Goldman Sachs

India

Across the Board – 8 picks for the New Year

Source of opportunity

In this, our first 'Across the Board' report for 2009, we have highlighted 8 Buy-rated stocks which our analysts have selected for superior growth, high cash margins, moderate gearing, improving returns and adequate liquidity.

We believe last year's market correction may present investors with a buying opportunity as these stocks currently trade at an average one-year forward P/E of 8.3x, which is a 53% discount to their 15-year median.

Robust operational performance

In FY10E, we see our selected stocks deliver 22% revenue growth compared with a 1% decline for our coverage universe in India. We also forecast EBIT margins to increase from 26% to 28% (twice our Indian coverage group average).

As a consequence of revenue growth and margin expansion, we expect net income for our selected stocks to grow by 28% in FY10E versus a 2% decline in net income for our India coverage universe.

Attractive against negative macro backdrop

In its outlook report for 2009, our GS Global ECS Research team reiterated its underweight stance on India and lowered its GDP growth forecast for India to 5.8%.

Against this slowing macro backdrop, we believe our top picks, which offer a potential 35% average upside to their price targets, represent an ideal starting point for investors seeking exposure to the Indian markets.

Our top 8 Buy ideas and 12-m target prices

Our top ideas include 3 Conviction List names: Dr. Reddy's (TP Rs805, potential upside 73%), NTPC (TP Rs208, potential upside 21%) and Bharti Airtel (TP Rs847, potential upside 30%).

Our other top picks are Zee Entertainment (TP Rs235, potential upside 63%), Cairn India (TP Rs215, potential upside 25%), Tata Consultancy Services (TP Rs621, potential upside 23%), Jindal Steel and Power (TP Rs1208, potential upside 25%) and HDFC (TP Rs1890, potential upside 16%).

TOP PICKS – KEY METRICS

	FY2010E					
	Mkt Cap ($bn)	Sales Growth	EBIT Margins	Net Debt/ Equity	P/E	ROIC
BRTI.BO	25.3	23%	26%	25%	13.0x	22%
CAIL.BO	6.3	412%	61%	-2%	6.9x	12%
HDFC.BO	9.5	20%	NA	NA	15.3x	22%
JNSP.BO	3.1	15%	47%	47%	3.8x	27%
NTPC.BO	29.0	15%	23%	35%	16.9x	8%
REDY.BO	1.6	19%	13%	-1%	10.0x	15%
TCS.BO	10.1	8%	21%	-29%	8.7x	35%
ZEE.BO	1.3	14%	31%	-12%	11.1x	14%
Top Picks	**86.1**	**22%**	**28%**	**16%**	**8.3x**	**16%**
GS India	**348.4**	**-1%**	**13%**	**22%**	**7.9x**	**11%**

Source: Goldman Sachs Research estimates.

RELATED RESEARCH

'Across the Board' - Analysis of growth and cash dynamics, September 10, 2008

'Across the Board' – Bringing down the curtain on 1H09E, October 8, 2008.

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Table of contents

The prices in the body of this report are based on the market close of January 7, 2009.

Exhibit 1: Our top 8 picks have an average 35% potential upside to their 12-month price targets and median 3-month trading volume of US$21 mn

					Price			FY 2009E (x)			GS 3 year CAGR		3m Avrg. Vol	Absolute Price Performance			Analyst	
	Ticker	Mkt. cap ($mn)	Free float	Rating	Current (Rs)	12-month TP (Rs)	Potential upside / downside	P/E	EV / EBITDA	3 yr PEG	Sales	EPS	Traded $ 000s	2008	30 day	7 day	Name	Phone
Bharti Airtel	BRTI.BO	25,295	33%	Buy*	649	847	30%	14.7X	8.7X	0.8	26%	19%	75,259	-35%	-7%	-9%	Anirudh Gangahar	+91(22)6616-9040
Cairn India Ltd.	CAIL.BO	6,300	31%	Buy	173	215	25%	66.3X	29.7X	0.4	135%	167%	3,706	-30%	21%	0%	Nilesh Banerjee	+91(22)6616-9045
Housing Development Finance Corporation	HDFC.BO	9,507	98%	Buy	1,628	1,890	16%	17.9X	NA	1.2	23%	15%	79,826	-44%	8%	9%	Sampath S.K. Kumar	+91(22)6616-9044
Jindal Steel & Power	JNSP.BO	3,052	56%	Buy	966	1,208	25%	5.4X	4.9X	0.1	35%	60%	19,353	-68%	16%	6%	Pritesh Vinay	+91(22)6616-9038
NTPC	NTPC.BO	28,980	11%	Buy*	171	208	21%	17.9X	13.2X	2.7	16%	7%	33,523	-33%	3%	-5%	Anirudh Gangahar	+91(22)6616-9040
Dr. Reddy's Laboratories	REDY.BO	1,601	66%	Buy*	465	805	73%	13.4X	7.0X	0.4	20%	30%	4,871	-37%	-3%	-1%	Vikram Sahu	+91(22)6616-9050
Tata Consultancy Services Ltd.	TCS.BO	10,120	24%	Buy	504	621	23%	9.2X	6.6X	2.0	13%	5%	23,298	-54%	-4%	5%	Julio C. Quinteros Jr.	+1(415)249-7464
Zee Entertainment Enterprises	ZEE.BO	1,288	59%	Buy	145	235	63%	13.0X	8.7X	0.7	16%	19%	5,580	-56%	21%	3%	Ishan Sethi	+91(22)6616-9048

Note:
*The stock is on our regional Conviction List.
**3-year CAGR refers to 2008-2011E
For important disclosures, please go to http://www.gs.com/research/hedge.html

Source: Goldman Sachs Research estimates, Datastream.

Overview: Robust growth, high cash margins, increasing returns at reasonable valuations

Our GS Global ECS Research team reaffirmed its underweight stance on India in its outlook report for 2009 (please refer to the November 29 report *Asia Pacific: Portfolio Strategy 2009 Outlook: Many rivers to cross)* and recently forecast GDP growth for India to slow down to 6.7% in 2008 and further to 5.8% in 2009.

In this slowing macro environment, we highlight 8 Buy-rated names which offer investors superior growth, high cash margins, improving returns, and adequate liquidity. Moreover, last year's market correction may present investors with a buying opportunity as these stocks currently trade at an average 53% discount to their 15-year median 12-month forward P/E multiple.

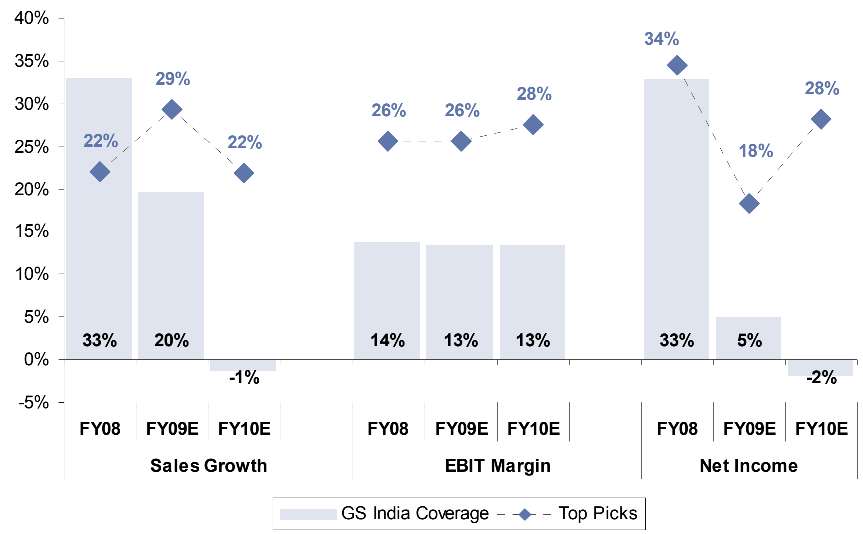
Revenue growth

We expect revenues for the GS coverage universe in India to decline by 1% in FY10E. This bottom-up forecast fits in with top-down expectations from the GS Global ECS Research team.

Several of the companies that we have picked are characterized by relatively inelastic demand and could be relatively insulated from a slowing environment. This is reflected in a 27% revenue CAGR for our 8 top picks over the last seven years.

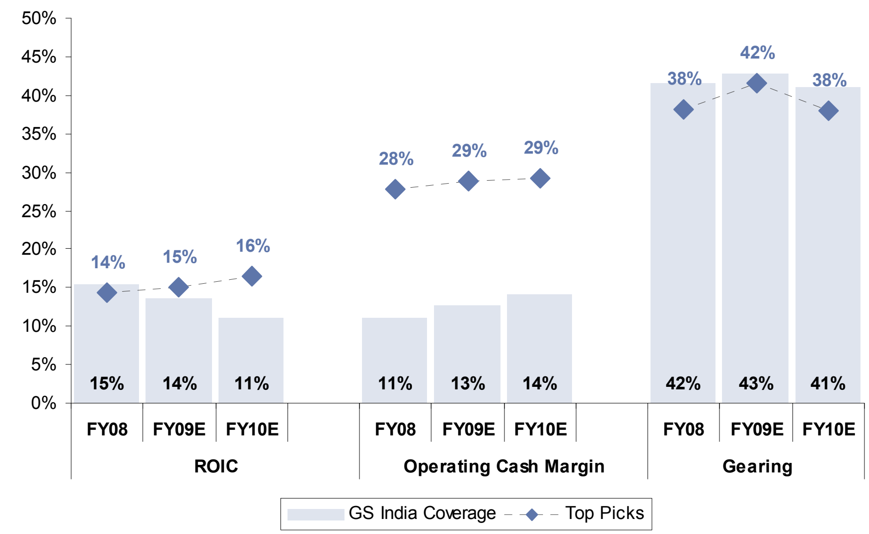
As can be seen in Exhibit 2, we expect our top 8 picks to deliver 22% sales growth in FY10E. While this represents a slowdown from FY09E, it is materially higher than the 1% decline forecast for our coverage universe.

Exhibit 2: Stable growth and increasing margins for our top picks…
We expect our India coverage universe to exhibit negative growth in FY10E



Source: Company data, Goldman Sachs Research estimates.

Exhibit 3: … and an additional 100 bp of ROIC in FY10E
We expect our top picks to have higher cash margins despite reasonable debt levels



Source: Company data, Goldman Sachs Research estimates.

Margins

We believe our picks will deliver aggregate EBIT margins of 28% in FY10E, twice the level of our Indian coverage universe. Moreover, as evident from Exhibit 2, this is an improvement of 198 bp over FY09E. We expect the highest margin improvement will be delivered by Cairn (from 37% to 61%) and Jindal Steel and Power (from 38% to 47%).

Importantly, operating cash margins are also twice the level of our coverage universe. As evident from Exhibit 3, we expect our top 8 picks to deliver operating cash margins of 29% in FY10E.

Net income growth

As a function of higher-than-average revenue growth and expanding margins, we believe the net income growth for our selected companies will increase by 1,000 bp to 28% in FY10E. This is significant at a time when we expect net income to decline for our India coverage universe (from 5% in FY09E to -2% in FY10E).

Returns

We believe that our top 8 picks will deliver an ROIC of 16% in FY10E against an average WACC of 12%. This compares with an ROIC of 11% for our coverage universe (below the cost of capital). We also expect to see ROIC for our top picks increase in FY10E against a decline for the rest of our coverage universe (Exhibit 3). Of our top picks, we expect Tata Consultancy Services, Jindal Steel & Power, HDFC and Bharti Airtel to generate ROIC of >20% in FY10E.

When looking at return on equity, we expect our top picks to generate 20% ROE in FY10E versus 16% for our India coverage universe. We also see ROE improving by 180 bp in FY10E in comparison with FY09E.

Gearing

In the current market conditions, high gearing levels represent potential financial stress. We have screened the gearing levels of our top picks to ensure that the above-average returns were not being achieved with high gearing.

As per our estimates, the gearing for our top 8 companies will be 38% in FY10E, which would be slightly below the 41% gearing for our India coverage universe. Of our top 8 stocks, we expect only Jindal Steel & Power and NTPC to have a total debt/equity of over 50% in FY10E. Also, we believe the net debt/equity ratio for all these companies will be below 50% in FY10E.

Cash flows

We also looked at our top picks' ability to finance their capex through internal accruals. We believe that in FY10E the operating cash flow to capex ratio for top picks would be 1.4x, generating free cash flows of US$16 bn. This represents a fifth of the total free cash flow we expect to be generated by our India coverage universe in FY10E.

As per our estimates, our India coverage group plan to raise US$11.1 bn in external funding in FY10; however, we expect our top 8 stocks to raise only US$1.4 bn in FY10E, representing about 13% of the total funds raised by our coverage stocks. We expect more than 91% of this funding to be raised by NTPC, and that has already been secured.

Reasonable valuations despite higher anticipated growth and returns

Our top picks trade at 8.3x their FY10E EPS. This represents a 5% premium to the rest of our coverage universe and a 7% discount to MSCI India, which is trading at 8.9x its FY10E EPS.

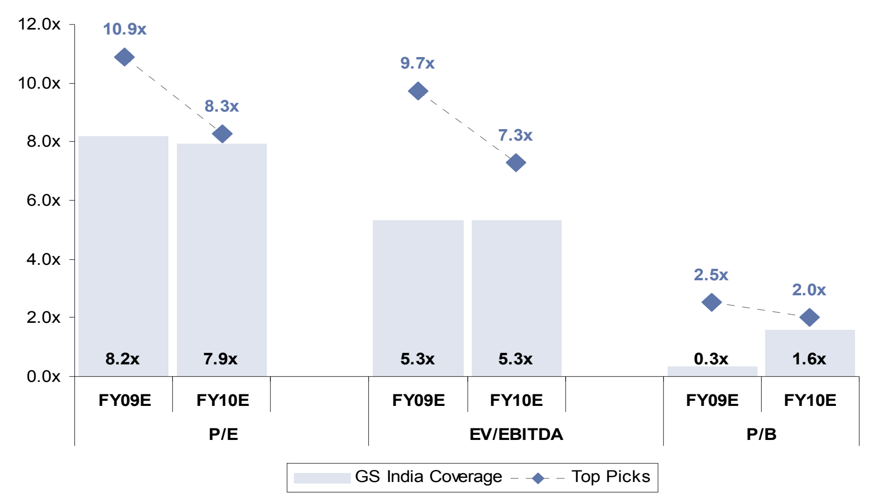
Since FY94, our top picks have had a median 1-year forward P/E multiple of 17.6x. Their current multiple of 8.3x represents a 53% discount to this historical median.

This compares with a 15-year median of 12.2x for the MSCI India index (Exhibit 5) and shows that these high-quality names have always enjoyed premium valuation to the broader markets; we believe the current weakness is a function of intense selling pressures on the broader markets.

Given the higher growth and return dynamics of these companies, we believe that they will outperform the broader markets as investors seek to re-enter the markets through high-quality names.

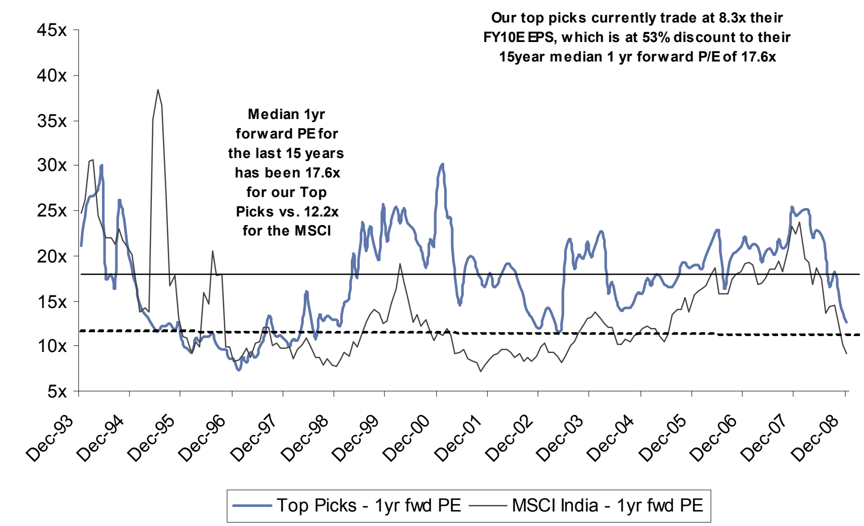
Exhibit 4 shows the difference between the average multiple of our top picks and that of our India coverage universe shrinking in FY10 as a consequence of better margins and strong earnings growth.

Exhibit 4: Our top picks show a sharp multiple compression from FY09E to FY10E



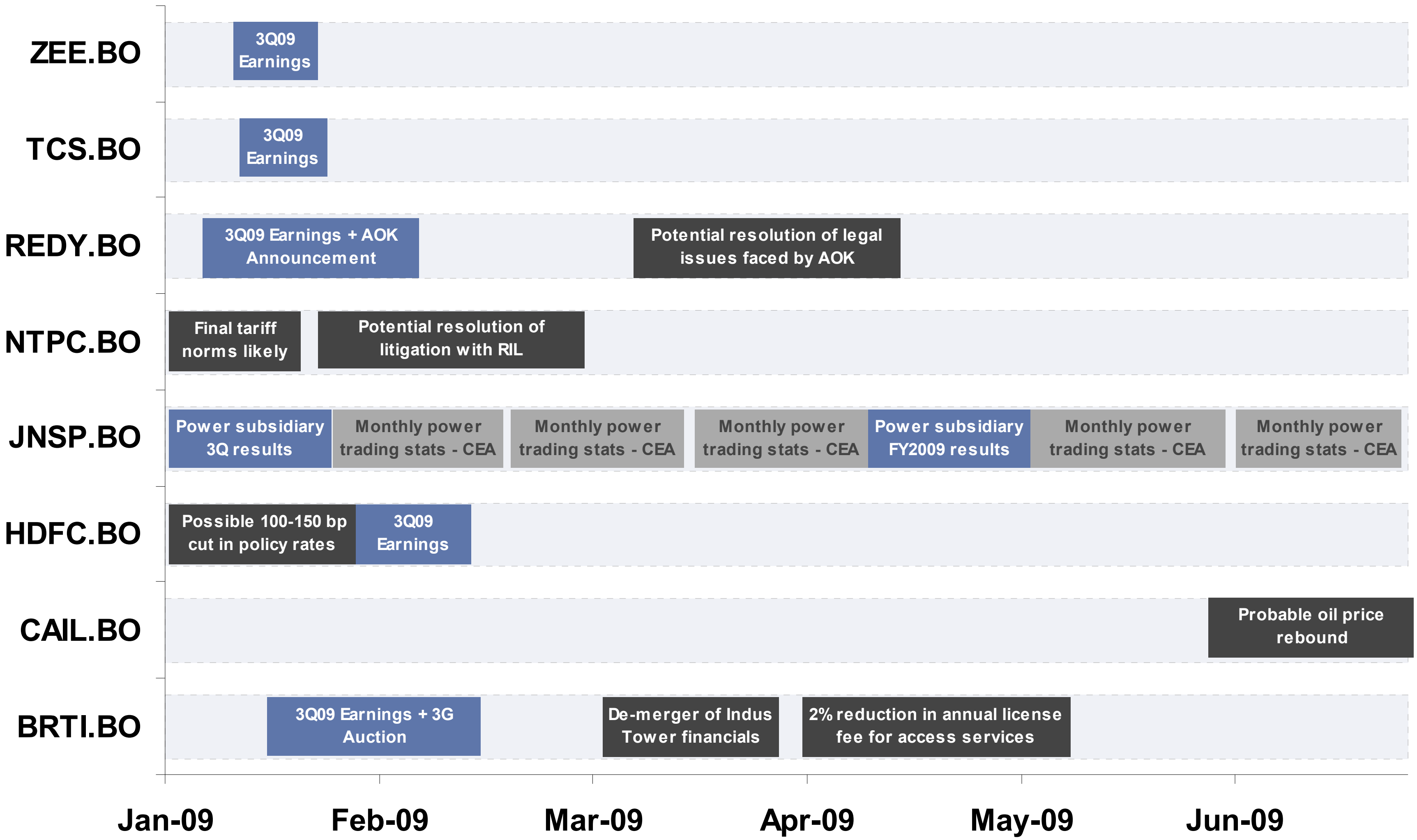
Source: Goldman Sachs Research estimates.

Exhibit 5: At 8.3x FY10E earnings, our top picks are trading at a 53% discount to their 15-year median forward PE of 17.6x



Source: Datastream, Goldman Sachs Research estimates.

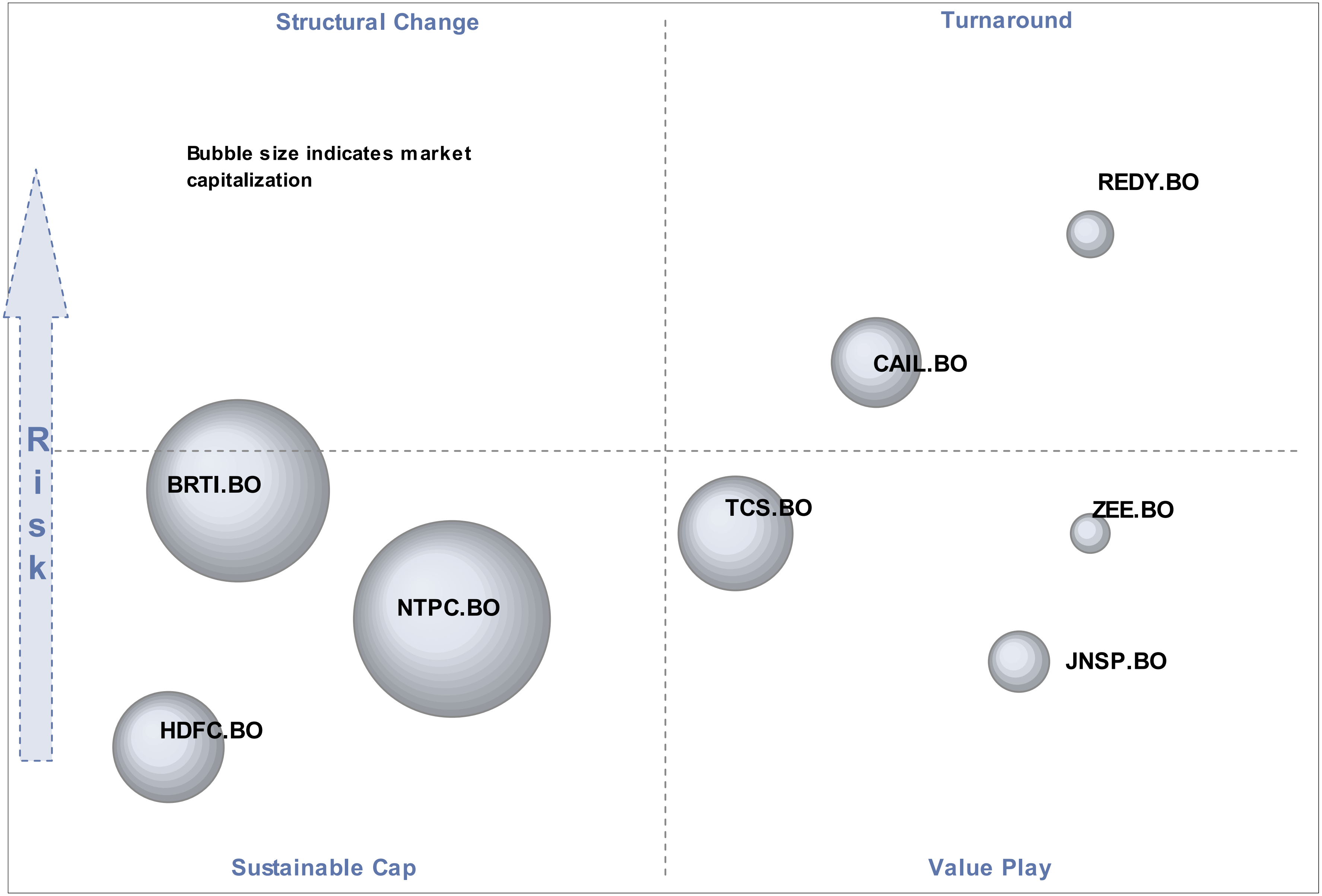
Exhibit 6: Goldman Sachs India top picks – potential catalysts



Note: AOK is the German insurer Allgemeine Ortskrankenkasse
CEA is India's Central Electricity Authority

Source: Company data, Goldman Sachs Research estimates.

Exhibit 7: We have grouped our top picks into lower-risk companies that are value picks or stable defensive stocks and higher-risk companies that have shown a turnaround or a significant structural change
Most of our top picks are essentially value stocks or sustainable cap defensive stocks



Source: Goldman Sachs Research estimates.

Bharti Airtel (BRTI.BO)

Investment thesis:

Our Buy rating on Bharti (BRTI; and its inclusion in our Conviction Buy List) is based on superior balance sheet strength, execution track record, network intensity and scale in the Indian telecom space. An integrated business model, strong earning prospects (FY08-FY11E EPS CAGR of 19%), and a 37%-38% effective holding in Indus Towers (the world's largest telecom tower company) lend further support to our preference for BRTI over its domestic peers. We believe our 12-month target price of Rs847 for BRTI does not fully capture the 'option value' of BRTI's interest in Infratel/Indus Towers; the announced separation of Indus Towers' financials from BRTI's financials by March 2009 would facilitate the unambiguous valuation of tower assets attributable to BRTI.

We believe in the current credit-constrained environment, BRTI's low leverage (net debt-to-equity at 20% as of September 2008) and likely FCF generation in FY10E make it stand apart from Reliance Communications (RCOM) and Idea in the context of funding its: (1) bid for 3G spectrum (in January 2009); and (2) subsequent capex for 3G services.

Valuation

Our 12-month target price of Rs847 for BRTI is based on the DCF valuation of its consolidated financials. We model the tower assets as a business division and do not value these separately for the purpose of calculating BRTI's target price. At Rs847, on FY10E estimates, the stock would trade at 16.9x P/E (3-year average of 19x), and 9.3x EV/EBITDA (3-year average of 11.2x). FY08-FY11E PEG would be 0.7x (3-year average rolling PEG of 0.8x). Growth-adjusted valuations for BRTI are at a discount to telecom peers under our Asia Pacific coverage.

Differentiation from consensus

Our Buy rating on BRTI is in line with Bloomberg consensus. However, we have assumed BRTI would secure nationwide 3G spectrum in the upcoming 3G spectrum auction for a consideration of Rs40.4 bn (twice the reserve price for the auction). Accordingly, our FY10E and FY11E EPS for BRTI are 8% below consensus.

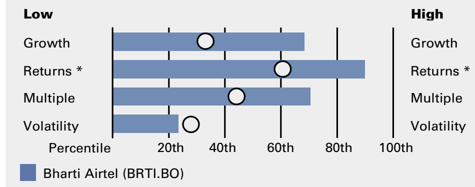
Key risks to our view and target price

(1) Intensifying competition could dent forecast revenue/earnings growth and lead to significant margin erosion. We expect BRTI's share of wireless net adds to decrease from 27.8% in FY09E to 23.8% in FY10E. (2) Regulatory risk: overhang of a one-time spectrum enhancement charge. (3) BRTI being unable to secure 3G spectrum in key service areas, or conversely, investors deeming the price it pays to secure 3G spectrum as 'excessive'.

Potential catalysts

(1) Indus Tower financials being demerged by March 2009, enabling unambiguous calculation of attributable value to BRTI. (2) Likely benefit of a 2% reduction in annual license fee for access services from FY10E across all geographies (not factored into our model at present). (3) BRTI securing 3G spectrum in key service areas at a price investors deem 'reasonable'. Please refer to our November 21 report, *India: Telecom Services: Reboot and recalibrate; BRTI on Conviction Buy, Sell TCOM,* for further details.

Investment Profile

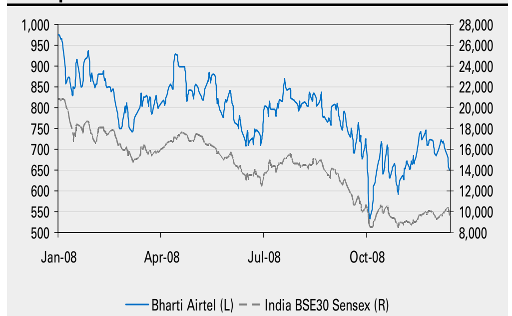


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	649.10
12 month price target (Rs)	847.00
Market cap (Rs mn / US$ mn)	1,232,124.2 / 25,295.1
Foreign ownership (%)	44.9

	3/08	3/09E	3/10E	3/11E
EPS (Rs)	35.15	44.18	50.03	59.05
EPS growth (%)	54.7	25.7	13.2	18.0
EPS (diluted) (Rs)	35.31	44.18	50.03	59.05
EPS (basic pre-ex) (Rs)	35.21	44.28	50.14	59.18
P/E (X)	18.5	14.7	13.0	11.0
P/B (X)	5.5	4.0	3.1	2.5
EV/EBITDA (X)	15.0	8.7	7.2	5.7
Dividend yield (%)	--	--	0.4	0.8
ROE (%)	37.4	31.7	27.1	25.1

Price performance chart

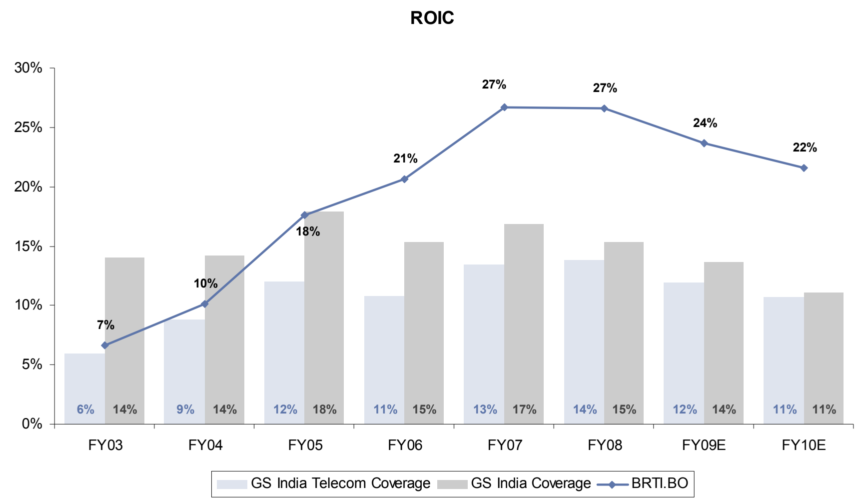


Share price performance (%)	3 month	6 month	12 month
Absolute	(13.3)	(10.7)	(30.7)
Rel. to Bombay SE Sensitive Index	5.7	26.0	50.5

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/07/2009 close.

Exhibit 8: BRTI offers over 20% ROIC during FY08-FY10E

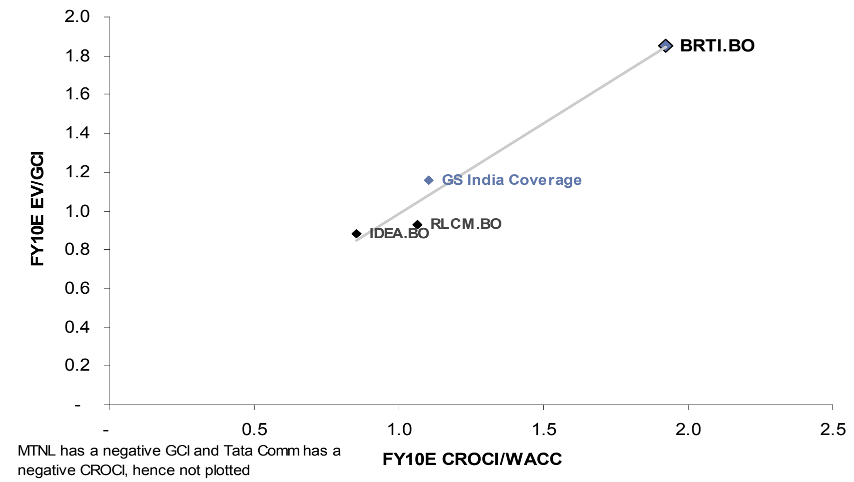
ROIC is ~9 ppt higher than Indian telecom and GS India coverage in FY09E-10E



Source: Company data, Goldman Sachs Research estimates.

Exhibit 9: BRTI seems fairly valued vs. the sector & GS India coverage

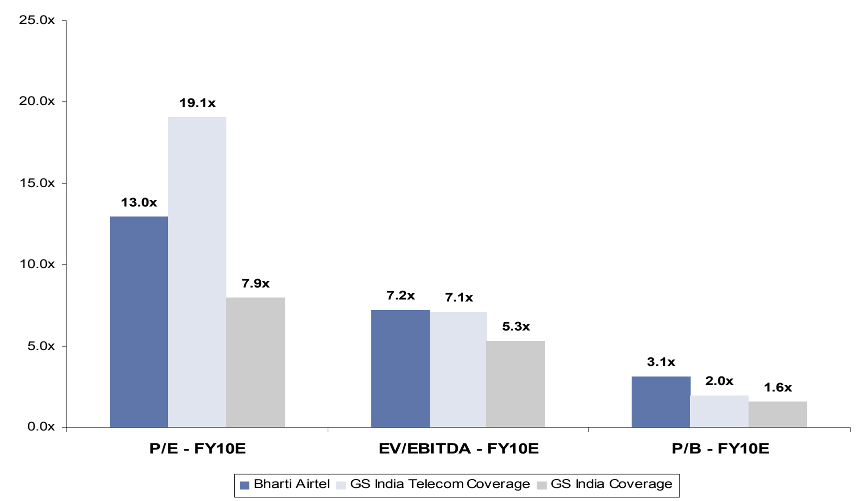
High valuation is justified by high growth, in our view



Source: Goldman Sachs Research estimates.

Exhibit 10: FY10E valuation: BRTI trades at a premium to the sector average

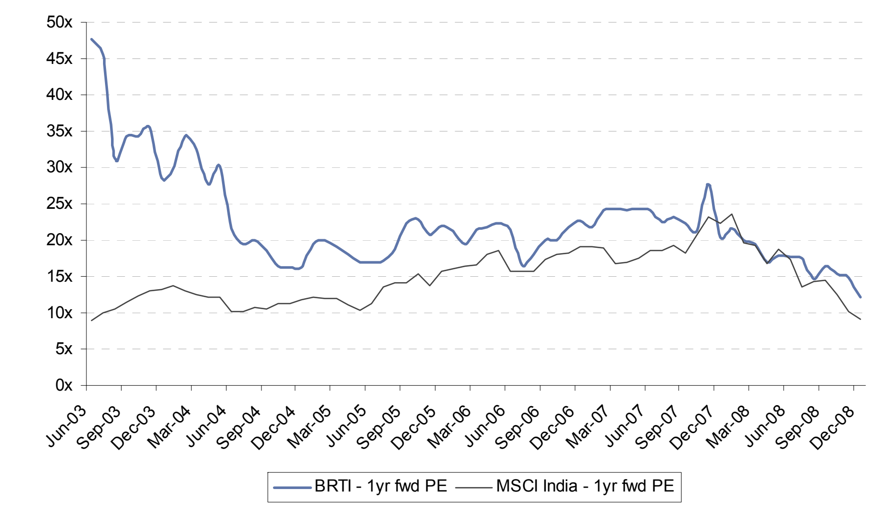
On FY10E P/E, BRTI is trading at 32% discount to its domestic peers



Source: Goldman Sachs research estimates.

Exhibit 11: BRTI's 1-year forward P/E at a premium to MSCI India

At 13.4x 1-yr fwd P/E, BRTI trades at 47% prem. to RCOM; 6% disc. to IDEA



Source: Goldman Sachs Research estimates, Datastream.

Key financial metrics

Sales growth

We forecast FY08-FY11 sales CAGR for BRTI at 26.1%, in line with the forecast sales growth of its domestic peers, but superior to the forecast sales growth of its Asia Pacific peers covered by Goldman Sachs. Wireless revenues would continue to contribute over three-fourth of its gross revenues, posting a 23.9% CAGR over this period. We expect contribution from revenues of the passive infrastructure division to rise during this period as tenancy in BRTI's towers (including towers to be transferred to Indus Towers) ramps up. Our FY09 sales forecast implies 15% yoy revenue growth for BRTI in 2HFY09E.

EBITDA margin

We expect an around 100 bp decline in consolidated EBITDA margin for BRTI in FY09E and FY10E, broadly in line with the margin decline we forecast for its domestic peers under our coverage; however, unlike in the case of its peers, we expect absolute EBITDA margin to be sustained above the 40% mark. As wireless division margins dip on account of intensifying competition (leading to lower tariffs and potentially higher SG&A expenses), we believe the dip in consolidated margins will be cushioned by the growth in passive infrastructure division margins.

Balance sheet strength

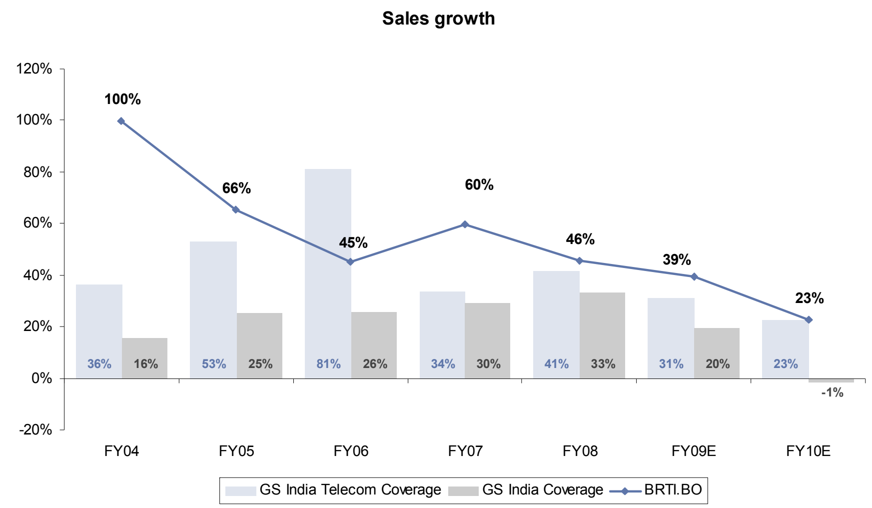
In a credit-constrained environment and with 3G spectrum auctions around the corner, BRTI's robust balance sheet and low leverage (net debt to equity at 20% as of September 2008) ensure it stands out in its Asia Pacific peer group. Even after assuming BRTI pays Rs40.4 bn (twice the reserve price for the auction) in 4QFY09 to secure nationwide 3G spectrum, its leverage would be significantly lower than its peers. In FY10E, we expect BRTI's net debt-to-equity to be 25% vs. 109% for Idea and 93% for RCOM; debt-to-equity would be 30% vs. 131% and 106% for Idea and RCOM, respectively.

Cash flows – capex and funding

From FY10 onwards, we believe BRTI is on track to generate positive free cash flows at least a year ahead of its domestic peers. This is particularly significant against the backdrop of any incremental outlay on account of 3G spectrum auction and greater capex intensity. We believe FCF generation would position BRTI favorably when the Indian wireless segment enters a consolidation phase, which we think will occur in 2011.

Exhibit 12: BRTI's FY10E sales growth is in line with Indian peers

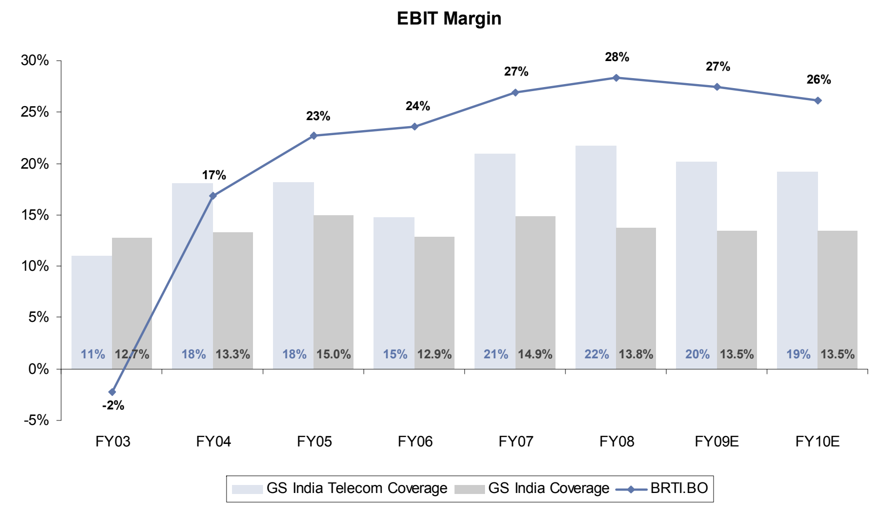
BRTI's 26.1% FY08-FY11E sales CAGR is superior to that of its Indian peers



Source: Company data, Goldman Sachs Research estimates.

Exhibit 13: BRTI's EBIT margins to taper due to higher network opex

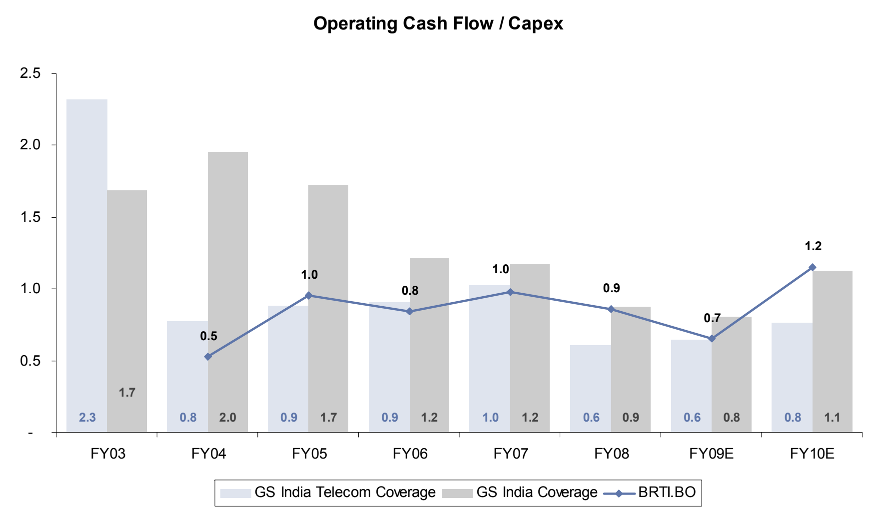
Indian telecom space offers better margins vs. GS India coverage



Source: Company data, Goldman Sachs Research estimates.

Exhibit 14: We expect BRTI to become free cash flow positive in FY10E

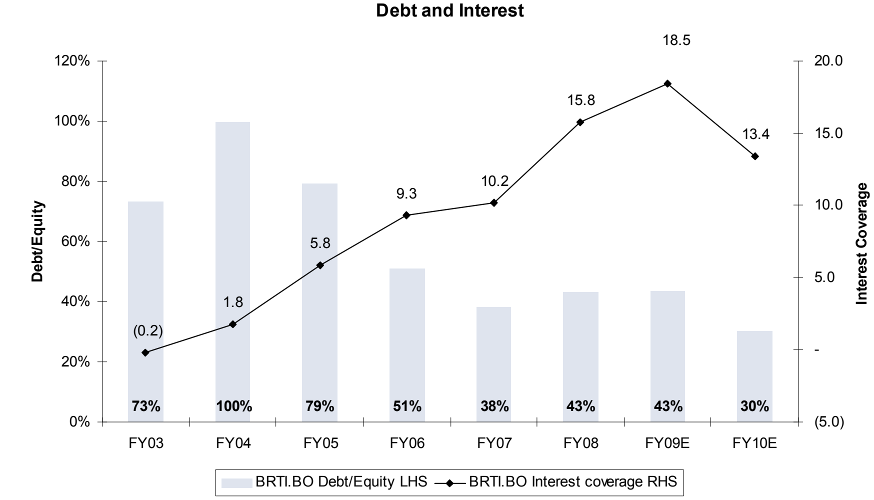
Capex coverage of 0.7x in FY09E includes Rs40.4bn payment for 3G spectrum



Source: Company data, Goldman Sachs Research estimates.

Exhibit 15: We expect debt levels for BRTI to peak in FY09E

High interest coverage reflects balance sheet strength



Source: Company data, Goldman Sachs Research estimates.

Financials and ratios

Exhibit 16: Key line items drawn from our detailed models

Bharti Airtel BRTI.BO	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	5 yr CAGR
Summary Income Statement							Rs. Millions	
Sales	**48,320**	**80,028**	**116,215**	**185,488**	**270,249**	**376,637**	**461,536**	**42%**
Gross Profit	27,159	47,871	70,313	115,468	168,576	221,581	268,990	
EBITDA	15,965	30,129	43,374	75,040	113,715	154,849	184,612	
EBIT	**8,148**	**18,190**	**27,486**	**49,823**	**76,455**	**103,423**	**120,481**	
Pre-Tax Profit	5,976	16,604	25,366	49,392	76,087	91,851	113,356	
Net Income	5,076	14,978	22,567	42,572	67,008	84,039	95,168	
EPS	**3**	**8**	**12**	**23**	**35**	**44**	**50**	**44%**
Summary Balance Sheet								
Cash & equivalents	4,715	8,828	5,921	10,155	55,005	16,378	20,389	
Accounts receivable	7,097	10,098	14,203	17,982	28,061	37,664	46,154	
Inventory	317	545	381	912	1,142	1,318	1,615	
Accounts payable	3,975	7,209	14,130	16,877	18,749	33,897	40,915	
Total current assets	**15,189**	**24,738**	**31,302**	**44,218**	**111,071**	**97,413**	**111,498**	**35%**
Total current liabilities	**29,477**	**51,361**	**77,980**	**106,635**	**154,135**	**189,478**	**205,368**	**32%**
Short term debt	8,758	11,237	12,892	10,925	19,348	17,389	14,680	
Long term debt	36,965	37,803	34,503	41,536	77,715	117,652	107,693	
Total debt	**45,723**	**49,040**	**47,395**	**52,461**	**97,063**	**135,040**	**122,373**	**20%**
Net Debt	*41,007.69*	*40,211.79*	*41,473.92*	*42,305.93*	*42,057.92*	*118,662.27*	*101,983.43*	
Total assets	117,179	159,106	215,681	296,690	469,874	627,805	724,522	**35%**
Total equity	**45,916**	**61,814**	**93,135**	**137,354**	**225,599**	**312,036**	**405,115**	**46%**
BVPS	25	33	49	71	117	162	209	
Summary Cash Flows								
Decrease / (increase) in working cap	8,358	13,969	15,493	21,940	17,075	12,332	8,525	
Cash flow from operations	**21,055**	**41,093**	**54,640**	**90,442**	**122,119**	**142,287**	**166,310**	**32%**
Capital expenditure	(39,684)	(43,179)	(64,773)	(92,404)	(142,172)	(218,047)	(144,335)	
Free cash flow	*(18,629.21)*	*(2,085.68)*	*(10,132.69)*	*(1,961.87)*	*(20,053.06)*	*(75,759.16)*	*21,974.56*	
Acquisitions	-	-	-	-	-	-	-	
Divestitures	-	-	-	-	-	-	-	
Cash from from investing activities	**(38,351)**	**(43,719)**	**(65,621)**	**(93,066)**	**(143,252)**	**(222,421)**	**(146,169)**	
Increase / (decrease) in debt	(15,994)	(3,317)	1,645	(5,066)	(44,602)	(37,977)	12,667	
Share issue / (repurchase)	163	171	8,547	803	20,086	98	11	
Cash from financing	**18,102**	**6,739**	**8,074**	**6,485**	**65,849**	**41,507**	**(16,129)**	
Total Cash Flow	**806**	**4,113**	**(2,907)**	**4,234**	**44,716**	**(38,627)**	**4,011**	**-1%**

Source: Company data, Goldman Sachs Research estimates.

Exhibit 17: Key ratios and financial metrics

Bharti Airtel BRTI.BO	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	5 yr Average
Growth								
Sales growth	100%	66%	45%	60%	46%	39%	23%	**42%**
EBIT growth	-1597%	123%	51%	81%	53%	35%	16%	**48%**
Net Income	-351%	195%	51%	89%	57%	25%	13%	**47%**
EPS growth	-351%	189%	50%	91%	55%	26%	13%	**47%**
Margins								
Gross margin	56%	60%	61%	62%	62%	59%	58%	**60%**
EBITDA margin	33%	38%	37%	40%	42%	41%	40%	**40%**
EBIT margin	17%	23%	24%	27%	28%	27%	26%	**26%**
Pre-tax margin	12%	21%	22%	27%	28%	24%	25%	**25%**
Net Income margin	11%	19%	19%	23%	25%	22%	21%	**22%**
Return Ratios								
ROE	12%	28%	29%	38%	37%	32%	27%	**33%**
ROA	5%	11%	12%	17%	17%	15%	14%	**15%**
ROIC	10%	18%	21%	27%	27%	24%	22%	**24%**
CROCI	12%	18%	19%	25%	25%	24%	22%	**23%**
Working capital ratios								
Current ratio	0.5x	0.5x	0.4x	0.4x	0.7x	0.5x	0.5x	**0.5x**
Quick ratio	0.5x	0.5x	0.4x	0.4x	0.7x	0.5x	0.5x	**0.5x**
Inventory days	4	5	4	3	4	3	3	**3**
Receivable days	42	39	38	32	31	32	33	**33**
Payable days	61	63	85	81	64	62	71	**72**
Interest cover - EBIT	1.8x	5.8x	9.3x	10.2x	15.8x	18.5x	13.4x	**13.4x**
Leverage								
Debt/equity	100%	79%	51%	38%	43%	43%	30%	**41%**
Net debt/equity	89%	65%	45%	31%	19%	38%	25%	**0%**
Total assets/equity	2.6x	2.6x	2.3x	2.2x	2.1x	2.0x	1.8x	**0.8x**
Valuation								
P/E		81.5x	54.4x	28.6x	18.5x	14.7x	13.0x	**25.8x**
P/B	26.2x	19.7x	13.3x	9.1x	5.5x	4.0x	3.1x	**7.0x**
EV/EBITDA	11.6x	11.8x	14.2x	13.6x	15.0x	8.7x	7.2x	**11.8x**
Div yield	0%	0%	0%	0%	0%	0%	0%	**0%**
EV/GCI / CROCI/WACC	1.0x	1.4x	1.7x	1.5x	1.7x	1.1x	0.8x	**1.4x**

Source: Company data, Goldman Sachs Research estimates.

Cairn India Limited (CAIL.BO)

Investment thesis

We like Cairn India among the Indian E&P names owing to the significant volume growth we see coming from the Rajasthan project from 4Q 2009E. Cairn India is fully funded for the Rajasthan project and the risk of cost escalation remains low in the current environment. Management has recently reiterated that the Rajasthan development and crude pipeline projects are on track. Most of the regulatory issues are already behind Cairn India and we expect some direction on pricing of crude over the next six months. We expect Cairn India's production volumes to register a 69% CAGR between 2008E and 2012E. We also expect Cairn India to post 4% yoy earnings growth in 2009E at our Brent estimate of US$45/bbl.

Cairn India has an attractive portfolio of exploration assets and with the exploration drilling planned in the key blocks over the next few months, we think newsflow on any fresh discoveries may act as an upside risk for the stock.

Valuation

Our NAV-based 12-month TP for Cairn India is Rs215, based on normalized Brent price of US$85/bbl from 2012E, implying 25% potential upside. The stock is currently trading at 2.3x 2010E EV/DACF, making it one of the least expensive E&P stocks under our Indian coverage. Cairn India's current share price implies a long-term oil price of US$60/bbl.

Differentiation from consensus

We have a bearish view on the oil prices in the near term compared to the Street, and our below Bloomberg consensus earnings estimates for Cairn largely reflect the downside risks for oil prices in the near term.

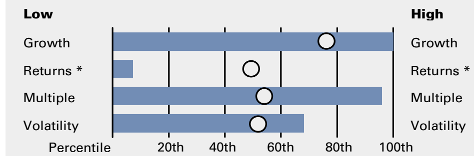
Key risks to our view and target price

(1) Weak spot oil price; (2) delay in Rajasthan project; (3) less-than-expected upside in Rajasthan EOR (enhanced oil recovery) ; and (4) appreciation of the INR-USD exchange rate.

Potential catalysts

(1) Rebound in oil prices after bottoming in 1Q2009; (2) newsflow on Rajasthan project progress; (3) exploration success in other blocks.

Investment Profile



Cairn India Ltd. (CAIL.BO)

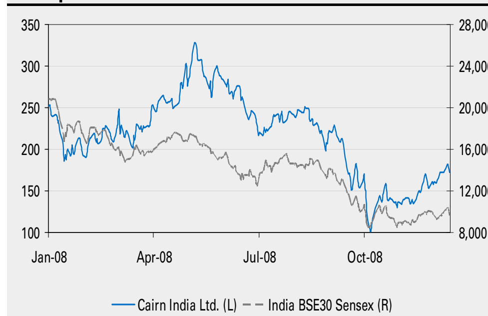
Asia Pacific Energy Peer Group Average

* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	172.55
12 month price target (Rs)	215.00
Market cap (Rs mn / US$ mn)	306,862.8 / 6,299.8
Foreign ownership (%)	12.0

	12/07	12/08E	12/09E	12/10E
EPS (Rs)	1.01	2.50	2.60	24.99
EPS growth (%)	215.6	146.0	4.4	859.6
EPS (diluted) (Rs)	1.01	2.50	2.60	24.99
EPS (basic pre-ex) (Rs)	(0.14)	2.51	2.62	25.10
P/E (X)	170.1	69.1	66.3	6.9
P/B (X)	1.0	1.0	1.0	0.9
EV/EBITDA (X)	41.2	50.0	29.7	4.3
Dividend yield (%)	--	--	--	--
ROE (%)	(0.1)	1.5	1.5	13.4

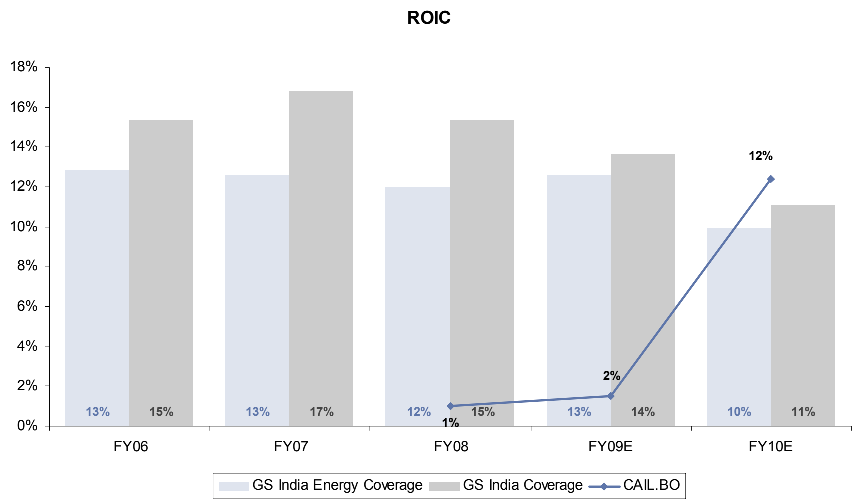
Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	1.6	(27.4)	(33.9)
Rel. to Bombay SE Sensitive Index	23.9	2.4	43.6

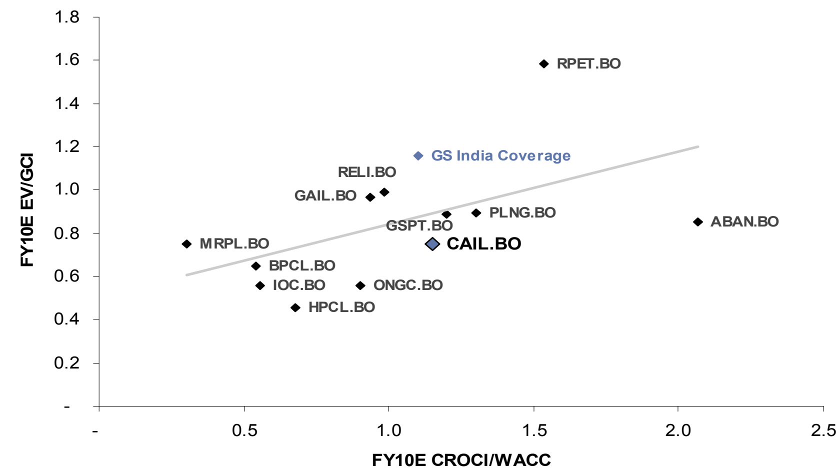
Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/07/2009 close.

Exhibit 18: ROIC to rise as Rajasthan production comes on-stream



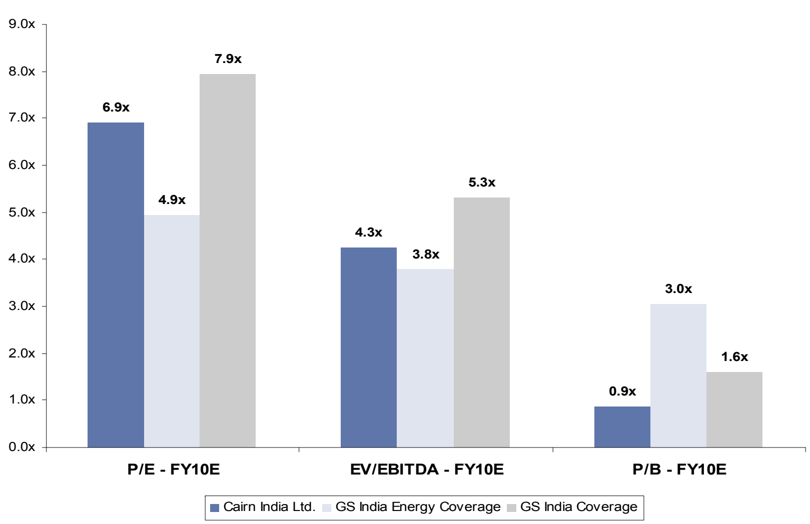
Source: Company data, Goldman Sachs Research estimates

Exhibit 19: Cairn is relatively less expensive than its peers under our coverage in India



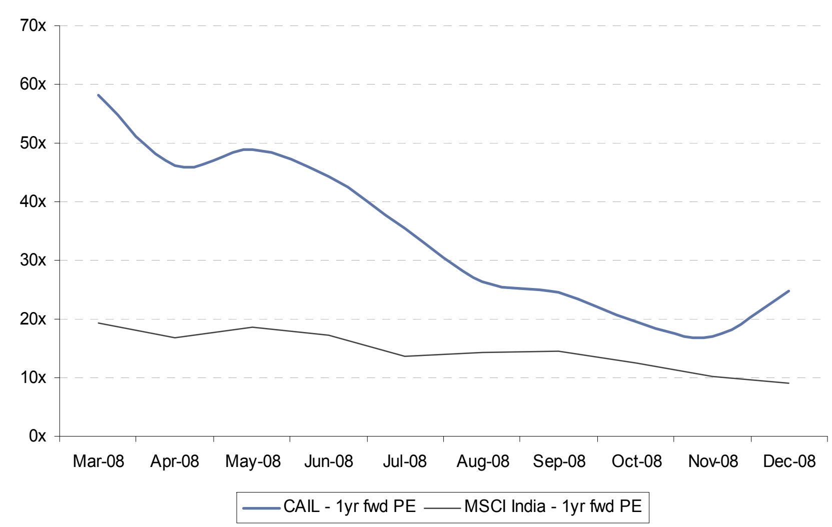
Source: Company data, Goldman Sachs Research estimates

Exhibit 20: Cairn is trading at a premium to its India peers ...



Source Goldman Sachs Research estimates

Exhibit 21: ... a premium it has enjoyed throughout its history vs the MSCI



Source: Datastream, Goldman Sachs Research estimates

Key financial metrics

Sales growth

With production from its Rajasthan asset set to commence from 2009E, we expect Cairn India's production volumes to register a 69% CAGR between 2008E and 2012E. Production from the Rajasthan asset should, according to our estimates, contribute about 15% of total Indian oil production in 2012E. We believe that most of the hurdles for the execution of the Rajasthan project are largely behind Cairn India, which reduces the downside risk of possible project overruns.

Operating margins

Cairn India's operating margins are a function of oil prices. We expect its 2009E EBITDA margins to decline to 65.1% from 71.3% in 2008E, primarily due to lower oil price forecasts of US$45/bl. With higher oil price forecasts from 2010E onwards, we expect EBITDA margin to improve to 77%/85% in 2010E/2011E. As the Rajasthan asset is onshore, Cairn India generally enjoys higher operating margins compared with other E&P companies, with major offshore assets.

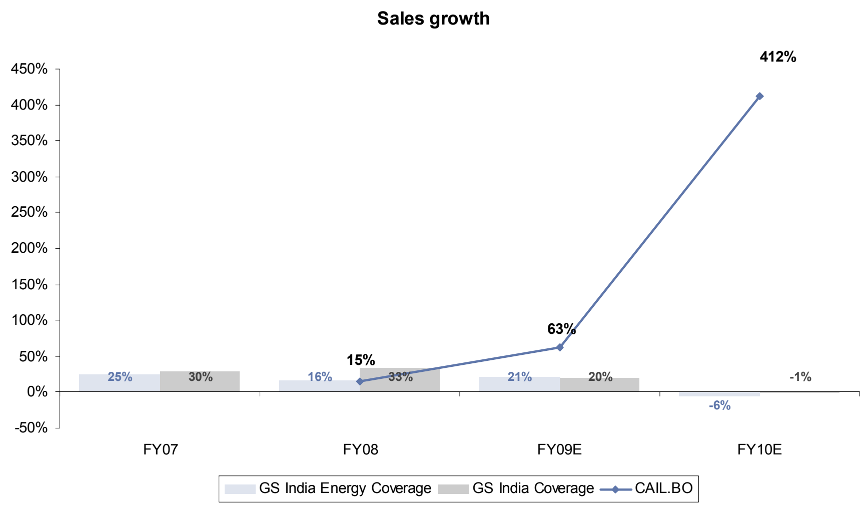
Balance sheet – Gearing, asset quality

We expect Cairn India to be debt-free by 2010E, on full ramp-up of production from its Rajasthan asset. We expect its balance sheet size to expand once the Rajasthan asset's production starts generating cash inflows. The asset has gross in-place reserves of about 3.7 bn bbls of oil, which can generate cash flows over the next 20 years. The terms on which the asset has been contracted are attractive, in our view, compared with the terms offered/bid under the NELP program.

Cash flows – Liquidity, free cash, capex and fund raising

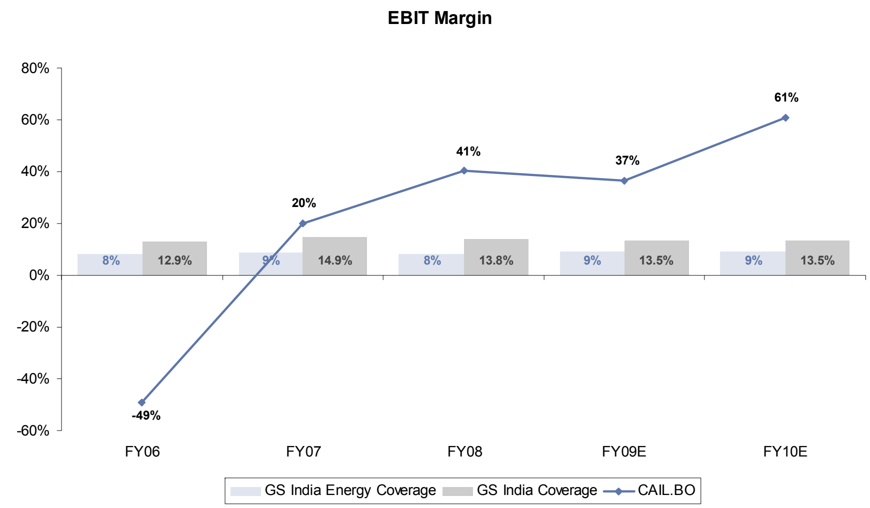
The US$1.8bn capex over 2008E and 2009E for the development of the Rajasthan asset is fully funded through a mix of debt and equity and we do not envisage a scenario of the project getting delayed primarily due to funding constraints. On ramp-up of production from its Rajasthan asset, Cairn India should have sufficient cash flows to fund further development activities in the Rajasthan block and its exploration commitments. Even at our revised oil price assumptions, we expect Cairn India to generate annual free cash flows of about US$2 bn from 2011E onwards.

Exhibit 22: Earnings growth primarily from the commencement of production from the Rajasthan asset



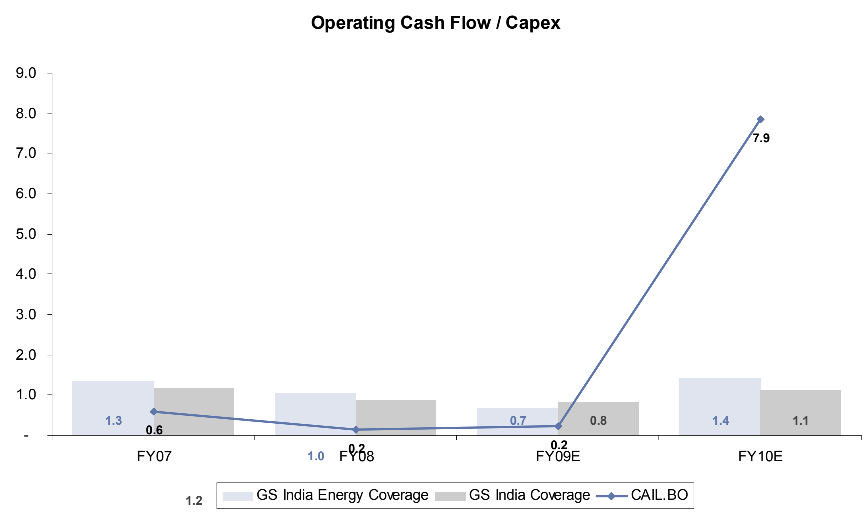
Source: *Company data, Goldman Sachs Research estimates.*

Exhibit 23: Improvement of margin mainly because of rising trend in oil prices and falling costs as volumes grow



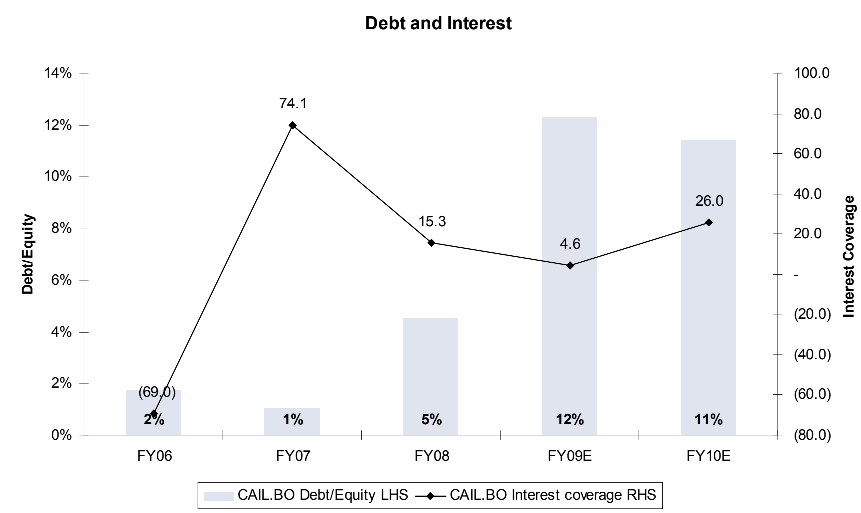
Source: *Company data, Goldman Sachs Research estimates.*

Exhibit 24: Increase in operating cash flows due to commencement of production from Rajasthan asset



Source: Company data, Goldman Sachs Research estimates.

Exhibit 25: Interest coverage ratio to improve with increase in operating cash flows



Source: Company data, Goldman Sachs Research estimates.

Financials and ratios

Exhibit 26: Key line items drawn from our detailed models

Cairn India Ltd. CAIL.BO	FY2006	FY2007	FY2008	FY2009E	FY2010E	3 yr CAGR
Summary Income Statement					Rs. Millions	
Sales	**387**	**10,123**	**11,667**	**18,971**	**97,102**	**112%**
Gross Profit	305	9,199	9,463	13,719	77,130	
EBITDA	(69)	6,609	8,319	12,341	74,717	
EBIT	**(190)**	**2,020**	**4,726**	**6,929**	**59,029**	
Pre-Tax Profit	(130)	3,317	7,118	6,435	57,508	
Net Income	(212)	(245)	4,740	4,948	47,481	
EPS	**(1)**	**1**	**2**	**3**	**25**	**191%**
Summary Balance Sheet						
Cash & equivalents	61,348	13,318	12,092	774	51,796	
Accounts receivable	1,917	1,349	810	1,317	6,743	
Inventory	1,251	1,216	2,083	2,702	5,046	
Accounts payable	3,269	3,921	4,520	6,780	8,136	
Total current assets	**67,818**	**20,533**	**19,635**	**9,443**	**68,236**	**49%**
Total current liabilities	**39,716**	**8,373**	**8,518**	**10,891**	**12,364**	**14%**
Short term debt	-	-	-	-	-	
Long term debt	5,122	3,124	14,774	40,424	43,034	
Total debt	**5,122**	**3,124**	**14,774**	**40,424**	**43,034**	**140%**
Net Debt	*(56,226.22)*	*(10,193.55)*	*2,682.75*	*39,650.62*	*(8,761.49)*	
Total assets	341,900	310,400	352,382	385,552	437,368	**12%**
Total equity	**292,804**	**294,358**	**324,445**	**329,392**	**376,874**	**9%**
BVPS	938	166	172	174	199	
Summary Cash Flows						
Decrease / (increase) in working cap	(2,418)	(29,250)	(183)	1,247	(6,297)	
Cash flow from operations	**(1,324)**	**6,803**	**6,784**	**10,332**	**55,470**	**101%**
Capital expenditure	-	(11,743)	(45,006)	(47,300)	(7,058)	
Free cash flow	*(1,323.67)*	*(4,940.24)*	*(38,222.44)*	*(36,967.86)*	*48,412.10*	
Acquisitions	-	(32,763)	-	-	-	
Divestitures	-	(9,282)	-	-	-	
Cash from from investing activities	**(96,173)**	**(53,788)**	**(45,006)**	**(47,300)**	**(7,058)**	
Increase / (decrease) in debt	NA	1,997	(11,650)	(25,650)	(2,610)	
Share issue / (repurchase)	155,511	2,094	25,346	-	-	
Cash from financing	**156,734**	**(1,045)**	**36,996**	**25,650**	**2,610**	
Total Cash Flow	**59,237**	**(48,030)**	**(1,227)**	**(11,318)**	**51,022**	**2%**

Source: Company data, Goldman Sachs Research estimates.

Exhibit 27: Key ratios and financial metrics

Cairn India Ltd. CAIL.BO	FY2006	FY2007	FY2008	FY2009E	FY2010E	4 yr Average
Growth						
Sales growth	NA	2513%	15%	63%	412%	**751%**
EBIT growth	NA	-1165%	134%	47%	752%	**-58%**
Net Income	NA	16%	-2036%	4%	860%	**-289%**
EPS growth	NA	-216%	146%	4%	860%	**199%**
Margins						
Gross margin	79%	91%	81%	72%	79%	**81%**
EBITDA margin	-18%	65%	71%	65%	77%	**70%**
EBIT margin	-49%	20%	41%	37%	61%	**39%**
Pre-tax margin	-34%	33%	61%	34%	59%	**47%**
Net Income margin	-55%	-2%	41%	26%	49%	**28%**
Return Ratios						
ROE	NA	0%	2%	2%	13%	**4%**
ROA	NA	1%	1%	1%	12%	**4%**
ROIC	0%	0%	1%	2%	12%	**4%**
CROCI	0%	1%	2%	2%	15%	**5%**
Working capital ratios						
Current ratio	1.7x	2.5x	2.3x	0.9x	5.5x	**2.8x**
Quick ratio	1.7x	2.3x	2.1x	0.6x	5.1x	**2.5x**
Inventory days	NA	488	273	166	71	**249**
Receivable days	NA	59	34	20	15	**32**
Payable days	NA	1421	699	393	136	**662**
Interest cover - EBIT	-69.0x	74.1x	15.3x	4.6x	26.0x	**30.0x**
Leverage						
Debt/equity	2%	1%	5%	12%	11%	**7%**
Net debt/equity	-19%	-3%	1%	12%	-2%	**2%**
Total assets/equity	1.2x	1.1x	1.1x	1.2x	1.2x	**1.1x**
Valuation						
P/E	NA	170.1x	69.1x	66.3x	6.9x	**78.1x**
P/B	0.2x	1.0x	1.0x	1.0x	0.9x	**1.0x**
EV/EBITDA	NA	41.2x	50.0x	29.7x	4.3x	**31.3x**
Div yield	0%	0%	0%	0%	0%	**0%**
EV/GCI / CROCI/WACC	NA	0.9x	5.5x	4.2x	0.6x	**2.8x**

Source: Company data, Goldman Sachs Research estimates.

Dr. Reddy's Laboratories (REDY.BO)

Investment thesis:

Earnings volatility over the last two years has, in our view, led to the market pricing in lower growth than we believe Dr Reddy's is capable of delivering. These growth prospects are evident from the stabilization of its core generic business, newer business integration through strategic acquisitions and new product launches in the US and EU.

Hence, we expect the company to achieve 3-year sales CAGR of 20% and earnings CAGR of 30% over FY08-FY11E, which is twice the earnings growth of Indian drug companies under our coverage over the same period and four times that of the broader GS India coverage group.

Valuation

Our 12-month target price of Rs805 is based on DCF methodology and implies a PE of 17x on FY10E earnings. The stock is trading at a 20% discount to its Indian peers under GS coverage on FY10E EV/EBITDA of 5.2x, vs. Indian sector average of 8x.

Dr Reddy's MICAP of 15 years is the lowest in the sector, and is comparable to the sector's average MICAP of 21 years. (MICAP or market-implied competitive advantage period is the number of years of future cash flow required to justify the market value of a firm.)

Differentiation from consensus

We differ from consensus primarily in our view that Betapharm is more strongly placed now to win a few of the German insurer Allgemeine Ortskrankenkasse (AOK) tenders. This is also one of the key drivers for adding Dr Reddy's to our Conviction Buy list. For further details please refer to our December 1 report, *Dr. Reddy's Laboratories (REDY.BO) Add to CB list; greater evidence of a turnaround; catalysts ahead.*

Additionally, we have highlighted the low market-implied growth rate priced into Dr Reddy's stock and maintain that a couple of quarters of consistent performance could drive the market to revise its growth rate estimates and we could see a re-rating of the stock.

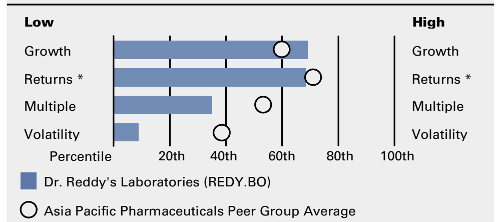
Key risks to our view and target price

(1) Further pricing pressures in its German business can affect operating margins going forward; (2) adverse currency movement could dilute net earnings; (3) competition in generic business in Germany and USA.

Potential catalysts

(1) Company's declaration on the details and estimates of any AOK tender wins; (2) revenues from an earlier-than-anticipated launch of Imitrex (particularly if Ranbaxy's launch is delayed); (3) second-half results, which we expect would reflect the company's strong operational performance.

Investment Profile

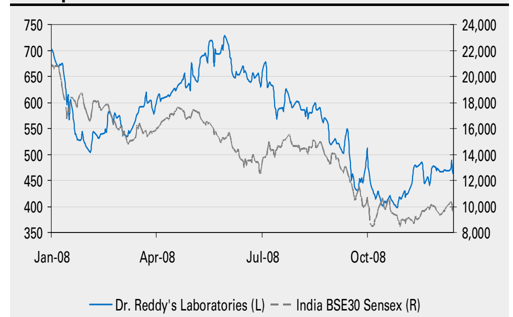


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	464.60
12 month price target (Rs)	805.00
Market cap (Rs mn / US$ mn)	78,006.3 / 1,601.4
Foreign ownership (%)	3,044.0

	3/08	3/09E	3/10E	3/11E
EPS (Rs)	26.09	34.74	46.43	57.55
EPS growth (%)	(56.9)	33.1	33.7	23.9
EPS (diluted) (Rs)	26.09	34.74	46.43	57.55
EPS (basic pre-ex) (Rs)	26.09	34.74	46.43	57.55
P/E (X)	17.8	13.4	10.0	8.1
P/B (X)	1.7	1.6	1.4	1.2
EV/EBITDA (X)	13.9	7.0	5.2	3.9
Dividend yield (%)	0.9	1.0	1.1	1.3
ROE (%)	10.3	12.3	14.6	15.7

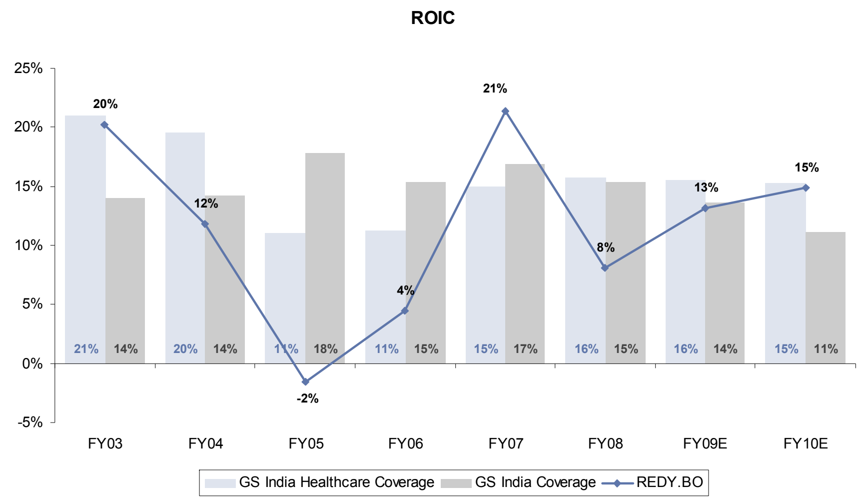
Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	3.3	(27.3)	(34.8)
Rel. to Bombay SE Sensitive Index	26.0	2.5	41.6

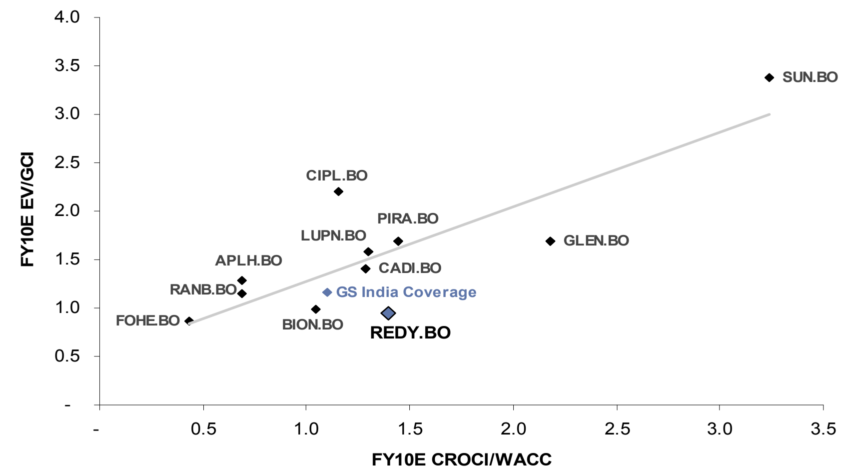
Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/07/2009 close.

Exhibit 28: ROIC is improving, higher than coverage universe but lower than India peers under GS coverage



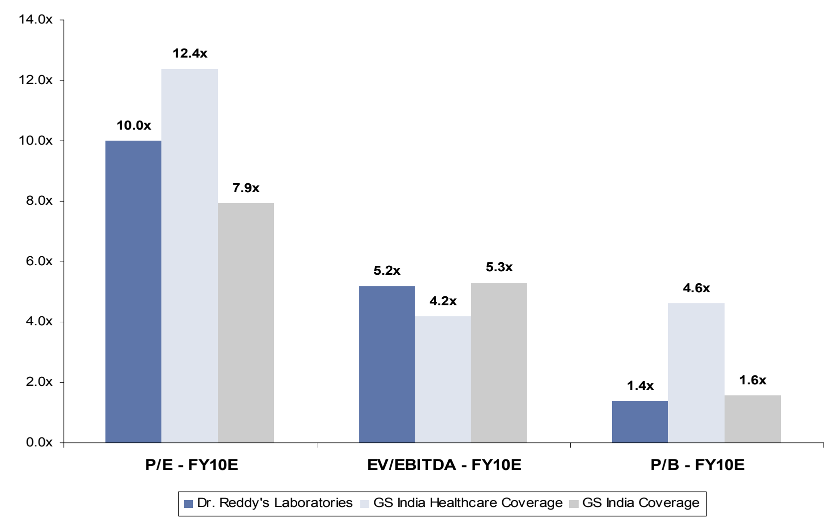
Source: Company data, Goldman Sachs Research estimates.

Exhibit 29: Increasing dividend yield is merely a function of price weakness



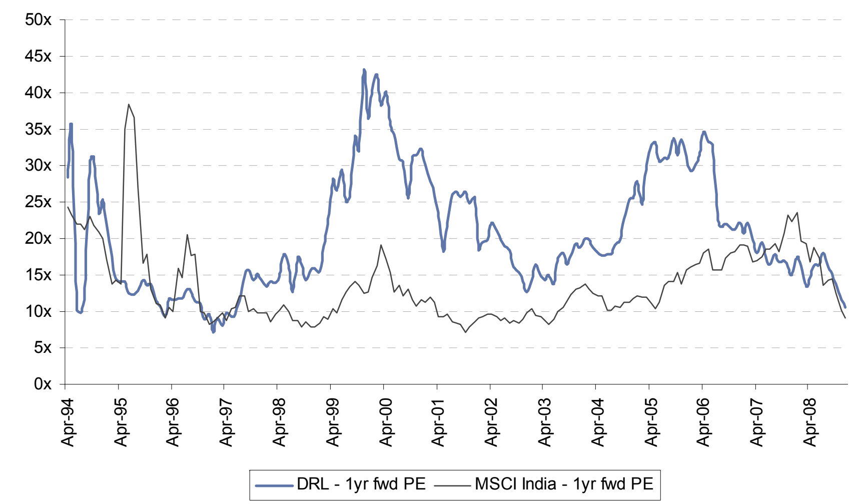
Source: Company data, Goldman Sachs Research estimates.

Exhibit 30: Reddy's is trading at a discount to GS India Healthcare coverage



Source: Company data, Goldman Sachs Research estimates.

Exhibit 31: Reddy's has traded at a premium for most of its trading history; we see the current discount to the MSCI as an opportunity to buy the stock



Source: Datastream, Goldman Sachs Research estimates.

Key financial metrics

Sales growth

We believe Dr Reddy's is well on its way to achieving its 25% revenue growth guidance for the year. We expect this growth to be driven by the all-round consolidation in its business (US and German generics; CPS business in Mexico), following the steps taken by the company to address the critical issues that impacted it in 2007 and 2008.

We believe that the key issue of growth in Germany for FY09 has been addressed by de-risking the supply-side issues with a dedicated Betapharm facility set up in India. Looking forward to FY10 and FY11, we expect the eventual AOK tender wins to add significantly to growth in the German market.

Operating margins

Management's focus this year has been on stabilizing and improving margins, which declined significantly in FY08. We have seen tangible results of this focus, as the company's EBIT margins have improved for the third consecutive quarter and we expect this improvement to continue further in 2HFY09E too, to 12.7% from 9% in FY08.

Looking specifically at margin pressures in Germany, although we believe that Dr Reddy's would be exposed to the same pricing pressures as most of its competitors, Betapharm's vertically integrated structure should help limit the impact on margins.

Balance sheet: Gearing, asset quality

Dr Reddy's gearing is currently at 0.4x, which is less than the sector average of 0.6x. We do not expect the company to incur any significantly increased capex, on either newer plants or acquisitions. This factor, along with greater cash generation by the company, should, in our view, drive the gearing levels down even further to 0.3x by FY11E (vs. the sector's average gearing of 0.45x for FY11E).

We believe that the total leverage for Dr Reddy's will decrease from a peak of US$699 mn in FY06 to about US$399 mn in FY09E and FY10E. This is a function of a deceleration in the capex cycle and high growth in cash generated from operations.

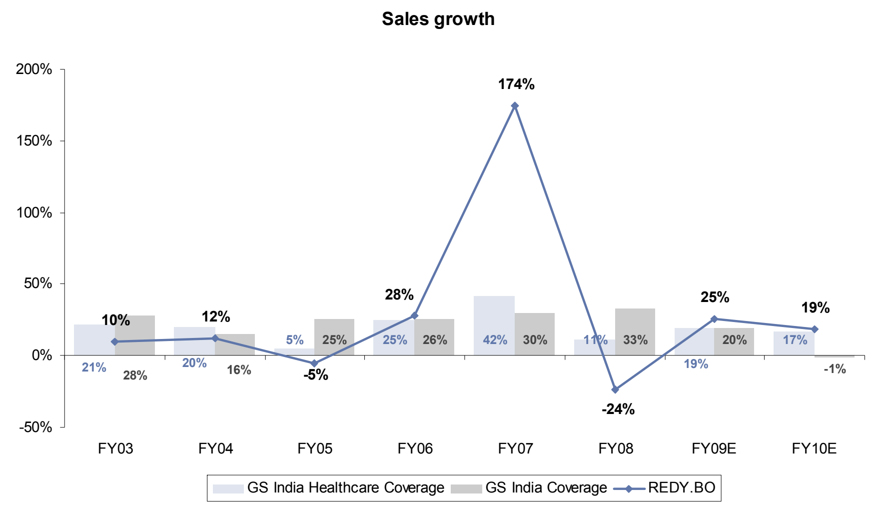
Cash Flows – Liquidity, free cash, capex and fund raising

We forecast Dr Reddy's will generate around US$1 bn of operating free cash flow over the next three years (FY09E-FY11E) and, post capex, generate around US$600 mn of free cash flow over the same period.

Further, our expectation of a decrease in capex spending is driven by our views that the company does not have an appetite for any big ticket acquisition, following the integration issues it faced with its Betapharm acquisition, and that the company is still focusing on stabilizing Betapharm. Also, most of the capex required in terms of setting up dedicated facilities for Betapharm or for the Mexican businesses has been incurred, along with some small-scale strategic acquisitions in the beginning of the year.

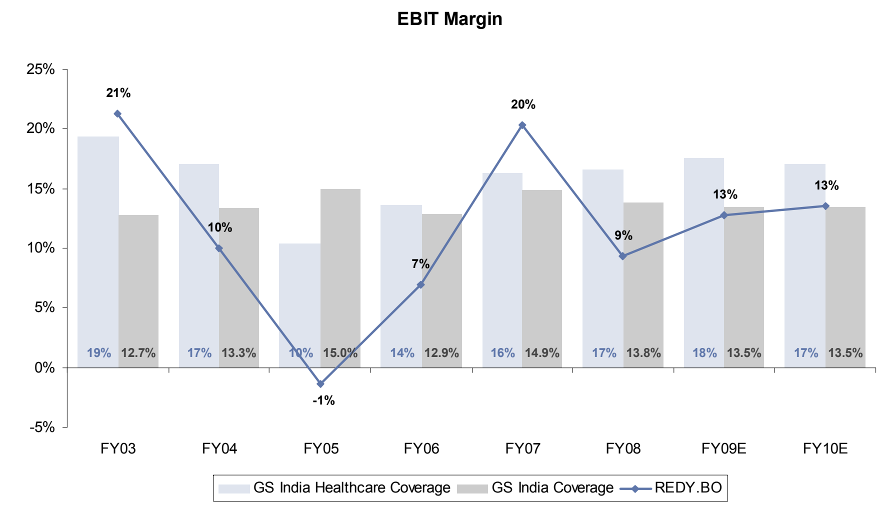
We expect the company to fund any further small-scale acquisitions through internal cash accruals, without the need to seek external sources of funding.

Exhibit 32: Sales growth to exceed sector aggregate for FY09E and FY10E



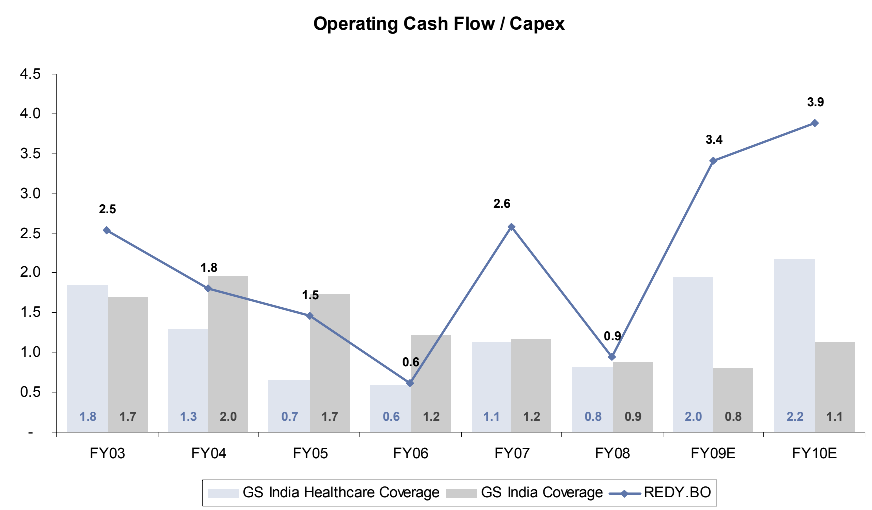
Source: Company data, Goldman Sachs Research estimates.

Exhibit 33: We expect Dr Reddy's margins to be below healthcare margins
But margins expected to be on par with those for the India coverage universe



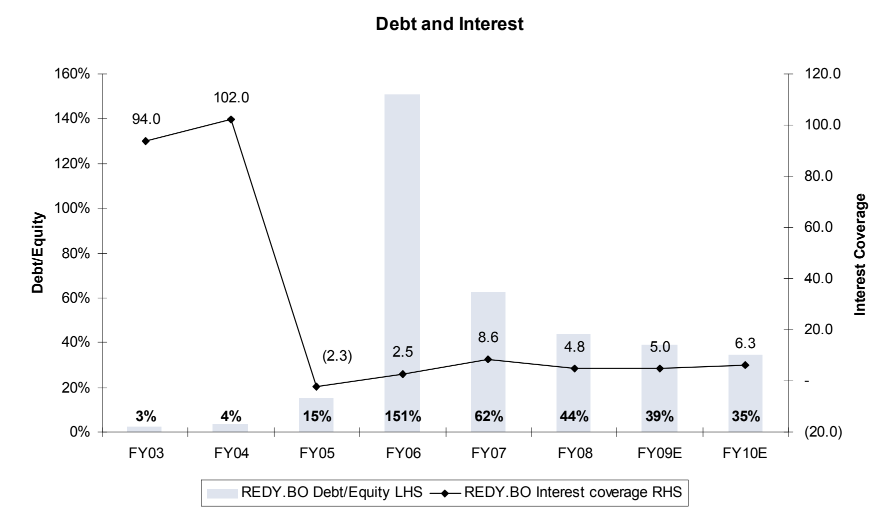
Source: Company data, Goldman Sachs Research estimates.

Exhibit 34: Capex coverage to increase to 3.41x in FY09E and 3.89x in FY10E
Slowdown in investment cycle has meant better capex coverage



Source: Company data, Goldman Sachs Research estimates.

Exhibit 35: We expect debt levels to dip for the fourth straight year in FY09E
Falling debt and widening EBIT margins leading to better interest coverage



Source: Company data, Goldman Sachs Research estimates.

Financials and ratios

Exhibit 36: Key line items drawn from our detailed models

Dr. Reddy's Laboratories REDY.BO	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	5 yr CAGR
Summary Income Statement							Rs. Millions	
Sales	**19,334**	**18,359**	**23,466**	**64,346**	**49,142**	**61,586**	**73,042**	**32%**
Gross Profit	11,847	10,746	13,094	31,864	26,389	33,403	39,982	
EBITDA	2,965	1,009	3,237	16,848	8,606	12,086	14,882	
EBIT	**1,940**	**(247)**	**1,620**	**13,057**	**4,587**	**7,845**	**9,852**	
Pre-Tax Profit	2,713	139	2,013	12,399	5,450	7,200	9,624	
Net Income	2,515	329	1,467	9,659	4,381	5,832	7,795	
EPS	**16**	**2**	**10**	**61**	**26**	**35**	**46**	**85%**
Summary Balance Sheet								
Cash & equivalents	4,496	9,355	9,796	18,610	7,453	12,662	20,283	
Accounts receivable	3,998	3,821	5,104	7,810	6,522	8,173	9,693	
Inventory	3,022	3,527	6,665	7,472	11,019	13,648	16,010	
Accounts payable	3,749	4,750	8,459	9,796	10,275	12,876	15,272	
Total current assets	**13,287**	**19,499**	**26,618**	**37,492**	**30,342**	**39,832**	**51,336**	**21%**
Total current liabilities	**4,239**	**6,604**	**12,732**	**11,640**	**11,759**	**14,361**	**16,756**	**20%**
Short term debt	-	144	2,250	526	689	689	689	
Long term debt	686	2,804	28,920	24,380	18,995	18,995	18,995	
Total debt	**686**	**2,948**	**31,169**	**24,907**	**19,684**	**19,684**	**19,684**	**46%**
Net Debt	*(3,809.55)*	*(6,406.86)*	*21,372.92*	*6,296.50*	*12,230.99*	*7,021.89*	*(599.15)*	
Total assets	24,898	29,243	63,297	77,181	77,152	84,848	94,226	**26%**
Total equity	**19,391**	**19,418**	**20,689**	**39,983**	**44,969**	**50,062**	**57,046**	**24%**
BVPS	126	127	135	252	268	298	340	
Summary Cash Flows								
Decrease / (increase) in working cap	508	881	(250)	(2,446)	(2,270)	(1,679)	(1,487)	
Cash flow from operations	**3,825**	**2,550**	**1,159**	**11,545**	**4,825**	**8,411**	**11,355**	**35%**
Capital expenditure	(2,111)	(1,741)	(1,894)	(4,482)	(5,086)	(2,463)	(2,922)	
Free cash flow	*1,714.31*	*808.50*	*(734.81)*	*7,063.60*	*(260.74)*	*5,947.17*	*8,433.32*	
Acquisitions	(13,584)	(10,791)	(32,370)	(607)	(16,204)	-	-	
Divestitures	9,229	13,112	5,968	447	12,537	-	-	
Cash from from investing activities	**(6,466)**	**580**	**(28,296)**	**(4,642)**	**(8,753)**	**(2,463)**	**(2,922)**	
Increase / (decrease) in debt	(220)	(2,262)	(28,221)	6,262	5,223	-	-	
Share issue / (repurchase)	5	-	74	10,030	15	-	-	
Cash from financing	**(118)**	**1,687**	**27,512**	**1,770**	**(6,796)**	**(738)**	**(812)**	
Total Cash Flow	**(2,758)**	**4,816**	**375**	**8,673**	**(10,724)**	**5,209**	**7,621**	**10%**

Source: Company data, Goldman Sachs Research estimates.

Exhibit 37: Key ratios and financial metrics

Dr. Reddy's Laboratories REDY.BO	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	5 yr Average
Growth								
Sales growth	12%	-5%	28%	174%	-24%	25%	19%	**44%**
EBIT growth	-47%	-113%	-756%	706%	-65%	71%	26%	**-4%**
Net Income	-31%	-87%	346%	558%	-55%	33%	34%	**183%**
EPS growth	-31%	-87%	345%	535%	-57%	33%	34%	**178%**
Margins								
Gross margin	61%	59%	56%	50%	54%	54%	55%	**54%**
EBITDA margin	15%	5%	14%	26%	18%	20%	20%	**19%**
EBIT margin	10%	-1%	7%	20%	9%	13%	13%	**13%**
Pre-tax margin	14%	1%	9%	19%	11%	12%	13%	**13%**
Net Income margin	13%	2%	6%	15%	9%	9%	11%	**10%**
Return Ratios								
ROE	14%	2%	7%	32%	10%	12%	15%	**15%**
ROA	12%	1%	3%	14%	6%	7%	9%	**8%**
ROIC	12%	-2%	4%	21%	8%	13%	15%	**12%**
CROCI	17%	13%	5%	23%	10%	13%	16%	**13%**
Working capital ratios								
Current ratio	3.1x	3.0x	2.1x	3.2x	2.6x	2.8x	3.1x	**2.7x**
Quick ratio	2.4x	2.4x	1.6x	2.6x	1.6x	1.8x	2.1x	**1.9x**
Inventory days	141	157	179	79	148	160	164	**146**
Receivable days	73	78	69	37	53	44	45	**49**
Payable days	153	204	232	103	161	150	155	**160**
Interest cover - EBIT	102.0x	-2.3x	2.5x	8.6x	4.8x	5.0x	6.3x	**5.4x**
Leverage								
Debt/equity	4%	15%	151%	62%	44%	39%	35%	**66%**
Net debt/equity	-20%	-33%	103%	16%	27%	14%	-1%	**0%**
Total assets/equity	1.3x	1.5x	3.1x	1.9x	1.7x	1.7x	1.7x	**1.1x**
Valuation								
P/E	28.3x		48.7x	7.7x	17.8x	13.4x	10.0x	**19.5x**
P/B	3.7x	3.7x	3.4x	1.8x	1.7x	1.6x	1.4x	**2.0x**
EV/EBITDA	27.8x	52.9x	28.1x	7.2x	13.9x	7.0x	5.2x	**12.3x**
Div yield	1%	1%	1%	1%	1%	1%	1%	**1%**
EV/GCI / CROCI/WACC	2.6x	5.8x	4.7x	0.8x	1.6x	0.9x	0.6x	**1.7x**

Source: Company data, Goldman Sachs Research estimates.

Housing Development Finance Corporation (HDFC.BO)

Investment thesis:

We believe HDFC's investment appeal rests on three key factors: (1) the long-term potential for growth in an under-penetrated market and our belief that the strong return metrics HDFC currently enjoys are sustainable in the long term, given its cost-competitiveness; (2) its earnings resilience through market cycles; and (3) its ability to fund growth through internal accruals even after taking into account cash calls from its strategic investments, commercial bank and life insurance operations.

Investors have expressed concern in recent times about HDFC's ability to meet growth expectations, for two reasons: (1) lending spreads could be narrowed by higher borrowing costs due to tighter credit conditions and HDFC's reliance on wholesale funding; and (2) non-performing assets related to HDFC's exposure to property developers could rise due to the current downturn in the property market. We believe these concerns are misplaced. In our view, HDFC has sufficient financing flexibility including the ability to raise deposits and fund growth if conditions warrant. We believe its risk on exposure to property developers is well contained, given HDFC's strong risk controls.

Valuation

We derive our 12-month target price of Rs 1,890 for HDFC using SOTP methodology. We value the core mortgage business using the mid-point of Camelot-derived P/B and its ex-growth value. We value the subsidiaries using multiple methodologies. HDFC currently trades at or below historical P/B and P/E multiples. We believe the high ROE of its core mortgage lending business, and its strong capital and funding position, warrant a higher multiple than the market is currently imputing to it.

Differentiation from consensus

Our view is in line with Reuters consensus. However, consensus has expressed concern about HDFC's ability to compete with banks in the long term, given its non-bank finance company structure. However, in our view, HDFC's historical performance, including periods of intense competition in the mortgage market and volatile interest rates, shows that its performance has not been constrained by its form or structure. We believe HDFC would likely sustain cost-competitiveness through better underwriting skills and cost efficiency and sustain superior profitability.

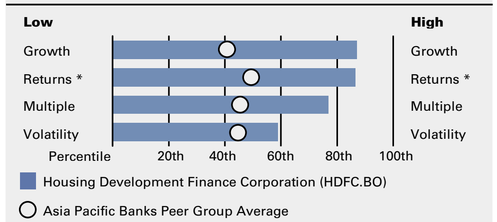
Key risks to our view and target price

Key risks include significant deterioration in the outlook for mortgage business and significant deterioration in the asset quality of loan exposure to property developers.

Potential catalysts

We believe HDFC's performance in 3QFY09 is likely to demonstrate the resilience of its earnings even in a tough operating environment. Over the medium term, sustained growth rate in the core mortgage business and potential for unlocking value from its strategic investments would be key catalysts, in our view.

Investment Profile

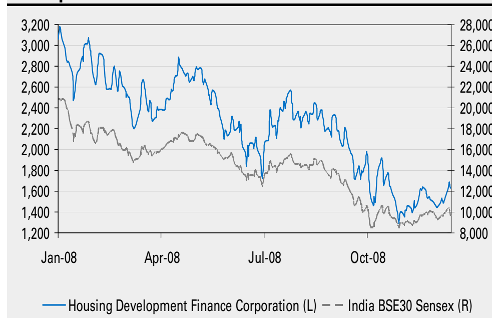


* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	1,628.10
12 month price target (Rs)	1,890.00
Market cap (Rs mn / US$ mn)	463,096.8 / 9,507.2
Foreign ownership (%)	75.9

	3/08	3/09E	3/10E	3/11E
EPS (Rs)	85.28	90.85	106.66	130.52
EPS growth (%)	46.4	6.5	17.4	22.4
P/B (X)	3.8	3.4	3.0	2.6
P/E (X)	19.1	17.9	15.3	12.5
Dividend yield (%)	1.5	1.9	2.3	2.7
P/PPOP (X)	16.7	13.1	10.9	8.9
PPOP growth (%)	39.0	27.5	20.3	22.4
Preprovision ROA (%)	3.7	3.7	3.5	3.5
Credit cost (%)	0.0	0.0	0.0	0.0
ROA (%)	3.25	2.77	2.58	2.53
ROE (%)	27.8	20.7	21.5	23.2

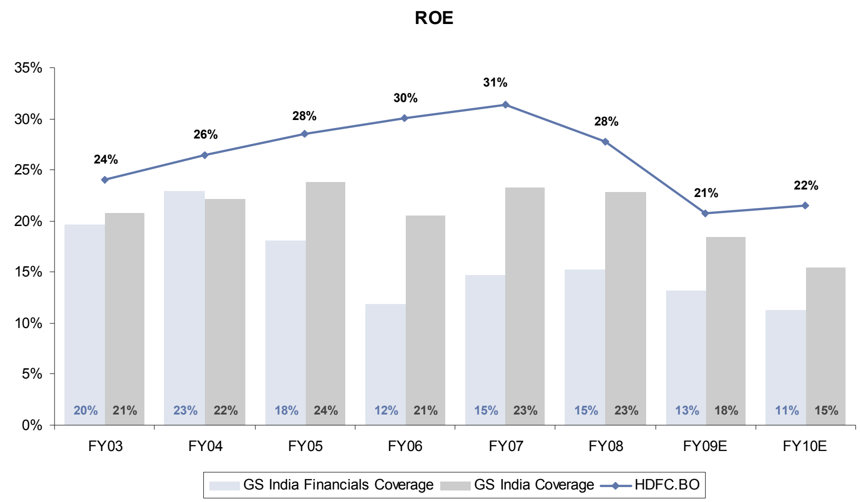
Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(16.7)	(20.8)	(47.7)
Rel. to Bombay SE Sensitive Index	1.6	11.8	13.6

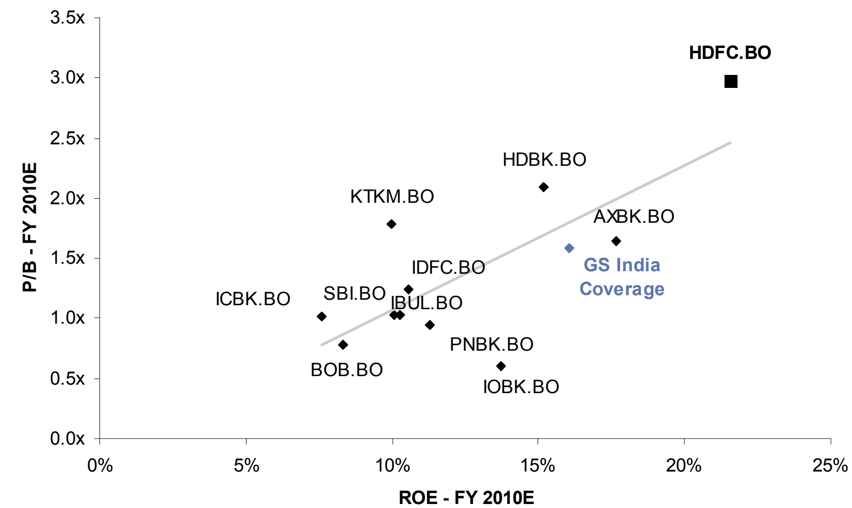
Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/07/2009 close.

Exhibit 38: HDFC has consistently maintained high ROE. Capital raising has dented ROE in recent times but will likely rise with higher leverage



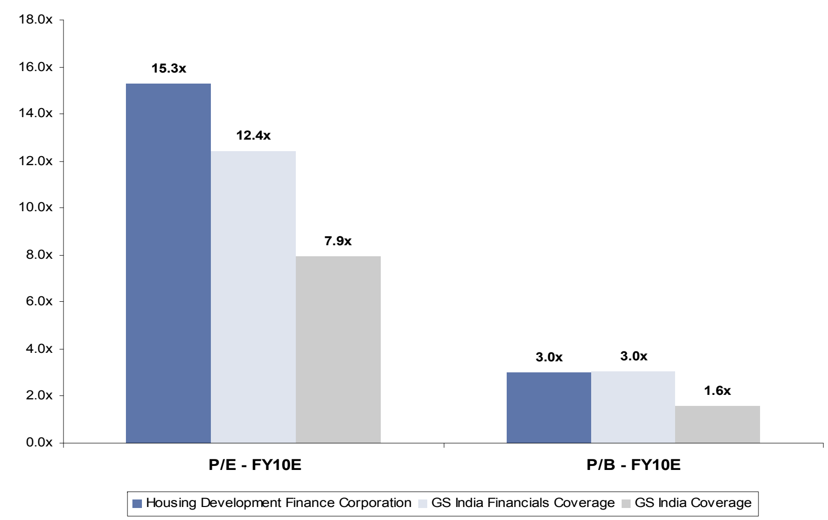
Source: Company data, Goldman Sachs Research estimates.

Exhibit 39: HDFC will likely sustain premium valuation due to superior ROE and exposure to broader financial services



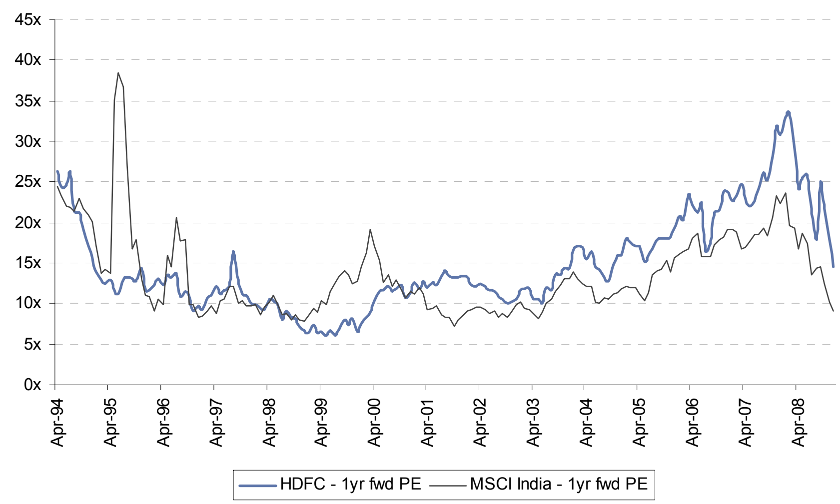
Source: Company data, Goldman Sachs research estimates.

Exhibit 40: We believe valuation gap of HDFC vs. its peers & coverage group has narrowed while its growth prospects have remained unimpaired



Source: Goldman Sachs Research estimates.

Exhibit 41: Adjusted for value of strategic investments, we believe HDFC is trading closer to historical trough levels



Source: Datastream, Goldman Sachs Research estimates.

Key financial metrics

Revenue growth

We believe volume growth would be the key driver of the realization of our growth expectations, given concerns about significant decline in property prices and hence lower demand for new mortgages. We believe that low home ownership levels and favorable affordability will continue to drive demand for new mortgages and that less intense competition would enable HDFC to sustain volume growth. We forecast CAGR of 26% in loan growth during FY08-FY11E. We expect NIM to decline as the volatility in interest rate environment subsides. We forecast 22% operating revenue CAGR during FY08-FY11E.

Cost efficiency

Rising volumes and slower cost growth are likely to lead to further improvements in cost efficiency. We forecast cost/income ratio to be maintained between 8% and 8.5%.

Balance sheet: gearing, asset quality

HDFC has a well-capitalized balance sheet. Assets/equity ratio stood at 7.1x on March 31, 2008. This leaves significant headroom for HDFC to increase leverage and grow its balance sheet. We expect its assets/equity ratio to rise to 9.5x by FY11. HDFC's NPL ratio stood at <1% on March 31, 2008. We expect no significant deterioration in asset quality, given its strong risk controls.

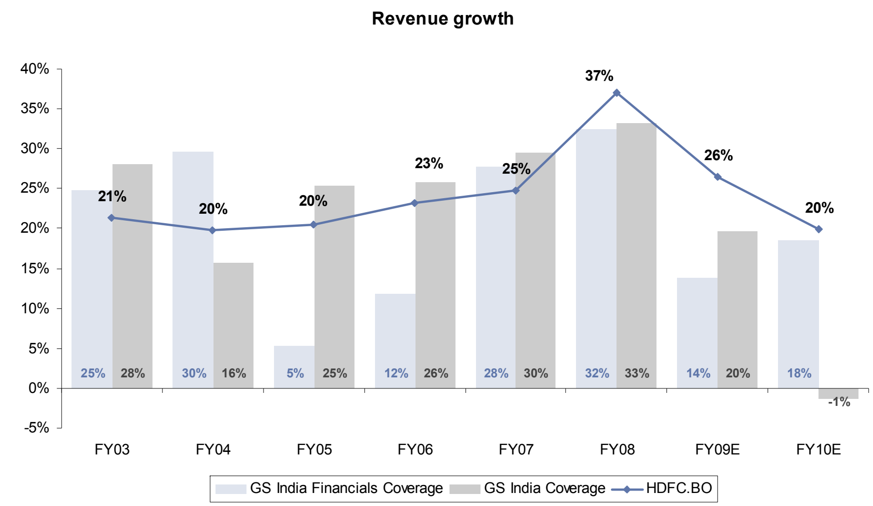
Funding

We believe debt capital markets would likely remain the dominant source of funding for HDFC over the long term. As on March 31, 2008, debt capital markets contributed 53% of HDFC's funding. We expect this ratio to rise to 57% by FY11. We believe the debt capital markets will likely witness reforms, enabling the deepening of the bond markets. Currently, quantitative restrictions are in place for commercial banks, pension funds, insurance companies, and foreign institutional investors on their investments in corporate bonds. We believe these restrictions are likely to continue to be eased over time. For instance, pension funds have been allowed to invest in bonds issued by housing finance companies in the current fiscal year. We expect more such reforms, progressively allowing HDFC to tap a wider base of investors in the long term.

Deposits contributed 16% of HDFC's borrowings as on March 31, 2008. Deposits could remain a key source of funds for HDFC if the company were to make this strategic choice. It did so in 1991, and this led to deposits becoming a dominant source of funds by 1995; however, HDFC's lending portfolio has undergone significant changes since 2000. Variable rate mortgages became a dominant portion of the portfolio beginning in 2002, as deposits did not provide the flexibility that HDFC needed in managing interest rate risk. The deepening of the debt capital markets helped HDFC migrate its source of borrowings move toward bonds as a source of funds.

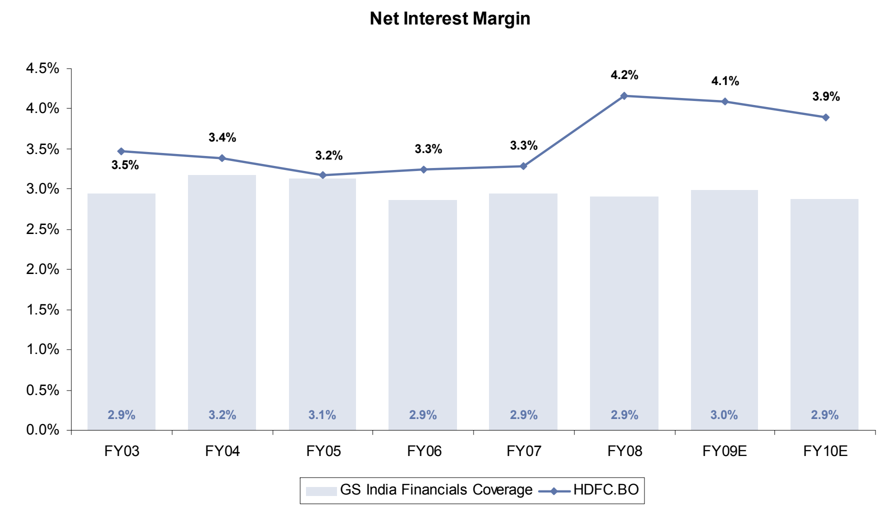
Borrowings from banks contributed 31% of HDFC's borrowings as on March 31, 2008. We believe bank borrowings too would remain an important source of funds; however, we expect the contribution from this source to decline over time.

Exhibit 42: We expect revenue growth rate to decelerate due to a decline in NIM and moderating loan growth



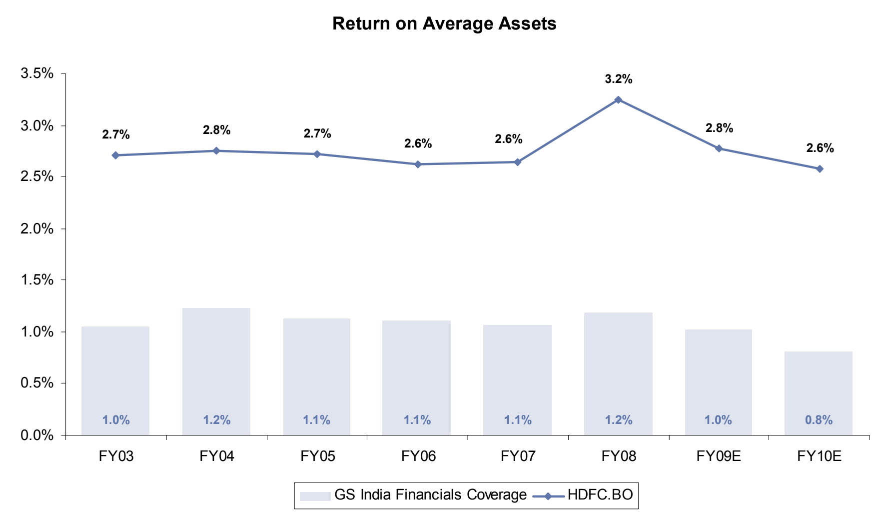
Source: Company data, Goldman Sachs Research estimates.

Exhibit 43: Decline in NIM is likely to be driven by decreasing volatility of interest rates and rising leverage



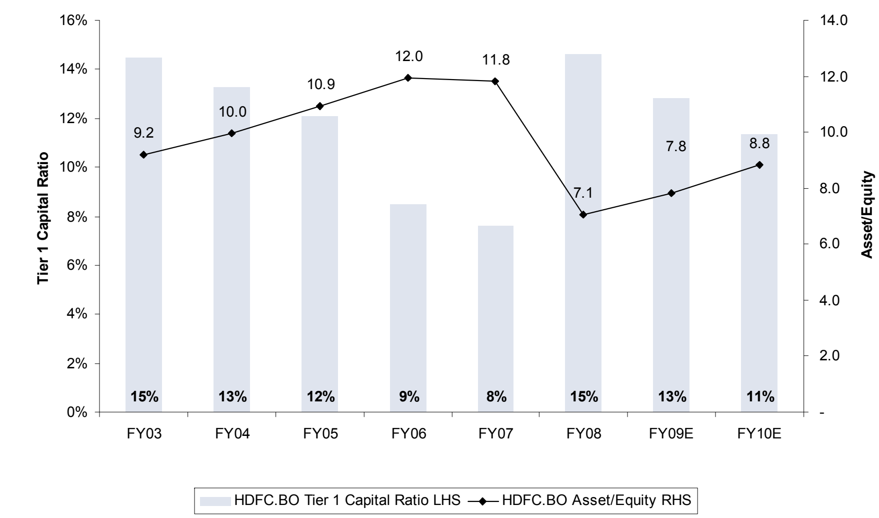
Source: Company data, Goldman Sachs Research estimates.

Exhibit 44: We believe ROAA will remain stable over time as HDFC continues to seek greater operational efficiency



Source: Company data, Goldman Sachs Research estimates.

Exhibit 45: There is significant headroom available for HDFC to increase balance sheet leverage and deliver higher ROE



Source: Company data, Goldman Sachs Research estimates.

Financials and ratios

Exhibit 46: Key line items drawn in from our detailed models

Housing Development Finance Corpo HDFC.BO	FY2006	FY2007	FY2008	FY2009E	FY2010E	3 yr CAGR
Summary Income Statement					Rs. Millions	
Net interest income	**14,121**	**17,745**	**28,370**	**35,456**	**42,372**	**34%**
Non-interest income	3,752	4,549	2,162	3,158	3,954	
Operating costs	(2,150)	(2,366)	(2,839)	(3,293)	(3,825)	
Preprovision oper profits	**15,723**	**19,928**	**27,692**	**35,320**	**42,500**	**29%**
Pre-Tax Profit	15,573	19,678	33,735	34,997	42,086	
Net Income	12,573	15,704	24,362	26,428	31,143	
EPS	**48**	**58**	**85**	**91**	**107**	**22%**
Summary Balance Sheet						
Gross loans	449,901	565,124	729,979	927,074	1,168,113	
NPLs	4,464	5,338	6,225	-	-	
Loan loss reserves	3,805	4,097	4,703	-	-	
Total interest earning assets	483,336	596,157	767,376	966,137	1,208,610	
Other non-interest earning assets	50,646	59,557	76,829	96,718	143,341	
Total assets	**533,982**	**655,713**	**844,205**	**1,062,854**	**1,351,951**	**27%**
Customer deposits	87,414	103,844	112,963	163,796	180,175	
Total interest-bearing liabilities	445,057	550,137	686,349	878,124	1,133,054	
Total equity	**66,839**	**77,307**	**124,637**	**140,784**	**158,072**	**27%**
BVPS	252	288	433	486	546	
CAMEL ratios						
C: Tier 1 capital ratio	8.5%	7.6%	14.6%	12.8%	11.3%	
C: Equity/loans	9.9%	9.8%	16.4%	14.7%	13.1%	
C: Equity/assets	8.4%	8.5%	14.2%	12.8%	11.3%	
A: NPL ratio	1.0%	0.9%	0.9%	0.0%	0.0%	
A: Loan loss reserves/NPLs	85.2%	76.7%	75.6%	-	-	
E: Net interest margin	3.3%	3.3%	4.2%	4.1%	3.9%	
E: Non int inc/oper revenues	21.0%	20.4%	7.1%	8.2%	8.5%	
E: Cost-income ratio	12.0%	10.6%	9.3%	8.5%	8.3%	
E: ROAA	2.6%	2.6%	3.2%	2.8%	2.6%	
L: Loan/deposit ratio	514.7%	544.2%	646.2%	566.0%	648.3%	

Source: Company data, Goldman Sachs Research estimates.

Exhibit 47: Key ratios and financial metrics

Housing Development Finance Corpo HDFC.BO	FY2006	FY2007	FY2008	FY2009E	FY2010E	4 yr Average
Earnings growth drivers						
Net interest margin	NA	3.3%	4.2%	4.1%	3.9%	**4%**
Provision charge/total loans	NA	0.0%	0.0%	0.0%	0.0%	**0%**
YoY Growth (%)						
Customer deposits	NA	18.8%	8.8%	45.0%	10.0%	**21%**
Loans	NA	25.6%	29.2%	27.0%	26.0%	**27%**
Net interest income	NA	25.7%	59.9%	25.0%	19.5%	**33%**
Fee income	NA	1.6%	-7.8%	32.1%	26.0%	**13%**
Non-interest income	NA	21.3%	-52.5%	46.1%	25.2%	**10%**
Operating revenue	NA	24.7%	36.9%	26.5%	20.0%	**27%**
Operating expenses	NA	-10.1%	-20.0%	-16.0%	-16.1%	**-16%**
Preprovision Operating profit	NA	26.7%	39.0%	27.5%	20.3%	**28%**
Provision charges	NA	1007.7%	28.9%	12.3%	26.4%	**269%**
Pretax profit	NA	26.4%	71.4%	3.7%	20.3%	**30%**
Net profit	NA	24.9%	55.1%	8.5%	17.8%	**27%**
EPS	NA	20.3%	46.4%	6.5%	17.4%	**23%**
DPS	NA	10.0%	13.6%	24.0%	19.4%	**17%**
DuPont analysis						
ROE (%)	30.1%	31.3%	27.8%	20.7%	21.5%	**25%**
x leverage	8.7x	8.4x	8.6x	13.4x	12.0x	
ROA (%)	2.6%	2.6%	2.4%	2.8%	2.6%	**3%**
Valuation						
P/E	31.9x	26.5x	19.1x	17.9x	15.3x	**19.7x**
P/B	6.1x	5.4x	3.8x	3.4x	3.0x	**3.9x**
P/PPOP	28.0x	22.1x	16.7x	13.1x	10.9x	**15.7x**
Div yield	1.3%	1.4%	1.5%	1.9%	2.3%	**2%**

Source: Company data, Goldman Sachs Research estimates.

Jindal Steel & Power (JNSP.BO)

Investment thesis:

We believe JSPL is steadily transforming itself from a pure exposure on steel to a merchant power company that also makes steel. We expect its power subsidiary to contribute over 40% of consolidated EBIT in FY09E (from nil in FY08), rising to 50% in FY10E. In FY00-FY08, JSPL's core steel business delivered 47% earnings CAGR. We expect three-year forward earnings CAGR of 55%, largely driven by earnings boost from its power subsidiary.

The last few decades have seen power consumption grow in every plan period in India, even during periods of economic downturn. We believe this growth has been driven by government efforts at rural electrification (which still continues), industrial growth and rising demand from urban consumers due to steadily rising per capita income and living standards. Supply growth, however, has lagged demand, and most states in India are suffering from severe supply shortages. If you consider latent demand, which is not even visible, due to non-availability of power connections in remote interiors of the country, the actual power deficit is probably much higher than currently reported, and could be sustained for years, in our view.

Being the first merchant power company in India, JSPL is already capitalizing on this tight deficit situation, as is evidenced by its 2QFY09 earnings surprise. With experience of operating power plants at relatively high efficiencies at its electric arc furnace-based steelmaking operations, and an advantageous project configuration with pithead-based captive coal supply, we believe JSPL is likely to emerge as one of the most profitable power companies globally in FY09, and remain so in the foreseeable future.

Valuation

Our 12-month target price of Rs1,208 is based on SOTP and P/B valuation methodology. Excluding book value of the steel business, the current stock price implies 1.4x FY10E P/B for the power business, in the context of 48% FY10E ROE. This is comparable to 2.1x FY10E average P/B for the Indian power sector coverage group, at 8% FY10E average ROE.

Differentiation from consensus

Our FY10E EPS estimate of Rs253.6 is 51% above Reuters consensus estimates. We believe consensus has consistently underestimated the earnings potential of the power subsidiary, and the 2QFY09 earnings surprise makes us confident that JSPL's FY09 results will meet our estimates.

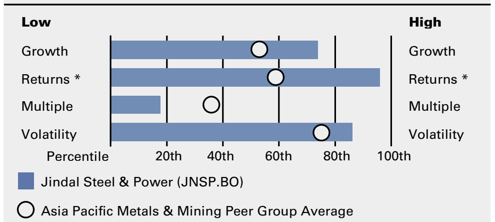
Key risks to our view and target price

Industrial growth decelerating more than our expectations, which can affect steel and power consumption.

Upcoming catalysts

(1) Power subsidiary results for 3QFY09 in January 2008, and FY09 results in April 2009. (2) Monthly announcement of power trading statistics from the Central Electricity Authority (CEA), which, we believe, will convince the market about the sustainability of the current levels of merchant power unit sales and tariffs.

Investment Profile

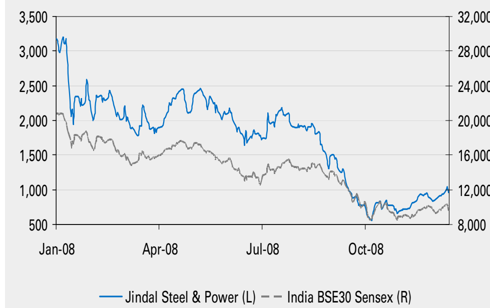


* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	965.60
12 month price target (Rs)	1,208.00
Market cap (Rs mn / US$ mn)	148,665.1 / 3,052.0
Foreign ownership (%)	30.6

	3/08	3/09E	3/10E	3/11E
EPS (Rs)	80.58	177.84	253.61	328.36
EPS growth (%)	(64.4)	120.7	42.6	29.5
EPS (diluted) (Rs)	80.58	177.84	253.61	328.36
EPS (basic pre-ex) (Rs)	82.75	182.63	260.44	337.20
P/E (X)	12.0	5.4	3.8	2.9
P/B (X)	3.9	2.3	1.4	1.0
EV/EBITDA (X)	13.1	4.9	3.2	1.9
Dividend yield (%)	0.4	0.5	0.7	1.1
ROE (%)	39.7	54.3	47.5	40.3

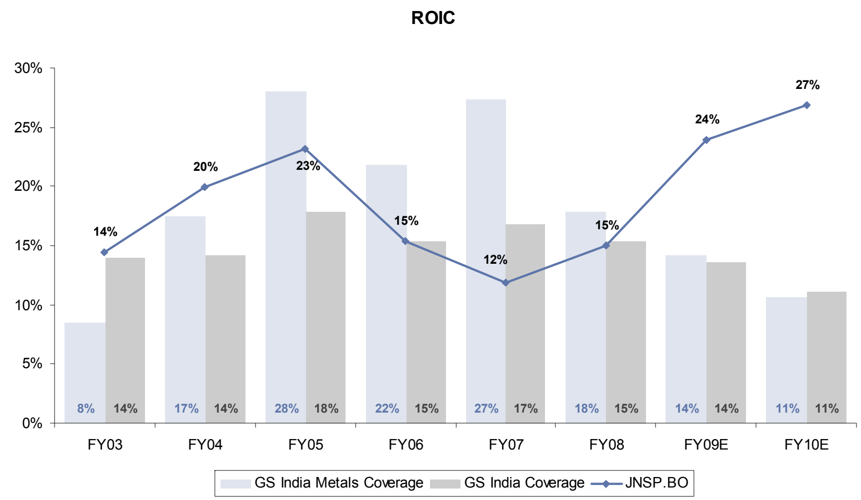
Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(1.3)	(45.3)	(70.0)
Rel. to Bombay SE Sensitive Index	20.4	(22.9)	(34.9)

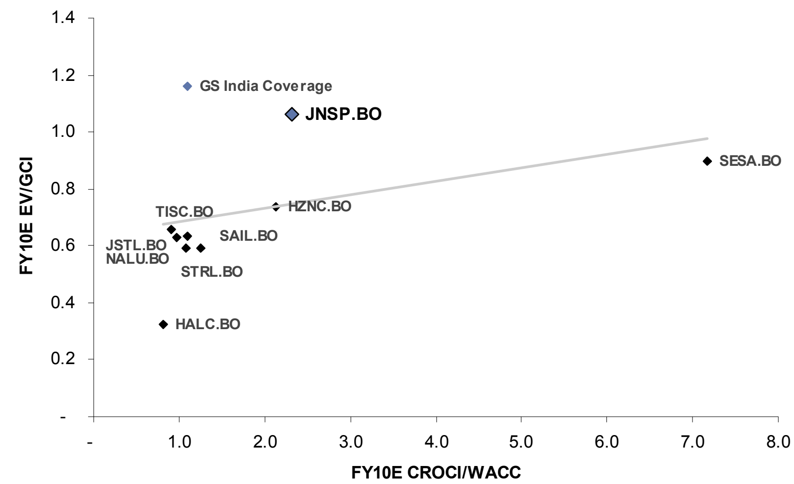
Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/07/2009 close.

Exhibit 48: JSPL's ROIC to rise as power project starts generating revenues



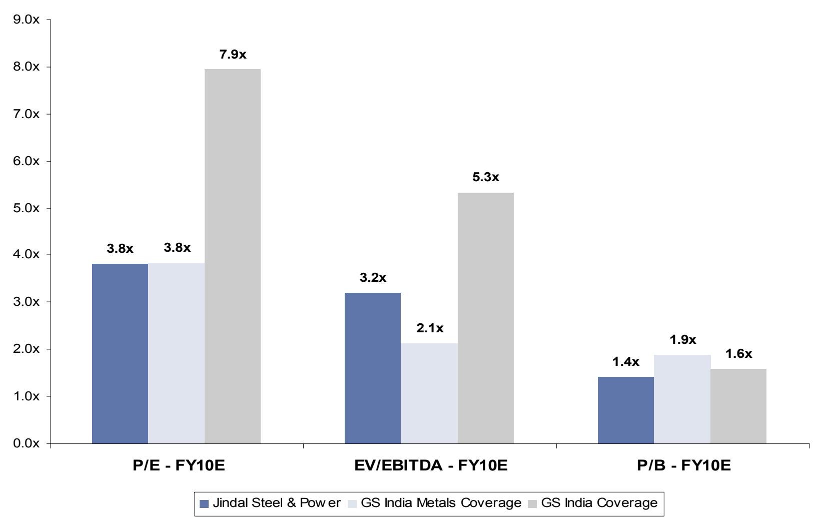
Source: Company data, Goldman Sachs research estimates.

Exhibit 49: Trading at premium to peers but discount to the wider coverage



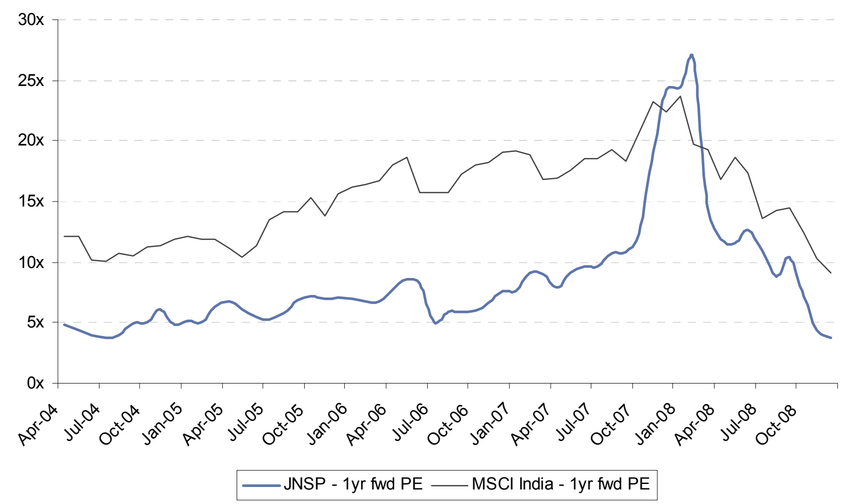
Source: Goldman Sachs research estimates.

Exhibit 50: JSPL is trading at a slight premium to Indian peers but at a discount to our India coverage universe



Source: Goldman Sachs Research estimates.

Exhibit 51: JSPL has historically traded at a discount to the MSCI, except for the commodity price boom in late 2007 and early 2008



Source: Datastream, Goldman Sachs research estimates.

Key financial metrics

Sales growth

We believe JSPL's topline will grow by 81% yoy to Rs99 bn in FY09E, with an estimated 46% growth in the parent company's topline (steel business), and the power subsidiary's revenue growth to Rs21 bn from Rs1 bn in FY08. In FY10, we estimate revenue growth at 15%, driven by a 4% revenue growth in steel, and 58% in the power business. Revenue growth in the steel business is primarily driven by the ramp-up of existing capacity, resulting in a 25% volume CAGR over FY08-FY11, as per our estimates, partially offset by pricing pressure in FY10. FY10 will be the first year when the full 1,000 MW capacity will be operational for the entire fiscal year. JSPL's steel business has historically enjoyed among the highest margins relative to the industry, and until steel prices fall to levels below the cash cost of production for most steel makers, we believe JSPL's sales volume is unlikely to be affected in the current slowdown.

Operating margins

We estimate that JSPL's consolidated EBIT margins will improve from 32% in FY08 to 38% in FY09E, and further to 47% in FY10E, primarily driven by the power subsidiary, which we estimate will operate at above 85% operating margin during this period. This is due to an advantageous project configuration, which we expect will generate power at a unit cost of less than Rs1/unit, to be sold at an assumed average tariff rate of Rs4.5/unit. We believe the power subsidiary will contribute over 43% of consolidated EBIT in FY09E, rising to 50% in FY10E. Our sensitivity analysis indicates that a 22% cut in our power tariff estimate could impact consolidated earnings by 17%, though we believe there are upside risks to our power tariff assumptions.

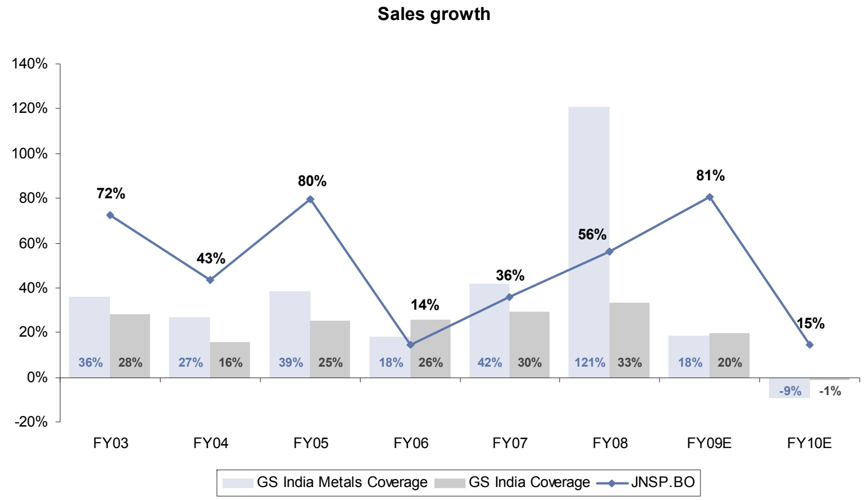
Balance sheet – Gearing, asset quality

At a consolidated level, we expect net debt to fall from US$1.5 bn as at end-FY08 to US$1 bn at end-FY10E. This translates into the net debt-to-equity ratio improving from 1.6x in FY08 to an estimated 1.0x in FY09E. Most of the capex in setting up steel and power business capacity has already been spent, and a boost to consolidated operating cash flows from the power business will enable this improvement in gearing ratios, in our view. The current gearing level is higher due to the power business' net debt-to-equity exceeding 300%, since most of the comparable power sector projects in India are financed at 3:1 or 4:1 D/E ratios.

Cash flows – Liquidity, free cash, capex and fund raising

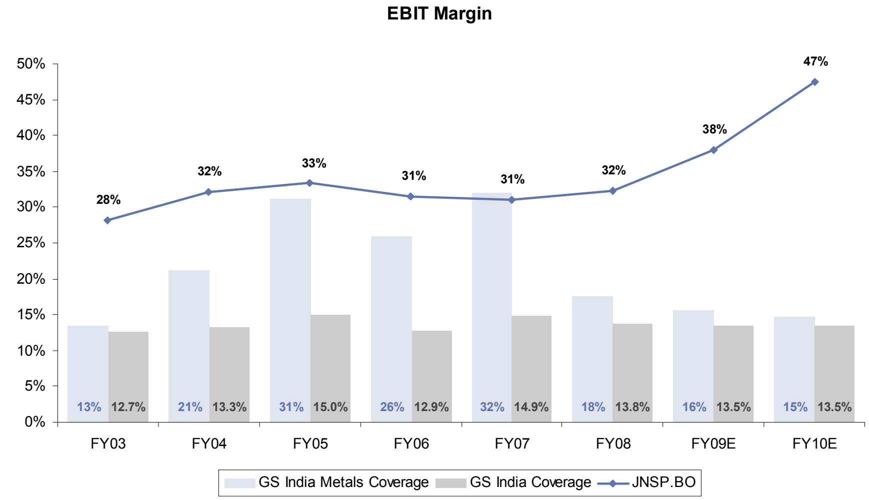
We estimate that JSPL will spend a total of US$1.2 bn in capex over FY09E-FY11E, primarily on its expansion projects in power and steel. We believe this will be partially funded by US$600 mn in net cash flow from its power business during the same period. Our sensitivity analysis indicates that even in case of a steep 25% cut to our steel price estimates for FY10, JSPL's consolidated fixed interest cover during this year will remain at a comfortable 7.6x, and net debt-to-EBITDA at 1.2x.

Exhibit 52: Power subsidiary revenue to be key driver of sales growth



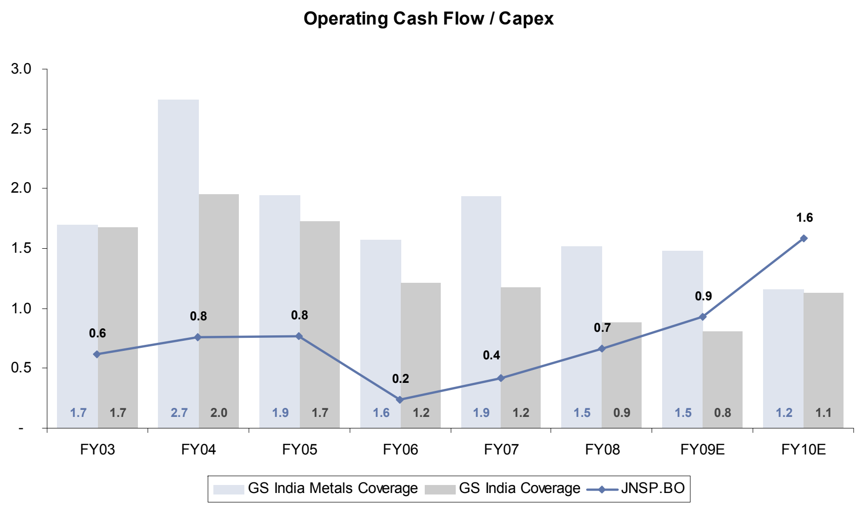
Source: Company data, Goldman Sachs Research estimates.

Exhibit 53: EBIT margins to be driven by large spread in power sales



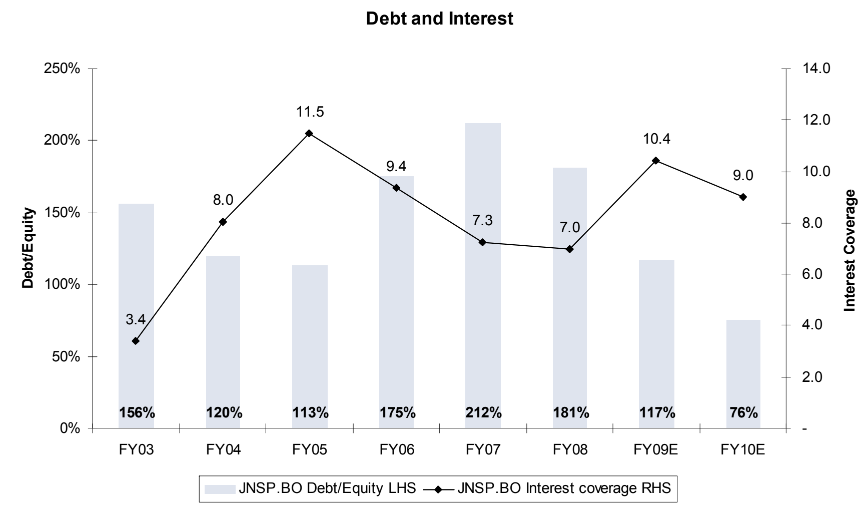
Source: Company data, Goldman Sachs Research estimates.

Exhibit 54: Power project coming on-stream to improve capex coverage



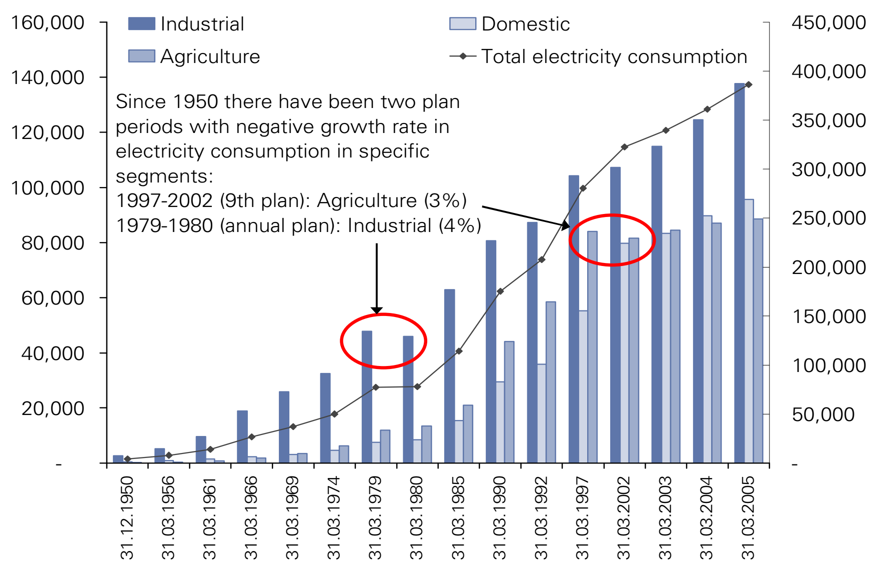
Source: Company data, Goldman Sachs Research estimates.

Exhibit 55: We expect a reduction in gearing in FY09E and FY10E



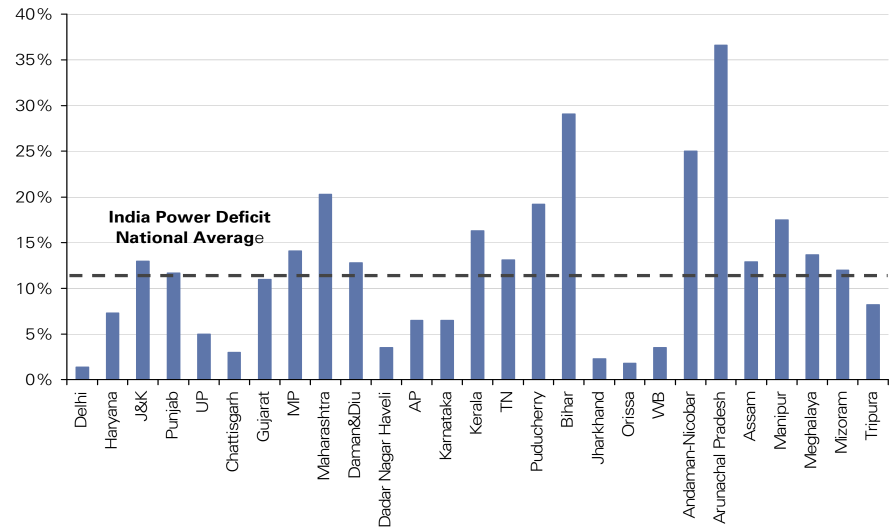
Source: Company data, Goldman Sachs Research estimates.

Exhibit 56: Power consumption in India has continued to grow even during periods of economic downturn
All-India electricity consumption (dates denote end of plan period, in mn units)



Source: CEA.

Exhibit 57: Even now, most states/Union territories remain in a power deficit situation
Power supply position (provisional, October 2008)



Source: CEA.

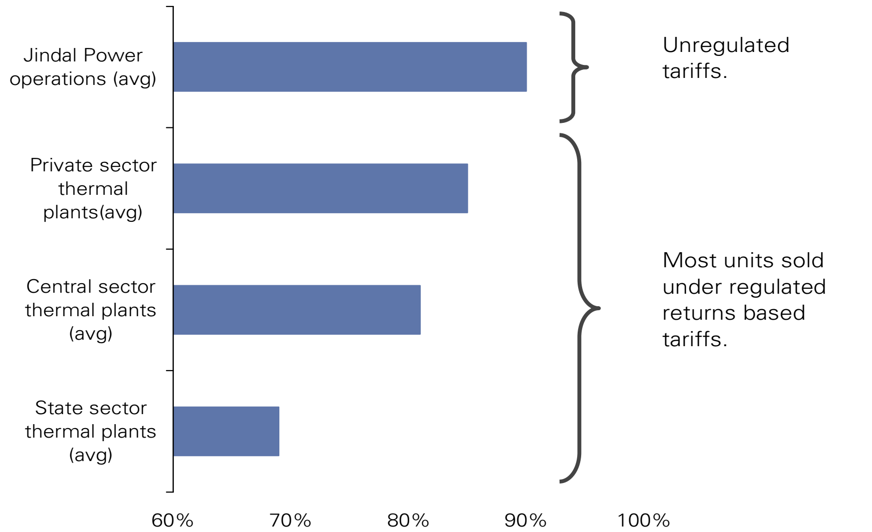
Exhibit 58: Chronic power shortages are a norm across various parts of India
Details of power cuts on industries during October 2008.

Tamil Nadu	**No supply for 24 hours in one week, load shedding of upto 2420 MW** (648.479 MU for the month. It takes into account the above scheduled load shedding to Industrial Consumers). All welding sets irrespective of connected load should not work between 6 p.m. and 8:30 p.m.
Gujarat	All industries are required to:1) stagger their weekly off days and cannot avail as per their choice. 2) keep their recess timings staggered. 3) observe one additional holiday after weekly offday i.e. 2 days staggering on industries and, 4) 30% demand cut on HT/LT continuous process industries.
MP, Maharashtra	No power cuts, but load shedding and usage restrictions.

Punjab	600 MW cut from 18:30 to 21:30 hrs daily on HT/LT industries.
Rajasthan	60-110 MW cut from 06:00 to 22:00 hrs daily on HT/LT industries.
Haryana	0-200 MW cut for different hours on HT/LT industries.
HP	85 MW cut from 19:00 to 22:00 hrs daily on HT/LT industries.
Jharkhand	Power cut on HT industries 11.38 MU, Nil on LT Industries
West Bengal	Power cut on LT industries 0.83 MU, Nil on HT Industries
AP, Karnataka, Delhi, UP and 4 other states.	No power cuts, but load shedding ranging from 78MW to 2214 MW or usage restrictions on industries in each state.

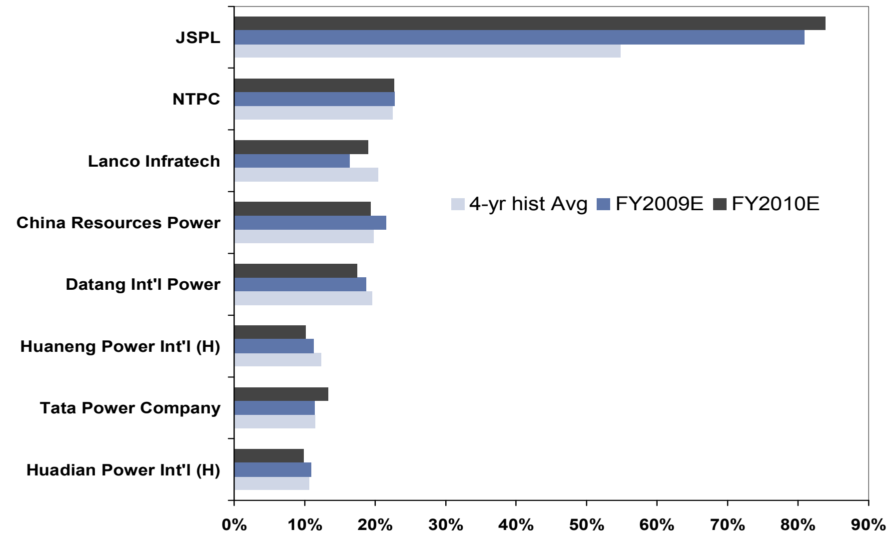
Source: CEA, Goldman Sachs Research.

Exhibit 59: Unregulated nature of business and high plant efficiencies should enable JSPL to enjoy supernormal returns, in our view
Average PLF (%) of various categories of power plants in India



Source: Company data, Goldman Sachs Research.

Exhibit 60: We expect its power business to be one of the most profitable in the region
EBIT margins for power business (%)



Source: Company data, Goldman Sachs Research estimates.

Exhibit 61: Project configuration is among the most efficient, in our view
Summary of cost of power generation in India (Rs/kwh) by various fuel alternatives at 80% PLF and varying distances (estimated averages)

Distance (fuel source/load centre,km)	200	300	500	800	1000	1200	1500	1800	2000
Diesel at load centre	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Naphtha at port	4.3	4.4	4.4	4.5	4.5	4.5	4.6	4.6	4.7
Naphtha at load centre	4.2	4.2	4.3	4.4	4.4	4.5	4.6	4.6	4.7
LNG at port	2.2	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Imported coat at port	2.2	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Imported coal at load centre	2.1	2.2	2.2	2.3	2.4	2.5	2.6	2.7	2.7
Lignite at pit head	2.1	2.1	2.2	2.3	2.3	2.3	2.4	2.4	2.5
Domestic coal at load centre	1.6	1.6	1.7	1.9	2.0	2.1	2.2	2.3	2.4
Domestic coal at pit head	1.6	1.6	1.6	1.7	1.7	1.8	1.8	1.9	1.9
Gas along pipeline	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5

Jindal Power's project configuration

Source: Report of the Expert Committee on Fuels for Power Generation – Feb'04, CEA, GOI.

Exhibit 62: Sensitivity makes us comfortable from a risk-reward perspective
Sensitivity of changing assumptions relating to power tariffs and unit sales (FY10 basis)

POWER UNIT SALES SCENARIOS		AVERAGE POWER TARIFF SCENARIOS: Bear case Rs.3.50/unit	Base case Rs.4.50/unit	Bull case Rs.5.50/unit
Bull case (+)10%	Consolidated EPS (Rs/share)	211.7	254.8	297.9
	% Impact from current est.	*-17%*	*0%*	*17%*
	Implied valuation (Rs/share)	1,079	1,260	1,440
	% Impact from current est.	*-11%*	*4%*	*19%*
Base case Estimates.	Consolidated EPS (Rs/share)	198.0	253.6	276.4
	% Impact from current est.	*-22%*	*0%*	*9%*
	Implied valuation (Rs/share)	1,021	1,208	1,350
	% Impact from current est.	*-15%*	*0%*	*12%*
Bear case (-)10%	Consolidated EPS (Rs/share)	184.3	219.6	254.8
	% Impact from current est.	*-27%*	*-13%*	*0%*
	Implied valuation (Rs/share)	964	1,112	1,260
	% Impact from current est.	*-20%*	*-8%*	*4%*

Source: Goldman Sachs Research estimates.

Financials and ratios

Exhibit 63: Key line items drawn from our detailed models

Jindal Steel & Power JNSP.BO	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	5 yr CAGR
Summary Income Statement							**Rs. Millions**	
Sales	**12,616**	**22,647**	**25,901**	**35,198**	**54,890**	**99,117**	**113,733**	**38%**
Gross Profit	5,544	10,353	12,165	15,733	25,620	47,448	64,372	
EBITDA	5,118	9,075	10,342	14,279	22,530	43,805	61,937	
EBIT	**4,055**	**7,551**	**8,151**	**10,913**	**17,737**	**37,634**	**54,021**	
Pre-Tax Profit	3,551	6,778	7,378	9,471	15,418	34,480	48,836	
Net Income	3,053	5,157	5,829	7,060	12,740	28,118	40,098	
EPS	**100**	**167**	**188**	**226**	**81**	**178**	**254**	**9%**
Summary Balance Sheet								
Cash & equivalents	219	333	1,002	1,091	7,709	10,254	29,742	
Accounts receivable	2,112	1,729	2,987	3,203	3,550	7,556	9,666	
Inventory	1,965	2,576	5,687	6,424	9,961	16,113	14,963	
Accounts payable	2,929	2,983	7,090	9,903	9,416	9,233	9,624	
Total current assets	**6,476**	**10,363**	**18,365**	**20,034**	**36,053**	**48,460**	**68,908**	**46%**
Total current liabilities	**5,000**	**6,783**	**16,531**	**26,502**	**25,078**	**28,333**	**25,072**	**30%**
Short term debt	921	1,229	5,482	10,493	5,494	8,945	5,292	
Long term debt	9,339	13,730	27,807	43,867	64,467	67,097	73,809	
Total debt	**10,260**	**14,959**	**33,289**	**54,360**	**69,961**	**76,042**	**79,101**	**40%**
Net Debt	*10,040.59*	*14,625.64*	*32,287.20*	*53,269.10*	*62,251.50*	*65,788.62*	*49,359.07*	
Total assets	24,186	35,849	66,186	100,164	133,112	165,394	207,840	**42%**
Total equity	**8,562**	**13,194**	**19,045**	**25,644**	**38,620**	**65,016**	**104,013**	**51%**
BVPS	281	428	618	831	250	422	675	
Summary Cash Flows								
Decrease / (increase) in working cap	(297)	(2,298)	(1,838)	3,380	(5,825)	(10,058)	(569)	
Cash flow from operations	**3,838**	**7,268**	**5,464**	**14,871**	**13,467**	**24,254**	**47,482**	**46%**
Capital expenditure	(5,027)	(9,470)	(23,052)	(35,885)	(20,371)	(26,200)	(29,914)	
Free cash flow	*(1,188.90)*	*(2,201.93)*	*(17,587.20)*	*(21,014.30)*	*(6,903.90)*	*(1,946.28)*	*17,568.10*	
Acquisitions	-	-	-	-	-	-	-	
Divestitures	-	-	-	-	-	-	-	
Cash from from investing activities	**(4,819)**	**(11,625)**	**(13,484)**	**(35,640)**	**(22,351)**	**(26,200)**	**(29,914)**	
Increase / (decrease) in debt	(1,307)	(4,699)	(18,330)	(21,071)	(15,601)	(6,081)	(3,059)	
Share issue / (repurchase)	4,372	-	-	-	-	-	-	
Cash from financing	**1,013**	**4,471**	**8,688**	**20,859**	**15,503**	**4,490**	**1,920**	
Total Cash Flow	**33**	**114**	**669**	**89**	**6,618**	**2,544**	**19,488**	**180%**

Source: Company data, Goldman Sachs Research estimates.

Exhibit 64: Key ratios and financial metrics

Jindal Steel & Power JNSP.BO	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	5 yr Average
Growth								
Sales growth	43%	80%	14%	36%	56%	81%	15%	**40%**
EBIT growth	63%	86%	8%	34%	63%	112%	44%	**52%**
Net Income	116%	69%	13%	21%	80%	121%	43%	**56%**
EPS growth	104%	67%	12%	21%	-64%	121%	43%	**26%**
Margins								
Gross margin	44%	46%	47%	45%	47%	48%	57%	**49%**
EBITDA margin	41%	40%	40%	41%	41%	44%	54%	**44%**
EBIT margin	32%	33%	31%	31%	32%	38%	47%	**36%**
Pre-tax margin	28%	30%	28%	27%	28%	35%	43%	**32%**
Net Income margin	24%	23%	23%	20%	23%	28%	35%	**26%**
Return Ratios								
ROE	43%	47%	36%	32%	40%	54%	47%	**42%**
ROA	14%	17%	11%	8%	11%	19%	21%	**14%**
ROIC	20%	23%	15%	12%	15%	24%	27%	**19%**
CROCI	20%	20%	13%	10%	15%	22%	27%	**17%**
Working capital ratios								
Current ratio	1.3x	1.5x	1.1x	0.8x	1.4x	1.7x	2.7x	**1.6x**
Quick ratio	0.9x	1.1x	0.8x	0.5x	1.0x	1.1x	2.2x	**1.1x**
Inventory days	77	67	110	114	102	92	115	**106**
Receivable days	54	31	33	32	22	20	28	**27**
Payable days	115	88	134	159	120	66	70	**110**
Interest cover - EBIT	8.0x	11.5x	9.4x	7.3x	7.0x	10.4x	9.0x	**8.6x**
Leverage								
Debt/equity	120%	113%	175%	212%	181%	117%	76%	**152%**
Net debt/equity	117%	111%	170%	208%	161%	101%	47%	**0%**
Total assets/equity	2.8x	2.7x	3.5x	3.9x	3.4x	2.5x	2.0x	**0.8x**
Valuation								
P/E	9.6x	5.8x	5.1x	4.3x	12.0x	5.4x	3.8x	**6.1x**
P/B	3.4x	2.3x	1.6x	1.2x	3.9x	2.3x	1.4x	**2.1x**
EV/EBITDA	2.4x	2.1x	3.9x	4.5x	13.1x	4.9x	3.2x	**5.9x**
Div yield	1%	2%	2%	2%	0%	1%	1%	**1%**
EV/GCI / CROCI/WACC	0.3x	0.2x	0.4x	0.4x	1.3x	0.6x	0.4x	**0.6x**

Source: Company data, Goldman Sachs Research estimates.

NTPC (NTPC.BO)

Investment thesis

NTPC offers defensive growth as its business model entails a high degree of earnings visibility, albeit a bit muted (6.7% EPS CAGR during FY08-FY11E). NTPC's earnings growth during FY08-FY11E is likely to pick up progressively in tandem with back-ended capacity addition. We expect around 45% of the 7,760MW commercial capacity addition in this period to come on board in FY11E.

In our view, given the tight liquidity and turbulent equity market conditions, NTPC scores well as a potential defensive stock: (1) the lowest risk to funding and revenue realization amongst its domestic peers we cover, in our view; (2) competitive cost of generation; (3) RBI guarantee for payment realization from its customers (financially constrained SEBs) up to FY16.

Valuation

Our Rs208 12-month target price for NTPC is the sum of the value of its FY10E financial assets (Rs37/share) and a residual income (RI) model based value of its operating assets (Rs171/share). Our RI model assumes a 12.5% cost of equity, 20% terminal ROE and 7.5% perpetual growth in core-business income. At Rs208, the stock would trade at 5.6x FY10E P/BV (excluding financial assets) in line with its three-year average of its one-year forward P/BV. NTPC currently trades at a premium to its peers across the other BRIC countries.

Differentiation from consensus

Our Buy rating on NTPC is a non-consensus call; Bloomberg consensus is skewed towards 'Neutral' and 'Sell'. Although our FY09E-FY11E EPS estimates for NTPC are marginally below consensus, against the backdrop of our cautious view on Indian equities in 2009 and global funding constraints, NTPC scores well as a defensive growth stock.

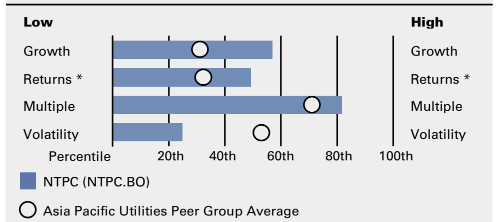
Key risks to our view and target price

(1) Regulatory risk: revised tariff norms for calculating NTPC's potential regulated returns for FY10-FY14 may dent our forecast earnings for NTPC beyond FY09. We expect the final norms in the next 2-3 weeks; the draft norms, if implemented without alteration, would lower our FY10E/FY11E forecast EPS by 6%-8% and reduce NTPC's long-term realizable ROE on operating assets. (2) Delays in commercial capacity accretion beyond our expected timeline pose a downside risk. (3) NTPC will continue to remain largely dependent on external fuel (coal and gas) supply, which entails fuel security risk. (4) On relative valuations, NTPC is not inexpensive compared to its peers in the other BRIC economies (NTPC trades at 2.4x book vs. an average of 1.2x for the other BRIC utilities).

Potential catalysts

(1) Regulatory risk to play out soon; final tariff norms likely to be neutral to NTPC's business returns profile for FY10-FY14E. (2) A resolution on litigation with RIL appears likely soon; an FSA with RIL would pave the way for the long-pending 2.6GW generation capacity coming on-stream by 1H11. (3) Post-tax returns on captive coal may be higher than 14%, should the government decide not to regulate inter-division transfer pricing. (4) If NTPC secures a PPA for its upcoming merchant capacity, it would highlight its competitiveness.

Investment Profile

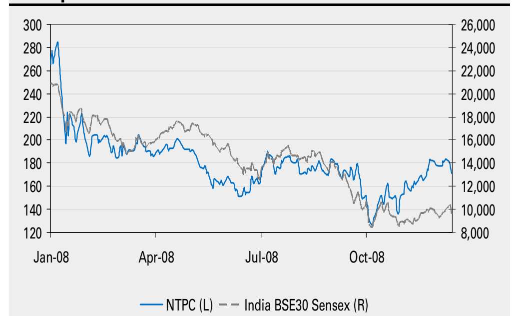


* Returns = Return on Capital   For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	171.20
12 month price target (Rs)	208.00
Market cap (Rs mn / US$ mn)	1,411,623.3 / 28,980.2
Foreign ownership (%)	4.2

	3/08	3/09E	3/10E	3/11E
EPS (Rs)	9.17	9.56	10.15	11.11
EPS growth (%)	18.6	4.2	6.2	9.5
EPS (diluted) (Rs)	8.99	9.56	10.15	11.11
EPS (basic pre-ex) (Rs)	9.17	9.56	10.15	11.11
P/E (X)	18.7	17.9	16.9	15.4
P/B (X)	2.7	2.5	2.3	2.1
EV/EBITDA (X)	15.4	13.2	11.8	10.7
Dividend yield (%)	2.0	2.2	2.3	2.6
ROE (%)	14.6	14.4	14.1	14.4

Price performance chart

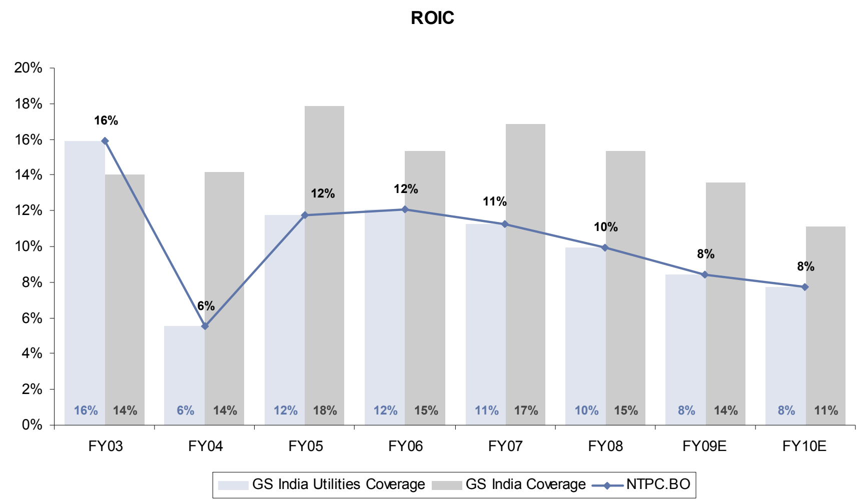


Share price performance (%)	3 month	6 month	12 month
Absolute	(2.7)	10.0	(36.3)
Rel. to Bombay SE Sensitive Index	18.7	55.2	38.3

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/07/2009 close.

Exhibit 65: Return on financial assets dents overall ROIC for NTPC

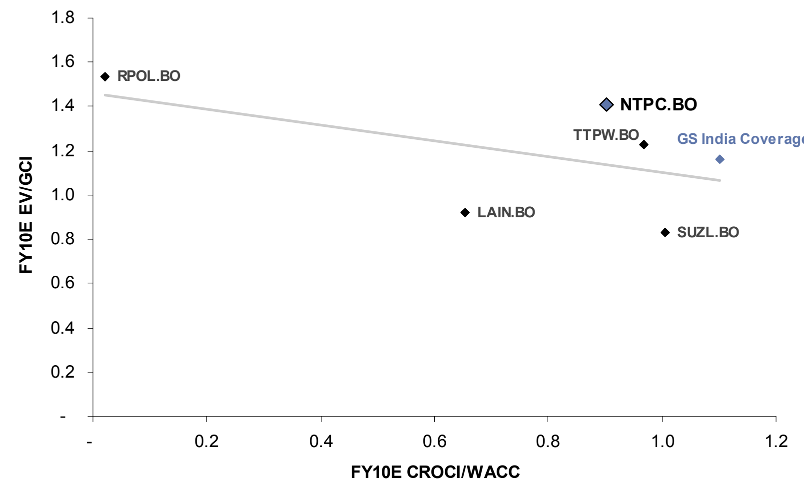
ROIC is lower than the coverage universe but highest within the sector



Source: Company data, Goldman Sachs Research estimates.

Exhibit 66: NTPC seems to be relatively expensive within the sector

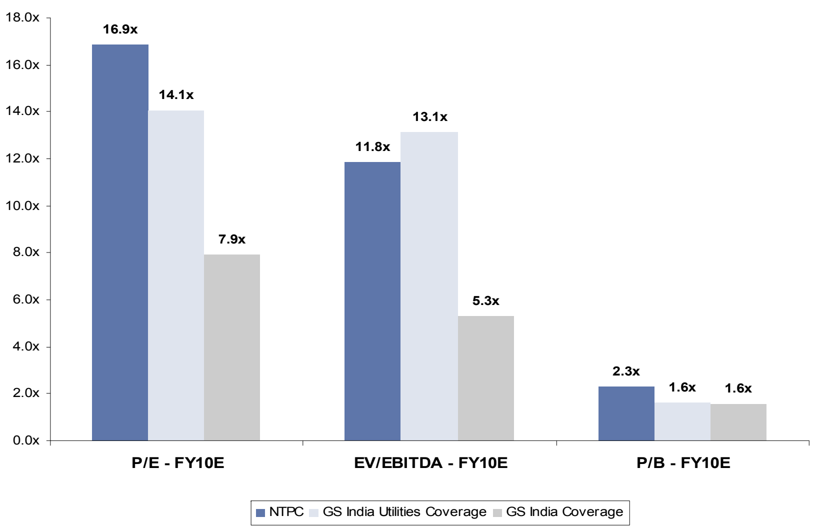
Offers defensive growth in a turbulent market



Source: Company data, Goldman Sachs Research estimates.

Exhibit 67: FY10E valuation – NTPC trades at premium to Indian peers

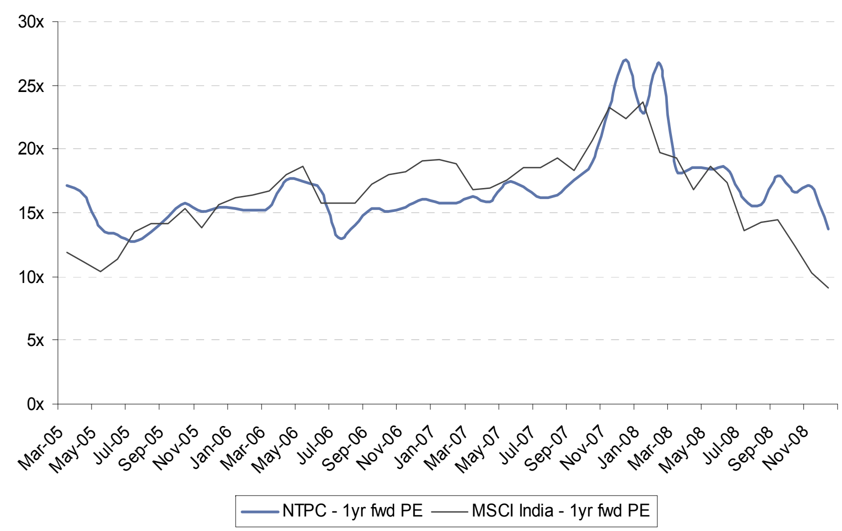
At our Rs208 target price, the stock would trade at 2.8x FY10E P/B



Source: Goldman Sachs Research estimates.

Exhibit 68: NTPC's 1-year forward P/E: At a premium to MSCI Index

NTPC has typically traded at multiples of 15x-20x



Source: Goldman Sachs Research estimates, Datastream.

Key financial metrics

Capacity growth

Being a regulated entity, commercial capacity addition is the primary driver for earnings growth. We expect NTPC to add 7,760MW of commercial generation capacity during FY08-FY11E, taking overall commercial generation capacity to 33.7GW by March 2011.

During FY08-FY11E, we estimate wholly-owned commissioned capacity addition at 7,670MW, compared with the company's target of 10,040MW; NTPC commissioned around 70% of its target capacity addition in the Tenth Five-year Plan period. According to a company announcement, wholly-owned projects with an aggregate generation capacity of 12,980MW are under construction; target capacity addition during the Eleventh Five-year Plan (FY07- FY12E) is 17,690GW.

Operational efficiency is critical for generating over 20% ROE

Operational efficiency is the driving force for NTPC to consistently generate core business ROE of over 20%, far in excess of the regulated return (14% post-tax return on equity capital). However, NTPC's overall ROE is muted due to the significant quantum of financial assets on its balance sheet (38% of capital employed as of FY08), which generate a relatively lower return. We believe that despite the impending tightening of operational parameters in the FY10E-FY14E tariff norms, NTPC would continue to generate returns in excess of 20% on its core business.

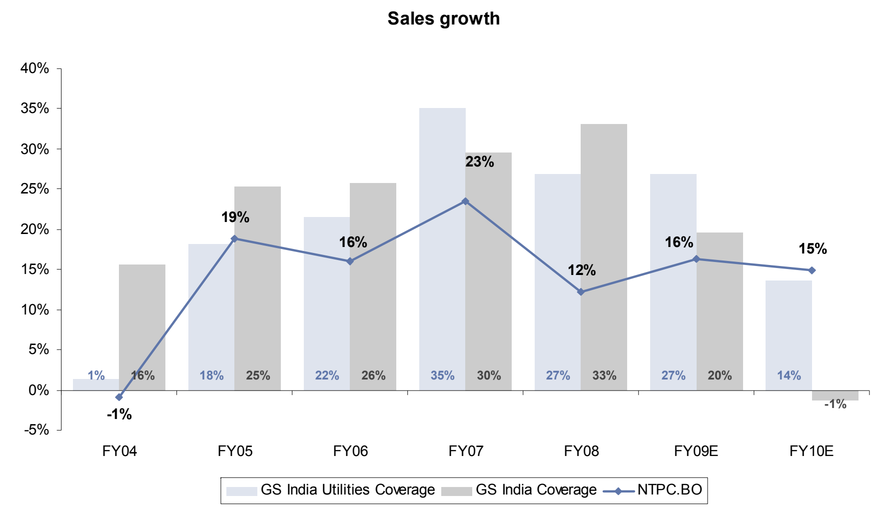
Balance sheet

NTPC has a low leveraged balance sheet (FY09E net debt-to-equity at 28%) but the leverage will increase as incremental projects would be funded at a debt-equity ratio of 70-30 as per regulatory norms. NTPC has a net debt balance (Rs159 bn as of FY09E) but on the flip side the cash flows and revenue realization are assured. With Rs291 bn of financial assets on the balance sheet as of FY08 (Rs35.3/share) and RBI guarantee for payment realization from its customers, NTPC has the lowest funding risk among its Indian peers, in our view.

Cash flows – capex and funding

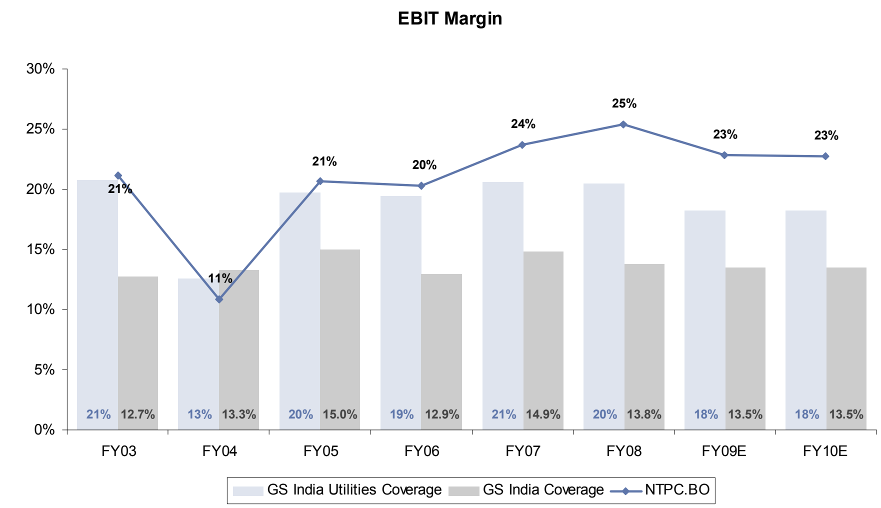
NTPC has a well-laid out extensive capacity addition plan up to FY12; during these years, the company is unlikely to generate significant free cash flows. With regard to funding, NTPC is, in our view, one of the best-positioned utilities in India to secure funding, even in the current credit-constrained macro conditions. Patronage from the government, high degree of earnings visibility and RBI guarantee for payment realization from its customers (financially constrained SEBs) up to FY16 drive NTPC's position as a preferred borrower in both domestic and regional debt markets. Over the next three years (FY09E-FY11E), we estimate a capex outflow of around US$9 bn.

Exhibit 69: We expect sales growth to exceed sector average in FY10E
We expect NTPC's commercial capacity to grow at 9% CAGR during FY08-11E



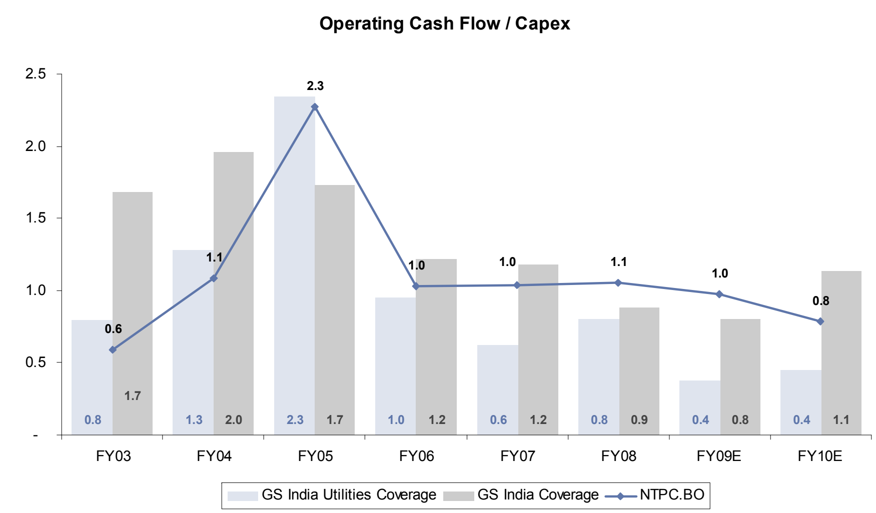
Source: Company data, Goldman Sachs Research estimates.

Exhibit 70: Operational efficiency results in better margins for NTPC
Higher employee and fuel costs may dent margins in FY09E



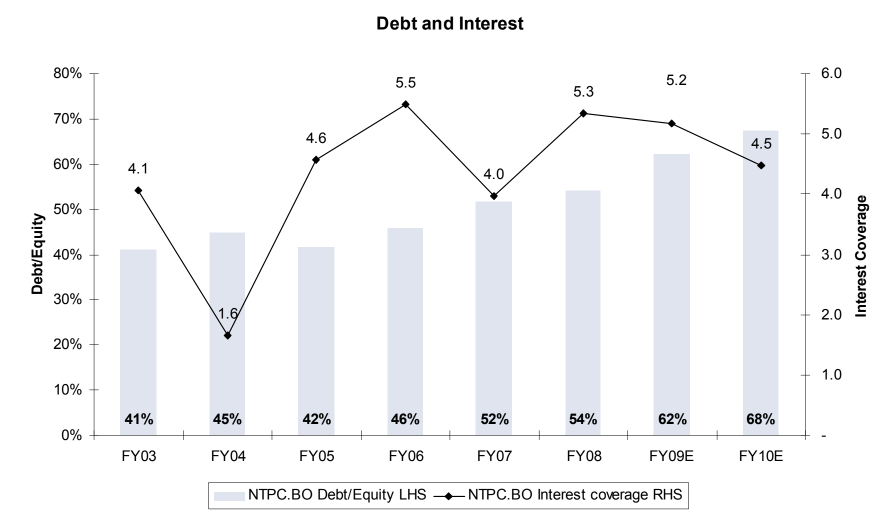
Source: Company data, Goldman Sachs Research estimates.

Exhibit 71: Ongoing capex plans result in a decline in capex coverage
Coverage ratio to decline below 1 in FY10E as NTPC ramps up capacity



Source: Company data, Goldman Sachs Research estimates.

Exhibit 72: Interest expense is pass-through for NTPC; coverage not a risk
Gearing to trend higher with annual capacity additions @3.8GW in FY09E-12E



Source: **Company data,** *Goldman Sachs Research estimates.*

Financials and ratios

Exhibit 73: Key line items drawn from our detailed models

NTPC NTPC.BO	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	5 yr CAGR
Summary Income Statement							Rs. Millions	
Sales	**188,684**	**224,150**	**259,899**	**320,894**	**360,130**	**418,719**	**481,249**	**17%**
Gross Profit	59,893	79,890	88,332	113,962	130,315	152,317	174,533	
EBITDA	40,643	65,955	73,190	96,655	112,709	119,073	137,228	
EBIT	**20,411**	**46,371**	**52,713**	**75,901**	**91,324**	**95,591**	**109,387**	
Pre-Tax Profit	48,024	50,704	58,537	84,203	103,418	104,907	112,225	
Net Income	41,735	47,992	56,515	63,776	75,624	78,832	83,707	
EPS	**5**	**6**	**7**	**8**	**9**	**10**	**10**	**11%**
Summary Balance Sheet								
Cash & equivalents	6,091	93,287	93,094	135,362	151,085	195,057	202,431	
Accounts receivable	4,699	13,747	8,678	12,523	29,827	26,214	28,907	
Inventory	17,380	17,819	23,405	25,102	26,757	28,498	30,389	
Accounts payable	23,640	23,808	24,749	29,244	32,446	41,359	47,596	
Total current assets	**135,468**	**161,610**	**165,625**	**224,043**	**257,241**	**302,885**	**317,732**	**14%**
Total current liabilities	**80,941**	**67,467**	**61,274**	**70,033**	**79,177**	**106,755**	**106,755**	**10%**
Short term debt	-	-	-	-	-	-	-	
Long term debt	159,903	174,252	206,381	251,411	285,640	353,919	414,607	
Total debt	**159,903**	**174,252**	**206,381**	**251,411**	**285,640**	**353,919**	**414,607**	**19%**
Net Debt	*153,812.00*	*80,965.00*	*113,287.00*	*116,049.00*	*134,555.00*	*158,861.86*	*212,175.97*	
Total assets	596,346	659,483	717,243	807,413	893,758	1,032,271	1,138,080	**12%**
Total equity	**355,501**	**417,763**	**449,587**	**485,968**	**526,386**	**569,043**	**614,162**	**8%**
BVPS	46	51	55	59	64	69	74	
Summary Cash Flows								
Decrease / (increase) in working cap	(46,644)	(9,319)	424	(1,047)	(15,757)	10,785	1,653	
Cash flow from operations	**49,078**	**125,234**	**68,278**	**82,010**	**87,202**	**128,219**	**104,077**	**-4%**
Capital expenditure	(45,182)	(55,080)	(66,422)	(78,929)	(82,798)	(131,869)	(132,148)	
Free cash flow	*3,896.00*	*70,154.00*	*1,856.00*	*3,081.00*	*4,404.00*	*(3,649.43)*	*(28,071.11)*	
Acquisitions	-	-	-	-	-	-	-	
Divestitures	-	-	-	-	-	-	-	
Cash from from investing activities	**(48,296)**	**(57,173)**	**(75,332)**	**(53,043)**	**(75,098)**	**(116,351)**	**(118,804)**	
Increase / (decrease) in debt	(24,983)	(14,349)	(32,129)	(45,030)	(34,229)	(68,279)	(60,688)	
Share issue / (repurchase)	-	26,664	(53)	-	-	-	-	
Cash from financing	**(138)**	**19,135**	**6,861**	**13,301**	**3,619**	**32,103**	**22,101**	
Total Cash Flow	**644**	**87,196**	**(193)**	**42,268**	**15,723**	**43,972**	**7,374**	**-39%**

Source: ***Company data,*** *Goldman Sachs Research estimates.*

Exhibit 74: Key ratios and financial metrics

NTPC NTPC.BO	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	5 yr Average
Growth								
Sales growth	-1%	19%	16%	23%	12%	16%	15%	**17%**
EBIT growth	-49%	127%	14%	44%	20%	5%	14%	**19%**
Net Income	27%	15%	18%	13%	19%	4%	6%	**12%**
EPS growth	27%	12%	14%	13%	19%	4%	6%	**11%**
Margins								
Gross margin	32%	36%	34%	36%	36%	36%	36%	**36%**
EBITDA margin	22%	29%	28%	30%	31%	28%	29%	**29%**
EBIT margin	11%	21%	20%	24%	25%	23%	23%	**23%**
Pre-tax margin	25%	23%	23%	26%	29%	25%	23%	**25%**
Net Income margin	22%	21%	22%	20%	21%	19%	17%	**20%**
Return Ratios								
ROE	12%	12%	13%	14%	15%	14%	14%	**14%**
ROA	6%	8%	8%	8%	9%	8%	8%	**8%**
ROIC	6%	12%	12%	11%	10%	8%	8%	**10%**
CROCI	7%	12%	12%	11%	10%	10%	10%	**11%**
Working capital ratios								
Current ratio	1.7x	2.4x	2.7x	3.2x	3.2x	2.8x	3.0x	**3.0x**
Quick ratio	1.5x	2.1x	2.3x	2.8x	2.9x	2.6x	2.7x	**2.7x**
Inventory days	50	45	44	43	41	38	35	**40**
Receivable days	13	15	16	12	21	24	21	**19**
Payable days	139	60	52	48	49	51	53	**50**
Interest cover - EBIT	1.6x	4.6x	5.5x	4.0x	5.3x	5.2x	4.5x	**4.9x**
Leverage								
Debt/equity	45%	42%	46%	52%	54%	62%	68%	**56%**
Net debt/equity	43%	19%	25%	24%	26%	28%	35%	**0%**
Total assets/equity	1.7x	1.6x	1.6x	1.7x	1.7x	1.8x	1.9x	**1.4x**
Valuation								
P/E	32.0x	28.5x	25.0x	22.1x	18.7x	17.9x	16.9x	**20.1x**
P/B	3.8x	3.4x	3.1x	2.9x	2.7x	2.5x	2.3x	**2.7x**
EV/EBITDA	NA	11.5x	13.1x	12.3x	15.4x	13.2x	11.8x	**13.2x**
Div yield	1%	1%	2%	2%	2%	2%	2%	**2%**
EV/GCI / CROCI/WACC	NA	0.7x	1.6x	1.7x	1.9x	1.5x	1.7x	**1.7x**

Source: Company data, Goldman Sachs Research estimates.

Tata Consultancy Services (TCS.BO)

Investment thesis

While we believe that near-term growth prospects for offshore services remain fluid in a muted IT spending scenario and that for the remainder of FY09 and FY10, TCS and its peers would have to contend with various demand cross-currents, we remain positive on longer-term growth opportunity and TCS' ability to continue to deliver and maintain its strategic advantage for clients and effectively leverage its geographic footprint and its broad network of alliance partners for incremental growth opportunities and new client penetration. Moreover, with an estimated ROIC of 48% in FY09E and 35% in FY10E, we note that TCS' return profile is the highest in the space; the Indian IT Services' group average for ROIC is 26% in FY09E and 22% in FY10E. TCS remains one of our top picks, offering the best combination of sustained long-term revenue growth and valuation across the Indian IT sector. We believe the recent correction in the shares offers an attractive entry point and see potential upside from current levels, particularly given discounted valuation relative to its tier-1 Indian peers.

Valuation

TCS shares are currently trading at an FTM P/E multiple of 8.2x, which translates into a 21% discount to Infosys' local shares; this compares with an average discount vs. Infosys of 7% historically. While the two biggest companies in the Indian IT services space, Infosys and TCS, have historically enjoyed premium multiples above the group, during the recent downdraft, valuation compression has been a lot more severe on TCS' shares, creating an opportunity, as the valuation gap will likely narrow, in our view.

Differentiation from consensus

We have recently revised down our estimates and adjusted our weighted average model based 12-month target price to Rs621, reflecting more protracted slowing growth prospects and increased pricing pressure in FY09 and FY10. This is consistent with our Cautious coverage view for the Indian IT sector as the demand environment continues to deteriorate. In addition, we believe that current Reuters consensus expectations for FY09 are still too high, and on average our earnings estimates for TCS are now 12% below consensus.

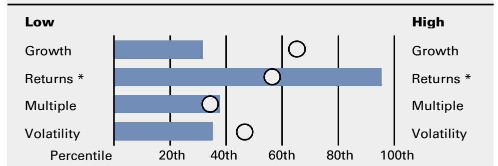
Key risks to our view and target price

(1) Further macro deterioration, resulting in sustained delays in discretionary IT spending; (2) FX losses; (3) deterioration in pricing; (4) margin pressure resulting from Citigroup BPO acquisition.

Potential catalysts

December quarter earnings results.

Investment Profile

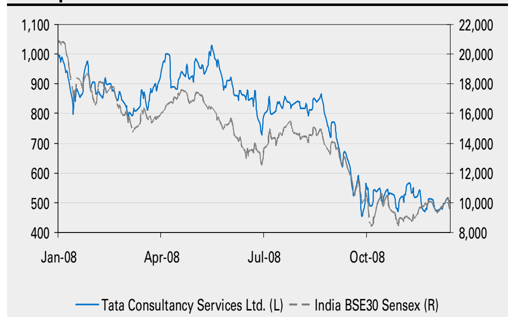


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	503.70
12 month price target (Rs)	621.00
Market cap (Rs mn / US$ mn)	492,926.1 / 10,119.6
Foreign ownership (%)	--

	3/08	3/09E	3/10E	3/11E
EPS (Rs)	51.29	54.51	57.90	58.92
EPS growth (%)	21.5	6.3	6.2	1.8
EPS (diluted) (Rs)	51.29	54.51	57.90	58.92
EPS (basic pre-ex) (Rs)	51.29	54.51	57.90	58.92
P/E (X)	9.8	9.2	8.7	8.5
P/B (X)	4.0	3.0	2.3	1.9
EV/EBITDA (X)	18.1	6.6	5.9	5.2
Dividend yield (%)	3.0	3.1	2.4	2.4
ROE (%)	47.0	37.0	30.2	24.7

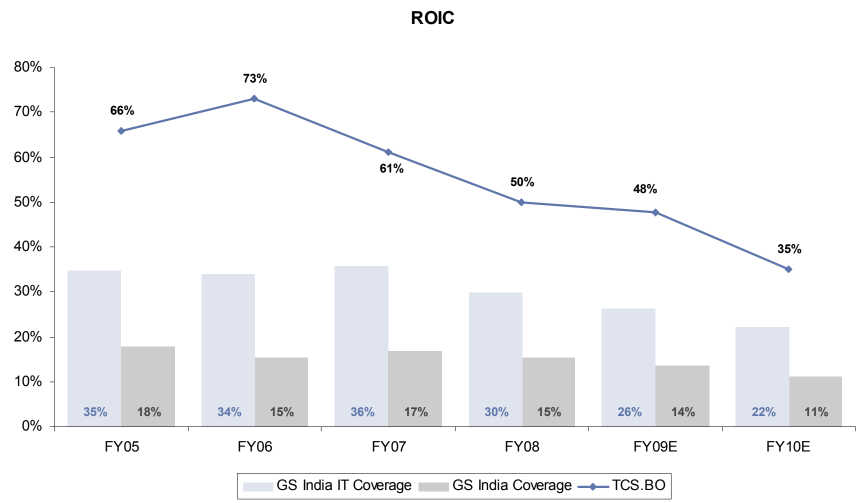
Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(12.5)	(40.9)	(48.4)
Rel. to Bombay SE Sensitive Index	6.7	(16.6)	12.0

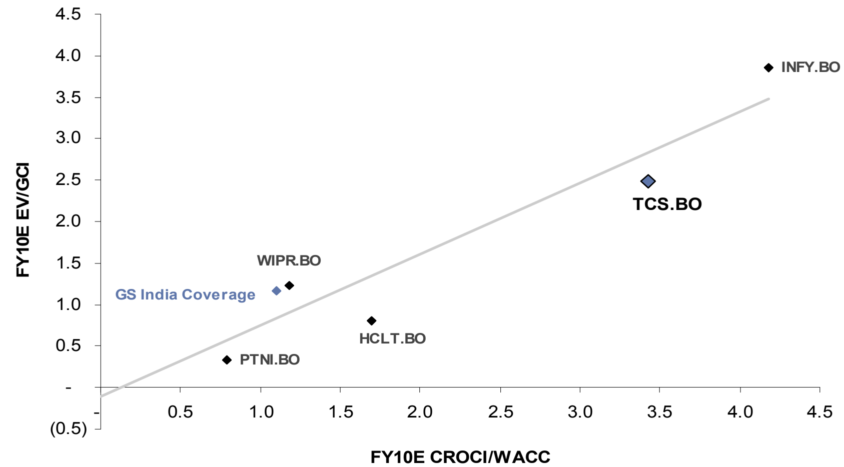
Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/07/2009 close.

Exhibit 75: TCS' return on invested capital: Substantially higher than GS coverage group



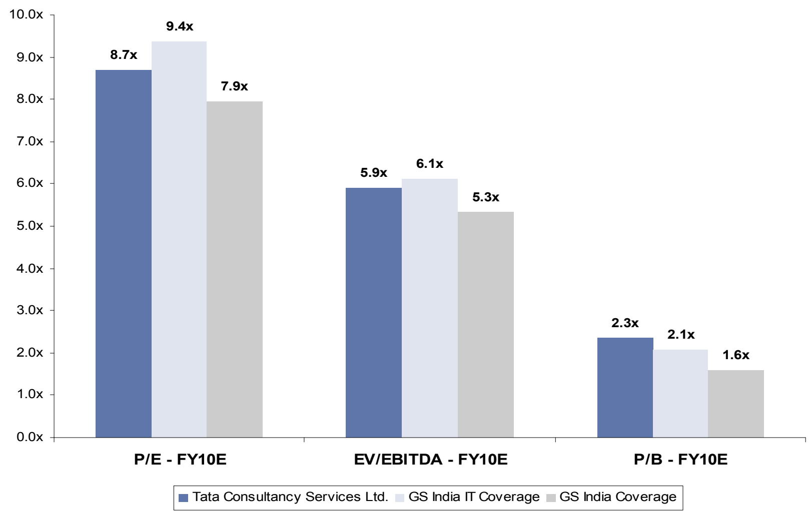
Source: Company data, Goldman Sachs Research estimates.

Exhibit 76: TCS presents an attractive return profile versus Infosys at discounted valuations



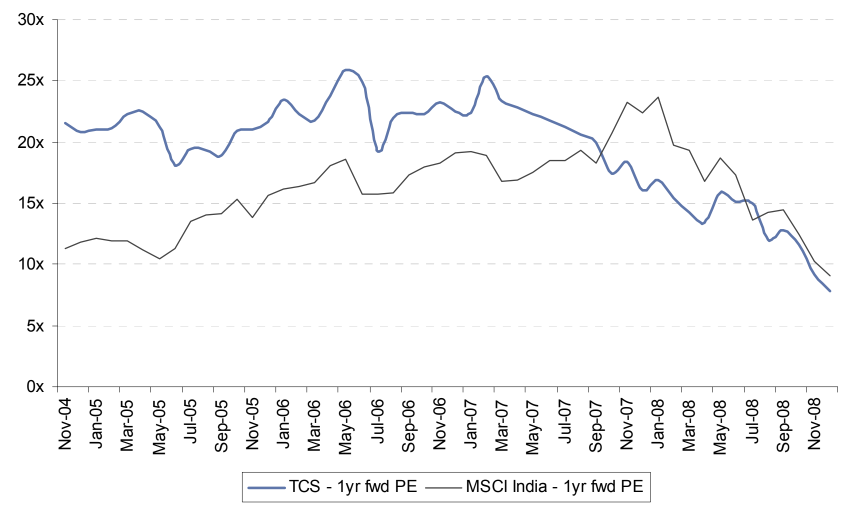
Source: Company data, Goldman Sachs Research estimates.

Exhibit 77: Valuation relative to the peer group and GS India Coverage



Source: Goldman Sachs Research estimates.

Exhibit 78: TCS trading at historical trough multiples



Source: Datastream, Goldman Sachs Research estimates.

Key financial metrics

Sales growth

TCS posted robust sales growth of 25% yoy in the quarter ending September 2008. We forecast 25% sales growth for TCS in FY09, which compares to the 29% average for the rest of the group. We expect FY10 sales growth to decelerate to 8% (vs. 7% on an average for the group) in a challenging demand environment.

We expect TCS and its Indian peers to readjust permanently to lower growth profiles longer term as the industry matures. Within the coverage group, we expect TCS to show industry-leading sales growth even as the group settles for a more moderate sales growth trajectory going forward.

Operating margins

TCS has had a strong margin profile historically relative to the group. We forecast operating margins of 23%/21% in FY09/FY10. This compares to an average of 21% and 20% for the group. However, we maintain that incremental pricing pressure is likely to weigh down on margins near term. Additional margin compression is also likely as the Citi BPO acquisition draws to a close.

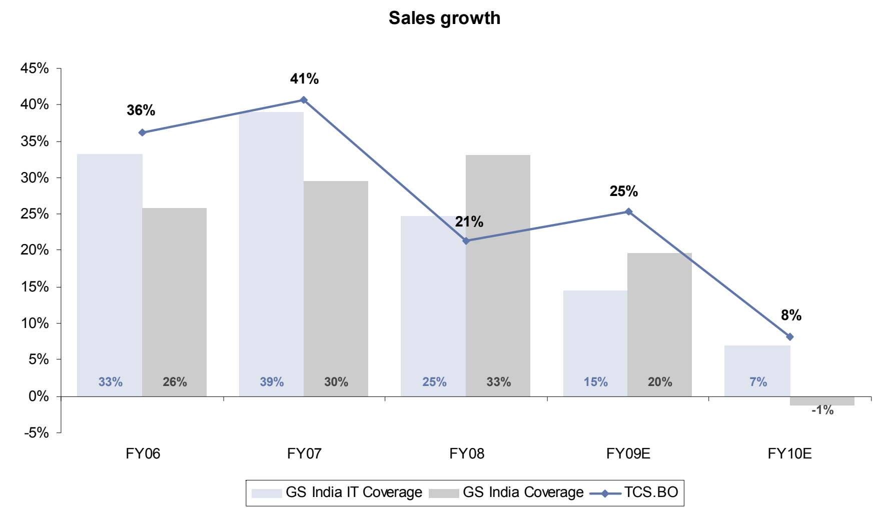
Balance sheet – Gearing, asset quality

TCS has a cash-rich balance sheet, with a debt-to-equity ratio of 5% as of September 2008. We expect TCS to close fiscal year 2009 with US$135 mn of debt, which is likely to increase if the Citigroup Global Services Ltd (CGSL) acquisition were to close.

Cash flows – Liquidity, free cash, capex and fund raising

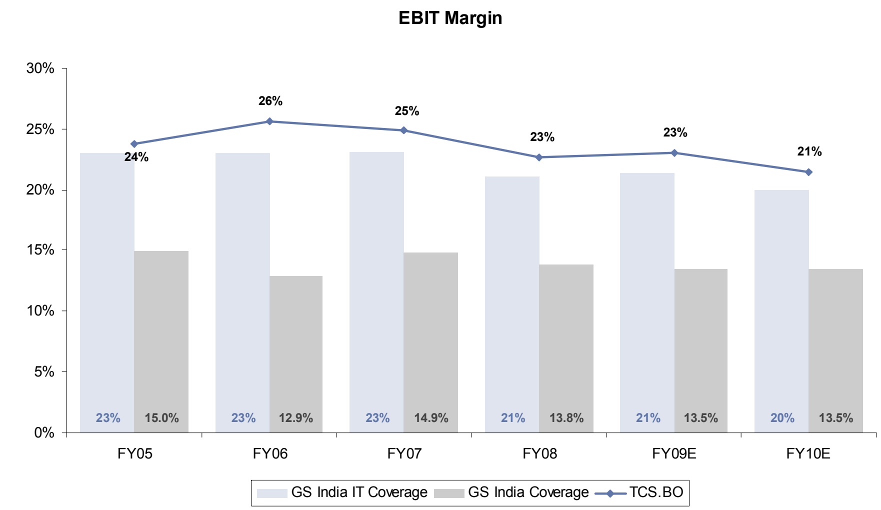
We estimate TCS will generate over US$1 bn of free cash in FY10E, showing a growth of 45% in US$ terms. This provides enough room for TCS to squeeze in more strategic acquisitions and expand its geographic footprint and service offerings. Our current estimates do not factor in the free-cash utilization that is likely to be considered for the CGSL acquisition.

Exhibit 79: Sales growth decelerating into FY10E in a challenging demand environment



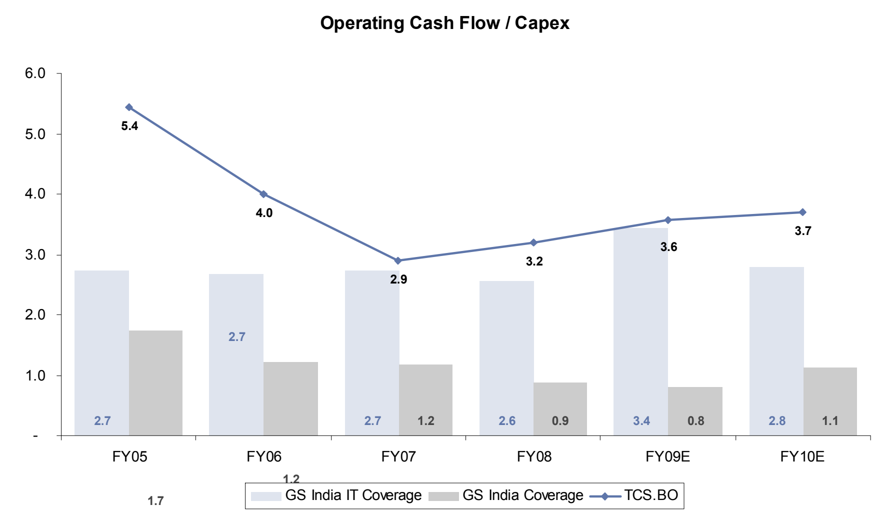
Source: Company data, *Goldman Sachs Research estimates.*

Exhibit 80: TCS exhibits consistent margin performance



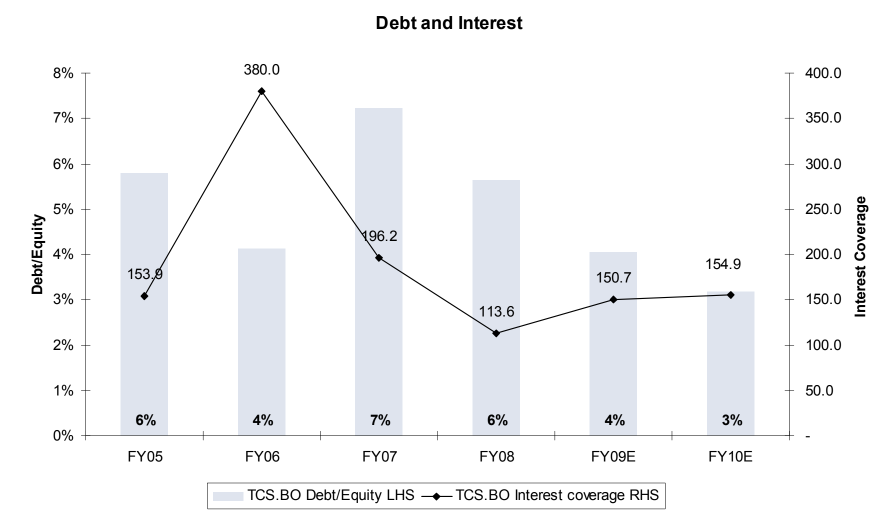
Source: Company data, *Goldman Sachs Research estimates.*

Exhibit 81: TCS operating cash flow/capex: FY05-FY10E



Source: Company data, *Goldman Sachs Research estimates.*

Exhibit 82: TCS debt/equity and interest coverage: FY05-FY10E



Source: Company data, *Goldman Sachs Research estimates.*

Financials and ratios

Exhibit 83: Key line items drawn from our detailed models

Tata Consultancy Services Ltd. TCS.BO	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	5 yr CAGR
Summary Income Statement						Rs. Millions	
Sales	**97,272**	**132,455**	**186,332**	**226,175**	**283,329**	**306,657**	**26%**
Gross Profit	43,360	60,735	82,206	100,061	124,138	128,888	
EBITDA	24,820	36,748	50,780	57,046	70,963	72,590	
EBIT	**23,096**	**33,894**	**46,444**	**51,292**	**65,237**	**65,844**	
Pre-Tax Profit	25,194	34,100	48,433	58,109	62,403	66,591	
Net Income	20,472	28,831	41,315	50,191	53,341	56,661	
EPS	**22**	**29**	**42**	**51**	**55**	**58**	**22%**
Summary Balance Sheet							
Cash & equivalents	2,633	3,965	12,291	10,352	30,051	67,906	
Accounts receivable	20,343	32,790	43,090	53,899	67,128	70,204	
Inventory	320	806	416	424	904	957	
Accounts payable	11,424	17,409	24,414	34,687	43,048	46,117	
Total current assets	**30,590**	**49,600**	**74,853**	**95,328**	**135,907**	**175,683**	**42%**
Total current liabilities	**15,124**	**23,706**	**31,960**	**42,154**	**51,953**	**55,545**	**30%**
Short term debt	1,928	979	603	367	62	62	
Long term debt	-	1,487	6,023	6,732	6,732	6,732	
Total debt	**1,928**	**2,466**	**6,626**	**7,098**	**6,793**	**6,793**	**29%**
Net Debt	*(704.80)*	*(1,498.80)*	*(5,665.80)*	*(3,253.30)*	*(23,258.18)*	*(61,112.73)*	
Total assets	48,908	85,626	130,648	175,818	227,805	277,633	**42%**
Total equity	**33,300**	**59,972**	**91,782**	**126,120**	**167,714**	**213,866**	**45%**
BVPS	34	60	92	127	168	215	
Summary Cash Flows							
Decrease / (increase) in working cap	(4,505)	(7,098)	(11,603)	(11,699)	(10,775)	1,669	
Cash flow from operations	**19,649**	**25,119**	**33,669**	**39,708**	**51,288**	**67,997**	**28%**
Capital expenditure	(3,615)	(6,289)	(11,632)	(12,430)	(14,357)	(18,399)	
Free cash flow	*16,033.80*	*18,829.60*	*22,036.50*	*27,277.80*	*36,931.64*	*49,597.88*	
Acquisitions	(455)	(6,600)	(1,804)	(1,568)	-	-	
Divestitures	3,467	84,911	151,478	272,384	179,008	-	
Cash from from investing activities	**(5,187)**	**(14,585)**	**(18,581)**	**(27,445)**	**(16,183)**	**(18,399)**	
Increase / (decrease) in debt		(538)	(4,159)	(473)	305	-	
Share issue / (repurchase)	18,929	71	211	1,019	26	-	
Cash from financing	**(13,395)**	**(9,083)**	**(6,761)**	**(14,202)**	**(15,406)**	**(11,743)**	
Total Cash Flow	**1,067**	**1,451**	**8,326**	**(1,939)**	**19,699**	**37,855**	**104%**

Source: Company data, *Goldman Sachs Research estimates.*

Exhibit 84: Key ratios and financial metrics

Tata Consultancy Services Ltd. TCS.BO	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	5 yr Average
Growth							
Sales growth	NA	36%	41%	21%	25%	8%	**26%**
EBIT growth	NA	47%	37%	10%	27%	1%	**24%**
Net Income	NA	41%	43%	21%	6%	6%	**24%**
EPS growth	NA	35%	43%	21%	6%	6%	**23%**
Margins							
Gross margin	45%	46%	44%	44%	44%	42%	**44%**
EBITDA margin	26%	28%	27%	25%	25%	24%	**26%**
EBIT margin	24%	26%	25%	23%	23%	21%	**24%**
Pre-tax margin	26%	26%	26%	26%	22%	22%	**24%**
Net Income margin	21%	22%	22%	22%	19%	18%	**21%**
Return Ratios							
ROE	NA	64%	56%	47%	37%	30%	**47%**
ROA	NA	43%	38%	33%	26%	22%	**33%**
ROIC	66%	73%	61%	50%	48%	35%	**53%**
CROCI	61%	56%	54%	47%	47%	42%	**49%**
Working capital ratios							
Current ratio	2.0x	2.1x	2.3x	2.3x	2.6x	3.2x	**2.5x**
Quick ratio	2.0x	2.1x	2.3x	2.3x	2.6x	3.1x	**2.5x**
Inventory days	NA	3	2	1	2	2	**2**
Receivable days	NA	73	74	78	78	82	**77**
Payable days	NA	73	73	86	89	92	**83**
Interest cover - EBIT	153.9x	380.0x	196.2x	113.6x	150.7x	154.9x	**199.1x**
Leverage							
Debt/equity	6%	4%	7%	6%	4%	3%	**5%**
Net debt/equity	-2%	-2%	-6%	-3%	-14%	-29%	**0%**
Total assets/equity	1.5x	1.4x	1.4x	1.4x	1.4x	1.3x	**0.9x**
Valuation							
P/E	23.2x	17.1x	11.9x	9.8x	9.2x	8.7x	**11.4x**
P/B	14.8x	8.4x	5.5x	4.0x	3.0x	2.3x	**4.7x**
EV/EBITDA	23.2x	19.4x	20.4x	18.1x	6.6x	5.9x	**14.1x**
Div yield	1%	2%	2%	3%	3%	2%	**2%**
EV/GCI / CROCI/WACC	NA	2.2x	2.3x	2.1x	0.9x	0.8x	**1.7x**

Source: Company data, Goldman Sachs Research estimates.

Zee Entertainment (ZEE.BO)

Investment thesis

Indian DTH operators have reported an acceleration in the uptake of DTH platforms over the last couple of months. The net adds per month have expanded from 600,000 in June-July 2008 to over 1 million per month by November 2008, according to industry sources. This is a significant positive for broadcasters, especially established companies such as Zee Entertainment (ZEEL), in our opinion, as it would help drive subscription revenue growth higher and partially offset the impact of an anticipated slowdown in advertising spend by corporates. Relative to the 10%-15% share that broadcasters command on the revenue collected from analog subscribers, they earn 45% revenue share in the digital mode. The share of DTH revenues in domestic subscription revenues for Zee Entertainment has expanded to 24% in 2Q09, from 16% in the year-ago quarter.

GRPs in the Hindi GEC Space are showing signs of stabilization after the downward trend seen over the last few weeks. Zee Entertainment has also commenced fresh programming for its flagship channel Zee TV and is looking at launching new shows in 3QFY09, ahead of the earlier planned schedule of 4Q09. The channel plans to continue to focus on the expansion of original hours of content across weekdays and weekends, as competition in the Hindi GEC space from new channels, especially Colors, increases.

Apart from the flagship Zee TV, ZEEL has a bouquet of channels across genres and is the leading entertainment network in India (19% share as of June 2008, vs. 14% for Star Group and 6% for Sony Group). This strength across genres provides a stable stream of revenues for the company, apart from offering an opportunity to negotiate better terms with advertisers, in our view.

Valuation

Our 12-month target price of Rs235 is based on P/E valuation (18x 2010E EPS) and implies 63% potential upside from current levels. The global average for broadcasters is 13.5x – however, we assign a 33% premium valuation for ZEEL, given the better growth prospects of Indian broadcasters in an under-penetrated market. The stock currently trades at 13x FY09E EPS and 11x FY10E EPS, vs 8.9x for global peers and 30x for Indian peers for FY09E.

Differentiation from consensus

Our estimates are 1% below Bloomberg consensus on FY09E sales and 3% below consensus on FY10E sales. However, we are 6% above consensus on EPS estimates for FY09E and FY10E, as we expect ZEEL to manage its programming costs better, leading to an improvement in margins and hence EPS.

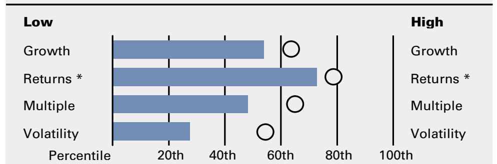
Key risks to our view and target price

(1) Higher-than-anticipated slowdown in ad spend by corporates (2) Further increase in competition in the Hindi GEC space.

Upcoming catalysts

(1) Launch of new shows expected in 3QFY09. (2) Decrease in collection cycles for subscription revenues from DTH operators.

Investment Profile



Zee Entertainment Enterprises (ZEE.BO)

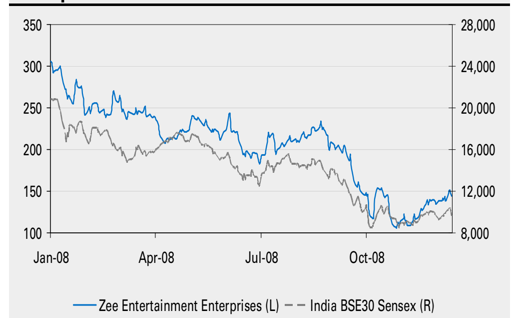
Asia Pacific Media and Entertainment Peer Group Average

* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	144.55
12 month price target (Rs)	235.00
Market cap (Rs mn / US$ mn)	62,735.7 / 1,287.9
Foreign ownership (%)	26.0

	3/08	3/09E	3/10E	3/11E
EPS (Rs)	8.81	11.09	13.07	14.81
EPS growth (%)	56.8	25.9	17.9	13.3
EPS (diluted) (Rs)	8.81	11.09	13.07	14.81
EPS (basic pre-ex) (Rs)	8.90	11.13	13.12	14.86
P/E (X)	16.4	13.0	11.1	9.8
P/B (X)	2.2	1.9	1.7	1.5
EV/EBITDA (X)	24.0	8.7	7.2	6.0
Dividend yield (%)	1.6	1.9	2.3	2.8
ROE (%)	14.3	15.8	16.4	16.4

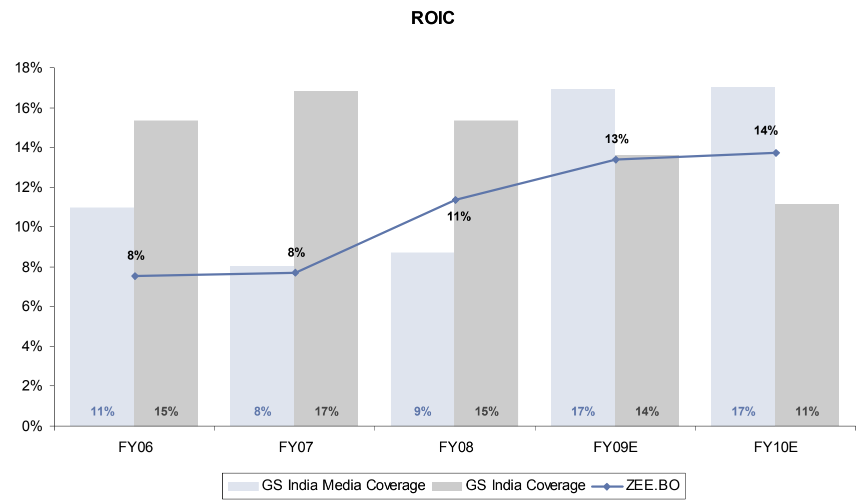
Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(25.5)	(25.3)	(53.8)
Rel. to Bombay SE Sensitive Index	(9.1)	5.4	0.3

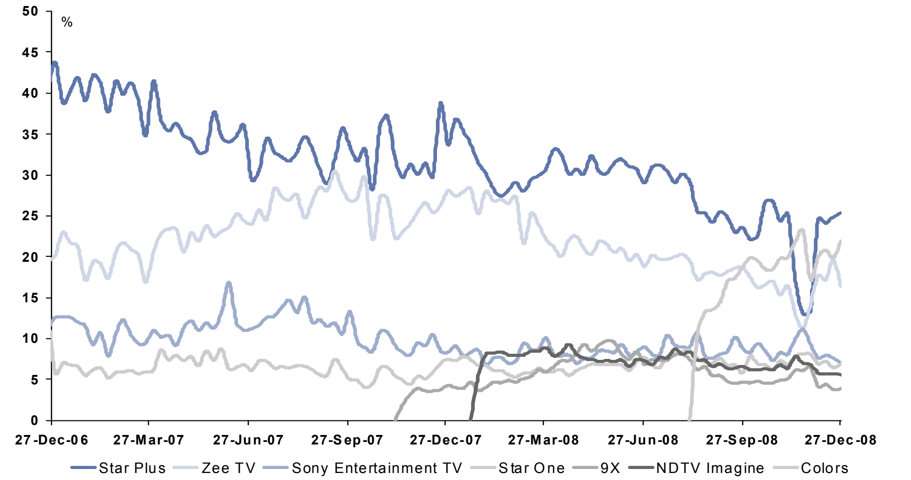
Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/07/2009 close.

Exhibit 85: Zee's returns have historically lagged the sector average. We expect its ROIC to grow steadily as margins improve



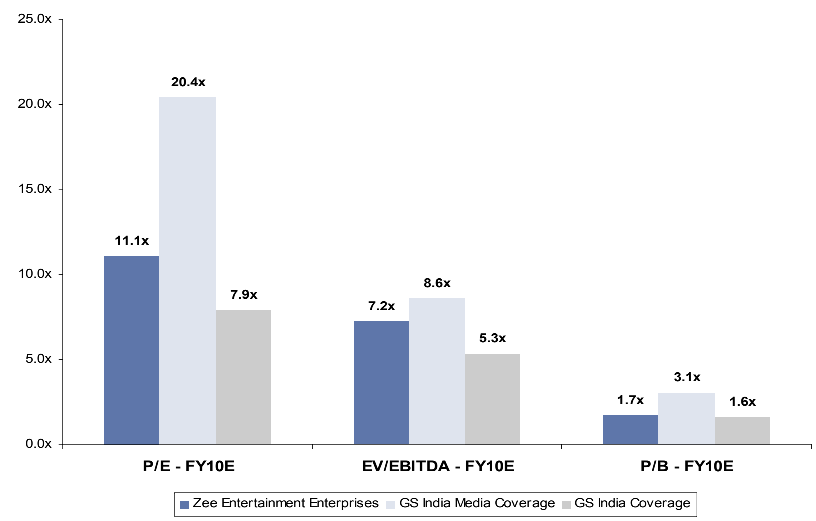
Source: Company data, Goldman Sachs Research estimates

Exhibit 86: With Zee TV planning to introduce fresh content ahead of schedule, we expect the channel's market share to improve



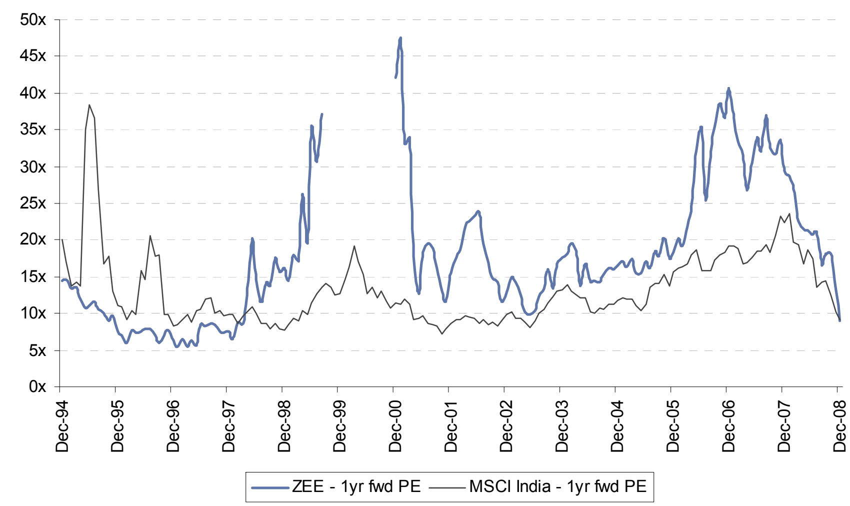
Source: TAM, Goldman Sachs Research

Exhibit 87: Zee trades at a discount to our broadcasting coverage universe and at a small premium to the GS India coverage group



Source: Goldman Sachs Research estimates

Exhibit 88: Zee is trading in line with MSCI India on 1-year forward PE, after trading at a premium historically



Source: Datastream, Goldman Sachs Research estimates

Key financial metrics

Sales growth

ZEEL's 1H09 revenues were up 41% yoy, with both subscription and advertising revenues up 33% over the same period. Through a resurgence in TRP ratings, ZEEL increased ad revenues by 32% yoy in FY08, vs. an industry average of 22%. We believe Zee will continue to clock an average higher-than-industry growth in advertising revenues in the future, given its position as the top broadcasting network in India. The market is currently valuing the company at less than 10% ad revenue growth – which, in our opinion, is unlikely. We expect subscription revenues to drive the topline in the medium term and expect domestic subscription revenues to register a CAGR of 30% over the next three years as the uptake of digital platforms increases. In addition, we expect moderate hikes in the advertising rates to drive an 18% growth in ad revenue over FY08-FY11E (vs. 32% yoy growth in FY08). We expect ZEEL's topline to grow at a CAGR of 16% over FY08-FY11E.

Operating margins

ZEEL's EBITDA margin for 1HFY09 compressed to 26%, from 32% for 1HFY08 – mainly due to higher costs of the rights associated with the cricket series telecast on Ten Sports. We expect EBITDA margins to recover in 2HFY09 and stabilize at a 31%-32% level going forward, as the company manages its programming costs better. However, we see potential upside risks to our forecast from a quicker cycle of revenue recognition from DTH subscribers in the near term and a recovery in ad spend in the medium term.

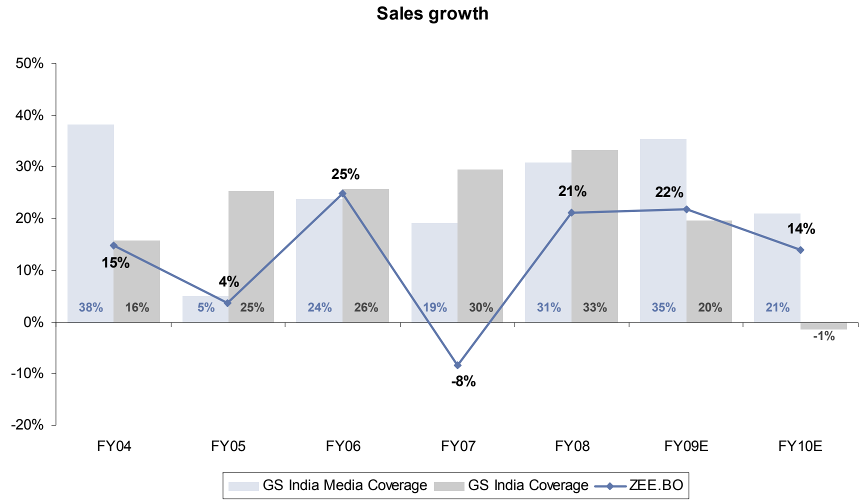
Balance sheet – Gearing, asset quality

ZEEL had a low debt-to-equity ratio of 13% at end-FY08 and we expect it to maintain this ratio in the low double-digit range, as we do not foresee any fresh debt requirement. FY08 interest coverage ratio was at 17.4x and we expect this to improve to 25.2x in FY09E as we believe the company would not require any incremental funding in FY09E.

Cash flows – Liquidity, free cash, capex and fund raising

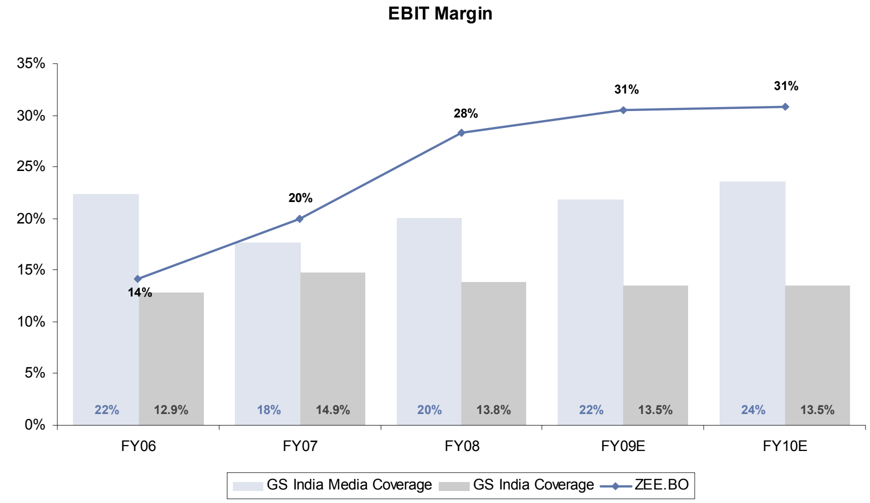
We have not built in revenues from its movie production venture into our numbers for ZEEL. Thus, excluding the investment in the movie production business, we do not foresee significant capital expenditure for the company. We expect ZEEL's free cash flow to grow at 16% CAGR over FY09-FY12E. Also, we believe the company would generate sufficient operating cash flow to cover its planned capital expenditure and would not be required to raise any additional funding.

Exhibit 89: As the uptake of digital platforms increases, we expect subscription revenues to drive sales growth for Zee in the medium term



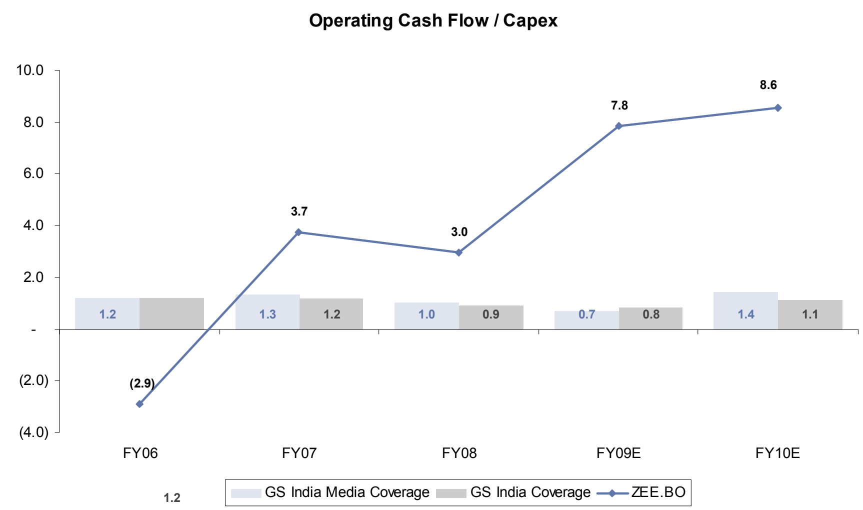
Source: Company data, Goldman Sachs Research estimates.

Exhibit 90: We expect EBIT margins to stabilize in the 31% range as the company manages its programming costs more efficiently



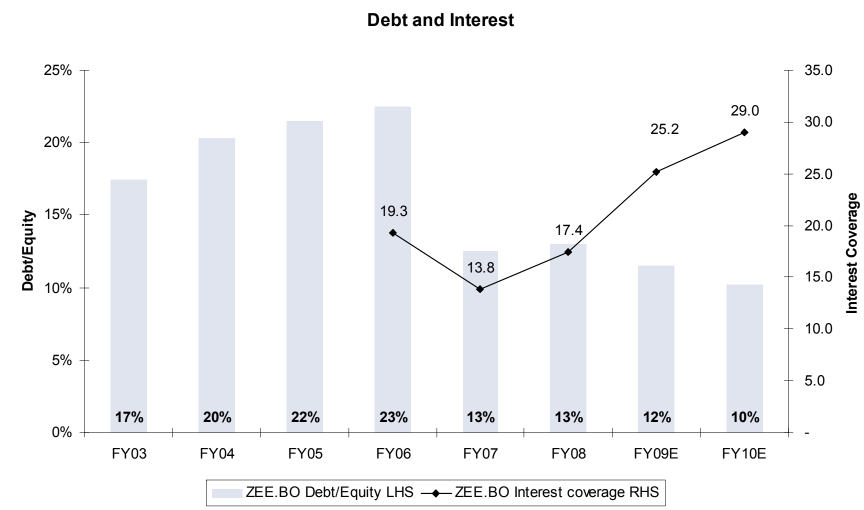
Source: Company data, Goldman Sachs Research estimates.

Exhibit 91: We expect the operating cash flow to grow at 36% CAGR over FY08-FY10E, more than sufficient to cover capex



Source: Company data, Goldman Sachs Research estimates.

Exhibit 92: With the debt on its books being low, Zee would be able to meet its interest obligations from its operating profits quite easily, in our view



Source: Company data, Goldman Sachs Research estimates.

Financials and ratios

Exhibit 93: Key line items drawn from our detailed models

Zee Entertainment Enterprises ZEE.BO	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	3 yr CAGR
Summary Income Statement							Rs. Millions	
Sales	**12,789**	**13,252**	**16,544**	**15,159**	**18,354**	**22,339**	**25,468**	**19%**
Gross Profit	NA	NA	6,854	6,894	10,304	13,298	15,227	
EBITDA	NA	NA	2,695	3,204	5,423	7,092	8,152	
EBIT	**NA**	**NA**	**2,334**	**3,019**	**5,191**	**6,820**	**7,842**	
Pre-Tax Profit	4,187	4,345	2,740	3,442	5,818	6,698	7,895	
Net Income	2,942	3,266	2,122	2,375	3,858	4,826	5,688	
EPS	**7**	**8**	**5**	**6**	**9**	**11**	**13**	**32%**
Summary Balance Sheet								
Cash & equivalents	1,126	1,571	1,286	955	1,652	4,568	8,251	
Accounts receivable	5,096	5,344	4,855	5,331	5,907	7,190	8,197	
Inventory	156	91	128	24	32	36	41	
Accounts payable	1,772	2,614	2,906	3,360	3,327	4,050	4,617	
Total current assets	**16,268**	**15,492**	**14,860**	**18,088**	**21,508**	**25,711**	**30,406**	**19%**
Total current liabilities	**3,910**	**4,595**	**4,006**	**7,272**	**6,006**	**6,729**	**7,296**	**0%**
Short term debt	-	-	898	2,165	1,854	1,854	1,854	
Long term debt	4,749	5,350	4,002	1,061	2,011	2,011	2,011	
Total debt	**4,749**	**5,350**	**4,900**	**3,226**	**3,866**	**3,866**	**3,866**	**6%**
Net Debt	*3,623.13*	*3,779.81*	*3,614.29*	*2,271.00*	*2,213.60*	*(702.49)*	*(4,385.76)*	
Total assets	32,032	34,828	30,992	35,332	39,872	44,403	49,437	**12%**
Total equity	**23,363**	**24,883**	**21,746**	**25,802**	**29,728**	**33,536**	**38,003**	**14%**
BVPS	54	59	52	59	66	75	85	
Summary Cash Flows								
Decrease / (increase) in working cap	NA	NA	(3,950)	(486)	(1,622)	(564)	(445)	
Cash flow from operations	NA	NA	**(1,111)**	**1,714**	**3,011**	**4,705**	**5,550**	**48%**
Capital expenditure	NA	NA	(383)	(460)	(1,019)	(600)	(649)	
Free cash flow	*NA*	*NA*	*(1,494.21)*	*1,253.60*	*1,991.96*	*4,105.14*	*4,900.86*	
Acquisitions	NA	NA	(10,617)	(12,144)	(16,608)	-	-	
Divestitures	NA	NA	11,035	7,855	15,097	-	-	
Cash from from investing activities	NA	NA	**510**	**(4,297)**	**(1,668)**	**(501)**	**(375)**	
Increase / (decrease) in debt	2,388	(602)	451	1,674	(640)	-	-	
Share issue / (repurchase)	NA	NA	-	-	-	-	-	
Cash from financing	**NA**	**NA**	**379**	**2,253**	**(646)**	**(1,288)**	**(1,492)**	
Total Cash Flow	**NA**	**NA**	**(223)**	**(331)**	**697**	**2,916**	**3,683**	**123%**

Source: Company data, Goldman Sachs Research estimates.

Exhibit 94: Key ratios and financial metrics

Zee Entertainment Enterprises ZEE.BO	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009E	FY2010E	3 yr Average
Growth								
Sales growth	15%	4%	25%	-8%	21%	22%	14%	**19%**
EBIT growth	NA	NA	NA	29%	72%	31%	15%	**39%**
Net Income	18%	11%	-35%	12%	62%	25%	18%	**35%**
EPS growth	41%	6%	-35%	13%	57%	26%	18%	**34%**
Margins								
Gross margin	NA	NA	41%	45%	56%	60%	60%	**58%**
EBITDA margin	NA	NA	16%	21%	30%	32%	32%	**31%**
EBIT margin	NA	NA	14%	20%	28%	31%	31%	**30%**
Pre-tax margin	33%	33%	17%	23%	32%	30%	31%	**31%**
Net Income margin	23%	25%	13%	16%	21%	22%	22%	**22%**
Return Ratios								
ROE	9%	14%	9%	10%	14%	16%	16%	**16%**
ROA	7%	10%	6%	7%	10%	11%	12%	**11%**
ROIC	NA	NA	8%	8%	11%	13%	14%	**13%**
CROCI	NA	NA	9%	8%	12%	15%	16%	**14%**
Working capital ratios								
Current ratio	4.2x	3.4x	3.7x	2.5x	3.6x	3.8x	4.2x	**3.9x**
Quick ratio	4.1x	3.4x	3.7x	2.5x	3.6x	3.8x	4.2x	**3.9x**
Inventory days	NA	NA	4	3	1	1	1	**1**
Receivable days	154	144	113	123	112	107	110	**110**
Payable days	NA	NA	104	138	152	149	154	**152**
Interest cover - EBIT	NA	NA	19.3x	13.8x	17.4x	25.2x	29.0x	**23.9x**
Leverage								
Debt/equity	20%	22%	23%	13%	13%	12%	10%	**12%**
Net debt/equity	16%	15%	17%	9%	7%	-2%	-12%	**-2%**
Total assets/equity	1.4x	1.4x	1.4x	1.4x	1.3x	1.3x	1.3x	**1.3x**
Valuation								
P/E	20.1x	19.0x	29.1x	25.7x	16.4x	13.0x	11.1x	**13.5x**
P/B	2.7x	2.4x	2.8x	2.5x	2.2x	1.9x	1.7x	**1.9x**
EV/EBITDA	NA	NA	21.2x	31.6x	24.0x	8.7x	7.2x	**13.3x**
Div yield	1%	1%	1%	1%	2%	2%	2%	**2%**
EV/GCI / CROCI/WACC	NA	NA	2.5x	5.4x	3.3x	1.3x	1.1x	**1.9x**

Source: Company data, Goldman Sachs Research estimates.

Reg AC

We, Vikram Sahu and Aditya Soman, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

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Goldman Sachs Investment Research global coverage universe

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	Buy	Hold	Sell	Buy	Hold	Sell
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Price target and rating history chart(s)

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