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India Conference 2008

11-12 March, Mumbai
13-14 March, New Delhi

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India Research Team

See Appendix A-1 for Analyst Certification and important disclosures.

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Citi India Investor Conference 2008

Dear Guest

It is a great pleasure to welcome you to Citi's India Investor Conference 2008 in Mumbai and New Delhi.

India is in the midst of rapid economic expansion and transformation. A young population is setting a new paradigm of confidence, consumption and growth. Business confidence is at a high. Companies are embarking on expansion projects, new areas of growth are emerging, and scale investments in infrastructure are underway, to support and drive this growth.

Not surprisingly, in spite of recent market weakness and volatility, India has been one of the best-performing equity markets globally in recent years. Sustaining, or enhancing that growth momentum, while managing challenges-infrastructure bottlenecks, interest rates, inflation, coalition politics, uneven spread of growth benefits across different social segments, poverty—will be key to India investing in coming years.

For this conference, there are over 370 registered institutional investors from around the world. Over 115 leading Indian companies from a wide range of sectors will be meeting investors over four days. In addition, there are three sector-specific side tours to give a ground-level feel for what is happening in India. Investors will also hear from policy makers, regulators and economic commentators, on issues that India faces, and the opportunities it offers. We hope that you come away from this conference better informed about India's investment outlook, and with actionable stock ideas.

We, and the entire Citi team, are available through these days in case you require any assistance. We are happy to have you with us and do sincerely hope that you have a useful and enjoyable time.

Brian Brown
Head of India Equities

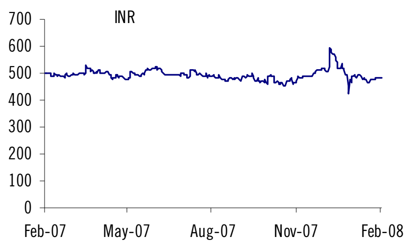
Aditya Narain
Head of India Research

Mumbai

Apollo Hospitals (APLH.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs481.50
Target Price	Rs610.00
Expected share price return	26.7%
Expected dividend yield	1.8%
Expected total return	**28.5%**
Market Cap	Rs28,257M
	US$708M

Price Performance



Source: Citi Investment Research

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Company description

Apollo Hospitals is an integrated healthcare company in the private sector, with the largest hospital network in Asia. The group and its subsidiaries own 16 hospitals, and it operates 24 hospitals. These hospitals are owned either by joint ventures and associated companies or operated under contracts as franchise hospitals or under consultancy contracts across the Afro-Asian region, with more than 5,000 operational beds. It also operates a network of primary-care clinics, a retail pharmacy chain, a medical back-office operation, a health-insurance company and a healthcare staffing company that provides nurses to the UK, the US and other countries.

Healthcare and More

- **Best play on the Healthcare space** — We believe Apollo is the best available play on India's growing healthcare space, given its integrated business model, large scale, national footprint and presence across multiple disease and delivery segments.
- **Well positioned in a growing Sector** — Apollo Hospital is a leading player in a growth sector with high entry barriers. Robust profitability despite the aggressive rollout of pharmacies indicates the buoyancy in the core hospitals business. Besides, we see material hidden value in the form of its retail pharmacy operations, 46% stake in Apollo Health Street (AHS) and land on its books – most of which would be unlocked over the next few years.
- **Expansion Plans** — Apollo is on course with its 2-pronged strategy to expand bed capacity and sweat existing assets (lower ALOS, improve occupancies, increase focus on high-end services) in a bid to grow and maintain capital efficiency. It has ambitious expansion plans in CVS, day care services and super specialty segments and also intends to expand its pharmacy network.
- **Potential Catalysts** — Moves to unlock value in the medical BPO subsidiary and the retail pharmacy business.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	320	7.68	7.4	62.2	6.6	12.0	0.8
2007A	427	8.44	9.9	56.6	3.9	9.3	0.9
2008E	968	18.74	122.1	25.5	3.3	14.1	1.2
2009E	847	16.40	-12.5	29.1	2.8	10.4	1.8
2010E	1,023	19.81	20.8	24.1	2.4	10.6	2.1

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Apollo Hospitals Buy/Medium Risk (1M) with a target price of Rs610. We are positive on the Indian healthcare delivery market and believe that Apollo is one of the best plays on the burgeoning healthcare opportunity in India. It looks poised to benefit from healthcare opportunities in India, driven by both domestic and international patients, and is ahead of most of its competitors on scale, brand recognition and service offerings. It has an integrated business model that, in addition to hospitals, includes clinics, diagnostic services, pharmacies, telemedicine, and healthcare education and training. We expect Apollo's new hospitals and improvements in asset utilization to drive a 22% revenue CAGR and 20% in recurring net profit over FY06-09E.

Valuation

Apollo lacks listed comparables in the domestic market, but has a reasonable and well-diversified global peer group. Some of these are much bigger than Apollo, but we see healthcare growth opportunities as greater in India than in developed markets given the country's current low expenditure and health care penetration. We prefer EV/EBIDTA vs. EBIDTA CAGR as our primary methodology to value Apollo Hospitals as we believe P/E and EV/EBITDA in relation to earnings growth may not be optimal - since the high interest and depreciation charges incurred upfront would lead to earnings not fully reflecting its operating performance. Our target price is based on 15x FY09E EBIDTA, which is within the stock's EV/EBIDTA trading band of 12-20x over the past two years. At 15x FY09E EBIDTA, we value the stock at Rs610/share.

Apollo Hospitals (APLH.BO): Financial Summary

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	62.7	57.0	25.7	29.4	24.3
EV/EBITDA adjusted (x)	27.1	23.8	20.1	16.4	13.8
P/BV (x)	6.7	4.0	3.3	2.8	2.4
Dividend yield (%)	0.8	0.9	1.2	1.8	2.1
Per Share Data (Rs)					
EPS adjusted	7.68	8.44	18.74	16.40	19.81
EPS reported	7.68	8.44	18.74	16.40	19.81
BVPS	72.02	121.79	145.75	170.75	202.67
DPS	4.00	4.50	5.78	8.49	10.20
Profit & Loss (RsM)					
Net sales	6,607	7,696	8,962	11,547	13,972
Operating expenses	-5,766	-6,781	-7,924	-10,205	-12,349
EBIT	**842**	**914**	**1,038**	**1,342**	**1,623**
Net interest expense	-242	-244	-189	-259	-329
Non-operating/exceptionals	-44	41	428	175	220
Pre-tax profit	**555**	**712**	**1,277**	**1,258**	**1,514**
Tax	-204	-238	-299	-396	-476
Extraord./Min.Int./Pref.div.	-32	-46	-10	-15	-15
Reported net income	**320**	**427**	**968**	**847**	**1,023**
Adjusted earnings	320	427	968	847	1,023
Adjusted EBITDA	1,153	1,293	1,495	1,849	2,259
Growth Rates (%)					
Sales	23.0	16.5	16.4	28.8	21.0
EBIT adjusted	23.8	8.7	13.5	29.3	21.0
EBITDA adjusted	21.2	12.1	15.6	23.7	22.2
EPS adjusted	7.4	9.9	122.1	-12.5	20.8
Cash Flow (RsM)					
Operating cash flow	**323**	**302**	**1,060**	**920**	**1,146**
Depreciation/amortization	311	378	457	507	636
Net working capital	-294	-409	-308	-317	-366
Investing cash flow	**-670**	**-3,003**	**-1,438**	**-2,511**	**-2,945**
Capital expenditure	-549	-1,897	-1,514	-2,350	-2,250
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**457**	**2,155**	**-459**	**724**	**625**
Borrowings	57	-271	-128	1,000	1,000
Dividends paid	-190	-260	-336	-494	-594
Change in cash	**109**	**-546**	**-837**	**-867**	**-1,174**
Balance Sheet (RsM)					
Total assets	**8,225**	**12,012**	**13,166**	**16,120**	**19,334**
Cash & cash equivalent	285	539	593	652	718
Accounts receivable	932	903	1,019	1,297	1,558
Net fixed assets	5,027	6,569	7,603	9,446	11,060
Total liabilities	**5,031**	**5,409**	**5,189**	**6,838**	**8,388**
Accounts payable	861	1,187	1,350	1,740	2,105
Total Debt	3,099	2,828	2,700	3,700	4,700
Shareholders' funds	**3,193**	**6,603**	**7,977**	**9,283**	**10,946**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	17.4	16.8	16.7	16.0	16.2
ROE adjusted	12.0	9.3	14.1	10.4	10.6
ROIC adjusted	10.3	8.9	8.1	8.8	8.8
Net debt to equity	88.1	34.7	26.4	32.8	36.4
Total debt to capital	49.2	30.0	25.3	28.5	30.0

For further data queries on Citi's full coverage universe please contact CIR Data Services Asia Pacific (eq.asiapac.data.management@citi.com) or +852-2501-2791

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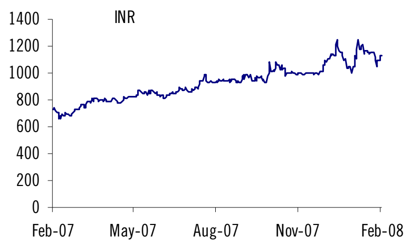
Asian Paints (ASPN.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs1,128.05
Target Price	Rs1,335.00
Expected share price return	18.3%
Expected dividend yield	2.3%
Expected total return	**20.7%**
Market Cap	Rs108,202M
	US$2,711M

Price Performance



Source: Citi Investment Research

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Company description

Asian Paints is the market leader in India's decorative paints industry, accounting for 47% of the total revenues of the top six companies in the organized segment. Asian Paints also caters to the industrial paints segment, and has a presence in 22 countries, including South Asian countries, China, Australia, the Caribbean and the Middle East. Asian Paints has strong brands, a wide range of offerings across all product categories, and the most extensive distribution network in the Indian paints industry.

Firing on All Cylinders

- **All cylinders firing** — Asian Paints is, in our view, one of the best plays on domestic consumption demand in India, and is firing on all cylinders. Its domestic paints business is growing more than 20%, improvement in the international business is running ahead of management guidance and cost pressures seem to be abating, resulting in improving margins.
- **Higher trajectory for domestic growth** — Asian Paints' domestic sales growth has been growing 15-25% over the past 8 quarters, up from 10-15% growth earlier, boosted by strong demand, new product roll-outs and change in the company's positioning from a 'mass' to a 'premium' brand.
- **International business turnaround** — Growth in the international business has also picked up, and margins have started to improve, driven by the Middle-East and South Asian markets. The international business net margin is already in excess of 3%, ahead of the management target of 3% in FY09.
- **Margin pressure easing** — Potential duty cuts on raw material imports and price hikes are likely to drive margin expansion going forward. Management has indicated that a 1-2% price hike is imminent.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,208	23.02	26.5	49.0	16.7	36.4	1.1
2007A	2,861	29.84	29.6	37.8	13.9	40.2	1.2
2008E	4,164	43.42	45.5	26.0	12.1	49.8	2.3
2009E	5,120	53.39	23.0	21.1	10.7	53.7	3.1
2010E	6,190	64.55	20.9	17.5	9.6	57.8	3.7

Source: Company data and Citi Investment Research estimates

Investment Strategy

The rise in urbanization, higher disposable incomes, cheaper housing loans and a shift from semi-permanent to permanent housing structures are driving the paints market at over 1.5x GDP growth. Asian Paints enjoys competitive advantages that should help it outpace the market — strong brands, a wide range of offerings across all product categories, and the most extensive distribution network in the paints industry. The company is leveraging off its local expertise to improve the performance of the assets acquired abroad. Berger acquisition increased the share of revenues from the overseas ventures to more than 20% of group sales, from 5%. Over the past 10 years, profit CAGR has been 15%; we expect this to pick up over the next three years.

Valuation

We prefer P/E as our primary valuation tool because the company operates in a non-cyclical industry. Being the market leader, ASPN has reasonable pricing power. Historically, the stock has traded at an average of 16x one-year rolling forward EPS for the standalone entity. However, we believe the stock is a re-rating candidate (especially with international operations turning around and local growth accelerating) and could trade at the higher end of its historical trading band. Our target price of Rs1,335 is based on 25x FY09E consolidated EPS. Our target multiple reflects the pickup in the growth profile of Asian Paints' domestic paints business and increasing profitability of the international and industrial coatings businesses. The multiple is in-line with what we attribute to other consumer stocks that have similar growth and ROE characteristics.

Asian Paints (ASPN.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	49.0	37.8	26.0	21.1	17.5
EV/EBITDA adjusted (x)	28.2	23.0	16.9	13.8	11.4
P/BV (x)	16.7	13.9	12.1	10.7	9.6
Dividend yield (%)	1.1	1.2	2.3	3.1	3.7
Per Share Data (Rs)					
EPS adjusted	23.02	29.84	43.42	53.39	64.55
EPS reported	22.12	29.30	43.42	53.39	64.55
BVPS	67.39	81.10	93.27	105.55	117.82
DPS	12.50	13.00	26.05	34.71	41.96
Profit & Loss (RsM)					
Net sales	30,210	36,700	44,071	51,976	60,453
Operating expenses	-26,900	-32,530	-38,217	-44,694	-51,571
EBIT	**3,311**	**4,169**	**5,854**	**7,282**	**8,883**
Net interest expense	-114	-189	-202	-198	-198
Non-operating/exceptionals	311	368	596	596	596
Pre-tax profit	**3,507**	**4,349**	**6,248**	**7,680**	**9,280**
Tax	-1,323	-1,467	-2,062	-2,534	-3,062
Extraord./Min.Int./Pref.div.	-63	-72	-23	-25	-27
Reported net income	**2,121**	**2,810**	**4,164**	**5,120**	**6,190**
Adjusted earnings	2,208	2,861	4,164	5,120	6,190
Adjusted EBITDA	3,917	4,781	6,509	7,986	9,622
Growth Rates (%)					
Sales	18.0	21.5	20.1	17.9	16.3
EBIT adjusted	24.4	25.9	40.4	24.4	22.0
EBITDA adjusted	16.9	22.1	36.2	22.7	20.5
EPS adjusted	26.5	29.6	45.5	23.0	20.9
Cash Flow (RsM)					
Operating cash flow	**2,448**	**2,791**	**4,188**	**5,154**	**6,122**
Depreciation/amortization	606	611	655	704	739
Net working capital	-205	-579	-836	-696	-835
Investing cash flow	**-1,233**	**-1,405**	**-526**	**-932**	**-644**
Capital expenditure	-755	-1,025	-1,005	-932	-644
Acquisitions/disposals	-239	-190	240	0	0
Financing cash flow	**-1,199**	**-1,097**	**-3,098**	**-3,943**	**-5,013**
Borrowings	218	449	-101	0	0
Dividends paid	-1,370	-1,428	-2,498	-3,328	-4,024
Change in cash	**16**	**289**	**564**	**279**	**465**
Balance Sheet (RsM)					
Total assets	**17,062**	**20,241**	**23,539**	**26,319**	**29,020**
Cash & cash equivalent	734	1,054	1,595	1,849	2,287
Accounts receivable	3,475	4,206	5,011	5,838	6,625
Net fixed assets	4,518	4,932	5,281	5,509	5,413
Total liabilities	**9,999**	**11,862**	**13,894**	**15,497**	**17,021**
Accounts payable	5,787	7,870	8,826	10,253	11,789
Total Debt	2,613	3,062	2,961	2,961	2,961
Shareholders' funds	**7,063**	**8,378**	**9,645**	**10,822**	**11,999**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	13.0	13.0	14.8	15.4	15.9
ROE adjusted	36.4	40.2	49.8	53.7	57.8
ROIC adjusted	22.9	29.6	36.5	39.7	45.2
Net debt to equity	26.6	24.0	14.2	10.3	5.6
Total debt to capital	27.0	26.8	23.5	21.5	19.8

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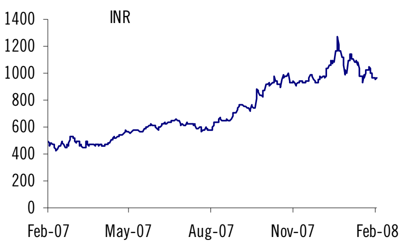
Axis Bank (AXBK.BO)

Hold/Low Risk	**2L**
Price (26 Feb 08)	Rs959.80
Target Price	Rs1,215.00
Expected share price return	26.6%
Expected dividend yield	0.4%
Expected total return	**27.0%**
Market Cap	Rs343,264M
	US$8,601M

Price Performance



Source: Citi Investment Research

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Company description

Axis Bank is India's third-largest private-sector bank after the significantly larger ICICI Bank and HDFC Bank. It is more than twice the size of the next largest private-sector bank. Axis Bank is a small player in the broader banking sector; its market share is less than 2% in terms of loans and deposits.

Axis Bank was started by the erstwhile Unit Trust of India (UTI) in 1994, along with LIC and GIC, two government-owned insurance companies. UTI's stake is now held by UTI-I, a government-owned entity, with a 27% holding. LIC and GIC together own 16%, and collectively, these government-owned shareholders own approximately 43% of the bank.

High Class...With Momentum

- **Distribution franchise continues to create value** — Axis has one of the strongest distribution franchises in the market and continues to build it out. Axis is also now leveraging this distribution – deposit mix improvement and growth continues to exceed peers, product range is expanding, and we see the market continuing to value up distribution.

- **Delivering above expectations** — Business momentum, balance sheet quality, earnings mix were above expectations. Axis continues to deliver ahead of expectations with rapid asset expansion, stable asset quality, and an improving earnings mix. On almost all qualitative parameters, Axis operates at or above historic peak levels; challenging best of breed peers, a tough operating market, and expectations.

- **Significant catch up; improvement faster than peers** — Axis's gains are also relative, and now compares favorably with best of breed peers. This catch up is spread across the operating and value spectrum – credit quality, fee and funding mix, scale and distribution mix, and management breadth. Improvements should ease, but should support higher absolute and relative valuations.

- **But if business turns, there would be risks – valuation caps** — While Axis has de-risked its balance-sheet, earnings and business, a market reversal could throw up risks. Credit risk - predominantly mid-market and aggressively built-up retail book; Funding risk - large share of whole-sale funding and capital-moderate cushion. Risks do not appear business threatening, with possible valuation caps. We believe the recent extension of the Chairman's term is a key positive, and a recognition of strong leadership and performance, as also continuity of business, and expansion.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	4,848	17.20	32.1	55.8	9.3	18.4	0.4
2007A	6,588	23.05	34.0	41.6	8.0	21.0	0.4
2008E	10,881	33.60	45.8	28.6	3.8	17.7	0.4
2009E	15,845	43.96	30.9	21.8	3.3	16.5	0.4
2010E	21,200	58.82	33.8	16.3	2.8	18.8	0.5

Source: Company data and Citi Investment Research estimates

Investment Strategy

Axis Bank is one of the few clean (in terms of asset book), rapidly growing, Profitable, and competitive private-sector banks in India; thus we think it will be a major beneficiary of the current banking environment. . Looking at its profile, we believe Axis Bank stands to gain disproportionately from existing opportunities in the sector. The bank has strong technology and products, an expanding distribution franchise, adequate scale, a strong service culture, and management enterprise – features that should help it stay ahead of the dominant government banks to win market share.

Valuation

We set our Rs1215 target price using an EVA-based methodology. We continue to use an 8% risk free rate estimate –even though the current interest rate levels provide some potential cushion, and upside, if rates were to fall. Our secondary valuation methodology is based on P/BV, which we use to value all banks in our coverage universe. We are now valuing Axis Bank at 4X FY09E PBV, equivalent to Rs 1163 We believe this higher benchmark is on account of a combination of elements – a) The structurally superior earnings, and quality expectations for Axis – margins, asset quality, and deposit mix and stability, b) Significant growth momentum on an already high base – Axis is by far the fastest growing bank, among the larger private ones in India and c) Higher multiple levels in the broader Indian Market – which should apply more so to a liability capturing business - with regulatory barriers to entry.

Axis Bank (AXBK.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	55.8	41.6	28.6	21.8	16.3
P/E reported (x)	55.8	41.6	28.6	21.8	16.3
P/BV (x)	9.3	8.0	3.8	3.3	2.8
P/Adjusted BV diluted (x)	9.5	8.1	3.9	3.4	2.8
Dividend yield (%)	0.4	0.4	0.4	0.4	0.5
Per Share Data (Rs)					
EPS adjusted	17.20	23.05	33.60	43.96	58.82
EPS reported	17.20	23.05	33.60	43.96	58.82
BVPS	103.06	120.49	250.09	290.76	346.02
Tangible BVPS	103.06	120.49	250.09	290.76	346.02
Adjusted BVPS diluted	101.00	118.10	246.13	286.16	340.55
DPS	3.50	3.50	4.00	4.00	4.50
Profit & Loss (RsM)					
Net interest income	10,782	15,671	26,073	35,441	47,064
Fees and commissions	4,889	7,790	13,242	18,539	24,101
Other operating Income	2,407	2,311	5,195	5,036	5,917
Total operating income	**18,079**	**25,772**	**44,510**	**59,016**	**77,081**
Total operating expenses	-8,141	-12,146	-20,647	-28,150	-35,897
Oper. profit bef. provisions	**9,938**	**13,626**	**23,863**	**30,866**	**41,185**
Bad debt provisions	-1,718	-2,009	-6,376	-6,216	-8,543
Non-operating/exceptionals	-910	-1,657	-1,000	-1,000	-1,000
Pre-tax profit	**7,310**	**9,960**	**16,487**	**23,650**	**31,642**
Tax	-2,462	-3,372	-5,606	-7,804	-10,442
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**4,848**	**6,588**	**10,881**	**15,845**	**21,200**
Adjusted earnings	4,848	6,588	10,881	15,845	21,200
Growth Rates (%)					
EPS adjusted	32.1	34.0	45.8	30.9	33.8
Oper. profit bef. prov.	75.7	37.1	75.1	29.3	33.4
Balance Sheet (RsM)					
Total assets	**497,311**	**732,572**	**980,253**	**1,277,076**	**1,658,661**
Avg interest earning assets	396,578	577,305	810,172	1,079,597	1,412,415
Customer loans	224,687	370,288	554,977	778,188	1,044,245
Gross NPLs	3,743	4,187	4,904	7,104	9,737
Liab. & shar. funds	**497,311**	**732,572**	**980,253**	**1,277,076**	**1,658,661**
Total customer deposits	401,135	587,856	787,765	1,049,907	1,387,506
Reserve for loan losses	1,545	1,523	2,467	4,673	0
Shareholders' equity	**28,722**	**33,932**	**88,711**	**103,137**	**122,741**
Profitability/Solvency Ratios (%)					
ROE adjusted	18.4	21.0	17.7	16.5	18.8
Net interest margin	2.7	2.7	3.2	3.3	3.3
Cost/income ratio	45.0	47.1	46.4	47.7	46.6
Cash cost/average assets	1.9	2.0	2.4	2.5	2.4
NPLs/customer loans	1.7	1.1	0.9	0.9	0.9
Reserve for loan losses/NPLs	41.3	36.4	50.3	65.8	0.0
Bad debt prov./avg. cust. loans	0.9	0.7	1.4	0.9	0.9
Loans/deposit ratio	56.0	63.0	70.4	74.1	75.3
Tier 1 capital ratio	7.3	5.9	10.9	9.5	8.6
Total capital ratio	11.1	8.6	13.3	11.8	10.9

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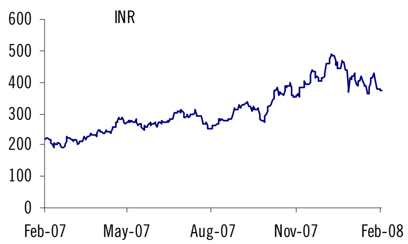
Powered by: dataCentral

Bank of Baroda (BOB.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs375.60
Target Price	Rs475.00
Expected share price return	26.5%
Expected dividend yield	1.6%
Expected total return	**28.1%**
Market Cap	Rs136,818M
	US$3,428M

Price Performance



Source: Citi Investment Research

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Company description

Bank of Baroda (BoB) was incorporated in 1908 as a private institution, and subsequently nationalized in 1969. The bank is headquartered in Baroda, Gujarat. The government holds 66% of the bank's equity. BoB is among the top-five banks in the country, with a nearly 5% share of the deposits and advances of the banking system. BoB has a large nationwide branch network of 2,827 branches, and has 38 branches in 10 foreign countries.

Steady and Stable

- **The consistent government bank** — BOB has distinguished itself over the past 18 months with the stability and consistency of its growth and profitability. Loan growth is 22-23%, margins have sustained at about 3%, and asset quality has continued to improve. BOB is the only large government bank with such a track record.
- **Large offshore book provides diversification, but caps upside** — Over 20% of BOB's business is in international markets, the largest among India's government banks. Our sense is that profitability, though there, lags its domestic business, and so does the franchise. And this potentially moderates the efficiency, and potential upside, of its capital.
- **Late in technology, but it's in place now** — BOB has lagged other government banks in technology. But its new platform is now in place, and with aggressive marketing and internal restructuring over the last year it could well be positioned to leverage this change, on revenues and returns.
- **Relatively aggressive on trading; bond book better positioned for falling rates** — BOB has been a little more aggressive than peers on its trading book; has made aggressive equity gains over the recent past, and its bond book is a little more leveraged to falling rates than peers. For now, it could help.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	8,270	25.06	9.0	15.0	1.8	12.3	1.3
2007A	10,260	28.07	12.0	13.4	1.6	12.4	1.5
2008E	15,970	43.69	55.7	8.6	1.4	17.1	1.6
2009E	18,009	49.27	12.8	7.6	1.2	16.8	1.6
2010E	21,558	58.98	19.7	6.4	1.0	17.4	1.6

Source: Company data and Citi Investment Research estimates

Investment Strategy

BoB has made progress in key operating parameters. But it has lagged behind the sector: loan growth, until recently, has been well below the industry's and its technology plan has been slow to take off. Management's aggressive interest-rate positioning on the bank's bond portfolio led to losses in the portfolio when interest rates reversed. This aspect of its balance sheet has meant that BoB has been viewed largely as an interest-rate cyclical stock, with falling/rising rates increasing/decreasing the value of its bond portfolio. Structurally, we believe BoB will continue to trade at a discount to its larger peers due to lower fee incomes, a higher proportion of international businesses, a modest lending franchise, and a slight geographic concentration. BoB will also likely remain the most interest-rate cyclical bank among its larger peers. However, the focus on bond yields has camouflaged changes in what the market formerly perceived as other weakness. We believe positive changes have come about, and the market appears to have failed to fully appreciate them.

Valuation

Our target price of Rs475 is based on CIR's EVA model, which we believe captures the long-term value of the business and is a standard valuation measure for our banking coverage. We are also benchmarking our target price on a 1.4x FY09E PBV. Our target price based on this methodology is now Rs430. Our target multiple factors in the healthy asset pricing and operating environment. Our target multiple continues to be at discounts to those for SBI and PNB. We believe a valuation discount to some peer banks is still justified due to the quality and structure of the businesses.

Bank of Baroda (BOB.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	15.0	13.4	8.6	7.6	6.4
P/E reported (x)	15.0	13.4	8.6	7.6	6.4
P/BV (x)	1.8	1.6	1.4	1.2	1.0
P/Adjusted BV diluted (x)	1.8	1.6	1.4	1.2	1.1
Dividend yield (%)	1.3	1.5	1.6	1.6	1.6
Per Share Data (Rs)					
EPS adjusted	25.06	28.07	43.69	49.27	58.98
EPS reported	25.06	28.07	43.69	49.27	58.98
BVPS	214.61	236.64	273.54	313.28	362.73
Tangible BVPS	214.61	236.64	273.54	313.28	362.73
Adjusted BVPS diluted	208.46	230.79	267.69	307.43	356.88
DPS	5.00	5.50	6.00	6.00	6.00
Profit & Loss (RsM)					
Net interest income	32,249	37,861	41,862	49,788	59,116
Fees and commissions	3,610	4,729	5,485	6,198	7,066
Other operating Income	8,307	9,089	13,487	11,882	13,122
Total operating income	**44,166**	**51,679**	**60,834**	**67,869**	**79,304**
Total operating expenses	-23,848	-25,443	-29,733	-33,174	-36,619
Oper. profit bef. provisions	**20,318**	**26,236**	**31,101**	**34,695**	**42,685**
Bad debt provisions	-3,400	-4,262	-5,148	-6,816	-9,509
Non-operating/exceptionals	-5,772	-5,436	-1,000	-1,000	-1,000
Pre-tax profit	**11,146**	**16,538**	**24,953**	**26,879**	**32,176**
Tax	-2,876	-6,278	-8,983	-8,870	-10,618
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**8,270**	**10,260**	**15,970**	**18,009**	**21,558**
Adjusted earnings	8,270	10,260	15,970	18,009	21,558
Growth Rates (%)					
EPS adjusted	9.0	12.0	55.7	12.8	19.7
Oper. profit bef. prov.	-11.7	29.1	18.5	11.6	23.0
Balance Sheet (RsM)					
Total assets	**1,133,925**	**1,431,462**	**1,695,629**	**1,974,110**	**2,283,911**
Avg interest earning assets	1,010,934	1,240,471	1,513,451	1,783,944	2,077,909
Customer loans	620,237	856,296	1,034,715	1,221,859	1,442,997
Gross NPLs	23,903	20,923	26,970	38,522	49,181
Liab. & shar. funds	**1,133,925**	**1,431,462**	**1,695,629**	**1,974,110**	**2,283,911**
Total customer deposits	936,620	1,249,160	1,491,270	1,746,573	2,034,412
Reserve for loan losses	21,119	20,087	24,232	29,490	36,000
Shareholders' equity	**78,444**	**86,499**	**99,986**	**114,512**	**132,587**
Profitability/Solvency Ratios (%)					
ROE adjusted	12.3	12.4	17.1	16.8	17.4
Net interest margin	3.2	3.1	2.8	2.8	2.8
Cost/income ratio	54.0	49.2	48.9	48.9	46.2
Cash cost/average assets	2.3	2.0	1.9	1.8	1.7
NPLs/customer loans	3.9	2.4	2.6	3.2	3.4
Reserve for loan losses/NPLs	88.4	96.0	89.8	76.6	73.2
Bad debt prov./avg. cust. loans	0.6	0.6	0.5	0.6	0.7
Loans/deposit ratio	66.2	68.5	69.4	70.0	70.9
Tier 1 capital ratio	10.4	8.5	8.3	8.2	8.1
Total capital ratio	13.7	11.5	11.2	11.0	10.6

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Powered by: dataCentral

BGR Energy Systems

Non-Rated	
Price (26 Feb 08)	571
Market Cap	Rs41090M
	US$1040M

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Company Description

BGR is present in primarily two segments, supply of systems and equipment and turnkey engineering project contracting. The company caters to a diverse range of customers in power, oil and gas sectors and has executed more than 130 contracts in 42 countries. The company was set up by Mr. B.G. Raghupathy in a JV with GEA Energietechnik GmbH, Germany in 1985 and successfully completed its IPO in Jan 2008.

Early Adopter of Balance of Plant Concept

- **Proven track record in Balance of Plant (BoP) work of power plants** — BGR has been an early adopter of the BoP concept in India. It has in-house design and engineering capabilities to undertake BoP work of plants. The company has used the experience and skills gained in BoP work to move into EPC of power plants. In the power sector, the company caters to both utilities and captive customers.

- **Electrical projects business** — The company also designs and supplies electrical systems and equipment such as gas insulated switchgear substations, optical fiber power ground wires, extra high voltage substations and transmission lines to power stations, refineries and petrochem plants.

- **Equipment manufacturing** — The company manufactures and supplies products such as gas conditioning, metering skid , storage tanks, compressors, heat exchangers, deaerators, effluent treatment & recycling plants, water treatment plants (pre-Treatment & DM plant) , RO-based desalination plants; and undertakes installation and related work.

- **Strategy going forward** — The company plans to utilize its power project management skills to tap the growing demand for power and power projects in India and abroad. BGR plans to open a marketing office in Dubai and a manufacturing facility in China. It also plans to capitalize on its experience of working in the oil and gas industry to benefit from the significant investments proposed in gas gathering, liquefaction, and storage and transportation projects in India.

- **Foray into infrastructure space** — BGR's infrastructure business, which is capable of building roads and industrial buildings, began operations in 2004. The company is planning to expand its infrastructure operations beyond roads and bridges to other civil infrastructure projects including ports and harbor projects, multilevel parking structures, airport expansion and other civil aviation projects.

Recent Developments

The company completed its IPO in January 2008.

BGR Energy Systems: Financial Summary

BGR Energy Systems — Consolidated P&L

In Rs Mn	Sep-02	Sep-03	Sep-04	Sep-05	Mar-07
Period	**12 Months**	**12 Months**	**12 Months**	**12 Months**	**18 Months**
Sales Turnover	1,252	1,583	2,707	2,958	7,868
Excise Duty	-	-	-	-	-
Net Sales	**1,252**	**1,583**	**2,707**	**2,958**	**7,868**
Other Income	2	4	2	-	3
Stock Adjustments	8	40	(14)	35	32
Total Income	**1,262**	**1,627**	**2,695**	**2,993**	**7,903**
Raw Materials	790	1,106	2,020	2,083	5,599
Power & Fuel Cost	-	-	-	-	-
Employee Cost	88	90	110	146	328
Other Manufacturing Expenses	120	158	220	312	714
Selling and Administration Expenses	109	110	131	164	377
Miscellaneous Expenses	2	2	2	5	4
Total Expenditure	**1,109**	**1,466**	**2,483**	**2,709**	**7,022**
Operating Profit	**153**	**161**	**212**	**284**	**881**
Interest	52	47	47	61	180
Depreciation	17	18	21	33	89
Profit Before Tax	**84**	**96**	**144**	**190**	**613**
Tax	20	20	32	54	213
Fringe Benefit Tax	-	-	-	-	-
Deferred Tax	-	-	-	-	-
Net Profit before Minority Interest	**64**	**76**	**112**	**136**	**400**
Minority Interest	-	-	-	-	-
Net Profit after Minority Interest	64	76	112	136	400
Extraordinary Items	-	-	-	-	-
Adjusted Net Profit	**64**	**76**	**112**	**136**	**400**

Source: Capitaline

BGR Energy Systems — Consolidated Balance Sheet

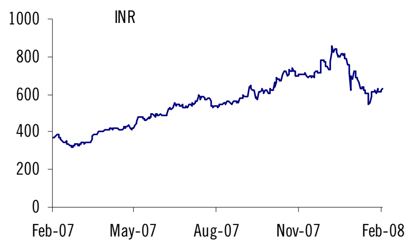
In Rs Mn	Sep-02	Sep-03	Sep-04	Sep-05	Mar-07
Share Capital	54	54	108	108	108
Reserves Total	123	186	218	327	721
Total Shareholders Funds	**177**	**240**	**326**	**435**	**829**
Minority Interest	1	1	2	2	15
Secured Loans	406	471	505	832	2,405
Unsecured Loans	55	58	57	58	59
Total Debt	**460**	**530**	**562**	**889**	**2,464**
Total Liabilities	**638**	**770**	**890**	**1,327**	**3,309**
Gross Block	199	190	250	335	389
Net Block	**199**	**190**	**250**	**335**	**389**
Capital Work in Progress	-	-	2	6	30
Investments	1	1	1	1	3
Inventories	85	116	123	187	293
Sundry Debtors	573	755	755	1,181	3,688
Cash and Bank	66	73	229	185	929
Loans and Advances	83	75	194	264	922
Total Current Assets	**807**	**1,020**	**1,300**	**1,817**	**5,832**
Current Liabilities	315	369	565	708	2,670
Provisions	54	71	98	124	276
Total Current Liabilities	**369**	**440**	**663**	**832**	**2,945**
Net Current Assets	**438**	**580**	**637**	**985**	**2,887**
Total Assets	**638**	**770**	**890**	**1,327**	**3,309**

Source: Capitaline

Bharati Shipyard (BHAR.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs626.25
Target Price	Rs790.00
Expected share price return	26.1%
Expected dividend yield	0.4%
Expected total return	**26.5%**
Market Cap	Rs17,111M
	US$429M

Price Performance



Source: Citi Investment Research

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Company description

Set up in 1973, Bharati Shipyard is one of the largest private shipyards in India. From its shipyards, spread across three regions — Ratnagiri, Ghodbunder, and Goa — the company has built ships including OSVs, cargo ships, and a wide range of tugs/deepwater trawlers. It is setting up a new shipyard in Mangalore and has expanded its capacity in Ratnagiri. It has bagged an order to build a jack-up rig, a first for any Indian shipyard. Its order book currently stands at Rs44bn. The company had an initial public offering in May 2004 and subsequently raised $100m through an FCCB in Dec 2005.

Navigating for Growth

- **Key player in the Indian space** — Bharati Shipyard has emerged as one of the largest private-sector shipyards in India. It has developed a niche in the offshore segment and has been able to secure an order in the high value rig market. The expansion in capacity at its various yards signals its foray into larger, higher value conventional ships.
- **Order book at 5.5x FY08E sales** — Bharati's total order book stands at Rs46bn, with the unexecuted portion providing a cover of 5.5x FY08E sales (last delivery in Apr-11). Nearly 70% of current order book is for OSVs; balance consists of orders for small bulk carriers, containers, etc. About 67% are export orders. The company has also bagged an order for a jackup rig (350' IC).
- **Capacity to increase meaningfully** — Bharati Shipyard is setting up a greenfield shipyard over 250 acres at Dabhol, Maharashtra for a total capex of c.Rs6bn (revenue contribution already commenced). The company plans to deploy most of the machinery acquired from Swan Hunter last year at this new facility. The company also has an upcoming yard at Mangalore to be used mainly for bulk carriers up to 60K DWT (to start contributing mainly from FY11E).
- **Expect new orders** — The company would be looking at tying in new orders for its Dabhol and Mangalore facilities over the next year, which should be important drivers and improve earnings visibility further. In addition, the company could also be looking at further rig orders.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	510	15.92	30.9	39.3	7.8	32.0	0.4
2007A	732	22.86	43.6	27.4	5.8	34.4	0.5
2008E	1,109	34.61	51.4	18.1	4.1	37.4	0.5
2009E	1,690	52.74	52.4	11.9	2.8	39.5	0.5
2010E	2,733	85.31	61.8	7.3	1.8	42.6	0.6

Source: Company and Citi Investment Research estimates

Investment Strategy

Bharati Shipyard has strong earnings momentum and an order book cover of 5.3x FY08E sales. We rate it Buy/Medium Risk. Fundamentals for Indian shipbuilders remain strong, driven by: (1) the robust E&P cycle ensuring demand in the OSV segment and (2) the continued tightness in the global shipbuilding sector. Our positive stance is backed by a solid 50% earnings CAGR for FY08-FY10E. The company's current order book of Rs44bn is geared towards the oil & gas segment, which has strong demand drivers. The company has also bagged an order for a jack-up rig, the first of its kind for an Indian company. Its aggressive expansion plans are backed by its strong order book. The company has expanded its capacity at Ratnagiri, while its greenfield yard at Mangalore should start generating revenues in 2HFY08E. The Mangalore yard will be able to produce ships of up to 60,000 DWT and will also house the rig building unit.

Valuation

We rate Bharati Shipyard Buy/Medium Risk with a target price of Rs790, based on 15x FY09E earnings. The valuation accounts for complete conversion of the FCCB, leading to a 42% dilution in earnings. This is based on our methodology of rating Indian shipbuilders at a slight premium to other similar profiled Singapore shipyards that have significantly lower earnings growth, but in-line with our target multiples for the Korean shipyards. Given Bharati's superior earnings CAGR of 50% over FY08-10E and an unexecuted order book that is 5.3x FY08E sales, we believe that Bharati deserves to trade at a slight premium to its Singapore peers, subsidy concerns notwithstanding.

Bharati Shipyard (BHAR.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	39.3	27.4	18.1	11.9	7.3
EV/EBITDA adjusted (x)	20.3	14.7	11.5	8.6	6.1
P/BV (x)	7.8	5.8	4.1	2.8	1.8
Dividend yield (%)	0.4	0.5	0.5	0.5	0.6
Per Share Data (Rs)					
EPS adjusted	15.92	22.86	34.61	52.74	85.31
EPS reported	15.92	22.86	34.61	52.74	85.31
BVPS	80.50	108.79	154.56	226.15	343.53
DPS	2.50	3.00	3.00	3.00	3.50
Profit & Loss (RsM)					
Net sales	2,940	4,228	7,361	11,515	18,602
Operating expenses	-2,079	-3,007	-5,474	-8,447	-13,688
EBIT	**861**	**1,220**	**1,887**	**3,067**	**4,915**
Net interest expense	-98	-144	-237	-613	-1,040
Non-operating/exceptionals	18	32	30	30	30
Pre-tax profit	**781**	**1,109**	**1,680**	**2,485**	**3,905**
Tax	-271	-376	-571	-795	-1,171
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**510**	**732**	**1,109**	**1,690**	**2,733**
Adjusted earnings	510	732	1,109	1,690	2,733
Adjusted EBITDA	876	1,271	1,946	3,200	5,122
Growth Rates (%)					
Sales	52.7	43.8	74.1	56.4	61.6
EBIT adjusted	89.9	41.7	54.7	62.5	60.2
EBITDA adjusted	91.3	45.2	53.1	64.5	60.0
EPS adjusted	30.9	43.6	51.4	52.4	61.8
Cash Flow (RsM)					
Operating cash flow	**241**	**589**	**-3,383**	**123**	**32**
Depreciation/amortization	15	51	59	133	207
Net working capital	-283	-194	-4,551	-1,700	-2,908
Investing cash flow	**-921**	**-1,419**	**-3,000**	**-3,500**	**-3,000**
Capital expenditure	-921	-1,419	-3,000	-3,500	-3,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**5,332**	**145**	**2,688**	**3,281**	**3,156**
Borrowings	5,246	80	2,762	3,354	3,243
Dividends paid	-64	-79	-79	-79	-92
Change in cash	**4,652**	**-685**	**-3,695**	**-96**	**189**
Balance Sheet (RsM)					
Total assets	**9,041**	**12,039**	**13,616**	**19,272**	**26,377**
Cash & cash equivalent	4,722	4,016	322	225	414
Accounts receivable	688	1,375	2,201	3,036	4,443
Net fixed assets	1,095	2,457	5,399	8,766	11,559
Total liabilities	**7,219**	**9,581**	**10,127**	**14,173**	**18,637**
Accounts payable	281	459	867	1,334	2,166
Total Debt	5,475	5,555	8,317	11,672	14,915
Shareholders' funds	**1,822**	**2,459**	**3,489**	**5,099**	**7,740**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	29.8	30.1	26.4	27.8	27.5
ROE adjusted	32.0	34.4	37.4	39.5	42.6
ROIC adjusted	24.9	21.6	15.3	15.1	18.1
Net debt to equity	41.4	62.6	229.2	224.5	187.3
Total debt to capital	75.0	69.3	70.5	69.6	65.8

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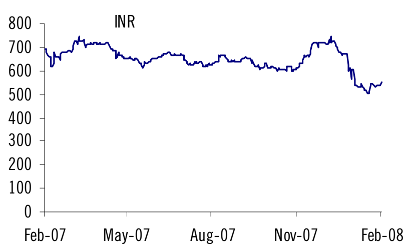
Dr Reddy (REDY.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs549.00
Target Price	Rs725.00
Expected share price return	32.1%
Expected dividend yield	0.7%
Expected total return	**32.8%**
Market Cap	Rs92,327M
	US$2,313M

Price Performance



Source: Citi Investment Research

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Company description

DRL is a leading pharma company in India, with one of the best R&D pipelines. It focuses on value addition by increasing the share of branded formulations and generics exports to regulated markets. After starting as a bulk-drugs player in 1984, it has moved up the value chain and is aiming to become an innovator company. In generics, it is trying to increase the share of sales from regulated markets to boost overall profitability. As part of its inorganic growth strategy, it acquired Betapharm in Germany and is looking at smaller deals going forward.

Growth Pangs

- **Mixed outlook** — We believe that DRL's well diversified business & expanding pipeline of products/markets in each segment will drive sustained growth over the long term. Besides, its efforts in biosimilars & innovative R&D would throw up valuation and growth drivers beyond the traditional generics opportunity. However, over the next few quarters, we expect the pain in German operations to continue and act as an overhang on valuations.

- **Concerns in Germany** — DRL took a big write-off (Rs2.4bn) of intangibles related to Betapharm in 3Q FY08. Although it has made good progress in shifting production to low-cost Indian facilities, the regulatory pressure on pricing and growing bargaining power of insurance companies show no signs of easing in the near term and should keep profitability under pressure.

- **Mixed trends in CCS** — The Mexican CCS business remained suppressed due to lower demand. On the other hand the higher-margin Indian CCS business has gained significant traction and is likely to witness a doubling of revenues in FY08. We expect CCS to remain one of the fastest growing, albeit small, businesses within DRL.

- **Other issues/trends** — a) Perlecan under duress: RUS-3108 to be shelved and DRF-10945 to be taken out of its purview; b) long-term initiatives on course – biologics, strong pipeline of FTFs & complex products for regulated markets; c) Strong growth in markets such as Russia/CIS, the US and India.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	929	12.11	337.6	45.3	1.9	4.3	0.6
2007A	9,328	55.55	358.6	9.9	2.2	29.2	0.7
2008E	4,195	24.99	-55.0	22.0	2.1	9.7	0.8
2009E	5,786	34.46	37.9	15.9	1.9	12.2	0.8
2010E	7,032	41.88	21.5	13.1	1.6	13.3	0.8

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate DRL Buy/Medium Risk with a target price of Rs725. We believe the company has evolved a business model that is among the best placed to tackle the changing dynamics of the industry. A mix of near-term growth drivers and investment for longer term sustainability of growth make DRL one of the best plays in the Indian pharma industry, in our view. At the same time, DRL's presence in patent challenges and drug discovery implies the potential for positive surprises to earnings and valuations. Over the near term however, continued pressure on pricing would put valuations at risk and this is more of a long-term call with positive catalysts likely to come through only from the latter part of FY09.

Valuation

We use sum-of-the-parts valuation approach to value DRL. For the base business, we use a target multiple of 20x to value sector leaders, which is at a premium of about 40% to the broad market and is justified given that the sector is IPR driven and has the potential for significant earnings growth. At 20x March'09E earnings, we value DRL's base business at Rs659. We value DRL's Para IV pipeline and drug discovery efforts separately at Rs31. For patent challenges we use a success probability of 20% and a discounted cash flow (discount factor 15%) for the opportunities being targeted over the next few years. We value DRL's new drug discovery efforts in Perlecan Pharma at Rs35. Together, these values give us a target price of Rs725.

Dr Reddy (REDY.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	45.3	9.9	22.0	15.9	13.1
EV/EBITDA adjusted (x)	138.4	5.1	9.9	8.2	6.5
P/BV (x)	1.9	2.2	2.1	1.9	1.6
Dividend yield (%)	0.6	0.7	0.8	0.8	0.8
Per Share Data (Rs)					
EPS adjusted	12.11	55.55	24.99	34.46	41.88
EPS reported	12.11	55.55	25.83	34.46	41.88
BVPS	290.40	247.62	267.43	296.71	333.42
DPS	3.50	4.00	4.50	4.50	4.50
Profit & Loss (RsM)					
Net sales	23,562	65,095	49,509	57,844	62,114
Operating expenses	-23,404	-54,528	-47,006	-51,494	-54,183
EBIT	**158**	**10,567**	**2,504**	**6,350**	**7,931**
Net interest expense	1,118	-3	832	400	400
Non-operating/exceptionals	-88	-63	-8	-60	-60
Pre-tax profit	**1,188**	**10,501**	**3,328**	**6,690**	**8,271**
Tax	-258	-1,177	865	-906	-1,241
Extraord./Min.Int./Pref.div.	-1	4	143	2	2
Reported net income	**929**	**9,328**	**4,336**	**5,786**	**7,032**
Adjusted earnings	929	9,328	4,195	5,786	7,032
Adjusted EBITDA	578	13,908	6,355	7,650	9,231
Growth Rates (%)					
Sales	21.0	176.3	-23.9	16.8	7.4
EBIT adjusted	29.7	6,587.9	-76.3	153.6	24.9
EBITDA adjusted	22.1	2,306.2	-54.3	20.4	20.7
EPS adjusted	337.6	358.6	-55.0	37.9	21.5
Cash Flow (RsM)					
Operating cash flow	**1,039**	**4,683**	**-1,585**	**2,991**	**5,601**
Depreciation/amortization	420	3,341	3,851	1,300	1,300
Net working capital	-1,873	-4,265	-5,923	-2,797	-1,433
Investing cash flow	**-34,524**	**-4,102**	**-900**	**-900**	**-900**
Capital expenditure	-1,873	-3,341	-900	-900	-900
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**27,211**	**6,279**	**-869**	**-869**	**-869**
Borrowings	6,322	-3,066	0	0	0
Dividends paid	-436	-758	-869	-869	-869
Change in cash	**-6,274**	**6,861**	**-3,354**	**1,222**	**3,832**
Balance Sheet (RsM)					
Total assets	**68,768**	**85,919**	**85,849**	**91,453**	**97,970**
Cash & cash equivalent	5,334	18,603	15,108	16,330	20,162
Accounts receivable	4,802	7,519	9,156	10,697	11,487
Net fixed assets	9,086	12,428	13,328	14,228	15,128
Total liabilities	**46,496**	**44,330**	**40,932**	**41,617**	**41,968**
Accounts payable	3,639	4,755	4,069	4,754	5,105
Total Debt	30,995	24,754	22,041	22,041	22,041
Shareholders' funds	**22,272**	**41,578**	**44,905**	**49,822**	**55,985**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	2.5	21.4	12.8	13.2	14.9
ROE adjusted	4.3	29.2	9.7	12.2	13.3
ROIC adjusted	-0.8	54.0	15.5	21.3	23.4
Net debt to equity	115.2	14.8	15.4	11.5	3.4
Total debt to capital	58.2	37.3	32.9	30.7	28.2

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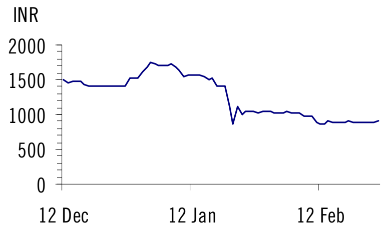
Edelweiss Capital (EDEL.BO)

Non-Rated

Price (26 Feb 08)	Rs899.45
Market Cap	Rs67,388M
	US$1,689M

Price Performance



Source: dataCentral

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Company Description

Edelweiss is among the larger domestic institutional brokers, with a large market share and leadership in the buoyant derivatives segment. This is complemented by a growing investment bank, and a market-leading treasury operation (focused on low-risk, arbitrage and short-term trading opportunities). It operates from 43 offices in 19 Indian cities.

Going Beyond Brokerage

- **Brokerage franchise** — Edelweiss is among the larger institutional brokerage firms, with a strong domestic investment-banking business. It has a 5%+ market share in the broking segment, with a strong presence in the derivatives segment (over 13% share).
- **Institutional player – backed by arbitrage trading** — Edelweiss' institutional broking business is backed by investment banking, which combines capital issuances, distribution, private-equity syndication and structured finance. It is in the process of widening its product suite in sector-specific niches. Edelweiss also runs a market-leading treasury portfolio focused on low risk, arbitrage and short-term trading opportunities.
- **Broadening product offering through new initiatives** — Edelweiss' new initiatives in financing, asset management and wealth management build on strengths, complementing existing businesses, and leverage embedded skills. Through these forays it hopes to tap large return opportunities and diversify revenues, lower capital market dependence and bolster its franchise.
- **Risks** — Equity market volatility, competitive pressures, possible losses on treasury portfolio, margin finance risks, interest rates, execution and regulatory risks.

Statistical Abstract

Year to 31-Mar	Net Profit (Rs m)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005	237	17		54.4	24.0	44	0.0
2006	405	11	-35	84.0	19.1	23	0.0
2007	1090	24	126	37.1	6.9	19	0.0

Source: CapitalLine

Recent Developments

ECL Finance, the wholesale financing subsidiary of the company, has raised Rs4bn by way of issuance of equity shares to Edelweiss Capital and few other investors for 23.3% of the post issue capital of the subsidiary in Jan 08.

Edelweiss Capital (EDEL.BO): Financial Summary

Edelweiss Capital — Profit and Loss Account (Rs m)

Profit and Loss, Rsm	2005	2006	2007
Income from Operations	681	1,540	3,559
Interest Income	13	19	77
Income from Partnerships	21	3	-
Dividends	3	11	50
Other Income	4	7	26
Total Other Income	**42**	**40**	**154**
Total Income	**723**	**1,580**	**3,713**
Employee Costs	170	346	817
Depreciation	10	20	38
Other Operating Costs	173	465	933
Interest Expenses	30	54	187
Total Expenses	**382**	**885**	**1,975**
Profit Before Tax	**340**	**694**	**1,738**
Tax	103	230	646
Profit After Tax	**237**	**464**	**1,092**
Extraordinary Items	-	21	-
Minority Interest	0	38	2
Preference Dividends	-	-	0
Attributable Profits	**237**	**405**	**1,090**

Source: Company Reports

Edelweiss Capital — Balance Sheet (Rs m)

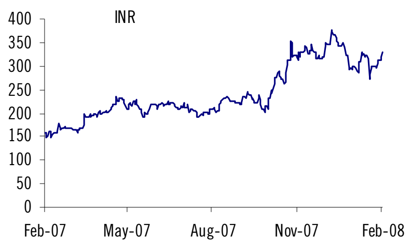
Balance Sheet, Rsm	FY05	FY06	FY07
Fixed Assets	41	67	170
Investments	93	324	824
Cash	120	637	2,651
Debtors	122	364	583
Loans	500	700	2,616
Stock in Trade	262	1,405	5,756
Others	5	15	87
Total Assets	**1,143**	**3,511**	**12,687**
Secured Loans	59	71	68
Unsecured Loan	62	434	3,802
Minority Interest	0	3	1,399
Creditors	354	840	633
Provisions	32	45	134
Others	96	333	829
Liabilities	**603**	**1,727**	**6,865**
Equity Capital	29	38	45
Preference Capital			6
Reserves and Surplus	510	1,746	5,772
Networth	**539**	**1,784**	**5,823**
Total Liabilities	**1,143**	**3,511**	**12,687**

Source: Company Reports

Everest Kanto Cylinder (EKCL.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs328.45
Target Price	Rs437.00
Expected share price return	33.0%
Expected dividend yield	0.5%
Expected total return	**33.6%**
Market Cap	Rs33,225M
	US$833M

Price Performance



Source: Citi Investment Research

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Company description

Everest Kanto Cylinder (EKC) is the largest domestic manufacturer of high pressure gas cylinders used for the storage of industrial gases and CNG. While the first manufacturing facility (at Aurangabad) was set up in collaboration with Kanto Koatsu Yoki of Japan in 1978, subsequent facilities have been built using in-house technology. The company currently has four manufacturing plants — in Aurangabad, Tarapur, Gandhidham, and Dubai — that have a total production capacity of 806,000 cylinders per year. An aggressive expansion plan, including a greenfield plant in China, expansion of the Gandhidham facility, and a new plant in an SEZ, would increase EKC's capacity to 2.3m cylinders over the next 4-5 years.

Propelled by CNG

- **Dominant domestic player** — EKC, India's dominant domestic manufacturer of high pressure gas cylinders, has seized the opportunity to tap into the growing market for environmentally friendly CNG applications. The company looks well positioned to benefit from the rapidly growing global CNG market, and is one of the most leveraged plays to the expanding city gas distribution market in India. Planned capacity increase should contribute to sustained earnings growth.

- **Well-timed expansions – positive and fully funded** — Besides the Dubai expansion (commenced in 3Q) and China greenfield plant (to start this quarter), EKC plans to: (1) expand the Gandhidham facility (0.2m industrial cyl/yr), (2) set up a greenfield plant at Kandla SEZ (0.3m CNG cyl/yr), and de-bottleneck Tarapur. Total capex envisaged is c.US$50m. The company has raised ~US$57m through an FCCB and private placement. The expansions are positive as they diversify two key risks – RM supplies and the China market.

- **Significant growth ahead** — The new expansions are targeted at meeting the burgeoning domestic and global demand for CNG applications as well as producing value-added products such as jumbo cylinders which would add meaningfully to margins and, more importantly, address competitive pressures. Total capacity will grow 3x in 4-5 yrs from 0.8m/yr currently.

- **New acquisition announced** — EKC recently announced that it was acquiring the assets of a US-based company that manufactures very large (jumbo) cylinders for storage and transportation of industrial gases. Deal size is estimated at US$70m, target revenues are reportedly US$45m. Other details are awaited.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	324	3.68	54.6	89.3	19.2	33.7	0.2
2007A	718	7.35	99.9	44.7	10.6	31.7	0.3
2008E	1,115	10.54	43.4	31.2	6.9	28.4	0.5
2009E	1,729	16.35	55.1	20.1	5.3	31.2	0.8
2010E	2,469	23.34	42.8	14.1	4.0	34.1	1.3

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate the stock as Buy/Medium Risk with a target price of Rs437. We believe EKC is uniquely positioned to capture the significant growth potential of the market for high pressure gas cylinders. Increased production from new and existing plants would see the company deliver EPS CAGR of 47% for FY07-10, on our estimates. While the CNG segment in India is still at a nascent stage, cost economics, improving refueling infrastructure and visibility of gas supplies should mean an accelerating trajectory for city gas distribution and consequently CNG penetration, thereby boosting demand for CNG cylinders. Given the robust global outlook for natural gas-powered vehicles and industrial cylinders, we expect EKC's production to increase ~3x over FY07-10E.

Valuation

Our target price of Rs437 is based on 22x Sep 09E earnings, representing a discount to fair-value multiples of 23-30x for its manufacturing / engineering peers in India. We base our target multiple on mid-FY09E earnings because we believe it better captures the contribution from China, full utilization of Dubai, and part contribution from the newly announced expansions. We prefer comparing EKC with capital-goods companies that manufacture industrial goods that have a similar growth profile. However, given the difference in the nature of the business and the higher order book visibility of these companies, we believe EKC should trade at a discount to its peers. EKC is also a leveraged play on the alternative energy/CNG theme and one of the most leveraged plays to the expanding city gas distribution market in India. Our target P/E is well supported by an EPS CAGR of 47% for FY07-10E.

Everest Kanto Cylinder (EKCL.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	89.3	44.7	31.2	20.1	14.1
EV/EBITDA adjusted (x)	57.2	29.5	20.9	13.6	9.8
P/BV (x)	19.2	10.6	6.9	5.3	4.0
Dividend yield (%)	0.2	0.3	0.5	0.8	1.3
Per Share Data (Rs)					
EPS adjusted	3.68	7.35	10.54	16.35	23.34
EPS reported	3.68	7.35	10.54	16.35	23.34
BVPS	17.13	30.98	47.75	61.84	81.11
DPS	0.70	1.00	1.65	2.56	4.39
Profit & Loss (RsM)					
Net sales	2,355	3,851	5,793	8,953	12,463
Operating expenses	-1,865	-2,884	-4,395	-6,763	-9,338
EBIT	**490**	**967**	**1,398**	**2,191**	**3,125**
Net interest expense	-37	-53	-102	-164	-198
Non-operating/exceptionals	22	40	115	108	84
Pre-tax profit	**476**	**953**	**1,411**	**2,135**	**3,011**
Tax	-141	-236	-296	-406	-542
Extraord./Min.Int./Pref.div.	-11	0	0	0	0
Reported net income	**324**	**718**	**1,115**	**1,729**	**2,469**
Adjusted earnings	324	718	1,115	1,729	2,469
Adjusted EBITDA	588	1,145	1,646	2,605	3,655
Growth Rates (%)					
Sales	77.9	63.5	50.4	54.6	39.2
EBIT adjusted	133.9	97.2	44.6	56.7	42.6
EBITDA adjusted	104.2	94.7	43.8	58.2	40.3
EPS adjusted	54.6	99.9	43.4	55.1	42.8
Cash Flow (RsM)					
Operating cash flow	**300**	**-182**	**679**	**881**	**1,722**
Depreciation/amortization	98	178	248	414	530
Net working capital	-122	-1,078	-684	-1,262	-1,278
Investing cash flow	**-591**	**-717**	**-2,561**	**-1,412**	**-612**
Capital expenditure	-591	-717	-2,561	-1,412	-612
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**667**	**1,091**	**2,965**	**238**	**-525**
Borrowings	-93	307	2,255	531	-3
Dividends paid	-70	-114	-196	-303	-520
Change in cash	**376**	**192**	**1,083**	**-293**	**584**
Balance Sheet (RsM)					
Total assets	**2,514**	**4,718**	**8,878**	**11,377**	**14,011**
Cash & cash equivalent	290	471	1,554	1,261	1,845
Accounts receivable	234	575	878	1,357	1,889
Net fixed assets	939	1,478	3,792	4,790	4,871
Total liabilities	**1,004**	**1,704**	**4,047**	**5,121**	**5,806**
Accounts payable	266	379	578	893	1,244
Total Debt	395	702	2,957	3,488	3,485
Shareholders' funds	**1,509**	**3,024**	**4,830**	**6,256**	**8,205**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	25.0	29.7	28.4	29.1	29.3
ROE adjusted	33.7	31.7	28.4	31.2	34.1
ROIC adjusted	24.8	26.3	21.3	22.7	26.0
Net debt to equity	7.0	7.6	29.0	35.6	20.0
Total debt to capital	20.7	18.8	38.0	35.8	29.8

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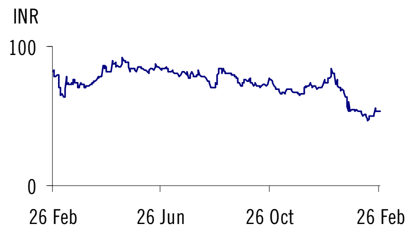
Powered by: dataCentral

Firstsource Solutions (FISO.BO)

Non-Rated	
Price (26 Feb 08)	Rs53.75
Market Cap	Rs23,090M
	US$579M

Price Performance



Source: dataCentral

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Company Description

Firstsource is the third-largest pure play BPO services provider in India. The company focuses on three key verticals – BFSI, Healthcare and Telecom & Media – which together constitute about 60% of the addressable market for third-party BPOs.

Pure BPO Player

- **Demand outlook for FY09 —** The most important issue at this point in time is the demand outlook for FY09. Firstsource's view on business outlook/pipeline is important given the concerns of US/global slowdown. Any indicators of slowdown — deal deferrals, delay in decision making, lengthening of sales cycles — should be an area to watch.

- **Margin levers —** Margin levers available to the company should be an area of focus, given the pressures due to rupee appreciation/wage inflation. Understanding the margin outlook for FY09 remains crucial.

- **Supply of talent topics —** (1) Firstsource's view on the supply-side situation in terms of abundance/availability of talent; (2) Firstsource's initiatives to tackle the mismatch between supply and demand; and (3) Expectations for wage inflation in FY09.

- **SEZ strategy —** Given the current expectation of the STPI sunset clause coming into effect by March 2009, increase in tax rates in FY10 is another key area to focus on.

- **Acquisition strategy —** Firstsource has been fairly aggressive over the past few years in acquiring companies. In FY08, it acquired Medassist. Key questions to ask management are on: (1) Strategy regarding further acquisitions; (2) Integration of Medassist and its progress; (3) Impact on margins due to acquisitions; and (4) Source of funds for future acquisitions.

Recent Developments

Firstsource reported Q3FY08 revenues of Rs3.74bn (up ~37% qoq), including the consolidation of the Medassist acquisition. EBITDA margins were down more than 500bps qoq while PAT at Rs206m was down ~55% qoq.

Firstsource Solutions (FISO.BO): Financial Summary

Income Statement

Year to March, Rs mn	FY04	FY05	FY06	FY07
Revenue	**1,792**	**3,219**	**5,487**	**8,298**
Growth	*140.2%*	*79.6%*	*70.5%*	*51.2%*
Personnel expenses	853	1,601	2,835	4,136
Gross profit	939	1,618	2,653	4,162
Gross margin	*52.4%*	*50.3%*	*48.3%*	*50.2%*
Operating expenses	746	1,102	1,854	2,518
EBITDA	**193**	**517**	**799**	**1,644**
EBITDA margin	*10.8%*	*16.1%*	*14.6%*	*19.8%*
Depreciation	172	330	451	642
Interest expense, net	12	29	89	78
Other income	16	16	12	102
PBT	25	173	270	1,026
Tax	19	-3	27	60
PAT	6	176	243	966
MI	0	-5	-4	-6
Reported PAT	**6**	**181**	**247**	**973**
PAT margin	0.3%	5.6%	4.5%	11.7%

Source: Company Reports

Balance Sheet

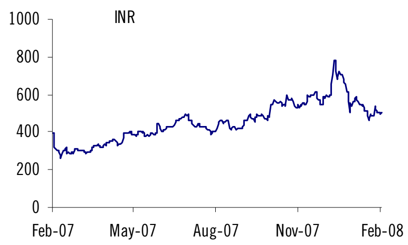
Year to March, Rs mn	FY04	FY05	FY06	FY07
Cash and equivalents	81	269	170	3,010
Sundry debtors	332	619	1,007	1,364
Loans and advances	237	318	457	1,306
Current assets	649	1,206	1,635	5,680
Current liabilities and provisions	247	668	1,191	1,369
Net current assets	**402**	**539**	**444**	**4,311**
Deferred tax assets	1	4	4	6
Net PPE	589	1,005	1,154	1,802
Investments	0	0	0	1,153
Goodwill	1,463	3,612	4,073	5,419
Total assets	**2,455**	**5,160**	**5,674**	**12,691**
Debt	200	1,043	1,300	1,976
Shareholder's funds	2,255	4,061	4,324	10,666
Minority interest	0	56	49	43
Total equity and liabilities	**2,455**	**5,160**	**5,674**	**12,691**

Source: Company Reports

Gammon India (GAMM.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs503.30
Target Price	Rs642.00
Expected share price return	27.6%
Expected dividend yield	0.1%
Expected total return	**27.7%**
Market Cap	Rs43,600M
	US$1104M

Price Performance



Source: Citi Investment Research

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Company description

Gammon is an 86-year-old construction company with cash contracting and build-operate-transfer (BOT) skill-sets in sectors as varied as bridges, flyovers, roads, energy (hydroelectric, nuclear and thermal), tunnels, ports, pipelines (oil, gas and water), water supply and sewage, utilities, ports, harbors, and other marine structures. A presence across sub-sectors provides Gammon with an advantage, as it is in a position to bid, win and implement a wide range of projects in a sector that is seeing considerable activity.

Good Construction and Infrastructure Assets Pedigree

- **Substantial experience in Indian construction space** — Gammon enjoys a strong competitive advantage in BOT/Public Private Partnership (PPP), as it, along with L&T, is the only company in the Indian construction universe having substantial experience in the dynamics of this business. We believe these two companies are better equipped to weed out commercially risky and low RoE projects vis-à-vis competion.

- **33% construction CAGR over FY07-10E** — We expect the core construction business to grow EPS at a CAGR of 33% over FY07-10E, driven by a sales CAGR of 33% and a stable EBITDA margin of 9.4%. Gammon has an order backlog of Rs74bn and expects to win orders worth Rs8bn-10bn from the Mumbai Container Terminal and Sikkim Hydro projects by March 2008.

- **GIPL listing a key trigger** — Gammon, through 100% subsidiary Gammon Cooling Towers, has bought a 3.5% stake in GIPL from AMIF I at Rs151/share, valuing the company at Rs19.3bn. GIPL has already filed its draft red herring prospectus (DRHP) with SEBI, and the listing is likely to happen in the near future. This could be a key trigger for the stock.

- **Flyover collapse should not affect growth** — Given that the enquiry committee has asked Gammon and its other partners to resume work on a flyover which collapsed in Sept. 07 implies that it will not face problems in bidding for/winning incremental orders in AP or elsewhere in India. The penalty, in case Gammon does not appeal, is Rs30mn, which is negligible.

Gammon Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,028	11.86	NA	42.5	5.1	NA	0.1
2007A	984	11.34	-4.3	44.4	4.9	11.2	0.1
2008E	1,142	13.17	16.1	38.2	4.3	12.0	0.1
2009E	1,622	18.70	42.0	26.9	3.8	14.9	0.1
2010E	2,300	26.52	41.8	19.0	3.1	18.0	0.1

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate Gammon as Buy/Low Risk (1L), with a target price of Rs642. We expect the core construction business to grow EPS at a CAGR of 33% over FY07-10E driven by sales CAGR of 33% and stable EBITDA margins of 9.4%. Gammon has an order backlog of Rs73bn and expects to win orders worth Rs8-10bn by March 2008. Further, GIPL, the asset-holding company, has increased its portfolio of projects to 13 from 7 over the past year and is bidding for many more projects Gammon enjoys a strong competitive advantage in BOT/Public Private Partnership (PPP), as it, along with L&T, is the only company in the Indian construction universe having substantial experience in the dynamics of this business. Gammon has also forayed into the transmission towers business with a 28% stake in Associated Transrail and the real estate business with investments of Rs1bn in the business.

Valuation

We value Gammon using a sum of the parts comprising of:

(1) Construction business: At Rs384 valued at 17x Sep09.

(2) GIPL: At Rs192 valued at the recent transaction value between Gammon Cooling Towers and AMIF I.

(3) Associated Transrail (28% Stake): At Rs45 valued at a target P/E multiple of 17x FY09E.

(4) Gammon Realty: At Rs12 value at book value of investments.

(5) Sadbhav Engineering (8% Stake): Valued at a 20% discount to market value.

Gammon India (GAMM.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	42.5	44.4	38.2	26.9	19.0
EV/EBITDA adjusted (x)	na	7.0	5.9	4.4	3.3
P/BV (x)	5.1	4.9	4.3	3.8	3.1
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	11.86	11.34	13.17	18.70	26.52
EPS reported	12.02	5.13	13.17	18.70	26.52
BVPS	98.97	103.46	116.05	134.17	160.11
DPS	0.61	0.50	0.50	0.50	0.50
Profit & Loss (RsM)					
Net sales	14,765	18,517	24,072	32,497	43,871
Operating expenses	-13,290	-17,147	-22,233	-29,924	-40,289
EBIT	**1,475**	**1,370**	**1,839**	**2,573**	**3,582**
Net interest expense	-471	-136	-239	-272	-289
Non-operating/exceptionals	108	197	80	85	90
Pre-tax profit	**1,112**	**1,431**	**1,680**	**2,386**	**3,383**
Tax	-83	-447	-537	-763	-1,083
Extraord./Min.Int./Pref.div.	14	-539	0	0	0
Reported net income	**1,043**	**445**	**1,142**	**1,622**	**2,300**
Adjusted earnings	1,028	984	1,142	1,622	2,300
Adjusted EBITDA	1,846	1,722	2,266	3,059	4,130
Growth Rates (%)					
Sales	na	25.4	30.0	35.0	35.0
EBIT adjusted	na	-7.1	34.3	39.9	39.2
EBITDA adjusted	na	-6.7	31.6	35.0	35.0
EPS adjusted	na	-4.3	16.1	42.0	41.8
Cash Flow (RsM)					
Operating cash flow	**-1,150**	**-252**	**264**	**601**	**996**
Depreciation/amortization	371	352	427	486	548
Net working capital	-2,543	-1,083	-1,305	-1,507	-1,852
Investing cash flow	**-1,200**	**-2,084**	**-900**	**-1,000**	**-1,000**
Capital expenditure	-935	-1,742	-900	-1,000	-1,000
Acquisitions/disposals	-266	-343	0	0	0
Financing cash flow	**2,965**	**1,954**	**500**	**499**	**-51**
Borrowings	-1,325	2,009	550	550	0
Dividends paid	-60	-50	-50	-51	-51
Change in cash	**615**	**-383**	**-135**	**101**	**-54**
Balance Sheet (RsM)					
Total assets	**15,728**	**20,796**	**24,268**	**29,548**	**36,056**
Cash & cash equivalent	1,343	960	825	925	871
Accounts receivable	2,380	3,034	3,940	5,319	7,180
Net fixed assets	3,097	4,487	4,960	5,474	5,927
Total liabilities	**7,143**	**11,821**	**14,201**	**17,909**	**22,167**
Accounts payable	2,530	3,066	5,016	6,772	9,143
Total Debt	1,706	3,715	4,265	4,815	4,815
Shareholders' funds	**8,585**	**8,975**	**10,067**	**11,639**	**13,889**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	12.5	9.3	9.4	9.4	9.4
ROE adjusted	na	11.2	12.0	14.9	18.0
ROIC adjusted	na	9.2	10.7	13.4	15.9
Net debt to equity	4.2	30.7	34.2	33.4	28.4
Total debt to capital	16.6	29.3	29.8	29.3	25.7

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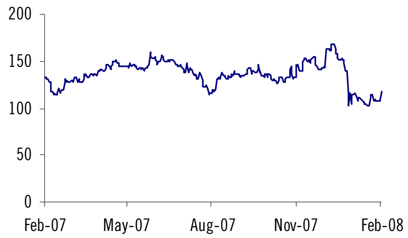
Gateway Distriparks (GATE.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs116.85
Target Price	Rs172.80
Expected share price return	47.9%
Expected dividend yield	2.7%
Expected total return	**50.6%**
Market Cap	Rs13,507M
	US$338M

Price Performance



Source: Citi Investment Research

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Company description

Incorporated in 1994, GDL offers logistics support services to export-import containerized cargo traffic in India. After commencing operations in 1998 with a single container freight station (CFS) at Mumbai, the company has acquired CFS facilities at Chennai and an inland container depot (ICD) at Garhi Harsaru (near Delhi). It has also developed a CFS at Vizag. The company has emerged as the largest private-sector player in the segment and has a presence on the east and west coasts of India, as well as the Delhi–Gurgaon–Manesar industrial belt. GDL has also started running its own trains.

Strong Growth Prospects, Not Priced In

- **Volume growth to remain strong** — We expect strong volume growth over FY08-FY10, driven by expansion at the Punjab Conware facility, and commencement of new CFS/ICD operations at Kochi, Ludhiana and Faridabad. The integration of the Punjab Conware facility at JNPT is also on schedule, with that facility reporting steady growth in throughput.

- **Rail operations key long-term driver** — Gateway's rail operations are part of its subsidiary Gateway Rail Freight with GDPL holding around ~83% in the subsidiary. Gateway Rail freight has aggressive plans to increase the number of its trains from 6 to 35 by end-FY09 and operate on EXIM as well as domestic routes. We view this expansion as a logical extension of its CFS operations and believe it to be a key long-term driver for Gateway Distriparks.

- **Value unlocking from stake sale in Gateway Rail** — GDPL proposes to sell an equity stake (~15-20%) in its subsidiary – Gateway Rail Freight – to private equity players. This could provide a fillip to GDPL's share price over the short term. The funds are proposed to be utilized for Gateway Rail's aggressive capex plans.

- **Capex plan** — Gateway plans to incur a capex of around Rs3.0-3.5bn to purchase additional rakes and tractor trailers, invest in the Ludhiana and Faridabad ICDs as also for maintenance of its existing facilities.

- **Valuations look compelling** — We believe at current levels, the risk-reward ratio appears favourable. Key risk factors are the execution risks within the Gateway Rail Freight business. Competitive intensity within the JNPT area will also have to be monitored over the near- to medium-term, given that there is currently a surplus overhang at JNPT.

Statistical Abstract

Year to 31 Mar	Net Profit Rs M	Diluted EPS Rs	EPS growth %	P/E x	P/B x	ROE %	Yield %
2005A	346	3.69	54.2	31.7	6.6	28.0	1.4
2006A	723	6.27	70.0	18.6	2.3	19.5	2.1
2007E	860	7.46	19.0	15.7	2.2	14.4	2.7
2008E	1,044	9.05	21.4	12.9	2.0	16.1	3.4
2009E	1,262	10.95	20.9	10.7	1.8	17.7	3.4

Source: Company and Citi Investment Research estimates

Investment Strategy

We have a Buy/Medium Risk (1M) rating on GDL, with a target price of Rs172.8. We estimate that India's containerized traffic will post a 14-15% CAGR over the next decade, benefiting from a low base as well as increased investment in the country's container handling terminals. Containerized traffic typically grows at 2-2.5x economic growth. Assuming base-case GDP growth of 6%, containerized traffic should grow at a rate of 15% in the long term. With facilities at key ports such as JNPT and Chennai, GDL looks well positioned to benefit from growth in container traffic and port-based logistics. We are positive on the train business. Although its margins are lower than at the CFS business, we believe GDL's business model is becoming more robust as its operations extend vertically through the logistics chain.

Valuation

Our 12-month target price of Rs172.8 is based on (1) the average of 13.3x FY08E EV/EBIT, or Rs138, and a DCF-based fair value of Rs201, and (2) Rs4 for the Punjab Conware facility. Considering GDL's strong growth prospects, but adjusting for its inherently riskier business model, we assign a 10% premium to the CY07 peer group multiple to arrive at 13.3x EV/EBIT for FY08E. We employ the EV/EBIT methodology because it reflects the depreciation costs associated with GDL's large capex program. We also utilize a DCF methodology because it captures growth in earnings and cash flows for GDL's train project. Our DCF-based target price of Rs201 is much higher than the EV/EBIT-based fair value. The EV/ EBIT methodology doesn't fully capture the growth potential of the train business, which is a long-term story as near-term valuations are depressed due to high capex.

Gateway Distriparks (GATE.BO): Financial Summary

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	31.7	18.6	15.7	12.9	10.7
EV/EBITDA adjusted (x)	26.0	14.3	11.4	8.6	7.0
P/BV (x)	6.6	2.3	2.2	2.0	1.8
Dividend yield (%)	1.4	2.1	2.7	3.4	3.4
Per Share Data (Rs)					
EPS adjusted	3.69	6.27	7.46	9.05	10.95
EPS reported	3.69	6.27	7.46	9.05	10.95
BVPS	17.71	49.90	53.75	58.43	65.10
DPS	1.60	2.40	3.20	4.00	4.00
Profit & Loss (RsM)					
Net sales	956	1,386	1,796	3,233	4,073
Operating expenses	-501	-654	-972	-2,157	-2,690
EBIT	**454**	**732**	**825**	**1,077**	**1,383**
Net interest expense	-48	-27	-23	-39	-85
Non-operating/exceptionals	10	110	224	229	277
Pre-tax profit	**416**	**815**	**1,026**	**1,267**	**1,575**
Tax	-70	-93	-163	-202	-273
Extraord./Min.Int./Pref.div.	0	1	-4	-21	-41
Reported net income	**346**	**723**	**860**	**1,044**	**1,262**
Adjusted earnings	346	723	860	1,044	1,262
Adjusted EBITDA	527	838	947	1,384	1,770
Growth Rates (%)					
Sales	61.6	45.0	29.6	80.0	26.0
EBIT adjusted	93.8	61.1	12.7	30.5	28.5
EBITDA adjusted	92.1	59.1	13.0	46.1	27.9
EPS adjusted	54.2	70.0	19.0	21.4	20.9
Cash Flow (RsM)					
Operating cash flow	**497**	**291**	**1,912**	**1,590**	**1,769**
Depreciation/amortization	72	106	122	307	387
Net working capital	79	-537	926	217	80
Investing cash flow	**-845**	**-4,002**	**-512**	**-1,287**	**-636**
Capital expenditure	-845	-395	-2,012	-2,287	-636
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,177**	**2,831**	**-556**	**645**	**-493**
Borrowings	668	-539	-140	1,150	0
Dividends paid	-171	-316	-421	-526	-526
Change in cash	**829**	**-880**	**843**	**948**	**640**
Balance Sheet (RsM)					
Total assets	**2,998**	**6,472**	**7,293**	**9,321**	**10,285**
Cash & cash equivalent	927	63	906	1,854	2,502
Accounts receivable	85	70	103	186	234
Net fixed assets	1,866	2,156	4,046	6,026	6,275
Total liabilities	**1,331**	**712**	**1,087**	**2,555**	**2,700**
Accounts payable	87	81	140	304	379
Total Debt	858	319	179	1,329	1,329
Shareholders' funds	**1,668**	**5,760**	**6,207**	**6,767**	**7,576**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	55.1	60.5	52.7	42.8	43.5
ROE adjusted	28.0	19.5	14.4	16.1	17.7
ROIC adjusted	25.0	27.6	19.5	17.4	18.2
Net debt to equity	-4.1	4.4	-11.7	-7.8	-15.5
Total debt to capital	34.0	5.2	2.8	16.4	14.9

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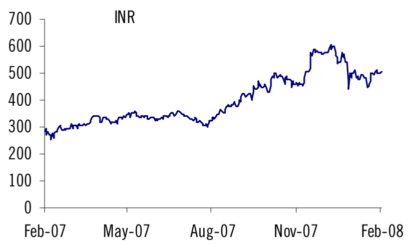
Glenmark Pharmaceuticals (GLEN.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs505.55
Target Price	Rs632.00
Expected share price return	25.0%
Expected dividend yield	0.2%
Expected total return	**25.2%**
Market Cap	Rs125,193M
	US$3,138M

Price Performance



Source: Citi Investment Research

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Company description

Glenmark Pharmaceuticals is a fully integrated research-based pharmaceutical company, with a business model spanning drug discovery research, APIs and formulations in the domestic and international markets. It operates in more than 65 countries, including the regulated markets of the US and Europe, with around 50% of its revenues coming from overseas markets. The company came into the limelight in September 2004 after it licensed out the US market rights of its first new chemical entity (NCE), GRC-3886, to Forest Laboratories.

Play on Innovative R&D

- **Multiple drivers** — Glenmark is, in our view, the best innovative R&D play in the Indian pharma sector and has witnessed robust growth in the base generics business across key markets. With a mature and widening R&D pipeline and excellent traction & profitability in the base business, we expect multiple growth and valuation drivers going forward.
- **Robust NCE pipeline** — Glenmark's pipeline has grown to 6 NCEs, with 3 licensed out. It also has 1 in-licensed NCE from Napo and its tie-up with Dyax would add 3 new biological entities to its pipeline. With the growing, more diversified pipeline and cash flow from milestones, we believe that at a business level Glenmark has de-risked its R&D to some extent.
- **Steady base business** — Glenmark has been aggressive in its target markets by building its own front end and aggressively rolling out products via own development, acquisition and in-licensing efforts. This aggressive roll-out and front-end strengths have differentiated Glenmark from its second tier peers, in our view, and helped the US & LatAm business to gain traction.
- **Potential catalyst** — Any new R&D out-licensing deals (guidance of one more deal by end-FY08).

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	864	3.22	-20.9	156.8	32.3	25.5	0.1
2007A	3,093	11.54	258.0	43.8	17.7	58.5	0.1
2008E	5,885	21.96	90.3	23.0	9.7	60.9	0.2
2009E	6,710	25.04	14.0	20.2	6.4	42.8	0.2
2010E	7,947	29.66	18.4	17.0	4.6	34.9	0.2

Source: Company data and Citi Investment Research estimates

Investment Strategy

We have a Buy/Medium Risk (1M) rating on the stock with a target price of Rs632. Our positive outlook on the stock takes into consideration the following: a) R&D pipeline has broadened with seven molecules expected by the company to be in the clinic by end FY08; b) With three molecules licensed out, the R&D option value or value at risk is now spread across a larger number of molecules; c) the base business has witnessed significant traction, especially in the US and Latin America. Although there are potential risk triggers that could lead to partial erosion of the option value, we believe that any such decline is a buying opportunity since Glenmark has a robust pipeline that would enable it to shore up the R&D value over time via new outlicensing deals.

Valuation

We use sum of the parts to value the stock, valuing the R&D deals and the base business separately. We believe probability-adjusted DCF is appropriate to calculate the option value from Oglemilast, GRC-6211 and GRC-8200 as it captures the reducing probability of success as the molecules progress on the clinical path. We have used the licensing deal with Forest Laboratories for the US market as a benchmark as well as a 13% discount rate (in-line with Glenmark's WACC) following our adjustment for the higher-risk income streams by probability of success. We arrive at a value of Rs125/share for Oglemilast. We use a similar approach for GRC-8200 and GRC-6211 arriving at a value of Rs47/share and Rs95/share respectively. We value Glenmark's base business (excluding R&D income) on P/E in view of the healthy growth expected in earnings. This takes the total valuation of the company to Rs632.

Glenmark Pharmaceuticals (GLEN.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	156.8	43.8	23.0	20.2	17.0
EV/EBITDA adjusted (x)	94.7	31.1	17.8	15.7	12.9
P/BV (x)	32.3	17.7	9.7	6.4	4.6
Dividend yield (%)	0.1	0.1	0.2	0.2	0.2
Per Share Data (Rs)					
EPS adjusted	3.22	11.54	21.96	25.04	29.66
EPS reported	3.22	11.54	21.96	25.04	29.66
BVPS	15.65	28.58	51.95	78.76	110.71
DPS	0.35	0.40	1.00	1.00	1.00
Profit & Loss (RsM)					
Net sales	7,020	12,220	18,577	21,497	26,021
Operating expenses	-5,880	-8,380	-11,690	-13,912	-17,029
EBIT	**1,140**	**3,840**	**6,887**	**7,585**	**8,992**
Net interest expense	-147	-384	-227	0	0
Non-operating/exceptionals	128	157	97	136	367
Pre-tax profit	**1,121**	**3,613**	**6,757**	**7,722**	**9,359**
Tax	-241	-513	-864	-1,004	-1,404
Extraord./Min.Int./Pref.div.	-16	-8	-8	-8	-8
Reported net income	**864**	**3,093**	**5,885**	**6,710**	**7,947**
Adjusted earnings	864	3,093	5,885	6,710	7,947
Adjusted EBITDA	1,372	4,263	7,448	8,211	9,683
Growth Rates (%)					
Sales	23.3	74.1	52.0	15.7	21.0
EBIT adjusted	-18.2	237.0	79.3	10.1	18.5
EBITDA adjusted	-11.9	210.7	74.7	10.2	17.9
EPS adjusted	-20.9	258.0	90.3	14.0	18.4
Cash Flow (RsM)					
Operating cash flow	**-268**	**932**	**4,242**	**5,355**	**5,902**
Depreciation/amortization	232	423	561	626	691
Net working capital	-1,657	-3,263	-2,613	-2,190	-3,025
Investing cash flow	**-2,568**	**-2,688**	**-1,535**	**-1,000**	**-1,000**
Capital expenditure	-2,553	-2,711	-1,535	-1,000	-1,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**2,505**	**1,891**	**-3,752**	**-2,554**	**-282**
Borrowings	2,886	2,088	-3,243	-2,273	0
Dividends paid	-205	-117	-282	-282	-282
Change in cash	**-331**	**136**	**-1,045**	**1,801**	**4,620**
Balance Sheet (RsM)					
Total assets	**13,416**	**19,346**	**23,531**	**28,741**	**37,863**
Cash & cash equivalent	1,056	1,058	12	1,813	6,433
Accounts receivable	3,816	5,712	8,256	10,014	12,443
Net fixed assets	5,805	8,104	9,078	9,452	9,761
Total liabilities	**9,502**	**12,482**	**11,056**	**9,830**	**11,279**
Accounts payable	1,719	2,329	3,972	4,818	5,987
Total Debt	7,354	9,367	6,124	3,852	3,852
Shareholders' funds	**3,915**	**6,864**	**12,475**	**18,911**	**26,584**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	19.5	34.9	40.1	38.2	37.2
ROE adjusted	25.5	58.5	60.9	42.8	34.9
ROIC adjusted	10.6	25.4	34.3	31.9	32.2
Net debt to equity	160.9	121.1	49.0	10.8	-9.7
Total debt to capital	65.3	57.7	32.9	16.9	12.7

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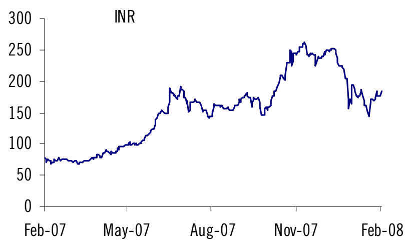
Powered by: dataCentral

GMR Infrastructure (GMRI BO - NR)

Non-Rated	
Price (26 Feb 08)	Rs182.90
Market Cap	Rs339,974M
	US$8,519M

Price Performance



Source: dataCentral

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Company Description

GMR is an early mover into Indian Infrastructure space. Its portfolio of assets includes three airports: the Greenfield Hyderabad Airport, the Brownfield Delhi Airport, and the Sabiha Gokcen International Airport in Turkey. The company's portfolio also includes eight power plants (three completed, five under development) and six roads (two completed, four under development).

Early Mover into India's Infrastructure Space

- **Leading infrastructure developer** — GMR's portfolio includes three airports: the greenfield Hyderabad Airport (currently under development), the brownfield Delhi Airport (currently being expanded), and the Sabiha Gokcen International Airport in Turkey. The company's portfolio also includes eight power plants (three completed, five under development) and six roads (two completed, four under development)

- **Diversified by asset class, revenue mix and geography** — GMR is diversified across asset classes. The balance of revenue streams between fixed vs. variable also provides stable cash flows. Projects like power plants provide regulated return. GMR bids for projects across India.

- **Aggressively building asset portfolio** — GMR is expanding into international markets. The GMR consortium has bid for and was declared winner (along with its partners) of the Sabiha Gokcen airport project. In India, GMR has plans to bid for roads, hydro power and power-transmission projects.

Recent Developments

Hyderabad Airport is expected to become operational by March 2008

GMR Infrastructure (GMRI BO): Financial Summary

GMR Infrastructure — Consolidated Profit and Loss Account

In Rs Mn	Mar-05	Mar-06	Mar-07
Sales Turnover	**9,929**	**10,617**	**19,687**
Excise Duty	-	-	-
Net Sales	**9,929**	**10,617**	**19,687**
Other Income	295	85	634
Stock Adjustments	-	-	-
Total Income	**10,224**	**10,702**	**20,321**
Power & Fuel Cost	4,070	4,086	7,478
Employee Cost	245	322	612
Other Manufacturing Expenses	947	888	1,608
Selling and Administration Expenses	385	494	4,598
Miscellaneous Expenses	364	348	406
Total Expenditure	**6,012**	**6,138**	**14,701**
Operating Profit	**4,212**	**4,564**	**5,620**
Interest	1,129	1,303	1,441
Depreciation	1,912	2,200	1,346
Profit Before Tax	**1,171**	**1,061**	**2,833**
Tax	122	112	241
Fringe Benefit Tax	-	14	32
Deferred Tax	(69)	(1)	143
Net Profit before Minority Interest	**1,119**	**936**	**2,418**
Minority Interest	430	231	673
Net Profit after Minority Interest	**688**	**706**	**1,744**
Extraordinary Items	(25)	(16)	32
Adjusted Net Profit	**713**	**721**	**1,712**

Source: Capitaline

GMR Infrastructure — Consolidated Balance Sheet

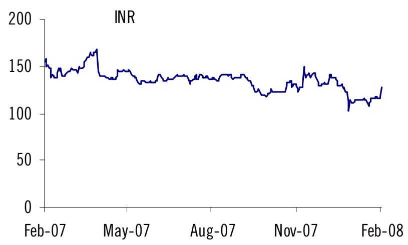
In Rs Mn	Mar-05	Mar-06	Mar-07
Share Capital	1,587	2,644	3,311
Reserves Total	2,806	3,060	16,612
Total Shareholders Funds	**4,393**	**5,704**	**19,923**
Minority Interest	3,709	4,243	5,261
Secured Loans	18,037	25,925	30,220
Unsecured Loans	1,117	3,778	6,837
Total Debt	**19,155**	**29,703**	**37,057**
Total Liabilities	**27,257**	**39,651**	**62,241**
Gross Block	24,275	24,559	41,406
Less: Accumulated Depreciation	8,857	11,051	12,407
Net Block	15,418	13,508	29,000
Capital Work in Progress	7,948	16,318	19,060
Investments	1,755	2,557	2,625
Inventories	306	359	304
Sundry Debtors	1,832	2,369	3,860
Cash and Bank	4,509	6,758	13,000
Loans and Advances	540	1,893	2,007
Total Current Assets	**7,188**	**11,378**	**19,172**
Current Liabilities	4,493	3,376	6,627
Provisions	558	732	845
Total Current Liabilities	**5,051**	**4,108**	**7,471**
Net Current Assets	**2,138**	**7,269**	**11,701**
Miscellaneous Expenses not written off	0	-	-
Deferred Tax Assets	0	0	18
Deferred Tax Liability	3	2	163
Net Deferred Tax	(3)	(2)	(145)
Total Assets	**27,257**	**39,651**	**62,241**
Contingent Liabilities	1,968	9,077	9,737

Source: Capitaline

Godrej Consumer Products (GOCP.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs127.55
Target Price	Rs168.00
Expected share price return	31.7%
Expected dividend yield	3.3%
Expected total return	**35.1%**
Market Cap	Rs28,806M
	US$722M

Price Performance



Source: Citi Investment Research

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Company description

GCP is one of the fastest growing companies in the FMCG sector, with leadership in hair-color & No.2 position in soaps. Its product portfolio also includes toiletries & household, baby, personal-care products. GCP came into being in April 2001 when the consumer division of Godrej Soaps was de-merged. Godrej Soaps then became Godrej Industries & retained industrial chemicals, medical diagnostics & estate operations. The group has close to 8 decades of manufacturing experience in soaps & personal-care products.

Strong Positioning in Hair Color and Soaps

- **Well positioned in hair-care and soaps market** — GCP dominates India's hair-color market with a 35% market share. We believe recent market share declines in hair color will be arrested by expanding the product offering to higher end of the market. In soaps, GCP's has consistently gained market share, which is up from 6% in FY04 to 10% now, through focus on delivering value-for-money products and a portfolio straddling various price points.

- **Price hikes to cover palm oil cost increases** — Escalation in palm-oil costs, which forms a key ingredient in soap making, is unlikely to abate, having almost doubled in the past 12 months. Consistent price hikes have helped GCP tide over the margin pressure so far, though the soap volume growth in future could be at risk due to the numerous price hikes undertaken.

- **Raising funds for further expansion —** GCP is planning to raise up to Rs4bn through a rights issue. Though the terms of the issue are yet to be decided, the capital raised is likely to be used to retire part of the Rs1.7bn debt (FY07) on GCP's books, and fund capex and new acquisitions.

- **Consolidating in South Africa —** GCP recently acquired a hair accessories business 'Kinky' in South Africa, which produces and sells a wide array of hair products like hair braids, hair extensions, wigs etc, consolidating its position in the US$49m South African hair color market which is growing at 25%+. This is GCP's second acquisition in South Africa after the purchase of Rapidol in Sep 2006.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,213	5.37	35.7	23.7	36.6	188.8	2.7
2007A	1,342	5.94	10.6	21.5	23.6	133.7	2.9
2008E	1,556	6.89	16.0	18.5	17.2	107.5	3.3
2009E	1,818	8.05	16.8	15.8	12.8	92.6	3.8
2010E	2,052	9.09	12.9	14.0	9.6	77.9	3.9

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate GCP as Buy/Low Risk (1L). The company has a 35% share of India's hair-color market and is the second largest in the soaps segment. GCP's overseas acquisitions complement its product portfolio and give it access to high-growth markets such as South Africa and the UK. The hair-color market is under-penetrated in India, and therefore offers GCP scope for further growth. In soaps, it continues to enlarge market share through innovations and value-for-money products. The stock is among the cheapest in our India household and personal-care universe.

Valuation

We use P/E as our primary valuation method because GCP's earnings growth has been steady, and the company is unlikely to face cyclical earnings. Our target price of Rs168 is based on 21x FY09E EPS, pegged at a 25% discount to sector leader HUL. Our target multiple is reasonable, in our view, given the growth potential of GCP's core domestic business and its recent international acquisitions. We ascribe a discount to HUL in valuing GCP owing to its presence in a limited number of product categories vis-à-vis HUL, to capture its market positioning and the competitive intensity in its existing markets. We value it at a 15% discount to comparable HPC peers like Marico owing to slower earnings potential.

Godrej Consumer Products (GOCP.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	23.7	21.5	18.5	15.8	14.0
EV/EBITDA adjusted (x)	20.4	16.6	13.9	11.9	10.4
P/BV (x)	36.6	23.6	17.2	12.8	9.6
Dividend yield (%)	2.7	2.9	3.3	3.8	3.9
Per Share Data (Rs)					
EPS adjusted	5.37	5.94	6.89	8.05	9.09
EPS reported	5.37	6.38	6.89	8.05	9.09
BVPS	3.48	5.40	7.42	9.97	13.35
DPS	3.50	3.75	4.27	4.83	5.00
Profit & Loss (RsM)					
Net sales	6,997	9,532	11,600	13,459	15,510
Operating expenses	-5,685	-7,877	-9,650	-11,241	-13,044
EBIT	**1,313**	**1,655**	**1,950**	**2,218**	**2,465**
Net interest expense	-65	-96	-121	-79	-50
Non-operating/exceptionals	73	26	50	53	55
Pre-tax profit	**1,321**	**1,585**	**1,879**	**2,191**	**2,470**
Tax	-113	-243	-323	-373	-418
Extraord./Min.Int./Pref.div.	5	99	0	0	0
Reported net income	**1,213**	**1,440**	**1,556**	**1,818**	**2,052**
Adjusted earnings	1,213	1,342	1,556	1,818	2,052
Adjusted EBITDA	1,427	1,797	2,117	2,389	2,642
Growth Rates (%)					
Sales	24.4	36.2	21.7	16.0	15.2
EBIT adjusted	46.1	26.1	17.8	13.7	11.2
EBITDA adjusted	42.1	25.9	17.8	12.9	10.6
EPS adjusted	35.7	10.6	16.0	16.8	12.9
Cash Flow (RsM)					
Operating cash flow	**1,284**	**1,479**	**2,323**	**2,115**	**2,084**
Depreciation/amortization	115	142	167	172	177
Net working capital	-30	-118	600	126	-145
Investing cash flow	**-812**	**-1,309**	**-477**	**-675**	**-200**
Capital expenditure	0	-1,285	0	-75	-100
Acquisitions/disposals	-861	-24	-800	-600	-100
Financing cash flow	**-293**	**140**	**-1,732**	**-1,584**	**-1,627**
Borrowings	626	1,049	-633	-340	-340
Dividends paid	-901	-974	-1,100	-1,244	-1,287
Change in cash	**179**	**310**	**114**	**-144**	**257**
Balance Sheet (RsM)					
Total assets	**3,425**	**5,653**	**6,229**	**7,002**	**7,908**
Cash & cash equivalent	263	475	589	445	701
Accounts receivable	303	483	493	572	714
Net fixed assets	850	1,992	1,502	1,406	1,329
Total liabilities	**2,638**	**4,433**	**4,552**	**4,752**	**4,892**
Accounts payable	1,787	2,520	3,178	3,687	4,207
Total Debt	687	1,736	1,103	763	423
Shareholders' funds	**787**	**1,220**	**1,677**	**2,251**	**3,016**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	20.4	18.9	18.2	17.8	17.0
ROE adjusted	188.8	133.7	107.5	92.6	77.9
ROIC adjusted	120.6	70.2	75.3	117.8	137.9
Net debt to equity	53.9	103.4	30.7	14.2	-9.2
Total debt to capital	46.6	58.7	39.7	25.3	12.3

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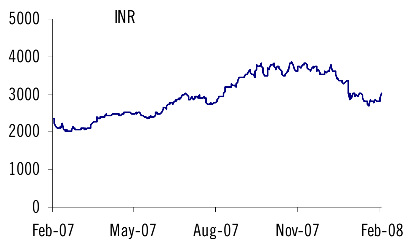
Grasim Industries (GRAS.BO)

Sell/Medium Risk	**3M**
Price (26 Feb 08)	Rs3,042.70
Target Price	Rs2,700.00
Expected share price return	-11.3%
Expected dividend yield	1.2%
Expected total return	**-10.1%**
Market Cap	Rs278,937M
	US$6,989M

Price Performance



Source: Citi Investment Research

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VSF Strong; Cement Under Pressure

- **A diversified conglomerate** — Grasim and its 54% subsidiary UltraTech together control 30m tpa of cement capacity. In addition, Grasim has 4 other divisions — viscose staple fibre (VSF), sponge iron, chemicals and textiles. The cement division is expected to be under pressure going forward. Improved performance of other divisions could partially offset the impact.

- **Cement (56% of sales, 50% of EBITDA in 3Q FY08)** — Grasim's markets are well diversified across the country and it does not export cement. Grasim's capacity is expected to increase by ~10m tpa by 2Q FY09 and UltraTech's capacity by ~5m tpa by 1QFY09, taking the total to ~45m tpa. Prices have been subdued in the last few months, and we expect further pressure on margins due to new capacities and higher coal prices.

- **VSF & Chemicals (34% of sales, 41% of EBITDA in 3Q FY08)** — Grasim is one of the lowest-cost producers of VSF in the world and has a domestic market share of more than 90%. Its current capacity of ~270,000 tpa is expected to increase by 64,000 tpa by end-FY08. The VSF outlook remains positive in the short run; but in the longer term, margins (currently ~41%) are expected to fall on rising raw material costs.

- **Sponge iron (9% of sales, 5% of EBITDA in 3Q FY08)** — The division has been enjoying improved pricing and its performance is expected to improve with adequate gas availability, likely by March 08E. However, uncertainty in gas pricing remains a concern.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	8,137	88.76	-13.7	34.3	5.6	17.5	0.7
2007A	14,987	163.48	84.2	18.6	4.5	26.7	0.9
2008E	19,249	209.98	28.4	14.5	3.6	27.5	1.2
2009E	17,641	192.44	-8.4	15.8	3.0	20.8	1.2
2010E	16,456	179.51	-6.7	16.9	2.7	16.8	1.2

Source: Company and Citi Investment Research estimates

Company description

Grasim is a diversified company with five main divisions — cement, viscose staple fibre (VSF), sponge iron, chemicals and textiles. Cement (13m tpa) is its largest division, accounting for 55-60% of sales and 60% of EBITDA. VSF is the other core business. The two core businesses account for around 85% of sales and around 90% of EBITDA. Its subsidiary, UltraTech (54% holding), has a capacity of 17m tpa. The current group capacity is 30m tpa, which is expected to rise to 45m tpa by 2Q FY09. Grasim's domestic markets are well spread across regions, and it does not export cement.

Investment Strategy

We rate Grasim as Sell/Medium Risk (3M) with a target price of Rs2,700. Despite its diversification, cement has the biggest impact on Grasim's revenues and profits. The expected downturn in cement will offset the upside seen in other divisions, based on our analysis. We expect the substantial increase in domestic cement capacity to create oversupply and pricing declines in FY09 and FY10 and hurt the cement division's profits. The cement division's EBITDA/tonne will rise in FY08 but fall in FY09 and FY10, based on our estimates. In VSF we expect the division to benefit from both pricing and volume growth in FY08-09. Grasim's other divisions are doing reasonably well. Sponge iron should do better on the back of better pricing and improved availability of natural gas from end-FY08E onward.

Valuation

We value Grasim on EV/EBITDA, a common metric used for cement companies. Our target price of Rs2,700 is based on 6.5x FY09E EV/EBITDA, a 10% premium to the stock's seven-year mean of 5.9x. The downturn in cement in FY09E is expected to be partly offset by other businesses, which should perform well in FY09E-10E. We therefore use a premium over historical valuations to value the stock. At our target price the consolidated EV/tonne for Grasim equates to US$130/tonne and a consolidated P/E of 11x for FY09E.

Grasim Industries (GRAS.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	34.3	18.6	14.5	15.8	16.9
EV/EBITDA adjusted (x)	17.3	10.1	8.3	8.5	8.8
P/BV (x)	5.6	4.5	3.6	3.0	2.7
Dividend yield (%)	0.7	0.9	1.2	1.2	1.2
Per Share Data (Rs)					
EPS adjusted	88.76	163.48	209.98	192.44	179.51
EPS reported	94.16	167.53	209.98	192.44	179.51
BVPS	543.46	679.59	848.65	1,000.14	1,138.70
DPS	20.00	27.50	35.00	35.00	35.00
Profit & Loss (RsM)					
Net sales	66,526	86,036	99,367	116,684	128,478
Operating expenses	-53,927	-63,025	-69,760	-88,734	-103,232
EBIT	**12,599**	**23,011**	**29,607**	**27,950**	**25,246**
Net interest expense	-1,034	-1,118	-1,300	-2,384	-2,704
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**11,565**	**21,893**	**28,307**	**25,566**	**22,543**
Tax	-3,428	-6,906	-9,058	-7,925	-6,086
Extraord./Min.Int./Pref.div.	495	371	0	0	0
Reported net income	**8,632**	**15,358**	**19,249**	**17,641**	**16,456**
Adjusted earnings	8,137	14,987	19,249	17,641	16,456
Adjusted EBITDA	15,515	26,190	33,379	34,034	31,910
Growth Rates (%)					
Sales	6.8	29.3	15.5	17.4	10.1
EBIT adjusted	-16.0	82.6	28.7	-5.6	-9.7
EBITDA adjusted	-13.1	68.8	27.4	2.0	-6.2
EPS adjusted	-13.7	84.2	28.4	-8.4	-6.7
Cash Flow (RsM)					
Operating cash flow	**12,883**	**17,327**	**18,645**	**19,464**	**18,862**
Depreciation/amortization	2,916	3,179	3,772	6,084	6,664
Net working capital	2,052	-834	-3,231	-3,989	-3,856
Investing cash flow	**-8,815**	**-21,312**	**-38,061**	**-9,175**	**-1,896**
Capital expenditure	-3,995	-15,982	-40,467	-11,190	-3,700
Acquisitions/disposals	-5,492	-6,471	0	0	0
Financing cash flow	**-3,379**	**3,594**	**20,700**	**-11,138**	**-15,458**
Borrowings	-533	9,476	22,000	-5,000	-9,000
Dividends paid	-1,676	-4,965	0	-3,754	-3,754
Change in cash	**689**	**-392**	**1,284**	**-849**	**1,509**
Balance Sheet (RsM)					
Total assets	**88,195**	**112,142**	**154,000**	**165,154**	**169,189**
Cash & cash equivalent	1,556	1,164	2,448	1,599	3,108
Accounts receivable	4,135	5,765	6,534	8,631	10,560
Net fixed assets	33,110	45,971	82,666	87,772	84,808
Total liabilities	**38,374**	**49,842**	**76,205**	**73,472**	**64,805**
Accounts payable	7,410	9,031	9,925	11,956	12,685
Total Debt	19,797	29,516	51,516	46,516	37,516
Shareholders' funds	**49,821**	**62,300**	**77,795**	**91,682**	**104,384**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	23.3	30.4	33.6	29.2	24.8
ROE adjusted	17.5	26.7	27.5	20.8	16.8
ROIC adjusted	22.2	33.4	27.5	20.2	18.4
Net debt to equity	36.6	45.5	63.1	49.0	33.0
Total debt to capital	28.4	32.1	39.8	33.7	26.4

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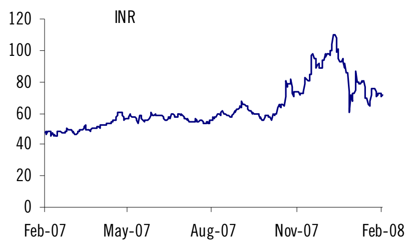
Powered by: dataCentral

Gujarat State Petronet (GSPT.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs71.50
Target Price	Rs104.00
Expected share price return	45.5%
Expected dividend yield	0.6%
Expected total return	**46.0%**
Market Cap	Rs40,183M
	US$1,007M

Price Performance



Source: Citi Investment Research

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Company description

GSPL is a gas transmission company with a network of pipelines in the western Indian state of Gujarat. The company has a gas transmission network comprising over 1,100 km of pipelines connecting Hazira, Vadodara, Ahmedabad, Kalol, Himmatnagar, Mehsana, Rajkot, and Vapi. GSPL's network connects all the major supply sources in Gujarat to important consumption centres in the state and currently transports c.16mmscmd of gas.

Levered to Improving Gas Supply Visibility

- **Seizing an opportunity** — We see investment merit in GSPL's 'open-access' pipeline network in Gujarat, India's most vibrant gas market. GSPL has seized the opportunity to provide current and future suppliers' access to consumers throughout Gujarat, with parent GSPC playing a positive role as aggregator of gas supplies and demand.
- **Gas supply is key driver** — We expect ~30mmscmd of incremental gas flowing through GSPL's network by FY12, driven primarily by increase in domestic gas production (contributed mainly by recent discoveries and development plans of RIL). Given increased visibility of supplies, the company is in the midst of expansions, and plans to spend Rs26bn over FY08-10E to nearly double its pipeline network in Gujarat.
- **Highly levered to increasing volumes** — Being a pure gas transmission company, GSPL remains a key play on increasing gas consumption in India, especially in the industrialized state of Gujarat, as high operating leverage of the business ensures rising profitability as volumes increase.
- **Regulatory risks look manageable** — While still at a draft stage, recent regulations for gas transmission should be beneficial, spurring rapid development of the sector as a whole and enabling incumbents like GSPL to further expand their transmission network to newer areas. Further, the draft regulations indicate low risk of an adverse impact on GSPL's pipeline tariffs, given reasonable estimated ROEs of 11-15% over the next few years.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	467	1.04	95.1	68.7	4.3	7.1	0.3
2007A	894	1.65	58.4	43.4	4.0	9.5	0.7
2008E	806	1.46	-11.4	49.0	3.6	7.7	0.6
2009E	1,263	2.25	54.1	31.8	3.3	10.8	0.9
2010E	1,894	3.37	50.0	21.2	3.0	14.9	1.4

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate Gujarat State Petronet as Buy/Low Risk (1L). GSPL has seized the opportunity for setting up an "open access" pipeline network in India's most vibrant gas market, Gujarat. Gujarat has the advantage of being the landfall point of gas from India's western offshore fields (the largest source of gas for India) as well as having two LNG receiving terminals. The state is also among the most industrialized regions in India with a large presence of energy-intensive industries in addition to traditional gas-using industries. GSPL's parent, Gujarat State Petroleum Corporation, has played and continues to play an important role as an aggregator of gas demand and supplies.

Valuation

Our target price of Rs104 is based on our DCF fair value for Mar-09E. Our DCF is based on gas volumes tied up with Reliance (11-20mmscmd) and announced capex plans (Rs26bn over FY08-10E). We use DCF to value the company given the utility nature of the business, which ensures steady cash flows. Discounted cash flows also capture the value of the business over a longer term. Our DCF valuation is based on five years of explicit forecasts, 27% CAGR of committed volumes over FY07-12E, FY12E volumes of 54mmscmd, and terminal growth of 3%. We use a WACC of 9.7% (risk free 8.0%, risk premium 6.0%, beta of 0.85, target D/E of 50%). Also, on a price/cash earnings basis, we think GSPL is at a justifiable premium to other gas utilities (13x FY10E) given our high growth expectations of its gas transmission business (EPS CAGR of 27% over FY07-10E). We prefer P/CEPS to the more traditional P/E multiple as a valuation benchmark given GSPL's aggressive depreciation policy.

Gujarat State Petronet (GSPT.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	68.7	43.4	49.0	31.8	21.2
EV/EBITDA adjusted (x)	22.7	17.0	14.3	10.8	8.6
P/BV (x)	4.3	4.0	3.6	3.3	3.0
Dividend yield (%)	0.3	0.7	0.6	0.9	1.4
Per Share Data (Rs)					
EPS adjusted	1.04	1.65	1.46	2.25	3.37
EPS reported	1.04	1.65	1.46	2.25	3.37
BVPS	16.74	17.79	20.04	21.50	23.68
DPS	0.25	0.50	0.43	0.67	1.01
Profit & Loss (RsM)					
Net sales	2,635	3,176	3,955	5,805	7,949
Operating expenses	-1,483	-1,521	-2,060	-2,743	-3,521
EBIT	**1,152**	**1,655**	**1,894**	**3,062**	**4,429**
Net interest expense	-413	-457	-866	-1,280	-1,640
Non-operating/exceptionals	45	175	230	131	81
Pre-tax profit	**784**	**1,373**	**1,259**	**1,913**	**2,870**
Tax	-317	-479	-453	-651	-976
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**467**	**894**	**806**	**1,263**	**1,894**
Adjusted earnings	467	894	806	1,263	1,894
Adjusted EBITDA	1,943	2,681	3,462	5,106	7,010
Growth Rates (%)					
Sales	29.5	20.5	24.5	46.8	36.9
EBIT adjusted	81.0	43.6	14.5	61.6	44.6
EBITDA adjusted	50.2	38.0	29.2	47.5	37.3
EPS adjusted	95.1	58.4	-11.4	54.1	50.0
Cash Flow (RsM)					
Operating cash flow	**1,871**	**862**	**2,476**	**3,430**	**4,139**
Depreciation/amortization	791	1,026	1,568	2,044	2,581
Net working capital	613	-1,058	102	123	-337
Investing cash flow	**-6,047**	**-4,401**	**-8,000**	**-9,800**	**-8,200**
Capital expenditure	-6,047	-4,401	-8,000	-9,800	-8,200
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**3,065**	**2,540**	**4,269**	**5,557**	**2,335**
Borrowings	1,350	2,852	4,362	6,000	3,000
Dividends paid	-155	-318	-283	-443	-665
Change in cash	**-1,111**	**-999**	**-1,255**	**-813**	**-1,726**
Balance Sheet (RsM)					
Total assets	**17,140**	**21,059**	**28,322**	**36,346**	**41,140**
Cash & cash equivalent	2,372	1,811	1,790	1,495	530
Accounts receivable	137	349	217	318	436
Net fixed assets	13,650	17,029	23,461	31,216	36,835
Total liabilities	**8,065**	**11,400**	**17,063**	**24,268**	**27,832**
Accounts payable	1,261	1,295	2,354	2,884	2,413
Total Debt	5,786	8,638	13,000	19,000	22,000
Shareholders' funds	**9,075**	**9,659**	**11,259**	**12,078**	**13,308**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	73.7	84.4	87.5	88.0	88.2
ROE adjusted	7.1	9.5	7.7	10.8	14.9
ROIC adjusted	7.8	7.6	6.9	8.6	9.9
Net debt to equity	37.6	70.7	99.6	144.9	161.3
Total debt to capital	38.9	47.2	53.6	61.1	62.3

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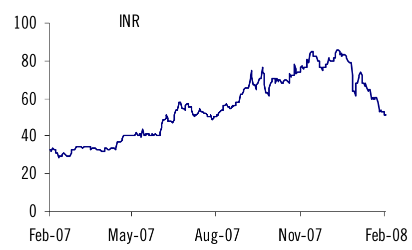
Powered by: dataCentral

GVK Power and Infrastructure (GVKP BO - NR)

Non-Rated	
Price (26 Feb 08)	Rs51.10
Market Cap	Rs71,839M
	US$1,800M

Price Performance



Source: dataCentral

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Company Description

GVK power and infrastructure is one of the very early entrants into infrastructure development in India. The company has interests in Airports, Power, Transportation and Urban Infrastructure.

Leveraging the PPP Model

- **Leading infrastructure developer** — GVK Group is one of the leading infrastructure developers in India with interests in road, power and airports. With most infrastructure development in the country now going through the Public-Private Participation (PPP) route, we believe that the opportunity landscape for private infrastructure developers is significant.

- **Mumbai International Airport — The key asset in the portfolio** — In January 2006, a consortium led by GVK Group was awarded the mandate to modernize Mumbai International Airport. GVK group holds 37% in the joint venture, with the balance held by South African Airports, Bidvest Group, and Airports Authority of India (AAI). Mumbai handles ~25% of India's passenger traffic.

- **Portfolio of assets** — Apart from the Mumbai Airport, the company's portfolio of assets includes 6 power plants, one coal mine and a toll road project. GVK has also signed a memorandum of understanding to develop a multi-product Special Economic Zone (SEZ) in Perambalur district of Tamil Nadu.

- **Sustained investments in infrastructure over the next decade** — The Indian infrastructure sector has just entered the beginning phase of major growth in the construction of roads, ports, airports, power plants, power transmission and distribution infrastructure etc. This represents huge opportunity for infrastructure developers.

Recent Developments

GVK incorporated GVK Energy as its wholly owned subsidiary on Feb 18, 2008.

GVK Power and Infrastructure (GVKP BO): Financial Summary

GVK Consolidated Profit and Loss Summary

In Rs Mn	Mar-06	Mar-07
Operating Income	**1,570**	**3,876**
Excise Duty	-	-
Net Operating Income	**1,570**	**3,876**
Other Income	18	621
Stock Adjustment	-	-
Total Income	**1,588**	**4,497**
Electricity & Fuel Expenses	717	1,232
Operating Expenses	37	222
Employee Cost	28	94
Selling & Administration expenses	117	290
Miscellaneous Expenses	17	66
Total Expenditure	**917**	**1,904**
Operating Profit	**671**	**2,594**
Interest	143	631
Depreciation	269	806
Profit Before Tax	259	1,158
Tax	45	209
Fringe Benefit Tax	1	3
Deferred Tax	(37)	38
Net Profit before Minority Interest	**249**	**908**
Minority Interest	140	328
Net Profit after Minority Interest	109	580
Extraordinary Items	-	0
Adjusted Net Profit	**109**	**580**

Source: Capitaline

GVK Consolidated Balance Sheet

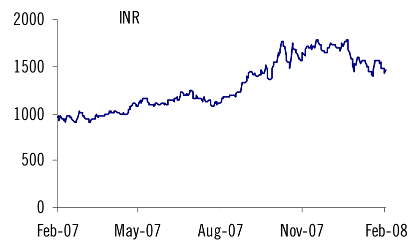
In Rs Mn	Mar-06	Mar-07
Share Capital	236	236
Reserves Total	5,102	6,746
Total Shareholders Funds	**5,339**	**6,982**
Minority Interest	2,621	2,729
Secured Loans	7,402	11,353
Unsecured Loans	565	4,093
Total Debt	**7,966**	**15,446**
Total Liabilities	15,926	25,157
Gross Block	10,112	18,890
Less: Accumulated Depreciation	4,603	5,874
Net Block	**5,509**	**13,016**
Capital Work in Progress	7,092	8,212
Investments	1,322	2,974
Inventories	231	285
Sundry Debtors	769	828
Cash and Bank	580	631
Loans and Advances	2,242	1,648
Total Current Assets	**3,821**	**3,393**
Current Liabilities	589	1,487
Provisions	36	59
Total Current Liabilities	**624**	**1,546**
Net Current Assets	**3,197**	**1,847**
Deferred Tax Assets	4	5
Deferred Tax Liability	1,198	896
Net Deferred Tax	**(1,194)**	**(891)**
Total Assets	**15,926**	**25,157**
Contingent Liabilities	1,246	881

Source: Capitaline

HDFC Bank (HDBK.BO)

Hold/Low Risk	2L
Price (26 Feb 08)	Rs1,455.00
Target Price	Rs1,565.00
Expected share price return	7.6%
Expected dividend yield	0.6%
Expected total return	**8.1%**
Market Cap	Rs515,565M
	US$12,918M

Price Performance



Source: Citi Investment Research

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Company description

HDFC Bank, which began operations in 1994, is 24%-owned by HDFC - India's premier mortgage-finance institution. In 2000 HDFC Bank took over private-sector Times Bank. HDFC Bank is headquartered in Mumbai and has a network of more than 750 branches spread across 327 cities. The bank has a network of more than 1,900 ATMs. HDFC Bank entered into an arrangement with its parent FY04 through which HDFC Bank sources mortgages for the parent. HDFC Bank pays HDFC for credit appraisal and operations and receives a fee for sourcing. In addition, HDFC Bank buys back 70% of mortgages at a price of 125bps lower than the yield of the mortgages. HDFC Bank has had strong and steady growth over the past 10 years and continues to grow at more than 30%.

Quality, Quantity & Now a New Growth Trajectory

- **One of India's premier new-generation private-sector banks** — The bank has consistently sustained a very strong operating mix over its 14 years of existence — high growth, high profitability and low risk while continuing to expand its distribution and franchise. We expect this positioning to continue.

- **High margins, driven by a strong liability franchise** — HDBK generates high 4%-plus margins – a function of a strong liability franchise, which keeps its deposit costs well below those of peers. We see HDBK sustaining this relative advantage, though the sheer level of margins could induce pressures and maintaining its deposit mix would be a challenge. A falling interest-rate environment could also challenge its deposit cost advantage.

- **Aggressive acquisition, a new paradigm?** — HDBK recently made an aggressive and apparently expensive acquisition of Centurion Bank, a relatively small private-sector bank. This suggests HDBK could be building the platform for more aggressive asset and earnings growth and a step-up from its 30-35% historically consistent growth rates. This could well change HDBK's operating framework, and also its relatively conservative approach.

- **Well capitalized, quality and well-funded balance sheet; getting leveraged more aggressively** — HDBK's balance sheet, for all the above reasons, has for long been the best in the sector. HDBK now appears to be leveraging it more aggressively – loans are up 48% yoy, the retail book is growing well above industry averages, and asset quality remains robust.

- **Key role in the HDFC group** — HDBK is the largest entity in its group in terms of assets, customers and visibility. It is the distribution arm of the group, and has played a key role in building the group's market presence. This has enabled the group to generate synergies and economics, though this could have been a constraint in some business segments. Over the longer term, potential reconfigurations in the group structure could present opportunities, or carry risks.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	8,709	27.28	25.1	53.3	8.6	17.7	0.4
2007A	11,414	35.23	29.1	41.3	7.2	19.5	0.5
2008E	16,374	47.40	34.5	30.7	4.3	17.8	0.5
2009E	21,375	58.76	24.0	24.8	3.8	16.6	0.6
2010E	28,501	78.35	33.3	18.6	3.2	19.0	0.7

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate HDFC Bank Hold/Low Risk with a target price of Rs1,565. We believe HDFC Bank should be able to generate a premium to its current trading level as it sustains asset growth, consolidates its distribution, leverages off new capital and stabilizes its business mix with increased retail returns. HDFC Bank should also enjoy increased growth and stability in its fee franchise due to its consistently widening distribution platform. While we expect HDFC Bank to trade in the 3-4x P/BV band over the longer term, we see it trading at the upper end of its trading band, as it raises ROEs on capital that it has recently raised. We remain positive on the bank's prospects and management's ability to deliver, but the stock's performance could be moderated by high valuations relative to ROE and peers, uncertainty on interest rates, and a competitive pricing environment.

Valuation

Our valuation is based on our EVA-based methodology, which values HDFC Bank at Rs1,565. Our EVA value is based on an 8% risk-free rate, higher-than industry margins and higher capital ratio (6.75% vs. 6% average). Our target price is also benchmarked off a 4x FY09E P/BV of Rs1,545. The basis for our target multiple - a distinct premium to all other Indian commercial banks - is HDBK's structurally higher margin, de-risked earnings and balance sheet mix, and gains in the consumer-lending franchise. We believe a re-rating from current levels would be difficult. We prefer using an EVA-based valuation benchmark to P/BV because EVA concentrates on the economic value creation of the bank.

HDFC Bank (HDBK.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	53.3	41.3	30.7	24.8	18.6
P/E reported (x)	53.3	41.3	30.7	24.8	18.6
P/BV (x)	8.6	7.2	4.3	3.8	3.2
P/Adjusted BV diluted (x)	8.8	7.4	4.4	3.8	3.3
Dividend yield (%)	0.4	0.5	0.5	0.6	0.7
Per Share Data (Rs)					
EPS adjusted	27.28	35.23	47.40	58.76	78.35
EPS reported	27.28	35.23	47.40	58.76	78.35
BVPS	169.24	201.42	336.40	387.07	456.11
Tangible BVPS	169.24	201.42	336.40	387.07	456.11
Adjusted BVPS diluted	165.18	196.68	329.28	378.88	446.46
DPS	5.50	7.00	7.50	8.50	10.00
Profit & Loss (RsM)					
Net interest income	25,543	37,096	44,180	57,877	74,276
Fees and commissions	10,451	12,924	18,093	23,521	30,578
Other operating Income	1,683	2,179	4,984	6,193	7,688
Total operating income	**37,676**	**52,198**	**67,257**	**87,592**	**112,541**
Total operating expenses	-16,911	-24,846	-33,848	-45,111	-56,773
Oper. profit bef. provisions	**20,765**	**27,353**	**33,409**	**42,481**	**55,768**
Bad debt provisions	-4,798	-8,610	-9,332	-11,048	-13,855
Non-operating/exceptionals	-3,348	-2,352	0	0	0
Pre-tax profit	**12,620**	**16,391**	**24,077**	**31,433**	**41,913**
Tax	-3,910	-4,977	-7,705	-10,059	-13,412
Extraord./Min. Int./Pref. Div.	0	0	1	0	0
Attributable profit	**8,709**	**11,414**	**16,374**	**21,375**	**28,501**
Adjusted earnings	8,709	11,414	16,374	21,375	28,501
Growth Rates (%)					
EPS adjusted	25.1	29.1	34.5	24.0	33.3
Oper. profit bef. prov.	45.2	31.7	22.1	27.2	31.3
Balance Sheet (RsM)					
Total assets	**735,064**	**912,356**	**1,241,706**	**1,615,560**	**2,089,260**
Avg interest earning assets	604,693	791,714	1,038,494	1,389,390	1,812,474
Customer loans	437,209	551,451	779,625	1,053,748	1,425,167
Gross NPLs	5,087	6,576	9,857	12,321	16,513
Liab. & shar. funds	**735,064**	**912,356**	**1,241,706**	**1,615,560**	**2,089,260**
Total customer deposits	557,968	682,979	941,018	1,280,895	1,713,736
Reserve for loan losses	5,378	8,104	11,331	14,488	16,514
Shareholders' equity	**52,995**	**64,332**	**119,787**	**137,833**	**162,417**
Profitability/Solvency Ratios (%)					
ROE adjusted	17.7	19.5	17.8	16.6	19.0
Net interest margin	4.2	4.7	4.3	4.2	4.1
Cost/income ratio	44.9	47.6	50.3	51.5	50.4
Cash cost/average assets	2.7	3.0	3.1	3.2	3.1
NPLs/customer loans	1.2	1.2	1.3	1.2	1.2
Reserve for loan losses/NPLs	105.7	123.2	115.0	117.6	100.0
Bad debt prov./avg. cust. loans	1.3	1.7	1.4	1.2	1.1
Loans/deposit ratio	78.4	80.7	82.8	82.3	83.2
Tier 1 capital ratio	8.6	8.1	11.0	9.4	9.1
Total capital ratio	11.4	12.7	15.3	13.4	13.0

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Powered by: dataCentral

HDFC-Standard Life Insurance

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Company Description

HDFC Standard Life Insurance is a JV between India's leading housing-finance company and Standard Life of the UK, in which the housing-finance company has a 76% shareholding. It was among the first to enter life insurance when the market opened up in 2000. It has grown conservatively, maintaining a market share of 3-5%.

Conservative Mover, Picking Up Pace

- **Company overview** — HDFC–SL's approach has been relatively conservative, in line with the group's philosophy. This has meant a more measured move into ULIPs and equity, much greater focus on agent quality and training, a much sharper focus on policy quality (high persistency, high protection, low surrenders), and a lower-risk approach to product pricing. HDFC's build-out has therefore been more measured.

- **Business strategy: Year of the surge** — HDFC-SL is accelerating its distribution build-out, focusing more aggressively on ULIPs and building on a few strong products it has established in the market. This has been in evidence as the year has progressed.

- **Competitive analysis: Product profile** — Although HDFC–SL entered unit-linked only in FY05, they accounted for 82% of premium income in FY07. HDFC is also a big player in the pension business, with almost 35% of its total premiums in this space – a key focus area. HDFC-SL is a meaningful player in group Insurance, and given reasonable pricing, will likely continue to focus here.

- **Competitive analysis: Distribution – balanced, quality and growing rapidly** — HDFC-SL's relatively greater focus on quality has meant higher productivity, a high reliance on its primary bancassurance partner – HDFC Bank (26-29% of policies) – but a relatively moderate geographic spread. That is changing as HDFC-SL moves outside of the main centers, more than doubles its agent distribution network to 74,000 and seeks to establish over 100 new branches. Historically, HDFC-SL has built aggressively but then consolidated its expansion; this time it seeks a more continuous build-out.

- **Strengths; strong product performance** — HDFC-SL's relatively conservative approach is reflected in its strong policy performance. Its sum assured levels are among the highest, persistency is well above average and surrender levels among the lowest. Its policy mix is also more evenly spread between ULIPs, pensions and traditional places. It is also among the leaders in pension, where it has strong product positioning and will likely continue to build aggressively.

Recent Developments

HDFC-Standard Life Insurance has been growing aggressively at more than 70% YTD and has increased market share from about 8% in FY07 to 8.5% YTD.

HDFC-Standard Life Insurance: Financial Summary

HDFC-Standard Life — Financial Highlights (Rs Millions, FY05-07)

Policyholders account (Revenue Account)	**FY05**	**FY06**	**FY07**
Gross premium income	6866	15699	28559
Net premium income	6729	15470	28226
Income from investments	306	3951	2490
Income from operations	**7035**	**19421**	**30716**
Contribution from the shareholders account	955	1397	1450
Total Income	**7990**	**20818**	**32166**
Commission	731	1203	2099
Operating income	**7259**	**19614**	**30067**
Operating expenses related to insurance business	2308	3985	5767
PBT	**4951**	**15629**	**24300**
Tax	0	27	36
PAT	**4951**	**15603**	**24264**
Benefits Paid	157	448	1745
Increase in actuarial liability	4794	15128	22484
Surplus/deficit	0	26	34

Source: Company Reports

HDFC-Standard Life — Financial Highlights (Rs. Millions, FY05-07)

Shareholders account (Profit and Loss)	**FY05**	**FY06**	**FY07**
Transfer from Policyholders account	0	0	0
Investment income	68	128	203
Total Income	**68**	**128**	**203**
Expenses	10	18	8
Operating income	**57**	**109**	**195**
Contribution to policyholders account	955	1,397	1,450
PBT	**(898)**	**(1,288)**	**(1,256)**
Tax	0	0	0
PAT	**(898)**	**(1,288)**	**(1,256)**

Source: Company Reports

HDFC-Standard Life — Financial Highlights (Rs Millions, FY05-07)

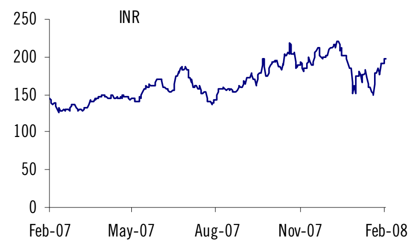
Balance sheet	**FY05**	**FY06**	**FY07**
Share capital	3,200	6,200	8,300
Reserves	0	66	66
Fair value change account	4	73	0
Debit balance in PL	(1,879)	(3,166)	(4,421)
Shareholders funds	**1,325**	**3,173**	**3,945**
Fair value change account	175	210	91
Policy Liabilities	6,377	11,488	17,392
Provision for linked liabilities	1,918	11,936	28,517
Funds for future appropriations	0	26	59
Total Liabilities	**9,796**	**26,832**	**50,004**
Investments			
Shareholders	984	1,381	1,530
Policyholders	6,088	11,695	17,783
Assets held to cover linked liabilities	1,918	11,936	28,517
Loans	12	29	13
Fixed assets	732	605	736
Net current assets	53	1,179	1,420
Misc expenses	9	7	5
Total Assets	**9,796**	**26,832**	**50,004**

Source: Company Reports

Hindalco Industries (HALC.BO)

Sell/Medium Risk	**3M**
Price (26 Feb 08)	Rs197.20
Target Price	Rs146.00
Expected share price return	-26.0%
Expected dividend yield	0.9%
Expected total return	**-25.1%**
Market Cap	Rs241,990M
	US$6,063M

Price Performance



Source: Citi Investment Research

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Company description

Hindalco is a low-cost integrated aluminum producer with access to captive power and bauxite. It also operates India's largest copper smelter (35-40% market share). In aluminum, Hindalco has a strong domestic market share with a dominant 60-65% share in sheet products. It plans to quadruple its alumina capacity and triple its aluminum capacity in the next 4-5 years. Hindalco owns copper mines in Australia through its 51% subsidiary, Aditya Birla Minerals, which will meet about 15-20% of its requirement when fully ramped up. Hindalco has acquired Novelis, which controls about 19% of the world's aluminium sheet market.

Margins Under Pressure In Last Few Quarters

- **Integrated aluminium producer and copper smelter** — Hindalco has an aluminium smelting capacity of ~461,000 tpa and copper smelting capacity of ~500,000tpa. In FY07, the aluminium business accounted for nearly 40% of sales and 85% of EBIT, while the copper division accounted for 60% of sales and 15% of EBIT. Despite having two key products, Hindalco's share price has a strong correlation with spot aluminum prices on the LME.

- **Aluminium has been hit by lower realizations** — The aluminium division's margins have been hit by declining international aluminium prices and an appreciating rupee. The average aluminium LME price has declined from US$2,664/t in FY07 to US$2,585/t in 9MFY08. The rupee has appreciated from Rs45.25 vs. the US$ in FY07 to Rs40.45 in 9M FY08. However, aluminium prices have been improving in recent times due to a supply-demand mismatch arising from the closing of bauxite mines in Indonesia and power shortage in China.

- **Copper TC/RC margins have weakened** — Treatment and refining charges (TC/RCs) perked up in FY07 and averaged US34c/lb. However, this year TC/RCs have been under pressure due to tight copper concentrate supply and increasing smelter output. Hindalco has been enjoying the benefits of some of its earlier contracts leading to TC/RC margins of ~US22c/lb in 3QFY08. Recent TC/RC contracts have been substantially lower at around US11c/lb, and we expect margins to remain at these levels in the coming quarters and impact profitability.

- **Hindalco's acquisition of Novelis** — Hindalco's acquisition of Novelis gives it a 19% share of the global sheet market (~3mn tpa of capacity), and high-end technology. Hindalco has paid, in our view, a high valuation for Novelis whose profits are not expected to improve substantially over the next couple of years. Hence the profits will not be able to compensate for Hindalco's high interest outgo, resulting in an earnings dilution.

- **Expansion plans** — Hindalco's aluminium smelter capacity would rise 9% to 504,000tpa when the Hirakud expansion is completed in 4Q FY08. The 340,000tpa Muri alumina plant is being ramped up leading to higher volumes in the coming quarters. The Utkal 1.5m tpa alumina project is expected to be commissioned by March 2010. Other major projects are expected by 2011-12.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	16,556	17.30	20.8	11.4	2.0	19.2	1.1
2007A	25,643	22.12	27.8	8.9	1.7	23.3	0.9
2008E	22,620	17.31	-21.7	11.4	1.5	15.7	0.9
2009E	18,294	14.00	-19.1	14.1	1.4	10.3	0.9
2010E	12,075	9.24	-34.0	21.3	1.3	6.2	0.8

Source: Company and Citi Investment Research estimates

Investment Strategy

The key reasons for our Sell rating are: 1) Hindalco has paid a high valuation for Novelis whose profits are not expected to improve substantially over the next couple of years. Hence the profits will not be able to compensate for Hindalco's high interest outgo. 2) We expect a YoY downside in FY08-09 earnings for copper and aluminum. In copper, TC/RC margins averaged ~US30c/lb in 1H FY08, largely benefiting from older contracts. But these are already trending down. For aluminum, we expect international prices to remain range-bound at around US$2,600/t in FY09, which is likely to put pressure on domestic prices due to the appreciating rupee.

Valuation

Our target price of Rs146 is based on: (1) 8x FY09E earnings (Rs128); and (2) adding the value of Hindalco's investment holding in IDEA and discounting it by 25%. We use P/E because stocks such as Hindalco are largely driven by commodity price tends, which translate into earnings momentum. The stock has largely been moving in line with international aluminum prices since October 2002 and has been trading in a P/E band of 7x and 9x over the last four years. Our target multiple is based on the mid-point (8x) of this trading range. This is at a discount to the 9x PE multiple we are using for National Aluminium. This is because the acquisition of Novelis raises Hindalco's risk profile, increases gearing and reduces consolidated margins. Based on consensus earnings and our own preliminary analysis, we see no substantial improvement in Novelis' earnings in FY08 and FY09. We do not see any upside trigger to the stock price based on our outlook of international prices in aluminum and declines in copper TC/RCs.

Hindalco Industries (HALC.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	11.4	8.9	11.4	14.1	21.3
EV/EBITDA adjusted (x)	8.7	5.5	5.5	5.7	7.6
P/BV (x)	2.0	1.7	1.5	1.4	1.3
Dividend yield (%)	1.1	0.9	0.9	0.9	0.8
Per Share Data (Rs)					
EPS adjusted	17.30	22.12	17.31	14.00	9.24
EPS reported	17.30	22.12	17.31	14.00	9.24
BVPS	97.46	119.03	133.95	145.67	153.15
DPS	2.20	1.70	1.80	1.80	1.50
Profit & Loss (RsM)					
Net sales	113,965	183,130	195,466	203,570	191,149
Operating expenses	-90,686	-145,660	-162,257	-175,476	-170,977
EBIT	**23,278**	**37,470**	**33,209**	**28,094**	**20,172**
Net interest expense	-2,252	-2,424	-2,847	-3,203	-3,743
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**21,027**	**35,046**	**30,362**	**24,890**	**16,428**
Tax	-4,501	-9,403	-7,742	-6,596	-4,354
Extraord./Min.Int./Pref.div.	30	0	0	0	0
Reported net income	**16,556**	**25,643**	**22,620**	**18,294**	**12,075**
Adjusted earnings	16,556	25,643	22,620	18,294	12,075
Adjusted EBITDA	28,490	43,851	39,314	34,616	26,796
Growth Rates (%)					
Sales	19.7	60.7	6.7	4.1	-6.1
EBIT adjusted	11.7	61.0	-11.4	-15.4	-28.2
EBITDA adjusted	11.9	53.9	-10.3	-12.0	-22.6
EPS adjusted	20.8	27.8	-21.7	-19.1	-34.0
Cash Flow (RsM)					
Operating cash flow	**7,083**	**33,366**	**20,669**	**21,474**	**18,223**
Depreciation/amortization	5,211	6,380	6,105	6,522	6,624
Net working capital	-17,434	-1,185	-2,417	-94	3,868
Investing cash flow	**-13,250**	**-56,363**	**-9,565**	**-28,304**	**-45,786**
Capital expenditure	-11,554	-14,779	-10,094	-27,102	-40,604
Acquisitions/disposals	-4,109	-93,456	13,990	-7,115	-11,525
Financing cash flow	**11,329**	**20,480**	**12,041**	**9,796**	**12,589**
Borrowings	11,034	24,652	-5,000	5,000	19,000
Dividends paid	-2,116	-4,495	0	-2,400	-2,667
Change in cash	**5,163**	**-2,518**	**23,144**	**2,966**	**-14,974**
Balance Sheet (RsM)					
Total assets	**188,958**	**249,400**	**288,056**	**322,891**	**349,154**
Cash & cash equivalent	9,173	6,655	29,799	32,766	17,792
Accounts receivable	12,484	15,045	17,463	18,170	17,067
Net fixed assets	76,157	84,831	88,820	109,400	143,380
Total liabilities	**92,895**	**125,219**	**123,768**	**132,576**	**149,057**
Accounts payable	19,745	22,867	26,681	30,261	29,362
Total Debt	49,034	73,686	68,686	73,686	92,686
Shareholders' funds	**96,063**	**124,180**	**164,288**	**190,315**	**200,097**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	25.0	23.9	20.1	17.0	14.0
ROE adjusted	19.2	23.3	15.7	10.3	6.2
ROIC adjusted	17.8	23.0	19.6	15.0	9.4
Net debt to equity	41.5	54.0	23.7	21.5	37.4
Total debt to capital	33.8	37.2	29.5	27.9	31.7

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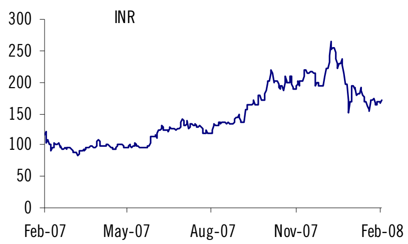
Hindustan Construction (HCNS.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs170.65
Target Price	Rs221.00
Expected share price return	29.5%
Expected dividend yield	0.5%
Expected total return	**30.0%**
Market Cap	Rs43,729M
	US$1,096M

Price Performance



Source: Citi Investment Research

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Company description

HCC is an 80-year-old construction company where the major shareholders own a 48% stake. It has cash contracting skills across power (thermal, hydel, nuclear), roads, bridges, dams, barrages, industrial, buildings, water supply, sanitation, ports, harbors and other marine works.

Proactive to Improve Construction and Real Estate Fortunes

- **Good 3Q FY08** — HCC's 3Q FY08 recurring PAT at Rs213m was up 53% yoy (CIR estimate: Rs155m) on better-than-expected order execution and EBITDA margin expansion. HCC ended the quarter with an order backlog of Rs90.5bn, is L1 in orders worth Rs31.9bn, is expecting decisions on orders worth Rs58.3bn and has pre-qualified for orders worth Rs72bn.
- **Respite on BWSL in sight** — HCC already booked losses to the tune of Rs2.5bn up to 1Q FY08. The company expects to complete the project by December 2008. According to the company the Maharashtra Government has also approved Rs1.57bn of claims vis-à-vis HCC's estimate of Rs2.37bn. We are not factoring this in our numbers yet. Further, the company does not expect to book any more losses on the project.
- **Getting aggressive on BOT projects** — Shedding its earlier conservative approach, the company is focusing on bagging BOT projects in hydro power, long road stretches, ports and airports (in Tier 2 cities). The company has a target of developing 1500 MW of hydel capacity, 1 port, 2 roads, and 2 airports.
- **Private equity could help set benchmark** — We believe it is critical that HCC Real Estate ropes in private equity for the Lavasa project. This would not only provide funds but would also help establish a reasonable valuation benchmark given the lack of information on the project to undertake a detailed valuation.
- **Likelihood of fund raising in the near future** — HCC's interest cost has been moving up sharply in FY08 due to investments in: (1) construction equipment, (2) real estate, and 3) BWSL. There is a possibility that the company might consider raising funds in the near future to reduce the interest burden, which could dilute earnings.

HCC Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	858	3.13	8.6	54.5	4.9	13.8	0.4
2007A	751	2.74	-12.5	62.3	4.8	8.4	0.4
2008E	788	2.87	4.9	59.4	4.4	8.3	0.5
2009E	1,314	4.67	62.4	36.6	3.6	11.8	0.6
2010E	1,846	6.55	40.5	26.0	3.2	14.0	0.6

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate HCC Buy/Low risk (1L), with a target price of Rs221. Despite the fact younger and more nimble companies like Nagarjuna and IVRCL have grown larger in terms of the profits generated from the core E&C business, HCC is taking some proactive steps to improve its fortunes by: (1) stemming the losses from the BWSL project, (2) getting claims settled with the Maharashtra Government, (3) winning more projects than before, and (4) getting more constructive on its foray in the BOT space. The stock has had a severe correction of 40%+ from its peaks in the first week of January 2008 and provides reasonable upside to our target price of Rs221. Post the correction the stock trades at cheap valuations, in our view (Adjusted P/E multiples of 11.0x FY09E and adjusted EV/EBITDA multiples of 6.6x FY09E).

Valuation

Our target price of Rs221 comprises: construction (Rs103); Real estate projects (Rs116), and BOT projects (Rs3).

1) Our construction business value is based on a target P/E multiple of 17x December 2009, in line with peers like IVRCL and Gammon. We peg Nagarjuna at 19x as we believe the company is structurally moving up the value chain with its entry into the metals and pipelines space.

2) We value the real estate projects at Rs116.

3) We value HCC's two BOT projects at P/Equity investment of 1.2x

Hindustan Construction (HCNS.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	54.5	62.3	59.4	36.6	26.0
EV/EBITDA adjusted (x)	25.0	23.5	15.5	12.5	10.3
P/BV (x)	4.9	4.8	4.4	3.6	3.2
Dividend yield (%)	0.4	0.4	0.5	0.6	0.6
Per Share Data (Rs)					
EPS adjusted	3.13	2.74	2.87	4.67	6.55
EPS reported	4.55	2.89	4.06	4.67	6.55
BVPS	34.72	35.28	38.64	47.17	52.95
DPS	0.70	0.75	0.85	0.95	1.05
Profit & Loss (RsM)					
Net sales	19,870	23,576	31,042	38,081	46,459
Operating expenses	-18,567	-22,220	-28,346	-34,567	-42,024
EBIT	**1,303**	**1,356**	**2,696**	**3,514**	**4,435**
Net interest expense	-414	-620	-1,512	-1,582	-1,714
Non-operating/exceptionals	42	293	25	30	35
Pre-tax profit	**931**	**1,030**	**1,209**	**1,962**	**2,756**
Tax	-73	-279	-421	-647	-909
Extraord./Min.Int./Pref.div.	389	42	326	0	0
Reported net income	**1,247**	**793**	**1,114**	**1,314**	**1,846**
Adjusted earnings	858	751	788	1,314	1,846
Adjusted EBITDA	1,827	2,153	3,654	4,675	5,776
Growth Rates (%)					
Sales	33.6	18.7	31.7	22.7	22.0
EBIT adjusted	17.8	4.1	98.8	30.3	26.2
EBITDA adjusted	17.2	17.8	69.8	27.9	23.6
EPS adjusted	8.6	-12.5	4.9	62.4	40.5
Cash Flow (RsM)					
Operating cash flow	**-2,152**	**-4,951**	**223**	**12**	**1,693**
Depreciation/amortization	524	797	958	1,161	1,341
Net working capital	-3,877	-6,718	-1,849	-2,463	-1,495
Investing cash flow	**-1,504**	**-4,798**	**-2,830**	**-2,300**	**-2,600**
Capital expenditure	-2,139	-3,776	-2,500	-2,000	-2,500
Acquisitions/disposals	634	-1,022	-330	-300	-100
Financing cash flow	**12,842**	**1,882**	**1,346**	**2,127**	**977**
Borrowings	8,722	2,532	1,600	900	1,300
Dividends paid	-204	-225	-254	-292	-323
Change in cash	**9,186**	**-7,866**	**-1,261**	**-161**	**70**
Balance Sheet (RsM)					
Total assets	**30,327**	**34,323**	**39,161**	**45,005**	**50,757**
Cash & cash equivalent	10,061	2,194	934	773	844
Accounts receivable	28	5	6	8	9
Net fixed assets	5,995	8,974	10,516	11,355	12,514
Total liabilities	**21,429**	**25,282**	**29,261**	**32,564**	**36,791**
Accounts payable	5,910	6,796	8,617	10,482	12,788
Total Debt	12,978	15,511	17,111	18,011	19,311
Shareholders' funds	**8,898**	**9,041**	**9,901**	**12,442**	**13,966**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.2	9.1	11.8	12.3	12.4
ROE adjusted	13.8	8.4	8.3	11.8	14.0
ROIC adjusted	14.0	6.5	9.8	10.8	11.9
Net debt to equity	32.8	147.3	163.4	138.5	132.2
Total debt to capital	59.3	63.2	63.3	59.1	58.0

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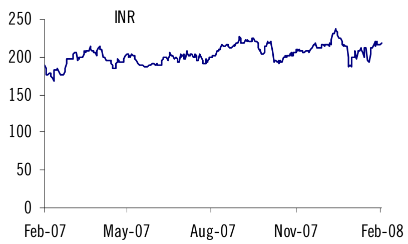
Hindustan Unilever (HLL.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs219.45
Target Price	Rs258.00
Expected share price return	17.6%
Expected dividend yield	4.1%
Expected total return	**21.7%**
Market Cap	Rs477,844M
	US$11,973M

Price Performance



Source: Citi Investment Research

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Company description

HUL is the largest consumer non-durables company in Asia. 51%-owned by the Unilever Group, HUL has one of the best-managed businesses in India, in our view, and a record of steady growth spanning decades. It has a diversified product portfolio, including fabric wash, personal care, tea, coffee and staple foods. Some of the strongest brands in India such as Lifebuoy, Lux, Surf, Wheel, Lakme, Ponds and Lipton are from the HUL stable.

Growth Accelerating and Yield Supportive

- **New growth drivers** — HUL is putting in place new drivers for growth, focusing on high end personal care, foods (health platform) and water. Management showcased its new product portfolio at a recent analyst meeting, which we find impressive. HUL has been able to identify the product gaps in its portfolio and is looking to address these.

- **Core business picking up** — HUL's core business growth has started to pick up. Over the last 8-10 quarters, core FMCG business has continued to deliver double-digit growth, with 4Q07 being the strongest at 18%. Growth has come through an equal contribution of volume growth and price hikes. Going forward HUL should continue to deliver 13-14% sales growth, with the potential of positive surprises depending on the scaling up of water and personal-care businesses.

- **Margins seem manageable** — While raw-material cost pressures persist, HUL has been able to manage these through price hikes and pack size reductions. Cost overheads seem under control, and we expect an improving product mix and improving profitability in detergents to drive margin expansion going forward.

- **Focus on market share** — The focus to increase its market share continues by offering products across all income levels (either through variants or lowering entry price by small size packs). Over the last few quarters, the market shares have improved across most of its categories.

Statistical Abstract

Year to 31 Dec	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	18,554	8.41	31.4	26.1	17.8	73.8	3.1
2007A	19,255	8.84	5.2	24.8	17.8	71.1	4.1
2008E	20,778	9.54	7.9	23.0	17.1	75.7	4.1
2009E	24,513	11.26	18.0	19.5	16.3	85.6	4.9
2010E	28,419	13.05	15.9	16.8	15.5	94.7	5.6

Source: Company and Citi Investment Research estimates

Investment Strategy

We have a Buy/Low Risk (1L) rating on the stock. The stock is trading at the lower end of its historical trading range and offers downside protection, in our view. HUL's fundamentals are looking up, with a significant pick-up in growth on improving demand from the urban as well as rural segments, especially in the rural areas. Management has increased its focus on market-share gains and as a result investment in brands has picked up. The company has been aggressively launching new product variants and has also undertaken product re-launches, which we believe will continue. With the high-end personal-care segment growing faster, the product mix is also improving. We believe margins could also surprise on the upside, driven by price hikes and declines in commodity prices.

Valuation

HUL's fairly steady stream of earnings makes P/E a good tool to value the stock. Our target price of Rs258 is based on what we think is a conservative multiple of 27x 2008E P/E, at the mid-end of the stock's historical trading band of 20-35x, over the past 8 years. We do not use a top-end multiple, as competitive intensity has increased over the past few years and the environment in which HUL operates is not as conducive as before. The company has historically enjoyed more than a 100% premium to the Sensex owing to its high capital-efficiency ratios and consistent earnings growth. However, we do not expect the stock to re-trace to its historical high premium, given that the company now operates in a different competitive landscape, with higher competitive intensity and a lower margin profile.

Hindustan Unilever (HLL.BO): Financial Summary

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	26.1	24.8	23.0	19.5	16.8
EV/EBITDA adjusted (x)	27.3	23.8	20.0	16.7	14.2
P/BV (x)	17.8	17.8	17.1	16.3	15.5
Dividend yield (%)	3.1	4.1	4.1	4.9	5.6
Per Share Data (Rs)					
EPS adjusted	8.41	8.84	9.54	11.26	13.05
EPS reported	8.41	8.84	9.54	11.26	13.05
BVPS	12.34	12.36	12.85	13.44	14.12
DPS	6.85	8.98	9.05	10.67	12.37
Profit & Loss (RsM)					
Net sales	121,034	137,178	156,387	177,344	199,565
Operating expenses	-105,855	-119,704	-135,544	-152,371	-170,300
EBIT	**15,179**	**17,473**	**20,843**	**24,972**	**29,265**
Net interest expense	-107	-255	-281	-309	-339
Non-operating/exceptionals	3,545	4,627	5,089	5,598	6,159
Pre-tax profit	**18,617**	**21,845**	**25,652**	**30,262**	**35,085**
Tax	-3,220	-4,155	-4,874	-5,750	-6,666
Extraord./Min.Int./Pref.div.	3,157	1,564	0	0	0
Reported net income	**18,554**	**19,255**	**20,778**	**24,513**	**28,419**
Adjusted earnings	18,554	19,255	20,778	24,513	28,419
Adjusted EBITDA	16,481	18,857	22,295	26,492	30,853
Growth Rates (%)					
Sales	9.4	13.3	14.0	13.4	12.5
EBIT adjusted	15.1	15.1	19.3	19.8	17.2
EBITDA adjusted	14.2	14.4	18.2	18.8	16.5
EPS adjusted	31.4	5.2	7.9	18.0	15.9
Cash Flow (RsM)					
Operating cash flow	**18,894**	**26,254**	**17,665**	**28,751**	**32,888**
Depreciation/amortization	1,302	1,384	1,452	1,520	1,588
Net working capital	-961	5,615	-4,565	2,719	2,881
Investing cash flow	**-4,054**	**-6,542**	**2,031**	**-5,515**	**-5,948**
Capital expenditure	-998	-1,000	-1,000	-1,000	-1,000
Acquisitions/disposals	-3,056	-5,542	3,031	-4,515	-4,948
Financing cash flow	**-14,957**	**-19,682**	**-19,696**	**-23,236**	**-26,938**
Borrowings	157	-126	0	0	0
Dividends paid	-15,114	-19,556	-19,696	-23,236	-26,938
Change in cash	**-117**	**29**	**0**	**0**	**1**
Balance Sheet (RsM)					
Total assets	**72,250**	**78,261**	**84,497**	**92,911**	**101,974**
Cash & cash equivalent	4,169	500	6,000	6,000	6,000
Accounts receivable	11,833	15,444	17,404	19,540	21,811
Net fixed assets	15,110	14,726	14,275	13,755	13,168
Total liabilities	**45,015**	**51,356**	**56,510**	**63,649**	**71,232**
Accounts payable	31,075	35,012	39,379	44,141	49,203
Total Debt	726	600	600	600	600
Shareholders' funds	**27,235**	**26,905**	**27,987**	**29,263**	**30,742**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	13.6	13.7	14.3	14.9	15.5
ROE adjusted	73.8	71.1	75.7	85.6	94.7
ROIC adjusted	na	na	na	na	na
Net debt to equity	-12.6	0.4	-19.3	-18.5	-17.6
Total debt to capital	2.6	2.2	2.1	2.0	1.9

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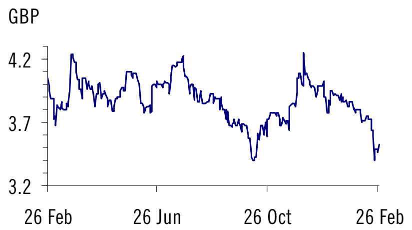
Powered by: dataCentral

Hirco Plc (HRCO.L, Non Rated)

Non-Rated	
Price (26 Feb 08)	GBP3.52
Market Cap	GBPm269
	US$m535

Price Performance



Source: dataCentral

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Company Description

Hirco is the investment vehicle of the Hiranandani group and has been formed for investing in certain FDI-compliant Indian real estate projects sourced by the Hiranandani Group. The Hiranandani Group was founded in 1976 and is one of Indian's most prominent developers of mixed use townships. The Group has developed the Powai and Thane townships in India and has built 30m sq ft over the past 25 years. Hirco intends to invest 70% in each pipeline project identified in the cities of Chennai, Mumbai Metropolitan Region (Panvel) and Jaipur. HIRCO raised £370m in its IPO on London Stock Exchange's Alternative Investment Market (AIM) in late 2006.

Quality Developments – the Focus

- **Background** — The Hiranandani Group, formed in 1976, is one of India's leading developers of integrated mixed-use townships in India. The group has developed 30m sq ft over the past 25 years. Hirco has been formed for investing in certain FDI-compliant projects in India sourced by Hiranandani Group.

- **Landmark developments** — The group's township projects in Powai and Thane in the Mumbai Metropolitan Region are landmark developments providing a mix of residential and commercial space, supported by amenities such as hospital, schools, hotels, sports and leisure facilities. Hiranandani Gardens at Powai covers ~15.6m sq ft, while Hiranandani Estate at Thane covers ~10m sq ft.

- **Hirco's AIM IPO** — Hirco raised £370m through its IPO on London Stock Exchange's Alternative Investment Market (AIM) in late 2006, which it intends to invest in pipeline projects identified in Chennai, Mumbai Metropolitan Region (Panvel) and Jaipur.

- **Scheme of Arrangement** — In each project undertaken, Hirco will have a 70% stake while the Hiranandani Group will hold the balance 30%. However, the profits will be split between Hirco and the Hiranandani Group in the ratio of 40% and 60% respectively. Hirnanadani's interest would be subordinated to Hirco's 12% preferred return.

- **Group strategy** — The group will continue to focus on large-scale township development comprising a mix of residential and commercial. The group is in its early stages of developing townships at Alibaug, Lonavala and Sindhudurg in Maharashtra and is also developing a mixed-use project in Dubai, UAE (23 Marina – a 90-storey residential tower).

Recent Developments

Hirco has invested ~£351m in new township projects in Chennai and Panvel having a total area of ~66m sq ft.

As at Jan 6, 2008 HIRCO received sales consideration for ~1.38m sq ft for Hiranandani Palace Gardens in Chennai.

HRCO Plc (HRCO.L, Non Rated): Financial Summary

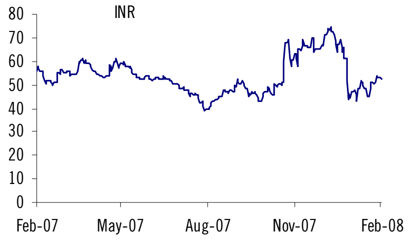
Year to Mar (GBP in Millions)	FY02	FY03	FY04	FY05	FY06	FY07
Profit & Loss (GBPm)						
Revenue	**NA**	**NA**	**NA**	**NA**	**NA**	**-**
Operating Income	NA	NA	NA	NA	NA	(2)
EBITDA	NA	NA	NA	NA	NA	(2)
EBIT	**NA**	**NA**	**NA**	**NA**	**NA**	**107**
Pretax Income	NA	NA	NA	NA	NA	107
Tax	NA	NA	NA	NA	NA	0
Minority Interest	NA	NA	NA	NA	NA	-
Net Profit	**NA**	**NA**	**NA**	**NA**	**NA**	**107**
Balance Sheet (GBPm)						
Total Assets	**NA**	**NA**	**NA**	**NA**	**NA**	**470**
Cash & Cash Equivalents	NA	NA	NA	NA	NA	116
Net Fixed Assets	NA	NA	NA	NA	NA	0
Total Liabilities	**NA**	**NA**	**NA**	**NA**	**NA**	**0**
Total Debt	NA	NA	NA	NA	NA	-
Shareholders' Funds	**NA**	**NA**	**NA**	**NA**	**NA**	**470**
Minorities	NA	NA	NA	NA	NA	-
Cash Flow (GBPm)						
Operating Cash Flow	**NA**	**NA**	**NA**	**NA**	**NA**	**8**
Depreciation/Amortization	NA	NA	NA	NA	NA	0
Net Working Capital	NA	NA	NA	NA	NA	(12)
Investing Cash Flow	**NA**	**NA**	**NA**	**NA**	**NA**	**(254)**
Capital Expenditure	NA	NA	NA	NA	NA	(0)
Acquisitions/Disposals	NA	NA	NA	NA	NA	(254)
Financing Cash Flow	**NA**	**NA**	**NA**	**NA**	**NA**	**363**
Borrowings	NA	NA	NA	NA	NA	-
Equity Issuance	NA	NA	NA	NA	NA	363
Dividends Paid	NA	NA	NA	NA	NA	-
Change in Cash	**NA**	**NA**	**NA**	**NA**	**NA**	**116**
Profitability/Solvency Ratios						
Operating Margin (%)	NA	NA	NA	NA	NA	nm
RoAE (%)	NA	NA	NA	NA	NA	22.78
RoAA (%)	NA	NA	NA	NA	NA	22.80
Net Debt to Equity (%)	NA	NA	NA	NA	NA	-

Source: Company Reports

Hotel Leela Venture (HTLE.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs52.65
Target Price	Rs62.00
Expected share price return	17.8%
Expected dividend yield	0.8%
Expected total return	**16.3%**
Market Cap	Rs19,892M
	US$499M

Price Performance



Source: Citi Investment Research

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Company description

Hotel Leela Venture is a well-known hotel chain in India catering primarily to the premium segment. The company operates four hotels (estimated 1,086 rooms) under the 'The Leela' brand across India. The company has a marketing alliance with Kempinski for properties in India. Its luxury properties cater to both business and leisure travelers. With rapid growth in room demand, the company plans to expand its presence in the growth cities of Hyderabad, Chennai, Pune and New Delhi through management contracts. It is the flagship company of Leela Group, which holds a 49% stake in Hotel Leela Venture.

Room Additions to Drive Growth

- **Large pipeline of new hotels** — The company has a significant capex plan for the next few years for developing 5 new properties at Udaipur, Chennai, Delhi, Hyderabad and Pune, an IT Park in Chennai and some room additions in Goa. Much of the capex will be funded by a mix of internal accruals and FCCBs of US$100m raised in early FY08.

- **Enhancing revenue streams** — The company is looking to expand its revenue streams, focusing on fee/leasing income. It plans to set up a 450,000 sq ft IT Park in Chennai, which will be ready for leasing by 1Q FY08. In addition, the company has entered into a management contract for a 319-room hotel and 90-room serviced apartment in Gurgaon, which is expected to be operational shortly.

- **Earnings catalysts** — Refurbishment of 133 rooms in Mumbai and the addition of 101 rooms in Bangalore helped drive growth in FY08. We see the trend continuing. Other earnings drivers are a pick-up in ARRs and occupancy of its recently merged Kovalam property and income from the casino in Goa, which is expected to come on stream shortly. In addition, any push-back in room supply in Bangalore would benefit the company.

- **Key limitations** — 1) High dependence on Bangalore (46% of FY07 revenues), where growth is peaking; any pushback in supply should augur well for the company's earnings; 2) Limited room inventory of ~1,086 rooms; and 3) The lack of presence in growth markets for the next two years.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	724	1.96	72.9	27.3	2.5	9.8	0.7
2007A	837	1.99	1.4	26.9	1.9	8.4	0.8
2008E	1,378	3.28	64.7	16.4	1.7	10.8	0.7
2009E	1,531	3.64	11.1	14.7	1.5	10.9	0.7
2010E	1,584	3.77	3.5	14.2	1.4	10.3	0.7

Source: Powered by dataCentral

Investment Strategy

We rate Leela Buy/Medium Risk (1M), with a target price of Rs62 based on 18x Sept 08 P/E. Our positive view on the stock is premised on: 1) Leela's solid 65% earnings growth, vs. 38% for the sector, in FY08E, leveraging on additional rooms in Mumbai and Bangalore (ahead of expected supply in mid-2008); and 2) attractive valuations. Leela's high dependence on the Bangalore market (where ARR growth is peaking) and the lack of a presence in key growth markets are growth limitations. However, with Mumbai refurbishments (133 rooms) complete and Bangalore room expansion (101 rooms) starting in 4Q FY07, we see additional rooms and sustained high ARRs driving Leela's outperformance with earnings growth of 65% vs. sector growth of 38% in FY08E.

Valuation

Our target price of Rs62 is based on 18x Sept 08E P/E. Our target multiple places the stock at a premium to sector valuations (17x). We assign this premium due to Leela's earnings outperformance vs. the sector. We use P/E as our primary valuation tool, as we think this captures the company's rapid earnings growth potential.

Hotel Leela Venture (HTLE.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	26.8	26.4	16.0	14.4	14.0
EV/EBITDA adjusted (x)	17.7	14.3	10.0	9.4	9.2
P/BV (x)	2.5	1.8	1.7	1.5	1.4
Dividend yield (%)	0.8	0.9	0.8	0.8	0.8
Per Share Data (Rs)					
EPS adjusted	1.96	1.99	3.28	3.64	3.77
EPS reported	1.93	2.95	3.28	3.64	3.77
BVPS	21.31	28.81	31.69	34.94	38.31
DPS	0.40	0.45	0.40	0.40	0.40
Profit & Loss (RsM)					
Net sales	3,270	4,156	5,548	6,716	7,716
Operating expenses	-2,005	-2,601	-3,187	-3,987	-4,732
EBIT	**1,265**	**1,555**	**2,361**	**2,729**	**2,984**
Net interest expense	-330	-347	-548	-700	-760
Non-operating/exceptionals	195	268	308	324	210
Pre-tax profit	**1,130**	**1,476**	**2,121**	**2,353**	**2,434**
Tax	-384	-617	-721	-800	-827
Extraord./Min.Int./Pref.div.	-37	379	-22	-22	-22
Reported net income	**710**	**1,238**	**1,378**	**1,531**	**1,584**
Adjusted earnings	724	837	1,378	1,531	1,584
Adjusted EBITDA	1,590	1,932	2,771	3,319	3,624
Growth Rates (%)					
Sales	27.4	27.1	33.5	21.1	14.9
EBIT adjusted	48.1	22.9	51.9	15.6	9.3
EBITDA adjusted	37.9	21.5	43.5	19.8	9.2
EPS adjusted	72.9	1.4	64.7	11.1	3.5
Cash Flow (RsM)					
Operating cash flow	**621**	**1,667**	**1,728**	**3,746**	**2,601**
Depreciation/amortization	325	377	410	590	640
Net working capital	-413	52	-61	1,625	377
Investing cash flow	**-3,625**	**-1,941**	**-4,650**	**-7,195**	**-3,317**
Capital expenditure	-3,035	-1,950	-4,835	-7,330	-3,553
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**126**	**3,613**	**-1,843**	**1,507**	**-168**
Borrowings	-598	599	-1,675	1,675	0
Dividends paid	-147	-189	-168	-168	-168
Change in cash	**-2,878**	**3,339**	**-4,766**	**-1,942**	**-884**
Balance Sheet (RsM)					
Total assets	**20,189**	**19,989**	**25,766**	**29,791**	**32,539**
Cash & cash equivalent	1,626	445	139	102	82
Accounts receivable	245	291	388	403	386
Net fixed assets	15,455	17,028	21,453	28,194	31,107
Total liabilities	**11,948**	**7,500**	**12,067**	**14,729**	**16,062**
Accounts payable	174	334	417	544	737
Total Debt	10,961	6,440	10,900	12,805	13,550
Shareholders' funds	**8,240**	**12,489**	**13,699**	**15,062**	**16,478**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	48.6	46.5	49.9	49.4	47.0
ROE adjusted	9.8	8.4	10.8	10.9	10.3
ROIC adjusted	5.6	5.2	7.8	7.4	7.3
Net debt to equity	113.3	48.0	78.6	84.3	81.7
Total debt to capital	57.1	34.0	44.3	46.0	45.1

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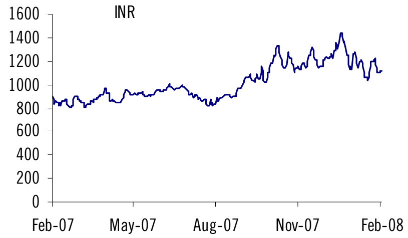
Powered by: dataCentral

ICICI Bank (ICBK.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs1,118.05
Target Price	Rs1,510.00
Expected share price return	35.1%
Expected dividend yield	0.9%
Expected total return	**36.0%**
Market Cap	Rs1,243,937M
	US$31,169M

Price Performance



Source: Citi Investment Research

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Company description

ICICI Bank was founded in 1994 by ICICI Ltd., which was then the country's leading development finance institution. It is a leader in retail lending, with more than 30% market share in all consumer-finance segments. ICICI Bank has international banking operations as its key focus area.

Size, Breadth and Speed

- **Second largest and most diversified Indian bank** — ICICI Bank is India's largest private-sector bank, and it has aggressively expanded its asset base and spread to position itself as a dominant financial services player. It remains among the faster growing banks, and continues to seek out new business opportunities and segments.
- **More normal growth rates ahead?** — ICBK has grown at well above industry averages over the past few years, in spite of its large size. This pace of growth now appears to have peaked, with a few segments slowing and its dominant retail portfolio apparently feeling the pinch of higher rates and size. With ICICI's large size, incremental asset growth is likely to be closely linked to industry growth
- **Wide asset segment spread: Are there pressures on asset quality?** — ICICI carries a relatively broad asset mix – consumer heavy, but meaningfully spread across international and corporate segments. This opens up newer market segments for the group – spreading risk, but potentially moderating returns. ICICI has also witnessed a steady pace of asset deterioration given its rapid pace of growth and a more challenging asset environment, though not alarming, it is an area that needs to be watched.
- **Wholesale funding and aggressive global expansion are strategic issues** — ICBK's relatively large dependence on wholesale deposits has been a margin pressure point; management is seeking to address it through branch roll-outs, acquisitions and by moderating growth. The group's international foray – now over 20% of the balance sheet – is more strategy-driven. Its returns, and value, however remain challenging, particularly given the volatile and slowing international markets.
- **Momentum and focus on subsidiaries** — ICBK's financial-services subsidiaries, led by its life-insurance business, are leading growth and driving valuations. The recent IPO announcement for ICICI Securities is likely to keep these businesses, and their valuations, under market watch.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	25,397	28.13	5.2	39.7	4.5	14.6	0.8
2007A	31,097	34.46	22.5	32.4	4.1	13.4	0.9
2008E	43,396	39.12	13.5	28.6	2.6	12.1	0.9
2009E	58,356	52.60	34.5	21.3	2.4	11.7	1.0
2010E	78,380	70.65	34.3	15.8	2.1	14.3	1.1

Source: Company and Citi Investment Research estimates

Investment Strategy

Our Buy/Low Risk (1L) rating is premised on: (1) ICBK's broad exposure to the strong momentum in the Indian economy, and its strong market position in the Indian market; (2) a broad asset mix, which should reduce the risk and profitability strain from concentration; (3) the growing value of its subsidiary businesses; (4). the bank, in our view, offers one of the best exposures to the consumer finance and financial services opportunity in India, and has been at the forefront of building market leadership in most products; and (5) its strong and deep management team. ICICI Bank also offers large exposure to the corporate lending and capex cycle, which should be viewed against the economy's bright prospects.

Valuation

We raise our target price to Rs1,510 based on our EVA model, which captures the long-term value of the business and is a standard valuation measure for our India banking universe. We also use a sum-of-parts methodology, benchmarking valuations to individual businesses. By this measure, our fair value for ICICI Bank is Rs1,383 . We value ICICI Bank's banking business on a 2.25x FY09E PBV, reflecting the leverage potential of the business as also peer company valuations, but also factoring in its ROE, which is currently below its cost of capital. In addition, we factor in Rs386 as the value of its subsidiaries – specifically, these are; Life insurance business at Rs246 per share (18x FY09E NBAP), general insurance at Rs40per share (20x FY09E PE), AMC at Rs27 per share (8% of AUM), ICICI Securities at Rs55 per share (20x FY09E), and venture fund at Rs21per share (15% of FY09E AUM).

ICICI Bank (ICBK.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	39.7	32.4	28.6	21.3	15.8
P/E reported (x)	39.7	32.4	28.6	21.3	15.8
P/BV (x)	4.5	4.1	2.6	2.4	2.1
P/Adjusted BV diluted (x)	4.5	4.2	2.6	2.4	2.2
Dividend yield (%)	0.8	0.9	0.9	1.0	1.1
Per Share Data (Rs)					
EPS adjusted	28.13	34.46	39.12	52.60	70.65
EPS reported	28.13	34.46	39.12	52.60	70.65
BVPS	249.55	273.27	432.40	474.94	524.50
Tangible BVPS	249.55	273.27	432.40	474.94	524.50
Adjusted BVPS diluted	245.96	269.34	427.33	469.38	518.36
DPS	8.50	10.00	10.50	11.00	12.00
Profit & Loss (RsM)					
Net interest income	41,870	66,357	96,307	129,650	176,939
Fees and commissions	30,019	43,309	58,467	78,930	98,662
Other operating Income	20,347	26,321	28,040	34,218	38,233
Total operating income	**92,237**	**135,986**	**182,814**	**242,797**	**313,834**
Total operating expenses	-44,795	-66,907	-90,063	-116,826	-147,354
Oper. profit bef. provisions	**47,442**	**69,080**	**92,751**	**125,971**	**166,480**
Bad debt provisions	-8,173	-22,264	-24,646	-32,916	-42,502
Non-operating/exceptionals	-8,303	-10,338	-11,000	-12,000	-12,000
Pre-tax profit	**30,966**	**36,479**	**57,105**	**81,056**	**111,978**
Tax	-5,565	-5,378	-13,706	-22,696	-33,595
Extraord./Min. Int./Pref. Div.	-4	-4	-4	-4	-4
Attributable profit	**25,397**	**31,097**	**43,396**	**58,356**	**78,380**
Adjusted earnings	25,397	31,097	43,396	58,356	78,380
Growth Rates (%)					
EPS adjusted	5.2	22.5	13.5	34.5	34.3
Oper. profit bef. prov.	60.5	45.6	34.3	35.8	32.2
Balance Sheet (RsM)					
Total assets	**2,513,890**	**3,446,580**	**4,525,911**	**5,905,976**	**7,666,205**
Avg interest earning assets	1,953,003	2,799,421	3,789,066	5,019,223	6,595,843
Customer loans	1,496,945	2,017,661	2,862,441	3,785,593	5,003,982
Gross NPLs	22,226	41,260	79,581	109,745	138,970
Liab. & shar. funds	**2,513,890**	**3,446,580**	**4,525,911**	**5,905,976**	**7,666,205**
Total customer deposits	1,650,832	2,305,102	3,218,029	4,469,492	6,071,431
Reserve for loan losses	17,274	34,377	55,998	86,572	125,769
Shareholders' equity	**225,560**	**246,533**	**477,553**	**524,198**	**578,535**
Profitability/Solvency Ratios (%)					
ROE adjusted	14.6	13.4	12.1	11.7	14.3
Net interest margin	2.1	2.4	2.5	2.6	2.7
Cost/income ratio	48.6	49.2	49.3	48.1	47.0
Cash cost/average assets	2.1	2.2	2.3	2.2	2.2
NPLs/customer loans	1.5	2.0	2.8	2.9	2.8
Reserve for loan losses/NPLs	77.7	83.3	70.4	78.9	90.5
Bad debt prov./avg. cust. loans	0.7	1.3	1.0	1.0	1.0
Loans/deposit ratio	90.7	87.5	89.0	84.7	82.4
Tier 1 capital ratio	9.2	7.7	11.8	10.0	9.1
Total capital ratio	13.4	10.1	15.5	13.0	11.9

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ICICI Prudential Life Insurance

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Company Description

ICICI Prudential Life Insurance Company is a 74:26 joint venture between ICICI Bank and Prudential of the UK. Prudential has the right of first refusal to increase its stake to 49%, if regulations allow it, at market-determined valuations. It has a market share of about 27% among private-sector players and maintains its top position.

Market Leader

- **Market leader by far** — ICICI Prudential has led the market leadership stakes from year one, and we do not see that changing. It has almost a third of the private-sector share (10% overall) and has opened up a large gap over peers. Market leadership is also a stated objective, and it is seeking to stay ahead by aggressively expanding distribution, building on the group business, seeking to expand the health-insurance market, and is backing it with large capital investments to support these efforts.

- **Economics – scale and asset-management fees** — ICICI's profitability is leveraged to the economics of scale, believing volumes will bring in efficiencies, which are being reflected in expense ratios. Its products are also geared toward higher asset-management fees, which leads it to higher asset returns and persistency. It is also aggressive in the low-return group business – provides volume, leverages the group's broader franchise and could bring in individual business at a later point.

- **Distribution: Large and expanding aggressively** — ICICI-Pru is in its second stage of distribution growth. It is in the process of more than doubling its branch network and agency force while trying to balance its 60:40 balance between agents and other channels. Part of the expansion is targeted outside of the traditional savings centers; the scale suggests commitment to growth. The challenge lies in execution and agent efficiency, which could well increase as distribution goes into the hinterland.

- **So far** — 90% of business is unit-linked, 60% of AUM is equity, persistency rates are relatively modest at 74% (possibly distorted by short-term policy lapses), and surrender levels are up to 7%, and the P&L loss is relatively high at 8% of premium. While a relatively short history and high growth rates possibly distort some financial ratios, Pru-ICICI's renewal premium at 53% of new premium is among the highest, suggesting a more stable and predictable premium profile than most.

Recent Developments

ICICI recently sought to transfer its 74% ownership into a separate holding company, into which it sought to bring institutional investors. This proposal, however, did not get regulatory approvals.

ICICI Prudential Life Insurance: Financial Summary

ICICI Pru — Financial Highlights (Rs million, FY05-07)

Policyholders account (Revenue Account)	**2005**	**2006**	**2007**
Gross premium income	23638	42610	79130
Net premium income	23600	42542	78968
Income from investments	1928	14237	9892
Income from operations	**25528**	**56779**	**88860**
Contribution from the shareholders account	2333	2307	7580
Total Income	**27861**	**59085**	**96440**
Commission	1780	2834	5255
Operating income	**26082**	**56251**	**91185**
Operating expenses related to insurance business	4616	7238	15230
PBT	**21466**	**49013**	**75956**
Tax	0	61	123
PAT	**21466**	**48952**	**75833**
Benefits Paid	1,012	2,106	7,275
Increase in acturial liability	2,247	3,289	6,431
Transfer to linked fund	17,891	43,456	60,766
Surplus/deficit	**317**	**101**	**1360**

Source: Company Reports

ICICI Pru — Financial Highlights (Rs million, FY05-07)

Shareholders account (Profit and Loss)	**2005**	**2006**	**2007**
Transfer from Policyholders account	0	76	346
Investment income	113	203	332
Total Income	**113**	**279**	**678**
Expenses	4	6	15
Operating income	**109**	**273**	**663**
Contribution to policyholders account	2333	2307	7580
PBT	**(2,224)**	**(2,033)**	**(6,917)**
Tax	(108)	(155)	(428)
PAT	**(2,116)**	**(1,879)**	**(6,489)**

Source: Company Reports

ICICI Pru — Financial Highlights (Rs million, FY05-07)

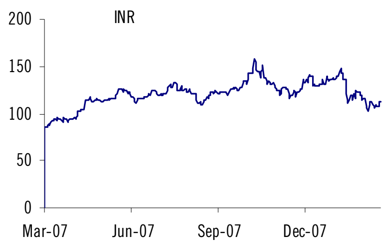
Balance sheet	**2005**	**2006**	**2007**
Share capital	9,250	11,850	13,123
Reserves	0	52	7,613
Fair value change account	0	180	291
Debit balance in PL	(6,857)	(9,528)	(16,017)
Shareholders funds	**2,393**	**2,555**	**5,010**
Fair value change account	207	1,247	1,331
Policy Liabilities	7,935	11,225	17,656
Provision for linked liabilities	26,541	69,996	130,763
Funds for future appropriations	317	1,134	2,149
Total Liabilities	**37,394**	**86,157**	**156,909**
Investments			
Shareholders	3,209	4,485	1,567
Policyholders	8,045	12,515	23,421
Assets held to cover linked liabilities	26,541	70,788	132,523
Loans	25	14	40
Fixed assets	630	611	2,194
Net current assets	(1,165)	(2,518)	(3,527)
Misc expenses	108	262	690
Total Assets	**37,394**	**86,157**	**156,909**

Source: Company Reports

IDEA Cellular (IDEA.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs112.20
Target Price	Rs140.00
Expected share price return	24.8%
Expected dividend yield	0.0%
Expected total return	**24.8%**
Market Cap	Rs295,687M
	US$7,409M

Price Performance



Source: Citi Investment Research

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Company description

Idea Cellular, a pure-play wireless provider, is the fifth-largest cellular operator in India. It operates in 11 circles and has recently been allotted spectrum for Mumbai/Bihar with LoIs for the remaining 9 circles. The company listed on the Indian bourse in March 2007 and is part of the Aditya Birla Group.

Market Realities Have a Sobering Effect

- **Core business pressure offset by Indus** — We recently upgraded Idea to Buy while keeping the target price unchanged at Rs140/share with Sep-08E DCF revised downwards to Rs108 from Rs127, Indus towerco value at Rs32/share and removing the 10% M&A premium with easier availability of spectrum. The DCF value imputes EV/EBITDA at 11.8x, a 3% discount to Bharti.

- **Estimates factor in new market realities** — We revised EBITDA downwards by 7-9% and EPS by 7-13% to factor in 1) higher capex/ incremental min with tighter spectrum norms, 2) lower EBITDA margin with new circle launches (Mumbai/Bihar), 3) faster rev/min decline to combat higher competition ,and 4) higher depreciation/interest charge on account of higher capex. We don't incorporate the 9 new circles due to lack of clarity on timing of allotment of startup spectrum.

- **10% M&A premium now removed** — We had earlier kept the 10% M&A premium despite new spectrum norms diluting the M&A appeal due to substantial PE holdings (30%) and spectrum/coverage appealing to new entrants. However, we have removed this premium due to easier spectrum availability and easy access to towercos for the new entrants.

- **Key risks** — Key risks relate to uncertainty in procuring spectrum for 9 circles hitting the roll-out timetable. Also greater competition with entry of new players could impact Idea relatively more than larger peers

Statistical Abstract

Year to 31 Mar	Net Profit Rs M	Diluted EPS Rs	EPS growth %	P/E x	P/B x	ROE %	Yield %
2006A	1,683	0.74	636.7	150.6	39.0	30.9	0.0
2007A	5,022	1.94	160.0	57.9	13.3	35.5	0.0
2008E	10,261	3.89	101.0	28.8	8.4	36.0	0.0
2009E	12,163	4.62	18.5	24.3	6.2	29.4	0.0
2010E	14,267	5.41	17.3	20.7	4.8	26.2	0.0

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate Idea Buy/Low Risk. Continued robust wireless market expansion and Idea's ability to regain its growth potential following its restructuring and full control by Aditya Birla Group are key factors in our investment argument. Idea's strong competitive position in its existing circles and comparable operational parameters provide us sufficient comfort in management's ability to execute its plans. With a relatively smaller base compared to larger peers, we estimate earnings CAGR of 41% over FY07-10E, ahead of peers and more than double that of the broader market. However, post the disappointing quality of earnings in 2Q, the Idea stock will likely decouple from Bharti, with a renewed upsurge in investor sentiment probably hinging on a turnaround in operational data points

Valuation

We have set our 12-month target price at Rs140 based on Sep-08E DCF of Rs108 and towerco option value of Rs32/share through its 16% stake in Indus. We prefer DCF as our primary valuation methodology due to the back-ended nature of free cash flows given the new circle roll-outs. Our DCF assumes a WACC of 10.8% at a target debt to capital of 50.0% and terminal growth rate of 4.0% (similar to Bharti). Our DCF is based on explicit forecasts for FY07-16E with a terminal year EBITDA margin at 39.3% (~600bps below Bharti) and capex/sales of ~8% (in line with Bharti). The DCF value implies an EV/EBITDA of 11.8x, slightly lower than Bharti's target multiples (for the ex-towerco portion of Rs930), which is supported by Idea's higher growth rates notwithstanding Idea's smaller size and relatively less established track record.

Idea Cellular (IDEA.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	150.6	57.9	28.8	24.3	20.7
EV/EBITDA adjusted (x)	31.3	22.3	15.1	11.8	10.2
P/BV (x)	39.0	13.3	8.4	6.2	4.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	0.74	1.94	3.89	4.62	5.41
EPS reported	0.74	1.94	3.89	4.62	5.41
BVPS	2.88	8.41	13.37	17.99	23.40
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net sales	29,655	43,664	65,984	90,512	109,472
Operating expenses	-24,476	-35,729	-52,590	-72,995	-88,835
EBIT	**5,179**	**7,935**	**13,394**	**17,517**	**20,636**
Net interest expense	-3,225	-3,051	-3,491	-4,426	-5,284
Non-operating/exceptionals	244	209	1,309	606	714
Pre-tax profit	**2,198**	**5,093**	**11,211**	**13,698**	**16,067**
Tax	-80	-71	-950	-1,534	-1,800
Extraord./Min.Int./Pref.div.	-435	0	0	0	0
Reported net income	**1,683**	**5,022**	**10,261**	**12,163**	**14,267**
Adjusted earnings	1,683	5,022	10,261	12,163	14,267
Adjusted EBITDA	10,674	14,653	22,010	29,855	36,450
Growth Rates (%)					
Sales	31.5	47.2	51.1	37.2	20.9
EBIT adjusted	36.9	53.2	68.8	30.8	17.8
EBITDA adjusted	30.0	37.3	50.2	35.6	22.1
EPS adjusted	636.7	160.0	101.0	18.5	17.3
Cash Flow (RsM)					
Operating cash flow	**12,777**	**16,057**	**26,245**	**34,076**	**27,909**
Depreciation/amortization	5,495	6,718	8,616	12,337	15,813
Net working capital	1,765	1,198	6,384	6,944	-5,554
Investing cash flow	**-5,221**	**-22,756**	**-48,665**	**-50,452**	**-37,681**
Capital expenditure	-5,293	-22,819	-49,986	-51,057	-38,395
Acquisitions/disposals	34	-83	12	0	0
Financing cash flow	**-7,835**	**26,134**	**12,191**	**15,574**	**9,716**
Borrowings	-4,460	9,623	12,495	20,000	15,000
Dividends paid	0	0	0	0	0
Change in cash	**-279**	**19,435**	**-10,229**	**-801**	**-56**
Balance Sheet (RsM)					
Total assets	**56,547**	**85,834**	**117,935**	**157,771**	**182,132**
Cash & cash equivalent	1,493	18,199	7,971	7,170	7,114
Accounts receivable	1,308	1,525	1,532	1,612	1,601
Net fixed assets	28,835	61,100	93,069	134,165	159,123
Total liabilities	**45,211**	**64,036**	**82,689**	**110,361**	**120,455**
Accounts payable	8,693	16,109	20,672	26,351	19,997
Total Debt	32,856	42,505	55,000	75,000	90,000
Shareholders' funds	**11,336**	**21,798**	**35,247**	**47,410**	**61,678**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	36.0	33.6	33.4	33.0	33.3
ROE adjusted	30.9	35.5	36.0	29.4	26.2
ROIC adjusted	11.7	17.6	19.2	16.1	14.4
Net debt to equity	276.7	111.5	133.4	143.1	134.4
Total debt to capital	74.3	66.1	60.9	61.3	59.3

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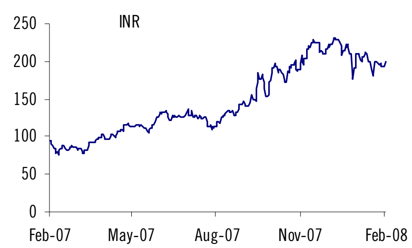
IDFC (IDFC.BO)

Sell/Medium Risk	**3M**
Price (26 Feb 08)	Rs199.20
Target Price	Rs195.00
Expected share price return	-2.1%
Expected dividend yield	0.5%
Expected total return	**-1.6%**
Market Cap	Rs257,824M
	US$6,460M

Price Performance



Source: Citi Investment Research

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Company description

IDFC was established in 1997 as a specialized Infrastructure financier / advisor and to encourage private-sector investments in the infrastructure sector. It has been actively associated with the government in policy formulation, and has probably the foremost set of skills in this space. It enjoys a central positioning as amongst the forerunners on the policy advisory space in infrastructure and is seen as the preferred investor, lender and advisor. Though IDFC has diversified its product offerings to include non-fund based products, asset management and private equity along with debt finance and syndication opportunities, the lending business remains its key operational focus.

'Infrastructure' Financial Services Provider

- **IDFC is a focused infrastructure development and financing entity** — It is at the forefront of financing, advising and policy formulation for one of India's fastest growing segments. It is transitioning into asset-management and investment-banking businesses, in its area of specialisation.
- **Key lending thrust on infrastructure assets** — It does so by direct and structured financing, technical and risk advisory, and directed and private type investments. Exposures are spread across the private sector, and private-public partnerships; IDFC remains a meaningful advisor to the Government, and continues to build on its advisory role.
- **Asset growth remains relatively high** — It is almost 50%, and well above broader industry growth levels. Growth rates should remain relatively high, given the scale of infrastructure opportunity, the expected investments in the space and IDFC's own positioning in this space. Asset quality is strong.
- **IDFC is also a wholesale bank in structure** — It has extremely low operating cost structures (0.65% of assets), which lowers effective funding costs. IDFC's funding is entirely from the wholesale markets; this potentially presents challenges, particularly if the funding environment tightens. Traditionally, such funding structures are perceived as drags in a rising rate environment, and positives in a easier liquidity environments.
- **Earnings stream is diversifying, with aggressive asset-management initiatives** — IDFC earnings stream has historically been margin and investment gains driven. This has been diversified in recent years through aggressive fee-income growth. Going forward, IDFC's aggressive PE initiatives should smoothen the earnings profile towards more annuity type asset-management fees. This should effectively diversify earnings, potentially bolster growth, and moderate its dependence on lending margins

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	3,908	3.68	21.1	54.1	8.7	17.5	0.5
2007A	5,039	4.48	21.7	44.4	7.6	18.3	0.5
2008E	7,908	6.54	45.8	30.5	4.5	18.2	0.5
2009E	11,413	8.82	35.0	22.6	3.9	18.4	0.6
2010E	14,434	11.16	26.5	17.9	3.2	19.7	0.6

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate IDFC Sell/Medium Risk (3M) with a Rs195 target price. IDFC appears particularly well positioned to benefit from India's large infrastructure opportunity. We believe IDFC has a quality management team, is one of the few pure plays on infrastructure financial services and offers long-term growth potential. However, the stock has had a sharp run and has outperformed the market significantly. We believe, the current price is factoring in further upside surprises in addition to the already strong performance in YTD FY08. While we believe the business is still in a sweet spot, it will be challenging to exceed the current high expectations built in the stock. IDFC faces challenges from – a) Competition from larger scale and lower funding cost banks; b) Wholesale funding; c) relatively higher portfolio concentrations as against banks; d) Finance company platform – limits leverage relative to banks; and e) Modest profitability – we expect core RoEs to remain relatively modest at sub 15% levels in the medium term.

Valuation

We value IDFC at Rs195 based on our sum-of-parts methodology. For IDFC's core lending business (Rs149 per share), we prefer a P/BV multiple of 3.0x FY09E BV benchmarked towards the lower band private banks' target P/BV multiples, with a sub-15% core ROE. This reflects IDFC's premium positioning in the infrastructure segment, strong management, long track record of low asset risks and relatively high growth profile. However, its target multiple is constrained by its lack of retail asset, liability and distribution franchises relative to premier private bank franchises. For the asset management business we prefer to use a DCF approach and value this business at Rs23 per share. We now value IDFC's stake in SSKI at Rs14 per share based on 22x FY09E profits. Finally, we also add Rs9 for IDFC's unrealized investment gains including the NSE.

IDFC (IDFC.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	54.1	44.4	30.5	22.6	17.9
P/E reported (x)	54.1	44.4	30.5	22.6	17.9
P/BV (x)	8.7	7.6	4.5	3.9	3.2
P/Adjusted BV diluted (x)	8.7	7.6	4.5	3.9	3.2
Dividend yield (%)	0.5	0.5	0.5	0.6	0.6
Per Share Data (Rs)					
EPS adjusted	3.68	4.48	6.54	8.82	11.16
EPS reported	3.68	4.48	6.54	8.82	11.16
BVPS	22.88	26.18	44.26	51.73	61.53
Tangible BVPS	22.88	26.18	44.26	51.73	61.53
Adjusted BVPS diluted	22.88	26.18	44.26	51.73	61.53
DPS	1.00	1.00	1.00	1.20	1.20
Profit & Loss (RsM)					
Net interest income	2,749	4,056	6,545	8,885	11,138
Fees and commissions	955	1,239	4,169	7,200	9,445
Other operating Income	1,785	1,863	2,966	3,917	4,908
Total operating income	**5,488**	**7,158**	**13,680**	**20,002**	**25,491**
Total operating expenses	-546	-821	-2,786	-3,747	-4,812
Oper. profit bef. provisions	**4,942**	**6,337**	**10,894**	**16,254**	**20,679**
Bad debt provisions	-516	-175	-361	-618	-887
Non-operating/exceptionals	0	118	0	0	0
Pre-tax profit	**4,426**	**6,280**	**10,533**	**15,637**	**19,792**
Tax	-517	-1,241	-2,423	-3,909	-4,948
Extraord./Min. Int./Pref. Div.	-2	0	-202	-315	-409
Attributable profit	**3,908**	**5,039**	**7,908**	**11,413**	**14,434**
Adjusted earnings	3,908	5,039	7,908	11,413	14,434
Growth Rates (%)					
EPS adjusted	21.1	21.7	45.8	35.0	26.5
Oper. profit bef. prov.	27.5	28.2	71.9	49.2	27.2
Balance Sheet (RsM)					
Total assets	**124,008**	**183,840**	**254,892**	**327,321**	**414,821**
Avg interest earning assets	100,920	146,517	208,911	279,000	356,122
Customer loans	102,415	139,459	200,972	269,878	349,883
Gross NPLs	0	506	275	970	1,841
Liab. & shar. funds	**124,008**	**183,840**	**254,892**	**327,321**	**414,821**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	506	275	636	1,187	1,943
Shareholders' equity	**25,687**	**29,476**	**57,263**	**66,929**	**79,617**
Profitability/Solvency Ratios (%)					
ROE adjusted	17.5	18.3	18.2	18.4	19.7
Net interest margin	2.7	2.8	3.1	3.2	3.1
Cost/income ratio	10.0	11.5	20.4	18.7	18.9
Cash cost/average assets	0.5	0.5	1.3	1.3	1.3
NPLs/customer loans	0.0	0.4	0.1	0.4	0.5
Reserve for loan losses/NPLs	na	54.4	231.4	122.4	105.5
Bad debt prov./avg. cust. loans	0.6	0.1	0.2	0.3	0.3
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	19.2	15.6	21.2	18.8	17.4
Total capital ratio	25.6	19.6	24.0	20.9	19.1

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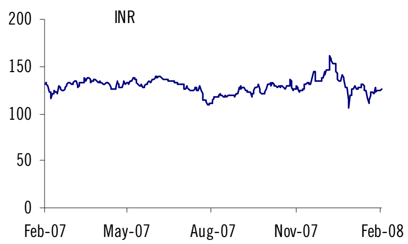
Powered by: dataCentral

Indian Hotels (IHTL.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs126.10
Target Price	Rs179.00
Expected share price return	42.0%
Expected dividend yield	1.2%
Expected total return	**41.8%**
Market Cap	Rs91,223M
	US$2,286M

Price Performance



Source: Citi Investment Research

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Company description

Indian Hotels (IHC) is the largest hotel operator in India with a presence in the luxury, business and leisure hotel segments. It owns the 'Taj' brand and operates 87 hotels (10,487 rooms) across India and international locations. It has entered the budget hotel segment through its new brand 'Ginger', and is making a foray into the adventure business with wildlife lodges. It already operates eleven budget hotels, and plans to expand these to 40 in the next few years with an investment of Rs4bn-6bn. The company is also looking to expand overseas through acquisitions/management contracts. Other new revenue streams being explored include serviced apartments, spas and F&B outlets. IHC is the hotel-sector flagship company of Tata Group, which holds a 29% stake.

Core Holding in Indian Hospitality

- **Healthy growth visibility; ARR growth ahead of peers** — Indian Hotels' domestic business is performing well, growing at a 19% CAGR over FY07-10E. ARR growth of 16.5% for 9M FY08 is ahead of peers; even though increased room supply will moderate growth in FY09E-10E, we see the outperformance continuing. Any push-back in supply will benefit the company's earnings.

- **Growth drivers** — 1) Organic growth – plans for an additional ~1,600 rooms and ~3,000 rooms under management contracts; 2) Tie-ups for 5 serviced apartments in key growth cities (Pune, Bangalore, Chennai, Delhi and Mumbai), the next growth area; and 3) Thrust on Spas and F&B outlets.

- **Budget hotels – a big opportunity** — The company eyes solid growth opportunity in the budget segment and is scaling up with the 'Ginger' brand. It already operates 11 hotels and is targeting to have 40 over the next 3 years. It plans to invest Rs4bn-6bn, largely funded by debt and internal accruals. Recently, it increased its tariffs of Rs1000/night by 25-30%, factoring in rising demand. While this business is still at a nascent stage and does not contribute materially to earnings, potential value unlocking could be significant.

- **Growth overseas remains a focus** — Recently, it acquired an 11.57% stake in Orient Express, a US-based luxury hotel and leisure company – in line with strategy to grow overseas. Its existing properties are doing well, with occupancies of ~70%-plus and healthy ARRs across locations, particularly London. The company expects to invest $80m in 'The Pierre', NY on room refurbishments, starting Jan 08. While these efforts would help it diversify, we believe these investments could dampen return ratios in the near term.

- **Raising capital through rights, NCD and warrants Issue** — Indian Hotels is in the process of raising ~Rs23.5bn through 1) a rights issue (ratio of 1:5 at Rs70/share) and 2) a 3-yr, 6% NCD (ratio of 1:10) raising Rs6.02bn, which would also have detachable warrants (convertible into equity at Rs150/share) with 12 months. This is largely to fund expansion, a recent international acquisition and repay some debt.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,487	4.26	66.8	29.9	3.9	15.5	1.0
2007A	3,703	6.14	44.2	20.7	3.7	18.6	1.3
2008E	4,934	6.82	11.0	18.7	2.8	18.2	1.2
2009E	6,121	8.46	24.1	15.0	2.4	17.2	1.2
2010E	7,026	8.96	6.0	14.2	1.9	15.5	1.2

Source: Powered by dataCentral

Investment Strategy

We rate Indian Hotels Buy/Low Risk with target price of Rs179. The favorable macro environment should increase business and leisure travel traffic to India and trigger strong demand for hotel rooms, increase occupancies and average room rates. Leveraging its large room inventories across key growth cities, premium brand positioning with 'Taj' and leadership in domestic markets, we believe IHC is well positioned for growth. Initiatives to de-risk the company's business model and further aid growth and profitability include: 1) Forays into budget hotels; 2) Expansion of service offering to spas, serviced apartments and F&B outlets; 3) Growth through management contracts; and 4) Increase presence in overseas markets. Indian Hotels is our preferred play in India's growing hospitality sector.

Valuation

Our target price of Rs179 is based on a P/E multiple of 21x Mar 09E EPS. Our target multiple places the stock at a premium to sector valuations. The premium to the sector is attributed to: 1) Indian Hotel's leadership and advantage of large room inventory; 2) Premium positioning with 'The Taj' brand in the luxury hotel segment; and 3) A strong business model.

Indian Hotels (IHTL.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	29.6	20.5	18.5	14.9	14.1
EV/EBITDA adjusted (x)	20.4	14.6	11.8	9.4	7.9
P/BV (x)	3.9	3.6	2.8	2.4	1.9
Dividend yield (%)	1.0	1.3	1.2	1.2	1.2
Per Share Data (Rs)					
EPS adjusted	4.26	6.14	6.82	8.46	8.96
EPS reported	4.26	6.14	6.82	8.46	8.96
BVPS	32.41	34.78	45.79	52.57	67.35
DPS	1.30	1.60	1.50	1.50	1.50
Profit & Loss (RsM)					
Net sales	18,373	25,062	29,700	33,941	39,578
Operating expenses	-14,563	-19,464	-22,567	-25,319	-29,942
EBIT	**3,810**	**5,598**	**7,132**	**8,622**	**9,636**
Net interest expense	-1,456	-1,222	-1,430	-1,395	-1,033
Non-operating/exceptionals	1,350	1,726	1,914	2,226	2,240
Pre-tax profit	**3,704**	**6,102**	**7,617**	**9,454**	**10,844**
Tax	-1,073	-2,198	-2,551	-3,144	-3,611
Extraord./Min.Int./Pref.div.	-144	-201	-133	-188	-207
Reported net income	**2,487**	**3,703**	**4,934**	**6,121**	**7,026**
Adjusted earnings	2,487	3,703	4,934	6,121	7,026
Adjusted EBITDA	5,084	7,205	8,934	10,649	11,839
Growth Rates (%)					
Sales	39.9	36.4	18.5	14.3	16.6
EBIT adjusted	72.8	46.9	27.4	20.9	11.8
EBITDA adjusted	53.0	41.7	24.0	19.2	11.2
EPS adjusted	66.8	44.2	11.0	24.1	6.0
Cash Flow (RsM)					
Operating cash flow	**5,231**	**5,919**	**6,366**	**8,978**	**7,798**
Depreciation/amortization	1,274	1,607	1,802	2,027	2,203
Net working capital	622	284	-638	505	-1,776
Investing cash flow	**-2,297**	**-11,769**	**-14,693**	**-3,973**	**-4,743**
Capital expenditure	-2,880	-12,677	-15,761	-4,537	-6,171
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-5,257**	**4,653**	**3,198**	**-5,890**	**-7,669**
Borrowings	-4,684	5,542	4,279	-4,675	-6,454
Dividends paid	-573	-889	-1,080	-1,215	-1,215
Change in cash	**-2,322**	**-1,198**	**-5,128**	**-886**	**-4,615**
Balance Sheet (RsM)					
Total assets	**42,977**	**52,426**	**69,292**	**69,454**	**78,119**
Cash & cash equivalent	3,899	1,772	3,999	1,510	4,601
Accounts receivable	1,342	2,048	2,278	2,604	3,036
Net fixed assets	24,599	35,526	39,303	42,226	44,748
Total liabilities	**21,646**	**28,701**	**33,276**	**28,344**	**22,049**
Accounts payable	1,997	2,801	3,255	3,720	4,337
Total Debt	15,010	20,551	24,830	20,155	13,701
Shareholders' funds	**21,331**	**23,725**	**36,016**	**41,110**	**56,070**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	27.7	28.7	30.1	31.4	29.9
ROE adjusted	15.5	18.6	18.2	17.2	15.5
ROIC adjusted	9.2	9.6	10.7	11.9	12.3
Net debt to equity	52.1	79.2	57.8	45.4	16.2
Total debt to capital	41.3	46.4	40.8	32.9	19.6

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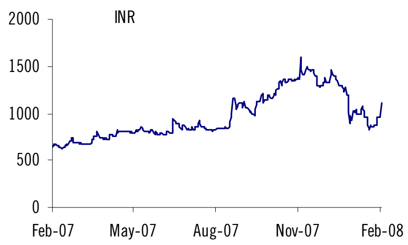
Info Edge (INED.BO)

Hold/Low Risk	**2L**
Price (26 Feb 08)	Rs1,107.30
Target Price	Rs1,275.00
Expected share price return	15.1%
Expected dividend yield	0.1%
Expected total return	**20.2%**
Market Cap	Rs30,224M
	US$757M

Price Performance



Source: Citi Investment Research

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Company description

Info Edge operates India's leading online recruitment and classifieds portal — Naukri.com, which was launched in 1997. The company was incorporated in 1995. In addition to online recruitment, it generates revenue through an executive search agency named Quadrangle, as well as a matrimony portal (Jeevansathi.com) and a property portal (99acres.com). Info Edge has been listed on the Bombay Stock Exchange since November 2006.

Leading Internet Player Facing Near-Term Demand Uncertainty

- **Dominant in online recruitment** — Info Edge's Naukri.com, launched in 1997, dominates India's online job market, a service that is well suited to the early stage of the country's Internet market. The site has 12m+ resumes and the company had YTD unique customers of 26,000 (vs. 27,000 for all of FY07).
- **Chief concern is slowing global IT services demand** — We estimate that the Indian IT Services sector contributes c.35-40% of Info Edge's revs. Looking into CY2008, the macro demand environment is naturally our biggest area of concern. While we have not seen any material negative impact from either: 1) Rupee appreciation and/or 2) subprime weakness hitting US IT budgets, we are cautious on the demand outlook.
- **Matrimony site: Jeevansathi maintains good momentum** — Jeevansathi reached EBITDA breakeven for the first time in 3Q FY08, due to lower advertising spend. However, the company has decided to invest more in 4Q FY08, hence the site may not be breakeven in 4Q. In 3Q FY08, Jeevansathi recorded 2.18m profiles (vs. 1.96m in 2Q), with traffic lower due to the festival season.
- **Property site: 99acres** — 99acres continues to track strongly, with increasing acceptance despite a tightening property market. In 3Q FY08, the site recorded 69k listings, with 1,500 unique paying customers (vs. 1,100 in 2Q).
- **Capital raising planned** — Finally, the company is evaluating raising capital in the next 12 months in preparation for opportunistic M&A. Cash on balance was approximately US$70m at 3Q FY08-end.

Statistical Abstract

Year to 31 Mar	Net Profit (Rs M)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	139	6.37	74.6	166.6	93.8	74.6	7.1
2007A	276	11.53	80.8	92.1	11.9	23.2	7.1
2008E	527	19.30	67.5	55.0	11.1	22.2	11.6
2009E	634	23.23	20.3	45.7	9.1	21.9	11.9
2010E	979	35.88	54.5	29.6	7.1	26.9	17.2

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate Info Edge shares Hold/Low Risk (2L) with a target price of Rs1,275. Info Edge's naukri.com is India's leading online recruitment classifieds portal, a service that is well suited to the early stages of the India Internet market, in our view. Despite our confidence in the longer-term growth outlook for Info Edge, we rate the company Hold due to an uncertain demand outlook from the IT Services industry, which contribute ~40% of Info Edge's revenues. Coupled with the company's current valuation, this creates an unfavorable risk-reward for the shares near term.

Valuation

Our target price of Rs1,275 is based on 53x our FY09E EPS (YE March), adjusted for ESOP costs, and implies a PEG of 1.2x. Our target multiple is set at a 40-60% premium to our China and Global Internet peer groups, given the scarcity premium applied to the stock (being the only pure-play Internet company currently listed in India) and a market positioning that we see as delivering a 46% earnings CAGR in net profit over FY07-10E.

Info Edge (INED.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	173.7	96.1	57.4	47.7	30.9
EV/EBITDA adjusted (x)	132.6	78.6	47.1	30.0	18.2
P/BV (x)	97.8	12.4	11.6	9.5	7.4
Dividend yield (%)	0.1	0.1	0.1	0.1	0.2
Per Share Data (Rs)					
EPS adjusted	6.37	11.53	19.30	23.23	35.88
EPS reported	6.09	11.31	18.67	22.90	35.44
BVPS	11.32	89.19	95.47	116.86	150.16
DPS	0.75	0.75	1.24	1.27	1.83
Profit & Loss (RsM)					
Net sales	824	1,396	2,159	2,958	4,011
Operating expenses	-626	-1,077	-1,643	-2,163	-2,734
EBIT	**198**	**319**	**516**	**795**	**1,278**
Net interest expense	-4	0	0	0	0
Non-operating/exceptionals	17	76	205	138	166
Pre-tax profit	**210**	**395**	**721**	**933**	**1,444**
Tax	-77	-124	-211	-308	-476
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**133**	**271**	**509**	**625**	**967**
Adjusted earnings	139	276	527	634	979
Adjusted EBITDA	226	365	579	885	1,404
Growth Rates (%)					
Sales	87.1	69.4	54.7	37.0	35.6
EBIT adjusted	619.1	61.2	61.7	54.0	60.7
EBITDA adjusted	483.0	62.0	58.6	52.7	58.7
EPS adjusted	74.6	80.8	67.5	20.3	54.5
Cash Flow (RsM)					
Operating cash flow	**328**	**520**	**651**	**861**	**1,194**
Depreciation/amortization	28	46	63	90	126
Net working capital	120	185	-3	-75	-248
Investing cash flow	**-153**	**-2,047**	**52**	**26**	**14**
Capital expenditure	-61	-54	-82	-112	-152
Acquisitions/disposals	1	0	0	0	0
Financing cash flow	**-10**	**1,621**	**-24**	**-39**	**-40**
Borrowings	1	2	0	0	0
Dividends paid	-11	-19	-24	-39	-40
Change in cash	**165**	**94**	**679**	**847**	**1,167**
Balance Sheet (RsM)					
Total assets	**634**	**2,842**	**3,601**	**4,488**	**5,733**
Cash & cash equivalent	321	416	1,090	1,886	3,014
Accounts receivable	12	23	35	47	64
Net fixed assets	95	104	123	145	171
Total liabilities	**387**	**708**	**996**	**1,298**	**1,635**
Accounts payable	358	664	937	1,239	1,557
Total Debt	2	4	4	4	4
Shareholders' funds	**247**	**2,135**	**2,605**	**3,189**	**4,098**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	27.4	26.2	26.8	29.9	35.0
ROE adjusted	74.6	23.2	22.2	21.9	26.9
ROIC adjusted	na	na	na	na	na
Net debt to equity	-129.2	-19.3	-41.7	-59.0	-73.5
Total debt to capital	0.7	0.2	0.1	0.1	0.1

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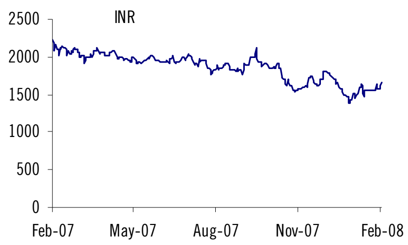
Infosys Technologies (INFY.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs1,662.10
Target Price	Rs2,060.00
Expected share price return	23.9%
Expected dividend yield	0.9%
Expected total return	**29.7%**
Market Cap	Rs949,980M
	US$23,809M

Price Performance



Source: Citi Investment Research

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Company description

Infosys is the second-largest IT services company in India with more than 88,000 employees. Infosys provides business consulting, application development & maintenance and engineering services to more than 500 active clients across verticals such as BFSI, Retail, Manufacturing and Utilities in the Americas, Europe and Asia Pacific. It also sells a core banking application, Finacle, which is used by leading banks in India, the Middle East, Africa and Europe. Its subsidiary, Infosys BPO, which employs more than 13,000 people, is a provider of BPO services.

Leader in Cost Optimization

- **Demand outlook for FY09** — The most important issue at this point in time is the demand outlook for FY09. With a large exposure to BFSI and retail, demand outlook in those verticals is a key focus area. Any lead indicators of slowdown like deal deferrals, delay in decision making, lengthening of sales cycle, etc should be questions for the management team.
- **Margin levers** — Margin levers available to the company should be an area of focus – given the pressures due to rupee appreciation/wage inflation. Having managed margins in a narrow range (despite steep rupee appreciation in FY08), margin outlook for FY09 remains an important question.
- **Pricing uptick** — Infosys has had steady revenue productivity improvement for the past several quarters now, primarily led by pricing improvements and change in business mix. Pricing trends in contracts coming up for renegotiation is a key area to focus on.
- **Supply of talent** — Infosys's view on the supply-side situation: (1) availability of quality talent for the next 2- 3 years; (2) Infosys's initiatives on training; (3) Initiatives to expand the pool – hiring of science graduates; (4) Expectation for wage inflation in FY09.
- **SEZ strategy** — Infosys' SEZ readiness, given the expectation of the STPI sunset clause coming into effect by Mar 09 should be discussed. Expectations of the absolute levels of tax rate in FY10, FY11 etc. are a key issue.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	24,599	43.82	27.5	37.9	13.1	40.4	1.4
2007A	38,560	67.76	54.6	24.5	8.3	42.3	0.7
2008E	46,339	80.82	19.3	20.6	6.3	35.3	0.9
2009E	54,207	94.54	17.0	17.6	4.9	31.6	1.2
2010E	58,278	101.64	7.5	16.4	4.0	27.1	1.4

Source: Powered by dataCentral

Investment Strategy

We rate Infosys Buy/Medium Risk (1M). We are positive on the stock from a fundamental 12-month view. Offshore IT outsourcing has now become a mainstream option, and we think scale and scalability, along with an ability to move up the value chain, are key criteria for successful offshore IT vendors. In this respect, Infosys appears well positioned and continues to gain ground given its strong branding and industry-leading sales force. Infosys should see above-industry average volume growth along with modest pricing improvement. We expect Infosys to deliver revenue CAGR of 18.6% and EPS CAGR of 14.5% for FY07-10E. Unlike many other high-growth firms in other industries, Infosys continues to generate solid FCF, and its RoE of 30%+ continues to be well above its cost of capital.

Valuation

Our target price of Rs2,060 is based on 21x the average of FY09-10E EPS. This is close to the midpoint of the last one-year trading band of 16-26x 1-year forward earnings and factors in some deceleration in growth. We are forecasting 14.5% earnings growth (on a high base of FY07) with some upside potential from pricing improvement and/or rupee depreciation. The 21x multiple was also derived from a P/E band analysis of Infosys' trading pattern. Our estimates continue to assume a certain P/E premium to the market; this is justified, in our view, given the strong FCF, ROIC and growth rates for Infosys vs. the overall market. We believe P/E remains the most appropriate valuation measure given Infosys' profitability record and earnings visibility.

Infosys Technologies (INFY.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	37.9	24.5	20.6	17.6	16.4
EV/EBITDA adjusted (x)	29.6	20.5	17.0	13.5	11.7
P/BV (x)	13.1	8.3	6.3	4.9	4.0
Dividend yield (%)	1.4	0.7	0.9	1.2	1.4
Per Share Data (Rs)					
EPS adjusted	43.82	67.76	80.82	94.54	101.64
EPS reported	43.82	67.76	80.82	94.54	101.64
BVPS	126.60	199.99	262.71	337.56	415.53
DPS	22.50	11.50	15.00	20.00	24.00
Profit & Loss (RsM)					
Net sales	95,216	138,930	166,033	200,911	231,774
Operating expenses	-68,669	-100,160	-120,117	-144,747	-169,169
EBIT	**26,547**	**38,770**	**45,916**	**56,164**	**62,605**
Net interest expense	1,396	3,720	7,217	8,048	11,398
Non-operating/exceptionals	-11	-20	0	0	0
Pre-tax profit	**27,932**	**42,470**	**53,133**	**64,212**	**74,003**
Tax	-3,132	-5,110	-6,794	-10,005	-15,725
Extraord./Min.Int./Pref.div.	-201	1,200	0	0	0
Reported net income	**24,599**	**38,560**	**46,339**	**54,207**	**58,278**
Adjusted earnings	24,599	38,560	46,339	54,207	58,278
Adjusted EBITDA	30,918	43,910	51,916	63,249	70,438
Growth Rates (%)					
Sales	33.5	45.9	19.5	21.0	15.4
EBIT adjusted	29.6	46.0	18.4	22.3	11.5
EBITDA adjusted	32.4	42.0	18.2	21.8	11.4
EPS adjusted	27.5	54.6	19.3	17.0	7.5
Cash Flow (RsM)					
Operating cash flow	**31,118**	**29,100**	**33,885**	**50,954**	**54,241**
Depreciation/amortization	4,371	5,140	6,001	7,085	7,834
Net working capital	3,549	-9,410	-11,008	-2,290	-473
Investing cash flow	**-10,890**	**-20,590**	**-14,328**	**-15,401**	**-14,772**
Capital expenditure	-10,890	-20,590	-14,328	-15,401	-14,772
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-7,447**	**5,000**	**-8,743**	**-11,430**	**-13,716**
Borrowings	0	0	0	0	0
Dividends paid	-12,360	-6,432	-8,571	-11,430	-13,716
Change in cash	**12,782**	**13,510**	**10,813**	**24,123**	**25,753**
Balance Sheet (RsM)					
Total assets	**93,800**	**134,090**	**173,900**	**223,010**	**274,822**
Cash & cash equivalent	34,290	58,710	75,631	107,801	144,953
Accounts receivable	16,080	24,360	27,196	32,909	37,964
Net fixed assets	22,260	37,710	46,037	54,353	61,292
Total liabilities	**23,460**	**21,500**	**23,714**	**30,048**	**37,297**
Accounts payable	9,340	14,690	16,032	19,330	22,577
Total Debt	0	0	0	0	0
Shareholders' funds	**70,340**	**112,590**	**150,186**	**192,963**	**237,525**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	32.5	31.6	31.3	31.5	30.4
ROE adjusted	40.4	42.3	35.3	31.6	27.1
ROIC adjusted	88.8	83.6	62.7	59.7	54.3
Net debt to equity	-48.7	-52.1	-50.4	-55.9	-61.0
Total debt to capital	0.0	0.0	0.0	0.0	0.0

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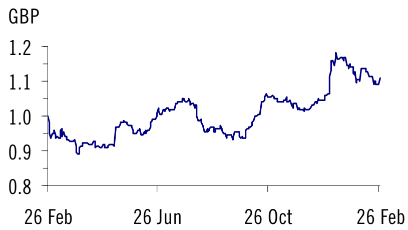
Powered by: dataCentral

Ishaan Real Estate (ISH.L, Non Rated)

Non-Rated	
Price (26 Feb 08)	GBP1.11
Market Cap	GBPm230
	US$m456

Price Performance



Source: dataCentral

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Company Description

Ishaan Real Estate is a property investment company formed to acquire interests in FDI eligible Indian real estate projects of the K Raheja Group. K Raheja Group is a well established developer with a strong brand and a presence in various segments such as residential, office and retail space, and hospitality. Ishaan's investment portfolio comprises 8 development projects with a focus on IT Park developments and SEZs located in Southern and Western India. K Raheja Group entities are majority owners of each project and provide project support services while Ishaan Real Estate owns 40% of each project. Ishaan raised £207m through an IPO on London Stock Exchange's Alternative Investment Market (AIM) in Nov 2006.

Diversified Asset Portfolio

- **Background** — The K Raheja Group is a large and well established developer with several decades of experience in the real estate sector in India and has a presence across different asset classes such as residential, office and retail space, and hotels.

- **Brand portfolio** — The company has created well recognized brands, such as Mindspace for commercial mini-cities, Commerzone for self-sufficient business parks that are smaller in scale to Mindspace, Inorbit for high-quality shopping malls, and Rahja Vihar for residential. Key developments include Mindspace Complex and Inorbit Mall at Malad in Mumbai.

- **AIM IPO proceeds & investment** — In November 2006, Ishaan Real Estate raised £207m through an IPO on London Stock Exchange's Alternative Investment Market (AIM), of which £133m has been invested in 8 projects. K Raheja Group entities are majority owners of each project and provide project support services, while Ishaan Real Estate owns 40% of each project.

- **Investment portfolio** — The portfolio is spread across 4 cities in India: 1) Hyderabad – Mindspace IT Park and Inorbit Mall in Hi-tech City and Mindspace IT Park in Pocharam; 2) Mumbai – Mindspace IT Park in Navi Mumbai and a residential project in Mumbai; 3) Pune – Inorbit Mall; and 4) Bangalore – Commerzone with IT Park, hotel, serviced apartments and retail. The projects have an aggregate planned built-up area of 15.3m sq ft.

Recent Developments

£26m is under consideration by the board for investment in an SEZ project of around 4.5m sq ft at Jui Nagar in Navi Mumbai.

Ishaan Real Estate (ISH.L, Non Rated): Financial Summary

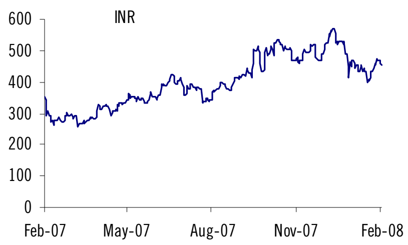
Year to Mar (GBP in Millions)	FY02	FY03	FY04	FY05	FY06	FY07
Profit & Loss (GBPm)						
Revenue	**NA**	**NA**	**NA**	**NA**	**NA**	**-**
Operating Income	NA	NA	NA	NA	NA	(1)
EBITDA	NA	NA	NA	NA	NA	(1)
EBIT	**NA**	**NA**	**NA**	**NA**	**NA**	**(1)**
Pretax Income	NA	NA	NA	NA	NA	2
Tax	NA	NA	NA	NA	NA	-
Minority Interest	NA	NA	NA	NA	NA	-
Net Profit	**NA**	**NA**	**NA**	**NA**	**NA**	**2**
Balance Sheet (GBPm)						
Total Assets	**NA**	**NA**	**NA**	**NA**	**NA**	**240**
Cash & Cash Equivalents	NA	NA	NA	NA	NA	154
Net Fixed Assets	NA	NA	NA	NA	NA	-
Total Liabilities	**NA**	**NA**	**NA**	**NA**	**NA**	**41**
Total Debt	NA	NA	NA	NA	NA	-
Shareholders' Funds	**NA**	**NA**	**NA**	**NA**	**NA**	**199**
Minorities	NA	NA	NA	NA	NA	-
Cash Flow (GBPm)						
Operating Cash Flow	**NA**	**NA**	**NA**	**NA**	**NA**	**(2)**
Depreciation/Amortization	NA	NA	NA	NA	NA	-
Net Working Capital	NA	NA	NA	NA	NA	(1)
Investing Cash Flow	**NA**	**NA**	**NA**	**NA**	**NA**	**(41)**
Capital Expenditure	NA	NA	NA	NA	NA	-
Acquisitions/Disposals	NA	NA	NA	NA	NA	(41)
Financing Cash Flow	**NA**	**NA**	**NA**	**NA**	**NA**	**198**
Borrowings	NA	NA	NA	NA	NA	-
Equity Issuance	NA	NA	NA	NA	NA	198
Dividends Paid	NA	NA	NA	NA	NA	-
Change in Cash	**NA**	**NA**	**NA**	**NA**	**NA**	**154**
Profitability/Solvency Ratios						
Operating Margin (%)	NA	NA	NA	NA	NA	nm
RoAE (%)	NA	NA	NA	NA	NA	0.87
RoAA (%)	NA	NA	NA	NA	NA	0.72
Net Debt to Equity (%)	NA	NA	NA	NA	NA	-

Source: Company Reports

IVRCL Infra & Projects (IVRC.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs453.15
Target Price	Rs602.00
Expected share price return	32.8%
Expected dividend yield	0.3%
Expected total return	**33.1%**
Market Cap	Rs60,017M
	US$1,504M

Price Performance



Source: Citi Investment Research

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Company description

IVRCL is an established construction company with strong pre-qualifications and skill sets in the water supply sector. The company has diversified its revenue base by increasing its presence in roads, buildings, power T&D, real estate and solid liquid separation.

Water Works

- **Strong track record in the construction sector** — IVRCL is an established construction company with a presence in roads, buildings; power T&D, etc. IVRCL will benefit from sustained investments in infrastructure. India is targeting infrastructure investments of ~US$358bn over the next 5 years, 133% growth over investments on the previous five years.
- **Dominant player in fast growing water segment** — IVRCL, along with its subsidiary Hindustan Dorr Oliver, has skill sets spanning irrigation to effluent treatment and desalination projects. It is a leading player in the water segment, and water projects form more than 50% of its revenues. US$30bn of investment in irrigation over next 5 years provides growth opportunities for IVRCL.
- **Foray into real estate** — IVRCL, through 80%-owned IVR Prime Urban, Developers has plans of developing ~2,478 acres of land (75.5m sqft) through a mix of commercial and residential projects.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	930	7.77	16.3	58.3	10.2	21.3	0.2
2007A	1,415	10.48	34.9	43.2	4.5	15.8	0.2
2008E	1,740	12.89	23.0	35.1	3.9	12.3	0.3
2009E	2,694	19.96	54.8	22.7	3.3	16.5	0.3
2010E	3,852	28.54	43.0	15.9	2.8	19.9	0.4

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate IVRCL shares Buy / Medium Risk (1M) with a target price of Rs602. IVRCL looks well positioned to benefit from the ~US$358bn infrastructure outlay by the government of India over the next five years, up 133% over the previous five years. The recent foray into real estate should provide a growth kicker to the company. We expect IVRCL to grow its recurring PAT at a CAGR of 40% over FY07-10E driven by strong revenue growth and stable margins.

Valuation

We value IVRCL shares at Rs602 based on an SOTP given its broad business profile. We value the core construction business at Rs412 (PE of 17x Sept09E), BOT projects at Rs25, the HDO stake at Rs18 and the IVR PUDL stake at Rs147 per share. We value the core business at a P/E of 17x Sept 09E at a discount to L&T, Punj Lloyd and Nagarjuna given different skill sets and business profiles. We value BOT investments using P/BV multiples of 1.2-1.3x - based on the equity IRR of the project as indicated by management and the cost of equity of the company. We value the HDO stake based on current market capitalization of the company and PUDL stake at a discount to NAV.

IVRCL Infra & Projects (IVRC.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	58.3	43.2	35.1	22.7	15.9
EV/EBITDA adjusted (x)	44.5	26.6	17.8	11.9	8.2
P/BV (x)	10.2	4.5	3.9	3.3	2.8
Dividend yield (%)	0.2	0.2	0.3	0.3	0.4
Per Share Data (Rs)					
EPS adjusted	7.77	10.48	12.89	19.96	28.54
EPS reported	7.77	10.48	12.89	19.96	28.54
BVPS	44.34	101.72	116.55	135.57	163.24
DPS	1.03	1.00	1.25	1.50	1.75
Profit & Loss (RsM)					
Net sales	15,214	23,465	34,348	48,633	64,757
Operating expenses	-13,981	-21,379	-31,153	-43,929	-58,425
EBIT	**1,233**	**2,086**	**3,195**	**4,703**	**6,332**
Net interest expense	-253	-308	-599	-682	-587
Non-operating/exceptionals	57	74	40	60	90
Pre-tax profit	**1,037**	**1,851**	**2,636**	**4,082**	**5,836**
Tax	-108	-436	-896	-1,388	-1,984
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**930**	**1,415**	**1,740**	**2,694**	**3,852**
Adjusted earnings	930	1,415	1,740	2,694	3,852
Adjusted EBITDA	1,343	2,301	3,503	5,106	6,800
Growth Rates (%)					
Sales	44.2	54.2	46.4	41.6	33.2
EBIT adjusted	57.1	69.2	53.2	47.2	34.6
EBITDA adjusted	55.3	71.4	52.2	45.8	33.2
EPS adjusted	16.3	34.9	23.0	54.8	43.0
Cash Flow (RsM)					
Operating cash flow	**-3,233**	**-4,662**	**-2,299**	**7,726**	**3,950**
Depreciation/amortization	110	216	308	403	467
Net working capital	-4,283	-6,307	-4,347	4,629	-369
Investing cash flow	**-2,975**	**-1,342**	**-2,745**	**-700**	**-650**
Capital expenditure	-527	-1,278	-1,300	-700	-650
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**4,125**	**5,799**	**3,831**	**-2,227**	**-264**
Borrowings	4,315	-1,234	3,648	-2,000	0
Dividends paid	-125	-151	-189	-227	-264
Change in cash	**-2,083**	**-205**	**-1,213**	**4,799**	**3,036**
Balance Sheet (RsM)					
Total assets	**17,652**	**31,918**	**31,497**	**36,278**	**43,538**
Cash & cash equivalent	2,443	2,238	1,025	5,825	8,860
Accounts receivable	4,754	6,332	5,100	8,661	11,532
Net fixed assets	1,345	2,407	3,398	3,695	3,878
Total liabilities	**12,910**	**18,729**	**16,386**	**18,700**	**22,372**
Accounts payable	4,312	10,032	6,866	10,952	14,584
Total Debt	6,786	5,552	9,200	7,200	7,200
Shareholders' funds	**4,742**	**13,189**	**15,112**	**17,579**	**21,166**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	8.8	9.8	10.2	10.5	10.5
ROE adjusted	21.3	15.8	12.3	16.5	19.9
ROIC adjusted	27.2	16.1	13.8	19.3	28.4
Net debt to equity	91.6	25.1	54.1	7.8	-7.8
Total debt to capital	58.9	29.6	37.8	29.1	25.4

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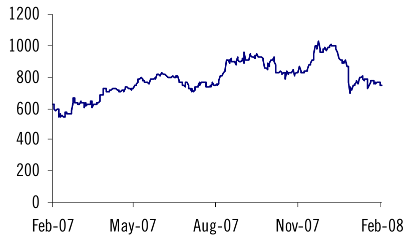
Powered by: dataCentral

Jet Airways (JET.BO)

Sell/Medium Risk	**3M**
Price (26 Feb 08)	Rs747.05
Target Price	Rs716.00
Expected share price return	-4.2%
Expected dividend yield	0.9%
Expected total return	**-3.2%**
Market Cap	Rs 64495.8M
	US$1,612M

Price Performance



Source: Citi Investment Research

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India's Leading Airline

- **Domestic operations profitability to improve** — We expect profitability in domestic operations to improve, driven by moderate capacity expansion and modest improvement in yields in FY09. Industry consolidation has not yet had the desired impact – that of improving industry profitability – because of the supply overhang that persists. We reckon that players will have to further defer seat induction before the industry turns around meaningfully amid soaring fuel prices.

- **International operations to turn around gradually** — We expect FY09 to be a transition year for Jet Airways as most of the new international routes launched in FY08 stabilize and turn profitable. However, we expect the competition to increase with the entry of other private players and aggressive plans of foreign players. This will remain a risk factor for Jet Airways in the international business. We believe that the international operations will become more robust as the airline's international connectivity and frequencies improve.

- **JetLite operations improving** — Management expects JetLite to break even by end-FY08, and targets to operationalize the entire fleet by end-FY08. We expect operational improvements at JetLite to continue and expect it to contribute meaningfully to profitability by FY10.

- **Gearing levels still high** — Gearing levels at around ~5x (including capitalized leases) remains high. We are moderately concerned about the currently strained capital structure, but we believe that post the $400m fund raising, the capital structure should correct slightly.

- **Key risks** —High and rising oil prices are the key macro risk at this juncture, especially since Jet doesn’t hedge oil prices. In addition, the risk of a global slowdown also exists – especially if it impacts asset values (which in turn would increase borrowing costs for players like Jet).

Company description

Jet Airways is one of India's leading domestic airlines with around 22% market share (around 31% including Jet Lite). Long the leader in the domestic market, it has scaled up its international operations and now flies to several international destinations in the Asia Pacific region, as also to Europe. It plans to enter the North American market in FY08, and, subject to regulatory approval, the Middle East markets too. Jet has an aggressive fleet expansion plan, and it plans to increase its fleet to 97 planes at end FY11, from 61 planes at end FY07.

Statistical Abstract

Year to 31 Mar	Net Profit (Rs M)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,240	25.94	-39.7	28.8	2.8	10.4	0.8
2007A	-864	-10.01	-138.6	nm	2.8	-3.8	0.8
2008E	1,214	11.37	213.6	65.7	1.9	3.8	0.9
2009E	3,880	36.32	219.5	20.6	1.7	8.8	1.1
2010E	6,798	63.64	75.2	11.7	1.5	13.5	1.2

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate Jet Airways Sell/Medium Risk (3M) with a target price of Rs716. Economic growth and liberalization have stimulated demand for air travel, and the sector has been averaging growth of over 25% over the past few years. Given the positive trend in key demand drivers, we expect growth rates to accelerate over the medium term. The government's policy of opening up international routes, albeit gradually and selectively, has opened up another substantial growth opportunity for local airlines such as Jet. But deregulation has also resulted in a substantial increase in seat capacity, which we estimate to grow at a CAGR of at least 18-20% over FY07-10E. We remain cautious on the international operations, given that the competition will be relatively more intensive, both in number and quality.

Valuation

Given the excessive volatility in earnings of airlines, we prefer to utilize a more stable metric to value airlines. The price-to-book metric is a good fall-back measure for airlines, especially in times of distress, but it is not so appropriate for Jet Airways, which is entering a high growth phase, and wherein industry conditions (in the domestic market) are improving. We thus continue with EV/EBITDAR as our preferred valuation metric of choice. Our target price of Rs 716/share is based on 7x FY09E EV/EBITDAR, which is at a premium of almost 22% over other regional peers. As domestic competitive pressures stabilize, we believe that Jet should trade once again at a premium to peers.

Jet Airways (JET.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	28.8	nm	65.7	20.6	11.7
EV/EBITDA adjusted (x)	19.2	55.9	20.0	13.0	10.1
P/BV (x)	2.8	2.8	1.9	1.7	1.5
Dividend yield (%)	0.8	0.8	0.9	1.1	1.2
Per Share Data (Rs)					
EPS adjusted	25.94	-10.01	11.37	36.32	63.64
EPS reported	25.94	-10.01	11.37	36.32	63.64
BVPS	267.09	266.15	388.29	435.16	509.41
DPS	6.00	6.00	7.00	8.00	9.00
Profit & Loss (RsM)					
Net sales	56,937	70,578	101,069	129,362	145,963
Operating expenses	-51,716	-71,097	-96,367	-120,278	-132,997
EBIT	**5,221**	**-519**	**4,702**	**9,084**	**12,966**
Net interest expense	-2,416	-2,402	-3,717	-3,965	-3,745
Non-operating/exceptionals	4,417	3,435	3,770	3,808	4,254
Pre-tax profit	**7,222**	**514**	**4,755**	**8,926**	**13,475**
Tax	-2,702	-234	-1,569	-2,945	-4,446
Extraord./Min.Int./Pref.div.	-2,281	-1,144	-1,972	-2,101	-2,231
Reported net income	**2,240**	**-864**	**1,214**	**3,880**	**6,798**
Adjusted earnings	2,240	-864	1,214	3,880	6,798
Adjusted EBITDA	9,285	3,622	11,352	18,170	23,219
Growth Rates (%)					
Sales	31.3	24.0	43.2	28.0	12.8
EBIT adjusted	-30.7	-109.9	1,005.9	93.2	42.7
EBITDA adjusted	-23.3	-61.0	213.4	60.1	27.8
EPS adjusted	-39.7	-138.6	213.6	219.5	75.2
Cash Flow (RsM)					
Operating cash flow	**2,510**	**7,184**	**5,728**	**17,489**	**20,920**
Depreciation/amortization	4,064	4,141	6,650	9,087	10,253
Net working capital	-7,333	2,659	-4,108	2,422	1,638
Investing cash flow	**-11,454**	**-27,996**	**-45,149**	**-8,800**	**-17,085**
Capital expenditure	-25,539	-29,180	-45,838	-8,800	-17,085
Acquisitions/disposals	14,085	1,183	689	0	0
Financing cash flow	**17,745**	**11,246**	**29,344**	**-5,975**	**-4,096**
Borrowings	19,308	11,607	14,027	-5,000	-3,000
Dividends paid	-591	-591	-853	-975	-1,096
Change in cash	**8,800**	**-9,566**	**-10,076**	**2,715**	**-261**
Balance Sheet (RsM)					
Total assets	**90,529**	**107,254**	**145,267**	**152,709**	**162,418**
Cash & cash equivalent	21,043	11,477	1,401	4,115	3,854
Accounts receivable	4,332	5,801	8,861	11,341	11,997
Net fixed assets	47,882	72,920	112,108	111,822	118,654
Total liabilities	**67,470**	**84,276**	**103,786**	**106,221**	**107,998**
Accounts payable	2,515	3,812	5,529	7,211	7,682
Total Debt	48,956	60,563	74,590	69,590	66,590
Shareholders' funds	**23,059**	**22,978**	**41,481**	**46,488**	**54,420**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	16.3	5.1	11.2	14.0	15.9
ROE adjusted	10.4	-3.8	3.8	8.8	13.5
ROIC adjusted	6.0	-1.1	3.1	5.0	6.7
Net debt to equity	121.1	213.6	176.4	140.8	115.3
Total debt to capital	68.0	72.5	64.3	60.0	55.0

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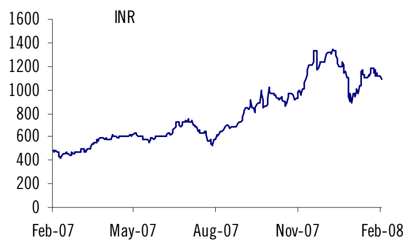
JSW Steel (JSTL.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs1,093.55
Target Price	Rs1,243.00
Expected share price return	13.7%
Expected dividend yield	1.8%
Expected total return	**15.5%**
Market Cap	Rs179,374M
	US$4,494M

Price Performance



Source: Citi Investment Research

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Company description

JSTL is one of India's largest integrated steel producers with crude steel capacity of 3.8m tpa. It manufactures flat steel products ranging from slabs to high-end colour coated steel products. Its upstream facilities are close to abundant iron ore deposits. JSTL (excluding SISCOL) plans to expand capacity to 6.8m tpa by Dec 2008 and 10m tpa by 2010. The expansion will be accompanied by adequate captive power and other inputs. JSTL will also be setting up capacity for long products by Dec 2008. It has begun preliminary work on setting up two steel plants with an eventual size of 10m tpa over the next 3-12 years at greenfield locations in Jharkhand and West Bengal.

Volume, Value and Lower Costs

- **Beneficial mix of technologies** — JSW Steel (JSTL) is an integrated steel producer with a capacity of 3.8m tpa, of which 1.6m tpa uses the Corex process and the rest uses blast furnace technology. The Corex process helps generate power from process gas and also uses soft coking coal, which is cheaper than coke. The company is likely to benefit from volume expansion, better product mix and controlling input costs.

- **Expansion plans** — JSTL is setting up another blast furnace with a capacity of 2.8m tpa. This, along with a 0.2m tpa modification to its first blast furnace, will increase overall crude steel capacity to 6.8m tpa by December 2008. Crude steel capacity is being further expanded by 3.2m tpa to 10m tpa by March 2010.

- **Iron ore integration plan** — In FY07, JSTL could only meet 16% of its iron ore requirements from captive sources. This is expected to gradually increase to about 40% by FY10. Iron ore mines with a potential output of ~2m tpa in Karnataka have been allotted to the company and another 3m tpa are in the process of getting approved. In addition, the company has acquired mines in Chile with a potential output of 20m tpa.

- **Coking coal and coke self sufficiency** — JSTL has been jointly allotted a coking coal mine in Jharkhand (Rohne coal block) for meeting the coking coal requirements of its existing plant in Karnataka and the proposed plant in Jharkhand. The company has also secured coal mines in Mozambique. In addition, the current coke capacity of 1.2m tpa is expected to be hiked by a further 1.5m tpa by July 2008 to enhance in-house coke availability.

- **US acquisition** — JSTL has acquired three companies in the United States – Jindal United Steel Corp (1m tpa plate mill), Saw Pipes USA (0.5m tpa pipe mill), and Jindal Enterprises LLC (0.3m tpa of double jointing and coating capacity). JSTL plans to convert commodity grade slabs to high grade slabs and export them to the plants in the US.

- **Merger with SISCOL** — JSTL is amalgamating with SISCOL, which is enhancing its long product capacity from 0.3m tpa to 1.0m tpa by March 08, with adequate captive power. The merger brings synergies with JSTL's own plans in long products and can help reduce costs.

- **JSW Bengal Steel** — JSTL's board has approved setting up a 10m tpa integrated plant with the West Bengal government, of which 6m tpa (investment of ~ Rs150bn) is expected to be commissioned by June 2011.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	5,297	33.74	-42.1	32.4	4.2	15.2	0.7
2007A	12,155	74.12	119.7	14.8	3.4	25.9	1.1
2008E	18,006	96.96	30.8	11.3	2.5	26.6	1.8
2009E	21,391	115.19	18.8	9.5	2.1	23.6	2.0
2010E	17,229	92.77	-19.5	11.8	1.8	16.3	1.8

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate JSTL Buy/Medium Risk (1M). India's steel demand growth should remain buoyant, and Indian companies are likely to gain from any decline in Chinese exports. JSTL should benefit from this scenario given its robust crude steel volume growth. JSTL's use of both Corex and blast furnace technologies has helped keep cost of production low (HR cost was US$294/t in FY07). Going forward, we expect costs to be lower due to increased captive iron ore, coke, power, and a beneficiation plant. The new CR mill and the sale of surplus value-added slabs to its new US subsidiary should also add to consolidated earnings.

Valuation

We use P/E as our preferred valuation metric for JSTL as its stock price is largely expected to be driven by earnings momentum. Our target multiple of 10x on FY09E consolidated EPS is higher than JSTL's previous valuation range but takes into account the upward rerating in Indian steel stocks in the last two months. Consensus PE multiples for the Indian steel majors for FY09 have risen from 7-10x to 10-13x. Our target PE is in line with the current re-rated PE range, as we expect strong volume growth, higher value addition, and lower average production costs over FY08-10.

JSW Steel (JSTL.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	32.4	14.8	11.3	9.5	11.8
EV/EBITDA adjusted (x)	13.6	8.1	6.3	5.4	6.0
P/BV (x)	4.2	3.4	2.5	2.1	1.8
Dividend yield (%)	0.7	1.1	1.8	2.0	1.8
Per Share Data (Rs)					
EPS adjusted	33.74	74.12	96.96	115.19	92.77
EPS reported	33.74	74.12	96.96	115.19	92.77
BVPS	259.73	324.13	443.46	532.91	602.28
DPS	8.00	12.50	20.00	22.00	20.00
Profit & Loss (RsM)					
Net sales	61,363	85,944	98,778	129,760	145,734
Operating expenses	-49,189	-63,459	-69,418	-93,373	-112,512
EBIT	**12,174**	**22,486**	**29,359**	**36,388**	**33,222**
Net interest expense	-3,640	-3,995	-3,612	-6,055	-9,008
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**8,534**	**18,490**	**25,747**	**30,332**	**24,214**
Tax	-2,919	-6,017	-7,415	-8,614	-6,659
Extraord./Min.Int./Pref.div.	-318	-319	-326	-326	-326
Reported net income	**5,297**	**12,155**	**18,006**	**21,391**	**17,229**
Adjusted earnings	5,297	12,155	18,006	21,391	17,229
Adjusted EBITDA	16,232	27,468	34,905	43,746	43,765
Growth Rates (%)					
Sales	-6.0	40.1	14.9	31.4	12.3
EBIT adjusted	-32.2	84.7	30.6	23.9	-8.7
EBITDA adjusted	-24.7	69.2	27.1	25.3	0.0
EPS adjusted	-42.1	119.7	30.8	18.8	-19.5
Cash Flow (RsM)					
Operating cash flow	**18,636**	**28,223**	**31,446**	**36,680**	**30,642**
Depreciation/amortization	4,058	4,982	5,545	7,358	10,543
Net working capital	2,636	3,134	-717	112	-3,619
Investing cash flow	**-15,927**	**-22,446**	**-42,886**	**-56,121**	**-45,770**
Capital expenditure	-15,956	-22,853	-39,984	-59,730	-48,900
Acquisitions/disposals	0	-1,079	-7,030	-1,000	-1,400
Financing cash flow	**-2,945**	**-3,388**	**67,236**	**36,047**	**-4,114**
Borrowings	-937	1,383	56,125	46,775	10,000
Dividends paid	-1,054	-4,087	-326	-4,672	-5,107
Change in cash	**-236**	**2,389**	**55,796**	**16,607**	**-19,243**
Balance Sheet (RsM)					
Total assets	**113,369**	**130,655**	**228,077**	**303,763**	**330,271**
Cash & cash equivalent	989	3,378	59,174	75,781	56,538
Accounts receivable	2,413	2,452	2,706	3,911	5,989
Net fixed assets	83,799	101,920	136,359	188,731	227,088
Total liabilities	**69,807**	**74,714**	**142,931**	**202,006**	**215,631**
Accounts payable	17,266	19,874	20,191	26,618	28,743
Total Debt	40,961	41,730	97,855	144,630	154,630
Shareholders' funds	**43,562**	**55,941**	**85,146**	**101,757**	**114,640**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	26.5	32.0	35.3	33.7	30.0
ROE adjusted	15.2	25.9	26.6	23.6	16.3
ROIC adjusted	11.3	16.9	18.3	17.0	12.7
Net debt to equity	91.8	68.6	45.4	67.7	85.6
Total debt to capital	48.5	42.7	53.5	58.7	57.4

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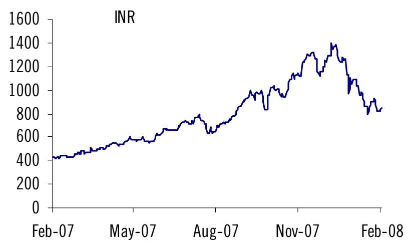
Kotak Mahindra Bank (KTKM.BO)

Hold/Medium Risk	**2M**
Price (26 Feb 08)	Rs842.95
Target Price	Rs1,110.00
Expected share price return	31.7%
Expected dividend yield	0.1%
Expected total return	**31.8%**
Market Cap	Rs290,325M
	US$7,275M

Price Performance



Source: Citi Investment Research

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Company description

KTKM is a private-sector bank in which Mr. Uday Kotak, the major shareholder, and his associates have a 55% stake. Main businesses of the bank are consumer lending, retail broking, investment banking, asset management, and rapidly growing life insurance. Its focus is to develop a niche wealth management platform.

Banking on Wealth

- **Wealth management platform** — KTKM is strategically positioned as India's leading capital markets and wealth management player, with a banking platform. This platform seeks to capture its strong capital markets business, aggressive financial services offerings, consumer focused asset lending, with defined upper end segmentation. A strong capital market environment, broad economic growth and effective execution have driven KTKM's significant expansion over the past 3 years.

- **Banking business: rapid, profitable growth; aggressive distribution expansion** — Strong and well-rounded show**:** margins are up (partly boosted by new capital), loan growth remains broad and 50%+, and healthy asset quality. Distribution expansion ambitions are raised – seeking to roll out 250 branches (149 currently) by year-end, potentially providing the platform for more than just a nice business.

- **Broking momentum, but with recent headwinds** — KTKM has sustained its leadership in securities and investment banking, and has benefited from a strong market. Competition is, however, rising, and with a slackening in capital market momentum, the core revenue generating business could well be facing some headwinds. Volatility in the capital markets could also heighten risks, though is an opportunity for KTKM to showcase its risk management skills.

- **Financial services: insurance, and asset management build momentum** — KTKM's somewhat lagging insurance business has picked up momentum, gained market, and suggests improving profitability (though still loosing money). Meanwhile its asset-management ventures continue to grow, generate returns and significantly enhance the group's market position.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	7,297	23.56	318.9	35.8	11.6	39.3	0.1
2007A	5,382	16.89	-28.3	49.9	8.5	19.6	0.1
2008E	8,173	24.35	44.2	34.6	5.1	18.4	0.1
2009E	10,263	29.82	22.5	28.3	4.4	16.7	0.1
2010E	12,114	35.21	18.0	23.9	3.7	16.8	0.1

Source: Company and Citi Investment Research estimates

Investment Strategy

KTKM, in our view, is a high-quality play on the growing financial-services market in India. It is backed by a management team that has a track record of managing market and credit risk well and of being conservative in its approach. We see Kotak as a leveraged play on: 1) Ongoing disintermediation, with a shift from traditional bank-deposit-type savings instruments to more market-oriented ones. 2) KTKM has a strong market position in consumer lending, has robust and specialized distribution and is probably one of only two players with experience in consumer-credit cycles. Kotak is highly leveraged to this segment. Over 80% of its asset book is in consumer lending. We think its portfolio is well managed, mature and profitable. 3) Direct exposure to growth in the capital market - Kotak is a leader in the primary and secondary markets, which is backed by an extensive and independent distribution franchise. However, its high dependence on the capital market raises the risk of business cyclicality. This risk appears more pronounced in the near term, given the recent market upswing. We rate Kotak Hold/Medium Risk, as we believe returns from the stock will be muted after its recent surge.

Valuation

Our target price of Rs1,110 is based on our EVA methodology. KTKM's relatively high share of securities fees suggests a valuation benchmark of an investment bank. However, there are no such comparables in the Indian market, and Kotak is much smaller than its global peers. Hence, we use EVA to value Kotak. We also benchmark our valuation of a sum of parts methodology – our fair value based on this is Rs1,025, which values the banking business at 3x FY09E PBV, 20x FY09E PE multiple to the investment banking and broking business, the insurance subsidiary at Rs115 per share, and we attribute Rs110 to the AMC business (6% of AUM for MF, and 9% for Portfolio and alternative assets, at estimated FY09E levels).

Kotak Mahindra (KTKM.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	35.8	49.9	34.6	28.3	23.9
P/E reported (x)	35.8	49.9	34.6	28.3	23.9
P/BV (x)	11.6	8.5	5.1	4.4	3.7
P/Adjusted BV diluted (x)	11.6	8.5	5.1	4.4	3.7
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	23.56	16.89	24.35	29.82	35.21
EPS reported	23.56	16.89	24.35	29.82	35.21
BVPS	72.65	99.12	164.21	193.12	227.22
Tangible BVPS	72.65	99.12	164.21	193.12	227.22
Adjusted BVPS diluted	72.43	98.84	163.76	192.59	226.60
DPS	0.63	0.70	0.88	1.00	1.20
Profit & Loss (RsM)					
Net interest income	6,649	10,470	14,902	20,862	26,620
Fees and commissions	8,347	9,533	17,264	21,466	25,989
Other operating Income	4,672	7,346	5,919	7,812	10,021
Total operating income	**19,669**	**27,349**	**38,085**	**50,140**	**62,630**
Total operating expenses	-11,728	-18,038	-23,997	-32,080	-41,048
Oper. profit bef. provisions	**7,941**	**9,312**	**14,088**	**18,060**	**21,583**
Bad debt provisions	-512	-1,525	-1,744	-2,592	-3,334
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**7,428**	**7,787**	**12,345**	**15,467**	**18,249**
Tax	-2,130	-2,542	-4,211	-5,179	-6,082
Extraord./Min. Int./Pref. Div.	1,999	138	39	-26	-52
Attributable profit	**7,297**	**5,382**	**8,173**	**10,263**	**12,114**
Adjusted earnings	7,297	5,382	8,173	10,263	12,114
Growth Rates (%)					
EPS adjusted	318.9	-28.3	44.2	22.5	18.0
Oper. profit bef. prov.	142.5	17.3	51.3	28.2	19.5
Balance Sheet (RsM)					
Total assets	**179,673**	**290,607**	**364,703**	**508,678**	**663,253**
Avg interest earning assets	134,321	194,717	271,019	382,872	526,405
Customer loans	104,847	157,206	243,770	328,028	415,201
Gross NPLs	651	1,130	1,931	2,961	4,233
Liab. & shar. funds	**179,673**	**290,607**	**364,703**	**508,678**	**663,253**
Total customer deposits	56,167	96,610	173,116	253,770	345,673
Reserve for loan losses	648	1,471	2,879	4,948	7,511
Shareholders' equity	**22,471**	**32,330**	**56,351**	**66,271**	**77,973**
Profitability/Solvency Ratios (%)					
ROE adjusted	39.3	19.6	18.4	16.7	16.8
Net interest margin	5.0	5.4	5.5	5.4	5.1
Cost/income ratio	59.6	66.0	63.0	64.0	65.5
Cash cost/average assets	8.0	7.7	7.3	7.3	7.0
NPLs/customer loans	0.6	0.7	0.8	0.9	1.0
Reserve for loan losses/NPLs	99.6	130.2	149.1	167.1	177.4
Bad debt prov./avg. cust. loans	0.6	1.2	0.9	0.9	0.9
Loans/deposit ratio	186.7	162.7	140.8	129.3	120.1
Tier 1 capital ratio	7.9	7.8	14.1	11.4	10.1
Total capital ratio	12.4	13.6	18.5	15.7	14.1

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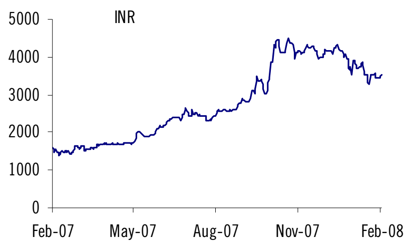
Larsen & Toubro (LART.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs3,518.25
Target Price	Rs4,561.00
Expected share price return	29.6%
Expected dividend yield	0.4%
Expected total return	**30.1%**
Market Cap	Rs1,027,931M
	US$25,756M

Price Performance



Source: Citi Investment Research

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Company description

L&T is a diversified conglomerate with market leadership in the engineering and construction (E&C) and electrical-equipment businesses in India. L&T Information Technology is its 100% subsidiary engaged in software services. L&T demerged its cement business into a separate company, and sold it to Grasim. L&T holds a residual stake of 11.5% in Ultratech Cemco

Building India at a Rapid Pace

- **Good proxy to India's infrastructure build-out —** With 40%+ earnings CAGR over FY07-10E and the spawning of new businesses like ship building and power equipment, L&T is, in our view, one of the best proxies to India's infrastructure build-out.

- **Strong revenue growth and order inflow —** L&T expects 30-35% revenue growth in FY08E and 25% growth in FY09E/10E/11E. It is possible that growth could be higher given strong order inflows in 9MFY08 and a robust potential order pipeline. L&T has announced ~ Rs140bn of order wins in the last 4 months. This does not include the Rs50bn–55bn Mumbai International Airport order win.

- **EBITDA margins —** EBITDA margins should be able to expand above 11.5% by few basis points and 11.5% looks sustainable. Current order backlog has high margin build up so L&T should be able to manage adverse movement on raw material prices even though most of the contracts are fixed-price. L&T is trying to increase the manufacturing content in its projects to improve margins. The demand environment is strong with no contractors desperate to undercut on price and being able to price all contingencies with very high rate of commodities in bids

- **Shipbuilding ready to roll** — With L&T's shipyard at Ennore getting approval from the TN Government we believe this businesss is ready to roll. Currently Hazira can build 2 ships annually which will get expanded to 8 ships annually. The new TN shipyard will have capacity to build 5 VLCCs and 20 Panamax vessels per year and repair 60-80 ships per year.

- **BTG venture waiting for clearance —** The BTG facility is likely to come up in Hazira and L&T is keen to get the clearance and land from the Gujarat Government now that elections are over in the state. The facility will have 3000-4000MW per annum capacity and it will take 18-20 months to set up the facility post land acquisition.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	8,632	29.50	21.3	119.3	21.1	21.8	0.3
2007A	13,846	47.32	60.4	74.3	17.4	26.8	0.4
2008E	21,502	72.24	52.6	48.7	10.8	28.3	0.4
2009E	30,082	101.06	39.9	34.8	8.6	28.1	0.5
2010E	39,973	134.29	32.9	26.2	6.7	29.4	0.5

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate L&T Buy/Low Risk (1L) with a target of Rs4,561. With earnings CAGR of 40%+ over FY07-10E in the core business and the spawning of new businesses like ship building and power equipment which could hit critical mass in the next 3–4 years L&T remains one of the best proxies to India's infrastructure build-out. Buoyed by strong infrastructure tailwinds, L&T is in the envious position of picking and choosing orders. L&T's order backlog of Rs440bn-plus and forecast stable margins provide good earnings visibility. That most process industries are operating at near peak capacity utilization, together with the thrust on hydrocarbon and infrastructure spending, should augur well for the order pipeline. We are positive on management's efforts at improving the company's product mix by increasing the share of high-technology products for process industries, defense, nuclear, and aerospace applications; and of engineering and embedded services.

Valuation

Using a comps-based P/E of 30x Dec09, we get a core business value of Rs3,779 for L&T's core business. We also believe that the parent numbers do not capture the value inherent in the subsidiaries of L&T. We use a sum-of-the-parts (SOTP) methodology to value the L&T group, resulting in a target price of Rs4,561. We value L&T's subsidiaries at Rs741 with L&T Infotech at Rs145 (14x FY09E EPS, in-line with second-tier peers), L&T Finance at Rs98 (2.5x FY09E P/BV), L&T IDPL at Rs79 (1.5x private equity valuations), L&T Ship Building at Rs122 and L&T MHI at Rs135.

Larsen & Toubro (LART.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	119.3	74.3	48.7	34.8	26.2
EV/EBITDA adjusted (x)	86.0	57.8	33.4	23.4	17.5
P/BV (x)	21.1	17.4	10.8	8.6	6.7
Dividend yield (%)	0.3	0.4	0.4	0.5	0.5
Per Share Data (Rs)					
EPS adjusted	29.50	47.32	72.24	101.06	134.29
EPS reported	34.59	47.95	75.20	101.06	134.29
BVPS	167.00	202.32	324.49	408.11	523.33
DPS	11.00	13.00	15.00	17.00	19.00
Profit & Loss (RsM)					
Net sales	146,976	175,716	246,003	332,103	431,734
Operating expenses	-136,231	-159,895	-218,459	-293,306	-380,210
EBIT	**10,745**	**15,821**	**27,544**	**38,798**	**51,525**
Net interest expense	-751	-339	-471	-518	-505
Non-operating/exceptionals	2,354	4,337	4,090	5,317	6,912
Pre-tax profit	**12,348**	**19,819**	**31,163**	**43,597**	**57,931**
Tax	-3,717	-5,973	-9,660	-13,515	-17,959
Extraord./Min.Int./Pref.div.	1,490	184	881	0	0
Reported net income	**10,122**	**14,030**	**22,383**	**30,082**	**39,973**
Adjusted earnings	8,632	13,846	21,502	30,082	39,973
Adjusted EBITDA	11,890	17,521	29,848	41,795	55,147
Growth Rates (%)					
Sales	12.3	19.6	40.0	35.0	30.0
EBIT adjusted	35.6	47.2	74.1	40.9	32.8
EBITDA adjusted	34.1	47.4	70.4	40.0	31.9
EPS adjusted	21.3	60.4	52.6	39.9	32.9
Cash Flow (RsM)					
Operating cash flow	**14,785**	**21,247**	**20,769**	**28,275**	**37,356**
Depreciation/amortization	1,145	1,700	2,304	2,997	3,622
Net working capital	3,691	5,887	-3,924	-4,809	-6,244
Investing cash flow	**-15,962**	**-19,765**	**-22,500**	**-20,000**	**-20,000**
Capital expenditure	-6,377	-7,917	-15,000	-10,000	-10,000
Acquisitions/disposals	-9,586	-11,849	-7,500	-10,000	-10,000
Financing cash flow	**-1,530**	**3,630**	**15,006**	**-5,680**	**-6,348**
Borrowings	-4,055	6,242	0	0	0
Dividends paid	-3,446	-4,216	-5,011	-5,680	-6,348
Change in cash	**-2,707**	**5,112**	**13,274**	**2,596**	**11,008**
Balance Sheet (RsM)					
Total assets	**130,313**	**171,859**	**239,448**	**300,636**	**375,271**
Cash & cash equivalent	5,832	10,944	24,219	26,814	37,822
Accounts receivable	48,142	55,046	76,294	101,967	131,232
Net fixed assets	15,472	21,161	33,955	41,057	47,534
Total liabilities	**84,425**	**114,552**	**144,752**	**181,539**	**222,549**
Accounts payable	40,626	56,909	77,812	104,588	135,452
Total Debt	14,536	20,778	20,778	20,778	20,778
Shareholders' funds	**45,888**	**57,307**	**94,695**	**119,097**	**152,722**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	8.1	10.0	12.1	12.6	12.8
ROE adjusted	21.8	26.8	28.3	28.1	29.4
ROIC adjusted	19.9	27.1	39.9	42.8	47.1
Net debt to equity	19.0	17.2	-3.6	-5.1	-11.2
Total debt to capital	24.1	26.6	18.0	14.9	12.0

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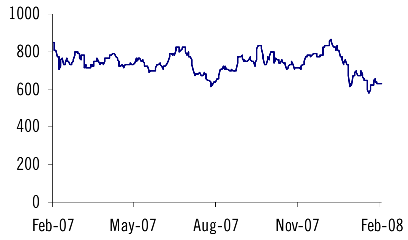
Mahindra and Mahindra (MAHM.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs630.15
Target Price	Rs865.00
Expected share price return	37.3%
Expected dividend yield	1.7%
Expected total return	**39.0%**
Market Cap	Rs154,854M
	US$3,880M

Price Performance



Source: Citi Investment Research

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Healthy Business Outlook; Escalating Capex a Concern

- **Core business outlook mixed** — We estimate 12-13% growth in the UV business over the next two years, driven by new product launches and a supportive macro environment (declining interest rates, relatively sedate competitive intensity). Within the tractor segment, we forecast sedate growth of around a 7% CAGR over the next two years.

- **Capex plan a Concern** — Mahindra recently announced a capex of Rs90bn over the next 3 years. Mahindra will invest ~Rs50bn in a new plant at Chakan (and the attendant platforms that will be manufactured there) to manufacture commercial vehicles and UVs. The total planned capacity at Chakan will be around 350,000 units (including 50,000 units of heavy trucks for the ITEC JV). As yet, we await clarity on the remainder Rs40bn that will be invested over the medium term.

- **Value unlocking in subsidiaries** — Mahindra has announced that it will unlock value in its subsidiary - Mahindra Holidays and Resorts - through an IPO; we believe this will be a short-term trigger for the M&M stock.

- **Inorganic initiatives at Systech** — Mahindra plans to increase revenues at Systech to $1bn by end-09 (from annualized ~750m currently) through organic as well as inorganic initiatives. Part of the Rs40bn capex would be utilized to meet Systech's inorganic initiatives, but we await details.

- **Risk factors** — a) Escalating capex plans and the attendant equity dilution that could occur, b) input cost pressures, c) curtailment of credit to the farming sector, which could affect sales of the high-margin tractor business.

Company description

Mahindra and Mahindra manufactures utility vehicles, light commercial vehicles and tractors. It recently entered the three-wheeler segment. M&M is the market leader in both the utility vehicle and tractor segments.

Statistical Abstract

Year to 31 Mar	Net Profit Rs M	Diluted EPS Rs	EPS growth %	P/E x	P/B x	ROE %	Yield %
2006A	6,688	26.18	-39.5	24.1	5.1	27.2	1.6
2007A	9,872	38.64	47.6	16.3	4.1	29.9	1.8
2008E	10,250	40.12	3.8	15.7	3.4	25.2	1.7
2009E	11,293	44.20	10.2	14.3	2.9	23.4	1.9
2010E	13,133	51.40	16.3	12.3	2.4	23.0	2.1

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate M&M shares Buy/Low Risk (1L) with a target price of Rs865. Tractor sales are benefiting from relatively low penetration levels and the government's emphasis on increasing credit to the agriculture sector. M&M's utility vehicle business is also benefiting from new product initiatives. Moreover, we also recognize management's efforts to retain market share within segments like three-wheelers. We remain positive on management's efforts to de-risk from the local market by pursuing sales in select international markets. The target is to raise international sales from around 10% at present to 20% over the next three years. The substantial value of the company's real estate and investment holdings should provide downside support to valuations (especially with increasing dividends from key subsidiaries).

Valuation

Our target price of Rs865 is based on a sum-of-parts methodology. We value M&M's core business at Rs468 (9x FY09E core CEPS). We also incorporate value for M&M's listed subsidiaries (Rs222/share), its auto component business (Rs57/share) and M&M's investments in other subsidiaries (including Mahindra Holidays at Rs102/share). Our core multiple of 9x, is supported by an 11% CAGR in core cash earnings (excluding dividends from group companies) for M&M over FY07-09E. We value the key subsidiaries / associates / auto component initiatives at Rs397/share. We have chosen to use P/CEPS as our primary valuation metric to ensure proper comparison with historical trading bands — the company is undertaking a significant product development and capital expenditure program, and also undertook a restructuring of the balance sheet in FY02.

M&M (MAHM.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	24.1	16.3	15.7	14.3	12.3
EV/EBITDA adjusted (x)	19.5	13.6	12.5	11.1	9.2
P/BV (x)	5.1	4.1	3.4	2.9	2.4
Dividend yield (%)	1.6	1.8	1.7	1.9	2.1
Per Share Data (Rs)					
EPS adjusted	26.18	38.64	40.12	44.20	51.40
EPS reported	33.55	41.82	40.12	44.20	51.40
BVPS	124.63	155.35	185.87	219.63	259.98
DPS	10.00	11.50	11.00	12.00	13.00
Profit & Loss (RsM)					
Net sales	79,772	98,076	108,932	122,523	139,873
Operating expenses	-74,431	-89,970	-100,346	-113,515	-129,319
EBIT	**5,341**	**8,106**	**8,587**	**9,008**	**10,553**
Net interest expense	-270	-198	-250	-520	-600
Non-operating/exceptionals	3,570	5,249	5,704	6,981	8,037
Pre-tax profit	**8,641**	**13,157**	**14,041**	**15,469**	**17,990**
Tax	-2,424	-3,501	-3,791	-4,177	-4,857
Extraord./Min.Int./Pref.div.	2,354	1,028	0	0	0
Reported net income	**8,571**	**10,684**	**10,250**	**11,293**	**13,133**
Adjusted earnings	6,688	9,872	10,250	11,293	13,133
Adjusted EBITDA	7,341	10,202	10,859	11,934	13,848
Growth Rates (%)					
Sales	22.5	22.9	11.1	12.5	14.2
EBIT adjusted	16.9	51.8	5.9	4.9	17.2
EBITDA adjusted	14.5	39.0	6.4	9.9	16.0
EPS adjusted	-39.5	47.6	3.8	10.2	16.3
Cash Flow (RsM)					
Operating cash flow	**10,316**	**11,321**	**11,646**	**13,208**	**15,182**
Depreciation/amortization	2,000	2,096	2,272	2,926	3,295
Net working capital	-255	-1,459	-876	-1,011	-1,245
Investing cash flow	**-7,589**	**-10,940**	**-19,567**	**-14,000**	**-14,000**
Capital expenditure	-2,796	-5,261	-5,447	-6,000	-6,000
Acquisitions/disposals	-4,793	-5,679	-14,120	-8,000	-8,000
Financing cash flow	**-37**	**4,731**	**-1,227**	**792**	**-1,182**
Borrowings	-1,692	7,526	1,758	4,048	2,345
Dividends paid	-2,782	-3,121	-2,985	-3,256	-3,528
Change in cash	**2,691**	**5,112**	**-9,148**	**0**	**0**
Balance Sheet (RsM)					
Total assets	**60,030**	**77,412**	**88,756**	**103,834**	**119,190**
Cash & cash equivalent	7,303	11,148	2,000	2,000	2,000
Accounts receivable	6,380	7,905	9,158	10,683	12,629
Net fixed assets	15,544	18,710	21,884	24,958	27,663
Total liabilities	**30,941**	**40,433**	**44,513**	**51,555**	**57,306**
Accounts payable	13,707	16,603	18,610	20,983	23,917
Total Debt	8,834	16,360	18,118	22,166	24,512
Shareholders' funds	**29,089**	**36,978**	**44,243**	**52,279**	**61,884**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.2	10.4	10.0	9.7	9.9
ROE adjusted	27.2	29.9	25.2	23.4	23.0
ROIC adjusted	19.6	26.0	21.8	18.5	18.9
Net debt to equity	5.3	14.1	36.4	38.6	36.4
Total debt to capital	23.3	30.7	29.1	29.8	28.4

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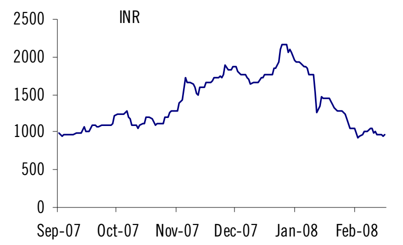
Motilal Oswal (MOFS.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs971.45
Target Price	Rs2,400.00
Expected share price return	147.1%
Expected dividend yield	0.1%
Expected total return	**147.1%**
Market Cap	Rs27,593M
	US$691M

Price Performance



Source: Citi Investment Research

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Company description

Motilal Oswal Securities Ltd, incorporated in 1994, was started by entrepreneurs Raamdeo Agrawal and Motilal Oswal. It began business as a retail broker and has broadened to include institutional equity broking and commodity broking, investment banking, discretionary portfolio management, venture capital management, and third party product distribution. The company's predominant business lines are institutional and retail broking; it has expanded into the areas of investment banking and venture capital management. In addition, it is seeking to build on its equity and retail market businesses and establishing a wealth management platform.

Diversifying Broker

- **Retail and Institutional broker, with a research focus** — MOFS offers a healthy mix of retail and institutional business, backed by a strong research focus. MOFS is among the top 5 domestic retail and institutional brokers, has consistently and significantly gained market share over the past five years, and currently has almost 5% share of overall market volumes (from less than 1% market share in FY03). It is one of few domestic brokers with strong retail as well as an institutional franchise and is well balanced between both these segments

- **Diversified platform: Positioned to grow** — MOFS also distinguishes itself through its broader platform (Equities and Commodities); it offers a broad product suite in both retail and institutional business segments. In the institutional segment, the focus is on investment banking. In the retail segment, it offers margin finance third-party product distribution and is moving up the value chain to wealth management (through its recently launched initiative, Purple) and asset management (another recent initiative).

- **Wide distribution – expanding rapidly** — The company has built out a wide distribution network: 1,339 branches/franchisee outlets in 426 cities, with some concentration in Western India. MOFS uses a mix of company-owned branches and business associates for distribution. We believe MOFS's distribution network is a source of competitive advantage as the broking business consolidates and local brokers become marginalized, due to the professional services that large nationwide brokers are able to provide and sustain at low broking commissions.

- **Strong management, relatively low-risk model** — MOFS has a strong and fairly broad senior management team that is experienced and should be able to support planned business expansions. The business model is relatively low risk with little financial leverage historically and a relatively smaller margin lending portfolio compared to similarly scaled peers.

- **Risks** — Key risks include: a) Earnings strongly correlated to volatile capital markets; b) Execution of aggressive expansion; c) Margin finance risks; and d) Regulatory changes

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	602	21.43	na	45.3	24.8	54.7	0.0
2007A	780	30.70	43.2	31.6	7.4	35.2	0.0
2008E	1,679	59.11	92.5	16.4	3.6	30.7	0.1
2009E	2,737	96.36	63.0	10.1	2.7	30.5	0.1
2010E	3,599	126.71	31.5	7.7	2.0	29.7	0.1

Source: Company and Citi Investment Research estimates

Investment Strategy

MOFS is one of larger domestic brokers in India; it has been gaining market share, now at about 5%. MOFS is one of few direct and diversified plays on the Indian capital markets opportunity, with a strong management and a relatively low-risk approach. MOFS offers a healthy mix of retail and institutional business, backed by a strong research focus. MOFS, among the top five domestic retail and institutional brokers, has consistently and significantly gained market share over the past five years. MOFS' broking business is also backed by its strong research focus, especially for the institutional segments. It has large coverage and has been ranked consistently amongst leading domestic brokerages. MOFS also distinguishes itself through its broader platform - in addition to the broking business (equities and commodities), it offers a broad product suite in both retail and institutional business segments. In the institutional segment, the focus is on investment banking. In the retail segment, it offers margin finance third-party product distribution and is moving up the value chain to wealth management and asset management.

Valuation

We would expect its primary valuation benchmark to be the broader market (Sensex) P/E multiple (now 20x FY09E). We value MOFS at 25% premium to the market multiple, in part supported by lack of scale, diversified, standalone domestic brokers. We base our target multiple on MOFS' diversified, low-risk business model, strong management, a growing market share and underlying structural growth in the industry. Our target multiple (25x FY09E P/E) implies a target price of Rs2,400. It could be argued, however, that in a strong capital market environment (as is the case now);valuations should be at a discount to market multiples to factor in the business cyclicality. Our target multiple, though slightly aggressive, appears justified on the higher current growth and outlook for industry volumes, in our view.

Motilal Oswal (MOFS.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	45.3	31.6	16.4	10.1	7.7
P/E reported (x)	45.3	36.1	15.1	10.1	7.7
P/BV (x)	24.8	7.4	3.6	2.7	2.0
P/Adjusted BV diluted (x)	24.8	7.4	3.6	2.7	2.0
Dividend yield (%)	0.0	0.0	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	21.43	30.70	59.11	96.36	126.71
EPS reported	21.43	26.93	64.22	96.36	126.71
BVPS	39.21	131.06	268.14	363.51	489.22
Tangible BVPS	39.21	131.06	268.14	363.51	489.22
Adjusted BVPS diluted	39.21	131.06	268.14	363.51	489.22
DPS	0.00	0.00	0.50	1.00	1.00
Profit & Loss (RsM)					
Net interest income	48	224	444	834	1,097
Fees and commissions	2,591	3,500	6,555	9,239	11,752
Other operating Income	55	29	113	145	178
Total operating income	**2,693**	**3,752**	**7,112**	**10,218**	**13,027**
Total operating expenses	-1,793	-2,534	-4,527	-6,021	-7,520
Oper. profit bef. provisions	**901**	**1,218**	**2,585**	**4,197**	**5,507**
Bad debt provisions	0	0	0	0	0
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**901**	**1,218**	**2,585**	**4,197**	**5,507**
Tax	-298	-410	-858	-1,393	-1,828
Extraord./Min. Int./Pref. Div.	-1	-123	97	-67	-81
Attributable profit	**602**	**684**	**1,824**	**2,737**	**3,599**
Adjusted earnings	602	780	1,679	2,737	3,599
Growth Rates (%)					
EPS adjusted	na	43.2	92.5	63.0	31.5
Oper. profit bef. prov.	na	35.2	112.2	62.4	31.2
Balance Sheet (RsM)					
Total assets	**4,421**	**9,004**	**14,266**	**17,699**	**22,074**
Avg interest earning assets	5,093	3,989	7,670	11,386	14,782
Customer loans	1,209	2,410	5,892	7,481	9,429
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	**4,421**	**9,004**	**14,266**	**17,699**	**22,074**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	**1,101**	**3,332**	**7,616**	**10,325**	**13,896**
Profitability/Solvency Ratios (%)					
ROE adjusted	54.7	35.2	30.7	30.5	29.7
Net interest margin	0.9	5.6	5.8	7.3	7.4
Cost/income ratio	66.6	67.5	63.7	58.9	57.7
Cash cost/average assets	40.5	37.7	38.9	37.7	37.8
NPLs/customer loans	0.0	0.0	0.0	0.0	0.0
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	0.0	0.0	0.0	0.0	0.0
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

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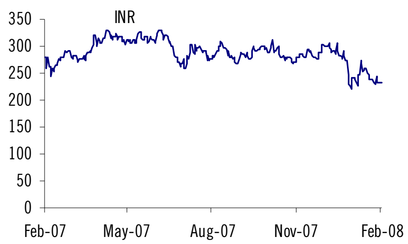
Mphasis (MBFL.BO)

Buy/High Risk	1H
Price (26 Feb 08)	Rs231.60
Target Price	Rs355.00
Expected share price return	53.3%
Expected dividend yield	1.3%
Expected total return	**54.0%**
Market Cap	Rs48,312M
	US$1,211M

Price Performance



Source: Citi Investment Research

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Company description

Mphasis is a mid-tier Indian IT services company headquartered in Bangalore. The company has a presence in IT services (primarily application development & maintenance) and BPO services. It serves global clients across financial services, retail, logistics and transportation verticals. Mphasis BFL was originally formed by the integration of BFL Software, Mphasis Corp and Msource. Post majority stake acquisition in Mphasis and merger with EDS India, Electronic Data Systems Corporation (EDS) holds over 60% in Mphasis.

Key to EDS Revival

- **Demand outlook for FY09** — The most important issue at this point of time is the demand outlook for FY09. While Mphasis has a big pipeline of EDS work, the key issue to discuss is (1) ramp downs or delays from existing customers and (2) delays in decision making on newer deals.
- **Margin levers** — With the negative impact of rupee appreciation and wage inflation, understanding the available margin levers for FY09 is a key point to focus on. Mphasis did well with flattish margins in FY08 despite making significant investments into the business.
- **Rupee billing to mitigate currency risk** — Mphasis has been in talks with EDS (52% of revenues) and other key clients for rupee billing. This is an attempt to mitigate the currency risk, as both revenue and costs would be in the same currency. Any update on the same would be welcome.
- **SEZ strategy** — Given the current expectation of the STPI sunset clause coming into effect by March 2009, understanding Mphasis's SEZ readiness and implications on tax rates for FY10 and beyond, should be discussed.
- **Supply of talent** — Historically, Mphasis was dependent on lateral hiring. Mphasis has put processes in place and the proportion of campus hires is going up. Initiatives on the supply side is a key area to focus on – more so, with EDS ensuring the demand side of the equation.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	1,499	9.25	16.9	25.0	5.6	23.0	1.3
2007A	1,801	8.63	-6.7	26.8	4.8	21.6	1.3
2008E	2,599	12.35	43.1	18.7	4.0	23.6	1.3
2009E	3,695	17.57	42.2	13.2	3.2	27.5	1.3
2010E	4,577	21.76	23.9	10.6	2.6	27.2	1.3

Source: Company Reports and Citi Investment Research estimates

Investment Strategy

We rate Mphasis Buy/High Risk (1H) based on a fundamental 12-month view. Scale and scalability offshore, in our view, remains the key criterion for success of MNC firms like IBM, Accenture, EDS, etc. Mphasis is in a sweet spot as the offshore arm of a global IT major, EDS, for whom getting its best shore strategy right is a key to success. The demand side of the business is near-guaranteed for Mphasis due to EDS' order backlog and new large deals it has signed. Supply-side scalability and execution record are also key factors. In our view, revenue and earnings growth should accelerate from here as offshore creditability of Mphasis is established. We expect revenue CAGR of 39% and an EPS CAGR of 36% in FY07-10E.

Valuation

Our target price of Rs355 is based on 18x average FY09-10E EPS. We believe P/E remains the most appropriate valuation measure given the company's profitable record and high earnings visibility. The 18x target multiple is closer to the lower end of the last one-year trading band of 16-30x one-year forward earnings post the EDS acquisition of a majority stake. This multiple factors in some premium for the likelihood of de-listing as EDS would like to own a larger share of its offshore base. We forecast a revenue CAGR of 39% and EPS CAGR of 36% over FY07-10E. This is at the higher end of our coverage universe, with some upside potential from further wins in the offshore application space for the EDS-Mphasis combination. Eventual de-listing from Indian exchanges could be a likely endgame for Mphasis, in our view.

Mphasis (MBFL.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	25.0	26.8	18.7	13.2	10.6
EV/EBITDA adjusted (x)	24.0	15.3	10.5	7.7	5.9
P/BV (x)	5.6	4.8	4.0	3.2	2.6
Dividend yield (%)	1.3	1.3	1.3	1.3	1.3
Per Share Data (Rs)					
EPS adjusted	9.25	8.63	12.35	17.57	21.76
EPS reported	9.25	8.63	12.35	17.57	21.76
BVPS	41.03	48.44	57.26	71.54	90.04
DPS	3.00	3.00	3.00	3.00	3.00
Profit & Loss (RsM)					
Net sales	9,401	17,606	24,562	34,493	46,884
Operating expenses	-7,952	-15,563	-21,592	-30,461	-41,522
EBIT	**1,449**	**2,043**	**2,970**	**4,033**	**5,362**
Net interest expense	17	75	101	150	232
Non-operating/exceptionals	77	-135	-257	100	120
Pre-tax profit	**1,543**	**1,983**	**2,814**	**4,283**	**5,714**
Tax	-44	-182	-216	-588	-1,137
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**1,499**	**1,801**	**2,599**	**3,695**	**4,577**
Adjusted earnings	1,499	1,801	2,599	3,695	4,577
Adjusted EBITDA	1,967	3,060	4,379	5,926	7,494
Growth Rates (%)					
Sales	22.8	87.3	39.5	40.4	35.9
EBIT adjusted	42.5	41.1	45.4	35.8	33.0
EBITDA adjusted	39.3	55.6	43.1	35.3	26.5
EPS adjusted	16.9	-6.7	43.1	42.2	23.9
Cash Flow (RsM)					
Operating cash flow	**1,217**	**1,419**	**3,915**	**4,141**	**5,228**
Depreciation/amortization	518	1,017	1,409	1,893	2,132
Net working capital	-706	-1,459	-248	-1,197	-1,129
Investing cash flow	**-698**	**-2,151**	**-3,032**	**-2,497**	**-2,899**
Capital expenditure	-775	-2,080	-2,832	-2,748	-3,251
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-485**	**1,636**	**-712**	**-717**	**-717**
Borrowings	-9	-8	18	0	0
Dividends paid	-555	-579	-716	-717	-717
Change in cash	**34**	**904**	**172**	**927**	**1,612**
Balance Sheet (RsM)					
Total assets	**8,117**	**13,029**	**15,809**	**19,482**	**24,666**
Cash & cash equivalent	989	1,893	2,069	2,995	4,607
Accounts receivable	2,117	4,210	4,924	6,347	8,023
Net fixed assets	1,455	2,518	3,942	4,796	5,916
Total liabilities	**1,511**	**2,944**	**3,860**	**4,555**	**5,879**
Accounts payable	0	0	0	0	0
Total Debt	37	28	46	46	46
Shareholders' funds	**6,606**	**10,085**	**11,949**	**14,927**	**18,787**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	20.9	17.4	17.8	17.2	16.0
ROE adjusted	23.0	21.6	23.6	27.5	27.2
ROIC adjusted	25.9	27.5	31.0	32.1	32.8
Net debt to equity	-14.4	-18.5	-16.9	-19.8	-24.3
Total debt to capital	0.6	0.3	0.4	0.3	0.2

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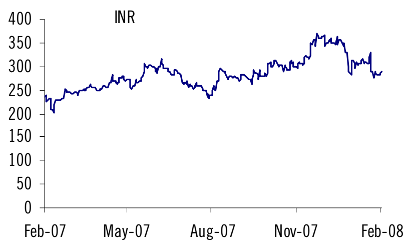
Nicholas Piramal India (NICH.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs287.90
Target Price	Rs455.00
Expected share price return	58.0%
Expected dividend yield	1.4%
Expected total return	**59.4%**
Market Cap	Rs60,175M
	US$1,508M

Price Performance



Source: Citi Investment Research

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Good Play on Innovator CRAMS

- **Focus on innovator CRAMS** — NPIL has started reaping the benefits of its investment in CMG as well as the domestic business. The CMG business has gained significant traction and turned profitable, while branded formulations remain a steady and growing source of cash flow. We forecast 37% earnings CAGR over FY07-10E and re-iterate NPIL as the best Indian play on innovator CRAMS.

- **Strong earnings visibility** — NPIL's scale in innovator CRAMS and the stable nature of the business (long-term exclusive contracts with low risk of litigation/ excess competition) ensure good earnings visibility relative to its peers, in our view. Its robust branded formulations business also helps smooth the lumpiness in CRAMS revenues.

- **Domestic formulations** — NPIL is the fourth largest company is sales in India. Branded formulation sales in India accounts for >50% of NPIL's consolidated revenues and a robust trend in this business would help smooth any lumpiness of revenues in the outsourcing business.

- **NCE business demerger** — The de-merger has been completed and is effective from 1 April 2007. Currently the stock trades ex-R&D. NPIL expects to complete this listing process by May'08.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,210	5.79	-31.6	49.7	6.3	16.6	1.0
2007A	2,256	10.80	86.5	26.7	5.7	22.5	1.2
2008E	3,638	17.40	61.2	16.5	5.3	33.4	1.4
2009E	4,675	22.37	28.5	12.9	4.0	35.6	1.6
2010E	5,749	27.50	23.0	10.5	3.1	33.4	1.7

Source: Company and Citi Investment Research estimates

Company description

Nicholas Piramal (NPIL), the fourth-largest company in the Indian formulations market, is targeting the regulated pharmaceutical markets through custom manufacturing (CMG). The company has scaled up in the domestic market through both organic and inorganic initiatives, and is looking at doing the same in the overseas markets. Some initial CMG successes have been achieved in the form of six diverse contracts with innovator companies and two acquisitions in overseas markets.

Investment Strategy

We rate NPIL Buy/Medium Risk (1M) with a target price of Rs455/share. We believe NPIL is one of the best plays on custom manufacturing and the branded formulations market in India. Among the Indian mid-tier companies, NPIL has a unique approach to the domestic and export markets. Leveraging its manufacturing capabilities and relationships with global majors, the company has positioned itself as a 'partner of choice' for innovator companies across the product life cycle and value chain. On the domestic front, it has focused on building brands and strengthening its marketing and distribution network, making it less dependent than its peers on new product launches for growth. We are comfortable with valuations at current levels and expect significant upside potential as earnings momentum should continue in FY08 and beyond.

Valuation

Our fair value of Rs448/share for NPIL's base business is based on 20x March '09E earnings. This is at a premium to our target multiple for mid-sized pharma companies and in-line with our target multiple for sector leaders. We believe NPIL deserves a higher multiple given the nature of its CMG business and possible upside from inorganic initiatives. Revenue visibility and sustainability are high in the CMG business: these are long-term exclusive contracts with innovators with no risk of litigation-related delays and competitive pressures. However, given the 18-24 month time lag between doing a deal and commencement of revenues, the full upside is not captured in one-year forward earnings. We also assign a value of Rs7/share (1/10th of the book value) for the R&D company in our target price for NPIL thus arriving at a value of Rs455/share.

Nicholas Piramal India (NICH.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	49.7	26.7	16.5	12.9	10.5
EV/EBITDA adjusted (x)	30.7	17.8	12.1	9.9	8.1
P/BV (x)	6.3	5.7	5.3	4.0	3.1
Dividend yield (%)	1.0	1.2	1.4	1.6	1.7
Per Share Data (Rs)					
EPS adjusted	5.79	10.80	17.40	22.37	27.50
EPS reported	5.79	10.80	17.40	22.37	27.50
BVPS	45.98	50.14	54.14	71.38	93.18
DPS	3.00	3.50	4.00	4.50	5.00
Profit & Loss (RsM)					
Net sales	15,944	24,541	29,709	33,961	37,080
Operating expenses	-14,537	-21,703	-25,116	-28,277	-30,379
EBIT	**1,408**	**2,839**	**4,592**	**5,684**	**6,701**
Net interest expense	-173	-305	-425	-351	-160
Non-operating/exceptionals	97	-39	14	12	31
Pre-tax profit	**1,331**	**2,494**	**4,181**	**5,344**	**6,571**
Tax	-238	-389	-523	-668	-821
Extraord./Min.Int./Pref.div.	116	151	-21	-1	-1
Reported net income	**1,210**	**2,256**	**3,638**	**4,675**	**5,749**
Adjusted earnings	1,210	2,256	3,638	4,675	5,749
Adjusted EBITDA	2,096	3,657	5,541	6,635	7,704
Growth Rates (%)					
Sales	19.5	53.9	21.1	14.3	9.2
EBIT adjusted	-1.5	101.7	61.8	23.8	17.9
EBITDA adjusted	7.3	74.5	51.5	19.7	16.1
EPS adjusted	-31.6	86.5	61.2	28.5	23.0
Cash Flow (RsM)					
Operating cash flow	**1,579**	**2,395**	**4,165**	**5,228**	**6,526**
Depreciation/amortization	688	818	949	951	1,004
Net working capital	-367	-740	-1,063	-1,006	-685
Investing cash flow	**-2,510**	**-4,012**	**-1,969**	**-1,110**	**-957**
Capital expenditure	-2,248	-217	-1,528	-1,122	-988
Acquisitions/disposals	-60	-2,000	0	0	0
Financing cash flow	**1,734**	**1,164**	**-1,324**	**-4,174**	**-4,552**
Borrowings	-863	2,778	33	-3,101	-3,360
Dividends paid	-685	-1,491	-973	-1,072	-1,192
Change in cash	**802**	**-453**	**-78**	**-56**	**1,016**
Balance Sheet (RsM)					
Total assets	**18,464**	**23,018**	**25,831**	**27,861**	**30,202**
Cash & cash equivalent	953	506	427	371	1,388
Accounts receivable	2,429	3,673	4,847	5,633	6,148
Net fixed assets	10,418	12,238	11,918	12,090	12,075
Total liabilities	**8,290**	**12,151**	**14,510**	**12,937**	**10,720**
Accounts payable	3,277	4,551	5,308	6,067	6,622
Total Debt	3,114	6,392	6,850	4,100	900
Shareholders' funds	**10,174**	**10,867**	**11,321**	**14,925**	**19,483**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	13.1	14.9	18.7	19.5	20.8
ROE adjusted	16.6	22.5	33.4	35.6	33.4
ROIC adjusted	9.6	15.5	22.0	25.1	27.9
Net debt to equity	21.2	54.2	56.7	25.0	-2.5
Total debt to capital	23.4	37.0	37.7	21.6	4.4

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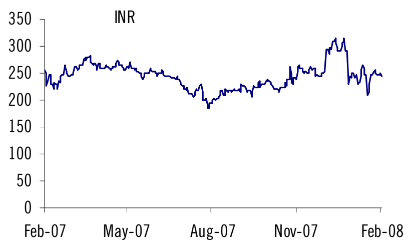
Orchid Chemicals & Pharmaceuticals (ORCD.NS)

Niche Play on Global Generics

Buy/Low Risk	1L
Price (26 Feb 08)	Rs245.20
Target Price	Rs386.00
Expected share price return	57.4%
Expected dividend yield	2.0%
Expected total return	**59.5%**
Market Cap	Rs16,235M
	US$407M

Price Performance



Source: Citi Investment Research

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Company description

Orchid is a leading participant in the global cephalosporin market, with a 15% share of the global API capacity. Orchid has a presence in APIs and formulations, and has also ventured into NDDS and NDD research. It employs more than 3,000 people across plants, research centers, and offices, and exports to more than 75 countries. Over 80% of its revenue comes from exports of API and formulations.

- **Leading player in niche antibiotics** — Orchid is among the leading manufacturers of cephalosporins with a presence in all four generations of ceph drugs. It has a niche focus on high-end products such as sterile injectibles within the antibiotics space, which are more complex to manufacture thus limiting competition. The company is following a similar philosophy for its NPNC products, focusing on difficult-to-make drugs where competition could be limited.

- **Strong visibility for next 2 years** — Orchid's investments in the last 3 years in the cephalosporins space has started bearing fruit and it has several key product opportunities like Cefipime, Cefdinir and Tazo-pip giving strong visibility to earnings over the next 2 years.

- **Strength in sterile injectibles** — Orchid has a strong presence in sterile injectibles and has consistently garnered high market shares in the first wave of injectible cephalosporin launches in the US market. Cefazolin, Ceftriaxone, Cefoxitin are cases in point where Orchid has managed to get approvals in time to leverage the distribution strength of its partners and gain high market shares in the first wave of generic launches.

- **Legacy concerns** — Orchid's valuations have been consistently been at a discount to other second line pharma companies, largely on account of legacy disappointments / concerns – with most of these being related to the company's balance sheet and some related to inconsistent delivery vis-à-vis expectations. We believe that any significant re-rating in the stock would be contingent on these concerns being firmly addressed.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	221	4.30	-16.6	57.1	2.7	5.1	1.1
2007A	573	7.87	83.2	31.2	2.0	9.1	1.2
2008E	1,500	20.59	161.7	11.9	1.7	17.5	2.0
2009E	2,424	33.27	61.5	7.4	1.4	23.8	2.0
2010E	2,749	37.74	13.4	6.5	1.3	22.2	2.4

Source: Company and Citi Investment Research estimates

Investment Strategy

We maintain our Buy (1L) rating on Orchid. Orchid's fully integrated status makes it one of the lowest-cost players from India. Cephalosporins is a niche segment, where competition and pricing pressures are limited owing to high entry barriers — high upfront capital commitment and complex chemistry. Orchid is in the midst of a transition in its business model, which should drive up value addition and profitability — from APIs to formulations, from less-regulated to regulated markets and beyond cephalosporins to other therapeutic categories. Marketing tie-ups with global players lend greater credibility to Orchid's efforts and improve the probability of success, in addition to easing pressure on earnings via upfront funding of regulatory costs.

Orchid Chemicals & Pharmaceuticals (ORCD.NS): Financial Summary

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	57.1	31.2	11.9	7.4	6.5
EV/EBITDA adjusted (x)	16.0	10.7	7.8	5.8	5.3
P/BV (x)	2.7	2.0	1.7	1.4	1.3
Dividend yield (%)	1.1	1.2	2.0	2.0	2.4
Per Share Data (Rs)					
EPS adjusted	4.30	7.87	20.59	33.27	37.74
EPS reported	4.30	7.87	20.59	33.27	37.74
BVPS	90.00	123.23	141.45	173.96	186.03
DPS	2.67	3.00	5.00	5.00	6.00
Profit & Loss (RsM)					
Net sales	7,223	9,519	12,061	13,648	15,654
Operating expenses	-6,297	-8,004	-9,711	-10,359	-12,065
EBIT	**927**	**1,515**	**2,351**	**3,289**	**3,589**
Net interest expense	-735	-878	-797	-797	-797
Non-operating/exceptionals	9	13	26	60	102
Pre-tax profit	**200**	**650**	**1,579**	**2,551**	**2,894**
Tax	21	-77	-79	-128	-145
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**221**	**573**	**1,500**	**2,424**	**2,749**
Adjusted earnings	221	573	1,500	2,424	2,749
Adjusted EBITDA	1,564	2,367	3,200	4,196	4,526
Growth Rates (%)					
Sales	6.3	31.8	26.7	13.2	14.7
EBIT adjusted	6.7	63.5	55.1	39.9	9.1
EBITDA adjusted	8.4	51.3	35.2	31.1	7.9
EPS adjusted	-16.6	83.2	161.7	61.5	13.4
Cash Flow (RsM)					
Operating cash flow	**153**	**725**	**1,420**	**2,723**	**-24**
Depreciation/amortization	638	852	850	908	937
Net working capital	-754	-623	-851	-480	-3,566
Investing cash flow	**-2,655**	**-2,093**	**-2,000**	**-1,000**	**-500**
Capital expenditure	-2,656	-2,093	-2,000	-1,000	-500
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,769**	**962**	**-1,120**	**-1,120**	**-1,234**
Borrowings	2,390	-942	0	0	0
Dividends paid	-146	-194	-323	-323	-437
Change in cash	**-733**	**-406**	**-1,700**	**603**	**-1,758**
Balance Sheet (RsM)					
Total assets	**18,125**	**21,266**	**23,377**	**26,475**	**29,674**
Cash & cash equivalent	257	972	367	1,975	1,324
Accounts receivable	2,070	3,290	3,967	4,584	6,422
Net fixed assets	11,121	12,362	13,513	13,605	13,168
Total liabilities	**13,517**	**13,304**	**14,237**	**15,234**	**16,121**
Accounts payable	2,523	3,145	3,910	4,799	5,491
Total Debt	10,052	9,110	9,110	9,110	9,110
Shareholders' funds	**4,608**	**7,963**	**9,140**	**11,241**	**13,553**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	21.7	24.9	26.5	30.7	28.9
ROE adjusted	5.1	9.1	17.5	23.8	22.2
ROIC adjusted	6.8	8.9	12.5	16.3	16.2
Net debt to equity	212.6	102.2	95.7	63.5	57.4
Total debt to capital	68.6	53.4	49.9	44.8	40.2

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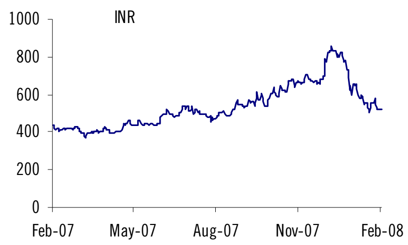
Pantaloon (PART.BO)

Sell/Medium Risk	3M
Price (26 Feb 08)	Rs518.90
Target Price	Rs520.00
Expected share price return	0.2%
Expected dividend yield	0.1%
Expected total return	**0.3%**
Market Cap	Rs78,225M
	US$1,960M

Price Performance



Source: Citi Investment Research

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Company description

Pantaloon is the largest organized modern-format retailer with a presence in apparel, general merchandise, home products & food. Pantaloon retails fashion apparel & accessories through Pantaloon stores and general merchandise & food through discount department stores, Big Bazaar & Food Bazaar. It has presence in retail property management services through Central Malls, managing retail space for concessionaries fees & share of sales. It has recently launched Home Town for home interiors. Real estate investment subsidiary plans to set up 51 malls across India. It also has interests in media, logistics, brand management & e-tailing.

Largest Indian Retailer

- **Strong growth for organized retail** — Organized retail, which is only 3.5% of India's total retail market of about US$200bn, is growing at over 30%. Favorable demographics, changing consumer habits and aggressive entry of new players are likely to sustain strong growth over the next 10-15 years. However, the capital intensity is also rising.
- **Leading organized retail player** — Pantaloon is the largest organized retail player in India. Pantaloon is present in three major formats – Fashion and apparel through its 'Pantaloon' and 'Central Stores'; hypermarkets through its 'Big Bazaar' stores and foods through its 'Food bazaar' stores.
- **Strong expansion plans** — Pantaloon has strong expansion plans. It plans to expand its retail space to 30m sq. ft. by FY11. It has also aggressively expanded into new formats including electronics, home products, health and wellness and financial services retailing.
- **Competition rising, but Pantaloon has first-mover advantage** — While entry of new players will increase competitive intensity, Pantaloon has enjoyed first-mover advantage. Its rentals are locked in at a significantly lower rates compared to prevailing market rates and it also has a formidable lead in setting up a supply chain.

Statistical Abstract

Year to 30 Jun	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	642	4.86	38.5	106.8	13.0	17.1	0.1
2007A	1,200	8.18	68.2	63.5	7.0	14.8	0.1
2008E	1,592	10.56	29.1	49.1	6.3	13.6	0.1
2009E	2,004	13.30	25.9	39.0	5.5	15.0	0.1
2010E	2,866	19.01	43.0	27.3	4.6	18.3	0.2

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate Pantaloon Sell/Medium Risk (3M) with a target price of Rs520. The stock has had a strong rally over the last 12 months, outperforming the Sensex. The core business and subsidiaries are fully valued at current levels, we estimate We also believe that in the recently changed market sentiment, chances of positive valuation surprises on valuation of its unlisted / about to be listed subsidiaries seem low.

Valuation

Our Rs520 target price is based on sum of the parts. We value parent Pantaloon Retail at Rs333 per share based on 25x FY09E P/E, benchmarked off regional retail peer group. Our target multiple is at abut 22% premium to the retail average, taking into account the superior growth profile for Pantaloon. We benchmark valuations of Home Solutions against recent stake sales (mid-point of Rs7.5bn-Rs10bn). We also use market cap/sales valuation of 1.2x FY08E, at par with Pantaloon's valuations. Our fair value per share for the Home Solutions subsidiary is Rs60 per share. We attribute per share value of Future Capital at Rs127. The Future Capital IPO is impending and price band is already fixed. In addition, the IPO has already been fully subscribed. We value Pantaloon post IPO shareholding of 55%, applying the average price of IPO price band and attributing a 25% holding company discount.

Pantaloon (PART.BO): Financial Summary

Fiscal year end 30-Jun	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	106.8	63.5	49.1	39.0	27.3
EV/EBITDA adjusted (x)	57.5	39.4	22.4	17.8	14.4
P/BV (x)	13.0	7.0	6.3	5.5	4.6
Dividend yield (%)	0.1	0.1	0.1	0.1	0.2
Per Share Data (Rs)					
EPS adjusted	4.86	8.18	10.56	13.30	19.01
EPS reported	4.86	8.18	10.56	13.30	19.01
BVPS	39.92	74.42	82.41	94.96	112.89
DPS	0.51	0.51	0.53	0.66	0.95
Profit & Loss (RsM)					
Net sales	18,678	32,367	56,094	76,930	98,190
Operating expenses	-17,465	-30,580	-52,724	-72,356	-92,107
EBIT	**1,212**	**1,787**	**3,370**	**4,574**	**6,083**
Net interest expense	-335	-898	-1,396	-2,010	-2,289
Non-operating/exceptionals	42	920	300	300	300
Pre-tax profit	**919**	**1,810**	**2,274**	**2,863**	**4,094**
Tax	-277	-610	-682	-859	-1,228
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**642**	**1,200**	**1,592**	**2,004**	**2,866**
Adjusted earnings	642	1,200	1,592	2,004	2,866
Adjusted EBITDA	1,420	2,156	4,070	5,574	7,383
Growth Rates (%)					
Sales	77.4	73.3	73.3	37.1	27.6
EBIT adjusted	56.3	47.4	88.5	35.7	33.0
EBITDA adjusted	56.3	51.8	88.8	36.9	32.5
EPS adjusted	38.5	68.2	29.1	25.9	43.0
Cash Flow (RsM)					
Operating cash flow	**-2,416**	**-6,198**	**-2,749**	**-4,039**	**-2,532**
Depreciation/amortization	208	369	700	1,000	1,300
Net working capital	-3,400	-7,908	-5,090	-7,043	-6,698
Investing cash flow	**-1,852**	**-4,011**	**-3,871**	**-3,822**	**-3,640**
Capital expenditure	-1,852	-4,011	-3,871	-3,822	-3,640
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**5,565**	**9,694**	**5,364**	**7,568**	**7,360**
Borrowings	3,152	6,982	4,454	7,681	7,522
Dividends paid	-77	-88	-90	-113	-162
Change in cash	**1,298**	**-515**	**-1,256**	**-293**	**1,188**
Balance Sheet (RsM)					
Total assets	**14,006**	**28,057**	**36,333**	**48,653**	**61,567**
Cash & cash equivalent	218	1,630	500	500	500
Accounts receivable	170	652	1,537	2,108	2,690
Net fixed assets	3,955	8,057	11,229	14,051	16,391
Total liabilities	**8,747**	**17,150**	**23,910**	**34,338**	**44,548**
Accounts payable	2,298	3,439	5,530	7,912	10,353
Total Debt	6,014	12,996	17,450	25,131	32,653
Shareholders' funds	**5,269**	**10,922**	**12,424**	**14,315**	**17,019**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	7.6	6.7	7.3	7.2	7.5
ROE adjusted	17.1	14.8	13.6	15.0	18.3
ROIC adjusted	12.7	7.8	10.6	10.6	10.9
Net debt to equity	110.0	104.1	136.4	172.1	188.9
Total debt to capital	53.3	54.3	58.4	63.7	65.7

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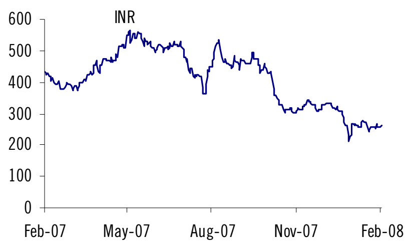
Patni Computer Systems (PTNI.BO)

Buy/High Risk	**1H**
Price (26 Feb 08)	Rs259.95
Target Price	Rs390.00
Expected share price return	50.0%
Expected dividend yield	1.9%
Expected total return	**60.2%**
Market Cap	Rs36,142M
	US$906M

Price Performance



Source: Citi Investment Research

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Company description

Patni is a mid-tier IT solutions provider from India and a pioneer of offshore IT services delivery. Founded in 1978, it operated both software and hardware businesses until 1999, when the hardware business was de-merged. It continues to operate as a global consulting and IT services provider. Patni employs ~15,000 professionals servicing more than 290 global corporations. It has a sizeable presence in insurance, financial services, manufacturing and telecom verticals. GE is Patni's largest customer, contributing close to 12% of CY07 revenues.

Valuations Hard to Ignore

- **Demand outlook for CY08** — The key issue at this point in time is the demand outlook for FY09. While Patni's exposure to BFSI is high, a large part of the exposure is through insurance, where there is a relatively lower impact. Patni's growth was slower last year due to some client-specific challenges – progress should be discussed.

- **Margin levers** — Understanding the margin levers available in a scenario where there are wage and INR pressures is another key area of focus. Patni did well in CY08 to improve margins with efficiency improvements – possibility of further improvement is a key question for management.

- **Supply of talent** — (1) Patni's views on the supply situation for the next 2-3 years, (2) Patni's initiatives to expand the pool, (3) Wage inflation expectations for CY08, are the key discussion issues.

- **M&A interest** — With ~15,000 employees, ~35% market cap in cash and equivalents and lower growth levels (compared to peers), Patni has been the subject of M&A interest for quite sometime now. Any updates on management's thought process should be sought.

- **SEZ strategy** — Patni's SEZ readiness, given the current expectation of the STPI sunset clause coming into effect by March 2009 and the implications on future years tax rates should be discussed.

Statistical Abstract

Year to 31 Dec	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,654	19.05	-9.4	13.6	1.6	12.4	1.2
2007A	4,652	33.06	73.6	7.9	1.3	18.9	1.2
2008E	4,047	30.32	-8.3	8.6	1.2	14.8	1.9
2009E	4,015	30.07	-0.8	8.6	1.1	13.6	1.9
2010E	4,287	32.11	6.8	8.1	1.0	13.1	1.9

Source: Powered by DataCentral

Investment Strategy

Our Buy/High Risk rating is based on Patni being a prime M&A target, in our view. Patni trades at a large discount to Satyam on a one-year forward EV/EBITDA basis and has ~35% of its market cap in cash and equivalents. With a high cash position of ~US$330 mn, we believe Patni is a decent-sized player with a relatively inexpensive valuation, making it an ideal acquisition candidate. We expect revenue CAGR of ~8% over the next three years, slower than those of peers. The company has historically offered lower pricing to clients by employing low-cost resources. But with demand for IT professionals growing, Patni is facing increased wage pressure. However, over the past few quarters, cost optimization efforts have resulted in margin expansion.

Valuation

Our target price of Rs390 (13x average CY08-09E EPS) is based on a ~25% target multiple discount to Patni's closest peer, Satyam. Patni has traded at a 10-40% discount to Satyam over the past year, mainly due to slower growth and lower RoIC/RoE. While fundamentals would possibly justify a higher discount, we ascribe only a 25% discount for Patni due to the following reasons: (1) factor in M&A expectations and (2) management announced a buyback at Rs325/per share, which should provide downside support to the stock.

Patni Computer Systems (PTNI.BO): Financial Summary

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	13.6	7.9	8.6	8.6	8.1
EV/EBITDA adjusted (x)	4.7	4.8	5.1	4.7	3.8
P/BV (x)	1.6	1.3	1.2	1.1	1.0
Dividend yield (%)	1.2	1.2	1.9	1.9	1.9
Per Share Data (Rs)					
EPS adjusted	19.05	33.06	30.32	30.07	32.11
EPS reported	19.05	33.06	30.32	30.07	32.11
BVPS	162.36	193.15	210.97	235.74	262.21
DPS	3.00	3.00	5.00	5.00	5.00
Profit & Loss (RsM)					
Net sales	26,140	26,950	29,533	32,961	38,056
Operating expenses	-22,080	-23,055	-26,023	-29,432	-34,067
EBIT	**4,061**	**3,895**	**3,510**	**3,528**	**3,990**
Net interest expense	0	0	0	0	0
Non-operating/exceptionals	438	1,705	1,330	1,460	1,338
Pre-tax profit	**4,499**	**5,599**	**4,840**	**4,989**	**5,328**
Tax	-932	-948	-793	-974	-1,066
Extraord./Min.Int./Pref.div.	-913	0	0	0	25
Reported net income	**2,654**	**4,652**	**4,047**	**4,015**	**4,287**
Adjusted earnings	2,654	4,652	4,047	4,015	4,287
Adjusted EBITDA	4,901	4,859	4,494	4,557	5,081
Growth Rates (%)					
Sales	31.8	3.1	9.6	11.6	15.5
EBIT adjusted	27.8	-4.1	-9.9	0.5	13.1
EBITDA adjusted	27.4	-0.8	-7.5	1.4	11.5
EPS adjusted	-9.4	73.6	-8.3	-0.8	6.8
Cash Flow (RsM)					
Operating cash flow	**2,717**	**3,100**	**4,474**	**4,365**	**3,982**
Depreciation/amortization	840	965	984	1,028	1,092
Net working capital	-213	-1,754	323	282	-459
Investing cash flow	**-2,370**	**-2,595**	**-908**	**-856**	**-2,135**
Capital expenditure	-2,251	-2,158	-1,447	-1,490	-2,076
Acquisitions/disposals	-456	-1,715	0	0	0
Financing cash flow	**-639**	**-253**	**-3,091**	**-751**	**-800**
Borrowings	-1	-4	0	0	0
Dividends paid	-473	-488	-751	-751	-751
Change in cash	**-292**	**251**	**476**	**2,758**	**1,047**
Balance Sheet (RsM)					
Total assets	**28,231**	**33,180**	**34,894**	**38,651**	**42,358**
Cash & cash equivalent	12,770	13,021	13,497	16,254	17,301
Accounts receivable	0	0	0	0	0
Net fixed assets	5,547	6,740	7,203	7,665	8,649
Total liabilities	**5,797**	**6,343**	**7,101**	**7,594**	**7,814**
Accounts payable	0	0	0	0	0
Total Debt	17	13	13	13	13
Shareholders' funds	**22,434**	**26,837**	**27,793**	**31,057**	**34,544**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	18.7	18.0	15.2	13.8	13.4
ROE adjusted	12.4	18.9	14.8	13.6	13.1
ROIC adjusted	34.6	22.7	17.1	15.7	16.9
Net debt to equity	-56.8	-48.5	-48.5	-52.3	-50.0
Total debt to capital	0.1	0.0	0.0	0.0	0.0

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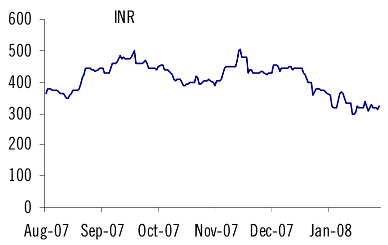
Puravankara Projects (PPRO.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs321.45
Target Price	Rs536.00
Expected share price return	66.7%
Expected dividend yield	0.3%
Expected total return	**67.1%**
Market Cap	Rs68,625M
	US$1,720M

Price Performance



Source: Citi Investment Research

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Company description

Puravankara Projects is one of the leading developers in Bangalore. Its founder, Mr. Ravi Puravankara, has over three decades of experience in the construction and development business, with Puravankara being incorporated in 1986. The company has self-constructed most of its properties developed in Bangalore. Though Puravankara remains focused on Bangalore, it is also expanding to other regions in South India. These expansions are spread over locations such as Chennai, Coimbatore, Mysore, Cochin and Hyderabad, and to Colombo in Sri Lanka.

Leveraged Play on South India

- **Strong franchise** — Puravankara is one of Bangalore's leading real estate developers with a strong brand and proven record. While most of its projects are concentrated in the residential segment in Bangalore, it is making efforts to diversify into other asset classes and enhance presence other key cities in South - recently added 30 acres in Hyderabad and ~43 acres in Chennai.
- **The key differentiators** — 1) Quality landbank largely within city limits most of which is substantially paid for. 2) In-house construction expertise and 3) a direct sales model which tends to reduce speculative activity. We believe this positions the company as a quality mid-scale developer.
- **JV with Keppel Land of Singapore adds to credibility** — The JV has 2 projects in Bangalore and one in Kolkata all in construction phase, positioning itself at the higher end. We expect the venture to provide scalability and financial muscle to bid jointly for larger projects at a later date; and also see this relationship add to management creditability and Puravankara's franchise.
- **High exposure to South India an advantage** — Puravankara's large exposure to Bangalore and Chennai is in our view an advantage over North India-based developers. South India appears to have lower supply risks, more reasonable property prices and lesser speculation.
- **Hospitality plans underway** — The company plans to build ~750 hotel rooms spread across key cities such as Kochi, Bangalore and Chennai and is exploring opportunities to enter into strategic alliances with hotel chains.
- **Key Risks** — 1) Concentration in Bangalore, the IT hub, does make it sensitive to any slowdown in the IT space; and 2) Large build-out raises execution risks.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	735	3.83	93.3	84.0	55.4	90.2	0.0
2007A	1,304	6.79	77.4	47.3	27.8	78.3	0.2
2008E	2,527	11.83	74.3	27.2	5.2	32.9	0.3
2009E	4,868	22.80	92.7	14.1	3.9	31.6	0.5
2010E	6,477	30.34	33.0	10.6	2.9	31.3	0.6

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Puravankara Buy (1M) with a target price of Rs536. Growth for Puravankara's residential-heavy model stems from its quality landbank of ~107m sq ft. Its clear development titles, acquired at a low cost of ~Rs100/sq ft and a large part already paid, differentiates it from other developers. We believe its competitive strength lies in some of its operating virtues: it runs primarily a direct marketing model, supports its development activity with its own construction capabilities, has relatively high levels of in-house execution, and enjoys a strong execution and post-delivery record. Puravankara's focus on South India, in the larger markets of Bangalore and Chennai is, in our view, an advantage over developers with a National Capital Region (NCR) bias.

Valuation

Our target price of Rs536 is based on a 5% discount to an estimated core NAV of Rs564. We ascribe the discount to: 1) Puravankara's concentration risk in Bangalore where the potential supply could be large; 2) the company's residential-heavy business model; 3) possible execution delays, given the large development; and 4) risk of slower than expected sales, given its direct sales model could push back cash flows. Our NAV estimate of Rs564 is based on the following assumptions: 1) current market prices without any price inflation; 2) development volume will be 105.3m sq ft (as ~1.5m is already recognized as revenue in FY07); 3) a cap rate of 9% for commercial/IT Park, IT SEZs in Bangalore and Chennai and 10% for other locations; 4) all projects will be completed largely on schedule; 5) an average cost of capital of 14%; and 6) a tax rate of 25.

Puravankara Projects (PPRO.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	84.0	47.3	27.2	14.1	10.6
P/E reported (x)	84.0	47.3	27.2	14.1	10.6
P/BV (x)	55.4	27.8	5.2	3.9	2.9
Dividend yield (%)	0.0	0.2	0.3	0.5	0.6
Per Share Data (Rs)					
EPS adjusted	3.83	6.79	11.83	22.80	30.34
EPS reported	3.83	6.79	11.83	22.80	30.34
BVPS	5.80	11.55	61.49	82.80	111.13
NAVps ordinary	na	na	na	na	na
DPS	0.00	0.71	1.00	1.50	2.00
Profit & Loss (RsM)					
Net operating income (NOI)	**992**	**1,558**	**3,461**	**6,240**	**9,506**
G&A expenses	-98	-198	-257	-334	-501
Other Operating items	8	115	-32	-39	-47
EBIT including associates	**902**	**1,476**	**3,173**	**5,867**	**8,958**
Non-oper./net int./except.	-65	-12	-285	-303	-322
Pre-tax profit	**837**	**1,463**	**2,887**	**5,564**	**8,636**
Tax	-71	-172	-361	-695	-2,159
Extraord./Min. Int./Pref. Div.	-31	13	0	0	0
Reported net income	**735**	**1,304**	**2,527**	**4,868**	**6,477**
Adjusted earnings	735	1,304	2,527	4,868	6,477
Adjusted EBIT	891	1,336	3,173	5,867	8,958
Adjusted EBITDA	894	1,361	3,204	5,906	9,005
Growth Rates (%)					
NOI	85.7	57.1	122.1	80.3	52.3
EBIT adjusted	91.3	49.9	137.5	84.9	52.7
EPS adjusted	93.3	77.4	74.3	92.7	33.0
Cash Flow (RsM)					
Operating cash flow	**-247**	**-5,720**	**-1,195**	**1,107**	**1,688**
Depreciation/amortization	3	25	32	39	47
Net working capital	-861	-5,968	-3,763	-3,800	-4,836
Investing cash flow	**-344**	**-379**	**-26**	**-28**	**-30**
Capital expenditure	-112	-239	-8	-9	-9
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**615**	**5,892**	**6,365**	**-20**	**-106**
Borrowings	615	5,139	-2,008	300	321
Dividends paid	0	-137	-213	-320	-427
Change in cash	**25**	**-207**	**5,144**	**1,059**	**1,552**
Balance Sheet (RsM)					
Total assets	**7,520**	**14,043**	**25,161**	**31,456**	**40,236**
Cash & cash equivalent	444	374	5,517	6,576	8,129
Net fixed assets	175	389	365	334	297
Total liabilities	**6,406**	**11,825**	**12,033**	**13,780**	**16,511**
Total Debt	1,622	6,761	4,753	5,052	5,373
Shareholders' funds	**1,114**	**2,218**	**13,128**	**17,676**	**23,725**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	31.9	32.0	36.8	38.3	39.7
ROE adjusted (%)	90.2	78.3	32.9	31.6	31.3
ROA adjusted (%)	13.3	12.1	12.9	17.2	18.1
Net debt to equity (%)	105.7	288.0	-5.8	-8.6	-11.6
Interest coverage (x)	12.4	110.9	11.2	19.5	27.9

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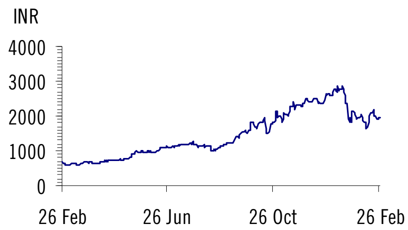
Powered by: dataCentral

Reliance Capital (RLCP.BO)

Non-Rated	
Price (26 Feb 08)	Rs1,955.60
Market Cap	Rs480,360M
	US$12,036M

Price Performance



Source: dataCentral

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Company Description

Reliance Capital is one of the largest non-bank diversified financial institutions in India. The company started its operations primarily being a lease finance company and a holding company for the group's strategic and proprietary investments. It has now diversified into various businesses and currently has strong presence in asset management, life insurance, non-life insurance, retail broking, consumer finance, private / proprietary equity and distressed assets. The company is a part of the Anil Ambani Group of companies (ADAE Group) and is headed by Mr Amitabh Chakraborty, CEO. Promoters hold more than 50% in the company.

Diversified Financial Services Company

- **Company Overview** — Reliance Capital (RCAP) is the financial services company of the Anil Dhirubhai Ambani (ADA) group, and has a meaningful and growing presence in a wide range of businesses – life insurance, general insurance, asset management (AMC), brokerage and distribution of financial products, consumer finance.

- **On the Acclerator, as the binding distribution rolls out** — RCAP has very rapidly become India's pre-eminent Financial services company. Its race to the top has been a mix of inorganic – bought a small insurance company, and organic, where it has sought to build its other businesses. The growth has been aggressive, the ambition significant, and the delivery so far, strong. RCAP is building out a large distribution platform to provide for its increasingly diversified consumer financial services offering.

- **Market Leader in AMC** — Among top five in General and Life Insurance incrementally. RCAP has demonstrated its ability to lead the market; already does so by a distance in asset management, and seeking to establish very strong market positions in the Life Insurance and General Insurance spaces, where it has become a meaningful player.

- **Well capitalized, with the ability to invest and incubate** — RCAP is well capitalized, and is willing to invest to build its businesses. This provides it significant competitive power. This is particularly relevant given that most of its businesses are in a build out and investment stage, where capital requirements are generally high, and returns relatively moderate.

- **Risks** — Equity market volatility, competitive pressures, adverse movements in interest rates and asset quality execution and regulatory risks.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31-Mar	Rs M		%	X	X	%	%
2005	1161.5	9.14		214.0	16.7	8%	0.2%
2006	5771	25.44	178%	76.9	10.5	14%	0.2%
2007	6997.1	27.83	9%	70.3	9.1	13%	0.2%

Source: Company Reports

Recent Developments

Global Investor Eton Park invested Rs 5bn for a 5% equity stake in Reliance capital asset management company, a 100% subsidiary of Reliance capital.

Reliance Capital (RLCP.BO): Financial Summary

Reliance Capital - Profit and Loss Statement (Rs Mn)

	2004	2005	2006	2007
Operating Income	4376.1	5435.2	9663.2	21577.7
Other Income	204.2	262.5	40.8	120.6
Total Income	**4580.3**	**5697.7**	**9704**	**21698.3**
Operating & Administration Expenses	463.5	863.3	959.4	4153.8
Miscellaneous Expenses	283.6	1281	1221.6	7282.4
Interest	1993.4	1510.8	452	427
Employee Expense	130.8	223.4	427.8	1460.6
Total Expenditure	**2871.3**	**3878.5**	**3060.8**	**13323.8**
Gross Profit	**1709**	**1819.2**	**6643.2**	**8374.5**
Depreciation	430.5	453.2	489	259.3
Profit Before Tax	**1278.5**	**1366**	**6154.2**	**8115.2**
Tax	55.9	128.2	335.7	1118
Net Profit before Minority Interest	**1222.6**	**1237.8**	**5818.5**	**6997.2**
Minority Interest	22.4	14.6	35.9	0
Net Profit after Minority Interest	**1200.2**	**1223.2**	**5782.6**	**6997.2**
Extraordinary Items	19.1	61.7	11.6	0.1
Adjusted Net Profit	**1181.1**	**1161.5**	**5771**	**6997.1**

Source: Capital Line

Reliance Capital - Balance Sheet (Rs Mn)

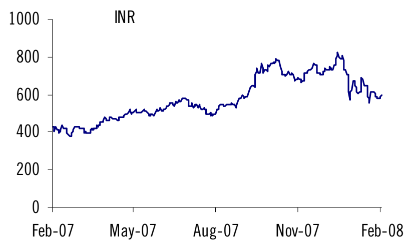
	FY04	FY05	FY06	FY07
Share Capital	1279.7	1278.4	2234	2461.6
Reserves Total	13969.2	13652.8	39385.4	50562.2
Total Shareholders Funds	**15248.9**	**14931.2**	**41619.4**	**53023.8**
Minority Interest	336.4	351	386.9	0
Secured Loans	0	0	1675	1450
Unsecured Loans	16334.7	13135.5	743.9	12579.6
Total Liabilities	**31920**	**28417.7**	**44425.2**	**67053.4**
Fixed Assets	2658.9	2406.6	1443.4	1190.4
Lease Adjustment	-46	-203.2	327.3	0
Capital Work in Progress	189.7	130.5	131.3	199.2
Investments	17417.5	17560.2	23937.5	28530.6
Inventories	4028.3	3060.5	61.9	307.2
Sundry Debtors	716.2	136.5	776.7	2776.3
Cash and Bank Balance	314.3	361.8	2015.6	2121.2
Loans and Advances	12223.3	6358.1	18428.2	39122.1
Total Current Assets	17282.1	9916.9	21282.4	44326.8
Current Liabilities	4933.1	619	1518.7	3064.7
Provisions	716.3	829.6	1231.5	4104.1
Total Current Liabilities & Provisions	5649.4	1448.6	2750.2	7168.8
Net Current Assets	*11632.7*	*8468.3*	*18532.2*	*37158*
Miscellaneous Expenses not written off	84.6	69.2	62.1	50.3
Net Deferred Tax	-17.4	-13.9	-8.6	-75.1
Total Assets	**31920**	**28417.7**	**44425.2**	**67053.4**

Source: Capital Line

Reliance Communications (RLCM.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs593.15
Target Price	Rs760.00
Expected share price return	28.1%
Expected dividend yield	0.3%
Expected total return	**28.5%**
Market Cap	Rs1,224,278M
	US$30,676M

Price Performance



Source: Citi Investment Research

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Company description

RCOM is an integrated player in the Indian telecoms sector. It was listed on the Indian stock exchanges following the de-merger of Reliance Industries. RCOM is the second-largest player in the mobile segment, has an 80,000km-long India-wide optic-fiber network and owns the FLAG submarine cable network. RCOM has three business units: 1) Wireless, which includes a nationwide wireless network on CDMA and GSM; 2) Global Business comprising wholesale voice and data; and 3) Broadband for both retail and enterprise.

Buy: Focus Shifts to Execution

- **Recent revisions** — We recently upgraded RCOM to Buy/Low Risk with a revised target price of Rs760/share (RS835 earlier). Our target price is based on core business value of Rs620/share, which declined despite explicitly factoring in GSM launch in our subscriber adds and net towerco accretion of Rs140/share (R50 earlier).

- **Core business declines despite GSM** — Core business value at Rs620/share (Rs650 earlier) is based on 9.2x FY10E EV/EBITDA (by when RCOM's GSM roll-out would be fully evolved), at 5% discount to Bharti's implied target multiple (ex- towerco). Notwithstanding the narrowing of the leadership gap vs. Bharti, we believe that the dual network strategy carries inherent risks of cost duplication and/or execution and hence the valuation discount. GSM launch fails to add meaningful value with 1) substantially higher funding requirements, 2) modest 2-3% market share gains, and 3) lower EBITDA margin for RCOM in FY10E (41% as against 42% earlier) to reflect the likely cost duplication in a dual network.

- **Towerco value incorporates higher external tenancy visibility** — Our gross towerco value at US$10.2bn (Rs195/share) is based on higher visibility on external tenancy post issuance of LoIs and resultant higher tenancy ratio of RCOM. However, higher capex recovery assumptions (10-11% per tenant v/s 7-8% for Bharti Infra/Indus) also leads to depletion of value from the parentco, thus leading to estimated 'net' value accretion of Rs140/share.

- **Execution still a key risk** — There are inherent risks in execution of a dual network strategy (i.e. cost duplication, low market share gains), which cannot be wished away. RCOM's indicated 4QFY09 launch indicates the challenges it faces in matching the coverage of GSM incumbents.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	Rs M	Rs	%	x	x	%	%
2006A	4,823	2.36	na	nm	10.3	na	0.0
2007A	31,131	15.23	545.6	38.9	5.9	19.4	0.1
2008E	54,661	26.50	74.0	22.4	4.8	23.7	0.2
2009E	72,698	35.24	33.0	16.8	3.8	25.0	0.3
2010E	87,464	42.40	20.3	14.0	3.0	23.9	0.3

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate RCOM Buy/Low Risk. Continued expansion of the wireless market and RCOM's ability to capture its due market share profitably will, in our view, be a recurring theme. The wireless business has maintained return parameters despite lower revenue yields. Competitive pressures, though intense, should continue to be rational. RCOM's GSM foray has gained visibility with expected launch by 3Q-4QFY09. RCOM has higher market shares in dual technology circles as compared to single technology circles. Yet there are inherent risks in the execution of the dual network strategy (i.e. cost duplication, low market share gains) that cannot be wished away.

Valuation

Our 12-month forward target price of Rs760 is based on a core business fair value of Rs620 and net towerco value of Rs140. We usually value Indian wireless plays on DCF given the back-ended nature of profits and cash flow. For RCOM, however, we use EV/EBITDA. Our 12-month core business value of Rs620 is based on 9.2x FY10E EV/EBITDA (by when RCOM's GSM roll-out would be fully evolved), at 5% discount to Bharti's implied target multiple (ex-towerco).Notwithstanding the narrowing of the leadership gap vs. Bharti, we believe that the dual network strategy carries inherent risks of cost duplication and/or execution which prompts us to retain the valuation discount. Higher-than-average earnings growth (CAGR of 41% over FY07-10E) and the low sensitivity of wireless demand to interest rates should continue to support premium valuations for the sector, in our view.

Reliance Communications (RLCM.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	nm	38.9	22.4	16.8	14.0
EV/EBITDA adjusted (x)	na	22.6	15.9	11.3	9.2
P/BV (x)	10.3	5.9	4.8	3.8	3.0
Dividend yield (%)	0.0	0.1	0.2	0.3	0.3
Per Share Data (Rs)					
EPS adjusted	2.36	15.23	26.50	35.24	42.40
EPS reported	2.36	15.23	26.50	35.24	42.40
BVPS	57.48	99.80	124.31	157.30	197.45
DPS	0.00	0.50	1.00	2.00	2.00
Profit & Loss (RsM)					
Net sales	112,884	144,683	188,885	254,475	308,386
Operating expenses	-105,085	-112,931	-135,667	-176,569	-210,941
EBIT	**7,799**	**31,753**	**53,219**	**77,906**	**97,445**
Net interest expense	-2,649	-6	5,874	1,983	1,050
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**5,150**	**31,746**	**59,093**	**79,888**	**98,495**
Tax	-327	-616	-4,432	-7,190	-11,031
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**4,823**	**31,131**	**54,661**	**72,698**	**87,464**
Adjusted earnings	4,823	31,131	54,661	72,698	87,464
Adjusted EBITDA	24,786	56,405	81,176	117,179	146,478
Growth Rates (%)					
Sales	na	28.2	30.6	34.7	21.2
EBIT adjusted	na	307.1	67.6	46.4	25.1
EBITDA adjusted	na	127.6	43.9	44.4	25.0
EPS adjusted	na	545.6	74.0	33.0	20.3
Cash Flow (RsM)					
Operating cash flow	**21,810**	**111,982**	**147,687**	**123,120**	**156,105**
Depreciation/amortization	16,987	24,653	27,957	39,274	49,033
Net working capital	0	56,192	63,943	8,130	15,658
Investing cash flow	**0**	**-59,316**	**-174,748**	**-160,011**	**-140,279**
Capital expenditure	0	-59,316	-174,748	-160,011	-140,279
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**0**	**61,257**	**20,873**	**-7,659**	**-8,592**
Borrowings	0	62,462	24,226	0	0
Dividends paid	0	-1,196	-2,321	-4,641	-4,641
Change in cash	**21,810**	**113,922**	**-6,188**	**-44,550**	**7,235**
Balance Sheet (RsM)					
Total assets	**319,738**	**538,611**	**689,313**	**776,761**	**878,117**
Cash & cash equivalent	60,038	137,200	141,592	97,042	104,277
Accounts receivable	16,807	18,316	34,104	35,344	29,982
Net fixed assets	214,263	330,423	477,214	597,952	689,198
Total liabilities	**202,223**	**334,624**	**432,892**	**452,283**	**470,816**
Accounts payable	89,956	136,013	209,435	228,826	247,359
Total Debt	92,976	155,438	179,664	179,664	179,664
Shareholders' funds	**117,515**	**203,987**	**256,421**	**324,478**	**407,300**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	22.0	39.0	43.0	46.0	47.5
ROE adjusted	na	19.4	23.7	25.0	23.9
ROIC adjusted	na	14.7	16.5	18.0	17.7
Net debt to equity	28.0	8.9	14.8	25.5	18.5
Total debt to capital	44.2	43.2	41.2	35.6	30.6

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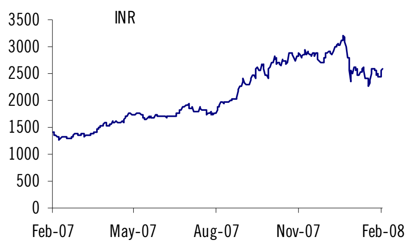
Reliance Industries (RELI.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs2,575.75
Target Price	Rs3,460.00
Expected share price return	34.3%
Expected dividend yield	0.6%
Expected total return	**34.9%**
Market Cap	Rs3,744,235M
	US$93,817M

Price Performance



Source: Citi Investment Research

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Company description

Reliance Industries is a conglomerate with interests in upstream oil & gas (E&P), refining, and petrochemicals. It is building a super-size refinery project through its 75% subsidiary (RPL) and is now undertaking development of a large gas find in KG basin. RIL is foraying into organized retailing and has plans to undertake SEZ projects over the medium to long term.

India's Own Super-Major

- **Reaffirming faith in E&P** — The recent hydrocarbon discovery in the deepwater KG-DWN-2003/1 (KG-D3) block follows discoveries in other blocks such as CY-DWN-2001/2, KG-III-5, KG-D4 (oil), CY-D5, etc. Sustained exploration success and further potential in KG-D9 and MN-D4 reaffirm our faith in the E&P story.

- **Gas price benchmark at US$4.2/mmbtu** — The EGoM resolved the issue of KG gas pricing by approving a landfall price of US$4.20/mmbtu. However, a final agreement on other commercial issues has yet to arrive.

- **Execution risks in exploration efforts** — On the E&P front, RIL continues to face rig shortages which while not impacting the timeline for KG-D6 development, could potentially slow down its exploration efforts. Windows of opportunities on the rig supply side (akin to the earlier-than-anticipated drilling in D3) could, however, enable RIL to commence drilling in the deepwater D9 (with Hardy) and MN-D4 (with Niko) blocks earlier than end-08 as is currently expected.

- **Earnings outlook** — Earnings should be driven by higher oil prices and increased contribution from D-6 oil & gas production, esp. in FY10. While supply side in refining remains tight due to continued project delays and cost escalations, a global slowdown could impact distillate demand. Petrochemicals earnings could also see a downturn in FY10.

- **New plans at Jamnagar** — a) PX expansion from 1.9 to 4.5 MMTPA for US$2-3bn; b) US$3bn petcoke-gasification of 6 MMTPA; and c) 2 MMTPA cracker for US$3bn based on refinery off-gases.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	90,693	65.10	19.8	39.6	12.5	26.4	0.4
2007A	119,434	82.18	26.2	31.3	5.9	25.8	0.4
2008E	148,046	101.87	24.0	25.3	4.9	21.1	0.6
2009E	198,827	136.82	34.3	18.8	4.0	23.5	0.8
2010E	231,120	159.04	16.2	16.2	3.3	22.5	0.9

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate RIL Buy/Low Risk with a target price of Rs3,460. We expect regional refining margins to remain robust with RIL enjoying an enhanced premium for its superior complexity. E&P business has delivered positive surprise and looks set to become more meaningful in the next 3-4 years as KG D6 field commences production and new discoveries are brought on stream. Upgrade of reserves in KG basin adds to the value. Given RIL's evolving portfolio, RIL's E&P business needs to be valued as a going concern rather than a combination of assets. We have therefore valued E&P business (Rs1291/share) on more traditional EV/FCF multiple rather than the consensus NAV approach. Robust demand and delay in capacity additions is likely to push the downturn in petrochemicals cycle into FY10; this should be offset by diversity of products to some extent.

Valuation

Our target price of Rs3,460 is based on a sum-of-the-parts value: 1) RIL's core petrochem and downstream oil business is valued on an EV/EBITDA of 7.5x mid-FY10E; 2) Total E&P assets including oil & gas prospects and other blocks are valued at Rs1291/share based on 15x steady state (FY11E) FCF; 3) Investment in RPL valued at 9x profit contribution to consolidated profits; 4) Organized retail business value based on Dec-08E and factored in at Rs137/share, as per Citi's retail analyst, Princy Singh; and 5) Treasury stock at RIL's target price.

Reliance Industries (RELI.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	39.6	31.3	25.3	18.8	16.2
EV/EBITDA adjusted (x)	26.3	19.1	17.0	13.2	11.5
P/BV (x)	12.5	5.9	4.9	4.0	3.3
Dividend yield (%)	0.4	0.4	0.6	0.8	0.9
Per Share Data (Rs)					
EPS adjusted	65.10	82.18	101.87	136.82	159.04
EPS reported	65.10	82.18	101.87	136.82	159.04
BVPS	205.28	439.56	524.55	638.87	773.16
DPS	10.00	11.00	15.00	20.00	22.00
Profit & Loss (RsM)					
Net sales	812,113	1,116,927	1,200,170	1,258,053	1,255,143
Operating expenses	-702,072	-962,438	-1,018,574	-1,020,628	-988,785
EBIT	**110,041**	**154,489**	**181,596**	**237,424**	**266,358**
Net interest expense	-8,770	-11,889	-12,056	-13,149	-12,853
Non-operating/exceptionals	5,770	2,604	8,829	12,423	21,638
Pre-tax profit	**107,041**	**145,205**	**178,368**	**236,698**	**275,143**
Tax	-16,347	-25,771	-30,323	-37,872	-44,023
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**90,693**	**119,434**	**148,046**	**198,827**	**231,120**
Adjusted earnings	90,693	119,434	148,046	198,827	231,120
Adjusted EBITDA	144,050	202,641	224,797	282,221	315,246
Growth Rates (%)					
Sales	23.0	37.5	7.5	4.8	-0.2
EBIT adjusted	23.2	40.4	17.5	30.7	12.2
EBITDA adjusted	13.8	40.7	10.9	25.5	11.7
EPS adjusted	19.8	26.2	24.0	34.3	16.2
Cash Flow (RsM)					
Operating cash flow	**117,189**	**158,489**	**238,222**	**270,966**	**299,451**
Depreciation/amortization	34,009	48,152	43,201	44,797	48,887
Net working capital	-7,514	-9,097	46,975	27,342	19,444
Investing cash flow	**2,515**	**-401,158**	**-136,000**	**-131,000**	**-109,500**
Capital expenditure	-126,361	-343,737	-136,000	-131,000	-109,500
Acquisitions/disposals	128,876	-57,421	0	0	0
Financing cash flow	**-176,268**	**291,789**	**-36,567**	**-38,627**	**-40,806**
Borrowings	41,174	66,272	-747	-1,853	-764
Dividends paid	-15,885	-18,006	-24,524	-32,698	-35,968
Change in cash	**-56,565**	**49,120**	**65,655**	**101,339**	**149,145**
Balance Sheet (RsM)					
Total assets	**718,893**	**1,161,732**	**1,399,074**	**1,589,004**	**1,793,774**
Cash & cash equivalent	14,192	63,581	129,236	230,575	379,721
Accounts receivable	41,636	37,324	69,889	73,001	72,735
Net fixed assets	441,935	737,520	830,319	916,522	977,135
Total liabilities	**432,909**	**522,946**	**636,766**	**660,567**	**670,185**
Accounts payable	114,387	147,098	229,531	229,131	219,576
Total Debt	218,656	278,007	265,964	260,035	255,197
Shareholders' funds	**285,980**	**638,786**	**762,308**	**928,437**	**1,123,588**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	17.7	18.1	18.7	22.4	25.1
ROE adjusted	26.4	25.8	21.1	23.5	22.5
ROIC adjusted	21.2	20.1	18.2	21.7	22.3
Net debt to equity	71.5	33.6	17.9	3.2	-11.1
Total debt to capital	43.3	30.3	25.9	21.9	18.5

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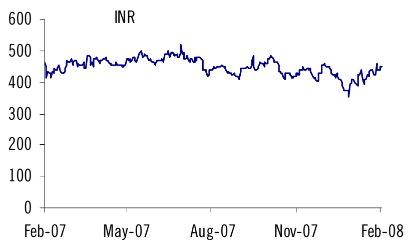
Satyam Computers Services (SATY.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs449.75
Target Price	Rs540.00
Expected share price return	20.1%
Expected dividend yield	1.6%
Expected total return	**22.4%**
Market Cap	Rs301,373M
	US$7,553M

Price Performance



Source: Citi Investment Research

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Company description

Satyam is the fourth-largest IT solutions provider from India and is one of the pioneers of offshore IT services delivery. The company has more than 570 clients across the globe and employs over 45,500 professionals across IT and BPO services. Satyam was an early entrant into IT consulting/package implementation work. Around 45% of its revenue come from this service line. It has domain competencies in verticals such as Manufacturing, BFSI, among others.

Consistent Delivery

- **Demand outlook for FY09** — The key issue at this point on time is the demand outlook for FY09. While Satyam's exposure to BFSI (~24%) is lower than peers, there have been concerns on Enterprise software, where Satyam enjoys strong position and is witnessing very strong growth rates. Any lead indicators of slowdown like deal deferrals, decision making delays, and longer sales cycles etc should be the questions for the management team.

- **Margin levers** — Satyam has been under pressure on margins over the last few years due to (1) higher than industry wage hikes and (2) INR appreciation. Satyam's view on margin outlook for FY09 should be a key discussion point.

- **Package implementation practice** — Satyam has ~45% of revenues coming from package implementation/consulting. Despite healthy license revenue guidance of ~18% yoy from SAP (in constant currency) and 15-25% yoy from Oracle, investors are concerned about the discretionary nature of this service. Management views would be keenly sought.

- **Supply of talent** — (1) Satyam's views on the supply situation for the next 2-3 years, (2) Satyam's initiatives to expand the pool, (3) Wage inflation expectations for FY09.

- **SEZ strategy** — Satyam's SEZ readiness, given the expectation of the STPI sunset clause coming into effect in FY09 should be discussed. Expectations of the absolute levels of tax rate in FY10, FY11 etc. are an important issue.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	9,979	15.09	36.9	29.8	6.8	26.2	0.8
2007A	14,047	20.81	38.0	21.6	5.1	27.9	0.8
2008E	17,066	24.92	19.7	18.0	4.3	26.8	1.6
2009E	19,991	29.20	17.1	15.4	3.7	26.3	2.2
2010E	21,242	31.02	6.3	14.5	3.2	24.1	2.7

Source: Powered by dataCentral

Investment Strategy

We rate Satyam Buy/Medium Risk (1M). Over the past several quarters, volume growth has trended at over 9% qoq. With revenues over US$1.5bn, Satyam becomes a strong contender for winning large deals. It has won at least three large deals over the past four quarters. We expect a gradual margin decline (rather than steep), as wage inflation should be partly offset by positive leverage from a better onsite-offshore mix, hiring strategies and improved utilization. Overall, we forecast 24% revenue CAGR and 15% EPS CAGR over FY07-10E.

Valuation

Our 12-month target is Rs540, based on 18x average of FY09-10E EPS. We value Satyam on a historical P/E basis relative to its medium-term growth potential and cross-check its valuation relative to peer Infosys, which is the industry benchmark. Given that we expect Satyam's earnings to grow at a 15% CAGR over the next three years, we believe the stock should trade toward the upper end of its historical three-year trading range of 12-21x 12-month forward earnings. Satyam has traded at a 10-40% discount to Infosys in the past two years due to its slower growth rates. Our forward P/E equates to a ~15% discount to our target multiple of 21x for Infosys.

Satyam Computers Services (SATY.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	29.8	21.6	18.0	15.4	14.5
EV/EBITDA adjusted (x)	23.5	17.4	14.3	11.9	10.1
P/BV (x)	6.8	5.1	4.3	3.7	3.2
Dividend yield (%)	0.8	0.8	1.6	2.2	2.7
Per Share Data (Rs)					
EPS adjusted	15.09	20.81	24.92	29.20	31.02
EPS reported	15.09	20.81	24.92	29.20	31.02
BVPS	66.53	87.41	104.20	122.77	140.95
DPS	3.50	3.50	7.00	10.00	12.00
Profit & Loss (RsM)					
Net sales	47,926	64,851	83,859	103,948	123,608
Operating expenses	-37,637	-50,958	-67,391	-84,673	-101,628
EBIT	**10,289**	**13,893**	**16,469**	**19,275**	**21,980**
Net interest expense	1,113	1,674	2,976	3,971	4,739
Non-operating/exceptionals	-1	0	0	0	0
Pre-tax profit	**11,401**	**15,566**	**19,445**	**23,246**	**26,719**
Tax	-1,509	-1,520	-2,379	-3,254	-5,477
Extraord./Min.Int./Pref.div.	87	1	0	0	0
Reported net income	**9,979**	**14,047**	**17,066**	**19,991**	**21,242**
Adjusted earnings	9,979	14,047	17,066	19,991	21,242
Adjusted EBITDA	11,662	15,377	18,119	21,173	24,097
Growth Rates (%)					
Sales	36.1	35.3	29.3	24.0	18.9
EBIT adjusted	36.3	35.0	18.5	17.0	14.0
EBITDA adjusted	34.3	31.9	17.8	16.9	13.8
EPS adjusted	36.9	38.0	19.7	17.1	6.3
Cash Flow (RsM)					
Operating cash flow	**7,689**	**10,541**	**12,108**	**15,892**	**16,858**
Depreciation/amortization	1,373	1,484	1,651	1,898	2,117
Net working capital	-2,685	-2,925	-3,322	-2,026	-1,761
Investing cash flow	**-1,292**	**-2,462**	**-1,633**	**-72**	**498**
Capital expenditure	-3,167	-4,135	-4,609	-4,044	-4,241
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,092**	**716**	**-4,435**	**-7,566**	**-9,079**
Borrowings	838	452	435	0	0
Dividends paid	-2,562	-2,600	-5,295	-7,566	-9,079
Change in cash	**7,489**	**8,796**	**6,041**	**8,254**	**8,278**
Balance Sheet (RsM)					
Total assets	**51,371**	**68,951**	**83,845**	**99,609**	**115,936**
Cash & cash equivalent	31,117	39,914	45,955	54,209	62,487
Accounts receivable	11,684	17,432	20,678	24,777	29,463
Net fixed assets	5,573	8,223	11,181	13,327	15,451
Total liabilities	**8,157**	**11,425**	**14,122**	**17,461**	**21,624**
Accounts payable	4,370	5,745	7,547	9,355	11,125
Total Debt	1,027	1,479	1,914	1,914	1,914
Shareholders' funds	**43,214**	**57,526**	**69,722**	**82,148**	**94,311**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	24.3	23.7	21.6	20.4	19.5
ROE adjusted	26.2	27.9	26.8	26.3	24.1
ROIC adjusted	81.0	78.0	64.7	59.3	53.2
Net debt to equity	-69.6	-66.8	-63.2	-63.7	-64.2
Total debt to capital	2.3	2.5	2.7	2.3	2.0

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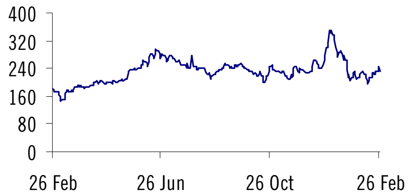
Powered by: dataCentral

Sical Logistics (SICA.BO)

Non-Rated	
Price (26 Feb 2008)	232
Market Cap	Rs 9303M
	US$233M

Price Performance



Source: dataCentral

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Company Description

Sical is India's leading provider of integrated solutions for offshore logistics and multi-modal logistics for bulk and containerized cargo. SICAL is a diversified business group with interests in logistics, marketing, manufacturing, building material and engineering. Logistics business comprises about 60% of the total turnover of the company.

Integrated Logistics Services Provider

- **Background** — Sical is the only integrated logistics services provider in India offering end-to-end port based bulk and container logistics services. The company has a strong track record of providing reliable and cost-efficient inland logistics and offshore logistics solutions.

- **Strategic Shift** — Over the past year, Sical has hived off non core businesses, and is now focused on 2 business areas – a) logistics services (bulk, container and offshore logistics), and b) the creation of a portfolio of infrastructure assets (under the ambit of Sical Infra Assets).

- **Sical Infra Assets Ltd** — Comprises the capital intensive assets of the parent company, and includes BOT type long term infrastructure projects. It has 7 SPVs including a container terminal, an iron ore terminal, a road and rail hub, and the CFS business, among others.

- **New Management Team Inducted** — Over the past 12 months, Sical has reorganized the structure of the company and inducted a new Board of Directors, and also a new management team to focus on both aspects of the business – the logistics services business, as also the capital intensive BOT projects in Sical Infra Assets.

- **Capex Plan** — Over the medium term, Sical Infra Assets will invest around Rs24.8bn across various initiatives – with a large proportion of the capex being raised through debt. The JV partners in each of the projects typically provide expertise and capital, whilst in some instances also provide the land for the projects.

Recent Developments

Sical Logistics announced that it has received formal approval from High Court sanctioning the demerger of its non logistics business into its wholly owned subsidiary Sicagen India on Jan 7,2008. (source: capitaline)

Sical Logistic subsidiary Sical Infra Assets received formal approval by Foreign Investment Promotion Board for a $26 million equity investment by Old Lane Mauritius IV, investment vehicle of Old Lane India Opportunities Fund. (source: capitaline)

Sical said it will launch its freight train operations by end of February 08, and has placed orders with Titagarh Wagons Limited costing Rs 120 million each. (source: capitaline)

Sical Logistics (SICA.BO): Financial Summary

Sical Logistics – Consolidated Profit and Loss Statement (Rs mn)

	FY02	FY03	FY04	FY05	FY06	FY07
Sales Turnover	13,066	11,258	11,122	12,515	10,040	10,687
Excise Duty	1,118	74	86	108	110	107
Net Sales	**11,948**	**11,184**	**11,036**	**12,407**	**9,930**	**10,580**
Stock Adjustments	(475)	(136)	(46)	6	57	(68)
Raw Materials	3,571	2,915	2,403	2,654	2,859	3,265
Power & Fuel Cost	69	45	45	54	49	41
Employee Cost	331	231	221	224	232	300
Other Manufacturing Expenses	6,346	6,724	7,152	8,083	5,093	5,720
Selling and Administration Expenses	291	87	76	93	317	320
Miscellaneous Expenses	552	253	184	296	189	966
Less: Pre-operative Expenses Capitalized	11	7	3	1	-	-
Total Expenditure	**11,624**	**10,383**	**10,123**	**11,397**	**8,681**	**10,680**
Operating Profit	**323**	**801**	**913**	**1,010**	**1,249**	**(100)**
% of Sales	2.7	7.2	8.3	8.1	12.6	(0.9)
Other Income	625	112	64	102	91	1,360
Interest	784	735	679	468	316	335
Depreciation	123	147	193	167	185	235
Profit Before Tax	**41**	**32**	**105**	**478**	**839**	**690**
Total Tax	**36**	**(7)**	**(21)**	**41**	**151**	**239**
Tax Rate (%)	89.0	(22.7)	(19.4)	8.6	18.0	34.7
Net Profit before Minority Interest	**5**	**39**	**126**	**437**	**688**	**450**
Extraordinary Items	426	(43)	6	(45)	12	164
Adjusted Net Profit	**(421)**	**81**	**120**	**481**	**676**	**287**
% of Sales	(7.1)	1.1	1.0	4.2	6.7	1.2

Source: Capitaline Plus

Sical Logistics – Consolidated Balance Sheet (Rs mn)

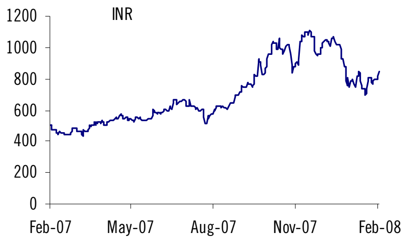
	FY02	FY03	FY04	FY05	FY06	FY07
SOURCES OF FUNDS :						
Share Capital	540	530	516	516	302	302
Reserves Total	931	951	1,161	1,546	3,052	3,220
Total Shareholders Funds	**1,471**	**1,481**	**1,677**	**2,062**	**3,354**	**3,522**
Secured Loans	3,244	3,300	3,152	3,010	2,780	2,732
Unsecured Loans	1,143	1,204	872	794	614	3,572
Total Debt	**4,387**	**4,504**	**4,023**	**3,804**	**3,394**	**6,304**
Total Liabilities	**5,858**	**5,985**	**5,700**	**5,866**	**6,748**	**9,825**
APPLICATION OF FUNDS :						
Gross Block	2,388	2,963	3,387	3,209	3,501	4,619
Less: Accumulated Depreciation	698	734	957	1,031	1,210	1,236
Net Block	**1,691**	**2,230**	**2,430**	**2,178**	**2,291**	**3,384**
Capital Work in Progress	1,089	263	191	201	724	773
Investments	785	647	344	343	454	973
Current Assets, Loans & Advances						
Inventories	768	564	453	448	462	374
Sundry Debtors	2,558	2,798	2,717	2,598	2,661	2,702
Cash and Bank	324	327	334	437	330	2,165
Loans and Advances	3,090	3,441	3,203	3,303	3,426	4,745
Total Current Assets	**6,740**	**7,130**	**6,708**	**6,786**	**6,879**	**9,986**
Current Liabilities	3,795	3,747	3,546	3,201	2,872	4,319
Provisions	380	254	174	214	447	688
Total Current Liabilities	**4,175**	**4,001**	**3,720**	**3,414**	**3,319**	**5,008**
Net Current Assets	2,565	3,129	2,988	3,372	3,560	4,979
Miscellaneous Expenses not written off	56	36	32	31	13	2
Net Deferred Tax	(328)	(319)	(285)	(259)	(293)	(286)
Total Assets	**5,858**	**5,985**	**5,700**	**5,866**	**6,748**	**9,825**

Source: Capitaline Plus

Sterlite Industries (India) (STRL.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs846.05
Target Price	Rs1,123.00
Expected share price return	32.7%
Expected dividend yield	0.5%
Expected total return	**33.2%**
Market Cap	Rs599,422M
	US$15,019M

Price Performance



Source: Citi Investment Research

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Company description

Sterlite is a non-ferrous metals major with a presence in aluminium, zinc and copper. It is a custom copper smelter with a capacity 400,000 tpa. Its aluminium revenues and profits come from its 51% ownership of Bharat Aluminium Co. Sterlite's zinc and lead revenues come from its 64.9% holding in Hindustan Zinc Ltd (HZL), an integrated zinc producer with a 60% domestic share. Sterlite is in the process of buying out the minority government stake in HZL (29.5%) and Balco (49%).

A Non-ferrous + Power Conglomerate

- **Non-ferrous metals major** — Sterlite is a conglomerate producing non-ferrous metals – zinc, aluminium and copper. The parent company is a custom copper smelter. It has a 51% stake in Balco and 64.9% stake in Hindustan Zinc. It is entering the power business through its 100% power subsidiary.

- **Copper business** — Sterlite is in the lowest-cost quartile of worldwide copper smelting operations' with a capacity of 400,000tpa. The net production cost has fallen from ~USc6/lb in FY07 to almost nil in 3QFY08. Its profits are determined by TC/RC margins, which have fallen from the FY07 levels of USc31/lb.

- **Aluminium: focus on cost savings** — Balco has an aluminium smelting capacity of 345,000 tpa and 810MW of captive power. In addition, it has been allocated 211 million tonnes of coal reserves in Chhattisgarh. In the long term, Balco has plans to take aluminium smelting capacity to about 1m tpa and set up an additional 1200MW of coal based power capacity. Aluminium prices have been improving over the last few months due to a shortage arising from the closing of bauxite mines in Indonesia and power shortage in China.

- **Zinc weakens** — Hindustan Zinc accounts for ~68% of Sterlite's EBITDA. It is a fully integrated producer which meets all zinc concentrate requirements internally. Production costs are low as 90% of ore is sourced from its low-cost Rampura Agucha mine. Zinc capacity has been expanded from 411,000 tpa to 581,000 tpa and will rise by a further 15% to 669,000 tpa by June 2008. Zinc prices have been weak on concerns of new mine supply coming on-stream.

- **Vedanta Alumina (29.5% subsidiary)** — Vedanta Alumina has commissioned its 1.4m tpa of alumina refinery along with 75MW captive power capacity, at Lanjigarh in Orissa. Vedanta Alumina is also setting up a greenfield aluminium smelter in Jharsaguda, Orissa, together with an associated 1,215MW of captive power. The first phase of 250,000tpa is expected to be commissioned by June 2009 and the second phase by late 2010.

- **Acquisition of stakes** — The acquisitions of the remaining 49% stake in Balco and 29.5% stake in HZL are expected to be completed in the next few months.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	16,781	30.05	153.1	28.2	7.8	32.3	0.1
2007A	44,841	80.29	167.2	10.5	4.7	55.9	0.5
2008E	44,832	63.28	-21.2	13.4	1.9	21.5	0.5
2009E	61,655	87.02	37.5	9.7	2.3	21.2	0.5
2010E	46,746	65.98	-24.2	12.8	1.9	16.1	0.5

Source: Company data and Citi Investment Research estimates

Investment Strategy

Zinc is the biggest contributor to Sterlite's EBITDA and should continue to benefit from strong volume growth. Sterlite's plan to soon raise its holding in HZL to 94.4%, and Sterlite's higher liquidity (4x) make it an alternate investment vehicle for investors in zinc. In the aluminium business, lower costs and some volume growth should help compensate for lower domestic prices in FY08. Sterlite's shareholding in Balco is also expected to soon reach 100%. Copper has a difficult outlook due to the lower TC/RC margins expected in FY08-09 vs. FY07. Sterlite has just been allocated coal mines for Balco, which should result in cost savings in the long term. Commissioning of the first phase of the power project being set up by its 100% power subsidiary from Dec 2009 onwards is on track.

Valuation

Since April 2006, the stock has re-rated to a P/E range of 6-10x due to positive trends in its three major businesses. We expect this re-rating to continue based on volume growth for zinc and steady profits in aluminium, with triggers coming from progress in acquiring the balance minority stakes from HZL and Balco. Based on this we maintain our target multiple at 12.5x, yielding a price of Rs1,088/share. To this we add the value of the power business (at book value of the equity investment) to arrive at our target price of Rs1,123. The stock has also crossed its 4-year average EV/EBITDA of 3.5x in the past few months, largely driven by these factors. Based on these triggers, we expect the EV/EBITDA upside to continue. At our target price, the stock would trade at an EV/EBITDA of 8.1x.

Sterlite Industries (India) (STRL.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	28.2	10.5	13.4	9.7	12.8
EV/EBITDA adjusted (x)	16.0	6.4	6.5	5.9	8.1
P/BV (x)	7.8	4.7	1.9	2.3	1.9
Dividend yield (%)	0.1	0.5	0.5	0.5	0.5
Per Share Data (Rs)					
EPS adjusted	30.05	80.29	63.28	87.02	65.98
EPS reported	30.05	80.29	63.28	87.02	65.98
BVPS	108.38	178.72	448.97	373.05	448.36
DPS	1.25	4.00	4.25	4.40	4.50
Profit & Loss (RsM)					
Net sales	131,272	243,868	258,621	285,038	248,313
Operating expenses	-96,300	-150,501	-177,248	-197,688	-181,859
EBIT	**34,972**	**93,367**	**81,373**	**87,349**	**66,455**
Net interest expense	-2,353	-3,791	-2,897	-5,266	-4,893
Non-operating/exceptionals	-101	-198	0	0	0
Pre-tax profit	**32,518**	**89,378**	**78,476**	**82,083**	**61,562**
Tax	-10,165	-24,118	-19,243	-18,846	-14,007
Extraord./Min.Int./Pref.div.	-5,572	-20,420	-14,401	-1,582	-809
Reported net income	**16,781**	**44,841**	**44,832**	**61,655**	**46,746**
Adjusted earnings	16,781	44,841	44,832	61,655	46,746
Adjusted EBITDA	40,241	101,406	89,866	96,147	75,222
Growth Rates (%)					
Sales	81.0	85.8	6.0	10.2	-12.9
EBIT adjusted	127.5	167.0	-12.8	7.3	-23.9
EBITDA adjusted	119.3	152.0	-11.4	7.0	-21.8
EPS adjusted	153.1	167.2	-21.2	37.5	-24.2
Cash Flow (RsM)					
Operating cash flow	**22,086**	**56,490**	**59,867**	**68,295**	**54,343**
Depreciation/amortization	5,269	8,039	8,493	8,798	8,767
Net working capital	-8,339	-18,647	5,205	-3,166	3,193
Investing cash flow	**-16,172**	**-43,070**	**-13,100**	**-154,914**	**-19,902**
Capital expenditure	-13,506	-23,796	-23,006	-31,306	-29,707
Acquisitions/disposals	-6,009	-26,091	0	-132,316	0
Financing cash flow	**-3,103**	**-13,438**	**65,731**	**50,526**	**-12,162**
Borrowings	-320	217	-11,762	59,387	-3,500
Dividends paid	-732	-4,441	-132	-3,595	-3,770
Change in cash	**2,811**	**-19**	**112,498**	**-36,093**	**22,279**
Balance Sheet (RsM)					
Total assets	**170,976**	**239,990**	**460,142**	**479,170**	**533,402**
Cash & cash equivalent	11,153	11,134	123,632	87,540	109,818
Accounts receivable	13,475	16,521	18,659	22,037	20,302
Net fixed assets	85,497	97,176	118,641	167,381	202,504
Total liabilities	**93,279**	**103,916**	**99,132**	**164,706**	**160,715**
Accounts payable	13,917	9,078	18,306	20,021	18,894
Total Debt	51,653	46,103	34,342	93,729	90,229
Shareholders' funds	**77,696**	**136,074**	**361,010**	**314,464**	**372,687**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	30.7	41.6	34.7	33.7	30.3
ROE adjusted	32.3	55.9	21.5	21.2	16.1
ROIC adjusted	23.9	51.1	30.8	25.0	16.6
Net debt to equity	52.1	25.7	-24.7	2.0	-5.3
Total debt to capital	39.9	25.3	8.7	23.0	19.5

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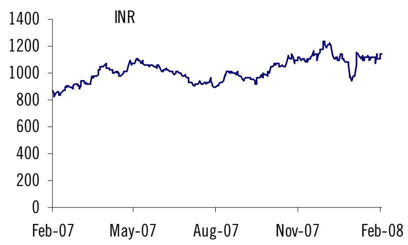
Powered by: dataCentral

Sun Pharmaceuticals (SUN.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs1,140.85
Target Price	Rs1,350.00
Expected share price return	18.3%
Expected dividend yield	1.0%
Expected total return	**19.3%**
Market Cap	Rs229,856M
	US$5,759M

Price Performance



Source: Citi Investment Research

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Company description

Sun Pharma is one of the fastest-growing companies in the domestic pharmaceutical market, growing at about 2x the industry rate. The company has followed a strategy of being the first to enter niche, high-growth segments (both organic and through acquisitions). The company has a presence in the CNS, pain management, ophthalmology, cardiovascular and respiratory segments. The company is looking to export its top formulation products to drive growth, and has set up marketing and distribution infrastructure in various markets. It is also filing for ANDA approvals through its US subsidiary Caraco and is close to concluding its second key acquisition in the US (Taro Pharma).

Consistent Delivery

- **Good track record** — We believe that Sun's track record of delivering consistent & robust growth while maintaining strong profitability & return rations makes it the best Indian play in the generics space. Improving visibility on a strong patent challenge pipeline, rapid growth across geographies and relatively lower currency risk vis-à-vis peers will help it command a premium in an uncertain market environment, in our view.

- **Robust domestic franchise** — Sun's dominance in chronic segments is a key strength, leading to superior growth & profitability vis-à-vis its peers. We expect Sun to be a key beneficiary of the rising growth rates and changing disease mix in India. Besides, with India making up c57% of sales, Sun's exposure to rupee appreciation is also lower than most of its peers.

- **Para-IV traction** — The visibility on Sun's patent challenge pipeline has improved significantly, Sun has 1) launched generic Trileptal; 2) settled Exelon with Novartis; 3) launched generic Protonix "at-risk" following breakdown of settlement talks between Teva & Wyeth; 4) received a "will not sue" covenant from Wyeth for Effexor XR. We expect Sun's patent challenge pipeline to emerge as a key source of option value going forward.

- **Taro Nearing Closure** — Taro's CY07 numbers were a positive surprise and it has indicated that it continues to work with Sun to conclude the merger agreement. We believe there is a good probability that the deal will go through, however we have not included it in our estimates yet. While the deal could be dilutive in Yr 1, we expect a strong combined entity over the medium term, with a large product basket/pipeline, integrated operations & multiple synergies.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	5,733	27.68	35.7	41.2	14.6	41.4	0.5
2007A	7,843	37.87	36.8	30.1	8.4	35.4	0.6
2008E	11,971	57.80	52.6	19.7	6.2	36.2	1.2
2009E	14,008	67.64	17.0	16.9	4.8	32.0	1.4
2010E	15,788	76.23	12.7	15.0	3.8	28.1	1.6

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Sun Pharma as Buy/Low Risk (1L), with a target price of Rs1,350. The recent Taro acquisition, using idle funds on the balance sheet, improves the company's global scale and reach as well as improving quality of earnings. Having taken a big step forward towards being bigger and more geographically spread out, we believe that Sun is now well placed to grow despite the challenges that keep coming in the way of global generics companies. Its strong base in India should continue to be a good driver of growth and profitability as well as a source of cash flows, besides providing it with a cushion against an appreciating rupee. At the same time, the growing visibility and success on its patent challenge pipeline improves cash flows as well as ability to gain traction with the trade.

Valuation

Our target price of Rs1,350 is based on a sum-of-the-parts approach. With a steadily growing profit line, we believe P/E is the best method to value Sun's base business. We use a multiple of 22x (as compared to 20x that we use for its peers such as Dr Reddy's and Cipla) to capture the value from a few upsides (Effexor XR, Taro acquisition) not included in our estimates at this point in time. At 22x FY09E earnings, we arrive at a value of Rs1,300 /share for the base business. We also ascribe an option value of Rs50/share to Sun's patent challenge pipeline – on account of the success achieved by Sun in monetizing three patent challenges (Trileptal, Protonix, Exelon), which we value on an NPV basis, and the growing number of patent challenges in the public domain.

Sun Pharmaceuticals (SUN.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	41.2	30.1	19.7	16.9	15.0
EV/EBITDA adjusted (x)	45.3	33.7	18.8	15.6	13.7
P/BV (x)	14.6	8.4	6.2	4.8	3.8
Dividend yield (%)	0.5	0.6	1.2	1.4	1.6
Per Share Data (Rs)					
EPS adjusted	27.68	37.87	57.80	67.64	76.23
EPS reported	27.68	37.87	57.80	67.64	76.23
BVPS	78.32	135.93	183.44	239.26	302.41
DPS	5.52	7.01	13.69	16.08	18.20
Profit & Loss (RsM)					
Net sales	16,380	21,340	29,400	34,223	39,370
Operating expenses	-11,923	-15,410	-18,582	-21,526	-25,489
EBIT	**4,457**	**5,930**	**10,818**	**12,697**	**13,881**
Net interest expense	0	0	1,331	1,920	2,569
Non-operating/exceptionals	1,412	2,405	887	1,084	1,315
Pre-tax profit	**5,869**	**8,335**	**13,036**	**15,701**	**17,765**
Tax	-239	67	-339	-785	-888
Extraord./Min.Int./Pref.div.	103	-559	-726	-908	-1,090
Reported net income	**5,733**	**7,843**	**11,971**	**14,008**	**15,788**
Adjusted earnings	5,733	7,843	11,971	14,008	15,788
Adjusted EBITDA	5,067	6,743	11,724	13,660	14,897
Growth Rates (%)					
Sales	38.0	30.3	37.8	16.4	15.0
EBIT adjusted	18.1	33.0	82.4	17.4	9.3
EBITDA adjusted	21.2	33.1	73.9	16.5	9.1
EPS adjusted	35.7	36.8	52.6	17.0	12.7
Cash Flow (RsM)					
Operating cash flow	**3,211**	**3,298**	**11,182**	**11,831**	**13,567**
Depreciation/amortization	610	813	906	964	1,016
Net working capital	-3,132	-5,358	-1,695	-3,140	-3,236
Investing cash flow	**-1,513**	**-1,105**	**-20,765**	**-9,408**	**-11,108**
Capital expenditure	-4,457	-2,103	-1,608	-1,608	-1,608
Acquisitions/disposals	2,944	998	-19,157	-7,800	-9,500
Financing cash flow	**-1,696**	**6,081**	**-1,291**	**-3,357**	**-3,798**
Borrowings	-516	7,603	1,567	0	0
Dividends paid	-1,167	-1,483	-2,858	-3,357	-3,798
Change in cash	**2**	**8,274**	**-10,874**	**-933**	**-1,339**
Balance Sheet (RsM)					
Total assets	**39,547**	**43,250**	**52,021**	**64,267**	**78,170**
Cash & cash equivalent	15,628	14,106	825	800	551
Accounts receivable	3,609	6,789	7,461	9,023	10,680
Net fixed assets	8,977	10,122	10,823	11,467	12,059
Total liabilities	**23,314**	**15,085**	**14,016**	**14,703**	**15,527**
Accounts payable	2,279	2,966	3,464	4,151	4,975
Total Debt	18,747	11,144	9,577	9,577	9,577
Shareholders' funds	**16,233**	**28,165**	**38,005**	**49,564**	**62,643**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	30.9	31.6	39.9	39.9	37.8
ROE adjusted	41.4	35.4	36.2	32.0	28.1
ROIC adjusted	28.6	29.2	41.8	42.3	40.7
Net debt to equity	19.2	-10.5	23.0	17.7	14.4
Total debt to capital	53.6	28.3	20.1	16.2	13.3

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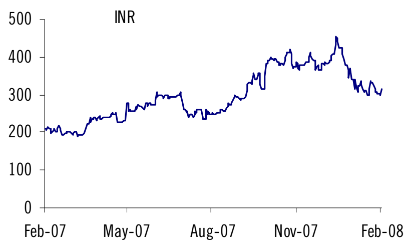
Suzlon Energy (SUZL.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs314.85
Target Price	Rs396.00
Expected share price return	25.8%
Expected dividend yield	0.3%
Expected total return	**26.1%**
Market Cap	Rs471,310M
	US$11,809M

Price Performance



Source: Citi Investment Research

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Company description

Suzlon Energy Limited is the world's fifth-largest wind turbine generator (WTG) company, and the largest WTG manufacturer in India and Asia. Suzlon is a fully integrated wind power company that provides customers with consultancy, design, manufacturing, operations, and maintenance services. Suzlon has a subsidiary in Germany for technology development, an R&D facility in the Netherlands for rotor blade molding and tooling, and wind turbine and rotor blade manufacturing facilities in India. The company is implementing a capacity expansion program that should increase its capacity from the current 1500MW to 6100MW by FY10E.

Short Term Pain for Long Term Gain

- **WTG suppliers in a sweet spot** — The average annual WTG market is set to jump to 26GW/year over the next 5 years vis-à-vis 10GW/year over the previous 5 years. Suzlon being one of the most vertically integrated WTG suppliers is well placed to leverage on this growth despite component supply bottlenecks.

- **At the time of the IPO** — Suzlon was an India oriented play with a comparatively simple supply chain making ~20%+ EBITDA margins. If Suzlon had maintained status quo (1) Margins could have been maintained for 3-4 years; (2) MW sales could have grown 10-20%; (3) Earnings would have tracked MW sales; and (4) Company would have turned FCF positive.

- **But for the longer term** — Suzlon had to grow outside India. As Suzlon expanded outside India, managing a global supply chain has put immense pressure on margins. We believe that these reasons could have led to Suzlon's operations in China and US making losses in 9mFY08 with the domestic WTG business being the key driver of profitability.

- **Problem areas include** — (1) Supply delays; (2) Tower shortages in the international markets; (3) Key component shortages; (4) Negative effects of forex movements; and (4) Negative effective of custom duty changes in US.

- **Product liabilities a key risk** — WTG manufacturers introduce new products/upgrades to manage competition. It is important to balance long pre launch test times with the necessity to introduce products fast to capitalize on the window of opportunity. Minimizing product liabilities and managing unfavorable events like the blade damages in US is critical for Suzlon's success.

Figure 1. Suzlon Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	7,562	5.26	-37%	59.9	16.6	43.1%	0.3%
2007A	8,648	6.00	14%	52.5	12.9	27.8%	0.3%
2008E	11,115	7.15	19%	44.0	5.2	17.7%	0.3%
2009E	17,897	11.52	61%	27.3	4.4	18.2%	0.3%
2010E	24,841	15.99	39%	19.7	3.6	21.1%	0.4%

Source: Company data and Citi Investment Research

Investment Strategy

We rate Suzlon shares Buy / Low Risk (1L) in view of the following:

We believe investors are largely ignoring the robust growth in WTG volumes over FY08E-11E on the back 6.7% YoY FY07 WTG margins compression. It is pertinent to note that end FY07 EBITDA margins of 16.7% were somewhere close to the historical trough. We expect Suzlon + Hansen to grow FD EPS at robust CAGR of 43% over FY08E-10E with RoE in the 18-23% band.

By the end of CY09E Suzlon would have acquired an 87.10% stake in REPower on the payment of ~€1.2bn, which should be funded through debt at an interest cost of 5.7%. The fact that this would be staggered over a three-year period means that the acquisition should turn EPS positive from CY09E.

Suzlon is one of the most vertically integrated WTG suppliers in the world, and we believe is one of the best equipped to cash in on this significant WTG opportunity on the back of some prudent steps that it has taken.

Valuation

Approach 1: One can value Suzlon as using a P/E multiple for the entire entity Suzlon WTG + REPower WTG + Hansen Gearbox. In this approach we use a P/E Multiple 26x December 2009E and we get a fair value of Rs387. **Approach 2:** We can value Suzlon + REPower using a P/E of 26x December 2009E multiple for Suzlon WTG +REPower WTG and add value of Hansen at a 25% discount to market capitalization. We get a fair value of Rs406 in this approach.

We take an average of the above two and set a target price of Rs396 for Suzlon.

Suzlon Energy (SUZL.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	59.9	52.5	44.0	27.3	19.7
EV/EBITDA adjusted (x)	52.9	38.1	25.5	17.5	13.7
P/BV (x)	16.6	12.9	5.2	4.4	3.6
Dividend yield (%)	0.3	0.3	0.3	0.3	0.4
Per Share Data (Rs)					
EPS adjusted	5.26	6.00	7.15	11.52	15.99
EPS reported	5.26	6.00	7.15	11.52	15.99
BVPS	18.91	24.40	60.50	71.24	86.45
DPS	1.00	1.00	1.10	1.10	1.20
Profit & Loss (RsM)					
Net sales	38,410	79,857	136,202	197,149	261,452
Operating expenses	-30,146	-68,617	-118,966	-171,782	-226,688
EBIT	**8,265**	**11,240**	**17,236**	**25,367**	**34,763**
Net interest expense	-648	-2,523	-5,170	-5,976	-8,639
Non-operating/exceptionals	556	965	1,428	2,051	3,497
Pre-tax profit	**8,173**	**9,683**	**13,495**	**21,441**	**29,621**
Tax	-568	-1,035	-2,110	-3,127	-4,214
Extraord./Min.Int./Pref.div.	-43	0	-270	-417	-566
Reported net income	**7,562**	**8,648**	**11,115**	**17,897**	**24,841**
Adjusted earnings	7,562	8,648	11,115	17,897	24,841
Adjusted EBITDA	8,980	12,958	20,236	30,922	41,888
Growth Rates (%)					
Sales	97.7	107.9	70.6	44.7	32.6
EBIT adjusted	96.9	36.0	53.3	47.2	37.0
EBITDA adjusted	91.5	44.3	56.2	52.8	35.5
EPS adjusted	-37.4	14.0	19.3	61.0	38.8
Cash Flow (RsM)					
Operating cash flow	**-3,288**	**-331**	**-19,203**	**-13,948**	**-8,357**
Depreciation/amortization	716	1,718	3,000	5,555	7,124
Net working capital	-10,989	-11,691	-35,040	-37,400	-40,323
Investing cash flow	**-4,061**	**-18,457**	**-28,561**	**-25,115**	**-9,534**
Capital expenditure	-4,063	-18,377	-28,561	-25,115	-9,534
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**11,320**	**46,303**	**77,998**	**39,652**	**30,044**
Borrowings	549	47,113	24,284	41,151	31,569
Dividends paid	-1,647	-1,640	-1,918	-1,917	-2,091
Change in cash	**3,970**	**27,515**	**30,234**	**589**	**12,153**
Balance Sheet (RsM)					
Total assets	**49,024**	**125,413**	**236,572**	**315,176**	**390,722**
Cash & cash equivalent	5,515	15,383	45,617	46,206	58,359
Accounts receivable	16,473	25,704	48,918	71,914	96,129
Net fixed assets	6,425	23,085	48,646	68,206	70,615
Total liabilities	**21,585**	**90,136**	**136,465**	**198,672**	**250,902**
Accounts payable	7,253	0	0	0	0
Total Debt	4,507	51,620	75,904	117,056	148,625
Shareholders' funds	**27,439**	**35,277**	**100,106**	**116,504**	**139,820**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	23.4	16.2	14.9	15.7	16.0
ROE adjusted	43.1	27.8	17.7	18.2	21.1
ROIC adjusted	36.1	19.2	13.9	13.1	13.8
Net debt to equity	-3.7	102.7	30.3	60.8	64.6
Total debt to capital	14.1	59.4	43.1	50.1	51.5

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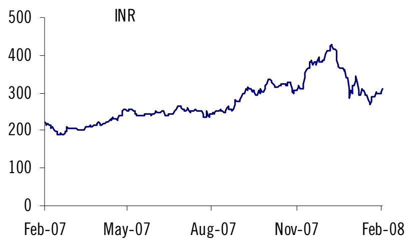
Powered by: dataCentral

Tata Chemicals (TTCH.BO)

Non-Rated

Price (26 Feb 08)	Rs311.15
Market Cap	Rs66,929M
	US$1,677M

Price Performance



Source: dataCentral

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Company Description

Tata Chemical's key business segments are fertilizers and inorganic chemicals. In the fertilizer segment, the company produces nitrogenous and phosphatics. For the standalone company, fertilizers account for 62% of revenues and 40% of PBIT. The company's inorganic chemicals business accounts for 38% of revenues and 60% of PBIT. Soda ash is its key inorganic chemical, accounting for 19% of standalone revenues. Post the acquisition of Brunner Mond, Tata Chemicals now controls 2.8m MTs of soda ash capacity and inorganic chemicals contribute ~60% of consolidated revenues. The company also has a strong food additives business (edible salt and cooking soda). Tata Salt has a c.50% share in the branded edible-salt market. It also has a small cement-manufacturing unit in Mithapur (0.44m MTPA), which uses by-products from its inorganic chemical works in Gujarat.

Focus on Inorganic Chemicals

- **Company focus** — The company's main focus is on inorganic chemicals, esp. soda-ash of which it is one of the top manufacturers in the world. It is also a large manufacturer of nitrogenous and phosphatic fertilizers, and a leader in the edible salt business with a 47% domestic market share.

- **Recent developments** — The company announced in Jan-08 the acquisition of General Chemical Industrial Products Inc. (GCIP), a US-based producer of soda ash, for US$1.0bn. GCIP has a capacity of 2.5MMTPA. The deal follows the acquisition of Brunner Mond (completed in 2006), a European manufacturer of soda ash. In addition, in February 2008, the company completed the sale of its 14.5% stake in Tata Investment Corporation Ltd to Tata Sons Ltd.

- **Soda ash and fertilizer business outlook** — Strong soda ash prices are likely to sustain amid supply disruptions in China. Though the govt. has approved the new pricing policy for domestic fertilizers which is supportive of de-bottlenecking, medium term progressive measures are not expected.

- **New initiatives** — The company is also venturing into new initiatives such as bio-fuels, bio-nano R&D, and fresh produce supply chain.

- **Strengths and weaknesses** — Key strengths include a stronger, sustained rise in soda ash prices, progressive government policies on fertilizers, and value realization from the new initiatives. Key weaknesses arise from the fact that Tata Chem's main product, soda ash, is a cyclical commodity, while the fertilizer business is subject to government policy uncertainty.

Statistical Abstract

Year to 31-Mar	Net Profit (Rs m)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	3,406	14.0	0.5	22.2	3.3	16.9	2.1
2006A	4,283	17.6	0.3	17.7	3.0	20.3	2.3
2007A	5,080	20.9	0.2	14.9	2.6	21.2	2.6

Source: Company Reports

Recent Developments

In January 2008, Tata Chemicals Ltd entered into an agreement to acquire General Chemical Industrial Products Inc. (GCIP), a US based chemical Company for US$ 1,005 million. Harbinger Capital Partners is the majority owner of GCIP. The transaction is conditioned on the receipt of stockholder and other regulatory approvals. GCIP is a significant Soda Ash producer in the USA with a capacity of 2.5 million TPA of Natural Soda Ash. GCIP has its manufacturing facilities located at Green River Basin in Wyoming, USA. In addition, in February 2008, the company completed the sale of its 14.5% stake in Tata Investment Corporation Ltd to Tata Sons Ltd.

Tata Chemicals (TTCH.BO): Financial Summary

Tata Chemicals- Consolidated Profit & Loss Statement (Rupees in Millions)

Year to 31-Mar	**FY05**	**FY06**	**FY07**
Gross Material Sales	30,432	40,980	59,152
Excise Duty	1,153	1,354	1,614
Processing Charges	547	351	94
Other Operating income	255	367	464
Net Sales	**30,081**	**40,344**	**58,096**
Expenses			
Net Material cost	14,580	20,409	24,932
Employee Costs	1,064	1,489	3,480
Stores & Spares	453	927	904
Power & Fuel	3,811	4,223	7,640
Other Expenses	5,018	5,732	11,035
Total Expenditure	**24,926**	**32,779**	**47,991**
EBITDA	**5,155**	**7,565**	**10,105**
EBITDA margin	*17%*	*19%*	*17%*
Net Interest cost	246	505	824
Depreciation	1,377	1,840	2,739
Non-operating income	1,017	834	978
Exceptionals	21	47	39
PBT	4,529	6,007	7,481
Provision for current taxes	1,621	1,933	2,348
Provision for deferred taxes	(498)	(210)	53
Effective tax rate	*25%*	*29%*	*32%*
PAT	**3,406**	**4,283**	**5,080**

Source: Company Reports

Tata Chemicals- Consolidated Balance Sheet (Rupees in Millions)

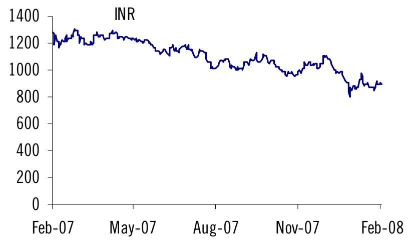
Year to 31-Mar	**FY05**	**FY06**	**FY07**
Share capital	2,152	2,152	2,152
Reserves & Surplus	17,827	20,042	23,567
Share premium	1,811	1,783	1,748
General reserves	16,016	18,259	21,819
Shareholders funds	19,978	22,194	25,718
Convertible Bonds	6,560	6,693	6,522
Long-term Debt	1,483	4,381	8,348
Short-term Debt	5,200	7,203	3,772
Total borrowings	13,242	18,277	18,642
Deffered Tax Liability	3,534	2,293	2,337
Deferred capital grants		239	211
Total Liabilities	**36,754**	**43,002**	**46,908**
Gross block	30,637	48,462	57,823
Less : Depreciation	15,555	26,257	29,558
Net block	15,082	22,205	28,264
CWIP	542	5,589	2,296
Goodwill	-	7,075	7,632
Investments	9,387	5,475	7,753
Cash & Bank	7,517	1,165	1,545
Net current assets	4,210	1,424	(619)
Current Assets	12,122	17,366	18,598
Sundry Debtors	4,404	7,655	9,665
Inventories	4,886	6,983	6,352
Loans & advances	2,831	2,727	2,582
Current Liabilities	7,912	15,942	19,217
Misc. Expenses not written off	17	70	37
Total Assets	**36,754**	**43,002**	**46,908**

Source: Company Reports

Tata Consultancy Services (TCS.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs897.85
Target Price	Rs1,165.00
Expected share price return	29.8%
Expected dividend yield	1.6%
Expected total return	**34.0%**
Market Cap	Rs878,645M
	US$22,021M

Price Performance



Source: Citi Investment Research

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Company description

TCS is India's largest and among the oldest IT companies. It is a part of the diversified Tata Group, one of the largest corporate groups in Asia. It has more than 108,000 employees, including its subsidiaries, with marketing presence across 32 countries and development presence in 10 countries besides India. It provides a comprehensive range of IT services to industries such as banking and financial services, insurance, manufacturing, telecommunications, retail and transportation. It had more than 800 active clients, including six of the Fortune Top 10 companies in the US.

Big Getting Bigger

- **Demand outlook for FY09** — The most important issue at this point in time is the demand outlook for FY09. With a very high exposure to BFSI (~43%), demand outlook there is a key focus area. Any lead indicators of slowdown like deal deferrals, delay in decision making, lengthening of sales cycle, etc should be the questions for the management team.

- **Margin levers** — Margin levers available to the company should be an area of focus, given the pressures due to rupee appreciation/wage inflation. TCS did well on margins in FY08 and has room to increase offshore proportion going forward. Margin outlook for FY09 is an important focus issue.

- **Supply of talent** — TCS's view on the supply-side situation – (1) availability of quality talent for next 2- 3 years, (2) TCS's initiatives on the supply side – programs like "Science to Software" to expand the pool, (3) Expectations for wage inflation in FY09.

- **Large deal ramp-ups** — TCS has been at the forefront of winning large deals with 7 such deals announced in 3Q alone (including the US$1.2 b win with The Nielsen Co). Further, TCS was pursuing ~25 large deals. Progress on large deals and further deal wins are a key issue to focus on.

- **SEZ strategy** — TCS's SEZ readiness, given the expectation of the STPI sunset clause coming into effect in FY09 should be discussed. Expectation of the absolute levels of tax rate in FY10, FY11 etc. is a key issue.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	29,074	29.71	39.1	30.2	15.0	64.3	0.8
2007A	40,608	41.50	39.7	21.6	9.9	55.1	1.3
2008E	50,817	51.93	25.1	17.3	7.0	47.2	1.6
2009E	57,077	58.33	12.3	15.4	5.2	38.9	1.8
2010E	63,031	64.41	10.4	13.9	4.1	33.1	2.0

Source: Powered by dataCentral

Investment Strategy

We rate TCS Buy/Medium Risk (1M) based on a fundamental 12-month view. As India's largest and most experienced IT services firm, TCS looks well positioned to benefit from the growing demand for offshore IT services. We believe TCS' margins in its international IT services business (around 95% of EBIT) are likely to trend down over the next few years. However, we expect this decline to be relatively modest, as we expect positive leverage from a better onsite-offshore mix, more hiring of fresh graduates and improved utilization with a strong demand outlook to offset margin pressures from wage inflation. We expect revenue CAGR of 21.8% and an EPS CAGR of 16.9% in FY07-10E.

Valuation

Our target price of Rs1,165 is based on 19x average of FY09-10E EPS, derived from a ~10% discount to our target 21x for Infosys, TCS's closest peer in business model. We expect TCS to continue to trade at slightly lower multiples than Infosys due to investors' greater comfort and familiarity with Infosys and the periodic supply of additional stock by Tata Sons. Our target price assumes a one-year forward P/E of 15-20% above the average BSE Sensex multiple, which we think is justified given TCS' superior FCF, RoIC and growth rates than the overall market, and it actually implies a slightly lower premium than that for Infosys. We believe P/E remains the most appropriate valuation measure given TCS' profitable track record and earnings visibility.

Tata Consultancy Services (TCS.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	30.2	21.6	17.3	15.4	13.9
EV/EBITDA adjusted (x)	23.6	17.0	13.9	12.0	10.1
P/BV (x)	15.0	9.9	7.0	5.2	4.1
Dividend yield (%)	0.8	1.3	1.6	1.8	2.0
Per Share Data (Rs)					
EPS adjusted	29.71	41.50	51.93	58.33	64.41
EPS reported	29.71	41.50	51.93	58.33	64.41
BVPS	59.69	90.98	128.91	171.24	217.64
DPS	6.75	11.50	14.00	16.00	18.00
Profit & Loss (RsM)					
Net sales	132,454	186,333	228,754	265,927	307,689
Operating expenses	-98,318	-139,888	-174,013	-203,058	-235,571
EBIT	**34,136**	**46,445**	**54,742**	**62,869**	**72,119**
Net interest expense	190	1,236	4,256	5,483	7,435
Non-operating/exceptionals	16	44	14	20	20
Pre-tax profit	**34,342**	**47,725**	**59,012**	**68,372**	**79,574**
Tax	-4,989	-6,700	-7,804	-10,975	-16,223
Extraord./Min.Int./Pref.div.	-279	-417	-392	-320	-320
Reported net income	**29,074**	**40,608**	**50,817**	**57,077**	**63,031**
Adjusted earnings	29,074	40,608	50,817	57,077	63,031
Adjusted EBITDA	36,946	50,629	60,251	68,424	78,201
Growth Rates (%)					
Sales	36.2	40.7	22.8	16.3	15.7
EBIT adjusted	26.9	36.1	17.9	14.8	14.7
EBITDA adjusted	29.8	37.0	19.0	13.6	14.3
EPS adjusted	39.1	39.7	25.1	12.3	10.4
Cash Flow (RsM)					
Operating cash flow	**22,978**	**41,834**	**42,203**	**37,322**	**52,727**
Depreciation/amortization	2,810	4,184	5,510	5,555	6,083
Net working capital	-8,995	-2,139	-10,259	-20,148	-9,271
Investing cash flow	**-7,012**	**-12,025**	**-10,188**	**-10,171**	**-12,233**
Capital expenditure	-7,012	-12,025	-10,188	-8,668	-11,152
Acquisitions/disposals	0	0	0	3,583	5,035
Financing cash flow	**-2,403**	**-10,641**	**-13,700**	**-15,658**	**-17,615**
Borrowings	0	0	0	0	0
Dividends paid	-6,606	-11,254	-13,700	-15,658	-17,615
Change in cash	**13,564**	**19,168**	**18,315**	**11,492**	**22,879**
Balance Sheet (RsM)					
Total assets	**85,626**	**130,880**	**169,449**	**208,467**	**258,894**
Cash & cash equivalent	3,965	22,605	44,784	62,943	94,018
Accounts receivable	32,790	42,857	50,326	55,845	64,615
Net fixed assets	15,072	22,912	27,590	30,704	35,773
Total liabilities	**25,655**	**40,234**	**41,687**	**39,285**	**44,297**
Accounts payable	0	0	0	0	0
Total Debt	979	1,184	0	0	0
Shareholders' funds	**59,972**	**90,646**	**127,762**	**169,182**	**214,598**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	27.9	27.2	26.3	25.7	25.4
ROE adjusted	64.3	55.1	47.2	38.9	33.1
ROIC adjusted	72.4	69.3	67.2	58.7	52.2
Net debt to equity	-5.0	-23.6	-35.1	-37.2	-43.8
Total debt to capital	1.6	1.3	0.0	0.0	0.0

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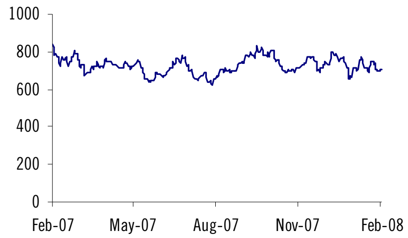
Powered by: dataCentral

Tata Motors (TAMO.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs702.10
Target Price	Rs914.00
Expected share price return	30.2%
Expected dividend yield	1.9%
Expected total return	**32.1%**
Market Cap	Rs270,662M
	US$6,782M

Price Performance



Source: Citi Investment Research

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Core Business to Gain Momentum, Jaguar – Land Rover a Concern

- **Core Business turnaround from FY09E** — Core auto business looks well positioned to turnaround from FY09E driven by a recovery in trucks, surge in bus demand and boost in car sales. We expect MHCV volumes to grow at a CAGR of 12% over FY08E-FY10E, forecast Ace sales to grow at a CAGR of 25% over next two years and car sales to show a robust growth of 57% in the same period driven by introduction of Nano and new Indica platform.

- **Strong Product Pipeline** — FY09 is a transition year for Tata Motors as it plans to launch new platforms for its key truck range, replace jaded Indica platform, launch the Nano ("1 lakh car") and new UV platform to boost sales. Commercial production of Nano is expected to begin in 3Q/4Q FY09.

- **Margins to Improve Marginally** — We expect margins to improve marginally as recovery in CV volumes and operating leverage benefits are likely to offset competitive pressures in car business along with input cost pressures due to increase in steel prices. We expect 130 bps improvement in margins over FY08E-FY10E.

- **Cash Flows to Remain Under Pressure** — Large capex/product development programmes (Rs120bn) over next 3-4 years along with large inorganic initiatives will likely be a drag on the consolidated balance sheet of TAMO. Impact of Land Rover-Jaguar acquisition on earnings and balance sheet of TAMO remains a key risk in the near to medium term.

Company description

Tata Motors is the flagship company of the Tata Group, India's largest business conglomerate, and is among the country's largest manufacturers of automobiles with a dominant position in the commercial-vehicle business. It has a significant presence in the utility vehicle and passenger-car segments.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	14,023	34.60	0.3	20.3	4.9	29.1	1.9
2007A	17,640	43.52	25.8	16.1	3.9	28.4	2.1
2008E	14,648	34.38	-21.0	20.4	3.3	19.6	1.8
2009E	17,030	39.98	16.3	17.6	2.9	19.7	1.9
2010E	21,487	50.44	26.2	13.9	2.5	21.6	2.3

Source: Company data and Citi Investment Research estimates

Investment Strategy

We maintain our Buy/Low risk rating on Tata Motors as we believe Tata Motor's new products in commercial and passenger vehicles will help Tata Motors regain lost market share in the respective segments. We also believe that commercial vehicle demand will revive in FY09 due to new and replacement demand. Key reasons for a strong growth outlook in commercial vehicles include a sustained pick-up in economic activity, a focus on infrastructure spending (expected to continue with funding in place) and a strong replacement cycle (27% of the existing fleet in India is more than 15 years old and needs to be replaced both for commercial and environmental reasons).

Valuation

Our target price of Rs914 is based on a sum-of-parts valuation methodology, which we believe captures the value embedded in subsidiaries and group holdings. Management has indicated its intent to unlock value, (to the benefit of Tamo's existing shareholders), for either / both HV Transmissions Ltd. and HV Axles Ltd., through an IPO or strategic sale to outside parties. We value Tata Motors' core business at Rs 657/share, which is based on 11x FY09E CEPS, at the lower end of the recent trading band, and which should be comfortably supported by a 21% CAGR in cash earnings over FY08-10E. Over the past fiscal, the CEPS multiple has ranged between 11.8-17.2x, with an average of 13.6x. We value the subsidiaries at Rs257/share.

Tata Motors (TAMO.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	20.3	16.1	20.4	17.6	13.9
EV/EBITDA adjusted (x)	16.1	13.8	18.4	14.4	11.6
P/BV (x)	4.9	3.9	3.3	2.9	2.5
Dividend yield (%)	1.9	2.1	1.8	1.9	2.3
Per Share Data (Rs)					
EPS adjusted	34.60	43.52	34.38	39.98	50.44
EPS reported	37.72	47.21	42.07	39.98	50.44
BVPS	144.62	178.25	210.25	239.05	276.56
DPS	13.00	15.00	12.50	13.50	16.00
Profit & Loss (RsM)					
Net sales	201,695	268,103	267,327	313,774	386,844
Operating expenses	-185,686	-248,299	-251,760	-292,863	-359,415
EBIT	**16,009**	**19,805**	**15,567**	**20,911**	**27,429**
Net interest expense	-2,264	-3,131	-3,600	-4,752	-5,798
Non-operating/exceptionals	6,788	9,058	11,013	6,549	7,018
Pre-tax profit	**20,534**	**25,732**	**22,980**	**22,707**	**28,649**
Tax	-5,245	-6,597	-5,056	-5,677	-7,162
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**15,289**	**19,135**	**17,924**	**17,030**	**21,487**
Adjusted earnings	14,023	17,640	14,648	17,030	21,487
Adjusted EBITDA	16,009	19,805	15,567	20,911	27,429
Growth Rates (%)					
Sales	16.9	32.9	-0.3	17.4	23.3
EBIT adjusted	6.7	23.7	-21.4	34.3	31.2
EBITDA adjusted	6.7	23.7	-21.4	34.3	31.2
EPS adjusted	0.3	25.8	-21.0	16.3	26.2
Cash Flow (RsM)					
Operating cash flow	**15,289**	**19,135**	**17,924**	**17,030**	**21,487**
Depreciation/amortization	0	0	0	0	0
Net working capital	0	0	0	0	0
Investing cash flow	**-12,694**	**-17,920**	**-35,596**	**-42,582**	**-47,581**
Capital expenditure	-14,194	-25,447	-30,000	-30,000	-35,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**4,414**	**10,723**	**19,889**	**5,000**	**19,810**
Borrowings	4,414	10,723	19,889	5,000	19,810
Dividends paid	0	0	0	0	0
Change in cash	**7,009**	**11,937**	**2,218**	**-20,552**	**-6,284**
Balance Sheet (RsM)					
Total assets	**162,118**	**190,235**	**223,639**	**249,006**	**297,243**
Cash & cash equivalent	11,194	8,268	10,964	3,587	3,969
Accounts receivable	7,158	7,822	10,150	11,893	14,632
Net fixed assets	45,212	63,946	86,717	108,286	132,735
Total liabilities	**106,747**	**121,537**	**142,606**	**156,873**	**190,654**
Accounts payable	28,385	37,097	36,847	42,860	52,569
Total Debt	29,368	40,091	59,981	64,981	84,791
Shareholders' funds	**55,371**	**68,698**	**81,033**	**92,132**	**106,590**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	7.9	7.4	5.8	6.7	7.1
ROE adjusted	29.1	28.4	19.6	19.7	21.6
ROIC adjusted	26.2	18.4	10.7	12.2	13.2
Net debt to equity	32.8	46.3	60.5	66.6	75.8
Total debt to capital	34.7	36.9	42.5	41.4	44.3

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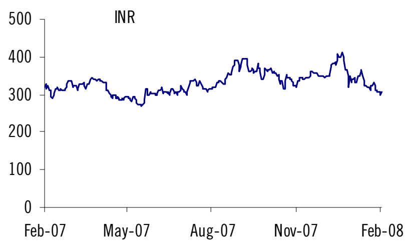
United Phosphorus (UNPO.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs307.00
Target Price	Rs445.00
Expected share price return	45.0%
Expected dividend yield	0.4%
Expected total return	**45.3%**
Market Cap	Rs65,563M
	US$1,643M

Price Performance



Source: Citi Investment Research

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Company description

UPL is the only Indian play on the global generics opportunity in crop protection products. It has focused on the generics opportunity in the regulated markets of the US and Europe, and has achieved success over the past decade. Apart from fully integrated manufacturing facilities, UPL also has strong distribution infrastructure across its targeted markets. UPL's growth strategy is built around filing its own registrations and acquiring tail-end brands of global majors in regulated markets. With c.80% of its revenue coming from global markets and a strong direct presence in the targeted markets, UPL has emerged as the third-largest generics company in the world.

Global Play on Crop Protection

- **Generic Crop Protection play** — UPL is the only Indian play in the global generic crop protection space. It has built a strong presence in a highly consolidated market with high entry barriers through a series of strategic acquisitions across the globe. It also has a presence in the seeds space through its 49% stake in Advanta which could emerge as a key growth & valuation driver for UPL over the long term.

- **Inorganic Initiatives** — UPL's growth strategy is driven by strategic acquisitions in niche markets. It recently acquired the Evofarms group to gain access to the cUS$500m Columbian market – another step in its initiative to strengthen its presence in the Latin American markets. With a lot of cash & significant leverage capacity on its balance sheet, we expect UPL to be active in making accretive acquisitions over the next 12-18 months.

- **Cerexagri update** — UPL expects to complete the rationalisation of manpower in France, leading to EUR4-5m (3% of Cerexagri's sales) savings from 1QFY09. It also intends to shut one site in France and manufacturing synergies should begin coming through from 2QFY09. Besides, contrary to initial expectations of flat sales, Cerexagri has clocked a healthy 10% growth in 9mFY08.

- **Potential Catalysts** — a) Acquisition related newsflows and consequent accretion to earnings estimates; b) Visible impact of Cerexagri restructuring on financials.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,163	11.34	20.4	27.1	4.6	21.0	0.3
2007A	2,897	14.41	27.1	21.3	4.1	20.9	0.4
2008E	3,815	16.50	14.5	18.6	2.5	17.7	0.5
2009E	6,445	26.11	58.3	11.8	1.9	19.1	0.5
2010E	8,072	31.49	20.6	9.8	1.6	18.0	0.5

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate the stock Buy/Low Risk (1L), with a target price of Rs445/share. UPL is the only Indian play on the global crop protection market, with around 80% of revenue coming from global markets. The global crop protection market looks attractive and is highly consolidated, with limited generics penetration, due to the high entry barriers that generate pricing discipline. UPL has reached critical scale in the regulated markets of the EU and US through a series of acquisitions over the past two to three years. We believe that UPL's growing free cash flows give it the ability to step up growth initiatives - both organic and inorganic. We expect this to lead to a pickup in the rate of growth and forecast FY07-10E revenue and net profit CAGRs of 23% and 42%, respectively.

Valuation

The generics crop protection segment is likely to witness healthy growth, with leading companies such as UPL expected to be among the key beneficiaries. We therefore believe that P/E vs. earnings CAGR or EV/EBIDTA vs. EBIDTA CAGR is the correct metrics to value companies such as UPL. Our target price is based on 17x P/E, which is within its trading range of 9-21x since January 2004, when the stock got re-listed post the reverse merger with its subsidiary (Search Chem). Our target price of Rs445/share is based on 17x FY09E earnings. We choose to use a higher multiple to account for the fact that fully diluted earnings are depressed by the low return (5.5%) assumed on idle funds. We expect UPL to be able to deploy these funds in accretive acquisitions over the next 12-15 months, thereby leading to the true earnings power reflected in our FDEPS estimates.

United Phosphorus (UNPO.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	27.1	21.3	18.6	11.8	9.8
EV/EBITDA adjusted (x)	14.8	13.1	9.9	6.1	4.4
P/BV (x)	4.6	4.1	2.5	1.9	1.6
Dividend yield (%)	0.3	0.4	0.5	0.5	0.5
Per Share Data (Rs)					
EPS adjusted	11.34	14.41	16.50	26.11	31.49
EPS reported	11.33	14.03	12.78	26.11	31.49
BVPS	66.92	74.33	121.34	159.87	196.76
DPS	1.00	1.20	1.40	1.40	1.40
Profit & Loss (RsM)					
Net sales	17,954	24,498	36,909	41,327	45,456
Operating expenses	-14,525	-20,483	-31,801	-33,776	-36,673
EBIT	**3,429**	**4,015**	**5,107**	**7,551**	**8,783**
Net interest expense	-988	-1,046	-1,187	-1,090	-1,106
Non-operating/exceptionals	66	135	-687	1,083	1,725
Pre-tax profit	**2,507**	**3,104**	**3,233**	**7,544**	**9,402**
Tax	-328	-525	-582	-1,509	-1,880
Extraord./Min.Int./Pref.div.	-18	241	304	410	551
Reported net income	**2,162**	**2,821**	**2,955**	**6,445**	**8,072**
Adjusted earnings	2,163	2,897	3,815	6,445	8,072
Adjusted EBITDA	4,831	5,671	7,098	9,602	10,896
Growth Rates (%)					
Sales	26.8	36.4	50.7	12.0	10.0
EBIT adjusted	36.2	17.1	27.2	47.8	16.3
EBITDA adjusted	38.2	17.4	25.2	35.3	13.5
EPS adjusted	20.4	27.1	14.5	58.3	20.6
Cash Flow (RsM)					
Operating cash flow	**1,767**	**8,820**	**2,392**	**5,473**	**6,762**
Depreciation/amortization	1,402	1,656	1,991	2,051	2,112
Net working capital	-1,969	4,424	-1,889	-1,530	-1,147
Investing cash flow	**-6,271**	**-12,394**	**-483**	**306**	**789**
Capital expenditure	-1,452	-4,350	-844	-777	-936
Acquisitions/disposals	-3,862	-6,986	0	0	0
Financing cash flow	**9,311**	**6,784**	**6,099**	**4,953**	**2,913**
Borrowings	9,981	7,247	-4,062	0	0
Dividends paid	-161	-454	-337	-337	-337
Change in cash	**4,807**	**3,210**	**8,008**	**10,732**	**10,464**
Balance Sheet (RsM)					
Total assets	**33,816**	**47,837**	**57,705**	**70,323**	**82,282**
Cash & cash equivalent	4,158	4,604	12,612	23,344	33,808
Accounts receivable	4,298	5,697	9,788	11,298	12,427
Net fixed assets	6,517	10,921	10,826	10,647	10,526
Total liabilities	**21,051**	**32,841**	**29,897**	**31,527**	**33,051**
Accounts payable	7,716	12,504	13,622	15,253	16,777
Total Debt	12,128	19,593	15,530	15,530	15,530
Shareholders' funds	**12,765**	**14,996**	**27,808**	**38,796**	**49,230**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	26.9	23.1	19.2	23.2	24.0
ROE adjusted	21.0	20.9	17.7	19.1	18.0
ROIC adjusted	18.2	15.0	16.6	21.8	24.8
Net debt to equity	62.4	99.9	10.5	-20.1	-37.1
Total debt to capital	48.7	56.6	35.8	28.6	24.0

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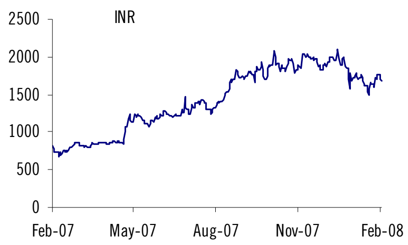
United Spirits (UNSP.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs1,683.30
Target Price	Rs2,164.00
Expected share price return	28.6%
Expected dividend yield	0.3%
Expected total return	**28.8%**
Market Cap	Rs167,743M
	US$4,203M

Price Performance



Source: Citi Investment Research

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Company description

United Spirits is the largest player in India's branded spirits market. It pursues an inorganic growth strategy, acquiring the second-largest Indian liquor manufacturer, Shaw Wallace and recently acquiring scotch manufacturer Whyte & Mackay. While the Shaw Wallace acquisition has significantly enhanced its competitive position, increasing its market share in branded spirits to 53%, W&M has given it access to scotch inventory, which we expect will drive the next leg of India growth strategy. UNSP has also acquired Bouvet Ladubay — the wine arm of champagne major Taittinger — and is looking to introduce its products to the Indian market.

Earnings Surprises Continue

- **Domestic business strong** — Growth in the domestic business continues to be strong, aided by 13% volume growth and up-trading driving improving product mix. Sharp declines in raw material costs are aiding margins and introduction of Whyte & Mackay brands should provide a further leg up to margins.

- **Whyte & Mackay earnings surprise** — UNSP management has recently disclosed W&M's earnings, which are much higher than our estimates. W&M has delivered EBITDA of GBP 50.3 for period of 7.5 months (16^{th} May 07 date of acquisition-31^{st} Dec 2007) against our estimate of GBP50m EBITDA for the full year (ending Mar). In addition, the restructuring of W&M seems to be complete, with very minor costs associated for the reported period.

- **More surprises ahead?** — W&M brands have recently been launched in India (and plans are underway for other emerging markets). With the scaling up of the branded business, growth for W&M could look up further. As such, W&M has a significant part of its future cash flows for bulk scotch business secure, given that it has put options on its buyers (global scotch whisky majors).

- **Debt pay-down will have to wait** — Aggressive balance sheet de-leveraging is unlikely in the near term, though management had indicated debt retirement over the next 2-years. However, in the current market conditions, treasury stock sale, or W&M listing seem unlikely. UNSP looks comfortably placed to service its debt, with an interest coverage of 4x.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	445	7.37	3.3	nm	12.1	7.9	0.2
2007A	2,973	35.86	386.8	46.9	10.2	26.9	0.2
2008E	4,128	41.28	15.1	40.8	10.0	27.0	0.3
2009E	6,465	64.65	56.6	26.0	7.6	33.0	0.4
2010E	8,043	80.43	24.4	20.9	5.8	31.4	0.5

Source: Company data and Citi Investment Research estimates

Investment Strategy

We have a Buy (1L) rating on United Spirits & target price of Rs2164. India's organized liquor market has been growing at 13%, driven by rising disposable incomes, favorable demographics & shift in consumption patterns. Its acquisition of Shaw Wallace has strengthened its competitive position & has 53% share of India's organized liquor market, which has high entry barriers. UNSP is exploring international acquisitions. It acquired Whyte & Mackay. The acquisition is EPS accretive & a good strategic fit, in our view. We believe it will significantly enhance UNSP's plans to expand its presence in the Indian premium whisky segments & expand into fast-growing Chinese and Russian markets. W&M will provide UNSP access to the European market. UNSP looks well positioned to enhance the value of W&M's inventory of scotch whiskey, by providing access to a ready & fast-growing market for premium whisky. Steady sales growth, margin expansion & lower interest costs should drive EPS CAGR of 51% in FY07-09E. United Spirit's capital efficiency is looking up.

Valuation

Our target price of Rs2164 is based on 18x FY09E EV/EBITDA. We have benchmarked our multiple against regional & global liquor companies. It is at 15% discount to the Asian peer group avg., which we believe is conservative, given that UNSP EBITDA growth CAGR is significantly higher. However, we attribute a premium of about 20%-25% to UNSP to global FY09E avg. valuation multiples in recognition of: 1) UNSP's dominant position in India; 2) strong demand growth of 13%, driven by rising incomes & market-share gains at the expense of the unbranded sector; 3) high barriers to entry; 4) 51%, 2-year EPS CAGR.

United Spirits (UNSP.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	nm	46.9	40.8	26.0	20.9
EV/EBITDA adjusted (x)	90.7	41.0	18.6	16.3	14.2
P/BV (x)	12.1	10.2	10.0	7.6	5.8
Dividend yield (%)	0.2	0.2	0.3	0.4	0.5
Per Share Data (Rs)					
EPS adjusted	7.37	35.86	41.28	64.65	80.43
EPS reported	20.73	68.40	36.90	60.27	76.05
BVPS	139.20	165.18	169.07	222.53	289.33
DPS	3.70	2.86	4.75	6.81	9.25
Profit & Loss (RsM)					
Net sales	21,485	29,249	43,969	52,433	59,214
Operating expenses	-19,987	-25,229	-34,155	-39,937	-45,006
EBIT	**1,497**	**4,020**	**9,814**	**12,497**	**14,208**
Net interest expense	-1,524	-873	-4,500	-4,140	-3,690
Non-operating/exceptionals	595	876	500	500	500
Pre-tax profit	**568**	**4,022**	**5,814**	**8,857**	**11,018**
Tax	-123	-1,049	-1,686	-2,391	-2,975
Extraord./Min.Int./Pref.div.	808	2,697	-438	-438	-438
Reported net income	**1,254**	**5,670**	**3,690**	**6,027**	**7,605**
Adjusted earnings	445	2,973	4,128	6,465	8,043
Adjusted EBITDA	1,923	4,358	10,842	13,673	15,428
Growth Rates (%)					
Sales	85.9	36.1	50.3	19.2	12.9
EBIT adjusted	215.7	168.4	144.1	27.3	13.7
EBITDA adjusted	204.9	126.6	148.8	26.1	12.8
EPS adjusted	3.3	386.8	15.1	56.6	24.4
Cash Flow (RsM)					
Operating cash flow	**-1,857**	**3,059**	**6,020**	**8,341**	**10,924**
Depreciation/amortization	426	338	1,028	1,177	1,221
Net working capital	-2,723	-3,386	865	699	1,661
Investing cash flow	**320**	**171**	**-3,607**	**-377**	**-383**
Capital expenditure	-999	-269	-2,642	-377	-383
Acquisitions/disposals	1,319	440	-965	0	0
Financing cash flow	**14,788**	**7,306**	**46,462**	**-17**	**-170**
Borrowings	9,692	-630	44,198	-4,000	-5,000
Dividends paid	-223	-237	-475	-681	-925
Change in cash	**13,251**	**10,535**	**48,875**	**7,946**	**10,371**
Balance Sheet (RsM)					
Total assets	**32,597**	**37,489**	**98,956**	**102,124**	**105,725**
Cash & cash equivalent	3,611	5,778	1,724	2,237	2,859
Accounts receivable	3,220	3,991	8,424	9,329	10,286
Net fixed assets	4,864	5,190	12,735	12,581	12,403
Total liabilities	**22,894**	**22,084**	**80,346**	**78,168**	**75,089**
Accounts payable	6,309	6,050	18,207	19,969	21,816
Total Debt	15,431	14,802	59,000	55,000	50,000
Shareholders' funds	**9,703**	**15,405**	**18,619**	**23,965**	**30,645**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.0	14.9	24.7	26.1	26.1
ROE adjusted	7.9	26.9	27.0	33.0	31.4
ROIC adjusted	11.1	13.6	16.3	13.2	14.5
Net debt to equity	121.8	58.6	307.6	220.2	153.8
Total debt to capital	61.4	49.0	76.0	69.7	62.0

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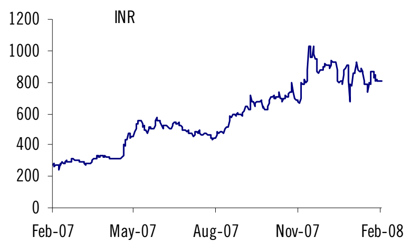
UTV Software Communications (UTVS.BO)

Buy/High Risk	1H
Price (26 Feb 08)	Rs810.05
Target Price	Rs887.00
Expected share price return	9.5%
Expected dividend yield	0.2%
Expected total return	**9.7%**
Market Cap	Rs18,966M
	US$475M

Price Performance



Source: Citi Investment Research

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Disney's India Growth Engine

- **Integrated media play** — UTV is an integrated media company straddling the entire media value chain from motion pictures, broadcasting, and TV content to high growth new media businesses like animation and gaming.
- **Disney's India vehicle** — Recently, Disney increased its stake in UTV to 32.1% from 13.7% earlier through a preferential share allotment of shares at Rs860.8/share. There are synergies with Disney in all business segments for UTV which will start flowing through in due course.
- **Movie portfolio performing well** — UTV looks poised for growth in the US$2bn Indian cinema market with a strong slate of movies straddling different genres and languages. UTV's portfolio approach in movies has delivered strong growth so far. We believe the growth momentum is set to continue over the next 2-3 years with a strong movie portfolio and monetization of past released Hindi and Hollywood movies.
- **Broadcasting business capitalized** — UTV has rapidly expanded in the broadcasting space, and now has a youth centric channel and three movie channels with a planned entry in the English business news segment shortly. With Disney investment of US$30m in the broadcasting entity for a 15% stake, the enterprise value of UTV's broadcasting business is pegged at US$200m. The capital raised will fund the growth for the existing channels and expansion in the business news segment.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	91	4.69	-43.8	172.7	11.8	6.8	0.0
2007A	198	8.66	84.5	93.6	10.2	12.6	0.4
2008E	323	13.01	50.3	62.2	8.1	15.1	0.2
2009E	629	25.31	94.5	32.0	6.7	22.9	0.4
2010E	807	32.48	28.3	24.9	5.4	24.0	0.6

Source: Company data and Citi Investment Research estimates

Company description

UTV is an integrated media and entertainment company with presence in Indian & international film production & distribution business, television content and interactive media such as animation, VFX and online and mobile gaming. UTV started off by producing ad-films and then TV content in 1990 for state-owned Doordarshan and consequently for Zee TV. It ventured into movie production and distribution in 1998. In 2005, it launched the kids channel Hungama, which was sold off to Disney. Disney has recently hiked its stake in UTV to 32.1%.

Investment Strategy

We rate UTV as Buy/High Risk with a target price of Rs887. It is one the few listed integrated media straddling the entire media value chain. UTV has broken new ground in India's motion picture business by operating a studio-like model. Relationships with international production houses have catapulted UTV into the international motion picture space. UTV has a strong slate of movies to be launched in the next 3 years with revenue CAGR of 78% over FY07-FY10E. An US$11m order book and strategic relationships with Disney and other international production houses should drive growth. Gaming revenues will be driven by acquisition of Ignition and Indiagames. We forecast a CAGR of 113% growth for interactive segment over FY07-10E. UTV is re-entering the broadcasting space by launching more channels. We forecast revenue CAGR of 66% & earnings CAGR of 40% for UTV over FY07-10E.

Valuation

Our sum-of-the-parts based target price for UTV is Rs887. Given the high earnings trajectory of the movie business at 133% CAGR (FY07-09E), we value it at an EV/EBIT multiple of 23x FY09E EBIT, a premium to the global entertainment universe. We value the content business at 18x FY09E EBIT, which is at a premium to the existing listed players. UTV's own broadcasting initiatives will deliver UTV content & will drive EBIT CAGR of 35% over FY07-10E, on our estimates. The valuation multiples we have ascribed to the different businesses may look expensive in the global context, but are at a discount compared to the Indian media universe.

UTV Software Communications (UTVS.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	172.7	93.6	62.2	32.0	24.9
EV/EBITDA adjusted (x)	166.7	nm	27.3	15.4	12.3
P/BV (x)	11.8	10.2	8.1	6.7	5.4
Dividend yield (%)	0.0	0.4	0.2	0.4	0.6
Per Share Data (Rs)					
EPS adjusted	4.69	8.66	13.01	25.31	32.48
EPS reported	7.29	20.24	13.01	25.31	32.48
BVPS	68.64	79.20	99.78	121.51	149.39
DPS	0.00	2.85	1.84	3.58	4.59
Profit & Loss (RsM)					
Net sales	2,084	1,749	3,882	6,246	8,038
Operating expenses	-2,016	-1,709	-3,269	-5,155	-6,677
EBIT	**68**	**40**	**612**	**1,091**	**1,361**
Net interest expense	0	-16	-143	-116	-81
Non-operating/exceptionals	48	18	57	62	69
Pre-tax profit	**116**	**42**	**526**	**1,038**	**1,349**
Tax	-25	163	-128	-247	-323
Extraord./Min.Int./Pref.div.	51	258	-74	-162	-218
Reported net income	**142**	**463**	**323**	**629**	**807**
Adjusted earnings	91	198	323	629	807
Adjusted EBITDA	116	71	703	1,190	1,469
Growth Rates (%)					
Sales	17.9	-16.1	121.9	60.9	28.7
EBIT adjusted	-65.0	-41.7	1,435.1	78.2	24.7
EBITDA adjusted	-53.4	-38.4	887.1	69.2	23.4
EPS adjusted	-43.8	84.5	50.3	94.5	28.3
Cash Flow (RsM)					
Operating cash flow	**-503**	**390**	**1,073**	**671**	**841**
Depreciation/amortization	47	31	91	99	108
Net working capital	-711	49	450	-218	-292
Investing cash flow	**-194**	**-472**	**-1,683**	**-100**	**-100**
Capital expenditure	-159	-501	-54	-100	-100
Acquisitions/disposals	-35	29	-1,629	0	0
Financing cash flow	**630**	**708**	**11**	**-412**	**-514**
Borrowings	830	622	-257	-323	-400
Dividends paid	0	-65	-46	-89	-114
Change in cash	**-67**	**626**	**-599**	**159**	**227**
Balance Sheet (RsM)					
Total assets	**2,933**	**4,469**	**6,083**	**7,654**	**8,974**
Cash & cash equivalent	66	685	12	9	17
Accounts receivable	582	465	872	1,403	1,806
Net fixed assets	407	877	840	842	834
Total liabilities	**1,595**	**2,581**	**3,604**	**4,636**	**5,263**
Accounts payable	484	939	2,212	3,560	4,582
Total Debt	1,015	1,637	1,380	1,057	657
Shareholders' funds	**1,338**	**1,887**	**2,479**	**3,019**	**3,711**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	5.6	4.1	18.1	19.1	18.3
ROE adjusted	6.8	12.6	15.1	22.9	24.0
ROIC adjusted	2.4	8.4	20.5	39.0	42.9
Net debt to equity	70.9	50.5	55.2	34.7	17.2
Total debt to capital	43.1	46.5	35.8	25.9	15.0

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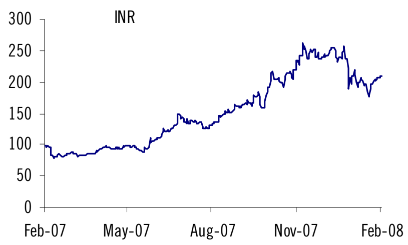
Voltas (VOLT.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs209.75
Target Price	Rs242.00
Expected share price return	15.4%
Expected dividend yield	0.5%
Expected total return	**15.9%**
Market Cap	Rs69,403M
	US$1,739M

Price Performance



Source: Citi Investment Research

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Company description

Voltas, a Tata group company, is a leading player in India's Heating, Ventilation and Air Conditioning (HVAC) market, having a ~28% market share in electro-mechanical projects. The company offers engineering solutions for a wide spectrum of industries in areas such as HVAC, refrigeration, electro-mechanical projects, textile machinery, machine tools, mining and construction equipment, materials-handling vehicles, water management, building management systems, indoor air quality and chemicals.

Play on India and Middle East HVAC capex

- **Strong industry outlook** — India's HVAC industry is just starting to take off, with revenue growth being taken to a higher trajectory by a domestic construction boom in airports, malls, multiplexes and offices. High levels of construction activity in the Middle East would also benefit Voltas.
- **Order backlog up 44% YoY, strong pipeline** — Voltas's current order-backlog of Rs35bn is up 44% YoY. It has won an electromechanical order for a theme park and a district cooling plant in UAE. It has also won an electromechanical order from Qatar worth Rs5bn. The company expects the decision on the Delhi airport tender in a couple of months.
- **Confident of achieving the "10x10x10" vision** — Voltas is confident of achieving Rs100bn in revenue & margins of 10% by 2010. The company is now looking to stretch these targets by setting the goal of achieving 10% at the PBT level.
- **Near term catalysts for the stock** — Voltas is keenly targetting the electromechanical contracts for major airport contracts like the Delhi and the Mumbai airport. Any such order win could be a positive trigger for the stock.

Voltas Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	967	2.92	113.1	71.8	28.7	44.5	0.3
2007A	1,063	3.21	9.9	65.3	18.2	34.2	0.5
2008E	2,268	6.86	113.4	30.6	12.3	47.9	0.5
2009E	3,064	9.26	35.1	22.7	8.4	44.0	0.6
2010E	3,899	11.78	27.3	17.8	6.0	39.2	0.6

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Voltas Buy/Medium Risk (1M) with a target price of Rs242. India's HVAC industry is just starting to take off, with revenue growth being taken to a higher trajectory by a domestic construction boom in airports, malls, multiplexes and offices. Voltas, being the dominant player in the Indian HVAC market should benefit from this boom. High levels of construction activity in the Middle East would also benefit Voltas as it is a contractor of choice in the region. Entry into new markets like Qatar and Bahrain should bolster order inflows. Profitability should improve as the company bids for larger and high value add projects both in India and Middle East. Turnaround of unitary products division should help profitability and improve return ratios of the company.

Valuation

Our target price for Voltas of Rs242 is set at 23x Sept 09E FD EPS and is supported by our forecasts of 54% earnings CAGR for FY07-10E and 38-40% RoE. At 23x Sept 09E, Voltas would trade at a discount to power equipment stocks like BHEL but at a premium to our target multiple of 16x for a second-tier construction company such as HCC. While we note that the revenue visibility for Voltas (~2 years) is much less than for construction companies (~3-4 years), its ROEs and free cash flow are much higher. Our 23x Sept09E multiple is higher than the average 1 year forward P/E of 16x, a premium of ~39% as we feel that the earnings growth of 54% CAGR over the next 3 years and 38%-40% ROE's would lead to an upward re-rating of the stock. We use a price/earnings multiple to value the company, inline with other engineering companies in our space.

Voltas (VOLT.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	71.8	65.3	30.6	22.7	17.8
EV/EBITDA adjusted (x)	68.8	63.6	21.9	15.8	12.3
P/BV (x)	28.7	18.2	12.3	8.4	6.0
Dividend yield (%)	0.3	0.5	0.5	0.6	0.6
Per Share Data (Rs)					
EPS adjusted	2.92	3.21	6.86	9.26	11.78
EPS reported	2.13	5.62	6.88	9.26	11.78
BVPS	7.30	11.51	17.10	24.95	35.22
DPS	0.60	1.00	1.10	1.20	1.30
Profit & Loss (RsM)					
Net sales	18,531	24,006	34,610	45,900	58,327
Operating expenses	-17,635	-23,042	-31,626	-41,825	-53,113
EBIT	**896**	**964**	**2,985**	**4,076**	**5,214**
Net interest expense	39	158	31	71	115
Non-operating/exceptionals	-19	1,106	378	426	490
Pre-tax profit	**917**	**2,227**	**3,393**	**4,573**	**5,819**
Tax	-212	-368	-1,117	-1,509	-1,920
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**705**	**1,860**	**2,276**	**3,064**	**3,899**
Adjusted earnings	967	1,063	2,268	3,064	3,899
Adjusted EBITDA	1,007	1,087	3,115	4,223	5,366
Growth Rates (%)					
Sales	33.6	29.5	44.2	32.6	27.1
EBIT adjusted	163.6	7.5	209.8	36.6	27.9
EBITDA adjusted	126.4	7.9	186.6	35.6	27.1
EPS adjusted	113.1	9.9	113.4	35.1	27.3
Cash Flow (RsM)					
Operating cash flow	**983**	**1,519**	**3,408**	**1,753**	**2,422**
Depreciation/amortization	111	123	130	147	152
Net working capital	218	-434	1,001	-1,458	-1,629
Investing cash flow	**-783**	**-838**	**-600**	**-100**	**-100**
Capital expenditure	-635	-74	-600	-100	-100
Acquisitions/disposals	-148	-764	0	0	0
Financing cash flow	**-570**	**-365**	**-426**	**-465**	**-503**
Borrowings	-344	101	0	0	0
Dividends paid	-226	-387	-426	-465	-503
Change in cash	**-370**	**316**	**2,382**	**1,188**	**1,819**
Balance Sheet (RsM)					
Total assets	**11,565**	**15,305**	**21,446**	**27,254**	**34,158**
Cash & cash equivalent	1,086	1,403	3,784	4,973	6,792
Accounts receivable	3,977	4,398	6,287	8,337	10,594
Net fixed assets	1,348	1,299	1,768	1,721	1,669
Total liabilities	**9,151**	**11,498**	**15,788**	**18,997**	**22,506**
Accounts payable	4,381	5,161	7,299	9,719	12,384
Total Debt	720	821	821	821	821
Shareholders' funds	**2,414**	**3,808**	**5,658**	**8,257**	**11,653**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	5.4	4.5	9.0	9.2	9.2
ROE adjusted	44.5	34.2	47.9	44.0	39.2
ROIC adjusted	33.1	21.3	54.8	57.7	51.6
Net debt to equity	-15.2	-15.3	-52.4	-50.3	-51.2
Total debt to capital	23.0	17.7	12.7	9.0	6.6

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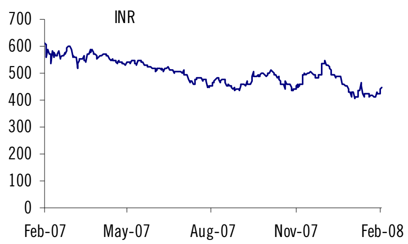
Wipro (WIPR.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs444.15
Target Price	Rs535.00
Expected share price return	20.5%
Expected dividend yield	1.6%
Expected total return	**21.4%**
Market Cap	Rs648,599M
	US$16,256M

Price Performance



Source: Citi Investment Research

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Company description

Wipro is India's leading company with business interests in IT and BPO services exports, domestic hardware, consumer lighting and consumer care. It has one of the widest range of services, including systems integration, IT-enabled services, package implementation, software application development & maintenance and R&D services. Wipro is the first P CMM Level 5 and SEI CMM Level 5 certified IT services company in the world. It has close to 700 clients spanning the BFSI, Manufacturing, Retail, Utilities and Telecom verticals. Its IT services exports team has more than 57,000 employees and BPO operation has around 20,000 employees.

Good Portfolio of Services

- **Demand outlook for FY09** — The key issue at this point in time is the demand outlook for FY09. While Wipro's exposure to BFSI (~25%) is lower than that of peers, Wipro has been witnessing sluggishness in the telecom OEM space as well. Any lead indicators of slowdown like deal deferrals, delay in decision making, lengthening of sales cycle, etc should be the questions for the management team.

- **Margin levers** — Margin levers available to the company should be an area of focus given the pressures due to rupee appreciation/wage inflation. Wipro has room to leverage the offshore pyramid – should be a key margin driver going forward. Margin outlook for FY09 is an important focus issue.

- **Acquisition strategy** — Wipro has been aggressive over the past few years in acquiring small companies. Recently, Wipro made 2 large acquisitions (Infocrossing & Unza), leading to significant margin dilution. (1) Further plans on acquisitions, (2) Integration progress on existing acquisitions, (3) Margin recovery are key issues for discussion.

- **Supply of talent** — (1) Wipro's views on the supply situation for the next 2-3 years; (2) Wipro's initiatives to expand the pool (like WASE); (3) Wage inflation expectations for FY09.

- **SEZ strategy** — Wipro has one of the highest proportion of revenues coming out of SEZ, currently. Understanding Wipro's SEZ readiness, ramp up and the impact on tax rates for FY10 and beyond is important.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	20,270	14.08	24.3	31.5	8.0	29.9	1.1
2007A	29,130	20.18	43.3	22.0	6.2	32.3	1.4
2008E	32,201	22.12	9.6	20.1	5.4	29.1	1.6
2009E	38,765	26.63	20.4	16.7	4.4	29.0	1.8
2010E	42,860	29.44	10.6	15.1	3.7	26.6	2.3

Source: Powered by dataCentral

Investment Strategy

We rate Wipro Buy/Medium Risk (1M). Being one of the top three Indian IT services firms, Wipro looks well positioned to benefit from the growing demand for offshore IT services. Apart from economies of scale in offshore delivery, one of Wipro's key strengths is its full-service model. This includes a strong position in the infrastructure/R&D services business, which offers significant long-term growth potential. It has strong exposure to the BPO segment, which should offer above-average growth in the long term. Wipro's management has actively pursued acquisitions to strengthen its service portfolio. We expect Wipro's global IT revenues to grow above the industry average rates over the next 2-3 years. We believe wage inflation will be largely offset by gains from improved employee mix, an improving offshore-onsite ratio and better utilization. We expect 26.7% revenue CAGR and 14.8% EPS CAGR over FY07-10E. For the global IT business, we expect 22.8% revenue CAGR over the same period.

Valuation

Our 12-month target price of Rs535 is based on 19x average of FY09-10E EPS, a ~10% discount to our target multiple for Infosys. Our target multiple is derived from a P/E-band analysis of Wipro's historical trading pattern and peer group valuations. Because of its small free float, strong exposure to R&D services and a model leveraged to large SI and IT outsourcing deals, Wipro has historically traded at a premium of 10-20% to Infosys. But now Wipro has started trading at a discount due to slower growth and RoIC/RoE. We think Wipro will continue to trade at a marginal discount to Infosys given expected sub-par growth vs. Infosys in the coming years. We believe P/E is the most appropriate valuation measure given Wipro's profitability and earnings visibility.

Wipro (WIPR.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	31.5	22.0	20.1	16.7	15.1
EV/EBITDA adjusted (x)	24.4	17.7	15.6	12.5	10.6
P/BV (x)	8.0	6.2	5.4	4.4	3.7
Dividend yield (%)	1.1	1.4	1.6	1.8	2.3
Per Share Data (Rs)					
EPS adjusted	14.08	20.18	22.12	26.63	29.44
EPS reported	14.08	20.18	22.12	26.63	29.44
BVPS	55.69	71.21	82.75	101.47	121.03
DPS	5.00	6.00	7.00	8.00	10.00
Profit & Loss (RsM)					
Net sales	106,107	149,431	197,965	249,520	295,182
Operating expenses	-84,135	-119,564	-164,538	-206,236	-245,470
EBIT	**21,972**	**29,868**	**33,427**	**43,284**	**49,713**
Net interest expense	1,277	2,667	2,483	1,330	2,356
Non-operating/exceptionals	288	318	200	200	200
Pre-tax profit	**23,537**	**32,852**	**36,110**	**44,815**	**52,268**
Tax	-3,265	-3,723	-3,909	-6,050	-9,408
Extraord./Min.Int./Pref.div.	-2	0	0	0	0
Reported net income	**20,270**	**29,130**	**32,201**	**38,765**	**42,860**
Adjusted earnings	20,270	29,130	32,201	38,765	42,860
Adjusted EBITDA	25,137	34,068	39,336	50,077	57,272
Growth Rates (%)					
Sales	30.4	40.8	32.5	26.0	18.3
EBIT adjusted	23.0	35.9	11.9	29.5	14.9
EBITDA adjusted	23.0	35.5	15.5	27.3	14.4
EPS adjusted	24.3	43.3	9.6	20.4	10.6
Cash Flow (RsM)					
Operating cash flow	**18,906**	**35,909**	**49,864**	**37,540**	**45,371**
Depreciation/amortization	3,165	4,200	5,909	6,793	7,560
Net working capital	-3,723	5,029	13,629	-6,687	-2,693
Investing cash flow	**-9,847**	**-18,325**	**-50,963**	**-13,122**	**-10,730**
Capital expenditure	-7,741	-12,964	-17,075	-14,452	-13,086
Acquisitions/disposals	-2,357	-7,034	-34,463	0	0
Financing cash flow	**1,501**	**-4,710**	**-7,449**	**-11,603**	**-14,503**
Borrowings	0	859	2,447	0	0
Dividends paid	-8,131	-9,786	-11,515	-13,160	-16,450
Change in cash	**10,560**	**12,874**	**-8,548**	**12,816**	**20,137**
Balance Sheet (RsM)					
Total assets	**100,266**	**146,102**	**203,380**	**238,956**	**278,272**
Cash & cash equivalent	39,186	52,060	43,513	56,328	76,466
Accounts receivable	20,593	28,467	36,881	46,486	54,993
Net fixed assets	17,777	26,541	37,708	45,367	50,894
Total liabilities	**21,502**	**44,634**	**83,247**	**91,661**	**102,620**
Accounts payable	4,146	7,060	15,837	17,466	20,663
Total Debt	705	3,781	26,884	26,884	26,884
Shareholders' funds	**78,764**	**101,468**	**120,133**	**147,295**	**175,652**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	23.7	22.8	19.9	20.1	19.4
ROE adjusted	29.9	32.3	29.1	29.0	26.6
ROIC adjusted	55.1	56.6	37.0	32.7	32.2
Net debt to equity	-48.9	-47.6	-13.8	-20.0	-28.2
Total debt to capital	0.9	3.6	18.3	15.4	13.3

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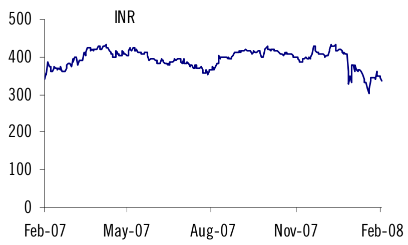
Wockhardt (WCKH.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs337.25
Target Price	Rs529.00
Expected share price return	56.9%
Expected dividend yield	2.1%
Expected total return	**58.9%**
Market Cap	Rs36,907M
	US$925M

Price Performance



Source: Citi Investment Research

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Company description

Wockhardt is a leading player in the Indian market which has carved a niche for itself in bio-generic products. In the domestic market, it largely follows a strategy of offering products at substantial discounts to competing products, allowing it to rake up large volumes. In its pharma portfolio, Wockhardt has placed emphasis on new products in the chronic-care segments. In overseas markets, Wockhardt has adopted the inorganic route to build a sizeable presence in Europe, with focus on the formulations segment. The company continues to focus on acquisitions as a means to grow in US and Europe.

Acquisitions Led Growth

- **Execution is crucial** — While Wockhardt continues to combine organic and inorganic measures to grow, the stock has been out of favour for some time on account of a poor track record on execution. However, this has changed for the better over the last few quarters and point towards a possible uptick in valuations if the trend continues.

- **Acquisitions drive growth** — Wockhardt reported robust growth in CY07 on the back of the full year impact of the Pinewood acquisition, partial upside (6 months) from the Negma Lerads acquisition and steady growth in US and India. The acquisition of Morton Grove towards the end of CY07 should add to growth in CY08 and Wockhardt has indicated that it does not need any fresh acquisitions to get to its target revenues of US$1bn by CY09.

- **Gaining Traction in key markets** — a) US is witnessing strong growth (up 63% in CY07); b) Germany, UK and Ireland have seen growth in mid teens on a like-to-like basis despite a stronger rupee; and c) Continued robust growth in India.

- **Early mover in the 'Bio Generic' Opportunity** — Wockhardt is one of the early movers in the "bio-similars" space with its generic insulin and insulin analogues portfolio. Wockhardt has significant plans for tapping the opportunities in this space. However, this could take time to act as a catalyst for the stock given the continuing uncertainty over the regulatory pathway in developed markets.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,571	21.54	20.2	15.7	4.5	35.9	1.5
2007A	3,033	25.41	18.0	13.3	3.9	34.4	1.8
2008E	3,568	29.89	17.6	11.3	3.1	33.6	2.1
2009E	4,330	36.27	21.3	9.3	2.5	32.9	2.4
2010E	5,369	44.99	24.0	7.5	2.0	32.4	2.4

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Wockhardt as Buy/Low Risk (1L) with a target price of Rs529. We see Wockhardt as an emerging global bio-generics company with strong earnings growth potential over the long term. The company has had several disappointments over the past 2 years - especially related to its US market initiatives. However, with most of these being addressed, we expect improving fundamentals and earnings growth to once again drive good upside over the long term. We expect Wockhardt to introduce its first bio-generic product in the EU in CY09. We believe that current low valuations and robust growth in Wockhardt's core business make it a good investment, with the biogenerics opportunity in regulated markets being an added source of option value. Wockhardt is gaining traction in key markets like US and Europe and continues to combine organic and inorganic growth drivers optimally. We believe the steady 1H CY07 results & healthy trends in key markets indicate that troubled times are past.

Valuation

We value Wockhardt at 16x 12-month forward earnings (within its six year trading range of 7-40x), which is at the lower end of the 16-18x multiple range that we use for other mid-sized Indian pharma stocks. We use a lower multiple as the company has moved to capitalize some of the R&D spend that it used to expense earlier and is still expensed by most of its peers. We believe that the lower multiple would also adjust for any potential equity dilution over the medium term, which we believe cannot be ruled out. At 16x Sept'08E earnings, we arrive at a target price of Rs529/share.

Wockhardt (WCKH.BO): Financial Summary

Fiscal year end 31-Dec	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	15.7	13.3	11.3	9.3	7.5
EV/EBITDA adjusted (x)	11.8	10.4	8.0	6.6	5.3
P/BV (x)	4.5	3.9	3.1	2.5	2.0
Dividend yield (%)	1.5	1.8	2.1	2.4	2.4
Per Share Data (Rs)					
EPS adjusted	21.54	25.41	29.89	36.27	44.99
EPS reported	21.54	20.35	29.89	36.27	44.99
BVPS	74.67	86.74	107.54	133.61	169.20
DPS	5.00	6.00	7.00	8.00	8.00
Profit & Loss (RsM)					
Net sales	14,131	17,309	23,340	27,053	31,763
Operating expenses	-11,271	-13,911	-18,517	-21,295	-24,742
EBIT	**2,860**	**3,398**	**4,824**	**5,758**	**7,021**
Net interest expense	-95	-26	-438	-401	-332
Non-operating/exceptionals	180	190	303	333	367
Pre-tax profit	**2,945**	**3,562**	**4,689**	**5,689**	**7,056**
Tax	-374	-529	-1,121	-1,360	-1,686
Extraord./Min.Int./Pref.div.	0	-604	0	0	0
Reported net income	**2,571**	**2,429**	**3,568**	**4,330**	**5,369**
Adjusted earnings	2,571	3,033	3,568	4,330	5,369
Adjusted EBITDA	3,286	4,019	5,550	6,542	7,863
Growth Rates (%)					
Sales	12.9	22.5	34.8	15.9	17.4
EBIT adjusted	22.7	18.8	41.9	19.4	21.9
EBITDA adjusted	21.7	22.3	38.1	17.9	20.2
EPS adjusted	20.2	18.0	17.6	21.3	24.0
Cash Flow (RsM)					
Operating cash flow	**2,097**	**-775**	**2,295**	**2,830**	**2,830**
Depreciation/amortization	426	621	726	784	842
Net working capital	-900	-3,825	-1,999	-2,284	-3,382
Investing cash flow	**-1,738**	**-7,700**	**-1,200**	**-1,550**	**-1,550**
Capital expenditure	-1,738	-7,700	-1,200	-1,550	-1,550
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-473**	**8,893**	**-1,295**	**-1,480**	**-1,480**
Borrowings	151	10,003	0	0	0
Dividends paid	-624	-1,110	-1,295	-1,480	-1,480
Change in cash	**-114**	**418**	**-200**	**-200**	**-200**
Balance Sheet (RsM)					
Total assets	**21,489**	**32,987**	**36,226**	**39,770**	**44,320**
Cash & cash equivalent	7,139	10,871	11,296	12,710	14,771
Accounts receivable	2,810	3,462	4,668	5,411	6,353
Net fixed assets	7,881	14,760	15,034	15,600	16,108
Total liabilities	**13,328**	**23,507**	**24,472**	**25,166**	**25,827**
Accounts payable	2,561	2,977	3,730	4,208	4,810
Total Debt	9,065	18,450	18,450	18,450	18,450
Shareholders' funds	**8,161**	**9,481**	**11,754**	**14,604**	**18,494**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	23.3	23.2	23.8	24.2	24.8
ROE adjusted	35.9	34.4	33.6	32.9	32.4
ROIC adjusted	26.1	20.2	19.9	21.7	24.4
Net debt to equity	23.6	79.9	60.9	39.3	19.9
Total debt to capital	52.6	66.1	61.1	55.8	49.9

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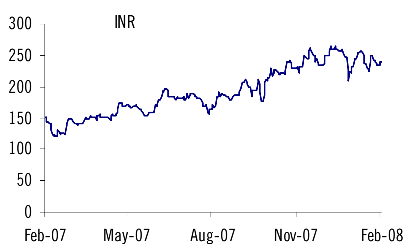
Yes Bank (YESB.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs239.45
Target Price	Rs300.00
Expected share price return	25.3%
Expected dividend yield	0.0%
Expected total return	**25.3%**
Market Cap	Rs70,799M
	US$1,774M

Price Performance



Source: Citi Investment Research

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Young and Restless

- **Structural and cyclical play** — Yes is India's youngest private sector bank, and we see it positioned as a 1) Structural play given growing Indian banking opportunity, strong management and execution capability, scarcity value of new private banks; and 2) Cyclical play on easy liquidity, stable asset quality, continued economic growth. If the environment holds, Yes Bank should be a large beneficiary, else, it could be vulnerable.

- **High growth, and quality appears fine** — Yes's high pace of asset accretion (14% qoq), with stable margins, nil NPLs (especially commendable given its mid-market exposure), suggests Yes has had a strong run so far. While revenues so far have been ahead of its franchise, we believe aggressive distribution capability, franchise expansion and revenue diversification (into wealth management) will be key focus areas for the bank over the medium term.

- **Aggressive wholesale bank** — Based on growth, track record, and positioning, Yes is a wholesale bank. It has excelled in corporate and advisory businesses, expanded focused asset book, and kept risks low. Its retail business, though still in the making, should add another leg to growth and returns. Yes is also seeking to build on, and expand investment banking, and other capital markets businesses.

- **Value drivers – Derisking, retail and transaction banking** — We believe franchise and value enhancement will be driven by more balance in a) deposits – low cost retail from wholesale; b) fees – transaction banking and retail from advisory; and c) assets – more diversified mix from current mid market.

- **Risks** — Key risks include a) tighter liquidity or interest rates; b) reversal in loan growth and asset quality; c) likely volatility in fees; d) portfolio concentration; and e) potential dilution from further capital raising.

Company description

Yes Bank was started in FY05 by Mr. Rana Kapoor and Mr. Ashok Kapur, and is the newest private-sector bank in India. Yes Bank has grown rapidly since inception and what it lacks in size currently is made up for, in our view, by its strong growth, quality management, and a rapidly building franchise. The bank currently has 60 branches and management suggests a target of 100 branches by March 2008 and 250 by March 2010. In its second full year of operations (FY07) the bank grew total assets by over 150% to Rs111bn and net profits by 71% to Rs944m.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	553	2.35	NA	101.7	11.3	14.1	0.0
2007A	944	3.43	45.8	69.8	8.5	13.9	0.0
2008E	1,948	6.55	90.9	36.5	4.3	15.3	0.0
2009E	2,891	9.19	40.2	26.1	3.7	15.2	0.0
2010E	4,218	13.40	45.9	17.9	3.0	18.6	0.0

Source: Company data, Citi Investment Research estimates

Investment Strategy

We rate Yes Bank with a Buy/Medium Risk (1M) and an EVA-based Rs300 target price. Though relatively young, we believe Yes Bank has strong execution skills. It has built a focused asset portfolio, has strong treasury and advisory income businesses, and has kept risks relatively low. Moreover, we believe the bank offers aggressive growth potential. The key catalysts for the stock's medium-term performance are likely to be a) easing domestic interest rate and liquidity environment - should provide a respite to margins and bolster quarterly performance over the next two to three quarters; b) fresh capital raising - possibly at a premium to prevailing market prices; and c) strong growth in investment banking fees - a potential spin-off of this business could drive stock returns further.

Valuation

We value Yes Bank at Rs300 per share based on our EVA model. Our key assumptions are a) longer-term spreads of 2.2%, slightly lower than most peers given its structurally lower spreads; b) 100bs loan loss provisioning over the longer term, in line with private banks; and c) 45% longer term cost-income ratio, in line with peers. Our EVA valuation is premised on a 7.5% risk free rate, consistent with our assumptions for other Indian banks. We prefer the EVA methodology as we believe it better captures longer-term value of the business, and is in line with our approach to valuing other banks in the sector.

Yes Bank (YESB.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	101.7	69.8	36.5	26.1	17.9
P/E reported (x)	101.7	69.8	36.5	26.1	17.9
P/BV (x)	11.3	8.5	4.3	3.7	3.0
P/Adjusted BV diluted (x)	11.3	8.5	4.3	3.7	3.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	2.35	3.43	6.55	9.19	13.40
EPS reported	2.35	3.43	6.55	9.19	13.40
BVPS	21.21	28.11	56.01	65.19	78.60
Tangible BVPS	21.21	28.11	56.01	65.19	78.60
Adjusted BVPS diluted	21.21	28.11	56.01	65.19	78.60
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net interest income	855	1,714	3,459	5,814	9,150
Fees and commissions	419	1,116	2,009	3,113	4,514
Other operating Income	579	891	1,546	2,167	2,925
Total operating income	**1,852**	**3,721**	**7,014**	**11,093**	**16,589**
Total operating expenses	-861	-1,935	-3,611	-5,838	-8,835
Oper. profit bef. provisions	**991**	**1,786**	**3,403**	**5,256**	**7,754**
Bad debt provisions	-73	-254	-370	-766	-1,234
Non-operating/exceptionals	-74	-95	-125	-175	-225
Pre-tax profit	**844**	**1,436**	**2,908**	**4,314**	**6,295**
Tax	-291	-493	-960	-1,424	-2,077
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**553**	**944**	**1,948**	**2,891**	**4,218**
Adjusted earnings	553	944	1,948	2,891	4,218
Growth Rates (%)					
EPS adjusted	1,352.7	45.8	90.9	40.2	45.9
Oper. profit bef. prov.	2,824.2	80.1	90.6	54.4	47.5
Balance Sheet (RsM)					
Total assets	**41,626**	**111,034**	**188,371**	**316,621**	**485,666**
Avg interest earning assets	21,982	71,280	141,931	244,061	391,518
Customer loans	24,071	62,897	113,384	198,833	311,523
Gross NPLs	0	0	676	1,568	2,949
Liab. & shar. funds	**41,626**	**111,034**	**188,371**	**316,621**	**485,666**
Total customer deposits	29,104	82,204	140,949	256,304	410,506
Reserve for loan losses	0	0	169	493	1,064
Shareholders' equity	**5,727**	**7,871**	**17,626**	**20,517**	**24,734**
Profitability/Solvency Ratios (%)					
ROE adjusted	14.1	13.9	15.3	15.2	18.6
Net interest margin	3.9	2.4	2.4	2.4	2.3
Cost/income ratio	46.5	52.0	51.5	52.6	53.3
Cash cost/average assets	3.2	2.5	2.4	2.3	2.2
NPLs/customer loans	0.0	0.0	0.6	0.8	0.9
Reserve for loan losses/NPLs	na	na	25.0	31.5	36.1
Bad debt prov./avg. cust. loans	0.5	0.6	0.4	0.5	0.5
Loans/deposit ratio	82.7	76.5	80.4	77.6	75.9
Tier 1 capital ratio	13.8	8.2	9.0	6.6	5.5
Total capital ratio	16.4	13.6	13.0	10.0	8.6

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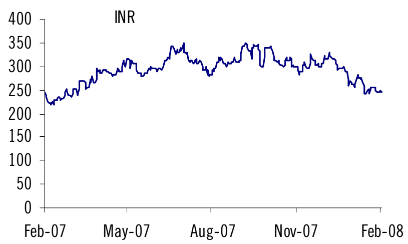
Zee Entertainment (ZEE.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs244.20
Target Price	Rs354.00
Expected share price return	45.0%
Expected dividend yield	1.5%
Expected total return	**46.5%**
Market Cap	Rs105,877M
	US$2,653M

Price Performance



Source: Citi Investment Research

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Company description

Zee is India's largest vertically integrated media and entertainment company. It has an integrated range of businesses, encompassing the content-to-consumer value chain of media and entertainment business. The company owns a bouquet of channels across various genres including general entertainment, cinema, music, news and sports. Zee has been investing heavily in new businesses, including new channels and content.

A New Growth Paradigm

- **Ad revenues strong as rating improve** — Rising trend in viewer ratings has enabled Zee to increase its ad-rates consistently. Management has indicated that a 25% growth in advertising rates would be sustainable over the next 2 years, which we believe would drive a strong growth in advertising revenues going forward.

- **Threat from new players** — Management is cognizant of the increase in competitive intensity in the general entertainment space with the launch of three new channels in the last six months. We believe that this is likely to impact the margins as the cost of content and marketing goes up significantly.

- **Potential margin upside from new channels** — Zee is launching a new youth focused general entertainment channel, an Arabic dubbed Hindi movie channel for the Middle-East market and its sports channel in the US, while discontinuing loss making Zee Arabia channel. This could enhance margins, given that sports and movie channels will not require new investments and leverage off current content.

- **CAS rollout may slow** — According to management, CAS rollout could slow down and a national rollout may get pushed beyond the general elections in 2009. However, DTH and some content re-engineering of content in international markets will lend fillip to pay revenues, expected to grow at about 30%.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,142	5.19	-32.5	47.0	9.6	17.9	0.3
2007A	2,411	5.55	6.8	44.0	6.3	17.6	0.2
2008E	3,987	9.17	65.4	26.6	5.6	22.2	1.5
2009E	5,130	11.80	28.7	20.7	5.0	25.6	2.4
2010E	6,232	14.34	21.5	17.0	4.5	27.8	3.0

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Zee as Buy/Low Risk (1L). We view the recent restructuring by Zee in which the company has split its business into four entities as positive because this has added focus to the business and allays our concerns related to Zee's investment in DTH, which we believe would have strained Zee's balance sheet and diverted the focus away from the core broadcasting business. Additionally, Zee looks well positioned to benefit from the rising share of broadcasters in the rapidly increasing pay revenue stream. Zee’s viewer ratings have also been rising which we expect will drive advertising revenue growth of over 20%. Strong revenues and margin expansion are likely to drive 37% EPS CAGR over the next 3 years.

Valuation

We are valuing Zee on a P/E multiple. We believe that P/E is the appropriate valuation methodology, given Zee's stable earnings stream and low capital intensity of the business. We use a 30x P/E multiple which returns a value of Rs354 per share. Our 30x target multiple is at the higher end of the historical trading average, which we believe is warranted given that fundamentals are looking up as channel ratings are improving. Our target multiple of 30x factors in: a) an improving EPS growth profile due to a pickup in advertising and pay revenues; b) higher ROE and free cash flow profile of Zee on account of de-merger of distribution businesses; and c) maintaining a relative premium to the Sensex.

Zee Entertainment (ZEE.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	47.0	44.0	26.6	20.7	17.0
EV/EBITDA adjusted (x)	43.1	32.9	18.8	14.5	11.8
P/BV (x)	9.6	6.3	5.6	5.0	4.5
Dividend yield (%)	0.3	0.2	1.5	2.4	3.0
Per Share Data (Rs)					
EPS adjusted	5.19	5.55	9.17	11.80	14.34
EPS reported	5.19	5.55	9.17	11.80	14.34
BVPS	25.48	38.87	43.62	48.51	54.49
DPS	0.74	0.54	3.65	5.93	7.24
Profit & Loss (RsM)					
Net sales	11,042	14,416	17,215	20,343	24,036
Operating expenses	-8,728	-11,451	-12,023	-13,610	-15,805
EBIT	**2,314**	**2,965**	**5,192**	**6,733**	**8,231**
Net interest expense	-131	-220	-154	-108	-75
Non-operating/exceptionals	562	630	500	500	500
Pre-tax profit	**2,745**	**3,375**	**5,538**	**7,125**	**8,656**
Tax	-603	-964	-1,551	-1,995	-2,424
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**2,142**	**2,411**	**3,987**	**5,130**	**6,232**
Adjusted earnings	2,142	2,411	3,987	5,130	6,232
Adjusted EBITDA	2,474	3,192	5,452	7,033	8,571
Growth Rates (%)					
Sales	-15.6	30.6	19.4	18.2	18.2
EBIT adjusted	-42.5	28.1	75.1	29.7	22.3
EBITDA adjusted	-43.1	29.0	70.8	29.0	21.9
EPS adjusted	-32.5	6.8	65.4	28.7	21.5
Cash Flow (RsM)					
Operating cash flow	**2,400**	**-265**	**3,710**	**3,940**	**4,009**
Depreciation/amortization	160	228	260	300	340
Net working capital	98	-2,904	-538	-1,491	-2,563
Investing cash flow	**6,272**	**-186**	**-400**	**-500**	**-500**
Capital expenditure	0	-186	-400	-400	-400
Acquisitions/disposals	2,917	0	0	0	0
Financing cash flow	**-683**	**-4,830**	**-1,979**	**-2,756**	**-3,364**
Borrowings	-449	-4,622	-280	0	0
Dividends paid	-344	-249	-1,699	-2,756	-3,364
Change in cash	**7,989**	**-5,281**	**1,331**	**684**	**145**
Balance Sheet (RsM)					
Total assets	**20,215**	**23,054**	**27,709**	**32,270**	**36,936**
Cash & cash equivalent	1,286	255	1,412	1,905	1,779
Accounts receivable	4,855	5,848	7,250	8,824	10,695
Net fixed assets	2,171	2,129	2,269	2,369	2,429
Total liabilities	**9,247**	**5,674**	**8,215**	**10,592**	**12,661**
Accounts payable	3,108	4,130	4,909	5,780	6,806
Total Debt	4,901	280	0	0	0
Shareholders' funds	**10,967**	**17,380**	**19,494**	**21,678**	**24,275**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	22.4	22.1	31.7	34.6	35.7
ROE adjusted	17.9	17.6	22.2	25.6	27.8
ROIC adjusted	13.5	15.4	24.7	29.9	32.3
Net debt to equity	33.0	0.1	-7.2	-8.8	-7.3
Total debt to capital	30.9	1.6	0.0	0.0	0.0

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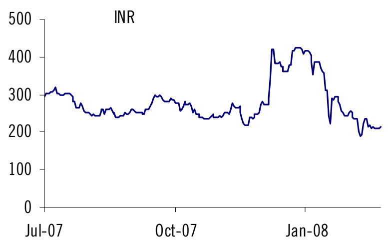
New Delhi

Ansal Properties & Infrastructure (ANSP.BO)

Sell/High Risk	**3H**
Price (26 Feb 08)	Rs214.35
Target Price	Rs255.00
Expected share price return	19.0%
Expected dividend yield	0.5%
Expected total return	**19.4%**
Market Cap	Rs24,329M
	US$610M

Price Performance



Source: Citi Investment Research

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Company description

Ansal Properties (Ansal) is a prominent real estate developer in northern India focusing on NCR and Tier-III cities in Uttar Pradesh, Haryana, Rajasthan and Punjab. The company has development experience of ~32m sq. ft over the last four decades. Ansal is a pioneer of plotted development and townships with experience in developing some key commercial and retail properties in Delhi like - Ansal Bhawan, Ambadeep, Antariksh Bhawan and Ansal Plaza, Delhi's first shopping mall. The roadmap for future development includes integrated townships in Tier-II/Tier III cities, IT parks, office blocks, shopping malls and hotels.

North India Centric Developer

- **North India based developer** — Ansal Properties is a prominent real estate developer with over 40 years experience in the real estate sector having developed over 32m sq ft. The company concentrates on Tier II and Tier III cities in North India, with landbank spread across the states of Uttar Pradesh, Haryana, Punjab and Rajasthan.
- **Residential-heavy model, but diversifying** — While the company's focus area is residential township, it is taking initiatives to diversify across other asset classes such as commercial property and retail malls.
- **Sizeable township projects on the anvil** — After developing Sushant Lok and Palam Vihar townships in Gurgaon, the company is undertaking two large township projects at Lucknow and Dadri in Uttar Pradesh. The Lucknow project is spread over 1,800 acres, while the Dadri township has a project size of 2,500 acres (where land acquisition is still in progress) with potential to expand to 5,000 acres.
- **MOU with UAE-based companies** — Ansal Properties has entered into MoUs with UAE-based companies, Noor Capital and Deyaar Development. While Noor Capital will invest in a township project in Agra and a group housing project in Ghaziabad, the MoU with Deyaar is for a mixed-use township, where Deyaar is likely to hold up to a 40% stake. This could provide the company with access to capital for some of its large projects.
- **Strategic alliances for growth**— 1) Tie-up with Educomp Solutions to develop schools in its townships, 2) MOU with UEM of Malaysia for construction and engineering works; 3) Tie-up with Fortis Healthcare for setting up a Medicity in Lucknow; and 4) JV with Globosport India for providing sports coaching facilities across its projects. It also plans to set up 30 hotels in alliance with Ambience Hospitality over the next 10 years.
- **Key risks** – 1) Concentration in NCR and Tier III cities in the North, where the risk of prices softening is high; 2) high dependence on plotted development; and 3) risk of delays in large township projects, particularly Dadri, is high as land is still being acquired.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	134	1.91	119.6	112.4	13.7	12.2	0.1
2006A	375	5.35	180.4	40.1	10.0	28.8	0.3
2007E	1,743	15.36	187.0	14.0	2.5	31.0	0.2
2008E	3,609	31.79	107.0	6.7	1.8	31.4	0.5
2009E	6,129	53.99	69.8	4.0	1.3	37.7	0.5

Source: Powered by dataCentral

Investment Strategy

We have a Sell/High Risk (3H) rating on Ansal Properties and target of Rs255, based on 15% discount to our NAV estimate of Rs300. Ansal has aggressive development plans and has secured most land (except Dadri project of 2,500acres). The strategy to operate on a develop-and-sell model should provide it with requisite cash flows. Management plans to build several large townships in the NCR and Tier III cities in the north, but execution ability and softening prices in the region are risks to growth. We expect rapid earnings growth over FY07-09E on increased volumes, and higher margins. This should, however, moderate significantly in the future. We believe the stock's performance will largely be determined by its NAV and consider a 15% discount to NAV as fair value.

Valuation

Our target of Rs255 is based on a 15% discount to estimated NAV of Rs300. This discount is attributable to: 1) concentration in the NCR and Tier III cities in north India where the risk of soft property prices in the near-term is high, 2) large exposure to plotted development, a low value-add business, and 3) risk of delays for some of its large township projects, particularly the Dadri project where land is still being acquired. Assumptions are: 1) current market prices with no price inflation, 2) development volume of ~179m sq ft (~16.4mn recognized as revenue in FY06-07E), 3) most of the projects are completed as per schedule, except some large township projects where we expect sizeable risks of delays, 4) average cost of capital of 14%, and 5) tax rate of 33%.

Ansal Properties & Infrastructure (ANSP.BO): Financial Summary

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	112.4	40.1	14.0	6.7	4.0
P/E reported (x)	112.4	40.1	14.0	6.7	4.0
P/BV (x)	13.7	10.0	2.5	1.8	1.3
Dividend yield (%)	0.1	0.3	0.2	0.5	0.5
Per Share Data (Rs)					
EPS adjusted	1.91	5.35	15.36	31.79	53.99
EPS reported	1.91	5.35	15.36	31.79	53.99
BVPS	15.68	21.53	85.89	116.68	169.66
NAVps ordinary	na	na	na	na	na
DPS	0.28	0.57	0.50	1.00	1.00
Profit & Loss (RsM)					
Net operating income (NOI)	**626**	**1,204**	**5,231**	**8,531**	**13,576**
G&A expenses	-362	-558	-2,570	-3,041	-4,306
Other Operating items	-20	-30	-35	-40	-45
EBIT including associates	**244**	**615**	**2,625**	**5,450**	**9,225**
Non-oper./net int./except.	-41	48	0	-15	5
Pre-tax profit	**203**	**663**	**2,625**	**5,435**	**9,230**
Tax	-57	-188	-882	-1,826	-3,101
Extraord./Min. Int./Pref. Div.	-13	-101	0	0	0
Reported net income	**134**	**375**	**1,743**	**3,609**	**6,129**
Adjusted earnings	134	375	1,743	3,609	6,129
Adjusted EBIT	244	615	2,625	5,450	9,225
Adjusted EBITDA	264	646	2,660	5,490	9,270
Growth Rates (%)					
NOI	5.7	92.4	334.4	63.1	59.1
EBIT adjusted	15.7	152.2	326.5	107.6	69.3
EPS adjusted	119.6	180.4	187.0	107.0	69.8
Cash Flow (RsM)					
Operating cash flow	**448**	**87**	**-8,304**	**1,041**	**631**
Depreciation/amortization	20	30	35	40	45
Net working capital	437	-270	-9,746	-2,607	-5,543
Investing cash flow	**7**	**-24**	**-38**	**-42**	**-89**
Capital expenditure	0	-84	-40	-42	-89
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-405**	**92**	**8,864**	**-519**	**-284**
Borrowings	-385	59	2,029	-405	-170
Dividends paid	-20	-40	-57	-114	-114
Change in cash	**50**	**155**	**523**	**480**	**258**
Balance Sheet (RsM)					
Total assets	**7,761**	**9,827**	**20,395**	**23,710**	**30,862**
Cash & cash equivalent	191	346	868	1,349	1,607
Net fixed assets	410	548	553	556	599
Total liabilities	**6,663**	**8,276**	**10,601**	**10,421**	**11,558**
Total Debt	1,367	1,426	3,455	3,050	2,880
Shareholders' funds	**1,098**	**1,551**	**9,794**	**13,289**	**19,304**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	11.2	17.2	29.6	37.6	40.7
ROE adjusted (%)	12.2	28.8	31.0	31.4	37.7
ROA adjusted (%)	1.8	4.3	11.5	16.4	22.5
Net debt to equity (%)	107.1	69.7	26.4	12.8	6.6
Interest coverage (x)	1.5	4.7	21.3	47.7	88.3

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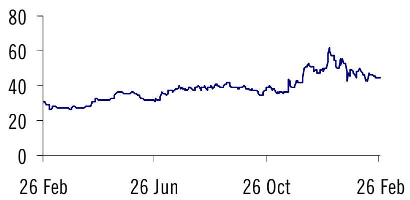
Apollo Tyres (APLO.BO)

Non-Rated	
Price (26 Feb 2008)	44.35
Market Cap	Rs 21111.7M
	US$528M

Price Performance



Source: dataCentral

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Company Description

Apollo Tyres is engaged in the manufacture of automobile tyres and tubes in India, and is the second-largest tyre manufacturer in India. It is also the largest manufacturer of truck tyres in India with a market share of 30%. The company also manufactures light truck, farm equipment and passenger car tyres.

India's Leading Tyre Manufacturer

- **Strategic Intent** — With a dominant market share in truck/bus tyres (29%) and light truck tyres (27%), APLO is the leading player in CV tyres and is the no. 2 player in the passenger-car segment. The company's thrust is now on 2 focus areas: strengthening its presence in passenger cars where it has a ~15% market share and on international operations. The company has integrated the operations of Dunlop South Africa, and will now establish a manufacturing hub in Hungary.

- **Increased focus on international operations** — With the acquisition of Dunlop Tyres International, South Africa, in April 2006 the company gained access to African, European and Australian markets. The company recently announced plans to build a car radial tyre plant in Hungary which will have a 7m tyres annual capacity in the first phase. Phase 1 of the project is expected to be completed in 18 months with a projected investment of €200m.

- **Strong long-term growth outlook** — APLO has a revenue target of US$2bn by 2010. Management has indicated that inorganic initiatives are necessary to achieve this target, as current organic initiatives could result in revenues of US$1.5bn-1.6bn by FY10.

- **Capacity expansion plans** — Over the next 2 years, the company plans to establish the plant in Hungary (Euro 200m) and in addition will establish a greenfield plant at Chennai with a capex of Rs2.2bn over the next 18 months. The company's balance sheet is relatively underleveraged with a debt-equity mix of 0.35x. The company thus has the ability to raise further debt to fund its capex requirements and inorganic initiatives.

- **Key challenges** — a) Continuing raw-material cost pressures, and b) the ability of the domestic tyre industry to pass on cost pressures.

Recent Developments

Apollo Tyres will invest €200m to set up a manufacturing facility in Hungary, which will manufacture passenger-car radials for European and North American markets. The plant is expected to make 7m car radials a year in the first phase (Source: Capitaline)

Apollo Tyres is also setting up a new plant in Oragadam in Chennai to make truck radials with an estimated investment of Rs2.2bn. The first phase of the project is expected to start in April 2008 and should be completed in the next 18 months (Source: Capitaline).

Apollo Tyres (APLO.BO): Financial Summary

Apollo Tyres — Consolidated Profit and Loss Statement (Rs M), FY02-FY07

Year ended March	**FY02**	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**
Sales Turnover	17,101	20,256	23,143	26,568	30,021	47,812
Excise Duty	3,328	3,773	4,036	4,210	3,885	4,901
Net Sales	**13,773**	**16,483**	**19,108**	**22,358**	**26,136**	**42,912**
Stock Adjustments	(611)	271	379	(141)	868	162
Raw Materials	7,802	10,000	12,761	15,322	19,236	28,817
Power & Fuel Cost	673	858	993	1,146	1,218	1,524
Employee Cost	963	1,134	1,338	1,433	1,643	4,063
Other Manufacturing Expenses	358	460	567	382	418	804
Selling and Administration Expenses	1,643	1,544	1,897	1,989	1,926	3,481
Miscellaneous Expenses	254	449	267	1,003	325	388
Total Expenditure	**12,305**	**14,174**	**17,444**	**21,415**	**23,898**	**38,916**
Operating Profit	**1,468**	**2,309**	**1,664**	**943**	**2,238**	**3,996**
Other Income	56	119	181	938	291	199
Interest	592	363	319	483	577	1,059
Depreciation	326	337	439	566	730	1,172
Profit Before Tax	**605**	**1,728**	**1,087**	**832**	**1,222**	**1,964**
Total Tax	**186**	**471**	**364**	**201**	**317**	**793**
Tax Rate (%)	30.7	27.2	33.4	24.2	25.9	40.4
Net Profit before Minority Interest	**419**	**1,257**	**723**	**631**	**905**	**1,171**
Minority Interest	13	14	5	13	16	-
Net Profit after Minority Interest	407	1,243	719	618	889	1,171
Extraordinary Items	3	161	7	102	92	(12)
Adjusted Net Profit	**404**	**1,083**	**712**	**516**	**797**	**1,182**
% of Sales	2.9	6.6	3.7	2.3	3.0	2.8

Source: Capitaline Plus

Apollo Tyres — Consolidated Balance Sheet (Rs M), FY02-07

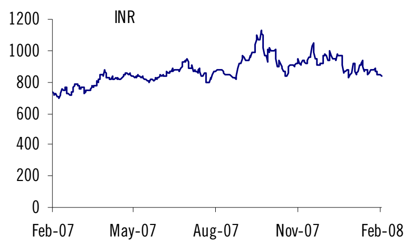
	FY02	**FY03**	**FY04**	**FY05**	**FY06**	**FY07**
SOURCES OF FUNDS :						
Share Capital	363	363	383	383	383	464
Reserves Total	3,074	4,119	5,638	5,628	5,957	8,767
Total Shareholders Funds	**3,437**	**4,482**	**6,021**	**6,011**	**6,340**	**9,231**
Secured Loans	1,884	2,161	3,764	3,488	3,810	6,500
Unsecured Loans	806	687	451	1,951	3,690	1,732
Total Debt	**2,689**	**2,849**	**4,215**	**5,439**	**7,500**	**8,232**
Total Liabilities	**6,127**	**7,345**	**10,256**	**11,483**	**13,840**	**17,463**
APPLICATION OF FUNDS :						
Gross Block	7,206	7,788	10,345	12,005	13,106	19,735
Less: Accumulated Depreciation	2,722	3,032	3,433	4,136	4,699	6,813
Net Block	**4,484**	**4,756**	**6,912**	**7,869**	**8,407**	**12,922**
Capital Work in Progress	95	559	659	966	779	801
Investments	459	150	141	27	4	54
Inventories	1,429	2,173	2,628	3,415	4,194	6,387
Sundry Debtors	1,688	744	1,204	1,565	1,751	3,674
Cash and Bank	666	978	1,505	1,320	2,315	1,935
Loans and Advances	1,769	2,712	3,298	3,162	3,702	4,472
Total Current Assets	**5,551**	**6,607**	**8,635**	**9,462**	**11,962**	**16,468**
Current Liabilities	2,746	2,236	3,109	3,838	3,886	8,056
Provisions	1,015	1,747	2,048	1,970	2,376	3,026
Total Current Liabilities	3,760	3,983	5,157	5,808	6,263	11,082
Net Current Assets	1,791	2,624	3,478	3,654	5,699	5,385
Net Deferred Tax	(807)	(805)	(952)	(1,038)	(1,052)	(1,701)
Total Assets	**6,127**	**7,345**	**10,256**	**11,483**	**13,840**	**17,463**

Source: Capitaline Plus

Bharti Airtel (BRTI.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs838.80
Target Price	Rs1,150.00
Expected share price return	37.1%
Expected dividend yield	0.8%
Expected total return	**37.9%**
Market Cap	Rs1,591,954M
	US$39,889M

Price Performance



Source: Citi Investment Research

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Company description

Bharti Airtel, through its group companies, provides cellular-phone services in all the 23 telecom circles of India. The group also provides fixed-line phone services, broadband, long-distance and enterprise services. The company is listed on The Stock Exchange, Mumbai (BSE) and The National Stock Exchange of India Limited (NSE). Major shareholders are Bharti Telecom, SingTel and Vodafone.

Not Bulletproof but Close

- **Recent revisions** — We recently revised our target price downwards to Rs1,150/share (Rs1,200 earlier) based on Sep-08 DCF value of Rs930/share (1,010 earlier) with FY09-10E EBITDA/EPS lower by 1-5%, factoring in new market realities (read higher competition) and stakes in towercos valued at Rs220/share (Rs170 earlier). The DCF value imputes FY09E EV/EBITDA at 12.1x (12.5x earlier) and P/E at 20.9x.

- **Earnings estimates** — Our lowered FY09-10E EBITDA/EPS were based on: 1) lower share of net adds (albeit at accelerated growth), 2) sharper rev/min decline (read tariff cuts) to reduce elbow room for start-ups, and 3) higher capex/incremental min to combat tighter spectrum norms.

- **Towerco value supported by tenancy outlook** — We added a 100% stake in Bharti Infratel's residual towers, plus a 42% stake in Indus. Our estimates for Indus/Infratel factor in higher tenancy in the context of new regulatory framework and relatively conservative capex recovery assumptions of 7.5-8.0% and compares well with the valuation on its recent PE infusion.

- **Bharti remains our top pick** — Bharti remains our top pick in the region with its strong execution, setting it apart from the other telcos. We maintain our Buy/Low Risk rating.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	Rs M	Rs	%	x	x	%	%
2006A	22,566	11.92	47.4	70.4	17.2	29.5	0.0
2007A	42,571	22.45	88.4	37.4	11.7	37.4	0.0
2008E	67,584	35.61	58.6	23.6	7.8	39.8	0.0
2009E	84,481	44.52	25.0	18.8	5.8	35.3	0.8
2010E	102,017	53.76	20.8	15.6	4.5	32.5	1.3

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate Bharti Buy/Low Risk (1L). We believe continued robust wireless market expansion in India and Bharti's ability to capture this growth profitably will be a recurring theme. We estimate FY07-10 earnings CAGR of 33.8%, more than double the broader market. We believe that competitive pressures, though intense, will remain rational as low revenue yields and moderate EBITDA margins leave little room for disruptive pricing. Additionally, most regulatory concerns are behind us and 3G recommendations, though discomforting, cannot derail the growth path, in our view. The company has yet to realize the benefits of economies of scale, and we expect a slight strengthening of margins over the next 2-3 years. We also expect the towerco hive-off (Bharti Infratel) to be a value accretive looking beyond the immediate impact on margins, given Bharti's stated intentions to be a minority stake owner in the towerco.

Valuation

Our 12-month forward target price of Rs1,150 is based on Sep-08E core DCF of Rs930 and a towerco option value of Rs220. The DCF is based on a WACC of 10.7%, a terminal growth rate of 4% and beta of 0.9. We prefer DCF as our primary valuation methodology because the wireless market will likely continue to see robust growth requiring upfront capex but should generate significant free cash beyond FY09-10E. Our target price (net of towerco value) represents a FY09E P/E of 20.9x, P/CEPS of 13.2x and EV/EBITDA of 12.1x.

Bharti Airtel (BRTI.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	70.4	37.4	23.6	18.8	15.6
EV/EBITDA adjusted (x)	37.7	22.0	14.5	10.9	8.8
P/BV (x)	17.2	11.7	7.8	5.8	4.5
Dividend yield (%)	0.0	0.0	0.0	0.8	1.3
Per Share Data (Rs)					
EPS adjusted	11.92	22.45	35.61	44.52	53.76
EPS reported	11.92	22.45	35.61	44.52	53.76
BVPS	48.67	71.50	107.47	144.50	186.20
DPS	0.00	0.00	0.00	6.70	10.80
Profit & Loss (RsM)					
Net sales	116,215	185,196	269,660	351,830	422,090
Operating expenses	-88,610	-135,896	-195,585	-249,957	-294,705
EBIT	**27,605**	**49,300**	**74,075**	**101,874**	**127,385**
Net interest expense	-2,512	-1,438	-3,438	-5,484	-4,974
Non-operating/exceptionals	272	999	5,300	3,000	2,000
Pre-tax profit	**25,365**	**48,861**	**75,937**	**99,390**	**124,411**
Tax	-2,539	-5,822	-8,353	-14,908	-22,394
Extraord./Min.Int./Pref.div.	-260	-468	0	0	0
Reported net income	**22,566**	**42,571**	**67,584**	**84,481**	**102,017**
Adjusted earnings	22,566	42,571	67,584	84,481	102,017
Adjusted EBITDA	42,981	74,125	113,521	151,156	186,907
Growth Rates (%)					
Sales	45.2	59.4	45.6	30.5	20.0
EBIT adjusted	47.4	78.6	50.3	37.5	25.0
EBITDA adjusted	44.8	72.5	53.1	33.2	23.7
EPS adjusted	47.4	88.4	58.6	25.0	20.8
Cash Flow (RsM)					
Operating cash flow	**48,320**	**70,548**	**132,196**	**161,058**	**180,012**
Depreciation/amortization	15,376	24,825	39,446	49,283	59,522
Net working capital	7,295	-672	22,049	21,810	13,499
Investing cash flow	**-54,095**	**-72,788**	**-145,537**	**-145,589**	**-129,477**
Capital expenditure	-57,309	-74,798	-145,909	-145,983	-130,060
Acquisitions/disposals	3,631	1,952	0	0	0
Financing cash flow	**5,338**	**7,054**	**17,013**	**-18,078**	**-38,449**
Borrowings	-806	7,428	20,000	2,000	-10,000
Dividends paid	0	0	0	-14,201	-22,892
Change in cash	**-438**	**4,813**	**3,672**	**-2,610**	**12,086**
Balance Sheet (RsM)					
Total assets	**215,681**	**296,690**	**411,872**	**509,849**	**594,167**
Cash & cash equivalent	2,649	7,464	11,136	8,526	20,612
Accounts receivable	14,203	17,982	21,573	24,628	25,325
Net fixed assets	180,971	248,403	355,187	451,887	522,425
Total liabilities	**122,545**	**159,336**	**206,111**	**233,807**	**239,001**
Accounts payable	0	0	0	0	0
Total Debt	34,503	52,461	72,461	74,461	64,461
Shareholders' funds	**93,135**	**137,354**	**205,761**	**276,041**	**355,166**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	37.0	40.0	42.1	43.0	44.3
ROE adjusted	29.5	37.4	39.8	35.3	32.5
ROIC adjusted	21.7	27.0	28.2	27.8	27.7
Net debt to equity	34.2	32.8	29.8	23.9	12.3
Total debt to capital	27.0	27.6	26.0	21.2	15.4

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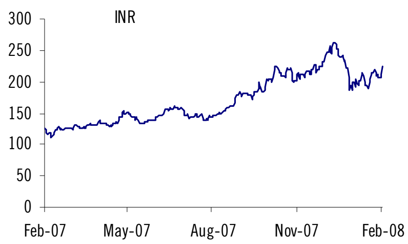
Cairn India (CAIL.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs224.40
Target Price	Rs262.00
Expected share price return	16.8%
Expected dividend yield	0.0%
Expected total return	**16.8%**
Market Cap	Rs399,073M
	US$9,999M

Price Performance



Source: Citi Investment Research

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Company description

Cairn India was incorporated as a subsidiary of Cairn Energy PLC (UK) to own and operate all of Cairn Plc's Indian E&P assets. Cairn India has operating interests in producing fields in KG Basin and the Cambay Basin offshore. However, most of the reserves accrue from the Rajasthan Block where production commences in 2009. Post-IPO, Cairn Plc holds 69.5% in Cairn India.

High Leverage to Crude

- **Robust resource base topped up by fiscal terms** — Rajasthan block development forms the core, with OIP of 3.6bn boe and reserves (2P+contingent) of 0.8bn boe. Further exploration and appraisal upside and attractive fiscal terms of the block are value accretive. The recent upgrade of Mangala's in-place 2P reserves (from 1.2 to 1.3bn bbl) and plateau production (from 100-110kbpd to 125 kbpd) is a positive and indicates the possibility of more upside in reserves for the block.

- **Mid-stream hurdle cleared** — According to press reports (*Business Standard*), the empowered committee of secretaries (ECS) has cleared the proposal for inclusion of the pipeline capex (~US$700m) under the FDP, which will likely ensure that the timeline for first oil (mid-09) is maintained.

- **Highly levered to crude** — Cairn's leverage to oil price expectations is one of the highest, especially to long-term prices given Rajasthan production commences in 2009.

- **Global scenario** — With global demand resilient, US$ weakness arguably strengthens OPEC resolve for price levels that not only offset deteriorating dollar revenues but challenge preconceived notions of what constitutes a sustainable price.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2007E	2,201	1.2	na	179.9	1.4	na	0.0
2008E	2,791	1.6	26.8	141.9	1.4	1.0	0.0
2009E	22,519	12.8	706.8	17.6	1.4	7.7	0.0
2010E	59,185	33.5	162.8	6.7	1.3	20.2	0.0

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate Cairn India Buy/Medium Risk with a target price of Rs262. Cairn India's ownership of valuable oil reserves in Rajasthan (OIP of 3.6bn boe) should generate steady cash flows from 2009E, besides having potential to generate further upside from EOR and exploration. Cairn India's valuations are among the most highly leveraged to crude amongst global E&P peers, offsetting inherent operational risks, in our view. While recent bid talk may prove ephemeral, we believe there is potential upside from a prospective bidder willing to pay over US$75/bbl.

Valuation

Our target price of Rs262 is based on a 5% premium to estimated NAVs of under-development and producing assets and incorporating recovery & exploration upside. We prefer NAV to value Cairn's assets as it has long-term visible cash flows from its existing resource base, the value of which cannot be captured using traditional near-term earnings multiples. The key assumptions for our NAV analysis are: long-term crude price (Brent) of US$75/bbl; first oil from Rajasthan in 2H09; crude realization at a 7% discount to Brent; cess at Rs918/MT; plateau production at 155-160kbpd; development capex of US$2.3bn; and the impact of pipeline option. Our target price is more leveraged to crude prices and less sensitive to operating parameters and/or reserve upside. We add a 5% premium to NAV to reflect the potential upside for an acquirer willing to pay over our US$75/bbl long-term crude forecast. The traditional valuation multiples (EV/DACF) will become more relevant as Rajasthan approaches first oil, but contingent on the extent of exploration success.

Cairn India (CAIL.BO): Financial Summary

Fiscal year end 31-Dec	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	na	na	179.9	141.9	17.6
EV/EBITDA adjusted (x)	na	na	na	52.6	12.9
P/BV (x)	na	na	1.4	1.4	1.4
Dividend yield (%)	na	na	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	na	na	1.25	1.58	12.76
EPS reported	na	na	1.25	1.58	12.76
BVPS	na	na	165.03	165.07	165.40
DPS	na	na	0.00	0.00	0.00
Profit & Loss (RsM)					
Net sales	na	na	8,873	8,848	33,460
Operating expenses	na	na	-5,398	-4,025	-6,539
EBIT	**na**	**na**	**3,475**	**4,823**	**26,921**
Net interest expense	na	na	-459	-960	-1,560
Non-operating/exceptionals	na	na	130	124	121
Pre-tax profit	**na**	**na**	**3,145**	**3,987**	**25,482**
Tax	na	na	-943	-1,196	-2,963
Extraord./Min.Int./Pref.div.	na	na	0	0	0
Reported net income	**na**	**na**	**2,201**	**2,791**	**22,519**
Adjusted earnings	na	na	2,201	2,791	22,519
Adjusted EBITDA	na	na	7,286	7,410	31,005
Growth Rates (%)					
Sales	na	na	na	-0.3	278.2
EBIT adjusted	na	na	na	38.8	458.2
EBITDA adjusted	na	na	na	1.7	318.4
EPS adjusted	na	na	na	26.8	706.8
Cash Flow (RsM)					
Operating cash flow	**na**	**na**	**6,192**	**5,462**	**26,313**
Depreciation/amortization	na	na	3,812	2,587	4,084
Net working capital	na	na	179	84	-290
Investing cash flow	**na**	**na**	**-22,827**	**-16,000**	**-10,440**
Capital expenditure	na	na	-22,827	-16,000	-10,440
Acquisitions/disposals	na	na	0	0	0
Financing cash flow	**na**	**na**	**5,098**	**7,640**	**7,400**
Borrowings	na	na	5,098	7,640	7,400
Dividends paid	na	na	0	0	0
Change in cash	**na**	**na**	**-11,537**	**-2,898**	**23,273**
Balance Sheet (RsM)					
Total assets	**na**	**na**	**305,132**	**312,429**	**321,240**
Cash & cash equivalent	na	na	22,552	19,813	18,466
Accounts receivable	na	na	6,075	5,579	6,703
Net fixed assets	na	na	34,694	45,227	54,261
Total liabilities	**na**	**na**	**13,805**	**21,032**	**29,266**
Accounts payable	na	na	5,445	5,032	5,866
Total Debt	na	na	8,360	16,000	23,400
Shareholders' funds	**na**	**na**	**291,327**	**291,397**	**291,974**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	na	na	82.1	83.8	92.7
ROE adjusted	na	na	na	1.0	7.7
ROIC adjusted	na	na	na	1.3	8.2
Net debt to equity	na	na	-4.9	-1.3	1.7
Total debt to capital	na	na	2.8	5.2	7.4

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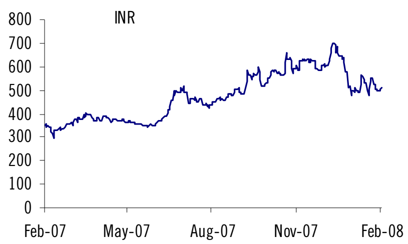
Powered by: dataCentral

CESC (CESC.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs512.00
Target Price	Rs777.00
Expected share price return	51.8%
Expected dividend yield	0.8%
Expected total return	**52.5%**
Market Cap	Rs63,967M
	US$1,603M

Price Performance



Source: Citi Investment Research

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Company description

CESC is a vertically integrated electric utility engaged in generation, transmission and distribution of electricity to consumers within its licensed area covering Kolkata and Howrah. It has four power plants with generation capacity of 975MW that services 2.1m consumers in its 567 sqm license area. CESC has a 26% stake in Integrated Coal Mining Ltd (ICML) (74% held by RPG group companies). ICML supplies 2.5m MTPA of coal to CESC (52% of CESC's coal requirement) with the remainder sourced from Coal India and through imported coal from Indonesia.

Executing a Well Laid Out Expansion Plan

- **Morphing into a conglomerate** — From a pure-play electric utility, CESC is morphing into a conglomerate. After CESC achieved growth through improving operating efficiencies it is now embarking on: (1) Giving its electric utility business a national footprint; (2) Monetizing idle real estate assets; and (3) Growing retail at a rapid pace.
- **Capacity addition targets of 4150MW** — CESC is working on 4150MW of capacity to expand its national footprint. This includes: (1) 250MW Budge Budge expansion, (2) 600MW Haldia Phase – I, (3) 1300MW Haldia Phase – II, (4) 1000MW Jharkand project, and (4) an 1000MW Orissa project.
- **Retailing merger led to dilution** — Pathik Foods was merged with CESC effective Apr17, 2007. Pathik Foods owns a 94% stake of Spencer's Retail (6% held by high networth individuals). During the merger Spencer's Retail was valued at an EV of Rs1.23bn and an equity value of Rs1.16bn. The merger led to issuance of 31m shares of CESC to the promoters.
- **Rapid growth in retailing** — Spencer's will double total tradable area over the next one year and double it again in the subsequent year. Though the company is currently making losses (losses of Rs468mn on sales of Rs5.2bn in FY07) it expects to turn profitable from FY09E/FY10E
- **Monetizing real estate** — CESC Properties will first monetize the 3 acres of land in Central Kolkata, follow up with the 35 acres of land in Mulajore where the plant has already been closed down and finally monetize the 27 acres of land when the New Cossipore Plant closed down in FY10E.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,844	21.87	8.0	23.4	2.6	12.6	0.5
2007A	3,007	35.68	63.1	14.4	2.2	16.6	0.7
2008E	3,310	26.49	-25.8	19.3	1.7	11.7	0.8
2009E	3,855	30.85	16.5	16.6	1.6	10.1	0.9
2010E	4,331	34.66	12.3	14.8	1.5	10.4	1.0

Source: Company and Citi Investment Research estimates

Investment Strategy

From a pure play electric utility CESC is morphing into a conglomerate with electric utility, retailing and real estate businesses. After the first phase where CESC achieved growth by improving operating efficiencies from PLF and T&D losses, it is now embarking on the second phase which involves: 1) trying to give its electric utility business a national footprint; 2) monetizing the value inherent in its idle real estate assets; and 3) growing retailing at rapid pace and turning it profitable by FY10E. We maintain our Buy rating.

Valuation

Our target price to Rs777 is based on a sum of the parts.

- We value the power business using a DCF at Rs578. We also value the Haldia power project at a P/BV of 1.2x.
- We have valued CESC Plaza at Rs10 using a DCF and value the 35 acres of the Mulajore plant area at Rs20mn/acre.
- We also value CESC's 94% stake in Spencer's Retail at a 25% premium to the merger valuation giving us a value of Rs109/share

Further upside from target price would be possible once CESC takes a firm call on shutting down New Cossipore and decides to monetize the retail estate that would be freed.

CESC (CESC.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	23.4	14.4	19.3	16.6	14.8
EV/EBITDA adjusted (x)	13.8	13.4	11.2	8.3	7.4
P/BV (x)	2.6	2.2	1.7	1.6	1.5
Dividend yield (%)	0.5	0.7	0.8	0.9	1.0
Per Share Data (Rs)					
EPS adjusted	21.87	35.68	26.49	30.85	34.66
EPS reported	21.06	35.68	26.49	30.85	34.66
BVPS	195.15	235.40	293.25	318.84	347.65
DPS	2.50	3.50	4.00	4.50	5.00
Profit & Loss (RsM)					
Net sales	25,159	24,843	26,547	28,886	31,828
Operating expenses	-21,728	-20,684	-22,388	-23,907	-26,009
EBIT	**3,431**	**4,159**	**4,159**	**4,979**	**5,820**
Net interest expense	-2,124	-1,679	-1,648	-1,598	-1,898
Non-operating/exceptionals	667	927	1,250	1,000	1,000
Pre-tax profit	**1,975**	**3,407**	**3,761**	**4,381**	**4,921**
Tax	-200	-400	-451	-526	-591
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**1,775**	**3,007**	**3,310**	**3,855**	**4,331**
Adjusted earnings	1,844	3,007	3,310	3,855	4,331
Adjusted EBITDA	5,970	5,739	5,861	7,117	8,217
Growth Rates (%)					
Sales	8.4	-1.3	6.9	8.8	10.2
EBIT adjusted	-3.0	21.2	0.0	19.7	16.9
EBITDA adjusted	-7.5	-3.9	2.1	21.4	15.5
EPS adjusted	8.0	63.1	-25.8	16.5	12.3
Cash Flow (RsM)					
Operating cash flow	**3,691**	**7,901**	**5,356**	**5,871**	**6,513**
Depreciation/amortization	2,539	1,579	1,702	2,138	2,398
Net working capital	-622	3,315	345	-122	-215
Investing cash flow	**-3,076**	**-4,614**	**-15,550**	**-8,080**	**-11,150**
Capital expenditure	-3,077	-2,514	-3,970	-6,280	-9,150
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**563**	**194**	**10,938**	**1,577**	**3,606**
Borrowings	-2,572	-1,117	-3,000	2,000	4,000
Dividends paid	-235	-345	-585	-658	-731
Change in cash	**1,177**	**3,481**	**744**	**-632**	**-1,031**
Balance Sheet (RsM)					
Total assets	**48,661**	**55,178**	**70,389**	**76,404**	**85,003**
Cash & cash equivalent	2,829	7,314	8,059	7,427	6,396
Accounts receivable	5,224	4,151	4,436	4,827	5,319
Net fixed assets	36,406	37,340	39,608	43,750	50,502
Total liabilities	**32,212**	**35,337**	**33,748**	**36,566**	**41,565**
Accounts payable	6,761	8,967	9,417	9,833	10,327
Total Debt	19,100	17,983	14,983	16,983	20,983
Shareholders' funds	**16,449**	**19,841**	**36,641**	**39,838**	**43,438**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	23.7	23.1	22.1	24.6	25.8
ROE adjusted	12.6	16.6	11.7	10.1	10.4
ROIC adjusted	8.5	10.0	9.8	10.8	11.1
Net debt to equity	98.9	53.8	18.9	24.0	33.6
Total debt to capital	53.7	47.5	29.0	29.9	32.6

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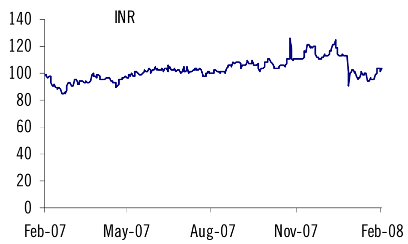
Powered by: dataCentral

Dabur India (DABU.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs103.05
Target Price	Rs125.00
Expected share price return	21.3%
Expected dividend yield	1.8%
Expected total return	**23.1%**
Market Cap	Rs89,038M
	US$2,231M

Price Performance



Source: Citi Investment Research

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Company description

Dabur India is a leading player in ayurveda-based (traditional science) products in India, with presence in the personal-care, health-care and pharmaceutical segments. The company has a niche in several FMCG categories.

Steady Overall Growth

- **Good growth profile** — Dabur is, in our view, one of the best consumer businesses, deriving its competitive advantage from its niche position that is based on its herbal product portfolio. Besides above average earnings growth, its niche position makes it less susceptible to competition from MNC players.

- **Core domestic business remains strong** — Foods and Consumer care division growth remains strong at around 15%. In addition, consumer health business, which was struggling to scale up, has shown improvement with growth increasing of 7% in 3QFY08. Growth is likely to improve significantly going forward on account of product re-engineering initiatives.

- **New business initiatives** — Dabur's health & beauty stores are expected to start operations by March this year. Management has earmarked funds of Rs1.4bn over the next three years with a target RoE of 30-40%. Management is also working on expanding its skin care portfolio with some launches expected soon.

- **International business growing rapidly** — Dabur’s international business is growing at over 20%. Dabur has presence in the Middle East, South Asia and Africa. Dabur is looking at expanding its presence to developed markets going forward.

- **Revamped distribution paying off** — Dabur’s sales force focuses on its 4 key trade channels: 1) Modern trade, 2) Rural, 3) Mom & pop, and 4) Chemists. Dabur’s presence in health care makes chemists an important distribution channel. According to management, the new sales force structure has significantly enhanced channel throughput and productivity.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,141	2.49	37.4	41.4	17.8	49.7	1.1
2007A	2,830	3.29	32.2	31.3	18.1	57.4	1.5
2008E	3,475	4.04	22.8	25.5	18.4	71.7	1.8
2009E	4,287	4.99	23.4	20.7	16.9	85.3	1.9
2010E	5,078	5.91	18.5	17.4	14.5	89.5	2.1

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate Dabur as Buy/Low Risk (1L). In our view, Dabur is one of the best consumer businesses in India, deriving its competitive advantage from its niche position that is based on its herbal product portfolio. The company has strong brands covering personal care, oral care, health care & foods segments. All are based on Ayurvedic (ancient Indian herbal) formulations. Its niche position makes Dabur less susceptible to competition from multinational players like HUL and P&G, in our view. Growth rates for its business have picked up recently. Additionally, Dabur has new growth drivers – foods & international businesses – that are growing rapidly (more than 25%). The margin expansion trend should continue with operating leverage from its new businesses contributing. Additionally, Dabur is exploring inorganic growth opportunities that could add further impetus to growth.

Valuation

We believe Dabur is a steady growth company, thus we value it based on P/E. Our target price of Rs125 is based on 25x FY09E P/E. We benchmark our target multiple against average Sensex premium of 40-50% that the Dabur stock has enjoyed historically. Our target multiple for Dabur is 25x in view of 1) our more positive stance on Dabur's growth potential given the pickup in its core domestic business growth; 2) Dabur's above-sector average growth profile ,and 3) maintaining the stock's relative premium range to Sensex P/E. We forecast a 23% EPS growth CAGR for FY07-09E, which is at the higher end of our Indian consumer universe.

Dabur India (DABU.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	41.4	31.3	25.5	20.7	17.4
EV/EBITDA adjusted (x)	30.9	25.1	20.1	17.9	14.9
P/BV (x)	17.8	18.1	18.4	16.9	14.5
Dividend yield (%)	1.1	1.5	1.8	1.9	2.1
Per Share Data (Rs)					
EPS adjusted	2.49	3.29	4.04	4.99	5.91
EPS reported	2.49	3.29	4.04	4.99	5.91
BVPS	5.78	5.68	5.60	6.09	7.12
DPS	1.17	1.50	1.83	2.00	2.17
Profit & Loss (RsM)					
Net sales	18,659	21,890	25,684	29,848	34,080
Operating expenses	-16,062	-18,801	-21,802	-25,043	-28,376
EBIT	**2,597**	**3,089**	**3,882**	**4,804**	**5,703**
Net interest expense	-165	-154	-42	-42	-42
Non-operating/exceptionals	134	259	120	120	120
Pre-tax profit	**2,566**	**3,195**	**3,960**	**4,882**	**5,781**
Tax	-300	-373	-475	-586	-694
Extraord./Min.Int./Pref.div.	-124	9	-10	-10	-10
Reported net income	**2,141**	**2,830**	**3,475**	**4,287**	**5,078**
Adjusted earnings	2,141	2,830	3,475	4,287	5,078
Adjusted EBITDA	2,866	3,497	4,310	4,804	5,703
Growth Rates (%)					
Sales	24.9	17.3	17.3	16.2	14.2
EBIT adjusted	44.8	19.0	25.7	23.8	18.7
EBITDA adjusted	38.2	22.0	23.2	11.5	18.7
EPS adjusted	37.4	32.2	22.8	23.4	18.5
Cash Flow (RsM)					
Operating cash flow	**1,863**	**5,254**	**4,226**	**4,416**	**5,070**
Depreciation/amortization	269	408	428	0	0
Net working capital	-274	2,024	313	119	-18
Investing cash flow	**739**	**5,095**	**-200**	**0**	**0**
Capital expenditure	-2,400	-200	-200	0	0
Acquisitions/disposals	3,139	5,295	0	0	0
Financing cash flow	**-1,233**	**-3,831**	**-3,555**	**-3,878**	**-4,201**
Borrowings	-466	-923	0	0	0
Dividends paid	-714	-2,909	-3,555	-3,878	-4,201
Change in cash	**1,368**	**6,517**	**471**	**538**	**869**
Balance Sheet (RsM)					
Total assets	**10,601**	**12,894**	**14,194**	**15,800**	**17,818**
Cash & cash equivalent	807	1,751	2,164	2,712	3,507
Accounts receivable	744	1,224	1,435	1,667	1,903
Net fixed assets	5,125	4,917	4,689	4,439	4,167
Total liabilities	**5,576**	**7,960**	**9,333**	**10,525**	**11,661**
Accounts payable	3,028	4,074	4,752	5,579	6,348
Total Debt	1,043	120	120	120	120
Shareholders' funds	**5,025**	**4,934**	**4,860**	**5,275**	**6,157**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	15.4	16.0	16.8	16.1	16.7
ROE adjusted	49.7	57.4	71.7	85.3	89.5
ROIC adjusted	45.4	42.9	53.3	65.8	77.5
Net debt to equity	4.7	-33.0	-42.0	-49.1	-55.0
Total debt to capital	17.2	2.4	2.4	2.2	1.9

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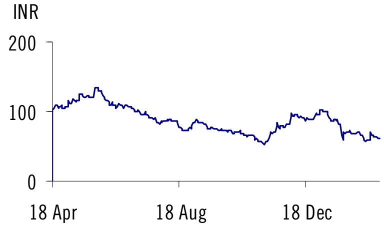
Powered by: dataCentral

Dish TV India (DSTV.BO)

Non-Rated

Price (28 Sep 07)	Rs61.80
Market Cap	Rs26,464M
	US$633M

Price Performance



Source: dataCentral

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Good Pay-TV Opportunity, But Competition Rising

- **Strong pay-TV market growth** — The pay-TV market in India is growing strongly, driven by increasing TV ownership. With more than 110m TV households, India is the 3rd largest TV market in the world and provides significant opportunities to pay-TV service providers
- **Largest DTH player** — Dish TV is India's largest direct to home (DTH) player with a subscriber base of 2.8m. The company is growing rapidly and is present in 4,400 towns all over India with more than 575 distributors and more than 38,000 retail outlets.
- **First-mover advantage, strong brand** — Being the first entrant, Dish already has a high subscriber base. Dish TV has good operating infrastructure, strong content tie-up, established brand and the backing of a strong group.
- **Management guides to strong growth** — Dish TV management has guided to a subscriber base of 8m by 2011, and expects revenues to grow from Rs0.8bn in FY06 to Rs35.2bn by FY11E with EBITDA margins of about 28%
- **Competition rising** — Competition for Dish TV is on the rise, with Star-Tata getting aggressive with marketing and consumer subsidies. Entry of new players such as Sun TV, Reliance and Bharti may significantly increase competitive intensity going forward, making it challenging for Dish TV to achieve its growth guidance

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	-2078.3	nm	nm	nm	nm	nm	0.0
2007A	-2518.8	nm	nm	nm	nm	nm	0.0

Source: Capitaline

Company Description

Dish TV is the first company to provide Direct to Home (DTH) satellite broadcast operations in India. The company has the strong backing of the Essel Group, the parent company of Zee Network. After its launch in 2005, the company has more than 2.8m subscribers and has a deep distribution network. With the advent of digital technology, Dish is able to offer superior services and cover a wide range of 180 national and international channels. Dish has about 64% share of the pay DTH market.

Recent Developments

Dish TV's 3Q FY08 consolidated revenues were Rs1.1bn, a 48% increase. The average subscriber additions were 99,000 per month. About 3m new subscribers were added during the last quarter, up from an increase of 7%qoq. The shareholders have approved a preferential allotment of equity to Indivision India Partners, a Mauritius-based private equity firm.

Dish TV India (DSTV.BO): Financial Summary

Dish TV India Profit & Loss Summary (Rupees in Mn)

Year Ending March	2005	2006	2007
Net Sales	93.7	314.6	1909.4
Other Income	28.5	3	91.5
Stock Adjustments	0	4.7	6.7
Total Income	**122.2**	**322.3**	**2007.6**
Raw Materials Expenditure	47	61.1	12.1
Power & Fuel Cost	2.6	1.6	7.3
Employee Cost	17.5	21.5	147.4
Other Manufacturing Expenses	242.3	728.1	2251.4
Selling and Administration Expenses	12.6	335.2	1148.2
Miscellaneous Expenses	41.6	1205.1	206.9
Total Expenditure	**363.6**	**2352.6**	**3773.3**
Operating Profit	**-241.4**	**-2030.3**	**-1765.7**
Interest	30.7	19.4	175.3
Gross Profit	**-272.1**	**-2049.7**	**-1941**
Depreciation	7.2	28.3	575.3
Profit Before Tax	**-279.3**	**-2078**	**-2516.3**
Tax	-0.4	0	0
Fringe Benefit tax	0	0.3	2.5
Reported Net Profit	**-278.9**	**-2078.3**	**-2518.8**
Extraordinary Items	-0.5	-1203.6	-1.2
Adjusted Net Profit	**-278.4**	**-874.7**	**-2517.6**

Source: Capitaline

Dish TV India Balance Sheet (Rupees in Mn)

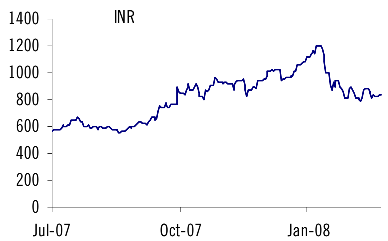
Year Ending March	2005	2006	2007
Share Capital	715.7	715.7	428.2
Reserves Total	2537.9	459.6	-822.9
Total Shareholders Funds	**3253.6**	**1175.3**	**-394.7**
Secured Loans	139.5	78.1	1444.7
Unsecured Loans	9.8	5.7	306.3
Total Debt	**149.3**	**83.8**	**1751**
Total Liabilities	**3402.9**	**1259.1**	**1356.3**
Gross Block	171.3	656.8	6170.2
Less : Accumulated Depreciation	23.1	50.9	673.7
Net Block	**148.2**	**605.9**	**5496.5**
Capital Work in Progress	0	536.5	1126.5
Investments	1251.1	1068.7	944.5
Current Assets, Loans & Advances			
Inventories	0	4.7	11.4
Sundry Debtors	20.6	75.6	390.6
Cash and Bank	44.1	59.4	113.3
Loans and Advances	2463	1468	1869.4
Total Current Assets	**2527.7**	**1607.7**	**2384.7**
Less :			
Current Liabilities	523.3	2558.3	8577
Provisions	0.8	1.4	18.9
Total Current Liabilities	**524.1**	**2559.7**	**8595.9**
Net Current Assets	**2003.6**	**-952**	**-6211.2**
Total Assets	**3402.9**	**1259.1**	**1356.3**

Source: Capitaline

DLF (DLF.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs832.60
Target Price	Rs1,046.00
Expected share price return	25.6%
Expected dividend yield	0.7%
Expected total return	**26.4%**
Market Cap	Rs1,419,444M
	US$35,575M

Price Performance



Source: Citi Investment Research

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Company description

DLF is one of India's oldest real estate developers. Established in Delhi in 1946, it has continued to expand and diversify its real estate businesses, and is among the largest developers in India. It has historically built its businesses in Delhi and adjoining areas, know as the National Capital Region (NCR). DLF has diversified into other geographic locations over the last few years. DLF enjoys a strong brand franchise with good reputation in execution and delivery. This is the flagship company of the KP Singh family with promoters holding ~88%. It is amongst India's largest developers with diversified asset portfolio and an emerging pan-India presence.

Player, Opportunity, Ambition

- **Preferred tier-one developer** — DLF is one of India's largest developers with an emerging pan-India presence. The company has a large diversified landbank of ~ 748m sq ft with a diversified asset mix and emerging pan-India presence.

- **What differentiates DLF?** — 1) Focus on scale with a portfolio spread across top-tier cities; 2) strong balance sheet in this liquidity strained environment and 3) a de-risked business model, with JVs in construction and hotels aiding growth.

- **Relatively good proxy to play yield compression** — DLF's large pipeline of IT SEZ, hotels and retail assets and strategy to monetize these through sale to DLF Office Trusts/others at lower cap rates should boost cash flows – this however, remains contingent on capital flows in the current environment.

- **Asset mix geared toward commercial assets** — DLF has 59m sq ft under construction, largely geared towards office/IT Parks and retail malls - less sensitive to rates. This to an extent insulates DLF from the sluggish demand in the residential space.

- **New residential launches, response encouraging** — Kolkata, Chennai and Indore launches in the mid-income residential segment met with strong response. The Kolkata project was sold out in 4 days and in Chennai 2,205 apartments were sold in one week. It also monetized 7 residential projects by selling a 49% stake to private-equity investors, for Rs16.75bn.

- **Key risks** — 1) Asset sales strategy remains contingent on the ability to raise capital, 2) potential supply risks across assets, and 3) concentration of landbank in NCR (32% of portfolio) raises price and demand risks.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,917	12.34	100.2	67.5	13.6	22.6	0.0
2007A	19,413	12.80	3.7	65.0	41.8	97.9	0.0
2008E	69,431	40.73	218.1	20.4	7.8	65.7	0.7
2009E	99,170	58.17	42.8	14.3	5.3	44.3	1.0
2010E	129,661	76.05	30.7	10.9	3.7	40.1	1.2

Source: Powered by dataCentral

Investment Strategy

We rate DLF shares Buy/Medium Risk (1M), with a target price of Rs1,046 based on a 25% premium to our NAV estimate of Rs837 which includes other asset holding/JV businesses of Rs75. DLF's focus on scale, integrated development with execution record, and a large land holding spread across top-tier growth cities differentiates it from its peers. Its diversified portfolio is relatively leveraged toward commercial/IT Parks/Retail mall, which should provide a good hedge particularly in the near-term, when the residential segment is seeing some slowdown. We believe it is a good proxy to play potential yield compression. Potential listing of DLF Office Trust in Singapore would generate positive sentiment for the stock, in our view. We see this as a core holding for playing the Indian real estate sector.

Valuation

Our target price of Rs1,046 is based on a 25% premium to our core NAV and other asset holding/JV estimate of Rs837. This includes Rs762 for the development portfolio and Rs75 for other asset holdings and new JV. The premium is attributed to - 1) diversified tier-I developer with large land bank, 2) high leverage towards commercial assets; 3) de-leveraged balance sheet, and 4) strong track record. Our NAV estimate of Rs837 is based on the following assumptions: 1) current market prices without any price inflation; 2) development volume of 701m sq ft (as ~43m is already/to be recognized as revenue till Sep '08); 3) a cap rate of 9% for commercial/IT Park, IT SEZs in Super Metros and Metros, and 10% for other locations; 4) all projects will be completed largely on schedule; 5) average cost of capital of 14%; and 6) a tax rate of 25%.

DLF (DLF.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	67.5	65.0	20.4	14.3	10.9
P/E reported (x)	67.5	65.0	20.4	14.3	10.9
P/BV (x)	13.6	41.8	7.8	5.3	3.7
Dividend yield (%)	0.0	0.0	0.7	1.0	1.2
Per Share Data (Rs)					
EPS adjusted	12.34	12.80	40.73	58.17	76.05
EPS reported	12.34	12.80	40.73	58.17	76.05
BVPS	61.16	19.90	106.32	156.49	222.54
NAVps ordinary	na	na	na	na	na
DPS	0.10	0.01	6.00	8.00	10.00
Profit & Loss (RsM)					
Net operating income (NOI)	**5,154**	**15,875**	**98,304**	**139,217**	**178,221**
G&A expenses	-397	-922	-2,365	-2,838	-3,406
Other Operating items	-361	-584	-969	-1,774	-2,497
EBIT including associates	**4,396**	**14,369**	**94,969**	**134,604**	**172,318**
Non-oper./net int./except.	-801	11,113	-2,394	-2,377	563
Pre-tax profit	**3,595**	**25,482**	**92,575**	**132,227**	**172,881**
Tax	-1,668	-6,058	-23,144	-33,057	-43,220
Extraord./Min. Int./Pref. Div.	-10	-11	0	0	0
Reported net income	**1,917**	**19,413**	**69,431**	**99,170**	**129,661**
Adjusted earnings	1,917	19,413	69,431	99,170	129,661
Adjusted EBIT	4,396	14,382	94,969	134,604	172,318
Adjusted EBITDA	4,757	14,953	95,939	136,379	174,815
Growth Rates (%)					
NOI	142.1	208.0	519.2	41.6	28.0
EBIT adjusted	225.9	227.2	560.3	41.7	28.0
EPS adjusted	100.2	3.7	218.1	42.8	30.7
Cash Flow (RsM)					
Operating cash flow	**-15,375**	**-39,212**	**-57,924**	**46,925**	**57,035**
Depreciation/amortization	361	571	969	1,774	2,497
Net working capital	-8,589	-67,025	-128,324	-54,020	-75,122
Investing cash flow	**-15,075**	**-19,157**	**-29,152**	**-39,319**	**-37,418**
Capital expenditure	-7,175	-25,350	-28,942	-39,087	-37,163
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**31,976**	**60,574**	**91,546**	**-2,751**	**-16,995**
Borrowings	31,644	58,008	9,900	10,888	54
Dividends paid	-16	-18	-10,229	-13,639	-17,048
Change in cash	**1,526**	**2,205**	**4,470**	**4,855**	**2,623**
Balance Sheet (RsM)					
Total assets	**69,436**	**181,708**	**353,645**	**465,791**	**587,414**
Cash & cash equivalent	1,950	4,155	8,625	13,480	16,103
Net fixed assets	17,043	41,872	69,844	107,157	141,823
Total liabilities	**59,881**	**141,944**	**162,803**	**189,417**	**198,428**
Total Debt	41,320	99,328	109,228	120,116	120,169
Shareholders' funds	**9,555**	**39,764**	**190,842**	**276,373**	**388,986**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	38.1	55.0	68.3	63.7	61.1
ROE adjusted (%)	22.6	97.9	65.7	44.3	40.1
ROA adjusted (%)	4.0	15.5	25.9	24.2	24.6
Net debt to equity (%)	412.0	239.3	52.7	38.6	26.8
Interest coverage (x)	2.8	4.9	17.6	22.7	29.1

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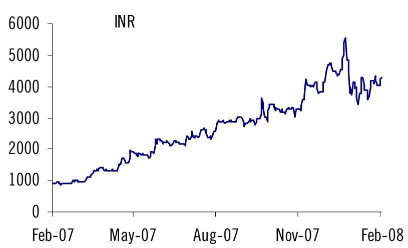
Powered by: dataCentral

Educomp Solutions (EDSO.BO)

Sell/High Risk	3H
Price (26 Feb 08)	Rs4,264.40
Target Price	Rs2,380.00
Expected share price return	-44.2%
Expected dividend yield	0.1%
Expected total return	**-45.4%**
Market Cap	Rs73,546M
	US$1,843M

Price Performance



Source: Citi Investment Research

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Company description

Educomp is an educational service provider focused on the K-12 space. The company has three primary business segments: (1) Smart Class – an online learning aid targeted towards private educational institutes; (2) ICT Solution – targeted towards government-aided schools for IT infrastructure and training; and (3) Professional Development instructor-led training targeted at school teachers. Apart from these key segments, the company has also ventured into retail initiatives with a) MathGuru.com; b) online tutoring; and c) K-12 schools, pre-schools and high schools.

Expensive Valuations

- **Update on Smart Class business** — This has been the flagship product of the company. Market size and penetration levels should be discussed. Competition from NIIT's eGuru suite of products and new players like ClassTeacher needs to be understood.
- **Outlook and progress of K-12 initiatives** — Educomp has entered in a K-12 business of setting up and running schools. The company has discussed plans of ramping up this business to over 150 schools in 3-4 years' time frame. Understanding the capex requirement, funding plans and business dynamics of this new business needs to be evaluated.
- **Ability to sustain 100%+ growth** — Educomp has been able to grow at 100%+ revenue growth over the past few years. Ability of the company to maintain this growth rate over the next 3-4 years especially on a larger base should be an area to focus on.
- **ICT business outlook and margin sustainability** — One of the key business segment (contributing ~30% of 9MFY08 revenue), Educomp makes 25%+ EBIT margin when competition makes less than 10% margins or even losses. Understanding the reasons for superior margins is another focus area.
- **Forays into electronics media** — Recent press articles suggest that the company's promoter is in talks with the media company for forays into an Educational channel. The company's plans should be discussed.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	139	11.16	82.4	nm	76.0	24.8	0.0
2007A	287	15.93	42.7	nm	59.4	28.1	0.0
2008E	723	39.58	148.4	107.7	39.9	48.7	0.1
2009E	1,324	69.84	76.5	61.1	23.8	53.9	0.1
2010E	2,247	118.56	69.7	36.0	14.0	53.8	0.1

Source: Powered by dataCentral

Investment Strategy

We rate Educomp Sell/High Risk as we believe its valuations are expensive despite its strong revenue and earnings growth. We forecast strong top-line growth of 110% CAGR and 95% EPS CAGR over FY07-10E as the company penetrates beyond tier 1 & 2 cities. We see stable margins as pressure in school ventures and the ICT business is countered by leverage in Smart Class and MathGuru.

Valuation

Our target price of Rs2,380 is based on 35x FY09E EPS, derived using the stock's historical trading band. Since listing in Dec 2005, the stock has traded in a range of 15-58x one-year forward P/E, with an average of 29x. Over the past year, the average P/E has been 34x. Our target multiple of 35x is at 20% premium to the stock's average historical valuation to factor in the company's stronger growth prospects. It is supported by valuation multiples of other educational services companies in the Asia Pacific region. We believe 35x is fair as we expect strong revenue and earnings growth over FY07-10E.

Educomp Solutions (EDSO.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	nm	nm	107.7	61.1	36.0
EV/EBITDA adjusted (x)	nm	144.8	55.2	30.8	18.7
P/BV (x)	76.0	59.4	39.9	23.8	14.0
Dividend yield (%)	0.0	0.0	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	11.16	15.93	39.58	69.84	118.56
EPS reported	11.16	15.93	39.58	69.84	118.56
BVPS	56.11	71.81	106.85	179.20	305.64
DPS	1.50	2.00	2.50	3.00	3.50
Profit & Loss (RsM)					
Net sales	555	1,101	3,035	5,736	10,239
Operating expenses	-344	-691	-2,020	-3,753	-6,770
EBIT	**211**	**410**	**1,015**	**1,982**	**3,469**
Net interest expense	-6	-14	-27	-40	-44
Non-operating/exceptionals	15	59	127	112	136
Pre-tax profit	**220**	**454**	**1,115**	**2,054**	**3,561**
Tax	-81	-170	-379	-687	-1,190
Extraord./Min.Int./Pref.div.	0	2	-13	-43	-124
Reported net income	**139**	**287**	**723**	**1,324**	**2,247**
Adjusted earnings	139	287	723	1,324	2,247
Adjusted EBITDA	268	507	1,347	2,457	4,117
Growth Rates (%)					
Sales	67.1	98.3	175.7	89.0	78.5
EBIT adjusted	100.4	94.1	147.6	95.4	75.0
EBITDA adjusted	70.7	89.2	165.8	82.4	67.5
EPS adjusted	82.4	42.7	148.4	76.5	69.7
Cash Flow (RsM)					
Operating cash flow	**151**	**108**	**161**	**569**	**821**
Depreciation/amortization	57	97	332	475	648
Net working capital	-33	-271	-807	-1,201	-2,106
Investing cash flow	**-162**	**-849**	**-1,423**	**-1,566**	**-2,489**
Capital expenditure	-163	-676	-1,524	-1,638	-2,581
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**595**	**1,238**	**3,210**	**-59**	**-69**
Borrowings	64	1,146	3,258	0	0
Dividends paid	-27	-39	-49	-59	-69
Change in cash	**584**	**497**	**1,948**	**-1,056**	**-1,737**
Balance Sheet (RsM)					
Total assets	**1,205**	**2,832**	**7,130**	**8,820**	**11,604**
Cash & cash equivalent	606	1,106	3,040	1,941	80
Accounts receivable	255	496	1,372	2,593	4,628
Net fixed assets	252	831	2,023	3,187	5,119
Total liabilities	**308**	**1,556**	**5,180**	**5,605**	**6,211**
Accounts payable	0	0	0	0	0
Total Debt	110	1,255	4,514	4,514	4,514
Shareholders' funds	**897**	**1,276**	**1,951**	**3,215**	**5,393**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	48.2	46.0	44.4	42.8	40.2
ROE adjusted	24.8	28.1	48.7	53.9	53.8
ROIC adjusted	39.8	27.0	26.7	28.4	29.4
Net debt to equity	-55.3	11.7	75.5	80.0	82.2
Total debt to capital	10.9	49.6	69.8	58.4	45.6

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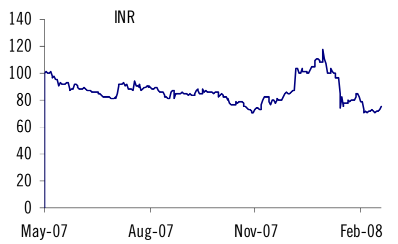
Powered by: dataCentral

Fortis Healthcare (FOHE.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs74.80
Target Price	Rs100.00
Expected share price return	33.7%
Expected dividend yield	0.0%
Expected total return	**33.7%**
Market Cap	Rs16,955M
	US$425M

Price Performance



Source: Citi Investment Research

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Company description

Fortis was set up and is owned by the founders of India's largest pharmaceutical company, Ranbaxy Laboratories. Fortis went public in May 07. It is a professionally managed company with a fairly broad management team, headed by Mr. Shivinder Singh (founder shareholder and Managing Director).

Aggressive Plans; Execution is Key

- **Super-Speciality focus** — Fortis' strong brand equity & super specialty focus make it, in our view, a good long-term play on the growing healthcare opportunity in India. Fortis' focus on super-specialty care augurs well. Super-specialty hospitals have higher profitability and shorter gestation periods vs. general hospitals. The shift to lifestyle diseases in India also implies that hospitals focused on high-end care would do well going forward.

- **Escorts pain** — Escorts Delhi faced lower occupancy in FY08, due to the exit of Dr Naresh Trehan & associated negative publicity – thus hurting topline and margins. While this was expected, the extent of decline was higher than we anticipated. Fortis indicated that margins would improve over the next few quarters as costs are brought under control. In the near term, however, this would remain a drag on overall profitability

- **Expansion update** — 1) Jaipur became operational in 2Q; 2) Gurgaon & Shalimar Bagh facilities on track to be commissioned in the next 2 years; 3) Navi Mumbai facility to start in 4Q FY08

- **Other issues** — 1) Fortis' efforts to centralize the supply chain is likely to bear fruit from 4Q FY08; 2) Fortis is evaluating options to move the land & building of some existing facilities to a REIT as part of an asset-light strategy; 3) execution hiccups/delays on Escorts integration remains a key risk.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	-489	-2.88	na	nm	4.0	-28.6	0.0
2007A	-1,013	-5.92	-105.6	-12.6	3.5	-29.4	0.0
2008E	-494	-2.18	63.2	nm	2.5	-9.5	0.0
2009E	133	0.59	126.9	127.5	2.5	2.0	0.0
2010E	389	1.71	192.4	43.6	2.3	5.5	0.0

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate Fortis as Buy/Medium Risk (1M), with a target price of Rs100. Fortis looks well placed to gain from the growing market for healthcare delivery services in India. It is one of the major super-specialty care providers in the country and is expected to benefit from the shift in disease profile from infectious diseases toward lifestyle ailments in India. The company has acquired scale in North India by acquiring the well-known Escorts group of hospitals, and we expect it to pursue further expansion projects - both in North India and beyond. As utilization levels in its existing hospitals pick up and the company is able to exploit the synergies and eliminate inefficiencies in the Escorts hospitals, we expect growth rates and profitability to improve.

Valuation

We prefer to use EV/EBIDTA versus EBIDTA CAGR as the primary method to value Fortis. We believe that hospital companies in India would have a predictable and steady revenue stream, given high unmet demand and low but growing penetration of organized healthcare. Fortis has only one directly comparable company listed on the Indian market - Apollo Hospitals. While Max India, another listed Indian company, also has a presence in the hospital space, it is not directly comparable, as Max has operations in life insurance, clinical research and other businesses as well. We value Fortis at 15x FY09E EBIDTA, the same multiple we use to value Apollo Hospitals - the leading private-sector hospital company in India.

Fortis Healthcare (FOHE.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	nm	-12.6	nm	127.5	43.6
EV/EBITDA adjusted (x)	88.9	48.0	22.6	11.8	9.5
P/BV (x)	4.0	3.5	2.5	2.5	2.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	-2.88	-5.92	-2.18	0.59	1.71
EPS reported	-2.88	-5.92	-2.18	0.59	1.71
BVPS	18.84	21.55	29.61	30.20	31.92
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net sales	2,926	5,124	6,255	8,641	10,858
Operating expenses	-3,144	-5,477	-6,209	-7,930	-9,813
EBIT	**-218**	**-353**	**46**	**711**	**1,045**
Net interest expense	-363	-660	-477	-431	-534
Non-operating/exceptionals	44	81	31	73	133
Pre-tax profit	**-538**	**-933**	**-399**	**353**	**644**
Tax	9	-73	-80	-190	-219
Extraord./Min.Int./Pref.div.	39	-7	-15	-30	-36
Reported net income	**-489**	**-1,013**	**-494**	**133**	**389**
Adjusted earnings	-489	-1,013	-494	133	389
Adjusted EBITDA	232	485	962	1,703	2,116
Growth Rates (%)					
Sales	296.8	75.1	22.1	38.1	25.7
EBIT adjusted	-37.4	-61.9	113.1	1,442.2	46.9
EBITDA adjusted	422.4	109.3	98.5	77.1	24.2
EPS adjusted	-470.1	-105.6	63.2	126.9	192.4
Cash Flow (RsM)					
Operating cash flow	**-132**	**-298**	**1,488**	**1,549**	**1,869**
Depreciation/amortization	450	838	916	992	1,071
Net working capital	-121	-96	993	248	204
Investing cash flow	**-7,167**	**-899**	**-2,281**	**-1,500**	**-1,700**
Capital expenditure	-679	-899	-2,280	-1,500	-1,700
Acquisitions/disposals	-6,276	-1	0	0	0
Financing cash flow	**7,450**	**1,337**	**1,450**	**966**	**1,220**
Borrowings	3,987	-116	-2,070	966	1,220
Dividends paid	0	0	0	0	0
Change in cash	**151**	**139**	**658**	**1,015**	**1,389**
Balance Sheet (RsM)					
Total assets	**10,596**	**11,438**	**12,732**	**14,588**	**16,909**
Cash & cash equivalent	167	307	964	1,980	3,369
Accounts receivable	678	882	563	778	977
Net fixed assets	4,541	5,085	6,904	7,867	8,951
Total liabilities	**7,203**	**7,557**	**5,810**	**7,503**	**9,400**
Accounts payable	790	1,053	1,828	2,546	3,212
Total Debt	5,985	5,922	3,852	4,818	6,038
Shareholders' funds	**3,393**	**3,881**	**6,922**	**7,085**	**7,510**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	7.9	9.5	15.4	19.7	19.5
ROE adjusted	-28.6	-29.4	-9.5	2.0	5.5
ROIC adjusted	-3.9	-4.3	-0.3	5.2	8.1
Net debt to equity	171.4	144.7	41.7	40.1	35.5
Total debt to capital	63.8	60.4	35.8	40.5	44.6

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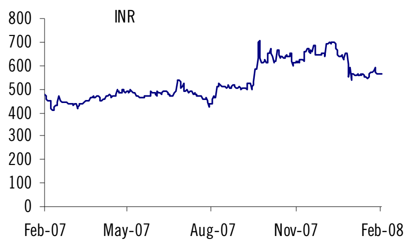
Powered by: dataCentral

Havells India (HVEL BO - NR)

Non-Rated	
Price (26 Feb 08)	Rs565.95
Market Cap	Rs32,779M
	US$821M

Price Performance



Source: dataCentral

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Company Description

Havells India Ltd. is one of India's largest electrical and power distribution equipment companies. It manufactures and sells industrial and domestic switchgear, cable and wires, building circuit protection, fans, CFL lamps, luminaries for domestic commercial and industrial applications, energy meters and modular switches. The company's products are sold through brand names like Crabtree (in India), Sylvania, Concord:martin, Lumiance, Claude, Sylvania: Linolite, SLI Lighting and Zenith. Havell's India Ltd was incorporated in 1983, and was converted into a public company in 1992.

Electrical and Power Distribution Equipment Player

- **Presence across multiple business segments** — Havells business is divided into four segments – switchgear, cable and wire, electrical consumer and durable and others (e.g. electric meters). Historically, cable and wire has constituted the largest proportion of revenue, followed by switch gears and electrical consumer durables.
- **Strong distribution network in India and abroad** — Havells has strong distribution network of 2,000 dealers throughout India. It also has international operation in more than 52 countries. In Oct 2006, Havells completed the acquisition of Geyer Hallas (which was its first international acquisition), which gave it access to 300 dealers in 17 Mediterranean countries. It gained access to 10,000 more distributors with the acquisition of Sylvania.
- **Sylvania acquisition** — Havells completed acquisition of Sylvania in April, 2007, from SLI International Holdings, LLC. Sylvania acquisition provides scale to operations of Havells and catapulted it into US$1bn revenue company. It also provides Havells a place among the top 5 market participants in several geographies in Europe, Latin America and Asia.
- **Sylvania acquisition – part of long-term growth plan** — Sylvania is a strategic acquisition to gain access to brands and distribution channels in those geographies where Havell's otherwise would not have gone. This acquisition is more of a long-term and diversification strategy for Havells.

Recent Developments

Havells completed a preferential placement of shares to Seacrest investments, a Warburg Pincus group company, in November 2007.

Havells India (HVEL BO - NR): Financial Summary

Havells India — Consolidated Profit and Loss Summary

In Rs Mn	Mar-03	Mar-05	Mar-06	Mar-07
Sales Turnover	**3,349**	**6,654**	**11,083**	**16,778**
Excise Duty	459	834	1,115	1,357
Net Sales	**2,890**	**5,820**	**9,968**	**15,422**
Other Income	20	34	105	87
Stock Adjustments	123	405	387	590
Total Income	**3,034**	**6,258**	**10,460**	**16,098**
Raw Materials	1,635	3,732	6,209	10,150
Power & Fuel Cost	52	98	160	190
Employee Cost	182	253	408	515
Other Manufacturing Expenses	278	437	726	926
Selling and Administration Expenses	535	1,029	1,815	2,693
Miscellaneous Expenses	22	71	66	113
Total Expenditure	**2,703**	**5,621**	**9,384**	**14,587**
Operating Profit	**331**	**638**	**1,076**	**1,512**
Interest	142	165	226	209
Depreciation	37	41	65	97
Profit Before Tax	**152**	**432**	**786**	**1,205**
Tax	54	96	124	146
Fringe Benefit Tax	-	-	12	15
Deferred Tax	5	31	16	23
Net Profit before Minority Interest	**93**	**305**	**633**	**1,021**
Minority Interest	-	-	-	-
Net Profit after Minority Interest	**93**	**305**	**633**	**1,021**
Extraordinary Items	(0)	(0)	(3)	(11)
Adjusted Net Profit	**94**	**305**	**636**	**1,032**

Source: Capitaline

Figure 2. Havells India — Consolidated Balance Sheet Summary

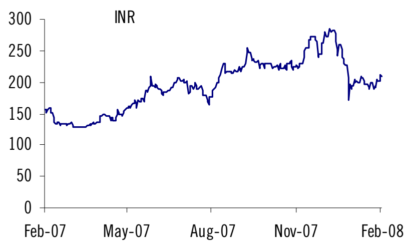
In Rs Mn	Mar-03	Mar-05	Mar-06	Mar-07
Share Capital	58	58	125	269
Reserves Total	357	808	1,626	2,355
Total Shareholders Funds	**415**	**866**	**1,750**	**2,624**
Secured Loans	941	1,421	1,085	561
Unsecured Loans	95	321	13	-
Total Debt	**1,036**	**1,742**	**1,098**	**561**
Total Liabilities	**1,451**	**2,608**	**2,849**	**3,185**
Gross Block	594	1,041	1,689	2,444
Less: Accumulated Depreciation	168	159	225	314
Net Block	426	882	1,464	2,130
Capital Work in Progress	5	41	68	293
Investments	11	32	32	32
Inventories	435	1,061	1,906	2,395
Sundry Debtors	985	1,636	1,282	310
Cash and Bank	67	82	83	365
Loans and Advances	127	259	445	577
Total Current Assets	**1,614**	**3,038**	**3,716**	**3,646**
Current Liabilities	475	1,182	2,123	2,501
Provisions	69	129	213	318
Total Current Liabilities	**544**	**1,311**	**2,336**	**2,818**
Net Current Assets	**1,070**	**1,727**	**1,380**	**828**
Miscellaneous Expenses not written off	0	0	0	21
Deferred Tax Assets	3	22	28	39
Deferred Tax Liability	64	96	123	157
Net Deferred Tax	(61)	(74)	(95)	(118)
Total Assets	**1,451**	**2,608**	**2,849**	**3,185**
Contingent Liabilities	**325**	**358**	**796**	**6,095**

Source: Capitaline

HCL Infosystems (HCLI.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs208.80
Target Price	Rs305.00
Expected share price return	46.1%
Expected dividend yield	3.8%
Expected total return	**46.2%**
Market Cap	Rs35,707M
	US$895M

Price Performance



Source: Citi Investment Research

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Company description

HCL Info is a leading player in the PC and enterprise hardware space in India. It has a market share of ~15-16% in the desktop market and ~6-7% in the notebooks market in India. Its range of offerings also includes systems integration services to Indian corporates, with a strong presence in BFSI, telecom and e-governance verticals. The company also distributes technology and telecom products. It is the primary distributor of Nokia's GSM handsets in India.

Domestic Consumption Story

- **Outlook for the hardware business** — Getting an update on the hardware business and future outlook in the light of some economic slowdown in India could be discussed. Understanding the profitability of this business, with INR appreciation benefiting HCLI, is another area to focus on. The addition of a manufacturing base in Uttaranchal should be good for profitability – share of hardware revenue from this should be discussed.

- **Growth/profitability of systems integration business** — With an aggressive IT ramp up by the government/corporate, the number of big-ticket system integration contracts has gone up. Understanding the growth/competition/ profitability of the systems integration business is an area to focus on.

- **Growth in handset business post revised agreement with Nokia** — The redistribution of territory is over. Understanding the growth prospects of this business in the light of the territories which HCL Info now has remains an area to focus on.

- **Replacement demand – what kind of growth?** — The Nokia handset business will incrementally be driven more by replacement demand (as penetration moves higher in the next couple of years). Understanding the replacement demand cycle and the possible growth is an area of focus.

- **New business initiatives —** HCL Info has announced its foray in the education space. It has also started retail stores as another channel for distribution. Ramp-up plans should be an area of focus.

Statistical Abstract

Year to 30 Jun	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,805	16.45	21.9	12.7	5.0	44.8	3.8
2007A	3,158	18.56	12.8	11.3	4.1	40.6	3.8
2008E	3,255	19.13	3.1	10.9	3.4	34.4	3.8
2009E	4,050	23.80	24.4	8.8	2.8	35.0	3.8
2010E	5,086	29.89	25.6	7.0	2.2	34.8	3.8

Source: Powered by dataCentral

Investment Strategy

We rate HCLI Buy/Medium Risk with a target price of Rs305. HCLI is a play on the Indian government's and domestic industry's tech spending. With a focus on the SI space, the company's hardware revenues should grow at a 25% CAGR over FY07-10E on stable margins. The Nokia business has been a drag on HCLI's growth over the past few quarters. With re-distribution of the addressable market complete, we expect its Nokia handset business to recover from 3Q08 and grow at a 14% CAGR over FY08-11E.

Valuation

We value HCLI using a SOTP methodology: 1) Computer System (hardware) at an FY09E EV/EBIT of 12x; 2) Office Automation at a probability weighted FY09E EV/EBIT of 5.5x, and 3) cash per share of Rs14. We believe 12x is fair for the hardware business against our estimate of a 23% EBIT CAGR over FY07-10E. The multiple is at a premium to the current peer-group average and is in line with the EV/EBIT multiple average implied by our target prices for HCLI's Asian peers. We believe a premium to its peer average is justified as HCLI is a domestic consumption play and does not have concerns related to US$ depreciation and slowdown. We value the office automation and telecom (primarily Nokia handset distribution) business using a probability weighted EV/EBIT multiple. We provide three scenarios, ranging from the business maintaining status quo beyond 2011 (25% probability) to it being terminated in 2011 (50%).

HCL Infosystems (HCLI.BO): Financial Summary

Fiscal year end 30-Jun	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	12.7	11.3	10.9	8.8	7.0
EV/EBITDA adjusted (x)	8.6	8.0	7.3	5.9	4.7
P/BV (x)	5.0	4.1	3.4	2.8	2.2
Dividend yield (%)	3.8	3.8	3.8	3.8	3.8
Per Share Data (Rs)					
EPS adjusted	16.45	18.56	19.13	23.80	29.89
EPS reported	16.45	18.56	19.13	23.80	29.89
BVPS	41.35	50.82	60.97	75.81	96.79
DPS	8.00	8.00	8.00	8.00	8.00
Profit & Loss (RsM)					
Net sales	113,683	116,853	123,885	147,029	178,060
Operating expenses	-110,033	-112,967	-119,517	-141,663	-171,332
EBIT	**3,650**	**3,886**	**4,368**	**5,367**	**6,728**
Net interest expense	9	-105	-236	-286	-336
Non-operating/exceptionals	195	505	475	576	611
Pre-tax profit	**3,854**	**4,286**	**4,607**	**5,657**	**7,003**
Tax	-1,049	-1,128	-1,352	-1,607	-1,917
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**2,805**	**3,158**	**3,255**	**4,050**	**5,086**
Adjusted earnings	2,805	3,158	3,255	4,050	5,086
Adjusted EBITDA	3,774	4,034	4,511	5,514	6,902
Growth Rates (%)					
Sales	46.8	2.8	6.0	18.7	21.1
EBIT adjusted	44.2	6.5	12.4	22.9	25.4
EBITDA adjusted	40.6	6.9	11.8	22.2	25.2
EPS adjusted	21.9	12.8	3.1	24.4	25.6
Cash Flow (RsM)					
Operating cash flow	**2,641**	**-105**	**2,316**	**1,630**	**1,834**
Depreciation/amortization	124	148	144	147	174
Net working capital	-118	-3,028	-843	-2,277	-3,151
Investing cash flow	**-144**	**-276**	**-23**	**-155**	**-298**
Capital expenditure	-348	-676	-263	-445	-572
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-1,341**	**-25**	**-1,039**	**-1,039**	**-1,039**
Borrowings	33	1,513	500	500	500
Dividends paid	-1,535	-1,539	-1,539	-1,539	-1,539
Change in cash	**1,157**	**-406**	**1,254**	**436**	**498**
Balance Sheet (RsM)					
Total assets	**19,359**	**25,833**	**28,783**	**34,687**	**42,613**
Cash & cash equivalent	5,099	4,692	5,947	6,383	6,881
Accounts receivable	7,053	10,052	9,843	11,279	13,172
Net fixed assets	984	1,512	1,631	1,929	2,328
Total liabilities	**12,382**	**17,237**	**18,470**	**21,863**	**26,242**
Accounts payable	0	0	0	0	0
Total Debt	846	2,359	2,859	3,359	3,859
Shareholders' funds	**6,977**	**8,597**	**10,313**	**12,824**	**16,372**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	3.3	3.5	3.6	3.7	3.9
ROE adjusted	44.8	40.6	34.4	35.0	34.8
ROIC adjusted	88.7	59.8	43.9	43.5	41.1
Net debt to equity	-61.0	-27.1	-29.9	-23.6	-18.5
Total debt to capital	10.8	21.5	21.7	20.8	19.1

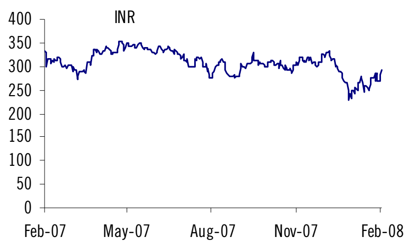
For further data queries on Citi's full coverage universe please contact CIR Data Services Asia Pacific (eq.asiapac.data.management@citi.com) or +852-2501-2791

Powered by: dataCentral

HCL Technologies (HCLT.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs293.75
Target Price	Rs340.00
Expected share price return	15.7%
Expected dividend yield	2.7%
Expected total return	**19.2%**
Market Cap	Rs195,345M
	US$4,896M

Price Performance



Source: Citi Investment Research

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Company description

HCL Tech is the fifth-largest Indian IT services company. Founded in 1991, HCL Tech focused on technology and R&D outsourcing before diversifying into enterprise applications. In the infrastructure business, it has been gradually shifting focus from domestic sales to global services. In BPO, it is one of the largest offshore services provider and boasts strong ties with British Telecom and SBC. The company leverages off its extensive offshore infrastructure and its global network of 26 offices in 15 countries to deliver solutions across verticals including BFSI, Retail & Consumer, Aerospace, Automotive, Semiconductors, Telecom and Life Sciences. HCL Tech has more than 250 clients across verticals, and a workforce of close to 48,000.

Large Deal Strategy Paying Off

- **Demand outlook for FY09** — Demand outlook has been a key investor question for Offshore IT. With a significant exposure to BFSI and technology verticals, demand outlook in these verticals is a key focus area. Any lead indicators of slowdown like deal deferrals, delay in decision making, lengthening of sales cycle, etc should be questions for the management team.

- **Margin levers** — With the headwinds from rupee appreciation and wage inflation, margins have been under pressure for offshore IT companies. Having managed margins in a narrow range (despite steep rupee appreciation in FY08), margin outlook for FY09 is an important question.

- **Large deal strategy** — HCL Tech got the first-mover advantage by moving into uncontested market areas (like infrastructure management, life sciences vertical etc.). The company has had good success in such deals, with the Merck deal in 2Q FY08 being a recent example. Management commentary on its large deal strategy should be explored.

- **Supply-side dynamics** — The company's view on supply-side dynamics should be another area to discuss with a focus on the following: (1) availability of talent (engineers) for the next few years, (2) the company's initiatives on training; (3) right-skilling Initiative – hiring of science graduates, (4) and expectation for wage hikes in FY09.

- **SEZ strategy** — HCL tech's SEZ readiness, given the expectation of the STPI sunset clause coming into effect by March 2009 should be discussed. Expectations of the tax rate in FY10, FY11 etc. could be gauged.

Statistical Abstract

Year to 30 Jun	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	7,091	10.46	9.4	28.1	4.6	18.1	2.7
2007A	12,577	18.43	76.2	15.9	3.8	27.7	2.7
2008E	12,518	18.35	-0.4	16.0	3.3	22.9	2.7
2009E	13,849	20.30	10.6	14.5	2.9	21.8	2.7
2010E	15,045	22.06	8.6	13.3	2.5	20.9	2.7

Source: Powered by dataCentral

Investment Strategy

We rate HCL Tech Buy/Medium (1M) Risk. Based on our analysis, offshore IT services demand will remain strong, with industry revenues forecast to grow ~25% pa over the next few years. HCL Tech has been at the forefront of pursuing large deals. It has won about 16 multi-year US$50m-plus deals in the past few quarters. Significant presence across IT services, BPO services and IMS has helped HCL Tech to qualify for multi-year outsourcing deals. Infrastructure-management services, R&D and BPO service offerings should enable it to post strong revenue growth. We forecast 28% revenue CAGR and 6% EPS CAGR (17% CAGR in EBITDA) for FY07-10E.

Valuation

Our 12-month target price is Rs340 based on 16x average FY09-10E EPS. We value HCL Tech based on historical P/E and cross-check our valuation against Satyam's, which is similar to HCL Tech on revenue. We expect a 17% CAGR in EBITDA and 6% for EPS for the next three years, and believe the stock should trade towards the lower end of its historical three-year trading range of 12-23x 12-month forward earnings. HCL Tech has traded at par with Satyam in the past two years. Our P/E target equates to a ~12% discount to our target multiple of 18x for Satyam primarily because of HCL Tech's slower growth and return ratios.

HCL Technologies (HCLT.BO): Financial Summary

Fiscal year end 30-Jun	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	28.1	15.9	16.0	14.5	13.3
EV/EBITDA adjusted (x)	19.1	13.9	11.3	9.5	7.7
P/BV (x)	4.6	3.8	3.3	2.9	2.5
Dividend yield (%)	2.7	2.7	2.7	2.7	2.7
Per Share Data (Rs)					
EPS adjusted	10.46	18.43	18.35	20.30	22.06
EPS reported	10.46	18.43	18.35	20.30	22.06
BVPS	63.27	76.84	89.47	101.57	115.47
DPS	8.00	8.00	8.00	8.00	8.00
Profit & Loss (RsM)					
Net sales	44,007	60,337	74,567	88,886	105,178
Operating expenses	-36,847	-50,470	-62,588	-74,818	-88,173
EBIT	**7,161**	**9,867**	**11,979**	**14,068**	**17,005**
Net interest expense	578	4,259	2,199	2,273	2,331
Non-operating/exceptionals	-22	-64	-89	-80	-80
Pre-tax profit	**7,717**	**14,062**	**14,089**	**16,260**	**19,256**
Tax	-626	-1,485	-1,570	-2,411	-4,211
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**7,091**	**12,577**	**12,518**	**13,849**	**15,045**
Adjusted earnings	7,091	12,577	12,518	13,849	15,045
Adjusted EBITDA	9,193	12,399	14,919	17,299	20,651
Growth Rates (%)					
Sales	30.6	37.1	23.6	19.2	18.3
EBIT adjusted	16.1	37.8	21.4	17.4	20.9
EBITDA adjusted	19.0	34.9	20.3	16.0	19.4
EPS adjusted	9.4	76.2	-0.4	10.6	8.6
Cash Flow (RsM)					
Operating cash flow	**7,423**	**7,362**	**10,105**	**15,210**	**16,700**
Depreciation/amortization	2,032	2,532	2,940	3,232	3,646
Net working capital	-1,121	-3,488	-3,155	402	341
Investing cash flow	**-3,469**	**-4,535**	**-5,432**	**-6,816**	**-7,616**
Capital expenditure	-4,179	-4,285	-5,269	-6,816	-7,616
Acquisitions/disposals	29	333	122	0	0
Financing cash flow	**-5,710**	**257**	**-2,022**	**-4,543**	**-4,485**
Borrowings	-1,225	-83	0	0	0
Dividends paid	-5,816	-5,816	-5,816	-5,816	-5,816
Change in cash	**-1,756**	**3,084**	**2,650**	**3,851**	**4,599**
Balance Sheet (RsM)					
Total assets	**50,445**	**63,243**	**76,256**	**87,287**	**100,574**
Cash & cash equivalent	18,799	22,851	26,478	31,329	36,929
Accounts receivable	9,628	12,278	15,692	18,288	22,005
Net fixed assets	8,742	10,495	12,824	16,408	20,379
Total liabilities	**9,780**	**12,952**	**16,691**	**19,689**	**23,747**
Accounts payable	8,952	11,660	15,627	18,625	22,683
Total Debt	83	0	0	0	0
Shareholders' funds	**40,665**	**50,295**	**59,564**	**67,597**	**76,826**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	20.9	20.5	20.0	19.5	19.6
ROE adjusted	18.1	27.7	22.9	21.8	20.9
ROIC adjusted	33.1	35.2	35.9	35.1	34.9
Net debt to equity	-46.0	-45.4	-44.5	-46.3	-48.1
Total debt to capital	0.2	0.0	0.0	0.0	0.0

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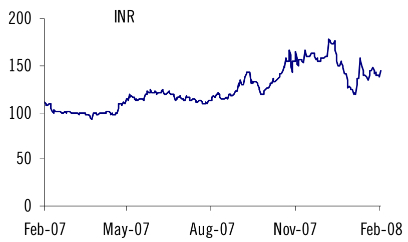
Powered by: dataCentral

Indraprastha Gas (IGAS.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs144.10
Target Price	Rs160.00
Expected share price return	11.0%
Expected dividend yield	2.4%
Expected total return	**13.5%**
Market Cap	Rs20,174M
	US$505M

Price Performance



Source: Citi Investment Research

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Company description

BPCL and GAIL floated Indraprastha Gas (IGL) with a 22.5% stake each. IGL is the sole supplier of Compressed Natural Gas (CNG) and Piped Natural Gas (PNG) to the domestic and commercial sectors in the National Capital Territory of Delhi. It has a first-mover advantage in Delhi, as there are high barriers to entry including sourcing of gas, investment in building distribution networks, and statutory approvals for roll-out of networks. IGL gets 1.4mmscmd of gas from GAIL (of an allocated 2mmscmd) — 90% of the gas is sold as CNG to the auto sector and 10% as piped natural gas to domestic and commercial users. IGL's skew towards CNG is due to the Supreme Court's ruling that makes it mandatory for all public-transport vehicles in the National Capital Territory to use CNG.

Sustained Volume Growth

- **Focus on CNG** — Indraprastha Gas looks set to benefit from increased penetration of gas in retail, commercial, and industrial segments in the National Capital Region. Our positive view is underpinned by superior gas economics leading to greater discretionary demand for CNG.

- **Drivers of volume growth** — (1) Growth in PNG penetration with renewed focus as compliance-led skew towards CNG should moderate; (2) geographical growth in Delhi and newer areas of Noida, Greater Noida, and Ghaziabad; and (3) discretionary demand growth in CNG. Supplies are not a concern, with current sales of 1.5mmscmd out of total contracted volumes of 2mmscmd.

- **Delay in Noida operations** — Though the company has received an NOC to operate in Noida, recent press reports indicate a delay in IGL's expansion plans there as a competitor (which had first been granted the NOC) has reportedly been allowed to resume operations. However, given IGL's access to gas supplies and good track record in Delhi, the issue should likely be resolved soon, which should provide a fillip to volume growth from FY09E.

- **Favorable regulatory environment** — While still at a draft stage, recent city gas distribution regulations should be beneficial for the sector as a whole as new area licensing, network tariffs, etc. come under the purview of one regulatory authority, improving transparency and spurring development of the as-yet nascent sector. Though 3 years marketing exclusivity (from Oct-07) for incumbents is lower than expected, first-mover advantage and rapid network expansion create sufficient entry barriers for potential new entrants.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,061	7.58	14.5	19.0	5.3	30.7	1.7
2007A	1,380	9.85	30.0	14.6	4.3	32.6	2.1
2008E	1,617	11.55	17.2	12.5	3.5	31.1	2.4
2009E	1,836	13.12	13.6	11.0	2.9	29.0	2.8
2010E	2,051	14.65	11.7	9.8	2.4	26.9	2.8

Source: Company data and Citi Investment Research estimates

Investment Strategy

We have a Buy/Low Risk (1L) rating and target price of Rs160. We see three drivers of volume growth for IGL: (1) growth in PNG penetration, with renewed focus as compliance-led skew towards CNG should moderate; (2) geographical growth in the National Capital Region; and (3) discretionary demand growth. Although retail gas demand was kick-started by legislative measures, superior gas economics would also be leading to higher growth in discretionary demand. We expect strong demand growth and continuing high retail margins to drive a 14% CAGR in earnings over FY07-10E.

Valuation

Our target price of Rs160 for IGL is based on DCF. We prefer to use DCF, as it captures the value of the projects over their lifetime. IGL's near-term cash flow is affected by its aggressive expansion. In our DCF analysis, we have used explicit forecasts for four years, a terminal growth rate of 2%, and a WACC of 10.9% (based on a stock beta of 0.6). Our target P/CEPS of 8.2x FY09E is still at a small discount to current multiples of other gas utilities, which we believe is very reasonable given the higher capital returns parameters and lower regulatory scrutiny on margins. We prefer to use P/CEPS as a comparison due to the utility nature of IGL's business and the high depreciation rates on its assets.

Indraprastha Gas (IGAS.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	19.0	14.6	12.5	11.0	9.8
EV/EBITDA adjusted (x)	9.5	7.6	6.3	5.5	4.8
P/BV (x)	5.3	4.3	3.5	2.9	2.4
Dividend yield (%)	1.7	2.1	2.4	2.8	2.8
Per Share Data (Rs)					
EPS adjusted	7.58	9.85	11.55	13.12	14.65
EPS reported	7.58	9.85	11.55	13.12	14.65
BVPS	27.05	33.39	40.95	49.51	59.60
DPS	2.50	3.00	3.50	4.00	4.00
Profit & Loss (RsM)					
Net sales	5,209	6,141	7,399	8,477	9,421
Operating expenses	-3,637	-4,179	-5,016	-5,760	-6,434
EBIT	**1,572**	**1,962**	**2,383**	**2,717**	**2,987**
Net interest expense	-22	-8	0	0	0
Non-operating/exceptionals	53	102	52	48	102
Pre-tax profit	**1,603**	**2,056**	**2,435**	**2,765**	**3,090**
Tax	-540	-676	-818	-929	-1,038
Extraord./Min.Int./Pref.div.	-2	0	0	0	0
Reported net income	**1,061**	**1,380**	**1,617**	**1,836**	**2,051**
Adjusted earnings	1,061	1,380	1,617	1,836	2,051
Adjusted EBITDA	2,137	2,560	3,049	3,542	3,959
Growth Rates (%)					
Sales	15.7	17.9	20.5	14.6	11.1
EBIT adjusted	14.1	24.8	21.5	14.0	9.9
EBITDA adjusted	15.0	19.8	19.1	16.2	11.8
EPS adjusted	14.5	30.0	17.2	13.6	11.7
Cash Flow (RsM)					
Operating cash flow	**1,422**	**2,123**	**1,925**	**2,448**	**2,933**
Depreciation/amortization	565	598	666	825	972
Net working capital	-204	145	-357	-213	-91
Investing cash flow	**-588**	**-1,440**	**-1,750**	**-1,600**	**-1,500**
Capital expenditure	-772	-589	-1,750	-1,600	-1,500
Acquisitions/disposals	185	-851	0	0	0
Financing cash flow	**-902**	**-427**	**-525**	**-550**	**-550**
Borrowings	-472	11	-54	0	0
Dividends paid	-399	-491	-559	-638	-638
Change in cash	**-67**	**256**	**-350**	**297**	**882**
Balance Sheet (RsM)					
Total assets	**5,168**	**6,281**	**7,394**	**8,746**	**10,217**
Cash & cash equivalent	110	404	35	324	1,118
Accounts receivable	204	197	350	454	504
Net fixed assets	3,954	3,944	5,029	5,804	6,332
Total liabilities	**1,381**	**1,606**	**1,661**	**1,815**	**1,873**
Accounts payable	0	0	0	0	0
Total Debt	43	54	0	0	0
Shareholders' funds	**3,787**	**4,675**	**5,733**	**6,931**	**8,344**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	41.0	41.7	41.2	41.8	42.0
ROE adjusted	30.7	32.6	31.1	29.0	26.9
ROIC adjusted	26.7	32.5	34.4	31.4	30.2
Net debt to equity	-1.8	-7.5	-0.6	-4.7	-13.4
Total debt to capital	1.1	1.1	0.0	0.0	0.0

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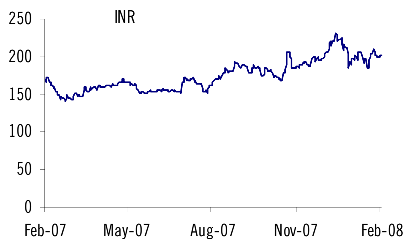
Powered by: dataCentral

ITC (ITC.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs201.25
Target Price	Rs247.00
Expected share price return	22.7%
Expected dividend yield	1.8%
Expected total return	**24.5%**
Market Cap	Rs758,165M
	US$18,997M

Price Performance



Source: Citi Investment Research

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Company description

ITC is the leading cigarette manufacturer & marketer in India with about 74% share by value. The group is 32% owned by BAT. The company's cigarette portfolio carries strong brands such as Wills, Gold Flake, India Kings and Scissors, Benson & Hedges & State Express 555. Besides tobacco, ITC operates in other business divisions, namely agri / marine products, hotels, paper & packaging and IT. However, about 65% of its revenue is from the cigarette business. The group has made significant investment in the hotels, paperboard and processed foods (biscuits, ready-to-eat foods, confectioneries) businesses.

Solid Cigarette Profitability, Other Businesses on Track

- **Cigarette business showing solid resilience** — ITC's pricing strategy, loading price hikes in favor of the mid-end cigarettes and not leaving any 'pricing gaps' across its cigarette portfolio, is paying off. ITC's cigarette EBIT profits increased 16% in 3Q FY08 and by 13.7% in 9M FY08, despite declining volumes. The volume trend is also improving, with volumes declining less than 1% in 3Q.

- **Personal care expansion** — High-end brand 'Fiama Di Willis' is being rolled out in tier-II cities and will be rolled out nationally over next 2-3 quarters. Besides shampoos, ITC has also introduced conditioners and shower gels under the 'Fiama' brand, which will extended to soaps soon. Mass brand "Superia" will remain confined to Orissa and AP in near term; ITC is adopting a strategy of deepening the mass brand penetration in these states before rolling out further.

- **Foods portfolio (ex-Bingo) breaks even** — ITC's foods portfolio (excluding 'Bingo' brand) broke even in 3Q. EBIT loss margins for new FMCG business continue to decline, despite scaling up of expenses related to the launch of new personal-care products under the 'Fiama di Willis' brand in 3Q.

- **Hotels, agri-business back on track** — Hotels business growth has picked up after slowing over the last 2 quarters, as the key Delhi property opened after renovation. While agri-business sales declined in the last quarter (due to a ban on rice exports), EBIT profit grew 28% due to higher (high margin) leaf tobacco exports.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	22,354	6.00	10.0	33.5	8.3	26.4	1.3
2007A	27,000	7.18	19.5	28.0	7.3	27.7	1.5
2008E	33,176	8.82	22.9	22.8	6.2	29.2	1.8
2009E	40,466	10.76	22.0	18.7	5.2	30.2	2.1
2010E	49,613	13.19	22.6	15.3	4.4	31.1	2.5

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate the stock as Buy/Low Risk (1L) with a target price of Rs247. ITC stock has underperformed the Sensex over the last year, triggered by a higher than expected 12.5% VAT on cigarettes, which pared cigarette volume growth. However, we believe that the worst is now behind us for ITC and that risk-reward is turning favorable. While the recent stock underperformance is already building in a cigarette volume decline in FY08E, we believe that margins could throw up positive surprises. Our analysis suggests that consumer down trading from high-end brands toward mid end brand (regular filters) may not have a negative impact on cigarette margins; on the contrary cigarette operating margins may surprise positively.

Valuation

Our target price of Rs247 is based on 23x FY09E earnings. We believe that ITC is a re-rating candidate, driven by cigarette volume recovery and strong growth of its foods portfolio. The stock has witnessed a strong re-rating over FY05-07, driven by strong cigarette volume growth in a strong economic growth environment. During this period, ITC traded between 20x-29x forward P/E. However post imposition of a 12.5% VAT from FY08 (which ITC passed on through price hikes), the stock witnessed a sharp de-rating on concerns pertaining to volume declines. However, volumes have started to improve and we expect them to start growing from FY09E. With rising volumes, ITC is likely to be re-rated. If volume growth were to revert to 7-8%, we believe that the stock multiples could look up further. ITC has a relatively stable earnings stream, so P/E is our primary valuation methodology.

ITC (ITC.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	33.5	28.0	22.8	18.7	15.3
EV/EBITDA adjusted (x)	21.5	18.1	14.8	11.8	9.3
P/BV (x)	8.3	7.3	6.2	5.2	4.4
Dividend yield (%)	1.3	1.5	1.8	2.1	2.5
Per Share Data (Rs)					
EPS adjusted	6.00	7.18	8.82	10.76	13.19
EPS reported	6.00	7.18	8.82	10.76	13.19
BVPS	24.34	27.74	32.57	38.58	46.13
DPS	2.67	3.10	3.54	4.20	5.00
Profit & Loss (RsM)					
Net sales	97,905	123,693	143,809	168,680	198,073
Operating expenses	-67,955	-87,758	-99,750	-114,208	-130,533
EBIT	**29,950**	**35,935**	**44,060**	**54,472**	**67,539**
Net interest expense	-119	-33	-30	-30	-30
Non-operating/exceptionals	2,411	3,365	3,365	3,366	3,366
Pre-tax profit	**32,242**	**39,267**	**47,395**	**57,808**	**70,875**
Tax	-9,888	-12,267	-14,218	-17,342	-21,262
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**22,354**	**27,000**	**33,176**	**40,466**	**49,613**
Adjusted earnings	22,354	27,000	33,176	40,466	49,613
Adjusted EBITDA	33,274	39,564	48,333	59,334	72,782
Growth Rates (%)					
Sales	30.9	26.3	16.3	17.3	17.4
EBIT adjusted	29.1	20.0	22.6	23.6	24.0
EBITDA adjusted	26.4	18.9	22.2	22.8	22.7
EPS adjusted	10.0	19.5	22.9	22.0	22.6
Cash Flow (RsM)					
Operating cash flow	**19,507**	**22,952**	**31,908**	**42,757**	**52,049**
Depreciation/amortization	3,323	3,629	4,274	4,862	5,242
Net working capital	-2,739	-7,677	-5,542	-2,571	-2,806
Investing cash flow	**-1,797**	**-11,178**	**-16,000**	**-16,000**	**-16,000**
Capital expenditure	-5,382	-15,299	-7,000	-7,000	-7,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-11,201**	**-10,950**	**-17,038**	**-17,832**	**-21,228**
Borrowings	-1,256	812	-2,009	0	0
Dividends paid	-11,347	-13,645	-15,030	-17,832	-21,228
Change in cash	**6,509**	**824**	**-1,131**	**8,925**	**14,821**
Balance Sheet (RsM)					
Total assets	**130,840**	**149,684**	**172,952**	**203,116**	**240,333**
Cash & cash equivalent	9,110	9,544	8,413	17,337	32,157
Accounts receivable	5,480	6,367	9,850	11,553	13,567
Net fixed assets	44,051	56,109	58,835	60,973	62,731
Total liabilities	**40,226**	**45,313**	**50,434**	**57,965**	**66,799**
Accounts payable	21,890	23,848	27,122	31,069	35,527
Total Debt	1,197	2,009	0	0	0
Shareholders' funds	**90,615**	**104,371**	**122,517**	**145,150**	**173,534**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	34.0	32.0	33.6	35.2	36.7
ROE adjusted	26.4	27.7	29.2	30.2	31.1
ROIC adjusted	42.5	39.6	40.5	46.3	54.5
Net debt to equity	-8.7	-7.2	-6.9	-11.9	-18.5
Total debt to capital	1.3	1.9	0.0	0.0	0.0

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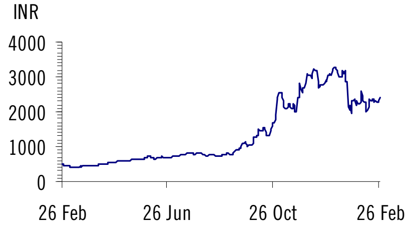
Powered by: dataCentral

Jindal Steel & Power (JNSP.BO)

Non-Rated	
Price (26 Feb 08)	Rs2,423.20
Market Cap	Rs373,079M
	US$9,348M

Price Performance



Source: dataCentral

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Company Description

JSPL is based in Chhattisgarh and has steel making capacity of 2.9m tpa, sponge iron capacity of 1.37m tpa and ferro alloy capacity of 36,000tpa. It plans to expand steel capacity at Chhattisgarh to 6m tpa. It also plans to set up 6m tpa of steel capacity each at Orissa and Jharkhand, along with matching captive power facilities. JSPL has captive coal in Chhattisgarh and captive iron ore mines in Orissa. The company has obtained mining rights for 20bn tonnes of iron ore in Bolivia, where it will invest US$2.3bn over the next 8 years on mining and setting up an integrated steel plant. JSPL's 100% subsidiary is setting up 1000MW of power capacity in Chhattisgarh by mid-2008.

Captive Raw Materials

- **JSPL's facilities** — Jindal Steel & Power (JSPL) has steel making capacity of 2.9m tpa, the world's largest coal-based sponge iron making facility (1.37m tpa) and a ferro alloys plant with a capacity of 36,000tpa at Raigarh, Chhattisgarh. The company also has 350MW of power-generation facility based on waste heat recovery and has plans to expand the capacity to 600MW.

- **Steel expansion plans** — JSPL plans to increase its existing capacity at Chhattisgarh to 6m tpa (Rs80bn). The company has plans to set up greenfield plants at 2 locations, Orissa and Jharkhand. The Orissa plant is expected to have a capacity of 6m tpa, together with a 900MW captive power plant (Rs135bn). The Jharkhand plant is also expected to have a 6m tpa capacity and a 1000MW captive power plant (Rs150bn).

- **Raw material availability** — The company has been allocated captive coal mines in Chhattisgarh and has commissioned a washery (capacity of 6 mtpa) to beneficiate the poor quality coal. More coal blocks have been allocated in addition to the existing ones to meet the requirements of the planned expansions. The company has captive iron ore mines in Orissa, used for its sponge iron plant.

- **Iron ore mines in Bolivia** — JSPL has obtained mining rights for 20bn tonnes of iron ore reserves in El Mutun in Bolivia. The company has plans to invest US$2.3bn over the next 8 years for mining and to set up a long products plant with a capacity of 1.7m tpa, a DRI plant of 6m tpa and a pellet plant of 10m tpa. In addition, the company will set up a 450MW captive power plant.

- **Exploration of high value minerals** — The company has started exploration and mining of diamonds, precious stones, gold, platinum etc.

- **Jindal Power** — Jindal Power is a 100% subsidiary of JSPL. Jindal Power is setting up 1000MW (4 x250MW) of power in Raigarh, Chhattisgarh at an investment of over Rs45bn. The first 250MW was commissioned in December 2007. The entire project is expected to be completed by June 2008. Jindal Power has been allocated captive coal blocks.

Statistical Abstract

Year to	Net Profit (Rs m)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2006A	5,729	183.9	11.2	13.2	4.1	36.3	0.6
2007A	7,030	225.4	22.5	10.8	3.0	32.6	0.7

Source: Capitaline

Recent Developments

JSPL reported sales growth of 38% yoy to Rs14bn in 3Q FY08. PAT rose 68% yoy to Rs3.2bn.

Jindal Steel & Power (JNSP.BO): Financial Summary

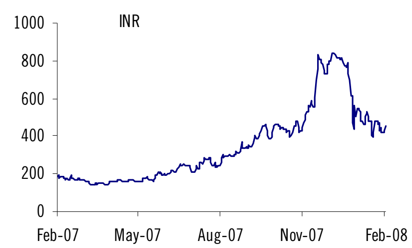
Year to Dec (Rs in Millions)	FY02	FY03	FY04	FY05	FY06	FY07
Profit & Loss (Rsm)						
Revenue	**5,108**	**8,806**	**12,591**	**22,519**	**25,646**	**35,031**
Operating Income	2,089	2,879	4,771	8,788	8,278	13,250
EBITDA	2,216	3,196	5,443	9,157	10,491	14,542
EBIT	**1,826**	**2,620**	**4,381**	**7,633**	**8,299**	**11,177**
Pretax Income	1,226	1,790	3,551	6,776	7,277	9,445
Tax	151	339	496	1,619	1,547	2,416
Net Profit	**1,076**	**1,451**	**3,055**	**5,157**	**5,729**	**7,030**
Balance Sheet (Rsm)						
Total Assets	**14,436**	**18,049**	**24,192**	**35,875**	**57,838**	**76,335**
Cash & Cash Equivalents	120	186	219	333	313	530
Net Fixed Assets	10,066	13,247	17,200	25,142	38,470	50,851
Total Liabilities	**9,074**	**12,211**	**15,630**	**22,681**	**39,442**	**51,551**
Total Debt	6,975	8,853	10,260	14,959	27,454	35,077
Shareholders' Funds	**5,362**	**5,838**	**8,562**	**13,194**	**18,397**	**24,784**
Cash Flow (Rsm)						
Operating Cash Flow	835	2,313	3,838	7,269	5,464	11,570
Investing Cash Flow	(3,547)	(3,617)	(4,819)	(11,625)	(13,484)	(15,270)
Financing Cash Flow	2,734	1,372	1,013	4,471	7,999	3,916
Change in Cash	**21**	**67**	**33**	**114**	**(20)**	**217**
Profitability/Solvency Ratios						
EBITDA Margin (%)	43.4%	36.3%	43.2%	40.7%	40.9%	41.5%
RoE (%)	22.4%	34.2%	42.8%	47.5%	36.3%	32.6%
RoCE (%)	17.2%	22.7%	26.2%	32.5%	22.4%	21.2%
Net Debt to Equity (x)	1.28	1.48	1.17	1.11	1.48	1.39

Source: Capitaline

Lanco Infratech Limited (LAIN BO - NR)

Non-Rated	
Price (26 Feb 08)	Rs453.25
Market Cap	Rs100,786M
	US$2,525M

Price Performance



Source: dataCentral

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Company Description

LANCO Infratech Limited (LITL), through its 23 subsidiary companies, has interests in power, infrastructure, construction and property development. LITL has a power generation capacity of 518MW, and plans to have 11,000MW of capacity by 2013. LITL is developing IT parks, townships, SEZs and commercial and retail space in Hyderabad and Chennai. LITL has also been participating in infrastructure projects in India and has 163km of road projects on a BOT basis.

Infrastructure Conglomerate

- **Diversified business model** — LITL has a diversified business model with a focus on three high-growth sectors: power, construction and property development. Further, the company is present in the project-development value chain and is also diversified across geographies.

- **In-house construction & EPC division** — The division has so far constructed projects worth over Rs20bn and at present has an order book of more than Rs110bn, including the orders from its own projects. The division has expertise in gas, coal, bio-mass, hydro and wind-based power plants; irrigation and water supply projects; roads; highways; bridges and flyovers; and other civil construction projects.

- **Power projects and property development are key focus areas** — LITL has six operational power projects generating 518MW, and projects with a cumulative capacity of 3557MW are under various stages of development. LITL has forayed into property development and is executing several projects in Hyderabad and Chennai. The company has interests in power trading, and is looking to bid for ports, airports, transmission lines and roads.

- **Integration** — Lanco is planning to become an integrated infrastructure developer with a presence across all major infrastructure businesses. For this purpose it has identified power, property development, infrastructure, and construction as core areas.

Recent Developments

Government of India has made joint allocation of mines to LITL, which will enable LITL to set up a power plant of 1,000 MW.

Company (LAIN BO): Financial Summary

Lanco Infratech Consolidated Income Statement (FY03-07, Rs Million)

Year End Mar31 (Rsmn)	FY2003	FY2004	FY2005	FY2006	FY2007
Total Income	**1,746**	**1,293**	**1,839**	**1,471**	**16,058**
Sub Contracting Cost	(1,003)	(651)	(760)	(742)	(2,376)
Generation and operating expenses	(463)	(395)	(862)	(516)	(8,844)
Administration and other expenses	(162)	(76)	(55)	(45)	(639)
Total Expenses	**(1628)**	**(1123)**	**(1678)**	**(1304)**	**(11860)**
EBITDA	**117**	**170**	**161**	**167**	**4198**
Depreciation	(24)	(41)	(40)	(19)	(656)
EBIT	**93**	**129**	**121**	**149**	**3,542**
Interest and Finance Charges	(27)	(79)	(61)	(36)	(829)
Other Income	10	15	14	13	416
PBT	**76**	**66**	**75**	**125**	**3,130**
Current Tax	(15)	(20)	(24)	(40)	(406)
Deferred Tax	(14)	2	30	7	(62)
Fringe Benefit Tax	0	0	0	(0)	(3)
Total Tax	**(29)**	**(18)**	**6**	**(33)**	**(471)**
Recurring PAT b/f MI and JV profit	**48**	**48**	**81**	**92**	**2659**
Minority interest	0	(6)	(5)	0	(788)
Share of Profits of associate (net)	50	42	64	79	10
Recurring PAT	**98**	**84**	**141**	**171**	**1,881**

Source: Capitaline

Lanco Infratech Balance Sheet (FY03-07, Rs Million)

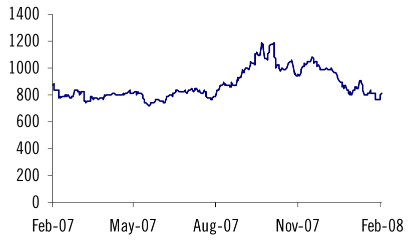
Year End Mar31 (Rsmn)	FY2003	FY2004	FY2005	FY2006	FY2007
Share Capital	77	77	77	308	2,198
Reserves & Surplus	544	615	707	647	12,907
Total Networth	**620**	**692**	**784**	**954**	**15,105**
Minority Interest	0	48	41	138	3,763
Secured Loans	197	302	132	781	16,949
Unsecured Loans	6	276	631	617	150
Total Loans	**203**	**578**	**763**	**1,398**	**17,099**
DTL	70	67	38	31	93
TOTAL LIABILITIES & NETWORTH	**893**	**1,385**	**1,625**	**2,521**	**36,059**
Gross Block	395	617	198	235	19,186
Depreciation	(75)	(114)	(67)	(86)	(5,754)
Net Block	**320**	**502**	**132**	**149**	**13,432**
CWIP	0	1	7	119	9,443
Expenses during construction period pending allocation	0	0	79	141	1,515
Net Fixed Assets	**320**	**503**	**217**	**409**	**24,390**
Investments	479	820	596	1,015	6,029
Inventories	129	200	87	164	4,896
Sundry Debtors	147	91	180	381	2,694
Cash and bank balances	175	130	359	414	5,050
Other current assets	19	6	2	2	12
Loans and advances	286	250	515	1,718	4,412
Total CA	**756**	**677**	**1,143**	**2,678**	**17,064**
Liabilities	661	612	308	1,312	11,330
Share Application Money	0	0	22	267	0
Provisions	2	3	1	2	94
Total CL & Provisions	**662**	**615**	**331**	**1,581**	**11,424**
NCA	**94**	**62**	**812**	**1,097**	**5,640**
TOTAL ASSETS	**893**	**1,385**	**1,625**	**2,521**	**36,059**

Source: Capitaline

Maruti Suzuki Limited (MRTI.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs812.60
Target Price	Rs1,012.00
Expected share price return	24.5%
Expected dividend yield	0.8%
Expected total return	**25.3%**
Market Cap	Rs234,768M
	US$5,882M

Price Performance



Source: Citi Investment Research

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Company description

Maruti is a subsidiary of Suzuki Motor Corp (holds a 54% equity stake). With its early-mover advantage in the Indian market, Maruti retains a dominant market share despite increasing competition. As competition increases in the domestic market, MUL is positioning itself as an export hub for Suzuki's products over the next two years.

India's Leading Car Manufacturer

- **Dominant presence to continue** — MSIL has a c52% market share in the Indian car market. We forecast a moderate 300bp decline over the next 2 years as competitive intensity increases, but do not envisage a dramatic decline in market share as MSIL remains extremely focused on market share, launching new products in all key segments in its bid to maintain market share. Key new products over the near term are the long wheel base version of the *Swift*, and the new A-Star hatchback which will target the exports market.

- **Volume growth driven by exports** — Overall, we forecast 17% volume growth over FY08-10, driven primarily by exports (70% CAGR). We expect domestic sales to grow at a modest 12% CAGR, lagging industry growth, which we expect will be 14-15% CAGR. Given the competitive intensity (Ford, GM and Toyota are looking to expand capacities and launch new models), we expect MSIL to marginally accede market share. Our robust exports target is in line with management's guidance, which forecasts 200k export units by FY10e.

- **Near-term capacity constraints** — Maruti is presently expanding capacities from ~800,000 by end FY08 to ~1m units by early FY10. We expect MSIL's volume growth to remain muted over the near term due to capacity constraints and a challenging base effect. That said, MSIL's capacity induction over the past few years has typically lagged demand growth, with the shortfall being met through de-bottlenecking and plants being run on a 3-shift basis for short periods of time.

- **Margins to remain range-bound** — We expect margins to remain relatively stable as increase in average ASPs (due to richer product mix) and operating leverage benefits would be partly offset by an increase in royalty expenses and material costs.

- **Key risks** — Rising competitive intensity in the passenger-car market is the key risk factor to industry profitability. Players like Toyota, GM, Tata Motors and Hyundai are planning significant capacity additions, on the belief that they will capture market share gains, and utilize part of the capacity for exports. In the event of a demand-supply mismatch, we would not rule out deterioration in the pricing environment in FY10e.

Statistical Abstract

Year to 31 Mar	Net Profit Rs M	Diluted EPS Rs	EPS growth %	P/E x	P/B x	ROE %	Yield %
2006A	12,130	41.99	42.1	19.4	4.3	24.7	0.4
2007A	15,620	54.07	28.8	15.0	3.4	25.4	0.6
2008E	18,950	65.59	21.3	12.4	2.7	24.6	0.7
2009E	22,268	77.07	17.5	10.5	2.2	23.3	0.8
2010E	24,292	84.08	9.1	9.7	1.8	20.8	0.7

Source: Company and Citi Investment Research estimates

Investment Strategy

We rate the stock as Buy/Low Risk (1L). The Indian car market is on a structural growth path (estimated CAGR of 15% over the medium term), driven by low penetration levels, improved demographics and infrastructure, tax cuts and availability of consumer finance at relatively moderate interest rates. Maruti's competitive advantage stems from an early start, a balanced product portfolio, having the largest distribution and service network, and its consistently high quality ratings. While competitive pressures increase, we expect market share erosion to be gradual and growth in absolute terms to be robust for Maruti. We estimate earnings growth and cash earnings growth of 13% and 15% CAGR respectively over FY08-10, driven by unit sales CAGR of 17%. We expect margins to remain under pressure due to higher input costs and a shift in product mix toward exports (which are lower margin).

Valuation

Our 12-month target price of Rs1,012 is based on 11x P/CEPS FY09E. We believe the multiple compares favorably with the cash earnings CAGR of c15% over FY08-10E. At our target price, the stock would trade at the midpoint of the current trading band. Our multiple of 11x is at a marginal discount to the 11.4x trailing 2-year average - but merited, since competitive intensity will escalate, and the macro economic environment is less conducive to growth (interest rates today are higher than the past 3-4 years, which could affect growth across the car industry. We prefer price/cash earnings as a valuation metric for the automobile sector, given the relatively high capital of the business.

Maruti Suzuki (MRTI.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	19.4	15.0	12.4	10.5	9.7
EV/EBITDA adjusted (x)	12.4	9.9	8.0	6.5	5.8
P/BV (x)	4.3	3.4	2.7	2.2	1.8
Dividend yield (%)	0.4	0.6	0.7	0.8	0.7
Per Share Data (Rs)					
EPS adjusted	41.99	54.07	65.59	77.07	84.08
EPS reported	41.16	54.07	65.59	77.07	84.08
BVPS	188.73	237.23	296.10	365.63	442.76
DPS	3.50	4.50	5.50	6.50	6.00
Profit & Loss (RsM)					
Net sales	120,871	146,539	179,222	222,162	250,505
Operating expenses	-107,110	-129,349	-158,779	-196,886	-223,132
EBIT	**13,761**	**17,190**	**20,443**	**25,276**	**27,373**
Net interest expense	-204	-376	-600	-650	-700
Non-operating/exceptionals	4,292	5,984	7,423	7,185	7,784
Pre-tax profit	**17,849**	**22,798**	**27,266**	**31,811**	**34,457**
Tax	-5,609	-7,178	-8,316	-9,543	-10,165
Extraord./Min.Int./Pref.div.	-349	0	0	0	0
Reported net income	**11,891**	**15,620**	**18,950**	**22,268**	**24,292**
Adjusted earnings	12,130	15,620	18,950	22,268	24,292
Adjusted EBITDA	16,615	19,904	23,824	29,597	32,851
Growth Rates (%)					
Sales	10.3	21.2	22.3	24.0	12.8
EBIT adjusted	44.9	24.9	18.9	23.6	8.3
EBITDA adjusted	18.1	19.8	19.7	24.2	11.0
EPS adjusted	42.1	28.8	21.3	17.5	9.1
Cash Flow (RsM)					
Operating cash flow	**13,561**	**22,635**	**19,827**	**24,721**	**28,585**
Depreciation/amortization	2,854	2,714	3,381	4,322	5,477
Net working capital	-1,184	4,301	-2,504	-1,869	-1,184
Investing cash flow	**-3,006**	**-13,528**	**-17,074**	**-36,838**	**-14,152**
Capital expenditure	-1,568	-13,828	-17,611	-30,000	-15,000
Acquisitions/disposals	-1,438	300	537	-6,838	848
Financing cash flow	**-3,512**	**4,072**	**-2,356**	**-7,851**	**-2,133**
Borrowings	-2,359	5,591	-513	-5,673	-122
Dividends paid	-1,153	-1,519	-1,843	-2,178	-2,011
Change in cash	**7,043**	**13,179**	**397**	**-19,968**	**12,300**
Balance Sheet (RsM)					
Total assets	**75,880**	**101,537**	**123,007**	**143,768**	**170,040**
Cash & cash equivalent	14,016	14,228	9,768	7,991	8,338
Accounts receivable	6,548	7,474	9,118	11,314	12,614
Net fixed assets	17,872	28,986	43,216	68,895	78,417
Total liabilities	**21,354**	**32,998**	**37,462**	**38,133**	**42,124**
Accounts payable	5,551	9,096	11,069	14,772	16,697
Total Debt	717	6,308	5,795	122	0
Shareholders' funds	**54,526**	**68,539**	**85,546**	**105,635**	**127,916**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	13.7	13.6	13.3	13.3	13.1
ROE adjusted	24.7	25.4	24.6	23.3	20.8
ROIC adjusted	37.1	40.3	34.1	28.0	23.2
Net debt to equity	-24.4	-11.6	-4.6	-7.4	-6.5
Total debt to capital	1.3	8.4	6.3	0.1	0.0

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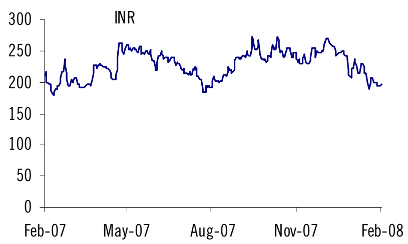
Powered by: dataCentral

Max India (MAXI.BO)

Non-Rated

Price (26 Feb 08)	Rs195.50
Market Cap	Rs43,351M
	US$1,086M

Price Performance



Source: dataCentral

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Company Description

Max India Ltd. is a diversified conglomerate with several service-oriented businesses including life insurance (Max New York Life Insurance), healthcare (Max Healthcare) and clinical research (Neeman Medical International). Max India's other businesses include speciality plastic products for the packaging industry and healthcare staffing.

Maximum Insurance and Healthcare

- **Insurance and Healthcare** — Max India is the holding company with a 74% stake in Max New York Life Insurance and a 70% stake in Max Healthcare. The bulk of Max India's business is exposed to the growing insurance and healthcare sectors in India.
- **Max Insurance: Strong mix, and back in the hunt —** A JV with New York Life for insurance has had a roller-coaster ride. A strong start followed with some disappointments, but has bounced back to a 5%+ market share, and is gaining momentum. Its operating parameters on product mix, agency efficiency, and profit focus are among the best in the industry going by historical data.
- **Distribution mix** — MNYL primarily runs an agency-driven business, but is moving toward a multi-channel distribution approach. It however has the distinction of having the most productive agent force in the industry, given training inputs and agency management, but the market remains competitive.
- **Growing healthcare presence** — Max India has a presence in the growing healthcare sector through a 70% stake in Max Healthcare. It has an installed capacity of 770 beds across a network of six hospitals, two speciality medical centres and nine clinics, in the NCR region. Other major holders in the company are Warburg Pincus (20%) and IFC, Washington (4%).
- **Expansion plans** — Max Healthcare plans to expand its network to 12 facilities in and around Delhi, with a capacity of 1,500 beds. This expansion plan includes two tertiary care hospitals – a 270-bed hospital at Patparganj, which is expected to be launched in Aug 2009 – and a multi-speciality hospital at Shalimar Bagh (expected to be operational in 2011).

Recent Developments

The company announced its 3QFY08 results in January 2008. Consolidated revenues stood at Rs12.3bn and Rs27.7bn for 3QFY08 and 9MFY08 respectively. Operating cash profit was Rs4.2bn and Rs8.5bn for 3Q FY08 and 9M FY08 respectively.

In June 2007 the company raised Rs10bn through a Qualified Institutional Placement, raising the FII holding in the company from 26% to 39%. The company plans to use the proceeds from the issue to fund the expansion plans for its existing businesses.

Source: Max India Press Release

Max India (MAXI.BO): Financial Summary

Max India Ltd. Profit & Loss Statement (FY02-07)

YE March	2002	2003	2004	2005	2006	2007
Net Sales	**3,001**	**3,590**	**4,543**	**6,434**	**10,078**	**18,185**
Material	792	754	723	785	767	1,054
Staff	987	1,349	1,450	1,436	1,921	3,083
Other exp	241	563	170	203	153	177
General	922	402	2,106	4,248	7,008	13,521
Selling & Distribution	1,065	1,855	1,026	1,202	1,490	1,901
Total Expenditure	4,007	4,924	5,475	7,874	11,339	19,736
EBITDA	**(1,006)**	**(1,334)**	**(932)**	**(1,440)**	**(1,261)**	**(1,551)**
EBITDA margins	***-34%***	***-37%***	***-21%***	***-22%***	***-13%***	***-9%***
Interest	217	328	274	362	325	298
Depreciation	299	347	310	343	360	462
Other Income	458	294	588	578	5,298	1,756
PBT	(1,063)	(1,715)	(928)	(1,566)	3,352	(555)
Tax	(31)	(61)	34	32	396	157
Effective tax rate	*3%*	*4%*	*-4%*	*-2%*	*12%*	*-28%*
Profit after Tax	(1,033)	(1,654)	(962)	(1,599)	2,956	(712)
Extraordinary Items	(149)	(48)	(29)	(33)	(4,244)	(219)
Net Income	**(1,181)**	**(1,701)**	**(992)**	**(1,631)**	**(1,288)**	**(931)**

Source: Capitaline

Max India Ltd. Balance Sheet (FY02-07)

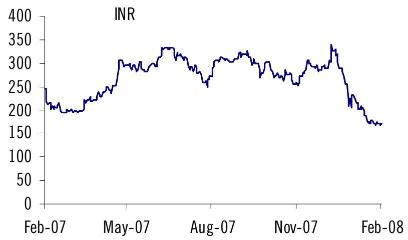
	2002	2003	2004	2005	2006	2007
Total Shareholders Funds	**3,639**	**2,743**	**1,920**	**1,732**	**6,391**	**6,026**
Minority Interest	815	779	298	340	936	1,189
Secured Loans	1,320	1,014	908	2,035	2,252	3,528
Unsecured Loans	1,166	1,315	3,526	5,711	9,062	17,792
Total Debt	2,486	2,329	4,434	7,746	11,315	21,320
Total Liabilities	**6,940**	**5,850**	**6,652**	**9,817**	**18,642**	**28,535**
Gross Block	3,604	3,389	3,772	4,089	4,771	7,848
Less: Accumulated Depreciation	864	964	1,164	1,137	1,485	1,887
Net Block	2,740	2,425	2,608	2,952	3,286	5,961
Capital Work in Progress	531	515	645	400	1,183	323
Investments	3,091	2,597	3,176	6,164	13,726	21,235
Cash and Bank Balances	252	120	243	275	364	582
Other Current Assets	1,878	1,519	1,830	2,184	3,087	4,904
Total Current Assets	**2,130**	**1,639**	**2,073**	**2,459**	**3,451**	**5,487**
Current Liabilities & Provisions	1,446	1,292	1,714	2,066	2,891	4,321
Net Current Assets	**684**	**348**	**359**	**393**	**560**	**1,166**
Miscellaneous Expenses not written off	92	101	27	84	46	115
Deferred Tax Assets	-	63	113	70	62	74
Deferred Tax Liability	198	198	275	245	221	338
Net Deferred Tax	(198)	(135)	(162)	(176)	(159)	(265)
Total Assets	**6,940**	**5,850**	**6,652**	**9,817**	**18,642**	**28,535**

Source: Capitaline

Moser Baer India (MOSR.BO)

Sell/High Risk	3H
Price (26 Feb 08)	Rs172.55
Target Price	Rs345.00
Expected share price return	99.9%
Expected dividend yield	0.6%
Expected total return	**94.3%**
Market Cap	Rs29,022M
	US$727M

Price Performance



Source: Citi Investment Research

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Company description

Moser Baer is a Delhi-based company with interests in optical media, home entertainment and the solar industry. The company is the world's second-largest manufacturer of optical storage media and has a significant global market share - with most of the world's 10 largest OEMs among its customers. Photovoltaic Cell & Module (PV) is a new business for which Moser Baer has aggressive ramp up plans (~400-500MW in the next 3-4 years). Moser has also forayed into home entertainment with an eye on increased penetration in the CD/DVD market in India - this will help the ASP for its optical discs. Also, it is forward integration for Moser's optical media business.

Optical Biz Under Pressure; Solar Still in Early Stages

- **Outlook for optical media business** — The optical media business has been witnessing a challenging business environment due to royalty-related issues in the industry. Pricing/profitability continues to be under pressure. Outlook in the optical media business is one of the key issues to focus on.
- **Ramp-up plans for PV business** — Moser recently announced a US$1.5bn investment in the thin-film PV segment (~600MW capacity). This comes in above the initial plan to achieve ~400-500MW capacity by 2010. The ramp-up plan for the PV business is a key issue to focus on.
- **Outlook on polysilicon prices** — Polysilicon prices remain high, resulting in profitability pressure for PV players globally. Polysilicon prices are expected to ease in the next year or two as significant Polysilicon capacity comes on-stream. Moser's strategy on raw materials and the outlook on raw material prices should be focused on.
- **Scalability/profitability in home-entertainment business** — Moser Baer management recently scaled down the guidance for the home entertainment business for FY08. Scalability/profitability in this business is another important area of focus.
- **Profitability and source of funds** — While Moser has aggressively ramped up plans for the next few years, profitability and funding remains a key focus area. Funding becomes an important question, with management announcing an incremental US$1.5b investment.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	-65	-0.39	-110.8	nm	1.5	-0.3	0.4
2007A	788	4.68	na	36.9	1.4	3.9	0.6
2008E	1,734	9.42	101.2	18.3	1.5	8.6	0.6
2009E	4,327	23.50	149.5	7.3	1.2	19.8	0.6
2010E	6,675	36.25	54.3	4.8	1.0	24.6	0.6

Source: Powered by dataCentral

Investment Strategy

We have a Sell/High Risk rating on Moser Baer. Despite having a significant market share in the optical media business, the company has suffered a notable reduction in profitability on account of sharp price escalations in the key raw material - polycarbonate (PC). We expect this business to grow 15-20% yoy in volume terms, with profitability improving as PC prices ease. PV is a new business for which Moser Baer has aggressive ramp up plans (~400-500MW in the next 3-4 years). Various government incentives should continue to drive demand globally, but pricing and profitability are difficult to forecast, with margins likely to be under pressure from increases in solar-grade silicon prices, competition from Chinese/European players, and low entry barriers (particularly for cells and modules). Home entertainment is still an early-stage business, which we value at 1x Moser's investment.

Valuation

Our target price of Rs345 is derived from a SOTP in which we value the optical media (incl. home entertainment) and PV businesses at respective EVs per share of Rs235 and Rs214, before adjusting for net debt of Rs113 per share. We value the optical media business at 1.0x EV/Capital Employed on FY09E - over the past three years (prior to its venture in the PV business), Moser Baer has traded at an average EV/Capital Employed of 1.1x (in a 0.8-1.4x range). We believe 1.0x is a fair multiple as Moser's current ROIC is below its cost of capital. We value the PV business at 15x FY09E EV/EBITDA - this is at a ~10% discount to the average CY08E EV/EBITDA multiple for cell and module makers. We believe this discount is fair given Moser's PV business is still in early stages and hence there are some execution risks.

Moser Baer India (MOSR.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	nm	36.9	18.3	7.3	4.8
EV/EBITDA adjusted (x)	11.8	8.7	7.4	5.2	4.1
P/BV (x)	1.5	1.4	1.5	1.2	1.0
Dividend yield (%)	0.4	0.6	0.6	0.6	0.6
Per Share Data (Rs)					
EPS adjusted	-0.39	4.68	9.42	23.50	36.25
EPS reported	-0.39	4.68	9.42	23.50	36.25
BVPS	118.90	122.29	118.16	142.86	181.58
DPS	0.67	1.00	1.00	1.00	1.00
Profit & Loss (RsM)					
Net sales	16,641	19,840	24,388	38,439	51,083
Operating expenses	-16,378	-18,460	-21,966	-32,911	-42,921
EBIT	**263**	**1,380**	**2,422**	**5,528**	**8,161**
Net interest expense	-377	-497	-495	-720	-744
Non-operating/exceptionals	42	7	0	0	0
Pre-tax profit	**-72**	**890**	**1,927**	**4,807**	**7,417**
Tax	7	-102	-193	-481	-742
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**-65**	**788**	**1,734**	**4,327**	**6,675**
Adjusted earnings	-65	788	1,734	4,327	6,675
Adjusted EBITDA	3,430	4,963	6,504	10,157	13,387
Growth Rates (%)					
Sales	30.0	19.2	22.9	57.6	32.9
EBIT adjusted	-32.2	425.1	75.5	128.2	47.6
EBITDA adjusted	6.9	44.7	31.1	56.2	31.8
EPS adjusted	-110.8	1,311.4	101.2	149.5	54.3
Cash Flow (RsM)					
Operating cash flow	**958**	**5,641**	**4,886**	**5,750**	**9,112**
Depreciation/amortization	3,168	3,582	4,082	4,629	5,226
Net working capital	-2,508	685	-1,425	-3,927	-3,533
Investing cash flow	**-1,933**	**-6,335**	**-8,920**	**-6,800**	**-6,600**
Capital expenditure	-4,031	-6,598	-9,720	-7,800	-7,800
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-718**	**491**	**2,355**	**1,287**	**-2,137**
Borrowings	348	1,948	6,075	3,200	0
Dividends paid	-127	-196	-193	-193	-193
Change in cash	**-1,693**	**-203**	**-1,679**	**237**	**375**
Balance Sheet (RsM)					
Total assets	**39,094**	**43,559**	**49,739**	**59,883**	**68,895**
Cash & cash equivalent	2,900	2,697	1,018	1,255	1,631
Accounts receivable	3,799	3,342	4,343	6,845	9,097
Net fixed assets	25,845	28,811	34,449	37,620	40,194
Total liabilities	**19,206**	**23,076**	**29,946**	**35,956**	**38,485**
Accounts payable	2,651	4,485	5,280	8,090	10,619
Total Debt	16,555	18,502	24,577	27,777	27,777
Shareholders' funds	**19,888**	**20,483**	**19,793**	**23,927**	**30,410**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	20.6	25.0	26.7	26.4	26.2
ROE adjusted	-0.3	3.9	8.6	19.8	24.6
ROIC adjusted	0.9	3.7	5.7	11.0	14.1
Net debt to equity	68.7	77.2	119.0	110.8	86.0
Total debt to capital	45.4	47.5	55.4	53.7	47.7

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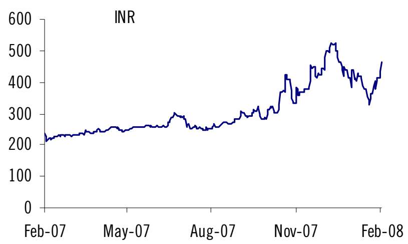
Powered by: dataCentral

National Aluminium (NALU.BO)

Sell/Medium Risk	**3M**
Price (26 Feb 08)	Rs463.85
Target Price	Rs231.00
Expected share price return	-50.2%
Expected dividend yield	1.5%
Expected total return	**-48.7%**
Market Cap	Rs298,863M
	US$7,488M

Price Performance



Source: Citi Investment Research

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Company description

Nalco is based in Orissa with 1.58m tpa of alumina capacity and 345,000 tpa of aluminium capacity. It was set up in 1987 with the technical assistance of Pechiney. It has enough bauxite deposits to meet more than 50 years' requirements of its expanded alumina capacity (2.1m tpa by end-2008). Nalco is India's largest alumina exporter and consciously produces surplus alumina, as it is one of the lowest cost producers of alumina in the world. Nalco's ongoing expansions — smelter capacity rising from 345,000tpa to 460,000tpa and power capacity to 1,200MW from 960MW — should be completed by end-CY08 at a capex of Rs41bn (US$920m).

A Pure Aluminium Play

- **Low cost integrated aluminium producer** — Nalco is one of the lowest-cost producers of alumina and aluminum globally. Its competitive advantage stems from several factors: good quality bauxite, low-cost captive power, own railway wagons and captive port facilities. Nalco is operating at full capacity and profits until FY09E will largely be driven by pricing. Ongoing expansions (a 33% increase in alumina capacity to 2.1mtpa and a similar increase for aluminum to 460,000tpa) will add to revenues only from FY10E.

- **Aluminium forecasts range bound** — The aluminium division's margins have been hit by declining international aluminium prices and an appreciating rupee. The average aluminium LME price has declined from US$2,664 in FY07 to US$2,585 in 9MFY08. The rupee has appreciated from Rs45.25 vs. the US$ in FY07 to Rs40.45 in 9MFY08. However, aluminium prices have been improving recently due to a supply-demand mismatch arising from the closing of bauxite mines in Indonesia and power shortage in China.

- **Recent trends in alumina** — The declining trend in alumina prices have also adversely impacted Nalco. International alumina prices averaged US$266/t in 3QFY08 versus US$393/t in 3Q FY07. Spot alumina prices have picked up recently to above US$400/t due to lower Indonesian bauxite exports.

- **Expansion plans in Indonesia** — In January 2008, Nalco signed an MoU with the Government of Indonesia to set up a 500,000tpa aluminium smelter and 1,250MW of captive power in South Sumatra at a capex of Rs140bn (US$3.4bn). Nalco plans to send its surplus alumina to Indonesia. They will use the abundant low cost coal deposits to produce power and aluminium. In the first phase, Nalco plans to set up a 250,000tpa smelter and 750MW of power. The feasibility study will take six months after which Nalco will take a final decision on the project. Besides Indonesia, Nalco is examining the possibility of setting up plants in Iran, Saudi Arabia and South Africa.

- **Other expansion plans** — In November 2007, Nalco announced a proposal to set up a 1m tpa alumina plant in Andhra Pradesh. They have received in-principle approval for 100m tonnes of bauxite deposits, adequate for 30 years. No further details are available. Nalco is also trying to set up an integrated aluminium complex in Orissa, which will depend on the allocation of adequate coal and bauxite deposits.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	15,622	24.25	26.5	19.1	5.1	29.5	1.1
2007A	23,814	36.96	52.4	12.5	3.9	35.1	1.6
2008E	17,923	27.82	-24.7	16.7	3.3	21.5	1.5
2009E	16,585	25.74	-7.5	18.0	3.0	17.4	1.4
2010E	13,470	20.91	-18.8	22.2	2.7	12.7	1.3

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Nalco as Sell/Medium Risk (3M). The key reason for our Sell rating is the YoY price declines we expect in FY08 and FY09 for aluminum. Our international price forecasts indicate that aluminium prices are likely to remain range bound at ~US$2,600/tonne in FY09, which will likely result in domestic prices coming under pressure due to the appreciating rupee. Nalco's share price has generally moved in line with international aluminum prices, and based on the trends we forecast, we expect the stock to trade in a narrow band over the next year. Nalco is already operating at full capacity, and there is limited scope for volume growth until FY10.

Valuation

We use P/E to value Nalco because it is driven largely by commodity price trends, which translate into earnings momentum. In the past six years, the stock has traded in a PE range of 6-8x. In the past one year the PE band has moved up to a range of 7-11x (and even higher) in line with the re-rating for metal stocks globally. We value Nalco at 9x FY09E EPS, which gives us a target price of Rs231. Based on our target price of Rs231, Nalco's EV/EBITDA works out to 4.5x.

National Aluminium (NALU.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	19.1	12.5	16.7	18.0	22.2
EV/EBITDA adjusted (x)	10.3	6.9	9.0	10.2	11.0
P/BV (x)	5.1	3.9	3.3	3.0	2.7
Dividend yield (%)	1.1	1.6	1.5	1.4	1.3
Per Share Data (Rs)					
EPS adjusted	24.25	36.96	27.82	25.74	20.91
EPS reported	23.79	37.05	27.82	25.74	20.91
BVPS	91.46	119.43	139.06	157.20	171.08
DPS	5.00	7.50	7.00	6.50	6.00
Profit & Loss (RsM)					
Net sales	48,519	59,402	51,864	51,313	52,864
Operating expenses	-24,519	-23,138	-24,530	-27,136	-33,229
EBIT	**24,000**	**36,264**	**27,333**	**24,177**	**19,636**
Net interest expense	0	0	-12	0	0
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**24,000**	**36,264**	**27,321**	**24,177**	**19,636**
Tax	-8,674	-12,390	-9,398	-7,591	-6,166
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**15,325**	**23,874**	**17,923**	**16,585**	**13,470**
Adjusted earnings	15,622	23,814	17,923	16,585	13,470
Adjusted EBITDA	27,772	39,436	30,339	27,827	25,219
Growth Rates (%)					
Sales	18.2	22.4	-12.7	-1.1	3.0
EBIT adjusted	24.3	51.1	-24.6	-11.5	-18.8
EBITDA adjusted	16.1	42.0	-23.1	-8.3	-9.4
EPS adjusted	26.5	52.4	-24.7	-7.5	-18.8
Cash Flow (RsM)					
Operating cash flow	**19,654**	**27,225**	**15,759**	**19,127**	**17,010**
Depreciation/amortization	3,772	3,171	3,006	3,651	5,583
Net working capital	-378	417	-2,506	-1,254	-956
Investing cash flow	**-2,331**	**-6,419**	**-28,755**	**-12,946**	**-938**
Capital expenditure	-2,030	-6,815	-31,550	-15,076	-3,500
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-2,939**	**-5,877**	**-1,897**	**-5,277**	**-4,900**
Borrowings	0	0	0	0	0
Dividends paid	-2,939	-5,878	-1,885	-5,277	-4,900
Change in cash	**14,385**	**14,928**	**-14,893**	**905**	**11,171**
Balance Sheet (RsM)					
Total assets	**74,746**	**95,266**	**109,705**	**122,967**	**134,029**
Cash & cash equivalent	21,937	36,865	21,973	22,877	34,049
Accounts receivable	294	341	315	312	318
Net fixed assets	41,775	45,525	74,069	85,494	83,411
Total liabilities	**15,819**	**18,314**	**20,107**	**21,684**	**23,799**
Accounts payable	2,674	3,628	2,703	2,881	3,598
Total Debt	0	0	0	0	0
Shareholders' funds	**58,927**	**76,952**	**89,598**	**101,283**	**110,230**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	57.2	66.4	58.5	54.2	47.7
ROE adjusted	29.5	35.1	21.5	17.4	12.7
ROIC adjusted	32.6	50.1	27.8	19.2	14.6
Net debt to equity	-37.2	-47.9	-24.5	-22.6	-30.9
Total debt to capital	0.0	0.0	0.0	0.0	0.0

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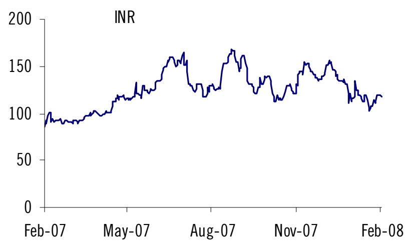
Powered by: dataCentral

NIIT (NIIT.BO)

Sell/High Risk	3H
Price (26 Feb 08)	Rs118.10
Target Price	Rs117.00
Expected share price return	-0.9%
Expected dividend yield	0.8%
Expected total return	**-2.4%**
Market Cap	Rs19,444M
	US$487M

Price Performance



Source: Citi Investment Research

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Company description

NIIT, an acknowledged leader in IT and IT-assisted training, provides learning and knowledge solutions in more than 30 countries. IDC brackets NIIT among the top 20 global IT training market leaders. NIIT's Knowledge Solutions Practice (SEI CMM Level 5 assessed) is a leading offshore vendor in knowledge management and eLearning. NIIT offers integrated learning solutions ranging from strategy and design to development, implementation and administration.

Not Recession Proof

- **Update on retail training business** — The company had spectacular revenue growth of ~50% in FY07; this slowed to ~30% in 9M FY08. One needs to understand the growth outlook from here and margin leverage left in this business especially in light of the capacity expansion planned by the company. Also, any possible impact of slowing hiring by mid-tier Indian IT companies needs to be evaluated.

- **Possibility of another price hike and operating leverage** — NIIT has taken 25% and 12% price hikes in FY07 and FY08 respectively. This was on the back of strong enrollment growth and wage hikes from offshore IT companies. Ability to effect further fee hikes needs to be understood.

- **New business expectations and outlook** — NIIT has ventured into finance and banking training through IFBI. This business has been on a growth track over the last few years. Potential of this business in the mid-to-long term should be discussed. Management training initiative under 'Imperia' should also be discussed.

- **Impact of US recession on corporate business** — With the US economy slowing and large part of training budgets being discretionary, corporate business could get impacted. The strong rupee would add to margin pressures for the organic part of the business. Management view should be discussed.

- **Institutional business: Is a turnaround close at hand?** — NIIT has bagged new contracts from Himachal Pradesh and Tripura and is bidding for more such projects. Update on this business in terms of topline growth and margin outlook needs to be evaluated.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	414	2.81	20.1	42.1	6.4	16.5	0.7
2007A	566	3.63	29.5	32.5	5.5	19.5	0.7
2008E	733	4.41	21.4	26.8	4.7	20.1	0.8
2009E	1,062	6.39	44.9	18.5	3.9	23.3	0.9
2010E	1,299	7.81	22.3	15.1	3.2	23.5	1.0

Source: Powered by dataCentral

Investment Strategy

We rate NIIT Sell/High Risk (3H) for valuation reasons. NIIT shares have outperformed over the past year, making its risk-reward profile unfavorable, in our view. We, however, continue to like the company's business dynamics. As India's largest and most experienced IT training institute, NIIT looks well positioned to benefit from growing concerns over the supply of talent. India's retail IT training business is undergoing structural changes, which are being driven by 2 factors: (1) IT companies are looking for cheaper non-engineering talent; and (2) new non-IT engineers from less known universities are enrolling in IT training institutes to improve their job prospects.

Valuation

We value NIIT using SOTP methodology, as we believe the organic training business and NIIT Tech services have different industry dynamics. Our target price of Rs117 is based on: (1) the core organic training business (based on EV/EBITDA); (2) ElementK; (3) new businesses; and (4) holding in NIIT Tech. At 11x average of FY09-10E EBITDA, we value the organic training business at Rs17.0bn. We believe 11x is a fair EV/EBITDA for a ~30% EBITDA CAGR expectation. It is at a small premium to the average valuation for IT mid-caps, which in our view is justified by NIIT's growth prospects. After adjusting for net debt of Rs1.5bn from the enterprise value, we get an equity valuation of Rs15.5bn. We also value new businesses at 3x average of FY09-10E revenue. For NIIT Tech we use a 25% discount to the average traded price of NIIT Tech over the last 10 trading days. This values the stake in NIIT Tech at Rs1.4bn.

NIIT (NIIT.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	42.1	32.5	26.8	18.5	15.1
EV/EBITDA adjusted (x)	27.4	24.6	21.0	14.8	9.9
P/BV (x)	6.4	5.5	4.7	3.9	3.2
Dividend yield (%)	0.7	0.7	0.8	0.9	1.0
Per Share Data (Rs)					
EPS adjusted	2.81	3.63	4.41	6.39	7.81
EPS reported	2.81	3.63	4.41	6.39	7.81
BVPS	18.41	21.61	25.08	30.29	36.83
DPS	0.80	0.87	1.00	1.10	1.20
Profit & Loss (RsM)					
Net sales	4,507	7,951	10,191	11,763	13,866
Operating expenses	-4,278	-7,649	-9,672	-10,843	-12,440
EBIT	**229**	**302**	**519**	**921**	**1,425**
Net interest expense	0	0	0	0	0
Non-operating/exceptionals	36	-56	-174	-140	-120
Pre-tax profit	**266**	**246**	**345**	**781**	**1,305**
Tax	-29	-4	23	-156	-509
Extraord./Min.Int./Pref.div.	177	324	364	437	503
Reported net income	**414**	**566**	**733**	**1,062**	**1,299**
Adjusted earnings	414	566	733	1,062	1,299
Adjusted EBITDA	705	817	979	1,361	1,945
Growth Rates (%)					
Sales	13.1	76.4	28.2	15.4	17.9
EBIT adjusted	59.2	31.8	71.7	77.4	54.8
EBITDA adjusted	12.8	15.8	19.9	39.0	43.0
EPS adjusted	20.1	29.5	21.4	44.9	22.3
Cash Flow (RsM)					
Operating cash flow	**94**	**1,532**	**549**	**1,316**	**1,587**
Depreciation/amortization	476	514	460	440	520
Net working capital	-562	787	-453	112	150
Investing cash flow	**-584**	**-3,240**	**-1,210**	**-1,350**	**-1,436**
Capital expenditure	-522	-2,933	-749	-850	-900
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**585**	**1,458**	**-416**	**-369**	**-387**
Borrowings	678	1,608	-667	-164	-164
Dividends paid	-131	-144	-186	-205	-223
Change in cash	**95**	**-249**	**-1,077**	**-402**	**-237**
Balance Sheet (RsM)					
Total assets	**5,105**	**9,050**	**8,874**	**10,041**	**11,690**
Cash & cash equivalent	701	741	100	225	521
Accounts receivable	1,895	2,204	2,513	2,804	3,229
Net fixed assets	795	1,041	1,298	1,649	1,999
Total liabilities	**2,379**	**5,901**	**4,741**	**5,051**	**5,624**
Accounts payable	1,132	2,823	2,548	2,823	3,189
Total Debt	1,090	2,698	2,031	1,867	1,703
Shareholders' funds	**2,725**	**3,149**	**4,133**	**4,990**	**6,066**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	15.7	10.3	9.6	11.6	14.0
ROE adjusted	16.5	19.5	20.1	23.3	23.5
ROIC adjusted	8.4	8.3	11.4	14.7	17.0
Net debt to equity	14.3	62.1	46.7	32.9	19.5
Total debt to capital	28.6	46.1	32.9	27.2	21.9

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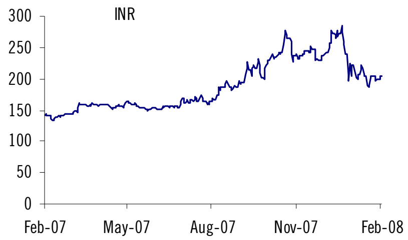
NTPC (NTPC.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs203.90
Target Price	Rs235.00
Expected share price return	15.3%
Expected dividend yield	1.8%
Expected total return	**17.0%**
Market Cap	Rs1,681,250M
	US$42,126M

Price Performance



Source: Citi Investment Research

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India's Power Behemoth

- **Dominant position in India** — NTPC's market leadership (29% share of the country's power generation), competitive cost structure, strong project-implementation skills and robust finances puts the company in a strong position to expand capacity to 50GW by FY12E and 75GW by FY17E
- **6.9GW to be ordered out soon** — In the XIth Plan NTPC is working on 23,510MW (19,510MW of - 100% owned and 4000MW of JVs) of capacity. Out of this 23,150MW of capacity 16,610MW are under construction and the remaining 6,900MW would be awarded in the next 3 months.
- **25GW of supercritical projects** — NTPC is working on a portfolio of 24,680MW of super critical projects out of which Sipat – I, Barh – I, Barh – II and North Karanpura totaling to 7260MW would be commissioned in the XIth Plan (FY08E-FY12E). The remaining would be taken up in the XIIth plan.
- **Venture with BHEL** — NTPC's JV with BHEL would focus on engineering, procurement and construction (EPC) of power plants for NTPC and other utilities. The company might not enter into production of boiler, turbine and generator (BTG) but could get balance-of-plant (BOP) work, which would help BHEL in accelerating delivery.
- **Venture with Bharat Forge** — NTPC has signed an MoU with Bharat Forge Limited (BFL) to promote a JV with an equity participation of 49:51 by NTPC and BFL respectively, to take up manufacture of castings, forgings, fittings and high pressure piping required for power and other industries, balance of plant (BOP) equipment for the power sector. We believe that this JV can supply equipment to BHEL and the NTPC – BHEL JV for EPC work on power projects.

Company description

NTPC is India's largest power generator with 26GW of capacity (23% of India's installed capacity) and generates 189bu (29% of India's generation). Its capacity is spread across 21 locations with coal-based units (22.4GW), gas-based units (3.9GW) and JV projects (1.0GW). NTPC's output is contracted through long-term PPAs (25 years for coal-based and 15 years for gas-based) with its customers (SEBs 99% of its sales). NTPC plans to double capacity by FY12E and triple capacity by FY17E.

Figure 3. NTPC Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	55,714	6.76	10.2	30.2	3.7	12.8	1.4
2007A	68,756	8.34	23.4	24.5	3.5	14.7	1.6
2008E	80,633	9.78	17.3	20.9	3.2	15.8	1.8
2009E	89,878	10.90	11.5	18.7	2.9	16.1	2.0
2010E	99,574	12.08	10.8	16.9	2.6	16.2	2.2

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate NTPC Buy /Low (1L) as the stock has corrected 30%+ from its peak of Rs291 in Jan 2008 and given upside potential to our target price of Rs235. NTPC's market leadership (29% share of the country's power generation), competitive cost structure, strong project-implementation skills and robust finances puts the company in a strong position to expand capacity to 50GW by FY12E and 75GW by FY17E. Volatility in earnings would also be minimal - under current regulations, key costs are a pass-through, allowing for post-tax ROE of 14% vs the current 10-year GOI bond yield of 8%. However, we believe the recent re-rating in the stock is unsustainable and now the risk reward scenario has turned unfavorable.

Valuation

Our valuation methodology for NTPC involves setting a floor price for the stock and then valuing the value of growth opportunity (VGO) captured by our DCF calculation. We set a floor price of Rs171 for the NTPC stock using replacement cost of assets methodology and adding the value of power bonds and coal mining.

However, we believe the replacement cost of method does not fully capture the upside inherent in NTPC's unprecedented capacity addition plan against a backdrop of persistent peak and base load deficits that is further exacerbated by rapid economic growth. To capture this value we use DCF methodology and set a target price of Rs235.

NTPC (NTPC.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	30.2	24.5	20.9	18.7	16.9
EV/EBITDA adjusted (x)	21.9	16.5	14.7	13.3	12.2
P/BV (x)	3.7	3.5	3.2	2.9	2.6
Dividend yield (%)	1.4	1.6	1.8	2.0	2.2
Per Share Data (Rs)					
EPS adjusted	6.76	8.34	9.78	10.90	12.08
EPS reported	7.06	8.33	9.78	10.90	12.08
BVPS	54.53	58.94	64.61	70.95	78.01
DPS	2.80	3.20	3.60	4.00	4.40
Profit & Loss (RsM)					
Net sales	267,430	326,887	391,631	440,435	504,320
Operating expenses	-215,233	-249,443	-299,877	-332,808	-377,054
EBIT	**52,197**	**77,444**	**91,754**	**107,627**	**127,267**
Net interest expense	-9,585	-15,399	-18,763	-22,716	-28,110
Non-operating/exceptionals	26,078	27,449	28,046	28,137	26,831
Pre-tax profit	**68,690**	**89,494**	**101,037**	**113,048**	**125,987**
Tax	-12,976	-20,738	-20,404	-23,170	-26,412
Extraord./Min.Int./Pref.div.	2,488	-109	0	0	0
Reported net income	**58,202**	**68,647**	**80,633**	**89,878**	**99,574**
Adjusted earnings	55,714	68,756	80,633	89,878	99,574
Adjusted EBITDA	72,674	98,198	112,508	128,381	148,021
Growth Rates (%)					
Sales	16.5	22.2	19.8	12.5	14.5
EBIT adjusted	16.2	48.4	18.5	17.3	18.2
EBITDA adjusted	12.7	35.1	14.6	14.1	15.3
EPS adjusted	10.2	23.4	17.3	11.5	10.8
Cash Flow (RsM)					
Operating cash flow	**68,373**	**78,385**	**102,733**	**111,172**	**121,682**
Depreciation/amortization	20,477	20,754	20,754	20,754	20,754
Net working capital	-10,306	-11,016	1,346	540	1,353
Investing cash flow	**-49,159**	**-44,285**	**-103,044**	**-140,341**	**-186,641**
Capital expenditure	-65,279	-78,392	-110,018	-147,063	-189,005
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**4,717**	**10,605**	**12,568**	**28,938**	**46,220**
Borrowings	31,095	42,871	46,407	66,537	87,580
Dividends paid	-26,325	-30,281	-33,840	-37,599	-41,359
Change in cash	**23,931**	**44,705**	**12,256**	**-230**	**-18,739**
Balance Sheet (RsM)					
Total assets	**717,371**	**807,643**	**913,902**	**1,042,951**	**1,202,509**
Cash & cash equivalent	84,714	129,419	141,675	141,445	122,705
Accounts receivable	8,678	12,523	14,887	16,716	19,175
Net fixed assets	367,235	424,873	514,137	640,446	808,697
Total liabilities	**267,784**	**321,675**	**381,140**	**457,911**	**559,254**
Accounts payable	61,402	70,263	83,321	93,555	107,318
Total Debt	201,973	244,844	291,251	357,789	445,368
Shareholders' funds	**449,587**	**485,968**	**532,762**	**585,040**	**643,255**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	27.2	30.0	28.7	29.1	29.4
ROE adjusted	12.8	14.7	15.8	16.1	16.2
ROIC adjusted	11.2	13.7	14.5	14.1	13.6
Net debt to equity	26.1	23.8	28.1	37.0	50.2
Total debt to capital	31.0	33.5	35.3	37.9	40.9

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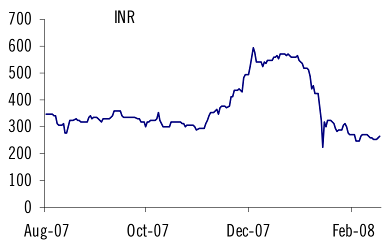
Powered by: dataCentral

Omaxe (OMAX.BO)

Residential Heavy Model with North Bias

Buy/High Risk	1H
Price (26 Feb 08)	Rs263.90
Target Price	Rs386.00
Expected share price return	46.3%
Expected dividend yield	0.4%
Expected total return	**46.6%**
Market Cap	Rs45,804M
	US$1,148M

Price Performance



Source: Citi Investment Research

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Company description

Omaxe is largely a founder-owned and -controlled business. The company is headed by Rohtas Goel who started a construction business in 1987 and transformed it into a real estate developer in 2001. He spearheads the organization, which also employs other family members as part of the management team – together they own 89% stake. The group has been beefing up professionals at various levels in the organization. The company is also emphasizing development of its management team to implement its aggressive execution plans. Omaxe employs ~1,093 people. The company recently made a primary offering of 18.6m shares at Rs310 in July 2007.

- **North India-based Developer** — Omaxe is one of North India's newer and more aggressive developers and has created a highly visible and strong 'Omaxe' brand in a short time. The company is primarily focused on the residential market in the mid to upper end segment with majority of its projects located in North India.

- **Sizeable landbank with construction expertise** — Omaxe has a development landbank of ~146m sq ft, of which a majority is in NCR (36% of portfolio). Leveraging its develop-sell model and construction expertise, Omaxe has 95m sq ft of projects currently under construction.

- **Focus on Townships** — A large part of the company's development plan is focused on townships which are a mix of plots, villas, group housing and commercial/shopping complexes. However, the company is taking initiatives to diversify into other asset classes such as hotels and SEZs.

- **Increasing geographic spread** — The company is diversifying its landbank into South India with the acquisition of 25 acres in Hyderabad and 19.5 acres in Visakhapatnam. In addition, the company has signed an MOU with the government of Rajasthan for development of a 5,000 hectare multi-product SEZ at Alwar, where land is still to be acquired.

- **Infrastructure Foray** — Omaxe has formed a consortium with GVK and Nagarjuna Construction to bid for infrastructure projects such as airports, roads, bridges. The company has currently bid for redevelopment of Udaipur and Amritsar airports and development of Badarpur Highway.

- **Key Risks** — 1) Concentration Tier II and Tier II cities where demand risks are higher. 2) High exposure to NCR where risk of prices softening in the near-term is high. 3) Delays in getting regulatory approvals for some of its large projects.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,188	7.91	na	33.4	19.7	84.8	0.1
2007A	2,573	16.60	109.9	15.9	8.7	76.9	0.3
2008E	5,111	29.45	77.4	9.0	3.0	51.5	0.4
2009E	7,026	40.48	37.5	6.5	2.1	37.8	0.4
2010E	9,071	51.98	28.4	5.1	1.5	34.3	0.4

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Omaxe shares Buy / High Risk (1H) with a target price of Rs386. Our target price is based on a 10% discount to our NAV estimate of Rs429 per share. Omaxe is one of North India's newer and more aggressive developers and has created a strong and highly visible 'Omaxe' brand in a short time. The company plans to develop ~146m sq ft over the next few years and is primarily focused on the residential market, in the mid to upper end segment with majority of its developments in the NCR. While we believe outlook for North India remains challenging in light of the building supply and low transaction activity, with the stock trading at a significant discount to our NAV, we believe valuations are attractive and see upside.

Valuation

Our target price of Rs386 is based on a 10% discount to an estimated core NAV of Rs429. The discount is attributed to 1) concentration in NCR where risk of excess supply is high, which is likely to keep property prices in check; 2) high proportion of plotted development which are low value add projects; and 3) its status as a relatively new developer with notable share of landbank still requiring requisite approvals for development. Our NAV estimate of Rs429 is based on the following assumptions: 1) current market prices will persist, without any price inflation; 2) development volume of 117m sq ft (as ~29m is already/to be recognized as revenue till FY08); 3) all projects undertaken by Omaxe will be completed largely on schedule, though we expect risk of delays; 4) an average cost of capital of 14%; and 5) a tax rate of 33%.

Omaxe (OMAX.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	33.4	15.9	9.0	6.5	5.1
P/E reported (x)	33.4	15.9	9.0	6.5	5.1
P/BV (x)	19.7	8.7	3.0	2.1	1.5
Dividend yield (%)	0.1	0.3	0.4	0.4	0.4
Per Share Data (Rs)					
EPS adjusted	7.91	16.60	29.45	40.48	51.98
EPS reported	7.91	16.60	29.45	40.48	51.98
BVPS	13.39	30.20	87.34	126.82	177.13
NAVps ordinary	na	na	na	na	na
DPS	0.25	0.86	1.00	1.00	1.00
Profit & Loss (RsM)					
Net operating income (NOI)	**1,778**	**3,881**	**8,353**	**11,539**	**15,988**
G&A expenses	-307	-408	-751	-960	-1,376
Other Operating items	-23	-36	-41	-48	-55
EBIT including associates	**1,448**	**3,437**	**7,561**	**10,531**	**14,558**
Non-oper./net int./except.	19	-214	-654	-907	-1,019
Pre-tax profit	**1,467**	**3,223**	**6,907**	**9,624**	**13,539**
Tax	-279	-651	-1,796	-2,599	-4,468
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Reported net income	**1,188**	**2,573**	**5,111**	**7,026**	**9,071**
Adjusted earnings	1,188	2,573	5,111	7,026	9,071
Adjusted EBIT	1,448	3,437	7,561	10,531	14,558
Adjusted EBITDA	1,471	3,473	7,602	10,579	14,613
Growth Rates (%)					
NOI	321.6	118.3	115.2	38.1	38.6
EBIT adjusted	438.6	137.4	120.0	39.3	38.2
EPS adjusted	1,986.6	109.9	77.4	37.5	28.4
Cash Flow (RsM)					
Operating cash flow	**-1,316**	**-7,131**	**-6,653**	**-4,144**	**-2,222**
Depreciation/amortization	23	36	41	48	55
Net working capital	-2,904	-10,690	-11,537	-11,203	-11,332
Investing cash flow	**-59**	**-330**	**-9**	**-10**	**-11**
Capital expenditure	-48	-271	-10	-10	-11
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,929**	**8,073**	**7,889**	**5,064**	**2,277**
Borrowings	2,063	8,899	2,292	5,237	2,452
Dividends paid	-14	-172	-174	-174	-175
Change in cash	**554**	**612**	**1,227**	**910**	**45**
Balance Sheet (RsM)					
Total assets	**12,465**	**25,460**	**39,395**	**52,170**	**66,330**
Cash & cash equivalent	1,039	1,651	2,877	3,787	3,832
Net fixed assets	180	403	372	334	290
Total liabilities	**10,454**	**20,779**	**24,234**	**30,158**	**35,421**
Total Debt	3,723	12,637	14,929	20,166	22,618
Shareholders' funds	**2,011**	**4,681**	**15,160**	**22,013**	**30,909**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	17.8	24.0	30.2	32.1	31.3
ROE adjusted (%)	84.8	76.9	51.5	37.8	34.3
ROA adjusted (%)	13.7	13.6	15.8	15.3	15.3
Net debt to equity (%)	133.4	234.7	79.5	74.4	60.8
Interest coverage (x)	40.7	11.7	10.2	10.5	12.9

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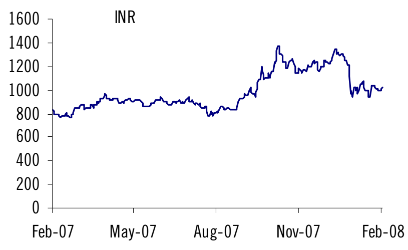
Oil & Natural Gas (ONGC.BO)

Buy/Low Risk	**1L**
Price (26 Feb 08)	Rs1,027.75
Target Price	Rs1,400.00
Expected share price return	36.2%
Expected dividend yield	4.3%
Expected total return	**40.5%**
Market Cap	Rs2,198,227M
	US$55,080M

Price Performance



Source: Citi Investment Research

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Company description

ONGC is India's largest E&P company. Through its subsidiary ONGC Videsh, the company has invested in overseas crude equity. It has ventured downstream, picking up a majority stake in Mangalore Refineries, and it intends to set up a petro-products retailing network.

Moderate Leverage to Crude; Government Policy a Concern

- **Subsidy sharing** — The government has recently raised the quantum of oil bonds for FY08 from 43% of gross under-recoveries to 56%. The 9M performance of downstream R&M and increase in oil bonds (~Rs400bn for the full year) indicate sustainability of the 1/3rd subsidy sharing formula for upstream companies which is positive for ONGC. We, however, conservatively assume upstream share to be a tad higher at 35% for FY08E-10E.

- **Overseas Acquisitions** — ONGC has made substantial investments in overseas oil blocks, through its subsidiary ONGC Videsh, in Sudan, Vietnam, and Russia. ONGC remains aggressive in the search for oil equity overseas and is usually an interested bidder in such asset sales.

- **Earnings Outlook** — Despite the subsidy burden, the FY08YTD net realization on own crude stands at ~54.0/bbl on the back of high global crude prices. Realizations could further benefit indirectly from any policy decisions (duty cuts) and the recent moderate retail price hike on petrol/diesel. Meanwhile, OVL's performance will benefit fully from high crude prices.

- **Risks** — Sharp rupee appreciation, cost over-runs, and extended run of exploration failures are the key risks. Evolving political scenario and the likely impact on FY09 oil bonds allocation could impact the visibility on subsidy.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	153,976	71.99	6.0	14.3	3.9	29.5	2.9
2007A	177,696	83.08	15.4	12.4	3.3	29.0	3.5
2008E	221,192	103.42	24.5	9.9	2.8	30.7	4.3
2009E	250,489	117.11	13.2	8.8	2.4	29.6	4.9
2010E	235,107	109.92	-6.1	9.3	2.1	24.1	4.4

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate ONGC as Buy/Low Risk (1L) with a target price of Rs1400. The government's intentions to revert to 1/3rd sharing formula on subsidy sharing and pre-announced oil bonds provide good visibility on ONGC's leverage to crude. ONGC's asset valuations have therefore improved with higher net realizations and likely moderate increases in gas price. Meanwhile, domestic gas prices have been on an up-move, and the structural market forces should reflect in higher realizations for ONGC's APM gas in the next 2-3 years. OVL's past acquisitions have also started bearing fruit in FY08 and beyond as they become a meaningful portion of ONGC's total production. We think ONGC remains reasonably priced among the Asia-Pacific E&P universe. This with a dividend yield of c. 4.0%, makes ONGC a good value pick, in our view.

Valuation

Our target price of Rs1400 is based on a PER of 12x FY09E P/E on account of confidence in adherence to the 1/3rd subsidy-sharing formula and the company's recent successes in improving reserve replacement. In addition, Asian peers have got significantly re-rated over the last 6 months thus warranting a slightly higher multiple for ONGC now. Our target multiple is at the higher end of historical trading ranges but remains at a material discount to regional peers. We value ONGC on traditional valuation parameters as against NAV/SOTP approach due to it being a going concern. Given that its existing fields face declining or mature production profiles, it will be incorrect to value the new discoveries (say KG gas) separately in a SOTP since the new fields would anyway be required to compensate for the decline in mature fields. In terms of asset valuation, ONGC's current EV/boe of US$8.3 (on 1P Reserves) is at a discount to peers.

ONGC (ONGC.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	14.3	12.4	10.0	8.8	9.4
EV/EBITDA adjusted (x)	7.1	6.1	4.8	4.1	5.9
P/BV (x)	3.9	3.3	2.8	2.4	2.1
Dividend yield (%)	2.9	3.5	4.3	4.9	4.4
Per Share Data (Rs)					
EPS adjusted	71.99	83.08	103.42	117.11	109.92
EPS reported	71.99	83.08	103.42	117.11	109.92
BVPS	263.70	309.51	364.78	426.54	486.63
DPS	30.00	36.00	44.00	50.00	45.00
Profit & Loss (RsM)					
Net sales	742,341	862,762	962,208	988,237	984,436
Operating expenses	-535,537	-638,486	-667,327	-653,744	-672,853
EBIT	**206,804**	**224,276**	**294,881**	**334,493**	**311,583**
Net interest expense	-1,135	1,058	-1,915	-2,186	-2,129
Non-operating/exceptionals	34,245	52,240	42,045	46,635	46,069
Pre-tax profit	**239,914**	**277,574**	**335,011**	**378,942**	**355,523**
Tax	-84,932	-98,454	-112,564	-127,325	-119,455
Extraord./Min.Int./Pref.div.	-1,006	-1,424	-1,255	-1,129	-961
Reported net income	**153,976**	**177,696**	**221,192**	**250,489**	**235,107**
Adjusted earnings	153,976	177,696	221,192	250,489	235,107
Adjusted EBITDA	304,656	343,953	418,205	465,425	311,583
Growth Rates (%)					
Sales	19.2	16.2	11.5	2.7	-0.4
EBIT adjusted	-1.0	8.4	31.5	13.4	-6.8
EBITDA adjusted	7.9	12.9	21.6	11.3	-33.1
EPS adjusted	6.0	15.4	24.5	13.2	-6.1
Cash Flow (RsM)					
Operating cash flow	**231,783**	**385,721**	**386,373**	**388,229**	**216,500**
Depreciation/amortization	97,852	119,678	123,324	130,932	0
Net working capital	-18,504	92,901	43,410	9,757	-15,492
Investing cash flow	**-151,801**	**-197,369**	**-193,231**	**-188,231**	**-188,230**
Capital expenditure	-143,081	-186,873	-180,000	-175,000	-175,000
Acquisitions/disposals	-232	-253	0	0	0
Financing cash flow	**-99,663**	**-89,476**	**-106,816**	**-117,261**	**-105,365**
Borrowings	-21,630	-6,336	-4,050	-251	-226
Dividends paid	-71,224	-85,468	-104,461	-118,706	-106,836
Change in cash	**-19,681**	**98,877**	**86,325**	**82,736**	**-77,096**
Balance Sheet (RsM)					
Total assets	**926,175**	**1,102,252**	**1,274,191**	**1,427,886**	**1,552,549**
Cash & cash equivalent	109,405	225,104	354,178	466,980	551,260
Accounts receivable	44,271	48,167	65,905	67,687	67,427
Net fixed assets	215,098	249,410	258,496	276,852	292,292
Total liabilities	**354,928**	**431,936**	**484,227**	**504,590**	**499,598**
Accounts payable	57,956	78,824	68,288	70,393	73,086
Total Debt	22,342	16,005	6,118	5,506	4,956
Shareholders' funds	**571,247**	**670,316**	**789,964**	**923,297**	**1,052,949**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	41.0	39.9	43.5	47.1	31.7
ROE adjusted	29.5	29.0	30.7	29.6	24.1
ROIC adjusted	18.9	17.5	24.2	25.9	22.9
Net debt to equity	-15.2	-31.2	-44.1	-50.0	-51.9
Total debt to capital	3.8	2.3	0.8	0.6	0.5

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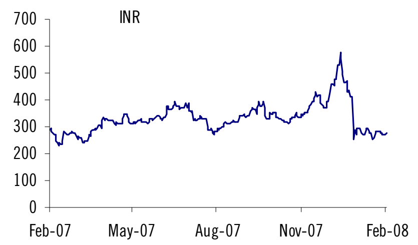
Parsvnath Developers (PARV.BO)

Sell/High Risk	3H
Price (26 Feb 08)	Rs273.70
Target Price	Rs376.00
Expected share price return	37.4%
Expected dividend yield	0.9%
Expected total return	**38.7%**
Market Cap	Rs50,551M
	US$1,267M

Price Performance



Source: Citi Investment Research

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Company description

Parsvnath Developers is among the largest real estate developers in north India with dominance in residential projects. Focus is on enhancing presence across the country, though presently concentrated in the NCR. The management has 15 years of experience in the real estate business and has completed over 5.8m sq ft of development in the last five years. Its ability to identify and aggregate large parcels of land and development rights will drive growth in the future. The company is in the process of building a diversified real estate portfolio and has aggressive plans to develop over ~210m sq ft. Promoters control and manage the company with an 80% stake.

Aggressive Development Plans

- **Tier II Developer** — Parsvnath is a mid-scale developer with a significant presence in Tier II and Tier III cities particularly in North India. Historically, the company has been focused on the residential segment but is now gaining momentum in the commercial segment through its SEZ projects.

- **Progress on SEZs** — The company's landbank includes 7 SEZ projects. 4 SEZs have been notified – 3 IT/ITES SEZs at Indore, Gurgaon and Dehradun and one Pharma SEZ at Nanded while formal approval has been received for an IT/ITES SEZ at Kochi and a Biotech SEZ at Hyderabad. Further, land has been acquired for an IT/ITES SEZ at Mysore which awaits notification.

- **Hotels business gaining traction** — The company has signed an MOU with Fortune Park Hotels, a wholly owned subsidiary of ITC, to manage 50 hotels (4,000+ rooms) in the next 3-5 years. Parsvnath will own and develop the hotels while ITC, through Fortune will manage the hotels. Recently also tied-up with Royal Orchid for rolling out hotel properties across various cities.

- **Growth catalysts** — 1) Entry into new segments such as DMRC (Delhi Metro Rail) projects, multiplexes, hotels and IT Parks. 2) Foray into construction business with two orders having a combined value of Rs1.38bn and 3) operates on develop-sell model – aggressively launching new projects, however pre-sales would be crucial.

- **Key Risks** — 1) Concentration in Tier II and III cities where creating sufficient jobs to meet potential supply is difficult. 2) High exposure to NCR where risk of prices softening in the near-term is high and 3) High execution risks given aggressive development plans spread across 48-cities.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,070	7.21	62.9	38.0	20.2	70.7	0.0
2007A	2,922	15.82	119.4	17.3	3.4	34.5	0.0
2008E	6,810	36.87	133.0	7.4	1.6	29.4	1.1
2009E	12,484	67.59	83.3	4.0	0.9	29.4	0.9
2010E	17,921	97.03	43.6	2.8	0.6	26.6	0.9

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Parsvnath Sell/High Risk (3H) with a target price of Rs376. Our target price is based on a 10% discount to our NAV estimate of Rs418. Parsvnath has aggressive plans to develop ~210m sq ft over the next few years. The company's strategy to operate on a develop-and-sell model and capital raised through its IPO in November 2006 will provide it with requisite cash flows for funding growth, the key challenge, however, is execution. Management is diversifying to new segments - commercial, retail, IT/ITES Park, DMRC projects, hotels, multiplexes and SEZs and intends to enhance presence in 250 cities by 2010 vs. 48 cities today. The company's aggressive development plans raises execution and market risks.

Valuation

Our target price of Rs376 is based on our Mar '08 NAV estimate of Rs418. Our target is based on a 10% discount to NAV, which we believe is fair given Parsvnath's positioning as a tier II developer with North bias. The discount is largely a result of: 1) Concentration in Tier-II and Tier-III cities, where creating sufficient jobs in difficult; 2) Large exposure to NCR where risk of prices softening is high; and 3) high execution risk given the company's presence across 48-cities today. Our NAV estimates involve the following key assumptions: a) current market price with no price inflation; b) development volume of 160m sq.ft after elimination of ~22m that is recognized as revenue until FY08 and some area representing collaborators' share; c) all projects undertaken by Parsvnath will be completed largely as per schedule d) average cost of capital of 14%and e) tax rate of 27%.

Parsvnath Developers (PARV.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	38.0	17.3	7.4	4.0	2.8
P/E reported (x)	38.0	17.3	7.4	4.0	2.8
P/BV (x)	20.2	3.4	1.6	0.9	0.6
Dividend yield (%)	0.0	0.0	1.1	0.9	0.9
Per Share Data (Rs)					
EPS adjusted	7.21	15.82	36.87	67.59	97.03
EPS reported	7.21	15.82	36.87	67.59	97.03
BVPS	13.56	80.77	169.84	289.63	438.85
NAVps ordinary	na	na	na	na	na
DPS	0.00	0.00	2.92	2.50	2.50
Profit & Loss (RsM)					
Net operating income (NOI)	**1,708**	**4,511**	**18,273**	**31,494**	**49,046**
G&A expenses	-268	-337	-8,204	-13,407	-23,264
Other Operating items	-42	-143	-205	-235	-259
EBIT including associates	**1,398**	**4,031**	**9,865**	**17,852**	**25,524**
Non-oper./net int./except.	72	49	-273	-270	-283
Pre-tax profit	**1,470**	**4,080**	**9,592**	**17,583**	**25,241**
Tax	-400	-981	-2,782	-5,099	-7,320
Extraord./Min. Int./Pref. Div.	0	-176	0	0	0
Reported net income	**1,070**	**2,922**	**6,810**	**12,484**	**17,921**
Adjusted earnings	1,070	2,922	6,810	12,484	17,921
Adjusted EBIT	1,398	4,031	9,865	17,852	25,524
Adjusted EBITDA	1,440	4,174	10,070	18,087	25,783
Growth Rates (%)					
NOI	119.1	164.2	305.1	72.4	55.7
EBIT adjusted	98.5	188.4	144.7	81.0	43.0
EPS adjusted	62.9	119.4	133.0	83.3	43.6
Cash Flow (RsM)					
Operating cash flow	**-2,035**	**-13,537**	**1,256**	**1,255**	**3,219**
Depreciation/amortization	42	143	205	235	259
Net working capital	-2,163	-16,128	-15,892	-21,566	-25,063
Investing cash flow	**-452**	**-1,175**	**-404**	**-170**	**-864**
Capital expenditure	-414	-721	-377	-142	-834
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**2,058**	**19,756**	**-1,487**	**-1,622**	**-272**
Borrowings	1,152	9,337	-1,025	-1,160	190
Dividends paid	0	-540	-462	-462	-462
Change in cash	**-429**	**5,045**	**-635**	**-537**	**2,084**
Balance Sheet (RsM)					
Total assets	**9,496**	**36,283**	**49,992**	**73,956**	**105,467**
Cash & cash equivalent	412	5,458	4,823	4,285	6,369
Net fixed assets	529	1,106	1,287	1,194	1,770
Total liabilities	**7,485**	**21,365**	**18,623**	**20,463**	**24,412**
Total Debt	2,359	11,695	10,670	9,510	9,700
Shareholders' funds	**2,012**	**14,918**	**31,369**	**53,493**	**81,054**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	21.7	26.7	28.9	29.3	28.5
ROE adjusted (%)	70.7	34.5	29.4	29.4	26.6
ROA adjusted (%)	14.2	12.8	15.8	20.1	20.0
Net debt to equity (%)	96.7	41.8	18.6	9.8	4.1
Interest coverage (x)	53.6	21.6	21.7	36.2	49.1

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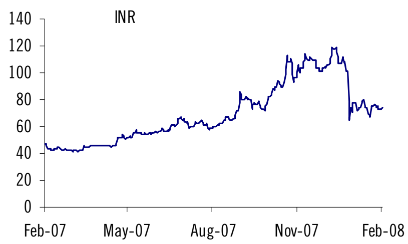
Petronet LNG (PLNG.BO)

Sell/Medium Risk	3M
Price (26 Feb 08)	Rs74.60
Target Price	Rs78.00
Expected share price return	4.6%
Expected dividend yield	2.0%
Expected total return	**6.6%**
Market Cap	Rs55,950M
	US$1,402M

Price Performance



Source: Citi Investment Research

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Company description

Petronet (PLL) was promoted as a joint venture of four state-owned oil & gas companies (GAIL, IOC, ONGC, and BPCL), which together hold 50% of its equity. Gaz De France owns 10% of PLL's equity. PLL runs a 5MMTPA LNG receiving and regassification terminal at Dahej on the western coast of India. Regassified LNG from the Dahej terminal has access to the developed gas markets of Gujarat and, through GAIL's Dahej-Vijaipur pipeline, its gas is piped to the consumption centers linked to GAIL's HBJ pipeline.

Lone LNG Play in India – Unique Business Model

- **Unique LNG play** — Petronet LNG provides a unique play on the expanding gas market in India. The company operates a 5MMTPA (currently operating at ~6.5MMTPA) LNG terminal on India's west coast and plans to increase LNG receiving capacity to 17.5MMTPA by FY12E (12.5MMTPA at the Dahej terminal + a greenfield project of 5MMTPA capacity at Kochi).
- **Derisked business model** — Petronet gets fixed re-gasification charges (with an escalation clause) for LNG processed at its terminal. It has committed offtake agreements with promoters GAIL, BPCL, and IOC.
- **LNG markets are hot** — Global LNG projects continue to be delayed, and prices continue to rise, with recent long-term contracts being signed at US$10/mmbtu and above. By comparison, market prices for domestically produced gas in India are US$4.0-5.5/mmbtu, making LNG economics less favorable esp. in light of increasing indigenous supply prospects.
- **Long-term supply tie-ups critical** — In the current high price environment for LNG, the ability of Petronet to enter into a long-term agreement to secure supplies for its Dahej expansion and greenfield Kochi terminal is critical. Spot volumes, meanwhile, should continue to drive earnings in the near-term. Despite increasing domestic supplies, we expect sustained growth in gas demand to drive high long-term utilizations of the company's facilities. Power plans are interesting, though at a preliminary stage and contingent on competitive pricing for long-term LNG.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,949	2.60	785.3	28.7	5.2	20.0	0.0
2007A	3,133	4.18	60.7	17.9	4.4	26.7	1.7
2008E	3,518	4.69	12.3	15.9	3.7	25.4	2.0
2009E	4,083	5.44	16.1	13.7	3.1	24.9	2.0
2010E	4,411	5.88	8.0	12.7	2.7	23.0	2.7

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate PLL as Sell/Medium Risk (3M). PLL earns a fixed, steady regassification charge and has de-risked its business model from the commodity cycles. It is, however, investing a substantial part of its cash flow in expanding its LNG business, and is exposed to project-execution risks. Also, though PLL has a strong first-mover advantage in the LNG market and is taking advantage of shared infrastructure to raise capacities at a low cost, high global prices of LNG could impact its economics vs. domestic gas in the long-term, despite the continued growth that the Indian gas market is likely to witness.

Valuation

Our target price of Rs78 is based on 10% discount to our DCF-based fair value estimate of Rs87 for March 2008. We believe a 10% discount is justified given the back-ended nature of the returns from the project. We use a DCF-based valuation, as we think it captures the value of the projects over their lifetime, especially given that PLL's near-term cash flow is affected by its aggressive expansion. In our DCF analysis, we have used explicit forecasts for 10 years, a terminal growth rate of 2%, and a WACC of 11.5%. On our target price, the stock would trade at 9.3x FY10E P/CEPS, in-line with other gas utilities, which have more stable and visible earnings growth.

Petronet LNG (PLNG.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	28.7	17.9	15.9	13.7	12.7
EV/EBITDA adjusted (x)	13.3	10.0	9.2	8.9	8.4
P/BV (x)	5.2	4.4	3.7	3.1	2.7
Dividend yield (%)	0.0	1.7	2.0	2.0	2.7
Per Share Data (Rs)					
EPS adjusted	2.60	4.18	4.69	5.44	5.88
EPS reported	2.60	4.18	4.69	5.44	5.88
BVPS	14.29	17.01	19.99	23.72	27.32
DPS	0.00	1.25	1.50	1.50	2.00
Profit & Loss (RsM)					
Net sales	38,372	55,090	65,999	72,347	90,663
Operating expenses	-34,500	-49,629	-59,815	-65,449	-83,339
EBIT	**3,872**	**5,460**	**6,184**	**6,898**	**7,324**
Net interest expense	-1,116	-1,070	-1,065	-1,095	-1,095
Non-operating/exceptionals	194	366	178	347	413
Pre-tax profit	**2,950**	**4,756**	**5,297**	**6,150**	**6,642**
Tax	-1,001	-1,623	-1,780	-2,066	-2,232
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**1,949**	**3,133**	**3,518**	**4,083**	**4,411**
Adjusted earnings	1,949	3,133	3,518	4,083	4,411
Adjusted EBITDA	4,882	6,481	7,200	7,944	9,226
Growth Rates (%)					
Sales	97.3	43.6	19.8	9.6	25.3
EBIT adjusted	621.4	41.0	13.3	11.5	6.2
EBITDA adjusted	224.4	32.8	11.1	10.3	16.1
EPS adjusted	785.3	60.7	12.3	16.1	8.0
Cash Flow (RsM)					
Operating cash flow	**1,412**	**5,106**	**6,965**	**6,365**	**6,219**
Depreciation/amortization	1,010	1,020	1,016	1,046	1,901
Net working capital	-2,292	-131	1,245	-141	-332
Investing cash flow	**-732**	**-3,665**	**-9,627**	**-9,608**	**-13,730**
Capital expenditure	-732	-3,665	-9,627	-9,608	-13,730
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**0**	**136**	**1,717**	**4,717**	**8,290**
Borrowings	0	1,233	3,000	6,000	10,000
Dividends paid	0	-1,097	-1,283	-1,283	-1,710
Change in cash	**679**	**1,578**	**-944**	**1,474**	**779**
Balance Sheet (RsM)					
Total assets	**25,898**	**34,936**	**44,526**	**55,355**	**70,083**
Cash & cash equivalent	2,506	3,405	5,062	6,497	7,276
Accounts receivable	1,278	3,313	3,074	3,370	4,223
Net fixed assets	18,627	21,273	29,884	38,474	50,302
Total liabilities	**15,179**	**22,181**	**29,536**	**37,564**	**49,592**
Accounts payable	1,368	3,125	6,254	6,864	8,612
Total Debt	12,599	13,832	16,832	22,832	32,832
Shareholders' funds	**10,719**	**12,755**	**14,990**	**17,790**	**20,491**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	12.7	11.8	10.9	11.0	10.2
ROE adjusted	20.0	26.7	25.4	24.9	23.0
ROIC adjusted	14.9	17.4	16.1	13.6	11.1
Net debt to equity	94.2	81.7	78.5	91.8	124.7
Total debt to capital	54.0	52.0	52.9	56.2	61.6

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POSCO – India (Unlisted)

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Company Description

POSCO of Korea has decided to set up a 12m tpa steel plant in Orissa in India. The project involves use of FINEX technology which has been developed indigenously by POSCO. The technology allows the direct use of iron ore fines and non-coking coal as feedstock, helping to significantly lower operating costs and emissions compared to the blast furnace process. A FINEX plant occupies less space and has lower construction costs as there is no need for sinter and coke plants. The project is to be completed in three phases of 4m tpa each by 2017. Along with the plant, the project also involves setting up of infrastructure such as roads, railway sidings, a captive port and 1,300MW of captive power capacity.

Building a Competitive Plant in India

- **Business Strategy** — POSCO expects world steel demand to remain strong going forward and is focusing on setting up capacities in growing economies such as India, China and Brazil. In India, they believe that a combination of captive iron ore, advanced technology and well planned transport logistics will help produce low cost steel for both the domestic and export markets.

- **Establishing an Indian Presence** — POSCO has signed a Memorandum of Understanding with the Government of Orissa to set up a steel manufacturing complex which is scheduled to reach a capacity of 12m tpa by 2017. The company expects total capex on the plant and related infrastructure to be US$13bn. The project will be using FINEX technology rather than blast furnace technology.

- **Phased commissioning** — The first phase of the project includes 4m tpa of capacity to be completed by mid-2012, at an estimated capex of US$4.2bn, according to the company. The second phase of 4m tpa is planned to be commissioned within 3 years after completion of phase I and the third phase within 3 years after completion of phase II.

- **Iron Ore requirements** — About 20m tpa of iron is required for annual steel production of 12m tpa over a period of 30 years, hence POSCO-India has applied for 600m tonnes of iron ore mine leases.

- **Progress in land acquisition** — Of the required 4,004 acres of land, 3,566 acres belongs to the government. The remaining 438 acres has to be acquired from private parties. POSCO-India has already got 566 acres of government-owned non-forest land. The remaining government land has been shown as forest land in the records and hence its acquisition requires Supreme Court clearance. The Court decision will be taken based on the report submitted by Central Empowered Committee. All other central and state government clearances have been received.

Recent Developments

1) POSCO-India has started the process of rehabilitation of affected villagers and around 54 families have been resettled.

2) The company plans to make a symbolic start to the project on 1 April 2008.

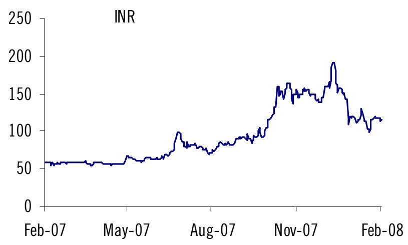
POSCO-India (Unlisted): Financial Summary

Year to Dec (Rs in Millions)	FY02	FY03	FY04	FY05	FY06	FY07
Profit & Loss (Rsm)						
Revenue	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Operating Income	NA	NA	NA	NA	NA	NA
EBITDA	NA	NA	NA	NA	NA	NA
EBIT	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Pretax Income	NA	NA	NA	NA	NA	NA
Tax	NA	NA	NA	NA	NA	NA
Minority Interest	NA	NA	NA	NA	NA	NA
Net Profit	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Balance Sheet (Rsm)						
Total Assets	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Cash & Cash Equivalents	NA	NA	NA	NA	NA	NA
Net Fixed Assets	NA	NA	NA	NA	NA	NA
Total Liabilities	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Total Debt	NA	NA	NA	NA	NA	NA
Shareholders' Funds	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Minorities	NA	NA	NA	NA	NA	NA
Cash Flow (Rsm)						
Operating Cash Flow	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Depreciation/Amortization	NA	NA	NA	NA	NA	NA
Net Working Capital	NA	NA	NA	NA	NA	NA
Investing Cash Flow	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Capital Expenditure	NA	NA	NA	NA	NA	NA
Acquisitions/Disposals	NA	NA	NA	NA	NA	NA
Financing Cash Flow	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Borrowings	NA	NA	NA	NA	NA	NA
Equity Issuance	NA	NA	NA	NA	NA	NA
Dividends Paid	NA	NA	NA	NA	NA	NA
Change in Cash	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Profitability/Solvency Ratios						
Operating Margin (%)	NA	NA	NA	NA	NA	NA
RoAE (%)	NA	NA	NA	NA	NA	NA
RoAA (%)	NA	NA	NA	NA	NA	NA
Net Debt to Equity (%)	NA	NA	NA	NA	NA	NA

PTC India Ltd. (PTCI BO)

Non-Rated	
Price (26 Feb 08)	Rs114.75
Market Cap	Rs26,096M
	US$654M

Price Performance



Source: dataCentral

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Company Description

PTC India Ltd. (formerly known as Power Trading Corporation of India Ltd.) is a pioneer in starting a power market in India. The company was born out of the need for an institution, which would provide credit risk mitigation to private power project developers and providing best value to both the buyers and sellers while ensuring optimum utilization of resources.

Market Leader in Power Trading

- **Strategic Intent** — PTC intends to be a market leader in power trading by developing a vibrant power market and striving to correct market distortions. The strategic objectives of PTC are: 1) Develop power market for optimal utilization of energy; 2) Promote power trading to optimally utilize the existing resources; 3) Catalyze development of power projects particularly environment friendly hydro projects; 4) Promote exchange of power with neighboring countries.

- **Power Trading Activities** — The trading activities undertaken by PTC include long term trading of power generated from large power projects as well as short term trading arising as a result of supply and demand mismatches, which inevitably arise in various regions of the country. In FY07, PTC had traded 9549 MUs and had 57% of the market for short term electricity trading in India.

- **Growing Presence in Power Value Chain** — PTC has forayed into other areas of the power value chain i.e. 1) Advisory Services; 2) Power Tolling Arrangements; 3) Fuel Intermediation; 4) Equity investment in Power Exchange, Tolling Projects, Biomass Projects, Wind Projects, Cross Border Transmission link, IL&FS Transmission Venture and Greenfield and brown field power generation projects.

- **Growing portfolio of assets** — Using the relationships it has developed and the experience it has gained, PTC has become a developer of assets related to the power sector. It has 1) 20% stake in Athena Energy Ventures which has bagged 3000 MW hydro plant in Arunanchal Pradesh; 2) 11% stake in Teesta Urja Limited which is developing a 1200 MW hydro project in Sikkim; 3) 52% stake in 63MW imported coal based plant in AP; 4)is developing 6MW of capacity of wind power.

Recent Developments

India's first power exchange, in which PTC holds 26% stake, is expected to become operational by April 2008.

PTC India Ltd (PTCI BO): Financial Summary

PTC Profit & Loss Statement (FY03 -07, Rs Million)

In Rs mn	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07
Sales Turnover	**9,234**	**23,718**	**20,321**	**31,086**	**37,667**
Excise Duty	-	-	-	-	-
Net Sales	**9,234**	**23,718**	**20,321**	**31,086**	**37,667**
Other Income	36	78	53	120	193
Total Income	**9,269**	**23,796**	**20,373**	**31,206**	**37,860**
Raw Materials	-	-	-	-	-
Power & Fuel Cost	8,826	22,669	19,457	29,923	36,608
Employee Cost	28	39	39	52	51
Other Manufacturing Expenses	2	3	21	33	7
Selling and Administration Expenses	225	545	433	567	665
Miscellaneous Expenses	9	26	35	31	32
Less: Pre-operative Expenses Capitalised	26	-	-	-	-
Total Expenditure	**9,063**	**23,282**	**19,984**	**30,605**	**37,364**
Operating Profit	**206**	**514**	**390**	**601**	**496**
Interest	4	12	9	16	26
Depreciation	7	13	12	14	13
Profit Before Tax	**195**	**489**	**368**	**570**	**457**
Tax	59	169	132	170	111
Fringe Benefit tax	-	-	-	2	2
Deferred Tax	12	(8)	(4)	(7)	(6)
Reported Net Profit	**125**	**328**	**240**	**406**	**351**
Extraordinary Items	(0)	-	1	40	65
Adjusted Net Profit	125	328	239	366	286

Source: Capitaline

PTC Balance Sheet (FY03 -07, Rs Million)

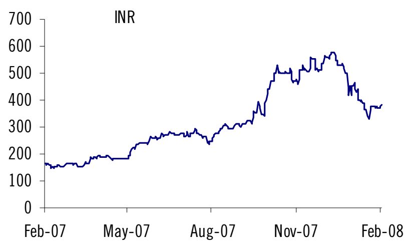
In Rs Mn	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07
Share Capital	725	1,500	1,500	1,500	1,500
Reserves Total	133	645	746	983	1,156
Total Shareholders Funds	**858**	**2,145**	**2,246**	**2,483**	**2,656**
Total Liabilities	**858**	**2,145**	**2,246**	**2,483**	**2,656**
Gross Block	227	220	228	230	235
Less : Accumulated Depreciation	17	27	39	52	65
Net Block	210	193	189	177	170
Capital Work in Progress	-	1	5	5	5
Investments	18	1,341	1,980	1,913	2,111
Sundry Debtors	493	766	565	991	1,625
Cash and Bank	988	1,277	97	594	482
Loans and Advances	151	249	370	705	527
Total Current Assets	**1,633**	**2,292**	**1,032**	**2,289**	**2,635**
Current Liabilities	959	1,305	536	1,252	1,658
Provisions	101	423	457	671	615
Total Current Liabilities	**1,060**	**1,728**	**992**	**1,923**	**2,273**
Net Current Assets	**572**	**564**	**40**	**366**	**362**
Miscellaneous Expenses not written off	94	74	57	37	17
Deferred Tax Assets	-	3	2	4	6
Deferred Tax Liability	36	31	26	20	15
Net Deferred Tax	(36)	(28)	(24)	(17)	(9)
Total Assets	**858**	**2,145**	**2,246**	**2,483**	**2,656**
Contingent Liabilities	7	7	11	21	1,035

Source: Capitaline

Punj Lloyd (PUJL.BO)

Buy/Low Risk	1L
Price (26 Feb 08)	Rs384.05
Target Price	Rs493.00
Expected share price return	28.4%
Expected dividend yield	0.1%
Expected total return	**28.4%**
Market Cap	Rs116,512M
	US$2,919M

Price Performance



Source: Citi Investment Research

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Ready For the Next Quantum Jump

- **Ready to jump to next level** — We believe that Punj is perhaps the only mid-cap Indian construction company that can give L&T a run for its money. Punj Lloyd has taken more risks in terms of bidding in more countries and domains to ramp up its skill sets. In FY07 Punj Lloyd acquired Sembawang E&C, which has helped it scale up its infrastructure expertise to upstream oil & gas, airports, jetties, MRT/LRT and tunneling amongst others. Also, Punj Lloyd is now pre-qualified for larger and more complex project bids.

- **Moving up the value chain** — Punj Lloyd's move up the value chain is reflected in the average size of the projects it has won increasing from US$30mn to US$100mn in FY07 (which could move up to US$200mn).

- **Evolving as a global company** — Punj is being positioned as a global company and the company is taking the following step to retain employees: (1) Creating the right culture; (2) Providing world class infrastructure; (3) Providing higher quality of work; and (4) Providing training. Currently Punj is involved in bidding for US$4-5bn worth of projects. In line with its strategy of bidding for only very large and technically complex orders, company has bid (in a consortium) for 1) US$ 1.5bn order from Saipem, Abu Dhabi; and 2) US$ 1.2bn order from Exxon Mobil.

- **The focus is on profitable growth and managing risk** — Since the time of IPO, two years ago, company's OB has grown from ~Rs10bn to Rs160bn on a consolidated basis. Company has consciously cut back on its exposure to road and other highly competitive infrastructure sectors in India. Moreover company has put in place systems and processes in place to mitigate risks and ensure profitability, in both bidding stage and order execution stage.

Figure 4. Punj Lloyd – Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	545	1.93	-13.6	199.0	8.9	6.7	0.1
2007A	1,973	6.98	261.7	55.0	7.8	16.4	0.1
2008E	3,161	9.81	40.5	39.1	4.6	17.0	0.1
2009E	4,909	15.24	55.3	25.2	3.8	18.4	0.1
2010E	6,862	21.30	39.8	18.0	3.1	21.1	0.1

Source: Company data and Citi Investment Research estimates

Company description

Punj Lloyd is an Indian Engineering & Construction (E&C) major catering to the hydrocarbons and civil construction sectors across India, Asia and the Middle East. Its services include laying pipelines, building roads, and the construction of refineries and tankages, power plants, and other infrastructure facilities. In FY07 Punj Lloyd acquired Semb, which helped it scale up its expertise to upstream oil & gas, airports, jetties, MRT/LRT and tunneling amongst others, in the infrastructure domain.

Investment Strategy

We rate Punj Lloyd shares Buy/Low Risk (1L) as: 1) We always believed that Punj could be the only mid-cap Indian construction company to give L&T a run for its money; 2) Punj Lloyd has taken more risks in terms of bidding in more countries and domains to ramp up its skill sets. At the end of FY07 Punj Lloyd had the third-largest order backlog of Rs149bn after BHEL and L&T; 3) In FY07 Punj Lloyd acquired Semb, which has helped it scale up its infrastructure expertise to upstream oil & gas, airports, jetties, MRT/LRT and tunnelling amongst others. Also, Punj Lloyd is now pre-qualified for larger and more complex project bids; 4) Punj Lloyd's move up the value chain is reflected in the average size of the projects it has won increasing from US$30mn to US$100mn in FY07 (which could move up to US$200mn).

Valuation

Our target price of Rs493 is based on a target P/E multiple of 23x Dec09E for Semb + Punj, which is well supported by earnings CAGR of 45% over FY07-10E and RoEs expanding from 17% in FY08E to 21% in FY10E. Our target multiple is at a 23% discount to that of L&T. Despite Punj Lloyd's superior earnings CAGR of 45% over FY07-10E vis-à-vis that of 42% for L&T, we believe Punj Lloyd should trade at a discount to L&T given L&T's superior order backlog, RoEs and execution capabilities. Further, we also value Punj Lloyd investments in a shipyard and a real estate JV at a P/BV of 2.3x

Punj Lloyd (PUJL.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	199.0	55.0	39.1	25.2	18.0
EV/EBITDA adjusted (x)	64.1	32.6	20.8	14.0	10.4
P/BV (x)	8.9	7.8	4.6	3.8	3.1
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	1.93	6.98	9.81	15.24	21.30
EPS reported	1.94	6.97	10.75	15.24	21.30
BVPS	42.95	48.95	83.52	99.99	123.17
DPS	0.20	0.25	0.30	0.35	0.35
Profit & Loss (RsM)					
Net sales	16,846	51,266	77,608	98,090	124,157
Operating expenses	-15,548	-48,584	-73,131	-90,896	-113,870
EBIT	**1,298**	**2,682**	**4,477**	**7,194**	**10,287**
Net interest expense	-794	-825	-1,257	-1,383	-1,685
Non-operating/exceptionals	327	800	1,598	1,200	1,200
Pre-tax profit	**831**	**2,656**	**4,818**	**7,011**	**9,802**
Tax	-291	-690	-1,354	-2,103	-2,941
Extraord./Min.Int./Pref.div.	7	3	1	1	1
Reported net income	**547**	**1,969**	**3,465**	**4,909**	**6,862**
Adjusted earnings	545	1,973	3,161	4,909	6,862
Adjusted EBITDA	1,902	3,743	5,928	8,915	12,278
Growth Rates (%)					
Sales	-5.9	204.3	51.4	26.4	26.6
EBIT adjusted	2.8	106.5	67.0	60.7	43.0
EBITDA adjusted	-9.5	96.8	58.4	50.4	37.7
EPS adjusted	-13.6	261.7	40.5	55.3	39.8
Cash Flow (RsM)					
Operating cash flow	**-549**	**6,319**	**-1,912**	**1,717**	**2,051**
Depreciation/amortization	604	1,062	1,451	1,721	1,991
Net working capital	-1,680	3,536	-7,084	-4,912	-6,801
Investing cash flow	**-2,705**	**-8,498**	**-8,530**	**-5,500**	**-5,500**
Capital expenditure	-2,548	-7,215	-4,500	-4,500	-4,500
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**3,953**	**11,032**	**8,038**	**1,881**	**3,381**
Borrowings	-1,622	11,427	0	2,000	3,500
Dividends paid	-60	-92	-102	-119	-119
Change in cash	**699**	**8,853**	**-2,403**	**-1,901**	**-68**
Balance Sheet (RsM)					
Total assets	**23,071**	**57,278**	**79,915**	**96,022**	**117,979**
Cash & cash equivalent	1,122	10,027	7,566	5,665	5,599
Accounts receivable	3,944	12,234	19,446	24,578	31,110
Net fixed assets	7,108	12,019	15,078	17,867	20,386
Total liabilities	**11,847**	**44,432**	**55,626**	**66,944**	**82,158**
Accounts payable	3,231	13,117	19,857	25,098	31,768
Total Debt	5,566	16,994	16,995	18,996	22,497
Shareholders' funds	**11,224**	**12,847**	**24,292**	**29,082**	**35,826**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	11.3	7.3	7.6	9.1	9.9
ROE adjusted	6.7	16.4	17.0	18.4	21.1
ROIC adjusted	7.1	11.0	12.2	14.4	16.5
Net debt to equity	39.6	54.2	38.8	45.8	47.2
Total debt to capital	33.1	56.9	41.2	39.5	38.6

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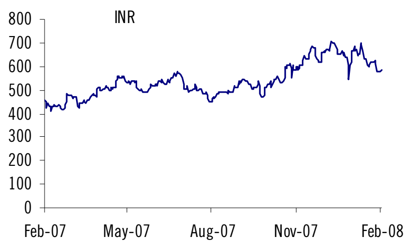
Punjab National Bank (PNBK.BO)

Buy/Medium Risk	**1M**
Price (26 Feb 08)	Rs585.05
Target Price	Rs775.00
Expected share price return	32.5%
Expected dividend yield	1.7%
Expected total return	**34.2%**
Market Cap	Rs184,468M
	US$4,622M

Price Performance



Source: Citi Investment Research

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Company description

Punjab National Bank (PNB) was established in 1943 and nationalized in the first round of nationalization in 1969. The bank is headquartered in Delhi, and the government has an 80% stake. PNB is among the top five banks in the country, with a 5% share of deposits and advances of the banking system. PNB has the second-largest branch network in the country with about 4,038 branches and 426 extension counters.

Getting Back on Track

- **Second largest government bank; premium positioning** — PNB is India's second largest Government bank, with a premium position and predominance in India's northern geographic belt. This is also amongst the most lucrative and faster growing banking pockets.

- **Getting back on track** — PNB appears to be getting its business back on track, after 3 quarters of disappointments during a period of management change. Asset quality is on the mend, margins have begun a bounce-back, and the bank could be on its way to getting its premier positioning back.

- **The growth and return mix appears right, now** — PNB has moderated growth levels to sub-20% levels (where it intends to stay), appears to have cleaned out its asset quality skeletons, and should see some easing in pressures from some historically aggressive asset pricing. While some damage has been done – the earnings and balance-sheet cushion has eased – PNB does have one of the best balance sheet and P&L features in the government banking space.

- **Falling rates could be a relative pressure point** — PNB's historically active treasury could well be a prime beneficiary of falling rates. Its P&L structure could, however, be relatively disadvantaged if interest rates do fall; relatively high fixed costs could hurt, and its deposit base could re-price a little slower than some of its peers.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	14,393	45.65	-6.0	12.8	2.0	16.4	1.0
2007A	15,401	48.84	7.0	12.0	1.8	15.5	1.7
2008E	19,809	62.83	28.6	9.3	1.5	17.6	1.7
2009E	23,012	72.98	16.2	8.0	1.3	17.7	1.7
2010E	26,380	83.67	14.6	7.0	1.1	17.4	1.7

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate PNB Buy (1M). PNB is one of India's largest government-owned banks, with good profitability (ROEs of 17%) and low NPA levels. The bank looks well positioned to capitalize on growth opportunities in the Indian market. PNB's deposit franchise and large pool of savings and current balances should widen the bank's funding advantage if interest rates rise or if liquidity tightens. Compared with its peers, PNB has a greater mid-market focus, which supports higher loan yields. Its government bond portfolio is among the highest yielding of the government banks, and its margins are high vs. its peers.

Valuation

Our target price for PNB is Rs775 and is based on CIR's EVA model, which captures the long-term value of the business, and is a standard valuation measure for Citi's India Banking coverage. We are also benchmarking our target price on a 1.5x FY09E PBV multiple which reflects the favorable business environment, our longer-term optimism on the market, and easier rate environment. It is also consistent with the target multiple we are using for the other best-in-class government banks. This translates to a fair value of Rs580. We prefer to use the EVA measure as our primary methodology as we believe it better adjusts for the relatively dynamic cost of capital and better captures the long-term value of the business.

Punjab National Bank (PNBK.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	12.8	12.0	9.3	8.0	7.0
P/E reported (x)	12.8	12.0	9.3	8.0	7.0
P/BV (x)	2.0	1.8	1.5	1.3	1.1
P/Adjusted BV diluted (x)	2.0	1.8	1.6	1.3	1.2
Dividend yield (%)	1.0	1.7	1.7	1.7	1.7
Per Share Data (Rs)					
EPS adjusted	45.65	48.84	62.83	72.98	83.67
EPS reported	45.65	48.84	62.83	72.98	83.67
BVPS	297.38	330.97	382.54	444.28	516.69
Tangible BVPS	297.38	330.97	382.54	444.28	516.69
Adjusted BVPS diluted	287.79	321.65	373.22	434.96	507.37
DPS	6.00	10.00	10.00	10.00	10.00
Profit & Loss (RsM)					
Net interest income	46,668	55,146	55,162	64,310	73,998
Fees and commissions	7,526	9,700	11,155	12,828	14,753
Other operating Income	7,256	3,736	9,071	6,549	7,089
Total operating income	**61,450**	**68,582**	**75,388**	**83,688**	**95,840**
Total operating expenses	-30,232	-33,262	-38,860	-43,024	-48,041
Oper. profit bef. provisions	**31,218**	**35,320**	**36,528**	**40,664**	**47,800**
Bad debt provisions	-640	-5,998	-5,961	-6,790	-9,114
Non-operating/exceptionals	-10,230	-7,630	-1,000	-1,000	-1,000
Pre-tax profit	**20,348**	**21,691**	**29,566**	**32,874**	**37,686**
Tax	-5,955	-6,291	-9,757	-9,862	-11,306
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**14,393**	**15,401**	**19,809**	**23,012**	**26,380**
Adjusted earnings	14,393	15,401	19,809	23,012	26,380
Growth Rates (%)					
EPS adjusted	-6.0	7.0	28.6	16.2	14.6
Oper. profit bef. prov.	8.2	13.1	3.4	11.3	17.5
Balance Sheet (RsM)					
Total assets	**1,452,674**	**1,624,225**	**1,887,122**	**2,168,476**	**2,477,759**
Avg interest earning assets	1,344,558	1,515,574	1,730,621	2,001,501	2,295,731
Customer loans	778,540	996,480	1,181,272	1,386,806	1,616,627
Gross NPLs	31,383	33,907	56,511	61,023	67,678
Liab. & shar. funds	**1,452,674**	**1,624,225**	**1,887,122**	**2,168,476**	**2,477,759**
Total customer deposits	1,196,849	1,398,597	1,637,806	1,892,514	2,171,149
Reserve for loan losses	32,266	30,515	33,933	36,485	41,022
Shareholders' equity	**93,764**	**104,355**	**120,617**	**140,081**	**162,914**
Profitability/Solvency Ratios (%)					
ROE adjusted	16.4	15.5	17.6	17.7	17.4
Net interest margin	3.5	3.6	3.2	3.2	3.2
Cost/income ratio	49.2	48.5	51.5	51.4	50.1
Cash cost/average assets	2.2	2.2	2.2	2.1	2.1
NPLs/customer loans	4.0	3.4	4.8	4.4	4.2
Reserve for loan losses/NPLs	102.8	90.0	60.0	59.8	60.6
Bad debt prov./avg. cust. loans	0.1	0.7	0.5	0.5	0.6
Loans/deposit ratio	65.0	71.2	72.1	73.3	74.5
Tier 1 capital ratio	8.9	8.3	9.1	9.0	9.1
Total capital ratio	14.2	12.3	12.7	12.4	12.3

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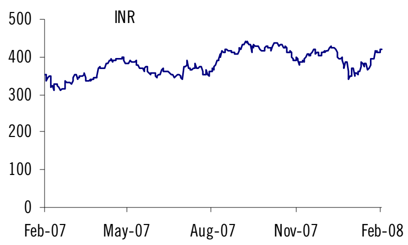
Ranbaxy (RANB.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs419.15
Target Price	Rs505.00
Expected share price return	20.5%
Expected dividend yield	1.2%
Expected total return	**21.7%**
Market Cap	Rs156,407M
	US$3,919M

Price Performance



Source: Citi Investment Research

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Company description

Ranbaxy is a leading domestic pharmaceutical company with a strong export business complementing the domestic business. It has a vision of becoming a leading generics pharmaceutical company in the global market and, in the long term, a research-led pharmaceutical company. The company already has a presence in several countries, and has developed a complex business model, perhaps the first of its kind from a developing country. Over the past few years, Ranbaxy has grown rapidly and established itself firmly as a leading generics company globally. While the core pharmaceutical business is growing, the company has also invested in R&D.

Leveraging Front End Strength in Global Generics

- **Poised for better times** — Ranbaxy's strong guidance for CY08 indicates that it is well set to continue the recovery process that commenced last year. A strong FTF pipeline, tie-ups to augment its product pipeline & leverage its strong front end and efforts to move to a more capital efficient model make us positive on Ranbaxy's short as well as long term prospects.

- **Improving business profile** — Ranbaxy's improving business profile is reflected in: a) rising share of high margin emerging market sales; b) tie-ups to enhance pipeline in niches like biogenerics, oncology & peptides; c) integration & rapid scale up of Terapia; d) robust growth in base US business; e) Strong Para IV pipeline with exclusivities for Valtrex, Tamsulosin & Lipitor.

- **Patent Challenge Pipeline** — We expect Ranbaxy to keep seeking options in line with its target of 1 FTF launch every year – adding up to a sizeable cash flow stream. It has 30-32 P-IVs with 18 potential FTFs (cum. mkt: US$27bn) & has cemented upsides in CY08 (Imitrex), CY09 (Valtrex) & CY10/11 (Flomax, Lipitor) – cumulative NPV of US$730m. Post these wins, we expect the street to build in some value for the rest of its FTF pipeline as well.

- **NCE R&D de-merger** — Ranbaxy's board has approved the de-merger of the New Drug Discovery Research Unit of the company into a subsidiary. We believe the de-merger implies an accretion of c7% (net of tax) to our CY08E EPS (pre de-merger).

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,617	7.03	-62.6	59.7	6.4	10.6	1.4
2007A	5,103	12.76	81.7	32.8	6.5	20.3	2.0
2008E	7,863	19.67	54.1	21.3	5.6	28.1	2.0
2009E	8,704	21.77	10.7	19.3	4.8	26.7	2.1
2010E	11,228	28.08	29.0	14.9	4.0	29.2	2.4

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Ranbaxy Buy (1M) with a target price of Rs505/share. We believe the stock price now factors in most negatives - viz. difficult global market dynamics, manufacturing related issues with the FDA, slowdown in product approvals, and loss of the Pravastatin 80mg opportunity. Moreover, we believe that these negatives and the declining stock price mask the positive steps that Ranbaxy has been taking since the beginning of CY06 to affect a turnaround in its fortunes. Benefits of its restructuring initiatives were visible in 1QCY06 operating profit margins, the EU foray has gained momentum with a series of acquisitions and revenues should scale up faster once the manufacturing issues are resolved. In the interim, we expect strong earnings momentum driven by exclusivity launch of Simvastatin 80mg to provide support to stock valuations and restrict downside.

Valuation

We prefer to value Ranbaxy using EV/Sales methodology to reflect a much fairer value of Ranbaxy's business today. We believe that Ranbaxy's current cost structure and profitability are not normalized. A large part of the costs are discretionary and related to pipeline building measures for future growth, which do not contribute to revenues in the near term. Our fair value multiple of 3x Sept 07 EV/Sales is at a discount to its peers such as Cipla and Sun and towards the lower end of the company's EV/Sales range of 2-4.6x over the past five years. Because the company is still emerging from a period of poor sales growth and sub-optimal profitability, we will wait for growth to return before considering applying a higher multiple. At 3x Sept 07E EV/Sales, our target price is Rs505.

Ranbaxy (RANB.BO): Financial Summary

Fiscal year end 31-Dec	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	59.7	32.8	21.3	19.3	14.9
EV/EBITDA adjusted (x)	49.3	20.9	19.2	13.5	11.0
P/BV (x)	6.4	6.5	5.6	4.8	4.0
Dividend yield (%)	1.4	2.0	2.0	2.1	2.4
Per Share Data (Rs)					
EPS adjusted	7.03	12.76	19.67	21.77	28.08
EPS reported	7.03	12.76	19.67	21.77	28.08
BVPS	65.70	64.68	75.31	87.52	104.97
DPS	6.00	8.50	8.50	9.00	10.00
Profit & Loss (RsM)					
Net sales	53,131	61,382	69,427	78,045	90,542
Operating expenses	-51,149	-54,452	-61,674	-66,834	-76,654
EBIT	**1,982**	**6,930**	**7,753**	**11,211**	**13,888**
Net interest expense	-671	-1,036	-1,443	-1,364	-1,280
Non-operating/exceptionals	633	616	3,661	1,238	1,672
Pre-tax profit	**1,944**	**6,510**	**9,971**	**11,085**	**14,281**
Tax	698	-1,357	-2,070	-2,328	-2,999
Extraord./Min.Int./Pref.div.	-25	-50	-38	-53	-53
Reported net income	**2,617**	**5,103**	**7,863**	**8,704**	**11,228**
Adjusted earnings	2,617	5,103	7,863	8,704	11,228
Adjusted EBITDA	3,427	8,773	9,981	13,916	16,911
Growth Rates (%)					
Sales	-2.5	15.5	13.1	12.4	16.0
EBIT adjusted	-77.4	249.6	11.9	44.6	23.9
EBITDA adjusted	-65.7	156.0	13.8	39.4	21.5
EPS adjusted	-62.6	81.7	54.1	10.7	29.0
Cash Flow (RsM)					
Operating cash flow	**3,771**	**3,512**	**13,834**	**11,304**	**13,645**
Depreciation/amortization	1,445	1,843	2,228	2,706	3,022
Net working capital	-746	-4,492	2,262	-1,522	-1,939
Investing cash flow	**-8,381**	**-19,931**	**-8,349**	**-3,665**	**-7,764**
Capital expenditure	-9,275	-4,358	-4,763	-2,435	-3,275
Acquisitions/disposals	712	-15,803	-3,512	-270	-3,451
Financing cash flow	**7,460**	**15,128**	**-7,085**	**-7,289**	**-5,530**
Borrowings	11,622	19,544	-2,030	-2,100	0
Dividends paid	-3,612	-3,611	-3,612	-3,825	-4,250
Change in cash	**2,851**	**-1,291**	**-1,600**	**351**	**351**
Balance Sheet (RsM)					
Total assets	**59,687**	**84,001**	**88,573**	**95,705**	**107,101**
Cash & cash equivalent	2,430	2,951	1,000	1,000	1,000
Accounts receivable	11,404	15,716	14,264	16,791	19,526
Net fixed assets	26,187	42,534	45,421	45,502	46,106
Total liabilities	**35,051**	**57,808**	**58,091**	**60,290**	**64,653**
Accounts payable	7,714	8,128	8,323	10,925	12,704
Total Debt	20,043	39,556	37,526	35,426	35,426
Shareholders' funds	**24,636**	**26,193**	**30,482**	**35,415**	**42,447**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	6.4	14.3	14.4	17.8	18.7
ROE adjusted	10.6	20.3	28.1	26.7	29.2
ROIC adjusted	6.8	10.2	8.8	13.4	15.8
Net debt to equity	71.5	139.8	119.8	97.2	81.1
Total debt to capital	44.9	60.2	55.2	50.0	45.5

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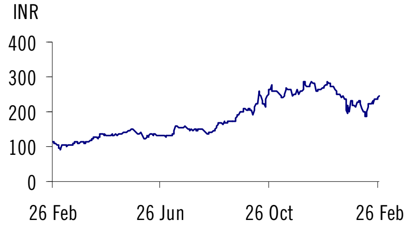
Steel Authority of India (SAIL.BO)

Non-Rated

Price (26 Feb 08)	Rs245.40
Market Cap	Rs1,013,600M
	US$25,397

Price Performance



Source: dataCentral

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Company Description

SAIL is an integrated steel producer with India's largest crude steel capacity of 13.5m tpa and 30% market share. It has adequate captive iron ore but hardly any captive coal deposits. Its five blast furnaces are located in Chattisgarh, West Bengal, Orissa and Jharkhand. It manufactures most varieties of steel and is trying to move up the value chain and produce more value-added steel products. The expansion will not only enhance capacity but is expected to help SAIL reduce costs, as at the end of the process, SAIL will be using more efficient methods of production such as the BOF route and continuous casting for its entire output. The government of India owns about 86% of SAIL's equity.

Enough Iron Ore, Not Enough Coal

- **Integrated steel producer** — SAIL is India's largest domestic finished steel producer with a crude steel capacity of 13.5m tpa (saleable steel capacity of 12.6m tpa) and ~30% market share in FY07. Over 95% of SAIL's revenues come from the domestic market. The company enjoys the benefit of 100% captive iron ore and adequate land.

- **Expansion plans** — The company plans to enhance its crude steel capacity to 24.5m tpa and saleable steel capacity to 23m tpa by 2010. Of the 5 major expansions (Bhilai, Durgapur, Rourkela, Bokaro and IISCO), IISCO's 2m tpa of saleable steel is expected to come by April 2010 and the rest by November 2010. Company expects the total capex will be around Rs530bn. SAIL plans to enhance its capacity to ~60m tpa by 2020.

- **Captive iron ore** — SAIL currently has 100% captive iron ore. The iron ore requirement was ~25m tonnes in FY07 and the company expects it to be ~43m tonnes post expansion in 2010. In order to meet the increased requirements of iron ore, the company plans to develop the Chiria mines in Jharkhand and the Rowghat mines in Chhattisgarh.

- **Trying to increase captive coal** — The company imports ~70% of its coal requirement and sources ~25% from Coal India. It is in the process of increasing its captive coal availability. SAIL has set up an SPV along with Coal India, NTPC, NMDC and RINL which will look to acquire mining rights overseas. The SPV is looking for coal mines in Australia, Canada, Russia and Mozambique and has made some progress in Mozambique.

- **Power** — SAIL has 800MW of power, mostly through JVs with power companies such as NTPC and Damodar Valley. The company plans to increase captive power capacity by setting up 2 units of 500MW each through JVs to meet the requirements of the planned expansions.

- **Other JVs** — SAIL formed a JV for slag cement with Jaiprakash Associates in April 2007 in Bhilai with a capacity of 2m tpa It has just formed its second cement JV with Jaiprakash Associates at Bokaro (capacity 2.1 m tpa). The company has plans to set up another cement JV at Rourkela with a capacity of ~2m tpa.

Statistical Abstract

Year to 31 Mar	Net Profit (Rs m)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	40,130	9.72	-41	25.3	8.0	31.8	0.8
2007A	62,023	15.02	55	16.3	5.9	35.8	1.3

Source: Company Reports

Recent Developments

Steel prices were raised by around Rs2,200/tonne on 1 Feb 2008. However, major steel producers announced a roll back of Rs1,000/t for long products and Rs500/t for other products wef mid-February.

For 3Q FY08, SAIL reported sales of Rs95.3bn, 11.7% higher yoy. PAT for 3Q was Rs19.4bn, 32% higher yoy.

Steel Authority of India (SAIL.BO): Financial Summary

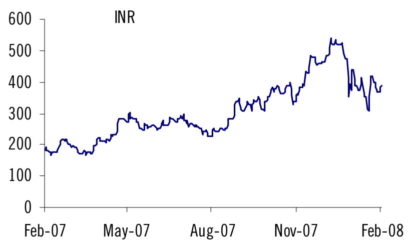
Year to Dec (Rs in Millions)	FY02	FY03	FY04	FY05	FY06	FY07
Profit & Loss (Rsm)						
Revenue	**137,011**	**170,504**	**215,284**	**288,079**	**282,883**	**343,331**
Operating Income	(910)	15,763	45,314	106,420	68,391	101,550
EBITDA	10,110	21,648	46,521	110,974	73,808	109,662
EBIT	**(1,449)**	**10,182**	**35,295**	**99,704**	**61,735**	**97,548**
Pretax Income	(17,069)	(3,159)	26,282	93,654	57,057	94,226
Tax	-	(116)	1,161	25,484	16,928	32,203
Net Profit	**(17,069)**	**(3,043)**	**25,121**	**68,170**	**40,130**	**62,023**
Balance Sheet (Rsm)						
Total Assets	**236,002**	**227,673**	**227,180**	**280,868**	**290,587**	**338,553**
Cash & Cash Equivalents	4,163	5,129	20,358	61,321	61,726	96,098
Net Fixed Assets	153,541	143,971	135,501	128,516	129,201	128,338
Total Liabilities	**207,704**	**202,421**	**176,803**	**177,802**	**164,573**	**165,422**
Total Debt	140,194	129,279	86,901	57,698	42,976	41,805
Shareholders' Funds	**28,298**	**25,252**	**50,377**	**103,067**	**126,014**	**173,132**
Cash Flow (Rsm)						
Operating Cash Flow	11,507	26,677	72,026	88,995	39,520	56,329
Investing Cash Flow	6,603	(316)	(1,865)	(2,865)	(3,372)	(5,875)
Financing Cash Flow	(20,621)	(25,396)	(54,932)	(45,166)	(35,743)	(16,082)
Change in Cash	**(2,511)**	**965**	**15,229**	**40,963**	**405**	**34,372**
Profitability/Solvency Ratios						
EBITDA Margin (%)	7.4%	12.7%	21.6%	38.5%	26.1%	31.9%
RoE (%)	-60.3%	-12.1%	49.9%	66.1%	31.8%	35.8%
RoCE (%)	-0.9%	6.7%	24.9%	41.4%	24.4%	28.5%
Net Debt to Equity (x)	4.81	4.92	1.32	(0.04)	(0.15)	(0.31)

Source: Company Reports

Unitech (UNTE.BO)

Buy/Medium Risk	1M
Price (26 Feb 08)	Rs390.45
Target Price	Rs454.00
Expected share price return	16.3%
Expected dividend yield	0.1%
Expected total return	**16.3%**
Market Cap	Rs633,847M
	US$15,886M

Price Performance



Source: Citi Investment Research

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Company description

Unitech is one of India's largest, most diversified real estate developers with an emerging pan-India presence. Its core strengths of land acquisition, reputation in building townships and relationships with governments and customers have enabled it to build a diversified portfolio. Unitech has a land bank of 13,758 acres (~696m sq ft) spread over Chennai, NCR, Kolkata and Tier III cities. Residential projects account for about 77% of the saleable area, commercial 7%, IT Parks 5% and retail 5%. It also has a small presence in power transmission, prefabricated construction, paving block and ready mix concrete. The promoter family holds a 75% stake in the company.

Building on Scale

- **Diversified landbank** — Unitech is a Tier I developer with a large diversified landbank spread over 13,758 acres with potential to develop ~696m sq ft. While the company's roots lie in NCR, it has created significant presence across key tier-I cities; recently added ~2,100 acres in strategic locations of Mumbai, Chennai, Hyderabad and Kolkata.
- **Development across segments** — While residential projects remain Unitech's mainstay, it is diversifying into other segments such as IT parks, shopping malls, amusement parks and hotels. This will help de-risk the company's business model and tap the growth across asset classes.
- **Thrust on asset monetization** — Having monetized its 60% stake 6 IT parks through sale to UCP, the AIM-fund early on; plans are now underway for listing its Office Trust and further using UCP as a vehicle for more asset injections – though this remains contingent on capital.
- **NKID Project gaining traction** — NKID is a large infrastructure project near Kolkata being developed by a consortium including Unitech (40%) and Salim Group (40%) and Universal Success (20%) of Indonesia. The project is spread over ~37,830 acres of which government has handed over 13,457 acres (35%) for development – this includes the recent ~12,500 acres handed for a Chemical SEZ. We see good progress and believe this project could result in substantial value creation for Unitech over the long-term.
- **Potential triggers; Key risks** — Value unlocking of telecom licenses and rate compressions are triggers not built in our target. Key risks being – leveraged balance sheet, potential capital constraint (on delay in Trust listing/capital raising) in difficult markets and increased execution risks in slum rehab projects.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	841	0.52	152.0	nm	nm	36.9	0.0
2007A	13,058	8.04	na	48.5	31.8	115.9	0.1
2008E	16,374	10.09	25.4	38.7	17.7	58.6	0.1
2009E	27,542	16.97	68.2	23.0	10.1	55.7	0.1
2010E	41,908	25.82	52.2	15.1	6.1	50.0	0.1

Source: Company data and Citi Investment Research estimates

Investment Strategy

We rate Unitech Buy/Medium Risk (1M) with a target price of Rs454. Our target price is based on a 15% premium to our NAV estimate of Rs395. Key drivers we see ahead are: 1) enhanced scale with sizeable land additions 2) widened geographic spread, particularly with entry in Mumbai, and improved asset mix; and 3) growing income from lease/management fees. Further value unlocking for its telecom licenses and upsides from rate compressions on likely listing of its office Trust and more asset injections in UCP the AIM-listed entity are potential stock triggers not currently built in our target.

Valuation

Our target price of Rs454 represents a 15% premium on NAV of Rs395. The premium is based on high valuation benchmarks for tier-I developers and recognizing Unitech's 1) competitive advantage of large diversified land bank; 2) thrust on recycling capital; and 3) strong brand positioning and proven track record. Our NAV estimate of Rs395 is based on the following assumption: a) current market price with no price inflation; b) development volume of 656m sq ft (~40m sq ft recognized as revenue up to FY09); c) all projects undertaken will be completed largely as per schedule, d) average cost of capital of 14%; and e) tax rate of 28%.

Unitech (UNTE.BO): Financial Summary

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	nm	48.5	38.7	23.0	15.1
P/E reported (x)	nm	48.5	38.7	23.0	15.1
P/BV (x)	nm	31.8	17.7	10.1	6.1
Dividend yield (%)	0.0	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	0.52	8.04	10.09	16.97	25.82
EPS reported	0.52	8.04	10.09	16.97	25.82
BVPS	1.60	12.29	22.11	38.83	64.39
NAVps ordinary	na	na	na	na	na
DPS	0.12	0.29	0.25	0.25	0.25
Profit & Loss (RsM)					
Net operating income (NOI)	**2,427**	**19,565**	**29,435**	**46,495**	**69,064**
G&A expenses	-1,077	0	-2,981	-3,459	-5,116
Other Operating items	-110	-66	-231	-289	-550
EBIT including associates	**1,240**	**19,499**	**26,222**	**42,747**	**63,399**
Non-oper./net int./except.	152	-1,567	-3,481	-3,956	-4,373
Pre-tax profit	**1,392**	**17,933**	**22,741**	**38,791**	**59,025**
Tax	-513	-4,864	-6,368	-11,249	-17,117
Extraord./Min. Int./Pref. Div.	-38	-11	0	0	0
Reported net income	**841**	**13,058**	**16,374**	**27,542**	**41,908**
Adjusted earnings	841	13,058	16,374	27,542	41,908
Adjusted EBIT	1,238	19,485	26,222	42,747	63,399
Adjusted EBITDA	1,350	19,565	26,454	43,036	63,949
Growth Rates (%)					
NOI	95.1	706.1	50.4	58.0	48.5
EBIT adjusted	211.5	1,474.6	34.6	63.0	48.3
EPS adjusted	152.0	1,453.1	25.4	68.2	52.2
Cash Flow (RsM)					
Operating cash flow	**-2,165**	**-21,520**	**-3,161**	**17,672**	**16,023**
Depreciation/amortization	113	80	231	289	550
Net working capital	-2,180	-46,788	-6,466	-10,884	-12,794
Investing cash flow	**-3,127**	**-7,229**	**-22,108**	**-968**	**353**
Capital expenditure	-3,485	-2,826	-5,608	-5,292	-6,852
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**6,474**	**35,077**	**30,304**	**-14,588**	**-14,573**
Borrowings	6,686	29,356	30,710	-14,182	-14,167
Dividends paid	-188	-477	-406	-406	-406
Change in cash	**1,182**	**6,328**	**5,035**	**2,116**	**1,804**
Balance Sheet (RsM)					
Total assets	**44,522**	**130,900**	**162,015**	**194,496**	**235,063**
Cash & cash equivalent	3,899	10,227	15,262	17,378	19,182
Net fixed assets	4,887	8,148	12,904	17,907	23,939
Total liabilities	**41,688**	**110,944**	**126,105**	**131,450**	**130,515**
Total Debt	10,449	39,805	70,515	56,333	42,166
Shareholders' funds	**2,834**	**19,956**	**35,910**	**63,045**	**104,548**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	13.9	60.1	48.4	49.4	49.6
ROE adjusted (%)	36.9	115.9	58.6	55.7	50.0
ROA adjusted (%)	2.4	14.9	11.2	15.5	19.5
Net debt to equity (%)	231.1	148.2	153.9	61.8	22.0
Interest coverage (x)	2.9	6.5	6.1	8.6	11.6

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Appendix A-1

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