INDIA DAILY

July 28, 2008

kotak Institutional Equities

Contents

New Release

Results

Updates

EQUITY MARKETS

		Change, %		
India	**25-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	14,275	(3.4)	0.4	(16.6)
Nifty	4,312	(2.7)	1.4	(15.6)
Global/Regional indices				
Dow Jones	11,349	(2.4)	(3.9)	(12.0)
FTSE	5,330	(0.6)	(5.9)	(12.5)
Nikkie	13,335	(2.0)	(3.6)	(3.8)
Hang Seng	22,741	(1.5)	0.5	(10.9)
KOSPI	1,598	(1.7)	(7.0)	(12.4)

Value traded - India

			Moving avg, Rs bn	
	25-Jul		**1-mo**	**3-mo**
Cash (NSE+BSE)	220.6		178.1	186.6
Derivatives (NSE)	581.3		702.5	510
Deri. open interest	831.6		838	783

Forex/money market

			Change, basis points	
	25-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	42.3	25	(47)	212
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US$mn)

	24-Jul		**MTD**	**CYTD**
FIIs	138		(476)	(6,971)
MFs	79		143	2,476

Top movers -3mo basis

		Change, %		
Best performers	**25-Jul**	**1-day**	**1-mo**	**3-mo**
Ingersoll Rand	366	0.5	19.3	20.4
Ballarpur Ind	33	(0.3)	(1.2)	10.3
Glaxosmithkline	1,100	0.9	(1.1)	7.9
United Phos	336	5.0	11.5	7.6
Dr Reddy's	635	(0.8)	(3.2)	3.0
Worst performers				
Moser Baer	95	(3.5)	(33.2)	(47.0)
Century Tex	467	(3.6)	(19.6)	(42.4)
Wockhardt	185	(1.3)	(7.9)	(39.3)
Arvind Mills	35	2.1	(5.3)	(34.2)
Essel Propack	27	(4.0)	(7.5)	(33.5)

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Banking

FCHL.BO, Rs355	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	440
52W High -Low (Rs)	1190 - 258
Market Cap (Rs bn)	22.5

Financials

June y/e	2008	2009E	2010E
Sales (Rs bn)	0.9	3.0	6.7
Net Profit (Rs bn)	(0.3)	0.3	1.8
EPS (Rs)	(4.5)	4.5	28.8
EPS gth	*(689.8)*	*0.0*	*546.1*
P/E (x)	(78.7)	79.9	12.4

New release: Future Capital Holdings – Futuristic model

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- **FCH will focus on alternative asset management and personal financial services (consumer, personal, business loans and distribution of insurance, credit cards etc)**
- **Key highlights: High profitability, complementary nature of business (cash cow suporting financing business), reputed management team**
- **We initiate coverage with a BUY rating and target price of Rs440**
- **Key risks: Execution, maintaining loan book quality, growing AUMs, managing human resources and slowdown in parents retail network**

The long-term potential of the Indian equity market and retail financial services will likely pave the growth path for Future Capital Holdings. The company's prospects are buttressed by high profitability, diversified income streams, complementary nature of its model (cash cow supporting a cash-consuming business) and a reputed management team. We initiate coverage with a BUY rating. Key risks: implementation, maintaining loan book quality and managing personnel.

Initiate with BUY

Our sum-of-parts-based valuation of Rs440/share provides 24% upside from current levels. We value Future Capital Holdings' (FCH) asset advisory business at Rs308—15% of 2009E AUM (US$3.1 bn) and the retail financial services business (fund and non-fund) at Rs132 (1.2X PBR FY2009E) using a residual growth model.

Attractive growth opportunities: Asset advisory and consumer finance play

FCH is focused on four key businesses—(1) asset advisory; (2) high yield loans—consumer, personal and home equity; (3) structured financing and (4) cross-selling of credit cards, insurance, forex and mutual funds. We like the company's (i) asset advisory and retail finance businesses—high growth areas benefiting from increasing penetration and changing demographics, (ii) active mentoring of investee companies, which will likely drive higher fees, (iii) complementary mix—cash generated by the asset advisory business will fund the cash-consuming lending business, (iv) strong parental support from Future Group in building its client base and (v) crack team at the helm with experts from leading firms.

Strong long-term profit growth and high RoE likely

FCH will likely have US$3.1 bn assets under management/advisory by FY2009E, up from US$1.25 bn currently. We expect the company to expand its retail business across major urban/metro areas with 250 outlets by FY2010E, up from 140 currently. We estimate consolidated profit of Rs2.5 bn by FY2010E and believe the company should be in a position to generate high RoEs in excess of 30-40% in steady state likely due to the high profitability of its asset advisory business, high yields in lending and fees from third-party distribution.

Key risks: Implementation, asset quality

(1) The newness of FCH's businesses exposes it to execution risk, (2) maintaining the quality of loan book is challenging given the planned scale-up, (3) attrition is endemic in such 'people businesses' and (4) slowdown in parent's (PRIL's) business could impact the company.

Banking

SBI.BO, Rs1444	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	1,700
52W High -Low (Rs)	2429 - 966
Market Cap (Rs bn)	912

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	267.3	302.3	360.6
Net Profit (Rs bn)	67.3	59.1	75.3
EPS (Rs)	106.6	93.5	119.2
EPS gth	*23.5*	*(12.2)*	*27.4*
P/E (x)	13.6	15.4	12.1
P/B (x)	2.2	1.9	1.7
Div yield (%)	1.5	1.5	1.6

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	59.7	-	-
FIIs	19.5	2.6	(0.1)
MFs	4.4	3.1	0.5
UTI	-	-	(2.6)
LIC	4.2	2.7	0.0

State Bank of India: Profit significantly higher than our estimate, retain ADD

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- **PAT was almost double our estimate at Rs16.4 bn**
- **Strong asset growth, higher non-interest income and lower NPL provisions were prime drivers of earnings**
- **Focus on asset growth remains a concern**
- **Retain ADD rating with a target price of Rs1,700**

SBI reported net profit of Rs16.4 bn, up 15% yoy and almost double our estimate. Higher asset growth which led to NII growth, other income and write-back of loan loss provisions were key reasons of higher PAT. We believe that the bank spreads were likely down and the NII growth driven by equity issuance made in 4QFY08. While the bank reported strong other income growth, we find significant volatility in this income stream and therefore are less confident about the future trend. We are revising up our estimate for FY2009 and FY2010 by 7% and 2% respectively to factor in the results. We are, however, retaining our target price of Rs1,700 and ADD rating. Among PSU banks, we are not very comfortable with SBI's strategy of growing its balance sheet rapidly (advances up 30% yoy) in the current environment and would prefer other PSU banks like PNB, Union and BoB over SBI. The stock trades at 8.4X PER and 1.4X APBR (standalone) FY2009.

NII up on the back of equity issuance

- SBI's grew its advances by a hefty 30% yoy, and deposit by 25% yoy. The NII growth was, however lower at around 14% and we believe reflects pressure on spreads.
- We estimate that out of the 3.05% NIM, 25 bps was due to the last equity issuance of RS169 bn made in 4QFY08 and NIMs adjusted for this were likely down 28 bps qoq.
- While NII growth was 14% ahead of our estimate, we are retaining our full year estimate, which currently factors in 18% growth in NII for the balance part of the year.

Non-interest income difficult to project

- SBI has reported fairly strong growth in fee income of 45% (likely driven by letter of credit, guarantees and loan processing charges) and a 71% increase in forex income. The past few quarters data shows fairly high volatility in this income stream and it is therefore difficult to project this income.
- The bank also booked dividend income of Rs3.8 bn from subsidiaries, largely banking and we find this a concern given the low CAR of SBI's subs, where Tier I ranges between 6.3% to 7.0%.
- Despite adverse market conditions the bank has booked treasury income of Rs2.2 bn v/s loss of Rs4.3 bn last year.

Provisions write-back on loans, MTM on investments

- SBI has written back around Rs2 bn on account of loan loss provisions. We believe that some of this could be on account of agriculture loan waiver scheme. Under this scheme SBI has written off nearly Rs106 bn of loans, of which it is expected to receive Rs66 bn from the government and the balance from the farmers (under the partial loan waiver scheme).

- SBI's gross NPLs reduced 16% qoq, likely again due to the loan waiver scheme. Gross NPLs now stand at 2.5% and net at 1.4%. We note that SBI has restated its gross NPLs as of March 2008 to Rs136 bn against the Rs128 bn reported in its FY2008 balance sheet.
- The bank also took a big hit of Rs16.4 bn on its investment portfolio v/s our estimate of Rs9 bn. Detail of MTM hit taken on equity portfolio is not available. The bank currently has 33% of its Rs2 trillion investment book in available for sale (AFS) category where the duration is 3 years.

State Bank of India, Quarterly results, Rs mn

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	% chg	1QFY09KS	Actual Vs KS
Income earned	113,865	116,163	126,668	135,767	137,992	21.2		
Income on advances	79,885	83,651	92,711	96,035	100,140	25.4		
Income on investments	28,944	32,496	32,711	32,118	35,079	21.2		
Interest on balance with RBI	5,036	16	1,247	7,615	2,773	(44.9)		
Interest expense	68,891	78,534	84,105	87,761	89,815	30.4		
Interest on deposits	58,596	66,874	71,057	74,199	77,694	32.6		
Interest on borrowings	6,829	7,582	6,908	8,065	7,311	7.1		
Other sundry interest	3,466	4,077	6,140	5,497	4,810	38.8		
NII adit for invest. amortization	**42,014**	**37,629**	**42,564**	**48,006**	**48,177**	**14.7**	**42,014**	**15**
Other income	11,386	20,419	26,972	28,172	24,039	111.1	16,373	47
Fees, commission	8,859	9,445	10,237	30,602	12,850	45.1	10,187	26
Invt. income	(4,367)	4,347	6,436	2,965	2,228			
Forex income	988	2,642	4,314	(1,016)	1,692	71.3	1,200	41
Dividend	1,714	9	230	21	3,854	124.8	1,885	104
Other income excl. treasury	15,753	16,073	20,536	25,207	21,810	38.5	16,373	33
Total income	**53,400**	**58,049**	**69,536**	**76,178**	**72,215**	**35.2**	**58,387**	**9**
Operating expenses	29,785	30,916	32,938	32,447	32,592	9.4	31,164	5
Staff expenses	17,358	16,177	18,139	20,442	20,352	17.2	18,500	10
Pension contributions	2,906	3,776	3,808	(4,746)	958	(67.0)	2,000	(52)
Other operating expenses	9,521	10,964	10,991	16,751	11,282	18.5	10,664	6
Pre-provision operating profit	23,615	27,132	36,598	43,732	39,623	67.8	27,223	46
Provisions and extr. Ord.	1,594	852	8,044	16,192	15,495	872.2	14,000	11
Loan loss provisions (incl. standard asset prov)	5,381	497	6,642	13,159	(2,111)	-	5,000	(142)
Standard assets	318	662	2,200	2,490	363	13.9	-	-
Investment depreciation	(3,768)	8	575	2,168	16,566	(539.7)	9,000	84
Other provisions	(20)	348	828	865	1,040	-	-	-
PBT	**22,021**	**26,280**	**28,553**	**27,540**	**24,129**	**9.6**	**13,223**	**82**
Less tax	7,763	10,166	10,467	8,707	7,721	(0.5)	4,628	67
Profit after tax	**14,258**	**16,114**	**18,087**	**18,833**	**16,408**	**15.1**	**8,595**	**91**
Fees to PBT (%)	40.2	35.9	35.9	111.1	53.3			
Treasury income/PBT (%)	(2.7)	16.5	20.5	2.9	(59.4)			
Cost income ratio (%)	55.8	53.3	47.4	42.6	45.1			
Tax rate (%)	35.3	38.7	36.7	31.6	32.0		35.0	
Key balance sheet data (Rs bn)								
Advances gross	3,441	3,636	3,953	4,473	4,483	30.3		
Advances net	3,398	3,588	3,903	4,168	4,432	30.4		
Housing finance	392	408	425	451	461	17.4		
Agriculture	369	391	414	436	404	9.4		
Deposits	4,497	4,841	5,101	5,374	5,619	25.0		
Low cost deposits (%)	41.1	39.5	41.1	43.0	41.2			
Investments	1,650	1,750	NA	1,895	2,000	21.2		
AFS	450	520	NA	NA	660			
AFS duration (years)	1.3	1.10	NA	NA	3.0			
Yield management ratios (%)								
Cost of deposits	5.4	5.5	5.6	5.6	5.7			
Yield on advances	9.8	9.8	9.9	9.9	9.8			
Yield on resources	6.2	6.6	7.0	6.9	7.4			
Net interest margin (adj. Amortization)	NA	2.8	2.8	3.1	3.0			
Asset quality details								
Gross NPLs (Rs bn)	108	106	106	136	114	6.0		
Gross NPLs (%)	3.1	2.9	2.7	3.0	2.5			
Net NPLs (Rs bn)	55	58	56	74	63	14.4		
Net NPLs (%)	1.6	1.6	1.4	1.8	1.4			
Capital adequacy details (%)								
CAR	13.1	13.0	12.3	13.5	13.0			
Tier I	8.3	7.8	7.5	9.1	9.3			
Tier II	4.8	5.2	4.8	4.3	3.7			

Source: Company, Kotak Institutional Equities estimates.

Banking

ICBK.BO, Rs657	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	870
52W High -Low (Rs)	1465 - 514
Market Cap (Rs bn)	730.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	169.5	180.5	226.0
Net Profit (Rs bn)	41.6	36.9	46.7
EPS (Rs)	39.9	33.2	41.9
EPS gth	*15.4*	*(16.8)*	*26.3*
P/E (x)	16.5	20	15.7
P/B (x)	1.6	1.5	1.4
Div yield (%)	1.7	1.3	1.6

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	68.9	7.7	5.5
MFs	6.1	3.7	1.4
UTI	-	-	(2.2)
LIC	7.7	4.1	1.9

ICICI Bank: Reports good numbers, retain ADD

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- **ICICI Bank reported a decline of 6% yoy in PAT largely impacted by higher MTM losses**
- **Operational performance in terms of NIM, fee income growth and operational expenses remained strong**
- **NPLs remain an area of concern**
- **Retain ADD rating with a target price of Rs870**

ICICI Bank reported net profit of Rs7.4 bn, 6% de-growth yoy, and significantly ahead of our estimate of Rs4.7 bn. The sharp difference in our earnings estimate and reported profit can be explained by the strong operating performance on the back of higher NIMs, higher fees and lower operating costs. While the quality of earnings was good, the MTM hit on its investment portfolio of Rs5.9 bn v/s a profit of Rs2 bn last year pulled down PAT growth. We are revising up our profit estimate for ICICI Bank by 11% for FY2009, and 5% for FY2010. We retain our ADD rating and target price of Rs870 on the stock. ICICI Bank (standalone) trades at 10.2X PER and 0.8X PBR FY2009.

NII growth significantly above estimate

- ICICI Bank's NII growth (post investment amortization) at 41% (Rs20.9 bn) was driven by stable margins (compared to 1QFY09) of 2.4%. This was 8.4% ahead of our estimate.
- The bank's balance sheet remained stagnant on a sequential basis as management focused on improving its liability side. Advances grew 13% yoy to Rs2.2 tn, of which (1) retail advances increased by 4%yoy to Rs1.3 tn, (2) international book expanded 74% yoy to Rs566 bn, while agriculture loans fell qoq to Rs130 bn from Rs200 bn.
- Deposit growth for the year was a meager 1.6% to Rs2,345 bn, however, within this current account deposit grew 6% yoy to Rs212 bn (down qoq from Rs244 bn), and savings grew by a hefty 35% to Rs435 bn (up qoq from Rs 391 bn). We believe the bank has been actively shedding bulk and high cost wholesale deposits resulting in margin improvement. CASA ratio inched up to 27.6% from 26% in 4QFY08.

Fee income increase was much higher than estimated

- ICICI Bank reported 21% decline in its other income to Rs15.4 bn in 1QFY09. This was largely on account of the MTM hit of Rs5.94 bn on its investment book v/s profit of Rs2 bn in 1QFY08. We believe that nearly 50% of this MTM hit was on realized losses and balance was on account of the MTM hit on the investment portfolio.
- On the positive front, the bank reported strong growth in its fee income of 37% yoy to Rs19.6 bn. This was despite a choppy equity and forex markets, which could have impacted fees from third party distribution and derivative products. We had assumed lower fees to factor in slowdown in international operations, and third party product distribution due to volatility in capital markets. This income was 14% ahead of our expectation and we are thus revising up our estimate on fee income marginally by 1-2% for FY2009 and FY2010.

Operating expense under check

- Over the last few quarters, ICICI Bank has also been focusing on reducing its overall operating expenses. In FY2008, the bank had reduced variable pay and kept increments in check. This is likely reflected in the flat employee costs, which was 2% below our estimate.
- Even direct marketing cost declined 40% yoy and was 29% below our estimate, a direct impact of the slowdown in disbursements. Retail disbursements were down — around 50% yoy, and within this housing was down 2% yoy to Rs44 bn.

Asset quality deteriorates, may slip further

- ICICI Bank reported an increase of 7% in NPL qoq to Rs96 bn. including loan sell down to ARCIL, the bank added around Rs6 bn of gross NPLs, v/s Rs11 bn in 4Q. Company did not disclose break-up of NPL but noted that the trend was same as over the last few quarters, hinting non-collateral portfolio adding to NPLs. The gross and net NPLs now stand at 4.1% and 1.8% respectively.
- Provisions in the 4Q at Rs10.1 bn included Rs2.2 bn for investment amortization, and Rs7.9 bn for NPLs.

Mix performance from subsidiaries

- ICICI Bank UK posted a profit of US$12 mn and Canada subsidiary US$1 mn in 1QFY09. The international banking subsidiaries accounted for close over 10% of ICICI Bank standalone book.
- ICICI Prudential Life APE grew by 46% in 1QFY09 to Rs 11.8 bn. The losses of the life insurance subsidiary was Rs3.3 bn a 33% increase over last year. The NBV margin at Rs2.4 bn, however, remained stable at 19%. The AUMs of the insurance entity stood at Rs269 bn as at June 30, 2008, down from Rs286 bn from March 2008.
- ICICI Lombard General Insurance premiums increased 21% yoy to Rs10.8 bn in 1QFY09. However, expansion and pricing pressure led profit for this subsidiary to come down to a mere Rs10 mn from Rs450 mn made in 1QFY08 last year and Rs1 bn made in FY2008.

ICICI Bank quarterly results, Rs mn

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	% chg	1QFY09KS	Actual Vs KS
Interest income	75,661	77,268	81,238	82,692	81,107	7.2		
Interest on advances	54,492	55,734	57,522	58,262	57,542	5.6		
Interest on investments	19,140	20,289	21,720	22,488	21,072	10.1		
Balance with RBI	2,029	1,245	1,997	1,943	2,494	22.9		
Interest expenses	58,519	57,305	59,521	59,498	58,021	(0.9)		
Net interest income	**17,143**	**19,963**	**21,717**	**23,194**	**23,087**	**34.7**	**21,771**	**6.0**
NII. aft adjt invt amortiz.	**14,793**	**17,860**	**19,597**	**20,795**	**20,898**	**41.3**	**19,271**	**8.4**
Non-interest income	19,503	20,719	24,266	23,617	15,382	(21.1)	14,636	5.1
Commission and fees	14,280	14,860	17,850	19,280	19,580	37.1	17,136	14.3
Investment income	1,950	1,750	2,820	1,640	(5,940)	(404.6)	(5,000)	18.8
Other income	3,273	4,109	3,596	2,700	1,742	(46.8)	2,500	(30.3)
Total income	**36,645**	**40,683**	**45,983**	**46,811**	**38,469**	**5.0**	**36,407**	**5.7**
Total income excluding treasury	34,695	38,933	43,163	45,171	44,409	28.0	41,407	7.2
Operating expenses	19,053	19,708	21,276	21,505	19,139	0.5	20,510	(6.7)
Salary	5,218	5,199	5,705	4,666	5,232	0.3	5,300	(1.3)
Other costs	10,008	10,655	11,408	13,255	11,624	16.1	12,010	(3.2)
DMA cost	3,827	3,854	4,163	3,584	2,283	(40.3)	3,200	(28.6)
Preprovision profit	17,592	20,975	24,707	25,306	19,330	9.9	15,897	21.6
Provisions	7,873	8,548	9,724	11,874	10,114	28.5	10,232	(1.1)
Loan loss provisions	5,523	5,660	7,600	9,475	7,925	43.5	7,732	2.5
Provision on standard assets	220	780	640	250	(300)	(236.4)	0	0.0
Investments amortization	2,350	2,103	2,120	2,399	2,189	(6.8)	2,500	(12.4)
Profit before tax	9,720	12,427	14,983	13,432	9,215	(5.2)	5,665	62.7
Tax	3,276	4,177	2,681	1,933	1,935	(40.9)	963	100.9
Profit after tax	**7,751**	**10,026**	**12,302**	**11,498**	**7,280**	**(6.1)**	**4,702**	**54.8**
Effective tax rate(%)	20	19	18	14	21		17	
PBT-invt inc+dep	6,270	9,177	9,035	11,792	15,155	141.7	10,665	42.1
PBT-Invt income+NPL provisions	**11,792**	**14,837**	**18,263**	**19,767**	**21,580**	**83.0**	**16,897**	**27.7**
Yield management measures (%)								
Yield on advances	11.0	11.0	11.0	0.0	10.5			
Yield on earnings assets	9.6	9.4	9.3	0.0	9.0			
Cost of deposit	7.9	7.7	7.4	7.3	7.2			
Net interest spread excld sale of loans	**2.3**	**2.5**	**0.0**	**0.0**	**0.0**			
NIM (incl. amortization expenses)	**2.0**	**2.2**	**2.3**	**2.4**	**2.4**			
Capital adequacy details								
CAR (%)	11.0	16.8	15.8	14.0	13.4			
Tier I (%)	7.1	13.0	12.1	11.8	11.3			
Tier II (%)	3.9	3.8	3.7	2.2	2.1			

Source: Company, Kotak Institutional Equities estimates.

ICICI Bank asset quality details

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	% chg
Gross NPLs (Rs bn)	60	67	72	84	93	53.6
Provisions and w/off (Rs bn)	33	37	39	48	52	56.9
Net NPLs (Rs bn)	27	30	33	36	41	49.6
Gross NPLs to advances (%)	3.0	3.0	3.4	3.7	4.1	
Gross NPLs to adv. (lagged) (%)	3.9	4.1	4.0	4.1	4.5	
Net NPLs to advances (%)	1.4	1.4	1.5	1.6	1.8	
Gross NPLs in retail (Rs bn)	39	42	46	55	63	
Non collateral accounts (Rs bn)	20.9	25	27	37	NA	
Retail ratio (%) excld non-collateral	1.6	1.54	1.76	1.65	NA	
Net NPLs in retail (Rs bn)	19.4	20.0	21.8	24.0	NA	
Non collateral accounts (Rs bn)	8.9	NA	9.8	16.1	NA	

Source: Company, Kotak Institutional Equities estimates.

Balance sheet details of ICICI Bank

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	% chg
Balance sheet snapshot (Rs bn)						
Cash, balances with banks, SLR	1,061	1,084	1,074	1,131	1,076	1.4
Cash advances	296	340	310	380	356	19.9
SLR Investments	764	744	764	750	720	(5.8)
Advances	1,983	2,071	2,155	2,256	2,241	13.0
Other investments	331	279	290	364	360	8.8
Other assets	195	215	249	247	265	35.6
Total assets	**3,569**	**3,649**	**3,767**	**3,998**	**3,942**	**10.4**
Networth	247	448	465	465	474	92.0
Equity capital	9	11	11	11	11	0.0
Reserves and surplus	238	436	454	454	463	94.6
Preference capital	4	4	4	4	4	0.0
Deposits	2,308	2,283	2,298	2,444	2,345	1.6
Total borrowings	703	736	816	864	938	33.5
Other liabilities	308	180	184	221	181	(41.2)
Total liabilities	**3,569**	**3,649**	**3,767**	**3,998**	**3,942**	**10.4**
Key balance sheet items (Rs bn)						
Deposits	**2,308**	**2,283**	**2,298**	**2,443**	**2,345**	**1.6**
Savings	321	350	380	391	435	35.3
Current	200	230	240	244	212	6.2
CASA ratio (%)	22.6	25.4	27.2	26.0	27.6	
Customer assets	**2,065**	**2,122**	**2,246**	**2,392**	**2,357**	**14.2**
Retail loans including CV	1,274	1,310	1,323	1,317	1,320	3.6
Retail loans to Customer assets (%)	61.7	61.7	58.9	55.0	56.0	
Housing loans	655	668	668	668	656	0.2
Personal loans	112	131	138	132	120	7.1
Credit cards	61	71	79	84	85	39.3
Commercial vehicles	NA	170	180	190	0	0.0
Corporate and project finance	649	712	832	875	907	39.7
Agri	141	100	90	200	130	(8.0)
International lending	325	370	453	477	566	74.0

Source: Company, Kotak Institutional Equities estimates.

Consumer products

HLL.BO, Rs233	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	260
52W High -Low (Rs)	256 - 169
Market Cap (Rs bn)	507.6

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	137.2	154.7	174.8
Net Profit (Rs bn)	17.7	20.0	23.1
EPS (Rs)	8.1	9.2	10.6
EPS gth	*15.3*	*13.8*	*15.1*
P/E (x)	28.7	25.2	21.9
EV/EBITDA (x)	23.1	19.7	16.7
Div yield (%)	4.5	3.7	4.3

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	15.2	1.0	(0.3)
MFs	2.9	1.0	(0.3)
UTI	-	-	(1.3)
LIC	7.3	2.3	1.0

Hindustan Unilever: Good topline performance, cost pressures catching up, downgrade to REDUCE

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- **19% FMCG topline growth surprises street positively, market share losses in soaps and skin were dampeners**
- **Higher profitability in specialty exports mask across the board margin decline in HPC and Beverages**
- **Expect one more quarter of strong topline performance, base effect to catch up by December quarter**
- **Limited downside, however no immediate catalyst for upside**
- **Downgrade to REDUCE (from ADD earlier) on relative valuations (vis-a-vis our Sensex target), sell into strength**

HUL reported sales growth of 21.1%, EBITDA growth of 7.7% and PAT growth of 14.5% for the quarter ended June 2008 as against our estimates of 15.9%, 16.6% and 15.5% respectively. Core FMCG business grew by an impressive 19% with volume growth of about 8% in a conducive growth environment. The FMCG growth at 19% surprised the street positively, while market share losses in soaps and skin were dampeners. Severe cost inflation, higher overheads and freight costs limited reported EBITDA growth to 8%. Margin compression was visible in key businesses of HPC and Beverages, higher exports profitability and operational other income mitigated the overall margin losses for the quarter. Favorable base will likely aid topline growth for September quarter as well, yet-to-be-anniversaried price increases will provide about 7% topline growth for the next few quarters. We believe pricing power is limited from now on and competitive pressures warrant higher adspends. We believe that at 26XFY09E, the stock is fairly valued and downgrade stock rating to REDUCE (from ADD earlier) on relative valuations. Key risks to our estimates include (1) decline in crude oil prices resulting in cost comfort for HUL (2) effective price increases through pack-size reduction in HPC without significantly impacting product demand and (3) inability of ITC to gain market shares in HPC categories.

FMCG sales grow 19%, all categories grow well

HUL reported FMCG growth of 18.8% yoy during the quarter led by 21.1% growth in soaps & detergents and 19.0% growth in personal products. We believe that the following were the key drivers:

1. Higher sales of price-pointed packs driven by recruitment of new consumers and increase in number of use-occasions.
2. Beneficial base effect (personal products business grew at 6% in the first three quarters of CY2007).
3. Strong underlying growth in detergents due to favorable competitive scenario.

While we expected strong sales growth in the quarter, the pricing growth of 10% surprised us positively. The volume growth was in line with our estimates. Higher profitability in exports masked the across-the-board margin deterioration in HPC and Beverages—the segment PBIT margins in Soaps and Detergents, Personal products and Beverages declined 120, 70 and 160 bps, respectively. This likely indicates (1) mix deterioration due to higher sales of price-pointed packs and (2) inadequate cross-subsidization from price increases in large packs. We believe better-than-expected sales growth may not result in earnings growth as passing on cost-inflation led price increases will be very difficult in an inflationary economy. However, we highlight that the lever of pack-size reduction still exist in most HPC categories.

Key positives from the results

We believe that the key positive takeaways from the results are:

1. Better than expected volume growth indicating a very conducive growth environment and success of the internal 'T-20' sales incentive scheme. The extension of 'T-20' as 'S-20' for the rest of the year augurs well.

2. Sustenance of high double digit growth in detergents confirms that the category is in a sweet spot for sales growth. Market share gains in detergents expected to continue as galloping prices of key inputs like LAB, Soda ash, caustic soda will hurt smaller players more.

3. Higher personal products sales augurs well for company-level mix improvement

4. Maintaining market shares in the toothpaste category indicates moderate success for 'Pepsodent Mahapack'.

5. Double digit growth in tea portfolio confirming uptrading from loose tea to branded tea in a high tea commodity price scenario and benefits of pack-size reduction.

6. Roll-out of water business on track—the product is currently available in 364 towns in 20 states, over 1 mn Pure-it units sold till date.

However, key concern areas remain

We believe that the market is underplaying the concern areas which are potentially major headwinds for the company.

1. Continued significant market share losses in key categories—personal wash, shampoo, skin and toothpaste.

2. Sources indicate that ITC has about a 2% value market share in soaps with-in 1-year of launch. This is a significant achievement as it took over two decades for Godrej Consumer to reach a 9% market share.

3. Higher profitability in exports business masked the across-the-board margin deterioration in HPC and Beverages—the segment PBIT margins in Soaps and Detergents, Personal products and Beverages declined 120, 70 and 160 bps, respectively.

4. Margin compression indicates likely mix deterioration at category level.

5. Profit growth will likely trail topline growth as passing on cost-inflation led price increases will be very difficult in an inflationary economy. However, we highlight that the lever of pack-size reduction still exist in most HPC categories.

6. HUL has ceded volume market leadership to Tata Tea in Tea category. Recent pack-size reduction and heavy promotion spends (Gold cup offer for Brooke Bond brands) has aided topline growth for the quarter. We believe that HUL is unable to capture the current uptrading growth (from loose tea to branded tea) as the <Rs140/kg segment was effectively vacated during the brand rationalization exercise in 2003-06.

7. Market sources indicate moderate success for 'Amaze' brainfood which is currently test marketed in three states. However, given the pricing (1.4X Horlicks,1.5X brown health drinks) and positioning, the product will likely remain niche even if it is eventually successful.

Downgrade to REDUCE on relative valuations, sell into strength

While we are enthused by the strong topline performance across categories, we believe there are limited upside triggers for stock performance. We summarize the key issues as (1) unabated cost inflation across categories and inputs (2) limited ability to effect cost-led price increases from now on (3) increasing competition in soaps warranting higher adspends (4) mix deterioration due to higher sales of price-pointed packs (5) disproportionate price increases in large packs (to subsidize for smaller packs) can potentially trigger downtrading (5) topline and profit growth will likely trend down to sub-15% levels in FY10E.

We estimate EPS growth of 14% in FY08-10E. We make nominal changes to EPS estimates (-2% for FY09E and FY10E). We believe HUL can potentially cutback in A&P (other than soaps category) to counter any disappointment caused by more than anticipated cost pressures. At 26XFY09E, we believe the stock is fully valued. We estimate HUL to maintain the annual payout at 90% and Rs8/share dividend for FY09E providing a 3.5% yield at the current market price of Rs233. While valuations and dividend yield provide downside protection, there are no immediate triggers for upside either. Noting limited upside to our DCF-based one-year target price of Rs260/share and on a relative basis (12% upside in Sensex), we downgrade the stock rating to REDUCE (from ADD earlier) and advise clients to sell into strength. Key upside risks to our estimates include (1) decline in crude oil prices resulting in cost comfort for HUL (2) effective price increases through pack-size reduction in HPC without significantly impacting product demand (3) inability of ITC to gain market shares in HPC categories.

HUL-Quarterly summary, December yearends (Rs mn)

		yoy		Our est.	yoy
	2QCY08	2QCY07	% chg	2QCY08	% chg
Net sales	**42,157**	**34,814**	**21.1**	**40,338**	**15.9**
Material cost	(22,672)	(18,575)		(21,863)	
Employee cost	(2,539)	(2,028)		(2,230)	
Other overheads	(11,431)	(9,092)		(10,274)	
- Advertising & Promotions	(4,385)	(3,360)		(3,932)	
Total expense	(36,642)	(29,695)		(34,367)	
EBITDA @	**5,515**	**5,120**	**7.7**	**5,970**	**16.6**
Depreciation	(379)	(333)		(374)	
EBIT	5,136	4,787		5,596	
Other income	1,560	1,063		1,200	
Net interest	-	(110)		-	
PBT	**6,695**	**5,739**	**16.7**	**6,796**	**18.4**
Tax	(1,294)	(1,020)		(1,346)	
PAT	**5,401**	**4,719**	**14.5**	**5,451**	**15.5**
Extraordinary Income (loss)	180	212		-	
Net profit	**5,582**	**4,931**	**13.2**	**5,451**	**10.5**
EBITDA margin (%) @	13.1	14.7		14.8	
Effective tax rate (%)	19.3	17.8		19.8	
Costs as % of net sales					
Material cost	53.8	53.4		54.2	
Employee cost	6.0	5.8		5.5	
Other overheads	27.1	26.1		25.5	
- Advertising & Promotions	10.4	9.7		9.7	
Broad category sales					
Domestic FMCG	33,230	27,829	19.4		
HPC	27,117	22,517	20.4		
Foods	6,112	5,312	15.1		
Exports	3,973	3,519	12.9		
Others	737	495	48.7		
Total	**37,939**	**31,843**			

@ Excluding Other operational income

Source: Company data, Kotak Institutional Equities

Significant deterioration in profitability of HPC and Beverages business

Sales, profit growth and EBIT margins

Segment	Sales growth (%)	Profit growth (%)	EBIT margin change (bps)	Remarks
Soaps and Detergents	20.7	11.9	(120)	Severe cost pressure in key inputs of LAB, CPO, polymers
Personal Products	18.6	16.0	(70)	Higher sales of price-pointed packs leads to mix deterioration
Beverages	15.5	4.3	(160)	Higher tea and coffee commodity prices
				Lack of meaningful presence in sub-Rs140/kg segment hurt tea volume growth
Foods	12.1	215.2	500	
Ice Creams	15.5	34.3	260	
Exports	17.7	728.2	630	Higher speciality exports; improving profitability of marine business
Others (includes Water)	176.6	(20.7)	2230	

Source: Company data for financials, Kotak Institutional Equities for remarks.

Market shares indicates pockets of significant losses except Laundry, Coffee

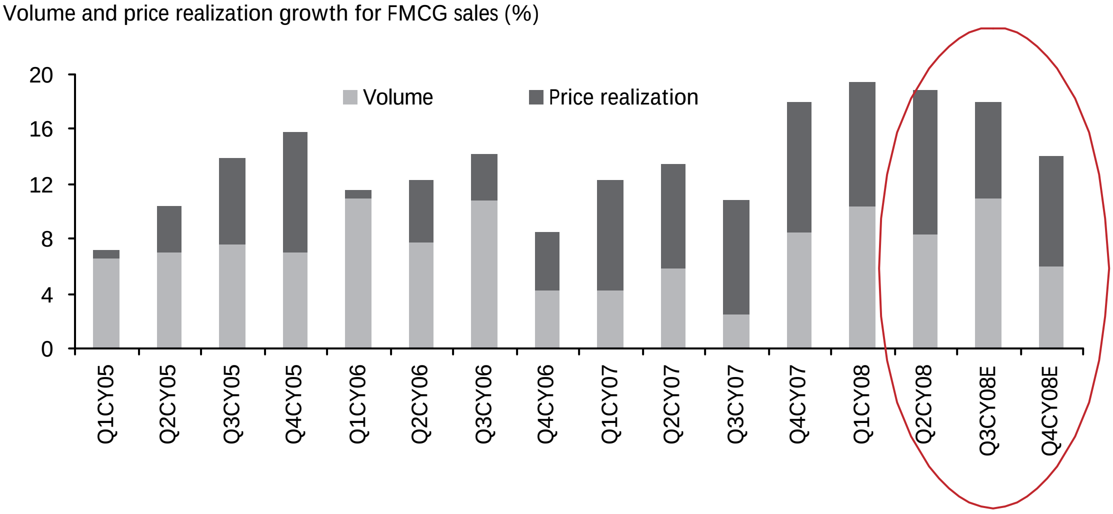
Value market shares for June quarter 2008 (%), market share movements (bps)

Category	Market share	yoy	qoq	Remarks
Detergents	38.3	180	40	Excellent activation, product mix management and benefits of favorable competition
Personal Wash	52.7	(130)	(160)	Price hikes hurting volumes
Hair	46.5	(100)	20	Category getting crowded with entry of many new players or existing players getting aggressive
Skincare	53.4	(170)	(60)	May have to correct price - value equation in Clinic Plus, moderate success in relaunched Sunsilk
Toothpaste	30.0	0	20	Non-focus category with objective to maintain current position, Pepsodent 'Mahapack' helps maintain shares
Tea	23.2	90	30	Promotions led share gains; uptrading from loose tea benefiting HUL as well
Coffee	46.9	190	270	Both instant and conventional coffee gain

Source: Company data for market share, Kotak Institutional Equities.

Pricing-led growth to contribute about 7% for rest of CY08E

Volume and price realization growth for FMCG sales (%)



Source: Company data, Kotak Institutional Equities estimates.

About 6% price increase across the detergents portfolio

Retail price changes in June and July 2008

Brand	Pack size (kg)	Old MRP (Rs)	New MRP (Rs)	Increase (%)
Surf Excel Blue	4.00	372	400	7.5
Surf Excel Blue	1.50	140	150	7.1
Surf Excel Blue	0.75	72	76	5.6
Surf Excel Blue	0.50	49	52	6.1
Surf Excel Quickwash	2.00	240	250	4.2
Surf Excel Quickwash	1.00	122	125	2.5
Surf Excel Quickwash	0.50	66	68	3.0
Surf Excel Quickwash	0.20	28	29	3.6
Surf Excelmatic	2.00	300	308	2.7
Surf Excelmatic	1.00	160	164	2.5
Surf Excel Bar	0.25	21	22	4.8
Rin Advanced	2.00	109	120	10.1
Rin Advanced	1.00	57	60	5.3
Rin Advanced	0.50	29	30	3.4
Wheel Lemonfresh and Wheel Active portfolio	Various	Various	Various	~ 12.0

Source: Kotak Institutional Equities.

Selective price increases in large packs of soaps and skin portfolio

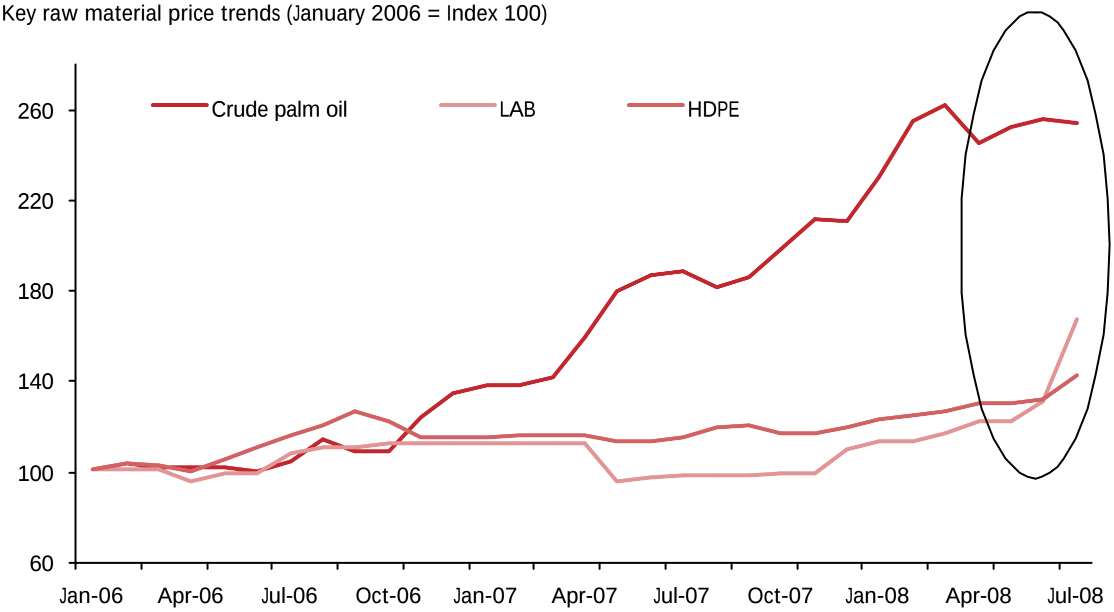
Retail price changes in June and July 2008

Brand	Pack size (grams/ml)	Old MRP (Rs)	New MRP (Rs)	Increase (%)
Soaps				
Lux	100	16	17	6.3
Lux	150	24	26	8.3
Lux	400	60	64	6.7
Hamam	100	16	17	6.3
Skincare				
Fair & Lovely Multi Vitamin, Menz Active, Ayurvedic	25	33	34	3.0
Fair & Lovely Multi Vitamin	50	59	62	5.1
Fair & Lovely Multi Vitamin	80	85	90	5.9
Fair & Lovely Sunblock	25	38	40	5.3
Vaseline	25	17	18	5.9
Vaseline	50	28	30	7.1
Vaseline	100	52	55	5.8
Ponds Facewash	50	25	30	20.0
Ponds Cold cream	100	80	85	6.3
Ponds Body Lotion	100	38	40	5.3
Ponds Dreamflower Talc	100	33	34	3.0
Ponds Dreamflower Talc	200	57	60	5.3
Ponds Dreamflower Talc	400	87	93	6.9

Source: Kotak Institutional Equities.

High commodity prices necessitate price increases in soaps and detergents

Key raw material price trends (January 2006 = Index 100)



Source: FAO, Cris Infac, Reliance Industries, Kotak Institutional Equities.

HUL, change in estimates, December fiscal year-ends (Rs mn)

	FY2009E			FY2010E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	161678	158942	1.7	183162	179603	2.0
EBIDTA	22014	22726	(3.1)	25695	26806	(4.1)
Net profit	19728	20094	(1.8)	22533	23139	(2.6)
EPS	9.1	9.2	(1.8)	10.4	10.6	(2.6)
Sales growth (%)	17.9	15.9		13.3	13.0	
Profit growth (%)	13.8	15.9		14.2	15.1	

Source: Kotak Institutional Equities estimates.

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

	2005	2006	2007E	2008E	2009E
Profit model (Rs mn)					
Net sales	110,605	121,034	137,178	161,678	183,162
EBITDA	**14,433**	**16,621**	**18,883**	**22,014**	**25,695**
Other income	3,048	3,545	4,448	4,469	4,905
Interest	(192)	(107)	(204)	(225)	(75)
Depreciation	(1,245)	(1,302)	(1,384)	(1,487)	(1,662)
Extraordinary items	976	3,155	1,581	0	0
Pretax profits	17,021	21,912	23,324	24,772	28,864
Tax	(2,530)	(2,950)	(3,782)	(4,481)	(5,742)
Deferred taxation	(410)	(268)	(389)	(563)	(589)
Net profits	**14,081**	**18,694**	**19,153**	**19,728**	**22,533**
Earnings per share (Rs)	**6.0**	**7.0**	**8.0**	**9.1**	**10.4**
Balance sheet (Rs mn)					
Total equity	23,056	27,235	14,392	15,459	16,678
Total borrowings	569	726	885	885	885
Currrent liabilities	41,183	45,231	51,110	56,111	63,341
Total liabilities and equity	**64,809**	**73,191**	**66,387**	**72,456**	**80,905**
Cash	3,550	4,169	2,009	(1,338)	1,368
Current assets	24,080	27,527	30,765	36,041	40,676
Total fixed assets	14,835	15,110	17,081	18,560	20,258
Investments	20,142	24,139	14,408	17,632	17,632
Deferred tax asset	2,201	2,245	2,124	1,561	972
Total assets	**64,809**	**73,191**	**66,387**	**72,456**	**80,905**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	15,908	20,209	20,741	21,848	24,888
Working capital	5,858	(471)	3,092	959	1,748
Capital expenditure	(904)	(1,576)	(3,355)	(2,965)	(3,360)
Investments	2,452	(4,309)	9,294	(3,224)	0
Free cash flow	**23,314**	**13,852**	**29,772**	**16,618**	**23,276**
Key assumptions					
Revenue Growth (%)	11.4%	9.4%	13.3%	17.9%	13.3%
EBITDA Margin(%)	13.2%	13.9%	14.0%	13.6%	14.0%

Source: Kotak Institutional Equities estimates.

Metals

JNSP.BO, Rs1956	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	2,900
52W High -Low (Rs)	3357 - 708
Market Cap (Rs bn)	301.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	54.1	78.8	87.2
Net Profit (Rs bn)	12.4	17.2	18.0
EPS (Rs)	80.4	111.6	117.0
EPS gth	*83.2*	*38.9*	*4.8*
P/E (x)	24.3	17.5	16.7
EV/EBITDA (x)	15.3	11.4	10.3
Div yield (%)	-	-	-

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	58.9	-	-
FIIs	22.8	1.0	0.1
MFs	4.8	1.1	0.3
UTI	-	-	(0.8)
LIC	-	-	(0.8)

Jindal Steel and Power: 1QFY09 net profit up 61% led by increased volumes and higher steel prices; retain target price of Rs2,900/share—upgrade to BUY

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- **JSP's 1QFY09 net earnings, at Rs4 bn increased 61% yoy driven by higher volumes and improved realizations**
- **1QFY09 EBITDA margins at 43% were higher 380 bps yoy and 500 bps qoq on higher realizations**
- **Retain target price of Rs2,900/share - upgrade stock to BUY (ADD previously)**

JSP, in its 1QFY08 results, declared net earnings of Rs4 bn, up 61% yoy led by increased volumes and higher realizations. EBITDA/ton improved to Rs11,000/ton from Rs8,152/ton resulting in higher EBITDA margin at 43% versus 39.2% in the corresponding period of FY2008. We retain our earnings estimates and our target price of Rs2,900/share for JSP - upgrade our rating on the stock to BUY (ADD previously) as current valuations appear attractive.

JSP's 1QFY09 reported net earnings at Rs4 bn—up 61% yoy mainly on account of increased volumes and higher realizations. Raw material costs did not go up significantly for JSP as it is fully integrated in terms of raw materials despite raw material and coal prices being negotiated at all-time highs. Net sales at Rs18.9 bn grew 55% for the quarter led by greater steel sales as well as higher steel realization. As a result 1QFY09 EBITDA at Rs7.1 bn was up 47% yoy and 22% qoq.

1QFY09 EBITDA/ton grew to Rs11,000/ton from Rs8,152/ton in 1QFY08 on account of higher realizations and improved product mix. Consequently, EBITDA margin at 43% for the quarter grew 380 bps yoy. Operating profit was negatively impacted by a 27% increase in employee costs as well as higher other expenditure.

Retain our SOTP-based target price of Rs2,900/share—upgrade to BUY

We value the steel business of JSP at 5X FY2010E EV/EBITDA in line with global peers. Our SOTP based target price of Rs2,900/share for JSP comprises Rs850/share for the existing steel business. We value the stake in Jindal Power Ltd at Rs1,075/share and the value accretion from Bolivia mines at Rs902/share. We believe that the stock is currently undervalued and is being accorded very little value for its new business.

We believe that many triggers exist that can make a case for incremental value generation from the current price level as listed below:

a) **We currently value JSP's stake** in El Mutun assuming an execution probability of just 50%. We believe this project can add great value, if JSP is successful in executing its plans. We note that JSP received the mining approvals for the EL Mutun mines recently and we expect mining to commence by end-FY2009E.

b) **JSP's existing coal mine in Chhattisgarh** can support an incremental 1500MWs for the next 20 years. The company has floated a tender to order 1320MWs and will likely place order for equipments in the next 3-4 months, in our estimate. We have not yet captured the full value that this project can potentially add.

We upgrade our rating on the stock to BUY (ADD previously) as we believe the stock is undervalued and offers good upside from current levels.

Jindal Steel and Power, Interim results, March fiscal year-ends (Rs mn)

	1Q 2009	4Q 2008	1Q 2008	% change qoq	% change yoy
Quantitative details ('000 tons)					
Steel sales	359,814	360,639	281,904	(0.2)	27.6
Metalliacs (DRI + pig iron)	106,980	58,084	233,998	84.2	(54.3)
Power sales (mn units)	263	245	243	7.3	8.2
Earnings drivers					
Average US HRC prices (US/ton)	1,077	762	610	41.3	76.6
Average UK HRC prices (US/ton)	827	692	645	19.5	28.2
Average INR:USD	41.65	39.79	41.26	4.7	1.0
Interim results					
Net revenues	**18,953**	**15,230**	**12,231**	24.4	55.0
Expenditure	**(11,898)**	**(9,437)**	**(7,440)**		
Stock adjustment	1,203	1,472	(44)		
Raw materials	(7,403)	(5,046)	(4,162)		
Employee cost	(387)	(504)	(305)		
Other costs	(5,311)	(5,359)	(2,928)		
EBITDA	**7,056**	**5,793**	**4,792**	21.8	47.2
Other income	74	248	96		
Depreciation	(1,057)	(1,035)	(1,115)		
EBIT	6,073	5,006	3,773		
Interest	(475)	(603)	(371)		
Pre-tax profits - as reported	5,598	4,402	3,402		
Unusual or infrequent items	-	-	-		
Pre-tax profits - as adjusted	**5,598**	**4,402**	**3,402**	27.2	64.5
Taxes	(1,575)	(499)	(901)		
Reported profits - as reported	4,023	3,903	2,501		
Extra-ordinary items	-	-	-		
Reported profits - as adjusted	**4,023**	**3,903**	**2,501**	3.1	60.8
Reported profits - as adjusted	**4,023**	**3,903**	**2,501**	3.1	60.8
Ratios					
Costs as % of revenue (%)	57.0	62.0	60.8		
EBITDA margin (%)	43.0	38.0	39.2		
ETR (%)	15.0	11.3	26.5		
EPS (Rs/share)	26.1	25.4	16.2		

Source: Company data, Kotak Institutional Equities estimates.

Jindal Steel and Power, SOTP-based valuation, March 2010E (Rs mn)

	EBITDA	Multiple	Enterprise value			Comments
	(Rs mn)	(X)	(Rs mn)	(US$ mn)	(Rs/share)	
Existing steel business			**130,885**	**3,154**	**850**	
Steel business (extant business)	31,890	5.0	159,450		1,036	
Less: Net debt of steel business			(28,566)		(186)	FY2010E net debt, adjusted for cash
Stake in Jindal Power (100% holding)			**165,447**	**3,987**	**1,075**	
First 1000 MWs (750 MWs already commissioned)					804	1-yr forward DCF-to-firm basis, including 800 MWs sale on spot basis for 7 years
Incremental 1320 MWs on existing mine					154	1-yr forward DCF-to-firm basis. Levelized tariff of Rs2.25/unit assumed on commissioning
Additional 1500 MWs on coal mine allocated in Jharkhand					117	Assuming JSP can set-up incremental 1500 MWs new mines allocated in Jharkkhand
Value accretion from development of El Mutun, Bolivia (note 1, 2)			**138,818**	**3,345**	**902**	DCF-to-firm basis, assuming 50% probability of investments fructifying
Arrived market capitalization			**435,149**	**10,486**	**2,826**	
Target price (Rs/share)					**2,900**	

Notes:

1. Based on our assumptions of extraction, production and pricing; at 50% probability of fructifying

2. We apply a factor of 20% to discount cash flows and assume just 50% probability of completion of commissioning of the project.

Source: Kotak Institutional Equities estimates

Utilities

TTPW.BO, Rs1010	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,540
52W High -Low (Rs)	1650 - 595
Market Cap (Rs bn)	235.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	73.4	80.4	88.3
Net Profit (Rs bn)	6.9	8.9	9.3
EPS (Rs)	29.7	38.1	39.9
EPS gth	*12.0*	*29.3*	*4.7*
P/E (x)	34.0	26.5	25.3
EV/EBITDA (x)	23.4	20.9	21.3
Div yield (%)	0.9	0.9	0.9

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.4	-	-
FIIs	20.7	0.7	0.0
MFs	6.7	1.2	0.5
UTI	-	-	(0.7)
LIC	9.2	1.5	0.8

Tata Power: 1QFY09 - Accounting adjustments depress profits; we retain our estimates and BUY rating

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- **On a comparable basis, PAT grew to Rs1.98 bn from Rs1.52 bn last year**
- **Consolidated numbers not disclosed, but subsidiaries and JVs report improved performance**
- **SOTP-based target price of Rs1,540/share**

Tata Power (TPC) reported standalone revenues of Rs20.3 bn, EBITDA of Rs3.0 bn and net profits of Rs1.5 bn for 1QFY09 compared to our estimate of Rs18.6 bn, Rs2.6 bn and Rs1.5 bn, respectively. The revenues were higher on account of higher cost of fuel and electricity purchased which is a pass-through for the regulated business and does not impact TPC's profits. The reported profits were higher at Rs1.62 bn after factoring in a forex gain of Rs0.39 bn and a deferred tax liability charge of Rs0.27 bn. TPC has made tariff adjustments and statutory adjustments during the quarter, which it was earlier doing once at the end of the year. If we were to reverse these adjustments, the comparable net profit would be Rs1.98 bn as compared to Rs1.52 bn of last year. While TPC has not disclosed consolidated results, other subsidiaries and joint ventures also posted improved performance during the quarter. We retain our EPS estimates at Rs38.1 for FY2009E and Rs39.9 for FY2010E. We retain our BUY rating on TPC, with an SOTP-based target price to Rs1,540/share.

On a comparable basis, PAT grew to Rs1.98 bn from Rs1.52 bn last year. We take the mark-to-market forex gains/losses pertaining to non-regulatory business as extraordinary income/expense as these are not predictable and also do not impact tariffs in licence area. TPC has made forex gains of Rs0.39 bn during 1QFY09 as compared to Rs0.38 bn in 1QFY08. TPC has made tariff adjustments and statutory adjustments during the quarter in reported financials, which it was earlier doing once at the end of the year. If we were to reverse these adjustments, the comparable net profit would be Rs1.98 bn as compared to Rs1.52 bn of last year. These adjustments pertain to—(1) under/over-recovery of revenues from tariffs as compared to incurred costs. These get adjusted over the next accounting/tariff period; (2) reduction in tariffs to the extent of one-third of the savings (on working capital interest and station heat rate etc) made by TPC in licence area compared to the normative costs specified. TPC retains two-thirds of the savings as its profits; and (3) excess profits made to be kept as statutory reserves. We have not reversed the adjustments in reporting financials as they represent the true profits being made and will avoid the large fluctuations in reported financials going forward.

Consolidated numbers not disclosed, but subsidiaries and JVs report improved performance. While TPC does not report consolidated financials on a quarterly basis, we note improved performance by all subsidiaries and joint ventures. NDPL (distribution business in Delhi) reported 20% yoy increase in PAT for the quarter to Rs334 mn (from Rs283 mn). Powerlinks (transmission JV with Powergrid) reported PAT of Rs90 mn compared to Rs80.4 mn last year. The power trading business reported 161% increase in revenues to Rs4.13 bn and 96% increase in PAT to Rs14.1 mn. We expect improved performance from the coal mining assets in Indonesia as well as the expected (as per management guidance and consensus estimates) coal realizations in CY2008 are expected to be about US$80/ton compared to US$44/ton in CY2007. We note the coal prices in spot market have consistently traded above US$100/ton during the last few months.

Tata Power to add about 600 MW capacity in FY2009, increase generation capacity to 14 GW in the next five years. During the quarter, TPC added a 114 MW hydropower project in Bhutan in its development portfolio. TPC will take a 26% stake in the project being promoted by the government of Bhutan. Tata Power Trading Company has signed an agreement for the offtake of power from the project for 25 years. During the next one year, TPC will add about 600 MW of generation capacity comprising 250 MW at Trombay, 120 MW at Haldia, 120 MW at Jojobera, 40 MW DG sets and about 100 MW of wind power assets to its current installed capacity of about 2,400 MW.

Management highlighted satisfactory progress in the large projects—4,000 MW Ultra Mega Power Project at Mundra in Gujarat and 1,050 MW Maithon Right Bank Thermal Power Project in JV with Damodar Valley Corporation—where civil works/ construction for the boiler and turbine units has commenced. TPC also plans to implement 1,600-2,400 MW imported coal based power project in Maharashtra; captive power plants for Tata Steel and IOC and two IPPs in Jharkhand and Orissa where it has been allocated captive coal blocks.

SOTP based target price of Rs1,540/share. We retain our BUY rating and SOTP-based target price of Rs1,540/share. Our SOTP valuation comprises four components—(1) valuation of stake in coal mines in Indonesia valued at Rs627/share, (2) valuation of telecom investments and cash in books equivalent to Rs244/share, (3) value of operating power assets and projects nearing completion (Rs362/share) and (4) projects under implementation (Rs308/share).

We note our valuation for 30% stake in coal mines in Indonesia is based on a consensus target price of IDR9,350/share for Bumi Resources—which owns the majority 70% stake in these coal mines. At the current market price of IDR6,100/share for Bumi Resources, our valuation for stake in coal mines is valued at Rs360/share. However, we highlight conservative assumptions in our valuation. About 50% of energy charge in tariff (equivalent to 6 mn tpa coal) for Mundra UMPP is indexed and get reimbursement for higher coal costs, implying an unhedged position of only 6 mn tpa. Thus, the net economic benefit from TPC's stake in coal resources will be 24% (only 6 mn tons unhedged against 30 mn tons economic interest) implying a value of Rs527/ share.

Tata Power, Standalone quarterly performance, March yearends (Rs mn)

		yoy		Our estimates	
	1QFY09	1QFY08	(% chg)	1QFY09E	(% chg)
Net sales	**20,261**	**15,115**	***34.0***	**18,551**	**23**
Cost of electrical energy purchased	(2,649)	(2,085)		(2,708)	
Cost of fuel	(12,894)	(8,778)		(11,488)	
Personnel costs	(717)	(647)		(650)	
Other expenses and provisions	(953)	(1,080)		(1,100)	
Total expenses	(17,212)	(12,591)		(15,946)	
EBITDA	**3,049**	**2,524**	***21***	**2,605**	**3**
Depreciation	(731)	(714)		(800)	
EBIT	2,318	1,810		1,805	
Other income	483	685		450	
Net interest	(522)	(594)		(450)	
PBT	**2,280**	**1,900**	***20.0***	**1,805**	**(5)**
Tax	(492)	(240)		(259)	
Deferred tax	—	(137)		—	
Statutory appropriations	(280)	—		—	
Net profit	**1,508**	**1,523**	***(1.0)***	**1,546**	**2**
Extraordinary income (expenses)	118	379			
EBITDA margin (%)	15.0	16.7		14.0	
Effective tax rate (%)	21.6	19.8		14.3	
Segment revenues					
Power business	19,990	14,911	*34.1*	18,331	23
Others	272	205	*32.6*	220	7
Total	**20,261**	**15,116**		**18,551**	
Less: Inter segment revenues	—	1			
Net revenues	**20,261**	**15,115**			
EBIT					
Power business	2,271	2,002	*13.4*		
Others	39	(79)			
Total	**2,310**	**1,923**	***20.1***		
EBIT Margin (%)					
Power business	11.4	13.4			
Others	14.4	(38.8)			
Key Operating Parameters					
Units Generated (MU)	3,935	3,860	*1.9*		
Units Sold (MU)	4,115	4,056	*1.5*		
Per unit price realization (Rs)	4.86	3.68	*32.1*		
Fuel cost per unit sold (Rs)	3.13	2.16	*44.8*		

Source: Company data, Kotak Institutional Equities.

Stake in coal mines in Indonesia could provide significant upside to our target price

Valuation of TPC's stake in coal mines held in Indonesia

	Consensus target price (IDR)	CMP (IDR)	CMP (IDR)
	9,350	**6,100**	**6,100**
Market cap of Bumi Resources-USD bn (a)	21.85	14.25	14.25
Full value of coal resources- Arutmin and Kalimantan (b)= (a)/70%	**31.21**	**20.36**	**20.36**
FY2012 est. coal production at Arutmin and Kalimantan (mn tons)	100	100	100
TPC's economic share (30%)	30	30	30
TPC's requirement of imported coal (for Mundra UMPP)	(12)	(12)	(12)
Indexed proportion of coal in tariffs (equivalent to mn tons)	**-**	**-**	**6**
TPC's net economic benefit from coal (mn tons)	18	18	24
TPC's net economic benefit from coal (%) (c)	**18**	**18**	**24**
Value of TPC stake (g) = (b)X©d	5.62	3.66	4.89
Debt taken for acquisition of coal mines (US$ bn) (e)	1.05	1.05	1.05
Attributable equity value of coal mines for TPC (US$ bn) = (d) - (e)	4.57	2.61	3.84
Holding company discount (%)	20	20	20
Per share value (Rs)	**627**	**359**	**527**

Source: Bloomberg, Kotak Institutional Equities estimates.

Tata Power Sum-of-the-parts valuation

	Methodology	Key assumptions/comments	Per share value (Rs)
Mumbai (Generation, transmission & distribution business)	**DCFe** Disc. Rate: 12% Term. Yr. Grth: 2%	The business enjoys very high predictability of cash flows. We have not built in any incremental capacity creation in Mumbai (beyond the 250 MW already under construction).	169
Jojobera generation business	**DCFe** Disc. Rate: 12% Term. Yr. Grth: 0%	P/B of 2X for operational generation capacity at Jojobera (428 MW), Belgaum (81 MW) and Haldia (30 MW). P/B of 1.5X for projects under construction - 240 MW at Jamshedpura/Jojobera and 90 MW at Haldia	86
Powerlinks Transmission Ltd.	**Price/Book (X)**	We value the equity investment at 1.4X book: The project earns a regulated RoE of 14% as per the Central Electricity Regulatory Commission (CERC) tariff guideline for inter-state transmission project.	14
Delhi Distcom (NDPL)	**DCF** Disc. Rate: 12% Term. Yr. Grth: 4%	NDPL earns 16% RoE provided it meets cetain A,T&C loss reduction benchmarks. It is also incentivized by way of higher returns in the event of bettering the benchmarks Equity invested in NDPL Rs bn 1.8 NDPL reserves (attr.) Rs bn 1.9	26
Tata BP Solar	**EV/Sales (X)**	8X EV/Sales on FY07 as compared to 17X for comparable standalone PV manufacturers; an additional 40% group company discount built in	66
Investments	**Various**	Total value (Rs bn) / Per share value (Rs) Telecom 27.6 / 119 TCS/Tata Sons 13.8 / 59 Others 2.0 / 9	186
Investible surplus on books	**Market value**	Marketable securities & cash on books (Rs bn)	56
Bumi Resources	**Market value**	18% economic interest - based on market cap of PT Bumi Resources	627
Mundra UMPP	**DCF-equity**	Levelized tariff of Rs2.26/unit for 25 years	128
Maithon	**DCF-equity**	74% stake in 1,050 MW project; 300 MW to be sold to DVC (regulated returns); Balance to be tied up; Coal linkage allocated	28
IPPs	**DCF-equity**	1,000 MW based on captive mining blocks; P/B of 2.5X with a levelized tariff of Rs2.26/unit	52
Value enhancement from future projects -assuming 50% probability			101
Total			**1,540**

Source: Kotak Institutional Equities estimates.

Projects worth 5.6 GW have achieved financial closure, another 5.7 GW in pipeline

Status of clearances for Tata Power's projects

Project	Capacity (MW)	Fuel	Land	Environmental clearance	Fuel arrangement	Financial closure	Expected CoD
Trombay TPS	250	Thermal	✓	✓	✓	✓	2009
Haldia	120	Thermal	✓	✓	✓	✓	2010
JV with Tata Steel	240	Thermal	✓	✓	✓	✓	2010
Maithon (JV with DVC)	1,050	Thermal	✓	✓	✓	✓	2012
Mundra UMPP	4,000	Thermal	✓	✓	✓	✓	2013
Shahapur	2,400	Thermal	WIP	WIP	×	×	
Orissa IPP	1,000	Thermal	×	×	✓	×	
Orissa CPP	1,270	Thermal	×	×	WIP	×	
Tubed IPP	500	Thermal	WIP	×	✓	×	
Jharkhand CPP (Tata Steel)	500	Thermal	WIP	×	WIP	×	

Source: Company data, Kotak Institutional Equities estimates.

Utilities

RLEN.BO, Rs984	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,250
52W High -Low (Rs)	2641 - 660
Market Cap (Rs bn)	227.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	82.9	89.2	117.3
Net Profit (Rs bn)	10.8	11.2	13.0
EPS (Rs)	46.7	48.0	56.3
EPS gth	*20.7*	*2.6*	*17.3*
P/E (x)	21.0	20.5	17.5
EV/EBITDA (x)	26.5	35.2	24.2
Div yield (%)	0.7	0.9	1.2

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	35.9	-	-
FIIs	21.1	0.8	0.0
MFs	5.0	1.1	0.3
UTI	-	-	(0.8)
LIC	11.2	2.1	1.3

Reliance Infrastructure: EPC sees strong growth, accounting changes in power business

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- **Operating performance of power business on track**
- **Earnings growth boosted by changes in accounting policy and merger**
- **Revenue growth and higher margins from EPC business**
- **Reliance Power reports income from liquid investments**

Reliance Infrastructure (RELI) reported revenues of Rs21.9 bn (we estimated Rs17 bn) and EBITDA of Rs1.9 bn (we estimated Rs1.1 bn). Reported profit of Rs2.5 bn includes an extraordinary forex loss of Rs2.16 bn and Rs0.29 bn gain on tax adjustment for earlier years. We note the sharp reduction in other expenses for the quarter on a yoy basis if we adjust the same for forex losses. Revenues were higher-than-estimates due to higher cost of fuel and purchased electricity. We note RELI also recognized income of Rs0.89 bn and PAT of Rs0.78 bn pertaining to the regulatory asset of Rs3.56 bn created pursuant to the tariff order for Mumbai licence area. This regulatory asset reflects the under-recovery of costs in FY2009E and is to be recovered from tariffs in FY2010 and FY2011E. We retain our BUY rating and target price of Rs1,250/share and EPS estimates of Rs48 for FY2009E and Rs56.3 for FY2010E. We believe that a strong and liquid balance sheet and predictable cash flows of existing business puts the company in an excellent position to exploit emerging opportunities in power and infrastructure development.

Operating performance of power business on track. Income from the sale of electrical energy increased by ~37% yoy to Rs17.6 bn. Increase in sales was on account of higher sale of electrical energy (up 2% yoy to 2,539 MU in 1QFY09) and higher costs of electrical energy purchased (per unit costs of purchase increased 48% yoy). RELI purchased 1,449 MU of power during the quarter from external sources at an average cost of Rs7.47/unit. Dahanu Thermal Power Station (DTPS) operated at a PLF of 103.2% during 1QFY09 against a PLF of 104.5% during 1QFY08. The Samalkot Power Plant operated at a PLF of 47.3%, against 56.7% achieved last year. We note that RELI is yet to firm up the power purchase agreement with Tata Power for securing a long-term supply of power. Further, the Supreme Court (apex court of the country) has ruled in favour of Tata Power and reinstated its right to supply power to retail consumers in the Mumbai licence area.

Earnings growth boosted by changes in accounting policy and merger. RELI reported revenues of Rs21.9 bn, EBITDA of Rs1.9 bn and net profit of Rs4.4 bn. Reported profit was lower at Rs2.5 bn on account of forex losses of Rs2.16 bn incurred during the quarter and Rs0.29 bn gain on tax adjustment for earlier years. However, we note the sharp reduction in other expenses for the quarter on a yoy basis if we adjust the same for forex losses. Revenues and Profit after Tax were boosted by Rs0.89 bn and Rs0.78 bn respectively due to a change in accounting policy. RELI has recognized income pertaining to the regulatory asset of Rs3.56 bn created pursuant to the tariff order for Mumbai licence area. This regulatory asset reflects the under-recovery of costs in FY2009E and is to be recovered from tariffs in FY2010 and FY2011E. Other income for the quarter was higher by Rs397 mn due to the merger of Reliance Projects Finance Pvt. Ltd.

Revenue growth and higher margins from EPC business. Income from EPC contracts grew by 28% yoy to Rs4.3 bn. The EBIT margins also improved to 10.9% from 5.1% last year. The revenue recognition of the EPC business tends to be erratic depending on actual execution schedule and achievement of milestones for projects under implementation. We believe the EPC business of RELI will likely benefit from the large capacity addition planned (~28,200 MW) by its subsidiary Reliance Power as well as increased orders from IPPs/state generation companies. We note that the order book of the company stood at Rs210 bn at the end of 1QFY09 (Rs50 bn in 1QFY08). RELI won the EPC contract of Rs128 bn from Reliance Power for development of its 3,960 MW power plant at Madhya Pradesh.

Reliance Power—reports income from liquid investments. Reliance Power (RPWR) reported investment income of Rs805 mn and a net profit of Rs612 mn for the quarter ended June 30, 2008. RPWR has issued 'notice to proceed' to RELI in July 2008 for beginning construction work at Sasan UMPP (3,960 MW). RPWR expects to commission the first unit of Sasan UMPP by December 2011 and the complete project by March 2013. We note that RBI has accorded an approval of US$2 bn for raising debt funds through the ECB route. RPWR has already utilized Rs21 bn in various power SPVs out of Rs115 bn raised during the IPO. RPWR has received LoI from Madhya Pradesh Power Trading Company Limited for offtake of 1,241 MW at Rs2.45/unit from MP Power project through a Case-I bidding.

Infrastructure projects progressing as per schedule. We observe satisfactory progress in the various infrastructure projects being pursued by RELI. Two of the five road projects (NK and DS) have completed 60% construction and will likely be commissioned by Q3FY09E, while construction is already in progress for the remaining three projects. We also note achievement of award of key contracts for the Mumbai Metro Line and completion of preliminary design and engineering works for the Delhi Airport Express Line.

SOTP-based target price of Rs1,250/share. Our SOTP-based target price comprises—(1) Rs173/share from the existing generation, transmission and distribution businesses, (2) Rs115/share for the EPC business, (3) Rs673/share for 45% stake in Reliance Power valued at 20% discount to our target price of Rs180/share, (4) Rs19/share as the equity- value of the five BOT road projects under-construction and (5) cash and investible surplus in books of Rs272/share. Earnings growth during the quarter was aided by – (1) Higher costs of electrical energy purchased, and (2) change in accounting policy and merger of Reliance Projects Pvt. Ltd with RELI. We retain our BUY rating and target price of Rs1,250/share and EPS estimates of Rs48 for FY2009E and Rs56.3 for FY2010E.

Reliance Infrastructure - Quarterly results, March year-ends (Rs mn)

			yoy
	June 2008	June 2007	(% chg)
Net sales from Electrical Energy	17,637	12,854	37.2
Income from EPC and Contracts	4,344	3,386	28.3
Net sales	**21,981**	**16,240**	**35.4**
Cost of electrical energy purchased	(10,823)	(6,711)	
Cost of fuel	(2,968)	(2,722)	
Tax on electricity	(370)	(353)	
Cost of matl. & other direct exp.(EPC & Contracts)	(3,571)	(2,917)	
Personnel costs	(1,245)	(996)	
Other expenses and provisions	(1,086)	(2,165)	
Total expense	(20,063)	(15,864)	
EBITDA	**1,918**	**376**	**410.2**
Depreciation	(612)	(581)	
EBIT	1,306	(205)	
Other income	4,203	3,599	
Net interest	(774)	(693)	
PBT	**4,735**	**2,701**	**75.3**
Tax	(315)	(317)	
Deferred tax	(25)	(169)	
Net profit	**4,395**	**2,216**	**98.3**
Extraordinary income	(1,869)	—	
Ratios (%)			
EBITDA margin (%)	8.7	2.3	
Effective tax rate (%)	7.0	18.0	
Cost of Electrical Energy purchased (as % of net sales from Elec. Energy)	61.4	52.2	
Cost of Fuel (as % of net sales from Elec. Energy)	16.8	21.2	
Tax on electricity	1.7	2.2	
Cost of matl. & other direct exp.(EPC & Contracts)	82.2	86.1	
Personnel costs	5.7	6.1	
Other expenses	4.9	13.3	

Source: Company data, Kotak Institutional Equities.

Profit model, balance sheet, cash model 2005-2009E, March fiscal year-ends (Rs mn)

	2007	2008E	2009E	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	68,489	82,948	89,165	117,290	167,705	190,691
EBITDA	**5,503**	**4,804**	**5,986**	**10,074**	**16,614**	**21,203**
Other income	9,257	14,652	11,642	10,806	9,894	9,464
Interest	(3,130)	(4,021)	(3,506)	(3,704)	(5,583)	(7,776)
Depreciation	(3,032)	(3,074)	(3,940)	(4,456)	(5,063)	(5,587)
Extraordinary items	—	933	(2,009)	—	—	—
Pretax profits	8,598	12,361	10,182	12,721	15,862	17,304
Tax	(238)	(1,891)	(1,569)	(1,823)	(3,929)	(4,884)
Net profits	**8,345**	**10,849**	**11,186**	**12,993**	**14,201**	**19,098**
Earnings per share (Rs)	**38.7**	**46.7**	**48.0**	**56.3**	**61.5**	**82.7**
Balance sheet (Rs mn)						
Total equity	95,344	120,737	127,784	141,990	155,901	172,754
Deferred taxation liability	2,511	2,182	2,046	1,999	1,749	1,412
Total borrowings	66,304	63,749	75,286	77,918	81,347	72,846
Currrent liabilities	32,729	37,090	42,792	57,218	86,809	99,112
Service line deposits form customers	246	246	246	246	246	246
Total liabilities and equity	**197,134**	**224,004**	**248,155**	**279,372**	**326,052**	**346,371**
Cash	22,263	57,710	47,455	33,668	30,970	42,298
Current assets	78,730	61,980	64,949	80,094	109,987	122,934
Total fixed assets	43,919	52,092	83,529	113,388	132,873	128,916
Investments	52,222	52,222	52,222	52,222	52,222	52,222
Total assets	**197,134**	**224,004**	**248,155**	**279,372**	**326,053**	**346,371**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital		14,527	12,981	17,401	19,013	24,349
Working capital		21,111	2,733	(718)	(303)	(644)
Capital expenditure		(11,248)	(35,377)	(34,315)	(24,547)	(1,630)
Investments		—	—	—	—	—
Free cash flow		**24,391**	**(19,662)**	**(17,632)**	**(5,837)**	**22,075**

Source: Company data, Kotak Institutional Equities estimates.

Reliance Infrastructure, Sum-of-the-parts valuation

	Methodology	Key assumptions	Per share value (Rs)
BSES (Mumbai distribution, Dahanu)	**DCF-equity** CoE: 12% Terminal year growth: 2%	The business enjoys a stable regulated regieme and very high predictability of cash flows. We have not built in any incremental generation capacity in Mumbai.	129
Other generating assets - BAPL, RSPCL, BSES Kerala Power, Windmills	**DCF-equity** CoE: 12% Terminal year growth: Nil	We assign a value of 1.8X Price to Book as FCFe for these projects is likely to be ~16-18%. Gas power stations are liable to get returns based on availability, irrespective of lower PLF caused by unavailability of natual gas.	29
Delhi distribution 26% equity stake	**DCF-equity** CoE: 12% Terminal year growth: 4%	Distcoms earn 16% RoE on achieving the specified A,T&C loss reduction. The distcoms earn higher returns in the event of bettering the benchmarks. Our valuation takes a hit due to past capex of Rs5.35 bn disallowed by the regulator.	15
EPC business	**EV/EBITDA** 8X FY2010E - inline with the Engineering sector in Kotak coverage universe	**FY2008 / FY2010E** Revenues (Rs mn): 13,933 / 33,220 EBITDA (Rs mn): 1,995 / 3,322 EBITDA %: 14.3 / 10.0	115
Road projects 5 BOT projects under construction	**DCF-equity** CoE:15%	RELI has spent ~Rs5 bn till March 2008 out of the total projected capex of Rs30 bn. Our DCF-equity valuation implies a weighted average P/B of 1.7X for these five projects.	19
Reliance Power Limited 45% stake	**DCF-equity** CoE: 12.5% - 15%	We use a 20% discount to our target price of Rs180/share for RPWR.	673
Cash and investible surplus on books	**Book value**	Marketable securities & cash on books (Rs mn) 86,928 Less unallocable debt (Rs mn) (24,772) Net cash and investible surplus (Rs mn) 62,157	269
Total			**1,249**

Source: Company data, Kotak Institutional Equities estimates.

Industrials

ABB.BO, Rs834	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	875
52W High -Low (Rs)	1744 - 710
Market Cap (Rs bn)	176.8

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	59.3	71.3	88.1
Net Profit (Rs bn)	4.9	6.1	7.5
EPS (Rs)	23.2	28.6	35.4
EPS gth	*44.5*	*23.2*	*23.7*
P/E (x)	36.0	29.2	23.6
EV/EBITDA (x)	21.3	16.9	13.1
Div yield (%)	0.3	0.3	0.4

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	15.8	0.5	(0.1)
MFs	3.9	0.7	0.0
UTI	-	-	(0.7)
LIC	9.7	1.5	0.9

ABB: Revenue and order booking growth below expectations, potential for significant incremental underperformance; reiterate REDUCE

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- **Revenue growth significantly below expectations, probably led by shift of revenue towards longer execution cycle projects**
- **Consistently declining yoy order booking growth may highlight weakening capex momentum across the country**
- **Revise earnings estimates downwards based on lower-than-expected execution; reiterate REDUCE rating**
- **ABB still trading at a higher-than-average P/E premium versus Sensex and thus potential for significant incremental underperformance remains**

ABB reported 1QFY09 revenues of Rs16.2 bn (15.4% yoy growth), below our expectation of Rs17.6 bn. Operating margin remained flat yoy at 11.8% versus our expectation of 11.7%. ABB reported net income of Rs1.32 bn (up 21.4%) versus our expectation of Rs1.42 bn (up 30% yoy). The key disappointing factor in the results was that the order booking growth was only 11% yoy (lowest growth in past five years). The 12 month moving average curve for the growth in order booking has been declining almost continuously for the past 5 quarters from 1QFY07 potentially highlighting slowdown in investment momentum across the country. We have reduced our earnings estimates to Rs28.6 (Rs30.4 earlier) and Rs35.4 (Rs39.9 earlier) for calendar y/e 2008E and 2009E, respectively, based on reduction in revenue estimates. We have revised our target price to Rs875 (from Rs1,125 earlier) based on (a) rollover, (b) increase in cost of capital and (c) earnings revision. Highlight potential for significant incremental underperformance of as mush as 25% if P/E premium of ABB over Sensex reverts back to the average that it has traded between April 03 to April 07. We highlight the fact that the stock has underperformed the market by about 16% since our rating change (to REDUCE from ADD earlier) on April 28, 2008.

Revenues growth significantly below expectation probably led by shift of revenue towards longer execution cycle projects

ABB reported 1QFY09 revenues of Rs16.2 bn (15.4% yoy growth), below our expectation of Rs17.6 bn. Operating margin remained flat yoy at 11.8% , versus our expectation of 11.7%. ABB reported net income of Rs1.32 bn (up 21.4%) versus our expectation of Rs1.42 bn (up 30% yoy). Net income growth has partly been helped by higher other income which grew by 44.6% yoy and slightly lower interest costs down 64% yoy from Rs23 mn in 2QCY07 to Rs8 mn this quarter. The increase in employee cost, rising from 5.6% to 6.3%, as a percentage of total sales was offset by a similar decline in other expenses. The EBIT margins were under pressure for most segments except for automation products segment which expanded by 160 bps from 13.2% to 14.8%. We believe that revenue growth is below expectations probably led by shift of revenues towards longer execution cycle projects leading to lower-than-expected revenue booking in the near-term (Exhibits 1 and 2).

Consistently declining yoy order booking growth may highlight weakening capex momentum across the country

The key disappointing factor in the results was that the order booking growth was only 11% yoy (lowest growth in past 5 years) as compared to a growth of 37.6% in 2QFY07 and 34.8% in the previous quarter. The 12 month moving average curve for the growth in order booking has been declining almost continuously for the past 5 quarters from 1QFY07 potentially highlighting slowdown in investment momentum across the country. Our belief is based on fact that ABB product portfolio cuts across industry segments and any manufacturing or process plant either greenfield or brownfield is expected to use some part of the portfolio of products (Exhibits 3 and 4).

Revise earnings estimates downwards based on lower-than-expected execution; reiterate REDUCE rating

We have reduced our earnings estimates to Rs28.6 (Rs30.4 earlier) and Rs35.4 (Rs39.9 earlier) for calendar y/e 2008E and 2009E respectively based on reduction in revenue estimates. We have revised our revenue estimates downwards from Rs71.4 and Rs88 bn for CY2008E and CY2009E respectively from Rs76.5 and Rs100 bn earlier.

We have revised our target price to Rs875 (from Rs1,125 earlier) based on (a) rollover, (b) increase in cost of equity capital to 13.5% from 12.5% earlier and (c) earnings revision. Our target price implies P/E of 24.5X and EV/EBITDA of 15X based on Dec' 09 earnings (Exhibit 5).

We highlight the fact that the stock has underperformed the market by about 16% since our rating change (to REDUCE from ADD earlier) on April 28, 2008.

We remain positive on long-term sectoral outlook as well as execution capabilities, would look to review rating at lower levels

We remain positive on long-term sectoral outlook in terms of likely strong growth in T&D investments as well as company's capabilities in terms of delivering strong profitable execution. Thus we would look to review our rating at potentially lower levels. We highlight that upside risks arise from (1) sustenance of EBITDA margin expansion of 70 bps achieved in 1HCY08 (we are assuming about 20 bps margin expansion for CY2008E and another 20 bps for CY2009E), (2) resumption of ordering activity by utilities such as Power Grid, resulting in strong order inflows.

ABB still trading at a higher-than-average P/E premium versus Sensex and thus potential for incremental underperformance remains

Based on our analysis ABB could have further underperformance of as mush as 25% if P/E premium of ABB over Sensex reverts back to the average that it has traded between April 03 to April 07. We highlight that ABB has been trading at an average premium of 46% over Sensex P/E during the 36 month period between April 03-April 07, while the currently prevailing P/E inspite of significant correction, is still implying 93% premium over Sensex, leaving scope for incremental underperformance (Exhibits 6 and 7).

We believe that tracking the premium versus absolute P/E adjust for variations in market sentiment. We have left out period before April 03 and period after April 07 for our analysis of P/E premium over the Sensex. We believe that period before April 03 may be of less relevance as that would not capture several positive sectoral legislative changes and revival of investment momentum in the sector (ABB actually traded at a discount to Sensex before June 2002). We have left the period between April 07 to December 07 as that period captures unusual spike in ABB's P/E (its one-year forward P/E toughed high of 56 in November 2007 and its P/E premium over sensex touched a high of 183%).

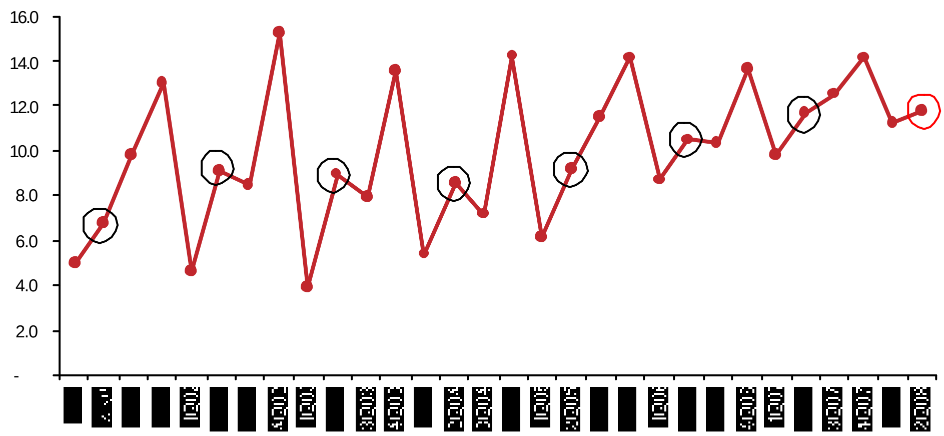
Key lacunae of this mathematical exercise is that it does not account for fundamental changes in Sensex constitution such as embedded valuations and earnings of energy and commodity companies as well as fundamental changes in ABB such as cash flow characteristics.

Exhibit 1. ABB - 2QCY08 - key numbers (Rs mn)

					yoy			qoq			yoy	
	CY2007	CY2008E	% change	2QCY08	2QCY07	% change	2QCY08	1QCY08	% change	1HCY08	1HCY07	% change
Sales	**59,303**	**76,566**	**29.1**	**16,163**	**14,009**	***15.4***	**16,163**	**15,353**	***5.3***	**31,516**	**27,133**	***16.2***
Expenses	(52,057)	(67,068)	28.8	(14,261)	(12,371)	*15.3*	(14,261)	(13,626)	*4.7*	(27,887)	(24,213)	*15.2*
Stock	521	0	(100.0)	198	152		198	118		316	249	
RM	(43,441)	(56,020)	29.0	(11,736)	(10,148)	*15.6*	(11,736)	(11,147)	*5.3*	(22,883)	(19,996)	*14.4*
Employee	(3,061)	(3,958)	29.3	(1,015)	(790)	*28.5*	(1,015)	(969)	*4.7*	(1,985)	(1,488)	*33.4*
Other Exp	(6,076)	(7,090)	16.7	(1,708)	(1,585)	*7.8*	(1,708)	(1,627)	*5.0*	(3,336)	(2,979)	*12.0*
Operating profit	**7,246**	**9,498**	**31.1**	**1,902**	**1,638**	***16.1***	**1,902**	**1,727**	***10.1***	**3,629**	**2,920**	***24.3***
Other income	710	892	25.6	213	147	*44.6*	213	185	*15.2*	398	299	*33.2*
EBIDT	7,957	10,390	30.6	2,115	1,786	*18.5*	2,115	1,912	*10.6*	4,028	3,219	*25.1*
Interest	(68)	0	(100.0)	(8)	(23)	*(63.8)*	(8)	(28)	*(70.7)*	(36)	(33)	*11.1*
Depreciation	(324)	(387)	19.5	(88)	(77)	*14.5*	(88)	(83)	*5.7*	(171)	(163)	*5.1*
PBT	**7,565**	**10,003**	**32.2**	**2,019**	**1,686**	***19.7***	**2,019**	**1,801**	***12.1***	**3,820**	**3,023**	***26.3***
Tax	(2,648)	(3,551)	34.1	(701)	(600)	*16.7*	(701)	(624)	*12.3*	(1,325)	(1,071)	*23.7*
Net profit	**4,917**	**6,452**	**31.2**	**1,318**	**1,086**	***21.4***	**1,318**	**1,177**	***12.0***	**2,495**	**1,952**	***27.8***
Key ratios (%)												
RM / Sales	*72.4*	*73.2*		*71.4*	*71.4*		*71.4*	*71.8*		*71.6*	*72.8*	
Empl / Sales	*5.2*	*5.2*		*6.3*	*5.6*		*6.3*	*6.3*		*6.3*	*5.5*	
OE / Sales	*10.2*	*9.3*		*10.6*	*11.3*		*10.6*	*10.6*		*10.6*	*11.0*	
OPM	***12.2***	***12.4***		***11.8***	***11.7***		***11.8***	***11.3***		***11.5***	***10.8***	
PBT Margin	*12.8*	*13.1*		*12.5*	*12.0*		*12.5*	*11.7*		*12.1*	*11.1*	
Tax rate	*35.0*	*35.5*		*34.7*	*35.6*		*34.7*	*34.6*		*34.7*	*35.4*	
Order inflow & backlog												
Order booking	76,682	102,802.7		22,086	19,963	*10.6*	22,086	26,954	*(18.1)*	49,040	39,966	*22.7*
Order backlog	50,260	78,413.9		67,769	46,362	*46.2*	67,769	61,749	*9.7*	67,769	46,362	*46.2*
Segment results												
Revenues												
Power Products	16,326			5,130	4,031	*27.2*	5,130	4,263	*20.3*	9,392	7,835	*19.9*
Power Systems	22,514			5,321	5,110	*4.1*	5,321	5,122	*3.9*	10,443	9,590	*8.9*
Automation Products	13,332			3,953	2,759	*43.3*	3,953	3,951	*0.1*	7,903	5,639	*40.2*
Process Automation	10,666			2,844	3,010	*(5.5)*	2,844	2,953	*(3.7)*	5,797	5,681	*2.0*
Others	344			275	73	*276.6*	275	111	*148.8*	386	127	*203.7*
Revenue mix (%)												
Power Products	*25.8*			*29.3*	*26.9*		*29.3*	*26.0*		*27.7*	*27.1*	
Power Systems	*35.6*			*30.4*	*34.1*		*30.4*	*31.2*		*30.8*	*33.2*	
Automation Products	*21.1*			*22.6*	*18.4*		*22.6*	*24.1*		*23.3*	*19.5*	
Process Automation	*16.9*			*16.2*	*20.1*		*16.2*	*18.0*		*17.1*	*19.7*	
Others	*0.5*			*1.6*	*0.5*		*1.6*	*0.7*		*1.1*	*0.4*	
EBIT Margin (%)												
Power Products	*13.0*			*12.1*	*13.4*		*12.1*	*12.9*		*12.5*	*11.3*	
Power Systems	*10.3*			*6.4*	*8.6*		*6.4*	*8.9*		*7.6*	*9.0*	
Automation Products	*13.4*			*14.8*	*13.2*		*14.8*	*10.0*		*12.4*	*12.2*	
Process Automation	*12.5*			*11.0*	*11.7*		*11.0*	*14.3*		*12.7*	*9.7*	
Others	*3.6*			*6.8*	*1.1*		*6.8*	*8.2*		*7.2*	*(0.4)*	

Source: Company data, Kotak Institutional Equities estimates.

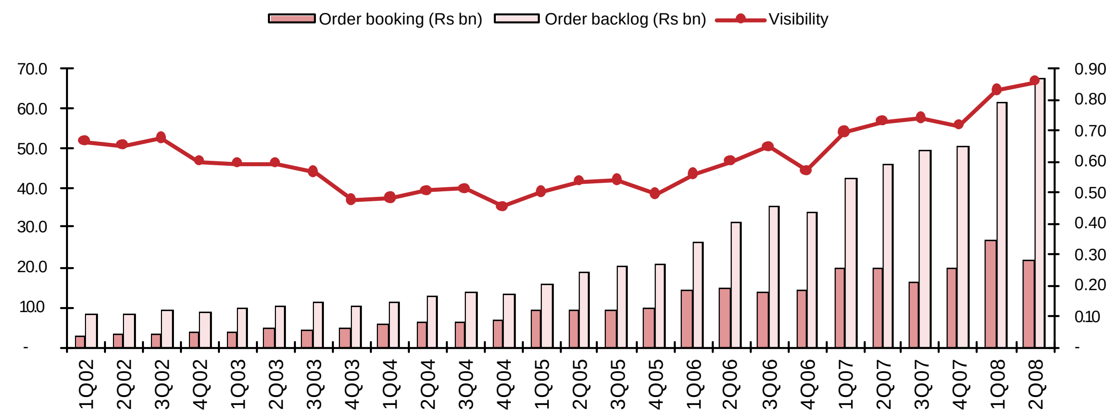
Exhibit 2. Quarterly margin pattern for ABB for last six years



Source: Company data, Kotak Institutional equities estimates.

Exhibit 3: Visibility, based on forward four quarter revenues, at the end of 2QCY08 has been maintained at levels of the past few years

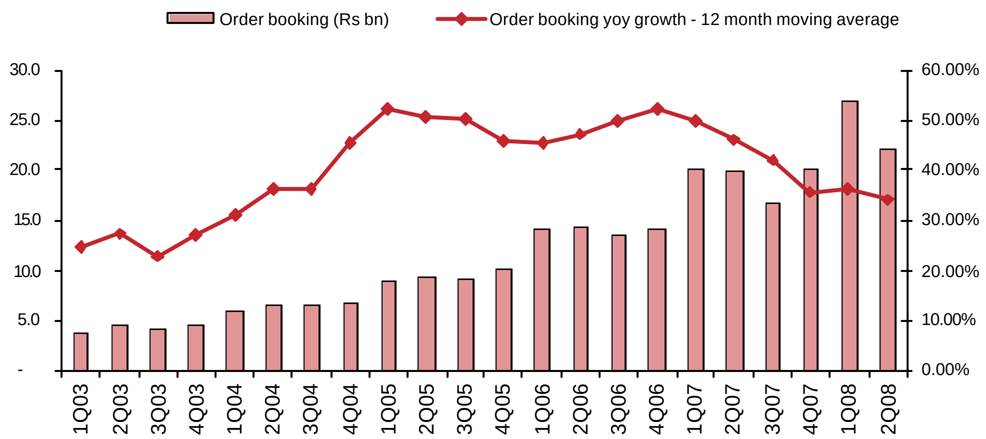
Order booking, Order backlog & visibility trend for ABB for last five years



Source: Company data, Kotak Institutional Equities estimates.

Exhibit 4: The one year moving average of yoy order inflow growth has been slowing down from 1QFY07

Order booking & moving average of order booking growth trend for ABB for last five years



Source: Company data, Kotak Institutional Equities estimates.

Exhibit 5: Our DCF-based target price is Rs875/share

DCF valuation for ABB, December calendar year-ends, 2008E-2019E, (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	**71,336**	**88,053**	**109,387**	**134,730**	**161,676**	**189,969**	**223,213**	**262,276**	**301,617**	**346,860**	**390,217**	**438,994**
Growth (%)	20.3	23.4	24.2	23.2	20.0	17.5	17.5	17.5	15.0	15.0	12.5	12.5
EBIT (excl finl income)	8,474	10,474	13,075	16,119	19,401	22,796	26,786	31,473	36,194	41,623	46,826	52,679
Growth (%)	22.4	23.6	24.8	23.3	20.4	17.5	17.5	17.5	15.0	15.0	12.5	12.5
EBIT Margins	11.9	11.9	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Effective tax rate	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5
EBIT*(1-tax rate)	**5,466**	**6,756**	**8,433**	**10,397**	**12,514**	**14,704**	**17,277**	**20,300**	**23,345**	**26,847**	**30,203**	**33,978**
Growth (%)	22.4	23.6	24.8	23.3	20.4	17.5	17.5	17.5	15.0	15.0	12.5	12.5
Depreciation	387	592	692	808	912	1,078	1,240	1,418	1,628	1,839	2,108	2,305
Change in Working Capital	243	(1,262)	(1,147)	(1,688)	(1,846)	(1,938)	(2,277)	(2,676)	(2,695)	(3,099)	(2,970)	(3,341)
Capital Expenditure	(1,191)	(1,500)	(1,750)	(1,750)	(2,425)	(2,546)	(2,857)	(3,333)	(3,541)	(4,285)	(3,902)	(4,390)
Free Cash Flows	**4,906**	**4,586**	**6,229**	**7,767**	**9,155**	**11,298**	**13,383**	**15,709**	**18,738**	**21,302**	**25,439**	**28,553**
Growth (%)	292.4	(6.5)	35.8	24.7	17.9	23.4	18.5	17.4	19.3	13.7	19.4	12.2
Years discounted	0	0	1	2	3	4	5	6	7	8	9	10
Discount factor	1.0	1.0	0.9	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3
Discounted cash flow	**4,906**	**4,586**	**5,488**	**6,029**	**6,261**	**6,808**	**7,105**	**7,348**	**7,722**	**7,735**	**8,138**	**8,048**

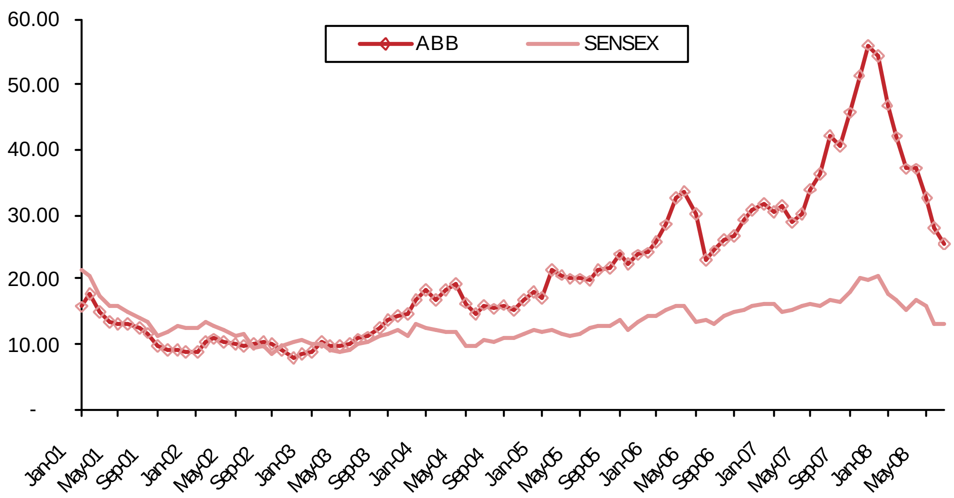
WACC calculation	
Risk-free rate (Rf)	8.5%
Beta (B)	100.0%
Equity risk premium	5.0%
Expected market Return (Rm)	13.5%
Cost of Equity (Ke)	13.5%
Cost of Debt (Kd) (Post-tax)	8.0%
WACC used	**13.5%**

Terminal value Calc	Year-forward
Cash flow in terminal year	28,553
g	5.0%
Capitalisation rate	8.5%
Terminal value	352,708
Discount period (years)	10
Discount factor	28.2%
Discounted value	99,416

NPV Calc	NPV
Sum of free cash flow	75,268
Terminal value	99,416
Enterprise value	174,684
Add Investments	705
Net debt	(11,057)
Net present value-equity	186,446
Shares o/s	212
NPV /share(Rs)	**880**

Source: Company data, Kotak Institutional Equities Estimates.

Exhibit 6. P/E Chart of Sensex and ABB based on 12-month rolling forward EPS, CY2001-Jul 2008



Source: Bloomberg, Kotak Institutional Equities.

Exhibit 7. ABB could have 9% more downside if P/E premium over Sensex P/E reverts back to the average prevailing between April 03 to April 07

Comparison of ABB and Sensex P/E over Jan01-Jul08

	ABB	SENSEX
Peak P/E value (x)	56.11	21.48
P/E correction from peak (%)	54.3	38.1
Average P/E between April 03 to April, 07	18.7	12.8
Average premium over sensex P/E between April04 to April07	45.7	N.A.
P/E premium at peak (%)	183.3	N.A.
Current P/E premium (%)	92.9	
Downside if P/E premium shrinks to historical average (%)	**24.5**	

Source: Kotak Inststitutional Equities

Cement

GRAS.BO, Rs1837	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	2,320
52W High -Low (Rs)	4074 - 1625
Market Cap (Rs bn)	168.4

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	170.4	178.6	200.4
Net Profit (Rs bn)	26.1	23.6	22.0
EPS (Rs)	284.6	257.6	240.4
EPS gth	*32.6*	*(9.5)*	*(6.7)*
P/E (x)	6.5	7.1	7.6
EV/EBITDA (x)	3.8	3.9	3.7
Div yield (%)	1.7	1.8	1.8

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	25.2	-	-
FIIs	33.8	1.0	0.4
MFs	7.2	1.2	0.6
UTI	1.5	1.9	1.3
LIC	8.6	1.3	0.7

Grasim Industries: 1QFY09 - Sequential improvement in EBITDA margins aids earnings growth

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- **VSF—improvement in EBITDA margins helps combat decline in sales**
- **Cement—margins decline yoy but up qoq**
- **Sum-of-the-parts value at Rs2,320/share**

Grasim Industries reported a 6% yoy increase in standalone net revenues at Rs25.9 bn (our est. of Rs25.9 bn), 5% decline in EBITDA at Rs7.5 bn (our est. of Rs6 bn) and 0.5% increase in net profits at Rs5.1 bn (our est. Rs3.6 bn, consensus at Rs3.7 bn). Higher-than-estimated EBITDA was on account of strong sequential improvement in EBITDA margins—a 500 bps qoq improvement. Management has ascribed the margin improvement to (1) improved realizations in the cement business, (2) lower dependence on purchased raw material and a one-time gain of Rs100 mn in the VSF business, and (3) overall cost-containment and reduction of overheads across various segments. We have increased our EPS estimates for FY2009E to Rs257 (Rs229 previously) and for FY2010E to Rs240 (Rs219 previously). We build in benefits of cost control and lower tax rate due to higher tax depreciation on commissioning of new capacities in our estimates. We retain our target price of Rs2,320/share, upgrade rating to ADD (from REDUCE previously). High volume growth in cement and arrest of the decline in VSF margins could be the likely positive triggers for the stock.

VSF—improvement in EBITDA margins helps combat decline in sales. VSF business reported a 10% yoy decline in revenues at Rs6.6 bn due to a 18% yoy decline in VSF sales at 56,760 tons. EBITDA margins decline by 550 bps yoy led by higher raw material costs. However, EBITDA margins were higher by 430 bps on a sequential quarter basis. Management attributes sequential improvement in margins to – (1) lower dependence on purchased raw material for reduced sales volume, (2) improved realizations for by-products of VSF production, (3) one-time gain of Rs100 mn for VSF business, and (4) overall reduction in overheads and other manufacturing costs.

We note that Grasim has commissioned during the previous quarter production capacity at Kharach (63,875 tpa) and is in the process of expanding capacities at Harihar by 31,000 tpa. Grasim plans to set up a greenfield plant with a capacity of 88,000 tpa at Vilayat in Gujarat. However, we note volumes decline for two consecutive quarters and have reduced our volumes growth assumption to low teens growth.

Cement—margins decline yoy but up qoq. Cement division reported 16% yoy increase in revenues and 0.7% yoy decline in EBITDA. Revenue growth for the cement division was aided by improved realizations for white cement (+21% yoy) and higher revenue contribution from RMC (+61% yoy volume growth). Sequential improvement in EBITDA margins by 140 bps was aided by improved realizations (9% yoy and 3% qoq) and better cost controls. We expect strong volumes growth for the company in FY2009 as the company's plants at Kotputli (4.5 mn tpa) and Shambhupura (4.4 mn tpa) start production. Profitability of cement division will likely be constrained on account of— (1) higher fuel cost as the coal price at Richard Bay have breached US$170/ton, (2) higher freight cost due to revision of domestic fuel prices, and (3) lower realizations from cement business as 30 mn tpa of additional capacities will likely commission during FY2009E.

Sum-of-the-parts value at Rs2,320/share. Our SOTP based value for Grasim is Rs2,320/share. We value the cement business at 6X EV/EBITDA on FY2009E, equivalent to EV/ton of US$114/ton. We value the steady cash streams from VSF and allied chemicals business using DCF model. On comparative valuations on FY2009E, our assigned valuation implies 4.8X EV/EBITDA for chemicals business and 4.9X EV/ EBITDA for the VSF business. We assign 20% group holding discount to the key investments of Grasim in our SOTP valuation. Key investments of Grasim have been valued at Rs25 bn in our SOTP, accounting for ~11% of the enterprise value.

Quarterly results for Grasim Industries (unconsolidated), March fiscal year-ends (Rs mn)

			yoy		qoq	
	2009E	**1Q 2009**	**1Q 2008**	***(% chg)***	**4Q 2008**	***(% chg)***
Net sales	**110,691**	**25,923**	**24,448**	***6.0***	**27,424**	***(5.5)***
Total expenditure	(82,302)	(18,403)	(16,527)		(20,800)	
EBITDA	**28,389**	**7,520**	**7,921**	***(5.1)***	**6,623**	***13.5***
EBITDA (%)	25.6	29.0	32.4		24.2	
Other income	2,811	822	677		1,187	
Interest	(948)	(305)	(285)		(272)	
Depreciation	(4,271)	(1,050)	(850)		(942)	
Pre-tax profits	**25,981**	**6,988**	**7,464**		**6,597**	
Tax	(6,606)	(1,319)	(2,057)		(2,877)	
Deferred taxes	(1,210)	(527)	(290)		695	
Net income	**18,165**	**5,142**	**5,117**	***0.5***	**4,414**	***16.5***

Source: Company reports, Kotak Institutional Equities.

Division wise breakup of Grasim's interim results

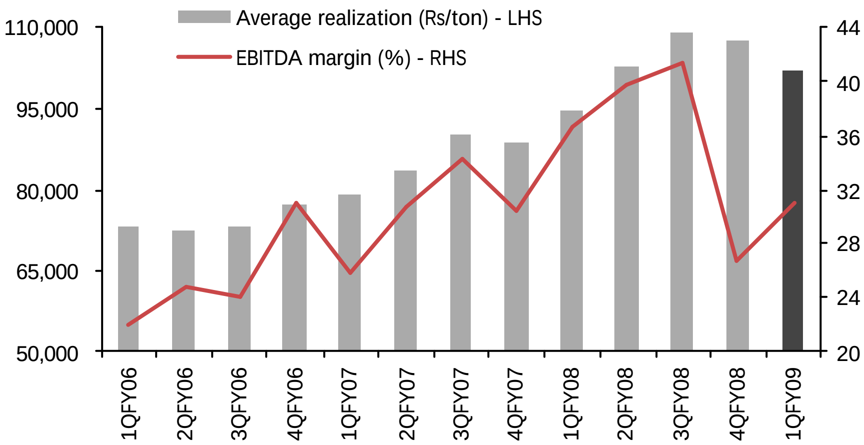
Rs mn

	1QFY09	1QFY08	4QFY08	Change (%) y-o-y	Change (%) q-o-q	Proportion (%) 1QFY09	Proportion (%) 1QFY08	Proportion (%) 4QFY08
Revenue								
Viscose Staple Fibre	6,291	6,999	7,149	*(10.1)*	*(12.0)*	24.3	28.6	26.1
Cement	16,171	13,907	16,781	*16.3*	*(3.6)*	62.4	56.9	61.2
Sponge Iron	2,488	2,188	2,752	*13.7*	*(9.6)*	9.6	8.9	10.0
Textiles	157	554	140	*(71.8)*	*11.5*	0.6	2.3	0.5
Chemicals	1,266	863	1,004	*46.7*	*26.1*	4.9	3.5	3.7
Total	**25,923**	**24,448**	**27,424**	***6.0***	***(5.5)***			
Other income	822	677	1,187	*21.4*	*(30.7)*			
EBITDA						**EBITDA margin (%)**		
Viscose Staple Fibre	1,953	2,563	1,911	*(23.8)*	*2.2*	31.0	36.6	26.7
Cement	4,877	4,911	4,833	*(0.7)*	*0.9*	30.2	35.3	28.8
Sponge Iron	738	353	458	*109.1*	*61.1*	29.7	16.1	16.6
Textiles	-	12	-	*(100.0)*		-	2.2	-
Chemicals	422	281	245	*50.2*	*72.2*	33.3	32.6	24.4
Total	**8,343**	**8,599**	**7,811**	***(3.0)***	***6.8***	**32.2**	**35.2**	**28.5**
Interest	(305)	(285)	(272)	*7.0*	*12.2*			
Depreciation	(1,050)	(850)	(942)	*23.5*	*11.4*			
PBT	6,988	7,464	6,597	***(6.4)***	***5.9***			
Tax	(1,846)	(2,347)	(2,182)					
PAT	**5,142**	**5,117**	**4,414**	***0.5***	***16.5***			
Sales volumes (MT)								
Viscose Staple Fibre	56,760	69,396	61,650	*(18.2)*	*(7.9)*			
Cement ('000 MT)	3,990	3,860	4,270	*3.4*	*(6.6)*			
Sponge Iron	91,206	139,706	140,317	*(34.7)*	*(35.0)*			
Chemical	47,800	42,872	44,872	*11.5*	*6.5*			
Per unit realization (Rs / MT)								
Viscose Staple Fibre	101,927	94,455	107,428	*7.9*	*(5.1)*			
Cement (Rs / bag)	3,366	3,083	3,267	*9.2*	*3.0*			
Sponge Iron	24,027	14,753	17,869	*62.9*	*34.5*			
Chemical	22,352	17,254	19,042	*29.5*	*17.4*			

Source: Company reports, Kotak Institutional Equities.

VSF margins improved despite lower realization-aided by lower overheads and cost controls

VSF business - realizations and margins



Source: Company data.

Change in estimates for Grasim Industries (Rs mn)

	Revenues			EBITDA			Net profit		
	Old	**New**	**% Chg.**	**Old**	**New**	**% Chg.**	**Old**	**New**	**% Chg.**
2009E	182,383	178,577	(2.1)	48,224	51,106	6.0	21,055	23,622	12.2
2010E	200,688	200,390	(0.1)	46,619	48,856	4.8	20,114	22,042	9.6

Source: Kotak Institutional Equities estimates.

SOTP valuation of Grasim
(Rs mn)

		Methodology
Cement	170,005	6X EV/EBITDA - compared to ACC's historic average EV/EBITDA of 9X
VSF	37,340	DCF value implying an EV/EBITDA of 4.8X on FY2009E
Others (Chemicals)	6,593	DCF value implying an EV/EBITDA of 4.9X on FY2009E
Value of key investments	25,769	20% discount to current market price
Total EV	**241,215**	
Gross debt	44,602	
- Cash	(22,021)	
Net debt	22,581	
Market capitalization	**218,634**	
Number of shares o/s (mn)	91.7	
Implied share price (Rs)	**2,384**	
Target price (Rs)	**2,320**	

Our target price implies EV/ton of US$114 for cement business.

Source: Company data, Kotak Institutional Equities estimates.

Cement

ABUJ.BO, Rs82	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	95
52W High -Low (Rs)	161 - 69
Market Cap (Rs bn)	125.4

Financials

December y/e	2008	2009E	2010E
Sales (Rs bn)	55.3	61.3	66.5
Net Profit (Rs bn)	11.5	12.3	10.1
EPS (Rs)	7.6	8.0	6.6
EPS gth	*(11.2)*	*6.4*	*(17.5)*
P/E (x)	10.9	10.2	12.4
EV/EBITDA (x)	5.5	6.2	6.8
Div yield (%)	3.1	3.6	2.6

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	46.5	-	-
FIIs	26.5	0.6	0.2
MFs	0.3	0.0	(0.4)
UTI	-	-	(0.5)
LIC	10.6	1.2	0.7

Ambuja Cements: Earnings in line with estimates; retain REDUCE

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- **Lack of volume growth and declining margins results in 13% yoy decline in EBITDA**
- **Targeting capacity additions of 6.5 mn tpa**
- **Retain REDUCE rating with a target price of Rs95/share**

Ambuja Cements Limited (ACL) reported 8% yoy increase in net revenues at Rs15.6 bn (our est. Rs15.4 bn), 13% yoy decline in EBITDA at Rs4.7 bn (our est. of Rs4.8 bn) and net profits at Rs3 bn (our est. of Rs3.2bn) during 2QCY08. Reported profits of Rs5.7 bn include income (Rs2.7 bn) from exercise of put option in Ambuja Cements India Pvt. Ltd. EBITDA margins continue to remain under pressure due to (1) rising costs of domestic and imported coal, and (2) dependence on purchased clinker to support grinding capacities at Farakka and Roorkee. We estimate volumes growth of 17% for CY2008E and 12% for CY2009E. We retain our EPS estimates of Rs8 for CY2008E and Rs6.6 for CY2009E with a REDUCE rating and target price of Rs95/share. Our target price implies EV/ton of US$167/ton on CY2008E production and EV/EBITDA of 6.8X on CY2008E.

Flat volumes and rising input costs result in declining EBITDA. ACL reported 7% yoy growth in revenues during 2QCY08 entirely on account of improved realizations. EBITDA margins declined by 760 bps (akin to industry peers) on account of higher power and fuel costs. Higher fuel and freight costs were partially compensated by lower raw material costs. We note that quarter-on-quarter variations in raw material costs is typical for cement companies due to development costs incurred on new limestone mines. We expect dependence on purchased clinker to weigh on EBITDA margins upto 2HCY09 when fresh clinker capacity at Bhatapara (2.2 mn tpa) will likely get commissioned.

Targeting capacity addition of 6.5 mn tpa by CY2010. ACL is targeting capacity addition of 6.5 mn tpa (extant capacity of 18.5 mn tpa) by CY2010 at a capital cost of Rs31 bn (EV/ton of US$119/ton) inclusive of requisite captive power plants. In CY2008, ACL will likely commission a 1 mn tpa grinding unit at Surat. Exhibit 2 gives details of capacity additions planned by ACL over the next three years. During the quarter ACL commissioned an 18.7 MW captive power plant at Rabriyawas, Rajasthan. ACL has also set aside an incremental capex of Rs2.5 bn for purchase of vessels and development of bulk terminal facilities. ACL plans to increase sea-based despatches, in an effort to counter rising cost of road freight.

Retain REDUCE rating with a target price of Rs95/share. We retain our earnings estimates of Rs8 for CY2008E and Rs6.6 for CY2009E with a REDUCE rating and target price of Rs95/share. Our target price implies EV/ton of US$167/ton on CY2008E production and EV/EBITDA of 6.8X on CY2008E. We expect dependence on purchased clinker and rising fuel costs to contract EBITDA margins. Marginal relief could come from timely commissioning of the grinding unit at Gujarat (1 mn tpa) that will likely aid volumes growth.

Exhibit 1: Quarterly results for Ambuja Cements, December year-ends (Rs mn)

		yoy		qoq	
	June 2008	June 2007	(% chg)	Mar 2008	(% chg)
Sales	**15,698**	**14,507**	***8.2***	**16,549**	***(5)***
Operating costs					
Raw materials	(1,150)	(1,043)	*10*	(2,104)	*(45)*
Employee costs	(644)	(437)	*47*	(660)	*(3)*
Freight costs	(3,249)	(3,054)	*6*	(3,194)	*2*
Power & fuel costs	(3,197)	(2,387)	*34*	(2,817)	*13*
Other costs	(2,715)	(2,107)	*29*	(2,614)	*4*
Total operating costs	(10,955)	(9,029)		(11,389)	
EBITDA	**4,743**	**5,479**	***(13)***	**5,160**	***(8)***
EBITDA margin (%)	30.2	37.8		31.2	
Other income	350	765		406	
Interest	(57)	(94)		(57)	
Depreciation	(616)	(583)		(618)	
PBT	**4,420**	**5,568**	***(21)***	**4,890**	***(10)***
Current tax (expense)/income	(1,300)	(1,821)		(1,572)	
Deferred tax (liability)/asset	(91)	62		2	
Net income	**3,029**	**3,808**	***(20)***	**3,321**	***(9)***
Extraordinaries	2,741	4,742		(59)	
Reported net income	**5,770**	**8,550**		**3,262**	
Per tonne analysis					
Despatches, '000 tons	**4,376**	**4,384**	***(0.2)***	**4,800**	***(9)***
Realization (Rs/ton)	**3,587**	**3,309**	***8.4***	**3,448**	***4***
Operating cost (Rs/ton)	2,503	2,059	*22*	2,373	*6*
Raw materials	263	238	*10*	438	*(40)*
Employee costs	147	100	*47*	138	*7*
Freight costs	742	697	*7*	665	*12*
Power & fuel costs	731	545	*34*	587	*24*
Other costs	620	481	*29*	544	*14*
Profitability (Rs/ton)	**1,084**	**1,250**	***(13)***	**1,075**	***1***

Source: Company data, Kotak Institutional Equities.

Exhibit 2: ACL will likely add 6.5 mn tpa of cement capacity by CY2010

Details of capacity additions by ACL (mn tpa)

	mn tpa		
Location	**Grinding**	**Clinker**	**Commissioning**
Surat	1		1HCY2008
Bhatapara		2.2	1HCY2009
Ahmedabad	1.5		2HCY2009
Rauri		2.2	2HCY2009
Dadri	1.5		2HCY2009
Nalagarh	1.5		1HCY2010
Barh	1		2HCY2010
Total	**6.5**	**4.4**	

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 3: Profit model, balance sheet, cash model of Ambuja Cement, December fiscal year-ends, 2006-9E (Rs mn)

	2006	2007	2008E	2009E
Profit model (Rs mn)				
Net sales	48,479	55,303	61,262	66,535
EBITDA	**17,608**	**18,706**	**16,359**	**15,013**
Other income	766	3,345	3,910	3,528
Interest	(377)	(759)	277	321
Depreciation	(2,269)	(2,363)	(2,987)	(4,061)
Pretax profits	15,727	18,929	17,559	14,802
Tax	(2,760)	(7,413)	(5,306)	(4,692)
Net profits	**12,968**	**11,517**	**12,253**	**10,110**
Earnings per share (Rs)	**8.5**	**7.6**	**8.0**	**6.6**
Balance sheet (Rs mn)				
Total equity	38,756	50,396	64,048	71,499
Total borrowings	8,654	3,304	2,448	2,448
Currrent liabilities	7,016	11,691	13,023	13,163
Total liabilities and equity	**54,426**	**65,391**	**79,519**	**87,110**
Cash	3,781	6,508	2,250	2,420
Current assets	7,995	9,365	11,883	12,776
Total fixed assets	31,241	36,567	57,540	69,069
Investments	11,331	12,889	7,783	2,783
Deferred Expenditure	77	62	62	62
Total assets	**54,426**	**65,391**	**79,519**	**87,110**
Free cash flow (Rs mn)				
Operating cash flow, excl. working capital	15,504	14,332	16,169	15,707
Working capital	76	3,305	(1,186)	(753)
Capital expenditure	(7,954)	(7,504)	(23,961)	(15,589)
Investments		(1,558)	5,107	5,000—
Free cash flow	**7,626**	**8,574**	**(3,871)**	**4,365**

Source: Kotak Institutional Equities estimates.

Banking

UNBK.BO, Rs128	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	200
52W High -Low (Rs)	250 - 96
Market Cap (Rs bn)	64.9

Financials

May y/e	2008	2009E	2010E
Sales (Rs bn)	43.2	44.5	53.4
Net Profit (Rs bn)	13.9	10.4	14.8
EPS (Rs)	27.5	20.6	29.3
EPS gth	*2.0*	*(24.8)*	*42.0*
P/E (x)	4.7	6.2	4.4
P/B (x)	0.9	0.8	0.7
Div yield (%)	3.1	2.4	3.4

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	55.4	-	-
FIIs	19.5	0.2	(0.0)
MFs	9.2	0.5	0.3
UTI	-	-	(0.2)
LIC	1.9	0.1	(0.1)

Union Bank of India: Strong operating performance offset by MTM hits, remains our preferred pick. BUY

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- **Reported a PAT of Rs2.3 bn in 1QFY09, driven by healthy operational performance**
- **Moderate business growth and healthy asset quality are the other key positives**
- **Retain BUY rating on the stock given reasonable valuations**

Union Bank of India reported a PAT of Rs2.3 bn in 1QFY09, which was flat compared to the corresponding period last year and 20% above our estimate. This was supported by healthy operational performance with the (1) NII growing by 10% yoy and (2) non-NII (ex-treasury) increasing by 17% yoy. Higher mark-to-market (MTM) losses on the available-for-sale (AFS) category'Rs 3.4 bn (1.1X PBT), impacted bottom-line growth. The other positives for the company in the current quarter are healthy asset quality (net NPL ratio of 0.15%), and moderate loan growth funded by core deposits. We have marginally tweaked our estimates for the company, retain our target price of Rs200 per share. The stock trades at 6.2X PER and 1X PBR FY2009. Key risk: higher proportion of AFS portfolio may lead to further MTM hits and lower CAR increases the need to tap capital market in a choppy environment.

Net interest income growth was modest

- Union Bank of India's net interest income (adjusted for investment amortization) was up 10.3% yoy to Rs8.1 bn. NII growth was a bit lower at 6%, adjusted for the regrouping of income (till 1QFY08, income from investments in liquid funds was shown in non-interest income, now in interest income).
- The company has simultaneously reversed interest income of Rs220 mn on the agriculture loan waiver scheme, which it had taken as income in the month of March 2008. As per the government's instruction no interest income can be claimed on such loans (which are being waived) effective 1 March 2008. The above adjustment therefore gets neutralized.
- NIM of the company was marginally down at 2.7% in 1QFY09 compared to 2.8% in 4QFY08, the recent decision to hike PLR by 50 bps effective from July 1, 2008 should support NIM hereon.

Not too aggressive on advances and deposits—a positive

- Union Bank advances rose 19% yoy to Rs 759 bn as of June 2008 (Rs1072 bn), and was flat compared to March 2008.
- Of the loan book, agriculture advances (declined 1.2% yoy) were Rs108 bn (14% of total), SME loans at Rs126 bn, accounted for 17% of total advances and grew by 41% yoy. Other loans which grew were retail (19%) and trade (16.8%).
- The growth in deposits was relatively higher 23% yoy, but this was largely driven by retail deposits. Union Bank shed high cost deposits by 14% yoy and increased its CASA ratio to 34.8% as of June 2008 v/s 33.26% in 1QFY08.

Non-interest revenues (ex-treasury) remained robust

- Union Bank's non-interest income (ex-treasury) of Rs2.1 bn in 1QFY09, was up 17% yoy and in line with our estimate. This income was driven by higher core fees and processing charges.
- However, the overall non-interest income growth was impacted by lower treasury income of Rs 80mn v/s Rs330 mn last year.

Investment depreciation expenses impacted overall profits

- Union Bank of India reported a MTM loss of Rs3.4 bn due to the sharp rise in Gsec yields and lackluster equity markets. The MTM loss on the equity book was Rs500 mn, while the loss on shifting of securities from the AFS category to the HTM category was Rs80 mn. The company had investment of around Rs2 bn in equity book, which it appears has reduced by half over March 2008.
- The total investment book as on 30 June 2008 was Rs353 bn, of which 32.58% was held in AFS category v/s the 28% held in March 2008. We are a bit concerned of this shift, specially given the challenging interest rate environment.

Lower provisions support profit growth

- Despite the higher MTM hit the company reported flat profit numbers as it did not make any provisions for NPLs and wrote-back Rs500 mn of excess provisions from recoveries (likely including agriculture loan waiver scheme).
- We are not unduly concerned by this write-back as the bank's asset quality remains healthy with gross NPL ratio of 2.1% and net NPL ratio of 0.2% as of June 2008.
- We understand that the company has waived off around Rs7.95bn of loans under the 100% loan waiver scheme and Rs2.37 bn under the partial waiver (25%) of the loan outstanding. It will, however, recover marginally lower amount of Rs7.26 bn and Rs2.26 bn against the above two waivers which was the amount outstanding on its book post write-off taken in the previous years i.e prior to the loan waiver scheme announced.

Lower CAR at concern

- As on 30 June 2008, Union Bank CAR based on Basel II norms calculation was 11.28%, with Tier I at 6.93%.
- We believe this will likely impact its ability to grow its balance sheet aggressively and the company may need to tap the capital markets over the next one year. Management had indicated the possibility of rights issue to raise capital, though this plan seems to be on hold given the current state of capital markets. The government of India holds 55.43% stake in the bank.

Union Bank of India Quarterly results, Rs mn

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	% chg	1QFY09KS	Actual Vs Kotak
Interest income	21,112	22,548	24,586	26,024	25,651	21.5		
Loans	15,352	16,261	17,562	18,135	18,414	20.0		
Investments	5,555	5,852	6,718	6,832	7,141	28.6		
Balances with RBI	192	172	140	104	84	(56.2)		
Others	13	263	166	953	11	(15.3)		
Interest expense	13,399	15,820	16,705	17,685	17,232	28.6		
Net interest income	**7,713**	**6,728**	**7,881**	**8,339**	**8,419**	**9.2**	**8,000**	**5.2**
NII adj. for invst. amortization	**7,343**	**6,358**	**7,521**	**7,979**	**8,100**	**10.3**	**7,640**	**6.0**
Non-int.income	2,153	3,078	3,835	3,467	2,217	2.9	2,142	3.5
core fees	680	890	990	940	791	16.3	850	(7.0)
exchange income	550	610	690	760	584	6.2	550	6.2
sale of invts.	330	810	1,560	400	80	(75.8)	—	—
Non-int income excl treasury	1,823	2,268	2,275	3,067	2,137	17.2	2,142	(0.2)
Total income	9,866	9,806	11,715	11,806	10,635	7.8	10,142	4.9
Op. expenses	4,241	4,153	4,997	2,539	4,157	(2.0)	4,278	(2.8)
Employee cost	2,543	2,546	2,794	571	2,247	(11.6)	2,325	(3.3)
Other cost	1,699	1,607	2,203	1,968	1,910	12.4	1,953	(2.2)
Operating profit	5,625	5,653	6,719	9,267	6,479	15.2	5,864	10.5
Provisions and cont.	1,924	1,346	1,468	4,012	3,276	70.3	3,121	4.9
Investment amortization	370	370	360	360	318	(13.9)	360	(11.6)
Investment Depreciation	270	40	(640)	1,100	3,390	1,155.6	2,761	22.8
NPLs	1,280	1,290	1,520	2,560	(510)		-	
Other provisions	4	(354)	239	(140)	77		-	
PBT	3,701	4,308	5,250	5,255	3,203	(13.5)	2,742	16.8
Tax	1,450	1,550	1,600	44	920	(36.6)	823	11.8
Net profit	**2,251**	**2,758**	**3,650**	**5,211**	**2,283**	**1.4**	**1,920**	**18.9**
Tax rate (%)	39.2	36.0	30.5	0.8	28.7		30.0	
PBT-invt gains+ NPL prov+extra. Item	**5,295**	**4,843**	**5,159**	**8,867**	**6,399**	**20.8**	**5,864**	**9.1**
PBT-invt gains+ NPL prov+extra. Item	**6,849**	**5,819**	**6,267**	**12,519**	**9,356**	**36.6**	**8,625**	**8.5**
Key balance sheet items (Rs bn)								
Total Deposit	870	948	992	1,039	1,072	23.3		
Savings deposits	206	217	227	244	257	24.7		
Current deposits	83	91	101	118	116	39.3		
Term deposits	581	640	664	677	700	20.5		
CASA (%)	33.3	32.5	33.1	34.9	34.8			
Gross advances	637	686	743	759	759	19.1		
Total retail loans	137	145	151	NA	162	18.0		
Retail loans to Advances (%)	21.5	21.1	20.4	NA	21.3			
Investments	298	316	331	341	353	18.5		
AFS	82	106	98	96	115	41.1		
Duration (years)	2.8	4.3	2.4	3.0	2.7			
HTM	217	209	233	241	238	10.0		
Duration (years)	4.2	4.1	4.6	3.8	4.1			
Yield management measures (%)								
Cost of funds	5.41	6.02	5.99	5.76	5.60			
Cost of deposits	5.72	6.41	6.32	NA	6.06			
Yield on advances	10.03	10.26	10.33	10.12	10.13			
Yield on investments	7.57	7.28	7.91	7.67	7.71			
Yield of funds	8.52	8.58	9.82	8.56	8.55			
NIM	3.11	2.56	2.83	2.80	2.73			
Capital adequacy details (%)								
CAR	12.7	11.6	13.0	12.5	12.2			
Tier I	8.0	7.4	7.8	7.5	7.5			
Tier II	4.7	4.2	5.3	5.1	4.7			
Asset quality details								
Gross NPLs (Rs bn)	17.7	16.6	15.6	16.6	15.8	(10.9)		
Gross NPLs (%)	2.8	2.4	2.1	2.2	2.1			
Net NPLs (Rs bn)	4.9	4.4	2.6	1.3	1.1	(77.5)		
Net NPLs (%)	0.8	0.7	0.4	0.2	0.2			

Source: Company, Kotak Institutional Equities estimates.

Beverages

UBBW.BO, Rs164	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	160
52W High -Low (Rs)	413 - 123
Market Cap (Rs bn)	39.5

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	15.6	18.8	23.2
Net Profit (Rs bn)	0.5	0.7	1.1
EPS (Rs)	1.9	2.4	4.4
EPS gth	*(11.6)*	*25.7*	*82.1*
P/E (x)	86.3	68.6	37.7
EV/EBITDA (x)	21.0	16.5	12.4
Div yield (%)	-	-	-

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	75.0	-	-
FIIs	16.3	0.1	(0.0)
MFs	0.3	0.0	(0.1)
UTI	-	-	(0.1)
LIC	1.1	0.0	(0.1)

United Breweries: Strong pricing compensates for volume slippages

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- **1QFY09 sales 13% higher than estimates despite 6.5% volume growth (KIE estimates 8%); EBITDA and net profits lower than expectation due to higher A&P spend on IPL**
- **EBITDA margins at 14.7% versus KIE expectation of 19.8%; input costs in line**
- **Pricing in key state of Andhra Pradesh to be important catalyst for upside in FY2009E**
- **Maintain target price of Rs160 and REDUCE rating**

United Breweries Ltd (UBL's) 1QFY09 results were mixed. Net sales grew 26% yoy to Rs4.7 bn, 13% higher than our expectation of 12% growth. Volume growth came in at 6.5%, lower than our estimate of 8%, as UBL was affected by negative growth in some key markets. EBITDA (including other income) at Rs699 mn (12% yoy decline) was 16% lower than expectation of Rs833 mn (5% yoy growth), mainly due to higher advertising spend in quarter due to IPL. EBITDA margins decline of 640 bps to 14.7% was higher than our estimate of 130 bps decline, despite in-line gross margins. Net profit declined 28% yoy to Rs226 mn versus our expectation of Rs285 mn (10% decline). Adjusting for estimated IPL related advertising, net profit growth would likely have been flat during quarter. We believe that the ongoing price negotiations with Andhra Pradesh state government will be important catalyst for upsides to outlook for FY2009E. We maintain our estimates on UBL, as higher-than-anticipated price hikes will get offset by lower volume growth during year. We thus maintain our REDUCE rating and target price of Rs160.

1QFY09 sales 13% higher than estimates despite 6.5% volume growth (KIE estimates 8%); EBITDA and net profits lower than expectation due to higher A&P spend on IPL

Net sales grew 26% yoy to Rs4.7 bn against our expectation of 12% yoy growth. Volume growth came in at 6.5% versus our expectation of 8% and overall industry growth of 2.8%. The industry has negatively got impacted due to negative growth in key markets like Andhra Pradesh (12% of market and 17% decline yoy); Punjab (3% of market, decline of 37% yoy) and Haryana (3% of market, decline of 31% yoy). While declines in states like Punjab and Haryana were due to institutional issues like cartelization (Haryana) and 30-35% increase in excise (Punjab), in Andhra Pradesh sales decline was due to the stand-off between beer companies and the state government over price increases which led to lost sales of around 40 days in the quarter. Against a backdrop of rising input costs, the beer companies are currently negotiating for price increases which have not happened in the last three years.

UBL has performed well in the strong beer segment, whose share in the total beer market has increased to around 74% from around 71% last year. UBL strong beer sales have grown 17% yoy, against an industry growth of 7-8% for the category. Kingfisher Strong sales have grown 21% yoy Overall, UBL claims to have increased its market share by 1.5% yoy in the total beer market in India.

EBITDA margins at 14.7% versus KIE expectation of 19.8%; input costs in line

UBL's EBTIDA was impacted by higher IPL related expenses and at Rs699 mn (12% yoy decline) was 16% lower than expectation of Rs833 mn (5% yoy growth). However, adjusting for estimated increase in A&P due to IPL related expenses of Rs140-150 mn (which were all booked in the quarter and not in our estimates), EBITDA margin was in line with our estimates of 18%.

Importantly, 1QFY09 gross margins were in line at 51.8% versus our estimate of 52% and flat on a yoy basis. This is despite prices of barley having increased around 18-20% yoy implying that the company has been able to take sufficient price hikes to mitigate this impact. We highlight that it is difficult to estimate exact extent of price hike as the total sales also get impacted by mix of Contract-Bottling-Unit sales in the overall sales mix. UBL has currently hedged its barley requirements by advance procurement of almost 80-90% of its total requirements during the year during the crop harvesting season in March-April and has also some long-tern contracts with Pepsi for almost 30% of its requirement.

Pricing in key state of Andhra Pradesh to drive potential upsides to FY2009E outlook

Importantly, UBL has taken substantial price hikes in the quarter, pricing itself nearer its international competitors. It has also got price increases in Tamil Nadu. We believe that this represents a strategic shift from its earlier strategy of pricing itself significantly lower than international competition and will come at the cost of sacrificing some volumes. We find this attitude a positive, as it provides a buffer in the current environment of inflationary inputs

Currently, UBL is in negotiation with the state of Andhra Pradesh (AP) for price hikes. We believe that the process will take at least another 3-4 months to fully play out. We believe that a positive outcome on prices in AP could be an incremental positive as it would also allow the company to take price hikes in critical states like Rajasthan and Kerala where prices are referenced to AP.

We maintain our estimates, target price and REDUCE rating

We maintain our current FY2009E volume growth of 12% and price growth of 7%, despite higher-than expected sales during the quarter. While pricing growth has been incrementally positive, it has had an impact on volumes during the quarter. However, 1QFY09 has also got impacted by lost sales due to supply issues in AP. We believe that incrementally, growth should resume in AP, which would have a positive impact on volumes, going forward. We also believe that the A&P spend will rationalize over the year to its target 24% of net sales.

We maintain our target price of Rs160 based on 16X FY2009 EV/EBITDA and maintain our REDUCE rating. We highlight that UBL's valuations have historically been very rich, with investors more focused on growth potential of the beer category in the country and UBL's market share of around 50%. Key upside risk remains potential excise rationalization in the sector while further downside risks could come from lower volume growth.

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

	yoy			qoq		
	1Q2009	1Q2008	% chg.	1Q2009	4Q2008	% chg.
Net sales	**4,746**	**3,753**	**26**	**4,746**	**3,835**	**24**
Expenditure						
COGS	(2,288)	(1,809)	26	(2,288)	(1,833)	25
Power & fuel	(186)	(155)	20	(186)	(154)	21
Staff costs	(192)	(161)	20	(192)	(213)	(10)
Advertising & sales promotion	(1,269)	(732)	73	(1,269)	(899)	41
Other expenditure	(172)	(155)	11	(172)	(226)	(24)
Total	(4,107)	(3,011)	36	(4,107)	(3,325)	24
EBITDA	**639**	**742**	**(14)**	**639**	**510**	**25**
EBITDA Margin (% to sales)	13.5	19.8		13.5	13.3	
Interest (net)	(166)	(93)	80	(166)	(146)	14
Depreciation	(167)	(128)	31	(167)	(187)	(10)
Other income	60	50	20	60	68	-13
Profit before tax	365	571	(36)	365	246	48
Total tax	(139)	(255)	(45)	(139)	(50)	178
PAT	**226**	**316**	**(29)**	**226**	**196**	**15**
Tax/PBT (%)	38	45		38	20	
% to net sales	**1Q2009**	**1Q2008**		**1Q2009**	**4Q2008**	
COGS	48.2	48.2		48.2	47.8	
- Raw material	11.3	12.1		11.3	12.1	
- Packing	25.3	25.3		25.3	24.9	
- Traded goods	11.6	10.8		11.6	10.8	
Power & Fuel	3.9	4.1		3.9	4.0	
Staff costs	4.1	4.3		4.1	5.6	
SG&A	26.7	19.5		26.7	23.4	
Other expenditure	3.6	4.1		3.6	5.9	

Source: Company, Kotak Instituitonal Equities estimates

Our target price is based on 16X EV/EBITDA

United Breweries Ltd (UBL)			
EBITDA	2,493	16	39,892
Less Net Debt			1,620
Equity value			38,272
Per share price (Rs)			**159**

Source: Kotak Instituitonal Equities estimates

Current estimates (including sales in JV)

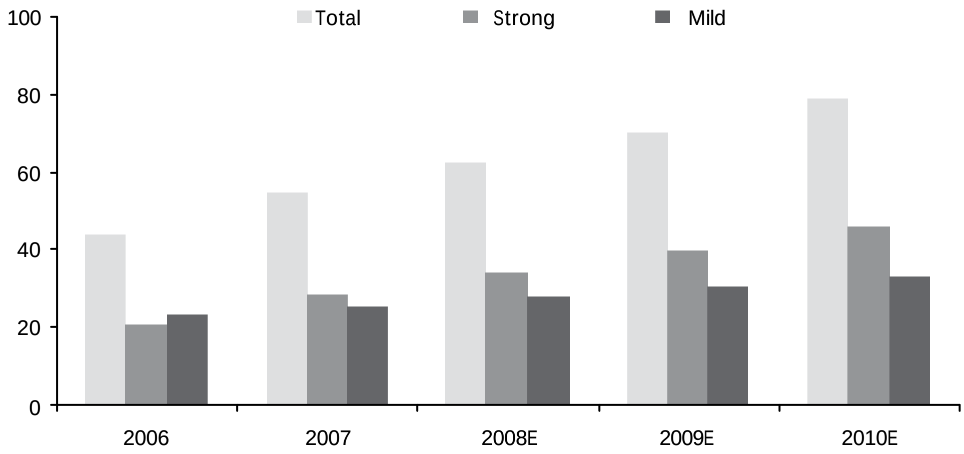
			% change	
	2009E	2010E	2009E	2010E
Sales	18,763	23,202	20.2	23.7
EBITDA	2,493	3,281	15.6	31.6
EBITDA margin (%)	13.3	14.1		
PAT	659	1,131	21.7	71.6
EPS (diluted)	2.4	4.4	25.7	82.1

Note:
(1) EPS is adjusted for preference shares

Source: Kotak Instituitonal Equities estimates

Strong beer sales is expected to contribute 71% of total sales growth between FY2008-10E

Total volume assumptions, March fiscal year-ends (mn cases)



Source: Kotak Instituitonal Equities estimates

UBL will spend around Rs3.7 bn to increase capacity by 40%

Total projected use of rights proceeds

Objective	Amount (Rs mn)	Quantity (mn HL)	Expected commencement date
Setting up of greenfield project	1,407	0.80	Apr-09
Capacity expansion of existing facilities	2,311	1.48	
Phase I	1,545	0.73	Apr-09
Phase II	766	0.75	Apr-10
Total	3,718	2.28	
Current capacity		5.98	
Total proposed capacity		**8.25**	

Source: Company

United Breweries: Profit model, balance sheet, cash model, March fiscal year-ends, 2004-10E, (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit Model (Rs mn)							
Total income (inc. other op. income)	**5,133**	**6,067**	**8,194**	**12,257**	**15,906**	**19,059**	**23,498**
EBITDA	**466**	**572**	**1,349**	**1,694**	**2,156**	**2,493**	**3,281**
EBITDA margin (%)	*9.1*	*9.4*	*16.5*	*13.8*	*13.6*	*13.1*	*14.0*
Depreciation	(142)	(182)	(349)	(474)	(731)	(908)	(1,065)
Other Income (inc. extraordinaries)	(32)	(60)	(340)	—	—	—	—
EBIT	**291**	**329**	**660**	**1,220**	**1,425**	**1,585**	**2,216**
Net finance cost	(429)	(257)	(342)	(370)	(576)	(524)	(457)
Profit before tax	**(138)**	**72**	**319**	**850**	**849**	**1,061**	**1,759**
Tax	**(15)**	**(119)**	**(427)**	**(301)**	**(307)**	**(402)**	**(628)**
Adjusted net profit	**(123)**	**(45)**	**(108)**	**550**	**542**	**659**	**1,131**
Diluted EPS (Rs)	**(0.6)**	**(0.4)**	**(0.9)**	**2.2**	**1.9**	**2.4**	**4.4**
Balance Sheet (Rs mn)							
Total Equity	237	2,199	4,934	5,337	5,735	10,488	11,424
Deferred tax liability	29	131	107	65	65	122	212
Total borrowings	4,937	3,732	4,033	6,262	5,862	5,262	4,662
Current liabilites & provisions	1,944	1,762	2,013	2,662	4,045	4,848	5,836
Total Liabilities and equity	**7,147**	**7,824**	**11,088**	**14,325**	**15,707**	**20,720**	**22,133**
Cash	204	205	1,341	1,471	159	3,641	3,308
Current assets excl. cash	4,199	4,542	5,781	5,760	6,783	7,572	8,732
Total net fixed assets	1,836	1,870	2,775	5,912	7,306	8,048	8,633
Investments	17	20	8	0	277	277	277
Goodwill on consolidation	891	1,187	1,182	1,182	1,182	1,182	1,182
Total assets	**7,147**	**7,824**	**11,088**	**14,325**	**15,707**	**20,720**	**22,133**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	106	338	(329)	1,016	1,273	1,625	2,286
Working capital	(324)	(562)	(498)	(679)	909	14	(173)
Capital expenditure	(337)	(131)	(1,828)	(3,600)	(2,125)	(1,650)	(1,650)
Free cash flow	**(555)**	**(356)**	**(2,655)**	**(3,263)**	**57**	**(11)**	**463**

Source: Company, Kotak Instituitonal Equities estimates

Banking

ORBC.BO, Rs157	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	200
52W High -Low (Rs)	321 - 121
Market Cap (Rs bn)	39.4

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	23.1	24.5	29.8
Net Profit (Rs bn)	3.5	6.3	7.7
EPS (Rs)	23.9	25.2	30.6
EPS gth	*(27.6)*	*5.8*	*21.2*
P/E (x)	6.6	6.2	5.1
P/B (x)	0.8	0.7	0.6
Div yield (%)	3.0	3.2	3.9

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.1	-	-
FIIs	18.1	0.1	(0.0)
MFs	3.7	0.1	0.0
UTI	-	-	(0.1)
LIC	13.4	0.4	0.3

Oriental Bank of Commerce: focus on asset growth remains a concern, retaining ADD given low valuations

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- **OBC reports PAT of Rs2.2 bn aided by extraordinary items**
- **NIM remained under pressure as company increased balance sheet growth**
- **Change in valuation norms for securities in AFS category in income tax(IT) book lead to reversal of IT liabilities**
- **Retain ADD given low valuations**

OBC reported a 10% yoy growth in PAT to Rs2.2 bn in 1QFY09, but a large part of the growth was due to one-off items like higher treasury gains and change in valuation of investments in the income tax book, which led to write-back of income tax liabilities. On the operational front, net interest income was flat compared to previous year, while the non-interest income (ex-treasury) was up 6.5% yoy. The company has also increased its focus on asset growth with the deposits increasing by 29.1% yoy reversing the trend of the past few quarters; we believe that this strategy will likely lead to further margin pressure and impact its profitability. We have revised our estimates upwards by 12% in FY2009 and lower by 8% in the FY2009 and FY2010 to factor in the current results. The increase in estimates in the current year is largely due to lower taxes, lower-than-expected depreciation losses and credit provisions rather than an improvement in operational income.

NIM continues to be under pressure.

- OBC's net interest margin (NIM) was 2.1% in 1QFY09, which is amongst the lowest for the banks under coverage and a decline from the 2.3% reported in FY2008.
- The company has increased its focus on asset growth reversing the trend of the past few quarters, which has likely impacted its NIM.
- The deposits increased by 29% yoy as of June 2008, implying a sequential increase in deposits of Rs54 bn in 1QFY09. Simultaneously, the CASA ratio declined to 26.4% as of June 2008 from 27.7% as of March 2008.
- Incremental growth in advances was only Rs7 bn in the current quarter, hence a large part of incremental resources were likely deployed in low yielding investments.
- The faster increase in deposits than advances had an adverse impact on NIM of this company in the current quarter.
- We have modified our estimates by for NII downwards by 6% and 5% in FY2009 and FY2010 respectively to factor in this likely change in strategy.

Higher treasury profits and recovery from written-off asset aid non-interest income contribution**.** OBC benefited from Rs610 mn of treasury income and income of Rs170 mn due to recovery of written-off assets in 1QFY09. Adjusted for these income streams, the non-interest revenues were flat compared to 1QFY08.

Provision expenses were higher due to investment depreciation losses**.** OBC had an investment depreciation expense of Rs1.5 bn in 1QFY09, which was 86% higher than the corresponding number last year. The sharp rise in Gsec yields and lackluster equity markets were the reasons for this impact on financials of the bank. We note that this provision expense is lower than our estimate of Rs2.4 bn, which was based on the AFS portfolio and its duration reported as on March 2008. We are unclear on the reasons for this divergence in our estimates and the reported expenses.

Change in accounting norms for securities in AFS category led to tax write-back. OBC changed its valuation of securities in the AFS category on a scrip wise basis compared to the bucket wise method in its income tax book, effective from March 31, 2008. This led to a write-back of Rs1.5 bn in IT refunds and helped the overall profitability of the bank in 1QFY09.

OBC, Quarterly results, (Rs mn)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	%chg	1QFY09KS	Actual Vs Kotak
Interest income	15,341	16,457	17,479	19,105	19,537	27		
Loans	11,039	11,586	12,391	13,371	13,893	26		
Investments	3,985	4,495	4,723	5,352	5,438	36		
Balance with RBI & banks	317	272	350	252	203	(36)		
Others	1	103	14	130	3	209		
Interest expense	10,910	12,462	13,456	14,734	15,070	38		
Net interest income	**4,431**	**3,995**	**4,024**	**4,370**	**4,467**	**1**	**4,431**	**1**
Non-int.income	**1,512**	**1,425**	**1,674**	**1,638**	**2,055**	**36**	**1,400**	**47**
Other income excluding treasury	1,356	959	1,086	1,308	1,445	7	1,400	3
Sale of invts.	156	466	588	330	610	292	-	
Total income	**5,943**	**5,420**	**5,697**	**6,008**	**6,522**	**10**	**5,831**	**12**
Op. expenses	**2,642**	**2,698**	**2,730**	**2,726**	**2,985**	**13**	**2,526**	**18**
Employee cost	1,440	1,446	1,518	1,090	1,618	12	1,200	35
Other cost	1,202	1,253	1,212	1,636	1,367	14	1,326	3
Operating profit	3,301	2,722	2,967	3,283	3,537	7	3,306	7
Provisions and cont.	556	(191)	258	(969)	2,071	272	2,694	(23)
Investment Depreciation	790	(53)	(322)	231	1,470	86	2,394	(39)
NPLs	(251)	(388)	390	(1,283)	600	(339)	300	100
PBT	**2,745**	**2,913**	**2,710**	**4,251**	**1,466**	**(47)**	**612**	**140**
Tax	741	551	713	2,206	(739)	(200)	153	(583)
Net profit	**2,004**	**2,362**	**1,997**	**2,046**	**2,205**	**10**	**459**	**381**
Tax rate (%)	27.0	18.9	26.3	51.9	(50.4)			
Extraordinary items	612	612	612	3,040				
Key balance sheet items (Rs bn)	#REF!	47	50	37	54			
Deposits	645	692	742	779	833	29		
CASA	181	187	195	216	220	22		
CASA ratio (%)	28.0	27.0	26.3	27.7	26.4			
Advances	451	469	512	553	560	24		
Investments	203	NA	245	240	270	33		
Other details								
Asset quality details								
Gross NPLs (Rs bn)	14.9	13.9	14.0	12.8	12.2	(18.0)		
Gross NPLs (%)	3.3	3.0	2.7	2.3	2.2			
Net NPLs (Rs bn)	2.8	2.9	3.3	5.4	5.3	87.3		
Net NPLs (%)	0.7	0.6	0.7	1.0	1.0			
Yield management measures (%)								
Yield on advances	10.0	10.1	10.2	10.3	10.3			
Yield on investments	7.9	8.1	8.0	8.0	7.7			
Cost of deposits	6.6	6.9	7.0	7.1	7.1			
Net interest margin	2.70	2.42	2.40	2.34	2.14			
Capital adequacy details (%)								
CAR	13.85	13.59	12.67	12.12	12.24			
Tier I	10.48	10.38	9.73	9.34	9.50			
Tier II	3.37	3.21	2.94	2.78	2.74			

Source: Company, Kotak Institutional Equities estimates.

GSPT.BO, Rs59	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	69
52W High -Low (Rs)	114 - 47
Market Cap (Rs bn)	33.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	4.2	6.1	7.9
Net Profit (Rs bn)	1.0	2.0	2.9
EPS (Rs)	1.8	3.6	5.1
EPS gth	*8*	*103.8*	*40.2*
P/E (x)	33	16.3	11.6
EV/EBITDA (x)	10.4	7.3	5.1
Div yield (%)	0.8	1.7	2.4

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	37.8	-	-
FIIs	14.8	0.1	(0.0)
MFs	5.7	0.1	0.0
UTI	-	-	(0.1)
LIC	1.0	0.0	(0.1)

GSPL: In line 1QFY09 results

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- **Future earnings would depend on growth in volumes versus impact of regulations on gas transportation business**
- **Valuations look attractive at current levels**
- **Retain ADD with 12-month DCF-based target price of Rs69**

GSPL reported 1QFY09 net income at Rs326 mn (-19.5% qoq, +83% yoy) versus our estimate of Rs340 mn. 1QFY09 EBITDA at Rs1.08 bn (+4.4% qoq, +29% yoy) was marginally ahead of our estimated Rs1.06 bn. We retain our FY2009E, FY2010E and FY2011E EPS of Rs3.6, Rs5.1 and Rs6.3. We believe that GSPL will likely benefit from higher gas volumes due to increased supply of gas; however, we would watch for the nature of regulation on gas transportation business, which will largely determine GSPL's future earnings. We retain our ADD rating with a revised 12-month DCF-based target price of Rs69 (Rs68 previously) due to roll forward. Key downside risks stem from lower-than-expected gas supply.

Details of 1QFY09 results

GSPL's reported 1QFY09 revenues at Rs1.2 mn (+3% qoq and +25% yoy), which was in line with our estimate. The qoq increase in revenues was led by (1) modest increase in gas transportation volumes to 1.64 bcm versus 1.61 bcm in 4QFY08 and (2) increase in transmission charge to Rs0.73/cu m compared to Rs0.72/cu m in 4QFY08. GSPL's reported 1QFY09 EBITDA was higher at Rs1.08 bn (+4.4% qoq and +29% yoy) due to the above-mentioned reasons. However, net income was lower qoq at Rs326 mn versus Rs406 mn in 4QFY08 due to one-off tax adjustment in the previous quarter.

Valuations look reasonable. At 2.3X P/B (FY2009E book) and 16 X FY2009E EPS, GSPL's valuations are reasonable in the context of its accounting policy (high upfront depreciation of pipelines). We focus on cash flow-based valuation parameters (P/CEPS or DCF) and find the valuations attractive with the stock currently trading at 1.4X FY2009E GCI (EV/GCI) and 1.3X FY2010E GCI.

We expect GSPL to benefit from sharp jump in volumes led by increased supply of gas from FY2009 (Reliance gas and imported LNG from Petronet LNG). We model gas transportation volumes for FY2009-FY2012E at 26.6 mcm/d, 42.6 mcm/d, 55.6 mcm/d and 66.6 mcm/d, respectively versus 16.8 mcm/d in FY2008.

Limited downside risk. We see limited downside risks to our earnings estimates from imminent regulations. The nature of regulations for gas transportation business will likely determine future earnings and stock performance. We believe that GSPL's future earnings will depend on the reasonable rate of return (RROR) allowed by the regulator. We expect RROR at 14% post-tax ROCE on capital employed (gross block less accumulated depreciation plus normative working capital) as has been fixed by the regulator for city gas distribution business. We see no downside risks to our earnings estimate for GSPL if the regulator allows 14% post-tax ROCE or 21.21% pre-tax ROCE. On a capital employed base of Rs29 bn for FY2009E (gross block plus working capital), we compute, GSPL's EBIT at Rs6.1 bn, which is significantly higher than our FY2009E and FY2010E EBIT of Rs3.6 bn and Rs4.9 bn. Even if the capital employed used by the regulator factors in reasonable depreciation (GSPL has an aggressive depreciation policy with a rate of 8.33%), we compute that 'allowed' EBIT will likely be higher versus our estimates.

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

		qoq			yoy		
	2009E	1Q 2009	4Q 2008	*(% chg.)*	1Q 2009	1Q 2008	*(% chg.)*
Net sales	**6,096**	**1,195**	**1,161**	***2.9***	**1,195**	**958**	***24.7***
Total expenditure	(672)	(119)	(131)	*(9.0)*	(119)	(124)	*(3.8)*
Inc/(Dec) in stock	—	—	—	—	—	—	—
Operating costs	(327)	—	—	—	—	—	—
Gas transportation charges	—	—	—		—	(8)	—
Connectivity charges	—	(32)	(24)	*35.0*	(32)	(32)	—
Staff cost	(76)	(19)	(34)	*(44.1)*	(19)	(13)	*44.5*
Other expenditure	(269)	(68)	(74)	*(7.3)*	(68)	(71)	*(4.1)*
EBITDA	**5,423**	**1,076**	**1,030**	***4.4***	**1,076**	**834**	***29.0***
OPM (%)	**89.0**	**90.0**	**88.7**		**90.0**	**87.1**	
Other income	186	68	88	*(22.6)*	68	53	*27.6*
Interest	(840)	(218)	(203)	*7.6*	(218)	(198)	*10.1*
Depreciation	(2,015)	(415)	(413)	*0.3*	(415)	(398)	*4.2*
Pretax profits	**2,755**	**511**	**502**	***1.8***	**511**	**291**	***75.4***
Extraordinaries/sales tax benefit	—	—	—		—	—	
Tax	(312)	(164)	(134)	—	(164)	(74)	—
Deferred taxation	(407)	(20)	38	*(153.5)*	(20)	(39)	*(47.2)*
Net income	**2,036**	**326**	**406**	***(19.5)***	**326**	**179**	***82.7***
Adjusted profits	**2,036**	**326**	**406**	***(19.5)***	**326**	**179**	***82.7***
Income tax rate (%)	*26.1*	*33.0*	*19.2*		*33.0*	*38.7*	
Pipline volumes							
Pipeline volumes (mcm)	9,691	1,639	1,614	*1.5*	1,639	1,536	*6.7*
Gas transmission charge (Rs/cu m)	0.63	0.73	0.72	*1.4*	0.73	0.62	*16.9*

Source: Company, Kotak Institutional Equities estimates.

DCF valuation of GSPL (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	5,423	7,064	7,930	8,745	8,623	8,604	8,583	8,562	8,539	8,516	8,516	8,516
Adjusted tax expense	(407)	(1,566)	(2,052)	(2,421)	(2,455)	(2,511)	(2,565)	(2,622)	(2,673)			
Change in working capital	111	(36)	(54)	(50)	6	—	—	—	—			
Operating cash flow	**5,127**	**5,462**	**5,824**	**6,273**	**6,173**	**6,093**	**6,018**	**5,940**	**5,866**			
Capital expenditure	(3,750)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)			
Free cash flow	**1,377**	**5,212**	**5,574**	**6,023**	**5,923**	**5,843**	**5,768**	**5,690**	**5,616**	**4,600**	**4,600**	**4,600**
Discounted cash flow	**1,276**	**4,311**	**4,117**	**3,971**	**3,486**	**3,071**	**2,707**	**2,383**	**2,100**			
Discounted cash flow-1 year forward		4,829	4,611	4,449	3,905	3,439	3,031	2,670	2,352	1,536		
Discounted cash flow-2 year forward			5,164	4,982	4,375	3,852	3,395	2,990	2,635	1,927	1,720	

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.0	12.0	12.0
Total PV of free cash flow	28,957	32,193	32,576
Terminal value assumption			
Growth to perpetuity (%)	—	—	—
FCF in 2018E	4,600	4,600	4,600
Exit FCF multiple (X)	8.3	8.3	8.3
Exit EV/EBITDA multiple (X)	4.5	4.5	4.5
Terminal value	38,335	38,335	38,335
PV of terminal value	14,335	14,335	14,335
Total company value	**43,293**	**46,528**	**46,912**
Net debt	7,983	7,920	3,960
Equity value	35,310	38,608	42,951
Shares outstanding (mn)	562	562	563
Estimated share price using DCF	**62.8**	**68.7**	**76.3**

Fiscal Year end (March 31, XXXX)	March-09	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20
Today	28-Jul-08	28-Jul-08	28-Jul-08	28-Jul-08	28-Jul-08	28-Jul-08	28-Jul-08	28-Jul-08	28-Jul-08	28-Jul-08	28-Jul-08	28-Jul-08
Days left	246	611	976	1,342	1,707	2,072	2,437	2,803	3,168	3,533	3,898	4,264
Years left	0.67	1.67	2.67	3.68	4.68	5.68	6.68	7.68	8.68	9.68	10.68	11.68
Discount factor at WACC	**0.93**	**0.83**	**0.74**	**0.66**	**0.59**	**0.53**	**0.47**	**0.42**	**0.37**	**0.33**	**0.30**	**0.27**

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

	2005	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	2,035	2,635	3,176	4,179	6,096	7,907	8,891
EBITDA	**1,293**	**1,942**	**2,677**	**3,645**	**5,423**	**7,064**	**7,930**
Other income	20	45	175	294	186	162	147
Interest	(363)	(413)	(457)	(815)	(840)	(700)	(428)
Depreciation	(656)	(791)	(1,026)	(1,632)	(2,015)	(2,298)	(2,298)
Pretax profits	293	783	1,369	1,492	2,755	4,228	5,351
Tax	(15)	(2)	(70)	(410)	(312)	(1,344)	(1,900)
Deferred taxation	(119)	(315)	(409)	(82)	(407)	(31)	81
Net profits	**160**	**467**	**894**	**999**	**2,036**	**2,854**	**3,532**
Earnings per share (Rs)	**0.6**	**1.2**	**1.6**	**1.8**	**3.6**	**5.1**	**6.3**
Balance sheet (Rs mn)							
Total equity	4,037	9,075	9,659	11,392	12,763	14,682	14,082
Deferred tax liability	193	508	917	999	1,406	1,437	1,356
Total borrowings	4,436	5,786	8,638	10,093	9,508	5,258	3,758
Currrent liabilities	571	1,771	1,845	878	878	879	880
Total liabilities and equity	**9,237**	**17,140**	**21,059**	**23,362**	**24,555**	**22,256**	**20,076**
Cash	426	2,372	1,811	2,110	1,588	1,298	1,111
Current assets	408	995	2,126	2,289	2,178	2,216	2,271
Total fixed assets	8,392	13,651	17,029	18,869	20,695	18,649	16,601
Investments	—	—	—	—	—	—	—
Deferred expenditure	11	123	93	93	93	93	93
Total assets	**9,237**	**17,140**	**21,059**	**23,362**	**24,555**	**22,256**	**20,076**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	844	1,562	2,212	2,345	4,181	5,019	5,602
Working capital changes	(193)	471	(1,058)	(1,130)	111	(36)	(54)
Capital expenditure	(1,799)	(6,049)	(4,404)	(3,400)	(3,750)	(250)	(250)
Investments	—	—	—	—	—	—	—
Other income	10	40	146	294	186	162	147
Free cash flow	**(1,138)**	**(3,976)**	**(3,103)**	**(1,891)**	**728**	**4,894**	**5,445**
Ratios (%)							
Debt/equity	104.9	60.4	81.7	81.5	67.1	32.6	24.3
Net debt/equity	51.2	37.6	45.0	44.9	40.2	24.6	19.6
RoAE	4.6	6.8	8.8	8.7	15.3	18.8	22.4
RoACE	**8.0**	**9.9**	**10.0**	**8.0**	**13.8**	**14.9**	**18.4**
CROCI	**13**	**13**	**13**	**12**	**17**	**19**	**20**
Key assumptions							
Volumes-old pipelines (mcm/d)	8.3	10.4	12.6	12.7	17.0	20.0	25.0
Volumes-new pipelines (mcm/d)	—	—	1.7	4.1	9.6	22.6	30.6
Volumes (mcm/d)	**8.3**	**10.5**	**14.3**	**16.8**	**26.6**	**42.6**	**55.6**

Source: Kotak Institutional Equities estimates.

Consumer Products

GOCP.BO, Rs122	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	140
52W High -Low (Rs)	158 - 87
Market Cap (Rs bn)	31.5

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	11.0	12.3	13.7
Net Profit (Rs bn)	1.6	2.1	2.2
EPS (Rs)	7.3	8.0	8.5
EPS gth	*22.9*	*9.0*	*6.9*
P/E (x)	16.7	15.3	14.3
EV/EBITDA (x)	14.5	11.5	10.3
Div yield (%)	2.9	3.3	3.3

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.8	-	-
FIIs	19.5	0.1	(0.0)
MFs	0.8	0.0	(0.1)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Godrej Consumer Products: 1QFY09 - 'Crude' hit; EBITDA margins decline 600 bps

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- **Strong 18% growth in topline; EBITDA margins decline 600 bps**
- **GCPL is a price-taker in soaps, even though the product formulation is comparable with higher-end brands**
- **'Grade I' positioning of 'Godrej No.1' limits the ability to effect 'cost efficiency measures'**
- **Relaunch of powder hair-dye leads growth, base effect likely helped 'Keyline' growth**
- **Maintain ADD rating; we will revisit our assumptions post the management conference call**

GCPL reported strong 18% sales growth; however EBITDA and PAT declined 19% and 4%, respectively. EBITDA margins declined 600 bps to 13.2% due to higher input costs and increase in A&P for relaunched 'Cinthol'. GCPL needs to resolve certain structural issues in soaps for sustainable growth (1) company is a price-taker in soaps, even though the product formulation of 'Godrej No.1' is comparable (or even better) with higher-end brands (2) the product positioning reduces the flexibility to relook at formulation during periods of hyperinflation in key inputs, limiting the ability to effect 'cost efficiency measures' to manage margins. Hair color sales grew by an impressive 18% yoy aided by the relaunch of powder hair dye in early CY2008. Base effect likely helped 'keyline' growth. Maintain estimates, ADD rating and DCF-based target price of Rs140/share; we will revisit our assumptions post the management conference call. We reiterate that the expected heightened competitive activity in both the categories GCPL operates in'particularly soaps'will be an overhang for stock performance.

Top up; bottom down

GCPL’s standalone profits surprised the street on the downside. The company reported strong 18% sales growth; however EBITDA and PAT declined 19% and 4% respectively. EBITDA margins declined 600 bps to 13.2% due to higher input costs and increase in advertisement and promotion to support relaunched ‘Cinthol’ brand. Soaps category registered 13% sales growth on the back of yet-to-be-anniversaried price increases in base (about 10% price increase in second half of CY2007). Hair Color business growth at 18% was on the back of relaunched powder hair dye. Toiletries business also grew 28% on the back of relaunched ‘Cinthol’. International businesses had a mixed quarter with ‘Keyline’ growing strongly (60% sales growth and 2X PBIT growth) and ‘Rapidol’ disappointing (sales decline 3%, PBIT growth 6%). We await clarity in the management conference call.

GCPL is a price-taker in soaps, even though the product formulation is comparable (or even better) with higher-end brands

We had highlighted in our note dated 28th May, 2008 that the company faces three critical challenges in soaps this year, (1) significant palm oil cost-inflation (up 40% yoy and 153% in two years), (2) decelerating category volume growth and (3) increasing competition from ITC as they launch their soap brands nationally. While measured price hikes by HUL and GCPL have helped mitigate the higher palm prices in FY2008, ITC’s entry had likely capped further price increases and the requirement for higher ad spends. However, the relaunch of the ‘Cinthol’ portfolio is likely helping in maintaining market shares as the company invests substantially on this brand.

'Godrej No.1' brand contributes over two-third of Godrej's soap sales. Godrej has positioned the flagship brand 'Godrej No.1' soap as Grade I soap under the value-for-money plank with minimum 76% TFM content. Typically, the actual TFM content in soap will be 2-3% higher than the declared quantity in pack. The product positioning reduces the flexibility for GCPL to relook at formulation during periods of hyperinflation in key inputs. This inturn limits the ability to effect 'cost efficiency measures' to manage margins.

Moreover, the positioning of 'Godrej No.1' in the popular segment (value-for-money segment) with a product formulation comparable to leading competition brands (which are priced higher) also inherently affects the margin profile of the brand. Typically, it is observed that because of these reasons, Godrej is a price-taker in the soaps market even though it is a strong No.2 in the category. For example, GCPL follows the industry leader in price increases as there is always a fear of market share loss if GCPL takes the pricing lead.

Relaunch of powder hair-dye leads growth

Hair color sales grew by an impressive 18% yoy aided by the relaunch of powder hair dye in early CY2008. The market share in hair color continues at 34% (the lowest in over 5 years). While we believe in the company's ability to have a presence and garner higher incremental share in the top-end fashion hair color market, substantial back-end and front-end investments would be required to mark an entry. We highlight that the market share losses in this category have likely bottomed out as the company has a higher market share of the powder segment where the shares are estimated to be maintained.

Base effect likely helped 'Keyline' growth

International businesses had a mixed quarter with 'Keyline' growing strongly (60% sales growth and 2X PBIT growth) and 'Rapidol' disappointing (sales decline 3%, PBIT growth 6%). We await clarity in the management conference call.

Maintain ADD rating; we will revisit our assumptions post the management conference call

We model soap and hair color to grow at 12% and 10% in FY2009E and FY2010E, respectively. We maintain EPS estimates of Rs8 and Rs8.5 for FY09E and FY10E; retain ADD rating and DCF-based target price of Rs140 per share (implying a P/E of 17.5X on FY09E). We believe the expected heightened competitive activity in both the categories GCPL operates in—particularly soaps—will be an overhang for stock performance. Key risks to our estimates include softening of palm prices and lesser than expected impact of ITC's soap launches. We would revisit our assumptions post the management conference call.

Godrej Consumer Products Limited -Quarterly summary, March yearends (Rs mn)

	yoy			Our est.	yoy	Consolidated yoy		
	1QFY09	1Q FY08	% chg	1QFY09	% chg	1QFY09	1Q FY08	% chg
Sales	**2,777**	**2,359**	**17.7**	**2,630**	**11.5**	**3,616**	**2,863**	**26.3**
Material costs	(1,576)	(1,227)				(1,979)	(1,466)	
Employee costs	(156)	(155)				(222)	(207)	
A&P expenditure	(221)	(153)				(343)	(211)	
Other expenses	(457)	(371)				(576)	(468)	
Total expenses	(2,410)	(1,905)				(3,121)	(2,352)	
EBITDA	**367**	**454**	**(19.2)**	**500**	**10.2**	**496**	**511**	**(3.1)**
Depreciation	(46)	(39)		43		(55)	(44)	
EBIT	**321**	**415**		**457**		**441**	**467**	
Other income	40	14		64		35	13	
Interest	34	(26)		22		12	(35)	
PBT	**394**	**403**	**(2.2)**	**498**	**23.8**	**487**	**445**	**9.4**
Tax	(51)	(45)		60		(96)	(59)	
Net profit	**343**	**358**	**(4.2)**	**439**	**22.5**	**391**	**386**	**1.2**
Exceptional item	-	-		-		-	-	
EBITDA margin (%)	13.2	19.2		19.0		13.7	17.9	
Tax rate (%)	12.0	11.1		12.0		19.7	13.1	
A&P (% of sales)	7.9	6.5				9.5	7.4	
Sales break up								
Soaps	1,833	1,628	12.6	1,840				
Hair Colour	622	524	18.8	587				
Toiletries	200	156	27.7	175				
Liquid Detergents	16	11	40.5	12				
Total Godrej Brands	**2,671**	**2,319**	**15.2**	**2,614**	**12.7**			
Contract manufacturing	-	-		-				
Sale of by-products/others	106	39	169.9	43	10.0			
TOTAL	**2,777**	**2,359**	**17.7**	**2,657**	**12.7**			

Source: Company data, Kotak Institutional Equities estimates

Keyline Brands, Quarterly summary (Rs mn)

	1Q FY2008	2Q FY2008	3Q FY2008	4Q FY2008	1Q FY2009
Sales	391.0	541.0	275.0	473.0	620.0
EBIT	36.0	53.0	31.0	61.0	106.0
PBT	27.0	41.0	20.0	52.0	97.0
Tax	(8.0)	(14.0)	(8.0)	(19.0)	(31.0)
Net profit	19.0	27.0	12.0	33.0	66.0
Sales growth (%)	**(15.0)**	**16.8**	**6.6**	**(4.1)**	**58.6**
EBIT growth (%)	**(46.3)**	**(28.4)**	**24.0**	**(20.8)**	**194.4**
EBIT margin (%)	**9.2**	**9.8**	**11.3**	**12.9**	**17.1**

Rapidol Pty Limited, Quarterly summary (Rs mn)

	1Q FY2008	2Q FY2008	3Q FY2008	4Q FY2008	1Q FY2009
Sales	119.0	117.0	146.0	112.0	116.0
EBIT	17.0	12.0	25.0	24.0	18.0
PBT	18.0	11.0	25.0	20.0	19.0
Tax	(5.0)	(4.0)	(6.0)	(7.0)	(5.0)
Net profit	13.0	7.0	19.0	13.0	14.0
Sales growth (%)	**-**	**-**	**0.7**	**10.9**	**(2.5)**
EBIT growth (%)	**-**	**-**	**(7.4)**	**166.7**	**5.9**
EBIT margin (%)	**14.3**	**10.3**	**17.1**	**21.4**	**15.5**

Source: Company data, Kotak Institutional Equities.

Other subsidiaries, Quarterly summary for 1QFY09 (Rs mn)

	Kinky @	Godrej ME #
Sales	108.0	28.0
EBIT	23.0	1.0
PBT	9.0	1.0
Tax	(8.0)	-
Net profit	1.0	1.0

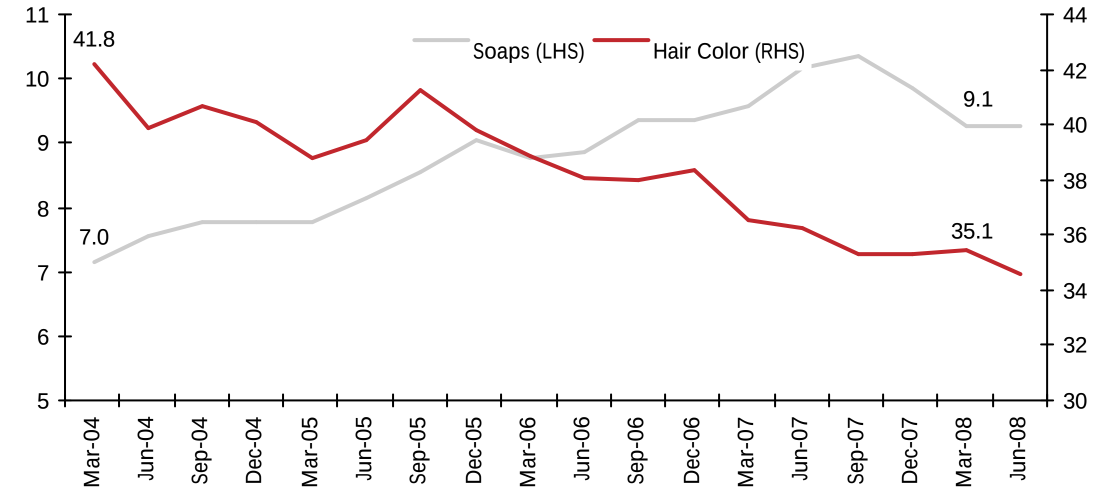
@ Date of acquisition is 1st April 2008

Date of acquisition is 1st October 2007

Source: Company data, Kotak Institutional Equities.

Share gains in soaps moderating, marginal decline in hair color

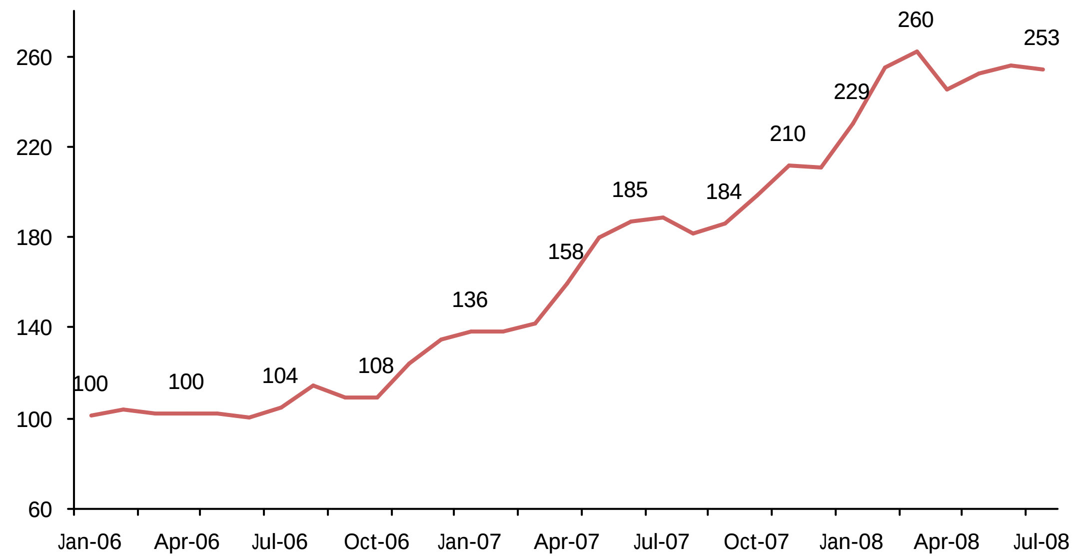
Value market shares in soaps and hair color, %



Source: Company data, Kotak Institutional Equities.

Sustaining high crude palm oil prices and inability to take price increases hurting profitability

Crude palm oil prices (January 2006 = Index 100)



Source: Bloomberg, Kotak Institutional Equities.

GCPL: Profit model, balance sheet, 2007-2010E, March fiscal year-ends (Rs mn)

	2007	2008	2009E	2010E
Profit model (Rs mn)				
Net sales	9,532	11,033	12,313	13,746
EBITDA	**1,797**	**2,122**	**2,316**	**2,577**
Other income	66	81	350	322
Interest	(135)	(94)	(67)	(46)
Depreciation	(142)	(185)	(204)	(254)
Extraordinary items	99	0	0	0
Pretax profits	1,684	1,923	2,394	2,600
Tax	(243)	(274)	(340)	(404)
Net profits (reported)	**1,440**	**1,649**	**2,054**	**2,196**
Earnings per share (Rs)	**5.9**	**7.3**	**8.0**	**8.5**
Balance sheet (Rs mn)				
Total equity	1,220	2,049	6,863	7,851
Total borrowings	1,736	1,147	335	335
Currrent liabilities	2,617	2,774	3,108	3,431
Deferred tax liability	80	86	101	101
Total liabilities and equity	**5,653**	**6,056**	**10,407**	**11,718**
Cash	475	1,098	343	1,184
Current assets	2,300	2,212	2,514	2,919
Total fixed assets	1,992	1,985	2,229	3,144
Investments	0	727	5,287	4,437
Goodwill	886	35	35	35
Total assets	**5,653**	**6,056**	**10,407**	**11,718**

Source: Kotak Institutional Equities estimates.

Transportation

DRDG.BO, Rs531	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	475
52W High -Low (Rs)	1356 - 420
Market Cap (Rs bn)	14.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	7.1	8.2	9.5
Net Profit (Rs bn)	1.5	1.4	1.6
EPS (Rs)	55.3	48.7	57.0
EPS gth	*(8.5)*	*(12.4)*	*17.7*
P/E (x)	9.6	10.9	9.3
EV/EBITDA (x)	5.6	5.3	4.4
Div yield (%)	2.8	2.8	2.8

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	78.6	-	-
FIIs	4.3	0.0	0.0
MFs	4.1	0.1	0.1
UTI	-	-	-
LIC	3.0	0.0	0.0

Dredging Corporation of India: Miss expectations led by higher in-chartering business and dry docking days

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- **Miss expectations led by margin decline because of continued high proportion of lower-margin in-chartering business and higher dry docking days**
- **Revise earnings estimates and target price downwards based on lower margin assumptions**
- **Reiterate REDUCE; concerns on Sethusamudram project and old fleet profile remain**

Dredging Corp declared results much below expectations for 1QFY09 with revenues of Rs1.96 bn (about 1% yoy growth) versus our expectation of Rs2.05 bn. Also, it declared operating margins of12.6% versus our expectations of 25%. PAT at Rs245 mn, down 54.7% yoy and 51.2% qoq, was also below our expectation of Rs486 bn. The decline in margins is led by (1) higher proportion of lower-margin in-chartering business and (2) increase in expenses for maintenance, spares and stores probably because of higher vessel dry-docking days. We revise our earnings estimates and target price downwards to Rs475 (from Rs550 earlier). We reiterate REDUCE based on (1) concerns on the Sethusamudram project, (2) old fleet profile, (3) lack of any credible capex program and (4) lack of abilities to address capital dredging and private sector ports market.

Margin decline due to continued high proportion of lower-margin in-chartering business and higher dry docking days

DCI reported 1QFY09 revenues of Rs1.96 bn (about 1% yoy growth), lower than our expectation of Rs2.05 bn. Operating profits were at Rs246 mn down 56.5% yoy from Rs566 mn leading to significantly lower operating margins of 12.6% versus 29.1% in the previous year. These levels were much below our expectations of 25% operating margin. The decline in margins is led by (1) higher proportion of lower-margin in-chartering business and (2) increase in expenses for maintenance, spares and stores. DCI has probably encountered higher maintenance, stores and spares cost because of higher vessel dry-docking days. Probably DCI has replaced in-chartered dredgers in place of its own fleet dredgers reflected in the fact that in-chartering expenses have gone up and margins have decline (revenues on in-chartered dredgers offers very low margins).

The hire charges for dredgers chartered grew by 135.3% yoy now being 27.3% of the total revenues as compared to 11.7% during the previous year. The spares & stores expenses and repairs & maintenance cost both grew significantly yoy by 61.2% (from 7.8% to 11.4% of total sales) and 46.7% respectively (from 6.3% to 9.2% of total sales).

Revise earnings estimates and target price downwards based on lower margin assumptions

We have revised our earnings estimates to Rs48.7 and Rs57 for FY2008E and FY2009E from Rs57 and 65.6 respectively. Revision is earnings estimates is based on revision in margin estimates downwards to 17% from about 20% for both FY2008E and FY2009E led by likely higher contribution of very low margin in-chartering revenues. We revise our target price to Rs475 in line with downwards earnings revision.

Reiterate REDUCE; concerns on Sethusamudram project and old fleet profile remain

We reiterate our REDUCE rating. We highlight that inspite of strong sectoral growth opportunities greater optimism on the stock is precluded by (1) concerns on the Sethusamudram project with regular negative newsflow (and possible risks to DCI's near-term earnings estimates), (2) old fleet profile (average age of fleet is very high with 5 vessels being over 30 years old and 2 vessels over 20 years old out of a total fleet of 12 vessels), (3) lack of an aggressive capex program (no fleet augmentation over the last few years and possible new orders would also largely be for replacement of existing fleet), and (4) may not aggressively bid for upcoming private ports (given its focus on public ports, limited spare capacity and limited capital dredging capabilities).

Exhibit 1: DCI - 1QFY09 key numbers (Rs mn)

	yoy			qoq		
	1QFY09	1QFY08	% chng	1QFY09	4QFY08	% chng
Net Sales	**1,960**	**1,942**	**0.9**	**1,960**	**1,907**	**2.8**
Total Expenditure	(1,714)	(1,376)	24.5	(1,714)	(1,766)	(3.0)
Staff cost	(200)	(168)	19.4	(200)	(294)	(31.9)
Repairs and maintenance	(181)	(123)	46.7	(181)	(217)	(16.9)
Spares and stores	(231)	(143)	61.2	(231)	(39)	492.5
Fuel and lubricants	(426)	(556)	(23.4)	(426)	(470)	(9.4)
Hire Charges of dredgers Chartered in	(535)	(227)	135.4	(535)	(548)	(2.4)
Others	(143)	(160)	(10.8)	(143)	(198)	(28.0)
Operating Profit	**246**	**566**	**(56.5)**	**246**	**141**	**74.3**
Other Income	204	108	89.3	204	349	(41.8)
EBIDTA	**450**	**673**	**(33.2)**	**450**	**491**	**(8.4)**
Interest	(2)	(4)	(43.6)	(2)	(3)	(15.4)
Depreciation	(132)	(92)	44.3	(132)	(140)	(5.6)
PBT	**315**	**578**	**(45.4)**	**315**	**348**	**(9.4)**
Tax	(71)	(39)		(71)	153	
PAT	**245**	**539**	**(54.7)**	**245**	**502**	**(51.2)**
Key ratios (%)						
OPM	**12.6**	**29.1**		**12.6**	**7.4**	
EBIDTA margin	22.9	34.7		22.9	25.7	
PAT margin	12.5	27.8		12.5	26.3	
Effective tax rate	22.5	6.7		22.5	(44.0)	
PBT Margin (%)	16.1	29.7		16.1	18.3	

Source: Company data, Kotak Institutional Equities estimates.

Transportation

GATE.BO, Rs85	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	125
52W High -Low (Rs)	174 - 65
Market Cap (Rs bn)	9.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	2.7	4.8	7.4
Net Profit (Rs bn)	0.7	0.9	1.3
EPS (Rs)	6.4	8.1	10.8
EPS gth	*(5.1)*	*27.3*	*34.5*
P/E (x)	13	10.5	7.9
EV/EBITDA (x)	9.3	6.9	5.3
Div yield (%)	3.4	3.9	4.0

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	41.4	-	-
FIIs	24.0	0.0	0.0
MFs	4.0	0.0	0.0
UTI	-	-	(0.0)
LIC	5.1	0.0	0.0

Gateway Distriparks: Meets expectations with rail business picking up traction, announces buyback; upgrade to BUY from REDUCE earlier

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- **Meets expectations with strong growth in CFS business improvement in profitability in the rail business**
- **Container rail logistics business picks up traction in terms of both volume and profitability**
- **Declares a Buy-Back program highlighting company's views that current stock price has fallen below intrinsic value**
- **Retain SOTP-based target price of Rs125, upgrade rating to Buy from REDUCE earlier**

GDPL reported 1QFY09 consolidated revenues of Rs962 mn (up 99% yoy) and PAT of Rs209 mn (up 12.4% yoy) versus our expectation of revenues of Rs1,112 mn and PAT of Rs218 mn respectively. The yoy increase in revenues was primarily due to commencement of operations of rail business which grew at 702.6% yoy and 37.7% qoq and Kochi CFS (though small). Company has 12 rakes under operation at this point of time and has 22 more rakes on order to be inducted over the course of next two years, primarily in the Exim segment. Fill-factor a measure of the extent of imbalance in traffic (empties) has increased to >70% leading to improvement in rail business margins as well which has broken even at EBITDA level in this quarter. GDPL board has declared a Buy-Back program highlighting company's views that current stock price has fallen below intrinsic value. We have retained our earnings estimates as well as SOTP based target price of Rs125/share. We revise our rating from REDUCE to BUY led by significant correction in stock price as well as pick up in business across all segments. We highlight that stock has underperformed the markets by 12% since our rating change to REDUCE on May 5, 2008.

Meets expectations with strong growth in CFS business improvement in profitability in the rail business

GDPL reported 1QFY09 consolidated revenues of Rs962 mn (up 99% yoy) and PAT of Rs209 mn (up 12.4% yoy) versus our expectation of revenues of Rs1,112 mn and PAT of Rs218 mn respectively. The yoy increase in revenues was primarily due to the commencement of operations of rail business which grew at 702.6% yoy and 37.7% qoq and Kochi CFS (though small). Operating margins were down to 35.1% from 45.6% in the previous year, with margins falling in the core CFS and Rail business. These levels were, however, still above our expectation of 30.6% and showed an improvement across all sectors on a qoq basis. Operating margins improved by 230 bps as compared to the previous quarter from 32.8% to 35.1%.

Container rail logistics business's picks up traction in terms of both volume and profitability

Company has 12 rakes under operation at this point of time and has 22 more rakes on order to be inducted over the course of next two years, primarily in the Exim segment. Fill-factor a measure of the extent of imbalance in traffic (empties) has increased to >70% leading to improvement in rail business margins as well which has broken even at EBITDA level in this quarter.

CFS business grows with volume growth across all assets, albeit Chennai though with slightly lower margins as proportion of high margin Mumbai CFS goes down

The CFS business had 23% yoy increase in throughput in 1QFY09 to 66,528 TEUs. Overall EBIT margins of the CFS business declined by 250 bps yoy in this quarter as (1) share of higher-margin Mumbai CFSs in the overall mix reduced and (2) comparatively lower margins at Punjab Conware (Exhibit 3). The trend in the change of revenue mix continues even in this quarter with CFS now only 55% of total revenues (down from 73% in 1QFY08 and 61% in 4QFY08) whereas rail business increases its stake from 8% in 1QFY08 (29% in 4QFY08) to 34.5% this quarter.

Snowman's performance improves, though losses continue; we do not expect significant contribution in near future

Though sales from Snowman have improved (revenues of Rs78.2 mn in 1QFY09 up 20.6% yoy) and losses have also been reduced (EBIT losses at a negative of Rs0.7 mn in 1QFY09 have improved 85% yoy), we continue to believe that turnaround of Snowman will be slow. Though improvements are visible, we do not expect significant contribution in near future from GDPL's cold chain business (Exhibit 4).

Declares a Buy-Back program highlighting company's views that current stock price has fallen below intrinsic value

GDPL's board has approved a proposal to buy back the shares upto an amount of Rs0.64 bn representing 10 % of the company's paid-up capital and reserves through market-purchase at a maximum price of Rs 110. Management believes "We believe that the value of GDL's share is worth significantly more compared to the current market price. The buy-back will enhance the value of the shares".

Retain SOTP based target price of Rs125, upgrade rating to Buy from REDUCE earlier

We have retained our earnings estimates as well as SOTP based target price of Rs125/ share.

We revise our rating from REDUCE to BUY led by significant correction in stock price as well as pick up in business across all segments. We highlight that GDPL is currently trading at about 10.4X and 8X our FY2009E and FY2010E EPS estimates respectively. We highlight that stock has underperformed the markets by 12% since our rating change to REDUCE on May 5, 2008.

Exhibit 1. Consolidated 1QFY09 financials of Gateway Distriparks

	1QFY09	1QFY08	% yoy	1QFY09	4QFY08	% qoq
Income from Operations	**962**	**483**	***99.0***	**962**	**836**	***15.1***
Total Expenditure	(624)	(263)	*137.5*	(624)	(562)	*11.2*
Staff Cost	(45)	(23)	*95.9*	(45)	(46)	*(2.5)*
Transportation	(355)	(94)	*278.4*	(355)	(266)	*33.6*
Labour Charges	(31)	(21)	*50.0*	(31)	(35)	*(10.9)*
Sub Contract Charges	(36)	(19)	*85.2*	(36)	(33)	*7.6*
Auction Expenses	(3)	(2)	*94.0*	(3)	(7)	*(55.8)*
Fees on Operations & Management of Punjab Conware CFS	(29)	-		(29)	(26)	11
Other Expenditure	(126)	(105)	*20.0*	(126)	(149)	*(15.6)*
Operating profit	**337**	**220**	***53.2***	**337**	**274**	***23.3***
Other Income	20	48	*(58.3)*	20	22	*(9.6)*
EBIDTA	**357**	**268**	***33.3***	**357**	**296**	***20.8***
Interest	(14)	(3)	*328.1*	(14)	(11)	*26.8*
Depreciation	(99)	(46)	*114.9*	(99)	(98)	*1.5*
Profit before Tax	**244**	**219**	***11.6***	**244**	**187**	***30.5***
Provision for taxation	(35)	(32)	*7.5*	(35)	(36)	*(3.6)*
Net Profit after Tax	**210**	**187**	***12.3***	**210**	**151**	***38.6***
Minority Interest	(1)	(1)	*5*	(1)	14	*(106)*
Net Profit	**209**	**186**	***12.4***	**209**	**165**	***26.8***
				0		
% of sales				0		
Staff Cost	4.6	4.7		4.6	5.5	
Transportation	36.9	19.4		36.9	31.8	
Labour Charges	3.3	4.3		3.3	4.2	
Sub Contract Charges	3.7	4.0		3.7	4.0	
Auction Expenses	0.3	0.3		0.3	0.8	
Other Expenditure	13.1	21.7		13.1	17.8	
				-		
OPM	**35.1**	**45.6**		**35.1**	**32.8**	
EBIDTA margin	**37.2**	**55.5**		**37.2**	**35.4**	
Effective tax rate	**14.2**	**14.7**		**14.2**	**19.2**	
				-		
Throughput (TEUs)				**-**		
Mumbai	66,528	54,134	*22.9*	66,528	66,856	*(0.5)*
ICD Garhi	6,679	5,880	*13.6*	6,679	8,237	*(18.9)*
Rail business	3,393	-		3,393	3,432	*(1.1)*
Chennai	14,961	17,796	*(15.9)*	14,961	15,390	*(2.8)*
Vizag	5,309	3,359	*58.1*	5,309	5,230	*1.5*
Kochi	423	-		423	521	*(18.8)*
GDPL Consolidated	**97,293.0**	**81,169.0**		**97,293.0**	**99,666.0**	

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2. Stand-alone financials of Gateway Distriparks, March fiscal year-ends FY2007-2008E (Rs mn)

	1QFY09	1QFY08	% yoy	1QFY09	4QFY08	% qoq
Income from Operations	**471**	**313**	***50.6***	**471**	**454**	***3.7***
Total Expenditure	(211)	(122)	*73.4*	(211)	(204)	*3.5*
Staff Cost	(16)	(11)	*47.3*	(16)	(22)	*(28.1)*
Transportation	(51)	(45)	*11.5*	(51)	(48)	*5.2*
Labour Charges	(20)	(10)	*92.4*	(20)	(25)	*(21.0)*
Sub Contract Charges	(36)	(17)	*108.2*	(36)	(30)	*17.5*
Auction Expenses	(3)	(2)	*96.0*	(3)	(7)	*(55.9)*
Fees on Operations & Management of Punjab Conware CFS	(29)	-		(29)	(26)	*11.3*
Other Expenditure	(57)	(36)	*55.1*	(57)	(45)	*26.2*
Operating profit	**260**	**191**	***36.0***	**260**	**250**	***3.8***
Other Income	12	37	*(66.9)*	12	17	*(25.9)*
EBIDTA	**272**	**228**	***19.3***	**272**	**267**	***1.9***
Interest	-	(0)	*(100.0)*	-	(0)	*(100.0)*
Depreciation	(36)	(24)	*49.6*	(36)	(38)	*(5.8)*
Profit before Tax	**236**	**204**	***15.7***	**236**	**228**	***3.4***
Provision for taxation	(30)	(28)	*7.6*	(30)	(26)	*14.0*
Net Profit after Tax	**206**	**176**	***17.0***	**206**	**202**	***2.1***
One-time items	-	-		-	-	
Reported PAT	**205.8**	**175.8**	***17.0***	**205.8**	**201.6**	***2.1***
% of sales						
Staff Cost	3.4	3.5	*(2.1)*	3.4	4.9	*(30.6)*
Transportation	10.8	14.5	*(25.9)*	10.8	10.6	*1.5*
Labour Charges	4.2	3.3	*27.8*	4.2	5.6	*(23.8)*
Sub Contract Charges	7.6	5.5	*38.3*	7.6	6.7	*13.3*
Auction Expenses	0.6	0.5	*30.2*	0.6	1.5	*(57.4)*
Other Expenditure	12.0	11.7	*3.0*	12.0	9.9	*21.8*
OPM	**55.1**	**61.1**		**55.1**	**55.1**	
EBIDTA margin	**57.7**	**72.9**		**57.7**	**58.7**	
Effective tax rate	**12.7**	**13.7**		**12.7**	**11.5**	
Throughput (TEUs)	66,528	54,134	*22.9*	66,528	66,856	*(0.5)*
Revenues (Rs/TEU)	7,076	5,776	*22.5*	7,076	6,792	*4.2*
EBIDTA (Rs/TEU)	3,902	3,527	*10.6*	3,902	3,741	*4.3*

Source: Company data.

Exhibit 3. Improvement in volumes, fall in margins in core CFS business
Segmental performance of Gateway Distriparks (Rs mn)

	1QFY09	1QFY08	% yoy	1QFY09	4QFY08	% qoq
Revenues	**982**	**531**	***84.8***	**982**	**858**	***14.5***
Container Freight Station	548	386	*42.0*	548	525	*4.5*
Container Rail Logistics	339	42	*702.6*	339	246	*37.7*
Cold Chain Logistics	78	65	*20.6*	78	75	*4.9*
Unallocated including income from interest and investments	17	38	*(56.4)*	17	13	*32.7*
EBIT						
Container Freight Station	252	187	*34.7*	252	235	*7.7*
Container Rail Logistics	(3)	2	*(250.8)*	(3)	(46)	*(94.5)*
Cold Chain Logistics	(1)	(5)	*(85.6)*	(1)	(7)	*(90.0)*
Unallocated including income from interest and investments	(5)	38	*(112.9)*	(5)	17	*(128.2)*
EBIT margin						
Container Freight Station	46.1	48.5		46.1	44.7	
Container Rail Logistics	(0.8)	4.0		(0.8)	(18.8)	
Cold Chain Logistics	(0.9)	(7.7)		(0.9)	(9.7)	
Capital Employed						
Container Freight Station	2,291	2,837	*(19.2)*	2,291	2,212	
Container Rail Logistics	4,842	1,985	*144.0*	4,842	3,990	
Cold Chain Logistics	430	402	*7.0*	430	423	
Unallocated including income from interest and investments	52	1,978	*(97.4)*	52	1,002	

Source: Company data.

Exhibit 4. Improvement in Snowman's performance is slow
Segmental performance of Cold Chain Logistics business of Gateway Distriparks (Rs mn)

	1QFY09	1QFY08	% yoy	1QFY09	4QFY08	% qoq
Revenues	78.2	64.9	*20.6*	78.2	74.6	*4.9*
EBIT	(0.7)	(5.0)	*(85.6)*	(0.7)	(7.2)	*(90.0)*
EBIT margin	(0.9)	(7.7)		(0.9)	(9.7)	
Capital Employed	52	402	*(87.0)*	52	423	*(87.7)*

Source: Company data.

Telecom

IDEA.BO, Rs88	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	100
52W High -Low (Rs)	161 - 74
Market Cap (Rs bn)	233.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	67.2	97.3	125.9
Net Profit (Rs bn)	10.4	12.1	14.6
EPS (Rs)	3.9	4.6	5.5
EPS gth	*78.5*	*15.7*	*20.8*
P/E (x)	22.4	19.3	16.0
EV/EBITDA (x)	12.8	9.5	7.9
Div yield (%)	-	-	-

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.7	-	-
FIIs	7.7	0.3	0.3
MFs	0.4	0.1	0.1
UTI	-	-	-
LIC	-	-	-

Idea Cellular: Earnings call fails to provide any positives. Maintain REDUCE

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- **Valuations now partly reflect our concerns on pricing and profitability**
- **Pushback on EBITDA break-even for new circles disappointing**
- **Maintain REDUCE rating with a revised DCF-based target price of Rs100/share**

We have moderated our ARPU, RPM and profitability assumptions for Idea and adjusted our target price. Idea Cellular's 1QFY09 results conference call reaffirmed risks to our and street assumptions on operating parameters. Our moderated assumptions are now consistent with our increasing concern on the profitability of wireless players. We have reduced our FY2009E, FY2010E and FY2011E EPS to Rs4.6 (-4.7%), Rs5.5 (-5.2%) and Rs6.8 (-6.3%) respectively. We maintain our REDUCE rating with a revised 12-month DCF-based target price of Rs100 (including Rs10/share option value from its stake in Indus towers) from Rs110 earlier.

Valuations now partly reflect our concerns on pricing and profitability. We have long argued that (1) pricing assumptions matter more for valuations than volume assumptions and (2) our pricing and profitability assumptions may be at risk in a more competitive environment. We believe Idea's 1QFY09 results (see Exhibit 1) and conference call will likely raise issues about our and street assumptions on pricing and profitability of Indian wireless companies. We also believe that Idea's planned expansion in to the remaining circles may not be value accretive. Exhibit 2 gives key changes to our earnings model, Exhibit 3 is our summary earnings model and Exhibit 4 is our DCF valuation model for Idea.

We have made the following adjustments to our earnings model

1. We increase our subs estimates to 35.9 mn from 34.9 earlier for FY2009 and 45.8 mn from 44.8 mn earlier for FY2010. Note that we still assume a decline in market share of subs in FY2010.
2. We now assume a sharper decline in RPM in FY2009E and FY2010E. Our revised RPM for FY2009E and FY2010E stand at Rs0.62/min (21% yoy decline) and Rs0.57/min (7% yoy decline) as opposed to Rs0.0.69/min (11.4% yoy decline) and Rs0.67/min (3% yoy decline) earlier.
3. We also assume higher MOUs than earlier. Our revised MOU assumptions for Idea stand at 438 for FY2009E (16% yoy increase, implying a 0.75X price elasticity) and 446 for FY2010E.
4. Our revised ARPU assumptions for FY2009E and FY2010E now stand at Rs270 and Rs256 versus Rs274 and Rs267 earlier, respectively.

We do not model Indus Tower JV and Spice acquisition. We continue to assign option value of Rs10/share for the stake in Indus Towers, instead of proportionate consolidation of the JV. We attribute this to continued delay in formalization of rental payout to the JV. We note that the managements of Bharti and Idea had indicated rental payout to Indus JV in the March quarter, but the same has since got delayed. We treat likely receipt of US$640 mn by ABTL (a subsidiary of Idea) from Providence Equity Partners, as an interest-free advance to Idea. This ensures that our estimates are not impacted because of non-consolidation of the Indus JV. Idea management has indicated that the Indus JV would be consolidated on JV accounting principle i.e. line by line consolidation of the P&L items of Indus. Note that ABTL holds 16% stake in Indus and Bihar license; Providence has agreed to invest US$640 mn for a 20% post-money stake valuing ABTL at US$2.56 bn, pre-money valuation.

We also do not model Spice acquisition (and subsequent likely fund infusion fro Telekom Malaysia) pending regulatory approvals and clarity on timelines for merger. This will partly inflate our estimates for FY20009 and FY2010 though in our view the entire transaction is valuation neutral. Idea management was confident of all regulatory approvals. The company has bought out 40.8% stake of Modi's in the Spice. The subsequent legs of the transaction i.e. open offer, infusion of funds from Telekom Malaysia (likely in August) and merger of the companies may take another 6-7 months. Exhibit 5 explains the entire Spice transaction including its funding through a preferential allotment of shares to Telekom Malaysia. We exclude organic roll out of operations in the Punjab and Karnataka circle after Spice's acquisition.

Key highlights of 1QFY09 results conference call

1. **Earnings impacted by increased NLD carriage charges, expiry of license fees moratorium and interest on funds raised for Spice acquisition.** Idea attributed an impact of Rs100-200 mn on earnings on account of increase in carriage charges by Bharti and other operators. Idea indicates that it is rolling out its own NLD backbone and expects to carry 50% of the long distance traffic on its network compared to 10% currently. Idea has planned capex of ~US$50-100 mn for laying out NLD network. Impact on EBITDA margin on account of expiry of license fees moratorium in select circles was 130 bps qoq. Idea's earnings were also impacted by borrowings towards the end of the quarter to fund acquisition of Modi's stake in Spice and non-compete fees.

2. **Pushback on EBITDA break-even for new circles.** Idea's management indicated that it might not be able to achieve break-even at the operating level (see Exhibit 6) in the new circles by the Sep '08 as indicated earlier; this will likely get deferred by a quarter to Dec '08. We note that the company had initially guided for EBITDA break-even by Mar' 08 quarter, which has been pushed back continuously. We believe that this underlines the weakening economics for new entrants in the Indian wireless market. We note here that Idea entered these circles around 27 months back and has been able to achieve a 6.4% subscriber market share in these circles. Any new entrant in the market will likely face much stiffer operating environment than encountered by Idea—more competition, lower tariffs in the industry, likely introduction of MNP, lower quality of incremental subscribers, etc.

3. **Update on new circles.** Idea expects to start operations in Mumbai by August 2008 and in Bihar by September 2008. The company also expects to start operations in Orissa, Tamil Naidu and Chennai by end-CY2008 or early CY2009. The company is confident of EBITDA break even in 24-30 months in new circles.

4. **Capex guidance.** Idea plans to spend ~US$1.5 bn on capex in FY2009. The capex is split into (1) US$1.2 bn on existing 11 circles. Note that this does not include capex on passive infrastructure in circles covered by Indus; (2) US$200- 225 mn for Orissa, Tamil Nadu and Chennai and (3) ~US$50-100 mn NLD backbone. The above numbers does not include capex for the Mumbai and Bihar circle and 3G. We model Rs67 bn capex for Idea in FY2009E and Rs50.3 bn in FY2010E. However, we would clarify that the capex would depend on when Idea receives spectrum in the remaining circles.

Consolidated interim results for Idea Cellular Limited (Rs mn)

	qoq			yoy		
	1Q2009	4Q 2008	% chg	1Q2009	1Q 2008	% chg
Gross sales	**21,735**	**19,724**	***10.2***	**21,735**	**14,773**	***47.1***
Operating costs						
Interconnection costs	(3,957)	(3,445)	*14.9*	(3,957)	(2,396)	*65.1*
License fee and spectrum charges	(2,446)	(1,965)	*24.5*	(2,446)	(1,599)	*53.0*
Network operating costs	(3,756)	(3,262)	*15.1*	(3,756)	(1,896)	*98.2*
Employee costs	(1,022)	(885)	*15.5*	(1,022)	(708)	*44.4*
Sales and marketing expenses	(2,465)	(2,648)	*(6.9)*	(2,465)	(2,283)	*8.0*
Other expenses	(931)	(897)	*3.8*	(931)	(764)	*21.9*
Total operating costs	(14,577)	(13,103)	*11.3*	(14,577)	(9,645)	*51.1*
EBITDA	**7,158**	**6,621**	***8.1***	**7,158**	**5,128**	***39.6***
EBITDA margin (%)	33.0	33.6		33.0	34.7	
Net finance cost	(1,526)	(1,206)	*26.6*	(1,526)	(931)	*63.9*
Other income	46	129	*(64.2)*	46	791	*(94.2)*
Depreciation & Amortization	(2,749)	(2,597)	*5.9*	(2,749)	(1,887)	*45.7*
PBT	**2,929**	**2,947**	***(0.6)***	**2,929**	**3,101**	***(5.5)***
Current tax (expense)/income	(297)	(165)	*79.7*	(297)	(16)	*1,791.7*
Deferred tax (liability)/asset	—	—	—	—	—	—
Minority loss/(income)	—	—	—	—	—	—
Reported net income	**2,632**	**2,782**	***(5.4)***	**2,632**	**3,085**	***(14.7)***
Key operational metrics						
Cellular subscribers ('000)						
Prepaid	25,481	22,322	*14.2*	25,481	14,594	*74.6*
Postpaid	1,713	1,680	*2.0*	1,713	1,532	*11.8*
Total	27,194	24,002	*13.3*	27,194	16,126	*68.6*
ARPU (Rs/mth)						
Blended	278	287	*(3.1)*	278	320	*(13.1)*
MOU (min/mth)						
Blended	428	411	*4.1*	428	381	*12.3*
Churn (%)						
Prepaid	4.1	4.8	—	4.1	4.2	—
Postpaid	2.5	2.5	—	2.5	4.1	—
Revenue/min: RPM = ARPU/MOU						
Blended revenue/min (incl. in-roaming)	0.65	0.70	*(7.0)*	0.65	0.84	*(22.7)*
Estimated volume (mn mins)						
Total estimated volume (mn mins)	33,087	27,824	*18.9*	33,087	17,100	*93.5*
EBITDA per min - blended (Rs)	0.22	0.24	*(9.1)*	0.22	0.30	*(27.9)*
VAS as % of wireless ARPU revenues	8.9	8.2	—	8.9	8.4	—

Source: Company

Idea Cellular--summary of key changes to the earnings model, March fiscal year-ends, 2009E-2017E

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues (Rs mn)									
Revised	97,334	125,914	150,744	168,185	184,244	197,251	208,276	216,370	222,778
Old	97,334	128,218	154,530	173,799	191,347	205,907	218,252	227,491	234,892
Change (%)	**0.0**	**(1.8)**	**(2.5)**	**(3.2)**	**(3.7)**	**(4.2)**	**(4.6)**	**(4.9)**	**(5.2)**
EBITDA (Rs mn)									
Revised	31,152	41,459	50,800	58,246	64,768	69,870	74,529	78,317	81,862
Old	32,613	44,369	54,906	62,918	69,724	76,096	81,551	85,617	88,918
Change (%)	**(4.5)**	**(6.6)**	**(7.5)**	**(7.4)**	**(7.1)**	**(8.2)**	**(8.6)**	**(8.5)**	**(7.9)**
EBITDA margin (%)									
Revised	32.0	32.9	33.7	34.6	35.2	35.4	35.8	36.2	36.7
Old	33.5	34.6	35.5	36.2	36.4	37.0	37.4	37.6	37.9
Change (bps)	**(150.2)**	**(167.8)**	**(183.1)**	**(157.0)**	**(128.5)**	**(153.5)**	**(158.2)**	**(143.9)**	**(110.9)**
EPS (Rs)									
Revised	4.6	5.5	6.8	7.9	9.4	10.6	11.4	12.6	13.3
Old	4.8	5.8	7.2	8.5	10.2	11.4	12.5	13.9	14.8
Change (%)	**(4.7)**	**(5.2)**	**(6.3)**	**(7.5)**	**(7.4)**	**(7.1)**	**(8.9)**	**(9.5)**	**(10.3)**
Subscribers (mn)									
Revised	35.9	45.8	53.3	59.2	63.9	67.7	70.7	73.1	75.1
Old	34.9	44.8	52.6	58.7	63.6	67.5	70.7	73.2	75.2
Change (%)	**3.0**	**2.3**	**1.4**	**0.9**	**0.6**	**0.3**	**0.1**	**(0.1)**	**(0.2)**
MOU (min/month)									
Revised	438	446	451	455	460	464	467	468	468
Old	397	398	401	406	410	414	418	418	419
Change (%)	**10.4**	**12.1**	**12.4**	**12.3**	**12.1**	**12.0**	**11.9**	**11.8**	**11.8**
ARPU (Rs/month)									
Revised	270	256	253	248	249	249	250	250	250
Old	274	267	264	260	260	261	263	263	263
Change (%)	**(1.7)**	**(4.3)**	**(4.2)**	**(4.4)**	**(4.4)**	**(4.6)**	**(4.8)**	**(4.9)**	**(5.1)**
RPM (Rs/min)									
Revised	0.62	0.57	0.56	0.55	0.54	0.54	0.54	0.53	0.53
Old	0.69	0.67	0.66	0.64	0.63	0.63	0.63	0.63	0.63
Change (%)	**(11.0)**	**(14.6)**	**(14.8)**	**(14.8)**	**(14.8)**	**(14.8)**	**(14.9)**	**(15.0)**	**(15.1)**
EPM (Rs/min)									
Revised	0.20	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.20
Old	0.23	0.23	0.23	0.23	0.23	0.23	0.24	0.24	0.24
Change (%)	**(15.0)**	**(18.7)**	**(19.2)**	**(18.5)**	**(17.8)**	**(18.4)**	**(18.5)**	**(18.2)**	**(17.6)**
Capex (Rs mn)									
Revised	64,817	63,175	37,017	32,216	31,573	31,699	30,563	28,339	27,843
Old	66,079	62,193	36,484	31,809	31,576	32,310	30,833	29,520	28,943
Change (%)	**(1.9)**	**1.6**	**1.5**	**1.3**	**(0.0)**	**(1.9)**	**(0.9)**	**(4.0)**	**(3.8)**
Capex/sales (%)									
Revised	66.8	50.3	24.6	19.2	17.2	16.1	14.7	13.1	12.5
Old	68.1	48.7	23.7	18.4	16.5	15.7	14.2	13.0	12.4
Change (bps)	**(130)**	**168**	**95**	**86**	**64**	**38**	**55**	**12**	**18**

Source: Kotak Institutional Equities estimates

Consolidated profit and loss for Idea Cellular, March fiscal year-ends, 2007-2017E (Rs mn)

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues											
Consolidated revenues	**43,664**	**67,200**	**97,334**	**125,914**	**150,744**	**168,185**	**184,244**	**197,251**	**208,276**	**216,370**	**222,778**
Interconnection costs	(7,321)	(11,334)	(17,457)	(22,592)	(26,754)	(29,516)	(31,971)	(34,229)	(36,143)	(37,112)	(37,317)
License fees and spectrum charges	(4,487)	(6,851)	(10,855)	(13,998)	(16,742)	(18,665)	(20,445)	(21,860)	(23,059)	(23,971)	(24,738)
Network operating costs	(5,336)	(10,470)	(16,191)	(21,016)	(24,790)	(27,923)	(30,505)	(32,520)	(34,125)	(35,300)	(36,192)
Sales and marketing expenses	(7,649)	(9,649)	(13,096)	(15,742)	(18,600)	(19,372)	(20,767)	(21,880)	(22,808)	(23,504)	(24,058)
Employee costs	(2,609)	(3,464)	(4,467)	(5,850)	(6,748)	(7,343)	(7,947)	(8,436)	(8,639)	(8,788)	(8,903)
G&A costs	(1,610)	(2,914)	(4,117)	(5,255)	(6,309)	(7,120)	(7,841)	(8,455)	(8,973)	(9,377)	(9,708)
Consolidated EBITDA	**14,653**	**22,518**	**31,152**	**41,459**	**50,800**	**58,246**	**64,768**	**69,870**	**74,529**	**78,317**	**81,862**
Other income incl. Interest income	209	175	439	559	573	599	604	612	644	625	841
Interest expense	(3,051)	(2,776)	(6,042)	(7,588)	(7,946)	(8,043)	(6,259)	(4,164)	(2,564)	(1,310)	(328)
Amortization of entry fee	(1,081)	(1,199)	(1,175)	(1,548)	(1,540)	(1,527)	(1,527)	(1,527)	(1,527)	(1,527)	(1,527)
Depreciation	(5,637)	(7,569)	(11,142)	(16,645)	(20,688)	(24,170)	(25,978)	(29,403)	(31,627)	(32,763)	(32,776)
Pretax profits	**5,093**	**11,148**	**13,232**	**16,237**	**21,198**	**25,105**	**31,608**	**35,388**	**39,455**	**43,342**	**48,072**
Extraordinary income/(charges)	—	—	—	—	—	—	—	—	—	—	—
Prior period adjustments	—	—	—	—	—	—	—	—	—	—	—
Current tax expense	(0)	(426)	(100)	(100)	(2,402)	(2,844)	(4,601)	(7,404)	(10,050)	(11,246)	(14,183)
Deferred tax (liability)/asset	—	(299)	(1,074)	(1,574)	(874)	(1,474)	(2,074)	71	729	1,116	1,189
Minority interest expense	—	—	—	—	—	—	—	—	—	—	—
Reported net profits	**5,092**	**10,423**	**12,058**	**14,563**	**17,922**	**20,787**	**24,933**	**28,055**	**30,135**	**33,213**	**35,079**
Adjusted net profits	**5,092**	**10,423**	**12,058**	**14,563**	**17,922**	**20,787**	**24,933**	**28,055**	**30,135**	**33,213**	**35,079**
Adjusted EPS (Rs)											
Year end	2.0	3.9	4.6	5.5	6.8	7.9	9.4	10.6	11.4	12.6	13.3
Primary	2.2	3.9	4.6	5.5	6.8	7.9	9.4	10.6	11.4	12.6	13.3
Fully diluted	2.2	3.9	4.6	5.5	6.8	7.9	9.4	10.6	11.4	12.6	13.3
Growth (%)											
Revenues	47	54	45	29	20	12	10	7	6	4	3
EBITDA	37	54	38	33	23	15	11	8	7	5	5
Net profits	154	105	16	21	23	16	20	13	7	10	6
EPS	150	79	16	21	23	16	20	13	7	10	6
Margin (%)											
EBITDA	33.6	33.5	32.0	32.9	33.7	34.6	35.2	35.4	35.8	36.2	36.7
Net profits	12	16	12	12	12	12	14	14	14	15	16
Current tax rate (%)	0.0	3.8	0.8	0.6	11.3	11.3	14.6	20.9	25.5	25.9	29.5
Effective tax rate (%)	0.0	6.5	8.9	10.3	15.5	17.2	21.1	20.7	23.6	23.4	27.0
DPS (for a Rs10 share)	—	—	—	—	—	—	—	2.0	6.0	8.0	9.0
Dividend pay-out (%)	—	—	—	—	—	—	—	19	53	64	68

Source: Kotak Institutional Equities estimates

Discounted cash flow valuation of Idea Cellular (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	31,152	41,459	50,800	58,246	64,768	69,870	74,529	78,317	81,862
Tax	(146)	(147)	(3,302)	(3,756)	(5,512)	(8,275)	(10,703)	(11,585)	(14,279)
Change in working capital	31,448	736	(4,509)	992	2,346	3,300	3,222	3,201	4,271
Post-tax operating cash flow	**62,454**	**42,048**	**42,989**	**55,482**	**61,603**	**64,894**	**67,048**	**69,932**	**71,853**
Capex	(64,817)	(63,175)	(37,017)	(32,216)	(31,573)	(31,699)	(30,563)	(28,339)	(27,843)
Free cash flow	**(2,363)**	**(21,126)**	**5,972**	**23,266**	**30,030**	**33,195**	**36,485**	**41,594**	**44,010**

	Now	+ 1-year	WACC and growth in perpetuity assumptions	
PV of cash flows	81,022	109,927	**Terminal growth - g (%)**	**4.3**
PV of terminal value	181,705	189,427	**WACC (%)**	**13.0**
EV	262,727	299,354		
Net debt	54,620	62,614		
Equity value (Rs mn)	**208,107**	**236,740**		
Equity value (US$ mn)	**5,203**	**5,919**		
Shares outstanding (mn)	2,639	2,639		
Equity value (Rs/Idea share)	**79**	**90**		
Exit FCF multiple (X)	11.4			
Exit EBITDA multiple (X)	**6.4**			

Key assumptions (%)	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenue growth	44.8	29.4	19.7	11.6	9.5	7.1	5.6	3.9	3.0
EBITDA growth	38.3	33.1	22.5	14.7	11.2	7.9	6.7	5.1	4.5
EBITDA margin	**32.0**	**32.9**	**33.7**	**34.6**	**35.2**	**35.4**	**35.8**	**36.2**	**36.7**
Capex/sales	66.6	50.2	24.6	19.2	17.1	16.1	14.7	13.1	12.5
Cash tax rate	0.8	0.6	11.3	11.3	14.6	20.9	25.5	25.9	29.5
Effective tax rate	8.9	10.3	15.5	17.2	21.1	20.7	23.6	23.4	27.0
Return on avg. capital employed	**18.6**	**17.5**	**16.6**	**14.8**	**15.7**	**17.0**	**16.5**	**16.9**	**18.6**

Source: Kotak Institutional Equities estimates

Idea--Spice acquisition transaction dynamics

Pre-deal			
Spice		**Transaction prices**	
# of shares	690	Spice (Rs/share)	77.3
% holding		Idea (Rs/share)	156.96
BK Modi group	40.8		
Telekom Malaysia (TM)	39.2	**EV/EBITDA at transaction price (X)**	
Others	20.0	Spice	20.3
Transaction dynamics			
Idea pays Spice group for 40.8% in Spice (Rs mn)	21,759		
Idea pays Spice Group for non- compete agreement	5,440		
Idea shares issued to TM for 39.2% stake in Spice (mn)	132.5	Swap ratio of 49:100	
Post-share swap equity share of Telekom Malaysia (in Idea)	4.8		
Further equity issuance to TM	464.7		
TM pays to Idea	72,944		
Post-equity issuance TM holding in Idea	18.5		
Open offer (assuming fully subscribed (residual 20%) at transaction price of Rs77.3)			
Idea shells out for open offer (Rs mn)	10,666		
Total amount that Idea pays in cash (Rs mn)	37,865		
Idea gets from TM (Rs mn)	72,944		
Debt assumed (Rs mn)	9,890		
Net cash inflow to Idea	25,189		
New equity issued	597.3		
As % of Post-deal equity	18.5		

Source: Company, Kotak Institutional Equities estimates

Idea's EBITDA performance in the new circles highlights the challenges in new rollouts

Idea's ARPU, new circles verus old circles, 4QFY07-1QFY09

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Revenues (Rs mn)						
Old circles (a)	12,761	14,163	14,795	16,105	18,645	20,342
New circles (b)	434	613	848	998	1,207	1,439
Total	**13,195**	**14,776**	**15,643**	**17,103**	**19,852**	**21,781**
EBITDA (Rs mn)						
Old circles (a)	4,803	5,369	5,311	5,862	6,860	7,357
New circles (b)	(330)	(233)	(183)	(168)	(126)	(154)
Total	**4,473**	**5,136**	**5,128**	**5,694**	**6,734**	**7,203**
EBITDA margin (%)						
Old circles (a)	37.6	37.9	35.9	36.4	36.8	36.2
New circles (b)	(76.0)	(38.0)	(21.6)	(16.8)	(10.4)	(10.7)
Total	**33.9**	**34.8**	**32.8**	**33.3**	**33.9**	**33.1**
Subscribers ('000)						
Old circles	13,359	15,183	17,316	19,452	22,134	24,906
New circles	651	943	1,356	1,602	1,867	2,289
Total	**14,011**	**16,126**	**18,672**	**21,054**	**24,002**	**27,194**
ARPU (Rs/sub/month)						
Old circles	**376**	**331**	**303**	**292**	**299**	**288**
New circles	75	256	246	225	232	231
Total	**317**	**320**	**288**	**279**	**287**	**278**

Note:

(a) A.P., Delhi, Gujarat, M.P., Maharashtra, Haryana, Kerala, U.P. (West).

(b) Himachal Pradesh, Rajasthan, U.P. (East).

Source: Company data, Kotak Institutional Equities estimates

Pressure on margins will likely continue as S&M costs also start moving up with new launches (Rs mn)

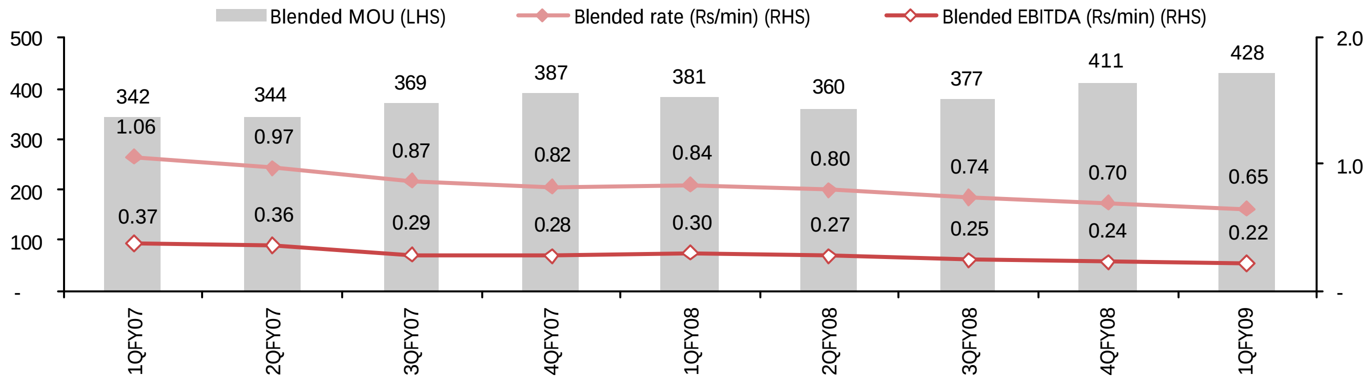
Break-up of cost elements, 1QFY08-qQFY09

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Revenues	14,773	15,622	17,081	19,724	21,735
Interconnection costs	(2,396)	(2,550)	(2,930)	(3,445)	(3,957)
License fee and spectrum charges	(1,599)	(1,551)	(1,736)	(1,965)	(2,446)
Network operating costs	(1,896)	(2,380)	(2,915)	(3,262)	(3,756)
Employee costs	(708)	(878)	(954)	(885)	(1,022)
Sales and marketing expenses	(2,283)	(2,514)	(2,185)	(2,648)	(2,465)
Other expenses	(764)	(643)	(688)	(897)	(931)
Total operating costs	(9,645)	(10,516)	(11,409)	(13,103)	(14,577)
EBITDA	5,128	5,106	5,672	6,621	7,158
As % of revenues					
Interconnection costs	**16.2**	**16.3**	**17.2**	**17.5**	**18.2**
License fee and spectrum charges	**10.8**	**9.9**	**10.2**	**10.0**	**11.3**
Network operating costs	12.8	15.2	17.1	16.5	17.3
Employee costs	4.8	5.6	5.6	4.5	4.7
Sales and marketing expenses	**15.5**	**16.1**	**12.8**	**13.4**	**11.3**
Other expenses	5.2	4.1	4.0	4.5	4.3
Total operating costs	65.3	67.3	66.8	66.4	67.1
EBITDA margin (%)	34.7	32.7	33.2	33.6	32.9

Source: Company, Kotak Institutional Equities

Pressure on RPM and EPM continues

Idea's blended revenue and blended EBITDA on a per minute basis (Rs/min)



Note:

(a) Blended rate = RPM = ARPU/MOU.

Source: Kotak Institutional Equities estimates

Sharp reduction in STD and roaming tariffs reflected in a sharp decline in incremental RPM and EPM

Idea's revenue per incremental minute, 2QFY07-1QFY09

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Revenues (Rs mn)	9,002	10,096	11,482	13,084	14,773	15,643	17,103	19,853	21,735
Total minutes of use (mn min)	8,097	9,736	12,629	15,469	17,100	18,831	22,457	27,824	33,087
Revenue per minute or RPM (Rs/min)	1.11	1.04	0.91	0.85	0.86	0.83	0.76	0.71	0.66
Incremental RPM (Rs/min)		**0.67**	**0.48**	**0.56**	**1.04**	**0.50**	**0.40**	**0.51**	**0.36**
EBITDA (Rs mn)	3,020	3,548	2,926	4,360	5,128	5,106	5,672	6,621	7,158
EBITDA per min or EPM (Rs/min)	0.37	0.36	0.23	0.28	0.30	0.27	0.25	0.24	0.22
Incremental EPM (Rs/min)		**0.32**	**(0.22)**	**0.50**	**0.47**	**(0.01)**	**0.16**	**0.18**	**0.10**

Source: Company data, Kotak Institutional Equities estimates

Banking

CNBK.BO, Rs186	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	190
52W High -Low (Rs)	421 - 147
Market Cap (Rs bn)	76.4

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	58.5	59.5	71.9
Net Profit (Rs bn)	15.7	9.2	15.8
EPS (Rs)	38.2	22.5	38.6
EPS gth	*10.1*	*(41.1)*	*71.4*
P/E (x)	4.9	8.3	4.8
P/B (x)	1.1	0.9	0.8
Div yield (%)	4.3	3.8	4.0

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	73.2	-	-
FIIs	14.0	0.2	(0.1)
MFs	2.7	0.2	(0.1)
UTI	-	-	(0.2)
LIC	1.1	0.1	(0.2)

Canara Bank: Better-than-expected operating performance, but higher MTM hit pulls down PAT

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- **Despite strong operational performance, PAT was down 50% yoy**
- **Moderate loan growth and focus on NIM appear to be yielding results**
- **Lower Tier I ratio of 6.8% increases probability of equity issuance over the next few quarters**
- **Upgrade rating to REDUCE from SELL given the substantial correction in stock price over the past six months**

Canara Bank reported net profit of Rs 1.2 bn, down 49% yoy and much lower than our estimate of Rs2.35 bn. The key reason for this performance was the higher provisions of Rs5.6 bn v/s our estimate of Rs3.3 bn. On the positive front, the company showed low deposit growth for two consecutive months, improved its margins qoq, and reported moderate growth in other income despite loss on treasury income. While the quality of results was good, we are forced to reduce our profit estimates by 20% for FY2009 on the higher-than-expected MTM hits to Rs8.9 bn (42% decline yoy), our FY2010 estimate of Rs 15.5 bn remains unchanged. We believe there could be near-term pressure on stock price performance due to the challenging macro environment; change in management, which may decide on new strategy and lower Tier I ratio of 6.8%, which increases the probability of company approaching the equity markets for enhancing its capital. However, given the sharp correction in the stock price of over 36% over the last six months most of these concerns are likely in the stock price. Hence, we upgrade our rating on the stock to REDUCE from SELL with the target price of Rs200 (same as before). The ratings upgrade is primarily on valuation consideration, which at 8.5X PER and 0.7X PBR FY2009 is not too challenging.

NII driven by NIM stability

- Canara Bank reported NII growth of 14% yoy to Rs 10 bn, 12% ahead of our estimate. This is significant improvement compared to the last four quarters when the bank reported decline in NII.
- NIM improved qoq to 2.57% v/s 2.42% in 4QY08. This was driven by reduction in cost of funds to 5.9% from 6.24% in the previous quarter. We are factoring in margin improvement for the full year of 18 bps and NII growth of 21% yoy for the balance part of the year.
- While advances growth was healthy at 16%, deposit growth was low at 9%, as the bank likely shed bulk deposits. CASA ratio too improved to 34% v/s 32% in the previous quarter.

Non-interest income up despite lower treasury

- Canara Bank reported yoy growth of 12.7% in non-treasury other income, marginally above our estimate. This was driven by fees (up 25% yoy to Rs3.5 bn), and forex (up 128% to Rs800mn).
- The bank booked loss of Rs220 mn on treasury v/s gain of Rs 360 mn last year.

MTM hit pull down PAT

- Canara Bank made provision of Rs4bn on investment book, of which Rs1.6bn was on the equity book. The bank still holds investments of around Rs10 bn in equities.
- Around 37% of investment book is AFS category with a duration of 1.3 years. We have assumed an additional hit of just Rs500 mn for the balance 9M of the year.
- The bank provided Rs1.55 bn for both provisions against bad loans and standard assets, same as last year. Gross NPLs reduced 2% yoy but were up marginally 2.2% qoq. The gross and net NPL ratio remains comfortable at 1.3% and 0.9% respectively.

Canara Bank, Quarterly results, Rs mn

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	% chg	1QFY09KS	Actual Vs KS
Interest income	33,800	34,826	35,502	37,880	37,305	10.4		
Interest on advances	23,580	24,279	24,680	26,215	27,004	14.5		
Income from investments	9,070	9,509	10,159	9,436	9,851	8.6		
Others	1,150	1,039	663	2,229	450	(60.9)		
Interest expense	24,859	26,957	26,158	28,665	27,114	9.1		
Net interest income	**8,941**	**7,869**	**9,344**	**9,215**	**10,191**	**14.0**	**9,100**	**12.0**
Non-int.income	**3,981**	**5,721**	**5,704**	**7,393**	**3,915**	**(1.7)**	**4,000**	**(2.1)**
Sale of invts.	360	2,010	1,000	1,010	(220)			
Other income excl treasury	3,621	3,711	4,704	6,383	4,080	12.7	4,000	2.0
Total income	**12,922**	**13,590**	**15,048**	**16,608**	**14,106**	**9.2**	**13,100**	**7.7**
Op. expenses	6,621	7,086	7,230	6,976	6,841	3.3	6,897	(0.8)
Employee cost	4,276	4,321	4,447	3,569	4,213	(1.5)	4,200	0.3
Other cost	2,345	2,765	2,783	3,407	2,628	12.1	2,697	(2.5)
Profit pre provisions	6,301	6,503	7,818	9,632	7,265	15.3	6,203	17.1
Provisions and cont.	3,195	1,787	2,230	4,001	5,639	76.5	3,264	72.8
Investment depreciation	1,540	170	(500)	350	4,000	159.7	1,514	164.2
Invt amortization	180	120	240	250	230	27.8	250	(8.0)
NPLs	1,550	1,530	2,500	3,401	1,550	-	1,500	3.3
PBT	**3,106**	**4,716**	**5,588**	**5,631**	**1,626**	**(47.6)**	**2,939**	**(44.7)**
Tax	700	700	1,000	1,000	400	(42.9)	588	(32.0)
Net profit	**2,406**	**4,016**	**4,588**	**4,631**	**1,226**	**(49.0)**	**2,351**	**(47.9)**
Tax rate (%)	22.5	14.8	17.9	17.8	24.6		20.0	
PBT-invt gains+/-extra. item	4,286							
PBT-invt gains+ provisions - extra	**5,836**	**4,406**	**6,588**	**8,372**	**7,396**	**26.7**		
Key balance sheet items (Rs bn)								
Deposits	1,431	1,452	1,437	1,540	1,563	9.2		
CASA ratio (%)	31	31	32	32	34			
Advances	947	954	991	1,070	1,099	16.1		
Total retail loans	172	172	172	176	175	1.9		
Housing loans	66	67	NA	NA	65	(2.0)		
Priority sector	380	389	394	434	424	11.6		
Agriculture advances	156	164	163	180	177	13.4		
SME	151	164	170	142	192	26.9		
Investments	501	519	504	498	NA			
AFS (%)	49.1	46	42	40	37.0			
Duration (years)	NA	1	2	1	1.3			
Yield management measures (%)								
Yield on advances	10.00	10	10	10	10.06			
Yield on investments	7.93	8	8	8	7.85			
Cost of deposits	NA	NA	NA	NA	5.86			
Cost of funds	6.05	6	6	6	5.90			
Net interest margin	2.54	2.36	2.41	2.42	2.57			
Asset quality details								
Gross NPLs (Rs bn)	14.8	15.9	15.2	14.2	14.5	(1.9)		
Net NPLs (Rs bn)	8.4	9.5	8.7	9.0	9.4	11.9		
Gross NPL ratio (%)	1.6	1.7	1.5	1.3	1.3			
Net NPL ratio (%)	0.9	1.0	0.9	0.8	0.9			
Capital adequacy details (%)								
CAR	13.7	13.9	13.7	13.3	12.7			
Tier I	7.5	NA	NA	7.0	6.8			

Source: Company.

Property

SOBH.BO, Rs263	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	400
52W High -Low (Rs)	1060 - 225
Market Cap (Rs bn)	19

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)	8.3	8.7	7.9
EV/EBITDA (x)	9.9	8.7	8.1
Div yield (%)	2.5	1.5	1.5

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	87.0	-	-
FIIs	8.1	0.0	(0.1)
MFs	0.5	0.0	(0.1)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Sobha Developers: Higher EBITDA margins due to accounting policy change; downgrade to REDUCE from ADD

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- **EBITDA margins higher-than-expected due to accounting policy change**
- **Price increase in Bangalore start to hurts demand**
- **Sobha announces rights issue of Rs3.5 bn; would deleverage its highly levered balance sheet; However, ROCE unlikely to improve meaningfully**
- **Downgrade rating to REDUCE from ADD with a target price of Rs250/share (earlier Rs400)**

Sobha Developers (Sobha) reported operating revenues of Rs3.5bn (v/s our expectation of Rs3.2 bn) and PAT of Rs505 mn (v/s our expectation of Rs470 mn) for 1QFY2009. Sobha reported real estate revenues of Rs2.3 bn and contractual income of Rs1.2 bn. EBITDA margins for Sobha were higher than expected at 29% even with contractual business showing lower EBITDA margins of 12%. We would like to highlight that the EBITDA margins improvement was not because of operations but due to, (1) a change in accounting policy for revenue recognition, and (2) land sales of Rs400 mn. Sobha has announced a rights issue of Rs3.5 bn, which we believe is positive as the company takes steps to deleverage its balance sheet. We make changes to our model to factor in the a/c policy changes and lower demand in Bangalore and hence revise our revenues to Rs17.7 bn for FY2009E (earlier Rs18.9 bn) and Rs22.0 bn for FY2010E (earlier Rs24.7 bn). Our PAT estimates are revised to Rs2.2 bn for FY2009E (earlier Rs2.4 bn) and Rs2.4 bn for FY2010E (earlier Rs2.8 bn). We downgrade Sobha to REDUCE from ADD earlier with a target price of Rs250/share (earlier Rs400). Our target price of Rs250 is based on 50% discount to March 2009-based NAV of Rs502/ share.

Sobha changes a/c policy; will lead to early revenue booking

With effect from 1QFY09, Sobha has changed its accounting policy for revenue recognition for sale of undivided share of land (group housing) on the basis of 20% level of collection of dues from the customer and/or agreement for sale being executed rather than criteria relating to the project reaching a significant level of completion. Thus, Sobha would now recognize the full land cost (plus margins) for the sold portion as and when level of collection exceeds 20%. We note that such an accounting policy is likely to lead to faster revenue booking as revenues corresponding to land sales will get recognized faster.

We note that such an accounting policy raises issues that what proportion of margins from a sale of project will get recognized on account of land revenues. The management has indicated that its accounting policy has been changed as sale of apartments were translating into revenue bookings with a lag of 3-4 quarters. We believe that management decision to change the accounting policy clearly indicates slowdown in revenue growth.

EBITDA margins higher because of change in accounting policy; not due to operations

Sobha Developers (Sobha) reported operating revenues of Rs3.5bn (v/s our expectation of Rs3.2 bn) and PAT of Rs505 mn (v/s our expectation of Rs470 mn) for 1QFY2009. Sobha reported segmental breakup of real estate revenues of Rs2.3 bn and contractual income of Rs1.2 bn. Sobha reported EBITDA margins of 29% much higher than our estimate of 24% despite much lower margins of 12% in contractual business. We would like to highlight that the EBITDA margins for real estate business was not because of higher realizations or cost efficiencies but due to two one-off items. Change in accounting policy resulted in additional revenue recognition and higher profit before taxes of Rs321mn and Rs150 mn respectively during the quarter. Sobha also booked revenues from stake sale in its Bangalore project for US$10 mn to Pan Atlantic LLC, Dubai. We would like to highlight that sales would have been much lower if the accounting policy were to remain the same and 17% of the real estate revenues came from stake sale in a project.

We reduce sale estimates for Bangalore as price increase starts hurting demand

We believe that post recent increases in selling prices in Bangalore, demand has been affected. 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 note that increase in selling prices along with 100 bp increase in interest rates is putting severe strain on affordability. Therefore, we expect sale volumes in Bangalore to come under significant pressure. Going forward we model no launches in Bangalore for Sobha in FY2009E. We now expect Sobha to sell 0.9 mn sq. ft in Bangalore in FY2009E (earlier 1.4 mn sq. ft). We also highlight that Sobha currently has 145,000 sq. ft of unsold inventory.

We make changes to model for factoring in the accounting policy change and lower sales and hence revise our revenues to Rs17.7 bn for FY2009E (earlier Rs18.9 bn) and Rs22.0 bn for FY2010E (earlier Rs24.7 bn).Our PAT estimates are revised to Rs2.2 bn for FY2009E (earlier Rs2.4 bn) and Rs2.4 bn for FY2010E (earlier Rs2.8 bn). We highlight that we are still assuming launches to take place in Kochi, Chennai and Mysore in FY2009E. Also, currently we are not building in revenues from sale of Gurgaon real estate.

Contractual order book sees sharp decline in gross margins

We note that gross margins from contractual business declined sharply to 12% from 17% earlier on account of increase in costs. Exhibit 5 also highlights that order book of contractual business has remained stagnant over the past two quarters. Management has indicated that Sobha intends to lower its focus on contractual business in the future as it expands its real estate business on a more aggressive manner. Therefore we lower our revenue estimates to Rs6.5 bn in FY2009E (Rs7.0 earlier) and Rs7.7 bn for FY2010E (Rs8.9 bn earlier).

Sobha takes steps to deleverage balance sheet; capital efficiency to remain low

Sobha announced a rights issue of Rs3.5 bn which we believe is a positive development considering the highly levered balance sheet of Sobha (D/E of 1.9X as of Jun'08). The pricing for the issue would take place in the next board meeting (end-Aug likely). In 1QFY09, Sobha also announced FDI of US$10 mn by M/s Pan Atlantic LLC, Dubai for a 40% stake in its new residential township to be launched at Hosahalli, Bangalore South.

Exhibit 6 highlights improvement in land reserves quality of Sobha. Sobha has got access to 4,030 acres of land reserves of which it has paid Rs20.8 bn and amount outstanding is Rs5.6 bn. We highlight the fact that amount outstanding has been continuously declining indicating improvement in ownership status of land bank. The amount paid as % of total payments has risen to 79% compared to 63.5% at the end of 3QFY08 and 42% at end-FY2007. Currently, we have modeled 140 mn sq. ft to our NAV calculations. We have factored in 60-mn sq. ft into our NAV estimates at cost price of Rs150/sq. ft.

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 capital efficiency of Sobha. Sobha can achieve better capital efficiency in case it starts monetizing the large accumulated land bank.

Our Mar'09 based target price is reduced to Rs250/share; downgrade rating to REDUCE from ADD

We revise our target price to Rs250/share (earlier Rs400) based on a 50% discount to our Mar'09 based NAV of Rs502/share (earlier Rs581). We have increased the discount to 50% from 30% earlier on account of, (1) deteriorating financial condition (leverage of 1.9X as of June'08 compared to 0.7X as of Mar'07) in a tight liquidity environment, (2) cost pressures in contractual business, (3) lower capital efficiency ratios, (4) possibility of further disappointing in sale volumes, (5) decreasing affordability in Bangalore. Our revised target price results in downside of 6% to current market price and we downgrade our rating to REDUCE (ADD earlier).

Sobha Developers :1QFY2009 results

				% change		Kotak estimates				Change (%)
(in Rs mn)	1QFY2008	4QFY2008	1QFY2009	qoq	yoy	1QFY09	deviation	FY08A	FY09E	FY09/FY08
Net sales	**2,677**	**4,741**	**3,468**	**(26.9)**	**29.5**	**3,219**	**7.7**	**14,226**	**17,707**	**24.5**
Operating costs	**(2,007)**	**(3,661)**	**(2,452)**	**(33.0)**	**22.2**	**(2,446)**	**0.2**	**(10,689)**	**(13,526)**	**26.5**
(Increase)/Decrease intock in inventories	264	874	514	(41.2)				4,063		
Land cost expenses	(131)	(1,089)	(748)	(31.3)				(3,900)	(1,226)	
Construction expenses	(1,082)							(7,887)	(9,082)	
Raw material consumption	(282)	(2,529)	(1,370)	(45.8)						
Production expenses	(57)									
Staff cost	(221)	(302)	(331)	9.6				(1,025)	(1,181)	
Other administrative expenses	(498)	(615)	(517)	(15.9)				(1,940)	(2,036)	
EBITDA	**670**	**1,080**	**1,016**	**(5.9)**	**51.6**	**772**	**31.5**	**3,537**	**4,182**	**18.2**
Other income	15	24	20	(16.7)	33.3	10		119	62	(48.0)
Interest costs	(101)	(192)	(267)	39.1		(145)		(597)	(1,040)	74.2
Depreciation	(83)	(92)	(89)	(3.3)		(64)		(350)	(407)	16.2
PBT	**501**	**820**	**680**	**(17.1)**	**35.7**	**573**		**2,709**	**2,797**	**3.3**
Taxes	(93)	(118)	(175)	48.3	88.2	(103)		(426)	(592)	39.0
PAT	**408**	**702**	**505**	**(28.1)**	**23.8**	**470**	**7.5**	**2,283**	**2,205**	**-3.4**
Key ratios										
EBITDA margin (%)	25.0	22.8	29.3			24.0		24.9	23.6	
PAT margin (%)	15.2	14.8	14.6			14.6		16.0	12.5	
Effective tax rate (%)	18.6	14.4	25.7			18.0		15.7	21.2	

Source: Company data, Kotak Institutional Equities estimates.

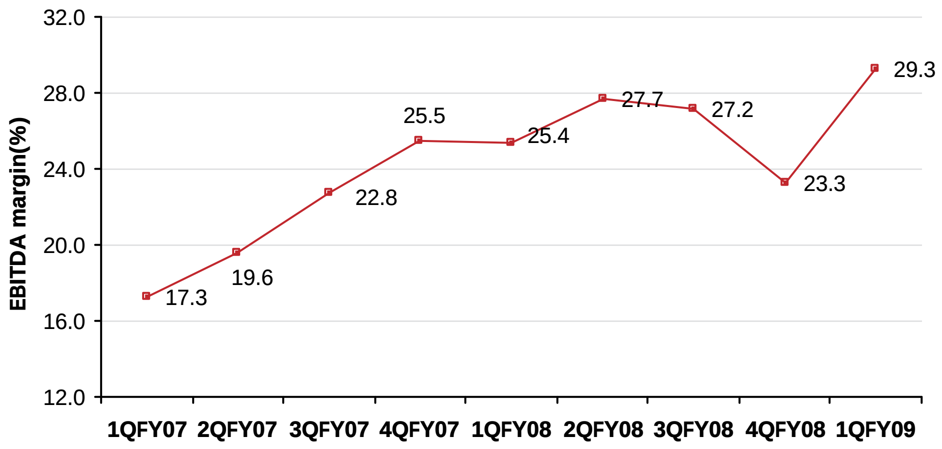
Revenue growth for Sobha is showing a declining trend

Key operating characterstics of Sobha Developers (Rs mn)

	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09
Real estate business including charges collected	1,533	1,725	2,114	3,194	2,294
Contractual income	1,144	1,529	1,436	1,560	1,200
Other income	15	76	7	0	0
Total income	2,692	3,330	3,557	4,754	3,494
Cost of Sales	1,818	2,294	2,450	3,460	2,318
Cost of sales (%)	*68*	*69*	*69*	*73*	*66*
GP	874	1,036	1,107	1,294	1,176
GP (%)	*32*	*31*	*31*	*27*	*34*
Unallocable expenses (%)	7	4	4	4	4
PBDIT	685	901	965	1,104	1,036
PBDIT (%)	*25*	*27*	*27*	*23*	*30*
PBT	501	680	707	820	680
PBT (%)	*19*	*20*	*20*	*17*	*19*
PAT	408	562	611	702	505
PAT (%)	*15*	*17*	*17*	*15*	*14*
Comaprison to corresponding period of previous years (Growth in %)					
Total income	31	2	19	34	30
Real estate	48	-10	6	23	50
Contractual	13	13	45	60	5
GP	96	39	37	22	35
PBDIT	93	42	41	20	51
PBT	185	56	44	7	36
PAT	141	51	34	13	24
Real estate GP	675	776	867	1,034	1,032
Contractual GP	200	260	240	261	144
Real estate GP %	44	45	41	32	45
Contractual GP%	17	17	17	17	12
% to total revenue					
Real estate business including charges collected %	57	52	59	67	66
Contractual income %	42	46	40	33	34
Other income %	1	2	0	0	0
Cost of sales %	68	69	69	73	66
GP %	32	31	31	27	34
PBT %	19	20	20	17	19
PAT %	15	17	17	15	14

Source: Company, Kotak Institutional Equities.

EBITDA margins have been volatile



Source: Company, Kotak Institutional Equities.

No new launches in 1QFY09

Details of ongoing residential projects (mn sq. ft)

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Completed at beginning of the quarter		5.1	5.8	5.9	7.8
Ongoing at the beginning of the quarter		10.8	10.7	11.1	10.3
Launched during the quarter	1.8	0.6	0.5	1.1	1.1
Handed over during the quarter	-	0.7	0.1	1.9	-
Completed at end of the quarter	5.1	5.8	5.9	7.8	7.8
Ongoing at the end of the quarter	**10.8**	**10.7**	**11.1**	**10.3**	**10.3**

Ongoing projects citywise

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Bangalore	9.04	8.62	8.84	7.98	7.98
Trissur	1.76	1.76	1.76	1.76	1.76
Pune		0.31	0.31	0.30	0.30
Coimbatore			0.20	0.28	0.28
Total	**10.80**	**10.69**	**11.11**	**10.32**	**10.32**

Source: Company data, Kotak Institutional Equities.

Contractual order book has remained stagnant

Contractual projects as of Jun-07, Sep-07, Dec-07 and Mar-08

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Number of contracts in progress	34	31	34	32	33
Total SBA (mn sq. ft)	8.69	8.47	8.32	8.34	7.76
Total Billing value (in Rs mn)	8,209	7,684	7,691	8,186	7,387

Source: Kotak Institutional Equities.

Land bank expanding beyond Bangalore; payables decreasing

	Land bank (mn sq. ft)	Paid (Rs mn)	Payable (Rs mn)	Total value (Rs mn)
1QFY09	4,030	20,760	5,645	26,405
%		*79*	*21*	
4QFY08	4,024	19,351	6,603	25,954
%		*75*	*25*	
3QFY08	4,077	15,228	8,758	23,986
%		*63*	*37*	
2QFY08	4,012	14,294	9,397	23,692
%		*60*	*40*	
1QFY08	3,574	11,798	10,319	22,117
%		*53*	*47*	

Source: Company, Kotak Institutional Equities.

Land bank expanding beyond Bangalore; payables decreasing
Land bank details as on Dec-07, Mar-08 and Jun-08

	Dec-07			Mar-08			Jun-08		Change	
Location	**Land (acres)**	**Paid (in mn)**	**Payable (in mn)**	**Land (acres)**	**Paid (in mn)**	**Payable (in mn)**	**Land (acres)**	**Total cost (Rs mn)**	**Land (acres)**	**Total cost (Rs mn)**
Bangalore	1,638	6,329	6,905	1,600	7,704	4,269	1,600	11,696	0	-277
Mysore	156	364	1,460	66	375	480	66	855	0	0
Pune	164	1,089	165	171	1,476	181	177	2,119	5	462
Chennai	540	1,200	—	540	1,434	4	540	1,475	0	37
Kochi	506	2,569	—	514	2,954	—	514	3,052	0	98
Trissur	48	280	—	49	276	—	49	276	0	0
Coimbatore	36	262	—	66	56	361	66	417	0	0
Hosur	719	1,468	—	719	1,839	—	719	1,901	0	61
Hyderabad	78	—	116	78	—	116	78	116	0	0
Gurgaon	192	1,668	112	220	3,237	1,192	220	4,497	0	68
Total	**4,077**	**15,228**	**8,758**	**4,024**	**19,351**	**6,603**	**4,030**	**26,404**	**5**	**450**
% of total cost		**63.5**	**36.5**		**74.6**	**25.4**		**80.0**		**100.0**

Note:
This does not include land allocated to on-going projects.

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	**29**	**42**	**49**	**77**
Residential projects	29.3	34.8	38.8	49.8
Commercial projects	(2.1)	2.6	6.1	16.2
Retail projects	1.9	4.3	6.0	10.9
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	**17**	**30**	**37**	**65**
Total no. of shares (mn)				73
NAV/share				**502**
Target price @30% discount to NAV				**251**

Source: Kotak Institutional Equities estimates.

Profit model of Sobha Developers, March fiscal year-ends, 2005-2011E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Total revenues	**6,277**	**11,865**	**14,311**	**17,707**	**21,971**	**27,934**
Land costs	(781)	(1,832)	(4,333)	(1,226)	(1,431)	(1,906)
Construction costs	(2,975)	(5,222)	(3,310)	(9,082)	(12,028)	(15,676)
Employee costs	(286)	(707)	(1,025)	(1,181)	(1,323)	(1,784)
SG&A costs	(829)	(1,542)	(1,941)	(2,036)	(2,307)	(2,654)
EBITDA	**1,407**	**2,563**	**3,703**	**4,182**	**4,882**	**5,914**
Other income	8	29	53	62	75	94
Interest	(219)	(481)	(615)	(1,040)	(1,258)	(1,388)
Depreciation	(112)	(244)	(350)	(407)	(489)	(573)
Pretax profits	**1,083**	**1,866**	**2,791**	**2,797**	**3,210**	**4,047**
Extraordinary items	—	—	—	—	—	—
Current tax	(188)	(251)	(510)	(626)	(827)	(1,231)
Deferred tax	(0)		33	34	38	53
Net income	**892**	**1,615**	**2,315**	**2,205**	**2,421**	**2,869**
Adjusted net income	**892**	**1,615**	**2,315**	**2,205**	**2,421**	**2,869**
EPS (Rs)						
Primary	14.0	24.5	31.7	30	33	39
Fully diluted	14.0	24.5	31.7	30	33	39
Shares outstanding (mn)						
Year end	63	73	73	73	73	73
Primary	63	66	73	73	73	73
Fully diluted	63	66	73	73	73	73
Cash flow per share (Rs)						
Primary	15	28	28	20	21	26
Fully diluted	15	28	28	20	21	26
Growth (%)						
Net income (adjusted)	163	82	43	(5)	10	19
EPS (adjusted)	161	76	29	(5)	10	19
DCF/share	114	90	(1)	(27)	4	24
Cash tax rate (%)	17	13	18	22	26	30
Effective tax rate (%)	17	13	17	21	25	29

Source: Kotak Institutional Equities estimates.

Balance sheet of Sobha Developers, March fiscal year-ends, 2005-2011E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Equity						
Share capital	211	729	729	729	729	729
Reserves/surplus	1,070	7,426	9,380	11,253	13,339	15,876
Total equity	**1,368**	**8,155**	**10,109**	**11,982**	**14,068**	**16,605**
Deferred tax liability/(asset)	17	22	(11)	(45)	(83)	(136)
Liabilities						
Secured loans	4,208	5,452	14,381	18,000	20,700	22,000
Unsecured loans	23	385	3,450	0	0	0
Total borrowings	**4,231**	**5,837**	**17,831**	**18,000**	**20,700**	**22,000**
Currrent liabilities	4,405	6,318	5,746	6,491	9,803	11,967
Total capital	**10,021**	**20,333**	**33,675**	**36,428**	**44,488**	**50,436**
Assets						
Cash	450	684	287	943	327	603
Current assets	8,514	17,174	31,218	32,355	39,408	43,180
Gross block	1,252	2,334	2,711	3,117	3,750	4,397
Less: accumulated depreciation	252	495	842	1,248	1,737	2,311
Net fixed assets	999	1,839	1,870	1,869	2,013	2,086
Capital work-in-progress	31	109	272	1,234	2,714	4,540
Total fixed assets	**1,030**	**1,948**	**2,142**	**3,103**	**4,726**	**6,626**
Intangible assets	—	—	—	—	—	—
Investments	27	528	27	27	27	27
Misc. expenses	—	—	—	—	—	—
Total assets	**10,021**	**20,333**	**33,675**	**36,428**	**44,488**	**50,436**

Key ratios (%)						
Debt/equity	305.5	71.4	176.6	150.8	148.0	133.6
Debt/capitalization	75.3	41.6	63.8	60.1	59.7	57.2
Net debt/equity	273.0	63.0	173.7	142.9	145.7	129.9
Net debt/capitalization	73.2	38.7	63.5	58.8	59.3	56.5
RoAE	**87.0**	**33.9**	**25.3**	**20.0**	**18.7**	**18.8**
RoACE	**25.3**	**20.8**	**13.3**	**10.3**	**10.3**	**10.3**

Source: Kotak Institutional Equities estimates.

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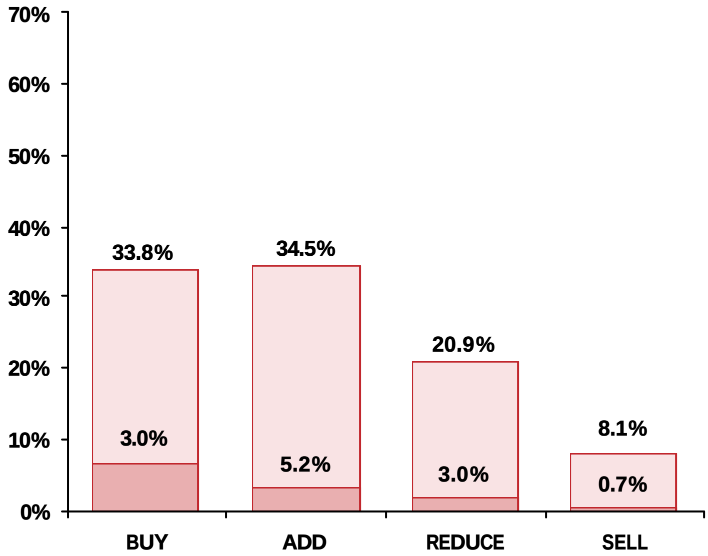

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