kotak® Institutional Equities

INDIA DAILY

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EQUITY MARKETS

	Change, %			
India	**21-Jun**	**1-day**	**1-mo**	**3-mo**
Sensex	14,499	0.6	0.3	9.0
Nifty	4,267	0.4	(0.3)	10.1
Global/Regional indices				
Dow Jones	13,546	0.4	0.0	8.7
Nasdaq Composite	2,617	0.7	1.1	6.7
FTSE	6,596	(0.8)	(0.2)	4.4
Nikkie	18,108	(0.7)	2.4	4.0
Hang Seng	21,955	1.2	5.3	11.5
KOSPI	1,777	(1.0)	8.2	22.7

Value traded - India

		Moving avg, Rs bn	
	21-Jun	**1-mo**	**3-mo**
Cash (NSE+BSE)	155.1	136.3	131.7
Derivatives (NSE)	416.8	311.0	328.1
Deri. open interest	747.7	608.4	586.7

Forex/money market

	Change, basis points			
	21-Jun	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.7	-	15	(301)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	1	5	9

Net investment (US$mn)

	19-Jun	**MTD**	**CYTD**
FIIs	160	109	4,056
MFs	37	26	(84)

Top movers -3mo basis

	Change, %			
Best performers	**21-Jun**	**1-day**	**1-mo**	**3-mo**
Balaji Telefilms	229	0.6	(7.3)	88.8
Reliance Cap	1,093	(1.2)	7.1	66.5
GESCO	324	3.7	29.4	65.5
Moser Baer	442	(0.5)	(0.0)	46.6
SBI	1,446	1.4	9.1	40.5
Worst performers				
Polaris	157	(0.4)	(8.8)	(16.4)
Bajaj Auto	2,178	0.7	(0.8)	(15.2)
Tata Motors	687	0.0	(5.5)	(14.7)
Wipro	524	0.4	(1.7)	(12.0)
Raymond	308	(2.0)	(7.9)	(11.2)

News Roundup

Corporate

- Bombay High Court in an interim order has said that Reliance Industries Ltd (RIL) cannot sell the gas to be produced from one of its prime blocks in the Krishna-Godavari basin to any third party other than Reliance Natural Resources (RNRL) or NTPC. However, the central government is likely to challenge the decision in the Supreme Court (ET)
- Finolex industries is said to be close to signing a deal with Tishman Speyer India Ventures, a real estate development company for the sale of its land near Pune. The deal is said to be worth over Rs3 bn.(BL)
- Government has cleared Mittal group's Rs35.1 bn equity investment in HPCL's Bhatinda refinery for 49% stake (ET)

Economic and political

- G-4 talks at WTO failed as India refused to yield ground on giving market for farm products to rich countries without substantial reduction in farm subsidies by the rich countries. (ET)
- The government is likely to place the amendment to the Drugs & Cosmetics Act, 1940 in the parliament in the monsoon session next month. This would pave the way for the establishment of the regulatory Central Drug Administration (CDA). (BL)
- The empowered group of ministers (EGOM) set up to resolve the issue over the Sasan ultra mega power project failed to reach a decision at its meeting on Thursday. The group has decided to meet again on July 2 (BS)

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

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Technology

WIPR.BO, Rs524	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	655
52W High -Low (Rs)	690 - 434
Market Cap (Rs bn)	764.3

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	149.4	188.9	243.4
Net Profit (Rs bn)	28.5	35.5	44.4
EPS (Rs)	20.3	24.3	30.4
EPS gth	*42.4*	*20.1*	*25.0*
P/E (x)	25.9	21.5	17.2
EV/EBITDA (x)	21.0	16.3	12.2
Div yield (%)	1.0	1.3	1.7

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	79.6	-	-
FIIs	6.7	0.9	(2.0)
MFs	1.1	0.9	(2.0)
UTI	-	-	(2.9)
LIC	1.0	0.8	(2.1)

Wipro: The worst is in the price and the positives ignored. Maintain OP rating

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- **FY2008 organic revenue growth will likely be higher than FY2007**
- **Jun' 07 quarter guidance may be conservative, expect further acceleration from Sep' 07 quarter**
- **SEZ ramp ups progressing well, FY2010 tax impact would be the least on Wipro**
- **Maintain Outperform with a Mar' 09 end DCF based target price of Rs655/share**

We maintain our Outperform rating on Wipro with an end-March 2009 DCF based target price of Rs655/ share. We believe that concerns related to poor Jun' 07 quarter are already into the stock price (the stock is trading at a 10% valuation discount to tier-I peers). Positives in terms of improving business dynamics (FY2008 organic revenue growth will likely be higher than FY2007), levers to reduce risk to operating margin from rupee appreciation and aggressive ramp up from SEZ's leading to a likely low tax burden are being ignored by the street. Key risk to our call: any further ramp down from telecom OEM clients.

Four segments-three on full steam, one recovering: We model Wipro's organic revenue growth to be higher in FY2008. Wipro's business portfolio is divided into four segments-financial services, enterprise services, product engineering and BPO. We believe three of the four segments are growing at full steam viz: financial services, enterprise services and BPO (as compared to only two in FY2007, BPO gets added to the list for FY2008). Even product engineering business (29% of revenues), will have the worst behind it post June 2007 quarter.

BPO and Telecom OEM clients within product engineering dragged growth in FY2007; we expect higher growth in both segments in FY2008

	1QFY06	2QFY06	3QFY06	4QFY06	FY2006	1QFY07	2QFY07	3QFY07	4QFY07	FY2007
Revenues (US$ mn)										
Product Engineering	129	142	159	174	604	180	194	202	211	787
Financial Services	71	81	91	104	347	113	126	137	149	525
Enterprise Solutions	157	166	181	187	691	201	220	248	271	940
BPO	43	42	43	47	174	46	50	53	60	208
Total	**399**	**431**	**473**	**512**	**1,815**	**539**	**589**	**641**	**691**	**2,460**
Growth qoq (%)										
Product Engineering	5.3	10.8	11.5	9.7		3.2	8.0	4.1	4.2	
Financial Services	12.4	13.7	12.7	14.9		8.4	11.1	9.4	8.4	
Enterprise Solutions	5.5	6.1	8.8	3.6		7.4	9.2	12.9	9.5	
BPO	3.4	(2.4)	3.6	8.4		(2.1)	8.6	7.1	12.5	
Total	**6.4**	**8.1**	**9.9**	**8.2**		**5.3**	**9.2**	**8.8**	**7.8**	
Growth yoy (%)										
Product Engineering	30.0	33.3	40.5	42.6	37.0	39.9	36.3	27.3	20.9	**30.3**
Financial Services	59.4	58.6	55.5	65.4	59.9	59.6	56.0	51.4	42.8	**51.6**
Enterprise Solutions	24.3	25.3	28.3	26.1	26.1	28.3	32.1	37.2	45.0	**36.1**
BPO	39.6	13.4	7.8	13.4	17.3	7.3	19.3	23.3	27.9	**19.6**
Total	**32.9**	**31.8**	**34.4**	**36.7**	**34.1**	**35.4**	**36.7**	**35.3**	**34.8**	**35.5**

Note:
(a) Wipro stopped reporting IT services revenue split between PE, FS, and ES from Mar '07 quarter; Numbers for Mar '07 quarter derived using Dec '06 distribution

Source: Company, Kotak Institutional Equities

Jun' 07 quarter guidance may be conservative, expect further acceleration from Sep' 07 quarter: We believe that conservative revenue growth guidance for Jun' 07 quarter may have been driven by declining gap between the actual revenue growth relative to guidance in the previous quarters. Nonetheless, we model 3.9% growth for Jun' 07 quarter, higher than the company guidance of 2.9%. We note that Jun' 07 quarter is a seasonally weak quarter; there are sufficient indicators that growth will likely pick up again in the Sep' 07 quarter including (a) campus offers given out to 14,000 students, which along with TCS is the highest in the industry and (b) ramp up of strategic deals signed up in financial services and telecom service provider vertical.

June quarter has always been the weakest quarter for Wipro in terms of guidance as well as actual performance

Wipro's guidance and actual revenues, 1QFY06-1QFY08E

	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08E
Revenues (US$ mn)									
Guidance	395	422	463	510	533	577	633	685	711
Actual (a)	399	431	473	512	539	589	641	691	717
Growth qoq (%)									
Guidance	**5.4**	5.9	7.5	7.7	**4.0**	7.0	7.5	6.9	**2.9**
Actual (a)	**6.4**	8.1	9.9	8.2	**5.3**	9.2	8.8	7.8	**3.9**
Outperformance (% pts)	**0.9**	**2.2**	**2.4**	**0.5**	**1.2**	**2.2**	**1.3**	**0.9**	**0.9**

Note:
(a) Kotak estimates for 1QFY08
(b) Guidance and actual revenues for Wipro's Global IT (IT services + BPO) business only
(c) Wipro's guidance and actuals for 1QFY07 and 2QFY07 factor in acquisitions

Source: Company, Kotak Institutional Equities estimates

OPM-buffer of 10% though not all of it can be pulled in FY2008: Exhibit below highlights our margin assumptions for FY2008 and the maximum potential margin buffers. We believe that the buffers at Wipro's disposal (10%) are the highest in our large cap coverage list. We believe that the company will likely pull in 550 bps of buffer to partly mitigate 610 bps of margin pressure from various factors including wage inflation and rupee appreciation.

We forecast an EBIT margin decline of 60bps for Wipro's Global IT business in FY2008

FY2007 EBIT margin (%)	**24.4**
Negatives (bps)	(610)
Positives (bps)	550
Net impact (bps)	(60)
FY2008E EBIT margin (%)	**23.8**

Negatives	**Margin impact**
Wage inflation onsite	(100)
Wage inflation offshore	(240)
Rupee appreciation (a)	(270)
Total negative	**(610)**

Positives					
Buffer	**FY2007**	**Best case scenario**	**Total buffer available**	**FY2008E**	**Margin impact**
Utilization rate (%) (b)	68.7	75	240	72	130
Pricing improvement (%) (blended)	1.2	2.5-3	100	2	80
Profitability of acquisitions		Corporate average	60	40	40
SG&A leverage			100	50	50
Employee pyramid (c)	45.0	55	400	50	200
Onsite offshore mix (d)	45.3	50	100	48	50
Total positive			**1,000**		**550**

Net impact in FY2008	**(60)**

Note:
(a) At Re/US$ assumption of 42. FY2007 average rate realized was 45. At 41, the margin hit would be 80bps higher, implying a margin decline of 140bps
(b) Net utilization rate excluding support but including trainees
(c) Denotes the # of employees in the 0-3 years experience band
(d) % revenues offshore
(e) EBIT margins exluding forex gains/ losses

SEZ ramp ups progressing well, FY2010 tax impact would be the least on Wipro. We model 520 bps increase in tax rates in FY2010 (to 20.3%), lowest in our coverage universe. Wipro had approvals and commissioning of SEZs ahead of peers, which will likely result in lesser impact once STPI benefits run out in FY2010. Wipro has five SEZs already operational and derived 70% of incremental offshore revenues in FY2007 from SEZs. We model 90% of incremental offshore revenues in FY2008, FY2009 and FY2010 to be from SEZs.

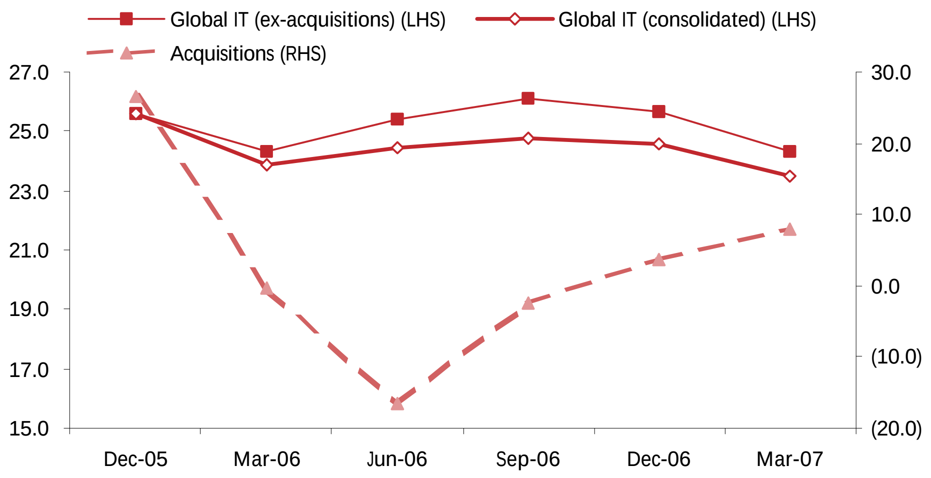
Tax impact due to STPI phase out in FY2010 will likely be the lowest for Wipro
Wipro's FY2010 tax rates under various scenarios of SEZ ramp up

Incremental offshore revenues from SEZs (%)			**FY2010 tax rate**
FY2008	**FY2009**	**FY2010**	**(%)**
60	60	60	23.2
70	70	70	21.9
80	80	80	21.0
90	**90**	**90**	**20.3**
100	100	100	19.4

Source: Kotak Institutional Equities estimates

Valuations: Wipro has underperformed the markets (BSE sensex) by 15.6% over the last one year. This underperformance can be attributed to weak organic revenue growth in FY2007 (32% against 46% for Infosys) coupled with a modest 1QFY08 guidance (3% qoq growth in Global IT revenues) and concerns on health of product engineering business. The stock is trading at 21.5xFY2008, 17.2xFY2009 and 15.6xFY2010 earnings, a 10% discount to Infosys and 5% discount to TCS. We believe that the underlying improvement in business fundamentals is yet to reflect in stock price. We maintain our Outperform rating with an end-March 2009 DCF based target price of Rs655/ share. Note that our assumptions are based on Re/US$ rate of 42 for FY2008, 42 for FY2009 and 41 for FY2010.

The profitability of Wipro's acquisitions has increased sharply over the past two quarters
EBIT margins - adjusted for foreign exchange gains/ (losses) (%)



Source: Company reports, Kotak Institutional Equities estimates.

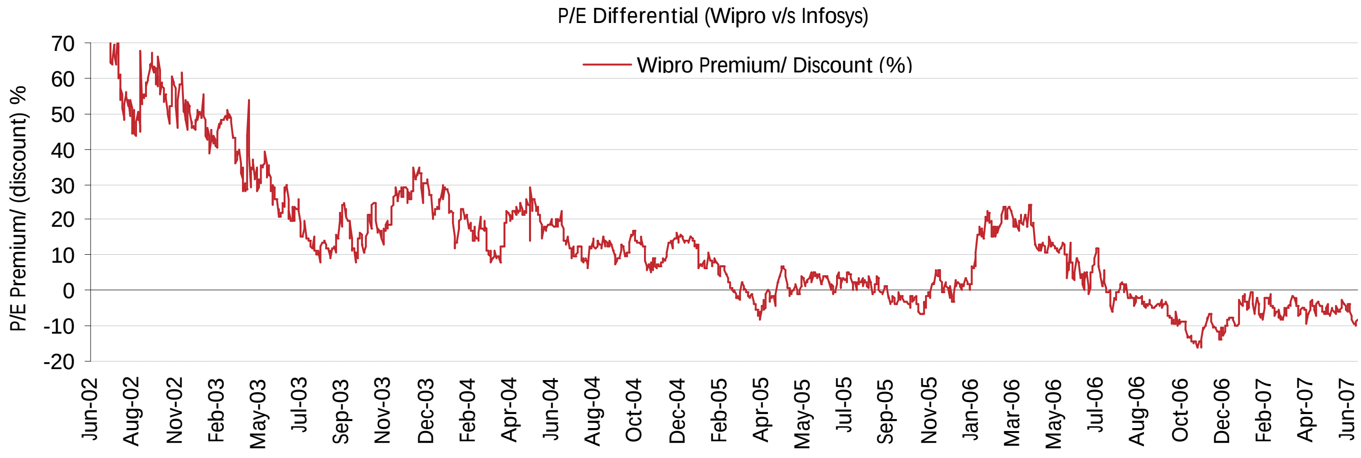
Wipro's utilization rates are among the lowest in the industry
Capacity utilization rates for professional staff (%)

Quarter ended	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07
Tata Consultancy Services	76.8	77.4	75.3	76.9	74.8	75.0	75.5	75.8	77.3	75.2	75.0	74.7
Infosys Technologies	73.4	70.5	70.4	72.7	72.8	71.6	67.6	67.7	70.6	67.5	66.6	66.9
Wipro (a)	**75.0**	**74.0**	**71.0**	**73.0**	**72.0**	**70.0**	**68.0**	**70.0**	**72.0**	**69.0**	**67.0**	**68.0**
Satyam Computer Services	77.8	75.9	78.7	80.2	82.0	82.1	82.0	80.1	79.1	79.1	76.3	78.6
Patni Computer Systems	71.2	69.7	69.2	64.7	67.5	67.7	68.1	67.8	70.2	72.3	73.7	72.8
Tech Mahindra	73.0	74.2	71.9	72.1	69.0	64.6	72.7	72.1	74.0	68.7	67.1	67.0
Hexaware Technologies	70.0	70.0	71.2	72.0	66.8	67.4	70.2	71.0	71.5	72.0	68.2	70.7
Mphasis BFL	71.7	71.9	71.5	72.1	76.7	77.4	75.3	73.5	73.6	75.1	78.5	71.9

(a) Wipro Technologies only
Note: Capacity utilization rate, excluding support but including trainees

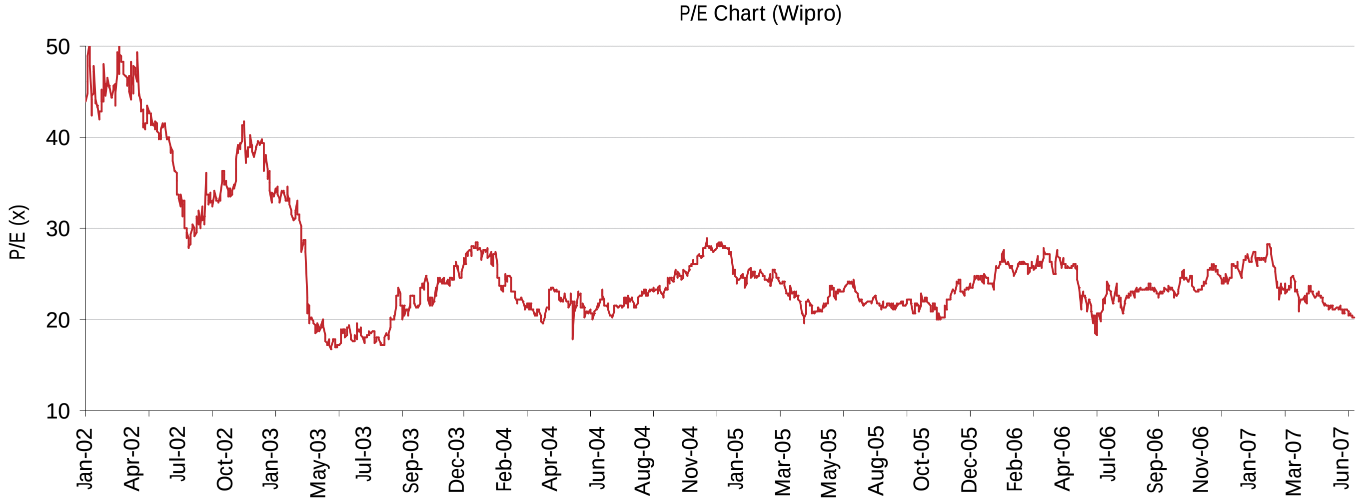
Source: Company reports, Kotak Institutional Equities

We expect the valuation gap between Wipro and Infosys to narrow as growth rates converge



Source: Kotak Institutional Equities

Wipro is trading close to the lower end of its historical 1-year forward P/E band



Source: Kotak Institutional Equities

Wipro: Profit & Loss Statement Statement (Consolidated US GAAP Statements)- March fiscal year ends

Rs mn	2006	2007	2008E	2009E	2010E
Revenues					
Global IT Services & Products					
- Services	80,698	110,922	139,022	182,813	219,597
- Products	28	-	-	-	-
India & AsiaPac IT Services & Products					
- Services	6,097	8,369	10,455	12,277	13,259
- Products	10,380	15,520	19,754	24,095	25,541
Consumer Care and Lighting	5,625	7,559	9,583	11,021	12,343
Others	3,279	7,063	10,113	13,147	16,434
Revenues	**106,107**	**149,431**	**188,927**	**243,353**	**287,173**
Cost of revenues	(71,779)	(102,483)	(129,707)	(167,619)	(199,828)
Gross profit	**34,328**	**46,949**	**59,220**	**75,733**	**87,346**
Selling and marketing exp	(11,992)	(16,719)	(21,307)	(26,970)	(31,157)
EBIT (before amortization)	**22,336**	**30,230**	**37,913**	**48,763**	**56,189**
Exchange Gain/ (losses)	(288)	(0)	91	-	-
Amortization of Goodwill & Intangible Assets	(64)	(269)	(258)	(258)	-
EBIT (after amortization)	**21,984**	**29,961**	**37,746**	**48,505**	**56,189**
Other Income, net	1,276	2,667	3,435	3,446	4,617
PBT	**23,260**	**32,628**	**41,181**	**51,952**	**60,806**
Income Taxes	(3,264)	(4,423)	(6,028)	(7,845)	(12,367)
Income before share of equity in affiliates	**19,995**	**28,205**	**35,153**	**44,106**	**48,439**
Equity in earnings of affiliate	288	318	350	275	316
Minority Interest	(1)	-	-	-	-
Income from continuing operations	**20,282**	**28,523**	**35,504**	**44,381**	**48,755**
Discontinued operations	-	-	-	-	-
Income Tax Benefit	-	700	-	-	-
Adjustments	-	39	-	-	-
Net Profit- Reported	**20,282**	**29,262**	**35,504**	**44,381**	**48,755**
EPS (Rs/ share)	**14.2**	**20.3**	**24.3**	**30.4**	**33.4**
Margins (%)					
Gross Profit margin	32.4	31.4	31.3	31.1	30.4
EBITDA Margin	24.0	22.9	22.6	22.5	22.1
EBIT Margin	20.7	20.0	20.0	19.9	19.6
NPM	19.1	19.1	18.8	18.2	17.0
Growth Rates (%)					
Revenues	30.4	40.8	26.4	28.8	18.0
Gross Profit	25.7	36.8	26.1	27.9	15.3
EBIT (before amortization & exchange gains)	23.5	35.3	25.4	28.6	15.2
EBIT (after amortization & exchange gains)	23.1	36.3	26.0	28.5	15.8
Income before affiliates earnings	26.9	41.1	24.6	25.5	9.8
Income from continuing operations	28.1	40.6	24.5	25.0	9.9

Source: Kotak Institutional Equities estimates

Industrials

BHEL.BO, Rs1482	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	1,550
52W High -Low (Rs)	1491 - 865
Market Cap (Rs bn)	725.3

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	172.4	196.0	237.5
Net Profit (Rs bn)	24.1	30.1	36.3
EPS (Rs)	49.3	61.4	74.2
EPS gth	*44.1*	*24.5*	*20.7*
P/E (x)	30.0	24.1	20.0
EV/EBITDA (x)	16.9	13.9	11.2
Div yield (%)	0.7	0.9	1.1

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.7	-	-
FIIs	20.0	1.8	(0.1)
MFs	4.6	2.6	0.7
UTI	-	-	(1.9)
LIC	2.0	1.0	(0.9)

BHEL: Strong near term order inflows notwithstanding, risk-reward balance has turned unfavorable in our view

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- **Analysis of XIth and XIIth plan - likely order inflows of c. 20,000 in next two years but XIIth plan project profile poses challenges**
- **Increased competition, tariff based bidding regime, potential competing domestic manufacturer - likely to put pressure on market share and margins**
- **Limited upside even with very benign assumptions of overall execution, market share and margins, reduce rating to Inline**
- **Revise target price to Rs1,550 (from Rs1,350 earlier) based on rollover to March 09 basis**

We have analyzed BHEL's prospects in the XIth and XIIth plan. While there are likely to be strong order inflows in the next two years we believe that XIIth plan with skew towards private sector and supercritical configuration would pose challenges for BHEL. BHEL may lose market share as well as face pressure on margins because of (a) heightened competition, (b) change in project profile and (c) shift of power generation sector to a competitive tariff based bidding regime. Even with very benign assumptions about overall execution (92,604 MW in XIIth plan), market share (57% overall market share) and operating margins (18-19%), we arrive at a value of Rs1,550/share, that leaves a limited upside of 5% only. We revise our DCF based target price to Rs1,550 (from Rs1,350 earlier) as we rollover to March 09 basis. We believe that while the upside is limited there are substantial risks to BHEL's preeminent position in the power equipment manufacturing space and thus reduce rating to Inline.

Analysis of XIIth plan projects - clear shift to private sector and supercritical configuration; BHEL likely to do 53,019 MW

We believe that XIIth plan would have likely capacity addition of 92,604 MW based on our analysis of (a) the full shelf of projects to be considered for XIIth plan and (b) required capacity addition in the XIIth plan consistent with economic growth estimates (Exhibit 1 & 2). Private sector including UMPPs would contribute 37% to the total capacity addition (versus 13% in XIth plan) and more than 50% of coal based thermal capacity addition is likely to be based on supercritical configuration (versus 17% in the XIth plan). We believe that proportion of supercritical configuration may increase further as several state utilities may reconfigure their projects currently planned on sub-critical configuration to supercritical configuration, given their higher efficiency and lower emissions.

BHEL has so far been on a weak wicket in both private sector as well as supercritical configuration segment. Assuming that BHEL broadly maintains market share in the projects from central and state utilities and achieves a market share of 40% in the private projects and UMPPs, we estimate that BHEL could likely execute about 53,019 MW in the XIIth plan (versus our estimate of about 41,250 MW in the XIth plan). We highlight that our assumptions are very benign for both overall execution (execution of 92,604 MW in XII plan versus only 30,641 MW in Xth plan) as well as market share (we have assumed that BHEL achieves 40% market share in IPP and UMPPs).

XIth plan - peaking market share, order inflows c.20,000 MW in the next two years, already priced in our view

We estimate that BHEL is currently executing about 18,235 MW of projects out of 34,835 MW of XIth plan projects for which orders have been placed. We estimate that BHEL may receive incremental orders of c.20,000 MW in the next two years based on analysis of XIth plan projects that are yet to be ordered by state and central utilities (Exhibit 3). We have estimated BHEL market share during XIth plan at about 41,250 MW and thus strong near term order inflows are already priced, in our view.

Risks about increased competition from Korean/Chinese players, shift to tariff based bidding regime, competing domestic PPE manufacturer remain

We believe Chinese equipment manufacturer's would become more aggressive players in the Indian market catalyzed by (a) a lull in the Chinese market after frenetic construction of power plants over the past few years (execution of about 90,000 MW in CY2006) forcing them to look towards other markets, (b) larger size of individual equipment tender in India with growing average plant size, which makes each standalone project attractive for an aggressive bid (c) preference of private utilities in India for Chinese/Korean equipment. Of the top 3 Chinese equipment suppliers, Shanghai Electric, Dongfang and Harbin, the first two have been making their presence felt in India in the recent past. Shanghai Electric is REL's preferred equipment supplier and Dongfang has won orders in WB and Lanco and is Lanco's preferred equipment supplier. As these equipment suppliers establish track record in the domestic market even the state utilities may source part of their equipment requirements from them.

We believe margin pressures would ensue from (a) increased competition and (b) switchover to competitive tariff based bidding for power projects which would put pressure on utilities and their equipment suppliers to reduce capital costs.

Domestic competition may also emerge for BHEL led by (a) Insistence of power ministry to have another equipment supplier in the country supported by constant assertion of state utilities that BHEL has delayed critical equipment supplies and (b) likely set up of another domestic power equipment manufacturing facility. For example, Larsen and Toubro (L&T) has tied up with Mitsubishi and Toshiba for setting up a power equipment manufacturing facility in the country, including equipment of supercritical configuration.

Limited upside even with very benign assumptions of overall execution, market share and margins, reduce rating to Inline

Our DCF based valuation result in a fair value of Rs1,532/share leaving a limited upside of 5% from the prevailing price (Exhibit 4). Key assumptions for our DCF valuation are:

a) Execution of about 68,869 MW in the XIth plan and 92,604 MW in the XII plan, higher than recommendation of about 82,000 MW made by Power Ministry's working group on power for the XIIth plan. This has to be seen against India's track record of consistently missing generation capacity addition plans.

b) Thermal power equipment market share of 63% in the XIIth plan (BHEL has market share of 69% of the XIth plan projects under execution and we estimate eventual market share to be 75% after all state and central utilities have placed orders for XIth plan requirements)

c) 40% market share in private sector projects including ultra mega power projects against the fact that none of the bidders for UMPPs relied on BHEL as an equipment supplier.

d) Sustainable operating margin of 18-19% over the long term.

We revise our target price to Rs1,550 based on roll over to March 09 and reduce our rating to Inline based on (a) limited upside as per our DCF valuation, (b) substantial risk that BHEL's market position may weaken in the medium term in terms of market share and margins, (c) potential slips ups in the XIth and XIIth plan execution that would reduce market opportunity and (d) sharp run in the stock price in last three months (41% appreciation in last three months, 26% relative to the sensex).

We highlight that upside risk arise from (a) likely strong order inflows in the near term from state and central utilities which may help the stock trade above fair value and (b) higher than expected business in the industry segment.

Exhibit 1. XII plan would require capacity addition of about 90,000 MW

Estimate of required generation capacity addition in the XIIth plan	
Estimated generation capacity at the end of XIth plan (MW)	200,000
Estimated GDP growth rate FY20013-17 (%)	8.5
GDP growth/ Electricity elasticity (X)	0.9
Required generation capacity, CAGR growth (%)	7.7
Generation capacity requried to be set up (MW)	89,135

Source: Ministry of Power, Kotak Institutional Equities estimates

Exhibit 2. We estimate an execution of 92,604 MW in the XII plan and expect BHEL to do about 53,725 MW out of this

Analysis of XIIth plan projects and BHEL's prospects for the XIIth plan (MW)

Total projects on the shelf for the XIIth plan

	Thermal						
	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	7,860	7,190	**15,050**	4,550	23,931	12,800	**56,331**
NTPC	7,860	250	8,110	4,550	5,051	2,000	**19,711**
NHPC	0	0	0	0	11,899	0	**11,899**
DVC	0	1,500	1,500	0	0	0	**1,500**
Others	0	5,440	5,440	0	6,981	10,800	**23,221**
State	800	33,760	34,560	2,370	8,349	0	**45,279**
Private	6,520	7,005	13,525	8,663	8,378	0	**30,566**
Ultra mega power projects	35,300	0	35,300	0	0	0	**35,300**
Total	**15,180**	**47,955**	**98,435**	**15,583**	**40,658**	**12,800**	**167,476**

Total projects in the XIIth plan - Likely to be taken up for commissioning

	Thermal						
	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	5,502	4,564	**10,066**	3,413	11,520	8,020	**33,018**
NTPC	5,502	250	5,752	3,413	2,778	1,000	**12,943**
NHPC	0	0	0	0	5,950	0	**5,950**
DVC	0	1,050	1,050	0	0	0	**1,050**
Others	0	3,264	3,264	0	2,792	7,020	**13,076**
State	800	20,256	21,056	1,422	4,174	0	**26,652**
Private	3,260	3,503	6,763	4,332	4,189	0	**15,283**
Ultra mega power projects	17,650	0	17,650	0	0	0	**17,650**
Total	**27,212**	**28,323**	**55,535**	**9,166**	**19,883**	**8,020**	**92,604**

Projects in the XIIth plan - Assumption of BHEL's market share segment wise (%)

	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	70	91	**79**	100	55	22	**59**
NTPC	70	100	71	100	80	0	**75**
NHPC	0	0	0	0	50	0	**50**
DVC	0	90	90	0	0	0	**90**
Others	0	90	90	0	40	25	**44**
State	100	80	81	65	40	0	**74**
Private	40	50	45	50	40	0	**45**
Ultra mega power projects	40	0	40	0	0	0	**40**
Total	**48**	**78**	**63**	**71**	**49**	**22**	**57**

Total projects in the XIIth plan - BHEL's market share (MW)

	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	3,851	4,133	**7,984**	3,413	6,314	1,755	**19,466**
NTPC	3,851	250	4,101	3,413	2,222	0	**9,736**
NHPC	0	0	0	0	2,975	0	**2,975**
DVC	0	945	945	0	0	0	**945**
Others	0	2,938	2,938	0	1,117	1,755	**5,810**
State	800	16,205	17,005	922	1,670	0	**19,597**
Private	1,304	1,751	3,055	2,166	1,676	0	**6,897**
Ultra mega power projects	7,060	0	7,060	0	0	0	**7,060**
Total	**13,015**	**22,089**	**35,104**	**6,501**	**9,659**	**1,755**	**53,019**

Source: Ministry of Power, Kotak Institutional Equities estimates

Exhibit 3. Analysis of XIth plan suggest strong near term order inflows of c.20,000 MW, however we believe that is priced in

Analysis of XIth plan projects and BHEL's prospects for the XIth plan

Total projects in the XIth plan

	Thermal				Hydro	Nuclear	Total
	Coal						
	Supercritical	Subcritical	Total	Gas			
Centre	6,600	16,460	**23,060**	750	9,685	3,160	**36,655**
NTPC	6,600	9,460	16,060	0	1,920	0	**17,980**
NHPC	0	0	0	0	4,833	0	**4,833**
DVC	0	5,000	5,000	0	0	0	**5,000**
Others	0	2,000	2,000	750	2,932	3,160	**8,842**
State	800	18,940	19,740	612	2,637	0	**22,989**
Private	660	4,550	5,210	752	3,263	0	**9,225**
Total	**8,060**	**39,950**	**48,010**	**2,114**	**15,585**	**3,160**	**68,869**

Projects in the XIth plan - To be ordered

	Coal				Hydro	Nuclear	Total
	Supercritical	Subcritical	Total	Gas			
Centre	2,640	11,730	**14,370**	750	2,052	0	**17,172**
NTPC	2,640	6,980	9,620	0	520	0	**10,140**
NHPC	0	0	0	0	120	0	**120**
DVC	0	3,500	3,500	0	0	0	**3,500**
Others	0	1,250	1,250	750	1,412	0	**3,412**
State	800	11,350	12,150	350	530	0	**13,030**
Private	660	2,100	2,760	0	1,072	0	**3,832**
Total	**4,100**	**25,180**	**29,280**	**1,100**	**3,654**	**0**	**34,034**

Projects in the XIth plan - Under construction

	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	3,960	4,730	**8,690**	0	7,633	3,160	**19,483**
NTPC	3,960	2,480	6,440	0	1,400	0	**7,840**
NHPC	0	0	0	0	4,713	0	**4,713**
DVC	0	1,500	1,500	0	0	0	**1,500**
Others	0	750	750	0	1,520	3,160	**5,430**
State	0	7,590	7,590	262	2,107	0	**9,959**
Private	0	2,450	2,450	752	2,191	0	**5,393**
Total	**3,960**	**14,770**	**18,730**	**1,014**	**11,931**	**3,160**	**34,835**

Projects in the XIth plan - Under construction with BHEL having the order

	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	0	4,730	**4,730**	0	4,000	0	**8,730**
NTPC	0	2,480	2,480	0	1,400	0	**3,880**
NHPC	0	0	0	0	1,600	0	**1,600**
DVC	0	1,500	1,500	0	0	0	**1,500**
Others	0	750	750	0	1,000	0	**1,750**
State	0	6,990	6,990	170	473	0	**7,633**
Private	0	1,250	1,250	0	622	0	**1,872**
Total	0	12,970	12,970	170	5,095	0	**18,235**

Projects in the XIth plan - BHEL's market share for under construction projects

	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	0	100	**54**	0	52	0	**45**
NTPC	0	100	39	0	100	0	**49**
NHPC	0	0	0	0	34	0	**34**
DVC	0	100	100	0	0	0	**100**
Others	0	100	100	0	66	0	**32**
State	0	92	92	65	22	0	**77**
Private	0	51	51	0	28	0	**35**
Total	0	88	69	17	43	0	**52**

Potential orders for BHEL out of the remaining projects in the XIth plan

	Coal			Gas	Hydro	Nuclear	Total
	Supercritical	Subcritical	Total				
Centre	0	11,730	**11,730**	0	1,490	0	**13,220**
NTPC	0	6,980	6,980	0	520	0	**7,500**
NHPC	0	0	0	0	41	0	**41**
DVC	0	3,500	3,500	0	0	0	**3,500**
Others	0	1,250	1,250	0	929	0	**2,179**
State	0	10,453	10,453	227	119	0	**10,799**
Private	0	1,071	1,071	0	304	0	**1,376**
Total	**0**	**23,254**	**23,254**	**227**	**1,913**	**0**	**25,394**

Source: Ministry of Power, Kotak Institutional Equities estimates.

Exhibit 4. Our DCF based valuation leaves little upside even with favorable assumptions of execution, market share and margins

DCF valuation for BHEL, March fiscal year ends 2008-2018E, (Rs mn)

	Existing orders ensure visibility			Further XIth plan order inflows		XII plan execution of 53,019 MW; 30% of revenues from industry sector					Terminal year
Year to March	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**
Revenue	**197,787**	**239,325**	**251,913**	**264,500**	**306,039**	**343,596**	**415,817**	**437,702**	**459,587**	**531,808**	**531,808**
Growth (%)	13.7	21.0	5.3	5.0	15.7	12.3	21.0	5.3	5.0	15.7	-
EBIT margin	22.3	23.1	16.0	18.8	20.5	18.0	18.0	18.5	19.0	19.0	19.0
EBIT*(1-tax rate)	**29,130**	**36,506**	**26,623**	**32,888**	**41,351**	**40,819**	**49,399**	**53,443**	**57,632**	**66,689**	**66,689**
Depreciation	2,904	3,206	3,531	3,856	4,116	4,200	4,200	4,200	4,200	4,200	1,900
Capital expenditure	(4,300)	(5,000)	(5,000)	(5,000)	(3,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Free Cash Flows	**27,734**	**34,711**	**25,154**	**31,744**	**42,467**	**43,019**	**51,599**	**55,643**	**59,832**	**68,889**	**66,589**
Growth (%)	26	25	(28)	26	34	1	20	8	8	15	(3)
Years discounted	-	-	1	2	3	4	5	6	7	8	9
Discount factor	1.00	1.00	0.89	0.79	0.71	0.63	0.56	0.50	0.45	0.40	0.35
Discounted cash flow	**27,734**	**34,711**	**22,409**	**25,193**	**30,025**	**27,097**	**28,954**	**27,816**	**26,646**	**27,331**	**23,535**

Target price calculation	**Rs mn**
Sum of free cash flow	277,917
Discounted terminal value	422,697
Enterprise value	700,615
Add Investments	83
Net debt	(49,245)
Net present value-equity	749,943
Shares o/s	490
Target price /share(Rs)	**1,532**

Terminal multiples	
EV/EBIDTA	10.3
P/FCF	17.0

Terminal value calculation	
Cash flow in terminal year	66,589
Growth to perpetuity (g)	**6.0%**
Capitalisation rate (WACC-g)	6.3%
Terminal value	1,065,419
Discount period (years)	8.0
Discount factor	0.40
Discounted terminal value	**422,697**

WACC calculation	
Risk-free rate (Rf)	6.0%
Beta (B)	0.97
Equity risk premium	6.5%
Expected market Return (Rm)	12.5%
Cost of Equity (Ke)	12.3%
Cost of Debt (Kd) (Post-tax)	8.0%
WACC	**12.3%**

Source: Company data, Kotak Institutional Equities Estimates

Pharmaceuticals

RANB.BO, Rs356	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	450
52W High -Low (Rs)	445 - 306
Market Cap (Rs bn)	133

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	60.2	70.2	78.8
Net Profit (Rs bn)	5.1	6.4	8.0
EPS (Rs)	12.8	15.9	20.1
EPS gth	*92.4*	*24.9*	*25.8*
P/E (x)	27.9	22.3	17.8
EV/EBITDA (x)	17.9	14.2	11.8
Div yield (%)	2.7	2.6	2.9

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	34.9	-	-
FIIs	21.3	0.5	(0.0)
MFs	3.3	0.4	(0.0)
UTI	-	-	(0.5)
LIC	12.4	1.5	1.0

Ranbaxy Laboratories: Valuations are attractive — Buy

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- **Topline growth is likely to be strong; driven by emerging economies and acquisitions**
- **We estimate EPS growth of 25% for next two years**
- **Currency impact likely to be positive this year and about 7% downside for next year**
- **Stock near lower-end of trading band; Buy.**

We have fine-tuned our model, but have yet not changed our rupee-dollar assumption of 44 for this year, as there will likely be a benefit owing to hedging and notional gain on repricing of liability. For CY2007, we have modeled revenue growth of 17% (20% dollar growth), EBITDA margin of 16% and net profit growth of 25% to Rs6.4 bn. The company hopes to receive milestone payment from GSK this year, pertaining to their drug discovery alliance (not factored into estimates). We estimate an EPS of Rs15.9 in CY2007 and Rs20.1 in CY2008. Valuations are attractive, stock is near lower-end of trading band and Q2 results are likely to be strong - Buy. From a longer-term perspective, operations are being streamlined and we see strong earnings growth for the next 3-4 years (EPS of Rs100 in CY2010 boosted by likely exclusivity in generic Lipitor). The key concern is on the regulatory side, relating to approval of its Paonta plant by the US FDA and inspection/ search at its US facility.

Topline growth is likely to be strong; driven by emerging economies and acquisitions. For CY2007, we have modeled revenue growth of 17% to Rs70.2 bn (US$1.6 bn, or 20% growth). Emerging markets now constitute about 54% of sales (49% in CY2006) and grew by 53% in Q1 (24% excluding the Romanian acquisition). The developed markets, primarily USA, Canada, countries in Western Europe and Japan comprise 39% of global sales and grew by 7% in Q1.

Indian business is doing well. Restructuring of domestic formulations operation in line with customer groups, coupled with aggressive new launches has fueled growth in the domestic business (20% of global sales and grew by 26% in Q1). We have modeled 20% growth for the full year. The growth is being led equally by Acute and Chronic therapies, both growing in excess of 20%. Chronic therapies now constitute 24% of domestic sales versus 22% earlier. NDDS products constitute 8.8% of domestic sales and the company is the leader with a 7.7% share in the NDDS segment (Source: ORG-IMS, MAT February 2007).

Exclusivities (in the US) can add to earnings momentum. The company hopes to launch atleast one exclusivity product in the US market each year. In the short-term, the company will launch Pravastatin 80mg tablets, with likely revenue potential of US$20 mn. The pipeline comprises of 20 first-to-files, with market size of US$25 bn. Thus far, Ranbaxy has exhibited strong litigation skills. Apart from the US, there is a potentially large opportunity, if it is able to launch generic Lipitor in Canada (US$800 mn market).

New therapies will start contributing in the next two years. The company in the next two years will benefit from the launch of complex injectables in the area of Penems and Limuses, with a market potential of over US$3 bn. It has also made strategic investments into smaller Indian companies that give it access to new products/technology; mainly in the area of oncology and bio-similars. Such investments help broaden portfolio, while limiting corporate resources.

Raw material cost likely to rise. Anti-infectives constitute 44% of dosage sales, and this is broadly a high volume-low margin business. Considering the sharp raw material price increases (particularly in the cephalosporins category), there is likely to be some impact on earnings. We have modeled raw material cost of 42.3% in CY2007 versus 39.4% in CY2006.

SG&A costs have been in a narrow band in the last three quarters. SG&A costs have been ranging between Rs4.7-Rs4.8 bn in the last three quarters and ranging between 28-30%. This needs to drop to help operating margins expand from the estimated 16% for this year.

The company is working on improving manufacturing processes for its key drugs, so as to reduce costs. This will likely take some time, and the focus in the near term is likely to be R&D and SG&A.

Currency impact likely to be positive this year and about 7% downside for next year. We estimate that the company will have about US$300 mn of dollar exposure ($700 mn revenues and $400 mn of cost) in the current year. The company has an active treasury department, and we believe does hedge upto six months of receivables. However, the company has not disclosed its forex cover.

We have assumed Re/US$ of 44 in CY2007 and 43 in CY2008. However if the rupee dollar were to be at Rs41 for both years (and assuming no forward cover), the impact on EPS would be a negative 8% and 7%.

However owing to notional gain on dollar liabilities, the impact would be a net positive this year. The notional gain is owing to repricing of assets and liability, which would be Rs1.25. This notional forex gain is on account of about US$750 mn of forex liability (including convertible bonds). The translational loss on count of receivables was about one-third of the gain arising from liability repricing in Q1.

Need for rationalization. We believe the company must evaluate its portfolio of markets, and exit a few high cost operations. For instance, UK lost money last year, and this year the French operation seems to be under pressure. Such restructuring will likely help improve profitability, and also result in proper allocation of resources.

Innovative research can be spun-off in the medium term. In the last two years, the company has been focusing on partnerships to reduce money spent on innovative research. The challenge still seems to be employee retention and productivity. We think spinning off the innovative research unit into a separate company, with a strategic partner and ESOPs can help address these challenges. The company will likely spend US$24 mn on innovative research in CY2007. So if spun-off, it would mean an EPS upgrade for the parent company. Applying a 20X multiple, on this research cost (adjusted for tax benefit) it can potentially add Rs24/share to the parent's stock price. Add to this the value of the research pipeline; the gains could be meaningful for shareholders. While one can argue for a lower multiple for the pharma business, post a demerger, such a situation is unlikely (in a bull market) as has been seen with Sun Pharma.

FCCB conversion price implies that the stock price will almost double in 4 years. We have drawn this inference from the convertible price of the company's outstanding bonds. Last year, Ranbaxy had raised US$440 mn in convertible bonds, implying 7.3% dilution. The instrument is a five-year zero coupon convertible bond, with a convertible price of Rs716, or 4.8% ytm (27% of principal amount). We do not expense the interest cost, but our EPS is based on diluted equity. Incase, the conversion does not happen, the company will have to make one large provision in 2011.

Key risks: If the company is not able to resolve the issues raised by the US FDA, at its Paonta facility, than its US business comes under a risk (28% of revenues). Any unfavorable outcome from the search of its US facilities in February 2007. Other risks include unfavourable pricing in key markets and inability to improve cost structure.

Cement

Sector coverage view			Cautious

		Price, Rs	
Company	**Rating**	**21-Jun**	**Target**
Gujarat Ambuj	IL	119	110
ACC	IL	855	810
Grasim	OP	2,507	2,440
India Cements	IL	187	170
UltraTech Cem	IL	837	710
Shree Cement	OP	1,186	1,090

Royalty rate hike unlikely to impact profitability

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We believe that given the current favorable demand-supply environment, the 14% hike in royalty rates on coal and lignite will not have any material impact on the profitability of cement manufacturers. Marginal price increases will help absorb the higher cost of coal and electricity. The Cabinet Committee on Economic Affairs (CCEA) has approved the revision of royalty rates on coal and lignite. We believe that the current pricing power enjoyed by the cement manufacturers will likely end in FY2009 with commissioning of large capacities and maintain our cautious view on the sector.

Minor impact of royalty rate hike on cement production costs. Cement manufacturers utilize coal for manufacturing clinker and for captive power generation. We estimate cost of producing cement to be only marginally impacted (Rs0.2/bag against the current retail price of Rs224/bag) by the increase in royalty rates. CCEA has cleared the proposal to increase the royalty on various grades of coal and lignite by an average 14%. The specific royalty rates linked to the quality of coal varied between Rs250/tonne for grade I and Rs65/ tonne for grade V. While we await the formal notification, media reports suggest the new royalty rates would range between 15% and 31% of coal prices.

Coal distribution reforms still pending. Cement manufacturers currently get upto 80% of their coal requirement through coal linkages from Coal India Limited. The balance requirement of coal is met through e-auctions (or e-marketing) or imports. Under the prevailing system of coal linkages, cement is considered a core sector. However, the draft coal distribution policy proposes to move cement to the 'Other' category thereby reducing its procurement through fuel supply and transport agreements (FTSA). Coal outside the linkages is available at 20-30% higher prices. The current supply-demand balance will permit recovery of additional costs if the coal distribution reforms are implemented. However, the same may not be possible in a supply surplus situation expected in FY2009.

We expect capacity addition of about 40 mn tonnes over the next two years, resulting in a decline on the capacity utilization of cement plants from the current high of 95-100%. We expect demand growth of 8.9% in FY2008 to match the incremental supply. Demand growth of 8.3% in FY2009 however will be lower than expected growth in supplies. We expect cement prices to remain stable or marginally weak during FY2009.

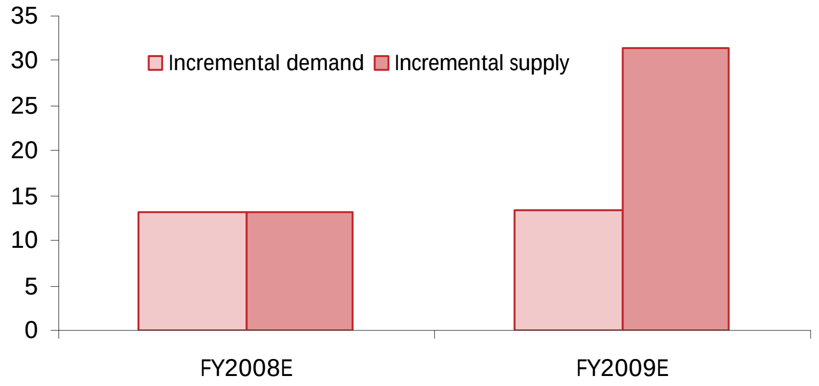
Production cost to increase marginally on account of increased royalty on coal
(Rs)

Increase in cost in clinker process	
Royalty per tonne of coal (a)	165
Coal consumption per tonne of clinker (b)	0.18
Clinker consumption per tonne of cement (c)	0.83
Royalty per tonne of cement (a) X (b) X (c)	24.75
Increase in royalty on coal	14%
Increase in cost of production of 1 tonne of cement	3.47
Impact /bag of cement	**0.17**
Increase in cost of power	
Electricity consumption (units) per tonne of cement (d)	90
Coal consumption (F grade - tonnes) per unit electricity (e)	0.00067
Royalty per tonne of of F grade coal (f)	65
Royalty per tonne of cement (d) X (e) X (f)	3.9195
Increase in royalty on coal	14%
Increase in cost of production of 1 tonne of cement	0.55
Impact /bag of cement	**0.03**

Source: Kotak Institutional Equities estimates.

Incremental supply far exceeds incremental demand from FY2009

Incremental demand and supply for cement (mn tonnes)

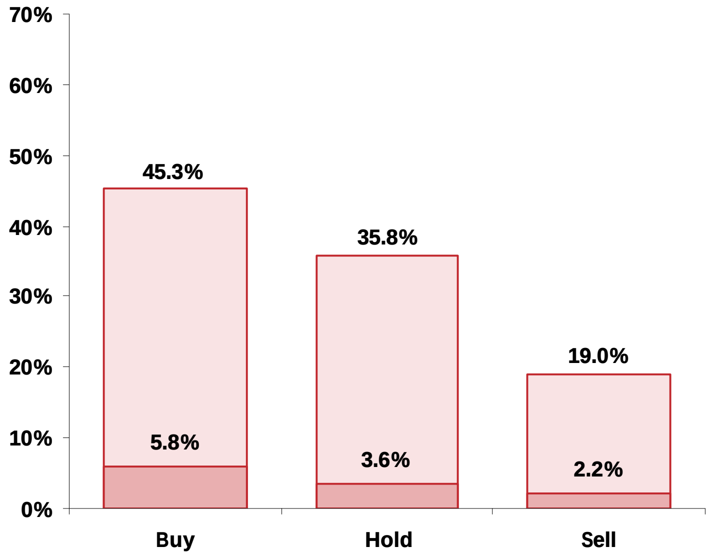


Source: Kotak Institutional Equities estimates.

"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, Lokesh Garg, Pawan Nahar , Aman Batra."

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 03/31/07 Kotak Institutional Equities Investment Research had investment ratings on 137 equity securities.

Source: Kotak Institutional Equities. As of March 31, 2007

Ratings and other definitions/identifiers

Current rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.
IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.
U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

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

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