kotak® Institutional Equities

INDIA DAILY

April 24, 2007

EQUITY MARKETS

India	23-Apr	1-day	1-mo	3-mo
		Change, %		
Sensex	13,928	0.2	4.8	(1.3)
Nifty	4,085	0.0	5.8	(0.1)
Global/Regional indices				
Dow Jones	12,919	(0.3)	3.5	2.4
Nasdaq Composite	2,524	(0.1)	3.1	2.3
FTSE	6,480	(0.1)	2.2	2.6
Nikkie	17,315	(0.8)	(0.9)	(1.1)
Hang Seng	20,445	(0.5)	3.8	(1.8)
KOSPI	1,548	0.2	6.9	11.9

Value traded - India

	23-Apr		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	116.7		115.9	124.3
Derivatives (NSE)	334.1		336.2	372.5
Deri. open interest	594.4		591.6	622.5

Forex/money market

	23-Apr	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	41.7	-	(162)	(253)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.1	2	14	23

Net investment (US$mn)

	20-Apr		MTD	CYTD
FIIs	170		972	40
MFs	46		32	(303)

Top movers -3mo basis

Best performers	23-Apr	1-day	1-mo	3-mo
		Change, %		
Balaji Telefilms	162	(3.9)	37.3	31.6
SAIL	135	1.0	20.7	29.7
Tata Tele	26	0.6	20.7	25.3
BEL	1,688	(1.7)	9.1	22.6
Bharti Tele	841	(0.5)	7.3	22.4
Worst performers				
Tvs Motor	57	-	(8.8)	(27.9)
Ingersoll Rand	287	(0.5)	1.5	(24.8)
Acc	796	0.7	6.8	(22.4)
Tata Motors	718	(0.7)	(9.1)	(21.7)
M&M	731	(1.7)	(8.2)	(19.5)

Contents

News Roundup

Corporate

- Barclays offers US$ 91 bn for ABN Amro; may move jobs to India (BL)
- Matsushita Electric Works, has bought 80% stake in Mumbai-based electrical accessories major Anchor Electricals for Rs20 bn. Consequently, the company will become a subsidiary of Matsushita Electric Works. (ET)
- The Foreign Investment Promotion Board (FIPB) today deferred a decision on the Hutch-Essar shareholding case again. The board will now meet on April 27. (BS)

Economic and political

- Reserve Bank of India (RBI) has put on hold the proposed increase in the ceiling on overseas borrowings by banks to check further capital inflows. (BS)
- Congress is looking forward to Mayawati's Bahujan Samaj Party (BSP) as a prospective ally in the post-poll scenario. Though no party is willing to talk about the alliance plans as yet, sources in the Congress indicate that informal channels of communication have already been opened between the two parties. (ET)
- The government today failed to get the Supreme Court order staying the 27 per cent quota for the "other backward classes" (OBCs) altered, with the judges insisting on first getting the data on the "creamy layer" - second-generation recipients of the government's reservation policy - and then introducing reservation in the higher educational institutions. (BS)

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

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Industrials

SIEM.BO, Rs1063	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	1,375
52W High -Low (Rs)	1408 - 741
Market Cap (Rs bn)	179.2

Financials

September y/e	2006	2007E	2008E
Sales (Rs bn)	60.6	80.0	118.3
Net Profit (Rs bn)	3.8	5.9	8.8
EPS (Rs)	22.7	34.7	52.2
EPS gth	*31.3*	*52.9*	*50.5*
P/E (x)	46.8	30.6	20.3
EV/EBITDA (x)	25.8	17.6	11.0
Div yield (%)	0.4	0.5	0.8

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	55.2	-	-
FIIs	11.5	0.3	(0.3)
MFs	7.6	1.4	0.8
UTI	-	-	(0.7)
LIC	3.9	0.7	0.0

Siemens: No respite from margin pressures

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- **PAT below estimate; EBIDTA in-line as higher than expected revenues compensate for the steep across-the-board margin pressures**
- **Several questions remain unanswered as the management communicates only through press releases**
- **The stock may continue to trade below fair value until the company takes clear steps to change investors' perception of being unfair to minority shareholders**

Siemens reported a 2Q PAT of Rs1.08 bn (down 8%), lower than our estimate of Rs1.44 bn. While revenue growth is higher than expected, severe margin pressures across segments and lower dividend income explain the disappointment. We believe significant US$-denominated billings and the rupee appreciation may explain some part of the margin decline. New orders grew 22% and order backlog at Rs108 bn provides a revenue visibility of 1.3 years. The company has made more announcements related to re-organisation of its businesses, although the impact of these will likely be miniscule. Several questions on the numbers remain unanswered, as the management communicates only through press releases. We maintain our estimates, as we believe the company will make up for the margin decline with higher revenues. The stock has underperformed the sector in the recent past and has a decent upside to our one-year target price. However the stock may continue to trade below fair value until the company takes clear steps to change investors' perception of being unfair to minority shareholders.

EBIDTA growth in-line with estimates, PAT lower

Siemens has recorded a strong 88% growth in revenues, with the power segment growing at 150%. However the OPM decline of 290bps is the steepest in recent quarters. Although the company has managed a decent EBIDTA growth of 38% (in line with estimates), lower other income has resulted in 8% decline in reported PAT. The company has also taken Rs500 mn hit due to lower dividend income and export incentives. The latter is probably shown as part of other operating income and booked under revenues. Siemens Information Systems is the main dividend-paying subsidiary. The company is silent on the reason for lower dividend—poor performance of SISL so far, or management decision to book dividend in the subsequent quarters. SISL accounts for a significant 30% of our estimated full-year numbers. The company does not report its consolidated numbers on a quarterly basis.

Severe margin pressures across segments

Margin pressures are evident across segments, including 270bps in the power segment, 300bps in industrial solutions and services, 250 bps in automation and drives, 780bps in transportation. The company has attributed the decline to a) change in accounting policies —Rs100 mn, b) bidding for mega orders under stiff competition—unquantified and c) investments in new factories which are still in ramp-up phase and have not begun to generate revenues—unquantified. We believe the recent rupee appreciation may have also led to the margin drop. Given the predominance of orders from Qatar utility Kahraama in the order backlog, we believe at least 60% of 2Q billings may have been US$-denominated. The recent rupee appreciation may thus have contributed to the steep margin erosion, assuming the company had not hedged its foreign currency receivables. The press release is however silent on the impact of the currency effect on the company's reported numbers.

More 're-organisation' announcements, miniscule impact

The company is transferring the Siemens VDO, the automotive component division to a wholly owned subsidiary of the parent. This is a result of a recent announcement by Siemens AG to float a global IPO of its automotive supply business. VDO contributes 1.3% to the company's revenues and even lesser to the bottomline. The division is a recent addition and Siemens Ltd had purchased Siemens VDO in 1:12 share swap (i.e. one share of Siemens for every 12 shares of Siemens VDO), vauing the VDO at about Rs1,100 mn based on the closing price of Siemens on the date of approval (April 25, 2005). To be fair to minority shareholders, the management at least needs to compensate to the listed company the invested amount and opportunity cost thereon.

Secondly, the company proposes to acquire 77% stake in another company in the building technologies space and hive off the building technologies division into that company. It appears the acquisition would be routed through the listed company. The segment contributes around 1% to the company's revenues.

Finally, the board has approved the transfer of the enterprise communication networks division to Siemens AG at Rs550 mn, implying a ridiculously low P/E multiple of 5x. We wonder if the management of the listed company has any rationale for such a low price.

Maintain estimates, retain In-line

We maintain our estimates, as we believe the company will make up for the margin decline with higher revenues. The stock has underperformed the sector in the recent past and has a decent upside to our one-year target price. Clearly, the stock is trading at fair value less 'management discount' for its decisions that do not favour minority shareholders. The stock may continue to trade below fair value until the company takes clear steps to change investors' perception.

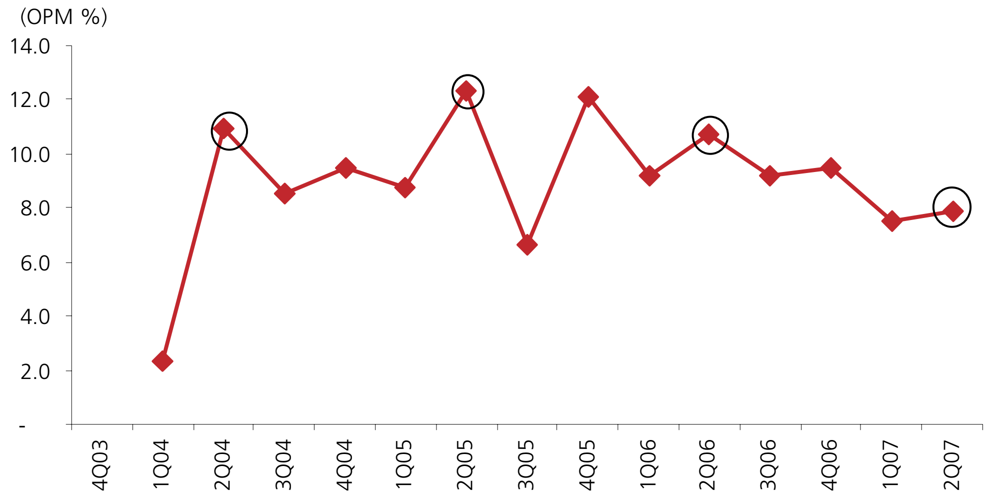
Siemens - 2Q07 (standalone) numbers (Rs mn), year ending September 30, 2007

		yoy			qoq			yoy	
	2Q07	2Q06	*% change*	2Q07	1Q07	*% change*	1HFY07	1HFY06	*% change*
Sales	**21,352**	**11,334**	***88.4***	**21,352**	**16,331**	***30.7***	**37,683**	**19,935**	***89.0***
Expenses	(19,675)	(10,121)	*94.4*	(19,675)	(15,100)	*30.3*	(34,774)	(17,931)	*93.9*
Stock	(800)	210	*(480.8)*	(800)	1,431	*(155.9)*	632	1,081	*(41.6)*
RM	(16,352)	(8,558)	*91.1*	(16,352)	(14,696)	*11.3*	(31,048)	(15,598)	*99.1*
Employee	(987)	(700)	*40.9*	(987)	(850)	*16.1*	(1,837)	(1,238)	*48.4*
Other expenses	(1,536)	(1,073)	*43.2*	(1,536)	(984)	*56.0*	(2,521)	(2,177)	*15.8*
Operating profit	**1,677**	**1,214**	***38.2***	**1,677**	**1,231**	***36.2***	**2,909**	**2,004**	***45.1***
Other income	57	419	*(86.4)*	57	152	*(62.3)*	209	428	*(51.2)*
EBIDT	1,734	1,632	*6.2*	1,734	1,383	*25.4*	3,117	2,432	*28.2*
Interest	105	79	*33.0*	105	126	*(17.2)*	231	133	*73.4*
Depreciation	(109)	(81)	*34.8*	(109)	(103)	*5.8*	(212)	(230)	*(8.1)*
PBT	**1,730**	**1,630**	***6.1***	**1,730**	**1,406**	***23.0***	**3,137**	**2,335**	***34.3***
Tax	(650)	(452)	*43.7*	(650)	(426)	*52.6*	(1,075)	(667)	*61.3*
Net profit	**1,081**	**1,178**	***(8.3)***	**1,081**	**981**	***10.2***	**2,061**	**1,668**	***23.5***
Extraordinary items	0	0		0	0		0	0	
RPAT	1,081	1,178	*(8.3)*	1,081	981	*10.2*	2,061	1,668	*(35.2)*
Key ratios (%)									
RM / Sales	80.3	73.7		80.3	81.2		80.7	72.8	
Empl / Sales	4.6	6.2		4.6	5.2		4.9	6.2	
Other exp / Sales	7.2	9.5		7.2	6.0		6.7	10.9	
OPM	**7.9**	**10.7**		**7.9**	**7.5**		**7.7**	**10.1**	
PBT Margin	8.1	14.4		8.1	8.6		8.3	11.7	
Tax rate	37.5	27.7		37.5	30.3		34.3	28.6	
PAT margin	5.1	10.4		5.1	6.0		5.5	8.4	
Order booking and order backlog									
Order booking	19,477	15,911	*22.4*	19,477	51,275	*(62.0)*	70,752	57,534	*23.0*
Order backlog	108,839	76,217	*42.8*	108,839	110,404	*(1.4)*	108,839	76,217	*42.8*
Segment results									
Revenues									
Information & Communication	469	367	*27.6*	469	352	*33.2*	820	721	*13.8*
Automation & Drives	4,385	3,211	*36.5*	4,385	3,164	*38.6*	7,548	5,474	*37.9*
Industrial Solution and Services	2,713	1,215	*123.2*	2,713	1,638	*65.7*	4,351	2,172	*100.4*
Power	11,867	4,743	*150.2*	11,867	9,888	*20.0*	21,754	8,239	*164.0*
Transport	796	630	*26.3*	796	584	*36.1*	1,380	1,256	*9.8*
Healthcare & other services	1,586	997	*59.1*	1,586	766	*107.0*	2,353	1,758	*33.8*
Building Technologies	252	167	*50.9*	252	248	*1.8*	500	327	*52.9*
Automotive	282	304	*(7.4)*	282	289	*(2.6)*	571	620	*(7.9)*
Real estate	125	102	*21.9*	125	113	*10.9*	237	193	*23.1*
Revenue mix (%)									
Information & Communication	2.1	3.3		2.1	2.1		2.1	3.7	
Automation & Drives	19.5	28.8		19.5	18.6		19.1	27.8	
Industrial Solution and Services	12.1	10.9		12.1	9.6		11.0	11.0	
Power	**52.8**	**42.5**		**52.8**	**58.0**		**55.1**	**41.9**	
Transport	3.5	5.7		3.5	3.4		3.5	6.4	
Healthcare & other services	7.1	8.9		7.1	4.5		6.0	8.9	
Building Technologies	1.1	1.5		1.1	1.5		1.3	1.7	
Automotive	1.3	2.7		1.3	1.7		1.4	3.2	
Real estate	0.6	0.9		0.6	0.7		0.6	1.0	
EBIT Margin (%)									
Information & Communication	9.3	12.5		9.3	7.1		8.4	11.4	
Automation & Drives	8.3	10.8		8.3	4.4		6.7	9.0	
Industrial Solution and Services	10.7	14.7		10.7	11.3		10.9	12.3	
Power	5.9	8.5		5.9	7.2		6.5	8.0	
Transport	3.4	11.2		3.4	9.5		6.0	11.4	
Healthcare & other services	2.9	(0.6)		2.9	(8.7)		(0.8)	0.2	
Building Technologies	8.2	7.7		8.2	4.8		6.5	6.8	
Automotive	0.3	6.6		0.3	(0.4)		(0.1)	(0.6)	
Real estate	68.1	63.1		68.1	64.1		66.2	59.9	

Source: Company data, Kotak Institutional Equities estimates

Siemens continues to witness margin pressures

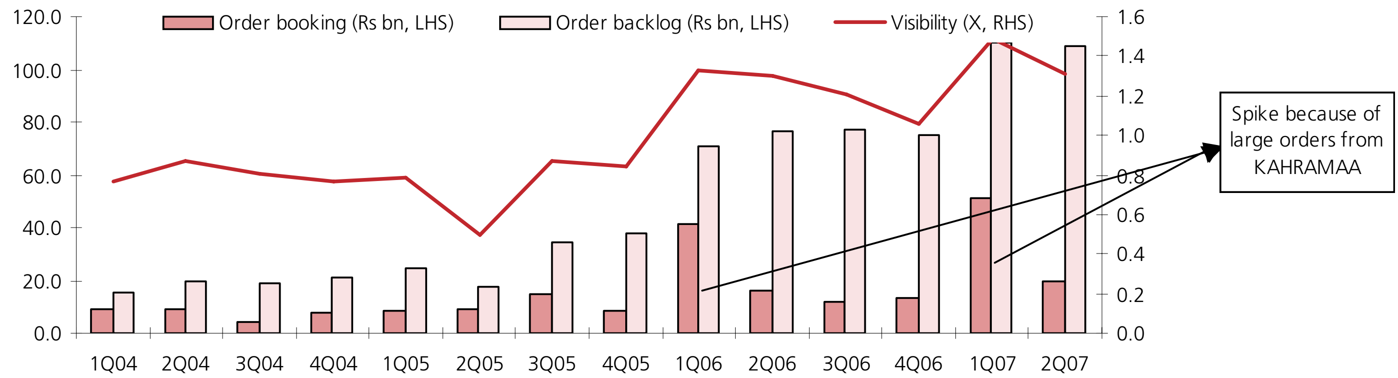
Quarterly margin trend for Siemens, year ending September 30



Source: company data, Kotak Institutional equities estimates

Visibility declines probably because of lack of any large orders in the second quarter

Order booking, Order backlog & visibility trend for Siemens, September fiscal year-ends



Note:

Order booking in 4Q06 also includes Rs36 bn order from KAHRAMAA declared on November 22, 2006

Source: Company data, Kotak Institutional Equities estimates

Banking

PWFC.BO, Rs117	
Rating	U
Sector coverage view	Neutral
Target Price (Rs)	105
52W High -Low (Rs)	122 - 85
Market Cap (Rs bn)	134.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	15.5	17.5	19.4
Net Profit (Rs bn)	11.5	11.7	12.9
EPS (Rs)	9.5	9.2	10.1
EPS gth	*0.3*	*(2.9)*	*10.5*
P/E (x)	12.4	12.8	11.6
P/B (x)	1.4	1.3	1.2
Div yield (%)	1.2	2.7	3.0

Power Finance Corporation: High spreads support PAT growth, raise target price to Rs105

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- **PAT grows by 20% in 2HFY2007 supported by higher net interest income**
- **Marginal spreads are high, will likely moderate**
- **Raise target price to Rs105, retain U**

PFC has reported PAT of Rs6.01 bn for 2HFY2007 (up 20% yoy) supported by 57% growth in net interest income and extraordinary income of Rs1 bn on account of change in accounting policy for foreign exchange risk management account. We raise our estimates by 6% for FY2008 and 5% for FY2009 to factor moderate spreads of about 1.5% in FY2008E and 1.4% in FY2009E. We raise target price to Rs105 from Rs100 and retain Underperform.

Improvement in spreads surprises, sustainability is critical: PFC has reported a marginal increase in spread to 1.7% from 1.6% in FY2006 despite a rising interest rate scenario, which normally affects bulk borrowers like PFC. Its net interest income has increased by 57% yoy to Rs 8.84 bn in 2HFY07 as against just 6% growth in 1HFY07. This may be attributed to low marginal borrowing cost of 8.35% in FY2007 that includes short, medium and long-term borrowings. This rate appears low even as compared to average yield on 1-year AAA corporate bond paper (about 8.4% for FY2007).

PFC charges interest rate of 11.5% (with effect from March 2007) thus having a marginal spread of 3.15%, which appears high as compared to historic spreads of 1.6-1.7%. This may be attributed to the following reasons: (a) faster re-pricing of interest rates on its loan assets than the rise in costs of borrowing, during the year; (b) reduction in maturity of market borrowings of the company, thereby reducing its borrowing costs; (c) appropriate timing of its market borrowings, which kept its costs low despite higher interest rates in the system. We are revising our assumptions on PFC's overall spreads upwards by 10-15 bps. However, we would await the detailed balance sheet and debt profile of the company to assess the sustainability of this trend.

Extraordinary income also supports profits: PFC has transferred Rs1 bn from exchange risk management account to its other income in 2HFY07, thus improving its profitability. In the past, PFC was allowed exemption u/s 36 (1) (x) of the Income Tax Act for transfers to aforesaid account, which could be utilized for forex losses on its external borrowings. Since the benefits under this provision have been withdrawn in Finance Bill 2007, PFC has closed this account.

Disbursements growth remains healthy at 20%: PFC has reported healthy disbursement growth of 20% to Rs140 bn somewhat higher than 17% CAGR for FY2003-2006. Disbursements have been historically high in the last year of a 5-year plan.

Expect moderate fee income: PFC has indicated that it will earn fees of Rs50 mn each from two Ultra Mega Power Projects (UMPPs) allotted in FY2007. Going forward, PFC will earn a higher fee of Rs150 mn per UMPP. PFC has bagged assignments from various state entities for selection of developers that likely earn fees of Rs490 mn over the next 4-5 quarters. We estimate fee income of Rs1 bn per year for FY2008-10.

PFC Quarterly Results (Rs mn)	1HFY06	2HFY06	FY2006	1HFY07	YoY(%)	2HFY07	YoY(%)	FY2007	YoY(%)
Profit and Loss									
Total interest income	**13,923**	**14,850**	**28,773**	**16,772**	**20**	**21,423**	**44**	**38,195**	**33**
Interest on loans	14,284	15,045	29,330	17,027	19	20,172	34	37,199	27
Rebate for timely payment to borrowers	442	347	790	343	(22)		(100)	N/A	
Adjusted interest on loans(for rebate on timely repayment)	**13,842**	**14,698**	**28,540**	**16,683**	**21**	**21,512**	**46**	**38,195**	**34**
Other interest income	81	152	233	88	9	(88)	(158)	-	(100)
Total interest expense	**8,261**	**9,203**	**17,465**	**10,762**	**30**	**12,583**	**37**	**23,345**	**34**
Net interest income	**5,661**	**5,647**	**11,308**	**6,010**	**6**	**8,840**	**57**	**14,850**	**31**
Loan loss provisions	186	(217)	(31)	64	(66)	(112)	(48)	(49)	58
Net income (after loan loss provisions)	**5,475**	**5,864**	**11,339**	**5,946**	**9**	**8,952**	**53**	**14,899**	**31**
Other operating income	218	425	643	217	(1)	(217)	(151)	-	(100)
Total operating income	**5,880**	**6,072**	**11,951**	**6,227**	**6**	**8,623**	**42**	**14,850**	**24**
Other income	**1,054**	**17**	**1,071**	**19**	**(98)**	**1,049**	**6,212**	**1,068**	**(0)**
Interest restructuring premium	1,051	-	1,051	-	(100)	-			(100)
Forex gains						1,009		1,009	
Others	4	17	20	19	414	40	141	59	190
Total Net Income	**6,934**	**6,088**	**13,022**	**6,246**	**(10)**	**9,672**	**59**	**15,918**	**22**
Total income (after provisioning)	6,747	6,305	13,053	6,182	(8)	9,785	55	15,966	22
Operating expenses	244	250	494	233	(4)	618	147	851	72
Depreciation	5	9	14	6	13	32	270	38	173
Provision for decline in value of investments	-	2	2	(1)		1	(57)		(100)
Prior period adjustments	100	(2)	99	(0)	(100)	0	(101)		(100)
PBT	**6,598**	**6,043**	**12,641**	**5,943**	**(10)**	**9,134**	**51**	**15,077**	**19**
Tax	1,898	1,041	2,939	2,121	12	3,123	200	5,244	78
Current tax	1,187	1,044	2,231	1,233	4	2,328	123	3,561	60
Deferred tax	711	(3)	708	888	25	795	(26,615)	1,683	138
PAT (reported)	**4,700**	**5,002**	**9,710**	**3,823**	**(19)**	**6,011**	**20**	**9,833**	**1**
PAT (included deferred tax)	**5,411**	**4,999**	**10,418**	**4,710**		**6,806**	**36**	**11,516**	
PBT + provisions-interest on rest prem- forex g	5,734	5,828	11,562	6,007	5	8,013	40	14,020	21
Tax rate (overall)	29	17		36		34		35	

Source: Company.

Balance Sheet	1HFY06	2HFY06	FY2006	1HFY07	YoY(%)	FY2007	YoY(%)
Fixed Assets (Net)	782	847	847	883	13	810	(4)
Loan Assets	313,468	355,530	355,530	385,629	23	440,980	24
Investments	141	165	165	160	14	280	70
Current Assets, Loans & Advances	15,005	11,635	11,635	14,238	(5)	22,481	93
Deferred Tax Assets (net of liability)	-	-	-	-			
Total Assets	**329,396**	**368,177**	**368,177**	**400,911**	**22**	**464,551**	**26**
Loans and borrowings	228,504	269,248	269,248	291,445	28	335,839	25
Total Current Liabilities	13,411	7,838	7,838	15,462	15	17,709	126
Deferred tax liability	9,708	9,705	9,705	10,402	7	11,390	17
Interest Subsidy Fund from GOI	10,079	12,003	12,003	10,397	3	12,390	3
Total liabilities	**261,702**	**298,794**	**298,794**	**327,706**	**25**	**377,328**	**26**
Total equity	**67,694**	**69,382**	**69,382**	**73,204**	**8**	**87,224**	**26**

Source: Company.

Other details (Rs mn)	FY2006	1HFY07	2HFY07	FY2007	YoY (%)
Disbursements (Rs mn)	116,809	60,000	80,550	140,550	20
Loan book (Rs mn)	356,025	385,000	440,484	440,484	

Source: Company.

Change in estimates	**Old estimates**		**New estimates**		**% change**	
(Rs mn)	**FY08E**	**FY09E**	**FY08E**	**FY09E**	**FY08E**	**FY09E**
Net interest income	15,079	17,085	16,463	18,431	9.2	7.9
Loan growth (%)	18.8	18.1	23.4	20.3		
NIM (%)	3.3	3.1	3.3	3.1		
NPL provisions	578	684	615	749	6.5	9.5
Other income	1,020	1,020	1,000	1,000	-2.0	-2.0
Operating expenses	592	700	609	740	2.9	5.7
Employee	302	332	307	338	1.7	1.7
Others	290	368	302	403	4.2	9.4
PBT	**14,914**	**16,705**	**16,199**	**17,902**	**8.6**	**7.2**
Tax	4,921	5,513	5,669	6,266	15.2	13.7
PAT (reported)	**9,992**	**11,192**	**10,529**	**11,636**	**5.4**	**4.0**
PAT (including deferred tax)	**10,976**	**12,295**	**11,663**	**12,889**	**6.3**	**4.8**

Source: Kotak Institutional Equities estimates

Banking

IOBK.BO, Rs106	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	150
52W High -Low (Rs)	129 - 66
Market Cap (Rs bn)	57.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	34.2	37.4	42.4
Net Profit (Rs bn)	10.1	11.0	12.6
EPS (Rs)	18.5	20.3	23.1
EPS gth	*29.6*	*9.8*	*14.2*
P/E (x)	5.7	5.2	4.6
P/B (x)	1.4	1.2	1.0
Div yield (%)	3.1	3.3	3.5

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.2	-	-
FIIs	18.2	2.0	(0.4)
MFs	2.2	1.4	(0.9)
UTI	-	-	(2.3)
LIC	2.1	1.3	(1.0)

Indian Overseas Bank: Exceeds estimates, rolling over target price to FY2009, retain Outperform

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- **IOB reported PAT of Rs2.9 bn for 4QFY07 a growth of 42% yoy and 23% above our estimates.**
- **Good operational performance a key driver of earnings**
- **Maintain a positive stance on the stock and reiterate our OP rating with a target price of Rs150 (based on FY2009 estimates)**

IOB reported PAT of Rs2.9 bn for 4QFY07 a growth of 42% yoy and 23% above our estimates. The yearly financial comparison for 4QFY07 is distorted due to merger of Bharat Overseas Bank with IOB effective from December 31, 2006. Even adjusted for this development, we believe that the PAT growth for the bank was healthy at around 35% yoy supported by good operational income. We continue to maintain a positive stance on the stock and reiterate our OP rating with a target price of Rs150 (based on FY2009 estimates) given attractive valuations of 5.9X PER and 1.3X APBR FY2008 for an expected sustainable of RoE 18-20%.

NIM shows an improvement. IOB reported a NIM of 4.16%, which is an improvement both on a sequential and yearly basis. Likely interest income on CRR along with focus on retail deposits for growth led to margin improvement. However, CASA ratio for the bank declined to 34.9% in 4QFY07 from 36% in 3QFY07. Loan growth for the bank continues to remain high at 39% yoy (excluding BhOB advances growth estimated at around 32-33%) and we believe that moderation in this growth rate would be critical for maintaining these margins.

Other income growth was also strong. IOB continued to show good traction on its non-interest income, which increased by 20% yoy to Rs2.6 bn. Importantly, non-interest income (ex-treasury) was up 22% yoy to Rs2 bn in 4QFY07, including income from sale of insurance, mutual fund products, and investment banking of Rs0.8 bn (Rs0.3 bn in 4QFY06).

Asset quality remains healthy. Gross NPL at Rs11.2 bn (2.3%) and net NPL at Rs2.6 bn (0.6%) remained low. While gross NPLs declined 8% yoy, these have stabilized over the previous quarter. We expect gross NPLs to rise hereon as loan recovery slows down. However, IOB has floating provision of Rs2.6 bn over and above the prudential norms prescribed by RBI, providing comfort.

Increase in interest rate risk on investment book. IOB has increased the duration on its investments under the available for sale (AFS) category to 5.5 years from 0.6 years as of December 31, 2006, increasing risk of mark-to-market hit. However, AFS proportion continues to be low at 22% of its investment portfolio. Additionally we have ignored any MTM hit in our estimates for two reasons: (1) we expect interest rates on Gsec securities to fall by end March 2008 and (2) we believe that starting FY2008 RBI will allow banks to route the MTM impact on AFS investments through the balance sheet. The RBI had issued draft guidelines in this regard on July 12, 2006.

We are factoring in pension provisions as per AS 15 in our projections: Our calculation shows that IOB would be required to make a provision of Rs2.70 bn to comply with pension provisions as per AS 15 guidelines. We believe that most banks are making some adhoc provisions towards this requirement, however, details relating to the same are not available. Final guidelines on this accounting standard have not been issued by Institute of Chartered Accountants of India, consequently we have assumed that this cost will be amortized over five year period starting FY2008.

Indian Overseas Bank (Rsmn)

	3Q06	4Q06	1Q07	2Q07	3QFY07	4QFY07	% chg	4QFY07KS	Actual Vs KS
Interest income	11,433	11,618	12,409	13,721	14,737	17,454	50.2	15,428	13.1
Interest on advances	6,862	7,127	8,337	9,392	9,924	11,358	59.4	10,409	9.1
Income from invts	4,276	4,185	3,880	3,945	4,362	4,846	15.8	4,435	9.3
Bal with RBI	296	306	192	384	451	1,250	308.7	584	113.9
Interest expenses	6,177	6,207	6,653	7,602	8,686	9,771	57.4	8,880	10.0
Net interest income	**5,256**	**5,411**	**5,755**	**6,119**	**6,051**	**7,682**	**42.0**	**6,548**	**17.3**
NII adjusted for invst depn	**4,976**	**5,056**	**5,255**	**5,569**	**5,419**	**7,032**	**39.1**	**5,998**	**17.2**
Non-interest income	1,600	2,122	2,511	1,520	1,980	2,555	20.4	1,734	47.4
Other income (excluding treasury)	1,240	1,672	1,166	1,420	1,570	2,035	21.7	1,544	31.8
Treasury income	360	450	1,345	100	410	520	15.6	190	174.0
Total income	6,856	7,533	8,267	7,639	8,031	10,237	35.9	8,282	23.6
Operating expenses	3,194	3,424	3,302	3,491	3,116	3,970	15.9	3,907	1.6
Employee	2,346	2,256	2,342	2,413	2,133	2,423	7.4	2,666	(9.1)
Others	848	1,168	960	1,078	982	1,547	32.5	1,241	24.7
Operating profit	3,662	4,110	4,965	4,148	4,916	6,267	52.5	4,375	43.3
Provisions	869	2,285	2,299	541	1,251	2,470	8.1	1,241	99.0
Loan loss	503	397	154	460	520	1,025	158.1	500	105.1
Invt. Depreciation	41	1,423	1,219	-350	8	1,050	(26.2)	90	1,066.7
Invt amortization	280	355	500	550	632	650	83.3	550	18.2
other provision	45	110	426	-119	91	NA		101	(100.0)
PBT	2,793	1,825	2,666	3,607	3,665	3,798	108.1	3,134	21.2
Taxation	821	-220	445	1,108	1,197	900	(508.9)	779	15.5
Net profit	**1,972**	**2,045**	**2,220**	**2,499**	**2,468**	**2,898**	**41.7**	**2,355**	**23.1**
PBT-invt gains+ depr	**2,474**	**2,798**	**2,540**	**3,157**	**3,263**	**4,328**	**54.7**	**3,034**	**42.6**
PBT- invt gains + NPL provisions	**2,977**	**3,195**	**2,694**	**3,617**	**3,783**	**5,353**	**67.5**	**3,534**	**51.5**
Tax rate	29	-12	17	31	33	24	2,898	25	
Advance book details (Rsbn)									
Advances	317.5	345	379	411	441	479	38.9		
Retail loans	NA	65.5	70	75	78	NA			
Home loans	30.8	28.3	30	30	32	NA			
Retail to total (%)	NA	19	18	18	18	NA			
SME	NA	NA	32	35	NA	NA			
Deposit book details (Rsbn)									
Deposits	494	505	532	570	592	687	36.1		
Current	49.7	57.0	50	58	54	68	19.7		
Savings	136.9	144.7	154	157	159	171	18.5		
Term	307.4	303.6	329	355.4	379	448	47.5		
CASA ratio	37.8	39.9	38.2	37.7	36.0	34.9			
Investment book details (Rs bn)									
Investments	204	188	181	198	224	242	28.7		
AFS	86	101	36	30	NA	53			
Duration (years)	4.2	NA	2.5	0.6	NA	5.5			
Asset quality									
Gross NPLs (%)	4.4	3.4	3.1	3.0	2.5	2.3			
Gross NPL (Rsbn)	14.1	12.3	11.9	12.2	11.2	11.2			
Net NPLs (%)	0.8	0.7	0.5	0.6	0.5	0.6			
Net NPA (Rsbn)	2.4	2.2	1.8	2.2	2.1	2.6			
Capital adequacy									
CAR (%)	13.1	13.0	13.4	14.7	14.0	13.2			
Tier I	7.6	8.5	9.1	8.9	NA	8.2			
Yield management measures (%)									
Cost of deposits	4.7	4.7	4.8	5.0	5.3	5.2			
Yield on advances	9.0	8.8	9.1	9.5	9.5	9.6			
Yield on investments	8.5	8.5	8.4	8.3	8.2	8.1			
NIM	3.8	4.1	4.0	4.0	3.7	4.2			

Banking

INBA.BO, Rs96	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	120
52W High -Low (Rs)	105 - 77
Market Cap (Rs bn)	41.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	27.0	27.7	31.0
Net Profit (Rs bn)	7.6	9.3	10.2
EPS (Rs)	17.3	20.8	22.8
EPS gth	*154.4*	*20.3*	*9.9*
P/E (x)	5.5	4.6	4.2
P/B (x)	1.3	1.1	0.9
Div yield (%)	4.5	5.4	6.0

Indian Bank: Reports strong numbers, retain Outperform

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- **Indian Bank reported net profit of Rs2.3bn for 4QFY07 and Rs7.6bn for full year FY2007, exceeding our full year estimate by 10%**
- **Expect earnings growth of 15% CAGR over the next two years**
- **Maintain OP rating with a price target of Rs120 (Rs115 earlier)**

Indian Bank reported net profit of Rs2.3bn for 4QFY07 and Rs7.6bn for full year FY2007, exceeding our full year estimate by 10%. Buoyant net interest income, non-interest income and higher recoveries drove this growth. The bank NPL levels have come down likely reflecting buoyant economy and higher recoveries. We believe the bank is well placed to report earnings growth of 15% CAGR over the next two years aided by a liquid balance sheet and higher recoveries. Maintain our Outperform rating on the stock. We have marginally tweaked our earnings estimates for the next two years by 3-5% and are revising our target price to Rs120 from Rs115 per share.

Net interest income, reflects expansion in margin and interest on CRR: Indian Bank net interest income increased by a hefty 30% in 4QFY07 to Rs5.73bn, reflecting improvement in margin (3.75% compared to 3.6% last year), and interest on CRR. Our rough estimates shows that even stripped off CRR interest Indian Bank has likely shown a 22% increase in net interest income.

Strong growth in advances, moderate in deposits: Indian Bank advances growth was strong 28%, while deposit growth was moderate at 15.4%. We expect RBI to gradually convert Rs40bn of recapitalization bonds on Indian Bank's book into SLR securities. This conversion will enable Indian Bank to grow its loan book at a comfortable 20-25% and maintain its margins.

Bad loan recoveries remained strong. Indian Bank reported bad loan recoveries of Rs3.8 bn (Rs1.8 bn in FY2006), which was likely the key driver of non-interest income for the bank. We believe that the recoveries from the written off accounts continue to provide buffer for the bank's income stream, which is likely to sustain over the next two years. Even core income (i.e fees, forex) grew by a hefty 25% yoy.

Operating expenses increase due to one-off events. Indian Bank's operating expenses increased by 33% yoy due to the following reasons: (a) management indicated that the 39% increase in employee cost included some provision towards AS15 and (b) IPO expenses of Rs220 mn was fully written off in 4QFY07, leading to an increase in operating expense.

Indian Bank									
Rs mn	**3QFY06**	**4QFY06**	**FY2006**	**1QFY07**	**2QFY07**	**3QFY07**	**4QFY07**	**% chg**	**FY2007**
Interest Earned	8,300	9,555	33,645	9,562	10,322	10,766	12,196	27.7	42,847
Interest/Discount on Advances/Bills	4,553	5,137	17,778	5,492	6,149	6,405	7,463	45.3	25,508
Interest on Investment	3,641	4,224	15,275	3,907	4,106	4,189	4,198	(0.6)	16,400
Interest on bal. with RBI & other inter bank funds	106	172	570	163	66	172	535	210.8	936
Other Interest	-	22	22	-	1	-	1	(95.5)	2
Interest expense	4,609	5,147	18,543	5,468	5,785	6,407	6,466	25.6	24,126
Net interest income	**3,691**	**4,408**	**15,102**	**4,094**	**4,537**	**4,359**	**5,730**	**30.0**	**18,720**
Other Income	1,089	1,705	5,315	1,148	1,662	1,082	3,440	101.7	8,232
Treasury	221	46	759	62	142	NA	NA	NA	493
Commission & exchange	262	355	1,180	381	352	NA	NA	NA	1,419
Dividend income	9	-	21	2	11	NA	NA	NA	30
Forex profit	93	305	680	144	102	NA	NA	NA	758
Others	504	999	2,674	559	1,055	NA	NA	NA	492
Total Income	**4,780**	**6,113**	**20,417**	**5,242**	**6,199**	**5,442**	**9,170**	**50.0**	**26,952**
Operating Expenses	**2,648**	**2,831**	**10,798**	**2,721**	**3,005**	**2,986**	**3,754**	32.6	**12,467**
Payments to / Provisions for employees	1,965	1,844	7,735	2,034	2,016	2,172	2,565	39.1	8,787
Other operating expenses	683	987	3,063	687	989	815	1,190	20.6	3,680
Operating Profit Before Prov. & Cont.	2,132	3,282	9,619	2,521	3,194	2,455	5,416	65.0	13,586
Provisions & Contingencies	800	1,637	4,012	643	1,282	333	2,486	51.9	5,644
Investment amortization	171	511	680	226	221	NA	NA	NA	900
Loan loss provisions	150	167	1,042	100	408	NA	629	276.8	943
Investment depreciation	36	1,318	1,256	227	(353)	NA	NA	NA	1,022
Other provisions	443	(359)	713	90	1,007	NA	NA	NA	2,079
Profit before tax	**1,332**	**1,645**	**5,607**	**1,878**	**1,912**	**2,123**	**2,930**	78.1	**8,842**
Provision for Taxes	100	254	562	230	220	218	577	127.0	1,244
Net Profit	**1,232**	**1,391**	**5,045**	**1,648**	**1,692**	**1,905**	**2,353**	**69.2**	**7,598**
Tax rate	8	15	10	12	12	10	20		14
PBT - treasury + investment dep.	**1,147**	**2,917**	**6,103**	**2,043**	**1,417**	NA	NA	NA	
PBT - treasury + investment dep. + loan loss	**1,297**	**3,084**	**7,145**	**2,143**	**1,825**	NA	NA	NA	

Rs bn								
Deposits	390	408		416	441	NA	471	15.4
CASA	137	142		150	155	NA	NA	
CASA (%)	35.1	34.8		36.1	35.1	NA	NA	
Advances	218	230		252	267	NA	295	28.4
Priority sector	100	107		119	125	NA	135	26.2
Agriculture	41	42		46	50	NA	58	35.6
SME	NA	44		NA	NA	NA	54	22.9
Yield management measures								
Yield on advances (%)	8.4	8.7		8.7	9.0	NA	9.6	
Yield on investments (%)	8.1	8.3		8.3	8.3	NA	8.2	
Yield from funds(%)	7.1	7.8		7.8	7.9	NA	8.6	
Cost of deposits (%)	4.8	4.8		4.9	5.0	NA	5.2	
Cost of funds (%)	3.9	4.3		4.5	4.5	NA	5.3	
Spread	3.2	3.5		3.3	3.4	NA	3.3	
NIM	3.48	3.62		3.47	3.59	NA	3.75	
Capital adequacy								
CAR (%)	14.0	13.2		11.8	12.0	NA	14.1	
Tier I (%)	7.2	10.3		9.7	9.8	NA	NA	
Tier II (%)	6.8	2.9		2.1	2.2	NA	NA	
Tier I (Rs bn)	14.8	22.7		24.3	26.0	NA	NA	
Tier II (Rs bn)	14.1	6.4		5.3	5.8	NA	NA	
Key balance sheet items								
Cash (Rsbn)	26	23		26	24	NA	37	61.9
Banks(Rsbn)	21	25		11	7	NA	11	(56.5)
Borrowings (Rsbn)	17	19		26	18	NA	19	2.6
Investments (Rsbn)	185	190		195	200	NA	209	9.9
Duration (years)	5	4.5		4.5	4.5	NA	NA	
AFS (Rsbn)	81	77		74	73	NA	NA	
Duration (years)	3.8	3.5		3.6	3.9	NA	NA	
SLR(Rsbn)	113	118		106	119	NA	NA	
SLR %	30	29.1		25.9	27.3	NA	NA	
Asset quality								
Goss Non Performing Assets (%)	NA	2.9		NA	NA	NA	1.9	
Net Non Performing Assets (%)	NA	0.8		NA	NA	NA	0.4	

Diversified

MNET.BO, Rs259	
Rating	OP
Sector coverage view	-
Target Price (Rs)	325
52W High -Low (Rs)	329 - 143
Market Cap (Rs bn)	13.5

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	5.5	13.8	19.4
Net Profit (Rs bn)	1.4	2.1	2.8
EPS (Rs)	32.8	41.1	53.4
EPS gth	*(1.5)*	*25.3*	*30.1*
P/E (x)	7.9	6.3	4.8
EV/EBITDA (x)	9.8	5.7	3.6
Div yield (%)	0.8	0.9	1.1

Monnet Ispat: 4QFY07 results: Strong growth in revenue and earnings; maintain OP

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- **Revenues for the quarter at Rs1.9 bn grew 37% following increased production and marginally higher realization. Revenues for FY2007, at Rs6.4 bn grew 20% yoy.**
- **Reported net earnings at Rs428 mn grew 96% on yoy basis. Net earnings for FY2007 grew 31% yoy.**
- **The company is on track with expansion on sponge iron and captive power plant. Merchant power plant is likely to get delayed due to increased scope (1000MWs vs 600MWs earlier).**
- **We raise our SOTP-based target price to Rs325 (from Rs280 earlier) following increasing visibility in future earnings on steel. We continue to rate the stock as Outperformer.**

Monnet ispat (MIL), in its 4QFY07 reported a PAT of Rs428 mn, up 96% on yoy basis, following better realizations and increase in captive sourcing of raw materials. We expect MIL to report a 54% net earnings growth in FY2007 - following improved production of sponge iron and steel rolling mill. The stock has run up in the recent past, but we believe there is still steam left. We continue to rate the stock as Outperform with increased price target of Rs325/ share.

Reported net earnings grew 96% on yoy basis following higher production, improved realizations and lower costs led by increased sourcing from captive mines. Operating profit margins improved 74bps on yoy basis, as iron ore costs were lower in this quarter. For FY2007, the company's net earnings grew 31% led by similar growth in operating profits.

Expansions getting commissioned over the next 2 quarters. Monnet informed that it has commissioned 15MWs of captive power at its Raipur facility and expects to commission 90MWs at Raigadh by 1Q 2008. 4 kilns totaling to 500,000t at Raigadh got commissioned in the current quarter. We have built these in our model and expect net earnings for fiscal 2008 to be higher than fiscal 2007 by 54% on stable pricing assumption. Exhibit 2 shows our key assumptions for Monnet Ispat.

Captive power capacity raised to 1000 megawatts. The board informed the exchange that the scope of captive power plant has been raised to 1000 MWs from 600 MWs earlier. The company has applied for an additional coalmine for the enhancement, but informed that the existing mine would support the operations for the entire capacity. The company expects to tie-up for the entire funding by over the next 2-3 months.

We raise SOTP-based target price to Rs325/ share (from Rs280 earlier). Our SOTP-based target price comprises Rs256 of steel business, valued at 1.2X FY2007E book value and Rs68 of the merchant power business. Whereas the equity for 300MWs is fully tied-up, our model shows that the company will have to raise additional funding for the balance 700MWs. Our target price, therefore, does not value the 700MWs – yet to be funded and coal tied-up. We maintain an Outperform rating on the stock.

Monnet Ispat, Interim results, March fiscal-year ends (Rs mn)

	4Q 2007	4Q 2006	Yoy gr (%)	4Q 2007	3Q 2007	QoQ gr (%)	2007	2006	Yoy gr (%)	
Revenue	**1,865**	**1,385**	**34.7**	**1,865**	**1,802**	**3.4**	**6,381**	**5,324**	**19.9**	**6,381**
Expenditure	**(1,348)**	**(1,104)**		**(1,348)**	**(1,255)**		**(4,578)**	**(3,942)**		**(4,578)**
Stock adjustment	103	(223)		103	56		198	84		198
Raw materials	(1,031)	(741)		(1,031)	(1,017)		(3,688)	(3,185)		(3,688)
Staff costs	(80)	(43)		(80)	(61)		(243)	(163)		(243)
Other expenditure	(340)	(97)		(340)	(234)		(846)	(678)		(846)
EBITDA	**516**	**281**	**84.0**	**516**	**547**	**(5.6)**	**1,803**	**1,382**	**30.5**	**1,803**
OPM (%)	*27.7*	*20.3*		*27.7*	*30.4*		*28.3*	*26.0*		*28.3*
Other income	113	26		113	68		220	97		220
Depreciation	(94)	(64)		(94)	(79)		(327)	(249)		(327)
EBIT	535	243		535	536		1,696	1,230		1,696
Interest costs	11	18		11	1		2	(3)		2
PBT	545	261		545	538		1,698	1,227		1,698
Taxes	(117)	(43)		(117)	(106)		(311)	(168)		(311)
PAT - Reported	**428**	**219**	**95.6**	**428**	**432**	**(0.9)**	**1,388**	**1,059**	**31.1**	**1,388**
Extra-ordinary	-	-		-	(48)		-	-		-
PAT - Adjusted	**428**	**219**	**95.6**	**428**	**384**	**11.5**	**1,388**	**1,059**	**31.1**	**1,388**
Calculations (%)										
Raw material to revenue	49.8	69.6		49.8	53.3		54.7	58.3		
Total costs to revenue	72.3	79.7		72.3	69.6		71.7	74.0		
Effective tax rate	21.5	16.3		21.5	19.7		18.3	13.7		

Notes:
(a) Extra-ordinary item for 3Q 2007 relate to gains from transfer of Certified Emission Reduction (CER) units
(b) Calculation of extra-ordinary item is Kotak estimates, based on our assumption of related expense and taxes

Source: Company data

Monnet Ispat, Assumptions, March fiscal year-ends, 2005-09E (tons)

	2005	2006	2007E	2008E	2009E
Sponge iron					
Capacity	300,000	470,000	470,000	700,000	800,000
Volumes	240,319	303,909	310,000	560,000	710,000
Price - noncaptive (Rs/ ton)	13,234	11,964	11,020	10,260	10,260
Steel					
Capacity	300,000	300,000	300,000	800,000	800,000
Volumes	145,109	222,675	256,076	500,000	650,000
Price - noncaptive (Rs/ ton)	21,405	19,186	18,227	17,315	16,450
Blast furnace steel					
Capacity	-	-	-	500,000	500,000
Volumes	-	-	-	200,000	400,000
Selling price ($/ ton)	-	-	-	490	475
Cost assumptions					
Iron ore price blended (Rs)	2,308	3,151	3,500	3,220	3,000
Captive iron ore (%)	-	-	-	40	50
Coal price- noncaptive (Rs)	2,457	2,678	2,678	2,678	2,678
Captive coal (%)	34	58	100	100	100
Coking coal price ($/ ton)	-	-	-	110	110

Source: Company Annual reports, Kotak Institutional Equities estimates

Monnet Ispat, SOTP valuation, March fiscal year-ends, 2005-09E (tons)

	Equity value (Rs mn)	Per share (Rs)	Basis
Standalone steel business	13,354	256	1.2X 2007E book value, implies 6.2X FY2008E PER
Value in merchant power plant	3,562	68	DCF to firm basis
Total	**16,916**	**324**	
Target price		**325**	

Note:
(a) We have valued only 300MWs for the merchant power business, since the equity for that project is tied up and coal mine allocation is in place
Source: Kotak Institutional Equities estimates

Monnet Ispat, Profit Model, March fiscal year-ends, 2005-2009E, (Rs mn)

	2005	2006	2007E	2008E	2009E
Net Revenues	5,197	5,324	6,381	13,840	19,370
Other operating income	-	-	-	-	-
Gross operating revenues	**5,197**	**5,324**	**6,381**	**13,840**	**19,370**
Operating expenses					
Cost of goods sold	(2,897)	(3,323)	(3,490)	(8,235)	(11,375)
Staff costs	(132)	(163)	(243)	(429)	(600)
SG&A expenses	(387)	(456)	(846)	(1,163)	(1,627)
Total expenditure	**(3,415)**	**(3,942)**	**(4,578)**	**(9,827)**	**(13,603)**
(% of revenues)	*65.7*	*74.0*	*71.7*	*71.0*	*70.2*
EBITDA	**1,782**	**1,382**	**1,803**	**4,013**	**5,767**
EBITDA Margin (%)	*34.3*	*26.0*	*28.3*	*29.0*	*29.8*
Net finance cost	(293)	(3)	2	(681)	(1,068)
Other income	49	97	220	100	100
PBDT	**1,538**	**1,476**	**2,025**	**3,433**	**4,799**
Depreciation and amortisation	(216)	(249)	(327)	(458)	(928)
Pretax profits before extra-ordinaries	**1,322**	**1,227**	**1,698**	**2,975**	**3,871**
Exceptional items	-	-	-	-	-
Prior period items	-	-	-	-	-
Profit before tax	**1,322**	**1,227**	**1,698**	**2,975**	**3,871**
Current tax	(107)	(108)	(202)	(500)	(650)
Deferred tax	-	(60)	(109)	(333)	(434)
Minority / Associate earnings	-	-	-	-	-
Reported PAT	1,215	1,058	1,388	2,142	2,787
Adjusted net profit	**1,215**	**1,058**	**1,388**	**2,142**	**2,787**
Primary EPS (using wtd avg shares)	40.6	33.3	32.8	41.1	53.4
Diluted EPS	23.3	20.3	26.6	41.1	53.4
Weighted average no of shares (mn)	29.9	31.8	42.3	52.2	52.2
Fully diluted no of shares (mn)	52.2	52.2	52.2	52.2	52.2
Margins (%)					
EBITDA margin	34.3	26.0	28.3	29.0	29.8
PBT margin	25.4	23.0	26.6	21.5	20.0
Net profit margin (w/o extraordinaries)	23.4	19.9	21.7	15.5	14.4
Effective tax rate (%)	8.1	13.7	18.3	28.0	28.0
Growth (% p.a)					
Revenues		2.4	19.9	116.9	40.0
EBITDA		(22.4)	30.5	122.6	43.7
PBT		(7.2)	38.4	75.2	30.1
Net profit (w/o extraordinaries)		(12.9)	31.1	54.4	30.1
Diluted EPS		(12.9)	31.1	54.4	30.1

Source: Company data, Kotak Institutional Equities estimates

Monnet Ispat, Balance sheet, March fiscal-year ends, 2005-09E (Rs mn)

	2005	2006	2007E	2008E	2009E
Equity					
Share capital	315	325	522	522	522
General reserves and surplus	2,786	3,776	9,985	11,866	14,288
Net worth	**3,101**	**4,101**	**10,507**	**12,388**	**14,810**
Deferred tax liability	442	502	622	955	1,389
Debt					
Secured	2,336	3,304	9,304	9,804	8,804
Unsecured	2,625	5,353	-	-	-
Total Debt	**4,961**	**8,657**	**9,304**	**9,804**	**8,804**
Current liability and provisions	807	846	852	1,409	1,796
Total capital	**9,311**	**14,106**	**21,285**	**24,556**	**26,799**
Assets					
Cash and cash equivalents	2,734	4,542	4,945	142	1,108
Inventory	836	1,033	1,041	2,616	3,715
Sundry Debtors	591	459	528	1,517	2,123
Loans and Advances	572	1,066	1,066	1,066	1,066
Gross block	4,757	5,984	5,984	9,984	16,451
Less: Accumulated depreciation	(726)	(974)	(1,274)	(1,732)	(2,659)
Net fixed assets	4,031	5,010	4,710	8,252	13,792
Capital -WIP	456	1,811	5,811	7,778	1,811
Net fixed assets (incl. C-WIP)	**4,487**	**6,821**	**10,521**	**16,030**	**15,602**
Investments	90	185	3,185	3,185	3,185
Miscallenous expenditure	-	-	-	-	-
Intangibles	-	-	-	-	-
Total Assets	**9,311**	**14,106**	**21,285**	**24,556**	**26,799**
Leverage and return ratios (%)					
Debt/Equity	140.0	188.1	83.6	73.5	54.3
Debt/Capitalisation	58.3	65.3	45.5	42.4	35.2
Net Debt/Equity	62.8	89.4	39.2	72.4	47.5
Net Debt/Capitalisation	38.6	47.2	28.1	42.0	32.2
Net Debt/EBITDA	0.2	(0.3)	3.1	3.1	2.4
ROE (%)	34.3	26.0	15.2	17.5	18.9
ROCE (%)	14.3	9.9	10.0	13.4	14.8

Source: Company data, Kotak Institutional Equities estimates

Monnet Ispat, Cash flow statement, March fiscal-year ends, 2005-09E (Rs mn)

Operating cash flows	2005	2006	2007E	2008E	2009E
Pre-tax profits and extraordinary items	1,218	1,227	1,298	2,975	3,871
Depreciation & amortization	216	249	300	458	928
Taxes paid	(126)	(126)	(180)	(500)	(650)
Dividend and other income	(0)	(28)	-	-	-
Interest expense	267	31	20	681	1,068
Interest paid	(267)	(31)	(20)	(681)	(1,068)
Foreign exchange loss/(gain)	-	-	-	-	-
Extraordinaries (incl. prior period items)	8	1	200	-	-
Other non-cash items	-	-	-	-	-
Working capital changes	(501)	(436)	(70)	(2,008)	(1,317)
Cash flow from operations	**815**	**887**	**1,549**	**925**	**2,831**
Operating, excl. working capital	1,316	1,322	1,618	2,933	4,148
Investing					
Capex incl. capital issue expenses	(931)	(2,583)	(4,000)	(5,967)	(500)
(Purchase)/sale of assets/businesses	-	-	-	-	-
(Purchase)/sale of investments (incl. inv. in subsidiaries)	(83)	(95)	-	-	-
Advances to subsidiary	-	-	(3,000)	-	-
Interest/dividend received	0	28	-	-	-
Cash flow from investing	**(1,014)**	**(2,650)**	**(7,000)**	**(5,967)**	**(500)**
Financing					
Proceeds from issue of share capital	567	108	-	-	-
Net proceeds from borrowings	2,319	3,696	6,000	500	(1,000)
Effect of FX changes	-	-	-	-	-
Dividends paid (incl. tax)	(90)	(233)	(146)	(261)	(365)
Cash flow from financing	**2,796**	**3,571**	**5,854**	**239**	**(1,365)**
Net change in cash/cash equivalents	2,597	1,808	403	(4,803)	966
Beginning cash	137	2,734	4,542	4,945	142
Ending cash	**2,734**	**4,542**	**4,945**	**142**	**1,108**

Source: Company data, Kotak Institutional Equities estimates

Economy

Sector coverage view N/A

India's sectoral deployment of credit: Broad-based credit offtake, housing loans continue to normalize

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- **Higher credit demand reflects broad-based industrial production**
- **Construction fifth of incremental credit; housing loan growth 30% from 50% levels**
- **New credit lines—essentially in services—account for about 30% of loan offtake**
- **Exoect pne-emptive prudential measures already in place to ensure asset quality**

Commercial credit offtake continues to broadbase testifying to the strength of the economy (Exhibit 1). Industry—especially infrastructure—remained a key driver accounting for nearly 40% of the offtake. The share of 'new' credit accounts—transport operators, professionals, trade, construction—continues to work out to about 30% of incremental offtake. The share of construction—home-owners, real estate companies and construction companies—alone is a fifth of overall credit offtake. We are, nonetheless, not unduly concerned about asset quality with capital adequacy a healthy 12.4% of risk-weighted assets and net non-performing assets a very reasonable 1.3% of net advances as at end-March 2006. Home loan growth has already slowed down to 30.3% on December 2006 and 32.3% on October 2006 from earlier 50% levels reflecting higher prices and higher interest rates. Real estate loans have grown rapidly but remain a manageable 2.4% of total. Similarly, although a lot is made of the 40% enlargement in credit card drawals, the outstanding on this account is only a negligible 0.7% of total. We continue to expect the RBI to pre-emptively tighten supervisory norms for retail/services loans to protect bank asset quality.

Exhibit 1: Infrastructure, construction key drivers of credit offtake

Year-on-yearvariation (absolute in Rupees billion)

			Dec-05		Dec-06	
	Sector/Industry	**Outstanding**	**Absolute**	**Per cent**	**Absolute**	**Per cent**
	Non-food gross bank credit	**16237**	**2,835**	**33.3**	**3,848**	**31.1**
1	**Agriculture and allied activities**	**1978**	**418**	**39.6**	**470**	**31.2**
2	**Industry (small, medium & large)**	**6253**	**862**	**25.0**	**1,359**	**27.8**
	Petroleum, coal products & nuclear fuels	310	30	20.6	124	67.0
	Infrastructure	1243	278	42.2	222	21.7
	Iron & Steel	589	104	38.2	149	33.8
	Other metal & metal products	197	28	29.6	57	41.0
	Construction	165	30	38.7	48	40.7
	Gems & jewellery	218	46	42.3	36	19.9
	Textiles	693	53	30.7	183	35.8
	Engineering	384	40	15.6	63	19.6
	Vehicles, vehicle parts and transport equipment	203	53	91.5	38	22.9
	Food processing	345	40	20.1	70	25.6
	Chemical & chemical products	512	58	19.5	76	17.5
	Rubber, plastic & their products	80	27	92.4	20	32.3
	Paper and paper products	101	17	30.9	18	21.2
3	**Housing**	**2178**			**506**	**30.3**
4	**Other personal loans**	**2101**			**600**	**28.6**
5	**Services (transport operators/professionals)**	**420**			**167**	**39.8**
6	**Other sectors**	**3307**			**746**	**22.6**
	Real estate loans	396			159	66.7
	Non-banking financial companies	382	101	59.4	75	24.3
7	**Priority sector**	**5644**	**1,288**	**41.7**	**1,128**	**25.0**

Source: RBI.

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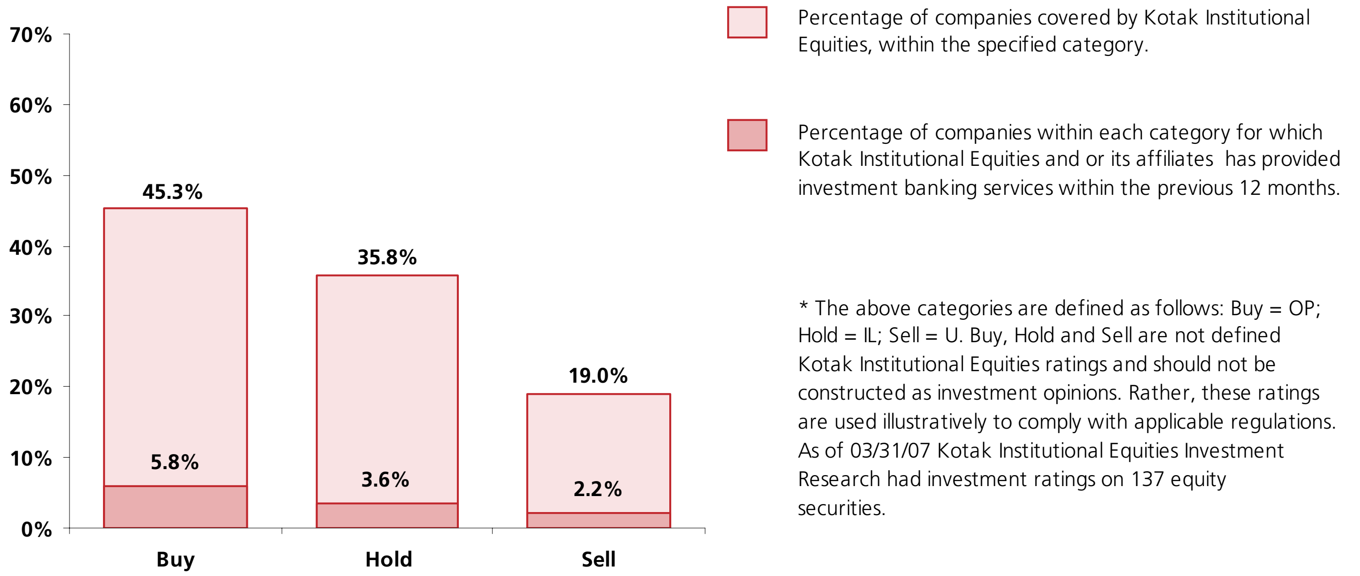

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Source: Kotak Institutional Equities. As of March 31, 2007

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