

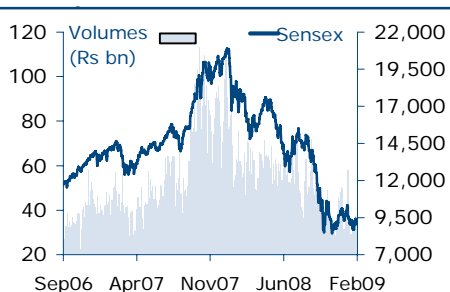
## What's Inside: Banking, Utilities, Events calendar

### Market Front Page

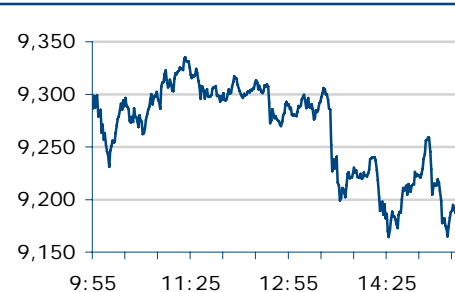
Index Movements	Closing	% Chg	% YTD	ADR/GDR (US\$)	Latest	% Chg	% Prem
Sensex	9,202	0.6	(4.6)	HDFC Bank	57.4	(0.8)	5.5
Nifty	2,803	0.7	(5.3)	Reliance	54.0	1.9	0.8
BSE Smallcap	3,273	(0.0)	(11.1)	Infosys	27.1	(1.3)	3.1
CNX Midcap	3,280	(0.3)	(12.2)	Satyam	1.9	(3.5)	(6.5)
Nasdaq	1,515	(0.1)	(3.9)	Wipro	6.8	(1.2)	48.4
DJIA	7,957	(1.5)	(9.3)	ICICI Bank	16.2	(0.5)	1.4
IBOV	40,129	1.0	6.9	SBI	46.0	(2.3)	2.4
FTSE	4,229	1.5	(4.6)	Sterlite	5.7	2.2	(0.5)
CAC	3,069	2.9	(4.6)	Tata Motors	3.9	(0.5)	40.2
Turnover	US\$m	% Chg		Commodities	Latest	%Chg	%YTD
BSE	596	(8.5)		Gold (US\$/ounce)	905	(0.1)	2.6
NSE	1,618	(14.4)		Crude (US\$/bl)	40	(1.1)	(9.6)
Derivatives (NSE)	6,592	(19.7)		Aluminium (US\$/MT)	1,439	2.4	(6.6)
FII F&O (US\$m)	Index	Stocks		Copper (US\$/MT)	3,415	1.2	11.2
Net buying	95	36		Forex Rates	Closing	% Chg	%YTD
Open interest	3,937	2,465		Rs/US\$	48.7	(0.2)	0.4
Chg in open int.	196	77		Rs/EUR	63.5	0.8	(7.0)
Equity Flows (US\$m)	Latest	MTD	YTD	Rs/GBP	70.3	1.1	0.4
FII (3/2)	(40)	(43)	(1,097)	Bond Markets	Closing	bps Chg	
DII (4/2)	58	24	783	10 yr bond		5.8	1.0
MF (3/2)	(26)	(119)	(296)	Interbank call		4.2	(5.0)

### Charts Front Page

Sensex price volume



Sensex intraday



### Corporate Front Page

- Tata Motors** fails to pay its vendors and suppliers. (ET)
- ONGC** may revive its 15mn ton Rajasthan refinery plan. (ET)
- BHEL** expects to bag Rs8bn engine deal by March. (Mint)
- Cairn India** plans to invest US\$3.8bn in Rajasthan fields. (FE)
- PTC India** plans to mobilize Rs12bn through QIP. (FE)
- Eaton Corporation has signed an agreement with **Tata Motors** for supply of heavy duty synchronized transmission upto 2014. (FE)
- Ashok Leyland** reworks its LCV tie up with Nissan. (FE)
- Ashok Leyland** reported a sharp drop in its January sales to 2,444 units against 9,112 units a year ago. (FE)
- ATE has dismissed **Reliance Power's** petition against **Lanco Infratech** challenging the expansion of the Anpara project. (Mint)
- Diageo is seeking a greater stake in **United Spirits** Ltd than sub-15% offered to it earlier. (ET)
- Reliance Infrastructure** and **HCC** are in the race for developing the Worli-Haji Ali sea link project. (ET)
- State Government has ordered an inquiry into violations of the Maharashtra Ceiling on Agricultural Holdings Act by **HCC's** Lavasa. (ET)
- Lenders allow **Ispat** to defer its payment of Rs5.9bn. (ET)
- IOC** plans to buy 1.5mn tons of crude from **Cairn India**. (ET)
- IOC, HPCL, BPCL** seek Rs100bn more from Government. (BL)
- NPCIL** and Areva sign nuclear pact. (ET)
- Essar Offshore Subsea**, a division of **Essar Projects**, bagged Rs10bn order from **ONGC**. (ET)
- BPTP**, which bagged the Rs50bn 95 acre plot of land in Noida, has returned the property back to the district authority. (FE)
- Maytas Infra** plans to set up task force to provide managerial assistance to the company. (FE)
- Coal India** may assure 75% of fuel supply under the fuel supply agreement. (FE)
- Subhiksha Group** plans to raise funds through its NBFC arm Vishwapriya Financial Services. (ET)
- Glenmark Pharmaceuticals** received US regulatory approval for marketing of Lithium carbonate capsules. (FE)

## Market Front Page

### Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Wire And Wireless	17	76.8	40.0	Gateway Distr.	59	-9.1	-31.8
Dish TV India	24	20.4	19.5	Aban Offshore	430	-7.8	-35.9
Sesa Goa	87	6.8	0.9	Glenmark Pharma	121	-7.0	-59.1
Tata Steel	180	5.2	-17.3	Satyam Computer	50	-7.0	-70.7
Zee Ent	102	5.0	-27.3	Tanla Solutions	34	-6.8	-51.0

### Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Wire And Wireless	17	77	174,446	18,846	826
Dish TV India	24	465	32,945	4,812	585
Jain Irrigation	325	483	743	113	557
BILT	15	171	2,775	691	301
Exide Industries	41	668	2,786	750	271
NDTV	82	106	1,132	326	247
Patel Engineering	148	181	298	92	223
Gateway Distr.	59	131	671	209	222
Hotel Leela	18	139	2,038	636	221
Great Offshore	239	187	886	323	175

### FII - FII trades

Scrip	3/2/2009			4/2/2009		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Sbi	185	1,102	0.3	297	1,107	0.5
Union bank	208	148.0	0.3	5,933	146.0	0.5
Bank of baroda	155	250	1.0	521	250	1.2
Pnb	12	407	1.2	318	413	2.0
Iob	152	59	-	77	59	0.2
Pantaloon	-	-	-	43	158	-

## Corporate Front Page

- **Corporation Bank** reduces lending and deposit rates. (FE)
- **Bank of India** raises Rs4bn via bonds. (FE)
- **Eicher Motors** January sales dropped by 58% to 940 units against 2,253 last year. (Mint)
- **Tata Metaliks** gets prospecting license for iron ore mines in Maharashtra. (BL)
- **JSPL** hopes to complete first phase of Angul project by 2010. (BL)
- **Ashapura Minechem** seeks partner for Maharashtra project. (BS)
- **Educomp** to foray into budget schools.(BS)

## Economy Front Page

- State clears up to 25% hike in pay and pension. (ET)
- NASSCOM lowers IT services exports growth to 17% in FY09. (ET)
- Credit flow to housing sector remains stagnant despite rate cuts. (ET)
- Government plans to levy special duty on import of LAB, a major ingredient for soaps and detergents. (ET)
- Petroleum ministry is seeking re-introduction of seven year income tax holiday for natural gas producers. (ET)
- Government issues Rs219bn bonds to IOC (Rs119.4bn), BPCL (Rs53.1bn) and HPCL (Rs46.8bn). (ET)
- Banks bar textile exporters from currency hedging to curb defaults. (ET)
- TRAI has asked telecom companies to drop call rates. (FE)
- Direct tax mop up growth slows to 13.2% (FE)
- 441 mining projects were cleared in 2008, a jump of 63.9%. (FE)
- Steel ministry plans to cut import duty on ferro nickel. (FE)
- Government announced the issue of 6.65% Fertiliser Companies Government of India Special Bonds 2023 for Rs60bn at par to 23 fertiliser companies as compensation towards fertiliser subsidy. (BL)
- Government launches ethanol blending on pilot basis. (BS)

## Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
ITC Ltd	Dr B Sen	27/01/2009	Buy	47,890	171.0	8	0.0	0.0
Kewal Kiran Clothing Ltd	Mr Dinesh P Jain	29/01/2009	Buy	50,000	123.0	6	0.4	5.8
Kewal Kiran Clothing Ltd	Mr Vikas P Jain	29/01/2009	Buy	50,000	123.0	6	0.4	5.8
Kewal Kiran Clothing Ltd	Mr Hemant P Jain	29/01/2009	Buy	40,000	123.0	5	0.3	5.6
Mascon Global Ltd	Mr K Chandra	30/01/2009	Buy	2,046,784	3.0	6	0.6	6.5
Punjab Tractors Ltd	Mahindra & Mahindra Ltd	02/02/2009	Sell	39,270,165	92.6	3,636	64.6	-

Deal size worth more than Rs5m considered. The exchange does not report transaction prices, so we have assumed them to be closing prices for the respective days. Hence, actual deal sizes may vary from the figures above.

## BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Educomp Solutions Ltd	Clsa (Mauritius) Ltd	4/2/2009	Sell	101,648	1,460.6	148
Eicher Motors Ltd	Arisaig India Fund Ltd	4/2/2009	Sell	200,000	241.0	48
Everest Kanto Cylinder Ltd	Credit Suisse (Singapore) Limited A/C Credit Suisse (Singap	4/2/2009	Buy	1,641,397	136.3	224
Everest Kanto Cylinder Ltd	Citigroup Global Mkts Mauritius Pvt Ltd- Sell Code	4/2/2009	Sell	1,641,397	136.3	224
Jain Irrigation Systems Ltd	Credit Suisse (Singapore) Limited A/C Credit Suisse (Singap	4/2/2009	Buy	727,428	328.5	239
Jain Irrigation Systems Ltd	Citigroup Global Mkts Mauritius Pvt Ltd- Sell Code	4/2/2009	Sell	727,408	328.5	239
Nitco Limited	Indea Long Term Oppertunities Master Fund	4/2/2009	Sell	164,576	31.5	5
Union Bank	Tci Cyprus Holding Ltd	4/2/2009	Sell	3,415,497	146.0	499
Union Bank Of India	Tci Cyprus Holding Limited	4/2/2009	Sell	2,670,000	145.9	390
Wire And Wireless (India)	Copthall Mauritius Investment Ltd	4/2/2009	Sell	1,200,000	15.9	19
Zicom Electronic Security	Deutsche Bank Ag	4/2/2009	Sell	104,000	74.3	8

# India Banking

## Going steady in choppy waters

5 February 2008

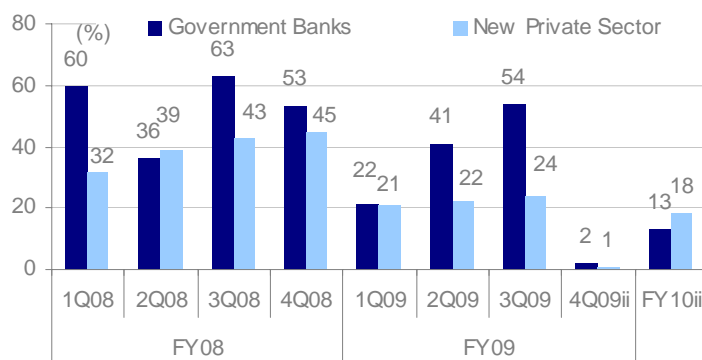
3QFY09 was an exceptionally strong quarter for banks and financials, with stocks in IIFL coverage universe reporting 36% YoY growth in net profits. Government banks (54% YoY net profit growth) did better than the private sector banks (24% YoY). Core operational performance was strong, with high loan growth, stable NIMs and not-too-alarming rise in NPLs. Going ahead, we expect loan growth to moderate, NIMs to be under pressure and fee income to slow down. Nevertheless, we still estimate 15% profit growth in FY10 on top of 23% in full year FY09. Better-managed government and private banks are expected to continue outperforming the broader market and sector benchmarks. Our preferred picks in the sector are Bank of India, PNB, Union Bank of India, State Bank of India, Axis Bank and HDFC Bank.

**Loan growth is fast decelerating:** Outstanding loans in the banking system remained almost unchanged during the last 11 weeks (31 October 2008 to 16 January 2009) (figure 2). Incremental LDR fell from near 100% to below 80% during this period. YoY loan growth has fallen from a peak of 29.4% in October to 22.1% at present. We expect full-year FY09 loan growth to be not more than 20% and slow down further to between 15% and 20% next year. The bulk of bank lending is directed towards working capital, as financial closures of new projects have been pushed back. Demand for working capital is coming down on account of lower sales volume and sharp fall in commodity prices.

**Banks are lending more to industry, real estate and NBFCs; less to agriculture and housing:** RBI's push to make more bank funds available to industries (large, medium and SME), real estate and NBFC segments has had the desired impact. Exposure to real estate (3.1% of loans) and NBFCs (3.5%) is still relatively small, but is on the rise (figure 5). Banks are likely to have to restructure a large portion of their real estate exposure, in view of the sharp decline in the industry's fortunes over the past year.

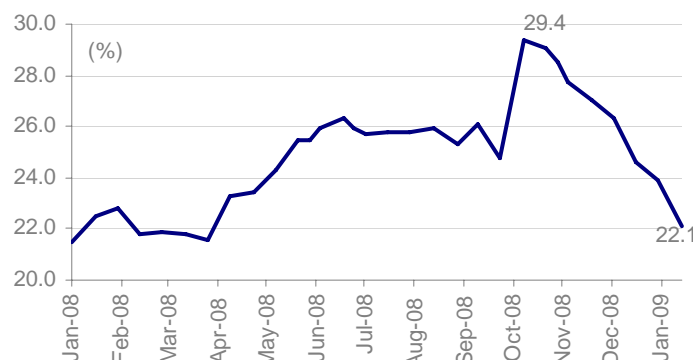
**Banks' holding of SLR securities on the rise again:** Banks put the bulk of incremental deposits during the first seven months of this fiscal into loans, thereby reducing SLR investments from 27.8% to 25.8% during this period. However, the trend has reversed, with the SLR going up to 28.9% in January 2009. This goes contrary to the 100bps cut in SLR w.e.f. 28 November 2008, and can be explained by higher risk averseness of banks and more importantly, to higher market borrowings of the government. Government net borrowing programme for fiscal FY09 was raised by 77% from the budgeted Rs990bn to Rs1,753bn.

### PAT growth (YoY) trend: govt. banks vs. private banks



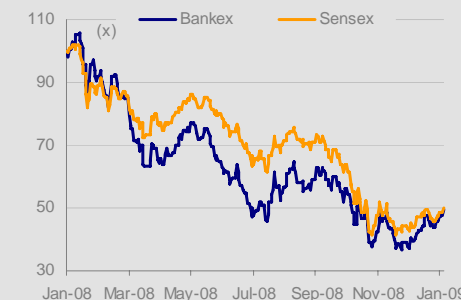
Source: Company, IIFL Research

### Loan growth (YoY) has significantly come off its peak



Source: Bloomberg, IIFL Research

### Bankex relative to Sensex



Source: Bloomberg, IIFL Research

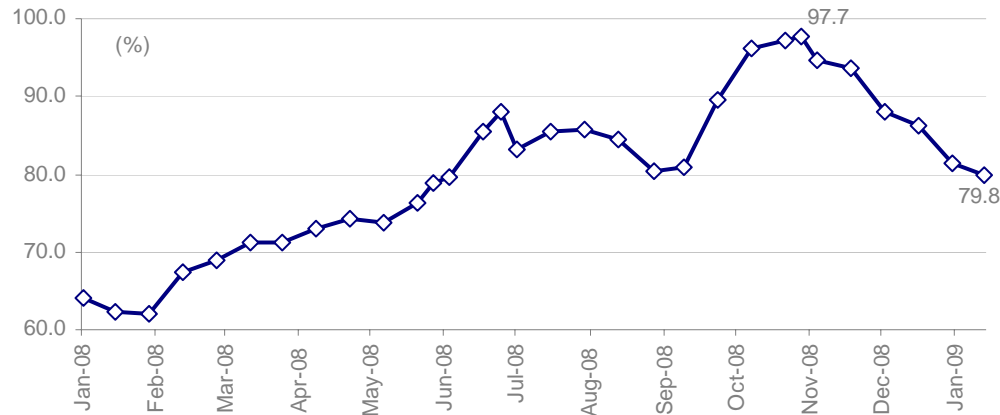
### Bank index 1 yr fwd PB and ROE



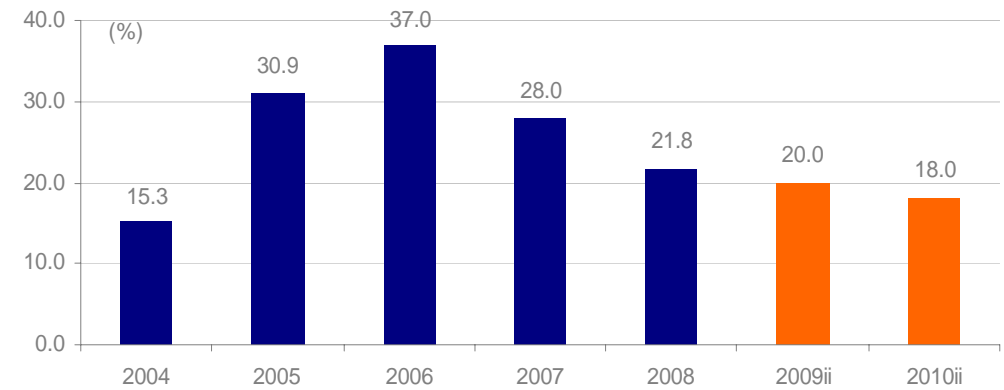
Source: Bloomberg, IIFL Research

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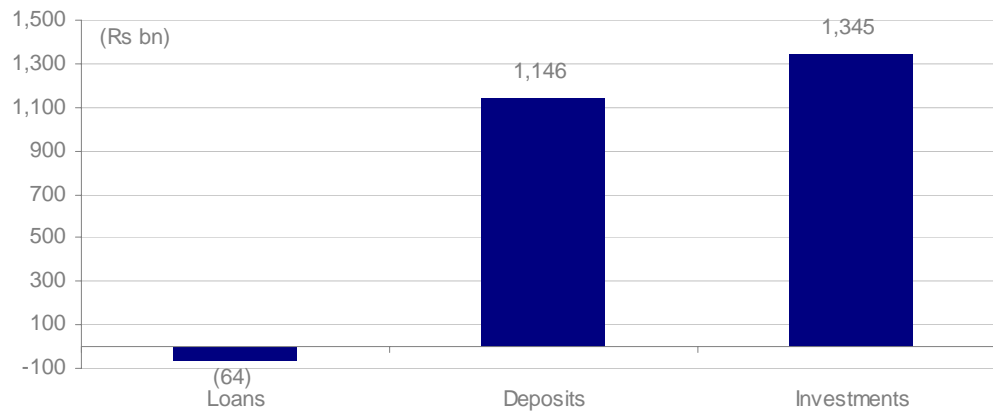
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**Figure 1: Incremental LDR has significantly come off from its peak**


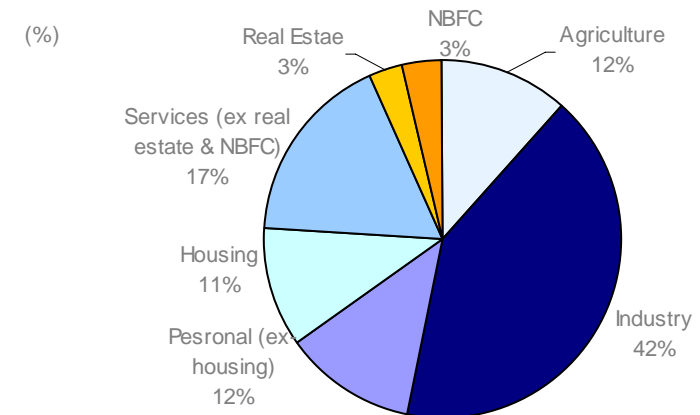
Source: RBI, IIFL Research

**Figure 3: Moderation in system loan growth**


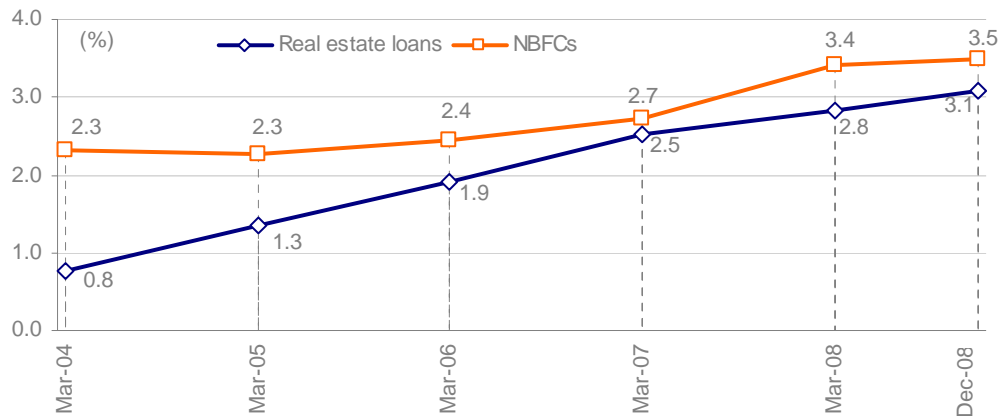
Source: RBI, IIFL Research

**Figure 2: Change between 31 October 2008 and 16 January 2009 (11 weeks)**


Source: RBI, IIFL Research

**Figure 4: Break-up of system loans (as on 19 December 2008)**


Source: RBI, IIFL Research

**Figure 5: Real estate and NBFC loans as proportion of total loans**


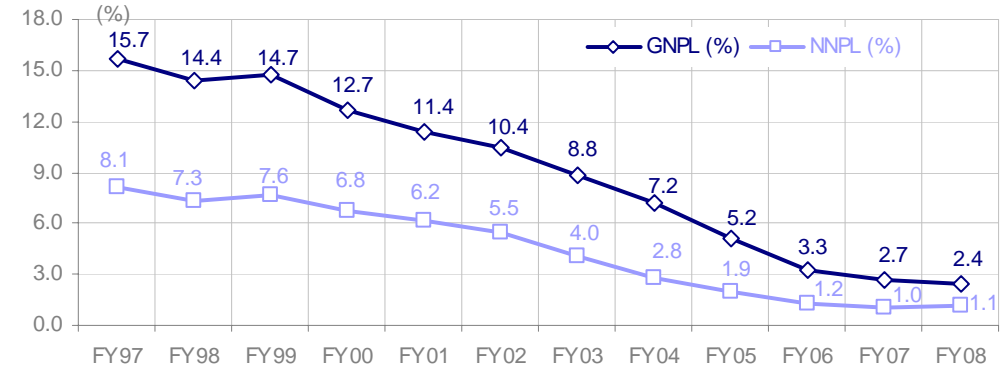
Source: RBI, IIFL Research

**Figure 6: YoY loan growth for key sectors**

%	Mar-06	Mar-07	Mar-08	Dec-08
Non-food Gross Bank Credit	39.8	28.2	22.3	24.8
Industry (Small, Medium & Large)	30.1	26.7	25.0	30.2
Housing	38.3	24.7	10.7	8.8
Personal (ex-housing)	43.0	29.0	10.6	20.5
Real estate loans	97.3	69.2	37.8	48.1
NBFCs	50.4	42.9	53.6	40.1

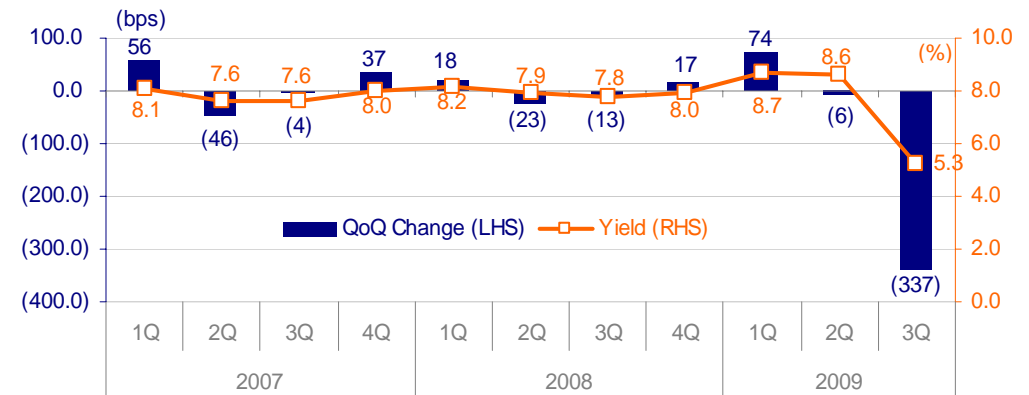
Source: RBI, IIFL Research

**Asset quality comfortable for now:** NPL growth was not alarming in 3QFY09 and reported NPLs may not rise significantly in future as banks are allowed to restructure problem loans. Most of the banks indicated that there was no significant restructuring during 3QFY09, however, restructured accounts are expected to increase going forward, and lumpy NPLs may surface in any bank.

**Figure 7: Secular downward trend in NPLs should reverse**


Source: RBI, IIFL Research

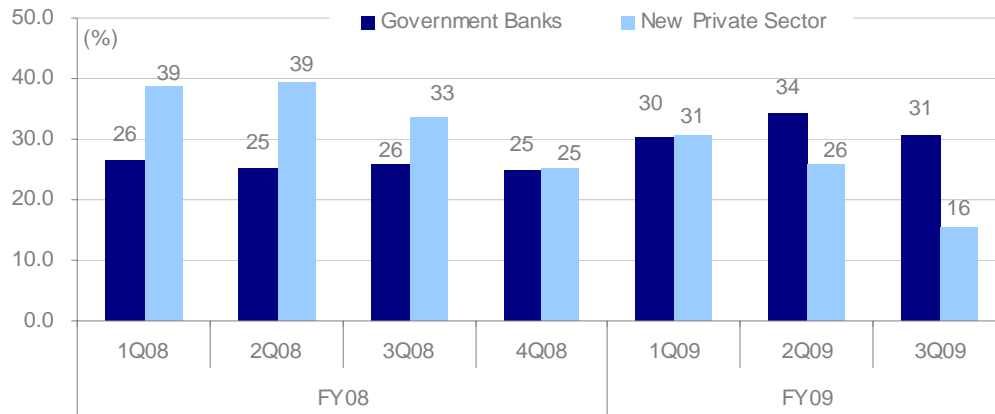
**Risk of higher bond yields reversing treasury gains booked in 3QFY09:** Banks benefited from the sharp 330bps decline in bond yields during 3QFY09, enabling them to book strong treasury gains. Not only are such gains unlikely to recur in future quarters, but there is some risk of the gains being reversed, if bond yields firm up in view of the significant deterioration in government's fiscal position. The yield on 10-year government bond has risen 100bps since end-3QFY09.

**Figure 8: 10-year G Sec yield – 3QFY09 was exceptional**


Source: Bloomberg, IIFL Research

**Government banks have reported higher loan and PAT growth:** Over the last few quarters, government banks' loan and net profit growth has outstripped that of private sector banks. We expect 4QFY09 net profit growth to be flat YoY due to the high-base effect and much lower treasury income as compared to 3QFY09.

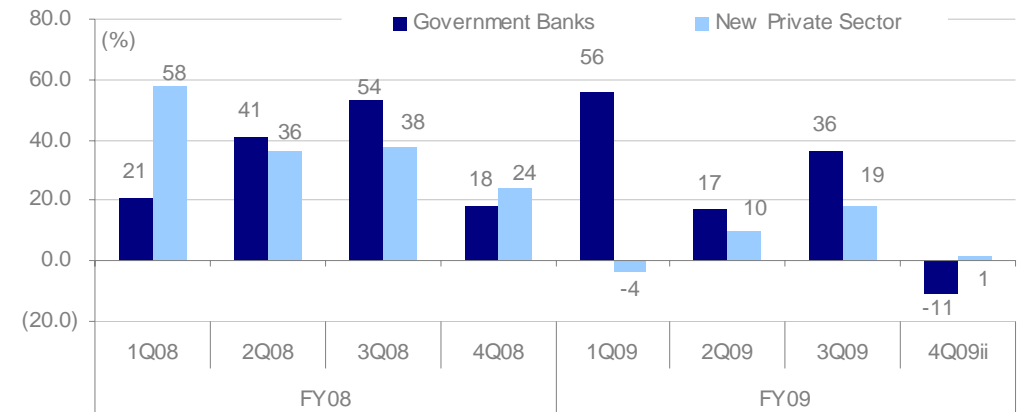
**Figure 9: Loan growth (YoY) trend - government banks vs private sector banks**



Source: Companies, IIFL Research. \*Govt banks include: SBI, BOI, PNB, BOB and UBI. New private sector banks include: ICICI Bank, HDFC Bank, Axis Bank and Yes Bank.

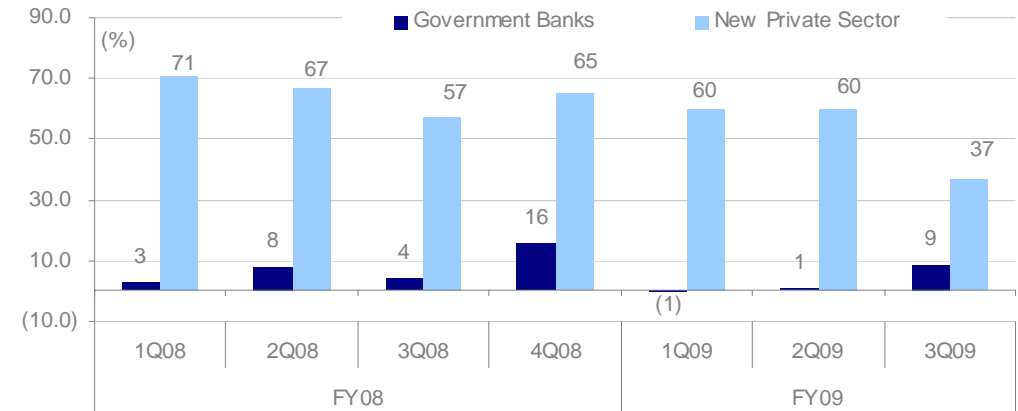
**Margins to be under pressure, fee income to be lower:** Over the last couple of months, banks have been cutting both lending and deposit rates and at the same time wholesale borrowing costs have come down significantly from their November 2008 peaks. While wholesale borrowers like ICICI Bank and HDFC should benefit in this environment, margins for banks in general may come under pressure. Core fee income should slow down in sync with the slowing loan growth. Income from sale of third party products like mutual fund and insurance would also be lower due to lack of demand for such products.

**Figure 10: Non-interest income growth (YoY) trend - govt banks vs pvt sector banks**



Source: Companies, IIFL Research

**Figure 11: Gross NPL growth (YoY) trend - government banks vs private sector banks**

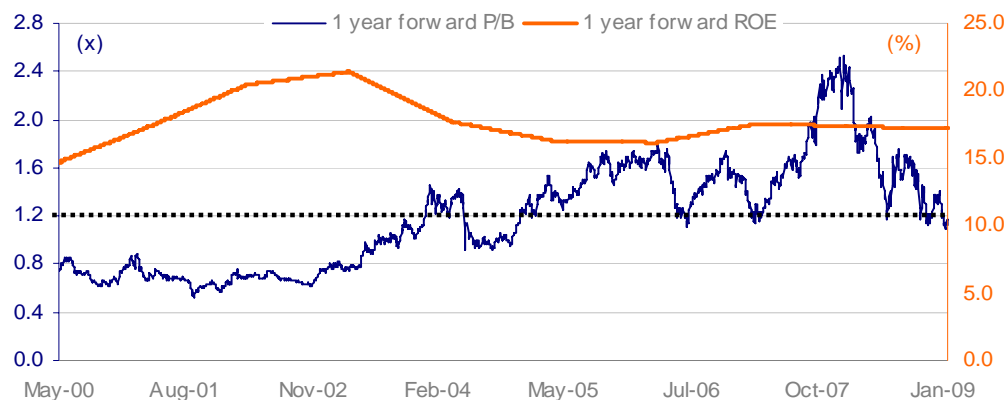


Source: Companies, IIFL Research



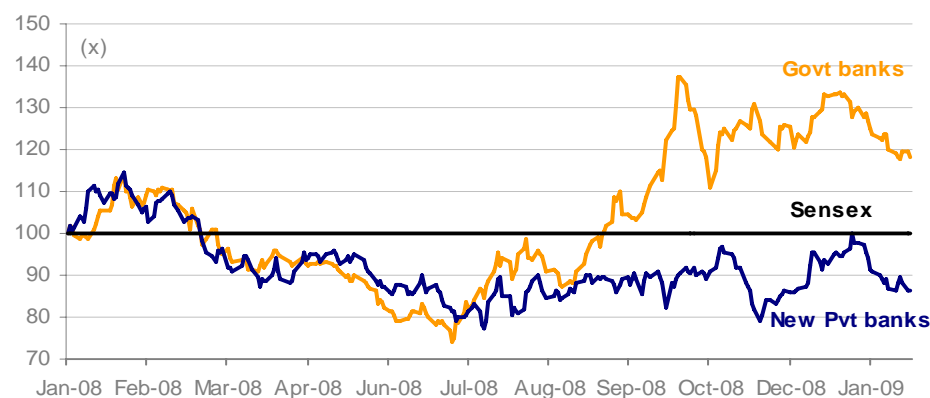
**Average P/B below its 10-year average:** Since August 2008 government banks have outperformed the BSE Sensex, while new private sector banks have underperformed (figure 13). Average 1-year forward P/B of six major government and private banks is currently at 1.1x, below its 10-year average P/B of 1.2x and less than half the peak valuation of 2.5x.

**Figure 12: Average PB for six\* major banks is at 1.1x below its 10-year avg of 1.2x**



Source: Bloomberg, IIFL Research. \*Includes: SBI, PNB, BOI, BOB, HDFC Bank and Axis Bank

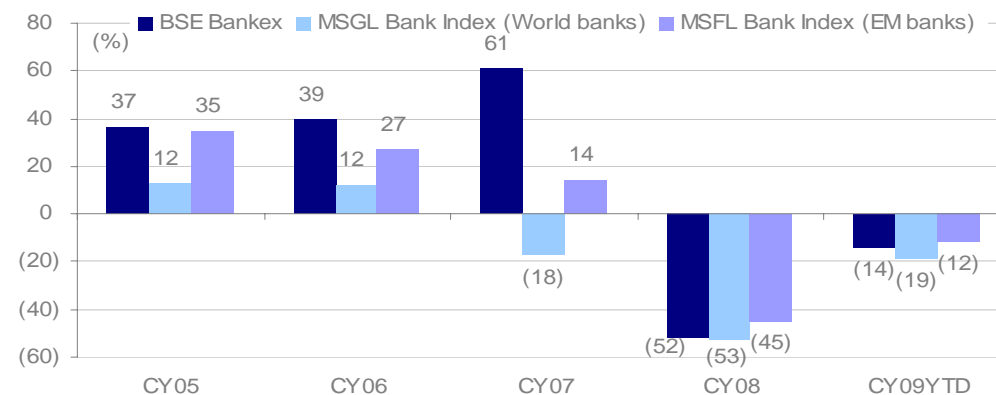
**Figure 13: Government banks & private banks relative to sensex**



Source: Bloomberg, IIFL Research. \*Govt banks include: BOB, BOI, PNB, SBI & UBI. Private banks include: Axis Bank, HDFC Bank, ICICI Bank & Yes Bank

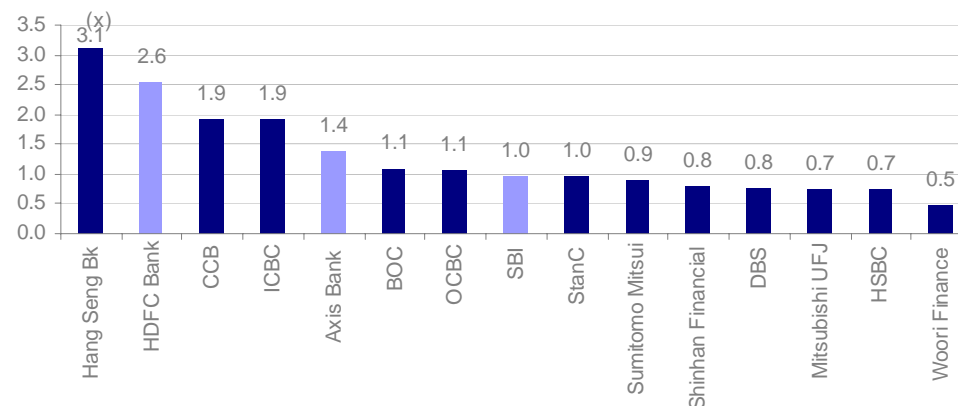
**Indian banks compared to global banks:** BSE Bankex underperformed emerging market banks and performed in line with global banks during CY2008, while for CY2009 YTD BSE Bankex has outperformed global banks index (figure 14). At current valuations, Indian private banks are expensive relative to their regional peers (figure 15).

**Figure 14: BSE Bankex vs. Global peers**



Source: Bloomberg, IIFL Research

**Figure 15: P/B valuation: Indian banks vs. Asian peers**



Source: Bloomberg, IIFL Research. India banks are valued on FY09 book, while other Asian banks are valued on December 2008 book



Figure 16: Indian banks/financials valuation matrix

	Price	Mkt Cap	EPS CAGR FY09-11	PE FY10	PB FY10	ROE FY10	Recommendation
	(Rs)	(US\$ m)	(%)	(x)	(x)	(%)	
<b>Government Banks</b>							
Bank of Baroda	246	1,834	16.4	4.6	0.7	17.2	ADD
Bank of India	241	2,593	10.4	4.0	0.9	24.8	ADD
Punjab National Bank	401	2,587	14.3	4.0	0.8	21.8	ADD
State Bank of India	1,097	14,250	13.0	5.8	0.8	15.4	ADD
Union Bank of India	145	1,500	16.6	3.9	0.7	23.8	ADD
<b>New Private Sector Banks</b>							
Axis Bank	395	2,903	28.9	6.7	1.2	19.1	BUY
HDFC Bank	886	7,710	22.0	13.3	2.3	18.0	ADD
ICICI Bank	390	8,876	11.1	10.3	0.8	8.4	REDUCE
Yes Bank	59	356	19.5	5.6	0.9	17.9	ADD
<b>NBFCs</b>							
HDFC	1,439	8,372	17.5	16.4	2.8	17.7	BUY
IDFC	54	1,431	15.0	7.2	1.0	14.6	SELL

Source: Bloomberg, IIFL Research. Price as of close on February 4, 2009

The Bombay High Court has lifted its stay order, which had restricted RIL from entering into third-party sales contracts for gas from its KG-D6 fields, on account of the ongoing dispute with Reliance Natural Resources Ltd (RNRL). In our view, this interim decision will benefit the entire economy and the power sector in particular. The Ministry of Petroleum & Natural Gas (MoPNG) has allocated 18mmscmd (~45% of initial production) gas to the power sector, which should increase the overall generation from gas-based power projects by 3.4GW. While details of the gas allocation are still awaited, our analysis suggests that even though NTPC's generation would improve by 5%, its profits would remain unchanged, given changes in regulations. Among the biggest beneficiaries would be GVK Power, which would be able to start 684MW of currently-stranded capacity. This in turn would also benefit PTC's trading volumes, thanks to its power offtake contract signed with GVK Power.

**High Court allows RIL to sell gas; power and fertiliser cos to benefit:** On 30 January 2009, Bombay HC vacated its interim injunction barring RIL from selling gas from the KG-D6 field. This would allow RIL to sell gas at US\$4.2/mmbtu to various customers as per the utilisation policy framed by the Empowered Group of Ministers (EGoM). While RIL maintains that gas production would start by February 2009, we expect the initial production to be marginal. That said, the gas allocation is as per the utilisation policy, which awards highest preference to priority sectors such as fertilisers and power; these would be the biggest beneficiaries of the HC's vacation of the stay order.

**Generation could improve by ~30BU:** Ministry of Power has proposed a pro-rata gas allocation for gas-based power plants to ensure that they operate at 66.06% PLF. Supply of 18mmscmd gas from RIL would result in an additional 30BU of generation (equivalent to 3.4GW generation capacity). On FY08 demand, this additional generation would lower the peak power deficit by 314bps, from 16.6% to 13.5%. Should KG basin gas be used to meet the entire ~40mmscmd shortfall faced by power plants along the RIL-HBJ pipeline, generation would increase by ~66BU (7.4GW).

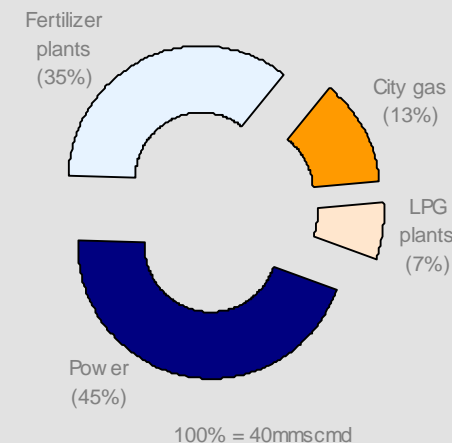
**PTC, GVK and GMR among key beneficiaries:** While increased gas supply would enhance generation for utilities, changes in the recent CERC regulations rule out substantial incentive benefits for NTPC from incremental generation. Substantial benefits to GMR would accrue only if it is able to operate its plant above 80% PLF, which is possible only if it gets additional gas. GVK, whose two units (220MW Jegurupadu-II plant and 464MW Gautami plant) are currently stranded owing to shortage of gas, would benefit the most, as these plants would recover their fixed costs. GVK's profits would increase materially if the company is able to operate plants at higher PLF to generate merchant sales. PTC would also be a beneficiary, as it would be able to trade the merchant units from these IPPs. We maintain our BUY on GVK (target price of Rs22, 16% upside to CMP). While PTC's current valuations are attractive, we await clarity on the proposed equity dilution.

### KG gas supply to increase generation by 30BU or 3.4GW

	Capacity (MW)	Gas reqd at 66.06% PLF (MMSCMD)	Avg gas supplied/tied up (MMSCMD)	Gas supply from RIL (MMSCMD)	Increase in generation (MU)
Existing power plants	10,426	35.8	24.1	11.7	19,620
Central sector	5,824	19.6	14.2	5.4	9,268
State Sector	1,877	6.6	4.7	1.9	3,091
Private Sector	2,505	8.8	5.2	3.6	5,976
Plants pending commissioning due to shortage of gas	1,129	4.0	-	4.0	6,561
Plants likely to be commissioned during FY09	1,128	4.0	0.9	3.1	5,043
<b>Total</b>	<b>12,463</b>	<b>43.0</b>	<b>25.0</b>	<b>18.0</b>	<b>29,939</b>

Source: CEA, Infraline, IIFL Research

### Gas allocation policy benefits power and fertiliser sectors the most



Source: Ministry of Petroleum, IIFL Research

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## Gas from KG D6 in sight

### High Court vacates interim stay on gas supplies

On 30 January 2009, the Bombay High Court vacated the interim injunction restraining Reliance Industries (RIL) from selling gas to parties other than RNRL. The court noted that natural gas being an important national resource and with RIL ready to produce gas by February 2009, it would be in the *larger public interests* to lift the interim injunction.

The interim order passed by the high court allows RIL to supply gas to all parties subject to the following:

- RIL must sell the gas to all the parties at a uniform price of US\$4.20/mmbtu, the price approved by the Empowered Group of Ministers (EGoM) for gas sales from KG Basin.
- The gas sales must be made to parties in line with the gas utilisation policy approved by the EGoM and to others as directed by the government. The sales should be in accordance with the terms of the PSC signed with the government for the KG-D6 block.
- The term contracts entered with the parties by RIL can have a maximum term of five years.
- There should be specific provisions in the term contracts to allow modifications in the contract quantity and terms depending on the outcome of the RIL-RNRL case and RIL-NTPC case.

The provisions in the term contracts would ensure that rights of RNRL and NTPC are not affected because of this interim judgement.

### Background to the dispute

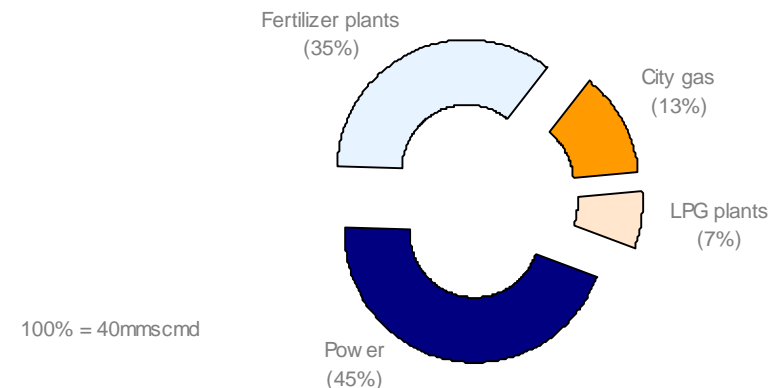
The Bombay High Court had, in an interim injunction in 2007, restrained RIL from selling gas from the KG-D6 basin to any third party until the RIL-RNRL litigation is resolved. The litigation pertains to RNRL's claim that as per an Ambani family agreement, RNRL had rights to receive 28mmscmd supply of gas at US\$2.34/mmbtu from RIL's KG D6 basin.

### Gas marketing as per the gas utilisation policy

As per these EGoM guidelines for gas allocation from NELP fields, preference would be given to priority sectors such as power and fertilisers, followed by LPG and city gas distribution.

In particular, for the initial 40mmscmd gas expected from the KG-D6 field, EGoM has allocated 35% to fertilisers, 45% to power, 7% to LPG plants and 13% to city gas distribution. Additionally, it appears that EGoM may be evaluating options to divert gas allocation from LPG/ city gas distribution projects to others; power seems the most likely beneficiary.

**Figure 1: Gas allocation policy benefits power and fertiliser sectors the most**



Source: Ministry of Petroleum, IIFL Research

### Gas from KG basin could increase generation by 66BU or 7.4GW, thereby lowering the peak deficit by 6.9%.

RIL expects to start gas production by February 2009. According to the field development plan (FDP) submitted by RIL, peak production from this field is estimated at 80mmscmd.

An analysis of gas-based power plants on the RIL-HBJ pipeline reveals that power plants currently drawing gas from this pipeline face a total shortage of ~40mmscmd gas to operate at 90% PLF. Theoretically, if this shortfall is met through RIL's gas, it would result in an additional

generation of ~66BU—equivalent to 7.4GW capacity. On FY08 demand, this would lower the peak power deficit by 688bps, from 16.6% to 9.7%. However, supply of the entire 40mmscmd gas to the power sector seems unlikely.

**Figure 2: Allocation of 40mmscmd gas could increase generation by ~66BU**

Power station	Capacity (MW)	Gas reqd at 90% PLF (MMSCMD)	Avg gas supply/tied up (MMSCMD)	Inc in generation (MU)
Existing power plants	12,592	59.2	29.1	50,333
Plants due to commission in FY09	1,128	5.4	0.9	7,409
Plants due to commission in FY10	1,004	4.8	-	7,867
<b>Total</b>	<b>14,724</b>	<b>69.4</b>	<b>30.0</b>	<b>65,609</b>

Source: Infraline, IIFL Research

### Power: current proposal could increase generation by 3.4GW

There have been several proposals sent by CEA to the Ministry of Power on the allocation of 18mmscmd gas made available from the KG basin. As per the latest proposal, CEA has recommended that pro-rata gas distribution be made such that all plants operate at 66.06% PLF. We expect some clarity to emerge on this front as we approach the actual commencement of the gas production (ie March 2009).

**Figure 3: KG gas supply to increase generation by 30BU or 3.4GW**

Power station	Capacity (MW)	Avg gas supplied/tied up (MMSCMD)	Gas supply from RIL (MMSCMD)	Increase in generation (MU)
<b>Existing stations</b>				
<b>Central sector</b>				
Faridabad CCGT	430	1.3	0.3	426
Anta CCGT	413	1.3	0.2	245
Auraiya CCGT	652	2.1	0.2	280
Dadri CCGT	817	2.2	0.7	1,137
Kawas CCGT	644	0.3	2.0	3,212
Gandhar CCGT	648	1.8	0.5	802
Ratnagiri CCGT	2,220	5.2	1.7	3,166

Power station	Capacity (MW)	Avg gas supplied/tied up (MMSCMD)	Gas supply from RIL (MMSCMD)	Increase in generation (MU)
<b>Existing stations (contd...)</b>				
<b>State Sector</b>				
Vijjeswaram CCGT	272	0.7	0.2	391
Utran CCGT	144	0.5	0.0	34
Dhuvaran CCPP	219	0.4	0.4	655
Uran CCGT	912	2.0	1.2	1,962
Dholpur CCGT	330	1.1	0.0	49
<b>Private sector/ IPPs</b>				
Paguthan CCGT	655	1.1	1.2	1,897
GIPCL-Stage-II CCGT	160	0.5	0.1	101
Essar IMP CCGT	515	1.0	0.8	1,325
Kondapalli CCGT	350	1.0	0.2	310
Jegurupadu-I CCGT	235	0.7	0.1	165
Samalkot CCPP	220	0.6	0.2	247
Vemagiri CCPP	370	0.1	1.2	1,932
<b>Plants pending commissioning owing to shortage of gas</b>				
Jegurupadu-II CCGT	220	-	0.8	1,285
Gautami CCPP	464	-	1.6	2,705
Konaseema CCPP	445	-	1.6	2,570
<b>Plants likely to be commissioned during 2008-09</b>				
Sugen Torrent	1,128	0.9	3.1	5,043
<b>Total</b>	<b>12,463</b>	<b>25.0</b>	<b>18.0</b>	<b>29,939</b>

Source: CEA, Infraline, IIFL Research; CEA's recommendations do not factor in the following plants – Hazira CCPP, Pragati CCGT, I.P.CCGT, Vatwa CCGT, Trombay CCGT and Godavari CCGT, hence the difference in the capacities in figures above

### Play on RIL gas supplies: GMR, GVK and PTC – key beneficiaries

Incremental gas supply from RIL's KG basin would allow utilities to operate their power plants at higher PLFs, thereby improving generation. However, enhanced PLFs would not necessarily benefit all utilities.

- **NTPC may not gain, given changes in tariff regulations:** CERC recently modified the tariff guidelines for utilities. As a part of these

changes, the terms of incentive payment were changed from a PLF-based structure to an availability-based structure. Accordingly, although PLFs for gas stations would improve owing to improved gas availability, utilities such as NTPC may not stand to gain from the incremental generation.

- **GMR could benefit if PLF increases beyond 80%:** GMR operates a 370MW gas-based power plant at Vemagiri, Andhra Pradesh. While it has an existing PPA with AP distribution companies for 23 years for 100% of its capacity, it is trying to renegotiate this PPA and to build in a clause permitting merchant sales of 20% of its generation.

The fixed-cost recovery for GMR's Vemagiri plant is benchmarked to 80% PLF, and as its existing PLF (at 43% for December 2008) is far lower than this benchmark, it is unable to recover its fixed costs. With increase in gas availability, its PLF would increase from 43% to 66%, thereby improving fixed-cost recovery. Further, it could benefit if the PPA is renegotiated and GMR is allowed to enter into merchant sales.

- **GVK stands to benefit the most:** GVK has three gas-based plants aggregating 919MW capacity. Currently, only 235MW is operational, while the rest 684MW is idle, owing to gas shortage. The Jegurupadu-I plant (235MW), which is operational, has entered into a PPA for its entire capacity. This PPA allows GVK to earn incentives at 0.525% of its equity base for every percentage point that PLF exceeds 68.49%. Hence, although gas supply from RIL would increase the plant's PLF from the current 63% to 66%, for it to earn material incentives, GVK would need to obtain additional gas.

The balance gas capacity—the 220MW Jegurupadu-II plant and the 464MW Gautami plant—which is currently stranded, earns no returns for GVK. With gas availability, these plants would start earning benchmark returns and thereby improve profitability.

Additionally, both these plants have entered into PPAs with AP distribution companies for 80% of their capacity (at 85% PLF). For the balance 20% capacity, they have entered into PPAs with PTC at

a minimum rate of Rs4.5/unit. Hence, although the gas supplies would enable these plants to operate at 66% PLF, for a material benefit, GVK would need to procure additional gas for these plants.

- **PTC - benefits from increased trading volumes:** PTC, in our view, could be a second-line beneficiary from the gas availability and offer a play on commencement of gas production from RIL's KG-D6 field. This is because if GVK's Jegurupadu-II and Gautami units are able to operate beyond 68% PLF (80% capacity at 85% PLF), the company would be able to trade the incremental units.

Assuming these units operate at 80% PLFs, PTC's power trading volumes would increase by approximately 80MW, or ~7% of FY08 power trading volumes.

We maintain our BUY recommendation on GVK. While PTC's current valuations are attractive, we await clarity on the proposed equity dilution.

#### **RNRL may challenge vacation of stay order if final HC order is against it**

Although there was no indication from the court as to when the final judgment would be pronounced, media reports indicate that the court verdict would come by March-end.

While the interim order indicates a possible resolution by the court, the litigation would be settled only after the final court decision. However, our interactions with ADAG indicate that should the verdict not be in favour of RNRL, it could explore the option of challenging the verdict in Supreme Court.

## Events calendar – February 2009

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
<b>2</b> Dec Exports ↓ 1% Dec Imports ↑ 9%	<b>3</b>	<b>4</b>	<b>5</b> ACC  WPI for 24 Jan	<b>6</b> Ambuja Cement	<b>7</b>
<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b> Patni  WPI for 31 Jan	<b>13</b>	<b>14</b>
<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>  WPI for 7 Feb	<b>20</b> ABB	<b>21</b>
<b>23</b>	<b>24</b>	<b>25</b>	<b>26</b>  WPI for 14 Feb	<b>27</b>	<b>28</b>

Black: Quarterly results, Blue: Economic data, Red: India Holiday

## Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
<b>Economics / Politics</b>	<ul style="list-style-type: none"> <li>RBI's Monetary Policy meeting (end Jan)</li> </ul>	<ul style="list-style-type: none"> <li>India's national elections</li> <li>State elections in Andhra Pradesh, Orissa, Sikkim</li> <li>RBI's Monetary policy meeting (end April)</li> </ul>	<ul style="list-style-type: none"> <li>RBI's Monetary policy meeting (end July)</li> </ul>	<ul style="list-style-type: none"> <li>RBI's Monetary policy meeting (end October)</li> </ul>	
<b>Auto</b>	<ul style="list-style-type: none"> <li><b>Tata Motors</b> - Launch of the eagerly awaited Nano.</li> <li><b>Maruti</b> – launch of the Splash</li> </ul>	<ul style="list-style-type: none"> <li><b>Tata Motors</b> – Repayment of the US\$3bn bridge loan taken for the JLR acquisition (Jun-09)</li> </ul>		<ul style="list-style-type: none"> <li><b>Tata Motor's</b> Nano plant at Sanand to start operations</li> </ul>	<ul style="list-style-type: none"> <li><b>M&amp;M's</b> Chakan plant with a capacity of 320,000 vehicles to start operations.</li> </ul>
<b>Cement</b>	<ul style="list-style-type: none"> <li><b>Dalmia Cement's</b> 2.3mtpa Cuddapah plant to start production</li> <li><b>Kesoram</b> 1.7 mtpa cement capacity expansion</li> <li><b>OCL's</b> 2.0 mtpa Orissa plant to start</li> <li><b>India Cements</b> 1.5 mtpa Malkapur, AP plant to start</li> <li><b>Deccan cements</b> 1.1 mtpa AP plant to start</li> </ul>	<ul style="list-style-type: none"> <li><b>ACC's</b> 1.2 mtpa Bargarh plant to start</li> <li><b>JK Cement</b> 3.5 mtpa Karnataka plant to start</li> <li><b>Orient Cement</b> 1.6 mtpa Devapur, AP plant to start</li> <li><b>Grasim's</b> 4.4 mtpa Kotputli expansion to commence prod.</li> </ul>	<ul style="list-style-type: none"> <li><b>Lafarge's</b> 1.3 mtpa Sonadih plant to start</li> <li><b>Dalmia Cements</b> 2.3 mtpa Ariyalur plant to start</li> <li><b>Zuari Cements</b> 2.4 AP mtpa plant to start</li> <li><b>ACC</b> 3 mtpa Wadi, Kar plant to start</li> <li><b>Ambuja Cement's</b> 1.5 mtpa Dadri plant to start</li> <li><b>JK Lakshmi Cement</b> 0.5 mtpa plant to start</li> </ul>	<ul style="list-style-type: none"> <li><b>JP Associates</b> 3.0 mtpa HP plant to start</li> <li><b>NCL Industries</b> 1.5 mtpa AP plant to start</li> <li><b>Raghuram Cement</b> AP 2 mtpa plant to start</li> <li><b>Andhra Cement</b> 1 mtpa AP plant to start</li> <li><b>Ambuja Cement</b> 1.5 mtpa Panipat plant to start</li> <li><b>Shree Cement</b> 1.0 mtpa plant to start</li> </ul>	
<b>Infrastructure</b>				<ul style="list-style-type: none"> <li><b>BHEL</b> Capacity goes up from 10 GW to 15 GW</li> </ul>	



## Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
<b>Metals</b>	<ul style="list-style-type: none"> <li>• <b>JSW:</b> Capacity expansion to 6.8mtpa (Feb-09)</li> </ul>				
<b>Oil &amp; Gas</b>	<ul style="list-style-type: none"> <li>• Commercial production from <b>RIL</b> KG D-6 starts</li> <li>• Commercialisation of <b>RPL</b> refinery</li> </ul>				
<b>Pharma</b>	<ul style="list-style-type: none"> <li>• <b>Sun Pharma:</b> Israeli supreme court decision on acquisition of Taro shares</li> <li>• <b>Glaxo Pharma:</b> Launch of Allermist in the domestic market</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Dr Reddy's:</b> Full impact of the AOK contracts in the German generic market</li> <li>• <b>Dr Reddy's:</b> ANDA filing for generic fondaparinux in US</li> <li>• <b>Jubilant:</b> Generic sestamibi approval by USFDA</li> <li>• <b>Glenmark:</b> Data from phase II study of melogliptin in diabetes mellitus</li> <li>• <b>Glaxo Pharma:</b> Launch of an in-licensed anti-fungal product in the domestic market</li> </ul>		<ul style="list-style-type: none"> <li>• <b>Max Healthcare:</b> Opening of 270 bed Max Balaji tertiary care centre, Pratapganj, New Delhi</li> <li>• <b>Ranbaxy:</b> Launch of generic Valaciclovir under exclusivity in US</li> </ul>	
<b>Real Estate</b>	<ul style="list-style-type: none"> <li>• <b>DLF</b> – Buy back of shares- upto Rs 11bn &amp; cap price at Rs600/share</li> <li>• <b>DLF</b> – Capital raising by DAL</li> <li>• <b>Unitech</b> to raise funds via stake sale in hotel projects</li> <li>• <b>Sobha</b> – Right issue upto Rs3.5bn</li> <li>• <b>Puravankara Projects</b> – Capital raising by its subsidiary Provident Housing &amp; Infrastructure Ltd to fund its mass housing project</li> </ul>				

## Events

	Jan-Mar 09	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10
<b>Telecom</b>	<ul style="list-style-type: none"> <li>Final order for spectrum fee expected; if it doesn't come in 4Q, will present a definite upside.</li> <li><b>RCOM's</b> subscriber numbers in first 3 months of free-minutes backed GSM launch</li> <li>GoM to decide on 3G auctions; reserve price and number of blocks in focus</li> <li><b>BSNL, MTNL</b> to launch 3G services</li> <li><b>Onmobile</b> to go live with AdRBT with Vodafone pan-India</li> </ul>	<ul style="list-style-type: none"> <li>Licence fee for non-metro circles for operators with 95% coverage to see 200bps reduction</li> <li><b>Idea Spice</b> merger expected to receive court approval, and get completed</li> <li>3G auctions expected to be held</li> <li><b>RCOM</b> expected to explain retention plans for subscribers gained in 4QFY09</li> </ul>	<ul style="list-style-type: none"> <li><b>Indus Towers</b> expected to receive towers from Bharti, Vodafone and Idea and thus merger of tower subsidiaries into Indus completed</li> </ul>		
<b>Utilities</b>	<ul style="list-style-type: none"> <li><b>Lanco's</b> 300MW Amarkartak-I unit to start operations</li> <li><b>Tata Power's</b> 250MW unit at Trombay to begin operations</li> <li>Bidding for 4000MW Tilaiya UMPP</li> </ul>		<ul style="list-style-type: none"> <li><b>CESC</b> Budge Budge (250MW) unit operational</li> <li><b>Suzlon</b> to start production from new facilities</li> </ul>		
<b>Others</b>	<ul style="list-style-type: none"> <li><b>Arshiya International</b> – Capital raising to fund its FTWZ &amp; Rail business</li> <li><b>EKC</b> cancels expansion plans in China (300,000 cylinders each in FY10 and FY11)</li> </ul>	<ul style="list-style-type: none"> <li>200,000 billet pierced industrial cylinders capacity at Gandhidham comes on stream</li> <li>5,000 Jumbo cylinder plant at Gandhidham to start operations</li> </ul>		<ul style="list-style-type: none"> <li><b>EKC's</b> Kandla SEZ plant to manufacture 300,000 steel plate cylinders for exports to Europe to start operations.</li> </ul>	



## Key to our recommendation structure

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

**Add** - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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