kotak® Institutional Equities

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News Roundup

Corporate

- L&T is set to invest Rs100 crore in Mysore-based Rangsons Electronics for a 40% stake. Rangsons Electronics is a Rs70 crore electronic manufacturing solutions provider and one of the preferred suppliers for L&Ts electrical & electronics division.(BS)
- GAIL (India) Ltd is likely to join forces with Reliance Industries Ltd (RIL) for setting up petrochemical projects abroad. Sources said that the board of GAIL, which met last month, has allowed the company to continue looking at strategic options for expanding its petrochemicals business.(BL)
- The George Soros-promoted Quantum Fund is among the seven international investors which have together picked up a 5% stake in Reliance Telecom Infrastructure Ltd (RIL).
- DTH service provider Tata Sky today said it had touched a subscriber base of one million and was confident of servicing 8 million subscribers in the next five years. (BL)
- Marking its entry into the last-mile retail space, Kishore Biyani-promoted Future Group said it will set up 1,500 fair price new format fair price shops over the next two years. (BL)

Economic and political

- The rupee, which had risen about 10% this year, fell to its lowest in over a month after the Centre placed curbs of foreign borrowings. The rupee, which hit a 9-year high of 40:20 per dollar last month, opened at 40.75/76 and fell to a low of 40.81 before closing at 40.53 on Wednesday. (ET)
- A controversial cross-holding cap, which prevents a telecom company from holding more than 10% stake in two operators in the same circle, is set to be raised or done away with altogether. Telecom regulator Trai, which is reveiwing the key licence conditions, is likely to recommend the 10% cross-holding ceiling be scrapped in a move which would make mergers and acquisitions easier and also pave the way for consolidation in the world's most competitive fastest-growing telecom markets. (ET)
- A day after the government curtailed overseas borrowings by companies, Finance Minister P Chidambaram said there were no plans to regulate participatory notes.(BS)
- Inequality is rising across most of Asia, darkening growth prospects and increasing the risk of potentially violent social strains, the Asian Development Bank said on Wednesday. (ET)
- The People's Bank of China (PBOC) pledged action on Wednesday to keep a lid on prices and prevent expectations of rising inflaction from taking hold..China's consumer price inflation accelerated to a 33-month high of 4.4% in the year to June. (ET)

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

EQUITY MARKETS

		Change, %		
India	**8-Aug**	**1-day**	**1-mo**	**3-mo**
Sensex	15,308	2.5	1.7	11.1
Nifty	4,462	2.4	1.0	9.4
Global/Regional indices				
Dow Jones	13,658	1.1	0.1	2.2
Nasdaq Composite	2,613	2.0	(2.1)	1.4
FTSE	6,394	1.3	(4.7)	(2.4)
Nikkie	17,235	1.2	(5.6)	(2.9)
Hang Seng	22,537	2.9	(1.2)	8.1
KOSPI	1,925	1.2	2.2	20.8

Value traded - India

			Moving avg, Rs bn	
	8-Aug		**1-mo**	**3-mo**
Cash (NSE+BSE)	146.7		174.6	154.2
Derivatives (NSE)	420.8		346.1	271.3
Deri. open interest	852.6		720.7	492.2

Forex/money market

		Change, basis points		
	8-Aug	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.5	-	15	(38)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	6	(11)	(22)

Net investment (US$mn)

	7-Aug		MTD	CYTD
FIIs	(31)		1,759	9,890
MFs	(1)		112	(242)

Top movers -3mo basis

		Change, %		
Best performers	**8-Aug**	**1-day**	**1-mo**	**3-mo**
Thermax	643	2.2	13.2	55.5
SBI	1,706	1.3	8.6	51.9
Balaji Telefilms	248	1.5	2.3	51.1
Reliance Energy	783	2.4	27.2	50.8
Reliance Cap	1,165	2.6	0.5	46.4
Worst performers				
Polaris	120	12.5	(22.5)	(27.7)
Escorts	93	1.7	(19.2)	(26.5)
Essel Propack	62	(0.2)	(6.2)	(19.8)
Bharat Forge	279	0.6	(10.0)	(18.6)
Raymond	277	1.0	(9.0)	(18.3)

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Real Estate

DLF.BO, Rs603	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	705
52W High -Low (Rs)	670 - 530
Market Cap (Rs bn)	1,036.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	39.2	129.0	178.1
Net Profit (Rs bn)	19.4	63.4	94.9
EPS (Rs)	13.0	38.2	55.7
EPS gth	*2.2*	*188.6*	*47.1*
P/E (x)	46.3	15.8	10.8
EV/EBITDA (x)	35.5	13.0	8.7
Div yield (%)	-	0.8	1.2

DLF Limited: The Bank of Land

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- **Demographics to drive housing demand; GDP growth, commercial demand**
- **DLF with a large land bank is best placed to participate in industry growth**
- **Our target price of Rs705 based on 5% premium to end-March 2009 NAV**
- **Key risks: property prices, interest rates, economic growth, land purchase**

We expect DLF to grow its revenues and earnings strongly over the next few years as it exploits its large land bank, enabled by positive macro-environment conditions and an experienced management, superior execution and solid reputation. We initiate coverage with an Outperform rating and a 12-month target price of Rs705.

Demographics to drive housing demand; GDP growth, commercial demand

We expect rapidly improving demographics (rising urban income, young population) and growing urbanization to propel demand for housing. Also, we expect robust GDP growth to result in strong demand for high quality commercial property and related real estate derivatives such as shopping malls, special economic zones (SEZ) and hotels.

DLF with a large land bank is best placed to participate in industry growth

We believe DLF, with 615 mn sq. ft of land acquired or under acquisition at low cost, is best positioned to participate in the strong growth we expect in the Indian real estate sector. DLF's strong brand will help grow its housing development business. Concurrently, DLF's extensive experience in the commercial and retail sectors (it has developed 10 mn sq. ft) should help accelerate its aggressive plans for developing office space, shopping malls, SEZs and hotels.

Our target price of Rs705 based on 5% premium to end-March 2009 NAV

We estimate March 2009 NAV for DLF at Rs670/share. We model DLF's net income to increase to Rs112 bn in FY2010E from Rs19 bn in FY2007 driven by increase in revenues to Rs221 bn from Rs39 bn. More specifically, we expect (a) DLF to develop and sell 31 mn sq. ft of developed in FY2010E, up from 8 mn sq. ft in FY2007; (b) DLF to have 26 mn sq. ft of assets under lease by FY2010; and (c) DLF's new initiatives (SEZs, hotels) to start contributing to revenues over the next few years.

Key risks: property prices, interest rates, economic growth, land purchase

(a) A sharp decline in property prices may pose risks to our earnings forecasts; property prices have risen sharply over the past two years and the business is cyclical; (b) A sharp increase in interest rates may curtail demand for housing—housing finance companies have raised lending rates by 200-250 bps over the past 12 months; (c) Any unexpected slowdown in economic growth in India may also result in lower-than-expected demand for both retail and commercial real estate; and (d) DLF may not be able to acquire land at reasonable prices in the future because of increased competition from other real estate developers.

We estimate March 2009E NAV for DLF at Rs670/share

	March '09 based NAV			
	Growth rate in selling prices			
	0%	3%	5%	10%
Valuation (Rs bn)	**799**	**982**	**1,122**	**1,551**
Add: 22 Hotel sites	25	25	25	25
Add: Construction JV	20	20	20	20
Add: Other properties (plots in Gurgaon - 7.2 mn sq. ft, hotel site in Gurgaon)	22	22	22	22
Add: Investments as on March 31, 2008	20	20	20	20
Less: Net debt as on March 31, 2008	(28)	(28)	(28)	(28)
Less: Land cost to be paid as on March 31, 2008	(30)	(30)	(30)	(30)
NAV	**829**	**1,011**	**1,151**	**1,580**
Total no. of shares including ESOPs of 17 mn shares (mn)				1,722
NAV/share				**669**

Source: Kotak Institutional Equities.

Profit model of DLF, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Total revenues	**5,059**	**6,082**	**11,536**	**39,233**	**129,025**	**178,132**	**221,266**
Land costs	(2,200)	(2,517)	(4,416)	(6,319)	(8,976)	(12,653)	(15,014)
Construction costs	—	—	—	—	(33,387)	(39,106)	(54,564)
Employee costs	(313)	(446)	(397)	(922)	(2,009)	(2,873)	(3,929)
SG&A costs	(1,333)	(1,435)	(1,966)	(3,958)	(3,987)	(5,286)	(6,418)
EBITDA	**1,213**	**1,684**	**4,757**	**28,034**	**80,667**	**118,214**	**141,341**
Other income	210	178	883	1,108	1,328	2,053	2,165
Interest	(330)	(390)	(1,685)	(3,076)	(1,490)	(593)	(1,486)
Depreciation	(288)	(333)	(361)	(571)	(1,303)	(1,641)	(3,378)
Pretax profits	**802**	**1,138**	**3,594**	**25,494**	**79,201**	**118,033**	**138,642**
Profit/(loss) share of associates	—	—	—	—	—	—	—
Current tax	(405)	(490)	(2,537)	(6,058)	(15,881)	(23,282)	(26,802)
Deferred tax	155	231	870	—	43	197	23
Net income	**552**	**879**	**1,927**	**19,436**	**63,364**	**94,949**	**111,864**
EPS (Rs)							
Primary	3.9	6.3	12.7	13.0	38.2	56	66
Fully diluted	3.9	6.3	12.7	13.0	37.5	55	65
Shares outstanding (mn)							
Year end	140	140	1,511	1,530	1,705	1,705	1,705
Primary	140	140	152	1,496	1,661	1,705	1,705
Fully diluted	140	140	152	1,496	1,690	1,722	1,722
Cash flow per share (Rs)							
Primary	3.5	4.9	18.4	4.2	35.3	55.2	67.6
Fully diluted	3.5	4.9	18.4	4.2	34.7	54.6	66.9
Growth (%)							
Net income (adjusted)		60.7	121.6	913.2	226.2	49.8	17.8
EPS (adjusted)		59.3	102.9	2.2	188.6	47.1	17.8
DCF/share		39.3	272.7	(77.1)	737.4	56.2	22.5
Cash tax rate (%)	50.6	43.1	70.6	23.8	20.1	19.7	19.3
Effective tax rate (%)	31.2	22.8	46.4	23.8	20.0	19.6	19.3

Source: Kotak Institutional Equities estimates.

Pipes

JIND.BO, Rs648	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	790
52W High -Low (Rs)	728 - 273
Market Cap (Rs bn)	36.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	49.6	61.1	81.9
Net Profit (Rs bn)	2.8	3.9	5.8
EPS (Rs)	51.4	67.4	101.9
EPS gth	*67.1*	*31.1*	*51.2*
P/E (x)	12.6	9.6	6.4
EV/EBITDA (x)	7.6	5.7	3.7
Div yield (%)	0.9	1.0	1.0

Jindal Saw: Solving the conundrum of the likely sale of US operations

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- **Media reports indicate sale of JSAW's US plate and pipe affiliates for $1.2 bn to group company JSW Steel**
- **Putting numbers to rumors do not signify significant downside risk; our worst case scenario indicates value of Rs859/share (8.8% upside to our target of Rs790)**
- **We highlight that net earnings-based multiple valuations could be misleading and the right way to value should be DCF-based or EV/EBITDA**

Recent media reports indicate sale of JSAW's US plate and pipe affiliates to group company, JSW Steel for US$1.2 bn. In absence of any meaningful details about the sale, we try our best to put numbers to this rumor using various scenarios for the deal size and the sale price for plate and the pipe mill. Our worst case scenario indicates a value of Rs859/share, upside of 8.8% to our 12-month DCF-based target price of Rs790. We highlight that this indicative value is highly sensitive not only to deal size but also to the respective value of the plate and pipe mills and taxation. We recommend not to use net earnings-based valuations as sale of US operations will cause earnings to decline on yoy reported basis. We maintain our target of Rs790/share and OP rating on the stock.

What would be the impact to revenues, EBITDA and net earnings of JSAW due to sale of US affiliates?

US operations contributed to about 36% and 44% of revenues in FY2006 and 9MFY07, respectively. We expect that with the sale of US operations, revenues for JSAW can be lower by 41% and 37% to Rs36.3 bn and Rs51.3 bn from our estimates of Rs61.1 bn and Rs81.9 bn (see Exhibit 1). However, as EBITDA margins of US operations are lower than Indian operations, we expect decline in EBITDA and net earnings to be lower than decline in revenues for FY2008E. We estimate that during 1QFY08, Indian operations margins were around 16.5%-17% as against overall reported of 12.5%. We expect EBITDA margin improvement to be significant post sale of US operations as DI and seamless revenue share increases along with the linepipe volume growth.

What could be the net inflow to JSAW from this deal?

We believe net inflow to JSAW will depend upon the respective valuations of the plate and pipe mills as its holding is different in each of these two affiliates. We estimate 35% of the deal value to the pipe mill and the balance to the plate mill. Moreover, we estimate $150 mn of outside liabilities for these two entities (see Exhibit 2). We highlight net inflow to JSAW is highly sensitive to not only the deal size but also to the respective value of the two mills. Further, we model taxation assuming that the company will sell its 100% US subsidiary, JE LLC rather then selling the stake in plate mill, US Denro (JUSCO). Moreover, apart from the sale proceeds, there will be cash inflow from release of working capital from the US branch.

What could it do with the cash raised from this sale?

We believe apart from paying off some long-term debts, JSAW might utilize cash to increase its domestic LSAW and HSAW capacities in India in over next 12-18 months. However, we do not factor any increase in capacities at present.

What would be the impact to our target valuation?

Our worst case scenario indicates a value of Rs859/share, upside of 8.8% to our 12-month DCF-based target price of Rs790 (see Exhibit 3). We highlight that this indicative value is highly sensitive not only to the deal size but also to the respective value of the plate and pipe mills and the taxation of inflows. Though we believe with the sale of US facilties, the business earnings maybe lower, but the cash inflow from sale and release of working capital will favorably impact valuations. We reduce net debt by the amount of cash inflows. Implied FY2008E and FY2009E EV/EBITDA for our worst case valuation is 8.0X and 5.2X, respectively.

We note that sale of these facilties will also release the receivables from and loans given to these associates and its 100%. According to the FY2006 annual report, receivables from associates outstanding were Rs233 mn; loan to Jindal Enterprises LLC was Rs344 mn.

If not DCF, then EV/EBITDA is the apt way to value

We note that with the decline in volumes and the resultant revenues and earnings, net earnings based multiple is not the right way to value JSAW. We estimate earnings of JSAW to decline from Rs2.8 bn in FY2007E (including US operations) to Rs2.7 bn in FY2008E (excluding US operations). However on a comparable basis (excluding US) net earnings will increase by 76%. We estimate earnings in US operations to decline marginally in FY2008E from FY2007E on account of higher tolling charges. Excluding US operations, the stock is currently trading at 7.8X FY2008E and 5.1X FY2009E EV/EBITDA.

Exhibit 1: Net earnings to decline marginally in FY2008E

Effect of US operations on earnings estimates, September fiscal year-ends, 2006-09E, (Rs mn)

	Current estimates (incl. USA)				Proforma estimates (excl. USA)				Change (%)			
	2006	2007E	2008E	2009E	2006P	2007E	2008E	2009E	2006P	2007E	2008E	2009E
Revenue	38,731	49,620	61,107	81,897	24,331	27,869	36,261	51,250	(37.2)	(43.8)	(40.7)	(37.4)
Growth (%)		28.1	23.1	34.0		14.5	30.1	41.3		(13.6)	7.0	7.3
EBITDA	4,066	5,953	7,757	10,671	4,449	4,077	5,982	9,126	9.4	(31.5)	(22.9)	(14.5)
EBITDA margin (%)	10.5	12.0	12.7	13.0	18.3	14.6	16.5	17.8	7.8	2.6	3.8	4.8
Net profit	1,563	2,761	3,852	5,783	1,813	1,537	2,698	4,784	16.0	(44.3)	(30.0)	(17.3)
EPS (Rs)	27.9	49.3	68.8	103.3	32.4	27.5	48.2	85.4	16.0	(44.3)	(30.0)	(17.3)

Source: Kotak Institutional Equities estimates.

Exhibit 2:Computation of estimated cash flows from sale of US operations

Cash flow from sale of US plants	Scenario I	Scenario II	Scenario III	Comments
Total deal value ($ mn)	**1,200**	**1,000**	**800**	
less: outside liabilities ($ mn)	150	150	150	
Net equity portion ($ mn)	1,050	850	650	
Value for pipe mill ($ mn)	368	298	228	35% of net equity portion
Value for plate mill ($ mn)	683	553	423	65% of net equity portion
JSAW's share of cash flow				
Pipe mill ($ mn)	72	58	44	JSAW has 19.4% stake
Plate mill ($ mn)	334	271	207	JSAW has 49% stake routed through US subsidiary
Total cash flows ($ mn)	**406**	**329**	**251**	
Total cash flows (Rs mn)	**16,442**	**13,310**	**10,178**	Exchange rate of Rs40.5/US$
Tax on capital gains (Rs mn)	1,618	1,263	908	lower of (i) 22.66% with indexation or (ii) 10.33% without indexation
Post tax realisation (Rs mn)	**14,824**	**12,047**	**9,270**	

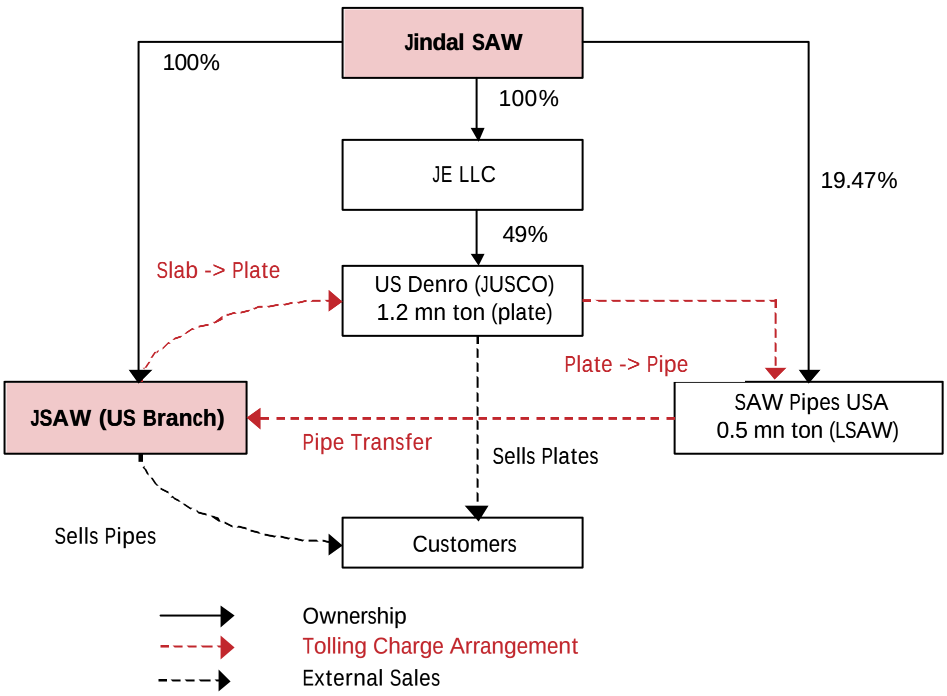
Source: Kotak Institutional Equities estimates.

Exhibit 3: Impact on target valuation from sale of US operations, (Rs mn)

	Scenario I	Scenario II	Scenario III	Comments
EV - excluding USA	47,902	47,902	47,902	DCF at 12.5% WACC and 1.5% terminal growth
Net debt at end-FY2008	9,059	9,059	9,059	As per current estimates
Cash from sales (post tax)	14,824	12,047	9,270	See exhibit 2
Adjusted equity value	53,666	50,889	48,112	
No. of shares (mn)	56	56	56	
Value per share (Rs)	**958**	**909**	**859**	
Upside to current target (%)	**21.3**	**15.0**	**8.8**	12-month DCF-based target of Rs790/share
Implied 2009E EV/EBITDA	**5.2**	**5.2**	**5.2**	

Source: Kotak Institutional Equities estimates.

Exhibit 4: Current structure of JSAW's US operations



Source: Kotak Institutional Equities

Exhibit 5: Profit and loss model assumptions, September fiscal year-ends, 2006-10E

	2006	2007E	2008E	2009E	2010E
Sales ('000 tons)					
HSAW	25	38	88	175	228
LSAW	320	280	320	400	480
LSAW - USA	116	175	200	250	275
Seamless	40	70	96	188	188
DI	91	130	156	182	195
Plates (a)	218	300	334	402	436
Realisation (US$/ton)					
HSAW	960	1,094	1,204	1,216	1,192
LSAW	1,075	1,225	1,348	1,361	1,334
LSAW - USA	1,266	1,443	1,515	1,530	1,499
Seamless	1,217	1,339	1,366	1,379	1,379
DI	716	752	770	786	786
Plates	805	886	930	930	916
Raw material cost (US$/ton)					
HR coil	650	670	710	724	717
Plates	738	792	855	873	864
Slab	530	543	565	582	576
Billets	565	574	585	597	606
Iron ore	69	70	72	73	74
Coke	90	92	93	95	97

Note:
(a) Plate sales is net of plates consumed for pipe making in USA

Source: Company, Kotak Institutional Equities estimates.

Exhibit 6: Profit and loss model for Jindal Saw (consolidated),September fiscal year-ends, 2004-10E (Rs mn)

	2004	2005	2006	2007E	2008E	2009E	2010E
Net revenues	**10,856**	**23,138**	**38,731**	**49,620**	**61,107**	**81,897**	**91,034**
Operating expenses							
Stock adjustment	702	1,904	3,174	—	—	—	—
Raw materials	(7,601)	(17,809)	(27,282)	(30,806)	(37,752)	(50,836)	(57,126)
Manufacturing expense	(1,772)	(2,794)	(7,051)	(8,852)	(10,512)	(13,548)	(14,713)
Employee costs	(253)	(411)	(838)	(908)	(1,176)	(1,600)	(1,812)
Selling expenses	(395)	(950)	(2,285)	(2,605)	(3,361)	(4,504)	(5,007)
Other expenses	(190)	(277)	(384)	(496)	(550)	(737)	(728)
Total expenditure	**(9,509)**	**(20,336)**	**(34,666)**	**(43,667)**	**(53,350)**	**(71,225)**	**(79,386)**
EBITDA	**1,347**	**2,802**	**4,066**	**5,953**	**7,757**	**10,671**	**11,648**
EBITDA margin (%)	*12.4*	*12.1*	*10.5*	*12.0*	*12.7*	*13.0*	*12.8*
Net finance cost	(408)	(985)	(1,290)	(1,121)	(1,063)	(907)	(538)
Other income	68	105	144	70	75	75	75
PBDT	**1,006**	**1,923**	**2,920**	**4,902**	**6,769**	**9,840**	**11,186**
Depreciation and amortisation	(230)	(365)	(537)	(697)	(906)	(1,048)	(1,048)
Pretax profits before extra-ordinaries	**777**	**1,558**	**2,383**	**4,205**	**5,862**	**8,792**	**10,137**
Exceptional items	6	(56)	137	—	—	—	—
Profit before tax	**783**	**1,501**	**2,520**	**4,205**	**5,862**	**8,792**	**10,137**
Current tax	(190)	(370)	(694)	(1,177)	(1,583)	(2,418)	(3,143)
FBT	—	(4)	(10)	(15)	(18)	(20)	(25)
Deferred tax	(25)	(133)	(164)	(252)	(410)	(571)	(303)
Minority / associate earnings	—	—	2	—	—	—	—
Reported net profit	**568**	**994**	**1,653**	**2,761**	**3,852**	**5,783**	**6,667**
Adjusted net profit	**564**	**1,032**	**1,563**	**2,761**	**3,852**	**5,783**	**6,667**
Primary EPS (using wtd. avg. shares)	14.5	26.2	30.8	51.4	67.4	101.9	118.1
Diluted EPS	14.5	21.3	29.5	47.9	67.4	101.9	118.1
Year end no. of shares (mn)	39.0	47.1	48.4	56.0	56.0	56.0	56.0
Weighted avg. no. of shares (mn)	39.0	39.2	48.3	52.2	56.0	56.0	56.0
Fully diluted no. of shares (mn)	39.0	48.4	50.5	56.0	56.0	56.0	56.0
Margins (%)							
EBITDA margin	12.4	12.1	10.5	12.0	12.7	13.0	12.8
PBT margin	7.2	6.7	6.2	8.5	9.6	10.7	11.1
Net profit margin (w/o extraordinaries)	5.2	4.5	4.0	5.6	6.3	7.1	7.3
Effective tax rate (%)	27.4	33.8	34.5	34.3	34.3	34.2	34.2
Growth yoy (%)							
Revenues	—	113.1	67.4	28.1	23.1	34.0	11.2
EBITDA	—	108.0	45.1	46.4	30.3	37.6	9.2
PBT	—	100.5	53.0	76.5	39.4	50.0	15.3
Net profit (w/o extraordinaries)	—	83.0	51.5	76.6	39.5	50.2	15.3
Diluted EPS	—	47.2	38.4	62.6	40.7	51.2	15.9

Source: Company, Kotak Institutional Equities estimates.

Exhibit 7: Cash flow model for Jindal Saw (consolidated), September fiscal-year ends, 2004-10E (Rs mn)

	2004	2005	2006	2007E	2008E	2009E	2010E
Operating							
Pre-tax and pre Extraordinary	777	1,558	2,383	4,205	5,862	8,792	10,137
Depreciation & amortization	230	365	537	697	906	1,048	1,048
Taxes paid	(341)	(300)	(253)	(1,192)	(1,601)	(2,438)	(3,168)
Dividend and other income	(143)	(165)	(289)	(70)	(75)	(75)	(75)
Interest expense	365	816	1,309	1,121	1,063	907	538
Interest paid	(314)	(880)	(1,446)	(1,121)	(1,063)	(907)	(538)
Foreign exchange loss/(gain)	—	33	(22)	—	—	—	—
Extraordinary	6	(56)	137	—	—	—	—
Other non-cash items	9	1	18	157	—	—	—
Working capital changes	(1,060)	(6,135)	(2,231)	(1,823)	(1,230)	(2,337)	(1,671)
Cash flow from operations	**(472)**	**(4,764)**	**144**	**1,974**	**3,863**	**4,990**	**6,272**
Operating, excl. working capital	**588**	**1,371**	**2,375**	**3,797**	**5,093**	**7,327**	**7,943**
Investing							
Capital investment	(2,997)	(2,114)	(2,851)	(3,188)	(2,240)	(270)	(366)
Purchase/ sale of assets/ business	6	6	35	—	—	—	—
Investment changes	29	(94)	345	—	—	—	—
Advances to subsidiary	—	—	—	—	—	—	—
Interest/dividend received	154	177	351	70	75	75	75
Cash flow from investing	**(2,807)**	**(2,025)**	**(2,120)**	**(3,118)**	**(2,165)**	**(195)**	**(291)**
Financing							
Share capital	—	3,730	489	1,049	—	—	(300)
Net proceeds from borrowings	3,479	4,349	4,190	(1,551)	(1,213)	(4,277)	(638)
Effect of forex changes	—	—	—	—	—	—	—
Dividends paid (incl. tax)	(108)	(109)	(308)	(276)	(485)	(518)	(518)
Cash flow from financing	**3,370**	**7,970**	**4,371**	**(778)**	**(1,698)**	**(4,795)**	**(1,455)**
Net chg in CCE	91	1,182	2,395	(1,922)	—	-	4,526—
Beginning cash	253	345	1,526	3,922	2,000	2,000	2,000
Ending cash	**345**	**1,526**	**3,922**	**2,000**	**2,000**	**2,000**	**6,526**
Discretionary cash flow	(17)	1,073	2,088	(2,198)	(485)	(518)	4,008
Free cash flow	**(3,577)**	**(6,987)**	**(3,014)**	**(1,490)**	**1,138**	**4,202**	**5,388**

Source: Company, Kotak Institutional Equities estimates.

Exhibit 8: Balance sheet model for Jindal Saw (consolidated), September fiscal-year ends, 2004-10E (Rs mn)

	2004	2005	2006	2007E	2008E	2009E	2010E
Equity							
Share capital	390	471	484	560	560	560	560
Convertible warrants	—	—	117	—	—	—	—
Reserves (excl Reval)	3,035	6,451	8,031	14,899	18,192	23,416	29,518
Net worth	**3,424**	**6,922**	**8,631**	**15,459**	**18,752**	**23,976**	**30,078**
Preference capital	—	1,000	1,000	1,000	1,000	1,000	700
Minority interest	—	—	151	151	151	151	151
Deferred tax liability	466	599	763	1,015	1,425	1,995	2,298
Debt	**7,630**	**11,979**	**16,217**	**11,121**	**9,908**	**5,631**	**4,994**
Secured	5,511	6,713	8,679	7,128	5,915	1,638	1,000
Unsecured	2,119	5,266	7,539	3,994	3,994	3,994	3,994
Current liability and provisions	6,437	5,012	12,303	14,264	17,216	22,602	25,067
Total capital	**17,958**	**25,512**	**39,066**	**43,011**	**48,451**	**55,356**	**63,288**
Assets							
Cash and cash equivalents	345	1,526	3,922	2,000	2,000	2,000	6,526
Inventory	4,518	9,262	13,967	16,314	19,253	23,559	26,188
Sundry debtors	4,104	3,335	7,608	8,836	10,045	13,462	14,965
Loans and advances	2,093	2,658	2,480	2,480	2,480	2,480	2,480
Current assets	**11,060**	**16,782**	**27,976**	**29,630**	**33,778**	**41,502**	**50,158**
Gross block (net off revaluation)	5,091	8,633	11,049	13,584	18,024	18,295	18,660
Less: Accumulated depreciation	1,573	1,980	2,499	3,238	4,186	5,276	6,366
Net fixed assets	3,518	6,653	8,550	10,346	13,838	13,019	12,294
Capital -WIP	2,350	1,177	1,546	2,200	—	—	—
Pre-operative exp	167	32	158	—	—	—	—
Net fixed assets (incl. C-WIP & Pre-op)	**6,035**	**7,862**	**10,254**	**12,546**	**13,838**	**13,019**	**12,294**
Investments	862	868	836	836	836	836	836
Miscallenous expenditure	—	1	—	—	—	—	—
Total assets	**17,958**	**25,512**	**39,066**	**43,011**	**48,451**	**55,356**	**63,288**
Leverage and return ratios (x)							
Debt/Equity	2.0	1.7	1.1	0.7	0.5	0.3	0.2
Debt/Capitalisation	0.7	0.6	0.5	0.4	0.4	0.2	0.2
Net debt/Equity	1.9	1.5	0.8	0.6	0.4	0.2	(0.0)
Net debt/Capitalisation	0.7	0.6	0.4	0.4	0.3	0.2	(0.0)
Net debt/EBITDA	5.4	4.1	2.4	1.7	1.2	0.4	(0.1)
ROAE (%)	14.5	18.1	15.3	18.8	21.0	25.1	22.9
ROACE (%)	7.5	10.5	10.2	12.6	15.2	19.9	19.8

Source: Company, Kotak Institutional Equities estimates.

Banking

Sector coverage view			Neutral

		Price, Rs	
Company	Rating	8-Aug	Target
SBI	IL	1,706	1,450
HDFC	IL	2,066	1,700
HDFC Bank	IL	1,172	1,250
ICICI Bank	IL	884	1,000
Corp Bk	IL	377	360
BoB	OP	314	330
PNB	OP	521	610
OBC	IL	237	240
Canara Bk	IL	277	250
LIC Housing	OP	190	240
Axis Bank	U	626	570
IOB	OP	129	150
Shriram Transp	OP	175	200
SREI	IL	99	110
MMFSL	IL	240	265
Andhra	OP	87	120
IDFC	IL	129	120
PFC	U	188	125
Centurion Bank	U	38	35
Federal Bank	OP	351	340
J&K Bank	OP	701	875
India Infoline	U	698	670
Indian Bank	IL	152	135

Revised ECB policy marginally positive for banks

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- **RBI revises ECB norms to control forex inflows, manage liquidity and exchange rate**
- **Data relating to extent of ECBs brought in India not available, market estimates range between US$5-10bn**
- **An incremental though limited positive for banks as pressure to hike CRR reduces**

RBI has revised its policy on External Commercial Borrowings (ECB) by Indian corporates. Henceforth, companies will have to restrict remittance into India from ECB to US$20 mn annually for funding rupee investments. According to market sources, of the US$16 bn ECB raised by Indian companies in FY2007, around US$5 bn-US$10 bn of external borrowings likely entered India. In FY2007 the net balance of payment was US$37 bn and RBI had bought close to US$ 27 bn. We estimate balance of payment surplus of US$42.5 bn for FY2008 and RBI will likely need to purchase US$40 bn (pre this policy). We believe that the aforesaid restrictions will likely be an incremental positive, though the impact will likely to be small as inflows through ADR, FDI, equity issuance likely remain high. The RBI has had to resort to CRR hike to control inflow of funds, and may get a marginal relief on this front.

Key features of the policy

- ECB more than US$20 mn per borrower company per financial year would be permitted only for foreign currency expenditure for permissible end-uses of ECB. Borrowers raising ECB more than US$20 mn will have to park the proceeds overseas for use as foreign currency expenditures and not remit these funds to India. This modifications will be applicable under the automatic and approval route both.
- ECB up to US$20 mn per borrowing company per financial year would be permitted for foreign currency expenditures for permissible end-uses under the automatic route and these funds will have to be parked overseas and not be remitted to India.
- Borrowers proposing to raise ECB up to US$20 mn for rupee expenditure for permissible end-uses would require prior approval of the Reserve Bank under the approval route. However, such funds shall be continued to be parked overseas until actual requirement in India.

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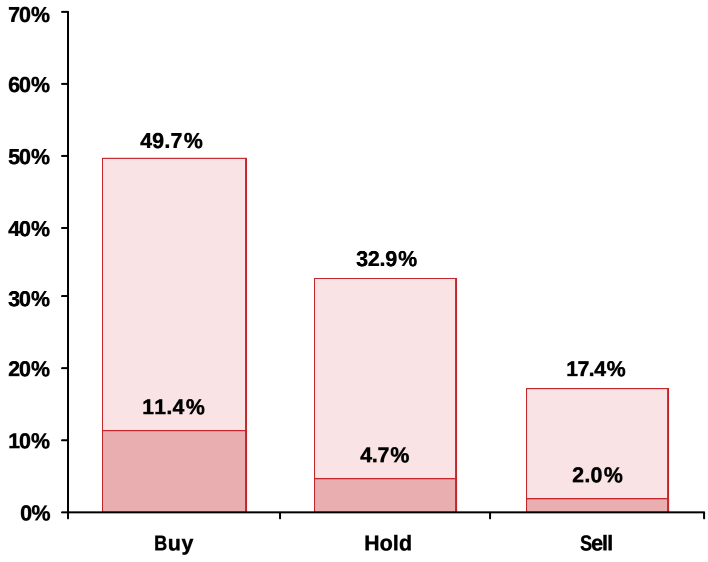

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Source: Kotak Institutional Equities. As of June 30, 2007

Ratings and other definitions/identifiers

Current rating system

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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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