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News Roundup

Corporate

- **Satyam Computer Services Ltd's** government-appointed board extended its meeting by a day as it considers options to rescue the company and name a new chief executive officer (CEO) and chief financial officer (CFO) to steer it through the crisis. SEBI, meanwhile, started questioning Satyam founder B. Ramalinga Raju and his brother and former managing director B. Rama Raju in a Hyderabad prison. (Mint)
- **Kingfisher Airlines Ltd** has deferred its purchase of five A380 aircraft, the world's largest, by two years as it has sought to lower operating costs for the plane, according to two executives with the carrier. (Mint)
- **Diageo**, the world's largest spirit company, is seeking a greater stake in Vijay Mallya-controlled **United Spirits** (USL) than the initial sub-15% stake offered to it, a person close to the development said. If the demand from Diageo is fulfilled, it will share an almost equal stake and management control in USL with the company's promoter, the **UB group**. (ET)
- Port operator **PSA-Sical Terminals Ltd**, which runs India's fourth biggest container terminal at Tuticorin port in Tamil Nadu, has secured a stay from the Madras high court against a 30 December order of the tariff regulator to cut rates by 34% for services provided at the facility. The operator has said it would be "commercially unviable" to run the facility at reduced rates. (Mint)
- **Tata Motors** has run into payment problems with vendors and suppliers. The \$8.8-billion company that has operations in the UK, South Korea, Thailand and Spain owes more than Rs1,200 crore in unpaid dues to its suppliers accumulated over the past few months, though the exact amount could not be ascertained. (ET)

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

EQUITY MARKETS

India	Change, %			
	4-Feb	1-day	1-mo	3-mo
Sensex	9,202	0.6	(7.6)	(13.4)
Nifty	2,803	0.7	(8.0)	(10.8)

Global/Regional indices

	4-Feb	1-day	1-mo	3-mo
Dow Jones	7,957	(1.5)	(11.9)	(17.3)
FTSE	4,229	1.5	(7.3)	(8.9)
Nikkei	7,972	(0.8)	(11.8)	(16.3)
Hang Seng	13,024	(0.3)	(16.3)	(12.2)
KOSPI	1,191	(0.3)	1.5	0.8

Value traded - India

	Moving avg, Rs bn		
	4-Feb	1-mo	3-mo
Cash (NSE+BSE)	108.1	129.6	44.6
Derivatives (NSE)	320.7	316.3	338
Deri. open interest	468.8	453	498

Forex/money market

	Change, basis points			
	4-Feb	1-day	1-mo	3-mo
Rs/US\$	48.7	0	12	128
10yr govt bond, %	5.9	-	30	(175)

Commodity market

	Change, %			
	4-Feb	1-day	1-mo	3-mo
Gold (US\$/OZ)	904.3	(0.2)	5.2	22.1
Silver (US\$/OZ)	12.4	(0.7)	10.5	20.5
Crude (US\$/BBL)	43.9	(0.7)	(8.3)	(28.6)

Net investment (US\$m)

	3-Feb	MTD	CYTD
FIs	(40)	-	(1,054)
MFs	(26)	-	(178)

Top movers -3mo basis

	Change, %			
Best performers	4-Feb	1-day	1-mo	3-mo
Gmr Infrastructure	71	3.0	(15.4)	17.7
Indian Oil Corporati	440	(0.2)	4.4	24.8
National Aluminium	189	(0.7)	(8.8)	24.9
Jindal Steel & Powe	1,001	2.4	0.4	31.1
Bharat Petroleum C	389	0.4	8.4	22.9
Worst performers				
Housing Developme	78	(2.2)	(45.3)	(36.8)
Satyam Computer S	50	(7.0)	(70.0)	(81.9)
Glenmark Pharmac	121	(7.0)	(59.7)	(59.8)
Punj Lloyd Limited	87	0.7	(44.4)	(55.3)
Aban Offshore Limi	430	(7.8)	(44.9)	(56.9)

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Strategy

Sector coverage view

N/A

KS-Ownership Navigator. December 2008 quarter changes (qoq)

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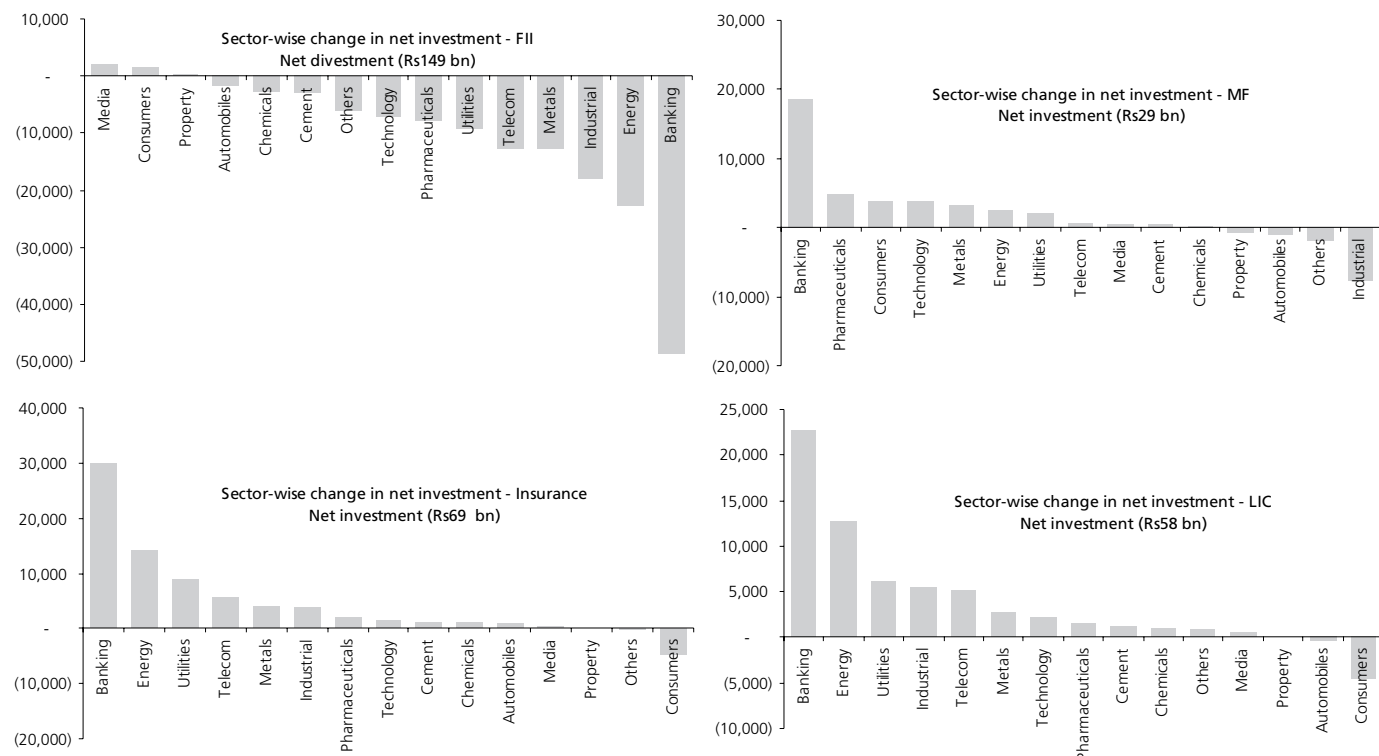
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- **FII's divest Rs149 bn in the December 2008 quarter**
- **FII's reduced positions in Banking and Energy**
- **Promoters of Reliance Industries, Ranbaxy, Hindalco and Tata Motors invested Rs196 bn in December 2008 quarter**

December 2008 quarter witnessed heavy selling by Foreign Institutional Investors (FIIs) across all sectors. FIIs reduced their positions in Banking and Energy while domestic institutions increased their exposure to Banking, Energy and Utilities. Promoters of Reliance Industries, Ranbaxy, Hindalco and Tata Motors invested Rs186 bn in December 2008 quarter. FII holdings in BSE-200 companies decreased to 15.5% as of December 31, 2008 from 17.8% as of September 30, 2008

Sector-wise changes in holdings of FIIs, MFs, Insurance and LIC during December 2008 quarter

Sector-wise changes in portfolio in December 2008 over September 2008, at quarter average prices (Rs mn), (1)



Note:

(1) We have used the average of month-end prices of stocks for each of the three months in the latest quarter.

Source: BSE, Kotak Institutional Equities.

Key stock investments made by FIIs during the December 2008 quarter

Key stock changes in December 2008 over September 2008, at quarter average prices (a)

Company	Change in shares (% of equity)				Change (Rs mn)			
	FII	MF	Insurance	LIC	FII	MF	Insurance	LIC
FIIs								
Hindalco Industries	4.1	0.5	0.3	0.7	3,798	442	245	654
Mahindra Life Space Developer	3.6	(2.8)	—	—	252	(201)	—	—
Jai Corp	3.3	(0.1)	—	—	594	(17)	—	—
Apollo Hospitals Enterprise	2.2	0.1	—	—	539	34	(5)	—
ZEE Entertainment Enterprises	2.2	0.1	1.0	1.0	1,279	37	579	579
Educomp Solutions	2.1	(0.7)	—	—	828	(286)	—	—
Sun TV Network	2.0	1.1	0.1	—	1,192	666	58	—
Kotak Mahindra Bank	1.9	(1.6)	—	—	2,306	(1,951)	6	—
Hero Honda Motors	1.9	(1.2)	(1.0)	(1.0)	2,956	(1,875)	(1,490)	(1,623)
Sintex	1.8	(1.3)	—	—	413	(300)	—	—
Mahanagar Telephone Nigam	1.7	(1.5)	—	(0.1)	783	(670)	—	(57)
Divis Laboratories	1.6	(0.7)	—	—	1,286	(532)	—	—
IDFC	1.6	(1.5)	0.4	—	1,233	(1,109)	305	—
MindTree Consulting	1.6	(0.1)	—	—	152	(10)	—	—
LANCO	1.4	(0.6)	—	0.1	399	(173)	—	41
Axis Bank	1.4	(1.3)	—	—	2,488	(2,321)	—	—
Tata Communications	1.3	0.1	(0.7)	(0.5)	1,757	76	(875)	(703)
Thermax	1.2	(1.6)	—	—	331	(444)	—	—
Bajaj Auto	1.1	(1.3)	0.5	—	693	(807)	324	—
JSW Steel	1.1	(0.3)	—	—	509	(113)	—	(1)
Industrial Development Bank of India	1.1	(0.7)	0.1	0.4	499	(304)	64	176
Adlabs Films	1.0	(2.9)	—	—	80	(222)	—	—
SREI	1.0	(2.9)	—	—	49	(141)	—	—
Colgate-Palmolive (India)	0.9	(0.0)	(0.8)	(0.7)	496	(25)	(446)	(391)
Hindustan Unilever	0.9	(0.1)	(0.9)	(0.5)	4,747	(321)	(4,477)	(2,689)
Jaiprakash Associates	0.8	(0.9)	0.7	0.6	681	(761)	580	533
Tata Teleservices Maharashtra	0.8	(1.0)	0.4	—	280	(354)	156	—
ABB India	0.8	(1.5)	—	0.1	811	(1,567)	—	146
Sesa Goa	0.7	(0.8)	—	—	473	(504)	3	—
Aditya Birla Nuvo	0.6	(2.1)	(0.1)	1.2	327	(1,040)	(60)	592

Note:

(1) We have used the average of month-end prices of stocks for each of the three months in the latest quarter.

Source: BSE, Kotak Institutional Equities.

Where the big bucks appeared:

Company	Change (Rs mn)	(% of equity)
Hindustan Unilever	4,747	0.9
Hindalco Industries	3,798	4.1
Hero Honda Motors	2,956	1.9
Infosys Technologies	2,921	0.4
Axis Bank	2,488	1.4
Kotak Mahindra Bank	2,306	1.9
ITC	1,898	0.3
Tata Communications	1,757	1.3
Divis Laboratories	1,286	1.6
ZEE Entertainment Enterprises	1,279	2.2
IDFC	1,233	1.6
Sun TV Network	1,192	2.0
Educomp Solutions	828	2.1
ABB India	811	0.8
Mahanagar Telephone Nigam	783	1.7

Key stock divestments made by FIIs during the December 2008 quarter

Key stock changes in December 2008 over September 2008, at quarter average prices (a)

Company	Change in shares (% of equity)				Change (Rs mn)			
	FII	MF	Insurance	LIC	FII	MF	Insurance	LIC
FIIs								
IVRCL	(14.3)	4.8	—	—	(2,310)	781	—	—
Suzlon	(7.9)	1.5	—	—	(5,886)	1,115	—	—
Gujarat NRE Coke	(7.8)	(0.9)	—	—	(963)	(117)	—	—
NIFT	(7.8)	0.1	—	—	(352)	5	—	—
Consolidated Construction Co.	(6.7)	(0.7)	—	—	(605)	(64)	—	—
LIC Housing Finance	(6.2)	6.5	(0.3)	—	(1,033)	1,086	(43)	—
Balrampur Chini Mills	(5.8)	0.8	—	—	(617)	88	—	—
Bajaj Finserv	(5.4)	(0.1)	0.7	—	(946)	(10)	118	2
Aban offshore	(5.3)	1.8	—	—	(1,435)	502	—	—
Tata Steel	(4.7)	0.9	1.8	0.6	(6,585)	1,239	2,569	872
Bharat Forge	(4.3)	0.6	—	4.1	(868)	129	—	831
Indiabulls Securities	(4.2)	(0.0)	—	—	(224)	(1)	—	—
GVK Power	(4.2)	1.6	—	—	(972)	363	—	—
Nagarjuna Construction Co.	(3.9)	1.7	—	—	(571)	247	—	—
Praj Industries	(3.8)	0.9	—	—	(437)	101	—	—
Federal Bank	(3.7)	(0.8)	—	—	(908)	(205)	—	—
Ultra Tech Cemco	(3.7)	—	0.4	0.4	(1,556)	9	186	186
Jindal Steel & Power	(3.5)	1.3	—	—	(4,432)	1,658	13	—
CESC	(3.5)	3.2	0.1	—	(935)	861	39	—
Karnataka Bank	(3.4)	0.3	—	—	(325)	31	1	—
Oriental Bank Of Commerce	(3.4)	1.2	3.3	2.6	(1,202)	439	1,151	920
State Bank of India	(3.4)	1.6	0.2	1.3	(24,896)	11,956	1,457	9,832
Tata Motors	(3.3)	0.2	1.3	0.4	(2,303)	139	939	298
Ashok Leyland	(3.2)	—	0.7	0.6	(684)	(1)	142	137
Rolta India	(3.2)	—	—	—	(804)	12	—	—
United Phosphorus	(3.0)	2.2	—	—	(1,288)	966	—	—
Chambal Fertilisers & Chemicals	(2.9)	(1.6)	—	—	(466)	(261)	—	—
Shree Renuka Sugars	(2.8)	5.0	—	—	(444)	805	—	—
Andhra Bank	(2.6)	0.9	6.7	—	(655)	211	1,656	—
Voltas	(2.6)	(1.1)	3.0	1.1	(532)	(230)	601	216

Note:

(1) We have used the average of month-end prices of stocks for each of the three months in the latest quarter.

Source: BSE, Kotak Institutional Equities.

Company	Change	
	(Rs mn)	(% of equity)
State Bank of India	(24,896)	(3.4)
Oil & Natural Gas Corp.	(11,300)	(0.8)
Bharti Airtel Ltd	(7,822)	(0.6)
Housing Development Finance Corp.	(6,774)	(1.5)
Tata Steel	(6,585)	(4.7)
Reliance Communications	(6,240)	(1.4)
Larsen & Toubro	(6,067)	(1.3)
Suzlon	(5,886)	(7.9)
ICICI Bank	(5,338)	(1.2)
HDFC Bank	(4,692)	(1.1)
Reliance Industries	(4,503)	(0.2)
Jindal Steel & Power	(4,432)	(3.5)
Sterlite Industries India	(4,146)	(2.2)
Bharat Heavy Electricals	(3,964)	(0.6)
Sun Pharmaceuticals Industries	(3,794)	(1.7)

Company	Change - Promoters		Change in shares (% of co.)			
	(% of equity)	(Rs mn)	FII	MF	Insurance	LIC
Some promoters buy						
Reliance Industries	7.7	150,255	(0.2)	—	0.4	0.4
Ranbaxy Laboratories	33.0	29,110	(1.8)	0.9	0.1	0.1
Hindalco Industries	13.4	12,503	4.1	0.5	0.3	0.7
Tata Motors	13.2	9,226	(3.3)	0.2	1.3	0.4
Bharti Airtel Ltd	0.1	1,660	(0.6)	—	0.3	0.3
Jaiprakash Associates	1.2	1,002	0.8	(0.9)	0.7	0.6
GMR Infrastructure	0.8	899	(0.0)	(0.2)	—	—
Bajaj Finserv	4.7	820	(5.4)	(0.1)	0.7	—
Sterlite Industries India	0.4	657	(2.2)	0.3	0.3	0.1
Bharat Forge	3.2	653	(4.3)	0.6	—	4.1
Aditya Birla Nuvo	1.0	507	0.6	(2.1)	(0.1)	1.2
Gujarat NRE Coke	3.8	464	(7.8)	(0.9)	—	—
Maharashtra Seamless	3.7	385	(2.4)	(0.0)	1.5	—
Bhushan Steel	1.9	372	—	0.1	—	—
HCL Technologies	0.4	350	(1.0)	0.3	—	—
Shree Renuka Sugars	2.2	349	(2.8)	5.0	—	—
Deccan Chronicle	2.1	223	(1.4)	(2.1)	—	—
Jindal Steel & Power	0.2	192	(3.5)	1.3	—	—
Nagarjuna Construction Co.	1.3	191	(3.9)	1.7	—	—
Ultra Tech Cemco	0.4	168	(3.7)	—	0.4	0.4
...while other promoters sell						
Satyam Computer Services	(6.4)	(10,376)	(2.0)	0.5	0.3	0.2
Unitech	(7.1)	(4,311)	0.6	(0.0)	—	—
JSW Steel	(1.6)	(717)	1.1	(0.3)	—	—
Tata Consultancy Services	(0.1)	(715)	(0.6)	0.5	0.1	0.1
Great Offshore	(4.8)	(475)	(0.0)	(2.2)	(0.6)	(0.4)
Asian Paints India	(0.2)	(139)	(0.9)	0.8	0.4	(0.3)
Welspun Gujarat Stahl Rohren	(0.6)	(119)	(0.2)	(0.2)	0.3	1.1
Mundra Port	(0.1)	(113)	0.3	—	—	—
Tata Power	(0.0)	(70)	(0.8)	0.1	1.2	1.0
Punjab Lloyd	(0.1)	(55)	(0.4)	(3.3)	—	—

Source: BSE, Kotak Institutional Equities.

BSE-200 ownership over the last 20 quarters

Analysis done for BSE-200 stocks taking market cap. at the end of each quarter (US\$ bn)

	Promoters			MFs and UTI	FII's	Indian Public	UTI	LIC
	Indian non-govt	Foreign	Govt					
Mar-04	45.1	11.9	64.2	8.5	33.6	25.0	2.2	9.7
Jun-04	44.2	13.5	52.5	7.6	30.2	23.5	1.7	9.0
Sep-04	59.7	14.9	63.0	8.7	36.7	29.0	2.0	11.1
Dec-04	76.7	17.9	87.4	9.9	48.0	33.9	2.1	13.1
Mar-05	83.3	19.3	76.3	9.5	60.3	33.5	1.5	12.3
Jun-05	88.8	20.8	78.0	10.2	68.6	35.2	1.8	14.0
Sep-05	100.4	22.5	84.8	12.2	78.8	37.9	2.2	16.8
Dec-05	115.1	27.0	97.9	15.6	93.8	44.0	2.6	18.1
Mar-06	137.2	35.3	110.8	19.3	110.3	50.9	3.3	21.5
Jun-06	118.8	34.4	86.8	17.9	94.0	45.2	2.9	19.0
Sep-06	143.2	37.4	100.8	20.7	111.7	52.6	2.7	20.7
Dec-06	194.5	41.9	109.3	23.1	139.4	64.8	3.1	25.2
Mar-07	193.6	42.1	108.5	23.8	132.3	60.1	2.9	24.8
Jun-07	262.5	56.8	137.8	31.6	171.8	76.4	3.3	31.0
Sep-07	306.1	71.1	151.7	38.0	212.5	89.1	4.3	38.1
Dec-07	397.2	87.4	200.9	49.0	264.1	111.9	5.6	49.3
Mar-08	296.1	67.3	148.9	37.7	183.6	84.9	4.5	39.0
Jun-08	253.7	56.4	119.6	30.2	150.8	71.6	3.4	32.4
Sep-08	205.3	48.1	128.0	27.3	124.9	61.3	3.2	30.1
Dec-08	183.9	42.9	94.0	18.1	85.3	43.0	2.4	23.3

Source: BSE, Kotak Institutional Equities.

Energy**CAIR.BO, Rs161**

Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	225
52W High -Low (Rs)	343 - 88
Market Cap (Rs bn)	301.6

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	16.6	23.5	33.1
Net Profit (Rs bn)	2.0	6.3	9.5
EPS (Rs)	(0.1)	4.2	5.0
EPS gth	(108.2)	-	20.1
P/E (x)	(1,352)	38.4	32.1
EV/EBITDA (x)	37.2	22.0	15.8
Div yield (%)	-	-	-

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(6.5)	11.7	(33.6)	(23.8)

Shareholding, September 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	64.8	-
FII's	9.4	0.6
MFs	2.2	0.8
UTI	-	-
LIC	2.0	0.6

Cairn India: Update on Cairn analyst meeting and site visit—all set for 'first oil' by 3QCY09E

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- **Steady progress for 'first oil' by 3QCY09E**
- **Lower capex for CY2008-09E due to (1)cost optimization and (2) deferment of production from Bhagyam and Aishwariya**
- **Retain BUY rating with 12-month DCF-based target price of Rs225**

Our recent site visit to Cairn India's Mangala Processing Terminal (MPT) and interaction with the senior management has strengthened our view that Cairn is on track for production of 'first oil' from Mangala by 3QCY09E. Cairn India management highlighted steady progress on the key elements of the ongoing development of its Rajasthan block (RJ-ON-90/1)'(1) 'first' oil from Mangala in 3QCY09, (2) good progress on drilling, pipeline, power generation and other facilities at MPT, (3) lower capex for MBA for CY2008-09E at US\$1.4 bn (net to Cairn) versus US\$1.8 bn (net to Cairn) previously, (4) gross capex guidance of US\$1.5-1.8 bn for CY2010-11E and (5) guidance of potential oil in place of ~400 mn bbls the Barmer hill formation. There has been no further development on the unresolved issues of (1) cess, (2) uptake of crude oil and (3) pricing of Rajasthan crude; however, we do not see significant downside arising from these issues. We retain our estimates and BUY rating with 12-month DCF-based target price of Rs225.

MBA development—steady progress for 'first oil' by 3QCY09E. The management stressed that it is on track for the production of first oil from Mangala field in 3QCY09. First production will start from a 30,000 b/d train and crude would be transported by trucks. The subsequent second, third and fourth trains with capacities of 50,000 b/d, 50,000 b/d and 75,000 b/d will start in 4QCY09, 1HCY10 and CY2011 with crude transportation by pipeline. The management stated that it plans to drill over 350 wells spread over 40 well pads over the life of the MBA field; it plans to drill 35 wells and 10 water injection wells to achieve peak production from the Mangala field. The company also plans to implement enhanced oil recovery (EOR) techniques on the Mangala field by CY2013E.

We give details of the progress being made at the Mangala processing facility below.

Drilling. The company has already started drilling in well pad#8 by employing a mobile rig which has the capability to drill up to 3,500 meters. Another rig of similar configuration is expected to commence drilling on well pad#9 in two weeks time. The management highlighted the advantages of using the custom-made mobile rigs arising from (1) compact rig layout, (2) saving in drilling, land and infrastructure cost and (3) lower time required to move the rig between drilling slots (6-8 hours versus 36-48 hours).

Pipeline. Cairn management stated that it has obtained the RoU for its pipeline for the entire length. The pipeline is expected to be commissioned to coincide with the commissioning of the second processing train in 4QCY09E. The pipeline has 24" diameter and 8" insulation wrap and will be heated by 35 Skin Effect Heat Management System (SEHMS) installations spread across the length of the pipeline. This will ensure that the crude oil temperature is maintained above 65°C along the pipeline. The SEHMS will use the supply of gas from Raageshwari for heating of the pipeline.

Apart from the oil export pipeline, the company has also started laying pipelines connecting the MPT—(1) 12" gas pipeline from Raageshwari (190 kms), (2) 4" condensate pipeline from Raageshwari (190 kms) and (3) 20" water pipeline from Thumbli (22 kms).

Power generation. The company has also made rapid progress in constructing its captive power plant. It has started construction of 4 steam turbine generators (1 nearing completion) with 12 MW capacity each; it is also constructing 3 backup diesel generators with 2MW capacity each.

Maintain reserve estimates with ~400 mn bbls of oil in place in Barmer hills. The management maintained its estimates for recoverable reserves of 1.1 bn bbls broken down between 685 mn bbls for MBA fields, 300 mn bbls for EOR in MBA fields and another 100 mn bbls for smaller fields. The management has also provided an estimate of potential oil in place of ~400 mn bbls the Barmer hill formation. We have been highlighting scope for inclusion of resources in Barmer Hill in reserves once Cairn is in a position to extract crude oil from this zone. Also, we note that the DGH has given the 'declaration of commerciality' to Cairn's three Kameshwari (2, 3 and 6) discoveries in January 2009. These discoveries made in May 2007 in the Northern Appraisal Area along with another oil and gas discovery near Raageshwari field in December 2008 in the southern part of the current development area highlight the upside potential to reserves in Cairn's prolific RJ-ON-90/1 block.

Lower capex guidance for CY2008-09E. The management has indicated gross capex of US\$2 bn (US\$1.4 bn net to Cairn) for CY2008-09E for its Rajasthan field versus its earlier guidance of US\$2.6 bn (US\$1.8 bn net to Cairn). The downward revision in capex is due to (1) optimization of costs due to implementation of smaller trains than earlier envisaged and (2) deferment of production from Bhagyam and Aishwariya fields. The management has also guided that it expects a gross capex of US\$1.5-1.8 bn for CY2010-11E. We do not see any material impact on Cairn's valuation on account of the above as impact of lower capex for CY2008-09E will be mitigated by higher capex for CY2010-11E at US\$1.5-1.8 bn versus lower capex previously estimated by us.

No further development on certain unresolved issues; we do not see significant downside risks. We discuss some of the key concerns which acted as an overhang on the stock. Although the company did not provide any further update on these issues, we see limited downside risks from the same.

- 1. Discount to reflect waxy nature of crude.** The company did not give any further update on the pricing. We note that Mangala crude's API (27.4) is very similar to Arab Heavy (27) although Arab heavy has very high sulfur content at 2.8% (weight) compared to Mangala's 0.14%. We would highlight that the discount between Arab Heavy and Dated Brent was US\$9/bbl based on past 12-months data, however, the differential has declined sharply in the recent months (US\$5.9/bbl in January 2009). We model a US\$7.2/bbl discount for Cairn's Rajasthan crude to Dated Brent to reflect the somewhat inferior quality of Cairn's crude versus Brent crude.
- 2. Uptake of crude.** The management indicated that it is exploring several options for the uptake of its Rajasthan crude including exporting of crude. However, we do not believe sale of crude oil in a short crude market such as India will be an issue. We note that domestic PSU refineries have expressed interest to lift 5.2 mn tons of crude (144,000 b/d) of Cairn's crude as per press reports. Also, Cairn may get to export crude in case domestic refineries are unwilling or unable to process Cairn's crude.
- 3. Cess.** There is no further development on this issue. We currently assume that Cairn will not bear any cess on the portion of crude oil (70%) produced by it from the Rajasthan block. Even if we assume that Cairn will have to bear cess at Rs2,575/ton, our 12-month fair value of the stock comes to Rs205 (see Exhibit 2).

We value Cairn India stock at Rs225

EV and equity value of Cairn (US\$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	7,264	8,588	9,470
CB-OS-2	132	72	49
Ravva	448	335	276
Upside potential (KG-DWN-98/2)	100	112	125
Total	7,944	9,107	9,921
Net debt	39	(660)	525
Equity value	7,905	9,766	9,395
Equity shares (mn)	1,897	1,897	1,897
Equity value per share (Rs/share)	172	225	238

Source: Kotak Institutional Equities estimates

Cairn's Rajasthan field's enterprise value has moderate leverage to crude prices and regulations

Enterprise value sensitivity of Cairn to key variables (US\$ bn)

	Sensitivity of current valuation			Sensitivity of +1-year valuation		
	Enterprise value (US\$ bn)	Equity value (Rs/share)	Change from base case (%)	Enterprise value (US\$ bn)	Equity value (Rs/share)	Change from base case (%)
Average crude prices (2013 and beyond)						
Dated Brent price (US\$110/bbl)	9.7	226	31	11.1	284	27
Dated Brent price (US\$100/bbl)	9.0	211	22	10.4	267	19
Dated Brent price (US\$90/bbl)	8.3	195	13	9.7	250	11
Dated Brent price (US\$80/bbl)	7.6	180	4	9.0	233	4
Dated Brent price (US\$75/bbl)	7.3	172		8.6	225	
Dated Brent price (US\$60/bbl)	6.2	149	(13)	7.5	199	(12)
Dated Brent price (US\$50/bbl)	5.5	134	(22)	6.7	181	(19)
Dated Brent price (US\$40/bbl)	4.8	118	(31)	6.0	164	(27)
Dated Brent price (US\$30/bbl)	4.1	102	(41)	5.2	146	(35)
Cess, royalty						
Royalty (Rs0/ton), Cess (Rs0/ton)	7.3	172		8.6	225	
Royalty (Rs0/ton), Cess (Rs927/ton)	6.9	163	(5)	8.2	215	(4)
Royalty (Rs0/ton), Cess (Rs2,575/ton)	6.5	155	(10)	7.7	205	(9)

Source: Kotak Institutional Equities estimates

Cairn's earnings are highly leveraged to crude prices

Earnings sensitivity of Cairn to key variables

	2009E			2010E			2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Average crude prices									
Crude price (US\$/bbl)	55.0	57.0	59.0	65.5	67.5	69.5	73.0	75.0	77.0
Net profits (Rs mn)	8,693	9,510	10,328	53,070	55,480	57,889	91,145	93,790	96,435
Earnings per share (Rs)	4.6	5.0	5.4	28.0	29.3	30.5	48.1	49.5	50.8
% upside/(downside)	(8.6)		8.6	(4.3)		4.3	(2.8)		2.8
Exchange rate									
Rs/US\$	47.0	48.0	49.0	46.3	47.3	48.3	45.3	46.3	47.3
Net profits (Rs mn)	9,124	9,510	9,897	54,033	55,480	56,926	91,787	93,790	95,794
Earnings per share (Rs)	4.8	5.0	5.2	28.5	29.3	30.0	48.4	49.5	50.5
% upside/(downside)	(4.1)		4.1	(2.6)		2.6	(2.1)		2.1

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Cairn 2006-2013E, calendar year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013N
Profit model (Rs mn)								
Net sales	18,417	16,561	23,480	33,099	91,475	163,393	160,853	156,066
EBITDA	5,332	6,705	8,334	19,467	75,261	117,829	96,206	67,219
Other income	1,100	1,324	4,049	1,227	380	480	1,139	2,006
Interest	(201)	(27)	(43)	(973)	(2,896)	(2,448)	(1,000)	—
Depreciation	(497)	(4,589)	(3,312)	(6,132)	(7,460)	(8,383)	(8,651)	(8,600)
Pretax profits	5,734	3,413	9,028	13,590	65,284	107,478	87,694	60,625
Extraordinary items	—	(2,120)	1,522	—	—	—	—	—
Tax	(1,580)	(740)	(584)	(2,814)	(8,670)	(13,119)	(10,769)	(7,672)
Deferred taxation	(22)	(764)	(2,119)	(1,265)	(1,134)	(568)	(124)	150
Net profits	4,132	(212)	7,848	9,510	55,480	93,790	76,802	53,103
Earnings per share (Rs)	2.3	(0.1)	4.2	5.0	29.3	49.5	40.5	28.0
Balance sheet (Rs mn)								
Total equity	292,804	294,358	328,400	337,910	326,819	365,134	396,509	418,203
Deferred tax liability	4,258	4,916	7,035	8,300	9,434	10,003	10,127	9,976
Total borrowings	5,122	3,124	24,366	42,411	42,411	20,000	0	0
Current liabilities	39,716	8,372	18,936	1,829	2,246	6,675	9,555	13,207
Total liabilities and equity	341,900	310,771	378,737	390,450	380,911	401,812	416,191	441,386
Cash	61,348	1,504	53,121	17,201	4,556	22,963	42,304	72,625
Current assets	6,470	19,029	2,252	3,174	8,772	15,668	15,424	14,965
Total fixed assets	17,609	25,157	57,626	77,129	26,727	24,280	21,727	19,238
Net producing properties	2,354	4,390	5,047	32,254	80,165	78,210	76,044	73,866
Investments	4	7,129	7,129	7,129	7,129	7,129	7,129	7,129
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	370	370	370	370	370	370
Total assets	341,900	310,771	378,737	390,450	380,911	401,812	416,191	441,386
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	3,188	6,387	8,018	12,557	61,545	100,811	82,987	58,097
Working capital changes	34,256	(908)	27,341	(18,029)	(5,180)	(2,467)	3,124	4,110
Capital expenditure	(5,619)	(11,739)	(35,226)	(49,720)	(2,819)	(2,531)	(2,483)	(2,483)
Investments/Goodwill	(252,717)	(53,863)	—	—	—	—	—	—
Other income	1,100	1,298	4,049	1,227	380	480	1,139	2,006
Free cash flow	(219,792)	(58,824)	4,182	(53,965)	53,925	96,294	84,767	61,731
Key assumptions								
Gross production ('000 boe/d)	91.0	75.4	69.7	93.0	160.8	235.7	234.8	225.2
Net production ('000 boe/d)	25.1	19.4	18.2	38.3	88.6	143.3	144.8	140.3
Dated Brent (US\$/bbl)	65.3	70.3	102.6	57.0	67.5	75.0	75.0	75.0
Discount of Rajasthan crude to Dated Brent (US\$/bbl)	2.1	5.3	14.7	7.2	7.2	7.2	7.2	7.2

Source: Kotak Institutional Equities estimates

Pharmaceuticals**SUN.BO, Rs1047**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,675
52W High -Low (Rs)	1558 - 983
Market Cap (Rs bn)	216.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	33.6	40.7	42.5
Net Profit (Rs bn)	14.9	17.8	15.9
EPS (Rs)	74.7	86.0	76.7
EPS gth	78.9	15.2	(10.8)
P/E (x)	14.0	12.2	13.6
EV/EBITDA (x)	11.7	9.2	9.3
Div yield (%)	1.0	1.1	1.3

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(0.2)	(0.8)	(27.3)	(5.1)

Shareholding, September 2008

	% of Pattern	Over/(under) Portfolio	weight
Promoters	63.7	-	-
FIs	20.5	1.1	0.1
MFs	3.6	1.0	0.0
UTI	-	-	(0.9)
LIC	-	-	(0.9)

Sun Pharmaceuticals: Caraco filings reveals another Form 483, rising inventory

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- **Caraco received another Form 483 for its packaging facility and has responded to FDA**
- **High level of inventory of distributed products compared to revenues indicate resumption of generic Protonicx sales in 2009**
- **Maintain BUY rating with a SOTP-based target price of Rs1,675**

Caraco was issued a notice on Form 483 post the inspection of its packaging facility on December 15, 2008. Caraco has filed a response to this letter. Caraco has responded to the warning letter received in October 2008 on November 24 and the Detroit District FDA acknowledged the response on December 22. It noted that Caraco's corrective actions will be evaluated during FDA's next inspection. Caraco guides towards flat FY2009E sales compared to FY2008. Caraco has reported revenues of US\$286 mn revenues YTD in FY2009, it is looking at revenues of US\$64 mn for 4Q FY2009, up from US\$56 mn in 3Q FY2009. Debtors proportion of revenues have declined sharply this quarter. Inventory of exclusivity products increased to US\$75 mn at December end from US\$73 mn at September end. Since revenues from distributed products fell to US\$26 mn in 3QFY2009, inventory represents nearly three quarters' revenues. This could mean high margin generic Protonix revenues may begin in 2009. Maintain BUY rating with an SOTP-based target price of Rs1,675.

Caraco filed its form 10-Q with US SEC on February 3. We review the key contents of this filing

FDA compliance issues continue. Caraco revealed that inspection of its packaging facility at Farmington Hills in Michigan was initiated on December 15, 2008 as a part of pre-approval inspection. At the conclusion of that inspection, Caraco was issued a notice on Form 483. Caraco has filed a response to this letter. Caraco believes that it has responded appropriately to the FDA's concerns and corrective measures have been put in place. As the FDA letter and response from Caraco are not public, we are unable to comment on the issues raised by FDA.

On October 31, 2008, Caraco received a warning letter from the FDA for its Detroit plant. The letter was issued as a follow up to the last FDA inspection of the manufacturing facility in Detroit. Caraco responded to the warning letter on November 24 and the Detroit District FDA acknowledged the response on December 22. It noted that Caraco's corrective actions will be evaluated during the FDA's next inspection. At this time, no further meetings were deemed necessary by FDA. Caraco believes that it is unlikely that it will receive any approvals for products from its Detroit facility until after the next inspection. Caraco has changed leadership at its manufacturing and quality control department. This, it hopes, will improve cGMP compliance. Caraco has also increased the number of support in quality assurance, quality control and manufacturing. It has automated processes to reduce human intervention. It has conducted internal and external audit of the systems to improve compliance with the requirements. Several measures have been taken to improve compliance as below

- Caraco has invested in more automation for improved quality and increase in output with less human intervention.
- During FY2008, and currently in FY2009, in addition to its own internal audits, Caraco has retained outside companies to audit both the laboratory and manufacturing areas.
- The company continues to grow the analytical staff, which is currently at 69 employees, thereby enabling the laboratory to better cope with an increased workload with improved timeliness, higher quality, and increased cGMP compliance

- The company continues to provide external training to employees to supplement internal training in order to improve and maintain systems of operation. All audits are based on a historical look back and offer improvements based on Caraco's future requirements. The audits also included follow up on recommendations of best practices made by the FDA.
- The lab facility has also undergone major upgrades, including a significant increase in working space to improve analyst efficiency and safety. Additional lab instruments and equipment have been purchased which will enable increased compliance with cGMP requirements, cut future costs by enabling in-house rather than contract analyses, and speed sample testing.

In FY2009, Caraco has filed six ANDAs relating to five products with the FDA YTD and has received approval for eight ANDAs relating to three products YTD. This brings Caraco's total number of ANDAs pending approval to 25 (including four tentative approvals) relating to 21 products.

Caraco's present product portfolio includes 56 prescription products, in 125 strengths, in various package sizes. These include both Caraco manufactured products, as well as products distributed for Sun. The products cover the following therapeutic areas: hypertension, arthritis, epilepsy, diabetes, depression and pain management.

Caraco guides towards FY2009E sales to be flat compared to FY2008. Following the recent results Caraco announced that FY2009 sales will be in line with levels achieved during FY2008 when it reported sales of US\$350 mn. Since Caraco has reported revenues of US\$286 mn revenues YTD in FY2009, it is looking at revenues of US\$64 mn for 4Q FY2009, up from US\$56 mn in 3Q FY2009. Caraco has not shared any guidance for FY2010E so far.

Summary of balance sheet

Debtors and their proportion of revenues have declined sharply this quarter. Account receivable days have declined to 22 days of sales from 63 days at end March. Caraco believe that this reduction is temporary. This is mainly due to timing of payments made by wholesale customers. Caraco received payment on the basis of gross sales in the previous quarter. However, deduction of chargebacks will be made by these wholesalers as they ship to retail, chain stores and managed care organizations. Since significant sales of exclusivity products were recorded in the September 08 quarter, collections were high during December 08.

Inventories rose to 207 days of sales on hand compared to 142 days on hand at end March—Caraco believes that this will decline in the short term. It believes that inventory will continue to generate future revenues and is realizable. Excluding the inventory for exclusivity products, inventory levels were 126 days at end December compared to 94 days at end March. Caraco has various rights to return the product under exclusivity to Sun Pharma if sales of these products are not allowed by any regulatory authorities and Sun fails to file within prescribed time.

Inventory of exclusivity products increased to US\$75 mn at December end from US\$73 mn at September end. This indicates that revenues from the high-margin Protonix generic may begin in 2009. The timing and size of revenues cannot be ascertained at this point. Since revenues from distributed products fell to US\$26 mn in 3QFY2009, inventory represents nearly three quarters' revenues. This could mean high margin generic Protonix revenues may begin in 2009.

Caraco balance sheet (US\$ mn)

	Jan-Mar08	Apr-Jun08	Jul-Sept08	Oct-Dec08
Cash	57	23	34	34
Receivables	136	81	109	13
Inventories	299	231	115	125
Other current assets	9	11	9	8
Total current assets	500	345	267	180
Gross fixed assets	32	34	38	39
CWIP	0	4	9	16
Less accumulated dep	11	12	13	14
Net fixed assets	21	26	34	41
Net intangible	0	1	1	1
Deferred income taxes	17	18	19	20
Total assets	538	390	320	242
Accounts payable, trade	5	6	4	5
Accounts payable, Sun Pharma	388	223	151	69
Others	2	9	4	2
Total current liabilities	395	237	159	75
Preferred stock	58	55	44	37
Common stock	86	90	101	108
Retained earnings	(2)	8	16	21
Total stockholder's equity	143	152	161	166
Total	538	390	320	242
Receivable % to sales	71%	74%	90%	23%
Inventory % to sales	156%	213%	94%	225%

Inventory by segment

Raw Materials	10	13	15	12
Goods in transit	46	13	8	18
Work In progress	7	8	7	9
Fin. Goods - Manufactured	8	10	12	12
Fin. Goods - Distributed	228	187	73	75

Source: Company data

Forecasts and valuation, March fiscal year-ends, 2007-2011E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2007	21,321	30.3	9,163	42.3	7,843	36.8	41.7	16.1	36.0	25.1
2008	33,565	57.4	18,236	99.0	14,869	89.6	74.7	32.2	38.3	14.0
2009E	40,698	21.3	22,218	21.8	17,814	19.8	86.0	29.8	30.9	12.2
2010E	42,495	4.4	21,871	(1.6)	15,884	(10.8)	76.7	22.0	22.1	13.6
2011E	49,865	17.3	24,753	13.2	18,050	13.6	87.1	21.2	20.9	12.0

Source: Company data, Kotak Institutional Equities estimates.

Construction**CCCL.BO, Rs135**

Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	190
52W High -Low (Rs)	1180 - 109
Market Cap (Rs bn)	5.0

Financials

March y/e	2008E	2009E	2010E
Sales (Rs bn)	14.8	17.5	21.1
Net Profit (Rs bn)	0.9	0.8	1.0
EPS (Rs)	24.0	22.3	27.2
EPS <i>gth</i>	67.6	(7.4)	22.1
P/E (x)	5.6	6.1	5.0
EV/EBITDA (x)	3.9	4.1	3.5
Div yield (%)	1.9	2.4	2.9

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(33.2)	(53.4)	(76.7)	(87.2)

Shareholding, September 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	50.3	-
FIs	14.2	0.0
MFs	3.3	0.1
UTI	-	-
LIC	-	-

Consolidated Construction Consortium: Results disappoint; cancellations and deferrals aplenty

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- **Margins affected by unabsorbed overheads**
- **Experiencing significant cancellations and deferrals**
- **Admirably scaled up the industrial and infrastructural business; dependence on commercial reduced**
- **Reiterate ADD based on inexpensive valuations; trading below book value also**

CCCL reported disappointing margins in 3QFY09—despite revenues being in line with our estimates—primarily due to unabsorbed overheads in cancelled and deferred orders. The company reported order cancellations to the tune of Rs3.95 bn and execution delays in orders worth Rs2.3 bn for 9MFY09. Most of these order cancellations and deferrals have been observed in the commercial segment. We highlight that CCCL has admirably scaled up its infrastructure and industrial business. This thereby reduces its exposure to the commercial business to 43% at the end of December 2008 from 75% of the backlog at the end of FY2008. CCCL is also trying to build business in thermal power plant execution and has recently picked up orders from BHEL. The company is also increasing its reliance on government orders in order to mitigate the risk of future order cancellations. However, this might lead to execution delays and higher working capital levels as seen in other government backed projects. We revise our earnings estimates to Rs22.3 and Rs27.2 for FY2009E and FY2010E, respectively. We reduce our DCF-based target price to Rs190/share from Rs290 earlier and reiterate our ADD rating on the stock.

Revenues in line with expectations; however, margins affected by unabsorbed overheads

CCCL reported 3QFY09 revenues of Rs4.31 bn (up 30.2% yoy) in line with our expectation of Rs4.29 bn (Exhibit 1). However, results disappointed at the operating margin level with margins declining by about 190 bps yoy from 7.2% in 3QFY08 to 5.4% in this quarter. We had estimated marginal expansion in operating margin of 30 bps to 7.5%. The lower margins were due to 190 bps increase in other expenditure and 30 bps increase in employee expenses as a percentage of sales. Other expenditure increased as the company had to absorb overheads on certain orders, particularly on orders (a) where execution has slowed down and (b) that have got cancelled but the company had to absorb expenses incurred so far to the extent of Rs35 mn. The increase in other expenses was partially offset by a 30 bps yoy decline in raw material and construction costs as a percentage of sales. Profit after tax reported was Rs131 mn (down 32% yoy) about 31% below our estimate of Rs191 mn.

For the nine month period ending December 31, 2008, CCCL reported revenues of Rs12.8 bn (up 30% yoy) and profit after tax of Rs504 mn (down 1.8% yoy). Operating profit margin declined by 150 bps yoy to 6.5% for the same period.

Experiencing significant cancellations and deferrals

CCCL has reported that it has had cancellations on orders worth Rs3.95 bn and on these cancelled orders CCCL had to absorb costs of Rs35 mn. Similarly, CCCL has also reported that execution has slowed down on orders worth Rs2.3 bn. Even the Chennai airport order, considered safe given that it originates from the central government, has experienced delays. This delay in turn delays the handover of land to CCCL.

CCCL has admirably scaled up the industrial and infrastructural business; dependence on commercial business has reduced

We highlight that CCCL has admirably scaled up (1) infrastructure business - with the order win in Chennai of Rs12 bn and other smaller airports and (2) industrial business – with order wins from Renault-Nissan and automotive testing facility etc. Order backlog of industrial business has grown from Rs2.5 bn at the end of FY2008 to Rs5.7 bn at the end of 9MFY09. Correspondingly, the share of commercial business has come down from 75% of backlog at the end of FY2008 to 43% of the backlog at the end of 9MFY09 (Exhibit 2). CCCL is also trying to build business in thermal power plant execution and has recently picked up orders from BHEL from areas such as piling foundation, reservoir construction etc.

Increased reliance on government sector orders may imply higher working capital

Government sector orders now account for about half of the total order backlog of Rs36.5 bn. While government projects are safer in terms of cancellations, they are susceptible to delays in execution as has been experienced in Chennai airport order. Government sector projects also lead to higher working capital as in the case of Nagarjuna Construction and IVRCL Infrastructure.

Revise earnings estimate and target price to Rs190 from Rs290 earlier; Reiterate ADD based on inexpensive valuations

We have revised our earnings estimates downwards to Rs22.3 and Rs27.2 from Rs26.9 and Rs33.6 for FY2009E and FY2010E respectively. Revision in earnings estimates is based on lower inflow growth and margin estimates in the near future. We have changed our DCF-based target price to Rs190/share (from Rs290 earlier, Exhibit 3) and maintain ADD rating.

Highlight risks related to tough operating environment for commercial construction as highlighted by recent order cancellation, increase in working capital and delays in finalizing orders. Other risks relate to (a) ramp up of several new business segments like glazing and interior fit-outs, (2) concentrated business mix- revenues largely from South India and (3) exposure to IT as a vertical, leading to perceived demand pressure based on slowdown in IT.

Other takeaways from the conference call:

- The management highlighted that they are experiencing delays in receiving payment from the clients due to the current liquidity crunch which has lead to an increase in the receivables to about 120 days of sales which is being managed by similar increase in creditor days
- The company has already tendered and receive L1 for about Rs2.5 bn worth of orders
- The company has now taken working capital debt on its books of about Rs1.9 bn. Current cash on books is about Rs0.5 bn. CCCL has incurred a capital expenditure of Rs600 mn in 9MFY09.
- CCCL has not yet received an advance for the Chennai airport project. There would not be much cash requirement as it has already tied up a separate Rs5 bn line of debt with the bank for execution of the project. This project has a monthly billing cycle

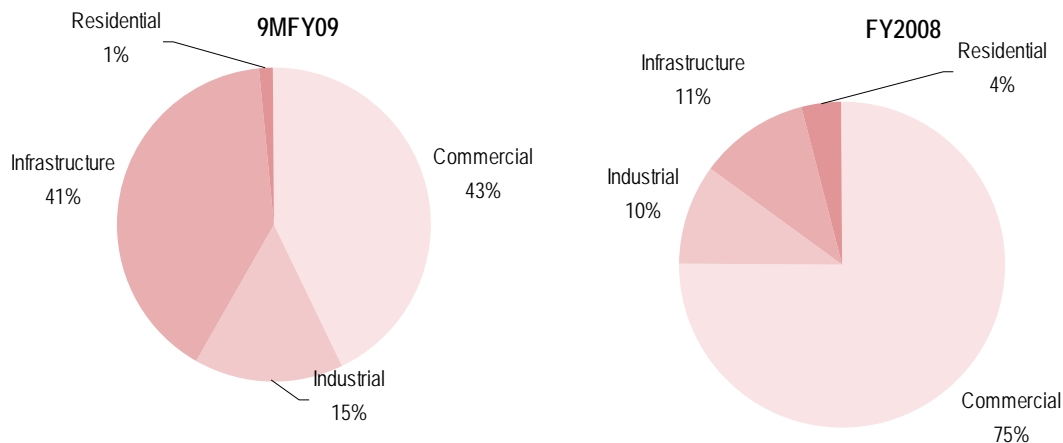
Exhibit 1. CCCL - 3QFY09 - Key nos (Rs mn)

	yoy			qoq			yoy		
	3QFY09	3QFY08	% chng	3QFY09	2QFY09	% chng	9MFY09	9MFY08	% chng
Sales	4,316	3,316	30.2	4,316	4,671	(7.6)	12,782	9,831	30.0
Expenses	(4,085)	(3,075)	32.8	(4,085)	(4,354)	(6.2)	(11,946)	(9,042)	32.1
Stock	-	-		-	-		-	-	
Operating expenses	(3,544)	(2,733)	29.7	(3,544)	(3,880)	(8.7)	(10,527)	(8,118)	29.7
Employee expenses	(272)	(198)	37.1	(272)	(246)	10.6	(719)	(481)	49.7
Administration and selling	(268)	(145)	85.8	(268)	(228)	17.7	(700)	(443)	58.1
Operating profit	231	240	(3.6)	231	317	(27.0)	836	790	5.9
Other income	16	22	(27.3)	16	18	(12.3)	55	53	3.7
EBIDTA	247	262	(5.6)	247	335	(26.2)	891	843	5.8
Interest	(38)	(2)	1,475.2	(38)	(24)	56.7	(79)	(65)	21.0
Depreciation	(22)	(16)	42.8	(22)	(20)	13.7	(58)	(40)	47.1
PBT	187	244	(23.4)	187	291	(35.9)	754	738	2.2
Tax	(56)	(52)	7.6	(56)	(100)	(43.7)	(250)	(225)	11.3
Net profit	131	192	(31.9)	131	191	(31.8)	504	513	(1.8)
Key ratios (%)									
RM / Sales	82.1	82.4		82.1	83.1		82.4	82.6	
Employee exp/Sales	6.3	6.0		6.3	5.3		5.6	4.9	
Other exp/Sales	6.2	4.4		6.2	4.9		5.5	4.5	
OPM	5.4	7.2		5.4	6.8		6.5	8.0	
PBT Margin	4.3	7.4		4.3	6.2		5.9	7.5	
PAT Margin	3.0	5.8		3.0	4.1		3.9	5.2	
Tax rate	30.1	17.7		30.1	34.2		33.2	29.7	

Source: Company, Kotak Institutional Equities

Exhibit 2. Increase in Infrastructure business driven by Chennai airport order worth Rs12.1 bn

Segment wise breakup of CCCL's order book (Rs mn)



Source: Company, Kotak Institutional Equities

Exhibit 3. CCCL, DCF model, March fiscal year-ends 2009E-2018E (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues	17,499	21,077	24,363	27,987	31,651	33,895	36,790	40,469	44,516	48,077
Revenue growth (%)	18.5	20.4	15.6	14.9	13.1	7.1	8.5	10.0	10.0	8.0
EBITDA	1,425	1,805	2,130	2,521	2,852	3,059	3,323	3,440	3,784	4,087
EBITDA margin (%)	8.1	8.6	8.7	9.0	9.0	9.0	9.0	8.5	8.5	8.5
Depreciation	(90)	(131)	(167)	(209)	(251)	(297)	(347)	(347)	(347)	(347)
EBIT	1,334	1,675	1,963	2,313	2,601	2,762	2,976	3,093	3,437	3,740
Tax	(440)	(548)	(650)	(769)	(864)	(918)	(989)	(1,027)	(1,142)	(1,242)
Change in net working capital	(1,559)	(986)	(709)	(220)	(881)	(539)	(696)	(806)	(887)	(781)
Capex	(650)	(418)	(535)	(570)	(595)	(670)	(720)	(607)	(668)	(721)
Free cash flow	(1,224)	(146)	235	962	511	932	918	999	1,087	1,343
PV of each cash flow	(1,224)	(128)	183	658	308	495	430	412	395	430
EBITDA (%)	8.1	8.57	8.74	9.01	9.01	9.03	9.03	8.50	8.50	8.50
Capex (% of sales)	3.71	1.98	2.20	2.04	1.88	1.98	1.96	1.50	1.50	1.50

PV of cash flows	2,363
PV of terminal value	5,017
EV	7,379
Debt	377
Equity value	7,002
Shares outstanding (mn)	37
Equity value (Rs/share)	189
Exit FCF multiple (X)	12.4

FCF in terminal year (Rs mn)	1,441
Exit FCF multiple: $(1+g)/(WACC-g)$	12.4
Terminal value of FCF (Rs mn)	17,798
Exit EBITDA multiple	4.4

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.5
Market risk premium—(Rm-Rf) (%)	6.0
Beta (x)	1.1
Cost of equity-Ke (%)	15.1
Cost of debt-Kd (%)	12.0
Tax rate (%)	34.0
Debt/Capital (%)	31.9
Equity/Capital (%)	68.1
WACC (%)	12.8
Used WACC (%)	13.5

Sensitivity of DCF value to WACC, Terminal Growth rate

		WACC (%)				
		12.5	13.0	13.5	14.0	14.5
Terminal Growth rate (%)	3.0	189	175	162	150	139
	4.0	206	189	174	160	148
	5.0	227	207	189	174	160
	6.0	255	230	209	190	174
	7.0	293	261	235	212	192

Base case

Source: Kotak Institutional Equities estimates

Utilities

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		4-Feb	Target
Reliance Infrast	BUY	520	970
Reliance Powe	REDUCE	100	120
Tata Power	BUY	749	1,140
NTPC	REDUCE	177	160
Lanco	BUY	112	320
CESC	BUY	228	385

Gas flow likely to light up new gas-based power plants, including merchant capacities

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- **Enough demand from existing power projects to consume the initial production of natural gas**
- **More power projects awaiting clarity on gas allocation**
- **Private players keeping part-capacity for merchant sale and improve returns**
- **Natural gas price of US\$4.2/mmbtu viable for power projects in the prevailing environment**

We believe the power sector will be the key beneficiary from the commencement of production of gas from Reliance's KG-D6 basin. While the existing gas-based power plants will be able to run efficiently and optimally at higher capacity utilization rates, we expect more gas-based power projects to be developed as clarity emerges on the allocation of gas. About 21 GW of generation capacity (which can consume 86.4 mmscmd of natural gas) is currently at the development stage awaiting execution of firm gas supply contracts. We estimate generation of power using gas at US\$4.2/mmbtu to be viable in the prevailing environment and note power procurement by several states have happened at even higher tariffs. Several private project developers (like GVK, GMR, Lanco, Torrent Power) have kept part of their project capacity to be sold under merchant-basis to improve their project returns. The development of gas-based power plants by NTPC and Reliance Power await the resolution of disputes on the gas supply contracts.

Enough demand from existing power projects to consume the initial production of natural gas

Short supply of natural gas has resulted in the bulk of gas-based power plants in India operating at a low load factor (PLF). The availability of 40 mmscmd gas from the KG-D6 will likely result in improved utilization of these capacities. The empowered group of ministers (EGoM) had decided to prioritize the utilization of natural gas for existing fertilizer/urea plants (which will consume est. 10 mmscmd) and power plants reeling under the shortage of natural gas. The power plants currently running under-utilized will need about 20.2 mmscmd of additional natural gas (in addition to their current supplies) to operate at an optimal PLF of 85%. In addition, 3.8 mmscmd of gas will be consumed by the power plants in Andhra Pradesh which have been constructed but have not been able to commission due to non-availability of natural gas.

Exhibit 1 gives the details of the power plants which will likely get natural gas from KG-D6. Tanir Bavi power project (220 MW) of GMR will likely switch from using naphtha to natural gas. Allocation from KG-D6 will also benefit Sugden Power (1,128 MW) of Torrent Power, 366 MW of Lanco Kondapalli extn and 108 MW of NDPL (Tata Power's distribution subsidiary in Delhi). These projects are currently under construction for commissioning in FY2009/10 but do not have (or have only a part) gas tied up for operations.

More power projects awaiting clarity on gas allocation

Natural gas production from KG-D6 is expected to increase to 80 mmscmd and additional gas will be likely available for more power projects. We believe the demand for gas (at US\$4.2/mmbtu) from the power sector is unlikely to be a constraint as we expect the current power-deficit scenario to likely sustain for the next 5-7 years. Private players had announced mega plans for constructing coal-based thermal power projects after getting coal blocks or linkages from the government. However, most of these projects face serious execution bottlenecks of land acquisition, rehabilitation, environmental and forest clearances.

We estimate about 20,595 MW of gas-based generation capacity (which can consume 86.4 mmscmd of natural gas) is currently at the development stage. The execution of these projects awaits clarity on gas availability and execution of firm supply contracts for quantity and price of gas. These include large power projects planned by Reliance Power (7,480 MW at Dadri and 2,800 MW at Shahapur) and NTPC (1,300 MW each at Kawas and Gandhar).

Private players keeping part-capacity for merchant sale and improve returns

Ability to take fluctuations in load makes the gas-based power stations ideal for running as merchant power plants. Merchant tariffs esp. peak hour tariffs have been running significantly higher than tariffs under long-term PPAs due to the prevailing power-deficit scenario. Private power plant developers plan to sell part of their capacity under the merchant route and improve their return profile. Exhibit 2 gives the details of power plants which have part-merchant capacity and will benefit from availability of gas. We note some power projects (Jegurupadu II, Gautami, Konaseema and Vemagiri) have seen significant increase in capital costs as these projects have been lying idle due to lack of availability of gas. While the tariffs to be recovered under the PPAs have remain unchanged, operating part-capacity on merchant-basis will likely compensate these projects for these cost escalations. Torrent Power also has part-merchant capacity while Lanco Kondapalli extn. is being developed to run its full capacity under merchant route.

Natural gas price of US\$4.2/mmbtu viable for power projects in the prevailing environment

We estimate variable cost of power generation using natural gas at US\$4.2/mmbtu (delivered cost of US\$5.5/mmbtu) at ~Rs2/unit. The total cost of generation for a regulated power plant earning 15.5% post-tax RoE will be ~Rs2.9/unit. While we note the tariff of Rs2.9/unit cannot compete against the generation costs of a pit-head based thermal power station (see Exhibit 4), the prevailing large deficit scenario and obstacles in development of large thermal capacities has resulted in improved financial viability and full capacity utilization of power plants based on higher cost fuels (imported coal, coal stations near load centre) as well. Power procurement by state utilities through case I competitive bidding has also been getting bids (in Gujarat, Haryana etc.) ranging from Rs2.6/unit to Rs3.5/unit.

Demand for natural gas from extant and proposed power capacities exceeds the expected supply of 80 mmscmd

Existing and future natural gas-based capacities (MW) and demand for fuel (mmscmd)

	Capacity (MW)	Gas demand (mmscmd)		
		Gross demand	Existing supply	Net demand
Existing stations	11,683	49.0	28.7	20.2
NTPC	3,604	15.1	13.7	1.5
Ratnagiri	2,220	9.3	0.5	8.8
Andhra Pradesh	1,875	7.9	4.1	3.8
Maharashtra	930	3.9	2.8	1.1
Gujarat	1,949	8.2	4.1	4.1
Others	1,104	4.6	3.6	1.1
Plants pending commissioning due to shortage of gas	909	3.8	—	3.8
Gautami (GVKPIL)	464	1.9	—	1.9
Konaseema	445	1.9	—	1.9
Plants operating on liquid fuel required to switch over to gas	220	0.9	—	0.9
Tanir Bavi (GMR)	220	0.9	—	0.9
Plants likely to be commissioned in 2008-09	1,128	4.7	0.9	3.8
Sugen Power (Torrent Power)	1,128	4.7	0.9	3.8
Plants likely to be commissioned in 2009-10	474	2.0	—	2.0
Lanco Kondapalli Extn (Lanco Infratech)	366	1.5	—	1.5
Rithala (NDPL)	108	0.5	—	0.5
Proposed projects	20,595	86.4	—	86.4
Dadri (Reliance Power)	7,480	31.4	—	31.4
Shahapur (Reliance Power)	2,800	11.7	—	11.7
NTPC	2,600	10.9	—	10.9
Others	7,715	32.4	—	32.4
Total	35,009	147	30	117

Note:

Gross demand estimated at 85% PLF assuming calorific value of gas at 9,000 kcal/m³ and a station heat rate of 1,850 kcal/kwh.

Source: Infraline, Kotak Institutional Equities estimates

Private sector projects likely to have some element of merchant power as well

Gas-based private sector projects expected to start operations using natural gas from KG-basin

Company	Project	Capacity (MW)	Power sales (MW) committed under			Comments
			Regulated	Competitive bidding	Uncommitted	
GVKPIL	Jegurupadu II	228		178	50	Commissioned, but not generating due to lack of gas
GVKPIL	Gautami CCPP	464		364	100	Awaiting gas supplies from KG-basin
Konaseema	Konaseema CCGT	445	356		89	Awaiting gas supplies from KG-basin
Torrent Power	Sugen CCPP	1,128	1,028		100	Under construction
Lanco Infratech	Kondapalli extn.	366			366	Under construction
		2,631	1,384	542	705	

Source: CEA, Kotak institutional Equities

Gas price of US\$4.2/mmbtu is conducive for regulated as well as merchant capacities

Profitability (Rs/unit) of projects under various assumption of gas pricing (US\$/mmbtu) and tariffs (Rs/unit)

	Gas @ US\$4.2		Gas @ US\$2.34	
	Merchant	Regulated	Merchant	Regulated
Tariff	3.5	2.9	3.5	1.8
Cost of fuel	2.0	2.0	1.0	1.0
Other operating costs	0.1	0.1	0.1	0.1
EBITDA	1.4	0.8	2.5	0.8
Depreciation charge	0.2	0.2	0.2	0.2
Interest costs	0.3	0.3	0.3	0.3
PBT	0.8	0.2	1.9	0.2
Tax @ MAT	0.1	0.0	0.2	0.0
PAT	0.7	0.2	1.7	0.2

Source: Kotak Institutional Equities estimates

Domestic gas at US\$5.5/mn BTU (delivered) appears to be a viable price for the power sector

Comparative cost of power generation using various fuels

	Naphtha (a)	Gas (b)	Coal (d)	Gas (c)	Coal (e)	Coal (f)
Unit	Kg	m3	Kg	m3	Kg	Kg
Price (Rs/unit)	19.9	4.6	0.7	9.9	1.5	4.8
Calorific value (Kcal/unit)	10,500	9,000	3,500	9,000	3,500	6,500
Thermal efficiency (%)	46	46	37	46	37	37
Thermal requirement (kcal/kwh)	1,850	1,850	2,324	1,850	2,324	2,324
Cost of generation (Rs/Kwh)	3.51	0.95	0.43	2.03	1.00	1.71
Other operating costs (Rs/Kwh)	0.08	0.08	0.20	0.08	0.20	0.20
Plant load factor (%)	85	85	85	85	85	85
Fixed capital investment (Rs mn/MW)	30	30	45	30	45	45
Depreciation charge (%)	5.5	5.5	4.8	5.5	4.8	4.8
Depreciation charge (Rs/Kwh)	0.22	0.22	0.29	0.22	0.29	0.29
Fixed capital charge (%)	15.5	15.5	15.5	15.5	15.5	15.5
Fixed capital charge (Rs/Kwh)	0.62	0.62	0.94	0.62	0.94	0.94
Total cost (Rs/Kwh)	4.44	1.88	1.86	2.96	2.42	3.14

Note:

(a) Naphtha cost based on average price for the period April 2007-May 2008.

(b) Gas price at US\$2.6/mn BTU (delivered).

(c) Gas price at US\$5.5/mn BTU (delivered).

(d) Domestic coal at pithead.

(e) Domestic coal 1,000 kms from pithead.

(f) Imported coal at coastal plant; average price for the period April 2007-May 2008.

Source: Platt's, Indian Railway Budget, Kotak Institutional Equities estimates

Summary valuation of utility companies

	Category	Rating	Mkt Cap.	Price	Target	EV/EBITDA (X)				P/E (X)			
			(US\$ bn)	4-Feb	price	2008	2009E	2010E	2011E	2008	2009E	2010E	2011E
Reliance Infrastructure	Int	BUY	2.46	520	970	15.4	12.6	12.0	8.9	13.8	8.7	9.3	8.4
Tata Power	Int	BUY	3.42	749	1,140	11.3	8.6	8.1	8.4	23.5	11.4	7.9	8.0
CESC	Int	BUY	0.58	228	385	4.8	4.0	3.8	2.9	8.2	7.1	6.2	5.6
NTPC	Gen	REDUCE	29.9	177	160	13.2	14.1	13.4	13.1	19.0	19.6	18.2	16.0
Lanco Infratech	Div	BUY	0.51	112	320	11.2	16.1	12.7	7.7	7.5	7.3	5.6	3.9
Reliance Power	Gen	REDUCE	4.94	100	120	(558)	(282)	778	68	264.1	74.9	41.0	32.7

	Div Yield (%)				2008	ROCE (%)				2008	ROE (%)			
	2008	2009E	2010E	2011E		2008	2009E	2010E	2011E		2008	2009E	2010E	2011E
Reliance Infrastructure	0.7	0.7	0.7	0.6	1.2	6.0	6.5	5.5	5.6	4.3	6.2	6.7	9.0	9.0
Tata Power	2.0	1.7	1.5	1.3	1.4	7.7	8.8	8.6	7.3	10.0	16.4	20.1	17.0	17.0
CESC	1.1	1.0	0.9	0.8	1.8	11.3	11.0	10.1	9.3	16.8	15.0	14.9	14.6	14.6
NTPC	2.7	2.5	2.3	2.1	2.0	10.9	9.5	9.0	8.9	14.9	13.2	13.1	13.7	13.7
Lanco Infratech	1.4	1.1	1.0	0.8	0.0	15.1	8.1	8.7	11.4	19.7	16.9	18.5	21.9	21.9
Reliance Power	1.7	1.7	1.7	1.6	0.0	0.0	0.0	2.1	2.3	1.3	2.3	4.2	5.0	5.0

Source: Kotak Institutional Equities estimates

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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Kotak Institutional Equities: Valuation Summary of Key Indian Companies

4-Feb-09 Price (Rs)	Rating	Company	O/S shares (mn)	Mkt cap. (US\$ mn)	EPS (Rs)		EPS growth (%)		PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend yield (%)		RoE (%)		Target price (Rs)	ADVT- 3mo Upside (US\$ mn)																													
					2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E			2010E																												
Energy																																																	
389	REDUCE	Bharat Petroleum	2,616	127,572	328	41.1	37.9	34.3	(21.6)	(7.9)	(9.5)	9.5	10.3	11.4	4.3	4.2	3.6	1.0	1.0	0.8	1.1	1.0	0.9	11.8	9.7	8.0	400	2.8	6.3																				
321	BUY	Cairn India	1,871	30,587	1,871	(0.1)	4.2	5.0	(105)	(3.619)	20	(1,352)	38	32.1	37.2	22.0	15.8	0.0	0.9	0.9	—	—	—	(0.1)	2.5	2.8	225	39.6	15.2																				
161	ADD	Castrol India (a)	812	30,627	812	17.6	21.3	25.8	44.4	20.7	21.3	18.2	15.0	12.4	10.0	8.4	6.9	9.6	8.8	7.8	4.4	4.7	5.6	52.2	61.0	66.8	390	21.7	0.3																				
206	REDUCE	206	260,735	5,346	1,268	20.4	22.9	24.0	21.0	12.2	4.8	10.1	9.0	8.6	4.9	5.2	6.4	1.8	1.6	1.4	3.2	3.9	3.9	18.1	18.0	16.7	210	2.2	10.8																				
30	BUY	GSPL	347	563	347	563	1.8	1.4	2.4	10.1	(22.4)	68.6	16.7	21.5	12.7	6.1	6.5	4.4	1.4	1.3	1.2	1.7	1.3	2.2	8.8	6.2	9.7	45	49.8	1.7																			
290	REDUCE	Hindustan Petroleum	339	33.5	14.7	32.0	(16.4)	(56.1)	118.1	8.7	19.8	9.1	7.4	6.2	3.7	0.8	0.7	1.0	0.5	1.0	9.6	3.9	7.9	285	(1.8)	7.9	285	(1.8)	7.9																				
440	REDUCE	Indian Oil Corporation	1,179	61.3	32.3	53.4	31.0	(47.4)	65.4	7.2	13.6	8.2	4.3	8.4	6.2	1.2	1.1	0.9	1.3	0.7	1.2	17.4	8.0	12.0	500	25.0	3.8																						
666	BUY	Oil & Natural Gas Corporation	2,139	99.7	102.0	107.2	91	100.5	71	7.2	6.5	6.2	2.5	2.2	1.9	1.4	1.2	1.1	4.8	5.1	5.7	19.6	19.2	17.8	900	35.2	37.8																						
36	ADD	Petronet LNG	555	27,075	750	6.3	5.5	5.9	—	(12.6)	6.6	5.7	6.5	6.1	3.9	5.8	4.6	1.4	1.2	1.0	4.2	4.2	4.2	26.7	19.2	17.2	52	44.0	1.7																				
1,308	ADD	Reliance Industries	36,806	1,795,198	1,273	105.0	97.7	115.7	25.5	(6.9)	18.4	12.5	13.4	11.3	8.4	7.7	5.0	2.0	1.7	1.4	0.9	1.1	1.2	19.0	14.3	14.6	1,400	7.1	235.0																				
83	REDUCE	Reliance Petroleum	371,700	7,621	4,500	(0.0)	7.1	—	na	na	na	na	na	11.7	na	na	9.1	2.8	2.8	2.4	—	—	2.4	—	(0.0)	22.0	85	2.9	35.0																				
Neutral																					4,981,226	102,127	12.9	(2.3)	24.3	10.4	10.7	8.6	5.3	5.6	4.1	1.6	1.3	2.1	2.2	2.7	14.9	12.3	13.9										
Industrials																																																	
467	REDUCE	ABB	2,029	98,961	212	23.2	25.5	29.8	44.5	10.0	16.6	20.1	18.3	15.7	11.5	10.3	8.5	6.1	4.8	3.8	0.5	0.6	0.7	34.8	29.2	26.9	500	7.1	4.6																				
145	REDUCE	BGR Energy Systems	214	10,418	72	12.1	15.3	20.7	(67.4)	26.1	35.4	11.9	9.5	7.0	7.0	5.5	4.8	2.2	1.9	1.5	1.4	1.7	2.3	31.4	21.3	23.9	165	14.0	0.8																				
871	ADD	Bharat Heavy Electricals	1,429	69,680	80	102.0	105.5	111.8	11.2	3.4	6.0	8.5	8.3	7.8	3.6	2.9	2.5	2.1	1.8	1.5	2.4	2.9	2.9	27.7	23.1	20.8	950	9.1	1.0																				
1,357	BUY	Bharat Heavy Electricals	13,622	490	58.4	64.9	92.6	22.9	11.2	42.5	23.2	20.9	14.7	12.2	10.8	7.8	6.2	5.0	4.0	1.1	1.0	1.5	29.2	26.6	30.5	1,475	8.7	59.7																					
655	REDUCE	Larsen & Toubro	7,963	388,396	593	37.9	48.5	55.3	20.8	27.8	14.1	17.3	13.5	11.8	12.0	9.0	8.0	3.3	2.5	2.1	1.3	3.1	3.1	22.7	20.9	19.4	750	14.5	64.8																				
124	BUY	Maharashtra Seamless	180	8,760	71	29.4	37.4	37.9	(23.5)	27.6	1.2	4.2	3.3	3.3	2.4	2.0	1.9	0.8	0.6	0.5	4.0	4.5	4.6	19.7	21.1	18.0	215	73.1	0.3																				
199	REDUCE	Siemens	1,374	66,994	337	18.2	14.2	15.7	60.4	(22.2)	10.5	10.9	14.0	12.7	5.8	5.6	6.3	3.6	2.9	2.5	1.2	1.8	2.2	39.9	23.1	21.3	220	10.7	5.8																				
42	REDUCE	Suzlon Energy	1,349	1,567	1,567	6.6	6.9	4.3	9.5	4.4	(37.5)	6.4	6.1	9.8	4.2	6.7	8.2	0.7	0.6	0.6	2.3	1.2	1.2	16.3	11.0	6.2	60	42.9	58.9																				
Neutral																					1,373,422	28,158	24.6	12.2	17.2	16.5	14.7	12.5	9.5	8.4	7.4	3.4	2.8	2.3	1.3	1.7	2.0	20.8	19.0	18.8									
Infrastructure																																																	
110	ADD	IRB Infrastructure	750	36,560	332	3.4	6.6	13.9	150.9	92.3	111.2	32.1	16.7	7.9	12.0	10.5	5.4	2.2	1.9	1.5	—	—	—	10.7	12.4	21.4	130	18.2	0.3																				
Media																																																	
24	REDUCE	DishTV	316	15,394	644	(9.6)	(7.4)	(4.1)	na	(23.1)	(44.2)	(2.5)	(3.2)	(5.8)	(9.1)	(11.8)	(56.1)	(3.4)	(2.4)	(7.2)	—	—	—	167.9	86.7	NA	22	(7.9)	1.0																				
51	BUY	HT Media	245	11,947	234	4.3	3.1	4.8	4.7	(28.5)	53.7	11.8	16.5	10.7	6.3	7.5	4.9	1.4	1.3	1.2	0.8	0.8	1.6	12.2	8.2	11.8	115	125.5	0.1																				
47	BUY	Jagran Prakashan	292	14,230	301	3.3	2.9	4.1	33.5	(9.7)	38.7	14.5	16.1	11.6	7.8	8.8	6.3	2.6	2.3	4.2	3.1	4.3	18.7	15.9	20.4	75	58.7	0.0																					
168	BUY	Sun TV Network	1,361	66,383	394	8.3	9.3	11.4	30.7	12.0	23.0	20.3	18.1	14.7	10.8	9.6	7.9	4.4	3.9	3.6	1.5	2.4	3.6	24.8	23.6	25.8	215	27.6	2.6																				
102	BUY	Zee Entertainment Enterprises	904	44,094	434	8.9	8.2	9.3	62.6	(7.5)	13.7	11.5	12.4	10.9	8.5	9.0	7.9	1.5	1.3	1.2	2.0	2.3	2.6	14.2	11.8	12.2	145	42.6	5.3																				
31	BUY	Zee News	151	7,361	240	1.5	1.9	2.1	396.2	24.0	6.9	11.9	16.0	15.0	10.8	9.0	8.0	3.5	3.0	2.6	1.3	1.3	1.6	19.2	20.5	18.9	38	23.8	0.2																				
Attractive																					159,409	3,268	30.8	(17.1)	68.2	29.7	35.9	21.3	12.2	12.0	8.5	2.8	2.6	2.2	1.7	2.0	2.8	9.5	7.3	10.5									
Metals																																																	
44	ADD	Hindalco Industries	1,592	77,641	1,753	13.8	7.7	2.4	(10.0)	(44.4)	(69.2)	3.2	5.8	18.8	5.5	5.0	6.9	0.4	0.2	0.2	—	—	—	14.4	10.3	5.2	65	46.7	11.6																				
189	SELL	National Aluminium Co.	2,497	121,807	644	25.3	19.7	10.3	(31.5)	(22.2)	(47.8)	7.5	9.6	18.4	3.1	4.4	5.5	1.3	1.2	1.1	3.2	1.9	1.1	18.3	12.7	6.2	135	(28.6)	3.1																				
1,001	BUY	Jindal Steel and Power	3,161	154,169	1,014	101.8	92.4	78.9	123.0	(9.2)	(14.6)	9.8	10.8	12.7	8.2	7.4	8.1	3.6	2.7	2.2	0.5	0.6	0.7	43.8	28.3	18.9	1,250	24.8	16.7																				
199	SELL	JSW Steel	764	37,279	787	86.1	8.7	21.5	16.1	(89.9)	146.2	4.5	7.0	7.1	4.5	7.0	7.1	0.4	0.4	0.3	7.0	1.0	1.0	20.7	10.2	3.9	185	(7.2)	6.0																				
329	BUY	Hindustan Zinc	2,848	138,907	423	104.0	66.5	59.0	(1.0)	(36.1)	(11.2)	3.2	4.9	5.6	1.2	1.6	1.7	1.1	0.9	0.8	1.5	2.3	3.0	43.6	20.8	15.7	470	43.0	2.1																				
87	BUY	Sesa Goa	1,398	68,175	787	19.0	23.2	18.3	146.0	22.6	(21.3)	4.6	3.7	4.7	2.2	2.1	1.9	2.4	1.5	1.2	3.0	4.0	4.0	67.8	50.5	28.9	115	32.8	11.8																				
279	BUY	Sterite Industries	4,057	197,882	708	64.3	49.1	40.5	(22.6)	(23.8)	(17.5)	4.3	5.7	6.9	3.6	5.4	6.8	0.8	0.8	0.7	—	—	—	26.1	14.0	10.6	365	30.7	22.1																				
180	BUY	Tata Steel	3,026	147,588	822	75.7	107.1	69.8	43.8	41.4	(34.8)	2.4	1.7	2.6	3.6	3.1	3.8	0.4	0.3	0.3	8.1	7.2	7.2	46.3	33.7	20.2	300	67.1	50.2																				
Attractive																					943,449	19,343	30.8	(17.1)	68.2	29.7	35.9	21.3	12.2	12.0	8.5	2.8	2.6	2.2	1.7	2.0	2.8	9.5	7.3	10.5									
Pharmaceutical																																																	
101	BUY	Biocon	415	20,230	200	23.3	5.0	14.5	126.0	(78.4)	186.6	4.3	20.1	7.0	5.4	8.3	4.3	1.4	1.3	1.2	0.1	0.1	0.1	17.6	6.6	17.3	230	127.4	0.5																				
195	REDUCE	Cipla	3,108	151,611	777	9.0	9.6	12.4	4.9	6.4	28.8	21.6	20.3	15.8	15.9	14.7	11.5	4.0	3.5	3.1	1.0	1.3	1.5	20.1	18.6	20.8	220	12.8	5.6																				
115	BUY	Dabur Pharma & Chemicals	192	9,357	81	14.7	12.6	20.7	30.5	(43.3)	64.4	7.8	9.1	5.5	7.8	7.9	5.2	1.6	1.4	1.2	0.0	0.0	0.0	26.8	16.6	22.9	250	117.3	0.3																				
850	BUY	Dix's Laboratories	1,125	54,868	65	53.2	65.3	72.2	85.8	22.6	10.5	16.0	13.0	11.8	13.0	10.0	8.4	6.4	4.4	3.3	0.1	0.1	0.1	48.8	40.4	32.2	1,300	52.9	5.2																				
437	BUY	Dr Reddy's Laboratories	1,514	73,868	169	26.1	28.7	37.8	(57.2)	10.0	31.7	16.7	15.2	11.6	16.3	6.9	5.6	1.6	1.5	1.3	0.9	0.9	0.9	10.3	10.3	12.2	675	54.6	4.1																				
121																																																	

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Note:

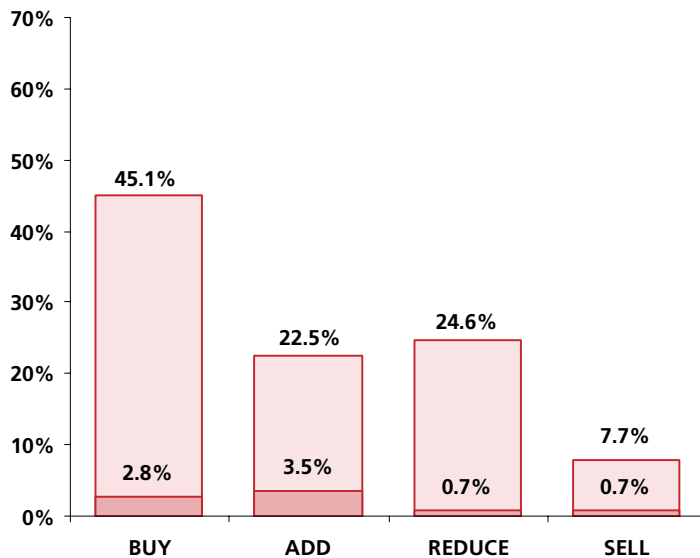
- 1) For banks we have used adjusted book values.
- 2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.
- 3) EV/Sales + EV/EBITDA for KS universe excludes Banking Sector.
- 4) Rupee-US Dollar exchange rate (Rs/US \$)= 48.78

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Source: Kotak Institutional Equities

As of December 31, 2008

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