kotak® Institutional Equities

INDIA DAILY

May 04, 2007

EQUITY MARKETS

India	3-May	1-day	1-mo	3-mo
		Change, %		
Sensex	14,078	1.5	10.1	(2.3)
Nifty	4,151	1.5	11.2	(0.8)
Global/Regional indices				
Dow Jones	13,241	0.2	5.7	4.6
Nasdaq Composite	2,565	0.3	4.3	3.6
FTSE	6,538	0.8	2.7	3.6
Nikkie	17,395	0.7	0.9	(0.9)
Hang Seng	20,811	0.6	3.0	1.2
KOSPI	1,564	0.3	5.4	10.7

Value traded - India

	3-May		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	135.7		121.4	125.6
Derivatives (NSE)	276.8		233.5	293.9
Deri. open interest	469.7		408.1	537.7

Contents

Forex/money market

	3-May	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	41.2	-	(193)	(296)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	(2)	(3)	45

Net investment (US$mn)

	30-Apr		MTD	CYTD
FIIs	(69)		1,326	(698)
MFs	17		215	(301)

Top movers -3mo basis

Best performers	3-May	1-day	1-mo	3-mo
		Change, %		
Balaji Telefilms	168	1.1	32.4	32.0
BEL	1,742	1.5	10.2	27.0
GESCO	260	5.3	27.4	26.8
Castrol India	281	7.3	31.3	23.3
i-Flex	2,403	(4.6)	11.6	21.9
Worst performers				
Polaris	172	0.4	0.7	(25.1)
Ingersoll Rand	290	1.3	7.0	(20.4)
Arvind Mills	47	4.2	10.9	(20.3)
Hindalco	146	(0.1)	11.9	(20.3)
Tata Motors	734	(2.2)	7.7	(19.3)

News Roundup

Corporate

- Godrej Sara Lee, the joint venture company between the Godrej Group and US-based Sara Lee Corporation, is in discussions to take over Sara Lee's independent business unit in India. (BS)
- Tata group is planning to invest Rs1,200 bn for investments in the domestic market in the next seven to eight years. (FE)
- The alliance between Kinetic Motor Co Ltd (KMCL) and Taiwanese two-wheeler major Sanyang Industry Co Ltd plans to launch its first product, a scooterette, in the Indian market in June. (BL)
- Moser Baer plans to sell shares in subsidiary firm Moser Baer Photo Voltaic, engaged in the business of production of electricity from sunlight, to PV Technologies India — in order to achieve administrative and operating synergies. (ET)

Economic and political

- The Government has withdrawn the dual specific rate of excise duties introduced on the cement industry in the Budget and replaced it with an ad valorem duty of 12% of the retail selling price on cement sold at more than Rs190 per 50 kg bag. (BL)

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

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Energy

RPET.BO, Rs81	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	100
52W High -Low (Rs)	131 - 85
Market Cap (Rs bn)	365

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	-	-	137.0
Net Profit (Rs bn)	-	-	17.4
EPS (Rs)	-	-	3.9
EPS gth	-	-	-
P/E (x)	-	-	21.0
EV/EBITDA (x)	-	-	19.3
Div yield (%)	-	-	-

Reliance Petroleum: Initiating coverage with 12-month target price of Rs100 based on DCF

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We believe RPL is in a very strong position to benefit from the likely tight refining supply-demand balance until 2009 (FY2010). RPL's large size, high complexity, competitive position and fiscal advantages place it well to reap the benefits of likely strong global margins over the next few years. We value Reliance Petroleum (RPL) on DCF and arrive at a 12-month target price of Rs100. Our DCF valuation is highly sensitive to (1) refining margins, which is understandable, and (2) the price of natural gas supplied by Reliance Industries for the heat used in the critical refinery process, which is less obvious. If the government insists on a higher price of gas (say, linked to crude price), our DCF valuation would drop to Rs80. Nonetheless, we view the reward-risk balance as favorable given the opportunity for RPL to re-invest likely large free cash flows from FY2010E itself.

Likely strong global refining margins through 2009. We expect strong global refining conditions to continue through 2009. We believe limited capacity additions, strong global demand for oil, tightening product specifications and limited investment in upgrading capacity will result in strong refining margins and benefit large, complex refineries such as those of RPL.

We model strong refining margins and earnings for FY2010E and FY2011E. We model RPL's FY2010E and FY2011E refining margins at US$14.3/bbl and US$13.3/bbl, respectively. These margins translate into FY2010E and FY2011E EPS of Rs20.3 and Rs19.5, respectively. We expect RPL to generate free cash flows from FY2010E and begin to pay down debt from the same year.

Key risks: Refining margin, taxation, natural gas price. Weaker-than-expected refining margins due to any unexpected slowdown in global economic growth may impact demand for refined products and thus, refining margins. RPL's earnings are very highly leveraged to refining margins; a US$1/bbl refining margin change will impact RPL's EPS by 10% and DCF valuation by 13%. Any review of taxation benefits available to RPL's refinery will be negative for earnings. Finally, the price of gas used by RPL for internal refining process is a key variable.

Banking

Sector coverage view	Neutral

Company	Rating	Price, Rs 3-May	Target
SBI	OP	1,122	1,200
HDFC	IL	1,679	1,550
HDFC Bank	IL	1,006	1,180
ICICI Bank	IL	872	920
Corp Bk	IL	331	360
BoB	OP	245	330
PNB	OP	517	610
OBC	IL	196	240
Canara Bk	OP	226	320
LIC Housing	U	155	160
UTI Bank	U	474	410
IOB	OP	118	150
Shriram Transp	OP	125	155
SREI	OP	55	73
MMFSL	OP	235	265
Andhra	OP	82	125
IDFC	IL	100	95
PFC	U	123	105
Centurion Bank	U	40	35
Federal Bank	OP	242	340
J&K Bank	OP	720	875
Indian Bank	OP	116	120

Give value its due

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- **Current valuations favor investments in old private and public banks over the new private banks**
- **Initiate coverage on Federal Bank(OP), J&K Bank(OP) and Centurion Bank of Punjab (U)**

Give value its due. We prefer old private banks and PSU banks-with their attractive valuations and moderate/high RoEs-to the new private banks. The latter's rich valuations reflect market share gains, strong growth and potential foreign acquisitions. We believe the regulatory changes needed for foreign acquisitions could be delayed.

Valuation comparison matrix favors old private banks and PSU banks over new

We see PSU and old private banks delivering healthy earnings growth and profitability over the next three years, providing value. For most new private banks, trading at a premium of about 3X to old banks, valuations take into account market share gains, growth, RoEs and potential sales of stakes to foreign banks. Demand, led by demographic changes, will likely assure new private banks of market-share gains, but further upside is limited owing to (i) potentially disappointing profitability for some banks and (ii) the lack of progress on acquisition-related reforms. We have compared valuations by calculating (1) implicit earnings growth and RoE factored in stock prices and (2) franchise value, yielding four classifications:

I: Good operating performance, low / moderate investor expectations

We believe these banks are likely to continue their historical trend of strong performance (Andhra Bank [OP, TP: Rs125], IOB [OP, TP: Rs150] and PNB [OP, TP: Rs670]).

II. Improving operating performance, low / moderate investor expectations

These are banks that have delivered disappointing profitability in the past but have initiated positive changes since-J&K Bank (initiating with OP, TP: Rs875); Federal Bank (initiating with OP, TP: Rs340); BOB (OP, TP: Rs330); and SBI (OP, TP: Rs1,400).

III. Well-established operations and high investor expectations

HDFC Bank (IL, TP: Rs1,180) has been a consistently strong performer. The other key structural play is ICICI Bank (IL, TP: Rs920), which has achieved significant size and franchise, though at the cost of core ROEs. We believe the company's change in focus from asset growth to liabilities could deliver more profitable growth though the current high issuance could pressure the stock price.

IV. High investor expectations and nascent operations

These companies enjoy high valuations, which most likely factor in strong, though yet-to-be-proven, operational performance as well as acquisition-related speculation. Banks belonging to this category are new private banks like Centurion Bank of Punjab (U, TP: Rs35). We believe investors looking for acquisition upside should play HDFC Bank over Centurion.

Banking

HDFC.BO, Rs1679	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	1,550
52W High -Low (Rs)	1825 - 962
Market Cap (Rs bn)	451.3

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	22.1	27.2	31.9
Net Profit (Rs bn)	15.7	18.5	21.8
EPS (Rs)	62.1	69.0	81.2
EPS gth	*23.6*	*11.2*	*17.7*
P/E (x)	27.1	24.3	20.7
P/B (x)	8.1	5.1	4.5
Div yield (%)	1.2	1.5	1.7

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	69.2	4.5	3.1
MFs	1.3	0.5	(0.9)
UTI	-	-	(1.4)
LIC	1.4	0.5	(0.9)

HDFC: Net Profit up 29% YoY, underpinned by business growth.

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- **HDFC's net profit up 29% y-o-y to Rs5.50 bn, 7% above estimates,**
- **Strong disbursement growth in 4Q and high net operating income,**
- **Raise estimates and rollover price target to Rs1,550 on FY2009 basis, retain IL.**

HDFC reported net profit of Rs5.50 bn, up 29% y-o-y and 7% above our estimate. Disbursements growth remained strong at 28% in 4QFY07 despite fears on slowdown in the mortgage markets. The growth in business and higher income from treasury supported net operating income growth of 30%. We raise our earnings estimates by 8% and 14% for FY2008 and FY2009 respectively to factor higher disbursements and NIMs. We rollover our target price to Rs1,550 (on FY2009 basis) from Rs1300 (on FY2008) basis. Our SOTP value is arrived at by adding Rs590 for subsidiaries (including Rs277 for HDFC Bank and Rs190 for the insurance business).

Key operational highlights

- HDFC's net operating income increased 30% yoy driven by both housing loans and higher income from excess liquidity. HDFC deployed close to 11% of its total assets in treasury operations, which likely yielded higher returns in a tight market. Around 45% of the incremental net fund based income was driven by this activity.
- Disbursements grew by a strong 28% in 4Q despite overall slowdown for the industry. We believe most banks including HDFC's largest competitor ICICI Bank, have gone slow on housing loan disbursements. This has likely enabled HDFC to maintain growth momentum. The share of HDFC Bank in incremental disbursements remained high at about 25%.
- HDFC's management indicated that spreads were marginally higher at 2.18% in 4QFY07 (up from 2.16% in 3QFY07). The company has recently raised home loan rates to 11.25% from 10.5% for floating rate home loans.
- The gross NPLs ratio remained comfortable at 0.92%. During the quarter, National Housing Bank (NHB) imposed 0.4% provisions for standard non-housing loans of housing finance companies. Accordingly, HDFC has made a provision of about Rs650 mn by utilizing special reserves.
- HDFC's unrealized gains were down 12% qoq to Rs69 bn. However, excluding value of HDFC Bank, unrealized gains were down 20% to Rs6.3 bn. This could be due to partial booking of gains and a fall in the stock markets in March 2007 over December 2006. The current outstanding unrealized gains are close to two years of FY2007 gains booked by the company.

HDFC values of key subsidiaries

Subsidiaries	HDFC's holding (%)	Value of companies (Rsmn)	Value per share (Rs)	Comments
HDFC			890	Based on residual growth model
Value of subsidiaries and associates			**590**	
HDFC Bank	22.0	371,700	277	Based on target price
HDFC Standard Life MF	50.1	25,131	47	Rs500 bn of AUM and 5%
Intelenet	50.0		29	4X revenue of FY2007
Insurance	51.0		190	NBAP analysis
Gruh Finance	62.0	5,070	12	Based on market price
IDFC	1.9	2,017	8	Based on market price
HDFC Venture capital				
HDFC Property Fund	80.5	1,500	5	Rs10bn of fund assuming value of 15%
HDFC IT Corridor Fund	80.5	697	2	Rs4.64bn of fund assuming value of 15%
New fund in process	100.0	5,231	21	
Equity investments			**47**	
BVPS of non-strategic investments			24	
Unrealised gains on above			23	
Total value per share			**1,527**	

HDFC (Old and new estimates Rsmn)

	Old estimates			New estimates			% change		
	FY2007E	FY2008E	FY2009E	FY2007A	FY2008E	FY2009E	FY2007E	FY2008E	FY2009E
NIM (post provisions - %)	3.5	3.4	3.2	3.6	3.6	3.5			
Loan book	566,280	703,615	854,338	565,123	707,412	875,127	(0.20)	0.54	2.43
Operating income	57,302	70,874	84,309	58,069	80,915	101,898	1.34	14.17	20.86
Interest income	48,167	62,225	76,340	48,502	71,262	93,370	0.70	14.52	22.31
Capital gains	3,400	2,500	2,000	3,641	3,500	2,500	7.07	40.00	25.00
Other income	5,735	6,150	5,969	5,927	6,153	6,028	3.33	0.06	0.99
Interest expense	36,465	46,135	56,275	36,669	54,612	71,015	0.56	18.37	26.19
Net operating income	**20,837**	**24,739**	**28,034**	**21,401**	**26,304**	**30,883**	**2.70**	**6.32**	**10.16**
Net operating inc. excl. gair	**17,437**	**22,239**	**26,034**	**17,760**	**22,804**	**28,383**	**1.85**	**2.54**	**9.02**
Loan loss provisions	180	225	259	250	313	359	38.89	38.89	38.89
Fee income	679	835	985	686	857	1,046	1.07	2.71	6.20
Operating expenses	2,311	2,780	3,294	2,192	2,481	2,887	(5.14)	(10.78)	(12.36)
Employee expenses	910	1,089	1,268	913	1,058	1,259	0.28	(2.80)	(0.68)
PBT	**19,045**	**22,583**	**25,475**	**19,678**	**24,396**	**28,706**	**3.32**	**8.03**	**12.68**
Net profit	**15,332**	**17,163**	**19,106**	**15,704**	**18,541**	**21,816**	**2.43**	**8.03**	**14.18**
PBT bef cap gains	**15,645**	**20,083**	**23,475**	**16,037**	**20,896**	**26,206**	**2.51**	**4.05**	**11.63**

Source: Kotak Institutional Equities

HDFC - Quarterly results (Rs mn)

	4Q06	1Q07	2Q07	3Q07	4Q07	YoY(%)	4Q07E	Actual vs KS (%)
Operating income	12,344	12,457	14,468	14,545	17,285	40	16,511	5
Interest on loans	9,822	10,372	11,812	12,466	13,852	41	13,517	2
Fees and other charges	268	71	161	125	328	23	321	2
Dividend	315	384	242	25	528	68	373	42
Sale of investment	939	540	1,152	742	819	(13)	966	(15)
Lease income	27	40	45	69	(45)	(268)	26	(271)
Other op income	974	1,051	1,055	1,118	1,802	85	1,308	38
Interest expense	6,773	8,014	9,137	9,475	10,042	48	9,839	2
Net operating income	**5,570**	**4,443**	**5,331**	**5,070**	**7,242**	**30**	**6,672**	**9**
Op. inc. excl. gains, capital gains and lease income	**4,605**	**3,863**	**4,133**	**4,260**	**6,468**	**40**	**5,680**	**14**
Net Fund based income	5,303	4,372	5,170	4,945	6,914	30	6,350	9
Net Fund based income excl gains	4,337	3,792	3,972	4,135	6,140	42	5,358	15
Other exp.	440	667	686	614	474	8	523	(9)
Other exp.	281	442	452	374	261	(7)	312	(16)
Staff expenses	158	225	234	240	214	35	211	1
PBDT	5,131	3,776	4,645	4,456	6,768	32	6,148	10
Depreciation	47	37	39	47	52	11	57	(9)
Other income	41	28	95	39	45	10	37	20
PBT	5,125	3,767	4,701	4,448	6,761	32	6,129	10
Tax	874	799	1,021	893	1,261	44	1,001	26
PAT	**4,251**	**2,968**	**3,680**	**3,555**	**5,501**	**29**	**5,128**	**7**
Tax rate	17	21	22	20	19		16	
PBT excl. capital gains, other income and lease income	**4,119**	**3,159**	**3,408**	**3,599**	**5,942**	**44**	**5,099**	**17**

Source: Company, Kotak Institutional Equities estimates.

Other details - Rs bn	**4Q06**	**1Q07**	**2Q07**	**3Q07**	**4Q07**	**YoY(%)**
Approval for the quarter	78	60	87	79	107	37
Disbursement for the quarter	68	44	69	62	87	28
DSA sales (%)		67	65	70	65	
HDFC Bank	25	25	25	28	25	
Disb excl HDFC Bank	51	33	40	42	40	
Outstanding (Rs bn)	449	473	499	546	565	26
Loan portfolio incl. Pref. & debt	464	492	513	527	580	25
Individuals	303	320	340		374	23
Loans securitised during the year						
Annualised NII (Rs mn)	12,195	9,432	10,700	11,964	15,239	
NIMs	2.63	1.92	2.08	2.3	2.6	
NPAs (Rs mn)	4,463	6,665	6,537	6,884	5,338	20
NPL ratio (%)	0.96	1.41	1.31	1.26	0.9	
CAR (%)	15.00	13.3	13.5	13.7	13	
Tier I (%)		7.8	8.1	8.1	8	
Incremental Borrowing cost (%)			8.00-	8	10	
Borrowing cost avg for the year (%)		7.00		7.4	7.1	
Avg yield (%)		9.14	9.50	9.56	9.93	
Avg spread(%)	2.17	2.14	2.16	2.16	2.18	
Unrealized gains (Rs mn)		59,204	74,891	79,346	69,480	
Less: Gains on HDFC Bank		50,992	61,528	71,444	63,180	
Net gain		8,212	13,363	7,902	6,300	

Source: Company.

Balance sheet (Rs mn)	**4Q06**	**1Q07**	**2Q07**	**3Q07**	**4Q07**
Sharecapital	2,496	2,496	2,496	2,501	2,530
Reserves	42,188	44,815	48,185	51,781	52,984
Term loans	199,956	193,483	212,915	219,568	242,242
Bonds/debentures/CPs	179,844	188,339	189,314	201,171	225,844
Deposits	87,414	107,164	112,049	113,862	103,844
Total liabilities and shareholders funds	**511,897**	**536,297**	**564,959**	**588,882**	**627,444**
Loans	449,901	472,734	498,871	527,487	565,124
Individuals	302,617	320,368	340,118	366,568	373,625
Corporate bodies	139,754	144,388	149,661	150,488	178,585
Others	7,526	7,978	9,092	10,431	12,914
Investments	38,763	37,969	32,057	35,688	36,662
Deferred tax	774	989	1,042	1,127	1,231
Current assets	42,070	45,291	50,228	42,393	50,566
Current liabilities	22,085	23,151	19,635	20,085	28,269
Fixed assets	2,473	2,466	2,396	2,272	2,131
Total assets	**511,897**	**536,297**	**564,959**	**588,882**	**627,444**

Source: Company.

Metals

STRL.BO, Rs533	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	580
52W High -Low (Rs)	614 - 258
Market Cap (Rs bn)	297.7

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	244.8	245.8	230.7
Net Profit (Rs bn)	45.3	38.1	32.6
EPS (Rs)	78.5	68.0	58.1
EPS gth	*162.6*	*(13.4)*	*(14.5)*
P/E (x)	6.8	7.8	9.2
EV/EBITDA (x)	4.5	4.9	4.8
Div yield (%)	0.8	0.8	0.8

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.5	-	-
FIIs	6.6	0.4	(0.9)
MFs	0.4	0.1	(1.1)
UTI	-	-	(1.3)
LIC	-	-	(1.3)

Sterlite Industries: 4Q net profit grows 41% yoy; lowering estimates but maintain OP

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- **4Q cons net profit at Rs11.4 bn grows 41% yoy**
- **We lower our FY2008 & FY2009 cons. EPS estimates 6% each**
- **Maintain OP rating on the stock with a revised target price of Rs580**

Sterlite reported 4Q cons net profit (after minority interest) at Rs11.4 bn reflecting a 41% yoy growth but a 12% qoq decline. The qoq decline was largely caused by the weakening of LME zinc prices during 4Q, which impacted profitability for Hindustan Zinc. Profit growth for 4Q was largely driven by the aluminium and copper businesses whose attributable profits rose 83% yoy. Sterlite has ended FY2007 with a consolidated net profit of Rs43.8 bn and an EPS of Rs78.5 (169% yoy growth). We lower our cons. EPS estimates for Sterlite 6% for FY2008 to Rs68.0 (Rs72.5 previously) and 6% for FY2009 to Rs58.1 (Rs61.8 previously). We maintain our Outperform rating on Sterlite with a revised target price of Rs580 (Rs645 previously).

Stand-alone copper division profits decline 13% yoy in 4Q

Copper division 4Q net profit at Rs2.1 bn declined 13% yoy. 4Q EBITDA margins at 6.3% declined 800 bps yoy largely due to weakening TC/RCs during the quarter. The copper division has ended FY2008 with a net profit of Rs7.8 bn - a 53% yoy growth. We expect Sterlite's custom copper smelting business to come under pressure in FY2008 due to weakening TC/RCs and have already factored the same in our FY2008 EPS estimates for the company. We forecast FY2008 net profit for the copper division at Rs5.2 bn - a 33% yoy decline due to weak TC/RCs.

We lower our FY2008 & FY2009 cons. EPS estimates 6% each

We lower our cons. EPS estimates for Sterlite 6% for FY2008 to Rs68.0 (Rs72.5 previously) and 6% for FY2009 to Rs58.1 (Rs61.8 previously). We now factor in:

1. **Lower profits for Hindustan Zinc over FY2008-09.** We had recently lowered our net profit estimates for HZL 13% for FY2008 to Rs38.6 bn and 10% for FY2009 to Rs32.5 bn factoring in lower zinc prices.
2. **Higher aluminium division profits.** We increase our LME aluminium price assumption for Balco to US$2,500/ton for FY2008 (US$2,100/ton previously) and to US$2,400/ton for FY2009 (US$2,100/ton previously). This results in our net profit estimate for Balco going up 27% for FY2008 to Rs8.4 bn and 6% for FY2009 to Rs7.0 bn. Our revised estimates factor in a USD/INR of Rs43.0 for FY2008 and Rs42.0 for FY2009.
3. **Lower tax-rate for copper divison.** One division of Sterlite's copper business has been converted into an export-oriented unit (EOU) resulting in FY2007 effective tax rate coming down to just 14.1%. In FY2008, we estimate about one-third of copper production to flow through the EOU resulting in an effective tax rate of about 20% over FY2008-09. Our net profit estimates for the copper division now move up 8% for FY2008 to Rs5.2 bn and 2% for FY2009 to Rs5.0 bn.

Our revised SOTP target price for Sterlite now stands at Rs580 (Rs645 previously). At our target price, Sterlite will trade at 8.5X FY2008 cons. P/E and 9.9X FY2009 cons. P/E. We maintain our Outperform rating on Sterlite. We would recommend buying the stock on declines.

Sterlite Industries: 4QFY2007 results

(in Rs mn)	4QFY06	3QFY07	4QFY07	% chg. qoq	% chg. yoy	FY06	FY07	% chg.
Net sales	**50,999**	**68,143**	**62,516**	**(8.3)**	**22.6**	**131,272**	**243,868**	**85.8**
Operating costs	**(31,962)**	**(40,515)**	**(39,799)**	**(1.8)**	**24.5**	**(94,393)**	**(149,280)**	**58.1**
(Inc)/Dec in stocks	(1,510)	(2,696)	(883)	(67.2)	(41.5)	4,124	3,834	(7.0)
Raw materials	(22,253)	(27,022)	(28,014)	3.7	25.9	(65,703)	(108,812)	65.6
Staff costs	(1,302)	(1,319)	(1,587)	20.3	21.9	(4,518)	(5,495)	21.6
Other expenses	(6,898)	(9,478)	(9,315)	(1.7)	35.1	(28,296)	(38,807)	37.1
EBITDA	**19,037**	**27,628**	**22,716**	**(17.8)**	**19.3**	**36,878**	**94,589**	**156.5**
Other income	1,280	1,864	2,485	33.3	94.1	3,363	6,817	102.7
Interest costs	(942)	(856)	(874)	2.1	(7.2)	(2,353)	(3,791)	61.1
Depreciation	(2,185)	(1,888)	(2,446)	29.6	11.9	(5,269)	(8,039)	52.6
Extraordinairies	(25)	(25)	(63)	148.8	147.8	(101)	(1,572)	1,456.5
PBT	**17,164**	**26,724**	**21,818**	**(18.4)**	**27.1**	**32,518**	**88,004**	**170.6**
Taxes	(5,836)	(7,763)	(4,702)	(39.4)	(19.4)	(10,236)	(24,118)	135.6
PAT	**11,328**	**18,960**	**17,117**	**(9.7)**	**51.1**	**22,282**	**63,887**	**186.7**
Less: minority interest	(3,199)	(6,030)	(5,685)	(5.7)	77.7	(5,994)	(20,024)	234.1
PAT (cons)	**8,130**	**12,930**	**11,432**	**(11.6)**	**40.6**	**16,287**	**43,862**	**169.3**
Contribution to cons. PAT								
Zinc business	5,207	8,667	6,070	(30.0)	16.6	9,556	28,837	201.8
Aluminium & copper businesses	2,923	4,263	5,362	25.8	83.4	6,731	15,025	123.2
Key ratios								
EBITDA (%)	37.3	40.5	36.3	(4.2)	(1.0)	28.1	38.8	(24.3)
Cons. PAT (%)	15.9	19.0	18.3	(0.7)	2.3	12.4	18.0	(10.2)
Effective tax rate (%)	34.0	29.0	21.5	(7.5)	(12.5)	31.5	27.4	(5.3)

Source: Company data, Kotak Institutional Equities

Our SOTP target price for Sterlite is Rs580

Target price calculations for Sterlite

Business	Sterlite's holding (%)	Equity value (Rs mn)	Value of Sterlite's holding (Rs mn)	Value per share of Sterlite (Rs)	Methodology
Zinc (Hindustan Zinc)	64.9	306,334	198,872	356	9.4X FY2009 P/E equivalent to 4.5X FY2009 EV/EBITDA; 2.1X FY2008 P/B & 9.6X FY2009 P/FCF
Copper	100.0	57,546	57,546	103	11.5X FY2009 P/E; equivalent to 7.8X FY2009 EV/EBITDA and 1.0X FY2009 P/B
Aluminium (Balco)	51.0	78,322	39,944	71	11.2X FY2009 P/E; equivalent to 5.3X FY2009 EV/EBITDA; 1.9X FY2009 P/B & 8.6X FY2009 P/FCF
Copper mines of Tasmania	100.0	15,134	15,134	27	7X FY2009 P/E equivalent to DCF based value over balance six years of reserve life
Vedanta Alumina	29.5	41,850	12,346	22	1X replacement value of the alumina refinery
SOTP target price (Rs)				**580**	

Source: Kotak Institutional Equities estimates

Commodity price and volume assumptions for Sterlite

	2005	2006	2007E	2008E	2009E
Price					
LME zinc (US$/ton)	1,158	1,808	3,620	3,500	2,500
LME lead (US$/ton)	993	1,175	1,300	1,700	1,200
LME aluminium (US$/ton)	1,721	2,172	2,585	2,500	2,400
Alumina (US$/ton)	-	580	350	275	275
LME copper (US$/ton)	2,834	3,860	6,335	6,000	5,000
Copper TC/RCs (USc/lb)	8.6	23.1	17.9	16.0	16.0
Volume					
Zinc production (tons)	265,924	317,558	349,350	395,080	568,650
Lead production (tons)	15,727	23,636	51,500	61,800	72,100
Copper production (tons)	171,992	273,048	310,000	360,000	392,000
Aluminium production (tons)	100,272	160,155	315,000	343,000	343,000

Source: Kotak Institutional Equities estimates

Diversified

ABNL.BO, Rs1150	
Rating	OP
Sector coverage view	-
Target Price (Rs)	1,350
52W High -Low (Rs)	1494 - 493
Market Cap (Rs bn)	107.3

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	32.2	35.6	39.9
Net Profit (Rs bn)	2.1	2.3	2.5
EPS (Rs)	22.8	25.0	26.8
EPS gth	*2.5*	*9.9*	*7.1*
P/E (x)	50.5	46.0	42.9
EV/EBITDA (x)	24.3	22.9	20.7
Div yield (%)	0.5	0.5	0.6

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	38.3	-	-
FIIs	17.9	0.3	(0.1)
MFs	8.9	0.9	0.5
UTI	-	-	(0.4)
LIC	8.9	0.8	0.5

Aditya Birla Nuvo: Valuations more of 'Idea-play' rather than standalone performance. 4QFY07 results: in-line with expectations

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- **Stake in Idea Cellular forms 68% of SOTP-based target price. Valuations cease to draw reference from standalone earnings announcements now, in our opinion.**
- **Growth in Carbon Black and Garments drove growth in standalone revenues and EBIT growth.**
- **We raise ABNL's target price to Rs1,350 (Rs1,250 earlier) following higher value now attributed to Idea Cellular and some of extant businesses. We continue to rate the stock as Outperform.**

Aditya Birla Nuvo (ABNL), in its 4QFY07 results, reported PAT of Rs623 mn, up 19% on yoy basis. Carbon Black and Garments were the key revenue as well as earnings drivers for 4QFY07 for the standalone entity. Mix of our SOTP-based target price has changed following higher value attributed to stake in Idea cellular. We raise our target price to Rs1,350 (from Rs1,250) and maintain an Outperform rating.

Carbon Black and Garments division drove standalone revenue and earnings growth. Higher sales volumes and better realizations drove 30% growth in revenue for carbon black business. Stable Ad-spend and improved realization led to better margins for Garments division.

Idea Cellular's EBIT grew 40%, whereas BSL's individual premium income growth was restricted to just 35%. Idea Cellular's EBIT grew 40% led by 90% growth in subscriber base, albeit falling ARPUs. BSL's growth in individual business premium income was 35% and total premium income growth at 29% is similar to our full year revised growth estimate of 53%.

The company targets to commission Carbon black's expansion of 60,000 TPA by June 2007. We have built in expansion kicking-in only in 4Q of FY2008. Besides, ABNL reported first revenue and earnings numbers from garment contract manufacturing. Since that business is very nascent as of now, we have not ascribed a separate value for it.

We raise our SOTP-based target price at Rs1,350/ share. We now benchmark valuation to Idea Cellular to the latest traded market capitalization, adjusted for 10% subsidiary holding discount. We note that Idea now forms 68% of our SOTP-based target price. We continue to rate the stock as Outperformer.

Aditya Birla Nuvo (standalone), Interim results, March fiscal-year ends (Rs mn)

		qoq			yoy		
	2007E	4Q 2007	3Q 2007	(% chg)	4Q 2007	4Q 2006	(% chg)
Net sales	**32,208**	**8,597**	**8,812**	***(2.4)***	**8,597**	**7,628**	***12.7***
Total expenditure	(26,986)	(7,265)	(7,317)		(7,265)	(6,351)	
Inc/(Dec) in stock	-	55	207		55	153	
Raw materials	(17,212)	(4,669)	(4,764)		(4,669)	(4,279)	
Staff cost	(1,722)	(440)	(486)		(440)	(474)	
Other expenditure	(8,052)	(2,211)	(2,274)		(2,211)	(1,751)	
EBITDA	**5,222**	**1,332**	**1,495**	***(10.9)***	**1,332**	**1,277**	***4.3***
OPM (%)	**16.2**	**15.5**	**17.0**		**15.5**	**16.7**	
Other income	500	106	20		106	48	
Interest	(1,256)	(491)	(456)		(491)	(168)	
Depreciation	(1,284)	(280)	(291)		(280)	(364)	
Pretax profits	**3,182**	**668**	**769**	***(13.1)***	**668**	**794**	***(15.8)***
Extraordinaries	-	-	(6)		-	45	
Tax	(1,057)	36	(209)		36	(320)	
Deferred taxation	-	(82)	(27)		(82)	48	
Net income	**2,124**	**623**	**527**	***18.1***	**623**	**567**	***9.9***
Adjusted profits	**2,124**	**623**	**533**	***16.9***	**623**	**522**	***19.4***
Income tax rate (%)	*33.2*	*6.8*	*30.7*		*6.8*	*34.3*	
Segment results							
Revenues		**8,597**	**8,812**	**(2.4)**	**8,597**	**7,628**	**12.7**
Garments		1,736	1,658	4.7	1,736	1,584	9.6
Rayon yarn		1,074	1,095	(1.9)	1,074	1,005	6.9
Carbon black		1,813	1,969	(7.9)	1,813	1,554	16.7
Insulators		382	224	70.8	382	352	8.7
Textiles		1,590	1,571	1.2	1,590	1,485	7.0
Fertilisers		1,977	2,261	(12.6)	1,977	1,556	27.0
Financial services		28	46	(38.7)	28	108	(74.1)
Others		-	-	-	-	-	-
Less: Inter-segment		(4)	(11)	-	(4)	(16)	-
EBIT		**1,130**	**1,240**	**(8.9)**	**1,130**	**924**	**22.3**
Garments		175	115	52.1	175	89	96.1
Rayon yarn		123	240	(48.8)	123	223	(44.7)
Carbon black		294	318	(7.4)	294	180	63.6
Insulators		112	96	16.4	112	86	30.6
Textiles		111	128	(12.9)	111	101	10.1
Fertilisers		312	334	(6.8)	312	36	768.0
Financial services		3	9	(66.7)	3	200	(98.5)
Others		-	-	-	-	10	-

Notes:
(a) 3Q 2006 numbers are recasted to account for the merger of Indogulf and Birla global with Indian rayon.

Source: Company data, Kotak institutional equities estimates

Aditya Birla Nuvo, SOTP-based valuation, March fiscal-year ends (Rs/ share)

	Old value	Remarks
Stake in Birla sun life insurance (74%)	234	Recent insurance report pegs value at Rs234/ share
Stake in IDEA cellular (31.8%)	923	Value pegged to most recently traded stock price of Idea
Transworks and Minacs (BPO)	96	
Fertilizers	75	Based on full capacity FCFE
Garments	94	
Rayon and allied chemicals	59	
Carbon black	69	
Textiles	66	
Insulators	26	
Stake in Mutual fund (50%)	34	
Stake in PSI Data system (70.4%)	6	
Total	**1,682**	
Less: Net debt	303	Increased recently post 4Q FY07 numbers release
Equity value	**1,379**	
Target price	**1,350**	**Raised from Rs1,250/ share earlier**

Source: Kotak institutional equities estimates.

Aditya Birla Nuvo, EBITDA analysis, March fiscal-year ends (Rs mn)

	4Q 2007	4Q 2006	yoy (% chg)	Remarks
Standalone businesses				
Rayon	205	294	(30.3)	Fell on quarter-over-quarter basis, but growth of 38% on yoy basis
Carbon black	337	224	50.4	Stupendous run in Carbon Black prices leads to improved earnings
Fertilizers	345	379	(9.0)	New policy norms announced leads to lower subsidies
Insulators	233	146	59.6	Production resumed post strike- leads to improved profitability
Garments	248	158	57.0	Stabilizing ad-spends and better realizations lead to improved earnings
Subsidiaries				
Life insurance (b)	(660)	(290)	127.6	Aggressive ramp-up in distribution strains profitability.
BPO (c)	71	71	-	Stable EBIT despite higher revenues
Joint venture				
Telecom (c)	2,796	1,994	40.2	Subscriber number goes aggressively albeit lower ARPUs

Notes:
(a) The list of businesses outlined is only illustrative for key businesses. Not meant to be exhaustive.
(b) Net profit/ loss for Life insurance business. EBITDA not separately disclosed by ABNL.
(c) EBIT for BPO/ Telecom as EBITDA not separately disclosed.

Source: Company data, Kotak institutional equities estimates

Diversified

SNTX.BO, Rs202	
Rating	OP
Sector coverage view	-
Target Price (Rs)	260
52W High -Low (Rs)	263 - 125
Market Cap (Rs bn)	24.5

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	11.1	14.2	18.2
Net Profit (Rs bn)	1.3	1.9	2.6
EPS (Rs)	10.3	15.4	21.0
EPS gth	*10.9*	*49.3*	*36.1*
P/E (x)	19.5	13.1	9.6
EV/EBITDA (x)	11.9	8.4	5.8
Div yield (%)	0.5	0.6	0.8

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.2	-	-
FIIs	17.6	0.1	0.1
MFs	9.9	0.2	0.2
UTI	-	-	-
LIC	-	-	-

Sintex Industries: 4Q 2007 results'back on track; as expected

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- **Sintex reported 4Q net income of Rs537 mn (vs. our expectation of Rs487 mn), up 32% on yoy basis. It ended the year with net earnings of Rs1.3 bn, up 42% over last year.**
- **EBITDA margins for the quarter improved 590bps vs. sequential last quarter, primarily driven by better margins in textiles. For FY2007, margins grew 250 bps.**
- **The company informed that it's on track for Textile and Pre-fab expansions, however, it's running late for the garmenting expansion on the clients request.**
- **The management also expressed its inability to time the impending acquisition.**
- **We maintain earnings estimates, Outperform rating and TP of Rs260. However, announcement of value-accretive acquisition is critical to stock-performance from here as majority of news-flow is currently priced in, in our opinion.**

Sintex, in its 4Q results reported a PAT of Rs537 mn (our estimate Rs487 mn), up 32% on yoy basis. Revenues, at Rs3.6 bn were up 15% on yoy basis. Operating margins grew 590 bps, largely owing to higher margins in the textile segment. Plastics revenue grew at 13%, slower than textiles (at 26%). We continue with our Outperform rating and target price of Rs260/ share. However, in our opinion, majority of the incremental news-flow is currently priced in and announcement of value-accretive acquisition is critical to stock performance hereon.

4Q FY07 was normal on all accounts. 4Q net income of Rs537 mn (vs. our expectation of Rs487 mn), up 32% on yoy basis. Revenues for the quarter, at Rs3.6 bn grew 15% on yoy basis. Sintex' new designs in Dobby and Jacquard collection allowed it to raise EBIT margins to 31% (vs. 19% previous quarter), which culminated into 60% yoy growth in EBITDA.

Sintex ended FY2007 with Revenues of Rs11.2 bn, up 31% and net earnings of Rs1.3 bn, up 42%. EBITDA margins grew 250 bps, primarily led by growth in textile margins.

On track for all expansions. Sintex informed over the call that it is on track for its 5mn meters of textile and expansion in Pre-fabs at Nagpur and Kolkata are likely to start at estimated time. However, the company informed that it has delayed the start of its Garmenting facility by 6 months on clients request. Besides, the management also declined to give a revised date for acquistion.

Not a quarter-over-quarter story any longer. We note that analysis of Sintex numbers on a quarterly basis is increasingly getting difficult owing to non-linear revenue recognition in its Plastics (especially Pre-fabs division). We recollect that Plastics' revenues in 3Q FY07 dramatically under performed that of Textiles', which completely reversed in 4Q this fiscal.

We maintain our earnings estimate, Target price of Rs260/ share and Outperform rating.

Exhibit 1: Sintex reports 32% growth in standalone earnings

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

	4QFY07	4QFY06	Y-o-y growth (%)	3QFY07	Q-o-q growth (%)	FY2006	FY2007	Y-o-y growth (%)
Net revenue	**3,649**	**3,180**	**14.7**	**2,748**	**32.8**	**8,534**	**11,178**	**31.0**
Total expenditure	***2,882***	***2,701***		***2,258***		***7,092***	***9,005***	
Raw material cost	2,308	2,008		1,716		4,573	6,954	
Stock adjustment	(148)	103		(31)		85	(397)	
Employee expenses	192	132		99		374	479	
Other expenses	531	458		474		2,059	1,969	
EBITDA	**766**	**480**	**59.7**	**489**	**56.7**	**1,443**	**2,173**	**50.6**
Margin (%)	*21.0*	*15.1*		*17.8*		*16.9*	*19.4*	
Other income	80	160		67		298	267	
Depreciation	109	84		104		307	415	
EBIT	738	556		452		1,434	2,025	
Interest	127	83		113		291	410	
PBT	611	474		339		1,143	1,615	
Taxes	74	65		84		223	309	
Current taxes	30	(15)		22		174	200	
Deferred taxes	43	80		62		49	110	
Adjusted PAT	**537**	**408**	**31.5**	**255**	**110.9**	**920**	**1,306**	**42.0**
Extra-ordinary items	-	-		-		-	(0)	
Reported PAT	**537**	**408**	**31.5**	**255**	**110.9**	**920**	**1,306**	**41.9**

Source: Company data, Kotak institutional equities

Exhibit 2: Textiles surprise, plastics moderate - reversal in trends from 3Q 2007

Segmental results of Sintex, March fiscal year-ends (Rs mn)

	4QFY07	4QFY06	Y-o-y growth (%)	3QFY07	Q-o-q growth (%)	FY2006	FY2007	Y-o-y growth (%)
Revenues	**3,729**	**3,190**	**16.9**	**2,815**	**32.5**	**8,605**	**11,412**	**32.6**
Textiles	**923**	**731**	**26.3**	**836**	**10.4**	**2,493**	**3,180**	**27.5**
Collection	260	300		202		881	787	
RMG	640	415		540		1,459	2,170	
Others	23	16		94		153	223	
Plastics	**2,761**	**2,448**	**12.8**	**1,915**	**44.2**	**6,101**	**8,058**	**32.1**
Tanks	370	274		300		1,481	1,192	
Prefab structures	1,753	1,714		600		3,172	4,125	
Industrial custom mouldings	608	585		1,000		1,429	2,461	
Others	30	(125)		15		19	280	
Others	**45**	**11**		**64**		**11**	**174**	
EBIT	**738**	**556**	**32.6**	**452**	**63.1**	**1,434**	**2,025**	**41.2**
Textiles	289	136		167		444	654	
Plastics	364	260		276		829	1,211	
Unallocated	84	160		9		160	160	
EBIT Margins (%)								
Textiles	31.3	18.6		20.0		17.8	20.6	
Plastics	13.2	10.6		14.4		13.6	15.0	

Source: Company communication, Kotak institutional equities

Sintex industries, SOTP Valuation, FY2008E basis, March fiscal year-ends (Rs mn)

	EBITDA	EV/EBITDA (X)	EV	Remarks
Textiles	1,045	10.0	10,452	Similar to high-end textile companies
Pre-fabs	1,146	12.0	13,754	Similar to engineering companies
Custom mouldings	593	12.0	7,111	Similar to auto component companies
Water tanks	55	3.0	166	Low entry barrier, low volume growth
Others			50	
Total enterprise value			**31,532**	
Net debt			(450)	Currently valued at 1X book. Value-accretive acquisition is upside
Arrived market cap			**31,982**	
Fully diluted number of shares (#)			121	
Equity value per share (Rs)			**263**	
Target price (Rs)			**260**	

Sintex profit model, March fiscal year-ends, 2004-2009E, (Rs mn)

	2004	2005	2006	2007E	2008E	2009E
Net revenues	5,297	6,587	8,534	11,178	14,310	17,925
Other operating income	—	—	—	—	—	—
Gross operating revenues	**5,297**	**6,587**	**8,534**	**11,178**	**14,310**	**17,925**
Operating expenses						
Cost of goods sold	(2,690)	(3,961)	(5,190)	(6,796)	(8,657)	(10,844)
Staff costs	(265)	(306)	(374)	(412)	(453)	(498)
SG&A expenses	(1,449)	(1,188)	(1,527)	(1,797)	(2,360)	(3,144)
Total expenditure	**(4,404)**	**(5,455)**	**(7,091)**	**(9,005)**	**(11,471)**	**(14,486)**
(% of revenues)	*83.1*	*82.8*	*83.1*	*80.6*	*80.2*	*80.8*
EBITDA	**893**	**1,132**	**1,443**	**2,173**	**2,839**	**3,439**
EBITDA Margin (%)	*16.9*	*17.2*	*16.9*	*19.4*	*19.8*	*19.2*
Net finance cost	(262)	(249)	(291)	(410)	(288)	—
Other income	88	105	298	267	225	188
PBDT	**719**	**989**	**1,450**	**2,030**	**2,777**	**3,627**
Depreciation and amortisation	(226)	(283)	(307)	(415)	(510)	(613)
Pretax profits before extra-ordinaries	**492**	**706**	**1,143**	**1,615**	**2,267**	**3,014**
Exceptional items	(2)	38	(0)	—	—	—
Prior period items	—	—	—	—	—	—
Profit before tax	**494**	**668**	**1,143**	**1,615**	**2,267**	**3,014**
Current tax	(55)	(76)	(173)	(201)	(258)	(357)
Deferred tax	(100)	(129)	(49)	(108)	(172)	(216)
Minority / Associate earnings	—	—	—	—	—	—
Reported PAT	340	463	921	1,307	1,836	2,441
Adjusted net profit	**338**	**501**	**920**	**1,307**	**1,836**	**2,441**
Primary EPS (using wtd avg shares)	4.6	6.6	10.0	11.9	15.1	20.1
Diluted EPS	2.8	4.1	7.6	10.8	15.1	20.1
Year end no of shares (mn)	72.8	92.4	98.7	121.5	121.5	121.5
Weighted average no of shares (mn)	72.8	75.5	92.5	110.1	121.5	121.5
Fully diluted no of shares (mn)	121.5	121.5	121.5	121.5	121.5	121.5
Margins (%)						
EBITDA margin	16.9	17.2	16.9	19.4	19.8	19.2
PBT margin	9.3	10.1	13.4	14.5	15.8	16.8
Net profit margin (w/o extraordinaries)	6.4	7.6	10.8	11.7	12.8	13.6
Effective tax rate (%)	31.3	29.0	19.5	19.1	19.0	19.0
Growth (% p.a)						
Revenues	—	24.4	29.6	31.0	28.0	25.3
EBITDA	—	26.7	27.5	50.6	30.7	21.1
PBT	—	35.3	71.1	41.3	40.3	33.0
Net profit (w/o extraordinaries)	—	48.2	83.6	42.0	40.5	33.0
Diluted EPS	—	48.2	83.6	42.0	40.5	33.0

Sintex balance sheet, March fiscal year-ends, 2004-2009E, (Rs mn)

	2004	2005	2006	2007E	2008E	2009E
Equity						
Share capital	146	185	197	243	243	243
General reserves and surplus	1,724	3,376	4,351	8,300	9,990	12,225
Net worth	**1,870**	**3,561**	**4,549**	**8,543**	**10,233**	**12,468**
Deferred tax liability	441	570	619	727	900	1,116
Debt						
Secured	2,982	3,382	3,595	780	—	—
Unsecured	4	2	2,231	1	1	1
Total Debt	**2,986**	**3,384**	**5,827**	**781**	**1**	**1**
Current liability and provisions	1,104	1,578	1,797	2,408	3,020	3,739
Total capital	**6,400**	**9,094**	**12,792**	**12,460**	**14,154**	**17,324**
Assets						
Cash and cash equivalents	192	783	3,553	1,050	523	2,006
Inventory	755	1,068	863	1,225	1,568	1,964
Sundry Debtors	1,157	1,481	1,507	1,991	2,548	3,192
Loans and Advances	360	445	370	370	370	370
Gross block	4,645	5,044	6,750	7,800	10,100	11,400
Less: Accumulated depreciation	1,493	1,760	2,054	2,469	2,979	3,592
Net fixed assets	3,153	3,284	4,695	5,331	7,120	7,808
Capital -WIP	183	296	190	700	230	190
Net fixed assets (incl. C-WIP)	**3,336**	**3,581**	**4,885**	**6,031**	**7,351**	**7,998**
Investments	569	1,675	1,568	1,748	1,748	1,748
Miscallenous expenditure	32	61	45	45	45	45
Intangibles	—	—	—	—	—	—
Total Assets	**6,400**	**9,094**	**12,792**	**12,460**	**14,154**	**17,324**
Leverage and return raitos (%)						
Debt/Equity	129.2	81.9	112.7	8.4	—	—
Debt/Capitalisation	56.4	45.0	53.0	7.8	—	—
Net Debt/Equity	116.6	43.7	63.4	33.9	8.3	1.5
Net Debt/Capitalisation	53.8	30.4	38.8	25.3	7.7	1.5
Net Debt/EBITDA	301.7	159.3	227.2	144.5	32.6	6.0
ROE (%)	14.8	13.2	18.0	14.2	16.6	18.0

Sintex cash flow statement, March fiscal year-ends, 2004-2009E, (Rs mn)

	2004	2005	2006	2007E	2008E	2009E
Operating cash flows						
Pre-tax profits and extraordinary items	492	706	1,143	1,615	2,267	3,014
Depreciation & amortization	226	283	307	415	510	613
Taxes paid	(43)	(133)	(121)	(201)	(258)	(357)
Dividend and other income	—	(19)	(68)	—	—	—
Interest expense	262	249	291	410	288	—
Interest paid	(261)	(247)	(287)	(410)	(288)	—
Foreign exchange loss/(gain)	—	4	(7)	—	—	—
Extraordinaries (incl. prior period items)	(12)	(0)	(157)	—	—	—
Other non-cash items	14	23	24	—	—	—
Working capital changes	(124)	(189)	400	(235)	(289)	(321)
Cash flow from operations	**555**	**676**	**1,525**	**1,594**	**2,229**	**2,949**
Operating, excl. working capital	**679**	**865**	**1,124**	**1,830**	**2,518**	**3,270**
Investing						
Capex incl. capital issue expenses	(363)	(579)	(1,621)	(1,560)	(1,830)	(1,260)
(Purchase)/sale of assets/businesses	—	—	—	(180)	—	—
(Purchase)/sale of investments (incl. inv. in subsidiaries)	(453)	—	240	—	—	—
Advances to subsidiary	—	—	—	—	—	—
Interest/dividend received	13	19	68	—	—	—
Cash flow from investing	**(803)**	**(560)**	**(1,313)**	**(1,740)**	**(1,830)**	**(1,260)**
Financing						
Proceeds from issue of share capital	—	1,236	266	578	—	—
Net proceeds from borrowings	332	394	2,367	(2,815)	(780)	—
Effect of FX changes	—	—	—	—	—	—
Dividends paid (incl. tax)	(42)	(50)	(84)	(121)	(146)	(206)
Cash flow from financing	**291**	**1,581**	**2,549**	**(2,358)**	**(926)**	**(206)**
Net change in cash/cash equivalents	43	1,697	2,761	(2,504)	(526)	1,483
Beginning cash	150	648	2,345	5,106	2,602	2,076
Ending cash	**192**	**2,345**	**5,106**	**2,602**	**2,076**	**3,558**
Reconciliation	**—**	**2,345**	**5,106**	**2,602**	**2,076**	**3,558**
Cash and bank balance	—	783	3,553	1,050	523	2,006
Marketable securities	—	1,562	1,552	1,552	1,552	1,552

Automobiles

MAHM.BO, Rs792	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	1,000
52W High -Low (Rs)	1002 - 488
Market Cap (Rs bn)	203.4

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	99.4	120.0	146.1
Net Profit (Rs bn)	8.6	11.3	13.8
EPS (Rs)	51.2	67.8	85.0
EPS gth	*43.7*	*32.4*	*25.4*
P/E (x)	15.5	11.7	9.3
EV/EBITDA (x)	10.4	7.8	5.9
Div yield (%)	1.1	1.4	2.0

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	23.0	-	-
FIIs	41.0	1.4	0.7
MFs	6.3	1.3	0.6
UTI	-	-	(0.8)
LIC	9.8	2.0	1.2

Mahindra & Mahindra: M&M Apr 07 sales: Decent UV growth but tractors disappoint

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Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **UVs grow a better-than-expected 14% yoy in April**
- **Tractors disappoint growing just 1% yoy**

M&M reported a better-than-expected 14% yoy growth for UVs in April despite concerns of impact of high interest rates on demand. Tractor sales growth however disappointed coming in at just 1% yoy for the month. We note that this is the third month in a row that M&M's tractor growth has come in single digits, pointing towards far softer growth in FY2008 versus FY2007. Three-wheeler sales, too, were weak in April declining 1% yoy. Our estimates for M&M factor in UV growth of 13%, tractor growth of 10% and 3W growth of 15% in FY2008. We now see downside risk to our tractor growth assumption for FY2008.

4-wheelers April 2007 sales performance

	Apr-07	Apr-06	yoy %	Mar-07	mom %	YTD, FY08	YTD, FY07	yoy %	FY2008 growth estimate
Mahindra & Mahindra									
UVs	9,588	8,389	14.3%	15,210	-37.0%	9,588	8,389	14.3%	12.5%
Tractors	9,060	8,998	0.7%	7,805	16.1%	9,060	8,998	0.7%	10.0%
3 Wheelers	2,005	2,021	-0.8%	3,648	-45.0%	2,005	2,021	-0.8%	15.0%
Total	**21,295**	**19,919**	**6.9%**	**27,674**	**-23.1%**	**21,295**	**19,919**	**6.9%**	**11.8%**

Source: Company, Kotak Institutional Equities.

Metals

SESA.BO, Rs1749	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	1,500
52W High -Low (Rs)	2025 - 808
Market Cap (Rs bn)	69.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	22.2	23.7	24.2
Net Profit (Rs bn)	6.5	7.5	7.7
EPS (Rs)	163.6	188.2	194.7
EPS gth	*12.1*	*15.0*	*3.5*
P/E (x)	10.7	9.3	9.0
EV/EBITDA (x)	5.9	4.9	4.5
Div yield (%)	1.0	5.5	6.5

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.0	-	-
FIIs	20.1	0.2	(0.0)
MFs	5.6	0.3	0.1
UTI	-	-	(0.2)
LIC	1.0	0.1	(0.1)

Sesa Goa: Export tax lowered for low-grade iron ore fines; upgrading estimates

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- **Export tax on iron ore fines with less than 62% Fe content lowered to Rs50/ton**
- **We increase our EPS estimates for Sesa Goa 13% for FY2008 and FY2009**
- **Our revised target price for Sesa Goa is Rs1,500 (Rs1,300 previously)**
- **Acceptance ratio analysis throws up trading band of Rs1,750-1,900 for the stock**

The finance ministry has reduced export tax on iron ore fines with grade less than 62% Fe content to Rs50 per ton while maintaining export tax at Rs300/ton for grades higher than 62% Fe content. About 65% of Sesa Goa's iron ore sales are from Goa, majority of which are in the form of fines with less than 62% Fe content. These will now attract lower export tax at Rs50/ton. The balance 35% of iron ore sales are from the mines in Karnataka and Orissa, which are of high-grade with greater than 62% Fe content. These will continue to attract export tax at Rs300 per ton. This results in a blended export tax of Rs140 per ton for Sesa Goa. We increase our EPS estimates for Sesa Goa 13% for FY2008 and FY2009 each to Rs188.2 and Rs194.7 respectively (Rs166.3 and Rs172.8 respectively previously). Our revised target price for Sesa Goa is Rs1,500 (Rs1,300 previously) at 4X FY2009 EV/ EBITDA equivalent to 7.7X FY2009 P/E. Our trading band for Sesa Goa till the open offer at Rs2,036 closes now moves up to Rs1,750-Rs1,900 for various acceptance ratio scenarios

Sesa Goa is likely to trand in a band of Rs 1,750-Rs 1,900 based on fair value of Rs 1,500

Percentage tendered (%)	**100**
Acceptance ratio (%)	40.8
Offer price	2,036
Fair value	**1,500**

Sesa trading range matrix grid (Rs)

		Acceptance ratio (%)				
		40	**50**	**60**	**70**	**80**
Offer price	**2,036**	1,714	1,768	1,822	1,875	1,929

Source: Kotak Institutional Equities

Banking

Sector coverage view			Neutral

		Price, Rs	
Company	**Rating**	**3-May**	**Target**
SBI	OP	1,122	1,200
HDFC	IL	1,679	1,550
HDFC Bank	IL	1,006	1,180
ICICI Bank	IL	872	920
Corp Bk	IL	331	360
BoB	OP	245	330
PNB	OP	517	610
OBC	IL	196	240
Canara Bk	OP	226	320
LIC Housing	U	155	160
UTI Bank	U	474	410
IOB	OP	118	150
Shriram Transp	OP	125	155
SREI	OP	55	73
MMFSL	OP	235	265
Andhra	OP	82	125
IDFC	IL	100	95
PFC	U	123	105
Centurion Bank	U	40	35
Federal Bank	OP	242	340
J&K Bank	OP	720	875
Indian Bank	OP	116	120

Priority sector definition enhanced, incrementally positive

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- **On April 30, 2007, the RBI's revised the banking sector priority sector exposure guidelines, which would be effective with immediate effect.**
- **These guidelines may help private banks, which struggle to meet priority sector norms.**
- **Lack of detailed break up of advances based on ticket sizes, makes it difficult for us to quantify the overall impact of these new guidelines on the financials of banks**

On April 30, 2007, the RBI's revised the banking sector priority sector exposure guidelines, which would be effective with immediate effect. Key takeaways: (a) targets and sub-targets for priority sector advances would be based on the higher of adjusted net bank credit (ANBC) or credit equivalent of off balance sheet exposure and not net bank credit as was the norm earlier, (b) ticket size of advances permissible as priority sector credit have been enhanced, (c) enterprise size (measured by investments in fixed assets) has also been increased. While change in base for evaluating a bank's priority sector exposures can be expected to increase burden on banks, the enhanced borrower limits and inclusion of larger sized enterprises within the ambit of priority sector would lessen the impact. In particular these guidelines may help private banks, which struggle to meet priority sector norms. An incremental concern we would have is that the government generally does not permit PSU banks to raise rates on priority sector loans. This can impact banking sector margins and we would need to keep a close watch on any such moves. Lack of detailed break up of advances based on ticket sizes, makes it difficult for us to quantify the overall impact of these new guidelines on the financials of banks.

Key guidelines:

- Targets and sub-targets for priority sector exposure would be based on the adjusted net bank credit (ANBC) or credit equivalent of off balance sheet exposure, whichever is higher. ANBC is calculated by adding net bank credit and investments made by banks in non-SLR bonds held in HTM category. For this purpose the recapitalization bonds floated by Government of India will be ignored. Existing investments made by banks in non-SLR bonds held in HTM category will not be taken into account for calculation of ANBC, up to March 31, 2010. However, fresh investments by banks in non-SLR bonds held in HTM category will be taken into account for the purpose. Outstanding FCNR (B) and NRNR deposits would no longer be deducted for computation of ANBC for priority sector lending purposes.
- The minimum requirement of exposure to priority sector i.e 40% overall with 18% in agriculture will be maintained. Within this direct exposure towards agricultural advances to be maintained at a minimum of 13.5% of ANBC or credit equivalent of off-balance sheet exposure.
- Single borrower limit under direct agriculture sector advance has been enhanced to Rs10 mn (earlier Rs2mn). Further, 1/3rd of loans to individual borrowers (with exposure greater than Rs10 mn) will be classified as direct agriculture advance, while the balance 2/3rd would be classified as indirect agricultural advances.
- Housing loans upto Rs2 mn have been included in the priority sector category, earlier limit on such advances was Rs1.5 mn.

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

Kotak Institutional Equities Research coverage universe

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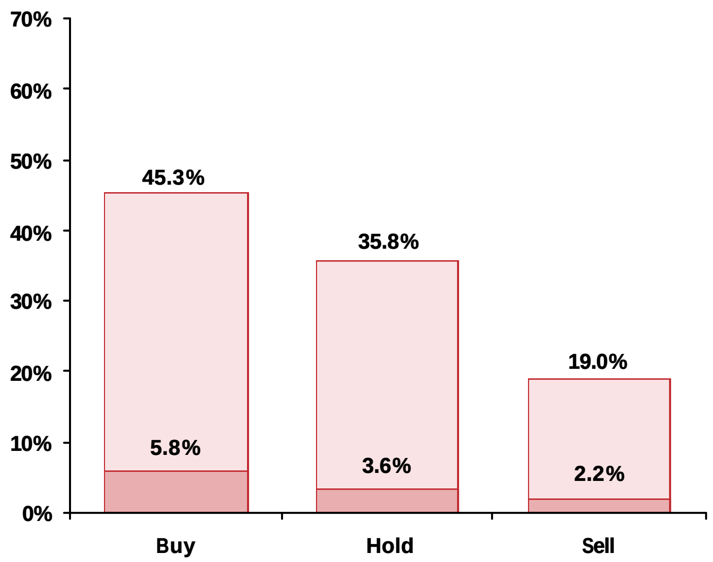

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Source: Kotak Institutional Equities. As of March 31, 2007

Ratings and other definitions/identifiers

Current rating system

Definitions of ratings

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

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

Other definitions

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