

September 20, 2007

FOR PRIVATE CIRCULATION

**Equity**

	19 Sep 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	16,323	4.2	15.4	14.2
Nifty	4,732	4.1	15.2	12.3
Banking	8,691	4.8	18.2	13.1
IT	3,620	3.4	4.7	(1.8)
Healthcare	3,704	1.2	6.2	(2.0)
FMCG	2,141	2.0	18.2	18.8
PSU	7,643	3.5	16.8	15.5
CNX Midcap	6,518	1.9	15.4	14.3
<b>World indices</b>				
Nasdaq	2,666	0.6	6.3	2.6
Nikkei	16,382	3.7	4.2	(10.0)
Hangseng	25,555	4.0	18.9	18.4

**Value traded (Rs cr)**

	19 Sep 07	% Chg - 1 Day
Cash BSE	7,165.2	33.3
Cash NSE	16,494.7	50.9
Derivatives	NA	

**Net inflows (Rs cr)**

	18 Sep 07	% Chg	MTD	YTD
FII	(138)	(49)	4,145	39,524
Mutual Fund	(19)	(91)	(289)	3,045

**FII open interest (Rs cr)**

	18 Sep 07	% chg
FII Index Futures	17,941.6	0.7
FII Index Options	13,820.6	4.4
FII Stock Futures	28,428.0	1.3
FII Stock Options	214.0	1.8

**Advances/Declines (BSE)**

	19 Sep 07	A	B1	B2	Total	% Total
Advances	175	430	436	1,041	57	
Declines	42	301	412	755	41	
Unchanged	-	12	28	40	2	

**Commodity**

	19Sep 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	81.9	0.5	13.8	18.6
Gold (US\$/OZ)	721.4	(0.3)	10.1	10.5
Silver (US\$/OZ)	12.9	(0.4)	10.3	(1.7)

**Debt/forex market**

	19 Sep 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.83	7.85	8.00	8.18
Re/US\$	40.13	40.50	40.97	40.73

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- The unexpected half percentage point reduction in benchmark rates by the US Fed will put pressure on the RBI to lower rates. (ET)
- The group of ministers looking into the draft pharma policy is unlikely to come out with its final recommendations soon. The delay has been caused by the inconclusive two meetings it has had in the last seven months. (BS)
- The country's production of cotton, soyabean, sugarcane and kharif maize is expected to scale all time highs this year. According to the Union Agriculture Ministry's First Advance Estimates of crop output, production of kharif foodgrains during 2007-08 will touch 112.24 MT. (BL)
- In a move detrimental to the interests of cable distribution and media companies, Trai has suggested that telecom operators can offer mobile television services to subscribers while others will need licence. (BS)
- The list of services on which exporters have been granted exemption from payment of service tax may be expanded. Commission paid to foreign agents could be one of the services added to the list. (ET)
- The RBI's tight monetary policy is likely to moderate the growth rate of the Indian economy in the second half of the current calendar year, the economic analysis arm of international rating agency Moody's said. (BS)

**CORPORATE NEWS**

- **BPCL** would be forming a \$29-mn joint venture company with the US-based Matrix Marine Fuels LLC primarily for expanding bunkering business. The joint venture would be based out of Singapore. (BL)
- **ONGC** plans to begin production from its ultra deep sea gas discovery in the Krishna-Godavari basin off the east coast by 2012-13. The company is looking at an investment of \$4.5-5 bn for developing the field. (BL)
- After the launch of the new TataMobile - TL Sprint, **Tata Motors** is now gearing up to launch its next generation 407 and 709 model that is part of its existing light commercial vehicle range. (BL)
- **Larsen & Toubro** is close to acquiring a stake in Feedback Ventures, a leading integrated infrastructure services firm. (BS)
- ONGC Videsh (OVL), the overseas investment arm of **Oil and Natural Gas Corporation**, has won three exploration blocks in Colombia in the latest round of auctions. (BS)
- **Nagarjuna Construction Co** in consortium with Posco E&C, of South Korea has bagged an engineering, procurement and construction contract valued at Rs.15.58 bn from SAIL for Iisco Steel Plant at Burnpur, West Bengal. (BL)
- **Britannia Industries** plans to diversify into other food businesses. The company has increased its cash reserves and is looking for opportunities in organic and inorganic growth. (BL)
- The Tata Group's retail venture, **Trent** is scouting for partnerships with three to four premium apparel brands to strengthen its presence in the premium segment. (BS)
- The Rs.16-bn **DSK Group**, a player in construction, automobile, education, IT training and software development, has signed an exclusive deal with Worldman Technology Company Ltd, a TCL group company. (BL)
- **KEC International Ltd** has bagged a major Asian Development Bank funded contract from Afghanistan's Ministry of Energy & Water through an international competitive bidding process which will be completed in 18 months. (BL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, Tol: Times of India, BSE = Bombay Stock Exchange

## SECTOR UPDATE

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## OIL SECTOR UPDATE

## Lower margins expected across value chain in oil industry

**ONGC** (Price: Rs.900, FY09PE: 8.3x) - Maintain **BUY** with target of Rs.1070.

**HPCL** (Price: Rs.240, FY09PB: 0.7x) - Lower price target to Rs.280, maintain **BUY**.

**BPCL** (Price: Rs.310, FY09PB: 0.9x) - Lower price target to Rs.375, maintain **BUY**.

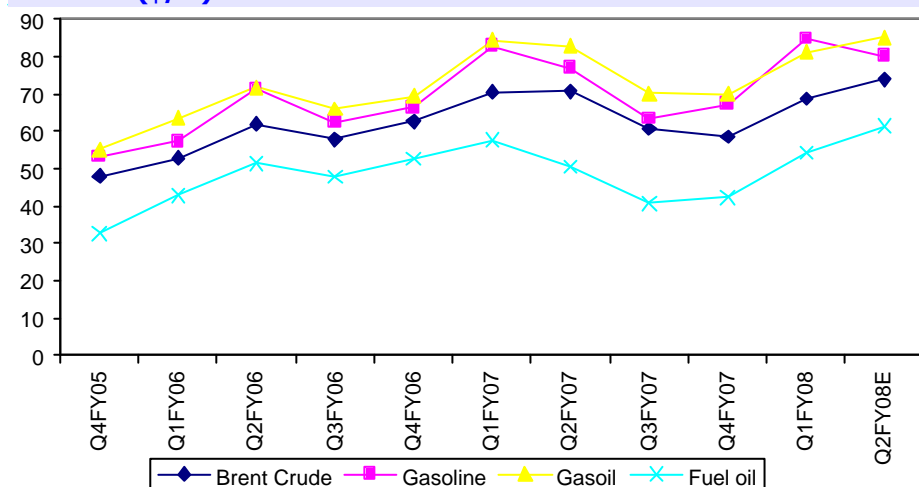
The oil sector is expected to remain subdued during the current quarter (Q2FY08). In the ongoing quarter, crude prices (Dated Brent) have so far risen 7.5% QoQ and 4.4% YoY to \$73.8/bl. It continues to gain further momentum with highs of \$77/bl.

The refining margins have also declined sharply in the current quarter with Singapore-Brent crack turning negative to -\$2.8/bl compared to \$1.5/bl in Q1. High crude prices and lower refining margins would mean another disappointing quarter for OMCs (HPCL, BPCL, IOC).

We change our key assumption of Brent Crude price in FY08-09 by 6% to \$72/bl from our earlier assumption of \$68/bl. Henceforth, we are lowering our price target on BPCL and HPCL by 14% and 17%, respectively. Earnings risk has increased significantly due to high crude price, the Government's unwillingness to increase retail fuel prices and uncertainty over oil bonds. With retail fuel prices almost frozen at current levels, earnings and our target price sensitivity has risen considerably to oil bonds quantum and crude prices. The 5% variation in either of these two variables could lead up to 15% variation in our target price.

Upstream ONGC largely remains neutral to crude. However, there could be a marginal adverse impact of high crude, depending on subsidy burden.

## Oil Prices (\$/bl)

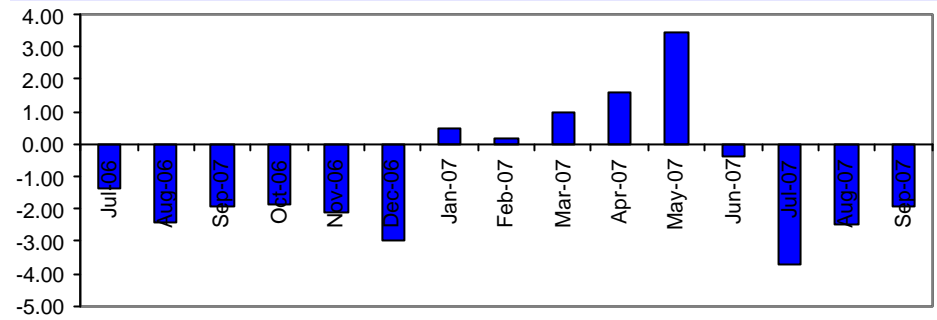


Source: Bloomberg

## Refining margins decline sharply

Refining margins have also declined significantly in the first two months of the quarter, with Singapore Brent cracking spread turning adverse to -\$2.8/bl compared to Q2FY07 and Q1FY08 figures of -\$2.2/bl and \$1.5/bl, respectively. The decline is primarily attributed to a 5.6% QoQ fall in gasoline prices. However, refining margins have rebounded in the latest week to -\$1.2/bl due to a 9.7% rise in gas oil prices in the last fortnight.

**Singapore-Brent Net Refining Margins (\$/bl)**



Source: Bloomberg, Kotak Securities - Private Client Research

On the whole, despite the recent pullback in GRMs, we expect Q2FY08 earnings for standalone refiners like Chennai Petroleum and MRPL to decline marginally compared to Q2FY07.

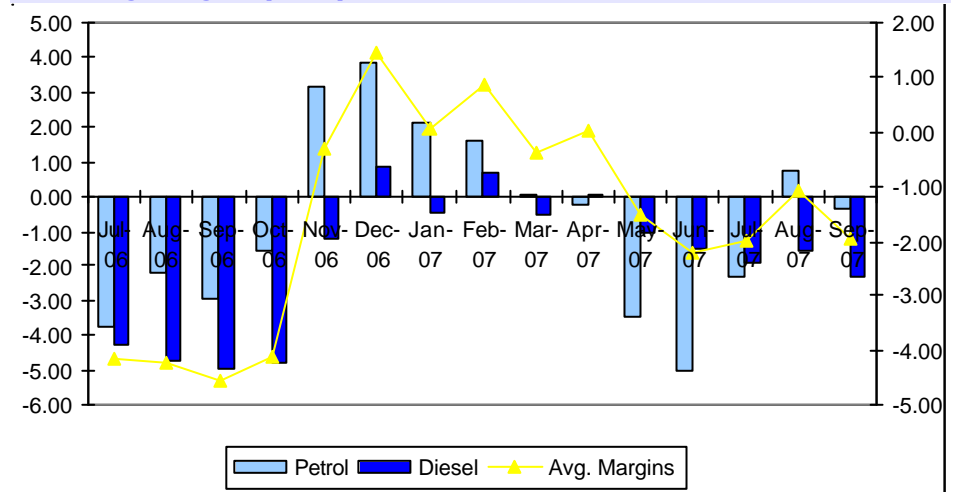
**Industry retail fuel under-recoveries to worsen**

In the current quarter, there has been no respite for OMCs on the retail front, as losses on the marketing front continue to worsen due to non revision of retail prices by the Government, despite a 7.5% QoQ rise in crude.

There has been a 5.6% QoQ decline in petrol prices. However, the gain has been completely negated by a 4.6% QoQ rise in diesel prices. Overall, margins would decline QoQ, as diesel sales are almost four times petrol sales. In the current quarter, average auto retail margins are expected to decline from -Rs.1.2/liter in Q1 to -Rs.1.7/liter.

Hence, OMCs (HPCL and BPCL) are expected to lose on both the refining as well as the marketing front. As a result, we expect disappointing earnings from the current quarter.

**Marketing margins (Rs/lt)**

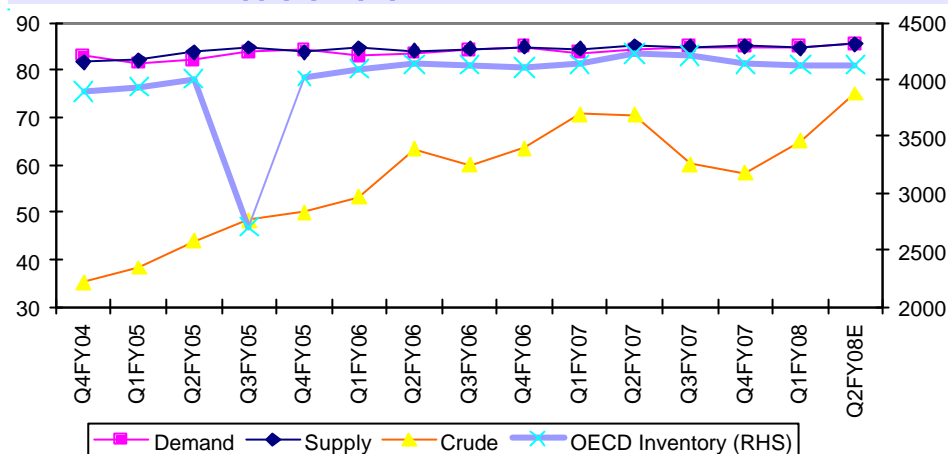


Source: Kotak Securities - Private Client Research

## Key assumptions & FY08 outlook for OMCs

Our key assumption of Brent crude at \$66.3/bl for FY08 is slightly under pressure with average for the year so far being \$71.2/bl. Considering the tight demand-supply, lower product inventories and global inflation risk with depreciating dollar, high crude price scenario might continue in the foreseeable future. Henceforth, we have increased our key assumption of Brent Crude price in FY08-09 by 6% to \$72/bl from earlier assumption of \$68/bl.

### Crude Demand-Supply (mbpd)



Source: Bloomberg, IEA

Crude price has become a critical input for HPCL and BPCL in the current scenario where the Government is unwilling to raise retail prices and there is an uncertainty over oil bonds.

Earlier we had assumed that the FY07 subsidy sharing mechanism may be followed in FY08 as well. However, at \$71/bl the Government's oil bonds share works out to be Rs.260 bn, which we believe may be too high considering the current press report points to Rs.190 bn oil bonds. Henceforth, we reduce Government subsidy share to 43% from FY07 figure of 48%. This leads to oil bonds worth Rs.235 bn, which we believe is a reasonable level. In case the Government issues lower oil bonds, our earning estimates may come down significantly.

### Industry Subsidy Sharing Mechanism

	FY06	FY07	FY08E	FY09E
Brent Crude (\$/bl)	58	65	71	73
HSD (Rs bn)	107	119	158	196
MS (Rs bn)	45	50	55	67
SKO (Rs bn)	167	198	198	191
LPG (Rs bn)	105	125	127	126
Total Under recoveries (Rs bn)	424	492	538	581
Cash (By govt.) (Rs bn)	26	27	28	29
Oil Bonds (Rs bn)	115	238	235	269
Upstream contribution (Rs bn)	154	207	226	244
Net Under recovery (Rs bn)	155	47	76	68

Source: Kotak Securities - Private Client Research

We lower our price target on BPCL and HPCL by 14% and 17% respectively. We are maintaining our BUY recommendation, however higher than expected crude price and lower oil bonds still present a risk to our estimates, as shown in the scenario analysis below.

**Sensitivity analysis - HPCL, BPCL****Oil bonds sens at \$71/bl**

	<b>FY07 Prop</b>	<b>New estimates</b>	<b>Media</b>
Oil bonds (Rs bn)	263	235	208
Target price BPCL	468	373	278
Target price HPCL	374	287	200

**Crude sensitivity at 15% net under-recovery**

	<b>H1FY08-Avg</b>	<b>Current Price</b>	<b>Change (%)</b>
Crude (\$/bl)	71.2	74.5	4.63
Target price BPCL	373	344	-7.77
Target price HPCL	287	257	-10.45

Source: Kotak Securities - Private Client Research

<b>HPCL</b>			
<b>(Rs bn)</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>
Net sales	890.4	933.1	984.5
Growth %	25.3	4.8	5.5
Operating EBITDA	24.1	24.0	24.6
EBITDA margin %	2.7	2.6	2.5
Net profit	15.7	11.2	10.5
Net cash (debt)	-76.6	-81.7	-93.1
EPS (Rs)	46.4	33.0	31.0
Growth %	287.3	-28.7	-6.2
DPS (Rs)	3.0	3.0	6.0
ROE %	13.1	10.8	9.3
RoIC%	9.4	7.4	6.7
EV/Sales (x)	0.2	0.2	0.2
EV/EBITDA (x)	4.5	4.7	4.8
P/E (x)	5.2	7.3	7.7
P/BV (x)	0.8	0.8	0.7

Source: Company & Kotak Securities - Private Client Research

<b>BPCL</b>			
<b>(Rs bn)</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>
Net sales	975.6	1075.2	1136.7
Growth %	12.0	10.2	5.7
Operating EBITDA	34.2	29.8	30.2
EBITDA margin %	3.5	2.8	2.7
Net profit	18.1	11.7	11.2
Net cash (debt)	-102.6	-103.6	-111.3
EPS (Rs)	49.9	32.4	31.0
Growth %	430.2	-35.1	-4.2
DPS (Rs)	4.0	4.0	4.0
ROE %	14.7	10.9	9.6
RoIC%	8.6	6.9	6.4
EV/Sales (x)	0.2	0.2	0.2
EV/EBITDA (x)	4.8	5.5	5.5
P/E (x)	6.2	9.6	10.0
P/BV (x)	1.1	1.0	0.9

Source: Company & Kotak Securities - Private Client Research

<b>HPCL</b>			
	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>
EV/EBITDA	5.00	5.00	5.00
Operating EBITDA (Rs bn)	25.95	23.96	24.58
EV (Rs bn)	129.76	119.81	122.90
Debt net of cash and oil bonds (Rs bn)	27.46	31.35	37.04
Equity value of core business (Rs bn)	102.30	88.45	85.86
Number of shares (mn)	339.00	339.00	339.00
Value per share (core business)	301.78	260.93	253.28
Value of (MRPL) (Rs/share)	26.39	26.39	26.39
Total Value per share	328	287	279

<b>BPCL</b>			
	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>
EV/EBITDA	5.50	5.50	5.50
Operating EBITDA (Rs bn)	34.16	29.84	30.17
EV (Rs bn)	187.88	164.14	165.95
Debt net of cash and oil bonds (Rs bn)	53.02	52.14	53.06
Equity value of core business (Rs bn)	134.86	112.00	112.89
Number of shares (mn)	361.56	361.56	361.56
Value per share (core business)	373.01	309.77	312.23
Value of Invest (IGL, PLNG, NRL)	51.25	51.25	51.25
Other investments (Rs/share)	11.73	11.73	11.73
Total Value per share	436	373	375

Source: Kotak Securities - Private Client Research

**Upstream ONGC outlook & recommendation**

ONGC shared 28% of the under-recoveries in Q1. However, in the scenario of lower oil bonds, it is likely that ONGC would be asked to share 34% of the under-recoveries, as in FY07. Hence, we continue to assume that ONGC will share 34% of the gross under-recoveries, with total upstream (GAIL, OIL) share being 42%.

For FY08, we expect realization net of subsidy to improve to \$50.3/bl from the FY07 figure of \$46.3/bl. The improvement would result from lower subsidy compared to FY07 and increased production from OVL's Sakhalin field.

On the whole, high crude price scenario would be marginally adverse for ONGC, as in FY09 we expect realization net of subsidy to come down to \$49.3/bl. We are maintaining our key operational assumption regarding ONGC, apart from changing crude price to \$72/bl. There is no change in earnings and price target for ONGC. We continue to recommend BUY on ONGC with target price of Rs.1070.

<b>Operational parameters (ONGC)</b>					
	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>
Crude Production - ONGC (mtpa)	21.6	27.35	28.72	28.72	28.72
Crude Production - OVL (mtpa)	4.58	5.27	7.67	7.58	8.33
Total Crude Prod'n (mtpa)	26.18	32.62	36.38	36.30	37.04
Crude Sales (mtpa)	25.58	29.88	32.75	33.03	34.08
Indian basket crude (\$/bl)	57.1	62.10	68.50	70.00	65.00
Gross Realization (\$/bl)	58.46	63.70	69.76	71.31	66.06
Total Subsidy (Rs bn)	118.72	169.88	185.58	200.39	145.44
Subsidy (\$/bl)	14.07	17.23	18.86	20.19	14.20
Crude Net Realization (\$/bl)	44.39	46.47	50.90	51.12	51.86
Exchange Rate (Rs/\$)	45	45.00	41.00	41.00	41.00
Gas Production - ONGC (bcm)	20.1	21.97	23.07	24.22	25.43
Gas Production - OVL (bcm)	1.76	1.34	1.41	3.71	4.89
Total Gas Prod'n (bcm)	21.86	23.31	24.48	27.93	30.32
Gas Sales (bcm)	20.77	20.98	22.03	25.14	27.29
Gas Realization (Rs/scm)	3.25	3.80	4.70	5.50	5.50

Source: Company, Kotak Securities - Private Client Research

<b>ONGC+OVL</b>			
<b>(Rs bn)</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>
Net sales	644.6	713.9	760.3
Growth %	14.8	10.8	6.5
EBITDA	376.0	434.1	478.1
EBITDA margin %	58.3	60.8	62.9
Net profit	173.2	201.4	227.4
Net cash (debt)	-44.2	16.8	129.9
EPS (Rs)	81.0	94.2	106.3
Growth %	16.6	16.3	12.9
DPS (Rs)	45.0	45.0	45.0
ROE %	28.0	27.5	26.0
RoIC%	23.3	25.0	26.6
EV/Sales (x)	2.8	2.5	2.3
EV/EBITDA (x)	4.8	4.2	3.6
P/E (x)	11.0	9.5	8.4
P/BV (x)	2.8	2.4	2.0

Source: Company & Kotak Securities - Private Client Research

<b>Valuation Parameters (ONGC)</b>				
	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>
FY06-09 Average - RoE	28.03%	27.82%	25.93%	23.69%
Expected growth rate	5.00%	5.00%	5.00%	5.00%
Reinvestment rate	17.84%	17.97%	19.29%	21.11%
Re (Cost of Equity)	13.30%	13.30%	13.30%	13.30%
PE <sub>x</sub>	10.39	10.38	10.21	9.98
EPS	80.98	95.51	106.38	115.45
Core business value ONGC+OVL	841.65	991.07	1086.25	1152.26
Other investments (MRPL, IOC, GAIL)	45.35	45.35	45.35	45.35
Total fair value	886.99	1036.41	1131.60	1197.60

Source: Kotak Securities - Private Client Research

<b>ONGC Crude sensitivity</b>			
	<b>Our assumptions</b>	<b>H1FY08-Average</b>	<b>Change (%)</b>
FY08 Brent Crude (\$/bl)	71.2	74.50	4.63%
FY08 EPS (Rs)	95.5	94.60	-0.94%
Value per share (Rs)	1020	1010.00	-0.98%

Source: Kotak Securities - Private Client Research

## COMPANY UPDATE

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## IVRCL INFRASTRUCTURES

PRICE : Rs.403

RECOMMENDATION : BUY

TARGET PRICE : Rs.471

FY09E PE : 22.3x

We spoke to the management of IVRCL Infrastructures and maintain our positive stance on the company. The company has seen a robust order inflow till date and expects to achieve a very healthy growth in revenues. The company is well equipped to bag large sized orders and current BOT projects are expected to deliver returns by FY09-10. Through IVR Prime Urban developers, IVRCL has forayed into real estate and expects to scale it up significantly in next 3-4 years. We are revising our estimates and maintain BUY with a price target of Rs 471.

## Key investment rationale

**Robust order book** - IVRCL has got a fairly diversified order book of Rs.95 bn spread across water (55%), transportation (18%), irrigation (13%) and building related projects (14%). Order inflow in the current financial year has been to the tune of Rs.24 bn. The company is L1 in Rs.10 bn worth of new orders. It also expects significant order inflows in the buildings segment from its subsidiary IVR Prime Urban developers.

With continued focus of the Government on infrastructure and easing of norms related to model concession agreement, we expect order inflow momentum to speed up in the next two quarters. We expect the order book to grow at a CAGR of 17% between FY07-FY09, thereby providing revenue visibility for future.

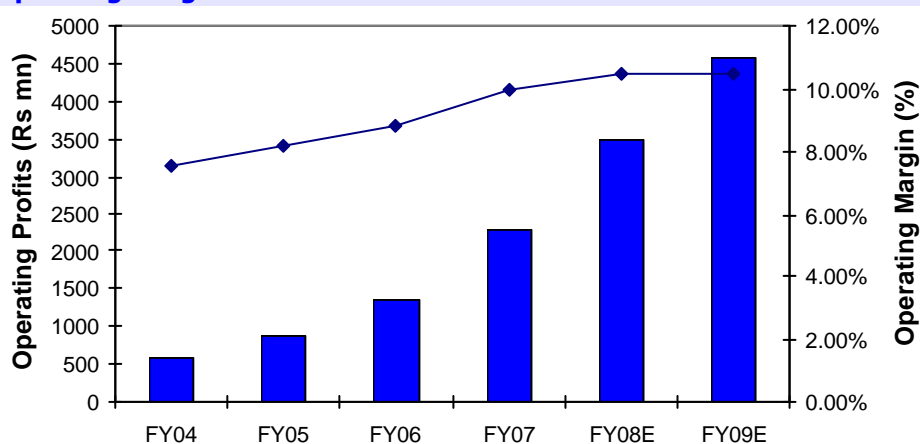
## Order Inflows

Project secured in FY08 till now	Size (Rs mn)	Time
Design, Excavation and lining of Gandikota Tunnel, AP Irrigation dept	3761	May-07
Construction of swimming pool, GSIDC Ltd	69	May-07
Design, supply and erection of components, AP Govt	5510	May-07
Bhadra Modernization package, KNNL	2027	Jul-07
Irrigation works, AP govt	6414	Jul-07
Irrigation works, PHED, Govt of Rajasthan	3202	Aug-07
Water distribution, desalination & supply projects	3681	Sep-07
Total order inflow	24664	

Source: Company

**Improvement in operating margins** - IVRCL has managed to improve its operating margins by 115 bps in FY07 as compared to FY06. Diversification across different segments, variable pricing clauses and tilt towards higher margin projects should result in improving operating margins by 25-50 basis points, going forward.

## Operating Margin Trend



Source: Kotak Securities - Private Client Research



**Details of QIP issue**

Amount Raised(Rs mn)	5550
No. of shares issued(mn)	15
Price per share	370
Enhanced equity capital* *inc part FCCB dilution	259.3

Source: Company

**Strong balance sheet**

IVRCL has a very strong balance sheet. The financial strength of the company has increased on account of additional resources mobilization through qualified institutional placement (QIP). This has substantially improved the pre-qualifications of the company to bid for large sized projects on a BOT/BOOT basis. It intends to use the proceeds of the QIP issue for capital expenditure and investment in BOOT/BOT projects and for investments required in subsidiaries for their ongoing projects.

The fund raising process has resulted in reducing the RoE to some extent. However, since the company would be utilizing these proceeds for investing in profitable ventures, it would significantly help in improving the returns in the long run. We believe the company currently has sufficient funds available with it. Apart from FCCB conversion, we do not expect further equity dilution for the next one to one and a half years.

**Working capital needs rise significantly, likely to come down**

Working capital requirements of IVRCL have increased significantly in FY07 as compared to FY06, primarily due to a huge jump in loans and advances. This was due to loan sanctioned to the IPUD for its business activities including land acquisition as well as development cost. IPUD intends to repay Rs 1472mn from the net proceeds of the issue to IVRCL, which should result in reducing the working capital for IVRCL. Hence we expect the working capital of IVRCL to improve in FY08 due to decline expected in the loans and advances days.

**BOT projects in full swing**

IVRCL has floated IVRCL Road Toll holding Ltd (IRTHL) through which all investments into road related BOOT projects, namely, Jalandhar-Amritsar road project, Salem-Kumarapalayam road project and Kumarapalayam-Chengapally road project are going to be routed. Construction work on these road BOOT projects has started in full swing and the company expects a much higher traffic inflow resulting in higher than expected equity IRRs.

**Road project details**

	Length km	Project cost (Rs mn)	Equity (Rs mn)	Exp compl date	Exp Equity IRR
Jalandhar -Amritsar	49	2377.5	413	Dec-08	18%
Salem-Kumarapalayam	53	5011.3	801.3	Jan-09	22%
Kumarapalayam-Chengapalli	47	4214.4	650.5	Jan-09	22%

Source: Company & Kotak Securities - Private Client Research

IVRCL has also promoted Chennai Water Desalination Ltd (CWDL) for carrying out the water desalination project in Chennai. Project cost is approximately Rs.4.9 bn and has also achieved financial closure. IVRCL has 75% stake in the project while BEFASA has the remaining 25% stake. The expected equity IRR on this project is 20%.

**Performance of subsidiaries****■ IVR Prime urban developers**

IVR Prime Urban Developers (IPUD) was incorporated in 1996 and became a subsidiary of IVRCL in 2001. Forthcoming projects of the company include -

- Development of high rise residential and commercial buildings at Hi-tech city and a retail mall, IT park and hotel at Gachibowli village, covering a saleable area of approximately 2.81 mn sq ft in Hyderabad.
- Mass housing project, IT park, hotel, golf course and a convention centre in



Chennai, covering approximately 37.95mn sq ft

- Development of residential apartments, villas and commercial structures in Bangalore, covering approximately 4.39mn sq ft
- Development of residential apartments, villas and commercial structures in Pune, covering approximately 7.62mn sq ft
- Development of high rise residential and commercial structures as a part of SEZ, covering approximately 3.86 mn sq ft in Noida.

The management believes that all its real estate plans are well on track and would be able to grow its revenues significantly in coming years. IVRCL would continue to acquire low cost land in fast growing cities, going forward.

**Financial Estimates for HDO**

**P&L Statement (Year end March)**

(Rs mn)	FY07	FY08E	FY09E
Revenues	2085.1	3099.6	4503.9
% chg YoY	47.5	48.7	45.3
EBITDA	186.0	307.1	487.6
% chg YoY	197.1	65.1	58.8
Depreciation	15.8	27.5	31.5
EBIT	170.2	279.6	456.0
% chg YoY	208.5	64.3	63.1
Net Interest	21.8	10.0	10.0
Other Income	65.0	71.5	78.7
EBT	213.4	341.1	524.7
% chg YoY	186.2	59.8	53.8
Tax	60.1	115.6	177.9
as % of EBT	28.2	33.9	33.9
Net Income adj	153.3	225.5	346.8

Source: Company & Kotak Securities - Private Client Research

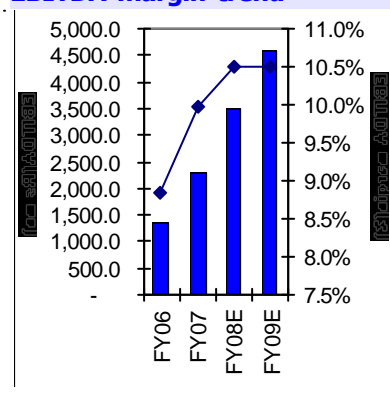
**Hindustan Dorr Oliver**

- IVRCL currently holds around 53% stake in Hindustan Dorr Oliver Ltd. HDO is a niche player in the environmental engineering space. HDO has been a long-term player in the water and waste water treatment plant market in India and has executed projects for most core sector industries like refineries, chemical, steel, fertilizer, sugar, pulp and paper etc. The company has been on a high growth trajectory and has grown its order book significantly to Rs.5 bn now as compared to Rs.1.7 bn last year. Synergies between the two companies would help IVRCL bid for more complex water related projects.
- We expect revenues for HDO to grow at a CAGR of 47% and profits to grow at CAGR of 50% between FY07-FY09.

**Financial outlook**

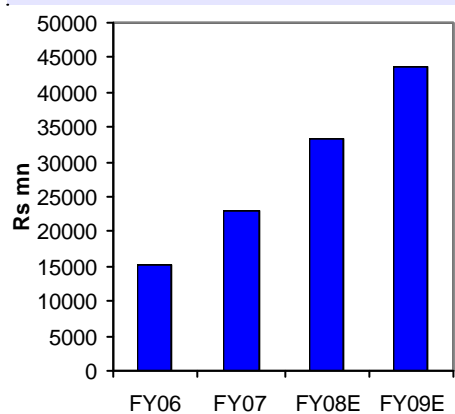
With a robust order book of Rs.95 bn, we expect revenues of IVRCL to grow at a CAGR of 38% between FY07-FY09. Diversification across different segments, variable pricing clauses and tilt towards higher margin projects should result in improving operating margins by 25-50 basis points. With the high margin water segment contributing to a major portion of the order book as well as revenues, followed by higher inflows in the buildings segment, we expect the company to obtain margins in the range of 10.5% in our estimates. Though the company still claims benefits under section 80IA, we assume a full tax rate in our estimates. Consequently, we expect net profits to grow at a CAGR of 31% between FY07-09.

**EBITDA margin trend**

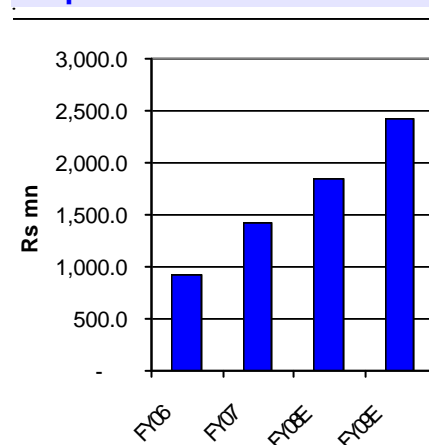


Source: Company & Kotak Securities - Private Client Research

**Revenues**



**Net profits**



## Valuation & target price calculation

At the current market price of Rs.403, the stock is trading at 29.5x and 22.3x its FY08 and FY09 P/E estimates and 14.8x and 11.7x on EV/EBITDA multiples on FY08 and FY09 estimates. Adjusted with BOT and subsidiary company valuations, the stock is trading at 18.7x and 14.2x its P/E multiples on FY08 and FY09 estimates. We have valued the company on sum of the parts methodology and arrived at a target price of Rs.471.

Core business enterprise valuation is done on relative EV/EBITDA multiples based on the company's past trading band as well as in comparison with its peers. BOT projects valuation is done on P/BV based on the expected equity IRRs on these projects. We have assumed a holding company discount of 15% for valuation of IVRCL's investment in IVR Prime Urban Developers as well as Hindustan Dorr Oliver. We arrive at a target price of Rs.471, which provides an upside of 17% from current levels.

### Valuations

Based on FY09	Rs mn	Parameter
Core business valuation	48039	Based on 11x FY09 EV/EBITDA multiple
Value for Chennai Desalination project	1098	Investments valued at P/BV of 1.2
Value for Jalandhar Amritsar BOT	675	Investments valued at P/BV of 1.5
Value for Tamil Nadu BOT	2625	Investments valued at P/BV of 1.5
Value for IVR Prime Urban developers	13226	Holding company discount of 15%
Value for Hindustan Dorr Oliver stake	2132	Holding company discount of 15%
Net Debt	4473	
Value for equity owners	63322	
Value per share(Rs)	471	

Source: Kotak Securities - Private Client Research

Profit and loss statement (Rs mn)				
Year end March	FY06	FY07	FY08E	FY09E
<b>Revenues</b>	<b>15,214</b>	<b>23,058</b>	<b>33,227</b>	<b>43,573</b>
% change YoY	44.2	51.6	44.1	31.1
<b>EBITDA</b>	<b>1,343.7</b>	<b>2,301.5</b>	<b>3,488.9</b>	<b>4,575.2</b>
% change YoY	55.4	71.3	51.6	31.1
Other Income	57.5	73.8	40.0	20.0
Depreciation	110.0	215.9	303.2	385.6
<b>EBIT</b>	<b>1,291.2</b>	<b>2,159.4</b>	<b>3,225.7</b>	<b>4,209.6</b>
% change YoY	59.6	67.2	49.4	30.5
Net interest	253.0	308.4	438.8	532.6
Profit before tax	1,038.2	1,851.0	2,786.9	3,677.0
% change YoY	74.6	78	50.6	31.9
Tax	107.6	436.3	947.5	1,250.2
as % of PBT	10.4	23.6	34.0	34.0
<b>Net income</b>	<b>930.6</b>	<b>1,414.7</b>	<b>1,839.4</b>	<b>2,426.8</b>
% change YoY	64.1	52	30.0	31.9
Shares outstanding (m)	107.0	129.7	134.5	134.5
EPS (reported) (Rs)	8.7	10.9	13.7	18.0
CEPS (Rs)	9.7	12.6	15.9	20.9
DPS (Rs)	5.00	1.00	1.00	1.00

Balance sheet (Rs mn)				
Year end March	FY06	FY07	FY08E	FY09E
Cash and cash equivalents	2,443.5	2,238.2	3,611.3	1,944.5
Accounts receivable	4,753.6	6,332.1	7,987.1	10,474.0
Inventories	285.5	825.3	800.3	1,049.5
Others	6,059.6	17,287.0	16,386.1	21,488.0
Current assets	13,542.1	26,682.6	28,784.8	34,956.0
LT investments	2,764.7	2,828.9	4,578.9	5,578.9
Net fixed assets	1,107.4	1,929.1	2,325.9	2,840.4
<b>Total assets</b>	<b>17,680</b>	<b>31,946</b>	<b>36,200</b>	<b>43,886</b>
Payables	4,312.1	10,031.5	10,924.1	14,325.3
Others	1,421.3	2,539.5	3,186.2	4,178.2
Current liabilities	5,733.4	12,571.0	14,110.3	18,503.6
LT debt	6,786.2	5,552.5	5,417.6	6,417.6
Other liabilities(deferred tax)	390.4	605.9	606.0	606.0
Equity	213.8	259.3	269.0	269.0
Reserves	4,556.3	12,957.8	15,797.6	18,089.9
<b>Total liabilities</b>	<b>17,680</b>	<b>31,946</b>	<b>36,200</b>	<b>43,886</b>
BVPS (Rs)	44.6	101.9	119.5	136.5

Cash flow statement (Rs mn)				
Year end March	FY06	FY07	FY08E	FY09E
EBIT	1,291.2	2,159.4	3,225.7	4,209.6
Depreciation	110.0	215.9	303.2	385.6
Change in working capital	(2,311.9)	(6,508.3)	810.2	(3,444.6)
Changes in other net CA	(1,960.5)	215.6	0.0	-
Operating cash flow	(2,871.1)	(3,917.4)	4,339.1	1,150.5
Interest	(253.0)	(308.4)	(438.8)	(532.6)
Tax	(107.6)	(661.9)	(947.5)	(1,250.2)
<b>Cash flow from ops</b>	<b>(3,232)</b>	<b>(4,888)</b>	<b>2,953</b>	<b>(632)</b>
Capex	(523.3)	(1,253.0)	(700.0)	(900.0)
(Inc)/dec in investments	(2,448.4)	(64.2)	(1,750.0)	(1,000.0)
Dividends	(63.0)	(107.0)	(129.7)	(134.5)
<b>Cash flow from inv</b>	<b>(3,035)</b>	<b>(1,424)</b>	<b>(2,580)</b>	<b>(2,034)</b>
Proceeds from issue of equity	44.0	45.5	9.7	-
Inc/(dec) in debt	4,139.1	(1,233.7)	(134.9)	1,000.0
Proceeds from share premium	-	7,294.8	1,125.2	-
<b>Cash flow from fin</b>	<b>4,183</b>	<b>6,107</b>	<b>1,000</b>	<b>1,000</b>
Opening cash	4,526.8	2,443.5	2,238.2	3,611.3
Closing cash	2,443.5	2,238.2	3,611.3	1,944.5

Ratio analysis				
Year end March	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	8.8	10.0	10.5	10.5
EBIT margin (%)	8.5	9.4	9.7	9.7
Net profit margin (%)	6.1	6.1	5.5	5.6
Adjusted EPS growth (%)	64.1	52.0	30.0	31.9
Receivables (days)	94	88	88	88
Inventory (days)	6	9	9	9
Sales/assets (x)	13.7	12.0	14.3	15.3
Interest coverage (x)	3.7	4.6	4.2	4.6
Debt/equity ratio	1.1	0.7	0.4	0.3
ROE (%)	21.1	15.7	12.6	14.1
ROCE (%)	14.3	14.2	16.0	18.2
EV/ Sales (x)	3.5	2.3	1.6	1.2
EV/EBITDA (x)	39.3	23.0	14.8	11.7
Price to earnings (P/E)	46.3	36.9	29.5	22.3
Price to book value (P/B)	9.0	4.0	3.4	3.0
Price to Cash Earnings (x)	41.4	32.0	25.3	19.3

Source: Company, Kotak Securities - Private Client Research

## Bulk deals

### Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
19-Sep	21CEN MAN SE	SHRI KRISHANA ENTERPRISES	B	57000	46.23
19-Sep	ACTION FIN	VIRENDRA B GALA	B	137500	27.56
19-Sep	ACTION FIN	JIGNA V GALA	B	137500	27.5
19-Sep	ACTION FIN	MANOJ A SHAH	S	125000	27.5
19-Sep	ACTION FIN	PKJ SHARE BROKER P LTD	S	83000	27.5
19-Sep	ACTION FIN	ALKA ASHOK KARIA	S	108600	28.04
19-Sep	ASHCO INDUST	I S F SECURITIES LTD	B	118500	30.23
19-Sep	ASHCO INDUST	AYODHYAPATI INVESTMENT	B	75045	29.92
19-Sep	ASHCO INDUST	VISHWAS SECURITIES LTD.	B	158522	30.06
19-Sep	ASHCO INDUST	DECENT FINANCIAL SERVICE LTD	B	95000	30.11
19-Sep	ASHCO INDUST	PRITI ANIL GANDHI	S	75000	29.92
19-Sep	ASHCO INDUST	AYODHYAPATI INVESTMENT	S	75045	30.12
19-Sep	ASHCO INDUST	VISHWAS SECURITIES LTD.	S	152790	29.87
19-Sep	ASHCO INDUST	ANKUSH A KOTWANI	S	350000	30.16
19-Sep	ATUL LTD.	MACQUARIE BANK LTD	S	217883	75.07
19-Sep	BIRLA KENNA	VISHAL SATISHKUMAR SHAH	B	17635	420.57
19-Sep	CEREBRA INT	GIRIDHARI LAL FOUNDATIONS	B	41163	15.59
19-Sep	CEREBRA INT	T P ANANDH	S	64528	15.57
19-Sep	CHAN GUIDE I	RAJENDRA S KARNIK	B	105500	28.83
19-Sep	CHAN GUIDE I	KAMLADEVI NEMICHAND JAIN	S	80000	28.6
19-Sep	COMP DISC IN	PRAVIN DEVENDRA JAIN	B	79022	96.3
19-Sep	CONTROL PRIN	ANIRUDHA B JOSHI	S	75283	73.84
19-Sep	CRAZYINFOTE	PRAKASH SURAJMAL SHAH	S	44902	222.52
19-Sep	CRYSTAL SOFT	KAUSHAL NIRANJAN SHAH	B	32000	7.81
19-Sep	CRYSTAL SOFT	RICHLINE FINVEST PVT LTD	B	45052	7.9
19-Sep	DHAMPURE SGR	THE DHAMPUR SUGAR MILLS LTD	S	103273	144.88
19-Sep	DWAR SUGAR	MERRILL LYNCH CAP MKTS ESPANA	B	120000	65.81
19-Sep	DWAR SUGAR	HSBC GLOBAL INVESTMENT FUNDS	S	139956	64.69
19-Sep	EVINIX	SOPHIA GROWTH A CLS SOMERSET B		400000	191
19-Sep	EVINIX	PATEL MAHESHBHAI MOHANLAL	S	60981	191.04
19-Sep	EVINIX	EMERGING CAPITAL ADVISORS LTD	S	75000	191.02
19-Sep	FOUNDRY FUEL	D K AGARWALLA AND SONS HUF	B	53750	8.12
19-Sep	GANGOTRI I&S	BENI PRASAD JAIN	B	22699	43.84
19-Sep	GEMSTONE INV	KISHORBHAI BALUBHAI CHAUHAN	B	45005	22.21
19-Sep	GEMSTONE INV	ANKIT R. SANCHANIYA	B	47535	22.4
19-Sep	GEMSTONE INV	BHAVESH PRAKASH PABARI	S	49250	22.17
19-Sep	GEMSTONE INV	HEMANT MADHUSUDAN SHETH	S	42100	21.68
19-Sep	GEMSTONE INV	BHAVESH PRAKASH PABARI	S	45310	22.41
19-Sep	GREMAC INFRA	EMERGING CAPITAL ADVISORS LTD	B	110000	226.08
19-Sep	GULSHA SUG C	MICRO MANAGEMENT LTD	B	120000	35.31
19-Sep	GULSHAN POLY	KAMAL KUMAR DUGAR AND CO	S	33794	88.05
19-Sep	HALDYN GLA G	HINGLAJ ENTERPRISE	B	29227	63.61
19-Sep	IKF TECHNO	EDELWEISS ESTATES PRIVATE LTD	B	3884859	7.58
19-Sep	IKF TECHNO	EDELWEISS ESTATES PRIVATE LTD	S	3884859	7.38
19-Sep	INFOTREK SYS	GIOVANNI VAZ	B	20000	69.46
19-Sep	INFOTREK SYS	DEEPAK V WADHWA	B	20000	71.48
19-Sep	IWIND ENERGY	OPG SECURITIES PVT LTD	B	363479	141.81
19-Sep	IWIND ENERGY	OPG SECURITIES PVT LTD	S	363479	141.83
19-Sep	JAGJANANI	MEERA NIRANJAN GABA	B	157743	12.44
19-Sep	JAGJANANI	MEERA NIRANJAN GABA	S	157743	12.46

Contd...

19-Sep	KARUR KCP PK	SHILPA KETAN SHAH	B	55000	69.45
19-Sep	KARUT NET L	DEUTSCHE BANK AG LONDON	S	213750	229.81
19-Sep	LOGIX MICRO	JAROLI VINCOM PVT LTD	B	38579	323.95
19-Sep	MEGASOFT LTD	BNP PARIBAS ARBITRAGE	B	570000	112.97
19-Sep	MEGASOFT LTD	SNDRM BNP PARIBAS SELECT MDCPS		577149	113
19-Sep	MURUEDM	I C G Q LTD	B	430000	141.78
19-Sep	NATURAL CAPS	MEENA NAYAN PATEL	B	21645	28.18
19-Sep	NATURAL CAPS	MEENA NAYAN PATEL	S	21645	28.89
19-Sep	NEHA INTERNA	RAKESH H SHAH	B	15100	55.35
19-Sep	NEHA INTERNA	MADAN LAL VARMA	S	15100	55.35
19-Sep	NOVGOL PETR	HARSHVADAN N. SHAH	S	31832	7.52
19-Sep	PARASPETROF	GLOBAL FILM AND BORD CASTING	S	1059068	1.22
19-Sep	PATEL AIRTEM	BABAUBHAI PATEL	S	29643	58.21
19-Sep	PATEL AIRTEM	KANTILAL UGARDAS PATEL	S	53225	58.08
19-Sep	POCHIRAJU IN	S.P.JAGANNATH AND SONS	B	167419	32.89
19-Sep	POCHIRAJU IN	S.P.JAGANNATH AND SONS	S	167419	33.01
19-Sep	POLAR INDUST	M P VORA SHARES & SECURITIES	S	55830	14.84
19-Sep	PROTOINFOSY	NAGREEKA CAPITAL & INFRA	B	200000	4.51
19-Sep	PROTOINFOSY	GOPAL RAM	S	1146518	4.1
19-Sep	RAJESH EXPOT	MAVI INVESTMENT FUND LTD	B	200000	824.27
19-Sep	RENUKA SUGAR	OPG SECURITIES PVT LTD	B	135335	663.67
19-Sep	RENUKA SUGAR	OPG SECURITIES PVT LTD	S	135335	664.26
19-Sep	RICH CAP FIN	VENNA GOYAL	S	73000	19.13
19-Sep	RIGA SUGAR C	BDS SHARE BROKERS PVT LTD	B	36454	28.62
19-Sep	RIGA SUGAR C	RAVI RAJ DEVELOPER LTD	B	25000	30.55
19-Sep	RIGA SUGAR C	BDS SHARE BROKERS PVT LTD	S	36554	29.31
19-Sep	RIGA SUGAR C	HARINDER KAUR H. SIDANA	S	40000	28.74
19-Sep	SALORA INT	MACQUARIE BANK LIMITED	B	83930	205
19-Sep	SALORA INT	ANKITKUMAR S. GANERIWAL	S	80000	205
19-Sep	SANRA SOFTW	GIRIDHARI LAL FOUNDATIONS	B	34021	21.96
19-Sep	SARANG CHEMI	MANAN R PATHAK	B	28400	3.72
19-Sep	SCHRADER DUN	SAINATH HERBAL CARE MKTNG	S	34687	369.61
19-Sep	SYBLY INDUSR	GEOMETRIC SEC AND ADV P LTD	B	52228	10.25
19-Sep	SYSTEL INFOT	NARESH KASAHVLAL RAVAL	S	185000	0.77
19-Sep	TECHTRAN POL	WRITE MARK WRITING & DISPLAY	S	56800	24.07
19-Sep	TIDEWATER-PMS	MICRO MANAGEMENT	S	23000	4450
19-Sep	TRISH ELEC I	FRIENDSHIP INVESTMENTS	B	20000	137.66
19-Sep	UNITY INFRA	DEUTSCHE SECURITIES MAURITIUS	B	100000	610
19-Sep	UNITY INFRA	PEGASUS STOCKS AND SHARES	S	100000	610
19-Sep	YASHRAJ SECR	JPK TRADING INDIA PVT LTD	B	75000	37.05

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Reliance Industries	2,174	5.6	30.9	3.3
ONGC	904	6.3	21.8	2.9
Bharti Airtel	887	6.5	19.7	1.2
<b>Losers</b>				
National Aluminium Co	274	(0.7)	(0.2)	0.2
Glaxosmithkline	1,147	(1.1)	(0.2)	0.3
Dabur India	107	(0.9)	(0.2)	1.4

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
20-Sep	SAIL holds annual shareholders meeting
24-Sep	Pfizer to announce 3rd quarter earnings

Source: Bloomberg

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