kotak® Institutional Equities

INDIA DAILY

October 31, 2008

EQUITY MARKETS

India	29-Oct	1-day	1-mo	3-mo
		Change, %		
Sensex	9,045	0.4	(29.7)	(36.7)
Nifty	2,697	0.5	(31.2)	(37.5)
Global/Regional indices				
Dow Jones	9,181	2.1	(15.4)	(20.7)
FTSE	4,292	1.2	(12.5)	(20.8)
Nikkie	8,751	(3.1)	(22.3)	(34.6)
Hang Seng	14,330	12.8	(20.5)	(37.0)
KOSPI	1,086	0.1	(25.0)	(31.9)

Value traded - India

	29-Oct		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	147.4		159.9	167.7
Derivatives (NSE)	541.9		553.5	648
Deri. open interest	756.6		606	833

Forex/money market

	29-Oct	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	49.7	######	273	722
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.5	(6)	(110)	(180)

Commodity market

	29-Oct	1-day	1-mo	3-mo
		Change, %		
Gold (US$/OZ)	730.8	(1.0)	(16.1)	(20.0)
Silver (US$/OZ)	9.5	(2.5)	(20.7)	(46.2)
Crude (US$/BBL)	61.3	(1.0)	(37.1)	(50.2)

Net investment (US$mn)

	27-Oct		MTD	CYTD
FIIs	(251)		(2,930)	(12,156)
MFs	3		197	3,409

Top movers -3mo basis

Best performers	29-Oct	1-day	1-mo	3-mo
		Change, %		
Union Bank Of India	128	0.4	(11.2)	(3.1)
Hero Honda Motors	769	5.2	(11.8)	(4.3)
Bank Of Baroda	242	3.8	(18.6)	(5.6)
Maruti Suzuki India	543	(0.8)	(21.3)	(5.7)
Bharat Petroleum C	307	7.4	(14.7)	(6.3)
Worst performers				
Housing Developme	149	4.7	(12.4)	(57.4)
Suzlon Energy Limit	46	(11.4)	(69.7)	(79.3)
Bajaj Finserv Ltd	114	(3.1)	(70.5)	(74.3)
Ivrcl Infrastructures	79	(4.8)	(66.1)	(73.6)
Aban Offshore Limi	702	(0.4)	(65.7)	(71.9)

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News Roundup

- India's inflation rate fell below 11% for the first time since May, raising hopes for a rate cut by the central bank that left its key policy rates unchanged in the mid-year review of monetary policy on 24 October. Inflation, as measured by the Wholesale Price Index (WPI), dropped to 10.68% in the week to 18 October, according to a government release. (Mint)
- The Securities & Exchange Board of India, the country's capital market regulator, has raised the limit to which stake-holding in a company can be increased through so-called "creeping acquisition." Those holding 55% or more can accumulate stakes in their companies by as much as 5% a year if their holding is less than 75%, the regulator said. (Bloomberg)
- Indian companies have to redeem around $44.57 billion of overseas debt between now and December 2009 in an economic environment where money has become scarce and costly. This debt funded domestic expansion and overseas acquisitions. The list of around 60 such firms includes leading Indian companies and commercial banks. Companies that are part of the Tata group, Aditya Birla group and Sterlite group feature in it. So do the Mukesh Ambani-controlled Reliance Industries Ltd and Reliance Petroleum Ltd, and the Anil Ambani-run Reliance Infrastructure Ltd. India's two largest banks—State Bank of India and ICICI Bank Ltd—also appear on the list, culled from *Bloomberg* data. (Mint)

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

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Energy

ONGC.BO, Rs648	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	1,125
52W High -Low (Rs)	1387 - 538
Market Cap (Rs bn)	1,387

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,092	1,409	1,370
Net Profit (Rs bn)	198.3	277.7	303.1
EPS (Rs)	92.7	129.8	141.7
EPS gth	*9.1*	*40.0*	*9.2*
P/E (x)	7.0	5.0	4.6
EV/EBITDA (x)	2.4	1.8	1.5
Div yield (%)	4.9	6.2	6.9

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.1	-	-
FIIs	6.9	1.8	(3.2)
MFs	1.6	2.3	(2.7)
UTI	-	-	(5.1)
LIC	2.4	2.9	(2.2)

Oil & Natural Gas Corporation: Weak 2QFY09 results led by higher-than-expected subsidy burden; attractively valued stock

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- **Basis of computation of subsidy burden changes every quarter; however, FY2009E earnings not at risk as we already model 33.3% share of upstream companies**
- **Valuations are very attractive at 2.4X FY2010E DACF (US$80/bbl crude price assumption)**
- **Fine-tuned estimates; retain BUY with 12-month target price of Rs1,125**

ONGC reported 2QFY09 net income (standalone) at Rs48.1 bn (-27.5% qoq, -5.7% yoy), below our estimate of Rs79 bn. The negative variance was on account of (1) higher-than-expected subsidy burden at Rs126.6 bn against our expected Rs98.1 bn (we had assumed subsidy loss to be same as in 1QFY09) and (2) lower-than-expected realization of crude oil at US$119/bbl against our expected US$126/bbl. We have reduced our EPS (consolidated) estimates for FY2009E, FY2010E and FY2011E EPS to Rs130, Rs142 and Rs157 versus Rs150, Rs160 and Rs176 to reflect (1) lower crude price assumption, (2) lower gas price realization, (3) weaker rupee and (3) information in OVL's FY2008 annual report. We reiterate our BUY rating with revised 12-month target price of Rs1,125 (Rs1,300 previously) based on 8X normalized FCF using a low normalized crude price of US$55/bbl. Key downside risks to our target price stem from higher-than-expected subsidy losses; however, we model subsidy share of upstream companies at 33%.

Subsidy conundrum remains unresolved; however, not a cause of concern as long as government sticks to 33.3% burden on upstream companies. ONGC's 2QFY09 results did not bring much any clarity on the subsidy-sharing issue. ONGC's subsidy loss for 2QFY09 at Rs127 bn was significantly higher than 1QFY09 subsidy loss of Rs98 bn. The subsidy loss in 1QFY09 was based on share of upstream companies being restricted to Rs112 bn (1/4 of Rs450 bn fixed for FY2009). We had expected similar subsidy burden in 2QFY09 assuming the subsidy-sharing mechanism adopted in 1QFY09 would continue. However, contrary to our, street's and the company's expectations, the subsidy burden was significantly higher than 1QFY09. We believe that the subsidy burden for 2QFY09 is presumably based on 33.33% burden on upstream companies. Although 2QFY09 results do not help in bringing clarity on the subsidy-sharing, we do not see risk to our earnings estimates as we already model subsidy share of upstream companies at 33%.

Valuations are very attractive and the stock offers 74% potential upside to our target price of Rs1,125. We continue to find ONGC's valuations compelling on current and normalized cash flows and earnings. ONGC stock trades at 4.6X FY2010E EPS and 2.4X FY2010E DACF based on US$80/bbl crude price, exchange rate of Rs45/US$ and subsidy amount of Rs200 bn.

We use US$55/bbl (Dated Brent basis) normalized price to arrive at our fair valuation of Rs1,125 (Rs1,300 previously) for ONGC stock. The lower target price reflects (1) lower cash balance due to lower crude price assumption, (2) 'nil' value for ONGC's discoveries in KG-DWN-98/2 block and MN-DWN-98/3 block and (3) lower volumes for OVL.

We compute that the stock price is currently discounting US$39/bbl crude oil in perpetuity. This is well below our long-term or normalized crude oil price assumption of US$75/bbl. The stock also offers an attractive dividend yield of 6.2% based on our expected dividend of Rs40 for FY2009E (Rs32 in FY2008).

Finally, we see potential upside to our long-term crude price assumptions. Exhibit 2 gives the range of valuation of ONGC at various levels of normalized crude price. At our usual normalized price assumption of US$75/bbl, we compute ONGC's fair valuation at Rs1,550; we use a lower normalized crude price assumption to factor in a lower net realization due to sustenance of subsidy-sharing scheme for a long period of time.

Key highlights of 2QFY09 results

1. **Net realization on crude oil.** ONGC's 2QFY09 net realized crude price was US$46.7/bbl versus US$69.1/bbl in 1QFY09 and US$56.1/bbl in 2QFY08. ONGC's subsidy burden per barrel of crude was US$72.7/bbl versus US$56.7/bbl in 1QFY09 and US$22.1/bbl in 2QFY08.
2. **Crude and natural gas volumes.** 2QFY09 crude sales declined by 4.4% qoq to 5.7 mn tons due to lower contribution from Panna-Mukta fields. The PM fields were shut down for two months in 2QFY09 versus one month in 1QFY09. Gas sales increased 0.6% qoq and 0.4% yoy to 5.2 bcm in 2QFY09.
3. **Other expenditure jumped 25% qoq and 45% yoy to Rs26 bn;** the management did not specify any particular reason for the sharp yoy jump. However, we note this figure is usually volatile.
4. **DD&A declined 22%** qoq and the sharp decline reflects higher expenses in 1QFY09. (1) Dry wells expenses written off stood at Rs3.4 bn (-39% qoq and +5.7% yoy) and (2) survey expenses at Rs3.4 bn (-64% qoq and +19% yoy).

Key assumptions behind our earnings model

We discuss our key assumptions to our earnings model below. Exhibit 3 gives the major assumptions behind our earnings model and Exhibit 4 gives sensitivity of ONGC's EPS to key variables (rupee-dollar rate, crude oil price, natural gas price).

1. **Subsidy amount.** We model subsidy amount at Rs380 bn, Rs200 bn and Rs250 bn for FY2009E, FY2010E and FY2011E versus Rs425 bn, Rs300 bn and Rs350 bn previously. We continue to assume that the share of gross under-recoveries for upstream companies will be 33.33%. The government had earlier announced that it will freeze the subsidy burden for upstream companies at Rs450 bn (about Rs380 bn for ONGC). However, we expect the government to review this figure in light of the recent steep decline in crude oil prices. The government's computation for gross under-recoveries and sharing among various participants had been done on a crude oil price assumption of US$117/bbl (India basket).
2. **Crude oil price assumptions.** We have reduced our crude oil price (Dated Brent) forecasts for FY2009E, FY2010E and FY2011E to US$100/bbl, US$80/bbl and US$85/bbl from US$105/bbl, US$90/bbl and US$95/bbl. However, we would focus more on ONGC's net realized crude price and our long-term crude price assumption.
3. **Royalty and cess.** We model ONGC to bear the entire burden of royalty (Rs481/ton) and its share (30%) of cess (Rs2,575/ton) for RJ-ON-90/1 block for which Cairn India is the operator. However, ONGC's FY2011E and FY2012E earnings would be higher if the government decides that the joint venture partners will bear cess on crude oil in proportion to their ownership.

MRPL 2QFY09 results slashed by weak refining margins and inventory losses

MRPL, ONGC's 71.6% refining subsidiary, reported 2QFY09 net income at Rs249 mn compared to 1QFY09's Rs8.5 bn and 2QFY09's Rs3.3 bn. The sharp deterioration in qoq performance reflects (1) low refining margin at US$2.4/bbl (without adventitious/ inventory gains) compared to US$6.7/bbl in 1QFY09 and (2) adventitious loss of Rs6.5 bn compared to gain of Rs6.6 bn (equivalent to US$11.3/bbl) in 1QFY09. MRPL's crude throughput stood at 3.3 mn tons of crude in 2QFY09 compared to 2.8 mn tons in 1QFY09 (affected by planned shutdown of a refinery train for 10 days) and 3.2 mn tons in 2QFY09.

We model FY2009E and FY2010E EPS at Rs8.7 (Rs15.2 bn net income) and Rs3.5 (Rs6.2 bn). The decline in net income in the next two years reflects lower refining margins and increase in taxation. We model FY2009E and FY2010E refining margin at US$6/bbl and US$4.2/bbl versus US$7.4/bbl in FY2008; all figures include adventitious gains/losses.

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

			qoq			yoy			yoy	
	2009E	**2Q 2009**	**1Q 2009**	***% chg***	**2Q 2009**	**2Q 2008**	***% chg***	**1H 2009**	**1H 2008**	***% chg***
Net sales	695,910	174,996	200,522	*(12.7)*	174,996	154,139	*13.5*	375,518	291,016	*29.0*
Total expenditure	(319,054)	(89,942)	(82,968)	*8.4*	(89,942)	(69,986)	*28.5*	(172,911)	(127,640)	*35.5*
Change in stock in trade	—	(511)	(61)		(511)	872		(571)	1,230	
Raw materials	(3,569)	(2,307)	(2,468)	*(6.5)*	(2,307)	(1,222)	*88.7*	(4,775)	(2,193)	*117.7*
Trading purchase	(65,439)	(26,720)	(25,177)	*6.1*	(26,720)	(15,765)	*69.5*	(51,897)	(28,707)	*80.8*
Staff expenditure	(13,173)	(2,761)	(2,897)	*(4.7)*	(2,761)	(3,668)	*(24.7)*	(5,657)	(6,211)	*(8.9)*
Statutory levies	(144,681)	(31,304)	(31,353)	*(0.2)*	(31,304)	(31,973)	*(2.1)*	(62,656)	(60,964)	*2.8*
Other expenditure	(92,192)	(26,341)	(21,013)	*25.4*	(26,341)	(18,230)	*44.5*	(47,355)	(30,796)	*53.8*
EBITDA	**376,856**	**85,054**	**117,554**	***(27.6)***	**85,054**	**84,153**	***1.1***	**202,608**	**163,376**	***24.0***
Other income	52,371	13,970	10,500	*33.0*	13,970	12,100	*15.5*	24,470	20,488	*19.4*
Interest	(22)	(974)	(38)	*2,457.5*	(974)	(305)	*219.6*	(1,013)	(352)	*187.3*
DD&A	(99,821)	(21,832)	(27,970)	*(21.9)*	(21,832)	(19,871)	*9.9*	(49,802)	(37,417)	*33.1*
Depletion		(11,540)	(9,760)	*18.2*	(11,540)	(10,430)	*10.6*	(21,300)	(18,990)	*12.2*
Depreciation		(3,880)	(3,000)	*29.3*	(3,880)	(3,410)	*13.8*	(6,880)	(6,500)	*5.8*
Dry wells written off		(3,350)	(5,510)	*(39.2)*	(3,350)	(3,170)	*5.7*	(8,860)	(4,930)	*79.7*
Survey expenses		(3,430)	(9,570)	*(64.2)*	(3,430)	(2,890)	*18.7*	(13,000)	(7,060)	*84.1*
Impairment loss and other adjustments		370	(130)	*(384.6)*	370	30	*1,133.3*	240	60	*300.0*
Pretax profits	**329,384**	**76,217**	**100,046**	***(23.8)***	**76,217**	**76,077**	***0.2***	**176,263**	**146,094**	***20.7***
Extraordinary/Prior period adjustment	—	—	434		—	808		434	808	
Tax	(105,818)	(23,915)	(34,441)	*(30.6)*	(23,915)	(23,073)	*3.7*	(58,356)	(45,465)	*28.4*
Deferred tax	(6,140)	(4,218)	325	*(1,399.1)*	(4,218)	(2,837)	*48.7*	(3,894)	(4,357)	*(10.6)*
Net income	**217,426**	**48,084**	**66,363**	***(27.5)***	**48,084**	**50,975**	***(5.7)***	**114,447**	**97,080**	***17.9***
Tax rate (%)	34.0	36.9	34.0		36.9	33.7		35.2	33.9	
Volume data										
Subsidy loss		126,630	98,110	*29.1*	126,630	37,990	*233.3*	224,740	74,480	*201.7*
Crude sales ('000 tons)		5,670	5,930	*(4.4)*	5,670	6,130	*(7.5)*	11,600	12,030	*(3.6)*
Gas sales (mcm)		5,210	5,180	*0.6*	5,210	5,190	*0.4*	10,390	10,220	*1.7*
LPG (000 tons)		255	233	*9.5*	255	267	*(4.5)*	488	497	*(1.9)*
Naphtha/NGL		395	394	*0.2*	395	363	*8.8*	789	694	*13.7*
C2/C3		135	134	*0.8*	135	142	*(4.9)*	269	243	*10.7*
SKO		41	37	*9.9*	41	46	*(10.9)*	78	86	*(9.0)*

Source: Company data, Kotak Institutional Equities estimates

We value ONGC stock at Rs1,125 on US$55/bbl normalized crude price

Estimation of fair value of ONGC stock based on normalized free cash flow (Rs mn)

	2009E	2010E	2011E
Normalized crude price assumption (US$/bbl)	55.0	55.0	55.0
Recurring operating cash flow			
Operating cash flow = EBIT X (1-t) + D	58,882	208,196	164,957
Add: OCF after normalizing natural gas price	44,585	42,678	36,526
Add: OCF after removing subsidies	252,236	134,689	172,313
Recurring OCF	355,704	385,563	373,796
Recurring capex			
Production per annum (mn bbls)	388	394	404
Replacement or F&D costs (US$/bbl)	9.0	9.0	9.0
Recurring capex	156,955	159,454	159,819
Free cash flow	**198,749**	**226,109**	**213,978**
Free cash flow multiple (X)	8	8	8
Enterprise value	1,589,994	1,808,872	1,711,820
(Net debt)/cash	330,576	492,164	661,458
Investments	85,879	90,822	95,763
Equity value	2,006,449	2,391,857	2,469,041
Total equity value per share (Rs/share)	**938**	**1,118**	**1,154**

	Equity value (Rs/share)	Change from base case (%)
Normalized crude prices		
US$90/bbl	1,921	72
US$80/bbl	1,671	49
US$75/bbl	1,546	38
US$70/bbl	1,421	27
US$60/bbl	1,190	6
US$55/bbl	**1,118**	
US$50/bbl	1,003	(10)
US$40/bbl	682	(39)

Source: Kotak Institutional Equities estimates

Key assumptions, March fiscal year-ends, 2004-2012E

	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Rs/US$ rate	46.0	45.0	44.3	45.3	40.3	45.0	45.0	44.0	43.0
Subsidy share scheme loss (Rs bn)	26.9	41.0	119.6	170.2	220.0	380.0	200.0	250.0	250.0
Import tariff on crude oil (%)	10.0	9.7	5.1	5.1	5.2	0.9	—	—	—
Crude/natural gas prices									
Crude price									
Crude price, WTI (US$/bbl)					78.9	102.0	82.0	87.0	87.0
Crude price, Dated Brent (US$/bbl)	28.7	40.6	57.2	64.8	78.9	100.0	80.0	85.0	85.0
Net crude price, ONGC-India (Rs/ton)	6,255	9,196	10,390	10,692	10,313	12,633	13,204	12,235	11,654
Net crude price, ONGC-India (US$/bbl)	18.6	28.0	32.1	32.4	35.1	38.5	40.2	38.1	37.1
Natural gas price									
Ceiling natural gas price, India (Rs/cu m)	2.85	2.85	3.52	3.20	3.20	3.20	3.20	3.75	4.50
Ceiling natural gas price, India (US$/mn BTU)	1.66	1.69	2.12	1.89	2.12	1.90	1.90	2.28	2.80
Net natural gas price, ONGC-India (Rs/cu m)	2.18	2.18	3.11	2.82	2.82	2.82	2.81	3.32	4.00
Net natural gas price, ONGC-India (US$/mn BTU)	1.27	1.29	1.88	1.67	1.87	1.67	1.67	2.01	2.48
International operations									
Net natural gas price, OVL-Vietnam (Rs/cu m)	3.2	3.2	3.1	3.2	2.8	3.2	3.2	3.1	3.0
Net crude price, OVL-Sudan (Rs/ton)	4,285	5,893	8,118	9,384	10,142	14,338	11,493	11,933	11,662
Net crude price, OVL-Russia (Rs/ton)	—	—	8,320	9,633	10,434	14,783	11,826	12,286	12,007
Sales volumes—Domestic fields (a)									
Crude oil (mn tons)	23.9	24.1	22.5	24.4	24.1	25.0	26.5	27.8	27.7
Natural gas (bcm)	21.1	20.6	20.5	20.3	20.4	20.6	19.6	19.2	17.9
Sales volumes—Overseas fields									
Crude oil (mn tons)	3.3	3.7	4.6	5.8	6.8	7.6	7.4	7.3	7.2
Natural gas (bcm)	0.5	1.3	1.8	2.1	2.0	2.4	2.6	2.8	2.8
Total sales									
Crude oil (mn tons)	27.3	27.8	27.0	30.2	30.9	32.5	33.9	35.1	34.9
Natural gas (bcm)	21.6	22.0	22.3	22.5	22.4	23.0	22.2	22.0	20.7
Total sales (mn toe)	**46.6**	**47.4**	**46.9**	**50.3**	**50.9**	**53.1**	**53.7**	**54.7**	**53.4**
Total sales (mn boe)	**340**	**346**	**342**	**367**	**372**	**388**	**392**	**399**	**389**
Crude oil (%)	59	59	58	60	61	61	63	64	65
Natural gas (%)	41	41	42	40	39	39	37	36	35

(a) Includes ONGC's share of production from joint venture fields.

Source: Company data, Kotak Institutional Equities estimates

ONGC's earnings are highly leveraged to crude prices

Earnings sensitivity of ONGC to key variables

	2009E			2010E			2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Rs/US$	44.0	45.0	46.0	44.0	45.0	46.0	43.0	44.0	45.0
Net profits (Rs mn)	263,520	277,661	291,802	290,855	303,122	315,388	321,270	335,118	348,963
Earnings per share (Rs)	123.2	129.8	136.4	136.0	141.7	147.5	150.2	156.7	163.2
% upside/(downside)	**(5.1)**		**5.1**	**(4.0)**		**4.0**	**(4.1)**		**4.1**
Average crude prices									
Crude price (US$/bbl)	98.0	100.0	102.0	78.0	80.0	82.0	83.0	85.0	87.0
Net profits (Rs mn)	265,297	277,661	290,025	289,778	303,122	316,465	321,197	335,118	349,037
Earnings per share (Rs)	124.0	129.8	135.6	135.5	141.7	148.0	150.2	156.7	163.2
% upside/(downside)	**(4.5)**		**4.5**	**(4.4)**		**4.4**	**(4.2)**		**4.2**
Cess									
Cess on domestic crude (Rs/ton)	3,090	2,575	2,060	3,090	2,575	2,060	3,090	2,575	2,060
Net profits (Rs mn)	269,859	277,661	285,463	295,083	303,122	311,161	326,877	335,118	343,359
Earnings per share (Rs)	126.2	129.8	133.5	138.0	141.7	145.5	152.8	156.7	160.5
% upside/(downside)	**(2.8)**		**2.8**	**(2.7)**		**2.7**	**(2.5)**		**2.5**
Natural gas prices									
Natural gas price ceiling (Rs/'000 cum)	2,700	3,200	3,700	2,700	3,200	3,700	3,250	3,750	4,250
Net profits (Rs mn)	272,265	277,661	283,058	297,963	303,122	308,279	330,021	335,118	340,212
Earnings per share (Rs)	127.3	129.8	132.3	139.3	141.7	144.1	154.3	156.7	159.1
% upside/(downside)	**(1.9)**		**1.9**	**(1.7)**		**1.7**	**(1.5)**		**1.5**

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2004-2012E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)									
Net sales	467,124	707,083	807,603	966,542	1,091,644	1,409,108	1,370,457	1,427,793	1,444,463
EBITDA	**196,494**	**281,195**	**310,054**	**358,001**	**407,790**	**505,175**	**501,154**	**521,169**	**504,413**
Other income	23,752	17,595	27,350	45,378	53,565	54,739	65,879	75,088	90,162
Interest	(5,028)	(2,512)	(537)	394	(12,027)	(6,511)	(5,015)	(5,749)	(6,980)
Depreciation and depletion	(65,525)	(73,465)	(97,726)	(119,550)	(138,624)	(128,580)	(109,294)	(103,511)	(102,572)
Pretax profits	149,693	222,813	239,141	284,222	310,705	424,823	452,725	486,996	485,023
Tax	(46,101)	(74,690)	(71,196)	(88,986)	(102,908)	(137,353)	(143,526)	(145,159)	(145,968)
Deferred tax	(7,779)	(4,744)	(13,612)	(9,264)	(6,471)	(5,481)	(4,313)	(6,175)	(4,401)
Net profits	95,523	143,175	154,596	178,414	203,076	281,989	304,886	335,662	334,654
Net profits after minority interests	**94,219**	**140,670**	**153,542**	**176,922**	**199,466**	**277,661**	**303,122**	**335,118**	**334,417**
Earnings per share (Rs)	**44.1**	**65.8**	**71.8**	**82.7**	**93.3**	**129.8**	**141.7**	**156.7**	**156.4**
Balance sheet (Rs mn)									
Total equity	415,582	488,912	578,830	670,137	786,657	964,735	1,153,960	1,361,621	1,568,714
Deferred tax liability	54,250	57,911	71,557	80,976	87,227	92,708	97,021	103,197	107,598
Liability for abandonment cost	80,292	80,941	128,675	151,857	129,325	129,325	129,325	129,325	129,325
Total borrowings	60,961	39,028	28,767	21,826	22,039	33,962	59,589	93,489	88,389
Currrent liabilities	85,376	128,346	142,435	187,051	251,797	159,024	159,086	161,251	165,403
Total liabilities and equity	**696,461**	**795,138**	**950,264**	**1,111,847**	**1,277,045**	**1,379,754**	**1,598,982**	**1,848,883**	**2,059,429**
Cash	95,721	101,843	90,743	206,262	249,807	364,538	551,753	754,948	993,651
Current assets	133,039	178,421	240,210	192,652	257,384	232,881	231,217	261,180	265,662
Total fixed assets	419,213	471,543	565,722	643,219	695,227	707,709	736,446	748,249	715,611
Goodwill	11,661	10,753	14,172	27,686	22,847	22,847	22,847	22,847	22,847
Investments	30,811	26,961	35,753	36,888	45,041	45,041	49,981	54,922	54,923
Deferred expenditure	6,017	5,617	3,663	5,141	6,739	6,739	6,739	6,739	6,739
Total assets	**696,461**	**795,138**	**950,264**	**1,111,848**	**1,277,045**	**1,379,754**	**1,598,982**	**1,848,884**	**2,059,432**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	133,261	187,001	216,736	252,772	284,517	293,836	306,889	333,946	318,028
Working capital changes	25,630	18,787	46,461	(4,990)	(24,929)	(133,145)	32,646	(5,150)	(330)
Capital expenditure	(56,301)	(103,418)	(113,738)	(135,049)	(166,427)	(74,700)	(93,821)	(81,369)	(38,938)
Investments	(10,608)	(9,887)	(28,912)	53,822	(7,348)	—	(4,940)	—	—
Other income	9,767	13,049	14,537	20,422	22,822	55,113	65,879	75,088	90,162
Free cash flow	**101,749**	**105,532**	**135,083**	**186,976**	**108,636**	**141,104**	**306,652**	**322,515**	**368,923**
Ratios (%)									
Debt/equity	14.7	8.0	5.0	3.3	2.8	3.5	5.2	6.9	5.6
Net debt/equity	(8.4)	(12.8)	(10.7)	(27.5)	(29.0)	(34.3)	(42.6)	(48.6)	(57.7)
RoAE	21.6	28.0	25.9	25.5	24.8	29.1	26.6	25.0	21.5
RoACE	**20.6**	**24.6**	**22.0**	**22.1**	**21.9**	**26.1**	**24.0**	**22.8**	**20.0**
Key assumptions									
Rs/dollar rate	46.0	45.0	44.3	45.3	40.3	45.0	45.0	44.0	43.0
Crude fob price (US$/bbl)	28.7	40.6	57.2	64.8	78.9	100.0	80.0	85.0	85.0
Ceiling/actual natural gas price (Rs/'000 cm)	2,850	2,850	3,515	3,200	3,200	3,200	3,200	3,750	4,500
Subsidy loss (Rs bn)	26.9	41.0	119.6	170.2	220.0	380.0	200.0	250.0	250.0

Source: Kotak Institutional Equities estimates

Energy

CAIR.BO, Rs115	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	240
52W High -Low (Rs)	343 - 88
Market Cap (Rs bn)	214.7

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	16.6	29.5	62.1
Net Profit (Rs bn)	1.9	6.9	31.6
EPS (Rs)	(0.1)	3.9	16.7
EPS gth	*(108.2)*	-	*343.6*
P/E (x)	(964.4)	29.8	6.9
EV/EBITDA (x)	26.9	14.6	4.7
Div yield (%)	-	-	-

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	64.8	-	-
FIIs	10.5	0.8	(0.7)
MFs	1.7	0.7	(0.8)
UTI	-	-	(1.5)
LIC	2.0	0.7	(0.8)

Cairn India: Weak 3QCY08 results due to lower realizations and volumes; stock discounting very low crude price in perpetuity

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- **Weak 3QCY08 results led by (1) lower realizations and (2) lower production volumes**
- **Stock price is discounting US$51/bbl in perpetuity**
- **Upgrade to BUY (ADD previously) with revised 12-month DCF-based target price of Rs240**

Cairn India reported 3QCY08 consolidated net revenues at Rs3.2 bn (-21% qoq and +21% yoy) and EBITDA at Rs2.4 bn (-11% qoq and +33% yoy). Net revenues decreased qoq due to (1) lower production (-9% qoq), (2) lower crude price realization at US$116.3/bbl (US$125.9/bbl in 2QCY08) and (3) lower gas realization at US$4.1/mcf (US$4.3/mcf in 2QCY08). However, we note that CY2008E-2009E results are not that relevant because the bulk of Cairn's valuation resides in its upcoming Rajasthan block (production from 2HCY09). We reiterate our positive view on the stock given attractive valuations; the stock price is now (1) discounting crude price of US$51/bbl in perpetuity, which seems very low, in our view and (2) no accretion to reserves. We have revised our EPS estimates for CY2008E, CY2009E and CY2010E EPS to Rs3.9, Rs16.7 and Rs65 from Rs3.9, Rs20.3 and Rs65.2 to reflect (1) lower crude price for CY2009-12E, (2) weaker rupee and (3) lower volumes from producing fields. We have upgraded the stock to BUY (ADD previously) with a revised 12-month DCF-based target price of Rs240 (Rs245 previously). Key downside potential stems from lower-than-expected crude price.

Stock trading at a significant discount to worse-case scenario. We believe Cairn's current stock is reflecting all concerns related to the stock and much more. Our 12-month fair value for Cairn stock comes to Rs150 (+30% upside from current levels) even if we assume (1) current level of crude prices (US$60/bbl) prevail in perpetuity, (2) no accretion to reserves and (3) Cairn bears cess on its share of production from the Rajasthan block at the current prevailing rate (Rs2,575/ton).

We would buy Cairn shares aggressively at current levels since the stock appears to be discounting a 'low' crude oil price (US$51/bbl) in perpetuity. We note that Cairn's stock price has high positive correlation with crude oil prices (see Exhibit 3) although its valuation does not vary significantly with crude oil prices. The stock has under-performed the BSE-30 Index recently (see Exhibit 4) primarily on account of the market's concerns about impact of lower crude prices on Cairn's earnings and valuations.

Weak results due to lower production and realization. Cairn India reported 3QCY08 consolidated net revenues at Rs3.2 bn (-21% qoq and +21% yoy) and EBITDA at Rs2.4 bn (-11% qoq and +30% yoy). The qoq decline in EBITDA reflects (1) lower production (-9% qoq), (2) lower crude price realization at US$116.3/bbl (US$125.9/bbl in 2QCY08) and (3) lower gas realization at US$4.1/mcf (US$4.3/mcf in 2QCY08).

Cairn's 3QCY08 production declined to 17,111 boe/d (working interest-basis) versus 18,764 boe/d in 2QCY08. At CB-OS-2, gas production declined 22% qoq and oil production declined 7% qoq. Gas production has declined by 30% yoy in 9MCY08 due to the declining phase of the fields past plateau production. At Ravva, oil production declined by 7% qoq and gas production declined by 2% qoq.

Employee costs declined qoq due to change in valuation methodology of stock options granted to employees, which resulted in lower provision of Rs51 mn in the current quarter. Exploration costs declined significantly to Rs79 mn (versus Rs 428 mn in 2QCY08) as most of the exploration activity for the current year is scheduled for 4QCY08. However, Cairn has deferred plans to drill three wells in KG-DWN-98/2 block and two wells in Rajasthan block to CY2009E.

Exceptional items. Cairn reported a forex gain of Rs873 mn on account of (1) options settled or marked-to-market as on September 30th, 2008 and (2) translation gain on US Dollar-denominated deposits held by foreign subsidiaries for use for future capital imports due to depreciation in the rupee versus the US Dollar in 3QCY08 (Rs43.8/US$ compared to Rs41.6/US$ in 2QCY08).

The company has charged share issue expenses of Rs240 mn to the profit and loss account instead of adjusting these expenses against the securities premium account. These expenses relate to the private placement of 113 mn shares to Petronas and Orient Global Tamarind Fund Pte Limited in March 2008.

Earnings revision. We have revised our EPS estimates for CY2008E, CY2009E and CY2010E EPS to Rs3.9, Rs16.7 and Rs65 from Rs3.9, Rs20.3 and Rs65.2 to reflect the following changes.

- **Lower crude price for CY2008-12E.** We have revised our crude oil price assumptions to US$102/bbl for CY2008, US$80/bbl for CY2009E and US$85/bbl fro CY2101-12E from US$110/bbl, US$95/bbl and US$90/bbl. The downward revision in our crude price assumptions reflects (1) downward revision in global demand growth led by lower global GDP growth estimates and (2) decline in crude oil prices over the past few months. The yoy increase in CY2010E forecast for crude prices reflects tightening of demand-supply balance led by mediocre growth in non-OPEC supply. We retain our long-term crude price assumption of US$75/bbl (post CY2012E).
- **Weaker rupee.** We have revised our rupee-dollar exchange rate assumption to Rs45/US$ for CY2009E, Rs44/US$ for CY2010E and US$43/US$ for CY2011E versus Rs42.8, Rs42.1 and Rs41.1 previously. We highlight that Rs1/US$ change in exchange rate results in 2-3% impact on Cairn's earnings.

Interim results of Cairn India, calendar year-ends (Rs mn)

			qoq		yoy			yoy		
	2008E	3Q 2008	2Q 2008	(% chg)	3Q 2008	3Q 2007	(% chg)	9M 2008	9M 2007	(% chg)
Income from operations	**29,510**	**3,206**	**4,036**	***(20.6)***	**3,206**	**2,658**	***20.6***	**10,401**	**7,455**	***39.5***
Total expenditure	(18,423)	(775)	(1,315)	*(41)*	(775)	(793)	*(2)*	(3,017)	(2,223)	*36*
Inc/(Dec) in stock	—	56	(180)	—	—	—	—	(92)	61	—
Operating expenses	(2,591)	(448)	(501)	*(11)*	(448)	(508)	*(12)*	(1,415)	(1,322)	*7*
Staff cost	(1,250)	(211)	(292)	*(28)*	(211)	(238)	*(11)*	(823)	(834)	*(1)*
Government taxes/share of profit	(13,274)	—	—	—	—	—	—	—	—	—
Other expenditure	(1,308)	(172)	(341)	*(50)*	(172)	(47)	*269*	(687)	(127)	*440*
EBITDA	**11,087**	**2,431**	**2,721**	***(11)***	**2,431**	**1,865**	***30***	**7,384**	**5,232**	***41***
Other income	3,039	2,055	325	*532*	2,055	343	*499*	2,598	1,056	*146*
Interest	(7)	(5)	(29)	*(84)*	(5)	(1)	*357*	(37)	(10)	*258*
Exploration costs written off	(1,100)	(79)	(428)	*(81)*	(79)	(720)	*(89)*	(682)	(1,935)	*(65)*
DD&A	(3,072)	(650)	(647)	*0*	(650)	(512)	*27*	(1,929)	(1,444)	*34*
Pretax profits	**9,946**	**3,753**	**1,943**	***93***	**3,753**	**975**	***285***	**7,334**	**2,898**	***153***
Extraordinaries/sales tax benefit	286	(153)	253	—	(153)	(300)	—	286	(1,844)	—
Tax	(2,963)	(97)	(342)	*(72)*	(97)	(125)	*(23)*	(544)	(363)	*50*
Deferred taxation	(74)	(570)	(468)	*22*	(570)	(316)	*80*	(1,593)	(798)	*100*
Net income	**7,195**	**2,933**	**1,386**	***112***	**2,933**	**232**	***1,162***	**5,483**	**(106)**	***(5,254)***
Minority interest	—	—	—	—	—	—	—	—	—	—
Net income after minority interest	**7,195**	**2,933**	**1,386**	***112***	**2,933**	**232**	***1,162***	**5,483**	**(106)**	***(5,254)***
Income tax rate (%)	29.7	18.5	36.9		18.5	65.5		28.0	110.1	
Production, selling price data										
Production volume, gross ('000 boepd)		65.6	71.1	*(8)*	65.6	75.3	*(13)*	68.2	75.8	*(10)*
Production volume, net ('000 boepd)		**17.1**	**18.8**	***(9)***	**17.1**	**18.9**	***(9)***	**17.8**	**19.5**	***(9)***
CB-OS-2		5.4	6.3	*(15)*	5.4	4.4	*22*	5.5	5.5	*(1)*
Oil		2.8	3.0	*(7)*	2.8	1.8	*54*	2.8	1.6	*68*
Gas (mn cf/d)		15.5	19.8	*(22)*	15.5	15.6	*(1)*	16.3	23.3	*(30)*
Ravva		11.7	12.4	*(6)*	11.7	14.5	*(19)*	12.3	13.9	*(12)*
Oil		9.0	9.7	*(7)*	9.0	11.6	*(22)*	9.6	11.2	*(15)*
Gas (mn cf/d)		16.2	16.5	*(2)*	16.2	16.9	*(4)*	16.3	16.5	*(1)*
Selling price, oil (US$/bbl)		**116.3**	**125.9**	***(8)***	**116.3**	**77.2**	***51***	**114.6**	**69.8**	***64***
Selling price, gas (US$/mcf)		**4.1**	**4.3**	***(5)***	**4.1**	**4.1**	***(1)***	**4.1**	**4.2**	***(1)***
Exchange rate (Rs/US$)		43.8	41.6	*5*	43.8	40.5	*8*	42.2	42.0	*1*

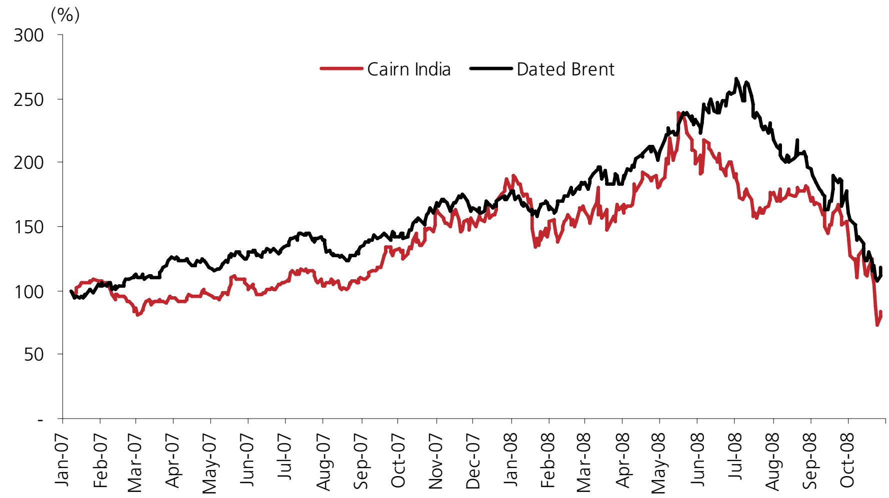
Source: Company data, Kotak Institutional Equities estimates

We value Cairn India stock at Rs240
EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	8,363	9,625	10,596
CB-OS-2	125	75	52
Ravva	463	375	316
Upside potential (KG-DWN-98/2)	100	112	125
Total	**9,051**	**10,187**	**11,090**
Net debt	39	(210)	74
Equity value	**9,011**	**10,398**	**11,016**
Equity shares (mn)	1,891	1,891	1,891
Equity value per share (Rs/share)	**197**	**239**	**262**

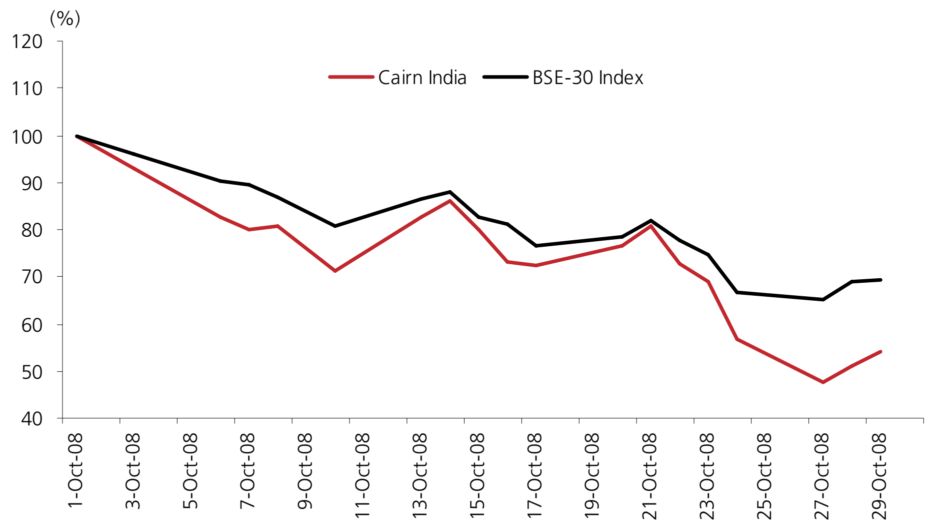
Source: Kotak Institutional Equities estimates

Cairn's stock price has high positive correlation with crude oil prices
Movement in crude oil prices and Cairn' stock price (%)



Source: Bloomberg, Kotak Institutional Equities

Cairn's stock has under-performed the Index recently
BSE-30 Index and Cairn' stock price movement (%)



Source: Bloomberg, Kotak Institutional Equities

Cairn's Rajasthan field's enterprise value has moderate leverage to crude prices but high leverage to regulations
Enterprise value sensitivity of Cairn to key variables (US$ bn)

	Sensitivity of current valuation			Sensitivity of +1-year valuation		
	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)
Average crude prices (2013 and beyond)						
Dated Brent price (US$110/bbl)	10.5	244	24	11.9	292	22
Dated Brent price (US$100/bbl)	9.9	231	17	11.2	277	16
Dated Brent price (US$90/bbl)	9.3	217	10	10.6	262	10
Dated Brent price (US$80/bbl)	8.7	204	3	9.9	247	3
Dated Brent price (US$75/bbl)	**8.4**	**197**		**9.6**	**239**	
Dated Brent price (US$60/bbl)	7.5	177	(10)	8.7	216	(9)
Dated Brent price (US$50/bbl)	6.8	163	(17)	8.0	201	(16)
Dated Brent price (US$40/bbl)	6.2	149	(24)	7.3	186	(22)
Cess, royalty						
Royalty (Rs0/ton), Cess (Rs0/ton)	**8.4**	**197**		**9.6**	**239**	
Royalty (Rs0/ton), Cess (Rs927/ton)	7.9	188	(5)	9.2	229	(4)
Royalty (Rs0/ton), Cess (Rs2,575/ton)	7.6	180	(8)	8.8	221	(8)

Source: Kotak Institutional Equities estimates.

Cairn's earnings are highly leveraged to crude prices
Earnings sensitivity of Cairn to key variables

	2009E			2010E			2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Average crude prices									
Crude price (US$/bbl)	78.0	80.0	82.0	83.0	85.0	87.0	83.0	85.0	87.0
Net profits (Rs mn)	30,432	31,590	32,748	119,581	122,505	125,428	89,196	91,889	94,582
Earnings per share (Rs)	16.1	16.7	17.3	63.2	64.8	66.3	47.2	48.6	50.0
% upside/(downside)	**(3.7)**		**3.7**	**(2.4)**		**2.4**	**(2.9)**		**2.9**
Exchange rate									
Rs/US$	44.0	45.0	46.0	43.0	44.0	45.0	42.0	43.0	44.0
Net profits (Rs mn)	30,676	31,590	32,505	119,762	122,505	125,247	89,582	91,889	94,197
Earnings per share (Rs)	16.2	16.7	17.2	63.3	64.8	66.2	47.4	48.6	49.8
% upside/(downside)	**(2.9)**		**2.9**	**(2.2)**		**2.2**	**(2.5)**		**2.5**

Source: Kotak Institutional Equities estimates.

Profit model, balance sheet, cash model of Cairn 2006-2013E, calendar year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013N
Profit model (Rs mn)								
Net sales	18,417	16,561	29,510	62,089	186,382	181,283	172,884	145,004
EBITDA	**5,332**	**6,705**	**11,087**	**45,715**	**148,072**	**110,297**	**76,007**	**62,621**
Other income	1,100	1,324	3,039	301	1,185	2,990	4,496	5,616
Interest	(201)	(27)	(7)	188—	375—	—	—	—
Depreciation	(497)	(4,589)	(4,172)	(6,944)	(8,792)	(8,304)	(8,431)	(8,414)
Pretax profits	5,734	3,413	9,946	38,884	140,090	104,984	72,072	59,823
Extraordinary items	—	(2,120)	286	—	—	—	—	—
Tax	(1,580)	(740)	(2,963)	(6,046)	(16,480)	(12,534)	(8,852)	(7,189)
Deferred taxation	(22)	(764)	(74)	(1,248)	(1,106)	(560)	(130)	132
Net profits	**4,132**	**(212)**	**7,195**	**31,590**	**122,505**	**91,889**	**63,090**	**52,766**
Earnings per share (Rs)	**2.3**	**(0.1)**	**3.9**	**16.7**	**64.8**	**48.6**	**33.4**	**27.9**
Balance sheet (Rs mn)								
Total equity	292,804	294,358	326,899	358,489	414,608	451,177	476,284	497,283
Deferred tax liability	4,258	4,916	4,991	6,239	7,344	7,904	8,034	7,902
Total borrowings	5,122	3,124	—	7,500	—	—	—	—
Currrent liabilities	39,716	8,372	2,447	2,304	5,607	10,538	14,445	12,268
Total liabilities and equity	**341,900**	**310,771**	**334,336**	**374,531**	**427,560**	**469,619**	**498,764**	**517,453**
Cash	61,348	1,504	9,150	4,153	49,211	96,207	130,771	156,770
Current assets	6,470	19,029	2,830	5,954	17,872	17,383	16,578	13,905
Total fixed assets	17,609	25,157	57,465	73,205	26,048	23,722	21,292	18,924
Net producing properties	2,354	4,390	4,200	30,528	73,737	71,615	69,431	67,163
Investments	4	7,129	7,129	7,129	7,129	7,129	7,129	7,129
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	370	370	370	370	370	370
Total assets	**341,900**	**310,771**	**334,336**	**374,531**	**427,560**	**469,619**	**498,764**	**517,453**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	2,990	6,387	7,236	37,144	129,067	96,313	65,705	53,982
Working capital changes	34,256	(908)	10,274	(3,267)	(8,615)	5,420	4,712	496
Capital expenditure	(5,619)	(11,739)	(35,125)	(46,675)	(2,694)	(2,406)	(2,367)	(2,329)
Investments/Goodwill	(252,717)	(53,863)	—	—	—	—	—	—
Other income	1,100	1,298	3,039	301	1,185	2,990	4,496	5,616
Free cash flow	**(219,990)**	**(58,824)**	**(14,576)**	**(12,497)**	**118,943**	**102,318**	**72,547**	**57,766**
Key assumptions								
Gross production ('000 boe/d)	91.0	78.4	74.2	112.0	243.4	238.5	230.3	223.0
Net production ('000 boe/d)	25.1	21.5	21.7	51.5	146.2	145.2	141.5	138.7
Dated Brent (US$/bbl)	65.3	70.3	102.0	80.0	85.0	85.0	85.0	75.0
Discount of Rajasthan crude to Dated Brent (US$/bbl)	2.1	5.3	5.3	5.3	5.3	5.3	5.3	5.3

Source: Kotak Institutional Equities estimates

Automobiles

MAHM.BO, Rs302	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	410
52W High -Low (Rs)	874 - 236
Market Cap (Rs bn)	78.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	115.6	129.4	140.2
Net Profit (Rs bn)	9.5	7.1	6.5
EPS (Rs)	38.1	27.5	25.3
EPS gth	*(2.0)*	*(27.7)*	*(8.0)*
P/E (x)	7.9	11.0	11.9
EV/EBITDA (x)	6.3	9.2	8.2
Div yield (%)	3.6	3.1	3.2

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	22.6	-	-
FIIs	32.1	0.6	0.2
MFs	4.5	0.4	0.1
UTI	-	-	(0.3)
LIC	17.5	1.5	1.1

Mahindra & Mahindra: Lower-than-expected 2Q earnings; higher raw material costs cut operating margins by 500 bps yoy

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- **2QFY09 net profit of Rs1.8 bn down 46% yoy led by higher raw material costs and forex losses**
- **Adjusted EBITDA margin at 8.5%, down 500 bps yoy on high raw material prices**
- **We lower our UV volume growth assumption to 7.5% and 5% for FY2009E and FY2010E, respectively, from 12.5% for both years previously**
- **Lower EPS estimates to Rs33.3 and Rs31.1 for FY2009E and FY2010E, respectively**
- **Cut TP to Rs410 from Rs640 to reflect lower multiple, lower earnings and lower valuation of subsidiaries. Maintain ADD**

Mahindra & Mahindra reported lower-than-expected 2QFY09 net profit at Rs1.8 bn compared to our estimate of Rs2.3 bn. Adjusted for forex losses and one-time octroi refund, 2QFY09 EBITDA margins at 8.5% declined 500 bps on a yoy basis. We lower our volume growth estimate to 7.5% and 5% for FY2009E and FY2010E from 12.5%. We believe given the tight fiscal conditions, high interest rates and general sluggishness in the industry, volumes might fail to pick up in 2HFY09. We cut our earnings estimates to Rs33.3 and Rs31.1 from Rs40.8 and Rs41, respectively, following revision in volume growth assumptions. We don't expect M&M to get any significant benefit of lower commodity prices in the current fiscal. We believe M&M would have to raise large amount of debt or raise money through sale of stake in subsidiaries given the large capex plan outlined by the company. We believe this will put further pressure on earnings. We lower our target price to Rs410/share to reflect lower multiple, lower earnings and fall in the value of subsidiaries. We maintain our ADD rating on the stock.

2QFY09 net income at Rs1.8 bn declined 46% yoy led by higher raw material costs and forex losses. M&M reported net income at Rs1.8 bn lower than our estimate of Rs2.3 bn mainly on account of higher-than-expected raw material costs. 2Q average realizations declined 5% led mainly by an adverse product-mix. 2Q EBITDA margin—adjusted for the forex losses and octroi benefit—at 8.5% (versus our estimate of 10.2%) declined 500 bps on a yoy basis, primarily driven by a 250 bps increase in raw material costs.

Lower input costs might start helping soon. High commodity prices in 2QFY09 as compared to the previous year resulted in a large impact on operating margin. We believe the recent decline in commodity prices will likely help M&M from 4QFY09.

We expect demand to be sluggish after the festive season. We expect 2HFY09 sales to be up only 2% yoy compared to the 18% increase we saw in 1HFY09. Credit crunch, higher interest rates and 1HFY09 inventory build-up would limit sales growth in 2HFY09. We expect tractor sales as well as UV sales to slow down on account of sluggish industry conditions.

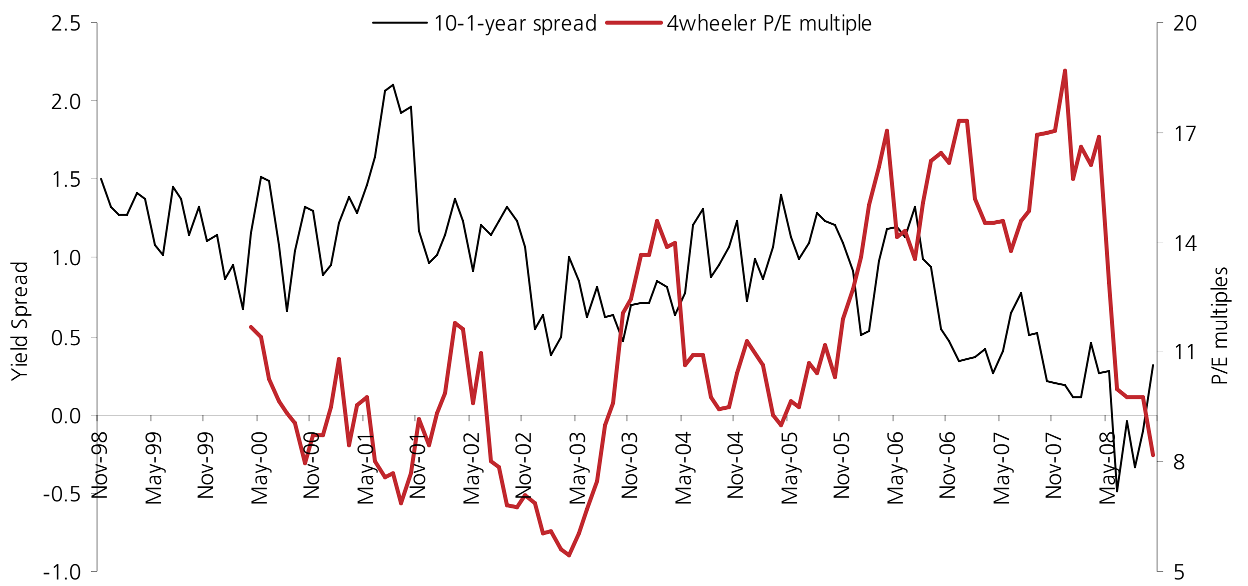
We cut our EPS estimates by 20% for FY2009E and FY2010E to reflect lower volume growth. We expect M&M's total volumes to grow 9% and 4% in FY2009E and FY2010E, respectively. We expect bulk of the growth to come from 3-wheelers. We expect UV volumes to grow 7.5% and 5% for FY2009E and FY2010E, respectively, versus our earlier assumption of 12.5% growth in both years. We expect the tractor segment volumes to grow at 2% for FY2009E and FY2010E respectively. We cut our earnings estimates to Rs33.3/share and Rs31.1/share from Rs40.8/share and Rs41/share, respectively, following revision in volume growth assumptions. Lower realizations on account of price cuts/discounts could pose further downside risks to our earnings estimates.

Reduce TP to Rs410/share from Rs640/share, maintain ADD. We lower our target price to Rs410/share to factor in (1) lower earnings estimates (Rs80/share), (2) lower multiple (Rs60/share) and (3) reduced subsidiary valuations (Rs90/share). We lower our EV/EBITDA multiple for M&M's auto business to 5X FY2010E EBITDA (versus 6X previously) to factor in lower earnings growth and reduced volume-growth visibility. Exhibit 1 shows valuation multiples versus the 10yr-1yr interest rate spread. The yield spread is a good proxy for expected growth in the economy and credit availability and as illustrated has been a leading indicator for valuation multiples. The chart would indicate that multiples have corrected to a large extent since April 2008 and could be seen as providing some support to valuations.

We now value M&M's standalone auto business at Rs145/share based on 5X FY2010E EBITDA (versus 6X previously). We remain at the lower end of the valuation range as we see further risks to our earnings estimates. We value the stake in its various subsidiaries and other investments at Rs267/share. We reduce our SOTP-based target price for M&M to Rs410/share. We maintain our ADD rating on the stock.

The 10-1 year spread is a lead indicator for P/E multiples

Interest rate spread versus 4-wheeler P/E multiple



Source: Bloomberg, Kotak Institutional Equities.

M&M, quarterly results, March fiscal year-ends (Rs mn)

	qoq			yoy		
	2Q 2009	1Q 2009	Change (%)	2Q 2009	2Q 2008	Change (%)
Net Sales	**31,380**	**32,934**	**(4.7)**	**31,380**	**28,111**	**11.6**
Expenditure	(29,629)	(30,465)	(2.7)	(29,629)	(24,189)	22.5
(Increase)/decrease in stocks	2,486	207	1,100.4	2,486	1,845	34.7
Consumption of Raw materials	(24,574)	(23,175)	6.0	(24,574)	(19,700)	24.7
Staff cost	(2,575)	(2,221)	15.9	(2,575)	(2,362)	9.0
Other expenditure	(4,965)	(5,276)	(5.9)	(4,965)	(3,972)	25.0
EBITDA	**1,751**	**2,469**	**(29.1)**	**1,751**	**3,922**	**(55.4)**
Other income	1,143	384	198.0	1,143	605	89.1
Interest (net)	(153)	(97)	56.7	(153)	(82)	84.9
Depreciation	(639)	(621)	2.8	(639)	(577)	10.8
Profit before extra-ordinary items	**2,102**	**2,134**	**(1.5)**	**2,102**	**3,867**	**(45.6)**
Extra-ordinary items	103	-		103	-	
Profit before tax	**2,205**	**2,134**	**3.3**	**2,205**	**3,867**	**(43.0)**
Tax	(348)	(541)	(35.7)	(348)	(1,008)	(65.4)
Profit after tax	**1,857**	**1,593**	**16.6**	**1,857**	**2,859**	**(35.1)**
Volumes	**78,636**	**82,378**	**(4.5)**	**78,636**	**68,479**	**14.8**
Average realisation	**400,142**	**399,797**	**0.1**	**400,142**	**410,505**	**(2.5)**
Margins (%)						
EBITDA margin	5.6	7.5	(1.92)	5.6	14.0	(8.37)
Net profit margin	5.9	4.8	1.08	5.9	10.2	(4.25)
Key ratios						
RM costs (% of net sales)	78.3	70.4		78.3	70.1	
Staff costs (% of net sales)	8.2	6.7		8.2	8.4	
Effective tax rate (%)	15.8	25.4		15.8	26.1	
EPS (Rs)	7.5	6.4		7.5	11.5	
Segmental revenues						
Automotive Segment	19,478	18,732	4.0	19,478	18,063	7.8
Farm Equipment Segment	11,785	13,245	(11.0)	11,785	9,206	28.0
Other segments	203	2,016	(89.9)	203	1,651	(87.7)
Total	**31,466**	**33,993**	**(7.4)**	**31,466**	**28,920**	**8.8**
Less: Intersegment revenues	86	1,059	(91.9)	86	809	(89.4)
Net Sales/Income from Operations	**31,380**	**32,934**	**(4.7)**	**31,380**	**28,111**	**11.6**
PBIT						
Automotive Segment	1,326	1,501	(11.6)	1,326	2,554	(48.1)
Farm Equipment Segment	1,280	1,561	(18.0)	1,280	1,148	11.5
Other segments	35	34	2.0	35	23	51.7
Total	**2,641**	**3,096**	**(14.7)**	**2,641**	**3,724**	**(29.1)**
Capital employed						
Automotive Segment	17,056	14,183	20.3	17,056	15,192	12.3
Farm Equipment Segment	10,546	8,715	21.0	10,546	9,355	12.7
Other segments	95	572	(83.5)	95	434	(78.2)
Total	**27,697**	**23,470**	**18.0**	**27,697**	**24,981**	**10.9**

Source: Company data, Kotak Institutional Equities estimates.

M&M, Adjusted EBITDA calculation, March fiscal year-ends (Rs mn)

	2Q FY2008	2Q FY2009	% change
Net sales-reported	28,111	31,380	11.6
EBITDA	3,922	1,751	(55.4)
Octroi refund	-	270	
Forex losses	109	(1,178)	
Adjusted EBITDA	3,812	2,659	(30.3)
Adjusted EBITDA margin (%)	13.6	8.5	5.0

Source: Company, Kotak Institutional Equities

M&M, SOTP-based valuation, FY2010E basis

	EBITDA (Rs mn)	Multiple (X)	Value (Rs mn)	Value per share (Rs)	Comment
M&M standalone business	11,195	5.0	55,974	217	Based on 5X EV/EBITDA FY2010E earnings
Less: Net debt			18,520	72	
Total				**145**	
Subsidiaries				**193**	
Tech Mahindra				117	Based on KIE target price of Rs700/share
Mahindra Lifespace Developers Ltd				24	Based on KIE target price of Rs500/share
Punjab Tractors				18	Based on current market price
Mahindra & Mahindra Financial Services Ltd				34	Based on KIE target price of Rs190/share
Other investments				73	
SOTP-based value				**412**	
Target price				**410**	

Note
(1) The subsidiaries have been valued at a holding company discount of 20%.

Source: Company data, Kotak Institutional Equities estimates

M&M, profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2010E (Rs mn)

	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)					
Net sales	82,513	100,682	115,625	129,407	140,240
EBITDA	**9,958**	**13,048**	**14,034**	**9,554**	**11,195**
Other income	753	1,530	1,092	2,548	3,168
Interest	184	675	(242)	(887)	(2,638)
Depreciaiton	(2,000)	(2,096)	(2,387)	(2,594)	(3,774)
Profit before tax	**8,895**	**13,157**	**12,497**	**8,620**	**7,951**
Current tax	(2,854)	(3,657)	(2,788)	(506)	(473)
Deferred tax	430	157	(247)	(1,012)	(945)
Net profit	**8,571**	**10,684**	**11,034**	**8,602**	**8,033**
Earnings per share (Rs)	**34.8**	**43.0**	**44.4**	**33.3**	**31.1**
Balance sheet (Rs mn)					
Equity	30,556	35,727	44,068	50,966	64,121
Total Borrowings	8,834	16,360	25,871	38,627	44,627
Current liabilities	20,516	26,656	32,510	36,473	38,223
Total liabilities	**59,906**	**78,743**	**102,449**	**126,067**	**146,971**
Net fixed assets	15,544	18,712	23,609	42,015	59,241
Investments	16,691	22,375	42,151	46,151	48,151
Cash	7,303	13,261	8,612	5,813	4,976
Other current assets	20,188	24,221	27,941	31,952	34,468
Miscellaneous expenditure	181	176	135	135	135
Total assets	**59,906**	**78,743**	**102,449**	**126,067**	**146,971**
Free cash flow (Rs mn)					
Operating cash flow excl. working capital	6,919	9,712	10,730	10,548	12,222
Working capital changes	(50)	1,978	(2,472)	(48)	(766)
Capital expenditure	(2,747)	(4,819)	(7,171)	(21,000)	(21,000)
Free cash flow	**4,122**	**6,870**	**1,087**	**(10,500)**	**(9,544)**
Ratios					
Operating margin (%)	12.1	13.0	12.1	7.4	8.0
PAT margin (%)	10.4	10.6	9.5	6.6	5.7
Debt/equity (X)	0.3	0.5	0.6	0.8	0.7
Net debt/equity (X)	0.1	0.0	0.0	0.3	0.3
Book Value (Rs/share)	123.3	142.9	176.6	196.9	247.9
RoAE (%)	32.9	32.4	27.8	18.2	14.0
RoACE (%)	**23.6**	**22.4**	**18.4**	**11.7**	**10.3**

Source: Company, Kotak Institutional Equities estimates.

Pharmaceuticals

GLEN.BO, Rs258	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	725
52W High -Low (Rs)	736 - 211
Market Cap (Rs bn)	68.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	16.9	26.2	37.7
Net Profit (Rs bn)	6.3	9.4	11.8
EPS (Rs)	25.8	36.5	44.3
EPS gth	*98.4*	*41.3*	*21.2*
P/E (x)	10.0	7.1	5.8
EV/EBITDA (x)	9.1	5.4	4.4
Div yield (%)	0.0	0.1	0.1

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	#N/A	-	-
FIIs	#N/A	#N/A	#N/A
MFs	#N/A	#N/A	#N/A
UTI	#N/A	#N/A	#N/A
LIC	#N/A	#N/A	#N/A

Glenmark Pharmaceuticals: Revenues and EBITDA margin beat estimates

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- **2QFY09 revenues were Rs5.6 bn, 7% above our estimates**
- **Adjusted EBITDA margins at 35%, 100 bps higher than our estimates**
- **PAT at Rs1.1 bn, 19% higher than our estimates due to forex income**
- **PAT guidance for FY2009E reiterated at US$210 mn and for FY2010E at US$282 mn**
- **Decline in the past two days following suspension of product under development with Lilly is an overreaction**
- **Maintain BUY with price target of Rs725. Expect a sharp rally in the short term as fundamental concerns are addressed**

Glenmark revenues at Rs5.6 bn beat our estimates. India, US sales in line while Latin America, Asia/Africa/CIS were better than forecast. Adjusted margin was higher than our estimates by 100 bps at 35%. Materials cost at 29.4% of sales was higher than our estimates by 40 bps, however, all other costs were lower than our estimates. We fine-tune FY2009-10E PAT estimates to incorporate 1HFY09 performance and exchange rate of Rs45/US$. This leads to FY2009E PAT estimate increasing 6%. FY2010E PAT is unchanged as we reduce margin forecast for several business segment. We continue to rate the stock BUY with revised price target of Rs725 (Rs770 earlier) as we use lower multiples. We think current share price is a great opportunity for investors to build long-term position. Management maintained guidance for FY2009 and FY2010 and allayed fears relating to impact of credit squeeze in Latin America. We expect this to lead to a sharp relief rally.

2QFY09 revenues were Rs5.6 bn, 7% above KIE. Revenues were driven by

1. US revenues were US$41 mn vs KIE US$42 mn. During the quarter the company launched three-four products and filed six ANDAs. Qoq revenues have declined from US$46 mn in 1QFY09 as generic Trileptal has now become a truly generic product. The company expects to launch at least five products in 3QFY09E. The company maintains its guidance of launching 20 products in the US in FY2009E and filing 30 ANDAs. Some of these products to be launched in FY2009E are likely to be controlled release finished dosages. These will have lower competition and higher and stable margins. Till date, it has a portfolio of 35 generics products in the US.
2. India finished dosages were broadly in line with KIE growing at 17% yoy. Glenmark launched three products this quarter and its key brands in dermatology, respiratory and CVS segments continued to show good growth. Some investors were worried about Glenmark's performance following 12% growth in the previous quarter. However, things are clearly improving and management mentioned that growth rate in October was even higher.
3. Sales in Latin America picked up this quarter to US$16.5 mn vs KIE US$12 mn. In 1QFY09, the company witnessed a slowdown in this business with revenues declining yoy to US$9 mn. Glenmark clarified that it has not witnessed any credit receivables issues from this market due to tight controls on trade receivables.
4. Sales from RoW markets (Asia/Africa/CIS) at US$16.5 mn beat KIE U$12 mn. The company is maintaining a cautious stance and supplying to the top-6 distributors (accounting for 80% of sales) in the CIS markets.
5. European revenues at US$7 mn were in line with KIE driven mostly by the seven products acquired from Actavis in 1QFY09. The company also started its generics operations in the UK this quarter.

Adjusted EBITDA margins at 35%, 100 bps higher than our estimates. Materials cost was at 29.4% of sales vs 29% KIE and 28% in 1QFY09. We think this may be due to pricing pressure witnessed in products under exclusivity. On all other cost items, the company reported lower costs than KIE.

PAT at Rs1.1 bn, 19% higher than KIE due to forex income of Rs420 mn. PAT was 19% higher due to (1) better operating margins (2) net forex income of Rs420 mn which were not included in our forecasts. This was despite a higher tax rate at 32% vs KIE 12%.

Management maintains research income guidance of US$69 mn. News flow relating to research outlicensing is likely for both Melogliptin and Oglemilast by end FY2009E. The management mentioned that it expects to find European partner for Oglemilast shortly. Diabetes molecule will complete phase II trials by April 2009 and here too Glenmark expects to find a partner for development. We now exclude the value of pain control molecule GRC 6211 in arriving the target price. This has reduced valuation of research pipeline to Rs42. We include Rs82 per share in share price target in a year's time.

What is the market price implying? Our SOTP-based target price of Rs725 includes Rs82 as the probability-adjusted NPV of the 2 NCEs in the clinics with, zero value from GRC 6211. We think the current market capitalization is indicating that the company's entire research pipeline is treated at zero value.

PAT guidance for FY2009E unchanged at US$210 mn and for FY2010E at US$282 mn. Management guidance for FY2009E and FY2010E has been retained after results for 2QFY09. Glenmark expects PAT of US$210 mn for FY2009E and US$282 mn for FY2010E. KIE forecasts PAT of $211 mn for FY2009E and $267 for FY2010E. The difference is due to our assumption of exchange rate of Rs45 per US$.

Excluding post-tax research income of US$63 mn for FY2009-10E Glenmark is guiding for PAT of US$147 mn for FY2009E and US$219 mn for FY2010E. This is based on exchange rate of Rs40/US$.

Our price target of Rs725 includes value of research pipeline of Rs82. Glenmark at a price of Rs259 is trading at 6X FY2010E and 5X FY2011E estimated earnings including research milestones. We have always believed that the best time to start owning Glenmark is when market is assigning zero value to its research pipeline. We value Glenmark's business excluding research at Rs598 in a year's time. We forecast EPS excluding research income of Rs34 for FY2010E rising to Rs44.5 in FY2011E. Thus, at current share price Glenmark is trading at 7.5X FY2010E and 6X FY2011E.

Eli Lilly has suspended further clinical development for GRC 6211 in Osteoarthritis pain. Glenmark has announced that its partner Eli Lilly has suspended further clinical development for GRC 6211 in Osteoarthritis pain. The NCE was outlicensed in October 2007 and was currently in phase IIb trials for Osteoarthritis pain. Following this announcement, Glenmark share has fallen 20% (maximum allowed) each on Thursday and Friday. This is clearly an overreaction in our view. Firstly, market was effectively not building any value for entire research portfolio before the announcement. Secondly, we think per share value of GRC 6211 was much lower than the losses suffered in the two days. Thirdly, management mentioned that they are still reviewing the data jointly and further decision will be made shortly. They believe GRC 6211 could still progress forward or they would move one of the backup compounds. Thus, the research income guidance for FY2009E and FY2010E was unchanged.

Asthma molecule oglemilast is currently in phase 2B with trials ongoing in both asthma as well as COPD (Chronic Obstructive Pulmonary Disorder) in the US and multiple locations. Diabetes molecule Melogliptan is in Phase IIb and Glenmark expects to have a licensing partner in the next six-nine months.

Changes to FY2009E and FY2010E our revised estimates are based on exchange rate assumption of Rs45/US$. In addition, we have included forex related gains reported by Glenmark till September 2008. As a result, we are raising PAT forecast to Rs9.3 bn from Rs7.8 bn. For FY2010E, PAT forecast is raised by 6% and for FY2011E it is raised by 8%. This is lower than the impact of changes in currency assumptions due to lower margin assumptions across various business segments.

Changes in target multiples. We have lowered the target multiples used in valuation across various business segment in response to current uncertain business environment. Indian finished dosage is valued at 18X, US generic at 16.5X, rest of the world business at 15X and API business at 10X. They may appear high compared to where Indian market is trading at but we think that branded generic businesses across world will continue to get a premium valuation due to sticky demand and stable profits. Glenmark's product selection in developed market will ensure high margin and we value it at a 10% premium to US generics business.

Interim results—Glenmark , March fiscal year-ends (Rs mn)

	2QFY08	1QFY09	2QFY09	2QFY09 KiE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs KiE)
Net sales	**3,749**	**4,608**	**5,597**	**5,211**	**49**	**21**	**7**
Consumption of raw materials	1,519	1,219	1,991	1,511	31	63	32
(Inc)/ in stock in trade	(491)	52	(346)	—	NM	NM	NM
Personnel cost	503	729	820	782	63	13	5
Other expenses	874	1,019	1,180	1,146	35	16	3
R&D	160	180	270	313	69	50	(14)
Total Expenditure	2,565	3,199	3,915	3,752	53	22	4
EBITDA	**1,184**	**1,410**	**1,682**	**1,459**	**42**	**19**	**15**
Other income	53	109	445	50	745	308	790
Research income	—	—	—	—	NM	NM	NM
Interest	158	155	187	160	**18**	**21**	17
Depreciation	162	215	225	225	39	5	0
PBT	**916**	**1,148**	**1,715**	**1,124**	**87**	**49**	**53**
Current Tax	110	678	319	59	190	(53)	445
Deferred Tax	55	(684)	222	75	303	NM	195
PAT	**751**	**1,154**	**1,174**	**990**	**56**	**2**	**19**
Finished dosage	**3,323**	**4,238**	**5,058**	**4,801**	**52**	**19**	**5**
India	1,329	1,429	1,559	1,603	17	9	(3)
International	1,994	2,810	3,499	3,198	75	25	9
USA	811	1,909	1,761	1,840	117	(8)	(4)
Latin America	570	383	705	526	24	84	34
Europe	68	124	328	307	381	165	7
RoW	545	394	705	526	29	79	34
API	**426**	**426**	**539**	**475**	**27**	**27**	**13**
India	295	215	265	263	(10)	23	1
International	131	211	274	213	109	30	29
Research income	**—**	**—**	**—**	**—**	**NM**	**NM**	**NM**
Total Revenues	**3,749**	**4,665**	**5,597**	**5,276**	**49**	**20**	**6**

Source: Company data, Kotak Institutional Equities.

Forecasts and valuation, March fiscal year-ends, 2007-2011E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2007	10,442	62.4	3,300	140.9	3,093	258.0	13.0	17.8	58.5	19.8
2008	16,937	62.2	6,360	92.7	6,321	104.4	25.8	23.6	57.4	10.0
2009E	26,164	54.5	10,556	66.0	9,397	48.7	36.5	26.6	44.1	7.1
2010E	37,692	44.1	14,259	35.1	11,768	25.2	44.3	24.9	35.5	5.8
2011E	47,221	25.3	17,862	25.3	14,484	23.1	54.5	24.3	31.5	4.7

Source: Company data, Kotak Institutional Equities.

SOTP-based price target, FY2010-FY2011E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	2010E	2011E	(X)	2010E	2011E
Generics					
International API	442	476	10.0	4,422	4,762
Oncology	150	225	16.5	2,483	3,712
US	4,749	6,176	16.5	78,357	101,906
Europe generics	60	96	15.0	903	1,446
Total	**5,609**	**7,250**		**88,234**	**114,587**
Specialty					
India	1,415	1,700	18.0	25,472	30,594
Africa, Asia, Russia	1,113	1,628	15.0	16,695	24,423
Latin America	636	835	15.0	9,540	12,525
Europe branded	331	418	15.0	4,966	6,266
Total	**3,495**	**4,581**		**56,672**	**73,809**
Value per share (Rs)					
Generics				332	431
Specialty (incl NCE)				295	360
Cash per share				5	35
Combined share price target					**728**

Source: Company data, Kotak Institutional Equities.

Pharmaceuticals

DIVI.BO, Rs975	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,980
52W High -Low (Rs)	1930 - 890
Market Cap (Rs bn)	62.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	10.4	14.3	18.8
Net Profit (Rs bn)	3.5	5.2	6.6
EPS (Rs)	53.2	80.1	101.4
EPS gth	*85.8*	*50.5*	*26.7*
P/E (x)	18.3	12.2	9.6
EV/EBITDA (x)	14.9	9.6	7.2
Div yield (%)	0.1	0.1	0.2

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.5	-	-
FIIs	15.5	0.2	(0.0)
MFs	14.4	1.0	0.8
UTI	-	-	(0.3)
LIC	-	-	(0.3)

Divis Laboratories: Another quarter of strong margin improvement

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- **2QFY09 revenues at Rs3.3bn, 2% above KIE**
- **EBITDA margin before forex loss at 50% vs KIE 41%**
- **PAT at Rs1.3 bn, 20% above KIE despite higher tax rate**
- **Maintain BUY with SOTP-based target price reduced to Rs1,980 from Rs Rs2,330 due to lower valuation multiples used**
- **Build position with 18-24 months investment horizon. Top pick among CMO companies due to best ROE and ROCE**

Divis Labs (DLL) reported revenues of Rs3.3 bn, up 36% yoy and 2% above our estimates. However, in US$ terms, the yoy growth at 25% was in line with our estimates. EBITDA margin before forex loss at 50%, was the highest ever reported by company. All costs were lower than our estimates except other expenses. We think forex loss of at least Rs90 mn (same as in 1QFY09) is included in other expenses. PAT at Rs1.3 bn, 20% higher than our estimates due to (1) strong operating performance (2) higher other income (3) lower interest cost than our estimates despite higher effective tax rate. FY2009 PAT estimate revised up by 5% due to revised US$/Rs rate at 45 for FY2009-10E and FY2010E PAT estimate revised down by 2% due to lower EBITDA margin assumptions. The stock trades at 10X FY2010E and 8X FY2011E which is very attractive looking at earnings growth, ROCE and ROE over the next two years. Maintain BUY rating with SOTP-based target price reduced to Rs1,980 (from Rs2,330). We lower target price multiples used in our SOTP-based valuation to reflect current economic environment.

2QFY09 revenues Rs3.3 bn, 2% above our estimates. YoY revenue growth was 36%, higher than KIE's 33%. However, in dollar terms, yoy growth at 26% was broadly in line with KIE. We think Divis has benefitted from (1) higher US$ rate agreed with clients in 1QFY09 following Rupee appreciation and now it's gaining from these higher billing rates at higher Rs/US$ rate. (2) prices in generics segment (50% of sales) boosted by weaker Indian Rupee and supply constraints for Chinese supplies.

EBITDA margins at 48% vs KIE 41%. Due to the presence of forex loss this quarter, we look at EBITDA margin, excluding forex, to make comparisons meaningful. Due to substantial export business (94% of sales), DLL hedges some of its export exposure and had also undertaken some forex derivative transactions.

EBITDA margin before forex at 50% was higher than KIE's 41% and the highest reported by the company. All cost items were lower than our estimates except other expenses, which includes forex loss, according to us. (1) Material cost at 32% vs KIE 36%. (2) manufacturing expenses was 5.5% vs KIE 7.5%. (3) Personnel costs at 5% in line with our estimates. Employee cost includes cost related to stock option charged every quarter on a pro-rata basis (Rs30 mn in FY2009E from Rs86 mn charged in FY2008) charged as expense this quarter on account of stock options. (4) We think other expenses include forex loss and assuming forex loss was Rs90 mn (same as 1QFY09), other expenses were 6.7% vs KIE 7.5%.

We think margin expansion seen in 1HFY09 from is coming from the generics business of Divis. While we continue to see high margin in the custom synthesis business, we think that in older generic products Divis is getting opportunities to increase prices faster than input-cost increase. Thus, we think the drivers of margin expansion are the generic products which are normally seen as steady or declining margin business.

PAT at Rs1.3 bn, 20% above KIE despite higher tax rate. PAT was higher than our estimates due to (1) strong operating performance, (2) higher other income and (3) lower interest cost than KIE despite higher effective tax rate. Interest cost declined qoq to Rs18 mn from Rs20 mn. Effective tax rate was at 9% this quarter vs KIE 8%. Tax rate last quarter was 5.5% while tax rate for FY2008 was 8%.

FY2009 PAT estimate revised up by 5% and FY2010E PAT estimate revised down by 2%. Our forecasts for FY2009-10E are based on US$ rate of Rs45 now. We revise our PAT estimates as follows (see Exhibit 3):

1) FY2009E up by 5% to reflect 1HFY09 performance and due to higher rupee rate. Our assumptions for 2HFY09E are conservative as we assume lower margins at 42% for the remaining quarters driven by higher material cost. Yoy net sales growth in dollar terms is maintained at 16% and 36% for the remaining two quarters. In 4QFY09E Divis will be launching generic levitracetam of UCB. This could get into a large generic product and we think it could become one of the top-five products in the next three years. Its existing products carbidopa, levidopa, ipomidol, Dextromethorphan can increase further. Its largest product naproxen has seen reduction in prices over the past few years but volume expansion and cost reduction has helped Divis expand margin even in this product.

2) FY2010E PAT estimate revised down by 2% due to lower EBITDA margin assumption (41.5% vs 43% earlier) and stable exchange rate at Rs45 for FY2009-10E whereby Divis will not gain from Rupee depreciation. We do not build in any further currency loss in FY2010E estimates and include YTD currency loss seen till date in FY2009E PAT forecasts. We believe our FY2010E estimates are conservative.

Maintain BUY with SOTP-based target price reduced to Rs1,980 (from Rs2,330). We revise target price multiples used in our SOTP-based valuation. We continue to use SOTP method for valuation. We revise the target price multiples downwards that we have used for valuing custom manufacturing and caretenoids business of Divis. This is more to do with the current economic environment than with Divis business (see Exhibit 4). Due to the (1) decrease in FY2010E KIE PAT by 2% versus earlier estimate, (2) rolling forward price target to September and (3) revision of target price multiples, we revise price target downwards to Rs1,980(from Rs2,330).

Divis remains the top pick among the CMO segment as we see nearly 100% returns in the next 12 months and company will likely continue to show the best ROE and ROCE among the peer group. We believe current valuation of about 10x FY2010E is not reflecting the fundamentals but current selling panic in the market in general. We recommend investors build sizable positions in the stock with an investment horizon of 18-24 months as we expect returns coming from earnings growth and PE multiple expansion over this period.

Interim results—Divis, March fiscal year-ends (Rs mn)

	2QFY08	1QFY09	2QFY09	2QFY09 KIE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs. KIE)
Net sales	2,438	2,636	3,305	3,242	**36**	**25**	**2**
Change in stock	(222)	(336)	(428)	—	NM	NM	NM
Consumption of raw materials	1,098	1,236	1,490	1,167	36	21	28
Personnel cost	134	158	170	170	27	7	(0)
Manufacturing exp	177	201	181	243	2	(10)	(26)
Other expenses	214	303	313	243	46	3	29
Total Expenditure	1,400	1,561	1,726	1,923	23	11	(10)
EBITDA	**1,038**	**1,074**	**1,579**	**1,318**	**52**	**47**	**20**
Other income	14	51	50	30	252	(1)	67
Interest	32	20	18	25	(42)	(6)	(26)
Depreciation	78	107	119	110	53	11	9
PBT	**942**	**998**	**1,491**	**1,213**	58	49	23
Current tax	1	55	111	65	22,060	103	72
Deferred tax	32	—	26	31	**(18)**	**NM**	**(16)**
FBT	1	—	1	1	0	NM	(60)
PAT	**910**	**943**	**1,354**	**1,116**	**49**	**44**	**21**

Source: Company data, Kotak Institutional Equities.

Forecasts and valuation, March fiscal year-ends, 2007-2011E

	Net Revenue		EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2007	7,273	89.1	2,414	103.0	1,859	167.3	28.6	37.1	42.5	34.0
2008	10,365	42.5	4,133	71.2	3,476	87.0	53.2	46.1	49.8	18.3
2009E	14,325	38.2	6,183	49.6	5,230	50.5	80.1	47.7	47.4	12.2
2010E	18,801	31.3	7,779	25.8	6,624	26.7	101.4	41.5	40.0	9.6
2011E	24,148	28.4	9,672	24.3	8,187	23.6	125.4	37.2	34.9	7.8

Source: Company, Kotak Institutional Equities estimates.

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

	Current estimates		Earlier estimates		% change	
	2009E	2010E	2009E	2010E	2009E	2010E
Net sales	14,325	18,801	14,020	18,215	2	3
EBITDA	6,183	7,779	5,884	7,827	5	(1)
EBITDA margin	43	41	42	43	1	(2)
Net profit	5,230	6,624	4,995	6,764	5	(2)

Source: Company data, Kotak Institutional Equities.

SOTP based price target, FY2010-FY2011E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	FY2010E	FY2011E	(X)	FY2010E	FY2011E
Generics	2,537	3,130	15.0	38,055	46,946
Custom manufacturing	3,863	4,778	17.0	65,668	81,224
Carotenoids	224	280	15.0	3,360	4,196
Total	**6,624**	**8,187**		**107,083**	**132,366**
Value per share (Rs)				**1,658**	**2,049**
Cash per share (Rs)				88	162
Share price target					**1,978**

Source: Company data, Kotak Institutional Equities.

Media

SUTV.BO, Rs135	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	205
52W High -Low (Rs)	443 - 125
Market Cap (Rs bn)	53.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	8.7	10.7	12.7
Net Profit (Rs bn)	3.3	3.6	4.4
EPS (Rs)	8.3	9.4	11.1
EPS gth	*30.7*	*13.1*	*18.9*
P/E (x)	16.3	14.4	12.1
EV/EBITDA (x)	8.2	7.2	6.1
Div yield (%)	1.9	3.0	4.1

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	77.0	-	-
FIIs	7.2	0.1	(0.2)
MFs	1.4	0.1	(0.2)
UTI	-	-	(0.3)
LIC	-	-	(0.3)

Sun TV Network: 2QFY09 results in line with expectations; upgrade stock to BUY on inexpensive valuations

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- **In-line 2QFY09 results driven by strong growth in ad and broadcast revenues**
- **Competition, uncertainly on cable subscription revenues key concerns but already factored into inexpensive valuations**
- **Upgrade to BUY; revised 12-month DCF-based TP to Rs205 (Rs245 previously)**

Sun TV Network reported 19% yoy increase in standalone 2QFY09 net income to Rs952 mn (excluding one-off post-tax gains of about Rs132 mn), modestly below our Rs1 bn estimate; Sun TV telecast a large number of big-budget blockbuster movies during the quarter, which resulted in higher amortization expenses. Sun's 2QFY09 revenues grew 22% yoy to Rs2.4 bn reflecting strong growth in advertisement, broadcast (slot sales) and international revenues but subscription revenues continued to disappoint; 2QFY09 subscription revenues came in at Rs504 mn (-2% yoy, +19% qoq) including DTH contribution of about Rs126 mn (Rs110 mn in 1QFY09). Nonetheless, valuations already discount likely downside risks (competition and uncertainty on cable subscription revenues) and we upgrade the stock to BUY (ADD previously) with revised 12-month DCF based target price of Rs205 (Rs245 previously). Our revised FY2009E, FY2010E and FY2011E earnings estimates are Rs9.4 (Rs9.5 previously), Rs11.1 (Rs11.6) and Rs13.0 (Rs14.0) largely due to reduced cable subscription revenues.

2QFY09 results analysis

Revenue growth is back on track. Sun TV reported robust 22% yoy growth in 2QFY09 revenues at Rs2.4 bn, marginally above our Rs2.35 bn estimate. The company has not provided a precise break-up of revenues, which makes it difficult to analyze the results; the management has provided some guidance on the break-up, which we have used to draw conclusions. Robust 30% yoy growth in advertisement and broadcast (slot sale) revenues and strong 45% yoy growth in international income (rupee depreciation) helped negated disappointing growth in subscription revenues. We note that 2QFY09 advertisement revenues at Rs1.36 bn were higher than our Rs1.25 bn estimate as Sun TV telecast a large number of blockbuster movies during the quarter, which helped retain its market share despite strong competition.

Subscription revenues remain a challenge. Sun TV reported 2QFY09 subscription revenues at about Rs504mn (-2% yoy, +19% qoq), below our Rs600 mn estimate. We believe recovering Sun's fair share of subscription revenues from cable operators remains a challenge given (1) entry of several new MSOs (Arasu Cable, Royal Cable) in competition with SCV (the group's MSO venture) and (2) success of Sun Direct (the group's DTH venture) driven by aggressive pricing to undercut cable operators. Revenue contribution from DTH increased to Rs126 mn versus Rs110 mn in 1QFY09 driven by strong subscriber addition; Sun TV management noted 2.0 mn DTH subscribers by end-2QYF09, which does not include contribution from recently-launched DTH platforms (Reliance Big TV, Airtel Digital TV).

2QFY09 EBITDA in line with expectations. Sun TV reported 2QFY09 EBITDA at Rs1.8 bn, a robust 5% qoq (despite 2QFY09 being a seasonally weak quarter) and 26% yoy growth in line with our expectations. Sun TV 2QFY09 direct operating costs (including programming and distribution) at Rs219 mn was marginally higher than our expected Rs200 mn but was balanced by higher-than-expected ad revenues. Sun TV reported employee expenses and overheads in line with our expectations.

Big-budget films' telecast impacts net income. We note that Sun TV clubs a portion of its programming costs (amortization of films) in depreciation and amortization. Sun TV reported FY2008 amortization and depreciation at Rs464 mn, a strong 67% qoq and 87% yoy growth and much above our Rs350 mn estimate. We expect some variability in Sun TV's amortization expenses since it is a function of the films telecast in any quarter; Sun TV telecast a large number of blockbuster movies in 2QFY09 as a competitive response to emerging competition, which also resulted in higher-than-expected ad revenues.

Earnings revisions

1. **TV ad revenues to grow at 15% CAGR over FY2008-11E.** We model TV ad revenues to grow at 15% CAGR over FY2008-11E taking into account (1) 18-20% ad rate increase affected by Sun TV in February 2008 (for FY2009E), (2) loss in market share given rising competitive intensity in key markets and (3) potential slowdown in ad revenue market in FY2010E. We see the greatest risk to our estimates from the second assumption with competition starting to emerge in the Telugu and Kannada markets.

2. **Domestic subscription revenues to grow at 15% CAGR over FY2008-11E.** We model FY2009E, FY2010E and FY2011E subscription revenues at Rs2.5 bn (Rs2.7 bn previously), Rs2.8 bn (Rs3.2 bn) and Rs3.5 bn (Rs3.9 bn). We expect the strong growth in DTH revenues to be partially negated by reduced realizations from local cable operators for reasons outlined previously. Sun TV is working towards sorting out issues with cable operators groups and improving its collection mechanisms, which will take time to become effective. (1) Increase in subscription rates and (2) conversion of currently free-to-air (FTA) channels to pay channels are potential upside risks to our estimates.

3. **Direct operating costs (standalone) likely to grow at 21% CAGR over FY2008-10E.** We model Sun TV Network's standalone FY2009E, FY2010E and FY2011E direct operating costs at Rs1.7 bn (Rs1.7 bn previously), Rs2.1 bn (Rs2.1 bn) and Rs2.5 bn (Rs2.4 bn). We model film amortization costs as part of direct operating expenses and not depreciation and amortization expenses. We expect significant investments by Sun TV in its content and film library in order to compete effectively against emerging competition.

Sun TV Network consolidated interim results (Rs mn)

		qoq			yoy			yoy		
	FY2009E	2QFY09	1QFY09	% chg.	2QFY09	2QFY08	% chg.	1HFY09	1HFY08	% chg.
Net sales	**10,699**	**2,379**	**2,236**	***6***	**2,379**	**1,945**	***22***	**4,615**	**3,968**	***16***
Advertising income (incl radio)	6,183	1,360	1,322	*3*	1,360	1,043	*30*	2,682	2,145	*25*
Broadcast fee	1,530	390	368	*6*	390	300	*30*	758	607	*25*
Program licensing income/International revenues	500	125	123	*1*	125	85	*47*	248	173	*43*
Income from pay channels	2,459	504	422	*19*	504	514	*(2)*	926	1,036	*(11)*
Others	27	—	—		—	3		—	6	
Total expenditure	**(4,513)**	**(616)**	**(553)**	***11***	**(616)**	**(546)**	***13***	**(1,168)**	**(1,040)**	***12***
Transmission and programming cost	(2,321)	(219)	(198)	*11*	(219)	(152)	*44*	(416)	(283)	*47*
Staff cost	(1,208)	(256)	(245)	*5*	(256)	(175)	*46*	(501)	(400)	*25*
Administrative & other costs	(985)	(141)	(110)	*28*	(141)	(219)	*(36)*	(251)	(358)	*(30)*
EBITDA	**6,186**	**1,763**	**1,683**	***5***	**1,763**	**1,398**	***26***	**3,446**	**2,927**	***18***
EBITDA margin (%)	**57.8**	**74.1**	**75.3**		**74.1**	**71.9**		75	**73.8**	
Other income	527	172	164	*5*	172	143	*20*	335	292	*15*
Interest	(144)	(21)	(0)		(21)	(15)	*41*	(21)	(20)	*8*
Depreciation and amortisation	(875)	(464)	(278)	*67*	(464)	(248)	*87*	(742)	(491)	*51*
Pretax profits	**5,694**	**1,450**	**1,568**	***(8)***	**1,450**	**1,279**	***13***	**3,019**	**2,709**	***11***
Current tax	(2,154)	(567)	(535)	*6*	(567)	(440)	*29*	(1,102)	(925)	*19*
Fringe benefit tax	—	—	(2)		—	(9)		(2)	(17)	
Deferred tax	(131)	—	(6)		—	(27)		(6)	(34)	
Minority interest	214	—	—		—	—		—	—	
Net income	**3,822**	**1,083**	**1,025**	***6***	**1,083**	**802**	***35***	**2,109**	**1,732**	***22***
Tax rate (%)	40.1	34.4	34.6		34.4	37.3		36.8	36.1	

Notes:
(a) Sun TV shows film amoritzation in depreciation and amortization; we show it under transmission and programming costs.
(b) Three radio channels are in Sun TV parent company and quarterly results include the three channels.
(c) FY2009E data is consolidated for radio subsidiaries.

Source: Company, Kotak Insitutional Equities estimates

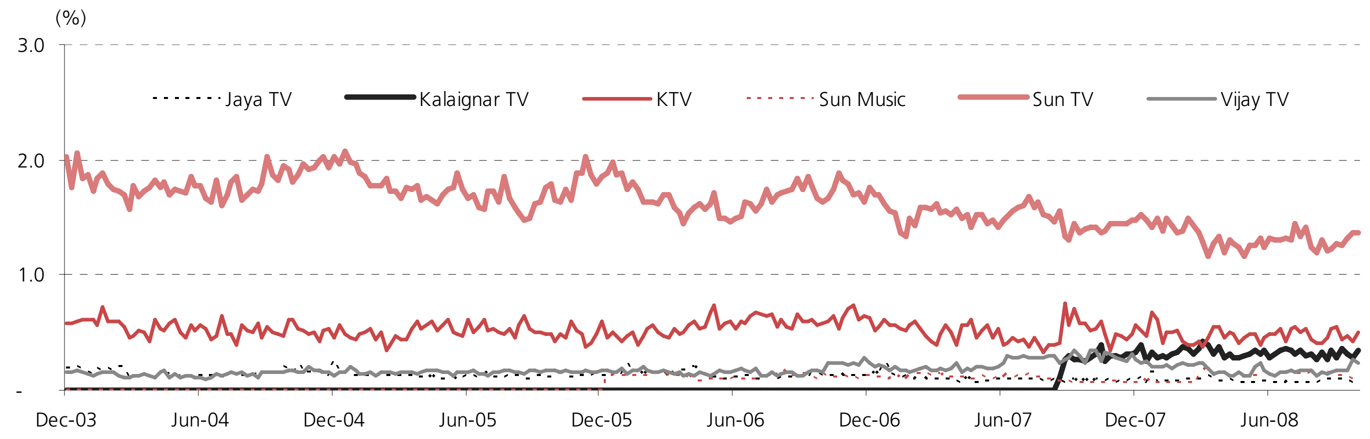
DCF analysis of SunTV Network (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	**6,186**	**7,232**	**8,378**	**9,525**	**10,748**	**11,968**	**13,268**	**14,640**	**16,026**	**16,073**	—	—
Tax expense	(2,014)	(2,098)	(2,515)	(2,932)	(3,354)	(3,770)	(4,209)	(4,671)	(5,135)	(5,194)	—	—
Changes in working capital	(1,688)	(1,050)	(1,108)	(1,013)	(995)	(1,042)	(1,111)	(1,190)	(1,289)	(363)	—	—
Cash flow from operations	**2,483**	**4,084**	**4,755**	**5,580**	**6,399**	**7,156**	**7,948**	**8,779**	**9,601**	**10,516**	—	—
Capital expenditure	(1,250)	(600)	(650)	(700)	(750)	(800)	(850)	(900)	(950)	(975)	—	—
Cash flow to minority shareholders	214	89	9	(43)	(64)	(88)	(110)	(143)	(178)	20	—	—
Free cash flow	**1,447**	**3,573**	**4,114**	**4,838**	**5,585**	**6,268**	**6,987**	**7,736**	**8,473**	**9,562**	**10,088**	**10,642**
PV of free cash flow	**1,376**	**3,007**	**3,064**	**3,187**	**3,257**	**3,234**	**3,191**	**3,125**	**3,029**	**3,025**	—	—
Discounted cash flow-1 year forward		3,398	3,463	3,603	3,680	3,654	3,606	3,533	3,423	3,418	3,191	—
Discounted cash flow-2 year forward			3,913	4,071	4,160	4,130	4,074	3,992	3,869	3,863	3,606	3,367

	Now	+ 1-year	+ 2-years	
Total PV of free cash flow (a)	29,495	34,968	39,045	
FCF in terminal year	9,562	10,088	10,642	
Adjusted FCF in terminal year	9,581	10,088	10,642	Adjusting for FM radio business, which will end in FY2017
Terminal value in terminal year	127,742	134,502	141,899	
PV of terminal value (b)	40,413	42,552	44,892	
Total company value (a) + (b)	**69,909**	**77,520**	**83,937**	
Value per share of Sun TV (Rs)	177	197	213	
Net debt/(cash)	(5,627)	(3,602)	(3,195)	
Value to equity holders	**75,535**	**81,123**	**87,132**	
Value to equity holders (Rs/Sun TV share)	**192**	**206**	**221**	

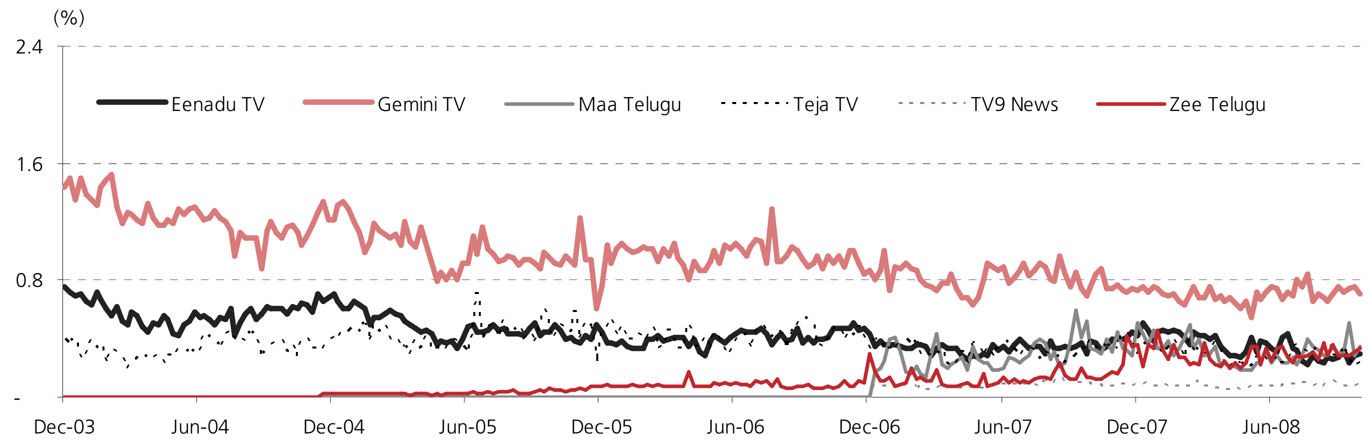
Source: Kotak Institutional Equities estimates

Prime-time (7:30-11:30 PM) ratings of major Tamil channels (%)



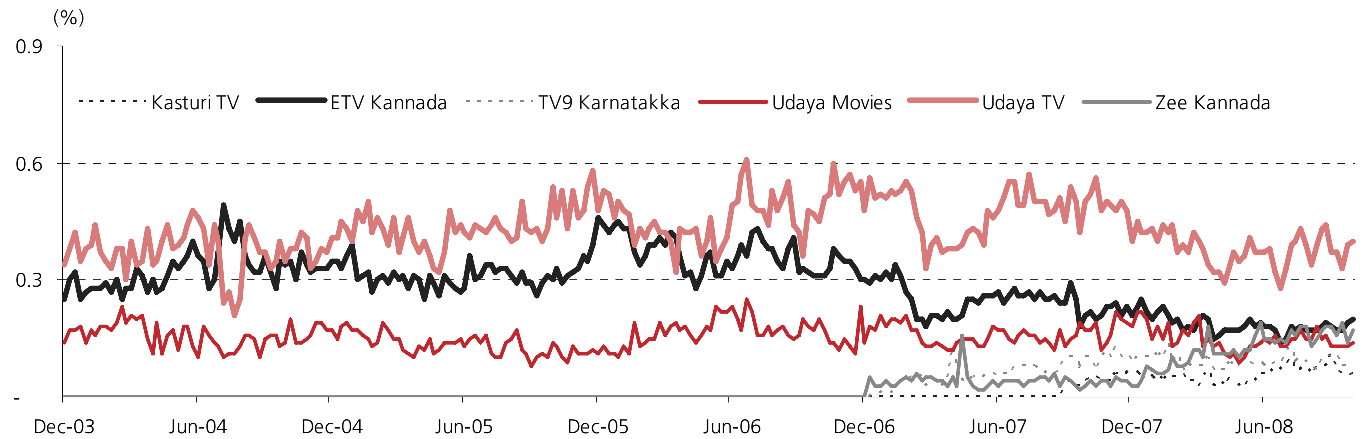
Source: TAM Media Research, compiled by Kotak Institutional Equities

Prime-time (7:30-11:30 PM) ratings of major Telugu channels (%)



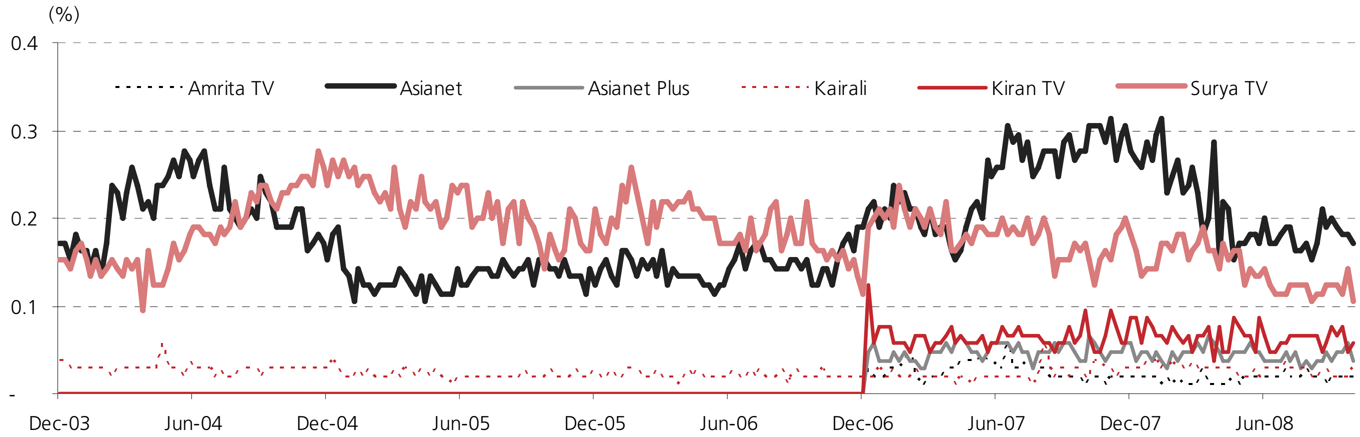
Source: TAM Media Research, compiled by Kotak Institutional Equities

Prime-time (7:30-11:30 PM) ratings of major Kannada channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

Prime-time (7:30-11:30 PM) ratings of major Malayalam channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

Derivation of revenues of Sun TV Network, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Advertisement revenues							
Sun TV	1,085	1,491	1,902	2,268	2,589	2,902	3,248
K TV	123	141	162	186	210	233	258
Sun News	39	47	55	63	71	80	89
Sun Music	94	122	163	188	211	237	263
Sun Kids	—	—	101	128	150	175	204
Sun Documentary	—	—	64	150	176	206	240
Sun Sports	—	9	103	118	133	147	161
Surya TV	386	476	574	663	747	848	960
Kiran TV	28	40	59	70	83	97	113
Gemini TV	—	467	625	736	843	953	1,076
Teja TV	—	44	51	58	65	73	81
Gemini News	—	35	41	47	53	59	66
Gemini Music	—	75	100	115	129	146	162
Udaya TV	—	428	538	618	708	800	904
Udaya Movies	—	43	49	56	63	70	78
Udaya Varthegulu (News)	—	25	29	34	38	42	47
Udaya TV 2	—	30	40	46	52	58	65
Total TV ad revenues	**1,755**	**3,472**	**4,655**	**5,543**	**6,320**	**7,125**	**8,015**
Radio	158	135	89	639	1,280	1,530	1,828
Total advertisement revenues	**1,913**	**3,608**	**4,745**	**6,183**	**7,600**	**8,655**	**9,844**
Broadcast revenues (or slot sales)							
Sun TV	531	607	721	865	995	1,115	1,249
Surya TV	60	60	73	80	88	97	107
Gemini TV	—	332	385	452	520	582	652
Udaya TV	—	86	117	132	149	164	180
Total broadcast revenues	**591**	**1,085**	**1,296**	**1,530**	**1,752**	**1,958**	**2,187**
Total ad and broadcast revenues	**2,504**	**4,692**	**6,041**	**7,713**	**9,353**	**10,612**	**12,031**
Pay-TV revenues							
Sun TV	447	667	1,106	1,230	1,453	1,781	2,117
Surya TV	—	—	—	47	78	154	212
Gemini TV	—	693	816	810	876	1,042	1,203
Udaya TV	—	310	393	373	414	507	604
Total pay-TV revenues	**447**	**1,669**	**2,315**	**2,459**	**2,822**	**3,484**	**4,135**
International revenues	183	339	370	500	515	519	516
Others	18	42	12	27	42	54	65
Sumangali Cable Vision (SCV)	—	—	—	—	—	—	—
Total revenues	**3,152**	**6,742**	**8,738**	**10,699**	**12,732**	**14,669**	**16,748**
Growth (%)	**9**	**114**	**30**	**22**	**19**	**15**	**14**

Source: Company, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of Sun TV Network, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	3,219	6,780	8,699	10,699	12,732	14,669	16,748
EBITDA	**2,035**	**3,874**	**5,261**	**6,186**	**7,232**	**8,378**	**9,525**
Other income	172	411	556	527	534	540	611
Interest (expense)/income	(65)	(64)	(159)	(144)	(109)	(57)	(5)
Depreciation	(147)	(294)	(377)	(641)	(840)	(802)	(774)
Amortization	—	(56)	(148)	(235)	(235)	(235)	(195)
Pretax profits	**1,995**	**3,871**	**5,133**	**5,694**	**6,584**	**7,825**	**9,161**
Tax-cash	(709)	(1,509)	(1,947)	(2,154)	(2,243)	(2,681)	(3,140)
Tax-deferred	16	108	(67)	(131)	(36)	(21)	(16)
Minority interest	—	(9)	148	214	89	9	(43)
Net profits after minority interests	**1,302**	**2,461**	**3,267**	**3,695**	**4,393**	**5,132**	**5,963**
Earnings per share (Rs)	**5.3**	**6.3**	**8.3**	**9.4**	**11.1**	**13.0**	**15.1**
Balance sheet (Rs mn)							
Total equity	3,071	11,932	14,485	16,464	18,321	19,995	21,578
Deferred Tax	32	(56)	11	142	179	200	216
Total borrowings	2,333	867	695	50	50	50	50
Currrent liabilities	741	1,693	2,516	2,611	2,746	2,855	2,969
Total capital	**6,209**	**14,478**	**18,311**	**19,658**	**21,597**	**23,393**	**25,147**
Cash	732	6,494	4,297	3,246	4,435	5,310	6,203
Current assets	2,440	3,221	4,542	6,326	7,511	8,728	9,854
Total fixed assets	2,830	3,543	5,048	5,864	5,625	5,473	5,399
Intangible assets	206	1,220	2,620	2,219	2,024	1,829	1,633
Total assets	**6,209**	**14,478**	**18,311**	**19,458**	**21,397**	**23,143**	**24,892**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,722	3,239	4,091	4,960	6,053	7,103	8,134
Working capital	(251)	(1,992)	(1,235)	(1,688)	(1,050)	(1,108)	(1,013)
Capital expenditure	(2,091)	(433)	(1,811)	(1,250)	(600)	(650)	(700)
Investments	(326)	(849)	(3,837)	(872)	(1,172)	(1,462)	(1,753)
Other income	80	402	523	527	534	540	611
Free cash flow	**(619)**	**814**	**1,046**	**2,021**	**4,402**	**5,345**	**6,421**
Ratios (%)							
Debt/equity	76.0	7.3	4.8	—	—	—	—
Net debt/equity	52.1	(47.2)	(24.9)	(19.4)	(23.9)	(26.3)	(28.5)
RoAE	36.1	32.9	24.8	23.8	25.0	26.5	28.4
RoACE	**26.6**	**26.8**	**24.2**	**24.2**	**25.9**	**27.5**	**29.2**

Source: Kotak Institutional Equities estimates

Others

ABAN.BO, Rs702	
Rating	BUY
Sector coverage view	0
Target Price (Rs)	1,700
52W High -Low (Rs)	5555 - 610
Market Cap (Rs bn)	27.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	20.2	38.0	54.8
Net Profit (Rs bn)	1.2	9.8	17.9
EPS (Rs)	72.3	211.1	456.6
EPS gth	-	*192.1*	*116.3*
P/E (x)	9.7	3.3	1.5
EV/EBITDA (x)	11.9	6.4	3.6
Div yield (%)	0.5	1.4	2.1

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	60.9	-	-
FIIs	16.3	0.3	(0.0)
MFs	4.8	0.4	0.1
UTI	-	-	(0.3)
LIC	-	-	(0.3)

Aban Offshore: Idle rigs push down margins in 2QFY09. Reduce TP to 1,700

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- **Revenues in line at Rs8.2 bn; however, idle rigs keep margins low**
- **Revise estimates for lower margins and reduced dayrate estimates**
- **Reduce TP to Rs1,700 to factor in lower earnings and higher WACC**
- **Reiterate BUY on attractive valuations after 37% correction in stock price over past week**

Aban's 2QFY09 results were below our estimates on account of lower margins. Consolidated revenue of Rs8.2 bn (up 73% yoy) was in line with our estimate of Rs8.3 bn. However, EBITDA margin at 56% was below our estimated 65%. Margins were lower on account of costs incurred on the two idle rigs—Aban VII and Murmanskaya which remained uncontracted throughout the quarter. Reported PAT of Rs2.7 bn was higher than our estimate on account of Rs1.4 bn of translation gain on NOK denominated loans. We reduce our EPS estimate for FY2009E by 20% to factor in higher costs for the non-operational rigs and delay in deployment of the deepwater rigs—Aban Abraham and Aban Pearl. We reduce our jackup dayrate assumptions by 5% to factor in softening demand due to the global macroeconomic conditions. We reduce our target price to Rs1,700 (from Rs2,400) to factor in reduced dayrates, lower margins and higher WACC (11.5%).

2QFY09 consolidated results—key highlights

- **Revenues in line with estimates.** Aban reported consolidated revenues of Rs8.2 bn (up 73% yoy) versus our estimate of Rs8.3 bn. Revenues for 1HFY09 were Rs15.7 bn (up 99% yoy). Increase in revenue was primarily driven by new rig addition and weakening exchange rate.
- **Idle rigs pull down EBITDA margins.** EBITDA margin for the quarter was at 56% versus our estimated 65%. Aban's two idle rigs, Aban VII and Murmanskaya, which remained uncontracted throughout the quarter pulled down the EBITDA margins as these rigs continued to incur fixed expenditure without generating any revenues.
- **PAT boosted by forex gain of Rs1.4 bn.** Adjusted PAT for the quarter was at Rs1,282 mn (versus Rs90 mn in 2QFY08). Reported PAT of Rs2.7 bn was largely boosted by forex translation gain of Rs1.4 bn on the outstanding NOK-denominated loans. We consider this as extraordinary and adjust it accordingly. We highlight that Aban had reported Rs1.9 bn of forex translation loss on these loans in FY2008. Adjusted PAT for 1HFY09 was at Rs2,520 mn versus Rs116 mn in 1HFY08.

Reduce estimates for lower margins and lower dayrate assumptions

We reduce our FY2009E EPS estimate by 20% to factor in lower margins. Our FY2010E EPS estimate does not change significantly due to depreciation in exchange rate. We lower our EBITDA margin estimate for FY2009E and FY2010E to 59% and 62.7% from 66% and 67%, respectively (see Exhibit 2). We reduce our dayrate assumptions further by 5% based on recent fixtures and expected demand slowdown due to the global liquidity and funding concerns for the operators. Our revenue estimates for FY2010E and FY2011E is increased marginally on account of sharp depreciation in rupee exchange rate. We also estimate Rs2.1 bn of extraordinary income in FY2009E from the translation gain on the NOK-denominated loans. Aban has hedged 60% of its NOK 1.4 bn bond loans at an exchange rate of NOK7.06/US$.

Valuation becomes attractive as stock price factors in most of the concerns

We believe the 37% correction in the stock price over the past week was an over-reaction to global slowdown concerns. We find current valuations attractive as it prices in most of the concerns on the stock—

1. **Revenue estimates already build in a decline in dayrates.** We have modeled in a 25-30% reduction in jackup dayrates by FY2011E from the peak rates of >US$200,000 per day. We model a further declining trend with a normalized dayrate of US$136,000 to factor in possible demand slowdown and increased supply pressures. Increased liquidity constraints for the operators may lead to cancellation of few of the projects where funding has not been tied up. However, we highlight that due to funding issues some of the newbuild orders may also get cancelled resulting in lower-than-estimated supply.
2. **Oil price correction to impact demand for deepwater assets first.** We highlight that the correction in oil price will mainly impact the marginal exploration programs which were less likely to succeed. These are generally the deepwater projects which require drillships and semi-submersible rigs. Jackup rigs are mainly used in the shallow and mid waters where the projects are viable even at the current oil prices.
3. **High debt leverage.** Aban's high gearing and ability to meet repayment obligations has been a major concern with investors. However, we highlight that Aban's contracted EBITDA/interest ratio of 3X for FY2010E and FY2011E, assure of its interest servicing ability on its large outstanding loan of US$3 bn and its cash flows are sufficient to meet repayment obligations (see Exhibit 3).
4. **Revenue visibility assures of near-term earnings.** We believe Aban's strong revenue visibility with 69% and 59% of FY2010E and FY2011E revenues already contracted provides support to our revenue estimates (see Exhibit 4). Large contract backlog insures the near-term earnings from any sudden decline in dayrates.

Reduce target price to Rs1,700; reiterate BUY on attractive valuations

We reduce our 12-month DCF-based target price to Rs1,700 from Rs2,400 to factor in lower dayrates and reduced margins. We believe possible slowdown in exploration activity and upcoming supply of newbuilds will continue to keep jackup dayrates under pressure. We also increase our WACC assumption to 11.5% from 11% to factor in higher market risk premium and increased cost of debt. We believe the 37% correction in stock price over the past week was an over-reaction to the near-term concerns (see Exhibit 5). We reiterate our BUY rating on the stock as current valuations (1.5X and 3.5X FY2010E EPS and EBITDA) appear attractive.

Exhibit 1: Aban Offshore, interim results (Consolidated), March fiscal year-ends (Rs mn)

	qoq			yoy		Half Yearly		
	2QFY09	1QFY09	Chng. (%)	2Q 2008	Chng. (%)	1H FY09	1H FY08	Chng. (%)
Income from Operations	**8,243**	**7,494**	**10.0**	**4,761**	**73.1**	**15,737**	**7,897**	**99.3**
Total expenditure	**3,638**	**3,479**	**4.6**	**2,252**	**61.5**	**7,117**	**3,967**	**79.4**
Consumption of stores and spares	526	436	20.7	294	78.9	962	549	75.2
Staff cost	838	757	10.7	422	98.5	1,596	778	105.2
Machinery rental	462	153	202.6	130	254.7	615	219	180.6
Repairs to machinery	50	135	(62.7)	46	10.1	185	71	161.8
Insurance	169	134	26.4	149	13.6	303	285	6.6
Other expenses	1,592	1,864	(14.6)	1,211	31.5	3,456	2,066	67.3
EBITDA	**4,605**	**4,016**	**14.7**	**2,509**	**83.5**	**8,620**	**3,931**	**119.3**
Margins (%)	55.9%	53.6%		52.7%		54.8%	49.8%	
Other income	204	208	(2.0)	398	(48.9)	411	868	(52.6)
Depreciation	1,133	932	21.5	450	151.8	2,065	946	118.2
EBIT	**3,676**	**3,291**	**11.7**	**2,458**	**49.6**	**6,967**	**3,852**	**80.8**
Margins (%)	44.6%	43.9%		51.6%		44.3%	48.8%	
Net Interest	2,027	1,590	27.5	2,283	(11.2)	3,618	3,466	4.4
PBT	**1,648**	**1,701**	**(3.1)**	**175**	**843.4**	**3,349**	**387**	**766.1**
Tax	**671**	**608**	**10.3**	**319**	**110.5**	**1,278**	**610**	**109.5**
Profit after tax	**978**	**1,093**	**(10.6)**	**(144)**	**(779.7)**	**2,071**	**(224)**	**NM**
add: share in joint venture	306	145	110.3	234	30.8	451	339	33.0
less: minority interest	(2)	(1)	-	-		(2)	-	
Adjusted PAT	**1,282**	**1,238**	**3.5**	**90**	**NM**	**2,520**	**116**	**NM**
Extra-ordinary items (1)	1,395	-		-		1,395	-	
Reported PAT	**2,677**	**1,238**	**116.2**	**90**	**NM**	**3,915**	**116**	**NM**

Note: (1) Represents translation gain on NOK denominated bonds.

Source: Company, Kotak Institutional Equities.

Exhibit 2: Aban, change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Revenue	38,038	54,783	50,090	38,766	51,171	48,581	(1.9)	7.1	3.1
EBITDA	22,410	34,360	29,902	25,613	34,269	31,016	(12.5)	0.3	(3.6)
EBITDA margin (%)	58.9	62.7	59.7	66.1	67.0	63.8	—	—	—
Adjusted net profit	8,295	17,896	17,010	10,332	17,792	17,771	(19.7)	0.6	(4.3)
Diluted EPS (Rs)	207.5	455.7	432.7	260.2	453.0	452.4	(20.3)	0.6	(4.4)

Source: Kotak Institutional Equities estimates.

Exhibit 3: Strong free cash flow to support debt repayment
Summary cash flow statement of Aban Offshore, March fiscal year-ends, 2009-12E (Rs mn)

	2009E	2010E	2011E	2012E
Free cash flow	**5,784**	**18,902**	**22,297**	**21,383**
less: debt repayment	2,968	(23,830)	(26,604)	(17,849)
Free cash flow less debt repayment	**8,752**	**(4,928)**	**(4,308)**	**3,534**
Dividend payout	(464)	(770)	(1,003)	(1,455)
Preference capital	200	—	—	(2,010)
Net cash flow	**8,488**	**(5,699)**	**(5,311)**	**69**
Opening cash balance	6,453	14,940	9,241	3,930
Closing cash balance	**14,940**	**9,241**	**3,930**	**3,999**

Source: Kotak Institutional Equities estimates

Exhibit 4: Aban, revenue visibility and percentage of rig days uncommitted, March fiscal year-ends 2010-2011E

	2010E	2011E
Revenue visibility (%)		
Jackups	57	42
Semi-submersible	79	76
Drillship	100	95
Total	**69**	**59**
Uncommitted days (%)		
Jackups	46	62
Semi-submersible	47	50
Drillship	—	5
Total	**40**	**52**

Source: Company, Kotak Institutional Equities estimates.

Exhibit 5: Comparative share price performance of global rig companies versus crude oil (%)

	5D	1M	3M	6M	1 Yr	2 Yr	3 Yr
Brent Crude	**1**	**(32)**	**(48)**	**(40)**	**(25)**	**17**	**11**
Aban Offshore	**(37)**	**(66)**	**(72)**	**(79)**	**(84)**	**(26)**	**65**
Noble Corp	13	(34)	(47)	(48)	(43)	(23)	(9)
Diamond Offshore Drilling	32	(18)	(31)	(32)	(23)	(0)	50
Ensco International Inc.	10	(36)	(49)	(42)	(32)	(21)	(3)
Atwood Oceanics Inc.	5	(34)	(50)	(52)	(41)	(53)	(27)
Pride International Inc.	6	(45)	(60)	(62)	(55)	(49)	(39)
Transocean Inc.	6	(34)	(49)	(50)	(40)	(16)	21
China Oilfield	3	(39)	(63)	(70)	(77)	12	54

Source: Bloomberg.

Exhibit 6: Comparative valuation of drilling services companies

	29-Oct-08			Mkt Cap.	EV/EBITDA (X)			PER (X)			CAGR (2 yr) (%)		
Company	Price (local)	Currency	Year-end	(US$ mn)	LFY	FY1	FY2	LFY	FY1	FY2	EPS	Revenue	EBITDA
Aban Offshore	702.0	INR	Mar	543	11.6	6.3	3.6	10.1	3.4	1.5	155.7	64.6	64.5
China Oilfield Services-H	4.3	HKD	Dec	4,920	7.5	5.6	4.4	8.0	6.0	5.1	24.7	29.4	30.0
Atwood Oceanics	24.0	USD	Sep	1,534	7.8	5.4	3.6	10.8	7.3	4.7	51.9	32.5	48.2
Diamond Offshore	85.0	USD	Dec	11,812	8.1	5.3	4.6	13.8	8.7	7.3	37.5	25.9	33.0
Ensco International	37.2	USD	Dec	5,269	3.6	3.1	3.0	5.5	4.5	4.4	11.8	11.8	9.5
Noble Corp.	29.0	USD	Dec	7,810	4.7	3.8	3.0	6.4	5.1	4.0	26.5	18.6	24.6
Pride International	16.2	USD	Dec	2,797	3.3	2.8	2.6	6.2	4.4	4.2	21.9	10.6	11.6
Transocean	73.0	USD	Dec	23,289	11.2	5.3	4.9	5.0	5.0	4.5	4.7	47.4	51.6

Source: Bloomberg, Kotak Institutional Equities estimates for Aban Offshore.

Exhibit 7: Aban Offshore, fleet details

	Contract period		Day rates			
Name	Start date	End date	Currency	Amount	Status	Comments
Fleet- Aban Offshore Ltd.						
Aban-II	26-May-07	25-May-10	INR	3,680,000	Operational	
Aban-III	1-Mar-08	28-Feb-11	USD	156,600	Operational	
Aban-IV	30-Dec-07	29-Dec-10	USD	156,600	Operational	
Aban-V	1-Mar-08	28-Feb-11	USD	156,600	Operational	
Aban-VI	1-Jan-08	1-Jan-14	EUR	62,450	Operational	Current dayrate for first 3 yrs, next 3 yrs to be decided over the course of contract
FPU Tahara	27-Jul-07	27-Jul-09	USD	87,500	Operational	
Drillship Frontier Ice	1-Apr-08	30-Sep-08	USD	43,000	Operational	Contracted with ONGC at Rs6.2 mn / day from Jan '09-Dec '11
Fleet- Aban Singapore Pte Ltd						
Aban-VII					Non-operational	Uncontracted
Aban-VIII	1-Jun-08	30-May-12	USD	199,500	Operational	
Aban Abraham					Under refurbishment	Delivery extended to Oct 2008; contracted for 3 yrs at US$325,000/day for first year and $410,000 thereafter
Aban Pearl	1-Nov-08	30-Oct-13	USD	286,000	Under refurbishment	Delivery by end-Oct 2008, 3% annual increase in day rates
Fleet- Sinvest						
Murmanskaya					Non-operational	Currently under minor repairs and uncontracted
Deep Driller 1	8-May-07	7-May-09	USD	194,000	Operational	
Deep Driller 2	29-Dec-07	30-Jul-08	USD	185,500	Operational	Post July 2008, contracted for 90 days for US$17 mn and 210 days for US$38 mn in Malaysia (~US$185,000/day)
Deep Driller 3	15-Oct-08	30-Oct-12	USD	172,000	Operational	
Deep Driller 4	22-Oct-07	31-Oct-08	USD	197,000	Operational	
Deep Driller 5	1-May-08	31-Dec-08	USD	190,000	Operational	Contracted with Husky Oil at $215,000 for 6 months with 6 months option after current contract
Deep Driller 6					Non-operational	Delivered in mid-October 2008
Deep Driller 7	1-Oct-08	31-Dec-08	USD	200,000	Operational	3 months extension option
Deep Driller 8			USD	200,000	Under construction	Delivery expected in January 2009, contracted at US$200,000 for 150 days with HOEC
Deep Venture	30-Jun-07	31-Jul-09	USD	450,000	Operational	18 month contract with Maersk Oil Angola at US$495,000 / day to begin from July 2009 after completion of current contract

Source: Company, Kotak Institutioanl Equities.

Exhibit 8: Aban, dayrate assumptions, March fiscal year-ends, 2008-2012E (US$/day)

						Contract status		
	2008	2009E	2010E	2011E	2012E	Day rates		End date
Aban India								
Jackups								
Aban-II	91,702	83,211	80,000	82,697	79,455	US$	90,864	25-May-10
Aban-III	66,217	156,600	156,600	156,600	153,468	US$	156,600	28-Feb-11
Aban-IV	82,650	156,600	156,600	155,353	149,139	US$	156,600	29-Dec-10
Aban-V	66,217	156,600	156,600	155,996	155,996	US$	156,600	28-Feb-11
Aban-VI	51,836	98,359	93,675	92,114	87,891	US$	93,051	1-Jan-14
FPU								
Tahara	67,667	87,500	89,164	90,417	93,129	US$	87,500	27-Jul-09
Drillship								
Frontier Ice	42,500	77,390	134,457	138,989	147,597	INR	6,185,000	31-Dec-11
Aban Singapore								
Jackups								
Aban-VII	169,200	165,000	156,750	153,615	153,615	—	—	—
Aban-VIII	—	199,500	199,500	199,500	199,500	US$	214,286	30-May-12
Drillship								
Aban Abraham	—	325,000	388,629	410,000	410,000	US$	410,000	(1)
Semi-submersible								
Aban Pearl	—	286,000	286,000	286,000	286,000	US$	286,000	31-Oct-13
Sinvest								
Jackups								
Murmanskaya (2)	111,667	178,085	161,500	—	—	—	—	—
Deep Driller 1	194,000	194,000	176,651	171,108	162,553	US$	194,000	7-May-09
Deep Driller 2	125,000	185,160	176,029	169,673	156,099	US$	185,500	31-May-08
Deep Driller 3	225,000	198,281	172,000	172,000	172,000	US$	172,000	30-Oct-12
Deep Driller 4	197,000	188,667	168,452	157,206	152,490	US$	197,000	31-Oct-08
Deep Driller 5	205,000	197,456	205,171	173,260	159,399	US$	215,000	31-Dec-09
Deep Driller 6	—	185,000	166,500	158,175	154,221	—	—	—
Deep Driller 7	—	192,092	165,600	160,632	155,813	US$	200,000	31-Dec-08
Deep Driller 8	—	—	183,097	161,020	156,995	US$	200,000	1QFY10E
Deep Venture	450,000	443,857	471,533	495,000	495,000	US$	450,000	31-Jul-09

Note:
(1) 3 yrs contract after delivery, first year at $325,000 and then $410,000 thereafter.
(2) Bareboat charter expiring in Nov '09; we do not expect a renewal.

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 9: Profit model, balance sheet, cash model (consolidated) for Aban Offshore, 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model						
Total income	4,902	7,187	20,211	38,038	54,783	50,090
EBITDA	**2,847**	**3,842**	**12,691**	**22,410**	**34,360**	**29,902**
Interest (expense)/income	(456)	(2,836)	(6,533)	(9,066)	(8,000)	(6,222)
Depreciation	(1,014)	(1,266)	(2,549)	(4,295)	(5,706)	(4,951)
Other income	125	662	733	1,056	1,474	1,357
Pretax profits	**1,502**	**403**	**4,342**	**10,104**	**22,129**	**20,086**
Extra ordinary items	—	—	(2,536)	2,142	—	—
Reported PBT	**1,502**	**403**	**1,807**	**12,246**	**22,129**	**20,086**
Tax	(587)	(665)	(1,514)	(3,721)	(5,595)	(4,655)
Deferred taxation	(91)	(81)	84	96	—	—
Profit after tax	**823**	**(344)**	**377**	**8,622**	**16,535**	**15,430**
Joint venture/ minority	—	204	853	1,173	1,361	1,579
Reported consolidated net profit	**823**	**(140)**	**1,230**	**9,794**	**17,896**	**17,010**
Adjusted net profit	**823**	**(140)**	**2,954**	**8,295**	**17,896**	**17,010**
Diluted earnings per share (Rs)	**19.8**	**(7.5)**	**69.7**	**207.5**	**455.7**	**432.7**
Balance sheet						
Total equity	2,804	2,248	5,063	16,271	33,163	48,718
Preference capital	1,500	3,060	3,060	3,260	3,260	3,260
Deferred taxation liability	656	737	654	558	558	558
Total borrowings	11,098	108,525	130,434	131,218	107,388	80,784
Current liabilities	1,105	6,949	7,517	10,122	10,958	11,150
Total liabilities and equity	**17,163**	**121,520**	**146,727**	**161,428**	**155,327**	**144,469**
Cash	135	13,264	6,453	14,940	9,241	3,930
Other current assets	1,369	5,926	7,637	10,588	15,249	13,861
Goodwill	126	48,063	44,289	44,289	44,289	44,289
Tangible fixed assets	15,340	49,584	81,958	85,219	80,156	75,998
Investments	192	4,683	6,391	6,391	6,391	6,391
Total assets	**17,163**	**121,520**	**146,727**	**161,428**	**155,327**	**144,469**
Free cash flow						
Operating cash flow, excl. working capital	1,866	2,111	3,146	12,435	21,569	20,266
Working capital changes	211	(198)	(1,654)	(653)	(4,058)	1,129
Capital expenditure	(8,404)	(35,697)	(32,638)	(7,557)	(643)	(793)
Investment changes	84	(52,157)	(386)	—	—	—
Other income	65	119	458	1,558	2,033	1,695
Free cash flow	**(6,177)**	**(85,822)**	**(31,074)**	**5,784**	**18,902**	**22,297**
Ratios (%)						
EBITDA margin	58.1	53.5	62.8	58.9	62.7	59.7
Debt/equity	364.1	3,737.3	2,335.1	799.1	328.1	170.6
Net debt/equity	358.9	3,100.3	2,104.8	683.4	287.3	153.4
RoAE	23.8	(4.7)	51.7	49.3	53.1	34.5
RoACE	**8.3**	**(3.8)**	**3.4**	**10.1**	**16.2**	**15.7**

Source: Company data, Kotak Institutional Equities estimates.

Utilities

CESC.BO, Rs174	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	450
52W High -Low (Rs)	715 - 165
Market Cap (Rs bn)	21.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	27.7	29.1	32.3
Net Profit (Rs bn)	3.3	3.5	3.9
EPS (Rs)	27.8	28.2	31.1
EPS gth	*(24.0)*	*1.5*	*10.8*
P/E (x)	6.3	6.2	5.6
EV/EBITDA (x)	3.3	4.0	5.2
Div yield (%)	2.3	2.3	2.8

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.5	-	-
FIIs	23.7	0.2	0.0
MFs	8.7	0.4	0.2
UTI	-	-	(0.1)
LIC	3.8	0.1	(0.0)

CESC: 2QFY09: Benefit from tariff hike aids strong operating performance, reiterate BUY

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- **CESC's operating performance earning RoE of more than 20%**
- **Reported PAT for 2QFY09 builds in benefit of new tariff order for Q1 as well**
- **Core regulated business is insulated from interest rate and forex rate fluctuations**
- **Retain BUY rating with SOTP-based target price of Rs450/share (Rs500/share previously)**

CESC reported sales of Rs7.6 bn (our estimate Rs7.7 bn), EBITDA of Rs1.87 bn (our estimate Rs1.2 bn) and PAT of Rs1.24 bn (our estimate Rs0.65 bn) for 2QFY09. CESC has reduced other expenditure for the quarter by Rs460 mn as adjustment pertaining to the tariff and costs as per the new tariff order. We note the adjustment pertains cumulatively for 1QFY09 as well as 2QFY09. The new order has increased the average tariffs by about Rs0.05/unit which amounts for an estimated additional revenue of Rs202 mn for 1HFY09. We retain our EPS estimates of Rs28.2 for FY2009E and Rs31.1 for FY2010E. We like CESC's regulated power business with high degree of visibility in growth and retain our BUY rating with a revised SOTP-based target price of Rs450/share (Rs500/share previously). In view of the slow progress in land acquisition and clearances, we have removed the proposed power project in Jharkhand from our valuation. However, our SOTP-based target price includes Rs73/share for Haldia project (regulated) where all clearances and 65% land has been acquired and we expect the financial closure and EPC order to take place in a couple of months.

CESC's operating performance earning effective RoE of more than 20%. While number of units generated by CESC declined 1.6% yoy during the quarter, cumulative PLF for the three base load power stations (except New Cossipore) remained above 100%. We estimate the T&D losses to have declined to 14% in 2QFY09 compared to 14.4% in 2QFY08 and 14.2% in 1QFY09. As per the multi-year tariff order for FY2009-11E, CESC now gets to keep part of the savings made by operating better than the stipulated benchmarks. Higher sales of 2,041 MU (7.2% yoy growth) necessitated increased purchase of power (25% yoy growth) and lower export of power. While we estimate number of units exported to have declined 23% yoy during 2QFY09, we believe CESC to have benefited from higher export realizations. CESC benefits from export sales by keeping 40% of profits made from exports sales.

2Q reported profits include gains from new tariff order for 1Q as well. CESC has reduced other expenditure for the 2QFY09 by Rs460 mn as adjustment pertaining to the tariff and costs as per the new tariff order, resulting in a higher-than-estimated EBITDA and net profits. We note the reported sales for 2QFY09 are accounted using the old tariffs as the billing to consumers as per new tariff order will commence from October 2008. The new tariff order has increased the average tariffs by about Rs0.05/unit. The benefit of higher tariffs alone amounts to estimated Rs202 mn for 1HFY09.

Core regulated business is insulated from interest rate and forex rate fluctuations. We value CESC's core power generation-distribution business in Kolkata using DCF-equity at Rs237/share—implied P/B of 2X. We note CESC's regulated power business is insulated from uncertainties inherent in the IPP or the merchant power model—variations in interest rate and forex rates. The ability to sell surplus power from generation assets after meeting the requirements of the distribution business gives CESC the benefit from high merchant rates as well. CESC's regulated power business also offers high growth visibility—reinvestments in upgrading and strengthening the T&D network and periodic generation capacity addition (Budge Budge 3 is under construction and Haldia 1 has most clearances in place). We have not currently built in any incentives or benefit of sale of the surplus generation (export) after commissioning of Budge Budge 3.

Investments in retail business likely to be restricted. We use 1X EV/Sales on FY2008 revenues for valuing CESC's 95% stake in the Spencer retail business at Rs7.3 bn (Rs58/share). Management has indicated a slower rollout plan and limited capex—to reach 1.7 mn sq. ft from the current 1.3 mn sq. ft. It plans to improve profitability by (1) focusing on large formats for growth and (2) closing down unviable and loss-making outlets. During FY2008, Spencer Retail incurred an EBIT loss of Rs1.49 bn on sales of Rs7.68 bn (our estimate of Rs10.4 bn). We do not expect the retail business to report positive EBITDA for another two years.

Reiterate BUY rating with SOTP-based target price of Rs450/share. Our SOTP-based target price of Rs450/share offers 175% upside from the current market price. We note that the stock is currently trading below its FY2008 book value of Rs205/share (net of revaluation reserves). Our value of the stable (and growing) core power business at Rs237/share (book invested Rs119/share) and estimated cash of Rs38/share (Rs4.7 bn) implies the market is giving a negative value for expansion projects (Budge Budge 3 and Haldia 1) and retail business. At the current market price of RS175/share, the stock also offers 2.3% dividend yield.

- **We value the core power generation, transmission and distribution business in Kolkata at Rs237/share** using DCF-equity implying ~2.0X P/B FY2008. We use a cost of equity of 12% and terminal year growth of 2%. We estimate a steady increase in regulated equity base that will drive steady earnings growth apart from step-improvement due to generation capacity addition. CESC has planned a capex of Rs3.5 bn on a transmission capacity of 700 MW that will give an additional interface to the national grid to meet the peak demand of power in Kolkata. CESC plans to spend Rs2 bn per annum for maintenance capex on upgradation and upkeep of its distribution network.
- **New generation projects to provide upside.** We note good visibility in new generation projects for CESC. These include two projects under regulated returns—the under-construction 250 MW at Budge-Budge and 600 MW thermal power project at Haldia. DCF-equity value for these projects contributes Rs102/share to our target price. We note the Budge-Budge expansion and Haldia phase 1 projects have been funded with the equity raised by the company. CESC has also been allocated a coal block in Jharkhand for setting up a 800-1,000 MW power project. We are not including the project for our valuation as the land acquisition and other clearances for the project are taking more time and delaying the project's implementation as compared to our expectations.
- **Stake in Spencer Retail valued at Rs58/share**. We value the retail business at 1X Sales (FY2008) or Rs7.7 bn. For CESC's 95% holding, this translates to Rs58/share. We note management has scaled down its growth capex and is currently focusing on limiting losses by closing down unviable outlets.

- **We value the accretion (net of investments) from real estate projects at Rs1.6 bn (Rs13/share).** The company plans to develop a 0.5 mn sq. ft mall near Park Street, which will be given out on lease. CESC has additional real estate of ~2.5 mn sq. ft at Mulajore (site of its now defunct power plant). We note that CESC has to share 33% gains from real estate with the consumers as a reduction in its Annual Revenue Requirement.

Exhibit 1: Quarterly results for CESC, March year-ends (Rs mn)

		yoy		Our est.		qoq	
	Sep-08	**Sep-07**	***(% chg)***	**Sep-08**	***(% chg)***	**Jun-08**	**(% chg)**
Net sales	**7,550**	**7,300**	***3.4***	**7,696**	***5.4***	**7,830**	***(3.6)***
Operating costs							
Cost of electrical energy purchased	(1,540)	(1,160)	*32.8*	(1,738)		(1,250)	*23.2*
Cost of fuel	(2,480)	(2,240)	*10.7*	(2,461)		(2,440)	*1.6*
Personnel costs	(830)	(740)	*12.2*	(800)		(780)	*6.4*
Other expenses and provisions	(830)	(1,750)	*(52.6)*	(1,500)		(2,140)	*(61.2)*
Total operating expense	(5,680)	(5,890)	*(3.6)*	(6,499)		(6,610)	*(14.1)*
EBITDA	**1,870**	**1,410**	***32.6***	**1,197**	***(15.1)***	**1,220**	***53.3***
EBITDA margin (%)	24.8	19.3		15.5		15.6	
Depreciation	(430)	(400)		(430)		(420)	
EBIT	**1,440**	**1,010**	***42.6***	**767**	***(24.1)***	**800**	***80.0***
Other income	310	260		300		475	
Interest	(350)	(340)		(320)		(320)	
PBT	**1,400**	**930**	***50.5***	**747**	***(19.7)***	**955**	***46.6***
Tax	(160)	(120)		(94)		(130)	
Net profit	**1,240**	**810**	***53.1***	**653**	***(19.4)***	**825**	***50.3***
Extraordinary income/ (expenses)	—	120		—		115	
Key operating parameters							
Units generated - gross (MU)	2,049	2,082	*(1.6)*	2,092	*0.5*	2,057	*(0.4)*
Units purchased (MU)	506	404	*25.2*	572	*41.5*	445	*13.7*
Units sold-domestic (MU)	2,041	1,905	*7.2*	1,981	*4.0*	1,993	*2.4*
Units exported (MU) -est.	33	43	*(23.4)*	43	—	30	*9.2*
Fuel cost per unit generated (net)	1.3	1.2	*12.5*	1.3	9.4	1.3	*2.0*
Per unit cost of power purchased	3.0	2.9	*6.0*	3.0	5.9	2.8	*8.3*

Source: Company data, Kotak Institutional Equities.

Exhibit 2: CESC Sum-of-the-parts valuation

	Methodology	Key assumptions				Per share value (Rs)
Kolkata generation, transmission & distribution	**DCF to equity** Disc. rate: 12% Terminal year growth: 2%	The business enjoys very high predictability of cash flows. The value enhancement on account of 250 MW expansion at Budge Budge captured separately				237
Real-estate	**DCF** Disc. rate: 15% Terminal year growth: 5%	**Mall**		**35 acre land at Mulajore**		13
		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 (%)	5			
		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			2
Cash and investible surplus on books	**Market value**	Marketable securities & cash on books (Rs bn):	16.8			38
		Regulatory liability/unallocable debt (Rs bn)	-3.6			
		Cash required for Budge Budge 3, Haldia 1	-8.5			
			4.7			
Retail	**EV/Sales (X)**	1X on FY2008 sales, as the company is still in the rollout phase				58
Budge Budge 3rd unit 250 MW	DCF to equity Disc. rate: 12%	Regulated returns-P/B of 1.4X based on our DCF-to-equity				29
Haldia - 1st unit 600 MW	DCF to equity Disc. rate: 12.5%	Regulated returns-P/B of 1.37X based on our DCF-to-equity				73
SOTP value						**451**

Source: Kotak Institutional Equities estimates.

Exhibit 3: CESC: Profit model, balance sheet, cash model 2007-2011E, March fiscal year-ends (Rs mn)

	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)					
Net sales	24,843	27,750	29,129	32,295	36,059
EBITDA	**6,364**	**6,045**	**5,983**	**6,612**	**7,965**
Other income	927	1,285	1,516	1,873	2,185
Interest	(2,305)	(1,885)	(1,699)	(1,818)	(2,720)
Depreciation	(1,579)	(1,685)	(1,773)	(2,156)	(2,540)
Pretax profits	3,407	3,760	4,027	4,511	4,889
Tax	(400)	(476)	(506)	(623)	(821)
Deferred taxation	0	0	0	0	0
Net profits	**3,007**	**3,285**	**3,521**	**3,888**	**4,068**
Extraordinary items	0	269	115	0	0
Earnings per share (Rs)	**36.2**	**27.8**	**28.2**	**31.1**	**32.6**
Balance sheet (Rs mn)					
Total equity	16,526	25,713	28,756	31,923	35,149
Capital contribution from consumers	3,408	4,008	3,408	3,408	3,408
AAD	1,005	1,980	2,759	3,494	3,767
Deferred taxation liability	0	0	0	0	0
Total borrowings	17,983	16,288	21,064	32,533	46,095
Currrent liabilities	16,350	19,559	18,842	20,114	21,542
Total liabilities and equity	**55,271**	**67,548**	**74,830**	**91,472**	**109,961**
Cash	7,314	9,864	11,009	9,659	7,974
Current assets	8,110	9,752	7,759	8,448	9,237
Total fixed assets	37,340	42,148	50,285	67,596	86,989
Investments	2,414	5,697	5,697	5,697	5,697
Deferred expenditure	93	86	79	72	65
Total assets	**55,271**	**67,548**	**74,830**	**91,472**	**109,961**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	4,529	5,296	6,189	6,779	6,882
Working capital	4,297	1,509	1,276	583	639
Capital expenditure	(3,645)	(6,493)	(9,910)	(19,467)	(21,934)
Investments	(2,093)	(2,301)	7	7	7
Free cash flow	**3,089**	**(1,989)**	**(2,438)**	**(12,097)**	**(14,406)**

Source: Company data, Kotak Institutional Equities estimates.

Property

SOBH.BO, Rs109	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	250
52W High -Low (Rs)	1050 - 100
Market Cap (Rs bn)	8.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	14.3	17.7	22.0
Net Profit (Rs bn)	2.3	2.2	2.4
EPS (Rs)	31.7	30.2	33.2
EPS gth	*42.9*	*(4.7)*	*9.8*
P/E (x)	3.4	3.6	3.3
EV/EBITDA (x)	6.9	6.0	5.8
Div yield (%)	5.9	3.7	3.7

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	87.0	-	-
FIIs	6.0	0.0	0.0
MFs	0.8	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Sobha Developers: 2QFY09 results disappointing; maintain REDUCE

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- **2QFY09 revenues and PAT were 21% and 14% below estimates respectively**
- **2QFY09 revenues down 14% qoq and 9% yoy**
- **Maintain our REDUCE rating with a target price of Rs250/share; will revisit assumptions post availability of further details/conference call**

Sobha Developers reported operating revenues of Rs3 bn (versus our expectation of Rs3.8 bn) and PAT of Rs490 mn (versus our expectation of Rs571 mn) for 2QFY09. We highlight that the operational performance has been affected by lower demand arising due to price increases in 1QFY09. Sobha further attracted an additional FDI investment of US$10 mn for its Bangalore project for from M/s Pan Atlantic LLC. Sobha launched two new projects—Sobha City (Thrissur, Kerala) and Sobha Scarlet (Mysore)—in 2QFY09. We believe the demand scenario will continue to be weak in Bangalore in the current scenario and prices have to come down for sales to pick up. We maintain our REDUCE rating on the stock with a target price of Rs250/share. We will revisit our assumption post availability of further details/conference call.

Disappointing results; reflects weak demand in Bangalore

Sobha announced revenues of Rs3 bn (versus our expectation of Rs3.8 bn) and PAT of Rs490 mn (versus our expectation of Rs571 mn). We note that revenues were down 14% qoq and down 9% yoy reflecting that demand has considerably weakened post the price increase in the last quarter. We note that Sobha had increased prices in Bangalore by 7-10% for its projects as decided by Karnataka chapter of the Confederation of Real Estate Developers' Associations of India (Credai). We continue to be concerned about the lower affordability on account of higher interest rates and selling prices and expect further disappointment in sales volumes.

On the operational front, Sobha had two new launches in 2QFY09—(1) 40 premium villas in the second phase of Sobha City in Thrissur, Kerala and (2) Sobha Scarlet in Mysore to be developed over 14.2 acres. We note that there were no new launches in Bangalore.

Balance sheet leverage of Sobha is a matter of concern

Sobha reported EBIDTA of Rs0.9 bn for 2QFY09 and Rs2 bn for 1HFY09. This results in annualized debt/EBIDTA of 4.5 which is stretched, in our view. We would positively view any steps taken by Sobha to deleverage its balance sheet. Sobha's board has approved the rights issue of Rs3.5 bn The pricing for the issue has not yet been declared by the board. Sobha also announced another FDI of US$10 mn by M/s Pan Atlantic LLC, Dubai for its 1.7 mn sq. ft residential township project at Hosahalli, Bangalore South. M/s Pan Atlantic LLC had invested US$10 mn in the same project for a 40% stake in 1QFY09.

We would highlight that ROCE of Sobha has been on a declining trend for the past two years with ROCE dipping significantly to 13.3% in FY2008. We note that rights issue is unlikely to change the capital efficiency of Sobha. It can achieve better capital efficiency in case it starts monetizing the large accumulated land bank.

We maintain our REDUCE rating with target price of Rs250/share

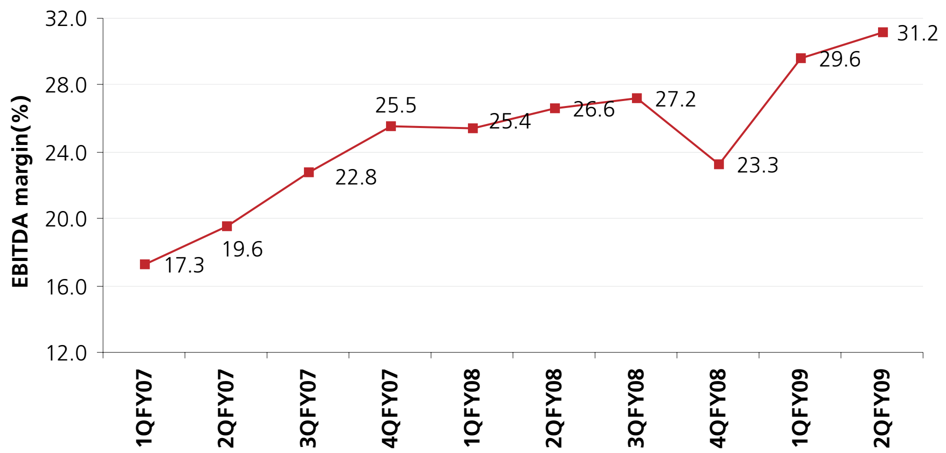
Our target price of Rs250/share is based on a 50% discount to our March 2009-based NAV of Rs502/share. We have a discount to 50% on account of (1) high leverage of 1.9X as of June 2008 compared to 0.7X as of March 2007 in a tight liquidity environment, (2) cost pressures in contractual business, (3) lower capital efficiency ratios, (4) possibility of further disappointment in sale volumes and (5) decreasing affordability in Bangalore. We would revisit our assumptions post company's presentation and conference call.

Sobha Developers :2QFY2009 results

				% change		Kotak estimates				Change (%)
(in Rs mn)	2QFY2008	1QFY2009	2QFY2009	qoq	yoy	2QFY09	deviation	FY08A	FY09E	FY09/FY08
Net sales	**3,309**	**3,481**	**3,002**	**(13.8)**	**(9.3)**	**3,785**	**(20.7)**	**14,226**	**17,769**	**24.9**
Operating costs	**(2,429)**	**(2,452)**	**(2,066)**	**(15.7)**	**(14.9)**	**(2,679)**	**(22.9)**	**(10,689)**	**(13,533)**	**26.6**
(Increase)/Decrease intock in inventories	1,840	514	237	(53.9)	(87.1)			4,063		
Land cost expenses	(1,561)	(748)	(53)	(92.9)	(96.6)			(3,900)	(1,226)	
Construction expenses & raw materials	(2,065)	(1,370)	(1,633)	19.2	(20.9)			(7,887)	(9,082)	
Staff cost	(247)	(331)	(188)	(43.2)	(23.9)			(1,025)	(1,181)	
Other administrative expenses	(396)	(517)	(429)	(17.0)	8.3			(1,940)	(2,043)	
EBITDA	**880**	**1,029**	**936**	**(9.0)**	**6.4**	**1,105**	**(15.3)**	**3,537**	**4,237**	**19.8**
Other income	21	7	19	171.4	(9.5)	12		119	62	(48.0)
Interest costs	(133)	(267)	(285)	6.7	114.3	(281)		(597)	(1,040)	74.2
Depreciation	(88)	(89)	(89)	0.0	1.1	(102)		(350)	(407)	16.2
PBT	**680**	**680**	**581**	**(14.6)**	**(14.6)**	**735**		**2,709**	**2,852**	**5.3**
Taxes	(118)	(175)	(91)	(48.0)	(22.9)	(164)		(426)	(608)	42.6
PAT	**562**	**505**	**490**	**(3.0)**	**(12.8)**	**571**	**(14.2)**	**2,283**	**2,244**	**(1.7)**
Key ratios										
EBITDA margin (%)	26.6	29.6	31.2			29.2		24.9	23.8	
PAT margin (%)	17.0	14.5	16.3			15.1		16.0	12.6	
Effective tax rate (%)	17.4	25.7	15.7			22.3		15.7	21.3	

Source: Company data, Kotak Institutional Equities estimates.

EBITDA margins have been volatile



Source: Company, Kotak Institutional Equities.

We estimate March 2009-based NAV at Rs502/share

	March '09 based NAV Growth rate in selling prices			
	0%	**3%**	**5%**	**10%**
Valuation of land reserves	**26**	**39**	**49**	**76**
Residential projects	28.2	34.1	38.4	50.3
Commercial projects	(1.9)	2.9	6.4	16.9
Retail projects	(0.2)	2.2	3.9	8.8
Less: Land cost to be paid	(7)	(7)	(7)	(7)
Less: Net debt	(19)	(19)	(19)	(19)
Add: Contractual business	5	5	5	5
Add: Balance 60 mn sq. ft (at avg. cost of Rs150/sq. ft)	9	9	9	9
NAV	**14**	**27**	**37**	**64**
Total no. of shares (mn)				73
NAV/share				**502**
Target price @50% discount to NAV				**251**

Source: Kotak Institutional Equities estimates.

Property

UNTE.BO, Rs51	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	190
52W High -Low (Rs)	547 - 27
Market Cap (Rs bn)	82.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	43.7	55.1	72.1
Net Profit (Rs bn)	15.7	19.5	24.4
EPS (Rs)	9.7	12.0	15.0
EPS gth	*20.3*	*24.5*	*24.7*
P/E (x)	5.2	4.2	3.4
EV/EBITDA (x)	5.6	4.6	3.8
Div yield (%)	2.0	4.0	7.9

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.6	-	-
FIIs	5.4	0.2	(0.6)
MFs	0.5	0.1	(0.7)
UTI	-	-	(0.8)
LIC	1.3	0.3	(0.5)

Unitech: Telenor to acquire 60% stake in Unitech Wireless; will revisit valuations post quarterly results

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- **Telenor to invest Rs61.2 bn for a 60% stake in Unitech Wireless**
- **Telenor management indicated that Unitech Wireless would incur a capex of US$2 bn for the first 3 years**
- **Unitech management indicated it would get back shareholder's loan of Rs7.8 bn from Unitech Wireless; we would revisit our assumptions post the quarterly results**

Telenor will invest Rs61.2 bn for a 60% stake in Unitech Wireless, the telecom subsidiary of Unitech, subject to regulatory approvals. Unitech Wireless has pan-Indian telecommunications licenses in all 22 telecom circles, and plans to launch its services by mid-2009. Telenor is a US$8.5 bn market cap. company with CY2008E revenues of US$13.6 bn and EBITDA of US$4.2 bn. Our telecom analyst sees a tough environment for the new operators and believes intensified competition will likely lead to further deterioration in industry dynamics. Unitech had invested Rs1.4 bn as paid-up capital and Rs7.8 bn as shareholder's loan in Unitech Wireless. Unitech management has indicated that shareholder's loan given to Unitech Wireless would flow back to Unitech. We would revisit our valuations/rating post the 2QFY09 results today.

Key highlights of the deal

Norwegian telecom operator, Telenor, has entered into a definitive agreement to subscribe to new shares in Unitech Wireless for Rs61.2 bn to acquire a 60% stake in Unitech Wireless. The transaction values (pre-money) Unitech Wireless at an EV of US$1.1 bn and equity value of US$860 mn (Rs26/share of Unitech). Implied equity valuation of Rs26/share for Unitech is in line with our estimates. Unitech Wireless is a greenfield telecom operator, which has pan-Indian Unified Access Services (UAS) licenses in all the 22 telecom circles (see Exhibit 1).

The initial equity injection in Unitech Wireless will be made in four tranches to be completed before the end of September 2009. Telenor will invest US$250 mn in the first tranche of equity upon closing of the deal which is expected by end-2008 post all regulatory approvals. Telenor intends to secure funding by raising approximately NOK12 bn (US$1.7 bn) through a rights issue in 1QCY09. We highlight that the Norway government holds 53% stake in Telenor and hence the Norwegian government will have to put forward a parliamentary proposition to participate for its pro-rata share of the rights issue.

Business case for Telenor—highlights from conference call, views from our telecom analyst

Telenor is a Norwegian telecom operator with more than 150 mn mobile subscribers worldwide and has mobile operations in Norway, Denmark, Sweden, Ukraine, Hungary, Montenegro, Thailand, Malaysia, Bangladesh and Pakistan. Telenor management indicated that it intends to have a mix of telecom markets that are in different stages of evolution—cashflow generation, revenue generation and subscriber growth. Indian market will contribute to subscriber growth and will slowly move up the hierarchy over the next five years (see Exhibit 2).

Key highlights from Telenor presentation

- Unitech Wireless plans to launch its services in mid-CY2009. The company would lease passive infrastructure from third-party providers.
- Telenor indicated it would incur a capex of US$2 bn for the first three years. Assuming very little capex on passive infrastructure, we believe Unitech Wireless can create capacity for 35 mn subs with US$2 bn capex.
- We find the EBITDA break-even target of three years from the date of launch aggressive. We highlight that Idea has struggled to achieve EBITDA break-even in circles in which it launched operations two years back and without sharing passive infrastructure (rentals get included above the EBITDA line instead of depreciation). Higher penetration, increased competition and poor quality of incremental subs will make this assumption challenging.
- The management also indicated it would focus on 2G services and does not intend to participate in the forthcoming 3G auction process.
- The board of Unitech Wireless would be restructured with four members from Telenor and three from Unitech.
- Long-term ambition—8% subscriber market share, 30% EBITDA margins and 20% operating cash flow margin

Views from our telecom analyst. We continue to believe that the business case for new players is extremely weak. We expect incumbents like Bharti to respond aggressively through tariff cuts. Exhibit 3 gives our estimate of the minimum RPM required by a new operator to earn its cost of capital—note that we make some generous assumptions in computing this number (capex per sub of US$60 effectively giving a new operator the benefit of scale from day one, high MOUs of 500/sub/month, etc.). Even with this set of assumptions, we believe that a new operator will need an RPM of Rs0.67/min to break even (earn an ROIC of 15%, our assumed WACC for a new player). We highlight that Bharti reported an RPM of Rs0.66 for 1QFY09. We therefore do not see a new operator creating value by competing on price/tariffs to gain subs market share. In addition, we highlight that even some of the existing operators have found break-even difficult. Idea has struggled to achieve its stated break-even targets in the three new circles it entered in 2006; even TTSL has not been able to break even at the net income level several years after launching nation-wide operations.

…**however, new players can (and likely will) spoil the party further for incumbents**. We do not see a viable business case for a majority of the likely new entrants but their entry will deteriorate the industry dynamics further. We emphasize again that the new players need not be successful to be disruptive. The price-sensitivity of the Indian wireless customer will likely lead to further tariff competition once the new players roll out. Price competition could come in the form of introduction of attractive bucket plans (unlimited on-net calls, and fixed off-net minutes for a fixed commitment) at low price-points as new operators look to leverage their empty network to gain subscribers. We, therefore, continue to remain cautious on our as well as street's ARPU/ EPM estimates for the telecom players.

Unitech to benefit from return of Rs7.8 bn; revisit rating and target price post results

Unitech had invested Rs1.4 bn as paid-up capital and Rs7.8 bn as shareholder's loan in Unitech Wireless. Unitech management has indicated that the shareholder's loan given to Unitech Wireless would flow back to Unitech and we believe this would improve the leverage position of Unitech. We would revisit our target price and rating for Unitech post the 2QFY09 earnings announcement today.

Details of LOIs issued by DOT to various players

	Unitech	Shyam Telelink	Datacom	Loop Telecom (a)	S Tel	Idea Cellular	Swan Telecom	TTSL	Total	Existing # of players (b)	Potential total number of players (c)	Status of spectrum for Unitech
Metro												
Calcutta	✓	✓	✓	✓		✓		Existing	-	6	6	Awaited
Chennai	✓	✓	✓	✓		✓	✓	Existing	-	6	6	Received
Delhi	✓	✓	✓	✓		Existing	✓	Existing	1	6	7	Awaited
Mumbai	✓	✓	✓	Existing		Spectrum	✓	Existing	-	7	7	Received
Circle A												
Andhra Pradesh	✓	✓	✓	✓		Existing	✓	Existing	1	6	7	Received
Gujarat	✓	✓	✓	✓		Existing	✓	Existing	-	6	6	Received
Karnataka	✓	✓	✓	✓		✓	✓	Existing	-	6	6	Received
Maharashtra	✓	✓	✓	✓		Existing	✓	Existing	1	6	7	Received
Tamil Nadu	✓	✓	✓	✓		✓	✓	Existing	-	6	6	Received
Circle B												
Haryana	✓	✓	✓	✓		Existing	✓	Existing	1	6	7	Awaited
Kerala	✓	✓	✓	✓		Existing	✓	Existing	-	6	6	Received
Madhya Pradesh	✓	✓	✓	✓		Existing		Existing	-	6	6	Received
Punjab	✓	✓	✓	✓		✓	✓	Existing	-	7	7	Received
Rajasthan	✓	Existing	✓	✓		Existing	✓	Existing	-	7	7	Awaited
Uttar Pradesh (east)	✓	✓	✓	✓		Existing	✓	Existing	-	6	6	Received
Uttar Pradesh (west)	✓	✓	✓	✓		Existing	✓	Existing	-	6	6	Received
West Bengal and A&N islands	✓	✓	✓	✓		✓		Existing	-	7	7	Awaited
Circle C												
Assam	✓	✓	✓	✓	✓	✓		✓	-	4	4	Awaited
Bihar	✓	✓	✓	✓	✓	Spectrum		Existing	-	7	7	Received
Himachal Pradesh	✓	✓	✓	✓	✓	Existing		Existing	-	7	7	Awaited
North East	✓	✓	✓	✓	✓	✓		✓	-	4	4	Awaited
Orissa	✓	✓	✓	✓	✓	✓		Existing	-	6	6	Received
J&K	✓	✓	✓	✓	✓	✓		✓	-	3	3	Awaited
Total # of LOIs	-	-	-	-	-	-	-	-				
Current presence + already held LOIs	-	1	-	1	-	13	-	20				

Note:
(a) Earlier Shippingstop.com, a part of the Essar group, per press reports.
(b) Treating RCOM GSM and CDMA as separate players.
(c) Factoring in only the LOIs issued thus far.

Source: DoT, Kotak Institutional Equities estimates

Telenor's business model-country portfolio

	1998	2004	2008
Cash flow generation	Norway	Norway	Ukraine, Norway, Hungary, Serbia, Malaysia
Revenue generation		Hungary, Ukraine	Thailand, Bangladesh
Subscriber growth	Ukraine, Hungary, Bangladesh	Thailand, Malaysia, Bangladesh, Pakistan	**India**, Pakistan

Source: Company

Scale efficiencies critical to generate returns in the Indian wireless space

Item		Comments
Capex per subscriber (US$)	60	Only active capex; assuming passive infra leasing model
Target ROIC (%)	15	Close to a new operator's cost of capital
Target EBIT*(1-tax rate) (US$)	9.0	
Tax rate (%)	20.0	
Target EBIT (US$)	11.3	
Depreciation (US$)	6.0	Assuming depreciation over 10 years
Target EBITDA (US$)	17.3	
Target EBITDA/month (US$)	1.4	
Target EBITDA/month (Rs)	61.8	
Assumed MOU (min/month)	500	Bharti's MOU for 1QFY09 - 534
Target EBITDA per min (Rs)	0.12	
Bharti's cost per min 1QFY09 (Rs/min)	0.44	
Minimum RPM required (Rs/min)	0.57	Assuming a new operator' CPM same as Bharti's
Realistic RPM required (Rs/min)	0.66	Assuming a new operator' CPM 20% higher than Bharti
Bhartis RPM 1QFY09 (Rs/min)	0.66	
Bharti's incremental RPM 1QFY09 (Rs/min)	0.31	
Idea's incremental RPM 1QFY09 (Rs/min)	0.36	

Source: Kotak Institutional Equities

Wireless operators in India

	Bharti	Reliance	BSNL	VOD	IDEA	TTSL	Aircel	MTNL	Spice	BPL	Others	Total	Penetration
Total subs - September 2008	77,479	56,056	39,167	54,625	30,380	24,756	13,878	3,783	3,600	1,664	346	305,735	(%)
Current mobile market share (%)	25.3%	18.3%	12.8%	17.9%	9.9%	8.1%	4.5%	1.2%	1.2%	0.5%	0.1%	100%	27.4
Circle-wise subscribers ('000)													
Metro													
Calcutta	2,053	2,258	1,107	2,302		1,187	251					9,157	53.2
Chennai	1,980	1,265	989	1,428		272	2,164					8,098	108.0
Delhi	4,255	2,879		3,602	2,189	3,471		1,778				18,174	87.3
Mumbai	2,615	3,264		3,960	100	1,634		2,006		1,664		15,243	67.3
Circle A													
Andhra Pradesh	7,480	4,584	2,500	3,227	4,204	2,416						24,412	30.0
Gujarat	3,548	2,799	2,238	6,921	3,220	916						19,641	35.0
Karnataka	8,481	3,074	1,835	3,250		913			1,426			18,978	33.1
Maharashtra	4,786	3,411	3,345	3,522	6,001	2,892						23,956	27.7
Tamil Nadu	4,961	3,068	2,506	4,181		520	6,192					21,429	35.7
Circle B													
Haryana	1,126	1,141	1,257	1,667	1,285	979						7,454	38.5
Kerala	1,928	2,388	2,283	2,513	3,625	592						13,329	39.4
Madhya Pradesh	3,770	5,020	2,124		4,001	847						15,762	17.4
Punjab	3,404	1,218	2,213	1,844		921			2,174		288	12,062	43.9
Rajasthan	5,403	2,095	2,460	3,928	1,034	1,899					58	16,876	26.6
Uttar Pradesh (east)	4,842	3,534	4,601	5,013	1,388	1,102						20,480	16.7
Uttar Pradesh (west)	1,897	2,677	2,189	3,548	3,227	1,640						15,179	21.1
West Bengal and A&N islands	2,721	2,458	1,548	3,650		760	863					12,000	17.0
Circle C													
Assam	1,141	1,182	897	7			1,428					4,655	16.0
Bihar	5,948	4,755	1,986			1,159	1,055					14,904	12.2
Himachal Pradesh	861	848	570		105	121	86					2,591	39.2
North East	713	400	537	3			783					2,437	17.5
Orissa	2,297	1,738	1,136	61		517	625					6,373	16.1
J&K	1,270		846				431					2,548	22.5

Existing operations

Licenses acquired - operations to begin

(a) Shyam Group is left with the CDMA mobile business in Rajasthan after it sold off the GSM business to Bharti in May 2004

Source: COAI, AUSPI, Compiled by Kotak Institutional Equities.

Indian telecom companies valuation analysis, March fiscal year-ends, 2006-2010E

	Price (Rs)	Target price	P/E (X)					EV/EBITDA (X)				
	29-Oct-08	(Rs)	2006	2007	2008	2009E	2010E	2006	2007	2008	2009E	2010E
Bharti	616	840	57.7	28.8	17.5	13.1	10.8	29.3	16.3	10.6	7.8	**5.9**
Idea	39	70	43.6	17.4	9.8	11.9	11.2	12.3	8.5	7.1	5.0	**4.6**
MTNL	60	100	9.0	7.4	9.9	9.2	8.5	2.4	2.3	(1.1)	(1.2)	**(1.0)**
RCOM	194	390	89.4	13.7	7.7	6.8	5.6	19.8	8.7	6.1	5.4	**4.3**
TCOM	411	370	22.1	23.9	37.6	30.3	29.3	12.1	11.7	19.5	14.9	**13.3**

	KS	Market cap.	Revenues (Rs bn)					EBITDA (Rs bn)				
	rating	(US$ bn)	2006	2007	2008	2009E	2010E	2006	2007	2008	2009E	2010E
Bharti	BUY	24.2	117	184	270	380	491	42	74	113	157	201
Idea	REDUCE	2.1	30	44	67	106	161	11	15	23	29	40
MTNL	REDUCE	0.8	55	49	47	47	49	7	8	8	7	8
RCOM	SELL	8.2	106	145	191	243	311	23	57	82	102	133
TCOM	REDUCE	2.4	38	40	33	38	42	9	9	6	8	9

	Net income (Rs bn)					EPS (Rs)				
	2006	2007	2008	2009E	2010E	2006	2007	2008	2009E	2010E
Bharti	20	41	66	88	107	10.7	21.4	35.3	47.0	57.0
Idea	2	5	10	11	11	0.9	2.2	3.9	3.3	3.4
MTNL	4	5	3	3	4	6.6	8.0	6.0	6.5	7.0
RCOM	5	31	54	62	75	2.2	14.2	25.0	28.6	34.8
TCOM	5	5	3	4	4	18.6	17.2	10.9	13.6	14.0

Source: Bloomberg, Kotak Institutional Equities estimates

Summary financials of Telenor, December fiscal year-ends, 2005-09E, US$ mn

	2006	2007	2008E	2009E
Revenues	15,018	16,808	13,636	14,153
EBITDA	5,421	5,311	4,212	4,456
EBIT	3,046	2,924	2,263	2,444
Net income	2,281	2,640	2,183	2,194
Net debt	6,945	7,200	5,767	5,502
Market cap	8,461			

Source: Bloomberg

Our March 2009-based NAV for Unitech is Rs190/share

	March '09 based NAV Growth rate in selling prices per annum		
	0%	3%	10%
Valuation of land reserves	**233.8**	**286.9**	**440.2**
Residential projects	117	153	261
Commercial projects	61	68	86
Retail projects	55	65	93
Add: Hotel business	15	15	15
Add: Construction business	10	10	10
Add: Investments as on March 31, 2008	15	15	15
Add: Consultancy fees received from Unitech Corporate Parks, JVs	10	10	10
Less: Customer advances	(20)	(20)	(20)
Less: Net debt as on March 31, 2008	(55)	(55)	(55)
Less: Land cost to be paid as on March 31, 2008	(30)	(30)	(30)
NAV (Rs bn)	**178**	**231**	**385**
NAV/share (Rs)	**110**	**143**	**237**
Option value for telecom business of Rs25/share	**41**	**41**	**41**
Total no. of shares (mn)			1,624
Valuation/share (Rs)			**192**

Source: Kotak Institutional Equities estimates.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	29-Oct-08		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Automobiles																													
Bajaj Auto	531	ADD	76,834	1,552	145	59.3	65.9	69.8	(53.4)	11.0	5.9	9.0	8.1	7.6	6.3	5.9	5.5	4.8	3.8	3.1	3.8	3.8	3.8	21.0	42.6	36.5	610	14.9	—
Hero Honda	769	REDUCE	153,569	3,102	200	48.5	56.8	63.2	12.8	17.2	11.3	15.9	13.5	12.2	10.0	9.0	8.3	4.9	4.1	3.4	2.5	2.6	2.6	34.0	33.1	30.4	770	0.1	9.3
Mahindra & Mahindra	302	ADD	77,959	1,575	258	38.1	27.5	25.3	(2.0)	(27.7)	(8.0)	7.9	11.0	11.9	6.3	9.2	8.2	1.8	1.4	1.2	3.6	3.1	3.2	27.8	18.2	14.0	410	35.7	5.9
Maruti Suzuki	543	REDUCE	156,884	3,169	289	59.9	50.3	57.5	10.8	(16.0)	14.4	9.1	10.8	9.4	5.2	5.8	4.9	1.8	1.6	1.4	0.9	0.9	0.9	22.2	15.7	15.6	650	19.7	16.0
Tata Motors	160	SELL	92,889	1,876	581	47.4	25.1	22.3	0.9	(47.1)	(10.9)	3.4	6.4	7.2	4.2	5.3	5.7	1.0	0.4	0.5	6.2	8.0	8.0	24.3	9.8	7.4	425	166.0	10.2
Automobiles		**Cautious**	**558,136**	**11,274**					**(0.8)**	**(12.6)**	**3.1**	**8.5**	**9.8**	**9.5**	5.8	6.6	6.2	**2.1**	**1.4**	**1.3**	**3.0**	**3.2**	**3.3**	**24.4**	**14.4**	**13.2**			
Banks/Financial Institutions																													
Andhra Bank	41	REDUCE	19,861	401	485	11.9	11.6	12.1	7.0	(2.4)	4.7	3.5	3.5	3.4	—	—	—	0.6	0.6	0.5	9.8	7.1	7.4	18.0	16.3	15.3	65	58.7	0.8
Axis Bank	527	REDUCE	188,459	3,807	358	32.2	39.7	51.8	37.7	23.2	30.5	16.3	13.3	10.2	—	—	—	2.3	2.0	1.8	1.1	1.4	1.9	17.6	15.2	17.5	750	42.4	69.4
Bank of Baroda	242	ADD	88,476	1,787	366	39.3	40.9	43.7	39.8	4.1	6.8	6.2	5.9	5.5	—	—	—	1.0	0.9	0.8	3.3	3.4	3.7	14.6	13.0	12.7	330	36.3	9.0
Bank of India	222	BUY	116,963	2,363	526	40.6	48.0	46.3	76.6	18.2	(3.6)	5.5	4.6	4.8	—	—	—	1.5	1.1	0.9	1.8	2.3	2.2	27.6	25.4	20.1	370	66.4	22.2
Canara Bank	158	REDUCE	64,596	1,305	410	38.2	40.0	38.3	10.1	4.8	(4.3)	4.1	3.9	4.1	—	—	—	0.9	0.7	0.6	5.1	3.8	3.8	15.0	14.7	12.6	220	39.6	3.9
Central Bank of India	34	SELL	13,781	278	404	11.6	9.4	17.1	(24.6)	(18.6)	81.0	2.9	3.6	2.0	—	—	—	0.7	0.4	0.4	5.9	—	—	15.3	11.6	16.7	55	61.3	0.4
Corporation Bank	205	ADD	29,362	593	143	51.3	48.7	55.5	37.2	(5.0)	13.9	4.0	4.2	3.7	—	—	—	0.7	0.6	0.5	5.1	4.9	5.6	18.4	15.5	15.7	355	73.4	0.5
Federal Bank	121	BUY	20,738	419	171	34.4	26.6	29.8	0.5	(22.7)	12.2	3.5	4.6	4.1	—	—	—	0.5	0.5	0.4	3.3	4.1	4.6	13.6	11.1	11.4	300	147.4	1.4
Future Capital Holdings	177	BUY	11,159	225	63	(4.5)	4.5	28.8	(689.8)	(198.6)	546.1	(39.1)	39.7	6.1	—	—	—	1.5	1.5	1.2	—	—	—	(6.7)	3.8	21.4	440	149.3	0.9
HDFC	1,505	ADD	431,837	8,723	287	85.8	78.0	97.1	38.2	(9.0)	24.5	17.5	19.3	15.5	—	—	—	3.6	3.1	2.8	1.6	1.6	1.9	27.8	17.4	18.9	2,200	46.2	72.9
HDFC Bank	951	BUY	402,525	8,131	423	46.0	55.6	68.9	28.7	20.9	23.9	20.7	17.1	13.8	—	—	—	3.5	2.7	1.9	0.7	1.0	1.3	17.7	17.9	17.1	1,350	42.0	52.0
ICICI Bank	345	ADD	384,264	7,762	1,113	39.9	36.2	39.2	15.4	(9.3)	8.2	8.7	9.5	8.8	—	—	—	0.8	0.8	0.7	3.2	2.6	2.8	11.7	8.4	8.6	450	30.3	165.4
IDFC	51	ADD	65,427	1,322	1,294	5.7	6.4	7.2	3.0	13.3	11.8	8.9	7.8	7.0	—	—	—	1.2	1.0	0.9	2.4	2.2	2.4	17.6	14.2	14.2	85	68.2	21.5
India Infoline	45	ADD	12,961	262	287	5.6	6.3	6.2	85.6	12.0	(1.2)	8.1	7.2	7.3	1.5	3.3	2.9	1.1	1.0	0.9	2.6	3.0	3.0	20.7	14.1	12.9	70	55.2	3.4
Indian Bank	125	ADD	53,743	1,086	430	22.5	22.8	23.5	33.9	1.0	3.1	5.6	5.5	5.3	—	—	—	1.2	1.0	0.9	2.4	2.3	2.4	23.4	18.8	16.7	160	27.9	2.7
Indian Overseas Bank	70	ADD	38,163	771	545	22.1	22.0	23.6	19.2	(0.1)	7.2	3.2	3.2	3.0	—	—	—	0.8	0.7	0.6	5.3	7.1	7.8	27.2	22.6	20.5	130	85.6	1.1
J&K Bank	375	ADD	18,197	368	48	74.2	76.1	78.4	31.2	2.5	3.1	5.1	4.9	4.8	—	—	—	0.9	0.8	0.7	4.1	4.2	4.4	16.8	15.2	14.1	750	99.9	0.3
LIC Housing Finance	179	ADD	15,206	307	85	45.5	54.6	56.2	38.7	19.8	2.9	3.9	3.3	3.2	—	—	—	0.8	0.7	0.6	5.6	6.7	6.9	—	—	—	325	81.7	3.3
Mahindra & Mahindra Financial	189	SELL	18,016	364	95	20.8	16.8	22.3	32.6	(19.5)	33.3	9.1	11.3	8.5	—	—	—	1.4	1.3	1.1	2.4	2.2	3.0	16.9	11.7	14.2	190	0.5	0.1
Oriental Bank of Commerce	127	ADD	31,881	644	251	23.9	44.0	30.0	(27.6)	84.3	(31.8)	5.3	2.9	4.2	—	—	—	0.7	0.5	0.5	3.7	6.9	4.7	6.2	17.8	10.9	200	57.2	2.0
PFC	97	ADD	111,104	2,244	1,148	11.4	12.6	15.7	2.4	10.7	24.9	8.5	7.7	6.2	—	—	—	1.1	1.0	0.9	3.6	1.8	2.2	13.5	13.3	14.8	140	44.6	2.6
Punjab National Bank	401	BUY	126,499	2,555	315	65.0	73.2	82.5	33.0	12.6	12.8	6.2	5.5	4.9	—	—	—	1.3	1.0	0.9	3.2	3.6	4.1	18.0	17.6	17.6	650	62.0	11.0
Shriram Transport	206	ADD	41,834	845	203	19.2	28.4	29.7	85.7	48.2	4.5	10.7	7.2	6.9	—	—	—	2.4	2.0	1.7	2.4	4.1	4.5	26.9	28.6	25.8	305	48.1	0.9
SREI	46	BUY	6,215	126	134	11.4	5.5	8.1	57.4	(51.8)	47.8	4.1	8.4	5.7	—	—	—	1.0	0.5	0.5	2.2	5.0	6.0	23.1	11.6	12.5	160	245.2	0.5
State Bank of India	1,100	BUY	694,333	14,026	631	106.6	116.5	105.2	23.5	9.4	(9.7)	10.3	9.4	10.4	—	—	—	1.6	1.5	1.3	2.0	2.0	2.0	16.8	14.2	11.6	1,600	45.5	99.3
Union Bank	128	BUY	64,403	1,301	505	27.5	30.9	31.0	64.1	12.6	0.2	4.6	4.1	4.1	—	—	—	0.9	0.8	0.7	3.1	3.6	3.6	26.8	24.9	20.7	220	72.5	4.6
Banks/Financial Institutions		**Attractive**	**3,070,003**	**62,014**					**36.9**	**11.3**	**7.1**	**9.3**	**8.4**	**7.8**	**—**	**—**	**—**	**1.4**	**1.2**	**1.1**	**2.3**	**2.3**	**2.5**	**15.4**	**14.8**	**14.0**			
Cement																													
ACC	473	REDUCE	89,236	1,803	189	64.1	56.2	44.5	13.0	(12.3)	(20.8)	7.4	8.4	10.6	3.7	3.9	5.2	2.0	1.7	1.6	4.9	4.9	4.9	33.3	23.5	16.7	550	16.3	5.4
Ambuja Cements	58	REDUCE	88,298	1,784	1,522	7.6	7.8	5.4	(11.2)	2.8	(30.0)	7.7	7.5	10.6	3.9	3.9	5.0	1.8	1.4	1.3	4.5	5.2	3.7	26.6	21.0	12.8	60	3.4	2.8
Grasim Industries	1,010	ADD	92,575	1,870	92	284.6	230.8	197.7	32.6	(18.9)	(14.3)	3.5	4.4	5.1	2.6	3.0	2.9	0.8	0.7	0.6	3.0	3.3	3.3	25.0	16.3	12.1	1,700	68.4	4.5
India Cements	76	ADD	21,295	430	282	24.5	19.1	19.9	n/a	(21.8)	4.1	3.1	3.9	3.8	2.6	2.8	2.3	0.6	0.5	0.5	2.5	2.8	2.8	25.9	15.8	14.4	160	111.8	2.0
Shree Cement	390	BUY	13,569	274	35	90.2	109.1	71.4	99.5	21.0	(34.6)	4.3	3.6	5.5	2.6	3.0	2.7	2.1	1.4	1.1	2.1	2.1	2.1	56.9	46.6	22.9	850	118.2	0.3
UltraTech Cement	338	BUY	42,332	855	125	81.4	71.0	54.7	28.5	(12.8)	(22.9)	4.2	4.8	6.2	3.2	3.6	3.9	1.3	1.0	0.9	2.3	2.4	2.4	45.2	28.8	18.2	550	62.7	1.1
Cement		**Cautious**	**347,304**	**7,016**					**19.3**	**(11.7)**	**(19.3)**	**5.0**	**5.6**	**7.0**	**3.1**	**3.4**	**3.6**	**1.2**	**1.0**	**0.9**	**3.7**	**4.0**	**3.6**	**24.3**	**17.9**	**12.9**			
Consumer (Discretionary)																													
Radico Khaitan	61	REDUCE	7,135	144	118	3.4	3.2	3.8	8.4	(7.0)	21.5	17.9	19.2	15.8	8.8	8.8	8.0	1.4	1.3	1.2	0.7	0.7	0.7	9.4	8.1	9.0	91	50.0	0.4
United Breweries	85	REDUCE	20,332	411	240	2.1	2.2	2.7	(2.2)	2.5	24.4	40.2	39.2	31.5	12.7	9.9	8.1	3.3	1.9	1.8	—	—	—	8.0	4.4	5.8	105	24.0	0.2
United Spirits	750	BUY	70,227	1,419	94	40.0	40.1	52.4	50.8	0.1	30.9	18.7	18.7	14.3	11.4	10.0	8.8	3.0	3.0	2.2	0.0	0.0	0.0	18.8	15.9	17.7	1,050	40.0	7.9
Consumer (Discretionary)		**Attractive**	**97,694**	**1,973**					**35.8**	**0.0**	**28.5**	**20.3**	**20.3**	**15.8**	**11.4**	**9.9**	**8.6**	**2.8**	**2.3**	**2.0**	**0.1**	**0.1**	**0.1**	**13.8**	**11.1**	**12.6**			
Consumer products																													
Asian Paints	968	ADD	92,850	1,876	96	39.5	45.2	50.9	40.4	14.5	12.6	24.5	21.4	19.0	14.7	13.0	11.0	9.5	7.6	6.2	1.5	1.8	2.1	44.6	40.4	36.9	1,075	11.1	0.8
Colgate-Palmolive (India)	370	REDUCE	50,283	1,016	136	17.1	19.1	21.7	16.8	11.7	13.8	21.6	19.4	17.0	17.9	15.8	13.5	27.5	27.2	26.8	3.5	4.4	5.0	100.4	141.4	159.6	400	8.2	1.0
GlaxoSmithkline Consumer (a)	561	BUY	23,593	477	42	38.5	45.5	53.8	27.4	18.4	18.3	14.6	12.3	10.4	7.5	6.1	4.9	3.6	3.0	2.6	2.3	2.7	3.2	27.3	27.3	27.3	800	42.6	0.2
Godrej Consumer Products	100	ADD	25,811	521	258	7.3	8.0	8.5	22.9	9.0	6.9	13.7	12.6	11.8	11.9	9.3	8.3	12.1	3.7	3.2	3.5	4.0	4.0	100.9	46.1	39.3	140	40.0	0.1
Hindustan Unilever	207	REDUCE	451,606	9,122	2,177	8.1	9.1	10.7	15.4	12.1	17.8	25.5	22.8	19.3	20.6	17.5	14.7	31.4	29.2	27.0	5.2	4.2	4.9	85.2	133.3	145.6	245	18.1	23.2
ITC	153	ADD	576,974	11,655	3,769	8.3	8.8	10.0	15.4	6.2	13.9	18.5	17.4	15.3	11.7	10.7	9.3	4.6	4.0	3.5	2.3	2.4	2.6	27.7	25.7	25.6	200	30.6	25.9
Jyothy Laboratories	229	ADD	3,318	67	15	31.0	42.1	68.3	(12.8)	35.8	62.3	7.4	5.4	3.3	4.7	3.0	1.4	0.9	0.7	0.6	4.1	4.6	5.1	11.5	13.1	17.9	740	223.7	
Nestle India (a)	1,422	ADD	137,074	2,769	96	44.5	58.6	70.2	31.3	31.7	19.7	31.9	24.3	20.3	19.2	14.9	12.4	26.6	20.2	15.6	1.9	2.5	3.0	94.8	94.5	86.9	1,900	33.6	1.5
Tata Tea	513	BUY	31,712	641	62	54.1	63.3	67.3	3.6	17.2	6.2	9.5	8.1	7.6	3.7	3.1	2.6	0.7	0.6	0.6	2.9	3.4	3.6	9.7	9.4	9.4	1,100	114.5	1.4
Consumer products		**Cautious**	**1,393,221**	**28,143**					**17.2**	**11.6**	**15.2**	**21.0**	**18.8**	**16.3**	**13.7**	**12.0**	**10.4**	**6.4**	**5.6**	**4.9**	**3.2**	**3.1**	**3.5**	**30.6**	**29.7**	**30.3**			
Constructions																													
Consolidated Construction Co.	286	BUY	10,584	214	37	24.0	34.2	44.9	67.6	42.4	31.1	11.9	8.4	6.4	7.9	4.9	3.7	2.3	1.9	1.5	0.9	1.7	2.3	27.7	25.0	26.4	700	144.4	0.0
IVRCL	79	BUY	10,733	217	135	16.0	17.1	22.8	29.2	6.5	33.2	4.9	4.6	3.5	5.5	4.3	3.6	0.7	0.6	0.5	1.8	1.0	1.0	14.8	13.5	15.6	415	423.3	5.7
Nagarjuna Construction Co.	57	BUY	12,989	262	229	7.2	8.1	10.6	14.5	13.4	30.2	7.9	7.0	5.4	6.8	6.0	5.3	0.8	1.5	0.7	2.0	2.4	2.8	12.6	11.3	13.3	150	164.6	4.1
Punj Lloyd	170	BUY	55,067	1,112	323	10.0	17.9	20.5	323.5	79.6	14.5	17.1	9.5	8.3	9.3	5.9	5.1	2.0	1.6	1.4	0.2	0.5	0.5	16.8	19.3	18.6	260	52.7	32.7
Sadbhav Engineering	440	BUY	5,762	116	13	40.5	62.6	78.1	68.2	54.4	24.8	10.9	7.0	5.6	6.8	4.0	2.8	2.0	1.4	1.2	0.9	1.1	1.4	16.3	19.6	20.5	820	86.4	0.1

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	29-Oct-08		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	307	REDUCE	100,756	2,035	328	39.8	40.7	38.3	(24.0)	2.1	(5.9)	7.7	7.6	8.0	3.2	3.5	2.6	0.8	0.8	0.6	1.4	1.4	1.3	11.4	10.4	8.9	360	17.1	7.1
Cairn india	115	BUY	214,719	4,337	1,868	(0.1)	3.9	16.7	(105)	(3,332)	334	(964)	30	6.9	26.9	14.6	4.7	0.7	0.6	0.6	—	—	—	(0.1)	2.3	9.1	240	108.8	20.4
Castrol India (a)	285	ADD	35,256	712	124	20.1	23.6	24.1	64.6	17.5	2.1	14.2	12.1	11.8	8.1	7.1	6.9	8.6	8.0	7.4	4.9	6.3	6.3	59.5	68.5	65.2	350	22.7	0.5
GAIL (India)	208	REDUCE	263,526	5,323	1,268	20.4	27.5	27.9	21.0	35.1	1.4	10.2	7.5	7.4	5.2	4.4	5.5	1.8	1.6	1.3	3.2	3.9	3.9	18.1	21.4	18.5	240	15.5	15.1
GSPL	30	BUY	16,912	342	563	1.8	2.7	3.7	10.1	47.6	37.7	16.7	11.3	8.2	6.1	5.8	4.2	1.4	1.2	1.1	1.7	2.5	3.4	8.8	11.5	14.2	60	99.7	2.2
Hindustan Petroleum	192	REDUCE	64,977	1,313	339	33.5	26.1	33.4	(16.4)	(21.9)	27.7	5.7	7.3	5.7	5.2	3.4	2.1	0.5	0.5	0.4	1.6	1.2	1.6	9.6	6.8	7.9	260	35.6	5.9
Indian Oil Corporation	347	REDUCE	409,460	8,271	1,179	60.5	40.9	61.8	29.2	(32.5)	51.2	5.7	8.5	5.6	4.0	7.6	7.2	0.9	0.8	0.7	1.6	1.5	2.0	17.2	10.1	13.5	500	44.0	3.9
Oil & Natural Gas Corporation	648	BUY	1,386,747	28,012	2,139	92.7	129.8	141.7	9.1	40.0	9.2	7.0	5.0	4.6	2.4	1.8	1.5	1.4	1.2	1.0	4.9	6.2	6.9	19.6	24.0	22.3	1,125	73.5	48.3
Petronet LNG	35	ADD	26,025	526	750	6.3	6.0	7.1	—	(5.7)	18.7	5.5	5.8	4.9	3.8	5.1	4.1	1.4	1.1	0.9	4.3	4.3	4.3	26.7	20.6	20.3	60	72.9	1.4
Reliance Industries	1,202	ADD	1,579,568	31,907	1,314	101.7	99.7	150.6	23.0	(2.0)	51.0	11.8	12.1	8.0	7.5	6.4	3.5	1.8	1.6	1.2	1.0	1.2	1.7	18.5	14.7	19.1	1,325	10.3	231.8
Reliance Petroleum	81	REDUCE	362,700	7,327	4,500	(1.1)	2.4	17.0	n/a	n/a	596.6	n/a	33.0	4.7	n/a	18.9	4.5	2.7	2.5	1.7	—	—	2.5	(3.5)	7.8	42.9	100	24.1	50.4
Energy		**Neutral**	**4,460,646**	**90,105**					**11.1**	**20.6**	**40.9**	**9.6**	**7.9**	**5.6**	**4.8**	**4.4**	**3.4**	**1.4**	**1.2**	**1.0**	**2.4**	**2.8**	**3.5**	**14.5**	**14.7**	**18.0**			
Industrials																													
ABB	544	REDUCE	115,236	2,328	212	23.2	25.9	31.1	44.5	11.5	20.2	23.4	21.0	17.5	13.6	12.0	9.7	7.1	5.5	4.3	0.4	0.5	0.6	34.8	29.5	27.8	550	1.1	8.1
BGR Energy Systems	152	REDUCE	10,926	221	72	12.3	18.3	23.2	(67.1)	49.5	26.7	12.4	8.3	6.5	8.0	5.7	5.3	2.2	1.8	1.4	0.8	1.2	1.5	30.1	23.5	24.1	325	114.2	0.8
Bharat Electronics	566	ADD	45,308	915	80	102.0	105.5	111.8	11.2	3.4	6.0	5.6	5.4	5.1	1.6	1.1	0.8	1.4	1.1	1.0	3.7	4.4	4.4	27.7	23.1	20.8	950	67.7	1.4
Bharat Heavy Electricals	1,176	BUY	575,847	11,632	490	58.4	72.2	98.0	22.9	23.7	35.6	20.1	16.3	12.0	10.3	8.0	6.1	5.3	4.3	3.4	1.3	1.3	1.8	29.2	29.2	31.5	1,475	25.4	75.3
Larsen & Toubro	760	BUY	450,333	9,097	593	37.9	54.3	68.9	20.8	43.1	26.9	20.0	14.0	11.0	13.5	8.8	7.2	3.8	2.7	2.2	1.1	2.6	2.7	22.7	22.7	22.5	1,225	61.2	99.2
Maharashtra Seamless	150	BUY	10,587	214	71	29.4	37.4	37.9	(23.5)	27.6	1.2	5.1	4.0	4.0	3.0	2.5	2.4	0.9	0.8	0.7	3.3	3.7	3.8	19.7	21.1	18.0	250	66.6	0.8
Siemens	257	REDUCE	86,515	1,748	337	18.2	18.8	25.9	60.4	3.1	38.0	14.1	13.7	9.9	7.8	7.3	4.9	4.7	3.7	2.8	0.9	1.1	1.2	39.9	30.2	32.0	570	122.1	6.3
Suzlon Energy	46	BUY	72,315	1,461	1,567	6.6	10.9	16.1	9.5	65.9	47.8	7.0	4.2	2.9	4.5	5.7	4.2	0.8	0.7	0.5	2.1	2.2	2.2	16.3	17.0	20.5	225	387.5	37.2
Industrials		**Neutral**	**1,367,067**	**27,615**					**24.6**	**30.4**	**31.3**	**16.4**	**12.6**	**9.6**	**9.4**	**7.4**	**5.8**	**3.4**	**2.7**	**2.2**	**1.3**	**1.8**	**2.1**	**20.8**	**21.2**	**22.5**			
Infrastructure																													
IRB Infrastructure	85	BUY	28,184	569	332	3.4	5.8	12.5	150.9	68.9	116.3	24.7	14.6	6.8	10.0	9.9	4.8	1.7	1.5	1.2	—	—	—	10.7	10.9	19.6	145	71.0	0.5
Media																													
DishTV	14	REDUCE	8,985	182	644	(9.6)	(7.3)	(3.9)	n/a	(23.9)	(47.3)	(1.4)	(1.9)	(3.6)	(6.1)	(3.4)	(14.9)	(2.0)	4.2	(5.9)	—	—	—	167.9	396.7	####	18	29.0	3.9
HT Media	74	BUY	17,311	350	234	4.3	3.1	6.0	4.7	(28.8)	94.1	17.1	24.0	12.4	9.5	10.6	6.0	2.0	1.9	1.7	0.5	0.5	1.1	12.2	8.1	14.4	130	75.9	0.2
Jagran Prakashan	51	BUY	15,405	311	301	3.3	3.2	4.6	33.5	(2.8)	45.2	15.7	16.2	11.1	8.5	9.0	6.3	2.9	2.7	2.5	3.9	3.7	4.5	18.7	17.2	23.2	84	64.2	0.3
Sun TV Network	135	BUY	53,240	1,075	394	8.3	9.4	11.1	30.7	13.1	18.9	16.3	14.4	12.1	8.2	7.2	6.1	3.5	3.1	2.8	1.9	3.0	4.1	24.8	23.8	25.0	205	51.7	0.9
Zee Entertainment Enterprises	140	BUY	60,678	1,226	434	8.9	9.7	12.0	62.6	9.1	24.0	15.8	14.5	11.7	11.6	9.6	7.8	2.1	1.8	1.6	1.4	1.7	2.2	14.2	13.8	15.3	205	46.5	6.3
Media		**Attractive**	**155,619**	**3,144**					**24.0**	**(4.3)**	**83.0**	**31.2**	**32.6**	**17.8**	**12.4**	**10.7**	**7.6**	**2.9**	**2.3**	**2.2**	**1.6**	**2.1**	**2.8**	**9.2**	**7.1**	**12.4**			
Metals																													
Hindalco Industries	53	SELL	93,151	1,882	1,753	13.8	8.9	7.0	(10.0)	(35.7)	(21.2)	3.9	6.0	7.6	5.7	5.2	5.7	0.4	0.3	0.3	—	—	—	14.4	10.0	6.7	65	22.3	12.2
National Aluminium Co.	147	REDUCE	94,907	1,917	644	25.2	30.3	33.5	(31.8)	20.0	10.6	5.8	4.9	4.4	2.5	2.4	1.6	1.0	0.9	0.8	5.1	5.1	5.1	18.4	19.4	18.7	370	151.2	4.7
Jindal Steel and Power	690	BUY	106,295	2,147	154	91.1	126.1	125.9	101.5	38.4	(0.1)	7.6	5.5	5.5	6.1	4.4	4.3	2.5	1.7	1.3	0.7	0.9	1.1	43.8	37.3	27.3	1,800	160.7	21.4
JSW Steel	230	ADD	42,655	862	186	92.0	103.1	146.8	35.7	12.0	42.4	2.5	2.2	1.6	3.1	3.6	2.6	0.4	0.4	0.3	8.0	8.0	8.0	21.2	18.1	21.0	1,040	353.0	11.9
Hindustan Zinc	319	ADD	134,724	2,721	423	104.0	77.2	55.9	(1.0)	(25.8)	(27.6)	3.1	4.1	5.7	2.3	2.8	4.0	1.1	0.9	0.8	1.6	2.4	3.1	43.6	23.5	14.3	400	25.5	2.4
Sesa Goa	81	ADD	63,570	1,284	787	18.9	22.0	13.3	145.9	16.3	(39.8)	4.3	3.7	6.1	2.9	2.3	3.4	2.2	1.6	1.4	4.3	8.7	8.7	67.7	50.5	24.4	100	23.8	29.0
Sterlite Industries	245	BUY	173,546	3,506	708	64.3	45.7	38.1	(22.6)	(28.9)	(16.7)	3.8	5.4	6.4	3.3	4.4	5.5	0.7	0.7	0.6	—	—	—	26.1	13.3	10.3	415	69.4	33.5
Tata Steel	187	ADD	153,589	3,102	822	75.7	89.7	74.6	43.8	18.5	(16.9)	2.5	2.1	2.5	3.6	3.8	4.0	0.4	0.4	0.3	7.8	6.9	7.0	46.3	29.9	22.6	285	52.5	55.9
Metals		**Cautious**	**862,436**	**17,421**					**13.2**	**(3.6)**	**(11.7)**	**3.6**	**3.7**	**4.2**	**3.7**	**3.8**	**4.0**	**0.7**	**0.6**	**0.5**	**3.0**	**3.3**	**3.5**	**19.9**	**16.0**	**12.6**			
Pharmaceutical																													
Biocon	93	BUY	18,580	375	200	23.3	9.5	16.4	126.0	(59.0)	71.7	4.0	9.7	5.7	4.9	4.5	3.5	1.3	1.2	1.1	0.1	0.1	0.1	17.6	15.7	19.6	260	179.9	0.7
Cipla	168	REDUCE	130,935	2,645	777	9.0	10.3	12.7	4.9	13.8	23.3	18.7	16.4	13.3	13.8	12.2	10.2	3.5	3.0	2.6	1.2	1.5	1.8	20.1	19.7	21.0	220	30.6	7.3
Dishman Pharma & chemicals	138	BUY	11,248	227	81	14.7	15.4	28.1	30.5	4.6	82.8	9.4	9.0	4.9	8.7	8.2	5.1	2.0	1.6	1.3	0.0	0.0	0.0	26.8	19.9	29.0	400	189.2	0.4
Divi's Laboratories	975	BUY	62,939	1,271	65	53.2	80.1	101.4	85.8	50.5	26.7	18.3	12.2	9.6	14.9	9.6	7.2	7.4	4.7	3.2	0.1	0.1	0.2	49.8	47.4	40.0	1,980	103.1	4.5
Dr Reddy's Laboratories	416	BUY	70,417	1,422	169	26.1	26.4	36.6	(57.2)	1.2	38.7	16.0	15.8	11.4	7.9	6.9	5.7	1.6	1.4	1.3	0.9	1.0	1.0	10.3	9.5	12.0	675	62.2	6.0
Glenmark Pharmaceuticals	258	BUY	68,604	1,386	266	25.8	36.5	44.3	98.4	41.3	21.2	10.0	7.1	5.8	9.1	5.4	4.4	4.5	2.4	1.8	0.0	0.1	0.1	57.4	44.1	35.5	725	181.0	6.5
Jubilant Organosys	162	BUY	29,373	593	181	22.1	11.0	29.6	69.9	(50.4)	170.2	7.3	14.8	5.5	7.5	11.9	5.9	2.3	1.7	1.5	0.7	1.0	1.3	37.0	14.9	32.2	475	193.0	0.3
Lupin	665	BUY	58,872	1,189	89	49.8	48.9	59.7	30.2	(1.9)	22.2	13.4	13.6	11.1	15.6	11.1	9.0	4.6	2.8	2.5	1.4	1.4	1.7	37.9	28.4	24.2	950	42.9	2.9
Piramal Healthcare	210	BUY	43,932	887	209	17.7	18.3	25.9	66.8	3.3	41.1	11.8	11.5	8.1	9.1	8.4	6.2	4.0	3.2	2.4	2.0	1.9	2.1	30.9	30.0	34.1	410	95.1	1.3
Ranbaxy Laboratories	171	REDUCE	71,556	1,445	419	23.3	9.8	15.5	70.4	(58.1)	58.7	7.3	17.5	11.0	7.3	7.4	2.5	2.4	1.1	0.7	4.4	6.1	7.8	29.8	9.1	9.2	420	146.0	34.9
Sun Pharmaceuticals	1,136	BUY	235,191	4,751	207	74.7	90.9	86.4	78.9	21.7	(5.0)	15.2	12.5	13.2	12.7	9.4	9.2	4.5	3.4	2.8	0.9	1.0	1.2	38.3	32.3	24.2	1,870	64.7	22.6
Pharmaceuticals		**Attractive**	**801,647**	**16,193**					**34.1**	**6.3**	**27.7**	**13.4**	**12.6**	**9.8**	**10.2**	**8.7**	**6.6**	**3.3**	**2.4**	**1.8**	**1.2**	**1.4**	**1.7**	**24.5**	**18.9**	**18.4**			
Property																													
DLF	203	BUY	345,332	6,976	1,705	43.8	49.8	55.1	244.6	13.9	10.5	4.6	4.1	3.7	4.8	4.0	3.0	1.8	1.3	1.0	2.5	3.5	4.9	63.2	36.6	30.8	660	225.8	62.3
Housing Development & Infrastruc	149	BUY	41,062	829	275	51.2	56.6	63.6	118.6	10.6	12.3	2.9	2.6	2.3	4.1	3.8	3.1	1.1	0.8	0.6	2.6	5.4	5.4	64.5	36.3	30.7	610	309.3	41.1
Indiabulls Real Estate	124	BUY	33,779	682	273	16.4	6.8	7.5	2,383.9	(58.6)	10.4	7.5	18.2	16.5	(1,061.6)	12.0	8.1	0.6	0.5	0.5	0.2	0.0	0.0	10.6	2.9	2.8	275	122.0	34.7
IVR Prime Urban Developers	37	BUY	2,399	48	64	27.0	15.5	17.1	552.0	(42.6)	10.8	1.4	2.4	2.2	0.4	2.8	3.9	0.2	0.2	0.2	10.7	13.4	18.7	31.9	9.6	10.0	360	862.6	0.1
Mahindra Life Space Developer	189	BUY	7,942	160	42	16.8	13.1	17.1	307.7	(22.2)	30.9	11.2	14.4	11.0	20.5	14.2	7.2	0.9	0.9	0.8	1.4	2.1	2.1	8.4	6.1	7.6	500	164.8	0.4
Phoenix Mills	51	BUY	7,344	148	145	12.4	5.5	12.0	89.5	(55.9)	119.9	4.1	9.3	4.2	5.3	7.7	2.8	0.5	0.5	0.4	—	—	—	22.1	5.4	10.9	280	452.3	0.8
Puravankara Projects	51	REDUCE	10,917	221	213	11.3	14.0	16.7	67.4	24.8	19.1	4.5	3.6	3.1	8.1	8.0	6.8	0.9	0.8	0.7	2.0	7.8	11.7	32.9	22.4	23.1	220	330.1	0.4
Sobha	109	REDUCE	7,975	161	73	31.7	30.2	33.2	42.9	(4.7)	9.8	3.4	3.6	3.3	6.9	6.0	5.8	0.8	0.7	0.6	5.9	3.7	3.7	25.3	20.0	18.6	250	128.5	0.9

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	29-Oct-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Property		Cautious	538,884	10,885					181.0	10.5	13.8	4.6	4.2	3.7	5.1	4.2	3.4	1.4	1.1	0.9	2.3	3.5	5.2	30.9	25.9	24.0			
Retail																													
Pantaloon Retail	207	BUY	35,602	719	172	8.0	12.1	18.4	93.1	50.4	52.2	25.8	17.1	11.3	10.2	6.9	5.7	2.1	1.3	1.2	0.3	0.4	0.5	8.5	9.1	10.8	370	78.7	1.5
Titan Industries	1,009	BUY	44,800	905	44	35.1	49.8	56.6	55.2	42.1	13.6	28.8	20.3	17.8	19.4	12.7	10.7	9.5	6.8	5.2	0.8	0.9	1.1	37.7	39.3	33.2	1,280	26.8	2.8
Vishal Retail	103	ADD	2,307	47	22	18.1	21.6	35.6	37.2	19.2	65.2	5.7	4.8	2.9	5.7	4.5	3.8	0.9	0.7	0.6	—	—	—	20.2	16.2	22.1	485	370.9	0.1
Retail			**82,709**	**1,671**					**31.8**	**48.2**	**35.6**	**25.7**	**17.3**	**12.8**	**12.2**	**8.2**	**6.6**	**3.4**	**2.3**	**2.0**	**0.5**	**0.7**	**0.8**	**13.2**	**13.1**	**15.3**			
Technology																													
HCL Technologies	152	REDUCE	105,397	2,129	695	15.3	20.6	21.7	(19.0)	35.0	5.4	9.9	7.3	7.0	5.1	3.7	3.4	2.1	1.6	1.5	5.3	5.3	5.3	21.4	23.8	22.7	200	31.9	3.9
Hexaware Technologies	19	SELL	2,743	55	142	7.7	2.9	3.8	(13.7)	(62.4)	32.1	2.5	6.7	5.1	(0.4)	0.8	0.4	0.4	0.4	0.4	4.7	8.3	8.3	15.1	5.8	7.4	25	29.5	0.2
Infosys Technologies	1,304	BUY	748,697	15,124	574	79.1	100.8	108.8	18.0	27.5	7.9	16.5	12.9	12.0	12.7	9.5	8.4	5.4	4.2	3.3	2.5	1.9	2.0	36.1	36.4	30.9	1,600	22.7	69.3
Mphasis BFL	147	REDUCE	30,627	619	208	12.2	22.3	23.4	67.6	81.7	5.0	12.0	6.6	6.3	7.1	4.2	3.3	2.6	0.3	1.6	2.4	2.7	3.1	23.6	34.6	28.4	190	29.3	1.6
Mindtree	247	BUY	6,423	130	26	26.7	30.7	39.6	12.3	14.7	29.0	9.2	8.0	6.2	5.4	3.1	2.7	1.2	1.0	0.8	1.6	—	—	—	17.2	17.8	450	82.5	0.4
Patni Computer Systems	142	SELL	18,276	369	129	33.2	26.3	30.8	29.2	(20.8)	16.9	4.3	5.4	4.6	1.0	1.1	0.1	0.7	0.6	0.5	1.5	1.9	2.2	19.2	14.1	12.0	160	12.6	1.5
Polaris Software Lab	43	SELL	4,188	85	98	7.4	12.8	11.6	(27.6)	71.6	(9.6)	5.7	3.3	3.7	2.0	1.1	0.8	0.6	0.6	0.5	4.1	4.1	4.1	11.7	17.8	14.1	70	64.3	4.5
Satyam Computer Services	282	BUY	192,499	3,888	682	25.2	33.7	35.5	17.7	33.3	5.3	11.2	8.4	8.0	8.2	5.3	4.5	2.7	2.1	1.8	3.5	4.3	5.0	26.0	28.2	24.2	400	41.7	33.8
TCS	541	REDUCE	529,232	10,690	979	51.3	56.4	63.0	21.5	10.0	11.6	10.5	9.6	8.6	8.4	6.9	6.2	4.3	3.4	2.8	2.6	3.7	4.7	47.0	39.3	35.6	650	20.2	23.1
Tech Mahindra	310	BUY	38,669	781	125	59.1	76.4	85.0	25.7	29.4	11.2	5.3	4.1	3.7	4.6	2.4	1.6	3.1	1.8	1.2	1.7	1.9	2.0	70.7	58.0	40.9	700	125.6	3.2
Wipro	257	ADD	372,650	7,528	1,450	22.2	26.0	28.7	12.6	17.0	10.4	11.6	9.9	8.9	9.1	6.6	5.7	2.9	2.4	2.0	2.5	3.0	3.4	27.9	26.3	24.3	360	40.1	11.4
Technology		**Neutral**	**2,049,401**	**41,398**					**16.1**	**21.4**	**9.2**	**11.9**	**9.8**	**8.9**	**8.8**	**6.6**	**5.8**	**3.5**	**2.8**	**2.3**	**2.8**	**3.0**	**3.4**	**29.4**	**28.3**	**25.6**			
Telecom																													
Bharti Airtel Ltd	616	BUY	1,169,960	23,633	1,898	35.3	47.0	57.0	65.0	33.2	21.1	17.5	13.1	10.8	10.7	7.8	5.9	5.2	3.7	2.7	—	0.6	1.0	39.1	32.9	29.1	840	36.3	84.3
IDEA	39	REDUCE	124,923	2,523	3,236	3.9	3.3	3.4	78.5	(17.6)	5.7	9.8	11.9	11.2	8.0	4.8	4.4	3.5	0.9	0.8	—	—	—	36.4	12.0	8.0	70	81.3	10.9
MTNL	60	REDUCE	37,548	758	630	6.0	6.5	7.0	(25.2)	7.7	8.2	9.9	9.2	8.5	(1.1)	(1.2)	(1.2)	0.3	0.3	0.3	10.1	10.1	10.1	2.7	2.9	3.2	100	67.8	2.8
Reliance Communications	194	SELL	400,210	8,084	2,064	25.0	28.6	34.8	76.4	14.1	21.9	7.7	6.8	5.6	6.1	5.4	4.3	1.4	1.2	1.0	0.4	1—	—	16.1	19.9	19.8	390	101.1	66.2
Tata Communications	411	REDUCE	117,178	2,367	285	10.9	13.6	14.0	(36.3)	24.0	3.2	37.6	30.3	29.3	15.7	13.0	11.8	1.8	1.7	1.6	1.1	1.2	1.6	4.4	5.4	5.2	370	(10.0)	3.6
Telecom		**Cautious**	**1,849,819**	**37,366**					**61.9**	**23.3**	**19.8**	**13.1**	**10.6**	**8.9**	**8.5**	**6.7**	**5.3**	**2.5**	**1.9**	**1.6**	**0.6**	**0.8**	**0.9**	**19.4**	**17.6**	**17.6**			
Transportation																													
Container Corporation	651	REDUCE	84,636	1,710	130	57.7	69.4	74.2	7.8	20.3	6.8	11.3	9.4	8.8	7.3	5.8	5.1	2.7	2.2	1.8	1.9	2.3	2.4	25.8	25.6	22.8	800	22.9	1.3
Transportation		**Neutral**	**84,636**	**1,710**					**7.8**	**20.3**	**6.8**	**11.3**	**9.4**	**8.8**	**7.3**	**5.8**	**5.1**	**2.7**	**2.2**	**1.8**	**1.9**	**2.3**	**2.4**	**23.5**	**23.3**	**21.0**			
Utilities																													
CESC	174	BUY	21,789	440	125	27.8	28.2	31.1	(23.3)	1.4	10.4	6.3	6.2	5.6	3.3	4.0	5.2	0.7	0.6	0.6	2.3	2.3	2.8	12.5	10.6	10.5	450	158.0	1.5
Lanco Infratech	108	BUY	24,053	486	222	14.8	17.5	26.0	75.2	18.2	48.3	7.3	6.2	4.2	7.7	11.4	9.8	1.3	1.1	0.9	—	—	—	19.7	19.2	23.0	400	269.7	9.3
NTPC	134	REDUCE	1,104,892	22,319	8,245	9.3	9.0	9.7	7.9	(3.2)	7.9	14.4	14.8	13.8	10.0	10.9	10.5	2.0	1.9	1.7	2.6	2.6	2.7	14.9	13.2	13.1	160	19.4	31.6
Reliance Infrastructure	429	BUY	99,014	2,000	231	37.6	53.6	56.8	13.9	42.6	6.0	11.4	8.0	7.5	18.0	14.7	14.8	0.6	0.6	0.5	1.5	1.7	1.9	4.3	6.2	6.6	1,250	191.5	76.5
Reliance Power	98	REDUCE	235,486	4,757	2,397	0.4	2.1	2.6	—	443.9	25.2	258.3	47.5	37.9	—	—	—	1.7	1.6	1.6	—	—	—	1.2	3.5	4.3	180	83.2	26.5
Tata Power	613	BUY	142,762	2,884	233	29.7	38.1	39.9	11.6	28.5	4.6	20.6	16.1	15.4	16.2	14.8	15.8	1.9	1.5	1.3	1.5	1.6	1.6	10.0	10.3	9.0	1,275	108.1	22.3
Utilities		**Neutral**	**1,627,995**	**32,886**					**12.1**	**7.9**	**9.7**	**16.3**	**15.1**	**13.7**	**11.4**	**13.2**	**14.2**	**1.7**	**1.5**	**1.4**	**2.0**	**2.0**	**2.1**	**10.4**	**10.3**	**10.4**			
Others																													
Aban Offshore	702	BUY	27,157	549	39	72.3	211.1	456.6	(1,066)	192.1	116.3	9.7	3.3	1.5	11.9	6.4	3.6	3.1	1.3	0.7	0.5	1.4	2.1	51.7	49.3	53.1	1,700	142.0	18.0
Aditya Birla Nuvo	495	ADD	46,221	934	93	22.9	26.6	29.2	(5.6)	16.0	9.8	21.6	18.6	17.0	11.9	10.8	10.0	1.4	1.3	1.2	1.2	1.3	1.3	6.4	7.1	7.4	2,000	303.8	2.1
Educomp Solutions	2,011	BUY	38,239	772	19	35.2	63.9	108.1	114	81.7	69.2	57.2	31.5	18.6	30.4	12.9	8.1	12.4	5.2	4.2	0.1	0.3	0.5	33.5	23.3	24.3	2,550	26.8	26.9
Havells India	154	BUY	9,305	188	61	26.6	36.9	46.5	40.0	38.7	26.0	5.8	4.2	3.3	5.7	4.3	3.0	1.4	1.0	0.7	1.6	2.1	2.7	33.7	28.4	25.5	430	179.7	0.4
Jaiprakash Associates	62	BUY	73,178	1,478	1,188	4.9	7.3	11.0	7	49.5	50.9	12.6	8.4	5.6	10.1	7.9	7.6	1.5	1.2	1.0	0.0	0.0	0.0	15.4	16.1	20.5	205	232.8	44.3
Jindal Saw	357	BUY	21,883	442	61	66.6	86.9	82.9	(42.6)	30.6	(4.7)	5.4	4.1	4.3	4.1	2.4	2.1	0.8	0.5	0.6	2.0	3.7	4.2	12.5	14.4	12.3	500	40.1	1.7
PSL	110	BUY	4,781	97	44	21.1	43.6	58.3	4	106.9	33.7	5.2	2.5	1.9	3.8	3.2	2.3	0.9	0.6	0.5	4.7	5.5	6.8	11.3	15.0	17.5	280	155.2	0.2
Sintex	141	BUY	22,970	464	163	19.5	23.4	31.2	58.2	19.6	33.5	7.2	6.0	4.5	7.1	5.1	3.5	1.4	0.9	0.8	0.6	0.9	1.3	14.0	14.8	15.9	460	225.4	1.7
Welspun Gujarat Stahl Rohren	106	REDUCE	20,057	405	189	20.6	29.2	47.4	94	41.9	62.7	5.2	3.6	2.2	6.5	3.5	2.0	1.2	0.8	0.6	2.2	4.6	5.4	27.1	26.0	31.3	360	238.8	4.2
Others			**263,791**	**5,329**					**24.2**	**82.2**	**49.7**	**12.1**	**6.6**	**4.4**	**9.3**	**6.2**	**4.8**	**1.6**	**1.2**	**1.0**	**0.8**	**1.3**	**1.6**	**12.8**	**18.1**	**21.4**			
KS universe (b)			**19,734,329**	**398,633**					**25.0**	**13.3**	**17.9**	**10.1**	**8.9**	**7.5**	**6.5**	**5.9**	**5.0**	**1.8**	**1.5**	**1.3**	**2.1**	**2.4**	**2.8**	**17.8**	**16.7**	**17.0**			
KS universe (b) ex-Energy			**15,273,683**	**308,528**					**30.0**	**11.0**	**10.0**	**10.2**	**9.2**	**8.4**	**7.4**	**6.7**	**6.1**	**2.0**	**1.6**	**1.4**	**2.1**	**2.3**	**2.6**	**19.1**	**17.4**	**16.5**			
KS universe (d) ex-Energy & ex-Commodities			**14,063,943**	**284,092**					**34.8**	**15.2**	**15.0**	**11.8**	**10.3**	**8.9**	**9.2**	**7.8**	**6.7**	**2.2**	**1.8**	**1.6**	**2.0**	**2.2**	**2.5**	**18.8**	**17.7**	**17.4**			

Note:

(a) 2007 means calendar year 2006, similarly for 2008 and 2009 for these particular companies.

(b) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

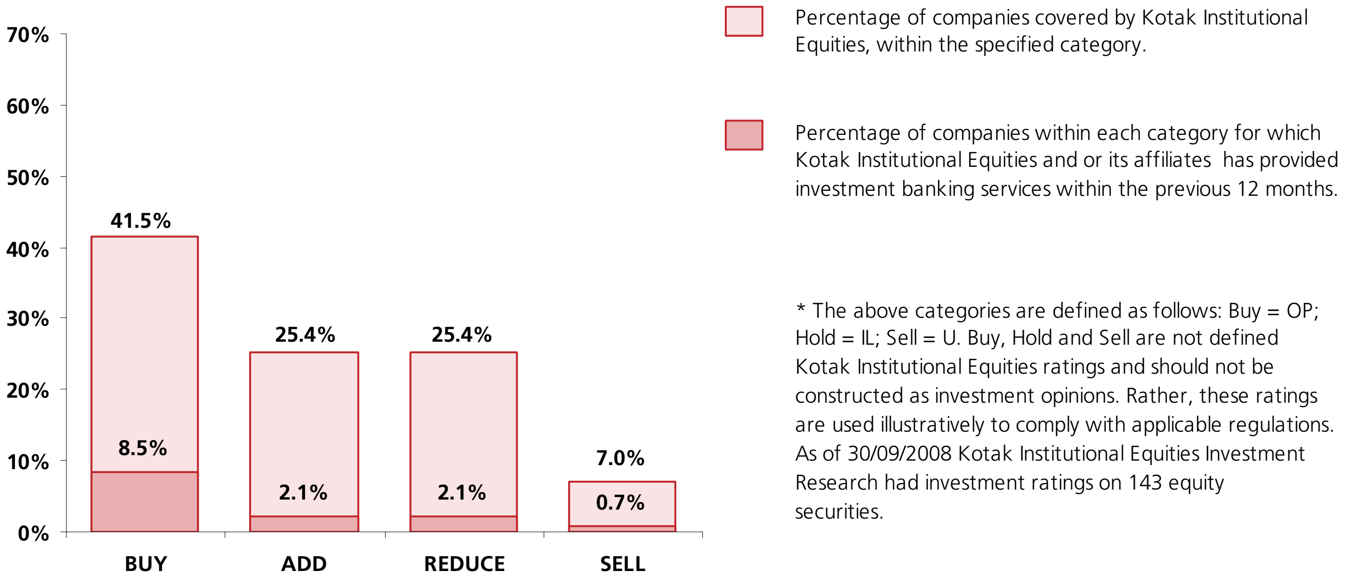
(c) Rupee-US Dollar exchange rate (Rs/US$)= 49.50

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"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, Jairam Nathan, Prashant Vaishampayan, Augustya Somani, Aman Batra, Puneet Jain."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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Source: Kotak Institutional Equities

As of September 30, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

Other definitions

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