INDIA DAILY

July 30, 2007

Contents

Results

Updates

EQUITY MARKETS

	Change, %			
India	**27-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	15,235	(3.4)	4.0	9.8
Nifty	4,445	(3.8)	2.9	8.7
Global/Regional indices				
Dow Jones	13,265	(1.5)	(1.1)	1.6
Nasdaq Composite	2,562	(1.4)	(1.6)	1.5
FTSE	6,215	(0.6)	(5.9)	(3.6)
Nikkie	17,089	(1.1)	(5.8)	(1.8)
Hang Seng	22,570	(2.8)	3.7	11.1
KOSPI	1,874	(0.5)	7.5	21.5

Value traded - India

			Moving avg, Rs bn	
	27-Jul		**1-mo**	**3-mo**
Cash (NSE+BSE)	218.8		175.8	152.1
Derivatives (NSE)	657.8		562.6	281.7
Deri. open interest	726.0		809.9	431.8

Forex/money market

	Change, basis points			
	27-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.6	-	(7)	(60)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	-	(34)	(21)

Net investment (US$mn)

	26-Jul		**MTD**	**CYTD**
FIIs	61		1,759	10,465
MFs	4		111	(424)

Top movers -3mo basis

	Change, %			
Best performers	**27-Jul**	**1-day**	**1-mo**	**3-mo**
RELIANCE CAPITAL	1,193	(7.7)	9.7	67.4
THERMAX LIMITED	636	(0.3)	25.9	52.5
BALAJI TELEFILMS L	249	1.2	11.3	50.2
RELIANCE ENERGY	763	(4.6)	24.3	50.2
UNION BANK OF INE	158	(0.5)	19.6	48.1
Worst performers				
POLARIS SOFTWARI	122	(1.4)	(20.2)	(28.8)
ESCORTS LIMITED	104	(4.3)	(4.9)	(20.7)
RAYMOND LIMITED	280	0.7	(9.3)	(19.0)
ESSEL PROPACK LT	61	(1.8)	(5.5)	(15.2)
WIPRO LTD	493	(3.6)	(4.8)	(13.6)

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Chemicals

RELI.BO, Rs1866	
Rating	U
Sector coverage view	Neutral
Target Price (Rs)	1,650
52W High -Low (Rs)	1948 - 940
Market Cap (Rs bn)	2,600

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	1,052	934	1,115
Net Profit (Rs bn)	109.1	113.0	153.8
EPS (Rs)	78.3	81.1	105.8
EPS gth	*24.1*	*3.5*	*30.5*
P/E (x)	23.8	23.0	17.6
EV/EBITDA (x)	14.8	14.2	9.8
Div yield (%)	0.6	0.6	0.8

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	43.5	-	-
FIIs	23.1	7.2	0.5
MFs	2.5	4.8	(1.9)
UTI	-	-	(6.7)
LIC	4.5	7.8	1.1

Reliance Industries: 1QFY08 results: Stronger-than-expected results on forex gains and stronger margins

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- **1QFY08 net income at Rs32.6 bn above our Rs25.6 bn estimate on forex gains, surprisingly strong chemical segment performance**
- **Fine-tuned estimates on stronger margins, forex gains, stronger rupee**
- **Valuations appear full**

Reliance Industries reported 1QFY08 net income at Rs32.6 bn (+14% qoq and +28% yoy) well ahead of our Rs25.6 bn estimate. Forex gains of Rs1.7 bn, surprisingly strong chemical segment performance and strong refining margins of US$15.4/bbl contributed to the positive variance and strong yoy growth. 1QFY08 EBITDA improved +10% qoq and 25% yoy to Rs51.8 bn; the yoy improvement is also helped by a forex-related swing of Rs3.6 bn (Rs1.7 bn gain in 1QFY08 versus Rs1.8 bn loss in 1QFY07). We have raised FY2008E, FY2009E and FY2010E consolidated EPS to Rs81.1, Rs105.8 and Rs174.3 from Rs71.1, Rs97.4 and Rs159.8. Our revised 12-month fair valuation is Rs1,650 versus Rs1,525 previously. Key upside risk is higher-than-assumed reserves, profitability.

Difficult to explain movements in qoq and yoy revenues and EBIT

Chemical segment. We have had issues understanding (our limitation, we concede) movements in Reliance's quarterly profits and margins over the past few quarters. We have observed movements in chemical profits, which are at variance with global margins and raw material costs. Exhibit 2 gives our analysis of revenues, EBIT and operating costs of the chemical segment relative to change in naphtha prices.

In this quarter, operating costs have increased by about Rs1.2 bn qoq (adjusted for a one-off cost in 4QFY07) although we would have thought increase would have been greater given (1) marginal increase in production (and presumably sales) volumes and (2) steep increase in naphtha costs (22% in US Dollar terms partly offset by a 6.5% appreciation in the rupee). We have had similar issues in previous quarters particularly in 1QFY07 when revenues went up 47% (+25% due to volume and +22% due to price) when most product prices had increased by a much lower amount (-5% to +12%).

Refining segment. Reliance's 1QFY08 refining segment revenues increased 8.2% qoq, which we find difficult to reconcile with a 7% increase in volume and a steep increase in product prices in dollar terms (about 17% on average across products with bigger increases in gasoline and naphtha). We cannot explain the small increase in revenues given rupee increased by only 7% and product mix was largely unchanged; exports accounted for the bulk of increase in qoq sales volumes.

Valuations

Throwing in everything. Exhibit 3 gives our valuation model for Reliance. We use 9X FY2010E EPS (Rs174 on reported basis including contribution from RPL, KG-D6 oil and gas; Rs196 on adjusted basis removing treasury shares) to value Reliance stock and discount it to end-July 2008. We believe 9X is a very good multiple for peak (FY2010E) earnings and cost of equity of 12-13%. FY2010E earnings reflect (1) very strong refining margins (US$14.4/bbl for RIL refinery, US$15.9/bbl for RPL refinery), (2) above-mid cycle chemical margins, (3) full capacity of RPL and KG-DWN-98/3 block (based on currently known volumes) and (4) zero taxation for several businesses (RPL, gas production), which will increase in the future.

Exhibit 4 shows the valuation gap between Reliance's current stock price and our estimated fair valuation of extant businesses (chemicals, refining, 'old' E&P) and new initiatives (retailing, 'new' E&P). We find it difficult to bridge the gap without putting in valuation for possible higher reserves in discovered blocks (KG-D6) and potential E&P discoveries in prospective blocks (MN-D4, CY-III-D5) as a section of the street is doing.

Earnings revisions

FY2008—fine-tuned earnings; negative impact of stronger rupee on operating income versus forex gains. We have raised our FY2008E EPS to Rs81.1 from Rs71.1 to reflect higher refining margins and crude oil prices. We have also raised Reliance's chemical margins significantly to align with reported 1QFY08 chemical segment EBIT although we concede that these margins are significantly above ytd margins. However, we have also assumed a stronger rupee at Rs41/US$ against Rs42/US$. We model refining margin at US$13.9/bbl versus US$11.7/bbl in FY2007 and US$12.5/bbl assumed previously.

We expect Reliance's chemical segment to report lower profits in FY2008 versus FY2007 despite the good performance in 1QFY08 (EBIT improved 36% yoy). We note that YTD Asian chemical margins are well below average FY2007 margins. Also, a likely stronger rupee yoy will result in lower chemical segment profit for FY2008E versus FY2007 (Rs54 bn EBIT). We note that chemical margins were exceptionally strong in 2QFY07 and 3QFY07 and boosted FY2007 margins and EBIT. Reliance's 2QFY07 and 3QFY07 EBIT was Rs17.6 bn and Rs14.1 bn, respectively.

Exhibit 5 gives Reliance's key financials and Exhibit 6 gives a sensitivity of its earnings to key variables (refining margin, chemical prices and rupee-dollar rate).

FY2009—transition year. We model FY2009E consolidated EPS at Rs105 (Rs97 previously); the upward revision reflects modestly higher refining margins and crude oil prices. We expect chemical margins to further decline in FY2009 versus FY2008 led by new plant capacities globally. However, we expect refining margins to remain firm and model refining margin at US$13.1/bbl, a moderate decline versus FY2008E. We note that FY2008E margins include forex gains.

FY2010—the first full year for RPL, gas. We have fine-tuned FY2010E EPS (consolidated for RPL) to Rs174 from Rs160 to reflect moderately higher refining margins, higher crude oil prices (US$68/bbl from US$60/bbl) but weaker rupee (Rs41/US$ versus Rs42/US$). We model refining margin at US$14.4/bbl for Reliance's refinery and US$15.5/bbl for RPL's refinery. The sharp jump in refining margins versus FY2009E reflects use of gas for internal processes, which would lead to significant savings in power and fuel and thus, higher refining margins.

Details and analysis of 1QFY08 results

EBITDA boosted by strong refining margins and forex gain. Reliance's 1QFY08 EBITDA increased +10% qoq and +25% yoy to Rs51.8 bn. The steep yoy increase in EBTIDA reflects forex-related swing of Rs3.7 bn, higher refining margins (+US$3/bbl yoy) and likely stronger chemical volumes, which offset the negative impact of a stronger rupee (Rs41.3 in 1QFY08 versus Rs45.5 in 1QFY07). The chemical segment's performance came as a positive surprise.

Net income a function of strong operating performance. Reliance's 1QFY08 net income increased +14% qoq and +28% yoy to Rs32.6 bn. Reliance continues to capitalize forex-related gains and profits on FC loans in the carrying costs of assets although it could have taken the benefit in this quarter (Rs3.83 bn) in the P&L. 1QFY08 effective tax was 19.1% compared to FY2007 effective tax rate of 17.9%; the conversion of Reliance's refinery to an EOU refinery will prolong the zero-tax status of the refinery until FY2009E.

Chemicals segment—1QFY08 EBIT improved 30% qoq and 36% yoy; a positive surprise. Reliance's 1QFY08 EBIT improved to Rs14.8 bn compared to Rs10.9 bn in 1QFY08 and Rs11.4 bn in 4QFY07. Reliance had incurred Rs2.9 bn of additional costs as a payment of Rs2.91 bn of royalty for pre-agreed performance of its newly-built PX plant. However, we are surprised by the amount in the context of the likely project cost and the fact that Reliance did not capitalize this figure or inform the analyst/investor community at the time of 4QFY07 results. Revenues increased 11% yoy led by an 8% increase in volumes and 3% increase in price. However, as highlighted above, we found the qoq change in operating costs a bit odd.

Refining and marketing segment—strong improvement qoq and yoy. Reliance's 1QFY08 EBIT improved to Rs25.6 bn from Rs22.8 bn in 4QFY07 and Rs20.4 bn in 1QFY07 led by higher refining margins at US$15.4/bbl compared to US$13/bbl in 4QFY07 and US$12.4/bbl in 1QFY07. The sharp increase in dollar margins and higher volumes yoy compensated for a stronger rupee (9.7% yoy and 7% qoq). Reliance's refinery processed 8 mn tons of crude in 1QFY08 compared to 8.1 mn tons in 4QFY07 and 7.5 mn tons in 1QFY07. Reliance added 26 auto fuel outlets in 1QFY08 taking the end-1QFY08 figure to 1,411. It has also started selling ATF through eight stations in eight airports and is setting up stations in nine more.

Reliance sold 8.91 mn tons of refined products in 1QFY08 versus 8.3 mn tons in 4QFY07 and 8 mn tons in 1QFY07. Exports climbed 21% qoq and 41% yoy to 5 mn tons.

Updates on new businesses

E&P—update on KG-D6 block. Reliance is on track to start gas production in 2HCY08. It has completed 72% of well drilling, 50% of offshore development and 35% of onshore development. We model gas production at 20 mcm/d for FY2009E, 60 mcm/d for FY2010E and 80 mcm/d for FY2011E and the next few years. In case of the MA (oil) development, the company has reportedly awarded a contract to Aker Floating Production for a FPSO for US$600 mn. We model 30,000 b/d of oil production in FY2009E and 50,000 b/d in FY2010E in line with management guidance of 30-35,000 b/d initial production in FY2009; Reliance's share is 90%. Reliance will submit a development plan to the DGH in 2QFY08.

On NEC-25 block, the company expects to start production in FY2012 and expects peak production of 6.5 mcm/d. However, it has not disclosed the capex and other details as it has submitted a development plan to the DGH and is awaiting the latter's approval. On CBM, the management expects production from FY2010; we have not factored in CBM in our model as yet but capture it in our valuation. Reliance has submitted a development plan for Sohagpur East and West blocks to the DGH for its approval. Reliance expects peak production of 5 mcm/d from its Sohagpur CBM blocks. On MN-DWN-2003/1 block (D4) block, the management said that is interpreting seismic data and drilling is some time away.

RPL—on track for December 2008 start. Reliance Petroleum's 540,000 bpd refinery is on track for completion by December 2008. As per the management, the project is about 65% complete. Basic engineering is 100% complete, detailed engineering 90%, civil construction almost 100% and deliveries and installation of critical long-lead items started.

We have fine-tuned RPL's FY2010E-FY2012E EPS to Rs22.9, Rs23.5 and Rs22.6, respectively from Rs22.2, Rs23.1 and Rs22.7, respectively, previously on the back of moderately higher margins and a stronger rupee (Rs41/US$ versus Rs42/US$ for all the years). We model refining margins at U$15.9/bbl, US$15.8/bbl and US$14.6/bbl for FY2010E, FY2011E and FY2012E. Our 12-month DCF-based target price is unchanged at Rs125.

Update on retailing. Reliance added 105 stores in 1QFY08 and had 201 stores in 25 cities at end-1QFY08. These are small-format F&B stores. We value the retailing business at US$3.75 bn (Rs112/share); Reliance has invested Rs60 bn as equity in Reliance Retail as of June, 2007 up from Rs40 bn as of March, 2007.

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

		qoq			yoy			yoy		
	2008E	1Q 2008	4Q 2007	*(% chg)*	1Q 2008	1Q 2007	*(% chg)*	2007	2006	*(% chg)*
Net sales	**933,625**	**280,560**	**258,950**	***8.3***	**280,560**	**244,220**	***14.9***	**1,051,630**	**809,110**	***30.0***
Total expenditure	(745,990)	(228,790)	(211,960)	*7.9*	(228,790)	(202,850)	*12.8*	(871,530)	(669,120)	*30.3*
Inc/(Dec) in stock	—	(5,560)	2,430	*(328.8)*	(5,560)	6,270	*(188.7)*	9,700	21,310	*(54.5)*
Raw materials	(672,351)	(199,990)	(186,960)	*7.0*	(199,990)	(181,520)	*10.2*	(778,890)	(583,430)	*33.5*
Staff cost	(12,868)	(3,710)	(3,090)	*20.1*	(3,710)	(3,180)	*16.7*	(11,970)	(9,780)	*22.4*
Other expenditure	(60,771)	(19,530)	(24,340)	*(19.8)*	(19,530)	(24,420)	*(20.0)*	(90,370)	(97,220)	*(7.0)*
EBITDA	**187,635**	**51,770**	**46,990**	***10.2***	**51,770**	**41,370**	***25.1***	**180,100**	**139,990**	***28.7***
OPM (%)	**20.1**	**18.5**	**18.1**		**18.5**	**16.9**		**17.1**	**17.3**	
Other income	4,000	1,050	850	*23.5*	1,050	440	*138.6*	1,930	6,830	*(71.7)*
Interest	(11,462)	(2,880)	(2,770)	*4.0*	(2,880)	(2,660)	*8.3*	(11,140)	(8,770)	*27.0*
Depreciation	(39,387)	(9,580)	(10,220)	*(6.3)*	(9,580)	(9,070)	*5.6*	(40,090)	(34,010)	*17.9*
Pretax profits	**140,786**	**40,360**	**34,850**	***15.8***	**40,360**	**30,080**	***34.2***	**130,800**	**104,040**	***25.7***
Extraordinaries/sales tax benefit	—	—	—		—	1,000		2,000	3,000	
Tax	(32,385)	(4,670)	(3,960)	*17.9*	(4,670)	(3,560)	*31.2*	(15,210)	(9,310)	*63.4*
Deferred taxation	4,674	(3,050)	(2,360)	*29.2*	(3,050)	(2,050)	*48.8*	(8,510)	(7,040)	*20.9*
Net income	**113,075**	**32,640**	**28,530**	***14.4***	**32,640**	**25,470**	***28.2***	**109,080**	**90,690**	***20.3***
Adjusted profits	**113,075**	**32,640**	**28,530**	***14.4***	**32,640**	**24,470**	***33.4***	**107,080**	**87,690**	***22.1***
Income tax rate (%)	19.7	19.1	18.1		19.1	18.1		17.9	15.3	
Chemicals production										
Polymer volumes ('000 tonnes)		562	542	*4*	562	469	*20*	2,141	1,845	*16*
Polyester volumes ('000 tonnes)		395	367	*8*	395	361	*9*	1,482	1,129	*31*
Fiber intermediates ('000 tonnes)		1,093	1,123	*(3)*	1,093	886	*23*	4,073	3,220	*26*
Refining										
Crude throughput (mn tonnes)		8.0	8.1	*(1.1)*	8.0	7.5	*6.7*	31.7	30.5	*4.0*
Refining margin (US$/bbl) incl. sales tax incentives		**15.4**	**13.0**	*18.5*	15.4	12.4	*24.2*	11.7	10.3	*13.6*
Average exchange rate		41.3	44.2	*(6.6)*	41.3	45.5	*(9.3)*	45.3	44.3	*2.2*
E&P										
Crude oil production (000 tonnes)		149	148	*0.4*	149	115	*29.7*	547	471	*16.1*
Gas production (bcf)		11	12	*(5.7)*	11	9	*21.5*	40	38	*6.7*

Segment results of Reliance Industries

	qoq			yoy			yoy		
	1Q 2008	4Q 2007	*(% chg)*	1Q 2008	1Q 2007	*(% chg)*	2007	2006	*(% chg)*
Revenues									
Petrochemicals	108,440	106,700	*1.6*	108,440	97,870	*10.8*	422,260	328,020	*28.7*
Refining	227,940	210,690	*8.2*	227,940	208,620	*9.3*	860,090	711,170	*20.9*
Others	5,890	6,610	*(10.9)*	5,890	5,300	*11.1*	23,800	18,730	*27.1*
Gross turnover	342,270	324,000	*5.6*	342,270	311,790	*9.8*	1,306,150	1,057,920	*23.5*
Inter segment	47,340	50,010	*(5.3)*	47,340	50,130	*(5.6)*	197,290	148,540	*32.8*
Excise duty	14,370	15,040	*(4.5)*	14,370	16,440	*(12.6)*	55,230	79,130	*(30.2)*
Net sales	**280,560**	**258,950**	***8.3***	**280,560**	**245,220**	***14.4***	**1,053,630**	**830,250**	***26.9***
EBIT									
Petrochemicals	14,810	11,370	*30.3*	14,810	10,870	*36.2*	53,950	47,130	*14.5*
Refining	25,580	22,770	*12.3*	25,580	20,350	*25.7*	77,260	59,160	*30.6*
Others	3,010	3,220	*(6.5)*	3,010	2,840	*6.0*	13,350	11,120	*20.1*
Total	**43,400**	**37,360**	***16.2***	**43,400**	**34,060**	***27.4***	**144,560**	**117,410**	***23.1***
Interest expense	(2,880)	(2,770)	*4.0*	(2,880)	(2,660)	*8.3*	(11,140)	(9,350)	*19.1*
Interest income	720	480	*50.0*	720	220	*227.3*	1,080	4,920	*(78.0)*
Other unallocable (net)	(880)	(220)	*300.0*	(880)	(540)	*63.0*	(1,700)	(2,700)	*(37.0)*
PBT	**40,360**	**34,850**	***15.8***	**40,360**	**31,080**	***29.9***	**132,800**	**110,280**	***20.4***
Current tax	(4,670)	(3,960)	*17.9*	(4,670)	(3,560)	*31.2*	(15,210)	(9,260)	*64.3*
Deferred tax	(3,050)	(2,360)	*29.2*	(3,050)	(2,050)	*48.8*	(8,510)	(7,040)	*20.9*
PAT	**32,640**	**28,530**	***14.4***	**32,640**	**25,470**	***28.2***	**109,080**	**93,980**	***16.1***
Capital employed									
Petrochemicals	263,340	278,050	*(5.3)*	263,340	290,420	*(9.3)*	278,050	310,390	*(10.4)*
Refining	392,720	395,370	*(0.7)*	392,720	400,350	*(1.9)*	395,370	356,880	*10.8*
Others	187,430	148,790	*26.0*	187,430	70,840	*164.6*	148,790	65,020	*128.8*
Unallocated corporate	96,700	76,830	*25.9*	96,700	42,960	*125.1*	76,830	65,700	*16.9*
Total	**940,190**	**899,040**	***4.6***	**940,190**	**804,570**	***16.9***	**899,040**	**797,990**	***12.7***

Source: Company data, Kotak Institutional Equities.

Operating performance trends of RIL's petrochemical segment has been somewhat puzzling
Revenues, EBIT and operating costs of RIL's petrochemical segment (Rs mn)

	1QFY08	4QFY07	3QFY07	2QFY07	1QFY07
Revenues	108,440	106,700	108,950	108,740	97,870
EBIT	14,810	11,370	14,070	17,640	10,870
Adjusted EBIT	14,810	14,280	14,070	17,640	10,870
Operating costs	**93,630**	**95,330**	**94,880**	**91,100**	**87,000**
Less: adjustment on account of one time payments (a)		2,910			
Operating costs adjusted for one-off items	**93,630**	**92,420**	**94,880**	**91,100**	**87,000**
Change in operating costs	**1,210**	**(2,460)**	**3,780**	**4,100**	
Exchange rate (Rs/US$)	41.3	44.2	45.0	46.4	45.5
Change in exchange rate (%)	(6.5)	(1.8)	(3.0)	2.0	
Average naphtha price (US$/ton)	636	521	501	609	559
Change in naphtha price (%)	21.9	4.1	(17.8)	9.0	
Naphtha consumption per quarter (mn tons)	1.45	1.45	1.45	1.45	1.45
Change in naphtha consumption	**4,652**	**725**	**(8,306)**	**4,091**	

Flat adjusted EBIT qoq does not match with decline in global chemical margins qoq.

Operating costs in 1QFY08 should have increased more given steep increase in naphtha costs; production increased marginall qoq.

Note:
(a) One-off payment in 4QFY07 on account of royalty on PX for full year.
(b) There may be variation in sales and raw material consumption on quarterly basis.

Source: Company for reported financials, Kotak Institutional Equities estimates.

Our 12-month fair value of Reliance stock is Rs1,650
Valuation of Reliance stock (Rs)

	FY2010E EPS (Rs)	P/E (X)	Valuation (Rs/share)	Comments
Chemicals, refining, E&P (a) (b)	196	9	1,767	Consolidated FY2010E EPS including Reliance Petroleum
Valuation based on FY2010E EPS			**1,452**	**12.5% discount rate; discounted to end-July, 2008**
E&P (higher reserves in KG-DWN-98/3, other blocks)			—	We model 17 tcf of gas production from KG-DWN-98/3 block
E&P (NEC-25, CBM)			41	Based on KG D-6 reserves and valuation
Investments			147	
IPCL and other investments			35	
Retailing			112	US$3.75 bn valuation; ~US$1 bn equity invested in Reliance Retail as of end-FY2007
SEZ development			—	SEZs will require investment for the first few years
12-month forward valuation			**1,640**	

Notes:
(a) FY2010E EPS is Rs174 on 1.513 bn shares without considering merger of IPCL but conversion of 120 mn warrants issued to the major shareholder.
(b) FY2010E EPS is adjusted for treasury shares or computed using 1.343 bn shares.
(c) Number of shares outstanding after merger of IPCL will be 1.57 bn including 199 mn treasury shares.

Source: Kotak Institutional Equities estimates.

Gap between current stock price and fair valuation of extant assets

Estimation of implied valuation of new businesses of Reliance Industries (US$ bn)

		Comments
1. Valuation of extant businesses		**Chemicals, RIL refinery, extant oil and gas**
FY2008E EPS of Reliance (Rs)	81.1	Moderately higher than FY2007 EPS
FY2008E EPS adjusted for treasury shares (Rs)	92.4	Adjusted for 170 mn treasury shares
Effective tax rate in FY2008E (%)	19.6	
FY2008E EPS adjusted for tax rate	75.3	Normalized for 34% tax rate for extant earnings
Appropriate P/E multiple (X)	9.0	Generous given above mid-cycle margins, earnings and cost of equity of 12.5%
Valuation of extant businesses (Rs)	**677**	
Valuation of extant businesses	**23.0**	**Reasonable in the context of replacement value, returns**
2. Valuation of investments		**RPL, IPCL, others (without Reliance Retail)**
Reliance Petroleum	345	3.375 bn shares at Rs125, our 12-month target price for RPL
IPCL, others	48	
Total value of investments	**393**	
Valuation of RIL ex-new E&P, retailing, SEZs	**1,070**	
Current stock price	1,866	
3. Valuation of new businesses		**Emerging E&P business, retailing, SEZs**
Market-ascribed value of new businesses	**796**	
Market-ascribed value of new businesses (US$ bn)	**27**	
Estimated valuation of retailing (US$ bn)	3.8	Reliance has invested about US$1 bn in Reliance Retail as at end-FY2007
Estimated valuation of SEZs (US$ bn)	—	Value will take time to emerge
Market-ascribed value of emerging E&P business	**23**	**Seems very high to us based on official reserves, announed discoveries**
Estimated value of Reliance's stake in KG D-6 (gas)	5.6	Based on gas production of 17 tcf, US$8.8 bn capex, US$4.5/mn BTU net price
Estimated value of Reliance's stake in KG D-6 (oil)	0.9	0.5 bn bbls of OOIP assumed versus current announced reserves of 180 mn bbls
Estimated value of Reliance's stakes in NEC-25, CBM	1.4	
Implied value of new discoveries	**15**	**Higher reserves in KG-D6, NEC-25, Cauvery-III-D5, GS01, MN-D4, blocks?**

Source: Kotak Institutional Equities estimates.

Reliance Industries consolidated with Reliance Petroleum: Profit model, balance sheet, cash model, March fiscal year-ends, 2003-2010E (Rs mn)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E
Profit model (Rs mn)								
Net sales	451,133	510,715	656,223	809,113	1,051,630	933,625	1,115,162	1,713,233
EBITDA	**75,808**	**91,148**	**123,820**	**139,991**	**180,100**	**187,635**	**252,474**	**432,965**
Other income	10,012	11,381	14,498	6,829	1,930	4,000	4,170	4,201
Interest	(15,552)	(14,347)	(14,687)	(8,770)	(11,140)	(11,462)	(9,949)	(10,563)
Depreciation & depletion	(28,371)	(32,470)	(37,235)	(34,009)	(40,118)	(39,497)	(55,689)	(79,950)
Pretax profits	41,897	55,711	86,397	104,041	130,772	140,676	191,005	346,653
Extraordinary items	7,845	7,300	4,290	3,000	2,000	—	—	—
Tax	(2,459)	(3,510)	(7,050)	(9,307)	(15,210)	(32,385)	(39,518)	(64,887)
Deferred taxation	(6,240)	(7,900)	(7,920)	(7,040)	(8,510)	4,674	6,975	7,749
Minority interest	—	—	—	—	—	—	(4,659)	(25,753)
Net profits	41,043	51,601	75,717	90,693	109,052	112,964	153,804	263,763
Adjusted net profits	**34,570**	**45,623**	**72,135**	**88,152**	**107,409**	**112,964**	**153,804**	**263,763**
Earnings per share (Rs)	**24.8**	**32.7**	**51.7**	**63.3**	**77.1**	**81.1**	**105.8**	**174.3**
Balance sheet (Rs mn)								
Total equity	303,744	344,525	404,033	430,543	639,838	733,271	1,013,706	1,234,165
Deferred taxation liability	26,848	34,748	42,668	49,708	58,218	53,544	46,569	38,820
Minority interest	—	—	—	—	33,622	33,595	38,253	61,374
Total borrowings	197,583	209,447	187,846	218,656	280,741	361,830	169,569	107,409
Currrent liabilities	109,666	122,855	171,315	164,545	203,145	183,739	190,454	221,136
Total liabilities and equity	**637,842**	**711,574**	**805,863**	**863,452**	**1,215,564**	**1,365,979**	**1,458,553**	**1,662,904**
Cash	1,472	2,242	36,087	21,461	17,581	29,057	28,921	177,936
Current assets	227,809	218,159	248,438	224,283	269,373	249,587	271,160	349,944
Total fixed assets	340,863	351,460	350,823	626,745	827,868	946,593	997,729	974,281
Investments	67,227	139,714	170,515	(9,038)	100,742	140,742	160,742	160,742
Deferred expenditure	472	—	—	—	—	—	—	—
Total assets	**637,842**	**711,574**	**805,863**	**863,452**	**1,215,564**	**1,365,979**	**1,458,552**	**1,662,904**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	67,072	83,301	107,002	119,520	151,884	140,994	200,869	357,029
Working capital	(17,614)	20,265	46,875	(32,188)	(7,225)	381	(14,859)	(48,102)
Capital expenditure	(37,043)	(43,191)	(52,440)	(94,273)	(218,140)	(163,324)	(104,687)	(56,016)
Investments	(34,204)	(68,430)	(48,192)	(32,364)	(106,473)	(40,000)	(20,000)	—
Other income	5,219	5,902	3,032	5,159	2,712	4,000	4,170	4,201
Free cash flow	**(16,569)**	**(2,153)**	**56,276**	**(34,146)**	**(177,242)**	**(57,949)**	**65,493**	**257,112**
Ratios (%)								
Debt/equity	59.8	55.2	42.1	45.5	40.2	46.0	16.0	8.4
Net debt/equity	59.3	54.6	34.0	41.1	37.7	42.3	13.3	(5.5)
RoAE	10.7	12.7	17.6	19.9	19.4	16.1	17.3	23.1
RoACE	**8.8**	**9.7**	**13.0**	**13.8**	**13.6**	**11.3**	**13.8**	**22.6**

Source: Kotak Institutional Equities estimates.

Reliance has high leverage to refining margins

Sensitivy of RIL's standalone (without RPL) earnings to key variables

	Fiscal 2008E			Fiscal 2009E			Fiscal 2010E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	40.0	41.0	42.0	40.0	41.0	42.0	40.0	41.0	42.0
Net profits (Rs mn)	108,214	113,075	117,936	134,301	139,828	145,355	180,061	186,504	192,946
EPS (Rs)	77.7	81.2	84.7	92.4	96.2	100.0	119.0	123.3	127.5
% upside/(downside)	**(4.3)**		**4.3**	**(4.0)**		**4.0**	**(3.5)**		**3.5**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	109,329	113,075	116,821	136,288	139,828	143,369	183,349	186,504	189,658
EPS (Rs)	78.5	81.2	83.9	93.8	96.2	98.7	121.2	123.3	125.3
% upside/(downside)	**(3.3)**		**3.3**	**(2.5)**		**2.5**	**(1.7)**		**1.7**
Refining margins (US$/bbl)									
Margins (US$/bbl)	12.9	13.9	14.9	12.1	13.1	14.1	13.4	14.4	15.4
Net profits (Rs mn)	104,646	113,075	121,503	131,476	139,828	148,180	180,041	186,504	192,966
EPS (Rs)	75.1	81.2	87.2	90.5	96.2	102.0	119.0	123.3	127.5
% upside/(downside)	**(7.5)**		**7.5**	**(6.0)**		**6.0**	**(3.5)**		**3.5**

Source: Kotak Institutional Equities estimates.

Banking

SBI.BO, Rs1500	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	1,450
52W High -Low (Rs)	1624 - 725
Market Cap (Rs bn)	789.5

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	234.9	251.6	282.7
Net Profit (Rs bn)	45.4	54.0	56.9
EPS (Rs)	86.3	102.6	108.0
EPS gth	*3.1*	*18.9*	*5.3*
P/E (x)	17.4	14.6	13.9
P/B (x)	3.0	2.7	2.2
Div yield (%)	0.9	1.1	1.1

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	59.7	-	-
FIIs	19.8	1.7	(0.1)
MFs	5.7	3.0	1.2
UTI	-	-	(1.8)
LIC	4.1	1.9	0.1

State Bank of India: SBI's profit optically good, but operational performance in line, valuations full, downgrading to IL

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- **State Bank of India reported PAT of Rs14.3bn far in excess of our estimates**
- **Unlike most others banks, SBI showed stable margins, despite reduction in CASA, high growth in advances and deposits**
- **Reduce rating to IL from OP given full valuations**

State Bank of India far exceeded our profit estimate of Rs10.3bn reporting growth of 79% yoy to Rs14.3bn. While NII was in line with our estimate, improving operational efficiency, write-back of investment depreciation, and lower tax rate led to the company exceeding our target. Unlike most others banks, SBI showed stable margins, despite reduction in CASA, high growth in advances and deposits. We expect the balance part of the year to be more subdued in terms of earnings, unless the bank takes more investment depreciation write-backs. We believe SBI is a good long-term play on the Indian economy. However, we find valuations at this stage stretched, and are downgrading the stock to IL. SBI trades at 10.6X PER and 1.7X PBR FY2009 standalone as against expected RoE of 16%, higher than most other banks PSU banks under our coverage, which trade at 1.1-1.3X PBR. We have a target price of Rs1,450 on the stock.

NII up on stable margin, higher balance sheet growth: SBI reported NII growth of 15.6% yoy on the back of balance sheet expansion (deposit growth was a hefty 19%), and stable NIMs of 3.31%. We believe that the margins have likely peaked and will come down marginally in the next few quarters given strong growth in deposits and lower CASA ratio. This is the first time in many years that SBI has reported strong growth in its deposits i.e excluding the IMDs and RIB type issuance. While the industry is seeing a slowdown, SBI reported 29% growth in advances, driven by non-retail segment.

Other income rose 5%: Key items driving other income growth were fees (up 16%yoy to Rs8.9bn), forex (up 17.6%), miscellaneous income including recoveries (up 30%). The key reason for the low growth in other income was lower dividend of Rs1.7bn in 1QFY08 as against Rs3.5bn last year. SBI's subsidiaries paid interim dividend to SBI in March 2007 (normally paid in 1Q) to take advantage of the lower tax on dividend in that year, leading to lower dividend in the 1QFY08.

Improving efficiencies likely leading to lower operating expenses, company yet to make provision for AS15 gap: SBI has not yet made the provision for the estimated Rs40-45bn of pension gap under As15. The company also showed a decline of 13% on normal pension provision due to increase in discount rates. Other operating expenses too increased at a lower rate of 7%, bank is likely benefiting from the investments made in technology.

Investment portfolio protected against interest rate increases: SBI now holds over 72% of its investment portfolio in HTM category, while the balance 27% is held in AFS category with duration of 1.25 years. Despite its low duration, the bank has managed to write-back close to Rs3.7bn of investment depreciation due to the fall in Gsec yields. The higher proportion of investment in AFS category likely led to higher amortization cost of Rs7bn in 1QFY08.

Asset quality deteriorates qoq, leading to higher NPL provisions: SBI's gross NPLs increased 11% yoy and 8% qoq, while its net NPLs increased 14% yoy. The gross and net NPL ratio now stands at 3.1% and 1.6% respectively. We expect this trend to be maintained as the bank has been growing its credit book much more aggressively and there has been a shift in the quality of the portfolio to more riskier mid-corporate sector.

SBI Quarterly results

In Rs mn	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	% chg	1Q08 KS	Actual Vs Kotak
Income earned	95,582	85,091	88,362	93,775	97,359	115,415	113,865	28.9		
Income on advances	46,679	47,587	54,674	59,017	64,136	70,566	79,885	46.1		
Income on investments	32,891	33,164	29,402	28,744	28,331	28,453	28,944	(1.6)		
Interest on balance with RBI	16,012	4,340	4,286	6,014	4,893	16,396	5,036	17.5		
Interest expense	53,383	49,545	49,466	54,788	57,846	72,213	68,891	39.3		
Interest on Deposits	46,586	41,957	43,654	44,728	46,960	57,003	58,596	34.2		
Interest on Borrowings	3,397	3,469	4,476	3,823	4,357	10,119	6,829	52.6		
Others Sundry Interest	3,400	4,119	1,336	6,327	6,529	5,092	3,466	159.5		
Net interest income (NII)	**42,199**	**35,546**	**38,896**	**38,987**	**39,513**	**43,201**	**44,974**	**15.6**	**44,667**	**0.7**
NII (adj. for extraordinary and other interest income)	**29,660**	**35,546**	**38,896**	**38,987**	**39,513**	**43,201**	**44,974**	**15.6**		
NII adjt for invest. amortization	**25,385**	**26,822**	**33,370**	**34,753**	**34,463**	**47,201**	**37,904**	**13.6**	**38,667**	**(2.0)**
Other income	18,405	26,770	17,615	14,338	18,110	24,394	18,496	5.0	17,923	3.2
Fees, commission	7,005	19,354	7,619	8,445	8,609	23,373	8,859	16.3	8,228	7.7
Invt. income	1,298	799	2,113	77	3,106	382	2,751	30.2	1,320	108.4
Forex income	1,122	861	840	1,066	1,141	487	988	17.6	1,000	(1.2)
Miscl income	8,539	5,732	3,058	4,254	4,866	(2,002)	4,027	31.7	3,345	20.4
Dividend	85	23	3,481	136	135	2,218	1,714	(50.8)	3,830	(55.2)
Income from leasing	356	1	333	360	253	(63)	166	(50.3)	200	(17.2)
Other income excld treasury	17,107	25,971	15,502	14,261	15,004	24,012	15,745	1.6	16,603	(5.2)
Total income	**60,604**	**62,316**	**56,510**	**53,324**	**57,623**	**67,595**	**63,470**	**12.3**	**62,590**	**1.4**
Operating expenses	34,607	29,544	28,146	28,598	29,074	32,460	29,785	5.8	32,183	(7.5)
Staff expenses	20,166	16,646	15,903	16,207	16,957	18,635	17,358	9.1	17,811	(2.5)
Pension contributions	5,075	2,596	3,340	3,340	3,340	1,604	2,906	(13.0)	3,741	(22.3)
Other operating expenses	9,366	12,898	8,903	9,051	8,777	12,222	9,521	6.9	10,631	(10.4)
Pre-provision operating profit	25,997	32,772	28,364	24,726	28,549	35,135	33,685	18.8	30,406	10.8
Provisions and extr. Ord.	4,698	13,391	12,820	6,813	11,662	9,577	11,664	(9.0)	11,748	(0.7)
Loan loss provisions	(1,026)	36	1,716	2,561	5,406	7,312	5,381	213.7	4,299	25.2
Standard assets	1,400	2,052	200	1,400	1,300	2,992	318	59.2	-	-
Investment depreciation	-	3,462	5,514	-	1,535	2,758	(768)	(113.9)	1,449	(153.0)
Investment amortization	4,276	8,724	5,526	4,234	5,050	(4,000)	7,070	27.9	6,000	17.8
Other provisions	1,448	1,169	(136)	18	(329)	564	(20)	(85.3)	-	-
PBT	**21,299**	**19,380**	**15,545**	**17,912**	**16,888**	**25,558**	**22,021**	**41.7**	**18,658**	**18.0**
Less tax	10,147	10,847	7,559	6,067	6,237	10,626	7,763	3	8,396	(8)
Profit after tax	**11,152**	**8,533**	**7,986**	**11,845**	**10,650**	**14,932**	**14,258**	**78.5**	**10,262**	**38.9**
PBT - investment income+ invt dep.	8,527	22,043	18,946	17,835	15,316	27,934	18,502	(2)	18,787	(2)
PBT - invest income+ provisions-extr. Items	**6,437**	**18,909**	**20,661**	**20,397**	**20,722**	**35,247**	**23,883**	**15.6**	**23,086**	**3**
Tax Rate	47.6	56.0	48.6	33.9	36.9	41.6	35.3		45.0	
Advances gross (Rs bn)	**2,534**	**2,671**	**2,670**	**2,888**	**3,154**	**3,424**	**3,441**	**28.9**		
Advances net (Rsbn)	2,417	2,616	2,626	2,833	3,094	3,371	3,398	29.4		
Retail advances	563	611	630	658	696	736	751	19.3		
Housing finance	304	318	332	346	365	380	392	18.2		
Retail to total advances (%)	23.3	23.3	24.0	23.2	22.5	21.8	22.1			
Housing to Retail advances (%)	53.9	52.1	52.7	52.5	52.4	51.6	52.2			
Deposits (Rs bn)	**3,637**	**3,800**	**3,777**	**3,926**	**4,044**	**4,355**	**4,497**	**19.0**		
Low cost deposits (%)	41.0	43.3	42.7	42.6	43.3	43.6	41.1			
Investments (Rs bn)	**1,660**	**1,550**	**1,610**	**1,470**	**1,440**	**1,350**	**1,650**	**2.5**		
HTM	880	NA	1,040	1,020	1,030	1,000	1,200			
AFS	780	NA	590	450	410	350	450			
AFS duration (years)	NA	NA	NA	2.0	2.0	1.8	1.3			
Asset management ratios (%)										
Cost of deposit (excl RIB, IMD)	4.52	4.49	4.47	4.51	4.57	4.79	5.35			
Yield on advances	7.87	7.78	8.48	8.55	8.61	8.67	9.8			
Yield on resources	7.09	7.1	7.22	6.94	6.87	6.88	6.21			
Net interest margin	3.01	2.92	3.37	3.32	3.29	3.31	3.31			
Capital adequacy details (%)										
CAR	12.5	11.9	12.0	12.6	11.9	12.3	13.1			
Tier I	8.5	9.4	9.0	8.7	8.0	8.0	8.3			
Tier II	4.0	2.5	3.0	3.9	3.9	4.3	4.8			
Asset quality details										
Gross NPLs (Rsbn)	110	104	97	103	104	100	108	10.7		
Gross NPLs (%)	4.4	3.9	3.6	3.6	3.3	2.9	3.1			
Net NPLs (Rsbn)	40	49	48	47	45	53	55	13.9		
Net NPLs (%)	1.7	1.9	1.8	1.7	1.5	1.6	1.6			
Return ratios										
RoA (%)	1.01	0.89	0.64	0.78	0.78	0.84	0.94			
RoE (%)	17.12	15.47	11.23	13.39	13.24	14.24	17.57			
Per share metrics										
EPS (Rs)	84.8	83.7	60.7	75.4	77.2	86.3	108.4			
BVPS (Rs)	526	525	540	563	583	606	617			

Source: Company, Kotak Institutional Equities estimates.

State Bank of India (Old and new estimates Rs mn)

March fiscal year-ends, 2008E&2009E

	Old estimates		New estimates		% change	
	2008E	**2009E**	**2008E**	**2009E**	**2008E**	**2009E**
Net interest income	176,144	197,873	179,956	204,324	2.2	3.3
Loan growth	21.00	15.00	25.00	15.00		
NIM assumed (%)	3.05	3.00	3.12	3.09		
Loan loss provisions	22,365	35,103	24,668	36,264	10.3	3.3
Other income	75,410	84,860	79,914	85,390	6.0	0.6
Fee income	56,213	64,645	56,213	64,645	(0.0)	-
Treasury income	-	-	4,000	-		
Operating expenses	129,369	146,744	127,617	144,819	(1.4)	(1.3)
Employee expenses	85,672	98,523	85,672	98,523	-	-
Investment depreciation	-	-	(1,000)	-		
Investment amortization	16,775	13,420	26,000	20,800	55.0	55.0
Extraordinary items	-	-	-	-		
PBT	83,044	87,466	82,585	87,831	(0.6)	0.4
Tax	29,065	30,613	28,905	30,741	(0.6)	0.4
Net profit	**53,979**	**56,853**	**53,680**	**57,090**	**(0.6)**	**0.4**
PBT bef ext and invt dep	83,044	87,466	81,585	87,831	(1.8)	0.4

Source: Kotak Institutional Equities estimates.

Consumer Products

ITC.BO, Rs172	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	225
52W High -Low (Rs)	196 - 140
Market Cap (Rs bn)	642.8

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	123.7	145.0	161.8
Net Profit (Rs bn)	27.0	31.1	35.9
EPS (Rs)	7.2	8.3	9.6
EPS gth	*20.4*	*15.4*	*15.1*
P/E (x)	23.8	20.6	17.9
EV/EBITDA (x)	15.1	12.9	10.8
Div yield (%)	1.8	1.9	2.1

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	14.3	1.3	(0.7)
MFs	3.0	1.7	(0.3)
UTI	11.9	52.0	50.0
LIC	12.7	6.6	4.6

ITC: 1QFY08: Cigarettes division posts impressive numbers despite taxation issues'we retain OP

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- **Cigarette volumes declined by 2-3% yoy on 20% weighted averge price increase**
- **EBIT margins in cigarette business improved by 150 bp**
- **FMCG business continues to grow at 50% yoy.**
- **Retain Outperform rating with target price of Rs225 /share**

ITC reported 16.7% net sales growth, 16.2% EBITDA growth and 20% PAT growth during 1QFY08 against our expectation of 8.6%, 11.4% and 12.9% respectively. A better than expected performance by the cigarettes division and lower effective tax rate helped ITC report PAT of Rs7.8 bn, ahead of our est. of Rs7.4 bn (consensus est. of Rs7.1 bn). While a higher agri-commodity turnover resulted in a better than estimated revenue growth, cigarette business reported a 150 bp improvement in margins as the company took higher price increases than needed to counter the increase in excise rates and introduction of VAT. We estimate cigarette volumes to have declined by 2-3% as a result of hefty 20% price increase taken to recover the higher incidence of excise (increased by 6%) and introduction of VAT. We estimate cigarettes volumes to decline by 2.5% during FY2008, as a result of 20% weighted average price increase. We expect ITC to post 15% earnings growth during FY2008-09. We estimate EPS of Rs8.3 for FY2008 and 9.6 for FY2009. We retain our OP rating on the stock with DCF based target price of Rs225/share (Rs215 previously).

Cigarettes revenue growth inline with estimates as volumes witness a marginal decline of 2-3%. Cigarette sales revenues increased by 8.9% yoy in line with our estimated growth of 9%. ITC's cigarette volumes declined by 2-3% as robust macro environment cushioned the impact of hefty price increases taken by the company. ITC has taken a weighted average price increase of 20% during March – April to counter 6% increase in excise (equivalent to about 3% on retain price) and introduction of VAT. VAT (at 12.5% in most states), central sales tax and trade tax (at 33.5% in UP) resulted in an additional taxation of Rs3.8 bn on ITC's cigarettes sales during the quarter.

EBIT margins in cigarettes improved by 150 bp yoy to 27.3% from 25.8% achieved during the same quarter last year. We note that the demand environment remains robust both in rural and urban areas led by a strong per capita income growth. We estimate cigarette volumes during FY2008 to decline by 2.5%. Margin expansion in cigarettes due to higher net realization will however provide EBIT growth in cigarettes business.

FMCG businesses ramping up fast. Non-cigarette FMCG business recorded 50.8% yoy increase in sales to Rs5.4 bn (our est. Rs5.5 bn) led by a strong 66% growth in the branded packaged food business. Bingo, which was launched in March 2007 is already set to become a Re1 bn per annum brand going by the current sales of the snacks. Lifestyle retailing and confectionaries also recorded strong yoy growth of 31% and 58% respectively. The 'John Players' brand posted yoy sales growth of 40%, which will be further strengthened by the 'Miss Players' brand for woman that was launched in the current quarter.

Hotel revenues growth slowing down. The hotels business grew by 11% yoy (35% yoy growth during 1QFY07) to record revenues of Rs2.2 bn. The growth was essentially on account of improved REVPAR (revenue per available room). We note that the tie up with Starwoods has repositioned seven of the company's hotel properties as 'premium luxury' from May 2007, which will likely help realize better room rates and margins. The construction of the super deluxe luxury hotels at Bangalore and Chennai is progressing as per schedule.

Agri-business progressing well, aiding growth in other businesses as well. Revenues from agri-business recorded 15.5% yoy growth during the quarter. The growth was primarily driven by increased exports of leaf tobacco, higher soya trade and wheat sales for the companies FMCG business. The e-Choupal network now comprises of 6,400 choupals, which gives ITC tremendous strength in agri products sourcing. Eighteen choupal sagars have now become operational with the addition of 3 more choupal sagars during the quarter.

Paper and packaging capacities being augmented. The paper and packaging business recorded a lower growth of 5% yoy primarily due to a scheduled shutdown for upgradation of the facilities at Bhadrachalam. A new pulp mill at Bhadrachalam is scheduled to be commissioned by end-FY2008 and will help improve margins by reducing dependence on purchased pulp which is currently imported at higher prices. We note that the capacity augmentation at the Chennai unit is progressing well and the flexible and cartons line at Uttarakhand has been commissioned.

ITC Limited, Quarterly summary, March yearends (Rs mn)

	yoy			Kotak est.	
	1QFY08	1QFY07	% change	1QFY08	% change
Net sales	**33,252**	**28,498**	**16.7**	**30,951**	**8.6**
EBITDA	**11,276**	**9,706**	**16.2**	**10,814**	**11.4**
Depreciation	1,010	876		947	
EBIT	**10,265**	**8,829**		**9,867**	
Other income	1,016	849		967	
Net interest	(8)	7		5	
Pre-tax profit	11,289	9,672	16.7	10,830	12.0
Tax	3,461	3,149		3,463	
Net profit	**7,829**	**6,523**	**20.0**	**7,366**	**12.9**
Extraordinary item	-	-		-	
Reported Net Profit	**7,829**	**6,523**		**7,366**	
Margins					
EBITDA margin	33.9%	34.1%		34.9%	
PAT margin	23.5%	22.9%		23.8%	
Tax rate	30.7%	32.6%		32.0%	
Costs as % of net sales					
Material costs	43.1%	43.2%			
Staff costs	5.3%	5.4%			
Other expenditure	17.6%	17.4%			
Segment revenue					
Cigarette	34,415	31,592	8.9	34,424	9.0
Other FMCG	5,422	3,597	50.8	5,500	52.9
Hotels	2,212	1,988	11.3	2,309	16.2
Agri Business	14,181	11,111	27.6	11,222	1.0
Paper & Packaging	5,262	5,015	4.9	5,275	5.2
TOTAL	**61,492**	**53,302**		**58,730**	
Less: Inter segment revenue	9,711	6,961			
Gross sales	51,781	46,341			
Segment EBIT					
Cigarette	9,391	8,156			
Other FMCG	(446)	(582)			
Hotels	643	576			
Agri Business	545	471			
Paper & Packaging	866	1,046			
TOTAL	**10,998**	**9,667**			
EBIT contribution of other businesses	**14.6%**	**15.6%**			
EBIT Margin					
Cigarette	27.3%	25.8%			
Other FMCG	-8.2%	-16.2%			
Hotels	29.0%	29.0%			
Agri Business	3.8%	4.2%			
Paper & Packaging	16.5%	20.9%			

Source: Company data, Kotak Institutional Equities

	2005	2006	2007	2008E	2009E
Profit model (Rs mn)					
Net sales	76,394	97,905	123,693	145,032	161,827
EBITDA	**27,926**	**33,274**	**39,700**	**46,181**	**53,776**
Other income	2,411	2,899	3,365	4,323	4,416
Interest	(478)	(158)	(169)	(217)	(217)
Depreciation	(3,129)	(3,323)	(3,629)	(4,487)	(5,016)
Extraordinary items	4,459	(63)	0	0	0
Pretax profits	31,190	32,629	39,267	45,801	52,959
Tax	(9,276)	(10,276)	(12,267)	(14,651)	(17,096)
Net profits	**21,914**	**22,353**	**27,000**	**31,150**	**35,863**
Earnings per share (Rs)	**4.7**	**6.0**	**7.2**	**8.3**	**9.6**
Balance sheet (Rs mn)					
Total equity	78,956	90,615	104,371	121,513	141,617
Deferred taxation liability	3,761	3,248	4,729	4,729	4,729
Total borrowings	2,454	1,197	2,009	2,009	2,009
Currrent liabilities	30,338	35,781	38,576	40,341	41,154
Total liabilities and equity	**115,509**	**130,840**	**149,684**	**168,591**	**189,508**
Cash	557	8,558	9,002	16,192	28,500
Current assets	34,836	43,061	53,896	59,963	64,201
Total fixed assets	41,369	44,051	56,109	61,757	66,129
Investments	38,747	35,170	30,678	30,678	30,678
Total assets	**115,509**	**130,840**	**149,684**	**168,591**	**189,508**
Ratios (%)					
Net debt/equity	(32.0)	(33.8)	(24.2)	(26.7)	(31.6)
Return on equity	24.4	26.4	27.7	27.6	27.3
RoCE	75.1	76.7	56.8	46.0	47.0
Sales growth	18.1	28.2	26.3	17.3	11.6
EBITDA margins	36.6	34.0	32.1	31.8	33.2

Source: Kotak Institutional Equities estimates.

Hindustan Lever: 2QCY07 Results: Core FMCG sales growth of 13.4%; retain In Line rating

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- **Core FMCG sales grew 13.4% yoy.**
- **EBITDA margins recover by 130 bp aided by scale down of A&P.**
- **Share buyback at Rs230/share.**

Hindustan Unilever (HUL) reported business sales growth of 12.9%, EBITDA growth of 23.5% and PAT growth of 24.4% (pre exceptional income) for the quarter ended June 2007 as against our estimates of 10.9%, 14% and 14.7% respectively. Core FMCG sales grew by 13.4% led by a strong performance in the soaps and detergents business (14.6% yoy increase) as well as foods business (25% yoy increase). We note that while price increases during the year helped the value growth in soaps and detergents, personal products disappointed with a 6% yoy growth. While price increases helped in maintaining margins, a scale down of A&P activity during the quarter helped in expanding margins by 130 bp yoy. We retain our In Line rating and target price of Rs230/share and will revisit our estimates after the analyst meet.

Core FMCG sales grew 13.4% yoy. Core FMCG sales posted a decent growth of 13.4% ahead of our estimate of 10.1% growth. While HUL's brands in laundry care and Lux and Breeze in personal wash did well, price increases taken during the year to counter cost pressures aided sales growth in soaps and detergents. Sales growth in personal products disappointed with 6% yoy growth. Most product categories with the exception of the personal products and exports showed double digit growth in sales. As per the press release, the skin category business was affected by planned reduction in distribution inventory to enable the relaunch of Fair and Lovely in July 2007.

EBITDA margins recover by 130 bp aided by scale down of A&P. EBITDA margins improved by 130 bp yoy to 14.7%. Price increases taken across product categories during the year has helped the company in countering cost pressures. Material costs was essentially unchanged at 53.4% of net sales. A lower spend on A&P (9.7% of sales compared to 11.2% of sales) resulted in 130 bn expansion in margins. We note that the A&P spend declined by 3% in absolute terms as well. As per the press release, the lower spend is as per the planned phasing of activities and lower spend in a channel pending conclusion of negotiations.

Share buyback at maximum Rs230/share. The board of HLL has approved a share buyback at maximum Rs230/share aggregating to a spend of Rs6.3 bn. The buyback at Rs230/share is at a 17% premium over the company's current market price of Rs196/share. The buyback of ~27.4 mn shares by the company or 1.2% of the company's equity base is low compared to its floating stock (about 51.4% held by Unilever) to have any meaningful impact on the stock price.

Consumer Products

HLL.BO, Rs196	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	230
52W High -Low (Rs)	263 - 166
Market Cap (Rs bn)	432.4

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	121.0	133.8	148.7
Net Profit (Rs bn)	15.4	17.7	20.0
EPS (Rs)	7.0	8.0	9.1
EPS gth	*17.6*	*14.8*	*12.9*
P/E (x)	28.1	24.4	21.6
EV/EBITDA (x)	22.1	19.5	16.4
Div yield (%)	3.5	3.9	4.4

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.4	-	-
FIIs	12.3	0.9	(0.7)
MFs	3.7	1.7	0.1
UTI	-	-	(1.6)
LIC	7.2	3.0	1.4

HUL-Quarterly summary, December yearends (Rs mn)

		yoy		Our est.	yoy
	2Q 2007	2Q 2006	% chg	2Q 2007	% chg
Net sales	**34,814**	**30,832**	**12.9**	**34,184**	**10.9**
Material cost	(18,575)	(16,438)		(18,459)	
Employee cost	(2,028)	(1,756)		(1,800)	
Other overheads	(9,092)	(8,493)		(9,198)	
- Advertising & Promotions	(3,360)	(3,453)		(3,750)	
Total expense	(29,695)	(26,686)		(29,457)	
EBITDA	**5,120**	**4,146**	**23.5**	**4,727**	**14.0**
Depreciation	(333)	(301)		(365)	
EBIT*	4,787	3,845	24.5	4,363	13.4
Other income	1,063	814		923	
Net interest	(110)	(34)		(15)	
PBT	**5,739**	**4,625**	**24.1**	**5,271**	**14.0**
Tax	(1,020)	(833)		(920)	
PAT	**4,719**	**3,793**	**24.4**	**4,350**	**14.7**
Extraordinary Income (loss)	212	13		-	
Net profit	**4,931**	**3,806**	**29.6**	**4,350**	**14.3**
EBITDA margin (%)	14.7	13.4		13.8	
Effective tax rate (%)	17.8	18.0		17.5	
Costs as % of net sales					
Material cost	53.4	53.3		54.0	
Employee cost	5.8	5.7		5.3	
Other overheads	26.1	27.5		26.9	
- Advertising & Promotions	9.7	11.2		11.0	
Broad category sales					
Domestic FMCG	30,965	27,307	13.4	30,068	10.1
HPC	25,413	22,864	11.1	24,820	8.6
Foods	5,552	4,443	25.0	5,248	18.1

Source: Company data, Kotak Institutional Equities

HUL: Profit model, balance sheet, cash model 2005-2008E, December year-ends (Rs mn)

	2005	2006	2007E	2008E
Profit model (Rs mn)				
Net sales	110,605	121,034	133,800	148,696
EBITDA	**14,433**	**16,480**	**18,990**	**22,675**
Other income	3,048	3,562	4,019	4,081
Interest	(192)	(107)	(46)	(46)
Depreciation	(1,245)	(1,302)	(1,513)	(1,729)
Extraordinary items	976	3,154	0	0
Pretax profits	17,021	21,788	21,450	24,982
Tax	(2,530)	(2,950)	(3,598)	(4,827)
Deferred taxation	(410)	(268)	(148)	(168)
Net profits	**14,081**	**18,570**	**17,704**	**19,987**
Earnings per share (Rs)	**6.0**	**7.0**	**8.0**	**9.1**
Balance sheet (Rs mn)				
Total equity	23,056	26,566	27,616	28,640
Total borrowings	569	569	569	569
Currrent liabilities	41,183	43,732	48,243	53,382
Total liabilities and equity	**64,809**	**70,867**	**76,429**	**82,591**
Cash	3,550	10,226	5,549	6,442
Current assets	24,080	21,520	29,672	32,674
Total fixed assets	14,835	16,906	19,140	21,575
Investments	20,142	20,142	20,142	20,142
Deferred tax asset	2,201	2,073	1,925	1,757
Total assets	**64,809**	**70,867**	**76,429**	**82,591**
Free cash flow (Rs mn)				
Operating cash flow, excl. working capital	15,908	20,070	19,499	22,200
Working capital	5,858	3,964	(4,471)	811
Capital expenditure	(904)	(3,373)	(3,746)	(4,163)
Investments	2,452	0	0	0
Free cash flow	**23,314**	**20,662**	**11,281**	**18,848**

Source: Kotak Institutional Equities estimates.

Industrials

SUZL.BO, Rs1304	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	1,450
52W High -Low (Rs)	1569 - 932
Market Cap (Rs bn)	375.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	79.9	131.1	179.2
Net Profit (Rs bn)	8.7	13.6	18.9
EPS (Rs)	30.1	46.2	64.1
EPS gth	*14.4*	*53.4*	*38.7*
P/E (x)	43.3	28.2	20.4
EV/EBITDA (x)	29.5	19.5	13.9
Div yield (%)	0.5	0.6	0.6

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	69.7	-	-
FIIs	21.3	1.0	(0.0)
MFs	0.5	0.1	(0.9)
UTI	-	-	(1.0)
LIC	-	-	(1.0)

Suzlon Energy: Results disappoint—heavy weather takes the wind out of its sales

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- **Quarterly results disappoint with lower execution, negative operating leverage and rupee appreciation**
- **Margin expectation in consolidated wind business lowered to 15-17% from 18-20%**
- **Revise estimates based on lower execution and margin expectations, revise target price to Rs1,450 (from Rs1,635)**
- **Highlight strong demand scenario in global wind power equipment and high working capital requirements of Suzlon as per FY2007 balance sheet**

Suzlon reported results below expectations with standalone revenues of Rs8.4 bn (down 10% yoy) and PAT of Rs894 mn (down 54% yoy). On a consolidated basis, Suzlon has reported revenues of Rs19.4 bn (down 33% yoy) and PAT of Rs200 mn (down 94% yoy). Reasons for this underperformance include (a) lower execution because of tower availability and site-specific issues in USA and India, respectively; (b) the appreciating rupee; and (c) negative operating leverage. In the conference call, management has refrained from providing any guidance on margins going forward. However, we believe the company's wind business EBITDA margin would be about 15-17% for the full year versus our earlier understanding of 18-20%. We revise our FY2008E and FY2009E EPS downwards by about 12.5% to Rs46.3 (from Rs52.9) and 13.4% to Rs64 (from Rs74.1), respectively. We revise our target price to Rs1,450/share (22X FY2009E earnings) from Rs1,635 based on earnings downgrade. We reduce our rating to In-Line from Outperform in spite of the sharp correction in the stock price because several concerns are likely to persist over the medium term, such as (a) rupee appreciation, (b) constraints on component availability, and (c) slower domestic business growth. A key upside risk is strong global momentum in wind power equipment demand.

Quarterly results disappoint with lower execution, negative operating leverage and rupee appreciation

Suzlon reported results below expectations with standalone revenues of Rs8.4 bn (down 10% yoy) and PAT of Rs894 mn (down 54% yoy). On a consolidated basis, Suzlon has reported revenues of Rs19.4 bn (down 33% yoy) and PAT of Rs200 mn (down 94% yoy). Suzlon has executed 317 MW on a consolidated basis with 125 MW in the domestic market and 192 MW in the international market versus 173 MW and 25 MW, respectively, in 1QFY07 (Exhibit 1 and 2).

Underperformance is led by several factors

Site level issues in India result in non delivery of 65 MW. The reason for lower execution on the domestic front is non-delivery of 65 MW of turbines due to site-related issues in Dhule and Sangli of Maharashtra. Local residents of the area raised protests, leading to non-completion of the order.

Tower availability constraints in USA market result in non-delivery of 50 MW. Suzlon could not deliver about 50 MW in the USA market due to constraints on tower availability. Its management emphasized that it now has firm commitments from suppliers now and it expects the problem to be resolved. It has further prepared a back-up plan of exporting towers from India. Such exports are not expected to hurt margins as the landed cost of towers in USA is still expected to be lower than the procurement costs there.

Negative operating leverage due to lower execution. Because of lower execution in the first quarter, led by seasonality, there was negative operating leverage as fixed costs are spread over only 10-12% of the expected annual turnover.

Appreciating rupee shaves off margins by 200 bps. Rupee appreciation, particularly the mismatch in booking inventory costs and corresponding revenues has shaved approximately 200 bps from margins.

Capacity creation for ramp-up plan. Increased hiring for capacity ramp-up at both Suzlon and Hansen has hit margins by 100 bps. 1,100 employees have been added to Suzlon during 1QFY08 and 150 employees have been recruited in Hansen (at a high per-employee cost).

Increasing proportion of lower margin EPC business. Suzlon is increasingly taking EPC contracts in several markets. In India also EPC business has come in the purview of listed entity from an associate company earlier. While revenue and EBITDA-per-MW increase with the expanded suit of offerings, margins fall as percentage margins on EPC component is lower than pure turbine supply.

Margin expectation in consolidated wind business lowered to 15-17% from 18-20% earlier

Suzlon has reported an EBITDA margin of only 7.2% on a consolidated basis versus 17% in 4QFY07 and 17.4% in 1QFY07, respectively. In the conference call, the management refrained from providing any guidance on margins going forward. However, we believe that wind business EBITDA margin of would be about 15-17% for the full year versus our earlier understanding of about 18-20%. Hansen Transmission is expected to maintain stable margins of about 15% for the full year, flat versus FY2007 levels.

Healthy order book position, ongoing capacity expansion plan ensure visibility

Suzlon's order book stands at Rs135 bn and 2,880 MW at the end of 1QFY08. This quarter witnessed strong order inflows from several large wind power developers in USA market such as repeat order from Edison International from 630 MW and PPM Energy for 700 MW. Suzlon intends to significantly ramp up its capacity to cater to the huge demand. It is planning an integrated facility of 1,500 MW in India that will take up its capacity to 4,200 MW annually. The total capital expenditure planned for India is Rs15.3 bn. The company similarly plans to spend Rs17.8 bn on enhancing the capacities of Hansen to 9,300 MW by 4QFY09. Of this 3,500 MW of gear capacity is expected to be located in India (Exhibit 3 and 4).

Revise estimates based on lower execution and margin expectations, revise target price to Rs1,450 (from Rs1,635)

We have revised our total deliveries by Suzlon in FY2008 and FY2009 to 2,295 MW and 3,088 MW from 2,395 MW and 3,183 MW earlier based on expectation of lower execution in the domestic market. We revise our FY2008E and FY2009E EPS downwards by about 12.5% to Rs46.3 (from Rs52.9 earlier) and 13.4% to Rs64 (from Rs74.1 earlier), respectively (Exhibits 5 and 6). We revise our target price to Rs1,450/share from Rs1,635. Our target price is based on about 22X FY2009E earnings which are at a 5% discount to our target FY2009E P/E multiple for industrial sector coverage universe.

We reduce our rating to In-Line from Outperform in spite of the sharp correction in the stock price because several concerns are likely to persist over the medium term, such as (a) rupee appreciation, (b) constraints on component availability, and (c) slower domestic business growth. The key upside risk is global momentum in wind power equipment demand which creates opportunities for Suzlon to grow rapidly while gaining market share and leverage the benefits of vertically integrated manufacturing as well as broad geographical presence.

Global wind power business round up: Growth remains robust, offshore still a small market and Repower among top three suppliers in several key geographies

Global projected CAGR growth of 17.5%. CAGR BTM Consult Aps has revised its projections for wind power installation upwards to 128,000 MW in next five calendar years 2007-11. Last year, this projection was about 89,000 MW for the period CY2006-10. This implies a CAGR growth of 17.5% during CY2006-11. Based on strong growth and lag in capacity creation across the supply chain for the wind power equipment, the demand-supply mismatch continues and is likely to sustain till CY2009E (Exhibit 8). Such mismatch is expected to enhance the pricing power of suppliers like Suzlon.

Offshore is still a small but strong growth market. Globally, about 198 MW was installed in the offshore market (<1.5% of the total global wind power equipment market) in CY2006, however, this was >100% growth over the execution of 90MW in the CY2005 (Exhibit 9).

Repower is among the top three suppliers in several key markets.Repower is among the top three suppliers in three key markets i.e. Germany, France and UK. These three markets accounted for about 25% of the global wind power equipment demand in CY2006 and Suzlon did not have a meaning full presence in these markets (Exhibit 10).

Annual report highlights—very high working capital levels still persist. Based on analysis of Suzlon's annual report for FY2007, we highlight that Suzlon's working capital requirements remain very high putting pressure on free cash flow generation in an environment of high growth. At a standalone level, working capital requirements are about 213 days of sales (93 days inventory, 134 days of debtors and 88 days of loans and advances with about 97 days of customer liabilities). Working capital at the year-end are higher as Suzlon business is very seasonal and about 40% of deliveries are typically made in 4Q. Since the commissioning happens close to end of fiscal year, at the balance sheet date, it remains outstanding as receivables. We believe that Suzlon recovers cash in April to June period and its working capital requirements go down. On a consolidated basis, working capital requirements are about 141 days of sales (down from 182 days at the end of FY2006), probably because Hansen transmission requires a lower level of working capital (Exhibit 11).

Exhibit 1. Suzlon Energy - 1QFY08 standalone results (Rs mn)

			yoy			qoq	
	FY08E	1QFY08	1QFY07	% change	1QFY08	4QFY07	% change
Income from operations	**91,995**	**8,392**	**9,338**	**(10)**	**8,392**	**20,555**	**(59)**
Total Expenditure	(74,680)	(7,264)	(6,945)	5	(7,264)	(16,086)	(55)
(Increase) / Decrease in stock in trade	-	1,452	979	48	1,452	(1,583)	(192)
Raw material consumption	(58,863)	(6,276)	(6,371)	(1)	(6,276)	(10,928)	(43)
Staff cost	(2,488)	(336)	(202)	67	(336)	(330)	2
Other expenditure	(13,329)	(2,105)	(1,352)	56	(2,105)	(3,245)	(35)
Operating profit	**17,315**	**1,128**	**2,393**	**(53)**	**1,128**	**4,469**	**(75)**
Other income	513	237	129	83	237	421	(44)
EBIDTA	17,828	1,365	2,522	(46)	1,365	4,890	(72)
Interest	(1,938)	(289)	(163)	77	(289)	(298)	(3)
Depreciation	(1,460)	(177)	(149)	19	(177)	(251)	(30)
Profit before tax	14,430	899	2,210	(59)	899	4,340	(79)
Tax	(1,467)	(5)	(274)	(98)	(5)	38	(112)
Net profit	**12,963**	**894**	**1,936**	**(54)**	**894**	**4,378**	**(80)**
Extraordinary items	-	-	-		-	-	
Reported profit	**12,963**	**894**	**1,936**	**(54)**	**894**	**4,378**	**(80)**
Key ratios							
Material cost	64.0	57.5	57.7		57.5	60.9	
Staff cost	2.7	4.0	2.2		4.0	1.6	
Other expenditure	14.5	25.1	14.5		25.1	15.8	
OPM	**18.8**	**13.4**	**25.6**		**13.4**	**21.7**	
EBIDTA margin	19.4	16.3	27.0		16.3	23.8	
Pre-tax margin	15.7	10.7	23.7		10.7	21.1	
Tax rate	10.2	0.5	12.4		0.5	(0.9)	
PAT margin	14.1	10.7	20.7		10.7	21.3	
MW delivered							
Domestic	990	125	171	(27)	125	379	(67)
Export	558	192	25	668	192	154	25
Total	**1,548**	**317**	**196**	62	**317**	**533**	**-41**

Source: Company data, Kotak institutional equities estimates

Exhibit 2. Suzlon Energy - 1QFY08 consolidated results (Rs mn)

		yoy			qoq		
	FY08E Cons	1QFY08	1QFY07	% change	1QFY08	4QFY07	% change
Income from operations	**131,121**	**19,446**	**10,689**	**82**	**19,446**	**29,159**	**(33)**
Total Expenditure	(109,844)	(18,048)	(8,831)	104	(18,048)	(24,206)	(25)
(Increase) / Decrease in stock in trade	-	2,323	6,514	(64)	2,323	3,890	(40)
Raw material consumption	(76,216)	(14,501)	(12,196)	19	(14,501)	(21,749)	(33)
Staff cost	(12,238)	(2,228)	(1,171)	90	(2,228)	(1,838)	21
Other expenditure	(21,390)	(3,642)	(1,978)	84	(3,642)	(4,510)	(19)
Operating profit	**21,277**	**1,398**	**1,858**	**(25)**	**1,398**	**4,954**	**(72)**
Other income	683	426	161	165	426	463	(8)
EBIDTA	21,960	1,824	2,019	(10)	1,824	5,417	(66)
Interest	(3,699)	(1,079)	(366)	195	(1,079)	(972)	11
Depreciation	(2,697)	(585)	(347)	69	(585)	(600)	(2)
Profit before tax	15,564	161	1,306	(88)	161	3,846	(96)
Tax	(1,920)	40	(346)	(111)	40	(256)	(116)
Net profit	**13,643**	**200**	**960**	**(79)**	**200**	**3,590**	**(94)**
Key ratios							
Material cost	58.1	62.6	53.2		62.6	61.2	
Staff cost	9.3	11.5	11.0		11.5	6.3	
Other expenditure	16.3	18.7	18.5		18.7	15.5	
OPM	**16.2**	**7.2**	**17.4**		**7.2**	**17.0**	
EBIDTA margin	16.7	9.4	18.9		9.4	18.6	
Pre-tax margin	11.9	0.8	12.2		0.8	13.2	
Tax rate	12.3	(24.8)	26.5		(24.8)	6.6	
PAT margin	10.4	1.0	9.0		1.0	12.3	
MW delivered							
Domestic	990	125	173	(28)	125	379	(67)
Export	558	192	25	668	192	154	25
Total	**1,548**	**317**	**198**	60	**317**	**533**	(41)

Source: Company data, Kotak institutional equities estimates

Exhibit 3. Suzlon sales and order book data in MW and Rs mn

		1Q07	2Q07	3Q07	4Q07	1Q08
Physical MW	Domestic	207	206	372	267	315
	Export	610	1,237	1,271	1,692	2,567
	Total	**817**	**1,443**	**1,643**	**1,958**	**2,882**
Rs mn	Domestic	8,000	8,242	15,443	14,083	17,100
	Export	29,590	58,137	61,719	80,780	117,900
	Total	**37,590**	**66,379**	**77,162**	**94,863**	**135,000**
Physical MW	Domestic	171	216	190	379	125
	Export	25	172	149	154	192
	Total	**196**	**388**	**339**	**533**	**317**

Source: Company data, Kotak Institutional Equities

Exhibit 4. Details of incremental capital expenditure program of Suzlon Energy

Expected utilisation of funds	Location	Approx Incremantal capex (Rs bn)	Capacity	Timeline for completion
Forging unit for components	Vadodra, Gujarat	2.5	70000 MT	4QFY08
Forging and Foundary unit for components	South India	5.0	120,000 MT	4QFY08
WTG manufacturing facility in SEZ	Udupi, Karnataka	7.5	1400 MW	4QFY08
Hansen Transmission	Belgium	8.2	2300 MW	4QFY08
Hansen Transmission	India	9.8	3500 MW	4QFY09
Total		**33.0**		

Source: Company data, Kotak Insttutional Equities estimates

Exhibit 5. Segmental numbers for Suzlon Energy Ltd. (Rs mn)

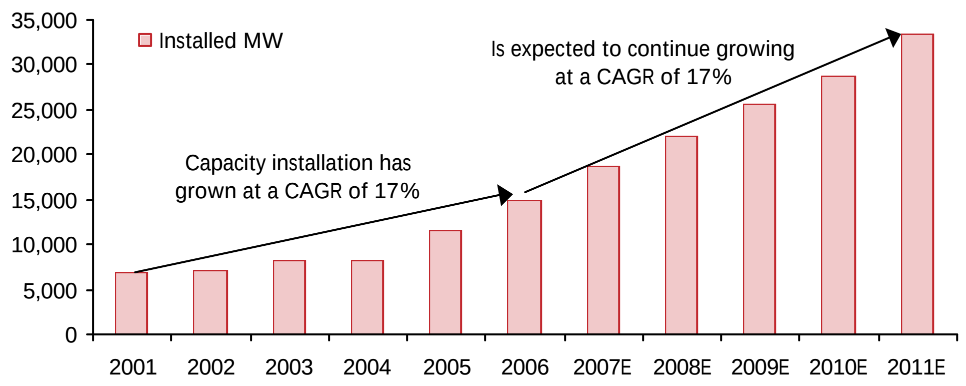
Wind business	1QFY08	1QFY07	% YoY	FY07	FY2008E	FY2009E
MW sales	**317**	**196**	**62**	**1,456**	**2,295**	**3,088**
Domestic	125	171	(27)	955	1,064	1,162
Export	192	25	668	501	1,232	1,964
Sales	14,880	7,536	(27)	61,300	110,334	151,096
EBITDA	981	1,407	(30)	10,210	18,367	26,922
EBITDA margin	**6.6**	**18.7**		**16.7**	**16.6**	**17.8**
Realisation per MW	46.9	38.4	22.1	42.1	48.1	48.9
Hansen Transmission						
Sales	4,429	3,152		18,560	20,787	28,063
EBITDA	53	528		2,770	2,910	4,069
EBITDA margin	**1.2**	**16.7**		**14.9**	**14.0**	**14.5**
Consolidated						
Sales	19,308	10,688		79,860	131,121	179,159
EBITDA	1,593	1,935		12,980	21,277	30,991
EBITDA margin	**8.2**	**18.1**		**16.3**	**16.2**	**17.3**

Exhibit 6. Suzlon - revised revenue mix assumptions

	2005	2006	2007	2008E	2009E
Product sales (MW)					
India	507	882	990	1,064	1,162
USA	0	100	366	512	1,184
China	0	0	76	151	176
Australia / others	0	0	116	568	566
Total	**507**	**982**	**1,548**	**2,295**	**3,088**
Product revenues (Rs mn)					
India	19,154	34,758	40,450	37,658	41,142
USA	0	3,514	15,370	22,594	52,715
China	0	0	3,175	6,668	7,857
Australia / others	0	0	4,890	25,054	25,208
Total	**19,154**	**38,272**	**63,885**	**91,974**	**126,921**
Domestic (Rs mn)	19,154	34,758	40,450	37,658	41,142
Per MW	38	39	41	35	35
Export (Rs mn)	0	3,514	23,436	54,316	85,780
Per MW	NA	35	42	44	45
Domestic (%)	100	91	63	41	32
Export (%)	0	9	37	59	68
Subsidiaries (Rs mn)					
O&M	0	526	408	18,339	22,441
Hansen			18,560	20,787	28,063
Total revenues (Rs mn)	**19,154**	**38,797**	**82,853**	**131,100**	**177,425**

Exhibit 8: Wind energy demand has shown strong growth over the years and this momentum is expected to continue

World market growth rates during 2001-2006, and expected growth rates 2007-11E



Source: BTM Consult ApS- March 2007

Exhibit 9: Offshore wind power is currently a small market
Installed offshore wind power in the World (2005 & 2006)

	CY2005		CY2006	
	Installed MW	Accumulated MW	Installed MW	Accumulated MW
Country	**2005**	**2005**	**2006**	**2006**
Ireland	0	25	0	25
Sweden	0	23.3	0	23.3
Netherlands	0	18.8	108	126.8
UK	90	214	90	304
Denmark	0	397.9	0	397.9
Total capacity - V	**90**	**679**	**198**	**877**

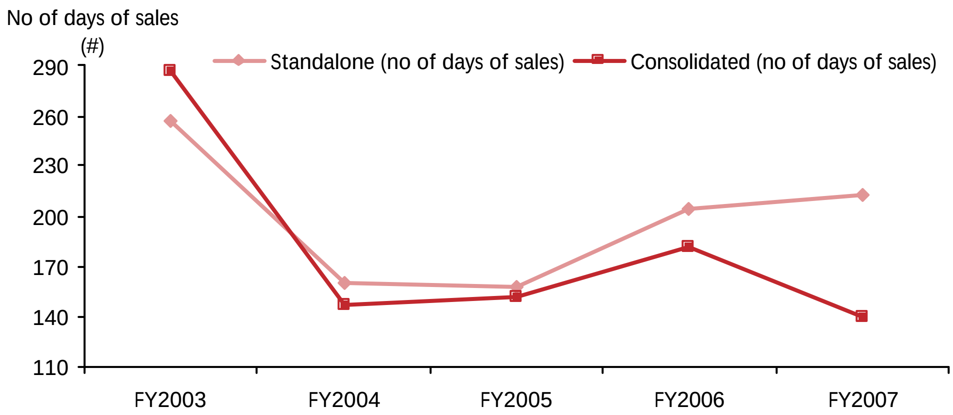
Source: BTM Consult ApS - March 2007

Exhibit 10: Repower is a large player in some large markets
Leading suppliers in the Top-10 markets in 2006 (Annual MW)

Market/Country	Total MW in 2006	No.1	No.2	No.3
USA	2,454	GE Wind	Vestas	Siemens
Germany	2,233	Enercon	Vestas	**REpower**
India	1,840	Suzlon	Enercon	Vestas
Spain	1,587	Gamesa	Acciona	Vestas
China	1,334	Goldwind	Vestas	Gamesa
France	810	Nordex	Vestas	**REpower**
Canada	776	GE Wind	Vestas	Enercon
UK	631	Vestas	Siemens	**REpower**
Portugal	629	Vestas	Gamesa	Enercon
Italy	417	Gamesa	Vestas	Enercon
Total MW in Top-Ten	**12,711**	**The Top-Ten markets counts for 85% of the total world market in 2006**		

Source: BTM Consult ApS - March 2007

Exhibit 11. No respite from very high working capital levels
Working capital (excluding cash) in terms of no of days of sales for Suzlon, March fiscal year-ends (Rs mn)



Source: Company data, Kotak Institutional Equities estimates

Infrastructure

GMRI.BO, Rs870	
Rating	U
Sector coverage view	Attractive
Target Price (Rs)	675
52W High -Low (Rs)	1005 - 205
Market Cap (Rs bn)	288.0

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	17.0	17.5	30.1
Net Profit (Rs bn)	1.7	2.9	3.4
EPS (Rs)	5.3	8.8	10.3
EPS gth	*97.5*	*66.6*	*17.6*
P/E (x)	165.1	99.1	84.3
EV/EBITDA (x)	57.1	63.4	30.8
Div yield (%)	-	-	-

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	80.6	-	-
FIIs	8.9	0.2	0.2
MFs	0.2	0.0	0.0
UTI	-	-	-
LIC	-	-	-

GMR Infrastructure: Results first take: operating performance in-line with expectations

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- **Operating results in-line with expectations; PAT rises 112% qoq, primarily due to higher other income**
- **Delhi airport revenues increase 93% yoy, while power and roads segment maintain last year's performance with slight variations**
- **Maintain target price of Rs675, reiterate Underperform rating**

GMR Infrastructure has reported operating performance broadly inline with our expectations. 1QFY08 revenues are Rs4,766 mn (up 16% yoy) and operating profit is Rs1,386 mn (up 8% yoy). PAT at Rs464 mn in 1QFY08 is 112% higher than last quarter, primarily due to higher other income. Delhi airport revenues are up 93% yoy, while power segment revenues are up 4% and roads segment revenues have fallen 7%. Development of Delhi and Hyderabad airports is as per schedule. We maintain our target price of Rs675 and reiterate our Underperform rating.

Operating results in-line with expectations

GMR Infrastructure has reported operating performance broadly inline with our expectations. First quarter revenues stand at Rs4,766 mn (up 16% yoy) versus are estimate of Rs4,377 mn. Operating profit is Rs1,386 mn, up 8% yoy, versus our expectation of Rs1,399 mn. PAT in 1QFY08 is Rs464 mn (flat on a yoy basis) versus Rs219 mn last quarter, primarily due to higher other income of Rs192 mn. (Exhibits 1 & 2)

Airports segment – development on schedule

GMR has reported revenues of Rs1,858 mn in the airports segment, up 6% qoq and 93% yoy. Management has stated in the result note that development of both the airports, at Delhi and Hyderabad, is on schedule. Two subsidiaries of DIAL have been incorporated during this quarter - Delhi Aerotropolis Private Limited for commercial property development and DIAL Cargo Private Limited for cargo related business. For Hyderabad airport development, contracts have been entered into this quarter with Indian Airlines (MRO facility) and Tenaga group of Malaysia (for parking).

Power and Roads segments – revenues show slight variations from last year

GMR has reported revenues of Rs3,314 mn in the power segment – up 3.6% yoy, but down 29.9% qoq (due to the high PLFs reported in the last quarter). The Vemagiri power plant has reported a negative PAT of Rs265 mn. Roads segment revenues stand at Rs347 mn in 1QFY08, down 6.7% yoy.

Maintain target price of Rs675, reiterate Underperform rating

We maintain our target price of Rs675 and reiterate our Underperform rating. We expect to receive updates on several aspects like- development activities at Delhi and Hyderabad airports, expectations from the recent bid won for development of the Sabiha Gocken airport at Istanbul etc.

Exhibit 1. GMR Infrastructure - 1QFY08 - key numbers (Rs mn)

	yoy			qoq		
	1QFY08	1QFY07	% change	1QFY08	4QFY07	% change
Income from operations	**4,766**	**4,093**	**16.4**	**4,766**	**6,196**	**(23.1)**
Total Expenditure	(3,380)	(2,812)	20.2	(3,380)	(4,815)	(29.8)
Generation and operating expenses	(2,613)	(2,277)	14.8	(2,613)	(4,035)	(35.2)
Admin and other expenses	(434)	(270)	60.5	(434)	(328)	32.1
Employees	(334)	(266)	25.8	(334)	(453)	(26.2)
Operating profit	**1,386**	**1,281**	**8.2**	**1,386**	**1,380**	**0.4**
Other income	192	17	1,047.9	192	(1)	
EBIDTA	1,578	1,297	21.6	1,578	1,379	14.4
Interest	(375)	(294)	27.6	(375)	(535)	(29.9)
Depreciation	(406)	(260)	56.3	(406)	(354)	14.7
Profit before tax	796	743	7.1	796	490	62.5
Tax	(101)	(96)	5.0	(101)	(94)	6.9
Net profit	**695**	**647**	**7.4**	**695**	**395**	**75.8**
Minority interest	(231)	(181)		(231)	(177)	
Reported profit	**464**	**466**	**(0.5)**	**464**	**219**	**112.4**
Key ratios						
Generation and operating expenses	54.8	55.6		54.8	65.1	
Admin and other expenses	9.1	6.6		9.1	5.3	
Employees	7.0	6.5		7.0	7.3	
OPM	**29.1**	**31.3**		**29.1**	**22.3**	
EBIDTA margin	33.1	31.7		33.1	22.3	
Pre-tax margin	16.7	18.2		16.7	7.9	
Tax rate	12.7	12.9		12.7	19.3	
PAT margin	14.6	15.8		14.6	6.4	

Source: Company data, Kotak institutional equities estimates.

Exhibit 2. GMR Infrastructure - 1QFY08 - segmental numbers (Rs mn)

	yoy			qoq		
	1QFY08	1QFY07	% change	1QFY08	4QFY07	% change
Airports						
Gross revenues	1,858	965	92.5	1,858	1,754	6.0
Less: AAI rev share	(858)	(448)	91.5	(858)	(807)	6.4
Net revenue	1,000	517	93.4	1,000	947	5.6
EBIT	195	53	266.7	195		
Power						
Gross revenues	3,314	3,198	3.6	3,314	4,727	(29.9)
EBIT	704	784	(10.2)	704		
Roads						
Gross revenues	347	372	(6.7)	347	335	3.7
EBIT	181	196	(7.9)	181		
Key ratios						
EBIT Margins						
Airports	19.5	10.3		19.5		
Power	21.2	24.5		21.2		
Roads	52.0	52.7		52.0		

Note: Segment EBIT figures are not available for 4Q07

Source: Company data, Kotak Institutional Equities estimates.

Energy

GAIL.BO, Rs326	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	350
52W High -Low (Rs)	343 - 232
Market Cap (Rs bn)	275.5

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	180.4	228.4	243.7
Net Profit (Rs bn)	21.4	25.6	26.8
EPS (Rs)	25.3	30.3	31.7
EPS gth	*(9.3)*	*19.4*	*4.7*
P/E (x)	12.9	10.8	10.3
EV/EBITDA (x)	7.4	5.8	4.9
Div yield (%)	3.1	3.1	3.4

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.3	-	-
FIIs	21.8	0.8	0.0
MFs	1.6	0.4	(0.4)
UTI	-	-	(0.8)
LIC	6.4	1.3	0.5

GAIL (India): Stronger-than-expected 1QFY08 results on lower subsidy losses, jump in gas transmission profits

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- **Very strong results helped by high product prices, higher profits at transmission segment**
- **Key to future earnings is (1) nature of regulations, (2) new pipelines**
- **Revised earnings and 12-month SOTP-based target price to Rs350 from Rs325 previously**

GAIL (India) reported 1QFY08 net income at Rs6.85 bn versus our expected Rs4.5 bn and Rs5.9 bn in 1QFY07. GAIL's 1QFY08 EBITDA was Rs10.4 bn versus our expected Rs7.2 bn and Rs9.4 bn in 1QFY07. Lower subsidy loss at Rs2.7 bn versus our expected Rs3.5 bn and steep increase in profits of the transmission segment (no explanation available currently) contributed to the positive surprise. We have revised our EPS estimates for FY2008, FY2009 and FY2010 to Rs30.3, Rs31.7 and Rs33.7, respectively from Rs 26.9, Rs28.9 and Rs31.5, respectively to factor higher petrochemical and LPG prices. We have revised our 12-month SOTP-based target price to Rs350 from Rs325 previously. Key downside risks stem from higher-than-expected subsidy losses and weaker-than-expected commodity prices.

Lower subsidy loss, sharp jump in transmission profits boost results. GAIL's 1QFY08 subsidy amount was at Rs2.72 bn versus Rs2.5 bn in 1QFY07 and our expected Rs3.5 bn. More surprisingly, EBIT of the mainstay gas transmission segment increased by Rs0.9 bn qoq to Rs3.7 bn on similar gas transmission volumes but revenues increased by Rs0.64 bn qoq. We believe some portion of the increase in revenues reflects higher LNG prices, which makes the qoq increase in EBIT even less explicable. Finally, GAIL's petrochemical segment did exceedingly well with sales rising 41% yoy due to 30% increase in volumes and 9% increase in prices and EBIT jumping 70% yoy.

Nature of gas sector regulations and implementation of growth strategy are keys to stock price. We see imminent regulations for the gas transportation sector as providing risks to GAIL's transmission business but likely strong growth in gas supply providing tremendous growth opportunity through investment in new pipelines as well.

1. **Nature of regulations.** The methodology adopted for determination of transmission tariff by the newly constituted Petroleum and Natural Gas Regulatory Board will influence GAIL's future profits from its mainstay gas transmission business. The key variables include (1) reasonable rate of return, (2) total capital employed (or return-earning asset) on which the reasonable rate of return will apply, (3) operating costs and (4) volumes. We see the first two as being more important.

   The draft regulations for natural gas pipelines defines capital employed as gross fixed assets less depreciation plus normative working capital; this is in line with COS methodology followed globally and would mean that GAIL's tariff for a pipeline (and earnings from the pipeline) would decline over a period of time due to a declining return-earning asset base. However, if the regulator allows a constant asset base for the economic life of the pipeline for as is the case in the power sector, then GAIL's tariff and earnings from a pipeline will largely remain constant over time and change modestly with changes in pass-through operating costs.

2. **Growth from steep increase in gas supply through to-be-constructed new pipelines.** GAIL management has formulated an aggressive plan to expand its extant 5,600 km pipeline network to participate in the likely steep increase in gas supply in India from 2HCY08. It plans to set up five new pipelines and augment capacities at three extant pipelines. It expects to build the new pipelines over the next 3-4 years at a total cost of Rs180 bn.

Earnings revisions. We have made several revisions to our earnings model—(1) higher crude and LPG prices, (2) adjustment to subsidy losses and (3) stronger rupee. Exhibit 2 gives our key assumptions and Exhibit 3 gives key financials.

FY2008. We have increased FY2008E EPS to Rs30.3 from Rs26.9. The upward revision primarily reflects (1) higher polymer and LPG prices due to higher crude prices (US$70/bbl versus US$65/bbl previously); GAIL benefits from high crude prices due to fixed raw material costs and (2) higher polymer sales. We have marginally revised FY2008E subsidy loss amount to Rs11.5 bn from Rs11.25 bn and assume that the upstream companies will bear 33.33% of industry gross under-recovery. However, we model a stronger rupee at Rs41/US$ versus Rs43/US$ previously, which is a modest negative for the petrochemical and LPG segments.

FY2009. We have raised FY2009E EPS to Rs31.7 from Rs28.9. The upward revision reflects higher LPG (+12%) prices, which in turn reflects our higher crude price view (US$68/bbl versus US$60/bbl previously on Dated Brent basis). However, we have increased subsidy loss to Rs10 bn compared to Rs9 bn assumed previously to reflect higher crude prices and thus, higher industry gross under-recovery.

FY2010. We have raised FY2010E EPS to Rs33.7 from Rs31.5 to reflect higher product (LPG, polyethylene) prices, which offsets higher subsidy loss (Rs8.5 bn compared to Rs6 bn previously).

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

		qoq			yoy			yoy		
	2008E	1Q 2008	4Q 2007	% chg	1Q 2008	1Q 2007	% chg	FY2007	FY2006	% chg
Sales (a)	228,447	42,457	38,834		42,457	47,303		160,472	163,513	
Total expenditure	191,380	32,070	32,810	(2.3)	32,070	37,887	(15.4)	130,499	128,534	1.5
(Inc)/dec in stock	—	32	(284)		32	(1,329)		(753)	(249)	
Purchase	151,229	23,529	23,368	0.7	23,529	30,552	(23.0)	94,290	99,096	(4.8)
Raw material	21,863	4,314	4,527	(4.7)	4,314	5,069	(14.9)	17,851	14,758	21.0
Staff cost	3,128	688	816	(15.8)	688	551	24.7	2,923	2,213	32.1
Other expenditure	15,161	3,508	4,383	(20.0)	3,508	3,044	15.2	16,187	12,717	27.3
EBITDA	**37,067**	**10,387**	**6,024**	**72.4**	**10,387**	**9,416**	**10.3**	**29,973**	**34,979**	**(14.3)**
Other income	5,916	913	1,129	(19.2)	913	801	14.0	5,450	4,555	19.6
Interest	829	204	221	(7.7)	204	288	(29.2)	1,071	1,173	(8.7)
Depreciation	6,148	1,407	1,471	(4.4)	1,407	1,408	(0.1)	5,754	5,595	2.8
Pretax profits	**36,007**	**9,689**	**5,461**	77.4	**9,689**	**8,521**	13.7	**28,598**	**32,766**	(12.7)
Tax	8,027	2,765	1,779	55.4	2,765	2,660	4.0	7,941	9,221	(13.9)
Deferred	2,380	72	274	(73.9)	72	(60)	(219.2)	190	445	(57.3)
Prior period adjust.	—	—	3,399		—	—		3,399	—	
Net income	**25,600**	**6,852**	**6,807**	0.7	**6,852**	**5,921**	15.7	**23,867**	**23,101**	3.3
Tax rate (%)	28.9	29.3	37.6		29.3	30.5		28.4	29.5	
Volume data										
Gas sales (mcm/d)		**68.1**	**68.9**	(1.2)	68.1	70.0	(2.7)	67.8	67.6	0.3
Gas transmission (mcm/d)		78.7	79.7	(1.3)	78.7	79.1	(0.5)	77.3	78.9	(2.0)
LPG transported ('000 tonnes)		621	659	(5.8)	621	522	19.0	2,491	2,228	11.8
LPG production ('000 tonnes)		274	258	6.2	274	269	1.9	1,026	1,042	(1.5)
LPG sales ('000 tonnes)		273	260	5.0	273	276	(1.1)	1,038	1,039	(0.1)
Other liquids prodn ('000 tonnes)		81	83	(2.4)	81	80	1.3	317	283	12.0
Other liquids sales ('000 tonnes)		81	81	0.0	81	79	2.5	314	283	11.0
Polymers ('000 tonnes)-prodn		103	99	4.0	103	88	17.0	354	312	13.5
Polymers ('000 tonnes)-sales		105	99	6.1	**105**	**81**	29.6	347	313	10.9
Subsidy payment		(2,720)	(5,020)	(45.8)	(2,720)	(2,500)	8.8	(14,880)	(10,640)	39.8
Segment revenue (Sales/Income)										
Transmission services										
(1) Natural gas		5,398	4,762	13.4	5,398	5,998	(10.0)	22,144	23,020	(3.8)
(2) LPG		922	915	0.8	922	715	29.0	3,440	3,082	11.6
Natural gas trading		29,563	29,701	(0.5)	29,563	29,777	(0.7)	120,208	100,430	19.7
Petrochemicals		7,783	7,437	4.6	7,783	5,503	41.4	25,702	19,415	32.4
LPG and liquid hydrocarbons		6,751	4,332	55.8	6,751	6,406	5.4	21,219	22,017	(3.6)
Telecom		67	69	(3.5)	67	51	31.9	254	183	38.4
Unallocated		806	984	(18.1)	806	742	8.6	5,097	4,082	24.9
Total		51,290	48,200	6.4	51,290	49,192	4.3	198,063	172,229	15.0
Less: Inter-segment revenue		6,452	6,844	(5.7)	6,452	6,519	(1.0)	27,155	18,919	43.5
Sales/Income from operations		**44,838**	**41,356**	**8.4**	**44,838**	**42,673**	**5.1**	**170,908**	**153,310**	**11.5**
Segment results (Profit before tax and interest)										
Transmission services										
(1) Natural gas		**3,683**	**2,767**	33.1	3,683	4,544	(18.9)	15,154	17,260	(12.2)
(2) LPG		545	487	12.0	545	368	48.1	1,906	1,583	20.4
Natural gas trading		246	492	0.0	246	273	(10.0)	1,943	592	228.3
Petrochemicals		3,430	3,008	14.0	**3,430**	**2,021**	69.8	9,545	7,139	33.7
LPG and liquid hydrocarbons		1,985	(732)	(371.2)	1,985	1,394	42.4	1,022	6,046	(83.1)
Telecom		5	5	(7.4)	5	(0)	(1,766.7)	10	(18)	(154.8)
Total		9,894	6,028	64.1	9,894	8,599	15.1	29,579	32,603	(9.3)
Less: Interest		204	221	(7.7)	204	288	(29.2)	1,071	1,173	(8.7)
Less: Other unallocable exp (net)		3	346	(99.1)	3	(209)	(101.4)	(90)	(1,336)	(93.3)
Total PBT		**9,687**	**5,461**	**77.4**	**9,687**	**8,521**	**13.7**	**28,598**	**32,766**	**(12.7)**
Capital employed										
Transmission services										
(1) Natural gas		45,779	37,011		45,779	31,469		37,011	27,568	
(2) LPG		10,277	10,510		10,277	10,900		10,510	11,079	
Petrochemicals		18,282	19,128		18,282	19,486		19,128	19,753	
LPG and liquid hydrocarbons		10,141	8,970		10,141	11,311		8,970	9,374	
Telecom		442	475		442	306		475	308	
Total		**84,921**	**76,094**		**84,921**	**73,471**		**76,094**	**68,081**	

Note:
(a) 1QFY08 and 4QFY07 sales and raw materials exclude internal consumption; corresponding figures of other quarters include internal consumption.

Source: Kotak Institutional Equities estimates, company reports.

We model moderate increase in gas volumes between FY2007 and FY2010

Key assumptions behind GAIL model, March fiscal year-ends, 2002-2010E

	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E
Volumes									
Natural gas transportation, gross (mcm/day)									
HBJ pipeline	33	33	32	32	32	32	32	32	32
Other pipelines	29	30	31	36	37	38	40	40	40
Regassified LNG									
Dahej-Vijaipur pipeline (transmitted and sold)				2	7	9	9	9	9
Dahej-Vijaipur pipeline (transmitted)				1	4	6	6	6	6
Dahej-Uran pipeline							6	12	12
Panvel-Dabhol pipeline							4	6	8
Elimination of double-counted volumes (a)					(1)	(3)	(7)	(9)	(11)
Total gas transmission	**62**	**63**	**63**	**72**	**80**	**82**	**90**	**96**	**96**
LPG (000 tonnes)									
Sold	996	1,113	1,089	1,089	1,039	1,080	1,100	1,100	1,100
Transported	1,312	1,521	1,841	2,138	2,228	2,500	2,750	2,800	2,800
Petrochemicals (000 tonnes)									
Polyethylene									
Domestic sales	213	234	225	279	271	335	400	420	420
Exports	38	55	40	40	40	10	10	—	—
Total petrochemicals	**251**	**289**	**265**	**319**	**311**	**345**	**410**	**420**	**420**
Prices									
Natural gas (Rs/cubic meter)									
Natural gas ceiling price	2.85	2.85	2.85	2.85	3.52	4.21	5.24	5.83	6.42
Regassified LNG including transportation			6.61	6.50	6.47	6.93	6.51	5.39	6.97
Transmission plus marketing charges									
HBJ pipeline, Dahej-Vijaipur pipeline (from FY2007)	1.15	1.15	1.15	1.15	1.15	0.99	0.96	0.96	0.97
Dahej-Vijaipur, Dahej-Uran, Panvel-Dabhol pipeline			0.69	0.67	0.69	0.99	1.04	1.04	1.05
Other pipelines			0.40	0.41	0.42	0.40	0.42	0.44	0.46
LPG									
LPG (US$/tonne)	268	314	319	399	510	531	609	593	593
Transmission charges (Rs/tonne)									
Jamnagar-Loni	1,350	1,414	1,436	1,522	1,522	1,522	1,522	1,522	1,522
Vizag-Secunderabad			1,450	1,450	1,450	1,450	1,450	1,450	1,450
Other assumptions									
Polyethylene, HDPE (US$/tonne)	560	590	680	990	1,055	1,315	1,360	1,275	1,250
Import tariff, Polyethylene	41%	36%	28%	17%	10%	5%	5%	4%	4%
Import tariff, LPG	10%	10%	10%	7%	0%	0%	0%	0%	0%
Exchange rate (Rs/US$)	47.6	48.4	46.0	45.0	44.3	45.3	41.0	41.0	41.0
Subsidy losses		—	4,280	11,380	10,640	14,880	11,500	10,000	8,500

Note:

(a) Gas transported through the HVJ or DV pipeline and then to smaller pipelines.

Source: Company, Kotak Institutional Equities estimates.

GAIL (India) Ltd: Profit model, balance sheet, cash model of GAIL 2004-2010E, March fiscal year-ends (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	116,395	135,914	163,513	180,409	228,447	243,746	271,907
EBITDA	**30,667**	**36,040**	**35,731**	**29,973**	**37,067**	**37,972**	**38,332**
Other income	2,440	3,491	4,555	5,450	5,916	7,196	9,556
Interest	(1,380)	(1,341)	(1,174)	(1,071)	(829)	(656)	(656)
Depreciation	(6,640)	(9,467)	(5,595)	(5,754)	(6,148)	(6,579)	(6,619)
Pretax profits	25,088	28,723	33,518	28,598	36,007	37,932	40,613
Tax	(8,373)	(8,898)	(9,221)	(7,941)	(8,027)	(10,122)	(11,565)
Deferred taxation	(1,078)	(277)	(445)	(190)	(2,380)	(1,002)	(512)
Net profits	**18,693**	**19,539**	**23,101**	**23,867**	**25,600**	**26,809**	**28,536**
Earnings per share (Rs)	**22.1**	**23.1**	**27.3**	**28.2**	**30.3**	**31.7**	**33.7**
Balance sheet (Rs mn)							
Total equity	74,452	86,261	99,733	113,907	129,613	145,539	162,203
Deferred taxation liability	12,276	12,552	12,997	13,187	15,566	16,568	17,080
Total borrowings	21,335	19,974	19,166	16,757	11,000	11,000	11,000
Current liabilities	30,302	34,742	37,522	44,520	50,628	52,755	56,952
Total liabilities and equity	**138,364**	**153,529**	**169,418**	**188,371**	**206,808**	**225,863**	**247,235**
Cash	15,680	34,468	44,959	29,662	39,262	63,860	89,801
Other current assets	25,391	29,671	28,309	37,743	41,047	40,273	40,514
Total fixed assets	89,574	81,550	81,716	106,532	112,066	107,296	102,487
Investments	7,720	7,840	14,434	14,434	14,434	14,434	14,434
Total assets	**138,364**	**153,529**	**169,418**	**188,371**	**206,808**	**225,863**	**247,235**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	23,954	26,912	25,165	24,361	28,211	27,194	26,112
Working capital changes	580	49	5,950	(2,436)	2,804	2,901	3,955
Capital expenditure	(26,924)	(1,472)	(5,811)	(30,570)	(11,681)	(1,810)	(1,810)
Investments	(841)	(120)	(6,462)	—	—	—	—
Other income	1,826	2,416	3,995	5,450	5,916	7,196	9,556
Free cash flow	**(1,405)**	**27,787**	**22,837**	**(3,196)**	**25,250**	**35,482**	**37,813**
Ratios (%)							
Debt/equity	24.6	20.2	17.0	13.2	7.6	6.8	6.1
Net debt/equity	6.5	(14.7)	(22.9)	(10.2)	(19.5)	(32.6)	(44.0)
ROAE (%)	23.2	21.1	21.8	19.9	18.8	17.4	16.7
ROACE (%)	**16.2**	**18.0**	**19.7**	**15.4**	**17.5**	**16.6**	**16.0**

Source: Kotak Institutional Equities estimates.

We value GAIL stock at Rs350 per share

Sum-of-the-parts valuation of GAIL, FY2009 basis (Rs bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		
	Replacement cost	EBITDA	EV/RC	EV/EBITDA	Replacement cost basis	EBITDA basis	EV (Rs/share)
Natural gas/LPG transportation		17		6.0		99	117
LPG production		22		2.5		54	64
Petrochemicals		8		3.5		27	32
Oil and gas upstream	18		1.00		18		22
Subsidy sharing scheme		(10)		1.0		(10)	(12)
Investments	71		0.80		57		67
ONGC shares	48		0.80		38		45
Others	23		0.80		19		22
Total		**36**				**170**	**290**
Debt					(46)	(46)	(54)
Implied value of share (Rs/share)							**344**

Source: Kotak Institutional Equities estimates.

Cement

GRAS.BO, Rs2862	
Rating	IL
Sector coverage view	Cautious
Target Price (Rs)	2,900
52W High -Low (Rs)	3062 - 1927
Market Cap (Rs bn)	262.4

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	141.0	157.1	176.9
Net Profit (Rs bn)	19.7	23.7	25.6
EPS (Rs)	214.6	258.1	279.6
EPS gth	*98.9*	*20.3*	*8.3*
P/E (x)	13.3	11.1	10.2
EV/EBITDA (x)	7.1	5.9	5.3
Div yield (%)	1.0	1.1	1.2

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	25.2	-	-
FIIs	34.3	1.1	0.4
MFs	6.9	1.3	0.7
UTI	1.7	2.5	1.9
LIC	7.6	1.3	0.7

Grasim Industries: 1QFY08: VSF leads the growth even as other division perform well; retain IL

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- **Cement - running at full steam.**
- **VSF - PBDIT doubles yoy to Rs2.5 bn for 1QFY2008.**
- **Sponge iron benefits from strong pricing environment.**
- **Sum-of-the-parts value at Rs2,900/share.**

Grasim Industries reported a 30% y-o-y increase in standalone net revenues at Rs24.4 bn (our est. of Rs23.2 bn), 54% increase in EBITDA at Rs7.9 bn (our est. of Rs7.1 bn) and 64% increase in net profits at Rs5.1 bn (our est. Rs4.37 bn, consensus at Rs4.31 bn). The sharp increase in revenues and operating profits was led by higher volumes and realization growth in the VSF division (58% revenue growth yoy), even as other divisions reported strong double-digit growth. Higher other income (Rs677 mn compared to Rs375 mn during 1QFY08) also contributed to higher profits. We have revised our estimates for Grasim to reflect the improved performance in VSF as well as sponge iron. Our consolidated EPS estimates have been revised to Rs258.1/share for FY2008 (Rs238.9 previously) and Rs279.6/share for FY2009 (Rs273.8 previously). We retain our Inline rating with SOTP based target price of Rs2,900/share (Rs2,850/share previously).

Cement – running at full steam. Cement division reported 21% yoy increase in revenues and 30% yoy increase in PBDIT. The sales volumes increased 10% yoy against the industry growth of 7.6% yoy during the same period. The cement division continues to derive benefit from the prevailing high price environment and operated at 117% capacity utilization during the quarter. The RMC business reported 19% volumes growth as the company pursues addition of 27 new RMC plants with a capacity of 6.2 mn cu mtrs. Grasim has revised the capacity addition at Shambhupura and Kotputli projects (likely to commissioned during 1QFY09 and 2QFY09 respectively) to 4.4 mn tpa at each location from 4 mn tpa.

VSF – PBDIT doubles yoy to Rs2.5 bn for 1QFY2008. Higher VSF realizations (up 20% yoy and 6.5% qoq) resulted in sharp improvement in PBDIT margins to 36.6% (compared to 25.9% last year and 30.3% during 4QFY07) despite increases in pulp prices. We had earlier revised our estimates for VFS realizations by Rs3/kg, the company has however effected a price increase of Rs7/kg given the increased preference for poly-viscose over poly-cotton both in the domestic as well as international markets. The volumes for VSF grew by 33% yoy and production increased 52% yoy (capacity up 1% yoy) as the company's plants did not undergo any shutdowns due to water shortage. We expect the division to continue to show strong volumes growth as it increases production capacity at Kharach in Gujarat by 63,875 tpa.

Sponge iron benefits from strong pricing environment. Sponge iron division posted a 148% yoy increase in PBDIT. While the production was flat, realizations improved 22% yoy resulting in a 24% yoy increase in revenues. We expect the performance of the division to improve meaningfully on a sustainable basis, after the availability of natural gas. Increased natural gas supplies, likely by March 2008, will replace the higher cost naphtha fuel currently being used.

Sum-of-the-parts value at Rs2,900/share. Our SOTP-based target price has increased to Rs2,900/share from Rs2,850 previously as we expect higher operating profit growth from the VSF division. We value the cement business at 7X EV/EBITDA on FY2009E, equivalent to EV/tonne of US$153/tonne. We value the steady cash streams from VSF and allied chemicals business using DCF model. On comparative valuations on FY2009E, our assigned valuation implies 4.8X EV/EBITDA for chemicals business and 4.3X EV/EBITDA for the VSF business. We value the sponge iron division at net asset value, much below the estimated replacement cost. We assign 20% group holding discount to the key investments of Grasim in our SOTP valuation.

Quarterly results for Grasim Industries (unconsolidated) - Rs mn

	yoy			qoq		
	1Q 2008	1Q 2007	Change %	1Q 2008	4Q 2007	Change %
Net sales	**24,448**	**18,770**	**30**	**24,448**	**24,938**	**(2)**
Total expenditure	(16,527)	(13,637)		(16,527)	(17,996)	
EBITDA	**7,921**	**5,133**	**54**	**7,921**	**6,942**	**14**
EBITDA (%)	32.4	27.3		32.4	27.8	
Other income	677	375		677	776	
Interest	(285)	(235)		(285)	(366)	
Depreciation	(850)	(741)		(850)	(876)	
Pre-tax profits	**7,464**	**4,532**		**7,464**	**6,476**	
Tax	(2,057)	(1,391)		(2,057)	(2,153)	
Deferred taxes	(290)	(22)		(290)	50	
Net income	**5,117**	**3,119**	**64**	**5,117**	**4,373**	**17**
Extraordinaries	-	-		-	371	
Reported net profits	5,117	3,119		5,117	4,744	

Source: Company reports, Kotak Institutional Equities

Division wise Breakup of Grasim's interim results

Rs million

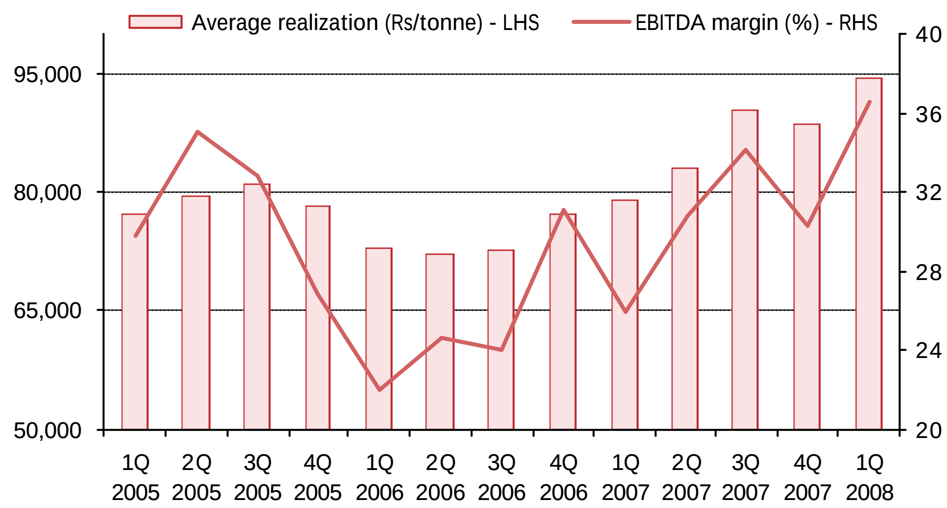
				Change, %		Proportion (%)		
Revenue	**1QFY08**	**1QFY07**	**4QFY07**	**y-o-y**	**q-o-q**	**1QFY08**	**1QFY07**	**4QFY07**
Viscose Staple Fibre	6,999	4,411	6,618	*58.7*	*5.8*	28.6	23.5	26.5
Cement	13,907	11,523	14,733	*20.7*	*(5.6)*	56.9	61.4	59.1
Sponge Iron	2,188	1,754	2,398	*24.8*	*(8.8)*	8.9	9.3	9.6
Textiles	554	528	719	*4.9*	*(22.9)*	2.3	2.8	2.9
Chemicals	863	715	936	*20.7*	*(7.8)*	3.5	3.8	3.8
Grasim	**24,448**	**18,770**	**24,938**	***30.3***	***(2.0)***			
Other income	677	375	776	*80.8*	*(12.7)*			
PBDIT						**PBDIT margin (%)**		
Viscose Staple Fibre	2,563	1,143	2,005	*124.2*	*27.8*	36.6	25.9	30.3
Cement	4,911	3,765	4,702	*30.4*	*4.4*	35.3	32.7	31.9
Sponge Iron	353	142	370	*148.6*	*(4.6)*	16.1	8.1	15.4
Textiles	12	12	23	-	*(47.8)*	2.2	2.3	3.2
Chemicals	281	179	342	*57.0*	*(17.8)*	32.6	25.0	36.6
Grasim	**8,599**	**5,507**	**7,718**	***56.1***	***11.4***	**35.2**	**29.3**	**30.9**
Interest	(285)	(235)	(366)	*21.1*	*(22.3)*			
Depreciation	(850)	(741)	(876)	*14.7*	*(2.9)*			
PBT	7,464	4,532	6,476	***64.7***	***15.3***			
Tax	(2,347)	(1,413)	(2,102)					
PAT	**5,117**	**3,119**	**4,373**	***64.0***	***17.0***			

				Change, %	
Sales volumes (MT)	**1QFY08**	**1QFY07**	**4QFY07**	**y-o-y**	**q-o-q**
Viscose Staple Fibre	69,396	51,957	68,588	*33.6*	*1.2*
Cement ('000 MT)	3,860	3,500	3,920	*10.3*	*(1.5)*
Sponge Iron	139,706	140,912	171,942	*(0.9)*	*(18.7)*
Chemical	42,872	30,712	47,709	*39.6*	*(10.1)*
Per unit realization (Rs / MT)					
Viscose Staple Fibre	94,455	78,983	88,687	*19.6*	*6.5*
Cement (Rs / bag)	3,083	2,731	2,979	*12.9*	*3.5*
Sponge Iron	14,753	12,054	13,518	*22.4*	*9.1*
Chemical	17,254	19,252	17,718	*(10.4)*	*(2.6)*

Source: Company reports, Kotak Institutional Equities

EBITDA margin of 36% and realisation above Rs90/kg

VSF business - realizations and margins



Source: Company data.

Operating assumptions for Grasim Industries, 2005-2009E

(Rs mn)

	2005	2006	2007	2008E	2009E
Cement division					
Average Realization, Rs per bag	96.5	107.1	148.9	158.2	156.3
Change, %	*9.2*	*11.0*	*39.0*	*6.2*	*(1.2)*
Volume, mn tonnes	12.3	14.3	14.8	15.1	18.9
Change, %	*5.3*	*16.7*	*3.6*	*1.7*	*24.9*
VSF					
Average Realization, Rs per tonne	75,276	67,880	84,996	96,895	91,081
Change, %	*7.5*	*(9.8)*	*25.2*	*14.0*	*(6.0)*
Volume, '000 tons	226.7	242.4	246.5	271.1	303.8
Change, %	*1.3*	*6.9*	*1.7*	*10.0*	*12.1*
Sponge Iron					
Average Realization, Rs per tonne	13,217	13,247	13,125	14,437	12,994
Change, %	*40.0*	*0.2*	*(0.9)*	*10.0*	*(10.0)*
Volume, '000 tons	773	478	571	571	571
Change, %	*14.2*	*(38.1)*	*19.4*	*-*	*-*

Source: Company data, Kotak Institutional Equities estimates

SOTP valuation of Grasim

(Rs mn)

Sum of the Parts		Methodology
Cement	227,946	7X EV/EBITDA
VSF	40,353	DCF value implying an EV/EBITDA of 4.3X on FY2009E
Sponge iron	1,508	Net asset value
Others (Chemicals)	4,752	DCF value implying an EV/EBITDA of 4.8X on FY2009E
Value of key investments	25,118	20% discount to current market price
Total EV	**299,677**	
Gross debt	40,231	
- Cash	(4,327)	
Net debt	35,904	
Market capitalization	263,773	
Number of shares o/s (mn)	91.7	
Implied share price (Rs)	**2,877**	
Target price (Rs)	**2,900**	

Our target price implies EV/tonne of US$153/tonne for cement business.

Source: Company data, Kotak Institutional Equities estimates

Industrials

ABB.BO, Rs1078	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	1,325
52W High -Low (Rs)	1175 - 476
Market Cap (Rs bn)	228.3

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	42.7	66.2	89.0
Net Profit (Rs bn)	3.4	5.4	7.5
EPS (Rs)	16.1	25.5	35.4
EPS gth	*55.6*	*58.5*	*39.2*
P/E (x)	67.1	42.3	30.4
EV/EBITDA (x)	40.4	24.6	17.4
Div yield (%)	0.2	0.3	0.3

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	16.7	0.4	(0.1)
MFs	4.1	0.6	0.1
UTI	-	-	(0.5)
LIC	8.8	1.2	0.7

ABB: Strong revenue growth and margin expansion; estimates and target price revised upwards

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- **Meets expectations with strong revenue growth and margin expansion led by rupee appreciation and operating leverage**
- **Order booking remains strong, led by momentum in T&D investments**
- **Revise estimates and target price upwards to Rs1,325 (from Rs915 earlier) based on earnings revision and rollover to December 08 basis**
- **Maintain Outperform rating on the back of strong investment momentum in power T&D as well as industrial capital expenditure**

ABB has reported revenues of Rs14 bn (up 44% yoy) and PAT of Rs1.1 bn (up 51% yoy) in 2QCY08. The company surprised with stronger-than-expected margin expansion (110 bps). We believe rupee appreciation and operating leverage have aided this expansion. Order booking at Rs20 bn (up 38% yoy) continued to be strong, led by the investment momentum in the T&D sector. Based on strong numbers and orders, we upgrade our estimates for CY2007 and CY2008 by 4.8% and 16.2%, respectively. Our new DCF-based target price is Rs1,325 (earlier Rs915) based on earnings revision and rollover to December 08 basis. We reiterate our OP rating.

Meets expectations with strong revenue growth and margin expansion led by rupee appreciation and operating leverage

ABB reported revenues of Rs14 bn (up 44% yoy) and PAT of Rs1.1 bn (up 51% yoy) in 2QCY08. Operating margin at 11.7% showed a 120 bps improvement yoy. Given that ABB is a sizeable net importer of components, the rupee appreciation may have aided the margin jump to the extent of 100 bps.

Raw materials account for 75% of revenues of which around 40% is usually imported, usually a mix of US$ and Euros. On the other hand, exports constitute only 10% of 2Q revenues, in our estimate. Assuming an average rupee appreciation of 5%, we arrive at our estimate of 100 bps. Raw-material-to-sales ratio has declined by 250 bps and other-expenditure-to-sales ratio has increased by 180 bps, highlighting the fact that projects probably contributed to larger proportion of revenues in 2QCY07 versus 2QCY06. (Exhibit 1 & 2).

Order booking remains strong, led by momentum in T&D investments

ABB booked orders worth Rs20 bn (up 38% yoy) in 2QCY08. Orders were booked for rural and urban electrification as well as for strengthening of transmission and distribution systems. Strong order flows were also seen in automation products and other segments. Order backlog stood at Rs46.4 bn at the end of 2QCY08, providing a visibility of 11 months based on trailing four quarters revenues. Large order flows underscore the sustained capex momentum in process industries (particularly steel and cement) and the continued thrust of power utilities on the modernization of their T&D systems. (Exhibit 3).

Revise estimates and target price upwards

Based on strong revenue and margin performance in 2QCY07, we upgrade our CY2007 and CY2008 earnings estimates by 4.8% and 16.2% respectively, primarily by upgrading our revenue estimates by 7.3% and 16.6% for CY2007 and CY2008, respectively—more confidence arises from a strong order backlog and continued momentum in power and industry capex. Our DCF-based target price is revised to Rs1,325 from Rs915 based on our earnings revision and rollover to December 08 basis. (Exhibit 4).

Maintain Outperform rating on the back of strong investment momentum in power T&D as well as industrial capital expenditure

We maintain our Outperform rating on the stock on the back of strong investment momentum in power transmission and distribution led by (a) power capacity addition, (b) investment in increasing inter-regional transmission capacity to optimize utilization of generation capacity as well as improve national grid reliability, and (c) investment in the distribution segment led by regulation (open access) and government schemes such as rural electrification. Industrial capital expenditure also remains strong across several industries such as cement, metals, oil & gas, and petrochemicals providing opportunities for growth of both power as well as automation solutions business.

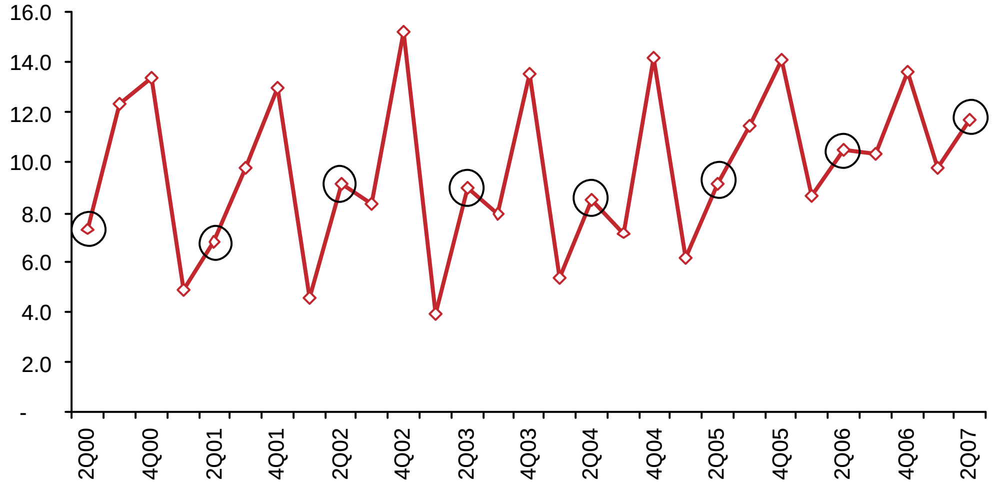
ABB - 2QCY07 numbers (Rs mn)

		yoy			qoq			yoy		
	CY2007E	2QCY07	2QCY06	% change	2QCY07	1QCY07	% change	1HCY07	1HCY06	% change
Sales	**66,206.2**	**14,008.8**	**9,742.2**	**43.8**	**14,008.8**	**13,124.4**	**6.7**	**27,133.2**	**17,771.3**	**52.7**
Expenses	(58,111.0)	(12,370.7)	(8,722.2)	41.8	(12,370.7)	(11,842.6)	4.5	(24,213.3)	(16,056.8)	50.8
Stock	0.0	151.6	(12.4)	(1,321.9)	151.6	97.1	56.2	248.6	453.2	(45.1)
RM	(49,617.7)	(10,147.7)	(7,191.4)	41.1	(10,147.7)	(9,847.8)	3.0	(19,995.5)	(13,524.9)	47.8
Employee	(3,508.5)	(789.7)	(597.2)	32.2	(789.7)	(698.0)	13.1	(1,487.7)	(1,152.3)	29.1
Other expenses	(4,984.7)	(1,584.9)	(921.2)	72.0	(1,584.9)	(1,393.9)	13.7	(2,978.7)	(1,832.8)	62.5
Operating profit	**8,095.2**	**1,638.1**	**1,020.0**	**60.6**	**1,638.1**	**1,281.8**	**27.8**	**2,919.9**	**1,714.6**	**70.3**
Other income	800.0	147.5	153.0	(3.6)	147.5	151.7	(2.8)	299.2	332.5	(10.0)
EBIDT	8,895.2	1,785.6	1,173.0	52.2	1,785.6	1,433.5	24.6	3,219.0	2,047.0	57.3
Interest	0.0	(22.8)	(1.8)	1,204.5	(22.8)	(10.0)	128.3	(32.8)	(3.7)	789.7
Depreciation	(400.0)	(77.0)	(65.2)	18.0	(77.0)	(86.2)	(10.7)	(163.1)	(127.3)	28.2
PBT	**8,495.2**	**1,685.8**	**1,106.1**	**52.4**	**1,685.8**	**1,337.3**	**26.1**	**3,023.1**	**1,916.1**	**57.8**
Tax	(3,100.7)	(600.2)	(387.0)	55.1	(600.2)	(471.0)	27.4	(1,071.2)	(684.0)	56.6
Net profit	**5,394.4**	**1,085.6**	**719.1**	**51.0**	**1,085.6**	**866.3**	**25.3**	**1,951.9**	**1,232.1**	**58.4**
Key ratios (%)										
RM / Sales	74.9	71.4	73.9		71.4	74.3		72.8	73.6	
Empl / Sales	5.3	5.6	6.1		5.6	5.3		5.5	6.5	
Other exp / Sales	7.5	11.3	9.5		11.3	10.6		11.0	10.3	
OPM	12.2	11.7	10.5		11.7	9.8		10.8	9.6	
PBT Margin	12.8	12.0	11.4		12.0	10.2		11.1	10.8	
Tax rate	36.5	35.6	35.0		35.6	35.2		35.4	35.7	
Order inflow & backlog										
Order booking		19,963.0	14,511.0	37.6	19,963.0	20,003.0	(0.2)	39,966.0	28,530.0	40.1
Order backlog		46,362.0	31,400.0	47.6	46,362.0	42,596.0	8.8	46,362.0	31,400.0	47.6
Segment results										
Revenues										
Power Products		4,031.5	2,942.6	37.0	4,031.5	3,803.3	6.0	7,834.8	5,014.5	56.2
Power Systems		5,110.1	3,984.8	28.2	5,110.1	4,480.3	14.1	9,590.4	6,579.9	45.8
Automation Products		2,759.0	2,090.0	32.0	2,759.0	2,879.7	(4.2)	5,638.7	4,002.2	40.9
Process Automation		3,009.8	1,368.0	120.0	3,009.8	2,671.4	12.7	5,681.2	3,401.6	67.0
Others		73.1	31.1	135.0	73.1	54.0	35.4	127.1	49.7	155.8
Revenue mix (%)										
Power Products		26.9	28.2		26.9	27.4		27.1	26.3	
Power Systems		34.1	38.3		34.1	32.3		33.2	34.5	
Automation Products		18.4	20.1		18.4	20.7		19.5	21.0	
Process Automation		20.1	13.1		20.1	19.2		19.7	17.9	
Others		0.5	0.3		0.5	0.4		0.4	0.3	
EBIT Margin (%)										
Power Products		13.4	8.2		13.4	9.0		11.3	8.5	
Power Systems		8.6	7.2		8.6	9.5		9.0	7.8	
Automation Products		13.2	13.0		13.2	11.3		12.2	12.2	
Process Automation		11.7	17.4		11.7	7.5		9.7	11.6	
Others		1.1	7.8		1.1	(2.4)		(0.4)	9.1	

Source: Company data, Kotak Institutional Equities estimates.

The 2QCY07 margin has been the highest second quarter margin in recent years

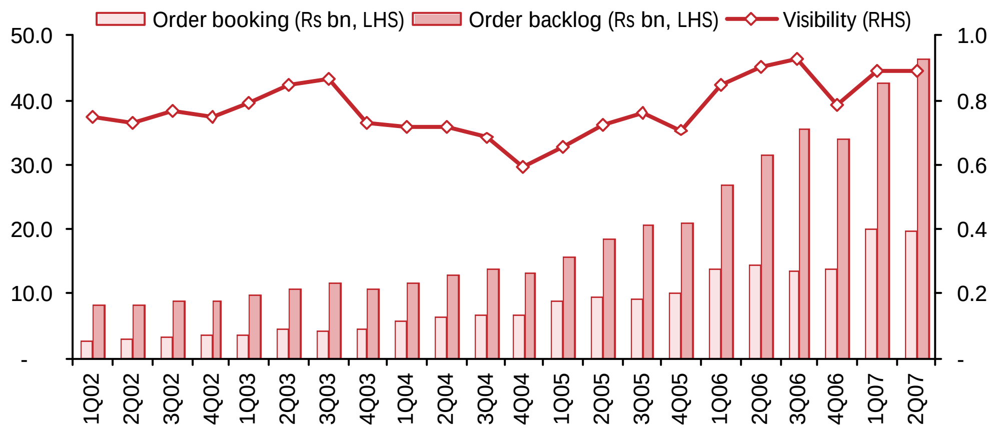
Quarterly margin pattern for ABB for last six years



Source: company data, Kotak Institutional equities estimates.

Exhibit 3: Strong order flow momentum continues with build up in visibility

Order booking, Order backlog & visibility trend for ABB



Source: Company data, Kotak Institutional Equities estimates.

Exhibit 4: ABB's DCF-based target price is Rs1,325/share
DCF valuation for ABB, December calendar year-ends 2007-2016, (Rs mn)

Year to Dec	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Revenues	**66,206**	**89,012**	**114,396**	**143,267**	**175,491**	**196,550**	**220,136**	**246,553**	**276,139**	**309,276**
Growth (%)	54.9	34.4	28.5	25.2	22.5	12.0	12.0	12.0	12.0	12.0
EBIT margin	11.6	12.3	12.3	12.6	12.8	12.5	12.5	12.5	12.5	12.5
EBIT*(1-tax rate)	**4,886**	**6,968**	**8,917**	**11,473**	**14,224**	**15,601**	**17,473**	**19,570**	**21,919**	**24,549**
Growth (%)	71	43	28	29	24	10	12	12	12	12
Depreciation	400	450	550	770	925	1,008	1,007	1,006	1,005	1,004
Change in working capital	(1,275)	(1,309)	(1,647)	(1,485)	(1,963)	(1,154)	(1,292)	(1,447)	(1,621)	(1,816)
Capital expenditure	(804)	(1,000)	(1,500)	(2,000)	(1,500)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Free Cash Flows	**3,207**	**5,109**	**6,320**	**8,758**	**11,687**	**14,455**	**16,188**	**18,129**	**20,302**	**22,737**
Growth (%)	43	59	24	39	33	24	12	12	12	12
Years discounted	-	-	1	2	3	4	5	6	7	8
Discount factor	1.00	1.00	0.90	0.81	0.73	0.65	0.59	0.53	0.47	0.43
Discounted cash flow	**3,207**	**5,109**	**5,681**	**7,076**	**8,488**	**9,437**	**9,499**	**9,562**	**9,626**	**9,690**

Target price calculation	**Rs mn**
Sum of free cash flow	67,686
Discounted terminal value	205,344
Enterprise value	273,030
Add Investments	774
Net debt	(9,409)
Net present value-equity	283,213
Shares o/s	212
Target price /share(Rs)	**1,337**

WACC calculation	
Risk-free rate (Rf)	6.0%
Beta (B)	0.76
Equity risk premium	6.5%
Expected market Return (Rm)	12.5%
Cost of Equity (Ke)	10.9%
Cost of Debt (Kd) (Post-tax)	8.0%
WACC (Beta implied)	**10.9%**
WACC (for price target)	**11.3%**

Terminal value Calculation	
Cash flow in terminal year	22,737
Growth to perpetuity (g)	**6.0%**
Capitalisation rate (WACC-g)	5.3%
Terminal value	433,093
Discount period (years)	7.0
Discount factor	0.47
Discounted terminal value	**205,344**

Terminal multiples	
EV/EBIDTA	12.2
P/FCF	20.2

Equity value per share assuming perpetual growth rates and WACC of

		Perpetual growth rate			
		5.0%	5.5%	**6.0%**	6.5%
WACC	10.5%	1,346	1,443	1,561	1,709
	11.0%	1,232	1,310	1,404	1,519
	11.3%	1,181	1,252	**1,337**	1,439
	12.5%	982	1,027	1,078	1,139

Source: Company data, Kotak Institutional Equities Estimates.

Utilities

TTPW.BO, Rs700	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	670
52W High -Low (Rs)	760 - 481
Market Cap (Rs bn)	163.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	58.6	65.1	70.8
Net Profit (Rs bn)	5.1	7.5	9.9
EPS (Rs)	23.8	32.2	42.5
EPS gth	*(10.1)*	*36.5*	*33.1*
P/E (x)	29.5	21.8	16.5
EV/EBITDA (x)	18.7	18.1	17.0
Div yield (%)	1.2	1.3	1.4

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	32.3	-	-
FIIs	19.0	0.3	(0.0)
MFs	2.8	0.3	(0.1)
UTI	-	-	(0.4)
LIC	12.9	1.2	0.8

Tata Power: 1QFY08 growth good in Mumbai licence area; maintain In- Line

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- **Robust growth in Mumbai licence area**
- **Completion of acquisition of 30% stake in Bumi Resources**
- **Retain In Line rating with target price of Rs670/share**

Tata Power (TPC) reported 9.8% growth in revenues at Rs15.1 bn and 2.2% decline in EBITDA at Rs2.5 bn during 1QFY08 as against our estimate of Rs15.8 bn and Rs2.9 bn, respectively. Higher other income and lower effective tax rate resulted in PAT at Rs1.5 bn, in line with our estimate of Rs1.58 bn. Reported profit of Rs1.90 bn includes a gain of Rs0.38 bn arising from differences on borrowed funds in foreign currencies due to a strong rupee. MERC, in its tariff order for Tata Power, had adjusted the net deficit of previous years against available reserves and also used the residual reserves of Rs0.62 bn for reducing the applicable tariffs for FY2007. We note that TPC has filed a petition seeking the review of the tariff order and has not made any adjustments in the accounts till now. We have marginally revised our EPS estimates for FY2008E to Rs32.2 (Rs33.4 previously) and for FY2009E to Rs42.5 (Rs44.3 previously) and In Line rating on the stock. with SOTP based target price of Rs670/share.

Robust growth in Mumbai licence area. While TPC reported 7% increase in sales volumes at 4,056 MU during 1QFY08, Mumbai licence area recorded a higher 9% increase in sales volumes to 3,302 MU. The 250 MW unit 6 at Trombay is progressing ahead of schedule and will help TPC meet the growing requirements of the Mumbai licence area. Higher cost of fuel and electricity purchases resulted in sales revenues for the Mumbai licence area increasing by 14% yoy to Rs1.3 bn. Lower than anticipated increase in fuel costs and 20% decline in revenues from non-power business resulted in lower than estimated revenues.

Completion of acquisition of 30% stake in Bumi Resources. TPC has completed the acquisition of 30% stake in Bumi Resources. The acquisition is structured through an SPV and utilized US$950 mn bridge loan facility and equity infusion by TPC to finance the US$1.15 bn acquisition. The acquisition gives Tata Power right to purchase about 10 mn tonnes of coal per annum from the two mines. During the quarter, Tata Sons infused Rs6.41 bn into TPC by subscribing to 9.894 mn shares at Rs587.08/share and 10.389 mn warrants on a preferential basis.

SOTP based target price of Rs670/share. We estimate the existing businesses to contribute Rs179/share to our target price. We estimate the gross value of current projects under implementation to contribute additional Rs492/share. These projects need an equity investment of Rs74.7 bn (or Rs351/share) for completion. We estimate Tata Power's cash surplus and investments at Rs314/share leaving, a gap of Rs38/share (or Rs8 bn), which will be funded through internal cash generation as the projects are implemented and balance sheet funding if required.

Key risks. TPC has demonstrated good traction in new projects during the last 12-18 months with several new projects moving off the ground. Significant new project announcements (TPC winning another UMPP at reasonable rates) could result in the stock maintaining the upward momentum. We believe regulatory risk, competitive pressures and project execution risk are the key negatives for the stock.

Tata Power, Quarterly performance, March yearends (Rs mn)

	yoy			Our Estimates	
	Jun-07	Jun-06	% change	Jun-07E	% change
Net sales	**15,115**	**13,766**	**9.8**	**15,815**	**14.9**
Cost of electrical energy purchased	(2,085)	(1,768)	17.9	(1,983)	
Cost of fuel	(8,778)	(8,126)	8.0	(9,416)	
Personnel costs	(647)	(416)	55.6	(430)	
Other expenses and provisions	(1,080)	(874)	23.5	(1,000)	
Total expenses	**(12,591)**	**(11,185)**	12.6	**(12,829)**	
EBITDA	**2,524**	**2,581**	**(2.2)**	**2,986**	**2,000.0**
Depreciation	(714)	(760)		(710)	
EBIT	1,810	1,821		2,276	
Other income	685	410		410	
Net interest	(594)	(524)		(650)	
PBT	**1,900**	**1,706**	**11.4**	**2,036**	**19.3**
Tax	(240)	(458)		(448)	
Deferred tax	(137)	(30)		-	
Net Profit	**1,523**	**1,219**	**25.0**	**1,588**	**30.3**
Extraordinary	**379**	**-**		**-**	
EBITDA margin (%)	16.7	18.7		18.9	
Effective tax rate (%)	19.8	28.6		22.0	
Segment Revenues					
Power Business	14,911	13,512	10.4		
Others	205	255	(19.6)		
Total	**15,116**	**13,766**			
Less: Inter segment revenues	1	0			
Net revenues	**15,115**	**13,766**			
EBIT					
Power Business	2,002	1,884			
Others	(79)	(21)			
Total	**1,923**	**1,862**			
EBIT Margin (%)					
Power Business	13.4	13.9			
Others	(38.8)	(8.4)			
Key Operating Parameters					
Units Sold (MU)	4,056	3,807	6.5		
Per unit price realization (Rs)	3.68	3.55	3.6		
Fuel cost per unit sold (Rs)	2.16	2.13	1.4		

Source: Company data, Kotak Institutional Equities.

Transportation

CCRI.BO, Rs2230	
Rating	IL
Sector coverage view	Cautious
Target Price (Rs)	2,425
52W High -Low (Rs)	2444 - 1300
Market Cap (Rs bn)	144.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	30.5	36.8	42.4
Net Profit (Rs bn)	6.9	8.4	9.7
EPS (Rs)	106.3	129.6	149.8
EPS gth	*32.8*	*22.7*	*16.0*
P/E (x)	21.0	17.2	14.9
EV/EBITDA (x)	14.6	11.9	10.2
Div yield (%)	0.8	0.9	1.0

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	63.1	-	-
FIIs	27.3	0.6	0.1
MFs	4.6	0.6	0.1
UTI	-	-	(0.4)
LIC	-	-	(0.4)

Container Corporation: Lower-than-expected exim volume growth; revise target price, maintain rating

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- **Volume growth remains tepid despite stimulation via discounts**
- **Concor's cold chain subsidiary is scaling up; however, near-term contribution to earnings remain modest**
- **Changes to earnings model based on lower volume growth, higher other income**
- **Revise target price, maintain In-Line rating**

Concor reported revenues of Rs7,759 mn (up 7.6% yoy) versus our expectation of Rs8,860 mn and PAT of Rs1,871 mn (up 12.5% yoy) against our expectation of Rs2,045 mn. The lower-than-expected revenues were due to a 9% volume growth yoy in the exim segment, against our expectation of 18%. Lower volumes in the exim segment were primarily due to (1) lower port traffic in some key ports (Mundra and Pipapav), and (2) fall in export volumes due to the appreciating rupee. Performance on the domestic volume growth front was, however, impressive at 23% against our expectation of 10%. Concor's cold chain subsidiary, Fresh and Healthy, has started to scale up its operations. However, contribution to earnings remain modest in the near term. We have revised our earnings estimates for Concor based on lower volume growth and higher other income. Our target price is revised to Rs2,425 from Rs2,200 earlier based on rollover to March 09 basis. We maintain our In-Line rating.

Volume growth remains tepid despite stimulation via discounts

Concor reported revenues of Rs7,759 mn (up 7.6% yoy) versus our expectation of Rs8,860 mn and PAT of Rs1,871 mn (up 12.5% yoy) against our expectation of Rs2,045 mn. Margins have reduced by a moderate 60 bps yoy to 29.4% in 1QFY08. PAT has been boosted by higher other income (attributable to higher interest rates) of Rs351 mn versus Rs163 mn in 1QFY07. Concor fell short of our expectations because of lower-than-expected volume growth in the exim segment. (Exhibit 1 & 2)

Concor delivered a 9% volume growth yoy in the exim segment, against our expectation of 18%. We were expecting a stronger volume growth in FY2008 compared to FY2007, as (1) recent freight rate increases have been benign which combined with discounts would stimulate market share gains and (2) pick-up in port capacities and traffic would boost Concor's volumes. The lower volumes in the exim segment were due to (1) lower volumes at Mundra and Pipapav ports, (2) fall in export traffic due to the appreciating rupee. These low volumes were inspite of volume discounts given by Concor both on import and export traffic.

Concor however did better in the domestic segment, achieving a growth of 23% yoy against our expectation of 10%. There was a consequent increase in margins in the domestic segment as Concor managed to reduce the number of empties.

Fresh and Healthy, Concor's cold chain subsidiary is scaling up; however, near-term contribution to earnings remain modest

Concor has invested about Rs0.8 bn in its subsidiary Fresh and Healthy for setting up a cold storage facility. In FY2007, this subsidiary had revenues of Rs47.5 mn with PAT of Rs4.5 mn, by handling 1,200 tons of apples. Concor expects volumes of 12,000 tons in FY2008. We expect realizations to increase significantly next year due to off-season sales and hence expect the PAT to rise to Rs62 mn in FY2009. However, the contribution to EPS is remain modest in the near term (Exhibit 3).

Changes to earnings model based on lower volume growth, higher other income

We have made changes to our earnings estimates based on the results of 1QFY08. We have lowered our volume growth estimate in exim segment for FY2008 to 14% (earlier 18%) and increased domestic segment growth estimate to 15% (earlier 10%) based on the revised outlook. For FY2009 we are expecting volume growth of 14% and 15% in exim and domestic segment versus 15% and 10% earlier. We also revise our other income estimates of FY08 to Rs869 mn (Rs537 mn earlier) and of FY09 to Rs1,120 mn (Rs539 mn earlier) on the back of higher interest rate scenario and healthy cash balances of Concor.

Revise target price, maintain Inline rating

We have revised our DCF-based target price to Rs2,425 (from Rs2,200 earlier) as we roll over to March 09 basis, but retain Inline rating. We maintain our rating on back of lower-than-expected volume growth. (Exhibit 4)

Exhibit 1: Concor - 1QFY08 key numbers (Rs mn)

		yoy			qoq		
	FY08E	1QFY08	1QFY07	% change	1QFY08	4QFY07	%change
Net Sales	**36,834**	**7,759**	**7,213**	**7.6**	**7,759**	**8,081**	**(4)**
Staff cost	(425)	(110)	(82)	34.2	(110)	(100)	9
Rail freight exp	(21,031)	(4,393)	(4,085)	7.6	(4,393)	(4,741)	(7)
Others	(4,515)	(975)	(886)	10.0	(975)	(1,038)	(6)
Total exp	**(25,971)**	**(5,478)**	**(5,053)**	**8.4**	**(5,478)**	**(5,879)**	**(7)**
Operating profit	**10,863**	**2,281**	**2,161**	**5.6**	**2,281**	**2,202**	**4**
Other Income	1,030	351	163	115.8	351	148	136
EBIDTA	**11,893**	**2,632**	**2,323**	**13.3**	**2,632**	**2,351**	**12**
Interest	-	-	-		-	-	
Depreciation	(1,208)	(258)	(223)	15.9	(258)	(223)	16
PBT	**10,685**	**2,374**	**2,101**	**13.0**	**2,374**	**2,128**	**12**
Tax	(2,260)	(503)	(437)	15.1	(503)	(434)	16
Prior period		(0)	-		(0)	-	
PAT	**8,426**	**1,871**	**1,664**	**12.5**	**1,871**	**1,694**	**10**
Key ratios (%)							
Rail freight exps / sales	57.1	56.6	56.6		56.6	58.7	
Other exp / Sales	12.3	12.6	12.3		12.6	12.8	
Operating profit margin	29.5	29.4	30.0		29.4	27.3	
Effective tax rate	21.1	21.2	20.8		21.2	20.4	
Segmental analysis							
Volumes (TEUs)							
Exim	1,936,303	443,147	407,642	8.7	443,147	439,948	0.7
%	80.5	79.2	81.2		79.2	78.5	
Domestic	467,768	116,657	94,638	23.3	116,657	120,200	(2.9)
%	19	21	19		21	21	
Total	2,404,071	559,804	502,280	11.5	559,804	560,148	(0.1)
SALES (Rs mn)							
Exim	29,610.8	6,103.6	5,780.4	5.6	6,103.6	6,463.6	(5.6)
%	80.4	78.7	80.1		78.7	80.0	
Domestic	7,223.5	1,655.7	1,432.9	15.5	1,655.7	1,617.6	2.4
%	19.6	21.3	19.9		21.3	20.0	
Per TEU realisation (Rs)							
Exim	15,292	13,773	14,180	(2.9)	13,773	14,692	(6.3)
Domestic	15,442	14,193	15,141	(6.3)	14,193	13,458	5.5
Overall	15,322	13,861	14,361	(3.5)	13,861	14,427	(3.9)
PBIT margin (%)							
Exim	28.5	29.4	30.6		29.4	28.3	
Domestic	16.7	19.7	17.1		19.7	13.5	

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Key numbers for Concor, March fiscal year ends 2006-09E

	2006	2007	2008E	2009E
Operating parameters				
Exim TEUs (nos)	1,556,714	1,698,511	1,936,303	2,207,385
% growth	13.1	9.1	14.0	14.0
Domestic TEUs (nos)	373,848	406,755	467,768	537,933
% growth	6.4	8.8	15.0	15.0
Total TEUs (nos)	**1,930,562**	**2,105,266**	**2,404,071**	**2,745,318**
% growth	**11.7**	**9.0**	**14.2**	**14.2**
TEU-mix (%)				
Exim	80.6	80.7	80.5	80.4
Domestic	19.4	19.3	19.5	19.6
Revenue mix (%)				
Exim	78.3	81.1	80.4	80.7
Domestic	21.7	18.9	19.6	19.3
Income statement extracts (Rs mn)				
Revenues	24,332	30,460	36,834	42,421
EBIDTA	6,976	9,109	10,863	12,193
EBITDA margin (%)	28.7	29.9	29.5	28.7
PBT	6,701	8,874	10,685	12,118
Tax	(1,465)	(1,969)	(2,260)	(2,383)
Effective tax rate (%)	21.9	22.2	21.1	19.7
PAT	5,237	6,906	8,426	9,735
EPS (Rs)	**80.6**	**106.3**	**129.6**	**149.8**

Source: Kotak Institutional Equities estimates.

Exhibit 3: Fresh and Healthy's to scale up significantly, however, EPS contribution in the near term would be maginal

Estimate of EPS contribution of Fresh and Heathy's

	FY2007	FY2008E
Fruits handled (Tonnage)	**1,200.0**	**12,000.0**
Revenues (Rs mn)	**47.5**	**840.0**
Operating profit (Rs mn)	**4.5**	**240.0**
Depreciation (Rs mn)		80
Interest		66
Profit before tax (Rs mn)		94
Tax (Rs mn)		32
Profit after tax		**62.0**
Potential EPS contribution (Rs)		**1.0**
Revenues/Kg	39.6	70
Operating profit/Kg	3.8	20
Debt (Rs mn)		600
Equity (Rs mn)		200
Interest rate (%)		11
Tax rate (%)		34

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 4: We have changed Concor's DCF-based target price to Rs2,565/share

DCF valuation (Rs mn)

Year to March	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenue	**5,901,456**	**7,273,841**	**8,698,465**	**10,135,551**	**12,036,345**	**13,252,219**	**15,372,574**	**17,832,186**	**20,685,335**	**23,994,989**	**27,834,187**	**32,287,657**
Growth (%)	19.1	23.3	19.6	16.5	18.8	10.1	16.0	16.0	16.0	16.0	16.0	16.0
EBIT	8,189.8	9,655.4	10,803.9	10,583.3	10,456.9	10,305.9	11,818.6	13,559.7	15,564.4	17,873.4	20,533.7	23,599.7
EBIT margin	26.9	26.2	25.0	23.0	21.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Tax rate	22.2	21.1	33.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0
EBIT*(1-tax rate)	**6,373**	**7,613**	**7,239**	**6,985**	**6,902**	**6,802**	**7,800**	**8,949**	**10,273**	**11,796**	**13,552**	**15,576**
Depreciation	919	1,208	1,390	1,400	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Change in working capital	(702)	(175)	(191)	(84)	(113)	(52)	(227)	(261)	(301)	(346)	(399)	(460)
Capital expenditure	(3,543)	(4,260)	(4,786)	(2,099)	(2,836)	(1,301)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Free Cash Flows	**3,047**	**4,386**	**3,651**	**6,202**	**5,403**	**6,899**	**7,023**	**8,138**	**9,422**	**10,900**	**12,603**	**14,566**
Growth (%)	41	44	(17)	70	(13)	28	2	16	16	16	16	16
Years discounted	-	-	-	1	2	3	4	5	6	7	8	9
Discount factor	1.00	1.00	1.00	0.90	0.80	0.72	0.65	0.58	0.52	0.47	0.42	0.38
Discounted cash flow	**3,047**	**4,386**	**3,651**	**5,562**	**4,346**	**4,977**	**4,544**	**4,722**	**4,903**	**5,088**	**5,276**	**5,468**

Target price calculation	**Rs mn**
Sum of free cash flow	45,226
Discounted terminal value	98,040
Enterprise value	143,267
Add Investments	-
Net debt	(14,535)
Net present value-equity	157,801
Shares o/s	65
Target price /share(Rs)	**2,428**

WACC calculation	
Risk-free rate (Rf)	7.0%
Beta (B)	0.93
Equity risk premium	5.0%
Cost of Equity (Ke)	11.7%
Cost of Debt (Kd) (Post-tax)	8.0%
WACC (beta implied)	**11.5%**
WACC used	**11.7%**

Terminal value Calculation	**Rs mn**
Cash flow in terminal year	12,603
Growth to perpetuity (g)	**5.5%**
Capitalisation rate (WACC-g)	6.0%
Terminal value	210,053
Discount period (years)	7
Discount factor	0.47
Discounted terminal value	**98,040**

Terminal multiples	
EV/EBIDTA	9.6
P/FCF	17.6

Equity value per share assuming perpetual growth rates and WACC of

		Perpetual growth rate			
		4.5%	5.0%	6.0%	6.5%
WACC	11.0%	2,366	2,486	2,797	3,005
	11.5%	2,213	2,312	2,565	2,730
	12.0%	2,080	2,163	2,372	2,505
	13.0%	1,862	1,923	2,070	2,161

Source: Company data, Kotak Institutional Equities Estimates

Energy

BPCL.BO, Rs311	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	450
52W High -Low (Rs)	448 - 255
Market Cap (Rs bn)	112.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	975.6	950.7	963.1
Net Profit (Rs bn)	18.1	16.9	14.2
EPS (Rs)	50.1	46.8	39.3
EPS gth	*548.7*	*(6.6)*	*(15.9)*
P/E (x)	6.2	6.6	7.9
EV/EBITDA (x)	3.9	3.0	3.5
Div yield (%)	5.2	5.2	4.0

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	64.3	-	-
FIIs	13.1	0.2	(0.1)
MFs	2.2	0.2	(0.1)
UTI	-	-	(0.4)
LIC	11.0	1.1	0.7

BPCL: In the black despite no oil bonds

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- **1QFY08 results should inspire more confidence about earnings**
- **Reasonable upside for a patient investor**
- **Retain OP and 12-month target price of Rs450**

BPCL reported 1QFY08 net income at Rs1.9 bn versus net loss of Rs4.3 bn in 1QFY07 and our expected Rs5.3 bn. The variance versus our estimate was primarily due to (1) nil oil bonds versus Rs10.4 bn of oil bonds assumed by us, (2) inventory gain of Rs2.5 bn versus our expectation of Rs3.5 bn and (3) forex gain of Rs2.3 bn. We have revised our FY2008, FY2009 and FY2010 EPS estimates to Rs46.3, Rs39.3 and Rs47, respectively versus Rs51.3, Rs58.5 and Rs57.5, respectively, previously due to (1) lower share of upstream companies of gross under-recoveries at 33.33% versus 41.5% assumed previously and (2) stronger rupee (Rs41/US Dollar versus Rs43/US Dollar previously).

Valuation

Stock at about 45% of fair value, replacement value. BPCL stock's large discount to its normalized earnings valuation and replacement value would suggest that the market is betting on the current situation continuing in perpetuity. We compute BPCL's normalized fair valuation at Rs720 based on 5X normalized EBITDA (Rs47 bn) plus value of investments. We use a 40% discount to our normalized valuation of Rs720 to set our 12-month target price of Rs450. Key downside risks stem from higher-than-expected subsidy losses.

We also highlight the fact that the government's subsidy-sharing formula (although not an optimal solution) and fiscal support provides reasonable degree of downside support to the downstream oil companies' earnings. Assuming BPCL had received Rs10.6 bn of oil bonds in 1QFY08 (based on Rs190 bn of oil bonds to be given to downstream oil companies as per the government's fiscal package for FY2008E) and excluding inventory gain of Rs2.5 bn, BPCL's annualized EBITDA and EPS would work out to Rs41 bn and EPS Rs69, respectively.

Analysis of 1QFY08 results

Positive EBITDA despite no oil bonds. BPCL reported 1QFY08 EBITDA at Rs2.1 bn versus our expected Rs9.9 bn. The weaker-than-expected performance was due to nil oil bonds versus our assumptions of Rs10.3 bn based on press reports of issue of oil bonds of Rs190 bn to the downstream companies for FY2008. Nonetheless, the results were boosted by (1) stronger-than-expected refining margins, (2) payment of Rs9.63 bn from upstream companies, (3) inventory gain of Rs2.5 bn and (4) forex gain of Rs2.3 bn (booked in other income). BPCL's 1QFY08 refining margin was US$7.1/bbl versus US$5.6/bbl in 4QFY07 and US$5.0/bbl in 1QFY07; the improvement is in line with improvement in global refining margins.

Operating details of 1QFY08. BPCL sold 6.3 mn tons of products in 1QFY08 (+9.5% yoy and + 0.3% qoq) led by strong demand for diesel, gasoline, jet fuel and LPG. BPCL's Mumbai refinery processed 3.2 mn tonnes of crude with a refining margin of US$6.5/bbl and its Kochi refinery processed 1.96 mn tonnes of crude and reported a refining margin of US$8/bbl.

Key changes to and major assumptions behind earnings model

We discuss our key assumptions and the major changes to our earnings model below.

1. **Compensation (oil bonds) from the government.** We model BPCL receiving oil bonds of Rs49.2 bn, Rs42.5 bn and Rs23.5 bn, respectively in FY2008, FY2009 and FY2010, respectively based on its share of payment from the upstream companies (22.4%) in 1QFY08. We assume the government will issue oil bonds of Rs220 bn, Rs190 bn and Rs105 bn for FY2008, FY2009 and FY2010, respectively to the state-owned R&M companies compared to Rs241 bn of oil bonds issued in FY2007. The government has reportedly finalized a fiscal package for FY2008, which includes (1) issue of oil bonds of Rs190 bn and (2) a price increase for auto fuels to cover 1/6th (or about Rs92 bn) of gross under-recovery of Rs550. We model Rs220 bn of oil bonds but assume the government will not raise prices and will instead compensate the downstream oil companies through additional oil bonds.

2. **Refining margins—likely to remain strong.** We model refining margins at US$5.1/bbl for FY2008E (note 1QFY08 margin is boosted by large inventory gains) and US$4.6/bbl for FY2009E compared to US$3.6/bbl in FY2007. We expect global refining margins to recover from current low levels and remain strong over the next few years due to (1) likely strong global demand for oil and (2) limited refining capacity addition. We attribute the yoy decline in FY2009 refining margins to likely lower tariff protection in FY2009 versus in FY2008 (tariff differential of 0.3% versus 1.2% in FY2008).

3. **Exchange rate.** We have revised our rupee-dollar exchange rates for FY2008E, FY2009E and FY2010E to Rs41/US Dollar versus Rs43/US Dollar previously for all the years.

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

		qoq			yoy			yoy		
	2008E	**1Q 2008**	**4Q 2007**	***% chg***	**1Q 2008**	**1Q 2007**	***% chg***	**2007**	**2006**	***% chg***
Net sales	950,723	238,694	241,265	*(1.1)*	238,694	227,107	*5.1*	975,602	770,359	*26.6*
Increase/(decrease) in stock		(2,640)	(343)		(2,640)	(4,162)		2,054	7,544	
Raw material	(419,192)	(108,878)	(97,597)	*11.6*	(108,878)	(105,979)	*2.7*	(422,033)	(323,660)	*30.4*
Trading purchase	(472,189)	(113,551)	(113,433)	*0.1*	(113,551)	(105,801)	*7.3*	(463,904)	(389,844)	*19.0*
Staff cost	(10,740)	(2,800)	(2,885)	*(2.9)*	(2,800)	(2,414)	*16.0*	(10,037)	(8,816)	*13.8*
Other expenses	(15,928)	(8,765)	(14,269)	*(38.6)*	(8,765)	(11,360)	*(22.8)*	(47,522)	(46,010)	*3.3*
Total expenditure	(918,049)	(236,634)	(228,527)	*3.5*	(236,634)	(229,716)	*3.0*	(941,442)	(760,786)	*23.7*
EBITDA	**32,674**	**2,060**	**12,738**	***(83.8)***	**2,060**	**(2,609)**	***(179.0)***	**34,160**	**9,573**	***256.8***
Other income	7,161	2,027	2,547	*(20.4)*	2,027	1,091	*85.8*	7,332	4,653	*57.6*
Interest	(5,878)	(1,240)	(1,648)	*(24.8)*	(1,240)	(908)	*36.6*	(4,774)	(2,474)	*93.0*
Depreciation	(9,462)	(2,276)	(2,778)	*(18.1)*	(2,276)	(1,814)	*25.5*	(9,041)	(7,680)	*17.7*
Pretax profits	**24,495**	**571**	**10,859**	***(94.7)***	**571**	**(4,240)**	***(113.5)***	**27,677**	**4,072**	***579.7***
Extraordinary item	2,314	2,314	(68)		2,314	—		(68)	10	
Tax	(6,801)	(857)	(3,951)		(857)	(25)		(9,286)	(141)	
Deferred tax	(1,525)	(101)	(140)		(101)	—		(268)	(1,025)	
Net income	**18,484**	**1,927**	**6,700**	***(71.2)***	**1,927**	**(4,265)**	***(145.2)***	**18,055**	**2,916**	***519.2***
Adjusted net income	**88,045**	**381**	**6,742**	***(94.3)***	**381**	**(4,265)**	***(108.9)***	**18,099**	**2,909**	***522.2***
Tax rate (%)	31.1	33.2	37.9		33.2	(0.6)		34.6	28.6	
Volume data										
Crude throughput (mn tonnes)		5.2	5.3	*(2.3)*	5.2	4.9	*6.2*	19.8	17.2	*14.7*
Domestic sales volume (mn tonnes)		6.3	6.3	*0.3*	6.3	5.8	*9.5*	23.5	21.6	*8.4*
Refining margin (US$/bbl)		7.1	5.6		7.1	5.0		3.6	1.6	
Inventory gain/(loss)		2,500	2,000		2,500	5,000		1,000	2,000	
Receipt from upstream companies		9,630	11,845		9,630	13,800		44,622	35,819	
Receipt from refining companies		—	—		—	446		—	3,468	
Reciept of oil bonds from government		—	9,009		—	—		52,479	21,631	
Subsidy gain/(loss)		(28,850)	(9,170)		(28,850)	(40,200)		(107,501)	(96,437)	

Source: Company, Kotak Institutional Equities estimates.

BPCL is attractively valued based on its price/book ratio

Price/book (price to current year-end book) ratio for BPCL (X)

Source: Bloomberg, Company, Kotak Institutional Equities estimates.

BPCL is inexpensive on long-term valuations

P/B and EV/GCI for BPCL

	2006	2007E	2008E	2009E
Stock price (Rs)	311	311	311	311
Year-end book value (Rs)	290	322	359	387
P/B (X)	**1.1**	**1.0**	**0.9**	**0.8**
ROAE (%)	3.3	16.3	15.0	10.5
EV (Rs bn)	191	212	176	169
Gross cash invested (Rs bn)	258	299	287	299
EV/GCI (X)	**0.7**	**0.7**	**0.6**	**0.6**
Cash returns (Rs bn)	9	23	24	21
CROCI (%)	3.6	7.8	8.5	7.1

Note:

(a) Book value of Indian BPCL may be depressed due to full depreciation of certain assets (old refineries, LPG cylinders).

Source: Kotak Institutional Equities estimates.

BPCL is attractively valued versus replacement values

Enterprise value versus replacement cost of BPCL (Rs mn)

	Rs/unit	Details	Repl. cost
Replacement cost calculation			
Refining capacity (mtpa)	6,500	19.5	126,750
Product pipeline network (kms)	12.5	608	7,600
LOBS capacity (000 tpa)	12	180	2,160
Retail outlets (#)-land		7,332	7,021
Retail outlets (#)-fixed assets		7,332	14,664
Tanks, terminals etc. (mn kilo liters)	6,000	3.0	18,060
LPG cylinders (100% of gross block)			30,883
LPG bottling capacity (000 tpa)	10	1,984	19,840
LPG import capacity (000 tpa)	3	—	—
Capital WIP			15,737
Fixed assets total			242,714
Investments (@ market value)			52,180
Net working capital			38,946
Value of lubes business (@ 1X sales)			7,610
Replacement cost			**341,450**
Enterprise value calculation			
Outstanding shares (mn)		362	
Market price		311	
Market capitalisation (Rs mn)			112,300
Net debt (Rs mn)			87,059
Enterprise value (Rs mn)			**199,359**
Current EV/RC (X)			0.58
Implied market price at EV/RC=60%			326
Implied market price at EV/RC=80%			515
Implied market price at EV/RC=100%			**704**

Source: Kotak Institutional Equities Estimates.

Normalized earnings forecasts are significantly higher versus actual forecasts

Comparison of normalized marketing margins with FY2009 estimates (Rs/ton)

	2009E	Normalized
LPG	(10,750)	1,500
Naphtha	1,500	500
Gasoline	(2,500)	1,700
Jet fuel	1,600	1,400
Kerosene	(15,000)	600
Diesel	(750)	1,500
Light diesel oil	1,000	500
Low sulphur heavy stock	1,200	500
Fuel oil	1,200	500
Bitumen	1,400	1,000
EPS (Rs)	**39.3**	**72.7**
EBITDA (Rs bn)	**28.9**	**47.1**

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

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	479,840	578,774	755,333	975,602	950,723	963,150	989,224
EBITDA	**38,686**	**26,231**	**9,407**	**34,160**	**32,674**	**28,859**	**33,624**
Other income	4,348	4,015	4,653	7,332	7,161	6,945	6,644
Interest	(1,447)	(1,748)	(2,474)	(4,774)	(5,878)	(4,640)	(3,992)
Depreciation	(6,754)	(7,130)	(7,680)	(9,041)	(9,462)	(9,629)	(10,557)
Pretax profits	34,833	21,368	3,906	27,677	24,495	21,535	25,719
Extraordinary items	(420)	810	176	(68)	2,314	—	—
Tax	(12,026)	(7,250)	(140)	(9,286)	(6,801)	(6,333)	(6,281)
Deferred taxation	(805)	(1,230)	(1,025)	(268)	(1,525)	(987)	(2,461)
Net profits	21,582	13,698	2,916	18,055	18,484	14,215	16,977
Net profits after minority interests	**19,086**	**11,334**	**2,916**	**18,055**	**18,484**	**14,215**	**16,977**
Earnings per share (Rs)	**64.6**	**37.2**	**7.6**	**50.1**	**46.3**	**39.3**	**47.0**
Balance sheet (Rs mn)							
Total equity	69,960	82,887	91,394	102,708	114,424	123,435	134,196
Deferred taxation liability	11,304	12,533	13,558	13,826	15,351	16,338	18,799
Total borrowings	32,701	46,589	83,736	103,286	67,566	59,316	50,816
Currrent liabilities	95,495	104,462	94,070	95,108	96,775	98,833	101,984
Total liabilities and equity	**209,459**	**246,472**	**282,758**	**314,929**	**294,116**	**297,921**	**305,794**
Cash	9,319	6,644	4,921	4,007	3,436	3,077	2,751
Current assets	97,729	130,393	128,208	130,478	98,959	99,985	102,013
Goodwill	—	—	—	—	—	—	—
Total fixed assets	88,484	98,542	110,855	122,754	129,031	142,170	158,342
Investments	13,927	10,893	38,774	57,689	62,689	52,689	42,689
Total assets	**209,459**	**246,472**	**282,758**	**314,929**	**294,116**	**297,921**	**305,794**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	30,727	21,118	9,275	18,081	21,968	17,886	23,352
Working capital	1,025	(18,393)	1,577	(1,231)	33,186	1,032	1,123
Capital expenditure	(17,001)	(17,120)	(19,945)	(18,990)	(15,397)	(22,768)	(26,729)
Investments	1,278	2,992	(28,146)	(18,915)	(5,000)	10,000	10,000
Other income	1,985	2,445	1,785	7,332	7,161	6,945	6,644
Free cash flow	**18,015**	**(8,957)**	**(35,455)**	**(13,723)**	**41,917**	**13,096**	**14,389**
Ratios (%)							
Debt/equity	40.2	48.8	91.6	100.6	59.0	48.1	37.9
Net debt/equity	28.8	41.9	86.2	96.7	56.0	45.6	35.8
RoAE	28.8	14.4	3.3	16.3	15.0	10.5	11.6
RoACE	**21.2**	**12.0**	**4.1**	**10.5**	**10.9**	**9.3**	**11.1**
Key assumptions (standalone until FY2005)							
Crude throughput (mn tonnes)	8.8	9.1	17.2	19.8	20.4	20.5	21.0
Effective tariff protection (%)	7.2	4.8	2.9	1.4	1.2	0.3	0.7
Net refining margin (US$/bbl)	4.2	3.9	2.1	2.9	5.1	4.6	4.1
Sales volume (mn tonnes)	20.9	21.5	23.3	24.6	25.6	26.6	27.6
Marketing margin (Rs/tonne)	1,893	1,732	(671)	(1,138)	(1,032)	(449)	1,446
Subsidy under-recoveries (Rs mn)	(13,518)	(25,821)	(31,847)	(17,918)	(31,367)	(25,840)	(15,503)

Source: Kotak Institutional Equities estimates.

Earnings sensitivity of BPCL to refining margins, import duties and marketing margins, March fiscal year-ends (Rs mn)

	2008E			2009E			2010E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Refining margins									
Refining margins (US$/bbl)	4.1	5.1	6.1	3.6	4.6	5.6	3.1	4.1	5.1
Net profits (Rs mn)	14,300	18,484	22,667	10,042	14,215	18,389	12,732	16,977	21,222
EPS (Rs)	39.6	51.1	62.7	27.8	39.3	50.9	35.2	47.0	58.7
% upside/(downside)	**(22.6)**		**22.6**	**(29.4)**		**29.4**	**(25.0)**		**25.0**
Import tariffs									
Tariff protection	0.7	1.2	1.7	(0.2)	0.3	0.8	0.2	0.7	1.2
Net profits (Rs mn)	17,653	18,484	19,314	13,380	14,215	15,051	16,114	16,977	17,841
EPS (Rs)	48.8	51.1	53.4	37.0	39.3	41.6	44.6	47.0	49.3
% upside/(downside)	**(4.5)**		**4.5**	**(5.9)**		**5.9**	**(5.1)**		**5.1**
Marketing margins									
Auto fuels marketing margin (Rs/ton)	(2,396)	(2,246)	(2,096)	(1,278)	(1,128)	(978)	1,394	1,544	1,694
Net profits (Rs mn)	17,604	18,484	19,364	13,287	14,215	15,143	15,513	16,977	18,442
EPS (Rs)	48.7	51.1	53.6	36.8	39.3	41.9	42.9	47.0	51.0
% upside/(downside)	**(4.8)**		**4.8**	**(6.5)**		**6.5**	**(8.6)**		**8.6**

Source: Kotak Institutional Equities estimates.

Banking

BOB.BO, Rs289	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	330
52W High -Low (Rs)	319 - 189
Market Cap (Rs bn)	105.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	51.7	56.6	62.9
Net Profit (Rs bn)	10.3	12.6	13.9
EPS (Rs)	28.1	34.5	38.0
EPS gth	*24.1*	*23.0*	*9.9*
P/E (x)	10.3	8.4	7.6
P/B (x)	1.4	1.3	1.1
Div yield (%)	2.4	2.6	2.9

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.8	-	-
FIIs	20.1	0.3	(0.0)
MFs	9.8	0.8	0.5
UTI	-	-	(0.3)
LIC	3.5	0.2	(0.0)

Bank of Baroda: BoB delivers on profit, driven by lower provisions

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- **Bank of Baroda reported a PAT of Rs3.3 bn in 1QFY08, which was up 103% yoy driven by lower provisions and higher other income**
- **Asset expansion moderates**
- **We would be revising our estimates and outlook for the stock post discussions with the management.**

Bank of Baroda reported a PAT of Rs3.3 bn in 1QFY08, which was up 103% yoy and 29% above our estimates. A large part of earnings for the bank have been driven by higher other income and lower provisions. Given the lack of sufficient information, we are unable to comment on the quality of this income. More pertinent development from an investor perspective is the moderation in asset expansion at the bank. Both the advances and deposit base for the bank have declined qoq by 6% and 2% respectively. We view this as a positive and believe will help the bank improve its return ratios. We would be revising our estimates and outlook for the stock post discussions with the management.

NII lower than expected, while slowdown in asset growth is a positive. BOB reported a NII of Rs9.6 bn in 1QFY08'a growth of 8.6% yoy. Year-on-year comparison might not be accurate as there has been a reclassification of certain component of interest income at the bank for 1QFY07, and we are awaiting clarity from the company. While the NII growth was disappointing we view the moderation in asset growth at the bank as a positive. One of the key concerns on BOB has been the rather rapid growth in advances of over 38%yoy over the last two years, which was impacting its margin. We believe the slowdown in asset growth (reflected in the sequential decline in advances and deposits by 6% and 2% respectively and yoy growth of 27% and 22.7% respectively) could help the bank reduce its dependence on bulk deposits and maintain/improve its margins.

Operating expenses increase due to higher pension provisions and IT spend. Employee expenses for BOB increased to Rs4.5 bn in 1QFY08 up 18%yoy, which was on account of an increase in pension provisions. Higher IT expenditure was cited as a reason for the increase in other operating expenses of 38% as per the press release given out by the bank. Company has not provided the details of these expense items in the press release issued by it.

Higher non-interest income and lower provisions lead to higher PAT. Provision burden for BOB declined with the bank benefiting from a lower investment depreciation hit on its AFS portfolio. Decline in yields at the shorter end of the maturity spectrum likely benefited the bank like in the case of other companies under our coverage. Given the healthy loan quality of the bank with net NPL of 0.67%, NPL provisions were also lower at Rs1.1 bn in 1QFY08 compared to Rs1.2 bn in 1QFY07.

Bank of Baroda Quarterly results

Rs mn	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	% chg	1Q08KS	Actual Vs KS
Interest income	17,754	19,573	20,201	22,557	23,870	26,721	26,546	31.4		
Interest on advances	9,728	10,813	11,894	13,945	15,630	17,905	18,706	57.3		
Income from invts	7,208	7,493	6,985	7,500	7,221	7,205	6,349	(9.1)		
Bal with RBI	818	1,268	1,322	1,112	1,019	1,611	1,491	12.8		
Interest expenses	9,599	10,883	11,378	12,952	14,262	15,674	16,961	49.1		
Net interest income	**8,155**	**8,690**	**8,823**	**9,606**	**9,608**	**11,046**	**9,586**	**8.6**	**9,970**	**(3.9)**
NII less interest on IT refund	**8,155**	**8,690**	**8,823**	**9,606**	**9,608**	**11,046**	**9,586**	**8.6**		
Non-interest income	2,723	4,011	2,775	3,217	3,337	4,489	3,702	33.4	2,939	26.0
Total income	**10,877**	**12,701**	**11,599**	**12,823**	**12,944**	**15,535**	**13,287**	**14.6**	**12,909**	**2.9**
Operating expenses	6,102.4	6,667	5,520	5,968	6,375	7,584	6,843	24.0	6,348	7.8
Employee	4,000.6	3,819	3,826	3,873	4,325	4,418	4,500	17.6	4,399	2.3
Others	2,101.8	2,847	1,695	2,095	2,051	3,166	2,343	38.2	1,949	20.2
Operating profit	4,774.9	6,035	6,079	6,855	6,569	7,951	6,445	6.0	6,561	(1.8)
Provisions	1,933.1	3,411	3,574	2,291	1,417	3,629	1,414	(60.4)	2,620	(46.0)
Loan loss	521.0	1,735	1,230	1,082	310	328	1,119	(9.0)	1,500	(25.4)
Invt. Depreciation	963.0	2,288	1,153	755	511	1,635	371	(67.8)	400	(7.3)
Invt. Amortization	317.6	314	520	529	526	511	NA		520	
PBT	2,842	2,624	2,504	4,564	5,152	4,323	5,030	100.9	3,941	27.6
Taxation	820.0	536	871	1,680	1,861	1,866	1,722	97.7	1,379	24.8
Net profit	**2,022**	**2,088**	**1,633**	**2,884**	**3,291**	**2,457**	**3,308**	**102.6**	**2,562**	**29.2**
PBT-invt gains/losses	**3,428**	**4,171**	**3,589**	**4,610**	**5,351**	**5,682**	**5,401**	**50.5**	**4,341**	**24**
PBT-invt gains + provisions	3,949	5,906	4,819	5,692	5,661	6,010	6,520	35.3	5,841	
Tax rate	29	20	34.8	36.8	36.1	43.2	34.2		35.0	
Advances (Rsbn)	**529**	**599**	**616**	**710**	**777**	**836**	**783**	**27.0**		
Domestic	439	504	506	582	621	673	638	26.0		
Retail loans	82	98	103	114	122	143	142	38.5		
Retail to total advances (%)	19	19	20	20	20	21	22			
Farm credit	NA	69	71	81	NA	NA	105	48		
Deposits (Rsbn)	**857.0**	**936.6**	**998**	**1,077**	**1,123**	**1,249**	**1,225**	**22.7**		
CASA (%)	-	42.1	41.2	41.7	42.0	38.7	38.8			
Asset quality details										
Gross NPA (Rsbn)	31.5	23.9	25.55	24.88	23.89	20.92	22.07	(13.6)		
Gross NPLs (%)	5.7	3.9	4.1	3.44	3.02	2.47	2.78			
Net NPA (Rsbn)	5.8	5.2	5.6	5.5	5.1	5.0	5.2	(6.5)		
Net NPLs (%)	1.1	0.9	0.9	0.8	0.67	0.60	0.67			
Capital adequacy details (%)										
CAR	12.81	13.65	12.43	12.93	12.24	11.80	14.33			
Yield management measures (%)										
Average cost of deposits	4.12	4.28	4.41	4.43	4.67	4.77	5.42			
Yield on advances	7.60	7.65	8.21	8.12	8.16	8.37	9.51			
Yield on investments	NA	8.23	8.13	7.74	NA	8.32	NA			
Spreads	NA	3.31	3.39	NA	NA	NA	NA			
NIM	3.33	3.29	3.08	3.11	3.21	3.42	3.20			

Source: Company, Kotak Institutional Equities estimates.

CNBK.BO, Rs263	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	250
52W High -Low (Rs)	320 - 174
Market Cap (Rs bn)	107.9

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	55.4	56.4	63.6
Net Profit (Rs bn)	14.2	12.7	15.6
EPS (Rs)	34.7	31.0	37.9
EPS gth	*5.8*	*(10.5)*	*22.3*
P/E (x)	7.6	8.5	6.9
EV/EBITDA (x)	-	-	-
Div yield (%)	2.7	2.5	2.7

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	73.2	-	-
FIIs	17.2	0.2	(0.1)
MFs	1.7	0.1	(0.1)
UTI	-	-	(0.3)
LIC	-	-	(0.3)

Canara Bank: Performance likely to remain under pressure, downgrading to IL

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- **Canara Bank reported net profit of Rs24 bn a growth of 26% yoy and 37% higher than our estimate**
- **Quality of earnings was disappointing**
- **Downgrade recommendation to IL from OP**

Canara Bank reported net profit of Rs24 bn a growth of 26% yoy and 37% higher than our estimate. However, there was significant deterioration in the earnings quality. Company reported yoy decline in NII, lower expenses and provisions enabled the bank to report strong bottom-line growth. Higher interest expense on Tier II bonds raised last year, lower CASA ratio and higher dependence on bulk deposits led to a sharp fall in margins. On the positive front company maintained healthy asset quality. We expect margin pressure to likely pull down Canara Bank's earnings and are downgrading earnings estimates by 11% for FY2008 and 5% for FY2009. We have reduced our target price on the stock to Rs250 per share from Rs330 per share. Management indicated that they are now trying to shed bulk deposits and go slow on lending. We, however, expect the stock to remain under pressure for the next few quarters till the market sees evidence of change in strategy in the financial results and are downgrading our recommendation to IL from OP. Canara Bank trades at 6.9XPER and 1.1XPBR FY2009 as against expected RoE of 14%.

Worst amongst the lot, NII declines yoy: Canara Bank NIM declined 68bps and 61bps yoy and qoq to 2.54% leading to a fall of 5.7% in net interest income. We believe this is likely due to lower CASA ratio (31% v/s 34% in 1QFY07 and 32% in 4QFY07), recourse to higher bulk deposits and expensive perpetual debt raised by the bank last year. Given its relatively lower capital adequacy ratio (CAR) of 11% as of June 2006, the bank had preferred resorting to Tier II bonds for augmenting its CAR. The bank raised Rs19.75 bn and US$250 mn of Tier II bonds in FY2007 for augmenting its capital adequacy, which has also increased the interest expense burden for the bank. It appears that the bank is now going slow on deposit mobilization, which increased 16.4% yoy to Rs1,431bn. Even advances growth at 18% yoy, was lower than the +25% growth witnessed in the past three years.

Non-interest income up significantly despite lower treasury component: Canara Bank reported strong growth of 47% in non-interest income despite lower treasury income. Likely higher fees, forex income, dividend and recoveries led to this increase in income.

Asset quality maintained, a key positive: Gross NPLs were flat qoq and reduced 15% yoy to Rs14.8bn, taking down the overall gross NPL ratio to 1.6%. The net NPL ratio too remained stable at around 0.9%, declining 10%qoq to Rs8.4bn.

Lower depreciation hit key reason for lower provisions: One of the reasons for the high growth in profit was the 19% decline in provisions. Investment depreciation hit of Canara Bank reduced to Rs1.54bn from Rs2.77bn in 1QFY07. The bank has once again transferred around Rs40 bn of investments in the AFS category to HTM category. Post this transfer, proportion of AFS investments was 50% as of June 2007 from 59% as of March 2007. The duration on the AFS investments is low at around 1.52 years.

Canara Bank quarterly results

In Rs mn	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	% chg	1Q08 KS	Actual Vs KS
Interest income	22,401	23,906	25,128	26,800	29,614	32,105	33,800	34.5		
Interest on advances	14,265	15,482	16,519	17,920	19,050	21,588	23,580	42.7		
Income from investments	7,021	7,046	7,857	8,002	8,537	8,845	9,070	15.4		
Others	1,115	725	753	878	2,027	1,672	1,150	52.8		
Interest expense	12,818	14,069	15,649	16,988	19,228	21,512	24,859	58.9		
Net interest income	**9,582**	**9,838**	**9,478**	**9,811**	**10,386**	**10,593**	**8,941**	**(5.7)**	**10,100**	**(11.5)**
Non-int.income	3,112	4,145	2,582	3,133	2,993	6,862	3,981	54.2	2,834	40.4
Other income excl treasury	2,710	4,215	2,727	3,013	2,653	5,952	3,611	32.4	2,834	27.4
Sale of invts.	401	(70)	(145)	120	340	910	370	(355.3)	-	
Total income	**12,694**	**13,982**	**12,060**	**12,944**	**13,379**	**17,455**	**12,922**	**7.1**	**12,934**	**(0.1)**
Op. expenses	5,702	6,269	6,158	6,792	6,369	6,334	6,621	7.5	6,897	(4.0)
Employee cost	3,781	3,878	3,931	4,418	4,013	3,731	4,276	8.8	4,403	(2.9)
Other cost	1,922	2,392	2,227	2,375	2,356	2,603	2,345	5.3	2,494	(6.0)
Profit pre provisions	6,992	7,713	5,902	6,152	7,010	11,121	6,301	6.8	6,037	4.4
Provisions and cont.	2,449	3,178	3,743	1,534	2,630	5,570	3,195	(14.6)	3,703	(13.7)
Investment depreciation	NA	2,075	2,920	(800)	1,689	2,400	1,540	(47.3)	1,454	5.9
Invt amortization	NA	NA	150	300	150	600	180	20.0	600	(70.0)
NPLs	1,683	1,873	1,091	2,220	790	2,498	1,550	42.0	1,650	(6.0)
PBT	**4,543**	**4,535**	**2,159**	**4,618**	**4,380**	**5,551**	**3,106**	**43.8**	**2,334**	**33.1**
Tax	980	(400)	250	1,000	750	500	700	180.0	583	20.0
Net profit	**3,563**	**4,935**	**1,909**	**3,618**	**3,630**	**5,051**	**2,406**	**26.0**	**1,750**	**37.4**
Tax rate (%)	21.6	(8.8)	11.6	21.7	17.1	9.0	22.5		25.0	
PBT-invt gains+ NPL Prov+/- extra ordinary	**5,825**	**8,554**	**6,315**	**5,918**	**6,519**	**6,999**	**5,826**	**(7.8)**	**5,437**	**7.1**
Deposits (Rsbn)	**1,046**	**1,168**	**1,230**	**1,221**	**1,318**	**1,424**	**1,431**	**16.4**		
CASA ratio (%)	36.2	36.0	34.0	34.5	32.0	32.0	31			
Advances (Rsbn)	**706**	**794**	**803**	**826**	**907**	**985**	**947**	**18.0**		
Total retail loans	134	146	155	162	171	175	172	10.7		
Housing loans	51	56	59	61	64	66	66	11.4		
Education Loans	10	10	10	11	12	13	13	34.0		
Retail to total loans (%)	20	18.3	19.3	19.7	18.9	17.8	18.1			
Priority sector	286	309	301	NA	334	378	380	26.0		
Agriculture advances	109	120	116	121	131	155	156	35.0		
SME	106	124	111	121	133	142	151	35.5		
Investments (Rsbn)	**350**	**370**	**428**	**430**	**430**	**452**	**501**	**17.1**		
HTM (Rs bn)	130	136	159	172	172	185	254			
HTM (%)	37.0	36.8	37.2	40.0	40.0	41.0	50.9			
AFS (Rs bn)	217	233	269	258	258	267	246			
AFS (%)	62.0	63.0	62.8	60.0	60.0	59.0	49.1			
Duration (years)	3.7	3.8	3.4	2.8	NA	2.4	1.5			
Yield management measures (%)										
Yield on advances	8.26	8.24	8.59	8.70	8.82	8.95	10.00			
Yield on investments	7.31	7.86	7.86	7.69	7.67	7.74	7.93			
Cost of deposits	4.64	4.69	5.00	5.12	5.28	5.46	NA			
Cost of funds	4.28	NA	4.65	4.77	4.86	5.07	6.05			
Net interest margin	3.30	3.36	3.22	3.15	3.14	3.15	2.54			
Capital adequacy details (%)										
CAR	12.05	11.22	11.02	12.27	12.69	13.50	13.65			
Tier I	6.83	7.8	NA	8.05	7.70	7.17	7.46			
Tier II	5.22	3.41	NA	4.22	4.99	6.33	6.19			
Asset quality details										
Gross NPLs (Rs bn)	22.0	17.9	17.4	17.6	18.7	14.9	14.8	(15.1)		
Gross NPL ratio (%)	3.1	2.3	2.2	2.1	2.1	1.5	1.6			
Net NPLs (Rs bn)	8.5	8.8	7.3	7.9	8.7	9.3	8.4	15.3		
Net NPL ratio (%)	1.2	1.1	0.9	1.0	1.0	0.9	0.9			

Source: Company, Kotak Institutional Equities estimates.

Telecom

MTNL.BO, Rs151	
Rating	U
Sector coverage view	Cautious
Target Price (Rs)	135
52W High -Low (Rs)	176 - 124
Market Cap (Rs bn)	95.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	49.2	53.5	57.1
Net Profit (Rs bn)	3.9	5.9	6.3
EPS (Rs)	7.2	9.4	10.0
EPS gth	*8.1*	*31.4*	*6.5*
P/E (x)	21.1	16.0	15.1
EV/EBITDA (x)	8.0	6.1	5.8
Div yield (%)	4.0	5.1	5.3

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	56.2	-	-
FIIs	14.5	0.2	(0.1)
MFs	4.8	0.4	0.1
UTI	-	-	(0.3)
LIC	15.7	1.3	1.0

MTNL: No improvement in sight; broadband subs addition slow down; maintain U

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- **Lower-than-expected revenues; EBITDA in line with expectations**
- **Broadband subs addition slowdown**
- **Maintain U with a 12-month DCF-based target price of Rs135**

MTNL's 1QFY08 revenues at Rs12 bn was flat qoq but down 6% yoy. 1QFY08 EBITDA at Rs2.6 bn (+19% qoq, -8% yoy) was in line with our expectations and helped by a decline in absolute 'network and other operating costs', which we find remarkable. Net profit at Rs1.1 bn (+1% qoq, -16% yoy) was in line with our estimates. The underlying business metrics of MTNL continue to disappoint; the company reported a decline in fixed-line subs and suffered a slowdown in broadband subs addition. We have fine-tuned our FY2008E and FY2009E core EPS to Rs8.4 and Rs9.4 from Rs8.2 and Rs8.8 with the change primarily due to higher other income; MTNL received income tax refund of Rs14.6 bn from the 'license fee's taxation case. We continue to rate the stock as Underperform with a 12-month DCF-based target price of Rs135 (10% premium to 12-month DCF to factor in upside, if any, from real estate portfolio). Key upside risks stem from unlocking of value of real estate portfolio.

Declining revenues is serious concern; fixed-line is still vulnerable. MTNL's 1QFY08 revenues declined 0.4% qoq and 6.4% yoy to Rs12 bn. MTNL has not given a breakdown of segment revenues but we suspect that the entire decline is accruing from the fixed-line business; wireless and broadband business segments are growing. Fixed-line including broadband revenues have declined 1.6% qoq and 8.5% yoy; presumably broadband revenues would have grown, which would make the decline in core fixed-line revenues even starker.

MTNL's fixed-line subscriber base has declined 1.3% qoq and 2.6% yoy to 3.8 mn at end-June 2007. ARPUs have declined sharply (5% qoq, 15% yoy) suggesting that (1) MTNL may be losing high-end subscribers, (2) PCO usage continues to decline sharply and (3) low DLD tariffs may be affecting revenues. We do not rule out further loss of subscriber base and disproportionate impact on revenues and profits; 18% of MTNL's fixed-line subscribers accounted for 62% of revenues in FY2006 data.

The performance of the wireless segment is also disappointing in light of strong growth reported by peers; revenues grew 6% qoq and 10% yoy to Rs2.24 bn. Wireless subs base declined by 137,000 to 2.6 mn at end-1QFY08; this may have been driven by de-activation of unverified prepaid subs. However, the decline in subs does not seem to have helped ARPUs, which were still down qoq. The ARPU of MTNL is the lowest among wireless operators.

Broadband segment subs additions also slow down. MTNL added only 30,000 broadband subs in 1QFY08, down from an average of 65,000 per quarter in FY2007. We are retaining our end-FY2008 broadband subs of 0.9 mn for the time being. This would imply an average quarterly addition of 133,000 subs addition for the subsequent three quarters.

Employee costs and SG&A/network costs declined. MTNL's 1QFY08 total operating costs declined 5% qoq to Rs9.3 bn. Among the key items, employee cost stayed flat qoq but declined 6% yoy to Rs4.3 bn, indicating some benefits from the voluntary retirement schemes. Network/ SG&A costs declined 17% qoq to Rs2 bn reflecting probable benefits from cost control. However, we have not been able to get an explanation for this surprisingly large decline from the management.

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

		qoq			yoy	
	1Q 2008	4Q 2007	% chg	1Q 2008	1Q 2007	% chg
Revenues	**11,957**	**12,000**	***(0.4)***	**11,957**	**12,782**	***(6.5)***
Interconnection charges	(2,014)	(1,992)	*1.1*	(2,014)	(2,138)	*(5.8)*
License fee	(1,075)	(1,121)	*(4.1)*	(1,075)	(1,105)	*(2.8)*
Staff cost	(4,226)	(4,240)	*(0.3)*	(4,226)	(4,490)	*(5.9)*
Admin/operative	(2,026)	(2,449)	*(17.3)*	(2,026)	(2,190)	*(7.5)*
Total operating expenditure	**(9,340)**	**(9,802)**	***(4.7)***	**(9,340)**	**(9,923)**	***(5.9)***
EBITDA	**2,617**	**2,198**	***19.1***	**2,617**	**2,859**	***(8.5)***
EBITDA margin	*21.9%*	*18.3%*	*19.5*	*21.9%*	*22.4%*	*(2.1)*
Interest and other income	843	1,079	*(21.8)*	843	837	*0.8*
Interest expense	(7)	(1)	*533.9*	(7)	(14)	*(47.6)*
Depreciation	(1,765)	(1,728)	*2.2*	(1,765)	(1,696)	*4.1*
PBT	**1,688**	**1,547**	***9.1***	**1,688**	**1,986**	***(15.0)***
Provision for taxes	(579)	(845)	*(31.5)*	(579)	(673)	*(14.0)*
Extraordinaries/prior period	—	1,361		—	—	
Reported net profit	**1,109**	**2,063**	***(46.2)***	**1,109**	**1,313**	***(15.5)***
Adjusted net profit	**1,109**	**1,098**	***1.0***	**1,109**	**1,313**	***(15.5)***
Adjusted EPS (Rs)	1.8	1.7		1.8	2.1	
Effective Tax rate (%)	34.3	29.1		34.3	33.9	
Fixed-lines ('000)	3,750	3,802	*(1.3)*	3,750	3,852	*(2.6)*
Fixedline net-addition ('000)	**(11)**	**37**		**(11)**	**(26)**	
GSM wireless subs ('000)	2,425	2,747	*(11.7)*	2,609	2,170	*20.2*
CDMA wireless subs ('000)	106	119	*(10.9)*	122	80	*52.2*
Broadband subs ('000)	500	469	*6.4*	500	267	*87.4*
Fixed-line ARPU (Rs/mth)	687	721	*(4.7)*	687	800	*(14.1)*

Source: Company, Kotak Institutional Equities.

Profit model, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E
Fixed-line revenues						
1. Rentals	11,482	11,310	11,266	11,187	11,270	11,372
2. Outgoing usage (ex-payphone)	17,129	15,547	16,333	17,220	18,230	18,778
3. Incoming (incl. ADC)	5,728	2,557	3,286	3,837	4,221	4,498
4. Pay-phone (franchisee) revenues	8,871	6,165	4,945	4,395	4,154	4,051
5. Rent and junction charges	2,935	1,158	1,158	1,158	1,158	1,158
Total fixed-line revenues	**46,145**	**36,736**	**36,989**	**37,796**	**39,033**	**39,856**
Wireless (GSM+CDMA)	6,336	8,212	9,502	10,797	11,806	12,647
Broadband	704	2,015	3,618	5,391	6,666	7,356
Leased lines	598	731	778	813	862	914
VAS (incl. Internet)	1,704	1,540	1,569	1,601	1,621	1,640
Revenues	**55,487**	**49,234**	**52,455**	**56,398**	**59,987**	**62,413**
Operating costs						
Interconnection charges	(12,263)	(8,455)	(8,543)	(9,332)	(9,789)	(10,342)
License fees	(4,590)	(4,556)	(4,672)	(5,001)	(5,302)	(5,499)
Network operating expenses	(3,316)	(3,633)	(4,052)	(4,600)	(5,038)	(5,257)
Staff expenses	(19,053)	(18,125)	(18,223)	(19,429)	(20,570)	(21,539)
SG&A	(8,263)	(5,629)	(5,671)	(5,858)	(6,061)	(6,224)
Total operating costs	**(47,485)**	**(40,398)**	**(41,161)**	**(44,220)**	**(46,760)**	**(48,861)**
EBITDA	**7,080**	**8,836**	**11,294**	**12,178**	**13,228**	**13,551**
Interest/other income	4,723	4,311	3,445	3,775	3,620	3,692
Depreciation	(6,467)	(6,803)	(6,762)	(6,953)	(7,210)	(7,387)
Pretax profits	**4,847**	**6,303**	**7,977**	**8,999**	**9,639**	**9,856**
Taxation	(561)	(3,918)	(2,588)	(2,908)	(3,249)	(3,352)
Deferred tax	(376)	1,106	(123)	(150)	(27)	2
Extraordinary gain/(charge)	1,892	2,940	12,500	3,000	—	—
Net profits	5,803	6,430	17,766	8,941	6,362	6,506
Adjusted net profits	**4,175**	**4,513**	**5,266**	**5,941**	**6,362**	**6,506**
EPS (Rs)	**6.6**	**7.2**	**8.4**	**9.4**	**10.1**	**10.3**
Shares outstanding (mn)	630	630	630	630	630	630
Effective tax rate (%)	14.0	34.8	13.2	25.5	34.0	34.0
Dividend payout ratio (%)	60.4	83.8	198.3	88.5	58.8	58.8
DPS (Rs)	6.0	6.0	16.6	8.3	5.9	6.1
Growth (%)						
Revenues	1.9	(9.8)	6.5	7.5	6.4	4.0
EBITDA	(36.3)	24.8	27.8	7.8	8.6	2.4
EPS	(32.1)	8.1	16.7	12.8	7.1	2.3
Margin (%)						
EBITDA	13.0	17.9	21.5	21.6	22.1	21.7
Net profits	7.7	9.2	10.0	10.5	10.6	10.4

Source: Kotak Institutional Equities estimates.

Our target price for MTNL based on 12-month DCF is 135/share

DCF analysis for MTNL, March fiscal year-ends, 2008E-2017E (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	11,294	12,178	13,228	13,551	13,671	13,729	13,678	14,017	14,208	14,052
Tax	(2,153)	(1,994)	(2,028)	(2,096)	(2,112)	(2,111)	(2,089)	(2,189)	(2,236)	(2,174)
Change in working capital	6,177	(5,055)	(1,536)	268	203	275	272	220	234	177
Operating cash flow	**15,318**	**5,129**	**9,663**	**11,723**	**11,762**	**11,893**	**11,861**	**12,048**	**12,206**	**12,055**
Capex	(8,522)	(8,005)	(8,151)	(7,625)	(7,940)	(7,749)	(7,640)	(7,868)	(7,499)	(7,339)
Free cash flow	**6,796**	**(2,876)**	**1,513**	**4,098**	**3,823**	**4,144**	**4,221**	**4,180**	**4,707**	**4,716**

	Now	+1 year
PV of cash flows	18,840	15,713
PV of terminal value	21,135	22,191
EV	39,975	37,904
Net debt	(28,374)	(38,461)
Equity value (Rs mn)	68,349	76,366
Equity value (Rs/share)	**108**	**121**
Exit FCF multiple (X)	13.3	
Exit EBITDA multiple (X)	4.5	

WACC and growth in perpetuity assumptions	
WACC (%)	**12.5**
Terminal growth - g (%)	**5.0**

Source: Kotak Institutional Equities estimates.

Construction

PUJL.BO, Rs265	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	305
52W High -Low (Rs)	290 - 116
Market Cap (Rs bn)	69.2

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	32.6	77.7	96.0
Net Profit (Rs bn)	1.8	3.0	4.1
EPS (Rs)	6.7	10.6	14.7
EPS gth	*225.3*	*57.0*	*38.7*
P/E (x)	39.3	25.1	18.1
EV/EBITDA (x)	20.9	13.3	10.2
Div yield (%)	0.2	0.4	0.5

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.9	-	-
FIIs	17.6	0.0	0.0
MFs	14.7	0.1	0.1
UTI	-	-	-
LIC	-	-	-

Punj Lloyd: Strong operating performance helps beat expectations

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- **Strong operating performance with robust revenue growth and margin expansion**
- **Profit growth modest for standalone company because of high interest and depreciation costs**
- **Highlight high working capital levels and capital expenditure for capacity building from FY2007 balance sheet**
- **Revise earnings estimates and target price upwards to Rs305 per share (from Rs239/share earlier) on expectation of higher execution and better margins, retain Inline rating**

Punj Lloyd has reported strong results with 1QFY08 consolidated revenues of Rs14.0 bn (up 73% yoy) and PAT of Rs594 mn (up 126% yoy) versus our expectation of revenues of Rs13.2 bn and PAT of Rs365 mn. On a standalone basis, Punj Lloyd has reported revenues of Rs7.1 bn (up 82% yoy) and PAT of Rs212 mn (up 14% yoy). We believe that net contribution of exchange gain on FCCBs (to be reflected in other income) after adjusting for (a) loans denominated in Singapore Dollars and (b) translation loss on balances of overseas entities should have been modest (about Rs30-50 mn). Punj Lloyd has announced an order backlog of Rs152 bn at the end of June 2007, providing a visibility of 1.8 years based on FY2008E consolidated revenues. We highlight two key aspects from the balance sheet (a) high working capital levels (193 days of sales) for standalone company, (b) high capital expenditure of about Rs4.0 bn during FY2007 (versus about Rs1.36 bn during FY2007) at the standalone level, which is likely to continue at this level. We have revised our FY2008E and FY2009E EPS estimate to Rs12.7 and Rs16.6 versus Rs10.6 and Rs14.7 earlier. We revise our target price to Rs310 per share (from Rs239/share earlier) based on upwards earnings revision and strong long term growth outlook. We maintain our Inline rating as we await clarity on (a) high working capital levels and (b) potential equity dilution.

Strong operating performance with robust revenue growth and margin expansion for both standalone as well as Sembawang

Punj Lloyd has reported 1QFY08 consolidated revenues of Rs14.0 bn (up 73% yoy) and PAT of Rs594 mn (up 126% yoy) versus our expectation of revenues of Rs13.2 bn and PAT of Rs365 mn. Revenue growth is led by 74% growth in revenue contribution from Sembawang (Rs5,641 mn in 1QFY08 versus Rs3,237 mn in 1QFY07 last year) and strong revenue growth of 82% for the Punj Lloyd standalone company. EBITDA margin has expanded 240 bps on a yoy basis led by (a) improvement in profitability of Sembawang (from EBITDA margin of 1% in 1QFY07 to 4% in 1QFY08) and (b) 110 bps improvement in standalone EBITDA margin to 10.3% from 9.2% in 1QFY07 (Exhibit 1).

Profit growth modest at standalone level because of high interest and depreciation costs

On a standalone basis, Punj Lloyd has reported revenues of Rs7.1 bn (up 82% yoy) and PAT of Rs212 mn (up 14% yoy). Operating margins for the standalone entity has expanded by 110 bps and thus earnings before interest, taxes and depreciation has grown by 102% yoy. PAT growth however has been subdued because of higher interest (up 197% yoy) and depreciation costs (up 54% yoy). Debt levels for standalone Punj Lloyd has increased by Rs 11.1 bn to Rs15.2 bn at the end of FY2007 from Rs4.1 bn at the end of FY2006. Additional debt has been utilized to finance (a) investment in net assets - Rs3.9 bn (Rs8.5 bn at the end of FY2007 from Rs4.6 bn at the end of FY2006), (b) working capital requirements - Rs3.9 bn (Net working capital excluding cash up by Rs3.9 bn to Rs11.7 bn from Rs7.9 bn) (Exhibit 2).

We believe contribution of exchange gain on FCCBs may have been modest and PAT growth is led by core business

Punj Lloyd has an FCCB of US$125 mn and rupee appreciation would have led to exchange gain, as the liability value goes down in Rupee terms. However we believe that net contribution of exchange gain (to be reflected in other income) should have been modest as exchange gain on FCCBs is counteracted by (a) loans denominated in Singapore Dollars (about Singapore dollars 75mn or about USD 40 mn) replaced as part of acquisition of Sembawang, (b) translation loss on balances of overseas entities. We believe that the net positive effect of rupee appreciation may have been to the extent of Rs30-50 mn.

Order inflows are exceptionally strong led by stronger pre-qualifications

Punj Lloyd has announced an order backlog of Rs152 bn at the end of June 2007, providing a visibility of 1.8 years based on FY2008E consolidated revenues (Exhibit 3). Punj Lloyd has won many large orders with the pre-qualifications earned as a result of Sembawang's acquisition - (a) Offshore platform project from Oil and Natural Gas Corporation, (b) LDPE plant order from Saudi basic Industries Corporation and (c) wheat based bio-ethanol production plant order from Ensus group UK (Exhibit 4). Punj Lloyd joint venture in Saudi Arabia, Dayim Punj Lloyd, has also won an order for EPC of tankages at Jubail Industrial city.

Pre-qualifications acquired as a result of Sembawang's acquisition are potentially coming handy in winning orders in several potentially high margin areas such as;

1) Upstream engineering- offshore platforms

2) Petrochemicals- hydrocracker, LDPE plant

3) Process engineering- bio-ethanol, sulphuric acid plant

4) Power plants- coal, gas and nuclear

5) Civil infrastructure- SEZ/township development, metro-transportation, highway etc.

Balance sheet highlights:

1. Working capital levels remain very high for the standalone entity

We highlight that working capital level for the standalone entity remain at very high levels of about 193 days of sales at the end of FY2007, a marginal improvement over level of 210 days of sales at the end of FY2006. High working capital levels at year-end may be partially explained by higher level of activity led by very strong order backlog. Working capital levels at consolidated levels are significantly lower at 37 days of sales (versus 188 days of sales at the end of FY2006) led by lower working capital levels of Sembawang E&C. Sembawang E&C's lower working capital requirements are led by the fact that it is involved in project management only and does not execute the construction work itself.

2. High capital expenditure at standalone level to build capacity; acquisition of Sembawang contributes fixed assets mainly in the form of leasehold improvements

Punj Lloyd made a capital expenditure of about Rs4.0 bn during FY2007 (versus about Rs1.36 bn during FY2007) at the standalone level. Higher capital expenditure is led by the need to build capacity for executing the large order backlog at a time of potential un-availability of equipments on lease led by pick-up in capital spending in key geographies such as Middle East and India. Acquisition of Sembawang has contributed Rs1.35 bn of net fixed assets, mainly in the form of leasehold improvements. We model an annual capital expenditure of Rs5.0 bn each year during FY2008-10E.

Revise earnings estimates on expectation of higher execution and better margins for the consolidated entity

We have revised our FY2008E and FY2009E EPS estimate to Rs12.7 and Rs16.6 versus Rs10.6 and Rs14.7 earlier. We revise our target price to Rs305 per share (from Rs239/share earlier) based on upwards earnings revision and strong long term growth outlook (Exhibits 5,6,7, 8 and 9).

Maintain inline rating as we await clarity on other income, working capital levels and potential equity dilution

We maintain our Inline rating as we await clarity on (a) components of other income, (b) working capital levels and (c) potential equity dilution.

Exhibit 1. Punj Lloyd: Standalone 1QFY08 results

		yoy			qoq	
(in Rs mn)	1QFY08	1QFY07	(% chg)	1QFY08	4QFY07	(% chg)
Net sales	**7,069**	**3,888**	**82**	**7,069**	**7,983**	**(11)**
Operating costs	**(6,343)**	**(3,530)**	**80**	**(6,343)**	**(7,264)**	**(13)**
Material consumed and cost of goods sold	(2,500)	(890)	181	(2,500)	(2,607)	(4)
Contractor charges	(1,438)	(960)	50	(1,438)	(1,667)	(14)
Staff Cost	(658)	(449)	47	(658)	(734)	(10)
Other Expenditure	(1,746)	(1,231)	42	(1,746)	(2,256)	(23)
EBITDA	**726**	**359**	**102**	**726**	**719**	**1**
Other income	155	183	(15)	155	210	(26)
Interest costs	(269)	(91)	197	(269)	(261)	3
Depreciation	(253)	(165)	54	(253)	(242)	5
PBT	**359**	**287**	**25**	**359**	**427**	**(16)**
Taxes	(147)	(101)	46	(147)	(195)	(25)
PAT	**212**	**186**	**14**	**212**	**232**	**(9)**
Key ratios						
Material consumed and cost of goods sold	35.4	22.9		35.4	32.7	
Contractor charges	20.3	24.7		20.3	20.9	
Staff Cost	9.3	11.5		9.3	9.2	
Other Expenditure	24.7	31.7		24.7	28.3	
EBITDA margin (%)	10.3	9.2		10.3	9.0	
PAT margin (%)	3.0	4.8		3.0	2.9	
Effective tax rate (%)	40.9	35.1		40.9	45.7	

Source: Company data, Kotak Institutional Equities.

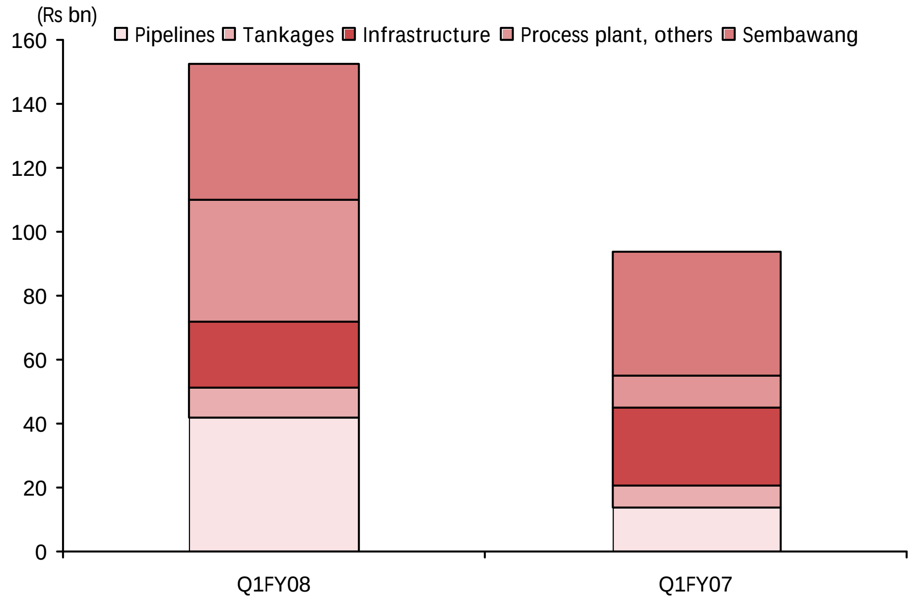
Exhibit 2. Punj Lloyd: 1QFY08 consolidated results

	yoy			qoq		
(in Rs mn)	1QFY08	1QFY07	(% chg)	1QFY08	4QFY07	(% chg)
Net sales	**13,950**	**8,054**	**73**	**13,950**	**17,036**	**(18)**
Operating costs	**(12,735)**	**(7,546)**	**69**	**(12,735)**	**(15,329)**	**(17)**
Material consumed and cost of goods sold	(5,196)	(3,353)	55	(5,196)	(2,989)	74
Contractor charges	(3,592)	(1,568)	129	(3,592)	(6,461)	(44)
Staff Cost	(1,646)	(947)	74	(1,646)	(2,019)	(18)
Other Expenditure	(2,302)	(1,678)	37	(2,302)	(3,860)	(40)
EBITDA	**1,214**	**508**	**139**	**1,214**	**1,707**	**(29)**
Other income	230	200	15	230	164	40
Interest costs	(289)	(120)	140	(289)	(258)	12
Depreciation	(355)	(188)	89	(355)	(329)	8
PBT	**801**	**401**	**100**	**801**	**1,283**	**(38)**
Taxes	(206)	(138)	49	(206)	(398)	(48)
Minority interest	-	-		-	4	
PAT	**594**	**263**	**126**	**594**	**885**	**(33)**
Key ratios						
EBITDA margin (%)	8.7	6.3		8.7	10.0	
PAT margin (%)	4.3	3.3		4.3	5.2	
Effective tax rate (%)	25.8	34.4		25.8	31.0	

** FY07 consolidated numbers do not include Sembawang Engineers & Constructors

Source: Company data, Kotak Institutional Equities

Exhibit 3. Latest order backlog position of Punj Lloyd group as on June 30, 2007, (Rs bn)



Source: Company, Kotak Institutional Equities

Exhibit 4. Prequalifications of Sembawang group come handy in winning several prestigious orders in newer segments
Key orders won by Punj Lloyd since 3QFY07 (Rs mn)

Date	Segment	Area	Client	Value (Rs mn)	Group entity	Description
23-Jul-07	Oil and Gas	Tankage	Saudi Kayan Petrochemical Company (SABIC)	1587[(a)]	Dayim Punj Lloyd Construction Contracting Company Ltd	EPC of tanks at Jubail Industrial city, Saudi Arabia
20-Jul-07	Process	Process	Gulf Fluor	5000[(b)]	Simon Carves Ltd.	Fluorides plant incorporating a new Sulphuric Acid plant
22-Mar-07	Oil and Gas	Pipeline	Oil and Natural Gas Corporation Ltd	2,420	Punj Lloyd with, PT, Punj Lloyd Indonesia	24 Km Uran Trombay Gas Pipeline
26-Mar-07	Civil, Infrastructure and Power	Buildings	Riffa Golf and Resi. Dev. Co., Bahrain	5,420	Sembawang Engineers and Constructors	Residential villas
16-Apr-07	Oil and Gas	Pipeline	Oman Gas Company	5,300	Punj Lloyd	24", 40 Km pipeline
19-Apr-07	Oil and Gas	Pipeline	Ras Laffan Olefins Company Ltd, USA	1,935	Punj Lloyd	Ethylene pipeline
23-Apr-07	Oil and Gas	Pipeline	Reliance Gas Transportation Infrastructure Ltd	1,802	Punj Lloyd	48", 122 Km pipeline
14-May-07	Oil and Gas	Pipeline	GAIL (India) Ltd	1,227	Punj Lloyd	Phase II of Panvel — Dabhol Pipeline
21-Mar-07	Oil and Gas	Fuel station	New Doha International Airport	2,580	Punj Lloyd	Construction of fuel farm
16-Mar-07	Petrochemicals	Process	Ensus Group, UK	13,177	Simon Carves UK	Design and construction of wheat based bio-ethanol plant
12-Mar-07	Petrochemicals	Process	Saudi Basic Industries Corporation (SABIC)	7500*	Simon Carves UK	300 ktpa LDPE plant
9-Jan-07	Oil & Gas	Offshore	Oil and Natural Gas Corporation Ltd.	12,470	Punj Lloyd along with PT Sempec Indonesia	Offshore Platform for Heera redevelopment Project
27-Dec-06	Oil and Gas	Tankage	Horizon Terminals Ltd, U.A.E	1,400	Punj Lloyd	Bulk liquid products terminals in Jurong Island, Singapore
Total				**57,317**		

(a) Estimated share of Punj Llyod
(b) Estimated order value
Source: Company data, Kotak Institutional Equities estimates.

Snapshot of our estimates for Sembawang, March fiscal year-ends 2007-2010, (Rs mn)

	FY2007	FY2008E	FY2009E	FY2010E
Revenues	21,321	31,384	36,861	44,483
Operating profit excluding other income	227	1,412	1,843	2,669
EBITDA margin (%)	1.1	4.5	5.0	6.0

Source: Compnay data, Kotak Institutional Equities

Exhibit 6. Profit and Loss account of Punj Lloyd consolidated, March fiscal year-ends 2007-2012E, (Rs mn)

	2007	2008E	2009E	2010E	2011E	2012E
Operating Income	**51,266**	**87,495**	**114,305**	**147,584**	**173,713**	**199,709**
Raw Material and Sub contractor Expenses	30,551	58,850	75,641	95,992	112,223	128,801
Employee Remuneration & Benefits	6,369	5,060	6,693	8,481	10,046	11,567
Administration & Other Expenses	10,602	15,945	21,532	28,482	34,083	39,341
PBDIT	**3,744**	**7,641**	**10,439**	**14,629**	**17,361**	**20,000**
Other Income	794	616	415	460	567	682
EBIDTA (incl other income)	**4,538**	**8,257**	**10,854**	**15,088**	**17,928**	**20,682**
Interest & Finance charges	1,185	1,767	2,369	2,856	3,025	3,095
Depreciation	1,062	1,482	1,832	2,182	2,532	2,882
Profit for the year before extraordinary items	2,291	5,008	6,653	10,051	12,371	14,705
Profit Before Tax	**2,291**	**5,008**	**6,653**	**10,051**	**12,371**	**14,705**
Tax	690	1,447	1,978	2,943	3,591	4,237
PAT	**1,969**	**3,561**	**4,674**	**7,108**	**8,780**	**10,469**
Ratios (%)						
Operating profit margin	7.3	8.7	9.1	9.9	10.0	10.0
EBIDTA margin	8.9	9.4	9.5	10.2	10.3	10.4
PBT margin	4.5	5.7	5.8	6.8	7.1	7.4
PAT margin	3.8	4.1	4.1	4.8	5.1	5.2
Growth (%)						
Sales	204.3	70.7	30.6	29.1	17.7	15.0
Operating profit	96.0	104.1	36.6	40.1	18.7	15.2
PAT	264.1	80.8	31.3	52.1	23.5	19.2
Per share (Rs)						
EPS	7.5	12.7	16.6	25.3	31.2	37.3
DPS	0.0	61.6	0.0	0.0	0.0	0.0

Source: Company data, Kotak Institutional Equities

Exhibit 7. Balance sheet account of Punj Lloyd consolidated, March fiscal year-ends 2007-2012E, (Rs mn)

(Rs mn)	2007	2008E	2009E	2010E	2011E	2012E
Share Capital	523	522	522	522	522	522
Reserves & Surplus	12,267	15,515	19,642	25,919	33,671	42,915
Total shareholder's funds	**12,789**	**16,037**	**20,164**	**26,441**	**34,193**	**43,437**
'Secured and unsecured loans (includind FC	**16,992**	**20,492**	**26,492**	**26,492**	**26,492**	**26,492**
Deffered Tax liability	361	361	361	361	361	361
Minority Interest	59	59	59	59	59	59
Total Sources of Funds	**30,201**	**36,948**	**47,076**	**53,352**	**61,105**	**70,349**
Gross Block	18,669	23,670	28,670	33,670	38,670	43,670
Less : Depreciation	6,198	7,784	9,616	11,798	14,329	17,211
Capital WIP	710	250	250	250	250	250
Net Block	**13,182**	**16,136**	**19,304**	**22,122**	**24,590**	**26,708**
Investments	1,698	1,703	1,703	1,703	1,703	1,703
Pre Operative Expenses Pending Allocation	148	148	148	148	148	148
Inventories	15,017	27,567	34,448	40,434	47,593	54,715
Sundry Debtors	12,234	15,181	24,145	29,810	34,495	40,211
Cash and Bank Balances	10,027	2,963	1,889	3,420	4,528	6,494
Other Current Assets	511	1,199	1,566	2,022	2,380	2,736
Loans and Advances	4,462	8,390	10,961	14,152	16,657	19,150
Total Current Assets (excl Cash)	32,223	52,336	71,120	86,418	101,124	116,811
Current Liabilities	25,430	34,758	45,409	58,629	69,009	79,336
Provisions	1,647	1,579	1,679	1,829	1,979	2,179
Current Liabilities & provisions	**27,077**	**36,337**	**47,088**	**60,458**	**70,988**	**81,515**
Net current assets (excl. cash)	**5,146**	**15,999**	**24,032**	**25,960**	**30,136**	**35,296**
Total	**30,201**	**36,948**	**47,076**	**53,352**	**61,105**	**70,349**
Ratios						
Return on average Equity (%)	16	25	26	31	29	27
Return on average capital employed (%)	9	13	14	17	18	18
Book value per share (Rs)	45	57	72	94	122	155

Source: Company data, Kotak Institutional Equities

Exhibit 8. Cash flow statement of Punj Lloyd consolidated, March fiscal year-ends 2007-2012E, (Rs mn)

	2007	2008E	2009E	2010E	2011E	2012E
Cashflow from operating activities						
Net profit before tax and extraordinary items	2,291	5,008	6,653	10,051	12,371	14,705
Add: Depreciation	1,062	1,482	1,832	2,182	2,532	2,882
Tax paid	(690)	(1,447)	(1,978)	(2,943)	(3,591)	(4,237)
Interest expenses	1,185	1,767	2,369	2,856	3,025	3,095
Interest paid	(1,185)	(1,767)	(2,369)	(2,856)	(3,025)	(3,095)
Change in working capital	3,536	(10,853)	(8,033)	(1,928)	(4,177)	(5,160)
Net cashflow from operating activites	**6,199**	**(5,811)**	**(1,527)**	**7,362**	**7,135**	**8,191**
Cash from investing activites						
Fixed Assets	(7,222.93)	(4,436.08)	(5,000.00)	(5,000.00)	(5,000.00)	(5,000.00)
Investments	(1,283)	(4)	-	-	-	-
Cash (used) / realised in investing activities	**(8,506)**	**(4,440)**	**(5,000)**	**(5,000)**	**(5,000)**	**(5,000)**
Cash flow from financing activities						
Issue of share capital	(78)	(1)	-	-	-	-
Borrowings	11,427	3,500	6,000	-	-	-
Dividend and Dividend Tax paid	(92)	(312)	(547)	(832)	(1,027)	(1,225)
Cash (used) /realised in financing activities	**11,258**	**3,187**	**5,453**	**(832)**	**(1,027)**	**(1,225)**
Cash generated /utilised	9,112	(7,064)	(1,074)	1,530	1,108	1,966
Net cash at begn of year	1,122	10,027	2,963	1,889	3,420	4,528
Net cash at end of year	**10,233**	**2,963**	**1,889**	**3,420**	**4,528**	**6,494**

Source: Company data, Kotak Institutional Equities estimates

Exhibit 9. Punj Lloyd Consolidated- DCF model, March fiscal year-ends (Rs mn)

Rs mn	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Revenues	**87,495**	**114,305**	**147,584**	**173,713**	**199,709**	**217,731**	**239,061**	**263,643**
Cost of revenues	79,855	103,866	132,955	156,352	179,709	196,049	215,314	237,470
EBITDA	**7,641**	**10,439**	**14,629**	**17,361**	**20,000**	**21,682**	**23,748**	**26,173**
Depreciation	(1,482)	(1,832)	(2,182)	(2,532)	(2,882)	(3,232)	(3,582)	(3,932)
EBIT	**6,159**	**8,607**	**12,447**	**14,829**	**17,118**	**18,450**	**20,166**	**22,241**
Tax	(1,622)	(2,342)	(3,374)	(3,990)	(4,601)	(4,879)	(5,228)	(5,651)
Change in net working capital	(10,853)	(8,033)	(1,928)	(4,177)	(5,160)	(4,646)	(3,680)	(4,356)
Capex	(4,436)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Free cash flow	**(9,270)**	**(4,936)**	**4,327**	**4,195**	**5,239**	**7,157**	**9,840**	**11,166**
PV of each cash flow	(9,270)	(4,936)	3,838	3,300	3,656	4,430	5,402	5,437
EBITDA (%)	**8.7**	**9.1**	**9.9**	**10.0**	**10.0**	**10.0**	**9.9**	**9.9**
Capex (% of sales)	*5.07*	*4.37*	*3.39*	*2.88*	*2.50*	*2.30*	*2.09*	*1.90*

PV of cash flows	11,372	13%
PV of terminal value	73,740	87%
EV	85,111	100%
Debt	5,267	
Equity value	79,845	
Shares outstanding (mn)	261	
Equity value (Rs/share)	**306**	
Equity value (US$ mn)	**1,738**	
Exit FCF multiple (X)	**14**	
Exit EBITDA multiple (X)	**6**	

FCF in terminal year (Rs mn)	11,166
Exit FCF multiple: (1+g)/(WACC-g)	13.6
Terminal value of FCF (Rs mn)	151,434
Exit EBITDA multiple	5.8

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.0
Market risk premium—(Rm-Rf) (%)	6.0
Beta (x)	1.1
Cost of equity-Ke (%)	14.6
Cost of debt-Kd (%)	8.0
Tax rate (%)	33.6
Debt/Capital (%)	20.0
Equity/Capital (%)	80.0
WACC (%)	12.7

Sensitivity of DCF value to WACC, Terminal Growth rate

		WACC				
	305.8	**10.8**	**11.8**	**12.8**	**13.2**	**13.7**
Terminal	**4.0**	387	321	271	252	232
Growth	**5.0**	454	368	**305**	282	259
rate (%)	**6.0**	548	432	350	321	293
	7.0	692	521	411	373	336
	8.0	941	659	497	444	395

Banking

IOBK.BO, Rs126	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	150
52W High -Low (Rs)	140 - 82
Market Cap (Rs bn)	68.5

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	34.2	37.2	41.5
Net Profit (Rs bn)	10.1	11.8	12.4
EPS (Rs)	18.5	21.6	22.8
EPS gth	*29.6*	*17.5*	*5.5*
P/E (x)	6.8	5.8	5.5
P/B (x)	1.7	1.5	1.2
Div yield (%)	2.8	3.6	3.9

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.2	-	-
FIIs	18.0	1.7	(0.3)
MFs	2.7	1.6	(0.5)
UTI	-	-	(2.0)
LIC	2.1	1.1	(0.9)

Indian Overseas Bank: IOB on track as usual, retain OP

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- **IOB reported a growth of 20%yoy in net profit to Rs2.68bn, 13% higher than our estimate**
- **Healthy growth in NII (despite lower NIMs), lower expenses and write-back of investment depreciation were key profit drivers.**
- **Maintain OP rating on the stock**

IOB reported a growth of 20%yoy in net profit to Rs2.68bn, 13% higher than our estimate. Healthy growth in NII (despite lower NIMs), lower expenses and write-back of investment depreciation were key profit drivers. IOB's advances and deposit growth remained higher than the industry, but management has been guiding towards moderate growth in advances of 20% for the full year. Asset quality remains good, though we believe this will likely start inching up reflecting the impact of higher yields on advances and focus on smaller accounts. We are increasing our earnings estimate for FY2008 by 5% to factor in the results, and maintain our positive stance on the company, with target price of Rs150. The stock trades at 5.5X PER and 1.3X PBR FY2009, as against RoE of 24%.

NII growth driven by asset growth as NIM decline, reducing bulk deposit to correct NIMs::

- IOB reported NII growth of 23% yoy, below our expectation but better than other banks.
- NIMs declined to 3.7% down from 4.16% in 4QFY07, and 4% in 1QFY07.
- A large part of NII increase was likely driven by overall balance sheet growth.
- The bank reported 32% increase in deposit yoy to Rs702bn and 28% increase in advances to Rs486bn.
- The bank's CASA reduced to 33% from 38% in 1QFY07.
- The bank has been moderating growth and management expects advances to slowdown to around 20% by year end. We believe this will likely enable it to recoup some of the loss on its NIMs. We are currently factoring in a 30bps fall in NIM yoy.

Fall in non-interest income largely because of treasury:

- IOB reported a 51% decline yoy in non-interest income to Rs1.23bn.
- The bank booked treasury income of just Rs130mn as against Rs1.34bn last year pulling down the overall income.
- Excluding treasury non-interest income is down 5%, though management indicated that fees, forex and income from third party product distribution are all up. We are awaiting more details on this income.

Company making provision for AS15:

- IOB indicated that it has a pension gap of around Rs4.5bn and will be taking this hit over a five-year period.
- Despite this provision, IOB's employee cost has gone up marginally by 4%. Management indicated that the company was making higher provisions for this expense in the past and the realignment to the new estimate is responsible for the slow growth.
- We have, however, retained a hit of Rs3bn post tax from our book value calculation for the company.

Write-back of investment deprecation as interest rate fall, asset quality maintained:

- IOB reported a 46% decline in provision, as it booked Rs450mn profit on AFS portfolio as Gsec yields declined qoq (on short end).
- This is against 1QFY07 when IOB had taken an investment depreciation hit of Rs1.2bn.
- The AFS portfolios is currently very small at around 17% with a duration of 4 years.
- The bank used some of these gains to book higher NPL provision, which jumped to Rs776mn as against Rs154mn last year, and is reflected in qoq decline of 7.6% in its net NPLs to Rs2.4bn. The net NPL ratio now stands at 0.5%.

Indian Overseas Bank quarterly results

In Rs mn	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	% chg	1Q08KS	Actual v/s KS (%)
Interest income	11,433	11,618	12,409	13,721	14,737	17,454	18,462	48.8		
Interest on advances	6,862	7,127	8,337	9,392	9,924	11,358	12,890	54.6		
Income from invts	4,276	4,185	3,880	3,945	4,362	4,846	4,944	27.4		
Bal with RBI	296	306	192	384	451	1,250	628	227		
Interest expenses	6,177	6,207	6,653	7,602	8,686	9,771	11,372	70.9		
Net interest income	**5,256**	**5,411**	**5,755**	**6,119**	**6,051**	**7,682**	**7,090**	**23.2**	**7,482**	**(5.2)**
Non-interest income	1,600	2,122	2,511	1,520	1,980	2,555	1,236	(50.8)	1,641	(24.7)
Other income (excluding treasury)	1,240	1,672	1,166	1,420	1,570	2,035	1,106	(5.2)	1,341	(17.5)
Total income	6,856	7,533	8,267	7,639	8,031	10,237	8,326	0.7	8,473	(1.7)
Operating expenses	3,194	3,424	3,302	3,491	3,116	3,970	3,614	9.5	3,756	(3.8)
Employee	2,346	2,256	2,342	2,413	2,133	2,423	2,431	3.8	2,622	(7.3)
Others	848	1,168	960	1,078	982	1,547	1,183	23.2	1,133	4.4
Operating profit	3,662	4,110	4,965	4,148	4,916	6,267	4,712	(5.1)	4,717	(0.1)
Provisions	869	2,285	2,299	541	1,251	2,470	1,240	(46.1)	1,595	(22.2)
Loan loss	503	397	154	460	520	1,025	776	404.5	540	43.7
Invt. Depreciation	41	1,423	1,219	(350)	8	1,050	(450)	(136.9)	306	(247.2)
Invt amortization	280	355	500	550	632	(25)	620	24.0	650	(4.6)
PBT	2,793	1,825	2,666	3,607	3,665	3,798	3,472	30.2	3,123	11.2
Taxation	**821**	**(220)**	**445**	**1,108**	**1,197**	**900**	**787**	**76.6**	**749**	**5.0**
Net profit	**1,972**	**2,045**	**2,220**	**2,499**	**2,468**	**2,898**	**2,685**	**20.9**	**2,373**	**13.1**
PBT- invt gains + NPL provisions	2,977	3,195	2,694	3,617	3,783	5,353	3,667	20.9	3,668	13.1
Advances (Rs bn)	**317.5**	**345**	**379**	**411**	**441**	**479**	**486**	**28.3**		
Investments(Rs bn)	**204**	**188**	**181**	**198**	**224**	**242**	**264**	**45.8**		
Deposits (Rsbn)	**494**	**505**	**532**	**570**	**592**	**687**	**702**	**31.9**		
CASA ratio	37.8	39.9	38.2	37.7	36.0	34.9	32.8			
Asset quality details										
Gross NPA (Rs bn)	14.06	12.28	11.88	12.2	11.22	11.20	11.37	(4.3)		
Gross NPLs (%)	4.43	3.43	3.13	3.0	2.54	2.34	2.34			
Net NPA (Rs bn)	2.4	2.2	1.8	2.2	2.1	2.6	2.4	33.6		
Net NPLs (%)	0.78	0.65	0.48	0.6	0.48	0.55	0.50			
Capital adequacy details (%)										
CAR	13.14	13.04	13.37	14.66	13.95	13.21	13.31			
Tier I	7.63	8.54	9.14	8.90	NA	8.20	NA			
Yield management measures (%)										
Yield on advances	8.95	8.81	9.05	9.49	9.46	9.58	10.49			
Yield on investments	8.53	8.50	8.41	8.33	8.17	8.13	8.00			
Cost of deposits	4.70	4.69	4.78	4.99	5.34	5.24	5.93			
NIM	3.82	4.05	4.01	4.01	3.72	4.16	3.71			

Source: Company, Kotak Institutional Equities estimates.

Indian Overseas Bank earnings estimates

March fiscal year-ends, 2008E & 2009E (Rs mn)

	Old Estimates		New Estimates		% chg	
	2008E	2009E	2008E	2009E	2008E	2009E
Net interest income	29,319	33,303	29,924	33,359	2.1	0.2
Advances	564,723	660,726	564,723	660,726	-	-
Spread (%)	2.98	2.90	3.04	2.90		
Loan loss provisions	3,624	4,902	3,624	4,902	-	-
Other income	7,754	8,581	7,311	8,108	(5.7)	(5.5)
Fee income	4,853	5,581	4,659	5,357	(4.0)	(4.0)
Treasury income	500	500	400	400		
Operating expenses	15,653	17,823	15,281	17,395	(2.4)	(2.4)
Employee expenses	10,428	11,992	10,056	11,564	(3.6)	(3.6)
Investment amortization	1,866	1,493	2,400	1,920	28.6	28.6
PBT	15,931	17,665	16,381	17,251	2.8	(2.3)
Net profit	**11,152**	**12,366**	**11,794**	**12,420**	**5.8**	**0.4**
Profit bef. treasury and investment	15,431	17,165	15,531	16,851	0.6	(1.8)
+ NPL provisions	19,055	22,067	19,154	21,752	0.5	(1.4)

Source: Kotak Institutional Equities estimates.

Consumer Products

COLG.BO, Rs373	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	340
52W High -Low (Rs)	430 - 291
Market Cap (Rs bn)	50.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	12.9	14.3	15.7
Net Profit (Rs bn)	2.0	2.2	2.4
EPS (Rs)	14.6	16.1	17.6
EPS gth	*32.6*	*10.0*	*9.5*
P/E (x)	25.5	23.2	21.2
EV/EBITDA (x)	18.4	17.3	15.2
Div yield (%)	2.5	3.2	3.5

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.0	-	-
FIIs	11.9	0.1	(0.1)
MFs	1.8	0.1	(0.1)
UTI	-	-	(0.2)
LIC	6.2	0.3	0.1

Colgate-Palmolive (India): 1QFY2008: Volumes growth near double-digits; upgrade rating to Inline

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- **Robust volumes growth helps achieve sales growth of 13.7%.**
- **EBITDA growth of 72% with a 680 bps improvement in margins.**
- **Upgrade rating to Inline with a target price of Rs340/share.**

Colgate reported yoy sales growth of 13.7%, EBITDA growth of 72% and net profit growth of 71.6% for 1QFY08, ahead of our estimates of 11.8% growth in sales and 26.2% growth in EBITDA and 24% increase in net profits. Colgate's EBITDA margins improved sharply by 680 bps yoy ahead of our estimated margin expansion of 170 bps. The margin expansion was aided by ramp up in production at the company's manufacturing facility at Baddi and 15% yoy reduction in employee costs. The company has further consolidated its markets shares in its core business segments of toothpaste with a market share of 49.2% (48.1% in March 06) and toothbrush with a market share of 35.4% (33.6% in March 06). We have revised our EPS estimates to Rs16.1 (Rs15.2 previously) for FY2008 and to Rs17.6 (Rs16.3 previously) for FY2009. We revise our rating to inline (Underperform earlier) with a DCF based target price of Rs340/share (Rs300/share earlier).

Robust volumes growth helps achieve sales growth of 13.7%. Colgate achieved an overall volumes growth of 9% yoy with the toothpaste category growing by 10% and toothbrush by 6%. The recent launches in the toothpaste category- ‘Colgate Active Salt’ and ‘Colgate Max Fresh’ have both achieved a market share of 5% each. Increasing volumes and further consolidation of market shares through product innovation and re-launch helped the company to retain its growth momentum.

EBITDA growth of 72% with a 680 bps improvement in margins. Colgate’s EBITDA grew by 72% yoy to Rs689 mn in 1QFY2008 (Rs401 mn 1QFY2007). EBITDA margins expanded by 680 bps yoy with management attributing the increase to the benefits of the higher production and new state of the art toothpaste plant at Baddi. We note that a 15% yoyo decline in staff costs also contributed to a 230 bps improvement in EBITDA margins. We have adjusted the other income in reported financials for a Rs75 mn write-back of provision for diminution in value of investment in Colgate Palmolive (Nepal). We have also reversed the Rs75 mn charged to other expenses as a provision for contingencies on account of existing obligations and due to the continuing uncertainties of the Nepal subsidiary’s operations.

Price increases to counter cost increases. Colgate as well as Hindustan Unilever have taken price increases of 4-5% in the toothpaste category during June. The price increases are cost led with the intention of maintaining margins. Colgate had last taken a price increase of about 4% in May 2006. We note that material cost as a percentage of sales has remained unchanged at 43.5% during 1QFY08 compared to 43.8% during 1QFY07.

Upgrade rating to Inline with a target price of Rs340/share. We have revised our EPS estimates to Rs16.1/share (Rs15.2/share previously) for FY2008E and to Rs17.6/share (Rs16.3/share previously) for FY2009E. We upgrade our rating to Inline from Underperform with a target price of Rs340/share (Rs300/share previously) implying a P/E of 21.1X on FY2008E and 19.3X on FY2009E.

Colgate Palmolive (India)-Quarterly summary, March yearends (Rs mn)

		yoy		Our est.	yoy
	1QFY08	1QFY07	% chg	1QFY08	% chg
Net sales	**3,507**	**3,096**	**13.3**	**3,461**	**11.8**
Material cost	(1,525)	(1,356)		(1,547)	
Employee cost	(223)	(268)		(328)	
Other expenditure	(544)	(504)		(555)	
Advertising & Promotions	(525)	(567)		(525)	
Total expense	(2,817)	(2,695)		(2,955)	
EBITDA	**689**	**401**	**72.0**	**506**	**26.2**
Depreciation	(44)	(37)		(45)	
EBIT	645	364		461	
Other income	135	148		140	
Net interest	(3)	(2)		(3)	
PBT	**777**	**509**	**52.5**	**598**	**17.5**
Tax	(158)	(149)		(150)	
PAT	**619**	**361**	**71.6**	**448**	**24.2**
Extraordinary Income (loss)	(10)	-		-	
Reported net profit	**609**	**361**	**68.8**	**448**	**24.2**
EBITDA margin (%)	19.7	12.9		14.6	
Effective tax rate (%)	20.3	29.2		25.1	
Costs as % of net sales					
Material cost	43.5	43.8		44.7	
Employee cost	6.4	8.7		9.5	
Other expenditure	15.5	16.3		16.0	
Advertising & Promotions	15.0	18.3		15.2	

Source: Company data, Kotak Institutional Equities

Colgate: Profit model, balance sheet, 2006-2009E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E
Profit model (Rs mn)				
Net sales	11,239	12,892	14,339	15,654
EBITDA	**2,018**	**2,089**	**2,419**	**2,766**
Other income	196	670	598	600
Interest	(6)	(10)	(10)	(10)
Depreciation	(149)	(153)	(158)	(183)
Extraordinary items	(125)	(389)	0	0
Pretax profits	1,934	2,208	2,849	3,173
Tax	(558)	(606)	(659)	(776)
Deferred taxation				
Net profits	**1,376**	**1,602**	**2,190**	**2,398**
Earnings per share (Rs)	**11.0**	**14.6**	**16.1**	**17.6**
Balance sheet (Rs mn)				
Total equity	2,711	2,805	1,853	2,148
Total borrowings	44	43	44	44
Currrent liabilities	3,511	4,226	4,707	5,090
Total liabilities and equity	**6,265**	**7,074**	**6,604**	**7,282**
Cash	880	1,117	391	693
Current assets	2,135	2,447	2,709	3,100
Total fixed assets	1,691	1,920	1,915	1,898
Investments	1,559	1,590	1,590	1,590
Total assets	**6,265**	**7,074**	**6,604**	**7,282**

Source: Company data, Kotak Institutional Equities estimates

Utilities

LAIN.BO, Rs211	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	252
52W High -Low (Rs)	276 - 137
Market Cap (Rs bn)	46.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	16.1	31.0	61.0
Net Profit (Rs bn)	1.9	3.4	6.8
EPS (Rs)	8.5	15.2	30.5
EPS gth	*61.3*	*93.1*	*117.9*
P/E (x)	24.9	13.9	6.9
EV/EBITDA (x)	14.9	14.8	9.4
Div yield (%)	-	-	-

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	75.0	-	-
FIIs	8.8	0.1	0.1
MFs	1.4	0.0	0.0
UTI	-	-	-
LIC	1.5	0.0	0.0

Lanco Infratech: 1QFY08 results in line with expectations; Upgrade to Outperform

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- **Maintain target price of Rs252/share, upgrade to Outperform**
- **Consolidated sales at Rs5.9 bn, EBITDA at Rs1.15 bn, grow in line with estimates**
- **Construction business order book at Rs75 bn**

Lanco Infratech (LITL) reported consolidated sales of Rs5.9 bn (our estimate Rs5.6 bn), EBITDA of Rs1.15 bn (our estimate 1.13 bn) and net profit of Rs0.51 bn (our estimate 0.53 bn) during 1QFY08. The results are not strictly comparable on a yoy basis as the company has undergone restructuring and consolidation of power investments under LITL during FY2007. LITL'share price has correctly sharply on the news of its bid for the Sasan UMPP being declared invalid. We note that our SOTP-based target price of Rs252/share did not include any value for the Sasan UMPP.

Consolidated net sales increase by 135% yoy to Rs5.9 bn. Lanco reported consolidated net sale of Rs5.9 bn for 1QFY08, an increase of 135% over 1QFY07. While both Lanco Kondapalli and Aban Power operated at a higher PLF on a yoy basis, the bulk of the revenue increase in power business is attributed to a sharp increase in power trading revenues. Sales and PAT of Lanco Electric Utility (the power trading business) increased by 367% and 538% to Rs2,074 mn and Rs12 mn, respectively. Lanco Electric Utility traded 598 MU during the quarter, garnering second highest market share in power trading during the quarter after PTC. The power business contributed Rs4.4 bn in revenues and Rs0.75 bn in EBIT.

Construction business order book swells to Rs75 bn. LITL has an outstanding order book of Rs75 bn for the construction and EPC business. In-house projects constitute about 90% of the order book. These include Rs35 bn for the Nagarjuna project, Rs9 bn for the Amarkantak project and the recent addition of Rs24 bn for Teesta VI hydropower project. We note that the 500 MW Teesta VI achieved financial closure during the quarter. LITL received very good response to the sale of residential flats at Lanco Hills in Hyderabad and around 4 mn sq.ft. has already been booked.

Forecasts and valuations

	Revenues		EBITDA		Net profit	EPS	ROCE	ROE
	(Rs mn)	Gth (%)	(Rs mn)	Gth (%)	(Rs mn)	(Rs)	(%)	(%)
2006	1,471	(20.0)	167	3.7	171	5.6	7.8	19.7
2007	16,058	991.6	4,198	2,407	1,881	8.5	20.5	23.4
2008E	31,011	93.1	7,226	72.1	3,383	15.2	10.6	20.1
2009E	61,011	96.7	15,588	115.7	6,791	30.5	11.9	31.0
2010E	95,768	57.0	30,297	94.4	13,714	61.7	17.1	42.6
2011E	104,517	9.1	36,549	20.6	13,071	58.8	16.5	28.7

Note: Financials of power projects have been consolidated from FY2007E onwards after the restructuring of the group holding structure.

Source: Company data, Kotak Institutional Equities estimates.

Lanko Infratech (Consolidated), Quarterly performance, March yearends (Rs mn)

	yoy			qoq		
	June-07	June-06	% change	June-07	Mar-07	% change
Net sales	**5,914**	**2,512**	**135**	**5,914**	**4,895**	**21**
Construction Generation and Operating Expenses	4,525	1,640	176	4,525	3,276	38
Personnel costs	148	31	385	148	77	92
Other expenses and provisions	94	59	60	94	231	(59)
Total expenses	**4,768**	**1,729**	176	**4,768**	**3,584**	33
EBITDA	**1,147**	**783**	**46**	**1,147**	**1,311**	**(13)**
Depreciation	166	239		166	180	
EBIT	980	544		980	1,131	
Other income	118	34		118	111	
Net interest	200	158		200	224	
PBT	**899**	**420**	**114**	**899**	**1,018**	**(12)**
Tax	131	78		131	213	
Deferred tax	22	(2)		22	60	
Profit before Minority Interest	**745**	**343**	**117**	**745**	**744**	**0**
Minority Interest	**233**	**298**		**233**	**234**	
Net Profit	**513**	**45**	**1,050**	**513**	**510**	**0**
EBITDA margin (%)	19	31		19	27	
Effective tax rate (%)	17	18		17	27	
Segment Revenues						
Construction	1,479	918	61	1,479	2,168	(32)
Power	4,415	1,592	177	4,415	2,718	62
Property Development	-	-		-	-	
Others	20	2	840	20	9	123
Net revenues	**5,914**	**2,512**		**5,914**	**4,895**	
EBIT						
Construction	236	125		236	441	
Power	757	357		757	518	
Property Development	(13)	(1)		(13)	(10)	
Others	0	62		0	(1)	
Total	**980**	**544**		**980**	**948**	
EBIT Margin (%)						
Construction	16	7		16	20	
Power	17	33		17	19	
Property Development	NA	NA		NA	NA	
Others	1	20		1	(10)	

Source: Company data, Kotak Institutional Equities.

Lanko Infratech (Standalone), Quarterly performance, March yearends (Rs mn)

	yoy			qoq		
	June-07	June-06	% change	June-07	Mar-07	% change
Net sales	**1,520**	**927**	**64**	**1,520**	**2,172**	**(30)**
Construction Generation and Operating Expenses	1,086	718	51	1,086	1,568	(31)
Personnel costs	99	14	595	99	38	162
Other expenses and provisions	53	14	273	53	127	(58)
Total expenses	**1,238**	**747**	66	**1,238**	**1,733**	(29)
EBITDA	**282**	**180**	**57**	**282**	**440**	**(36)**
Depreciation	19	4		19	4	
EBIT	262	176		262	435	
Other income	48	90		48	30	
Net interest	48	13		48	13	
PBT	**263**	**252**	**4**	**263**	**452**	**(42)**
Tax	94	20		71	20	
Deferred tax	60	(2)		22	(2)	
Net Profit	**109**	**234**	**(53)**	**170**	**433**	**(61)**
Extraordinary		-			-	
Reported Net Profit	**109**	**234**		**170**	**433**	
EBITDA margin (%)	19	19		19	20	
Effective tax rate (%)	58	7		35	4	
Segment Revenues						
Construction	1,479	918	61	1,479	2,150	(31)
Power	19	7	186	19	5	264
Property Development	22	2	839	22	18	27
Others	-	-	NA	-	-	NA
Net revenues	**1,520**	**927**		**1,520**	**2,172**	
EBIT						
Construction	236	170		236	412	
Power	(3)	2		(3)	(7)	
Property Development	22	2		22	18	
Others	4	83		4	72	
Total	**259**	**257**		**259**	**495**	
EBIT Margin (%)						
Construction	16	19		16	19	
Power	(18)	26		(18)	(134)	
Property Development	100	100		100	100	
Others	NA	NA		NA	NA	

Source: Company data, Kotak Institutional Equities.

SOTP value of Rs252/share

	Explicit forecast (PPA period)		PV of terminal value		Total value	Equity Inv.		Cash &	Attributable value		
	DCFe (Rs mn)	No. of years	(Rs mn)	Contr. (%)	(Rs mn)	(Rs mn)	(X) BV	cash eqv.	(%)	(Rs mn)	(Rs/share)
Operating power plants											
Lanco Kondapalli	5,485	10	2,082	28	7,567	3,400	2.2	2,473	59.0	5,924	
Aban Power	1,889	15	272	13	2,161	1,318	1.6	895	51.0	1,559	
Clarion Power	200	18	0	0	200	224	0.9	71	97.0	263	
Rithwik Power	129	17	0	0	129	90	1.4	22	89.0	134	
Lanco Electric Utility (Power trading)	253	14	264	51	517	212	2.4		99.8	516	
Power plants under construction											
Lanco Amarkantak	9,465	25	572	6	10,037	5,260	1.9		76.0	7,628	
Lanco Green	1,392	40	0	0	1,392	838	1.7		90.0	1,253	
Vamshi Hydro	426	35	0	0	426	139	3.1		91.1	388	
Vamshi Industrial	393	35	0	0	393	145	2.7		91.1	358	
Nagarjuna Power	11,476	25	854	7	12,330	8,708	1.4		74.0	9,124	
Lanco Energy - Teesta VI	14,849	35	0	0	14,849	5,900	2.5		74.0	10,988	
Power plants yet to achieve financial closure											
Lanco Hydro (Uttaranchal)	2,396	35	0	0	2,396	1,440	1.7		91.1	2,183	
Anpara 'C'	7,497	25	647	8	8,144	8,000	1.0		100.0	8,144	
Sub total	**55,850**		**4,690**	**8**	**60,540**	**35,675**	**1.7**			**48,461**	
17% lost as dividend distribution tax on consolidation										(8,238)	
Net equity funding requirement										(13,880)	
Power (A)										**26,343**	**118**
Construction (B)										**12,123**	**55**
Property development										19,997	
17% lost as dividend distribution tax on consolidation										(3,399)	
Property development (C)										**16,597**	**75**
Road projects (D)										**1,006**	**5**
Grand Total (A+B+C+D)										**56,068**	**252**

Source: Kotak Institutional Equities estimates.

Utilities

CESC.BO, Rs491	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	425
52W High -Low (Rs)	523 - 263
Market Cap (Rs bn)	56.6

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	25.2	26.0	28.1
Net Profit (Rs bn)	3.0	2.7	3.3
EPS (Rs)	36.0	23.7	28.4
EPS gth	*32.8*	*(35.1)*	*20.1*
P/E (x)	13.6	20.7	17.3
EV/EBITDA (x)	9.4	9.8	7.7
Div yield (%)	0.5	0.7	0.9

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	40.9	-	-
FIIs	29.1	0.2	0.0
MFs	4.0	0.1	0.0
UTI	-	-	(0.1)
LIC	7.2	0.2	0.1

CESC: 1QFY08: Results in line with expectations

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- **Topline aided by higher than anticipated domestic volumes and export realizations.**
- **Operating performance remains on track.**
- **RPG Retail'Strong floor-space additions expected; earnings break-even may take some time though.**
- **SOTP-based target price increased to Rs425/share (Rs396 previously).**

CESC reported sales of Rs7.17 bn (our estimate Rs6.74 bn), EBITDA at Rs1.30bn (our estimate Rs1.28 bn) and PAT at Rs0.82 bn (our estimate Rs0.58 bn). Strong growth in domestic sales volumes and higher electricity purchases resulted in higher than expected revenues. While EBITDA was inline with estimates, reported PAT was higher on account of a much higher other income(Rs430 mn compared to Rs210 mn in 1QFY07). The other income for the quarter includes Rs130 mn from sale of machinery and scrap related to the closure of power plant at Mulajore. Management expects more other income from Mulajore during the next six months. We have revised our EPS estimates to Rs23.7 (Rs29.6 previously) for FY2008 and Rs28.4 (Rs38.3 previously) for FY2009. With limited financials available for Spencer Retail, we have not consolidated the financials of retail business and EPS estimates reflect the financials of power business on an enhanced equity base. We will revisit our assumptions to factor in the impact of new tariff order. While we await the detailed tariff order, we note that the tariff order passed recently has continued with the tariff philosophy adopted in FY2007 and given a small increase of Rs0.015/unit in tariffs for FY2008. We retain our In Line rating with a SOTP based target price of Rs425/share. Our SOTP value includes Rs122/share (Rs mn) as the value of the retail business.

Topline aided by higher than anticipated domestic volumes and export realizations. Strong domestic volume sales growth (7.3%) in Kolkata and limited scope of increasing PLF at the existing generating stations, resulted in CESC resorting to increased outside purchases (up 35% yoy). Surplus off-peak power available for exports was stagnant at 78 mn units. Higher realization from export of power (Rs3.5/unit as compared to Rs2.9/unit in 1QFY07) also contributed to better than expected sales.

Operating performance remains on track. During 1QFY08 CESC achieved 1.9% higher generation from its power plants as compared to 1QFY07. Consequently PLF for the quarter improved to 97.7% from 95.9% during 1QFY07. A,T&C losses were down to 15.3% from 15.7% a year earlier. The gains from improvement in operating performance are currently passed on to the consumers and the company benefits through partial retention of profits from exports sales.

RPG Retail—Strong floor-space additions expected; earnings break-even may take some time though. We expect RPG's retail floor-space to grow almost 8X over FY2007-11, driven by growth in existing stores number as well as rollout of new formats. We also expect average sq. ft sales to improve, as stores get matured (and resultantly same-store-sales improve) and new formats start delivering revenues (especially the mobile/electronic format 'cellucom'). However, we note that RPG's average sq. ft sales (at Rs7,700) is lower than companies operating in similar formats—which partly explains its lower profitability. We expect higher operation base and growth in average sq. ft revenues to improve EBITDA margin going forward. However, we do not expect RPG's retail business at break-even at firm-wide EBITDA level before FY2011. Exhibit 2 gives our key assumptions on RPG's retail business and exhibit 3 gives abridged pro-forma financial statements.

Since RPG Retail is not required to publish its financials publicly, we have based on valuation on data communicated by the management. We await the detailed financials, however in the interim; value RPG's retail business at 1.5X FY2008E revenues, or Rs14.8 bn (this is also close to its merger-enterprise value at Rs12.2 bn). For CESC's 95% holding, this translates to Rs122/share.

SOTP-based target price increased to Rs425/share (Rs396 previously). We have increased our SOTP-based target price to Rs425/share: We use the enhanced equity base of 115 mn shares factoring in the dilution from 31 mn shares issued for the merger of the holding company for RPG Retail (contributing Rs122/share). We value CESC's operational power generation, transmission and distribution business in Kolkata at Rs198/share. The 250 MW expansion project at Budge Budge contributes additional Rs17/share to our target price. We assign Rs20/share to CESC's real estate business. CESC has floated a 100% subsidiary to manage its real estate ventures and plans to develop the real estate business from the prime lands owned by CESC on its own. We note that CESC has to share 33% gains from real estate with the consumers as a reduction in its Annual Revenue Requirement (ARR).

Exhibit 1: Quarterly results for CESC, March yearends (Rs mn)

		yoy		Our est.	
	1Q 2008	1Q 2007	*% chg*	1Q 2008	*% chg*
Net sales	**7,170**	**6,740**	***6.4***	**6,831**	***1.4***
Operating costs					
Cost of electrical energy purchased	(1,150)	(850)	*35.3*	(929)	*9.4*
Cost of fuel	(2,240)	(2,220)	*0.9*	(2,570)	*15.8*
Personnel costs	(710)	(700)	*1.4*	(700)	-
Other expenses and provisions	(1,770)	(1,610)	*9.9*	(1,350)	*(16.1)*
Total operating expense	(5,870)	(5,380)	*9.1*	(5,549)	*3.1*
EBITDA	**1,300**	**1,360**	***(4.4)***	**1,282**	***(5.8)***
EBITDA margin (%)	18.1	20.2		18.8	
Depreciation	(410)	(410)		(427)	
EBIT	**890**	**950**		**855**	
Other income	430	210	*104.8*	222	*5.5*
Interest	(390)	(540)	*(27.8)*	(418)	*(22.6)*
PBT	**930**	**620**	***50.0***	**658**	***6.2***
Tax	(110)	(70)		(75)	
Net profit	**820**	**550**	***49.1***	**583**	***6.0***
Extraordinary income/ (expenses)	-	-		-	
Key operating parameters					
Sales break-up (Rs mn)					
Domestic	6,897	6,510	*5.9*	6,578	*1.0*
Exports	273	230	*18.7*	253	*9.9*
Units generated - gross (MU)	2,079	2,041	*1.9*	2,081	*2.0*
Units purchased (MU)	421	312	*35*	354	
Units sold-domestic (MU)	1,895	1,766	*7*	1,837	
Units exported (MU)	78	79		79	
Overall PLF (%)	98	96			
T&D loss (%)	15	16			
Per unit price real. (domestic sales)	3.6	3.7	*(1)*	3.6	
Per unit price real. (exports)	3.5	2.9	*20*	3.2	
Fuel cost per unit generated (net)	1.2	1.2	*(1)*	1.4	
Per unit cost of power purchased	2.7	2.7	*0*	2.6	

Source: Company data, Kotak Institutional Equities.

Exhibit 2: Expect strong growth in retail space addition

Key assumptions of PRG Retail, March fiscal year-ends, 2007-2011E (Rs mn)

	2007	2008E	2009E	2010E	2011E
Number of stores (#)	264	484	894	1,345	1,671
Total retail space ('000 sq. ft)	**655**	**1,437**	**2,670**	**4,051**	**5,043**
Average sales per sq. ft (Rs)	7,709	7,269	7,854	8,621	8,691
Gross margin (%)	18.9	19.2	19.2	19.1	18.8
Store-level EBITDA margin (%)	2.4	3.5	3.5	4.4	4.5
Firm-level EBITDA margin (%)	(5.9)	(6.5)	(4.0)	(0.6)	0.5

Source: Company data for historical, Kotak Institutional Equities estimates.

Exhibit 3: Expect strong revenue growth, but profability break-even might take some time

Abrigded pro-forma financial statements, March fiscal year-ends, 2007-2011E (Rs mn)

	2007	2008E	2009E	2010E	2011E
Income statement					
Revenue	5,050	10,442	20,969	34,925	43,831
Gross margin	955	2,000	4,021	6,653	8,260
EBITDA	(296)	(674)	(833)	(197)	201
Net earnings	(376)	(824)	(1,042)	(588)	(460)
Balance sheet					
Net worth	910	6,086	5,045	4,457	3,996
Borrowings	900	900	900	2,700	4,500
Net fixed assets	1,009	2,155	3,883	5,438	6,334
Investments	446	446	446	446	446
Net working capital	356	4,386	1,615	1,273	1,717
Cash flow statement					
Cash flow from operations	(336)	(866)	(1,095)	(702)	(124)
Cash flow from investing	-	(1,206)	(1,847)	(1,765)	(1,197)
Cash flow from financing	390	5,910	(90)	1,620	1,440
Closing cash balance	54	3,892	859	12	131

Source: Company data for historical, Kotak Institutional Equities estimates.

CESC Sum-of-parts valuation

	Methodology	Key assumptions				Per share value (Rs)-new
Kolkata generation, transmission & distribution	**DCF to equity** Disc. rate:11% Terminal year growth: 2.5%	The business enjoys very high predictability of cash flows. The value enhancement on account of 250 MW expansion at Budge Budge captured separately				198
Real-estate	**DCF** Disc. rate:11% Terminal year growth: 3%	**Mall**		**35 acre land at Mulajore**		20
		Area for lease (sq ft)	400,000	Area for sale (sq ft)	2,500,000	
		Rental (Rs/sq ft)	100	Rate (Rs/sq ft)	600	
		Inflation in rental (%)	3			
		CESC's share (%) (A)	100	CESC's share (%) (A)	100	
		CESC's retainable share of A (%)	67	CESC's retainable share of A (%)	67	
Investments	**Book value**	1% Cumulative optionally convertible preference shares of Integrated Coal Mining Ltd. (Rs mn)	300			3
Cash and investible surplus on books	**Market value**	Marketable securities & cash on books (Rs bn):	6.3			31
		Less Regulatory liability/unallocable debt (Rs bn)	-2.7			
			3.6			
Retail	**EV/Sales**	1.5X on FY2008E sales, as the company is still in the rollout phase				122
New Projects: Budge Budge 3rd unit	DCF to equity Disc. rate:11% Terminal year growth: nil	Likely enhancement is 1.3X based on our valuation framework.				17
Total						**390**
Blue sky						32
SOTP value						**422**

Source: Kotak Institutional Equities estimates

Banking

JKBK.BO, Rs681	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	875
52W High -Low (Rs)	757 - 344
Market Cap (Rs bn)	33.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	9.5	10.5	12.8
Net Profit (Rs bn)	2.7	3.2	3.8
EPS (Rs)	56.6	66.1	78.9
EPS gth	*55.2*	*16.7*	*19.4*
P/E (x)	12.0	10.3	8.6
P/B (x)	1.8	1.6	1.4
Div yield (%)	1.7	1.9	2.3

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.2	-	-
FIIs	34.6	0.2	0.1
MFs	1.1	0.0	(0.1)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

J&K Bank: PAT exceeds estimate supported by non-interest income, retain OP

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- **J&K Bank PAT at Rs832 mn in 1QFY08 was up 33% yoy and 19% ahead of estimates**
- **While NII growth was low 6%, higher non-interest income from core-operation, and lower provisions were the prime drivers of 1QFY08 PAT**
- **We maintain our OP rating on the stock with target price of Rs875**

J&K Bank PAT at Rs832 mn in 1QFY08 was up 33% yoy and 19% ahead of estimates. While NII growth was low 6%, higher non-interest income from core-operation, and lower provisions were the prime drivers of 1QFY08 PAT. Post consolidation of its balance sheet, management had guided to a strong loan growth for FY2008 and this is evident in the 32%yoy loan growth in 1QFY08. However, the bank has likely funded loan growth by asset side rebalancing, which along with shedding of bulk deposits will likely enable NIM expansion in subsequent quarters. We have marginally tweaked our earnings estimates for the next two years to factor in current results. We maintain our OP rating on the stock with target price of Rs875. J&K Bank trades at 8.7X PER and 1.4X PBR FY2009, as against expected RoE of 16%.

NII growth disappoints, NIM likely to improve from the current levels.

- NII of J&K Bank in 1QFY08 was Rs1.9 bn up 6% yoy and 10% lower than our estimates.
- The advances growth accelerated to 32%yoy compared to the 17% growth witnessed in FY2007. This is in line with the management guidance on growing its loan book aggressively in the state of J&K and is coming after two years of balance sheet consolidation.
- The loan growth has been funded by asset side rebalancing rather than by deposit mobilization. J&K Bank's deposit base has declined sequentially by Rs4.5 bn in the current quarter. This along with shedding of bulk deposits will likely enable margin to expand from the current low level of 2.9%.

Higher other income and lower provisions account for most of the profits:

- In 1QFY08, J&K Bank reported yoy growth of 46% in non-interest income to Rs358mn, and a 45% reduction in provision to Rs190 mn.
- The growth in non-interest income (ex-treasury) was a healthy 38% yoy , mainly contributed by higher fee income.
- Provision expenses were lower for J&K Bank as it did not have any investment depreciation hit in the current quarter.

Decline in NPLs a positive, CAR healthy.

- J&K Bank had a healthy CAR of 13.01% as of June 2006 with a Tier I ratio of 12.37%. While J&K Bank reported a yoy increase of 79% in net NPL to Rs1.7 bn as of June 2007, these declined qoq by around 12.5%.
- Bank had classified some of its legacy accounts as NPLs in 3QFY07 and 4QFY07, which led to an increase in reported NPLs at the bank.

J&K Bank quarterly performance (Rsmn)

	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	% chg	1Q08KS	Actual v/s KS (%)
Interest income	4,148	4,468	4,547	4,621	4,631	5,210	5,751	26.5		
Loans	2,711	3,018	3,141	3,257	3,393	3,754	4,402	40.1		
Investments	1,261	1,335	1,286	1,281	1,146	1,368	1,266	(1.5)		
Balance with RBI & banks / oth	176	115	119	84	93	88	82	(31.4)		
Interest expense	2,538	2,582	2,760	2,688	2,680	3,187	3,854	39.6		
Net interest income	**1,610**	**1,887**	**1,786**	**1,933**	**1,951**	**2,024**	**1,896**	**6.2**	**2,108**	**(10.0)**
Non-int.income	319	522	272	404	379	760	418	53.8	326	28.1
Total income	1,929	2,408	2,058	2,337	2,329	2,784	2,314	12.4	2,434	(4.9)
Operating expenses	868	982	829	908	888	1,094	943	13.7	969	(2.7)
Employee cost	494	499	524	552	522	599	610	16.4	618	(1.4)
Other cost	374	484	305	356	366	495	333	9.1	350	(5.1)
Operating profit pre provisions	1,061	1,426	1,229	1,429	1,442	1,690	1,372	11.6	1,465	(6.4)
Provisions and cont.	280	1,015	346	249	353	680	190	(45.0)	466	(59.3)
Investment Depreciation	60	260	91	(50)	-	145	-	(100.0)		
Investment Amortization	62	54	55	56	52	59	NA			
NPLs	158	722	200	225	300	454	190	(5.0)		
PBT	780	411	884	1,180	1,089	1,010	1,182	33.7	999	18.3
Tax	274	183	260	340	250	557	289	11.3	300	(3.4)
Net profit	**507**	**228**	**624**	**840**	**839**	**453**	**892**	**43.1**	**699**	**27.6**
Tax rate (%)	35.1	44.5	29.4	28.8	23.0	55.2	24.5		30.0	
(Rs bn)										
Total Deposits	**196**	**235**	**207**	**204**	**203**	**252**	**247**	**19.5**		
Savings deposits	47	50	51	NA	54	58	59	14.2		
Current deposits	20	30	25	NA	28	35	30	18.8		
Term deposits	129	155	130	NA	121	159	159	21.8		
CASA ratio (%)	34.2	34.2	37.0	40.9	40.4	37.0	35.8			
Advances	**121**	**145**	**131**	**140**	**148**	**171**	**174**	**32.2**		
Investments	**74**	**90**	**82**	**75**	**70**	**74**	**77**	**(5.7)**		
Assets	**NA**	**264**	**238**	**NA**	**NA**	**286**	**282**	**18.4**		
Capital adequacy details (%)										
CAR	14.40	12.14	12.99	13.14	14.57	13.24	13.01			
Tier I	14.04	11.76	12.57	NA	14.10	12.60	12.37			
Tier II	0.37	0.38	0.42	NA	0.47	0.64	0.64			
Asset quality details										
Gross NPLs (Rs mn)	3,206	3,702	3,458	3,760	4,051	5,018	4,872	40.9		
Gross NPL ratio (%)	2.6	2.5	2.6	2.6	2.7	2.9	2.8			
Net NPLs (Rs mn)	1,363	1,339	945	1,050	1,088	1,936	1,693	79.2		
Net NPL ratio (%)	1.1	0.9	0.7	0.8	0.7	1.1	1.0			
Yield on Advances (Annualised)	9.03	8.48	9.10	9.60	9.41	9.40	10.23			
Yield on Investments (Annualised)	6.58	NA	5.99	NA	6.34	6.20	6.71			
Net Interest Margins (Annualised)	2.97	NA	2.93	3.06	3.56	3.23	2.90			

Source: Company, Kotak Institutional Equities.

Energy

GSPT.BO, Rs56	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	58
52W High -Low (Rs)	61 - 32
Market Cap (Rs bn)	30.5

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	3.2	4.6	6.7
Net Profit (Rs bn)	0.9	1.1	2.3
EPS (Rs)	1.6	2.0	4.1
EPS gth	*40.4*	*21.0*	*108.6*
P/E (x)	34.1	28.2	13.5
EV/EBITDA (x)	13.1	10.1	6.5
Div yield (%)	0.9	1.1	2.3

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	39.1	-	-
FIIs	20.3	0.1	(0.0)
MFs	3.5	0.1	(0.0)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

GSPL: In-line 1QFY08 results; retain estimates with DCF-based target price of Rs58

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- **In-line 1QFY08 results**
- **Retain estimates with 12-month DCF-based target price of Rs58**
- **Imminent regulations on gas transportation business would need careful watching**

GSPL reported 1QFY08 net income at Rs179 mn (-7.3% qoq, -7.5% yoy) in line with our estimate of Rs171 mn. 1QFY08 EBITDA at Rs834 mn was also in-line with our expected Rs830 mn. We retain our EPS estimates for FY2008, FY2009 and FY2010 at Rs2.0, Rs4.1 and Rs5.2, respectively with a revised 12-month DCF-based target price of Rs58 (Rs57 previously) due to roll-forward of DCF. Key risks stem from lower-than-expected gas transportation volumes and tariffs. We would also watch for the nature of regulation on gas transportation business which will determine the earnings for the company in the future.

Higher volumes in 1QFY08. GSPL's reported 1QFY08 revenues at Rs958 mn (+15% qoq and +34% yoy) marginally below our estimate of Rs977 mn led by an increase in gas transportation volumes to 1.54 bcm versus 1.40 bcm in 4QFY07. The increase in volume was due to the commissioning of new pipelines and additional LNG imports by Petronet LNG. 1QFY08 transmission charge was flat qoq at Rs0.62/cu m compared to Rs0.63/cu m in 4QFY07.

The nature of future regulations on gas transportation will determine future earnings. GSPL's future earnings will depend on the nature of future regulations on the gas transportation business. The newly constituted Petroleum and Natural Gas Regulatory Board will take a view on the regulatory framework.

The key variables that will have an impact on GSPL's earnings will be (1) reasonable rate of return, (2) total capital employed (or return-earning asset) on which the reasonable rate of return will apply. As per the draft regulations on natural gas pipelines formulated by the ministry of petroleum and natural gas, capital employed has been defined as gross fixed assets less depreciation plus normative working capital; this is in line with COS (Cost of Services) methodology followed globally and would mean that GSPL's tariff for a pipeline (and earnings from the pipeline) would decline over a period of time due to a declining return-earning asset base. However, if the regulator allows for a constant return-earning asset base, as in case with the power sector, then GSPL's earnings will remain largely constant over time. Exhibit 4 gives sensitivity of GSPL's FY2009E and FY2010E net income to different regulatory frameworks.

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

			qoq			yoy			yoy	
	2008E	1Q 2008	4Q 2007	*(% chg.)*	1Q 2008	1Q 2007	*(% chg.)*	2007	2006	*(% chg.)*
Net sales	**4,560**	**958**	**831**	***15.3***	**958**	**715**	***34.0***	**3,176**	**2,635**	***20.5***
Total expenditure	(594)	(124)	(121)	*2.9*	(124)	(157)	*(21.0)*	(495)	(692)	*(28.5)*
Inc/(Dec) in stock	—	—	—	—	—	—	—	—	—	—
Operating costs	(336)	—	—	—	—	—	—	—	—	—
Gas transportation charges	—	(8)	3	*(350.0)*	(8)	(25)	—	(72)	(192)	*(62.6)*
Connectivity charges	—	(32)	(22)	*46.8*	(32)	(56)	—	(131)	(222)	*(41.0)*
Staff cost	(43)	(13)	(12)	*6.6*	(13)	(8)	*58.5*	(40)	(27)	*44.9*
Other expenditure	(215)	(71)	(90)	*(20.7)*	(71)	(68)	*5.6*	(253)	(251)	*0.8*
EBITDA	**3,966**	**834**	**711**	***17.3***	**834**	**558**	***49.4***	**2,681**	**1,943**	***38.0***
OPM (%)	**87.0**	**87.1**	**85.5**		**87.1**	**78.1**		**84.4**	**73.7**	
Other income	88	53	50	*6.6*	53	41	*29.7*	175	45	*290.4*
Interest	(894)	(198)	(164)	*20.7*	(198)	(89)	*123.5*	(457)	(413)	*10.6*
Depreciation	(1,877)	(398)	(345)	*15.5*	(398)	(215)	*85.1*	(1,026)	(791)	*29.8*
Pretax profits	**1,283**	**291**	**252**	***15.6***	**291**	**296**	***(1.5)***	**1,373**	**784**	***75.0***
Extraordinaries/sales tax benefit	—	—	—		—	—		—	—	
Tax	—	(74)	70		(74)	(1)		(70)	(2)	
Deferred taxation	(202)	(39)	(130)	*(70.3)*	(39)	(102)	*(62.2)*	(409)	(315)	*29.7*
Net income	**1,081**	**179**	**193**	***(7.3)***	**179**	**193**	***(7.5)***	**894**	**467**	***91.4***
Adjusted profits	**1,081**	**179**	**193**	***(7.3)***	**179**	**193**	***(7.5)***	**894**	**467**	***91.4***
Income tax rate (%)	*15.7*	*38.7*	*23.5*		*38.7*	*34.7*		*34.9*	*40.5*	
Pipline volumes										
Pipeline volumes (mcm)	7,245	1,536	1,398	*9.9*	1,536	1,212	*26.7*	5,230	3,821	*36.9*
Gas transmission charge (Rs/cu m)	0.63	0.62	0.59	*4.9*	0.62	0.59	*5.7*	0.61	0.69	*(11.9)*

Source: Company, Kotak Institutional Equities estimates.

DCF valuation of GSPL (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	3,966	6,053	7,246	7,587	8,384	8,267	8,250	8,232	8,213	8,194	8,194	8,194
Adjusted tax expense	—	(439)	(1,395)	(1,845)	(2,224)	(2,268)	(2,327)	(2,390)	(2,459)	(2,533)		
Change in working capital	(1,898)	132	92	(24)	(49)	6	—	—	—	—		
Operating cash flow	**2,068**	**5,746**	**5,942**	**5,718**	**6,112**	**6,005**	**5,923**	**5,842**	**5,754**	**5,661**		
Capital expenditure	(4,350)	(2,750)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(1,245)		
Free cash flow	**(2,282)**	**2,996**	**5,692**	**5,468**	**5,862**	**5,755**	**5,673**	**5,592**	**5,504**	**4,416**	**4,416**	**4,416**
Discounted cash flow	**(2,115)**	**2,479**	**4,205**	**3,607**	**3,451**	**3,025**	**2,663**	**2,343**	**2,059**	**1,475**		
Discounted cash flow-1 year forward		2,777	4,710	4,040	3,867	3,388	2,982	2,625	2,307	1,652	1,317	
Discounted cash flow-2 year forward			5,275	4,524	4,331	3,796	3,340	2,940	2,584	1,851	1,652	1,475

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.0	12.0	12.0
Total PV of free cash flow	23,193	29,664	31,767
Terminal value assumption			
Growth to perpetuity (%)	—	—	—
FCF in 2018E	4,416	4,416	4,416
Exit FCF multiple (X)	8.3	8.3	8.3
Exit EV/EBITDA multiple (X)	4.5	4.5	4.5
Terminal value	36,797	36,797	36,797
PV of terminal value	12,290	12,290	12,290
Total company value	**35,483**	**41,953**	**44,056**
Net debt	6,840	10,423	9,134
Equity value	28,643	31,530	34,922
Shares outstanding (mn)	544	544	545
Estimated share price using DCF	**52.7**	**57.9**	**64.1**

Fiscal Year end (March 31, XXXX)	March-08	March-09	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19
Today	30-Jul-07	30-Jul-07	30-Jul-07	30-Jul-07	30-Jul-07	30-Jul-07	30-Jul-07	30-Jul-07	30-Jul-07	30-Jul-07	30-Jul-07	30-Jul-07
Days left	245	610	975	1,340	1,706	2,071	2,436	2,801	3,167	3,532	3,897	4,262
Years left	0.67	1.67	2.67	3.67	4.67	5.67	6.67	7.67	8.68	9.68	10.68	11.68
Discount factor at WACC	**0.93**	**0.83**	**0.74**	**0.66**	**0.59**	**0.53**	**0.47**	**0.42**	**0.37**	**0.33**	**0.30**	**0.27**

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

	2005	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	2,035	2,635	3,176	4,560	6,746	8,096	8,537
EBITDA	**1,293**	**1,942**	**2,681**	**3,966**	**6,053**	**7,246**	**7,587**
Other income	20	45	175	88	52	34	33
Interest	(363)	(413)	(457)	(894)	(915)	(759)	(474)
Depreciation	(656)	(791)	(1,026)	(1,877)	(2,190)	(2,449)	(2,445)
Pretax profits	293	783	1,372	1,283	3,001	4,071	4,701
Tax	(15)	(2)	(70)	—	(337)	(1,176)	(1,676)
Deferred taxation	(119)	(315)	(409)	(202)	(409)	(43)	78
Net profits	**160**	**467**	**894**	**1,081**	**2,255**	**2,853**	**3,103**
Earnings per share (Rs)	**0.6**	**1.2**	**1.6**	**2.0**	**4.1**	**5.2**	**5.7**
Balance sheet (Rs mn)							
Total equity	4,037	9,075	9,667	10,369	11,826	13,667	13,140
Deferred tax liability	193	508	917	1,119	1,528	1,570	1,492
Total borrowings	4,436	5,786	8,636	11,571	9,736	5,486	3,986
Currrent liabilities	571	1,771	2,797	1,120	1,115	1,116	1,117
Total liabilities and equity	**9,237**	**17,140**	**22,017**	**24,178**	**24,204**	**21,839**	**19,734**
Cash	426	2,372	1,796	1,147	602	525	591
Current assets	408	995	1,315	1,536	1,398	1,307	1,332
Total fixed assets	8,392	13,651	18,783	21,372	22,081	19,884	17,689
Investments	—	—	—	—	—	—	—
Deferred expenditure	11	123	123	123	123	123	123
Total assets	**9,237**	**17,140**	**22,017**	**24,178**	**24,204**	**21,839**	**19,734**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	844	1,562	1,888	2,956	4,652	5,309	5,437
Working capital changes	(193)	471	706	(1,898)	132	92	(24)
Capital expenditure	(1,799)	(6,049)	(5,893)	(4,350)	(2,750)	(250)	(250)
Investments	—	—	—	—	—	—	—
Other income	10	40	175	88	52	34	33
Free cash flow	**(1,138)**	**(3,976)**	**(3,125)**	**(3,204)**	**2,087**	**5,184**	**5,196**
Ratios (%)							
Debt/equity	104.9	60.4	81.6	100.7	72.9	36.0	27.2
Net debt/equity	51.2	37.6	44.9	50.2	42.2	26.5	21.4
RoAE	4.6	6.8	8.9	9.8	18.2	20.0	20.8
RoACE	**8.0**	**9.9**	**10.0**	**10.3**	**15.1**	**15.7**	**16.9**
Key assumptions							
Volumes-old pipelines (mcm/d)	8.3	10.4	12.6	15.0	17.0	20.0	25.0
Volumes-new pipelines (mcm/d)	—	—	1.7	4.9	13.1	24.6	30.6
Volumes (mcm/d)	**8.3**	**10.5**	**14.3**	**19.9**	**30.1**	**44.6**	**55.6**

Source: Kotak Institutional Equities estimates.

The nature of regulations will be critical for GSPL's returns and thus, tariffs

Hypothetical example of impact of earnings of various regulatory methodologies and debt-equity ratio

	2009E			2010E		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
1. Computation of regulated earnings based on gross block (no reduction to return-earning asset)						
Gross block at end of period (Rs mn)	29,379	29,379	29,379	29,631	29,631	29,631
Debt (%)	—	50	70	—	50	70
Equity (%)	**100**	**50**	**30**	**100**	**50**	**30**
Asset financed by equity (Rs mn)	29,379	14,690	8,814	29,631	14,816	8,889
Asset financed by debt (Rs mn)	—	14,690	20,566	—	14,816	20,742
Post-tax return on equity (%)	14.0	14.0	14.0	14.0	14.0	14.0
Net profit	**4,113**	**2,057**	**1,234**	**4,148**	**2,074**	**1,245**
Current market capitalization (Rs mn)	30,394	30,394	30,394	30,394	30,394	30,394
Implied P/E on regulated earnings (X)	7.4	14.8	24.6	7.3	14.7	24.4
KIE net income (Rs mn)	**2,255**	**2,255**	**2,255**	**2,853**	**2,853**	**2,853**
P/E (X)	13.5	13.5	13.5	10.7	10.7	10.7
KIE ROAE (%)	18.2	18.2	18.2	20.0	20.0	20.0
KIE CROCI (%)	18.9	18.9	18.9	19.6	19.6	19.6
2. Computation of regulated earnings based on net block (Cost of Services methodology)						
Net block at end of period (Rs mn)	22,081	22,081	22,081	19,884	19,884	19,884
Debt (%)	—	50	70	—	50	70
Equity (%)	**100**	**50**	**30**	**100**	**50**	**30**
Asset financed by equity (Rs mn)	22,081	11,041	6,624	19,884	9,942	5,965
Asset financed by debt (Rs mn)	—	11,041	15,457	—	9,942	13,919
Post-tax return on equity (%)	14.0	14.0	14.0	14.0	14.0	14.0
Net profit	**3,091**	**1,546**	**927**	**2,784**	**1,392**	**835**
Current market capitalization (Rs mn)	30,394	30,394	30,394	30,394	30,394	30,394
Implied P/E on regulated earnings (X)	9.8	19.7	32.8	10.9	21.8	36.4
KIE net income (Rs mn)	**2,255**	**2,255**	**2,255**	**2,853**	**2,853**	**2,853**
P/E (X)	13.5	13.5	13.5	10.7	10.7	10.7
KIE ROAE (%)	18.2	18.2	18.2	20.0	20.0	20.0
KIE CROCI (%)	18.9	18.9	18.9	19.6	19.6	19.6

Note:
(1) Our projected net debt-to-capitalization ratio for GSPL at end-FY2009E is 43% and at end-FY2010E is 26%.

Source: Kotak Institutional Equities estimates.

Automobiles

TVSM.BO, Rs60

TVS Motor Company: No respite from troubles; net profit down 65% yoy

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- **1Q net profit at Rs75 mn drops 65% yoy; includes extraordinary income of Rs72 mn**
- **EBITDA margins continues to disappoint-decline 210 bps yoy**

TVS Motor (TVS) reported 1Q net profit at Rs75 mn declining 65% yoy and 17% qoq. The sharp drop in net profit follows a 69% yoy decline in 4QFY07. The net profit of Rs75 mn includes extraordinary income of Rs72 mn on account of sale of land. Net of this, the net profit would decline to an abysmally low figure. A 35% yoy decline in 2W volumes in 1Q resulted in a 15% yoy decline in net sales but a 54% yoy decline in EBITDA for TVS. EBITDA margins in 1Q at 2.4% were disappointing dropping 210 bps yoy largely due to a 240 bps yoy increase in RM costs.

Facing slowdown in line with industry peers

We note that in line with the other players in the industry, TVS, too is been hit by the industry slowdown, lack of availability of finance and stringent financing norms being adopted. However, TVS is being hit the hardest. We believe that it has the least competitive power in terms of pricing and as the competition between Bajaj Auto and Hero Honda intensifies in the coming months, TVS should increasingly get sandwiched.

New launches slated for 3Q unlikely to improve TVS' market position

TVS has announced the launch of two new bikes in the executive segment. In addition, it will launch an upgraded version of TVS Star (economy segment). TVS would time these launches with the onset of the forthcoming festival season. We believe in the light of new launches by the two market biggies (Bajaj and Hero Honda), the intense competition and the lack of competitive power of TVS, TVS would continue to be marginalized. TVS also intends to launch new 3-wheelers by Oct'2007 having a capacity of 100,000 units. We expect this business to be better than that of the 2W business.

TVS has commenced operations in Indonesia through a wholly-owned subsidiary PT TVS Motor Company Indonesia. The facility will have a capacity to manufacture 300,000 bikes per year and TVS intends to produce TVS Neo, a new generation bike for Indonesian and other south-east Asian markets.

TVS Motor: 1QFY2008 results (Rs mn)

	1QFY07	4QFY07	1QFY08	% chg. qoq	% chg. yoy	FY07
Net sales	**9,218**	**9,199**	**7,833**	**(14.8)**	**(15.0)**	**38,550**
Operating costs	**(8,802)**	**(9,098)**	**(7,642)**	**(16.0)**	**(13.2)**	**(37,177)**
Inc/(Dec) in Stock	(668)	(566)	(378)	(33.3)	(43.5)	(377)
Raw materials	(6,117)	(6,674)	(5,576)	(16.5)	(8.8)	(28,657)
Staff cost	(429)	(370)	(467)	26.4	8.9	(1,723)
Other expenditure	(1,588)	(1,488)	(1,222)	(17.9)	(23.1)	(6,420)
EBITDA	**416**	**101**	**191**	**89.7**	**(54.0)**	**1,373**
Other income	178	270	182	(32.4)	2.2	732
Interest costs	(60)	(113)	(98)	(13.5)	63.8	(321)
Depreciation	(233)	(154)	(239)	55.4	2.4	(876)
Extraordinaries	-	-	72			
PBT	**301**	**103**	**109**	**5.2**	**(63.9)**	**909**
Taxes	(89)	(13)	(34)	157.7	(62.3)	(243)
PAT	**213**	**90**	**75**	**(16.7)**	**(64.5)**	**666**
Key ratios						
Volumes	376,274	369,464	320,161	(13.3)	(14.9)	1,528,103
Net realizations (Rs/vehicle)	24,498	24,898	24,467	(1.7)	(0.1)	25,227
RM/Net sales (%)	73.6	78.7	76.0	(2.7)	2.4	75.3
RM/VOP (%)	71.5	77.3	74.8	(2.5)	3.2	75.1
RM/vehicle (Rs)	18,031	19,596	18,594	(5.1)	3.1	17,293
EBITDA per vehicle (Rs)	1,106	273	597	118.9	(46.0)	898
EBITDA margin (%)	4.5	1.1	2.4	1.3	(2.1)	3.6
PAT margin (%)	2.3	1.0	1.0	(0.0)	(1.3)	1.7
Effective tax rate (%)	29.5	12.6	30.8	18.2	1.3	26.7

Source: Company data, Kotak Institutional Equities

Banking

FED.BO, Rs333	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	340
52W High -Low (Rs)	349 - 170
Market Cap (Rs bn)	28.5

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	10.3	11.5	12.9
Net Profit (Rs bn)	2.9	3.7	4.0
EPS (Rs)	34.2	43.7	46.7
EPS gth	*30.0*	*27.9*	*6.8*
P/E (x)	9.7	7.6	7.1
P/B (x)	2.1	1.7	1.4
Div yield (%)	1.2	2.6	2.8

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	49.0	0.1	0.1
MFs	10.6	0.2	0.1
UTI	-	-	(0.1)
LIC	1.9	0.0	(0.0)

Federal Bank: Amongst the few good results in financial sector, upgrading target price, retain OP

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- **Higher recoveries, treasury gains and exceptional items (sale of stake in Weizman) along with an expansion in NIM, were the key earnings drivers for Federal Bank in 1QFY08**
- **We retain our Outperform rating on the stock and are upgrading target price to Rs375 from Rs340**

We are maintaining our positive stance on Federal Bank post our discussion with the management. Higher recoveries, treasury gains and exceptional items (sale of stake in Weizman) along with an expansion in NIM, were the key earnings drivers for Federal Bank. The latter was driven by significantly higher yields. We have upgraded our earnings for Federal Bank by a hefty 18% for FY2008 and 13% for FY2009. We retain our Outperform rating on the stock and are upgrading target price to Rs375 from Rs340. The stock trades at 7.1X PER and 1.4PBR FY2009 as against RoE of around 20%.

Increase in net interest margins, a key positive. Federal Bank reported a NIM of 3.21% in 1QFY08, corresponding figure for 1QFY07 and 4QFY07 were 3.17% and 3.06%. Increase in yields on advances has more than compensated for the increase in funding costs at the bank. We have increased our margin estimates by 10-15 bps for the next two years, but still assume a 14bps lower margin compared to FY2007. We note that the sharp increase in yield on advances could indicate an increase in more risky assets, and subsequently lead to an increase in NPLs. We are therefore factoring in higher NPL provision for the bank in our estimates. Note in 1QFY07, Federal Bank has reported a qoq decline of 2% in gross and 17% in net NPL, and its net NPL ratio stood at 0.4%.

Recoveries and stake sale boost other income. Federal Bank reported a hefty 92% increase in other income in 1QFY08. A large part of this was driven by Rs470 mn of recoveries from written off assets. Company booked Rs110 mn and Rs669 of recoveries from written off assets made in 1QFY07 and FY2007 respectively. Federal Bank currently has close to Rs5 bn of written off accounts and recoveries from these assets could boost earnings in the near term. The bank also benefited from sale of its 17% stake in Weizmann Homes, which resulted in a gain of Rs90 mn in 1QFY08.

Federal Bank quarterly results

In Rs mn

	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	% chg	1Q08KS	Actual Vs KS
Interest earned	3,625	3,903	4,083	4,337	4,441	5,313	5,592	37.0		
Interest/discount on advances/bills	2,371	2,616	2,786	3,010	3,200	3,818	4,046	45.2		
Income on Investments	1,199	1,207	1,151	1,176	1,207	1,290	1,374	19.4		
Interest on balances with RBI and other inter bank funds	49	42	137	142	25	134	118	(13.7)		
Others	6	38	8	9	9	70	54	551.8		
Interest expended	2,130	2,181	2,497	2,662	2,658	3,033	3,665	46.8		
Net interest income	**1,494**	**1,722**	**1,586**	**1,675**	**1,784**	**2,280**	**1,928**	**21.5**	**1,903**	**1.3**
Other Income	484	697	543	726	545	1,054	1,005	85.2	651	54.3
Loan recoveries	NA	NA	110	NA	NA	NA	470	327.0		
Sale of investments and treasury gains	NA	NA	NA	NA	NA	NA	220			
Total income	1,978	6,731	2,129	2,401	2,328	3,333	2,932	37.8	2,554	14.8
Operating Expenses	853	992	991	1,011	973	1,086	1,048	5.7	1,090	(3.9)
Payments to and provisions for employees	518	608	649	656	602	697	631	(2.8)	746	(15.4)
Other operating expenses	334	385	342	355	371	389	417	21.8	344	21.2
PBT before provisions	**1,126**	**1,427**	1,137	**1,390**	**1,355**	**2,247**	**1,884**	**65.7**	**1,464**	**28.7**
Other Provisions and Contingencies	199	813	559	526	196	867	670	19.8	626	7.0
PBT	**927**	**614**	**578**	**864**	**1,159**	**1,381**	**1,214**	**110.1**	**838**	**45.0**
Provision for Taxes	211	107	176	170	321	388	545	209.1	293	85.9
NET PROFIT	**716**	**507**	402	695	**838**	**992**	**669**	**66.6**	**544**	**23.0**
Tax rate (%)	23	17	30	20	28	28	45		35	
Desposits (Rs bn)	**164**	**179**	**184.6**	**NA**	**186**	**216**	**209**	**13.2**		
CASA ratio (%)	NA	24.5	25.0	NA	28.4	25.6	25.0			
Advances (Rs bn)	**105**	**117**	**124**	**131**	**136**	**149**	**146.7**	**22.9**		
Retail	26	30	NA	NA	40	43	NA			
Capital adeqacy details (%)										
Capital Adequacy ratio (%)	11.3	13.8	NA	12.8	14.6	13.4	13.3			
Tier I	NA	9.7	NA	NA	9.8	9.0	9.3			
Asset quality details										
Gross Non-performing assets (Rs mn)	NA	5,631	5,492	5,440	NA	4,508	4,408			
Gross NPAs (%)	NA	4.6	4.4	4.1	3.8	3.0	2.9			
Net Non-performing assets (Rs mn)	NA	1,116	912	856	NA	651	542			
% of Net NPAs	NA	1.0	0.8	0.7	0.6	0.4	0.4			
Yield management measures (%)										
Yield on advances	9.9	NA	9.8	NA	10.0	10.2	11.4			
Cost of deposits	5.5	NA	5.4	NA	5.5	5.6	6.5			
NIM	3.2	NA	3.2	NA	3.3	3.1	3.2			

Source: Company, Kotak Institutional Equities estimates.

Old and new estimates for Federal Bank
March fiscal year-ends, 2008E & 2009E (Rs mn)

	Old estimates		New estimates		% change	
	2008E	2009E	2008E	2009E	2008E	2009E
Net interest income	8,106	9,489	8,505	10,177	4.9	7.2
Loan loss provisions	1,501	1,926	1,668	2,027	11.1	5.3
NIM (%)	3.11	3.08	3.20	3.23		
Other income	2,605	2,741	3,014	2,720	15.7	(0.8)
Fee income	925	1,036	952	1,066	2.9	2.9
Treasury income	-	-	130	-		
Operating expenses	4,575	5,249	4,371	5,030	(4.5)	(4.2)
Employee expenses	2,813	3,235	2,564	2,949	(8.8)	(8.8)
Amortization of investments	-	-	160	128		
Net profit	3,175	3,539	3,744	3,998	17.9	13.0

Source: Kotak Institutional Equities.

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

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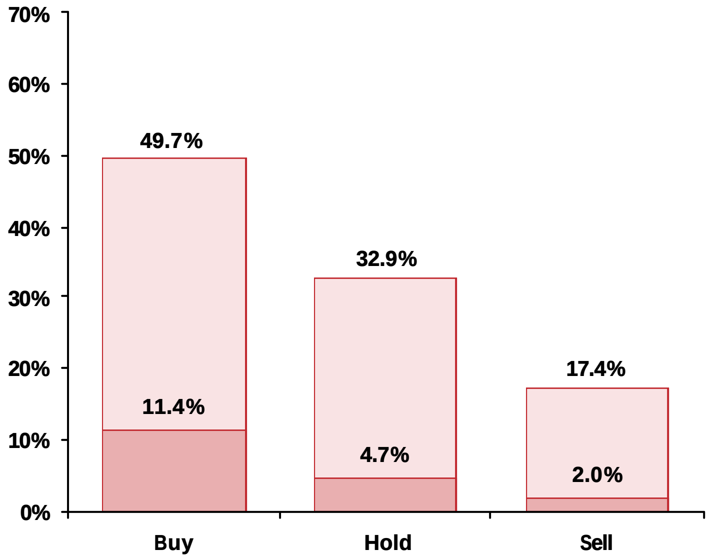

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Source: Kotak Institutional Equities. As of June 30, 2007

Ratings and other definitions/identifiers

Current rating system

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

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

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