INDIA DAILY

May 03, 2007

EQUITY MARKETS

India	30-Apr	1-day	1-mo	3-mo
		Change, %		
Sensex	13,872	(0.3)	6.1	(2.8)
Nifty	4,088	0.1	7.0	(1.2)
Global/Regional indices				
Dow Jones	13,212	0.6	5.6	4.4
Nasdaq Composite	2,558	1.0	4.4	3.3
FTSE	6,485	1.0	1.9	2.8
Nikkie	17,395	0.7	0.9	(0.9)
Hang Seng	20,609	1.1	3.0	0.2
KOSPI	1,559	0.4	6.5	10.3

Value traded - India

	30-Apr		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	107.4		121.4	125.6
Derivatives (NSE)	256.3		288.8	293.9
Deri. open interest	450.0		399.3	537.7

Forex/money market

	30-Apr	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	41.2	#######	(188)	(292)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	7	20	47

Net investment (US$mn)

	27-Apr	MTD	CYTD
FIIs	(44)	1,326	40
MFs	(10)	215	(303)

Top movers -3mo basis

Best performers	30-Apr	1-day	1-mo	3-mo
		Change, %		
Balaji Telefilms	166	2.4	30.0	30.5
i-Flex	2,519	1.5	22.1	27.8
BEL	1,717	1.5	13.4	25.1
GESCO	247	2.9	23.1	20.4
Punjab Tractors	298	(0.7)	(1.6)	20.1
Worst performers				
Polaris	172	(8.3)	1.1	(25.4)
Arvind Mills	45	0.7	5.8	(23.6)
Ingersoll Rand	286	(0.2)	5.7	(21.4)
Hindalco	146	(1.3)	13.1	(20.2)
Ashok Leyland	39	0.9	7.9	(19.5)

Contents

Results

Change in recommendations

Updates

Kotak Institutional Equities Research

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Telecom

RLCM.BO, Rs477	
Rating	U
Sector coverage view	Neutral
Target Price (Rs)	400
52W High -Low (Rs)	518 - 186
Market Cap (Rs bn)	975

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	144.7	205.7	271.6
Net Profit (Rs bn)	32.0	47.9	68.1
EPS (Rs)	14.7	22.2	31.6
EPS gth	*576.6*	*51.4*	*42.1*
P/E (x)	32.5	21.5	15.1
EV/EBITDA (x)	17.2	12.3	9.3
Div yield (%)	0.1	0.2	0.3

Reliance Communications: 4QFY07 results—forget the bottom line; focus on the top line

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- **Weak 5% qoq revenues and 7% qoq EBITDA growth**
- **Net income boosted by other income, low taxation, decline in depreciation**
- **Reduced rating to U from IL previously; retain TP of Rs400**

Reliance Communications (RCL) reported 4QFY07 net income at Rs10.2 bn (+10.8% qoq) versus our Rs7.8 bn estimate. 4QFY07 revenues grew +4.8% qoq to Rs39.4 bn (our estimate Rs42.7 bn) while EBITDA (including other income) grew a moderate 7% qoq to Rs16.4 bn (our estimate Rs16.9 bn). We clarify that (1) significantly lower taxation rate (1.4%) versus previous guidance of MAT rate and our expectation, (2) qoq decline in depreciation and (3) increase in other income have contributed to the positive surprise in net income. RCL's FY2007 net income is Rs31.6 bn. We have fine-tuned FY2008E and FY2009E EPS to Rs22.2 and Rs31.6 from Rs23 and Rs28.6, respectively previously but revised our model significantly to reflect new operating metrics (ARPU, MOU) for the wireless segment (resulting from write-down of 5.6 mn subscribers). We have reduced our rating on RCL stock to U and retain our DCF-based 12-month target price of Rs400. Key upside risk stems from higher-than-expected profitability.

Low revenue growth is becoming an issue. RCL's low growth in revenues including other income (+4.8% for 4QFY07 qoq and 6.5% qoq for 3QFY07 qoq) is an area of concern for us. The anemic 4QFY07 growth reflects 3% decline in the LD segment, 4.4% qoq growth in the broadband segment and 7.9% growth in the wireless segment. More important, RCL's wireless revenue growth meaningfully lags that of the market leader—8% qoq (+Rs2.2 bn) for RCL versus 13% qoq for Bharti (+Rs4.9 bn) as shown in Exhibit 3. RCL may have lost some revenues due to disconnection of 5.6 mn subscribers from January 2007 due to documentation issues in a government-mandated verification drive.

Market share, execution is critical. Given Bharti's aggressive capex plans for FY2008, BSNL's new capacity of 63.5 mn wireless 'lines' and roll-out by other operators in new circles, we believe RCL will have to execute exceedingly well to attain its fair share (retain overall market share) of incremental net wireless additions. RCL management emphasized its preparedness through (1) aggressive roll-out plan of 20,000 cell sites in FY2008, (2) presence on 'USO' towers in rural areas and (3) growing GSM business in CDMA circles once it gets GSM spectrum and CDMA business even otherwise.

Quality of reporting is an issue—may reflect historical issues but is discomforting

We are concerned about the quality of reporting of RCL. We highlight specific issues below although we would clarify that this may reflect historical issues related to restructuring and historical aggressive subscriber acquisitions.

1. **Subscriber base.** RCL is the only company, which has reported a significant write-off in its subscriber base as a result of a government-mandated verification program. It has written off 5.6 mn subscribers broken down between 4.64 mn of CDMA and 0.96 mn of GSM; it has added about 100,000 of the aforementioned subscribers since then. We are surprised by the large write-off in the GSM segment as none of the other GSM operators have had a problem of this magnitude. We had assumed the major problem related to RCL's CDMA subscriber base. However, it has written down 0.96 mn GSM subscribers also, which is a very large figure in the context of 4.1 mn reported GSM subscriber base at end-February 2007 and 4.3 mn GSM subscriber base at end-March 2007 (as reported to the COAI). RCL's 4QFY07 quarterly press report shows a figure of 3.39 mn GSM subscribers.

2. **Balance sheet.** RCL's quarterly balance sheets (see Exhibit 4) show unusual movements in several line items and very large figures for certain items (provisions, capital-WIP).

Earnings revisions

Exhibits 5 and 6 give the changes to key assumptions in our earnings model and the major assumptions behind our earnings model for RCL.

Wireless subscriber growth—tough fight ahead for market share. We model RCL's end-FY2008 and end-FY2009 wireless subscriber base at 43 mn and 55 mn, respectively compared to 28 mn at end-FY2007. We have brought down RCL's subscriber base significantly from 50 and 64 mn, respectively, previously to reflect the write-down in subscriber base inFY2007. We are looking at 1.23 mn monthly net additions in FY2008 and 1.06 mn in FY2009. We model the Indian wireless market to hit 238 mn and 311 mn respectively, by end-FY2008 and end-FY2009, respectively.

We note that RCL will have to contend with serious competition over the next few quarters in its quest to increase market share or grow its subscriber base. (1) Bharti has an aggressive roll-out plan (US$2.5 bn capex in wireless alone) for FY2008, (2) several operators such as Idea, Voldafone-Essar will expand into new circles by end-3QFY08, (3) BSNL will bring on additional 63.5 mn wireless 'lines' capacity and (4) Vodafone-Essar may take a more aggressive stance. In our view, RPM and profitability can decline further given the current remarkably high return on investment. We note that the wireless CROCI for all the listed operators is very high (see Exhibit 7) and presumably the same is true for the other large unlisted players such as BSNL and Vodafone-Essar.

Wireless ARPUs—revised up to reflect write-down of subscribers in 4QFY07. We have raised ARPUs and MOUs significantly to reflect 4QFY07 numbers. We note that our previous assumptions were based on parameters, which were based on higher number of subscribers and are thus, not comparable.

Wireless EBITDA margin or EBITDA per min (EPM). We model a near constant EPM throughout our forecast period (Rs0.27/min). RCL's 4QFY07 and FY2007 EPM was Rs0.27/min.

4QFY07 and FY2007 results analysis

Middling operating performance. RCL's 3QFY07 EBITDA increased a modest 7.1% qoq to Rs16.4 bn (+Rs1.08 bn), which is below our expected Rs16.9 bn. The performance would have been worse but for a decline (Rs260 mn) in SG&A expenses. The wireless division did reasonably well with EBITDA rising Rs1.22 bn qoq. However, LD segment's EBITDA declined Rs429 mn qoq, which the management attributed to (1) decline in pricing on India calling cards (calls originating outside India to India) and (2) qoq appreciation in the rupee. RCL's overall EBITDA margin was constant qoq at 40.7%.

Decline in depreciation, positive net finance cost and low taxation contributed to positive surprise in net income. RCL's net income increased 10.8% qoq to Rs10.3 bn versus our expected Rs7.8 bn led by moderate EBITDA growth and several positive surprises below the EBITDA line.

1. RCL's 4QFY07 depreciation has declined 2.3% to Rs6.4 bn; we note that RCL's depreciation has been more or less flat since 2QFY07 despite Rs65 bn capex in FY2007. We assume some of this would have taken place in the later three quarters. RCL management has attributed the small growth in depreciation qoq to higher depreciation in the previous quarter due to change in accounting policy (lower useful life for certain assets).

2. RCL's 4QFY07 net finance cost (finance cost less interest income) was –Rs392 mn (positive in other words), which is a positive surprise and probably reflects interest income from large cash balance (including cash raised in from a US$1 bn FCCB issue in February 2007). It had a negative net finance cost in 3QFY07 also, which the management had attributed to forex/derivate gains. The management does not provide a break-up of net finance cost.
3. 4QFY07 taxation rate was 1.4% while FY2007 taxation rate was 1.9%; RCL management had previously guided to near MAT rate for FY2007. The management attributed the low taxation rate to accumulated losses. We had assumed a large taxation amount in 4QFY07 to factor in low taxation rate in 9MFY07 and the management's previous guidance about MAT for the full year. RCL management has guided to MAT rate (11.33%) for FY2008.

Wireless segment—comparison of operating parameters with previous quarters not valid. RCL's wireless segment's revenues increased 8% qoq to Rs29.7 bn driven by a 11.5% increase in number of minutes and 3.5% decline in revenue per minute (RPM). RCL's 4QFY07 RPM stood at Rs0.7/min compared to Rs0.72/min in 3QFY07, which reflects reduction to roaming tariffs and is in line with ongoing trend of compression in RPM. ARPU was Rs377 in 4QFY07. EBITDA increased 12% qoq to Rs11.5 bn, EBITDA margin expanded by 140 bps to 38.8% and EPM was stable at Rs0.27/min.

We note that RCL's wireless metrics are not comparable with the ones given in the previous quarters as it has written down its subscriber base significantly (5.58 mn in 4QFY07). This would accordingly increase ARPU, MOU and render comparisons with previous quarters invalid. We note our forecasts for RCL's wireless segment performance is constrained by the afore-mentioned limitations.

Long distance segment—revenues down qoq. RCL's LD segment's revenues declined 3% qoq to Rs12.9 bn despite by a modest increase in volumes (+2.1% for ILD to 1.5 bn minutes and +3.4% for DLD to 4.9 bn minutes). EBITDA declined 12% qoq (-Rs431 mn) to Rs3.1 bn led by decline in revenue and cost pressure. EBITDA margin declined 2.5% to 24.1%. We attribute the decline in revenues to (1) competitive pressures (Bharti has started offering India calling cards from the US in the previous quarter) and (2) appreciation in rupee versus the US dollar.

Broadband segment—revenues grow a modest 4.4%. RCL's broadband segment's revenues increased 4.4% to Rs3.3 bn although its subscriber base increased 17% to 0.62 mn (+90,000 subs in 4QFY07). ARPU declined 12% to Rs1,932. However, EBITDA margin has expanded 180 bps to 48.8%. RCL has expanded coverage to 40 towns at end-4QFY07 from 30 at end-3QFY07 although it still lags the 94-city reach of Bharti.

Capex guidance for FY2008

RCL management has guided to a capex of US$2.5 bn for FY2008 excluding investment in passive infrastructure (towers). RCL's 100% subsidiary tower company (RTIL) will invest in 20,000 towers (only passive infrastructure) in FY2008, which may mean capex of an additional capex of US$1 bn (not confirmed by the management). This capex will be over and above the US$2.5 bn in active wireless infrastructure, LD (30,000 kms of network in FY2008) and broadband infrastructure; RCL will spend US$1 bn in GSM capex (active infrastructure only) in CDMA circles if it gets GSM spectrum. The management stated that the towers set up in RTIL will host both GSM and CDMA active infrastructure. We note that the tower company will not be eligible to get section 80IA (infrastructure) taxation benefit.

The Mumbai High Court has granted approval to the scheme of arrangement for de-merger of towers into RTIL. RTIL has 13,000 towers currently with a net worth of Rs30 bn. The management expects to "unlock significant shareholder value within the next six months, through appropriate restructuring of RTIL's capital structure."

Consolidated interim results for Reliance Communication (Rs mn)

			qoq		yoy			yoy		
	FY2008E	4Q 2007	3Q 2007	% chg	4Q 2007	4Q 2006	% chg	2007	2006	% chg
Gross sales	**205,713**	**39,369**	**37,553**	***4.8***	**39,369**	**29,704**	***32.5***	**144,683**	**107,664**	***34.4***
Operating costs										
Interconnection costs	(51,848)	(9,978)	(9,491)	*5.1*	(9,978)	(10,291)	*(3.0)*	(37,822)	(40,402)	*(6.4)*
Network operating costs	(22,292)	(4,423)	(4,165)	*6.2*	(4,423)	(3,349)	*32.1*	(16,736)	(15,348)	*9.0*
Employee costs	(11,598)	(2,451)	(2,200)	*11.4*	(2,451)	(1,824)	*34.4*	(9,079)	(8,394)	*8.2*
G&A expenses	(36,590)	(6,166)	(6,426)	*(4.0)*	(6,166)	(3,764)	*63.8*	(23,834)	(18,627)	*28.0*
Operating costs	(122,328)	(23,017)	(22,281)	*3.3*	(23,017)	(19,228)	*19.7*	(87,472)	(82,771)	*5.7*
EBITDA	**83,385**	**16,352**	**15,272**	***7.1***	**16,352**	**10,476**	***56.1***	**57,211**	**24,893**	***129.8***
EBITDA margin (%)	40.5	41.5	40.7	—	41.5	35.3	—	39.5	53.8	—
Net finance cost	631	392	657	*(40.4)*	392	(479)	*(181.7)*	(6)	(2,752)	*(99.8)*
Depreciation and amortization	(32,347)	(6,378)	(6,524)	*(2.3)*	(6,378)	(5,457)	*16.9*	(24,653)	(16,987)	*45.1*
Extraordinary item	—	28	(30)	—	28	(374)	—	(302)	—	—
PBT	**51,669**	**10,394**	**9,374**	***10.9***	**10,394**	**4,166**	***149.5***	**32,250**	**4,780**	***574.7***
Provision for tax	(3,766)	(149)	(130)	—	(149)	(137)	—	(611)	(337)	—
Reported net income	**47,903**	**10,244**	**9,244**	***10.8***	**10,244**	**4,029**	***154.3***	**31,639**	**4,449**	***611.1***
Wireless segment (a)										
Revenues	153,854	29,692	27,520	*7.9*	29,692	21,200	*40.1*	107,276	74,220	*44.5*
Net revenues	119,791	20,673	19,308	*7.1*	20,673	12,645	*63.5*	74,523	—	—
EBITDA	59,230	11,511	10,290	*11.9*	11,511	7,571	*52.0*	39,841	22,411	*77.8*
EBIT	—	6,991	5,542	*26.1*	6,991	3,998	—	22,808	—	—
EBITDA margin (%)	38.5	38.8	37.4	—	38.8	35.7	—	37.1	30.2	—
Subscribers ('000)	42,688	28,007	29,980	*(6.6)*	28,007	20,212	*38.6*	28,007	20,212	—
Prepaid	36,646	23,722	24,853	*(4.6)*	23,722	16,028	*48.0*	23,722	16,028	—
Postpaid	6,042	4,285	5,127	*(16.4)*	4,285	4,184	*2.4*	4,285	4,184	—
Total (a)	42,688	28,007	29,980	*(6.6)*	28,007	20,212	*38.6*	28,007	20,212	—
Cellular subscribers (%)										
Prepaid	86	85	83	*2.2*	85	79	*6.8*	85	—	—
Postpaid	14	15	17	*(10.5)*	15	21	*(26.1)*	15	—	—
ARPU (Rs/mth)	363	377	328	*14.9*	377	379	*(0.5)*	—	—	—
MOU (min/mth)	536	541	454	*19.2*	541	532	*1.7*	—	—	—
Churn (%)										
Revenue/min: RPM = ARPU/MOU	0.68	0.70	0.72	*(3.5)*	0.70	0.71	*(2.2)*	0.7	—	—
Total estimated volume (mn mins)	227,226	42,500	38,100	*11.5*	42,500	29,690	*43.1*	145,560	—	—
Capex (Rs mn)	74,640	9,860	12,090		9,860	—		45,469	—	
EBITDA per min - blended (Rs)	0.26	0.27	0.27		0.27	0.26		0.27	—	
SMS as % of wireless revenues	—	1.7	1.7		1.7	1.7		—	—	
Non-voice as % of wireless ARPU revenues	—	6.3	6.3		6.3	6.1		—	—	
Long distance segment (b)										
Revenues	65,833	12,938	13,335	*(3.0)*	12,938	14,158	*(8.6)*	51,771	63,038	*(17.9)*
Net revenues	37,521	6,935	7,202	*(3.7)*	6,935	7,184	*(3.5)*	28,594	—	—
EBITDA	18,311	3,121	3,550	*(12.1)*	3,121	2,632	*18.6*	12,712	5,782	*119.9*
EBIT	—	1,893	2,491	*(24.0)*	1,893	1,355	—	7,723	1,355	—
EBITDA margin (%)	27.8	24.1	26.6		24.1	18.6		24.6	9.2	
Total ILD minutes (mn)	7,463	1,503	1,472	*2.1*	1,503	1,188	*26.5*	5,476	—	—
Total DLD minutes	25,745	4,873	4,715	*3.4*	4,873	2,755	*76.9*	16,365	—	—
LD RPM (net)	0.6	—	—	—	—	0.8	—	—	—	—
Capex (Rs mn)	18,000	3,330	490		3,330.0	—		14,222	—	
Broadband										
Revenues	18,998	3,299	3,161	*4.4*	3,299	1,948	*69.4*	11,440	5,118	*123.5*
Net revenues	16,131	2,825	2,755	*2.5*	2,825	1,685	*67.7*	9,783	—	—
EBITDA	8,189	1,611	1,486	*8.4*	1,611	606	*165.8*	5,194	736	*605.7*
EBIT	—	1,101	1,091	*0.9*	1,101	—	—	3,561	242	—
EBITDA margin (%)	43.1	48.8	47.0		48.8	31.1		45.4	14.4	
Capex (Rs mn)	13,739	2,240	3,230		2,240	—		6,262	—	
Lines ('000)	—	620	530	*17.0*	620.0	256.0	*142.2*	620	—	—
ARPL (Rs/month)	—	1,932	2,206	*(12.4)*	1,932.0	2,742.0	*(29.5)*	—	—	—
Towns (#)	—	40	30	—	40.0	30.0	*33.3*	40.0	—	—
Buildings connected (#)	—	488,661	379,141	*28.9*	488,661	101,741	*380.3*	488,661	—	—

Note:
(a) Wireless includes CDMA, GSM and Fixed Wireless services; also includes mobile handset sales.
(b) Long distance includes NLD, ILD services and revenues from FLAG.

Source: Company

Our one-year forward value for RCL stock is Rs400

Discounted cash flow valuation of Reliance Infocomm (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**83,385**	**113,192**	**139,387**	**161,277**	**178,049**	**190,860**	**203,061**	**215,534**	**226,955**	**238,229**
Tax	(4,442)	(9,838)	(11,802)	(13,607)	(15,019)	(16,063)	(16,952)	(29,557)	(51,418)	(54,232)
Change in working capital	(14,957)	(4,358)	(18,216)	(16,112)	(4,506)	2,055	973	432	548	554
Post-tax operating cash flow	**63,987**	**98,996**	**109,369**	**131,558**	**158,524**	**176,853**	**187,082**	**186,410**	**176,085**	**184,551**
Capex	(106,960)	(119,778)	(93,437)	(68,796)	(56,685)	(56,003)	(59,830)	(62,021)	(64,366)	(66,698)
Free cash flow	**(42,973)**	**(20,781)**	**15,932**	**62,762**	**101,840**	**120,849**	**127,251**	**124,389**	**111,719**	**117,853**

	Now	+ 1-year	+ 2- years
PV of cash flows	257,240	374,020	490,478
PV of terminal value	488,291	512,706	538,341
EV	745,531	886,726	1,028,820
Net debt	6,929	50,988	76,503
Equity value (Rs mn)	**738,602**	**835,738**	**952,316**
Equity value (US$ mn)	**16,598**	**18,781**	**21,400**
RCL shares (mn)	2,045	2,045	2,045
Equity value (Rs/RCOM share)	**361**	**409**	**466**
Exit FCF multiple (X)	13.3	13.3	13.3
Exit EBITDA multiple (X)	**6.6**	**6.6**	**6.6**

WACC and terminal year assumptions	
Terminal growth (%)	5.0
WACC (%)	12.5

Source: Kotak Institutional Equities estimates.

RCL is lagging behind Bharti significantly in the wireless segment

Segmentwise performance: Reliance versus Bharti, 4QFY06-4QFY07

	Rs mn					qoq change (Rs mn)				qoq change (%)				
	4QFY07	3QFY07	2QFY07	1QFY07	4QFY06	4QFY07	3QFY07	2QFY07	1QFY07	4QFY07	3QFY07	2QFY07	1QFY07	
Reliance Communications														
Wireless														**CQGR (%)**
Revenues	29,692	27,520	25,744	24,320	21,200	**2,172**	**1,776**	**1,424**	3,120	**7.9**	**6.9**	**5.9**	14.7	8.8
EBITDA	11,511	10,290	9,294	8,746	7,571	**1,221**	**996**	**548**	1,175	**11.9**	**10.7**	**6.3**	15.5	11.0
Long distance														
Revenues	12,938	13,335	13,158	12,340	14,158	(397)	177	818	(1,818)	(3.0)	1.3	6.6	(12.8)	(2.2)
EBITDA	3,121	3,550	3,199	2,842	2,632	(429)	351	357	210	(12.1)	11.0	12.6	8.0	4.4
Broadband														
Revenues	3,299	3,161	2,710	2,271	1,948	138	451	439	323	4.4	16.6	19.3	16.6	14.1
EBITDA	1,611	1,486	1,215	882	606	125	271	333	276	8.4	22.3	37.8	45.5	27.7
Bharti Airtel														
Wireless														
Revenues	42,431	37,579	33,022	28,411	24,134	**4,852**	**4,557**	**4,611**	4,277	**12.9**	**13.8**	**16.2**	17.7	15.1
EBITDA	16,604	14,129	12,179	10,341	8,746	**2,475**	**1,950**	**1,838**	1,595	**17.5**	**16.0**	**17.8**	18.2	17.4
Long distance														
Revenues	10,156	9,306	8,362	7,064	7,463	850	944	1,298	(399)	9.1	11.3	18.4	(5.3)	8.0
EBITDA	3,640	4,002	3,367	2,750	2,771	(362)	635	617	(21)	(9.0)	18.9	22.4	(0.8)	7.1
Broadband and Enterprise														
Revenues	8,555	8,406	7,392	7,151	6,107	149	1,014	241	1,044	1.8	13.7	3.4	17.1	8.8
EBITDA	2,984	2,704	1,976	2,129	1,648	280	728	(153)	481	10.4	36.8	(7.2)	29.2	16.0

Source: Bharti, RCL.

RCL's balance sheet shows unusual movement in several line items but may reflect historical adjustments and to restructuring
RCL's balance sheet for the most recent quarters (Rs mn)

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Comments
Equity						
Share capital	10,223	10,223	10,223	10,223	10,220	
Reserves and surprlus	107,212	112,032	170,063	191,392	193,708	Adjusted for Rs2.2 bn of goodwill
Equity	**117,435**	**122,255**	**180,286**	**201,615**	**203,928**	
Minority interest	96	99	99	96	59	
Debt	103,332	119,075	123,660	114,283	155,438	
Current liabilities	80,170	102,320	117,885	125,770	136,013	Includes suppliers credit and advance from customers
Provisions	18,705	19,776	46,236	44,891	43,173	Includes Rs18 bn of disputed claims with BSNL/MTNL; will probably need to paid. No explanation for sharp increase in 2QFY07
Total capital	**319,738**	**363,525**	**468,166**	**486,655**	**538,611**	
Assets						
Cash	37,995	94,665	103,082	99,477	137,200	Large cash balance needs to be adjusted for high current liabilities & provisions
Inventories	4,076	3,982	3,970	2,788	4,821	
Debtors	16,808	17,271	19,509	20,132	18,316	
Other current assets	765	1,547	1,434	4,453	3,264	
Loans and advances	23,668	21,459	24,551	23,773	32,662	
Gross block	228,295	234,730	327,706	351,683	349,456	Capex in Mar-07 quarter was Rs15.9 bn
Less: Depreciation	47,573	53,299	60,569	69,296	55,940	Looks like some assets have been written off in Mar-07 quarter
Net block	180,722	181,431	267,137	282,387	293,516	
Capital work in progress	31,305	40,733	**46,121**	**51,161**	**36,907**	C-WIP is very high by industry standards
Goodwill	2,237	2,308	2,237	2,237	—	
Investments	22,163	129	125	247	11,925	
Total assets	**319,739**	**363,525**	**468,166**	**486,655**	**538,611**	

Note:
(a) Mar-06 and Jun-06 quarters' balance sheets are on pro forma basis; we assume these are comparable with consolidated quarterly balance sheets of RCL.

Source: Company's quarterly financial reports.

Summary of key changes to the RCOM model, March fiscal year-ends, 2008-2017E

	Unit	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Mobile market subs old	mn	239	312	370	411	445	475	503	528	551	
Mobile market subs new	mn	239	313	371	412	446	477	505	530	554	577
Revision	*(%)*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	
RCOM mobile subs old	mn	50.1	64.2	75.0	82.7	88.9	94.6	99.7	104.3	108.7	
RCOM mobile subs new	mn	42.7	55.4	65.3	72.4	78.3	83.6	88.3	92.6	96.8	100.7
Revision	***(%)***	***-15%***	***-14%***	***-13%***	***-12%***	***-12%***	***-12%***	***-11%***	***-11%***	***-11%***	
Blended ARPU (incl. inroaming) est. old	Rs	305	288	281	282	283	285	287	290	293	
Blended ARPU (incl. inroaming) est. new	Rs	363	348	338	336	336	337	337	338	340	341
Revision	*(%)*	*19%*	*21%*	*20%*	*19%*	*19%*	*18%*	*17%*	*17%*	*16%*	
Postpaid ARPU estimate old	Rs	493	488	482	479	485	490	495	501	505	
Postpaid ARPU estimate new	Rs	567	568	559	553	559	565	571	577	581	586
Revision	*(%)*	*15%*	*16%*	*16%*	*16%*	*15%*	*15%*	*15%*	*15%*	*15%*	
Prepaid ARPU estimate old	Rs	267	253	248	250	251	253	255	257	260	
Prepaid ARPU estimate new	Rs	322	309	301	301	300	300	301	302	303	304
Revision	*(%)*	*20%*	*22%*	*21%*	*20%*	*20%*	*19%*	*18%*	*17%*	*16%*	
Consolidated revenues old	(Rs bn)	208	269	322	369	407	441	471	500	529	
Consolidated revenues new	(Rs bn)	206	272	327	376	414	446	476	504	532	559
Revision	*(%)*	*-1%*	*1%*	*2%*	*2%*	*2%*	*1%*	*1%*	*1%*	*0%*	
Consolidated EBITDA old	**(Rs bn)**	**83**	**111**	**135**	**155**	**173**	**187**	**199**	**212**	**225**	
Consolidated EBITDA new	**(Rs bn)**	**83**	**113**	**139**	**161**	**178**	**191**	**203**	**216**	**227**	**238**
Revision	***(%)***	***0%***	***2%***	***3%***	***4%***	***3%***	***2%***	***2%***	***2%***	***1%***	
Mobile EBITDA margin old	(%)	37.7	38.6	39.6	39.7	40.0	39.9	39.9	40.1	40.2	
Mobile EBITDA margin new	(%)	38.5	40.1	41.2	41.2	41.3	41.2	41.1	41.2	41.2	41.1
Revision	*(bps)*	*81*	*145*	*163*	*150*	*134*	*130*	*128*	*112*	*98*	
Adjusted PAT old	**(Rs bn)**	**47.1**	**58.4**	**72.7**	**87.6**	**104.8**	**119.2**	**133.7**	**125.7**	**123.2**	
Adjusted PAT new	**(Rs bn)**	**47.9**	**68.1**	**83.3**	**97.7**	**112.4**	**124.3**	**131.9**	**127.9**	**113.0**	**117.0**
Revision	***(%)***	***2%***	***17%***	***15%***	***12%***	***7%***	***4%***	***-1%***	***2%***	***-8%***	
Diluted EPS estimate old	**(Rs)**	**22.5**	**27.9**	**34.8**	**41.9**	**50.1**	**57.0**	**64.0**	**60.1**	**58.9**	
Diluted EPS estimate new	**(Rs)**	**22.2**	**31.6**	**38.6**	**45.3**	**52.1**	**57.6**	**61.2**	**59.3**	**52.4**	**54.2**
Revision	***(%)***	***-1%***	***13%***	***11%***	***8%***	***4%***	***1%***	***-4%***	***-1%***	***-11%***	
Capex old	**(Rs bn)**	**119.8**	**103.0**	**87.7**	**63.5**	**55.4**	**55.0**	**59.3**	**61.7**	**64.2**	
Capex new	**(Rs bn)**	**107.0**	**119.8**	**93.4**	**68.8**	**56.7**	**56.0**	**59.8**	**62.0**	**64.4**	**66.7**
Revision	***(%)***	***-11%***	***16%***	***6%***	***8%***	***2%***	***2%***	***1%***	***1%***	***0%***	
Mobile capex /sales old	(%)	55	32	23	17	13	12	13	12	12	
Mobile capex /sales new	(%)	49	39	25	18	13	12	12	12	12	11
Revision	*(pps)*	*-6.9*	*6.9*	*1.3*	*1.2*	*-0.2*	*-0.2*	*-0.4*	*-0.4*	*-0.4*	

Source: Kotak Institutional Equities estimates

Key macro assumptions for Reliance Communications, March fiscal year-ends, 2007-2017E

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Wireless											
Market subscribers (mn)	158	239	313	371	412	446	477	505	530	554	577
Market penetration (%)	14	21	27	31	34	37	39	41	42	44	45
RCL subs including fixed wireless (mn)	28.0	42.7	55.4	65.3	72.4	78.3	83.6	88.3	92.6	96.8	100.7
RCL market share (%)	17.8	17.9	17.7	17.6	17.6	17.5	17.5	17.5	17.5	17.5	17.5
RCL subs (mn)	28	43	55	65	72	78	84	88	93	97	101
RCL prepaid subs (mn)	23	37	48	57	63	69	73	78	82	77	81
RCL postpaid subs (mn)	4	6	7	8	9	9	10	10	10	11	11
RCL FWP & PCO subs (mn)	4	5	6	6	7	7	7	8	8	9	9
RCL blended ARPU (Rs/month)	350	363	348	338	336	336	337	337	338	340	341
RCL prepaid ARPU (Rs/month)	328	322	309	301	301	300	300	301	302	303	304
RCL postpaid ARPU (Rs/month)	551	567	568	559	553	559	565	571	577	581	586
RCL blended MOU (mins/month)	504	536	544	539	544	543	542	542	542	542	542
RCL prepaid MOU (mins/month)	465	501	511	507	513	511	510	510	509	509	508
RCL postpaid MOU (mins/month)	680	732	751	756	760	764	770	775	781	786	791
RCL blended RPM (Rs) (ARPU/MOU)	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
RCL prepaid RPM (Rs/min) (ARPU/MOU)	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
RCL postpaid RPM (Rs/min) (ARPU/MOU)	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
RCL overall RPM (Rs/min)	**0.74**	**0.68**	**0.64**	**0.63**	**0.62**	**0.62**	**0.62**	**0.62**	**0.62**	**0.63**	**0.63**
Blended EBIDTA per min (Rs)	0.27	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26
EBITDA margin (%)	**37**	**38**	**40**	**41**	**41**	**41**	**41**	**41**	**41**	**41**	**41**
Capex/incremental min (Rs)	1.1	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.5
Capex incl. maintenance capex/incremental min (Rs)	1.1	0.9	0.9	0.8	0.8	0.9	1.0	1.2	1.4	1.5	1.7
Capex/incremental sub (US$)	140	110	146	129	125	113	95	98	94	88	85
Capex incl. maintenance capex/incremental sub (US$)	140	112	151	139	146	154	155	195	219	236	258
Domestic long distance											
Market revenues (Rs bn)	108	131	164	189	210	228	245	261	277	292	306
Revenues to DLD operator (net of orig.)	67	85	107	123	136	148	159	170	180	189	199
RCL's revenues (Rs bn)	12	18	22	24	27	29	31	33	34	36	37
RCL's market share (%)	18	21	21	20	20	20	19	19	19	19	19
International long distance											
Market revenues (Rs bn)	66	68	79	91	102	115	124	134	144	156	168
RCL's IDD revenue (Rs bn)	20	23	24	26	27	29	29	32	34	37	40
RCL's market share (%)	31	34	31	28	27	25	24	24	24	24	24
Market minutes (bn mins)	15	22	26	31	36	40	44	47	51	55	59
RCL's share of mins (%)	36	34	32	31	29	27	25	25	25	25	25

Source: Kotak Institutional Equities estimates.

The wireless business in India generates remarkably high CROCI leaving ample scope for price competition

CROCI of wireless segment Bharti and RCL and of Idea (%)

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07
Bharti Airtel								
EBIT (Rs mn)	3,932	4,341	5,319	5,522	6,961	8,085	9,184	11,424
Tax rate (%)	13.6	8.9	13.4	7.4	11.1	12.8	14.8	9.0
EBIT*(1-t) (Rs mn)	3,396	3,956	4,604	5,113	6,190	7,052	7,821	10,398
Add: Depreciation	2,141	2,608	2,613	3,224	3,380	4,094	4,945	5,180
Cash return (Rs mn)	5,537	6,564	7,217	8,337	9,570	11,146	12,766	15,578
Annualized cash return (Rs mn)	22,148	26,256	28,870	33,348	38,281	44,582	51,063	62,313
Gross cash invested (Rs mn)	124,643	133,258	141,555	159,227	177,633	205,084	220,672	231,414
CROCI (%)	**17.8**	**19.7**	**20.4**	**20.9**	**21.6**	**21.7**	**23.1**	**26.9**
Reliance Communications								
EBIT (Rs mn)					3,998	5,131	5,542	6,991
Tax rate (%)					5.0	0.8	1.4	1.4
EBIT*(1-t) (Rs mn)					3,797	5,088	5,465	6,891
Add: Depreciation					3,573	4,163	4,751	4,520
Cash return (Rs mn)					7,370	9,251	10,216	11,411
Annualized cash return (Rs mn)					29,478	37,004	40,864	45,642
Gross cash invested (Rs mn)					155,117	170,100	182,190	192,050
CROCI (%)					**19.0**	**21.8**	**22.4**	**23.8**
Idea Cellular								
EBIT (Rs mn)							1,980	2,925
Tax rate (%)							3.2	1.0
EBIT*(1-t) (Rs mn)							1,917	2,896
Add: Depreciation							1,524	1,761
Cash return (Rs mn)							3,441	4,657
Annualized cash return (Rs mn)							13,764	18,629
Gross cash invested (Rs mn)							66,187	79,669
CROCI (%)							**20.8**	**23.4**

Source: Companies, Kotak Institutional Equities estimates.

Technology

IFLX.BO, Rs2519	
Rating	U
Sector coverage view	Attractive
Target Price (Rs)	1,675
52W High -Low (Rs)	2545 - 840
Market Cap (Rs bn)	210

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	20	26	33
Net Profit (Rs bn)	2.8	4.2	6.2
EPS (Rs)	33.2	51.0	74.2
EPS gth	*15.9*	*53.3*	*45.5*
P/E (x)	75.8	49.4	34.0
EV/EBITDA (x)	56.5	35.3	24.7
Div yield (%)	-	0.4	0.5

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	54.8	-	-
FIIs	0.0	0.0	(0.5)
MFs	0.1	0.0	(0.5)
UTI	-	-	(0.5)
LIC	-	-	(0.5)

i-flex solutions: Results below expectations. Valuations are expensive. Maintain Underperform rating

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- **Results below expectations**
- **Changes in management team aimed at facilitating M&A in the financial services business unit of Oracle**
- **Product business— weak quarter, increase in cost structure concerning, positive outlook intact**
- **Maintain Underperform rating**

i-flex's Mar' 07 net income of Rs777 mn was 30% lower than our expectations. The company reported revenues of 5.8 bn (vs our expectation of Rs6.3bn) and net income of Rs777 mn (vs. our expectation of Rs1.15 bn). Net income was impacted by deferment in license fee recognition, increase in cost structure, lower license fees recognition, amortization of intangibles related to Mantas acquisition and forex losses. Oracle has announced several changes to i-flex's management team and board of directors aimed at overcoming limitations on growing the financial services business through mergers and acquisitions. I-flex is trading at expensive valuations of 50XFY2008 and 34XFY2009 earnings. Maintain Underperform rating. Key risk to our call: delisting of i-flex by Oracle.

Changes in management team aimed at facilitating M&A in the financial services business unit of Oracle: Oracle has made several changes to the management team of i-flex (a) Rajesh Hukku, current CMD of i-flex would move to head the new Financial services Global Business unit of i-flex (b) R. Ravishankar, current Chief of International operations and Deepak Ghaisas, CEO of India operations will join the management team of Oracle FS GBU (c) NRK Raman, COO of i-flex would assume the role of CEO of i-flex and (d) Makarand Padalkar, Chief of Staff and Head, Investor Relations will assume the role of Chief Financial Officer. These changes are aimed at facilitating aggressive M&A strategy, which would be executed directly by Oracle rather than i-flex. The M&A strategy was difficult to execute with i-flex as it is not adequately capitalized to pursue large acquisitions. Equity funding, an option used to fund Mantas acquisition is also difficult as it may attract SEBI open offers norms. In addition taxation and integration could be a long drawn process.

Product business—weak quarter, increase in cost structure concerning, positive outlook intact: Key highlights of the performance for Mar' 07 include

a) Products revenues grew 1.1% qoq and 22.4% yoy. Revenue growth was impacted by change in accounting policy related to sale of third party license as a part of bundled contract. I-flex recognized Oracle database sale in the quarter in which the product was delivered. However the company has aligned the recognition to percentage of completion. I-flex consequently reversed revenues recognized under the earlier accounting policy for first nine months in the fourth quarter. License fees recognition as a result in 4Q was down 11% qoq and 46% yoy to Rs706 mn. Implementation revenues grew 12.3% qoq and 98% yoy to Rs1.9 bn. We believe that the benefits from large deals are reflecting in strong growth in implementation revenues at i-flex.

b) New license signings was US$25.3 mn, in line with our expectations. For FY2007, new license signings grew at a marginal 5%. Growth in new license signings is partly impacted by the fact that the company is not taking the entire license fees in tank size in large multi country roll outs.

c) Deferred revenue increased by Rs802 mn qoq to Rs3.34 bn, leading to lower license and implementation fees recognition.

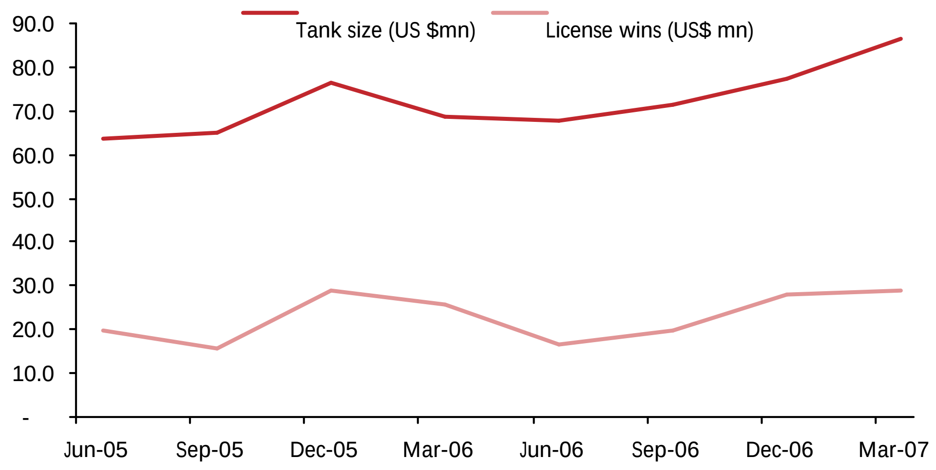
d) EBITDA margin declined to 27.9%, from 31.8% in the previous quarter and 44% in the same quarter last year. For FY2007, EBITDA margin declined to 33.2% from 38.8% in FY2006.

The product business outlook remains positive in our view, given impressive Tier 1 deal wins and strong business pipeline of large global banking names. We believe that i-flex's investment in products coupled with Oracle parentage will continue to lead to large wins and consistent growth. i-flex has several large deals which are yet to reflect in order book and can provide sustained growth opportunity. We increase our product revenue estimates for FY2008 and FY2009 but reduce EBITDA margin estimate by 7.3% and 5.4% respectively

Services revenues growth aided by completion of milestones on large engagements—profitability improves but not sustainable. Services revenue grew 10.1% to Rs2.45 bn. Non Citi revenues grew 20.6% qoq in US$ terms. Operating margin increased by 8.4% qoq to 23.8%. Revenue growth and operating margin improvement was led by completion of milestones on two large engagements, the cost of which has been recognized in the previous quarters. We raise our FY2008 revenue estimate by 5.4% to US$261 mn and FY2009 estimate by 11% to US$320 mn.

Valuations are expensive: We like i-flex's product growth story (with an improved penetration of Tier 1 banking names) and believe that the company may report 35-40% earnings growth over the next three years. We however believe that the positives are captured in the stock price. i-flex is trading at 50XFY2008 and 34XFY2009 earnings, a 80% premium to large cap companies. Maintain Underperform rating.

i-flex' products tank size has been increasing at a solid pace



Source: Company

Exhibit: Key changes to FY2008 and FY2009 estimates

	New		Old		Change (%)	
Rs mn	**FY2008E**	**FY2009E**	**FY2008E**	**FY2009E**	**FY2008**	**FY2009**
Revenues- US$ mn	**599**	**744**	**582**	**701**	**2.8**	**6.1**
- Products	*338*	*424*	*335*	*413*	*0.9*	*2.6*
- Services	*261*	*320*	*247*	*288*	*5.4*	*11.2*
EBITDA (Rs mn)	5,698	8,001	5,902	8,235	(3.5)	(2.8)
- Products	*4,711*	*6,716*	*5,084*	*7,100*	*(7.3)*	*(5.4)*
- Services	*2,256*	*2,805*	*2,030*	*2,531*	*11.1*	*10.8*
EBITDA margin (%)	21.6	24.5	22.3	25.4		
- Products	*32.4*	*36.8*	*34.1*	*37.8*		
- Services	*20.1*	*20.4*	*18.4*	*19.4*		
Tax Rate (%)	*13.3*	*14.7*	*13.3*	*20.7*		
Re/ $ rate	*43.0*	*43.0*	*44.5*	*44.5*	**(3.4)**	**(3.4)**
Net Income	**4,244**	**6,177**	**4,276**	**5,895**	**(0.7)**	**4.8**
EPS/ share Rs	**51.0**	**74.2**	**52.8**	**72.8**	**(3.5)**	**1.9**

Note: Divisional EBITDA and margins are before allocation of corporate overheads

Source: Kotak Institutional Equities Estimates

i-flex solutions: Comments on 4QFY07 results

Rs mn	4QFY06	3QFY07	4QFY07	QoQ % chg.	YoY % chg.	Kotak Estimates	% Deviation	Comments on QoQ performance
Revenues	**4,577**	**5,502**	**5,794**	**5.3**	**26.6**	**6,286**	**(7.8)**	Overall revenue growth was 5.3% qoq (7.8% below our expectations). Products business grew only 1.1%, while services business grew 10.1% qoq.
Cost of Revenues	(2,279)	(3,092)	(3,208)	3.8	40.8	(3,264)	(1.7)	
Gross profit	**2,298**	**2,410**	**2,586**	**7.3**	**12.5**	**3,022**	**(14.4)**	
Selling and marketing exp	(566)	(737)	(747)	1.3	31.9	(797)	(6.3)	
Administration exp	(419)	(609)	(747)	22.8	78.3	(651)	14.7	
Total SG&A Expenses	(985)	(1,346)	(1,494)	11.0	51.7	(1,448)	3.2	
EBITDA	**1,313**	**1,064**	**1,093**	**3**	**(16.8)**	**1,575**	**(30.6)**	
Depreciation	(152)	(260)	(247)	(5)	63.0	(387)	(36.1)	
EBIT	**1,162**	**805**	**845**	**5**	**(27.2)**	**1,188**	**(28.8)**	EBIT margins remained flat qoq versus our expectations of a 430bps improvement. Variance against expectations was driven by (a) lower than expected license fee bookings (b) rupee appreciation of 1.7% and (c) one-off SG&A expenses of Rs40mn (69 bps impact)
Share of associate Co Loss	-	3	2			-	-	
Interest Net	105	(2)	26	(1,177)	(74.9)	87	(69.5)	
Other Income, Net	(3)	-	-			-	-	
Profit Before Tax	**1,265**	**806**	**874**	**8**	**(30.9)**	**1,275**	**(31.4)**	
Provision for Tax	(98)	(33)	(97)	196	(1.0)	(125)	(22.3)	Tax rates in line with expectations
Net Profit	**1,166**	**773**	**777**	**0**	**(33.4)**	**1,149**	**(32.4)**	**Net income far below expectations**
Net Profit- Reported	1,166	773	777	0	(33.4)	1,149	(32.4)	
Chk	-	-	-			-		
EPS (Rs/ share)	15.3	9.5	9.3	(2)	(39.0)	**14.2**	(34.3)	
No of shares outstanding (mn)	**76.3**	**81.0**	**83.3**			**81.0**		
Margins (%)								
Gross Profit margin	50.2	43.8	44.6			48.1		
EBITDA Margin	28.7	19.3	18.9			25.0		
EBIT Margin	25.4	14.6	14.6			18.9		
NPM	25.5	14.0	13.4			18.3		
Products P&L Statement								
Order Book (US$-mn)	**65.0**	**73.6**	**82.5**	12.1	26.9	**70.7**	16.8	
License Fees Intake	**22.0**	**24.1**	**25.2**	4.5	14.8	**23.0**	9.6	
License Fees	1,311	793	705	(11.1)	(46.2)	1,155	(38.9)	License fee bookings below expectations due to deferment of license fee on certain contracts
Implementation Fees	972	1,713	1,924	12.3	98.0	1,846	4.2	
Recurring License Fees	336	666	577	(13.4)	71.6	700	(17.5)	
Product Revenues	**2,619**	**3,172**	**3,206**	**1.1**	**22.4**	**3,701**	**(13.4)**	
Cost of Revenues	(841)	(1,339)	(1,456)	8.8	73.1	(1,418)	2.7	
Gross profit	**1,778**	**1,833**	**1,750**	**(4.5)**	**(1.6)**	**2,283**	**(23.4)**	
Selling and marketing exp	(488)	(613)	(596)	(2.8)	22.0	(661)	(9.9)	
Administration exp	(139)	(211)	(261)	23.9	88.2	(246)	6.4	
Total SG&A Expenses	(627)	(824)	(857)	4.0	36.7	(907)	(5.5)	
EBITDA	**1,150**	**1,010**	**893**	**(11.6)**	**(22.4)**	**1,376**	**(35.1)**	**Lower than expected license fee booking led to a margin decline of 390bps**
Depreciation	(76)	(172)	(143)	(16.6)	88.3	(180)	(20.3)	
EBIT	**1,074**	**837**	**749**	**(11)**	**(30.2)**	**1,196**	**(37.4)**	
Margins (%)								
Gross Profit margin	67.9	57.8	54.6			61.7		
EBITDA Margin	43.9	31.8	27.9			37.2		
EBIT Margin	41.0	26.4	23.4			32.3		
SERVICES P&L STATEMENT								
Revenues	**1,891**	**2,222**	**2,445**	**10.1**	**29.3**	**2,472**	**(1.1)**	Revenue growth of 10.1% broadly in line with expectations. Growth led by non-citi accounts (grew 20.6% qoq)
Cost of Revenues	(1,401)	(1,683)	(1,626)	(3.4)	16.1	(1,767)	(8.0)	
Gross profit	**490**	**539**	**819**	**52.0**	**67.3**	**705**	**16.2**	
Selling and marketing exp	(63)	(95)	(113)	19.0	79.6	(108)	4.3	
Administration exp	(99)	(102)	(125)	22.1	26.1	(100)	25.1	
Total SG&A Expenses	(162)	(197)	(238)	20.6	46.9	(208)	14.3	
EBITDA	**328**	**342**	**582**	**70.0**	**77.3**	**497**	**17.0**	
Depreciation	(56)	(61)	(78)	26.7	39.4	(98)	(20.6)	
EBIT	**272**	**281**	**504**	**79.5**	**85.0**	**399**	**26.2**	EBIT Margins higher than expectations; led by (a) pricing improvements and (b) lower depreciation charge
Margins (%)								
Gross Profit margin	25.9	24.3	33.5			28.5		
EBITDA Margin	17.3	15.4	23.8			20.1		
EBIT Margin	14.4	12.6	20.6			16.2		

I-flex solutions: Consolidated US GAAP Income Statement, March year ends (Rs mn)

Rs mn	2006	2007	2008E	2009E	2010E
Products	7,571	10,966	14,538	18,235	21,929
Services & KPO	7,264	9,415	11,861	14,471	17,384
Revenues	**14,835**	**20,381**	**26,399**	**32,706**	**39,312**
Cost of Revenues	(8,148)	(11,640)	(14,361)	(17,253)	(19,993)
Gross profit	**6,688**	**8,741**	**12,038**	**15,453**	**19,319**
Selling and marketing exp	(2,038)	(2,701)	(3,202)	(3,895)	(4,591)
Administration exp	(1,700)	(2,455)	(3,138)	(3,557)	(4,082)
Total SG&A Expenses	(3,738)	(5,156)	(6,341)	(7,452)	(8,673)
EBITDA	**2,950**	**3,586**	**5,698**	**8,001**	**10,646**
Depreciation	(505)	(833)	(1,239)	(1,334)	(1,416)
EBIT	**2,445**	**2,753**	**4,458**	**6,667**	**9,229**
Share of associate Co Loss	3	6	-	-	-
Interest Net	275	349	438	576	834
Other Income, Net	(3)	-	-	-	-
Profit Before Tax	**2,723**	**3,111**	**4,896**	**7,243**	**10,063**
Provision for Tax	(535)	(342)	(652)	(1,067)	(2,590)
Net Profit	**2,188**	**2,768**	**4,244**	**6,177**	**7,473**
Extraordinaries	-	-	-	-	-
Net Profit- Reported	**2,188**	**2,768**	**4,244**	**6,177**	**7,473**
EPS (Rs/ share)	**28.7**	**33.2**	**51.0**	**74.2**	**89.7**
No of shares outstanding (mn)	76.3	83.3	83.3	83.3	83.3
Margins (%)					
Gross Profit margin	45.1	42.9	45.6	47.2	49.1
EBITDA Margin	19.9	17.6	21.6	24.5	27.1
EBIT Margin	16.5	13.5	16.9	20.4	23.5
NPM	14.5	13.4	15.8	18.6	18.6
Growth Rates (%)					
Revenues	30.1	37.4	29.5	23.9	20.2
Gross Profit	22.6	30.7	37.7	28.4	25.0
EBITDA	6.5	21.6	58.9	40.4	33.1
EBIT	0.5	12.6	62.0	49.5	38.4
Net Profit	7.7	26.5	53.3	45.5	21.0

Metals

JSTL.BO, Rs583	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	650
52W High -Low (Rs)	606 - 205
Market Cap (Rs bn)	100.3

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	86.0	101.9	115.4
Net Profit (Rs bn)	12.9	15.1	17.5
EPS (Rs)	73.2	86.1	99.7
EPS gth	*38.0*	*17.5*	*15.9*
P/E (x)	8.0	6.8	5.8
EV/EBITDA (x)	5.1	5.1	5.3
Div yield (%)	3.3	3.4	3.4

Shareholding, December 2006

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

JSW Steel: 4Q results better than expected; expansion to 10 mn tpa to add substantial value in long-term

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- **4Q net profit at Rs4.1 bn grows 1% yoy; higher than our estimates**
- **JSW to expand capacity to 10 mn tpa by FY2011 - we see substantial value to get added in the long-term**
- **Fine-tuning estimates; maintain OP with a target price of Rs650**
- **Substantial value in the long-term, we see stock price moving to Rs1,700 by 2012-13**

JSW Steel reported 4Q net profit at Rs4.1 bn - a 1% yoy growth and higher than our estimate of Rs3.4 bn for the quarter. Net sales at Rs24.9 bn grew 58% yoy and were boosted by a 33% yoy increase in volume steel sales and a 19% yoy growth in blended realizations. The company sourced slabs from the external market in 4Q and converted the same into finished steel for sales. This combined with inventory drawdown likely resulted in saleable steel volumes coming in higher than crude steel production during 4Q. EBITDA margins in 4Q at 32.8% grew 640 bps yoy but were lower than our estimates due to higher RM and other expenditure. Higher repairs and maintenance expenses post the fire in their facility during 4Q likely led to the spike in the other expenditure during 4Q. However, this was compensated by an insurance claim for loss of profit amounting to Rs563 mn (part of other income). The company also announced that it will be expanding capacity to 10 mn tpa by FY2011 at its existing location at a cost of Rs70 bn. This, in our opinion is a big long-term positive for JSW Steel. We see a value of Rs1,744 for JSW Steel by FY2013 (present value Rs947). However, we continue to base our valuation for JSW Steel on near-term earnings. We fine-tune our EPS estimates for the company and maintain OP with our target price unchanged at Rs650.

Expansion to 10 mn tpa will add substantial value in the long term

JSW Steel has announced that it will be expanding capacity to 10 mn tpa by FY2011 at its existing location at a cost of Rs70 bn. This translates to a specific investment cost of US$570/ton, very competitive in our opinion. Moreover, this will be an expansion at its existing facility and not a greenfield plant and consequently will not have risks like land acquisition and procurement of government clearances like in greenfield plants. We would assign a high probability to timely execution of this project.

In our view, assuming normalized steel prices and cost savings from captive coking coal mines coming onstream, we see JSW Steel achieving an EBITDA/ton of US$200 in FY2013 - the first year when production will hit 100% of capacity after the expansion to 10 mn tpa. This is as compared to FY2007, when the company reported an EBITDA per ton of US$260. At 5X EV/EBITDA, this translates to an EV of US$10 bn in FY2013. We estimate JSW Steel to have gross debt of about US$2.5 bn in FY2013 implying an equity value of US$7.5 bn in FY2013 translating to a per share value of Rs1,744 in FY2013. **This discounted to FY2008 at 13% results in a value of Rs947 (63% upside from current levels).**

However, we note that in the near-term over FY2008 and FY2009 capacity will be lower at 3.8 mn tpa and the company will be exposed to steel price volatility with relatively higher levels of gearing. Consequently we continue to base our valuation for JSW Steel on near-term earnings. However, we see JSW Steel as an excellent long-term steel stock, especially if it comes off from current levels on any steel price weakness.

Associated with this capacity expansion announcement, JSW Steel's board has decided to take approval for raising upto US$500 mn from the international capital market through issue of ADR/GDR/FCCB. We see a high probability of the company coming out with an FCCB issue within the next six months.

Fine-tuning estimates; maintain OP with a target price of Rs650

We lower our EPS estimates for JSW Steel 2% each for FY2008, FY2009 and FY2010 to Rs88.0. Rs101.6 and Rs137.1 respectively (Rs89.6, Rs103.3 and Rs140.0 previously). This taken into account higher debt and consequent interest costs due to the capex for the expansion to 10 mn tpa and higher iron ore pellet sales over the period. We maintain our OP rating on JSW Steel with our target price unchanged at Rs650 based on 1.2X FY2009 P/B and equivalent to 5.5X FY2009 EV/EBITDA and 6.4X FY2009 P/E. However, as mentioned earlier, we see the stock moving to Rs1,700 by 2012-13 and view the stock as an attractive long-term steel play.

Other announcements:

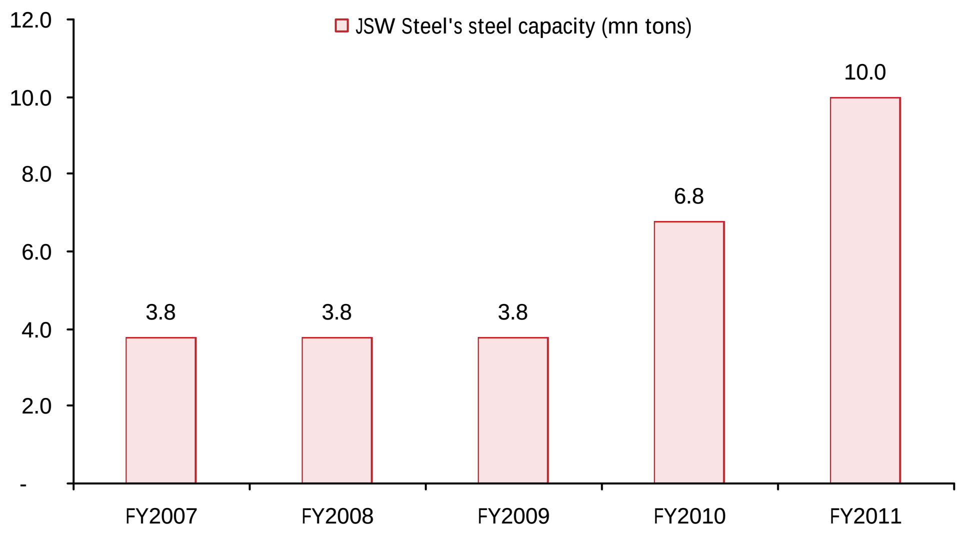
1. **Recommencement of hot metal furnace:** JSW Steel has recommenced operations of the hot metal furnace on April 12, 2007, which had been shut down for repairs after an accidental fire in March. As a preventive measure, the company will take a shutdown of another identical unit for 35 days in June/July to undertake preventive measures.
2. **Acquisition of service centre in the UK:** JSW Steel has acquired 100% of Argent Independent Steel Ltd in the UK - a steel processing unit with capacity of 0.15 mn tpa. The plant produces HRC, CRCA, GP/GC and CRCA steel. The acquisition has been made at an enterprise value of 3.75 mn pounds and an equity value of 1.65 mn pounds. The acquisition will give JSW Steel access to European customers.
3. **Coal mines in Africa:** JSW Steel has signed MOUs to take over two more licenses in Africa to develop coking coal blocks. The company is targeting to commence production of coking coal in these mines in another 3 years.
4. **Allotment of coking coal block in Jharkhand:** JSW Steel has been allotted a coking coal block in Jharkhand alongwith two other allottees. JSW Steel will have access to 69% of the production of this block under the arrangement. The block has 250 mn tons of mineable coking coal reserves of medium and high grade. Annual capacity of the mine will be 8 mn tpa (JSW's share 5.5 mn tpa) and production is expected to commence in 2-3 years. Environment and forest clearance and mining plan approval for the mine is yet to be obtained.
5. **Acquisition of cold rolling complex:** JSW Steel will be acquiring cold rolling capacity of 230,000 tpa at its Vasind facilities, currently owned by group company Jindal Steel and Alloys Ltd. JSW has been operating this facility on conducting basis thus far. The acquisition will be at an enterprise value of Rs633 mn and an equity value of Rs14 mn.

JSW Steel: 4QFY2007 results

				% chg.		Kotak estimates				
(in Rs mn)	4QFY06	3QFY07	4QFY07	qoq	yoy	4QFY07	% deviation	FY06	FY07	% chg.
Net sales	**15,832**	**23,015**	**24,985**	**8.6**	**57.8**	**20,800**	**20.1**	**61,801**	**85,944**	**39.1**
Operating costs	**(11,665)**	**(15,048)**	**(16,799)**	**11.6**	**44.0**	**(12,692)**	**32.4**	**(44,340)**	**(57,776)**	**30.3**
(Inc)/Dec in stocks	(461)	(252)	(1,772)	602.9	284.1	(523)	238.9	1,393	(665)	(147.8)
Consumption of raw materials	(7,428)	(10,731)	(10,531)	(1.9)	41.8	(8,235)	27.9	(31,121)	(39,634)	27.4
Power & fuel	(1,138)	(924)	(1,009)	9.3	(11.3)	(811)	24.5	(4,158)	(3,931)	(5.5)
Staff costs	(341)	(488)	(454)			(512)		(1,270)	(1,755)	
Other expenditure	(2,297)	(2,654)	(3,032)	14.2	32.0	(2,611)	16.1	(9,184)	(11,791)	28.4
EBITDA	**4,168**	**7,967**	**8,187**	**2.8**	**96.4**	**8,107**	**1.0**	**17,461**	**28,168**	**61.3**
Other income	3,741	64	807	1,171.3	(78.4)	30	2,627.4	3,830	1,052	(72.5)
Interest costs	(816)	(1,107)	(1,016)	(8.2)	24.6	(1,179)		(3,603)	(3,995)	10.9
Depreciation	(1,015)	(1,295)	(1,498)	15.7	47.6	(1,429)	4.8	(4,058)	(4,982)	22.8
Miscellaneous expenditure w/o	(156)	(270)	(270)			(292)		(618)	(1,090)	
Extra-ordinary items	-	-	-			-		-	-	
PBT	**5,922**	**5,360**	**6,209**	**15.9**	**4.9**	**5,236**	**18.6**	**13,011**	**19,152**	**47.2**
Taxes	(1,815)	(1,738)	(2,077)	19.5	14.4	(1,802)	15.2	(4,368)	(6,232)	42.7
PAT	**4,107**	**3,622**	**4,133**	**14.1**	**0.6**	**3,434**	**20.3**	**8,643**	**12,920**	**49.5**
Key ratios										
EBITDA (%)	26.3	34.6	32.8	(1.9)	6.4	39.0	(6.2)	28.3	32.8	(10.7)
PAT (%)	25.9	15.7	16.5	0.8	(9.4)	16.5	0.0	14.0	15.0	(2.5)
Effective tax rate (%)	30.6	32.4	33.4	1.0	2.8	34.4	(1.0)	33.6	32.5	(0.9)

Source: Company data, Kotak Institutional Equities

Strong growth in steel capacity for JSW Steel in coming years



Source: Company, Kotak Institutional Equities

We see JSW Steel's stock price moving to Rs1744 by 2013

	FY2013
Steel capacity (mn tons)	10.00
Steel production (mn tons)	10.00
EBITDA per ton (US$)	**200**
EBITDA in FY2013 (US$ mn)	2,000
EV/EBITDA multiple applied (X)	**5.0**
Enterprise value in FY2013 (US$ mn)	10,000
Net debt in FY2013 (US$ mn)	2,500
Equity value in FY2013 (US$ mn)	7,500
Fully diluted shares (mn)	172
Equity value per share in FY2013 (Rs)	**1,744**
Discount rate applied (%)	13.0
Equity value per share in FY2008 (Rs)	**947**

Source: Company, Kotak Institutional Equities estimates

Banking

CNBK.BO, Rs218	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	320
52W High -Low (Rs)	320 - 165
Market Cap (Rs bn)	89.2

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	54.0	59.6	67.2
Net Profit (Rs bn)	12.0	15.6	17.8
EPS (Rs)	29.4	38.1	43.4
EPS gth	*(10.3)*	*29.8*	*13.9*
P/E (x)	7.4	5.7	5.0
P/B (x)	1.2	1.0	0.9
Div yield (%)	2.8	3.0	3.2

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	73.2	-	-
FIIs	17.0	0.3	(0.1)
MFs	2.9	0.3	(0.1)
UTI	-	-	(0.4)
LIC	-	-	(0.4)

Canara Bank: Disappoints despite higher than expected profit as quality suffers

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- **Canara Bank reported a PAT of Rs5 bn in 4QFY07, which was up 2% yoy and 75% higher than our estimates**
- **Higher than estimated profits likely aided by one-off events rather than core performance**
- **We would be revisiting our estimates and outlook on the stock post discussions with the management**

Canara Bank reported a PAT of Rs5 bn in 4QFY07, which was up 2% yoy and 75% higher than our estimates. However, the higher than expected growth in profits may have been driven more by one-off events rather than core performance. NII growth was lackluster at 8% yoy (inclusive of one-time payment of interest income on CRR balances in 4QFY07), while non-interest income was up by 51% yoy (likely including one-offs) and effective tax rate for the bank this quarter was rather low at 9%. Our analysis of the bank results has been constrained by the lack of information and reclassification of certain line items (explained later in the note). We would be revisiting our estimates and outlook on the stock post discussions with the management.

Key points:

- Canara Bank reported NII growth of a meager 8% yoy in 4QFY07 to Rs10.6 bn. This was likely supported by one-off interest income paid by RBI on CRR in 4QFY07. In our estimate excluding the interest on CRR, Canara Bank NII was flat. The bank has likely seen a squeeze on margin, which is evident from the hefty 53% yoy in interest expense, while interest on advances increased by 39% yoy.
- Non-interest income was up 51% yoy at Rs6.2 bn, which was likely due to income from stake sale in mutual fund arm and NSE. Detailed break-up of other income is not available at this stage and we believe could be driven by profit from sale of 49% stake in its mutual fund business to Robeco Groep NV for Rs1.2 bn and 0.4% stake in NSE for Rs430 mn.
- Operating expenses at Rs6.3 bn was flat both qoq and yoy, and 12% below our estimate. We will need to clarify the reasons for this low cost.
- Provisions at the bank also increased by 56% yoy to Rs5 bn. While NPL provisions at Rs1 bn in 4QFY07 were down 46% compared to 4QFY06, higher depreciation losses on the available for sale category might have increased the burden provisions at the bank for the current quarter. In accordance with the RBI guidelines (issued on April 20, 2007), investment amortization provisions of the bank has been included under the non-interest income stream, in previous quarters the same was accounted under the provisions and contingencies line. Hence, yearly comparisons of provision expenses and other income at the bank in 4QFY07 are distorted.

Canara Bank (Rs mn)

	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	% chg	4QFY07 KS	Actual Vs KS
Interest income	22,401	23,906	25,128	26,800	29,614	32,105	34.3	32,354	(0.8)
Interest on advances	14,265	15,482	16,519	17,920	19,050	21,588	39.4	22,674	(4.8)
Income from investments	7,021	7,046	7,857	8,002	8,537	8,845	25.5	8,144	8.6
Others	1,115	725	753	878	2,027	1,672	130.6	1,537	8.8
Interest expense	12,818	14,069	15,649	16,988	19,228	21,512	52.9	21,098	2.0
Net interest income	**9,582**	**9,838**	**9,478**	**9,811**	**10,386**	**10,593**	**7.7**	**11,257**	**(5.9)**
Non-int.income	3,112	4,145	2,582	3,133	2,993	6,262	51.1	4,343	44.2
Other income excl treasury	2,710	4,215	2,577	3,013	2,653	NA	(100.0)	3,943	(100.0)
Sale of invts.	401	(70)	5	120	340	NA	(100.0)	400	(100.0)
Total income	**12,694**	**13,982**	**12,060**	**12,944**	**13,379**	**16,855**	**20.5**	**15,600**	**8.0**
Op. expenses	5,702	6,269	6,158	6,792	6,369	6,334	1.0	7,172	(11.7)
Employee cost	3,781	3,878	3,931	4,418	4,013	3,731	(3.8)	4,440	(16.0)
Other cost	1,922	2,392	2,227	2,375	2,356	2,603	8.8	2,732	(4.7)
Profit pre provisions	6,992	7,713	5,902	6,152	7,010	10,521	36.4	8,428	24.8
Provisions and cont.	2,449	3,178	3,743	1,534	2,630	4,970	56.4	4,137	20.1
Investment depreciation	NA	2,075	2,770	(800)	1,689	NA	(100.0)	2,374	(100.0)
Invt amortization	NA	NA	NA	300	150	NA		200	(100.0)
NPLs	1,683	1,873	1,091	2,220	790	1,018	(45.7)	1,260	(19.2)
PBT	**4,543**	**4,535**	**2,159**	**4,618**	**4,380**	**5,551**	**22.4**	**4,291**	**29.4**
Tax	980	(400)	250	1,000	750	500	(225.0)	1,399	(64.2)
Net profit	**3,563**	**4,935**	**1,909**	**3,618**	**3,630**	**5,051**	**2.3**	**2,892**	**74.6**
Tax rate (%)	21.6	(8.8)	11.6	21.7	17.1	9.0		32.6	
Deposit book details (Rs bn)									
Deposits	1,046	1,168	1,230	1,221	1,318	NA			
Low cost to total deposits	36.2	36.0	34.0	34.5	32.0	NA			
Advance book details (Rs bn)									
Advances	706	794	803	826	907	NA			
Total retail loans	134	146	155	162	171	NA			
Housing loans	51	56	59	61	64	NA			
Retail to total loans (%)	19.5	18.3	19.3	19.7	18.9	NA			
Priority sector	286	NA	301	NA	334	NA			
Agriculture advances	109	120	116	121	131	NA			
SME	106	124	NA	121	133	NA			
Investment book details (Rs bn)									
Investments (Rs bn)	350	370	428	430	430	NA			
HTM (%)	37.0	36.8	37.2	40.0	40.0	NA			
AFS (%)	62.0	63.0	62.8	60.0	60.0	NA			
Duration (years)	5.3	6.2	NA	NA	NA	NA			
Yield management measures (%)									
Yield on advances	8.26	8.24	8.59	8.70	8.82	NA			
Yield on investments	7.31	7.86	7.86	7.69	7.67	NA			
Cost of deposits	4.64	4.69	5.00	5.12	5.28	NA			
Cost of funds	4.28	NA	NA	4.77	4.86	NA			
Net interest margin	3.30	3.36	3.22	3.15	3.14	NA			
Capital adequacy details									
CAR (%)	12.1	11.2	11.0	12.3	12.7	NA			
Tier I (%)	6.8	7.8	NA	8.1	7.7	NA			
Asset quality details									
Gross NPLs (Rsbn)	22.0	17.9	17.4	17.6	18.7	NA			
Gross NPL ratio (%)	3.1	2.3	2.2	2.1	2.1	NA			
Net NPLs (Rsbn)	8.5	8.8	7.3	7.9	8.7	NA			
Net NPL ratio (%)	1.2	1.1	0.9	1.0	1.0	NA			

Technology

MBFL.BO, Rs314	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	320
52W High -Low (Rs)	329 - 121
Market Cap (Rs bn)	51.5

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	12.0	16.1	22.2
Net Profit (Rs bn)	1.2	2.1	2.6
EPS (Rs)	7.3	12.5	16.1
EPS gth	*(21.5)*	*71.5*	*28.6*
P/E (x)	42.9	25.0	19.5
EV/EBITDA (x)	24.9	17.4	13.4
Div yield (%)	1.0	1.1	1.3

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.1	-	-
FIIs	13.8	0.1	(0.1)
MFs	8.7	0.4	0.2
UTI	-	-	(0.2)
LIC	-	-	(0.2)

Mphasis BFL: Steady 4QFY07 performance—investments may drag margins in the near-term. Maintain In-Line

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- **Steady 4QFY07 performance**
- **Upfront investments in systems and infrastructure likely to impact margins from 4QFY07 levels**
- **Aspirational revenue target of US$1 bn for the combined entity appears achievable**
- **Maintain In-Line rating noting stretched valuations**

Mphasis reported good operating results for 4QFY07. Revenues grew 10.2% qoq to Rs3.37 bn, (2.4% higher than our estimate of Rs3.3 bn). OPM (EBIT) expanded 30bps to 14.3%. Net income at Rs 456mn was in line with our estimated Rs453mn. Increase in margins was driven by shift in business mix in the BPO business. We however remain positive on the revenue growth opportunity that EDS parentage provides the company and believe that execution will be critical to achieving US$1bn of aspirational revenue by FY2010. We have revised our consolidated EPS estimates for FY2008 and FY2009 to Rs14.1 and Rs18.9 from Rs14.2 and Rs19.2 respectively. We now base our target price on Mar' 09 DCF values. Accordingly our target price stands revised to Rs320/ share (Rs280 earlier).

Steady 4QFY07 performance: Mphasis reported revenues of Rs3.37 bn in 4QFY07 (our expectation Rs3.3 bn), up 10.2% qoq. IT services grew by 4.9% to Rs2,291 mn (2.3% lower than our estimates), while BPO revenues grew by a solid 23.7% to Rs1,081 mn (14% ahead of our estimates). Operating margin improved by 30bps qoq to 14.3%, though still down 60bps yoy. Net income at Rs456 mn was inline with our estimated Rs453 mn. Mphasis added 957 employees in IT services and 1,003 employees in BPO to take the total headcount to 14,679, a fair indication of the business pipeline. Including EDS India, the consolidated headcount stands at 20,250, implying a total headcount addition of 2,650 during the quarter. The company has a net headcount addition target of 8000-10,000 for the combined entity for CY2007.

Strong 2HFY07 standalone performance and solid revenue growth in EDS India sets the tone for FY2008: We believe that Mphasis is well poised for strong growth in FY2008 on the back of traction building up in various EDS channels-(a) EDS' internal work-Mphasis currently has 600 employees on EDS' internal work (b) incremental mining of existing EDS accounts-Mphasis indicated that it has closed two large deals (one in Telecom and the other in Retail vertical) with EDS' existing clients in the past two quarters and is targeting 70 existing EDS clients for offshoring business; this channel would also help Mphasis build annuity revenue streams given that a bulk of EDS' business comes from long term outsourcing contracts (c) gradual offshoring of existing EDS business (d) Joint go-to-market strategy with EDS. We note that Mphasis has been making investments in shoring up its capabilities to drive revenue growth from EDS clients. We forecast a 41% revenue growth for Mphasis (standalone) and 43% revenue growth for the combined entity in FY2008. We note that EDS India's revenues grew 77% (Re terms) in FY2007 to Rs5.7 bn.

Margin expansion in FY2008 to be capped as investments in systems and infrastructure continues: We expect operating margin to decline from 4QFY07 levels over the coming quarters on account of (a) further investments in facilities and training infrastructure (b) incubation and building up scale in new service offerings (c) wage increases (12-16% offshore and 5-6% onsite) and wage realignment to a combined EDS India plus Mphasis structure though the company indicates that the take home pay of both the companies are similar. We have increased our operating margin assumption of Mphasis (standalone) by 40 bps to 13.5% for FY2008, which is an increase from 11.7% in FY2007 (noting that FY2007 base was extremely low and decline 3.8% over FY2006).

EDS India revenues and net income disclosed. EDS India achieved revenues of Rs5.7 bn and net income of Rs590 mn in FY2007. The headcount of EDS India has increased to 5,570 at the end of FY2007. Consolidated revenues of Mphasis were US$394 mn, up 38% from US$285 mn in FY2006. Net income declined 8% to US$40 mn, led by pressures on operating margins emanating from investments in sales and marketing and impact from retention bonuses paid out to the senior management team.

Aspirational revenue target of US$1 bn by FY2010 achievable in our view: The combined entity would require revenue CAGR of 36.5% over the next three years to meet the stated target of US$1 bn in revenues by FY2010, achievable in our view. Mphasis will require to (a) expand service offerings to include application management, package implementation and infrastructure services - the management indicates that it is actively building capabilities in remote infrastructure management (b) increase vertical focus beyond banking and finance and more specifically to include telecom and manufacturing and; (c) crank up recruitment and training engine; improve on delivery systems and physical infrastructure - the management indicates that it is making substantial investments on improving its recruitment and training infrastructure. These in our view are stiff challenges though not insurmountable.

Revising earnings estimates and target price—maintain IL rating: We have revised our FY2008 and FY2009 earnings estimates for the consolidated entity to Rs14.1 and Rs18.9 from Rs14.2 and Rs19.2 earlier. Our revised SOTP based Mar'09 target price stands at Rs 320/ share (earlier Rs280 based on Mar '08 SOTP). We maintain our IL rating on the stock.

Exhibit: Key changes in FY2008, and FY2009 estimates (standalone and consolidated)

STANDALONE	New		Old		Change (%)	
Rs mn	**FY2008**	**FY2009**	**FY2008**	**FY2009**	**FY2008**	**FY2009**
Revenues	**16,149**	**22,235**	**16,013**	**21,567**	**0.9**	**3.1**
EBITDA	2,927	3,828	2,836	3,635	3.2	5.3
Depreciation	(746)	(903)	(741)	(895)	0.7	1.0
EBIT	2,181	2,925	2,095	2,741	4.1	6.7
Net Profit	**2,055**	**2,644**	**2,035**	**2,629**	**1.0**	**0.6**
EPS (Rs/ share)	**12.5**	**16.1**	**12.6**	**16.2**	**(0.3)**	**(0.7)**
Margins (%)						
EBITDA	18.1	17.2	17.7	16.9		
EBIT	13.5	13.2	13.1	12.7		
Revenue (US$ mn)	**375.3**	**516.8**	**359.9**	**475.3**	**4.3**	**8.7**
Re/US$ rate	**43.0**	**43.0**	**44.5**	**44.5**	**(3.3)**	**(3.3)**
Revenue Mix (US$ mn)						
Mphasis	255	365	253	344	0.6	6.0
Msource	121	152	107	131	13.0	15.9
Consolidated						
Revenues (Rs mn)	24,129	33,407	23,264	32,444	3.7	3.0
Net Income (Rs mn)	2,933	3,929	2,905	3,934	1.0	(0.1)
EPS	**14.1**	**18.9**	**14.2**	**19.2**	**(0.5)**	**(1.6)**

Source: Kotak Institutional Equities Estimates

MphasiS BFL Interim Results (Rs mn)

Consolidated figures	4QFY06	3QFY07	4QFY07	% chg. qoq	% chg. yoy	Kotak Estimates 4QFY07	% deviation	Comments
IT services revenues	1,724	2,185	2,291	*4.9*	*32.9*	2,345.6	*(2.3)*	Revenue growth of 4.9% qoq (Re terms) driven by strong volume growth (9.7% qoq). Impacted by rupee appreciation during the quarter
ITES revenues	781	874	1,081	*23.7*	*38.5*	949.4	*13.9*	Impressive growth of 23.7% qoq driven by traction in F&A, HRO, and domestic business
Total revenues	**2,505**	**3,059**	**3,373**	***10.2***	***34.6***	**3,295.0**	***2.4***	**Overall revenue growth 2.4% ahead of expectatons on the back of strong BPO performance**
Cost of revenues	(1,740)	(2,124)	(2,324)	*9.4*	*33.6*	(2,317.2)	*0.3*	
Gross profit	**765**	**936**	**1,049**	***12.0***	***37.1***	**977.8**	***7.2***	
Selling expenses	(159)	(217)	(267)	*23.2*	*68.0*	(221.5)	*20.6*	Investments in growing the sales engine led to increase in S&M expenses
G&A	(233)	(288)	(297)	*3.2*	*27.8*	(308.8)	*(3.7)*	
ESOP amort//bad debts	(1)	(4)	(1)	*-86.3*	*-31.6*	(5.9)	*(90.9)*	
EBIT (a)	**372**	**427**	**483**	***13.2***	***29.8***	**441.7**	***9.4***	**EBIT margins improved 30bps qoq on the back of expansion of BPO margins (which was driven by lower G&A expenses)**
Depreciation (b)	140	161	163	*1.2*	*16.3*	166.2	*(1.8)*	
EBITDA (a+b)	**513**	**588**	**647**	***9.9***	***26.1***	**607.8**	***6.4***	
Non-operating income	11	(62)	(25)	*-59.2*	*-322.6*	6.8	*(471.9)*	Includes forex loss of Rs26 mn
Interest income	10	12	19	*55.9*	*88.6*	23.5	*(17.3)*	
PBT	**394**	**377**	**478**	***26.5***	***21.2***	**472.0**	***1.2***	
Tax	(43)	(20)	(22)	*10.2*	*-48.5*	(19.3)	*13.7*	
Net income	**352**	**358**	**456**	***27.4***	***29.6***	**452.7**	***0.6***	**Net income in line with our expectations**
EPS (Rs)	2.2	2.2	2.8	*26.8*	*28.2*	2.8	*0.2*	
Margins (%)								
Gross Profit Margin	30.5	30.6	31.1			29.7		
EBITDA margin	20.5	19.2	19.2			18.4		
EBIT margin	14.9	14.0	14.3			13.4		

Banking

ADBK.BO, Rs82	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	125
52W High -Low (Rs)	99 - 57
Market Cap (Rs bn)	39.5

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	19.9	21.6	24.5
Net Profit (Rs bn)	5.4	6.0	6.7
EPS (Rs)	11.1	12.3	13.8
EPS gth	*11.1*	*11.2*	*12.3*
P/E (x)	7.4	6.6	5.9
P/B (x)	1.3	1.2	1.0
Div yield (%)	4.8	5.3	5.9

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.5	-	-
FIIs	19.0	0.1	(0.0)
MFs	7.2	0.3	0.1
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Andhra Bank: Core performance remains on track, retain OP

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- **Andhra Bank reported a net profit of Rs1.4 bn for 4QFY07 (flat compared to 4QFY06) and 14% higher than our expectations**
- **Core performance continues to be robust.**
- **Reiterate our OP rating on the stock with a price target of Rs125 (previously Rs115) based on FY2009 estimates**

Andhra Bank reported a net profit of Rs1.4 bn for 4QFY07 (flat compared to 4QFY06) and 14% higher than our expectations. Core performance continues to remain robust -- 25% yoy growth in NII and 64% yoy growth in non-interest (ex-treasury income). Bank seems to be focused on moderate asset growth, although the growth rate in deposits at 22% yoy has been higher this quarter compared to the previous quarters. Andhra Bank's strategy of focusing on margins and moderate asset growth finds favor with us. We reiterate our OP rating on the stock with a price target of Rs125 (previously Rs115) based on FY2009 estimates.

NII growth remains strong, though NIM shows a marginal decline. NII for Andhra Bank increased by 25% yoy in 4QFY07 to Rs3.9 bn driven by steady NIM (marginal decline of 6bps sequentially) and earnings asset growth of 25%. Even stripped of the one off income of Rs166 mn (interest on CRR balances with RBI) NII growth was a healthy 20% yoy. Bank has reported a 22% growth in deposits – primarily due to an increase in recourse to bulk deposits in January 2007, which also increased cost of deposits for the bank to 5.9% in 4QFY07 from 5.1% in 3QFY07. However, the bank has been able to improve its yield on advances to 10.3% (9.8% in 3QFY07) and maintain NIM at 3.5%.

Non-interest income (ex-treasury) healthy, aided by NPL recoveries. Andhra Bank had a 64% yoy growth in non-interest income (ex-treasury). While the fee income growth declined by 4% yoy, healthy recoveries helped the bank report buoyant non-interest income growth. The dismal fee income growth remains a disappointment. Healthy recoveries also resulted in the gross NPL declining by 10% sequentially to Rs4 bn (Rs4.4 bn as on 3QFY07) at the bank. It is to be noted that previous quarter (3QFY07) there was an increase in gross NPLs at the bank due to a slippage in one of the legacy accounts, reversing a trend of QoQ sequential decline in gross NPLs at the bank since 1QFY05.

Higher provisions impact PAT. Andhra Bank made provisions of Rs1.6 bn (26% yoy increase) in 4QFY07—primarily on account of higher credit provisions and MTM losses. Higher regulatory requirements of provisions on certain categories of standard assets were the chief reasons for an increase in credit provisions. Given the healthy asset quality of the bank at 0.4% of gross NPL and net NPL of 0.2% growth in credit provisions should be moderate going forward.

Andra Bank

Rs mn	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	% chg	4QFY07KS	Actual Vs KS
Interest Earned	6,986	7,232	7,599	7,721	8,128	9,699	34.1	8,674	11.8
Interest/Discount on Advances/Bills	4,624	4,640	5,137	5,425	5,776	6,697	44.3	6,053	10.6
Interest on Investment	2,016	2,112	2,117	2,054	2,231	2,563	21.3	2,280	12.4
Interest on bal. with RBI & other inter bank funds	346	436	346	242	121	333	(23.6)	341	(2.3)
Other Interest	-	44	-	-	-	107	144.9	-	
Interest expense	4,028	4,130	4,247	4,412	4,493	5,820	40.9	4,838	20.3
Net interest income	**2,959**	**3,102**	**3,352**	**3,309**	**3,635**	**3,879**	**25.1**	**3,836**	1.1
Other Income	1,189	1,441	1,018	1,287	1,329	2,120	47.1	1,567	35.3
Treasury	204	236	57	175	165	141	(40.4)	54	161.7
Commission & exchange	424	472	459	477	425	454	(3.7)	505	(10.1)
Dividend income	18	18	2	30		16	(11.9)	35	(56.3)
Forex profit	53	89	102	41		109	21.8	134	(18.9)
Others	489	626	399	563	739	852	36.1	839	1.6
Total Income	**4,148**	**4,543**	**4,371**	**4,595**	**4,964**	**5,999**	32.1	**5,403**	11.0
Operating Expenses	**2,118**	**2,488**	**2,306**	**2,365**	**2,356**	**2,305**	(7.3)	**2,721**	(15.3)
Payments to / Provisions for employees	1,287	1,353	1,375	1,459	1,419	1,235	(8.8)	1,451	(14.9)
Other operating expenses	831	1,135	931	905	937	1,071	(5.6)	1,270	(15.7)
Operating Profit Before Prov. & Cont.	2,030	2,055	2,065	2,231	2,607	3,694	79.7	2,682	37.7
Provisions & Contingencies	296	1,225	466	92	645	1,546	26.2	949	63.0
Investment amortization	169	173	175	186	175	187	8.3	199	(6.0)
Loan loss provisions	110	200	247	(51)	535	925	362.4	354	161.6
Investment depreciation	18	404	44	(50)	-	425	5.3	337	26.2
Profit before tax	**1,734**	**830**	**1,599**	**2,139**	**1,963**	**2,148**	158.7	**1,733**	23.9
Provision for Taxes	445	(556)	435	675	600	760	(236.8)	520	46.1
Net Profit	**1,289**	**1,386**	**1,164**	**1,464**	**1,363**	**1,388**	0.1	**1,213**	14.4
Tax rate	25.7	(66.9)	27.2	31.6	30.6	35.4		30.0	18.0
PBT - treasury + investment dep.	**1,548**	**998**	**1,586**	**1,915**	**1,798**	**2,432**	143.8	**2,016**	20.6
PBT - treasury + investment dep. + loan loss	**1,658**	**1,198**	**1,833**	**1,864**	**2,333**	**3,357**	180.3	**2,370**	41.7
Deposit book details (Rs bn)									
Deposits	313.0	339	331	325	361	415	22.2		
CASA	114.7	123	125	129	134	143	16.2		
CASA (%)	36.7	36.3	37.7	39.8	37.0	34.5			
Loan book details (Rs bn)									
Advances	207.2	225	218	236	256	282	25.6		
Priority sector	87.0	86	86	96	103	114	32.5		
Agriculture	38.3	36.7	36	44	44	52	40.5		
Retail	41.0	50	49	53	58	66	31.2		
Housing	23.0	24	24	29	33	40	63.3		
Educational	6.0	7	7	8	9	9	33.7		
SME	22.0	24	27	28	28	33	35.4		
Investment book details									
Investments (Rs bn)	NA	NA	NA	114	125	143			
Duration (years)	NA	NA	4.8	4.7	NA	4.9			
AFS (Rs bn)	NA	NA	24.5	NA	35.0	40.0			
Duration (years)	NA	2.0	1.2	1.0	2.2	2.3			
Asset quality details									
Gross non performing assets	4,283	4,369	4,170	4,161	4,396	3,970	(9.1)		
Gross non performing assets (%)	2.1	1.9	1.2	1.8	1.7	1.4			
Net non performing assets	568.1	524.6	159	226	1,073	473	(9.9)		
Net non performing assets (%)	0.3	0.2	0.1	0.1	0.4	0.2			
Yield management measures (%)									
Yield on advances	9.4	9.3	9.6	9.7	9.8	10.3			
Cost of deposits	4.9	4.9	5.0	5.1	5.1	5.9			
Yield on investments	7.0	7.3	7.2	7.1	7.3	7.3			
Cost of funds	4.4	4.3	4.4	4.5	NA	5.1			
NIM	3.5	3.3	3.8	3.8	3.6	3.5			
Return ratios (%)									
RoA	1.4	1.4	1.2	1.4	NA	1.4			
RoE	21.0	16.8	15.5	16.7	NA	NA			
Capital adequacy details									
CAR (%)	11.8	14.0	14.4	13.7	12.8	11.3			
Tier I (%)	8.3	12.2	12.5	12.1	11.4	10.0			
Tier II (%)	3.5	1.8	1.9	1.6	1.4	1.4			

Energy

CAST.BO, Rs262	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	300
52W High -Low (Rs)	285 - 155
Market Cap (Rs bn)	32.4

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	17.5	19.0	19.3
Net Profit (Rs bn)	1.5	2.3	2.5
EPS (Rs)	12.1	18.4	20.0
EPS gth	*1.9*	*52.4*	*9.1*
P/E (x)	21.7	14.3	13.1
EV/EBITDA (x)	12.4	8.5	7.7
Div yield (%)	3.4	4.6	5.3

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	71.0	-	-
FIIs	1.4	0.0	(0.1)
MFs	1.1	0.0	(0.1)
UTI	-	-	(0.1)
LIC	5.2	0.1	0.0

Castrol India: Broadly in-line 1QCY07 results; retain OP with revised 12-month TP of Rs300

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- **Raised 2007E and 2008E EPS estimates 24% and 20% respectively**
- **Higher volume growth and stronger rupee primarily contribute to earnings increase**
- **Retain OP with revised 12-month target price of Rs300 (Rs260 previously)**

Castrol reported 1QCY07 net income at Rs415 mn (+9% qoq, +29% yoy), marginally below our Rs431 mn estimate. Higher tax and an extraordinary item of Rs10 primarily contributed to the difference. We have revised CY2007E and CY2008E EPS estimates to Rs18.4 and Rs20, respectively from Rs14.8 and Rs16.7, respectively previously to reflect (1) higher lubes volumes and (2) stronger rupee (Rs43 versus Rs44.5 previously for both the years). We have raised our 12-month target price to Rs300 (15X CY2008E EPS of Rs20) from Rs260 previously. Castrol stock has had a good run over the past few weeks; however, we see further upside on stronger operating performance (high product prices, reasonable volume growth) backed by likely decline in LOBS price and yoy stronger rupee. Key downside risk stems from higher-than-expected LOBS price arising from a rebound in crude oil prices.

Automotive division does well. Castrol's 1QCY07 automotive lubes segment's revenues increased a strong 14.7% yoy led by (1) price increases affected in CY2006 and (2) likely good volume growth in March 2007. Castrol does not give quarterly sales volume but strong diesel consumption growth in March 2007 and our talks with industry people confirm likely strong volume growth for lubes after stagnant volumes in 2005 and 2006. The automotive segment's EBIT has grown 19.5% to Rs490 mn with EBIT margin expanding 50 bps yoy to 13.4%. We do not look at qoq comparison since automobile lubes sale is seasonal—2Q and 4Q in a calendar year are the best quarters.

Industrial segment starting to contribute; a positive surprise. Castrol's industrial lubes segment has grown remarkably with 34% yoy and 4.9% qoq growth in revenues to Rs776 mn and 87% yoy and 38% qoq increase in EBIT to Rs148 mn. The industrial segment's EBIT margin has expanded to 19.1% in 1QCY07 from 13.7% in 1QCY06. Castrol has invested in this business significantly in the past.

Earnings revisions—raised earnings significantly

2007—raised EPS 24%. We have raised Castrol's CY2007E EPS to Rs18.4 from Rs14.8 previously to reflect a stronger rupee (Rs43 from 44.5 previously), moderately higher volume growth and impact of price revisions affected by Castrol in CY2006. We note that a Rs1/US$ change impacts Castrol's EPS by Rs0.9. We have assumed a modest US$15/ tonne decline in LOBS price in 2007 over 2006 but this can be area of positive surprise. LOBS prices have softened from peak levels in late 2006 but YTD 2007 price is still moderately higher versus average CY2006 prices. We expect prices to decline from current levels but only moderately in 2007.

2008—raised EPS 20%. We have raised Castrol's CY2008E EPS to Rs20 from Rs16.7 previously on account of the same reasons discussed above. The yoy growth in earnings reflects a US$50/tonne price decline in LOBS assumed by us. We see new supply of LOBS (Indonesia and Malaysia) in 2008 leading to moderate loosening of current tight conditions in LOBS price.

Castrol: Profit model, balance sheet, cash model, December year-ends, 2004-2009E (Rs mn)

	2004	2005	2006	2007E	2008E	2009E
Profit model (Rs mn)						
Net sales	13,051	14,304	17,524	19,011	19,274	19,740
EBITDA	**2,082**	**2,117**	**2,200**	**3,354**	**3,672**	**3,943**
Other income	221	201	344	300	300	300
Interest	(29)	(30)	(41)	(34)	(34)	(33)
Depreciation	(249)	(189)	(180)	(178)	(184)	(188)
Pretax profits	2,026	2,098	2,322	3,441	3,755	4,022
Tax	(687)	(694)	(889)	(1,203)	(1,313)	(1,407)
Deferred taxation	9	56	57	33	37	39
Net profits	**1,275**	**1,468**	**1,491**	**2,272**	**2,478**	**2,655**
Earnings per share (Rs)	**10.7**	**11.8**	**12.1**	**18.4**	**20.0**	**21.5**
Balance sheet (Rs mn)						
Total equity	3,601	3,901	4,177	4,712	5,166	5,506
Deferred taxation liability	174	119	61	28	(9)	(48)
Total borrowings	37	28	28	23	19	16
Currrent liabilities	2,830	3,238	3,619	3,489	3,435	3,435
Total liabilities and equity	**6,642**	**7,285**	**7,885**	**8,253**	**8,611**	**8,909**
Cash	297	399	892	1,461	1,822	2,066
Current assets	3,558	4,422	5,271	5,098	5,130	5,222
Total fixed assets	1,498	1,383	1,297	1,269	1,234	1,197
Investments	1,289	1,081	425	425	425	425
Total assets	**6,642**	**7,285**	**7,885**	**8,253**	**8,611**	**8,909**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	1,576	1,544	1,403	2,117	2,326	2,503
Working capital	24	(465)	(506)	43	(86)	(92)
Capital expenditure	(57)	(89)	63	(150)	(150)	(150)
Free cash flow	**1,542**	**991**	**960**	**2,010**	**2,089**	**2,261**
Investments	(402)	258	687	—	—	—
Other income	37	25	9	300	300	300
Ratios (%)						
Debt/equity	0.99	0.69	0.66	0.49	0.38	0.30
Net debt/equity	0.98	0.69	0.65	0.49	0.37	0.29
RoAE	34.3	37.7	36.1	50.6	50.1	50.0
RoACE	**35.4**	**36.3**	**35.1**	**50.1**	**49.6**	**49.5**

Source: Kotak Institutional Equities estimates.

Castrol has high leverage to exchange rate and raw material prices

Sensitivity of Castrol's earnings to key variables

	CY2007E			CY2008E			CY2009E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Rupee dollar	44.0	43.0	42.0	44.0	43.0	42.0	44.0	43.0	42.0
Net profits (Rs mn)	2,154	2,272	2,390	2,366	2,478	2,591	2,545	2,655	2,765
EPS (Rs)		18.4			20.0			21.5	
% upside/(downside)	**(5.2)**		**5.2**	**(4.5)**		**4.5**	**(4.1)**		**4.1**
Raw material price									
Raw material price (US$/tonne)	825	800	775	775	750	725	750	725	700
Net profits (Rs mn)	2,113	2,272	2,430	2,317	2,478	2,639	2,492	2,655	2,818
EPS (Rs)		18.4			20.0			21.5	
% upside/(downside)	**(7.0)**		**7.0**	**(6.5)**		**6.5**	**(6.1)**		**6.1**

Source: Kotak Institutional Equities estimates.

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

		qoq			yoy		
	2007E	1Q 2007	4Q 2006	% chg	1Q 2007	1Q 2006	% chg
Net sales	**19,011**	**4,421**	**4,805**	***(8.0)***	**4,421**	**3,757**	***17.7***
Raw materials	11,691	2,786	3,123	*(10.8)*	2,786	2,454	*13.5*
Employees	756	191	181	*5.5*	191	144	*32.6*
Others	3,211	803	789	*1.7*	803	659	*21.9*
Advertisement	—	167	162	*2.8*	167	121	*38.3*
CIF costs	—	163	166	*(1.8)*	163	151	*7.9*
Other exp	—	474	462	*2.6*	474	387	*22.3*
Total expenditure	15,657	3,780	4,094	*(7.7)*	3,780	3,257	*16.1*
EBITDA	**3,354**	**641**	**711**	***(9.9)***	**641**	**500**	***28.1***
EBITDA margin (%)	**17.6**	**14.5**	**14.8**		**14.5**	**13.3**	
Other income	300	73	48	*51.6*	73	42	*73.2*
Interest	34	9	22	*(60.6)*	9	7	*28.8*
Depreciation	178	48	47	*1.3*	48	42	*13.3*
Pre-tax profits	**3,441**	**657**	**691**	***(4.8)***	**657**	**494**	***33.2***
Extraordinaries	—	(10)	(25)	—	(10)	—	—
Tax	1,203	232	285	*(18.6)*	232	172	*34.7*
Deferred tax	(33)	—	—	—	—	—	—
Net income	**2,272**	**415**	**381**	***9.0***	**415**	**321**	***29.2***
Adjusted net income	**2,272**	**422**	**395**	***6.7***	**422**	**321**	***31.2***
Effective tax rate (%)	34.0	35.3	41.3		35.3	34.9	
Segment wise details							
Revenues							
Automotive		3,645	4,066	*(10.3)*	3,645	3,179	*14.7*
Non-automotive		776	740	*4.9*	776	579	*34.1*
Total		**4,421**	**4,805**	***(8.0)***	**4,421**	**3,757**	***17.7***
EBIT							
Automotive		490	602	*(18.7)*	490	410	*19.5*
Non-automotive		148	107	*38.0*	148	79	*87.2*
Total		**638**	**710**	***(10.2)***	**638**	**489**	***30.4***
EBIT margin (%)							
Automotive		13.4	14.8		13.4	12.9	
Non-automotive		19.1	14.5		19.1	13.7	
Total		**14.4**	**14.8**		**14.4**	**13.0**	
Capital employed							
Automotive		3,185	2,880	*10.6*	3,185	3,177	*0.3*
Non-automotive		1,021	892	*14.4*	1,021	903	*13.0*
Unallocable assets less liabilities		386	405	*(4.6)*	386	142	*171.7*
Total		**4,592**	**4,177**	***9.9***	**4,592**	**4,222**	***8.8***

Source: Company, Kotak Institutional Equities estimates.

Consumer Products

GLSM.BO, Rs533	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	625
52W High -Low (Rs)	670 - 403
Market Cap (Rs bn)	22.4

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	11.1	12.4	13.9
Net Profit (Rs bn)	1.3	1.4	1.5
EPS (Rs)	30.2	32.1	36.7
EPS gth	*18.4*	*6.5*	*14.3*
P/E (x)	17.7	16.6	14.5
EV/EBITDA (x)	8.4	7.6	6.4
Div yield (%)	1.9	2.0	2.3

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	43.2	-	-
FIIs	4.1	0.0	(0.1)
MFs	10.4	0.2	0.2
UTI	1.7	0.3	0.2
LIC	9.6	0.2	0.1

Glaxo SmithKline Consumer India: 1QCY07: Sales growth at 17.5% in line with management guidance and our estimates.

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GlaxoSmithkline Consumer (GSK) reported y-o-y sales growth of 17.5% (our est. 10.7%), while EBITDA increased by 7.6% (our est. 17.2% decline) during 1QCY07. Other income during the quarter was higher (Rs139 mn compared to Rs72mn last year). Reported PAT at Rs 423 mn (our est. Rs 311 mn) grew by 22.8% primarily driven by an increase in sales and other income. EBITDA Margins improved to 17.5% compared to 9.5% in the 4QCY06. As per the release by the company the management said that it was interested in focused acquisitions of nutritional brands. We retain our inline rating and will review the same post the call scheduled with the management.

Quarterly results of Glaxo SmithKline Consumer, December yearends (Rs mn)

			yoy	Our est.	yoy
	1Q CY07	1Q CY06	% chg	1Q CY07	% chg
Gross sales	**3,562**	**3,033**	**17.5**	**3,358**	**10.7**
Material cost	(1,166)	(980)	*18.9*	-	
Excise duty	(297)	(263)	-	-	
Employee cost	(349)	(262)	*33.3*	-	
Advertising & promotion expenses	(430)	(399)	*7.9*	-	
Other overheads	(696)	(548)	*26.9*	-	
Total operating expenses	(2,938)	(2,453)	*19.8*	-	
EBITDA	**624**	**580**	**7.6**	**480**	**(17.2)**
Depreciation	(108)	(104)	-	-	
EBIT	**516**	**476**	**-**	**-**	
Other income	139	72	-	120	
Net interest	(11)	(8)	-	-	
PBT	**644**	**540**	**19.2**	**478**	**(11.4)**
Tax	(221)	(196)	-	(167)	
PAT	**423**	**345**	**22.8**	**311**	**(9.7)**
Extraordinary income (loss)	-	-	-	-	
Net profit	**423**	**345**	**22.8**	**311**	**(9.7)**
EBITDA margin (%)	17.5	19.1		14.3	
Effective tax rate (%)	34.3	36.2		35.0	
Costs as % of gross sales	**-**	**-**			
Material cost	32.7	32.3			
Excise duty	8.3	8.7			
Employee cost	9.8	8.6			
Advertising & promotion expenses	12.1	13.1			
Other overheads	19.5	18.1			

Source: Company data, Kotak Institutional Equities

Transportation

GATE.BO, Rs175	
Rating	IL
Sector coverage view	Cautious
Target Price (Rs)	176
52W High -Low (Rs)	266 - 138
Market Cap (Rs bn)	16.1

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	1.6	2.1	3.4
Net Profit (Rs bn)	0.8	0.9	1.0
EPS (Rs)	8.6	9.7	11.0
EPS gth	*10.5*	*13.1*	*14.0*
P/E (x)	20.3	18.0	15.9
EV/EBITDA (x)	15.9	14.5	12.4
Div yield (%)	1.2	1.4	1.6

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	39.2	-	-
FIIs	39.8	0.5	0.5
MFs	-	-	-
UTI	-	-	-
LIC	-	-	-

Gateway Distriparks: Numbers in-line, led by better performance of the CFS business

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- **As expected, better numbers in the CFS business mainly led by higher volumes at JNPT CFS**
- **Recent cold-chain acquisition drags profitability, turnaround seems more distant now**
- **JV with Concor to ramp up independent container train operations**
- **Revise SOTP based target price to Rs186 (from Rs176 ealier), retain IL**

GDPL has reported PAT of Rs198 mn (up 11% yoy) and revenues of Rs469 mn (up 43% yoy). While numbers are in-line with estimates, they could have been higher but for the negative contribution of Snowman, the recent cold-chain acquisition. Higher volumes at JNPT CFS as well as other ICD/CFS have contributed to improved operating performance. Snowman's turnaround may take longer than the management's initial estimates. GDPL has signed a JV with Concor to operate Garhi ICD, with an eye on a) ability to run container trains earlier than the initially-envisaged September 2008 and b) quicker ramp up in Garhi ICD's volumes with Concor's support. GDPL's first container train rake would be delivered in a week from now, while the second one is on order. We have revised upwards our valuation of container train business and have correspondingly revised our SOTP based target price to Rs186 from Rs176 earlier. We retain Inline rating because of limited upside and the fact that this upside is contingent on two key issues: a) turnaround of Snowman and b) good execution in container train business.

GDPL reported marginally better numbers in the core business lead by JNPT CFS

GDPL has reported PAT of Rs198 mn (up 11% yoy) and revenues of Rs469 mn (up 43% yoy). However excluding the contribution of Snowman, revenues are Rs410 mn (up 26% yoy) in line with our estimate of Rs411 mn and operating profit is Rs228 mn (up 26% versus our estimate of Rs208 mn. While operating performance at JNPT CFS has improved, Snowman contributed loss at an operating level dragging the profitability (Exhibits 1 & 2).

Higher volumes contribute to improved performance at JNPT CFS, other ICD/CFSs also increase throughput substantially

JNPT CFS reported operating revenues of Rs313 mn up (10% YoY) and EBITDA of Rs195 mn (up 17% YoY). Improvement in performance has been led by pick up in volumes at the flagship JNPT CFS by 7% YoY and 12% QoQ, to 43,706 TEUs. Higher volumes enable better absorption of costs leading to 9% improvement in EBIDTA/TEU to Rs4,466 and 690 bps improvement in EBITDA margins to 62%. Throughput at Garhi ICD and CFSs at Chennai and Vizag has also improved significantly by 80%, 101% and 113% respectively, and their overall contribution at EBITDA level has improved from Rs18mn to Rs33mn.

Snowman drags profitability, turnaround seems more distant now

Snowman has contributed an operating loss of Rs11 mn on revenues of Rs57 mn in 4QFY07. Given high valuations at the time of acquisition of 50.1% stake (EV of about Rs1 bn) we believed that management was hoping for a quick turnaround. However, Snowman is expected to contribute to profitability beyond FY2008 only. Ostensibly operating profitability of Snowman has declined in 4QFY07 compared to the first five months of FY2007, before being acquired by GDPL, probably because of restructuring costs (Exhibit 3).

JV with Concor to ramp up volumes at Garhi ICD and start own container train operations

Gateway Distriparks has signed a JV with Concor which would jointly operate the Garhi ICD. GDPL would receive lease rentals from the JV company for using the ICD. GDPL would also start running its own container trains from Garhi ICD, starting with two rakes, in May 2007. We believe GDPL has entered this JV because of a) potential quick ramp up in Garhi's volumes with Concor onboard, b) ability to run own container trains before September 2008 (earlier arrangement with Concor had precluded GDPL from running own container trains before September 2008 from Garhi ICD). We have retained our valuation for Garhi ICD as a) we would like to see increased throughput from Garhi and benefits it has for GDPL and b) quantum of lease rentals to be received from JV company has not been shared.

Revise our SOTP based target price because of higher valuation of rail freight business, retain IL

We have revised our EPS estimates upwards for FY2008 and FY2009 by 1% (to Rs9.6) and 4.3% (to Rs11.1 from Rs10.6 previously), primarily on back of higher contribution from rail freight business. We revise our SOTP based target price to Rs186 from Rs176 earlier based on higher valuation of rail freight business (Exhibits 4 & 5). We have not consolidated our estimates for Snowman in absence of detailed financials and visibility of clear turnaround. We retain our Inline rating because of limited upside and the fact that potential value is contingent on two key issues a) turnaround of Snowman and b) execution of rail freight business.

Exhibit 1. Consolidated financials of Gateway Distriparks, March fiscal year-ends FY2006-2007 (Rs mn)

	4Q07	4Q06	% YoY	3Q07	% QoQ	FY07	FY06	% YoY
Income from Operations	469.2	327.4	43.3	413.7	13.4	1,609.9	1,395.5	15.4
Total Expenditure	(250.8)	(146.2)	71.5	(214.4)	17.0	(799.4)	(546.1)	46.4
Operating profit	**218.4**	**181.2**	**20.5**	**199.3**	**9.6**	**810.5**	**849.4**	**(4.6)**
Other Income	63.8	62.0	2.9	56.5	13.0	245.2	109.6	123.8
EBIDTA	282.2	243.2	16.1	255.8	10.3	1,055.7	958.9	10.1
Interest	(2.0)	(5.9)	(66.3)	(2.4)	(17.7)	(11.9)	(25.4)	(53.3)
Depreciation	(45.7)	(28.1)	62.6	(36.0)	27.0	(139.1)	(104.0)	33.8
Profit before Tax	234.6	209.2	12.1	217.4	7.9	904.7	829.5	9.1
Provision for taxation	(42.0)	(29.5)	42.4	(31.4)	33.7	(138.7)	(96.7)	43.3
Net Profit after Tax	192.5	179.7	7.1	186.0	3.5	766.0	732.8	4.5
Minority Interest	5.5	(1.1)	(627.5)	2.4	131.2	7.7	(1.1)	(831.1)
Net Profit	**198.1**	**178.7**	**10.9**	**188.4**	**5.2**	**773.7**	**731.7**	**5.7**
One-time items	-	-	#DIV/0!	(21.2)	(100.0)	-	-	#DIV/0!
Reported PAT	-	178.7	(100.0)	167.2	(100.0)	773.7	731.7	5.7
OPM	**46.5**	**55.3**	**(15.9)**	**48.2**	**(3.4)**	**50.3**	**60.9**	**(17.3)**
EBIDTA margin	**60.2**	**74.3**	**(19.0)**	**61.8**	**(2.7)**	**65.6**	**68.7**	**(4.6)**
Effective tax rate	**17.9**	**14.1**	**27.1**	**14.5**	**23.9**	**15.3**	**11.7**	**31.4**
Throughput (TEUs)								
Mumbai	43,706	40,704	7.4	39,203	11.5	171,279	173,412	(1.2)
Delhi	4,386	2,430	80.5	5,816	(24.6)	17,078	10,226	67.0
Total GDPL	**48,092**	**43,134**	**11.5**	**45,019**	**6.8**	**188,357**	**183,638**	**2.6**
Chennai	14,213	7,085	100.6	10,122	40.4	41,473	25,535	62.4
Vizag	2,875	1,350	113.0	2,233	28.8	10,661	1,803	491.3
GDPL Consolidated	**65,180**	**51,569**	**26.4**	**57,374**	**13.6**	**240,491**	**210,976**	**14.0**
Operating revenues (Rs mn)								
Mumbai	312.9	285.4	9.7	308.5	1.5	1,237.0	1,251.4	(1.1)
Delhi	35.3	18.1	95.4	41.6	(15.1)	123.0	57.1	115.3
Total GDPL	**348.2**	**303.4**	**14.8**	**350.0**	**(0.5)**	**1,360.0**	**1,308.5**	**3.9**
Chennai	52.8	23.2	127.1	35.7	47.8	144.7	86.8	66.7
Vizag	9.4	4.3	115.9	6.1	53.8	33.2	5.7	487.3
GDPL Consolidated	**410.4**	**331.0**	**24.0**	**391.8**	**4.7**	**1,537.8**	**1,400.9**	**9.8**
EBIDTA (Rs mn)								
Mumbai	195.2	166.5	17.2	160.7	21.4	760.1	799.1	(4.9)
Delhi	5.6	4.9	14.9	7.5	(24.5)	23.9	15.7	52.6
Total GDPL	**200.8**	**171.4**	**17.2**	**168.2**	**19.4**	**784.0**	**814.8**	**(3.8)**
Chennai	27.0	12.4	118.4	16.0	68.6	67.1	36.7	82.5
Vizag	-	1.0	(100.0)	(2.5)	(100.0)	2.3	0.2	1,000.0
GDPL Consolidated	**227.8**	**184.8**	**23.3**	**181.7**	**25.4**	**853.4**	**851.8**	**0.2**
Revenues (Rs/TEU)								
Mumbai	7,160	7,010	2.1	7,868	(9.0)	7,222	7,216	0.1
Delhi	8,048	7,436	8.2	7,146	12.6	7,202	5,588	28.9
Total GDPL	**7,241**	**7,034**	**2.9**	**7,775**	**(6.9)**	**7,220**	**7,125**	**1.3**
Chennai	3,713	3,280	13.2	3,527	5.3	3,488	3,398	2.6
Vizag	3,252	3,207	1.4	2,723	19.4	3,112	3,134	(0.7)
GDPL Consolidated	**6,296**	**6,418**	**(1.9)**	**6,829**	**(7.8)**	**6,394**	**6,640**	**(3.7)**
EBIDTA (Rs/TEU)								
Mumbai	4,466	4,090	9.2	4,100	8.9	4,438	4,608	(3.7)
Delhi	1,284	2,016	(36.3)	1,283	0.1	1,399	1,531	(8.7)
Total GDPL	**4,176**	**3,973**	**5.1**	**3,736**	**11.8**	**4,162**	**4,437**	**(6.2)**
Chennai	1,900	1,745	8.9	1,582	20.1	1,617	1,439	12.4
Vizag	-	763	(100.0)	(1,115)	(100.0)	217	116	86.0
GDPL Consolidated	**3,495**	**3,583**	**(2.4)**	**3,167**	**10.4**	**3,548**	**4,037**	**(12.1)**
EBIDTA margin (%)								
Mumbai	62.4	58.3	6.9	52.1	19.7	61.4	63.9	(3.8)
Delhi	15.9	27.1	(41.2)	17.9	(11.1)	19.4	27.4	(29.1)
Total GDPL	**57.7**	**56.5**	**2.1**	**48.1**	**20.0**	**57.6**	**62.3**	**(7.4)**
Chennai	51.2	53.2	(3.8)	44.8	14.1	46.4	42.3	9.5
Vizag	-	23.8	(100.0)	(41.0)	(100.0)	7.0	3.7	87.3
GDPL Consolidated	**55.5**	**55.8**	**(0.5)**	**46.4**	**19.7**	**55.5**	**60.8**	**(8.7)**

Exhibit 2. Improvement in CFS business while Snowman drags profitability
Segmental performance of Gateway Distriparks (Rs mn)

	4QFY07		4QFY07E	4QFY06	
	CFS	Snowman	CFS	CFS	Snowman
Revenues	410	57	411	327	0
Operating profit	**228**	**(11)**	**208**	**181**	**0**
Other income	56	9	65	62	0
PBIDT	284	(2)	274	243	0

Source: Company data, Kotak Institutional Equities estimates

Exhibit 3. Snapshot of financials of Snowman Frozen Foods Ltd (Rs mn)

	Five months ended August 31, 2006	4QFY07
Revenues #	117.1	57.4
EBITDA	15.4	(10.8)

Source: Company data, Kotak Institutional Equities

Exhibit 4. We have revised our SOTP target price to Rs186/share based on higher valuation of rail freight business
Sum of the parts valuation of Gateway Distriparks (Rs mn)

	Rs mn	Implied EV/EBIDTA (X)
JNP CFS	10,193	13.0
Garhi ICD	493	9.7
Chennai CFS	1,020	14.0
Vizag CFS	66	13.8
Faridabad ICD	329	102.3
Kochi CFS	(51)	
Rail Freight business	2,179	
MOU with Concor	(0)	
Running own container trains	2,179	
Total EV	**14,228**	**16.4**
Less: net debt	(2,957)	
Market capitalisation	17,185	
No. of shares outstanding (mn)	92.2	
Per share (Rs)	**186.4**	

Note: Each operating asset has been valued using DCF methodology, at fiscal year end 2008.

Source: Kotak Institutional Equities estimates

Exhibit 5. Rail based container transportation business, if executed well, can add significant value inspite of its capex intensity

DCF valuation of rail based container transportation business of Gateway Distriparks

	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Revenues	**197**	**1,063**	**2,188**	**3,379**	**3,548**	**3,974**	**4,173**
EBITDA	(56)	(92)	139	248	313	566	595
Depreciation	(7)	(36)	(61)	(90)	(90)	(90)	(90)
EBIT	(36)	(128)	77	158	223	476	505
Tax rate (%)	0	11.7	11.7	11.7	11.7	11.7	11.7
EBIT*(1-tax rate)	(36)	(113)	68	139	197	421	446
Change in Working capital	(5)	(24)	(31)	(33)	(5)	(12)	(5)
Capex	180	720	630	720	0	0	0
Free cash flows	(221)	(857)	(593)	(613)	193	409	440
Years discounted	0	1	2	3	4	5	6
Discount factor	1	0.9009009	0.8116224	0.7311914	0.658731	0.593451328	0.5346408
Discounted cash flow	(221)	(772)	(481)	(448)	127	243	235

WACC calculation	0
Risk-free rate (Rf)	7
Beta (B)	1
Equity risk premium	5
Expected market Return (Rm)	12
Cost of Equity (Ke)	12.3
Cost of Debt (Kd) (Post-tax)	8
WACC	11

Terminal value Calc	0
Cash flow in terminal year	440
Growth	4
Capitalisation rate	7
Terminal value	6,539
Discount period (years)	6
Discount factor	0.5
Discounted value	3,496

Capital Structure	
Gross debt	41.7
Equity	58.3

EV Calculation	0.0
FCF Sum	(1,317.4)
Terminal value	3,496.0
Enterprise value	2,178.6

Source: Kotak Institutional Equities estimates

Industrials

DRDG.BO, Rs522	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	575
52W High -Low (Rs)	674 - 460
Market Cap (Rs bn)	14.6

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	5.2	5.4	5.4
Net Profit (Rs bn)	1.3	1.4	1.3
EPS (Rs)	47.3	48.5	44.8
EPS gth	*(23.2)*	*2.6*	*(7.8)*
P/E (x)	11.0	10.8	11.7
EV/EBITDA (x)	6.0	5.5	5.4
Div yield (%)	2.9	2.9	2.9

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	78.6	-	-
FIIs	3.8	0.0	(0.0)
MFs	7.9	0.1	0.1
UTI	-	-	(0.1)
LIC	3.0	0.0	(0.0)

Dredging Corporation of India: Better-than-expected numbers due to large contract; outlook remains weak

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- **Sethusamudram provides a one-time boost to numbers**
- **We remain apprehensive of likely losses on the rest of this large contract**
- **We maintain our target price of Rs600/share, retain Inline rating**

Dredging Corporation has reported better-than-expected revenues and earnings on the back of execution of the Sethusamudram contract. While the project has provided a one-time boost to revenues, we believe DCI's ability to execute the remaining portion of the work, involving complex capital dredging, would be key to growth. In its earnings call, the management shared that this portion (around Rs18 bn in value) had not been firmed up as DCI has not managed to in-charter the requisite number of dredgers so far. Additionally, its solo cutter-suction dredger is undergoing major repairs due to a mishap at Sethusamudram. On the positive side, the contract for maintenance dredging at Kolkata Port trust (where the company enjoyed exclusive rights so far) is being renewed, although the terms are not known, for 3 years. We retain our Inline rating and DCF-based target price of Rs600/share.

Sethusamudram provides a one-time boost to numbers

DCI has recorded 46% rise in revenues and 19% rise in PAT in 4Q. The company has booked around Rs700 mn revenues on account of its Sethusamudram project during 4q, which has significantly boosted numbers. The company has in-chartered 2 vessels for this project, reflecting in increased 'other expenses'.

Ability to execute rest of Sethusamudram is crucial for growth

The remaining portion of the Sethusamudram work involves complex capital dredging, for which DCI does not possess the capability and vessels. This portion is valued at Rs18 bn. In its earnings call, the management shared that the contract has not been firmed so far as DCI has not managed to in-charter the requisite number of dredgers. In any case, work would come to a halt during the ensuing monsoon season. Albeit large, we are apprehensive of margins (in fact, likelihood of losses) on this project, given a) the lowest bidder had quoted twice the expected amount, post which the government is contemplating awarding the project to DCI at the original amount on negotiated basis, b) DCI does not possess the experience of having done such a large project on its own.

Maintain estimates and target price of Rs600/share

We remain apprehensive due to a) likely further pricing pressures, b) higher fuel cost and c) additional repairs on the damaged dredger. We retain our Inline rating and DCF based target price of Rs600/share.

DCI - 4QFY07 key numbers (Rs mn)

	4QFY07	4QFY06	% YoY	4QFY07	3QFY07	% YoY	FY07	FY06	% YoY
Net revenues	**2,020**	**1,384**	**46**	**2,020**	**1,321**	**53**	**5,705**	**5,035**	**13**
Total Expenditure	(1,318)	(1,003)	31	(1,318)	(1,023)	29	(3,933)	(3,325)	18
Staff cost	(80)	(97)	(18)	(80)	(154)	(48)	(548)	(586)	(6)
Repairs and maintenance	(182)	(165)	11	(182)	(132)	38	(465)	(413)	13
Spares and stores	(128)	(134)	(4)	(128)	(113)	13	(495)	(478)	4
Fuel and lubricants	(587)	(448)	31	(587)	(486)	21	(1,762)	(1,449)	22
Others	(341)	(160)	113	(341)	(140)	144	(663)	(400)	66
Operating profit	**702**	**381**	**84**	**702**	**297**	**136**	**1,773**	**1,710**	**4**
Other income	130	78	67	130	104	25	440	353	25
EBIDTA	**832**	**459**	**81**	**832**	**401**	**107**	**2,213**	**2,063**	**7**
Interest	(5)	(7)	(31)	(5)	(5)	(10)	(21)	(29)	(28)
Depreciation	(135)	(94)	44	(135)	(127)	6	(445)	(372)	20
PBT	**693**	**359**	**93**	**693**	**269**	**157**	**1,747**	**1,662**	**5**
Tax	(49)	180	(127)	(49)	(40)	21	(181)	53	(442)
Deferred Tax	-	229		-	-		-	229	
PAT	**644**	**539**	**19**	**644**	**229**	**181**	**1,566**	**1,715**	**(9)**
Key ratios (%)									
OPM	34.8	27.5		34.8	22.5		31.1	34.0	
PAT Margin	31.9	39.0		31.9	17.3		27.4	34.1	
Effective tax rate	7.0	(50.1)		7.0	14.9		10.4	(3.2)	

Source: Company data, Kotak Institutional Equities Estimates

Pharmaceuticals

WCKH.BO, Rs429	
Rating	U
Sector coverage view	Neutral
Target Price (Rs)	390
52W High -Low (Rs)	476 - 318
Market Cap (Rs bn)	46.9

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	17.3	23.1	25.4
Net Profit (Rs bn)	2.5	2.7	3.1
EPS (Rs)	20.9	22.5	25.9
EPS gth	*(3.0)*	*7.8*	*15.2*
P/E (x)	20.6	19.1	16.5
EV/EBITDA (x)	13.6	10.3	8.9
Div yield (%)	1.2	1.2	1.4

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	73.6	-	-
FIIs	4.2	0.0	(0.1)
MFs	3.7	0.1	0.0
UTI	-	-	(0.1)
LIC	3.4	0.1	(0.0)

Wockhardt: Expect 8% EPS growth in CY2007; lowering rating to U

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- **Lowering rating to U, with revised target price of Rs390**
- **Estimate EPS growth of 8% in CY2007 and 15% in CY2008**
- **Key concerns are (a) high exposure to EU, which is becoming very competitive and (b) excessive dependence on inorganic growth.**

Q1 revenues were up 49%, while pre-exceptional net profit (after writing off development costs, which the company is capitalizing) was down 9% to Rs518 mn. For all EPS and net profit calculations, we knock off the development cost. We have made changes to our model, to reflect the Q1 results and a stronger rupee assumption (Re/US$ rate of 43 versus 44 earlier). Net-net, we have cut earnings by 13% in CY2007 and 9% in CY2008. For the full year, we estimate 33% revenue growth and 8% growth in pre-exceptional net profit to Rs2.7 bn. We have reduced our price target to Rs390 (Rs400 earlier) and rating to U (IL earlier). The stock has performed well in the last two months, delivering about 25% since our upgrade on February 26. We now think it is time to cut weight on the stock, as valuations seem fair and earnings growth is likely to be modest.

Q1 topline was boosted by acquisitions. Topline growth was 49% in Q1 (organic growth was 16%). Growth in domestic formulations was 31% (constitutes 33% of sales); partially spurred by the recent acquisition of two nutritional products. We have assumed 15% growth for the full year. International formulation sales (58% of sales) grew by 72% the quarter. We have assumed 49% growth for the full year. The EU business constitutes 47% of sales, and grew by 94% in Q1 (boosted by the Pinewood acquisition in Ireland). The US formulations business grew by 44% (8% of sales).

Our model assumes sales of US$536 mn in CY2007. For the full year, we estimate 33% revenue growth, 34% EBITDA growth, 20% PBT growth and 8% growth in pre-exceptional net profit to Rs2.7 bn.

From a nominal interest charge of Rs26 mn in the previous year, we estimate interest cost to rise to Rs414 mn (Rs129 mn in Q1). Net debt has moved up, post the two acquisitions in the previous year (Rs6.55 paid for acquisitions).

Tax rates are likely to move up to 24% in the current year (24% in Q1), versus 15% in the previous year. In the previous year, the company had a tax credit; else the tax rate would have been 21%. Our net margin for the current year is 12% (10% in Q1), after charging off all research cost.

We estimate an pre-tax RoCE of 14% in CY2006 and RoE of 22.5%. The company had a net debt of Rs5.2 bn at end of CY2006, excluding Rs4.8 bn worth of zero coupon convertible bonds (convertible price of Rs486 prior to October 2009).

The company is targeting to achieve US$1 bn sales in CY2009. Of this about ~US$215 will come from acquisitions. Our model assumes US$665 mn sales in CY2009, 11% CAGR over current year's estimated base. Key differences are in growth assumptions in the US and EU business. We are cautious in our growth assumptions, as there does not seem to be much visibility on unique products/categories.

Dependence on acquisitions, or inorganic growth is high. Excluding acquisitions, we estimate revenue growth of 9% CAGR between CY2002 and CY2006. We think that mid-sized companies have enough opportunity to grow in mid-teens atleast. Pinewood was Wockhardt's fourth European acquisition, after Wallis, CP Pharmaceuticals (both in UK) and Esparma in Germany. We estimate that EU will constitute 46% of Wockhardt's consolidated sales in CY2006. Prices in UK and Germany are extremely competitive, and a risk to earnings.

Wockhardt - results table (Rs mn)

	Q1CY06	Q2CY06	Q3CY06	Q4CY06	Q1CY07	Q4, yoy growth %	CY2006	CY2007E	Growth %
Net Sales	3,515	4,127	4,377	5,264	5,228	49	17,290	23,063	33
yoy growth (%)									
Total expenses	2,826	3,230	3,406	4,043	4,069	44	13,288	17,692	33
(Inc)/Dec in stock	(322)	44	(211)	(127)	(145)				
Raw material	1,059	949	1,098	2,012	1,545		6,678	9,110	
Purchase of Finished Goods	549	579	848	230	650				
Staff Cost	552	563	595	822	811	47	2,692	3,300	23
R&D Expenditure	229	273	169	130	160	(30)	610	700	15
Other expenditure	759	822	907	976	1,048	38	3,307	4,582	39
EBITDA	689	897	971	1,221	1,159	68	4,003	5,371	34
yoy growth (%)	15	(7)	11	44			22	680	
Depreciation	137	140	141	212	181		621	789	
Interest	(77)	(6)	(5)	115	129		26	414	
Other Income	33	18	61	78	22		190	100	
Pre-exceptional PBT	662	781	896	972	871	32	3545	4268	20
yoy growth (%)	25	(7)	20	17			20	545	
Extraordinary Items	604						604		
PBT	58	781	896	972	871		2,942	4,268	
Current Tax	53	126	81	57	133		269	619	
Deferred Tax	42	21	75	44	75		260	405	
PAT	(37)	634	740	871	663		2,413	3,244	
Less: Product development cost (capitalised portion)			133	199	145		518	550	
Adj. PAT	567	634	607	672	518	(9)	2,498	2,694	8
yoy growth (%)	36	(18)	(7)	(8)			(3)	375	
Operating Parameters (as a % of sales)									
Materials consumed	36.6	38.1	39.0	40.2	39.2		38.6	39.5	
Staff cost	15.7	13.6	13.6	15.6	15.5		15.6	14.3	
R&D cost	6.5	6.6	3.9	2.5	3.1		3.5	3.0	
Others	21.6	19.9	20.7	18.5	20.0		19.1	19.9	
EBITDA	19.6	21.7	22.2	23.2	22.2		23.1	23.3	
EBITDA, after charging off ANDA development cost	19.6	21.7	22.2	23.2	19.1		19.3	23.3	
Tax rate	164	19	17	10	24		18	24	
Net margin	(1.1)	15.4	16.9	16.5	12.7		14.0	14.1	
Revenue breakup (Rs mn)									
Domestic sales	1,348	1,742	2,002	1,659	1,831	36	6,764	7,884	
Formulations	1,320	1,670	1,928	1,577	1,732	31	6,508	7,484	
Bulks	28	72	74	82	99	252	256	400	
International sales									
Formulations	1,767	2,061	1,998	3,278	3,045	72	9,103	13,519	
- US	273	278	349	193	394	44	1,062	1,720	
- Europe	1,266	1,593	1,450	2,888	2,455	94	6,988	10,724	
- RoW	228	190	199	197	196	(14)	1,053	1,075	
Bulks	395	322	376	327	353	(11)	1,423	1,376	
- US	156	102	194	144	99	(37)	597	500	
- Europe	30	59	41	31	44	47	162	168	
- RoW	209	161	141	152	210	0	664	708	
Others		2							
Total	3,510	4,127	4,376	5,264	5,228	49	17,290	22,779	

Transportation

CCRI.BO, Rs2072	
Rating	IL
Sector coverage view	Cautious
Target Price (Rs)	2,200
52W High -Low (Rs)	2288 - 1286
Market Cap (Rs bn)	134.7

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	30.5	37.1	41.8
Net Profit (Rs bn)	6.9	8.4	8.8
EPS (Rs)	106.3	129.7	135.3
EPS gth	*32.8*	*23*	*4.4*
P/E (x)	19.5	16	15.3
EV/EBITDA (x)	13.5	10.5	9.9
Div yield (%)	0.9	1.0	1.1

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	63.1	-	-
FIIs	26.7	0.6	0.1
MFs	5.2	0.7	0.2
UTI	-	-	(0.5)
LIC	-	-	(0.5)

Container Corporation: Lower volume growth in a robust macro environment possibly implies loss of market share to roads

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- **Volume growth remains tepid despite stimulation via discounts**
- **Lower provisioning in 3Q, readjusted in 4Q might account for lower domestic segment profitability**
- **Fresh and Healthy gets going; bigger plans on the anvil**
- **Concor still our preferred play on the sector but await a better entry point**

Concor has recorded a volume growth of 9% for FY2007 ' in-line with our revised estimates but well below the numbers implied by India's strong trade growth. Successive freight rate increases by railways seems to have resulted in some market share loss to roads. Lower profitability in domestic segment may have been due to higher provisioning in 4Q, an adjustment for 3Q. In the conference call management sounded confident, as usual, of holding its market share at 90% despite competition as well as long term plan for Fresh and Healthy, its cold chain subsidiary. We continue to estimate a marked pick-up in volume growth in FY2008 and 09 on the back of new container ports and benign tariff scenario. Concor remains our preferred play in the logistics sector for playing rising trade growth and investments in the transportation infrastructure. However, in view of the recent stock price appreciation and lower volume growth outlook, we recommend that investors await a lower entry point into the stock. We maintain our estimates and Inline rating.

Volume growth moderate despite discounts

Concor has managed to record a volume growth of 9% during FY2007. India's strong trade growth numbers should have ideally caused better growth for Concor. However, successive freight rate increases by railways seems to have reduced competitiveness versus roads and thus some market share have been lost to the roads. Concor has offered several discounts for exp. discount for import containers moving from West coast ports to the Northern hinterland. However such discounts have failed to provide a fillip to the volume growth.

Lower provisioning in 3Q, adjusted in 4Q probably accounts for lower profitability in the domestic segment in 4Q

Concor seems to have readjusted the 3Q's lower provisioning in the domestic segment in the 4QFY07. While the extent of this adjustment has not been quantified we believe this may be one of the contributing factors for lower profitability of the domestic segment.

Management confident of holding on its own against impending competition, attempts to tie in customers

Concor management expressed confidence that inspite of new entrants Concor would have more than 90% market share over the next three to four years. Concor has started discounts between 2.5% to 7.5% for shipping lines and major exporters who commit a specific volume over the next three years. Concor also suggested that it would levy access charges, if competitors intend to use its CFS/ICDs, in such a manner that defends its own commercial interests. Our estimates for FY2009 already factor in the potential impact of these bulk discounts on margins.

Fresh and Healthy, Concor's cold chain subsidiary get going, bigger plans on the anvil

Concor has invested about Rs1.0 bn in its subsidiary Fresh and Healthy for setting up a cold storage facility. In FY2007 this subsidiary had revenues of Rs49 mn with PAT of Rs6.9 mn. Concor expects this subsidiary to have revenues of Rs1.0 bn in three years from now with about 20% PAT margin. Over the next four years or so, Concor expects to invest about Rs15.0 bn in setting up 13-14 facilities across the country. Concor has directly tied up with several large retail chains in the organized sector as well as agents for marketing its cold stored products.

Clarity on section 80-IA benefits alleviates tax-related concerns

The company has won an appeal regarding tax exemptions under section 80-IA, claimed in the year FY2003 for rail systems (similar appeal related investment in ICDs is still pending). Concor has expressed confidence about getting Sec.80IA benefits for both wagon and terminal investments and we model Concor's effective tax rate at 21% and 18% in FY2008 and FY2009 versus an effective tax rate of 22% in FY2007.

Changes to earnings model result in marginal changes in EPS estimates

Concor has done slightly higher volumes in FY2007 versus our revised estimates post 3Q; 1.69 mn TEUs (versus our estimate of 1.66 mn TEUs) in the exim segment and 0.41 mn TEUs (versus our estimate of 0.39 mn TEUs) in the domestic segment. We lower our volume growth estimate in exim segment for FY2008 to 18% (earlier 20% on lower estimated base of FY2007) retain domestic segment growth of 10%. For FY2009 we are expecting volume growth of 15% and 10% in exim and domestic segment versus 16% and 15% earlier. We maintain our margin estimate at 31% in FY2008. However beyond that we expect margins to decline by 300 bps with the onset of competition.

Still a good long term play but await a better entry point

We are betting on a stronger volume growth in FY2008 compared to FY2007, based on a) recent freight rate increases have been benign and should stimulate market share gains, b) pick-up in port capacities and traffic would boost Concor's volumes. We continue to hold the view that impending competition would not impact Concor in the medium term. We maintain our revised DCF-based target price is Rs2,200 and retain Inline rating. Concor continues to remain our preferred long term bet on trade growth and investments in transportation infrastructure, however, we would recommend a lower entry point.

Concor - 4QFY07 numbers (Rs mn)

	yoy			qoq			yoy		
	4QFY07	4QFY06	% change	4QFY07	3QFY07	%change	FY07	FY06	% YoY
Net Sales	**8,081**	**6,729**	**20.1**	**8,081**	**7,472**	**8**	**30,460**	**24,332**	**25.2**
Staff cost	(100)	(75)	34.6	(100)	(83)	20	(352)	(296)	18.9
Rail freight exp	(4,741)	(3,724)	27.3	(4,741)	(4,226)	12	(17,290)	(12,804)	35.0
Others	(1,038)	(1,024)	1.4	(1,038)	(939)	11	(3,709)	(4,256)	(12.8)
Total exp	**(5,879)**	**(4,822)**	**21.9**	**(5,879)**	**(5,248)**	**12**	**(21,351)**	**(17,355)**	**23.0**
Operating profit	**2,202**	**1,907**	**15.5**	**2,202**	**2,224**	**(1)**	**9,109**	**6,976**	**30.6**
Other Income	148	180	(17.6)	148	205	(28)	684	560	22.2
EBIDTA	**2,351**	**2,087**	**12.6**	**2,351**	**2,429**	**(3)**	**9,794**	**7,536**	**30.0**
Interest	-	-		-	-		-	(2)	(100.0)
Depreciation	(223)	(226)	(1.6)	(223)	(242)	(8)	(919)	(833)	10.4
PBT	**2,128**	**1,861**	**14.4**	**2,128**	**2,187**	**(3)**	**8,874**	**6,701**	**32.4**
Tax	(434)	(290)	50.0	(434)	(530)	(18)	(1,965)	(1,465)	34.1
Prior period	-	-		-	-		(4)	-	
PAT	**1,694**	**1,571**	**7.8**	**1,694**	**1,657**	**2**	**6,906**	**5,237**	**31.9**
Key ratios (%)									
Rail freight exps / sales	58.7	55.3		58.7	56.6		56.8	52.6	
Other exp / Sales	12.8	15.2		12.8	12.6		12.2	17.5	
OPM	27.3	28.3		27.3	29.8		29.9	28.7	
Effective tax rate	20.4	15.6		20.4	24.2		22.1	21.9	
Segmental analysis									
	4QFY07	**4QFY06**	**% change**	**4QFY07**	**3QFY07**		**FY07**	**FY06**	**% YoY**
Volumes (TEUs)									
Exim	439,948	386,966	13.7	439,948	419,461	4.9	1,698,511	1,556,714	9.1
%	78.5	78.7		78.5	81.9		80.7	80.6	
Domestic	120,200	104,813	14.7	120,200	92,489	30.0	406,755	373,848	8.8
%	21	21		21	18		19	19	
Total	560,148	491,779	13.9	560,148	511,950	9.4	2,105,266	1,930,562	9.0
SALES (Rs mn)									
Exim	6,463.6	5,158.1	25.3	6,463.6	5,808.6	11.3	24,452.6	19,062.6	28.3
%	80.0	76.7		80.0	77.7		80.3	78.3	
Domestic	1,617.6	1,647.5	(1.8)	1,617.6	1,663.4	(2.8)	6,007.2	5,269.0	14.0
%	20.0	24.5		20.0	22.3		19.7	21.7	
Per TEU realisation (Rs)									
Exim	14,692	13,330	10.2	14,692	13,848	6.1	14,396	12,245	17.6
Domestic	13,458	15,718	(14.4)	13,458	17,985	(25.2)	14,769	14,094	4.8
Overall	14,427	13,839	4.3	14,427	14,595	(1.2)	14,468	12,603	14.8
PBIT margin (%)									
Exim	28.3	27.5		28.3	28.8		30.4	29.2	
Domestic	13.5	22.1		13.5	23.0		17.2	18.9	

Source: Company data, Kotak Institutional Equities estimates

Key numbers for Concor, March fiscal year ends 2006-09E

	2006	2007	2008E	2009E
Operating parameters				
Exim TEUs (nos)	1,556,714	1,698,511	2,004,243	2,304,880
% growth	13.1	9.1	18.0	15.0
Domestic TEUs (nos)	373,848	406,755	447,430	492,173
% growth	6.4	8.8	10.0	10.0
Total TEUs (nos)	**1,930,562**	**2,105,266**	**2,451,673**	**2,797,053**
% growth	**11.7**	**9.0**	**16.5**	**14.1**
TEU-mix (%)				
Exim	80.6	80.7	81.8	82.4
Domestic	19.4	19.3	18.2	17.6
Revenue mix (%)				
Exim	78.3	79.9	81.0	81.7
Domestic	21.7	20.1	19.0	18.3
Income statement extracts (Rs mn)				
Revenues	24,332	30,460	37,132	41,849
EBIDTA	6,976	9,109	11,365	11,519
EBITDA margin (%)	28.7	29.9	30.6	27.5
PBT	6,701	8,874	10,695	10,669
Tax	(1,465)	(1,969)	(2,263)	(1,876)
Effective tax rate (%)	21.9	22.2	21.2	17.6
PAT	5,237	6,906	8,432	8,793
EPS (Rs)	**80.6**	**106.3**	**129.7**	**135.3**

Source: Kotak Institutional Equities estimates

Pharmaceuticals

NICH.BO, Rs258	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	265
52W High -Low (Rs)	284 - 150
Market Cap (Rs bn)	53.8

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	24.7	30.7	33.9
Net Profit (Rs bn)	2.3	2.9	3.8
EPS (Rs)	11.0	14.0	18.0
EPS gth	*85.1*	*26.9*	*29.2*
P/E (x)	23.4	18.4	14.3
EV/EBITDA (x)	15.4	12.3	9.7
Div yield (%)	1.4	1.4	1.6

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	50.2	-	-
FIIs	14.0	0.1	(0.1)
MFs	1.6	0.1	(0.1)
UTI	-	-	(0.2)
LIC	4.1	0.2	0.0

Nicholas Piramal: Guidance is positive on topline; but below expectations on EPS

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- **FY2008 guidance is positive on the topline, but below expectations on margins and EPS.**
- **We have lowered our FY2008 EPS to Rs14 and FY2009 EPS to Rs18**
- **Stock likely to be range bound; maintain IL**

Nicholas Piramal has guided for 25% continued business growth, with 15.5% operating margin and Rs14 as EPS. If achieved, this will be the best organic performance by Nicholas. The guidance seems to include about US$35 mn worth of international revenues, or 6% of total, on which we donot have much clarity. However on the margin front, we are disappointed with the 15.5% margin (flat versus FY2007), despite a higher capacity utilisation and the turnaround of the Avecia unit. The company attributes flat margin guidance to increased research spend and investments into fresh capacities. In tune, with the guidance we have raised our revenue numbers for FY2008, but reduced margin and EPS estimate to Rs14 (Rs14.5 earlier). We have also cut our FY2009 EPS to Rs18 (Rs20 earlier). We have rolled over our DCF based target price to March 2009 and maintain our price target of Rs265. Stock is likely to be range bound; maintain IL rating. Long-term, we think the management has the ability to create value (based on its acquisitions, manufacturing and domestic formulations strategy).

EPS growth was 85% in FY2007. For FY2007, Nicholas had a revenue growth of 55%, EBITDA growth of 83% and net profit growth of 85% (pre-exceptional) to Rs2.3 bn. Operating margin was up 240bps to 15.5%. Avecia, acquired in FY2006, has turned around, owing to higher capacity utilization, efficient sourcing and some cost rationalization.

Estimate EPS growth of 27% in FY2008. For FY2008, we estimate revenue growth of 24%, EBITDA growth of 25% and net profit growth of 27% (pre-exceptional) to Rs2.9 bn.

The company has guided for 25% continued business growth, with 15.5% operating margin and Rs14 as EPS. If achieved, this will be the best organic performance by Nicholas. The guidance seems to include about US$35 mn worth of international revenues, or 6% of total, on which we donot have much clarity. However on the margin front, we are disappointed with the 15.5% margin (flat versus FY2007), despite a higher capacity utilisation and the turnaround of the Avecia unit. The company attributes flat margin guidance to increased research spend (impact of 60bps) and investments into fresh capacities.

Domestic business grew by 12% in FY2007 and 16% growth is likely in FY2008. About 48% of Nicholas's business is from domestic formulations. The company has guided for 16% growth in FY2008, given its focus on a) increasing sales-force productivity, b) rising share of chronic treatment drugs, c) aggression in new launches.

Avecia acquisition has turned around. The CRAMS division posted a turnover of Rs8.9 bn (36% of revenues) in FY2007. Most of the manufacturing business is a result of the two overseas acquisitions. It also includes Rs767 mn worth of exports from India, which the management has guided to doubling in FY2008. Overall, the international business is likely to grow by 35% in FY2008.

The Avecia acquisition has turned around, owing to higher capacity utilization, efficient sourcing and some cost rationalization. Avecia accounted for about half of the manufacturing business.

Manufacturing pipeline seems robust. The company is making good progress in the development space, with 12 projects in phase III (versus 9 in the previous year). Longer term, we expect Nicholas to emerge as a leading player in the contract manufacturing space.

NCE pipeline seems robust; research cost to rise sharply. Nicholas has 340 scientists in its R&D team, working in a large 200,000 sq feet facility in Mumbai. The focus areas are Cancer (CDK-4 inhibitors), Diabetes, Inflammation (TNFa) and Infectious diseases. It is also working on pro-drugs, mainly in the area of NSAIDs like Aspirin and Diclofenac. It has one NCE and two phyto-pharmaceutical products in the clinic currently. The management has said that R&D cost will be Rs1.7 bn in FY2008 versus Rs1.3 bn in FY2007. Overall, it seems that research at Nicholas is moving swiftly.

Nicholas has an agreement with Eli Lilly for doing clinical development of the latter's molecule (in the area of metabolic disorder). The agreement includes some preclinical studies (toxicology), phase I (on 72 healthy volunteers) and phase II trials. These studies will be designed under GCP guidelines and the US FDA will likely accept data generated from these studies for phase III trials. Technically speaking Nicholas has licensed the molecule from Lilly, which has a call back option at the end of phase II trials. This means that the molecule can now undergo phase I trails in India (including some small studies overseas). Nicholas will receive upto US$100 mn as milestones (on completion of phase I, phase II, registration and launch). It will also receive royalties on sales and has marketing rights in few markets (mainly India).

Nicholas Piramal - results table (Rs mn)

	Q4FY06	1QFY07	2QFY07	3QFY07	4QFY07	Q4, yoy growth (%)	FY2006	FY2007	FY07, yoy growth (%)	FY2008	FY08, yoy growth (%)
Sales	**4,480**	**5,497**	**6,625**	**6,737**	**6,683**	*49*	**16,904**	**25,721**	*52*	**31,736**	23
Excise	225	272	257	242	231		960	1,001		1,082	
% of gross sales	*5.0*	*4.9*	*3.9*	*3.6*	*3.5*		*5.7*	*3.9*		*3.4*	
Net Sales	**4,254**	**5,226**	**6,369**	**6,495**	**6,452**	*52*	**15,944**	**24,719**	*55*	**30,654**	24
Total Exp	**3,898**	**4,348**	**5,409**	**5,525**	**5,603**	*44*	**13,849**	**20,885**	*51*	**25,866**	24
- Inc/Dec Stock	96	(28)	39	(193)	(27)		768				
- Consp of RM	1,668	1,872	2,344	2,579	2205		5,900	8,791		11,526	
- Staff Cost	633	797	1,156	1,120	1127	*78*	1,927	4,200	*118*	4,914	17
- R&D expense	312	305	291	309	359	*15*	775	1,265	*63*	1,700	34
- Other Exp	1,189	1,402	1,578	1,709	1940	*63*	4,479	6,629	*48*	7,725	17
EBITDA	**357**	**877**	**960**	**970**	**849**	*138*	**2,096**	**3,835**	*83*	**4,788**	25
Depreciation	214	228	244	222	158		688	818		943	
EBIT	**143**	**650**	**717**	**748**	**691**	*384*	**1,408**	**3,017**	*114*	**3,845**	27
Interest	43	46	76	88	96		173	305		397	
Other Income	77	0	2	2	0		282	4		10	
PBT	**177**	**604**	**642**	**663**	**595**	*237*	**1,517**	**2,715**	*79*	**3,458**	27
Current Tax	(105)	13	141	59	(2)		125	231		380	
Deferred Tax	103	51	20	51	36		114	158		138	
Exceptionals and prior period items	26		(56)	32	12		68	145		0	
Minority Interest	2	1					4	1		1	
PAT	**152**	**539**	**537**	**522**	**550**	*262*	**1,207**	**2,181**	*81*	**2,939**	35
Preference dividend	8	8	10	10	(1)		32	26		21	
Adj. PAT	**169**	**531**	**471**	**544**	**562**	*233*	**1,242**	**2,299**	*85*	**2,918**	27
Ratios (%)											
Material consumed(% of revenues)	41	35	37	37	34		42	36		38	
Staff cost (% of revenues)	15	15	18	17	17		12	17		16	
R&D cost (% of revenues)	7	6	5	5	6		5	5		6	
Other expenses (% of revenues)	28	27	25	26	30		28	27		25	
EBITDA margin (%)	8.4	17	15	15	13		13.1	15.5		15.6	
EBITDA margin (%, including OOI)	8	17	15	15	13		13	16		16	
Tax/PBT (%)	(1)	11	25	17	6		16	14		15	
Adjusted net profit margin (%)	4	10	7	8	9		7.8	9.3		9.5	
Revenue breakup (Rs mn)											
Domestic	**2,933**	**3,460**	**3,917**	**3,480**	**3,216**	*10*	**12,555**	**14,073**	*12*	**16,322**	16
Formulations	2,335	2943	3203	2950	2646	*13*	10497	11742	*12*	13620	16
CMG	354	168	225	194	240	*(32)*	945	826	*(13)*	909	*10*
Pathlabs	126	140	176	167	212	*68*	450	695	*55*	1100	58
Others	119	209	313	170	119	*0*	664	810	*22*	693	(14)
International sales	**1,315**	**1,766**	**2,630**	**3,015**	**3,236**	*146*	**3,389**	**10,647**	*214*	**14,332**	35
Total	**4,248**	**5,226**	**6,547**	**6,495**	**6,452**	*52*	**15,944**	**24,719**	*55*	**30,654**	24

Automobiles

Sector coverage view	Attractive

		Price, Rs	
Company	**Rating**	**30-Apr**	**Target**
Hero Honda	U	684	625
Bajaj Auto	OP	2,445	2,860
Tata Motors	OP	750	925
Maruti	OP	803	910
Mah & Mah	OP	779	1,000
Ashok Leyland	IL	39	40
Punjab Tractoı	IL	298	215
TVS Motor	U	64	55
Bharat Forge	OP	323	390

Apr 07 sales: FY2008 starts on a strong note for cars and LCVs; 2W and M&HCV growth slides

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- **Bajaj Auto: Weak sales trend continues**
- **Hero Honda: April growth likely to add to inventory woes**
- **TVS Motor: Volume growth remains lacklustre**
- **Maruti: Strong domestic growth despite rise in interest rates**
- **Tata Motors: M&HCVs see a yoy decline but rest of the pack surprises positively**

The Indian automobile industry has started FY2008 on a strong note for cars and LCVs and on a weak note for 2Ws and M&HCVs. Combined motorcycle sales of the top three players declined 8% yoy in April continuing the weak trend of recent months. Hero Honda fared better than its peers growing sales 5% yoy in April. However, in our opinion, Bajaj and TVS are making attempts to alleviate rising inventories with dealers - something that Hero Honda is as yet not doing. Maruti surprised positively with April domestic volumes growing a strong 17% yoy despite negative feedback from dealers and auto financiers regarding impact of the sharp rise in interest rates on car demand. Tata Motors reported a weaker-than-expected 11% yoy decline in M&HCVs for April. LCV sales however grew stronger than expected at 22% for the month resulting in a 2% yoy growth for domestic CV sales. Car sales for Tata Motors, too, grew a better-than-expected 19% in April.

Bajaj Auto: Weak sales trend continues

Bajaj Auto reported a disappointing 13% yoy decline in motorcycle sales in April displaying continued weakness in the 2W sector. Bajaj Auto is likely cutting despatches to dealers to alleviate rising inventory levels with the dealers - a prudent step in our opinion. We expect motorcycle sales for Bajaj Auto to improve in May as it has cut the price of its entry segment bike 'Platina' by Rs3,000 in April after its plant in Uttaranchal commenced production. Despatches of the lower priced 'Platina' will be available in May and should result in a mom improvement in motorcycle sales for the company. Three-wheeler sales for Bajaj grew 15% yoy in April. We however note that the goods 3W domestic market has weakened substantially in the last few months. 3W exports are the only segment holding up 3W sales for Bajaj right now. Our estimates factor in 15% and 9% domestic growth for motorcycles and 3Ws in FY2008 respectively, both of which have more downside risk than upside risk.

Hero Honda: April growth likely to add to inventory woes

Hero Honda's April 2W sales grew 5% yoy - a contrast to the yoy declines reported by both Bajaj Auto and TVS Motor in a period of weak retail demand for motorcycles. Our talks with dealers indicate that inventory levels have gone up to 30-35 days in the case of Hero Honda. In our opinion, the April dispatches will further add to existing high level of dealer inventories. We expect Hero Honda to report a yoy decline in May given that the company sold 304,000 motorcycles in May 2006. Our estimates factor in 8% domestic growth for Hero Honda in motorcycles in FY2008. We see downside risk to this estimate.

TVS Motor: Volume growth remains lacklustre

Motorcycle sales for TVS Motor declined 34% yoy in April. Scooters and mopeds did better growing 5% and 25% yoy respectively. In our opinion, TVS Motor, like Bajaj Auto, is cutting despatches to dealers to alleviate rising inventory levels. Our estimates for the company factor in 8% volume growth across the three segments in FY2008.

Maruti: Strong domestic growth despite rise in interest rates

Domestic car sales for Maruti grew a better-than-expected 17% yoy in April. Export volumes grew 10% yoy resulting in a total sales growth of 17% for the month. In our view, the 17% domestic growth in April is positive given the concern that the sharp rise in interest rates might wipe out car industry growth in FY2008. Our channel checks with dealers and auto finance companies have pointed towards a drop in momentum in car sales from the end of March. However, the same channel checks also mentioned that Maruti is faring relatively better than its peers due to the success of its recent launches. Compact cars outperformed once again growing 20% yoy. Even the M-800 reported 10% yoy growth in April. Mid-size car volumes declined 13% yoy. However, we expect mid-size car sales to improve for Maruti after the launch of the 'SX4' sedan in May. Our estimates for Maruti factor in total volume growth of 11% for FY2008.

Tata Motors: M&HCVs see a yoy decline but rest of the pack surprises

Tata Motors' domestic CV sales grew a lackluster 2% yoy in April. However, growth was entirely driven by the LCV segment, which grew a strong 22% in April driven by robust demand for the 'Ace'. M&HCV sales declined a sharp 11% for the month. We have been getting negative feedback from CV industry participants like CV finance companies, truck operators and dealers about sluggish M&HCV demand post the sharp rise in interest rates. CV exports grew a strong 35% in April resulting in 6% yoy growth for total CVs in April. Car and UV sales for Tata Motors grew a stronger-than-expected 19% and 37% yoy in April respectively despite the sharp rise in interest rates. Our FY2008 estimates for Tata Motors factor in domestic growth of 2.5% for M&HCVs, 10% for LCVs and 7.5% for cars and UVs. If the trend in April numbers were to continue in coming months, we would have to cut our estimates for domestic M&HCVs and upgrade estimates for LCVs, CV exports, cars and UVs.

Reported monthly sales of top two-wheeler companies - April 2007

	Apr-07	Apr-06	yoy %	Mar-07	mom %	YTD, FY08	YTD, FY07	yoy %	FY08 growth forecast
Bajaj Auto									
Geared Scooters		638	-100.0%	-		-	638	-100.0%	-100.0%
Ungeared Scooters	1,388	833	66.6%	3,462	-59.9%	1,388	833	66.6%	280.0%
Step thrus		-		-	0.0%	-	-		-
Motorcycles	164,304	188,518	-12.8%	165,524	-0.7%	164,304	188,518	-12.8%	16.3%
Total 2-Wheelers	**165,692**	**189,989**	**-12.8%**	**168,986**	**-1.9%**	**165,692**	**189,989**	**-12.8%**	**17.7%**
3 Wheelers	24,360	21,159	15.1%	24,576	-0.9%	24,360	21,159	15.1%	8.8%
TVS Motor									
Motorcycles	53,499	80,862	-33.8%	73,239	-27.0%	53,499	80,862	-33.8%	8.2%
Scooty	18,798	17,969	4.6%	20,297	-7.4%	18,798	17,969	4.6%	7.5%
Moped	32,596	26,086	25.0%	34,671	-6.0%	32,596	26,086	25.0%	7.5%
Total 2-Wheelers	**104,893**	**124,917**	**-16.0%**	**128,207**	**-18.2%**	**104,893**	**124,917**	**-16.0%**	**7.9%**
Hero Honda									
Total 2-Wheelers	262,544	250,366	4.9%	277,915	-5.5%	262,544	250,366	4.9%	7.4%

Source: Company, Kotak Institutional Equities.

4-wheelers April 2007 sales performance

	Apr-07	Apr-06	yoy %	Mar-07	mom %	YTD, FY08	YTD, FY07	yoy %	FY2008 growth estimate
Tata Motors									
M&HCV	10,392	11,625	-10.6%	17,673	-41.2%	10,392	11,625	-10.6%	2.5%
LCV	9,215	7,557	21.9%	13,047	-29.4%	9,215	7,557	21.9%	10.0%
Domestic CV sales	19,607	19,182	2.2%	30,720	-36.2%	19,607	19,182	2.2%	5.7%
CV Exports	2,968	2,198	35.0%	4,358	-31.9%	2,968	2,198	35.0%	14.2%
Total CV	**22,575**	**21,380**	**5.6%**	**35,078**	**-35.6%**	**22,575**	**21,380**	**5.6%**	**6.6%**
UV	3,397	2,480	37.0%	6,227	-45.4%	3,397	2,480	37.0%	7.6%
Passenger Cars	14,514	12,222	18.8%	21,474	-32.4%	14,514	12,222	18.8%	7.8%
Total	**40,486**	**36,082**	**12.2%**	**62,779**	**-35.5%**	**40,486**	**36,082**	**12.2%**	**6.4%**
Maruti Udyog									
Entry (A) segment	6,324	5,761	9.8%	6,141	3.0%	6,324	5,761	9.8%	-24.0%
Van-segment	6,118	5,050	21.1%	8,661	-29.4%	6,118	5,050	21.1%	7.7%
Compact (B) segment	33,878	28,156	20.3%	47,068	-28.0%	33,878	28,156	20.3%	19.0%
Mid-size (C) segment	2,124	2,433	-12.7%	2,414	-12.0%	2,124	2,433	-12.7%	11.1%
MUV	208	174	19.5%	272	-23.5%	208	174	19.5%	9.4%
Domestic	**48,652**	**41,574**	**17.0%**	**64,556**	**-24.6%**	**48,652**	**41,574**	**17.0%**	**11.7%**
Exports	1,700	1,553	9.5%	7,216	-76.4%	1,700	1,553	9.5%	1.8%
Total	**50,352**	**43,127**	**16.8%**	**71,772**	**-29.8%**	**50,352**	**43,127**	**16.8%**	**11.1%**

Source: Company, Kotak Institutional Equities.

Economy

Sector coverage view	N/A

India's interest rate outlook: Expect SLR cut despite higher MSS ceiling

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- **Expect SLR cuts - 1% in 2HFY08E, 3% in FY09E – despite enhanced MSS ceiling**
- **Why? Forex intervention, MSS operations to lead to LAF repo demand, erode SLR**
- **Yield top off: 8.1% in the near term; 7.75% by March 2008 (7.5% earlier)**
- **Higher lending rates: Persistent credit gap to increase PLR by 50bps, at current CRR**
- **PSU bank stocks: Interest rate regime switch supports in-house call, price CRR risk**

We continue to expect the RBI to cut SLR by 1% in 2HFY08E and 3% in FY09E. Although the enhanced MSS ceiling to sterilize forex intervention will enlarge the supply of gilts, corresponding bids at the RBI's repo – cash for gilts - window to meet credit demand will likely erode banks' SLR below the present 25% regulatory minimum. Despite SLR demand, we have hiked our March 2008 10-year yield forecast to 7.75% (from 7.5% earlier) because a scenario of forex intervention-MSS operations-LAF reverse repo operations will likely keep call rates at 7.75% plus LAF repo rate levels. With higher short-term rates, we continue to expect a 50bp hike in banks' PLR, especially given a persistent credit gap, even at a moderate 21% credit offtake.

Despite higher MSS, SLR cuts: 1% in 2HFY08E, 3% in FY09E. We continue to expect the RBI to cut the statutory liquidity ratio late FY2008 onwards. We do agree that sterilization operations – backed by the freshly enhanced MSS[1] ceiling (Rs1,100 bn / US$ 25.6 bn) – will enhance the supply of gilts. At the same time, corresponding liquidity demand will enlarge drawals at the RBI's repo window. As a result, banks' SLR portfolio will likely erode below the current regulatory minimum of 25% of demand and time liabilities (Exhibit 1). Assuming normal monsoons enable our expected 1QFY08E inflation top off, the RBI could well cut SLR to avoid an undue spike in lending rates. Real lending rates – currently 7.25% - are, after all, likely to climb to the 7.8% potential real GDP growth rate removing the accommodative monetary policy stance of the past.

Regime switch in interest rates: Yield top off, higher lending rates. We believe that the regime switch to stable yields and higher lending rates from rising yields and cheap lending rates will likely crystallize in 2HFY08. Given SLR demand, we expect yields to top off to 7.75% in 2HFY08E from 8.1% in the near term, if a normal monsoon knocks out the monetary policy uncertainty premium. We continue to expect another PLR hike on the back of a persistent credit gap even assuming a moderation in credit offtake (to 21% from 26% in FY2007) at current CRR levels.

Underlying monetary framework: RBI forex intervention, MSS operations, LAF repo operations. We have assumed the persistence of the present monetary policy operating procedure of (1) releasing Rupee liquidity through forex intervention; (2) mopping up the Rupee liquidity so released by gilt auctions under the MSS; and (3) filling up liquidity gap thus generated by releasing Rupee liquidity through the LAF repo – cash for gilts – window at a repo rate – currently 7.75% - determined by the RBI.

Why expect SLR cuts? Banks' SLR to likely slip to 24% of DTL by March 2008. Exhibit 2 calculates that banks' SLR portfolio will likely slip to 24% of demand and time liabilities by March 2008. This leads us to expect a 1% SLR cut in late FY2008.

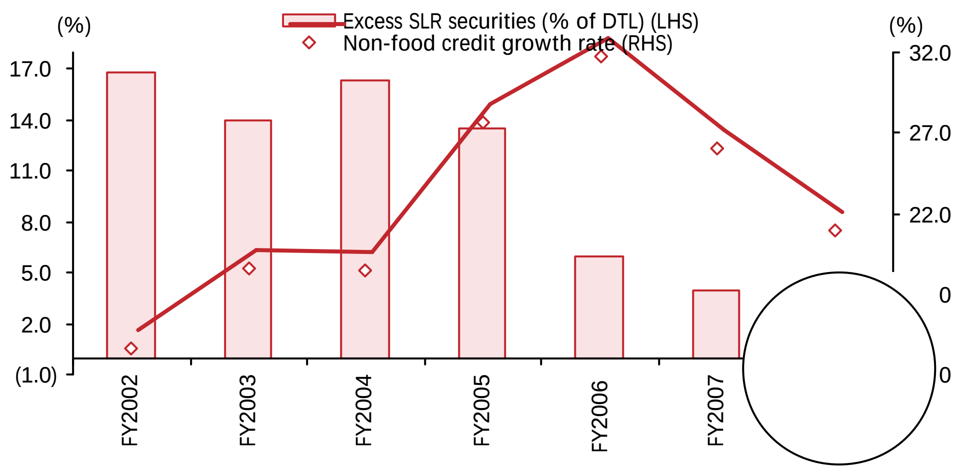
- If the RBI sticks to the 25% regulatory minimum, banks will likely have to buy an additional Rs331 bn of gilts in FY2008 in addition to the subscription to the full MSS Rs1,100 bn limit set last Friday

- We have projected banks' demand and time liabilities to compute SLR requirements on the basis of our 8.2% FY2008E real GDP growth rate and 5% inflation (Exhibit 3).
- We have derived banks' LAF repo demand – Rs770 bn - from the flow of funds in the money markets on the assumption aggressive MSS operations will likely sterilize forex intervention (and spare the hapless banking system yet another CRR hike for the sake of a CRR hike!) (Exhibit 4).
- We have estimared the RBI's forex intervention (US$21.7 bn) from a standard money demand function. This is cross checked with balance of payments projections, assuming (1) stable oil prices (Dated Brent at US$60/bbl) and (2) US$12 bn of FII inflows (factoring in the mega ICICI Bank issue).
- Exhibit 5 shows that a 25% SLR regime would spark off excess demand from banks in the government securities market to meet SLR requirements in FY08E and FY09E. This would in turn unduly pull down yields at the cost of an unnecessary loan rate spike.
- Exhibit 6 computes a persistent lending rate gap, at a 25% SLR stipulation, even assuming that credit offtake moderates to 21%. This, in turn, leads us to expect a 50bp hike in lending rates.
- It is true that a 1% SLR cut will ameliorate the need for a further increase in lending rates but a loy depends on the timing. In any case, our 21% credit offtake estimate could well be on the conservative side given that the RBI has projected 24-25% credit offtake this year.

[1] In the MSS framework, the RBI first buys surplus forex from banks and releases rupees. Second, government gilt auctions (under the MSS) mop up the Rupee liquidity so generated. Third, the Government parks the monies so raised with the RBI in a special account. As a result, the potential liquidity from forex intervention is locked up in the RBI's balance sheet.

Exhibit 1: Sustained credit offtake will likely erode banks' SLR below 25% in FY2008

Excess SLR securities (% of demand and time liabilities), non-food credit growth rate



Source: RBI, Kotak Institutional Equities estimates.

Exhibit 2: 1% SLR cut to likely keep the SLR deficit at bay in FY2008

SLR securities with commercial banks (Rsbn)

		25% SLR FY08	24% SLR FY08
1	Opening balance as on March 31, 2006	1,560	1,560
2	Add: Net contribution to government borrowing	649	649
3	Recapitalization bonds	80	80
4	Other approved securities	44	44
5	Market Stabilization Scheme (MSS)	339	339
6	Banks' vault cash	25	25
7	Minus: Net repos under the LAF	365	365
8	Additional SLR requirements	1,363	1,363
9	Closing balance as on March 31, 2007 (1+2+3+4+5+6-7-8)	969	969
10	Add: Recapitalization bonds	148	148
11	MSS	470	470
12	Banks' vault cash	25	25
13	Minus: Additional SLR requirements in FY2008	1,172	841
14	Net repos under the LAF	770	770
15	Net SLR deficit (9+10+11+12-13-14)	(331)	1
	(% of FY2008E banks' DTL)	24.0	24.0
16	Net contribution to government borrowing {=(-15)}	331	-

Source: RBI, Kotak Institutional Equities estimates.

Exhibit 3: Banks' SLR demand estimated at 8.2% real GDP growth, 5% inflation

FY2008 DTL projections (Rsbn)

1	Real GDP growth rate (%)	8.2
2	Inflation rate (%)	5
3	Money (M3) demand (=1.4* (1) + 2) (%)	16.5
4	M3 expansion (Rsbn)	5433
5	Currency deposit (c) ratio (trend)	0.17
6	Deposit mobilization {=1/(1+c)}*M3	4634
7	Commercial bank deposit mobilization (90% of 6)	4170.285966
8	Non-deposit non-bank funds (trend)	200
9	Other demand and time liabilities (trend)	318
10	Demand and time liabilities (7+8+9)	4689
	Memo	
11	SLR requirements during FY2008 (@ 25%)	1172
12	SLR requirements during FY2008 (@ 24.0%)	841

Source: RBI, Kotak Institutional Equities estimates.

Exhibit 4: Banks LAF repo demand of Rs770 bn consistent with US$21.7 bn forex intervention, full MSS limit utilization

Liquidity projections in Rsbn

	Liquidity indicator	FY2007E	FY2008E
1	Bank CRR demand	565	497
2	Autonomous liquidity position (2.1+2.2+2.3-2.4)	366	246
2.1	RBI's loans to government	12	100
2.2	RBI's market net foreign currency purchases	1,089	946
	in USD	24.5	21.7
2.3	Others	—	—
2.4	Currency	735	800
3	Net liquidity (2-1)	(199)	(250)
4	Policy position (4.1+4.2+4.3)	75	250
4.1	Net LAF repos	364	770
	Outstanding LAF repos	292	1062
4.2	Market Stabilization Scheme	(339)	(470)
4.3	OMO (net outright sales)	50	(50)
5	Excess Reserves (3+4)	(124)	0
	Memo items		
	CRR (1st round hikes)	270	150

Source: RBI, Kotak Institutional Equities.

Exhibit 5: Extant 25% SLR will unduly pull down yields at the cost of a lending rate spike

Gross fiscal deficit, potential investments by provident and pension funds and insurance companies

Year	GFD (as proportion of GDP) (%)	Net market borrowings (Rs bn)	Insurance funding (Rs bn)	Provident, PFs, gilt funds, States (Rs bn)	Balance to be funded by banks (Rs bn)	SLR (% of DTL)	SLR requirements by banks (Rs bn)	Banks' excess demand (Rs bn)	Actual funding by banks (Rs bn)
FY2006	7.4	1,187	500	417	270	25.0	—	270	179
FY2007E	7.0	1,308	575	492	241	25.0	—	241	596
FY2008E	6.5	1,317	657	542	118	25.0	331	(212)	—
FY2008E	**6.5**	**1,317**	**657**	**542**	**118**	**24.0**	**-**	**118**	**—**
FY2009E	6.1	1,359	807	599	(47)	25.0	1,286	(1,333)	—
FY2009E	**6.1**	**1,359**	**807**	**599**	**(47)**	**21.0**	**86**	**(133)**	**—**

Source: CSO, GoI, RBI, Kotak Institutional Equities estimates.

Exhibit 6: 1% SLR cut will likely limit additional PLR hike to 50bps

Sources and uses of bank funds (in Rsbn)

Key sources/uses	25% SLR FY2008E	24% SLR FY2008E
1. Deposits	4,170	4,170
2. Non-deposit sources	200	200
3. Primary issuances	300	300
4. Bank reserves	447	447
5. Investment in government securities	331	(1)
6. Net foreign assets	(100)	(100)
7. Resources available for interest rate-neutral credit offtake (1+2+3-4-5-6)	3,993	4,324
8. Credit offtake/demand	4,134	4,134
9. Credit gap (8-7)	141	(190)
Memo item		
1. Capital account	200	200
2. Other liabilities	250	250

Source: RBI, Kotak Institutional Equities estimates.

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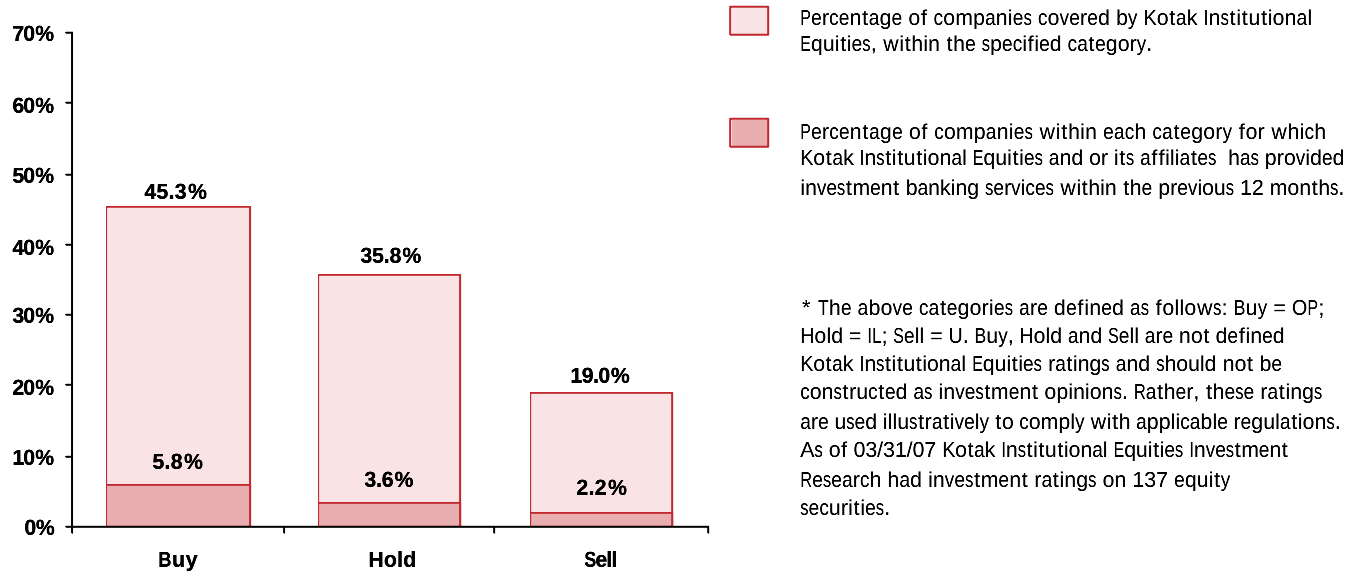

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 03/31/07 Kotak Institutional Equities Investment Research had investment ratings on 137 equity securities.

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

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