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Corporate

- The GMR Group is close to yet another big-ticket cross-border acquisition. The company is likely to buy a 50% stake in US-based power generator InterGen in a deal valued at $1.2 bn. (ET)
- Suzlon Energy is partnering Bahrain-headquartered private equity firm Arcapita to explore a bid for Chinese alternative energy company, Honiton Energy Holdings, estimated at around $400 mn. (ET)
- Anil Ambani-owned Reliance Big Entertainment has inked a joint venture with India's first family of entertainment—the Bachchans. The JV will focus on creating intellectual property across all entertainment platforms including movies, television content, live shows, mobile and online content. (ET)
- SpiceJet plans to sell around 11.5 mn shares, about 5% of its equity capital, on the stock markets following a settlement with the S.K. Modi business group. (Mint)
- Essar Shipping Ports & Logistics is planning to set up ports in Brazil, China and Vietnam to provide integrated support for its steel and power generation business there. (ET)
- The Tata group has increased stake in its South African telecom venture, Neotel, by 30%, thereby taking the total equity in the communications company to 56%. (ET)

Economic and political

- Led by the record increase in benchmark iron ore prices, steel rates are set to climb steeply from August, immediately after the three-month period during which steel producers had promised the government to hold prices, gets over. (BS)

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

EQUITY MARKETS

		Change, %		
India	**24-Jun**	**1-day**	**1-mo**	**3-mo**
Sensex	14,107	(1.3)	(15.3)	(13.0)
Nifty	4,191	(1.8)	(15.3)	(14.1)
Global/Regional indices				
Dow Jones	11,807	(0.3)	(5.4)	(5.8)
Nasdaq Composite	2,368	(0.7)	(3.1)	1.2
FTSE	5,635	(0.6)	(7.4)	(1.0)
Nikkie	13,645	(1.5)	(2.6)	7.1
Hang Seng	22,456	(1.1)	(9.1)	(0.0)
KOSPI	1,698	(0.7)	(7.1)	1.4

Value traded - India

			Moving avg, Rs bn	
	24-Jun		**1-mo**	**3-mo**
Cash (NSE+BSE)	171.0		192.2	195.3
Derivatives (NSE)	702.5		413.2	423
Deri. open interest	838.4		833	632

Forex/money market

		Change, basis points		
	24-Jun	**1-day**	**1-mo**	**3-mo**
Rs/US$	42.8	0	12	277
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.6	(2)	47	86

Net investment (US$mn)

	23-Jun		**MTD**	**CYTD**
FIIs	(154)		(1,382)	(5,255)
MFs	9		134	1,660

Top movers -3mo basis

		Change, %		
Best performers	**24-Jun**	**1-day**	**1-mo**	**3-mo**
Chambal Fert	75	(3.4)	(1.2)	48.3
i-Flex	1,248	0.3	(13.4)	25.7
Infosys	1,794	(2.8)	(1.9)	20.2
GESCO	404	2.7	(19.1)	16.6
Ranbaxy	525	2.3	5.7	16.4
Worst performers				
Siemens India	415	(5.3)	(29.5)	(38.6)
BPCL	264	(0.7)	(26.6)	(35.2)
SBI	1,207	0.2	(23.3)	(30.6)
BHEL	1,398	2.9	(19.9)	(30.5)
BoB	210	(0.9)	(26.3)	(29.6)

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Transportation

JET.BO, Rs518	
Rating	SELL
Sector coverage view	Neutral
Target Price (Rs)	450
52W High -Low (Rs)	1050 - 460
Market Cap (Rs bn)	44.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	88.1	137.5	174.5
Net Profit (Rs bn)	(6.6)	(10.6)	8.3
EPS (Rs)	(76.5)	(123.3)	96.4
EPS gth	-	-	-
P/E (x)	(6.8)	(4.2)	5.4
EV/EBITDA (x)	60.1	17.7	6.3
Div yield (%)	-	-	1.3

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	80.0	-	-
FIIs	10.1	0.1	(0.1)
MFs	2.7	0.1	(0.0)
UTI	-	-	(0.1)
LIC	2.7	0.1	(0.0)

Jet Airways: Higher-than-expected losses due to increased fuel costs; no respite in sight, cut rating to SELL from REDUCE

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- **Higher-than-expected losses due to increased fuel costs and low international seat factors**
- **Outlook remains bleak with continued strength in fuel prices, domestic overcapacity and start-up nature of international operations**
- **Jet Lite's FY2008 performance improves over a low base; turnaround to test management's execution skills**
- **Cut target price to Rs450; and rating to SELL from REDUCE earlier**

Jet Airways reported 4QFY08 revenues of Rs27.6 bn (up 40% yoy) and losses (before taxes and extraordinary items) of Rs2.9 bn (PBT of Rs1.2 bn in 4QFY07) versus our expectation of revenues of Rs24.7 bn and losses of Rs2.2 bn. EBITDAR margin declined to 10% from 23% a year ago, led by (1) significantly higher fuel costs, (2) fall in international seat factors, and (3) increase in other expenses. The outlook remains bleak in our view with continued strength in fuel prices, domestic overcapacity and start-up nature of international operations. Though Jet Lite's performance has improved in FY2008 from low base of FY2007, restoration of profitability would still be long drawn affair in the current industry environment. We cut our target price to Rs450 (from Rs800 earlier) and our rating to SELL from REDUCE earlier.

Higher-than-expected losses due to increased fuel costs and low international seat factors

Jet Airways reported 4QFY08 revenues of Rs27.6 bn (up 40% yoy) and losses (before taxes and extraordinary items) of Rs2.9 bn (PBT of Rs1.2 bn in 4QFY07) versus our expectation of revenues of Rs24.7 bn and losses of Rs2.2 bn. Including losses of (1) Rs690 mn on derivatives contracts and (2) Rs110 mn on restatement in accordance with AS11, Jet has reported a loss of Rs2.2 bn after accounting for a tax benefit of Rs1.5 bn. EBITDAR margin has declined to 10% from 23% a year ago (and 12% last quarter), led by (1) significantly higher fuel costs - up 11% yoy (as a % of sales), (2) fall in international seat factors to 69% from 76.6% a year ago (EBITDAR margin was 1.6% in the quarter compared to 20.5% a year ago), and (3) increase in other expenses. Profitability was impacted by the high fuel prices (as Jet was not able to pass on the entire impact to customers) inspite of the fact that fuel surcharges were levied on both the domestic and international segments - yields increased in both segments in 4QFY08 on both yoy as well as qoq basis. Fleet expansion (ASKMs in the international segment increased by 177% on a yoy basis and 36% on a qoq basis) led to (1) increase in depreciation costs by 107% yoy (delivery of six new aircrafts in the quarter) and (2) increase in interest costs by 192% yoy. For the full year FY2008, Jet has reported losses (before taxes and extraordinary items) of Rs8.2 bn and PAT at a negative of Rs1.8 bn (versus a positive of Rs279 mn in FY2007, Exhibits 1-3).

Outlook remains bleak with continued strength in fuel prices, domestic overcapacity and start-up nature of international operations

Traffic growth in the domestic market is slowing down as a result of increased airfares (led by fuel surcharges) and is likely to be impacted further with the recent round of fare hikes. Yields will likely remain under pressure due strong competition led by over capacity in the domestic market. We expect the domestic market environment to remain challenging in FY2009E. In the international segment too we expect Jet's profitability to continue to remain under pressure as it incurs start-up costs on new routes. We highlight that Jet has launched flights on several Gulf routes in 4QFY08 like Kuwait-Delhi/Kochi, Bahrain-Mumbai/Kochi, Muscat-Kozhikode/Kochi and Doha-Mumbai/Kozhikode apart from launching HongKong-Mumbai, Mumbai-Bangkok, Mumbai-San Francisco in 1QFY09.

Jet Lite's FY2008 performance improves over a low base; turnaround to test management's execution skills

Jet Lite's performance in FY2008 has improved on a yoy basis from a low base of FY2007 with - (1) losses of Rs4.4 bn in FY2008 versus Rs6.9 bn in FY2007, (2) Negative EBITDAR margin of 10% (versus negative of 14% in FY07), (3) Cost per ASKM of Rs 3.2 inspite of higher oil prices (versus Rs4.3 in FY07), (4) Seat factors of 71% (versus 68% in FY07). However, we expect Jet Lite to continue to face several challenges that will likely impede its turnaround such as (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 that the networth of Jet Lite has been completely eroded by the accumulated losses and would require continued fund infusion by Jet.

Cut target price to Rs450; and rating to SELL from REDUCE earlier

We cut our target price to Rs450 (from Rs800). Our target price is based on 6X EV/ EBITDAR multiple applied on our estimated consolidated (Jet Airways and Jet Lite) FY2010E EBITDAR. The revision in our target price is primarily led by higher fuel prices as well as revision in yields and seat factor assumptions. Our estimates now factor in domestic ATF prices at about Rs55 per litre in FY2009E (corresponding to average crude price of about USD110/barrel) and Rs49 per litre (corresponding to average crude price of about USD95/barrel) in FY2010E. We note that prevailing prices are higher than these levels and thus our estimates could have further downside. We highlight that we have benign assumptions for FY2010E with (1) overall seat factors of about 75% (versus about 69% in FY2008), (2) less than 1% fall in domestic yields inspite of 10% decrease in fuel prices in FY2010E over FY2009E levels and (3) minimal increases in unit cost parameters, resulting in an EBITDAR margin of about 20% (versus about 9% in FY2008). We cut our rating to SELL from REDUCE earlier based on the continued challenges highlighted above. We highlight that Jet has a Debt-Equity ratio of about 2.5X at FY2008-end (that includes Jet Lite investment at Rs14.7 bn and revaluation reserves of about Rs27 bn (added in FY2008-end post revaluation of narrow-bodied aircraft and leasehold land by international experts/land valuers based on market value/replacement cost)). Adjusting for only the revaluation reserves, the debt-equity ratio is above 6X though we highlight that portion of revaluation is justified as Jet has been depreciating its narrow-bodied aircraft at a higher rate versus economic rate of depreciation. We believe that the company would have to soon finalize its capital raising plans to fund its aggressive growth plans (especially in the international segment), especially given the fact that losses are likely to continue in FY2009E in our view worsening the balance sheet position further.

Exhibit 1: Weak performance led by high fuel costs

Jet Airways - 4QFY08 - key numbers

	yoy			qoq			yoy		
	4QFY08	4QFY07	% change	4QFY08	3QFY08	% change	FY2008	FY2007	% change
Revenues	**27,599**	**19,783**	**39.5**	**27,599**	**24,260**	**13.8**	**88,111**	**70,578**	**24.8**
Operating expenses	(24,787)	(15,184)	63.2	(24,787)	(21,353)	16.1	(79,913)	(60,499)	32.1
Employee costs	(3,528)	(2,583)	36.6	(3,528)	(3,027)	16.5	(12,052)	(9,381)	28.5
Fuel	(10,802)	(5,511)	96.0	(10,802)	(9,173)	17.8	(32,930)	(24,276)	35.6
Commission	(2,072)	(1,585)	30.7	(2,072)	(1,602)	29.3	(6,467)	(5,589)	15.7
S&D exps	(690)	(777)	(11.3)	(690)	(1,020)	(32.4)	(3,362)	(2,420)	38.9
Other op exps	(7,696)	(4,729)	62.8	(7,696)	(6,531)	17.8	(25,102)	(18,833)	33.3
EBIDTAR	**2,812**	**4,599**	**(38.9)**	**2,812**	**2,907**	**(3.3)**	**8,198**	**10,079**	**(18.7)**
lease rentals	(1,483)	(1,752)	(15.4)	(1,483)	(1,365)	8.7	(5,633)	(6,458)	(12.8)
EBIDTA	**1,329**	**2,846**	**(53.3)**	**1,329**	**1,542**	**(13.8)**	**2,566**	**3,621**	**(29.1)**
Other income	(218)	108		(218)	519	(142.0)	1,248	3,435	(63.7)
Depreciation	(2,503)	(1,210)	106.9	(2,503)	(2,204)	13.6	(7,778)	(4,141)	87.8
EBIT	(1,392)	1,744	(179.8)	(1,392)	(143)	875.5	(3,964)	2,915	
Interest	(1,549)	(530)	192.3	(1,549)	(1,554)	(0.3)	(4,928)	(2,402)	105.2
EBT	**(2,941)**	**1,214**	**(342.2)**	**(2,941)**	**(1,697)**	**(73.3)**	**(8,892)**	**514**	
Tax	1,530	(334)	(557.7)	1,530	393	289.7	1,595	(234)	
PAT	**(1,411)**	**880**	**(260.3)**	**(1,411)**	**(1,304)**	**(8.2)**	**(7,297)**	**279**	
Extraordinary item	(801)	-		(801)	393	303.7	4,766	-	
Reported PAT	**(2,212)**	**880**		**(2,212)**	**(911)**	**(142.7)**	**(2,531)**	**279**	
Key ratios									
% of revenues									
Employee costs	12.8	13.1		12.8	12.5		13.7	13.3	
Fuel costs	39.1	27.9		39.1	37.8		37.4	34.4	
Commission	7.5	8.0		7.5	6.6		7.3	7.9	
S&D	2.5	3.9		2.5	4.2		3.8	3.4	
Others	27.9	23.9		27.9	26.9		28.5	26.7	
EBIDTAR margin	**10.2**	**23.2**		**10.2**	**12.0**		**9.3**	**14.3**	
EBIDTA margin	4.8	14.4		4.8	6.4		2.9	5.1	
EBIT margin	(5.0)	8.8		(5.0)	(0.6)		(4.5)	4.1	
PBT margin	(10.7)	6.1		(10.7)	(7.0)		(10.1)	0.7	

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Sharp decline in seat factors in international segment in 4QFY08 on a yoy basis

Jet Airways - key operating statistics

	yoy			qoq			yoy		
	4QFY08	4QFY07	(% chg)	4QFY08	3QFY08	(% chg)	FY2008	FY2007	(% chg)
ASK (mn)	**7,684**	**4,679**	**64.2**	**7,684**	**6,586**	**16.7**	**24,446**	**17,700**	**38.1**
Domestic	2,997	2,985	0.4	2,997	3,040	(1.4)	12,073	12,156	(0.7)
International	4,687	1,694	176.7	4,687	3,456	35.6	12,284	5,543	121.6
RPK (mn)	**5,452**	**3,396**	**60.5**	**5,452**	**4,554**	**19.7**	**16,914**	**12,307**	**37.4**
Domestic	2,218	2,098	5.7	2,218	2,198	0.9	8,565	8,537	0.3
International	3,234	1,298	149.2	3,234	2,356	37.3	8,349	3,770	121.5
Seat factor (%)	**71.0**	**72.6**		**71.0**	**69.1**		**69.2**	**69.5**	
Domestic	74.0	70.3		74.0	72.3		70.9	70.2	
International	69.0	76.6		69.0	68.2		68.0	68.0	
Yield (Rs/RPK)	**5.1**	**5.3**	**(4.9)**	**5.1**	**4.9**	**3.8**	**4.9**	**5.3**	**(6.6)**
Domestic	7.2	6.8	6.2	7.2	6.5	11.1	6.4	6.4	(0.7)
International	3.6	3.0	21.2	3.6	3.4	6.5	3.4	3.0	13.2

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 3: International segment profitability falls with decline in seat factors

Jet Airways—Segment-wise details

	yoy			qoq			yoy		
	4QFY08	4QFY07	(% chg)	4QFY08	3QFY08	(% chg)	FY2008	FY2007	(% chg)
Domestic									
Revenue	16,001	15,094	6.0	16,001	15,397	3.9	57,632	57,004	1.1
EBITDAR	2,627	3,639	(27.8)	2,627	1,984	32.4	6,608	9,096	(27.4)
EBITDAR margin	**16.4**	**24.1**		16.4	12.9		**11.5**	**16.0**	
PBT	(1,109)	1,184	(193.7)	(1,109)	(145)		1,664	2,421	(31.3)
International									
Revenue	11,598	4,689	147.3	11,598	8,863	30.9	30,480	13,574	124.5
EBITDAR	186	961	(80.6)	186	922	(79.8)	1,591	984	61.7
EBITDAR margin	**1.6**	**20.5**		**1.6**	**10.4**		**5.2**	**7.2**	
PBT	(2,632)	68	(3,970.6)	(2,632)	(1,159)	(127.1)	(5,790)	(1,867)	(210.1)

Source: Company data, Kotak Institutional Equities estimates.

Beverages

UBBW.BO, Rs150	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	160
52W High -Low (Rs)	413 - 147
Market Cap (Rs bn)	36.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	15.6	18.8	23.2
Net Profit (Rs bn)	0.5	0.7	1.1
EPS (Rs)	1.9	2.4	4.4
EPS gth	*(11.6)*	*25.7*	*82.1*
P/E (x)	78.9	62.8	34.5
EV/EBITDA (x)	19.4	15.1	11.4
Div yield (%)	-	-	-

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	75.0	-	-
FIIs	16.3	0.1	(0.0)
MFs	0.3	0.0	(0.1)
UTI	-	-	(0.1)
LIC	1.1	0.0	(0.1)

United Breweries: Margin expansion in a difficult year but rich valuations do not offer upsides

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- **4QFY08 profits higher than expected due to lower fixed costs, but input cost pressures remain**
- **JV operations as per expectations, awaiting more clarity post Heineken acquisition of S&N stake**
- **Lower target price to Rs 160 (Rs 169 earlier) and maintain REDUCE rating**

UBBL reported 4QFY08 revenues of Rs3.84 bn, in line with our expectation of Rs3.86 bn. EBITDA margins at 13.3% were higher than our expectations of 10.5%. PAT at Rs196 mn (up 67% yoy) was higher than expectation of Rs130 mn lead by (1) staff costs which were 11% lower than expectations and (2) savings on operating fixed costs which were Rs226 mn versus our expectation of Rs298 mn. We revise upwards our FY2009E and FY2010E earnings by 0.8% and 4.4%, respectively, to Rs659 mn and Rs1.13 bn, adjusting for recent rights issue and higher interest cost assumptions and maintain our REDUCE rating.

4QFY08 profits higher than expected due to lower fixed costs, but input cost pressures remain

UBBL reported 4QFY08 revenues of Rs3.84 bn, in line with our expectation of Rs3.86 bn. EBITDA margins at 13.3% were higher than our expectations of 10.5% aided by (1) lower staff costs, at Rs213 mn (10% qoq growth and 11% lower than expectation) and (2) fixed costs which were 24% lower than expectations. PAT at Rs196 mn (up 67% yoy) was higher than expectation of Rs130 mn.

For the year, standalone net sales grew 29% yoy to Rs13.4 bn. EBITDA at Rs1.97 bn (22% yoy growth) was 8% higher than expectations while PAT was flat at Rs625 mn on account of higher interest and depreciation costs.

JV operations as per expectations, awaiting more clarity post Heineken acquisition of S&N stake

Consolidated FY2008 sales, at Rs15.6 bn (29% yoy growth), were marginally higher than our estimates of Rs15.3 bn, aided by higher sales in the Millenium Alcobev (MAPL) JV. EBITDA grew 25% yoy to Rs2.15 bn while PAT was flat at Rs543 mn.

We await more clarity on operations of MAPL, given UBL's concerns on Heineken's acquisition of Scottish & Newcastle's India's operations. Management has indicated that, while it has no issues with Heineken as a local partner, it would like clarity on Heineken's previous arrangements in the country.

Earnings revisions

Revised earnings estimates to factor in 4QFY08 results and recent rights issue. As shown in Exhibit 3, we revise our earnings estimates marginally 0.8% and 4.4% in FY2009E and FY2010E, respectively. We highlight the following in our revised estimates:

1. **Incorporate capital infusion due to recent rights issue.** We include the recently placed rights issue of Rs 4.24 bn in our estimates. This leads to an equity dilution of around 11%. We subsequently also marginally increase our capex estimates for FY2009-10E by Rs500 mn based on clarity on utilization of rights proceeds.

2. **Maintain our volume and price assumptions.** We maintain our volume growth assumptions of 12% and 13% for FY2009E and FY2010E, respectively. We also maintain our price growth assumptions of 7%. We highlight that our volume growth assumptions could be conservative, given the low per capita consumption of beer in the country.
3. **Increase our interest cost assumptions.** We increase our average cost of debt assumptions to around 11-11.5% per annum, given the recent hardening of interest rates.

Valuations have historically been rich

We revise our target price to Rs160 (Rs169 earlier), based on 16X FY2009 EV/EBITDA (18X earlier) and maintain our REDUCE rating. We highlight that UBL's valuations have historically been very rich, with investors more focused on growth potential of the beer category in the country and UBL's market share of around 50%. Key upside risk remains potential excise rationalization in the sector while further downside risks could come from higher-than-anticipated rise in barley prices.

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

	yoy			qoq			yoy		
	4Q2008	**4Q2007**	**% chg.**	**4Q2008**	**3Q2008**	**% chg.**	**2008**	**2007**	**% yoy**
Net sales	3835	3885	(1)	3835	3014	27	13408	10428	29
COGS	(1833)	(2082)	(12)	(1833)	(1407)	30	(6383)	(4753)	34
Power & fuel	(154)	(222)	(31)	(154)	(134)	15	(558)	(496)	12
Staff costs	(213)	(250)	(15)	(213)	(193)	10	(774)	(668)	16
Advertising & sales promotion	(899)	(804)	12	(899)	(893)	1	(3239)	(2508)	29
Other expenditure	(226)	(212)	7	(226)	(165)	37	(737)	(599)	23
Total	(3325)	(3569)	(7)	(3325)	(2792)	19	(11691)	(9024)	30
EBITDA	**510**	**315**	**62**	**510**	**222**	**130**	**1717**	**1404**	**22**
EBITDA Margin (% to sales)	13.3	8.1		13.3	7.4		12.8	13.5	(5)
Interest (net)	(146)	(105)	39	(146)	(92)	58	(428)	(280)	53
Depreciation	(187)	(225)	(17)	(187)	(165)	13	(612)	(385)	59
Other income	68	115	(41)	68	50	38	256	211	21
Profit before tax	246	100	146	246	14	1631	932	950	(2)
Total tax	(50)	17	(396)	(50)	(7)	585	(307)	(299)	3
PAT	**196**	**117**	**67**	**196**	**7**	**NA**	**625**	**651**	**(4)**
Tax/PBT (%)	20	(17)		20	51		33	31	
% to net sales									
COGS	47.8	53.6		47.8	46.7		47.6	45.6	
Power & Fuel	4.0	5.7		4.0	4.4		4.2	4.8	
Staff costs	5.6	6.4		5.6	6.4		5.8	6.4	
SG&A	23.4	20.7		23.4	29.6		24.2	24.1	
Other expenditure	5.9	5.4		5.9	5.5		5.5	5.7	

Source: Company, Kotak Instituitonal Equities estimates

JV profits were in line with estimates

	Consolidated				JV			
	2007	2008E	2008A	% chng.	2007	2008E	2008A	% chng.
Sales	12,058	15,305	15,608	2.0	1,630	1,869	2,200	17.7
EBITDA	1,721	1,933	2,156	11.5	106	111	183	65.1
PAT	550	477	543	13.8	(101)	(82)	(82)	(0.0)

Source: Company, Kotak Instituitonal Equities estimates

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

	New		Old		% change	
	2009E	2010E	2009E	2010E	2009E	2010E
Sales	18,763	23,202	18,763	23,202	0.0	0.0
EBITDA	2,493	3,281	2,356	3,131	5.8	4.8
EBITDA margin (%)	13.3	14.1	12.6	13.5		
PAT	659	1,131	654	1,084	0.8	4.4
EPS (diluted)	2.4	4.4	2.6	4.6	(9.1)	(5.7)

Note:
(1) EPS reduction is on account of 11% dilution due to rights issue.

Source: Kotak Instituitonal Equities estimates

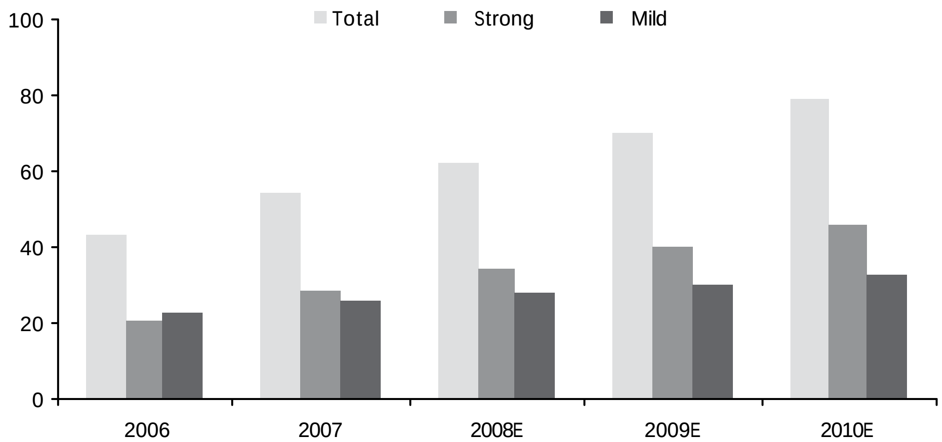
We reduce our target price to Rs160 from Rs169 earlier

United Breweries Ltd (UBL)			
EBITDA	2,493	16	39,892
Less Net Debt			1,620
Equity value			38,272
Per share price (Rs)			**159**

Source: Kotak Instituitonal Equities estimates

Strong beer sales is expected to contribute 71% of total sales growth between FY2008-10E

Total volume assumptions, March fiscal year-ends (mn cases)



Source: Kotak Instituitonal Equities estimates

UBL will spend around Rs3.7 bn to increase capacity by 40%

Total projected use of rights proceeds

Objective	Amount (Rs mn)	Quantity (mn HL)	Expected commencement date
Setting up of greenfield project	1,407	0.80	Apr-09
Capacity expansion of existing facilities	2,311	1.48	
Phase I	1,545	0.73	Apr-09
Phase II	766	0.75	Apr-10
Total	3,718	2.28	
Current capacity		5.98	
Total proposed capacity		**8.25**	

Source: Company

United Breweries: Profit model, balance sheet, cash model, March fiscal year-ends, 2004-10E, (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit Model (Rs mn)							
Total income (inc. other op. income)	**5,133**	**6,067**	**8,194**	**12,257**	**15,906**	**19,059**	**23,498**
EBITDA	**466**	**572**	**1,349**	**1,694**	**2,156**	**2,493**	**3,281**
EBITDA margin (%)	*9.1*	*9.4*	*16.5*	*13.8*	*13.6*	*13.1*	*14.0*
Depreciation	(142)	(182)	(349)	(474)	(731)	(908)	(1,065)
Other Income (inc. extraordinaries)	(32)	(60)	(340)	—	—	—	—
EBIT	**291**	**329**	**660**	**1,220**	**1,425**	**1,585**	**2,216**
Net finance cost	(429)	(257)	(342)	(370)	(576)	(524)	(457)
Profit before tax	**(138)**	**72**	**319**	**850**	**849**	**1,061**	**1,759**
Tax	**(15)**	**(119)**	**(427)**	**(301)**	**(307)**	**(402)**	**(628)**
Adjusted net profit	**(123)**	**(45)**	**(108)**	**550**	**542**	**659**	**1,131**
Diluted EPS (Rs)	**(0.6)**	**(0.4)**	**(0.9)**	**2.2**	**1.9**	**2.4**	**4.4**
Balance Sheet (Rs mn)							
Total Equity	237	2,199	4,934	5,337	5,735	10,488	11,424
Deferred tax liability	29	131	107	65	65	122	212
Total borrowings	4,937	3,732	4,033	6,262	5,862	5,262	4,662
Current liabilites & provisions	1,944	1,762	2,013	2,662	4,045	4,848	5,836
Total Liabilities and equity	**7,147**	**7,824**	**11,088**	**14,325**	**15,707**	**20,720**	**22,133**
Cash	204	205	1,341	1,471	159	3,641	3,308
Current assets excl. cash	4,199	4,542	5,781	5,760	6,783	7,572	8,732
Total net fixed assets	1,836	1,870	2,775	5,912	7,306	8,048	8,633
Investments	17	20	8	0	277	277	277
Goodwill on consolidation	891	1,187	1,182	1,182	1,182	1,182	1,182
Total assets	**7,147**	**7,824**	**11,088**	**14,325**	**15,707**	**20,720**	**22,133**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	106	338	(329)	1,016	1,273	1,625	2,286
Working capital	(324)	(562)	(498)	(679)	909	14	(173)
Capital expenditure	(337)	(131)	(1,828)	(3,600)	(2,125)	(1,650)	(1,650)
Free cash flow	**(555)**	**(356)**	**(2,655)**	**(3,263)**	**57**	**(11)**	**463**

Source: Company, Kotak Instituitonal Equities estimates

Pipes

PSLH.BO, Rs352	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	500
52W High -Low (Rs)	610 - 252
Market Cap (Rs bn)	15.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	21.2	38.7	49.5
Net Profit (Rs bn)	0.8	2.0	2.9
EPS (Rs)	22.0	46.3	66.8
EPS gth	*8.5*	*110.8*	*44.2*
P/E (x)	16.0	8	5.3
EV/EBITDA (x)	9.4	5.6	3.8
Div yield (%)	1.4	1.7	2.0

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	48.4	-	-
FIIs	17.4	0.0	0.0
MFs	14.4	0.1	0.1
UTI	-	-	-
LIC	-	-	-

PSL: 4QFY08 results below estimates; revise estimates for recent order flow; maintain BUY

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- **4QFY08 results—revenues and PAT below estimates due to lower EBITDA margin**
- **Revise FY2009E and FY2010E earnings estimates upwards by 19% and 26% for higher volumes and better realizations**
- **Revise volume assumptions for recent order flows and pricing assumptions in line with current market trends**
- **Maintain target price at Rs500 and BUY rating; increase WACC assumption to 13%**

PSL's 4QFY08 results were below expectations—net revenues for the quarter was at Rs6.2 bn versus estimated Rs7 bn and PAT was Rs183 mn versus estimated Rs408 mn due to lower-than-estimated EBITDA margins. Adjusted EBITDA margin for the quarter was 7.8% versus 8.4% in 3QFY08. Net revenues increased 63.4% yoy led by strong growth in volumes at 154,944 tons in 4QFY08 versus 28,640 tons in 4QFY07. However, average realization (excluding coating) was significantly lower at US$724/ton against US$1,043/ton in 4QFY07. Net income increased 42% yoy to Rs183 mn in 4QFY08 from Rs130 mn in 4QFY07. We revise our revenue estimates upwards by 26.4% and 29.3% and PAT estimates upwards by 18.9% and 25.8% for FY2009E and FY2010E, respectively. We revise our domestic volume assumptions for FY2009E upwards by 12.5% and USA volume assumption for FY2010E upwards by 57% based on current order book. We revise our WACC estimate to 13% from 12.5% to account for higher cost of equity. We maintain our DCF-based target price of Rs500 and BUY rating.

4QFY08 results—revenues and PAT lower-than-expected

PSL's 4QFY08 results were below estimates with net revenues at Rs6.2 bn versus estimated Rs7 bn and PAT of Rs183 mn versus estimated Rs408 mn. Net revenues during quarter were higher by 63% yoy to Rs6.5 bn from Rs4 bn in 4QFY07 and were flat qoq. PAT for the quarter at Rs183 mn was up 42% yoy from Rs130 mn in 4QFY07 and lower by 40% qoq from Rs302 mn in 3QFY07. EBITDA margin for the quarter was lower at 7.8% against 8.4% in 3QFY08 mainly on account of higher other expenditure (up 34% qoq). Pipe volumes grew 18% qoq; however due to lower realization revenues were flat. Tax provision during the quarter was also higher at Rs143 mn versus Rs 113 mn in 3QFY08 on account of year-end provisioning. For the full year revenues and PAT grew by 39% and 30%, respectively supported by 76% growth in volumes (see Exhibit 2).

Revise estimates—increase revenues and PAT estimates for higher volumes and realisations

We increase our revenue estimates for FY2009E and FY2010E by 26.4% and 29.3% based on higher volume and price assumptions. We increase our pipe volumes assumptions for India operations by 12.5% for FY2009E and for USA operations by 57% for FY2010E based on outstanding order book. We reduce our EBITDA margin assumptions for FY2009E and FY2010E to 10.1%, 10.4%, respectively, from earlier estimates of 11.1%, 11.2%, respectively, on account of higher raw material and freight costs. We increase our pipe price assumptions upwards by 13% for India operations and 28% for USA operations based on recent order bookings. We increase our coil price assumptions upwards by 16% and 20% for FY2009E and FY2010E, respectively. We increase our net income estimates for FY2009E and FY2010E by 19% and 26%, respectively, led by higher revenue estimates and adjusted for lower margins assumptions.

Strong order flow increases revenue visibility; outstanding order book of Rs62 bn

We note that strong order book of Rs62 bn significantly increases near-term visibility and provides support to our FY2009E and FY2010E revenue estimates. PSL recently won several large orders at high realizations both in the domestic and the international market resulting in large outstanding order book (see Exhibit 5). Management guides for an improved capacity utilisation in FY2009E with volumes in excess of 500,000 tons and order execution of about Rs42 bn. Domestic order book currently outstanding is around Rs44 bn, most of which is expected to be competed by FY2009E. The USA order from Florida Gas Transmission Company will largely be executed in FY2010E.

International facilities—USA moving on track; considering capacity expansion at UAE plant

The 300,000 mtpa USA plant is expected to be commissioned in Q2FY09. Management expects to receive API approval within two months of commissioning and expects commercial production to begin in early CY2009. The 75,000 mtpa UAE plant is fully commissioned. PSL plans to expand this capacity to a 300,000 tons two-step mill as it foresees strong demand in the region both from oil and gas and construction sectors.

Valuation—maintain target price of Rs500 and BUY rating; revise WACC to 13%

We maintain our 12-month DCF-based target price of Rs500 and BUY rating. However, we increase our WACC assumption to 13% from 12.5% earlier to account for higher cost of equity due to rising interest rates. The stock currently trades at 7.6X and 6.1X FY2009E EPS and EBITDA, respectively.

Exhibit 1: Forecasts and valuation (consolidated)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	14,503	1,550	519	14.1	22.6	24.8	11.9
2007	14,433	1,642	653	15.8	20.7	22.2	12.1
2008E	21,196	1,923	845	19.4	17.7	18.0	11.5
2009E	38,737	3,902	1,998	45.9	28.7	7.6	6.1
2010E	49,479	5,160	2,910	66.8	31.7	5.2	4.1

Source: Company data, Kotak Institutional Equities estimates.

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

		qoq		yoy			yoy	
	4QFY08	3QFY08	*(% chg)*	4QFY07	*(% chg)*	FY08	FY07	*(% chg)*
Gross revenues	**6,556**	**6,591**	***(0.5)***	**4,013**	***63.4***	**22,213**	**15,998**	***38.8***
less: excise	393	380	*3.5*	599	*(34.3)*	1,338	1,565	*(14.5)*
Net revenues	**6,163**	**6,211**	***(0.8)***	**3,414**	***80.5***	**20,875**	**14,433**	***44.6***
Total expenditure	**(5,684)**	**(5,692)**	***(0.1)***	**(3,120)**	***82.2***	**(18,972)**	**(12,792)**	***48.3***
Inc/(Dec) in stock	(1,496)	(143)	*944.6*	258	*(679.3)*	545	773	*(29.5)*
Raw materials	(2,326)	(4,075)	*(42.9)*	(1,728)	*34.6*	(14,605)	(10,600)	*37.8*
Staff cost	(131)	(183)	*(28.5)*	(143)	*(8.4)*	(538)	(470)	*14.5*
Other expenditure	(1,732)	(1,291)	*34.2*	(1,506)	*15.0*	(4,373)	(2,495)	*75.3*
EBITDA	**478**	**519**	***(7.8)***	**294**	***62.6***	**1,903**	**1,642**	***15.9***
OPM (%)	**7.8**	**8.4**		**8.6**		**9.1**	**11.4**	
Other income	129	189	*(31.5)*	103	*25.7*	429	274	*56.4*
Interest	(160)	(163)	*(1.5)*	(106)	*50.7*	(579)	(563)	*2.8*
Depreciation	(122)	(130)	*(6.6)*	(111)	*9.5*	(512)	(445)	*15.0*
Pretax profits	**326**	**415**	***(21.5)***	**180**	***81.3***	**1,242**	**908**	***36.7***
EBIT%	**7.9**	**9.3**		**8.4**		**8.7**	**10.2**	
Tax	(143)	(113)	*26.3*	(50)	*184.4*	(394)	(255)	*54.3*
Net income	**183**	**302**	***(39.3)***	**130**	***41.5***	**848**	**653**	***29.9***

Source: Company data, Kotak Institutional Equities.

Exhibit 3: PSL Ltd., change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimate		Old estimate		Change (%)	
	2009E	2010E	2009E	2010E	2009E	2010E
Revenue	38,737	49,479	30,651	38,267	26.4	29.3
EBITDA	3,902	5,160	3,405	4,278	14.6	20.6
EBITDA margin (%)	10.1	10.4	11.1	11.2	—	—
Adjusted net profit	1,998	2,910	1,680	2,314	18.9	25.8

Source: Kotak Institutional Equities estimates.

Exhibit 4: PSL Ltd: Change in volume and pricing assumptions, March fiscal year-ends

	Revised estimate		Old estimate		Change (%)	
	2009E	2010E	2009E	2010E	2009E	2010E
Sales ('000 tons)						
India	495	528	440	528	12.5	—
UAE	32	38	32	38	—	—
USA	56	165	56	105	—	57.1
Realisation (US$/ton)						
India	1,487	1,517	1,316	1,336	13.0	13.5
UAE	1,532	1,562	1,356	1,376	13.0	13.5
USA	1,800	1,800	1,400	1,421	28.6	26.7
Raw material cost (US$/ton)						
HR coil	925	971	800	808	15.7	20.2

Source: Kotak Institutional Equities estimates.

Exhibit 5: Recent orders announced by PSL

Agency	Rs (mn)	Details	Kms	Tons
BPCL	1230	Bina-Kota pipeline	262	20,000
GAIL	19280	Vijaipur - Dadri - Bawana	470	230,000
Florida Gas transmission Company (USA)	17556	Gas pipeline and coating	869	220,000
Hanwa Co. Ltd (Japan)	1890	Water home project at Palm Beach project (Middle East)	60	28,000
HPCL-Mittal pipelines Ltd.	9170	Mundra-Bhatinds crude line (Bhatinda refinery)	1,024	140,000
L & T	3080	Barmer water pipeline	220	50,000

Source: Company.

Exhibit 6: Operating assumption for PSL

	2008	2009E	2010E	2011E
Sales ('000 tons)				
India	410	495	528	550
UAE	7	32	38	41
USA	-	56	165	180
Realisation (US$/ton)				
India	1,118	1,487	1,517	1,487
UAE	900	1,532	1,562	1,531
USA		1,800	1,800	1,773
Raw material cost (US$/ton)				
HR coil	701	925	971	961
EBITDA				
EBITDA (Rs mn)	1,923	3,902	5,160	5,299
EBITDA / ton ($)	115	159	170	168

Source: Kotak Institutional Equities estimates.

Exhibit 7: Profit model, balance sheet, cash model for PSL Ltd 2005-2011E, March fiscal year-ends (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Profit model							
Net revenues	14,092	14,503	14,433	21,196	38,737	49,479	50,645
EBITDA	**1,173**	**1,550**	**1,642**	**1,923**	**3,902**	**5,160**	**5,299**
Other income	170	193	274	448	391	443	420
Interest (expense)/income	(648)	(690)	(563)	(579)	(721)	(672)	(514)
Depreciation	(240)	(344)	(445)	(538)	(705)	(828)	(841)
Bad Debt written off	-	-	-	-	-	-	(36)
Pretax profits	**454**	**708**	**908**	**1,254**	**2,867**	**4,103**	**4,329**
Tax	(102)	(192)	(280)	(381)	(749)	(839)	(885)
Deferred taxation	(20)	3	25	(28)	(71)	(51)	(26)
Minority Intt	—	—	—	—	(48)	(303)	(344)
Adjusted consolidated net income	**333**	**519**	**653**	**845**	**1,998**	**2,910**	**3,074**
Diluted Earnings per share (Rs)	**11.5**	**14.1**	**15.8**	**19.4**	**45.9**	**66.8**	**70.5**
Balance sheet							
Total equity	1,825	2,777	3,519	6,003	7,899	10,453	13,170
Deferred taxation liability	35	32	7	35	106	156	182
Total borrowings	6,490	6,810	6,698	8,107	9,704	6,663	5,000
Minority Interest	—	—	—	—	48	351	695
Current liabilities	4,817	5,898	5,791	7,473	12,466	15,635	15,984
Total liabilities and equity	**13,168**	**15,518**	**16,015**	**21,618**	**30,223**	**33,259**	**35,031**
Cash	1,796	1,199	1,263	1,200	1,200	1,200	3,772
Other current assets	8,477	10,654	9,596	13,408	21,908	25,614	25,495
Total fixed assets	2,793	3,564	5,131	6,985	7,090	6,420	5,740
Miscl. Exps. not w/o	0	0	0	—	—	—	—
Investments	102	102	25	25	25	25	25
Total assets	**13,168**	**15,518**	**16,015**	**21,618**	**30,223**	**33,259**	**35,031**
Free cash flow							
Operating cash flow, excl working capital	342	900	1,042	963	2,431	3,649	3,864
Working capital changes	(2,179)	(1,267)	695	(2,287)	(3,563)	(588)	468
Capital expenditure	(1,180)	(1,115)	(2,012)	(2,392)	(810)	(158)	(160)
Investments	(56)	—	77	—	—	—	—
Other income	12	41	142	448	391	443	420
Free cash flow	**(3,060)**	**(1,441)**	**(57)**	**(3,268)**	**(1,551)**	**3,347**	**4,592**
Ratios (%)							
EBITDA margins (%)	8.3	10.7	11.4	9.1	10.1	10.4	10.5
Debt/equity		3.5	2.4	1.9	1.3	1.2	0.7
Net debt/equity		2.5	2.0	1.5	1.1	1.1	0.5
RoAE		18.3	22.6	20.7	17.7	28.7	31.7
RoACE		**13.2**	**11.4**	**10.7**	**10.1**	**15.7**	**19.1**

Exhibit 8: DCF valuation of PSL, March fiscal year-ends (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	Terminal Value
EBITDA	3,902	5,160	5,299	5,065	4,673	4,696	4,685	4,685	4,685	
Tax expense	(923)	(951)	(960)	(910)	(823)	(883)	(897)	(916)	(857)	
Changes in working capital	(3,563)	(588)	468	1,272	1,022	185	125	(0)	—	
Cash flow from operations	**(584)**	**3,621**	**4,807**	**5,428**	**4,872**	**3,998**	**3,913**	**3,768**	**3,828**	
Capital expenditure	(810)	(158)	(160)	(163)	(220)	(225)	(287)	(294)	(843)	
Free cash flow to the firm	**(1,395)**	**3,463**	**4,646**	**5,265**	**4,652**	**3,773**	**3,626**	**3,474**	**2,984**	**25,119**
Dicounted cash flow-now	(1,270)	2,791	3,313	3,322	2,598	1,864	1,586	1,345	1,022	
Discounted cash flow-1 year forward	-	3,153	3,744	3,754	2,935	2,107	1,792	1,519	1,155	
Discounted cash flow-2 year forward		-	4,231	4,242	3,317	2,381	2,025	1,717	1,305	

Discount rate	13.0%
Growth from 2017 to perpetuity	1.0%

		2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Discount factor at WACC	**-**	**0.91**	**0.81**	**0.71**	**0.63**	**0.56**	**0.49**	**0.44**	**0.39**	**0.34**

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**20,160**	**67%**	**19,217**	**64%**
PV of terminal value (b)	9,722	33%	10,985	36%
EV (a) + (b)	29,881		30,203	
EV (US$ mn)	**738**		**746**	
Net debt	8,552		5,814	
Equity value	**21,329**		**24,388**	
No. of shares	43.6		43.6	
Implied share price (Rs)	**489**		**560**	
Exit EV/EBITDA multiple (X)	5.4			
Exit FCF multiple (X)	**8.4**			

Sensitivity of DCF value to WACC and growth rate (Rs)

Growth Rate	WACC 12.0%	12.5%	13.0%	13.5%	14.0%
-0.5%	507	484	462	441	422
0.0%	518	493	470	449	429
0.5%	529	503	479	457	437
1.0%	542	514	**489**	466	445
1.5%	555	527	500	476	453
2.0%	571	540	512	486	463
2.5%	587	555	525	498	473

Source: Company, Kotak Institutional Equities estimates.

Metals

HALC.BO, Rs145	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	150
52W High -Low (Rs)	240 - 135
Market Cap (Rs bn)	252.4

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	196.5	212.9	217.2
Net Profit (Rs bn)	22.8	28.2	25.4
EPS (Rs)	13.1	16.2	14.6
EPS gth	*(10.9)*	*23.5*	*(9.9)*
P/E (x)	11.1	9.0	9.9
EV/EBITDA (x)	6.8	5.4	5.3
Div yield (%)	0.9	1.2	1.2

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	31.4	-	-
FIIs	24.0	0.6	0.1
MFs	3.7	0.5	(0.0)
UTI	-	-	(0.5)
LIC	10.7	1.4	0.8

Hindalco: Rights issue to fund Novelis acquisition; balance funding may prove costly—cut target price to Rs150; lower rating to REDUCE

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- **Hindalco will raise Rs50 bn through a rights issue to fund the Novelis bridge loan of US$3 bn—balance to be funded through treasury and debt**
- **We reduce our target multiple to factor in lower global valuations for non-ferrous companies—we now value both aluminum and copper business at 6X FY2010E EBITDA**
- **Reduce target price to Rs150/share (Rs215/share earlier) factoring lower multiple, dilution on account of rights issue**

Hindalco would be raising Rs50 bn through a rights issue at a ratio of 1:3 to replace the bridge loan of US$3 bn taken for the Novelis acquisition. The balance would be funded through treasury and debt. We believe given current market conditions, debt would prove to be quite expensive. We factor raising US$1 bn through treasury and US$0.9 bn of debt to replace the bridge loan. We reduce our target EV/EBITDA multiple for valuing the aluminum and copper business in line with global valuations. We now value aluminum and copper business at 6X FY2010E EV/EBITDA. We roll forward to FY2010 and lower our 12-month target price to Rs150/share (Rs215/share previously) and lower our rating on the stock to REDUCE (ADD earlier).

Hindalco will raise Rs50 bn through a rights issue to fund the Novelis bridge loan of US$3 bn—balance to be funded through treasury and debt

Hindalco would be raising Rs50 bn through a rights issue at a ratio of 1:3 to replace the bridge loan of US$3 bn taken for the Novelis acquisition. Based on the ratio of one share for every three shares held, Hindalco would be issuing 436 mn shares as a result of which the fully diluted number of shares shall be increase to 1,742 mn shares from 1,307 shares previously. We estimate the implied price of the rights issue at Rs115/ share. The balance would be funded through treasury and debt. We believe that given the current market conditions, debt would prove to be quite expensive. We factor raising US$1 bn through treasury and US$0.9 bn of debt to replace the bridge loan. We expect the debt to be raised at Libor +350 bps.

We reduce our multiple to factor in lower global valuations for non-ferrous companies

We value the aluminum business of Hindalco at 6X FY2010E EV/EBITDA and the copper business at 6X FY2010E EV/EBITDA. We have reduced our multiple to factor lower global valuations and the fact that the commodity cycle is near its peak.

Reduce target price to Rs150/share (Rs215/share earlier) factoring lower multiple, dilution on account of rights issue

We maintain our standalone earnings estimates for Hindalco but roll over valuations to FY2010E. We value the aluminum and copper business of Hindalco at 6X FY2010E EV/ EBITDA each. We value Novelis at a premium to Hindalco as it is a pure conversion business with lower volatility in earnings—we value Novelis' EBITDA without its loss making contracts at 6.6X FY2010E EV/EBITDA. We reduce our 12-month target price to Rs150/share (Rs215/share previously) to reflect the equity dilution on account of the rights issue and lower EBITDA multiple. We lower our rating on the stock to REDUCE from ADD previously.

*Amit Agarwal has assumed interim charge of KIE's metals coverage.

Hindalco, SOTP-based target-price, 2010E basis

	EBITDA	EV/EBITDA	EV	Stake	Attributable EV		Value
	(Rs bn)	(X)	(Rs bn)	(%)	(Rs bn)	(US$ mn)	(Rs/share)
Copper business	6	6.0	39	100	39	919	22
Aluminium business	32	6.0	193	100	193	4,596	111
ABML (a)				51	12	279	7
Novelis (b), (d)	24	6.6	158	100	158	3,770	91
PV of Novelis beverage can contracts (c)					(5)	(112)	(3)
Total enterprise value					**397**	**9,453**	**228**
Total debt					**142**	**3,385**	**82**
Hindalco's debt (excl. LBO debt)					(13)	(302)	(7)
LBO debt					38	910	22
Novelis standalone debt					117	2,778	67
Value of investments					**6**	**153**	**4**
Resultant market capitalization					**261**	**6,221**	**150**
Target price (Rs/share)							**150**

Notes:

(a) Stake in ABML is valued based on market-capitalization of ABML.

(b) We value Novelis' EBITDA without its loss-making contracts.

(c) Loss-making beverage can contracts will likely exhaust by CY2009. We use 12% discounting for calculating its PV.

(d) We have valued Novelis at 10% premium to Hindalco's aluminium business valuations.

Source: Kotak Institutional Equities estimates.

Hindalco (standalone), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)						
Net sales	95,235	113,965	183,130	196,491	212,904	217,211
EBITDA	**22,765**	**26,051**	**40,150**	**38,498**	**44,604**	**41,840**
Other income	2,700	2,439	3,701	3,648	6,108	6,069
Interest	(1,700)	(2,252)	(2,424)	(3,316)	(2,947)	(2,947)
Depreciaiton	(4,633)	(5,211)	(6,380)	(7,542)	(9,137)	(10,152)
Profit before tax	**19,042**	**21,057**	**35,046**	**31,289**	**38,628**	**34,811**
Current tax	(5,705)	(3,342)	(9,954)	(7,181)	(8,865)	(7,989)
Deferred tax	(43)	(1,160)	551	(1,267)	(1,564)	(1,410)
Net profit	**13,294**	**16,556**	**25,643**	**22,841**	**28,198**	**25,412**
Earnings per share (Rs)	**7.7**	**9.5**	**14.7**	**13.1**	**16.2**	**14.6**
Balance sheet (Rs mn)						
Equity	76,666	96,063	124,180	170,534	245,614	267,907
Deferred tax liability	11,297	12,334	11,258	12,525	14,090	15,499
Total Borrowings	38,000	49,034	73,686	73,686	73,686	73,686
Current liabilities	25,182	31,527	40,275	42,055	44,241	44,815
Total liabilities	**151,145**	**188,958**	**249,400**	**298,801**	**377,631**	**401,908**
Net fixed assets	69,265	76,157	84,831	112,290	123,153	128,002
Investments	37,021	39,713	86,753	69,553	119,553	119,553
Cash	4,010	9,173	6,655	41,551	54,302	72,362
Other current assets	40,755	63,855	71,128	75,375	80,591	81,959
Miscellaneous expenditure	94	60	32	32	32	32
Total assets	**151,145**	**188,958**	**249,400**	**298,801**	**377,631**	**401,908**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	23,488	23,168	34,551	31,649	38,899	36,973
Working capital changes	(5,878)	(16,085)	(1,185)	(2,466)	(3,030)	(795)
Capital expenditure	(11,205)	(11,982)	(13,472)	(35,000)	(20,000)	(15,000)
Free cash flow	**6,404**	**(4,899)**	**19,893**	**(5,817)**	**15,869**	**21,178**
Ratios						
Debt/equity (%)	43.2	45.2	54.4	40.3	28.4	26.0
Net debt/equity (X)	0.4	0.4	0.5	0.2	0.1	0.0
RoAE (%)	16.1	16.9	21.0	14.3	12.7	9.4
RoACE (%)	**12.6**	**13.0**	**14.9**	**10.9**	**10.3**	**8.0**

Source: Company, Kotak Institutional Equities estimates.

Economy

Sector coverage view	N/A

Growth to trim on RBI's strong signal; but inflation is destined to stay high

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- **RBI hikes CRR by 50 bps to 8.75, repo rate by 50 bps to 8.5%; we expect CRR at 9.25% and repo rate at 8.75% during the year**
- **CRR hike to mop up nearly Rs200 bn of primary liquidity; repo rate hike to increase cost of borrowed funds**
- **Tightening to slow aggregate demand; revise our real GDP growth projection to 7.9% from 8.2% for FY2009E**
- **Inflation likely to stay in double digits till 3QFY09; but preemptive tightening to help contain second round impact of fuel-price-led inflation**

RBI hiked CRR and repo rate by 50 bps each on June 24. The 50+50 signal adds up to 100% certainty that interest rates would harden soon. The hikes are expected to goad loath public sector banks procrastinating on raising lending rates to do so in the near term. The hike also came a bit sooner than was generally expected by the markets and does not appear to be fully priced in the bond yields as yet. We expect bond yields to immediately move up by further 20-30 bps across yield curve and not just at the short-end of the curve. We also expect interest rates to harden by about 50 bps causing both consumption and investment demand to fall. Accordingly, we are trimming our real GDP growth projection for FY2009 to 7.9% from 8.2%.

RBI tightens monetary policy further

With headline inflation touching double digits in the data released last Friday, RBI's response (see Exhibit 1) came quicker than expected. Well after close of markets yesterday, RBI announced:

- Increase in repo rate to 8.5% from 8.0% with effect from June 25, 2008
- Increase in CRR to 8.5% effective fortnight beginning July 5, 2008 and to 8.75% from fortnight beginning July 19, 2008 from 8.25% currently

Reasons behind RBI action

Major concerns highlighted in the accompanying communication by the central bank were:

1) Increase in inflation rate to 11.05% on June 7, 2008 from 7.75% at end-March 2008 and 4.28% a year ago.
2) Ex-fuel and food (core inflation), inflation has risen to 10.33% from 6.33% a year ago
3) CPI inflation has also yoy. [CPI for industrial workers at 7.8% (vs 6.67%); CPI for urban non-manual employees at 6.99% (vs 7.74%); CPI for agricultural laborers: at 9.11% (vs 8.22%) and CPI for rural laborers at 8.44% (vs7.90%)]
4) M3 growth at 21.4% yoy is well above the annual monetary policy projection of 16.5-17%
5) High and volatile energy prices are not necessarily a temporary phenomenon any longer
6) Aggregate deposit growth at 23.2% yoy is above annual monetary policy projection of 17%
7) Non-food credit growth at 26.2% yoy is above Annual monetary policy projection of 20%

8) High and volatile energy prices

9) India is somewhat decoupled from the intensifying global food crisis

10) The external sector is strong and resilient with modest current account deficits relative to the size of the economy and has a comfortable level of foreign exchange reserves

11) Therefore, the major focus of public policy needs to be on dealing with the crude prices and moderating and managing aggregate demand so that pressure on prices are not intensified

12) Aggregate demand pressures are visible in: (a) 13-year high inflation, (b) strong investment demand growing at 14-19% annually and constituting 36% of GDP, (c) non-oil imports increasing at considerable pace, contributing more than 60% of overall import growth in April 2008 and (d) likely additional pressure on demand arising from fiscal side with possibly enhanced subsidies for food, fertilizers and fuel

RBI analysis underplaying growth concerns

We broadly agree with RBI's analysis above, except that:

1) It has misread the April trade data as indicating strong non-oil import demand as non-oil imports contributed over 60% of the total. This ratio has in fact averaged over 70% since at least the start of the present decade. April trade data does not indicate stronger non-oil import growth than it was in recent past.

2) It has read April IIP numbers as indicating revival of capital goods and consumer durable goods growth in its accompanying communication. It is true that capital goods production increased 14.2% yoy in April. But this does not indicate revival as its production was in fact 36.6% over the preceding month. Even ignoring the March bulge, capital goods output in April was at a nine-month low. Similarly, consumer durables did record a positive growth after contraction in eight of the months in FY2008, but it would be hasty to conclude its revival. The April output level for consumer durables was not only 12% down over the year-end March bulge, but also lower by 7% over that in January and February of 2008.

3) RBI communication is also completely silent on deteriorating corporate performance and the risks to earning growth arising from the RBI policy action.

In our view, RBI may have tightened a bit too excessively and could have spaced the repo rate hike as well. RBI had already raised CRR by 75 bps and repo rate by 25 bps in this quarter and the further monetary tightening could dampen aggregate demand excessively ahead, when the nature of inflation remains predominantly supply-side coming from fuel and metal prices (see Exhibit 2). We do not see RBI measures being able to change the inflation trajectory. Inflation is likely to be about 13% yoy in October after which it may plateau and then decline sharply in 4QFY09 to near 8%. WPI inflation is more likely to average close to 10% in FY2009 notwithstanding the monetary policy tightening. If RBI tightens further from here growth could be at a serious risk.

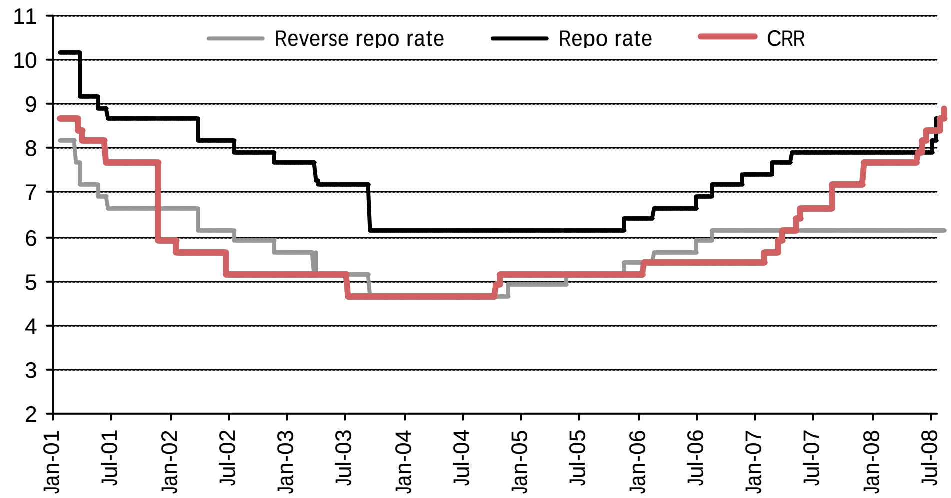
Our revised growth assessment suggest a 7.9% real GDP growth in FY2009

Call, CBLO and market repo rates are likely to trade at about 8.6% today and are likely to hover around 8.5% over a month. We see 91-day T-bill yields touching 8.5% and 10-year G-sec yield touching 8.75% within a week or two. We also expect further rise in deposit as well as lending rates. Interest rates across spectrum would harden as a result of unambiguously strong signal by the central bank. Considering the above, we are trimming our real GDP growth forecast to 7.9% from 8.2% (see Exhibit 3).

While we had already factored in some further monetary tightening in our real GDP growth assessment of 8.2% (CRR of 8.75% and repo rate of 8.25%) made in our May 9 Economy report, “Bulwarks against headwinds firmly in place”, the tightening has been faster and more in intensity. We now see CRR at 9.25% and repo rate at 8.75% during the year before monetary policy starts unwinding. The revised growth assessment factors in this possibility. The unwinding would be crucial if growth in FY2010 is to be protected.

Exhibit 1: Monetary tightening continues since mid-2004

RBI's repo, reverse repo rates and cash reserve ratio (%)



Source: Reserve Bank of India

Exhibit 2: Supply-side factors drive inflation up

Increase in WPI and its major components till June 7, 2008 (%); the weighted contribution of major components to this increase (%)

		Price rise since:				Weighted contribution to increase in WPI since:			
	weight	end-Mar. '08	since Oct.13,'08	end-FY2007	FY1994	end-Mar.'08	since Oct.13,'08	end-FY2007	FY1994
All commodities	100.0	3.7	9.4	11.8	135.2	99.8	99.6	99.9	100.0
Primary articles	**22.0**	**2.4**	**8.4**	**12.3**	**142.5**	**14.8**	**20.5**	**23.6**	**23.2**
Food articles	15.4	1.5	3.8	8.1	131.6	6.2	6.5	10.8	15.0
Non-food articles	6.1	5.3	14.3	17.3	139.2	8.7	9.1	8.7	6.3
Minerals	0.5	0.0	48.3	49.9	530.1	0.0	4.9	4.1	1.9
Fuel, power, light & lubricant	**14.2**	**9.5**	**15.6**	**16.9**	**274.2**	**54.2**	**35.6**	**31.0**	**28.9**
Coal mining	1.8	0.0	9.8	9.8	154.4	0.0	2.0	1.6	2.0
Minerals oils	7.0	15.9	24.3	26.6	380.8	54.1	32.5	28.5	19.7
Electricity	5.5	0.0	1.4	1.5	176.5	0.0	1.0	0.9	7.2
Manufactured products	**63.7**	**2.1**	**7.3**	**9.6**	**101.6**	**30.8**	**43.6**	**45.2**	**47.9**
Food products	11.5	1.9	9.5	11.4	107.4	5.2	10.3	9.9	9.2
Beverages tobacco & tobacco products	1.3	3.2	7.7	11.4	185.6	1.4	1.4	1.6	1.8
Textiles	9.8	5.2	1.7	0.7	34.5	7.7	1.1	0.4	2.5
Wood & wood product`s	0.2	9.8	9.8	9.8	137.0	0.4	0.2	0.2	0.2
Paper & paper products	2.0	2.5	2.4	3.6	99.4	1.2	0.5	0.6	1.5
Leather & leather products	1.0	1.3	(0.5)	1.1	66.5	0.3	(0.0)	0.1	0.5
Rubber & plastic products	2.4	0.2	2.4	5.8	63.9	0.1	0.5	0.9	1.1
Chemicals & chemical products	11.9	1.5	4.5	7.5	114.0	4.4	5.4	7.2	10.1
Non-metallic mineral products	2.5	(0.6)	1.3	5.8	113.4	(0.4)	0.3	2.0	2.1
Basic metals alloys & metals products	8.3	1.4	19.6	22.1	195.8	4.1	20.0	18.0	12.1
Machinery & machine tools	8.4	3.0	3.2	6.5	72.9	4.9	2.2	3.6	4.5
Transport equipment & parts	4.3	2.5	5.0	6.5	74.0	2.2	1.8	1.8	2.4

Note:

(1) Total weighted contribution may not exactly add up to 100 due to rounding off

(2) Figures in bracket reflect negative numbers

Source: Kotak Institutional Equities.

Exhibit 3: Monetary policy tightening to trim real GDP growth to 7.9% from 8.2%

Real GDP at factor cost and components (growth rates in %), March fiscal year-ends 2004-2009E

Sector	2004	2005	2006	2007	2008	Earlier 2009E	Now 2009E
Agriculture and allied activities	**10.0**	**0.0**	**5.9**	**3.8**	**4.5**	**3.0**	**3.0**
Industry	**6.0**	**8.5**	**8.0**	**10.6**	**8.1**	**7.6**	**7.3**
Mining and quarrying	3.1	8.2	4.9	5.7	4.7	7.1	7.1
Manufacturing	6.6	8.7	9.0	12.0	8.8	7.7	7.3
Electricity, gas and water supply	5.0	5.2	5.2	6.0	6.3	7.6	7.4
Services	**8.8**	**9.9**	**11.0**	**11.2**	**10.7**	**9.8**	**9.5**
Construction	12.0	16.1	16.5	12.0	9.8	8.5	7.2
Trade, hotels, transport, storage and communication	12.0	10.7	11.5	11.8	12.0	9.7	9.5
Financing, insurance, real estate and business services	5.6	8.7	11.4	13.9	11.8	9.3	9.1
Community, social and personal services	5.4	6.9	7.2	6.9	7.3	11.0	11.0
Real GDP at factor cost	**8.5**	**7.5**	**9.4**	**9.6**	**9.0**	**8.2**	**8.2**

Source: Central Statistical Organisation, Government of India, Kotak Institutional Equities estimates.

Cement

Sector coverage view			Cautious

		Price, Rs	
Company	**Rating**	**24-Jun**	**Target**
Gujarat Ambuj	REDUCE	81	95
ACC	REDUCE	592	650
Grasim	REDUCE	2,090	2,320
India Cements	ADD	151	175
UltraTech Cem	BUY	562	750
Shree Cement	BUY	672	1,080

Crude oil linked inflation woes to impact profitability of cement companies

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- **Average realizations for FY2009 reduced by Rs5-7/bag**
- **Higher freight costs on account of revised fuel prices**
- **Steep correction in valuation multiples, ahead of margin correction**

We have revised the earnings and target prices of all cement companies under coverage to factor in (1) higher fuel and freight cost on account of increasing crude oil prices, (2) spiraling prices of imported coal, (3) downward pressure on cement realizations as we expect capacity utilization to decline with incremental supply and slowdown in consumption and (4) higher cost-of-capital in an increased interest rate environment. We estimate decline EBITDA/ton across the sector as price trend remains weak in a rising cost environment. Marginal relief for UltraTech and Ambuja Cements stems from reversal of export ban imposed in May. We maintain our 'Cautious' view on the sector, despite the sharp correction in valuation multiples, as in our view EBITDA margins and utilization rates will continue to deteriorate as the business cycle reverses to one of surplus supply. We note smaller companies are trading at a discount to replacement cost while they continue to make good margins—upgrade Shree Cement and UltraTech Cement to BUY and India Cements to ADD.

Average realizations for FY2009 reduced by Rs5-7/bag. We now factor in 3% yoy decline in FY2009E realizations followed by a further 5% yoy decline in FY2010E, compared with our earlier assumption of flat realizations in FY2009E followed by a 5% decline in FY2010E. The revision in our estimates stems from (1) increased government pressure to contain cement prices in a bid to moderate inflation and (2) commissioning of new cement capacities increasing supplies while demand growth has been lackluster. In our view, slowdown in consumption growth in a high inflation and interest rate environment could further aggravate the demand-supply imbalance. We note that the cement sector added 8 mn tpa of cement capacity in March 2008 alone, and Grasim (along with UltraTech) has already commissioned clinker capacities equivalent to 9 mn tpa of cement capacity that will likely start commercial production by 3QFY2009.

Higher freight costs on account of revised fuel prices. We have revised the tariff on road transport by 10% in order to give effect to the revision in fuel prices. Freight cost account for almost 25% of the cost of production, and hence any increase in freight cost will likely have a significant bearing on profitability. We note that road freight accounted for 59% of cement despatched in FY2008. Increase in freight costs also increases the cost of inputs such as flyash and slag.

Steep correction in valuation multiples, ahead of margin correction. Valuation multiples for cement companies have come off sharply from their peaks since the last two quarters, even though the industry is yet to experience the bottoming of the cement cycle. In our view significant addition of cement capacities across the industry, will result in falling utilization rates accompanied by declining EBITDA margins in the quarters to come. The impact of increased supplies could be further compounded by (1) rising input costs (2) probable slowdown in cement consumption—consumption growth was at 5.6% during April-May 2008, and (3) regulatory and/or fiscal intervention from the government.

We highlight company-wise revision in target price and estimates and key factors that will drive earnings and valuations during the current fiscal and help companies partially overcome pressures on EBITDA margins.

ACC (CMP Rs625, TP Rs650, REDUCE). We have revised our target price for ACC to Rs650 (Rs800 previously) and estimate earnings of Rs65 (Rs68.8 previously) for CY2008 and Rs51.6 (Rs63.7 previously) for CY2009. ACC is less impacted by increase in diesel prices due to (1) distributed network of plants leading to shorter lead distance, and (2) higher dependence on rail network compared to peers.

Ambuja Cements (CMP Rs81, TP Rs95, REDUCE). We have revised our target price for Ambuja to Rs95 (Rs117 previously) and estimate earnings of Rs8 (Rs8.8 previously) for CY2008 and Rs6.6 (Rs8.3 previously) for CY2009. We expect dependence on purchased clinker for newly commissioned grinding capacities to weigh on EBITDA margins upto 2HCY2009 when fresh clinker capacity at Bhatapara (2.2 mn tpa) will likely get commissioned. Ambuja Cement also utilizes imported coal at its production facilities in Gujarat.

Grasim Industries (CMP Rs2,090, TP Rs2,320, REDUCE). We have revised our SOTP-based target price for Grasim to Rs2,320 (Rs2,750 previously) and estimate earnings of Rs228 (Rs267 previously) for FY2009 and Rs218 (Rs260 previously) for FY2010. We use 6X EV/EBITDA for cement business valuation compared to 7X previously and factor in the decline in value of investments.

India Cements (CMP Rs151, TP Rs175, ADD). We have revised our target price for India Cements to Rs175 (Rs270 previously) and estimate earnings of Rs23.3 (Rs27.9 previously) for FY2009 and Rs23.4 (Rs26.8 previously) for FY2010. The decline in India Cements profitability can be attributed to the combined impact of—(1) higher dependence on imported coal, and (2) higher proportion of road transport. India Cements is currently increasing its capacity to 15 mn tpa by end-FY2009 from the current 9 mn tpa. We estimate the stock to be trading at EV of US$96/ton on FY2009 production.

Shree Cement (CMP Rs672, TP Rs1,080, BUY) We have revised our target price for Shree Cement to Rs1,080 (Rs1,300 previously) and estimate earnings of Rs97.8 (108.6 previously) for FY2009 and Rs60 (Rs89.5 previously) for FY2010. Shree Cement will likely benefit from the expanded capacities (added 3 mn tpa during the past year) which will have their first full year of production during the current fiscal. While the company could likely face severe pressure on realizations due to bunching of capacities in its key market of North India, its superior profitability gives it an edge over peers. We estimate the stock to be trading at EV of US$68/ton on FY2009 production.

UltraTech (CMP Rs562, TP Rs750, BUY). We have revised our target price for UltraTech to Rs750 (Rs850 previously) and estimate earnings of Rs82 (Rs86 previously) for FY2009 and Rs61 (Rs77 previously) for FY2010. UltraTech will likely benefit from the reversal of ban earlier imposed on exports of cement and clinker from Gujarat as realizations in the export market have improved to US$60/ton. UltraTech will also benefit from the commercial production of cement at its new facility at Tadipatri in Andhra Pradesh, for which the clinker units have already been commissioned. Increase in costs of imported coal will be partially offset by the commissioning of captive power plants during the current FY that will reduce UltraTech's dependence on costlier grid power.

Revision in earnings estimates to refelect decline in realizations and higher fuel and freight costs

Earnings estimates for cement companies under coverage (Rs mn)

	Sales					
	2009E			2010E		
Company	**Revised**	**Old**	***(% chg)***	**Revised**	**Old**	***(% chg)***
ACC	74,411	75,875	*(1.9)*	78,063	81,472	*(4.2)*
Ambuja Cement	61,262	62,334	*(1.7)*	66,535	68,614	*(3.0)*
Grasim Industries	182,081	185,042	*(1.6)*	200,409	204,281	*(1.9)*
India Cements	33,760	34,079	*(0.9)*	38,444	38,827	*(1.0)*
Shree Cement	26,068	26,297	*(0.9)*	26,730	27,348	*(2.3)*
UltraTech Cement	61,890	60,209	*2.8*	66,222	65,854	*0.6*
	EBITDA					
	2009E			**2010E**		
Company	**Revised**	**Old**	***(% chg)***	**Revised**	**Old**	***(% chg)***
ACC	20,160	21,769	*(7.4)*	17,673	21,342	*(17.2)*
Ambuja Cement	20,269	21,714	*(6.7)*	18,542	21,890	*(15.3)*
Grasim Industries	48,022	53,214	*(9.8)*	46,365	53,424	*(13.2)*
India Cements	10,834	12,770	*(15.2)*	11,729	13,203	*(11.2)*
Shree Cement	9,312	9,828	*(5.3)*	7,824	8,897	*(12.1)*
UltraTech Cement	19,018	19,597	*(3.0)*	15,759	18,511	*(14.9)*
	EPS (Rs)					
	2009E			**2010E**		
Company	**Revised**	**Old**	***(% chg)***	**Revised**	**Old**	***(% chg)***
ACC	65.0	68.8	*(5.5)*	51.6	63.7	*(19.0)*
Ambuja Cement	8.0	8.8	*(8.3)*	6.6	8.3	*(20.0)*
Grasim Industries	228.9	267.4	*(14.4)*	218.4	260.2	*(16.1)*
India Cements	23.3	27.9	*(16.3)*	23.4	26.8	*(12.9)*
Shree Cement	97.8	108.6	*(9.9)*	60.0	89.5	*(32.9)*
UltraTech Cement	81.9	86.1	*(4.8)*	61.4	77.1	*(20.3)*

Source: Kotak Institutional Equities estimates.

Target price have been revised by 13-35% to reflect decline in profitability

Revision in target prices for cement companies under coverage

		Target price		
Company	**Rating**	**Revised**	**Old**	***(% chg)***
ACC	REDUCE	650	800	(19)
Ambuja Cement	REDUCE	95	117	(19)
Grasim Industries	REDUCE	2,320	2,750	(16)
India Cements	ADD	175	270	(35)
Shree Cement	BUY	1,080	1,300	(17)
UltraTech Cement	BUY	740	850	(13)

Source: Kotak Institutional Equities estimates.

Cement comparative valuation

Company	Market cap. (US$ mn)	CMP (Rs) 24-Jun	Target price (Rs)	Rating	EPS (Rs) 2007	2008E	2009E	2010E	P/E (X) 2007	2008E	2009E	2010E
ACC	2,602	592	650	REDUCE	56.7	64.1	65.0	51.6	10.4	9.2	9.1	11.5
Ambuja Cement	2,856	81	95	REDUCE	8.5	7.6	8.0	6.6	9.5	10.7	10.0	12.2
Grasim Industries	4,464	2,090	2,320	REDUCE	215	285	229	218	9.7	7.3	9.1	9.6
India Cements	918	151	175	ADD	26.1	25.4	23.3	23.4	5.8	6.0	6.5	6.5
Shree Cement	546	672	1,080	BUY	45.2	85.9	97.8	60.0	14.9	7.8	6.9	11.2
UltraTech Cement	1,630	562	750	BUY	63.1	81.1	81.9	61.4	8.9	6.9	6.9	9.1

Company	EV/EBITDA (X) 2007	2008E	2009E	2010E	EV/ton of production (US$) 2007	2008E	2009E	2010E	EV/ton of capacity (US$) 2008E	2009E	2010E
ACC	6.2	4.8	4.7	6.0	134	115	102	104	101	84	89
Ambuja Cement	6.9	5.4	6.1	6.6	201	166	150	134	155	143	130
Grasim Industries	5.3	4.0	4.5	4.3	NA	NA	NA	NA	NA	NA	NA
India Cements	7.7	4.1	4.0	3.2	160	120	96	69	102	77	57
Shree Cement	4.7	2.9	2.6	2.7	142	101	68	55	70	62	48
UltraTech Cement	5.7	4.6	4.3	4.9	113	113	101	83	87	86	80

Note:
(a) Ambuja Cement - assumed exercise of put option for stake in ACIL.
(b) ACC - 2007 numbers for 12 months ending Dec 2006.
(c) Ambuja Cement- 2007 numbers for 12 months ending Dec 2006 (adjusted).

Source: Company reports, Kotak Institutional Equities estimates.

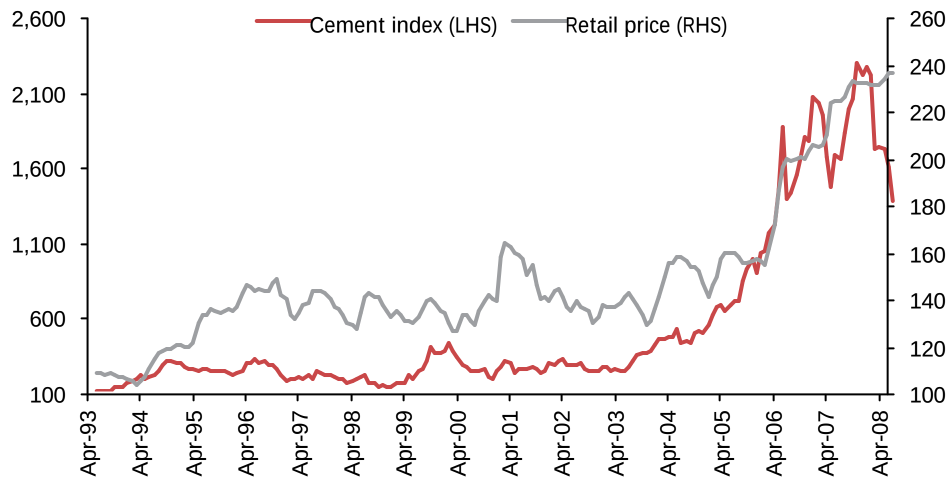
SOTP valuation of Grasim
(Rs mn)

Sum of the Parts		Methodology
Cement	157,068	6X EV/EBITDA - compared to ACC's historic average EV/EBITDA of 9X
VSF	37,095	DCF value implying an EV/EBITDA of 4.5X on FY2009E
Others (Chemicals)	6,593	DCF value implying an EV/EBITDA of 4.7X on FY2009E
Value of key investments	25,769	20% discount to current market price
Total EV	**226,525**	
Gross debt	40,383	
- Cash	(26,380)	
Net debt	14,003	
Market capitalization	212,522	
Number of shares o/s (mn)	91.7	
Implied share price (Rs)	**2,318**	
Target price (Rs)	**2,320**	

Our target price implies EV/ton of US$111 for cement business.

Source: Company data, Kotak Institutional Equities estimates

Movement of Cement Index (LHS) and retail prices of cement (RHS)



Source: CMA, Bloomberg, Kotak Institutional Equities.

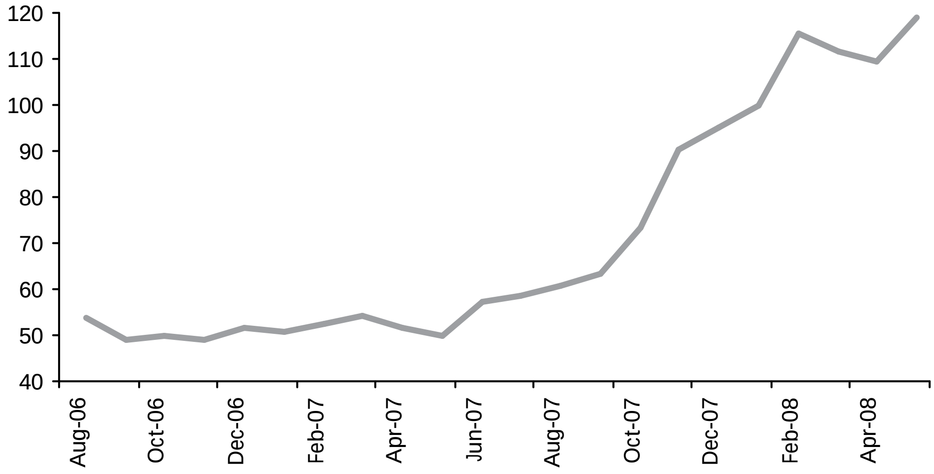
Working on optimistic scenario - 10% growth in domestic consumption

Cement demand supply balance

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Effective capacity (mn tpa)	156	164	181	215	251
Incremental capacity (mn tpa)			**16.9**	**33.9**	**35.9**
growth %		4.9	10.3	18.7	16.7
Cement consumption (mn tons)	136	148	163	180	198
growth %		9.5	10.0	10.0	10.0
Exports (mn tons)	6.0	5.8	3.6	3.0	3.0
growth %			(37.6)	(17.7)	-
Cement depatches (mn tons)	142	154	167	183	201
growth %		9.0	8.2	9.4	9.8
Capacity utilization (%)	**90.6**	**94.1**	**92.3**	**85.1**	**80.1**

Source: CMA, Kotak Institutional Equities estimates.

FOB prices for coal exports from Richard Bay in South Africa (US$/ton)



Source: globalCoal.com

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Kotak Institutional Equities Research coverage universe

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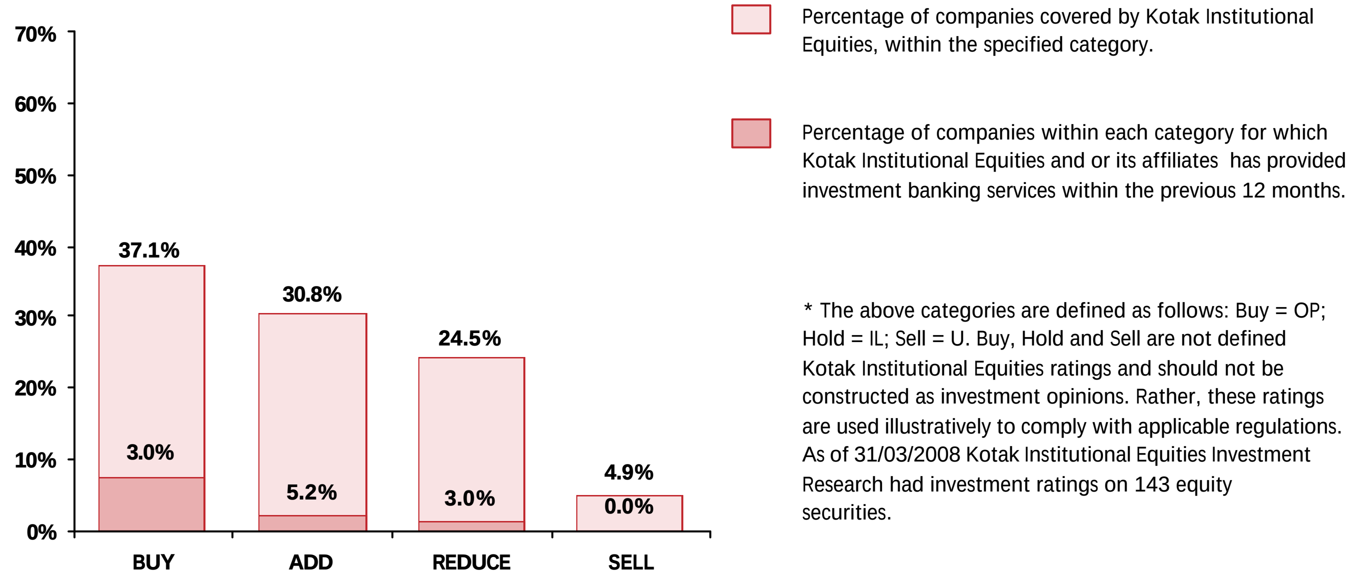

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 31/03/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities. As of March 31, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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