kotak® Institutional Equities

INDIA DAILY

January 29, 2008

Contents

News Roundup

Corporate

- The Posco board has approved separate packages for those with land and those without, who will be displaced by the single biggest foreign direct investment in India. (BS)
- General Electric has put its Indian unit of consumer finance company GE Money on the block. (ET)
- The government has asked SBI to go slow on the merger with all its subsidiaries. (ET)
- WPP has acquired a majority stake in Encompass, an independent brand activation, events and content creation agency. (FE)

Economic and political

- The government is planning to allow forward trading of fruit and vegetable pulp at commidity exchanges. (BS)

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

EQUITY MARKETS

		Change, %		
India	**28-Jan**	**1-day**	**1-mo**	**3-mo**
Sensex	18,153	(1.1)	(10.2)	(5.7)
Nifty	5,274	(2.0)	(13.3)	(7.5)
Global/Regional indices				
Dow Jones	12,384	1.4	(7.3)	(10.3)
Nasdaq Composite	2,350	1.0	(12.1)	(16.2)
FTSE	5,789	(1.4)	(10.6)	(13.1)
Nikkie	13,329	1.8	(12.9)	(20.2)
Hang Seng	24,599	2.3	(10.1)	(22.1)
KOSPI	1,628	0.0	(14.2)	(21.1)

Value traded - India

			Moving avg, Rs bn	
	28-Jan		**1-mo**	**3-mo**
Cash (NSE+BSE)	150.1		268.3	92.4
Derivatives (NSE)	431.6		504.4	738
Deri. open interest	865.9		1,026	752

Forex/money market

		Change, basis points		
	28-Jan	**1-day**	**1-mo**	**3-mo**
Rs/US$	39.4	0	(3)	(4)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.5	4	(37)	(35)

Net investment (US$mn)

	25-Jan		MTD	CYTD
FIIs	166		14	(2,832)
MFs	56		(341)	1,212

Top movers -3mo basis

		Change, %		
Best performers	**28-Jan**	**1-day**	**1-mo**	**3-mo**
Rashtriya Chem	91	(5.0)	(18.8)	74.9
BoB	430	2.3	(5.9)	31.9
Union Bank	209	2.8	0.9	29.9
BoI	410	3.8	12.3	29.8
Exide Indus	79	(1.5)	5.3	27.8
Worst performers				
Arvind Mills	51	(3.9)	(43.0)	(33.0)
i-Flex	1,077	(4.3)	(29.0)	(32.3)
MTNL	132	(0.6)	(27.1)	(31.4)
Titan Inds	1,213	(0.6)	(20.9)	(30.9)
Thermax	673	(2.4)	(18.8)	(26.8)

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Metals

JNSP.BO, Rs2343	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	2,900
52W High -Low (Rs)	3356 - 400
Market Cap (Rs bn)	361

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	36.8	47.6	63.0
Net Profit (Rs bn)	8.6	11.9	16.5
EPS (Rs)	56.2	77.3	106.9
EPS gth	*47.6*	*37.6*	*38.3*
P/E (x)	41.7	30.3	21.9
EV/EBITDA (x)	25.3	18.7	14.2
Div yield (%)	0.2	0.2	0.2

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	59.0	-	-
FIIs	23.8	0.4	0.0
MFs	4.4	0.5	0.1
UTI	-	-	(0.4)
LIC	-	-	(0.4)

Jindal Steel and Power: 3QFY08 result update—Stronger-than-expected numbers; retain ADD

Jigar Mistry : jigar.mistry@kotak.com, +91-22-6749-3571

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **JSP's 3Q net earnings, at Rs3.2 bn increased 68% yoy and were 5% above our estimates, as capacity expansions drives higher volume growth**
- **3Q EBITDA margins at 42.5% were sequentially higher by 500 bps as recent increase in raw material prices does not impact JSP's margins (unlike competition)**
- **We raise FY2008E earnings estimates by 7% to account for higher-than-expected 3Q performance.**
- **Retain ADD rating with a target price of Rs2,900/share.**

JSP, in its 2QFY08E results, declared net earnings of Rs3.2bn, up 68% and 5% higher than our estimates. EBITDA margins increased 500bps on yoy basis, as higher volumes and stable costs delivered higher EBITDA. We raise FY2008E net earnings estimate by 7% to account for better 3Q performance. Retain our ADD rating and target price of Rs2,900/ share.

JSP's 3Q net earnings, at Rs3.2 bn, were 5% higher than our estimates and increased 68% on yoy basis as higher volumes countered sober realizations and impact from stronger rupee. EBITDA, at Rs5.3 bn, increased 41% yoy.

EBITDA margins, at 42.5%, increased 500bps on yoy basis, as increasing raw material costs does not impact JSP's operating margins (source of most raw materials is captive). The improvement in EBITDA reported by JSP in the current quarter is higher than that reported by its peers (Tata Steel and JSW Steel).

We raise FY2008E earnings by 7% to account for JSP's better-than-expected performance in the current quarter. We expect volumes to improve in 4QFY08E (on yoy basis) as JSP continues to benefit from its capacity expanded last year. We also expect JSP to stabilize its plate mill and receive approval for sale of plates under API-grade by end of FY2008E. We expect 45% growth in net earnings for FY2009E.

Retain our SOTP-based target price of Rs2,900. Our target price includes Rs1,081 per share for its extant steel business, Rs965 for its investments in power business and Rs869 for value accretion in El Mutun mine in Bolivia.

We believe many triggers exist that can make a case for incremental value generation from current prices:

(a) **We currently value JSP's stake** in El Mutun assuming an execution probability of just 50%. We believe this project can add great value, if JSP is successful in executing its plans.

(b) **JSP's existing coal mine in Chhattisgarh** can support an incremental 1500MW for the next 20 years. The company has floated a tender to order 1320MW and will likely place order for equipments in the next 3-4 months, in our estimate. We have not yet captured the full value that this project can potentially add.

We continue to maintain an ADD rating on the stock with target price of Rs2,900.

Jindal Steel and Power, interim results, March fiscal year-ends (Rs mn)

	3Q 2008	2Q 2008	3Q 2007	% change qoq	% change yoy	2008E	9 months 2008	9 months 2007	% change	Comments on interim results
Earnings drivers										
Average US HRC prices (US/ton)	590	570	621	3.5	(5.0)		590	653	(9.6)	
Average UK HRC prices (US/ton)	643	655	632	(1.8)	1.7		648	618	4.9	
Average INR:USD	39.42	40.53	45.93	(2.7)	(14.2)					
Interim results										
Net revenues	**13,956**	**12,690**	**10,101**	10.0	38.2	**47,574**	38,878	24,659	57.7	Net revenues higher on improved realisations
Expenditure	**(8,633)**	**(7,284)**	**(6,327)**			**(26,773)**	**(23,356)**	**(14,552)**		
Stock adjustment	230	(55)	(447)			-	131	204		
Raw materials	(5,334)	(4,505)	(3,340)			(6,381)	(14,001)	(8,071)		
Employee cost	(301)	(339)	(229)			(1,229)	(946)	(694)		
Other costs	(3,228)	(2,385)	(2,311)			(19,164)	(8,540)	(5,991)		
EBITDA	**5,324**	**5,407**	**3,773**	(1.5)	41.1	**20,800**	**15,522**	**10,107**	53.6	**EBITDA margin grew 500 bps on yoy basis on account of higher realisations and lower costs**
Other income	118	29	24			290	243	88		
Depreciation	(1,188)	(1,178)	(919)			(4,231)	(3,481)	(2,182)		
EBIT	4,254	4,258	2,878			16,859	12,284	8,014		
Interest	(500)	(791)	(363)			(1,631)	(1,662)	(1,250)		
Pre-tax profits - as reported	3,754	3,467	2,516			15,228	10,623	6,764		
Unusual or infrequent items	-	-	-			-	-	-		
Pre-tax profits - as adjusted	**3,754**	**3,467**	**2,516**	8.3	49.2	**15,228**	**10,623**	**6,764**	57.1	
Taxes	(564)	(692)	(617)			(3,328)	(2,157)	(1,761)		
Reported profits - as reported	3,191	2,775	1,899			11,900	8,466	5,002		
Extra-ordinary items	-	-	-			-	-	-		
Reported profits - as adjusted	**3,191**	**2,775**	**1,899**	15.0	68.0	**11,900**	**8,466**	**5,002**	69.3	**Lower effective tax rate and lower interest costs result in net profit higher by 68% yoy**
Reported profits - as adjusted	**3,191**	**2,775**	**1,899**	15.0	68.0	**11,900**	**8,466**	**5,002**	69.3	
Ratios										
Costs as % of revenue (%)	57.5	57.5	62.6				60.1	59.0		
EBITDA margin (%)	42.5	42.5	37.4				39.9	41.0		
ETR (%)	15.0	20.0	24.5				20.3	26.0		
EPS (Rs/share)	20.7	18.0	12.3				55.0	32.5		

Source: Company data, Kotak Institutional Equities estimates.

Jindal Steel and Power, Change in estimates, March fiscal year-ends (Rs mn)

	Revised estimates			Old estimates			% change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net revenues	47,574	63,035	71,652	46,594	62,766	71,318	2.1	0.4	0.5
EBITDA	20,800	27,788	28,761	19,821	27,519	28,428	4.9	1.0	1.2
Net profit	11,900	16,453	15,626	11,121	16,208	15,317	7.0	1.5	2.0
EPS (Rs)	77.3	106.9	101.5	72.2	105.3	99.5	7.0	1.5	2.0

Source: Kotak Institutional Equities estimates.

Jindal Steel and Power, SOTP-based valuation, March 2009E (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Enterprise value (Rs mn)	(US$ mn)	(Rs/share)	Comments
Existing steel business			**166,424**	**4,161**	**1,081**	
Steel business (extant business)	27,788	7.2	200,075		1,300	
Less: Net debt of steel business			(33,651)		(219)	FY2009E net debt, adjusted for cash
Stake in Jindal Power (100% holding)			**192,960**	**4,824**	**965**	
First 1000 MWs (250 MWs already commissioned)					3,471	1-yr forward DCF-to-firm basis, including 800 MWs sale on spot basis for 7 years
Incremental 1320 MWs on existing mine					768	1-yr forward DCF-to-firm basis. Levelized tariff of Rs2.25/unit assumed on commissioning
Additional 1500 MWs on coal mine allocated in Jharkhand					585	Assuming JSP can set-up incremental 1500 MWs new mines allocated in Jharkkhand
Value accretion from development of El Mutun, Bolivia (note 1, 2)			**133,801**	**3,345**	**869**	DCF-to-firm basis, assuming 50% probability of investments fructifying
Arrived market capitalization			**493,184**	**12,330**	**2,915**	
Target price (Rs/share)					**2,900**	

Notes:

1. Based on our assumption of extraction of 15 bn tons of iron ore extraction over FY2026 and based on long term iron ore prices of US$35/ton.
2. We apply a factor of 20% to discount cash flows and assume just 50% probability of completion of commissioning of the project.

Source: Kotak Institutional Equities estimates

Metals

JSTL.BO, Rs947	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	1,040
52W High -Low (Rs)	1390 - 400
Market Cap (Rs bn)	176.0

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	85.9	102.0	121.6
Net Profit (Rs bn)	12.9	17.4	20.3
EPS (Rs)	67.8	92.0	107.6
EPS gth	*51.3*	*35.7*	*16.9*
P/E (x)	14.0	10.3	8.8
EV/EBITDA (x)	7.6	7.1	6.8
Div yield (%)	1.3	1.9	1.9

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	46.3	-	-
FIIs	26.5	0.4	0.1
MFs	3.1	0.3	(0.0)
UTI	-	-	(0.3)
LIC	2.6	0.2	(0.1)

JSW Steel: 3QFY08E results lower-than-expected; maintain target price; outline potential upsides

Jigar Mistry : jigar.mistry@kotak.com, +91-22-6749-3571

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **3QFY08E operating results were below expectations, as higher raw material cost coupled with lower realizations qoq lowered operating EBITDA**
- **In 3Q analyst meeting, JSW elaborated on two critical issues—growth plans and raw material security. These, if fructified, will likely provide upside to our SOTP-based valuation**
- **Retain ADD rating with target price of Rs1,040/share. Discuss scenarios that may provide upside to our target price.**

JSW Steel, in its 3QFY08 results, reported net earnings of Rs3.4 bn, down 11% yoy, largely following 5% higher realization that was not enough to cover severe increase in raw material costs. JSW unveiled big plans to attain 30 mn tons operating capacity by 2020, with significantly higher raw material security. We maintain our SOTP-based target price at Rs1,040. However, we note that recent plans, if and when they materialize, can potentially add significant value to JSW's shareholders—retain ADD rating on the stock.

3QFY08E operating EBITDA, at Rs7.4 bn, is lower than our estimate of Rs8.3 bn. Higher costs of iron ore and metallurgical coke, coupled with lower qoq realization on steel, resulted in lower EBITDA/ton by 4% on qoq basis. Saleable steel production growth of 15% helped absolute EBITDA to stay flattish on qoq basis. However, higher costs and stronger rupee led to yoy drop in EBITDA by 7%.

Depreciation increased on a yoy/qoq basis following commissioning of the Cold Rolling Mill (CRM) complex. Lower interest costs, as well as lower effective tax rates, helped report higher net income. Adjusted for extraordinary items, recurring operating net earnings were down 11% on qoq/yoy basis.

Company unveiled the big plan—30 mn tons by 2020; raw material security. JSW unveiled plans to effectively reach 30 mn tons in operating capacity by period range FY2015-20. That includes expansion at its existing site (Karnataka) from 3.8 mn tons to 10 mn tons by FY2010 (captured in our model). It also includes setting up Greenfield capacity at new site in West Bengal (eventually 10 mn tons; land acquisition almost complete; coal sourcing JV signed), which will likely commission operations by FY2012E. Besides, it also includes probable 10 mn tons in Jharkhand—likely to commence operations by FY2013E (phase 1-3 mn tons; preliminary stages; prospecting license for iron ore mine received).

Proposed program also includes securing large part of raw material as captive resources. JSW plans to increase captive sourcing of iron ore to 75% from 40% currently and reach 100% on coking/thermal coal from no integration in the current fiscal. JSW is in the fray to acquire mining concessions in Chile (Latin America), which is likely to be announced pretty soon, through which it intends to supply to existing operations in Karnataka and proposed expansion in West Bengal. Besides iron ore, JSW intends to secure a large part of its coking and non-coking coal requirements from mine allocated in Mozambique, from which it intends to start supplying to existing India operations by December 2008. Additional coking coal supplies are expected in FY2011/2012 from mines allocated in Jharkhand and West Bengal, respectively.

Upside to our current target price may emanate from these two events (a) Value unlocking from public offering in JSW Bengal, and (b) acquisition of iron ore reserves at attractive valuations

Value unlocking in JSW Bengal. JSW informed that it intends to unlock value in JSW Bengal through private equity/IPO offering, which will likely hit the market by December 2008. Phase-1 (6mn tons) of JSW Bengal will likely commence by FY2012E, which will be raised to 10 mn tons latest by FY2020. The plant will seek to source iron ore from probable acquisition in Chile and will likely source coking coal from allocated mines (in JV with WBMDTC). At an assumed EBITDA of US$150/ton and valuation of 5X EV/EBITDA, this project will add Rs221/share of JSW Steel in FY2012. We have refrained from including the discounted value of this project in our SOTP-based valuations since the project still has a huge lead period (although the land acquisition is largely complete and the project has progressed faster than other projects in West Bengal). Besides, since valuation of all steel companies under our coverage are valued on FY2009E EV/EBITDA, its only fair that we do not include the present value (if any) from setting up this project in our valuations.

Latin American mine acquisition. JSW also informed of probable consummation of a joint venture agreement between a Latin American mining company and JSW Steel, in which, JSW will likely own 70%. The mine in question contains magnetite ore of ~30%Fe content, which shall be beneficiated to reach 63.5% Fe-content and will either be sold out to third parties or supplied to JSW's West Bengal project. JSW expect the extraction to reach 20 mn tons over three years, with mining costs in the region of US$25/ton fob. JSW will invest US$500 mn over the next couple of years to create a beneficiation plant and related infrastructure to excavate ore from mines. As much as we find the deal amazing (at suggested extraction of 20 mn tons in third year of operation, JSW will recover investments from one-year operating EBITDA), the Joint Venture agreement which is yet to be consummated, can potentially add Rs214/share to JSW Steel by FY2012E. We will likely add a probability-adjusted value once the deal is finalized and more clarity appears.

Retain ADD rating with target price of Rs1040/ share, which does not include upside from value unlocking in JSW Bengal and acquisition of iron ore mines in Chile. Our SOTP-based target price includes Rs893/ share from standalone operations, Rs55/share from value accretion of US subsidiary and Rs89/share from acquisition of SISCOL. While maintaining our current target price of Rs1,040/share, we note that JSW is taking all steps in the right direction, and inclusion in target price is more a matter of the company imparting more clarity than anything else. Retain ADD rating on the stock.

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

	3Q 2008	2Q 2008	3Q 2007	% change qoq	% change yoy	2008E	9 months 2008	9 months 2007	Comments on interim results
Quantitative details ('000 tons)									
Crude steel	841	783	730	7.4	15.2	3,633	2,331	1,937	Expansions starting to benefit; production improved 15% on yoy basis.
Hot rolled coils	686	685	648	0.1	5.9	2,716	2,009	1,503	
Galvanised products	190	198	201	(4.0)	(5.5)	756	576	531	
Earnings drivers									
Average realization (Rs/ton) (b)	33,072	32,644	31,527	1.3	4.9	33,447	33,405	31,360	Realizations improve, but not enough to cover costs
Average EBITDA (Rs/ton) (b)	9,526	9,928	10,914	(4.1)	(12.7)	10,289	10,376	10,295	Reduced as increased raw materials costs hurt margins
Average US HRC prices (US$/ton)	590	570	621	3.5	(5.0)				Prices down severly on yoy basis; expect them to catch up to EU prices
Average UK HRC prices (US$/ton)	643	655	632	(1.8)	1.7				Prices strong so far; expect to run down towards US average
Average INR:USD	39.42	40.53	45.93	(2.7)	(14.2)	41.00			Rupee appreciated strongly over last year; was flattish on qoq basis
Interim results									
Net revenues	**25,631**	**23,830**	**23,015**	7.6	11.4	**101,967**	**71,368**	**60,655**	Higher production led to increase in revenue amidst higher realizations, despite stronger rupee
Expenditure	**(18,248)**	**(16,582)**	**(15,048)**	10.0	21.3	**(68,543)**	**(49,324)**	**(40,616)**	
Stock adjustment	1,306	780	(252)			-	3,060	1,107	Raw material costs move up on qoq basis as higher iron ore and coke costs increase total manufacturing costs
Raw materials	(13,902)	(12,045)	(10,731)			(46,098)	(36,745)	(28,926)	
Employee cost	(593)	(584)	(488)			(2,305)	(1,761)	(1,300)	
Other costs	(5,060)	(4,733)	(3,577)			(20,140)	(13,878)	(11,496)	
EBITDA	**7,383**	**7,248**	**7,967**	1.9	(7.3)	**33,424**	**22,044**	**20,038**	3Q EBITDA is below our estimates of Rs8.3 bn
Other income	351	2,358	64	-	-	3,212	4,074	164	
Depreciation	(1,698)	(1,354)	(1,295)			(5,465)	(4,374)	(3,484)	3QFY08 depreciation higher following commissioning of Cold Rolling Mill
EBIT	6,036	8,252	6,736			31,171	21,743	16,718	
Interest	(953)	(681)	(1,107)			(3,205)	(2,493)	(2,961)	Higher interest earned lower net interest expense; gross interest payment lower on qoq basis following lower interest rates
Pre-tax profits—as reported	5,083	7,571	5,630			27,966	19,250	13,757	
Unusual or infrequent items	(464)	(464)	(270)			(1,960)	(1,391)	(820)	Misc expenditure write-off; expect JSW to write-off Rs2 bn in FY2008E
Pre-tax profits— as adjusted	**4,620**	**7,107**	**5,360**	(35.0)	(13.8)	**26,006**	**17,859**	**12,937**	
Taxes	(1,338)	(1,995)	(1,738)			(8,582)	(5,187)	(4,149)	Lower ETR owing to 80-IA benefits from existing power business
Current taxes						-	-	-	
Deferred taxes						-	-	-	
Reported profits - as reported	3,282	5,112	3,622	(35.8)	(9.4)	17,424	12,672	8,788	
Extra-ordinary items	-	-	-				-	-	
Reported profits—as adjusted	**3,282**	**5,112**	**3,622**	(35.8)	(9.4)	**17,424**	**12,672**	**8,788**	
Recurring net earnings	**3,362**	**3,750**	**3,761**	(10.3)	(10.6)	**15,272**	**10,768**	**9,233**	Adjusted for tax impact on other income/ misc expenditure write-off
Ratios									
Costs as % of revenue (%)	71.2	69.6	65.4			67.2	69.1	67.0	Higher costs push EBITDA down 161bps
EBITDA margin (%)	28.8	30.4	34.6			32.8	30.9	33.0	Dropped 161bps on qoq/yoy basis, as raw material costs move up
ETR (%)	29.0	28.1	32.4			33.0	29.0	32.1	
EPS (Rs/share)	17.7	27.5	19.5			93.8	68.2	47.3	

Notes:

(a) EPS is calculated based on fully diluted shares (assuming eventual conversion of outstanding FCCB)

(b) Calculated on the basis of saleable steel

Source: Company data, Kotak Institutional Equities estimates.

JSW Steel, Summary financials, March fiscal year-ends, 2007-10E (Rs mn)

Income statement	2007	2008E	2009E	2010E
Net revenues	**85,944**	**101,967**	**117,525**	**145,179**
Expenditure	**(57,776)**	**(68,543)**	**(81,211)**	**(100,712)**
Raw materials	(39,640)	(45,501)	(55,302)	(69,731)
Employee expenses	(1,755)	(2,305)	(2,559)	(2,929)
Other expenditure	(16,382)	(20,737)	(23,349)	(28,051)
EBITDA	**28,168**	**33,424**	**36,314**	**44,468**
Non-operating income	1,052	3,212	946	946
Depreciation	(4,982)	(5,465)	(6,461)	(7,243)
EBIT	24,237	31,171	30,799	38,171
Interest expenses	(3,995)	(3,205)	(2,734)	(4,932)
Miscellaneous expenditure	(1,090)	(1,960)	-	-
Adjusted pre-tax profits	19,152	26,006	28,065	33,238
Unusual or infrequent items	-	-	-	-
Reported pre-tax profits	**19,152**	**26,006**	**28,065**	**33,238**
Current taxes	(3,526)	(5,201)	(6,174)	(7,645)
Deferred taxes	(2,706)	(3,771)	(3,508)	(3,822)
Reported net income	12,920	17,034	18,383	21,771
Adjusted net income	**12,210**	**14,930**	**17,763**	**21,151**
EPS (Rs), based on wtd avg shares	**77.7**	**88.9**	**103.3**	**123.0**
EPS (Rs), based on fully diluted shares	**71.0**	**86.8**	**103.3**	**123.0**
Year-end shares outstanding (mn)	164.0	172.0	172.0	172.0
Weighted average shares outstanding (mn)	157.2	168.0	172.0	172.0
Fully diluted shares outstanding (mn)	172.0	172.0	172.0	172.0

Cash flow statement	2007	2008E	2009E	2010E
Cash flow from operating activities				
PBT	19,152	26,006	28,065	33,238
Add: Depreciation	4,982	5,465	6,461	7,243
Add: Non cash expenses	920	-	-	-
Less: expenses capitalised	(379)	-	-	-
Less: Taxes paid	(2,848)	(5,201)	(6,174)	(7,645)
Add: Working capital changes	3,134	(7,112)	(1,406)	(1,479)
Total operating cash flow	**24,961**	**19,158**	**26,946**	**31,358**
Operating Cash flow w/o working capital	21,827	26,270	28,352	32,837
Cash flow from investing activities				
Capital expenditure	(22,485)	(54,844)	(59,473)	(32,672)
Investments	39	(2,213)	-	-
Misc expenditure not written off	-	1,960	-	-
Total investing cash flow	**(22,446)**	**(55,097)**	**(59,473)**	**(32,672)**
Cash flow from financing activities				
Share issuances	2,122	14,997	-	-
Loans	2,337	18,920	36,374	5,170
Less: Dividends paid (including dividend tax)	(4,087)	(431)	(3,754)	(3,754)
Other long term liabilities	-	-	-	-
Total financing cash flow	**372**	**33,486**	**32,620**	**1,416**
Net change in cash	**2,887**	**(2,453)**	**93**	**102**
Opening cash	491	3,378	925	1,018
Closing cash	**3,378**	**925**	**1,018**	**1,119**

Balance sheet	2007	2008E	2009E	2010E
Equity capital	5,258	5,134	5,134	5,134
Reserves and surplus	50,683	79,083	93,711	111,728
Deferred tax liability	10,127	13,898	17,406	21,228
Total Equity	**66,067**	**98,115**	**116,251**	**138,090**
Secured loans	36,325	55,245	91,619	96,789
Unsecured loans	5,405	5,405	5,405	5,405
Total borrowings	**41,730**	**60,650**	**97,024**	**102,194**
Current liabilities	22,857	26,108	30,564	36,720
Total capital	**130,655**	**184,873**	**243,839**	**277,004**
	-	-	-	-
Cash	3,378	925	1,018	1,119
Inventory	10,114	10,347	13,636	17,194
Debtors	2,452	2,514	3,220	3,978
Other current assets	8,913	15,656	17,523	20,842
Total current assets	**24,856**	**29,443**	**35,397**	**43,133**
Gross block	105,128	123,222	188,195	196,367
Less: Depreciation	23,237	28,702	35,163	42,406
Net block	81,891	94,520	153,033	153,961
Add: Capital work-in-process	20,029	56,779	51,279	75,779
Total fixed assets	**101,920**	**151,299**	**204,312**	**229,741**
Investments	1,929	4,142	4,142	4,142
Miscellaneous expenditure	1,949	(11)	(11)	(11)
Total assets	**130,655**	**184,873**	**243,840**	**277,004**

Ratios (%)	2007	2008E	2009E	2010E
Effective tax rate	32.5	34.5	34.5	34.5
EBITDA margins	32.8	32.8	30.9	30.6
EBIT margins	28.2	30.6	26.2	26.3
Net debt/equity	0.6	0.6	0.8	0.7
Net debt/capitalization	0.2	0.3	0.5	0.5
ROACE	14.3	10.8	9.2	10.2
ROAE	22.1	20.8	17.2	17.1

Key assumptions	2007	2008E	2009E	2010E
Crude steel	2,914	3,633	4,370	5,816
Hot rolled coils	2,155	2,716	2,944	3,640
Galvanised products	714	756	810	855
Average HRC prices (US/ton)	675	661	673	653

Valuations (X)	2007	2008E	2009E	2010E
Price to Diluted earnings	15.2	12.4	10.5	8.8
EV/EBITDA	8.1	7.4	7.8	6.5
EV/Sales	2.6	2.4	2.4	2.0
M.cap/Sales	2.2	1.8	1.6	1.3
Price to book	2.6	1.9	1.6	1.4

Per share numbers (Rs)	2007	2008E	2009E	2010E
Reported Earnings	74.5	80.4	95.6	113.9
Diluted Earnings	65.7	80.4	95.6	113.9
Cash earnings	96.1	109.8	130.4	152.8
Free cash	(9.6)	(206.3)	(195.3)	(27.3)
Book	385.9	513.1	610.7	728.3

Source: Company data, Kotak Institutional Equities estimates.

JSW Steel, SOTP-based valuation, March fiscal-year ends 2009E basis (Rs mn)

	EBITDA	Multiple	Enterprise value			Comment
	(Rs mn)	(X)	(Rs mn)	(US$ mn)	(Rs/share)	
FY2009E standalone EBITDA	39,410	7.0	275,870	6,897	1,372	
Less: standalone net debt of JSW Steel			(96,388)	(2,410)	(480)	FY2009E net debt, adjusted for cash and marketable securities
Standalone equity valuation (a)			**179,482**	**4,487**	**893**	
Add: US subsidiary FY2009E EBITDA	6,940	7.0	48,580	1,215	242	
Less: cost of acquisition of US subsidiary			(37,600)	(940)	(187)	
Value accretion on acquisition (b)			**10,980**	**275**	**55**	
FY2009E SISCOL EBITDA	3,703	7.0	25,918	648	129	Non-integrated plant; similar multiple of JSW assumed
Less: SISCOL net debt			(8,000)	(200)	(40)	Post expansion debt assumed
Value accretion on SISCOL acquisition (c)			**17,918**	**448**	**89**	
Arrived market capitalization (a+b+c)			190,462	5,210	1,037	
Target price (Rs/share)					**1,040**	Maintained

Source: Kotak Institutional Equities estimates.

JSW unveiled big plans—30 mn tons by 2020 with decent raw material security

Growth in capacities planned and our take, March fiscal year-ends (mn tons)

	2009	2010	2011	2012	2013	2020	Remarks
Existing facility (Karnataka)	7.0	10.0	10.0	10.0	10.0	10.0	Our model assumes commissioning by 4QFY10; reported status is ahead of schedule
SISCO (Tamil Nadu)	1.0	1.0	1.0	1.0	1.0	1.0	Reported as SISCO in our SOTP-based valuation
West Bengal	-	-	-	6.0	6.0	10.0	Not built in model yet; company plans to unlock value through an IPO/PE funding
Jharkhand	-	-	-	-	3.0	10.0	Details not announced yet
Total capacity (mn tons)	**8.0**	**11.0**	**11.0**	**17.0**	**20.0**	**31.0**	
Raw material requirement (approx) (mn tons)							
Iron ore	14.0	18.0	18.0	27.0	32.0	49.6	
Hard coking coal	2.0	7.0	7.0	11.0	13.0	20.2	
Soft coking coal	3.0	3.0	3.0	3.5	4.0	6.2	
Thermal coal	-	1.5	1.5	3.5	4.5	7.0	
Raw material supply from captive sources (%) (b/c)							
Iron ore	40.0					75.0	
Hard coking coal	-					50.0	
Soft coking coal	-					50.0	
Thermal coal	-					100.0	

Notes:

(a) Raw material requirement estimates for FY2009 and FY2020 are KIE estimates; rest are company estimates

(b) Current iron ore captive supply includes supplies from NMDC at contracted rate that is much below current market contract rates

Source: Company data, Kotak Institutional Equities.

Value unlocking in JSW Bengal project may provide upside to our estimates

Assumptions for JSW Bengal, March fiscal year-end (Rs mn)

		Remarks
Capacity (FY2012)	6	Phase-1 to be set up by FY2012
Long-term EBITDA margins (US$/ton)	150	Assuming captive coal supply and bought-out ore
Current EBITDA margins (US$/ton)	238	3QFY08 average EBITDA/ton; virtually unintegrated operations
Long-term EBITDA (US$ mn)	900	Long-term EBITDA/ton * Capacity
EV/EBITDA (X)	5	mid-cycle valuation
Enterprise Value (US$ mn)	4,500	
Debt to set-up capacity (US$ mn)	2,000	
Market-capatalization (US$ mn)	**2,500**	
Project set-up costs (US$ mn)	1,250	Rs50 bn assuming 100% ownsership
Value accretion to the project (US$ mn)	1,250	
JSW's stake in the venture (%)	89	
Accretion to JSW shareholders (US$ mn)	**1,113**	
Accretion to JSW shareholders (Rs/share)	**221**	Fully-diluted equity assumed

Sensitivity to valuation

Multiple (X)	EBITDA/ton (US$) 50	100	150	200
4	(363)	(151)	62	275
5	(310)	(44)	**221**	487
6	(257)	62	381	700
7	(204)	168	540	912

Source: Kotak Institutional Equities estimates.

Latin American mine acquisition may provide upsdie to our SOTP-based valuations

Our assumptions on Latin American mine acquisition, March fiscal year-ends (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E
Total investment in mine	(200)	(400)				
Iron ore extraction (mn tons)			2	6	20	20
Iron ore prices (US$/ton)	50	70	70	63	57	57
Iron ore costs (US$/ton)			**35**	**36**	**36**	**37**
Mining costs			25	26	26	27
Other costs			10	10	10	11
EBITDA (US$/ton)			**35**	**27**	**20**	**20**
EBITDA (US$ mn)			**70**	**164**	**406**	**391**
EV/EBITDA (X)			5	5	5	5
Enterprise value (US$ mn)			350	819	2,029	1,956
Debt (US$ mn)					(450)	(44)
Attributable market cap (US$ mn)					**1,579**	**1,911**
JSW's stake (%)					70	70
Attributable market cap for JSW's stake holder (US$ mn)					**1,105**	**1,338**
Attributable market cap (Rs mn)					43,096	52,184
Attributable market cap (Rs/share)					**214**	**260**

Notes:

(a) Ore extraction estimates and cost of extraction are as guided by company in the analyst meet

Source: Company data, Kotak Institutional Equities estimates.

Telecom

VSNL.BO, Rs528	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	530
52W High -Low (Rs)	783 - 342
Market Cap (Rs bn)	150.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	40.4	41.0	44.4
Net Profit (Rs bn)	4.9	2.6	4.1
EPS (Rs)	17.2	9.2	14.4
EPS gth	*(7.8)*	*(46.2)*	*55.6*
P/E (x)	30.8	57.2	36.7
EV/EBITDA (x)	12.7	19.7	14.8
Div yield (%)	0.9	0.9	0.9

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	76.2	-	-
FIIs	7.9	0.1	(0.2)
MFs	1.1	0.1	(0.2)
UTI	-	-	(0.3)
LIC	9.2	0.8	0.4

VSNL: Results below expectations

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243
Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397
Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

- **3QFY08 results below expectations led by change in transfer pricing with overseas subsidiaries**
- **We await consolidated results and disclosures on operating metrics**
- **Maintain REDUCE rating**

VSNL's reported standalone 3QFY08 EBITDA and net income was impacted by revision in transfer pricing agreement with its overseas subsidiaries. Reported net income of Rs95 mn, lower than our expectation of Rs1.34 bn, was impacted by Rs1.04 bn charge on account of revision in transfer pricing with its overseas subsidiaries. EBITDA of Rs1.54 bn was also 40% lower than our expectation led by a similar reason; note that these changes are unlikely to impact consolidated EBITDA. We suspect that these changes may have been made to drive tax efficiencies. Revenues of Rs10.4 bn were also moderately weaker than our expectation of Rs10.7 bn. We have revised downwards our standalone FY2008EPS to Rs9.2, FY2009E EPS to Rs14.4 and FY2010E EPS to Rs17.2. We reduce our 12-month DCF-based target price to Rs530 (Rs550 earlier) primarily to factor in weakness and competition in core business. Our target price faces (1) downside risk from continued delay in unlocking of land value (70% of estimated market value of surplus land in our SOTP valuation) and aggressive price competition and (2) upside risk from potential listing/ private placement of stake in Flag Telecom, which, in turn, can establish a strong valuation benchmark for VSNL's submarine cable assets (erstwhile Tyco Global Network).

Standalone numbers are losing its meaning; consolidated results are not disclosed consistently. VSNL's standalone results are getting impacted by changes in accounting treatment of key items of revenues and costs. VSNL's 2QFY08 results were impacted by alignment of billing practices and standardization of platform. 3QFY08 results were impacted by change in transfer pricing. Further the company is trying to harmonize and integrate the acquired businesses resulting in significant inter-company transactions. On the other hand, limited or no disclosures of quarterly consolidated financials makes quarterly financial analysis an onerous task. We would move to consolidated financials by the March 2008 quarter.

Change in transfer pricing with subsidiaries may have been driven by tax considerations. VSNL's consolidated effective tax rate in FY2007 was 99%. We highlight that taxes are paid on individual entities. VSNL India entity is fairly profitable and is paying marginal tax rate of 34%. On the other hand, VSNL's overseas subsidiaries are incurring losses. Further, the erstwhile acquired assets such as Tyco Global Network also have significant accumulated losses. Reduction in profitability of India entity may facilitate significant tax savings.

Headline consolidated numbers baffling; we await further details. VSNL indicated that it had revenues of Rs62.3 bn on a consolidated basis for 9MFY08 (standalone India revenues were Rs30 bn), a 2.6% yoy decline versus 9MFY07. EBITDA for the consolidated entity for 9MFY08 stood at Rs9.7 bn, up 14.4% yoy. However, 9MFY08 net profit of Rs190 mn stood lower than the company's reported net profit of Rs280 mn for 1QFY08, thus implying a cumulative loss of Rs90 mn over the past two quarters. We await further disclosures on the company's consolidated performance.

Valuations—too many moving parts. We establish a SOTP-based 12-month target price of Rs530 for VSNL (down from Rs550 earlier, see Exhibit 1). Our valuation is based on DCF-based methodology for core (standalone) business and a combination of market price/fair value for investments. We discuss the major components of valuations for the business (1) **Standalone India business**: We ascribe a 12-month DCF-based valuation of Rs201. We expect this business to report single digit earnings growth over the next few years and generate steady cash flow; (2) **Surplus real estate:** We value the surplus real estate at 70% of the estimated market value. This translates into a value of Rs170/ share. The company has surplus real estate in Delhi, Pune, Kolkata and Chennai. (3) **Stake in Tata Teleservices:** We value VSNL's 14.5% stake in Tata Teleservices (TTSL) at Rs112/ share. This translates into an equity valuation of US$5 bn for TTSL. TTSL runs wireless service in 22 circles on the CDMA technology and (4) **Tyco Global Network:** Now a part of VSNL's overall global cable network, we have valued this asset at the acquisition price of Rs5.7 bn (US$142 mn). This acquisition comprised 65,000 kms of undersea cable network. Newspaper reports indicate that RCOM plans to do an IPO/ private placement of Flag Telecom (owning undersea cable running into 65,000 kms) at a valuation range of US$2-4 bn. A successful listing of Flag at good valuation may establish a valuation benchmark for VSNL's undersea cable assets. We however note that TGN is yet to reach EBITDA break-even, while Flag has operating margin in excess of 20%.

Our sum-of-the-parts 12-month target price for VSNL is Rs530/share

	Estimated value		Value in SOTP		
	(Rs bn)	(Rs/share)	(Rs bn)	(Rs/share)	Comments
1. Core business					
Enterprise value (EV)	49	172	49	172	12-month forward DCF (discounting FY2008 onwards)
Net cash/(debt)	8	29	8	29	As of end-March 2008
Total	**57**	**201**	**57**	**201**	
2. Investments					
TATA Teleservices (TTSL)	32	112	32	112	Valuation based on US$5 bn equity value for TTSL
Tyco Global Network (TGN)	6	20	5.7	20	Valued at book value (100% taken in SOTP)
Teleglobe (TG)	8	28	8.1	28	Valued at book value (100% taken in SOTP)
SNO (South Africa)	0	0	0	0	No NPV ascribed (i.e. neither capex nor revenues modeled)
Total	**46**	**160**	**46**	**160**	
3. Others					
Surplus real estate	69	242	48	170	70% of estimated market value of surplus land
Total	**69**	**242**	**48**	**170**	
Grand total [1]+[2]+[3]	**172**	**604**	**151**	**531**	**12-month forward target price is Rs530**

Source: Kotak Institutional Equities estimates.

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

		qoq			yoy			yoy		
	2008E	3Q 2008	2Q 2008	% chg.	3Q 2008	3Q 2007	% chg.	9M 2008	9M 2007	% chg.
Telephone (ILD + DLD)	21,109	5,213	5,031	3.6	5,213	6,020	(13.4)	15,549	16,470	(5.6)
Non-telephony revenues	19,911	5,195	4,447	16.8	5,195	4,640	12.0	14,417	13,140	9.7
Revenues	**41,019**	**10,407**	**9,477**	**9.8**	**10,407**	**10,660**	**(2.4)**	**29,966**	**29,610**	**1.2**
Staff cost	(2,712)	(702)	(672)	4.5	(702)	(730)	(3.8)	(2,040)	(1,863)	9.5
Interconnection, network, license fee costs	(25,460)	(7,279)	(5,747)	26.7	(7,279)	(5,830)	24.8	(18,674)	(16,600)	12.5
SG&A	(6,762)	(1,927)	(1,654)	16.5	(1,927)	(1,560)	23.5	(5,020)	(4,410)	13.8
Total expenditure	(34,934)	(9,908)	(8,072)	22.7	(9,908)	(8,120)	22.0	(25,734)	(22,873)	12.5
EBITDA	**6,085**	**500**	**1,405**	**(64.4)**	**500**	**2,540**	**(80.3)**	**4,232**	**6,737**	**(37.2)**
EBITDA margin (%)	**14.8**	**4.8**	**14.8**		**4.8**	**23.8**		**14.1**	**22.8**	
Interest/other income	2,000	728	402	81.0	728	490	48.5	1,403	1,150	22.0
Depreciation and amortization	(4,026)	(1,019)	(994)	2.5	(1,019)	(920)	10.8	(2,943)	(2,870)	2.5
Interest expense	(30)	(71)	88		(71)	(20)		(2)	(40)	
Pre-tax profits	**4,030**	**137**	**901**	**(84.7)**	**137**	**2,090**	**(93.4)**	**2,690**	**4,977**	**(46.0)**
Extraordinaries/Prior Year	-	-	-		-	40		-	113	
Tax (incl. deferred tax)	(1,396)	(42)	(286)	(85.3)	(42)	(710)	(94.1)	(939)	(1,670)	(43.8)
Reported net income	**2,634**	**95**	**614**	**(84.5)**	**95**	**1,420**	**(93.3)**	**1,751**	**3,420**	**(48.8)**
Adjusted net income	**2,634**	**95**	**614**	**(84.5)**	**95**	**1,380**	**(93.1)**	**1,751**	**3,307**	**(47.1)**
Recurring EPS	**9.2**	**0.3**	**2.2**		**0.3**	**4.8**		**6.1**	**11.6**	
Effective tax rate (%)	34.6	30.7	31.8		30.7	33.3		34.9	32.8	
Segment results										
Revenues										
Wholesale voice		5,213	5,031	4	5,213	6,020	(13)	15,549	16,470	(6)
Enterprise and carrier data		4,072	3,091	32	4,072	3,440	18	10,593	9,880	7
Others		1,123	1,356	(17)	1,123	1,200	(6)	3,823	3,260	17
EBIT (before unalloc. expenses)										
Wholesale voice		(165)	461	(136)	(165)	1,050	(116)	1,055	2,770	(62)
Enterprise and carrier data		3,690	2,563	44	3,690	2,900	27	9,167	8,090	13
Others		438	603	(27)	438	500	(12)	1,763	1,170	51

Source: Company, Kotak Intitutional Equities estimates.

VSNL standalone financials, March fiscal year-ends, 2006-2015E

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Profit model (Rs mn)										
Revenue	37,810	40,418	41,019	44,379	49,889	56,045	61,732	67,101	72,345	78,217
EBITDA	8,759	9,307	6,085	9,095	10,756	12,629	14,183	15,757	17,084	18,887
EBIT	5,165	5,394	2,059	4,665	5,876	7,365	8,520	9,688	10,587	11,936
Net interest income / (expense)	935	139	721	795	797	799	798	798	797	796
Tax	2,072	2,441	1,396	2,113	2,512	3,004	3,388	3,885	4,190	4,649
Net profit	5,190	4,687	2,634	4,098	4,912	5,909	6,681	7,351	7,944	8,834
Fully diluted EPS	**18.6**	**17.2**	**9.2**	**14.4**	**17.2**	**20.7**	**23.4**	**25.8**	**27.9**	**31.0**
Balance sheet (Rs mn)										
Cash	12,251	10,298	6,400	5,341	5,665	7,015	9,536	12,596	16,193	20,388
Other current assets	21,460	22,124	20,439	21,083	22,140	23,321	24,411	25,441	26,447	27,573
Fixed assets	28,376	31,875	36,243	39,539	42,730	44,791	46,545	47,962	49,414	50,744
Other long term assets	18,499	20,552	21,124	20,597	20,070	19,543	19,015	18,488	17,961	17,434
Short tem debt	—	—	—	—	—	—	—	—	—	—
Other current liabilities	18,241	18,561	18,480	18,183	19,285	19,781	20,679	21,287	22,091	22,839
Long term debt	983	1,976	—	—	—	—	—	—	—	—
Other long term liabilities	751	717	1,115	1,336	1,534	1,694	1,788	1,809	1,757	1,633
Shareholders funds (incl. minorities)	60,612	63,595	64,728	67,159	69,903	73,312	77,159	81,509	86,285	91,785
Net (debt)/ cash	11,269	8,322	6,400	5,341	5,665	7,015	9,536	12,596	16,193	20,388
Free cash flow (Rs mn)										
EBITDA	**8,759**	**9,307**	**6,085**	**9,095**	**10,756**	**12,629**	**14,183**	**15,757**	**17,084**	**18,887**
Change in working capital	(433)	(2,625)	1,604	(942)	45	(685)	(192)	(422)	(202)	(377)
Cash tax (paid)	266	(2,882)	(1,116)	(1,892)	(2,314)	(2,844)	(3,294)	(3,864)	(4,242)	(4,773)
Cash interest (paid)	949	98	770	800	800	800	800	800	800	800
Capex on PP&E and intangibles	(7,970)	(8,369)	(7,866)	(7,199)	(7,543)	(6,798)	(6,889)	(6,958)	(7,422)	(7,754)
Free cash flow	**1,570**	**(4,471)**	**(522)**	**(137)**	**1,744**	**3,102**	**4,607**	**5,313**	**6,018**	**6,783**
Ratios (%)										
Sales growth	NA	6.9	1.5	8.2	12.4	12.3	10.1	8.7	7.8	8.1
EBITDA growth	NA	6.3	(34.6)	49.5	18.3	17.4	12.3	11.1	8.4	10.6
EPS growth	NA	(7.8)	(46.2)	55.6	19.9	20.3	13.1	10.0	8.1	11.2
FCF growth	NA	(38.5)	NM	NM	NM	7.8	4.9	1.5	1.3	1.3
EBITDA margin	**23.2**	**23.0**	**14.8**	**20.5**	**21.6**	**22.5**	**23.0**	**23.5**	**23.6**	**24.1**
Net margin	13.7	11.6	6.4	9.2	9.8	10.5	10.8	11.0	11.0	11.3
FCF margin	4.2	(11.1)	(1.3)	(0.3)	3.5	5.5	7.5	7.9	8.3	8.7
RoAE	8.9	7.8	4.0	6.1	7.0	8.1	8.7	9.1	9.3	9.7
RoACE	8.4	7.8	4.4	6.4	7.3	8.3	8.8	9.1	9.2	9.6
ROACE (excl. cash and int. income)	**10.3**	**9.1**	**3.7**	**5.8**	**6.8**	**8.0**	**8.9**	**9.7**	**10.4**	**11.5**
Net debt/ EBITDA (x)	(1.3)	(0.9)	(1.1)	(0.6)	(0.5)	(0.6)	(0.7)	(0.8)	(0.9)	(1.1)
Net debt/equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Total debt/capital (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate (%)	28.5	34.2	34.6	34.0	33.8	33.7	33.6	34.6	34.5	34.5

Source: Kotak Institutional Equities estimates.

Pharmaceuticals

DIVI.BO, Rs1544	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	1,915
52W High -Low (Rs)	1930 - 513
Market Cap (Rs bn)	99.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	7.3	10.1	13.4
Net Profit (Rs bn)	1.9	3.4	4.3
EPS (Rs)	28.6	51.4	65.9
EPS gth	*169.1*	*79.4*	*28.3*
P/E (x)	53.9	30.0	23.4
EV/EBITDA (x)	40.0	24.6	18.8
Div yield (%)	0.1	0.2	0.2

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.5	-	-
FIIs	16.6	0.2	(0.0)
MFs	12.0	0.7	0.5
UTI	-	-	(0.2)
LIC	-	-	(0.2)

Divis Laboratories: Beats estimates at all levels, FY2008E KSE increased

Prashant Vaishampayan : prashant.vaishampayan@kotak.com, +91-22-6634-1127

Priti Arora : priti.arora@kotak.com, +91-22-6749-3596

- **3QFY08 revenues, 11% above expectations at Rs2.8 bn**
- **EBITDA margins at 39%, EBITDA 29% above KSE**
- **PAT at Rs991 mn, 39% above KSE due to low effective tax rate**
- **KSE PAT for FY2008E increased 10% Rs3.3bn, FY2009-10E PAT unchanged**
- **Maintain BUY rating with a SOTP-based target price of Rs1,915**

Divis Labs (DLL) reported revenues of Rs2.8 bn, 11% above KSE. EBITDA margins were 39%, significantly higher than KSE due to lower expenses on almost all items. PAT at Rs991 mn beat KSE Rs712m. This was partly due to effective tax rate of 4.5% vs. KSE 7.3%. The stock trades at 30X FY2008E and 23.4X FY2009E. Expect strong up move in the share price in the short term. FY2008E PAT increased to reflect YTD performance. FY2009E and FY2010E estimates are unchanged.

3QFY08 revenues, 11% above KSE at Rs2.8 bn. CRAMS and generics comprised around 50% each of sales. This is in line with the trend seen so far for the year. There were no one-time large orders registered this quarter. Thus, the revenue line is likely to be maintained for the next few quarters. Generic Keppra (levitracetam) faces patent expiry in the US in July 2008 and DLL expects to get revenues from 1QFY09E.

EBITDA margins at 39%, EBITDA 29% above KSE. EBITDA margins expanded significantly on the back of operating leverage gains and cost savings. Material cost was 42.6% vs. KSE of 44%, while manufacturing expense was 6.4% vs. KSE of 7%.

PAT at Rs991 mn, 39% above KSE due to low effective tax rate. PAT was significantly higher than forecast due to effective tax rate at 4.5% vs. estimate of 7.3%. DLL registered MAT (minimum alternate tax) credit of Rs186 mn this quarter which is netted off from current tax. The deferred tax benefit of Rs11 mn is on account of its old unit that is nearing the end of its tax exemption period.

4QFY08E estimates remain conservative. We expect 4QFY08E revenues to increase to Rs2.6 bn, up 16% yoy in dollar terms. We expect EBITDA margins to remain steady at 37%.We forecast a 6% effective tax rate for 4QFY08E which gives PAT estimate of Rs806 mn. This may appear conservative compared to 3QFY08. The management has set a target of 25% sales growth in FY2009E. DLL expects neutraceutical plant to be operational in February and revenues of Rs400-500 mn in FY2009E. Our forecast includes revenues of Rs380 mn.

Maintain BUY rating with a SOTP-based target price of Rs1,915. We have changed FY2008E estimates to reflect YTD performance. FY2009E and FY2010E estimates are unchanged. We maintain BUY rating with target price of Rs1,915. We expect share price to rally in the short term due to positive surprise provided by the results.

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

	3QFY07	2QFY08	3QFY08	3QFY08 KSE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs. KSE)
Net sales	1,495	2,438	2,841	2,550	**90**	**17**	**11**
Change in stock	85	(222)	44	—	(48)	NM	NM
Consumption of raw materials	580	1,098	1,168	1,122	101	6	4
Personnel cost	142	134	135	137	(5)	1	(1)
Manufacturing exp	112	177	181	179	62	2	1
Other expenses	167	214	211	255	26	(1)	(17)
Total Expenditure	1,085	1,400	1,739	1,692	60	24	3
EBITDA	**410**	**1,038**	**1,103**	**858**	**169**	**6**	**29**
Other income	23	14	44	20	94	211	121
Interest	38	32	18	35	(52)	(42)	(48)
Depreciation	59	78	91	75	54	16	21
PBT	**336**	**942**	**1,038**	**768**	209	10	35
Current tax	23	1	61	25	162	12,040	143
Deferred tax	(2)	32	(15)	30	**NM**	**NM**	**NM**
FBT	1	1	1	1	11	100	0
PAT	**314**	**910**	**991**	**712**	**216**	**9**	**39**
Expense breakup (% of sales)							
Net material cost	44	36	43	44	(2)	7	(1)
Personnel cost	9	5	5	5	(5)	(1)	(1)
Manufacturing exp	7	7	6	7	(1)	(1)	(1)
Other expenses	11	9	7	10	(4)	(1)	(3)

Source: Company data, Kotak Institutional Equities.

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

	Net Revenue		EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2006	3,846	8.6	1,189	7.0	695	5.3	10.6	24.8	22.3	145.0
2007	7,273	89.1	2,414	103.0	1,859	167.3	28.6	37.1	42.5	53.9
2008E	10,146	39.5	3,916	62.2	3,355	80.5	51.4	42.0	48.4	30.0
2009E	13,442	32.5	5,030	28.5	4,306	28.3	65.9	38.7	40.8	23.4
2010E	18,797	39.8	7,170	42.6	6,252	45.2	95.7	39.7	40.1	16.1

Source: Company, Kotak Institutional Equities estimates.

Pharmaceuticals

REDY.BO, Rs565	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	700
52W High -Low (Rs)	774 - 530
Market Cap (Rs bn)	94.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	64.2	48.2	57.0
Net Profit (Rs bn)	9.7	5.1	6.8
EPS (Rs)	60.9	30.1	40.6
EPS gth	*536.8*	*(50.5)*	*34.7*
P/E (x)	9.3	18.7	13.9
EV/EBITDA (x)	5.7	9.9	7.9
Div yield (%)	0.7	1.4	1.9

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	25.2	-	-
FIIs	41.5	0.5	0.3
MFs	3.7	0.3	0.0
UTI	-	-	(0.3)
LIC	12.3	0.9	0.6

Dr. Reddy's Laboratories: Disappointing results lead to lower estimates and rating

Prashant Vaishampayan : prashant.vaishampayan@kotak.com, +91-22-6634-1127

Priti Arora : priti.arora@kotak.com, +91-22-6749-3596

- **3QFY08 revenues, 4% below expectations at Rs12.3 bn. Germany, US and Europe generics and ROW branded dosage revenues were lower than KSE**
- **EBITDA margins ex-R&D at 19.3%, EBITDA 40% below KSE**
- **PAT at Rs626 mn, 60% below KSE due to high effective tax rate**
- **FY2009E and FY2010E PAT estimates reduced by 19% and 6%, respectively**
- **Change in rating to ADD from BUY, cut price target to Rs700 from 800**

Dr. Reddy's (DRL) reported yoy and qoq decline in revenues at Rs12.3 bn, 4% below forecasts. Adjusted EBITDA margins were 19.3%, significantly lower due to higher material costs and change in business mix. PAT was lower due to effective tax rate of 38% vs. estimate of 15%. We lower FY2009E and FY2010E PAT estimates by 19% and 6% to reflect current business environment. We lower rating to ADD from BUY and cut price target to Rs700 from 800.

3QFY08 revenues, 4% below expectations at Rs12.3 bn. Revenues were 4% lower due to poor performance of German operations, generics in developed markets and rest of the world branded businesses. (1) Despite volume gain, significant price cuts and rebates provided to insurance companies led to decline in German revenues. (2) Revenues from US generics at Rs1.7 bn was 19% lower than forecast due to price decline. (3) CPS Mexico registered muted sales growth and continued to face raw material problems. Indian and emerging market branded business revenues were Rs3.8 bn, 7% higher than KSE.

Adjusted EBITDA margin was 19.3%, EBITDA 40% below KSE. This was due to (1) netting off rebates provided to insurance companies in Germany against revenues as opposed to the earlier practice of including it in SG&A, and (2) higher material cost at 40% of sales vs. forecast of 30%. This is reflecting price reduction in the US generics market. Even though Indian manufacturing for the German business has started, the savings are yet to get reflected in the revenue statement, and (3) change in business mix as lower margin CPS business from Mexico was higher than KSE and the Indian branded business slowed down.

PAT at Rs626 mn, 60% lower than KSE. PAT was significantly lower than forecast due to tax rate at 38% vs. estimate of 15%. While there is significant variation from quarter to quarter, YTD effective tax rate is 14%. Amortisation charges that led to losses under US GAAP are absent from Indian GAAP results. This is because acquired assets are valued at book value in Indian GAAP while they are valued at fair value in US GAAP.

4QFY08E estimates We expect 4QFY08E revenues to decline 7% qoq and 34% yoy to Rs11.4 bn. However, yoy comparison is not meaningful due to the high revenue base from authorized generics business in the US last year. QoQ decline in sales will be seen in almost all businesses, including high margin markets of India, CIS due to seasonality. We expect adjusted EBITDA margins to marginally expand qoq to 20% due to lower material costs. We forecast a 14% effective tax rate for 4QFY208E which gives PAT estimate of Rs715 mn.

FY2009E and FY2010E PAT estimates reduced by 19% and 6%. We have changed FY2008-FY2010E estimates to reflect YTD performance. We estimate sales growth of 18% in FY2009E and 9% in FY2010E driven by 25% dollar sales growth in FY2009-10E in branded markets of Russia, CIS; 10-15% in Betapharm and 15-20% in CPS Mexico. Our FY2009E revenue estimates include US$64 mn of revenue from the Imitrex authorized generic that DRL would launch in December 2008.

We estimate EBITDA margins to increase to 25% in FY2009E and 26% in FY2010E. This expansion will be driven by cost saving measures currently being undertaken in CPS Mexico and German generics businesses.

Share likely to perform from 2HFY9E. We continue to use SOTP method for valuation of DRL. There is no change in the multiples that we have used for valuing each of DRL's business. However, due to lower PAT estimates, we change price target to Rs700 from Rs800. This drives the rating downgrade to ADD from BUY. DRL's share price has fallen 6% on Monday in response to poor results but we think the scrip may not move up quickly. We think the market may wait for clear signs of a turnaround in Germany and a rally in DRL's share price may be seen in 2HFY09E.

Interim results—Dr. Reddy's, March fiscal year-ends (Rs mn)

	3QFY07	2QFY08	3QFY08	3QFY08 KSE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs KSE)
Net sales	**14,784**	**12,557**	**11,992**	**12,471**	**(19)**	**(5)**	**(4)**
(Increase)/decrease in stock	918	(597)	(570)	—	NM	NM	NM
Material consumed	5,820	5,120	5,453	3,866	(6)	6	41
Excise duty	34	66	96	66	184	45	45
Research and development expenses	696	890	858	850	23	(4)	1
Personnel costs	1,623	1,862	1,767	1,818	9	(5)	(3)
Selling expenses	1,140	1,459	1,094	1,300	(4)	(25)	(16)
Other expenditure	1,806	1,985	1,809	2,100	—	(9)	(14)
Total expenditure	**12,038**	**10,785**	**10,508**	**10,000**	(13)	(3)	**5**
EBITDA	**2,746**	**1,772**	**1,484**	**2,471**	**(46)**	**(16)**	**(40)**
Interest expenses	523	137	210	150	(60)	53	40
Other Income	431	709	668	625	55	(6)	7
Depreciation & Amortisation	926	1,033	931	1,100	—	(10)	(15)
PBT	**1,727**	**1,310**	**1,011**	**1,846**	(41)	(23)	**(45)**
Current Tax	(121)	(61)	185	268	NM	NM	(31)
Deferred Tax	773	226	205	—	(73)	(9)	NM
Fringe Benefit tax	20	41	(2)	—	NM	NM	NM
Net Profit before minority interest	**1,056**	**1,105**	**623**	**1,577**	**(41)**	**(44)**	**(61)**
Minority interests in loss of subsidiaries	—	1	3	—	625	123	NM
Profit for shareholders	**1,056**	**1,106**	**626**	**1,577**	**(41)**	**(43)**	**(60)**
APIs	**2,729**	**3,240**	**2,936**	**2,909**	**8**	**(9)**	**1**
India	482	703	566	506	17	(19)	12
International	2,247	2,537	2,370	2,403	5	(7)	(1)
Branded finished dosage	**3,388**	**3,816**	**3,854**	**3,592**	**14**	**1**	**7**
India	1,723	2,054	1,992	1,766	16	(3)	13
Russia	976	980	1,094	995	12	12	10
CIS	327	322	409	318	25	27	28
Central & Eastern Europe	134	109	126	114	(6)	16	10
Rest of the World	228	351	233	398	2	(34)	(41)
Generics	5,018	2,439	2,173	2,678	(57)	(11)	(19)
Custom chemical business India	372	528	456	400	23	(14)	14
Custom Pharma Services Mexico	1,197	632	823	796	(31)	30	3
Betapharm	2,664	1,953	2,000	2,172	(25)	2	(8)
Others	67	62	78	70	16	26	11
Total	**15,435**	**12,670**	**12,320**	**12,618**	**(20)**	**(3)**	**(2)**

Source: Company data, Kotak Institutional Equities.

Forecasts and valuation, March fiscal year-ends, F2006-F2010E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2006	23,466	27.8	4,988	34.9	1,467	345.9	9.6	4.3	7.3	59.2
2007	64,229	173.7	18,164	264.1	9,659	558.3	60.9	21.9	31.8	9.3
2008E	48,169	(25.0)	11,164	(38.5)	5,058	(47.6)	30.1	7.4	12.1	18.8
2009E	56,978	18.3	14,287	28.0	6,811	34.7	40.6	9.2	14.8	13.9
2010E	62,105	9.0	16,244	13.7	7,250	6.4	43.2	9.3	14.1	13.1

Source: Company data, Kotak Institutional Equities.

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

	Current estimates			Earlier estimates			Change (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net sales	48,169	56,978	62,105	49,493	57,549	61,895	(2.7)	(1.0)	0.3
EBITDA	8,554	10,429	11,382	9,605	12,091	11,698	(10.9)	(13.7)	(2.7)
PBT	5,753	7,829	8,382	6,657	9,491	8,698	(13.6)	(17.5)	(3.6)
Reported net profit	5,058	6,811	7,250	5,930	8,447	7,741	(14.7)	(19.4)	(6.3)

Company, Kotak Institutional Equities estimates.

Energy

HPCL.BO, Rs265	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	360
52W High -Low (Rs)	406 - 218
Market Cap (Rs bn)	89.8

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	890.0	981.0	974.0
Net Profit (Rs bn)	13.5	8.5	10.4
EPS (Rs)	40.0	25.1	30.6
EPS gth	*503.8*	*(37.2)*	*21.6*
P/E (x)	6.6	10.5	8.7
EV/EBITDA (x)	4.3	5.8	4.6
Div yield (%)	6.8	3.8	3.8

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.0	-	-
FIIs	14.0	0.1	(0.1)
MFs	5.2	0.3	0.1
UTI	-	-	(0.2)
LIC	16.5	1.0	0.7

HPCL: Quite good 3QFY08 results under the circumstances

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286

- **Quite decent results in the context of high crude prices and stagnant selling prices**
- **Government has increased amount of oil bonds; appears keen to protect profits at a certain level**
- **Limited absolute downside from current levels**

HPCL reported a 3QFY08 net loss at Rs157 mn compared to net income of Rs8.5 bn in 2QFY08 and our expected net loss of Rs3.7 bn. EBITDA was Rs1.48 bn versus our estimate of Rs2.6 bn and the variance in the results was largely on account of (1) Rs19 bn of oil bonds versus Rs12.3 bn of oil bonds assumed by us, and (2) inventory gain of Rs3.9 bn versus Rs2.5 bn assumed by us. We have revised our FY2008E, FY2009E and FY2010E EPS estimates to Rs25.1, Rs30.6 and Rs36.1, respectively versus Rs26.8, Rs27.2 and Rs42.7, respectively. However, we note that the earnings forecast and valuations remain largely academic in light of the current difficult operating environment. Our 12-month fair valuation for the stock based on 35% discount to fair value (5X normalized EBITDA plus value of investments) is Rs360 versus Rs400 previously.

3QFY08 results analysis—quite a decent quarter versus expectations and suggested by headline crude prices.

Although HPCL reported a small net loss and significantly lower profits qoq and yoy, we note that the results are quite decent in the context of very high crude prices and stagnant retail selling prices of the four key products in 3QFY08.

1. **Higher amount of oil bonds versus expectations.** HPCL received oil bonds of Rs19 bn for 3QFY08 against Rs23.6 bn of oil bonds in 2QFY08 (which represented compensation for 1HFY08) and our estimate of Rs12.3 bn. The government has issued oil bonds of Rs42.5 bn for 9MFY08 to HPCL. The government appears to have increased the amount of oil bonds to be issued to the downstream oil companies for FY2008E. It appears that it will bear 42.7% of the gross under-recoveries through issue of oil bonds to the downstream oil companies.

   HPCL's gross under-recovery for 3QFY08 was higher at Rs45.2 bn (+62% qoq and +173% yoy) reflecting steep increase in crude oil prices and stagnant retail selling prices for regulated products (diesel, gasoline, kerosene, LPG). 9MFY08 gross under-recovery was Rs100 bn and net under-recovery Rs24.2 bn (about 2X of reported EBITDA of Rs13.4 bn and pre-tax profit of Rs11.3 bn).

2. **Inventory gains also helped but there is some confusion about the amount.** HPCL reported Rs3.9 bn inventory gains in 3QFY08 but reported 9MFY08 inventory gain of Rs2.6 bn compared to Rs2.2 bn in 1HFY08. We have sought clarifications from the company but we believe the inventory gain figure for 3QFY08 (Rs3.9 bn) appears realistic in light of the steep increase in crude prices qoq; the Rs0.4 bn deduced from the 9MFY08 and 1HFY08 figures looks simply too low versus Rs1.3 bn in 2QFY08.

3. **Clarification on taxation.** HPCL had a 'positive' provision for taxation (current) of Rs1.03 bn, MAT credit of Rs1 bn and deferred tax liability of Rs1.94 bn. The management has clarified that the 3QFY08 tax items reflect reversal of taxation provided earlier in 1HFY08 between current and deferred tax. We would focus on 9MFY08 taxation accordingly with provision for taxation (current) at Rs1.01 bn, deferred taxation liability of Rs3.7 bn and MAT credit of Rs1 bn; the effective tax rate for 9MFY08 was 33.5%.

4. **Foreign exchange gain in 3QFY08 was Rs1.25 bn** compared to Rs0.9 bn in 2QFY08 and Rs1.7 bn in 1QFY08.

Operating details of 3QFY08. HPCL sold 5.72 mn tons of products in 3QFY08 (+13.7% yoy and 15.1% qoq) led by strong demand for diesel, gasoline, jet fuel and LPG. It processed 4.32 mn tons of crude versus 4.26 mn tons in 2QFY08 and 4.15 mn tons in 3QFY07. HPCL's 3QFY08 refining margin was US$6.4/bbl versus US$4.2/bbl in 2QFY08 and US$2.5/bbl in 3QFY07. 9MFY08 refining margin was US$6.2/bbl compared to 9MFY07's US$4/bbl.

Key changes to and major assumptions behind earnings model

We discuss our key assumptions and the major changes to our earnings model below but note that the exercise is largely academic given likely large under-recoveries in 2HFY08 on account of very high crude oil prices and limited clarity on the amount of oil bonds and subsidy sharing.

1. **Compensation (oil bonds) from the government.** We model HPCL receiving oil bonds of Rs67 bn, Rs62.7 bn and Rs31.4 bn, respectively, in FY2008E, FY2009E and FY2010E, respectively, based on 20.9% share of oil bonds. We assume the government will issue oil bonds of Rs320 bn (up from Rs235 bn assumed previously), Rs300 bn (193 bn) and Rs150 bn (Rs115 bn) for FY2008E, FY2009E and FY2010E, respectively, to state-owned R&M companies compared to Rs241 bn of oil bonds issued in FY2007.

2. **Refining margins—likely to taper down moderately yoy.** We model refining margins at US$4.6/bbl for FY2008E (US$4.8/bbl assumed previously), US$4.4/bbl for FY2009E and US$3.7/bbl in FY2010E compared to US$4.1/bbl in FY2007. We expect global refining margins to recover from the current low levels and remain moderately strong over the next few years. The yoy decline in FY2009E refining margins is due to our assumption of lower tariff protection in FY2009E versus in FY2008E (tariff differential of 0.3% versus 1.2% in FY2008E). We would clarify that HPCL treats the impact of inventory gains in its reported refining margins whereas we compute refining margins without factoring in inventory gains. 9MFY09 inventory gain of Rs6.1 bn will translate into additional refining margin of US$1.7/bbl.

3. **Crude throughput.** We expect a delay in the completion of the expansion and modernization projects of HPCL's Mumbai and Visakh refineries compared to February 2008 assumed previously. HPCL will likely achieve the mechanical completion of its 'Clean Fuels' projects at its Visakh Refinery by April 2008 and at its Mumbai refinery by May 2008. The change in completion schedule is due to delay in orders for critical equipment (heaters, boilers). Accordingly, we have increased the crude throughput for FY2008E to 16.5 mn tons (9MFY08 throughput was 12.5 mn tons) from 15.5 mn tons assumed previously. We model lower crude throughput for FY2009E at 18.3 mn tons (18.5 mn tons assumed previously) and 19.3 mn tons for FY2010E.

4. **Exchange rate.** We have revised our rupee-dollar exchange rates for FY2009E, FY2010E and FY2011E to Rs38.5/US Dollar, Rs37.5/US Dollar and Rs37/US Dollar, respectively, compared to Rs39/US Dollar, Rs38/US Dollar and Rs38/US Dollar, respectively, previously.

Positive triggers

We discuss below the likely positive triggers for the stock although the stock's performance may continue to be overshadowed by the government's actions and tough operating macro-environment.

Gas from Reliance's KG D-6 block. HPCL is in the process of formalizing an agreement with Reliance Industries for supply of gas from KG D-6 block to its refineries in Mumbai and Visakhapatanam from July 2008 to March 2012. This will likely boost HPCL's refining margins as the use of gas will allow HPCL to sell liquid refined products at market prices rather than use a portion of it (about 6%) to generate heat for refining. Thus, HPCL will benefit from the difference between product prices (linked to crude oil price) and gas price (likely significantly lower than crude oil price or fuel oil; about US$4.2/mn BTU wellhead price for Reliance's KG D-6 gas). We have not factored in likely savings that will accrue from the use of gas instead of refined products pending finalization of the agreement.

Interim results of Hindustan Petroleum (Rs mn)

		qoq			yoy			yoy		
	2008E	**3Q 2008**	**2Q 2008**	***% chg***	**3Q 2008**	**3Q 2007**	***% chg***	**9M 2008**	**9M 2007**	***% chg***
Net sales	980,963	271,170	242,344	*12*	271,170	221,502	*22*	732,332	671,918	*9*
Increase/(decrease) in stock	—	(6,620)	25,954	—	(6,620)	(6,735)	—	15,577	2,294	—
Raw materials	(392,840)	(100,611)	(90,004)	*12*	(100,611)	(86,610)	*16*	(268,772)	(277,035)	*(3)*
Staff cost	(8,206)	(2,174)	(2,067)	*5*	(2,174)	(1,930)	*13*	(6,046)	(5,789)	*4*
Product purchase	(546,397)	(150,430)	(150,771)	*(0)*	(150,430)	(118,300)	*27*	(430,082)	(353,767)	*22*
Others	(16,856)	(9,854)	(12,282)	*(20)*	(9,854)	(5,987)	*65*	(29,638)	(24,385)	*22*
Total expenditure	(964,298)	(269,689)	(229,169)	*18*	(269,689)	(219,562)	*23*	(718,960)	(658,681)	*9*
EBITDA	**16,665**	**1,481**	**13,176**	***(89)***	**1,481**	**1,940**	***(24)***	**13,372**	**13,236**	***1***
Other income	11,689	2,645	2,808	*(6)*	2,645	2,466	*7*	8,803	5,412	*63*
Interest	(7,226)	(2,184)	(1,399)	*56*	(2,184)	(1,046)	*109*	(4,916)	(2,625)	*87*
Depreciation	(8,218)	(2,161)	(2,017)	*7*	(2,161)	(1,733)	*25*	(5,976)	(5,176)	*15*
Pretax profits	**12,910**	**(219)**	**12,568**	***(102)***	**(219)**	**1,627**	***(113)***	**11,283**	**10,847**	***4***
Extraordinaries	—	—	—	—	—	3,030	—	—	3,030	—
Tax	(2,254)	2,004	(2,064)	*(197)*	2,004	(560)	*(458)*	(75)	(3,750)	*(98)*
Deferred tax	(2,134)	(1,942)	(1,974)	*(2)*	(1,942)	(23)	*8,236*	(3,704)	89	*(4,262)*
Net income	**8,522**	**(157)**	**8,530**	***(102)***	**(157)**	**4,073**	***(104)***	**7,504**	**10,216**	***(27)***
Adjusted net income	**8,522**	**(157)**	**8,530**	***(102)***	**(157)**	**1,044**	***(115)***	**7,504**	**7,187**	***4***
Tax rate (%)	34.0	28.0	32.1		28.0	12.5		33.5	26.4	
Volume data										
Crude throughput (mn tons)		4.3	4.3	*1.4*	4.3	4.2	*4.1*	12.5	12.5	*0.2*
Domestic sales volume (mn tons)		5.7	5.0	*15.1*	5.7	5.0	*13.7*	16.1	14.6	*10.2*
Pipeline throughput (mn tons)		1.9	1.8	*5.5*	1.9	1.7	*17.0*	5.5	5.0	*10.7*
Refining margin (US$/bbl)		6.4	4.2		6.4	2.5		6.2	4.0	
Inventory gain/(loss)		3,900	1,300	*200.0*	3,900	(3,700)	*(205)*	6,100	(2,900)	*(310)*
Receipt from upstream companies		14,825	9,369	*58.2*	14,825	5,530	*168.1*	33,204	30,178	*10.0*
Receipt from refining companies		—	—		—	(2,260)		—	2,000	
Reciept of oil bonds from government		18,990	23,555		18,990	10,260	*85.1*	42,546	39,320	*8.2*
Subsidy gain/(loss)		(45,200)	(27,900)	*62.0*	(45,200)	(16,550)	*173.1*	(100,000)	(84,500)	*18.3*

Source: Company, Kotak Institutional Equities estimates.

Normalized earnings forecasts are significantly higher versus actual forecasts
Comparison of normalized marketing margins with FY2009 estimates (Rs/ton)

	2009E	Normalized
LPG	(14,000)	1,500
Naphtha	2,000	500
Gasoline	(6,000)	1,700
Jet fuel	2,000	1,400
Kerosene	(19,750)	600
Diesel	(4,250)	1,500
Light diesel oil	1,200	500
Low sulphur heavy stock	1,600	500
Fuel oil	1,600	500
Bitumen	2,000	1,000
EPS (Rs)	**30.6**	**69.6**
EBITDA (Rs bn)	**25.5**	**45.1**
EV (5X normalised EBITDA) (Rs bn)		226
Value of investments (Rs bn)		91
Net debt (Rs bn)		129
Equity value (Rs/share)		553
Equity value at 35% discount (Rs/share)		**360**

Note:
(a) Our normalized earnings estimates are based on normalized marketing margins and actual refining margin estimates for FY2009.

Source: Kotak Institutional Equities estimates.

HPCL earnings model assumptions, March fiscal year-ends, 2004-2011E

	2004	2005	2006	2007	2008E	2009E	2010E	2011E
Rs/US$	46.0	45.0	44.3	45.3	40.0	38.5	37.5	37.0
Weighted average duty on products (%)	17.4	15.3	8.2	6.6	6.4	4.4	3.8	3.0
Import duty on crude	10.0	9.7	5.1	5.1	5.2	4.1	3.1	2.6
Import 'tariff' on domestic crude (%)	5.0	4.9	2.6	2.6	2.6	2.1	1.5	1.3
Effective duty protection (%)	**7.4**	**5.6**	**3.1**	**1.4**	**1.2**	**0.3**	**0.7**	**0.4**
Refinery yield (US$/bbl)	35.9	47.3	63.3	73.1	85.6	84.6	83.1	82.1
Cost of crude (US$/bbl)								
-Imported	29.0	39.4	56.7	64.8	76.3	76.2	76.2	76.2
-Domestic	29.1	39.9	57.5	69.3	81.9	81.9	81.9	81.9
Landed cost of crude	31.5	42.9	59.4	68.8	81.1	80.2	79.5	79.1
Net refining margin (US$/bbl)	**4.4**	**4.5**	**3.9**	**4.3**	**4.6**	**4.4**	**3.7**	**3.0**
Crude throughput (mn tons)	**13.7**	**13.9**	**14.0**	**16.7**	**16.5**	**18.3**	**19.3**	**19.3**
-Imported	9.3	10.2	10.6	12.9	12.7	14.4	15.5	15.5
-Domestic	4.4	3.8	3.4	3.8	3.8	3.8	3.8	3.8
Production of main products	12.5	12.8	12.7	15.2	15.1	16.7	17.7	17.7
Production of other products	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Fuel and loss	0.9	0.9	0.9	1.0	1.0	1.1	1.2	1.2
Fuel and loss (%)	6.3	6.4	6.3	6.0	6.0	6.0	6.0	6.0
Sales volume (mn tons)	**20.1**	**20.6**	**20.1**	**23.4**	**24.2**	**25.0**	**25.8**	**26.6**
Marketing margin (Rs/ton)	**1,861**	**1,688**	**(463)**	**(710)**	**(2,255)**	**(1,214)**	**1,523**	**1,397**

Source: Kotak Institutional Equities estimates.

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

	Fiscal 2008E			Fiscal 2009E			Fiscal 2010E		
	Downside	Base Case	Upside	Downside	Base Case	Upside	Downside	Base Case	Upside
Refining margins									
Refining margins (US$/bbl)	3.6	4.6	5.6	3.4	4.4	5.4	2.7	3.7	4.7
Net profits (Rs mn)	5,248	8,522	11,796	6,013	10,360	13,877	8,672	12,237	15,802
EPS (Rs)	15.5	25.1	34.8	17.7	30.6	40.9	25.6	36.1	46.6
% upside/(downside)	**(38.4)**		**38.4**	**(42.0)**		**33.9**	**(29.1)**		**29.1**
Import tariffs									
Tariff protection	0.7	1.2	1.7	(0.2)	0.3	0.8	0.2	0.7	1.2
Net profits (Rs mn)	7,741	8,522	9,302	9,188	10,360	11,533	11,315	12,237	13,159
EPS (Rs)	22.8	25.1	27.4	27.1	30.6	34.0	33.4	36.1	38.8
% upside/(downside)	**(9.2)**		**9.2**	**(11.3)**		**11.3**	**(7.5)**		**7.5**
Marketing margins									
Transportation fuels margins (Rs/ton)	(4,813)	(4,663)	(4,513)	(3,010)	(2,860)	(2,710)	1,398	1,548	1,698
Net profits (Rs mn)	7,804	8,522	9,239	9,343	10,360	11,377	11,042	12,237	13,432
EPS (Rs)	23.0	25.1	27.3	27.6	30.6	33.6	32.6	36.1	39.6
% upside/(downside)	**(8.4)**		**8.4**	**(9.8)**		**9.8**	**(9.8)**		**9.8**

Source: Kotak Institutional Equities estimates.

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2004-2011E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	597,020	708,609	889,959	980,963	974,022	970,206	971,102
EBITDA	**20,511**	**8,056**	**24,036**	**16,665**	**25,510**	**27,657**	**32,438**
Other income	3,295	3,285	6,845	11,689	9,295	8,756	6,630
Interest	(816)	(1,587)	(4,230)	(7,226)	(8,442)	(8,049)	(6,885)
Depreciation	(6,584)	(6,902)	(7,040)	(8,218)	(10,245)	(9,826)	(10,555)
Pretax profits	16,406	2,851	19,611	12,910	16,119	18,538	21,629
Extraordinary items	1,471	2,201	3,030	—	—	—	—
Tax	(5,897)	(898)	(6,625)	(2,254)	(1,826)	(4,851)	(5,757)
Deferred taxation	793	(97)	(365)	(2,134)	(3,933)	(1,450)	(1,594)
Prior period adjustment	—	—	61	—	—	—	—
Net profits	**12,773**	**4,056**	**15,712**	**8,522**	**10,360**	**12,237**	**14,277**
Earnings per share (Rs)	**34.8**	**6.6**	**40.0**	**25.1**	**30.6**	**36.1**	**42.1**
Balance sheet (Rs mn)							
Total equity	84,409	87,357	95,987	100,543	106,937	114,490	123,302
Deferred tax liability	13,748	13,844	14,209	16,343	20,276	21,726	23,320
Total borrowings	21,854	66,638	105,175	149,175	129,675	111,675	89,675
Currrent liabilities	69,887	79,549	101,195	89,902	93,711	96,252	96,561
Total liabilities and equity	**189,896**	**247,389**	**316,566**	**355,963**	**350,599**	**344,144**	**332,859**
Cash	2,016	426	868	405	450	591	402
Current assets	93,007	109,674	113,779	125,133	125,811	126,008	124,894
Total fixed assets	77,305	97,013	130,644	145,127	154,041	162,247	167,266
Investments	17,568	40,276	71,275	85,298	70,298	55,298	40,298
Total assets	**189,896**	**247,389**	**316,566**	**355,963**	**350,599**	**344,144**	**332,859**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	15,977	10,126	23,966	4,793	13,480	14,134	19,796
Working capital changes	(3,614)	(5,351)	8,936	(19,435)	4,001	3,269	1,423
Capital expenditure	(12,849)	(25,298)	(38,510)	(20,309)	(17,397)	(17,409)	(15,574)
Investments	2,995	(22,884)	(31,704)	(14,023)	15,000	15,000	15,000
Other income	800	941	2,067	8,477	8,426	7,831	6,630
Free cash flow	**3,310**	**(42,466)**	**(35,246)**	**(40,498)**	**23,511**	**22,825**	**27,275**
Ratios (%)							
Debt/equity	22.3	65.8	95.4	127.6	101.9	82.0	61.2
Net debt/equity	20.2	65.4	94.7	127.3	101.6	81.5	60.9
RoAE	13.4	4.1	14.9	7.5	8.5	9.3	10.1
RoACE	**10.1**	**2.5**	**8.8**	**6.9**	**8.3**	**7.8**	**8.6**
Key assumptions							
Crude throughput (mn tons)	13.9	14.0	16.7	16.5	18.3	19.3	19.3
Effective tariff protection (%)	5.6	3.1	1.4	1.2	0.3	0.7	0.4
Net refining margin (US$/bbl)	4.5	3.9	4.3	4.6	4.4	3.7	3.0
Sales volume (mn tons)	20.6	20.1	23.4	24.2	25.0	25.8	26.6
Marketing margin (Rs/ton)	1,688	(463)	(710)	(2,255)	(1,214)	1,523	1,397
Subsidy under-recoveries (Rs mn)	(26,708)	(29,671)	(18,899)	(33,214)	(24,084)	(18,455)	(15,573)

Source: Kotak Institutional Equities estimates.

Removal of octroi will be a big positive for HPCL's Mumbai refinery

Impact of removal of octroi in Maharashtra on the earnings of HPCL (Rs mn)

Throughput of Mumbai refinery (mn tons)	7.4
Crude price (US$/bbl)	70.0
Exchange rate (Rs/USD)	39.4
Octroi (%)	3.0
Impact of octroi removal on pre-tax profits	**4,480**
Impact of octroi removal on EPS	**8.8**

Source: Kotak Institutional Equities estimates.

Education Services

EDSO.BO, Rs3939	
Rating	REDUCE
Sector coverage view	0
Target Price (Rs)	3,650
52W High -Low (Rs)	5650 - 833
Market Cap (Rs bn)	70.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	1.1	2.4	4.6
Net Profit (Rs bn)	0.3	0.6	1.3
EPS (Rs)	17.7	33.9	66.6
EPS gth	*103.1*	*91.6*	*96.4*
P/E (x)	222.5	116.1	59.1
EV/EBITDA (x)	137.0	59.3	26.7
Div yield (%)	0.0	0.1	0.2

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	56.2	-	-
FIIs	29.9	0.2	0.2
MFs	1.5	0.1	0.1
UTI	-	-	-
LIC	-	-	-

Educomp Solutions: 3Q FY2008 results marginally ahead of estimates; downgrade to REDUCE from ADD

Nitin Bhasin : nitin.bhasin@kotak.com, +91-22-6634-1395

Augustya Somani : augustya.somani@kotak.com, +91-22-6634-1328

- **3Q FY2008 results—revenues and PAT up 159.4% and 131.6% yoy, respectively but EBITDA margins drop**
- **Revise earnings estimates higher for increased guidance and strong traction in Smart_Class—the flagship business segment**
- **Downgrade to REDUCE from ADD earlier as valuations become a function of peer scarcity and potential opportunities; raise target price to Rs3,650 from Rs3,000**

Educomp Solutions reported 3QFY08 results marginally ahead of estimates—revenues of Rs0.7 bn versus estimated Rs0.6 bn and PAT of Rs190 mn versus estimated Rs178 mn. However, EBITDA margins were lower than estimated (46.7% versus estimated 52%) on account of higher upfront sales of hardware. We note that upfront hardware sales at 28% of Smart_Class revenues for 9MFY08 are significantly higher than 15-20% guided by the management. Revenues and PAT were up 154.1% and 154.7% yoy, respectively. However, EBITDA margins of 46.7% during 3QFY08 were lower qoq and yoy from 50.9% and 51.5%, respectively. We revise our estimates for increased guidance in Smart_Class for FY2008E to 825 schools from 790 earlier and also increase the number of schools from FY2009E for recent strong momentum. We revise our revenue estimates for FY2008E, FY2009E and FY2010E higher by 11.8%, 16.1% and 21.2%, respectively. We revise our PAT estimates for FY2008E, FY2009E and FY2010E higher by 7.8%, 14.5% and 21.6%, respectively. Despite the recent sharp correction in the stock, we fail to be enthused with the current valuations and downgrade the stock to REDUCE from ADD earlier. We find current valuations hard to explain; scarcity of peers and potential opportunities in the education space can be supportive arguments justifying 40X FY2010E consolidated earnings (including Edu Infra, Edu Manage and AsknLearn).

3QFY08 results—continuing strong growth

Educomp reported strong 3QFY08 results with revenues and net income growing yoy by 159.4% and 131.6%, respectively. Revenues for the quarter were at Rs276 mn (up159.4% yoy and 59.1% qoq) and PAT was Rs190 mn (up 131.6% yoy and 39.7% qoq). For the nine-months ended December 2007, revenues were Rs1.4 bn (up 154.1% yoy) and PAT was Rs386 mn (up 154.7% yoy). Smart_Class revenues grew 140% yoy to Rs347 mn with EBIT margin of 55.4% versus 62.6% in 3QFY07; ICT revenue grew 198% yoy to Rs239 mn which included Rs180 mn of hardware sales. EBIT margin for ICT segment was 28.3% versus 37.7% in 3QFY07. We note that the EBIT margin in both Smart_Class and ICT was lower on account of higher sale of hardware in the quarter. The overall EBITDA margin for the company also reduced to 46.7% versus 51.5% in 3QFY07 on account of higher hardware sales during the quarter.

Revise Smart_Class subscription assumptions higher for strong momentum

We revise our Smart_Class school subscriptions for higher guidance in FY2008E to 825 schools from 791 earlier; we also raise our estimates for Smart_Class school additions for FY2009E to 700 schools from 500 earlier and for FY2010E to 800 schools from 500 earlier. Consequently, we revise our revenues and earnings estimates higher for increasing share of revenues from Smart_Class over the next 3-4 years. We model increasing number of Smart_Class school additions up to 2010E and then reduce the additions gradually as we expect competition to creep in. However, we expect Educomp to remain as the largest player in this segment. We estimate Smart_Class revenues to grow at a CAGR of 77% over FY2007-10E to Rs3.2 bn and account for 56.4% of revenues in FY2010E.

Revise estimates—revenues and PAT for FY2009E up by 16.1% and 14.5%, respectively

We revise our revenue estimates for FY2008E, FY2009E and FY2010E upwards by 11.8%, 16.1% and 21.2%, respectively. We revise our PAT estimates for FY2008E, FY2009E and FY2010E upwards by 7.8%, 14.5% and 21.6%, respectively. However, we revise our EBITDA margins estimates lower mainly on account of expected increasing proportion of upfront hardware sales. We revise our hardware sales assumption to 25% of school addition from 15% earlier.

Valuations become hard to explain; downgrade to REDUCE from ADD earlier

Despite the recent sharp correction in the stock, we fail to be enthused with the current valuations and downgrade the stock to REDUCE from ADD earlier. We highlight that the stock is currently trading at 40X FY2010E consolidated earnings (including Edu Infra, Edu Manage and AsknLearn). We find current valuations hard to explain, though scarcity of peers and likely potential opportunities in the education space could be some of the supportive arguments justifying such rich valuations.

Revise SOTP-based target price to Rs3,650 from Rs3,000 earlier

We revise our SOTP-based target price to Rs3,650 from Rs3,000 earlier, wherein we ascribe a Rs600 value to its K-12 initiative of setting up and managing schools. We continue to assign two-third probability to Edu Infra and Edu Manage businesses as we believe there is a large amount of ground to be covered in these businesses. We do not ascribe any value to Educomp's recent acquisitions for its e-learning initiatives as we believe a lot needs to be done before any meaningful value is created from these ventures.

Online initiative in a capability building phase

Educomp plans to become one of the leading online tutors in India for which it has acquired three organizations—ThreeBrix e-Learning, AuthorGen Technologies and Savvica in the last 12 months. We note that though this opportunity sounds interesting and holds promise, it could be long before any meaningful revenues and earnings flow from this business. We note that these acquisitions are a step / investment by the company in order to strengthen its out of school tutoring initiative and mainly its acquisition of ThreeBrix e-services through which it plans to foray into offline and online tutoring. We model Rs150 mn investments in these entities for technology and content scale-up over next 12-15 months. Educomp reported about Rs5 mn revenues from these entities in 9M FY08.

Exhibit 1: Estimates revised for lower interest expense and marginally higher revenues and EBITDA margins
Revised and old estimates, Educomp Solutions, March fiscal year-ends, 2008-2010E

	Revised			Old			Change (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Revenues (Rs mn)	2,438	4,566	6,803	2,180	3,934	5,614	11.8	16.1	21.2
EBITDA margin (%)	48.6	55.5	60.7	51.3	57.3	61.1	—	—	—
EBITDA (Rs mn)	1,185	2,534	4,128	1,118	2,252	3,430	6.0	12.5	20.3
Interest (Rs mn)	23	26	23	22	24	20	3.5	7.9	11.7
PAT (Rs mn)	604	1,261	2,063	560	1,101	1,696	7.8	14.5	21.6
PAT growth (%)		108.7	63.7		96.5	54.1	—	—	—
EPS (Rs)	33.9	66.6	109.1	31.5	58.2	89.7	7.8	14.5	21.6

Source: Kotak Institutional Equities estimates.

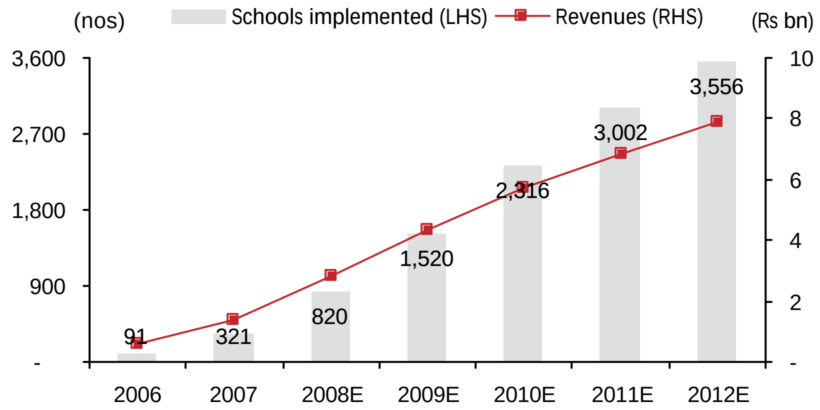
Exhibit 2 Our SOTP valuation for Educomp is Rs3,650

SOTP valuation of Educomp Solutions, March fiscal year-ends

	Valuation method	Equity valuation (Rs mn)	Holding (%)	Per share valuation (Rs)	Success probability (X)	Adjusted per share valuation (Rs)	Comments
Educomp Solutions	DCF	52,818		2,966	1.00	2,966	Fast growing strong visibility but factored in
New business							
Edu Infra	DCF	2,531	69.4	99	0.67	66	Promoters' trust is currently running two schools under LLF
Edu Manage	DCF	21,306	68.0	814	0.67	542	High growth, high risk; untested business model
Asknlearn	P/E	1,080	100.0	61	1.00	61	Recent acquisition in Singapore growing at 20% valued at 15X CY2008 earnings
ThreeBrix E Services	—	—	76.0	—	—	—	Will require investments of Rs100-150 mn before any meaningful revenues
AuthorGen Tech	—	—	51.0	—	—	—	Currently in the investment phase; 12-18 months before any meaningful revenues
Savvica Inc.	—	—	70.1	—	—	—	Currently in the investment phase; 12-18 months before any meaningful revenues
Total		**77,735**		**3,939**		**3,635**	

Exhbit 3: Schools implemented under Smart_Class to grow to 9X over FY2007-12E

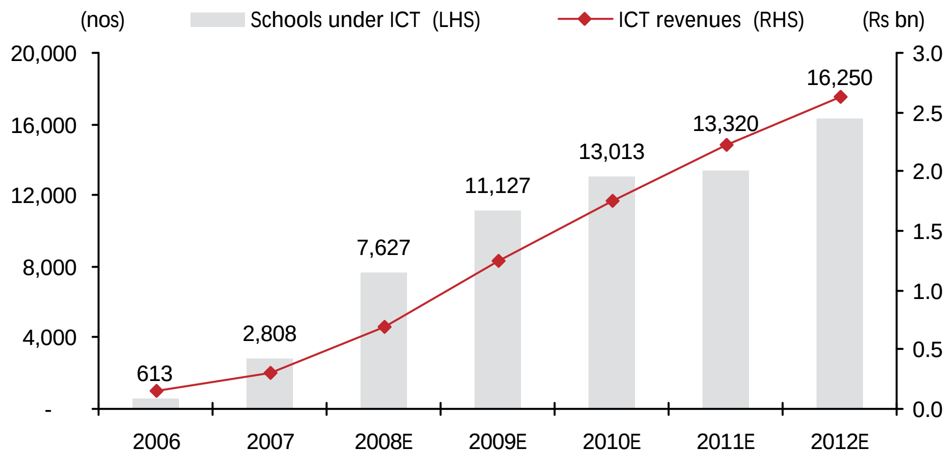
Schools implemented and revenues, March fiscal year-ends, 2006-2012E (nos)



Source: Company, Kotak Institutional Equities estimates.

Exhibit 4: ICT schools to increase by 6X over FY2007-12E

Schools under ICT, revenues, March fiscal year-ends, 2006-2012E (nos)



Source: Company, Kotak Institutional Equities

Exhibit 5: Educomp Solutions, stand-alone interim results, March fiscal year-ends (Rs mn)

		qoq		yoy			yoy	
	3Q 2008	2Q 2008	(% chg)	3Q 2007	(% chg)	9M 2008	9M 2007	(% chg)
Net sales	**715**	**449**	***59.1***	**276**	***159.4***	**1,440**	**567**	***154.1***
Total expenditure	(381)	(221)	*72.9*	(134)	*184.9*	(743)	(297)	*150.2*
Inc/(Dec) in stock	281	45	*521.9*	(1)	*(24,395.0)*	329	1	*59,204.3*
Raw materials	(505)	(161)	*213.7*	(86)	*491.0*	(694)	(125)	*457.1*
Staff cost	(95)	(52)	*82.4*	(19)	*400.8*	(227)	(75)	*204.1*
Other expenditure	(62)	(52)	*17.5*	(28)	*118.5*	(151)	(98)	*53.6*
EBITDA	**334**	**229**	***45.9***	**142**	***135.3***	**697**	**270**	***158.4***
OPM (%)	**46.7**	**50.9**		**51.5**		**48.4**	**47.6**	
Other income	59	37	*60.2*	16	*261.0*	134	29	*364.1*
Interest	(13)	(8)	*66.4*	(4)	*180.8*	(26)	(6)	*313.3*
Depreciation	(91)	(69)	*31.5*	(30)	*206.9*	(213)	(62)	*243.6*
Pretax profits	**289**	**189**	***53.2***	**124**	***133.1***	**592**	**230**	***157.1***
EO								
EBIT%	**34**	**35**		**41**				
Tax	(64)	(14)	*372.0*	(36)	*77.0*	(119)	(51)	*134.0*
Deferred taxation	(33)	(38)	*(13.8)*	(5)	*531.0*	(83)	(26)	
FBT	(2)	(1)	*81.8*	(0)	*360.8*	(4)	(2)	*99.9*
Net income	**190**	**136**	***39.7***	**82**	***131.6***	**386**	**152**	***154.7***
Adjusted profits	**190**	**136**	***39.7***	**82**	***131.6***	**386**	**152**	***154.7***
Income tax rate (%)	*33.7*	*27.2*		*33.4*		*34.7*	*34.1*	

Source: Company data, Kotak Institutional Equities.

Exhibit 6: Educomp Solutions, stand-alone interim segmental results, March fiscal year-ends (Rs mn)

		qoq		yoy			yoy	
	3Q 2008	2Q 2008	(% chg)	3Q 2007	(% chg)	9M 2008	9M 2007	(% chg)
Segmental revenues (Rs mn)								
Smart Class	347	260	*33.7*	145	*139.5*	775	216	*258.1*
ICT	239	112	*113.1*	80	*198.1*	388	177	*118.6*
Professional development	66	64	*2.5*	31	*111.8*	190	134	*42.4*
Retail/ others	64	14	*362.5*	20	*223.9*	87	39	*121.7*
Total	**715**	**449**	*59.1*	**276**	*159.4*	**1,440**	**567**	*154.1*
Segmental PBIT (Rs mn)								
Smart Class	192	143	*34.5*	91	*111.9*	431	127	*238.8*
ICT	68	30	*123.2*	30	*124.1*	110	57	*91.4*
Professional development	42	36	*15.7*	20	*108.4*	114	80	*41.4*
Retail and consulting	39	6	*586.7*	5	*743.7*	50	11	*359.9*
Total	**340**	**215**	*58.4*	**146**	*134.0*	**704**	**276**	*155.4*
Segmental PBITM%								
Smart Class	55.4	55.0		62.6		55.6	58.8	
ICT	28.3	27.1		37.7		28.3	32.4	
Professional development	63.5	56.3		64.5		59.6	60.1	
Retail	60.8	41.0		23.4		57.4	27.6	
Total	**47.6**	**47.8**		**52.8**		**48.9**	**48.7**	
Other unallocable expenses	(39)	(19)	.	(17)		(87)	(40)	
%age of revenues	*5*	*4*		*6*		*(6)*	*(7)*	
Interest	(13)	(8)		(4)		(26)	(6)	
PBT	**289**	**189**		**124**		**592**	**230**	
Revenue share (%)								
Smart Class	48.5	57.8		52.6		53.8	38.2	
ICT	33.4	24.9		29.1		26.9	31.3	
Professional development	9.2	14.2		11.2		13.2	23.6	
Retail	8.9	3.1		7.1		6.0	6.9	

Source: Company data, Kotak Institutional Equities.

Exhibit 7: Profit model of Educomp Solutions, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007E	2008E	2009E	2010E
Net sales	**332**	**555**	**1,101**	**2,438**	**4,566**	**6,803**
Operating costs	(41)	(104)	(315)	(598)	(920)	(1,157)
Employee costs	(68)	(91)	(126)	(282)	(448)	(624)
S&A costs	(65)	(90)	(147)	(374)	(664)	(895)
EBITDA	**159**	**270**	**513**	**1,185**	**2,534**	**4,128**
Other income	13	15	59	142	100	100
Interest	(6)	(8)	(21)	(23)	(26)	(23)
Depreciation	(51)	(56)	(96)	(383)	(693)	(1,074)
Pretax profits	**115**	**220**	**455**	**921**	**1,915**	**3,132**
Extraordinaries	—	—	—	—	—	—
Tax	(40)	(83)	(127)	(205)	(463)	(880)
Deferred taxation	(5)	4	(42)	(110)	(192)	(188)
Reported net profits	**69**	**141**	**286**	**605**	**1,261**	**2,064**
Adjusted net profits	**69**	**141**	**284**	**605**	**1,261**	**2,064**
Minority interest	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**	**(1)**
Reported consolidated net profits	**68**	**140**	**284**	**604**	**1,261**	**2,063**
Adjusted consolidated net profits	**68**	**140**	**283**	**604**	**1,261**	**2,063**
Shares outstanding (net) (mn)						
Year end	4.5	16.0	16.0	17.2	18.3	18.3
Primary weighted average	—	—	16.0	16.6	17.7	18.3
Fully diluted	4.5	16.0	16.0	17.8	18.9	18.9
Adjusted EPS (Rs)						
Primary	—	—	17.7	36.4	71.1	112.8
Fully diluted	**15.2**	**8.8**	**17.7**	**33.9**	**66.6**	**109.1**
CEPS (Rs)						
Primary	—	—	26.4	66.2	120.9	181.7
Fully diluted	28.0	12.0	26.4	61.7	113.4	175.7
Growth (%)						
Revenues	—	67	98	121	87	49
EBITDA	—	70	90	131	114	63
Net profits	—	105	102	113	109	64
EPS	—	(42)	102	92	96	64
EBITDA margin (%)	47.8	48.6	46.6	48.6	55.5	60.7
Cash tax rate (%)	35.2	37.7	28.0	22.3	24.2	28.1
Effective tax rate (%)	39.5	35.9	37.3	34.3	34.2	34.1
DPS (Rs)	—	1.5	2.0	3.6	6.4	9.9
Dividend pay-out ratio (%)	—	19.6	12.7	12.1	10.9	10.2

Source: Kotak Institutional Equities estimates

Exhibit 8: Cash flow model of Educomp Solutions, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007E	2008E	2009E	2010E
Operating						
Profit before tax	114	220	454	921	1,915	3,132
DD&A	45	56	96	383	693	1,074
Taxes	(7)	(46)	(174)	(205)	(463)	(880)
Interest expenses	4	6	14	23	26	23
Interest paid	(4)	(6)	(14)	(23)	(26)	(23)
Other income	(1)	(6)	(37)	(142)	(100)	(100)
Extraordinaries/others	2	4	36	63	63	63
Working capital (a)	(59)	(99)	(225)	(349)	(657)	(700)
Total operating	**95**	**128**	**151**	**671**	**1,452**	**2,589**
Operating, excl. working capital (b)	**153**	**227**	**376**	**1,020**	**2,109**	**3,289**
Investing						
Capital expenditure (c)	(118)	(162)	(675)	(1,409)	(1,958)	(1,973)
Investments	(10)	(11)	(81)	—	—	—
Advances to subsidiaries	—	—	—	(325)	(250)	—
Asset sales	—	—	—	—	—	—
Interest/dividends received (d)	1	6	37	142	100	100
Total investing	**(128)**	**(167)**	**(719)**	**(1,591)**	**(2,108)**	**(1,873)**
Financing						
Share issuance	—	557	(39)	—	—	—
Loans (net)	16	64	1,169	3,280	(78)	—
Dividends (e)	—	—	(27)	(36)	(73)	(137)
Others	—	—	—	—	—	—
Total financing	**16**	**622**	**1,102**	**3,244**	**(151)**	**(137)**
Net change in cash	**(18)**	**583**	**534**	**2,324**	**(806)**	**579**
Opening cash	-	23	606	1,106	3,429	2,623
Closing cash	**(18)**	**606**	**1,139**	**3,429**	**2,623**	**3,202**
Gross cash flow (b)	153	227	376	1,020	2,109	3,289
Free cash flow (b)+(a)+(c)+(d)	**(23)**	**(28)**	**(487)**	**(595)**	**(405)**	**716**
Excess cash flow (b)+(a)+(c)+(d)+(e)	(23)	(28)	(515)	(631)	(478)	579

Source: Kotak Institutional Equities estimates

Exhibit 9: Balance Sheet of Educomp Solutions, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007E	2008E	2009E	2010E
Equity						
Share capital-equity	45	160	160	172	183	183
Reserves and surplus	181	736	988	2,579	6,972	8,824
Total equity	**226**	**895**	**1,148**	**2,751**	**7,154**	**9,007**
Deferred taxation liability	20	16	59	169	361	549
Minority Interest	1	2	128	132	132	133
Liabilities						
Long term borrowings	29	35	1,177	3,386	106	106
Short term borrowings	16	75	78	78	—	—
Total borrowings	**45**	**110**	**1,255**	**3,464**	**106**	**106**
Current liabilities	125	182	242	446	755	1,006
Total capital	**417**	**1,205**	**2,832**	**6,962**	**8,508**	**10,800**
Assets						
Cash	**23**	**606**	**1,106**	**3,429**	**2,623**	**3,202**
Current assets	233	325	655	1,111	1,949	2,762
Gross block	263	375	1,086	2,603	4,561	6,534
Less: acumulated depreciation	133	190	226	610	1,303	2,376
Net fixed assets	**130**	**186**	**860**	**1,993**	**3,258**	**4,157**
Capital work-in-progress	20	67	108	—	—	—
Total fixed assets	150	252	968	1,993	3,258	4,157
Investments	10	21	102	427	677	677
Miscl. Exps. not w/o	1	1	1	1	1	1
Total assets	**417**	**1,205**	**2,832**	**6,962**	**8,508**	**10,800**
Leverage ratios (%)						
Debt/equity	—	13.8	66.8	121.1	36.0	1.3
Debt/capitalization	—	9.6	33.8	48.2	23.1	1.1
Net debt/equity	—	(45.0)	(23.0)	(8.9)	(36.2)	(43.1)
Net debt/capitalization	—	(31.1)	(11.6)	(3.5)	(23.2)	(36.1)
RoAE	—	**24.0**	**26.7**	**29.3**	**24.2**	**24.2**
RoACE	—	**22.1**	**19.1**	**16.2**	**20.7**	**25.9**

Source: Kotak Institutional Equities estimates

Consumer Products

TTTE.BO, Rs791	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	992
52W High -Low (Rs)	1014 - 558
Market Cap (Rs bn)	48.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	41.0	42.7	43.9
Net Profit (Rs bn)	5.2	3.1	3.7
EPS (Rs)	91.2	50.8	59.8
EPS gth	*75.3*	*(44.3)*	*17.6*
P/E (x)	8.7	15.6	13.2
EV/EBITDA (x)	12.7	12.4	11.8
Div yield (%)	1.5	1.5	1.5

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	35.4	-	-
FIIs	12.7	0.1	(0.1)
MFs	10.4	0.4	0.2
UTI	-	-	(0.1)
LIC	12.0	0.4	0.3

Tata Tea: 3QFY2008: All round growth

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

Manoj Menon : manoj.menon@kotak.com, +91-22-6749-3391

- **Strong domestic tea growth**
- **Strong underlying performance by Tetley and Eight O'Clock Coffee**
- **Energy Brands stake sale profits booked in current quarter**
- **Retain focus on water business**
- **Reiterate BUY with a target price of Rs992/share**

Tata Tea reported a 22% growth in standalone revenues at Rs3.6 bn (we expected 11% growth) and 9.7% increase in EBITDA to Rs611 mn (we estimated Rs630 mn) during 3QFY08. Domestic branded tea sales grew well (15% volume growth), Tetley continued to surprise positively with an 8% underlying growth. The consolidated sales grew 7% yoy. Consolidated EBITDA margins expanded 380 bps to 21.8% aided by aggressive promotion led growth in the UK market, higher contribution of green and herbal tea as well as significant cost savings due to operational efficiencies. Adjusting for exceptional and one-off items, PAT jumped 1.7X to Rs1.4 bn. Tata Tea has realized Rs16 bn profits from the stake sale in EBI and has repaid the entire debt. The transaction resulted in a gain of over 50% in less than a year. Tata Tea has increased its stake in Mount Everest Mineral Water Limited (MEMW), owners of Himalayan brand of bottled water to 32%. We expect significant traction to accrue to the company in leveraging the MEMW brand by expanding the product reach in India as well as by riding on the distribution channel of Tata Tea and associates globally. We reiterate BUY with a target price of Rs992/share. We believe that a strong performance by the company in the Indian market, coupled with signs of underlying growth in international portfolio, augurs well. We will revisit our estimates after the analyst conference call.

Strong domestic tea growth. Tata Tea continues to be the volume market leader in Indian tea market (~ 21% share for Tata Tea vs. ~19% share for Hindustan Unilever). The company's topline registered a 22% growth aided by a strong 15% volume growth. While the entire domestic portfolio is growing well, we estimate that the 'Agni' brand has outperformed. Channel checks indicate that Agni has currently reached an all-time high market share as well. However, higher salaries and wages in plantations, higher variable costs and significantly higher brand investments (up 160 bps to 10.5% of sales) limited EBITDA growth to 10%.

Strong underlying performance by Tetley and Eight O'Clock Coffee. Tata Tea reported a 1% growth in the Tetley sales performance. However, adjusting for currency translation losses (GBP to INR), we estimate the underlying growth at ~8% (organic + inorganic). The consistent growth of ~8% for the third consecutive quarter in the international tea portfolio is heartening and augurs well. We believe the company's strategy of focusing on new markets and fresh initiatives in tea (aggressive push of herbal and green tea) is paying off well. We believe the initial success of integration of various recent acquisitions is visible. We note that higher volumes, realizations and tea costs contributed significantly to the operating profit growth. Favorable advertisement and promotion spends also aided the performance.

Energy Brands stake sale profits booked in current quarter. Tata Tea has concluded the sale of its stake in EBI for US$1.02 bn to Coca-Cola Company as against the acquisition price of US$677 mn, resulting in a gain of over 50% in less than a year. The sale resulted in a pre-tax saving of US$415 mn for the group and US$323 mn for Tata Tea (Rs357/share). The proceeds of the sale were used to repay the debt raised to fund the acquisition of EBI, thereby reducing the large interest burden. The management indicated that full deployment of the receipt is yet to be finalized. We expect Tata Tea to announce further inorganic growth plans in the near term.

Retain focus on water business. Post the acquisition of stake from promoters and open offer, Tata Tea currently holds about 32% in Mount Everest Mineral Water Limited (MEMW), owners of Himalayan brand of bottled water. We expect significant traction to accrue to the company in leveraging the MEMW brand by expanding the product reach in India as well as by riding on the distribution channel of Tata Tea and associates globally. Tata Tea will also likely use MEMW's alliance with US-based Marsh Supermarkets Inc. for distributing Tetley products in the US. Marsh Supermarkets has 67 supermarkets, 31 LoBill Foods Stores, 6 O'Malia's Food Markets, 148 Village pantry convenience stores and a chain of pharmacies. However, considering the high acquisition valuation paid, we believe Tata Tea needs to complete the integration and ramp up very fast to derive planned benefits. We recall MEMW was bought at an EV of Rs3.97 bn, EV/EBITDA of 171X and EV/Sales of 17.3X.

Transfer of plantations business. Tata Tea had earlier agreed to the transfer North India plantations business (NIPO) to a new company, Amalgamated Plantations Pvt. Ltd. for Rs3.59 bn in addition to the transfer of certain current assets and liabilities at mutually agreed upon values with effect from April 1, 2007. However, pending approval of the scheme by the High Court, the results of NIPO business have been included in the results for the quarter. The company has disclosed that a one-time profit of Rs1.5 bn will accrue on this transaction when the transfer is effected after the court's approval.

Reiterate BUY with a target price of Rs992/share. We believe the strong performance by the company in the Indian market, coupled with early signs of turnaround in international portfolio, augurs well. We maintain our EPS estimates of Rs50.8/share for FY2008E and Rs59.8/share for FY2009E. We will revisit our estimates after the analyst conference call. We reiterate BUY with a target price of Rs992/share. Our target price implies a P/E of 19X on FY2008E and 16X on FY2009E. Our target price offers an upside of 26% over the current market price.

Tata Tea (unconsolidated) quarterly summary, March year-ends (Rs mn)

	yoy			Our est.	
	3QFY08	3QFY07	% chg	3QFY08	% chg
Net sales	**3,554**	**2,908**	**22.2**	**3,231**	**11.1**
Total operating expenses	(2,943)	(2,351)		(2,601)	
EBITDA	**611**	**557**	**9.7**	**630**	**13.1**
Depreciation	(44)	(46)		(46)	
EBIT	567	512		584	
Other income	460	80		90	
Net interest	(163)	(151)		(27)	
PBT	**864**	**440**	**96.2**	**647**	**47.0**
Tax	(256)	(113)		(149)	
Deferred tax	3	2		-	
PAT	**611**	**329**	**85.9**	**498**	**51.7**
Extraordinary income (loss)	(22)	614		-	
Net profit	**589**	**942**	**(37.5)**	**498**	**(47.1)**
EBITDA margin (%)	17.2	19.2		19.5	
Effective tax rate (%)	29.3	25.4		23.0	

Source: Company data, Kotak Institutional Equities.

Tata Tea (Consolidated) quarterly summary, March year-ends (Rs mn)

	yoy		
	3QFY08	3QFY07	% chg
Net sales	**11,849**	**11,126**	**6.5**
Total operating expenses	(9,261)	(9,120)	
EBITDA	**2,588**	**2,005**	**29.0**
Depreciation	(227)	(262)	
EBIT	2,361	1,743	
Other income	47	68	
Net interest	(504)	(909)	
PBT	**1,903**	**901**	**111.3**
Tax	(503)	(393)	
PAT	**1,401**	**508**	**175.5**
Extraordinary Income (loss)	15,341	754	
Minority interest & share of profit in associates	(34)	83	
Net profit	**16,776**	**1,180**	**1,321.7**
EBITDA margin (%)	21.8	18.0	
Effective tax rate (%)	26.4	43.6	

Source: Company data, Kotak Institutional Equities.

Energy

GSPT.BO, Rs75	
Rating	SELL
Sector coverage view	Neutral
Target Price (Rs)	65
52W High -Low (Rs)	114 - 44
Market Cap (Rs bn)	40.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	3.2	4.1	7.1
Net Profit (Rs bn)	0.9	0.9	2.6
EPS (Rs)	1.6	1.7	4.9
EPS gth	*40.0*	*3.1*	*188.3*
P/E (x)	45.7	44.4	15.4
EV/EBITDA (x)	16.7	13.0	7.6
Div yield (%)	0.7	0.7	2.0

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	39.1	-	-
FIIs	22.9	0.1	0.0
MFs	3.6	0.1	0.0
UTI	-	-	(0.1)
LIC	-	-	(0.1)

GSPL: Moderately higher-than-expected 3QFY08 net income on higher tariffs

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286

- **Better-than-expected results on higher tariffs**
- **Revised estimates and 12-month DCF-based target price to Rs65 (Rs59 previously)**
- **Key to earnings would be imminent regulations on gas transportation business and their impact on earnings**

GSPL reported 3QFY08 net income at Rs252 mn (+55% qoq, -11% yoy) versus our estimate of Rs236 mn. 3QFY08 EBITDA at Rs972 mn (+20% qoq, +29% yoy) was moderately higher than our expected Rs928 mn. The variance was largely due to higher tariff at Rs0.68/cu m versus our assumed Rs0.66/cu m. We have revised our FY2008E, FY2009E and FY2010E EPS to Rs1.7, Rs4.9 and Rs5.6 from Rs1.4, Rs4.5 and Rs5.4, respectively, previously. We have also revised a 12-month DCF-based target price to Rs65 (Rs59 previously) due to roll-forward of DCF and minor modifications to the earnings model. Key upside risks stem from higher-than-expected gas transportation volumes and tariffs. We would watch for the nature of regulation on gas transportation business, which will largely determine GSPL's future earnings.

3QFY08 and 9MFY09 results highlights

1. **Higher volumes but moderately lower tariffs qoq in 3QFY08.** GSPL's reported 3QFY08 revenues at Rs1.1 bn (+16% qoq and +27% yoy) were marginally above our estimate of Rs1.07 bn due to higher gas transportation tariff. Volumes increased 18.3% qoq to 1.62 bcm in 3QFY08; 2QFY08 volumes and demand were impacted by monsoons. However, 3QFY08 transmission charge declined moderately to Rs0.68/cu m compared to Rs0.69/cu m in 2QFY08. 9MFY08 transmission charge was Rs0.67/cu m versus Rs0.61/cu m in 9MFY07. The higher yoy tariff reflects more volumes in long-distance pipelines (with higher transmission tariffs) compared to the short-distance ones. GSPL had commissioned two long-distance pipelines in 4QFY07.
2. **Taxation rate very high in 3QFY08; more clarity required.** GSPL's taxation rate jumped significantly in 3QFY08 to 43.5% resulting in 9MFY08 effective tax rate of 40%. The management did not provide clarity on the very high effective tax rate. We suspect GSPL is not utilizing available MAT credit; it may use the same in future years. We have assumed that the taxation rate normalizes in 4QFY08E and model 34% effective tax rate for FY2008E. However, our effective tax rate for FY2009E comes to 26.2%.
3. **Other income increased sharply.** 3QFY08 other income jumped 71% qoq to Rs96 mn; the management attributed the increase to higher interest income on certain deposits made by customers.

Fine-tuned earnings—our assumptions translate into very high CROCI

We have fine-tuned FY2008E, FY2009E and FY2010E EPS to Rs1.7, Rs4.9 and Rs5.6 from Rs1.4, Rs4.5 and Rs5.4, respectively. We model FY2008E, FY2009E and FY2010E transmission charge at Rs0.67/cu m, Rs0.65/cu m and Rs0.52/cu m, respectively, and expect gas transmission volumes to scale up to 16.9 mcm/d, 30.1 mcm/d and 44.6 mcm/d in FY2008E, FY2009E and FY2010E versus 14.3 mcm/d in FY2007, respectively. We see the level of future transmission tariffs as the biggest variable; we model tariffs to come down as volumes increase significantly. However, the street probably expects tariffs to largely remain unchanged despite a steep increase in gas transmission volumes.

We would clarify that future GSPL's earnings will largely depend on the nature of regulations for gas pipeline transmission networks, apart from transmission volumes. We would highlight our assumptions of gas transmission tariffs for FY2008E, FY2009E and FY2010E translate into CROCI of 12%, 19% and 20%, respectively, which seems quite high for the nature of GSPL's business; the lower yoy tariff for FY2010E should be viewed in the context of CROCI, in our view.

The nature of future regulations on gas transportation will determine future earnings

We do not rule out lower transmission charges for GSPL versus our assumptions once volumes scale up. The street is of the view that GSPL's transmission charges may not be impacted by (1) the proposed regulations of the Petroleum and Natural Gas Regulatory Board (PNGRB) for gas transmission networks and (2) increased gas transmission volumes.

However, GSPL's future earnings will depend on the nature of future regulations for gas transportation networks. The key variables that will have an impact on GSPL's earnings will be (1) reasonable rate of return (RROR) and (2) total capital employed (or return-earning asset) on which the RROR will apply. As per the PNGRB's draft regulations, capital employed has been defined as gross fixed assets less depreciation plus normative working capital. The tariff for a transmission/city gas distribution network would be computed using discounted cash flow methodology. The cash inflows computed using RROR and capital employed and cash outflows using capex and operating costs will be discounted using the project's reasonable rate of return. The NPV of cash flows divided by assumed volumes assumed will be the tariff for the period. The tariff will remain constant over the economic life of the pipeline will be subject to review for each tariff period.

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

			qoq		yoy			yoy		
	2008E	**3Q 2008**	**2Q 2008**	***(% chg.)***	**3Q 2008**	**3Q 2007**	***(% chg.)***	**9M 2008**	**9MFY07**	***(% chg.)***
Net sales	**4,134**	**1,106**	**954**	***16.0***	**1,106**	**871**	***27.0***	**3,018**	**2,344**	***28.7***
Total expenditure	(535)	(135)	(144)	*(6.5)*	(135)	(117)	*15.2*	(403)	(374)	*7.6*
Inc/(Dec) in stock	—	—	—	—	—	—	—	—	—	—
Operating costs	(267)	—	—	—	—	—	—	—	—	—
Gas transportation charges	—	—	(6)	*(100.0)*	—	(25)	—	(14)	(75)	*(80.8)*
Connectivity charges	—	(28)	(29)	*(3.8)*	(28)	(32)	—	(88)	(109)	*(18.9)*
Staff cost	(57)	(15)	(15)	*(2.7)*	(15)	(11)	*28.1*	(43)	(28)	*54.9*
Other expenditure	(211)	(92)	(94)	*(1.5)*	(92)	(49)	*89.5*	(257)	(163)	*58.2*
EBITDA	**3,599**	**972**	**810**	***20.0***	**972**	**754**	***28.9***	**2,615**	**1,970**	***32.7***
OPM (%)	**87.1**	**87.8**	**84.9**		**87.8**	**86.6**		**86.7**	**84.0**	
Other income	303	96	56	*70.7*	96	39	*146.9*	206	125	*65.5*
Interest	(806)	(208)	(207)	*0.8*	(208)	(104)	*100.9*	(613)	(293)	*109.4*
Depreciation	(1,705)	(414)	(407)	*1.7*	(414)	(236)	*75.0*	(1,219)	(681)	*78.9*
Pretax profits	**1,391**	**446**	**253**	***76.6***	**446**	**453**	***(1.5)***	**990**	**1,121**	***(11.7)***
Extraordinaries/sales tax benefit	—	—	—		—	—		—	—	
Tax	(278)	(150)	(52)	—	(150)	(139)	—	(276)	(141)	*96.5*
Deferred taxation	(195)	(44)	(38)	*14.4*	(44)	(30)	*46.8*	(120)	(279)	*(56.9)*
Net income	**918**	**252**	**163**	***54.8***	**252**	**284**	***(11.3)***	**594**	**701**	***(15.4)***
Adjusted profits	**918**	**252**	**163**	***54.8***	**252**	**284**	***(11.3)***	**594**	**701**	***(15.4)***
Income tax rate (%)	*34.0*	*43.5*	*35.5*		*43.5*	*37.3*		*40.0*	*37.4*	
Pipline volumes										
Pipeline volumes (mcm)	6,169	1,623	1,372	*18.3*	1,623	1,470	*10.4*	4,531	3,832	*18.2*
Gas transmission charge (Rs/cu m)	0.67	0.68	0.69	*(1.9)*	0.68	0.59	*15.0*	0.67	0.61	*8.9*

Source: Company, Kotak Institutional Equities estimates.

DCF valuation of GSPL (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	3,599	6,401	7,590	7,939	8,754	8,634	8,616	8,596	8,576	8,556	8,556	8,556	8,556
Adjusted tax expense	(439)	(679)	(1,785)	(2,027)	(2,402)	(2,441)	(2,500)	(2,551)	(2,604)	(2,673)			
Change in working capital	(1,126)	115	(74)	(24)	(50)	6	—	—	—	—			
Operating cash flow	**2,033**	**5,837**	**5,731**	**5,887**	**6,302**	**6,199**	**6,116**	**6,045**	**5,972**	**5,883**			
Capital expenditure	(4,350)	(3,250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(1,196)			
Free cash flow	**(2,317)**	**2,587**	**5,481**	**5,637**	**6,052**	**5,949**	**5,866**	**5,795**	**5,722**	**4,687**	**4,687**	**4,687**	**4,687**
Discounted cash flow	**(2,272)**	**2,266**	**4,286**	**3,936**	**3,772**	**3,310**	**2,914**	**2,571**	**2,266**	**1,657**			
Discounted cash flow-1 year forward		2,538	4,801	4,408	4,226	3,707	3,264	2,879	2,538	1,856	1,479		
Discounted cash flow-2 year forward			5,377	4,937	4,733	4,154	3,656	3,225	2,843	2,079	1,856	1,657	

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.0	12.0	12.0
Total PV of free cash flow	24,705	31,696	34,514
Terminal value assumption			
Growth to perpetuity (%)	—	—	—
FCF in 2018E	4,687	4,687	4,687
Exit FCF multiple (X)	8.3	8.3	8.3
Exit EV/EBITDA multiple (X)	4.6	4.6	4.6
Terminal value	39,056	39,056	39,056
PV of terminal value	13,807	13,807	13,807
Total company value	**38,511**	**45,503**	**48,321**
Net debt	6,827	9,960	9,050
Equity value	31,684	35,542	39,271
Shares outstanding (mn)	543	544	544
Estimated share price using DCF	**58.3**	**65.4**	**72.2**

Fiscal Year end (March 31, XXXX)	March-08	March-09	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20
Today	29-Jan-08	29-Jan-08	29-Jan-08	29-Jan-08	29-Jan-08	29-Jan-08	29-Jan-08	29-Jan-08	29-Jan-08	29-Jan-08	29-Jan-08	29-Jan-08	29-Jan-08
Days left	62	427	792	1,157	1,523	1,888	2,253	2,618	2,984	3,349	3,714	4,079	4,445
Years left	0.17	1.17	2.17	3.17	4.17	5.17	6.17	7.17	8.18	9.18	10.18	11.18	12.18
Discount factor at WACC	**0.98**	**0.88**	**0.78**	**0.70**	**0.62**	**0.56**	**0.50**	**0.44**	**0.40**	**0.35**	**0.32**	**0.28**	**0.25**

Source: Kotak Institutional Equities estimates.

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

	2005	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	2,035	2,635	3,176	4,134	7,094	8,441	8,891
EBITDA	**1,293**	**1,942**	**2,677**	**3,599**	**6,401**	**7,590**	**7,939**
Other income	20	45	175	303	151	124	115
Interest	(363)	(413)	(457)	(806)	(886)	(745)	(474)
Depreciation	(656)	(791)	(1,026)	(1,705)	(2,083)	(2,346)	(2,345)
Pretax profits	293	783	1,369	1,391	3,584	4,623	5,234
Tax	(15)	(2)	(70)	(278)	(545)	(1,537)	(1,859)
Deferred taxation	(119)	(315)	(409)	(195)	(393)	(34)	80
Net profits	**160**	**467**	**894**	**918**	**2,646**	**3,052**	**3,455**
Earnings per share (Rs)	**0.6**	**1.2**	**1.6**	**1.7**	**4.9**	**5.6**	**6.4**
Balance sheet (Rs mn)							
Total equity	4,037	9,075	9,659	10,255	11,962	13,929	13,342
Deferred tax liability	193	508	917	1,111	1,505	1,539	1,459
Total borrowings	4,436	5,786	8,638	11,571	9,986	5,736	4,236
Currrent liabilities	571	1,771	1,845	879	878	879	880
Total liabilities and equity	**9,237**	**17,140**	**21,059**	**23,817**	**24,331**	**22,084**	**19,917**
Cash	426	2,372	1,811	1,611	936	708	612
Current assets	408	995	2,126	2,287	2,171	2,246	2,271
Total fixed assets	8,392	13,651	17,029	19,826	21,131	19,037	16,942
Investments	—	—	—	—	—	—	—
Deferred expenditure	11	123	93	93	93	93	93
Total assets	**9,237**	**17,140**	**21,059**	**23,817**	**24,331**	**22,084**	**19,917**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	844	1,562	2,212	2,360	4,833	5,306	5,606
Working capital changes	(193)	471	(1,058)	(1,126)	115	(74)	(24)
Capital expenditure	(1,799)	(6,049)	(4,404)	(4,350)	(3,250)	(250)	(250)
Investments	—	—	—	—	—	—	—
Other income	10	40	146	303	151	124	115
Free cash flow	**(1,138)**	**(3,976)**	**(3,103)**	**(2,813)**	**1,850**	**5,107**	**5,446**
Ratios (%)							
Debt/equity	104.9	60.4	81.7	101.8	74.2	37.1	28.6
Net debt/equity	51.2	37.6	45.0	50.4	42.6	27.1	22.3
RoAE	4.6	6.8	8.8	8.4	21.3	21.1	22.8
RoACE	**8.0**	**9.9**	**10.0**	**8.3**	**16.3**	**16.0**	**18.3**
CROCI	**13**	**13**	**13**	**12**	**19**	**20**	**20**
Key assumptions							
Volumes-old pipelines (mcm/d)	8.3	10.4	12.6	12.8	17.0	20.0	25.0
Volumes-new pipelines (mcm/d)	—	—	1.7	4.2	13.1	24.6	30.6
Volumes (mcm/d)	**8.3**	**10.5**	**14.3**	**16.9**	**30.1**	**44.6**	**55.6**

Source: Kotak Institutional Equities estimates.

Banking

FED.BO, Rs331	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	340
52W High -Low (Rs)	395 - 144
Market Cap (Rs bn)	35.4

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	10.3	12.8	15.3
Net Profit (Rs bn)	2.9	4.1	5.5
EPS (Rs)	34.2	38.5	32.1
EPS gth	*40.0*	*12.5*	*(16.6)*
P/E (x)	9.7	8.6	10.3
P/B (x)	2.6	0.9	0.8
Div yield (%)	1.0	2.3	3.1

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	51.6	0.2	0.1
MFs	12.2	0.3	0.2
UTI	-	-	(0.1)
LIC	2.1	0.0	(0.0)

Federal Bank: Performance on track, retain BUY

Tabassum Inamdar: tabassum.inamdar@kotak.com, +91-22-6634-1252

Ramnath Venkateswaran: ramnath.venkateswaran@kotak.com, +91-22-6634-1240

- **Healthy operational performance drives PAT growth of 23%yoy to Rs1 bn**
- **Equity infusion of Rs21.4 bn through 1:1 rights offering**
- **Retain BUY rating with a target price of Rs340.**

Federal Bank's operational performance remained healthy in 3QFY08 with the company reporting a PAT of Rs1 bn, a growth of 23% yoy. Healthy contributions from the fund based and non-fund businesses were the prime drivers of earnings for the company. The earnings remained strong despite a sharp increase in the operational and provision expenses. The other key development at Federal Bank was the successful completion of its rights issue. We have modified our earnings estimates post these results, retain our BUY rating on the stock with a target price of Rs340 (up from Rs330 previously).

NII growth was impressive at 17% yoy

- Federal Bank NII grew 17% yoy in 3QFY08 to Rs2.1 bn, which was in line with our estimates.
- There was an absolute decline in deposits at the company on a sequential basis. Deposits were Rs233 bn as of December 2007 (26% yoy growth) down from Rs241 bn as of September 2007. Management indicated that this decline was due to the company shedding Rs12 bn high cost deposits in 3QFY08. The moderation in deposit growth also enabled the company to improve its CASA ratio marginally to 26% (historical trend of 25%).
- However, the advances continued to maintain robust growth and increased to Rs175 bn (28% yoy growth) as of December 2007.
- Federal Bank NIM was stable at 3.2% and helped its NII growth. We note that Federal Bank reports NIM based on the period-end numbers rather than on average numbers, which is the standard format followed by most other banks.

Non-interest income contribution was also robust

- Non-interest income of Federal Bank in 3QFY08 was Rs850 mn—an increase of 56% yoy. More importantly, the growth in non-interest income (ex-treasury) was healthy at 26% yoy.
- The company booked Rs140 mn of income from recoveries of written-off accounts and trading profits of Rs180 mn in the current quarter.

Operating and provision expenses show a sharp increase

- Federal Bank's employee expenses increased to Rs716 mn (up 19% yoy) largely due to provisions of Rs100 mn on increased pension liability on account of falling yields on government securities. The management also indicated that it had made some provisions towards wage arrears.
- There was also a sharp increase in the other operational expenses of 33% in the current quarter to Rs494 mn. A one-time expense of close to Rs40 mn was made in 3QFY08 for IT implementation at the company.
- Federal Bank made Rs361 mn of NPL provisions and Rs80 mn of standard asset provisions in 3QFY08—a growth of 124% on yoy basis.
- Other line items for the provision expenses included an ad-hoc provision of Rs70 mn for contingencies, apart from a write-back of Rs150 mn on investment depreciation expenses.

Other developments in the current quarter

- Federal Bank has informed the exchanges that it has successfully completed raised Rs21.4 bn through the rights issue. The company has also made an equity infusion of Rs520 mn into its insurance subsidiary. Consequent to these developments, we estimate that the Tier I of the company could be enhanced to 20.5% based on the risk weighted assets as of December 2007.
- Gross NPLs at Federal Bank increased 5% on a sequential basis to Rs4.9 bn (2.8%) as of December 2007. While the net NPL ratio of the company and provision coverage were 0.3% and 89%, respectively, as of 3QFY08.

Revise our price target marginally to Rs340 from Rs330 earlier

- We have updated our financial model of Federal Bank post the 3QFY08 financial results and the successful capital infusion of Rs21.4 bn.
- While the changes to our estimates in the explicit forecast period upto FY2012 is modest at around 2-3% compared to our previous estimates. We have assumed higher earnings growth of 15% during the FY2012-FY2015 period compared to 12% earlier. This change is predicated on the assumption that given the substantial equity into the company, it will be able to sustain higher earnings growth without equity infusion for a longer period of time.

Federal Bank, Quarterly results
(Rs mn)

	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	% chg	3QFY08KS	Actual Vs KS
Interest earned	4,441	5,313	5,592	5,982	6,527	47.0		
Interest/discount on advances/bills	3,200	3,818	4,046	4,275	4,759	48.7		
Income on Investments	1,207	1,290	1,374	1,524	1,637	35.6		
Interest on balances with RBI and other inter bank funds	25	134	118	93	130	425.0		
Others	9	70	54	90	0	(96.6)		
Interest expended	2,658	3,033	3,665	3,918	4,450	67.4		
Net interest income	**1,784**	**2,280**	**1,928**	**2,063**	**2,077**	**16.5**	**2,051**	**1.3**
Other Income	545	1,054	1,045	809	850	56.0	700	21.4
Sale of investments	170	460	220	130	180	5.9		
Recovery of written off assets	140	NA	470	120	140	-		
Other income excl treasury	545	594	825	679	670	22.9	700	(4.4)
Total income	2,328	3,333	2,972	2,872	2,927	25.7	2,751	6.4
Operating Expenses	973	1,086	1,048	1,066	1,210	24.4	1,080	12.1
Payments to and provisions for employees	602	697	631	629	716	18.9	630	13.6
Other operating expenses	371	389	417	437	494	33.3	450	9.9
Operating profit	**1,355**	**2,247**	**1,924**	**1,806**	**1,716**	**26.6**	**1,671**	**2.7**
Other Provisions and Contingencies	196	867	710	588	385	96.7	400	(3.7)
NPL	197	75	400	670	441	124.4	400	10.3
PBT	**1,159**	**1,381**	**1,214**	**1,218**	**1,331**	**14.8**	**1,271**	**4.7**
Provision for Taxes	321	388	545	265	302	(6.0)	318	(5.0)
Net Profit	**838**	**992**	**669**	**953**	**1,029**	**22.8**	**953**	**8.0**
Tax rate (%)	28	28	45	22	23		25	
Key balance sheet items (Rs bn)								
Desposits	186	216	209	241	233	25.7		
CASA ratio (%)	28.4	25.6	25.0	25.0	25.8			
Advances	136	149	147	162	175	28.2		
Retail	39.8	43.4	NA	48.6	51.7	29.8		
Retail advances to total advances (%)	29.2	29.1	NA	30.0	29.6			
Asset management details								
Gross Non-performing assets (Rs mn)	5,121	4,508	4,408	4,729	4,948	(3.4)		
Gross NPL ratio (%)	3.8	3.0	2.9	2.9	2.8			
Net Non-performing assets (Rs mn)	790	651	542	698	514	(34.9)		
Net NPL ratio (%)	0.6	0.4	0.4	0.4	0.3			
Yield management measures (%)								
Yield on advances	9.99	10.18	11.36	11.47	11.52			
Cost of deposits	5.47	5.55	6.51	6.63	6.75			
NIM	3.25	3.06	3.21	3.15	3.17			
Capital Adequacy details (%)								
Capital Adequacy ratio	14.6	13.4	13.3	13.1	13.1			
Tier I	9.78	8.96	9.32	9.2	9.38			

Source: Company.

Federal Bank—(Old and new estimates) (Rs mn)

	Old estimates			New estimates			% change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net interest income	9,290	12,093	14,450	9,001	12,197	14,466	(3.1)	0.9	0.1
NIM (%)	3.29	3.45	3.57	3.23	3.51	3.53			
Loan growth (%)	24.97	23.64	18.15	24.62	23.46	20.09			
Loan loss provisions	2,179	2,094	3,122	2,041	2,147	2,928	(6.3)	2.5	(6.2)
Other income	3,556	3,120	3,263	3,821	3,137	3,282	7.5	0.5	0.6
Fee income	952	1,066	1,173	952	1,066	1,173	-	-	-
Treasury income	400	-	-	650	-	-	62.5		
Operating expenses	4,382	5,041	5,687	4,576	5,326	5,953	4.4	5.7	4.7
Employee expenses	2,564	2,949	3,303	2,751	3,164	3,480	7.3	7.3	5.4
Depreciation on investments	-	-	-	(150)	-	-			
Amortization of investments	160	128	102	160	128	102			
Net profit	**4,281**	**5,645**	**6,250**	**4,119**	**5,490**	**6,223**	**(3.8)**	**(2.7)**	**(0.4)**
PBT-treasury+provisions	7,905	10,044	11,925	7,435	9,879	11,692	(5.9)	(1.6)	(1.9)

Source: Kotak Institutional Equities estimates.

Banking

MMFS.BO, Rs296	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	265
52W High -Low (Rs)	368 - 212
Market Cap (Rs bn)	24.8

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	5.2	7.5	9.1
Net Profit (Rs bn)	1.3	1.6	2.0
EPS (Rs)	15.7	18.9	24.0
EPS gth	*25.5*	*20.0*	*27.5*
P/E (x)	18.8	15.7	12.3
P/B (x)	3.4	3.0	2.6
Div yield (%)	1.4	1.6	2.0

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	70.0	-	-
FIIs	25.1	0.1	0.1
MFs	0.1	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Mahindra & Mahindra Finance: Profit in line but core below estimates, retain ADD

Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252

Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588

- **Net profit of Rs425 mn for 3QFY08—up 66% yoy, 5% above estimates**
- **Degrowth in disbursements affected loan growth, higher yield on securitization supported profits**
- **Provisioning burden remained high as NPLs continued to rise**
- **We will revise our earning estimates after discussing the results with the management, retain ADD**

Mahindra and Mahindra Financial Services (MMFSL) reported a net profit of Rs425 mn for 3QFY08, up 66% yoy and 5% above estimates. Core earnings (PBT before securitization income post provisions) were, however, below expectations. Loan growth was low likely because the management reduced impetus on growth on the back of high delinquencies in its existing portfolio. However, gross NPLs increased to 8.7% in December 2007 (up from 7.9% in 2QFY08). We will revise our earnings estimates after discussing the results with the management. Retain ADD with target price of Rs265.

Key highlights

Degrowth in disbursements pulled down loan growth. MMFSL's reported 15% yoy degrowth in disbursements during 3QFY08. Consequently, loan growth was lower at 18% yoy in 3QFY08 vs 28% yoy in 2QFY08. We understand that the management consciously shifted its focus on recoveries and went slow on business growth. While MMFSL reported degrowth, vehicles sales have been strong—M&M's UVs reported 18% growth in 3QFY08, passenger cars by Maruti increased 17% yoy. Tractor sales for M&M, excluding Punjab Tractors Ltd., have however been down 7% yoy.

Rise in NPLs remain a concern. MMFSL's gross NPLs increased to 8.7% in 3QFY08 from 6.9% in 3QFY07 and 7.9% in 2QFY08. Its provisioning cost was up 72% yoy to Rs714 mn. Consistent rise in NPLs (53% yoy and 11% qoq) remains a cause of concern.

Higher securitization income supports growth. MMFSL reported higher spreads on account of higher securitization income and also due to higher yields on assets. MMFSL carried out two securitizations/loan assignments aggregating to Rs2 bn. The company earned Rs288 mn i.e. 14% on these transactions. In the past, MMFSL has been earnings about 7-10% upfront income on securitization. MMFSL increased yields on tractors loans in the past which is also likely reflected in interest yields for the quarter.

Mahindra Finance
Quarterly results, 3Q07-3Q08 (Rs mn)

	3Q07	4Q07	1Q08	2Q08	3Q08	YoY(%)	3Q08E	Actual vs KS(%)
						(%)		(%)
Total interest income	2,055	2,332	2,351	2,702	2,899	41	2,980	(3)
Total interest expense	856	958	1,032	1,085	1,263	48	1,267	(0)
Net interest income	**1,199**	**1,373**	**1,320**	**1,617**	**1,636**	**36**	**1,713**	**(5)**
Provisions and write/off	**415**	**245**	**594**	**574**	**714**	**72**	**650**	**10**
Net interest income (after prov.)	784	1,129	725	1,044	922	17	1,063	(13)
Other income	114	330	153	228	338	197	280	21
Income from securitization	82	290	95	174	288	252	220	31
Total income pre loan loss provision	1,313	1,703	1,473	1,846	1,974	50	1,993	(1)
Operating expenses	**511**	**572**	**556**	**692**	**606**	**19**	**729**	**(17)**
Employee expenses	154	173	181	263	246	60	300	(18)
Depreciation	16	29	21	22	23	45	22	1
Other expenses	342	370	355	407	337	(1)	407	(17)
Pretax income	**387**	**886**	**323**	**580**	**654**	**69**	**614**	**7**
Tax provisions	131	309	108	203	229	75	209	10
Net Profit	**256**	**577**	**214**	**377**	**425**	**66**	**405**	**5**
Tax rate	34	35	34	35	35		34	
PBT bef sec income post prov	**305**	**596**	**273**	**407**	**366**	**20**	**394**	**(7)**
Other operational details								
Disbursements (Rs bn)	16.19	14.8	15.9	15.8	13.8	(15)		
Outstanding assets (Rs bn)	59.52	62.8	66.1	70.5	71.0	19		
Outstanding loans (Rs bn)	56.89	58.7	62.7	66.7	67.2	18		
Loans securitised during the period (Rs mn)	1,131	3,363	1,000	1,990	2,080			
Income on securitisation/ loans securitised during the period (%)	7	9	10	9	14			
Total income/ average assets(%)	14	14.9	14.9	15.8	17.0	21		
Interest / average assets (%)	6	5.6	6.3	6.2	6.6	20		
Difference (%)	8.50	9.3	8.6	9.6	10.4	22		
Gross NPLs (Rs mn)	4,245	3,582	5,207	5,829	6,487	53		
Gross NPLS (%)	6.9	5.5	7.6	7.9	8.7			
NPAs (Rs mn)	2,305	2,034	2,518	2,835	2,909	26		
NPL ratio (%)	3.9	2.5	3.8	4.0	4.1			
CAR (%)	15.2	14.7	14.4	14.4	15			
Tier I (%)	11.8	11.3	8.7	10.7	11			
Exp/ Ave Assets (%)	3.0	3.4	3.5	3.8	3.7			
Balance sheet (Rs mn)	**3Q07**	**4Q07**	**1Q08**	**2Q08**	**3Q08**	**YoY(%)**		
Sharecapital	833	840	841	841	841	1		
Reserves	6,708	6,929	7,146	7,523	7,948	18		
ESOP	22	13	14	15	17	(23)		
Total Borrowings	46,663	49,113	51,675	56,803	56,931	22		
Current Liabilities	5,298	5,914	6,392	5,366	5,285	(0)		
Provisions								
Total liabilities and shareholders funds	**59,524**	**62,809**	**66,068**	**70,548**	**71,022**	**19**		
Loans & Avd	56,885	58,655	62,689	66,709	67,237	18		
Investments	519	269	38	38	31	(94)		
Deferred tax	561	745	808	911	1,048	87		
Current Assets	1,298	2,867	2,242	2,586	2,400	85		
Fixed assets	261	273	291	304	306	17		
Total assets	**59,524**	**62,809**	**66,068**	**70,548**	**71,022**	**19**		

Source: Company, Kotak Institutional Equities estimates.

Construction

SADE.BO, Rs1306	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,385
52W High -Low (Rs)	1600 - 380
Market Cap (Rs bn)	17.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	4.9	8.5	13.4
Net Profit (Rs bn)	0.3	0.5	0.9
EPS (Rs)	23.7	45.0	74.0
EPS gth	*21.1*	*90.0*	*64.3*
P/E (x)	55.1	29.0	17.6
EV/EBITDA (x)	30.4	17.3	10.4
Div yield (%)	0.3	0.4	0.8

Sadbhav Engineering: 3QFY08 results marginally lower than estimate; maintain target

Nitin Bhasin : nitin.bhasin@kotak.com, +91-22-6634-1395

Augustya Somani : augustya.somani@kotak.com, +91-22-6634-1328

- **3QFY08 results—revenues and PAT marginally lower than estimate;**
- **3QFY08 revenues up 52.2% yoy; PAT up 39.2%; 9MFY08 PAT up 100%;**
- **Revise estimates marginally—tweak estimates for depreciation and interest expense**
- **Maintain target price of Rs1,385 and revise rating to ADD from BUY due to recent sharp run up in the stock price**

Sadbhav reported strong 3QFY08 results—revenue increased to Rs2.3 bn, up 52.2% yoy and net income increased 39.2% yoy to Rs137 mn. For the nine-month period ended December 2007, revenues were Rs5.1 bn (up 73.3% yoy) and net income was Rs0.3 bn (up 100% yoy). 3QFY08 results were marginally lower than estimates—revenues of Rs2.3 bn against our estimate of Rs2.6 bn and PAT of Rs137 mn versus our estimate of Rs158 mn. Revenues and net earnings were marginally lower than our estimate as billings for few of the contracts were marginally delayed to the next quarter. We marginally revise our net estimates upwards for FY2008E-2010E for lower depreciation expense and reduction in EBITDA margin by 10 bps. We increase our net income estimates for FY2008E, FY2009E and FY2010E upwards by 1.9%, 5.8% and 2.3%, respectively. We maintain our SOTP-based target price of Rs1,385 and revise our rating to ADD from BUY earlier on the back of sharp run-up in the stock price over past one month. We believe higher-than-expected order flow especially in the mining segment and addition of new BOT road projects can provide upside risk to our estimates and target price.

3QFY08 results—marginally lower than expected but yoy growth continues to be strong

Sadbhav's 3QFY08 results were marginally lower than estimated with revenues of Rs2.3 bn (up 52.2% yoy) against our estimate of Rs2.6 bn and PAT of Rs137 mn (up 39.2% yoy) versus our estimate of Rs158 mn. For the nine-month period ended December 2007, revenues were Rs5.1 bn (up 73.3% yoy) and net income was Rs0.3 bn (up 100% yoy). We note that revenues and net earnings were lower than our estimates because of lower billings in this quarter which we believe will flow in the next quarter.

Marginally revise estimates—tweak estimates for interest, depreciation and taxation

We marginally revise our net earnings estimate for FY2008E-2010E upwards by 2.6%, 6.5% and 2.8%, respectively on account of lower depreciation and tax expense and higher interest expense. We moderately adjust revenues and EBITDA assumptions for slight delay in billings to the next quarter. We believe strong growth in mining and road projects will continue to drive revenues and net earnings at a CAGR of 46.5% and 61.3%, respectively over FY2007-10E.

Maintain target price of Rs1,385; reduce rating to ADD from BUY on the back of recent run up

We maintain our12-month SOTP-based target price of Rs1,385 but reduce our rating to ADD from BUY as we believe sharp run-up in the stock price over last one month leaves limited upside. We believe higher-than-expected order flow especially in the mining segment and addition of new BOT road projects can provide upside risk to our estimates and target price.

Forecasts and valuation (stand alone)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	2,906	353	162	19.6	11.9	66.7	31.0
2007	4,886	579	258	23.7	16.6	55.1	25.4
2008E	8,529	1,028	523	39.9	17.6	32.7	17.4
2009E	13,449	1,651	930	71.0	22.9	18.4	10.4
2010E	15,367	1,888	1,079	82.4	21.8	15.9	8.8

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Sadbhav Engineering, Interim results, March fiscal year-ends, (Rs mn)

		qoq		yoy			yoy	
	3Q2008	2Q2008	*(% chg)*	3Q2007	*(% chg)*	9M2008	9M2007	*(% chg)*
Net sales	**2,301**	**1,018**	***126.0***	**1,511**	***52.2***	**5,114**	**2,951**	***73.3***
Total expenditure	**(2,028)**	**(895)**	***126.5***	**(1,339)**	***51.5***	**(4,500)**	**(2,602)**	***72.9***
Inc/(dec) in stock	15	49	*(69.6)*	8	*84.3*	107	21	*422.5*
Raw materials	(407)	(311)	*31.0*	(372)	*9.5*	(1,097)	(789)	*39.0*
Construction expense	(1,544)	(560)	*175.5*	(912)	*69.4*	(3,256)	(1,611)	*102.1*
Staff cost	(24)	(28)	*(15.9)*	(29)	*(17.8)*	(77)	(60)	*28.7*
Other expenditure	(68)	(45)	*52.5*	(34)	*97.7*	(177)	(162)	*9.0*
EBITDA	**273**	**123**	***122.4***	**173**	***57.9***	**614**	**349**	***76.1***
OPM (%)	**11.9**	**12.0**		**11.4**		**12.0**	**11.8**	
Other income	4	6	*(42.1)*	6	*(37.6)*	12	17	*(28.4)*
Interest	(51)	(28)	*80.4*	(11)	*368.0*	(113)	(39)	*191.8*
Depreciation	(34)	(33)	*3.9*	(38)	*(10.8)*	(101)	(113)	*(11.1)*
Pretax profits	**192**	**68**	***181.3***	**130**	***47.8***	**413**	**214**	***93.0***
EO	—	—		—		—	—	
EBIT%	**10.5**	**9.5**		**9.3**		**10.3**	**8.6**	
Tax	(55)	(13)	*333.9*	(32)	*74.3*	(109)	(62)	*76.2*
Net income	**137**	**56**	***146.5***	**98**	***39.2***	**304**	**152**	***99.9***
Adjusted profits	**137**	**56**	***146.5***	**98**	***39.2***	**304**	**152**	***99.9***
Income tax rate (%)	28.7	18.6		24.3		26.5	29.0	

Source: Company data, Kotak Institutional Equities.

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

	Revised estimates			Old estimates			Change (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Revenue	8,529	13,449	15,367	8,663	13,315	15,367	(1.5)	1.0	—
EBITDA	1,028	1,651	1,888	1,058	1,651	1,900	(2.8)	(0.0)	(0.6)
EBITDA margin (%)	12.1	12.3	12.3	12.2	12.4	12.4	—	—	—
Adjusted net profit	523	930	1,079	513	879	1,055	1.9	5.8	2.3
Diluted EPS (Rs)	39.9	71.0	82.4	39.2	67.1	80.6	1.9	5.8	2.3

Source: Kotak Institutional Equities estimates.

Exhibit 4: Our SOTP valuation for Sadbhav is Rs1,385

Business	Valuation method	Equity value (Rs mn) Total	SEL share	Per share (Rs)	Comments
Construction business (a)	EV/EBITDA	12,968	12,968	990	Based on 2009E EBITDA - 6.5X for BOT-construction and 9X for non-BOT construction business
BOT projects (b)	DCF	9,897	5,120	391	Based on DCF valuation of projects
Ahmedabad Ring Road		4,495	3,596	275	SEL has 80% stake
Mumbai Nasik		3,972	794	61	SEL has 20% stake
Aurangabad-Jalna		824	420	32	SEL has 51% stake
Nagpur-Seoni		606	309	24	SEL has 51% stake
Total (a) + (b)			**18,088**	**1,381**	
Target price				**1,385**	

Source: Kotak Institutional Equities estimates.

Exhibit 5: We value the construction business at Rs1,000 per share

Valuation of construction business, (Rs mn)

	Non-BOT	BOT	Total
EBITDA-FY2009E (Rs mn)	943	707	1,651
EV/EBITDA (X)	9.0	6.5	—
Enterprise value (Rs mn)	8,491	4,597	13,088
Net debt-FY2009E (Rs mn)	—	—	120
Equity value (Rs mn)			**12,968**
Equity value per share (Rs)			**990**

Source: Kotak Institutional Equities estimates.

Exhibit 6: Profit model, balance sheet, cash model for Sadbhav Engineering (standalone), 2006-2010E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E
Profit model					
Total income	2,906	4,886	8,529	13,449	15,367
EBITDA	**353**	**579**	**1,028**	**1,651**	**1,888**
Interest (expense)/income	(84)	(54)	(154)	(134)	(63)
Depreciation	(139)	(149)	(151)	(183)	(209)
Other income	(2)	6	6	(1)	1
Pretax profits	**129**	**381**	**729**	**1,333**	**1,617**
Tax	(11)	(129)	(192)	(390)	(538)
Deferred taxation	(1)	8	(15)	(13)	-
Adjusted net income	**139**	**264**	**523**	**930**	**1,079**
Diluted earnings per share (Rs)	**19.6**	**23.7**	**39.9**	**71.0**	**82.4**
Balance sheet					
Total equity	1,254	1,466	2,867	3,944	4,839
Deferred taxation liability	108	93	108	121	121
Total borrowings	522	730	1,340	750	400
Current liabilities	1,751	2,551	3,611	5,679	6,492
Total liabilities and equity	**3,634**	**4,841**	**7,926**	**10,494**	**11,852**
Cash	432	251	513	630	887
Other current assets	2,025	2,984	4,397	6,640	7,559
Total fixed assets	1,038	1,119	1,569	1,785	1,976
Miscl. exp. not written off	34	26	17	9	—
Investments	104	461	1,430	1,430	1,430
Total assets	**3,634**	**4,841**	**7,926**	**10,493**	**11,852**
Free cash flow					
Operating cash flow, excl. working capital	215	467	672	1,115	1,270
Working capital changes	581	165	(389)	(241)	(136)
Capital expenditure	(398)	(232)	(600)	(400)	(400)
Investments	(440)	(782)	(969)	—	—
Other income	10	17	25	20	27
Free cash flow	**399**	**401**	**(317)**	**474**	**734**
Ratios (%)					
Debt/equity	38.3	46.8	45.0	18.5	8.1
Net debt/equity	6.6	30.7	27.8	3.0	(9.8)
RoAE	11.9	16.6	17.6	22.9	21.8
RoACE	**5.3**	**10.6**	**12.5**	**18.3**	**20.4**

Source: Company data, Kotak Institutional Equities estimates.

Industrials

LART.BO, Rs3845	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	4,050
52W High -Low (Rs)	4670 - 1375
Market Cap (Rs bn)	1,106

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	205.2	273.5	368.7
Net Profit (Rs bn)	17.8	26.2	35.9
EPS (Rs)	62.8	91.1	122.9
EPS gth	*59.4*	*45.1*	*34.8*
P/E (x)	61.2	42.2	31.3
EV/EBITDA (x)	38.2	26.5	19.6
Div yield (%)	0.3	0.3	0.3

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	21.6	2.0	(0.0)
MFs	6.1	3.5	1.5
UTI	9.3	43.2	41.2
LIC	15.7	8.3	6.2

Larsen & Toubro: Beats expectations with strong execution growth and margin expansion

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496

Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **Exceptionally strong execution growth, margins expand 120 bps adjusted for exchange loss**
- **Robust order inflow with very large, potentially higher-margin orders**
- **Reiterate BUY rating with target price of Rs4050/share**
- **Several incremental catalysts for L&T led by strong outlook on infrastructural and industrial investments and leveraging capabilities in related segments and new geographies**

L&T has reported exceptionally strong execution with 3QFY08 standalone revenues of Rs64 bn (up 55% yoy) and profit after tax of Rs4.8 bn (up 40% yoy) versus our expectation of revenues of Rs57 bn and PAT of Rs4.8 bn. Adjusted for exchange loss of about Rs500 mn (related to appreciation of Yen against Re), operating margins have expanded by 120 bps to 11.6% (our expectation for operating margin was 12% for the quarter) versus 10.4% last year. We believe that margins may expand further led by the pick up in execution of orders in recent times with potentially higher margins as well as more choice in terms of size, segment, client and geographical profile of orders. Operating leverage, lower subcontracting, sourcing from cost-competitive countries such as China and risk management would continue to aid margin expansion. Order inflows remain exceptionally strong with order booking of Rs130 bn in 3QFY08 (up 37% yoy) and visibility (based on forward four quarters) at 1.6 years (Exhibit 2). Cumulatively, L&T has booked orders worth Rs304 bn in 9mFY08 (up 33% yoy), versus Rs229 bn in 9mFY07. We broadly maintain our earnings estimates for FY2008E and FY2009E as we have revised our execution assumptions upwards with slightly lower margin expectation versus earlier. We maintain our SOTP-based target price of Rs4,050/share and BUY rating on the stock. We highlight several incremental catalysts led by (a) potential to leverage capabilities in related segments such as power equipment, shipbuilding, defense and geographies such as the Middle East, and (b) infrastructure development opportunities. Key risks arise from execution challenges, commodity price pressure and slowdown in investment momentum.

Exceptionally strong execution growth, margins expand 120 bps adjusted for exchange loss

L&T reported 3QFY08 standalone revenues of Rs64 bn (up 55% yoy) and PAT of Rs4.8 bn (up 40% yoy) versus our expectation of Rs57 bn and Rs5 bn, respectively. If we adjust for exchange loss of about Rs500 mn (on yen borrowings related to appreciation of Yen against Re) operating margins are at 11.6% (our expectation for operating margin was 12% for the quarter) versus 10.4% last year (120 bps yoy expansion). Other income has been lower-than-expected (lower by about Rs400 mn versus our expectation) due to changes in accounting policy (related to services provided to subcontractors, revenues for which have been adjusted from subcontracting charges as against other income earlier). Interest costs have been higher (by about Rs250 mn) due to higher borrowing and ECB issuance costs (Exhibit 1).

Robust order inflow with very large, potentially higher-margin orders

Order inflows remain exceptionally strong with order booking of Rs130 bn in 3QFY08 (up 37% yoy) and visibility (based on forward four quarters) at 1.6 years (Exhibit 2). Cumulatively L&T has booked orders worth Rs304 bn in 9mFY08 (up 33% yoy), versus Rs229 bn in 9mFY07. Some very large orders have been won since the last quarter including orders from Mumbai airport, Cairn India, Kingston properties, Kuwait Petroleum Company and Middle-East T&D utilities (Exhibit 3). Such large orders potentially are higher-margin driven by lower overheads and likely limited competition.

Strong capacity build-up, at the standalone and subsidiaries—underscoring sustained strength in growth potential

L&T is building up capacities to execute its huge order backlog (at the standalone level) and also at the subsidiaries (that are witnessing strong revenue growth). L&T's capex in 9mFY08 was Rs9.9 bn and its manpower increased by 29% yoy to a count of 32,291. L&T has invested about Rs8.5 bn in its subsidiaries in 9mFY08 – L&T Finance Rs2.5 bn, L&T Infra Finance Rs2.57 bn and L&T International FZE Rs3 bn.

Subsidiaries deliver strong performance, particularly L&T Finance and L&T Infotech

L&T Finance has reported revenue growth of 135% to Rs3.9 bn (versus Rs1.7 bn in 9mFY07) and 114% PAT growth to Rs760 mn (versus Rs360 mn in 9mFY07). Total assets of L&T Finance have increased by 74% yoy from Rs24 bn at the end of 9mFY07 to Rs42 bn at the end of 9mFY08. L&T Finance's manpower strength has grown by about 136% and it has added the retail segment (primarily financing of farm equipment like tractors) to its portfolio. L&T Infotech has reported revenues of Rs11.5 bn during 9mFY08 (up 19% yoy – US$ revenue growth of about 36% yoy) and PAT of Rs1.4 bn (up 28% yoy). L&T Infotech's manpower strength has risen by about 40%.

We believe that higher margins would be sustained and may have potential to expand further moderately

We continue to believe that L&T would be able to enhance margins achieved so far and we expect it to achieve an EBITDA margin of 11.8% for the full year of FY2008E versus 10.1% in FY2007. We broadly maintain our margin expectations of 12.3% and 12.6% for FY2009E and FY2010E, respectively. We believe margins would expand given the large orders won recently and the strong pick-up in construction activity that would potentially have allowed L&T to build in higher margins as well as more choice in terms of size, segment, client and geographical profile of orders that it picks up. Margin expansion would also continue to be aided by (1) operating leverage, (2) sourcing from cost competitive countries such as China and (3) risk management.

We revise our execution estimates upwards, broadly maintain earnings estimates as we lower our margin expectation slightly

We have revised our execution assumption for FY2008E and FY2009E standalone revenues to Rs242 bn (from Rs237 bn earlier) and Rs329 bn (from Rs322 bn earlier). We have revised our standalone earnings estimates for FY2008E and FY2009E marginally to Rs73.4 (from Rs72.9 earlier) and Rs99.8 (from Rs99.2 earlier). We have slightly reduced our operating margin expectation for FY2008E and FY2009E to 11.8% (from 12.1% earlier) and 12.3% (from 12.4% earlier). We maintain our consolidated earnings estimate for FY2008E and FY2009E of Rs92 and Rs123, respectively.

Reiterate BUY rating with target price of Rs4050/share

We maintain our SOTP-based (DCF for core company and SOTP for subsidiaries and associates) target price of Rs4,050. Our valuation for the core company implies P/E and EV/EBITDA of 31.4X and 23X based on FY2009E earnings and P/E and EV/EBITDA of 24X and 17X based on FY2010E standalone earnings (Exhibits 4, 5 and 6).

We reiterate our BUY rating on the stock led by (1) 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, (2) infrastructure development upside by equity participation in projects through L&T IDPL, (3) strong momentum in infrastructure and industrial investments across sectors and L&T's positioning in terms of breadth of skills and execution depth and (4) potential for increasing international presence, particularly in the Middle East.

Execution challenges, commodity price pressures, slowdown in infrastructure/ industrial capex spending pose key risks

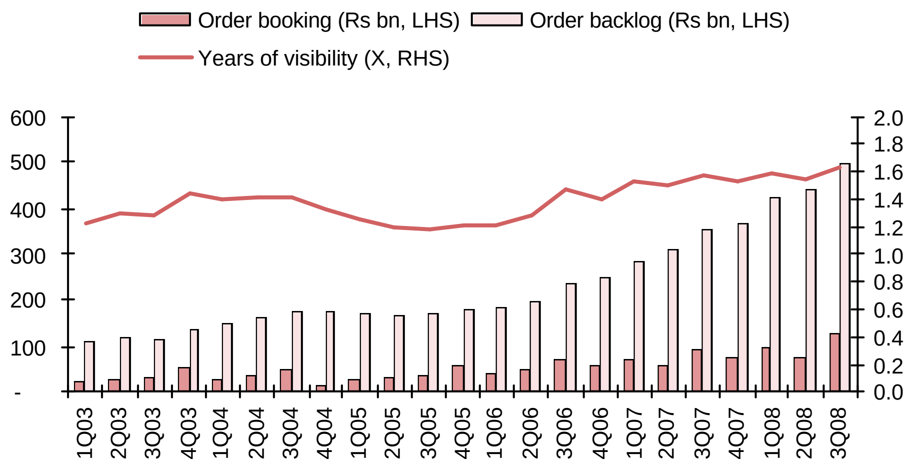
Key risks emerge from (1) execution challenges in a tight demand-supply environment for technical and managerial skills, (2) potential hiccups in ramp up of several new business segments such as defense, power equipment manufacturing and shipbuilding, (3) slowdown in infrastructural and industrial capital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

Exhibit 1: L&T - key nos - 3QFY08 (Rs mn)

	yoy			qoq			yoy		
	3QFY08	3QFY07	(% chg)	3QFY08	2QFY08	(%chg)	9mFY08	9mFY07	(% chg)
Gross sales	**64,620**	**42,033**	**53.7**	**64,620**	**55,743**	**15.9**	**166,099**	**115,394**	**43.9**
Less: Excise duty	(793)	(811)	(2.2)	(793)	(743)	6.7	(2,221)	(2,043)	8.7
Net sales	**63,827**	**41,222**	**54.8**	**63,827**	**55,009**	**16.0**	**163,888**	**113,352**	**44.6**
Expenses	(56,424)	(36,929)	52.8	(56,424)	(49,136)	14.8	(146,382)	(103,836)	41.0
Stock	1,611	807	99.5	1,611	1,658	(2.8)	3,295	962	242.6
RM	(15,616)	(11,854)	31.7	(15,616)	(15,888)	(1.7)	(42,515)	(28,295)	50.3
Trading goods	(3,798)	(3,382)	12.3	(3,798)	(3,682)	3.2	(10,498)	(8,474)	23.9
Total RM consumption	**(17,803)**	**(14,429)**	**23.4**	**(17,803)**	**(17,911)**	**(0.6)**	**(49,718)**	**(35,807)**	**38.9**
Subcontracting charges	(13,753)	(8,066)	70.5	(13,753)	(8,770)	56.8	(30,963)	(22,658)	36.7
Construction materials	(14,149)	(6,929)	104.2	(14,149)	(10,848)	30.4	(34,519)	(22,919)	50.6
Employee	(3,996)	(3,028)	31.9	(3,996)	(4,432)	(9.9)	(11,558)	(9,478)	22.0
Other mfg. expenses	(4,513)	(1,476)	205.7	(4,513)	(4,121)	9.5	(11,421)	(4,101)	178.5
Other S,G&A	(2,210)	(3,001)	(26.4)	(2,210)	(3,053)	(27.6)	(8,202)	(8,874)	(7.6)
Total other expenses	(6,723)	(4,477)	50.2	(6,723)	(7,175)	(6.3)	(19,623)	(12,975)	51.2
Operating profit	**7,403**	**4,293**	**72.4**	**7,403**	**5,873**	**26.1**	**17,506**	**9,515**	**84.0**
Other income	1,009	1,242	(18.8)	1,009	1,124	(10.3)	2,919	2,649	10.2
EBIDTA	8,412	5,535	52.0	8,412	6,996	20.2	20,425	12,165	67.9
Interest	(438)	(12)	3,493.4	(438)	(132)	231.1	(728)	(276)	163.8
Depreciation	(527)	(357)	47.7	(527)	(483)	9.1	(1,434)	(1,002)	43.1
PBT	7,446	5,166	44.1	7,446	6,381	16.7	18,262	10,887	67.8
Tax	(2,128)	(1,727)	23.3	(2,128)	(2,001)	6.4	(5,670)	(3,784)	49.8
Net profit	**5,318**	**3,439**	**54.6**	**5,318**	**4,380**	**21.4**	**12,592**	**7,102**	**77.3**
Extraordinary items	(500)	-		(500)	(900)		(519)	(80)	548.9
Reported profit	**4,818**	**3,439**	**40.1**	**4,818**	**3,480**	**38.4**	**12,073**	**7,022**	**71.9**
Key ratios									
Excise duty/Grass sales (%)	1.2	1.9		1.2	1.3		1.3	1.8	
Raw materials/sales (%)	50.1	51.8		50.1	52.3		51.4	51.8	
Subcontracting charges (%)	21.5	19.6		21.5	15.9		18.9	20.0	
Employee expenses/sales (%)	6.3	7.3		6.3	8.1		7.1	8.4	
Other manufacturing expenses (%	7.1	3.6		7.1	7.5		7.0	3.6	
S G and A expenses/sales (%)	3.5	7.3		3.5	5.6		5.0	7.8	
Operating profit margin (%)	**11.6**	**10.4**		**11.6**	**10.7**		**10.7**	**8.4**	
EBIDTA margin (%)	13.2	13.4		13.2	12.7		12.5	10.7	
PBT Margin (%)	11.7	12.5		11.7	11.6		11.1	9.6	
Tax rate (%)	28.6	33.4		28.6	31.4		31.0	34.8	
Segment results									
Revenues									
E&C	49,625	31,595	57.1	49,625	42,626	16.4	127,170	85,278	49.1
Electrical	6,157	4,825	27.6	6,157	6,717	(8.3)	18,285	13,739	33.1
Machinery & Industrial	5,896	4,066	45.0	5,896	5,917	(0.4)	16,040	11,789	36.1
Others	3,815	2,677	42.5	3,815	2,329	63.8	9,054	6,900	31.2
Revenue mix (%)									
E&C	75.8	73.2		75.8	74.0		74.6	72.5	
Electrical	9.4	11.2		9.4	11.7		10.7	11.7	
Machinery & Industrial	9.0	9.4		9.0	10.3		9.4	10.0	
Others	5.8	6.2		5.8	4.0		5.3	5.9	
EBIT Margin (%)									
E&C	11.5	10.3		11.5	10.6		10.4	8.7	
Electrical	15.5	14.7		15.5	15.2		15.5	15.4	
Machinery & Industrial	19.7	13.6		19.7	14.6		18.2	15.0	
Others	4.7	3.1		4.7	7.1		5.1	7.5	
EBIDTA Margin (%)									
E&C	-	11.4		-	9.6		-	9.6	
Electrical	-	17.0		-	16.7		16.9	17.5	
Machinery & Industrial	15.8	14.3		15.8	22.1		18.5	15.9	
Others	10.3	4.9		10.3	6.0		7.7	9.5	

Source: Company data, Kotak institutional equities estimates.

Exhibit 2. Order flows remain strong, order books provide 1.7 years of revenue visibility
Order booking, Order backlog & Visibility trend for L&T, March fiscal year-ends, (Rs mn)



Source: Company data, Kotak institutional equities estimates.

Exhibit 3. Order inflows in this financial year have remained strong
Major orders booked by L&T in FY2008 so far

Date	Customer	Sector	Size of Order (Rs bn)	Nature of Work
23-Jan-2008	Transmission and distribution companies in the Middle-east	Power	10.6	Cosntruction of substations, switchgears and grid stations among others
21-Jan-2008	Kuwait National Petroleum Company	Oil & gas	17.0	Manufacture of 22 hydrocracker & atmospheric residue desulphurisation reactors
10-Jan-2008	Kingston Properties and others	Others	35.0	Construction of IT parks, hotels and malls
7-Jan-2008	Cairn India	Oil & gas	13.0	Construction works for Northern Area Development Project, Barmer, Rajasthan
26-Dec-2007	Muscat Golf Course Project LLC	Others	4.3	Township development
26-Dec-2007	Dhofar Power Co. and Muscat Electricity Distribution Co.	Power	3.2	Electrical substations & associated works in Oman
19-Dec-2007	Mumbai Metropolitan Region Development Authority	Infrastructure	2.9	Access road from Western Express Highway to the International Airport, Mumbai
19-Nov-2007	Delhi Metro Railway Corporation	Infrastructure	1.4	Construction of 2.4 km of Underground Twin Tunnel in association with Shanghai
15-Nov-2007	SAIL - Bokaro Steel Plant	Process	3.6	Blast Furnace Rebuild in consortium with Paul Wurth
1-Nov-2007	Mumbai international Airport Pvt Ltd	Infrastructure	55.0	Integrated passenger terminal, airside and landside works on turnkey basis at
18-Oct-2007	NTPC and Andhra Pradesh state government agencies	Power & Infrastructure	4.5	Simhadri Coal Handling Plant and water supply/sanitation projects
10-Oct-2007	Methanol Chemical Company, Saudi Arabia	Process	2.3	Setting up high technology Methyl Amines & Dimethyl Formamide Plants
9-Oct-2007	Indian Oil Corporation	Oil & gas	6.9	EPC of sulphur recovery units
17-Sep-2007	Rashtriya Chemicals and Fertilizers Limited	Process	0.8	Methanol Reformer Package as a part of 'Trombay Methanol Revamp Project'
14-Sep-2007	Steel Authority of India Limited	Process	7.6	Turnkey sinter plant project in consortium with Outotec GmbH, Germany
5-Sep-2007	Bhushan Steel Limited	Process	12.1	Turnkey construction of a 2.5 mn TPA blast furnace for plant in Meramandali, Orissa in consortium with Paul Wurth, Italy
4-Sep-2007	Indian Oil Corporation Limited and Liaoning Huajin Chemical	Oil & gas	2.7	2 separate orders - both are capacity expansion projects
23-Aug-2007	RollDock BV, Netherlands	Shipbuilding	2.7	Construction of two ships
13-Aug-2007	Delhi Metro Railway Corporation	Infrastructure	2.0	Construction of underground station and a tunnel as part of Phase II of the project
17-Jul-2007	Tata Steel	Process	9.8	Supply and installation of blast furnace
16-Jul-2007	Tata Steel	Process	6.2	Supply & installation of sinter plant and other packages
16-Jul-2007	Various companies in the Gulf	Process	7.2	Manufacture and supply of process modules for handling & processing of gas
13-Jul-2007	Abu Dhabi Water & Electricity Authority	Infrastructure	3.7	Design and commissioning of substations
13-Jul-2007	Power Grid Corporation of India Limited	Infrastructure	2.0	Turnkey construction of substations
13-Jul-2007	Different entities in the water and utilities sector	Infrastructure	2.9	Various projects in the water sector
10-Jul-2007	Indian Oil Corporation Limited	Process	5.4	Order for motor spirit quality upgradation unit
21-Jun-2007	BigLift Shipping BV, Netherlands	Others	3.8	Construction of two ships
19-Jun-2007	Victory Heights Golf Residential and Development LLC, UAE	Others	6.1	Residential building project in Dubai, in JV with Eastern Contracting LLC
12-Jun-2007	Oil & Natural Gas Corporation	Oil & gas	8.8	Re-construction of offshore facilities at NQ complex in Mumbai High north field
12-Jun-2007	Steel Authority of India Limited	Power	1.1	Turnkey construction of substation and associated transmission networks
7-Jun-2007	ENOC Processing Company LLC, Dubai	Process	2.1	Mechanical erection of new process plants
18-May-2007	Irrigation & Command Area Development Dept, Govt of AP	Infrastructure	2.7	Engineer-Procure-Construct lift irrigation
8-May-2007	Abu Dhabi Water & Electricity Authority	Infrastructure	2.1	Supply and installation of power cables and fibre optic cables
25-Apr-2007	Nakheel, UAE	Others	2.0	Residential project in Dubai
	Total large order booking in FY2008 so far		**253.4**	

Source: Company data, Kotak Institutional equities estimates.

Exhibit 4. L&T - segmental numbers, March fiscal year-ends, 2006-2009E (Rs mn)

	3Q06	9MFY06	FY2006	3Q07	9MFY07	FY2007	3Q08	9mFY08	FY2008E	FY2009E
Engineering and Construction										
Order backlog	225,590	225,590	243,300	341,420	341,420	353,330	476,050	476,050	568,598	745,404
Revenues	**28,560**	**77,590**	**113,460**	**30,360**	**83,150**	**131,300**	**48,940**	**127,170**	**182,443**	**254,837**
EBITDA	2,170	4,910	9,090	3,460	7,950	15,040	5,900	13,900	23,718	33,766
EBITDA margin (%)	**7.6**	**6.3**	**8.0**	**11.4**	**9.6**	**11.5**	**12.1**	**10.9**	**13.0**	**13.3**
% yoy growth				6.3	7.2	15.7	61.2	52.9	39.0	39.7
Electrical and Electronics										
Revenues	**3,410**	**9,690**	**14,190**	**4,420**	**12,590**	**18,450**	**5,760**	**17,030**	**24,908**	**31,134**
EBITDA	620	1,600	2,390	750	2,200	3,190	1,000	2,910	4,359	5,449
EBITDA margin (%)	**18.2**	**16.5**	**16.8**	**17.0**	**17.5**	**17.3**	**17.4**	**17.1**	**17.5**	**17.5**
% yoy growth				29.6	29.9	30.0	30.3	35.3	35.0	25.0
Machinery and Industrial products										
Revenues	**3,410**	**9,970**	**14,390**	**4,000**	**11,530**	**17,950**	**5,670**	**15,480**	**23,335**	**29,169**
EBITDA	550	1,350	2,110	570	1,830	**3,230**	1,190	3,000	**4,667**	**5,834**
EBITDA margin (%)	**16.1**	**13.5**	**14.7**	**14.3**	**15.9**	**18.0**	**21.0**	**19.4**	**20.0**	**20.0**
% yoy growth				17.3	15.6	24.7	41.8	34.3	30.0	25.0
Others										
Revenues	**3,410**	**4,150**	**5,930**	**4,420**	**6,130**	**8,440**	**3,480**	**8,170**	**10,972**	**13,166**
EBITDA	620	290	600	750	580	**870**	220	590	**933**	**1,119**
EBITDA margin (%)	**18.2**	**7.0**	**10.1**	**17.0**	**9.5**	**10.3**	**6.3**	**7.2**	**8.5**	**8.5**
% yoy growth				29.6	47.7	42.3	(21.3)	33.3	30.0	20.0
Total										
Revenues	**38,790**	**101,400**	**147,970**	**43,200**	**113,400**	**176,140**	**63,850**	**167,850**	**241,658**	**328,307**
EBITDA	3,960	8,150	14,190	5,530	12,560	22,330	8,310	20,400	33,676	46,167
EBITDA margin (%)	**10.2**	**8.0**	**9.6**	**12.8**	**11.1**	**12.7**	**13.0**	**12.2**	**13.9**	**14.1**
YoY growth (%)				11.4	11.8	19.0	47.8	48.0	37.2	35.9

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 5. DCF valuation of L&T's construction business, March fiscal year-ends 2008E-2018E (Rs mn)

	2008E	2009E	2010E	20011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues	241,658	328,307	417,367	516,819	634,320	729,468	838,889	964,722	1,109,430	1,275,845	1,467,222
Growth (%)	37.5	35.9	27.1	23.8	22.7	15.0	15.0	15.0	15.0	15.0	15.0
EBIT (excl finl income)	26427	37498	49592	60698	73712	83889	96472	110943	127584	146722	168730
Growth (%)	64.8	41.9	32.3	22.4	21.4	13.8	15.0	15.0	15.0	15.0	15.0
EBIT Margins	10.94	11.42	11.88	11.74	11.62	11.50	11.50	11.50	11.50	11.50	11.50
Effective tax rate	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0
EBIT*(1-tax rate)	**17706**	**25124**	**33227**	**40667**	**49387**	**56206**	**64636**	**74332**	**85482**	**98304**	**113049**
Growth (%)	58.0	41.9	32.3	22.4	21.4	13.8	15.0	15.0	15.0	15.0	15.0
Depreciation / Amortisation	2,161	2,742	3,119	3,313	3,486	3,652	3,417	3,208	3,021	2,855	2,707
Change in Working Capital	(7,516)	(13,032)	(16,462)	(14,359)	(17,087)	(5,709)	(6,565)	(7,550)	(8,682)	(9,985)	(19,138)
Capital Expenditure	(15,220)	(10,014)	(8,198)	(7,749)	(7,744)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Free Cash Flows	**(2,868)**	**4,820**	**11,686**	**21,872**	**28,042**	**52,648**	**59,988**	**68,489**	**78,320**	**89,674**	**95,119**
Growth (%)	423.3	(268.0)	142.4	87.2	28.2	87.7	13.9	14.2	14.4	14.5	6.1
Years discounted	-	-	1	2	3	4	5	6	7	8	9
Discount factor	1.00	1.00	0.90	0.80	0.72	0.65	0.58	0.52	0.47	0.42	0.38
Discounted cash flow	**(2,868)**	**4,820**	**10,480**	**17,593**	**20,230**	**34,063**	**34,809**	**35,643**	**36,555**	**37,538**	**35,710**

WACC calculation	
Risk-free rate (Rf)	6.00%
Beta (B)	1.06
Equity risk premium	6.50%
Expected market Return (Rm)	12.50%
Cost of Equity (Ke)	12.89%
Cost of Debt (Kd) (Post-tax)	7.50%
WACC	11.500%

Terminal value Calc	**Year-forward**
Cash flow in terminal year	104,631
g	5.5%
Capitalisation rate	6.0%
Terminal value	1,743,850
Discount period (years)	9
Discount factor	0.3754
Discounted value	654,690

Capital Structure	
Net debt	40%
Equity	60%

Sensitivity of Stock price to growth and WACC assumptions

	4.0%	**4.5%**	**5.0%**	**5.5%**
10.6%	3,581	3,783	4,021	4,305
11.0%	3,344	3,517	3,718	3,957
11.5%	3,084	3,228	3,394	**3,588**
12.0%	2,858	2,979	3,117	3,277

NPV Calc	NPV	% of NPV
Sum of free cash flow	264,573	28%
Terminal value	654,690	70%
Enterprise value	919,263	
Net debt	3,978	
Core company valuation	**915,284**	

Source: Kotak Institutional Equities estimates.

Exhibit 6. Sum of the Parts valuation for SOTP gives a target price of Rs4,050/share

	Original invt	Mkt value	Implied val on 09 estimates (x)			L&T's stake	Value of L&T's stake	Value per share of L&T	
	(Rs mn)	(Rs mn)	P/E	P/B	EV/EBIDTA	%	(Rs mn)	(Rs)	Basis for Valuation
Core company valuation			**31.4**	**9.0**	**22.9**		**915,284**	**3,231**	
Key subsidiaries - services	1,454	74,986					74,986	265	
L&T Finance	1,304	28,561	17.5	3.0	NA	100.0	28,561	101	Relative P/E
L&T Infotech	150	46,425	15.0	5.3	11.0	100.0	46,425	164	Relative P/E
Key subsidiaries - manufacturing	911	94,330					48,794	172	
Tractor Engineers	3	3,259	27.6	4.6	19.2	100.0	3,259	12	Relative P/E
Associate companies*	908	91,071	27.6	NA	NA	50.0	45,536	161	Relative P/E
Power SPVs	873	13,051					7,034	25	
L&T Power Invt Pvt Ltd	211	211				100.0	211	1	At original investment
HPL Cogeneration	312	12,279	10.7	2.7	6.9	51.0	6,262	22	Relative P/E
India Infra Developers	350	561	35.3	0.9	5.6	100.0	561	2	Relative P/E
Infrastructure SPVs	10,790	53,949				79.0	42,620	150	
L&T International FZE and its subsidiaries		28,223					28,223	100	
Other subsidiaries	8,140	-					16,279	57	
Total subsidiaries	**13,062**						**189,713**	**769**	
UltraTech Cement	143	121,638				11.5	13,988	49	Market value
Other associate companies	279	557.00					557	2	2X investment
Integrated JVs	279	558.20					558	2	2X investment
Total associates and IJVs	**701**	**122,754**					**15,104**	**53**	
Financial investments	**16,865**	**16,865**					**16,865**	**60**	
Grand total	**30,628**	**139,619**	**44.9**	**11.4**			**1,136,966**	**4,114**	

* includes L&T Komatsu, L&T Case, Audco India and EWAC Alloys

Source: Company data, Kotak Institutional Equities estimates.

Jet Airways: Losses due to high fuel costs and fall in yields

JET.BO, Rs752	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	800
52W High -Low (Rs)	1050 - 533
Market Cap (Rs bn)	65.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	70.6	100.7	138.4
Net Profit (Rs bn)	(0.0)	0.6	5.4
EPS (Rs)	(0.2)	6.4	62.4
EPS gth	*(103.5)*	*-*	*894.2*
P/E (x)	(3,110)	116.7	12.1
EV/EBITDA (x)	26.3	11.2	5.6
Div yield (%)	0.1	0.2	1.7

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	80.0	-	-
FIIs	9.9	0.1	(0.1)
MFs	3.0	0.2	(0.0)
UTI	-	-	(0.2)
LIC	2.8	0.1	(0.1)

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496
Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **Losses due to high fuel costs, fall in yields and capacity expansion**
- **Overcapacity continues to hurt the domestic sector; situation to likely persist**
- **Ramp-up of international operations carries on; profitability to likely remain a challenge**
- **Improvements at Jet Lite continue; however, the turnaround may be slow**
- **Maintain target price and REDUCE rating due to visible near-term challenges**

Jet Airways reported losses of Rs1.3 bn led by very high fuel prices prevailing in the quarter, lower yields due to domestic over-capacity and expansion of international operations. The challenging situation may likely continue, as domestic airlines plan to add significant capacities and new players start international operations. Reiterate REDUCE rating.

Losses due to high fuel costs, lower yields and capacity expansion

Jet Airways reported revenues of Rs24.3 bn (up 25% yoy) and loss of Rs1.3 bn (profit of Rs400 mn in 3QFY07) versus our expectation of revenues of Rs23.9 bn and loss of Rs79 mn. Including gain of Rs393 mn (net exchange gain on restatement in accordance with AS11), Jet has reported a loss of Rs911 mn. EBITDAR margin has declined to 12% compared to 16% a year ago, led by (1) significantly higher fuel costs – up 620 bps yoy, (2) fall in yields by about 12% yoy, and (3) capacity ramp-up costs as - employee cost ratio increased (due to hiring of a large number of pilots and engineers) to 12.5% from 11.7% a year ago and S&D expenses ratio increased (for advertising the newly launched flights) to 4.2% from 3.2% a year ago. The fleet expansion (ASKMs in the international segment have more than doubled on a yoy basis) also led to (1) increase in depreciation costs by 105% yoy (26% qoq; delivery of five new wide-bodied aircraft in the quarter) and (2) increase in interest costs by 139% yoy (32% qoq).

Overcapacity continues to hurt the domestic sector; situation to likely persist

In the domestic segment, seat factors increased to 72.3% in 3QFY08 from 70.0% a year ago and yields have fallen (Exhibits 2 & 3). We note that the fall in yields is despite (1) likely improvement in pricing due to consolidation in the industry, (2) slower capacity addition in the industry and (3) route rationalization by Jet (as domestic ASKMs have marginally reduced). This highlights that over-capacity and intense competition continue to affect yields as players reduce fares to achieve higher seat factors. It is to be noted that all major players have announced capacity expansion plans. Jet itself has plans to start operations for about 30 additional aircraft and Jet Lite about 15 more aircraft over the next three years (a part of this capacity will likely be deployed in the domestic segment). Hence, we do not expect any let-up in the overcapacity situation in the near-term and expect continued pressure on yields.

Ramp-up of international operations carries on; profitability to likely remain a challenge

International segment continues to gain prominence, with more than 50% of ASKMs in 3QFY08 and contributing 37% to revenues, compared to 23% last year. International segment seat factors have improved to 68.2% - up about 60 bps both on a yoy and qoq basis. However, EBITDAR margins have declined to 10.4% (versus 13.7% a year ago) due to higher fuel costs and lower yields. We had expected profits in the international segment to remain a challenge (as highlighted in our last quarter result note) led by higher depreciation and interest costs as Jet expands its international presence (flights to Delhi-Dhaka, Kolkata-Dhaka and Delhi-Brussels-JFK were launched in this quarter). Further, yields were also expected to remain under pressure as Jet tries to gain a foothold in this segment.

Jet has launched flights on several Gulf routes in January 2008 (Kuwait from Delhi/Kochi, Bahrain from Mumbai/Kochi, Muscat from Kozhikode/Kochi and Doha from Mumbai/ Kozhikode). It also plans to launch flights to San Francisco via Shanghai and to Hong Kong in the next few months. We continue to expect a challenging situation in the international segment in the near-term as Jet will likely face fierce competition, especially from the Air India-Indian Airlines combine on the Gulf routes (they constitute the most significant portion of their profits) and also from other airlines (like Deccan) that are likely to commence international operations in this year.

Improvements at Jet Lite continue; however the turnaround may be slow

Improvements in the performance of Jet Lite that had started in 1HFY08 have continued. Key points for 9mFY08 are - (1) negative EBITDAR of Rs610 mn (versus negative of Rs1.7 bn in FY07), (2) Cost per ASKM at Rs 3.1 (versus Rs4.3 in FY07), (3) yield of Rs3.44 (versus Rs3.6 in FY07), (4) seat factors of 71.2% (versus 68% in FY07) and (5) operations of 20 aircrafts (18 in 2QFY08). We highlight several developments: (1) Losses in 9mFY08 were Rs2.8 bn; (2) 20 aircraft have been in operation in 3QFY08 as against management expectation of all 24 aircraft. The revised expectation is to have 22 aircraft in operation by FY2008. This highlights that turning around the fleet of Jet Lite is a slow process. (3) The networth of Jet Lite has been completely eroded by the accumulated losses and would require continued fund infusion by Jet.

We expect Jet Lite to continue to face several challenges that will likely impede its turnaround (1) establishment of the business model as a value carrier, (2) substantial costs and investments for overhaul of aircrafts including repairs, reconfiguration and rebranding, (3) lack of full synergies with Jet due to different business models, (4) continued challenging environment in the domestic sector with impending capacity additions and high fuel prices, (5) start-up costs for international operations.

We highlight risk to our full year estimates

We highlight that in 9mFY08, Jet has achieved only 31% of our full-year EBITDAR estimates. In 9mFY07, Jet had achieved 54% of FY2007 EBITDAR. EBITDAR in 9mFY08 has declined by 1.7% yoy, while our full-year estimate is higher by 43% compared to FY2007. It seems difficult for Jet to meet our full-year estimates given the ramp-up in international operations and the challenging environment in the domestic sector.

Maintain target price and REDUCE rating due to visible near term challenges

We maintain our target price of Rs800/share based on 6X adj. EV/EBITDAR which implies about 14X PER based on FY2009E earnings. We retain our REDUCE rating as we see several near-term challenges (1) profitability from international operations would be impacted with launch of several new international routes over the near term and competition from likely new entrants, (2) turnaround of JetLite would test execution skills of management during revival as well as running two separate business models under the same roof, (3) high oil prices will continue to impact margins, (4) the overcapacity situation in the domestic markets will not likely ease given the capacity expansion plans of all major carriers. We will revisit our estimates post the management conference call today.

Exhibit 1: Jet Airways - 3QFY08 - key numbers

	FY2007	FY2008E	3QFY08	3QFY07 (yoy)	% change	3QFY08	2QFY08 (qoq)	% change	9mFY08	9mFY07 (yoy)	% change
Revenues	**70,578**	**100,737**	**24,260**	**19,357**	**25.3**	**24,260**	**18,186**	**33.4**	**60,512**	**51,973**	**16.4**
Operating expenses	(60,499)	(83,177)	(21,353)	(16,274)	31.2	(21,353)	(17,940)	19.0	(55,124)	(46,493)	18.6
Employee costs	(9,381)	(10,982)	(3,027)	(2,261)	33.9	(3,027)	(2,863)	5.7	(8,524)	(6,798)	25.4
Fuel	(24,276)	(32,852)	(9,173)	(6,115)	50.0	(9,173)	(6,960)	31.8	(22,128)	(18,766)	17.9
Commission	(5,589)	(10,926)	(1,602)	(2,065)	(22.4)	(1,602)	(1,507)	6.3	(4,395)	(5,182)	(15.2)
S&D exps	(2,420)	(1,063)	(1,020)	(614)	66.0	(1,020)	(798)	27.8	(2,672)	(1,642)	62.7
Other op exps	(18,833)	(27,353)	(6,531)	(5,218)	25.2	(6,531)	(5,813)	12.4	(17,405)	(14,104)	23.4
EBIDTAR	**10,079**	**17,560**	**2,907**	**3,083**	**(5.7)**	**2,907**	**245**	**1,085.0**	**5,388**	**5,480**	**(1.7)**
Lease rentals	(6,458)	(5,700)	(1,365)	(1,679)	(18.7)	(1,365)	(1,253)	8.9	(4,150)	(4,706)	(11.8)
EBIDTA	**3,621**	**11,860**	**1,542**	**1,404**	**9.9**	**1,542**	**(1,008)**	**(253.0)**	**1,238**	**774**	**59.8**
Other income	3,435	950	519	944	(45.0)	519	4,356	(88.1)	4,614	3,328	38.6
Depreciation	(4,141)	(8,241)	(2,204)	(1,077)	104.6	(2,204)	(1,743)	26.4	(5,275)	(2,931)	80.0
EBIT	2,915	4,569	(143)	1,270		(143)	1,605		576	1,171	(50.8)
Interest	(2,402)	(3,726)	(1,554)	(651)	138.7	(1,554)	(1,180)	31.7	(3,378)	(1,872)	80.5
EBT	**514**	**844**	**(1,697)**	**619**	**(373.9)**	**(1,697)**	**425**		**(2,802)**	**(701)**	**299.9**
Tax	(234)	(287)	393	(219)		393	(141)		65	100	(34.9)
PAT	**279**	**557**	**(1,304)**	**400**		**(1,304)**	**284**		**(2,737)**	**(601)**	**355.7**
Extraordinary item	-	-	393	-		393	-		2,418	-	
Reported PAT	**279**	**557**	**(911)**	**400**		**(911)**	**284**		**(319)**	**(601)**	**(46.9)**
Key ratios											
% of revenues											
Employee costs	13.3	10.9	12.5	11.7		12.5	15.7		14.1	13.1	
Fuel costs	34.4	32.6	37.8	31.6		37.8	38.3		36.6	36.1	
Commission	7.9	10.8	6.6	10.7		6.6	8.3		7.3	10.0	
S&D	3.4	1.1	4.2	3.2		4.2	4.4		4.4	3.2	
Others	26.7	27.2	26.9	27.0		26.9	32.0		28.8	27.1	
EBIDTAR margin	**14.3**	**17.4**	**12.0**	**15.9**		**12.0**	**1.3**		**8.9**	**10.5**	
EBIDTA margin	**5.1**	**11.8**	6.4	7.3		6.4	(5.5)		2.0	1.5	
EBIT margin	**4.1**	**4.5**	(0.6)	6.6		(0.6)	8.8		1.0	2.3	
PBT margin	**0.7**	**0.8**	(7.0)	3.2		(7.0)	2.3		(4.6)	(1.3)	
Tax rate	**45.6**	**34.0**	**23.1**	**35.4**		**23.1**	**33.3**		**2.3**	**14.3**	

Note:

(1) Extraordinary item pertains to exchange gain due to AS 11.

Source: Company data, Kotak Institutional Equities estimates.

Yields decline in both domestic and international segments

Exhibit 2: Jet Airways - key operating statistics

	FY2007	FY2008E	3QFY08	3QFY07 (yoy)	(% chg)	3QFY08	2QFY08 (qoq)	(% chg)	9mFY08	9mFY07 (qoq)	(% chg)
ASK (mn)	**17,700**	**27,696**	**6,586**	**4,598**	**43.2**	**6,586**	**5,419**	**21.5**	**16,762**	**13,021**	**28.7**
Domestic	12,156	13,720	3,040	3,068	(0.9)	3,040	3,046	(0.2)	9,076	9,171	(1.0)
International	5,543	13,976	3,456	1,530	125.9	3,456	2,374	45.6	7,597	3,849	97.4
RPK (mn)	12,307	18,923	4,554	3,184	43.0	4,554	3,621	25.8	11,462	8,911	28.6
Domestic	8,537	9,819	2,198	2,149	2.3	2,198	2,020	8.8	6,347	6,439	(1.4)
International	3,770	9,105	2,356	1,035	127.6	2,356	1,601	47.1	5,115	2,472	106.9
Seat factor (%)	69.5	68.3	69.1	69.2		69.1	66.8		68.4	68.4	
Domestic	**70.2**	**71.6**	72.3	70.0		72.3	66.3				
International	68.0	65.1	68.2	67.6		68.2	67.5				
Yield (Rs/RPK)	**5.3**	**4.8**	**4.8**	**5.5**	(12.6)	**4.8**	**4.6**	5.8	**4.8**	**5.4**	(10.0)
Domestic	6.4	6.1	6.4	6.6	(2.4)	6.4	5.7	11.9	6.1	6.3	(3.9)
International	3.0	3.4	3.4	3.4	(0.9)	3.4	3.1	8.3	3.3	3.0	8.8

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 3: Profitability falls as yields decline and fuel costs rise
Jet Airways - Segment wise details

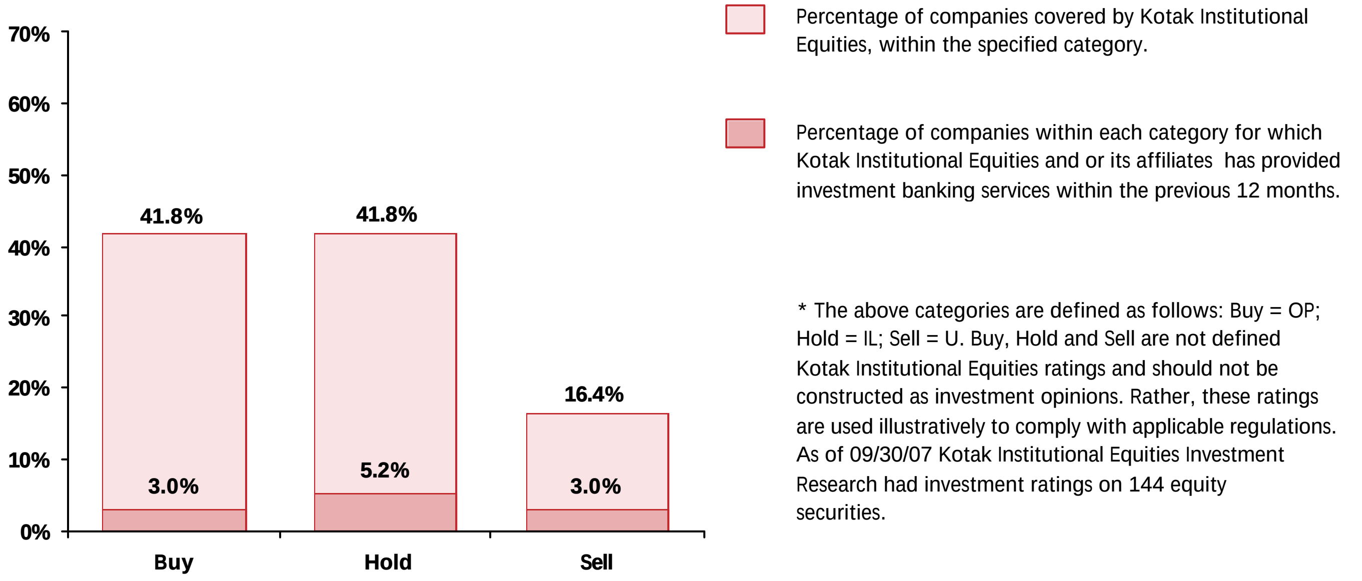
		yoy			qoq			yoy		
	FY2007	**3QFY08**	**3QFY07**	**(% chg)**	**3QFY08**	**2QFY08**	**(% chg)**	**9mFY08**	**9mFY07**	**(% chg)**
Domestic										
Revenue	57,004	15,397	14,901	3.3	15,397	12,526	22.9	41,631	42,718	(2.5)
EBITDAR	9,096	1,984	2,469	(19.6)	1,984	23	8,526.1	3,981	6,051	(34.2)
EBITDAR margin	**16.0**	**12.9**	**16.6**		12.9	0.2		**9.6**	**14.2**	
PBT	2,421	(145)	732		(145)	1,606		2,773	1,832	51.3
International										
Revenue	13,574	8,863	4,455	98.9	8,863	5,660	56.6	18,882	9,544	97.8
EBITDAR	984	922	612	50.7	922	222	315.3	1,406	(282)	
EBITDAR margin	**7.2**	**10.4**	**13.7**		10.4	3.9		7.4	(3.0)	
PBT	(1,867)	(1,159)	(110)	(953.6)	(1,159)	(1,182)	1.9	(3,158)	(2,240)	(41.0)

Source: Company data, 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: Jigar Mistry, Kawaljeet Saluja, Prashant Vaishampayan, Sanjeev Prasad, Nitin Bhasin, Aman Batra, Tabassum Inamdar, Lokesh Garg."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* 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 09/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

Source: Kotak Institutional Equities. As of September 30, 2007

Ratings and other definitions/identifiers

New 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.

Old 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.

Corporate Office
Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices
Kotak Mahindra (UK) Ltd.
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc.
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advise to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund.Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition , investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.