	20,958	3.5	Overall revenue growth of 3.9% qoq in line with our estimates. Driven by strong 6.4% sequential growth in infrastructure business. BPO revenues remained flat qoq
Cost of Revenues	(10,189)	(12,132)	(13,109)	8.0	28.7	(13,115)	(0.0)	
Gross profit	5,931	7,316	8,579	17.3	44.6	7,843	9.4	
SG&A expenses	(2,607)	(3,172)	(3,694)	16.4	41.7	(3,463)	6.7	
EBITDA (including RSU expenses)	3,324	4,143	4,885	17.9	47.0	4,379	11.5	
EBIDTA adjusted for non cash RSU charges	3,471	4,332	5,084	17.4	46.5	4,574	11.1	
Depreciation	(693)	(774)	(850)	9.8	22.7	(820)	3.7	
EBIT	2,632	3,369	4,035	19.8	53.3	3,560	13.4	130 bps improvement in EBIT margins impressive. Driven primarily by rupee depreciation benefits and higher
Other Income	2,876	225	(2,644)	(1,277.2)	(191.9)	(2,434)	8.6	Includes forex loss of US$69.7 mn (versus loss of US$6.8 mn in the previous quarter)
Earnigs before tax	5,508	3,594	1,391	(61.3)	(74.7)	1,126	23.5	
Provision for Tax	(778)	(365)	(203)	(44.4)	(73.9)	(101)	100.3	
Earnings after & before share of earnings in a	4,730	3,229	1,188	(63.2)	(74.9)	1,025	15.9	
Share of income (loss) of equity investees	0	0	0			-		
Minority Interest	(8)	8	23			-		
Net Income (before extraordinaries)	4,722	3,237	1,211	(62.6)	(74.4)	1,025	18.2	Net income outperformance driven primarily by higher than expected margins
EPS	6.8	4.7	1.8	(62.6)	(74.4)	1.5	18.2	
No of shares outstanding	690.0	690.0	690.0			690.0		
Margins (%)								
Gross Profit margin	36.8	37.6	39.6			37.4		
EBITDA Margin	20.6	21.3	22.5			20.9		
EBIT Margin	16.3	17.3	18.6			17.0		
NPM	29.3	16.6	5.6			4.9		
Software Services Business								
Revenues	11,504	14,310	15,976	11.6	38.9	15,402	3.7	Revenue growth of 3.9% qoq driven by 4% volume
Cost of Revenues	(6,987)	(8,603)	(9,364)	8.8	34.0	(9,306)	0.6	
Gross profit	4,518	5,707	6,612	15.9	46.4	6,096	8.5	
S G & A expenses	(2,012)	(2,483)	(2,830)	14.0	40.6	(2,703)	4.7	
EBITDA	2,505	3,225	3,782	17.3	51.0	3,394	11.4	
Depreciation	(416)	(501)	(570)	13.7	37.2	(509)	12.0	
EBIT	2,090	2,723	3,212	17.9	53.7	2,884	11.4	120bps improvement in EBIT margins versus our expectations of 50 bps decline
Margins (%)								
Gross Profit margin	39.3	39.9	41.4			39.6		
EBITDA Margin	21.8	22.5	23.7			22.0		
EBIT Margin	18.2	19.0	20.1			18.7		
BPO Services								
Revenues	2,200	2,262	2,433	7.6	10.6	2,402	1.3	Revenue growth continues to be weak
Cost of Revenues	(1,336)	(1,372)	(1,358)	(1.0)	1.6	(1,458)	(6.9)	
Gross profit	864	890	1,075	20.7	24.5	944	13.9	
S G & A expenses	(297)	(301)	(387)	28.7	30.1	(328)	18.1	
EBITDA	566	590	688	16.7	21.5	617	11.6	
Depreciation	(147)	(124)	(125)	0.5	(14.8)	(146)	(14.6)	
EBIT	420	465	563	21.0	34.2	470	19.7	
Margins (%)								
Gross Profit margin	39.3	39.4	44.2			39.3		
EBITDA Margin	25.7	26.1	28.3			25.7		
EBIT Margin	19.1	20.6	23.1			19.6		
Infrastructure Services								
Revenues	2,416	2,876	3,280	14.1	35.8	3,154	4.0	Another quarter of strong revenue growth (+6.4% qoq)
Direct Cost	(1,719)	(1,969)	(2,188)	11.1	27.3	(2,156.8)	1.4	
Gross Profit	697	906	1,092	20.5	56.8	997.3	9.5	
SG&A	(297)	(389)	(477)	22.6	60.4	(433.0)	10.2	
EBITDA	399	517	615	18.9	54.0	564.3	9.0	
Depreciation & Amortization	(130)	(148)	(155)	4.4	18.9	(164.3)	(5.7)	
EBIT	269	369	460	24.7	71.1	400.0	15.0	Margin improvement driven by decline in hardware resale revenues (which typically have lower margin than services business)
Margins (%)								
Gross Profit margin	28.8	31.5	33.3			31.6		
EBITDA Margin	16.5	18.0	18.8			17.9		
EBIT Margin	11.1	12.8	14.0			12.7		

Source: Company, Kotak Institutional Equities

Profit and Loss statement for HCL Technologies, year-ends June, FY2006-FY2010E (Rs mn)

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Revenues	**44,002**	**60,337**	**76,394**	**95,667**	**113,774**
RSU expenses	279	612	759	670	662
Direct costs	27,576	37,604	46,904	59,116	71,620
Gross profit	**16,147**	**22,122**	**28,731**	**35,880**	**41,492**
SG&A expenses	6,577	9,370	12,572	16,053	18,635
EBIDTA (excl other income)	**9,570**	**12,752**	**16,159**	**19,827**	**22,857**
Depreciation	2,032	2,534	3,033	3,625	4,174
EBIT	7,538	10,218	13,126	16,202	18,682
Interest income/(expenses)	578	4,262	(1,195)	1,534	2,240
Earnings before tax	8,116	14,480	11,931	17,737	20,922
Tax	626	1,489	1,281	2,225	3,275
Income bef share of equity investees	**7,490**	**12,990**	**10,650**	**15,512**	**17,647**
Share of income (loss) of equity investees	—	—	(9)	(4)	—
Minority interest	16	52	20	—	—
Net income	**7,473**	**12,938**	**10,621**	**15,507**	**17,647**
Less: extraordinary items	(1,290)	—	—	—	—
Net income after extraordinary items	**6,183**	**12,938**	**10,621**	**15,507**	**17,647**
EPS (Rs.) fully diluted	**11.4**	**18.9**	**15.3**	**22.3**	**25.4**
Margins (%)					
Gross profit margin	36.7	36.7	37.6	37.5	36.5
Operating margin	21.7	21.1	21.2	20.7	20.1
EBIT margin	17.1	16.9	17.2	16.9	16.4
Net profit	17.0	21.5	13.9	16.2	15.5
SG&A expenses	14.9	15.5	16.5	16.8	16.4
Tax rate	7.7	10.3	10.7	12.5	15.7
Growth (%)					
Revenues	30.6	37.1	26.6	25.2	18.9
Gross profit	28.8	37.0	29.9	24.9	15.6
EBITDA	23.9	33.3	26.7	22.7	15.3
EBIT	22.2	35.6	28.5	23.4	15.3
Net profit	15.5	73.4	(18.0)	45.6	13.8

Source: Kotak Institutional Equities estimates

Banking

SRTR.BO, Rs297	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	320
52W High -Low (Rs)	472 - 150
Market Cap (Rs bn)	60.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	12.0	17.4	21.8
Net Profit (Rs bn)	3.9	5.5	6.6
EPS (Rs)	19.2	26.8	31.1
EPS gth	*85.7*	*39.9*	*15.9*
P/E (x)	15.5	11.1	9.6
P/B (x)	3.4	3.0	2.4
Div yield (%)	1.7	2.7	3.3

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	42.0	-	-
FIIs	15.0	0.1	0.1
MFs	2.9	0.1	0.1
UTI	-	-	-
LIC	-	-	-

Shriram Transport Finance: Growth remains strong, operating profit in line

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- **STFC reported 1QFY09 PAT of Rs1.43 bn, up 92% yoy, 24% above estimates**
- **Strong loan growth, lower spreads**
- **Provisions significantly low, PBT before provisions in line with estimates**
- **We tweak estimates, retain price target of Rs320 and REDUCE recommendation**

Shriram Transport Finance (STFC) reported operating profit (PBT before provisions) of Rs2.84 bn, up 67% yoy and in line with estimates. Reported PAT was significantly higher (up 92% yoy, 24% above estimates) due to low provisioning expenses. While core earnings were strong, we believe growth momentum will likely cool off in a challenging macroeconomic environment which will affect the prospects of CV operators. Despite our moderate assumptions, we expect the company to deliver 27% RoE and 30% PAT CAGR between FY2008 and FY2010E. The stock is trading at 3.2X PBR and 13.5XPER FY2009E and provides limited upside to our price target of Rs320. We retain our REDUCE recommendation on the stock.

Loan growth supports net operational income. STFC's net operational income increased 75% yoy to Rs4.06 bn. Key drivers—40% disbursements growth/60% loan growth, higher NIMs post recent capital infusion although spreads were down yoy. We believe CV operators will face several challenges in the medium term—rising fuel prices, increasing interest rates, which will in turn affect the prospects of STFC. We retain our moderate loan growth estimates—32% growth over the next nine months and 25% growth in FY2010E.

NPLs remain low, provisioning expenses muted. STFC reported 11% growth in provisions expenses below our estimates. Its NPLs ratio has improved yoy—gross NPLs at 1.7%, versus 2% in 1QFY08 and net 0.9% versus 1.2%. The management has highlighted that increased focus on recoveries pulled down the NPL ratio.

Further, about 10% of its provisions in FY2008E were towards under-recoveries of service tax on hire purchase business. The company has discontinued hire purchase transactions and the outstanding under-recoveries were fully provided in FY2008E.

We are reducing our provision estimates for FY2009E but retain estimates for FY2010E given rising risks to STFC's operating environment. Note that even in FY2010E, we are assuming provisions expenses at 1.9% of average assets—in line with STFC's long-term average.

Shriram Transport Finance—Old and new estimates

March fiscal year-ends, 2009-2010E (Rs mn)

	Old estimates		New estimates		% change	
	2009E	**2010E**	**2009E**	**2010E**	**2009E**	**2010E**
Net interest income *(a)*	17,227	21,605	17,434	21,842	1.2	1.1
Loans (including securitised loans)	257,881	318,530	257,595	318,344		
YoY(%)	32	24	32	24		
NIM (%)	8.3	8.1	8.4	8.2		
NPL provisions	4,003	5,167	3,373	5,159	-15.7	-0.1
Operating expenses	4,901	6,178	5,542	6,422	13.1	3.9
Employee	1,822	2,364	2,277	2,364	25.0	0.0
Others	3,079	3,814	3,265	4,058	6.0	6.4
PBT	8,331	10,269	8,519	10,260	2.3	-0.1
Tax	2,999	3,697	3,067	3,694	2.3	-0.1
PAT	5,332	6,572	5,452	6,567	2.3	-0.1

(a) includes income on securitised assets

Source: Kotak Institutional Equities estimates

Shriram Transport Finance—Quarterly results

1Q08-1Q09 (Rs mn)	1Q08	2Q08	3Q08	4Q08	1Q09	YoY(%)	1Q09E	Actual vs KS (%)
Total operational income	4,636	5,603	6,602	7,630	8,353	80	7,394	13
Income on securitised loans	255	300	346	510	825	224	430	92
Total interest expense	2,306	2,869	3,681	3,934	4,287	86	3,575	20
Net operational income (before provisions)	**2,329**	**2,734**	**2,920**	**3,696**	**4,067**	**75**	**3,819**	**6**
Net interest income	2,075	2,434	2,574	3,186	3,242	56	3,389	(4)
Provision and credit costs	569	630	526	667	632	11	999	(37)
Net operational income after provisions	**1,761**	**2,105**	**2,395**	**3,030**	**3,435**	**95**	**2,821**	**22**
Other income	76	92	6	15	2	(98)	15	(89)
Total income	**2,405**	**2,826**	**2,926**	**3,711**	**4,068**	**69**	**3,834**	**6**
Operating expenses	**697**	**726**	**784**	**1,272**	**1,220**	**75**	**992**	**23**
Employee expenses	254	260	285	402	480	89	383	26
Other expenses	401	412	449	664	641	60	559	15
Depreciation	42	54	50	206	99	133	50	98
Due to reassessment				149				
Pretax income	**1,140**	**1,471**	**1,617**	**1,773**	**2,217**	**95**	**1,844**	**20**
Tax provisions	398	511	547	654	781	96	682	14
Net Profit	**750**	**959**	**1,070**	**1,118**	**1,436**	**92**	**1,162**	**24**
PBT (excl provisions and extraordinaties)	1,708	2,100	2,143	2,439	2,849	67	2,842	0
Tax rate (%)	35	35	34	37	35		37	
Other details								
Disbursements (Rs mn)	**20,116**	**26,760**	**30,540**	**38,480**	**28,250**	**40**		
Pre-owned	14,468	20,270	22,003	26,200	22,415	55		
New	5,648	6,490	8,537	12,280	5,835	3		
O/s Truck assets (Rs mn)	95,846	118,790	118,004	151,190	164,280			
Off balance sheet truck assets (Rs mn)	33,480	29,460	48,666	44,010	42,500			
Total truck assets under management (Rs mn)	**129,326**	**148,250**	**166,670**	**195,200**	**206,780**	**60**	**207,200**	**(0)**
Yield on assets (%)	17.1	17.8	17.4	17.5	17.2			
Cost of funds (%)	10.0	11.1	11.3	10.8	11.1			
Difference (%)	**7.2**	**6.7**	**6.2**	**6.7**	**6.1**			
	8			8	7			
Gross NPLs(%)	**1.97**	**1.9**	**1.6**	**1.6**	**1.7**			
Net NPLs(%)	1.19	1.0	1.0	0.9	0.9			
Capital adequacy ratio (%)	**13.0**	**14**	**15**		**15**			
Tier I (%)	N/A	N/A	12		12			

Source: Company, Kotak instutional equities estimates.

Pipes

JIND.BO, Rs550	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	900
52W High -Low (Rs)	1225 - 411
Market Cap (Rs bn)	33.8

Financials

December y/e	2008	2009E	2010E
Sales (Rs bn)	44.3	73.4	87.1
Net Profit (Rs bn)	3.2	5.4	6.8
EPS (Rs)	57.7	90.7	110.4
EPS gth	*(50.2)*	*57.0*	*21.7*
P/E (x)	9.5	6.1	5.0
EV/EBITDA (x)	5.3	3.0	2.4
Div yield (%)	1.4	2.5	2.9

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	43.8	-	-
FIIs	17.1	0.1	(0.0)
MFs	17.2	0.4	0.3
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Jindal Saw: Adjusted PAT in line but just a coincidence; reduce TP to Rs900; maintain BUY

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- **2QCY08—revenues beat estimates; but higher finance cost pulls PAT down, in line with estimates**
- **Margins better than expected due to higher realization in HSAW order from USA**
- **Reduce EPS estimate by 26% for higher interest cost, increased dilution and lower volumes**
- **Reduce SOTP-based target price to Rs900 (from Rs1,080); maintain BUY**

Jindal SAW (JSAW) reported strong 2QCY08 results—revenues at Rs10.3 bn (versus estimated Rs9.3 bn) and adjusted PAT of Rs774 mn (in line with estimates). Revenues were up 7.6% qoq and 26% yoy (from Indian operations only). Linepipe volumes for the quarter were 110,836 tons (versus 98,509 tons in 1QCY08 and 80,100 tons in 3QFY07). Adjusted PAT for the quarter at Rs774 mn was down 9.4% qoq mainly on account of higher financial charges. Financial charge was up at Rs545 mn (versus Rs204 mn in 1QCY08 and Rs254 mn in 3QFY07) mainly on account of Rs290 mn provided for forex and hedging losses. We revise our volume assumptions for lower LSAW volumes and delay in commissioning of the seamless plant. We increase our interest cost estimates for CY2008E and CY2009E upwards by 63% and 24%, respectively, for interest on the convertible debentures and higher provisioning for hedging and forex losses. We revise our revenue estimates for CY2008E and CY2009E lower by 7% and 10%, respectively and reduce our PAT estimates by 19%. We increase the fully diluted number of shares to 61.3 mn from 56 mn previously on account of warrants and convertible debentures issued to fund the infrastructure projects. We reduce our SOTP-based target price to Rs900 (from Rs1,080) and maintain BUY.

2QCY08 results—higher volumes drives EBITDA but higher interest cost reduces PAT

JSAW reported strong operating results—Revenues of Rs10.3 bn (against estimated Rs9.3 bn) and EBITDA margin of 16.4% (versus estimated 15.1%). However, higher interest cost at Rs545 mn (versus estimated Rs190 mn) pushed adjusted PAT down to Rs774 mn (in line with our estimate of Rs775 mn). Linepipe volumes during the quarter were higher at 110,836 tons (versus estimated 82,000 tons) mainly on account of higher HSAW volumes for a USA order. Higher realizations in HSAW order from USA led to 100 bps qoq margin improvement. Finance costs during the quarter were higher at Rs545 mn (versus Rs204 mn in 1QCY08 and Rs254 mn in 3QFY07) mainly on account of Rs290 mn provided for forex (Rs120 mn) and hedging (Rs170) losses. During the quarter, the company also paid a one-time charge of Rs72 mn towards export duty on pipes which we have considered as extraordinary as the export duty was subsequently withdrawn. LSAW realizations at Rs56,278/ ton were lower than our estimate of Rs67,650/ton; however, HSAW realization were higher at Rs64,639/ton (versus estimated Rs52,275/ton) mainly on account of higher realization in the USA order. JSAW has an outstanding order book of around US$1 bn, including recently-received orders from Iraq and Malaysia.

Revise estimates—reduce PAT estimate by 19% for lower volumes and higher finance costs

We reduce our PAT estimates for CY2008E and CY2009E by 19% on account of lower volumes and higher interest costs. We revise our revenue estimates for CY2008E and CY2009E downwards by 7% and 10%, respectively for lower linepipe and seamless volumes. We revise our seamless volumes for CY2008E and CY2009E lower by 27% and 28% as the management guides for commercial production from the new 150,000 ton plant to begin from early CY2009E instead of October 2008 as estimated previously. We also marginally reduce our LSAW volumes by 7% and 4% for CY2008E and CY2009E, respectively based on current run rate in 1HCY08. We increase our interest and finance charge estimates for CY2008E and CY2009E higher by 63% and 24%, respectively on account of interest on convertible debentures and higher provisioning for the forex and hedging losses. We reduce our EPS estimate by 26% for CY2008E and CY2009E due to increase in the fully diluted no of share to 61.3 mn from 56 mn earlier on account of warrants and convertible debentures issued to the promoters.

Higher loan book hits standalone PAT while cash lies unutilized at subsidiaries

We highlight that JSAW is paying high interest of approximately 10-11% on its outstanding debt of around Rs1.2 bn (US$285 mn approximately) even while it has unutilized cash of approximately US$140 mn which is invested in liquid funds earning only 2-3%. It has cash of around US$60 mn from the unconverted FCCBs which is lying outside India which will be used for its domestic capex purposes. Further it also has US$80 mn cash from the sale of US operations which lies unutilized at the subsidiary level until a tax-efficient corporate structure is worked out. We highlight that there would be further debt outstanding at the newly formed infrastructure subsidiaries which will also add to the consolidated interest cost.

Infrastructure subsidiaries—awaiting details on the progress

We are awaiting details on the progress made on the four infrastructure ventures started by the company last year and the development made till date. Management has guided that the progress is slow but as per plan and greater details would be provided shortly. We currently do not ascribe any value to the infrastructure ventures awaiting clarity on the plans and the progress made so far.

Valuation—reduce target price to Rs900, maintain BUY

We reduce our SOTP-based target price to Rs900 (from Rs1,080 earlier) and continue to maintain BUY. We increase the fully diluted no. of share to 61.3 mn from 56 mn earlier for the recently issued warrants and compulsory convertible debentures to the promoters. We maintain our BUY rating on the stock as it provides 64% upside to our target price at current levels.

Exhibit 1: Forecasts and valuation (consolidated)

December year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006 (1)	38,731	4,066	1,563	29.5	15.3	18.7	9.3
2007 (2)	66,957	8,371	5,745	105.2	23.3	5.2	3.8
2008E	44,288	6,594	3,172	50.4	11.4	10.9	5.4
2009E	73,387	10,106	5,398	86.7	16.1	6.3	3.1
2010E	87,135	11,744	6,825	110.4	16.9	5.0	2.4

Note:

(1) September fiscal year-ends.

(2) 15 month period ending December 2007.

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Jindal SAW, Interim results (stand alone), December fiscal year-ends, (Rs mn)

		qoq		yoy	
	2QCY08	1QCY08	(% chg)	3QFY2007	(% chg)
Net sales	**10,248**	**9,521**	**7.6**	**12,855**	**(20.3)**
Total expenditure	**(8,562)**	**(8,056)**	**6.3**	**(11,249)**	**(23.9)**
Inc/(Dec) in stock	203	1,357	(85.1)	(569)	(135.6)
Raw materials	(6,752)	(7,387)	(8.6)	(7,078)	(4.6)
Staff cost	(291)	(302)	(3.7)	(269)	8.3
Outsourcing expense	(88)	(228)	(61.3)	(1,641)	(94.6)
Other expenditure	(1,633)	(1,496)	9.2	(1,694)	(3.6)
EBITDA	**1,686**	**1,466**	**15.0**	**1,606**	**5.0**
OPM (%)	**16.4**	**15.4**		**12.5**	
Other income	20	29	(30.5)	15	39.0
Interest	(545)	(204)	167.4	(254)	114.8
Depreciation	(155)	(152)	1.7	(153)	1.0
Adjusted pre-tax profits	**1,007**	**1,139**	**(11.6)**	**1,214**	**(17.1)**
Extra-ordinary	(72)	-		-	
Reported pre-tax profits	**935**	**1,139**	**(18.0)**	**1,214**	**(23.0)**
Tax	(233)	(285)	(18.4)	(393)	—
Reported net income	**702**	**854**	**(17.8)**	**820**	**(14.4)**
Adjusted net income	**774**	**854**	**(9.4)**	**820**	**(5.7)**

Source: Company data, Kotak Institutional Equities.

Exhibit 3: Jindal Saw Ltd., change in estimates, December year-ends, (Rs mn)

	New estimates			Old estimates			Change (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Financials									
Revenue	44,288	73,387	87,135	47,691	81,821	91,415	(7.1)	(10.3)	(4.7)
EBITDA	6,594	10,106	11,744	7,236	11,860	13,065	(8.9)	(14.8)	(10.1)
EBITDA margin (%)	14.9	13.8	13.5	15.2	14.5	14.3	—	—	—
Net interest	1,272	1,018	401	778	821	384	63.5	24.0	4.4
Adjusted net profit	3,172	5,398	6,825	3,927	6,660	7,656	(19.2)	(19.0)	(10.9)
Diluted EPS	50.4	86.7	110.4	68.7	117.5	135.7	(26.6)	(26.2)	(18.7)
Volumes									
LSAW	336	460	560	360	480	560	(6.7)	(4.2)	—
HSAW	100	220	270	100	238	288	—	(7.4)	(6.1)
Seamless	70	135	188	96	188	188	(27.3)	(28.0)	—
Ductile Iron	221	234	239	221	234	239	—	—	—

Source: Kotak Institutional Equities estimates.

Exhibit 4: Our 12-month target price for JSAW is Rs900

	Rs/share
DCF-based business value	711
Value of quoted investments	182
Total equity value	893
Target price	**900**

Source: Kotak Institutional Equities estimates.

Exhibit 5: Jindal SAW, DCF valuation, December year-ends, (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal Value
EBITDA	6,594	10,106	11,744	11,362	11,061	10,116	9,947	9,972	9,997	10,023	10,049	
Tax expense	(1,614)	(2,830)	(3,559)	(3,466)	(3,559)	(3,297)	(3,231)	(3,141)	(3,060)	(3,062)	(3,050)	
Changes in working capital	2,939	(6,032)	(3,131)	(969)	(119)	1,225	817	(13)	(13)	(13)	(14)	
Cash flow from operations	**7,919**	**1,243**	**5,055**	**6,927**	**7,384**	**8,044**	**7,532**	**6,818**	**6,924**	**6,947**	**6,986**	
Capital expenditure	(5,757)	(336)	(454)	(579)	(594)	(609)	(624)	(639)	(655)	(1,209)	(1,264)	
Free cash flow to the firm	**2,162**	**907**	**4,600**	**6,348**	**6,790**	**7,436**	**6,909**	**6,178**	**6,268**	**5,738**	**5,722**	**50,504**
Dicounted cash flow-now	2,056	763	3,425	4,182	3,959	3,837	3,155	2,497	2,242	1,816	1,603	
Discounted cash flow-1 year forward		863	3,870	4,726	4,474	4,336	3,565	2,821	2,533	2,052	1,811	
Discounted cash flow-2 year forward			4,373	5,340	5,055	4,899	4,028	3,188	2,862	2,319	2,046	
Discount rate	13.0%											
Growth from 2017 to perpetuity	1.5%											
Discount factor at WACC	**0.95**	**0.84**	**0.74**	**0.66**	**0.58**	**0.52**	**0.46**	**0.40**	**0.36**	**0.32**	**0.28**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**31,050**	**69%**	**34,112**	**68%**
PV of terminal value (b)	14,144	31%	15,983	32%
EV (a) + (b)	45,194		50,095	
EV (US$ mn)	**1,116**		**1,237**	
Net debt	1,601		(2,192)	
Equity value	**43,593**		**52,287**	
No. of shares	61.3		61.3	
Implied share price (Rs)	**711**		**853**	
Exit EV/EBITDA multiple (X)	5.0			
Exit FCF multiple (X)	**8.8**			

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

		WACC				
		12.0%	**12.5%**	**13.0%**	**13.5%**	**14.0%**
Growth Rate	**0.0%**	740	710	681	655	631
	0.5%	752	720	690	663	638
	1.0%	765	731	700	672	645
	1.5%	778	743	**711**	681	654
	2.0%	794	756	722	691	663
	2.5%	811	771	735	703	673
	3.0%	829	787	749	715	683

Source: Company, Kotak Institutional Equities estimates.

Exhibit 6: Profit model, balance sheet, cash model for Jindal Saw, September fiscal year-ends, 2005-2006, December fiscal year-ends, 2007E-2010E (Rs mn)

	2005	2006	2007(1)	2008E	2009E	2010E
Profit model						
Net revenues	23,138	38,731	66,957	44,288	73,387	87,135
EBITDA	**2,802**	**4,066**	**8,371**	**6,594**	**10,106**	**11,744**
Other income	105	144	112	100	100	100
Interest (expense)/income	(985)	(1,290)	(1,684)	(1,272)	(1,018)	(401)
Depreciation	(365)	(537)	(773)	(930)	(1,220)	(1,220)
Amortization	—	—	—	—	—	—
Pretax profits	**1,558**	**2,383**	**6,026**	**4,493**	**7,968**	**10,223**
Tax	(374)	(704)	(2,777)	(1,276)	(2,530)	(3,450)
Deferred taxation	(133)	(164)	(63)	(45)	(40)	51
Minority intt	—	2	56	—	—	—
Adjusted consolidated net income	**1,032**	**1,563**	**5,745**	**3,172**	**5,398**	**6,825**
Diluted earnings per share (Rs)	**21.3**	**29.5**	**105.2**	**50.4**	**86.7**	**110.4**
Balance sheet						
Total equity	6,922	8,631	22,750	28,350	36,762	42,332
Deferred taxation liability	599	763	826	871	911	859
Total borrowings	12,979	17,217	13,455	11,886	7,000	4,200
Minority Interest	—	151	95	95	95	95
Current liabilities	5,012	12,303	10,429	12,988	21,147	24,912
Total liabilities and equity	**25,512**	**39,066**	**47,555**	**54,189**	**65,914**	**72,398**
Cash	1,526	3,922	6,586	9,379	8,787	9,299
Other current assets	15,256	24,055	25,496	24,873	38,616	45,396
Total fixed assets	7,862	10,254	13,380	18,165	17,238	16,430
Miscl. Exps. not w/o	1	—	—	—	—	—
Investments	868	836	2,093	1,772	1,272	1,272
Total assets	**25,512**	**39,066**	**47,555**	**54,189**	**65,914**	**72,398**
Free cash flow						
Operating cash flow, excl working capital	1,371	2,375	14,450	3,974	6,558	7,894
Working capital changes	(6,135)	(2,231)	(4,635)	2,939	(6,032)	(3,131)
Capital expenditure	(2,108)	(2,815)	(3,909)	(5,757)	(336)	(454)
Investments	(94)	345	(718)	320	500	—
Other income	177	351	311	100	100	100
Free cash flow	**(6,872)**	**(2,671)**	**5,906**	**1,157**	**190**	**4,309**
Ratios (%)						
EBITDA margin (%)	12.1	10.5	12.5	14.9	13.8	13.5
Debt/equity		172.6	106.8	39.8	41.0	18.8
Net debt/equity		152.3	76.5	10.0	5.5	(5.8)
RoAE		18.1	15.3	23.3	11.4	16.1
RoACE		**10.5**	**10.2**	**22.3**	**10.4**	**14.2**

Note: (1) 15 months period ended December 2007.

Source: Company, Kotak Institutional Equities estimates.

Exhibit 7: Operating assumtions for Jindal Saw, December year-ends

	2007(1)	2008E	2009E	2010E
Sales ('000 tons)				
HSAW	60	100	220	270
LSAW	403	336	460	560
Seamless	84	70	135	188
DI	221	221	234	239
Realisation (US$/ton)				
HSAW	1,133	1,428	1,656	1,639
LSAW	1,413	1,582	1,836	1,817
Seamless	1,281	1,537	1,660	1,660
DI	801	978	1,124	1,124
Raw material cost (US$/ton)				
HR coil	750	833	999	999
Plates	973	1,090	1,417	1,417
Billets	622	716	744	744
Iron ore	87	103	118	114
Coke	154	261	248	236

Note: (1) 15 month period ended December 2007.

Banking

SREI.BO, Rs109	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	160
52W High -Low (Rs)	292 - 80
Market Cap (Rs bn)	14.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	2.7	3.4	4.4
Net Profit (Rs bn)	1.3	0.7	1.1
EPS (Rs)	11.4	5.5	8.1
EPS gth	*57.4*	*(51.8)*	*47.8*
P/E (x)	9.6	19.8	13.4
P/B (x)	2.3	1.2	1.1
Div yield (%)	1.0	2.1	2.6

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	25.1	-	-
FIIs	45.6	0.1	0.1
MFs	9.9	0.1	0.1
UTI	-	-	-
LIC	-	-	-

Srei Infrastructure Finance: One-off item supports earnings, core business under pressure due to rising interest rates

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- **Srei reported 1QFY09 PAT of Rs431 mn, up 85% yoy and 20% above estimates**
- **Key highlights: rising interest rates affect NIMs, growth remains strong, large one-off item (asset warehousing) support earnings**
- **We revise earnings, reduce price target to Rs160, retain BUY**

Srei reported consolidated PAT of Rs431 mn, up 85% yoy. Despite strong asset growth, PAT for the construction equipment finance business (now the JV) (Rs202 mn) was down 13% yoy due to lower spreads and higher tax rates. The project business (standalone entity) reported PAT of Rs309 mn significantly (40%) above our estimates on the back of large income from warehousing of Quipo's assets even as the earnings from the core business were low. We are concerned with rising interest rates in the system and its impact on Srei's spreads and growth plans in the project finance business. We are revising our consolidated earnings estimated up by 12% for FY2009E and down by 16% in FY2010E to factor in a high one-time gain on warehousing of assets in FY2009E, lower loan growth and fees (linked to lending) from the project finance business. We retain our BUY recommendation with a reduced price target of Rs160 (versus Rs175 earlier). The stock is currently trading at 13% PER and 0.8X PBR FY2009E (core).

Key highlights

Construction equipment finance business (now with JV)

Pressure on spreads visible. Srei's construction equipment finance delivered 35% yoy growth in assets under management (loan book and securitized assets outside book). Growth in net operational income (Rs544 mn) was lower (27% yoy) on account of rise in borrowings cost that shrunk margins. The company has now raised its prime lending rate (PLR) by 150 bps to pass on the hike in borrowings cost.

Provision expenses rise. Gross NPL have moved up to over 1% from 0.88% in the 4QFY08. Srei made provisions of Rs80 mn in 1QFY09 versus Rs28 mn in 1QFY08. Management has highlighted that it expects collections to pick-up in the 2HFY09 and as such delinquencies will likely remain under control.

Project business (standalone entity)

One-time gain on warehousing of assets supports earning. Srei has booked an income of Rs890 mn (at about 24% yield) on the assets warehoused (about Rs 7 bn) for Quipo as against our estimate of Rs450 mn. In our estimates, we had assumed a 15% yield on an asset base of Rs6 bn (based on management guidance). Note that Srei has sold the rights to purchase the assets to Quipo in 1QFY09 (hence booked the income) and these will be passed on to Quipo by August 2008.

Higher interest rates in project finance may affect growth. With rising interest rates in the system, borrowings cost of the company has risen to about 12%. According to the management, the company will charge over 14% interest on project loans in order to offset the rise in borrowings cost. The company proposes to focus on improving its yield on projects by offering value-added services like loan syndication, advisory etc.

In 1QFY09, the company has scaled up its project finance book to about Rs3.5 bn from Rs2 bn in 4QFY08. We believe that higher interest rates in the system will affect viability of infrastructure projects and hence growth for project finances companies. Consequently, we are reducing our loan book assumptions for this segment – Rs17 bn in FY2009E and Rs23 bn in FY2010E versus Rs26 bn and Rs40 bn, respectively, assumed earlier.

Forex exposure continues to be a concern. Srei has booked MTM loss of Rs110 mn in 1QFY09 versus Rs120 mn in 4QFY08. The company now proposes to raise long-term loans of US$200 mn (subject to regulatory approval) in addition to the current forex debt (US$250 mn). According to the management, the current hedging cost is high and it does not propose to hedge forex risk in the near term. We have assumed lower NIMs on account of likely losses on forex loans. Nevertheless, sharp depreciation of the rupee provides a risk to our estimates.

Operating expenses higher due to one-time cost of slump sale. Srei has booked expenses of Rs85 mn as transaction cost of the deal with BNP which has significantly inflated its operating expenses for the quarter.

Srei Infrastructure finance

Old and new estimates, March fiscal years, 2009-2010E (Rs mn)

	Old estimates		New estimates		% change	
	2009E	2010E	2009E	2010E	2009E	2010E
Net interest income	2,885	4,314	3,149	3,886	9	(10)
Loan growth (%)	75	34	58	25	-	-
Loan book (Rs bn)	104,465	139,517	94,233	118,082	-	-
AUMs (Rs bn)	127,240	170,338	117,008	148,903	-	-
NIM (%)	3.3	3.4	3.8	3.4	-	-
NPL provisions	445	565	471	576	6	2
Other income	454	692	284	498	(38)	(28)
Operating expenses	1,327	1,791	1,274	1,440	(4)	(20)
Employee	594	737	621	676	4	(8)
Others	733	1,054	653	763	(11)	(28)
PBT	1,560	2,643	1,680	2,361	8	(11)
Tax	500	828	555	747	11	(10)
PAT	1,059	1,815	1,126	1,614	6	(11)
PAT (after minority interest)	659	1,303	739	1,092	12	(16)

Source: Kotak Institutional Equities estimates.

Srei Infrastructure Finance (consolidated)

Quarterly results, actuals vs estimates (Rs mn)

	1QFY09					1Q09 KS		Actual vs KS	
	Cons.	Standalone	Others	JV (50%)	JV (total)	Standalone	JV	Standalone	JV
Operational income	2,206	1,015	174	1,018	2,035	528	2,081	92	-2
Interest expenses	1,196	300	41	746	1,491	89	1,458	238	2
Provision for forex		110		-	-	120		-8	
Net operational income	**1,010**	**605**	**133**	**272**	**544**	**319**	**624**	89	-13
Provision expenses	40		0	40	80		42		91
Provisions for forex			-	-					
Net operational income (post provisions)	**970**	**605**	**133**	**232**	**464**	**319**	**582**	89	-20
Other income	13		5	8	16		10		60
Operating expenses	**326**	**137**	**103**	**87**	**175**	**13**	**162**	912	8
Admin and other expenses	220	113	62	45	90				
Employee expenses	99	21	41	38	75				
Depreciation	7	3	0	5	10				
Profit before tax	**657**	**469**	**35**	**153**	**306**	**306**	**430**	**53**	**-29**
Tax	225	159	14	52	104	86	150	86	-31
Profit after tax	**432**	**309**	**22**	**101**	**202**	**220**	**279**	**40**	**-28**

Source: Company, Kotak Institutional Equities estimates.

Srei Infrastructure Finance (construction equipment finance business)

Quarterly results, annual trends (Rs mn)

	1Q08	1Q09	YoY(%)	1Q09E	Actual vs KS (%)
Operational income	1,104	2,035	84	2,081	(2)
Interest expenses	675	1,491	121	1,458	2
Provision for forex		-			
Net operational income	**428**	**544**	**27**	**624**	**(13)**
Provision expenses	28	80	187	42	91
Provisions for forex		-			
Net operational income (post provisions)	400	464	16	582	(20)
Other income	3	16	416	10	60
Operating expenses	153	175	14	162	8
Admin and other expenses	88	90	2		
Employee expenses	58	75	30		
Depreciation	7	10	30		
Profit before tax	**251**	**306**	**22**	**430**	**(29)**
Tax	18	104	484	150	(31)
Profit after tax	**233**	**202**	**(13)**	**279**	**(28)**
Assets under management	51,494	69,306	35		
Tax rate (%)	7	34			

Source: Company, Kotak Institutional Equities estimates.

Srei Infrastructure finance - Sum of parts based valuation

	Stake (%)	Value of the firm (Rs mn)	Value per share (Rs)	Comments
Project related business and stake in subsidiary			124	Residual growth model -13.5% cost of equity
Asset management	100%	1,125	8	Equity AUMs of Rs7.5 bn (currently Rs1.5 bn of equity),
SEZs			7	Valuation of Rs10 mn per hectare, 50% probability
Bengal Srei, Kahdakpur	89%	1,000	3	100 hectares
Quipo infrastucture SEZ, Raigadh, Maharashtra	51%	1,810	3	181 hectares
Unrealised gains on road projects		907	6	20% discount to the unrealised gains on road projects
Investments in Quipo	15%			
Quipo telecom	12%	15,000	13	3000 telecom towers by FY2009; EV of Rs5 mn per tower
Total fair value			**158**	

Source: Kotak Institutional equities estimates.

Property

DLF.BO, Rs520	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	660
52W High -Low (Rs)	1225 - 350
Market Cap (Rs bn)	886.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	136.5	175.2	216.8
Net Profit (Rs bn)	74.6	85.0	93.9
EPS (Rs)	43.8	49.8	55.1
EPS gth	*244.6*	*13.9*	*10.5*
P/E (x)	11.9	10.4	9.4
EV/EBITDA (x)	10.6	9.1	7.4
Div yield (%)	1.0	1.3	1.9

Shareholding, March 2008

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

DLF: Launch pipeline remains strong; retain BUY rating

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- **Management reaffirms that launch pipeline will likely remain strong**
- **DLF looking to raise funds through project specific SPVs, DLF Assets**
- **Key parameters to track—operating cashflow, new launches, pricing**
- **Receivables constant even though from DAL increase by Rs14.5 bn**

DLF reported consolidated operating revenues of Rs38.1 bn (up 24% yoy, 3% below estimates) and PAT of Rs18.9 bn (in line with our estimates, however 7% below consensus) for 1QFY09. We would like to note that DLF reported EBITDA margins of 61.5% which was down 3% qoq and 10% yoy. We would attribute the drop in margins to the change in product mix resulting in revenues getting booked from lower margin middle income housing projects. We would like to highlight that net receivables position remained unchanged qoq, however the DAL receivables increased by Rs14.5 bn. Post the conference call, we adjust our model for, (1) earlier-than-expected launches in Lucknow and New Gurgaon, (2) launch of commercial project in Lucknow, and (3) delay in Delhi retail mall projects. Our revised revenue estimates for FY2009E is Rs175 bn (Rs172 bn earlier) and Rs216 bn for FY2010E (Rs210 bn earlier). As a result our PAT estimates are revised to Rs85 bn for FY009E (Rs87 bn earlier) and Rs94 bn for FY2010E (Rs94 bn earlier). We note that we are not yet building in financial estimates for the hotel or power businesses. DLF continues to show solid execution capability with 63 mn sq. ft of real estate under execution apart from delivery of 3 mn sq. ft in 1QFY09. We maintain our BUY rating with a target price of Rs660/share based on unchanged Mar '09-based NAV of Rs586/share.

Healthy project launches; we advance New Gurgaon villa, Lucknow projects.

DLF in July 2008 launched two large projects which are earlier-than-expected. These projects comprise

DLF Plaza, Lucknow. DLF has launched a large 0.8 mn sq. ft retail-cum-commercial complex in Lucknow—a first non-metro commercial complex. This 15-storey project will have a retail mall on the first three floors, 1,000 seater multiplex, a large food court and office complex on 3-15 floors. We are modeling the launch of this project in FY2011.

DLF Villas, New Gurgaon. After the success of its apartment complex project in New Manesar, DLF has launched townhouses and independent floors in price range of Rs8.3-10 mn at the same site. As a result, we advance our launch schedule for this by12 months.

We will highlight that we are conservative in our launch for mid-income/luxury housing compared to management guidance. Management is guiding for launches in FY2009 in Bangalore, Kasauli, Panchkula, Indore, Hyderabad, Goa, Kakkanad and Sriperumbudur. Currently, we are not modeling project launches in Kasauli, Goa, Hyderabad and Sriperumbudur.

Our hotel valuation will have room for upside

We are currently valuing DLF's hotel business Rs50 bn. We highlight that DLF has already spent Rs25 bn on land acquisition and has acquired Aman resorts. Exhibit 1 gives description of 15 hotels in which work is under different stages totaling 4,400 rooms. We summarize key projects in which substantial progress was made in the last quarter.

International Convention Centre, Dwarka (New Delhi). This convention centre with seating capacity of 12,000 delegates, along with 5 star hotel and allied commercial facilities, is slated to be one of the largest convention facilities in Asia. Spread over 35 acres of land, close to Delhi's International Airport and designed to match with the best of international standards. This facility will get operational before the Commonwealth Games in Sep '10 in New Delhi, India.

Aman resorts. 19th property of Aman Resorts –The Summer Palace, Beijing—set to open in autumn 2008.

Hilton Garden inn, Saket. This will be the first hotel as part of DLF Hilton Hotels. This 138 room hotel will open in Mar '09.

Currently, we haven't incorporated revenues accruing from hotel business as part of our financial model but will incorporate the same post receipt of FY2008 annual report.

Retail malls to become operational 4-6 months later than expected

We are currently modeling launches of the three mall projects—Promenade, Emporio and Courtyard— in April 2008 but there has been a delay vis-à-vis our expectations. As a result, we now expect these three malls to be fully operational by 3QFY09. Once operational, these malls will generate revenue of Rs1 bn/quarter. We highlight that DLF Emporio will be the first luxury mall to become operational. Key brands that will be present are international brands, like Cartier, Tiffany, Tod's, Giorgio Armani, Zegna, Dolce & Gabbana, Jimmy Choo, Kenzo, Paul Smith, Harry Winston, Fendi, Hugo Boss, Laperla, Piaget, Chopard, Vacheron, Canalli, Just Cavalli, Burberry, Dunhill and Judith Leiber.

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

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

Tracking key balance sheet items—Operating cashflows, debtors, debt coverage

Exhibit 10 gives movement of key balance sheet items over the past few quarters. In 1QFY09, key highlights in the balance sheet are, (1) D/E maintained at 0.6:1, (2) increase in debt by Rs19 bn, and (3) increase in loans and advances by Rs24 bn, and (4) investments increased by Rs5 bn. Management has indicated that these loans and advances have been given for outstanding land payments and to joint venture partners. As land payments to be made in the subsequent quarter decline, we would expect DLF to start generating operating cashflows.

Though, DLF has debt of Rs140 bn, this needs to be seen in light of, (1) EBITDA of Rs106 bn in FY2009, (2) rental income of Rs2.5 bn+/quarter from 4QFY09, providing DLF flexibility of raising additional money by securitizing rental receivables, (3) ability to raise long term financing for hotel as well as utilities business, (4) outstanding receivables from DLF Assets Limited.

Going forward, we need to monitor operating cashflows as this will determine the health of balancesheet.

Other issues—rationale for buyback, receivables from DAL

Rationale for buyback. Management has indicated that buyback is not going to affect execution. Currently, buyback hasn't started pending SEBI approval.

Receivables from DAL. Management seemed confident that DAL will be able to raise funding in CY2008. It has also indicated that DAL will pay interest to DLF, in case DAL is not able to pay to DLF till the end of construction.

Construction costs to be incurred. As per the management total construction costs to be incurred in FY2009E will be Rs60 bn.

Projectwise—Residential volumes go up sharply in 1QFY09

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

Residential: DLF continues to witness solid demand for its mid-income housing projects in 1QFY09 (Exhibit 3). DLF sold 1,000 flats (1.8 mn sq. ft) in 1QFY08 in its projects in Chennai (462 units), Gurgaon (484 units), Indore (59 units). DLF has sold a total of 11 mn sq. ft of affordable housing projects in the last two quarters and has started construction for 7.3 mn sq. ft (Exhibit 4).

Commercial: DLF delivered 3.1 mn sq. ft of commercial space in 1QFY09 and has 36.4 mn sq. ft under execution compared to 38.2 mn sq. ft in 4QFY08 (see Exhibit 5). During this quarter DLF handed over the following projects— portions of Noida IT park, Chennai IT park, Cybercity Gurgaon and DLF Akruti IT SEZ in Pune.

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

Low outstanding payments for land

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

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

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

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

Hotel project portfolio for DLF

Location		City	Number of rooms	Operational date	Current status
Hotels					
Rajiv Gandhi IT Park	Business hotel	Chandigarh	187	October 2009	Construction work started
Rohini	Hilton Garden inn	Delhi	220	Mar/Apr 2010	Obtained pre-construction approvals
Saket	Hilton Garden inn	Delhi	118	March 2009	Fit out work started
Greater Kailash I	Hilton residences	Delhi	140	Under planning	
Dwarka	Hilton various	Delhi	800	September 2010	Commenced excavation
DLF Cyber city	Luxury hotel	Gurgaon	350	Under planning	
DLF Golf Links	Luxury hotel	Gurgaon	230	Under planning	
EM Bypass	Hilton	Kolkata	620	Under planning	
Chandrasekharpur	Hilton	Bhubaneshwar	270	Under planning	
Prabhadevi	Luxury hotel		159	Under planning	
Gacchibowli	Hilton Garden inn	Hyderabad	350	Under planning	
Whitefield		Bangalore	200	Under planning	
Lalita Mahal hotel	Hilton Garden inn	Mysore	250	Under planning	
Marine Drive	Luxury hotel	Kochi	240	Under planning	
Chennai	Hilton Garden inn	Chennai	360	Under planning	
Total			**4,494**		
Hotels					

DLF has 178 days of non-DAL receivables at end 1QI

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

Source: Company, Kotak Institutional Equities.

Mid income housing segment showing strong progress

Recent launches in residential segment

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

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

Source: Company, Kotak Institutional Equities.

Residential segment sales booked during 1QFY09

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

Source: Company data, Kotak Institutional equities.

Retail lease/sales booked during 1QFY09

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

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

Source: Company data, Kotak Institutional equities.

Commercial office lease/sales booked during 4Q08

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

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

Source: Company data, Kotak Institutional equities.

New commercial complex launches

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

Source: Company data, Kotak Institutional Equities.

DLF's land reserves have increased marginally in 3QFY08

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

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

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

Source: Company, Kotak Institutional Equities.

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

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

Particulars	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Change qoq
Net fixed assets	41,851	41,461	49,125	53,935	100,031	110,156	10,125
Investments	2,107	2,196	32,834	13,489	9,102	14,211	5,109
Current assets, loans and advances	128,344	245,549	198,625	243,415	266,001	287,072	21,071
Stocks	56,800	62,085	74,177	94,272	94,544	102,832	8,288
Sundry debtors	15,057	37,478	38,936	64,790	76,106	76,052	(54)
Cash and bank balances	4,155	94,692	17,932	7,760	21,422	10,015	(11,407)
Other current assets	74	110	256	215	243	280	37
Loans and advances	52,258	51,184	67,324	76,378	73,686	97,893	24,207
Goodwill	8,935	8,935	16,298	16,223	20,931	21,916	985
Total use of funds	**181,237**	**298,141**	**296,882**	**327,062**	**396,065**	**433,355**	**37,290**
Total loans	99,327	103,466	77,854	92,403	122,771	142,209	19,438
Secured loans	92,053	94,946	68,657	66,286	80,533	90,932	10,399
Unsecured loans	7,274	8,520	9,197	26,117	42,238	51,277	9,039
Current liabilities and provisions	46,072	56,119	58,567	53,495	72,158	69,490	(2,668)
Deferred tax liability (net)	197	210	357	463	359	356	(3)
Shareholders funds	35,641	138,346	160,104	180,701	200,777	221,300	20,523
Total sources of fund	**181,237**	**298,141**	**296,882**	**327,062**	**396,065**	**433,355**	**37,290**
Debt/Equity (x)	**2.8**	**0.7**	**0.5**	**0.5**	**0.6**	**0.6**	
Operating cash flow		**(16,621.0)**	**(27,388.0)**	**(60,034.0)**	**9,739.0**	**(35,146.0)**	

Source: Company data, Kotak Institutional Equities.

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

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

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

Source: Company, Kotak Institutional Equities.

Revenue breakup for DLF- DAL & non- DAL

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

Our estimate for DLF's NAV is Rs586/ share

NAV sensitivity to growth rate in selling prices

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

Source: Kotak Institutional Equities estimates.

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

	2005	2006	2007	2008	2009E	2010E	2011E
Total revenues	**6,082**	**11,536**	**39,233**	**142,287**	**175,242**	**216,791**	**255,950**
Land costs	(2,517)	(4,416)	(6,319)	-	(15,075)	(21,084)	(27,326)
Construction costs	-	-	-	(35,167)	(43,425)	(61,000)	(68,385)
Employee costs	(446)	(397)	(922)	(3,153)	(3,214)	(3,815)	(4,836)
SG&A costs	(1,435)	(1,966)	(3,958)	(6,449)	(6,966)	(7,390)	(7,355)
EBITDA	**1,684**	**4,757**	**28,034**	**97,518**	**106,560**	**123,502**	**148,047**
Other income	178	883	1,108	2,562	3,325	3,241	3,013
Interest	(390)	(1,685)	(3,076)	(2,980)	(3,442)	(1,862)	(3,573)
Depreciation	(333)	(361)	(571)	(785)	(1,908)	(3,691)	(4,405)
Pretax profits	**1,138**	**3,594**	**25,494**	**96,315**	**104,535**	**121,189**	**143,082**
Profit/(loss) share of associates	-	-	-	-	-	-	-
Current tax	(490)	(2,537)	(6,058)	(17,350)	(19,793)	(27,274)	(39,362)
Deferred tax	231	870	-	(184)	222	(29)	775
Net income	**879**	**1,927**	**19,436**	**78,781**	**84,964**	**93,886**	**104,496**
Reported net income	**865**	**1,917**	**19,425**	**78,558**	**84,964**	**93,886**	**104,496**
EPS (Rs)							
Primary	6.3	12.7	13.0	47.4	50	55	61
Fully diluted	6.3	12.7	13.0	47.0	49	55	61
Shares outstanding (mn)							
Year end	140	1,511	1,530	1,705	1,705	1,705	1,705
Primary	140	152	1,496	1,661	1,705	1,705	1,705
Fully diluted	140	152	1,496	1,678	1,722	1,722	1,722
Cash flow per share (Rs)							
Primary	5	18	4	42	46	55	63
Fully diluted	5	18	4	41	46	54	63
Growth (%)							
Net income (adjusted)	61	122	913	304	8	11	11
EPS (adjusted)	59	103	2	261	5	11	11
DCF/share	39	273	(77)	888	11	18	16
Cash tax rate (%)	43	71	24	18	19	23	28
Effective tax rate (%)	23	46	24	18	19	23	27

Source: Kotak Institutional Equities estimates.

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

	2005	2006	2007	2008	2009E	2010E	2011E
Equity							
Share capital	35	378	3,059	3,409	3,409	3,409	3,409
Reserves/surplus	7,437	9,122	36,613	193,014	264,373	338,823	419,996
Total equity	**7,472**	**9,500**	**39,672**	**196,423**	**267,782**	**342,232**	**423,405**
Deferred tax liability/(asset)	963	93	187	226	4	34	(742)
Liabilities							
Secured loans	7,951	39,560	92,053	119,328	89,328	29,328	29,328
Unsecured loans	1,724	1,760	7,275	-	-	-	-
Total borrowings	**9,675**	**41,320**	**99,328**	**119,328**	**89,328**	**29,328**	**29,328**
Currrent liabilities	9,342	18,469	42,429	56,251	71,260	87,640	103,730
Total capital	**27,494**	**69,435**	**181,708**	**372,320**	**428,466**	**459,326**	**555,814**
Assets							
Cash	424	1,950	4,155	14,123	10,560	3,070	102,854
Current assets	15,939	35,113	124,639	265,715	281,645	281,257	266,478
Gross block	8,253	11,237	17,787	44,852	54,501	105,461	125,856
Less: accumulated depreciation	1,549	1,891	2,412	4,408	6,316	10,007	14,412
Net fixed assets	6,704	9,346	15,375	40,444	48,185	95,454	111,444
Capital work-in-progress	3,506	6,239	26,497	22,900	48,938	30,408	25,900
Total fixed assets	**10,210**	**15,585**	**41,872**	**63,344**	**97,123**	**125,862**	**137,344**
Intangible assets	—	—	—	—	—	—	—
Investments	921	16,789	11,042	28,935	38,935	48,935	48,935
Misc. expenses	—	—	—	202	202	202	202
Total assets	**27,494**	**69,437**	**181,708**	**372,320**	**428,465**	**459,326**	**555,813**
Leverage ratios (%)							
Debt/equity	114.7	430.7	249.2	60.7	33.4	8.6	6.9
Debt/capitalization	53.4	81.2	71.4	37.8	25.0	7.9	6.5
Net debt/equity	109.7	410.4	238.8	53.5	29.4	7.7	(17.4)
Net debt/capitalization	52.3	80.4	70.5	34.9	22.7	7.1	(21.1)
RoAE	**10.7**	**21.3**	**78.6**	**66.4**	**36.6**	**30.8**	**27.3**
RoACE	**5.3**	**4.5**	**22.9**	**35.8**	**26.0**	**26.2**	**25.8**

Source: Kotak Institutional Equities estimates.

Industrials

LART.BO, Rs2690	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	3,600
52W High -Low (Rs)	4690 - 2100
Market Cap (Rs bn)	797.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	293.5	399.6	528.6
Net Profit (Rs bn)	22.2	34.8	44.8
EPS (Rs)	75.9	117.5	149.1
EPS gth	*20.8*	*54.8*	*27.0*
P/E (x)	35.4	22.9	18.0
EV/EBITDA (x)	22.0	13.8	10.8
Div yield (%)	0.6	0.7	0.8

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	20.7	2.4	0.1
MFs	6.8	4.3	1.9
UTI	9.0	44.5	42.2
LIC	16.0	8.9	6.6

Larsen & Toubro: Annual report highlights - exceptionally strong capex and investments in subsidiaries; strong cash balances and low gearing help leverage more opportunities

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- **Massive capital expenditure and strong subsidiary investments buttressing growth potential**
- **Moderate improvement in working capital levels of the standalone entity; operating cash-flows at last year levels inspite of strong top-line and PAT growth**
- **Financial subsidiaries are the focus of subsidiary investments in order to create a capital base for growth; Middle-East subsidiaries face challenges (parent may be the vehicle here)**
- **Financial services turns in strong performance; strong growth across associate companies led by L&T-Komatsu**
- **Reiterate BUY with target price of Rs3,600**

Key highlights of L&T annual report are (1) exceptionally strong capital expenditure (>70% of FY2007 ended net block - L&T (standalone) has incurred a capex of about Rs16 bn, over a net block base of about Rs22 bn at end-FY2007; (2) financial subsidiaries guzzle cash in pursuit of growth - investments in subsidiaries and JVs during the year were about Rs10 bn led by financial subsidiaries as well as Intenrational FZE (probably funding of commodity hedging losses); (3) operating cash flows flat over last year despite strong growth in revenues and profits - L&T's (standalone) net working capital (excluding cash) has improved moderately to 25 days of sales at end-FY2008 versus 30 days of sales last year, thus operating cash flows have been maintained at last year levels of about Rs21.5 bn, inspite of strong PAT growth of 28% in FY2008; (4) subsidiary performance is driven by financial services subsidiaries while associate performance is driven L&T-Komatsu (contributing about half of combined profit of all associates); (5) Middle-East subsidiaries face challenges - apart from commodity losses, Middle-East subsidiaries saw losses from commodity hedging activities and cost escalations as well as lower order booking (we believe parent company is the business vehicle in this geography rather than subsidiaries) while Chinese manufacturing subsidiaries report losses due to nascent stage of operations. Reiterate BUY with target price of Rs3,600.

Massive capital expenditure and strong subsidiary investments buttressing growth potential

L&T (standalone) has incurred a capex of about Rs16 bn (with most investments going towards expansion of Coimbatore and Hazira facilities). We highlight that such investments are over a net-block base of about Rs22 bn at end-FY2007, indicating the size of expansion activity underway. Capex in the consolidated entity was Rs33 bn in FY2008 over a base of Rs55 bn. We believe, such high capex is a pointer towards the likely strong growth in operations of the various arms of L&T.

Moderate improvement in working capital levels of the standalone entity; operating cash-flows at last year's levels despite strong PAT growth

L&T's (standalone) net working capital (excluding cash) has improved moderately to 25 days of sales at end-FY2008 versus 30 days of sales last year, led by increased customer advances and provisions. We highlight that we do not view such improvement to be sustainable and assume 40 days and 44 days of net working capital (excluding cash) in FY2009E and FY2010E respectively.

Operating cash flows have been maintained at last year levels of about Rs21.5 bn, inspite of strong PAT growth of 28% in FY2008. This is led by the fact that FY2007 had working capital release of about Rs5.6 bn while FY2008 had working capital investment of about Rs1.8 bn.

Financial subsidiaries are the focus of subsidiary investments in order to create a capital base for growth

Investments in subsidiaries and JVs during the year were about Rs10 bn, indicating the large ramp-up that is potentially being undertaken at various subsidiary-level operations. Key subsidiary investments during the year were in L&T International FZE – Rs3.4 bn, L&T Infrastructure Finance Company - Rs2.6 bn and L&T Finance - Rs2.4 bn, indicating that these businesses are in strong expansion mode. L&T–FZE investments would have partly gone towards meeting the cash out outflow on account of commodity losses recorded in FY2008.

Strong cash balance to fund future capex and investment plans; low gearing leaves scope for debt financing

L&T has strong cash and cash equivalents of about Rs52.5 bn (including mutual fund and bond investments) at end-FY2008 versus about 22.5 bn at end-FY2007 partially led by (1) net additional borrowings of about Rs15 bn (largely ECBs) and (2) equity issuance of about Rs16 bn through global depository shares. We highlight that D/E ratio of L&T at end-FY2008 has been maintained at about 0.4 (similar to end-FY2007), leaving sufficient scope for additional debt financing to fund its capex and investment requirements. Cash and cash equivalents at the consolidated level is about Rs61 bn at end-FY2008, increasing strongly from Rs32 bn at end-FY2007. Gearing has increased to 1X at the consolidated level at end-FY2008 from 0.9X at end-FY2007. We highlight that we project this ratio to decrease to 0.7X levels in FY2009E, though L&T can likely increase it to well beyond 1X, given that infrastructure and finance businesses have high debt requirements.

Financial services turns in strong performance; strong growth across associate companies led by L&T-Komatsu

Financial services business of L&T grew by over 160% yoy in both revenues and PAT. Apart from L&T Finance, the growth was aided by the first full year of operations of L&T Infrastructure Finance Company. Associate companies on a combined basis performed strongly in FY2008 with yoy growth of 39% and 55% in revenues and PAT respectively. L&T Komatsu, the supplier of hydraulic excavators, contributed most significantly to this growth with 61% increase in revenues to Rs13 bn and 128% increase in PAT to Rs1.3 bn. We highlight that associate companies' profits have grown at a CAGR of over 60% during FY2006-08 and we project them to grow at 30% and 20% in FY2009E and FY2010E respectively (to account for the high base effect, though positive surprises are likely).

Middle-East subsidiaries make losses led by commodity hedging activities and cost escalations; Chinese subsidiaries report losses due to nascent stage of operations

Most subsidiaries in the Middle-East have made losses with total losses in FY2008 being about Rs3.1 bn. Out of this, Rs2.7 bn of losses pertain to L&T FZE, largely driven by commodity hedging activities. L&T is confronting a challenging environment in the Middle-East due to stiff competition from local and Chinese companies. Consequently, its Saudi Arabia and Qatar subsidiaries had not booked any fresh orders during the quarter and suffered losses due to cost escalations. However, the Oman subsidiary L&T (Oman) LLC fared well, winning several large orders and reporting a profit of Rs262 mn in FY2008. We highlight that L&T may be fulfilling its Middle-East aspirations through the parent entity itself. The Chinese subsidiaries have recently commenced operations and hence will likely take time to achieve profitability.

Reiterate BUY with target price of Rs3,600

We reiterate our BUY rating with our target price of Rs3,600 (Exhibit 4). We believe L&T is the best play on India's growth story, led by (1) strong momentum in infrastructure and industrial investments across sectors and L&T's positioning in terms of breadth of skills and execution depth; (2) L&T's ability to build sizeable businesses in related segments of engineering such as power equipment manufacturing, shipbuilding, defense and hydro-power construction, further diversifying its revenue stream; (3) infrastructure development upside by equity participation in projects through L&T IDPL and (4) potential for increasing international presence, particularly in Middle-East.

Key risks emerge from (1) execution challenges in a tight demand-supply environment for technical and managerial skills; (2) potential hiccups in ramp up of several new business segments such as defense, power equipment manufacturing and shipbuilding; (3) slowdown in infrastructural and industrial capital expenditure with increase in interest rates or slower economic growth and (4) possible margin pressures led by commodity price increases.

Subsidiary investments are driven by international and finance businesses

Details of subsidiary investments made by L&T in the last two fiscal years

Name	FY2008 Investment (Rs mn)	FY2007 Investment (Rs mn)
L&T Finnance Limited	2,500	1,000
L&T International FZE*	3,364	1,367
L&T Infrastructure Finance Company	2,570	2,430
L&T Infrastructure Development Projects		2,324
L&T Infotech Limited		536
L&T Power Projects Limited	105	
International Seaport Dredging	216	86
L&T-Valdel Engineering Limited	162	
L&T Power Development Limited	290	
L&T Realty Private Limited	472	
Others	2	1
Total Investments	**9,680**	**7,743**

* Actual number of shares (not in mn) and Par value in Dhs.

Source: Company data

Snapshot of domestic business subsidiaries

		FY2008		FY2007	
		Revenues	PAT	Revenues	PAT
IT Services	L&T Infotech Limited	15,819	2,111	12,815	1,510
	Others	1,297	(130)	413	8
		17,116	**1,982**	**13,227**	**1,518**
Financial Services	L&T Finance Limited	6,061	1,150	2,754	626
	L&T Infrastructure Finance Company	1,220	513		
	L&T Capital Company Limited	85	41	72	25
		7,365	**1,704**	**2,826**	**651**
Engineering and Construction	India Infrastructure Developers Limited	279	(178)	415	(122)
	L&T Infrastructure Development Projects	379	199	1,984	1,612
	L&T Sargent and Lundy Limited	418	37	229	12
	0thers	500	83	289	48
		3,660	**136**	**2,917**	**1,605**
Macihnery and Industrial Products	Tractor Engineers Limited	1,733	(5)	1,040	133
Total		**29,874**	**3,817**	**20,010**	**3,906**

Source: Company data

Associate profits have grown at a CAGR of 60% during FY2006-08, primarily driven by L&T Komatsu

Snapshot financials of L&T's associate companies

Consolidated	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Revenues	11,591	15,549	21,934	30,411	38,014	45,616	52,459	57,704
PAT	646	1,129	1,748	2,700	3,510	4,212	4,844	5,764
Revenue growth (%)		*34.1*	*41.1*	*38.7*	*25.0*	*20.0*	*15.0*	*10.0*
PAT growth (%)		*74.7*	*54.8*	*54.5*	*30.0*	*20.0*	*15.0*	*19.0*

	2005	2006	2007	2008
L&T Chiyoda - Petrochemical engg & design				
Stake (%)	50	50	50	50
Revenue	*313.3*	*342.3*	*530.3*	*682*
PAT	32	39	78	75
Voith Paper Technology - Technology solutions for power				
Stake (%)	50	50	50	50
Revenue	*171.4*	*149.6*	*308.1*	*273.5*
PAT	32	32	89	63
L&T Ramboll Consulting - Civil infrastructure design				
Stake (%)	50	50	50	50
Revenue	*92.4*	*151.4*	*164.4*	*243*
PAT	(7)	10	29	35
Ewac Alloys - JV with Messer Eutectic and Castolin - Welding solutions				
Stake (%)	50	50	50	50
Revenue	*593.1*	*741.7*	*1089.7*	*1509.7*
PAT	95	145	226	244
Feedback Ventures Private Limited - Infrastructure advisory company				
Stake (%)	-	-	-	26

	2005	2006	2007	2008
Audco India - JV with flowserve - industrial valves				
Stake (%)	50	50	50	50
Revenue	*4642.5*	*5769*	*6890.6*	*8630.5*
PAT	320	433	523	694
L&T Komatsu- Hydraulic excavators				
Stake (%)	50	50	50	50
Revenue	*3742.7*	*5345.6*	*8060.6*	*12979.5*
PAT	170	401	584	1,330
L&T Case Equipment - CNH America LLC - Construction machinery like backhoe loaders and vibratory compactors				
Stake (%)	50	50	50	50
Revenue	*1080*	*1770.4*	*3237.5*	*4625.7*
PAT	(39)	9	145	361
L&T Demag Plastic Machinery - Demag Ergotech, GmBH - plastics industry such as injection moulding				
Stake (%)	50	50	50	50
Revenue	*903.7*	*1123.6*	*1401.5*	*1040.5*
PAT	33	29	32	(170)
Salzer Cables Limited - Electric power cables/ wires				
Stake (%)	-	-	48	48

Source: Company data, Kotak Institutional Equities estimates.

Snapshot of international business subsidiaries

					FY2008		FY2007			FY2006		
		Stake	Partners	Purpose	Revenues	PAT	Revenues	EBITDA	PAT	Revenues	EBITDA	PAT
Holding company	L&T International FZE	100%	None	1. Holding company of international subsidiaries 2. Commodity hedging 3. Offer equipment on rent to group companies	231	(2,673)	1,428	1,390	1,329	565	562	534
Saudi Arabia	L&T Saudi Arabia LLC	95%	5% stake held by Tractor Engg.	EPC contractor in oil & gas, process industry, infrastructure etc.	56	(446)	263	(131)	(194)	1,804	(29)	(94)
Qatar	L&T Qatar LLC	49%	Al-Jazeera International Trading CO. WLL.	EPC contractor in oil & gas, process industry, infrastructure etc.	300	(83)	1,026	(82)	(107)	645	(19)	(22)
Oman	L&T (Oman) LLC	65%	Zubair Corporation	EPC contractor in oil & gas, process industry, infrastructure etc.	7,787	262	6,072	339	254	3,892	190	140
	L&T Modular Fabrication Yard LLC	65%		Fabrication of oil & gas platforms	124	(49)						
	L&T Electromech LLC	65%	Zubair Corporation	Industrial projects, mechanical/electrical work for buildings, electricla and instrumentation	2,420	(50)	1,994	96	74	828	80	74
Malaysia	L&T ECC Construction (M) Sdn. BHD.	30%			1,720	11	428		1			
China	L&T (Wuxi) Electric Company Ltd.	100%	None	Manufacture and sale of switchgear products, high end circuit breakers. Started operation from August 8, 2006.	227	(14)						
	L&T (Jiangsu) Valve Company Ltd.	70%	Yancheng Sunt Valves Company	Industrial valves	31	(45)						
	L&T (Qingdao) Rubber Machinery Company Ltd.	95%	Rubber processing machinery		312	(4)						
Total					**13,207**	**(3,091)**	**11,211**	**1,611**	**1,357**	**7,733**	**783**	**632**

Source: Company data

Utilities

TTPW.BO, Rs1116	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,540
52W High -Low (Rs)	1650 - 595
Market Cap (Rs bn)	260.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	73.4	80.4	88.3
Net Profit (Rs bn)	6.9	8.9	9.3
EPS (Rs)	29.7	38.1	39.9
EPS gth	*12.0*	*29.3*	*4.7*
P/E (x)	37.6	29.3	28.0
EV/EBITDA (x)	25.4	22.5	22.8
Div yield (%)	0.8	0.9	0.9

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.4	-	-
FIIs	20.7	0.7	0.0
MFs	6.7	1.2	0.5
UTI	-	-	(0.7)
LIC	9.2	1.5	0.8

Tata Power: Strong growth by Bumi; we change valuation methodology for TPC's stake in coal mines

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- **Bumi—realizations remain firm, marginal decline in volumes**
- **We values TPC's stake in coal mines at Rs638/share—discount dividend flows net of interest and debt**
- **SOTP-based target price of Rs1,540/share**

Bumi Resources reported 44% yoy growth revenues at US$830 mn, 174% yoy growth in operating income at US$279 mn and 202% yoy growth in net profit (before minority interest) at US$285 mn for the quarter-ended June 2008. Bumi Resources has guided for higher average selling price of US$77/ton (US$70/ton previously) for CY2008, 75% yoy growth from the average realization of US$44 in CY2007. Marginal decline in volume guidance at 60 mn tons (61 mn tons previously) to factor in lower sales during 1HCY2008 due to (1) challenging operating conditions due to prolonged rainfall and (2) delay in arrival of new mobile equipment and arrival of ships. We believe recent developments in Bumi Resources - acquisition of Herald Resources (lead and zinc assets) and increased exploration activities (iron ore, gold etc.) - mean that Bumi Resources value is affected by other factors beyond its 70% stake in the coal mines (Arutimin and Kaltim Prima). We have revised our valuation methodology and now value TPCs 30% stake as present value of dividend income (net off interest and debt repayments) to be received from the two coal mines. We assume 6% stake acts as a hedge for the non-escalable portion (6 mn tpa) of the Mundra tariff and value the 24% stake held by TPC in the two coal mines at Rs638/share (Rs627/share previously). We reiterate our conviction on the long-term growth prospects of the company and retain our earning estimates and BUY rating with a target price of Rs1,540/share.

Bumi—realizations remain firm, marginal decline in volumes. Bumi reported a strong 44% yoy growth in revenues at US$830 mn and 3X increase in net income before minority interest at US$285 mn. Revenues growth was aided by strong 69% yoy growth in realizations at US$71.6/ton. Marginal decline in volumes (-6% yoy) was attributed to—(1) challenging operating conditions due to prolonged rainfall and (2) delays in delivery of new mobile equipment and arrival of ships. We note that Bumi has revised the guidance for realizations for CY2008 to US$77/ton (US$70/ton previously) and sales of 60 mn tons (62 mn tons previously).

We values TPC's stake in coal mines at Rs638/share. We assume 6% of the 30% stake held by TPC in the two coal mines (Arutimin and Kaltim Prima) acts as a hedge for the non-escalable portion (6 mn tpa) of the Mundra tariff. We value the 24% stake held by TPC in the two coal mines at Rs638/share (Rs627/share previously). We discount the cash flows of dividend income from the coal mines less the interest and principal repayments (towards debt taken for equity stake in the coal mines) to arrive at a value of Rs638/share (US$3.5 bn). We note that TPC had acquired 30% equity in the coal mines for US$1.2 bn (US$0.2 bn equity infusion and debt of US$1 bn) through an SPV.

Our dividend income model assumes long term realizations of US$70/ton and production of 100 mn tpa by FY2012E. We highlight the key assumptions of our model—(1) 100% distribution of profits by the coal mining companies, (2) terminal growth rate of 0% in CY2025 and (3) 15% effective tax rate on profits earned by the SPV. Our current valuation does not factor in any benefits from the firm fuel supply agreement for supply of coal at pre-determined fixed price. We were earlier using the consensus target price of Bumi Resources to derive the valuation of the coal mines. However, we believe recent developments in Bumi Resources—acquisition of Herald Resources (lead and zinc assets) and increased exploration activities (iron ore, gold etc.)—mean that Bumi Resources value is affected by other factors beyond its 70% stake in coal mines.

TPC's exposure to imported coal prices largely hedged. TPC is largely hedged against rising imported coal prices due to its firm off-take agreement (10.5 mn tpa ± 20%) with the coal mines in Indonesia. TPC requires about 12 mn tpa of imported coal for Mundra UMPP. The tariff-bid of Mundra for fuel reimbursement contains an escalable portion which is linked to the index defined by CERC for imported coal. Thus higher prices of imported coal will automatically result in higher tariffs. The escalable portion of the bid-tariffs are about 50% of the energy charges and thus 6 mn tpa out of the total 12 mn tpa required are already hedged. TPC's exposure to higher fuel cost is restricted to the non-escalable portion (~6 mn tpa) of fuel re-imbursement. We assume this to be hedged by TPC's 6% stake in the two coal mines in Indonesia. However, we note TPC also has a firm off-take agreement at a price comparable to the non-escalable tariff bid for 3 mn tons for five years.

Tata Power to add about 600 MW capacity in FY2009, increase generation capacity to 14 GW in the next five years. During the quarter, TPC added a 114 MW hydropower project in Bhutan in its development portfolio. TPC will take 26% stake in the project being promoted by the government of Bhutan. Tata Power Trading Company has signed an agreement for offtake of power from the project for 25 years. During the next one year, TPC will add about 600 MW of generation capacity comprising 250 MW at Trombay, 120 MW at Haldia, 120 MW at Jojobera, 40 MW DG sets and about 100 MW of wind power assets to its current installed capacity of about 2,400 MW.

We note satisfactory progress in the two large projects—4,000 MW Mundra UMPP in Gujarat and 1,050 MW Maithon Right Bank Thermal Power Project in JV with Damodar Valley Corporation—where civil works/construction has commenced. TPC also plans to implement 1,600-2,400 MW imported coal based power project in Maharashtra; captive power plants for Tata Steel and IOC and two IPPs in Jharkhand and Orissa where it has been allocated captive coal blocks.

SOTP-based target price of Rs1,540/share. We retain our BUY rating and SOTP-based target price of Rs1,540/share. Our SOTP valuation comprises of four components—(1) valuation of stake in coal mines in Indonesia valued at Rs638/share, (2) valuation of telecom investments and cash in books equivalent to Rs242/share, (3) value of operating power assets and projects nearing completion (Rs362/share) and (4) projects under-implementation (Rs309/share).

Financial results for Bumi Resources, December year-ends
(US$ mn)

	2QCY2008	2QCY2007	*(% chg)*
Sales	**830**	**575**	***44***
Cost of sales	(551)	(473)	
Operating income	**279**	**102**	***174***
Net income before minority	285	94	
Minority interest	(86)	(1)	
Net income	**199**	**93**	***114***
Operating assumptions			
Selling price (US$/ton)	71.6	42.3	*69*
Sales (ton)	12.9	13.8	*(7)*

Source: Company data, Kotak Institutional Equities.

Income statement for SPV's holding 24% equity in coal mines

	2007	2008E	2009E	2010E	2011E	2012E
Dividend income	74	288	461	520	560	489
Net interest income	0	6	15	29	45	62
Interest	(48)	(95)	(94)	(89)	(81)	(73)
Pretax profits	26	199	381	460	524	479
Tax	(4)	(30)	(57)	(69)	(79)	(72)
Net profits	**22**	**169**	**324**	**391**	**445**	**407**
Key assumptions for Bumi Resources						
Realization per ton (US$)	40.9	70.3	80.9	80.9	80.9	70.0
Volumes (mn tons)	55.4	59.8	70.6	81.2	89.3	98.2

Source: Kotak Institutional Equities estimates.

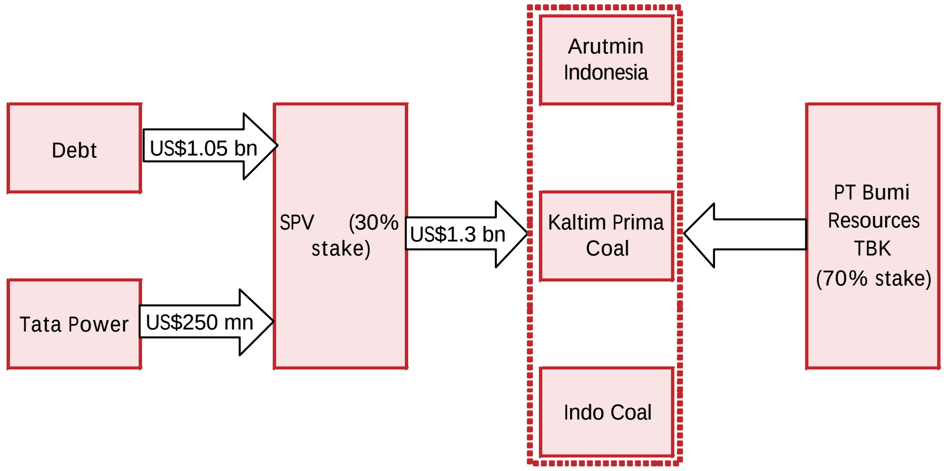
Valuations TPC's stake in the coal mines is highly sensitive to assumptions of long-term coal realizations
Sensitivity of TPC's stake in coal mines (Rs/share)

		Long-term coal price (US$/ton)		
		50	**70**	**90**
	8	323	853	1,383
Cost of equity (%)	**10**	263	638	1,012
	12	222	500	778

Source: Kotak Institutional Equities estimates.

Tata Power gets 30% stake in the coal business of PT Bumi Resources for US$250 mn

Ownership structure of the coal business of BT Bumi Resources TBK



Source: Company data, Kotak Institutional Equities

Tata Power Sum-of-the-parts valuation

	Methodology	Key assumptions/comments	Per share value (Rs)
Mumbai (Generation, transmission & distribution business)	**DCFe** Disc. Rate: 12% Term. Yr. Grth: 2%	The business enjoys very high predictability of cash flows. We have not built in any incremental capacity creation in Mumbai (beyond the 250 MW already under construction).	169
Jojobera generation business	**DCFe** Disc. Rate: 12% Term. Yr. Grth: 0%	P/B of 2X for operational generation capacity at Jojobera (428 MW), Belgaum (81 MW) and Haldia (30 MW). P/B of 1.5X for projects under construction - 240 MW at Jamshedpura/Jojobera and 90 MW at Haldia	86
Powerlinks Transmission Ltd.	**Price/Book (X)**	We value the equity investment at 1.4X book: The project earns a regulated RoE of 14% as per the Central Electricity Regulatory Commission (CERC) tariff guideline for inter-state transmission project.	14
Delhi Distcom (NDPL)	**DCF** Disc. Rate: 12% Term. Yr. Grth: 4%	NDPL earns 16% RoE provided it meets cetain A,T&C loss reduction benchmarks. It is also incentivized by way of higher returns in the event of bettering the benchmarks Equity invested in NDPL Rs bn 1.8 NDPL reserves (attr.) Rs bn 1.9	26
Tata BP Solar	**EV/Sales (X)**	8X EV/Sales on FY07 as compared to 17X for comparable standalone PV manufacturers; an additional 40% group company discount built in	66
Investments	**Various**	Total value (Rs bn) / Per share value (Rs) Telecom 27.6 / 119 TCS/Tata Sons 13.8 / 59 Others 2.0 / 9	186
Investible surplus on books	**Market value**	Marketable securities & cash on books (Rs bn)	56
Bumi Resources	**DCF-equity**	DCF-equity of dividend income accrued from 24% stake in coal mines in Indonesia. We assume the balance 6% stake acts as a hedge for the unhedged coal position in Mundra UMPP.	638
Mundra UMPP	**DCF-equity**	Levelized tariff of Rs2.26/unit for 25 years	128
Maithon	**DCF-equity**	74% stake in 1,050 MW project; 300 MW to be sold to DVC (regulated returns); Balance to be tied up; Coal linkage allocated	28
IPPs	**DCF-equity**	1,000 MW based on captive mining blocks; P/B of 2.5X with a levelized tariff of Rs2.26/unit	52
Value enhancement from future projects -assuming 50% probability			101
Total			**1,551**

Source: Kotak Institutional Equities estimates.

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

	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)					
Net sales	56,955	64,756	73,389	80,435	88,322
EBITDA	**9,986**	**10,786**	**11,487**	**13,772**	**15,210**
Other income	1,758	2,671	2,578	3,023	2,504
Interest	(1,807)	(2,833)	(2,214)	(2,215)	(2,534)
Depreciation	(3,457)	(4,148)	(3,568)	(4,080)	(4,560)
Extraordinary items	1,571	1,877	—	—	—
Pretax profits	8,052	8,353	8,284	10,500	10,621
Tax	(1,625)	(816)	(1,368)	(1,615)	(1,328)
Minority interest	1,104	6	—	—	—
Net profits	**7,532**	**7,544**	**6,915**	**8,886**	**9,293**
Earnings per share (Rs)	**23**	**27**	**29.7**	**38.1**	**39.9**
Balance sheet (Rs mn)					
Total equity	54,183	59,479	70,516	91,756	104,664
Deferred taxation liability	336	458	1,315	1,858	1,808
Total borrowings	42,285	51,784	79,806	96,959	135,335
Currrent liabilities	17,100	22,238	21,007	22,881	24,893
Capital contribution from consumers	636	758	758	758	758
Minority interest	2,068	2,496	2,496	2,496	2,496
Total liabilities and equity	**116,607**	**137,214**	**175,898**	**216,708**	**269,953**
Cash	10,793	14,024	6,057	6,557	5,195
Current assets	22,105	29,293	30,093	32,781	35,760
Total fixed assets	54,788	63,001	64,664	70,286	73,914
Investments	28,632	30,833	75,022	107,022	155,022
Deferred expenditure	289	62	62	62	62
Total assets	**116,607**	**137,214**	**175,898**	**216,709**	**269,953**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	8,635	10,255	10,378	13,002	13,145
Working capital	(4,683)	(2,849)	(719)	(949)	(905)
Capital expenditure	(9,487)	(11,054)	(4,924)	(9,394)	(7,783)
Investments	1,401	(2,010)	(44,387)	(32,000)	(48,000)
Free cash flow	**(4,135)**	**(5,659)**	**(39,653)**	**(29,342)**	**(43,542)**

Source: Company data, Kotak Institutional Equities estimates.

Utilities

LAIN.BO, Rs324	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	530
52W High -Low (Rs)	888 - 224
Market Cap (Rs bn)	72.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	32.5	58.6	80.3
Net Profit (Rs bn)	3.5	4.2	7.0
EPS (Rs)	16.0	18.7	31.3
EPS gth	*103.4*	*20.3*	*78.5*
P/E (x)	20.3	17.3	10.4
EV/EBITDA (x)	15.2	17.3	14.1
Div yield (%)	(1.8)	(0.0)	-

Shareholding, March 2008

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

Lanco Infratech: Low revenue booking in 1QFY09 indicates market strain

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- **Retain BUY rating with target price of Rs530 (Rs545 erlier)**
- **Reduce estimates for real estate business**

LITL reported real estate revenues of Rs474 mn for 1QFY09 compared to our estimates of Rs1.1 bn. We would like to note that in this quarter LITL would have booked approximately 4% of revenue accruing from 3.2 mn sq. ft of real estate which has been already sold. Though the real estate business should not be looked at on a qoq basis, the low booking was disappointing as it indicates slower execution of projects/ cancellations. We lower our sale volumes, revenue and PAT estimates for FY2009E. As a result, our revenues for real estate are revised to Rs3.6 bn for FY2009E (Rs6.3 bn earlier) and Rs6.9 bn for FY2010E (Rs12.8 bn earlier). Our PAT estimates for FY2008are revised to Rs775 mn in FY2009E (Rs1.6 bn earlier) and Rs1.4 bn in FY2010E (Rs2.6 bn earlier). Key upside risk to revenues: rapid signing of contracts and construction progress. Key downside risk is large-scale cancellations.

Understanding accounting policy of booking. Lanco books revenues on a percentage completion method based on project cost (land + construction) basis. Thus it is entitled to booked revenues on area it has sold based on what % of construction cost has been incurred. However, it starts booking revenues only if a contract has been entered with the buyer. Till then, a buyer is entitle to withdraw from the purchase of the house by paying a nominal amount of Rs25, 000.

Low pace of construction cannot alone explain revenue miss. We note that LITL has already sold 3.2 mn sq. ft of residential space at Lanco Hills at a average price of Rs4,000/sq. ft indicating potential revenue booking of Rs17 bn. Therefore assuming a 12 quarter construction period, revenue booking should be in the region of Rs1.4 bn/ quarter. Though revenue booking can vary qoq, it cannot be as low as Rs474 mn.

Customers are delaying signing agreements. Some buyers are holding on to apartments to benefit from any price cut being taken by Lanco. These buyers are not paying installments or entering into agreements with Lanco Hills. We believe that these customers could exit out of the project in case no price adjustment takes place. Lanco hills management has reacted to this situation by hiking prices by 10%. We note that increase in selling prices along with 150 bps increase in interest rates will put severe strain on affordability.

We cut our volume estimates significantly. We now assume no new launches happening in Lanco Hills. However, currently we model is that any cancellation will be substituted by new fresh purchase. Thus, our volume estimates for FY2009 are reduced to 0.2 mn sq. ft (1.7 mn sq. ft earlier). As a result, our revenues are revised to Rs3.6 bn for FY2009E (Rs6.3 bn earlier) and Rs6.9 bn for FY2010E (Rs12.8 bn earlier). Our PAT estimates are revised to Rs775 mn in FY2009E (Rs1.6 bn earlier) and Rs1.4 bn in FY2010E (Rs2.6 bn earlier).

Retain BUY rating with revised target price of Rs530/share. Our SOTP-based value of Rs530 includes—(1) power project portfolio (Rs279/share), (2) value of construction business (Rs182/share), (3) value of real estate business (Rs60/share, earlier Rs77/share), (4) BOT road projects (Rs5/share) and (5) value from sale of carbon credits (Rs9/share).

Payment schedule for residential projects is linked to construction

	Particulars	Payments
1	At the time of allotment	15%
2	Within 30 days from the date of allotment	10%
3	nd On the completion of 2 podium in which unit is booked	10%
4	nd On The completion of 2 floor roof slab in which unit is booked	10%
5	th On the completion of 8 floor roof slab in which unit is booked	10%
6	th On the completion of 14 floor roof slab in which unit is booked	10%
7	th On the completion of 20 floor roof slab in which unit is booked	10%
8	th On the completion of 26 floor roof slab in which unit is booked	8%
9	th Within 90 days from the completion of 26 floor roof slab	7%
10	th Within 180 days from the completion of 26 floor roof slab	5%
11	At the time of hand over	5%
	Corpus fund & Maintenance fee	
	Total	100%

www.lancohills.com

Lanco Infratech (Consolidated), Quarterly performance, March year-ends (Rs mn)

	FY2009E	1QFY09	1QFY08	yoy (% chg)
Net sales	**58,569**	**9,139**	**5,914**	***55***
Total expenses	(47,629)	(7,389)	(4,768)	*55*
EBITDA	**10,939**	**1,751**	**1,147**	***53***
Depreciation	(2,581)	(208)	(166)	
EBIT	8,358	1,542	980	
Other income	852	128	118	
Net interest	(1,903)	(293)	(200)	
PBT	**7,307**	**1,378**	**899**	***53***
Tax	(1,940)	(288)	(153)	
Profit before Minority Interest	**5,367**	**1,090**	**745**	***46***
Minority Interest	(1,201)	(363)	(233)	
Net Profit	**4,166**	**727**	**513**	***42***
Extraordinary		(136)		
EBITDA margin (%)	18.7	19.2	19.4	
Effective tax rate (%)	26.5	20.9	17.0	
Segment Revenues				
Construction	29,697	5,182	1,479	*250*
Power	25,287	4,201	4,415	*(5)*
Property development	3,585	474	-	
Infrastructure development	-	-	-	
Others	-	126	20	
Total	**58,569**	**9,982**	**5,914**	
less inter -segment revenues	-	(842)	-	
Net revenues	**58,569**	**9,140**	**5,914**	
EBIT				
Construction	3,809	688	236	
Power	3,310	730	757	
Property Development	1,168	108	(13)	
Others	1,058	23	0	
less interest expenses	(1,903)	(293)	(82)	
less unallocable expenses	(1,171)	(1,695)	-	
Total	**6,271**	**(439)**	**899**	
EBIT Margin (%)				
Construction	12.8	13.3	15.9	
Power	13.1	17.4	17.2	
Property Development	32.6	22.7		

Source: Company data, Kotak Institutional Equities.

Lanco Infratech (Standalone), Quarterly performance, March year-ends (Rs mn)

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

Source: Company data, Kotak Institutional Equities.

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

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	1,471	16,058	32,468	58,569	80,302
EBITDA	**167**	**4,198**	**6,924**	***10,939***	**18,489**
Other income	13	416	953	852	792
Interest	(36)	(829)	(835)	(1,903)	(4,006)
Depreciation	(19)	(656)	(775)	(2,581)	(3,698)
Extraordinary items	(0)	(1)	—	—	—
Pretax profits	125	3,128	6,267	7,307	11,578
Tax	(33)	(468)	(1,410)	(1,940)	(2,911)
Minority Interest	79	(778)	(1,307)	(1,201)	(1,707)
Net profits	**171**	**1,883**	**3,549**	***4,166***	**6,960**
Earnings per share (Rs)	**5.6**	**8.5**	**16.0**	***18.7***	**31.3**
Balance sheet (Rs mn)					
Total equity	954	15,105	19,983	24,153	31,113
Deferred taxation liability	31	92	5	27	53
Total borrowings	1,495	20,821	47,382	130,217	187,629
Currrent liabilities	1,581	11,424	10,924	17,963	18,631
Minority Interest	41	41	41	41	41
Total liabilities and equity	**4,101**	**47,482**	**78,334**	***172,399***	**237,467**
Cash	414	5,050	9,270	5,974	(3,685)
Current assets (excl cash)	2,264	12,013	14,661	24,322	33,005
Total fixed assets	409	24,390	54,264	141,963	208,007
Investments	1,015	6,029	135	135	135
Deferred Expenditure	0	0	5	5	5
Total assets	**4,101**	**47,482**	**78,334**	***172,399***	**237,467**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	128	3,669	5,805	9,034	14,953
Working capital	(230)	95	(3,148)	(2,623)	(8,014)
Capital expenditure	(211)	(24,637)	(30,649)	(90,281)	(69,742)
Investments	(419)	(5,014)	5,894	—	—
Free cash flow	**(732)**	**(25,888)**	**(22,098)**	***(83,870)***	**(62,803)**

Source: Kotak Institutional Equities estimates.

SOTP value of Rs550/share

	Equity value (Rs mn)	Equity Inv. (Rs mn)	P/BV (X)	Capacity Gross	Capacity Attributable	Attributable value (%)	Attributable value (Rs mn)	Attributable value (Rs/share)
Operating power plants								
Lanco Kondapalli	8,053	3,400	2.4	368	217	59	6,418	
Aban Power	2,354	1,318	1.8	120	61	51	1,818	
Clarion Power	698	224	3.1	12	12	97	754	
Rithwik Power	384	90	4.3	6	5	89	392	
Lanco Electric Utility (Power trading)	535	212	2.5			100	533	
Power plants under construction								
Lanco Amarkantak	9,208	5,135	1.8	600	456	76	6,998	
Lanco Green	1,146	838	1.4	70	63	90	1,032	
Vamshi Hydro	387	139	2.8	10	9	91	352	
Vamshi Industrial	356	145	2.5	10	9	91	324	
Nagarjuna Power	11,921	8,708	1.4	1,015	751	74	8,822	
Lanco Energy - Teesta VI	11,684	5,900	2.0	500	370	74	8,646	
Anpara 'C'	12,556	8,230	1.5	1,200	1,200	100	12,556	
Power plants yet to achieve financial closure								
Lanco Hydro (Uttaranchal)	3,212	1,900	1.7	150	137	91	2,926	
Lanco Amarkantak extn.	6,152	3,840	1.6	600	456	76	4,676	
Orissa power project	29,094	16,632	1.7	1,980	1,980	100	29,094	
Sub total	**97,740**	**56,712**	**1.7**	**6,641**	**5,726**		**85,341**	**384**
Net equity funding requirement							(23,162)	(104)
Power (A)							**62,179**	**280**
Construction (B)							**40,389**	**182**
Property development (C)							**13,354**	**60**
Road projects (D)							**1,006**	**5**
Carbon credits (E)							**1,915**	**9**
Grand total (A+B+C+D+E)							**118,843**	**534**

Source: Kotak Institutional Equities estimates.

Lowering estimates to factor in lower sales volumes and longer execution cycle

	FY2009E Old	FY2009E New	FY2009E Change (%)	FY2010E Old	FY2010E New	FY2010E Change (%)	FY2011E Old	FY2011E New	FY2011E Change (%)
Volumes (mn sq. ft)	1.7	0.2	*(86.8)*	3.4	1.0	*(69.6)*	0.9	0.9	*0.0*
Sales (Rs mn)	6,344	3,585	*(43.5)*	12,938	6,891	*(46.7)*	15,775	9,224	*(41.5)*
EBITDA (Rs mn)	2,523	1,315	*(47.9)*	4,285	2,415	*(43.6)*	5,803	3,717	*(35.9)*
PAT (Rs mn)	1,576	775	*(50.8)*	2,644	1,404	*(46.9)*	3,476	2,092	*(39.8)*

Source: Kotak Institutional Equities estimates.

Change in estimates for Lanco Infratech (consolidated), March fiscal year-ends (Rs mn)

	Revenues New	Revenues Old	Revenues % Chg.	EBITDA New	EBITDA Old	EBITDA % Chg.	Net profit New	Net profit Old	Net profit % Chg.
2009E	58,569	61,327	(4.5)	11,791	12,999	(9.3)	4,166	4,759	(12.5)
2010E	80,302	86,349	(7.0)	19,282	21,151	(8.8)	6,960	7,878	(11.7)

Source: Kotak Institutional Equities estimates.

Banking

Sector coverage view	Neutral

Company	Rating	Price, Rs 1-Aug	Target
SBI	ADD	1,505	1,700
HDFC	ADD	2,402	2,350
HDFC Bank	BUY	1,108	1,300
ICICI Bank	ADD	642	870
Corp Bk	ADD	272	355
BoB	ADD	276	310
PNB	BUY	484	650
OBC	ADD	161	200
Canara Bk	REDUCE	196	190
LIC Housing	ADD	335	350
Axis Bank	REDUCE	680	750
IOB	ADD	88	130
Shriram Trans|	REDUCE	297	320
SREI	BUY	109	160
MMFSL	SELL	249	215
Andhra	REDUCE	56	65
IDFC	REDUCE	98	125
PFC	REDUCE	135	130
Centurion Banl	REDUCE	41	45
Federal Bank	BUY	203	275
J&K Bank	ADD	497	750
India Infoline	ADD	710	770
Indian Bank	ADD	103	140
Union Bank	BUY	137	200
Central Bank o	SELL	59	70
Future Capital	BUY	358	440

RBI issues stringent accounting guidelines on loan waiver scheme, banks will need to reverse provisions already written-back

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- **RBI has issued accounting guidelines for the treatment of loans that are covered under the agriculture debt relief scheme**
- **Currently, most banks have reversed provisions made on the loans that have been completely waived; they would now have to reverse the provision write-back and may even be required to make additional provisions**
- **PNB and Union Bank had reversed Rs727 mn (6.5% of loans) and Rs510 mn (6.4% of loans) of NPL provisions in 1QFY09 and will have to write-back this entire amount in the remainder of the year**

The RBI has issued accounting guidelines towards the treatment of loans that are covered under the agriculture debt relief scheme. Most banks have reversed the provisions made on the loans that were completely waived in 1QFY09. The immediate implication of these norms is that some banks would have to reverse the provision write-back that they made in 1QFY09 and may even be required to make additional provisions. Based on the RBI guidelines, banks would need to hold a minimum provision of 10% on the 100% loan waiver scheme. Banks may also need to make additional provisions for the NPV-based calculation of the loans under the one-time settlement (OTS) scheme.We do not have complete details on the loans written off by banks and hence are unable to quantify the impact on bank profits. PNB and Union Bank had reversed Rs727 mn (6.5% of loans) and Rs510 mn (6.4% of loans) of NPL provisions in 1QFY09 and will have to write-back this entire amount in the remainder of the year.

Background of the scheme

The agricultural loan waiver scheme consists of two categories: (1) loans provided to small and marginal farmers that meet the requisite guidelines are to be completely waived; (2) one-time settlement scheme (OTS) to be provided to 'large' farmers, wherein 25% relief would be provided to farmers if they repay 75% of the loan outstanding. RBI guidelines have provided clarity on how this scheme would be implemented and the accounting treatment of these loans in the financial statements of banks.

Procedural and accounting treatment of loans that qualify to be completely waived

- Banks have to create a separate account titled *'Amount receivable from Government of India under Debt Waiver Scheme 2008'* and reflect it as part of their advances.
- Banks have to recognize this portfolio on a net present value (NPV) basis as the payment from the Government of India for these loans would be staggered. Banks would receive payment from the government in the following installments: (1) 32% of the total amount due by September 30, 2008, (2) 19% by July 31, 2009, (3) 39% by July 31, 2010 and (4) remaining 10% by July 2011.
- The discount rate for the calculation of the NPV of these loans would be 9.56%, which was the one-year Gsec yield on the date of issuance of the RBI circular (July 30, 2008).
- Implying that a loan valued at Rs100 in the current book, would be recorded as Rs90 under this scheme. Hence, banks would have make to make a provision of Rs10 to meet this shortfall.

- Banks can use the specific NPL provisions that they have already made on the gross NPLs under this portfolio for meeting the shortfall on valuing these loans on a NPV basis. Consequently, in case of banks which originally had provisions, which were less than 10% of these assets would have to make additional provisions.
- In the event of banks having excess provisions than required to meet the NPV shortfall, they would be allowed to transfer this amount to their networth on receipt of final installment from the Government of India (i.e. July 2011).
- Most banks it appears have written back the provision made on the loans and will now need to reverse this entry in 2QFY09. Data on the loans written-off assets is not available, which does not allow us to quantify the impact on profits of banks. PNB and Union Bank had in their communication to the exchanges informed that they had reversed Rs727 mn (6.5% of loan assets) and Rs510 mn (6.4% of loan assets) of NPL provisions in 1QFY09 made by these banks in previous periods. Note that these are NPL provisions on loans given to 'small and marginal farmers' and qualify to be completely waived.

Procedural and accounting treatment of loans that qualify under the OTS scheme

- Agriculture debt relief scheme provides for the farmer to make 75% of his loan outstanding in three installments. The dates for repayment of the outstanding dues by the farmer are September 30, 2008; March 31, 2009 and June 30, 2010. Government of India is expected to make its contribution of 25% by June 30, 2010.
- Once a farmer agrees to a repayment schedule under this scheme, the banks would be allowed to classify these loans as standard assets and value these assets on a NPV basis using the same discount rate of 9.56%. The valuation of these assets would be based on the expected cash flows as agreed to by the farmer and payment by the farmer.
- The banks would thus, in the initial stage, have to provide for standard asset provisions on these assets and provide for the shortfall on account of valuing these assets on a NPV basis. Banks would be allowed to use the specific NPL provisions that they have made in the past to meet the shortfall in these requirements.
- The asset classification norms for the loans under the OTS scheme are more stringent than those on other assets. An assets covered by this OTS scheme would be classified as a NPL on a 30-day overdue basis rather than the 90-day overdue norm that currently exists in India. Once there is a slippage in loan quality, banks would have to maintain provisions as per the extant NPL provision norms.
- Thus, banks would have to maintain provisions for the following categories on the loans covered under the agriculture debt waiver scheme : (1) standard asset provisions, (2) provision for difference in the current book value and the asset valued on a NPV basis, (3) NPL provisions (if any) on account of slippage in asset quality.

Automobiles

Sector coverage view	Attractive

		Price, Rs	
Company	**Rating**	**1-Aug**	**Target**
Hero Honda	REDUCE	795	750
Bajaj Auto	ADD	518	630
Tata Motors	SELL	395	425
Maruti Suzuki	ADD	562	790
Mah & Mah	ADD	523	720

Passenger car sales dip, UV sales hit by increased excise duty while CV growth remains muted

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- **Maruti: macro-factors affect volume growth; domestic volumes flat while exports grow 11% on a yoy basis**
- **Tata Motors: Passenger cars volumes slide, UV growth hit by additional excise duty**
- **M&M: UV sales decline 8% yoy as price hike and higher finance rates hurt volume growth; tractor sales grow 7%**
- **Hero Honda: Sharp growth led by base effect; volumes lower on qoq basis**
- **Bajaj Auto: Motorcycles grow 5.6% yoy; 3-wheelers grow marginally**
- **TVS Motors: Motorcycle volumes grow 22% yoy**

Auto sales declined across the board in Jul '08. We believe that concerns over high interest rates, additional excise duty and tightening credit conditions impacted the sales of passenger cars, UVs and commercial vehicles. Amidst all this, motorcycle volumes were the only positive for the auto industry. Passenger car sales were hit across all segments as Maruti, Tata Motors and Hyundai reported a fall in sales. Hero Honda, Bajaj and TVS reported a growth in motorcycle volumes aided largely by new variants of bikes. While M&HCV segment for Tata Motors declined, LCV volumes continued to remain positive. We remain cautious with respect to volume growth and expect volume growth to slow down in the next couple of months on account of the monsoons as well as tightening credit conditions.

Maruti: Macro-factors affect volume growth; domestic volumes flat while exports grow 11% on yoy basis

Maruti's domestic volumes remained flat on a yoy basis as sales of compact cars failed up pick up during the month—compact car volumes remained flat as well for Jul '08. Meanwhile, mid-size car segment volumes grew 37% yoy mainly on account of increased sales of Dzire and SX4. We believe that car sales have failed to pick up on account of high rates of vehicle financing, rising fuel costs and rising inflation. Sales were also lower due to the impact of monsoons when typically sales are slow. We believe that passenger car sales would continue to remain sluggish so long as interest rates remain high. Besides, an inadequate monsoon could also hurt volume growth. We expect sales to pick towards 3QFY09 on account of the festival season. Maruti's exports have grown 11% during the month—we expect strong export growth as Maruti would be launching the A-star in 2HFY09. We currently estimate Maruti's volumes to grow at 10.1% and 11.2% for FY2009E and FY2010E, respectively. Our residual growth analysis suggests Maruti's volumes would have to grow 10% yoy in the next eight months for our target to be achieved—we believe this is achievable given the launch of A-star in 2HFY09, implementation of the Sixth Pay Commission and the festival season ahead.

Tata Motors: Passenger cars volumes slide, UV growth hit by additional excise duty

Tata Motors reported a 2.6% yoy decline in domestic M&HCV volumes for Jul ’08. Meanwhile, LCV volume growth at 18.8% yoy was strong during Jul ’08. Overall commercial vehicle volumes grew 8% yoy. During the month, Tata Motors launched newer variants of M&HCVs and has indicated these fuel efficient vehicles are showing good traction. We expect CV volumes to remain muted on account of the monsoons and the tight financing situation. Meanwhile, passenger cars continued to fall as the product profile remains outdated. Passenger car volumes declined 14% yoy while UV volumes fell sharply by 26% yoy during Jul ’08. We believe that the imposition of additional excise duty on UVs hit demand resulting in a sharp decline in volumes. We believe the price hikes in the UV segment, coupled with the aged products in the passenger car segment will likely lead to lackluster volumes for Tata Motors.

M&M: UV sales decline 8% yoy as price hike and higher finance rates hurt volume growth; tractor sales grow 7%

M&M’s UV volumes declined 8% yoy as rise in excise duty along with the price hike taken by the company hurt demand. Moreover, growth was also effected by higher finance rates. Logan sales declined a 51% yoy during Jul ’08. Tractor volume growth at 7% yoy was a positive sign for M&M. However, we believe that tractor volumes would be affected by non-availability of finance in the coming months. Meanwhile, UV sales as well as passenger car sales would be under pressure in line with industry trends. We remain cautious with respect to volume growth for UVs.

Hero Honda: Sharp growth led by base effect; volumes lower on qoq basis

Hero Honda reported a sharp 40% yoy growth in 2-wheeler volumes. However, volumes were lower 5% qoq. The sharp yoy growth can be attributed to a very low base in the previous year—volumes had dropped 15% in Jul ’07. However, we expect the volume growth to be lower in the coming months as sales drop during the monsoons. Besides, higher interest rates and tight financing conditions will impact 2-wheeler sales.

Bajaj Auto: Motorcycles grow 5.6% yoy; 3-wheelers grow marginally

Bajaj Auto reported a 5.6% yoy increase in motorcycle volumes in Jul-08 while overall 2-wheeler volumes increased 4.4% yoy for the month. 3-wheeler volumes also grew 2.8% yoy during the month. However, volumes were lower on a qoq basis due to the seasonal impact of monsoons wherein sales typically come off. The management has indicated that it intends to strengthen its position in the 125 cc+ category by launching four new bikes in the segment—we expect the first of these new 125 cc+ bikes to be launched in Sep-2008. Besides, Bajaj also intends to launch one new 3-wheeler each in the goods as well as passenger segment.

TVS Motors: Motorcycle volumes grow 22% yoy

TVS Motors recorded a 22% yoy growth in motorcycle volumes. This was largely on account of the launch of the new variant of Apache RTR launched earlier. Overall 2-wheeler volumes grew 12.5% yoy in Jul ’08. TVS intends to launch two new scooters in the next couple of months. We expect the new launches to bring about some positive growth for TVS in the coming months even as 2-wheeler financing continues to be a concern as financiers continue to be reluctant to finance 2-wheelers. We believe that given this situation, it would be a tough ask for TVS to compete with Hero Honda and Bajaj Auto, especially in the motorcycle segment.

4-wheelers Jul 2008 sales performance

	Jul-08	Jul-07	yoy %	Jun-08	mom %	YTD, FY2009	YTD, FY2008	yoy %
Tata Motors								
M&HCV	10,097	10,367	-2.6%	12,845	-21.4%	45,932	43,022	6.8%
LCV	12,284	10,338	18.8%	13,952	-12.0%	47,929	39,382	21.7%
Domestic CV sales	22,381	20,705	8.1%	26,797	-16.5%	93,861	82,404	13.9%
CV Exports	2,838	2,893	-1.9%	2,851	-0.5%	10,524	12,485	-15.7%
Total CV	**25,219**	**23,598**	**6.9%**	**29,648**	**-14.9%**	**104,385**	**94,889**	**10.0%**
UV	2,759	3,711	-25.7%	3,819	-27.8%	15,322	14,346	6.8%
Passenger Cars	12,751	14,789	-13.8%	13,778	-7.5%	52,755	60,224	-12.4%
Total	**40,729**	**42,098**	**-3.3%**	**47,245**	**-13.8%**	**172,462**	**169,459**	**1.8%**
Mahindra & Mahindra								
UVs	10,672	11,567	-7.7%	11,311	-5.6%	48,591	42,738	13.7%
LCVs	1,144	1,030	11.1%	1,172	-2.4%	4,101	3,711	10.5%
Logan	1,406	2,890	-51.3%	1,351	4.1%	6,001	8,065	-
Tractors	7,475	6,987	7.0%	12,008	-37.7%	37,581	34,278	9.6%
3 Wheelers	4,080	3,049	33.8%	4,345	-6.1%	15,476	10,385	49.0%
Total	**24,777**	**25,523**	**-2.9%**	**30,187**	**-17.9%**	**111,750**	**99,177**	**12.7%**
						-	-	
Maruti Udyog								
Entry (A) segment	4,953	5,970	-17.0%	5,361	-7.6%	21,602	23,964	-9.9%
Van-segment	6,253	7,214	-13.3%	6,964	-10.2%	27,014	27,845	-3.0%
Compact (B) segment	34,795	34,737	0.2%	37,767	-7.9%	160,222	145,150	10.4%
Mid-size (C) segment	6,009	4,394	36.8%	5,807	3.5%	21,949	15,450	42.1%
MUV	901	524	71.9%	512	76.0%	2,217	1,034	114.4%
Domestic	**52,911**	**52,839**	**0.1%**	**56,411**	**-6.2%**	**233,004**	**213,443**	**9.2%**
Exports	5,632	5,070	11.1%	4,836	16.5%	18,123	14,135	28.2%
Total	**58,543**	**57,909**	**1.1%**	**61,247**	**-4.4%**	**251,127**	**227,578**	**10.3%**

Source: Company, Kotak Institutional Equities.

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

	Jul-08	Jul-07	yoy %	Jun-08	mom %	YTD, FY2009	YTD, FY2008	yoy %
Bajaj Auto								
Ungeared Scooters	1,135	2,920	-61.1%	1,209	-6.1%	3,270	6,627	-50.7%
Motorcycles	168,836	159,881	5.6%	175,903	-4.0%	551,566	491,193	12.3%
Total 2-Wheelers	**169,971**	**162,801**	**4.4%**	**177,112**	**-4.0%**	**554,836**	**497,820**	**11.5%**
3 Wheelers	23,733	23,089	2.8%	19,629	20.9%	62,222	71,559	-13.0%
TVS Motor								
Motorcycles	54,042	44,392	21.7%	51,409	5.1%	166,961	147,542	13.2%
Total 2-Wheelers	**118,545**	**105,366**	**12.5%**	**109,082**	**8.7%**	**218,696**	**257,436**	**-15.0%**
Hero Honda								
Total 2-Wheelers	281,317	201,191	39.8%	295,675	-4.9%	879,886	748,844	17.5%

Source: Company.

Telecom

Sector coverage view			Cautious

		Price, Rs	
Company	**Rating**	**1-Aug**	**Target**
Bharti	REDUCE	820	840
Rcom	SELL	436	390
MTNL	REDUCE	108	100
VSNL	REDUCE	449	430
Idea Cellular	REDUCE	89	100

3G auctions could see intense bidding wars for spectrum in metro circles

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- **3G spectrum auction guidelines announced**
- **Expect intense bidding wars for spectrum in metros**
- **No indicators on timeline yet; will depend on spectrum release by the Defence Ministry**

The Department of Telecommunications has announced guidelines for auction and allocation of spectrum for 3rd Generation (3G) telecom services in India. We highlight the key features of the guideline in the note—(1) international players (not present in India currently) who have previous experience of running 3G telecom services would be eligible to bid for 3G spectrum, thereby opening up the auction to beyond the current 2G operators in India, (2) a total of five operators will be granted spectrum (2X5 MHz in the 2.1 GHz band) in each circle; one of these five blocks would be reserved for BSNL or MTNL, and (3) each successful bidder will have to match the highest bid to be awarded the spectrum; the minimum reserve price for all the circles combined is Rs21 bn (US$500 mn). We expect to see strong bidding wars for 3G spectrum in metro areas as we believe that at least in the initial phase, 3G spectrum would be used to augment 2G voice capacity (especially in metros) rather than high data usage. We also do not see significant value accretion from a pure-play green-field 3G network roll-out; hence, we do not expect aggressive bidding from new international players, especially in B & C circles. Impact on valuations of the listed wireless plays would primarily depend on the result of the auction; however, we do not see a meaningful impact (either positive or negative) in case of a reasonable auction.

3G spectrum auction guidelines announced. The DOT has announced a set of guidelines for the auction and allocation of spectrum for 3G telecom services in India. We highlight the key details below

- All entity who either (1) holds a UAS license or (2) fulfils the criteria for obtaining a UAS license as per DOT guidelines and has previous experience of running 3G telecom services, would be eligible to bid for 3G spectrum
- 5-10 blocks (2 X 5 MHz each, in the 2.1 GHz band) would be allocated in each circle depending on the availability of spectrum in the circle
- Spectrum shall also be auctioned in the 450 MHz band, 800 Mhz band for EVDO, and in the 1900 Mhz as and when it becomes available (for the CDMA providers).
- The Reserve Price for bidding has been determined circle wise. For Mumbai, Delhi, and Circle A, the reserve price is Rs1.6 bn; for Kolkata and Category B circles, it is Rs800 mn, while for Category C circles, the same is Rs300 mn per circle. The country-wide reserve price works our to Rs21 bn. We highlight that all the winning operators will have to match the highest bid.
- A separate entry fee shall be payable for grant of UAS license for 3G services in addition to the spectrum auction price. This shall be equal to the entry fee of the UAS license; this amount is Rs16.5 bn for a pan-India license (varies by circle). We are not clear if this entry fees is applicable to non-UAS licensees (new players) or to the current UAS licensees as well.
- Roll-out obligations apply after five years from the date of 3G spectrum allocation.
- There would be an annual spectrum charge of 1% of AGR after a period of one year (exempt for one year)
- Auction process would be an e-auction conducted by an independent third party.

We do not see value accretion from standalone 3G play. Contrary to TRAI recommendations, the DOT has allowed international players (currently not present in India) to bid for 3G spectrum provided they have a previous experience of running 3G services (players like AT&T fit the bill). However, we do not see significant potential of value accretion from pure-play/standalone 3G play in India and thus rule out extremely aggressive bids from international players (except in Metros).

Expect intense bidding wars for spectrum in Metros. We expect severe bidding wars for 3G spectrum in the metro circles; note that there would effectively be only four slots available for bidding (with one reserved for BSNL/MTNL). Metros have a high proportion of high-usage, high-ARPU subscribers, the ideal target segment for 3G operators.

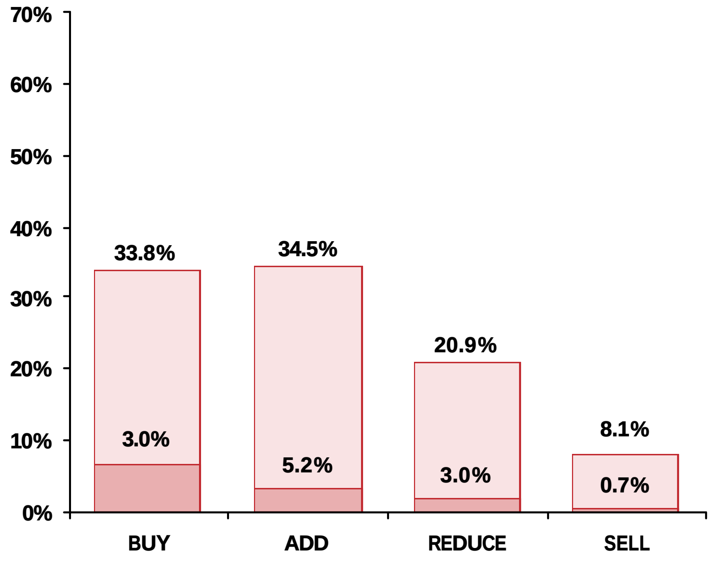
No indicators on timeline yet; will depend on spectrum release by the Ministry of Defence. The DOT has not indicated any time line for the start of the auction process. We believe that the same may take some time given that the Ministry of Defence is yet to vacate spectrum in the 2.1 GHz band in all the circles (in addition to the 2G spectrum in the 1,800 MHz band).

Provides scope for spectrum fee arbitrage. The annual spectrum fee structure for 3G services provides an arbitrage opportunity to the existing 2G operators in our view. Such operators could choose moving a good proportion of their existing high-usage subs to 3G (even if they have to bear the cost of transition in the form of a handset subsidy or in some other form), thereby paying a spectrum charge of only 1% of AGR on these revenues as opposed to the 2-4% of AGR, that they pay currently for 2G spectrum.

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

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 30/06/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

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

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
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