INDIA DAILY

January 30, 2008

EQUITY MARKETS

India	29-Jan	1-day	1-mo	3-mo
		Change, %		
Sensex	18,092	(0.3)	(10.5)	(9.4)
Nifty	5,281	0.1	(13.1)	(10.6)
Global/Regional indices				
Dow Jones	12,480	0.8	(6.6)	(10.0)
Nasdaq Composite	2,358	0.3	(11.8)	(16.3)
FTSE	5,885	1.7	(9.1)	(12.2)
Nikkie	13,489	0.1	(11.9)	(19.0)
Hang Seng	24,292	1.0	(11.2)	(23.2)
KOSPI	1,641	0.2	(13.5)	(20.0)

Value traded - India

	29-Jan		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	166.4		276.3	95.1
Derivatives (NSE)	560.2		504.4	715
Deri. open interest	912.0		1,026	973

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Sterlite Industries 3QFY08 results: Lower LME, stronger rupee hurt; retain ADD

Nalco 3Q FY2008 results: Earnings disappoint; retain REDUCE

Maruti Suzuki 3Q FY2008 results: Volume growth, higher realizations boost profits, maintain BUY

Asian Paints: Excellent performance in all business segments, target price increased to Rs1,110; maintain ADD rating

Jagran Prakashan: Disappointing 3QFY08 results; fine-tuned estimates; retain ADD

Suzlon Energy: Miss expectations with lower-than-expected execution, margins pressures, seasonal weakness and several one-off issues

Tata Power: 3QFY08: Core business performance remains on track; retain ADD rating

Zee Entertainment Enterprises: Better-than-expected 3QFY08 results; upgraded to ADD after under-performance for the past several months

Mahindra Lifespace Developer: 3QFY2008 revenues in line, operating margins above estimates

Updates

Economy: RBI leaves repo rate, CRR unchanged; calls for decisive policy actions on capital flows

News Roundup

Corporate

- Tata Consultancy Services, India's largest software exporter, is effecting a small across-the-board cut in employee salaries based on the company's performance in the third quarter, a move reflecting caution amid tough times for the outsoucing industry. (ET)
- The Jharkand Mines Area Coordination Committee (JMACC) has vowed that Arcelor Mittal will face a tough fight in setting up its 12 MTPA steel project in the state. (BS)
- In a setback for start-up airlines like SpiceJet, IndiGo, Paramount and GoAir, the group of ministers on aviation (GoA) has nixed the controversial proposal to allow overseas flights without completing five years of domestic service. (ET)

Economic and political

- The Reserve Bank of India left key rates unchanged in its monetary policy review announced on Tuesday, January 29, indicating that interest rates are unlikely to soften in the short term. (BL)

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

Forex/money market

	29-Jan	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	39.4	0	(3)	(3)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.6	6	(31)	(29)

Net investment (US$mn)

	28-Jan		MTD	CYTD
FIIs	(375)		14	(3,207)
MFs	94		(341)	1,305

Top movers -3mo basis

Best performers	29-Jan	1-day	1-mo	3-mo
		Change, %		
Rashtriya Chem	94	3.5	(16.0)	68.7
PNB	666	(2.7)	(0.9)	30.3
NALCO	413	0.6	(16.9)	30.0
Thomas Cook	73	4.9	(36.3)	29.3
Punjab Tractors	266	0.5	(2.4)	26.1
Worst performers				
MRF	5,005	0.2	(29.1)	(32.6)
Arvind Mills	50	(1.2)	(43.6)	(31.1)
i-Flex	1,077	(0.0)	(29.0)	(30.8)
MTNL	132	(0.1)	(27.1)	(30.5)
Titan Inds	1,264	4.2	(17.5)	(26.2)

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Metals

STRL.BO, Rs768	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	1,000
52W High -Low (Rs)	1140 - 415
Market Cap (Rs bn)	544

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	243.9	252.2	261.5
Net Profit (Rs bn)	46.4	42.3	40.5
EPS (Rs)	83.1	59.7	57.2
EPS gth	*37.5*	*(28.1)*	*(4.3)*
P/E (x)	9.2	12.9	13.4
EV/EBITDA (x)	6.5	6.6	5.9
Div yield (%)	-	-	-

Sterlite Industries 3QFY08 results: Lower LME, stronger rupee hurt; retain ADD

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- **Volume growth fails to offset the impact of lower realizations and strong rupee; revenues down 23% yoy**
- **3Q FY08 net earnings of Rs8.5 bn declines 34% yoy; 10% lower than estimates**
- **Marginally lower net earnings estimates, largely following lower estimates from the zinc business**
- **Marginally lower our target price to Rs1,000 (Rs1,025 previously); retain ADD rating on the stock**

Sterlite Industries reported 3Q net profit at Rs8.5, down 34% yoy and 21% qoq, 10% below our estimates for the quarter. EBITDA margin at 30% declined 10 pps yoy, but was flattish on qoq basis. Earnings dropped despite increase in volumes mainly on account of (1) lower realizations across copper, aluminium and zinc business, and (2) strong appreciation in the Rupee. We marginally reduce earnings to recognize lower-than-expected earnings in its zinc business. We also marginally lower our target price to Rs1,000 (Rs 1,025 previously). Retain ADD.

Volume growth fails to offset impact of lower realizations. Sterlite witnessed yoy volume growth in its zinc business, but copper production fell following unscheduled shut-downs and aluminium volume growth was flat. However, metal prices for 3Q were lower, which resulted in a 23% yoy decline in net sales and 43% yoy decline in EBITDA. EBITDA margin was also impacted by the sharp appreciation in the Rupee (appreciated 12% on a yoy basis), resulting in a sharp decline in realizations.

Net earnings down 34% yoy; higher other income lowers impact of lower realizations. Higher other income (resulting from temporary parking of ADR proceeds) at Rs3 bn grew 61% yoy. This led to lower fall in net earnings despite a 43% drop in absolute EBITDA on a yoy basis. In addition, effective tax rates were lower owing to capital expenditure incurred by Hindustan Zinc on wind mills.

We marginally reduce FY2008E/09E net earnings estimate by 3-9% largely following lower-than-expected earnings in Hindustan Zinc. We expect the other income to reduce over time as Sterlite invests existing cash in power plant assets as well as for acquisition of government's stake in Hindustan Zinc and Balco. After a flattish year in FY2008E, we expect operating EBITDA to improve in FY2009E as volume growth and new business initiatives kick in.

We marginally reduce our target price on Sterlite to Rs1,000 (Rs1,025 previously) following lowered valuation of Hindustan Zinc, albeit marginal increase in valuation of Sterlite's Energy business (we now value Energy business at 3X book versus 2X earlier). We believe upsides still exist to out target price in form of (1) Sterlite's probable buy-out of Government of India's stake in Hindustan Zinc and Balco at present market capitalization, (2) Better utilization of free cash in Hindustan Zinc's books, now invested in risk-free investments (FY2009E net cash expectation of Rs100 bn), and (3) Allotment of coal mine to Sterlite Energy's investments in merchant power (expected to start in Dec 2009). We await clarity on these issues and continue to rate Sterlite as ADD.

Sterlite Industries (Consolidated), Interim results, March fiscal year-ends (Rs mn)

	3Q 2008	2Q 2008	3Q 2007	% change qoq	% change yoy	2008E	9 months 2008	9 months 2007	% change	Comments on interim results
Quantitative details ('000 tons)										
Copper mined metal content	7	8	7	(12.5)	-	-	21	22	(4.5)	Unscheduled plant maintenance led to fall in production at its smelter in Tuticorin. Production was down by 77KTs than management estimates
Copper cathode	77	91	86	(15.4)	(10.5)	344	249	223	11.7	
Aluminium ingots	89	99	89	(10.1)	-	343	276	225	22.7	
Zinc mined metal content	136	143	128	(4.9)	6.3	561	413	383	7.8	Higher mine production to meet Chanderiya smelter expansion
Zinc cathode	104	94	93	10.6	11.8	395	291	253	15.0	Chanderiya smelter commissioning led to increase in volumes
Earnings drivers										
Average INR:USD	39.47	40.53	44.97	(2.6)	(12.2)	41.00	40.42	45.61	(11.4)	Stronger rupee hurts Sterlite's results
Average Zinc prices	2,646	3,221	4,142	(17.9)	(36.1)	3,324	3,182	3,580	(11.1)	Zinc prices were down sharply on yoy basis
Average Aluminium prices	2,502	2,610	2,726	(4.1)	(8.2)	2,536	2,638	2,647	(0.4)	Aluminium prices were marginally down as well
Spot Copper TC/RC (US cents/pour	8.1	2.3	12.0	250.6	(32.3)	5.0	5.2	13.1	(60.7)	Spot TC/RC down as well
Interim results										
Net revenues	**52,332**	**65,671**	**68,143**	(20.3)	(23.2)	**252,181**	**179,395**	**181,353**	(1.1)	Lower LME prices and stronger rupee hurt revenues
Expenditure	**(36,616)**	**(46,013)**	**(40,515)**			**(168,477)**	**(122,459)**	**(109,480)**		
Stock adjustment	707	(4,380)	(2,696)			-	367	4,717		
Raw materials	(25,173)	(29,137)	(27,022)			(141,665)	(86,240)	(80,798)		
Employee cost	(1,784)	(1,486)	(1,319)			(8,891)	(4,749)	(3,908)		
Other costs	(10,366)	(11,010)	(9,478)			(17,921)	(31,838)	(29,491)		
EBITDA	**15,717**	**19,658**	**27,628**	(20.1)	(43.1)	**83,704**	**56,936**	**71,873**	(20.8)	EBITDA was down largely following lower LME and stronger rupee. Lower volumes in Copper business hurt as well
Other income	3,009	3,233	1,864	(6.9)	61.4	12,063	9,743	4,332		Other income increased as cash raised through overseas offering invested in marketable securities
Depreciation	(2,142)	(2,046)	(1,888)			(8,645)	(6,219)	(5,592)		Higher depreciation following commissioning of Zinc smelter
EBIT	16,584	20,845	27,605			87,123	60,460	70,612		
Interest	(681)	(643)	(856)			(2,878)	(2,278)	(2,917)		
Pre-tax profits - as reported	15,904	20,202	26,749			84,245	58,182	67,695		
Unusual or infrequent items	-	-	(25)			-	-	(1,509)		
Pre-tax profits - as adjusted	**15,904**	**20,202**	**26,724**	(21.3)	(40.5)	**84,245**	**58,182**	**66,186**	(12.1)	
Taxes	(4,138)	(4,465)	(7,763)			(24,487)	(13,850)	(19,416)		Lower taxes following HZ's capex on wind mills
Reported profits - as reported	11,766	15,737	18,960			59,758	44,332	46,770		
Less: Minority earnings	(3,213)	(4,910)	(6,030)			(15,887)	(13,523)	(14,340)		Lower minority interest following lower profits of Hindustan Zinc
Reported profits - as adjusted	**8,553**	**10,827**	**12,930**	(21.0)	(33.9)	**43,872**	**30,810**	**32,430**	(5.0)	
Recurring net earnings	**8,553**	**10,827**	**12,948**	(21.0)	(33.9)	**43,872**	**30,810**	**33,482**	(8.0)	
Ratios										
Costs as % of revenue (%)	70.0	70.1	59.5	(0.10)	10.51	66.8	68.3	60.4		
EBITDA margin (%)	30.0	29.9	40.5	0.10	(10.51)	33.2	31.7	39.6		
ETR (%)	26.0	22.1	29.0			29.1	23.8	29.3		
EPS (Rs/share)	12.1	15.3	18.3			61.9	43.5	47.3		
Segmental information										
Segmental revenue	**58,101**	**71,349**	**73,193**	**(18.6)**	**(20.6)**		**197,435**	**194,917**	**1.3**	
Copper	27,878	35,883	32,623	(22.3)	(14.5)		95,935	88,565	8.3	
Aluminium	10,711	11,764	12,906	(8.9)	(17.0)		34,308	33,584	2.2	
Zinc and lead	18,540	22,068	26,679	(16.0)	(30.5)		63,421	69,944	(9.3)	
Others	973	1,635	985	(40.5)	(1.2)		3,771	2,825	33.5	
EBIT	**16,584**	**20,845**	**27,605**	**(20.4)**	**(39.9)**		**60,460**	**70,612**	**(14.4)**	
Copper	1,858	2,076	3,750	(10.5)	(50.4)		6,547	11,919	(45.1)	
Aluminium	1,452	1,939	4,324	(25.1)	(66.4)		6,321	7,431	(14.9)	
Zinc and lead	10,320	14,399	18,761	(28.3)	(45.0)		40,131	49,281	(18.6)	
Others	638	550	29	16.1	2,139.3		1,553	119	1,207.2	
Unallocated	2,316	1,882	742	23.1	212.2		5,909	1,863	217.2	

Source: Company data, Kotak Institutional Equities estimates

Sterlite Industries, change in estimates, March fiscal year-ends (Rs mn)

	Revised estimates			Old estimates			% change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Hindustan Zinc estimate change									
Zinc production (tons)	394,665	602,100	635,550	394,665	568,650	635,550	-	5.9	-
LME Zinc price (US$/ton)	3,000	2,800	2,600	3,324	3,179	2,800	(9.8)	(11.9)	(7.1)
Net revenues	80,575	87,753	92,129	88,385	97,015	98,507	(8.8)	(9.5)	(6.5)
EBITDA	56,538	60,555	62,397	63,851	69,668	68,379	(11.5)	(13.1)	(8.7)
Net profit	40,379	39,690	40,984	41,932	45,797	45,059	(3.7)	(13.3)	(9.0)
EPS (Rs)	95.6	93.9	97.0	99.2	108.4	106.6	(3.7)	(13.3)	(9.0)
Sterlite estimates change									
Net revenues	252,181	261,488	265,423	259,991	270,751	271,801	(3.0)	(3.4)	(2.3)
EBITDA	82,159	87,106	91,235	91,017	96,220	97,217	(9.7)	(9.5)	(6.2)
Net profit	42,327	40,523	41,787	44,065	44,485	43,085	(3.9)	(8.9)	(3.0)
EPS (Rs)	66.8	57.2	59.0	69.6	62.8	60.8	(3.9)	(8.9)	(3.0)

Source: Kotak Institutional Equities estimates.

SOTP-based target price of Sterlite Industries is Rs1,000/ share

SOTP-based target price of Sterlite, March fiscal year-ends, 2009E basis (Rs mn)

	EBITDA (Rs bn)	Multiple (X)	EV (Rs bn)	Sterlite's stake (%)	Attributable EV (Rs bn)	EV (Rs/ share)
Hindustan Zinc	61	7.0	424	64.9	275	389
Bharat Aluminium	16	8.0	124	51.0	63	90
Sterlite (copper business)	9	5.5	47	100.0	47	66
Vedanta Alumina (b)	15	8.0	116	29.5	34	48
Copper Mines of Tasmania (a)					-	36
Sterlite energy (c)					65	92
Total Enterprise Value					**485**	**720**
Net debt / (cash)					(191)	(270)
Attibutable market capitalization						**990**
Target price (Rs/ share)						**1,000**

Notes:

(a) Copper Mines of Tasmania has been valued on DCF basis, as the mine-life is only 6 years

(b) EBITDA of Vedanta Alumina enhanced to reflect income tax exemptions

(c) We have valued investments in Sterlite energy 3X book

Source: Kotak Institutional Equities

Sterlite Industries (consolidated), Summary financials, March fiscal year-ends, 2007-10E (Rs mn)

Income statement	2007	2008E	2009E	2010E
Net revenues	**243,868**	**252,181**	**261,488**	**265,423**
Expenditure	**(149,280)**	**(168,477)**	**(174,382)**	**(174,188)**
Raw materials	(137,152)	(141,665)	(144,192)	(141,287)
Employee expenses	(5,495)	(8,891)	(9,936)	(10,808)
Other expenditure	(6,632)	(17,921)	(20,254)	(22,093)
EBITDA	**94,589**	**82,159**	**87,106**	**91,235**
Non-operating income	6,817	12,063	4,373	4,842
Depreciation	(8,039)	(8,645)	(9,273)	(9,701)
EBIT	93,367	85,578	82,206	86,376
Interest expenses	(3,791)	(2,878)	(2,363)	(1,849)
Adjusted pre-tax profits	89,576	82,700	79,843	84,527
Unusual or infrequent items	(1,572)	-	-	-
Reported pre-tax profits	88,004	82,700	79,843	84,527
Taxes	(24,118)	(24,487)	(23,818)	(25,266)
Less: minority stake	(19,042)	(17,370)	(17,391)	(18,648)
Add: share in associates	-	1,483	1,889	1,174
Reported net income	**44,845**	**42,327**	**40,523**	**41,787**
Adjusted net income	**45,986**	**42,327**	**40,523**	**41,787**
EPS (Rs), based on wtd avg shares	**82.3**	**66.8**	**57.2**	**59.0**
EPS (Rs), based on fully diluted shares	**82.3**	**59.7**	**57.2**	**59.0**
Year-end shares outstanding (mn)	558.5	708.5	708.5	708.5
Weighted average shares outstanding (mn)	558.5	633.5	708.5	708.5
Fully diluted shares outstanding (mn)	558.5	708.5	708.5	708.5

Balance sheet	2007	2008E	2009E	2010E
Equity capital	1,117	1,417	1,417	1,417
Reserves and surplus	98,698	216,207	249,480	282,811
Deferred tax liability	9,174	12,809	16,880	21,865
Total Equity	**108,989**	**230,433**	**267,777**	**306,093**
Secured loans	15,258	10,258	5,258	258
Unsecured loans	30,848	25,601	24,101	22,601
Minority interest	36,259	56,902	77,035	97,728
Total borrowings	**82,365**	**92,761**	**106,395**	**120,587**
Current liabilities	48,636	31,514	30,622	30,542
Total capital	**239,990**	**354,708**	**404,794**	**457,222**
Cash	11,134	95,387	135,114	186,566
Inventory	28,092	38,229	41,935	42,008
Debtors	16,521	27,343	32,361	32,470
Other current assets	34,846	28,463	28,463	28,463
Total current assets	**90,594**	**189,421**	**237,873**	**289,507**
Gross block	126,414	155,224	166,481	177,481
Less: Depreciation	(43,235)	(46,634)	(56,256)	(66,463)
Net block	83,179	108,590	110,225	111,019
Add: Capital work-in-process	13,997	7,580	7,580	7,580
Total fixed assets	**97,176**	**116,170**	**117,805**	**118,599**
Investments	52,219	49,116	49,116	49,116
Miscellaneous expenditure	0	-	-	-
Total assets	**239,990**	**354,708**	**404,794**	**457,222**

Cash flow statement	2007	2008E	2009E	2010E
Cash flow from operating activities				
PBT	88,198	82,810	85,977	88,195
Add: Depreciation	7,995	8,779	9,622	10,207
Add: Non cash expenses	(714)	-	-	-
Less: net interest	(1,489)	-	-	-
Less: Taxes paid	(22,174)	(22,275)	(23,559)	(23,191)
Less: Dividend income	(631)	-	-	-
Add: Working capital changes	(18,647)	(6,814)	(9,616)	(263)
Total operating cash flow	**52,537**	**62,500**	**62,424**	**74,948**
Operating Cash flow w/o working capital	71,185	69,314	72,040	75,211
Cash flow from investing activities				
Capital expenditure	(20,871)	(21,356)	(11,257)	(11,000)
Investments	(24,606)	(21,648)	-	-
Interest and dividend received	1,967	-	-	-
Movement of loans	438	-	-	-
Misc expenditure not written off	-	-	-	-
Total investing cash flow	**(43,072)**	**(43,004)**	**(11,257)**	**(11,000)**
Cash flow from financing activities				
Share issuances	(1,936)	82,968	-	-
Loans	(3,540)	(6,500)	(6,500)	(6,500)
Less: Dividends paid (including dividend tax)	(4,441)	(4,940)	(4,940)	(5,996)
Effect of exchange rate change	431	-	-	-
Total financing cash flow	**(9,486)**	**71,528**	**(11,440)**	**(12,496)**
Net change in cash	**(20)**	**91,024**	**39,727**	**51,452**
Opening cash	11,153	4,362	95,387	135,114
Closing cash	**11,133**	**95,387**	**135,114**	**186,566**

Ratios (%)	2007	2008E	2009E	2010E
Effective tax rate	27.4	29.6	29.8	29.9
EBITDA margins	38.8	32.6	33.3	34.4
EBIT margins	38.3	33.9	31.4	32.5
Net debt/equity	(0.2)	(0.5)	(0.6)	(0.7)
Net debt/capitalization	(0.2)	(0.5)	(0.6)	(0.7)
ROACE	29.0	17.2	12.1	10.8
ROAE	50.7	24.9	16.3	14.6

Key assumptions	2007	2008E	2009E	2010E
Aluminium production (tons)	313,189	332,500	343,000	346,500
Zinc ingot production (tons)	348,567	394,665	568,650	635,550
Zinc LME prices (US/ton)	3,580	3,324	3,179	2,800
Aluminium LME prices (US/ton)	2,548	2,536	2,522	2,562

Valuations (X)	2007	2008E	2009E	2010E
Price to Diluted earnings	12.0	16.6	17.3	16.8
EV/EBITDA	7.2	7.2	6.3	5.4
EV/Sales	2.8	2.4	2.1	1.8
M.cap/Sales	2.9	2.8	2.7	2.6
Price to book	5.1	3.0	2.6	2.3

Per share numbers (Rs)	2007	2008E	2009E	2010E
Reported Earnings	82.3	66.8	57.2	59.0
Diluted Earnings	82.3	59.7	57.2	59.0
Cash earnings	96.7	71.9	70.3	72.7
Free cash	90.1	67.7	85.8	90.6
Book	195.1	325.2	378.0	432.0

Source: Company data, Kotak Institutional Equities estimates

Metals

NALU.BO, Rs413	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	375
52W High -Low (Rs)	547 - 204
Market Cap (Rs bn)	266.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	59.4	51.5	53.8
Net Profit (Rs bn)	23.8	17.0	15.9
EPS (Rs)	37.0	26.3	24.6
EPS gth	*55.4*	*(28.8)*	*(6.4)*
P/E (x)	11.2	15.7	16.8
EV/EBITDA (x)	5.8	8.1	8.9
Div yield (%)	1.8	1.8	1.8

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	87.1	-	-
FIIs	3.8	0.1	(0.4)
MFs	0.1	0.0	(0.5)
UTI	-	-	(0.5)
LIC	3.2	0.4	(0.1)

Nalco 3Q FY2008 results: Earnings disappoint; retain REDUCE

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- **Nalco's 3Q net profit at Rs3.3 bn declined 43% yoy and 25% qoq, lower than our estimate of Rs4.9 bn**
- **EBITDA was lower by 48% yoy following lower earnings across businesses**
- **We marginally reduce FY2008E earnings; retain REDUCE with target price of Rs375**

In its 3Q 2008 results, Nalco reported net earnings of Rs3.3 bn, down 43% yoy and 25% qoq following lower profitability in almost all its businesses (alumina, aluminium and power). EBITDA, at Rs4.4 bn (down 48% yoy), was also impacted by unusual (but operating) expense from higher power costs. In absence of significant volume growth, earnings for 4QFY08E might also stay weak, if aluminium prices stay put and rupee stays stronger. We marginally reduce our estimates and retain REDUCE rating with a target price of Rs375.

3Q 2008E net earnings fell 43% yoy and 25% on qoq basis following lower alumina/aluminium realizations, stronger rupee as well as exceptional (but operating) costs of Rs398 mn (higher fuel imports and purchase of power from external sources). Net earnings were lower than our estimates by quite a distance.

Segmental EBIT reduced 47% yoy as well, largely following 67% degrowth in earnings from Chemicals segment (alumina). Earnings from Aluminium business fell 17% on following lower LME prices and stronger rupee. Nalco's earnings from the electricity segment reduced to almost zero, following higher consumption of expensive coal from imported and other sources, which resulted in net increase of Rs429 mn.

We expect profitability to remain weak in 4QFY08E as well given only moderate volume growth and stronger currency. Nalco's next round of capacity expansions will likely commercialize only towards FY2010E. Alumina realizations might improve over 4QFY08E, as alumina realizations have improved from its lows.

We marginally lower our estimates, and maintain REDUCE with target price of Rs375. We continue to believe that NALCO is a pure price play as earnings are dependent entirely on LME aluminium prices. We maintain our earnings estimates and our REDUCE rating on the stock with a target price of Rs375 (based on 8X FY2009E EV/EBITDA).

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

				% change			9 months	
	3Q 2008	2Q 2008	3Q 2007	qoq	yoy	2008E	2008	2007
Earnings drivers								
Average LME aluminium prices (US$/ton)	2,502	2,603	2,725	(3.9)	(8.2)	2,536	2,631	2,644
Average alumina spot prices (US$/ton)	378	331	211	14.2	79.1	330	351	341
Average INR:USD	39.4	40.5	45.0	(2.7)	(12.3)	43.0	40.4	45.6
Interim results								
Net revenues	**11,093**	**13,082**	**14,486**	**(15.2)**	**(23.4)**	**51,523**	**35,827**	**43,757**
Expenditure	**(6,693)**	**(7,397)**	**(6,037)**			(25,523)	**(19,578)**	**(17,213)**
Stock adjustment	177	(525)	97			151	194	465
Raw materials	(1,372)	(1,392)	(1,586)			(5,868)	(4,083)	(4,086)
Employee cost	(1,265)	(1,193)	(858)			(4,322)	(3,527)	(2,622)
Other costs	(4,232)	(4,287)	(3,689)			(15,485)	(8,766)	(10,970)
EBITDA	**4,401**	**5,685**	**8,449**	**(22.6)**	**(47.9)**	**25,999**	**16,249**	**26,544**
Other income	1,380	1,644	978			3,478	4,333	2,827
Depreciation	(662)	(683)	(744)			(3,654)	(2,037)	(2,302)
EBIT	**5,118**	**6,646**	**8,684**			**25,824**	**18,546**	**27,068**
Interest	-	(6)	-			-	(7)	-
Profit before tax	**5,118**	**6,639**	**8,684**	**(22.9)**	**(41.1)**	**25,824**	**18,539**	**27,068**
Taxes	(1,824)	(2,242)	(2,958)			(8,858)	(6,381)	(9,169)
Reported profits - as reported	**3,294**	**4,397**	**5,726**	**(25.1)**	**(42.5)**	**16,966**	**12,158**	**17,899**
Ratios								
Costs as % of revenue (%)	60.3	56.5	41.7			49.5	54.6	39.3
EBITDA margin (%)	39.7	43.5	58.3			50.5	45.4	60.7
ETR (%)	35.6	33.8	34.1			34.3	34.4	33.9
EPS (Rs/share)	5.1	6.8	8.9			26.3	18.9	27.8
Segmental results								
Chemicals	4,066	4,474	5,774	(9.1)	(29.6)		12,813	22,659
Aluminium	8,889	10,556	11,668	(15.8)	(23.8)		28,518	32,379
Electricity	1,779	1,966	2,147	(9.5)	(17.1)		5,845	5,833
Total	**14,734**	**16,996**	**19,589**				**47,176**	**60,871**
Less: Inter segment revenue	3,641	3,914	5,104				11,349	17,114
Net sales from operations	**11,093**	**13,082**	**14,486**				**35,827**	**43,757**
Segmental PBIT								
Chemicals	1,223	1,808	3,615	(32.3)	(66.2)		4,931	16,100
Aluminium	3,006	3,615	3,618	(16.8)	(16.9)		10,174	7,868
Electricity	1	310	820				971	1,673
Less: Interest & financing charges	-	6	-				7	-
Less: Other unallocated expenditure	(888)	(914)	(631)				(2,470)	(1,427)
Total Profit before tax	**5,118**	**6,639**	**8,684**				**18,539**	**27,068**
Segmental PBIT (%)								
Chemicals	30.1	40.4	62.6				38.5	71.1
Aluminium	33.8	34.2	31.0				35.7	24.3
Capital employed								
Chemicals	18,365	17,737	16,135				53,425	47,670
Aluminium	25,669	24,392	22,510				73,721	65,870
Electricity	10,765	9,829	8,337				29,697	24,147
Unallocated common assets	40,143	39,727	35,961				117,214	94,005
Total	**94,942**	**91,684**	**82,943**				**274,057**	**231,691**

Source: Company data, Kotak Institutional Equities estimates.

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

	Revised estimates			Old estimates			% change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net revenues	51,523	53,753	66,407	52,712	53,704	66,503	(2.3)	0.1	(0.1)
EBITDA	27,039	27,881	35,728	28,228	27,832	35,824	(4.2)	0.2	(0.3)
Net profit	16,966	15,874	20,429	17,784	15,883	20,528	(4.6)	(0.1)	(0.5)
EPS (Rs)	26.3	24.6	31.7	27.6	24.7	31.9	(4.6)	(0.1)	(0.5)

Source: Kotak Institutional Equities estimates.

NALCO, Summary financials, March fiscal year-ends, 2007-10E (Rs mn)

Income statement	2007	2008E	2009E	2010E
Net revenues	**59,402**	**51,523**	**53,753**	**66,407**
Expenditure	**(24,043)**	**(25,523)**	**(27,066)**	**(32,049)**
Raw materials	(5,301)	(5,717)	(6,076)	(7,688)
Employee expenses	(3,929)	(4,322)	(4,646)	(5,110)
Other expenditure	(14,813)	(15,485)	(16,344)	(19,251)
Operating other income	906	1,040	1,193	1,370
EBITDA	**36,265**	**27,039**	**27,881**	**35,728**
Non-operating income	3,110	2,438	1,075	2,041
Depreciation	(3,171)	(3,654)	(4,794)	(6,675)
EBIT	36,204	25,824	24,162	31,094
Interest expenses	-	-	-	-
Adjusted pre-tax profits	36,204	25,824	24,162	31,094
Unusual or infrequent items	-	-	-	-
Reported pre-tax profits	36,204	25,824	24,162	31,094
Current taxes	(12,563)	(8,982)	(8,403)	(10,815)
Deferred taxes	173	124	116	149
Reported net income	23,814	16,966	15,874	20,429
Adjusted net income	**23,814**	**16,966**	**15,874**	**20,429**
EPS (Rs), based on wtd avg shares	**37.0**	**26.3**	**24.6**	**31.7**
EPS (Rs), based on fully diluted shares	**37.0**	**26.3**	**24.6**	**31.7**
Year-end shares outstanding (mn)	644.3	644.3	644.3	644.3
Weighted average shares outstanding (mn)	644.3	644.3	644.3	644.3
Fully diluted shares outstanding (mn)	644.3	644.3	644.3	644.3

Cash flow statement	2007	2008E	2009E	2010E
Cash flow from operating activities				
PBT	36,204	25,824	24,162	31,094
Add: Depreciation	3,212	3,654	4,794	6,675
Add: Non cash expenses	125	-	-	-
Less: net interest	-	-	-	-
Less: Taxes paid	(12,732)	(8,982)	(8,403)	(10,815)
Less: Other income	-	(2,438)	(1,075)	(2,041)
Add: Working capital changes	417	443	(125)	(711)
Total operating cash flow	**27,225**	**18,500**	**19,352**	**24,203**
Operating Cash flow w/o working capital	26,809	18,057	19,477	24,913
Cash flow from investing activities				
Capital expenditure	(6,419)	(24,045)	(32,955)	(2,000)
Investments	-	-	-	-
Interest and dividend received	-	2,438	1,075	2,041
Total investing cash flow	**(6,419)**	**(21,607)**	**(31,880)**	**41**
Cash flow from financing activities				
Share issuances	-	-	-	-
Loans	-	-	-	-
Less: Dividends paid (including dividend tax)	(5,877)	(5,654)	(5,654)	(5,654)
Interest and finance charges paid	-	-	-	-
Total financing cash flow	**(5,877)**	**(5,654)**	**(5,654)**	**(5,654)**
Net change in cash				
Opening cash	21,937	36,865	28,105	9,923
Closing cash	**36,865**	**28,105**	**9,923**	**28,513**

Balance sheet	2007	2008E	2009E	2010E
Equity capital	6,443	6,443	6,443	6,443
Reserves and surplus	70,509	81,822	92,042	106,817
Deferred tax liability	6,127	6,003	5,887	5,738
Total Equity	**83,080**	**94,268**	**104,372**	**118,998**
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Total borrowings	**-**	**-**	**-**	**-**
Current liabilities	12,186	11,741	11,867	12,582
Total capital	**95,266**	**106,009**	**116,240**	**131,580**
Cash	36,865	28,105	9,923	28,513
Inventory	6,350	5,507	5,746	7,098
Debtors	341	296	309	382
Other current assets	6,185	6,185	6,185	6,185
Total current assets	**49,741**	**40,093**	**22,162**	**42,177**
Gross block	90,341	92,341	147,341	149,341
Less: Depreciation	(53,232)	(56,885)	(61,679)	(68,354)
Net block	37,109	35,455	85,662	80,986
Add: Capital work-in-process	8,416	30,461	8,416	8,416
Total fixed assets	**45,525**	**65,916**	**94,078**	**89,402**
Investments	-	-	-	-
Miscellaneous expenditure	-	-	-	-
Total assets	**95,266**	**106,009**	**116,240**	**131,580**

Ratios (%)	2007	2008E	2009E	2010E
Effective tax rate	34.2	34.3	34.3	34.3
EBITDA margins	61.1	52.5	51.9	53.8
EBIT margins	60.9	50.1	44.9	46.8
Net debt/equity	(0.4)	(0.3)	(0.1)	(0.2)
Net debt/capitalization	(0.4)	(0.3)	(0.1)	(0.2)
ROACE	32.1	19.1	16.0	18.3
ROAE	32.1	19.1	16.0	18.3

Key assumptions	2007	2008E	2009E	2010E
Alumina sales ('000 tons)	779,104	818,199	821,600	1,159,830
Aluminium metal sales ('000 tons)	356,616	365,909	384,204	460,000
Average LME aluminium price (US$/to	2,663	2,536	2,522	2,562

Valuations (X)	2007	2008E	2009E	2010E
Price to Diluted earnings	13.0	18.2	19.4	15.1
EV/EBITDA	7.5	10.4	10.7	7.8
EV/Sales	4.6	5.4	5.6	4.2
M.cap/Sales	5.2	6.0	5.7	4.6
Price to book	3.7	3.3	3.0	2.6

Per share numbers (Rs)	2007	2008E	2009E	2010E
Reported Earnings	37.0	26.3	24.6	31.7
Diluted Earnings	37.0	26.3	24.6	31.7
Cash earnings	41.9	32.0	32.1	42.1
Free cash	32.3	(8.6)	(21.1)	34.5
Book	128.9	146.3	162.0	184.7

Source: Company data, Kotak Institutional Equities estimates.

Automobiles

MRTI.BO, Rs857	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,200
52W High -Low (Rs)	1252 - 700
Market Cap (Rs bn)	247.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	146.5	182.0	225.7
Net Profit (Rs bn)	15.6	19.5	25.5
EPS (Rs)	54.0	67.6	88.4
EPS gth	*31.4*	*25.0*	*30.8*
P/E (x)	15.9	12.7	9.7
EV/EBITDA (x)	9.3	7.7	5.7
Div yield (%)	0.5	0.5	0.5

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	54.2	-	-
FIIs	14.1	0.5	(0.3)
MFs	7.9	1.6	0.9
UTI	-	-	(0.7)
LIC	12.5	2.3	1.6

Maruti Suzuki 3Q FY2008 results: Volume growth, higher realizations boost profits, maintain BUY

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- **Net profit at Rs4.7 bn grows 24% yoy led by 17% yoy growth in volumes**
- **Higher realization offset by rise in input costs and royalty payment**
- **We lower our FY2008E volume estimate by 1%; tweak model to factor rise in input costs**
- **Maintain BUY rating and target price of Rs1,200/share**

Maruti reported 3Q net profit at Rs4.7 bn—a growth of 24% yoy and flat on qoq basis. 3Q EBITDA margin at 15% was lower 100 bps on account of higher raw material and royalty costs. Net sales at Rs46.7 bn grew 27% yoy on account of higher volumes and improved realizations. We lower our volume estimate for FY2008 by 1% as 3Q volume growth was lower-than-expected. We tweak our model to account for higher input costs and improved realizations. We maintain our BUY rating and target price of Rs1,200/share.

Net profit at Rs4.7 bn grew 24% yoy led by a 17% yoy growth in volumes

3Q FY2008 net profit at Rs4.7 bn (we estimated Rs5.5 bn) grew 24% yoy but was flat on a qoq basis. Net profit grew mainly on account of a 17% yoy growth in sales volumes. Average realizations increased 8% yoy due to a change in product mix with greater share of mid-size cars and MUV (Grand Vitara).

Higher realization offset by rise in input costs and royalty payment

EBITDA margins at 15% were lower 100 bps mainly on account of higher input costs and higher royalty costs in spite of average realizations being higher by 8% yoy—material costs increased 130 bps while royalty costs increased 27%. We believe rising input costs would continue to put pressure on margins even as increased sales of mid-size (SX4) and compact cars would likely improve average realizations.

We lower our volume estimate for FY2008 by 1%

We lower our volume estimate for FY2008 by 1% as 3Q FY2008 volumes grew slower-than-expected. We now estimate FY2008 volumes to grow 19% (20% previously)—our residual analysis shows that Maruti's volumes would need to grow 20% in 4Q to achieve this growth. We believe this is manageable given that 4Q sales have historically been stronger than other quarters. We retain our FY2009E and FY2010E volume estimates for Maruti at 967,000 vehicles and 1.1 mn vehicles respectively.

We factor lower volumes for FY2008; marginally tweak our estimates to factor changes in input costs

We lower our FY2008 net earnings by 10% to factor lower volumes and increase in input and royalty costs. We expect royalty costs to rise on account of increase in proportion of cars on which royalty needs to be paid and increase in average realizations (royalty is paid on the basis on realization per car). We believe this would result in marginal decline in EBITDA margins for FY2009E and FY2010E by 10-20 bps.

Positive macro factors to lead to strong volume growth; maintain BUY rating and target price of Rs1,200/share

We believe the macro factors continue to be positive and this will likely result in strong volume growth for Maruti. Rising income levels, likely decline in interest rates and a strong product profile to leverage growth opportunities augurs well for Maruti. We believe Maruti's secular growth story is intact and current valuations make it appear attractive. Maruti is currently trading at 5.7X FY2009E EV/EBITDA. We believe this is cheap given its historical trading band. We value Maruti at Rs1,200/share based on 8X FY2009E EV/EBITDA. We maintain our BUY rating on the stock.

Maruti Suzuki India, quarterly results, March fiscal year-ends (Rs mn)

		qoq			yoy			9 months		
	2008E	3Q 2008	2Q 2008	Change (%)	3Q 2008	3Q 2007	Change (%)	2008	2007	Change (%)
Net Sales	**182,032**	**46,741**	**45,474**	**2.8**	**46,741**	**36,795**	**27.0**	**131,523**	**102,241**	**28.6**
Expenditure	(156,259)	(40,609)	(39,496)	2.8	(40,609)	(31,723)	28.0	(113,665)	(87,848)	29.4
(Increase)/decrease in stocks	(1,133)	(1,652)	435	(480.0)	(1,652)	(3,030)	(45.5)	254	(2,436)	(110.4)
Consumption of Raw materials	(128,411)	(34,111)	(35,155)	(3.0)	(34,111)	(24,632)	38.5	(100,307)	(74,392)	34.8
Staff cost	(3,486)	(968)	(909)	6.4	(968)	(738)	31.0	(2,681)	(2,078)	29.1
Other expenditure	(23,229)	(3,879)	(3,866)	0.3	(3,879)	(3,323)	16.7	(10,930)	(8,943)	22.2
Operating other income	3,271	854	1,105	(22.7)	854	774	10.2	2,791	1,990	40.2
EBITDA	**29,044**	**6,986**	**7,083**	**(1.4)**	**6,986**	**5,846**	**19.5**	**20,649**	**16,384**	**26.0**
Other income	3,533	854	780	9.4	854	510	67.4	3,034	1,944	56.0
Interest (net)	(662)	(144)	(140)	2.4	(144)	(157)	(8.8)	(435)	(221)	97.1
Depreciation	(3,408)	(867)	(881)	(1.6)	(867)	(759)	14.3	(2,571)	(1,995)	28.8
Profit before extra-ordinary items	**28,507**	**6,829**	**6,841**	**(0.2)**	**6,829**	**5,440**	**25.5**	**20,677**	**16,112**	**28.3**
Extra-ordinary items	-	-	-		-	-		-	-	
Profit before tax	**28,507**	**6,829**	**6,841**	**(0.2)**	**6,829**	**5,440**	**25.5**	**20,677**	**16,112**	**28.3**
Tax	8,975	2,158	2,176	(0.8)	2,158	1,676	28.8	(6,345)	(4,978)	27.5
Profit after tax	**19,531**	**4,671**	**4,665**	**0.1**	**4,671**	**3,764**	**24.1**	**14,332**	**11,134**	**28.7**
Adjusted PAT	**19,531**	**4,671**	**4,665**	**0.1**	**4,671**	**3,764**	**24.1**	**14,332**	**11,134**	**28.7**
Volumes	**802,000**	**201,629**	**191,325**	**5.4**	**201,629**	**172,181**	**17.1**	**562,623**	**474,812**	**18.5**
Average realisation	**265,285**	**271,811**	**279,079**	**(2.6)**	**271,811**	**251,075**	**8.3**	**274,382**	**253,277**	**8.3**
Margins (%)										
EBITDA margin	16.0	14.9	15.6	(0.63)	14.9	15.9	(0.94)	15.7	16.0	(0.33)
Net profit margin	10.7	10.0	10.3	(0.27)	10.0	10.2	(0.24)	10.9	10.9	0.01
Key ratios										
RM costs (% of net sales)	70.5	73.0	77.3	(4.33)	73.0	66.9	6.03	76.3	72.8	3.50
Staff costs (% of net sales)	1.9	2.1	2.0	0.07	2.1	2.0	0.06	2.0	2.0	0.01
Effective tax rate (%)	31.5	31.6	31.8	(0.21)	31.6	30.8	0.80	(30.7)	(30.9)	0.21
EPS (Rs/share)	67.6	16.2	16.1		16.1	13.0		49.6	38.5	

Source: Company data, Kotak Institutional Equities estimates.

Maruti Suzuki India, change in estimates, March fiscal year-ends (Rs mn)

	Revised estimates			Old estimates			% change		
	2008	**2009**	**2010**	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**
Net sales	182,032	225,681	263,132	184,083	224,346	260,914	(1.1)	0.6	0.8
EBITDA	29,044	41,367	47,064	33,522	41,490	46,858	(13.4)	(0.3)	0.4
PAT	19,531	25,542	27,642	21,765	25,680	27,559	(10.3)	(0.5)	0.3
EPS (Rs/share)	67.6	88.4	95.6	75.3	88.9	95.4	(10.3)	(0.5)	0.3
Sales volume (vehicles sold)	802,000	967,000	1,110,000	809,000	967,000	1,110,000	(0.9)	-	-

Source: Kotak Institutional Equities estimates.

Maruti, Valuation details (FY2009E basis)

	EBITDA (Rs mn)	EV/EBITDA (X)	EV (Rs mn)	Value (Rs/share)	Comments
FY2009E	41,367	8.0	330,937	1,145	Based on Maruti's historical average EBITDA multiple and FY2009E EBITDA
Less: net debt			(10,102)	(35)	FY2009E net debt
Market capitalisation			**341,039**	**1,180**	
Target price				**1,200**	

Source: Company data, Kotak Institutional Equities estimates.

Volume assumptions for Maruti Suzuki, March fiscal year-ends

	2007	2008E	2009E	2010E
Segment-wise sales (no of vehicles)				
Entry (A) segment	79,245	80,000	75,000	50,000
Van-Segment	83,091	80,500	90,000	100,000
Compact (B) segment	440,375	528,500	638,000	756,000
Mid-size (C) segment	29,697	55,000	75,000	75,000
MUV	3,221	3,000	4,000	4,000
Domestic	**635,629**	**747,000**	**882,000**	**985,000**
Exports	39,295	55,000	85,000	125,000
Total	**674,924**	**802,000**	**967,000**	**1,110,000**
Segment-wise sales growth(yoy %)				
Entry (A) segment	(11.0)	1.0	(6.3)	(33.3)
Van-Segment	24.0	(3.1)	11.8	11.1
Compact (B) segment	31.5	20.0	20.7	18.5
Mid-size (C) segment	(7.3)	85.2	36.4	-
MUV	(19.5)	(6.9)	33.3	-
Domestic	**20.6**	**17.5**	**18.1**	**11.7**
Exports	13.0	40.0	54.5	47.1
Total	**20.1**	**18.8**	**20.6**	**14.8**

Source: SIAM, Kotak Institutional Equities estimates.

Consumer Products

ASPN.BO, Rs1104	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	1,110
52W High -Low (Rs)	1300 - 642
Market Cap (Rs bn)	105.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	28.2	34.1	40.6
Net Profit (Rs bn)	2.7	3.7	4.3
EPS (Rs)	28.1	38.3	44.3
EPS gth	*22.0*	*36.1*	*15.8*
P/E (x)	39.2	28.8	24.9
EV/EBITDA (x)	22.9	17.4	14.6
Div yield (%)	1.2	1.4	1.6

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	49.0	-	-
FIIs	19.0	0.2	(0.0)
MFs	2.3	0.2	(0.1)
UTI	-	-	(0.2)
LIC	8.0	0.5	0.3

Asian Paints: Excellent performance in all business segments, target price increased to Rs1,110; maintain ADD rating

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- **Demand environment continues to be robust**
- **Strong rupee aid margin expansion**
- **Capex plans on track**
- **Retain ADD rating, target price increased to Rs1110/share**

Asian Paints reported topline growth of 29.8% (we estimate 37.7%), EBITDA growth of 52.6% (we estimate 56.9%) and PAT growth at 65.4% (we estimate 58.2%). Domestic paint revenues increased 32% yoy during the quarter, largely led by volume growth. Benign raw material costs and positive impact of rupee appreciation (14% yoy) on imported raw materials helped EBITDA expansion of 250 bps in the quarter. We believe positive impact of operating leverage also contributed significantly to the margin expansion. PAT growth was significantly higher at 65.4% due to higher treasury income and lower effective tax rate (down 230 bps). Consolidated sales and net profit grew 25.9% and 66.5%, respectively, continuing with the trend of good growth in past few quarters, confirming the turnaround in performance by subsidiaries. We have revised our estimates to factor in better margins and continued good growth environment. We estimate EPS of Rs39.5 (Rs38.3 previously) for FY2008 and Rs46.1 (Rs44.3 previously) for FY2009. Our DCF-based target price is increased to Rs1,110/ share (Rs1,000/share previously). At 24XFY2009, we believe the stock is trading closer to fair value and retain our ADD rating on the stock.

Demand environment continues to be robust. Conducive demand conditions for the decorative business and higher festive demand due to Diwali in the current quarter (November 9, 2007) aided good performance in the domestic paints business. A blended 1% reduction in prices was undertaken in emulsion paints in December 2007, whereas the company plans to take a blended 1% price hike in solvent-based paints w.e.f. February 1, 2008. The performance of the industrial business unit has also been good due to the performance of the powder and protective coatings business. As per the management, the international business has done well improving its profits for the quarter. The company publishes the financial results of subsidiaries separately with a lag of about three months. We believe the macro environment continues to be robust and supportive of a healthy sales growth and forecast paint revenues to increase at a CAGR of 20% during FY2008-10. The company seems to be focusing on 'profitable growth' in overseas ventures as well. We note that the international operations have turned in significant growth despite a significant appreciation in rupee.

Strong Rupee aids margin expansion. As per the management, benign raw material costs and positive impact of the Rupee's appreciation (14% yoy) on imported raw materials helped EBITDA expansion of 250 bps in the quarter. About 20% of the raw materials for the Indian business are imported. We believe positive impact of operating leverage also contributed significantly to the margin expansion. PAT growth was significantly higher at 65.4% due to higher treasury income and lower effective tax rate (down 230 bps).

Capex plans on track. Asian Paints has a capex plan of about Rs2.75 bn during FY2008 for ramp-up of manufacturing capacity at Sriperumbudur to 100,000 tpa, expansion of industrial coating plant at Taloja, setting up of a new R&D centre and setting up distribution centres and storage facilities to enable better trade servicing. Asian Paints also plans to take up a larger expansion (~150,000 tpa) during CY2009 for setting up a greenfield paints manufacturing facility at Rohtak in Haryana. The company has invested about Rs1.7 bn in the expansion plans and indicated that the expansion plans are on track. The construction for the new Rohtak unit is expected to commence by July 2008 and the plant commissioning by end-2009. The current capacity utilization levels are at a healthy 70%.

Retain ADD rating, target price increased to Rs1110/share. Our long-term DCF-based target price of Rs1110/share implies a P/E of 28X and 24X on FY2008E and FY2009E, respectively. We expect robust growth environment to help Asian Paints deliver an average 18% earnings growth during FY2008-10. Key concerns to our rating include higher than expected impact of raw material costs due to higher crude prices, significant slowdown in construction and housing demand and inability of company to effect adequate price increases.

Asian Paints (unconsolidated) quarterly summary, March year-ends (Rs mn)

		yoy		Our est.	yoy
	3Q 2008	3Q 2007	% chg	3Q 2008	% chg
Net sales	**9,162**	**7,060**	**29.8**	**9,720**	**37.7**
Material cost	(5,262)	(4,218)		(5,735)	
Employee cost	(494)	(380)		(500)	
Other overheads	(1,865)	(1,452)		(1,900)	
Total expense	(7,621)	(6,049)		(8,135)	
EBITDA	**1,541**	**1,010**	**52.6**	**1,585**	**56.9**
Depreciation	(112)	(112)		(132)	
EBIT	1,430	898		1,454	
Other income	169	108		125	
Net interest	(27)	(23)		(18)	
PBT	**1,572**	**983**	**59.9**	**1,561**	**58.8**
Tax	(494)	(332)		(531)	
PAT	**1,077**	**651**	**65.4**	**1,030**	**58.2**
Extraordinary income (loss)	(1)	2			
Net profit	**1,077**	**653**	**64.9**	**1,030**	**57.7**
EBITDA margin (%)	16.8	14.3		16.3	
Effective tax rate (%)	31.4	33.7		34.0	
Costs as % of net sales					
Material cost	57.4	59.7		59.0	
Employee cost	5.4	5.4		5.1	
Other overheads	20.4	20.6		19.5	

Source: Company data, Kotak Institutional Equities.

Asian Paints (Consolidated) quarterly summary, March yearends (Rs mn)

		yoy	
	3Q 2008	3Q 2007	% chg
Net sales	**11,776**	**9,356**	**25.9**
Total operating expenses	(9,921)	(8,122)	
EBITDA	**1,856**	**1,234**	**50.3**
Depreciation	(150)	(147)	
EBIT	1,706	1,088	
Other income	132	76	
Profit from associate company	-	(0)	
Net interest	(54)	(57)	
PBT	**1,783**	**1,108**	**61.0**
Tax	(537)	(357)	
PAT	**1,246**	**750**	**66.1**
Extraordinary income (loss)	(0)	2	
Minority interest & share of profit in associates	(58)	(38)	
Net profit	**1,189**	**714**	**66.5**
EBITDA margin (%)	15.8	13.2	
Effective tax rate (%)	30.1	32.3	

Source: Company data, Kotak Institutional Equities.

Media

JAGP.BO, Rs127	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	145
52W High -Low (Rs)	169 - 60
Market Cap (Rs bn)	38.3

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	6.0	7.6	9.8
Net Profit (Rs bn)	0.7	1.1	1.7
EPS (Rs)	2.4	3.6	5.6
EPS gth	*1.0*	*45.6*	*57.0*
P/E (x)	52.2	35.8	22.8
EV/EBITDA (x)	30.8	20.9	13.1
Div yield (%)	1.2	1.4	2.2

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	3.9	0.0	0.0
MFs	11.4	0.3	0.3
UTI	-	-	-
LIC	1.0	0.0	0.0

Jagran Prakashan: Disappointing 3QFY08 results; fine-tuned estimates; retain ADD

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- **Robust revenue growth led by higher ad revenues during festive season**
- **Higher-than-expected RM and other costs; employee costs inflated by one-time bonus**
- **Investments and losses in new media initiatives to depress earnings in the near term**
- **Fine-tuned estimates; retain ADD and revise 12-month DCF-based TP to Rs145**

JAGP reported 3QFY08 results with net income at Rs259 mn (+46% yoy, +18% qoq), much below our Rs349 mn estimate. Revenues increased 27% yoy to Rs2 bn in 3QFY08 driven by 27% yoy growth in print ad revenues and strong 130% yoy growth in outdoor revenues. JAGP reported 3QFY08 EBITDA at Rs433 mn (+60% yoy, +11% qoq); 3QFY08 EBITDA margins at 21.7% were below 2QFY08 and 1QFY08 EBITDA margins of 22% and 28.1%, respectively, despite 3Q seasonally being the strongest quarter. RM and other expenses increased 12% yoy and 26% yoy, respectively, led by higher circulation and pagination levels for the key print brands (Dainik Jagran and I-Next) and higher direct expenses of new ventures (outdoor and digital media). Our revised 12-month DCF-based target price is Rs145 (Rs147 previously), which reflects roll-forward, higher circulation and higher newsprint prices in perpetuity. Key downside risks stem from the pace of ad growth and competition in key markets.

3QFY08 results analysis

Robust revenue growth. JAGP's 3QFY08 revenues increased 27% yoy and 12% qoq to Rs2 bn (see Exhibit 1), in line with our Rs2 bn estimate, led by the following factors.

1. JAGP's 3QFY08 ad revenues grew a robust 27% yoy to Rs1.31 bn; ad revenues pertaining to the festival season, typically split between 2Q and 3Q, were booked entirely in 3QFY08 in this year. Strong growth in ad spends from education and retailing sectors continued on expected lines.
2. JAGP's 3QFY08 outdoor ad revenues increased strongly by 130% yoy to Rs140 mn due to improved mix and higher utilization of properties. JAGP has about 1,600 properties in several cities across India and is currently churning its portfolio, removing properties which have poor occupancy ratios and adding more high-value properties such as LCDs.
3. Circulation revenues increased 12% yoy to Rs480 mn as a result of increased circulation of JAGP's flagship print brands Dainik Jagran (DJ) and I-Next even as price competition continued in some markets such as Punjab.

Robust EBITDA growth—revenues grew faster than operating expenses. JAGP reported strong 3QFY08 EBITDA at Rs433 mn (+60% yoy, +11% qoq) but below our Rs585 mn estimate. Operating expenses grew to Rs1.56 bn (+21% yoy, +13% qoq), lagging the 27% yoy growth in revenues but still higher than our estimated Rs1.41 bn estimate. RM costs grew 12% yoy despite weak global newsprint prices and appreciating rupee as JAGP's circulation and pagination levels increased considerably. JAGP launched I-Next editions in Varanasi, Allahabad and Agra and its Kanpur and Lucknow editions also gained traction. Pagination levels of flagship brand DJ were higher in order to provide greater value to readers and compete more effectively in some markets.

3QFY08 employee costs increased to Rs241 mn (+35% yoy, +12% qoq) and included a one-time Rs25 mn charge reflecting the impact of revisions to Bonus Act in October 2007; excluding the one-off item, employee expenses at Rs216 mn were in line with our Rs220 mn estimate. Other expenses comprising SG&A and direct expenses on new media initiatives (outdoor and digital) increased to Rs598 mn (+26% yoy, +19% qoq) in 3QFY08; JAGP added over 150 outdoor furniture properties in Mumbai, Aligarh railway station and a high-value LCD in Bangalore during the quarter. We expect investments in these new media initiatives to continue for some more time but are sanguine about the long-term value creation potential of these businesses.

Earnings revisions

We have fine-tuned earnings estimates to factor higher global newsprint prices, higher circulation and higher direct expenses (outdoor, digital). These are partially offset by better visibility on print and outdoor ad revenues. We have fine-tuned our model and our revised FY2008E, FY2009E and FY2010E EPS estimates are Rs3.6 (Rs4.2 previously), Rs5.6 (Rs6.0) and Rs7.5 (Rs7.8), respectively. We give key changes to and major assumptions of our earnings model below.

1. **Print revenue visibility.** We believe that better-than-expected traction on circulation levels of both DJ and I-Next will translate into higher circulation revenues as well as higher ad revenues as advertisers recognize the greater reach and readership of both print brands. Thus, we have increased JAGP's FY2008E, FY2009E and FY2010E print revenues to Rs6.9 bn (Rs6.7 bn previously), Rs8.5 bn (Rs8.2 bn) and Rs9.9 bn (Rs9.5 bn), respectively.
2. **Higher newsprint prices.** The decision by North American and European newsprint producers, most notably AbitibiBowater, to aggressively close capacities led to global newsprint prices increasing US$15/ton each in December 2007 and January 2008 (see Exhibit 6). We have revised our landed newsprint price for FY2008E and FY2009E to US$610/ton (US$600 previously) and US$620/ton (US$580/ton), respectively. Thereafter, we model a newsprint price of US$620/ton in perpetuity versus US$570/ton previously.
3. **Higher circulation and pagination.** JAGP added new editions of I-Next and increased the pagination levels in existing DJ editions aggressively during the quarter. JAGP further plans to launch I-Next and City Plus in new markets over the next few months. Thus, we now model JAGP's raw material costs for FY2008E, FY2009E and FY2010E at Rs2.7 bn (Rs2.3 bn previously), Rs2.9 bn (Rs2.4 bn) and Rs3.1 bn (Rs2.5 bn), respectively; the increase also reflects higher newsprint prices as discussed above.
4. **New media ventures.** As discussed, JAGP's outdoor division is currently adjusting its portfolio of properties. JAGP is also investing heavily into its digital arm but the business will take more time to start contributing to earnings than we previously estimated. We model revenues from JAGP's new media ventures for FY2008E and FY2009E at Rs591 mn (Rs643 mn previously) and Rs1.2 bn (Rs1.1 bn), respectively, and expenses at Rs576 mn (Rs520 mn previously) and Rs943 mn (Rs 829 mn), respectively.

Jagran Prakashan consolidated interim results, March fiscal year-ends (Rs mn)

		qoq			yoy			yoy		
	2008E	3Q 2008	2Q 2008	% chg	3Q 2008	3Q 2007	% chg	9M 2008	9M 2007	% chg
Revenues	**7,638**	**1,990**	**1,772**	***12%***	**1,990**	**1,561**	***27%***	**5,596**	**4,345**	***29%***
Advertisement revenues	5,053	1,312	1,166	*13%*	1,312	1,030	*27%*	3,745		
Circulation revenues	1,892	480	463	*4%*	480	427	*12%*	1,384		
Outdoor revenues	491	140	105	*33%*	140	61	*130%*	335		
Other revenues	202	59	38	*53%*	59	43	*36%*	133		
Total expenditure	**(5,836)**	**(1,558)**	**(1,382)**	***13%***	**(1,558)**	**(1,291)**	***21%***	**(4,259)**	**(3,453)**	***23%***
Inc/(Dec) in inventories	—	1	1		1	3		1	3	
Raw material costs	(2,729)	(719)	(665)	*8%*	(719)	(640)	*12%*	(2,023)	(1,734)	*17%*
Employee costs	(873)	(241)	(216)	*12%*	(241)	(178)	*35%*	(661)	(510)	*30%*
Other expenditure	(2,234)	(598)	(501)	*19%*	(598)	(476)	*26%*	(1,576)	(1,213)	*30%*
EBITDA	**1,802**	**433**	**390**	***11%***	**433**	**270**	***60%***	**1,338**	**892**	***50%***
EBITDA margin (%)	**23.6**	**21.7**	**22.0**		**21.7**	**17.3**		**23.9**	**20.5**	
Other income	224	56	37	*52%*	56	73	*-23%*	182	197	*-7%*
Interest & finance charges	(69)	(14)	(14)	*-1%*	(14)	(16)	*-12%*	(49)	(53)	*-9%*
Depreciation	(335)	(89)	(83)	*7%*	(89)	(58)	*53%*	(242)	(163)	*49%*
Pretax profits	**1,621**	**386**	**330**	***17%***	**386**	**269**	***43%***	**1,229**	**873**	***41%***
Extraordinary items	—	—	—		—	—		—	(17)	
Provision for tax	(551)	(127)	(110)	*15%*	(127)	(92)	*38%*	(403)	(290)	*39%*
Net income	**1,070**	**259**	**220**	***18%***	**259**	**177**	***46%***	**827**	**566**	***46%***
PBT (%)	21.2	19.4	18.6		19.4	17.2		22.0	20.1	
Tax rate (%)	*34.0*	*32.9*	*33.3*		*32.9*	*34.2*		*32.8*	*33.3*	

Source: Company, Kotak Institutional Equities estimates.

Our DCF-based target price for Jagran Prakashan is Rs145

Discounted cash flow analysis of Jagran Prakashan (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	1,802	2,877	3,832	4,874	5,803	6,633	7,493	8,412	9,315	10,312	10,931	11,587
Tax expense	(486)	(860)	(1,167)	(1,505)	(1,805)	(2,072)	(2,349)	(2,646)	(2,918)	(3,233)		
Changes in working capital	(313)	(423)	(407)	(423)	(374)	(358)	(384)	(414)	(429)	(472)		
Cash flow from operations	**1,002**	**1,594**	**2,258**	**2,946**	**3,624**	**4,203**	**4,761**	**5,351**	**5,967**	**6,607**		
Capital expenditure	(1,175)	(989)	(1,029)	(1,071)	(1,114)	(1,160)	(1,207)	(1,257)	(1,594)	(1,656)		
Free cash flow to the firm	**(173)**	**606**	**1,229**	**1,875**	**2,510**	**3,044**	**3,554**	**4,094**	**4,373**	**4,951**	**5,248**	**5,563**
Discounted cash flow-now	(169)	528	952	1,291	1,536	1,655	1,718	1,760	1,670	1,681		
Discounted cash flow-1 year forward		594	1,071	1,453	1,728	1,862	1,933	1,980	1,880	1,891	1,782	

Discount rate (%)	**12.50**
Growth from 2017 to perpetuity (%)	**6.00**

	Now		+ 1-year	
Total PV of free cash flow (a)	**12,622**	**34%**	**16,173**	**38%**
FCF in terminal year	5,248		5,563	
Exit FCF multiple (X)	15.4		15.4	
Terminal value	80,740		85,584	
PV of terminal value (b)	**24,864**	**66%**	**26,355**	**62%**
EV (a) + (b)	37,486		42,529	
EV (US$ mn)	949		1,077	
Net debt	(1,392)		(753)	
Equity value	**38,878**		**43,282**	
Implied share price (Rs)	**129**		**144**	
Exit EV/EBITDA multiple (X)	7.8		7.8	

Sensitivity of share price to different levels of WACC and growth rate (Rs)

	WACC (%)					
Growth rate (%)	**11.0**	**12.0**	**12.5**	**13.0**	**13.5**	**14.0**
-	112	101	96	92	88	84
1.0	119	106	101	96	91	87
2.0	127	112	106	101	95	91
3.0	137	120	113	106	100	95
4.0	150	129	121	113	106	100
5.0	166	141	131	122	114	107
6.0	190	157	**144**	133	123	115
7.0	226	179	162	147	135	125
8.0	285	212	188	168	152	139

Source: Kotak Institutional Equities estimates.

We model Jagran's revenues to grow strongly led by growth in print and outdoor advertisement revenues
Derivation of revenues of Jagran Prakashan, March fiscal year-ends, 2005-2012E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Advertisement revenues								
Kanpur	479	607	771	967	1,188	1,404	1,663	1,884
NCR	334	427	530	666	817	966	1,144	1,297
Lucknow	263	332	416	523	648	767	909	1,030
Others	1,255	1,705	2,170	2,896	3,763	4,518	5,292	6,023
Total print advertisement revenues	**2,332**	**3,071**	**3,887**	**5,053**	**6,416**	**7,655**	**9,009**	**10,234**
Outdoor revenues	—	14	168	491	998	1,626	2,280	2,877
Total outdoor advertisement revenues	**—**	**14**	**168**	**491**	**998**	**1,626**	**2,280**	**2,877**
Total advertisement revenues	**2,332**	**3,085**	**4,056**	**5,544**	**7,414**	**9,281**	**11,289**	**13,111**
Other revenues								
Circulation revenues	1,375	1,603	1,681	1,892	2,072	2,218	2,319	2,424
Digital media	11	42	138	100	250	325	390	429
Others	52	71	114	102	107	112	118	124
Total revenues	**3,770**	**4,802**	**5,988**	**7,638**	**9,843**	**11,936**	**14,115**	**16,087**
Growth (%)	**—**	**27.4**	**24.7**	**27.5**	**28.9**	**21.3**	**18.3**	**14.0**

Source: Company data, Kotak Institutional Equities estimates.

Profit model of Jagran Prakashan, March fiscal year-ends, 2005-2013E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Total revenues	**3,764**	**4,805**	**5,982**	**7,638**	**9,843**	**11,936**	**14,115**	**16,087**	**17,995**
Raw material costs	(2,037)	(2,232)	(2,344)	(2,729)	(2,942)	(3,111)	(3,294)	(3,514)	(3,750)
Other production costs	(135)	(163)	(188)	(211)	(232)	(248)	(259)	(271)	(280)
Employee costs	(450)	(567)	(704)	(873)	(1,001)	(1,162)	(1,347)	(1,522)	(1,719)
SG&A costs	(883)	(1,142)	(1,548)	(2,023)	(2,792)	(3,584)	(4,341)	(4,978)	(5,613)
EBITDA	**259**	**702**	**1,198**	**1,802**	**2,877**	**3,832**	**4,874**	**5,803**	**6,633**
Other income	10	63	248	224	206	209	208	206	236
Interest	(68)	(76)	(85)	(69)	(65)	(79)	(64)	(21)	—
Depreciation	(176)	(201)	(237)	(335)	(473)	(525)	(576)	(626)	(676)
Pretax profits	**25**	**488**	**1,124**	**1,621**	**2,545**	**3,438**	**4,443**	**5,362**	**6,193**
Extraordinary items	(5)	(30)	27	—	—	—	—	—	—
Current tax	(2)	(57)	(372)	(481)	(847)	(1,151)	(1,493)	(1,807)	(2,091)
Deferred tax	(6)	(84)	(17)	(70)	(18)	(17)	(17)	(15)	(14)
Net income	13	317	762	1,070	1,680	2,269	2,933	3,540	4,088
Adjusted net income	**16**	**338**	**744**	**1,070**	**1,680**	**2,269**	**2,933**	**3,540**	**4,088**
Dividend paid (excl. tax)	100	201	452	535	840	1,135	1,466	1,770	2,044
Dividend tax	14	28	63	91	143	193	249	301	347
Shares outstanding (mn)									
Year end	195.0	301.2	301.2	301.2	301.2	301.2	301.2	301.2	301.2
Primary	195.0	205.5	301.2	301.2	301.2	301.2	301.2	301.2	301.2
Fully diluted	195.0	205.5	301.2	301.2	301.2	301.2	301.2	301.2	301.2
EPS (Rs)									
Primary	0.1	1.6	2.5	3.6	5.6	7.5	9.7	11.8	13.6
Fully diluted	**0.1**	**1.6**	**2.5**	**3.6**	**5.6**	**7.5**	**9.7**	**11.8**	**13.6**
Cash flow per share (Rs)									
Primary	1.0	3.2	2.8	4.2	6.5	8.6	11.0	13.2	15.1
Fully diluted	**1.0**	**3.2**	**2.8**	**4.2**	**6.5**	**8.6**	**11.0**	**13.2**	**15.1**
Growth (%)									
Net income (adjusted)	—	2,011	120	44	57	35	29	21	15
EPS (adjusted)	—	1,903	50	44	57	35	29	21	15
DCF/share	—	221	(12)	48	57	32	27	20	14
Cash tax rate (%)	**—**	**11.6**	**33.1**	**29.7**	**33.3**	**33.5**	**33.6**	**33.7**	**33.8**
Tax rate (%)	**—**	**28.9**	**34.6**	**34.0**	**34.0**	**34.0**	**34.0**	**34.0**	**34.0**

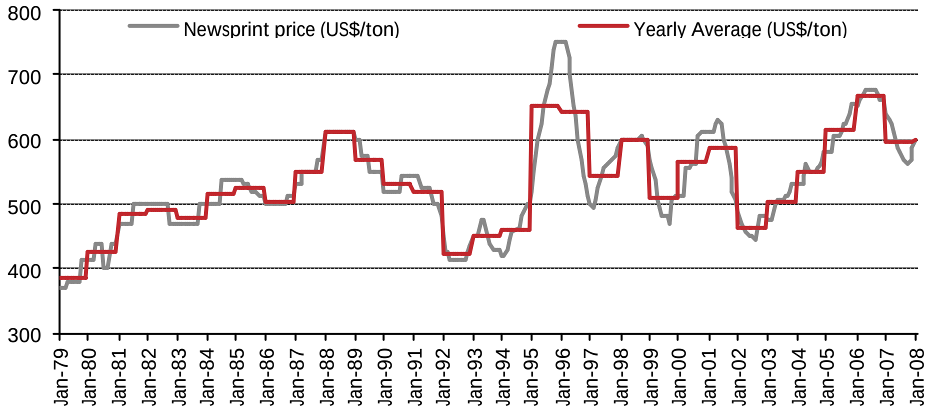
Source: Company, Kotak Institutional Equities estimates.

Profit model, balance sheet and cash model of Jagran Prakashan, March fiscal year-ends, 2005-2012E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model								
Net sales	3,764	4,805	5,982	7,638	9,843	11,936	14,115	16,087
EBITDA	**259**	**702**	**1,198**	**1,802**	**2,877**	**3,832**	**4,874**	**5,803**
Other income	10	63	248	224	206	209	208	206
Interest	(68)	(76)	(85)	(69)	(65)	(79)	(64)	(21)
Depreciation	(176)	(201)	(237)	(335)	(473)	(525)	(576)	(626)
Pretax profits	**25**	**488**	**1,124**	**1,621**	**2,545**	**3,438**	**4,443**	**5,362**
Extraordinary items	(5)	(30)	27	—	—	—	—	—
Current tax	(2)	(57)	(372)	(481)	(847)	(1,151)	(1,493)	(1,807)
Deferred taxation	(6)	(84)	(17)	(70)	(18)	(17)	(17)	(15)
Net income	**13**	**317**	**762**	**1,070**	**1,680**	**2,269**	**2,933**	**3,540**
Adjusted net income	16	338	744	1,070	1,680	2,269	2,933	3,540
Earnings per share (Rs)	**0.1**	**1.6**	**2.5**	**3.6**	**5.6**	**7.5**	**9.7**	**11.8**
Balance sheet								
Total equity	687	4,867	5,111	5,555	6,252	7,194	8,411	9,880
Deferred taxation liability	284	368	384	454	472	489	506	521
Total borrowings	1,304	1,165	1,067	716	900	1,000	500	-
Current liabilities	398	359	652	858	926	980	1,036	1,104
Total liabilities and equity	**2,672**	**6,759**	**7,215**	**7,582**	**8,550**	**9,663**	**10,454**	**11,506**
Cash	113	1,746	1,013	469	430	578	394	516
Other current assets	1,298	1,654	2,108	2,626	3,117	3,579	4,058	4,500
Total fixed assets	1,255	1,598	2,645	3,485	4,001	4,505	4,999	5,488
Investments	7	1,760	1,446	1,000	1,000	1,000	1,000	1,000
Miscellaneous expenditure	—	2	2	2	2	2	2	2
Total assets	**2,672**	**6,759**	**7,215**	**7,582**	**8,550**	**9,663**	**10,454**	**11,506**
Free cash flow								
Operating cash flow, excl. working capital	194	655	846	1,252	1,965	2,602	3,317	3,975
Working capital changes	(60)	(358)	(230)	(313)	(423)	(407)	(423)	(374)
Capital expenditure	(342)	(550)	(1,243)	(1,175)	(989)	(1,029)	(1,071)	(1,114)
Income from investments	5	31	179	224	206	209	208	206
Free cash flow	**(204)**	**(223)**	**(448)**	**(13)**	**760**	**1,376**	**2,031**	**2,693**
Ratios (%)								
Debt/equity	57	18	16	11	12	12	5	—
Net debt/equity	55	(12)	1	4	7	5	1	(5)
ROAE (%)	—	11.5	12.5	17.9	24.3	28.7	33.1	36.0
ROACE (%)	**—**	**5.0**	**5.3**	**7.6**	**11.3**	**13.8**	**16.2**	**17.7**

Source: Company, Kotak Institutional Equities estimates.

Newsprint prices have started to rise as the supply surplus in North America reduces
Historical newsprint price, US East Coast, 1979-2008 (US$/ton)



Source: PPPC, Pulp and Paper Weekly, compiled by Kotak Institutional Equities.

Industrials

SUZL.BO, Rs341	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	450
52W High -Low (Rs)	460 - 186
Market Cap (Rs bn)	514.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	79.9	131.9	192.0
Net Profit (Rs bn)	8.6	11.9	21.7
EPS (Rs)	6.0	7.9	13.8
EPS gth	*14.2*	*31.8*	*74.8*
P/E (x)	56.8	43.1	24.7
EV/EBITDA (x)	38.9	26.7	17.2
Div yield (%)	0.3	1.5	1.5

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	69.0	-	-
FIIs	21.3	1.0	(0.0)
MFs	1.8	0.5	(0.5)
UTI	-	-	(1.0)
LIC	-	-	(1.0)

Suzlon Energy: Miss expectations with lower-than-expected execution, margins pressures, seasonal weakness and several one-off issues

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- **Miss expectations with lower than expected execution, margins pressures, seasonal weakness and several one-off issues**
- **Several one-off issues affect execution, margins, and taxation**
- **Strong order inflows, led by repeat orders from large clients as well as new geographies, builds growth visibility**
- **Revise estimates downwards on lower margin expectations versus earlier**
- **Revise target price to Rs400 (from Rs450 earlier), maintain ADD rating on the stock**

Suzlon has reported consolidated revenues of Rs31.7 bn (up 66% yoy) and PAT of Rs1.52 bn (down 12% yoy) versus our expectation of revenues of Rs32.5 bn and PAT of Rs2.82 bn. Execution has been lower-than-expected at 545 MW versus our expectation of 575 MW. Several one-off issues have affected execution, margins and have led to increased effective tax rate. Suzlon's order book stands at Rs171 bn and 3,358 MW as of 25 January 08 (Exhibit 2). The order booking is also diversified in geographical terms, with inclusion of orders from Brazil, Australia and China as well as addition of several large customers in India in recent times such as DLF and ONGC. We have revised our earnings estimates for Suzlon for FY2008E and FY2009E to Rs6.8 and Rs13.3 versus Rs7.9 and Rs13.8 earlier. Revision in earnings estimates reflect following changes (a) lower margins expectations - we have lowered our consolidated margin expectation to 13.4% and 15.6% for FY2008E and FY2009E versus 16.3% and 16.9% earlier, (b) slightly higher execution of 2,453 and 3,538 MW in FY2008E and FY2009E versus earlier assumption of 2,370 and 3,410 MW, (c) lower effective tax rate to account for full benefit of sales from China and SEZs in India. We reduce our target price to Rs400/share (from Rs450 earlier). We maintain ADD rating even though Suzlon's near-term execution and margins remain under pressure as we expect Suzlon to benefit from its superior growth platform in a strong global environment.

Miss expectations with lower-than-expected execution, margins pressures, seasonal weakness and several one-off issues

Suzlon has reported consolidated revenues of Rs31.7 bn (up 66% yoy) and PAT of Rs1.52 bn (down 12% yoy) versus our expectation of revenues of Rs32.5 bn and PAT of Rs2.82 bn. Execution has been lower-than-expected at 545 MW versus our expectation of 575 MW. Results are significantly weaker than the 2QFY08 results led by (a) seasonal weakness (reflecting in lower execution qoq) and (b) 2Q results were aided by reduction in in-transit inventory (from 178 MW in 1QFY08 to 38 MW in 2QFY08, which aided in achieving higher revenues. Consolidated EBITDA margins in 3QFY08 were 12.3%, down 100 bps yoy and up 390 bps qoq. Suzlon's execution and margins have been lower-than-expected while effective tax rate for the quarter has been significantly higher at 38% (versus 9% in 1HFY08) because of several one-off issues (Exhibit 1).

Several one-off issues affect execution, margins, and taxation

Suzlon has reported several one off issues that impact the results. We categorize the issues in terms of their impact on execution, margins and taxation.

Execution-related issues

- Sales return in Italy. Suzlon has reported that it has written back sales of 21 MW of wind turbines in Italy that had been booked previously as the customer has faced problems in executing the planned wind farm.
- Non delivery of turbines in China. Suzlon has been unable to deliver about 48MW of turbines in China due to local issues.

Margin-related issues

- Customs duty in USA. US has introduced a duty of 2.5% of nacelle value that is imported in US and thus Suzlon's costs have gone up to the extent that it has not been able to pass on the duty to its customers (amounting to Rs140 mn for the 3QFY08). We believe that this may continue to affect execution of all the US orders in Suzlon's order book that have been won before introduction of this duty.
- Site level issues in Maharashtra (Dhule and Sangli). Because of problems in execution of new turbines as well as power generation from existing ones, Suzlon had to take an additional cost of Rs150 mn to shift near-term execution to other wind farm sites, incurring costs on mobilizing resources etc.
- Cracks in rotor blades in US geography. Suzlon has reported that there have been instances of rotor blade fracture in turbines supplied to US (34 blades on 160 turbines supplied so far). Repair and replacement cost of these blades have amounted to Rs190 mn in 3QFY08. We highlight that this could (a) negatively impact Suzlon's reputation as a high quality supplier, (b) cost much more to repair and replace than the amount booked in 3QFY08 and (c) emerge as a systemic problem in turbines supplied in oter geographies as well.

Taxation-related issues

- Reversal of deferred tax asset in US. Suzlon has reversed a deferred tax asset created earlier in USA as that asset in unlikely to be utilized amounting to Rs200 mn.
- Hedging activities in Brazil and Denmark. Suzlon had to bear additional tax of Rs280 mn related to hedging activities. Hedging related to sales in Brazil was carried in two different subsidiaries in Brazil and Denmark. Brazilian subsidiary booked a gain on which it had to pay tax while the corresponding loss booked in other subsidiary was not tax deductible.

Strong order inflows, led by repeat orders from large clients as well as new geographies, builds growth visibility further

Suzlon's order book stands at Rs171 bn and 3,358 MW as of 25 January 08 (Exhibit 2). The order booking is also diversified in geographical terms, with inclusion of orders from Brazil, Australia and China as well as addition of several large customers in India in recent times such as DLF and ONGC. (Exhibit 3).

Revise estimates downwards on lower margin expectations versus earlier

We have revised our earnings estimates for Suzlon for FY2008E and FY2009E to Rs6.8 and Rs13.3 versus Rs7.9 and Rs13.8 earlier. Revision in earnings estimates reflect following changes (a) lower margins expectations – We have lowered our consolidated margin expectation to 13.4% and 15.6% for FY2008E and FY2009E versus 16.3% and 16.9% earlier, (b) slightly higher execution of 2,453 and 3,538 MW in FY2008E and FY2009E versus earlier assumption of 2,370 and 3,410 MW, (c) lower effective tax rate to account for full benefit of sales from China and SEZs in India. We have reduced our effective tax rate for FY2008E and FY2009E to 14.8% and 14.4% respectively versus our earlier calculation of 17.1% and 16% respectively.

Reduce target price to Rs400/share, maintain ADD rating as we expect Suzlon to benefit from superior growth platform in a strong global demand environment

We reduce our target price to Rs400/share (from Rs450 earlier) in line with reduction in earnings. We maintain ADD rating on the stock even though Suzlon's execution and margins remain under pressure in the near-terrn. We highlight that Suzlon should benefit over the medium term from (a) global momentum in wind power equipment demand, (c) strong platform in terms of breadth and depth of manufacturing, marketing and R&D capabilities and (d) significant expansion in vertically integrated capacity that creates opportunities for Suzlon to gain market share in a strong growth market.

Key downside risks arise from (1) rupee appreciation, (2) supply chain constraints (that continue to confront the industry globally) hindering execution, (3) delays in execution of the large capacity expansion plans, across Suzlon, Hansen and Repower, (4) emergence of competitors (attracted by the high equity returns), especially from low-cost manufacturing countries like China and (5) new technologies, like gearless wind-turbines, becoming more competitive.

Exhibit 1. Suzlon Energy - 3QFY08 consolidated results (Rs mn)

		yoy			qoq			yoy		
	FY08E Cons	3QFY08	3QFY07	% change	3QFY08	2QFY08	% change	9MFY08	9MFY07	% change
Income from operations	**135,511**	**31,698**	**19,139**	**65.6**	**31,698**	**36,413**	**(12.9)**	**87,557**	**50,699**	**72.7**
Total Expenditure	(117,295)	(27,809)	(16,593)	67.6	(27,809)	(30,543)	(9.0)	(76,401)	(42,693)	79.0
(Increase) / Decrease in stock in trade	-	812	46	1,661.8	812	(2,841)	(128.6)	295	46	
Raw material consumption	(88,082)	(21,919)	(11,316)	93.7	(21,919)	(20,689)	5.9	(57,109)	(30,306)	88.4
Staff cost	(9,949)	(2,460)	(1,803)	36.5	(2,460)	(2,271)	8.3	(6,960)	(4,663)	49.2
Other expenditure	(19,264)	(4,242)	(3,520)	20.5	(4,242)	(4,743)	(10.6)	(12,627)	(7,770)	62.5
Operating profit	**18,216**	**3,889**	**2,546**	**52.7**	**3,889**	**5,870**	**(33.8)**	**11,156**	**8,006**	**39.3**
Other income	1,914	725	254	185.4	725	535	35.7	1,686	504	234.5
EBIDTA	20,130	4,614	2,800	64.8	4,614	6,404	(28.0)	12,843	8,510	50.9
Interest	(5,019)	(1,565)	(638)	145.3	(1,565)	(1,387)	12.9	(4,031)	(1,548)	160.4
Depreciation	(2,685)	(747)	(343)	118.2	(747)	(583)	28.1	(1,916)	(1,133)	69.2
Profit before tax	12,426	2,302	1,820	26.5	2,302	4,434	(48.1)	6,896	5,830	18.3
Tax	(1,840)	(873)	(93)	844.0	(873)	(457)		(1,290)	(779)	65.6
Net profit	**10,587**	**1,428**	**1,727**	**(17.3)**	**1,428**	**3,978**	**(64.1)**	**5,606**	**5,051**	**11.0**
Extraordinary items	-	89	-	N.A.	89	(31)	N.A.	46	-	N.A.
Reported profit	**10,587**	**1,517**	**1,727**	**(12.2)**	**1,517**	**3,947**	**(61.6)**	**5,653**	**5,051**	**11.9**
Key ratios										
Material cost	65.0	66.6	58.9		66.6	64.6		64.9	59.7	
Staff cost	7.3	7.8	9.4		7.8	6.2		7.9	9.2	
Other expenditure	14.2	13.4	18.4		13.4	13.0		14.4	15.3	
OPM	**13.4**	**12.3**	**13.3**		**12.3**	**16.1**		**12.7**	**15.8**	
EBIDTA margin	14.9	14.6	14.6		14.6	17.6		14.7	16.8	
Pre-tax margin	9.2	7.3	9.5		7.3	12.2		7.9	11.5	
Tax rate	14.8	37.9	5.1		37.9	10.3		18.7	13.4	
PAT margin	7.8	4.5	9.0		4.5	10.9		6.4	10.0	

Source: Company data, Kotak institutional equities estimates.

Exhibit 2: Suzlon sales and order book data in MW and Rs mn

			1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08
Order book	**Physical MW**	Domestic	207	206	372	267	315	369	441
		Export	610	1,237	1,271	1,692	2,567	2,882	2,916
		Total	**817**	**1,443**	**1,643**	**1,958**	**2,882**	**3,251**	**3,357**
	Rs mn	Domestic	8,000	8,242	15,443	14,083	17,100	19,889	24,040
		Export	29,590	58,137	61,719	80,780	117,900	143,392	147,030
		Total	**37,590**	**66,379**	**77,162**	**94,863**	**135,000**	**163,280**	**171,070**
Sales	**Physical MW**	Domestic	171	216	190	379	125	238	
		Export	25	172	149	154	192	445	
		Total	**196**	**388**	**339**	**533**	**317**	**683**	

Source: Company data, Kotak Institutional Equities

Exhibit 3: Order inflows for Suzlon from FY07 onwards have remained strong

Major orders booked by the Suzlon group from FY2007 so far

		Capacity (MW)	Delivery schedule (MW)		
Announcement date	**Customer**		**CY07**	**CY08**	**CY09**
9-Jan-08	Jingneng Group, China	100		100	
7-Jan-08	Eolia Renovables SRC S.A, Spain	42.5		42.5	
24-Dec-07	ONGC, Gujarat	51			
19-Nov-07	AGL Energy, Australia	34			71
19-Nov-07	Sydney's Renewable Power Ventures, Australia	132			132
8-Oct-07	Horizon Wind of Houston, Texas, USA	400.0	-	200.0	200.0
5-Oct-07	Servtec Instalacoses E Sistemas Integrados Ltda, Brazil	155.0	-	155.0	-
3-Oct-07	DLF Limited, India	150.0	-	150.0	-
27-Sep-07	Ayen Enerji Co. Inc, Turkey	31.5	-	31.5	-
29-Jun-07	PPM Energy of Portland, Oregon, USA	300.0	-	-	300.0
6-Jun-07	Edison Mission Group of Irvine, California, USA	630.0	-	315.0	315.0
3-May-07	PPM Energy of Portland, Oregon, USA	400.0	-	300.0	100.0
10-Apr-07	Tierra Energy of Austin, Texas, USA	88.2	-	88.2	-
6-Mar-07	Reliance Energy Limited, India	150.0	112.5	37.5	-
29-Jan-07	British Petroleum	40.0	40.0	-	-
29-Jan-07	Snowtown Wind Farm Pty Ltd, Australia	88.2	88.2	-	-
27-Oct-06	China	50.0	50.0	-	-
13-Oct-06	SIIF Energies do Brasil Ltda, Brazil	225.0	150.0	75.0	-
18-Sep-06	John Deere Wind Energy, USA	247.0	247.0	-	-
4-Sep-06	Edison Mission Group of Irvine, California, USA	105.0	52.5	52.5	-
23-Aug-06	Maestrale Green Energy, Italy	21.0	21.0	-	-
23-Aug-06	Tecneira - Technologias Energeticas SA, Portugal	39.9	39.9	-	-
18-Jul-06	Datang International	40.0	40.0	-	-
18-Jul-06	Edison Mission Group of Irvine, California, USA	105.0	52.5	52.5	-
	Total large order booking from FY2007 so far	**3,265.8**	**893.6**	**1,599.7**	**1,118.4**

Source: Company, Kotak Institutional equities estimates.

Utilities

TTPW.BO, Rs1312	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	1,540
52W High -Low (Rs)	1641 - 483
Market Cap (Rs bn)	305.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	64.8	73.4	80.4
Net Profit (Rs bn)	5.7	6.9	8.9
EPS (Rs)	26.6	29.7	38.1
EPS gth	*(0.1)*	*12.0*	*29.3*
P/E (x)	49.4	44.2	34.4
EV/EBITDA (x)	28.2	28.9	25.7
Div yield (%)	0.6	0.7	0.7

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	35.5	-	-
FIIs	17.3	0.4	(0.1)
MFs	4.8	0.6	0.2
UTI	-	-	(0.4)
LIC	11.0	1.3	0.8

Tata Power: 3QFY08: Core business performance remains on track; retain ADD rating

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- **Tata Power plans to enhance its generation capacity to 14 GW in the next five years**
- **Bumi adds further value (Rs490/share) based on likely upward revision in production output**
- **SOTP based target price of Rs1,540/share(Rs1,450 previously)**

Tata Power (TPC) reported 14.2% growth in revenues at Rs14.2 bn and 22.3% growth in EBITDA at Rs2.6 bn during 3QFY08 against our estimate of Rs15.3 bn and Rs2.8 bn respectively. Revenues and EBITDA were lower than our estimates due to 18% yoy decline in revenues from non-power businesses. We have adjusted the reported numbers for reversal of provisioning for tax (Rs294.2 mn) and retirement benefits (Rs104.4 mn). We note that TPC has filed a petition seeking the review of the tariff order of FY2007 and has not made any adjustments in the accounts for adjustments to statutory/contingency reserves. We have reduced our EPS estimates to Rs29.7 (Rs32.2 previously) for FY2008E and Rs38.1 (Rs42 previously) for FY2009E to reflect lower revenues and profits from non-power businesses. We retain our ADD rating on TPC with a SOTP based target price to Rs1,540 (Rs1,450 previously). We have increased target price to factor in higher value for the stake in coal mines in Indonesia. We value TPC's 30% stake in Bumi at Rs490/share (Rs430/share previously) based on consensus target price of Bumi Resources.

Core power business performance remains on track. Operating profit from power business grew 42.3% yoy to Rs2.1 bn. Revenues from non-power business have declined by 40% for the nine month period. We have revised our estimates for TPC to factor in lower revenues from non-power business. Reported profits for the quarter include (1) Tax write back of Rs294 mn (2) reversal of provisioning for employee benefits (Rs104 mn) (3) sale of long term investment (Rs228 mn) and (4) gain on account appreciating rupee (Rs46 mn).

Tata Power plans to enhance its generation capacity to 14 GW in the next five years. TPC is implementing the imported coal based 4,000 MW Ultra Mega Power Project at Mundra in Gujarat which it won through a competitive bidding. We note visible progress in other power projects – 250 MW imported coal based power plant at Trombay, 100 MW DG sets for Mumbai, 120 MW met coke based project at Haldia, 120 MW thermal power plant for Tata Steel, 100 MW wind power in Maharashtra and the 1,050 MW Maithon Right Bank Thermal Power Project in JV with Damodar Valley Corporation. TPC also plans to implement 1,600-2,400 MW imported coal based power project in Maharashtra; 2,000 MW power plant for Tata Steel; 300 MW Wind Farm and a possible JV (as per media reports) with Indian Oil Corporation for 1000 MW. TPC is also likely to participate in the competitive bidding for the UMPP in Jharkhand.

Bumi adds further value (Rs490/share) based on likely upward revision in production output. We have increased the value accretion from TPC's stake in Bumi to Rs490/share (Rs431/share previously). According to media reports, the Government of Indonesia has approved revised production plans for coal mined from PT Kaltim Prima and PT Arutimin by 23% yoy to 66 mn tonnes. The firm price trend in the international coal market along with increased production plans has resulted in a revision in the target price of Bumi Resources to IDR7,300 (IDR6,600 previously). We value TPC's 30% stake in the coal business of PT Bumi Resources TBK (Bumi) at US$2.8 bn—11X P/B of its equity investment of US$250 mn. TPC management has indicated that the two transactions—(1) purchase of stake in coal mines owned by Bumi Resources and (2) the contract for 10 mn tpa of coal from Bumi Resources—are not interdependent. The stake in Bumi Resources thus only acts as a hedge against the requirement of imported coal for the Mundra UMPP. With a targeted production level of 100 mn tonnes in five years, 30% stake in Bumi Resources gives TPC an economic benefit of 30 mn tonnes. Out of this, 12 mn tonnes of coal acts as a natural hedge for coal required for the Mundra UMPP. TPC thus will enjoy economic benefit of ~18% (18 mn tonnes out of 100 mn tonnes) in the coal mines in Indonesia. We subtract the debt taken for acquisition (US$1.05 bn) of these coal mines to arrive at a value of US$2.5 bn (Rs490/share).

TPC had acquired 30% stake in the coal business of Bumi for a consideration of US$1.3 bn. TPWR has correspondingly entered into a fuel supply agreement for 10 mtpa of high grade coal to be exported from Bumi's mines—Arutmin and Kalimantan for a period of 10 years.

SOTP based target price of Rs1,540/share. We have revised our SOTP based target price to Rs1,540 (Rs1,450 previously) to factor in higher value for the acquisition of Bumi Resources. We value TPC's 30% stake in Bumi at Rs490/share (Rs430/share previously) based on consensus target price of Bumi Resources. The operating businesses of TPC contribute Rs230/share to our target price. This comprises Rs152/share for the Mumbai licence area valued using DCF (implying 2X P/B), Rs39/share for generation assets at Jojobera (P/B of 2X), Rs14/share for 51% stake in Tala transmission project (P/B of 1.4X) and Rs25/share for the 49% stake in Delhi distribution business of NDPL (implied P/B of 1.5X). We value TPC's 49% stake in Tata BP Solar at Rs66/share. The telecom investments are valued at Rs323/share. We use DCF-to-equity to assign Rs144/share, Rs28/share and Rs26/share as the likely value enhancement from Mundra UMPP (4,000 MW), Maithon JV (1,050 MW) and merchant power (500 MW) respectively. Value enhancement from new projects (50% likelihood scenario) contributes additional Rs165/share.

Tata Power, Quarterly performance, March yearends (Rs mn)

		yoy		Our Estimates	
	Dec-07	**Dec-06**	***(% chg)***	**Dec-07E**	***(% chg)***
Net sales	**14,194**	**12,428**	***14.2***	**15,320**	***23.3***
Total expenses	(11,617)	(10,321)	*12.6*	(12,518)	
EBITDA	**2,577**	**2,108**	***22.3***	**2,802**	***33.0***
Depreciation	(705)	(735)		(730)	
EBIT	1,873	1,373		2,072	
Other income	414	460		650	
Net interest	(432)	(510)		(580)	
PBT	**1,855**	**1,322**	***40.3***	**2,142**	***62.0***
Tax	(281)	(125)		(351)	
Deferred tax	—	8		-	
Net Profit	**1,574**	**1,205**	***30.6***	**1,791**	***48.6***
Extraordinary	399	1,594		—	
EBITDA margin (%)	18.2	17.0		18.3	
Effective tax rate (%)	15.2	8.9		16.4	
Segment Revenues					
Power Business	14,051	12,257	*14.6*		
Others	143	174	*(18.0)*		
Total	**14,194**	**12,431**			
Less: Inter segment revenues	-	3			
Net revenues	**14,194**	**12,428**			
EBIT					
Power Business	2,121	1,491	*42.3*		
Others	(3)	(57)			
Total	**2,118**	**1,434**	***47.7***		
EBIT Margin (%)					
Power Business	15.1	12.2			
Others	(1.9)	(32.7)			

Source: Company data, Kotak Institutional Equities.

Tata Power: Profit model, balance sheet, cash model 2006-2010E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)					
Net sales	56,955	64,756	73,389	80,435	88,322
EBITDA	**9,986**	**10,786**	**11,487**	**13,772**	**15,210**
Other income	1,758	2,671	2,578	3,023	2,504
Interest	(1,807)	(2,833)	(2,214)	(2,215)	(2,534)
Depreciation	(3,457)	(4,148)	(3,568)	(4,080)	(4,560)
Extraordinary items	1,571	1,877	0	0	0
Pretax profits	8,052	8,353	8,284	10,500	10,621
Tax	(1,625)	(816)	(1,368)	(1,615)	(1,328)
Minority Interest	1,104	6	0	0	0
Net profits	**7,532**	**7,544**	**6,915**	**8,886**	**9,293**
Earnings per share (Rs)	**23**	**27**	**29.7**	**38.1**	**39.9**
Balance sheet (Rs mn)					
Total equity	54,183	59,479	70,516	88,261	97,674
Deferred taxation liability	336	458	1,315	1,858	1,808
Total borrowings	42,285	51,784	79,806	96,959	135,335
Currrent liabilities	17,100	22,238	21,007	22,881	24,893
Capital contribution from Consumers	636	758	758	758	758
Minority Interest	2,068	2,496	2,496	2,496	2,496
Total liabilities and equity	**116,607**	**137,214**	**175,898**	**213,214**	**262,963**
Cash	10,793	14,024	6,057	3,062	(1,795)
Current assets	22,105	29,293	30,093	32,781	35,760
Total fixed assets	54,788	63,001	64,664	70,286	73,914
Investments	28,632	30,833	75,022	107,022	155,022
Deferred Expenditure	289	62	62	62	62
Total assets	**116,607**	**137,214**	**175,898**	**213,214**	**262,964**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	8,635	10,255	10,378	13,002	13,145
Working capital	(4,683)	(2,849)	(719)	(949)	(905)
Capital expenditure	(9,487)	(11,054)	(4,924)	(9,394)	(7,783)
Investments	1,401	(2,010)	(44,387)	(32,000)	(48,000)
Free cash flow	**(4,135)**	**(5,659)**	**(39,653)**	**(29,342)**	**(43,542)**

Source: Kotak Institutional Equities estimates.

Tata Power Sum-of-the-parts valuation

	Methodology	Key assumptions/comments	Per share value (Rs)
Mumbai (Generation, transmission & distribution business)	**DCFe** Disc. Rate: 10% Term. Yr. Grth: 2%	The business enjoys very high predictability of cash flows. We have not built in (1) likely incremental capacity creation in Mumbai (beyond the 250 MW already under construction), and (2) likely incremental investment in the event of the company getting a distribution license	152
Jojobera generation business	**DCFe** Disc. Rate: 10% Term. Yr. Grth: 0%	The project enjoys pretty lucrative terms in its PPA: Assured RoE of 16% plus incentive on PLF higher than 75%. We assign a value of 2x book as FCFe likely to be 20% Capacity (MW) 428; Equity (Rs bn) 4.5 Assumed cost/MW 35; Attributable debt (Rsbn) 6.0 Total Cost (Rs bn) 15.0	39
Powerlinks Transmission Ltd	**Price/Book (x)**	We value the equity investment at 1.4X book: The project will likely earn a regulated RoE of 14% as per the Central Electricity Regulatory Commission (CERC) tariff guideline for inter-state transmission project.	14
Delhi Distcom (NDPL)	**DCF** Disc. Rate: 11% Term. Yr. Grth: 4%	NDPL earns 16% RoE provided it meets cetain A,T&C loss reduction benchmarks. It is also incentivized by way of higher returns in the event of bettering the benchmarks Equity invested in NDPL Rs bn 1.8 NDPL reserves (attr.) Rs bn 2.1	25
Tata BP Solar	**EV/Sales (X)**	8X EV/Sales on FY07 as compared to 17X for comparable standalone PV manufacturers; an additional 40% group company discount built in	66
Investments	**Various**	Total value (Rs bn) / Rs/share: Telecom 55.9 / 240 TCS/Tata Sons 17.1 / 73 Others 2.2 / 9	323
Investible surplus on books	**Market value**	Marketable securities & cash on books (Rs bn)	64
Bumi Resources	**DCF**	Based on market cap of PT Bumi Resources	490
Mundra UMPP	**DCF-equity**	Levelized tariff of Rs2.26/unit for 25 years	144
Maithon	**DCF-equity**	1050 MW project; 14% RoE + efficiency gains	28
Merchant power plant	**DCF-equity**	500 MW; P/B of 2.5X with a levelized tariff of Rs2.26/unit	26
Residual book			165
Total			**1,536**

Source: Company data, Kotak Institutional Equities estimates.

Valuation of TPC's stake in coal mines in Indonesia

	At consensus target price (IDR)
	7,300
Market cap of Bumi Resources-USD bn (a)	**15.19**
Full value of coal resources- Arutmin and Kalimantan (b)= (a)/70%	21.70
FY2012 est. coal production at Arutmin and Kalimantan (mn tonnes)	100
TPC's economic share (30%)	30
TPC's requirement of imported coal (for Mundra UMPP)	12
TPC's net economic benefit from coal (mn tonnes)	18
TPC's net economic benefit from coal (%) (f)	**18**
Value of TPC stake (g) = (b)X(f)	3.91
Debt taken for acquisition of coal mines (US$ bn) (h)	1.05
Attributable equity value of coal mines for TPC (US$ bn) = (g) - (h)	2.86
Per share value (Rs)	**490.4**

Source: Bloomberg, Kotak Institutional Equities estimates.

Media

ZEE.BO, Rs261	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	290
52W High -Low (Rs)	363 - 169
Market Cap (Rs bn)	113.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	15.2	17.9	20.3
Net Profit (Rs bn)	2.4	3.8	5.3
EPS (Rs)	5.5	8.7	12.2
EPS gth	*11.2*	*59.9*	*40.2*
P/E (x)	47.9	30.0	21.4
EV/EBITDA (x)	36.1	20.3	14.6
Div yield (%)	0.6	0.8	1.1

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	41.5	-	-
FIIs	31.0	0.5	0.2
MFs	10.8	1.1	0.8
UTI	-	-	(0.4)
LIC	5.6	0.5	0.2

Zee Entertainment Enterprises: Better-than-expected 3QFY08 results; upgraded to ADD after under-performance for the past several months

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- **Strong increase in ad and subscription revenues helped strong performance**
- **Solid qoq growth in domestic pay-TV revenues heartening**
- **Upgraded to ADD from SELL with revised target price of Rs290 (Rs260 previously)**

ZEEL reported 3QFY08 net income at Rs1.1 bn (+18.6% qoq and +25.3% yoy) versus our expected Rs1.01 bn and EBITDA at Rs1.57 bn (+18.8% qoq and +15.6% yoy) versus our expected Rs1.45 bn. The positive variance reflects (1) higher-than-expected revenues relating to overseas subscription revenues and strong syndication revenues of Taj TV (Ten Sports channel) and (2) lower-than-expected tax rate (negligible taxation for subsidiaries). The results would have better but for foreign exchange loss of Rs105 mn. We have fine-tuned our FY2008E, FY2009E and FY2010E EPS to Rs8.7, Rs12.2 and Rs15.4 from Rs8.3, Rs11.8 and Rs15. Our revised 12-month DCF-based target price is Rs290 (Rs260 previously) on roll-forward and earnings revisions and we have upgraded the stock to ADD from SELL noting the stock's large under-performance relative to the market over the past several months (-17% and -39% on 3-month and 6-month basis).

Key highlights of 3QFY08 results

19% qoq increase in net income helped by strong revenue growth and lower taxation. ZEEL's 3QFY08 EBITDA grew 18.8% qoq to Rs1.57 bn reflecting very strong revenue growth of 30% qoq. Advertisement and subscription revenues increased 20% qoq but other sales representing syndication revenues of Ten Sports jumped 257%. Interest expense jumped 97% qoq reflecting forex loss of Rs105 mn and depreciation declined 15.5% qoq. ZEEL's 3QFY08 effective tax rate declined to 28.7% from 32.2% in 1HFY08. It appears that the subsidiaries had negligible taxation in the quarter (Rs28 mn on PBT of Rs346 mn) compared to the parent standalone company's taxation rate of 34.5% (Rs430 mn on PBT of Rs1.25 bn).

Subscription revenues 20% qoq reversing the 3% qoq decline in 2QFY08 and 9% qoq decline in 1QFY08. ZEEL's 3QFY08 subscription revenues jumped 20% qoq to Rs1.95 bn (-0.3% yoy), which is a big positive given sequential declines in the previous two quarters. Domestic pay-TV revenues increased 13.3% qoq (+Rs103 mn) to Rs878 mn with DTH revenues contributing to half of the incremental revenues (Rs175 mn in 3QFY08 versus Rs125 mn in 2QFY08). Overseas subscription revenues increased 26% qoq to Rs1.07 bn reversing two consecutive quarters of decline. The steep improvement reflects additional revenues from Ten Sports, which had a number of cricket matches in 3QFY08. The same explains the 257% qoq increase in other sales; the management has attributed most of the qoq growth (Rs428 mn) to higher syndication revenues of Ten Sports channel.

Ad revenues increased 20% qoq, modestly ahead of our expectations. ZEEL's ad revenues increased 20.2% qoq to Rs2.64 bn (our estimate Rs2.55 bn), which reflects impact of festival season and ZTV's (Hindi general entertainment channel) improved ratings. More important, ZEEL's ad revenues increased 25% yoy driven primarily by improved ratings of ZTV.

Core India broadcasting business, the real driver of growth in 3QFY08. ZEEL's consolidated EBITDA and PBT increased Rs248 mn and Rs187 mn out of which the India business contributed to Rs289 mn and Rs197 mn. This would suggest that the profitability of the subsidiaries declined meaningfully in 3QFY08 (see Exhibit 2).

Key to stock price—emerging competition in broadcasting versus traction in distribution

We expect emerging competition in the broadcasting segment to act as an overhang on ZEEL stock. ZEEL stock has been a big under-performer over the past 12 months and has under-performed the broad market by 39% and 17% over the last six months and three months, respectively. We discuss key factors, which will drive ZEEL's performance over the next few months.

1. **Ability to protect market share against new competition in the Hindi general entertainment (GE) segment.** We expect ZTV's current high market share of about 32% in prime time (see Exhibit 3) to slip given the onslaught of new competition in the Hindi GE segment. Two channels (9X, NDTV Imagine) have started in the past few weeks and another two (TV18-Viacom and Miditech-Turner) will start over the next few months. In an eight-player market, we doubt any one channel will be able to have a large market share let alone dominate a segment as had been the case previously.

   We have tried to build in a fiercer competitive environment through modest and below-market growth rate assumptions in FY2009E (12.7%) and FY2010E (11.7%) for ZTV's ad revenues. We would also argue for more moderate multiples for this segment of ZEEL given likely volatility in market shares and thus, ratings. The use of high multiples (which the street has been historically keen on) implicitly assumes that ZTV's high ratings and market share will sustain in perpetuity. The entry of new competition will (1) impact ZTV's market share negatively; the market will split across more players and (2) reduce visibility on ratings and market shares of players; ratings will likely be fairly volatile as is the case with Hindi news channels.

2. **Pace of change in subscription market.** The pace of change will largely determine ZEEL's subscription revenues, growth in earnings and also, multiples. We expect the pace of change to be very rapid in the DTH segment given the aggressive capex plans of extant (three) and new (three) DTH operators. However, we expect the pace of penetration of addressable systems to be subdued in the cable segment due to structural issues. We are skeptical that the government will introduce legislation to accelerate changes in the cable TV distribution system. Nonetheless, a rapid uptake of DTH may force changes in cable distribution also.

Earnings revisions

We discuss below the changes and key assumptions behind our ZEEL earnings model.

1. **Advertisement revenues—CAGR of 13% between FY2008-11E.** We have fine-tuned FY2008E ad revenues to Rs9.5 bn (+34.7% yoy) from Rs9.2 bn previously. 9MFY08 ad revenues increased 31.9% yoy. The key to FY2009E ad revenues would be the performance of ZTV, as discussed above. The performance of ZTV had improved strongly from 2HFY07, which reflected in improved ad revenues from 2HFY07. For FY2009E and FY2010E, we model ad revenues at Rs10.7 bn (Rs10.5 bn previously, +13.2% yoy) and Rs12.1 bn (Rs12 bn, +12.4% yoy).

2. **Domestic-pay TV subscription revenues—CAGR of 28% between FY2008-11E.** We model FY2008E domestic pay-TV revenues at Rs3.39 bn versus Rs3.43 bn previously. ZEEL's 9MFY08 domestic pay-TV revenues were Rs2.41 bn (+8.9% yoy). We have reduced this figure from Rs4 bn since the beginning of the year, which shows that the then optimism regarding rollout of CAS and its favorable impact on domestic pay-TV revenues has not yet played out due to patchy implementation of a CAS in the three designated metros.

We model domestic pay-TV revenues to increase 27% and 33% in FY2009E and FY2010E, respectively to Rs4.3 bn (Rs4.2 bn previously) and Rs5.7 bn (Rs5.3 bn), respectively. We model ZEEL's paying subs in addressable systems to increase to 8.8 mn, 13.1 mn and 17.5 mn at end-FY2009E, end-FY2010E and end-FY2011 from 3.5 mn at end-FY2008E.

The key variables would be (1) pace of implementation of a CAS on cable in India (mandatory or voluntary), (2) penetration of DTH and (3) ARPUs in DTH, which continue to be surprisingly depressed. We note that Dish's ARPUs continue to be very low (although it improved in 3QFY08) and we suspect the entry of new entrants may result in low ARPUs continuing for some time even through the number of subscribers may explode. From the perspective of broadcasters, low ARPUs may also put pressure on broadcasters to accept low payment for content from DTH operators.

3. **International subscription revenues—will plod along in contrast to domestic pay-TV revenues.** We have fine-tuned FY2008E international subscription revenues to Rs3.8 bn to factor in (1) stronger rupee and (2) 9MFY08 reported revenues (Rs2.85 bn). For FY2009E and FY2010E, we model international subscription revenues at Rs3.9 bn (unchanged) and Rs4.1 bn (unchanged), respectively. ZEEL had 5.2 mn overseas subscribers at end-December 2007 broken down into 544,000 in USA, Canada and Caribbean, 155,000 in Europe, 118,000 in Africa and the rest in South and South-East Asia.

Zee Entertainment (ZEEL) consolidated interim results, March fiscal year-ends (Rs mn)

		qoq			yoy			yoy		
	2008E	3Q 2008	2Q 2008	% chg.	3Q 2008	3Q 2007	% chg.	9M 2008	9M 2007	% chg.
Net sales	**17,879**	**5,182**	**3,986**	***30.0***	**5,182**	**4,177**	***24.1***	**13,084**	**10,568**	***24***
Advertisement revenues	9,473	2,638	2,195	*20.2*	2,638	2,105	*25.3*	6,877	5,215	*32*
Subscription revenues	7,156	1,950	1,625	*20.0*	1,950	1,956	*(0.3)*	5,256	4,757	*10*
Domestic pay-TV	3,391	878	775	*13.3*	878	976	*(10.0)*	2,407	2,210	*9*
International	3,765	1,072	850	*26.1*	1,072	980	*9.4*	2,849	2,547	*12*
Other sales	1,250	594	166	*257.0*	594	116	*413.9*	952	596	*60*
Total expenditure	**(12,326)**	**(3,613)**	**(2,665)**	***35.6***	**(3,613)**	**(2,820)**	***28.2***	**(8,998)**	**(8,331)**	***8***
Transmission and programming cost	(7,933)	(2,549)	(1,660)	*53.6*	(2,549)	(1,721)	*48.1*	(5,793)	(5,722)	*1*
Staff cost	(1,395)	(312)	(338)	*(7.7)*	(312)	(232)	*34.2*	(1,024)	(716)	*43*
Administrative & other costs	(2,999)	(753)	(668)	*12.7*	(753)	(867)	*(13.1)*	(2,180)	(1,894)	*15*
EBITDA	**5,553**	**1,569**	**1,321**	***18.8***	**1,569**	**1,357**	***15.6***	**4,087**	**2,236**	***83***
EBITDA margin (%)	**31.1**	**30.3**	**33.1**		**30.3**	**32.5**		**31.2**	**21.2**	
Other income	899	238	225	*5.7*	238	155	*53.3*	675	453	*49*
Interest	(458)	(167)	(85)	*96.5*	(167)	(68)	*145.9*	(370)	(211)	*75*
Depreciation	(252)	(47)	(55)	*(15.5)*	(47)	(69)	*(32.5)*	(169)	(172)	*(2)*
Pretax profits	**5,742**	**1,592**	**1,405**	***13.3***	**1,592**	**1,375**	***15.8***	**4,223**	**2,307**	***83***
Extraordinaries	—	—	—		—	—		—	—	—
Tax	(1,803)	(458)	(435)	*5.3*	(458)	(417)	*9.8*	(1,305)	(599)	*118*
Net income	**3,939**	**1,135**	**971**	***16.9***	**1,135**	**958**	***18.4***	**2,919**	**1,707**	***71***
Minority interest	(146)	(38)	(46)		(38)	(83)		(126)	(116)	
Net income after minority interest	**3,793**	**1,097**	**925**	***18.6***	**1,097**	**875**	***25.3***	**2,793**	**1,591**	***76***
Tax rate (%)	31.4	28.7	30.9		28.7	30.3		30.9	26.0	

Source: Kotak Institutional Equities estimates.

ZEEL "rest" tax rate has declined sharply

Key financials of ZEEL, consolidated and standalone (Rs mn)

	ZEEL consolidated			ZEEL standalone			ZEEL "rest"		
	3QFY08	2QFY08	9MFY08	3QFY08	2QFY08	9MFY08	3QFY08	2QFY08	9MFY08
Revenues	**5,182**	**3,986**	**13,084**	**2,868**	**2,291**	**7,403**	**2,314**	**1,695**	**5,681**
EBITDA	1,569	1,321	4,087	1,231	942	3,052	338	379	1,035
EBITDA margin (%)	**30.3**	**33.1**	**31.2**	**42.9**	**41.1**	**41.2**	**14.6**	**22.4**	**18.2**
Pre-tax profits	1,592	1,405	4,223	1,247	1,050	3,275	346	355	948
Tax	458	435	1,305	430	353	1,121	28	81	184
Net income	**1,135**	**971**	**2,919**	**817**	**696**	**2,155**	**318**	**274**	**764**
Tax rate (%)	**28.7**	**30.9**	**30.9**	**34.5**	**33.7**	**34.2**	**8.1**	**22.8**	**19.4**

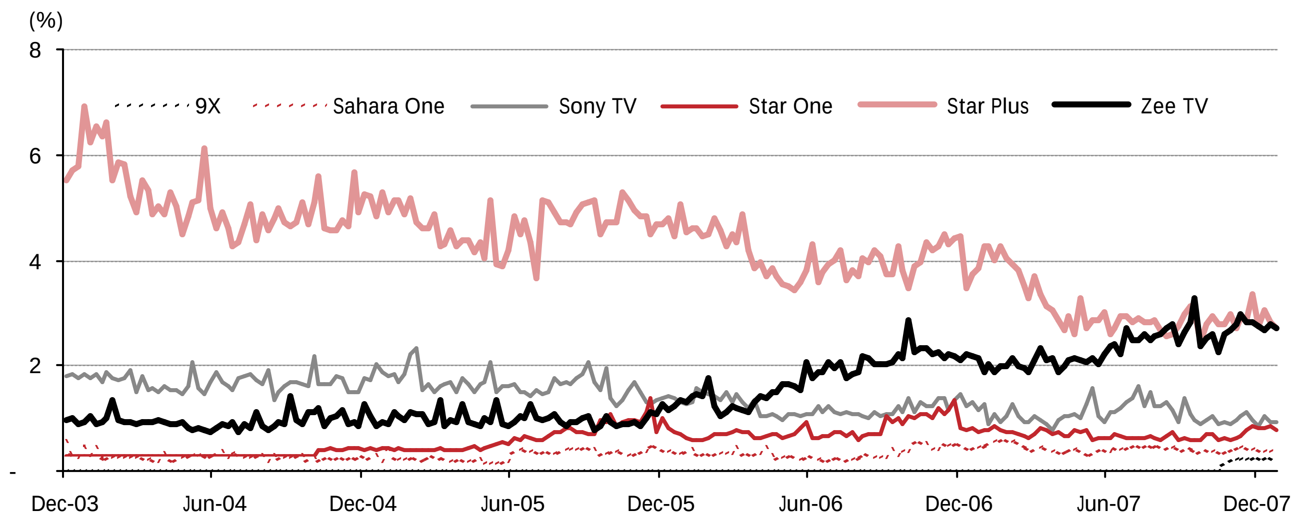
Out of the total increase of Rs248 mn in ZEEL's consolidated EBITDA, ZEEL's standalone EBITDA has increased by Rs289 mn while ZEEL "rest"EBITDA has declined by Rs41 mn. This would suggest a decline in profitability of the subsidiaries.

Note:
(a) ZEEL "rest" comprises overseas operations primarily.

Source: Company data.

Zee TV has again taken the leadership position from Star Plus in Hindi GE primetime segment

Prime time (7:30-11:30 PM) ratings for Hindi general entertainment channels and programs (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities.

Our DCF-based valuation of ZEEL is Rs290

DCF analysis for ZEEL (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**5,553**	**7,594**	**9,603**	**11,838**	**14,024**	**16,216**	**17,883**	**19,520**	**21,118**	**22,652**
Tax expense	(1,943)	(2,724)	(3,480)	(4,298)	(5,179)	(6,086)	(6,804)	(7,530)	(8,259)	(9,046)
Changes in working capital	261	(1,229)	(1,210)	(1,302)	(1,373)	(1,430)	(1,226)	(1,231)	(1,259)	(1,287)
Cash flow from operations	**3,871**	**3,642**	**4,913**	**6,238**	**7,472**	**8,700**	**9,853**	**10,759**	**11,599**	**12,319**
Capital expenditure	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
Free cash flow	**3,642**	**3,400**	**4,650**	**5,953**	**7,165**	**8,372**	**9,516**	**10,411**	**11,278**	**11,967**
Discounted cash flow- now	3,571	2,964	3,603	4,099	4,385	4,554	4,601	4,474	4,307	4,062
Discounted cash flow-1 year forward		3,334	4,053	4,612	4,934	5,123	5,176	5,034	4,847	4,570
Discounted cash flow-2 year forward			4,559	5,188	5,551	5,766	5,823	5,663	5,453	5,143

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	40,620	46,009	52,621
PV of terminal value (b)	72,105	76,792	81,784
Total company value (a) + (b)	112,725	122,801	134,404
Net debt/(cash)	(55)	(2,778)	(5,087)
Value to equity holders	112,779	125,579	139,491
Value to equity holders (Rs/share)	**259**	**289**	**321**

Assumptions for WACC and growth in perpetuity	
Growth from 2017 to perpetuity (%)	6.5
FCF multiple (X)	**16.7**
Exit EV/EBITDA multiple (X)	**10.1**
WACC (%)	**12.5**

Source: Kotak Institutional Equities estimates.

Consolidated profit and loss statement for Zee Telefilms, March fiscal year-ends, 2004-2006, ZEEL, 2007-2012E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
Revenues									
National Hindi (Zee TV)	2,539	1,826	2,119	3,303	5,231	5,898	6,590	7,535	8,517
National Hindi (Zee Cinema)	756	914	996	1,574	1,830	2,063	2,378	2,719	3,073
Niche channels (News, English, Music, ETC Music and ZED)	965	956	1,081	400	504	601	711	837	939
Regional channels (incl. ETC Punjabi)	1,365	1,324	1,486	—	—	—	—	—	—
Zee Sports + Taj TV	—	—	72	1,279	1,436	1,680	1,898		
Cable TV (Siti)	220	266	261	—	—	—	—	—	—
Overseas - ZMWL	460	505	557	526	472	485	483	487	498
Others	50	(92)	(6)	(47)	—	—	—	—	—
Advertisement	**6,355**	**5,698**	**6,566**	**7,035**	**9,473**	**10,727**	**12,060**	**13,718**	**15,431**
Domestic pay-TV	2,173	2,696	2,801	3,113	3,391	4,321	5,726	7,077	8,476
Overseas	2,569	2,909	3,030	3,933	3,765	3,882	4,059	4,185	4,364
Domestic subscription	1,168	1,002	978	—	—	—	—	—	—
Others	115	(74)	364	(399)	—	—	—	—	—
Subscription	**6,026**	**6,533**	**7,174**	**6,648**	**7,156**	**8,203**	**9,786**	**11,261**	**12,841**
Education	131	106	162	205	218	240	264	290	319
Others	1,190	742	2,641	1,271	1,031	1,105	1,160	1,217	1,277
Total revenues	**13,702**	**13,079**	**16,544**	**15,159**	**17,879**	**20,275**	**23,270**	**26,487**	**29,869**
Programming/Content	(2,520)	(2,611)	(4,247)	(4,783)	(4,990)	(5,013)	(5,574)	(6,124)	(6,704)
Broadcasting	(618)	(675)	(515)	(564)	(516)	(506)	(503)	(506)	(516)
Distribution	(1,837)	(1,534)	(2,565)	(1,967)	(1,658)	(1,736)	(1,793)	(1,841)	(1,915)
Other direct operating	—	—	(262)	(766)	(768)	(808)	(850)		
Employees	(727)	(858)	(1,089)	(1,017)	(1,395)	(1,513)	(1,621)	(1,743)	(1,880)
SG&A	(3,691)	(3,051)	(3,431)	(2,858)	(2,999)	(3,105)	(3,326)	(3,542)	(3,890)
Total expenses	**(9,393)**	**(8,728)**	**(13,848)**	**(11,955)**	**(12,326)**	**(12,681)**	**(13,667)**	**(14,649)**	**(15,845)**
EBITDA	**4,309**	**4,351**	**2,695**	**3,204**	**5,553**	**7,594**	**9,603**	**11,838**	**14,024**
Other income	776	521	639	747	899	961	1,048	1,269	1,561
Interest expense	(583)	(207)	(188)	(334)	(458)	(111)	(2)	—	—
Depreciation	(320)	(329)	(360)	(185)	(252)	(271)	(283)	(290)	(300)
Amortization	—	—	—	—	—	—	—	—	—
Pretax profits	**4,183**	**4,336**	**2,787**	**3,432**	**5,742**	**8,174**	**10,366**	**12,817**	**15,285**
Extraordinary items	26	(140)	19	—	—	—	—	—	—
Tax	(1,103)	(1,123)	(528)	(926)	(1,800)	(2,687)	(3,479)	(4,298)	(5,179)
Deferred tax	54	99	(9)	(76)	(3)	6	12	16	19
Minority interest	(192)	(50)	(117)	(58)	(146)	(174)	(213)	(252)	(294)
Net income	**2,969**	**3,123**	**2,153**	**2,373**	**3,793**	**5,318**	**6,686**	**8,283**	**9,832**
Recurring net income	**2,942**	**3,263**	**2,134**	**2,373**	**3,793**	**5,318**	**6,686**	**8,283**	**9,832**
Fully diluted EPS	**7.1**	**7.5**	**4.9**	**5.5**	**8.7**	**12.2**	**15.4**	**19.1**	**22.7**
Key ratios									
EBITDA growth (%)	**14.7**	**1.0**	**(38.1)**	**18.9**	**73.3**	**36.8**	**26.5**	**23.3**	**18.5**
EPS growth (%)	**18.2**	**5.2**	**(34.6)**	**11.2**	**59.9**	**40.2**	**25.7**	**24.2**	**18.7**
EBITDA margin (%)	31.5	33.3	16.3	21.1	31.1	37.5	41.3	44.7	47.0
Tax rate (%)	24.9	24.4	19.1	29.2	31.4	32.8	33.4	33.4	33.8
Shares o/s year end (mn)	412	412	413	434	434	434	434	434	434
Shares o/s fully diluted (mn)	412	435	435	435	435	435	435	434	434

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of Zee Telefilms 2006 and of ZEEL 2007-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Total revenues	**16,544**	**15,159**	**17,879**	**20,275**	**23,270**	**26,487**	**29,869**
EBITDA	**2,695**	**3,204**	**5,553**	**7,594**	**9,603**	**11,838**	**14,024**
Other income	639	747	899	961	1,048	1,269	1,561
Interest	(188)	(334)	(458)	(111)	(2)	—	—
Depreciation	(360)	(185)	(252)	(271)	(283)	(290)	(300)
Amortization	—	—	—	—	—	—	—
Pretax profits	**2,787**	**3,432**	**5,742**	**8,174**	**10,366**	**12,817**	**15,285**
Extraordinary items	19	—	—	—	—	—	—
Tax	(528)	(926)	(1,800)	(2,687)	(3,479)	(4,298)	(5,179)
Deferred tax	(9)	(76)	(3)	6	12	16	19
Minority interest	(117)	(58)	(146)	(174)	(213)	(252)	(294)
Net income	**2,153**	**2,373**	**3,793**	**5,318**	**6,686**	**8,283**	**9,832**
Recurring net income	**2,134**	**2,373**	**3,793**	**5,318**	**6,686**	**8,283**	**9,832**
Earnings per share (Rs)	**4.9**	**5.5**	**8.7**	**12.2**	**15.4**	**19.1**	**22.7**
Balance sheet (Rs mn)							
Total equity	21,286	26,181	28,443	31,742	35,971	41,289	47,663
Deferred tax balance	(148)	(75)	(72)	(78)	(91)	(106)	(125)
Minority interest	458	819	964	1,138	1,352	1,604	1,898
Total borrowings	4,901	3,226	2,726	274	—	—	—
Currrent liabilities	4,346	5,106	3,357	3,396	3,617	3,839	4,092
Total capital	**30,844**	**35,256**	**35,417**	**36,472**	**40,849**	**46,626**	**53,527**
Cash	1,286	955	3,178	3,035	6,065	10,407	15,782
Current assets	13,574	17,133	15,123	16,391	17,821	19,346	20,971
Net fixed assets	12,948	14,841	14,789	14,719	14,635	14,546	14,446
Investments	3,024	2,326	2,326	2,326	2,326	2,326	2,326
Deferred expenditure	12	2	2	2	2	2	2
Total assets	**30,844**	**35,256**	**35,417**	**36,472**	**40,849**	**46,626**	**53,527**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,931	1,812	2,950	4,441	5,758	7,166	8,463
Working capital	(3,950)	(486)	261	(1,229)	(1,210)	(1,302)	(1,373)
Capital expenditure	(383)	(460)	(200)	(200)	(200)	(200)	(200)
Investments	418	(4,289)	—	—	—	—	—
Other income	488	469	899	961	1,048	1,269	1,561
Free cash flow	**(1,496)**	**(2,954)**	**3,910**	**3,974**	**5,396**	**6,933**	**8,451**
Revenue model (Rs mn)							
Advertising	6,566	7,035	9,473	10,727	12,060	13,718	15,431
Subscription-domestic	2,801	3,113	3,391	4,321	5,726	7,077	8,476
Subscription-overseas	3,030	3,933	3,765	3,882	4,059	4,185	4,364
Subscription-cable	978	—	—	—	—	—	—
Others	3,168	1,078	1,250	1,345	1,424	1,507	1,597
Total revenues	**16,544**	**15,159**	**17,879**	**20,275**	**23,270**	**26,487**	**29,869**

Source: Kotak Institutional Equities estimates.

Property

MGDL.BO, Rs681	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	890
52W High -Low (Rs)	907 - 435
Market Cap (Rs bn)	28.7

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	1.6	1.7	3.5
Net Profit (Rs bn)	0.2	0.6	0.8
EPS (Rs)	4.1	14.4	20.1
EPS gth	*1.0*	*249.5*	*39.1*
P/E (x)	165.1	47.2	34.0
EV/EBITDA (x)	135.4	83.8	21.9
Div yield (%)	0.2	0.4	0.6

Mahindra Lifespace Developer: 3QFY2008 revenues in line, operating margins above estimates

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- **3QFY2008 revenues in line at Rs434mn (v/s our expectation of Rs441 mn)**
- **Higher operating margins on account of higher-than-estimated selling prices in Pimpri, Pune**
- **Launch of residential projects in Faridabad and Bhandup in 4QFY08; SEZ business on track**
- **Maintain BUY rating and target price of Rs890/share based on March 2009 based NAV**

Mahindra Lifespaces on a standalone basis (MLIFE) reported revenues of Rs434 mn (v/s our expectation of Rs441 mn) and operating profit of Rs83 mn (v/s our expectation of Rs57 mn) for 3QFY2008. MLIFE's PAT at Rs112 mn was ahead of our estimates of Rs74 mn on account of higher operating margins. As a result, we revise our estimates on account of higher selling prices and slower construction in couple of its projects. We have revised our revenue estimates for FY2008E to Rs1.7 bn (from Rs1.9 bn) and FY2009E to Rs3.5 bn (from Rs3.5 bn). We have revised our PAT estimates for FY2008E to Rs0.59 bn (from Rs0.54 bn) and FY2009E to Rs0.82 bn (from Rs0.66 bn). MLIFE is planning to launch couple of properties in Faridabad and Bhandup in 4QFY08 and we need to observe this closely as there have been delays in the past. We retain our BUY rating and target price of Rs890/share.

We revise prices in Pimpri (Pune) to account for higher operating margins

The EBITDA margins for 3QFY08 stood at 19% compared to our estimates of 13%. This is on account of (1) higher-than-expected selling prices of Rs3,000/sq. ft in Pune compared to our assumption of Rs2,500/ sq. ft, and (2) greater proportion of revenue booking from high margin projects in Mumbai . Exhibit 2 shows the projects from which revenue was booked in 3QFY08. We revise our selling price assumptions and as a result our revenue estimates stand revised to Rs1.7 bn for FY2008 (Rs1.9 bn earlier) and Rs3.5 bn for FY2009 (Rs3.5 bn earlier).

Residential business likely to expand in 4QFY08 on account of new launches

Exhibit 3 provides details about ongoing projects of standalone residential business of MLIFE. The management has indicated that it would likely launch approx. 3.5 mn sq. ft in the next 1-1.5 years comprising Faridabad, Nashik, Mumbai and Gurgaon. We expect MLIFE to launch residential projects in Bhandup (Mumbai) and Faridabad in 4QFY08. We highlight that we need to closely monitor project launches, as there have been large delays for the same in the past.

SEZ business continues to make good progress

Mahindra World City, Chennai (MWC) continues to make good progress in terms of getting clients for the entire processing area. Our recent visit to Chennai property exhibition highlights that residential prices in the vicinity of the SEZ have moved above Rs2,600/ sq. ft compared to our assumptions of Rs2,224/ sq. ft (refer our note dated 24th Jan, 2008). Thus, we believe that downside risks to our selling price assumptions are limited.

We have also highlighted in our report 'Management meeting update' dated 3rd December, 2007 that the work on the Jaipur SEZ is also on full swing. The company has made significant progress in terms of land acquisition over the past six months and has already completed acquisition more than 80% of the land at Mahindra World City Jaipur Limited (MWCJL). Jaipur Development Authority is managing land acquisition for the remaining 500 acres and we expect this to happen in the next three months. MWCJL has signed up large number of clients, which include Infosys, and Wipro as anchor tenants and others like Tech Mahindra, Nagarro Software and Instancesys.

We maintain our BUY rating and target price of Rs890/share

Exhibit 4 gives breakup of our March 2009 based target price of Rs890/share. On the SEZ front, we will be closely watching policy developments as well as any land acquisitions delays faced by its subsidiaries. Our target price of Rs890 provides an upside of 30% based on the current market price and we retain our BUY rating on the company.

Mahindra Gesco :3QFY2008 results

				% chg.		Kotak estimates				
(in Rs mn)	3QFY07	2QFY08	3QFY08	qoq	yoy	3QFY08	% deviation	FY07	FY08E	% chg.
Net sales	**418**	**343**	**434**	**26.5**	**3.8**	**441**	**(1.6)**	**1,555**	**1,729**	**11.2**
Operating costs	**(325)**	**(315)**	**(351)**	**11.4**	**8.2**	**(384)**	**(8.5)**	**(1,352)**	**(1,405)**	**3.9**
Cost of construction	(247)	(227)	(251)	10.5	1.5			(1,051)	(1,230)	
Operating expenses	(40)	(34)	(33)	(2.6)	(17.0)			(148)	(69)	(53.1)
Staff cost	(18)	(19)	(20)	8.1	12.9			(70)	(105)	51.5
Other expenditure	(19)	(36)	(47)	31.8	141.2			(85)		
EBITDA	**93**	**27**	**83**	**200.7**	**(11.5)**	**57**	**45.1**	**203**	**324**	**59.8**
Other income	31	207	52	(75.0)	67.9	44	17.5	66	442	2,849
Interest costs	(7)	(0)	—	(100.0)	(100.0)	—		(36)	(1)	(96.9)
Depreciation	(6)	(5)	(5)	2.1	(21.0)	(6)	(20.7)	(22)	(28)	24.1
PBT	**111**	**229**	**130**	**(43.5)**	**16.8**	**95**	**36.6**	**211**	**738**	**250.2**
Taxes	(16)	(31)	(18)	(41.6)	11.9	(21)	(15.2)	(69)	(148)	114.8
PAT	**95**	**199**	**112**	**(43.8)**	**17.6**	**74**	**51.3**	**142**	**590**	**315.9**
Key ratios										
EBITDA margin (%)	22.3	8.0	19.1			12.9				
PAT margin (%)	22.7	57.9	25.7			16.7				
Effective tax rate (%)	14.3	13.3	13.7			22.1				

Source: Company data, Kotak Institutional Equities.

Revenue booking for 3QFY08

List of MGDL's residential projects from which revenue was booked in 3QFY08

		Saleable area	Prices
Name of the project	City	('000 sq. ft)	(Rs)
Mahindra Eminente	Goregaon, Mumbai	270	5,800
Mahindra Royale- I	Pimpri, Pune	208	2,700
Mahindra Royale- II	Pimpri, Pune	100	3,000
Slyvan County	Chennai	490	1,700

Source: Company, Kotak Institutional Equities estimates.

MGDL's ongoing and forthcoming residential projects

List of MGDL's residential projects

Name of the project	City	Status	Saleable area ('000 sq. ft)	Prices (Rs)
Mahindra Eminente	Goregaon, Mumbai	Ongoing	270	5,800
The Woods	Wakad, Pune	Ongoing	510	3,000
Sylvan County	Chennai	Ongoing	490	2,600
Mahindra Park	Ghatkopar, Mumbai	Ongoing	40	3,500
Mahindra Splendour (GKW)	Bhandup, Mumbai	Ongoing	320	6,500
Mahindra Royale	Pimpri, Pune	Ongoing	580	3,000
Proposed project	Faridabad	Forthcoming	420	3,000
Proposed project	Nasik	Forthcoming	1,372	1,500
Proposed project	Gurgaon Sector 112	Forthcoming	1,000	4,500
Proposed project	Mumbai - Byculla	Forthcoming	400	18,000
Proposed project	Baroda	Forthcoming	1,000	1,365
Proposed project	Kandivili	Forthcoming	450	5,000
			6,072	

Source: Company, Kotak Institutional Equities estimates.

MGDL - Our March 2009 based NAV is Rs890/share

	Valuation Methodology	Valuation of business (Rs bn)	Probability (%)	Value contribution (Rs bn)	Value contribution (Rs/share)
SEZs					
Chennai SEZ	DCF	9.4	100.0	9.4	224
Karla SEZ	DCF	16.2	10.0	1.6	39
Jaipur SEZ	DCF	15.6	70.0	10.9	260
Thane SEZ	DCF	0.7	100.0	0.7	17
Total			100.0	22.6	539
Mahindra Gesco standalone					
Residential properties	NAV	7.0	100.0	7.0	167
Commercial property	NAV	1.6	100.0	1.6	38
Total				8.6	205
FY2008 Net Debt		2.6	100.0	2.6	62
FY2008 Investments		3.8	100.0	3.8	90
Equity valuation (Rs/share)					895
Fully diluted no of shares (mn)				42.0	

Source: Kotak Institutional Equities.

Profit model of Mahindra Gesco (standalone), March fiscal year-ends, 2006-2010E (Rs mn)

	2006	2007	2008E	2009E	2010E
Total revenues	**1,211**	**1,555**	**1,729**	**3,475**	**6,472**
Land costs	(122)	(150)	(372)	(414)	(680)
Construction costs	(744)	(1,048)	(858)	(1,663)	(3,073)
Employee costs	(64)	(70)	(105)	(128)	(154)
SG&A costs	(70)	(85)	(69)	(104)	(194)
EBITDA	**211**	**203**	**324**	**1,166**	**2,371**
Other income	30	77	442	102	102
Interest	(44)	(47)	(1)	(1)	(1)
Depreciation	(23)	(22)	(28)	(31)	(35)
Pretax profits	**175**	**211**	**738**	**1,237**	**2,438**
Extraordinary items	—	—	—	—	—
Current tax	(2)	(43)	(143)	(414)	(820)
Deferred tax	(63)	(2)	(5)	(2)	(0)
Net income	**110**	**165**	**590**	**820**	**1,617**
Adjusted net income	**110**	**165**	**590**	**820**	**1,617**
EPS (Rs)					
Primary	0.9	4.5	14.1	20	39
Fully diluted	0.9	3.9	13.7	19	38
Shares outstanding (mn)					
Year end	31	40	41	41	41
Primary	31	34	41	41	41
Fully diluted	31	39	42	42	42
Cash flow per share (Rs)					
Primary	4	2	4	18	38
Fully diluted	4	2	4	18	37
Growth (%)					
Net income (adjusted)	40	50	257	39	97
EPS (adjusted)	(65)	343	250	40	99
DCF/share	14	(52)	127	317	106
Cash tax rate (%)	1	21	19	33	34
Effective tax rate (%)	37	22	20	34	34

Source: Kotak Institutional Equities estimates.

Cash flow statement of Mahindra Gesco (standalone), March fiscal year-ends, 2006-2010E (Rs mn)

	2006	2007	2008E	2009E	2010E
Operating					
Pre-tax profits before extraordinary items	175	211	738	1,237	2,438
Depreciation	23	22	28	31	35
Taxes paid	(55)	(93)	(143)	(414)	(820)
Other income	(20)	(68)	(442)	(102)	(102)
Interest expenses	44	47	1	1	1
Interest paid	(40)	(53)	(1)	(1)	(1)
Extraordinary items	—	(0)	—	—	—
Working capital changes (a)	(954)	(757)	(125)	1,001	1,846
Total operating	**(828)**	**(691)**	**55**	**1,752**	**3,396**
Operating, excl. working capital (b)	**127**	**66**	**180**	**751**	**1,550**
Investing					
Capital expenditure	(7)	(9)	(11)	(12)	(14)
(Purchase)/Sale of assets/businesses	25	1	—	—	—
(Purchase)/Sale of investments	(21)	(2,628)	(500)	—	—
Interest/dividend received	12	63	442	102	102
Total investing (c)	**8**	**(2,572)**	**(69)**	**90**	**88**
Financing					
Proceeds from issue of share capital	—	5,720	473	—	—
Proceeds from borrowings	743	(1,264)	6	—	(4)
Dividends paid (d)	—	(130)	(155)	(203)	(203)
Total financing	**743**	**4,327**	**324**	**(203)**	**(207)**
Net increase in cash and cash equivalents	(77)	1,064	310	1,639	3,277
Beginning cash	239	161	1,225	1,535	3,174
Ending cash	**161**	**1,225**	**1,535**	**3,174**	**6,451**
Gross cash flow (b)	127	66	180	751	1,550
Free cash flow (b) + (a) + (c)	**(820)**	**(3,263)**	**(14)**	**1,842**	**3,484**
Excess cash flow (b) +(a) + (c) + (d)	(820)	(3,392)	(169)	1,639	3,281

Source: Kotak Institutional Equities estimates.

Balance sheet of Mahindra Gesco (standalone), March fiscal year-ends, 2006-2010E (Rs mn)

	2006	2007	2008E	2009E	2010E
Equity					
Share capital	310	400	409	409	409
Reserves/surplus	968	7,208	8,107	8,724	10,138
Total equity	**1,928**	**7,708**	**8,615**	**9,233**	**10,647**
Deferred tax liability/(asset)	—	2	7	9	10
Liabilities					
Secured loans	183	3	4	4	—
Unsecured loans	1,090	6	11	11	11
Total borrowings	**1,273**	**9**	**15**	**15**	**11**
Currrent liabilities	1,301	931	1,220	2,227	4,108
Total capital	**4,502**	**8,650**	**9,858**	**11,484**	**14,775**
Assets					
Cash	161	1,225	1,535	3,174	6,451
Current assets	3,040	3,839	4,253	4,260	4,294
Gross block	568	571	582	594	608
Less: accumulated depreciation	225	243	270	301	336
Net fixed assets	343	328	311	292	272
Total fixed assets	**343**	**328**	**311**	**292**	**272**
Intangible assets	—	—	—	—	—
Investments	958	3,258	3,758	3,758	3,758
Misc. expenses	—	—	—	—	—
Total assets	**4,502**	**8,650**	**9,857**	**11,484**	**14,775**
Leverage ratios (%)					
Debt/equity	66.0	0.1	0.2	0.2	0.1
Debt/capitalization	39.8	0.1	0.2	0.2	0.1
Net debt/equity	57.7	(15.8)	(17.6)	(34.2)	(60.4)
Net debt/capitalization	36.6	(18.7)	(21.4)	(51.9)	(152.7)
RoAE	**5.8**	**3.4**	**7.2**	**9.2**	**16.3**
RoACE	**7.7**	**3.7**	**7.3**	**9.2**	**16.2**

Source: Kotak Institutional Equities estimates.

Economy

Sector coverage view	N/A

RBI leaves repo rate, CRR unchanged; calls for decisive policy actions on capital flows

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- **RBI leaves its repo/reverse repo rates as well as CRR unchanged**
- **Central bank calls for decisive policy actions to manage capital flows but leaves room for calibrating controls both ways**
- **We expect monetary policy to stay tight, if rate cut does not occur in 4QFY08**

Contrary to our call, as also debt and equity markets pricing in a 25 bps cut in repo rate, RBI left its key monetary policy instruments unchanged—repo rate at 7.75%, reverse repo rate at 6% and CRR at 7.5%. The probability of a rate cut ahead in the near future has significantly receded. Indications are that the current tight monetary policy stance could prevail for as along as asset prices stay high or growth slows down. RBI's main concern remains capital flows and the policy statement makes a direct call for "decisive policy actions" to manage capital flows, while leaving room for easing controls if flight of capital occurs.

Governor Reddy surprises markets once again

The Fed has cut its policy rate by 175 bps, Bank of Canada by 50 bps and Bank of England by 25 bps, but RBI has preferred to retain status quo on monetary measures in spite of signs of moderating industrial growth, sharp deceleration in credit offtake, more range bound movements in the asset markets, declining business and consumer confidence and inflation anchored below RBI's own target for the year.

We said that a rate cut could be imminent as (1) slowdown risks have increased on account of global factors, and (2) the interest differential is biting in term of capital flows. The policy statement clearly acknowledges that global uncertainties have increased considerably and pose a downside risks to growth and financial stability. However, it prefers not to explain RBI thinking on the interest rate differential issue.

Policy focuses on capital flows—Para 95 and 96 hold the key to RBI thinking

We believe that paragraph 95 of the RBI's policy statement holds the key to RBI thinking. Para 95 calls for some forms of capital controls by talking about "public policy preference for a hierarchy of capital flows with a priority for more stable components" and recommends" combining sectoral regulations with broader measures" for moderating capital flows. It adds that "it is critical for public policy to effectively, demonstrably and convincingly indicate commitment to managing capital flows … through appropriate and decisive policy actions".

Para 96 which follows, however, indicates that policymakers are prepared to ease capital account restrictions should reversal in capital flows occur. It states that "while the focus has generally been on managing the excess capital inflows and volatility in regard to the excess, it is essential not to exclude the possibility of some change in course….". It goes on to talk of the possibility of "unexpected turn of events" adding that, "events in the second and third week of January 2008 indicate a potential for reversal in capital flows, though it is not yet clear how transient such events will turn out to be."

Policy abstains from discussing key issue of interest rate differential

After the unscheduled rate cut of 75 bps by Fed on January 22, the short-term interest differential has risen to a significant 425 bps (7.75% RBI repo rate minus 3.50% Fed funds rate) (see also our Economy comments of January 23, 2008, "RBI likely to settle for rate cut, no CRR hike" and January 1, 2008 "Record capital flows in 2QFY08: FIIs not the only cause, look elsewhere for answers". What happens to the interest rate differential if Fed cuts again tomorrow? Fed funds futures show that the market has priced another 50 bps cut in target Fed funds rate.

We believe that the large interest rate differential is a source of large capital flows in the form of ECB, trade credit, banking capital and 'other capital'. However, the policymakers may have preferred status quo as a safer option thinking that a mere 25 or 50 bps cut would in any case not plug the differential and stamp out arbitrage flows. Also, they may have been concerned that reducing interest differential could slowdown remittances at a time when trade deficit is rising. But the extant policy has long-term ramifications which could come back to haunt at a later date. In any case, while views can differ, one would expect adequate explanation to establish that capital flows are more sensitive to interest rate levels and not interest rate differentials. We believe that a higher differential via the uncovered interest rate parity invites exchange rate appreciation and so invites more capital inflows.

Expect CRR hike if surplus liquidity becomes large

CRR has been left unchanged in this policy. We had earlier said that liquidity "still does not seem to be large enough for a CRR hike. However, it is important to recognize that if surplus liquidity rises from here in face of larger interest differential attracting more capital inflows, increase in CRR ahead could become a possibility. We expect two CRR hikes in CY2008 unless capital flows reverse. Sterilization costs are mounting and monetary tightening could include CRR hikes. RBI's policy statement justifies the approach by explaining that central banks confronting volatile and large capital flows have either hiked policy rates or hiked reserve requirements or both. It cites China (reserve ratio raised to 15% in January 2008 from 8% in July 2006) and Korea (reserve requirements raise to 7.0% from 5% after 17 years in Nov. & Dec. 2006) as examples.

We see exchange rate to appreciate but interest rates to stay firm with a softer bias

Bond markets have reacted quickly to no rate change with the 10-year benchmark rate reversing half of the 25 bps cut pricing on the first day itself. Yield on 10-year gilt benchmark in India had moved to 7.38% on January 23, 2008 after the Fed cut from 7.90% in end-Nov.2007 with a 25 bps reduction over last one fortnight. The paper is now trading back at 7.54%. However, we expect the yields to stabilize in 7.60-7.65% range and soften back later as RBI would need to continue intervening in the currency market to restrict rupee appreciation. It would become a chicken and egg game between sterilization measures firming yields and capital flows bringing them down. The net result could be sustained high interest rates with a mild southward movement.

The currency market has not immediately reacted to the policy announcement and the Rupee closes at 39.88 against US$, but we expect rupee to continue appreciation ahead and hit 39.20 by end of FY2008 and 38.00 by end of FY2009.

RBI cites demand and inflationary pressures, likely to keep monetary policy tight

Based on policy indications, we expect RBI to keep monetary policy tight ahead through FY2009.

RBI continues to be hawkish on inflation. Its assessment on the future path of inflation as revealed in the policy statement is similar to the one we put out in our yesterday's Economy comment of January 28, 2008 "Headline inflation may rise to 4.5% by mid-Feb, but fall back to 4.2% by end of FY2008". However, its assessment of the same is markedly hawkish. It cites (1) core inflation running above headline inflation, (2) possible reversal of benign inflation conditions caused by cut last year in petro prices, (3) prolonged hardening of international food prices ahead.

It also sees persistence of aggregate demand pressures in near term, citing (1) accelerating fixed capital formation, (2) high monetary expansion on back of large capital inflows, (3) sharp acceleration in non-oil imports, (4) reversal of softening trend in WPI inflation, (5) incomplete pass-through of global oil prices and (6) escalated and volatile levels of equity, gold and real estate prices.

Retain positive outlook on select banks in the aftermath of the policy

In a considered response to the status quo on rates in the RBI's policy statement, our banking analyst, Tabassum Inamdar retains our positive stance on banking sector and advises buying select bank stocks. A cut in rate would have been positive for bulk borrowers and for the banking stocks in general. However, we believe banks operating performance is improving gradually as: (a) credit growth remains healthy at around 23%, (b) spreads have stabilized and will likely improve from 1QFY09 as banks shed bulk/high cost retail deposits and (c) quality of book remains stable for most.

Post-recent stock market correction, banks' valuations remain attractive at 1.2X to 1.8X PBR FY2009 for PSU banks. Our top picks are: PNB (BUY), Union Bank (BUY), Andhra Bank (BUY), Bank of Baroda (ADD), IOB (ADD), ICICI Bank (ADD), HDFC Bank (ADD), and Federal Bank (BUY).

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Jigar Mistry, Amit Agarwal, Aman Batra, Sanjeev Prasad, Lokesh Garg, Puneet Jain, Mridul Saggar."

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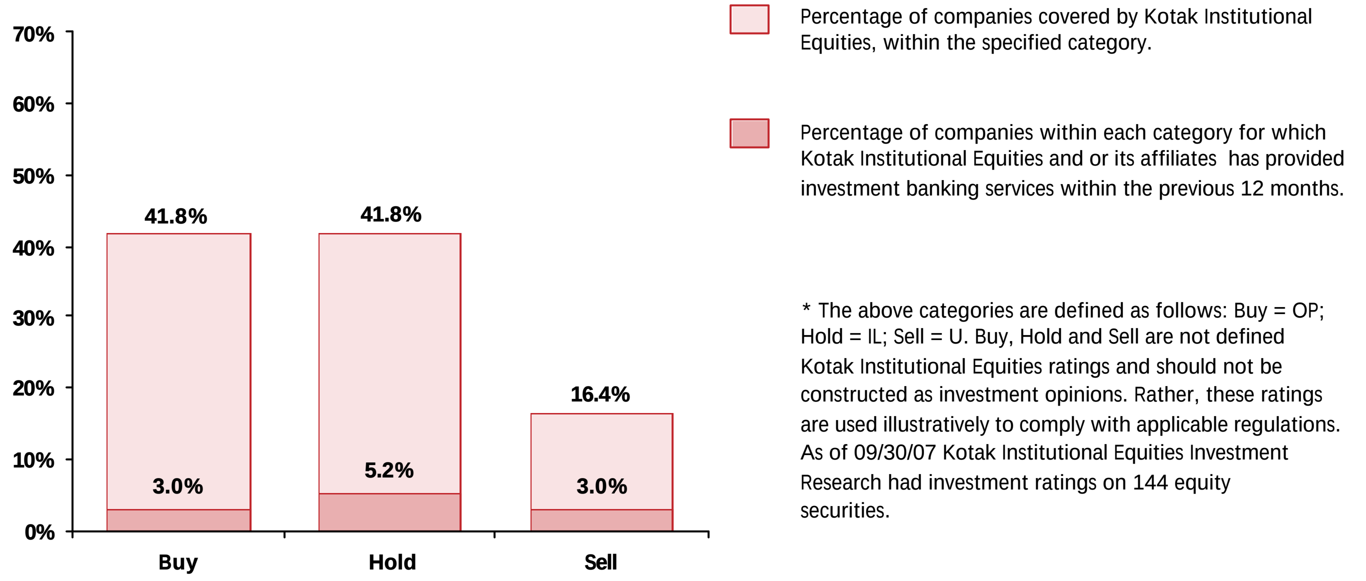

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Source: Kotak Institutional Equities. As of September 30, 2007

Ratings and other definitions/identifiers

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Old rating system

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